



THIRD QUARTER 2015 INLAND EMPIRE RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continued to move in a positive direction as we moved into the third quarter of 2015. Vacancy and availability decreased compared to this time last year. The market saw 158,869 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** - Over 304,000 SF of new retail space was under construction in the Inland Empire at the end of the quarter and more than 10.9 million SF of new product is proposed for construction, with almost all of it (9.38 million SF) planned in the Inland Empire East. Moreover, most of that proposed construction is split between shopping centers and general retail shops—3.41 million SF and 3.74 million SF respectively.
- **Vacancy** - Direct/sublease space (unoccupied) finished the third quarter of 2015 at 7.72%, up almost a basis point from the second quarter of 2015 but a decrease of 0.13% from the same quarter of 2014. General retail had the lowest vacancy rate in the quarter, coming in at only 4.62%, while specialty centers had the highest at 12.64%.
- **Availability** - Direct/sublease space being marketed was 9.86% at the end of the quarter, down 44 basis points from 2014's third quarter rate of 10.30% and 32 basis points from this time last quarter.
- **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 2015, which is two tenths of a cent below the rate from the same quarter of the previous year.
- **Absorption** - The Inland Empire retail market posted 158,869 square feet of positive net absorption in the third quarter of 2015, giving the Inland Empire a total of over 4.16 million square feet of positive net absorption since the third quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at 659,584 square feet for the third quarter of 2015, down from 2014's third quarter sum of 993,509 square feet. Sales activity showed an increase, posting 1.61 million square feet in the third quarter of 2015 compared to 2014's third quarter total of 1.59 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 6.8% in August 2015, down from a revised 7.1% in July 2015 and below the year-ago estimate of 8.6%. This compares with an unadjusted unemployment rate of 6.1% for California and 5.2% for the nation during the same period. The unemployment rate was 7.0% for Riverside County and 6.5% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 44,500 payroll jobs from August 2014 to August 2015. The professional and business services sector posted the greatest increase in employment over the year, adding 13,000 jobs.
- **Overall** - Retail demand is improving. With new deliveries in the pipeline, expect upward pressure on vacancy rates. The market should continue to strengthen, however, as average asking lease rates stabilize, ranging between \$1.36-\$1.38 nnn/sf. 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** - With upward pressure on vacancy rates stemming from new deliveries, we anticipate vacancy rates to inch upwards in coming quarters, to around 7.83%, by the end of the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	7.72%	7.63%	7.73%	(0.13%)
Availability Rate	9.86%	10.18%	10.30%	(4.27%)
Average Asking Lease Rate	\$1.36	\$1.38	\$1.38	(1.45%)
Sale & Lease Transactions	2,279,303	2,116,730	2,593,504	(12.11%)
Gross Absorption	1,234,225	1,268,595	1,061,924	16.23%
Net Absorption	158,869	419,121	256,992	N/A

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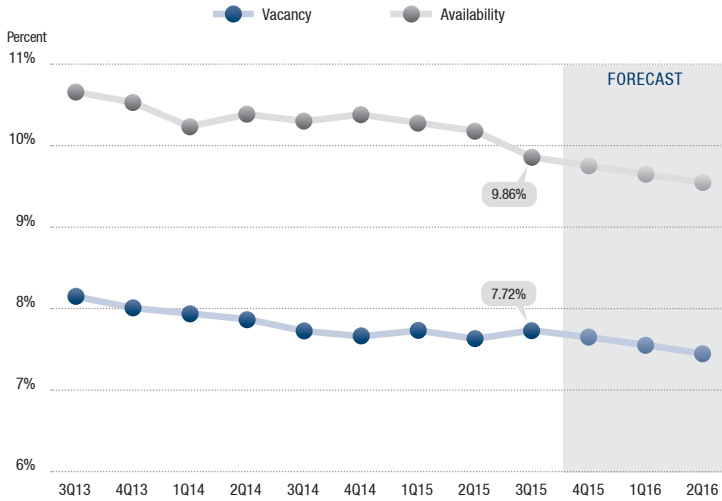
Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Rinku Mathew
Market Research Analyst
e-mail: rmathew@voitco.com
VOIT Real Estate Services

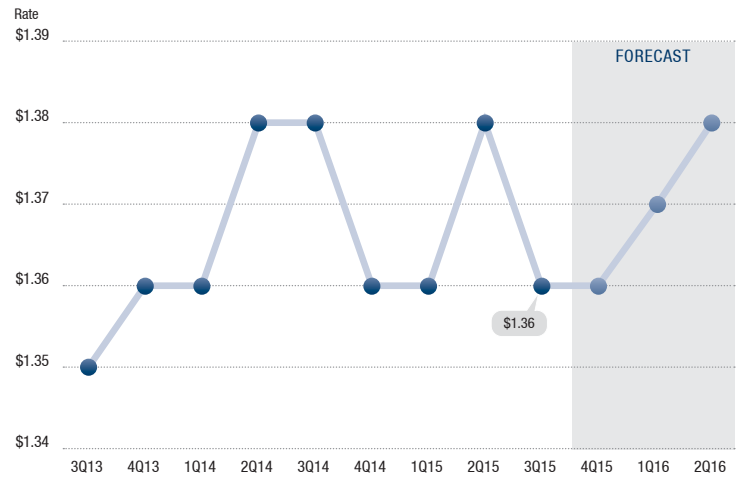
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



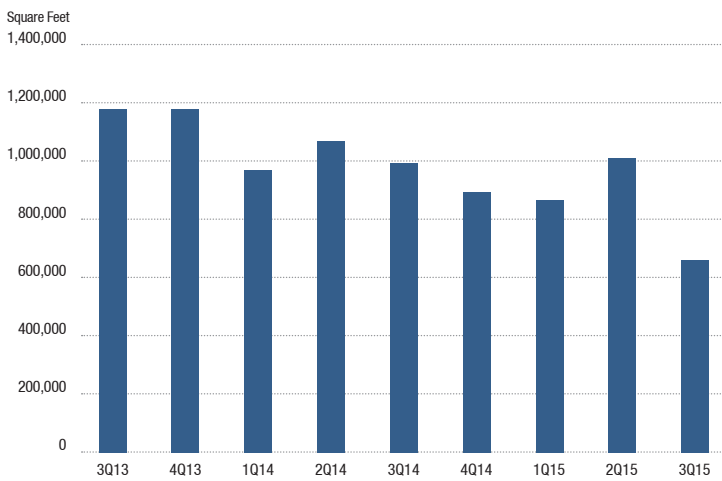
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



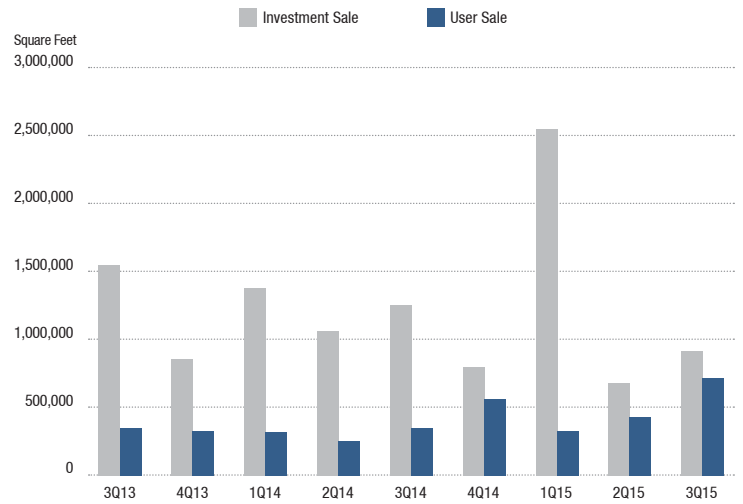
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



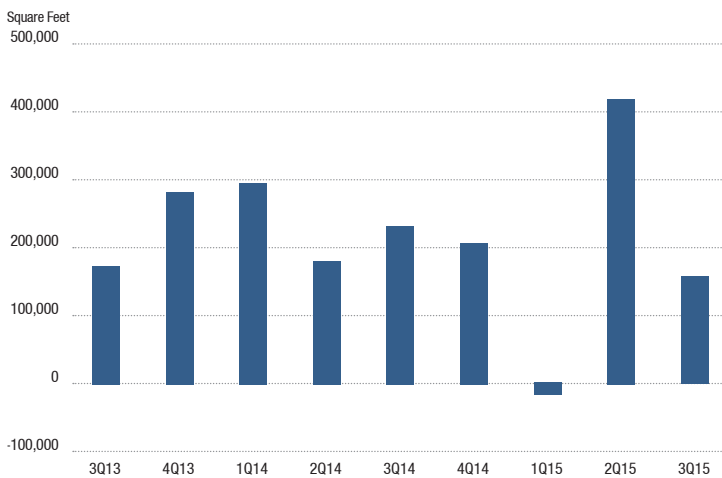
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



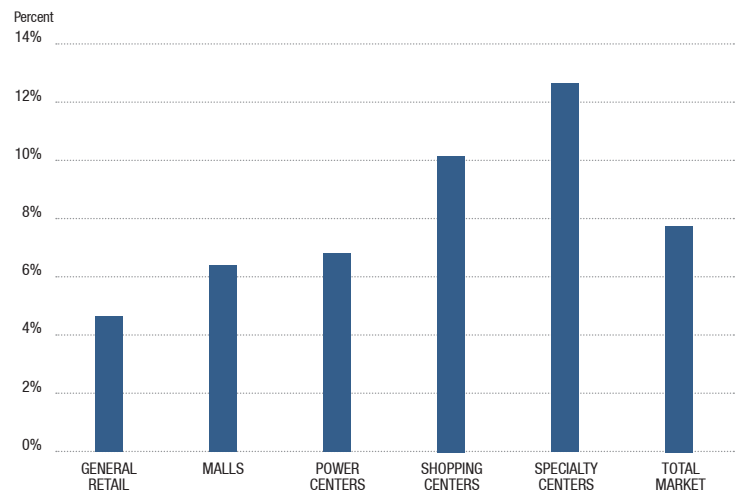
NET ABSORPTION

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



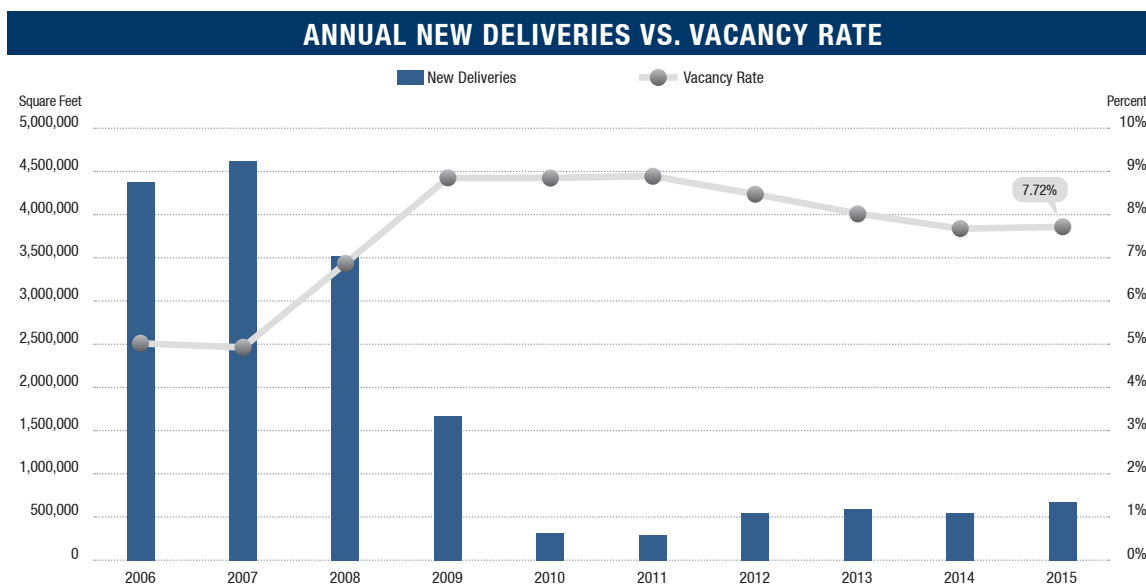
VACANCY RATE BY PRODUCT TYPE

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
East													
General Retail	5,195	31,915,633	107,908	3,743,801	1,560,312	4.89%	2,220,876	6.96%	\$1.07	(38,345)	(130,678)	131,361	400,917
Malls	144	9,017,903	17,800	1,398,990	775,322	8.60%	1,080,510	11.98%	\$2.01	21,355	19,712	90,720	104,399
Power Centers	133	5,070,889	49,960	695,274	357,630	7.05%	380,369	7.50%	\$1.55	112,687	368,047	116,223	383,169
Shopping Centers	2,854	47,892,486	42,395	3,411,446	5,027,409	10.50%	6,049,624	12.63%	\$1.33	12,475	215,924	572,973	1,469,208
Specialty Centers	20	636,020	0	135,700	113,073	17.78%	113,073	17.78%	\$0.00	0	0	0	49,293
East Total	8,346	94,532,931	218,063	9,385,211	7,833,746	8.29%	9,844,452	10.41%	\$1.31	108,172	473,005	911,277	2,406,986
West													
General Retail	1,599	10,859,764	20,000	513,123	417,030	3.84%	489,025	4.50%	\$1.03	15,378	30,021	31,776	132,906
Malls	42	5,461,540	0	0	149,116	2.73%	278,036	5.09%	\$1.55	(941)	(16,154)	13,347	23,347
Power Centers	182	6,915,902	0	12,940	453,546	6.56%	674,186	9.75%	\$1.51	4,774	(77,737)	28,337	137,673
Shopping Centers	1,108	18,042,959	66,305	980,812	1,644,693	9.12%	2,131,734	11.81%	\$1.58	25,361	101,324	243,363	618,016
Specialty Centers	16	321,473	0	15,400	7,968	2.48%	7,968	2.48%	\$1.75	6,125	6,125	6,125	6,125
West Total	2,947	41,601,638	86,305	1,522,275	2,672,353	6.42%	3,580,949	8.61%	\$1.49	50,697	43,579	322,948	918,067
Inland Empire Total	11,293	136,134,569	304,368	10,907,486	10,506,099	7.72%	13,425,401	9.86%	\$1.36	158,869	516,584	1,234,225	3,325,053
General Retail	6,794	42,775,397	127,908	4,256,924	1,977,342	4.62%	2,709,901	6.34%	\$1.06	(22,967)	(100,657)	163,137	533,823
Malls	186	14,479,443	17,800	1,398,990	924,438	6.38%	1,358,546	9.38%	\$1.90	20,414	3,558	104,067	127,746
Power Centers	315	11,986,791	49,960	708,214	811,176	6.77%	1,054,555	8.80%	\$1.50	117,461	290,310	144,560	520,842
Shopping Centers	3,962	65,935,445	108,700	4,392,258	6,672,102	10.12%	8,181,358	12.41%	\$1.39	37,836	317,248	816,336	2,087,224
Specialty Centers	36	957,493	0	151,100	121,041	12.64%	121,041	12.64%	\$1.75	6,125	6,125	6,125	55,418
Inland Empire Total	11,293	136,134,569	304,368	10,907,486	10,506,099	7.72%	13,425,401	9.86%	\$1.36	158,869	516,584	1,234,225	3,325,053

Lease rates are on a triple-net basis.



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
13920 City Center Dr. (11 Properties)	West	381,376	\$385.99	Dunhill Partners, Inc.	MX3 Ventures, LLC
3700 Inland Empire Blvd. (5 Properties)	West	122,335	\$202.72	Coastline Real Estate Investments	Sarkis Sarkissian Trust
10170-10218 Indiana Ave. (6 Properties)	East	99,039	\$131.26	Raj Kumar	Cyrus G. Etemad & Nakissa C. Etemad
10988 Magnolia Ave.	East	45,000	\$337.78	Ezzat Wassef	Seagrove LA
25050 Alessandro Blvd.	East	39,268	\$180.50	GB Management Corp.	Becker Properties

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5391-5467 Moreno St.	West	41,200	Aug-2015	Sports Authority	Gsms 2005-Gg4 Moreno Drive, LP
885-897 Harriman	East	40,038	Aug-2015	24 Hour Fitness	SB Tri-City Associates PS
555 E. Hospitality	East	39,123	Aug-2015	LA Fitness	Rancon Realty Fund V
16805 Valley Blvd.	East	22,000	Aug-2015	Fallas Perdes	The Baralat Company
8160 Day Creek Blvd.	West	16,830	Sept-2015	Office Depot	Fc Rancho, LLC
2550 Canyon Springs Pky.	East	14,950	Aug-2015	Guitar Center	General Growth Properties, Inc.

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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Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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