



ANNUAL JOB GROWTH

The Inland Empire created 33,700 net jobs in the 12 months ending August 2014, led by gains in the Leisure & Hospitality; Trade, Transportation & Utilities; Education & Health Services; and Professional & Business Services sector.

33.7k
jobs

12-MO DIRECT NET ABSORPTION

The Airport Area and South Riverside were the top performing submarkets, accounting for a combined 73.5% of the annual absorption gains.

599k
square feet

DIRECT VACANCY RATE

Since peaking at 21.0% in 2009, the direct vacancy rate has dropped to a six-year low. Direct vacancy rates will continue to descend in the coming quarters, dropping by 240 bps to 13.6% by year-end 2015.

16.0
percent

OVERALL RENTS

Asking rents remained stagnant during the quarter but increased by 2.3% over the prior 12 months. The Class B sector has accounted for the majority of the annual rent growth, but there is a large deficit to overcome in order to restore rents to their pre-recessionary peak.

\$1.72
per square foot

UNDER CONSTRUCTION

The office construction pipeline has remained well below its 10-year historical average of 1,149,818 sq. ft. The limited amount of new construction will help accelerate the office market's recovery as leasing activity resumes and the glut of vacant space diminishes.

156k
square feet

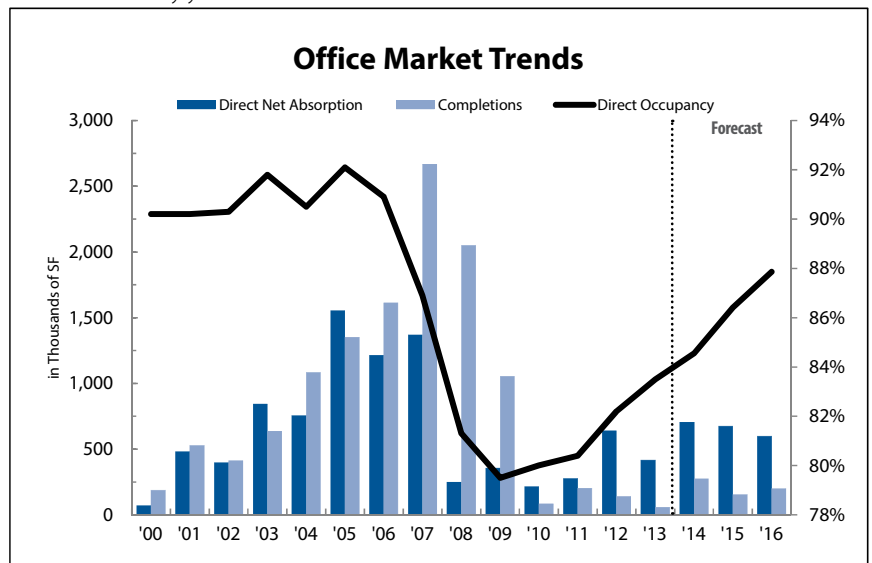
**Arrows represent change from previous 12 months*

OFFICE MARKET STEADILY IMPROVING

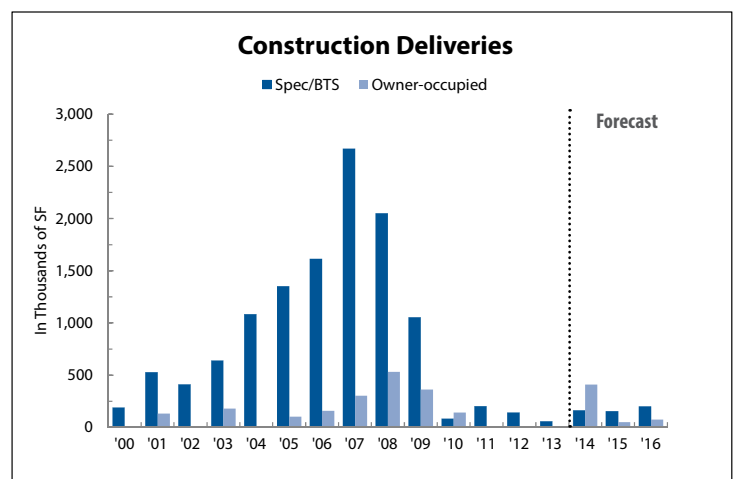
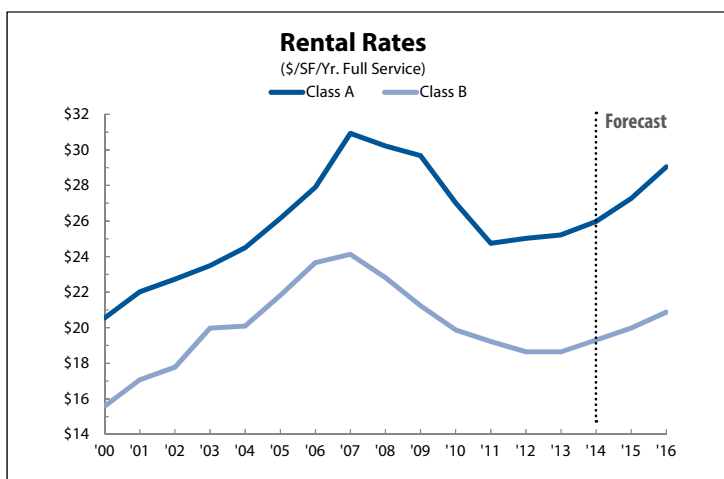
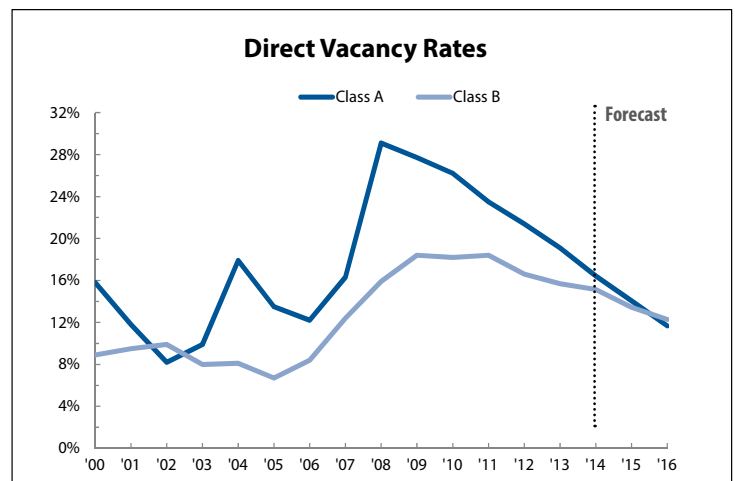
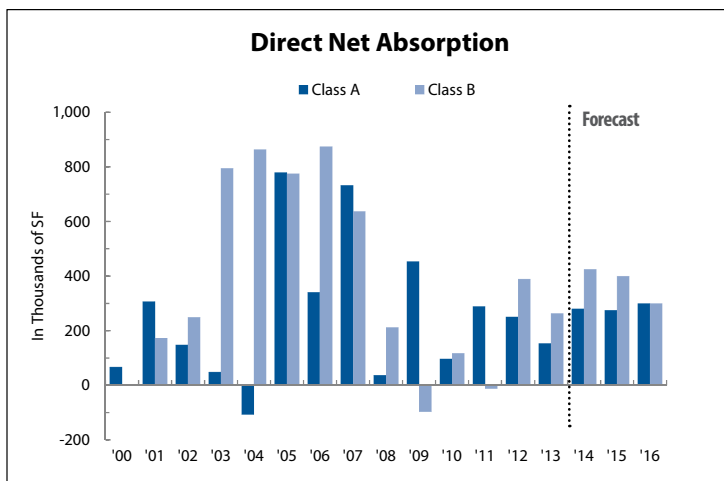
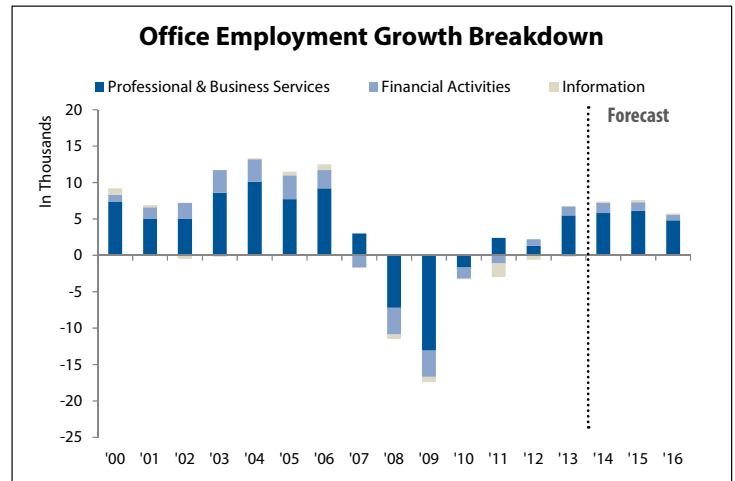
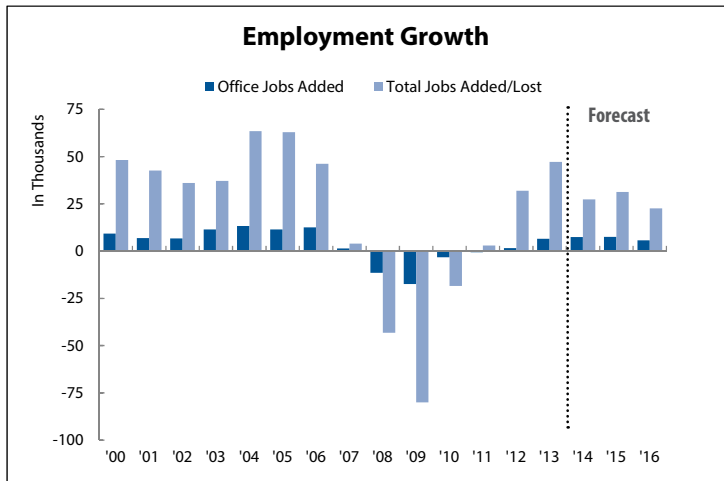
The Inland Empire's economy is in absolute recovery mode with steady job growth and falling unemployment rates, after languishing for several years. Office-using job sectors, which include professional and business services and educational and health services, have largely accounted for nearly 34% of the annual employment gains. As a result of the steady job growth, the local unemployment rate has dropped 180 basis points to 8.7% within the past year. Although the Inland Empire has created 129,000 jobs since its post-recessionary trough in mid-year 2010, the current employment levels still remain 44,000 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 fundamentals continued to improve with 599,028 sq. ft. of direct net absorption within the past 12 months, and is on pace for its highest yearly absorption total since 2007. The Class A office market once again led with 107,251 sq. ft. of direct absorption during the quarter, bringing the trailing 12-month total to 237,383 sq. ft. As a result of the solid leasing gains, Class A vacancy rates have dropped 200 basis points to 17.3% within the past 12 months to reach their lowest level since 2007. The Class B property sector posted 83,618 sq. ft. of direct absorption during the quarter, increasing the trailing 12-month total to 361,645 sq. ft. Class B direct vacancy rates ended the quarter at 15.6%, down 100 basis points from the prior year. As a result of the steady uptick in leasing demand, Class A full-service gross asking rents inched upwards by 1.3% to \$2.14, while Class B average quoted rents appreciated nearly 3.6% to \$1.60 per sq. ft. within the past 12 months.

Leasing demand has remained steady as tenants are becoming more confident in making longer term decisions and weighing the possibilities of relocation or renewal in order to capitalize on favorable lease terms. The bulk of the leasing activity has been primarily driven by small and medium-sized tenants. The largest recent transactions involved The Way World Outreach International Ministries inking a deal for 120,486 sq. ft. of Class B space at State College Bus Park, 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 13.6% by year-end 2015.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Inventory SF	Available	Available	Vacancy	Change	Current Qtr.	Month	PSF/Yr	PSF/Mo.	Change
Airport Area	6,200,343	1,237,750	7,444	18.4%	-3.6%	92,733	267,388	\$20.61	\$1.72	-0.72%
Class A	2,158,328	389,228	0	18.0%	-3.2%	49,464	114,314	\$24.07	\$2.01	-0.04%
Class B	4,042,015	848,522	7,444	18.7%	-3.8%	43,269	153,074	\$19.24	\$1.60	0.16%
Riverside	6,367,575	1,177,569	48,926	14.4%	-0.1%	37,699	63,173	\$22.53	\$1.88	2.36%
Class A	1,321,624	284,673	16,153	20.2%	-3.3%	42,867	43,818	\$29.91	\$2.49	4.25%
Class B	5,045,951	892,896	32,773	12.8%	0.6%	(5,168)	19,355	\$20.32	\$1.69	3.99%
South Riverside	3,801,060	645,420	8,936	15.4%	-2.0%	51,085	172,939	\$18.88	\$1.57	-0.21%
Class A	967,281	194,708	5,892	19.4%	-5.1%	22,362	98,483	\$25.78	\$2.15	-0.31%
Class B	2,833,779	450,712	3,044	14.0%	-1.1%	28,723	74,456	\$16.76	\$1.40	4.03%
Coachella Valley	2,813,719	442,084	24,230	10.2%	-1.1%	8,504	59,145	\$20.78	\$1.73	5.16%
Class A	298,444	54,493	3,872	16.7%	-0.8%	(290)	(17,915)	\$27.98	\$2.33	5.78%
Class B	2,515,275	387,591	20,358	9.4%	-1.4%	8,794	77,060	\$19.89	\$1.66	4.41%
Corona	1,597,443	368,713	24,045	19.1%	-1.1%	(11,944)	17,602	\$21.98	\$1.83	-0.32%
Class A	656,922	139,865	4,881	20.8%	-0.8%	504	5,025	\$24.34	\$2.03	0.70%
Class B	940,521	228,848	19,164	17.8%	-1.4%	(12,448)	12,577	\$20.23	\$1.69	-1.56%
North San Bernardino	989,503	85,423	0	6.3%	0.7%	(794)	3,265	\$19.88	\$1.66	-0.80%
Class A	93,878	6,654	0	7.1%	2.8%	0	1,402	\$18.55	\$1.55	0.71%
Class B	895,625	78,769	0	6.3%	0.0%	(794)	1,863	\$20.01	\$1.67	-1.23%
East San Bernardino	5,850,989	1,259,371	61,522	19.6%	0.7%	(6,273)	(38,756)	\$19.25	\$1.60	7.84%
Class A	1,257,934	134,384	9,559	11.1%	2.8%	(13,857)	(35,127)	\$22.77	\$1.90	4.55%
Class B	4,593,055	1,124,987	51,963	21.9%	0.0%	7,584	(3,629)	\$18.79	\$1.57	7.37%
West San Bernardino	1,543,214	279,238	0	14.2%	-3.5%	19,859	54,272	\$20.22	\$1.69	1.46%
Class A	138,592	16,438	0	11.9%	-19.7%	6,201	27,383	\$27.00	\$2.25	2.27%
Class B	1,404,622	262,800	0	14.4%	-2.0%	13,658	26,889	\$19.70	\$1.64	5.07%

		TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
Inland Empire Totals	Total Inventory SF	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	6,893,003	1,220,443	40,357	17.3%	-2.0%	107,251	237,383	\$25.68	\$2.14	1.34%
Class B	22,270,843	4,275,125	134,746	15.6%	-1.0%	83,618	361,645	\$19.23	\$1.60	3.61%
Overall	29,163,846	5,495,568	175,103	16.0%	-1.3%	190,869	599,028	\$20.62	\$1.72	2.33%

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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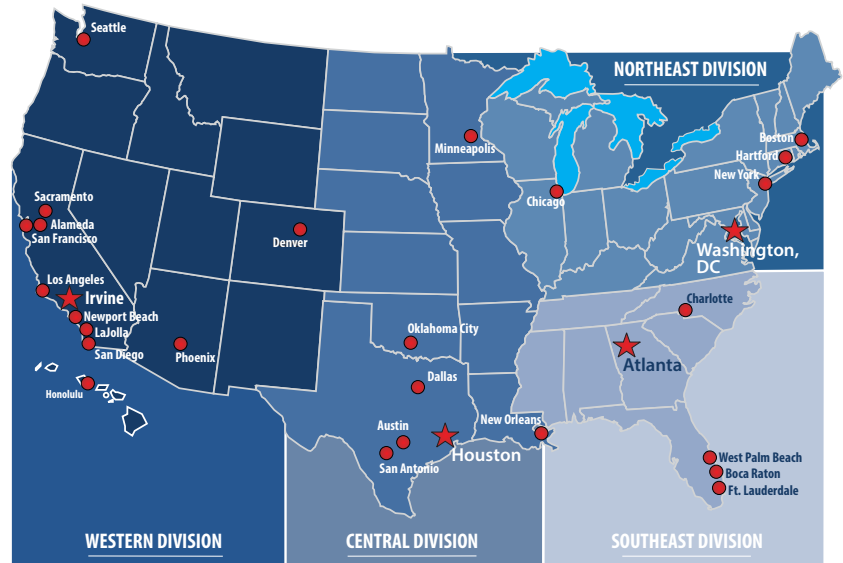
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