



Retail Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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Market Highlights

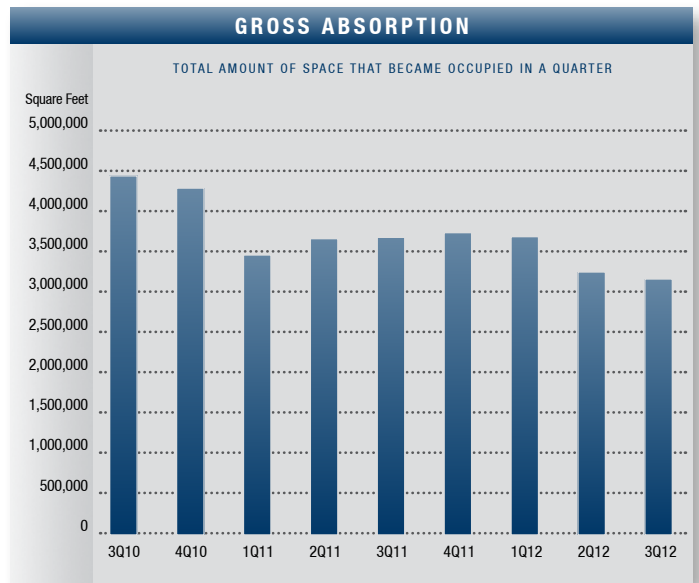
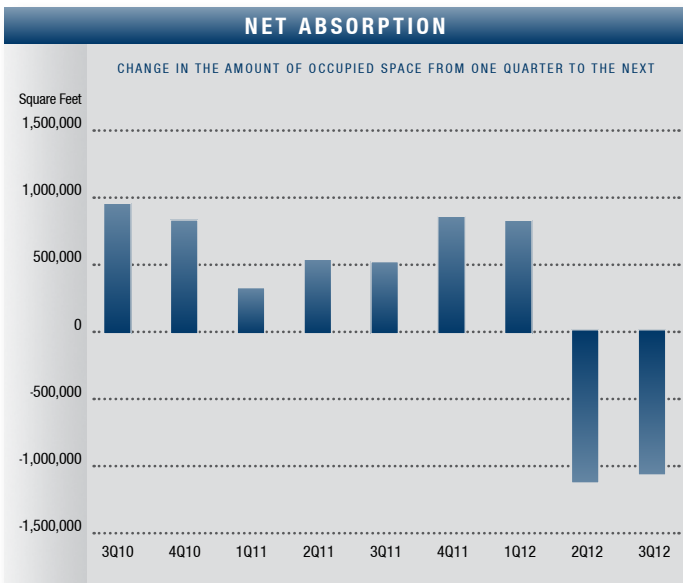
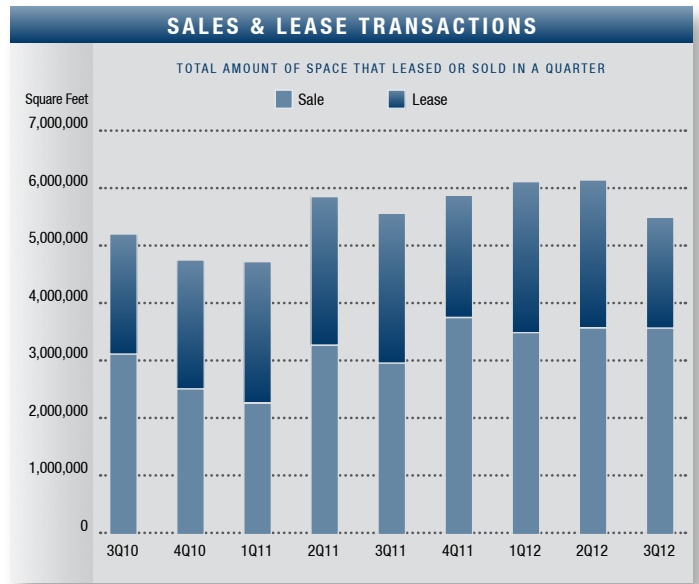
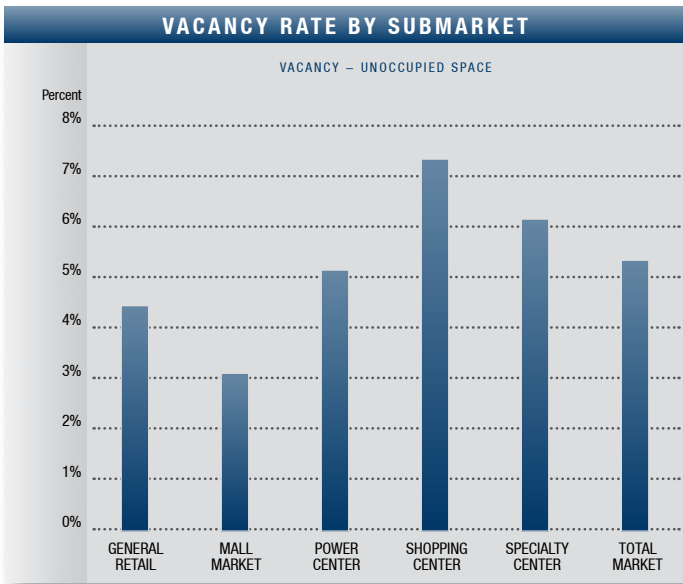
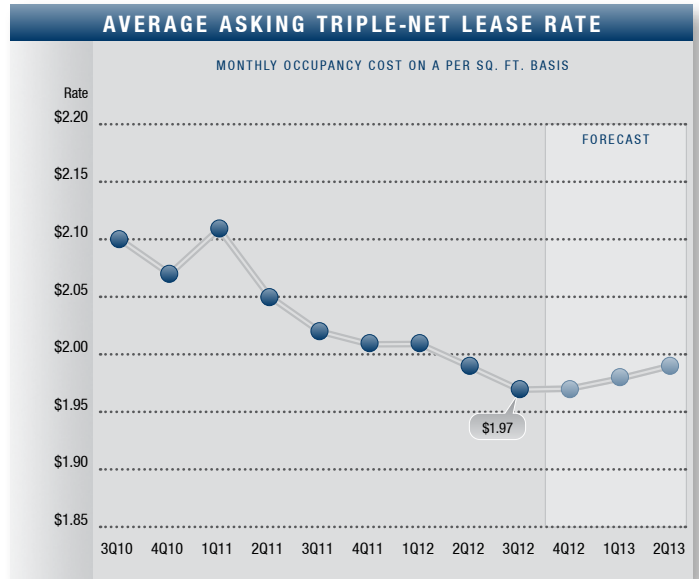
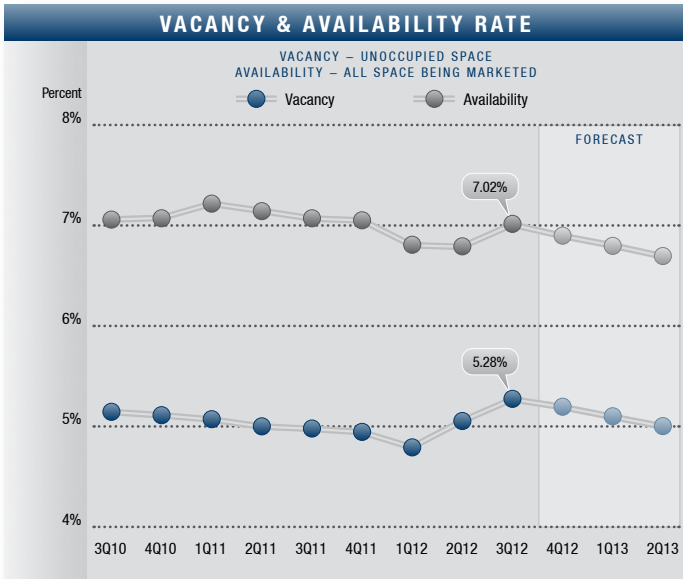
- **Mixed Indicators** - The Los Angeles County retail market displayed mixed indicators in the third quarter of 2012. Vacancy increased from both the previous quarter and the previous year. Availability was down slightly compared to 2011 but increased from the previous quarter. The market posted just over one million square feet of negative net absorption, while both square feet transacted and average asking triple-net lease rates decreased compared to previous quarters. While the market appears to be moving towards stabilization, continued stability and growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was only 550,000 square feet of retail space under construction in Los Angeles County in the third quarter of 2012, 380,000 of which was for general retail space. 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 2012 at 5.28%, an increase over the previous quarter and 6.02% higher than the same quarter of 2011. Malls had the lowest vacancy rate at only 3.07%, while shopping centers had the highest at 7.33%.
- **Availability** - Direct/sublease space being marketed was 7.02% at the end of the third quarter of 2012, a slight increase from the previous quarter's rate of 6.79% and only six basis points lower than the previous year's rate. Malls displayed the lowest availability rates of all of the retail types at 4.71%, while the Burbank/Glendale/Pasadena area displayed the lowest rate of all of the submarkets at 5.22%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Los Angeles County was \$1.97 at the end of the third quarter, a decrease from the previous quarter's average asking rate of \$1.99. We are forecasting that lease rates will begin to rise in early 2013.
- **Absorption** - The Los Angeles County retail market posted 1,062,221 square feet of negative net absorption

in the third quarter of 2012, giving the market a total of almost 1.36 million square feet of negative absorption for the year.

- **Transaction Activity** - Leasing activity checked in at 1.9 million square feet in the third quarter, a decrease from both the previous quarter's figure of 2.5 million square feet and 2011's 2.6 million square feet. Sales activity was up a bit, year over year, with the market transacting just over 3.5 million square feet of sales in the third quarter of 2012 compared to 3.6 million square feet in the second quarter of 2012 and the 2.9 million square feet in the third quarter of 2011. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in Los Angeles County was 11.0% in August 2012—down from a revised 11.2% in July 2012 and below the previous year's estimate of 12.5%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw the largest year-over-year growth in more than ten years, a net increase of 74,000 payroll jobs from August 2011 to August 2012. The largest gains were 23,600 in professional & business services and 18,300 in leisure & hospitality trade; Los Angeles County's only loss was 5,100 manufacturing jobs during that same period.
- **Overall** - Overall, we are beginning to see a decrease in the amount of available space being added per quarter. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market will soon stabilize. We foresee a increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to continue to firm up going into 2013. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the retail market will once again gain traction.

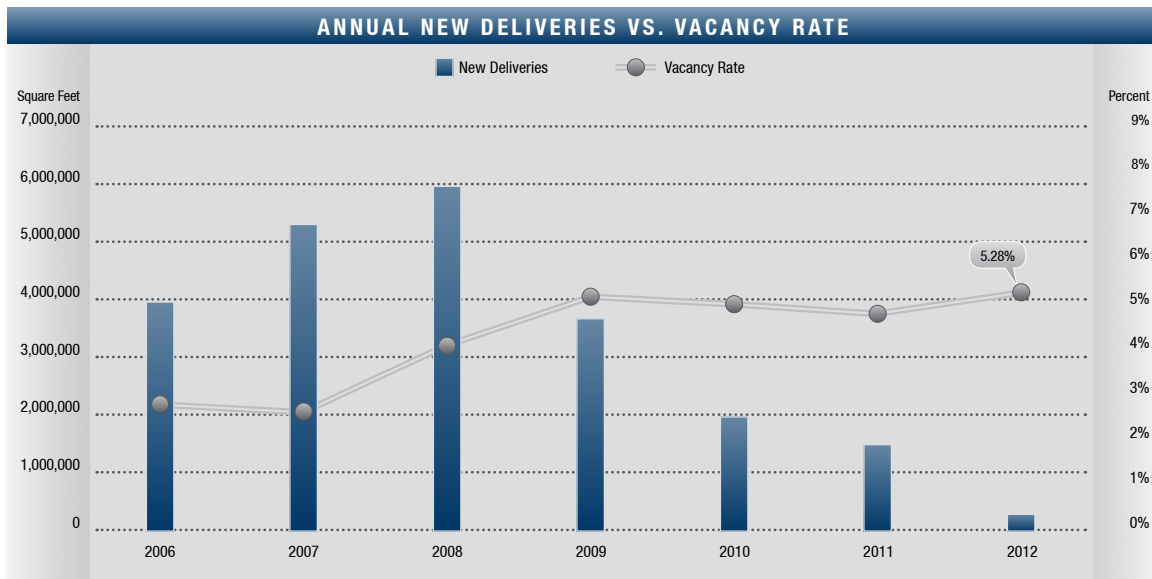
RETAIL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	5.28%	5.05%	4.98%	6.02%
Availability Rate	7.02%	6.79%	7.08%	(0.85%)
Average Asking Lease Rate	\$1.97	\$1.99	\$2.02	(2.48%)
Sale & Lease Transactions	5,450,880	6,111,165	5,557,842	(1.92%)
Gross Absorption	3,157,085	3,235,654	3,671,114	(14.00%)
Net Absorption	(1,062,221)	(1,127,096)	502,455	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Los Angeles Market Total													
Antelope Valley	1,090	15,456,493	16,800	2,131,815	1,237,582	8.01%	1,533,839	9.92%	\$1.29	(36,967)	(97,077)	59,519	239,957
Burbank/Glendale/Pasadena	6,061	55,161,788	21,978	473,254	1,996,046	3.62%	2,880,536	5.22%	\$2.36	(31,111)	(33,079)	375,540	1,082,603
Downtown	1,755	22,821,070	14,539	249,038	1,131,532	4.96%	1,304,141	5.71%	\$2.24	(245,649)	(142,350)	83,827	376,080
Mid-Cities	4,729	43,461,134	39,459	1,876,250	2,959,426	6.81%	4,021,741	9.25%	\$1.66	(256,448)	(317,737)	272,109	968,064
Mid-Wilshire	3,622	36,554,626	31,237	337,638	1,596,629	4.37%	2,209,042	6.04%	\$2.82	(104,133)	(79,028)	299,148	942,836
San Fernando Valley	4,378	50,464,498	33,282	1,170,121	2,500,768	4.96%	3,312,171	6.56%	\$1.81	33,313	(75,930)	453,167	1,156,577
San Gabriel Valley	4,769	58,201,222	115,250	1,028,423	3,794,733	6.52%	4,878,586	8.38%	\$1.59	(128,346)	(197,342)	471,043	1,538,291
Santa Clarita Valley	692	12,448,100	20,369	242,091	853,162	6.85%	1,046,286	8.41%	\$1.89	(34,099)	58,976	48,654	247,813
South Bay	6,112	67,329,516	82,957	975,372	2,885,514	4.29%	3,876,794	5.76%	\$1.89	(27,594)	(5,454)	349,672	1,336,712
Southeast LA	1,452	17,934,522	0	72,079	918,952	5.12%	1,415,756	7.89%	\$1.62	(98,089)	(97,326)	101,328	393,398
Ventura North	1,772	18,155,513	0	141,248	978,449	5.39%	1,360,299	7.49%	\$1.61	11,238	18,192	175,205	365,534
Ventura South	1,720	25,158,129	69,798	1,277,420	1,583,535	6.29%	1,882,716	7.48%	\$1.81	23,506	(189,094)	160,081	590,388
West LA	3,891	38,451,360	108,010	1,933,077	1,917,142	4.99%	2,692,297	7.00%	\$3.90	(167,842)	(205,104)	307,792	843,101
Los Angeles Market Total	42,043	461,597,971	553,679	11,907,826	24,353,470	5.28%	32,414,204	7.02%	\$1.97	(1,062,221)	(1,362,353)	3,157,085	10,081,354
General Retail	33,043	235,804,872	379,148	4,968,661	10,356,268	4.39%	14,538,706	6.17%	\$2.13	(906,789)	(592,049)	1,475,156	5,079,000
Mall Market	561	47,640,702	0	3,281,454	1,463,516	3.07%	2,242,669	4.71%	\$3.07	(37,830)	(63,311)	74,074	337,999
Power Center	442	21,661,203	0	1,050,456	1,105,062	5.10%	1,376,402	6.35%	\$1.67	112,123	(129,871)	138,219	378,434
Shopping Center	7,957	152,503,374	174,531	2,481,155	11,184,761	7.33%	13,923,884	9.13%	\$1.85	(219,179)	(556,185)	1,469,636	4,250,355
Specialty Center	40	3,987,820	0	126,100	243,863	6.12%	332,543	8.34%	\$1.72	(10,546)	(20,937)	0	35,566
Los Angeles Market Total	42,043	461,597,971	553,679	11,907,826	24,353,470	5.28%	32,414,204	7.02%	\$1.97	(1,062,221)	(1,362,353)	3,157,085	10,081,354

Lease rates are on a triple-net basis.



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
127 Burchett St. – 3 Properties	Burbank / Glendale / Pasadena	804,266	\$86.73	BRE Brand Central Holdings, LLC	GSMS 2005-GG4 Glendale Office, LP
19350 Nordhoff St. – 4 Properties	San Fernando Valley	254,444	\$353.71	AG-Coramercia Lot 2 Owner, LP	Nordhoff Way, LLC
195 Victoria Ave.	Ventura South	212,057	\$26.64	Duda Westside Oxnard, LLC	Dullam Westside Properties, LLC
5560 Vineyard Ave.	Ventura South	125,763	\$19.48	Bonnie Plants, Inc.	Lees Vineyard Estate, LLC
133 W. Route 66 – 4 Properties	San Gabriel Valley	106,546	\$139.61	ROIC California, LLC	Glendora Associates, LLC
3150 W. Imperial Hwy. – 4 Properties	South Bay	101,329	\$252.72	Howard Building, LLC	M & A Gabae, LP

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
411-451 W. Esplanade Dr.	Ventura South	32,906	Aug-12	Walmart	Brixmor Property Group
4949 Lakewood Blvd. – Renewal	Mid-Cities	28,750	Aug-12	OfficeMax	Realty Income Corporation
2930-2944 Tapo Canyon Rd.	Ventura North	20,027	Aug-12	Cost Plus World Market	South Street Center Lessor
15423-15441 Amar Rd.	San Gabriel Valley	16,190	Sep-12	Harbor Freight Tools	KNC Capital Group, LLC
12056-12070 Lakewood Blvd.	Mid-Cities	15,789	Jul-12	Harbor Freight Tools	Downey Landing, LLC

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

Antelope Valley,
Burbank / Glendale / Pasadena,
Downtown,
Mid-Cities,
Mid-Wilshire,
San Fernando Valley,
San Gabriel Valley,
Santa Clarita Valley,
South Bay,
Southeast LA,
Ventura North,
Ventura South,
West LA

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