



2022 Inland Empire Retail Overview

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Overview

I. Retail Leasing Market

II. Retail Investment Sales Market

III. Final Thoughts

IV. Questions

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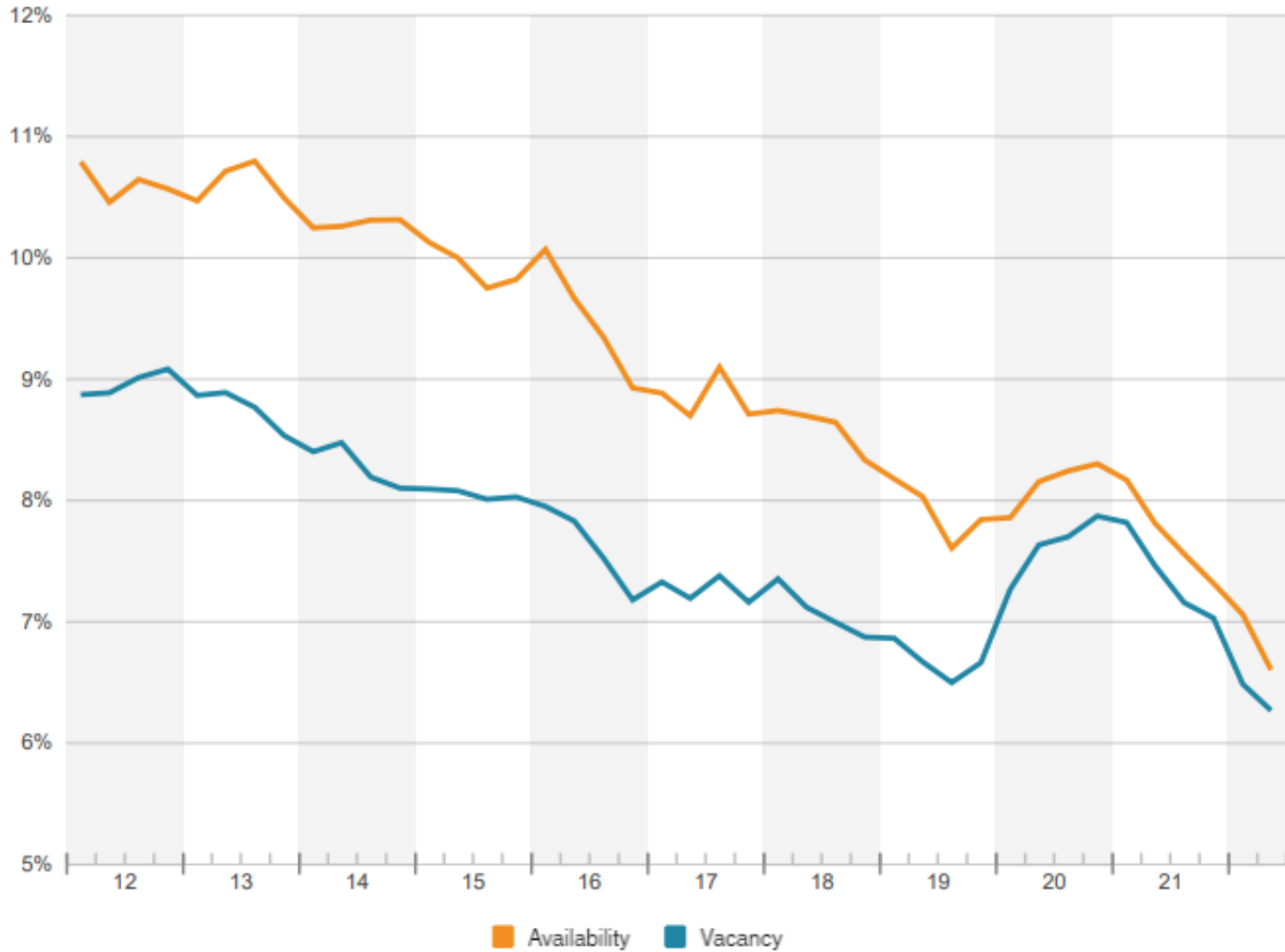
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Leasing

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Availability & Vacancy Rate



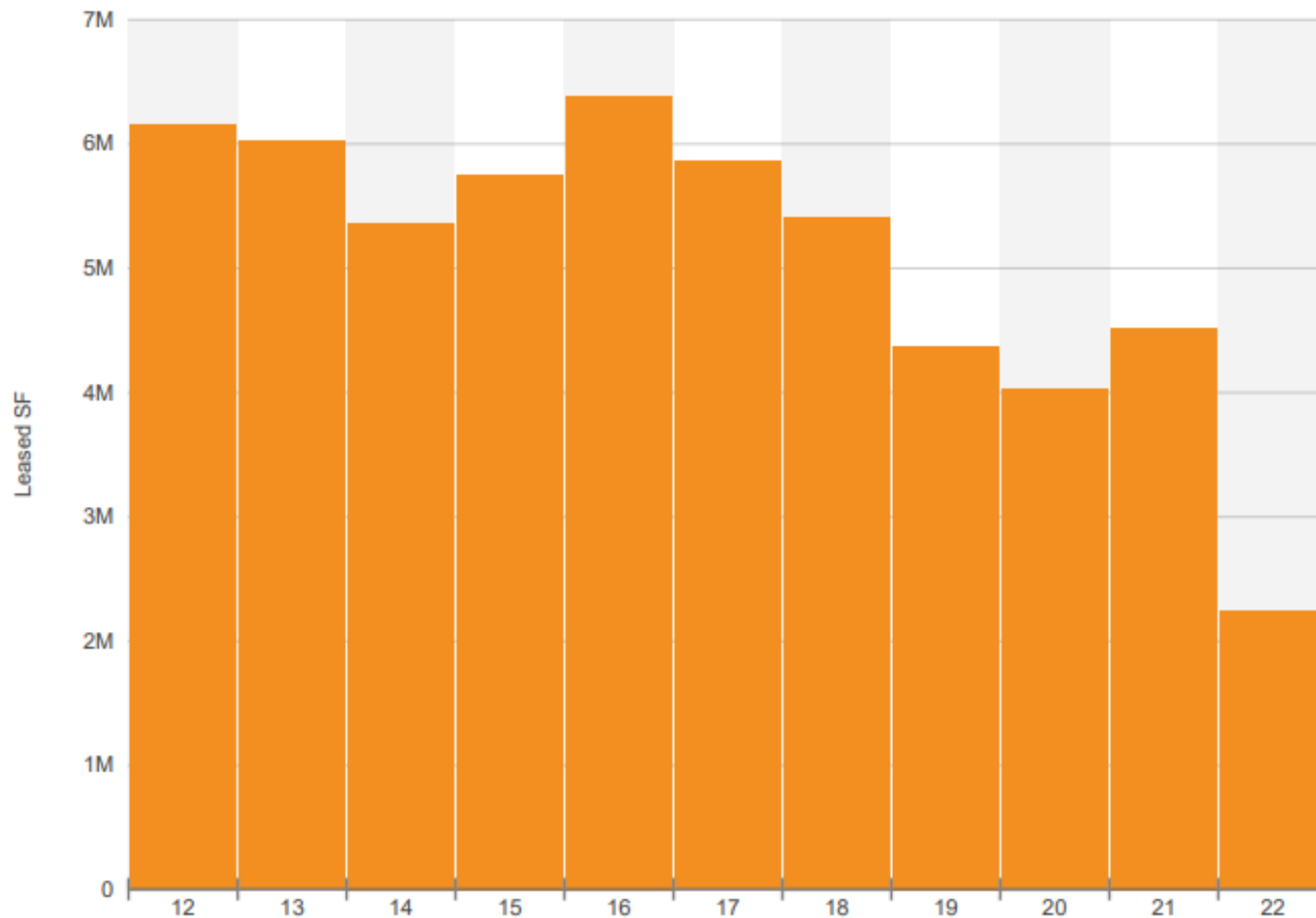
- Vacancy is lower than pre-pandemic at 6.2%.
- Leasing Demand has Been Very Strong from all users including Corporate, Franchisee, and Independent Tenants.

Vacancy Rate by Sub-Market

	2022	2019
• Airport Area	3.8%	4.4%
• West San Bernardino	8.0%	6.5%
• Greater Riverside	4.4%	6.3%
• High Desert/MRV	5.6%	8.1%
• Temecula Valley	4.5%	6.0%
• East San Bernardino	9.5%	9.0%
• Coachella Valley	6.9%	9.1%

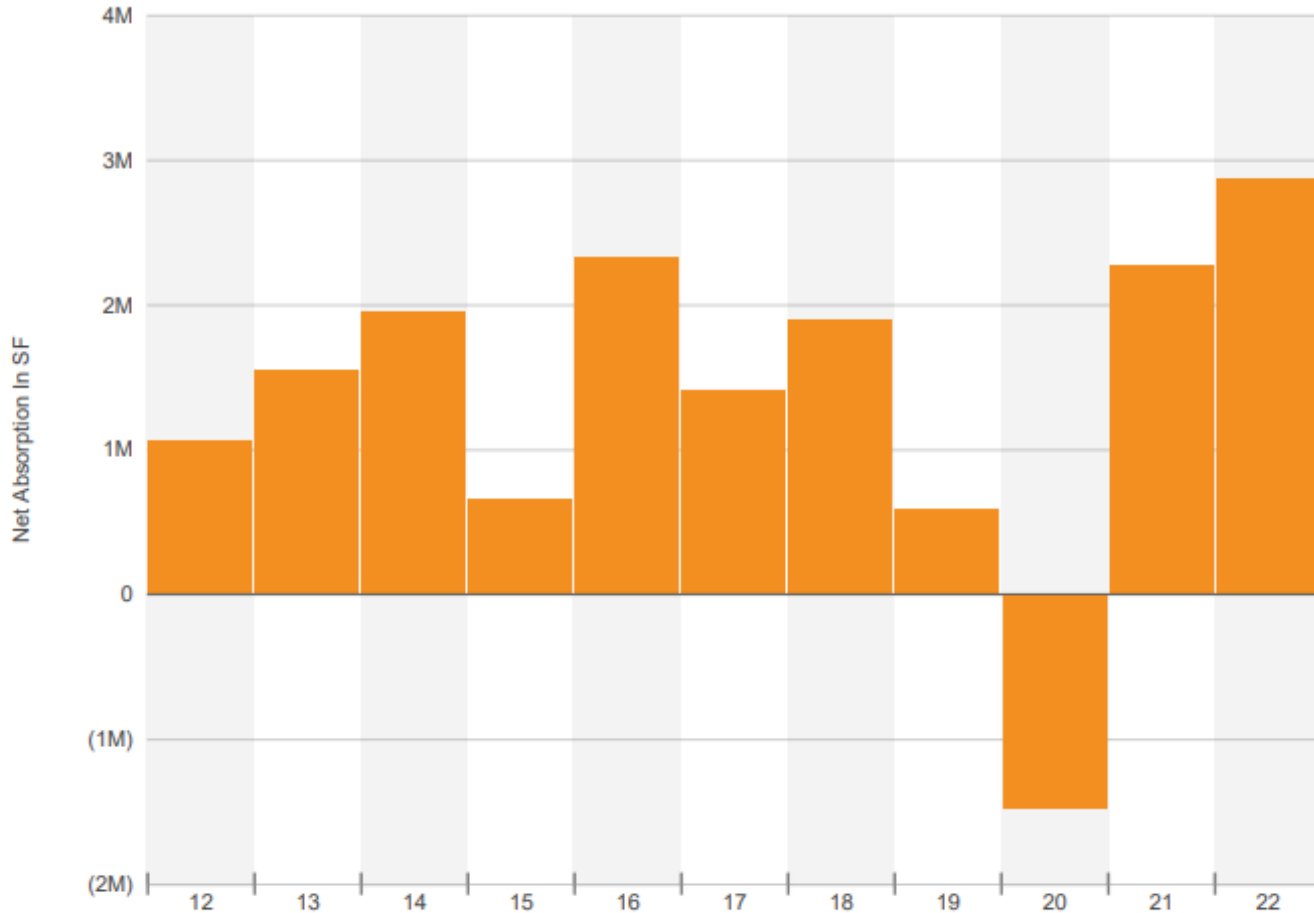
- Big Boxes such as vacant Nordstrom & Sears at Montclair Place explain much of the disparity between markets.
- Coachella Valley clearly benefitted from staycations, flight to people wanting more space, and outdoor recreation.
- Strongest markets also mostly reflect the areas with the most housing growth.

Leasing Activity



- Total leasing activity was just a little bit higher in 2021 than in 2020.
- And 2022 is on track for similar activity.
- If leasing activity is the same, but vacancy is decreasing, how is this explained?

Net Absorption



- Net absorption is through the roof! Best since 2007 which was 7M SF
- This means that while overall leasing activity is the same, far fewer retail businesses are closing.
- Most business closures are personal – retirement, partnership issues, although corporate retailers are closing select unprofitable sites.

Active Retailers/Retail Uses

Fitness

- Planet Fitness
- EOS Fitness
- Chuze
- Fitness 19

Grocery

- Stater Bros.
- Grocery Outlet
- Aldi
- Amazon Fresh
- Northgate

Soft Goods

- Burlington
- Ross/dd's Discounts
- Marshalls/TJ Maxx
- WSS

Restaurants – Most of the drive-thru players.

Coffee

- Starbucks
- Dutch Bros.

Gas Stations & Express Car Washes

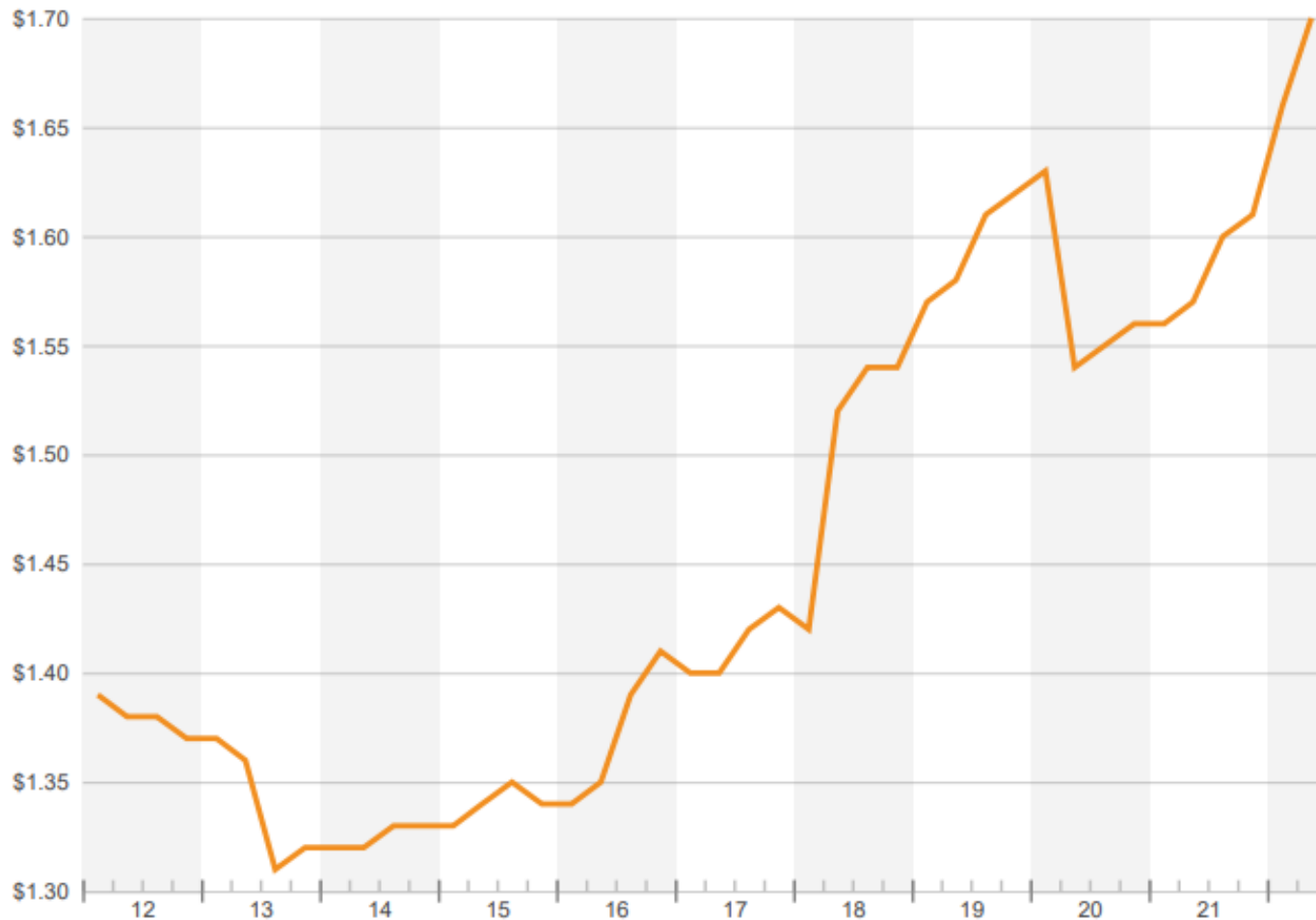
Other

- Harbor Freight Tools
- Floor & Décor
- Best Buy Outlet
- Crazy Boss
- Dollar Tree

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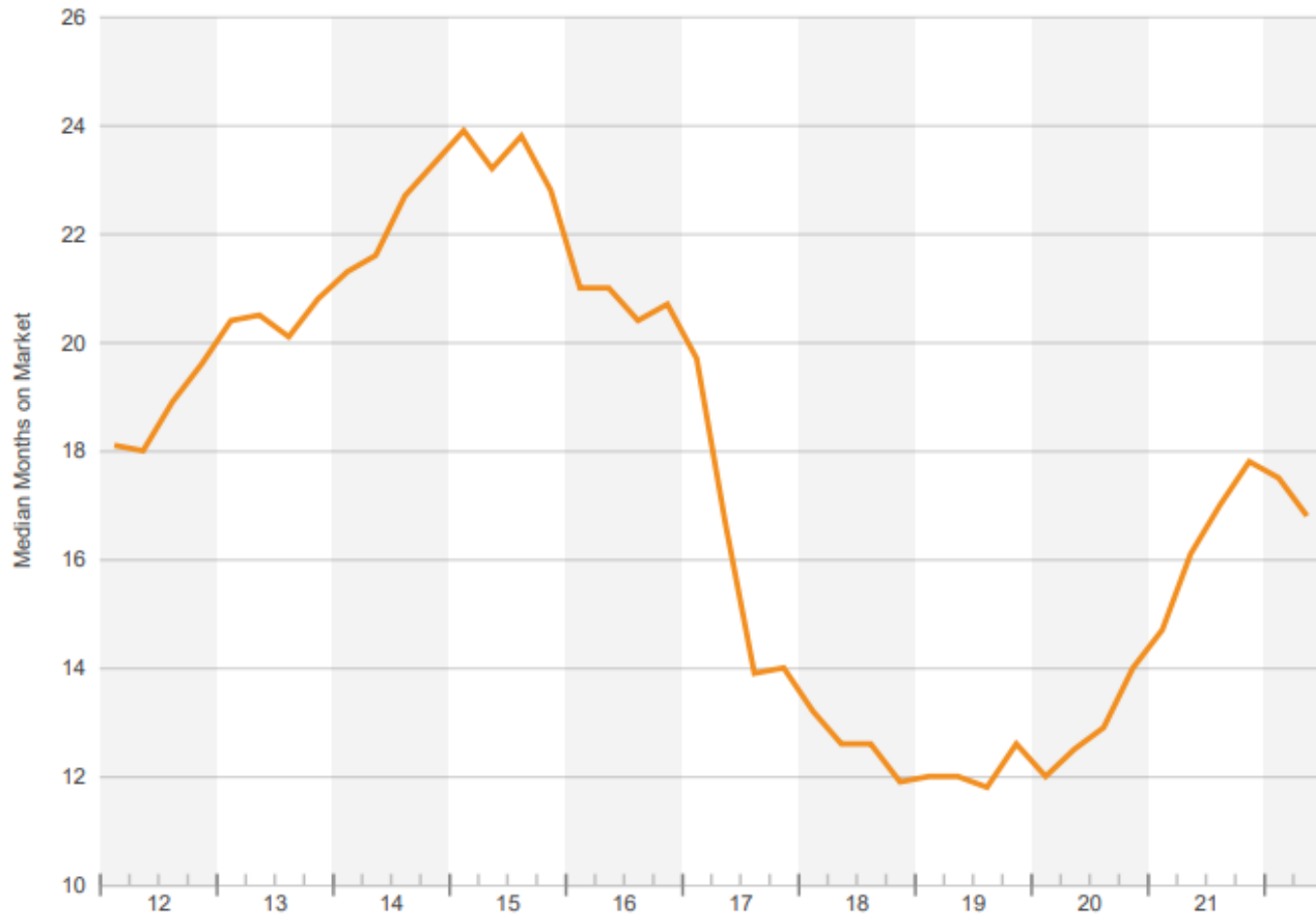
Asking Rent Per SF



- Best Shop Space is \$3.50 to \$4.00/SF, plus NNN
- Anchor space is \$1.00 to \$1.25 with large tenant improvement allowances.
- Average shop space is \$1.50 to \$2.50/SF, plus NNN
- Only the highest quality shop space justifies new construction. Subsidizing new anchor space which is not economical on its own.

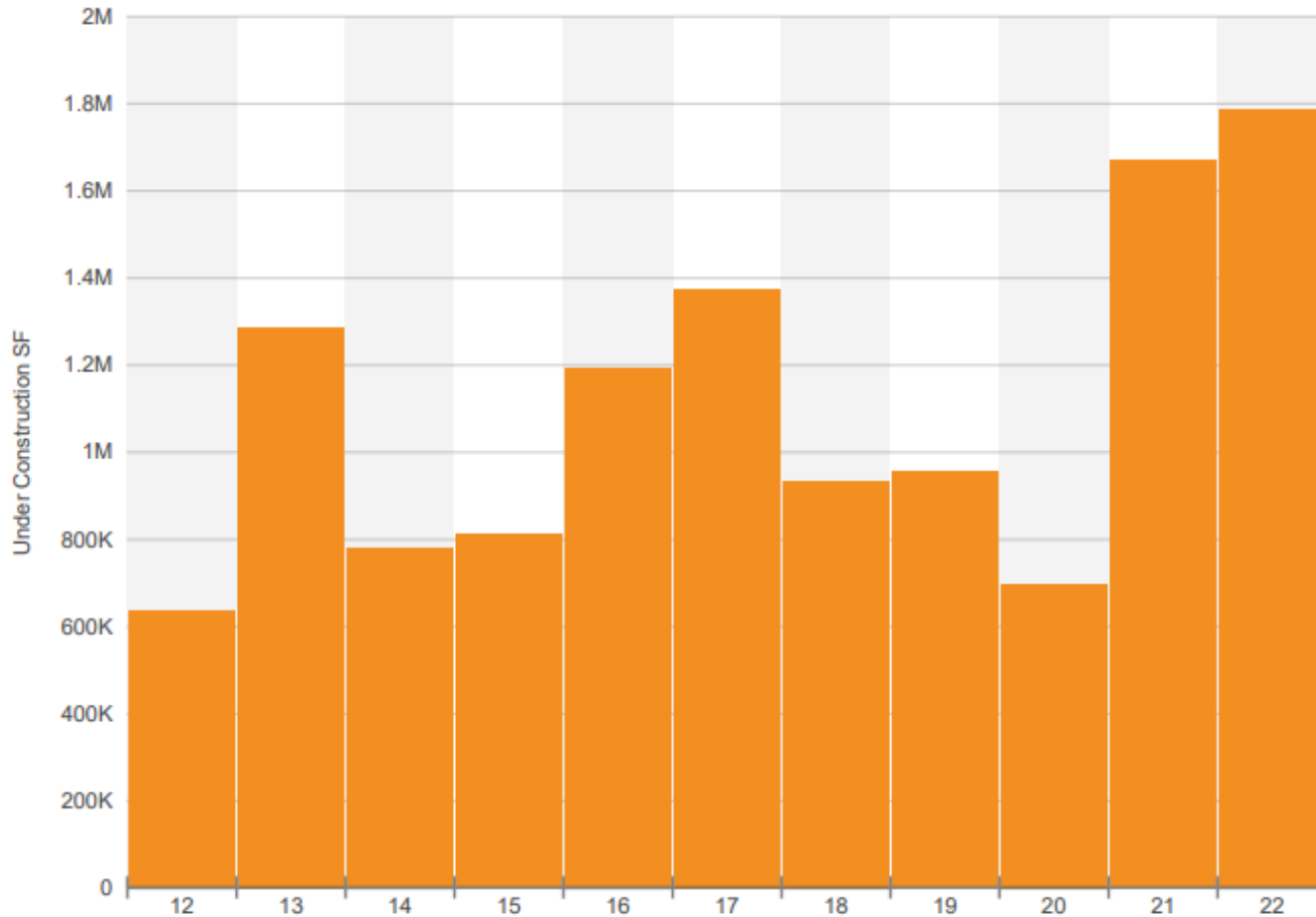
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Months On Market



- The best space is being absorbed quickly.
- From initial LOI to opening for a corporate tenant is 12 months at minimum.
- Back to 2019 where much of the currently available space is not easy to lease.

Under Construction



- Skewed by Oak Valley Center in Calimesa with 580K proposed. Portion is under construction.
- 200K in Eastvale – Burlington, Hobby Lobby, Planet Fitness...
- Bedford Marketplace in Corona – 125,000 SF anchored by Amazon Fresh
- Costco in Murrieta, Krikorian Theater in Menifee.
- 44 projects under 11,00 SF – fast food, gas stations, car washes, multi-tenant



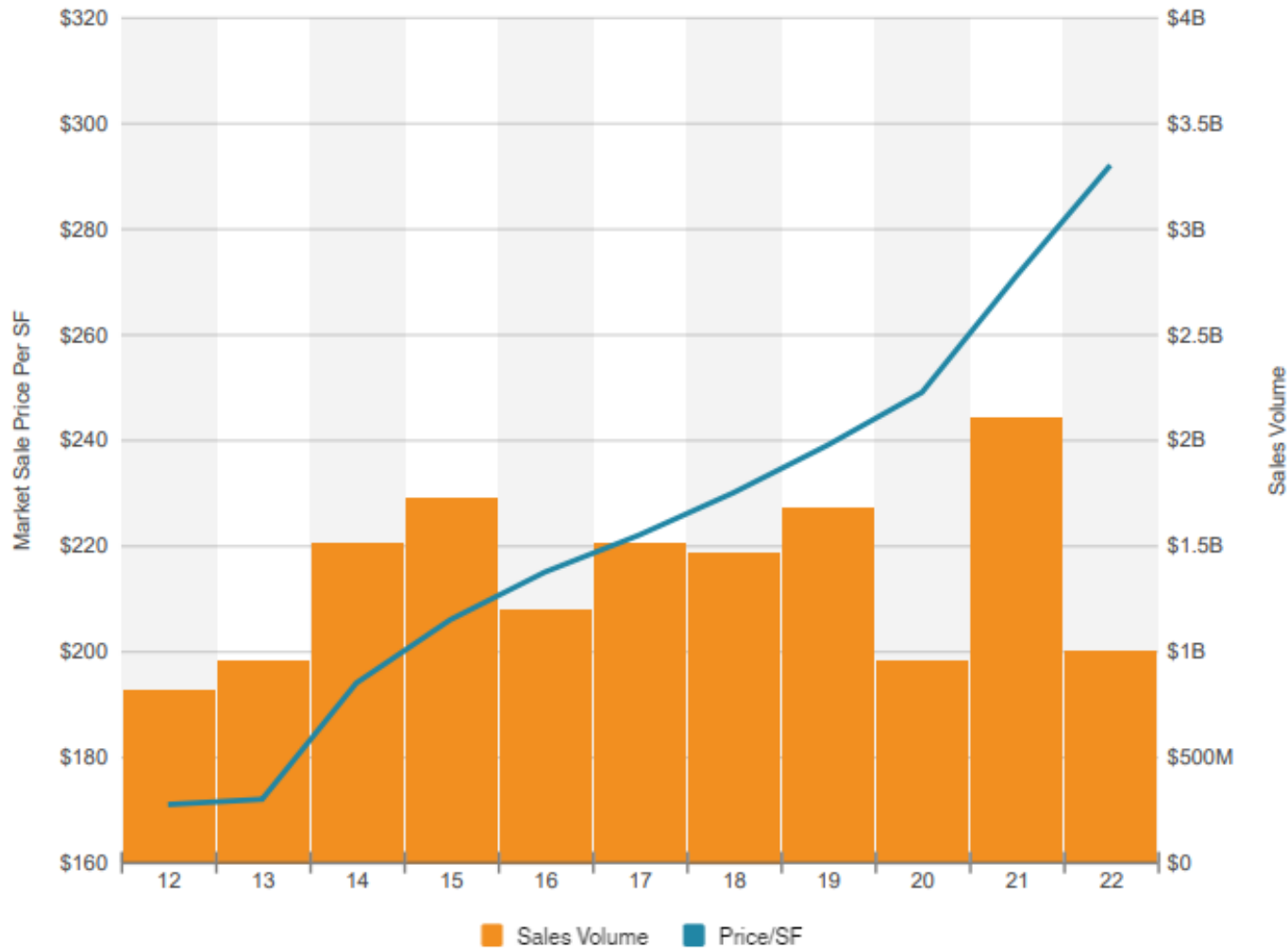
Sales Data

Inland Empire Overview

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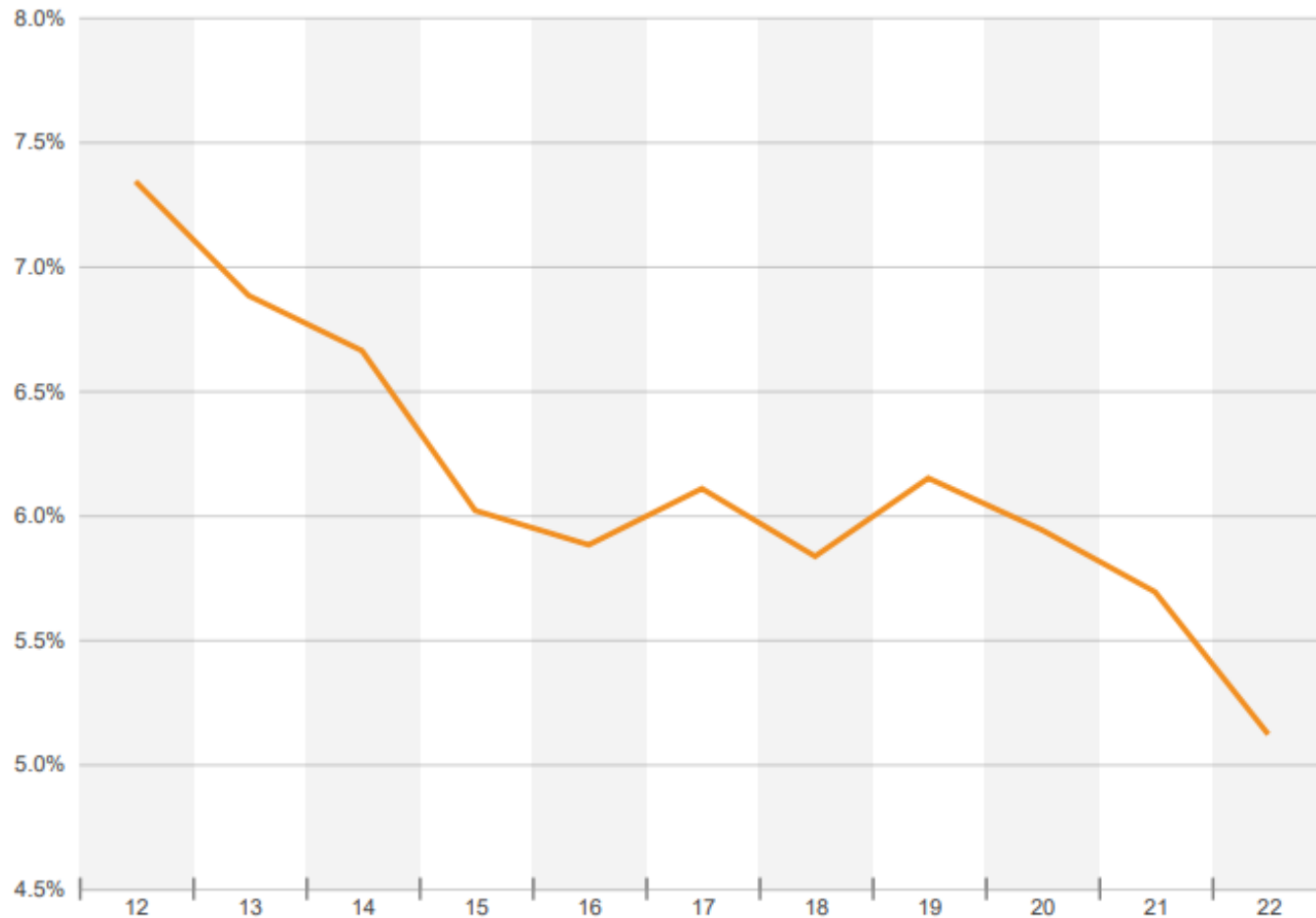
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Sales Volume & Market Sale Price Per SF



- 2021 had record volumes and 2022 has been strong so far.
- Rising PSF reflects higher quality single tenant and multi-tenant properties being sold.
- Single tenant market was on fire with record low cap rates, but appears the top may have occurred.

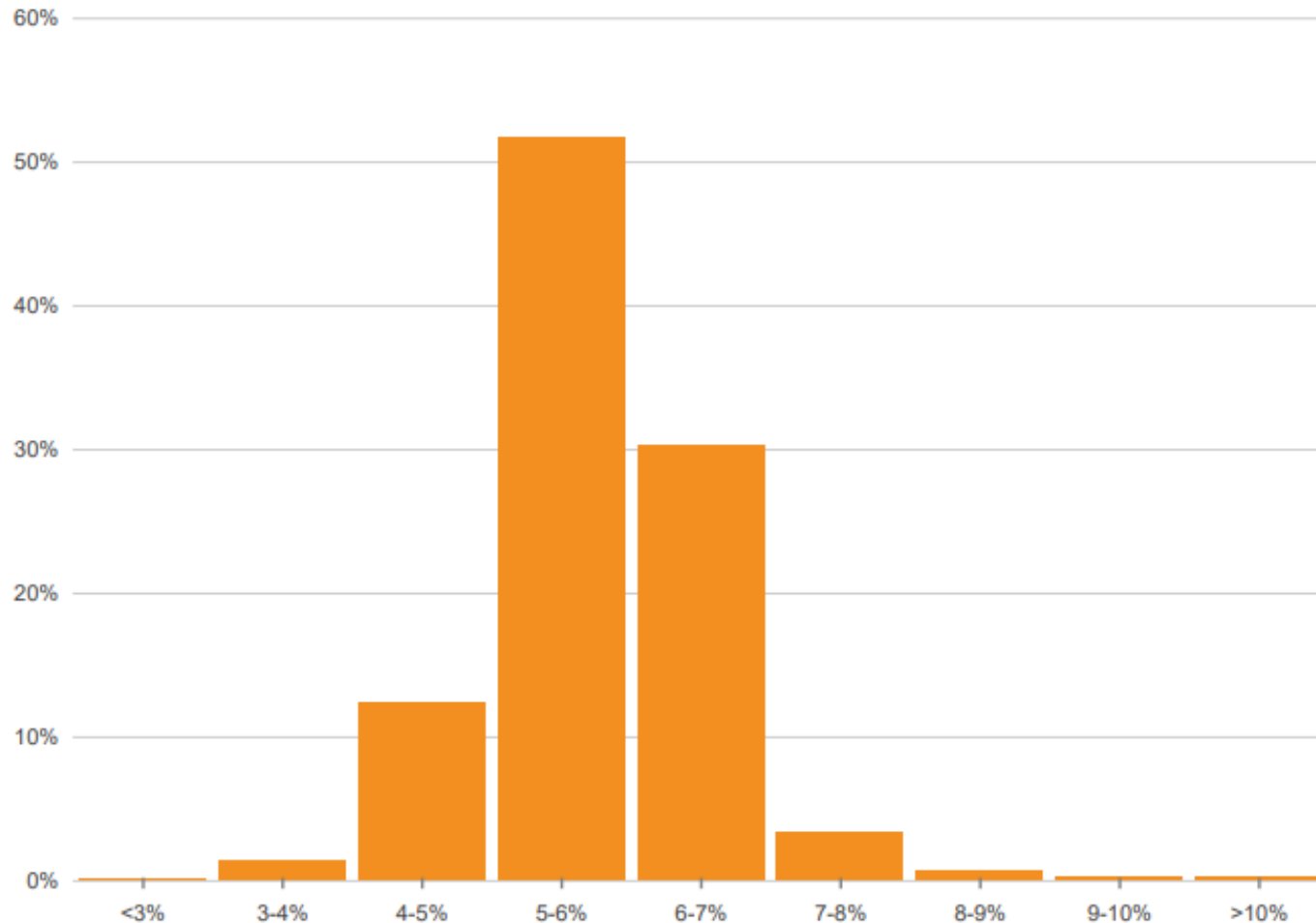
Cap Rate



Why the Decline?

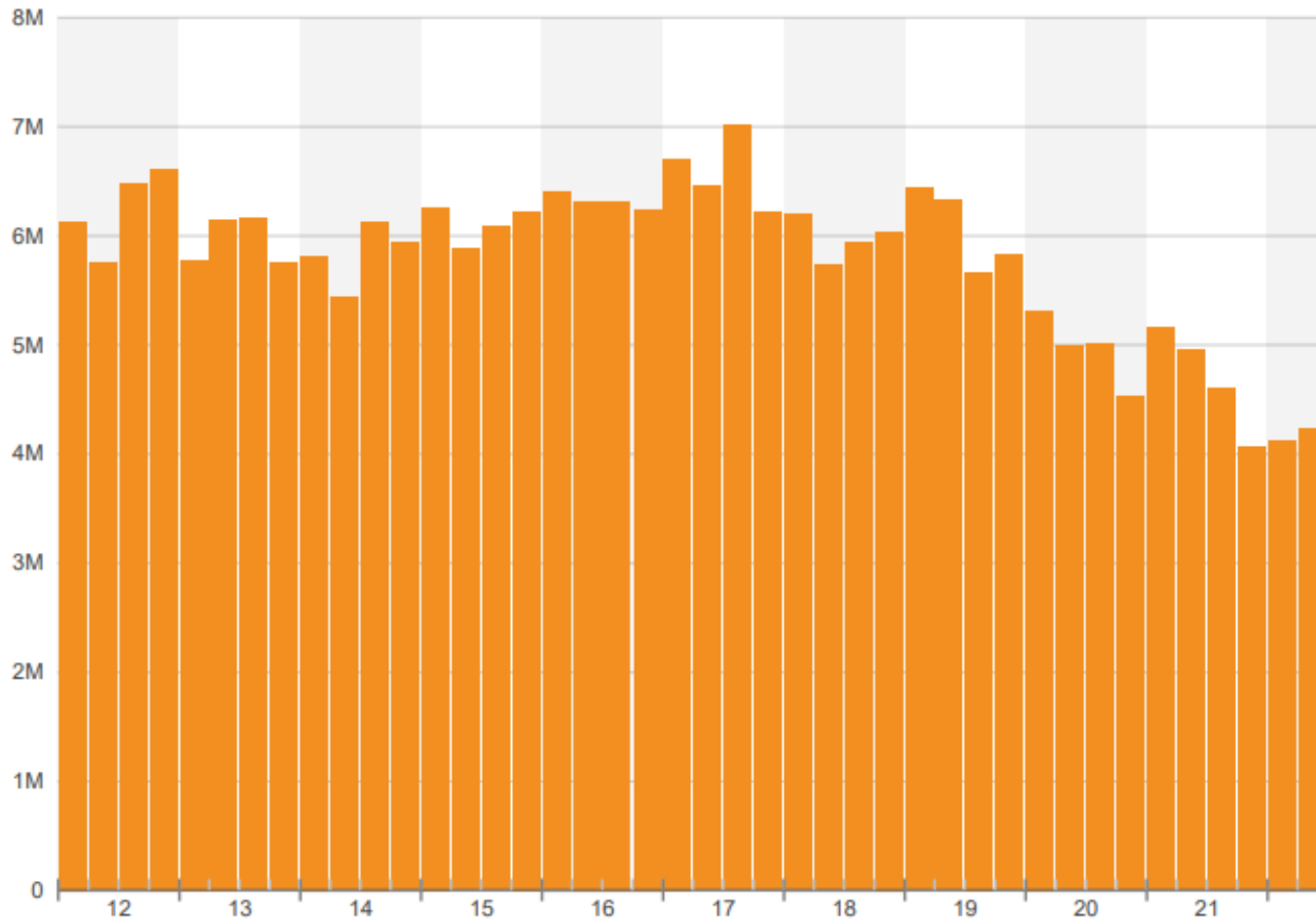
- Less inventory.
- Less suitable alternatives – stock market, bonds, money market.
- 1031 exchanges out of industrial, land, single family, multi-family.

Market Cap Rate Distribution



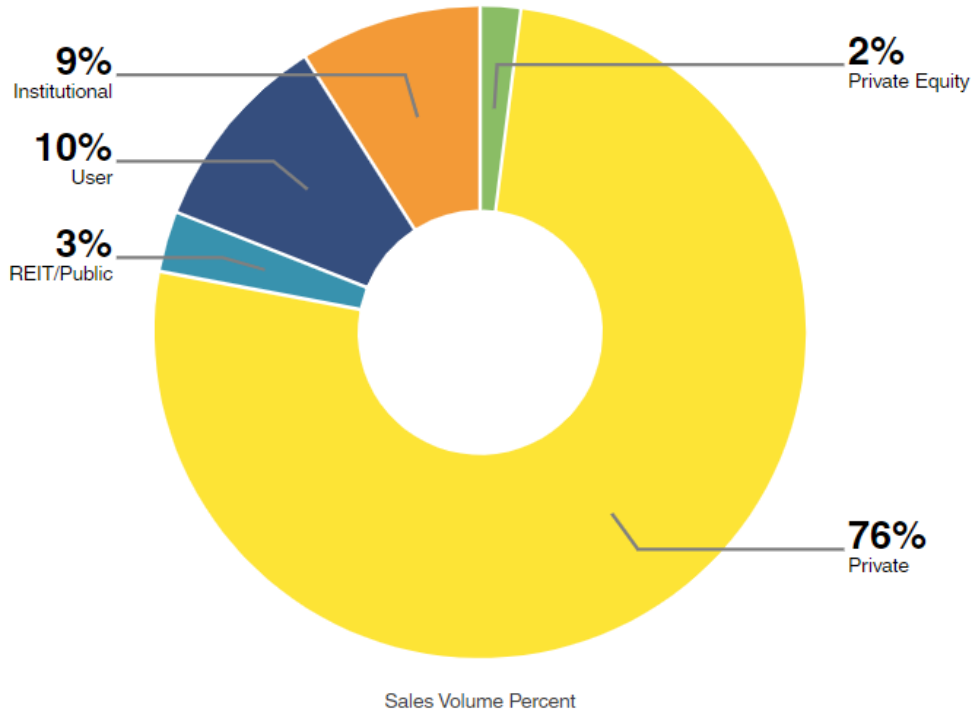
- Single Tenant – Mostly 4 to low 5 cap.
- Multi-tenant – Mostly low 5 cap to mid 6 cap.
- Distributing chart shifted left throughout the past 12 months.

For Sale Total SF

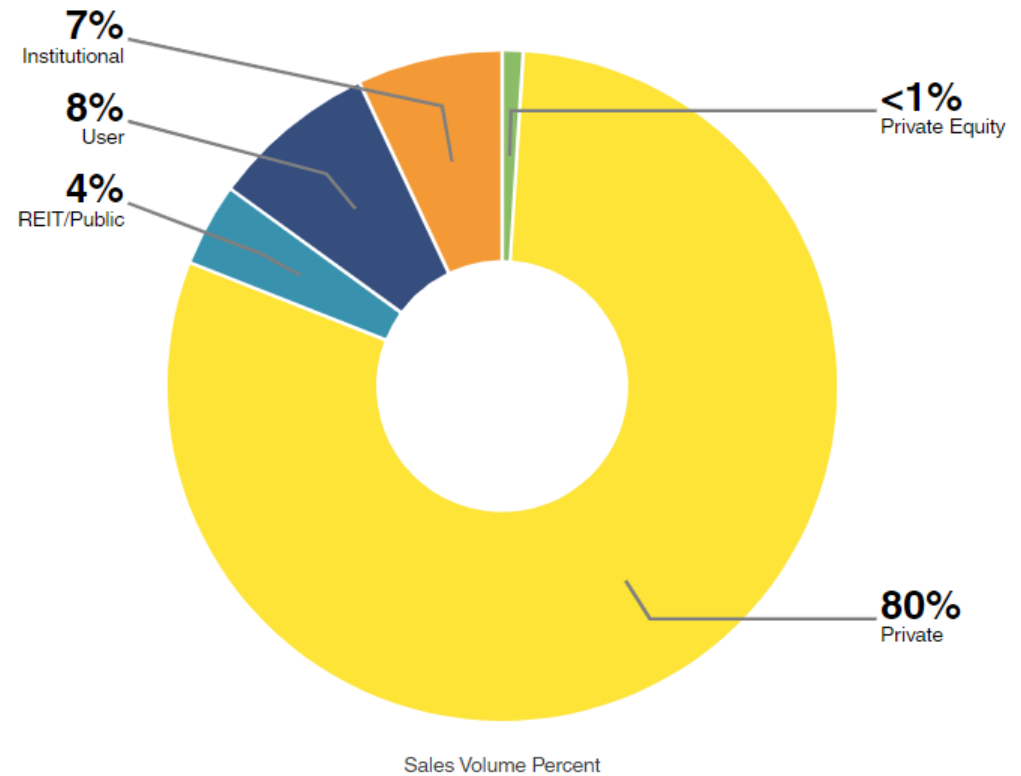


- Graph reflects the reduced inventory.
- Less development due to Covid.
- Fewer owners comfortable finding an upleg.
- Many owners enjoying their 100% leased properties.

The IE Retail Market is Still a VERY Private Party Market

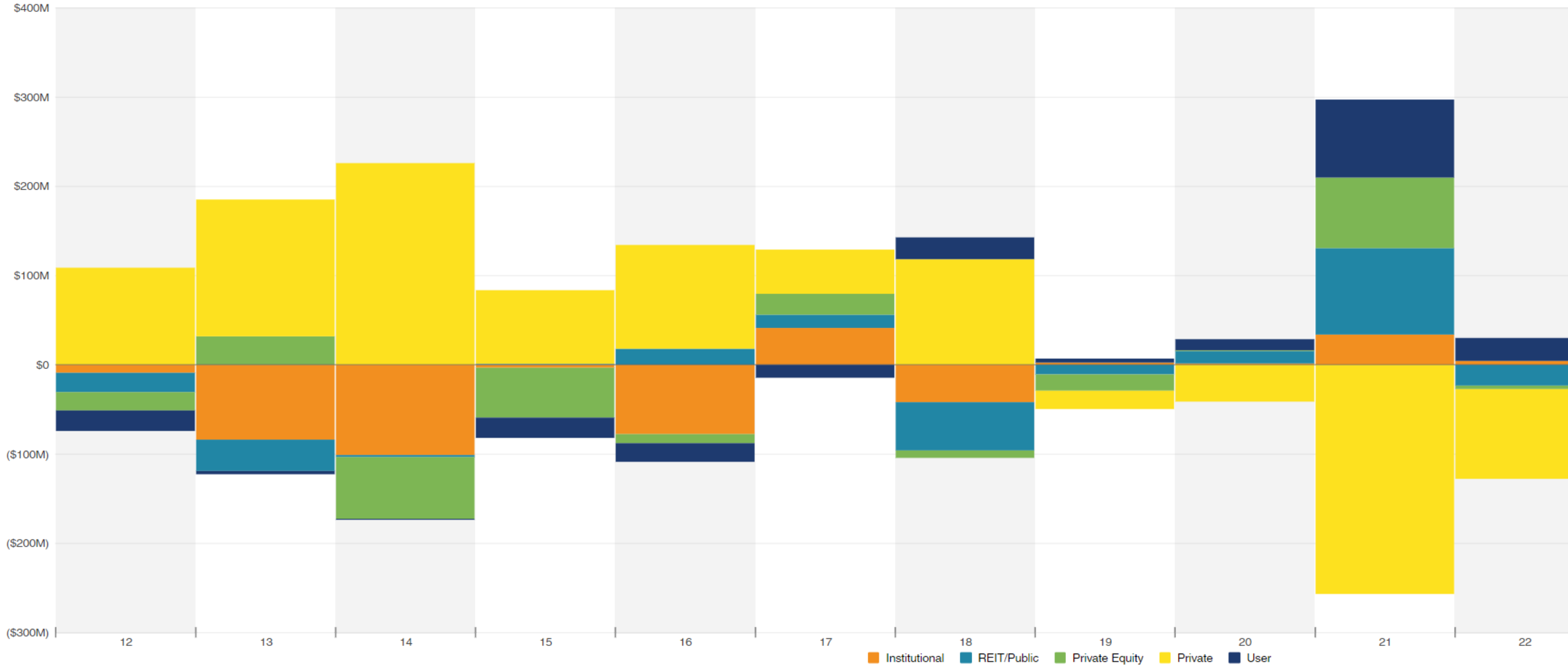


Buyer Type



Seller Type

Net Buying & Selling By Owner Type ▾



6 Final Thoughts

- The retail market has come back strongly with a focus on retail uses that can't be duplicated by the internet or where a Clicks & Bricks strategy works successfully (i.e. Best Buy, Lowes, Home Depot).
- Restaurants are performing well despite higher labor and food costs. 3rd party ordering apps have positively affected sales. Restaurant sales seem most vulnerable to potential reduced disposable income.
- Rising construction costs & the potential for higher cap rates is giving developers a lot of grief and will likely reduce development by merchant builders.

6 Final Thoughts

- We might be an inflection whereby rising interest rates will reverse the long-term downward cap rate trend, but we have not quite seen it yet.
- All cash or low leverage purchases have dominated the private party market potentially making rising interest rates less impactful especially for 1031 buyers.
- Based upon discussion with our team, this is one of the most confusing markets we have seen with so many factors impacting the leasing and sales market, but with little direction at this time as to what will be the result.

Questions

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