



Industrial Market Report

Compared to 2011:

Vacancy



UP

Net Absorption



POSITIVE

Lease Rates



UP

Transactions



DOWN

Deliveries



UP

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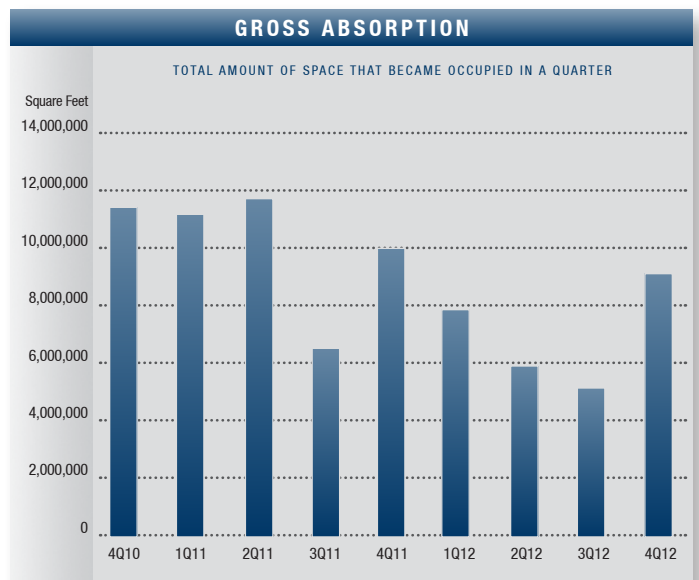
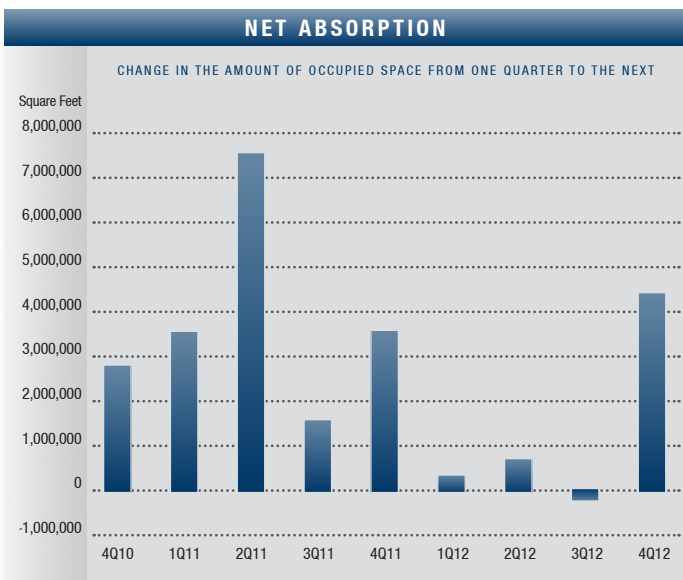
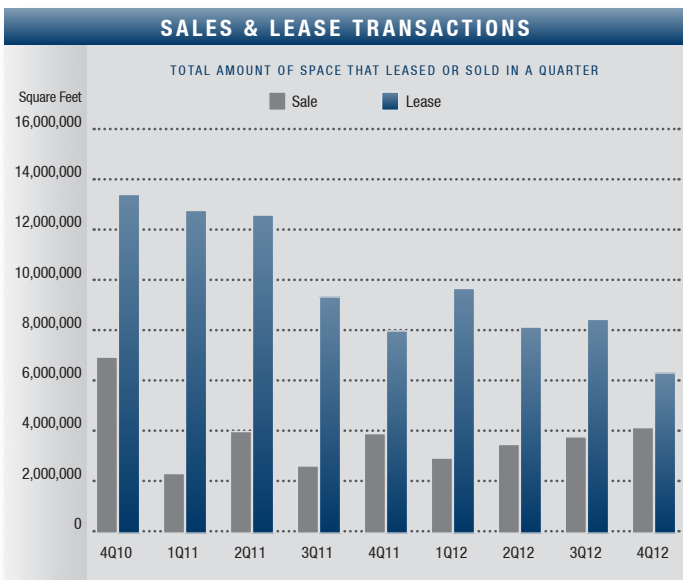
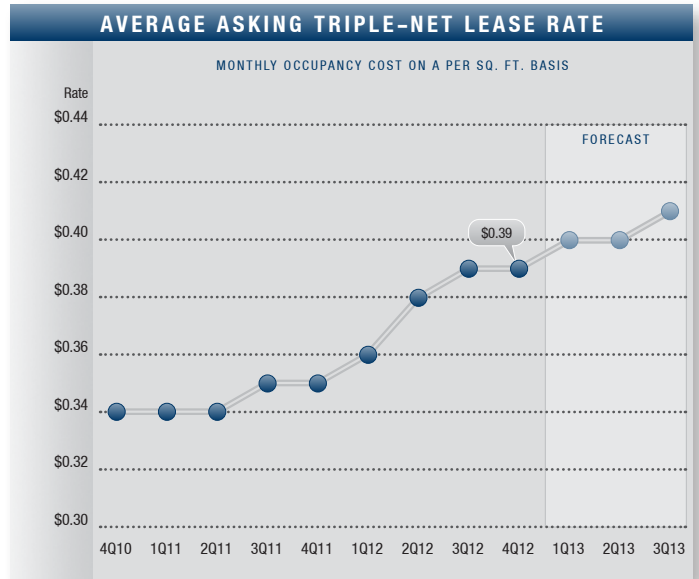
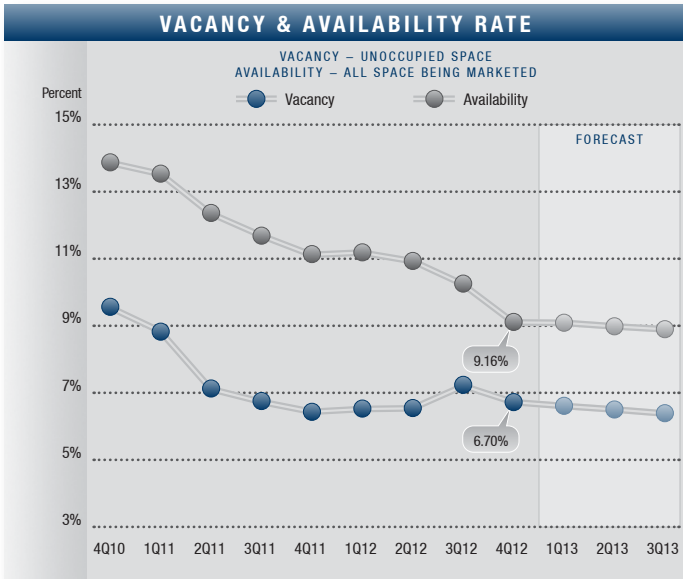


Market Highlights

- Mixed Signals** – The Inland Empire industrial market had a strong finish to 2012, ending the year with over five million square feet of positive net absorption and a double-digit percentage increase in asking lease rates for the year. Availability continued its descent from the recession-high rates of 2009, and vacancy decreased in the fourth quarter of 2012. However, lease and sale transaction volume for the year dropped compared to 2011. While some of these are positive indications, stability and job growth will need to be sustained in coming quarters for the Inland Empire industrial to continue on a path to recovery.
- Construction** – There was 7.9 million square feet under construction in the Inland Empire at the end of the fourth quarter 2012. Several new projects recently broke ground in the Inland Empire, most of which are for buildings over 400,000 square feet.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 6.7%, a decrease from the small spike seen in the previous quarter but still higher than 2011's fourth quarter rate. The lowest vacancy rate in the Inland Empire industrial market during the fourth quarter of 2012 was found in the Colton/Grand Terrace area, at 3.19%. We are forecasting that vacancy will continue to trend downward, ending 2013 around 6.3%.
- Availability** – Direct/sublease space being marketed was 9.16% at the end of the year, a decrease from the previous quarter and 17.7% lower than the previous year's rate of 11.13%. We expect availability to continue its gradual descent, ending the year 2013 below 9%.
- Lease Rates** – The average asking triple-net lease rate was \$.39 at the end of the year — an 11.43% increase from the previous year's rate of \$.35 and the same as 2012's third quarter rate. Large warehouse buildings saw the largest spikes in lease rates because of a shrinking supply of availability in larger size ranges over the last couple of quarters.
- Absorption** – The Inland Empire industrial market posted almost 4.4 million square feet of positive absorption for the fourth quarter, giving the market a net total of over 5.2 million square feet of positive absorption for 2012. Since the second quarter of 2010, the market averaged 2.8 million square feet of positive absorption per quarter.
- Transaction Activity** – Leasing activity checked in at over 32.4 million square feet for 2012, a decrease compared to the previous year's figure of 42.6 million square feet. Sales activity was up compared to the previous year, posting 14.1 million square feet of sales transactions in 2012 compared to 2011's 12.6 million square feet. 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 11.3% in November 2012, down from a revised 11.7% in October 2012 and below the year-ago estimate of 12.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. The unemployment rate was 11.5% for Riverside County and 11.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 11,000 payroll jobs from November 2011 to November 2012. The largest gains were 4,800 jobs in professional and business services and 4,300 jobs in trade, transportation, and utilities. However, the only sector to lose any jobs was government, down 2,000 jobs.
- Overall** – We are seeing a continued decrease in the amount of available space on the market, which is contributing to the increase in asking lease rates. Net occupancy has turned positive, and with few new deliveries to apply upward pressure on vacancy, the market should continue to improve. We expect to see continued strong investment activity in the coming quarters. We should also see an increase in leasing activity, as many short-term deals come up for renewal and as job creation occurs. As unemployment rates drop and consumer confidence stabilizes, the industrial market will continue to recover and accelerate.

INDUSTRIAL MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate below 100K SF	5.21%	6.24%	8.18%	(16.51%)
Vacancy Rate above 100K SF	7.53%	6.56%	10.31%	14.79%
Vacancy Rate	6.70%	6.45%	9.54%	3.88%
Availability Rate	9.16%	11.13%	13.86%	(17.70%)
Average Asking Lease Rate	\$0.39	\$0.35	\$0.34	11.43%
Sale & Lease Transactions	46,517,122	55,218,844	64,617,114	(15.76%)
Gross Absorption	27,790,052	39,293,220	38,953,206	(29.28%)
Net Absorption	5,200,416	16,218,910	11,109,022	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
West													
Chino/Chino Hills	860	38,828,583	947,916	1,909,201	2,662,076	6.86%	3,003,737	7.74%	\$0.44	564,824	(81,001)	901,214	3,329,684
Fontana	705	50,007,849	834,358	8,827,318	2,584,266	5.17%	2,892,062	5.78%	\$0.41	871,364	444,625	1,140,536	2,647,969
Mira Loma	192	24,505,674	0	327,470	1,603,353	6.54%	2,408,914	9.83%	\$0.00	61,669	474,645	302,149	1,427,627
Montclair	190	3,502,984	0	25,226	166,353	4.75%	401,760	11.47%	\$0.59	(20,804)	8,808	29,037	125,727
Ontario	1,408	97,054,693	192,443	3,753,179	8,077,449	8.32%	10,495,502	10.81%	\$0.38	341,642	(137,388)	2,175,676	6,829,764
Rancho Cucamonga	717	36,800,160	0	890,750	1,723,752	4.68%	2,792,973	7.59%	\$0.35	139,654	(268,937)	449,859	1,656,168
Upland	266	5,216,083	0	191,882	276,206	5.30%	539,732	10.35%	\$0.65	56,754	46,186	84,609	220,083
5,000-24,999	2,651	31,851,830	0	427,814	1,509,712	4.74%	2,551,520	8.01%	\$0.99	277,274	394,006	753,398	2,214,132
25,000-49,999	649	22,598,044	0	236,452	992,661	4.39%	1,807,613	8.00%	\$0.52	(58,940)	3,180	268,958	1,062,951
50,000-99,999	414	28,803,892	88,797	614,953	2,103,346	7.30%	2,761,019	9.59%	\$0.47	20,159	253,511	634,181	2,088,086
100,000-249,999	374	56,494,776	436,686	1,932,908	4,296,592	7.61%	6,623,841	11.72%	\$0.34	(275,527)	438,530	1,048,527	5,609,475
250,000-499,999	182	64,195,464	1,449,234	3,525,072	6,152,347	9.58%	7,211,251	11.23%	\$0.35	1,490,048	(290,681)	1,815,927	4,700,289
500,000 plus	68	51,972,020	0	9,187,827	2,038,797	3.92%	1,579,436	3.04%	\$0.36	562,089	(311,608)	562,089	562,089
West Total	4,338	255,916,026	1,974,717	15,925,026	17,093,455	6.68%	22,534,680	8.81%	\$0.39	2,015,103	486,938	5,083,080	16,237,022
East													
Banning	54	1,170,519	786,984	2,277,332	62,071	5.30%	245,860	21.00%	\$0.00	26,314	20,442	46,937	50,349
Beaumont	47	2,138,202	0	3,225,000	607,447	28.41%	657,711	30.76%	\$0.00	(5,500)	(18,006)	3,500	18,500
Bloomington	71	2,182,940	0	0	135,294	6.20%	153,632	7.04%	\$0.00	22,086	7,926	30,080	49,540
Corona/Norco	972	30,663,718	199,140	244,078	1,323,401	4.32%	2,546,837	8.31%	\$0.43	185,812	373,592	436,960	1,312,017
Colton/Grand Terrace	168	6,954,732	0	2,333,577	221,641	3.19%	562,437	8.09%	\$0.00	5,500	511,798	63,150	745,511
Moreno Valley	88	15,778,771	777,392	7,199,035	1,701,713	10.78%	2,746,436	17.41%	\$0.66	694,397	684,478	709,520	840,533
Perris	187	12,537,091	677,909	16,651,359	1,305,095	10.41%	1,100,302	8.78%	\$0.26	144,506	304,065	144,506	492,352
Redlands/Loma Linda	211	19,122,611	1,504,559	1,565,600	872,377	4.56%	1,277,015	6.68%	\$0.30	747,906	390,387	824,375	1,839,656
Rialto	184	18,148,497	373,771	1,294,045	730,737	4.03%	2,107,904	11.61%	\$0.32	(21,103)	(21,000)	37,732	1,077,897
Riverside	1,138	47,148,795	1,670,526	3,594,666	3,554,522	7.54%	4,204,269	8.92%	\$0.34	(569,763)	837,595	425,023	2,979,615
San Bernardino/Highland	572	31,346,389	0	2,560,273	2,097,609	6.69%	2,441,317	7.79%	\$0.48	1,153,212	1,622,201	1,218,552	2,147,060
5,000-24,999	2,391	28,090,511	11,352	705,152	1,541,903	5.49%	2,530,773	9.01%	\$0.63	194,197	456,075	583,491	2,064,167
25,000-49,999	575	20,333,992	0	576,316	1,162,746	5.72%	2,367,631	11.64%	\$0.55	205,816	274,779	512,846	1,261,619
50,000-99,999	377	25,556,341	0	782,709	875,979	3.43%	1,833,709	7.18%	\$0.37	61,658	288,497	273,621	849,400
100,000-249,999	215	31,404,527	187,788	2,962,941	2,826,199	9.00%	4,382,054	13.95%	\$0.34	124,694	1,048,972	372,795	1,953,517
250,000-499,999	70	24,745,249	1,021,008	7,578,940	3,182,138	12.86%	4,168,718	16.85%	\$0.28	(400,580)	449,401	0	2,531,891
500,000 plus	64	57,061,645	4,770,133	28,338,907	3,022,942	5.30%	2,760,835	4.84%	\$0.28	2,197,582	2,195,754	2,197,582	2,892,436
East Total	3,692	187,192,265	5,990,281	40,944,965	12,611,907	6.74%	18,043,720	9.64%	\$0.35	2,383,367	4,713,478	3,940,335	11,553,030
Inland Empire Total	8,030	443,108,291	7,964,998	56,869,991	29,705,362	6.70%	40,578,400	9.16%	\$0.39	4,398,470	5,200,416	9,023,415	27,790,052
5,000-24,999	5,042	59,942,341	11,352	1,132,966	3,051,615	5.09%	5,082,293	8.48%	\$0.63	471,471	850,081	1,336,889	4,278,299
25,000-49,999	1,224	42,932,036	0	812,768	2,155,407	5.02%	4,175,244	9.73%	\$0.42	146,876	277,959	781,804	2,324,570
50,000-99,999	791	54,360,233	88,797	1,397,662	2,979,325	5.48%	4,594,728	8.45%	\$0.42	81,817	542,008	907,802	2,937,486
100,000-249,999	589	87,899,303	624,474	4,895,849	7,122,791	8.10%	11,005,895	12.52%	\$0.41	(150,833)	1,487,502	1,421,322	7,562,992
250,000-499,999	252	88,940,713	2,470,242	11,104,012	9,334,485	10.50%	11,379,969	12.80%	\$0.30	1,089,468	158,720	1,815,927	7,232,180
500,000 plus	132	109,033,665	4,770,133	37,526,734	5,061,739	4.64%	4,340,271	3.98%	\$0.32	2,759,671	1,884,146	2,759,671	3,454,525
Inland Empire Total	8,030	443,108,291	7,964,998	56,869,991	29,705,362	6.70%	40,578,400	9.16%	\$0.39	4,398,470	5,200,416	9,023,415	27,790,052
High Desert													
Adelanto	137	3,252,388	0	17,401,463	68,540	2.11%	376,142	11.57%	\$0.00	(20,500)	235,029	71,352	349,831
Apple Valley	71	2,646,054	0	1,847,530	85,180	3.22%	140,280	5.30%	\$0.52	(16,560)	(15,510)	9,440	29,140
Barstow	56	1,375,654	0	0	247,149	17.97%	263,459	19.15%	\$0.37	(10,664)	59,891	6,436	77,736
Hesperia	190	4,045,431	0	52,000	294,642	7.28%	790,238	19.53%	\$0.19	5,612	(20,122)	37,474	119,499
Victorville	154	8,216,077	176,800	12,629,223	176,008	2.14%	238,718	2.91%	\$0.35	(14,395)	80,714	16,591	597,955
High Desert Total	608	19,535,604	176,800	31,930,216	871,519	4.46%	1,808,837	9.26%	\$0.31	(56,507)	340,002	141,293	1,174,161
Temecula Valley													
Hemet	101	2,691,062	0	0	130,264	4.84%	166,810	6.20%	\$0.00	(83,474)	(72,434)	14,252	44,462
Lake Elsinore	163	2,846,318	0	215,773	191,554	6.73%	297,846	10.46%	\$0.49	33,932	18,017	64,693	199,198
Murrieta	268	4,964,004	0	0	266,718	5.37%	350,412	7.06%	\$0.52	158,221	142,938	230,456	441,989
San Jacinto	61	1,257,187	0	0	55,100	4.38%	57,600	4.58%	\$0.00	5,000	31,794	5,000	87,894
Temecula	355	11,345,270	0	50,000	911,603	8.04%	1,282,651	11.31%	\$0.36	12,654	75,165	227,616	784,968
Wildomar	13	641,787	0	0	50,490	7.87%	63,308	9.86%	\$0.00	5,956	40,768	26,365	77,424
Temecula Valley Total	961	23,745,628	0	265,773	1,605,729	6.76%	2,218,627	9.34%	\$0.39	132,289	236,248	568,382	1,635,935

This survey consists of buildings greater than 5,000 square feet. Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	City	Square Feet	Sale Price Per SF	Buyer	Seller
10825 Production Ave.	Fontana	753,170	\$84.97	American Realty Advisors	BlackRock Granite Property Fund, Inc.
11101 Etiwanda Ave.	Fontana	611,968	\$68.63	LaSalle Investment Management	Hulco, LLC
4244 Perris Blvd.	Perris	698,274	\$61.50	Ross Stores	TA Associates
3700 S. Riverside Ave.	Rialto	328,691	\$50.50	Hillwood	GI Partners/CalSTRS
5700 E. Francis St.	Ontario	296,100	\$82.74	Alere Property Group, LLC	Hyundai USA
1777 S. Vintage Ave.	Ontario	284,559	\$64.09	Shiekh Shoes & Shiekh Ellahi	Dexus Property Group
1670 Champagne Ave.	Ontario	263,670	\$66.75	Industrial Income Trust, Inc.	Sketchers USA, Inc.

Lease Transactions

Property Address	City	Square Feet	Transaction Date	Tenant	Owner
305 W. Resource Dr. (Renewal)	Rialto	1,289,302	Feb-12	Unilever	ProLogis, LP
1910 Tippecanoe Ave.	San Bernardino	951,660	May-12	Amazon	Hillwood
24870 San Michele Rd.	Moreno Valley	691,960	May-12	Harbor Freight Tools	First Industrial Realty Trust, Inc.
17829 Slover Ave.	Fontana	651,815	Aug-12	Distribution Alterations	DCT Industrial
3551 Francis St.	Ontario	645,000	Jun-12	Electrolux	Majestic
2325 Cottonwood Ave.	Riverside	633,500	Oct-12	World Kitchen	Panattoni Development Company
17355 Glen Helen Pkwy.	San Bernardino	604,029	Oct-12	HauteLook, Inc.	Alere Property Group, LLC

Product Type

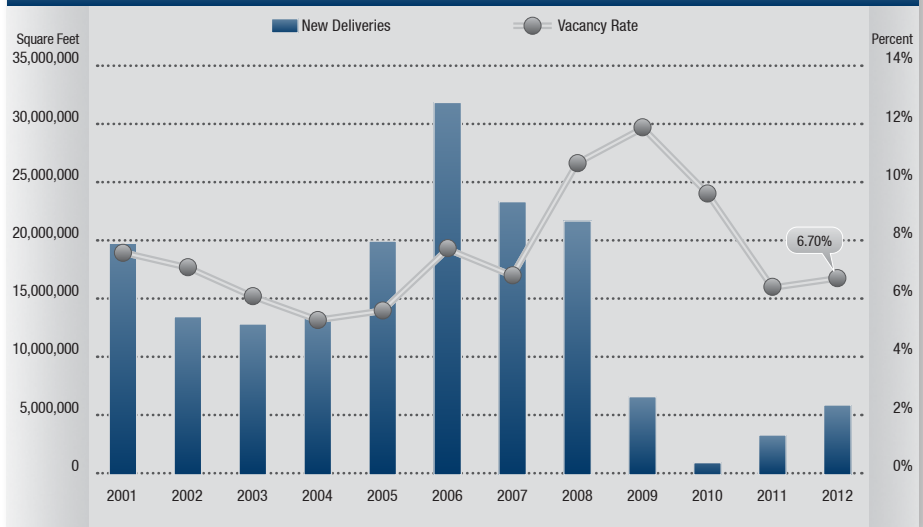
MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

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