



REAL ESTATE SERVICES

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# Retail Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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## Market Highlights

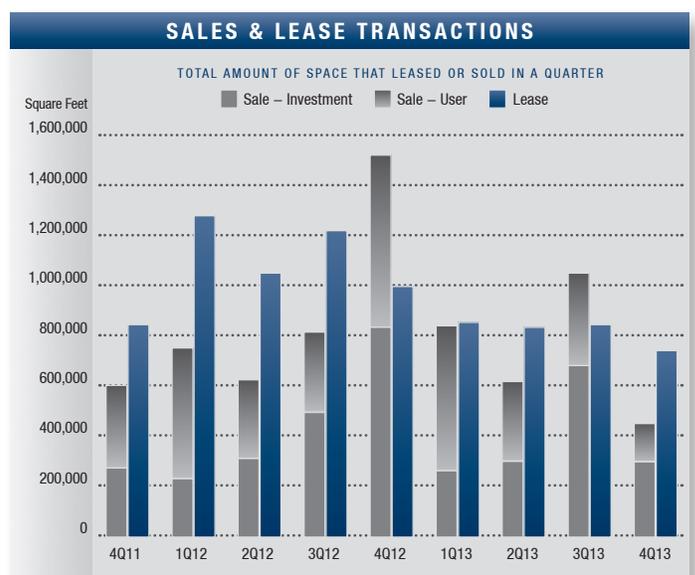
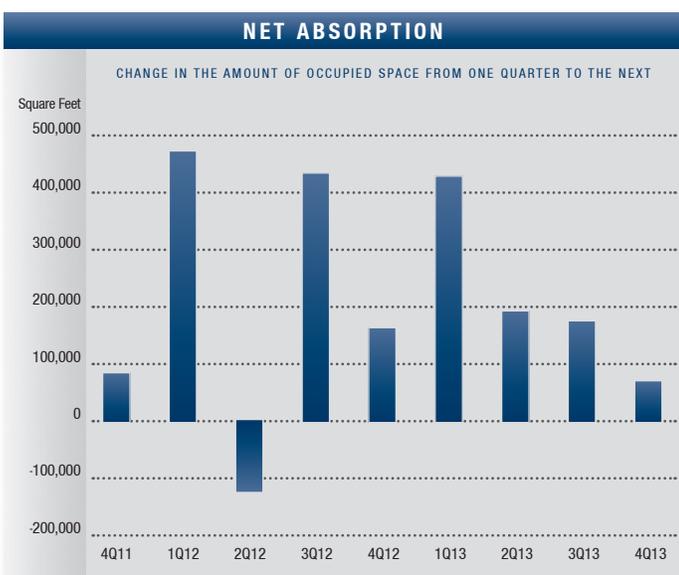
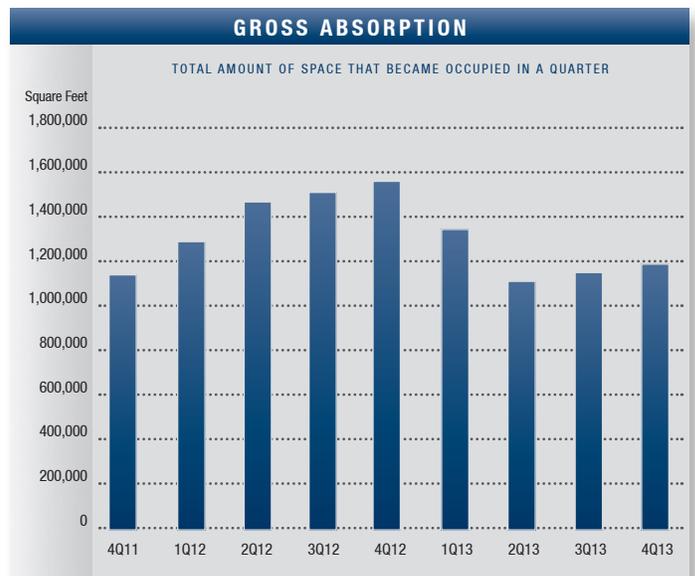
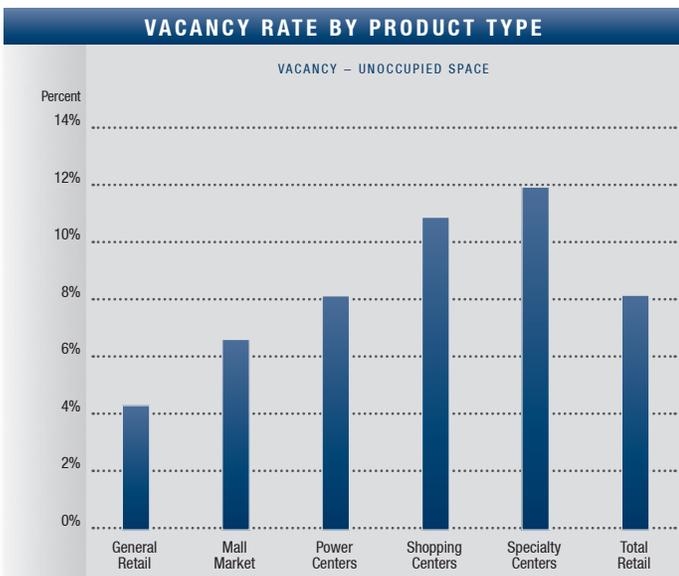
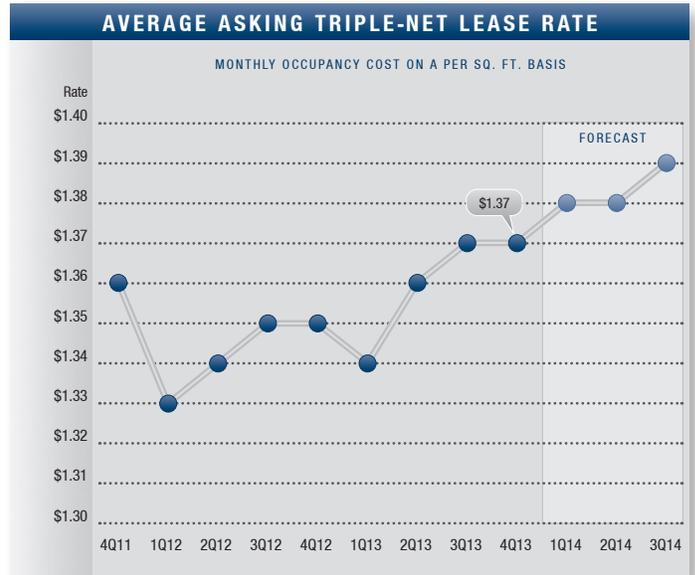
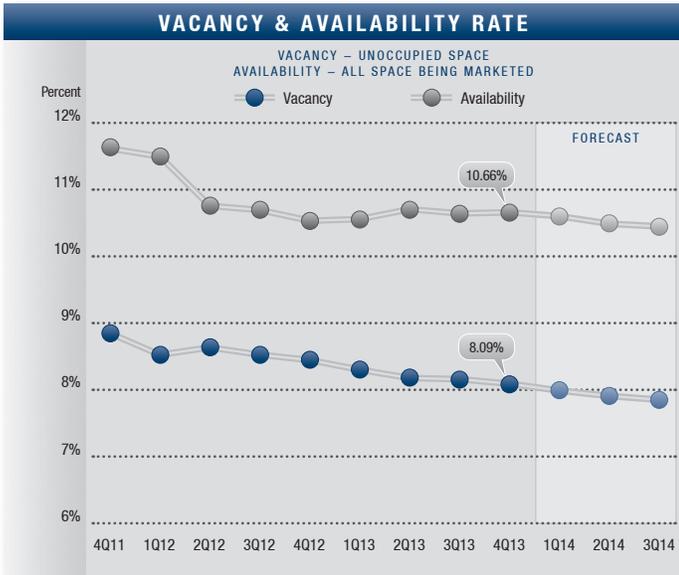
- **Positive Direction** - The Inland Empire retail market continued to move in a positive direction during 2013. Vacancy decreased compared to the previous year. The market saw over 850,000 square feet of positive net absorption for the year, while average asking triple-net lease rates displayed an increase over the fourth quarter of 2012. While these are all good indications that the market is beginning to rebound, continued steadiness and growth, supported by overall economic stability in the region, will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was only 236,000 square feet of retail space under construction in the Inland Empire at the end of 2013, most of which was for general retail space in the eastern region. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy rates and the downward pressure on lease rates, as demand catches up to supply.
- **Vacancy** - Direct/sublease space (unoccupied) finished the fourth quarter of 2013 at 8.09%, down from 2013's third quarter and a decrease of 4.26% from the same quarter of 2012. General retail had the lowest vacancy rate again in the fourth quarter, coming in at only 4.28%, while specialty centers had the highest at 11.90%.
- **Availability** - Direct/sublease space being marketed was 10.66% at the end of the year, essentially unchanged from the previous quarter's rate of 10.63% and a decrease from 2012's rate of 10.82%. West and East submarkets checked in at 9.69% and 11.09%, respectively.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.37 at the end of the fourth quarter of 2013, the same as previous quarter and up two cents from the previous year, indicating stability. We are forecasting that lease rates will continue to rise in coming quarters.
- **Absorption** - The Inland Empire retail market posted 66,048 square feet of positive net absorption in the fourth

quarter of 2013, giving the Inland Empire a total of over 850,000 square feet of positive net absorption for 2013 and 2 million square feet over the last ten quarters.

- **Transaction Activity** - Leasing activity checked in at 736,000 square feet for the fourth quarter of 2013, a decrease from the previous year's figure of nearly 1 million square feet. Sales activity also showed a decrease, posting 445,000 square feet this quarter, as compared to the 1.5 million square feet for the fourth quarter of 2012. 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 9.4% in November 2013, down from a revised 9.8% in October 2013 and below the year-ago estimate of 11.2%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. The unemployment rate was 9.6% for Riverside County and 9.1% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 10,500 payroll jobs from November 2012 to November 2013. The largest gains were 8,200 jobs in trade, transportation & utilities and 8,100 jobs in leisure & hospitality. The most significant job losses were in professional and business services, down 4,900 jobs.
- **Overall** - Retail demand is slowly improving. We are seeing decreases in the amount of available space and vacant space being added per quarter, as well as stability and increases in average asking least rates. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to recover. We foresee an increase in investment activity in the coming quarters. While these are positive indicators, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Inland Empire retail market.

## RETAIL MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Total Vacancy Rate	8.09%	8.45%	8.84%	(4.26%)
Availability Rate	10.66%	10.53%	11.63%	1.23%
Average Asking Lease Rate	\$1.37	\$1.35	\$1.36	1.48%
Sale & Lease Transactions	6,184,625	8,222,501	5,879,584	(24.78%)
Gross Absorption	4,778,040	5,811,533	4,743,345	(17.78%)
Net Absorption	858,922	939,878	293,124	N/A

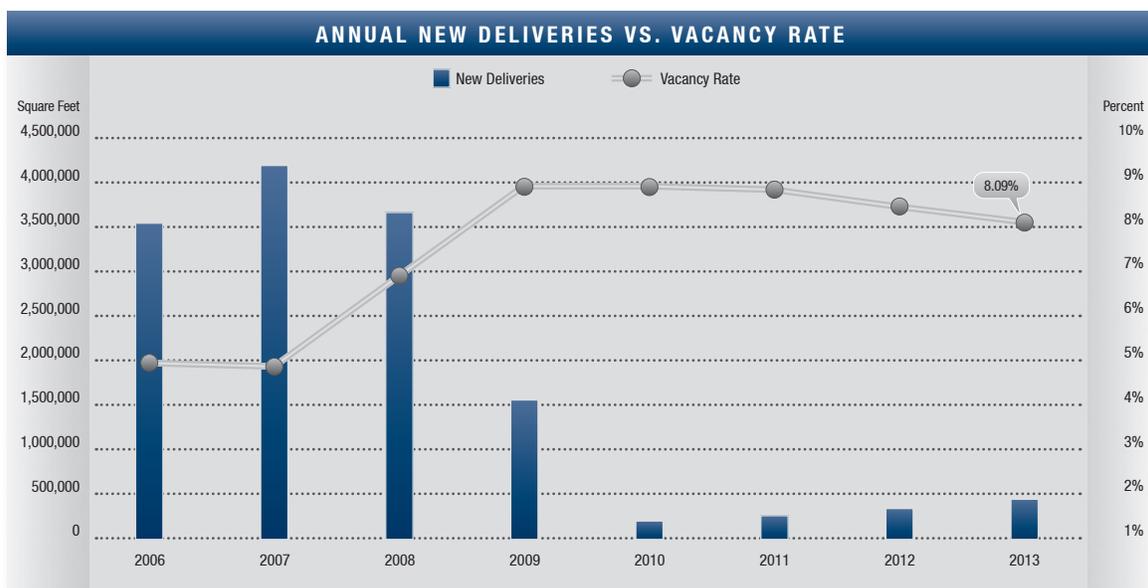


	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
<b>East</b>													
General Retail	5,152	31,755,978	147,121	2,661,740	1,376,292	4.33%	2,282,753	7.19%	\$1.06	51,760	163,681	145,070	766,832
Mall Market	124	8,177,739	0	1,141,790	782,644	9.57%	1,129,512	13.81%	\$2.16	(26,197)	109,478	20,344	202,736
Power Center	121	4,854,074	0	682,524	349,134	7.19%	379,335	7.81%	\$1.26	6,435	56,387	6,435	79,644
Shopping Center	2,778	46,882,845	88,196	3,541,626	5,163,896	11.01%	6,263,237	13.36%	\$1.34	29,767	80,832	673,109	2,083,611
Specialty Center	46	1,606,415	0	40,000	210,447	13.10%	288,416	17.95%	\$1.17	845	(9,082)	24,666	36,522
<b>East Total</b>	<b>8,221</b>	<b>93,277,051</b>	<b>235,317</b>	<b>8,067,680</b>	<b>7,882,413</b>	<b>8.45%</b>	<b>10,343,253</b>	<b>11.09%</b>	<b>\$1.28</b>	<b>62,610</b>	<b>401,296</b>	<b>869,624</b>	<b>3,169,345</b>

**West**

General Retail	1,579	10,924,692	1,000	576,046	449,208	4.11%	639,311	5.85%	\$1.20	(14,257)	28,879	30,498	248,647
Mall Market	65	6,272,228	0	21,190	168,033	2.68%	190,265	3.03%	\$1.75	10,409	214,266	15,972	271,863
Power Center	173	6,846,477	0	62,940	595,205	8.69%	799,347	11.68%	\$1.79	(29,430)	112,122	31,956	210,515
Shopping Center	1,060	17,449,371	0	900,896	1,815,245	10.40%	2,410,121	13.81%	\$1.42	39,841	98,223	208,856	841,148
Specialty Center	16	348,614	0	15,400	22,226	6.38%	17,218	4.94%	\$1.84	(3,125)	4,136	24,666	36,522
<b>West Total</b>	<b>2,893</b>	<b>41,841,382</b>	<b>1,000</b>	<b>1,576,472</b>	<b>3,049,917</b>	<b>7.29%</b>	<b>4,056,262</b>	<b>9.69%</b>	<b>\$1.47</b>	<b>3,438</b>	<b>457,626</b>	<b>311,948</b>	<b>1,608,695</b>
<b>Inland Empire Total</b>	<b>11,114</b>	<b>135,118,433</b>	<b>236,317</b>	<b>9,644,152</b>	<b>10,932,330</b>	<b>8.09%</b>	<b>14,399,515</b>	<b>10.66%</b>	<b>\$1.37</b>	<b>66,048</b>	<b>858,922</b>	<b>1,181,572</b>	<b>4,778,040</b>
General Retail	6,731	42,680,670	148,121	3,237,786	1,825,500	4.28%	2,922,064	6.85%	\$1.02	37,503	192,560	175,568	1,015,479
Mall Market	189	14,449,967	0	1,162,980	950,677	6.58%	1,319,777	9.13%	\$1.77	(15,788)	323,744	36,316	474,599
Power Center	294	11,700,551	0	745,464	944,339	8.07%	1,178,682	10.07%	\$1.63	(22,995)	168,509	38,391	290,159
Shopping Center	3,838	64,332,216	88,196	4,442,522	6,979,141	10.85%	8,673,358	13.48%	\$1.38	69,608	179,055	881,965	2,924,759
Specialty Center	62	1,955,029	0	55,400	232,673	11.90%	305,634	15.63%	\$1.40	(2,280)	(4,946)	49,332	73,044
<b>Inland Empire Total</b>	<b>11,114</b>	<b>135,118,433</b>	<b>236,317</b>	<b>9,644,152</b>	<b>10,932,330</b>	<b>8.09%</b>	<b>14,399,515</b>	<b>10.66%</b>	<b>\$1.37</b>	<b>66,048</b>	<b>858,922</b>	<b>1,181,572</b>	<b>4,778,040</b>

Lease rates are on a triple-net basis.



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
191 W. 2nd St. – 5 Properties	East	666,355	Undisclosed	MP Park & Tower, LP	Meadowbrook Park & Tower Apartments, LP
695 S. Rancho Ave.	East	500,000	Undisclosed	Dos Lagos CRM, LLC	223-1 DI Holdings, LLC
2550 Canyon Springs Pkwy – 9 Properties	East	299,927	\$204.22	TKG Murrieta Plaza, LLC	GMS Murrieta Plaza, LLC
555 W. 2nd St.	East	83,760	\$143.27	Canyon Developer, LLC	EJ Investments, Corporation
41493 Margarita Rd. – 8 Properties	Temecula Valley	77,275	\$165.00	PFP Temecula Real Estate Holdings, LLC	41233 Margarita Road Holdings, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3635 Riverside Plaza	East	45,000	Sep-13	Nordstrom Rack	Vestar Development Company
128-300 W. Base Line Rd.	East	40,030	Jul-13	Undisclosed	Pension Fund
5483 Moreno St.	West	28,000	Jul-13	Second Imperial Trading Corporaiton	Inline Distributing Company
277 E. 40th St.	San Bernardino	26,566	Aug-13	T.J. Maxx	Stater Bros. Distribution Center
1304-1374 W. Foothill Blvd.	East	23,760	Aug-13	Thrift Store, LLC	McCloskey Family Trust

**General Retail:** Typically single-tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this use code, especially when they don't meet any of the more detailed use code descriptions.

**Mall:** Retail centers which provide shopping goods, general merchandise, apparel, furniture, and home furnishings in full depth and variety. Malls are generally built around one or more full-line department stores as the major drawing powers. However, some malls, such as lifestyle centers, lack major anchors and instead rely on trendier, upscale retail to draw business from nearby affluent neighborhoods.

**Power Center:** The center typically consists of several freestanding anchors and only a minimum amount of small specialty tenants. 250,000–600,000 SF and is dominated by several large anchors, including discount department stores, off-price stores, and warehouse clubs.

**Shopping Center:** Combination of the following retail types:

**Strip Center:** An attached row of stores or service outlets managed as a coherent retail entity. May be configured in a straight line, L, or U shape. On-site parking usually in front of stores.

**Neighborhood Center:** Centers providing convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for day-to-day needs of surrounding neighborhood. Generally 30,000–100,000 square feet in size.

**Community Center:** Centers offering a wider range of apparel and goods than community centers. Often anchored by supermarkets, super drugstores, or discount department stores. Usually configured in a straight line or L or U shape. Generally 100,000–350,000 square feet in size.

**Specialty Center:** Centers focused on a particular specialty or theme. Examples include Airport Retail (a center using an airport as its main draw), Outlet Center (a center of bigger chain stores often found in malls selling their own merchandise at a discount), and Theme / Festival Center (centers built around a unifying theme, often appealing most to tourists).

SUBMARKETS

EAST

Banning, Beaumont, Bloomington, Colton, Corona, Grand Terrace, Highland, Loma Linda, Mira Loma, Moreno Valley, Norco, Perris, Redlands, Rialto, Riverside, San Bernardino

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