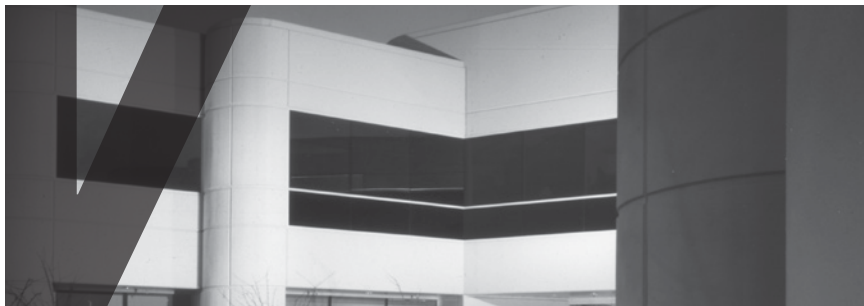




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Office Market Report

Compared to last quarter:



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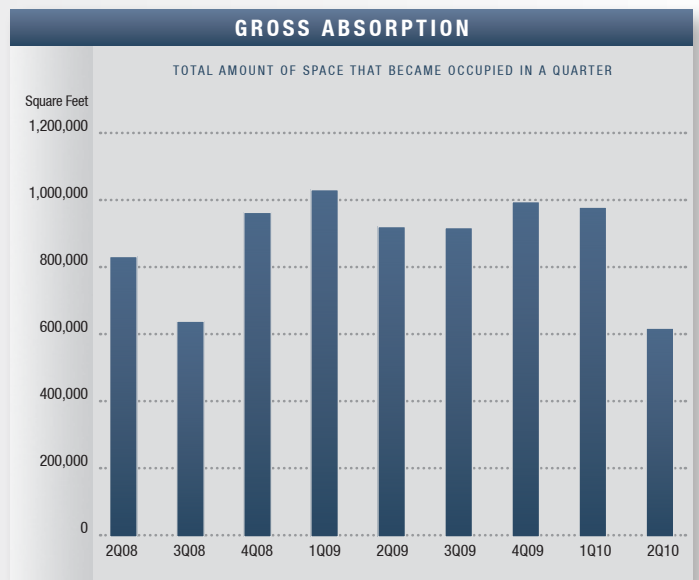
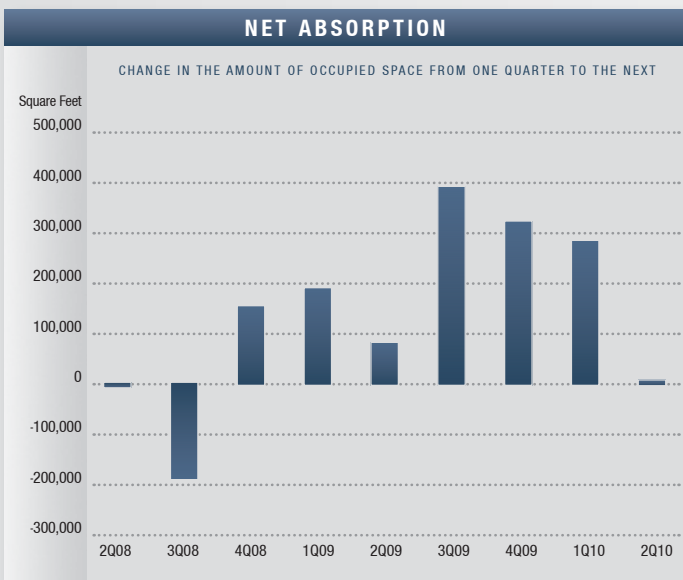
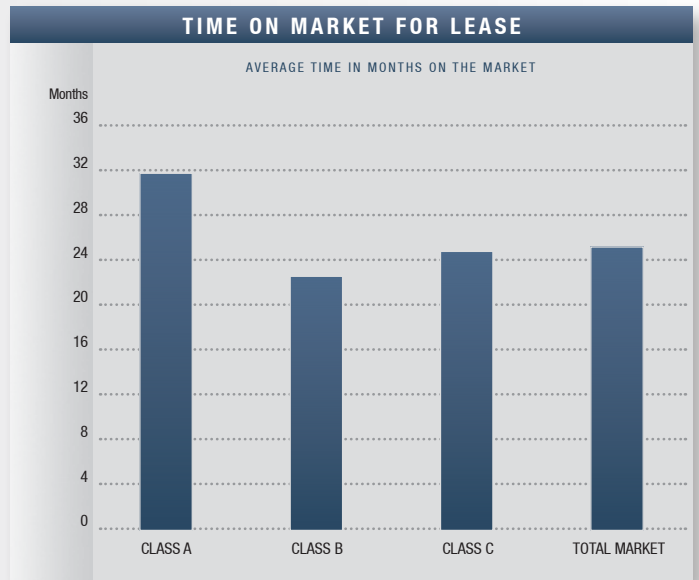
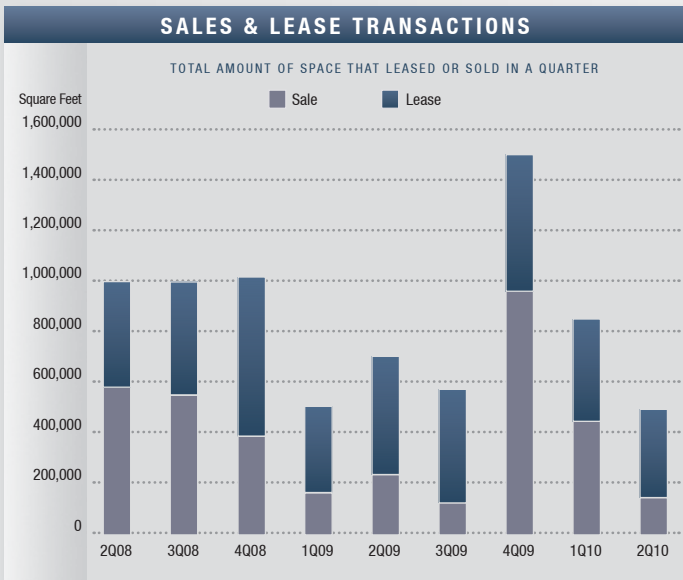
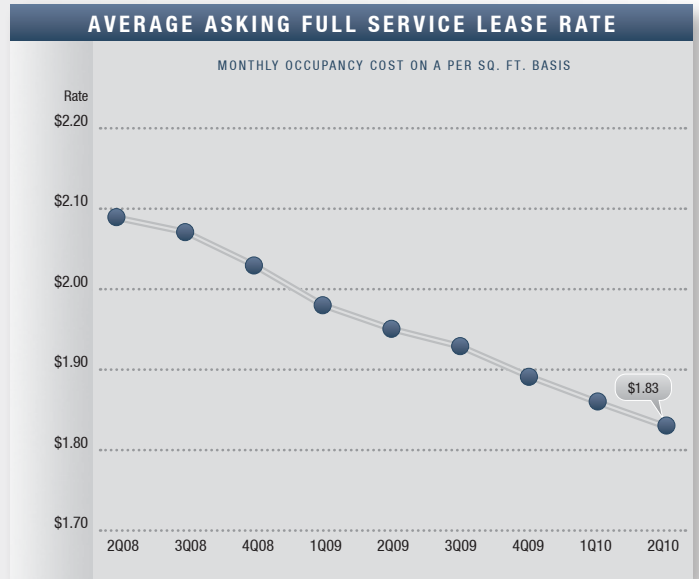
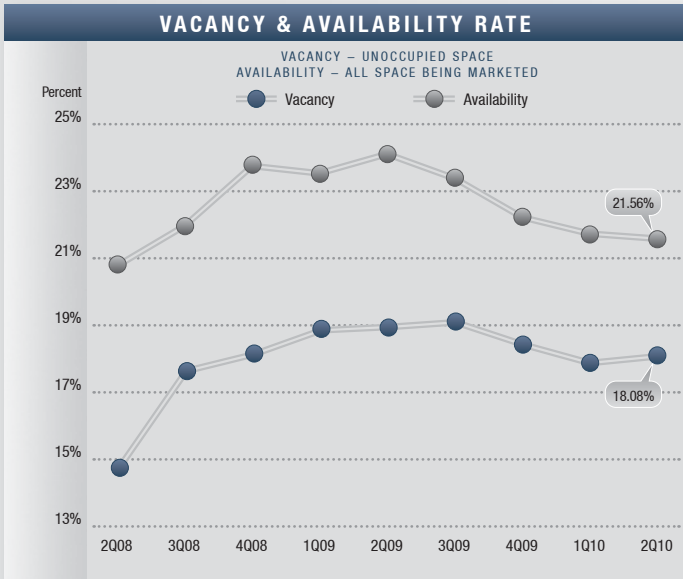
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Market Highlights

- ◆ **Market Challenges** - Many users/investors have concerns with increasing vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing. Another challenge for the office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn are putting an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- ◆ **Construction** - At the end of the second quarter total space under construction checked in at 253,472 square feet. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 18.08%, a slight increase over last quarter’s rate of 18.97% and a decrease over last year’s second quarter rate of 18.97%.
- ◆ **Availability** - Direct/sublease space being marketed was at 21.56% this quarter, down from last quarter’s rate of 21.71% and a 10.43% decrease from the 24.07% we saw this same quarter last year.
- ◆ **Lease Rates** - The average asking Full Service Gross (FSG) lease rate per month per square foot in Inland Empire was \$1.83, which is a 6.15% decrease over last year’s rate of \$1.95 and three cents lower than last quarter’s rate. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.11 FSG and are the highest in the West County market, where they are averaging \$2.20 FSG.
- ◆ **Absorption** - Net absorption for the county posted a positive 7,470 square feet for the second quarter of 2010; for the past 5 quarters the office market has been averaging approximately 200,000 square feet of positive absorption.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 346,267 square feet, a decrease over last year’s second quarter total of 469,638 square feet. Sales activity showed a decrease, posting 137,871 square feet of activity compared to last year’s 223,463 square feet. 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 13.9% in May 2010, down from a revised 14.2% in April 2010 and above the year ago estimate of 12.7%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. The unemployment rate was 14% for Riverside County and 13.8% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA lost 35,200 payroll jobs over the last twelve months. The largest declines were 11,700 jobs in construction and 7,600 in trade, transportation and utilities services. However, educational and health services showed a year-over-year gain of 200 jobs.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. As we enter into the second half of 2010, absorption has turned positive. With few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the office market will again turn positive.

OFFICE MARKET OVERVIEW

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy	18.08%	17.90%	18.97%	(4.69%)
Availability	21.56%	21.71%	24.07%	(10.43%)
Pricing	\$1.83	\$1.86	\$1.95	(6.15%)
Sale & Lease Transactions	484,138	844,086	693,101	(30.15%)
Gross Absorption	610,349	974,721	917,799	(33.50%)
Net Absorption	7,470	284,261	81,957	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2010	Square Feet Available	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
North County													
Fontana	37	1,136,715	0	71,312	116,669	10.26%	130,154	11.45%	\$1.30	9,126	23,773	12,426	27,073
Montclair	14	301,016	0	0	7,108	2.36%	34,717	11.53%	\$1.60	(835)	8,220	1,538	15,886
Ontario	108	4,239,102	91,338	1,809,454	1,144,327	26.99%	1,350,244	31.85%	\$2.05	43,241	165,685	70,236	261,252
Rancho Cucamonga	148	4,503,994	0	529,748	975,226	21.65%	1,328,158	29.49%	\$1.66	910	82,548	75,384	230,713
Upland	62	1,367,839	0	0	148,046	10.82%	230,635	16.86%	\$1.48	2,661	912	16,482	34,101
North County Total	369	11,548,666	91,338	2,410,514	2,391,376	20.71%	3,073,908	26.62%	\$1.86	55,103	281,138	176,066	569,025
West County													
Chino Hills	16	368,212	0	311,124	153,391	41.66%	153,391	41.66%	\$2.21	1,209	9,597	5,425	24,398
Chino	19	577,222	0	31,957	38,103	6.60%	43,979	7.62%	\$1.45	(10,979)	(9,218)	0	8,157
Corona	78	2,647,430	0	442,826	888,065	33.54%	1,002,010	37.85%	\$2.29	25,559	54,807	79,369	196,932
Norco	13	330,763	0	24,440	77,114	23.31%	78,674	23.79%	\$0.00	2,352	(427)	2,352	3,352
West County Total	126	3,923,627	0	810,347	1,156,673	29.48%	1,278,054	32.57%	\$2.28	18,141	54,759	87,146	232,839
East County													
Banning	4	140,943	0	215,363	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	2	49,608	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Bloomington	1	382,841	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Colton	41	933,055	0	0	102,700	11.01%	140,332	15.04%	\$1.29	18,015	13,905	21,173	25,186
Grand Terrace	3	55,737	0	0	8,011	14.37%	8,011	14.37%	\$1.35	(444)	(444)	0	0
Highland	3	92,422	0	33,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Loma Linda	25	583,837	0	0	53,767	9.21%	48,157	8.25%	\$0.00	2,382	10,460	4,036	12,114
Moreno Valley	34	902,606	0	209,760	76,373	8.46%	119,120	13.20%	\$1.35	(2,300)	(1,639)	2,944	7,926
Perris	10	207,088	0	0	2,108	1.02%	2,108	1.02%	\$0.00	0	(946)	0	0
Redlands	56	1,929,247	0	553,234	310,909	16.12%	333,855	17.30%	\$1.66	33,601	117,949	68,315	177,235
Rialto	9	160,144	0	0	36,133	22.56%	36,133	22.56%	\$0.00	450	(7,941)	450	450
Riverside	298	9,260,277	140,000	952,485	1,611,915	17.41%	1,787,189	19.30%	\$1.84	(56,415)	(57,230)	70,289	213,906
Rubidoux	1	52,090	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
San Bernardino	207	8,775,442	0	30,234	1,211,946	13.81%	1,540,542	17.56%	\$1.49	(37,614)	(131,871)	115,894	188,384
San Jacinto	6	217,260	0	0	47,444	21.84%	47,444	21.84%	\$0.00	0	0	0	0
Yacapa	4	59,686	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
East County Total	704	23,802,283	140,000	1,994,076	3,461,306	14.54%	4,062,891	17.07%	\$1.60	(42,325)	(57,757)	283,101	625,201
South County													
Canyon Lake	1	28,000	0	0	1,342	4.79%	1,342	4.79%	\$0.00	0	(1,342)	0	0
Hemet	42	778,947	10,431	87,807	81,434	10.45%	98,859	12.69%	\$0.00	(6,282)	(5,236)	2,580	4,201
Lake Elsinore	11	269,114	11,703	0	80,723	30.00%	80,723	30.00%	\$0.00	(2,932)	(7,125)	0	6,111
Menifee	3	95,518	0	126,000	12,256	12.83%	12,256	12.83%	\$0.00	0	0	0	0
Murrieta	53	1,477,215	0	234,835	342,050	23.16%	361,763	24.49%	\$1.50	692	14,405	12,375	32,974
Sun City	7	174,865	0	0	31,158	17.82%	35,852	20.50%	\$0.00	326	2,226	326	4,826
Temecula	95	2,282,762	0	110,172	483,803	21.19%	584,372	25.60%	\$1.79	(15,253)	10,663	48,755	109,893
Wildomar	8	280,454	0	82,000	31,683	11.30%	37,428	13.35%	\$0.00	0	0	0	0
South County Total	220	5,386,875	22,134	640,814	1,064,449	19.76%	1,212,595	22.51%	\$1.76	(23,449)	13,591	64,036	158,005
Inland Empire Total	1,419	44,661,451	253,472	5,855,751	8,073,804	18.08%	9,627,448	21.56%	\$1.83	7,470	291,731	610,349	1,585,070
North County													
Class A	31	2,743,087	38,000	2,002,974	1,058,501	38.59%	1,157,082	42.18%	\$2.16	35,548	91,944	46,610	111,698
Class B	263	7,189,131	53,338	407,540	1,088,370	15.14%	1,645,256	22.89%	\$1.55	32,755	206,031	123,761	434,611
Class C	75	1,616,448	0	0	244,505	15.13%	271,570	16.80%	\$1.11	(13,200)	(16,837)	5,695	22,716
West County													
Class A	14	816,803	0	601,992	282,947	34.64%	309,174	37.85%	\$2.20	(320)	46,773	3,809	59,845
Class B	91	2,648,008	0	208,355	815,459	30.80%	910,613	34.39%	\$2.35	14,188	14,847	72,482	159,115
Class C	21	458,816	0	0	58,267	12.70%	58,267	12.70%	\$1.88	4,273	(6,861)	10,855	13,879
East County													
Class A	36	3,439,982	140,000	547,268	676,877	19.68%	738,761	21.48%	\$1.87	54,611	47,733	85,484	149,338
Class B	469	14,947,508	0	1,446,808	2,305,498	15.42%	2,761,513	18.47%	\$1.60	(33,542)	(45,124)	178,896	435,363
Class C	199	5,414,793	0	0	478,931	8.84%	562,617	10.39%	\$1.10	(63,394)	(60,366)	18,721	40,500
South County													
Class A	19	934,729	0	248,018	271,066	29.00%	282,403	30.21%	\$1.50	(4,412)	15,603	7,823	36,012
Class B	166	3,843,211	22,134	392,796	705,946	18.37%	817,979	21.28%	\$1.81	(7,703)	(793)	52,422	102,444
Class C	35	608,935	0	0	87,437	14.36%	112,213	18.43%	\$1.87	(11,334)	(1,219)	3,791	19,549
Inland Empire													
Class A	100	7,934,601	178,000	3,400,252	2,289,391	28.85%	2,487,420	31.35%	\$2.11	85,427	202,053	143,726	356,893
Class B	989	28,627,858	75,472	2,455,499	4,915,273	17.17%	6,135,361	21.43%	\$1.70	5,698	174,961	427,561	1,131,533
Class C	330	8,098,992	0	0	869,140	10.73%	1,004,667	12.40%	\$1.12	(83,655)	(85,283)	39,062	96,644
Total	1,419	44,661,451	253,472	5,855,751	8,073,804	18.08%	9,627,448	21.56%	\$1.83	7,470	291,731	610,349	1,585,070

This survey consists of 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.

RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price	Sale Price Per SF	Buyer	Seller
9337 Milliken Ave.	Rancho Cucamonga	B	47,720	\$4,100,000	\$85.92	Ellen Capital Group, LLC	PFF Bank & Trust
1950 S. Sunwest Ln.	San Bernardino	B	51,108	\$4,000,000	\$78.27	Southern CA Schools Risk Mgmt JPA	RCFC 1950 HEC, LLC
14205 Meridian Pky.	Riverside	A	55,000	\$3,200,000	\$58.18	Silagi Development	Operon Group
27476-27482 Via Industria	Temecula	B	11,216	\$1,935,020	\$172.52	Supplier Management Solutions, Inc.	Fullmer Construction
31205-31217 Pauba Rd.	Temecula	B	18,104	\$1,810,000	\$99.98	ZMI Real Estate	Zions First National Bank
3333 Concours	Ontario	B	8,240	\$1,740,600	\$211.24	Dr. Rhagiv Bhagat, DDS	Bank of the West

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
550 E. Hospitality Ln. – Renewal	San Bernardino	A	53,832	May-10	Arrowhead Credit Union	Glenborough, LLC
3990 Concours	Ontario	A	39,737	May-10	N/A	Lord Baltimore Properties
5700 Division St.	Riverside	C	13,939	June-10	Clinical Innovations, Inc.	5700 Division Street, LLC
3800 Concours	Ontario	A	12,116	June-10	N/A	CIP Real Estate Property Services
10801 6th St.	Rancho Cucamonga	B	12,014	April-10	N/A	Argus Realty Investors, LP
650 E. Hospitality Ln. – Renewal	San Bernardino	A	10,127	May-10	Health Net	Glenborough, LLC

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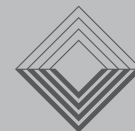
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