Ontario/Inland Empire, California

Tenant's Guide ▪ North American Markets ▪ Fourth Quarter 2011

Overview

The Inland Empire industrial sector ended 2011 with a better performance and future outlook than most other national markets. Vacancy rates held below 10%, speculative projects broke ground, and investor interest was bullish. However, this massive marketplace still faces challenges. The office sector continued to struggle for most of 2011. During the 4th quarter, there were a few bright spots concerning pre-leasing deals and increased medical user activity. But, overall vacancy rates remained stubbornly high in the mid-twenty percentage range. Additionally, effective rents did not register much improvement, a trend some were predicting by late 2011.

Market Trends

The Inland Empire industrial market contains only 4 - 5% of the national base inventory. However, it is capturing 20 - 25% of the county's user activity. The popular consolidation trend among national tenants concerning their distribution requirements has both helped and hurt the local market. While the supply of new, mega-sized product can facilitate a company consolidating multiple locations, it also pulls existing tenants out of one local city and into another. These troubling negative absorption trends will continue over the short term. This trend, combined with even more new, speculative product hitting the market, should hold rents stable.

The still struggling office sector will require landlords to keep rents competitive into next year, while still offering free rent and aggressive concessions. On a positive note, a major class A office prelease was completed at Citrus Towers in the city of Riverside during the fourth quarter. The law firm of Best Best & Krieger will occupy 25% of the new property when completed in Q1 2012.

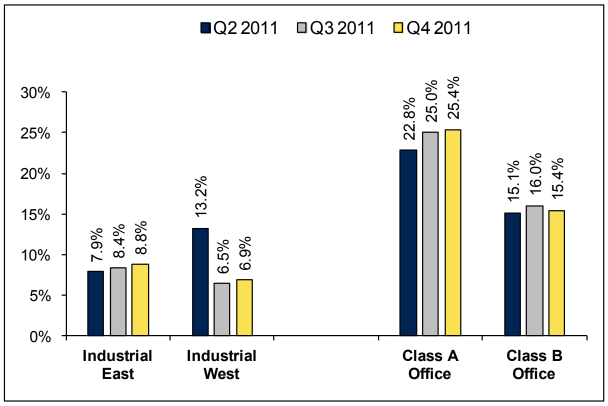
Tenant's Perspective

Industrial tenants will still explore early renewal options in 2012. They may also begin to finalize any delayed consolidation plans now that more new, big-box product is available. Next year will offer distribution tenants even more options and should remain a tenant's market, as rents and concessions hold, and as a result of more new construction. However, increased tenant interest in 600,000 SF+ product types many support those specific landlords. The office sector will present the best deals for expanding tenants. Low asking rents, healthy concessions and lack of new product will all bode well for office tenants considering a move, or expansion.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Georgia Pacific	763,228	Warehouse/Dist.	Lease
Law Firm	12,778	Office	Sale
Invcare	219,518	Warehouse/Dist.	Lease
Best Best & Krieger	30,000(+/-)	Office	Pre-lease
Network Logistic Solutions	350,000	Warehouse/Dist.	Sublease

Vacancy Rate



Average Rental Rates

Industrial	Q2 2011	Q3 2011	Q4 2011
East	$4.01	$4.03	$4.00
West	$4.07	$4.16	$4.08

Office	Q2 2011	Q3 2011	Q4 2011
Class A Office	$22.91	$23.78	$23.75
Class B Office	$18.66	$19.09	$19.22

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