



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving in the second quarter of 2014. Both vacancy and availability displayed significant drops compared to the previous year. Net absorption posted over 94,000 square feet of positive absorption during the second quarter. 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** - There was 152,510 square feet under construction in the Inland Empire at the end of the second quarter of 2014, most of which was located in Ontario and Banning. Only 99,760 square feet of new product was delivered in 2013. 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 second quarter of 2014 at 13.57%, a decrease of 24 basis points when compared to the previous quarter, and a 12.00% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 16.95% at the end of the quarter, down from 2013's second quarter rate of 18.47% and a 29 basis point decrease from the 17.24% we saw in the first quarter in 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.75 in the second quarter of 2014, a two cent increase from the previous quarter last year. We are forecasting that the rate will continue to rise in 2014. The record high rate of \$2.10 was established in the second quarter of 2008. Class A rates for the market averaged \$2.14 FSG. Geographically, the highest rates were found in the East County submarket, where they averaged \$1.76 FSG.
- **Absorption** - The Inland Empire office market posted 94,709 square feet of positive net absorption for the second quarter of 2014. From the second quarter of 2011 to the end of the second quarter of 2014, the office market has posted just over 2 million square feet of positive absorption.
- **Transaction Activity** - Leasing activity checked in at just over 285,000 square feet in the second quarter of the year, a decrease from 2013's second quarter total of 595,599 square feet. Sales activity showed a decrease as well in the second quarter of 2014, posting 281,894 square feet of activity compared to 2013's second quarter total of 547,136 square feet. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher. 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 8.0% in May 2014, down from a revised 8.3% in April 2014 and below the year-ago estimate of 9.7%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. The unemployment rate was 8.0% for Riverside County and 8.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 29,300 payroll jobs from May 2013 to May 2014. The largest gains were 8,200 jobs in trade, transportation, & utilities and 6,400 jobs in leisure and hospitality.
- **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 more upward pressure on vacancy, the market should continue to stabilize. While these are positive indicators, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Inland Empire office market.

FORECAST

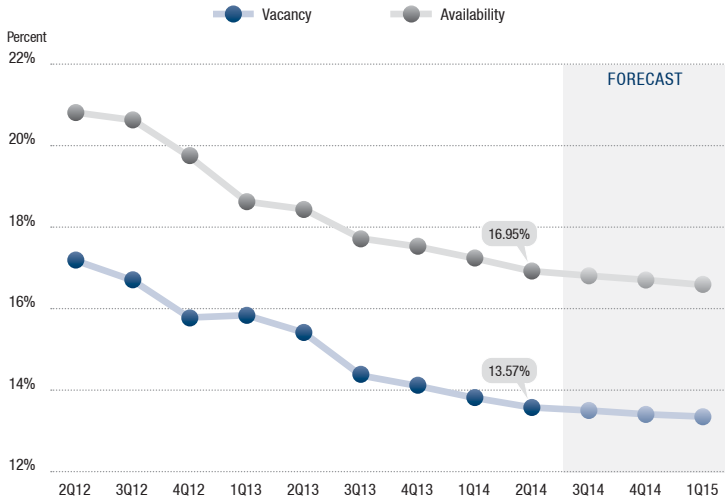
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 1%–2% by 2015.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 20 basis points, to around 13.35%, by 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	13.57%	13.81%	15.42%	(12.00%)
Availability Rate	16.95%	17.24%	18.47%	(8.23%)
Average Asking Lease Rate	\$1.75	\$1.76	\$1.73	1.16%
Sale & Lease Transactions	567,825	925,546	1,142,735	(50.31%)
Gross Absorption	474,661	496,260	536,816	(11.58%)
Net Absorption	94,709	119,820	227,208	N/A

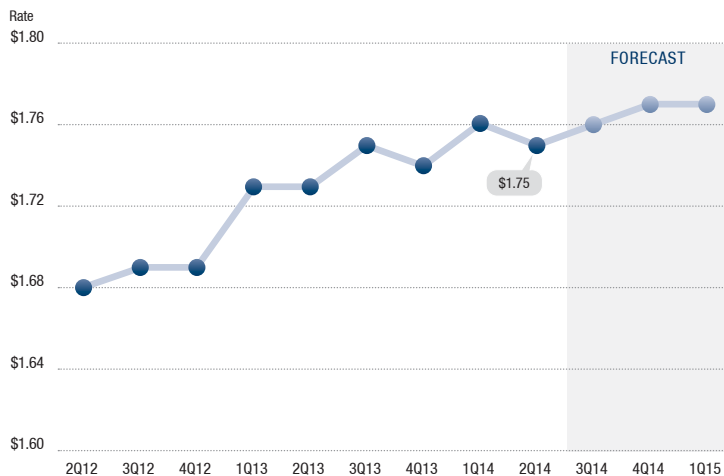
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



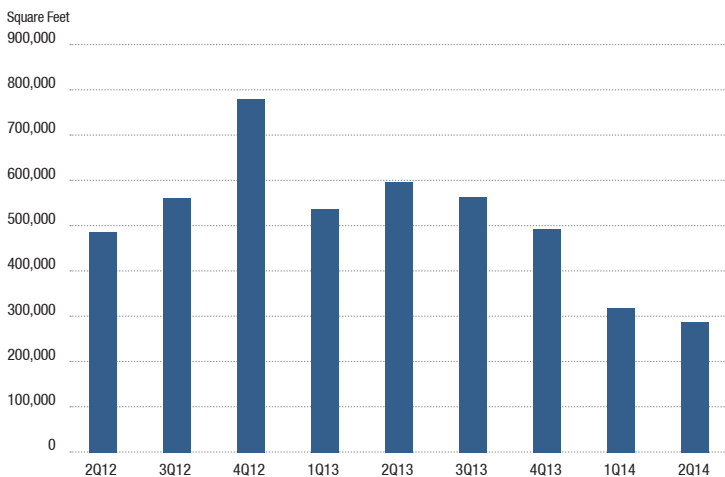
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



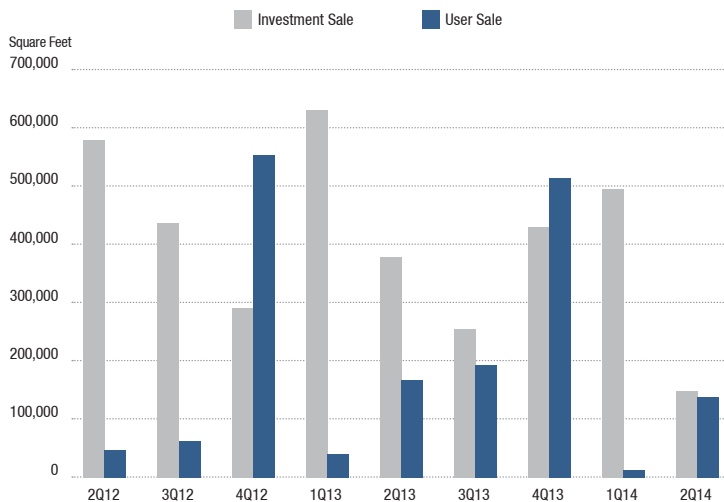
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



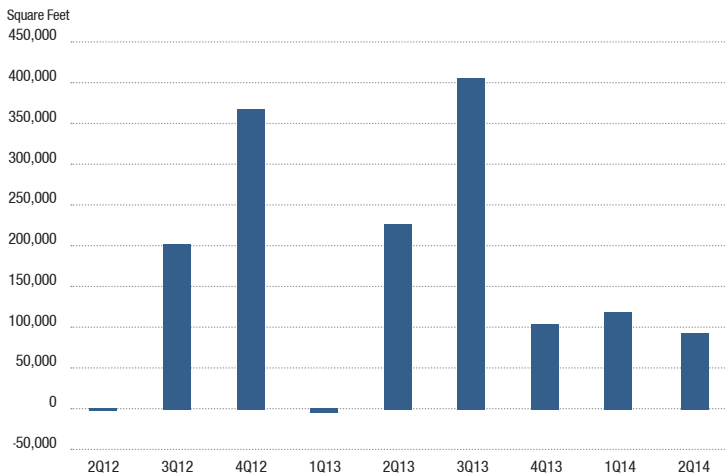
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



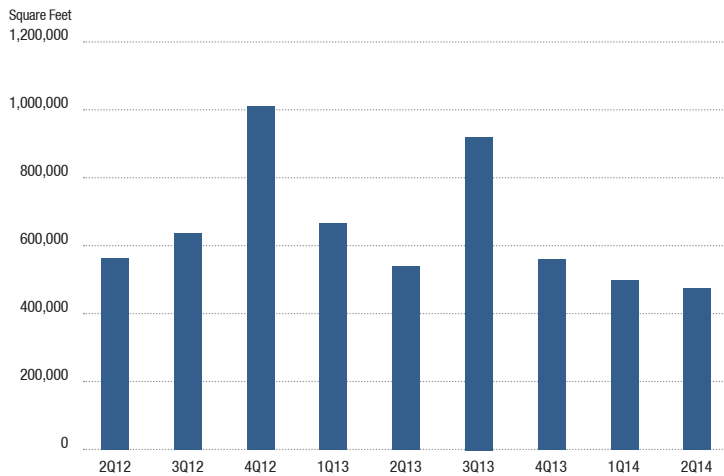
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
West													
Chino/Chino Hills	38	1,179,652	0	155,909	118,107	10.01%	133,828	11.34%	\$2.05	9,666	25,033	22,391	47,214
Fontana	36	2,381,347	0	55,867	86,642	3.64%	95,150	4.00%	\$0.97	(301)	(301)	1,924	1,924
Montclair	12	224,763	0	0	22,634	10.07%	30,077	13.38%	\$0.00	(715)	(1,090)	1,065	3,948
Ontario	110	4,292,735	58,000	1,430,918	836,802	19.49%	972,691	22.66%	\$1.79	33,084	108,810	69,616	198,042
Rancho Cucamonga	140	4,357,823	0	127,930	576,324	13.23%	678,710	15.57%	\$1.70	16,696	(4,076)	82,799	131,885
Upland	71	1,540,796	0	0	219,841	14.27%	257,988	16.74%	\$1.41	(19,380)	(19,165)	11,139	19,145
Class A	25	2,272,180	58,000	1,255,451	404,289	17.79%	421,772	18.56%	\$2.00	19,558	59,030	44,255	112,848
Class B	284	9,770,680	0	515,173	1,255,265	12.85%	1,490,954	15.26%	\$1.62	52,162	84,068	132,949	270,168
Class C	98	1,934,256	0	0	200,796	10.38%	255,718	13.22%	\$0.99	(32,670)	(33,887)	11,730	19,142
West Total	407	13,977,116	58,000	1,770,624	1,860,350	13.31%	2,168,444	15.51%	\$1.72	39,050	109,211	188,934	402,158
East													
Banning	5	90,461	91,510	85,283	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	3,111,605	3,000	537,492	477,696	15.35%	650,185	20.90%	\$1.87	23,711	13,635	84,158	135,651
Colton/Grand Terrace	49	1,060,567	0	20,000	184,005	17.35%	239,554	22.59%	\$0.97	12,706	25,957	31,760	47,503
Moreno Valley	37	945,524	0	115,219	16,086	1.70%	31,205	3.30%	\$0.00	(640)	5,255	0	6,600
Perris	8	166,701	0	0	2,771	1.66%	7,071	4.24%	\$0.00	0	0	0	0
Redlands/Loma Linda	88	2,297,196	0	8,800	329,934	14.36%	419,493	18.26%	\$1.63	18,041	(9,319)	49,342	68,066
Rialto	9	268,708	0	0	39,103	14.55%	45,293	16.86%	\$1.40	0	500	0	500
Riverside	305	9,352,248	0	638,910	1,200,279	12.83%	1,589,590	17.00%	\$2.06	5,949	45,022	88,163	216,463
San Bernardino/Highland	204	7,726,480	0	9,000	1,203,977	15.58%	1,488,192	19.26%	\$1.56	(4,108)	24,268	32,304	93,980
Class A	39	4,155,251	66,510	217,322	627,454	15.10%	629,432	15.15%	\$2.23	29,334	17,444	43,100	58,747
Class B	500	14,897,879	28,000	1,206,320	2,149,876	14.43%	3,008,931	20.20%	\$1.61	56,977	108,550	197,249	410,730
Class C	262	6,135,278	0	0	676,521	11.03%	832,220	13.56%	\$1.15	(30,652)	(20,676)	45,378	99,286
East Total	801	25,188,408	94,510	1,423,642	3,453,851	13.71%	4,470,583	17.75%	\$1.76	55,659	105,318	285,727	568,763
Inland Empire Total	1,208	39,165,524	152,510	3,194,266	5,314,201	13.57%	6,639,027	16.95%	\$1.75	94,709	214,529	474,661	970,921
Inland Empire													
Class A	64	6,427,431	124,510	1,472,773	1,031,743	16.05%	1,051,204	16.35%	\$2.14	48,892	76,474	87,355	171,595
Class B	784	24,668,559	28,000	1,721,493	3,405,141	13.80%	4,499,885	18.24%	\$1.61	109,139	192,618	330,198	680,898
Class C	360	8,069,534	0	0	877,317	10.87%	1,087,938	13.48%	\$1.09	(63,322)	(54,563)	57,108	118,428
Inland Empire Total	1,208	39,165,524	152,510	3,194,266	5,314,201	13.57%	6,639,027	16.95%	\$1.75	94,709	214,529	474,661	970,921
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	32	606,645	0	42,060	23,184	3.82%	32,136	5.30%	\$0.00	952	3,879	8,889	16,016
Barstow	13	210,048	0	0	35,399	16.85%	41,899	19.95%	\$0.00	0	0	0	0
Hesperia	24	533,568	0	76,516	12,032	2.26%	19,224	3.60%	\$0.00	(2,605)	948	4,118	8,609
Victorville	85	1,656,887	0	83,000	121,562	7.34%	168,430	10.17%	\$1.88	(11,827)	873	5,766	27,625
High Desert Total	157	3,072,679	0	201,576	192,177	6.25%	261,689	8.52%	\$1.88	(13,480)	5,700	18,773	52,250
Temecula Valley													
Hemet	44	840,104	0	12,000	95,203	11.33%	139,352	16.59%	\$0.00	876	(8,049)	5,469	7,492
Lake Elsinore	12	272,399	0	0	48,961	17.97%	50,789	18.65%	\$0.00	(9)	1,724	0	4,243
Murrieta	51	1,519,719	13,188	616,981	209,939	13.81%	236,875	15.59%	\$2.41	(1,689)	29,039	20,316	78,788
San Jacinto	4	96,241	0	0	41,528	43.15%	41,528	43.15%	\$0.00	0	0	0	0
Temecula	113	2,911,616	0	175,656	423,731	14.55%	439,955	15.11%	\$1.48	31,581	69,234	84,120	175,700
Wildomar	7	270,830	0	44,000	36,617	13.52%	40,642	15.01%	\$0.00	(2,688)	(106)	0	2,582
Temecula Valley Total	231	5,910,909	13,188	848,637	855,979	14.48%	949,141	16.06%	\$1.64	28,071	91,842	109,905	268,805

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
43455 Business Park Dr.	Temecula	B	42,299	\$104.08	PV Temecula, LLC	43455 BPD, LLC
575 Chaney St.	Lake Elsinore	B	25,375	\$33.50	VGMT Properties, LLC	Doner Associates, LP
8280 Utica Ave.	Rancho Cucamonga	B	19,800	\$70.71	Seth T. & Annie P. Swett	Peter T. Pittullo
123 W. E St.	Ontario	C	18,778	\$95.32	437 N. Euclid Ave., LLC	Florence Plaza, LLC
504 N. Mountain View Ave.	San Bernardino	B	18,460	\$25.73	Fidelity Properties, LLC	Franklin Road Investments, Inc.

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
4210 Riverwalk Pkwy.	Riverside	B	40,353	Apr-14	County of Riverside	Davenport Partners, Inc.
4160 Temescal Canyon Rd.	Corona	A	18,181	Jun-14	Undisclosed	Dos Lagos Office, LLC
901 Via Piedmonte	Ontario	A	10,060	May-14	CoStar Group, Inc.	The Prudential Insurance Company of America
851 S. Mt. Vernon Ave.	Colton	C	9,590	May-14	Undisclosed	The Abbey Company
15335 Fairfield Ranch Rd.	Chino Hills	A	8,793	May-14	Undisclosed	Chino Hills Corporate Park

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.

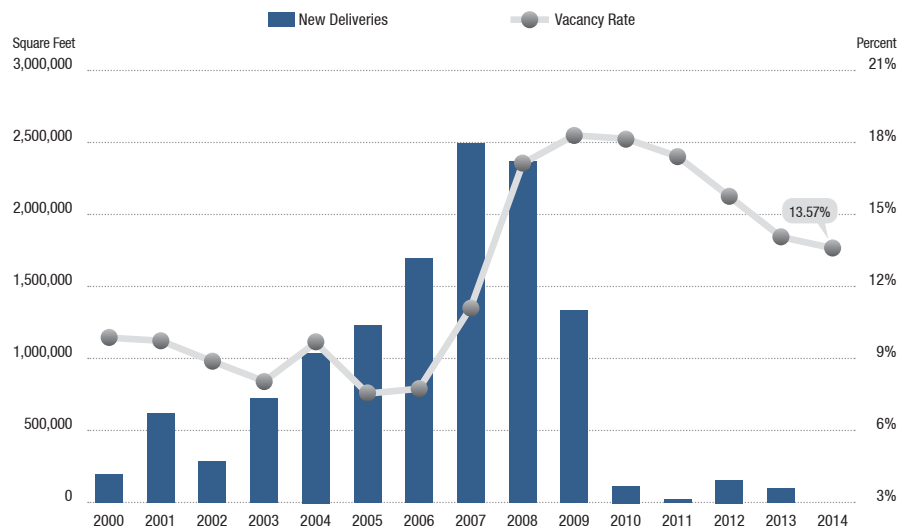
CLASS B

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



Please Contact Us for Further Information

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Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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