

# FIRST QUARTER 2014 INLAND EMPIRE RETAIL

**Voit**  
REAL ESTATE SERVICES

## MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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## HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continued improving in the first quarter of 2014. Vacancy decreased compared to both the previous quarter and the prior year. The market saw over 180,000 square feet of positive net absorption for the quarter, while average asking triple-net lease rates increased one cent from the fourth quarter of 2013. 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 163,431 square feet of retail space under construction in the Inland Empire at the end of the quarter, 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 first quarter of 2014 at 7.80%, down from 2013's fourth quarter and a decrease of 4.88% from the same quarter of 2013. General retail had the lowest vacancy rate again in the first quarter, coming in at only 4.24%, while shopping centers had the highest at 10.42%.
- **Availability** - Direct/sublease space being marketed was 10.19% at the end of the quarter, down from both the previous quarter's rate of 10.50% and 2013's first quarter rate of 10.49%. West and East submarkets checked in at 9.04% and 10.71%, respectively.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.38 at the end of the first quarter of 2014, one cent higher than the previous quarter and up two cents from the previous year, indicating stability.
- **Absorption** - The Inland Empire retail market posted 183,004 square feet of positive net absorption in the first quarter of 2014, giving the Inland Empire a total of over 1.8 million square feet of positive net absorption over the last seven quarters.
- **Transaction Activity** - Leasing activity checked in at 580,000 square feet for the first quarter of 2014, down from 2013's first quarter rate of 980,000. Sales activity showed an annual increase, posting 1.5 million square feet this quarter compared to the 870,000 square feet for the first quarter of 2013. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. 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 February 2014, down from a revised 9.5% in January 2014 and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. The unemployment rate was 9.5% for Riverside County and 9.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 36,800 payroll jobs from February 2013 to February 2014. The largest gains were 9,500 jobs in trade, transportation, & utilities and 8,700 jobs in educational and health services.
- **Overall** - Retail demand is slowly improving. We are seeing decreases in the amount of vacant and available space, as well as stability and increases in average asking lease rates. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to recover. 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.

## FORECAST

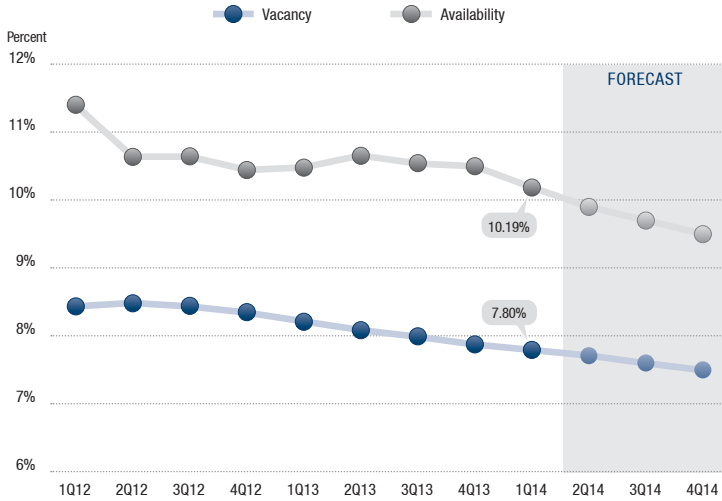
- **Employment** - We anticipate job growth of around 1.5%, or 25,700 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 1%–2% by 2015.
- **Vacancy** - We anticipate vacancy rate continuing to descend in coming quarters, dropping by 30 basis points, to around 7.50%, by 2015.

## OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	7.80%	7.87%	8.20%	(4.88%)
Availability Rate	10.19%	10.50%	10.49%	(2.86%)
Average Asking Lease Rate	\$1.38	\$1.37	\$1.34	2.99%
Sale & Lease Transactions	2,114,138	2,362,466	1,856,606	13.87%
Gross Absorption	1,076,431	1,225,381	1,355,391	(20.58%)
Net Absorption	183,004	236,982	440,652	N/A

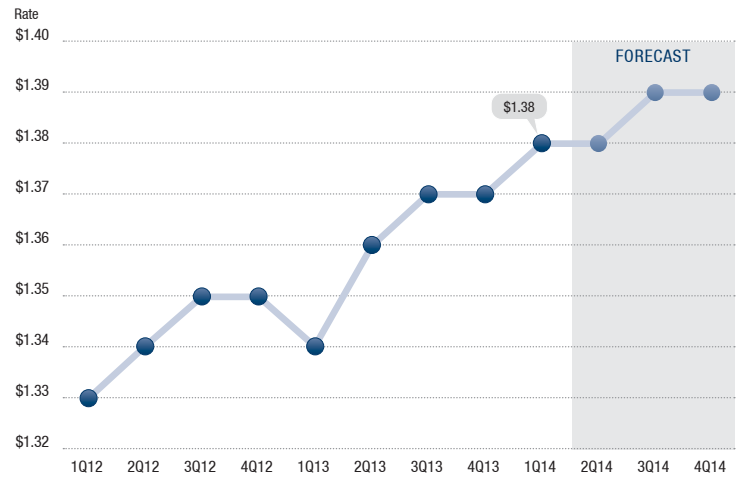
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



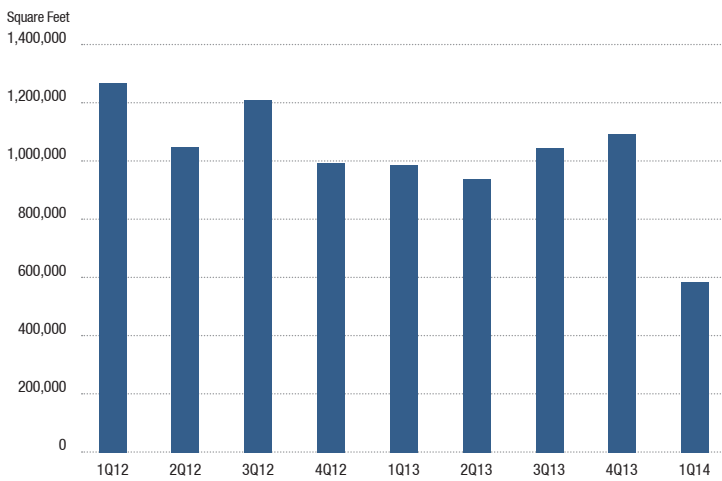
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



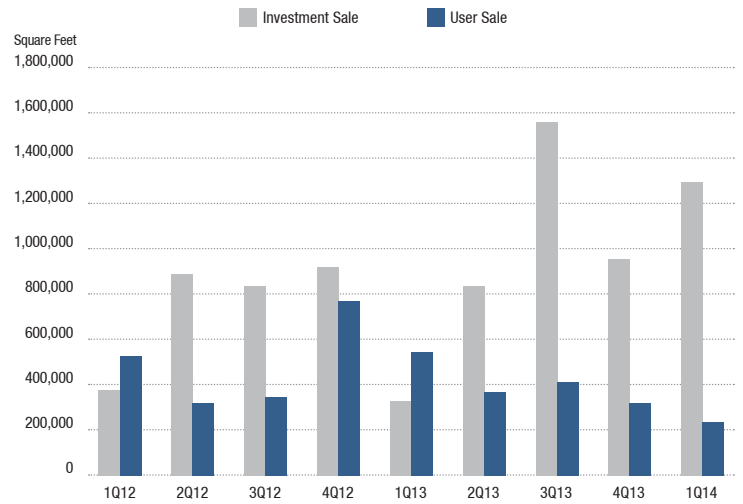
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



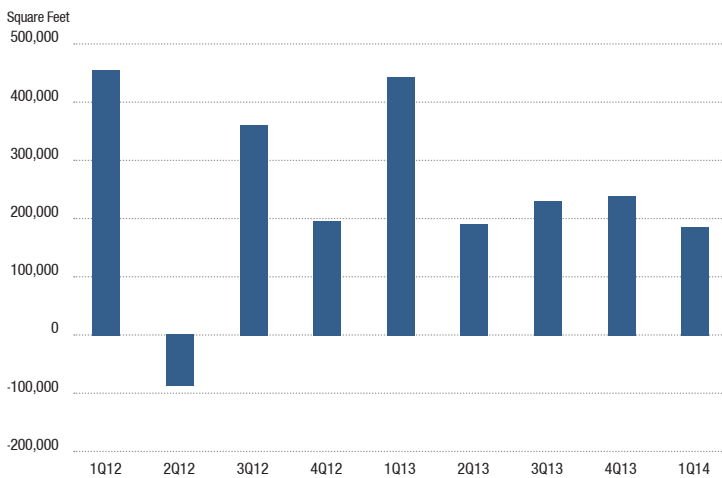
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



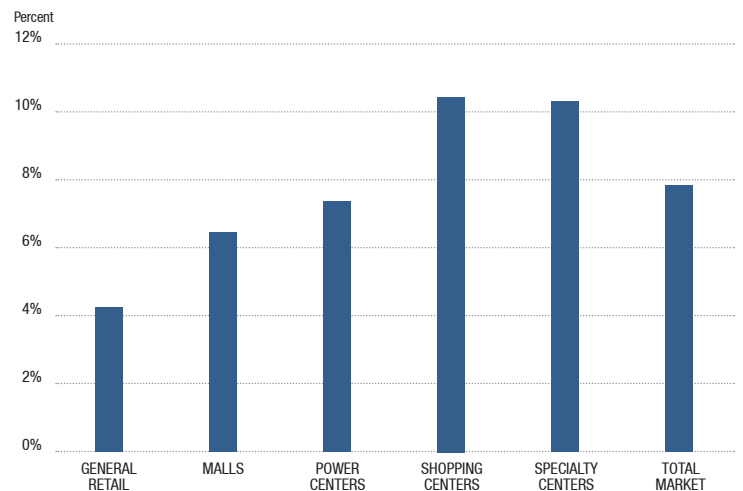
## NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



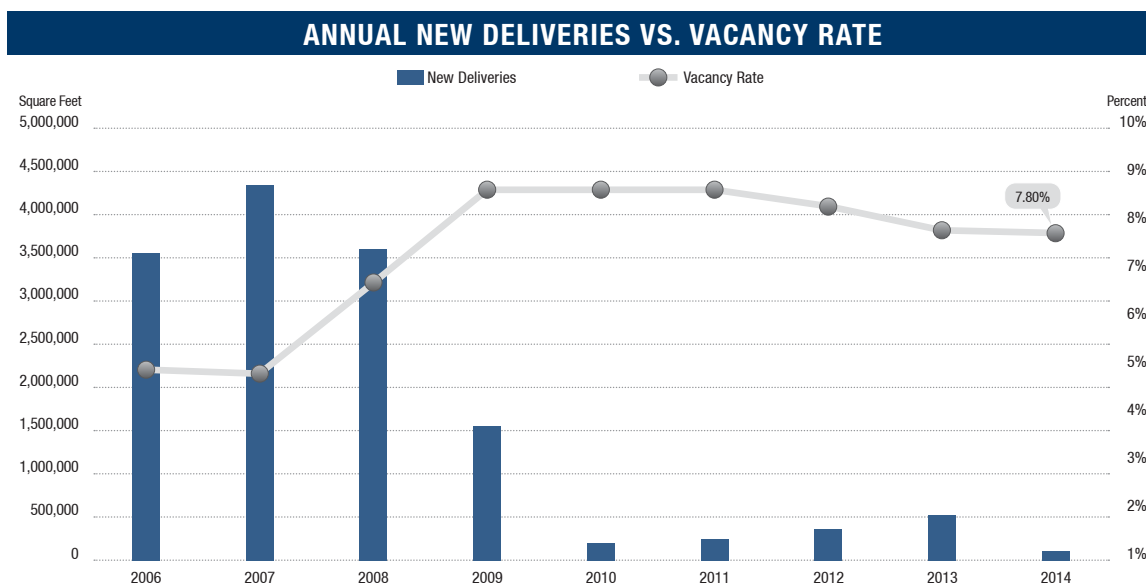
## VACANCY RATE BY PRODUCT TYPE

VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
<b>East</b>													
General Retail	5,145	31,425,164	70,009	2,893,963	1,362,585	4.34%	2,220,075	7.06%	\$1.09	22,584	163,681	194,229	766,832
Malls	115	7,837,229	0	1,136,590	750,146	9.57%	1,087,603	13.88%	\$2.27	23,402	109,478	27,368	202,736
Power Centers	129	5,082,609	0	690,274	449,683	8.85%	495,725	9.75%	\$1.28	4,997	56,387	10,897	79,644
Shopping Centers	2,801	47,125,217	65,602	3,515,687	4,880,072	10.36%	5,888,150	12.49%	\$1.34	146,319	80,832	560,428	2,083,611
Specialty Centers	46	1,619,293	0	50,000	185,446	11.45%	280,875	17.35%	\$1.17	15,657	(9,082)	15,657	36,522
<b>East Total</b>	<b>8,236</b>	<b>93,089,512</b>	<b>135,611</b>	<b>8,286,514</b>	<b>7,627,932</b>	<b>8.19%</b>	<b>9,972,428</b>	<b>10.71%</b>	<b>\$1.32</b>	<b>212,959</b>	<b>401,296</b>	<b>808,579</b>	<b>3,169,345</b>
<b>West</b>													
General Retail	1,585	10,924,148	0	527,684	434,456	3.98%	613,137	5.61%	\$1.19	4,686	28,879	33,188	248,647
Malls	66	6,280,590	0	22,577	162,150	2.58%	186,310	2.97%	\$1.68	5,815	214,266	7,003	271,863
Power Centers	172	6,748,088	13,399	168,440	420,748	6.24%	598,523	8.87%	\$1.79	29,505	112,122	35,307	210,515
Shopping Centers	1,070	17,572,306	14,421	849,514	1,864,436	10.61%	2,371,519	13.50%	\$1.46	(74,969)	98,223	187,346	841,148
Specialty Centers	16	348,614	0	15,400	17,218	4.94%	16,018	4.59%	\$1.75	5,008	4,136	5,008	36,522
<b>West Total</b>	<b>2,909</b>	<b>41,873,746</b>	<b>27,820</b>	<b>1,583,615</b>	<b>2,899,008</b>	<b>6.92%</b>	<b>3,785,507</b>	<b>9.04%</b>	<b>\$1.50</b>	<b>(29,955)</b>	<b>457,626</b>	<b>267,852</b>	<b>1,608,695</b>
<b>Inland Empire Total</b>	<b>11,145</b>	<b>134,963,258</b>	<b>163,431</b>	<b>9,870,129</b>	<b>10,526,940</b>	<b>7.80%</b>	<b>13,757,935</b>	<b>10.19%</b>	<b>\$1.38</b>	<b>183,004</b>	<b>858,922</b>	<b>1,076,431</b>	<b>4,778,040</b>
General Retail	6,730	42,349,312	70,009	3,421,647	1,797,041	4.24%	2,833,212	6.69%	\$1.11	27,270	192,560	227,417	1,015,479
Malls	181	14,117,819	0	1,159,167	912,296	6.46%	1,273,913	9.02%	\$2.02	29,217	323,744	34,371	474,599
Power Centers	301	11,830,697	13,399	858,714	870,431	7.36%	1,094,248	9.25%	\$1.52	34,502	168,509	46,204	290,159
Shopping Centers	3,871	64,697,523	80,023	4,365,201	6,744,508	10.42%	8,259,669	12.77%	\$1.38	71,350	179,055	747,774	2,924,759
Specialty Centers	62	1,967,907	0	65,400	202,664	10.30%	296,893	15.09%	\$1.39	20,665	(4,946)	20,665	73,044
<b>Inland Empire Total</b>	<b>11,145</b>	<b>134,963,258</b>	<b>163,431</b>	<b>9,870,129</b>	<b>10,526,940</b>	<b>7.80%</b>	<b>13,757,935</b>	<b>10.19%</b>	<b>\$1.38</b>	<b>183,004</b>	<b>858,922</b>	<b>1,076,431</b>	<b>4,778,040</b>

Lease rates are on a triple-net basis.



## MAJOR TRANSACTIONS

## Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
8250 Day Creek Blvd. – 11 Properties	West	298,223	\$181.07	Milan Capital Management	O & S Holdings, LLC
6301-6413 Pats Ranch Rd. – 9 Properties	West	210,963	\$232.27	Merlone Geier Management	Vestar Development Company
12625 Frederick St. – 10 Properties	East	285,775	\$146.87	Brixton Capital, LP	Fritz Duda Company
700 E. Redlands Blvd. – 4 Properties	East	86,942	\$146.83	1050 Ball Road, Inc.	LaeRoc Partners, Inc.
16289 Sierra Lakes Pkwy.	West	45,000	\$277.04	Fit Development, LP	Ridge Park Enterprises, Inc.

## Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2200 W. Florida Ave.	Temecula Valley	50,000	Feb-14	Hobby Lobby	MCS Hemet Valley Center, LLC
3833 Grand Ave.	West	25,000	Jan-14	Undisclosed	Vestar Development
25670 Redlands Blvd.	East	15,007	Mar-14	Fresh & Easy	Em-50 Uav Darkco, LLC
9741 Magnolia Ave.	West	13,200	Feb-14	Indian Sweet & Spice Market	Kevin Broukhim
570-618 S. Mount Vernon Ave.	East	13,050	Jan-14	Undisclosed	Reliable Properties

**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

## WEST

Chino Hills,  
Chino, Fontana,  
Montclair, Ontario,  
Rancho Cucamonga,  
Upland

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