Inland Empire

Retail Market Outlook 4Q 2016

NAI Capital
Commercial Real Estate Services, Worldwide.

MARKET OVERVIEW

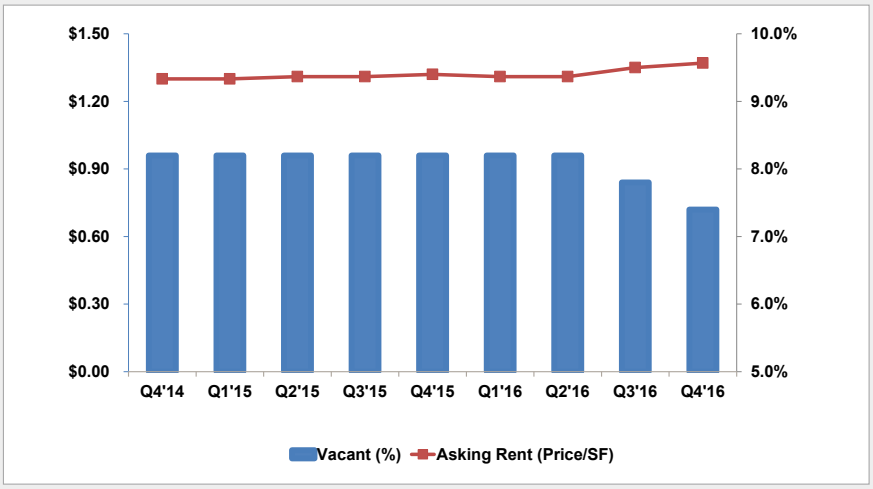
The Inland Empire retail market saw significant gains in occupancy over the year. The Inland Empire was hit particularly hard during the recession, with vacancies rising up to 9.8% at their peak in 2011, and holding steady at 8.2% for the past two years. However, the vacancy has fallen significantly to 7.4%, the lowest rate seen since 2008. Average asking rents reached $1.37/SF in the fourth quarter, representing a gain of 3.8% since last year. Currently, of the 671,181 square feet currently under construction, 84.3% is preleased. This indicates strong demand for retail space going into 2017. The economy is seeing a lot of strength in consumer spending, which drives demand for retail space. According to the Conference Board, the Consumer Confidence Index (CCI) improved further in December, as optimism for the economy, jobs, and income prospects reached a 13-year-high. CCI is defined as the degree of optimism on the state of the economy that consumers express through their saving and spending. Nonfarm employment grew 2.5% in the Riverside-San Bernardino-Ontario MSA from November 2015 to 2016 according to California Employment Development Department. This equaled a net gain of 34,100 jobs over the year.

TRENDS TO WATCH

Holiday retail sales increased significantly over the prior year, with the National Retail Federation posting a 4% increase in sales in 2016 over 2015, while the ICSC reported that consumers spent an average of $711 on gifts, a 16% increase over the prior year. Despite gains in online sales, the ICSC also reported that 91% of holiday shopping was spent at physical stores, while 70% of total expenditure was spent both online and in stores. Both of these metrics bode well for the retail market, as it indicates that e-Commerce complements traditional retail more than it displaces it.

Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates

▲

Sale Prices

▲

Availability/Vacancy Rates

▼

Landlord Concessions

▼

Sales/Leasing Volume

◀▶

New Construction

◀▶

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Source: NAI Capital Research, CoStar, REIS

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	4Q16 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	4Q16 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT $/PSF NNN	AVERAGE SALE PRICE $/PSF
High Desert	16,606,846	33,200	13.2%	10.1%	58,960	375,558	106,392	503,454	$1.03	$204
West	16,485,024	6,000	8.9%	7.0%	85,882	584,977	144,652	555,394	$1.64	$143
Airport	25,276,889	65,500	7.6%	5.9%	173,957	672,284	140,446	622,959	$1.55	$232
San Bernardino	25,330,759	279,842	13.4%	10.0%	69,705	864,554	283,730	1,420,447	$1.17	$192
Riverside	36,752,689	111,815	7.8%	6.1%	136,991	874,713	347,745	1,105,326	$1.48	$306
South	23,931,902	177,824	8.8%	6.9%	180,393	767,765	295,589	798,200	$1.48	$242
Total	**144,384,109**	**674,181**	**9.7%**	**7.4%**	**705,888**	**4,139,851**	**1,318,554**	**5,005,780**	**$1.37**	**$214**

RBA includes retail buildings of all sizes and classes. Rents reflect buildings at least 5,000 square feet.

Leasing

Leasing volume this quarter totaled 705,888 square feet and the year to date total was more than 4.1 million square feet. Occupancy has risen to 92.6% this quarter, up 80 basis points since last year. Average asking rents grew by 3.8% over the year, breaking a two year streak of stagnation. Combined with increasing occupancy, this rent increase suggests renewed demand for retail property in the Inland Empire. In one of the largest transactions this quarter, Sprouts subleased 35,250 square feet of retail space in Rancho Cucamonga. Similarly, DD's Discount, a chain of discount retail stores based in Los Angeles, leased 25,631 square feet in Ontario at an asking rate of $1.30/SF.

Sales

Sale volume for the third quarter was 1,318,554 square feet and the year to date total was more than 5.0 million square feet. Prices averaged $214/SF, which is consistent with the averages of the prior two years. The majority of sales transactions this quarter shifted from involving mostly institutional investors to private investors. The only significant institutional purchase involved Wood Investments, Inc. purchasing a 106,828 square foot strip mall for redevelopment in Upland for $114/SF. Another transaction involved an individual purchase of Vineyard Shopping Center in Ontario for $102/SF.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT $/PSF*	SQUARE FEET
Sprouts	6709-6753 Carnelian St	Airport	Undisclosed	35,250
DD's Discounts	2522-2536 S Grove Ave	Airport	$1.30	25,631
Five Below	17030-17184 Slover Ave	Airport	$1.50	11,670
Dillon's Restaurant	12689-12899 W Foothill Blvd	Airport	$1.75	9,100
IHT	7985 Vineyard Ave	Airport	$1.65	5,400

*All rents are NNN unless otherwise stated

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE $/PSF	SQUARE FEET
Wood Investments, Inc.	57-275 E Foothill Blvd	West	$114	106,828
Joseph Renyuan Lee	1919-1945 E Riverside Dr	Airport	$102	48,696
James N Gordon	25060-25080 Madison Ave	Riverside	$183	46,520
Kevin Han & Hyun Joo Kim	10690 Foothill Blvd	Airport	$298	10,000
Mark Tekin	4360 Mills Cir	Airport	$424	7,080

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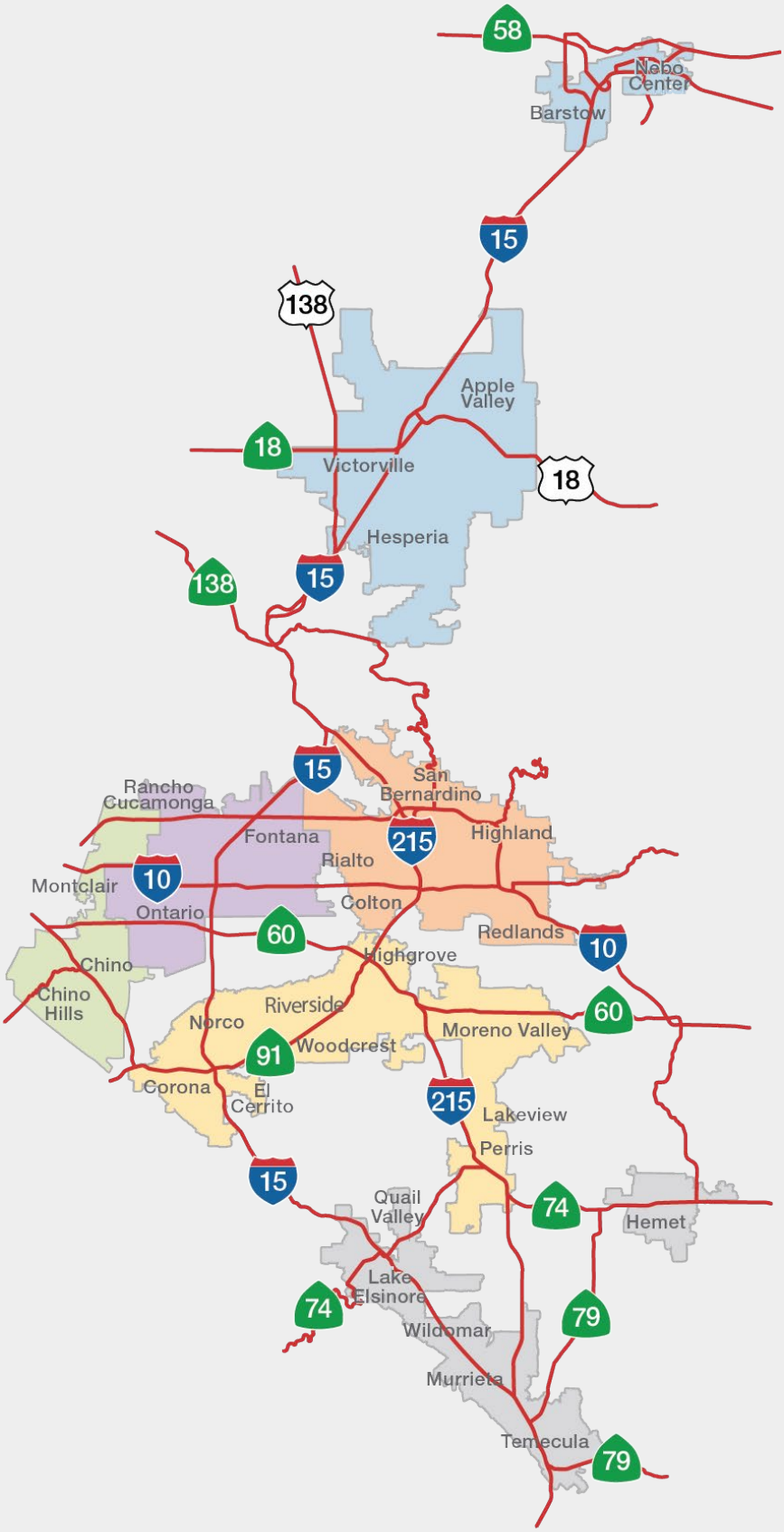

High Desert
- Apple Valley
- Barstow
- Hesperia
- Victorville

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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NAI Capital Research

J.C. Casillas
Vice President
Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas
Research and Communications Assistant
jolivas@naicapital.com

Kevin de Bree
Research Analyst
kdebree@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

Encino
16001 Ventura Blvd., Ste. 200
Encino, CA 91436
(818) 905-2400

Los Angeles County

Commerce
500 Citadel Dr., Ste. 100
Los Angeles, CA 90040
(323) 201-3600

Diamond Bar
21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
(909) 348-0600

Pasadena
225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
(626) 564-4800

Torrance
970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
(310) 532-9080

Valencia
27451 Tourney Rd., Ste. 200
Valencia, CA 91355
(661) 705-3550

West Los Angeles
11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
(310) 440-8500

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

Simi Valley
2655 First St., Ste. 250
Simi Valley, CA 93065
(805) 522-7132

Orange County

Irvine
1920 Main St., Ste. 100
Irvine, CA 92614
(949) 854-6600

San Clemente
120 1/2 South El Camino Real, Ste. 210
San Clemente, CA 92674
(949) 874-0415

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 Avenure, Ste. 206
Victorville, CA 92392
(760) 780-4200

Coachella Valley

Palm Desert
75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
(760) 346-1566

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Delivering Results.