



## INLAND EMPIRE OFFICE MARKET REPORT

SECOND QUARTER 2015

**PMRG** | PM Realty Group



#### ANNUAL JOB GROWTH

The Inland Empire created 51,800 net jobs in the 12 months ending May 2015, led by gains in the Professional & Business Services; Trade, Transportation & Utilities; and Leisure & Hospitality sectors.



#### 12-MO DIRECT NET ABSORPTION

The Airport Area and South Riverside were the top performing submarkets accounting for a combined 62.4% of the annual absorption gains. The Class B property sector accounted for the majority of the absorption growth over the past 12 months..



#### DIRECT VACANCY RATE

Overall vacancy rates have fallen 200 basis points since last year. The Class A sector being the main component driving the rate down, has fallen 260 basis points since last year to 16.0%.



#### OVERALL RENTS

Overall asking rents have increased by 3.4% within the past 12 months. The Class B sector has accounted for the majority of the annual rent growth, and is slowly closing the large gap between the two classes.



#### UNDER CONSTRUCTION

There is currently only one project under construction, which will add 29,602 sq. ft. to the Class B market when it delivers early next year. Parker Medical Center LLC began construction on the 2-story office building during the second quarter.



*\*Arrows represent change from previous 12 months*

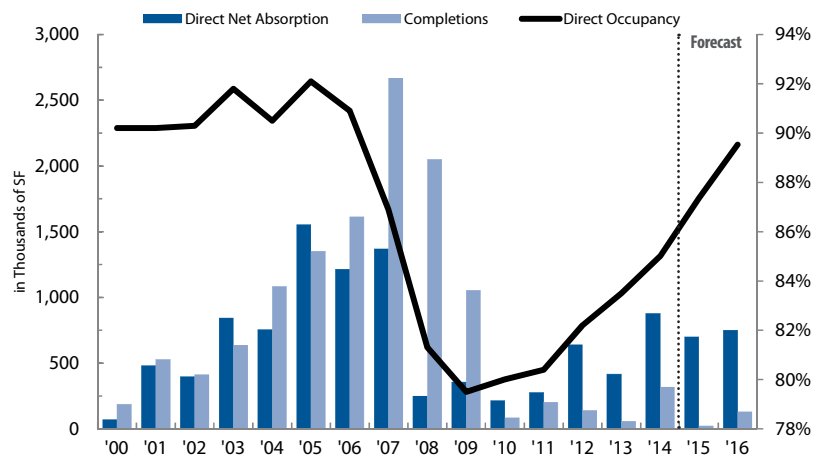
## CLASS B RENT GROWTH NARROWING GAP

The Inland Empire's economic expansion continued with solid job growth exceeding the 4% mark, which has outpaced the state and the rest of Southern California for three consecutive years. As a result, total non-farm employment levels have reached a record high and are now 34,500 jobs above their pre-recession peak recorded at year-end 2006. Office-using job sectors, which include professional and business services, have significantly accounted for one third of the annual employment gains. Demonstrating another sign of economic growth, the Riverside-San Bernardino-Ontario region's unemployment rate has dropped by 140 basis points to 6.4% within the past year. Looking ahead, employment levels are projected to increase by 51,075 jobs in 2015, according to the Inland Empire Economic Partnership.

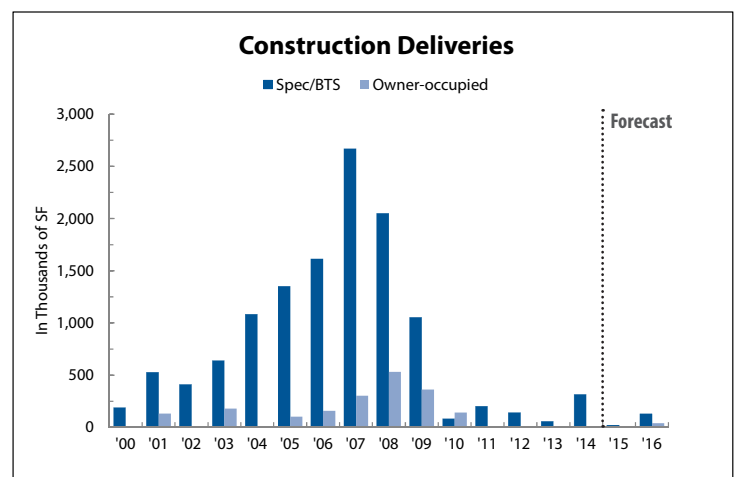
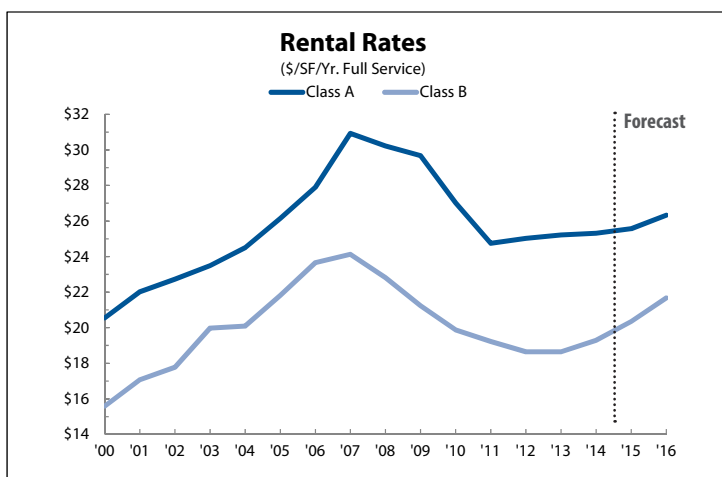
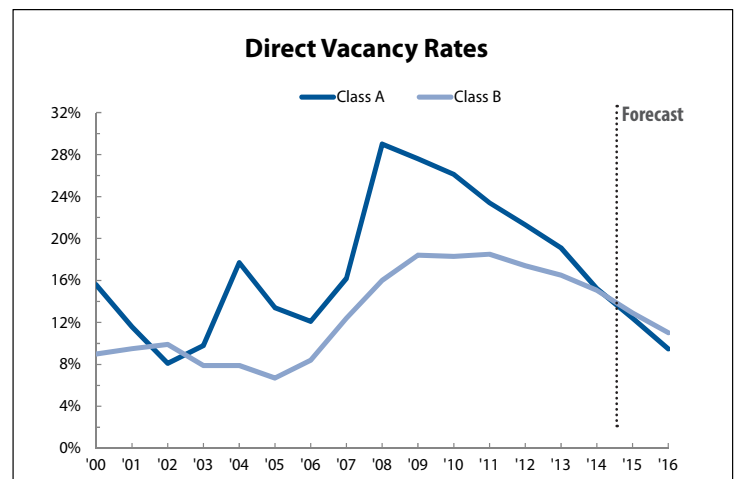
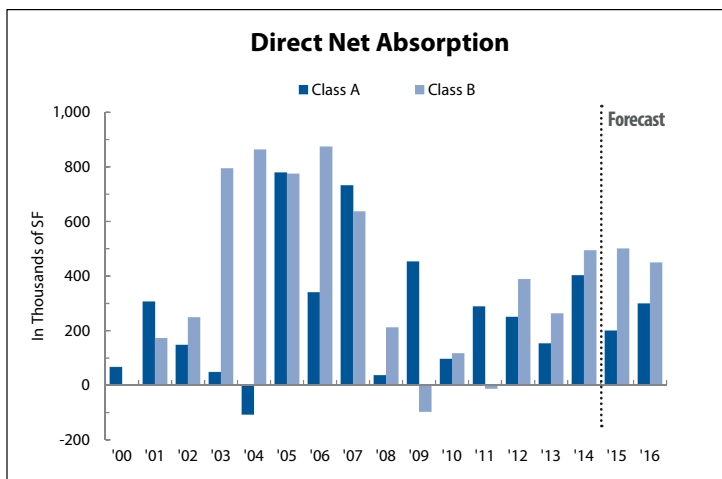
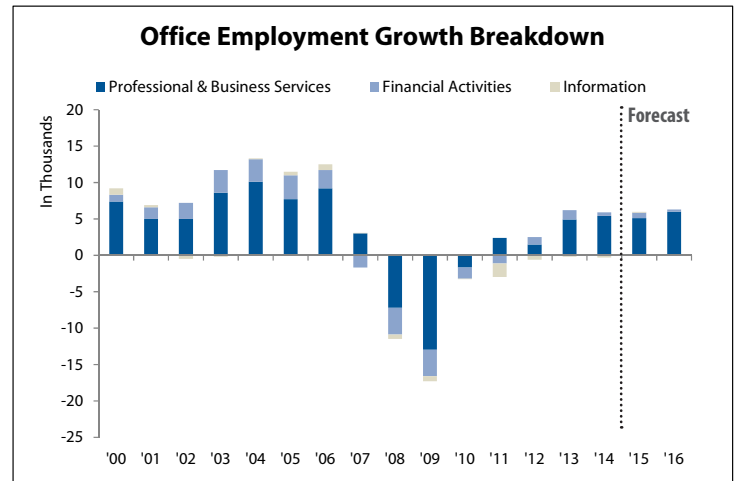
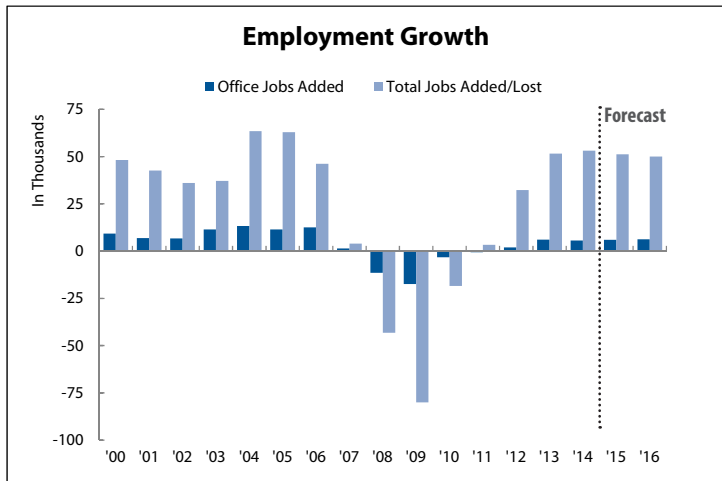
The Inland Empire's office leasing market recorded 116,889 sq. ft. of negative direct absorption during the quarter, with the bulk of the quarterly losses taking place in the Airport area. However, these losses are expected to be short-lived as this submarket has accounted for one-third of the 627,992 sq. ft. absorbed in the trailing 12 months. The Class A office sector experienced 111,534 sq. ft. of direct occupancy losses during the second quarter, bringing the trailing 12-month total down to 231,953 sq. ft. Class A direct vacancy rates increased by 150 basis points during the quarter, but have dropped 260 basis points to 16.0% within the last 12 months. The Class B property sector posted 5,355 sq. ft. of negative direct absorption during the quarter, pulling the trailing 12-month total down to 396,039 sq. ft. However, direct vacancy rates for Class B space have managed to fall 180 basis points to 14.0% since this time last year. As quality space options have diminished, Class A full-service gross asking rents have declined by 1.21% to \$2.10 per sq. ft., while Class B asking rents have jumped 4.9% to \$1.65 per sq. ft. since mid-year 2014.

Leasing demand has remained steady as tenants are becoming more confident in making longer term decisions. The bulk of the leasing activity has been driven by small and medium-sized tenants. The largest recent transactions involved York Risk Services committing to 25,631 sq. ft. of Class B space at 8855 Haven Avenue, Caliber Home Loans inking a deal for 20,552 sq. ft. at Empire Towers I, and the County of San Bernardino securing a 12,393 sq. ft. lease at Vanir Tower. Looking ahead, expect office market fundamentals to gradually strengthen as strong job growth spurs leasing demand. Modest construction levels will help accelerate the office market's recovery and bring the overall direct vacancy rate down near the 10% mark by year-end 2016.

### Office Market Trends



## 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.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
<b>Airport Area</b>	6,259,255	1,108,281	58,165	15.4%	-3.6%	(113,960)	272,875	\$21.91	\$1.83	6.57%
Class A	2,158,328	370,547	12,331	17.4%	-0.7%	(121,225)	63,187	\$24.05	\$2.00	-0.78%
Class B	4,100,927	737,734	45,834	14.4%	-5.1%	7,265	209,688	\$20.61	\$1.72	8.19%
<b>Riverside</b>	6,093,080	1,014,057	61,506	12.8%	-2.1%	28,942	128,058	\$22.54	\$1.88	2.27%
Class A	1,321,624	258,249	37,637	16.7%	-7.3%	4,845	96,574	\$29.47	\$2.46	3.80%
Class B	4,771,456	755,808	23,869	11.7%	-0.7%	24,097	31,484	\$20.06	\$1.67	6.03%
<b>South Riverside</b>	3,835,268	603,466	2,242	14.0%	-2.6%	21,189	119,057	\$19.73	\$1.64	2.71%
Class A	967,697	163,025	1,055	17.3%	-4.4%	2,346	42,700	\$25.84	\$2.15	-0.54%
Class B	2,867,571	440,441	1,187	12.9%	-2.0%	18,843	76,357	\$18.00	\$1.50	6.70%
<b>Coachella Valley</b>	2,665,067	444,281	30,848	11.7%	-0.8%	(11,250)	(25,480)	\$20.72	\$1.73	1.72%
Class A	298,444	44,026	6,291	11.4%	-1.2%	11,584	15,585	\$25.45	\$2.12	-9.04%
Class B	2,366,623	400,255	24,557	11.8%	-0.6%	(22,834)	(41,065)	\$19.88	\$1.66	2.37%
<b>Corona</b>	1,597,659	300,161	29,258	17.5%	-0.8%	6,980	13,527	\$23.49	\$1.96	7.85%
Class A	657,782	94,252	15,773	19.7%	-1.2%	(7,066)	8,033	\$24.03	\$2.00	-1.56%
Class B	939,877	205,909	13,485	15.9%	-0.6%	14,046	5,494	\$23.15	\$1.93	14.43%
<b>North San Bernardino</b>	1,140,557	92,205	0	6.5%	-2.0%	(2,337)	(426)	\$21.02	\$1.75	5.84%
Class A	93,878	4,434	0	4.7%	0.2%	0	2,220	\$18.40	\$1.53	-0.81%
Class B	1,046,679	87,771	0	6.7%	-2.7%	(2,337)	(2,646)	\$21.21	\$1.77	6.05%
<b>East San Bernardino</b>	5,925,421	1,251,309	40,548	17.6%	-2.0%	(27,429)	116,414	\$19.84	\$1.65	2.43%
Class A	1,482,729	232,334	9,559	13.2%	0.2%	(2,639)	(3,168)	\$23.13	\$1.93	-0.30%
Class B	4,442,692	1,018,975	30,989	19.1%	-2.7%	(24,790)	119,582	\$19.04	\$1.59	2.26%
<b>West San Bernardino</b>	1,551,149	281,292	2,250	15.2%	-0.3%	(19,024)	3,967	\$19.30	\$1.61	-4.79%
Class A	138,592	15,817	0	11.4%	-4.9%	621	6,822	\$27.00	\$2.25	2.27%
Class B	1,412,557	265,475	2,250	15.5%	0.2%	(19,645)	(2,855)	\$18.71	\$1.56	-4.64%

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.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	7,119,074	1,182,684	82,646	16.0%	-2.6%	-111,534	231,953	\$25.22	\$2.10	-1.21%
Class B	21,948,382	3,912,368	142,171	14.0%	-1.8%	-5,355	396,039	\$19.76	\$1.65	4.99%
Overall	29,067,456	5,095,052	224,817	14.5%	-2.0%	-116,889	627,992	\$21.18	\$1.77	3.37%

## 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.

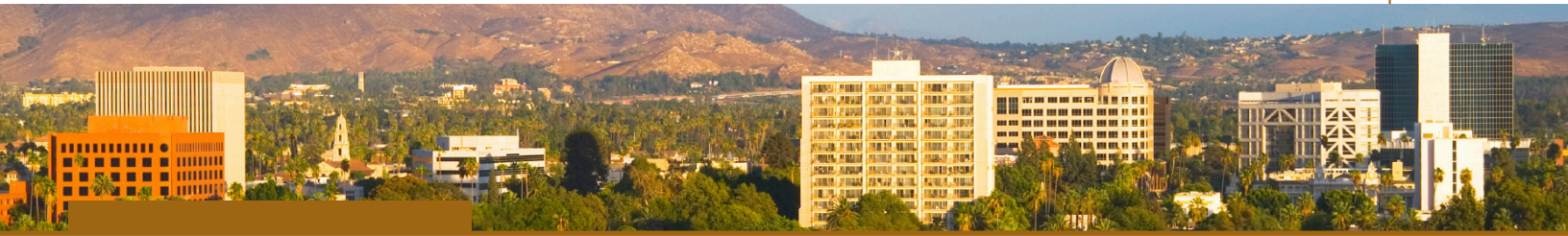
**Sublease Space Available:** Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

**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.



### ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

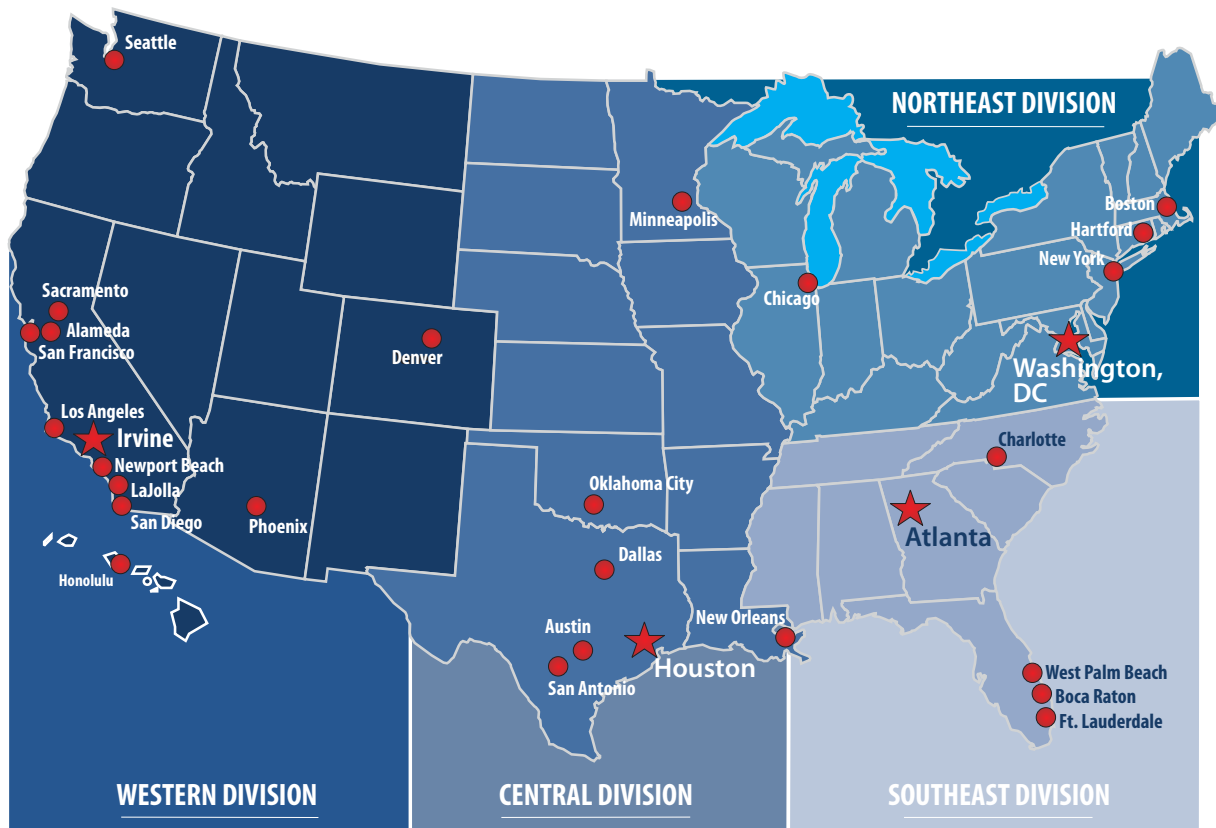
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit [www.pmr.com](http://www.pmr.com).

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