

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

FLAT



To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

Prepared by:

Jerry J. Holdner, Jr.

Vice President of Market Research
e-mail: jholdner@voitco.com

Carla Mantecon

Market Research Analyst
e-mail: cmantecon@voitco.com

VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving in the third quarter of 2014. Both vacancy and availability displayed drops compared to the previous year. Net absorption posted over 43,000 square feet of positive absorption during the third 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 94,510 square feet under construction in the Inland Empire at the end of the third quarter of 2014, most of which was located in Ontario. Only 168,000 square feet of new product was delivered in the first three quarters of 2014. 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 third quarter of 2014 at 13.95%, an increase of 7 basis points when compared to the previous quarter, and a 3.53% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 17.23% at the end of the quarter, down from 2013's third quarter rate of 17.75% and a 4 basis point increase from the 17.19% we saw in the second quarter of 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.74 in the third quarter of 2014, a one cent increase from the same quarter last year. We are forecasting that the rate will rise in 2015. The record high rate of \$2.10 was established in the third quarter of 2008. Class A rates for the market averaged \$2.19 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 43,253 square feet of positive net absorption for the third quarter of 2014. From the second quarter of 2011 to the end of the third 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 329,000 square feet in the third quarter of the year, a decrease from 2013's third quarter total of 575,000 square feet. Sales activity showed an increase in the third quarter of 2014, posting 950,000 square feet of activity compared to 2013's third quarter total of 447,000 square feet. This statistic can have some lag time in being reported, so look for third 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 8.7% in August 2014, down from a revised 9.3% in July 2014 and below the year-ago estimate of 10.5%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. The unemployment rate was 9.2% for Riverside County and 8.2% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 33,700 payroll jobs from August 2013 to August 2014. The largest gains were 8,600 jobs in leisure and hospitality and 7,600 jobs in trade, transportation, & utilities.
- **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

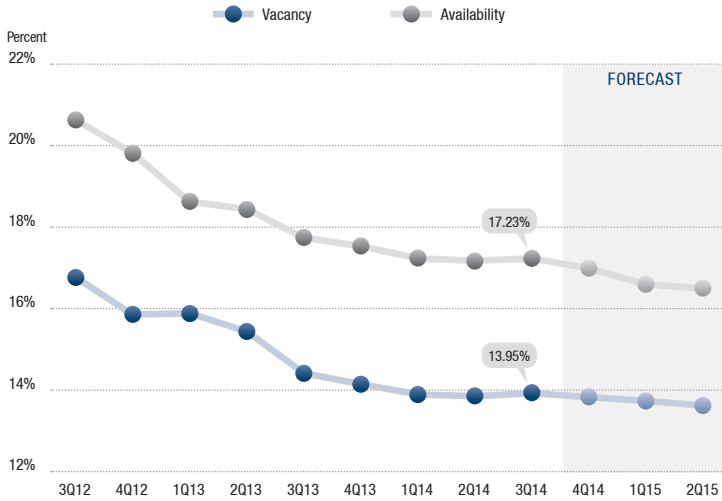
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 1% to 2% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 30 basis points, to around 13.65%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	13.95%	13.88%	14.46%	(3.53%)
Availability Rate	17.23%	17.19%	17.75%	(2.93%)
Average Asking Lease Rate	\$1.74	\$1.75	\$1.75	(0.57%)
Sale & Lease Transactions	1,277,405	757,577	1,023,264	24.84%
Gross Absorption	517,187	510,766	914,850	(43.47%)
Net Absorption	43,253	100,732	403,727	N/A

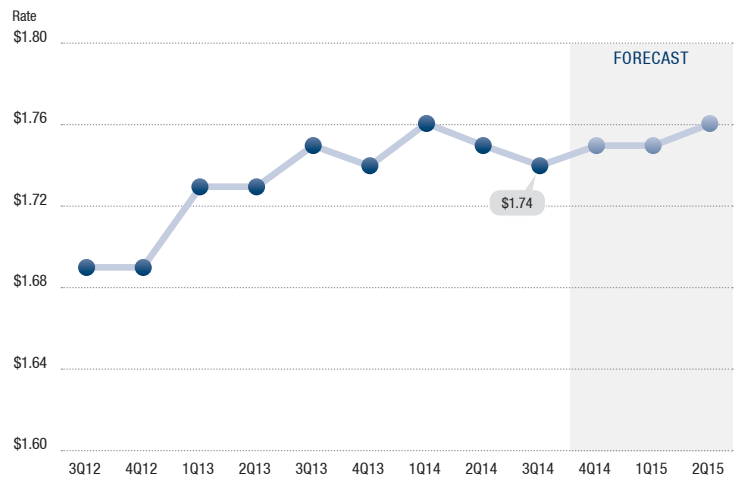
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



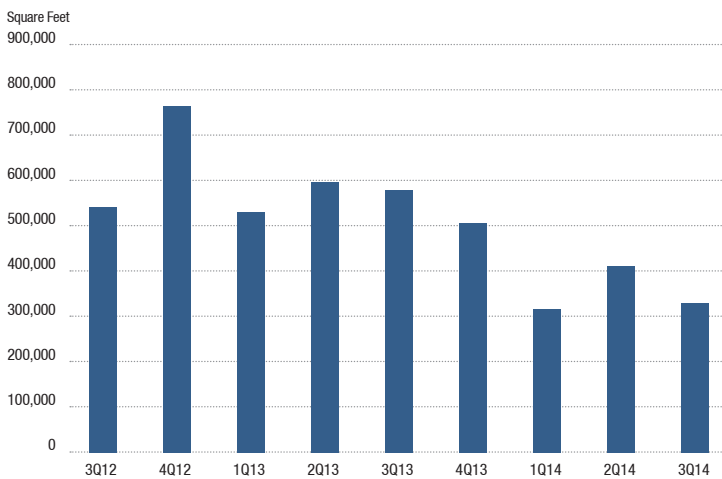
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



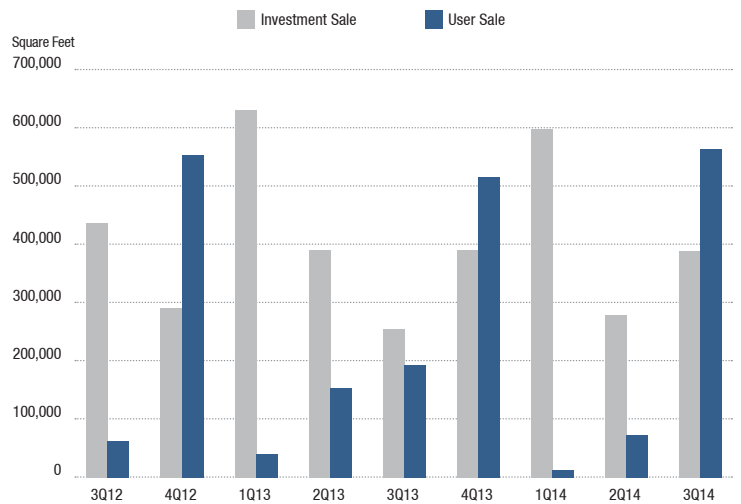
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



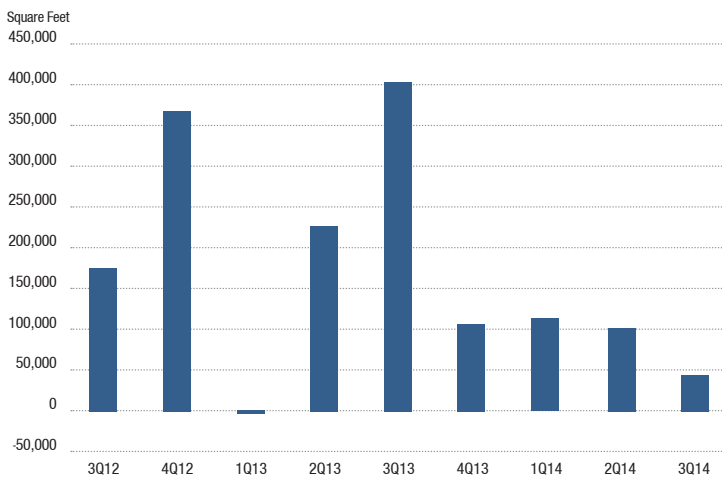
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



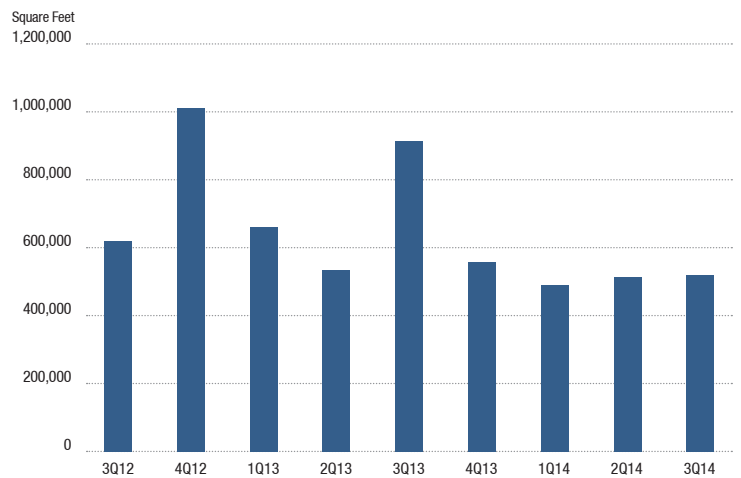
NET ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
West													
Chino/Chino Hills	38	1,177,693	0	155,909	99,150	8.42%	133,595	11.34%	\$2.18	11,651	43,990	18,822	67,387
Fontana	36	2,381,347	0	47,400	113,030	4.75%	121,538	5.10%	\$0.97	(2,643)	(26,689)	149	2,073
Montclair	12	224,763	0	0	15,280	6.80%	22,723	10.11%	\$0.00	7,354	6,264	7,354	11,302
Ontario	109	4,301,626	0	1,443,001	834,416	19.40%	956,757	22.24%	\$1.78	57,400	160,569	130,068	322,469
Rancho Cucamonga	141	4,368,095	0	127,930	541,173	12.39%	634,350	14.52%	\$1.75	35,151	20,475	70,404	192,288
Upland	70	1,527,566	0	0	205,755	13.47%	254,033	16.63%	\$1.43	12,333	(5,079)	31,800	50,945
Class A	26	2,330,829	0	1,255,451	406,952	17.46%	407,771	17.49%	\$2.01	53,560	114,367	99,041	211,889
Class B	282	9,716,005	0	518,789	1,183,532	12.18%	1,443,455	14.86%	\$1.64	61,465	136,574	144,316	400,193
Class C	98	1,934,256	0	0	218,320	11.29%	271,770	14.05%	\$1.04	6,221	(51,411)	15,240	34,382
West Total	406	13,981,090	0	1,774,240	1,808,804	12.94%	2,122,996	15.18%	\$1.74	121,246	199,530	258,597	646,464
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	3,112,065	3,000	537,492	499,654	16.06%	641,569	20.62%	\$1.77	(6,786)	9,649	56,475	187,886
Colton/Grand Terrace	49	1,058,787	0	20,000	197,833	18.68%	261,019	24.65%	\$0.92	8,272	12,129	19,422	69,058
Moreno Valley	37	943,603	0	115,219	15,249	1.62%	30,917	3.28%	\$0.00	837	6,092	2,649	9,249
Perris	9	215,508	0	0	2,771	1.29%	5,071	2.35%	\$0.00	0	50,000	0	50,000
Redlands/Loma Linda	88	2,297,196	0	8,800	347,955	15.15%	415,900	18.10%	\$1.66	4,784	(7,490)	19,141	84,252
Rialto	9	268,708	0	0	45,503	16.93%	53,003	19.73%	\$1.40	(6,400)	(5,900)	1,310	1,810
Riverside	308	9,450,753	0	638,910	1,224,137	12.95%	1,700,798	18.00%	\$2.05	35,781	88,334	99,740	309,031
San Bernardino/Highland	205	7,749,920	0	9,000	1,343,973	17.34%	1,546,392	19.95%	\$1.55	(114,481)	(94,728)	59,853	153,833
Class A	39	4,155,817	66,510	217,322	592,415	14.26%	703,934	16.94%	\$2.19	42,263	52,483	76,040	127,563
Class B	506	15,075,149	28,000	1,206,320	2,394,535	15.88%	3,067,268	20.35%	\$1.61	(140,616)	21,114	119,424	571,292
Class C	261	6,124,953	0	0	690,125	11.27%	883,467	14.42%	\$1.23	20,360	(15,511)	63,126	166,264
East Total	806	25,355,919	94,510	1,423,642	3,677,075	14.50%	4,654,669	18.36%	\$1.75	(77,993)	58,086	258,590	865,119
Inland Empire Total	1,212	39,337,009	94,510	3,197,882	5,485,879	13.95%	6,777,665	17.23%	\$1.74	43,253	257,616	517,187	1,511,583
Inland Empire													
Class A	65	6,486,646	66,510	1,472,773	999,367	15.41%	1,111,705	17.14%	\$2.12	95,823	166,850	175,081	339,452
Class B	788	24,791,154	28,000	1,725,109	3,578,067	14.43%	4,510,723	18.19%	\$1.62	(79,151)	157,688	263,740	971,485
Class C	359	8,059,209	0	0	908,445	11.27%	1,155,237	14.33%	\$1.17	26,581	(66,922)	78,366	200,646
Inland Empire Total	1,212	39,337,009	94,510	3,197,882	5,485,879	13.95%	6,777,665	17.23%	\$1.74	43,253	257,616	517,187	1,511,583
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	31	595,824	0	42,060	26,501	4.45%	32,593	5.47%	\$0.00	(5,837)	(1,958)	0	15,276
Barstow	13	210,048	0	0	35,399	16.85%	41,899	19.95%	\$0.00	0	0	521	521
Hesperia	23	520,792	0	76,516	8,689	1.67%	9,581	1.84%	\$0.00	738	4,291	738	9,347
Victorville	85	1,654,176	0	68,000	137,234	8.30%	202,927	12.27%	\$1.88	(14,692)	(14,799)	9,289	36,810
High Desert Total	155	3,046,371	0	186,576	207,823	6.82%	287,000	9.42%	\$1.88	(19,791)	(12,466)	10,548	61,954
Temecula Valley													
Hemet	44	840,104	0	12,000	91,510	10.89%	135,659	16.15%	\$0.00	2,978	(4,356)	2,998	11,205
Lake Elsinore	13	287,166	0	0	48,391	16.85%	75,056	26.14%	\$0.00	570	2,294	2,130	6,373
Murrieta	52	1,531,997	0	569,164	212,541	13.87%	237,933	15.53%	\$2.41	2,106	39,625	24,390	109,070
San Jacinto	4	96,241	0	0	4,038	4.20%	4,038	4.20%	\$0.00	0	37,490	0	37,490
Temecula	113	2,903,411	48,029	124,625	420,131	14.47%	480,164	16.54%	\$1.45	2,772	72,834	58,911	235,439
Wildomar	7	272,783	0	44,000	32,850	12.04%	39,432	14.46%	\$0.00	3,767	3,661	3,767	6,349
Temecula Valley Total	233	5,931,702	48,029	749,789	809,461	13.65%	972,282	16.39%	\$1.59	12,193	151,548	92,196	405,926

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
3990 Concours	Ontario	A	124,529	\$180.28	TA Associates Realty	LBP Empire, LLC
206 S. Lilac Ave. – 2 Properties	Rialto	C	88,788	Undisclosed	Rialto Circle 142, LLC	Tree Top, Inc.
3270 Inland Empire Blvd.	Ontario	B	44,533	Undisclosed	Radpro Holdings 2, LLC	Radpro Holdings 2, LLC
1317 W. Foothill Blvd.	Upland	B	40,507	\$86.40	Upland Office Center, LLC	Village Plaza Associates, LLC
6147 River Crest Dr.	Riverside	B	40,365	\$82.00	BH River Crest, LLC	MSP Rivercrest Plaza, LLC

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
4680 Hallmark Pky.	San Bernardino	B	120,486	Aug-14	The Way World Outreach Intl. Ministires	Denley Investment & Management Co.
6465 Sycamore Canyon Blvd.	Riverside	B	23,180	Aug-14	Undisclosed	The Magnon Companies
505 N. Arrowhead Ave.	San Bernandino	C	8,341	Jul-14	Amgen	Ideal Holdings, Inc.
901 Via Piemonte	Ontario	A	6,615	Jul-14	Undisclosed	Unire Real Estate Group, Inc.

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.

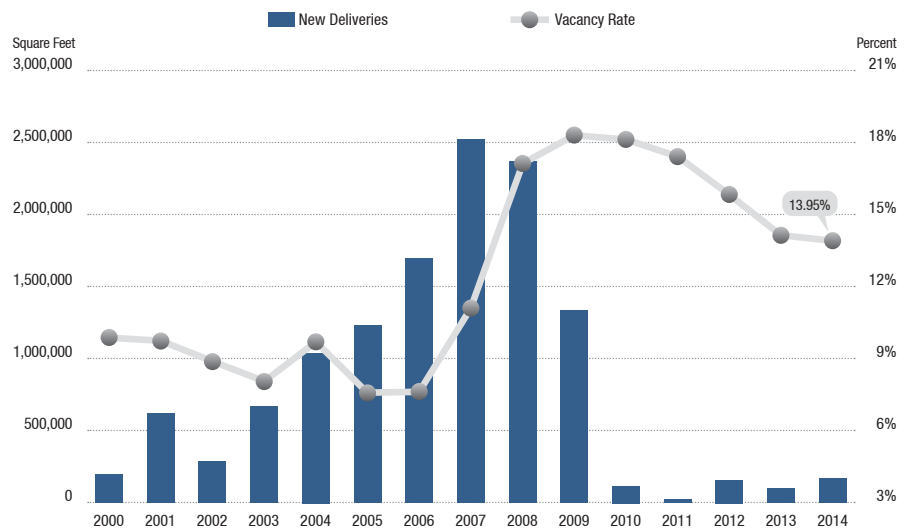
CLASS B

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

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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.

©2014 Voit Real Estate Services, Inc. Real People. Real Solutions.® is a registered trademark of Voit Real Estate Services.

Represented in 150 Markets
Nationally & Internationally.



Real People.
Real Solutions.®