



## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**UP**



**Transactions**

**DOWN**



**Deliveries**

**DOWN**



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VOIT Real Estate Services

## HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving during 2016. Both vacancy and availability dropped compared to the first quarter of the previous year, and net absorption was positive for the quarter as well. While these are all positive indications, job growth will need to continue in coming quarters for the Inland Empire office market to further improve.
- **Construction** - In the first quarter of 2016, there was 167,000 square feet under construction in the Inland Empire, with Class B space in the San Bernardino and Corona/Norco submarket composing all of it. Although no new office buildings were delivered to the market this quarter, 4 buildings totaling 137,540 SF of new product were delivered in 2015. The slowdown in construction will ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2016 at 12.08%, a decrease of 66 basis points when compared with the same quarter in the previous year.
- **Availability** - Direct/sublease space being marketed was 15.16% at the end of the first quarter of 2016, down from 2015's fourth quarter rate of 15.61% and a 8.72% decline from the 16.61% we saw in the first quarter of 2015.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate was \$1.81 per square foot per month in the first quarter of 2016, up 6 cents from the same quarter last year. We are forecasting that the rate will rise during 2016. The record high rate of \$2.10 was established in the third quarter of 2008. Class A rates for the market averaged \$2.08 FSG. Geographically, the highest rates were found in the Chino/Chino Hills submarket, where they averaged \$2.30 FSG.
- **Absorption** - The Inland Empire office market posted 106,109 square feet of positive net absorption for the

first quarter of 2016. From the first quarter of 2012 to the present, the office market has posted just over 2.56 million square feet of positive net absorption.

- **Transaction Activity** - Leasing activity checked in at 453,191 thousand square feet in the first quarter of the year, an increase from 2015's first quarter total of 401,929 thousand square feet. In the first quarter of 2016 sales activity equaled 173,044 thousand square feet—a marked decrease from 2015's atypically high first quarter total of 2.00 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Combined, sales and leasing activity equaled 626,235 square feet for the quarter. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 5.8% in February 2016, unchanged from a revised 5.8% in January 2016 and below the year-ago estimate of 6.9%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. The unemployment rate was 5.9% for Riverside County and 5.6% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 46,800 payroll jobs from February 2015 to February 2016, with most of the gains (14,100 jobs) coming from the trade, transportation and utilities sector.
- **Overall** - We are seeing a decrease in the amount of vacant and available space being added to the market. Absorption is positive, and with few new deliveries to put upward pressure on vacancy, the market should continue to improve. While these are positive indicators, cautious optimism is appropriate, as job creation will need to continue in order to drive the demand needed for sustainable growth in the Inland Empire office market.

## FORECAST

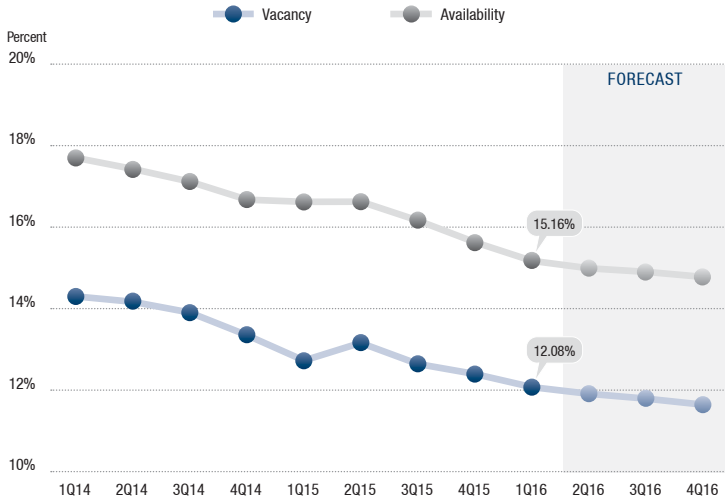
- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 1% to 2% over the next three quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 40 basis points, to around 11.60%, by the end of the fourth quarter of 2016.

## OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	12.08%	12.34%	12.74%	(5.18%)
Availability Rate	15.16%	15.61%	16.61%	(8.73%)
Average Asking Lease Rate	\$1.81	\$1.78	\$1.75	3.43%
Sale & Lease Transactions	626,235	2,050,885	2,406,402	(73.98%)
Gross Absorption	495,652	615,535	591,035	(16.14%)
Net Absorption	106,109	202,450	241,853	N/A

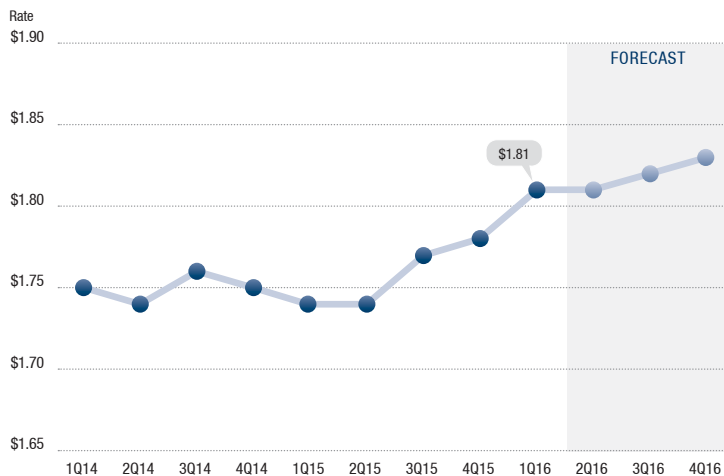
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



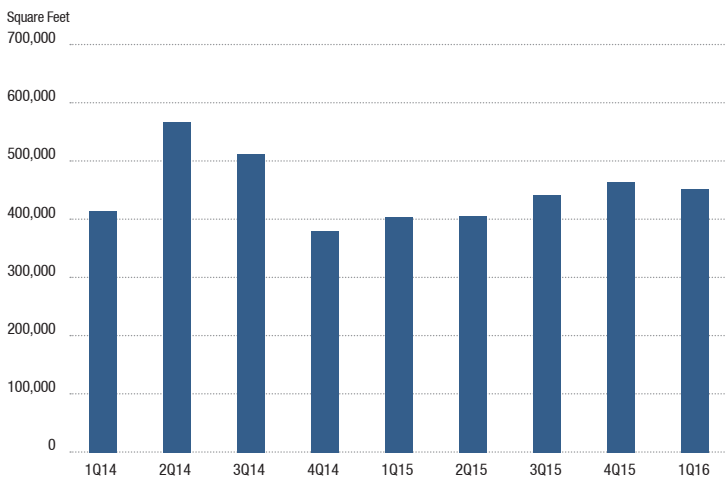
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



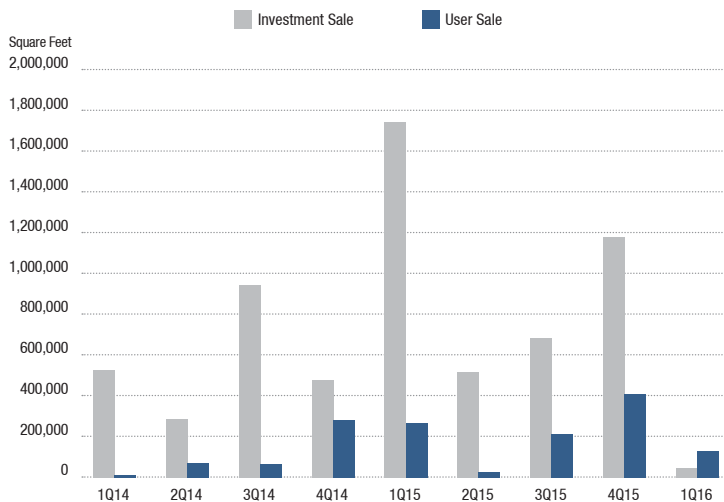
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



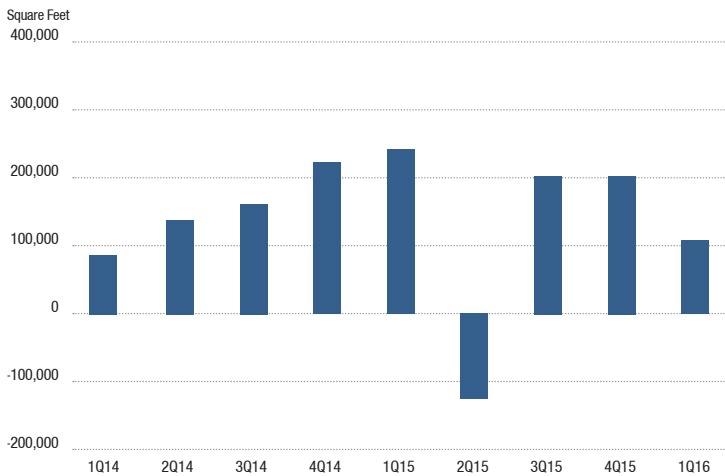
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



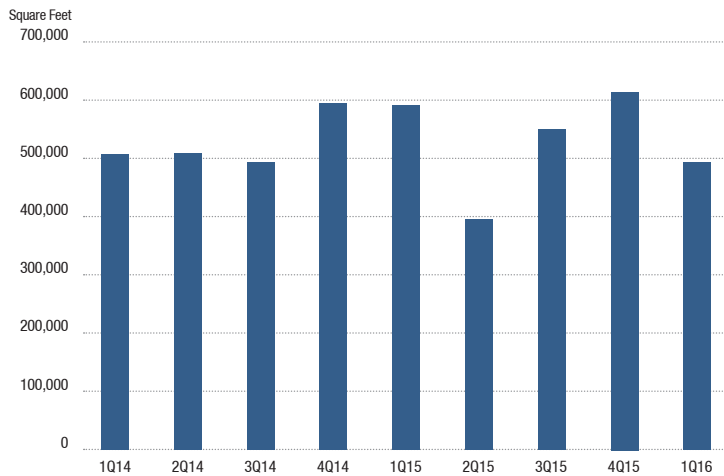
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY			VACANCY & LEASE RATES						ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
<b>West</b>													
Chino/Chino Hills	37	1,166,442	0	203,824	120,873	10.36%	132,021	11.32%	\$2.30	(19,944)	(2,892)	8,983	38,916
Fontana	37	2,397,410	0	65,000	99,707	4.16%	112,707	4.70%	\$1.18	11,180	42,183	11,180	52,042
Montclair	13	244,250	0	40,134	19,459	7.97%	38,273	15.67%	\$1.68	(1,203)	(2,535)	2,787	15,434
Ontario	110	4,336,078	0	314,298	639,921	14.76%	790,863	18.24%	\$1.83	4,483	73,022	61,132	271,191
Rancho Cucamonga	142	4,406,084	0	100,000	520,123	11.80%	719,010	16.32%	\$1.91	79,179	(30,703)	130,882	310,025
Upland	71	1,545,881	0	0	189,375	12.25%	257,047	16.63%	\$1.49	27,455	15,460	43,879	102,538
Class A	29	2,394,521	0	145,092	391,218	16.34%	409,452	17.10%	\$2.01	12,301	(73,726)	65,172	134,569
Class B	282	9,748,764	0	578,164	1,027,195	10.54%	1,437,008	14.74%	\$1.82	28,849	117,891	127,366	565,359
Class C	99	1,952,860	0	0	171,045	8.76%	203,461	10.42%	\$1.28	60,000	50,370	66,305	90,218
<b>West Total</b>	<b>410</b>	<b>14,096,145</b>	<b>0</b>	<b>723,256</b>	<b>1,589,458</b>	<b>11.28%</b>	<b>2,049,921</b>	<b>14.54%</b>	<b>\$1.85</b>	<b>101,150</b>	<b>94,535</b>	<b>258,843</b>	<b>790,146</b>
<b>East</b>													
Banning	6	100,461	0	175,774	1,200	1.19%	5,200	5.18%	\$0.00	(1,200)	0	0	3,400
Beaumont	3	151,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	94	3,337,869	17,000	293,325	424,528	12.72%	488,381	14.63%	\$1.90	(3,430)	78,951	52,724	288,629
Colton/Grand Terrace	48	1,048,714	0	32,600	203,931	19.45%	318,472	30.37%	\$1.35	(3,150)	22,321	8,253	110,533
Moreno Valley	40	1,025,759	0	115,219	33,682	3.28%	51,639	5.03%	\$0.75	(3,214)	62,373	2,976	77,884
Perris	9	215,508	0	15,000	5,242	2.43%	6,404	2.97%	\$0.00	0	(3,633)	0	1,609
Redlands/Loma Linda	88	2,299,166	0	50,000	241,487	10.50%	288,577	12.55%	\$1.66	25,528	39,242	36,790	115,104
Rialto	11	303,882	0	0	27,599	9.08%	37,599	12.37%	\$1.58	(1,641)	3,620	7,710	4,442
Riverside	304	9,268,386	0	674,081	1,138,250	12.28%	1,495,968	16.14%	\$2.01	(13,480)	39,173	87,917	399,647
San Bernardino/Highland	208	8,087,324	150,000	0	1,158,221	14.32%	1,312,978	16.24%	\$1.61	5,546	191,406	40,439	400,813
Class A	42	4,591,890	0	312,333	519,996	11.32%	684,790	14.91%	\$2.17	(1,981)	118,134	55,054	283,340
Class B	507	14,978,281	167,000	1,043,666	2,027,012	13.53%	2,475,835	16.53%	\$1.61	(10,488)	301,199	127,695	887,283
Class C	262	6,268,816	0	0	687,132	10.96%	844,593	13.47%	\$1.29	17,428	14,120	54,060	231,438
<b>East Total</b>	<b>811</b>	<b>25,838,987</b>	<b>167,000</b>	<b>1,355,999</b>	<b>3,234,140</b>	<b>12.52%</b>	<b>4,005,218</b>	<b>15.50%</b>	<b>\$1.79</b>	<b>4,959</b>	<b>433,453</b>	<b>236,809</b>	<b>1,402,061</b>
<b>Inland Empire Total</b>	<b>1,221</b>	<b>39,935,132</b>	<b>167,000</b>	<b>2,079,255</b>	<b>4,823,598</b>	<b>12.08%</b>	<b>6,055,139</b>	<b>15.16%</b>	<b>\$1.81</b>	<b>106,109</b>	<b>527,988</b>	<b>495,652</b>	<b>2,192,207</b>
<b>Inland Empire</b>													
Class A	71	6,986,411	0	457,425	911,214	13.04%	1,094,242	15.66%	\$2.08	10,320	44,408	120,226	417,909
Class B	789	24,727,045	167,000	1,621,830	3,054,207	12.35%	3,912,843	15.82%	\$1.62	18,361	419,090	255,061	1,452,642
Class C	361	8,221,676	0	0	858,177	10.44%	1,048,054	12.75%	\$1.21	77,428	64,490	120,365	321,656
<b>Inland Empire Total</b>	<b>1,221</b>	<b>39,935,132</b>	<b>167,000</b>	<b>2,079,255</b>	<b>4,823,598</b>	<b>12.08%</b>	<b>6,055,139</b>	<b>15.16%</b>	<b>\$1.81</b>	<b>106,109</b>	<b>527,988</b>	<b>495,652</b>	<b>2,192,207</b>
<b>High Desert</b>													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	33	630,790	12,000	79,060	11,095	1.76%	18,133	2.87%	\$0.00	1,909	14,997	1,909	20,254
Barstow	13	210,755	0	17,000	15,179	7.20%	21,679	10.29%	\$0.66	12,822	(4,032)	15,785	1,010
Hesperia	24	549,157	0	56,000	14,838	2.70%	22,838	4.16%	\$0.90	(14,838)	4,365	0	7,765
Victorville	90	1,782,591	0	82,298	140,160	7.86%	174,074	9.77%	\$1.93	14,478	10,088	27,004	69,152
<b>High Desert Total</b>	<b>163</b>	<b>3,238,824</b>	<b>12,000</b>	<b>234,358</b>	<b>181,272</b>	<b>5.60%</b>	<b>236,724</b>	<b>7.31%</b>	<b>\$1.74</b>	<b>14,371</b>	<b>25,418</b>	<b>44,698</b>	<b>98,181</b>
<b>Temecula Valley</b>													
Hemet	44	847,066	0	0	92,171	10.88%	107,143	12.65%	\$0.00	3,276	13,200	13,882	44,877
Lake Elsinore	12	274,642	0	0	40,868	14.88%	40,868	14.88%	\$0.00	2,021	0	30,825	34,902
Menifee	9	317,837	0	213,000	4,174	1.31%	4,174	1.31%	\$0.00	0	(766)	0	4,186
Murrieta	51	1,517,993	0	370,074	141,445	9.32%	173,476	11.43%	\$2.49	5,441	3,242	22,662	94,000
San Jacinto	4	96,365	0	0	5,305	5.51%	5,305	5.51%	\$0.00	2,827	0	2,827	2,827
Temecula	114	2,954,369	41,530	44,025	365,159	12.36%	471,546	15.96%	\$1.52	40,068	50,092	78,272	268,258
Wildomar	7	272,783	0	44,000	33,222	12.18%	40,883	14.99%	\$0.00	1,144	2,202	1,144	8,768
<b>Temecula Valley Total</b>	<b>241</b>	<b>6,281,055</b>	<b>41,530</b>	<b>671,099</b>	<b>682,344</b>	<b>10.86%</b>	<b>843,395</b>	<b>13.43%</b>	<b>\$1.85</b>	<b>54,777</b>	<b>67,970</b>	<b>149,612</b>	<b>457,818</b>

This survey consists of office properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. Lease rates are on a full-service gross basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price	Buyer	Seller
14768 Pipeline Ave.	Chino Hills	B	13,895	\$229.00	Nelson K. & Sanna Yeung	Joey Wilkins
8805 Haven Ave.	Rancho Cucamonga	B	23,855	\$180.26	Sandra Bowman	Nabil Razzouk
6216 Brockton Ave.	Riverside	B	16,331	\$159.21	Harry Crowell	Maryann Kroh
8885 Haven Ave.	Rancho Cucamonga	B	29,572	\$145.41	Sandra Bowman	Al Bushala
1505 S. D St.	San Bernardino	C	17,112	\$134.41	Harry Crowell	John Pavelak

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
655 W. 2nd St.	San Bernardino	B	38,968	Feb-2016	Undisclosed	California Cmnty Collaborative
9630-9638 7th St.	Rancho Cucamonga	C	25,728	Feb-2016	San Bernardino Superintendent of Schools	Inland Corp.
9859 7th St.	Rancho Cucamonga	B	23,400	Jan-2016	Dooney & Bourke	SBC V, LLC.
398 W. 4th St.	San Bernardino	B	21,000	Mar-2016	American Sports University	Dayco Fndg Corp.
473 E. Carnegie Ln.	San Bernardino	B	29,076	Jan-2016	Regus – Executive Suites	Tri City South Owner, LLC

PRODUCT TYPE

**CLASS A**

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

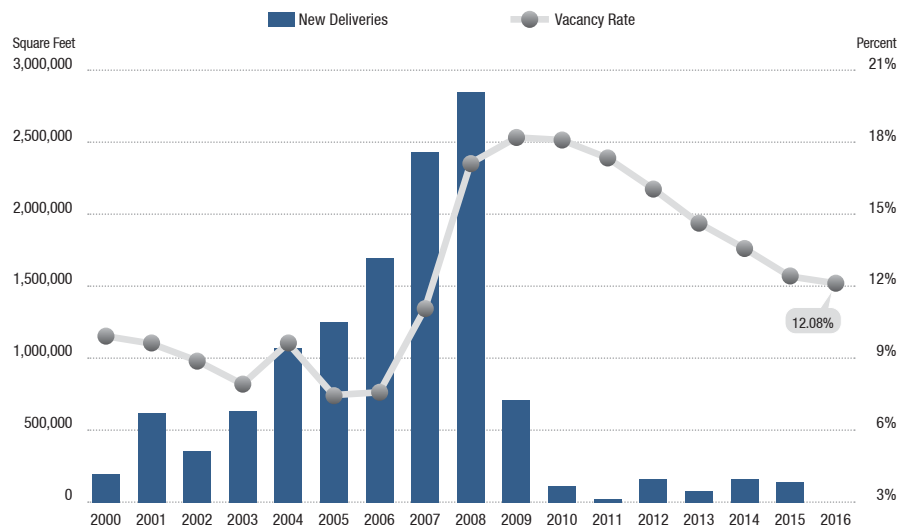
**CLASS B**

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

**CLASS C**

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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