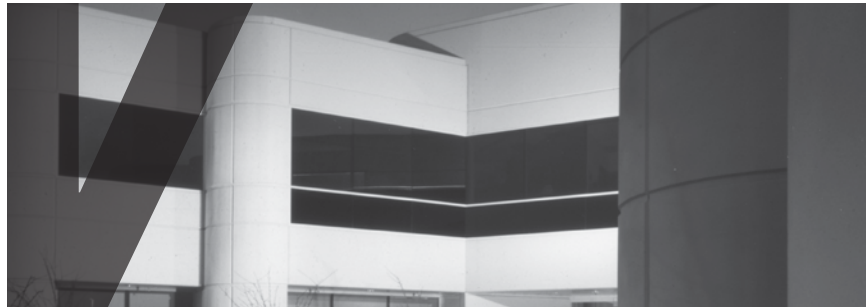




REAL ESTATE SERVICES

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# Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

UP

Deliveries

UP

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## Market Highlights

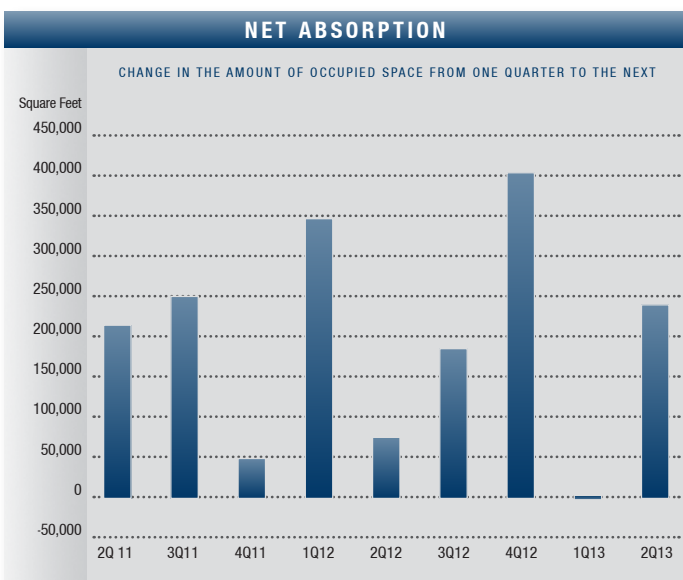
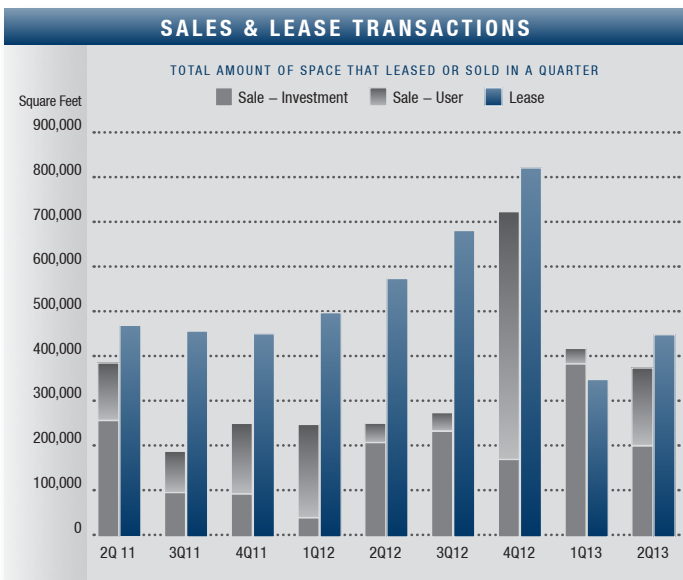
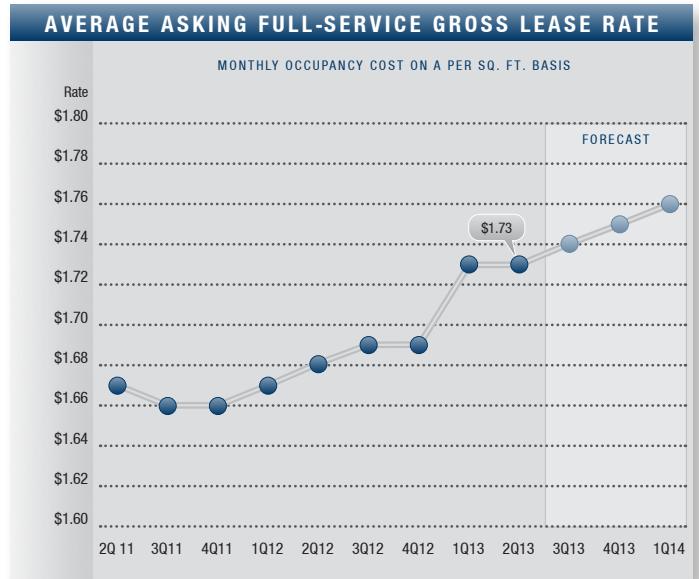
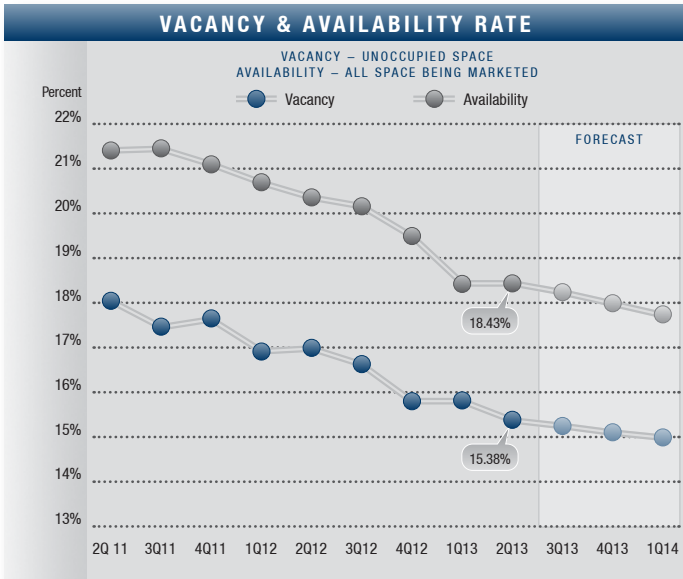
- **Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the second quarter of 2013. Availability stabilized, and vacancy continued to improve. The market posted a positive 252,000 square feet of net absorption for the first half of 2013. Asking lease rates increased by a substantial five cents from a year ago. 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 126,898 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 15.38%, a decrease when compared to the previous quarter's rate of 15.79% but a decrease to the prior year's rate of 17.00%.
- **Availability** - Direct/sublease space being marketed was 18.43% in the second quarter of 2013, down from 2013's first quarter rate of 18.41% and a 192-basis-point decrease from the 20.35% we saw in the second quarter of 2012.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.73 at the end of the second quarter of 2013, a five-cent increase from 2012's second quarter rate and the same as the previous quarter. We are forecasting that the rate will continue to rise in 2013 by around 1.5%. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$2.08 FSG. The highest rates were found in the East County submarket, where they averaged \$1.73 FSG.
- **Absorption** - The Inland Empire office market posted 238,608 square feet of positive net absorption for the

second quarter of 2013; from the beginning of the second quarter 2011 to the end of the second quarter of 2013, the office market averaged approximately 210,000 square feet of positive absorption per quarter.

- **Transaction Activity** - Leasing activity checked in at just over 440,000 square feet in the second quarter of 2013, an increase from 2013's first quarter total of 345,000 square feet. Sales activity showed an increase in the second quarter of 2013, posting over 372,000 square feet of activity compared to 2012's second quarter total of 250,000 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 9.2% in May 2013, down from a revised 9.6% in April 2013 and below the year-ago estimate of 11.9%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. The unemployment rate was 9.2% for Riverside County and 9.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 11,700 payroll jobs from May 2012 to May 2013. The largest gains were 5,700 jobs in leisure and hospitality and 6,100 jobs in trade, transportation, and utilities. The government sector displayed the largest annual decrease, down 3,500 jobs.
- **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 put more upward pressure on vacancy, the market should continue to stabilize. Lease rates are expected to continue increasing in 2013. We should also 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

|                           | 2Q13    | 1Q13    | 2Q12    | % of Change vs. 2Q12 |
|---------------------------|---------|---------|---------|----------------------|
| Vacancy Rate              | 15.38%  | 15.79%  | 17.00%  | (9.53%)              |
| Availability Rate         | 18.43%  | 18.41%  | 20.35%  | (9.43%)              |
| Average Asking Lease Rate | \$1.73  | \$1.73  | \$1.68  | 2.98%                |
| Sale & Lease Transactions | 815,788 | 760,471 | 820,067 | (0.52%)              |
| Gross Absorption          | 565,770 | 759,574 | 699,046 | (19.07%)             |
| Net Absorption            | 238,608 | (2,434) | 72,752  | 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 2Q2013 | Square Feet Available | Availability Rate 2Q2013 | Average Asking Lease Rate | Net Absorption 2Q2013 | Net Absorption 2013 | Gross Absorption 2Q2013 | Gross Absorption 2013 |
| <b>West</b>                |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Chino/Chino Hills          | 38               | 1,179,848                | 0                 | 155,909             | 159,903               | 13.55%              | 173,600               | 14.71%                   | \$2.04                    | (3,986)               | (15,889)            | 9,201                   | 19,948                |
| Fontana                    | 37               | 2,379,740                | 0                 | 48,467              | 126,089               | 5.30%               | 143,021               | 6.01%                    | \$0.97                    | (8,450)               | (8,650)             | 0                       | 0                     |
| Montclair                  | 13               | 267,042                  | 0                 | 0                   | 21,480                | 8.04%               | 36,362                | 13.62%                   | \$0.00                    | 297                   | (339)               | 1,300                   | 2,155                 |
| Ontario                    | 114              | 4,364,210                | 98,898            | 1,445,918           | 1,070,672             | 24.53%              | 1,210,264             | 27.73%                   | \$1.80                    | 5,142                 | (7,078)             | 77,299                  | 155,581               |
| Rancho Cucamonga           | 142              | 4,364,220                | 0                 | 127,930             | 812,451               | 18.62%              | 699,096               | 16.02%                   | \$1.66                    | 38,728                | (91,173)            | 61,902                  | 128,069               |
| Upland                     | 67               | 1,484,272                | 0                 | 0                   | 208,340               | 14.04%              | 261,707               | 17.63%                   | \$1.39                    | 1,533                 | (5,302)             | 12,698                  | 91,998                |
| Class A                    | 25               | 2,266,299                | 0                 | 1,255,451           | 529,569               | 23.37%              | 534,430               | 23.58%                   | \$1.96                    | 16,926                | 51,530              | 28,720                  | 87,556                |
| Class B                    | 285              | 9,793,814                | 98,898            | 522,773             | 1,664,267             | 16.99%              | 1,732,763             | 17.69%                   | \$1.65                    | 13,109                | (188,504)           | 113,734                 | 278,512               |
| Class C                    | 101              | 1,979,219                | 0                 | 0                   | 205,099               | 10.36%              | 256,857               | 12.98%                   | \$1.05                    | 3,229                 | 8,543               | 19,946                  | 31,683                |
| <b>West Total</b>          | <b>411</b>       | <b>14,039,332</b>        | <b>98,898</b>     | <b>1,778,224</b>    | <b>2,398,935</b>      | <b>17.09%</b>       | <b>2,524,050</b>      | <b>17.98%</b>            | <b>\$1.72</b>             | <b>33,264</b>         | <b>(128,431)</b>    | <b>162,400</b>          | <b>397,751</b>        |
| <b>East</b>                |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Banning                    | 5                | 90,461                   | 25,000            | 145,318             | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Beaumont                   | 4                | 168,918                  | 0                 | 8,938               | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Corona/Norco               | 92               | 3,102,213                | 3,000             | 286,507             | 709,451               | 22.87%              | 651,888               | 21.01%                   | \$1.74                    | 107,071               | 42,541              | 139,369                 | 206,495               |
| Colton/Grand Terrace       | 50               | 1,090,563                | 0                 | 20,000              | 201,028               | 18.43%              | 259,296               | 23.78%                   | \$1.02                    | (47,395)              | (2,677)             | 13,020                  | 82,225                |
| Moreno Valley              | 38               | 1,068,691                | 0                 | 197,607             | 38,247                | 3.58%               | 52,039                | 4.87%                    | \$0.00                    | 7,102                 | 4,146               | 7,102                   | 8,546                 |
| Perris                     | 8                | 186,652                  | 0                 | 0                   | 3,717                 | 1.99%               | 6,017                 | 3.22%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| Redlands/Loma Linda        | 89               | 2,306,119                | 0                 | 106,618             | 301,747               | 13.08%              | 374,176               | 16.23%                   | \$1.19                    | 39,270                | 41,641              | 57,269                  | 85,866                |
| Rialto                     | 10               | 284,708                  | 0                 | 0                   | 40,671                | 14.29%              | 53,403                | 18.76%                   | \$1.40                    | (1,310)               | (3,310)             | 0                       | 0                     |
| Riverside                  | 307              | 9,385,844                | 0                 | 616,910             | 1,235,080             | 13.16%              | 1,800,249             | 19.18%                   | \$2.02                    | 59,644                | 157,398             | 110,118                 | 262,691               |
| San Bernardino/Highland    | 202              | 7,726,608                | 0                 | 12,234              | 1,140,031             | 14.75%              | 1,551,210             | 20.08%                   | \$1.53                    | 40,962                | 124,866             | 76,492                  | 186,530               |
| Class A                    | 37               | 3,946,757                | 0                 | 329,820             | 617,946               | 15.66%              | 832,743               | 21.10%                   | \$2.18                    | (14,214)              | 16,788              | 26,861                  | 90,329                |
| Class B                    | 504              | 15,090,412               | 28,000            | 1,064,312           | 2,407,284             | 15.95%              | 2,987,488             | 19.80%                   | \$1.63                    | 203,005               | 276,797             | 331,486                 | 596,834               |
| Class C                    | 264              | 6,373,608                | 0                 | 0                   | 644,742               | 10.12%              | 928,047               | 14.56%                   | \$1.06                    | 16,553                | 71,020              | 45,023                  | 145,190               |
| <b>East Total</b>          | <b>805</b>       | <b>25,410,777</b>        | <b>28,000</b>     | <b>1,394,132</b>    | <b>3,669,972</b>      | <b>14.44%</b>       | <b>4,748,278</b>      | <b>18.69%</b>            | <b>\$1.73</b>             | <b>205,344</b>        | <b>364,605</b>      | <b>403,370</b>          | <b>832,353</b>        |
| <b>Inland Empire Total</b> | <b>1,216</b>     | <b>39,450,109</b>        | <b>126,898</b>    | <b>3,172,356</b>    | <b>6,068,907</b>      | <b>15.38%</b>       | <b>7,272,328</b>      | <b>18.43%</b>            | <b>\$1.73</b>             | <b>238,608</b>        | <b>236,174</b>      | <b>565,770</b>          | <b>1,230,104</b>      |

**Inland Empire**

|                            |              |                   |                |                  |                  |               |                  |               |               |                |                |                |                  |
|----------------------------|--------------|-------------------|----------------|------------------|------------------|---------------|------------------|---------------|---------------|----------------|----------------|----------------|------------------|
| Class A                    | 62           | 6,213,056         | 0              | 1,585,271        | 1,147,515        | 18.47%        | 1,367,173        | 22.00%        | \$2.08        | 2,712          | 68,318         | 55,581         | 177,885          |
| Class B                    | 789          | 24,884,226        | 126,898        | 1,587,085        | 4,071,551        | 16.36%        | 4,720,251        | 18.97%        | \$1.64        | 216,114        | 88,293         | 445,220        | 875,346          |
| Class C                    | 365          | 8,352,827         | 0              | 0                | 849,841          | 10.17%        | 1,184,904        | 14.19%        | \$1.06        | 19,782         | 79,563         | 64,969         | 176,873          |
| <b>Inland Empire Total</b> | <b>1,216</b> | <b>39,450,109</b> | <b>126,898</b> | <b>3,172,356</b> | <b>6,068,907</b> | <b>15.38%</b> | <b>7,272,328</b> | <b>18.43%</b> | <b>\$1.73</b> | <b>238,608</b> | <b>236,174</b> | <b>565,770</b> | <b>1,230,104</b> |

**High Desert**

|                          |            |                  |          |                |                |              |                |              |               |                |               |               |                |
|--------------------------|------------|------------------|----------|----------------|----------------|--------------|----------------|--------------|---------------|----------------|---------------|---------------|----------------|
| Adelanto                 | 3          | 65,531           | 0        | 0              | 0              | 0.00%        | 0              | 0.00%        | \$0.00        | 0              | 0             | 0             | 0              |
| Apple Valley             | 28         | 488,906          | 0        | 45,388         | 27,006         | 5.52%        | 40,654         | 8.32%        | \$0.00        | (3,805)        | 2,090         | 2,270         | 10,065         |
| Barstow                  | 13         | 208,404          | 0        | 0              | 35,000         | 16.79%       | 38,000         | 18.23%       | \$0.00        | (2,250)        | (17,149)      | 0             | 886            |
| Hesperia                 | 24         | 496,210          | 0        | 76,516         | 14,270         | 2.88%        | 25,177         | 5.07%        | \$0.00        | 0              | 0             | 0             | 2,000          |
| Victorville              | 85         | 1,661,185        | 0        | 243,000        | 118,876        | 7.16%        | 164,857        | 9.92%        | \$1.92        | 816            | (3,440)       | 16,913        | 27,907         |
| <b>High Desert Total</b> | <b>153</b> | <b>2,920,236</b> | <b>0</b> | <b>364,904</b> | <b>195,152</b> | <b>6.68%</b> | <b>268,688</b> | <b>9.20%</b> | <b>\$1.92</b> | <b>(5,239)</b> | <b>10,879</b> | <b>19,183</b> | <b>134,864</b> |

**Temecula Valley**

|                              |            |                  |                |                |                |               |                |               |               |                |                |                |                |
|------------------------------|------------|------------------|----------------|----------------|----------------|---------------|----------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Hemet                        | 43         | 827,593          | 0              | 24,511         | 72,482         | 8.76%         | 118,079        | 14.27%        | \$0.00        | 1,973          | 3,597          | 2,185          | 7,817          |
| Lake Elsinore                | 12         | 272,399          | 5,764          | 0              | 53,817         | 19.76%        | 55,107         | 20.23%        | \$0.00        | 19,261         | 12,414         | 22,246         | 23,146         |
| Murrieta                     | 52         | 1,987,815        | 0              | 616,891        | 218,863        | 11.01%        | 242,576        | 12.20%        | \$2.19        | 138,751        | 158,616        | 143,864        | 181,535        |
| San Jacinto                  | 4          | 96,241           | 0              | 0              | 41,528         | 43.15%        | 41,528         | 43.15%        | \$0.00        | 0              | (3,561)        | 0              | 0              |
| Temecula                     | 110        | 2,734,327        | 370,735        | 71,441         | 395,927        | 14.48%        | 455,986        | 16.68%        | \$1.43        | (4,973)        | (3,459)        | 37,081         | 88,118         |
| Wildomar                     | 7          | 270,830          | 0              | 44,000         | 41,802         | 15.43%        | 41,802         | 15.43%        | \$0.00        | 0              | 0              | 0              | 0              |
| <b>Temecula Valley Total</b> | <b>228</b> | <b>6,189,205</b> | <b>376,499</b> | <b>756,843</b> | <b>824,419</b> | <b>13.32%</b> | <b>955,078</b> | <b>15.43%</b> | <b>\$1.34</b> | <b>155,012</b> | <b>183,322</b> | <b>205,376</b> | <b>496,758</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 | Buyer                         | Seller                        |
|-------------------------------|----------|-------|-------------|------------|-------------------------------|-------------------------------|
| 2455 Anselmo Dr.              | Corona   | B     | 75,426      | \$112.00   | N/A                           | HBC Corona Summitt, LLC       |
| 200 S. Main St.               | Corona   | A     | 63,036      | N/A        | Global Corporate Center, Inc. | Save Most Desert Rancho, Ltd. |
| 1790 Park Ave. – 3 Properties | Redlands | B     | 55,154      | \$64.60    | N/A                           | Didion Family Trust 2-10-92   |
| 25495 Medical Center Dr.      | Murrieta | A     | 52,000      | N/A        | 7 Summitt Properties 2, LLC   | Sreenivasa & Hemalatha Nakka  |
| 27349 Jefferson Ave.          | Temecula | C     | 35,260      | N/A        | Richard A. Beck               | Christine A. Greer            |

Lease Transactions

| Property Address       | City             | Class | Square Feet | Transaction Date | Tenant                         | Owner                          |
|------------------------|------------------|-------|-------------|------------------|--------------------------------|--------------------------------|
| 10740 4th St.          | Rancho Cucamonga | B     | 39,775      | Apr-13           | N/A                            | Omninet Capital                |
| 9500 Haven Ave.        | Rancho Cucamonga | B     | 17,963      | Jun-13           | South Coast Community Services | MGR Real Estate                |
| 2250 S. Riverside Ave. | Colton           | C     | 17,917      | Apr-13           | CR England                     | Heitman, LLC                   |
| 1461 E. Cooley Dr.     | Colton           | B     | 14,522      | Jun-13           | South Coast Community Services | MGR Real Estate                |
| 8678 Archibald Ave.    | Ontario          | B     | 12,430      | Apr-13           | N/A                            | ICO Investment Group, Inc.     |
| 47100 Washington St.   | La Quinta        | B     | 11,336      | May-13           | Heath Hilgenberg, Inc.         | Colin J. Mcdermott             |
| 430 N. Vineyard Ave.   | Ontario          | B     | 10,469      | May-13           | N/A                            | Rar2 Inland Empire Offices, CA |

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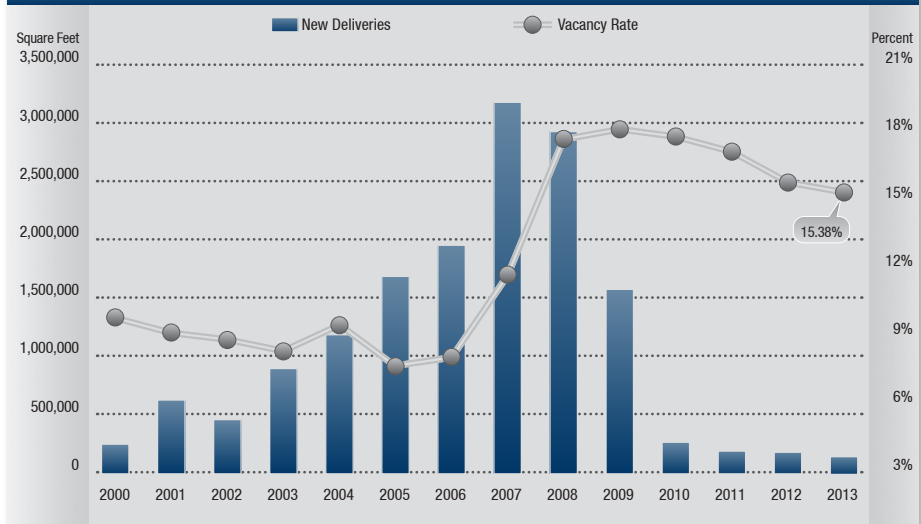
CLASS B

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

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