



REAL ESTATE SERVICES

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Retail Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

UP

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Market Highlights

- **Positive Direction** - The Inland Empire retail market continued to move in a positive direction as we closed 2012. Both vacancy and availability showed decreases compared to both the previous quarter and previous year. The market posted over 700,000 square feet of positive net absorption for 2012, while average asking triple-net lease rates ticked up in the second half of 2012. 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 141,056 square feet of retail space under construction in the Inland Empire in the fourth 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 2012 at 8.34%, down from the third quarter and a decrease of 3.58% from the same quarter of 2011. General retail had the lowest vacancy rate again in the fourth quarter, coming in at only 4.25%, while specialty centers had the highest at 22.68%.
- **Availability** - Direct/sublease space being marketed was 10.68% at the end of 2012, a decrease from the previous quarter's rate of 10.74% and 6.97% lower than the previous year's rate. West and East submarkets checked in at 9.95% and 11.01%, 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 2012, flat after two consecutive quarterly increases, an indication of stability. We are forecasting that lease rates will continue rise in 2013, ending the year at around \$1.37.
- **Absorption** - The Inland Empire retail market posted 166,547 square feet of positive net absorption in the fourth quarter of 2012, about cancelling out the negative absorption from the second quarter and giving the Inland Empire a total of 702,270 square feet of positive net

absorption for the year. This is the largest amount of positive net absorption since 2008, when occupancy grew by 1.4 million square feet.

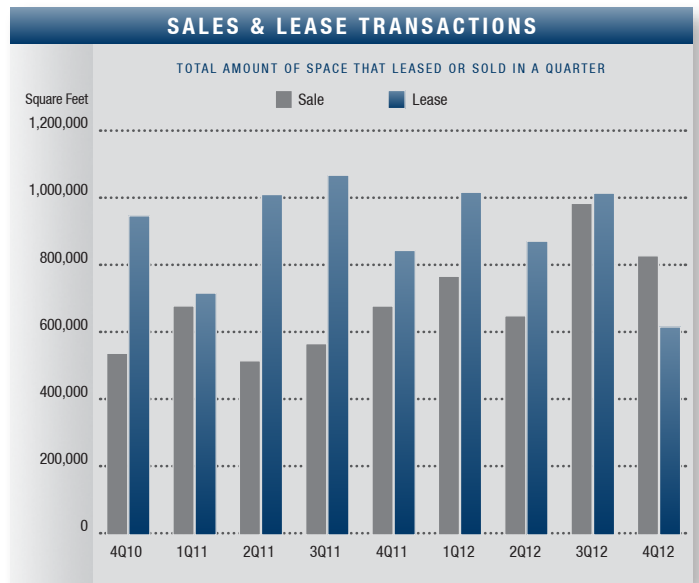
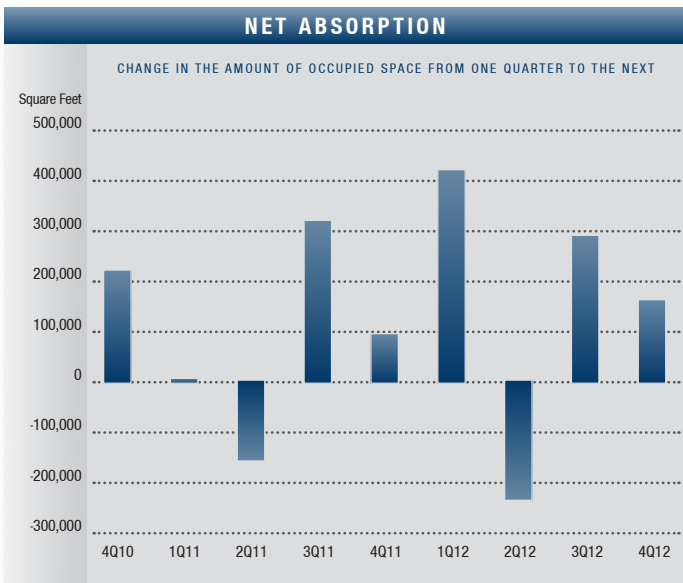
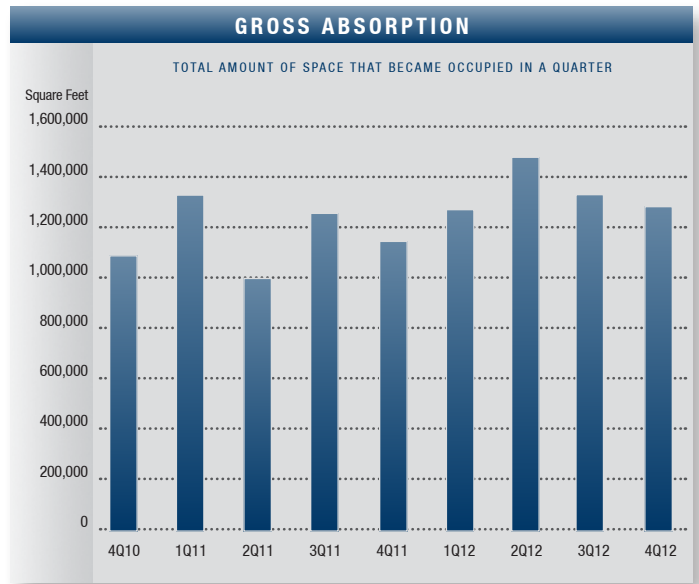
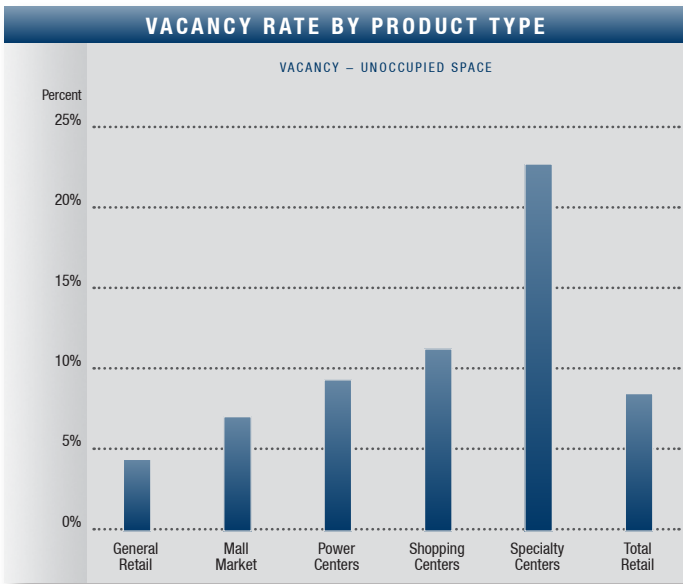
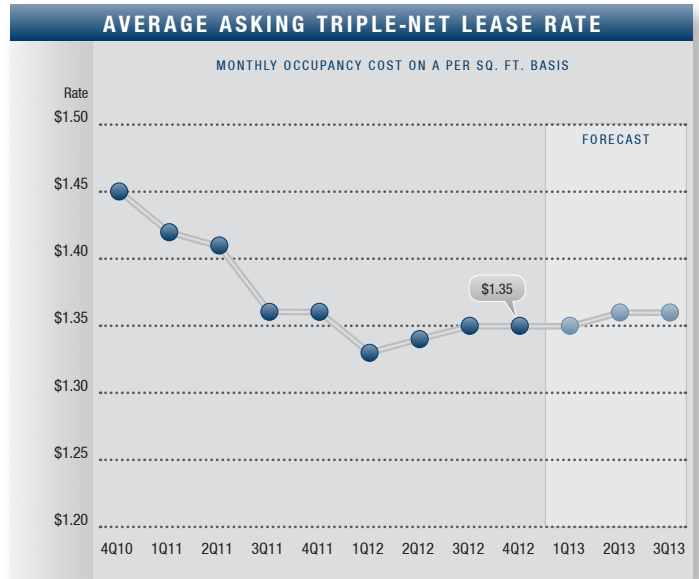
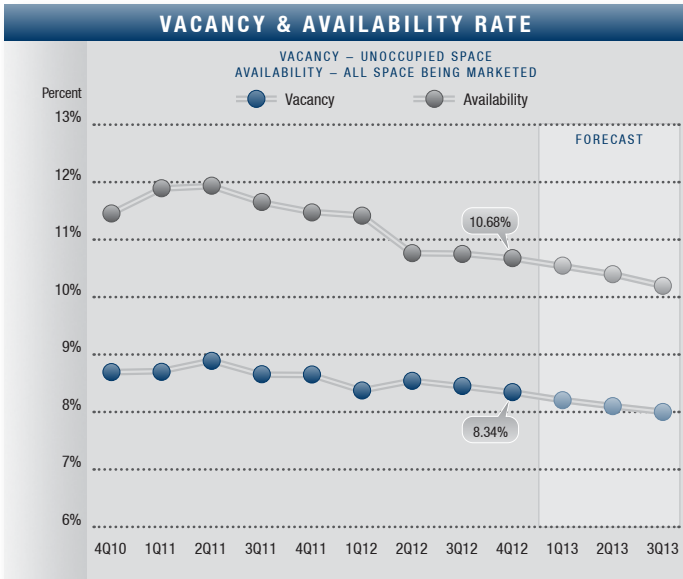
• **Transaction Activity** - Leasing activity checked in at 3.5 million square feet for 2012, a small decrease from the previous year's figure of 3.6 million square feet. Sales activity showed an increase, posting 3.2 million square feet for 2012, as compared to 2.4 million square feet for 2011. Details 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 11.3% in November 2012, down from a revised 11.7% in October 2012 and below the year-ago estimate of 12.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. The unemployment rate was 11.5% for Riverside County and 11.0% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA gained 11,000 payroll jobs from November 2011 to November 2012. The largest gains were 4,800 jobs in professional and business services and 4,300 jobs in trade, transportation, and utilities. However, the only sector to lose any jobs was government, down 2,000 jobs.

• **Overall** - Retail demand is slowly improving, but the aftermath of the housing bust has kept it in check. 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. 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

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	8.34%	8.65%	8.68%	(3.58%)
Availability Rate	10.68%	11.48%	11.47%	(6.97%)
Average Asking Lease Rate	\$1.35	\$1.36	\$1.45	(0.74%)
Sale & Lease Transactions	6,733,340	6,044,238	5,439,200	11.40%
Gross Absorption	5,346,407	4,719,744	4,786,318	13.28%
Net Absorption	702,270	263,142	167,218	N/A

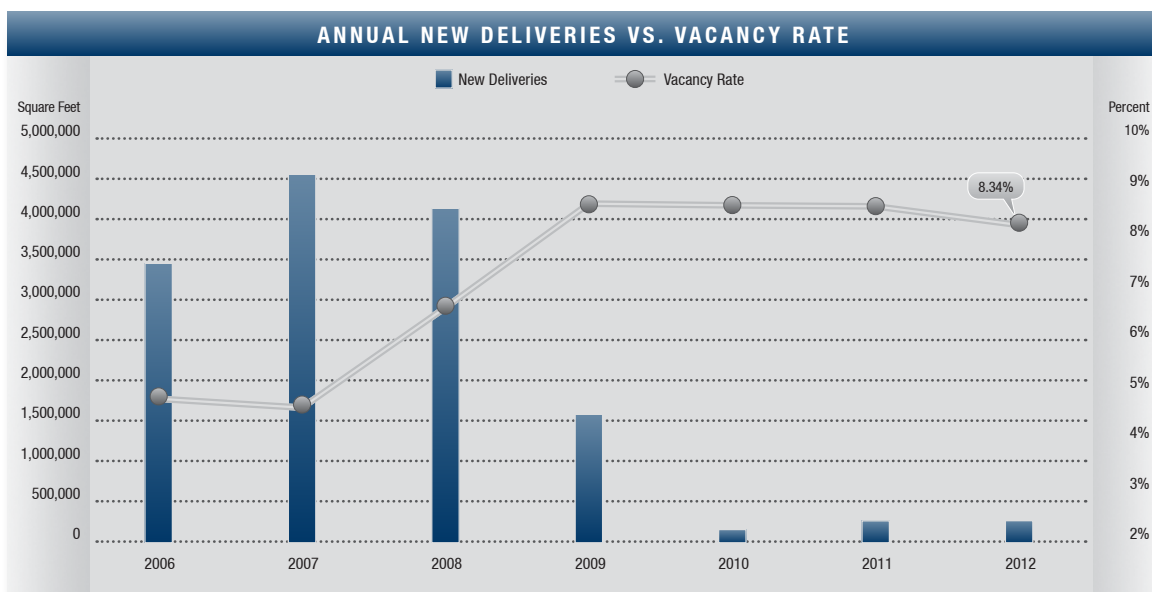


	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
East													
General Retail	5,265	32,692,332	99,922	2,912,256	1,426,911	4.36%	2,275,013	6.96%	\$0.98	80,637	443,785	282,024	1,098,747
Mall Market	140	9,687,756	0	1,504,615	894,977	9.24%	1,149,659	11.87%	\$1.81	(46,374)	(54,480)	23,847	378,886
Power Center	121	5,029,054	0	1,827,514	405,521	8.06%	530,525	10.55%	\$1.53	14,729	(51,702)	20,129	282,181
Shopping Center	2,689	46,303,485	25,309	3,440,145	5,186,900	11.20%	6,166,419	13.32%	\$1.35	136,274	338,327	602,366	1,975,731
Specialty Center	25	747,892	0	126,365	203,694	27.24%	281,903	37.69%	\$1.10	0	(52,368)	0	44,684
East Total	8,240	94,460,519	125,231	9,810,895	8,118,003	8.59%	10,403,519	11.01%	\$0.98	185,266	623,562	928,366	3,780,229

West

General Retail	1,618	11,281,004	1,000	703,315	440,575	3.91%	689,283	6.11%	\$1.18	72,549	45,195	102,794	271,083
Mall Market	64	6,219,344	3,000	183,940	210,892	3.39%	350,668	5.64%	\$1.55	5,719	(3,199)	9,219	40,981
Power Center	172	6,781,228	0	60,940	680,198	10.03%	732,515	10.80%	\$1.69	(30,792)	60,831	14,905	291,237
Shopping Center	1,014	17,643,119	11,825	749,326	1,913,545	10.85%	2,388,032	13.54%	\$1.43	(60,070)	(79,189)	220,233	962,877
Specialty Center	16	348,614	0	15,400	44,963	12.90%	44,963	12.90%	\$1.48	(6,125)	55,070	0	0
West Total	2,884	42,273,309	15,825	1,712,921	3,290,173	7.78%	4,205,461	9.95%	\$1.18	(18,719)	78,708	347,151	1,566,178
Inland Empire Total	11,124	136,733,828	141,056	11,523,816	11,408,176	8.34%	14,608,980	10.68%	\$1.35	166,547	702,270	1,275,517	5,346,407
General Retail	6,883	43,973,336	100,922	3,615,571	1,867,486	4.25%	2,964,296	6.74%	\$1.02	153,186	488,980	384,818	1,369,830
Mall Market	204	15,907,100	3,000	1,688,555	1,105,869	6.95%	1,500,327	9.43%	\$1.77	(40,655)	(57,679)	33,066	419,867
Power Center	293	11,810,282	0	1,888,454	1,085,719	9.19%	1,263,040	10.69%	\$1.63	(16,063)	9,129	35,034	573,418
Shopping Center	3,703	63,946,604	37,134	4,189,471	7,100,445	11.10%	8,554,451	13.38%	\$1.38	76,204	259,138	822,599	2,938,608
Specialty Center	41	1,096,506	0	141,765	248,657	22.68%	326,866	29.81%	\$1.40	(6,125)	2,702	0	44,684
Inland Empire Total	11,124	136,733,828	141,056	11,523,816	11,408,176	8.34%	14,608,980	10.68%	\$1.35	166,547	702,270	1,275,517	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
2020-2150 E. Highland Ave. – 7 Properties	IE East	145,991	\$80.91	Highland & Sterling, LLC	Lrch Sterling & Highland, LP
14574-14584 Baseline Ave. – 7 Properties	IE West	87,793	\$205.60	TNP Strategic Retail Trust, Inc.	LHC Morningside Marketplace, LLC
9440 Autoplex St.	IE West	87,776	\$90.00	D.T.M. Land Company	Lola F. Lukens & Susan L. McNatt
23080 Alessandro Blvd. – 4 Properties	IE East	78,426	\$72.68	JRMVP, LLC	Moreno Center, Ltd.
12879 Foothill Blvd. – 3 Properties	IE East	62,827	\$67.65	Horowitz Group	Fredrickson Enterprises, Inc.
1631 E. Highland Ave. – 5 Properties	IE East	59,334	\$109.55	Shiekh S. Ellahi	Ledador Partners, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
17204 Slover Ave.	IE West	78,961	Mar-12	24 Hour Fitness	Inland Western MDS Portfolio, LLC
27200-27300 Eucalyptus Ave.	IE East	46,041	Aug-12	Halloween City	Weingarten Realty Investors
5391-5467 Moreno St. – Renewal	IE West	41,200	Jun-12	Sports Authority	LNR Property Corporation
27610 Eucalyptus Ave.	IE East	40,770	Jul-12	LA Fitness	Fitness Interntional, LLC
40508 Murrieta Hot Springs Rd.	IE East	40,000	Oct-12	Azusa Pacific Universit	Paul A. & Elaine Newkirk
27473 Ynez Rd.	IE East	39,707	Mar-12	88 Seafood Supermarket	LaeRoc Partners, 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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