



REAL ESTATE SERVICES

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Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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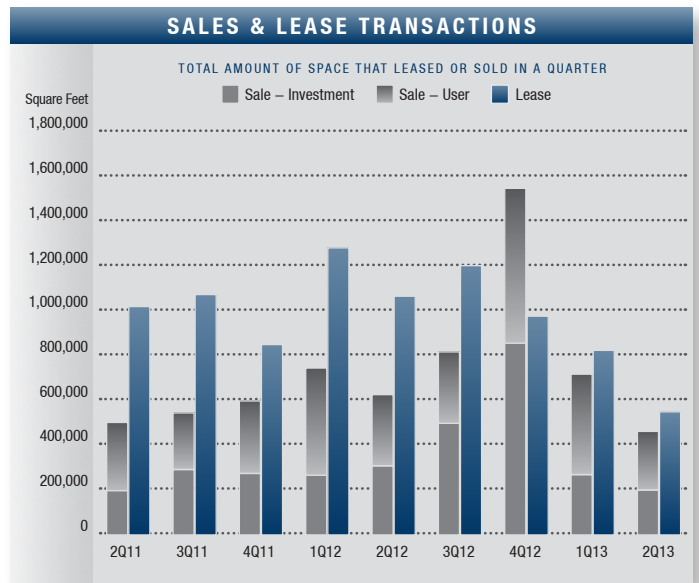
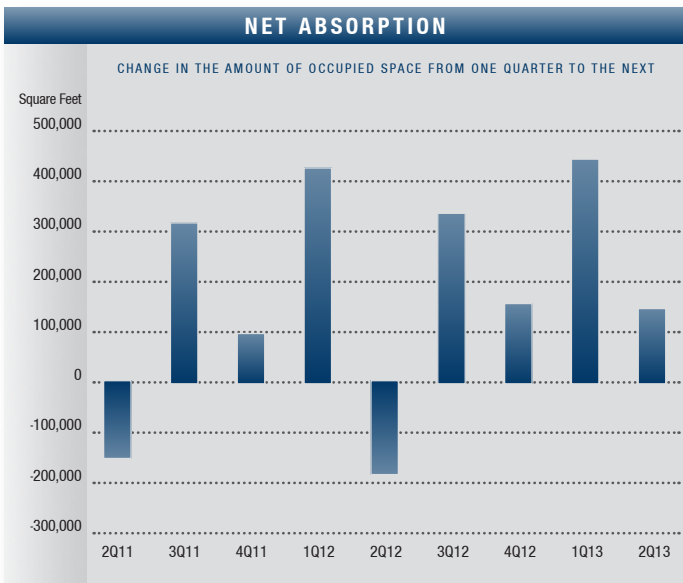
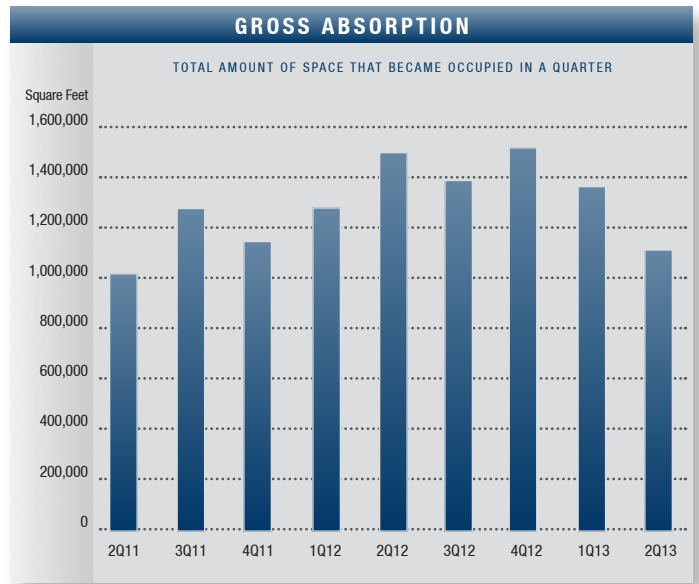
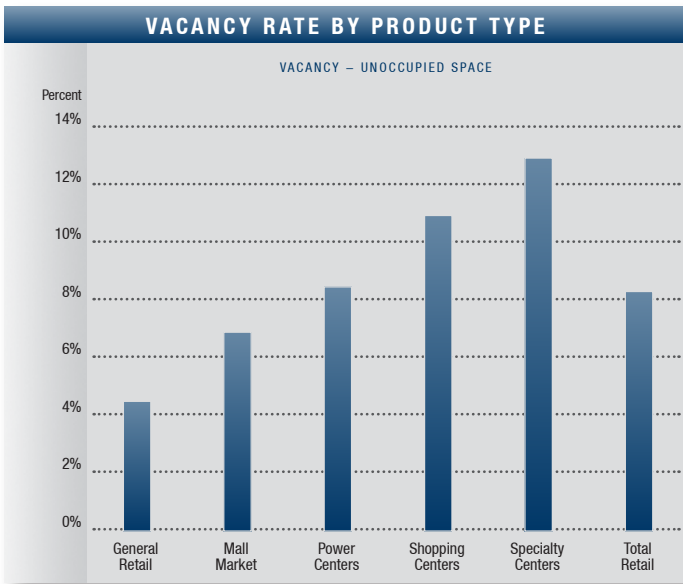
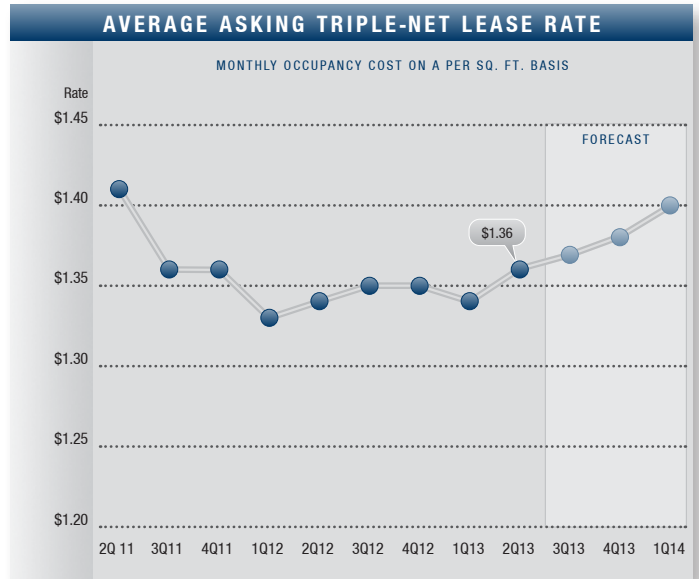
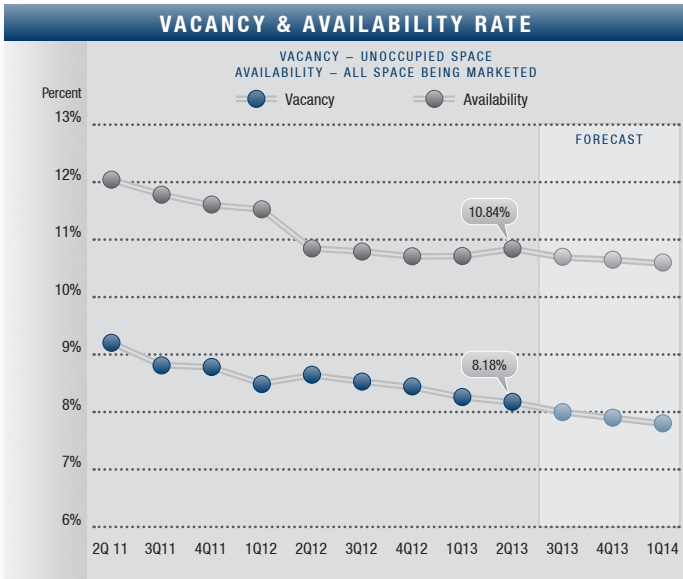
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Market Highlights

- Positive Direction** - The Inland Empire retail market continued to move in a positive direction during the first half of 2013. Vacancy decreased compared to both the previous quarter and previous year. The market saw over 700,000 square feet of positive net absorption for the year, while average asking triple-net lease rates displayed an increase over the first quarter of 2013. While these are all good indications that the market is beginning to rebound, continued stability and growth, supported by overall economic stability in the region, will need to be sustained in coming quarters to be considered recovery.
- Absorption** - The Inland Empire retail market posted 142,660 square feet of positive net absorption in the second quarter of 2013, giving the Inland Empire a total of 1.8 million square feet of positive net absorption for the last eight quarters.
- Transaction Activity** - Leasing activity checked in at 540,278 square feet for the second quarter of 2013, a decrease from the previous year's figure of one million square feet. Sales activity also showed a decrease, posting 450,390 square feet this quarter, as compared to the 611,326 square feet for the second 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 9.2% in May 2013, down from a revised 9.6% in April 2013 and below the year-ago estimate of 11.9%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. The unemployment rate was 9.2% 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 gained 11,700 payroll jobs from May 2012 to May 2013. The largest gains were 5,700 jobs in leisure and hospitality and 6,100 jobs in trade, transportation, and utilities. The government sector displayed the largest annual decrease, down 3,500 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 in average asking least rates. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market has begun to stabilize. 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.
- Construction** - There was only 99,648 square feet of retail space under construction in the Inland Empire in the second quarter 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 second quarter of 2013 at 8.18%, down from 2013's first quarter and a decrease of 5.43% from the same quarter last year. General retail had the lowest vacancy rate again this quarter, coming in at only 4.42%, while specialty centers had the highest at 12.89%.
- Availability** - Direct/sublease space being marketed was 10.84% at the end of the quarter, a slight increase from the previous quarter's rate of 10.71% and the same as the previous year's rate. West and East submarkets checked in at 9.60% and 11.40%, respectively.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.36 at the end of the second quarter of 2013, up two cents from the previous quarter and previous year, overall indicating stability. We are forecasting that lease rates will continue to stabilize and begin to rise in 2013, ending the year at around \$1.38.

RETAIL MARKET OVERVIEW

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Vacancy Rate	8.18%	8.26%	8.65%	(5.43%)
Availability Rate	10.84%	10.71%	10.84%	0.00%
Average Asking Lease Rate	\$1.36	\$1.34	\$1.34	1.49%
Sale & Lease Transactions	990,668	1,518,446	1,664,781	(40.49%)
Gross Absorption	1,103,183	1,362,006	1,498,659	(26.39%)
Net Absorption	142,660	440,194	(182,336)	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 202013	Square Feet Available	Availability Rate 202013	Average Asking Lease Rate	Net Absorption 202013	Net Absorption 2013	Gross Absorption 202013	Gross Absorption 2013

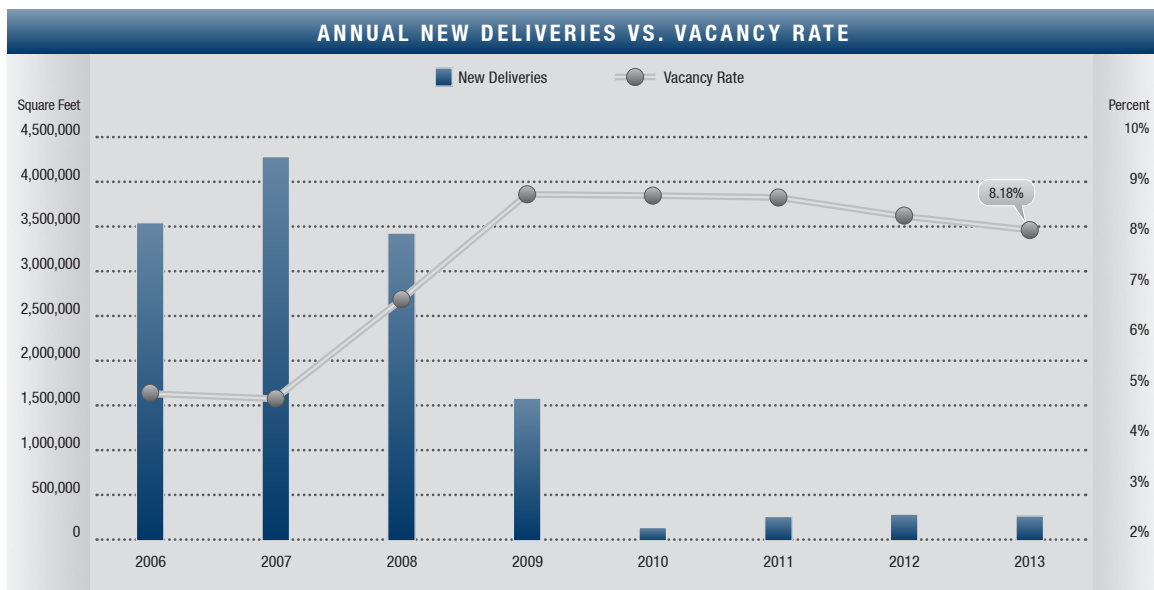
East

General Retail	5,175	31,642,782	82,196	1,126,887	1,474,727	4.66%	2,285,135	7.22%	\$0.98	(45,631)	14,532	152,506	364,576
Mall Market	123	8,314,077	0	63,300	819,875	9.86%	1,263,837	15.20%	\$1.85	35,358	67,257	36,077	79,465
Power Center	122	5,060,842	0	212,000	374,814	7.41%	495,245	9.79%	\$1.44	(47,775)	30,707	11,993	95,414
Shopping Center	2,722	46,392,427	14,452	1,198,210	5,038,859	10.86%	6,222,965	13.41%	\$1.35	66,846	119,668	480,257	993,115
Specialty Center	45	1,632,554	0	0	236,192	14.47%	339,472	20.79%	\$1.15	2,471	(15,153)	4,830	6,630
East Total	8,187	93,042,682	96,648	2,600,397	7,944,467	8.54%	10,606,654	11.40%	\$1.28	11,269	623,562	685,663	3,780,229

West

General Retail	1,581	10,897,505	0	362,454	404,880	3.72%	614,681	5.64%	\$1.16	(17,518)	25,989	40,253	162,796
Mall Market	64	6,326,178	3,000	21,190	185,707	2.94%	187,274	2.96%	\$1.56	3,381	193,592	47,130	237,341
Power Center	170	6,771,017	0	60,940	624,654	9.23%	750,299	11.08%	\$1.71	61,856	88,873	67,833	104,180
Shopping Center	1,046	17,427,414	0	440,434	1,845,049	10.59%	2,437,710	13.99%	\$1.44	77,611	50,128	256,243	414,411
Specialty Center	16	348,614	0	15,400	19,101	5.48%	19,101	5.48%	\$1.75	6,061	7,261	6,061	7,261
West Total	2,877	41,770,728	3,000	900,418	3,079,391	7.37%	4,009,065	9.60%	\$1.47	131,391	78,708	417,520	1,566,178
Inland Empire Total	11,064	134,813,410	99,648	3,500,815	11,023,858	8.18%	14,615,719	10.84%	\$1.36	142,660	702,270	1,103,183	5,346,407
General Retail	6,756	42,540,287	82,196	1,489,341	1,879,607	4.42%	2,899,816	6.82%	\$1.02	(63,149)	40,521	192,759	527,372
Mall Market	187	14,640,255	3,000	84,490	1,005,582	6.87%	1,451,111	9.91%	\$1.77	38,739	260,849	83,207	316,806
Power Center	292	11,831,859	0	272,940	999,468	8.45%	1,245,544	10.53%	\$1.63	14,081	119,580	79,826	199,594
Shopping Center	3,768	63,819,841	14,452	1,638,644	6,883,908	10.79%	8,660,675	13.57%	\$1.38	144,457	169,796	736,500	1,407,526
Specialty Center	61	1,981,168	0	15,400	255,293	12.89%	358,573	18.10%	\$1.40	8,532	(7,892)	10,891	13,891
Inland Empire Total	11,064	134,813,410	99,648	3,500,815	11,023,858	8.18%	14,615,719	10.84%	\$1.36	142,660	702,270	1,103,183	5,346,407

Lease rates are on a triple-net basis.



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
735 N. Milliken Ave. – 6 Properties	West	128,330	\$89.61	REO Property Group, LLC	O.R.U.S. Oxylane Real Estate
1100 Hamner Ave.	East	65,476	\$87.82	WinCo Foods, LLC	ABS Surplus–O, LLC
6160 Arlington St. – 2 Properties	East	59,760	\$87.85	My Montecito, Inc.	6160 Arlington Ave, LLC
1111-1295 S. State St. – 2 Properties	Temecula Valley	58,034	\$100.80	Diamond Valley 425 CPW, LLC	Wohl/Hemet, LLC
1045-1055 Bloomington Ave.	East	52,726	N/A	Autozone Development Corporation	Stater Bros Markets

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3900 Tyler St.	East	30,087	Jun-13	Staples	Downs Riverside, LLC
3700 Inland Empire Blvd. – Renewal	West	23,266	Apr-13	West Coast Ultrasound Institute	Sarkis Investments Company, LLC
12625 Frederick St.	East	13,167	Apr-13	BevMo!	Walton Street Capital, LLC
22482 Walnut Dr.	Temecula Valley	12,000	May-13	Arena Sports	Thomas & Joan Frank
17030-17184 Slover Ave.	West	11,670	Jun-13	Mega Shoe Store	Milan 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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