



THIRD QUARTER 2014 INLAND EMPIRE RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continued improving in the third quarter of 2014. Vacancy and availability decreased compared to both the previous quarter and the prior year. The market saw over 328,000 square feet of positive net absorption for the quarter, while average asking triple-net lease rates decreased one cent from the same quarter last year. These are all good indications that the market is maintaining continuous growth.
- **Construction** - There was 278,470 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 third quarter of 2014 at 7.62%, down from second quarter and a decrease of 5.11% from the same quarter of 2013. General retail had the lowest vacancy rate in the third quarter, coming in at only 4.14%, while shopping centers had the highest at 9.98%.
- **Availability** - Direct/sublease space being marketed was 10.22% at the end of the quarter, down from 2013's third quarter rate of 10.54%. West and East submarkets checked in at 9.23% and 10.66% 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 third quarter of 2014, a decrease of one cent from the same quarter previous year, indicating stability.
- **Absorption** - The Inland Empire retail market posted 328,648 square feet of positive net absorption in the third

quarter of 2014, giving the Inland Empire a total of over 2.5 million square feet of positive net absorption since the third quarter of 2012.

- **Transaction Activity** - Leasing activity checked in at just over 500,000 square feet for the third quarter of 2014, down from 2013's third quarter rate of 1.2 million square feet. Sales activity showed an annual increase, posting 1.3 million square feet this quarter. This statistic can have some lag time in being reported, so look for third 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 8.7% in August 2014, down from a revised 9.3% in July 2014 and below the year-ago estimate of 10.5%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. The unemployment rate was 9.2% for Riverside County and 8.2% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 33,700 payroll jobs from August 2013 to August 2014. The largest gains were 8,600 jobs in leisure and hospitality and 7,600 jobs in trade, transportation, & utilities.
- **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

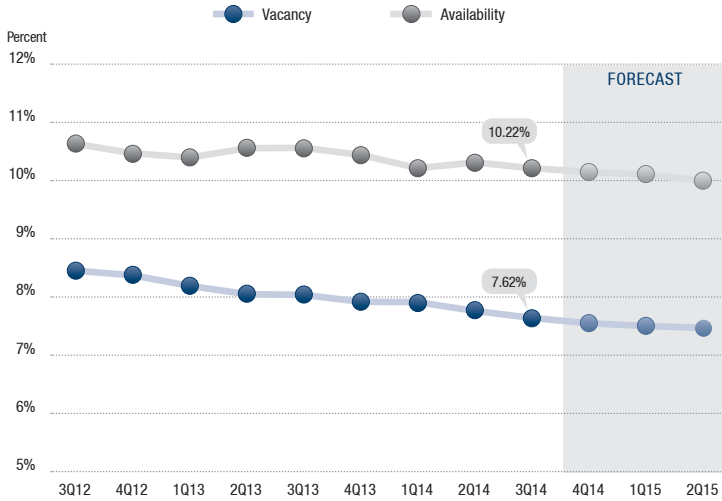
- **Employment** - We anticipate job growth of around 1.5% or 25,700 jobs in the Inland Empire area over 2014. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 20 basis points, to around 7.45%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	7.62%	7.75%	8.03%	(5.11%)
Availability Rate	10.22%	10.32%	10.54%	(3.04%)
Average Asking Lease Rate	\$1.36	\$1.38	\$1.37	(0.73%)
Sale & Lease Transactions	1,843,801	2,087,769	3,132,091	(41.13%)
Gross Absorption	1,035,673	991,398	1,196,626	(13.45%)
Net Absorption	328,648	255,971	159,944	N/A

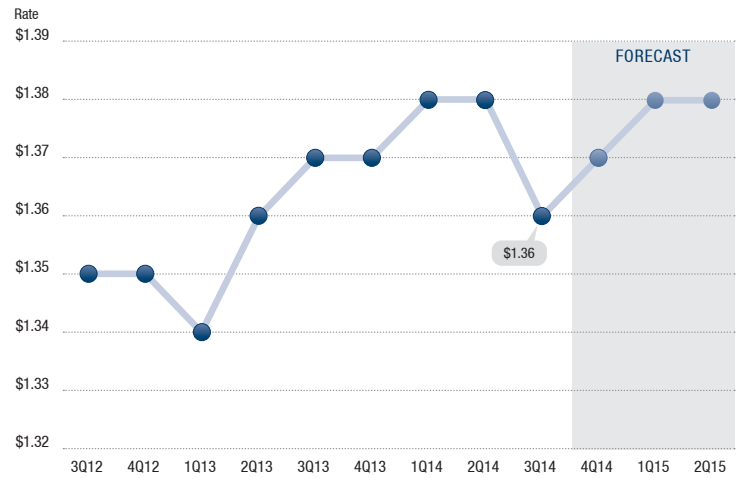
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



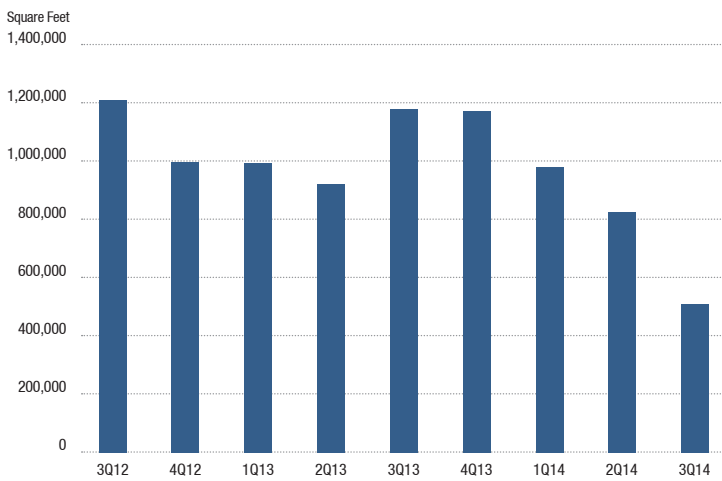
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



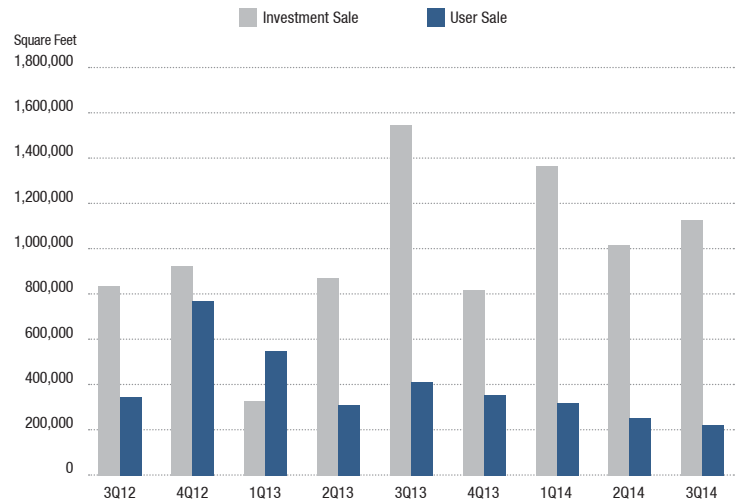
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



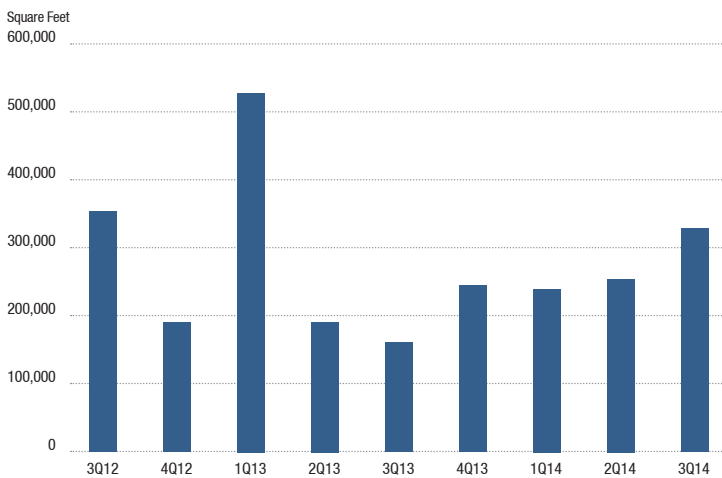
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



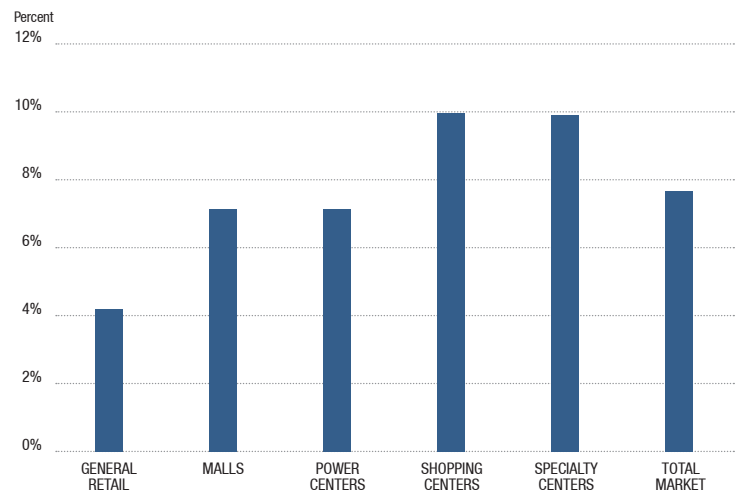
NET ABSORPTION

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



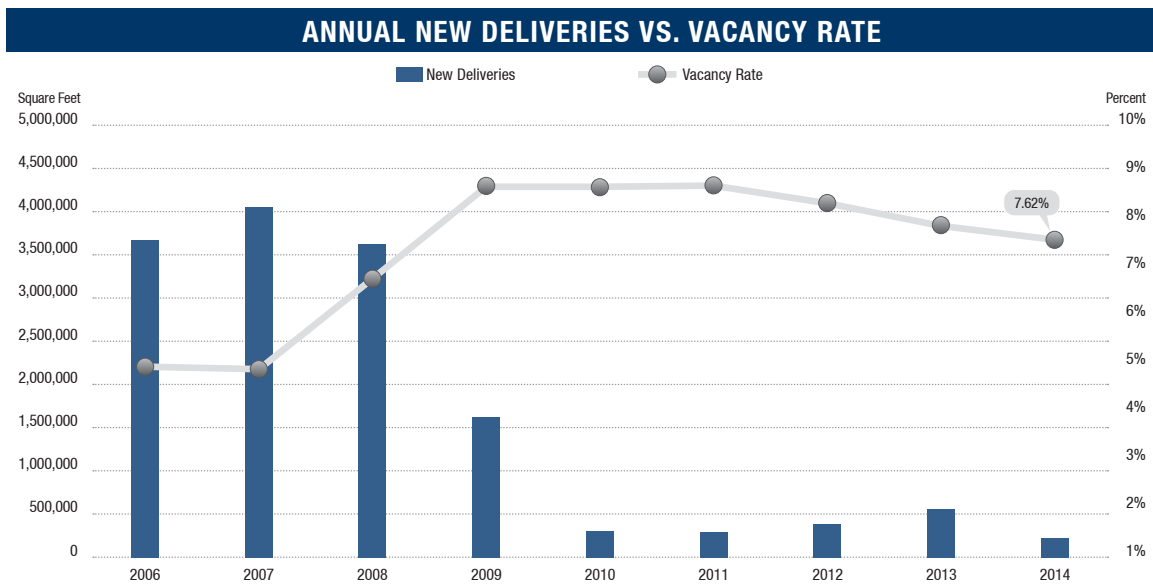
VACANCY RATE BY PRODUCT TYPE

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
East													
General Retail	5,159	31,648,877	58,081	2,196,562	1,281,155	4.05%	2,183,497	6.90%	\$1.09	55,538	149,618	180,872	516,826
Malls	116	7,972,229	0	1,161,590	783,929	9.83%	1,080,057	13.55%	\$2.44	40,986	124,619	45,451	178,160
Power Centers	126	4,710,779	0	690,274	488,663	10.37%	499,194	10.60%	\$1.27	8,323	6,017	11,180	30,748
Shopping Centers	2,816	47,615,225	189,990	3,172,363	4,771,264	10.02%	5,985,529	12.57%	\$1.35	138,757	380,700	399,420	1,442,235
Specialty Centers	46	1,599,778	0	60,000	176,733	11.05%	225,837	14.12%	\$1.17	19,057	24,370	24,849	40,506
East Total	8,263	93,546,888	248,071	7,280,789	7,501,744	8.02%	9,974,114	10.66%	\$1.31	262,661	685,324	661,772	2,208,475
West													
General Retail	1,588	10,852,322	7,000	534,046	476,882	4.39%	664,544	6.12%	\$1.07	(28,599)	(13,734)	60,305	139,892
Malls	40	5,448,232	0	0	173,443	3.18%	262,280	4.81%	\$1.71	2,050	(16,836)	2,050	3,350
Power Centers	182	7,071,559	0	25,030	354,073	5.01%	606,607	8.58%	\$1.64	21,049	33,534	31,621	117,079
Shopping Centers	1,096	18,136,599	23,399	1,021,461	1,793,228	9.89%	2,315,632	12.77%	\$1.51	71,507	111,152	279,925	674,353
Specialty Centers	16	348,614	0	15,400	16,018	4.59%	16,018	4.59%	\$1.75	0	6,208	0	6,208
West Total	2,922	41,857,326	30,399	1,595,937	2,813,644	6.72%	3,865,081	9.23%	\$1.48	66,007	120,324	373,901	940,882
Inland Empire Total	11,185	135,404,214	278,470	8,876,726	10,315,388	7.62%	13,839,195	10.22%	\$1.36	328,668	805,648	1,035,673	3,149,357
General Retail	6,747	42,501,199	65,081	2,730,608	1,758,037	4.14%	2,848,041	6.70%	\$1.11	26,939	135,884	241,177	656,718
Malls	156	13,420,461	0	1,161,590	957,372	7.13%	1,342,337	10.00%	\$2.02	43,036	107,783	47,501	181,510
Power Centers	308	11,782,338	0	715,304	842,736	7.15%	1,105,801	9.39%	\$1.52	29,372	39,551	42,801	147,827
Shopping Centers	3,912	65,751,824	213,389	4,193,824	6,564,492	9.98%	8,301,161	12.62%	\$1.38	210,264	491,852	679,345	2,116,588
Specialty Centers	62	1,948,392	0	75,400	192,751	9.89%	241,855	12.41%	\$1.39	19,057	30,578	24,849	46,714
Inland Empire Total	11,185	135,404,214	278,470	8,876,726	10,315,388	7.62%	13,839,195	10.22%	\$1.36	328,668	805,648	1,035,673	3,149,357

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
6100-6350 Van Buren Blvd. – 7 Properties	East	126,666	\$194.96	MAS Realty, LLC	Choice Capital, LLC
3570 Tyler St. – 2 Properties	East	119,420	\$40.61	Tyler Gateway, LLC	Target Corporation
29995 Canyon Hills Rd. – 9 Properties	Temecula Valley	108,358	\$309.16	Helf Investments, LP	CHMP No. 1, LLC
146559 Ramona Ave.	West	103,525	\$57.96	Che Chen & Shu Fen Liu Revocable Trust	Rancho Del Chino, LLC
8401-8423 Haven Ave.	West	34,101	\$170.08	Himada Properties, LLC	Amusement Industry, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1700 N. Perris Blvd.	East	185,000	Jul-14	Super Wal-Mart	Undisclosed
12835 Mountain Ave.	West	46,134	Jul-14	Clark's Nutrition & Natural Foods Market	Chan Family Living Trust
9041-9061 Central Ave.	West	19,000	Sep-14	Halloween Club	Barry Staw
14850 La Paz Dr.	High Desert	9,233	Sep-14	Undisclosed	Yang Yoo

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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