



ANNUAL JOB GROWTH

The Inland Empire created 34,400 net jobs in the 12 months ending June 2014. Nearly 29% of the annual gains occurred in the professional & business services sector, which has benefited the office market.



12-MO DIRECT NET ABSORPTION

The Airport Area has remained the top performing sub-market accounting for 63.6% of the annual absorption gains. Nearly 64% of these gains occurred in the Class B market.



DIRECT VACANCY RATE

Since peaking at 21.1% in 2009, the overall direct vacancy rate has dropped to a six-year low. Direct vacancy rates will continue to descend in the coming quarters, dropping by 200 basis points to 13.7% by year-end 2015.



OVERALL RENTS

Asking rental rates remained stagnant during the quarter but have risen by 1.5% within the past 12 months. The Class A sector accounted for the majority of the annual rent growth, but there's a large deficit to overcome in order to re-store rents to their pre-recessionary peak.



UNDER CONSTRUCTION

Since 2010, the office construction pipeline has remained well below its 10-year historical average of 926,000 sq. ft. The limited amount of construction underway will help accelerate the office market's recovery as leasing activity resumes and the glut of vacant space diminishes.



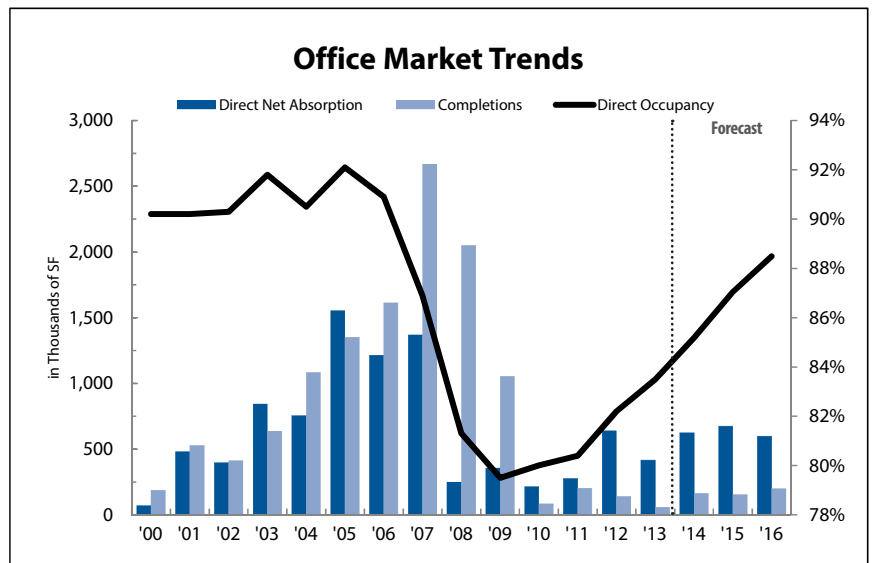
*Arrows represent change from previous 12 months

OFFICE MARKET STEADY RECOVERY CONTINUES

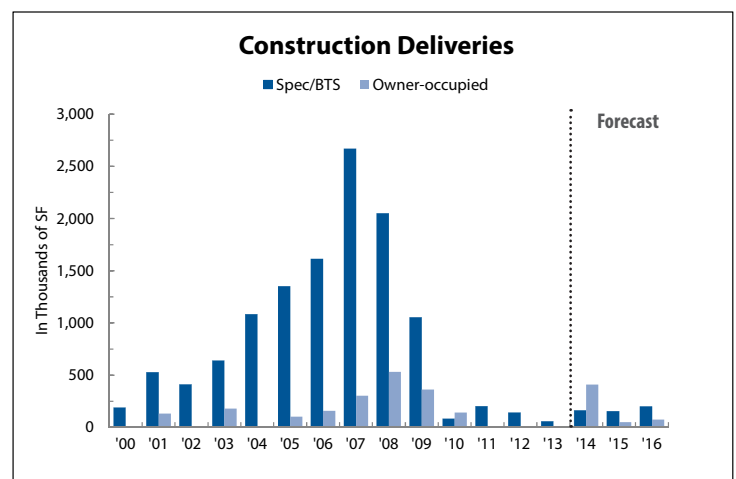
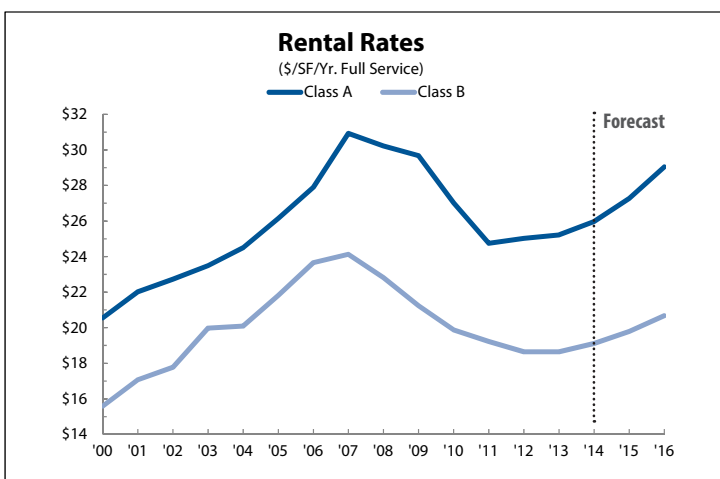
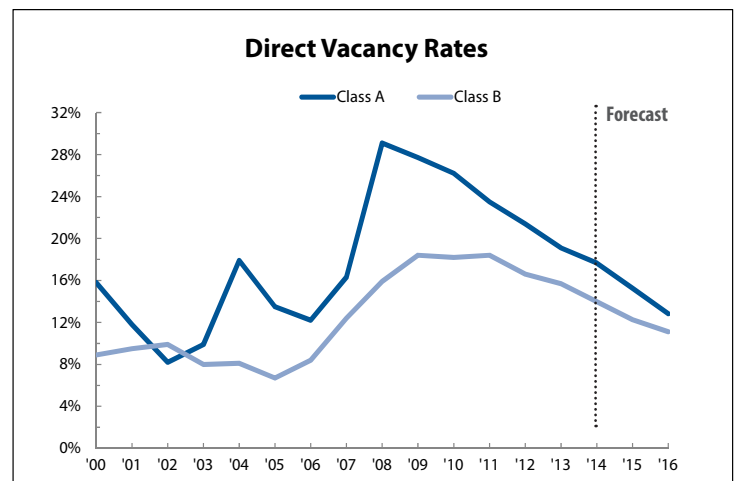
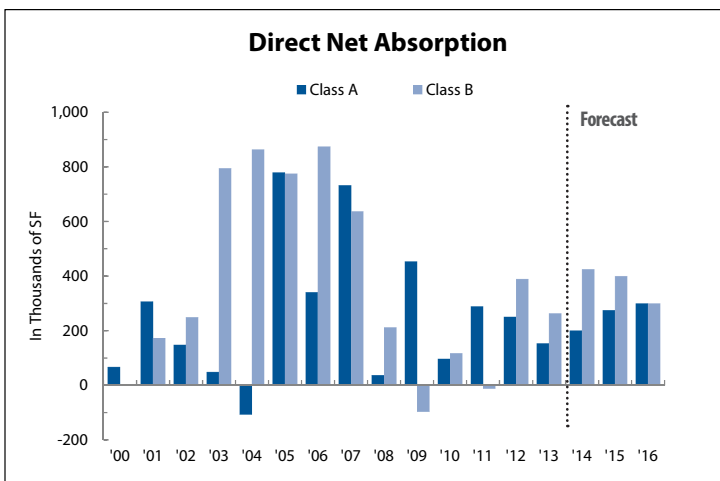
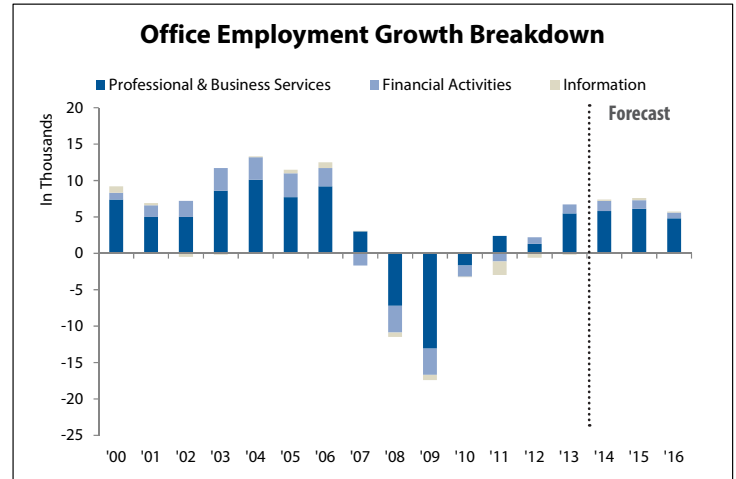
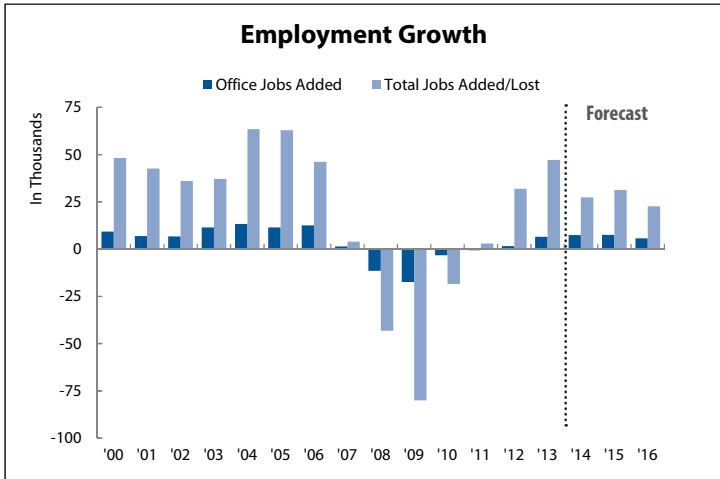
The Inland Empire's economy continues to show signs of recovery with steady job growth and falling unemployment rates, after languishing for several years. Office-using job sectors, which include professional and business services and educational and health services, have significantly accounted for nearly 46% of the annual employment gains. As a result of the steady job growth, the Riverside-San Bernardino-Ontario region's unemployment rate has dropped by 170 basis points to 8.0% within the past year, reaching its lowest level in eight years. Although the Inland Empire has created 133,100 jobs since its post-recessionary trough in mid-year 2010, the current employment levels still remain 39,900 jobs below their peak recorded at year-end 2006. Looking ahead, employment payrolls are projected to increase by 27,410 jobs in 2014, followed by an even stronger addition of 31,290 jobs in 2015, according to Moody's Analytics.

The Inland Empire's office leasing market exhibited continued signs of recovery with 643,808 sq. ft. of direct net absorption within the past 12 months, which is its highest trailing 12-month total since 2008. The Class B office market once again led with 96,136 sq. ft. of direct absorption during the second quarter, bringing the trailing 12-month total to 492,784 sq. ft. As a result of the solid leasing gains, Class B vacancy rates have dropped by 210 basis points to 14.9% within the past 12 months to reach their lowest level since 2008. The Class A property sector also posted 78,433 sq. ft. of direct absorption during the quarter, pushing the trailing 12-month total to 151,024 sq. ft. Consequently, Class A direct vacancy rates ended the quarter at 18.2%, down 150 basis points from the prior year. As a result of the steady uptick in leasing demand, Class A full-service gross asking rents increased on average by 3.4% to \$2.14, while Class B rents appreciated on average nearly 0.6% to \$1.58 per sq. ft. within the past 12 months.

The bulk of the leasing activity has been primarily driven by small and medium-sized tenants, but there have been a few sizeable deals in recent months. The largest recent deals involved the County of Riverside Department of Public Health securing a 40,363 sq. ft. lease at 4210 Riverwalk Parkway while the California Preparatory College signed a 26,785 sq. ft. lease at 1060 E. Washington Street. In the year ahead, Inland Empire's office market fundamentals will continue to strengthen with steady absorption growth outpacing modest construction deliveries, which will help push the overall vacancy rate down to 15.1% by year-end 2014.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Airport Area	6,114,376	1,298,205	20,910	19.3%	-6.7%	61,579	409,952	\$20.56	\$1.71	-1.06%
Class A	2,072,290	407,926	0	18.3%	-4.6%	13,558	96,207	\$24.24	\$2.02	2.89%
Class B	4,042,086	890,279	20,910	19.8%	-7.8%	48,021	313,745	\$19.05	\$1.59	-2.36%
Riverside	6,284,375	1,141,680	32,389	14.2%	-0.7%	(22,967)	46,311	\$22.06	\$1.84	-0.09%
Class A	1,321,058	289,846	11,590	23.5%	0.4%	6,054	(4,728)	\$28.39	\$2.37	-1.87%
Class B	4,963,317	851,834	20,799	11.7%	-1.0%	(29,021)	51,039	\$19.46	\$1.62	-1.67%
South Riverside	3,753,352	625,262	3,690	16.4%	-1.4%	53,515	107,317	\$18.93	\$1.58	-1.30%
Class A	969,046	197,755	646	21.6%	-3.2%	37,672	79,770	\$25.98	\$2.16	5.14%
Class B	2,784,306	427,507	3,044	14.5%	-1.0%	15,843	27,547	\$16.43	\$1.37	-2.09%
Coachella Valley	2,780,719	437,220	24,503	10.6%	-2.7%	(1,090)	52,008	\$20.24	\$1.69	3.05%
Class A	298,444	54,203	3,872	16.6%	1.7%	(2,282)	(17,354)	\$27.98	\$2.33	5.70%
Class B	2,482,275	383,017	20,631	9.8%	-5.7%	1,192	69,362	\$19.29	\$1.61	2.23%
Corona	1,597,443	363,220	37,476	17.2%	-2.7%	34,034	42,509	\$21.78	\$1.82	0.55%
Class A	656,922	134,879	11,167	20.9%	1.7%	15,654	(11,254)	\$24.41	\$2.03	5.03%
Class B	940,521	228,341	26,309	14.6%	-5.7%	18,380	53,763	\$20.23	\$1.69	-2.36%
North San Bernardino	989,503	81,300	0	6.3%	1.0%	3,956	6,375	\$19.86	\$1.66	1.43%
Class A	93,878	6,654	0	7.1%	1.7%	0	3,815	\$18.55	\$1.55	0.71%
Class B	895,625	74,646	0	6.2%	0.9%	3,956	2,560	\$20.00	\$1.67	1.32%
East San Bernardino	5,867,040	1,234,146	53,812	16.7%	1.0%	46,950	(60,920)	\$19.37	\$1.61	7.73%
Class A	1,257,934	128,840	9,559	10.0%	1.7%	0	(21,270)	\$22.93	\$1.91	8.88%
Class B	4,609,106	1,105,306	44,253	18.5%	0.9%	46,950	(39,650)	\$18.93	\$1.58	7.07%
West San Bernardino	1,543,666	277,631	1,150	15.5%	-2.6%	(1,408)	40,256	\$20.27	\$1.69	-5.06%
Class A	138,592	13,846	0	16.3%	-18.6%	7,777	25,838	\$26.40	\$2.20	4.76%
Class B	1,405,074	263,785	1,150	15.4%	-1.0%	(9,185)	14,418	\$19.62	\$1.64	-2.53%

Inland Empire Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	6,808,164	1,233,949	36,834	18.2%	-1.5%	78,433	151,024	\$25.62	\$2.14	3.43%
Class B	22,122,310	4,224,715	137,096	14.9%	-2.1%	96,136	492,784	\$18.96	\$1.58	0.64%
Overall	28,930,474	5,458,664	173,930	15.7%	-1.9%	174,569	643,808	\$20.51	\$1.71	1.48%

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 25,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space Available: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

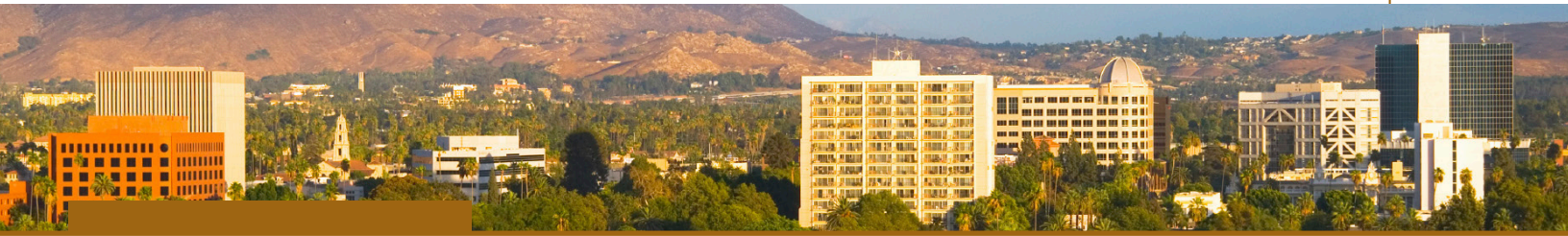
Sublease Space Available: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Vacancy Rate: Direct space physically vacant divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.



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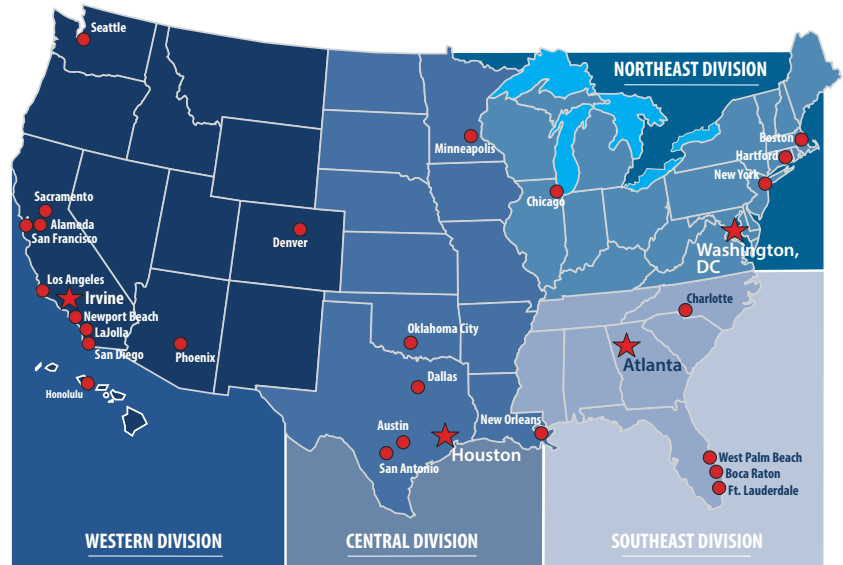
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