

Office Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Construction

DOWN

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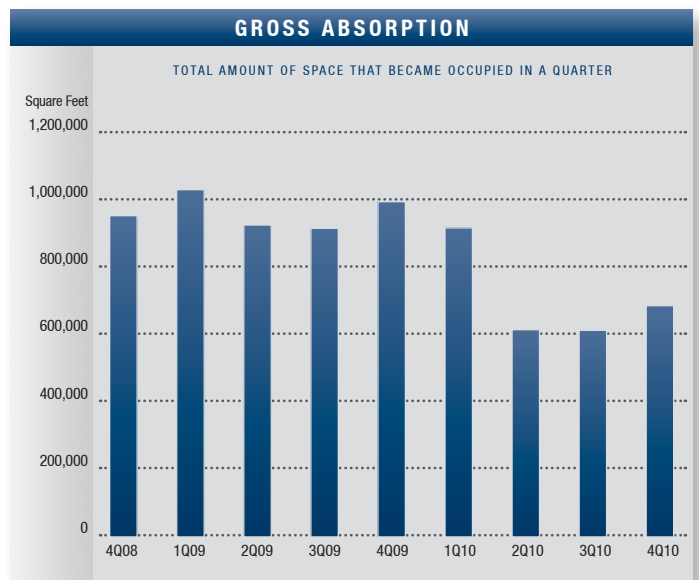
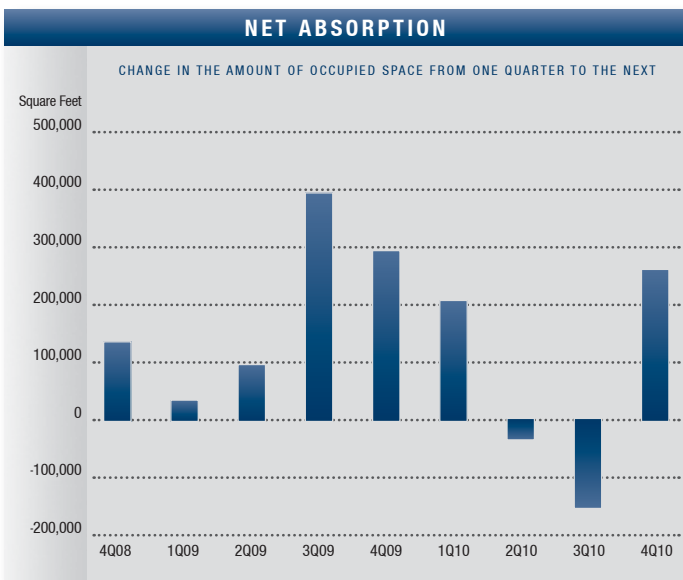
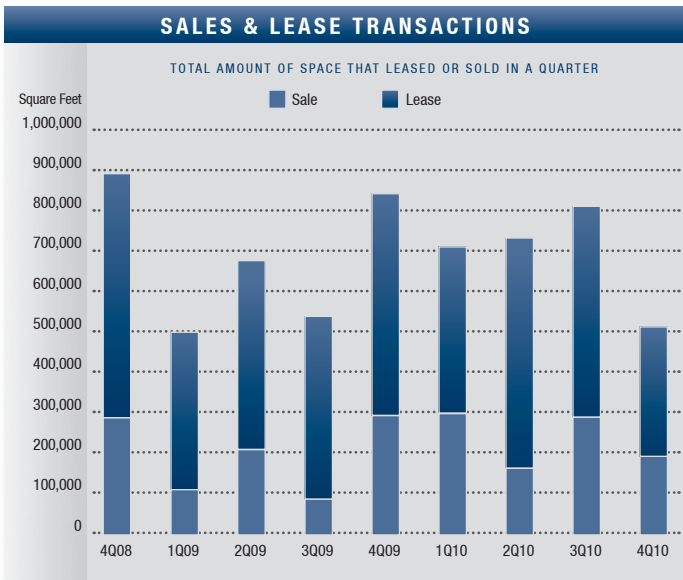
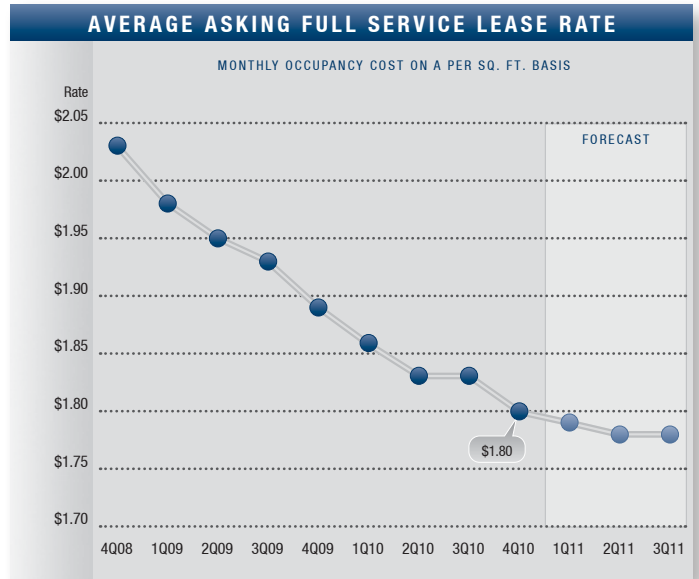
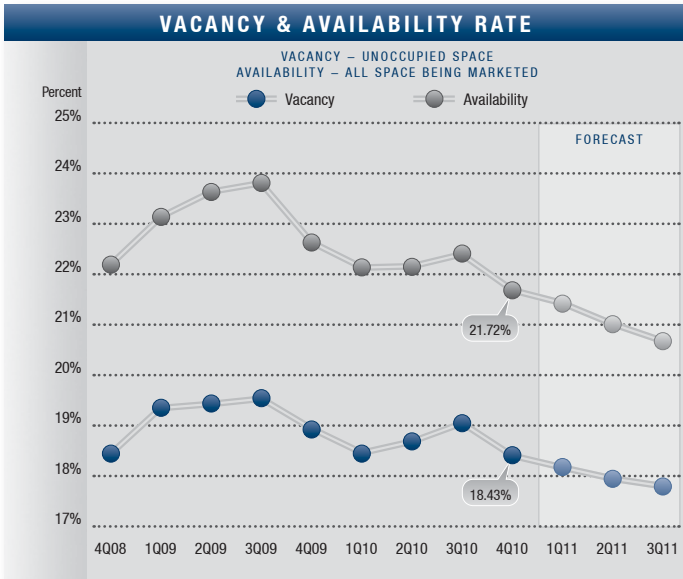
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Market Highlights

- Are we there yet?** - The Inland Empire Office Market displayed more promises of stabilization in the fourth quarter of 2010. Both vacancy and availability descended from the previous quarter, and net absorption posted positive numbers for 2010. 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 coming quarters to be considered recovery.
- Construction** - At the end of the fourth quarter of 2010, total space under construction checked in at 244,636 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 year at 18.43%, a decrease compared to the previous quarter's rate of 19.05% and a decrease from 2009's rate of 18.92%.
- Availability** - Direct/sublease space being marketed was 21.72% for the fourth quarter, down from third quarter's rate of 22.42% and a 4.11% decrease from the 22.21% we saw at the end of 2009.
- Lease Rates** - The average asking Full-Service Gross (FSG) lease rate per month per square foot in the Inland Empire was \$1.80 in the fourth quarter of 2010, which is three cents lower than the third quarter's rate and a 4.76% decrease compared to 2009's fourth quarter rate of \$2.03. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$2.07 FSG. The highest rates were found in the West County submarket, where they averaged \$2.27 FSG.
- Absorption** - Net absorption for the county posted 338,860 square feet of positive absorption for 2010; from the third quarter of 2009 to the fourth quarter of 2010, the office market averaged approximately 175,000 square feet of positive absorption.
- Transaction Activity** - Leasing activity checked in at 1.83 million square feet for 2010, a slight decrease over 2009's total of 1.86 million square feet. Sales activity showed an increase, posting 927,101 square feet of activity in 2010 compared to 2009's 683,045 square feet. Details of the largest transactions from 2010 can be found on the back page of this report.
- Employment** - The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 14.3% in November 2010, up from a revised 14.2% in October 2010 and below the 2009 estimate of 14.3%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. The unemployment rate was 14.6% for Riverside County and 13.9% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA lost 9,400 payroll jobs from November 2009 to November 2010. The largest declines were 5,800 jobs in construction and 5,000 in government. However, six out of eleven nonfarm industries posted year-over-year gains, most noticeably in professional and business services, which were up 1,700 jobs. The LAEDC is forecasting that 12,800 jobs will be added to the Inland Empire in 2011.
- Overall** - In 2010, we saw a decrease in the amount of available space being added to the market. 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 continue 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 continues. If job creation continues and consumer confidence stabilizes, the office market will continue to recover.

OFFICE MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy	18.43%	18.92%	18.47%	(2.59%)
Availability	21.72%	22.65%	22.21%	(4.11%)
Pricing	\$1.80	\$1.89	\$2.03	(4.76%)
Sale & Lease Transactions	2,759,802	2,545,216	3,238,120	8.43%
Gross Absorption	2,800,188	3,862,044	3,185,600	(27.49%)
Net Absorption	338,860	992,755	(197,716)	N/A



RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Class	Square Feet	Price Per SF	Buyer	Seller
399 & 401 E. Highland Avenue	San Bernardino	B	132,746	\$120.42	Nationwide Health Properties, Inc.	Pacific Medical Buildings
2143 & 2151 E. Convention Center Way	Ontario	B	125,301	\$69.83	Prime Hospitality, LLC	Jefferson Pilot Life Insurance
9227 & 9267 Haven Avenue	Rancho Cucamonga	B	78,303	\$73.43	MGR Real Estate	CW Capital Asset Management, LLC
1855 W. Redlands Boulevard – 16 Properties	Redlands	B	103,760	\$51.08	Salagi, Inc.	Cathay Bank
2250 S. Main Street	Corona	A	41,500	\$110.84	Universal Health Services, Inc.	Lincoln National Corporation
1850 N. Riverside Avenue	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
9500 Cleveland Avenue	Rancho Cucamonga	A	72,581	May-10	Southern California Edison	Utah State Retirement Investment Fund
3110 E. Guasti Road – Renewal	Ontario	A	56,709	July-10	University of Pheonix	PCCP, LLC
550 E. Hospitality Lane – Renewal	San Bernardino	A	53,832	May-10	Arrowhead Central Credit Union	Glenborough, LLC
9337 Milliken Avenue	Rancho Cucamonga	B	47,720	Jan-10	CALTROP	Ellen Capital Group, LLC
3990 Conours	Ontario	A	39,737	May-10	N/A	Lord Baltimore Properties
901 Via Piemonte	Ontario	A	24,638	Aug-10	Aecom Technology	PRII Piemonte Ontario CA, LLC

Product Type

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CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



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