

Office Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

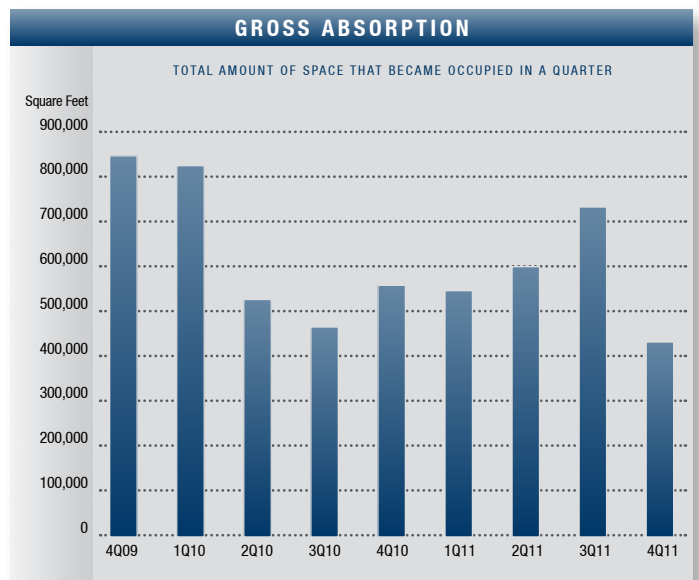
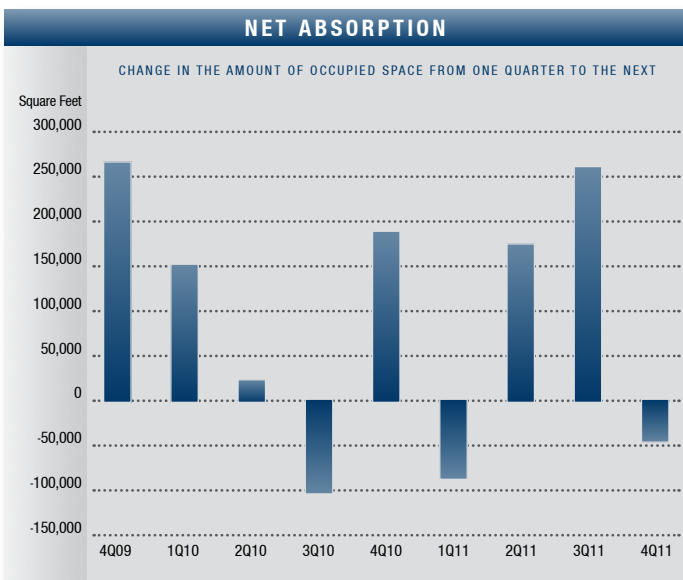
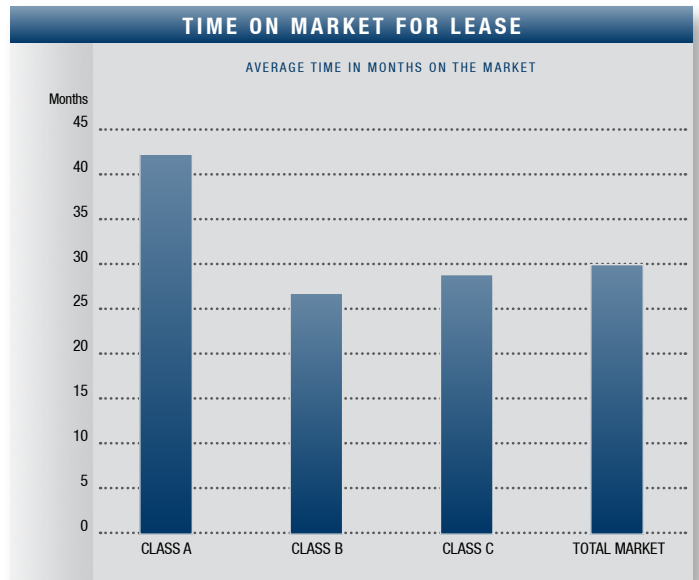
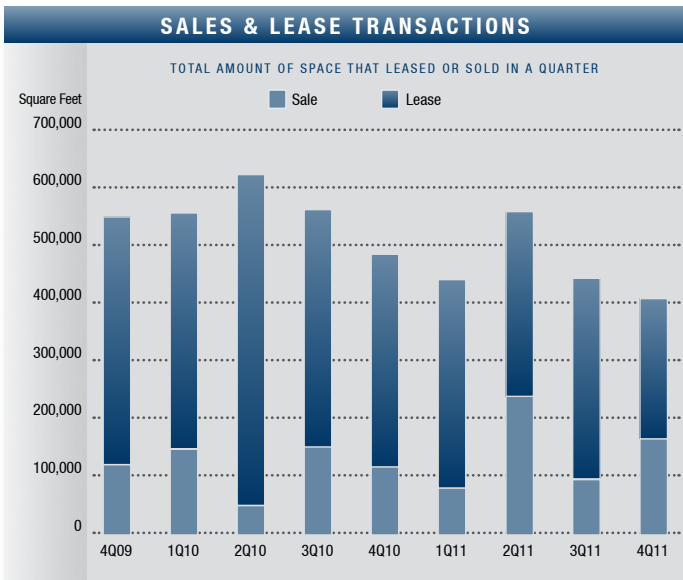
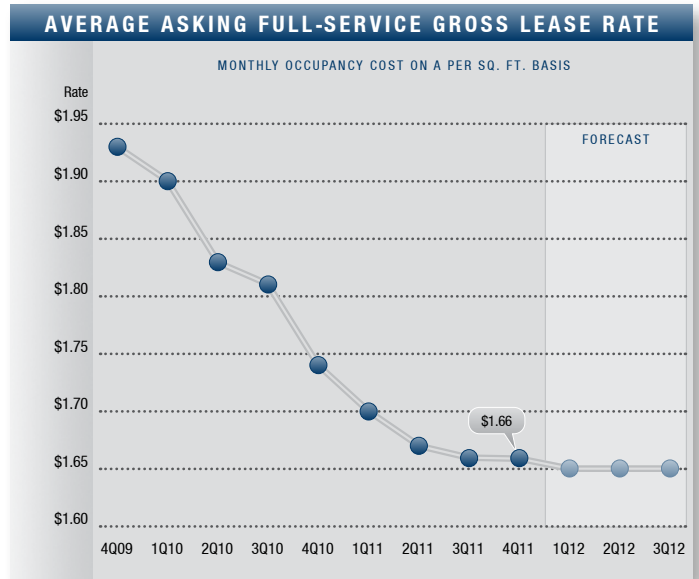
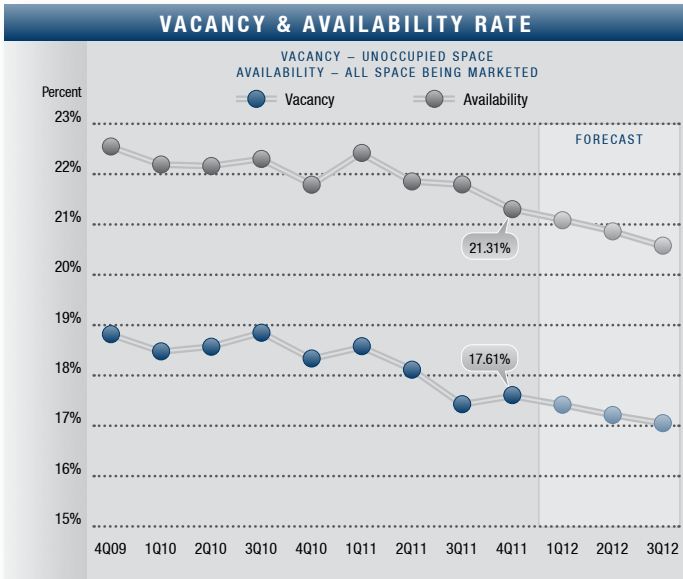
- Encouraging Numbers** - The Inland Empire Office Market conveyed more promises of stabilization at the end of 2011. Availability continued to decrease, and net absorption posted over 300,000 square feet of positive activity for the year. With regard to sales transactions, the ask-bid gap narrowed, 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 2011, total space under construction checked in at 141,133 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 17.61%, a slight increase compared to the previous quarter's rate of 17.44% but, a decrease from the prior year's rate of 18.34%.
- Availability** - Direct/sublease space being marketed was 21.31% for the fourth quarter of 2011, down from the third quarter's rate of 21.78% and a 48-basis-point decrease from the 21.79% we saw in the fourth quarter of 2010.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.66 in the fourth quarter, which is the same as the third quarter and a 14% decrease compared to 2010's fourth quarter rate of \$1.93. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$1.96 FSG. The highest rates were found in the West County submarket, where they averaged \$1.68 FSG.
- Absorption** - The Inland Empire office market posted just over 300,000 square feet of positive net absorption for 2011; from the beginning of 2009 to the end of 2011,

the office market averaged approximately over 100,000 square feet of positive absorption per quarter.

- Transaction Activity** - Leasing activity checked in at just over 1.28 million square feet this year, a decrease from 2010's total of 1.76 million square feet. Sales activity showed an increase in 2011, posting 560,000 square feet of activity for 2011 compared to 2010's 450,000 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 12.5% in November 2011, down from a revised 13.3% in October 2011 and below the year-ago estimate of 14.5%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.2% for the nation during the same period. The unemployment rate was 12.8% for Riverside County and 12.1% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 19,100 payroll jobs from November 2010 to November 2011. The largest gains were 8,500 jobs in trade, transportation and utilities and 3,600 jobs in professional and business services. However, financial activities lost a modest 1,000 jobs. The LAEDC is forecasting that 15,300 new jobs will be added in the Inland Empire in 2012.
- Overall** - We are seeing a decrease in the amount of available space being added to the market. Absorption is trending upward, 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 firm up in the near future, and concessions have begun to stabilize. 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

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	17.61%	18.34%	18.80%	(6.33%)
Availability Rate	21.31%	21.79%	22.56%	(5.54%)
Average Asking Lease Rate	\$1.66	\$1.74	\$1.93	(13.99%)
Sale & Lease Transactions	1,805,489	2,214,082	1,840,239	(1.89%)
Gross Absorption	2,301,392	2,364,215	3,318,360	(30.65%)
Net Absorption	300,566	263,877	736,151	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
West													
Chino/Chino Hills	35	1,014,306	0	325,081	202,061	19.92%	223,173	22.00%	\$2.43	(3,672)	19,512	3,424	45,916
Fontana	35	1,011,230	0	59,000	117,809	11.65%	130,109	12.87%	\$1.20	(114)	(65)	2,620	11,480
Mira Loma	13	271,310	0	0	28,757	10.60%	42,757	15.76%	\$1.60	(2,378)	(14,688)	1,670	15,558
Montclair	106	4,246,419	0	2,025,992	1,082,026	25.48%	1,275,360	30.03%	\$1.72	(14,819)	45,396	89,118	372,150
Ontario	146	4,489,089	0	188,500	834,575	18.59%	1,102,509	24.56%	\$1.62	31,719	132,278	54,187	368,948
Rancho Cucamonga	65	1,443,582	0	0	218,301	15.12%	330,556	22.90%	\$1.23	(4,473)	(61,741)	9,085	49,873
Upland	30	2,599,167	0	2,058,718	783,852	30.16%	814,376	31.33%	\$1.99	16,814	133,354	31,389	266,893
Class A	276	8,002,850	0	539,855	1,469,918	18.37%	2,023,233	25.28%	\$1.53	(19,330)	(23,297)	101,719	488,092
Class B	96	1,873,919	0	0	229,759	12.26%	266,855	14.24%	\$0.96	8,779	10,635	26,996	108,940
Class C	402	12,475,936	0	2,598,573	2,483,529	19.91%	3,104,464	24.88%	\$1.68	6,263	120,692	160,104	863,925
West Total	401	12,420,304	0	2,540,573	2,465,430	19.85%	3,052,618	24.58%	\$1.71	137,737	106,840	257,376	700,969
East													
Banning	4	140,943	0	170,318	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	162,918	0	0	0	0.00%	1,450	0.89%	\$0.00	0	27,550	0	29,100
Bloomington	0	0	0	0	0	0	0	0	\$0.00	0	0	0	0
Corona/Norco	91	2,991,528	0	133,465	850,009	28.41%	968,059	32.36%	\$1.44	24,760	37,167	80,350	368,395
Colton/Grand Terrace	47	1,045,203	0	20,000	165,433	15.83%	194,781	18.64%	\$1.31	(3,707)	(26,424)	8,495	37,289
Moreno Valley	36	1,128,753	0	332,727	37,068	3.28%	57,880	5.13%	\$0.00	1,400	9,242	1,400	13,296
Perris	10	207,088	0	0	5,288	2.55%	5,288	2.55%	\$0.00	0	(3,180)	0	1,100
Redlands/Loma Linda	89	2,792,383	0	0	388,984	13.93%	445,617	15.96%	\$1.40	17,341	(1,283)	34,676	108,984
Rialto	9	248,529	0	0	31,324	12.60%	44,624	17.96%	\$1.58	6,632	(1,646)	6,632	8,472
Riverside	307	9,603,689	141,133	563,000	1,462,542	15.23%	1,663,168	17.32%	\$1.84	23,415	203,459	102,941	537,968
San Bernardino/Highland	209	7,782,151	0	12,234	1,368,620	17.59%	1,733,968	22.28%	\$1.47	(123,250)	(65,011)	35,993	332,863
Class A	40	4,062,311	141,133	63,965	838,772	20.65%	814,493	20.05%	\$1.92	31,186	89,505	32,660	159,368
Class B	495	15,359,021	0	1,167,779	2,765,340	18.00%	3,353,858	21.84%	\$1.57	(40,133)	60,471	198,179	928,407
Class C	271	6,681,853	0	0	705,156	10.55%	946,484	14.16%	\$1.16	(44,462)	29,898	39,648	349,692
East Total	806	26,103,185	141,133	1,231,744	4,309,268	16.51%	5,114,835	19.59%	\$1.61	(53,409)	179,874	270,487	1,437,467
Inland Empire Total	1,208	38,579,121	141,133	3,830,317	6,792,797	17.61%	8,219,299	21.31%	\$1.66	(47,146)	300,566	430,591	2,301,392

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	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
Inland Empire													
Class A	70	6,661,478	141,133	2,122,683	1,622,624	24.36%	1,628,869	24.45%	\$1.96	48,000	222,859	64,049	426,261
Class B	771	23,361,871	0	1,707,634	4,235,258	18.13%	5,377,091	23.02%	\$1.55	(59,463)	37,174	299,898	1,416,499
Class C	367	8,555,772	0	0	934,915	10.93%	1,213,339	14.18%	\$1.10	(35,683)	40,533	66,644	458,632
Inland Empire Total	1,208	38,579,121	141,133	3,830,317	6,792,797	17.61%	8,219,299	21.31%	\$1.66	(47,146)	300,566	430,591	2,301,392
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	30	515,599	49,637	14,000	28,596	5.55%	34,847	6.76%	\$1.25	23,505	12,923	24,405	35,042
Barstow	13	223,977	0	1,000	31,061	13.87%	50,061	22.35%	\$0.00	(9,482)	(19,631)	0	1,100
Hesperia	27	571,159	0	174,832	13,532	2.37%	42,895	7.51%	\$2.00	(9,539)	1,762	0	15,861
Victorville	87	1,685,631	0	352,000	153,183	9.09%	218,518	12.96%	\$1.76	4,889	4,817	17,335	53,924
High Desert Total	160	3,061,897	49,637	541,832	226,372	7.39%	346,321	11.31%	\$1.74	9,373	(129)	41,740	105,927
Temecula Valley													
Hemet	43	814,022	0	87,807	85,938	10.56%	97,835	12.02%	\$0.00	(19,647)	(21,086)	1,775	5,192
Lake Elsinore	12	272,399	0	0	61,373	22.53%	70,937	26.04%	\$0.00	1,706	15,053	9,564	36,810
Murrieta	51	1,459,247	0	475,891	307,879	21.10%	329,456	22.58%	\$1.18	8,387	38,692	30,180	102,654
San Jacinto	5	146,867	0	0	37,490	25.53%	37,490	25.53%	\$0.00	0	0	0	0
Temecula	100	2,522,947	0	113,987	478,964	18.98%	543,686	21.55%	\$1.43	48,471	40,884	66,548	194,627
Wildomar	8	282,830	0	44,000	42,281	14.95%	54,281	19.19%	\$0.00	0	(3,244)	0	7,218
Temecula Valley Total	219	5,498,312	0	721,685	1,007,925	18.33%	1,133,685	20.62%	\$1.38	38,917	70,299	108,067	346,501

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.

LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price PSF	Buyer	Seller
4204 Riverwalk Pkwy. – 2 Properties	Riverside	A	290,472	\$53.71	Davenport Partners	CotNet Management, Inc.
10700 Jersey Blvd. – 7 Properties	Rancho Cucamonga	B	107,084	\$71.36	Rexford Industrial	James T. Rountree
800 N. Haven Ave.	Ontario	B	80,406	\$115.04	TA Associates	Regent Properties, Inc.
4740 Green River Rd.	Corona	B	63,543	\$110.16	Newcastle Partners, Inc.	SA California Group, Inc.
2250 S. Riverside Ave. – 2 Properties	Colton	A	47,917	\$383.84	Dexus Property Group	US Xpress Enterprises, Inc.

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
268 Hospitality Ln.	San Bernardino	A	26,323	11-Sep	Loma Linda Billing	Hall Equities Group
860 E. Brier St.	San Bernardino	C	25,514	11-Jan	San Bernardino Cnty.-Transitional Assistance	Nmsbpcslhdb
4204 Riverwalk Pkwy.	Riverside	A	25,000	11-Nov	N/A	Davenport Partners
550 E. Hospitality Ln.	San Bernardino	A	24,268	11-Feb	IEHP	Rancon Real Estate
6465 Sycamore Canyon Blvd.	Riverside	B	23,180	11-Aug	Platt College	The Magnon Companies

Product Type

CLASS A

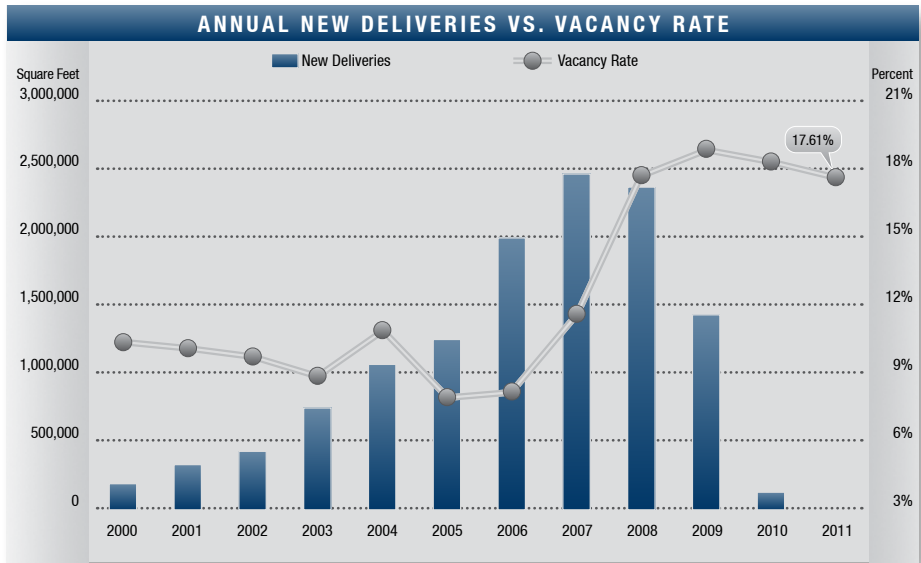
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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