

Inland Empire

Retail Market Outlook 1Q 2017

MARKET OVERVIEW

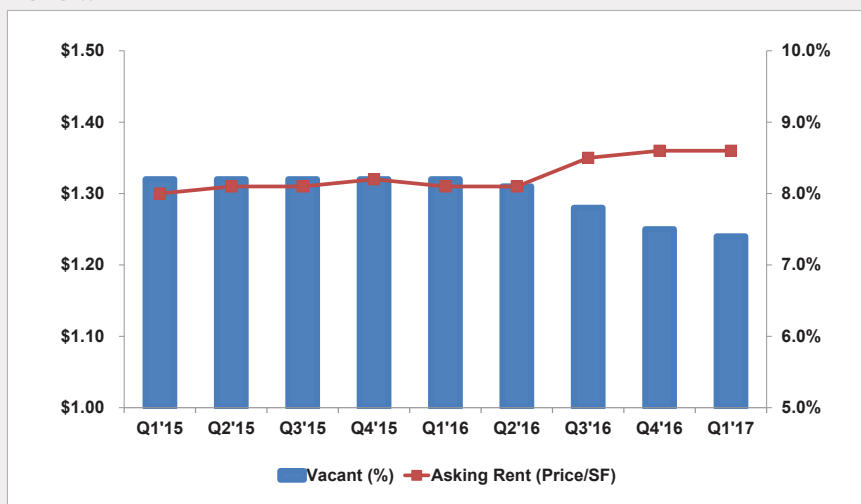
In the first quarter of 2017, the Inland Empire witnessed significant gains in occupancy over last year. The vacancy rate fell to 7.4%, 80 basis points below a year ago, making it one of the lowest vacancies seen since 2008. The Inland Empire was hit particularly hard during the recession, as vacancies shot up to 9.8% at their peak in 2011. The average asking rent closed at \$1.36/SF, steady over the prior quarter and up 4% over this time last year. Currently, 911,195 square feet is under construction, with only 19% of the space remaining available. Demand for retail space going into 2017 remains strong and will be met with increased consumer spending. According to the Conference Board, the Consumer Confidence Index (CCI) sharply increased in March to its highest level since December 2000. 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 3.8% in the Riverside-San Bernardino-Ontario MSA from March 2016 to 2017 according to California Employment Development Department, equaling a net gain of 52,400 new jobs.

TRENDS TO WATCH

Despite growth in consumer confidence, employment, household income, and retail sales overall, demand for retail space across the country is being affected by the growth of e-commerce as a competitor to brick-and-mortar stores. Major retailers in the Inland Empire, including Sears and Kmart, announced that they will be closing several locations. This is a trend that is being witnessed nationally, as retailers are struggling to adapt to changing market conditions. On the whole, the Inland Empire will continue to see positive net absorption with growth lead by smaller retailers and restaurants that are more resilient to competition from e-commerce. Additionally, developers are looking to turn several vacant properties into mixed-use lifestyle centers.

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



NAI Capital Research
www.naicapital.com

Inland Empire

Retail Market Outlook 1Q 2017



Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	25,296,223	88,887	7.0%	5.0%	168,875	168,875	235,967	235,967	\$1.53	\$117
High Desert	16,619,095	85,146	13.0%	10.0%	51,307	51,307	186,794	186,794	\$1.05	\$332
Riverside	36,747,645	266,036	7.7%	6.3%	154,845	154,845	127,273	127,273	\$1.38	\$293
San Bernardino	25,469,031	282,916	12.5%	10.8%	298,322	298,322	690,509	690,509	\$1.22	\$115
South	23,957,574	137,710	8.4%	6.9%	160,612	160,612	61,948	61,948	\$1.50	\$353
West	16,449,258	50,500	9.1%	6.8%	44,876	44,876	49,465	49,465	\$1.70	\$265
Total	144,538,826	911,195	9.3%	7.4%	878,837	878,837	1,351,956	1,351,956	\$1.36	\$238

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

Leasing

This quarter, leasing activity totaled 878,837 square feet of retail space, which remained steady over last quarter. Occupancy has risen to 92.6% this quarter, up 80 basis points since last year. The average asking rent at \$1.36/SF remained steady over the quarter, but is up 4% from this time last year. This quarter, three of the most significant lease transactions were prelease deals on properties currently under construction. Stater Brothers leased 45,000 square feet of space at the Shoppes at the Lakes development in Menifee, which will deliver in May 2017. Both Burlington and 24 Hour Fitness leased space at the Renaissance Marketplace, a five-star regional mall in Rialto. Burlington leased 43,000 square feet and 24 Hour Fitness took 38,960 square feet at the mall, which is scheduled to deliver in June 2018.

Sales

Sale volume exceeded 1.3 million square feet of retail space this quarter. Sale prices have continued to rise, increasing 22% over this time last year to an average of \$238/SF. Average cap rates declined, falling 29 basis points from 5.68% to 5.39%, which is currently the lowest rate on record for the Inland Empire. In one of the most significant transactions this quarter, the City of Ontario purchased three retail properties in Ontario totaling 78,002 square feet for \$41/SF. The property was acquired as part of the city's plan to redevelop the area in downtown Ontario with mixed-use developments.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Stater Bros.	29061-29101 Newport Rd	South	Withheld	45,000
Burlington	Avala Dr & 210 Frwy	San Bernardino	Withheld	43,000
24 Hour Fitness	Avala Dr & 210 Frwy	San Bernardino	Withheld	38,960
National Grocer	NW Newport Road	South	\$1.83	30,000
DD's Discount	2522-2536 S Grove Ave	Airport	\$0.79	25,631

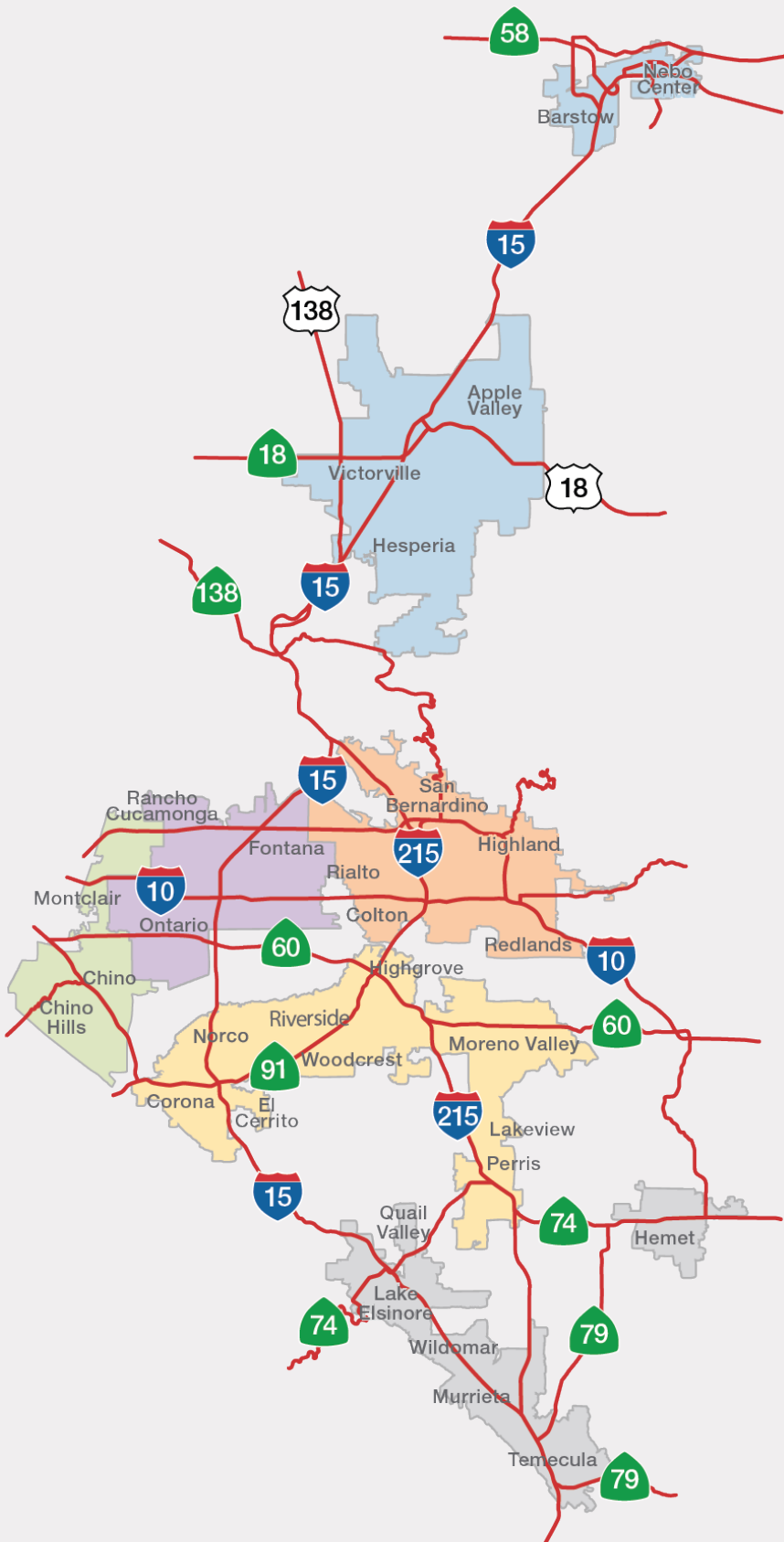
*All rents are FSG unless otherwise stated

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
City of Ontario	404-426 N Euclid Ave	Airport	\$41	78,002
Pama Management Co.	15825 Foothill Blvd	Airport	\$89	33,591
Gerald W Beard Realty	1499 Highland Ave	San Bernardino	\$81	30,927
Ponderosa Business Park	738 S Waterman Ave	San Bernardino	\$89	27,184
B Mann's Properties, Inc.	2598 S Archibald Ave	Airport	\$403	18,094

Inland Empire

Retail Market Outlook 1Q 2017



- **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

Inland Empire

Retail Market Outlook 1Q 2017



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 Avenue, 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

No warranty, express or implied, is made as to the accuracy of the information contained herein. This information is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and is subject to any special listing conditions imposed by our principals. Cooperating brokers, buyers, tenants and other parties who receive this document should not rely on it, but should use it as a starting point of analysis, and should independently confirm the accuracy of the information contained herein through a due diligence review of the books, records, files and documents that constitute reliable sources of the information described herein. NAI Capital CA BRE License #01990696.

Realizing Potential.
Delivering Results.