

Inland Empire

Retail Market Outlook 3Q 2018

MARKET OVERVIEW

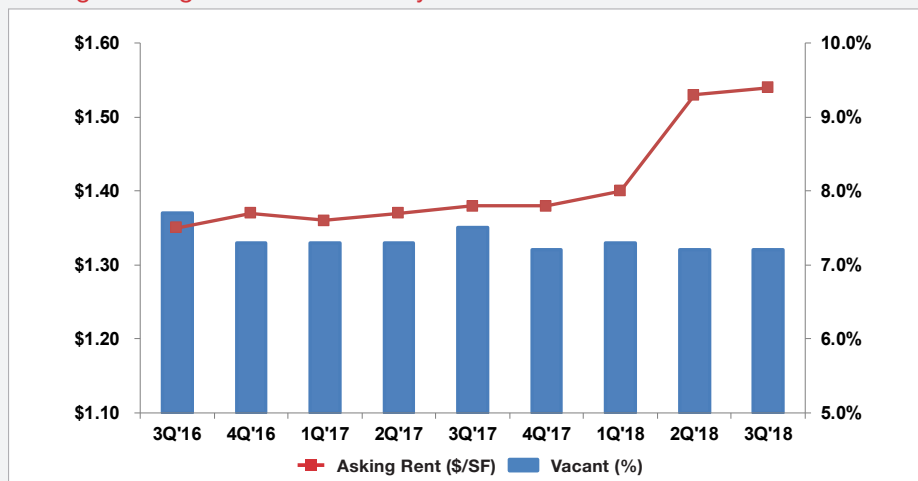
The Inland Empire's surging job and population growth were critical drivers for retail activity in 3Q 2018. The vacancy rate dropped 28 basis points year over year to 7.2%, while completed construction added 260,394 SF of new inventory that has been approximately 50% leased. Demand for retail space pushed the average asking rent up 11.6% from 3Q 2017 to \$1.54/SF. The retail market indicates it has room to grow with rents 13.0% below the prior peak of \$1.77/SF in 2007. As of the end of the quarter, 1.1M SF of retail space remained under construction. At the Renaissance Marketplace in Rialto, another 56,561 SF building was completed for Cinemark. Renaissance Marketplace is expected to be completed in 4Q 2018 and several tenants have already opened for business.

The region's evolution reflects a trend in migration from high priced Los Angeles County and Orange County where the median sold prices for single-family homes in September 2018 were \$660,000 and \$820,000, respectively. Comparatively, the median sold price for single-family homes in the Inland Empire was \$375,000 during the same period.

TRENDS TO WATCH

Employment and population growth are fueling demand for the expanding retail sector. Total nonfarm employment increased 3.5% from August 2017 to August 2018 while the Leisure and Hospitality sector added 8,200 jobs over the same period. Population projections show this region will add nearly 70,000 households by 2023 with estimated average annual incomes of \$94,757. These new households primarily consist of adults in the workforce. For these reasons, the construction pipeline focuses on enhancing convenience and providing diverse food offerings with neighborhood centers, discount stores, and food halls to serve new residents. Preliminary results show this strategy is succeeding as Food and Beverage Stores posted 1.2% annual employment gains in August 2018 as did General Merchandise Stores with a 6.3% yearly increase. These trends coupled with a strong economy will propel the retail market into a promising final quarter of 2018.

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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*Rents reflects building of 5,000 SF or greater.

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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Airport	25,763,247	176,060	5.9%	4.4%	148,114	421,012	131,686	532,348	\$2.14	\$570
High Desert	16,833,508	19,100	12.2%	10.2%	48,962	242,493	164,649	562,430	\$1.11	\$115
Riverside	37,851,427	230,450	8.5%	6.4%	206,784	582,081	451,684	1,199,274	\$1.45	\$248
San Bernardino	26,170,886	444,474	12.3%	9.8%	123,386	538,453	459,321	1,091,332	\$1.26	\$153
South	23,627,092	150,573	8.7%	7.0%	83,120	400,486	152,328	531,046	\$1.59	\$268
West	16,757,215	48,708	9.1%	6.5%	73,053	266,313	134,268	248,137	\$1.65	\$226
Inland Empire	147,003,375	1,069,365	9.2%	7.2%	683,419	2,450,838	1,493,936	4,164,567	\$1.54	\$216

Leasing

Lifestyle centers witnessed 81,853 SF in leasing volume, a massive 821.0% surge in activity compared to the prior quarter and 267.3% from 3Q 2017. This spike in demand spurred a twenty-basis-point decline in the vacancy rate for lifestyle centers from the previous year to 8.3% as well as a 31.8% jump in the average asking rent to \$2.24/SF over the same period. New tenants at Stoneridge Town Center in Moreno Valley and Thomas Winery Plaza in Rancho Cucamonga represented a combined 60.0% of the quarter's total leasing activity in lifestyle centers. Best Buy also renewed its 45,622 SF space at Stoneridge Town Center, which was not included in the total quarterly volume calculation. Overall leasing activity revealed tepid demand for retail space this quarter. Leasing volume totaled 683,419 SF, down 13.4% from 2Q 2018 and 46.1% year over year.

Sales

Third quarter sales volume totaled nearly 1.5M SF while the average sales price registered at \$216/SF. Most of the sales activity was concentrated in the Riverside and San Bernardino submarkets, the region's largest population centers. Cap rates averaged 5.65%, declining 35 basis points from 3Q 2017. The South market carried the lowest cap rate at 4.07%.

The South submarket also posted the highest average sales price in the Inland Empire at \$268/SF. One standout transaction involved the purchase of a 4,000 SF retail service station building occupied by ARCO with an ampm store in Lake Elsinore for \$4.4M or \$1,100/SF. Another private investor purchased a 4,500 SF retail building in Murrieta occupied by Bank of America for \$2.23M or \$496/SF at a 4.07% cap rate.

Select Lease Transactions

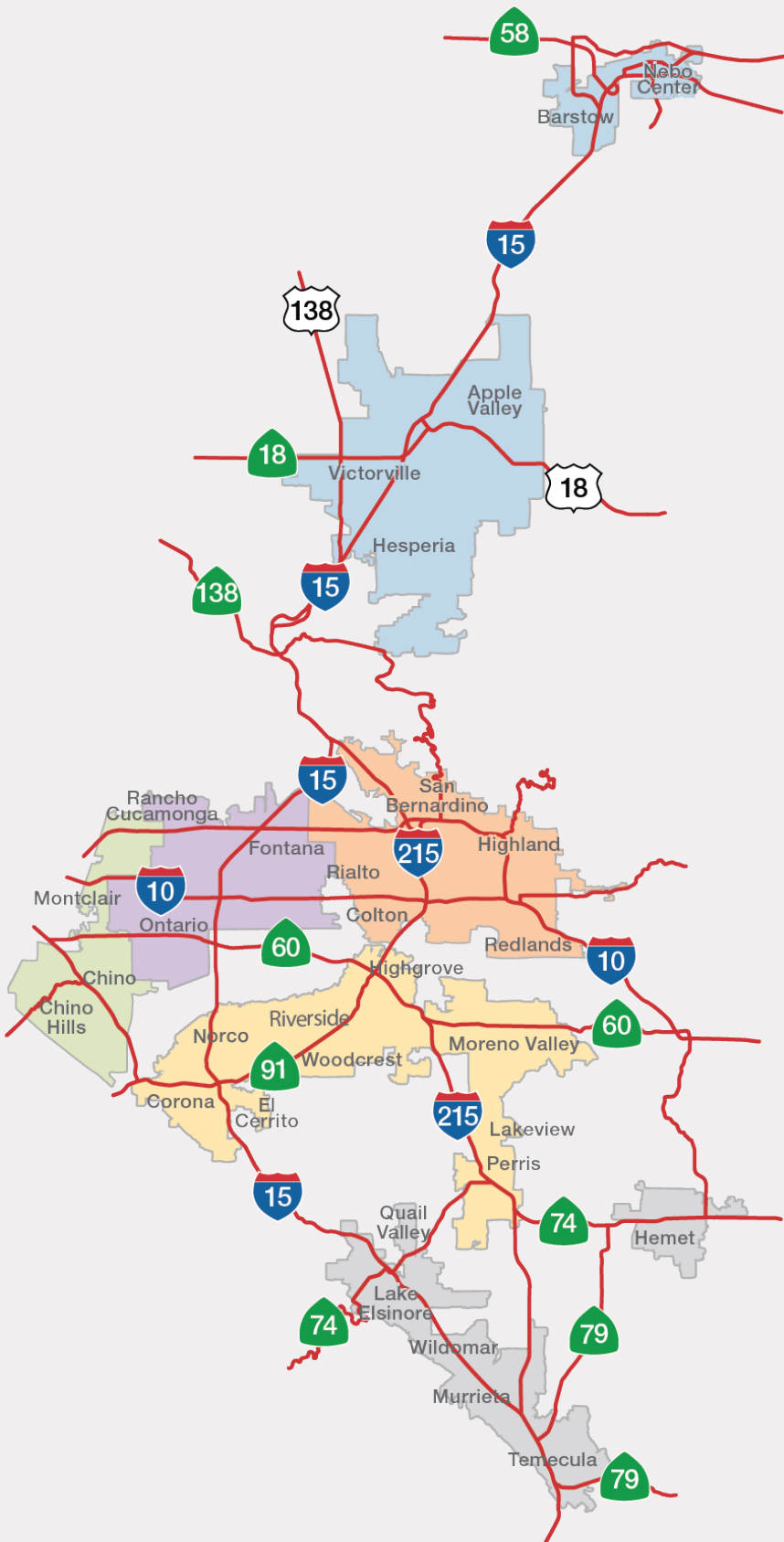
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Empower Youth Sports	9040-10500 San Bernardino Rd	Airport	\$1.00	39,324
Withheld	12353 C Mariposa Rd	San Bernardino	\$1.00 MG	18,090
Sit 'n Sleep	12400 Day St	Riverside	Withheld	8,200
Sola Salon	14910 Summit Ave	Airport	Withheld	7,000
Punch It Up Fitness	14230 Chino Hills Pky	West	Withheld	6,213

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Cyrus Investments LLC	1028 N Mountain Ave	West	\$249	49,970
Private Investor	4611 Holt Blvd	West	\$89	32,770
Private Investor	27310 Madison Ave	South	\$171	31,377
Granger Associates	1499 E Highland Ave	San Bernardino	\$392	30,484
Loma Linda University Medical Center	25828 Redlands Blvd	San Bernardino	\$230	15,935

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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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Commercial Real Estate Services, Worldwide.

NAI Capital Research

J.C. Casillas

Vice President

Research, Marketing and Communications

jasillas@naicapital.com

Jillian Olivas

Research and Communications Assistant

jolivas@naicapital.com

Kevin de Bree

Research Analyst

kdebree@naicapital.com

Katherine Tattersfield

Marketing Research Writer

ktattersfield@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

16001 Ventura Blvd., Ste. 200
Los Angeles, CA 91436
818.905.2400

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

Los Angeles County

Downtown LA

601 S. Figueroa St., Ste 3825
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

27451 Tournay Rd., Ste. 200
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

Victorville

13911 Park Avenue, Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566

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