

## 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

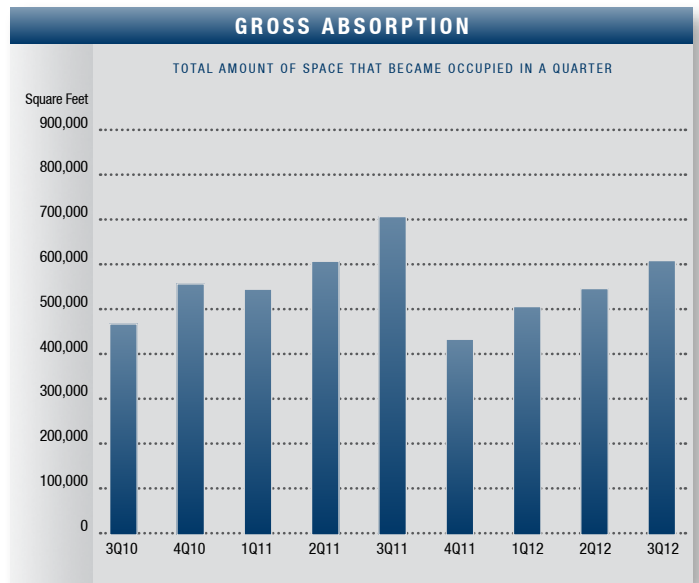
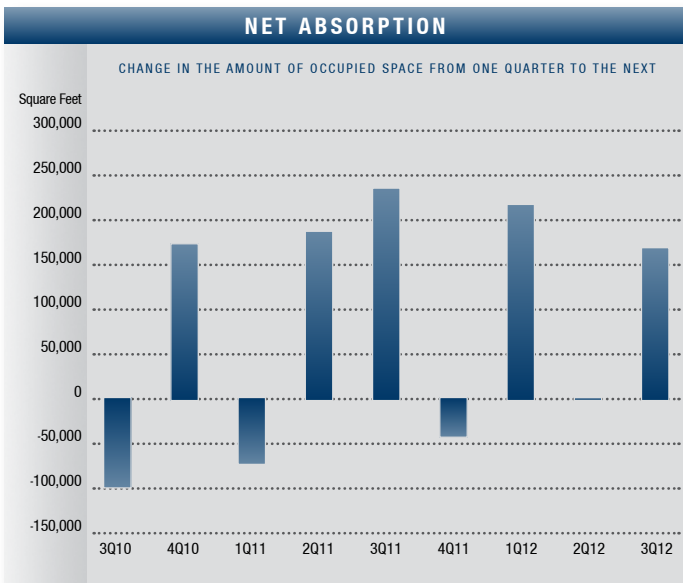
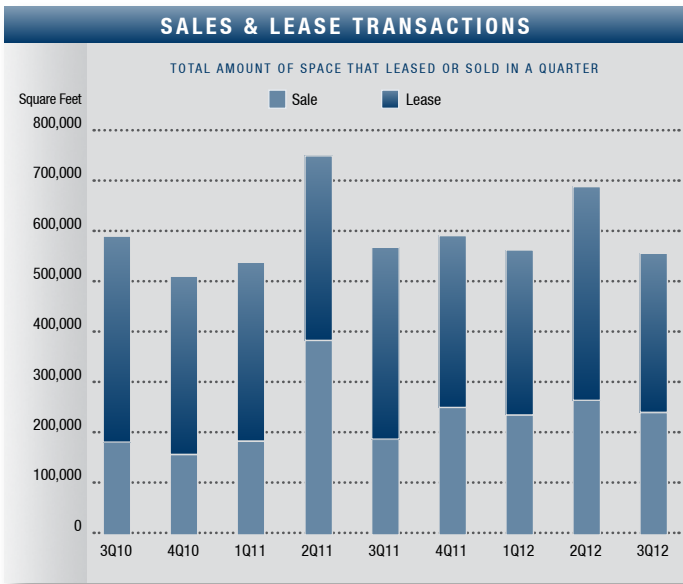
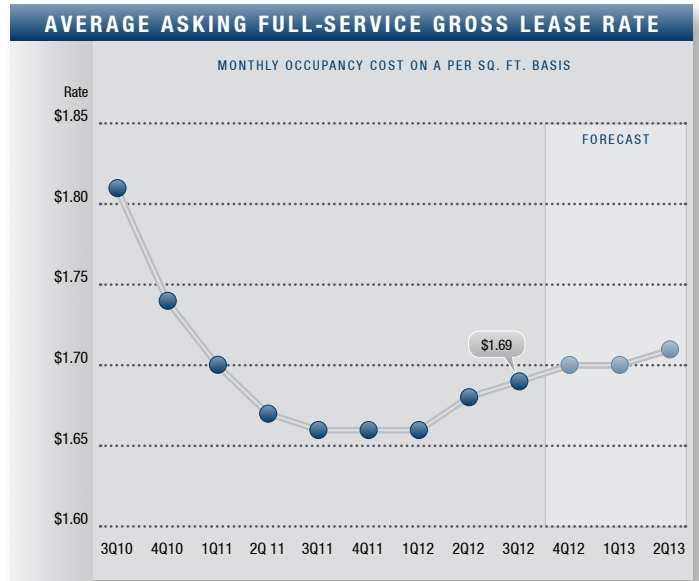
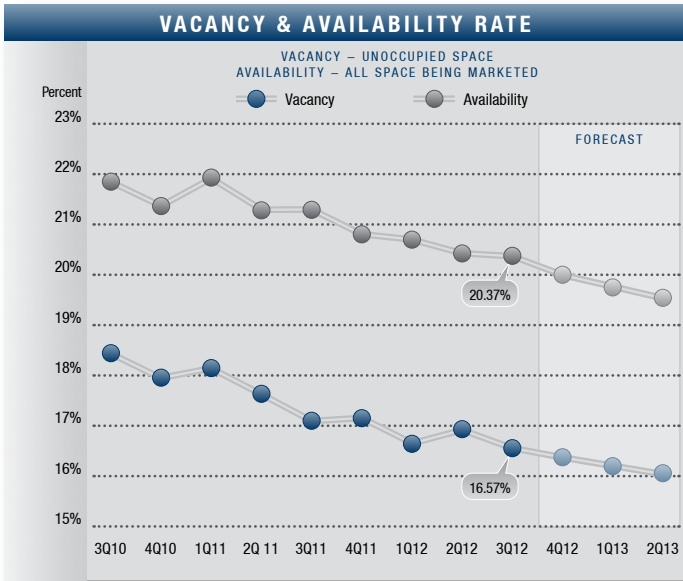
- **Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the third quarter of 2012. Both vacancy and availability continued to decrease, and net absorption posted almost 160,000 square feet of positive activity. Asking lease rates increased for the second consecutive quarter 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 98,898 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 16.57%, a decrease compared to the previous quarter's rate of 16.94% and the prior year's rate of 17.08%.
- **Availability** - Direct/sublease space being marketed was 20.37% in the third quarter of 2012, down from 2012's second quarter rate of 20.41% and a 4.23% decrease from the 21.27% we saw in the third 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 \$1.69 in the third quarter, one cent higher than the previous quarter and three cents higher than 2011's third quarter rate. This marks the second 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 \$2.05 FSG. The highest rates were found in the East County submarket, where they averaged \$1.70 FSG.
- **Absorption** - The Inland Empire office market posted 159,048 square feet of positive net absorption for the third quarter of 2012; from the beginning of 2009 to the end of the third quarter of 2012, the office market averaged

approximately 100,000 square feet of positive absorption per quarter.

- **Transaction Activity** - Leasing activity checked in at just over 315,000 square feet in the third quarter, a decrease from 2011's third quarter total of 385,000 square feet. Sales activity showed an increase this quarter, posting 236,000 square feet of activity compared to 2011's third quarter's 181,000 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 12.3% in August 2012, up from a revised 12.7% in July 2012 and below the year-ago estimate of 13.9%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. The unemployment rate was 12.7% for Riverside County and 11.8% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 25,400 payroll jobs from August 2011 to August 2012. The largest gains were 12,600 jobs in professional and business services and 4,900 jobs in trade, transportation, and utilities. However, the only sector to lose any jobs was government, down 300 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. 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

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	16.57%	16.94%	17.08%	(2.99%)
Availability Rate	20.37%	20.41%	21.27%	(4.23%)
Average Asking Lease Rate	\$1.69	\$1.68	\$1.66	1.81%
Sale & Lease Transactions	552,591	685,537	567,044	(2.55%)
Gross Absorption	607,340	543,131	708,727	(14.31%)
Net Absorption	159,048	(852)	235,836	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
<b>West</b>													
Chino/Chino Hills	36	1,145,246	0	142,181	144,171	12.59%	229,702	20.06%	\$2.09	21,435	57,415	28,458	67,222
Fontana	38	2,388,292	0	40,000	133,357	5.58%	133,357	5.58%	\$1.11	4,681	(7,213)	11,762	14,839
Montclair	13	267,563	0	0	22,130	8.27%	22,130	8.27%	\$1.21	(644)	6,627	626	10,783
Ontario	110	4,279,417	98,898	1,891,013	1,010,600	23.62%	1,254,506	29.31%	\$1.77	17,932	62,298	87,932	218,733
Rancho Cucamonga	142	4,368,894	0	127,930	909,260	20.81%	1,072,016	24.54%	\$1.61	37,866	(90,716)	78,889	162,601
Upland	66	1,476,017	0	0	206,276	13.98%	351,539	23.82%	\$1.42	7,545	12,025	22,100	42,734
Class A	25	2,264,902	0	1,706,807	612,977	27.06%	631,665	27.89%	\$1.95	(17,452)	7,838	31,585	97,904
Class B	279	9,684,323	98,898	494,317	1,568,723	16.20%	2,146,391	22.16%	\$1.63	89,914	40,010	168,590	366,074
Class C	98	1,976,204	0	0	244,094	12.35%	285,194	14.43%	\$0.97	16,353	(7,412)	29,592	52,934
<b>West Total</b>	<b>402</b>	<b>13,925,429</b>	<b>98,898</b>	<b>2,201,124</b>	<b>2,425,794</b>	<b>17.42%</b>	<b>3,063,250</b>	<b>22.00%</b>	<b>\$1.69</b>	<b>88,815</b>	<b>40,436</b>	<b>229,767</b>	<b>516,912</b>
<b>East</b>													
Banning	5	156,766	0	170,318	0	0.00%	0	0.00%	\$0.00	15,823	15,823	15,823	15,823
Beaumont	3	77,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	900
Corona/Norco	92	3,080,564	0	255,810	758,819	24.63%	837,641	27.19%	\$1.73	73,294	96,257	155,349	358,217
Colton/Grand Terrace	49	1,057,204	0	20,000	164,585	15.57%	246,307	23.30%	\$1.20	(6,744)	848	6,757	35,217
Moreno Valley	36	1,044,619	0	209,675	40,714	3.90%	47,109	4.51%	\$1.14	(4,611)	(1,390)	2,847	18,999
Perris	10	207,088	0	0	5,288	2.55%	7,588	3.66%	\$0.00	0	0	0	0
Redlands/Loma Linda	88	2,314,707	0	97,818	328,830	14.21%	356,396	15.40%	\$1.60	2,048	40,711	32,683	91,461
Rialto	9	248,529	0	0	37,361	15.03%	50,971	20.51%	\$1.45	0	(6,037)	0	963
Riverside	306	9,514,047	0	583,000	1,551,186	16.30%	1,792,381	18.84%	\$2.04	(32,960)	54,876	101,392	329,817
San Bernardino/Highland	207	7,828,462	0	12,234	1,224,372	15.64%	1,637,283	20.91%	\$1.48	23,383	133,905	62,722	283,328
Class A	38	3,924,068	0	329,820	852,079	21.71%	836,240	21.31%	\$2.15	19,459	76,754	50,206	217,135
Class B	497	14,893,561	0	1,019,035	2,548,824	17.11%	3,195,800	21.46%	\$1.59	84,891	264,474	285,600	743,550
Class C	271	6,712,275	0	0	710,252	10.58%	943,636	14.06%	\$1.14	(34,117)	(6,235)	41,767	174,040
<b>East Total</b>	<b>806</b>	<b>25,529,904</b>	<b>0</b>	<b>1,348,855</b>	<b>4,111,155</b>	<b>16.10%</b>	<b>4,975,676</b>	<b>19.49%</b>	<b>\$1.70</b>	<b>70,233</b>	<b>334,993</b>	<b>377,573</b>	<b>1,134,725</b>
<b>Inland Empire Total</b>	<b>1,208</b>	<b>39,455,333</b>	<b>98,898</b>	<b>3,549,979</b>	<b>6,536,949</b>	<b>16.57%</b>	<b>8,038,926</b>	<b>20.37%</b>	<b>\$1.69</b>	<b>159,048</b>	<b>375,429</b>	<b>607,340</b>	<b>1,651,637</b>
<b>Inland Empire</b>													
Class A	62	6,188,970	0	2,036,627	1,465,056	23.67%	1,467,905	23.72%	\$2.05	2,007	84,592	81,791	315,039
Class B	776	24,577,884	98,898	1,513,352	4,117,547	16.75%	5,342,191	21.74%	\$1.61	174,805	304,484	454,190	1,109,624
Class C	370	8,688,479	0	0	954,346	10.98%	1,228,830	14.14%	\$1.08	(17,764)	(13,647)	71,359	226,974
<b>Inland Empire Total</b>	<b>1,208</b>	<b>39,455,333</b>	<b>98,898</b>	<b>3,549,979</b>	<b>6,536,949</b>	<b>16.57%</b>	<b>8,038,926</b>	<b>20.37%</b>	<b>\$1.69</b>	<b>159,048</b>	<b>375,429</b>	<b>607,340</b>	<b>1,651,637</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	27,721	5.25%	35,297	6.68%	\$0.00	800	(1,457)	2,000	7,835
Barstow	13	212,723	0	0	29,048	13.66%	48,048	22.59%	\$0.00	2,013	2,013	2,013	2,013
Hesperia	29	595,200	0	174,316	21,861	3.67%	52,480	8.82%	\$0.00	(4,565)	(8,329)	2,160	4,235
Victorville	87	1,633,601	0	292,000	140,650	8.61%	176,420	10.80%	\$1.70	(7,104)	(10,175)	18,745	69,112
<b>High Desert Total</b>	<b>162</b>	<b>3,035,244</b>	<b>0</b>	<b>480,316</b>	<b>219,280</b>	<b>7.22%</b>	<b>312,245</b>	<b>10.29%</b>	<b>\$1.70</b>	<b>(8,856)</b>	<b>(17,948)</b>	<b>24,918</b>	<b>83,195</b>
<b>Temecula Valley</b>													
Hemet	43	811,037	0	24,511	87,454	10.78%	96,526	11.90%	\$0.00	(4,688)	384	6,119	22,492
Lake Elsinore	12	272,399	0	0	63,050	23.15%	72,614	26.66%	\$0.00	0	(1,677)	1,500	3,800
Murrieta	52	1,536,292	0	463,093	264,416	17.21%	291,626	18.98%	\$1.39	13,685	91,555	31,941	141,087
San Jacinto	5	150,227	0	0	39,840	26.52%	39,840	26.52%	\$0.00	0	(2,350)	0	0
Temecula	110	2,828,036	0	78,179	431,727	15.27%	495,790	17.53%	\$1.44	(27,401)	86,665	50,528	245,976
Wildomar	7	270,830	0	44,000	45,284	16.72%	45,284	16.72%	\$0.00	(44)	(3,003)	3,313	6,076
<b>Temecula Valley Total</b>	<b>229</b>	<b>5,868,821</b>	<b>0</b>	<b>609,783</b>	<b>931,771</b>	<b>15.88%</b>	<b>1,041,680</b>	<b>17.75%</b>	<b>\$1.40</b>	<b>(18,448)</b>	<b>171,574</b>	<b>93,401</b>	<b>419,431</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
43250 Business Park Dr. – 5 Properties	Temecula	B	104,907	N/A	Alas Company, LLC	Save–Most Desert Rancho Ltd.
8805 Haven Ave.	Rancho Cucamonga	B	23,855	\$120.00	Haven Medical Plaza, LLC	Rock–Jersey, LLC
2151 S. Haven Ave. – 2 Properties	Ontario	B	26,514	\$98.06	Ari Haven, LLC	Bb & M Dev Group, LLC
73550 Alessandro Dr.	Palm Desert	B	10,918	\$119.07	Gene Biggi Properties, LLC	Francisco Urrutia

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
995 E. Hardt St.	San Bernardino	B	39,024	Jul-12	GSA	Granum Partners
1615 Orange Tree Ln.	Redlands	B	21,781	Aug-12	N/A	Carrat, LLC
650 E. Hospitality Ln. – Renewal	San Bernardino	A	19,080	Aug-12	Lewis Brisbois Bisgaard & Smith, LLP	Rancon Real Estate
8686 Haven Ave.	Rancho Cucamonga	A	14,327	Jul-12	N/A	Opus West Management Corporation
2855 E. Guasti Rd.	Ontario	A	12,918	Jul-12	N/A	True North Management Group

Product Type

CLASS A

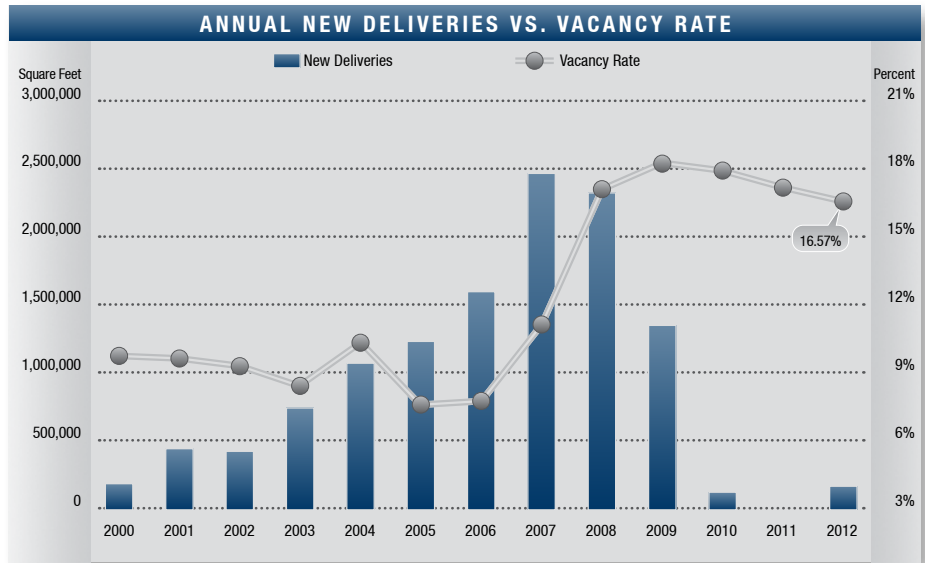
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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