

Inland Empire

Retail Market Outlook 2Q 2019

MARKET OVERVIEW

The Inland Empire retail market saw steady vacancy, rising rent, and lower construction volume in 2Q 2019. Vacancy remained unchanged at 6.9% over 1Q 2019, dipping 30 bps from last year. The past two quarters maintained the lowest vacancy since 2008, indicating that the retail market is achieving stability while adapting to online shopping. Although quarterly leasing volume waned, down 33.3% below 2Q 2018, retailers are adjusting physical space needs in the wake of ecommerce.

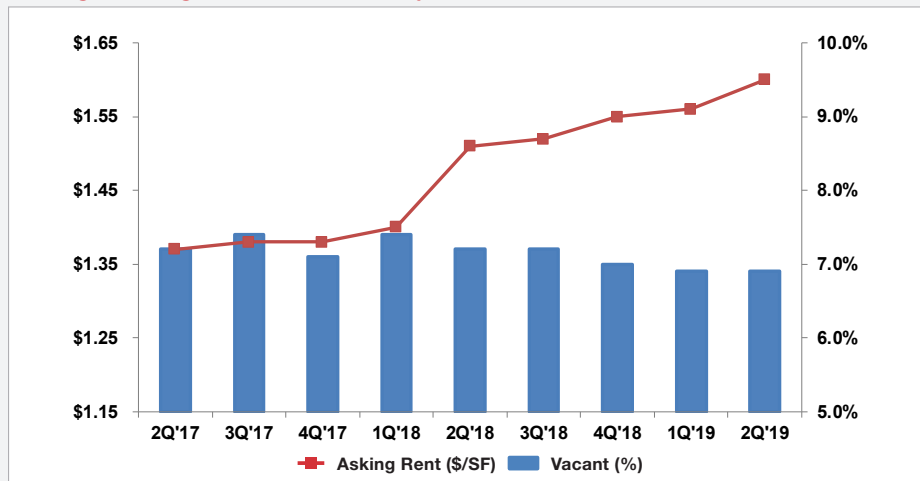
Average asking rent increased 6% from 2Q 2018 to \$1.60/SF, still 11.1% less than the pre-recession peak of \$1.80/SF. New inventory completed this quarter contributed to this uptick. For example, Haven City Market in Rancho Cucamonga is asking \$1.50-\$2.00/SF. Additionally, a well-located 5,000 SF storefront in the City of San Bernardino is asking \$1.67-\$1.83/SF. The Riverside submarket experienced the strongest rent growth, up 14.8% annually. This came as several properties elevated their asking rents. New ownership of Corona Freeway Center bumped its asking rate from \$1.00/SF to \$1.68/SF. Five Points Plaza in the City of Riverside raised its asking price from \$1.05/SF to \$1.21/SF.

TRENDS TO WATCH

The Inland Empire's retail market continues to benefit from a strong economy. Unemployment fell 10 bps from April to May to 3.5%. This region added 27,600 nonfarm jobs over the prior year. Job growth will slow down for the rest of 2019, although not enough to negatively impact retail thanks to population growth. Riverside County gained 18,980 people in 2018 while San Bernardino County added 18,400.

Construction wound down with 577,197 SF in the pipeline at the end of 2Q 2019. This was the lowest volume seen in four years, yet the decrease in the average building size from 22,328 SF in 2015 to 13,446 SF in 2019 also reflects retailers rightsizing their footprints, balancing their space needs. Most of the projects are neighborhood/strip centers with 467,507 SF scheduled for completion by the end of 2019. Out of 33 projects, 15 are 100% leased. Since pre-leasing shows solid demand, they will likely have a minimal impact on the retail market's vacancy.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	25,955,360	40,350	5.5%	4.4%	94,051	150,487	421,072	617,827	\$2.27	\$213
High Desert	16,658,986	83,481	10.1%	8.8%	49,532	122,271	313,527	448,608	\$1.03	\$174
Riverside	37,704,277	167,260	8.2%	6.4%	239,198	412,083	157,326	614,178	\$1.63	\$189
San Bernardino	26,542,328	102,729	10.9%	9.5%	109,563	321,859	374,244	717,611	\$1.28	\$124
South	23,771,381	72,687	8.8%	6.5%	95,398	332,915	131,072	312,235	\$1.66	\$248
West	16,290,485	110,690	8.5%	6.6%	79,862	205,242	128,442	228,068	\$1.71	\$183
Inland Empire	146,922,817	577,197	8.6%	6.9%	667,604	1,544,857	1,525,683	2,938,527	\$1.60	\$194

Leasing

Fitness and value brands filled some of the void left by recent retail closures this quarter. At Vineyard Freeway Center in Ontario, Planet Fitness leased 24,345 SF of a former Kmart store for an effective rate of \$0.77/SF. Splitting up big box stores into smaller parcels continues to be an effective strategy for landlords. Dollar Tree also leased 14,820 SF previously occupied by Walgreens at Gateway to Horsetown in Norco.

The Airport and Riverside submarkets saw quarterly increases in leasing volume (SF), up 66.7% and 38.4%, respectively. Tenants in the Airport area secured spaces in properties with residential components, such as Citrus Center Retail Plaza, currently under construction in Fontana, and Terra Vista Village in Rancho Cucamonga. Magnolia Tyler Center in the City of Riverside improved its occupancy by leasing a combined 71,775 SF to two tenants this quarter.

Sales

Quarterly sales volume reached about 1.5M SF while the average sales price registered \$194/SF. The Airport submarket witnessed the most activity, accounting for 28% of total market volume. An investor purchased 45,120 SF of Vineyard Village in Ontario for \$11.7M or \$259/SF at a 6.3% cap rate. This section was fully leased to 80% national tenants. The seller acquired it for \$7.1M or \$159/SF at a 9.1% cap rate in 2012 for 63% appreciation.

Cap rates dipped 10 bps from 2Q 2018, averaging 5.9% in 2Q 2019. The Riverside submarket carried the lowest average cap rate at 5.5%, a 30-bp annual decline. PRES Companies bought a 67,690 SF asset in Corona Freeway Center for \$11M or \$163/SF at a 5.6% cap rate. The building was 94% occupied at sale and PRES Companies was attracted to its proximity to the 91 freeway.

Select Lease Transactions

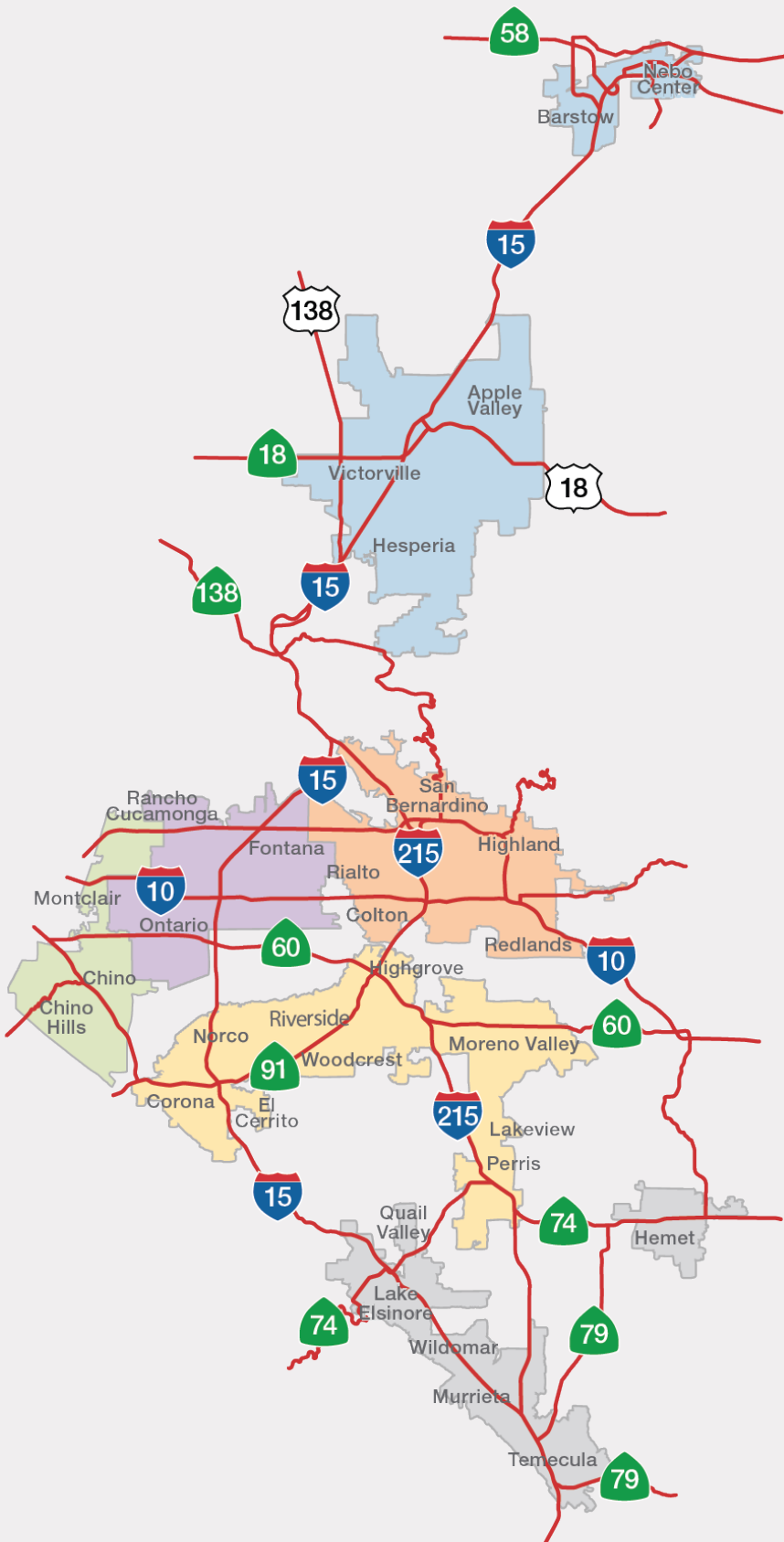
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Planet Fitness	1670 E 4th St	Airport	\$0.77	24,345
1st Certified Collision Centers	14400 7th St	High Desert	\$0.70/MG	17,132
Kids Empire	1175-1335 W Renaissance Pky	San Bernardino	Withheld	10,000
Tillys	1175-1335 W Renaissance Pky	San Bernardino	Withheld	7,000
Aqua-Tots Swim Schools	8750 Baseline Rd	Airport	\$1.10	6,400

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Continuum Analytics	9710-9886 Central Ave	West	\$166	97,033
PRES Companies	2410 Wardlow Rd	Riverside	\$163	67,690
Private Investor	2401 Vineyard Ave	Airport	\$259	45,120
Marina Realty Enterprise, LLC	10475 Central Ave	West	\$237	25,518
Lewis Management Corp.	7207 Haven Ave	Airport	\$143	23,113

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High Desert

- Apple Valley
- Barstow
- Hesperia
- Victorville

West

- Chino
- Chino Hills
- Montclair
- Upland

Airport

- Fontana
- Ontario
- Rancho Cucamonga

San Bernardino

- Colton
- Highland
- Loma Linda
- Redlands
- Rialto
- San Bernardino

Riverside

- Corona
- Moreno Valley
- Norco
- Perris
- Riverside

South

- Hemet
- Lake Elsinore
- Murrieta
- Temecula
- Wildomar

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