

## MARKET CHANGE

*Compared to Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Lease Rates**

**DOWN**



**Transactions**

**UP**



**Deliveries**

**FLAT**



## HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving during the third quarter of 2015. Both vacancy and availability displayed drops compared to the third quarter of the previous year, and net absorption was positive for the 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 17,000 square feet under construction in the Inland Empire at the end of the third quarter of 2015, which was located in Corona. Nothing new was delivered during the quarter and only 168,000 square feet of new product was delivered in 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 2015 at 12.89%, a decrease of 45 basis points when compared to the previous quarter, and a 8.32% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 16.33% at the end of the quarter, down from 2015's second quarter rate of 16.84% and a 5.61% decline from the 17.30% we saw in the third quarter of 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.76 in the third quarter of 2015, up one cent from the same quarter last year. We are forecasting that the rate will rise during 2015. The record high rate of \$2.10 was established in the third quarter of 2008. Class A rates for the market averaged \$2.08 FSG. Geographically, the highest rates were found in the Chino/Chino Hills submarket, where they averaged \$2.21 FSG.
- **Absorption** - The Inland Empire office market posted 177,949 square feet of positive net absorption for the third quarter of

2015. From the second quarter of 2011 to the present, the office market has posted just over 2.5 million square feet of positive absorption.

- **Transaction Activity** - Leasing activity checked in at just over 313,907 square feet in the third quarter of the year, a decrease from 2014's third quarter total of 518,334 square feet. Sales activity showed a decrease in the third quarter of 2015, posting 949,630 square feet of activity compared to 2014's third quarter total of 1,029,878 square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. 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 6.8% in August 2015, down from a revised 7.1% in July 2015 and below the year-ago estimate of 8.6%. This compares with an unadjusted unemployment rate of 6.1% for California and 5.2% for the nation during the same period. The unemployment rate was 7.0% for Riverside County and 6.5% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 44,500 payroll jobs from August 2014 to August 2015. The professional and business services sector posted the greatest increase in employment over the year, adding 13,000 jobs.
- **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 upward pressure on vacancy, the market should continue to improve. 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 2.4%, or 30,200 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 60 basis points, to around 12.3%, by the end of the second quarter of 2016.

## OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	12.89%	13.34%	14.06%	(8.32%)
Availability Rate	16.33%	16.84%	17.30%	(5.61%)
Average Asking Lease Rate	\$1.76	\$1.77	\$1.75	0.57%
Sale & Lease Transactions	1,263,537	843,575	1,548,212	(18.39%)
Gross Absorption	548,942	347,304	495,408	10.81%
Net Absorption	177,949	-180,441	151,007	N/A

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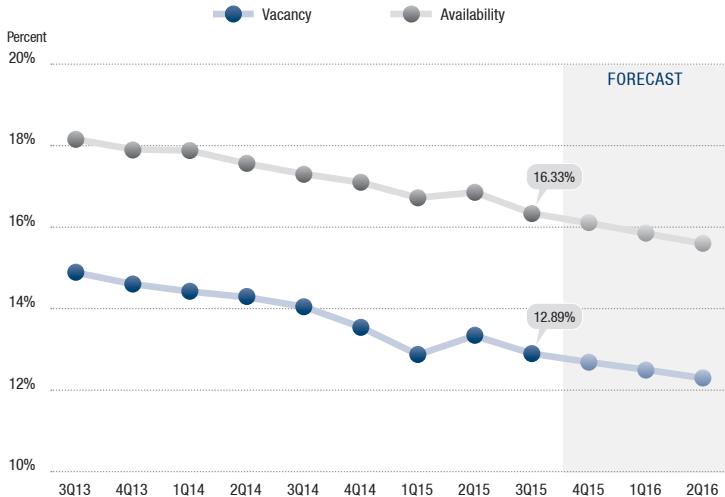
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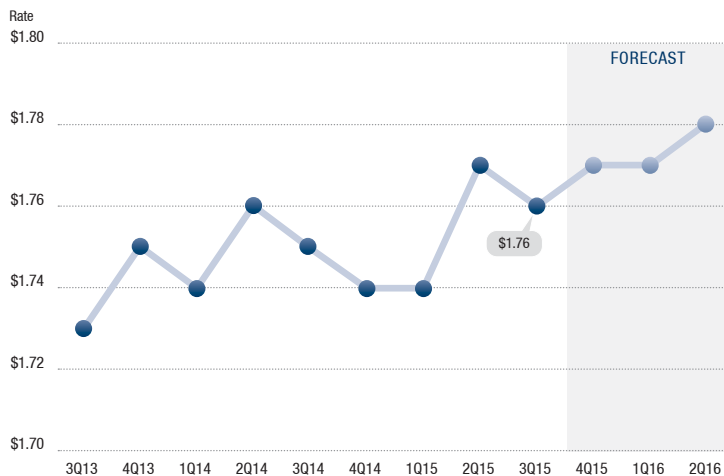
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



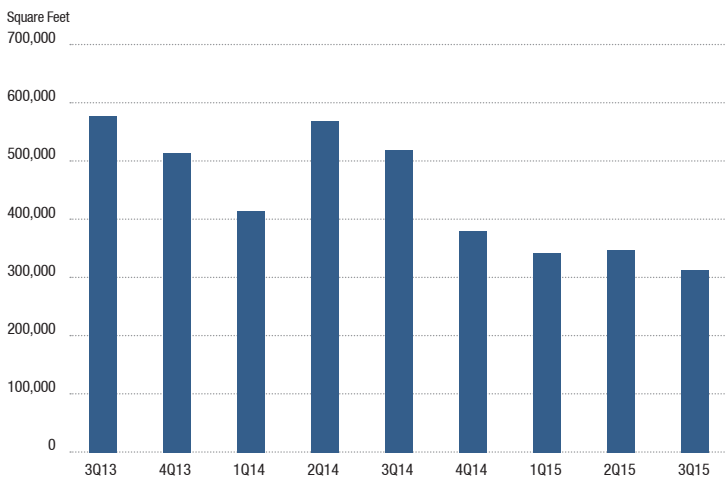
## AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



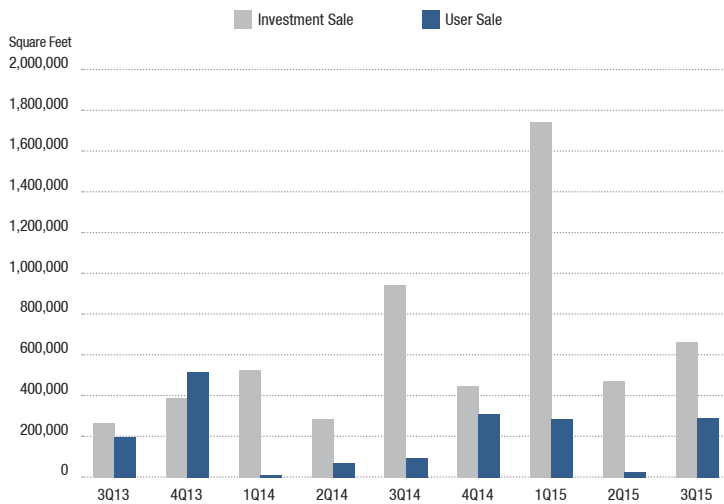
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



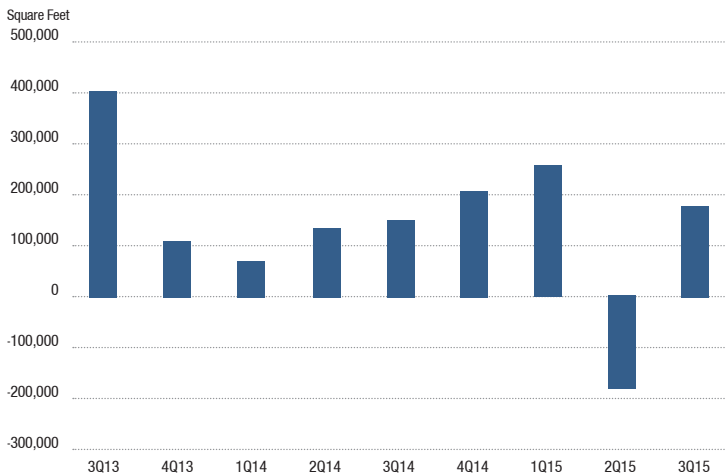
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



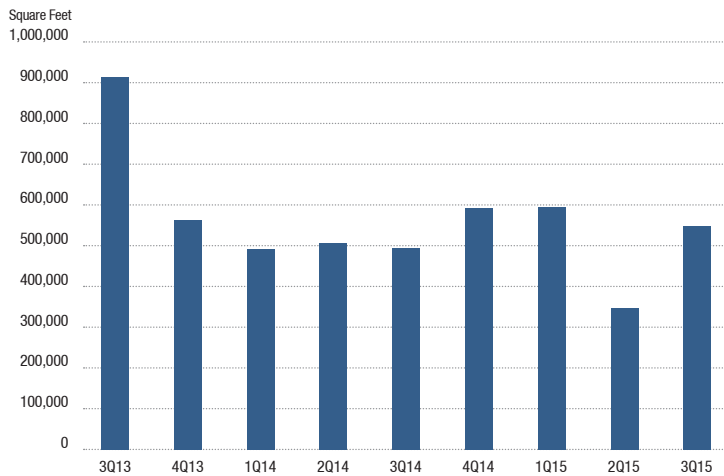
## NET ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
<b>West</b>													
Chino/Chino Hills	37	1,166,442	0	128,224	114,106	9.78%	136,658	11.72%	\$2.21	3,673	(16,069)	14,214	24,839
Fontana	35	2,357,370	0	83,500	82,365	3.49%	75,665	3.21%	\$0.97	28,390	30,665	33,390	38,514
Montclair	13	244,250	0	40,134	22,884	9.37%	37,565	15.38%	\$0.98	1,003	(7,163)	1,003	6,469
Ontario	110	4,338,217	0	450,340	682,510	15.73%	883,627	20.37%	\$1.81	(3,995)	18,989	54,648	187,931
Rancho Cucamonga	142	4,409,417	0	100,000	606,333	13.75%	733,576	16.64%	\$1.84	12,773	(37,109)	52,882	264,817
Upland	71	1,552,820	0	0	214,983	13.84%	240,904	15.51%	\$1.45	17,928	11,485	36,735	72,490
Class A	27	2,358,662	0	269,051	378,690	16.06%	403,654	17.11%	\$2.00	11,813	(88,937)	39,774	117,338
Class B	282	9,757,739	0	533,147	1,082,643	11.10%	1,430,902	14.66%	\$1.70	28,677	69,543	115,477	427,478
Class C	99	1,952,115	0	0	261,848	13.41%	273,439	14.01%	\$1.23	19,282	20,192	37,621	50,244
<b>West Total</b>	<b>408</b>	<b>14,068,516</b>	<b>0</b>	<b>802,198</b>	<b>1,723,181</b>	<b>12.25%</b>	<b>2,107,995</b>	<b>14.98%</b>	<b>\$1.78</b>	<b>59,772</b>	<b>798</b>	<b>192,872</b>	<b>595,060</b>
<b>East</b>													
Banning	6	100,461	0	175,774	3,400	3.38%	3,400	3.38%	\$0.00	(3,400)	(3,400)	0	0
Beaumont	4	168,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	95	3,173,182	17,000	263,325	475,270	14.98%	601,840	18.97%	\$1.82	40,492	11,679	112,953	188,255
Colton/Grand Terrace	48	1,048,204	0	32,600	166,423	15.88%	306,756	29.26%	\$1.02	35,279	56,679	48,310	84,605
Moreno Valley	37	943,603	0	115,219	34,256	3.63%	33,037	3.50%	\$0.00	(7,015)	(7,015)	850	2,496
Perris	9	215,508	0	15,000	0	0.00%	3,462	1.61%	\$0.00	0	1,609	0	1,609
Redlands/Loma Linda	89	2,310,408	0	0	292,452	12.66%	338,646	14.66%	\$1.68	14,323	34,146	39,375	92,310
Rialto	10	284,332	0	50,000	47,445	16.69%	45,503	16.00%	\$1.40	0	(822)	0	0
Riverside	306	9,287,542	0	649,081	1,130,778	12.18%	1,535,316	16.53%	\$2.05	10,453	53,810	81,358	289,885
San Bernardino/Highland	207	7,837,498	0	0	1,208,554	15.42%	1,464,181	18.68%	\$1.58	28,045	107,329	73,224	238,439
Class A	41	4,381,472	0	312,333	577,112	13.17%	734,875	16.77%	\$2.14	42,720	41,592	97,689	173,355
Class B	507	14,855,391	17,000	988,666	2,048,813	13.79%	2,630,812	17.71%	\$1.59	73,635	225,361	191,458	589,435
Class C	263	6,132,793	0	0	732,653	11.95%	966,454	15.76%	\$1.21	1,822	(12,938)	66,923	134,809
<b>East Total</b>	<b>811</b>	<b>25,369,656</b>	<b>17,000</b>	<b>1,300,999</b>	<b>3,358,578</b>	<b>13.24%</b>	<b>4,332,141</b>	<b>17.08%</b>	<b>\$1.76</b>	<b>118,177</b>	<b>254,015</b>	<b>356,070</b>	<b>897,599</b>
<b>Inland Empire Total</b>	<b>1,219</b>	<b>39,438,172</b>	<b>17,000</b>	<b>2,103,197</b>	<b>5,081,759</b>	<b>12.89%</b>	<b>6,440,136</b>	<b>16.33%</b>	<b>\$1.76</b>	<b>177,949</b>	<b>254,813</b>	<b>548,942</b>	<b>1,492,659</b>
<b>Inland Empire</b>													
Class A	68	6,740,134	0	581,384	955,802	14.18%	1,138,529	16.89%	\$2.08	54,533	(47,345)	137,463	290,693
Class B	789	24,613,130	17,000	1,521,813	3,131,456	12.72%	4,061,714	16.50%	\$1.62	102,312	294,904	306,935	1,016,913
Class C	362	8,084,908	0	0	994,501	12.30%	1,239,893	15.34%	\$1.21	21,104	7,254	104,544	185,053
<b>Inland Empire Total</b>	<b>1,219</b>	<b>39,438,172</b>	<b>17,000</b>	<b>2,103,197</b>	<b>5,081,759</b>	<b>12.89%</b>	<b>6,440,136</b>	<b>16.33%</b>	<b>\$1.76</b>	<b>177,949</b>	<b>254,813</b>	<b>548,942</b>	<b>1,492,659</b>
<b>High Desert</b>													
Adelanto	32	605,824	12,000	42,060	11,596	1.91%	14,343	2.37%	\$0.00	16,109	16,405	16,209	20,254
Apple Valley	12	198,618	0	28,001	35,384	17.82%	34,501	17.37%	\$0.00	(4,047)	(4,032)	0	1,010
Barstow	23	520,793	0	76,516	0	0.00%	0	0.00%	\$0.00	3,386	4,365	3,386	7,765
Hesperia	86	1,717,392	0	82,298	168,970	9.84%	211,955	12.34%	\$1.96	(1,482)	(13,885)	16,890	38,292
Victorville	156	3,108,158	12,000	228,875	215,950	6.95%	260,799	8.39%	\$1.96	13,966	2,853	36,485	67,321
<b>High Desert Total</b>	<b>156</b>	<b>3,105,897</b>	<b>0</b>	<b>198,576</b>	<b>233,963</b>	<b>7.53%</b>	<b>281,201</b>	<b>9.05%</b>	<b>\$2.01</b>	<b>(1,976)</b>	<b>(11,113)</b>	<b>15,987</b>	<b>30,836</b>
<b>Temecula Valley</b>													
Hemet	44	847,066	0	12,000	93,510	11.04%	104,691	12.36%	\$1.50	3,276	11,861	13,882	34,033
Lake Elsinore	12	274,642	0	0	43,315	15.77%	42,223	15.37%	\$0.00	2,021	0	30,825	30,825
Menifee	9	317,837	0	213,000	5,410	1.70%	5,410	1.70%	\$1.65	0	(766)	0	2,950
Murrieta	51	1,517,993	0	370,074	165,798	10.92%	192,785	12.70%	\$2.47	5,441	3,242	22,662	58,889
San Jacinto	4	94,954	0	0	0	0.00%	0	0.00%	\$0.00	2,827	0	2,827	2,827
Temecula	112	2,917,532	67,412	44,025	360,959	12.37%	428,154	14.68%	\$1.52	40,068	50,092	78,272	197,391
Wildomar	7	272,783	0	44,000	30,618	11.22%	38,279	14.03%	\$0.00	1,144	2,202	1,144	8,768
<b>Temecula Valley Total</b>	<b>239</b>	<b>6,242,807</b>	<b>67,412</b>	<b>683,099</b>	<b>699,610</b>	<b>11.21%</b>	<b>811,542</b>	<b>13.00%</b>	<b>\$1.85</b>	<b>54,777</b>	<b>66,631</b>	<b>149,612</b>	<b>335,683</b>

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
3602 Inland Empire Blvd.	Ontario	B	74,655	\$145.34	Northlight Capital Partners	Whittier Trust Company
11870 Pierce St.	Riverside	B	40,000	\$181.25	DEH Airways II, LLC	Turner Development Corp.
4244 Riverwalk Pky.	Riverside	B	37,597	\$238.18	Paul Sandler	Terry Hinderson
27740 Jefferson Ave.	Temecula	B	35,316	\$104.77	River Springs Charter School	PMD Investments, LP
27463 Enterprise Cir. W. (2 Properties)	Temecula	B	28,353	\$157.47	Musa Bahia	Evan L. Shaw

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
550 E. Hospitality Ln.	San Bernardino	A	23,995	Jul-2015	Undisclosed	Tri City South Owner, LLC
588 Technology Ct.	Riverside	B	17,776	Jul-2015	York Risk Services	Graham Financial, LLC
3880 Lemon St.	Riverside	A	13,104	Sept-2015	Undisclosed	Center Tower Riverside, LLC
22695 Alessandro Blvd.	Moreno Valley	B	12,560	Aug-2015	Undisclosed	Moreno Valley Health, LLC
14325 Frederick St.	Moreno Valley	A	7,865	Jul-2015	Mentor Healthcare	Moreno Valley Gateway

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.

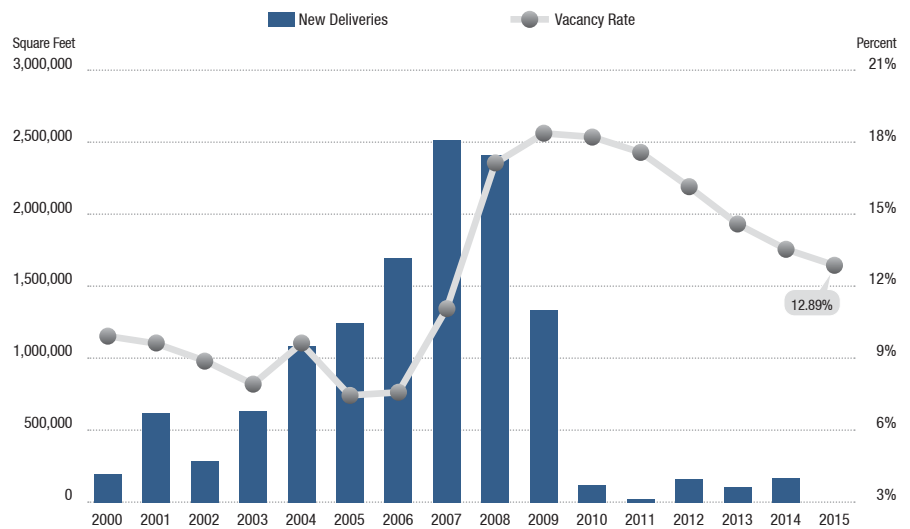
**CLASS B**

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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