

Inland Empire Industrial MarketView

Q1 2013

CBRE Global Research and Consulting

▼ VACANCY RATE
6.2%

▲ NET ABSORPTION
3.4 MILLION SF

▲ CONSTRUCTION
7.8 MILLION SF

▲ LEASE RATE
\$0.38 NNN

▼ UNEMPLOYMENT
10.8%

*Arrows indicate change from previous quarter

INCREASED ABSORPTION PUSHES VACANCY DOWN AND LEASE RATES UP

ACTIVITY LEVELS REMAIN HEALTHY

The Inland Empire industrial market continues to generate a healthy amount of activity. The first quarter ended with 6.8 million sq. ft. of gross activity an increase of nearly 200,000 sq. ft. from the previous quarter. Tenant and user demand remain strong and should have a positive impact on activity in the coming months.

DEVELOPMENT OF INDUSTRIAL PRODUCT CONTINUES

Due to the available land and low costs, the Inland Empire has been a leader in industrial development compared to the other markets within the Southern California region. This quarter delivered 2.0 million sq. ft. of new product to the market while 7.8 million sq. ft. remains under construction.

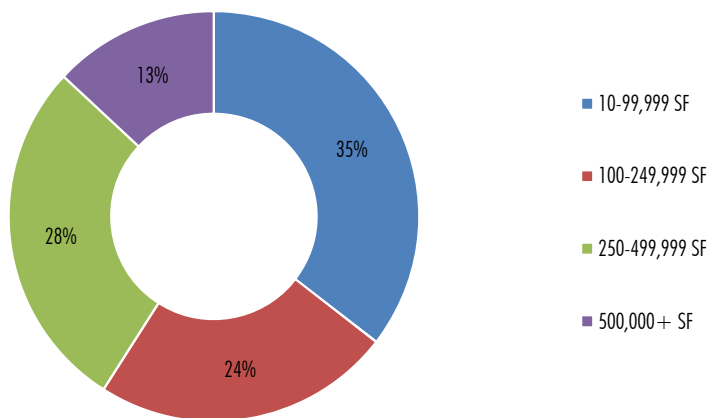
OVERALL VACANCY RATE MOVES DOWN

Vacancy dropped 40 basis points from the fourth quarter of 2012 to now stand at 6.2%. With the increasing demand, CBRE Econometric Advisors forecasts vacancy levels to fall below 6.0% by the end of 2013.

AVERAGE ASKING LEASE RATE INCREASES

The average asking lease rate increased \$0.02 per sq. ft. from the fourth quarter of 2012 to end the first quarter at \$0.38 per sq. ft. This represents an increase of 5.5%. Rents are projected to grow 8.7% by the end of 2013.

Chart 1: Vacant Space Distribution



The Inland Empire closed 2012 with continued signs of growth and promise as we moved into 2013. The first quarter of 2013 generated 6.8 million sq. ft. of gross activity, split up with 2.3 million sq. ft. in the Inland Empire East and 4.5 million sq. ft. in the Inland Empire West. With this activity, the Inland Empire's first quarter net absorption totaled 3.4 million sq. ft., an increase of about 1.2 million sq. ft. compared to the first quarter of 2012. Vacancy and availability rates both declined at the end of this quarter due to the larger deals in the 500,000 and greater sq. ft. range that completed. Currently, the overall availability rate stands at 11.0% while the vacancy rate is at 6.2%, both down 0.4% compared to the fourth quarter of 2012.

The average asking lease rates continues to tick upwards in the Inland Empire. At the end of the first quarter, the average asking lease rate jumped up to \$0.38 per sq. ft. triple net, representing an increase of \$0.02 per sq. ft. over the previous quarter. This increase can be attributed to the continued growth in activity, limited supply of new construction and cautious optimism in the market. According to CBRE Econometric Advisers, rents are expected to grow 8.7% throughout 2013 and 9.0% by the end of 2014.

Trade volumes at the Ports of Los Angeles and Long Beach grew at a slower pace in 2012. Through February 2013, the Port of Los Angeles as well as the Port of Long Beach both saw increases in loaded inbound containers compared to the same period in 2012. The Port of Los Angeles had a total of 655,975 loaded inbound containers through February 2013, compared to 610,754 containers in the same period 2012, and the Port of Long Beach had a total of 553,062 loaded inbound containers through February 2013, compared to 420,600 containers during the same time 2012. The increases in activity along with substantial growth in e-commerce will have a positive impact on the Inland Empire warehouse and distribution channels.

Given the significant presence of the logistics industry, the Inland Empire regional economy is much more dependent upon the U.S. and global economies, as opposed to other Southern California counties. Key advantages that will assist in the success of the Inland Empire include affordability of housing, population growth and available low-cost land for additional warehouse construction.

The unemployment rate in the Riverside-San Bernardino-Ontario MSA dropped 70 basis points from January's rate of 11.5% to 10.8% in the month of February. The unemployment rate for the Inland Empire has not been below 11.0% since December of 2008. However, it still remains above California's rate of 9.6% and the nation's rate of 7.7% recorded in February. The unemployment rate was 10.9% in Riverside County, and 10.7% in San Bernardino County. The Inland Empire showed signs of economic growth throughout 2012 as companies started to hire again. The average annual unemployment rate fell to 12.2% in 2012 compared to the average rate of 13.3% in 2011.

Between January 2013 and February 2013, nonfarm employment expanded to 1,166,300 jobs in the region, gaining 2,900 jobs. Agricultural employment shrank by 1,800, for a total of 13,200 jobs in the region. Between February 2012 and February 2013, total nonfarm employment increased by 27,500 jobs or 2.4%. Agricultural employment increased by 400 jobs, or 3.1%. Six other industries also posted gains over the year, but the most significant came from trade, transportation, and utilities, adding 8,000 jobs, and educational and health services, adding 6,000 jobs.

Distribution and manufacturing employment are the primary determinants of demand. According to CBRE Econometric Advisors (CBRE EA), distribution employment is defined as "all of the wholesale trade sector plus transportation (trucking and warehousing)." The latest estimates, as stated by CBRE EA, of distribution and manufacturing employment for the Inland Empire are 97,700 workers and 85,600 workers, respectively. Over the last five years, the Inland Empire's distribution employment has shown no growth while manufacturing employment has declined by 5.8%. Over the last 12 months, distribution employment has grown by 5.1% and manufacturing employment has declined by 0.9%. CBRE EA forecasts employment to grow 1.7% over the next two years with the Inland Empire's agriculture and mining sector posting the best job performance, growing 4.9%. Construction, manufacturing and transportation and warehousing job sectors are also expected to grow over the next two years at 4.7%, 1.2% and 2.3%, respectively.

The first quarter of 2013 continued to see growth in average asking lease rates. The average asking lease rate at the end of the first quarter was \$0.38 per sq. ft. triple net, up \$0.02 per sq. ft. since the end of 2012. The overall average asking lease rate for the Inland Empire East witnessed a one-cent uptick to \$0.37 per sq. ft., while the Inland Empire West saw a two-cent increase to \$0.39 per sq. ft. Tenant and user demand is increasing within the Inland Empire industrial market pushing lease rates upward. CBRE EA forecasts rents to grow 8.7% by the end of 2013.

Chart 2: Unemployment Rate (%)

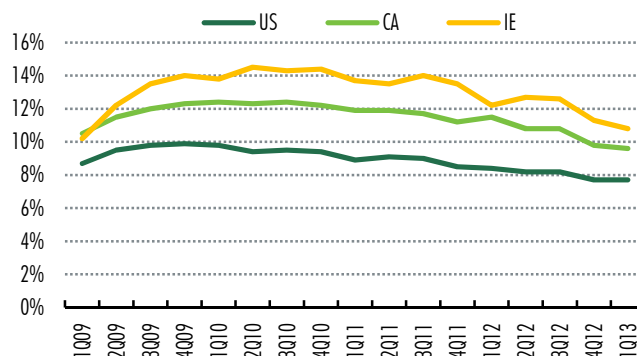


Chart 3: Year-Over-Year Job Growth (%)

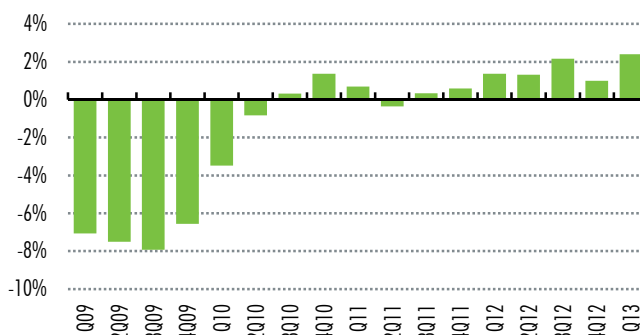


Chart 4: Asking Lease Rate (\$PSF/MO/NNN)

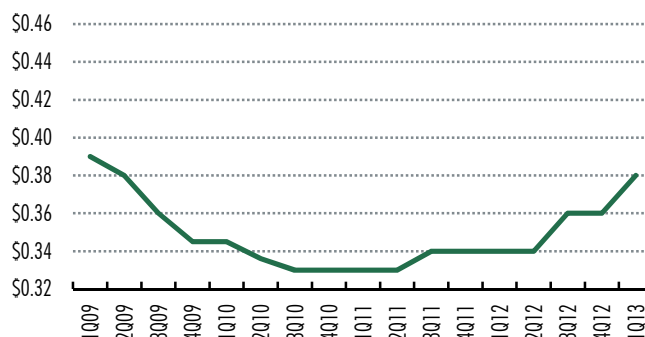


Chart 5: Year-Over-Year Rent Growth

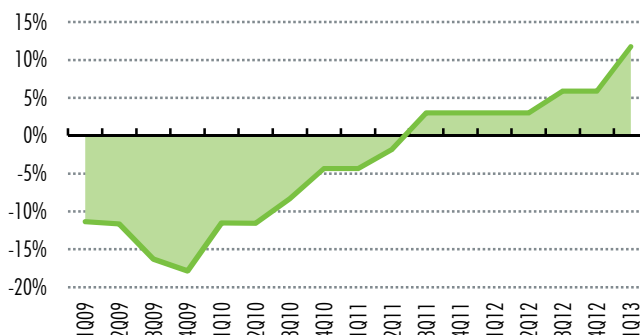
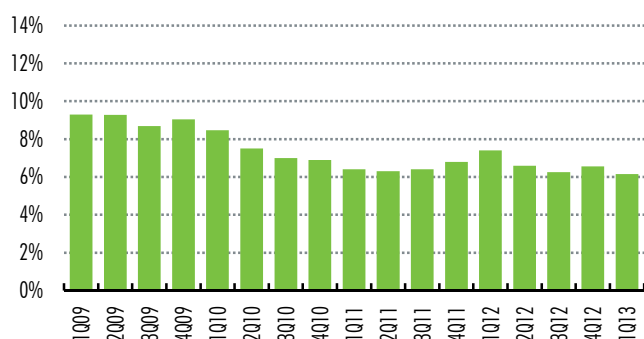
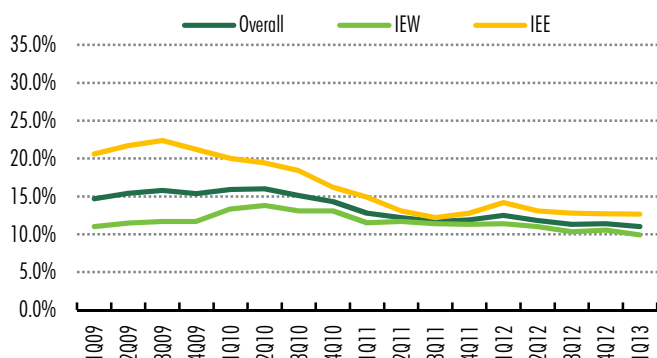
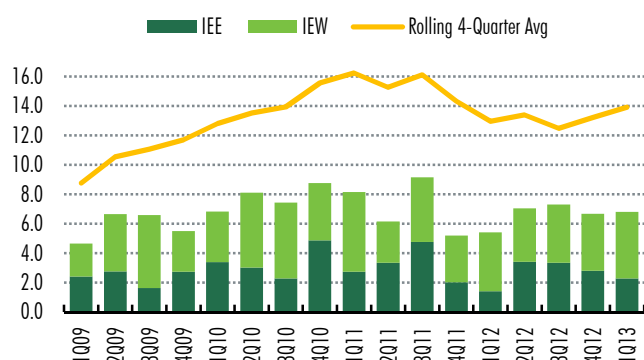
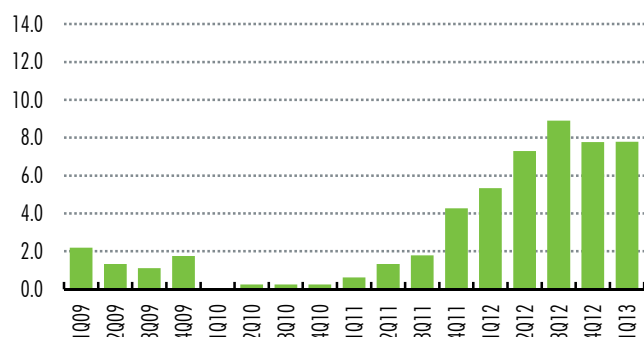


Chart 6: Overall Vacancy Rate (%)**Chart 7: Availability Rate (%)****Chart 8: Gross Activity****Chart 9: Under Construction (Million SF)**

The overall vacancy rate in the Inland Empire decreased to 6.2%, down 40 basis points from the last quarter. This also represents the lowest vacancy rate the Inland Empire has experienced since the recession. In the Inland Empire East, vacancy declined from 7.4% to 6.8%, and in the Inland Empire West, vacancy declined from 6.0% to 5.7%.

The availability rate in the Inland Empire also experienced a drop. The overall availability in the Inland Empire currently stands at 11.0%, down 40 basis points from last quarter. In the Inland Empire East, the availability rate remained the same at 12.7% while the Inland Empire West dropped 60 basis points to 9.9%.

Activity started off strong in 2013 with the Inland Empire generating 6.8 million sq. ft. of gross activity, representing an increase of 1.4 million sq. ft., or 26.0%, in activity compared to the first quarter of 2012. The Inland Empire West generated the majority of the activity ending the quarter with 4.5 million sq. ft. while the Inland Empire East contributed the remaining 2.3 million sq. ft.

The industrial market experienced 3.4 million sq. ft. of net absorption during the first quarter, an increase of just under 1.0 million sq. ft. compared to the previous quarter. The Inland Empire East generated 1.3 million sq. ft. of net absorption while the Inland Empire West added 2.1 million sq. ft. The Inland Empire West had two new transactions completed in the first quarter over 500,000 sq. ft. that helped drive the net absorption higher.

There were two notable deals in the Inland Empire West that occurred this quarter. Campbell's Foods signed a new lease for 573,000 sq. ft. in Rancho Cucamonga and Mobis Parts America signed a new lease for 506,436 sq. ft. in Ontario. Jarden renewed their space in the Inland Empire West as well, totaling 827,650 sq. ft. In the Inland Empire East, the largest deal completed was a 480,570 sq. ft. building in San Bernardino that was delivered during the first quarter and pre-leased to Pepsi Co.

The first quarter of 2013 delivered seven newly constructed buildings, totaling just over 2.0 million sq. ft. Of the seven, two buildings were completed in the Inland Empire East, adding nearly 500,000 sq. ft., and five buildings were completed in the Inland Empire West, adding 1.5 million sq. ft. Despite delivering just over 2.0 million sq. ft. of completed product, 1.2 million sq. ft. of the total was either pre-leased or sold, thus keeping the vacancy low. The largest building completed this quarter was the Pepsi Co facility in San Bernardino.

There is currently 7.8 million sq. ft. of construction in the pipeline for the Inland Empire due to deliver throughout 2013.

Chart 10: Market Statistics

Submarket	Building SF	Overall Vacancy %	Availability %	Current Net Absorption	Current Gross Activity	Under Construction	Construction Deliveries	Avg Asking Lease Rate
Inland Empire East	164,044,107	6.8%	12.7%	1,324,723	2,276,589	6,383,056	491,922	\$0.37
Inland Empire West	246,731,290	5.7%	9.9%	2,051,794	4,528,362	1,398,561	1,555,689	\$0.39
Inland Empire	410,775,397	6.2%	11.0%	3,376,517	6,804,951	7,781,617	2,047,611	\$0.38

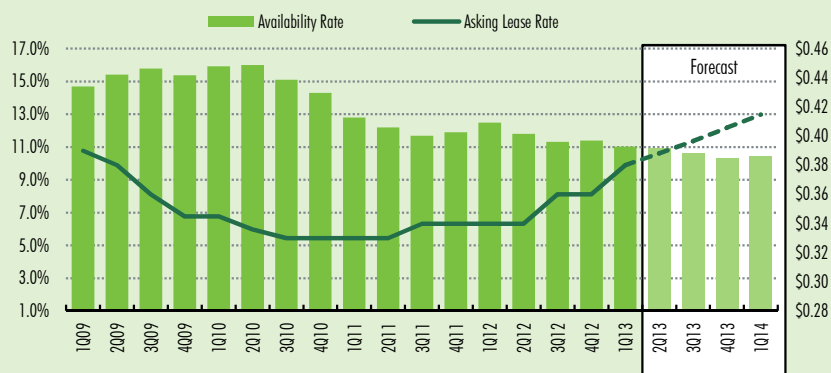
Chart 11: Key Transactions

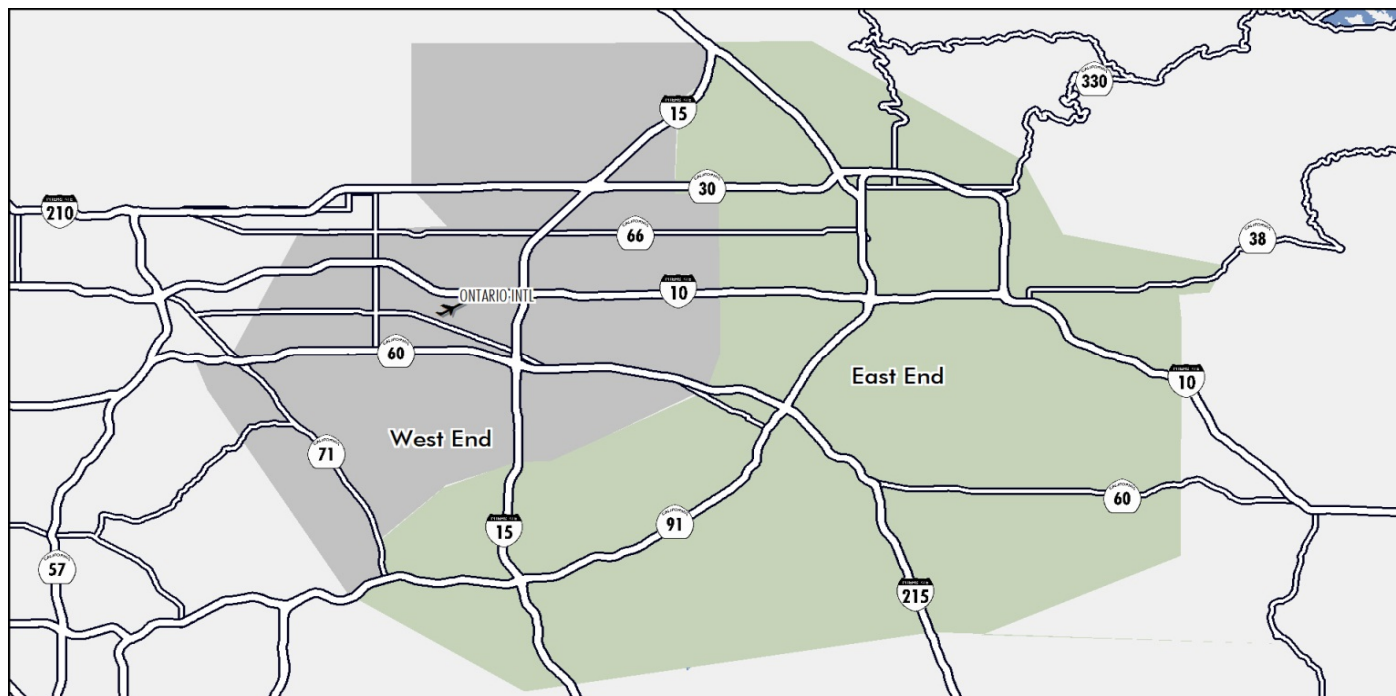
Occupier	Industry Sector	Location	SF Leased
Jarden	Manufacturing	Inland Empire West	827,560
Pier 1 Imports	Furniture	Inland Empire West	747,445
Campbell's Soup Supply Co	Food	Inland Empire West	573,000
Mobis Parts America	Auto	Inland Empire West	506,436
APL Logistics	Transportation	Inland Empire West	441,970

Chart 12: Market Outlook

The outlook for Inland Empire's industrial market is positive. With increased activity, CBRE Econometric Advisors forecasts availability levels to fall into the high 10.0% range throughout 2013, despite new speculative construction being added to the inventory. Rents are projected to climb incrementally over the next 12 months, eventually growing 2.2% by the beginning of 2014.

12-MONTH FORECAST





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Inland Empire Office MarketView

Q1 2013

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter

SLOW BUT STEADY RECOVERY FOR INLAND EMPIRE OFFICE MARKET

ABSORPTION STILL IN THE BLACK

The first quarter ended with 12,649 sq. ft. of positive net absorption, continuing the upward trend that the Inland Empire office market has experienced throughout 2012.

VACANCY REMAINS STABLE

The vacancy rate dropped only 10 basis points from the fourth quarter of 2012, to end the first quarter at 21.2%. CBRE Econometric Advisors projects the vacancy rate to remain within the 21.0% range throughout 2013.

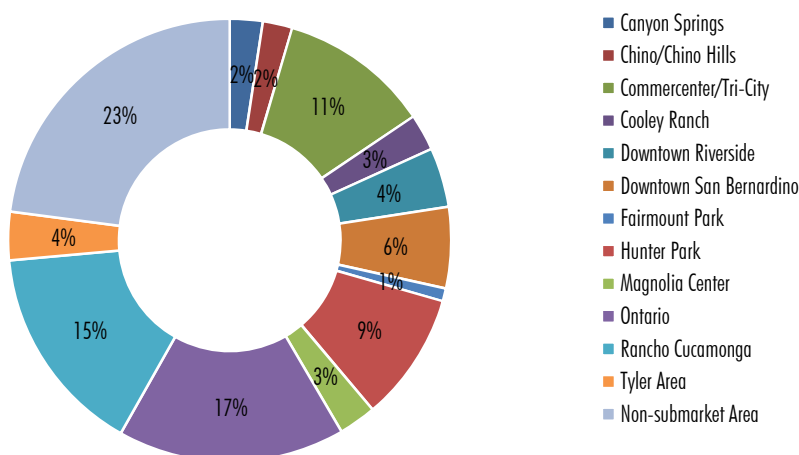
UNEMPLOYMENT CONTINUES TO DROP

The unemployment rate for the Inland Empire fell to 10.8% in February, compared to January's rate of 11.5%. The Inland Empire has witnessed an improvement in the labor market over the past year with nearly 16,000 nonfarm jobs added in 2012.

AVERAGE ASKING LEASE RATE REMAINS STAGNANT

The overall average asking lease rate remained at \$1.73 per sq. ft. for the first quarter. However, CBRE Econometric Advisors forecasts rents to grow roughly 3.0% by the beginning of 2014.

Chart 1: Vacant Space Distribution



The Inland Empire was one of the hardest hit metropolitan areas in the nation by the downturn in the economy. As the housing market crashed, so did the growth of businesses. The office market has been slow to make a comeback due to the lack of job growth within the San Bernardino and Riverside counties. Companies started to hire again in 2012 and the average annual unemployment rate fell to 12.2% compared to the average annual rate in 2011 of 13.3%.

With the fall in unemployment, activity picked up the pace in 2012 and the net absorption remained positive throughout the year. The Inland Empire experienced a drop in net absorption from the end of last year, with the first quarter generating 12,649 sq. ft. The cities of Rancho Cucamonga and Ontario are doing well due to their proximity to the Ontario International Airport. Two significant leases were signed in Rancho Cucamonga this quarter; State Farm moved into 51,000 sq. ft. and Kaiser moved into 40,000 sq. ft. The healthcare industry has been a primary

driver in the Inland Empire office market over the last year with administrative, government and engineering firms following closely behind.

The vacancy rate remained on par with the end of 2012, only dropping 10 basis points, ending the first quarter at 21.2%. While property tours have increased throughout the Inland Empire, tenants are still slow to execute transactions and are looking for the best, most efficient space to suit their needs. The Inland Empire office markets continues to hold the highest vacancy rate amongst the other markets within the Greater Los Angeles region. Vacancy has remained relatively flat, within the 23.0% range, since the middle of 2009 until finally dropping to 21.3% in the fourth quarter of 2012. New speculative supply drastically outpaced demand during the recession and the absorption has yet to catch up. According to CBRE Econometric Advisors (CBRE EA), vacancy is projected to remain within the 21.0% throughout 2013 and into 2014.

The unemployment rate in the Inland Empire dropped 70 basis points in February, ending the month at 10.8%. The unemployment rate has not been below 11.0% since December of 2008. However, the unemployment rate still remains above California's rate of 9.6% and the nation's rate of 7.7%. Between January and February, nonfarm employment expanded to 1,166,300 jobs in the region, representing an increase of 2,900 jobs. Educational and health services experienced the majority of the increase, gaining 2,200 jobs. Professional and business services also reported significant job increases over the month, gaining 1,700 and 1,300 jobs, respectively. Conversely, trade, transportation and utilities reported the greatest decline, cutting 3,100 jobs in February.

According to the Los Angeles Economic Development Corporation (LAEDC), economic growth in the Inland Empire demonstrated consistent strength throughout 2012 as a result of encouraging job growth. Nearly 16,000 nonfarm jobs were added in 2012 and roughly 20,000 jobs have been added over the last two years within the Riverside and San Bernardino counties.

Office employment, the primary determinant of demand, is defined by CBRE EA as certain categories within the Financial and Service employment sectors in which workers typically occupy office space. Recent estimates show that office employment for the Inland Empire market currently stands at 145,400 workers. Over the last five years, office employment has declined by 3.9% and over the last 12 months has declined by 5.5%.

Total nonfarm employment increased 2.4%, an addition of 27,500 jobs, over the year. Leisure and hospitality experienced the greatest year-over-year gain, adding 10,100 jobs. The job gains in this sector included accommodation and food services, up 7,000 jobs, and arts, entertainment and recreation, up 3,100 jobs. Trade, transportation and utilities and educational and health services also experienced significant job growth over the year, adding 8,000 and 6,000 jobs, respectively. Government reported the largest decline, losing 2,800 jobs since February of 2012.

The average asking lease rate ended the quarter at \$1.73 per sq. ft., remaining the same as the previous quarter. Rents have been slow to pick up because tenants are still holding out for a bargain deal. Lease rates are still mostly flat, only increasing incrementally since the second quarter of 2011. CBRE EA, forecasts the rents to grow in the Inland Empire roughly 3.4% by the end of 2013.

Chart 2: Unemployment Rate (%)

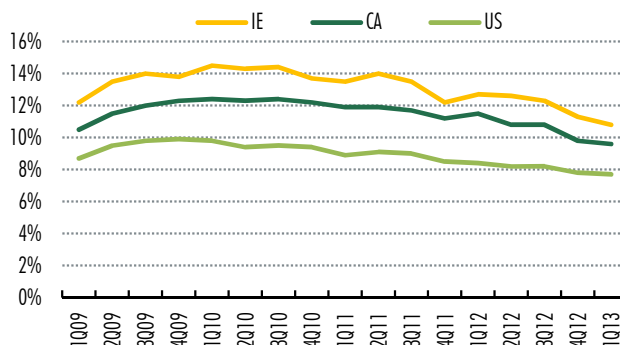


Chart 3: Year-Over-Year Job Growth (%)

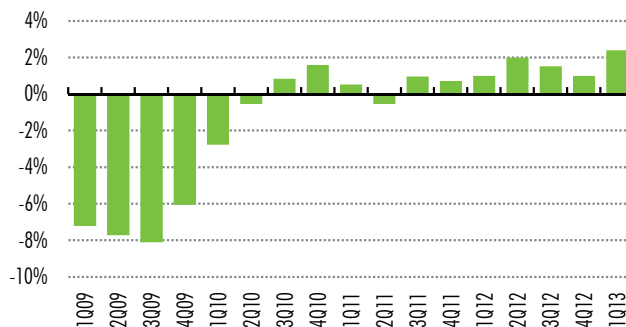


Chart 4: Asking Lease Rate (\$PSF/MO/FSG)

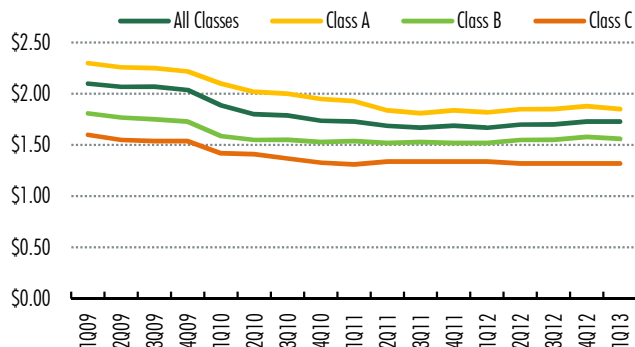


Chart 5: Year-Over-Year Rent Growth (All Classes)

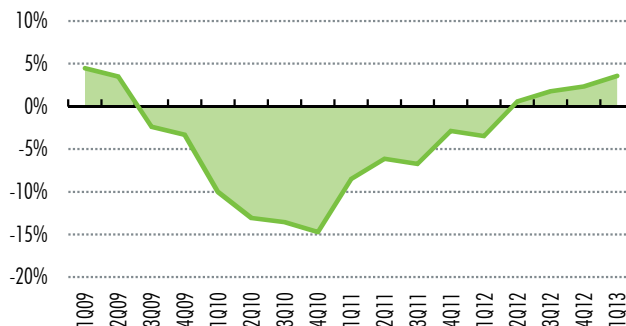
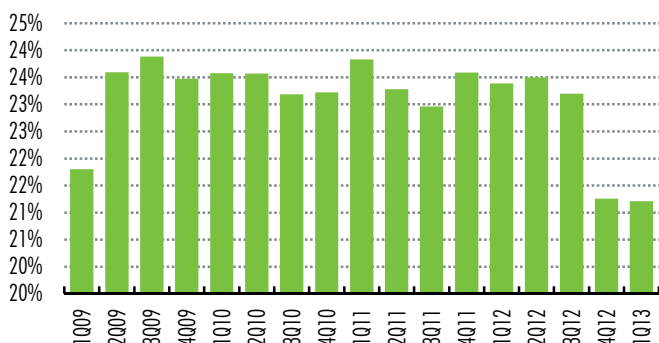
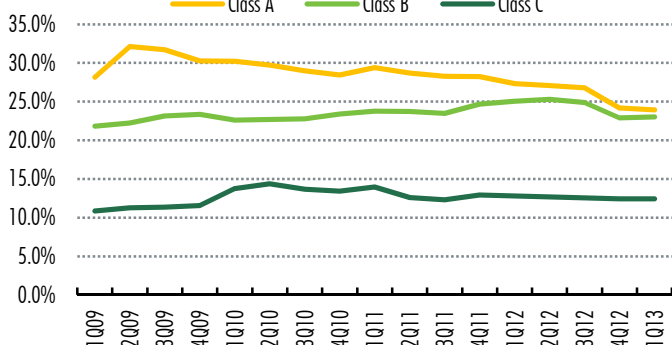
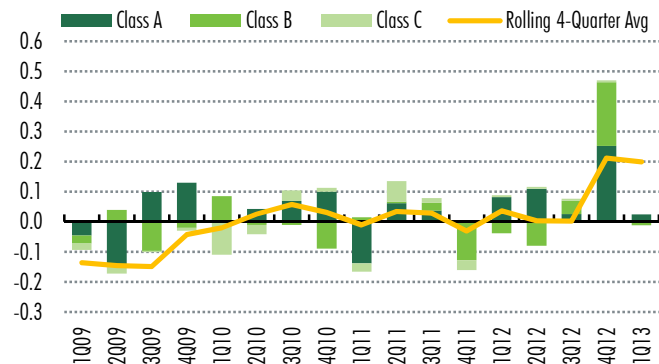
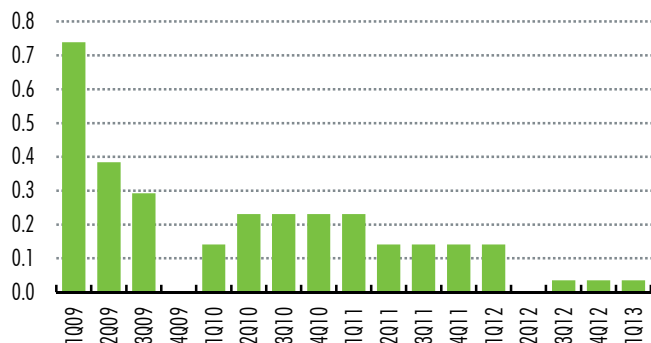


Chart 6: Overall Vacancy Rate (%)**Chart 7: Vacancy Rate by Class****Chart 8: Net Absorption****Chart 9: Under Construction (Million SF)**

The overall vacancy rate in the Inland Empire declined minimally by 10 basis points from the fourth quarter of 2012, closing the first quarter at 21.2%. The vacancy rate dropped down into the 21.0% range last quarter where it has not been since the first quarter of 2009. Year-over-year, the vacancy has dropped 220 basis points, indicating an increase in activity over the last 12 months. The vacancy is closely distributed between the two submarkets, with the Inland Empire West recording a 21.9% vacancy rate and the Inland Empire East closing the first quarter with a 20.9% vacancy rate. Overall, the vacancy rate in the Inland Empire is expected to remain within the 21.0% range throughout 2013 and into 2014. It will take some time for the oversupply of office product to be absorbed.

Due to the over-build of new supply when the recession hit, Class A vacancy remains the highest at 23.9%; however, vacancy in this class dropped 30 basis points from the fourth quarter of 2012. Over the last 12 months it has dropped 340 basis points. Vacancy amongst the Class B product increased minimally over the previous quarter by 10 basis points ending the first quarter at 23.0% while vacancy in the Class C buildings remained stagnant at 12.4%.

The Inland Empire office market generated 12,649 sq. ft. of positive net absorption in the first quarter, a significant drop from the absorption recorded at the end of 2012. However, this denotes the fifth consecutive quarter that the Inland Empire office market has posted positive absorption.

Class A properties contributed positive absorption to the total, ending the quarter with 24,493 sq. ft. However, Class B properties ended the quarter with negative absorption of 11,844 sq. ft., while Class C properties recorded zero absorption for the quarter. CBRE EA forecasts the absorption to lag supply and decrease by 0.4% by the end of 2013.

There was approximately 538,000 sq. ft. of new product delivered to the Inland Empire office market throughout 2009. The office market, along with the other sectors of commercial and residential real estate, took a significant hit and activity slowed dramatically. The oversupply of office space has yet to be absorbed and developers are in no hurry to build speculative office buildings in the Inland Empire. Until the vacancy rate drops and lease rates increase, current construction does not make sense financially. Both the LAEDC and CBRE EA forecasts construction to be flat over the next two years.

Chart 10: Market Statistics

Building Type	Building SF	Direct Vacancy %	Overall Vacancy %	Current Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg Asking Lease Rate
Class A	9,144,469	23.7%	23.9%	24,493	24,493	0	0	\$1.85
Class B	10,590,311	22.6%	23.0%	(11,844)	(11,844)	34,860	0	\$1.56
Class C	5,023,404	12.4%	12.4%	0	0	0	0	\$1.32
Inland Empire Total	24,758,184	20.9%	21.2%	12,649	12,649	34,860	0	\$1.73

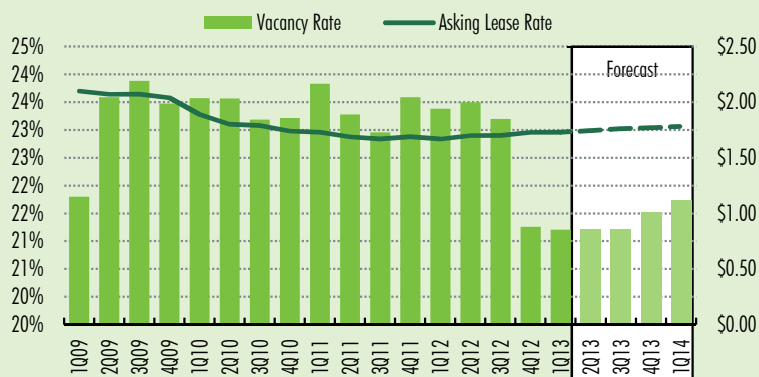
Chart 11: Key Transactions

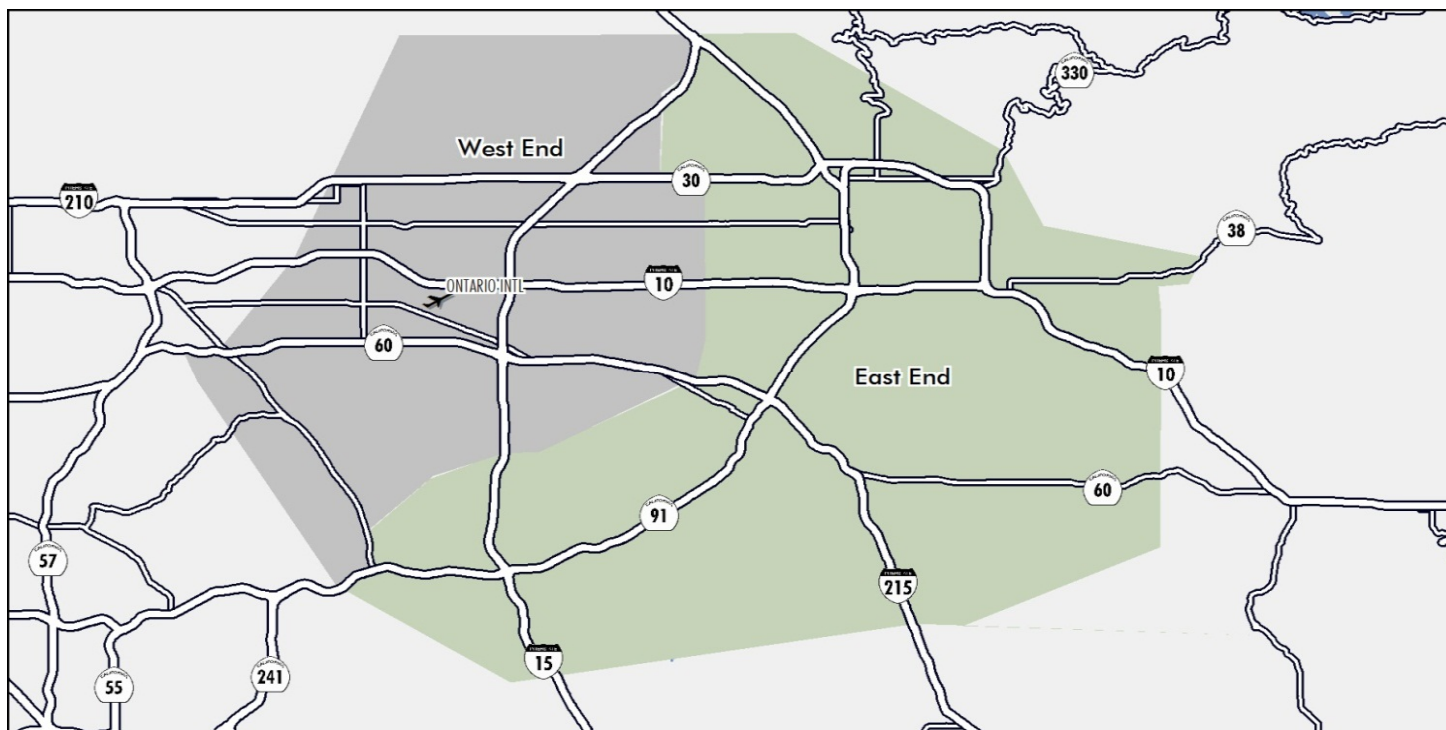
Occupier	Industry Sector	Location	SF Leased
State Farm	Insurance	Rancho Cucamonga	51,673
Kaiser	Healthcare	Rancho Cucamonga	40,000
County of San Bernardino	Government	Rialto	36,176
Continental Graphics Corp	Business Services	Rancho Cucamonga	13,843
American Claims Experts	Insurance	Rancho Cucamonga	11,994

Chart 12: Market Outlook

The demand for space is expected to lag behind the supply in the Inland Empire. The overall vacancy rate is expected to remain flat throughout 2013 and move slightly upward in the beginning of 2014. Rents are projected to grow 3.4% by year-end 2013 and 3.0% in 2014.

12-MONTH FORECAST





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Inland Empire Retail MarketView

Q1 2013

CBRE Global Research and Consulting

VACANCY RATE
10.6%

NET ABSORPTION
326,000 SF

CONSTRUCTION
0 SF

LEASE RATE
\$1.86 NNN

UNEMPLOYMENT
10.8%

*Arrows indicate change from previous quarter

OVERALL MARKET FUNDAMENTALS CONTINUE TO IMPROVE

CAUTIOUS CONSUMERS

National retail sales increased in February by 1.1% from the previous month. The increase in national sales was boosted by increased auto sales and higher gas prices. Minus auto and gas sales, the increase in retail sales was only 0.4%, indicating that consumers are remaining cautious with their spending.

HOUSING MARKET RECOVERING

The U.S. housing market will continue to recover in 2013 contributing to the economy's overall recovery, though estimates indicate it will take until 2015 for construction starts to return to historically normal levels. Shadow inventory of REOs, foreclosed and delinquent homes declined down to 2008 levels, and the state of California experienced the second largest decrease in foreclosures in the U.S., down 31%.

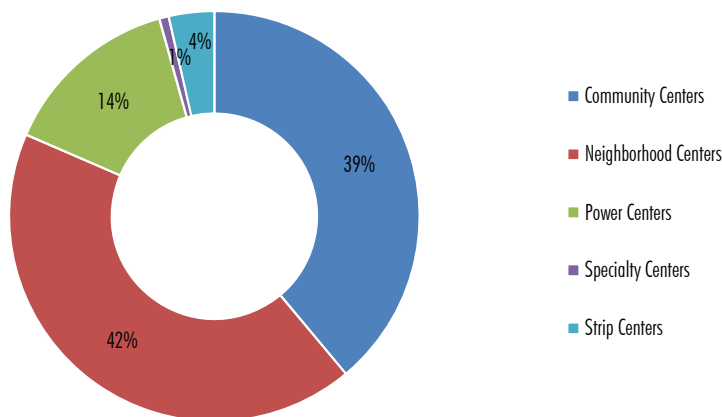
VACANCY RATE DWINDLES DOWN THIS QUARTER

Currently at 10.6%, the overall vacancy rate for the Inland Empire decreased this quarter from the previous rate of 10.7%. Since the fourth quarter of 2009, vacancy levels have hovered above 10.0% with the most dramatic increase occurring in the third quarter of 2010 when the overall vacancy rate reached 11.1%.

UNEMPLOYMENT REMAINS HIGH, BUT IMPROVING

The February unemployment rate for the Inland Empire is at 10.8%, down from 11.5% in January and 12.6% one year ago. Although improving, the unemployment rate for the Inland Empire remains above the national and state averages.

Chart 1: Vacant Space Distribution



The U.S. economy continued its slow recovery in the first quarter, despite the uncertainty created by the "fiscal cliff" and sequestration, and adjusted spending due to increased payroll taxes and higher gas prices. National retail sales in February increased by 1.1% from the previous month, boosted by auto and gasoline sales. Retail and food services sales also rose by 4.6% in the past year, according to the U.S. Census Bureau.

Advanced February sales data shows the largest month-over-month growth was concentrated in three retail segments; gasoline stations (up 5%), auto sales (up 1.1%), and building materials (up 1.1%). When auto and gas sales are taken out of the equation, sales were up only slightly by 0.4% from the previous month. This is because recorded sales at stores in the discretionary retail categories such as electronics and appliance, sporting goods, furniture stores, and department stores all declined in February, demonstrating that consumer spending continues to be influenced by national political uncertainties. Increased payroll taxes and ongoing sequestration negotiations add to the uncertainty and consumers remain cautious.

According to CBRE Econometric Advisors, year-over-year growth in core retail sales (which exclude auto and gas sales) are expected to

stay in the 3.5% to 4.5% range during the first half of 2013. Although core retail sales fall below historic bounds, sales are still growing. This continued growth will translate into demand by retailers for more space, although at lower levels compared to previous recoveries.

In the first quarter the Inland Empire retail market experienced improvement over the previous quarter, boosted by positive net absorption and a decrease in the vacancy rate. The region's vacancy rate decreased this quarter to 10.6%, down 10 basis points from 10.7% last quarter. The overall Inland Empire market experienced 326,000 sq. ft. of positive absorption, with the bulk of this occurring in the West End submarket. The average asking high lease rate for retail space in the Inland Empire increased by one cent to \$1.86 per sq. ft., though it continues to remain below average rents in neighboring counties.

The Inland Empire had two retail centers delivered to the market this quarter; 200,000 sq. ft. located at the Colonies in Upland and a 55,000 sq. ft. center located at the Mission at Village Lakes in Desert Hot Springs. Other Retail projects are currently in the pipeline and 2013 is expected to bring about several construction starts.

The unemployment rate in the Inland Empire dropped 70 basis points in February, ending the month at 10.8%. The unemployment rate has not been below 11.0% since December of 2008. However, the unemployment rate still remains above California's rate of 9.6% and the nation's rate of 7.7%. Between January and February, nonfarm employment expanded to 1,166,300 jobs in the region, representing an increase of 2,900 jobs. Educational and health services experienced the majority of the increase, gaining 2,200 jobs. Professional and business services also reported significant job increases over the month, gaining 1,700 and 1,300 jobs, respectively. Conversely, trade, transportation and utilities reported the greatest decline, cutting 3,100 jobs in February.

According to the Los Angeles Economic Development Corporation, economic growth in the Inland Empire demonstrated consistent strength throughout 2012 as a result of encouraging job growth. Nearly 16,000 nonfarm jobs were added in 2012 and roughly 20,000 jobs have been added over the last two years within the Riverside and San Bernardino counties.

On average, the Inland Empire has witnessed 1.1% job growth for the last two years. According to CBRE Econometric Advisors, Inland Empire's employment is expected to grow by 1.7% over the next five years. The majority of this gain will be in the construction sector which is projected to grow by 4.4%. The professional and business services sector is also expected to grow by 3.0%. Retail sales for the region are forecasted to grow at an annual rate of 3.6% over the next five years.

The high average asking lease rate for retail space in the Inland Empire witnessed a one cent increase from the previous quarter to stand at \$1.86 per sq. ft. The low average asking lease rate decreased to \$1.51 per sq. ft., four cents under the \$1.55 average recorded in the previous quarter.

Among the five major submarkets for Inland Empire, the South Riverside area ended the quarter with the highest average high asking lease rate at \$2.02 per sq. ft. per month, while the High Desert area posted the lowest average high asking lease rate at \$1.56 per sq. ft. per month. The East End and the West End submarkets fell between the spectrum at \$1.83 and \$1.93 per sq. ft., respectively. The Low Desert carries a slightly higher average rent of \$1.96 per sq. ft. per month. Community centers in the Inland Empire continue to command the highest average asking lease rate at \$2.42 per sq. ft., which is up from \$2.23 recorded last year.

Asking lease rates have decreased 10.0% since the first quarter of 2010. However, rents are forecasted to grow 1.5% by the end of 2013.

Chart 2: Unemployment Rate (%)

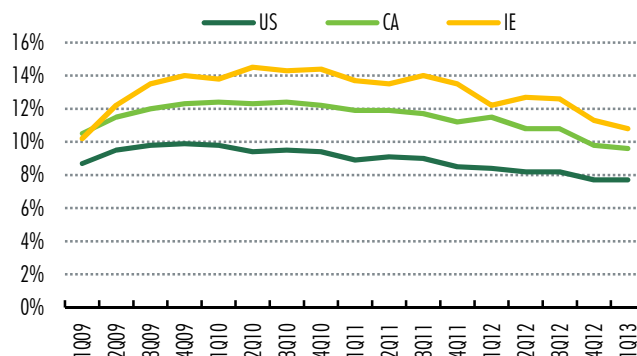


Chart 3: Year-Over-Year Job Growth (%)

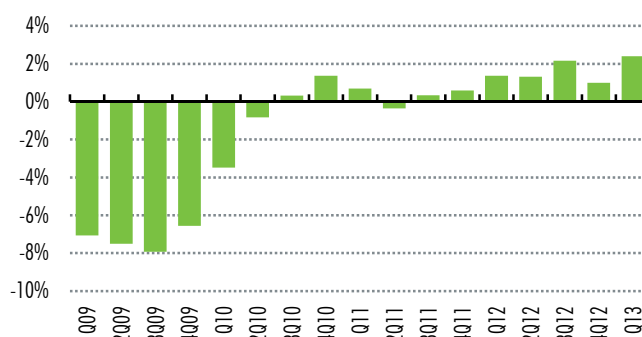


Chart 4: Asking Lease Rate (\$PSF/MO/NNN)

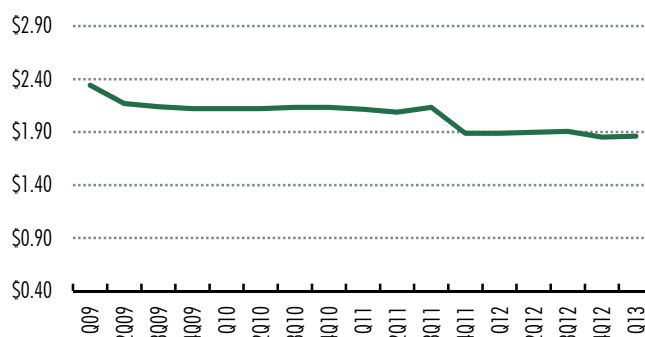


Chart 5: Year-Over-Year Rent Growth

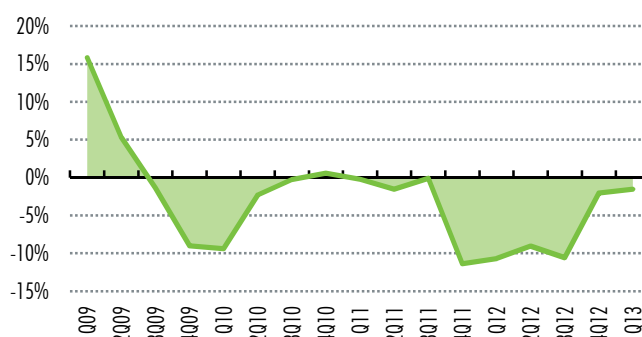
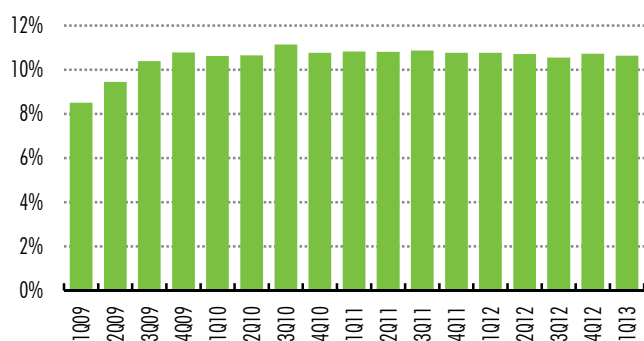
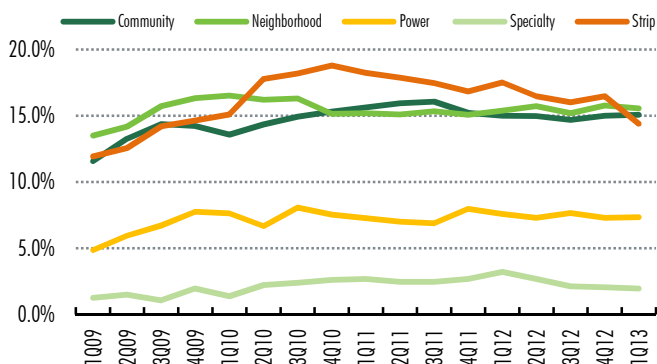
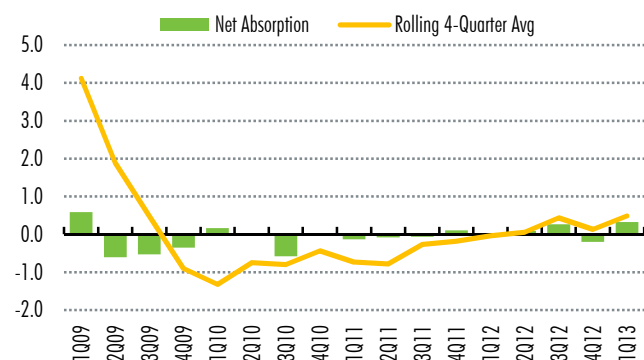
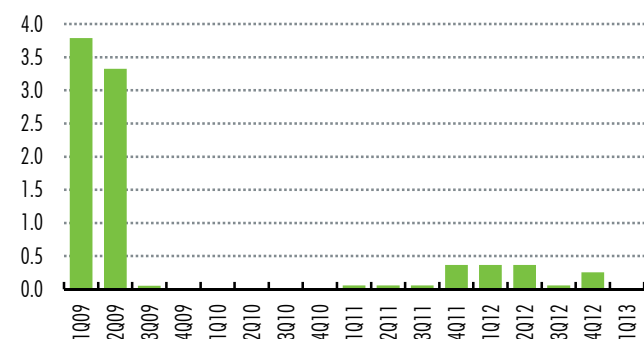


Chart 6: Overall Vacancy Rate (%)**Chart 7: Vacancy Rate by Center Type (%)****Chart 8: Net Absorption****Chart 9: Under Construction (Million SF)**

The overall vacancy rate in the Inland Empire ended the first quarter at 10.6%; down from 10.7% recorded at the end of 2012. Year-over-year, retail vacancy has dropped 20 basis points. The vacancy rate is projected to remain within the 10.0% range throughout 2013 and heading into 2014. The housing market within the Inland Empire has started to gain traction, with that comes an increase in consumer spending thus giving retailers the confidence and sales to expand.

By center type, Neighborhood centers yield the highest vacancy rate with 15.6%, while specialty and power centers within the Inland Empire track the lowest vacancy rates at 2.0% and 7.3%, respectively.

The vacancy level in the East End submarket remains the highest in the region with a slight increase to a rate of 16.7%. The High Desert holds the lowest vacancy level among the submarkets, closing out the quarter at a rate of 6.9%.

During the first quarter, the Inland Empire recorded a total of 326,368 sq. ft. of positive net absorption. This can be attributed to Phase III of the Colonies in Upland completing construction and several top name retailers occupying space. The West End submarket accounted for the majority of the positive absorption this quarter, generating 218,400 sq. ft. The High Desert experienced the bulk of the negative absorption with a total of 75,000 sq. ft. of negative absorption. Overall, power centers fared well and experienced 175,000 sq. ft. of positive net absorption during the first quarter.

The Colonies in Upland attracted a few well known retailers, such as Nordstrom Rack who moved into 72,000 sq. ft. of space and Toys R Us who leased approximately 47,000 sq. ft. Other notable deals that occurred this quarter include, El Super who inked a 39,000 sq. ft. lease at The Bear Valley Plaza in Victorville, and Trader Joe's who moved into 14,000 sq. ft. at the Winchester Plaza in Temecula.

A 200,000 sq. ft. power center and a 55,000 sq. ft. strip center were delivered to the market this quarter. These construction completions mark the beginning of valuable retail space expected to be delivered to the market this year. Lewis Retail plans to break ground on several projects before the year is over and plans to deliver a 79,000 sq. ft. center to the market later this year as well.

As the housing market starts to pick up retail developers are making plans to continue with development projects that had previously been halted due to the faltering economy.

Chart 10: Market Statistics

Submarket	SF GLA	Overall Vacancy %	Current Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg Ask High Lease Rate
East End	31,740,718	16.7%	58,134	58,134	0	0	\$1.83
High Desert	7,896,889	6.9%	7,100	7,100	0	0	\$1.56
Low Desert	15,059,273	11.7%	(74,687)	(74,687)	0	55,000	\$1.96
South Riverside County	17,249,938	7.7%	117,421	117,421	0	0	\$2.02
West End	37,622,794	7.2%	218,400	218,400	0	200,000	\$1.93
Inland Empire	109,569,612	10.6%	326,368	326,368	0	255,000	\$1.86

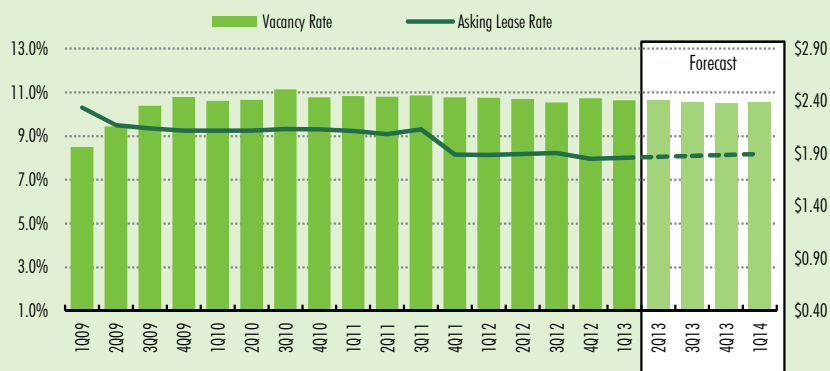
Chart 11: Key Transactions

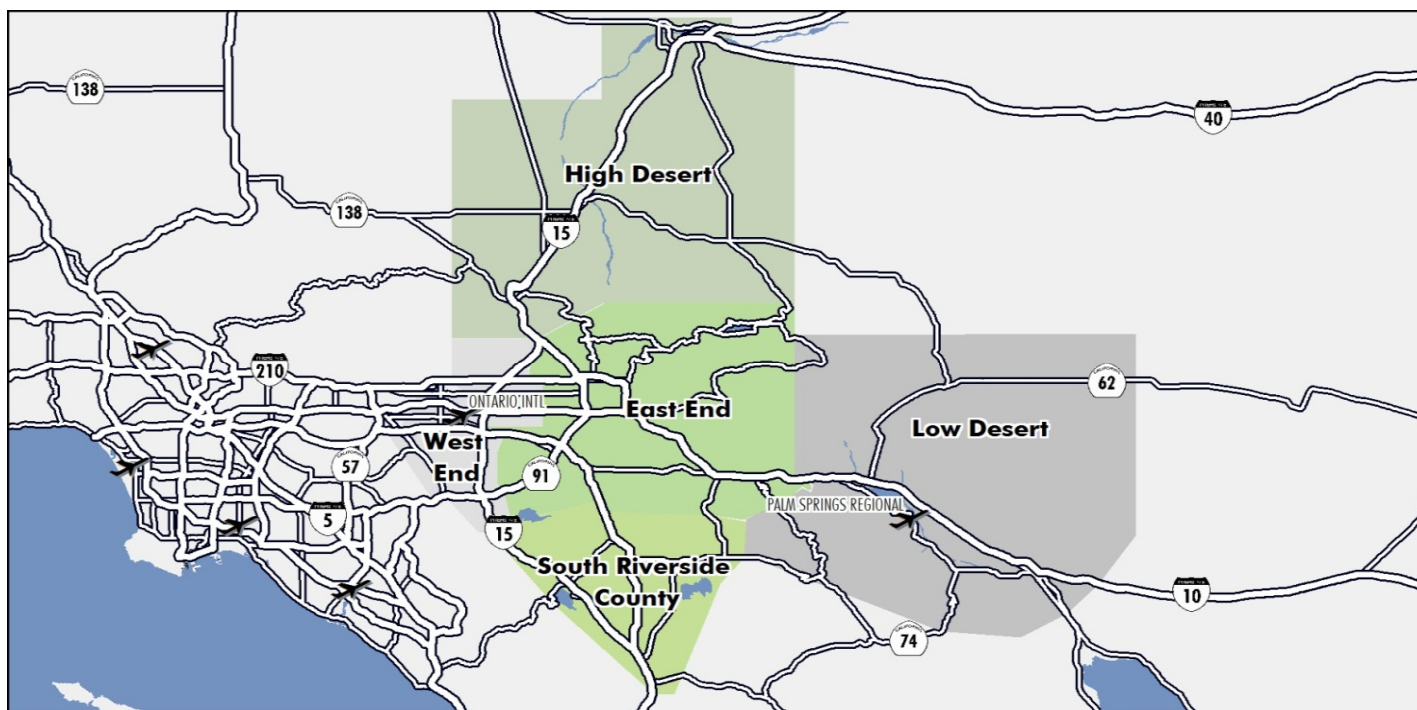
Occupier	Industry Sector	Location	SF Leased
Nordstrom Rack	Apparel	Upland	71,440
Toys R Us	Toys	Upland	47,426
El Super	Supermarket	Victorville	39,600
TJ Maxx	Apparel	Upland	25,780
Trader Joe's	Supermarket	Temcula	14,000

Chart 12: Market Outlook

The Inland Empire retail market was among those hardest hit by the downturn of the housing market and continues to struggle to recover. Although conditions are not expected to worsen, recovery time for Inland Empire is slow in comparison to neighboring markets. The vacancy rate is projected to remain relatively flat throughout 2013, staying within the 10.0% range, according to CBRE Econometric Advisors. Rental rates, however, should begin to gradually move upwards by the end of the year.

12-MONTH FORECAST





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