

Inland Empire

Retail Market Outlook Q1 2020

MARKET OVERVIEW

The Inland Empire retail market showed signs of softening in the first quarter heading into the COVID-19 shutdown. The average asking rent increased 0.6% from Q4 2019, up 5.1% year over year to \$1.64/SF. San Bernardino, Airport, and Riverside markets posted quarterly rent gains whereas rent inched down in the High Desert and West and remained flat in the South. Vacancy rose 80 bps from the prior quarter and 70 bps from Q1 2019 to 7.7%, marking the first quarterly rise in vacancy since Q1 2018.

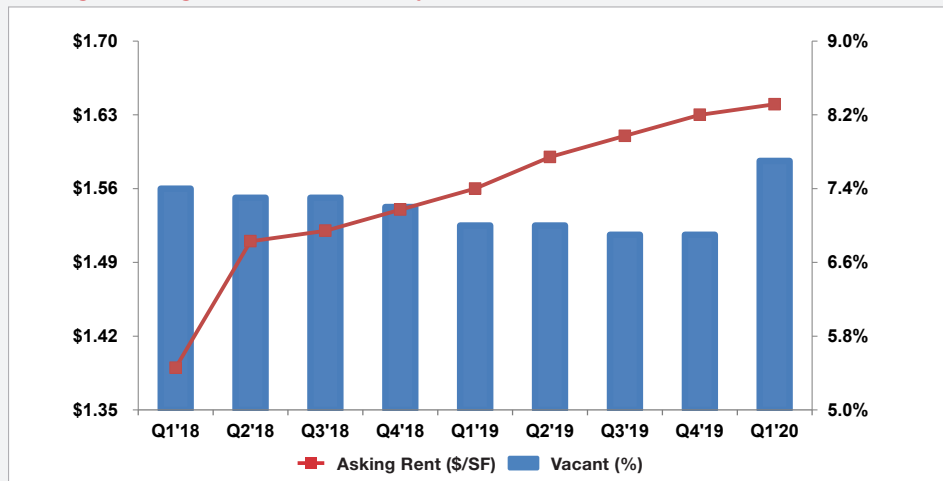
The quarter ended with the unprecedented COVID-19 shutdown, and the IE retail market faces uncertainty as the pandemic develops. Limited space under construction will help keep the retail market stable. The IE also contains an abundance of grocery-anchored centers as opposed to the large indoor malls and lifestyle centers seen in other SoCal markets. Regardless, IE retailers will feel the squeeze from the shutdown and mounting unemployment along with a drop in tourism.

TRENDS TO WATCH

Income and employment are key drivers of demand for retail space. According to the EDD, the Inland Empire lost 5,500 net jobs over the month in March as the unemployment rate grew 110 bps to 5.1%. Leisure & Hospitality saw the largest decline of 3,300 jobs primarily in accommodation and food services. Professional & Business services shed 2,700 jobs while Government, Financial Activities, and Education & Health collectively added 4,400 jobs. April employment data showed the Retail Trade sector lost 16,300 job from March, a 9.1% monthly decline. The recent employment data reveals the impact to retailers during the shutdown.

The COVID-19 shutdown will have a lasting impact on demand for retail space in the quarters ahead. NAI Capital conducted a COVID-19 Impact Survey of retail market professionals to get a pulse of where the market could be headed. Respondents said: rents will decline as market conditions won't sustain pre-pandemic growth and some tenants move toward online-only sales. Sales prices will be lower; however, quality centers will still see demand from investors. Vacancy will increase and landlords will offer more concessions to keep tenants. Many landlords are proactively renegotiating leases, offering abatement or deferring rent with repayment plans.

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 (%)	Q1 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q1 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Airport	26,082,997	76,812	4.9%	4.7%	86,861	86,861	156,111	156,111	\$2.53	\$264
High Desert	16,653,009	74,681	10.0%	9.4%	78,081	78,081	274,943	274,943	\$1.05	\$133
Riverside	37,575,876	163,005	9.0%	7.5%	171,683	171,683	191,844	191,844	\$1.64	\$257
San Bernardino	26,730,105	42,230	8.0%	10.2%	84,153	84,153	43,841	43,841	\$1.26	\$444
South	23,946,332	91,740	9.6%	7.7%	97,889	97,889	18,701	18,701	\$1.64	\$591
West	16,269,361	190,087	9.2%	6.9%	37,548	37,548	69,369	69,369	\$1.85	\$246
Inland Empire	147,257,680	638,555	8.4%	7.7%	556,215	556,215	754,809	754,809	\$1.64	\$229

Leasing

First quarter leasing activity cooled to levels not seen since Q3 2009. Leasing volume by square feet declined 16.5% from the prior quarter and 47.6% from Q1 2019 to 556K SF. Retailers continued taking smaller spaces as the average deal size shrank 19.1% year-over-year to 2,539 SF this quarter, which accounted for some of this decline.

The Riverside market witnessed a quarterly uptick in leasing activity, up 25% from Q4 2019, yet down 40.5% from Q1 2019 to 172K SF. This market also saw the highest quarterly leasing activity, representing 31% of total market volume. WSS inked a deal for a 29K-SF anchor space at Sunnymead Plaza in Moreno Valley. Stater Bros. vacated the space in January, demonstrating strong demand from off-price tenants within this growing community.

Sales

Quarterly sales activity slid down 54.1% from the prior quarter and 46.4% from Q1 2019 to 755K SF, a level not seen since Q1 2011. The average sales price held steady at \$229/SF while the average cap rate on investment sales \$2M+ fell 60 bps from Q4 2019, down 10 bps year over year to 5.8%.

Investors focused on neighborhood centers anchored by essential retailers as well as grocery assets. Cadence Capital Investments acquired Arlington Plaza in the City of Riverside for \$27.1M or \$199/SF at a 6.3% cap rate. Cardenas market and Rite Aid anchor the center. PME Investments, LLC purchased a 46K-SF Cardenas in Victorville for \$9.84M or \$213/SF at a 5.9% cap rate. The seller purchased the building for \$2.9M or \$64/SF in 2018 for 234.3% appreciation.

Select Lease Transactions

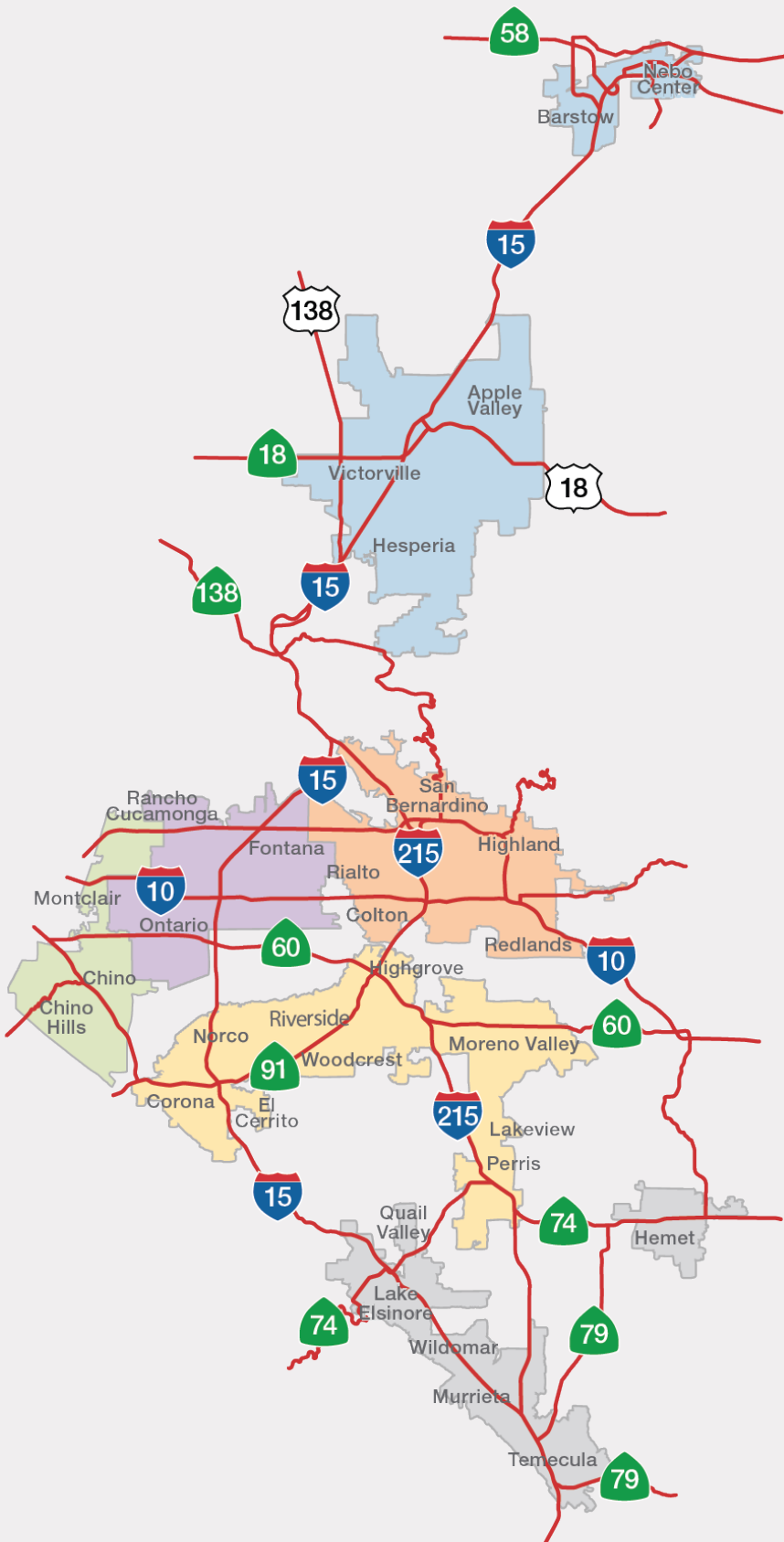
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
WSS	24931 Sunnymead Blvd.	Riverside	TBD	29,126
DC Furniture Company	12550 Amargosa Rd.	High Desert	\$0.52	18,200
Vive Banquet Hall	371 Wilkerson Ave.	Riverside	\$0.84 FSG	10,970
TBD	12765 Main St.	High Desert	\$2.25	7,090
Boys & Girls Club Head Start	466-474 W. 5th St.	San Bernardino	\$0.72	6,996

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Cadence Capital Investments LLC	6008 - 6390 Van Buren Blvd.	Riverside	\$199	135,866
Victorville Hyundai	15321 Palmdale Rd.	High Desert	\$26	105,471
PME Investments LLC	14528 Palmdale Rd.	High Desert	\$213	46,218
E G & T Commercial Real Estate LLC	14101 - 14135 Main St.	High Desert	\$244	42,859
Private Investor	12455 Victoria Gardens Ln.	Airport	\$438	31,405

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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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