

Inland Empire

Retail Market Outlook 2Q 2018

MARKET OVERVIEW

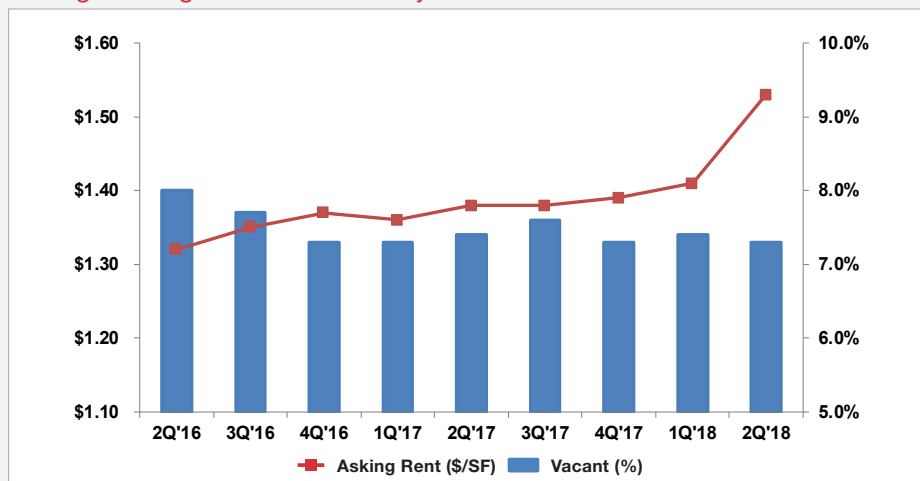
The Inland Empire's retail market made steady progress in 2Q 2018. The 7.3% vacancy rate dipped 10 basis points year over year. As conditions tightened, the average asking rent rose to \$1.53/SF, up 8.5% over the prior quarter and 10.9% from 2Q 2017. Only 177,154 SF of new inventory entered the market in 2Q 2018 and 47.9% of these properties were delivered fully leased. Gateway to Temecula, the largest development completed this quarter, is 87.7% occupied with LA Fitness as the anchor tenant.

Construction activity remains robust. Approximately 1.4M SF of retail space is being developed across 85 projects, and the majority are Neighborhood and Strip Centers. The 60-acre Renaissance Marketplace in Rialto is the largest project under way. Renaissance Marketplace will feature about 460,000 SF of retailers and restaurants, 800 multifamily units, and a 20-acre sports park. The residential component will include a mix of rental and for-sale housing. City officials said they expect 4,000 new residents, averaging about three people per household, and the creation of about 11,000 new jobs upon completion.

TRENDS TO WATCH

The Inland Empire's housing market is driving retail construction and the Food and Beverage sector is booming. This region is attracting young professionals seeking affordable housing who are eager to splurge on eating out. According to a Nielson report, Millennials allocate about 35% of their food budgets to grocery stores, which spells opportunity for restaurants. Developers are capitalizing on this trend with dedicated food halls. Chow Alley in Riverside, The Riverside Food Lab, and Haven City Market in Rancho Cucamonga are food halls under construction featuring pop up restaurants and underrepresented culinary concepts. These developments cater to Millennials' eclectic tastes. Consequently, employment in Food and Beverage Stores in Riverside and San Bernardino counties bumped up 1.2% from May 2017 to May 2018. The retail trade sector added 4,500 jobs over the same period, a sign that the entire industry is benefitting from a strong economy.

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 (%)	2Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Airport	25,724,699	198,942	6.7%	5.1%	94,484	271,585	270,398	370,689	\$2.10	\$250
High Desert	16,949,966	237,187	11.7%	10.0%	112,321	190,453	134,003	377,389	\$1.11	\$130
Riverside	37,599,875	276,925	9.0%	6.5%	187,249	363,706	343,826	798,460	\$1.49	\$265
San Bernardino	26,070,146	482,515	11.5%	9.3%	193,321	409,887	397,523	602,535	\$1.16	\$256
South	23,590,503	145,473	8.7%	7.3%	127,190	320,319	137,260	354,031	\$1.58	\$176
West	16,654,100	99,445	9.0%	6.2%	47,787	189,957	49,809	109,769	\$1.76	\$178
Total	146,589,289	1,440,487	9.3%	7.3%	762,352	1,745,907	1,332,819	2,612,873	\$1.53	\$212

Leasing

Leasing activity reflected moderate demand across all product types. Leasing volume totaled 762,352 SF in 2Q 2018, down 22.5% from the prior quarter and 27.6% year over year. The average asking rent reached \$1.53/SF, up 8.5% from 1Q 2018 and 10.9% over 2Q 2017. Shopping Centers posted a 12.0% gain in asking rent over 1Q 2018 at \$1.58/SF. A handful of properties are asking well above average rates. For example, Inland Empire Center in Fontana is asking \$14 - \$18/SF NNN for 44,559 SF of space at a former Toys R Us location. Lifestyle Centers underwent a 12.0% increase in vacancy compared to 1Q 2018, yet the average asking rent rose 32.6% to \$1.83/SF. Most of the vacant space lies in aging properties built before 2009. New developments, such as Soquel Canyon Square in Chino Hills, are driving up rents by asking \$4.25/SF NNN.

Sales

Free standing restaurants and Neighborhood Centers dominated 2Q 2018 sales activity. Investors' preferences reflected the growing popularity of food and beverage stores. Sales volume totaled about 1.3M SF, a 4.1% hike from 1Q 2018. The average sales price registered at \$212/SF. Riverside's market obtained the highest average sales price in the Inland Empire at \$265/SF. One notable transaction involved a 2,060 SF new construction retail building occupied by Del Taco in Perris that sold for \$2.8M or \$1,364/SF with a long-term corporate lease. The 4.0% cap rate represented a record low for a single-tenant building occupied by Del Taco in Riverside County. Cap rates averaged 5.8%, and the San Bernardino market carried the lowest cap rate at 5.7%.

Select Lease Transactions

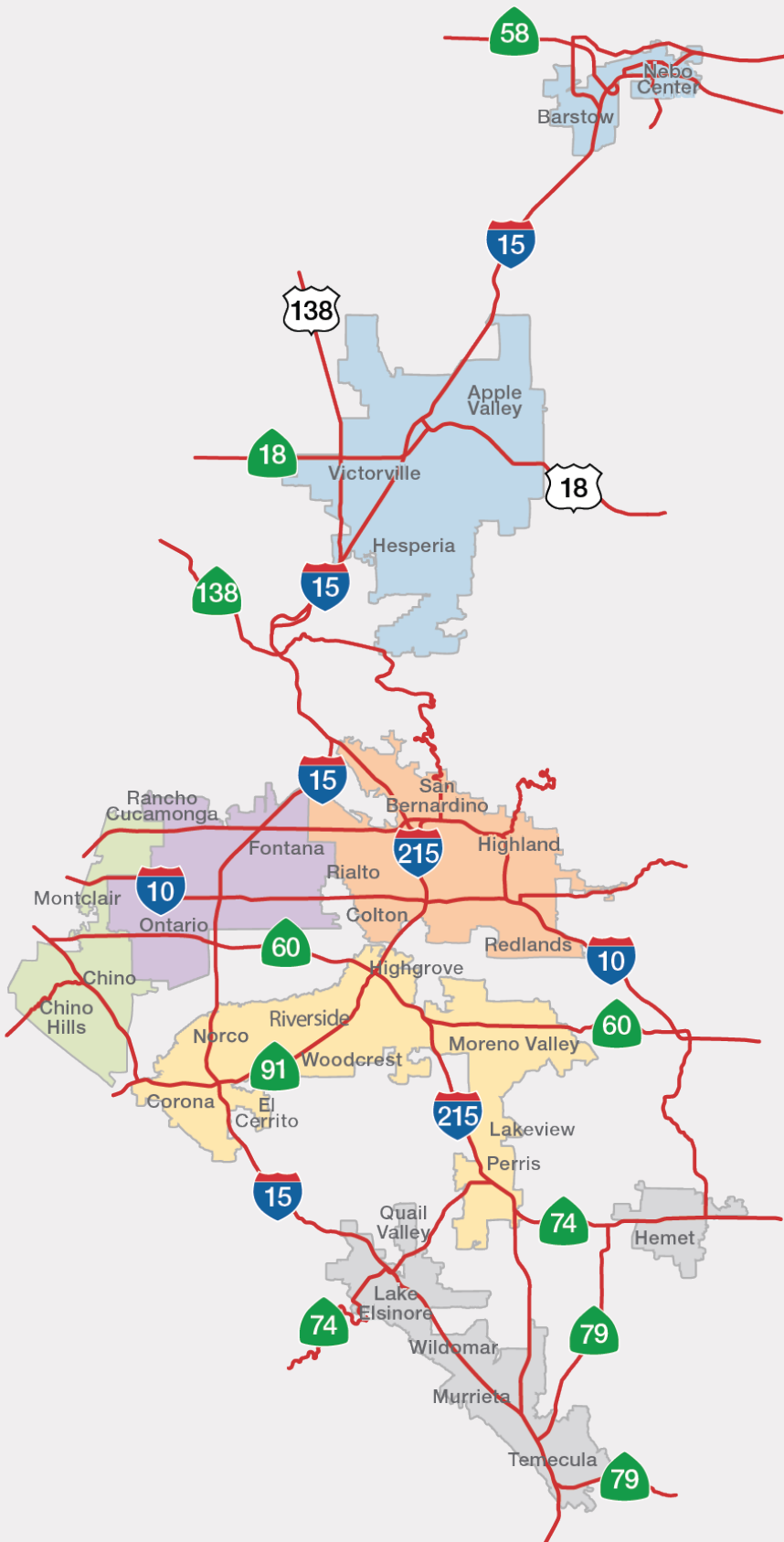
TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
99 Only	12618 Schleisman Rd	Riverside	Withheld	19,104
Party City	Ayala Dr & 210 Frwy	San Bernardino	Withheld	12,000
Longhorn Steakhouse	12327 Foothill Blvd	Airport	\$3.50	7,400
Black Bear Diner	24640 Madison Ave	Riverside	\$2.17	6,500
Mattress Firm	Ayala Dr & 210 Frwy	San Bernardino	Withheld	7,560

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Kim Family Trust 2005	51 Ramona Expy	Riverside	\$1,364	2,060
Private Investor	4304 University Pky	San Bernardino	\$819	2,173
Private Investor	13342 Main St	San Bernardino	\$781	3,200
Hiro Holdings Llc	2015 N Riverside Ave	San Bernardino	\$427	15,106
Private Investor	28636 Old Town Front St	Riverside	\$302	16,458

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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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