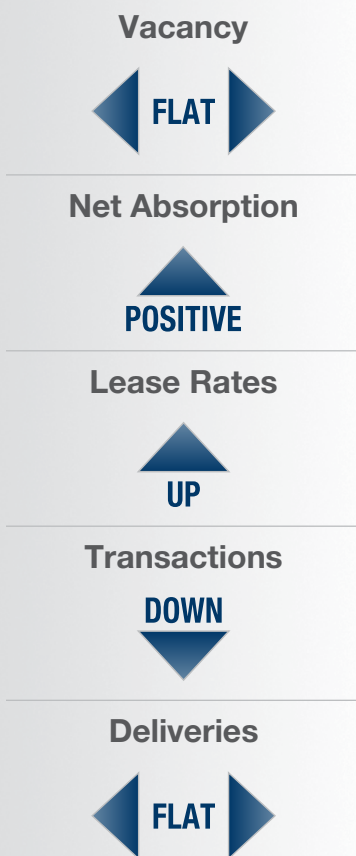




Retail Market Report

Compared to the Previous Quarter:



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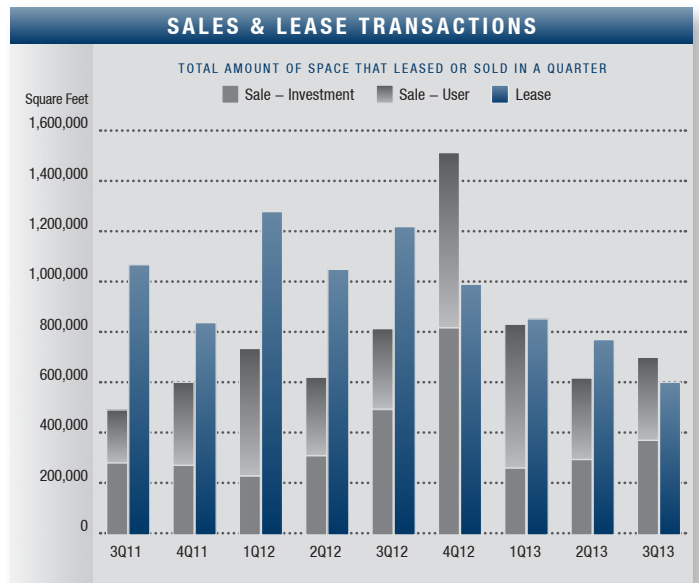
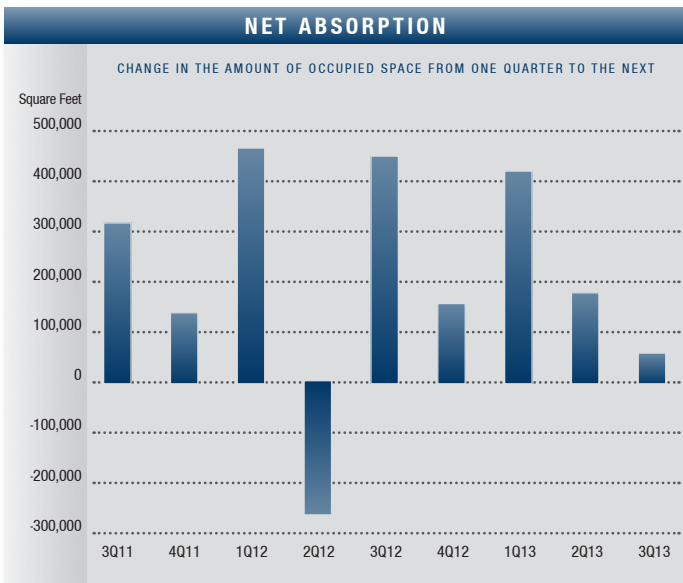
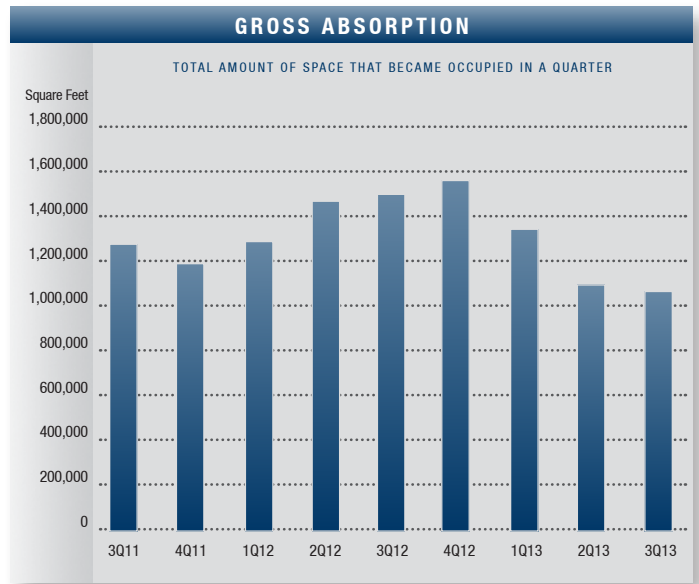
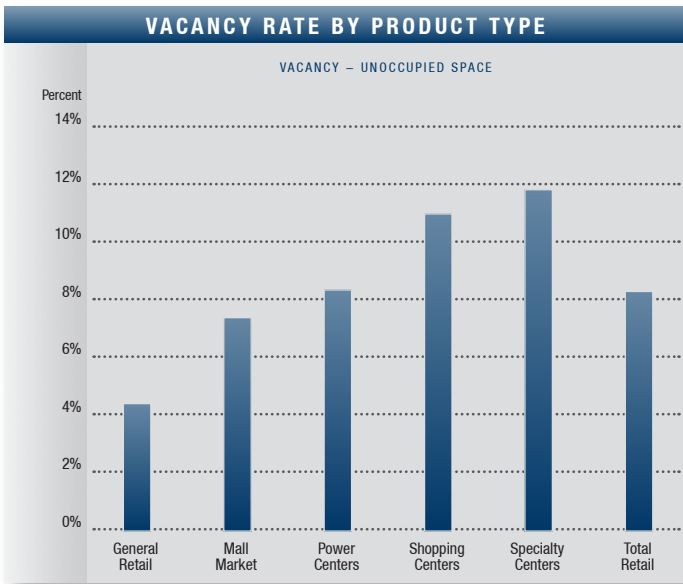
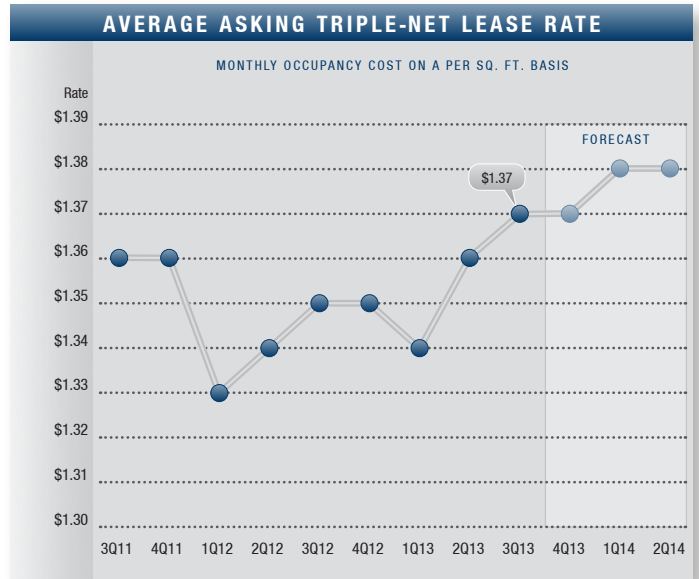
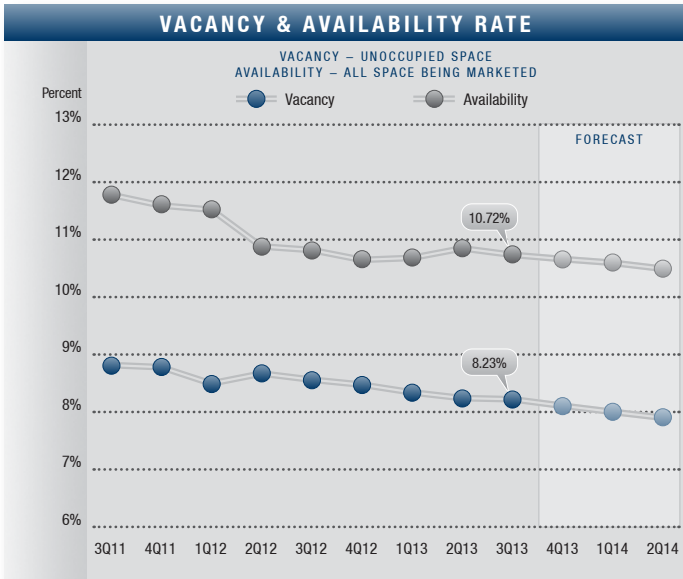
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Market Highlights

- Positive Direction** - The Inland Empire retail market continued to move in a positive direction during the third quarter of 2013. Vacancy decreased compared to the previous year. The market saw over 650,000 square feet of positive net absorption for the first three quarters of the year, while average asking triple-net lease rates displayed an increase over the second 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.
- Construction** - There was only 225,609 square feet of retail space under construction in the Inland Empire in the third 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 third quarter of 2013 at 8.23%, down from 2013's second quarter and a decrease of 3.86% from the same quarter last year. General retail had the lowest vacancy rate again in the third quarter, coming in at only 4.28%, while specialty centers had the highest at 11.78%.
- Availability** - Direct/sublease space being marketed was 10.72% at the end of the quarter, a slight decrease from the previous quarter's rate of 10.84% and from the previous year's rate of 10.82%. West and East submarkets checked in at 9.67% and 11.20%, respectively.
- Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.37 at the end of the third quarter of 2013, up one cent from the previous quarter and two cents from the previous year, indicating stability. We are forecasting that lease rates will continue to rise in coming quarters.
- Absorption** - The Inland Empire retail market posted 56,502 square feet of positive net absorption in the third quarter of 2013, giving the Inland Empire a total of 1.9 million square feet of positive net absorption for the last nine quarters.
- Transaction Activity** - Leasing activity checked in at 600,000 square feet for the third quarter of 2013, a decrease from the previous year's figure of 1.2 million square feet. Sales activity also showed a decrease, posting 700,000 square feet this quarter, as compared to the 800,000 square feet for the third 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 10.4% in August 2013, down from a revised 11.0% in July 2013 and below the year-ago estimate of 12.6%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. The unemployment rate was 10.8% for Riverside County and 10.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 8,100 payroll jobs from August 2012 to August 2013. The largest gains were 6,100 jobs in trade, transportation & utilities and 6,000 jobs in leisure & hospitality. The most significant job losses were in construction and manufacturing (down 3,400 each).
- 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 and increases in average asking least rates. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to recover. 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.

RETAIL MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Vacancy Rate	8.23%	8.25%	8.56%	(3.86%)
Availability Rate	10.72%	10.84%	10.82%	(0.92%)
Average Asking Lease Rate	\$1.37	\$1.36	\$1.35	1.48%
Sale & Lease Transactions	1,295,100	1,384,620	2,014,437	(35.71%)
Gross Absorption	1,060,756	1,088,626	1,492,807	(28.94%)
Net Absorption	56,502	177,179	447,796	N/A

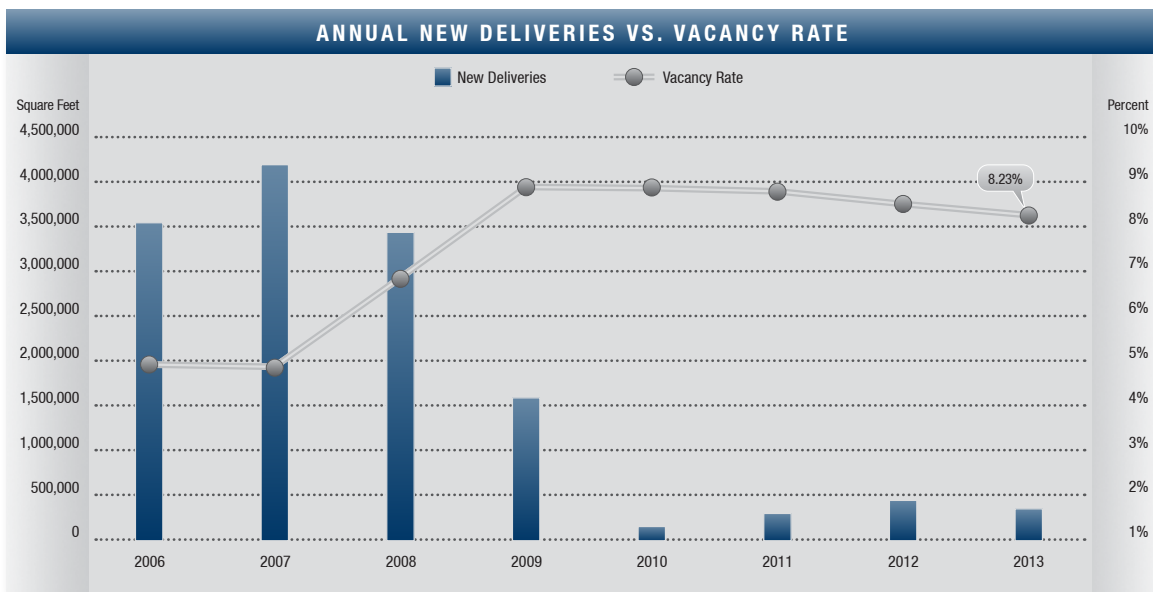


	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
East													
General Retail	5,179	31,960,774	121,085	2,846,736	1,433,386	4.48%	2,340,158	7.32%	\$0.98	53,387	92,413	214,890	596,820
Mall Market	124	8,307,749	0	1,141,790	892,069	10.74%	1,164,646	14.02%	\$2.01	62,806	130,063	109,315	188,780
Power Center	121	4,854,074	0	749,024	355,569	7.33%	438,800	9.04%	\$1.44	16,245	49,952	21,545	73,209
Shopping Center	2,754	46,608,119	97,724	3,558,443	5,165,030	11.08%	6,228,336	13.36%	\$1.34	(109,043)	(34,434)	374,229	1,336,289
Specialty Center	46	1,606,415	0	80,000	211,292	13.15%	279,798	17.42%	\$1.15	5,226	(9,927)	5,226	11,856
East Total	8,224	93,337,131	218,809	8,375,993	8,057,346	8.63%	10,451,738	11.20%	\$1.28	28,621	623,562	725,205	3,780,229

West

General Retail	1,582	10,937,835	3,800	728,226	404,583	3.70%	580,238	5.30%	\$1.20	8,782	49,011	46,962	210,498
Mall Market	65	6,329,178	3,000	21,190	178,442	2.82%	200,454	3.17%	\$1.71	10,265	203,857	18,550	255,891
Power Center	171	6,757,972	0	60,940	603,855	8.94%	775,563	11.48%	\$1.66	12,031	110,472	60,371	174,119
Shopping Center	1,054	17,415,538	0	877,046	1,851,375	10.63%	2,463,645	14.15%	\$1.44	(3,197)	53,477	209,668	632,837
Specialty Center	16	348,614	0	15,400	19,101	5.48%	19,101	5.48%	\$1.75	0	7,261	0	7,261
West Total	2,888	41,789,137	6,800	1,702,802	3,057,356	7.32%	4,039,001	9.67%	\$1.47	27,881	78,708	335,551	1,566,178
Inland Empire Total	11,112	135,126,268	225,609	10,078,795	11,114,702	8.23%	14,490,739	10.72%	\$1.37	56,502	702,270	1,060,756	5,346,407
General Retail	6,761	42,898,609	124,885	3,574,962	1,837,969	4.28%	2,920,396	6.81%	\$1.02	62,169	141,424	261,852	807,318
Mall Market	189	14,636,927	3,000	1,162,980	1,070,511	7.31%	1,365,100	9.33%	\$1.77	73,071	333,920	127,865	444,671
Power Center	292	11,612,046	0	809,964	959,424	8.26%	1,214,363	10.46%	\$1.63	28,276	160,424	81,916	247,328
Shopping Center	3,808	64,023,657	97,724	4,435,489	7,016,405	10.96%	8,691,981	13.58%	\$1.38	(112,240)	19,043	583,897	1,969,126
Specialty Center	62	1,955,029	0	95,400	230,393	11.78%	298,899	15.29%	\$1.40	5,226	(2,666)	5,226	19,117
Inland Empire Total	11,112	135,126,268	225,609	10,078,795	11,114,702	8.23%	14,490,739	10.72%	\$1.37	56,502	702,270	1,060,756	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
191 W. 2nd St. – 5 Properties	East	666,355	Undisclosed	MP Park & Tower, LP	Meadowbrook Park & Tower Apartments, LP
2790 Cabot Dr. – 9 Properties	East	290,138	\$102.37	Dos Lagos CRM, LLC	223-1 DI Holdings, LLC
40404 Murrieta Hot Springs Rd. – 8 Properties	Temecula Valley	140,852	Undisclosed	TKG Murrieta Plaza, LLC	GMS Murrieta Plaza, LLC
555 W. 2nd St.	East	83,760	\$143.27	Canyon Developer, LLC	EJ Investments, Corporation
41493 Margarita Rd. – 8 Properties	Temecula Valley	77,275	\$165.00	PFP Temecula Real Estate Holdings, LLC	41233 Margarita Road Holdings, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
3635 Riverside Plaza	East	45,000	Sep-13	Nordstrom Rack	Vestar Development Company
128-300 W. Base Line Rd.	East	40,030	Jul-13	Undisclosed	Pension Fund
5483 Moreno St.	West	28,000	Jul-13	Second Imperial Trading Corporaiton	Inline Distributing Company
277 E. 40th St.	San Bernardino	26,566	Aug-13	T.J. Maxx	Stater Bros Distribution Center
1304-1374 W. Foothill Blvd.	East	23,760	Aug-13	Thrift Store, LLC	McCloskey Family Trust

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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