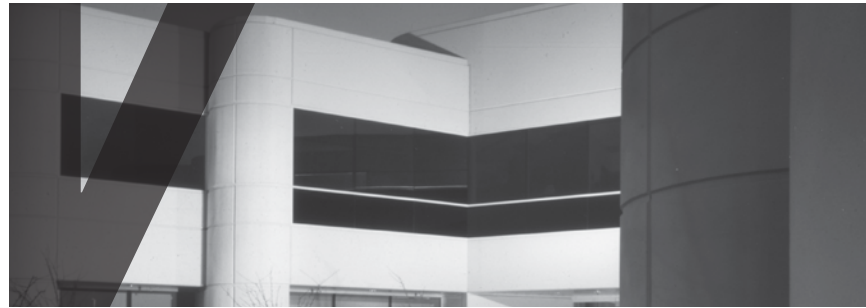




REAL ESTATE SERVICES

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Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

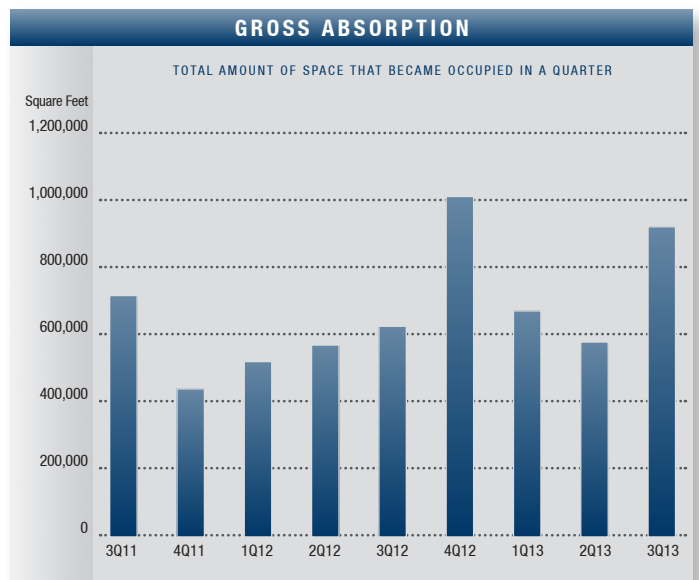
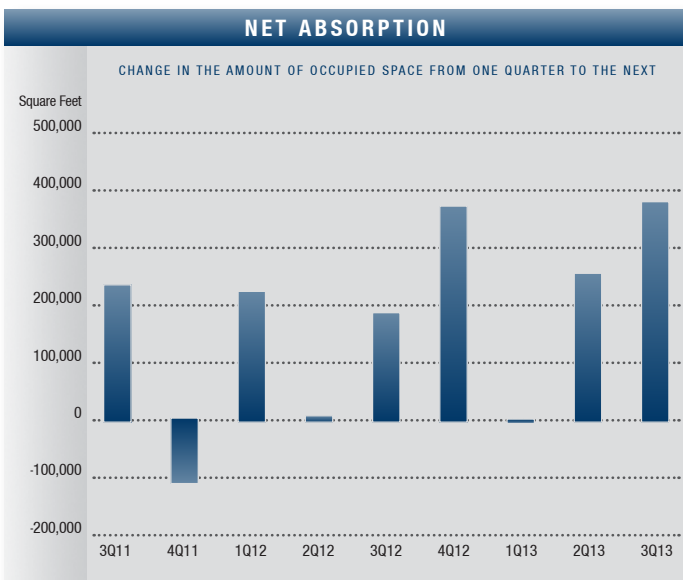
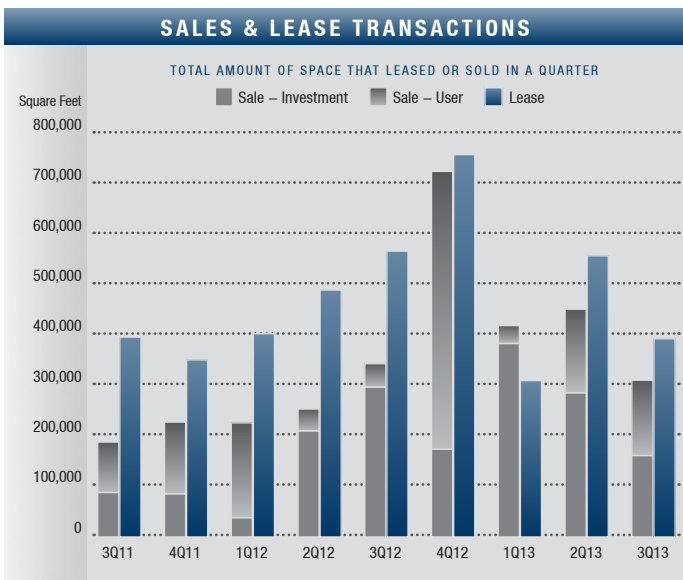
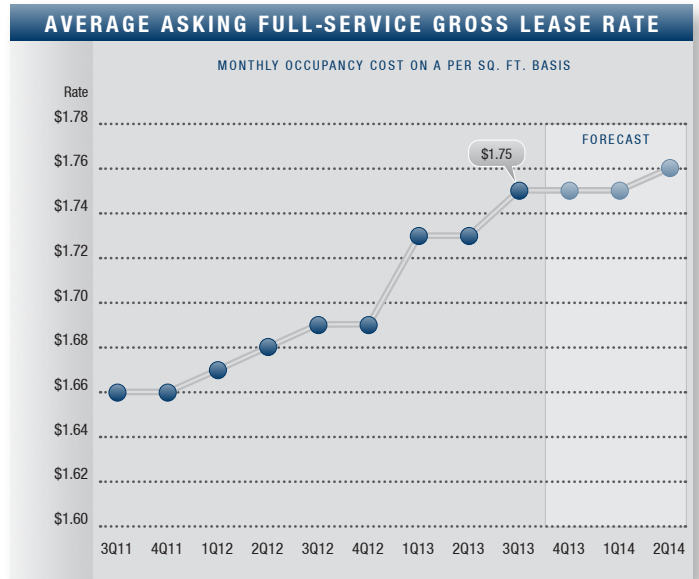
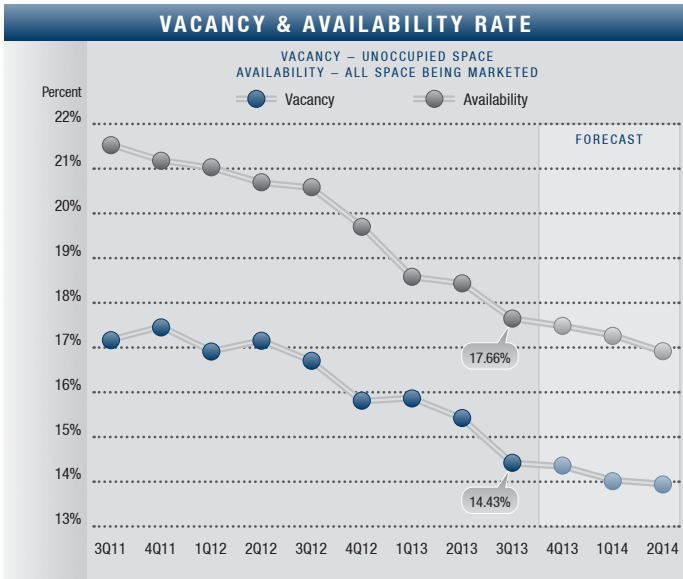
- **Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of the third quarter of 2013. Availability and vacancy continued to drop. The market posted a positive 630,000 square feet of net absorption for the first three quarters of 2013. Asking lease rates increased by a substantial six cents since 2012. 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 28,000 square feet. The slowdown in construction has eased and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.43%, a decrease when compared both to the previous quarter's rate of 15.4% and to the prior year's rate of 16.73%.
- **Availability** - Direct/sublease space being marketed was 17.66% in the third quarter of 2013, down from 2013's second quarter rate of 18.43% and a 191-basis-point decrease from the 20.57% we saw in the third 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 \$1.75 at the end of the third quarter of 2013, a six-cent increase from 2012's third quarter rate and two cents higher than 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 second quarter of 2008. Class A rates for the market averaged \$2.11 FSG. Geographically, the highest rates were found in the East County submarket, where they averaged \$1.75 FSG.
- **Absorption** - The Inland Empire office market posted 376,922 square feet of positive net absorption for the third quarter of 2013; from the second quarter 2011 to the end

of the third quarter of 2013, the office market averaged just under 175,000 square feet of positive absorption per quarter.

- **Transaction Activity** - Leasing activity checked in at just over 387,000 square feet in the third quarter of 2013, a decrease from 2013's second quarter total of 550,000 square feet. Sales activity showed a decrease in the third quarter of 2013, posting over 204,000 square feet of activity compared to 2012's third quarter total of 336,000 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 10.4% in August 2013, down from a revised 11.0% in July 2013 and below the year-ago estimate of 12.6%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. The unemployment rate was 10.8% for Riverside County and 10.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 8,100 payroll jobs from August 2012 to August 2013. The largest gains were 6,100 jobs in trade, transportation & utilities and 6,000 jobs in leisure & hospitality. The most significant job losses were in construction and manufacturing (down 3,400 each).
- **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 coming quarters. 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

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Vacancy Rate	14.43%	15.40%	16.73%	(13.75%)
Availability Rate	17.66%	18.43%	20.57%	(14.15%)
Average Asking Lease Rate	\$1.75	\$1.73	\$1.69	3.55%
Sale & Lease Transactions	591,523	994,308	896,765	(34.04%)
Gross Absorption	919,980	571,335	619,567	48.49%
Net Absorption	376,922	253,721	185,867	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
West													
Chino/Chino Hills	38	1,179,652	0	155,909	152,957	12.97%	173,250	14.69%	\$2.09	6,946	(8,943)	16,229	36,177
Fontana	36	2,368,792	0	55,867	98,314	4.15%	115,246	4.87%	\$0.97	27,775	19,125	38,269	38,269
Montclair	13	267,042	0	0	23,980	8.98%	38,862	14.55%	\$0.00	(2,500)	(2,839)	0	2,155
Ontario	113	4,351,399	0	1,503,918	1,021,972	23.49%	1,167,639	26.83%	\$1.80	40,850	36,610	119,873	275,454
Rancho Cucamonga	140	4,298,345	0	127,930	582,398	13.55%	656,418	15.27%	\$1.68	223,900	134,280	312,185	441,207
Upland	67	1,484,272	0	0	208,326	14.04%	250,890	16.90%	\$1.44	14	(5,288)	18,557	110,555
Class A	25	2,266,299	0	1,313,451	494,948	21.84%	530,750	23.42%	\$2.00	29,609	81,139	66,021	153,577
Class B	280	9,701,888	0	530,173	1,420,202	14.64%	1,645,559	16.96%	\$1.64	233,474	49,361	387,009	666,374
Class C	102	1,981,315	0	0	172,797	8.72%	225,996	11.41%	\$1.03	33,902	42,445	52,083	83,866
West Total	407	13,949,502	0	1,843,624	2,087,947	14.97%	2,402,305	17.22%	\$1.74	296,985	172,945	505,113	903,817
East													
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	3,105,281	3,000	303,507	545,669	17.57%	618,698	19.92%	\$1.87	158,993	206,323	210,507	416,864
Colton/Grand Terrace	49	1,079,450	0	20,000	200,375	18.56%	254,830	23.61%	\$1.01	653	(2,024)	29,168	111,393
Moreno Valley	37	946,011	0	197,607	31,802	3.36%	45,594	4.82%	\$0.00	(6,227)	(2,081)	4,494	13,040
Perris	7	156,701	0	0	3,717	2.37%	6,017	3.84%	\$0.00	0	0	0	0
Redlands/Loma Linda	88	2,287,119	0	106,618	317,180	13.87%	361,012	15.78%	\$1.52	(15,433)	26,208	14,230	100,096
Rialto	10	284,708	0	0	39,603	13.91%	47,103	16.54%	\$1.40	1,068	(2,242)	1,068	1,068
Riverside	307	9,397,023	0	616,910	1,230,336	13.09%	1,639,774	17.45%	\$2.04	(12,182)	149,745	102,365	369,906
San Bernardino/Highland	200	7,616,919	0	21,234	1,184,316	15.55%	1,525,367	20.03%	\$1.53	(46,935)	80,581	53,035	239,565
Class A	39	4,153,430	0	329,820	628,324	15.13%	673,683	16.22%	\$2.20	128,745	155,210	173,062	330,741
Class B	499	14,827,925	28,000	1,090,312	2,247,337	15.16%	2,918,076	19.68%	\$1.62	(18,713)	262,875	190,909	725,105
Class C	261	6,151,236	0	0	677,337	11.01%	906,636	14.74%	\$1.15	(30,095)	38,425	50,896	196,086
East Total	799	25,132,591	28,000	1,420,132	3,552,998	14.14%	4,498,395	17.90%	\$1.75	79,937	456,510	414,867	1,251,932
Inland Empire Total	1,206	39,082,093	28,000	3,263,756	5,640,945	14.43%	6,900,700	17.66%	\$1.75	376,922	629,455	919,980	2,155,749
Inland Empire													
Class A	64	6,419,729	0	1,643,271	1,123,272	17.50%	1,204,433	18.76%	\$2.11	158,354	236,349	239,083	484,318
Class B	779	24,529,813	28,000	1,620,485	3,667,539	14.95%	4,563,635	18.60%	\$1.63	214,761	312,236	577,918	1,391,479
Class C	363	8,132,551	0	0	850,134	10.45%	1,132,632	13.93%	\$1.12	3,807	80,870	102,979	279,952
Inland Empire Total	1,206	39,082,093	28,000	3,263,756	5,640,945	14.43%	6,900,700	17.66%	\$1.75	376,922	629,455	919,980	2,155,749
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	29	520,104	0	45,388	24,606	4.73%	33,445	6.43%	\$0.00	2,400	4,490	8,059	18,124
Barstow	13	208,404	0	0	36,350	17.44%	39,350	18.88%	\$0.00	0	(18,499)	0	886
Hesperia	24	496,210	0	76,516	11,560	2.33%	20,400	4.11%	\$0.00	2,710	2,710	3,697	5,697
Victorville	84	1,626,387	0	83,000	106,948	6.58%	187,166	11.51%	\$1.79	17,428	13,788	20,779	48,786
High Desert Total	153	2,916,636	0	204,904	179,464	6.15%	280,361	9.61%	\$1.79	22,538	10,879	32,535	134,864
Temecula Valley													
Hemet	43	827,593	12,511	12,000	71,767	8.67%	117,364	14.18%	\$0.00	715	4,312	1,858	9,675
Lake Elsinore	12	272,399	0	0	52,750	19.36%	54,040	19.84%	\$0.00	1,067	13,481	1,067	24,213
Murrieta	52	1,531,610	0	616,981	224,178	14.64%	272,155	17.77%	\$2.33	6,317	59,661	32,566	108,829
San Jacinto	4	96,241	0	0	41,528	43.15%	41,528	43.15%	\$0.00	0	0	0	0
Temecula	112	3,105,528	64,891	107,602	712,953	22.96%	799,718	25.75%	\$1.41	15,418	11,309	56,876	144,344
Wildomar	7	270,830	0	44,000	40,684	15.02%	41,828	15.44%	\$0.00	1,118	1,118	1,118	1,118
Temecula Valley Total	230	6,104,201	77,402	780,583	1,143,860	18.74%	1,326,633	21.73%	\$1.63	24,635	183,322	93,485	496,758

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	Undisclosed	HBC Corona Summitt, LLC
200 S. Main St.	Corona	A	63,036	Undisclosed	Global Corporate Center, Inc.	Save Most Desert Rancho, Ltd.
1790 Park Ave. – 3 Properties	Redlands	B	55,154	\$64.60	Undisclosed	Didion Family Trust 2-10-92
25495 Medical Center Dr.	Murrieta	A	52,000	Undisclosed	7 Summitt Properties 2, LLC	Sreenivasa & Hemalatha Nakka
27349 Jefferson Ave.	Temecula	C	35,260	Undisclosed	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	Undisclosed	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	Undisclosed	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	Undisclosed	Rar2 Inland Empire Offices, CA

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.

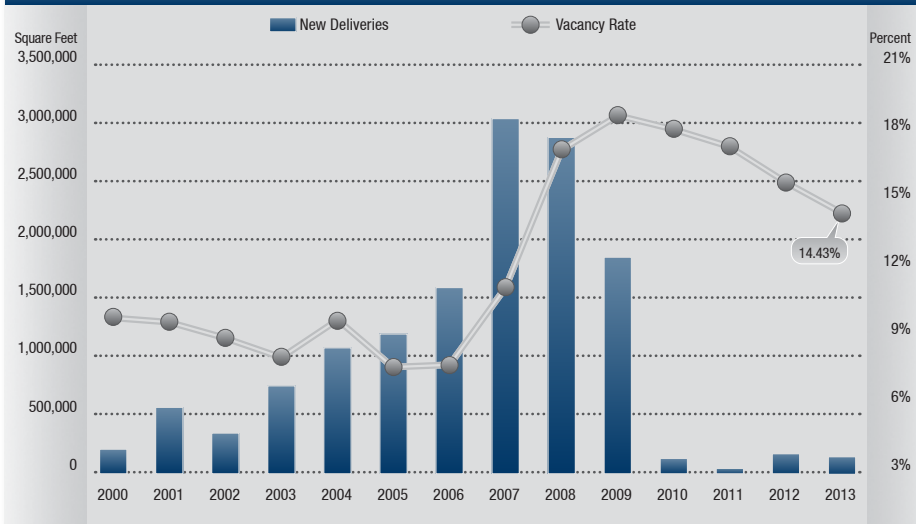
CLASS B

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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