

SECOND QUARTER 2015 INLAND EMPIRE RETAIL

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REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continued to move in a positive direction as we moved into the second quarter of 2015. Vacancy and availability decreased compared to this time last year. The market saw 331,773 square feet of positive net absorption for the quarter, while average asking triple-net lease rates equaled the going rate of the same quarter last year. These are all good indications that the market is maintaining continuous growth.
- **Construction** - There was 274,074 square feet of retail space under construction in the Inland Empire at the end of the quarter, most of which was for shopping centers 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 2015 at 7.67%, down a tenth of a basis point from the first quarter of 2015 but a decrease of 2.04% from the same quarter of 2014. General retail had the lowest vacancy rate in the quarter, coming in at only 4.48%, while specialty centers had the highest at 12.92%.
- **Availability** - Direct/sublease space being marketed was 10.26% at the end of the quarter, down 10 basis points from 2014's second quarter rate of 10.36%. West and East submarkets checked in at 9.31% and 10.68% 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 2015, which equals the rate from the same quarter of the previous year.
- **Absorption** - The Inland Empire retail market posted 331,773 square feet of positive net absorption in the second quarter of 2015, giving the Inland Empire a total of over 3.9 million square feet of positive net absorption since the third quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at 745,963 square feet for the second quarter of 2015, down from 2014's second quarter sum of 1,067,521 square feet. Sales activity showed a decrease, posting 855,246 thousand square feet in the second quarter of 2015 compared to 2014's second quarter total of 1.28 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 6.4% in May 2015, up from a revised 6.2% in January 2015 and below the year-ago estimate of 7.8%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. The unemployment rate was 6.4% for Riverside County and 6.3% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 51,800 payroll jobs from May 2014 to May 2015. The professional and business services sector posted the greatest increase in employment over the year, adding 15,900 jobs.
- **Overall** - Retail demand is slowly improving. We are seeing decreases in the amounts of vacant and available space, as well as stability 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

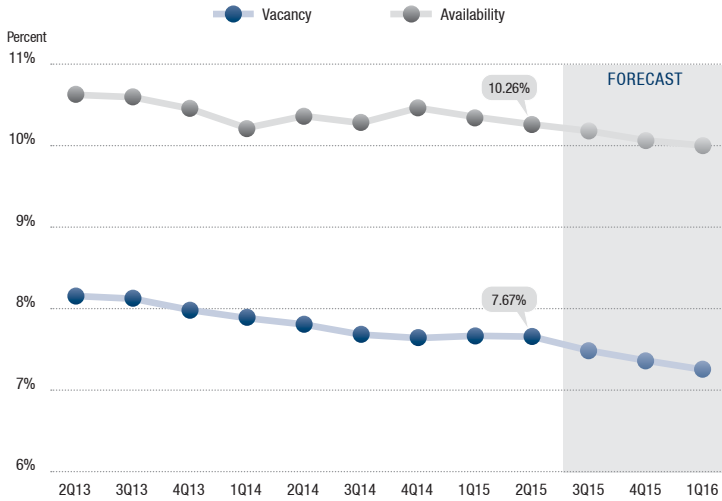
- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 40 basis points, to around 7.25%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	7.67%	7.68%	7.83%	(2.04%)
Availability Rate	10.26%	10.34%	10.36%	(0.97%)
Average Asking Lease Rate	\$1.38	\$1.36	\$1.38	0.00%
Sale & Lease Transactions	1,601,209	3,636,410	2,351,028	(31.89%)
Gross Absorption	1,300,214	816,204	1,017,962	27.73%
Net Absorption	331,773	35,181	179,069	N/A

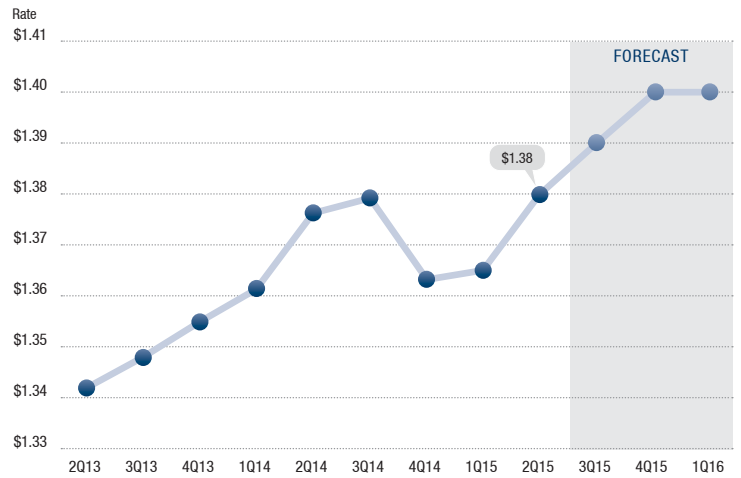
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



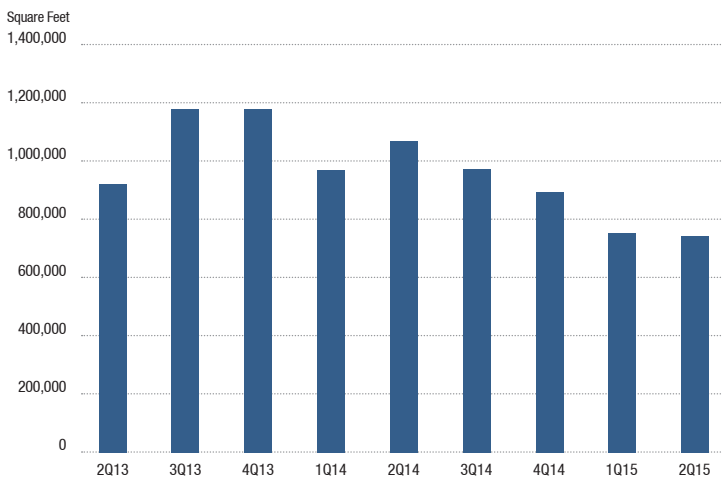
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



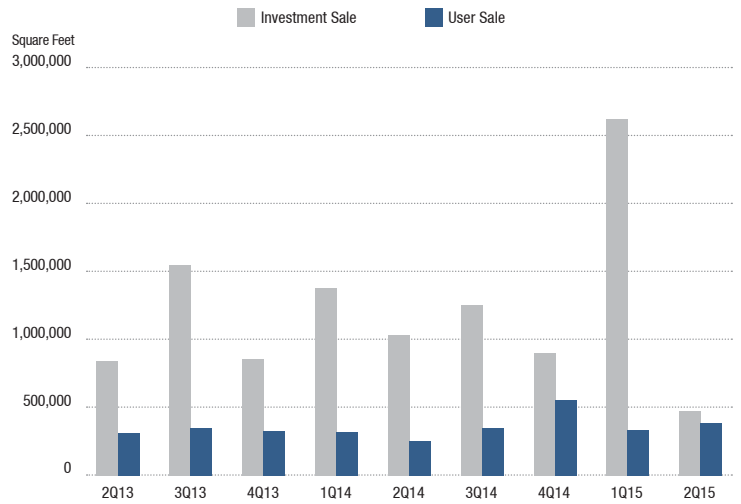
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



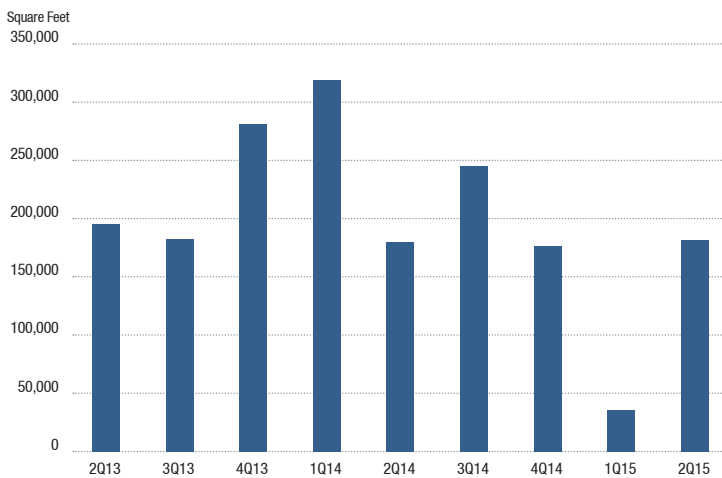
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



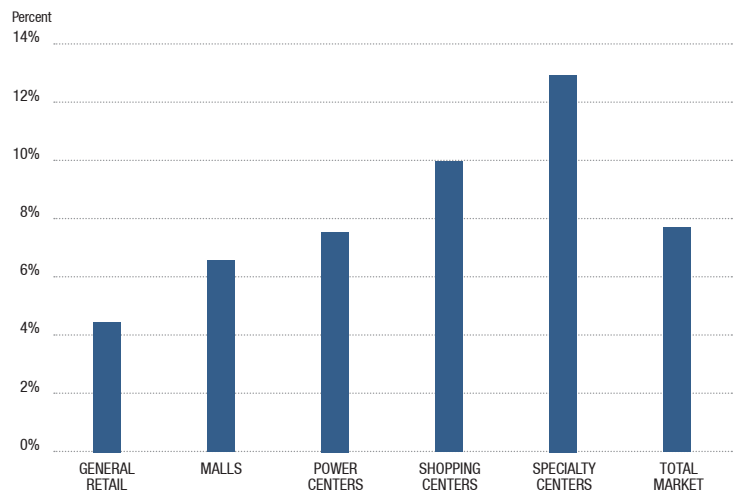
NET ABSORPTION

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



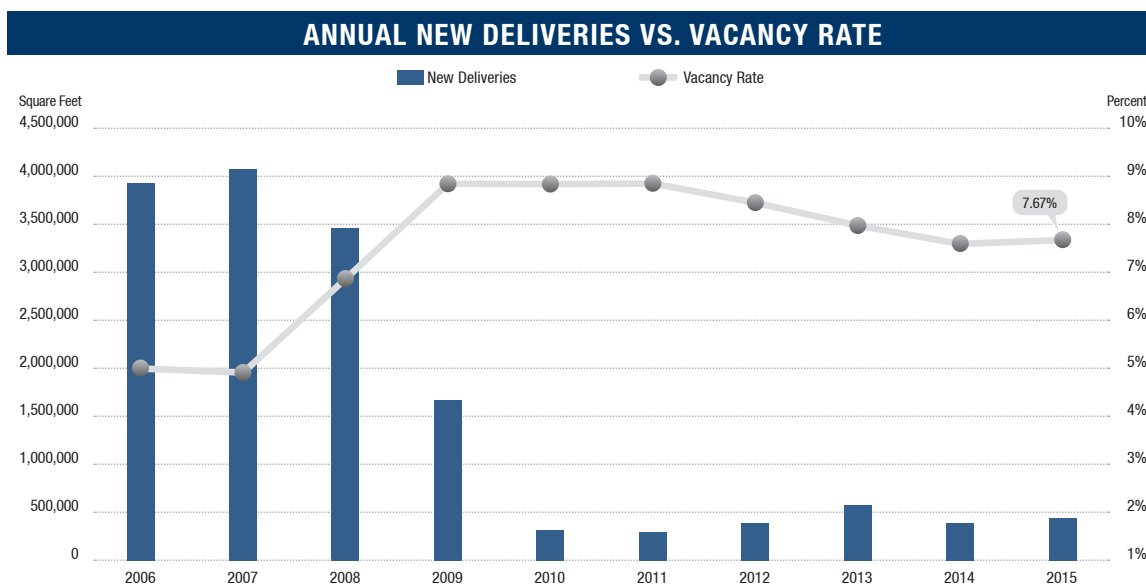
VACANCY RATE BY PRODUCT TYPE

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
East													
General Retail	5,190	32,004,657	34,114	3,817,556	1,477,979	4.62%	2,214,796	6.92%	\$1.07	(39,512)	(65,917)	117,300	268,529
Malls	145	9,036,952	0	773,100	796,677	8.82%	1,113,467	12.32%	\$1.81	1,336	(1,643)	9,238	13,679
Power Centers	133	5,047,635	54,960	122,500	426,064	8.44%	481,083	9.53%	\$1.36	300,046	299,790	306,426	311,376
Shopping Centers	2,849	47,659,831	185,000	3,495,102	4,859,559	10.20%	6,155,939	12.92%	\$1.36	18,446	145,145	473,480	893,367
Specialty Centers	20	636,020	0	151,400	113,073	17.78%	113,073	17.78%	\$0.00	45,187	45,187	49,293	49,293
East Total	8,337	94,385,095	274,074	8,359,658	7,673,352	8.13%	10,078,358	10.68%	\$1.33	325,503	422,562	955,737	1,536,244
West													
General Retail	1,597	10,820,252	0	1,306,966	438,807	4.06%	595,059	5.50%	\$1.01	(7,610)	12,738	50,279	99,225
Malls	41	5,441,209	0	0	148,175	2.72%	259,203	4.76%	\$1.82	(23,545)	(15,213)	0	10,000
Power Centers	182	6,915,902	0	25,880	475,660	6.88%	674,186	9.75%	\$1.51	6,835	(99,851)	98,099	109,336
Shopping Centers	1,104	18,040,029	0	1,520,962	1,678,542	9.30%	2,332,135	12.93%	\$1.50	30,590	46,718	196,099	361,613
Specialty Centers	16	348,614	0	30,800	14,093	4.04%	7,968	2.29%	\$1.75	0	0	0	0
West Total	2,940	41,566,006	0	2,884,608	2,755,277	6.63%	3,868,551	9.31%	\$1.45	6,270	(55,608)	344,477	580,174
Inland Empire Total	11,277	135,951,101	274,074	11,244,266	10,428,629	7.67%	13,946,909	10.26%	\$1.38	331,773	366,954	1,300,214	2,116,418
General Retail	6,787	42,824,909	34,114	5,124,522	1,916,786	4.48%	2,809,855	6.56%	\$1.05	(47,122)	(53,179)	167,579	367,754
Malls	186	14,478,161	0	773,100	944,852	6.53%	1,372,670	9.48%	\$1.82	(22,209)	(16,856)	9,238	23,679
Power Centers	315	11,963,537	54,960	148,380	901,724	7.54%	1,155,269	9.66%	\$1.47	306,881	199,939	404,525	420,712
Shopping Centers	3,953	65,699,860	185,000	5,016,064	6,538,101	9.95%	8,488,074	12.92%	\$1.39	49,036	191,863	669,579	1,254,980
Specialty Centers	36	984,634	0	182,200	127,166	12.92%	121,041	12.29%	\$1.75	45,187	45,187	49,293	49,293
Inland Empire Total	11,277	135,951,101	274,074	11,244,266	10,428,629	7.67%	13,946,909	10.26%	\$1.38	331,773	366,954	1,300,214	2,116,418

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
3600 Lime St. – 8 Properties	East	97,350	\$101.69	Mission Lakes Owner, LLC	Lakeland West Capital, LLC
8443 Haven Ave.	West	72,897	\$116.60	Kim B. & Susan T. Ly	Gregson Family Trust
800 E. Lugonia Ave.	East	63,440	\$122.16	Patel BB & GB 2002 Trust	Thanks & Praise, LLC
1617 E. Highland. – 4 Properties	East	60,964	\$121.06	HM Suns Investments, Inc.	Shiekh S. Ellahi
1630 W. Foothill Blvd. – 4 Properties	West	26,538	\$275.08	Rho Family Trust	Hess-Junction Plaza, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
295 E. Caroline St.	East	59,095	Apr-2015	Big Country	CCI Club Sb, LLC
9059 San Bernardino Rd.	West	43,665	Jun-2015	Chuze Fitness	US Bank Na Series 2005-CKI 1
1250 E. Washington St.	East	43,391	May-2015	Just Bargain Stores, Inc.	Oxnard Corner, LLC
2355 Compton Ave.	East	32,500	Apr-2015	LA Fitness	Fitness International, LLC
1210 Magnolia Ave.	East	24,047	May-2015	Sears	FMK
25050 Alessandro Blvd.	East	24,238	Jun-2015	Smart & Final	Perris Partners, LLC

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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