



MARKET CHANGE

Compared to Previous Year:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

DOWN



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VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Inland Empire office market continued improving during 2015. Both vacancy and availability dropped compared to the fourth quarter of the previous year, and net absorption was positive for 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** - Both for the year and the fourth quarter in particular, there was 186,636 square feet under construction in the Inland Empire, with Class B space in the San Bernardino submarket being 80 percent of it. Three buildings totaling 92,540 SF of new product were delivered in 2015. That is just a little more than half of the 168,000 square feet of new product which 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 2015 at 12.42%, a decrease of 52 basis points when compared to the previous quarter, and a 8.27% drop compared to the same quarter last year.
- **Availability** - Direct/sublease space being marketed was 15.71% at the end of the year, down from 2015's third quarter rate of 16.40% and a 7.70% decline from the 17.02% we saw in the fourth quarter of 2014.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot was \$1.78 in the fourth quarter of 2015, up three cents from the same quarter last year. We are forecasting that the rate will rise during 2016. 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 \$2.23 FSG.
- **Absorption** - The Inland Empire office market posted 285,813 square feet of positive net absorption for the fourth quarter of 2015, and 527,988 square feet for the year. From the first quarter of 2012 to the present, the office market has posted just over 2.44 million square feet of positive absorption.
- **Transaction Activity** - Leasing activity checked in at 332,112 square feet in the fourth quarter of the year, a decrease from 2014's fourth quarter total of 378,731 square feet. For the year, leasing activity totaled 1.4 million square feet in contrast to 2014's sum of 1.9 million SF. In 2015 sales activity equaled 4.48 million square feet—a marked increase from 2014's total of 2.65 million square feet. Combined, sales and leasing activity increased 30% in 2015 compared to 2014, 5.8 million SF versus 4.5 million SF respectively. Sales activity in the fourth quarter of 2015, in particular, increased, posting 1.09 million square feet of activity compared to 2014's fourth quarter total of 755,009 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 6.1% in November 2015, down from a revised 6.3% in October 2015 and below the year-ago estimate of 7.6%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. The unemployment rate was 6.2% for Riverside County and 5.9% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 46,100 payroll jobs from November 2014 to November 2015 with most of the gains (9,800 jobs) coming from the trade, transportation and utilities sector.
- **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 is called for, as job creation will need to continue in order to drive the demand needed to sustain growth in the Inland Empire office market.

FORECAST

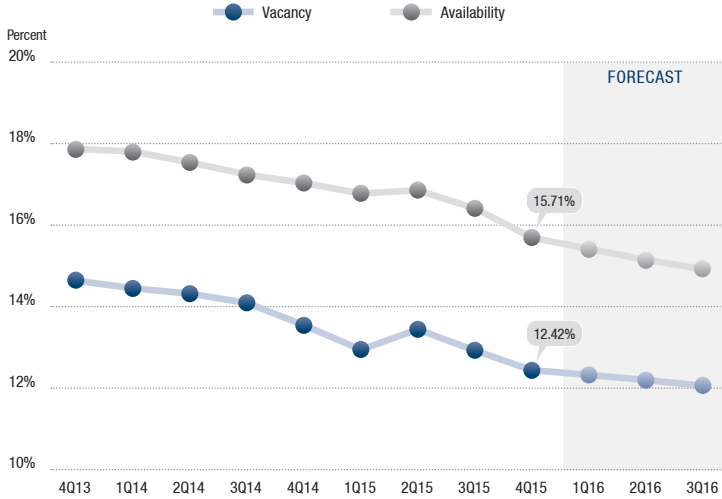
- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking 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 40 basis points, to around 12%, by the end of the third quarter of 2016.

OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	12.42%	13.54%	14.65%	(8.27%)
Availability Rate	15.71%	17.02%	17.82%	(7.70%)
Average Asking Lease Rate	\$1.78	\$1.75	\$1.73	1.71%
Sale & Lease Transactions	5,895,683	4,530,460	5,095,872	30.13%
Gross Absorption	2,192,207	2,106,575	2,647,435	4.06%
Net Absorption	527,988	583,914	666,192	N/A

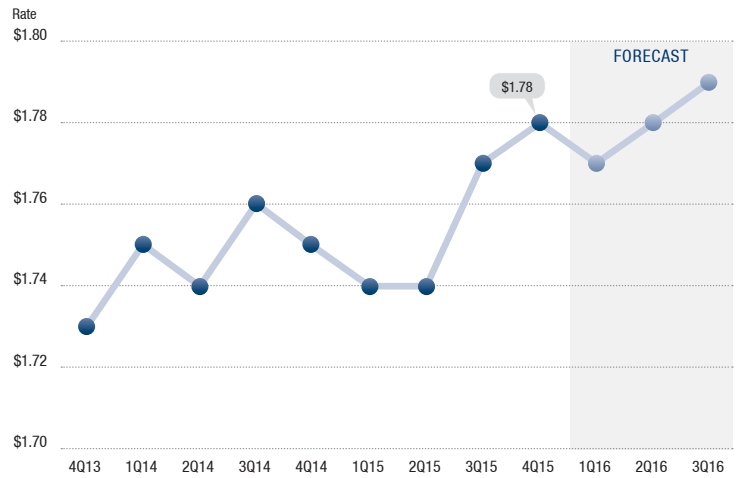
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



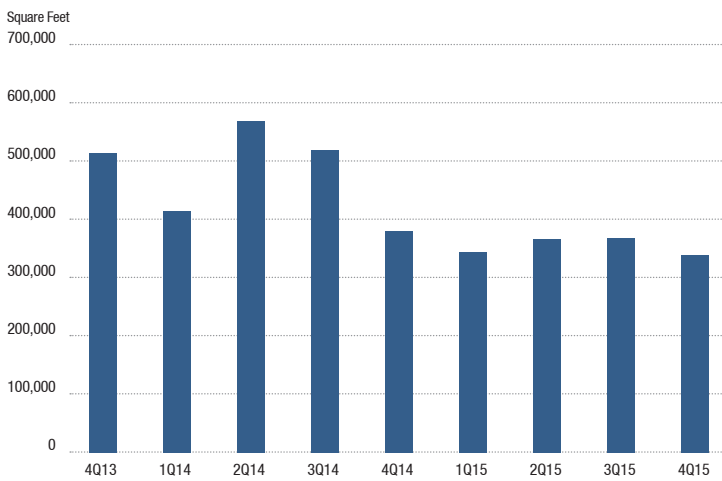
AVERAGE ASKING FULL-SERVICE LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



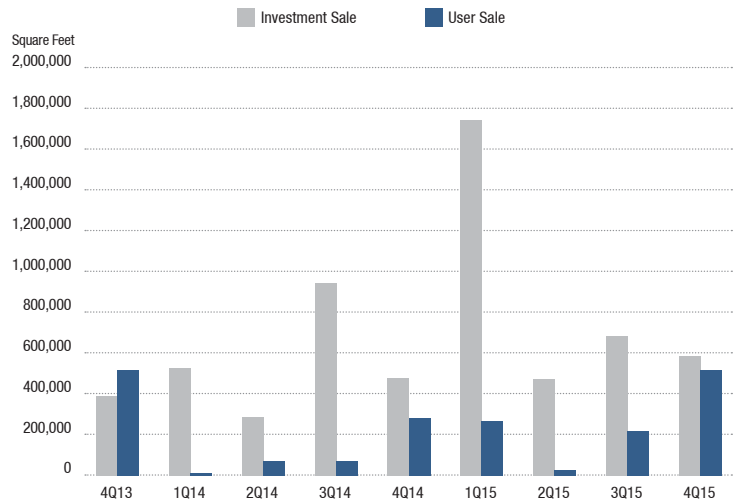
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



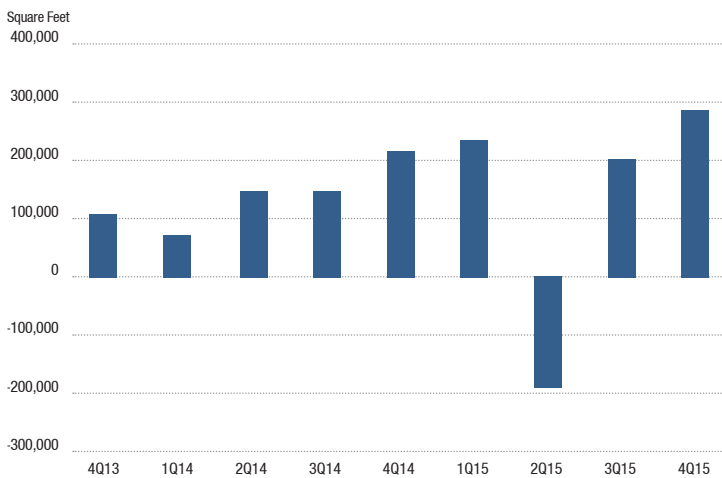
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



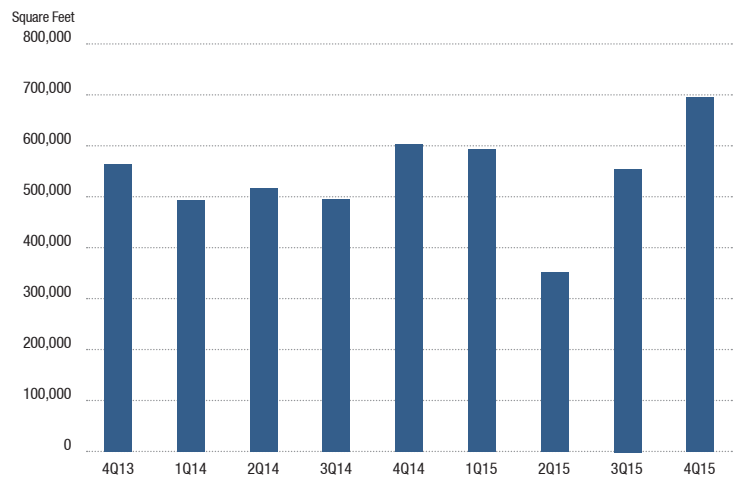
NET ABSORPTION

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 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
West													
Chino/Chino Hills	37	1,166,442	0	128,224	100,929	8.65%	123,481	10.59%	\$2.23	13,177	(2,892)	14,077	38,916
Fontana	38	2,409,310	0	65,000	110,887	4.60%	122,787	5.10%	\$0.97	11,518	42,183	13,528	52,042
Montclair	13	244,250	0	40,134	18,256	7.47%	37,099	15.19%	\$1.68	4,628	(2,535)	8,965	15,434
Ontario	110	4,336,618	0	380,857	646,394	14.91%	816,769	18.83%	\$1.80	54,210	73,022	83,260	271,191
Rancho Cucamonga	142	4,406,014	0	100,000	599,927	13.62%	769,125	17.46%	\$1.92	22,332	(30,703)	43,967	310,025
Upland	71	1,552,820	0	0	211,008	13.59%	237,072	15.27%	\$1.45	3,975	15,460	30,048	102,538
Class A	29	2,394,521	0	211,651	403,519	16.85%	412,207	17.21%	\$2.00	15,388	(73,726)	17,231	134,569
Class B	282	9,756,918	0	502,564	1,052,212	10.78%	1,439,182	14.75%	\$1.75	64,274	117,891	136,640	565,359
Class C	100	1,964,015	0	0	231,670	11.80%	254,944	12.98%	\$1.20	30,178	50,370	39,974	90,218
West Total	411	14,115,454	0	714,215	1,687,401	11.95%	2,106,333	14.92%	\$1.80	109,840	94,535	193,845	790,146
East													
Banning	6	100,461	0	175,774	0	0.00%	5,200	5.18%	\$0.00	3,400	0	3,400	3,400
Beaumont	3	151,918	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Corona/Norco	95	3,336,968	17,000	263,325	421,098	12.62%	496,552	14.88%	\$1.92	63,502	78,951	104,344	288,629
Colton/Grand Terrace	48	1,048,714	0	32,600	200,781	19.15%	355,569	33.91%	\$1.08	(34,358)	22,321	25,428	110,533
Moreno Valley	38	996,103	0	115,219	17,368	1.74%	38,825	3.90%	\$0.00	69,388	62,373	75,388	77,884
Perris	9	215,508	0	15,000	5,242	2.43%	6,404	2.97%	\$0.00	(5,242)	(3,633)	0	1,609
Redlands/Loma Linda	89	2,310,408	0	50,000	279,951	12.12%	318,573	13.79%	\$1.67	12,501	39,242	30,199	115,104
Rialto	10	284,332	0	0	43,003	15.12%	43,003	15.12%	\$1.58	4,442	3,620	4,442	4,442
Riverside	304	9,244,542	19,636	649,081	1,145,415	12.39%	1,474,780	15.95%	\$2.10	(14,637)	39,173	109,762	399,647
San Bernardino/Highland	209	8,104,061	150,000	0	1,156,677	14.27%	1,424,545	17.58%	\$1.61	76,977	191,406	148,374	400,813
Class A	42	4,591,890	0	312,333	524,470	11.42%	700,138	15.25%	\$2.14	77,372	118,134	112,955	283,340
Class B	506	14,936,500	186,636	988,666	2,025,475	13.56%	2,583,810	17.30%	\$1.61	75,938	301,199	297,848	887,283
Class C	263	6,264,625	0	0	719,590	11.49%	879,503	14.04%	\$1.22	22,663	14,120	90,534	231,438
East Total	811	25,793,015	186,636	1,300,999	3,269,535	12.68%	4,163,451	16.14%	\$1.77	175,973	433,453	501,337	1,402,061
Inland Empire Total	1,222	39,908,469	186,636	2,015,214	4,956,936	12.42%	6,269,784	15.71%	\$1.78	285,813	527,988	695,182	2,192,207
Inland Empire													
Class A	71	6,986,411	0	523,984	927,989	13.28%	1,112,345	15.92%	\$2.08	92,760	44,408	130,186	417,909
Class B	788	24,693,418	186,636	1,491,230	3,077,687	12.46%	4,022,992	16.29%	\$1.62	140,212	419,090	434,488	1,452,642
Class C	363	8,228,640	0	0	951,260	11.56%	1,134,447	13.79%	\$1.21	52,841	64,490	130,508	321,656
Inland Empire Total	1,222	39,908,469	186,636	2,015,214	4,956,936	12.42%	6,269,784	15.71%	\$1.78	285,813	527,988	695,182	2,192,207
High Desert													
Adelanto	3	65,531	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Apple Valley	32	605,824	12,000	42,060	13,004	2.15%	15,751	2.60%	\$0.00	(1,408)	14,997	0	20,254
Barstow	12	198,618	0	17,000	28,001	14.10%	34,501	17.37%	\$0.00	0	(4,032)	0	1,010
Hesperia	23	520,793	0	76,516	0	0.00%	0	0.00%	\$0.00	0	4,365	0	7,765
Victorville	86	1,719,272	0	82,298	144,997	8.43%	172,233	10.02%	\$1.92	23,973	10,088	30,860	69,152
High Desert Total	156	3,110,038	12,000	217,874	186,002	5.98%	222,485	7.15%	\$1.92	22,565	25,418	30,860	98,181
Temecula Valley													
Hemet	44	847,066	0	12,000	92,171	10.88%	107,143	12.65%	\$0.00	3,276	13,200	13,882	44,877
Lake Elsinore	12	274,642	0	0	40,868	14.88%	40,868	14.88%	\$0.00	2,021	0	30,825	34,902
Menifee	9	317,837	0	213,000	4,174	1.31%	4,174	1.31%	\$0.00	0	(766)	0	4,186
Murrieta	51	1,517,993	0	370,074	141,445	9.32%	173,476	11.43%	\$2.49	5,441	3,242	22,662	94,000
San Jacinto	4	96,365	0	0	5,305	5.51%	5,305	5.51%	\$0.00	2,827	0	2,827	2,827
Temecula	114	2,954,369	29,602	44,025	365,159	12.36%	471,546	15.96%	\$1.52	40,068	50,092	78,272	268,258
Wildomar	7	272,783	0	44,000	33,222	12.18%	40,883	14.99%	\$0.00	1,144	2,202	1,144	8,768
Temecula Valley Total	241	6,281,055	29,602	683,099	682,344	10.86%	843,395	13.43%	\$1.85	54,777	67,970	149,612	457,818

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 2015

Sales Transactions

Property Address	City	Class	Square Feet	Sale Price	Buyer	Seller
2085 Rustin Ave.	Riverside	B	163,000	\$104.29	County of Riverside	BH Properties, LLC
3110 E. Guasti Rd. (2 Properties)	Ontario	A	160,589	\$192.42	Buchanan Street Partners	Walton Street Capital, LLC
2855 Guasti Rd.	Ontario	A	147,728	\$297.51	Silver Way Real Estate Partners	True North Management Group
3750 University Ave.	Riverside	A	127,533	\$297.57	City of Riverside	Grubb & Ellis Realty Investors, LLC
3602 Inland Empire Blvd.	Ontario	B	74,665	\$145.34	Northlight Capital Partners	Whittier Trust Company

Lease Transactions

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
9500 Cleveland Ave.	Rancho Cucamonga	A	29,644	Oct-2015	State Farm Insurance	Utah State Retirement Fund
625 E. Carnegie Dr.	San Bernardino	B	29,150	May-2015	AirMethods	Tri City South Owner, LLC
8855 Haven Ave.	Rancho Cucamonga	B	25,631	Apr-2015	York Risk Services Group	Chronoblue Investments, LLC
3633 Inland Empire Blvd.	Ontario	A	20,552	May-2015	Caliber Home Loans	Gre Empire Towers Ps.
3750 University Ave.	Riverside	A	20,298	Nov-2015	City of Riverside Public Utilities Comm.	City of Riverside

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.

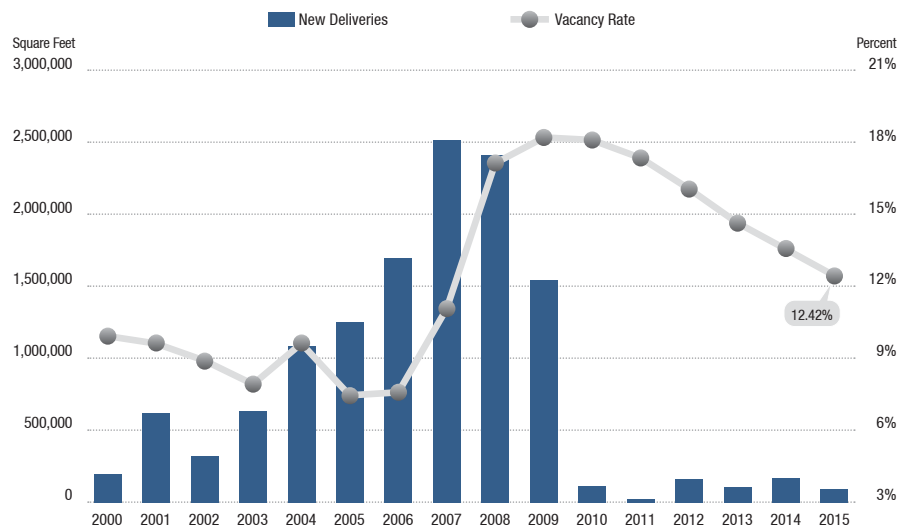
CLASS B

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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