



MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

UP



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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 2014. Both vacancy and availability displayed drops compared to the previous year. Net absorption posted over 575,000 square feet of positive absorption during the year. 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 322,410 square feet under construction in the Inland Empire at the end of the fourth quarter of 2014, which was located in Banning and Corona. 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 fourth quarter of 2014 at 13.43%, a decrease of 48 basis points when compared to the previous quarter, and a 7.57% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 16.80% at the end of the year, down from 2013's fourth quarter rate of 17.83% and a 40 basis point decrease from the 17.20% we saw at the end of the third quarter of 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.74 in the fourth quarter of 2014, unchanged 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 \$2.08 FSG. Geographically, the highest rates were found in the East County submarket, where they averaged \$1.74 FSG.
- **Absorption** - The Inland Empire office market posted 576,457 square feet of positive net absorption for 2014. From the second quarter of 2011 to the end of the third quarter

of 2014, the office market has posted just over 2.2 million square feet of positive absorption.

- **Transaction Activity** - Leasing activity checked in at just over 251,000 square feet in the fourth quarter of the year, a decrease from 2013's fourth quarter total of 513,000 square feet. Sales activity showed a decrease in the fourth quarter of 2014, posting 508,000 square feet of activity compared to 2013's fourth quarter total of 902,000 square feet. This statistic can have some lag time in being reported, so look for fourth 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 8.0% in November 2014, down from a revised 8.1% in October 2014 and below the year-ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. The unemployment rate was 8.2% for Riverside County and 7.7% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 27,500 payroll jobs from November 2013 to November 2014. The largest gains were 9,300 jobs in professional and business services and 9,100 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 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

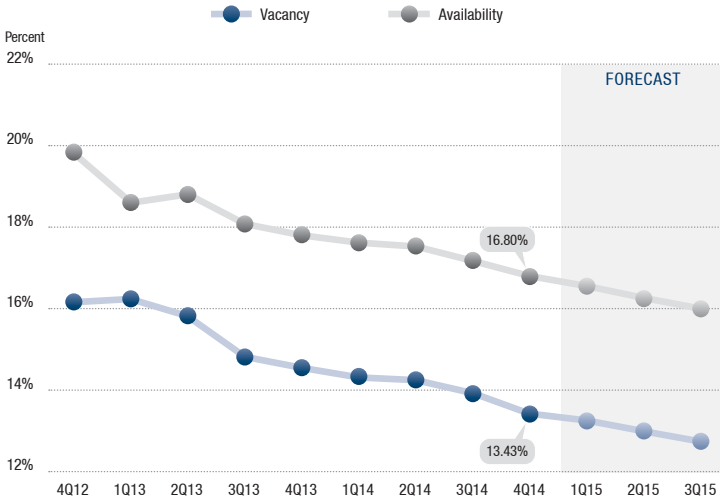
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking 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 65 basis points, to around 12.75%, by the end of the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	13.43%	14.53%	16.18%	(7.57%)
Availability Rate	16.80%	17.83%	19.81%	(5.78%)
Average Asking Lease Rate	\$1.74	\$1.74	\$1.69	0.00%
Sale & Lease Transactions	3,954,242	4,777,946	3,756,568	(17.24%)
Gross Absorption	2,117,343	2,666,406	2,683,124	(20.59%)
Net Absorption	576,457	733,050	609,376	N/A

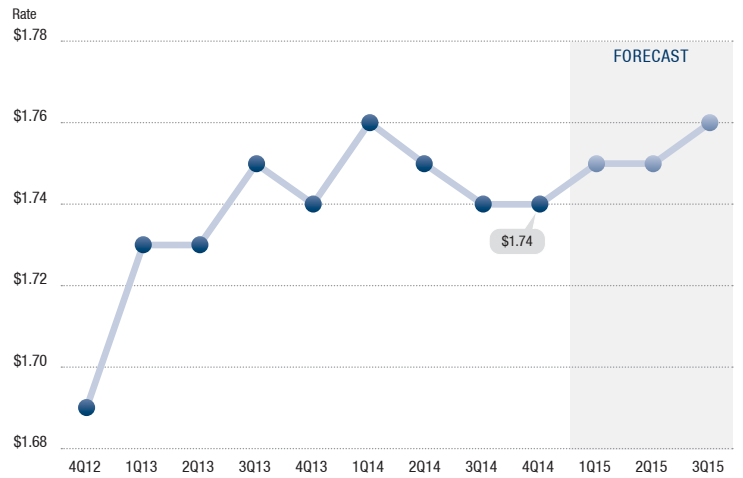
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



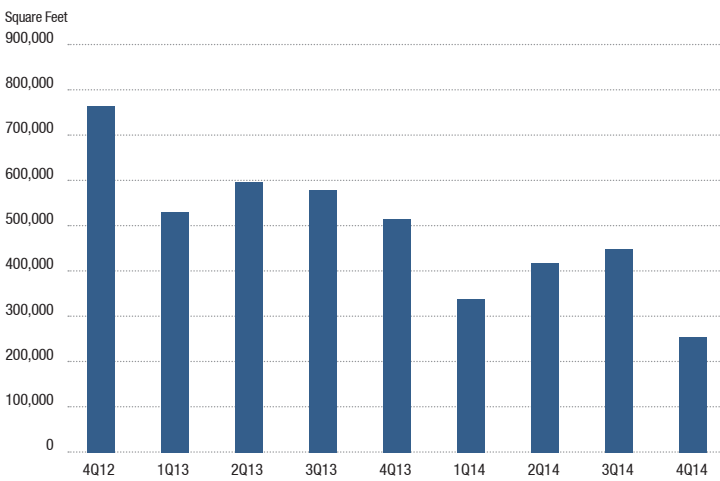
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



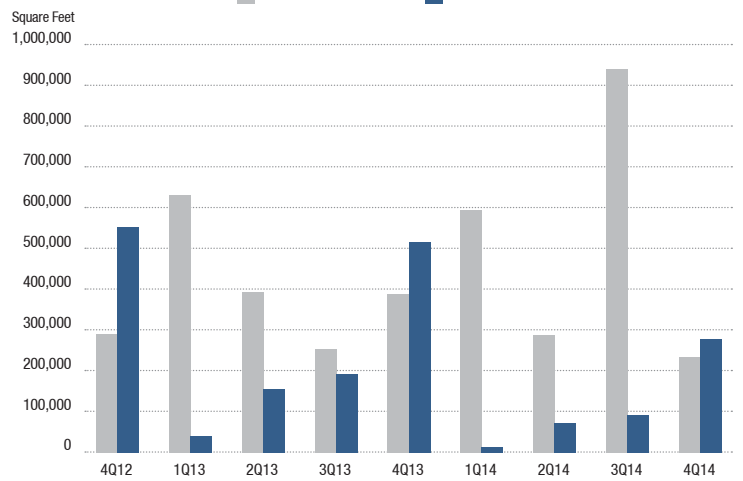
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



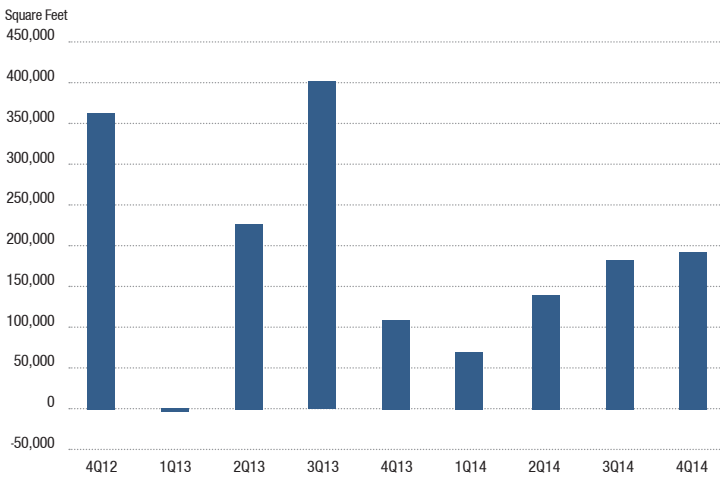
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



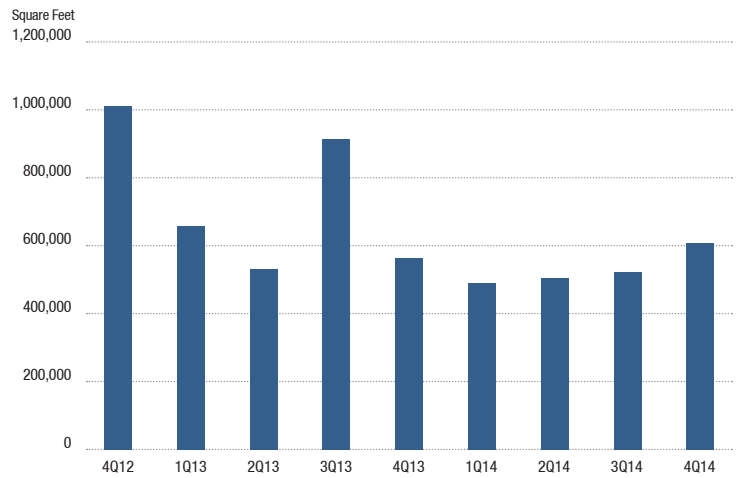
NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
West													
Chino/Chino Hills	38	1,178,105	0	142,181	98,037	8.32%	133,513	11.33%	\$2.19	1,113	45,103	3,924	71,311
Fontana	36	2,381,347	0	58,500	113,030	4.75%	121,538	5.10%	\$0.97	0	(26,689)	0	2,073
Montclair	12	224,763	0	0	15,721	6.99%	23,164	10.31%	\$1.10	1,015	5,823	1,015	12,317
Ontario	110	4,329,015	0	1,436,740	675,467	15.60%	797,469	18.42%	\$1.74	156,657	319,518	196,096	520,937
Rancho Cucamonga	141	4,369,060	0	127,930	510,417	11.68%	658,438	15.07%	\$1.79	30,756	45,977	121,999	314,287
Upland	71	1,540,305	0	0	217,068	14.09%	271,191	17.61%	\$1.42	(10,313)	(15,492)	31,317	82,464
Class A	27	2,358,218	0	1,255,451	289,753	12.29%	442,182	18.75%	\$1.93	115,094	231,566	146,934	358,823
Class B	282	9,715,916	0	509,900	1,091,529	11.23%	1,267,843	13.05%	\$1.64	93,272	228,577	194,001	596,566
Class C	99	1,948,461	0	0	248,458	12.75%	295,288	15.15%	\$1.05	(29,138)	(85,903)	13,416	48,000
West Total	408	14,022,595	0	1,765,351	1,629,740	11.62%	2,005,313	14.30%	\$1.73	179,228	374,240	354,351	1,003,389
East													
Banning	5	90,461	108,510	85,283	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Beaumont	4	168,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	95	3,159,424	213,900	280,325	488,219	15.45%	630,897	19.97%	\$1.76	20,737	32,155	69,076	258,731
Colton/Grand Terrace	49	1,058,787	0	20,000	230,764	21.80%	284,302	26.85%	\$0.98	(32,931)	(20,802)	4,916	73,974
Moreno Valley	37	943,603	0	115,219	27,241	2.89%	47,443	5.03%	\$0.00	(11,992)	(5,900)	1,568	10,817
Perris	9	215,508	0	15,000	1,609	0.75%	3,462	1.61%	\$0.00	1,162	51,162	1,162	51,162
Redlands/Loma Linda	89	2,310,044	0	0	360,031	15.59%	423,743	18.34%	\$1.61	(12,076)	(19,566)	23,282	107,534
Rialto	9	268,708	0	0	45,503	16.93%	45,503	16.93%	\$1.40	0	(5,900)	0	1,810
Riverside	308	9,451,516	0	709,081	1,200,519	12.70%	1,655,129	17.51%	\$2.05	21,655	111,952	87,330	397,441
San Bernardino/Highland	206	7,790,580	0	0	1,318,443	16.92%	1,535,668	19.71%	\$1.55	25,513	59,116	61,558	212,485
Class A	39	4,153,244	66,510	321,403	544,716	13.12%	657,650	15.83%	\$2.20	45,986	100,182	60,876	188,439
Class B	509	15,155,850	255,900	903,505	2,388,746	15.76%	3,044,308	20.09%	\$1.61	7,516	158,980	144,496	715,731
Class C	263	6,148,455	0	0	738,867	12.02%	924,189	15.03%	\$1.16	(41,434)	(56,945)	43,520	209,784
East Total	811	25,457,549	322,410	1,224,908	3,672,329	14.43%	4,626,147	18.17%	\$1.74	12,068	202,217	248,892	1,113,954
Inland Empire Total	1,219	39,480,144	322,410	2,990,259	5,302,069	13.43%	6,631,460	16.80%	\$1.74	191,296	576,457	603,243	2,117,343
Inland Empire													
Class A	66	6,511,462	66,510	1,576,854	834,469	12.82%	1,099,832	16.89%	\$2.08	161,080	331,748	207,810	547,262
Class B	791	24,871,766	255,900	1,413,405	3,480,275	13.99%	4,312,151	17.34%	\$1.62	100,788	387,557	338,497	1,312,297
Class C	362	8,096,916	0	0	987,325	12.19%	1,219,477	15.06%	\$1.12	(70,572)	(142,848)	56,936	257,784
Inland Empire Total	1,219	39,480,144	322,410	2,990,259	5,302,069	13.43%	6,631,460	16.80%	\$1.74	191,296	576,457	603,243	2,117,343
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%	31,693	5.32%	\$0.00	0	(1,958)	0	15,276
Barstow	13	210,048	0	0	35,399	16.85%	41,899	19.95%	\$0.00	0	0	0	521
Hesperia	23	520,792	0	76,516	8,689	1.67%	5,257	1.01%	\$0.00	0	4,291	4,324	13,671
Victorville	85	1,669,315	0	68,000	138,468	8.29%	191,168	11.45%	\$1.95	(1,234)	(12,130)	9,489	46,299
High Desert Total	155	3,061,510	0	186,576	209,057	6.83%	270,017	8.82%	\$1.95	(1,234)	(9,797)	13,813	75,767
Temecula Valley													
Hemet	44	840,104	0	12,000	91,510	10.89%	135,659	16.15%	\$0.00	0	(4,356)	0	11,205
Lake Elsinore	13	287,246	0	0	60,103	20.92%	86,768	30.21%	\$0.95	(11,712)	(9,418)	3,055	9,428
Menifee	9	317,837	0	133,000	4,644	1.46%	4,644	1.46%	\$1.00	2,695	6,518	3,995	12,162
Murrieta	52	1,531,997	0	569,164	185,322	12.10%	203,261	13.27%	\$2.41	27,219	66,844	35,279	144,349
San Jacinto	4	94,954	0	0	2,827	2.98%	2,827	2.98%	\$0.00	1,211	38,701	1,211	38,701
Temecula	113	2,905,235	48,029	120,125	420,853	14.49%	452,489	15.57%	\$1.46	(722)	114,827	61,329	339,483
Wildomar	7	272,783	0	102,000	33,964	12.45%	40,481	14.84%	\$0.00	(1,114)	2,547	5,479	11,828
Temecula Valley Total	242	6,250,156	48,029	936,289	799,223	12.79%	926,129	14.82%	\$1.45	17,577	215,663	110,348	567,156

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 OF 2014

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price	Buyer	Seller
1251 Research Dr. – 12 Properties	Redlands	B	403,113	Undisclosed	Stockbridge Redlands Corporate Center, LLC	MSWP Redlands, LLC
27555 Ynez Rd. – 6 Properties	Temecula	B	191,523	Undisclosed	Heritage Partners Temecula Properties, LLC	Garrett Real Estate Services
3210 E. Guasti Rd.	Ontario	A	144,931	\$179.40	Golden Gate Baptist Theological	Walton / Greenlaw Ontario Office B, LLC
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.

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. Ministries	Denley Investment & Management Co.
10760 4th St.	Rancho Cucamonga	B	41,555	Sep-14	Undisclosed	Ominet Capital
4210 Riverwalk Pky.	Riverside	C	40,353	Apr-14	County of Riverside Dept. of Public Health	Davenport Partners, LLC
6465 Sycamore Canyon Blvd.	Riverside	B	23,180	Aug-14	Riverside Ballet Arts & Brava	The Magnon Companies
1060 E. Washington St.	Colton	B	20,775	May-14	California Preparatory College	Las Palomas Associates

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.

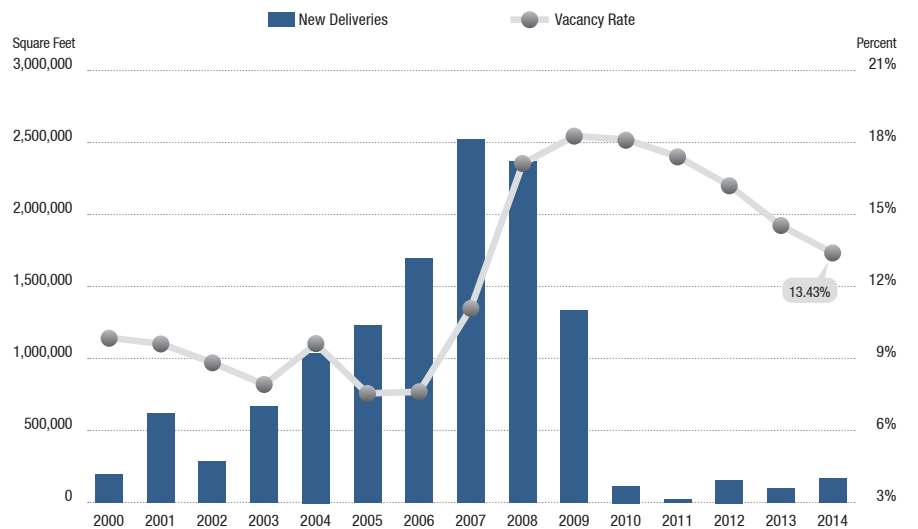
CLASS B

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

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Las Vegas, NV
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