

Inland Empire

Retail Market Outlook 2Q 2017

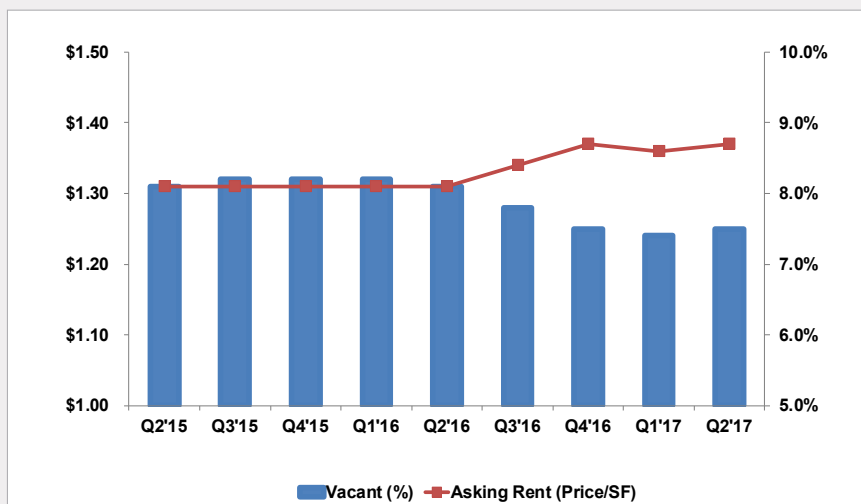
MARKET OVERVIEW

In the second quarter of 2017, the Inland Empire retail market remained strong. The vacancy rate declined by 60 basis points over the year to 7.5%. This is one of the lowest vacancy rates seen in the region since 2008. The Inland Empire was hit particularly hard during the recession, with vacancies peaking at 9.8% in 2011. The average asking rent closed at \$1.37/SF, steady over the prior quarter and up 5% over this time last year. Currently, over 1.2 million square feet is under construction, with 72% preleased, indicating demand for retail space. The future economic outlook in the Inland Empire remains strong, while statewide it is mixed. Consumers are concerned about their economic future. The latest survey of California residents released in June by Chapman University's Anderson Center for Economic Research shows that the California Composite Index of Consumer Sentiment declined in excess of 10 points from the first quarter to 98.7. This is significant, as a reading below 100 indicates pessimism. Nonfarm employment grew 3.8% in the Riverside-San Bernardino-Ontario MSA from June 2016 to 2017 according to California Employment Development Department, equaling a net gain of 47,700 new jobs.

TRENDS TO WATCH

Over the year, the Inland Empire has seen unemployment fall from 6.3% to 5.5%. Despite strong economic indicators, several retailers are having a hard time adjusting to new retail trends. Major retailers in the Inland Empire, including JC Penny, Payless, Macy's, Sears, and Kmart, have announced plans to close several locations over the next year. This is part of a national trend as retailers are struggling to adapt to the realities of changing market conditions with increased competition from e-commerce. However, in the Inland Empire vacancy continues to decline as growth is led by smaller companies, restaurants, and retailers that can effectively adapt to changing market conditions. There is a growing trend among developers to redevelop existing retail properties into mixed-use facilities and lifestyle centers that entice consumers and increase foot traffic.

Average Asking Rent and Vacancy Rate



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

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	25,342,113	188,863	6.9%	4.8%	126,896	313,643	331,736	578,532	\$1.57	\$183
High Desert	16,653,879	72,396	12.1%	10.0%	65,776	142,251	110,767	327,522	\$1.05	\$300
Riverside	36,833,574	289,462	7.8%	6.5%	190,980	432,881	992,636	1,119,909	\$1.39	\$170
San Bernardino	25,661,087	488,140	13.1%	10.5%	186,240	512,514	278,891	977,060	\$1.21	\$108
South	23,984,130	153,330	8.3%	7.2%	217,508	391,173	168,137	229,272	\$1.52	\$203
West	16,581,152	70,000	9.2%	7.2%	110,213	168,619	87,165	136,630	\$1.69	\$439
Total	145,055,935	1,262,191	9.3%	7.5%	897,613	1,961,081	1,969,332	3,368,925	\$1.37	\$183

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

Leasing

This quarter, the market continued to absorb existing vacant space on the market. Leasing activity totaled 897,613 square feet of retail space, which declined by 15% over last quarter. Occupancy has risen to 92.5% this quarter, which is one of the highest occupancy rates since 2008, which saw occupancy rates as high as 95.2% in 2007. The most significant leases that have been signed this quarter have been tenants that are resistant to competition from e-commerce, such as gyms, restaurants, or grocery stores. In the largest lease transaction this quarter, EOS Fitness leased 35,277 square feet for a new gym in Temecula. In another significant transaction, Smart N Final leased 27,528 square feet in Highland for an undisclosed asking rent.

Sales

Sale volume exceeded 1.9 million square feet of retail space this quarter, which represented a 104% increase over the prior quarter and a 53% increase over last year at this time. By comparison, sales prices averaged \$192/SF, which was 22% lower over the quarter and 9% lower over the year. This indicates that investors are becoming more confident in the Inland Empire's retail market, and are willing to invest in properties with higher cap rates and lower prices. Cap rates averaged 6.21% this quarter, which is a 73 basis point increase over the prior quarter. In one of the largest sales transactions this quarter, AEW Capital Management purchased the 411,670 square foot Riverside Plaza in Riverside for \$403/SF. In a similar transaction, Levy Affiliated Holdings, LLC purchased the 134,355 square foot Tower Center Plaza for \$119/SF.

Significant Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
EOS Fitness	32413 Highway 79 S, Temecula	South	Withheld	35,277
Smart N Final	Baseline St @ Church, Highland	San Bernardino	Withheld	27,528
Planet Fitness	360-24410 Village Walk Pl, Murrieta	South	Withheld	20,909
O'Reilly Auto Parts	2645 E Riverside Dr, Ontario	Airport	\$1.85	7,230
Bargain King	1591-1521 S Riverside Ave, Rialto	San Bernardino	\$1.35 FS	6,050

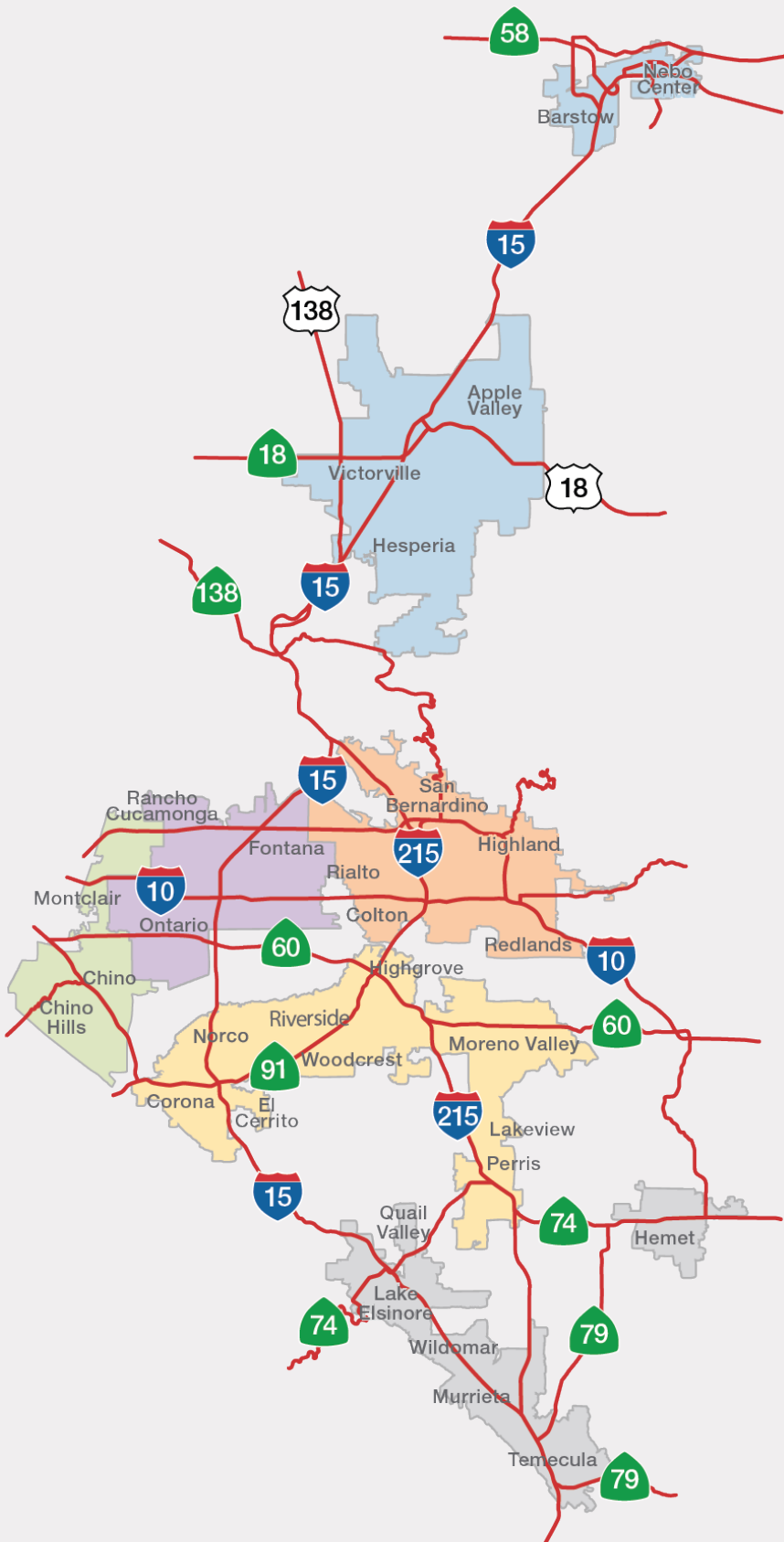
*Rents are NNN unless otherwise stated

Significant Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
AEW Capital Management	Riverside Plaza, Riverside	Riverside	\$403	411,670
Levy Affiliated Holdings, LLC	Tower Plaza Center, Temecula	South	\$119	134,355
Spathco	Southridge Plaza, Fontana	Airport	\$172	119,359
Wood Investments, Inc.	Upland Village, Upland	West	\$173	106,828
PASSCO Companies, LLC	Temescal Village Plaza, Corona	Riverside	\$266	63,606

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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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Inland Empire

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