

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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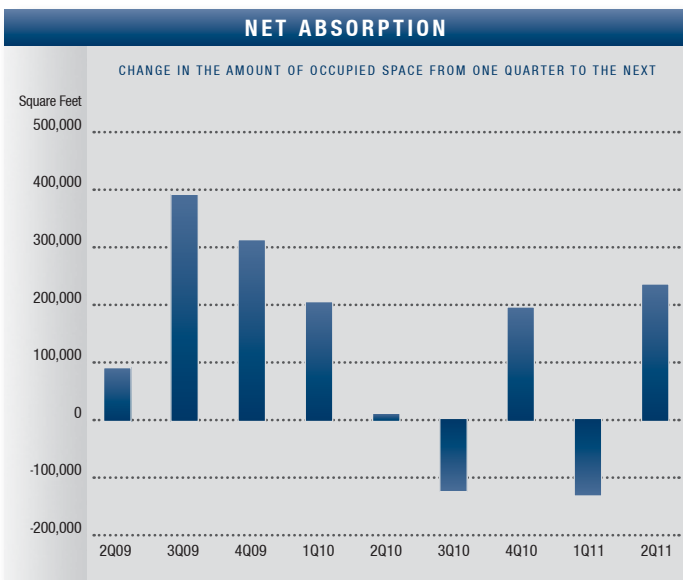
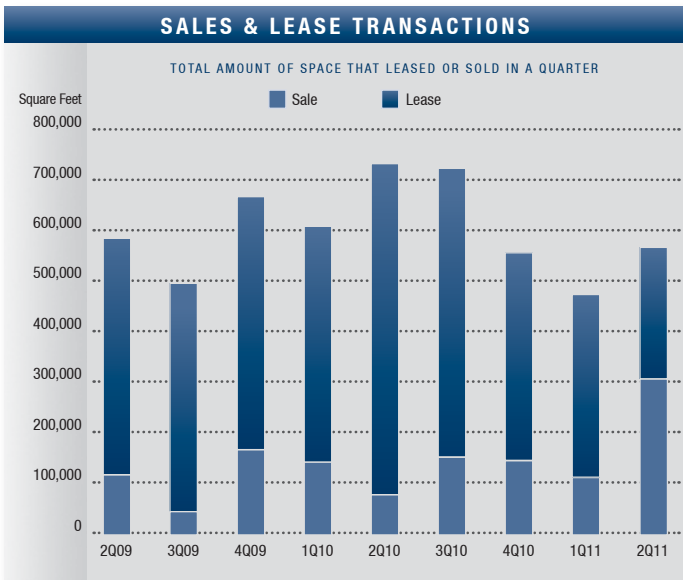
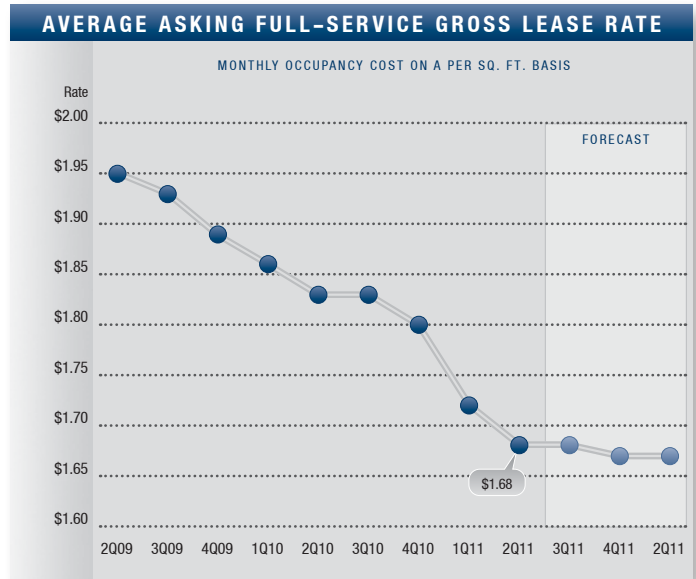
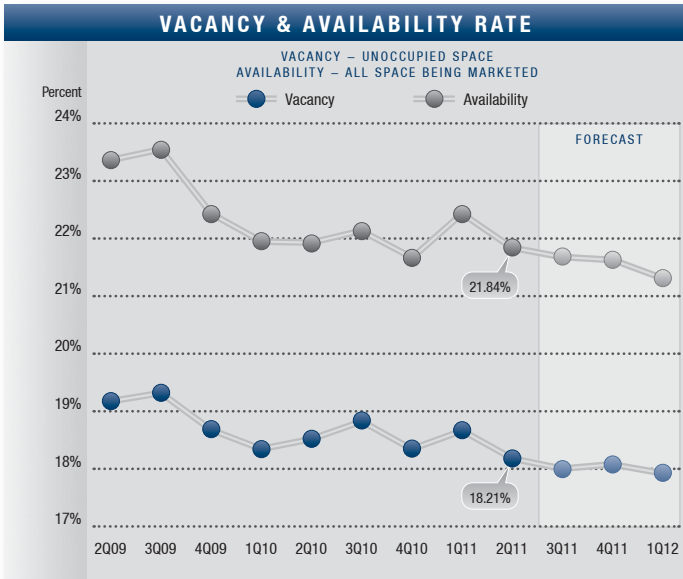
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Market Highlights

- Encouraging Numbers** - The Inland Empire Office Market conveyed more promises of stabilization in the second quarter of 2011. Both vacancy and availability began to decrease, and net absorption posted over 200,000 square feet of positive activity. With regard to sales transactions, the ask-bid gap narrowed, as evidenced by the continued drop in asking prices and increased interest from users and investors. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- Construction** - At the end of the second quarter of 2011, total space under construction checked in at 141,133 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 year at 18.21%, a decrease compared to the previous quarter's rate of 18.69% and last year's rate of 18.52%.
- Availability** - Direct/sublease space being marketed was 21.84% for the second quarter of 2011, down from the first quarter's rate of 22.41% and a 12-basis-point decrease from the 21.96% we saw in the second quarter of last year.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.68 in the second quarter, which is four cents lower than the first quarter of 2011's rate and a 8.2% decrease compared to 2010's second quarter rate of \$1.83. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$1.91 FSG. The highest rates were found in the West County submarket, where they averaged \$2.03 FSG.
- Absorption** - The Inland Empire office market posted 233,702 square feet of positive net absorption in the second quarter of 2011; from the beginning of 2009 to the second quarter of 2011, the office market averaged approximately 150,000 square feet of positive absorption per quarter.
- Transaction Activity** - Leasing activity checked in at just over 260,000 square feet this quarter, a decrease from 2010's second quarter total of 650,000 square feet. However, sales activity showed an increase, posting 300,000 square feet of activity in the second quarter of 2011 compared to 2010's 75,000 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 13.2% in May 2011, down from a revised 13.4% in April 2011 and below the year-ago estimate of 13.9%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. The unemployment rate was 13.3% for Riverside County and 13.2% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA lost 16,900 payroll jobs from May 2010 to May 2011. The largest declines were 10,800 jobs in government and 5,300 in construction. However, education and health services recorded the greatest year-over-year gain, adding 2,500 jobs. The LAEDC is forecasting that no jobs will be added or lost in the Inland Empire in 2011.
- Overall** - We are seeing a decrease in the amount of available space being added to the market. Absorption is trending upward, and with few new deliveries to put more upward pressure on vacancies, the market should continue to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue 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 have begun to stabilize. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues. If unemployment continues to drop and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	18.21%	18.69%	18.52%	(1.67%)
Availability Rate	21.84%	22.41%	21.96%	(0.55%)
Average Asking Lease Rate	\$1.68	\$1.72	\$1.83	(8.20%)
Sale & Lease Transactions	569,478	470,986	728,462	(21.82%)
Gross Absorption	693,127	607,851	599,724	15.57%
Net Absorption	233,702	(129,950)	9,532	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 2Q2011	Square Feet Available	Availability Rate 2Q2011	Average Asking Lease Rate	Net Absorption 2Q2011	Net Absorption 2011	Gross Absorption 2Q2011	Gross Absorption 2011
North County													
Fontana	36	1,027,155	0	50,000	118,784	11.56%	131,084	12.76%	\$1.69	360	(1,040)	2,360	2,360
Montclair	13	271,310	0	0	26,895	9.91%	40,895	15.07%	\$1.45	(6,034)	(12,826)	9,222	9,222
Ontario	110	4,277,380	0	1,900,792	1,116,236	26.10%	1,258,014	29.41%	\$1.75	(13,207)	46,787	77,300	217,474
Rancho Cucamonga	146	4,487,678	0	188,500	961,035	21.41%	1,257,562	28.02%	\$1.60	33,904	468	84,836	167,053
Upland	65	1,419,116	0	0	214,554	15.12%	329,321	23.21%	\$1.48	(6,818)	(61,494)	12,904	31,797
North County Total	370	11,482,639	0	2,139,292	2,437,504	21.23%	3,016,876	26.27%	\$1.66	8,205	(28,105)	186,622	427,906
West County													
Chino Hills	18	465,120	0	311,124	161,365	34.69%	163,212	35.09%	\$2.14	7,124	28,162	7,124	28,180
Chino	17	532,222	0	13,957	35,689	6.71%	58,880	11.06%	\$1.76	(1,010)	1,747	1,050	3,807
Corona	78	2,652,979	0	269,026	813,395	30.66%	985,436	37.14%	\$2.07	36,441	19,233	97,539	181,964
Norco	14	350,846	0	24,440	56,178	16.01%	57,738	16.46%	\$1.50	(629)	2,847	5,986	9,462
West County Total	127	4,001,167	0	618,547	1,066,627	26.66%	1,265,266	31.62%	\$2.03	41,926	51,989	111,699	223,413
East County													
Banning	4	140,943	0	170,318	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	3	145,918	0	0	0	0.00%	0	0.00%	\$0.00	1,250	1,250	2,500	2,500
Bloomington	1	382,841	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Colton	45	1,006,143	0	0	152,142	15.12%	243,144	24.17%	\$1.22	10,981	(18,302)	21,241	24,299
Grand Terrace	4	69,278	0	0	9,828	14.19%	9,828	14.19%	\$1.25	0	201	0	676
Highland	3	92,422	0	33,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Loma Linda	25	659,817	0	0	30,511	4.62%	42,359	6.42%	\$1.67	9,400	11,016	9,400	11,316
Moreno Valley	38	1,110,173	0	209,760	46,460	4.18%	59,572	5.37%	\$1.28	3,516	5,106	21,570	23,160
Perris	10	207,088	0	0	3,679	1.78%	3,679	1.78%	\$1.35	0	(1,571)	1,100	1,100
Redlands	61	2,069,255	0	248,804	349,627	16.90%	374,511	18.10%	\$1.62	(71)	(16,703)	12,203	39,363
Rialto	9	164,756	0	0	36,556	22.19%	36,556	22.19%	\$1.43	1,840	(8,178)	1,840	1,840
Riverside	305	9,445,069	141,133	716,664	1,551,171	16.42%	1,724,829	18.26%	\$1.62	67,273	60,113	100,029	211,756
Rubidoux	1	52,090	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
San Bernardino	206	7,624,869	0	12,234	1,270,244	16.66%	1,674,716	21.96%	\$1.42	76,490	32,390	150,371	189,035
San Jacinto	5	146,867	0	0	37,490	25.53%	37,490	25.53%	\$2.62	0	0	0	0
Yacapa	5	81,316	0	0	21,588	26.55%	21,588	26.55%	\$1.06	0	0	0	0
East County Total	725	23,398,845	141,133	1,390,780	3,509,296	15.00%	4,228,272	18.07%	\$1.51	170,679	65,322	320,254	505,045
South County													
Canyon Lake	1	28,000	0	0	0	0.00%	0	0.00%	\$0.00	0	1,342	0	1,342
Hemet	44	814,632	0	87,807	79,516	9.76%	79,516	9.76%	\$1.75	(436)	(4,051)	1,575	1,575
Lake Elsinore	12	275,697	0	0	64,970	23.57%	74,965	27.19%	\$1.87	7,613	14,754	7,613	15,370
Menifee	8	242,946	0	166,527	39,403	16.22%	40,303	16.59%	\$2.08	(186)	(1,459)	0	0
Murrieta	51	1,460,105	0	234,924	312,765	21.42%	361,449	24.76%	\$1.72	6,771	27,129	23,766	54,386
Sun City	99	2,483,214	0	84,672	554,352	22.32%	601,908	24.24%	\$1.35	(1,911)	(28,822)	40,557	66,288
Temecula	8	280,454	0	44,000	33,354	11.89%	45,354	16.17%	\$1.94	1,041	5,653	1,041	5,653
Wildomar	223	5,585,048	0	617,930	1,084,360	19.42%	1,203,495	21.55%	\$1.57	12,892	14,546	74,552	144,614
South County Total	222	5,528,862	0	617,930	1,097,252	19.85%	1,221,986	22.10%	\$1.61	1,654	1,654	70,062	70,062
Inland Empire Total	1,445	44,467,699	141,133	4,766,549	8,097,787	18.21%	9,713,909	21.84%	\$1.68	233,702	103,752	693,127	1,300,978
North County													
Class A	32	2,789,487	0	1,699,726	951,907	34.12%	992,956	35.60%	\$1.94	(8,176)	86,604	52,301	196,773
Class B	266	7,208,764	0	439,566	1,257,678	17.45%	1,771,794	24.58%	\$1.57	25,338	(100,814)	120,084	185,759
Class C	72	1,484,388	0	0	227,919	15.35%	252,126	16.99%	\$1.07	(8,957)	(13,895)	14,237	45,374
West County													
Class A	14	815,554	0	447,992	267,600	32.81%	267,600	32.81%	\$2.21	(1,396)	24,437	3,756	30,051
Class B	91	2,731,937	0	170,555	739,037	27.05%	903,280	33.06%	\$2.03	45,615	38,024	102,430	180,710
Class C	22	453,676	0	0	59,990	13.22%	94,386	20.80%	\$1.42	(2,293)	(10,472)	5,513	12,652
East County													
Class A	37	3,623,180	141,133	268,447	674,725	18.62%	753,852	20.81%	\$1.90	44,799	38,382	48,069	64,121
Class B	479	14,112,487	0	1,122,333	2,292,134	16.24%	2,778,688	19.69%	\$1.52	85,934	8,137	158,754	286,650
Class C	209	5,663,178	0	0	542,437	9.58%	695,732	12.29%	\$1.22	39,946	18,803	113,431	154,274
South County													
Class A	19	939,167	0	210,018	255,847	27.24%	274,350	29.21%	\$1.88	9,524	10,343	11,701	27,066
Class B	173	4,094,425	0	407,912	748,780	18.29%	830,110	20.27%	\$1.51	2,443	130	58,191	105,772
Class C	31	551,456	0	0	79,733	14.46%	99,035	17.96%	\$1.39	925	4,073	4,660	11,776
Inland Empire													
Class A	102	8,167,388	141,133	2,626,183	2,150,079	26.33%	2,288,758	28.02%	\$1.91	44,751	159,766	115,827	318,011
Class B	1,009	28,147,613	0	2,140,366	5,037,629	17.90%	6,283,872	22.32%	\$1.60	159,330	(54,523)	439,459	758,891
Class C	334	8,152,698	0	0	910,079	11.16%	1,141,279	14.00%	\$1.07	29,621	(1,491)	137,841	224,076
Total	1,445	44,467,699	141,133	4,766,549	8,097,787	18.21%	9,713,909	21.84%	\$1.68	233,702	103,752	693,127	1,300,978

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	Price Per SF	Buyer	Seller
2800 N. Haven Ave.	Ontario	B	80,406	\$115.04	The Realty Associates Fund IX, LP	Regent Empire, LLC
4740 Green River Rd.	Corona	B	68,028	\$102.90	HGN Corona Partners, LLC	SA California Group, Inc.
275 W. Hospitality Ln.	San Bernardino	B	63,333	\$51.32	Hospitality Executive Center, LLC	Rcfc 275 Hec, LLC
8301 Utica Ave.	Rancho Cucamonga	B	34,202	\$68.71	N/A	8300 Utica Avenue Holding, LLC
8835 Haven Ave.	Rancho Cucamonga	B	23,855	\$125.00	CCIC North America, Inc.	Rock-Jersey, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
22262 Alessandro Blvd.	Moreno Valley	B	17,000	Apr-11	N/A	Elodia Navarro
1260 Corona Pointe Ct.	Corona	B	16,234	Apr-11	N/A	1260 Corona Pointe, LLC
36485 Inland Valley Dr.	Wildomar	B	15,840	May-11	Inland Valley Medical Center	Universal health Realty
3880 Lemon St.	Riverside	A	15,000	Jun-11	N/A	Nomel Venture, LP
3237 Guasti Rd.	Ontario	A	11,371	May-11	University of La Verne	MEF Realty, 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.

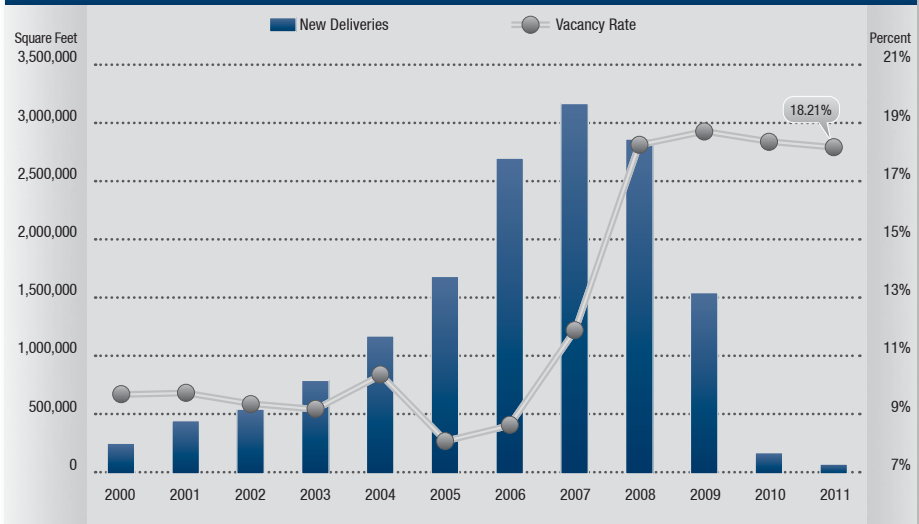
CLASS B

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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