



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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Market Highlights

- **Positive Direction** - The Inland Empire retail market continued to move in a positive direction in the third quarter of 2012. Both vacancy and availability showed decreases compared to both the previous quarter and previous year. The market near 169,000 square feet of positive net absorption, while average asking triple-net lease rates ticked up for the second consecutive quarter. 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.
- **Construction** - There was only 307,510 square feet of retail space under construction in the Inland Empire in the third quarter of 2012, 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 third quarter of 2012 at 8.29%, down from the second quarter and a decrease of 4.38% from the same quarter last year. General retail had the lowest vacancy rate again this quarter, coming in at only 4.19%, while specialty centers had the highest at 20.08%.
- **Availability** - Direct/sublease space being marketed was 10.52% at the end of the third quarter of 2012, a decrease from the previous quarter's rate of 10.73% and 9.62% lower than the previous year's rate. West and East submarkets checked in at 7.55% and 8.63%, respectively.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.35 at the end of the third quarter, the second consecutive increase the market has seen, an indication of stability. We are forecasting that lease rates will continue rise in the last quarter of 2012, ending the year around \$1.37.
- **Absorption** - The Inland Empire retail market posted 168,704 square feet of positive net absorption in the third quarter of 2012, about cancelling out the negative

absorption from the second quarter and giving the Inland Empire a total of 402,782 square feet of positive net absorption for the year.

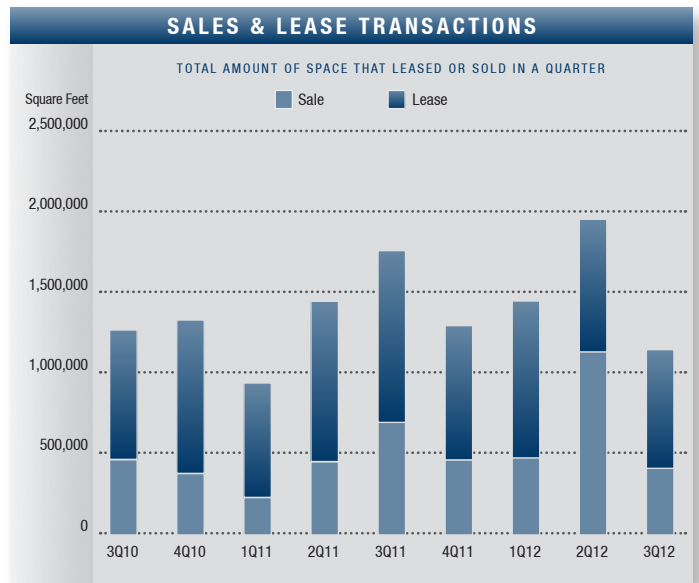
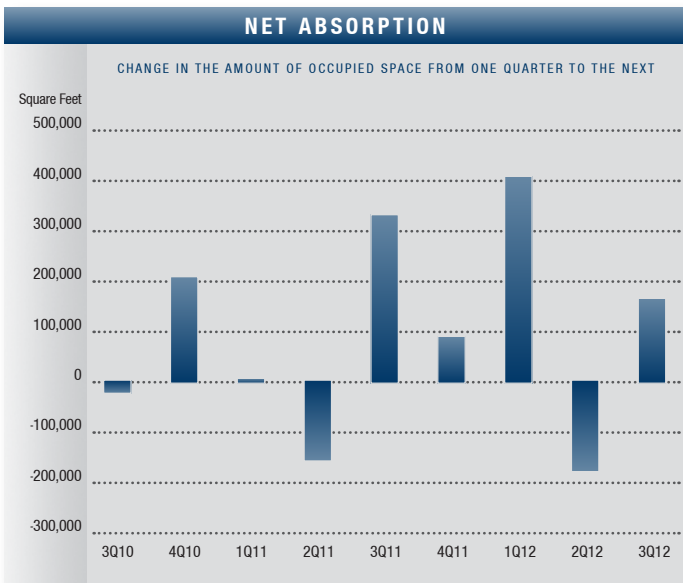
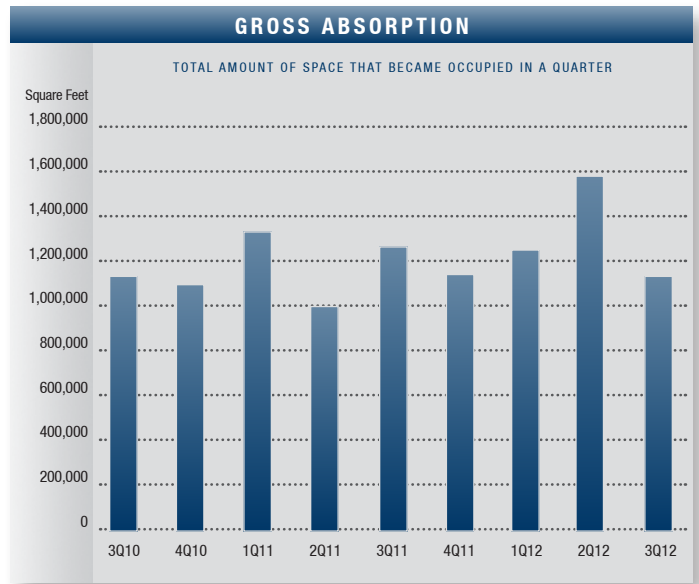
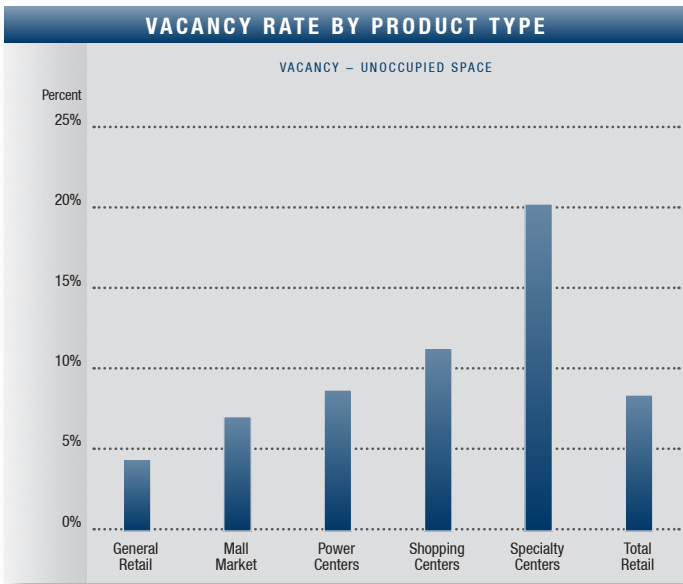
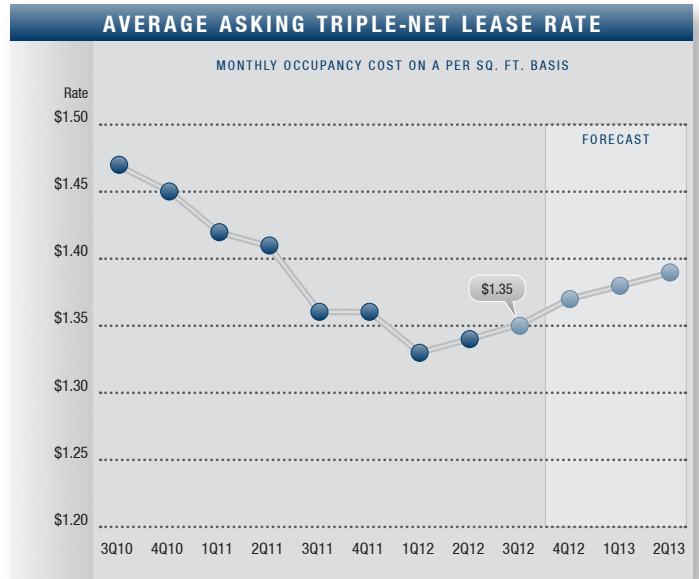
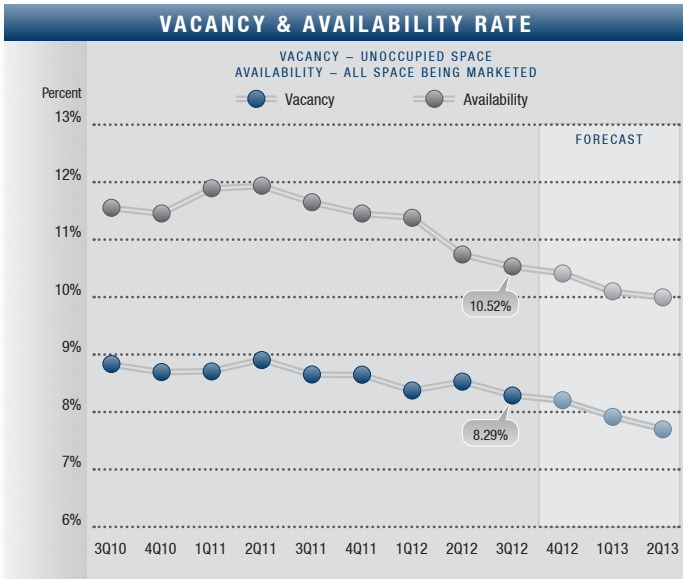
- **Transaction Activity** - Leasing activity checked in at 732,128 square feet in the for the third quarter, a small decrease from both the previous quarter's figure of 819,264 square feet and 2011's 830,915 square feet. Sales activity also showed a drop, posting only 398,536 square feet in the third quarter. It is important to note that this statistic does have some lag time to post final numbers, so look for the third quarter numbers to increase some. 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 12.3% in August 2012, up from a revised 12.7% in July 2012 and below the year-ago estimate of 13.9%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. The unemployment rate was 12.7% for Riverside County and 11.8% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 25,400 payroll jobs from August 2011 to August 2012. The largest gains were 12,600 jobs in professional and business services and 4,900 jobs in trade, transportation, and utilities. However, the only sector to lose any jobs was government, down 300 jobs.

- **Overall** - We are seeing decreases in the amount of available space and vacant space being added per quarter, as well as continued increases 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 as lenders continue to dispose of distressed assets. 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.

RETAIL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	8.29%	8.53%	8.67%	(4.38%)
Availability Rate	10.52%	10.73%	11.64%	(9.62%)
Average Asking Lease Rate	\$1.35	\$1.34	\$1.36	(0.74%)
Sale & Lease Transactions	1,130,664	1,941,029	1,747,979	(35.32%)
Gross Absorption	1,123,426	1,574,693	1,251,158	(10.20%)
Net Absorption	168,704	(175,759)	329,038	N/A

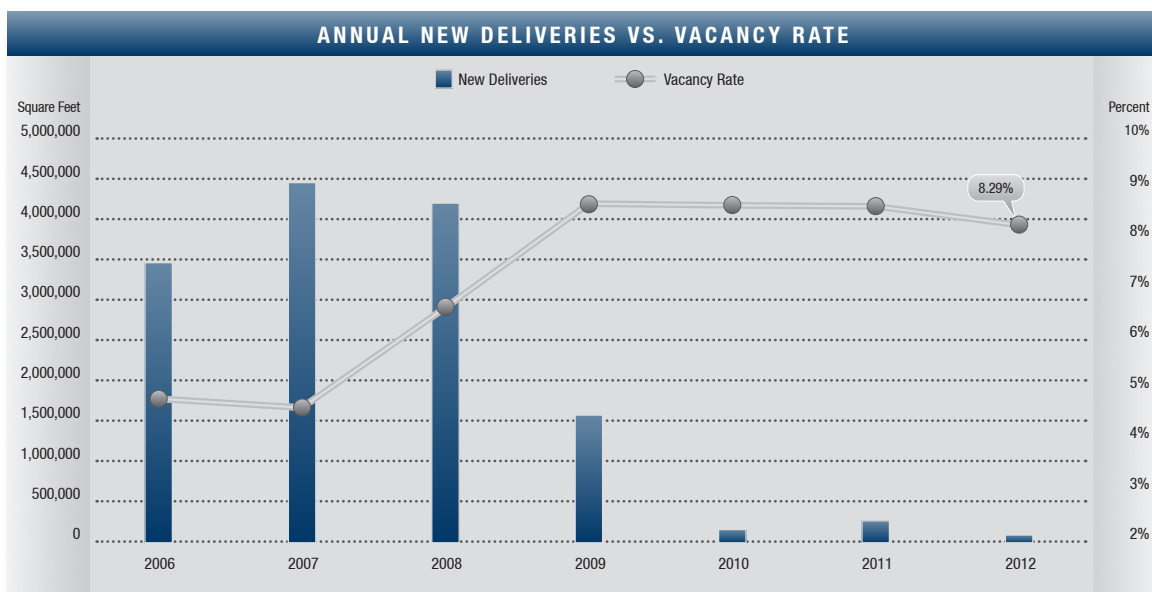


	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
East													
General Retail	5,251	32,765,220	202,584	3,900,003	1,357,679	4.14%	2,266,732	6.92%	\$0.96	48,676	203,373	171,214	644,776
Mall Market	143	9,600,693	0	1,754,779	884,573	9.21%	1,040,773	10.84%	\$1.85	43,518	(27,076)	63,830	347,039
Power Center	121	5,125,054	0	2,242,814	423,115	8.26%	545,116	10.64%	\$1.57	(21,534)	(62,946)	53,207	260,012
Shopping Center	2,685	46,605,821	80,951	5,773,662	5,312,766	11.40%	6,142,966	13.18%	\$1.37	27,034	263,330	425,895	1,450,389
Specialty Center	24	734,606	0	0	203,694	27.73%	241,903	32.93%	\$1.10	9,644	(52,368)	18,919	44,684
East Total	8,224	94,831,394	283,535	13,671,258	8,181,827	8.63%	10,237,490	10.80%	\$1.32	107,338	324,313	733,065	2,746,900

West

General Retail	1,615	11,530,994	12,150	1,034,861	500,184	4.34%	694,344	6.02%	\$1.15	(4,742)	(35,043)	84,539	160,989
Mall Market	64	6,219,344	0	353,700	217,755	3.50%	399,548	6.42%	\$0.98	(1,215)	(10,062)	5,645	31,762
Power Center	154	6,215,173	0	349,793	548,670	8.83%	660,018	10.62%	\$1.77	100,579	81,106	150,778	233,926
Shopping Center	1,015	17,641,813	11,825	2,269,109	1,816,217	10.29%	2,330,243	13.21%	\$1.45	(33,556)	15,034	147,899	732,349
Specialty Center	32	904,819	0	15,400	125,575	13.88%	125,575	13.88%	\$1.28	300	27,434	1,500	41,438
West Total	2,880	42,512,143	23,975	4,022,863	3,208,401	7.55%	4,209,728	9.90%	\$1.42	61,366	78,469	390,361	1,200,464
Inland Empire Total	11,104	137,343,537	307,510	17,694,121	11,390,228	8.29%	14,447,218	10.52%	\$1.35	168,704	402,782	1,123,426	3,947,364
General Retail	6,866	44,296,214	214,734	4,934,864	1,857,863	4.19%	2,961,076	6.68%	\$1.00	43,934	168,330	255,753	805,765
Mall Market	207	15,820,037	0	2,108,479	1,102,328	6.97%	1,440,321	9.10%	\$1.76	42,303	(37,138)	69,475	378,801
Power Center	275	11,340,227	0	2,592,607	971,785	8.57%	1,205,134	10.63%	\$1.63	79,045	18,160	203,985	493,938
Shopping Center	3,700	64,247,634	92,776	8,042,771	7,128,983	11.10%	8,473,209	13.19%	\$1.37	(6,522)	278,364	573,794	2,182,738
Specialty Center	56	1,639,425	0	15,400	329,269	20.08%	367,478	22.42%	\$1.26	9,944	(24,934)	20,419	86,122
Inland Empire Total	11,104	137,343,537	307,510	17,694,121	11,390,228	8.29%	14,447,218	10.52%	\$1.35	168,704	402,782	1,123,426	3,947,364

Lease rates are on a triple-net basis.



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
3601-3635 Riverside Plz. – 12 Properties	East	279,416	\$303.65	Vestar Development Company & UBS Global Asset Mgmt. Real Estate	*Multiple Sellers*
9440 Autoplex St.	West	87,776	\$90.00	DTM Land Company	Lola F Lukens & Susan L McNutt
6401 Haven Ave.	West	22,871	\$306.06	Thakorbhaj I & Kusum Patel	Sassony Commercial Real Estate Dev.
1520 N. Mountain Ave.	West	36,147	\$116.19	Real Estate Baby 12, LLC	Northeast Corner of Mountain Aven
15390 Fairfield Ranch Rd.	West	6,389	\$443.89	Jin Ching Industrial, Inc.	KDG Investments
2150 N. Sierra Way	East	22,400	\$98.21	Covina Industrial Park	Rich Development Company

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
27200-27300 Eucalyptus Ave.	East	46,041	Aug-12	Halloween City	Weingarten Realty Investors
735 N. Milliken Ave.	West	35,474	Aug-12	N/A	O.R.U.S. Oxlane Real Estate United States, Inc.
31924-31946 Mission Tr.	Temecula Valley	32,000	Aug-12	N/A	Miramar West, LLC
5200 Holt Blvd.	West	22,363	Aug-12	N/A	N&H Motors, Inc.
27610 Eucalyptus Ave.	East	20,403	Aug-12	N/A	N/A
27610 Eucalyptus Ave.	East	20,367	Aug-12	N/A	N/A

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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