

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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### Market Highlights

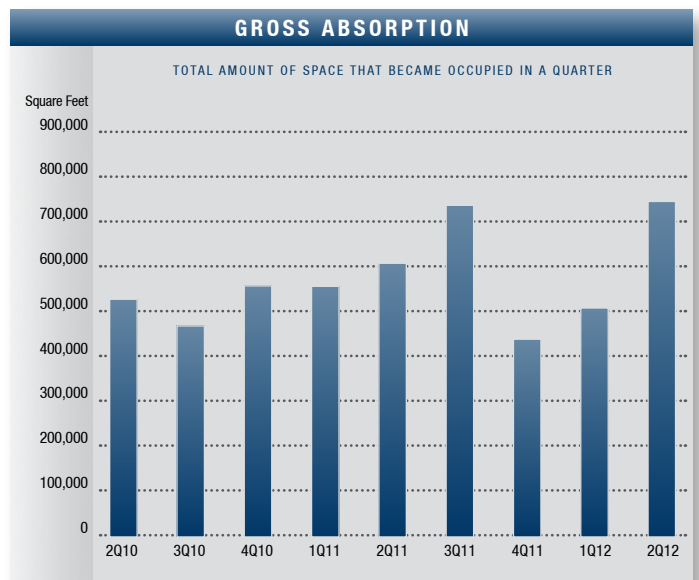
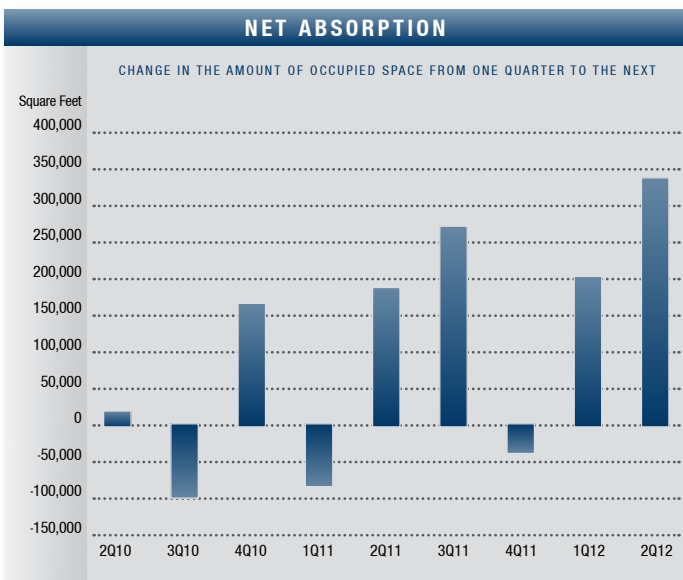
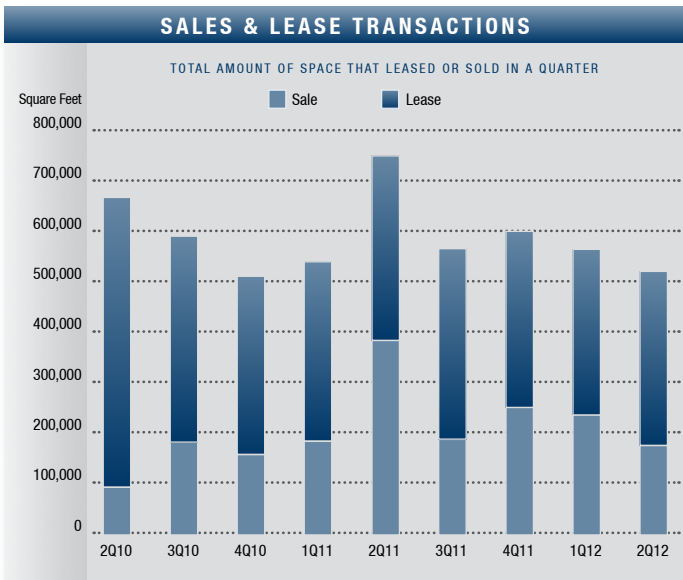
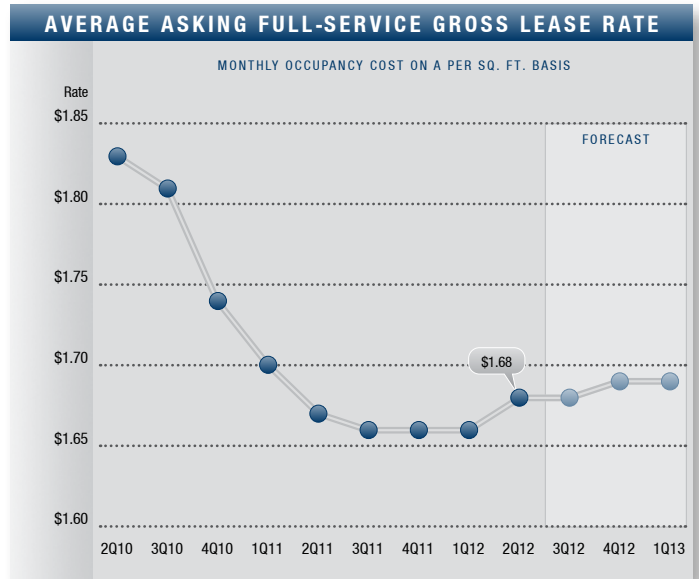
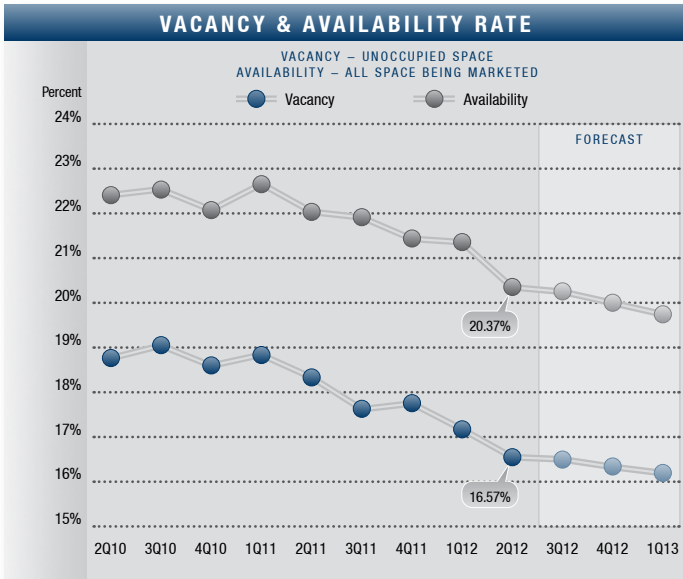
- Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the second quarter of 2012. Both vacancy and availability continued to decrease, and net absorption posted over 330,000 square feet of positive activity. Asking lease rates increased for the first time since the recession began, suggesting that they may have finally reached bottom and will begin trending upward. While these are positive indications, stability and job growth will need to continue in the coming quarters for the Inland Empire office market to sustain a recovery.
- Construction** - At the end of the quarter, total space under construction checked in at 15,823 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 16.57%, a decrease compared to the previous quarter's rate of 17.18% and the prior year's rate of 18.33%.
- Availability** - Direct/sublease space being marketed was 20.37% in the second quarter of 2012, down from 2012's first quarter rate of 21.38% and a 164-basis-point decrease from the 22.01% we saw in the second quarter of 2011.
- 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, two cents higher than the previous quarter and one cent higher than 2011's second quarter rate. This marks the first increase in average asking lease rates in the Inland Empire office market since the beginning of the recession. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$2.04 FSG. The highest rates were found in the East County submarket, where they averaged \$1.70 FSG.
- Absorption** - The Inland Empire office market posted just over 330,000 square feet of positive net absorption for the second quarter of 2012; from the beginning of 2009 to the end of the second quarter of 2012, the office market

averaged approximately 127,000 square feet of positive absorption per quarter.

- Transaction Activity** - Leasing activity checked in at just over 340,000 square feet in the second quarter, a slight decrease from 2011's second quarter total of 368,000 square feet. Sales activity showed a decrease this quarter too, posting 174,000 square feet of activity compared to 2011's second quarter's 378,000 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 11.8% in May 2012, up from a revised 11.7% in April 2012 and below the year-ago estimate of 13.1%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. The unemployment rate was 11.8% for Riverside County and 11.9% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 14,700 payroll jobs from February 2011 to February 2012. The largest gains were 10,800 jobs in professional and business services and 4,000 jobs in leisure and hospitality. However, government lost 4,700 jobs. The LAEDC is forecasting that 15,300 new jobs will be added in the Inland Empire in 2012.
- Overall** - We are seeing a decrease in the amount of available space being added to the market. Absorption is positive, and with few new deliveries to apply more upward pressure on vacancy, 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 continue firm up, with the possibility of further increases in late 2012 or early 2013. 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

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	16.57%	17.18%	18.33%	(9.60%)
Availability Rate	20.37%	21.38%	22.01%	(7.45%)
Average Asking Lease Rate	\$1.68	\$1.66	\$1.67	0.60%
Sale & Lease Transactions	516,801	561,184	747,399	(30.85%)
Gross Absorption	741,449	501,866	608,372	21.87%
Net Absorption	338,290	208,735	187,209	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
<b>West</b>													
Chino/Chino Hills	36	1,144,262	0	142,181	172,796	15.10%	179,261	15.67%	\$2.13	13,173	29,265	20,872	38,764
Fontana	37	1,034,888	0	40,000	129,703	12.53%	135,653	13.11%	\$1.20	(5,884)	(11,894)	1,056	3,077
Montclair	13	271,310	0	0	21,486	7.92%	22,756	8.39%	\$0.00	1,255	7,271	4,141	10,157
Ontario	109	4,265,387	0	1,998,551	1,035,830	24.28%	1,260,353	29.55%	\$1.73	57,417	37,068	103,503	130,801
Rancho Cucamonga	142	4,395,178	0	127,930	844,409	19.21%	1,127,741	25.66%	\$1.59	(22,793)	(28,265)	39,541	84,412
Upland	65	1,464,309	0	0	213,818	14.60%	343,537	23.46%	\$1.39	911	4,483	12,853	19,704
Class A	25	2,266,044	0	1,706,807	606,663	26.77%	657,995	29.04%	\$1.94	31,732	14,452	53,693	66,319
Class B	279	8,409,186	0	601,855	1,562,667	18.58%	2,133,655	25.37%	\$1.59	25,552	47,241	113,154	198,184
Class C	98	1,900,104	0	0	248,712	13.09%	277,651	14.61%	\$0.91	(13,205)	(23,765)	15,119	22,412
<b>West Total</b>	<b>402</b>	<b>12,575,334</b>	<b>0</b>	<b>2,308,662</b>	<b>2,418,042</b>	<b>19.23%</b>	<b>3,069,301</b>	<b>24.41%</b>	<b>\$1.66</b>	<b>44,079</b>	<b>37,928</b>	<b>181,966</b>	<b>286,915</b>
<b>East</b>													
Banning	4	140,943	15,823	170,318	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	162,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	900	900
Bloomington	0	0	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	92	3,075,564	0	109,025	557,034	18.11%	654,344	21.28%	\$1.73	287,730	298,052	360,072	404,747
Colton/Grand Terrace	46	1,018,928	0	20,000	155,938	15.30%	209,137	20.53%	\$1.25	(683)	9,495	15,285	28,460
Moreno Valley	36	1,128,753	0	239,675	32,256	2.86%	41,408	3.67%	\$0.00	8,492	7,068	10,625	16,621
Perris	10	207,088	0	0	5,288	2.55%	5,288	2.55%	\$0.00	0	0	0	0
Redlands / Loma Linda	87	2,295,266	0	97,818	348,471	15.18%	417,150	18.17%	\$1.54	10,791	38,663	21,451	58,778
Rialto	9	248,529	0	0	37,361	15.03%	50,971	20.51%	\$1.58	963	(6,037)	963	963
Riverside	308	9,675,821	0	583,000	1,521,038	15.72%	1,762,083	18.21%	\$2.04	31,273	85,227	108,333	227,734
San Bernardino / Highland	210	7,908,675	0	12,234	1,294,913	16.37%	1,621,825	20.51%	\$1.46	(44,355)	79,565	41,854	218,197
Class A	38	4,104,639	0	183,035	798,959	19.46%	801,746	19.53%	\$2.13	83,575	129,874	159,082	239,508
Class B	497	14,983,208	15,823	1,049,035	2,452,028	16.37%	3,062,228	20.44%	\$1.58	239,493	379,454	349,069	586,291
Class C	271	6,774,638	0	0	701,312	10.35%	898,232	13.26%	\$1.13	(28,857)	2,705	51,332	130,601
<b>East Total</b>	<b>806</b>	<b>25,862,485</b>	<b>15,823</b>	<b>1,232,070</b>	<b>3,952,299</b>	<b>15.28%</b>	<b>4,762,206</b>	<b>18.41%</b>	<b>\$1.70</b>	<b>294,211</b>	<b>512,033</b>	<b>559,483</b>	<b>956,400</b>
<b>Inland Empire Total</b>	<b>1,208</b>	<b>38,437,819</b>	<b>15,823</b>	<b>3,540,732</b>	<b>6,370,341</b>	<b>16.57%</b>	<b>7,831,507</b>	<b>20.37%</b>	<b>\$1.68</b>	<b>338,290</b>	<b>549,961</b>	<b>741,449</b>	<b>1,243,315</b>
<b>Inland Empire</b>													
Class A	63	6,370,683	0	1,889,842	1,405,622	22.06%	1,459,741	22.91%	\$2.04	115,307	144,026	212,775	305,827
Class B	776	23,392,394	15,823	1,650,890	4,014,695	17.16%	5,195,883	22.21%	\$1.58	265,045	426,695	462,223	784,475
Class C	369	8,674,742	0	0	950,024	10.95%	1,175,883	13.56%	\$1.06	(42,062)	(20,760)	66,451	153,013
<b>Inland Empire Total</b>	<b>1,208</b>	<b>38,437,819</b>	<b>15,823</b>	<b>3,540,732</b>	<b>6,370,341</b>	<b>16.57%</b>	<b>7,831,507</b>	<b>20.37%</b>	<b>\$1.68</b>	<b>338,290</b>	<b>549,961</b>	<b>741,449</b>	<b>1,243,315</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	30	528,189	0	14,000	28,521	5.40%	37,297	7.06%	\$1.25	1,627	(2,257)	3,535	3,535
Barstow	13	223,977	0	1,000	31,061	13.87%	50,061	22.35%	\$0.00	0	0	0	0
Hesperia	28	581,359	0	174,316	17,296	2.98%	55,872	9.61%	\$2.00	(867)	(3,764)	1,732	2,075
Victorville	87	1,633,601	0	292,000	133,546	8.17%	165,114	10.11%	\$1.60	20,252	(3,071)	33,314	50,367
<b>High Desert Total</b>	<b>161</b>	<b>3,032,657</b>	<b>0</b>	<b>481,316</b>	<b>210,424</b>	<b>6.94%</b>	<b>308,344</b>	<b>10.17%</b>	<b>\$1.59</b>	<b>21,012</b>	<b>(9,092)</b>	<b>38,581</b>	<b>55,977</b>
<b>Temecula Valley</b>													
Hemet	43	811,037	0	24,511	76,323	9.41%	96,526	11.90%	\$0.00	6,033	11,515	6,033	16,373
Lake Elsinore	12	272,399	0	0	63,050	23.15%	72,614	26.66%	\$0.00	(3,977)	(1,677)	2,300	2,300
Murrieta	51	1,523,748	0	417,891	276,202	18.13%	291,626	19.14%	\$1.36	22,792	72,540	35,149	109,146
San Jacinto	5	150,227	0	0	39,840	26.52%	39,840	26.52%	\$0.00	(1,266)	(2,350)	0	0
Temecula	110	2,832,709	0	88,315	401,131	14.16%	495,790	17.50%	\$1.42	69,493	117,261	102,097	193,709
Wildomar	7	270,830	0	44,000	45,240	16.70%	45,240	16.70%	\$0.00	(4,578)	(2,959)	0	2,763
<b>Temecula Valley Total</b>	<b>228</b>	<b>5,860,950</b>	<b>0</b>	<b>574,717</b>	<b>901,786</b>	<b>15.39%</b>	<b>1,041,636</b>	<b>17.77%</b>	<b>\$1.41</b>	<b>88,497</b>	<b>194,330</b>	<b>145,579</b>	<b>324,291</b>

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 PSF	Buyer	Seller
38670 Sky Canyon Rd. – 4 Properties	Murrieta	B	97,527	N/A	3rdav2010, LP	Regent Silverhawk 8, LLC
27450 Ynez Rd.	Temecula	B	82,663	\$78.93	27450 Ynez Road, LLC	Lennar Partners
27270 Madison Ave. – 2 Properties	Temecula	B	66,859	\$87.12	Summitt Realty Advisors	LNR Partners, Inc.
6177 River Crest	Riverside	C	24,483	N/A	Service Employees International	Kanda, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
2300 Market St.	Riverside	A	33,393	May-12	MEF Realty	The Muller Company
337 N. Vineyard Ave.	Ontario	B	14,500	Apr-12	N/A	B.H. Real Estate, LLC
480 Court St.	San Bernardino	C	11,838	Apr-12	N/A	Chase Financial Service, LLC
3200 E. Guasti Rd.	Ontario	A	10,294	Apr-12	N/A	Greenlaw Partners/Walton Street Capital, LLC

Product Type

CLASS A

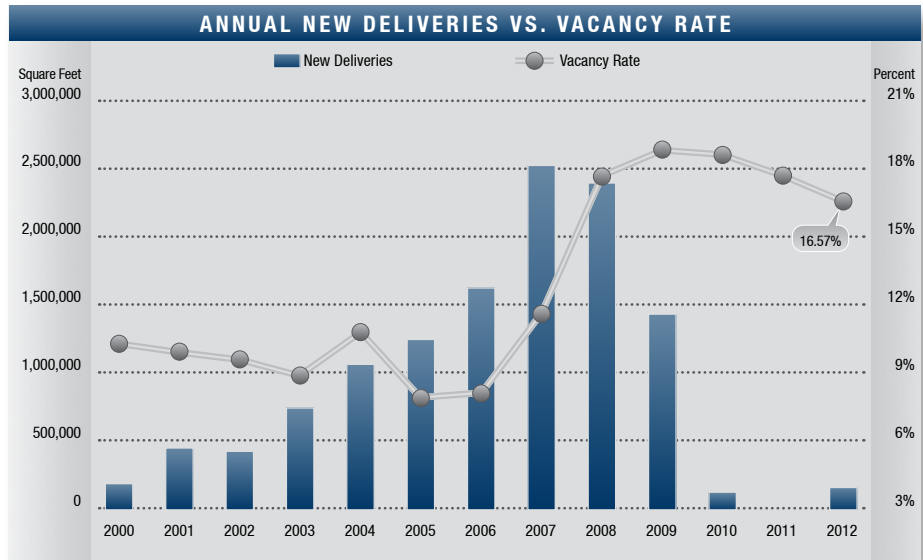
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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.



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