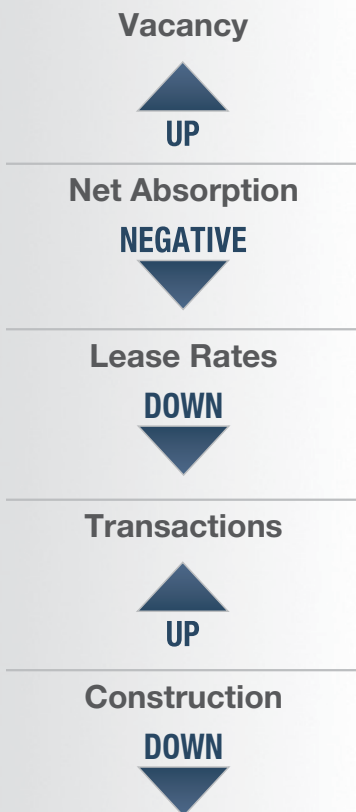


## Office Market Report

Compared to last quarter:



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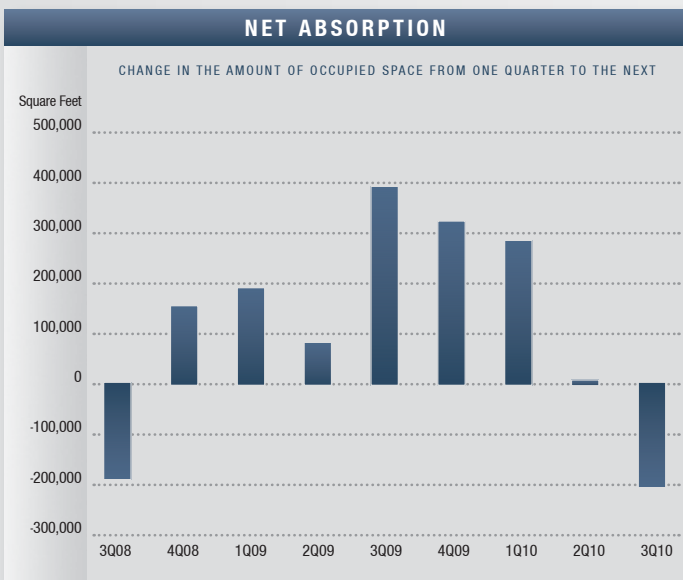
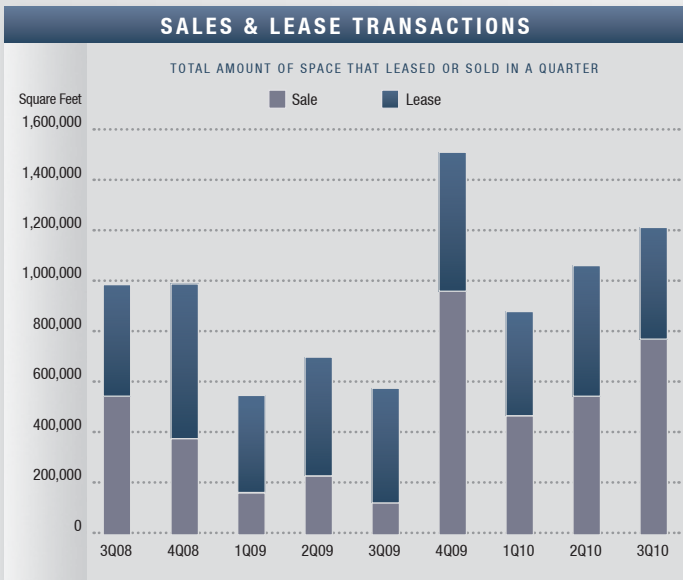
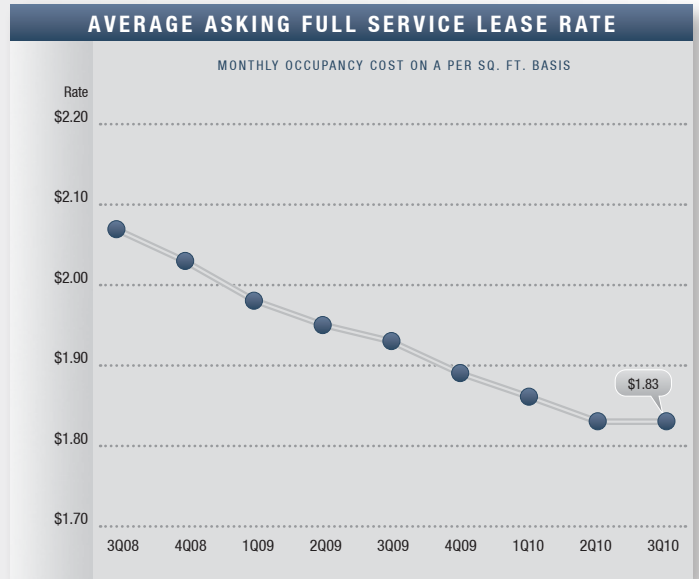
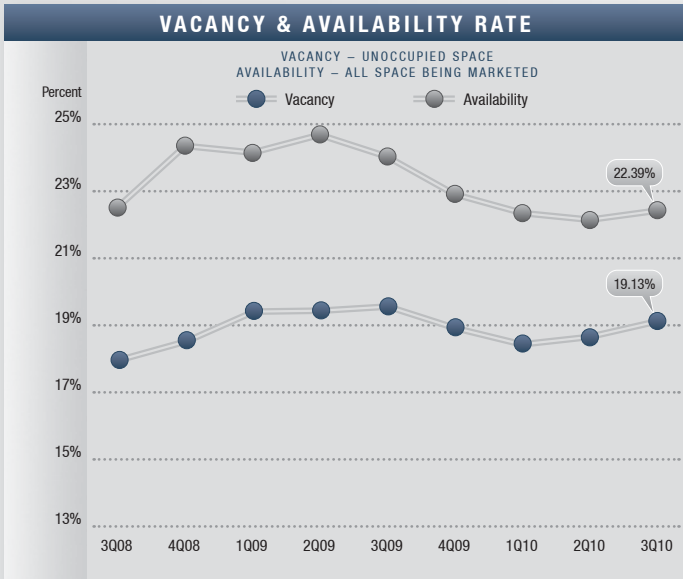
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### Market Highlights

- Bottoming Out?** – The Inland Empire Office Market displayed more promises of stabilization this quarter, with availability relaxing, vacancy rates bouncing around at approximately 19%, and net absorption posting positive numbers for the year. With regard to sales transactions, the ask-bid gap seems to be narrowing, 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 following quarters to be considered recovery.
- Construction** – At the end of the second quarter total space under construction checked in at 253,472 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 19.13%, an increase over last quarter's rate of 18.66% and a decrease over last year's third quarter rate of 19.54%.
- Availability** – Direct/sublease space being marketed was at 22.39% this quarter, up slightly from last quarter's rate of 22.13% and a 6.75% decrease from the 24.01% we saw this same quarter last year.
- Lease Rates** – The average asking Full Service Gross (FSG) lease rate per month per square foot in Inland Empire was \$1.83, which is a 5.18% decrease over last year's rate of \$1.93 and the same as last quarter's rate. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.09 FSG and are the highest in the West County market, where they are averaging \$2.27 FSG.
- Absorption** – Net absorption for the county posted a negative 205,403 square feet for the third quarter of 2010; for the past 5 quarters the office market has been averaging approximately 150,000 square feet of positive absorption.
- Transaction Activity** – Leasing activity checked in this quarter at 438,908 square feet, a slight decrease over last year's third quarter total of 452,356 square feet. Sales activity showed an increase, posting 768,495 square feet of activity compared to last year's 117,967 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 14.8% in August 2010, down from a revised 15.1% in July 2010 and above the year ago estimate of 14.2%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.5% for the nation during the same period. The unemployment rate was 15.3% for Riverside County and 14.2% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA lost 22,700 payroll jobs over the last twelve months. The largest declines were 8,500 jobs in construction and 7,800 in government. However, educational and health services showed a year-over-year gain of 200 jobs.
- Overall** – We saw a decrease in the amount of available space added this year. Absorption was positive for 2009 and 2010, 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 begin 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 should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once employment turns positive and consumer confidence stabilizes, the Office market will again turn positive.

### OFFICE MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy	19.13%	18.66%	19.54%	(2.10%)
Availability	22.39%	22.13%	24.01%	(6.75%)
Pricing	\$1.83	\$1.83	\$1.93	(5.18%)
Sale & Lease Transactions	1,207,403	1,056,852	570,323	111.71%
Gross Absorption	589,056	616,531	912,489	(35.45%)
Net Absorption	(205,403)	3,260	390,300	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
<b>North County</b>													
Fontana	36	1,057,113	0	71,312	116,517	11.02%	128,817	12.19%	\$0.00	152	23,925	2,138	29,211
Montclair	13	275,602	0	0	13,156	4.77%	37,324	13.54%	\$1.60	(6,048)	(728)	7,860	20,846
Ontario	107	4,197,050	91,338	1,809,454	1,169,511	27.87%	1,253,416	29.86%	\$2.02	(26,280)	97,185	105,267	324,299
Rancho Cucamonga	148	4,445,644	0	328,500	1,029,464	23.16%	1,300,432	29.25%	\$1.61	(54,238)	28,310	55,637	286,350
Upland	64	1,381,745	0	0	159,017	11.51%	228,238	16.52%	\$1.43	(7,904)	(6,992)	5,807	39,908
<b>North County Total</b>	<b>368</b>	<b>11,357,154</b>	<b>91,338</b>	<b>2,209,266</b>	<b>2,487,665</b>	<b>21.90%</b>	<b>2,948,227</b>	<b>25.96%</b>	<b>\$1.82</b>	<b>(94,318)</b>	<b>141,700</b>	<b>176,709</b>	<b>700,614</b>
<b>West County</b>													
Chino Hills	17	453,740	0	311,124	185,966	40.99%	195,794	43.15%	\$2.24	1,760	9,517	5,410	29,444
Chino	17	532,222	0	31,957	37,746	7.09%	43,903	8.25%	\$1.15	357	(8,861)	1,944	10,101
Corona	78	2,647,812	0	442,826	876,885	33.12%	1,017,278	38.42%	\$2.28	6,829	61,636	55,646	252,578
Norco	13	330,763	0	24,440	65,849	19.91%	69,422	20.99%	\$0.00	11,265	10,838	11,265	14,617
<b>West County Total</b>	<b>125</b>	<b>3,964,537</b>	<b>0</b>	<b>810,347</b>	<b>1,166,446</b>	<b>29.42%</b>	<b>1,326,397</b>	<b>33.46%</b>	<b>\$2.27</b>	<b>20,211</b>	<b>73,130</b>	<b>74,265</b>	<b>306,740</b>
<b>East County</b>													
Banning	4	140,943	0	215,363	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	2	60,918	0	0	1,250	2.05%	1,250	2.05%	\$0.00	(1,250)	(1,250)	0	0
Bloomington	1	382,841	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Colton	43	974,898	0	0	125,423	12.87%	196,458	20.15%	\$1.27	(22,723)	(8,118)	4,234	30,220
Grand Terrace	3	55,737	0	0	8,213	14.74%	8,213	14.74%	\$1.35	(202)	(646)	370	370
Highland	3	92,422	0	33,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Loma Linda	25	583,837	0	0	33,950	5.81%	44,275	7.58%	\$0.00	19,817	30,277	26,051	38,165
Moreno Valley	34	902,379	0	209,760	72,782	8.07%	115,529	12.80%	\$1.35	3,591	1,952	8,091	16,017
Perris	10	207,088	0	0	2,108	1.02%	2,108	1.02%	\$0.00	0	(946)	0	0
Redlands	59	2,031,652	0	553,234	318,997	15.70%	367,653	18.10%	\$1.64	7,087	125,736	32,050	209,985
Rialto	9	160,144	0	0	36,133	22.56%	36,133	22.56%	\$1.50	0	(7,941)	0	450
Riverside	300	9,294,422	140,000	890,485	1,674,974	18.02%	1,846,399	19.87%	\$1.84	(48,059)	(111,154)	75,104	289,010
Rubidoux	1	52,090	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
San Bernardino	205	7,629,206	0	12,234	1,255,932	16.46%	1,598,840	20.96%	\$1.50	(48,237)	(180,108)	56,786	245,170
San Jacinto	5	147,779	0	0	38,402	25.99%	38,402	25.99%	\$0.00	0	0	0	0
Yacapa	4	59,686	0	0	21,588	36.17%	21,588	36.17%	\$0.00	(21,588)	(21,588)	0	0
<b>East County Total</b>	<b>708</b>	<b>22,776,042</b>	<b>140,000</b>	<b>1,914,076</b>	<b>3,589,752</b>	<b>15.76%</b>	<b>4,276,848</b>	<b>18.78%</b>	<b>\$1.61</b>	<b>(111,564)</b>	<b>(173,786)</b>	<b>202,686</b>	<b>829,387</b>
<b>South County</b>													
Canyon Lake	1	28,000	0	0	1,342	4.79%	1,342	4.79%	\$0.00	0	(1,342)	0	0
Hemet	43	796,945	10,431	87,807	95,354	11.96%	96,554	12.12%	\$0.00	(13,920)	(19,156)	575	4,776
Lake Elsinore	11	262,399	11,703	0	67,042	25.55%	67,042	25.55%	\$0.00	12,784	6,456	13,400	17,411
Menifee	4	151,518	0	126,000	31,805	20.99%	31,805	20.99%	\$0.00	1,051	5,551	1,051	5,551
Murrieta	52	1,467,469	0	234,835	366,976	25.01%	395,049	26.92%	\$1.50	(25,434)	(11,721)	26,178	57,952
Sun City	6	118,865	0	0	8,539	7.18%	13,233	11.13%	\$0.00	2,019	(255)	2,019	2,345
Temecula	95	2,286,592	0	84,672	469,390	20.53%	542,128	23.71%	\$1.62	9,529	16,306	90,849	203,397
Wildomar	8	280,454	0	82,000	37,444	13.35%	37,444	13.35%	\$0.00	(5,761)	(5,761)	1,324	1,324
<b>South County Total</b>	<b>220</b>	<b>5,392,242</b>	<b>22,134</b>	<b>615,314</b>	<b>1,077,892</b>	<b>19.99%</b>	<b>1,184,597</b>	<b>21.97%</b>	<b>\$1.60</b>	<b>(19,732)</b>	<b>(9,922)</b>	<b>135,396</b>	<b>292,756</b>
<b>Inland Empire Total</b>	<b>1,421</b>	<b>43,489,975</b>	<b>253,472</b>	<b>5,549,003</b>	<b>8,321,755</b>	<b>19.13%</b>	<b>9,736,069</b>	<b>22.39%</b>	<b>\$1.83</b>	<b>(205,403)</b>	<b>31,122</b>	<b>589,056</b>	<b>2,129,497</b>
<b>North County</b>													
Class A	31	2,743,087	38,000	1,801,726	1,137,381	41.46%	1,044,396	38.07%	\$2.14	(78,880)	13,064	77,158	188,856
Class B	264	7,103,731	53,338	407,540	1,102,919	15.53%	1,635,036	23.02%	\$1.54	(11,482)	152,329	94,815	487,206
Class C	73	1,510,336	0	0	247,365	16.38%	268,795	17.80%	\$1.06	(3,956)	(23,693)	4,736	24,552
<b>West County</b>													
Class A	14	816,803	0	601,992	287,459	35.19%	308,054	37.71%	\$2.20	(4,512)	42,261	4,129	63,974
Class B	91	2,718,918	0	208,355	825,319	30.35%	938,115	34.50%	\$2.34	24,475	37,482	66,082	224,833
Class C	20	428,816	0	0	53,668	12.52%	80,228	18.71%	\$1.75	248	(6,613)	4,054	17,933
<b>East County</b>													
Class A	36	3,438,737	140,000	525,268	741,996	21.58%	774,525	22.52%	\$1.86	(65,119)	(17,386)	19,616	168,954
Class B	469	13,837,616	0	1,388,808	2,348,688	16.97%	2,845,898	20.57%	\$1.59	(27,583)	(77,872)	162,310	598,373
Class C	203	5,499,689	0	0	499,068	9.07%	656,425	11.94%	\$1.11	(18,862)	(78,528)	20,760	62,060
<b>South County</b>													
Class A	19	934,723	0	248,018	271,389	29.03%	295,130	31.57%	\$1.50	(323)	15,280	34,003	70,015
Class B	169	3,890,383	22,134	367,296	722,329	18.57%	784,277	20.16%	\$1.61	(5,275)	(9,346)	98,583	203,782
Class C	32	567,136	0	0	84,174	14.84%	105,190	18.55%	\$1.64	(14,134)	(15,856)	2,810	18,959
<b>Inland Empire</b>													
Class A	100	7,933,350	178,000	3,177,004	2,438,225	30.73%	2,422,105	30.53%	\$2.09	(148,834)	53,219	134,906	491,799
Class B	993	27,550,648	75,472	2,371,999	4,999,255	18.15%	6,203,326	22.52%	\$1.69	(19,865)	102,593	421,790	1,514,194
Class C	328	8,005,977	0	0	884,275	11.05%	1,110,638	13.87%	\$1.11	(36,704)	(124,690)	32,360	123,504
<b>Total</b>	<b>1,421</b>	<b>43,489,975</b>	<b>253,472</b>	<b>5,549,003</b>	<b>8,321,755</b>	<b>19.13%</b>	<b>9,736,069</b>	<b>22.39%</b>	<b>\$1.83</b>	<b>(205,403)</b>	<b>31,122</b>	<b>589,056</b>	<b>2,129,497</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	Price Per SF	Buyer	Seller
2151 E. Convention Center Wy. – 2 Properties	Ontario	B	125,301	\$69.83	Prime Hospitality, LLC	Jefferson Pilot Life Insurance
9227 Haven Ave. – 2 Properties	Rancho Cucamonga	B	78,303	\$73.43	MGR Real Estate	CW Capital Asset Management, LLC
1855 W. Redlands Blvd. – 16 Properties	Redlands	B	103,760	\$51.08	Salagi, Inc.	Cathay Bank
2250 S. Main St.	Corona	A	41,500	\$110.84	Universal Health Services, Inc.	Lincoln National Corporation
1850 N. Riverside Ave.	Rialto	B	34,709	\$122.45	Redwood Real Estate Partners, LLC	The Westminster Funds

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
3110 E. Guasti Rd. – Renewal	Ontario	A	56,709	July–10	University of Pheonix	PCCP, LLC
1025–1075 N. State St.	Hemet	B	20,000	September–10	N/A	Alison Rainey
43040 Margarita Rd.	Temecula	B	19,176	September–10	River Springs Charter School	LSMS Investments
1111 E. Mill St.	San Bernadino	B	18,158	July–10	N/A	N/A
290 Corporate Terrace Cir.	Corona	B	13,745	September–10	K&B Engineering	Trey Gibbs

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