

# MarketView Inland Empire Retail

## Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	10.6%	↓	↓
Lease Rates	\$1.89	↓	↓
Net Absorption*	104,307	↑	↑
Construction	0 SF	→	→

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

## Hot Topics

- The overall vacancy level remains relatively stable, declining minimally to 10.6%
- Approximately 104,000 square feet of positive net absorption was recorded this quarter, bringing the year-to-date total to 38,476 square feet of positive net absorption.
- Average asking lease rates drop drastically, decreasing \$0.24 cents to an average high rent of \$1.89 per square foot
- Unemployment levels remain above the national average, yet have declined to 12.5%

The fourth quarter of 2011 ended with a robust holiday shopping season. While retailers await the official December sales data, the overall mood is optimistic moving into 2012. The sentiment is partially based on the fact that total retail purchases from September through November 2011 increased by 7.4% over last year, according to the U.S. Department of Commerce. While a sales growth of 2.8% was initially anticipated by the National Retail Federation, its holiday forecast was revised upward days before Christmas to 3.8% this year, representing a record \$469.1 billion. Despite the 3.8% sales increase being considerably above the ten-year average sales increase of 2.6%, it does remain below that of the 5.2% increase recorded last year.

November data released by the U.S. Commerce Department report that total retail sales increased 0.2% from October, and 6.8 percent unadjusted year-over-year. Electronics and appliance stores experienced a sales increase of 2.1% seasonally adjusted from last month which can be attributed to their strong holiday promotions. Recorded sales at clothing and clothing accessory stores increased just 0.5% from October, but did show a 3.7% unadjusted gain since last year. Early holiday shopping helped boost sales at sporting goods, hobby, book and music stores which reported an increase of 0.3% seasonally adjusted over the previous month, representing a increase of 7.2% unadjusted year-over-year. Affected by the unseasonably warm weather in many parts of the county in November, consumers held off on purchases of traditional winter supplies and garden materials. Although sales at building material and garden equipment stores are up by 6.2%, a decrease of 0.3% seasonally adjusted were recorded in November.

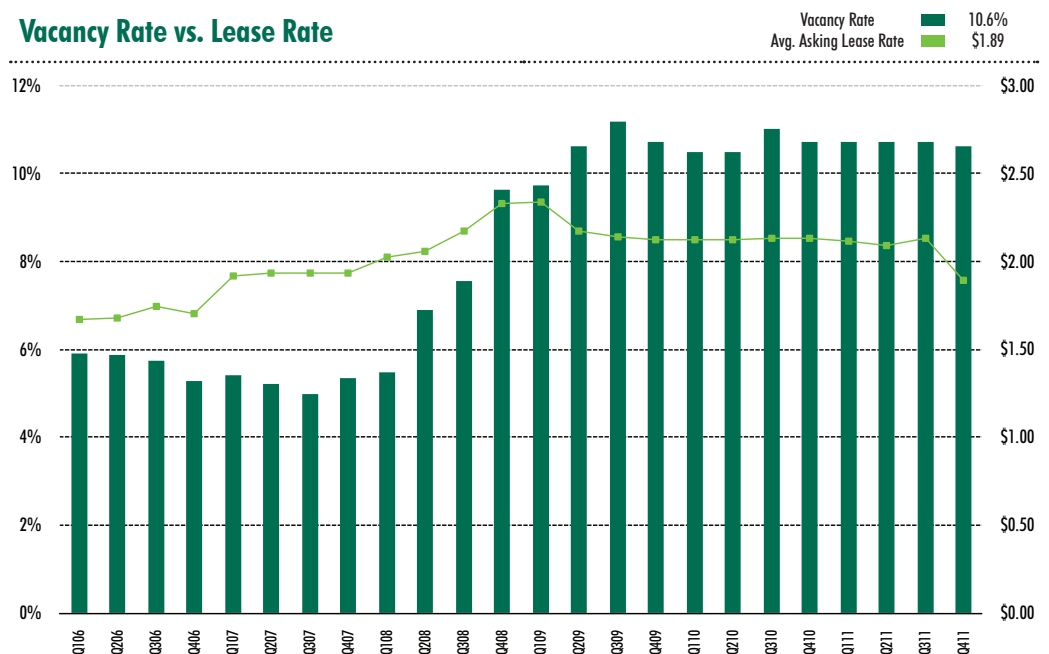
On the commercial side of the retail market, the Inland Empire continues to push through the effects of the recession. The vacancy

rate among the region's retail centers remains constant while the velocity of tenant demand is far from pre-recession levels. In the fourth quarter, the overall vacancy rate ticked downward to 10.6% from last quarter's rate of 10.7%. A total of 104,307 square feet of positive net absorption was recorded which offset the negative net absorption experienced earlier in the year to bring the year-to-date total to 38,476 square feet of positive net absorption. The average asking high lease rate demonstrated a drastic decline this quarter—the result of landlords lowering asking rents to attract tenants. At \$1.89 per square foot, the average asking lease rate declined by \$0.24 this quarter representing an 11% decrease. The recent momentum places the Inland Empire retail market on track for a gradual recovery, albeit at a slower pace than the rest of the nation. The Inland Empire cannot expect to see large gains of improvement until economic indicators start to improve and remain steady.

The Inland Empire did witness some notable transactions this quarter which aided in the positive net absorption. Hobby Lobby signed 75,000 square-foot lease in Rancho Cucamonga at the Terra Vista Towne Center as well as a 76,000 square-foot lease in the city of Temecula at Palm Plaza. Additionally, Harbor Freight Tools inked a lease in Moreno Valley at the Moreno Valley Plaza to occupy approximately 15,000 square feet.

Construction of new space is still non-existent. No new centers broke ground or completed construction in the fourth quarter. A steady trend of positive momentum in the local economy must be achieved before developers move forward with plans for new centers; otherwise, all formerly active development projects will remain halted indefinitely.

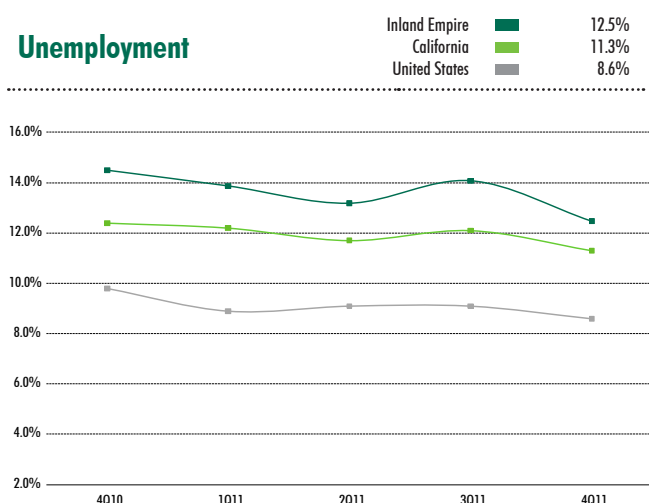
Vacancy Rate vs. Lease Rate



## Market Statistics

Submarket	Building SF	Vacancy Rate %	Net Absorption SF	Under Construction SF	Avg. High Asking NNN \$/PSF/MTH
EAST END	31,680,718	16.9%	(54,442)	-	\$1.88
HIGH DESERT	7,585,142	6.4%	25,889	-	\$1.77
LOW DESERT	15,144,291	11.4%	36,762	-	\$1.70
SO. RIV COUNTY	17,249,938	7.9%	88,997	-	\$1.88
WEST END	37,543,690	7.2%	7,101	-	\$2.22
<b>Inland Empire Total</b>	<b>109,203,779</b>	<b>10.6%</b>	<b>104,307</b>	-	<b>\$1.89</b>

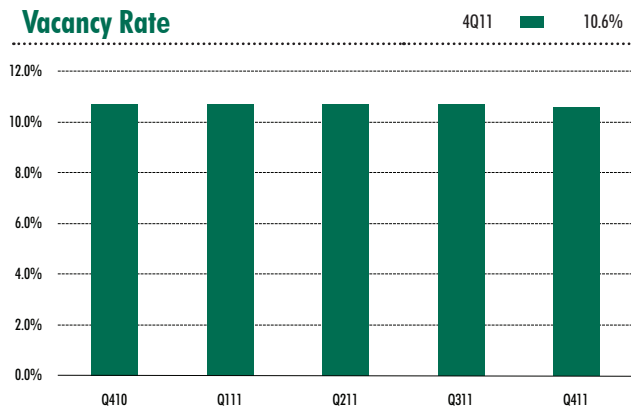
## Unemployment



The Inland Empire's employment rate currently stands at 12.5%, down from a revised 13.3% in October 2011. Although declining, the region's unemployment rate remains higher than California's rate of 11.3%, as well as the national unemployment rate which decreased to 8.6% in November.

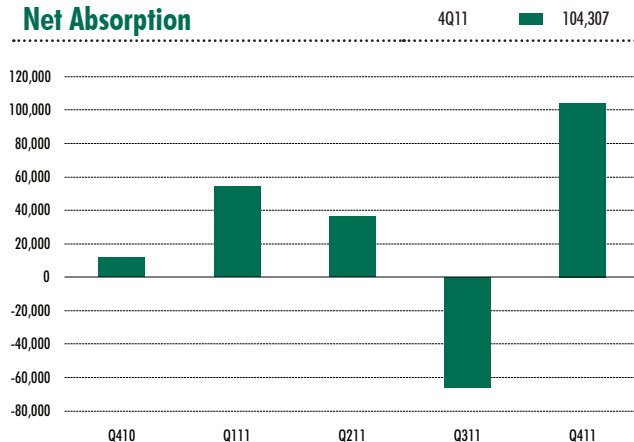
Since November of last year, total non-farm employment has increased by approximately 19,100 jobs. Trade, transportation and utilities reported the largest year-over gain 8,500 jobs, the majority which fell into the wholesale trade sub-sector. Business Services recorded a significant increase in employment, adding 3,600 jobs since last year. Additionally, the government segment grew by 3,000 jobs while education and health services added a total of 1,500 jobs. The largest year-over decline occurred in financial services sector, which shed 1,000 jobs.

## Vacancy Rate



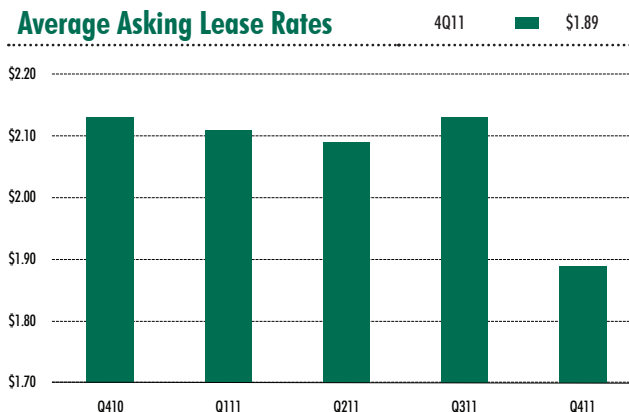
Inland Empire retail vacancy rates continue to remain stagnant with a slight decrease this quarter to 10.6%. Strip Centers continue to yield the highest vacancy rate with 17.2%; while specialty and power centers within the Inland Empire continue to boast the lowest vacancy rates of 2.7% and 7.9%, respectively. The East End continues to yield the highest vacancy rate ending the fourth quarter with an increased rate of 16.9%. The High Desert holds the lowest vacancy level among the submarkets with a rate of 6.4%.

### Net Absorption



The fourth quarter 2011 ended with 104,307 square feet of positive net absorption. The recent tenant demand offset the negative occupancy which occurred in previous quarters and brought the year-to-date total to 38,476 square feet of positive net absorption. Of the center types, community centers noted the greatest amount of activity and absorbed 252,874 square feet of space. In stark contrast, power centers experienced 242,562 square feet of negative net absorption in the fourth quarter. Neighborhood centers fared well with a total of 84,856 square feet of positive net absorption as did strip centers which posted 18,125 square feet of positive net absorption. Specialty centers recorded a total of 8,986 square feet of negative net absorption.

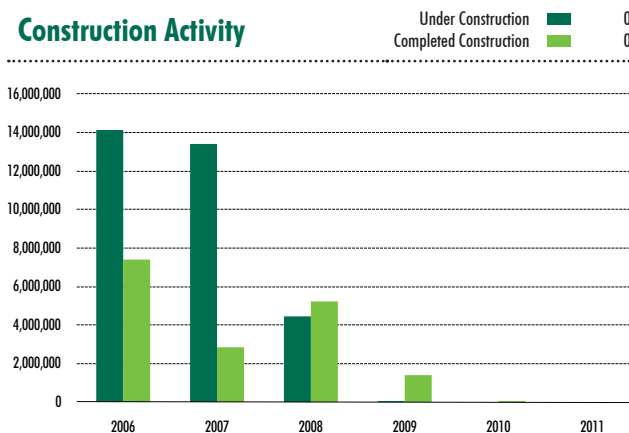
### Average Asking Lease Rates



The average high asking lease rate for retail space in the Inland Empire declined by \$0.24 this quarter to now stand at \$1.89 per square foot. The average low asking triple net lease rate also witnessed a decrease, moving down to \$1.57 from \$1.65 per square foot.

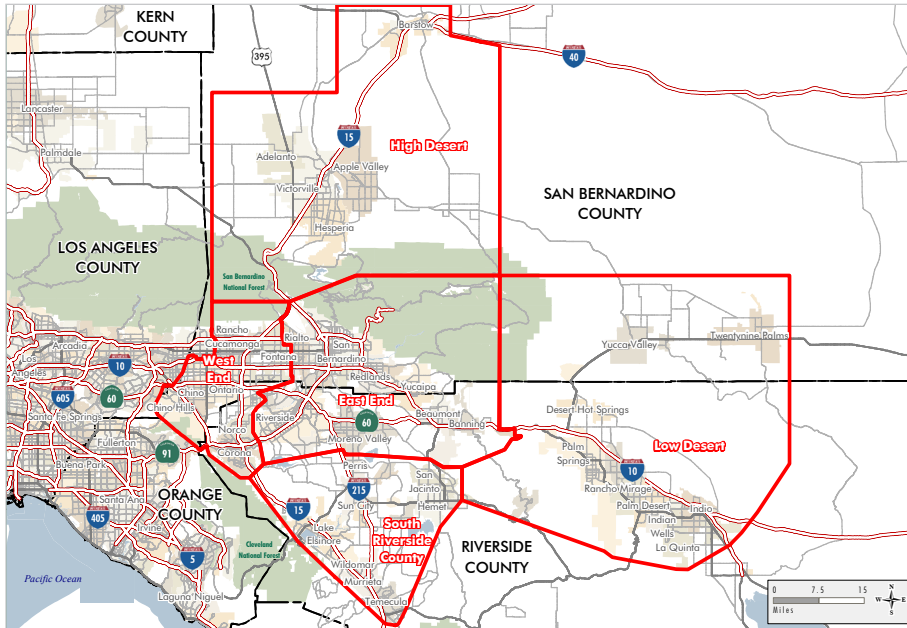
Among the five major sub-markets for Inland Empire, the West End area closed out the quarter with the highest average high asking lease rate at \$2.22 per square foot per month and the Low Desert area posted the lowest average high asking lease rate at \$1.70 per square foot per month.

### Construction Activity



Construction of new retail centers in the Inland Empire remains non-existent. Since the first quarter of 2010, the market has had no centers begin the construction phase. Many developments have been halted indefinitely until a balanced economic structure can be achieved.

## Submarket Map



## Inland Empire Submarket Descriptions

### EAST END

Includes Banning, Beaumont, Big Bear, Big Bear Lake, Blue Jay, Cabazon, Calimesa, Colton, Highland, Lake Arrowhead, Loma Linda, Moreno Valley, Redlands, Rialto, Riverside, San Bernardino, and Yucaipa

### HIGH DESERT

Includes Adelanto, Apple Valley, Barstow, Hesperia, Phelan, and Victorville

### LOW DESERT

Includes Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage, and Yucca Valley

### SOUTH RIVERSIDE COUNTY

Includes French Valley, Hemet, Lake Elsinore, Menifee, Murrieta, Perris, San Jacinto, Sun City, Temecula, and Wildomar

### WEST END

Includes Chino Hills, Chino, Corona, Fontana, Mira Loma, Montclair, Norco, Ontario, Rancho Cucamonga, and Upland

## Local Offices

**Antelope Valley**  
42220 10th Street West, Suite 107  
Lancaster, California 93534  
661.729.6702

**Beverly Hills**  
1840 Century Park East  
Los Angeles, California 90067  
310.550.2500

**El Segundo**  
2041 Rosecrans Avenue, Suite 300  
El Segundo, California 90245  
310-765-2600

**LA-Central**  
500 Citadel Drive, Suite 301  
Commerce, California 90040  
323.838.3100

**Los Angeles Downtown**  
355 South Grand Avenue, Suite 3100  
Los Angeles, California 90071  
213.613.3242

**LA North - Glendale/San Fernando**  
10 Universal City Plaza, 27th Floor  
Universal City, California 91608  
818.907.4677

**Newport Beach**  
3501 Jamboree Road, Suite 100  
Newport Beach, California 92660  
949.725.8500

**Ontario**  
4141 Inland Empire Boulevard, Suite 100  
Ontario, California 91764  
909.418.2000

**Orange**  
1100 town & Country Road, Suite 1200  
Orange, CA 92868  
714.371.9200

**Palm Desert**  
74-770 Highway 111, Suite 101  
Indian Wells, California 92210  
760.341.5273

**San Diego Central**  
4365 Executive Drive, Suite 900  
San Diego, California 92121  
858.546.4600

**San Diego Downtown**  
350 Tenth Avenue, Suite 800  
San Diego, California 92101  
619.236.1231

**San Diego North County**  
5740 Fleet Drive, Suite 100  
Carlsbad, California 92008  
760.438.8500

**Santa Barbara**  
1332 Anacapa Street  
Santa Barbara, California 93101  
805.963.6100

**Santa Fe Springs**  
10350 Heritage Park Drive  
Santa Fe Springs, California 90670  
562.946.1541

**South Bay/Mid-Counties**  
990 West 190th Street  
Torrance, California 90502  
310.516.2300

**Temecula**  
27720 Jefferson Avenue, Suite 230  
Jefferson Plaza Office Building  
Temecula, California 92590  
951.326.2900

**Ventura County**  
771 East Daily Drive, Suite 300  
Camarillo, California 93010  
805.465.1600

### Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated

### Completions

Rentable Building Area completed during the period

### Market Coverage

'Existing' completed competitive properties

### Net Absorption

The change in Occupied Sq. Ft. during the period for all Existing properties

### Base Inventory, Base or Building Square Feet

The sum of the Rentable Building Area for all competitive properties

### Occupied Square Feet

Rentable Building Area less Vacant Space

### Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work, and is on-going

### Available Space

Space being marketed to potential occupants, in Rentable Sq. Ft. (direct and sublease combined, unless otherwise indicated)

### Availability Rate

Available space as a percentage of the Base Inventory or Building Sq. Ft

### Vacant Space

Available Space that is physically vacant, in Rentable Sq. Ft

### Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building Sq. Ft

For more information regarding the MarketView, please contact:

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