

# FOURTH QUARTER 2015 INLAND EMPIRE RETAIL

**Voit**  
REAL ESTATE SERVICES

## MARKET CHANGE

Compared to Previous Year:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

UP



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## HIGHLIGHTS

- **Positive Direction** - The Inland Empire retail market continues to move in a positive direction as we move into 2016. Vacancy and availability decreased compared to this time last year. The market saw 755,381 square feet of positive net absorption for 2015, and the average asking triple-net lease rates exceeded the going rate of the same quarter last year by two cents. These are all good indications that the market is maintaining continuous growth.
- **Construction** - Over 371,000 square feet of new retail space was under construction in the Inland Empire at the end of 2015 and more than 11.4 million square feet of new product is proposed for construction, with almost all of it (9.81 million SF) planned in the Inland Empire East. Most of that proposed construction is split between shopping centers and general retail shops — 4.2 million SF and 4.9 million SF respectively. For the year, 30 buildings totaling a little more than 706,000 square feet of new retail product were delivered to the market.
- **Vacancy** - Direct/sublease space (unoccupied) finished the fourth quarter of 2015 at 7.57%, down 9 basis points from the third quarter of 2015 and a decrease of 1.05% from the last quarter of 2014. General retail had the lowest vacancy rate in the quarter, coming in at only 4.37%, while specialty centers had the highest at 12.21%.
- **Availability** - Direct/sublease space being marketed was 9.89% at the end of the year, down 4.26% from fourth quarter rate of 10.33% in 2014.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in the Inland Empire was \$1.38 at the end of the fourth quarter of 2015, which is two cents above the rate from the same quarter of the previous year or a 1.5% annual increase.
- **Absorption** - The Inland Empire retail market posted 172,757 square feet of positive net absorption in the fourth

quarter of 2015, giving the Inland Empire a total of over 2.02 million square feet of positive net absorption since the fourth quarter of 2013. In 2015, positive net absorption equaled 755,381 square feet—a decrease from 2014's positive net absorption of 984,285 square feet.

- **Transaction Activity** - Leasing activity checked in at 3.2 million square feet for 2015, down from 2014's sum of 4 million square feet. Sales activity showed an increase, posting 7 million square feet in 2015 compared to 2014's total of 6 million square feet. Combined, sales and leasing activity equaled 10.2 million square feet—almost a 3% increase in activity from 2014. 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 6.1% in November 2015, down from a revised 6.3% in October 2015 and below the year-ago estimate of 7.6%. This compares with an unadjusted unemployment rate of 5.7% for California and 4.8% for the nation during the same period. The unemployment rate was 6.2% for Riverside County and 5.9% in San Bernardino County. According to the State of California Employment Development Department, the Riverside-San Bernardino-Ontario MSA showed a net gain of 17,900 payroll jobs from October 2015 to November 2015. Between November 2014 and December 2015 payroll employment increased by 46,100 jobs with most of the gains (9,800 jobs) coming from the trade, transportation and utilities sector.
- **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 on a triple net basis per month. These positive indicators, combined with job creation, will continue to drive demand in the Inland Empire retail market.

## FORECAST

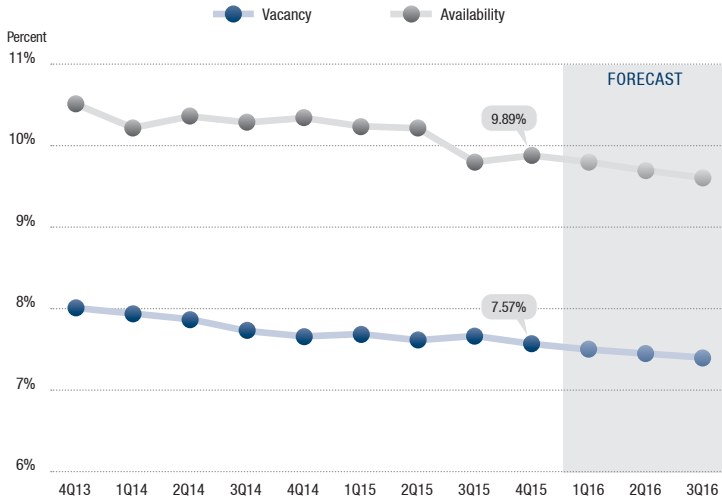
- **Employment** - We anticipate job growth of around 2.4%, or 30,200 jobs, in the Inland Empire area over the year. Look for leisure, hospitality, transportation, logistics, distribution and construction to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking 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 downwards in coming quarters, to around 7.4%, by the end of the third quarter of 2016.

## OVERVIEW

	2015	2014	2013	% of Change vs. 2014
Total Vacancy Rate	7.57%	7.65%	8.01%	(1.05%)
Availability Rate	9.89%	10.33%	10.51%	(4.26%)
Average Asking Lease Rate	\$1.38	\$1.36	\$1.36	1.47%
Sale & Lease Transactions	10,226,863	9,933,636	9,400,848	2.95%
Gross Absorption	4,422,189	4,192,559	5,099,429	5.48%
Net Absorption	755,381	984,285	1,152,195	N/A

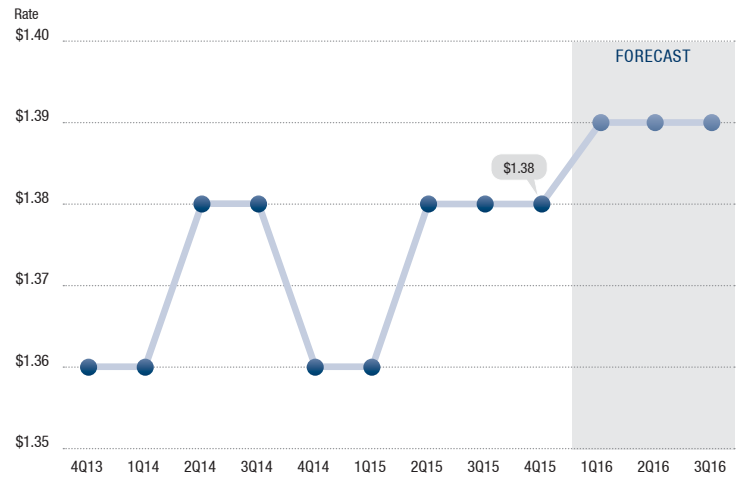
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



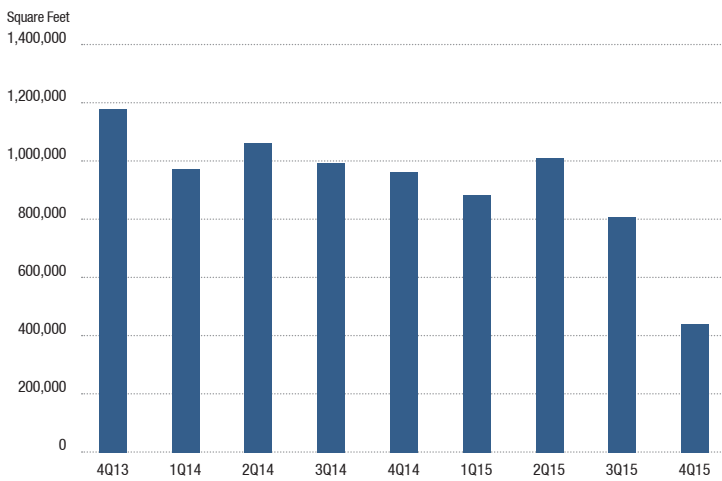
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



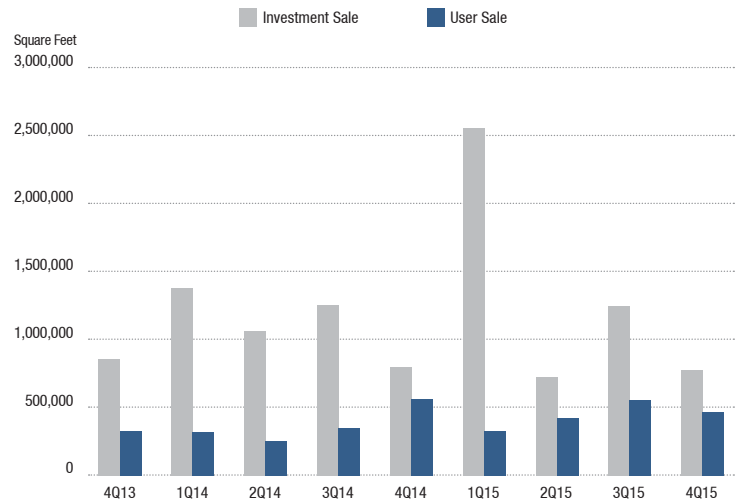
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



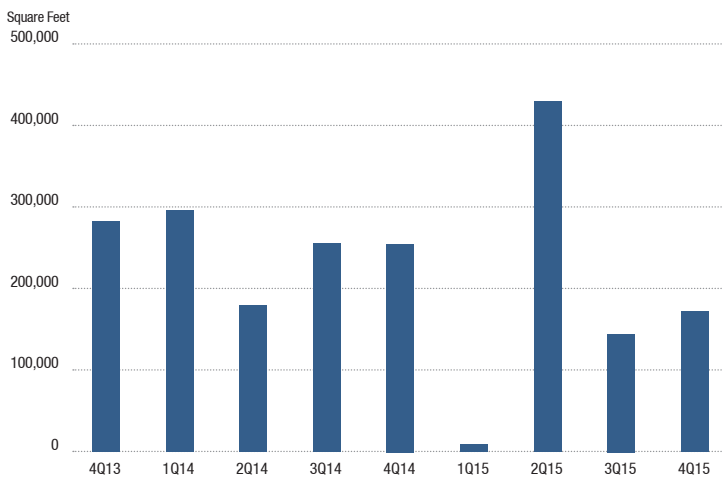
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



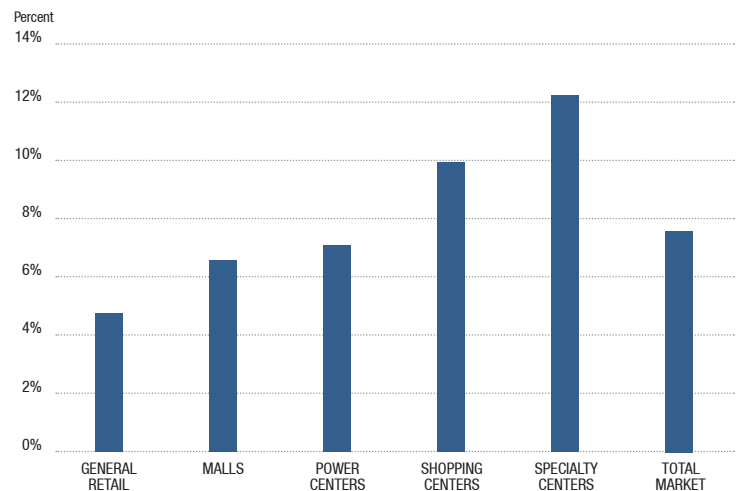
## NET ABSORPTION

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



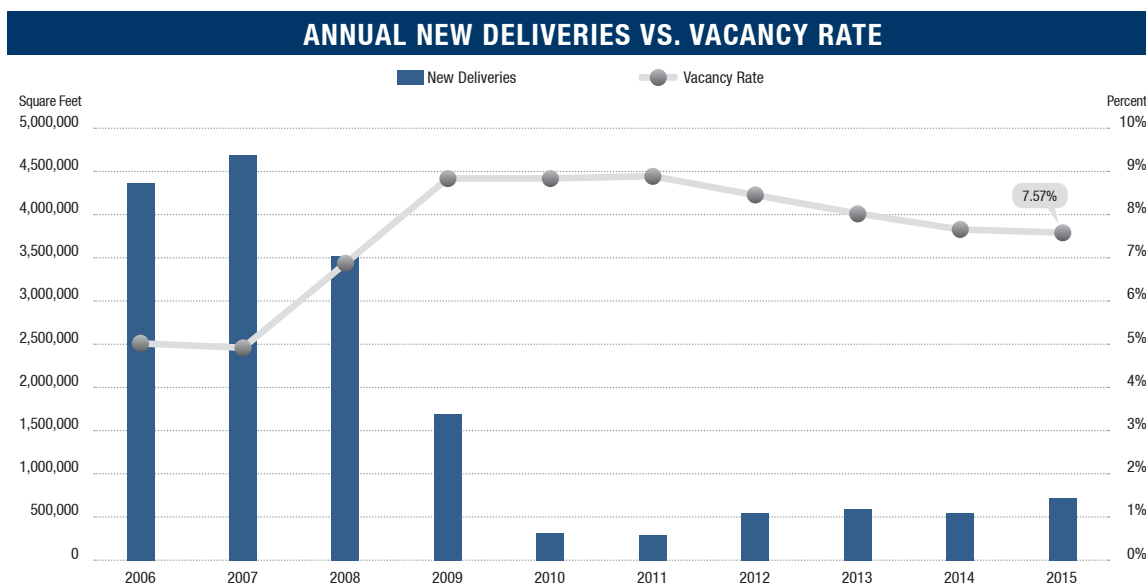
## VACANCY RATE BY PRODUCT TYPE

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 4Q2015	Square Feet Available	Availability Rate 4Q2015	Average Asking Lease Rate	Net Absorption 4Q2015	Net Absorption 2015	Gross Absorption 4Q2015	Gross Absorption 2015
<b>East</b>													
General Retail	5,206	32,064,530	158,288	4,368,915	1,424,886	4.44%	2,080,055	6.49%	\$1.25	142,505	55,274	260,378	685,698
Malls	147	9,061,175	0	1,398,990	792,040	8.74%	1,097,228	12.11%	\$1.99	3,282	22,994	4,637	109,036
Power Centers	135	5,041,812	35,520	762,345	379,660	7.53%	442,824	8.78%	\$1.48	(7,590)	326,900	7,429	446,614
Shopping Centers	2,852	47,810,843	61,564	3,213,191	4,847,665	10.14%	6,085,999	12.73%	\$1.32	161,666	367,859	448,021	1,915,598
Specialty Centers	20	636,020	0	75,700	108,967	17.13%	148,967	23.42%	\$1.00	4,106	49,293	4,106	53,399
<b>East Total</b>	<b>8,360</b>	<b>94,614,380</b>	<b>255,372</b>	<b>9,819,141</b>	<b>7,553,218</b>	<b>7.98%</b>	<b>9,855,073</b>	<b>10.42%</b>	<b>\$1.31</b>	<b>303,969</b>	<b>822,320</b>	<b>724,571</b>	<b>3,210,345</b>
<b>West</b>													
General Retail	1,604	10,852,443	0	554,456	448,679	4.13%	482,258	4.44%	\$1.29	(59,549)	1,372	48,994	212,900
Malls	42	5,458,130	0	0	157,854	2.89%	275,546	5.05%	\$1.69	(8,738)	(24,892)	3,975	27,322
Power Centers	182	6,917,029	0	12,940	463,720	6.70%	629,394	9.10%	\$1.53	(10,174)	(98,117)	36,006	173,679
Shopping Centers	1,108	18,051,156	115,655	1,005,450	1,680,973	9.31%	2,226,668	12.34%	\$1.52	(52,751)	48,573	173,802	791,818
Specialty Centers	16	321,473	0	15,400	7,968	2.48%	7,968	2.48%	\$1.75	0	6,125	0	6,125
<b>West Total</b>	<b>2,952</b>	<b>41,600,231</b>	<b>115,655</b>	<b>1,588,246</b>	<b>2,759,194</b>	<b>6.63%</b>	<b>3,621,834</b>	<b>8.71%</b>	<b>\$1.49</b>	<b>(131,212)</b>	<b>(66,939)</b>	<b>262,777</b>	<b>1,211,844</b>
<b>Inland Empire Total</b>	<b>11,312</b>	<b>136,214,611</b>	<b>371,027</b>	<b>11,407,387</b>	<b>10,312,412</b>	<b>7.57%</b>	<b>13,476,907</b>	<b>9.89%</b>	<b>\$1.38</b>	<b>172,757</b>	<b>755,381</b>	<b>987,348</b>	<b>4,422,189</b>
General Retail	6,810	42,916,973	158,288	4,923,371	1,873,565	4.37%	2,562,313	5.97%	\$1.26	82,956	56,646	309,372	898,598
Malls	189	14,519,305	0	1,398,990	949,894	6.54%	1,372,774	9.45%	\$1.89	(5,456)	(1,898)	8,612	136,358
Power Centers	317	11,958,841	35,520	775,285	843,380	7.05%	1,072,218	8.97%	\$1.52	(17,764)	228,783	43,435	620,293
Shopping Centers	3,960	65,861,999	177,219	4,218,641	6,528,638	9.91%	8,312,667	12.62%	\$1.37	108,915	416,432	621,823	2,707,416
Specialty Centers	36	957,493	0	91,100	116,935	12.21%	156,935	16.39%	\$1.10	4,106	55,418	4,106	59,524
<b>Inland Empire Total</b>	<b>11,312</b>	<b>136,214,611</b>	<b>371,027</b>	<b>11,407,387</b>	<b>10,312,412</b>	<b>7.57%</b>	<b>13,476,907</b>	<b>9.89%</b>	<b>\$1.38</b>	<b>172,757</b>	<b>755,381</b>	<b>987,348</b>	<b>4,422,189</b>

Lease rates are on a triple-net basis.



## MAJOR TRANSACTIONS OF 2015

## Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
451 E. Vanderbilt Way (17 Properties)	East	1,064,108	N/A	Hines / Oaktree Capital Management, LP	Rancon Group
242–500 Inland Center Dr. (4 Properties)	East	588,729	\$174.27	The Macerich Company	Walton Street Capital, LLC
13920 City Center Dr. (11 Properties)	West	377,966	\$389.47	Dunhill Partners, Inc.	MX3 Ventures, LLC
27520 Ynez Rd. (13 Properties)	East	161,383	\$370.86	ARES Management, LLC	LNR Partners
3700 Inland Empire Blvd. (5 Properties)	West	122,335	\$202.72	Coastline Real Estate Investments	Sarkis Sarkissian Trust

## Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
295 E. Caroline St.	East	59,095	Apr-2015	Big Country	Cci Club Sb, LLC
4200 Chino Hills Pkwy.	West	47,616	Apr-2015	Haggen Food and Pharmacy	Weingarten Nostat, Inc.
9059 San Bernardino Rd.	West	43,665	Jun-2015	Chuze Fitness	US Bank Na Series
1250 Washington St.	East	43,391	May-2015	Just Bargain Stores, Inc.	Oxnard Corner, LLC
5445–5467 Moreno St.	West	41,200	Aug-2015	Sport Authority	Gsms 2005-Gg4 Moreno Drive, LP
885–897 E. Harriman St.	East	40,038	Aug-2015	24 Hour Fitness	Sb Tri-City Associates Ps.

**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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