

Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

DOWN

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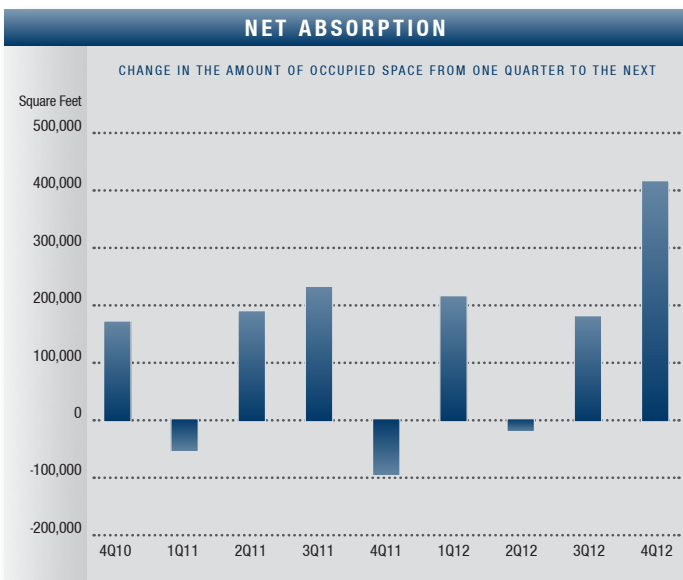
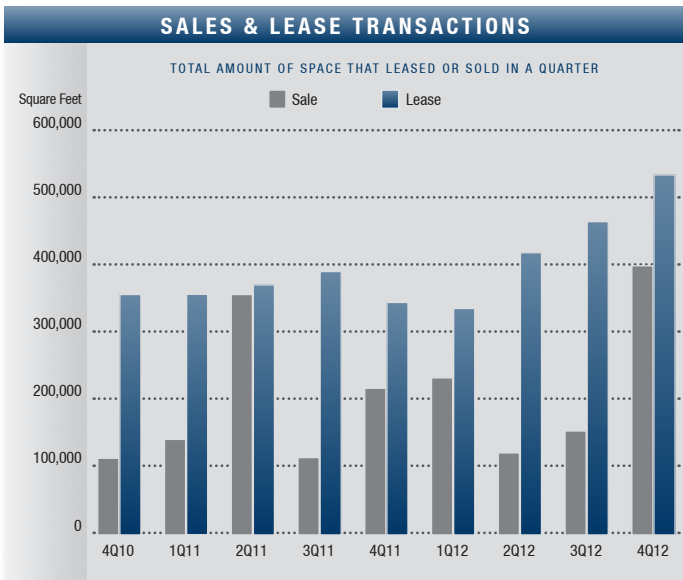
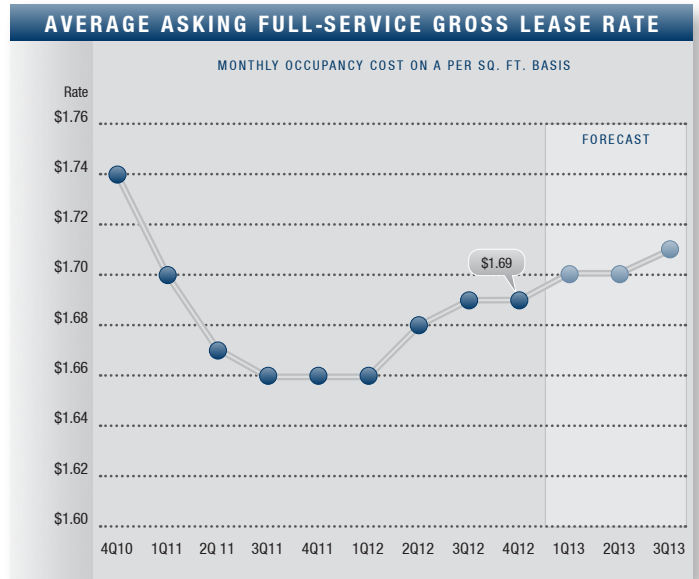
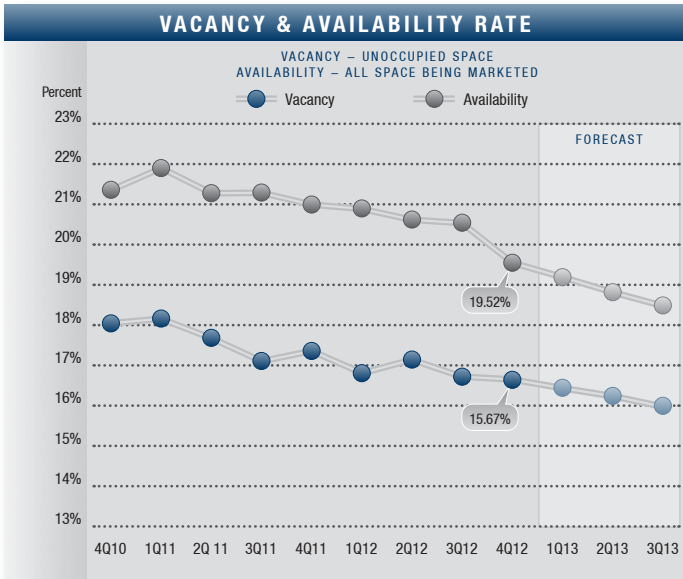


Market Highlights

- Encouraging Numbers** - The Inland Empire office market conveyed more promise of stabilization at the close of 2012. Both vacancy and availability continued to improve, and net absorption posted almost 800,000 square feet of positive activity for 2012, the most positive absorption we've seen in over five years. Asking lease rates increased in 2012 — the first time since the recession began — suggesting that they may have finally reached bottom and will continue trending upward. 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 157,484 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 15.67%, a decrease compared to the previous quarter's rate of 16.74% and the prior year's rate of 17.36%.
- Availability** - Direct/sublease space being marketed was 19.52% in the fourth quarter of 2012, down from 2012's third quarter rate of 20.53% and a 148-basis-point decrease from the 21% we saw in the fourth quarter of 2011.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Inland Empire office market was \$1.69 at the end of 2012, no change from the previous quarter and three cents higher than 2011's fourth quarter rate. This marks the first annual increase in average asking lease rates in the Inland Empire office market since the beginning of the recession and we are forecasting that the rate will continue to rise in 2013 by 1.5%. The record high rate of \$2.10 was established in the first quarter of 2008. Class A rates for the county averaged \$2.05 FSG. The highest rates were found in the East County submarket, where they averaged \$1.71 FSG.
- Absorption** - The Inland Empire office market posted 419,626 square feet of positive net absorption for the fourth quarter of 2012; from the beginning of the third quarter 2009 to the end of the fourth quarter of 2012, the office market averaged approximately 125,000 square feet of positive absorption per quarter.
- Transaction Activity** - Leasing activity checked in at just over 1.75 million square feet in 2012, an increase from 2011's total of 1.4 million square feet. Sales activity showed an increase in 2012 as well, posting 900,000 square feet of activity compared to 2011's 823,000 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 11.3% in November 2012, down from a revised 11.7% in October 2012 and below the year-ago estimate of 12.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. The unemployment rate was 11.5% for Riverside County and 11.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 11,000 payroll jobs from November 2011 to November 2012. The largest gains were 4,800 jobs in professional and business services and 4,300 jobs in trade, transportation, and utilities. However, the only sector to lose any jobs was government, down 2,000 jobs.
- 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 firm up, with the possibility of further increases in 2013. 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

| | 2012 | 2011 | 2010 | % of Change vs. 2011 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Vacancy Rate | 15.67% | 17.36% | 18.01% | (9.74%) |
| Availability Rate | 19.52% | 21.00% | 21.37% | (7.05%) |
| Average Asking Lease Rate | \$1.69 | \$1.66 | \$1.74 | 1.81% |
| Sale & Lease Transactions | 2,645,974 | 2,275,212 | 2,342,623 | 16.30% |
| Gross Absorption | 2,653,919 | 2,305,764 | 2,293,615 | 15.10% |
| Net Absorption | 793,675 | 266,700 | 172,080 | 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 4Q2012 | Square Feet Available | Availability Rate 4Q2012 | Average Asking Lease Rate | Net Absorption 4Q2012 | Net Absorption 2012 | Gross Absorption 4Q2012 | Gross Absorption 2012 |
| West | | | | | | | | | | | | | |
| Chino/Chino Hills | 36 | 1,142,238 | 0 | 142,181 | 140,214 | 12.28% | 213,417 | 18.68% | \$2.08 | 2,973 | 61,372 | 15,220 | 83,426 |
| Fontana | 38 | 2,389,860 | 0 | 40,000 | 123,445 | 5.17% | 138,377 | 5.79% | \$1.14 | 13,557 | 2,699 | 18,095 | 32,934 |
| Montclair | 13 | 267,563 | 0 | 0 | 19,741 | 7.38% | 19,741 | 7.38% | \$0.00 | 2,389 | 9,016 | 4,726 | 15,509 |
| Ontario | 109 | 4,258,128 | 98,898 | 1,439,657 | 966,041 | 22.69% | 1,214,384 | 28.52% | \$1.77 | 15,765 | 86,297 | 102,708 | 330,540 |
| Rancho Cucamonga | 139 | 4,303,648 | 0 | 127,930 | 713,512 | 16.58% | 858,815 | 19.96% | \$1.64 | 209,237 | 105,032 | 348,019 | 511,069 |
| Upland | 66 | 1,471,225 | 0 | 0 | 201,180 | 13.67% | 335,951 | 22.83% | \$1.42 | 8,096 | 17,121 | 24,614 | 64,348 |
| Class A | 25 | 2,264,902 | 0 | 1,255,451 | 586,078 | 25.88% | 608,635 | 26.87% | \$1.95 | 14,528 | 34,737 | 62,019 | 166,842 |
| Class B | 277 | 9,625,159 | 98,898 | 494,317 | 1,362,707 | 14.16% | 1,908,721 | 19.83% | \$1.62 | 228,884 | 246,026 | 424,455 | 791,561 |
| Class C | 99 | 1,942,601 | 0 | 0 | 215,348 | 11.09% | 263,329 | 13.56% | \$1.07 | 8,605 | 774 | 26,908 | 79,423 |
| West Total | 401 | 13,832,662 | 98,898 | 1,749,768 | 2,164,133 | 15.65% | 2,780,685 | 20.10% | \$1.70 | 252,017 | 281,537 | 513,382 | 1,037,826 |
| East | | | | | | | | | | | | | |
| Banning | 5 | 156,766 | 25,000 | 145,318 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 15,823 | 0 | 15,823 |
| Beaumont | 3 | 77,918 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 900 |
| Corona/Norco | 92 | 3,039,981 | 10,200 | 245,610 | 751,992 | 24.74% | 830,157 | 27.31% | \$1.74 | 2,686 | 103,084 | 53,036 | 412,364 |
| Colton/Grand Terrace | 48 | 1,034,724 | 0 | 20,000 | 190,101 | 18.37% | 270,540 | 26.15% | \$1.17 | (25,516) | (24,668) | 13,337 | 48,554 |
| Moreno Valley | 39 | 1,078,643 | 0 | 209,675 | 42,393 | 3.93% | 72,532 | 6.72% | \$0.00 | 49 | (2,069) | 1,429 | 20,428 |
| Perris | 9 | 197,088 | 0 | 0 | 5,288 | 2.68% | 17,044 | 8.65% | \$0.00 | 0 | 0 | 1,571 | 1,571 |
| Redlands/Loma Linda | 89 | 2,337,328 | 0 | 97,818 | 343,388 | 14.69% | 380,893 | 16.30% | \$1.46 | (1,579) | 30,253 | 49,789 | 135,674 |
| Rialto | 9 | 248,529 | 0 | 0 | 37,361 | 15.03% | 52,471 | 21.11% | \$1.45 | 0 | (6,037) | 0 | 963 |
| Riverside | 305 | 9,490,158 | 23,386 | 583,000 | 1,369,092 | 14.43% | 1,571,058 | 16.55% | \$2.07 | 159,465 | 228,009 | 286,754 | 626,251 |
| San Bernardino/Highland | 204 | 7,745,522 | 0 | 12,234 | 1,244,502 | 16.07% | 1,682,876 | 21.73% | \$1.50 | 32,504 | 167,743 | 70,237 | 353,565 |
| Class A | 37 | 3,925,921 | 0 | 329,820 | 634,734 | 16.17% | 680,861 | 17.34% | \$2.19 | 217,155 | 294,099 | 240,964 | 458,099 |
| Class B | 498 | 14,888,987 | 58,586 | 983,835 | 2,641,871 | 17.74% | 3,269,737 | 21.96% | \$1.60 | (52,286) | 221,534 | 164,347 | 913,112 |
| Class C | 268 | 6,591,749 | 0 | 0 | 707,512 | 10.73% | 926,973 | 14.06% | \$1.13 | 2,740 | (3,495) | 70,842 | 244,882 |
| East Total | 803 | 25,406,657 | 58,586 | 1,313,655 | 3,984,117 | 15.68% | 4,877,571 | 19.20% | \$1.71 | 167,609 | 512,138 | 476,153 | 1,616,093 |
| Inland Empire Total | 1,204 | 39,239,319 | 157,484 | 3,063,423 | 6,148,250 | 15.67% | 7,658,256 | 19.52% | \$1.69 | 419,626 | 793,675 | 989,535 | 2,653,919 |
| Inland Empire | | | | | | | | | | | | | |
| Class A | 62 | 6,190,823 | 0 | 1,585,271 | 1,220,812 | 19.72% | 1,289,496 | 20.83% | \$2.05 | 231,683 | 328,836 | 302,983 | 624,941 |
| Class B | 775 | 24,514,146 | 157,484 | 1,478,152 | 4,004,578 | 16.34% | 5,178,458 | 21.12% | \$1.61 | 176,598 | 467,560 | 588,802 | 1,704,673 |
| Class C | 367 | 8,534,350 | 0 | 0 | 922,860 | 10.81% | 1,190,302 | 13.95% | \$1.08 | 11,345 | (2,721) | 97,750 | 324,305 |
| Inland Empire Total | 1,204 | 39,239,319 | 157,484 | 3,063,423 | 6,148,250 | 15.67% | 7,658,256 | 19.52% | \$1.69 | 419,626 | 793,675 | 989,535 | 2,653,919 |
| High Desert | | | | | | | | | | | | | |
| Adelanto | 3 | 65,531 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| Apple Valley | 29 | 513,789 | 0 | 42,060 | 29,096 | 5.66% | 34,103 | 6.64% | \$0.00 | (81) | (2,832) | 0 | 7,835 |
| Barstow | 13 | 208,404 | 0 | 0 | 17,851 | 8.57% | 36,636 | 17.58% | \$0.00 | 11,197 | 13,210 | 12,597 | 14,610 |
| Hesperia | 29 | 595,200 | 0 | 76,516 | 14,270 | 2.40% | 26,349 | 4.43% | \$0.00 | 6,293 | (738) | 10,725 | 16,258 |
| Victorville | 87 | 1,647,589 | 0 | 292,000 | 129,236 | 7.84% | 150,390 | 9.13% | \$1.62 | 10,466 | 1,239 | 26,101 | 96,161 |
| High Desert Total | 161 | 3,030,513 | 0 | 410,576 | 190,453 | 6.28% | 247,478 | 8.17% | \$1.62 | 27,875 | 10,879 | 49,423 | 134,864 |
| Temecula Valley | | | | | | | | | | | | | |
| Hemet | 44 | 838,289 | 0 | 24,511 | 76,079 | 9.08% | 123,534 | 14.74% | \$0.00 | 11,375 | 11,759 | 11,375 | 33,867 |
| Lake Elsinore | 12 | 272,399 | 0 | 0 | 66,231 | 24.31% | 57,507 | 21.11% | \$0.00 | (10,855) | (4,858) | 9 | 9,983 |
| Murrieta | 51 | 1,519,850 | 0 | 571,779 | 272,245 | 17.91% | 289,251 | 19.03% | \$1.43 | 3,932 | 102,565 | 18,598 | 159,122 |
| San Jacinto | 5 | 150,227 | 0 | 0 | 41,051 | 27.33% | 41,051 | 27.33% | \$0.00 | 0 | (3,561) | 0 | 0 |
| Temecula | 109 | 2,715,217 | 370,735 | 49,670 | 408,329 | 15.04% | 508,976 | 18.75% | \$1.29 | 19,265 | 76,938 | 61,174 | 283,107 |
| Wildomar | 7 | 270,830 | 0 | 44,000 | 41,802 | 15.43% | 41,802 | 15.43% | \$0.00 | 2,338 | 479 | 4,603 | 10,679 |
| Temecula Valley Total | 228 | 5,766,812 | 370,735 | 689,960 | 905,737 | 15.71% | 1,062,121 | 18.42% | \$1.31 | 26,055 | 183,322 | 95,759 | 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 |
|-----------------------------------|------------------|-------|-------------|--------------|--|--|
| 3210 E. Guasti Rd. – 3 Properties | Ontario | A | 305,520 | \$34,000,000 | Walton Street Capital, LLC & Greenlaw Partners | Gramercy Capital Corporation |
| 2390 Anselmo Dr. – 3 Properties | Corona | A-B | 282,760 | \$24,000,000 | The KPC Group | Real Estate Receiverships |
| 14350 Meridian Pkwy. | Riverside | A | 150,000 | \$17,400,000 | Regents of the University of California | KDC Real Estate Dev. & Investments |
| 9680 Haven Ave. | Rancho Cucamonga | B | 75,000 | \$10,600,000 | Buchanan Street Partners | Thackeray Partners |
| 2455 Anselmo Dr. | Corona | B | 73,200 | \$8,195,000 | Monster Beverage Corporation | Latham Management & Consulting Service, Inc. |
| 14305 Meridian Pkwy. | Riverside | B | 56,336 | \$4,758,000 | Kaiser Permanente | Silagi Development & Management |

Lease Transactions

| Property Address | City | Class | Square Feet | Transaction Date | Tenant | Owner |
|----------------------------------|------------------|-------|-------------|------------------|--------------------------------------|----------------------------|
| 10801 6th St. | Rancho Cucamonga | B | 207,307 | Oct-12 | Inland Empire Health Plan | Argus Realty Investors, LP |
| 995 E. Hardt St. | San Bernardino | B | 39,024 | Jul-12 | GSA | Granum Partners |
| 2300 Market St. | Riverside | A | 33,393 | May-12 | N/A | The Muller Company |
| 1615 Orange Tree Ln. | Redlands | B | 21,781 | Aug-12 | Epic Management, LP | Carrat, LLC |
| 4210 Riverwalk Pkwy. | Riverside | A | 19,318 | Dec-12 | N/A | Turner Cottonwood, LLC |
| 650 E. Hospitality Ln. – Renewal | San Bernardino | A | 19,080 | Aug-12 | Lewis Brisbois Bisgaard & Smith, LLP | Rancon Real Estate |
| 337 N. Vineyard Ave. | Ontario | B | 14,500 | Apr-12 | N/A | B.H. Real Estate, LLC |

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.

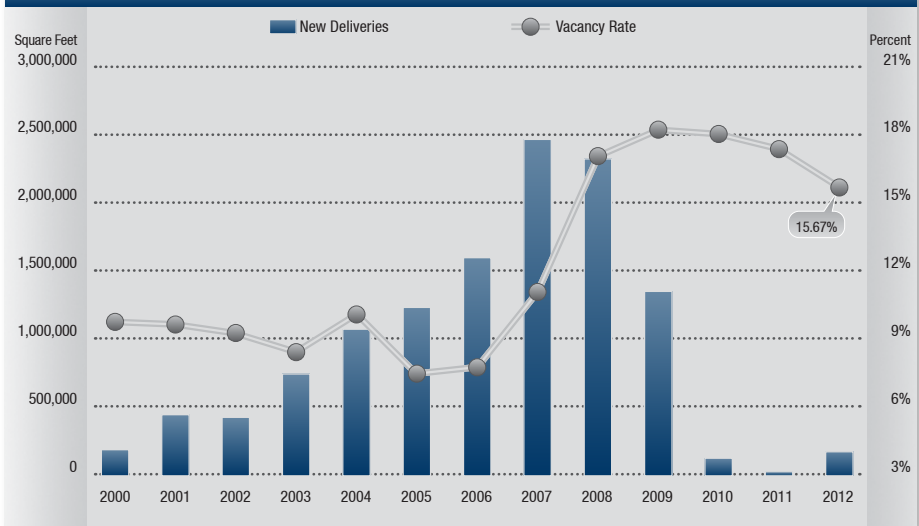
CLASS B

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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