

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued to improve during the second quarter of 2016. Both vacancy and availability dropped compared to the first quarter 2015, and net absorption was positive over 260,000 square feet for the quarter as well. While these are all positive trends, job growth will need to stay strong in coming quarters for the Inland Empire office market to keep its momentum.
- **Construction** - There was 162,000 square feet of new office product (Loma Linda University Health Project in San Bernardino accounted for almost all of the new product in the second quarter); however, between now and year's end, no new competitive office product will be brought on board.
- **Vacancy** - Though the market saw solid absorption in the second quarter, there is still plenty of high quality space available and ready for lease. Vacancy ended the second quarter at 11.89%, which is the lowest rate since 2007, a decrease of 32 basis points during the quarter and is down 127 basis points from one year earlier. As vacancy decreases combined with an empty construction pipeline, expect mild increases in rent (especially in the quality buildings) in the near future.
- **Availability** - Direct / sublease space being marketed was 14.54% at the end of the second quarter, down from 2016's first quarter rate of 15.21% and a 12.41% decline from the 16.60% we saw in the second quarter of 2015.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate was \$1.83 per square foot per month in the second quarter of 2016, up nine cents from the same quarter last year. Rent growth should stay solid for the near term.
- **Absorption** - During the past decade, this super-sized bedroom community has grown to generate material organic office demand growth, mainly in the professional and business services sector (lawyers, accountants, etc.). The Inland Empire office market posted 262,374 square feet of positive net absorption for the second quarter of 2016, giving the Inland Empire office market a total of over 700,000 square feet of absorption over the past four quarters.
- **Transaction Activity** - In the second quarter, office leases covered 371,805 square feet, combined sales and lease transactions for the quarter was 902,605 square feet. The number of Inland Empire jobs continues to rise in educational and health services sector, higher paying professional and technical positions that occupy much of the office space is also growing, driving absorption up and pushing office vacancy to a new low.
- **Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 5.3% in May 2016, down from a revised 5.6% in April 2016, and below the year-ago estimate of 6.4%. This compares with an unadjusted unemployment rate of 4.7% for California and 4.5% for the nation during the same period. The unemployment rate was 5.4% for Riverside County and 5.2% in San Bernardino County.
- **Overall** - The office properties that are leasing in the market have a very healthy 88.11% occupancy rate, and are trending in the right direction. The market is getting closer to historical numbers. Improvement in the office market is attributable to job growth returning to the Inland Empire. Office employment growth at the metro level during 2017 and expected 2018 is projected to average 2.2% annually, enough to facilitate an absorption rate averaging 250,000 square feet per year. Between now and year-end 2016 asking rents are expected to climb 3% to a level of \$1.88 in all classes.

FORECAST

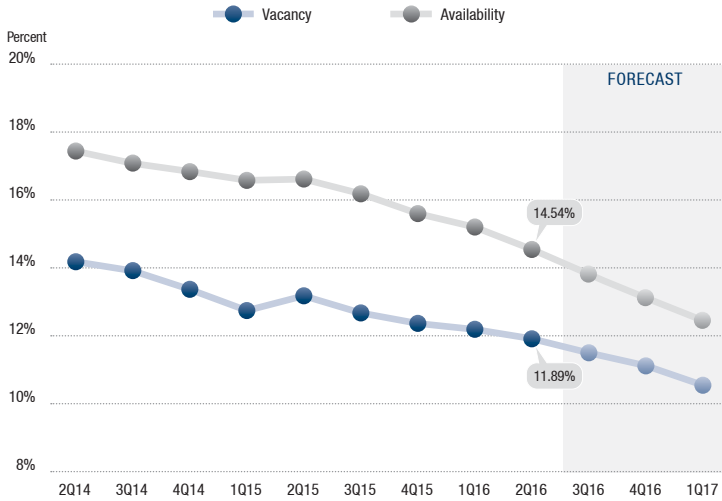
- **Employment** - Employment should expand by an additional 3.1% or 41,000 job in 2016, and another 3.0% in 2017, with annual wage and salary employment expected to hit a new high this year. As the region's industries grow over the balance of this year and next, the unemployment rate should fall from 6.6% in 2015 to 5.6% this year and 5.1% in 2017, well below the 8.8% average since 2002.
- **Lease Rates** - Expect average asking lease rates to increase by another 2% to 3% over the next three quarters due to stagnant supply and declining vacancies.
- **Vacancy** - We anticipate vacancy rates continuing to decrease in coming quarters, dropping by 134 basis points, to around 10.50%, by the end of the first quarter of 2017.

OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	11.89%	12.21%	13.16%	(9.65%)
Availability Rate	14.54%	15.21%	16.60%	(12.41%)
Average Asking Lease Rate	\$1.83	\$1.81	\$1.74	5.17%
Sale & Lease Transactions	902,605	1,240,595	970,860	(7.03%)
Gross Absorption	738,912	496,752	397,764	85.77%
Net Absorption	262,374	60,109	(125,801)	N/A

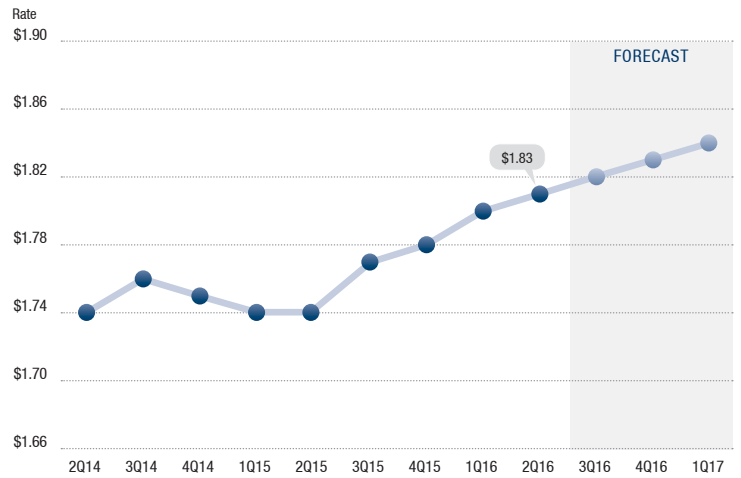
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



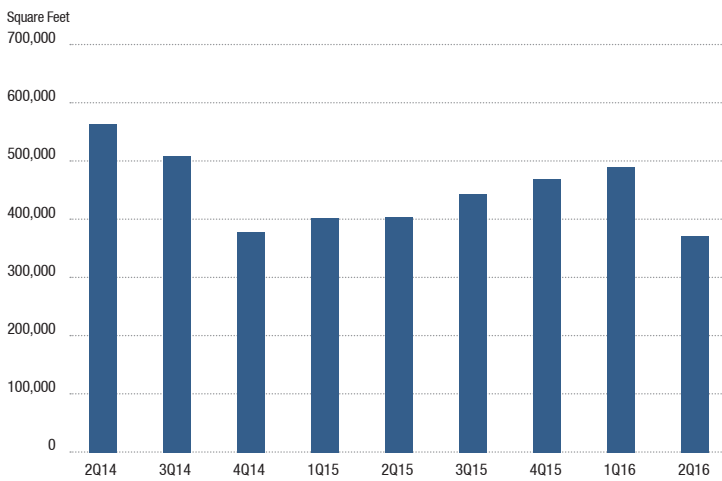
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



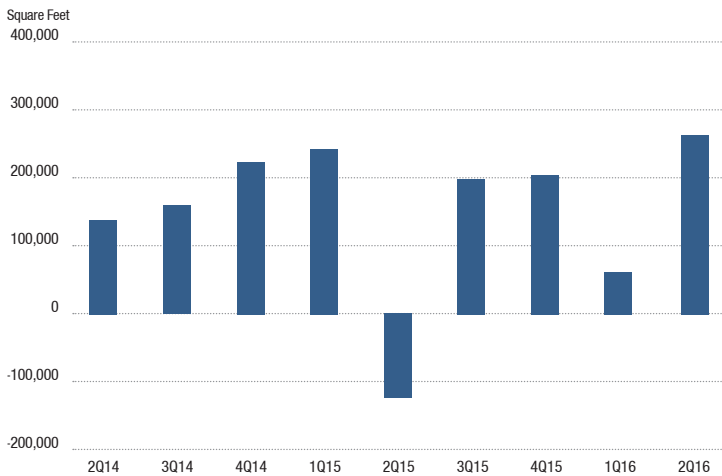
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



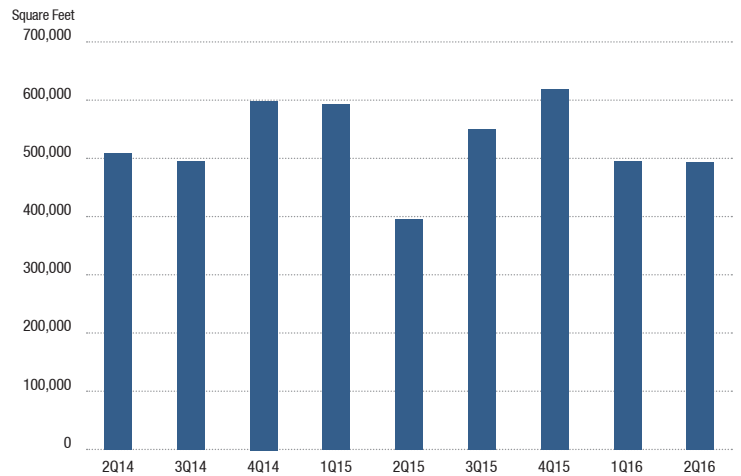
NET ABSORPTION

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 2Q2016	Square Feet Available	Availability Rate 2Q2016	Average Asking Lease Rate	Net Absorption 2Q2016	Net Absorption 2016	Gross Absorption 2Q2016	Gross Absorption 2016
West													
Chino/Chino Hills	37	1,148,772	0	203,824	117,161	10.20%	131,426	11.44%	\$2.14	8,012	(12,632)	24,618	33,601
Fontana	38	2,418,916	0	65,000	106,057	4.38%	129,247	5.34%	\$1.18	(3,150)	8,030	3,200	14,380
Montclair	12	228,316	0	40,134	16,003	7.01%	21,910	9.60%	\$1.42	3,456	2,253	28,430	31,217
Ontario	111	4,366,298	0	314,298	661,219	15.14%	740,705	16.96%	\$1.86	7,807	(12,415)	61,675	122,907
Rancho Cucamonga	143	4,454,284	0	100,000	514,606	11.55%	651,577	14.63%	\$1.96	12,817	92,196	77,037	208,119
Upland	71	1,545,881	0	0	193,783	12.54%	235,185	15.21%	\$1.48	(4,408)	23,047	39,905	83,784
Class A	29	2,394,521	0	145,092	382,442	15.97%	418,458	17.48%	\$2.03	8,776	21,077	19,493	84,665
Class B	284	9,813,835	0	578,164	1,079,988	11.00%	1,313,788	13.39%	\$1.86	(8,888)	(5,244)	157,498	285,164
Class C	99	1,954,111	0	0	146,399	7.49%	177,804	9.10%	\$1.29	24,646	84,646	57,874	124,179
West Total	412	14,162,467	0	723,256	1,608,829	11.36%	1,910,050	13.49%	\$1.88	24,534	100,479	234,865	494,008
East													
Banning	6	100,461	0	175,774	1,200	1.19%	1,200	1.19%	\$0.00	0	(1,200)	4,000	4,000
Beaumont	3	151,918	0	150,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	95	3,512,774	17,000	393,325	402,612	11.46%	483,215	13.76%	\$1.91	47,816	45,186	93,859	147,383
Colton/Grand Terrace	48	1,048,331	0	32,600	199,635	19.04%	288,305	27.50%	\$1.09	4,296	1,146	21,818	30,071
Moreno Valley	41	1,049,153	0	115,219	66,417	6.33%	78,039	7.44%	\$0.75	(32,735)	(35,949)	7,401	10,377
Perris	9	215,508	0	0	5,242	2.43%	6,404	2.97%	\$0.00	0	0	0	0
Redlands / Loma Linda	90	2,324,136	0	50,000	259,115	11.15%	290,900	12.52%	\$1.68	(17,628)	7,900	32,948	69,738
Rialto	11	303,882	0	0	25,668	8.45%	35,668	11.74%	\$1.45	1,931	290	2,000	9,710
Riverside	304	9,247,174	0	674,081	1,130,991	12.23%	1,465,206	15.84%	\$2.04	(410)	(13,890)	73,022	160,939
San Bernardino / Highland	210	8,246,594	0	0	1,098,146	13.32%	1,309,507	15.88%	\$1.61	234,570	218,521	268,999	309,438
Class A	42	4,581,431	0	412,333	522,482	11.40%	680,422	14.85%	\$2.17	(2,486)	(4,467)	38,342	93,396
Class B	513	15,349,684	17,000	1,178,666	2,044,183	13.32%	2,538,775	16.54%	\$1.63	173,230	144,272	366,895	495,390
Class C	262	6,268,816	0	0	622,361	9.93%	739,247	11.79%	\$1.18	67,096	82,199	98,810	152,870
East Total	817	26,199,931	17,000	1,590,999	3,189,026	12.17%	3,958,444	15.11%	\$1.81	237,840	222,004	504,047	741,656
Inland Empire Total	1,229	40,362,398	17,000	2,314,255	4,797,855	11.89%	5,868,494	14.54%	\$1.83	262,374	322,483	738,912	1,235,664
Inland Empire													
Class A	71	6,975,952	0	557,425	904,924	12.97%	1,098,880	15.75%	\$2.12	6,290	16,610	57,835	178,061
Class B	797	25,163,519	17,000	1,756,830	3,124,171	12.42%	3,852,563	15.31%	\$1.71	164,342	139,028	524,393	780,554
Class C	361	8,222,927	0	0	768,760	9.35%	917,051	11.15%	\$1.21	91,742	166,845	156,684	277,049
Inland Empire Total	1,229	40,362,398	17,000	2,314,255	4,797,855	11.89%	5,868,494	14.54%	\$1.83	262,374	322,483	738,912	1,235,664
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.90	0	0	0	0
Apple Valley	34	642,790	0	79,060	28,237	4.39%	33,543	5.22%	\$0.00	(5,142)	(933)	5,904	10,113
Barstow	14	237,222	0	17,000	14,449	6.09%	17,449	7.36%	\$0.00	2,130	16,152	2,130	19,115
Hesperia	24	549,157	0	36,000	22,838	4.16%	14,838	2.70%	\$0.00	(8,000)	(22,838)	0	0
Victorville	90	1,788,127	0	54,298	147,774	8.26%	175,591	9.82%	\$1.97	(7,614)	9,464	12,257	41,861
High Desert Total	165	3,282,827	0	186,358	213,298	6.50%	241,421	7.35%	\$1.97	(18,626)	1,845	20,291	71,089
Temecula Valley													
Hemet	44	847,066	0	0	113,451	13.39%	128,857	15.21%	\$0.00	(2,538)	(21,280)	0	1,163
Lake Elsinore	12	274,642	0	0	39,836	14.50%	40,351	14.69%	\$0.00	(4,447)	1,032	0	10,412
Menifee	9	317,837	0	0	3,022	0.95%	3,022	0.95%	\$0.00	0	1,152	1,694	2,846
Murrieta	51	1,495,200	0	370,074	139,040	9.30%	172,437	11.53%	\$0.00	(6,456)	364	9,336	28,634
San Jacinto	4	96,365	0	0	42,795	44.41%	42,795	44.41%	\$0.00	(37,490)	(37,490)	0	0
Temecula	111	2,885,966	0	0	281,972	9.77%	379,684	13.16%	\$1.46	25,226	69,086	52,878	131,631
Wildomar	7	272,783	0	44,000	28,169	10.33%	34,931	12.81%	\$0.00	5,053	5,053	5,053	5,053
Temecula Valley Total	238	6,189,859	0	414,074	648,285	10.47%	802,077	12.96%	\$1.46	(20,652)	17,917	68,961	179,739

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
430 N. Vineyard Ave.	Ontario	B	97,562	\$14,000,000	Providence Capital Group, Inc.	Deutsche Asset & Wealth Mgmt
22690 Cactus Ave.	Moreno Valley	B	61,124	\$11,350,000	Elisabeth E. Stewart Trust	Asset Management Consultants, Inc.
21804 Cactus Ave.	Riverside	B	20,800	\$5,850,000	Randal A. & Lana J. Shepherd	Fairway View Group, LLC
15002 Amargosa Rd.	Victorville	B	11,780	\$5,761,000	Tognoli-Blefari-Thompson Victorville CA, LLC	MSD-DV Victorville, LLC
22695 Alessandro Blvd.	Moreno Valley	B	12,560	\$2,300,000	Pacific View Charter School	Aardex, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
4954 Arlington Ave.	Riverside	C	10,000	May-2016	Gropen Elissa, MD	Mulholland Land Co.
1260 Corona Pointe Ct.	Corona	A	8,689	Apr-2016	Advanced Retail Solutions	1260 Corona Pointe, LLC
1401 Research Park Dr.	Riverside	B	6,841	May-2016	Jim Guthrie	Solutions Group International, LLC
10300 4th St.	Rancho Cucamonga	C	3,576	Apr-2016	Havengate Business Center Two	Mag Tur Marketing Services Corp.
5871 Pine Ave.	Chino Hills	B	2,682	Jun-2016	Ark Industries, LLC	JC Law Firm

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.

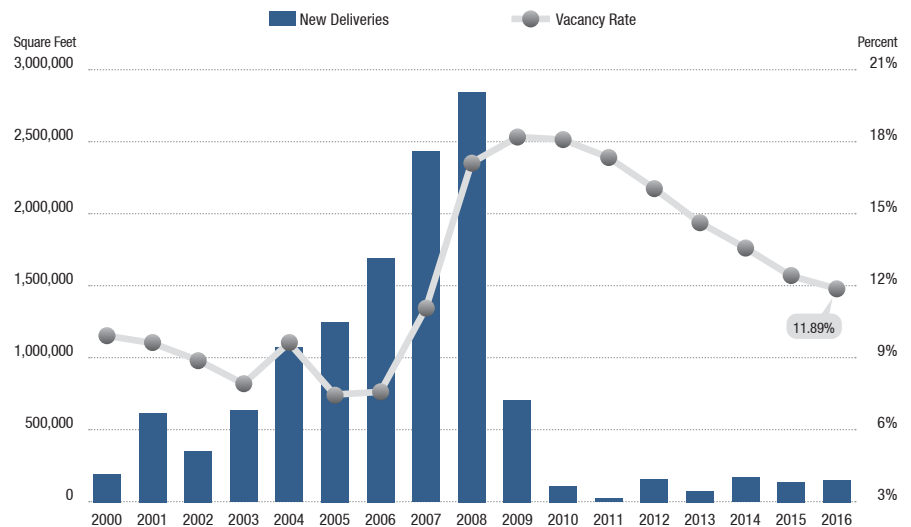
CLASS B

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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