

SECOND QUARTER 2014 INLAND EMPIRE RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continued improving in the second quarter of 2014. Vacancy decreased compared to both the previous quarter and the prior year. The market saw over 257,000 square feet of positive net absorption for the quarter, while average asking triple-net lease rates increased two cents from the same quarter last year. These are all good indications that the market is maintaining continuous growth.
- **Construction** - There was 173,401 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 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 2014 at 7.78%, down from first quarter and a decrease of 4.07% from the same quarter of 2013. General retail had the lowest vacancy rate again in the second quarter, coming in at only 4.21%, while specialty centers had the highest at 10.87%.
- **Availability** - Direct/sublease space being marketed was 10.36% at the end of the quarter, down from 2013's second quarter rate of 10.63%. West and East submarkets checked in at 9.46% and 10.77% 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 second quarter of 2014, an increase of two cents from the same quarter of the previous year, indicating stability.
- **Absorption** - The Inland Empire retail market posted 257,571 square feet of positive net absorption in the second quarter of 2014, giving the Inland Empire a total of over 2 million square feet of positive net absorption over the last eight quarters.
- **Transaction Activity** - Leasing activity checked in at 455,388 square feet for the second quarter of 2014, down from 2013's second quarter rate of 1,049,176 square feet. Sales activity showed an annual increase, posting 1.2 million square feet this quarter. This statistic can have some lag time in being reported, so look for second 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 8.0% in May 2014, down from a revised 8.3% in April 2014 and below the year-ago estimate of 9.7%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. The unemployment rate was 8.0% for Riverside County and 8.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 29,300 payroll jobs from May 2013 to May 2014. The largest gains were 8,200 jobs in trade, transportation, & utilities and 6,400 jobs in leisure and hospitality.
- **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 strengthen. These positive indicators, combined with job creation will continue to drive demand in the Inland Empire retail market.

FORECAST

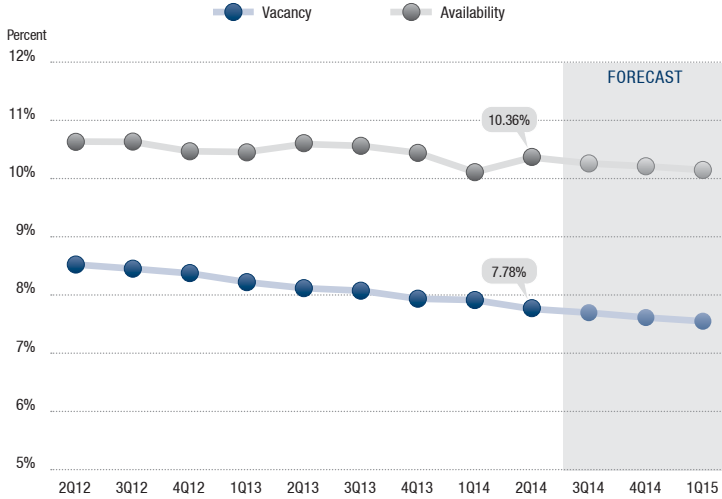
- **Employment** - We anticipate job growth of around 1.5% or 25,700 jobs in the Inland Empire area over 2014. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 1%–3% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 25 basis points, to around 7.50% by the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	7.78%	7.91%	8.11%	(4.07%)
Availability Rate	10.36%	10.22%	10.63%	(2.54%)
Average Asking Lease Rate	\$1.38	\$1.38	\$1.36	1.47%
Sale & Lease Transactions	1,609,928	2,355,961	2,169,027	(25.78%)
Gross Absorption	977,221	1,124,593	1,147,848	(14.86%)
Net Absorption	257,571	237,662	195,212	N/A

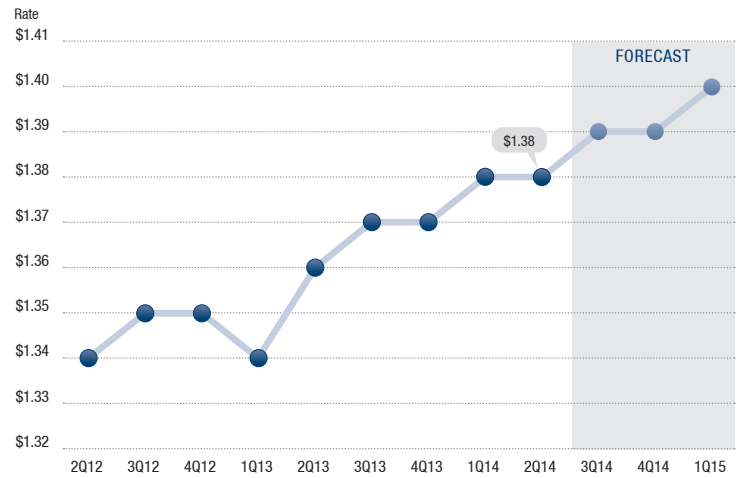
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



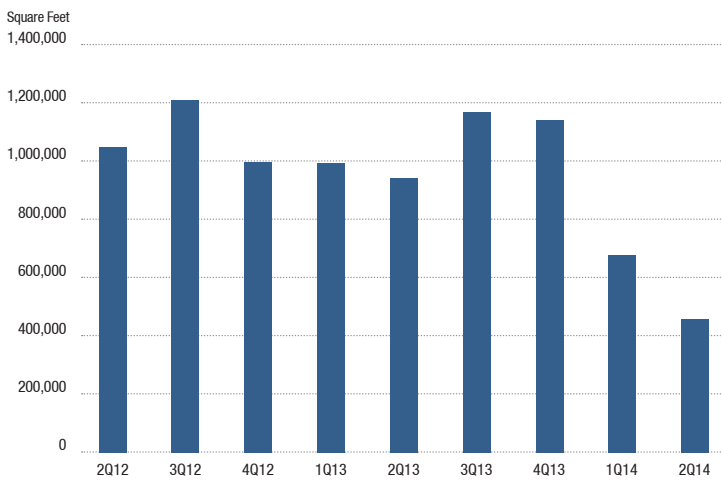
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



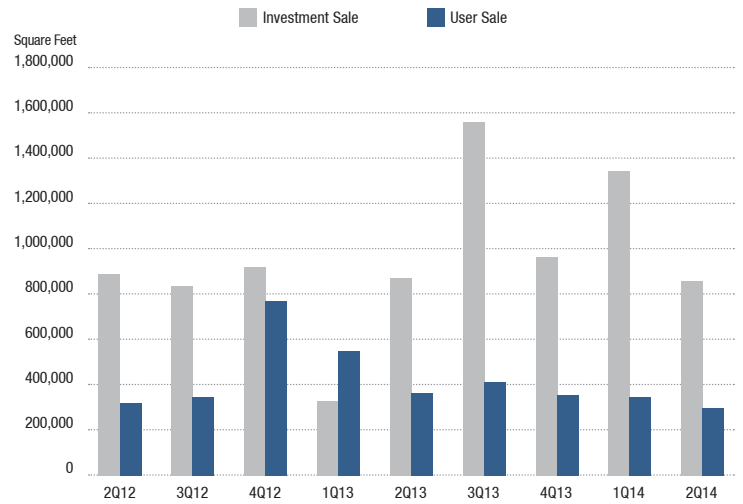
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



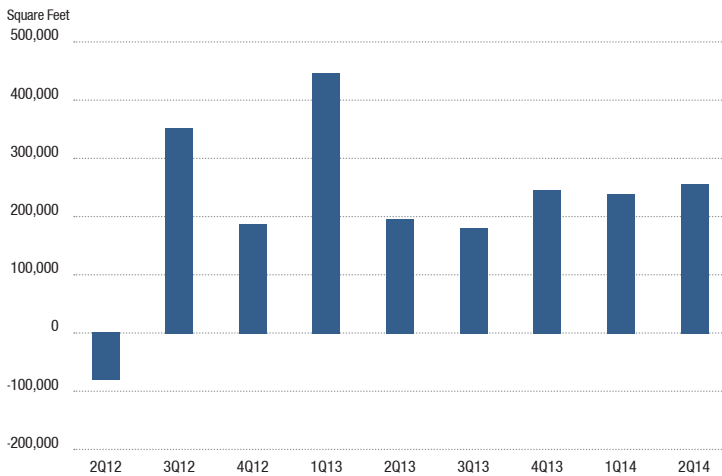
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



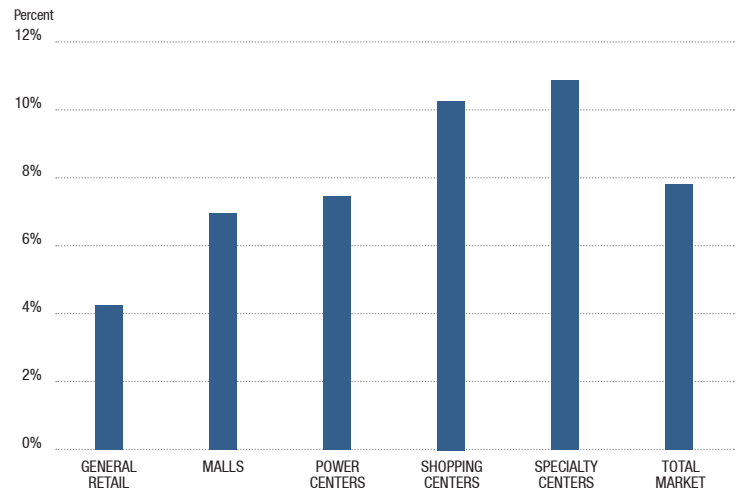
NET ABSORPTION

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



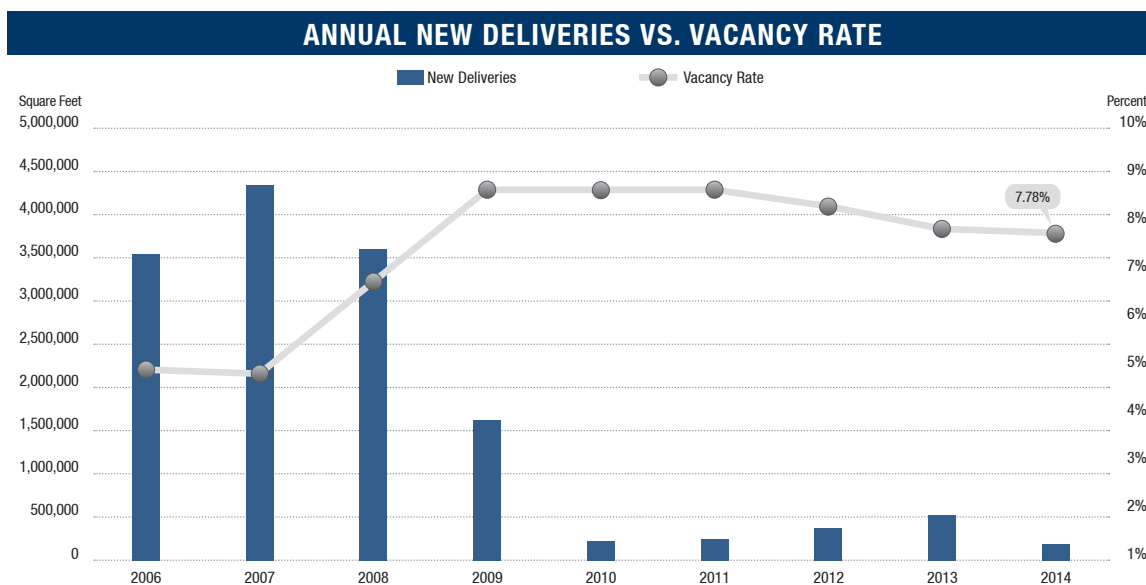
VACANCY RATE BY PRODUCT TYPE

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
East													
General Retail	5,166	31,892,739	101,447	2,777,861	1,345,720	4.22%	2,230,456	6.99%	\$1.08	64,679	91,931	159,762	355,522
Malls	116	7,972,229	0	1,136,590	816,195	10.24%	1,135,437	14.24%	\$2.28	67,879	92,353	104,269	132,709
Power Centers	127	4,860,332	0	690,274	456,986	9.40%	534,007	10.99%	\$1.28	(7,303)	(2,306)	8,671	19,568
Shopping Centers	2,811	47,314,690	40,134	3,329,861	4,831,985	10.21%	5,891,698	12.45%	\$1.38	121,973	282,208	451,783	1,030,562
Specialty Centers	46	1,599,778	0	50,000	195,790	12.24%	291,219	18.20%	\$1.17	(10,344)	5,313	0	15,657
East Total	8,266	93,639,768	141,581	7,984,586	7,646,676	8.17%	10,082,817	10.77%	\$1.33	236,884	469,499	724,485	1,554,018
West													
General Retail	1,597	10,969,392	0	518,963	458,521	4.18%	693,646	6.32%	\$1.06	(11,331)	3,676	28,248	69,876
Malls	66	6,280,590	0	21,190	178,036	2.83%	277,298	4.42%	\$1.71	(15,886)	(10,071)	4,300	12,446
Power Centers	150	6,138,582	0	27,940	363,756	5.93%	584,859	9.53%	\$1.69	(32,737)	3,070	38,299	73,712
Shopping Centers	1,095	18,116,537	31,820	993,014	1,882,438	10.39%	2,388,837	13.19%	\$1.49	79,441	29,948	180,689	387,654
Specialty Centers	16	348,614	0	15,400	16,018	4.59%	16,018	4.59%	\$1.75	1,200	6,208	1,200	6,208
West Total	2,924	41,853,715	31,820	1,576,507	2,898,769	6.93%	3,960,658	9.46%	\$1.48	20,687	32,831	252,736	549,896
Inland Empire Total	11,190	135,493,483	173,401	9,561,093	10,545,445	7.78%	14,043,475	10.36%	\$1.38	257,571	502,330	977,221	2,103,914
General Retail	6,763	42,862,131	101,447	3,296,824	1,804,241	4.21%	2,924,102	6.82%	\$1.11	53,348	95,607	188,010	425,398
Malls	182	14,252,819	0	1,157,780	994,231	6.98%	1,412,735	9.91%	\$2.02	51,993	82,282	108,569	145,155
Power Centers	277	10,998,914	0	718,214	820,742	7.46%	1,118,866	10.17%	\$1.52	(40,040)	764	46,970	93,280
Shopping Centers	3,906	65,431,227	71,954	4,322,875	6,714,423	10.26%	8,280,535	12.66%	\$1.38	201,414	312,156	632,472	1,418,216
Specialty Centers	62	1,948,392	0	65,400	211,808	10.87%	307,237	15.77%	\$1.39	(9,144)	11,521	1,200	21,865
Inland Empire Total	11,190	135,493,483	173,401	9,561,093	10,545,445	7.78%	14,043,475	10.36%	\$1.38	257,571	502,330	977,221	2,103,914

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
39650–39716 Winchester Rd. – 10 Properties	Temecula Valley	165,934	\$361.59	JLL Income Property Trust, Inc.	W-ADP Rancho Temecula VII, LLC
9710–9880 Central Ave.	West	96,989	\$163.73	PC Capital, LLC	Montclair Town Center, LLC
12835 Mountain Ave. – 5 Properties	West	90,804	\$170.70	Chan Family Living Trust	Jow Investment, LLC
5517 Philadelphia St.	West	81,282	\$90.43	Exeter 14191 DE, LLC	2005-C4 DMM Portfolio Properties
2704–2744 Canyon Springs Pkwy.	East	75,223	\$223.34	SpringTree Global Investors	Ridge Park Enterprises, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
17052 Slover Ave.	West	10,028	Apr-14	Kirkland	M West Holdings
17525 Arrow Ave.	West	8,760	May-14	Undisclosed	Sajid Z. & Shazia S. Siddiqi
2923–2983 Chino Ave.	West	8,442	Jun-14	Undisclosed	RJAN, LLC
5404 Moreno St.	West	7,422	Apr-14	Undisclosed	R & R Management, LLC
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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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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