



2024 Inland Empire Retail Overview

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Overview

I. Retail Leasing Market

II. Retail Investment Sales Market

III. Questions

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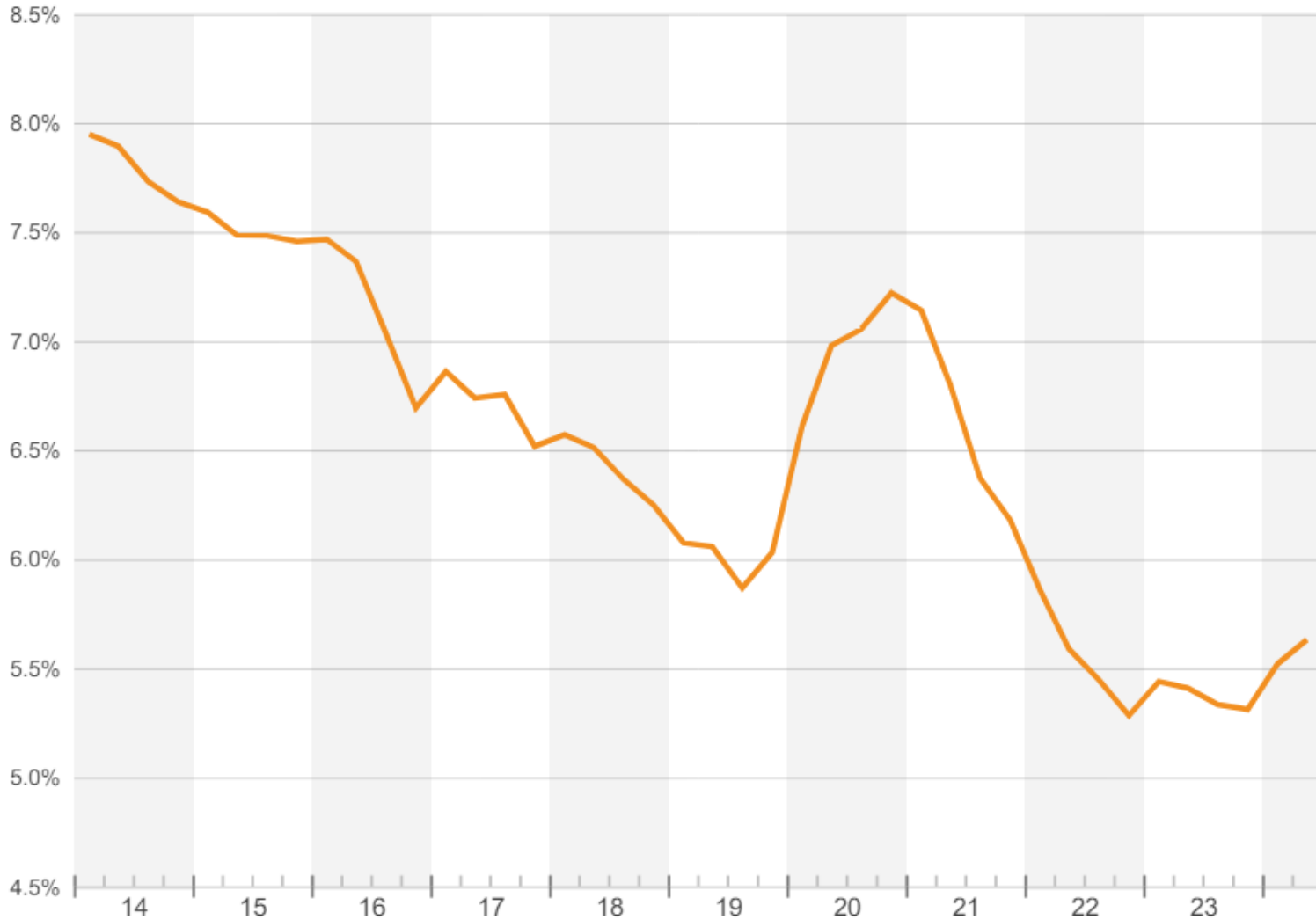
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Leasing

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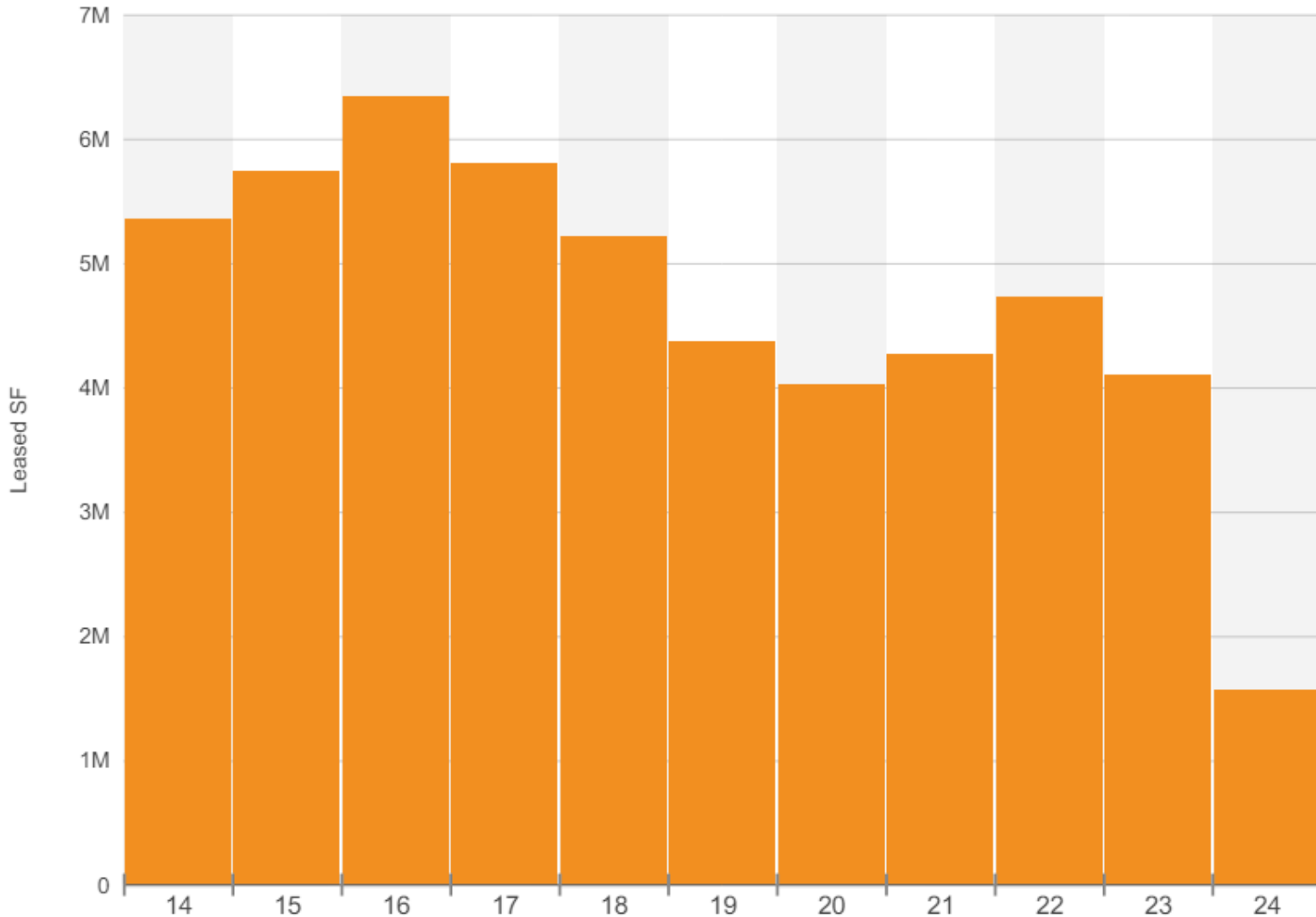
Vacancy Rate



Vacancy Rate

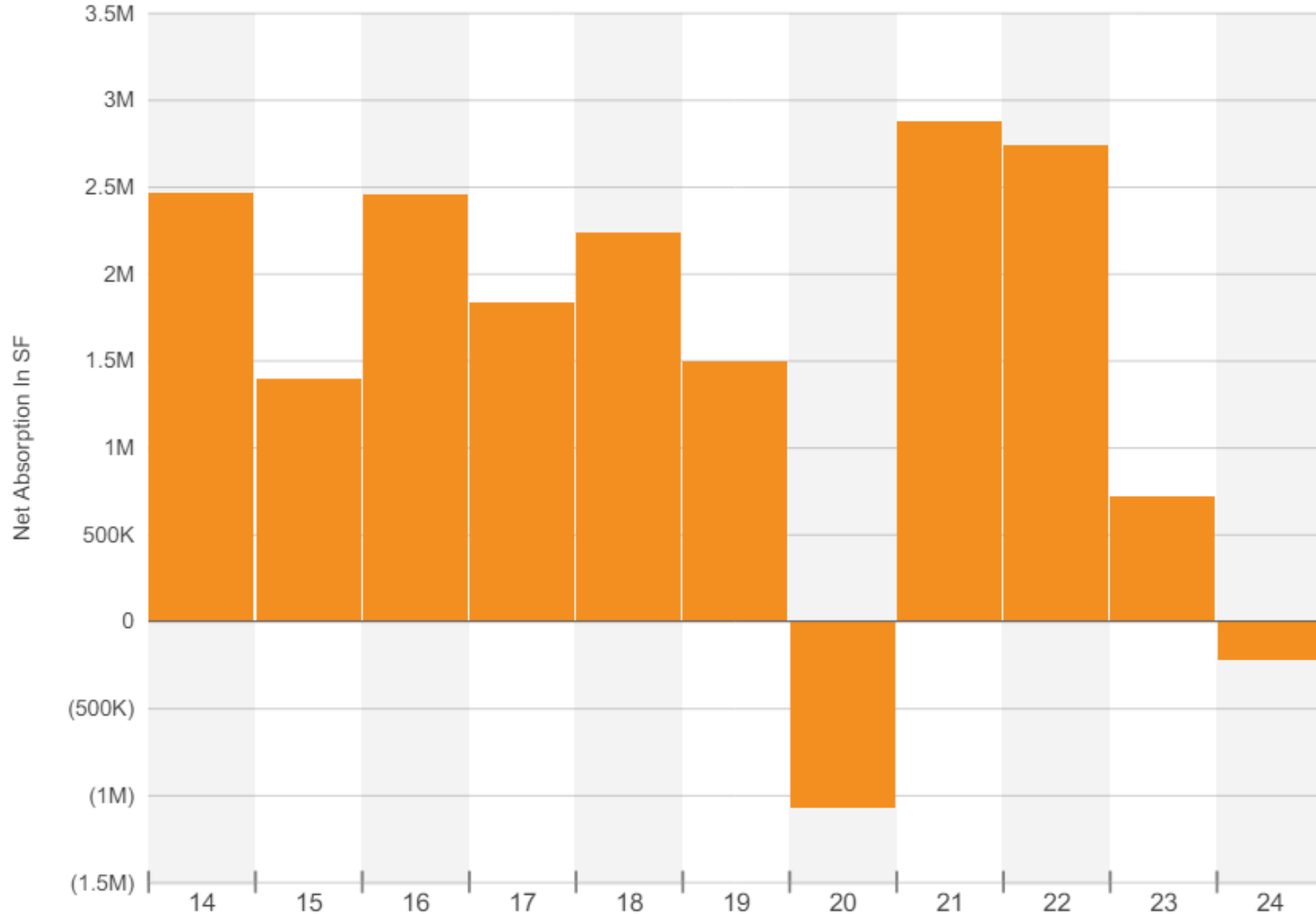
- ❑ Currently 5.7%
- ❑ Near Record Low
- ❑ 2.8% if you exclude spaces 10,000 SF and above.
- ❑ Very little quality shop space available

Leasing Activity



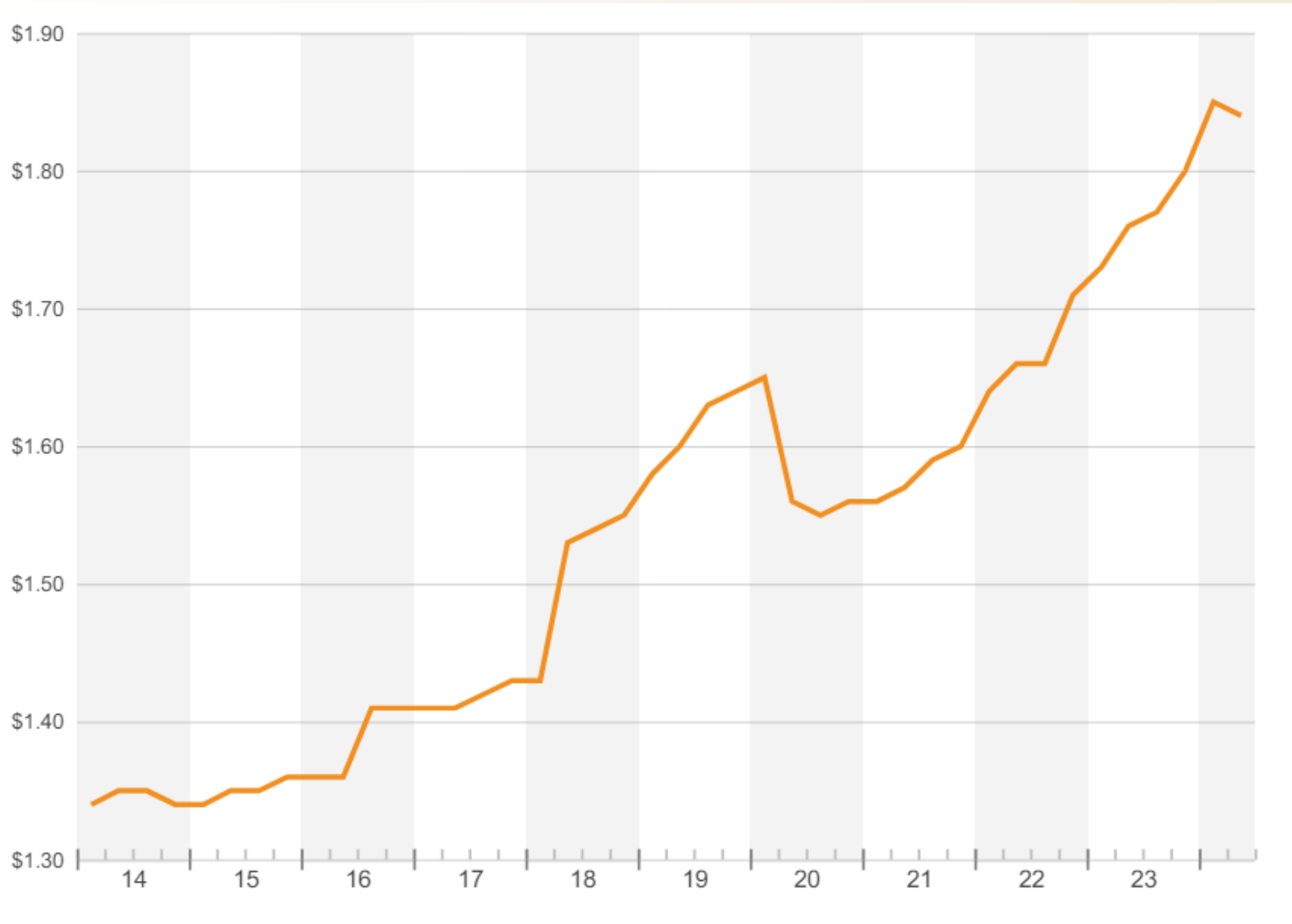
- ❑ Fairly consistent at about 4M SF per Year.
- ❑ Will likely get there this year because of 99 Cent Only space absorption.
- ❑ What we lease in the 3rd & 4th quarter may not be vacant today.

Net Absorption



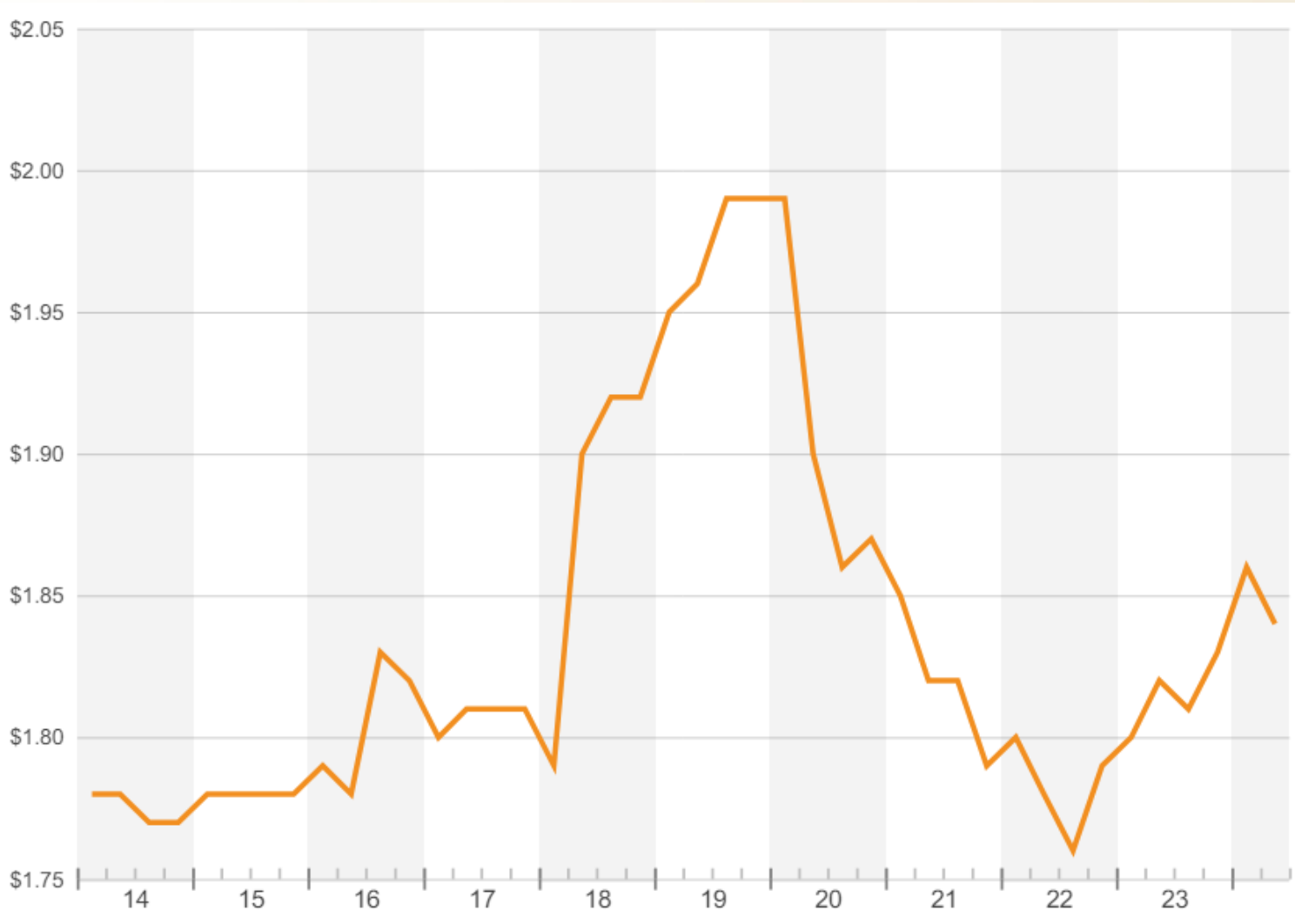
- ❑ Data is a bit muddy because of 99 Cent Only
- ❑ Closures include 99 Cent Only, Rite Aid, Joanne Fabric, Big Lots.

Asking Rate/SF Unadjusted



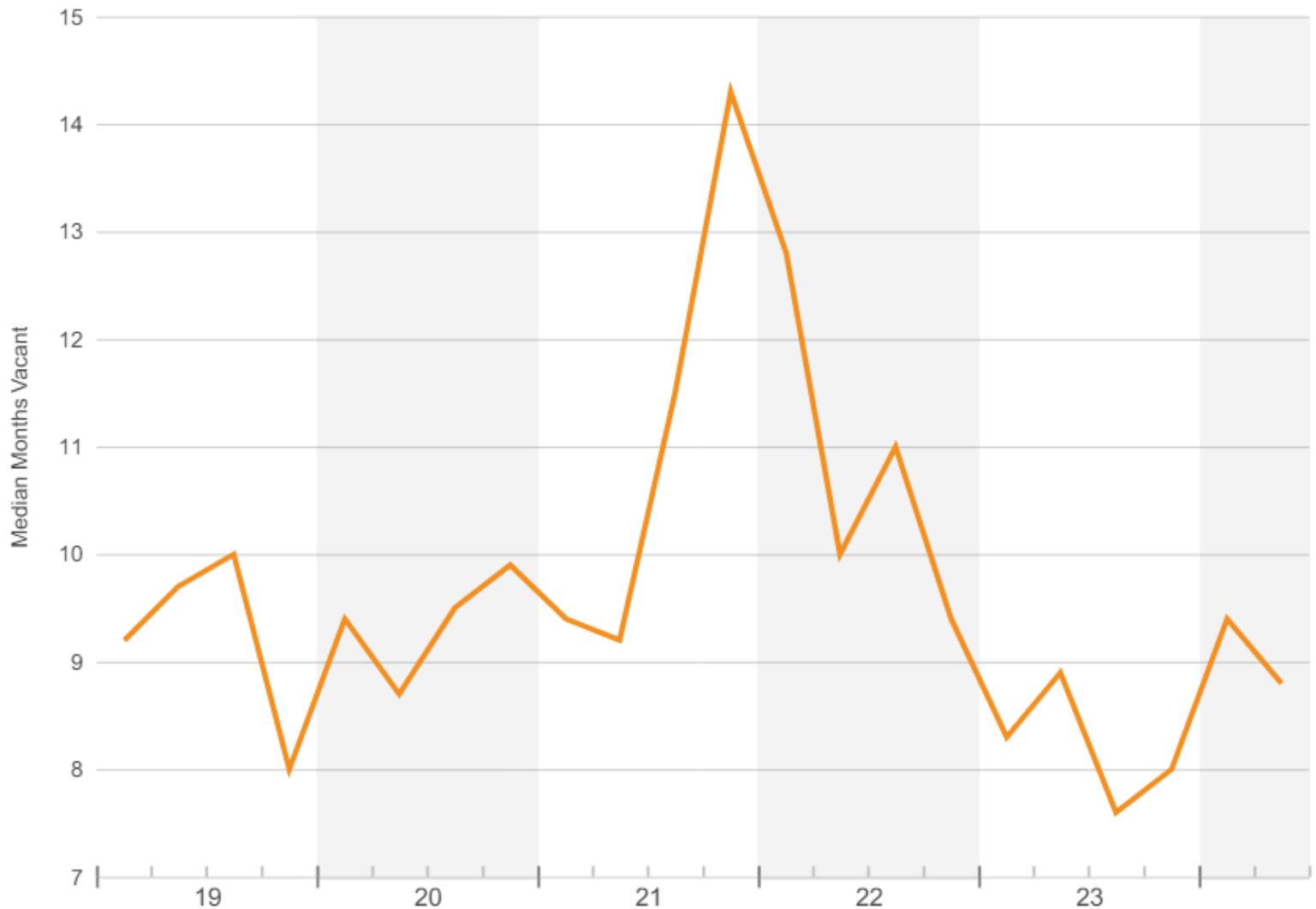
- Asking Rent as reported by brokers/owners when listing their space.
- Many spaces listed as negotiable which are not included.
- This is an index to assess trends. All properties including shop space and anchor space across all geographies.

Asking Rate/SF Adjusted for Inflation



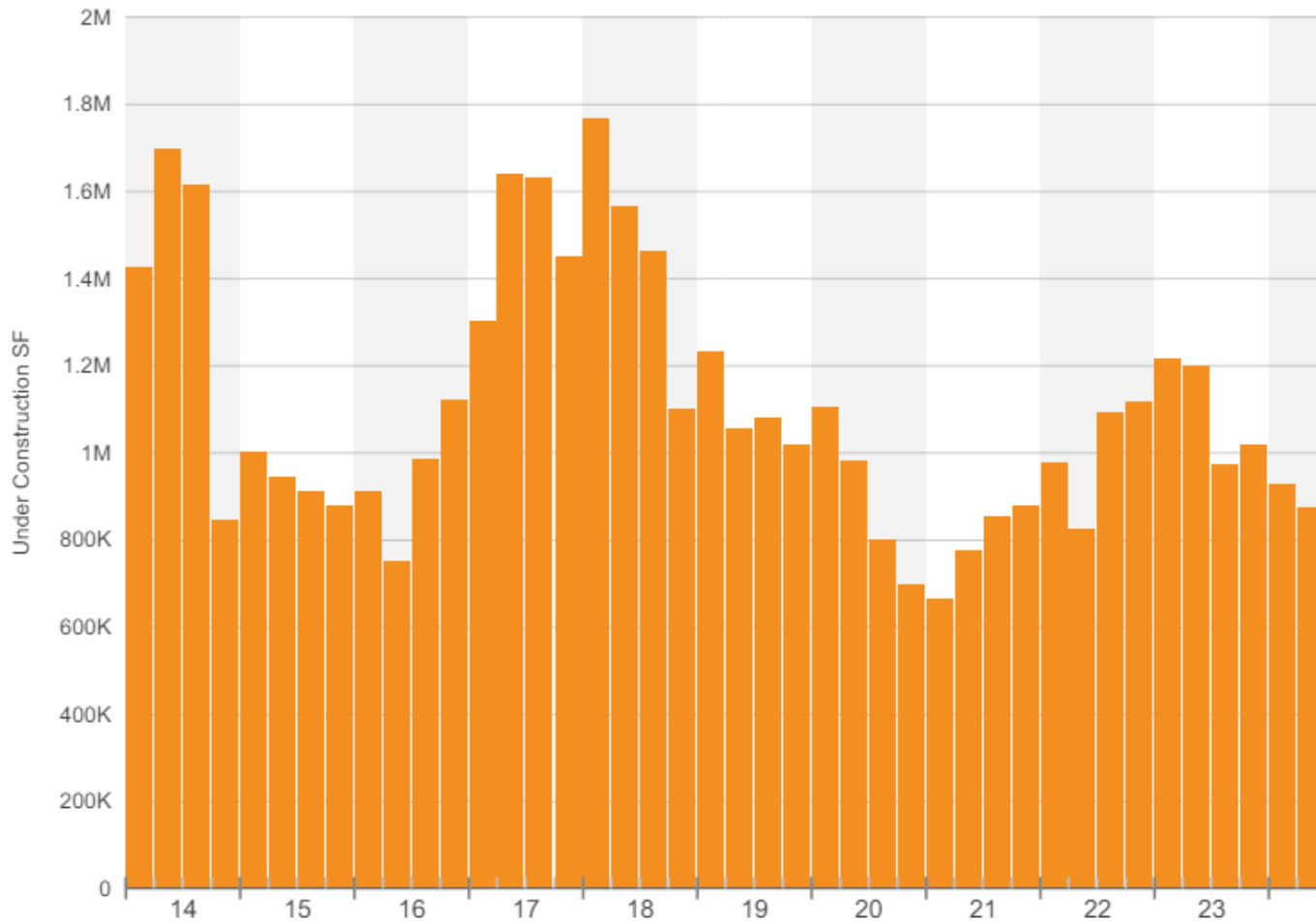
- ❑ Shows how rents have not kept up with inflation.
- ❑ There is likely upside in rents.

Months Vacant



- ❑ Quality space is leasing very quickly.
- ❑ Even not such great space is leasing pretty quickly.
- ❑ The interest in the 99 Cent portfolio was very high. Many disappointed owners. They wanted the space back.

Under Construction

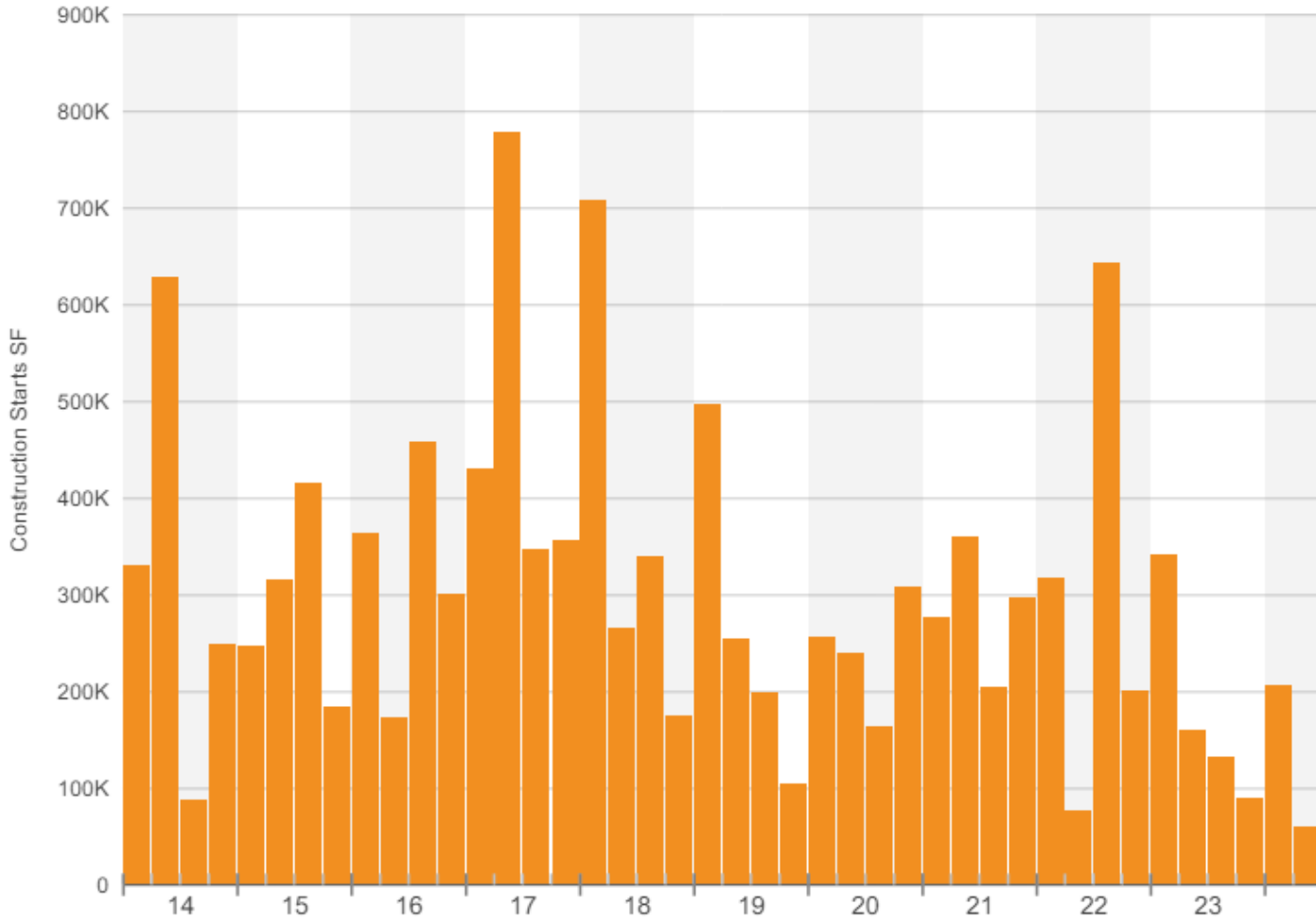


- ❑ 874,000 SF Under Construction
- ❑ 150,000 SF Grocery anchored center in Highland;
- ❑ 117,000 SF Vallarta anchored center in Jurupa Valley;
- ❑ 38,800 SF EOS Fitness in Winchester;
- ❑ 8,000 SF AutoZone, Fontana
- ❑ Redlands Packing House
- ❑ Shops under multi-family in Ontario, Redlands, Palm Springs.
- ❑ Pads and Outparcels to existing centers throughout the region.

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Construction Starts



- Under 500,000 SF started in the past 12 months.
- “Nothing pencils”
- “Tenants need to pay more rent”
- “Construction costs are sooo high”

2024 Vacancy Rate by Sub-Market

	2023 Vacancy Rate	2024 Vacancy Rate	Change
• East San Bernardino	8.4%	5.8%	Lower by 2.8%*
• Temecula Valley	4.7%	4.1%	Lower by .6%
• Greater Riverside	5.6%	5.1%	Lower by .5%
• Coachella Valley	7.1%	6.7%	Lower by .4%
• Airport Area	3.4%	3.3%	Lower by .1%
• West San Bernardino	7.0%	7.5%	Higher by .5%
• High Desert/MRV	4.8%	6.9%	Higher by 2.1%

*Demolition of 900,000 SF Carousel Mall

Leasing – what is not in the data

- The cost to re-tenant an anchor space has increased substantially. Likely double what it was 5 to 7 years ago.
- Tenants and Landlords are trying harder than ever to push construction risk, entitlement risk, and tenant improvement costs onto the other.
- The \$20/hour minimum wage increase is starting to simmer. Franchisees are likely the ones most closely evaluating keeping stores open or close.



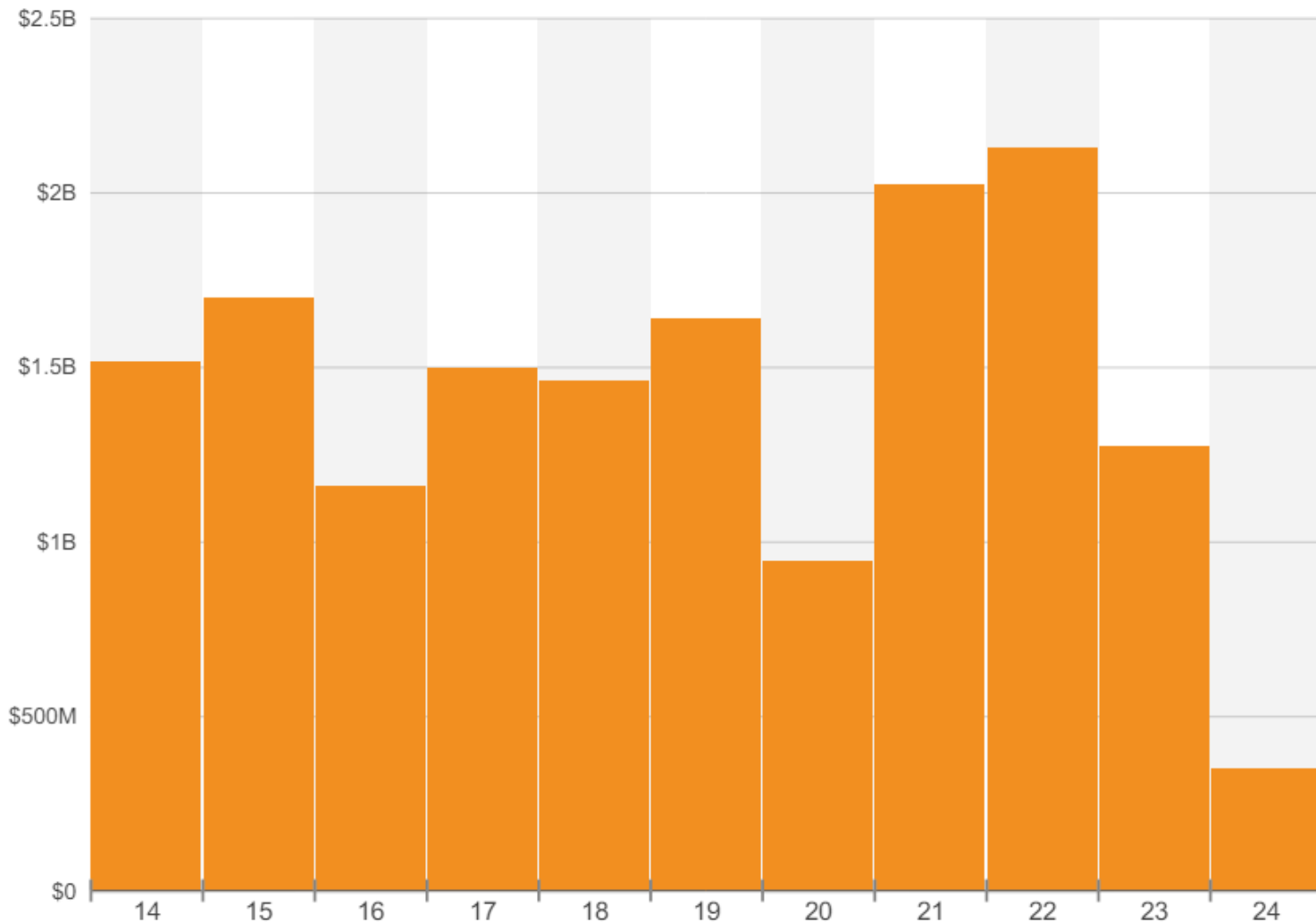
Sales Data

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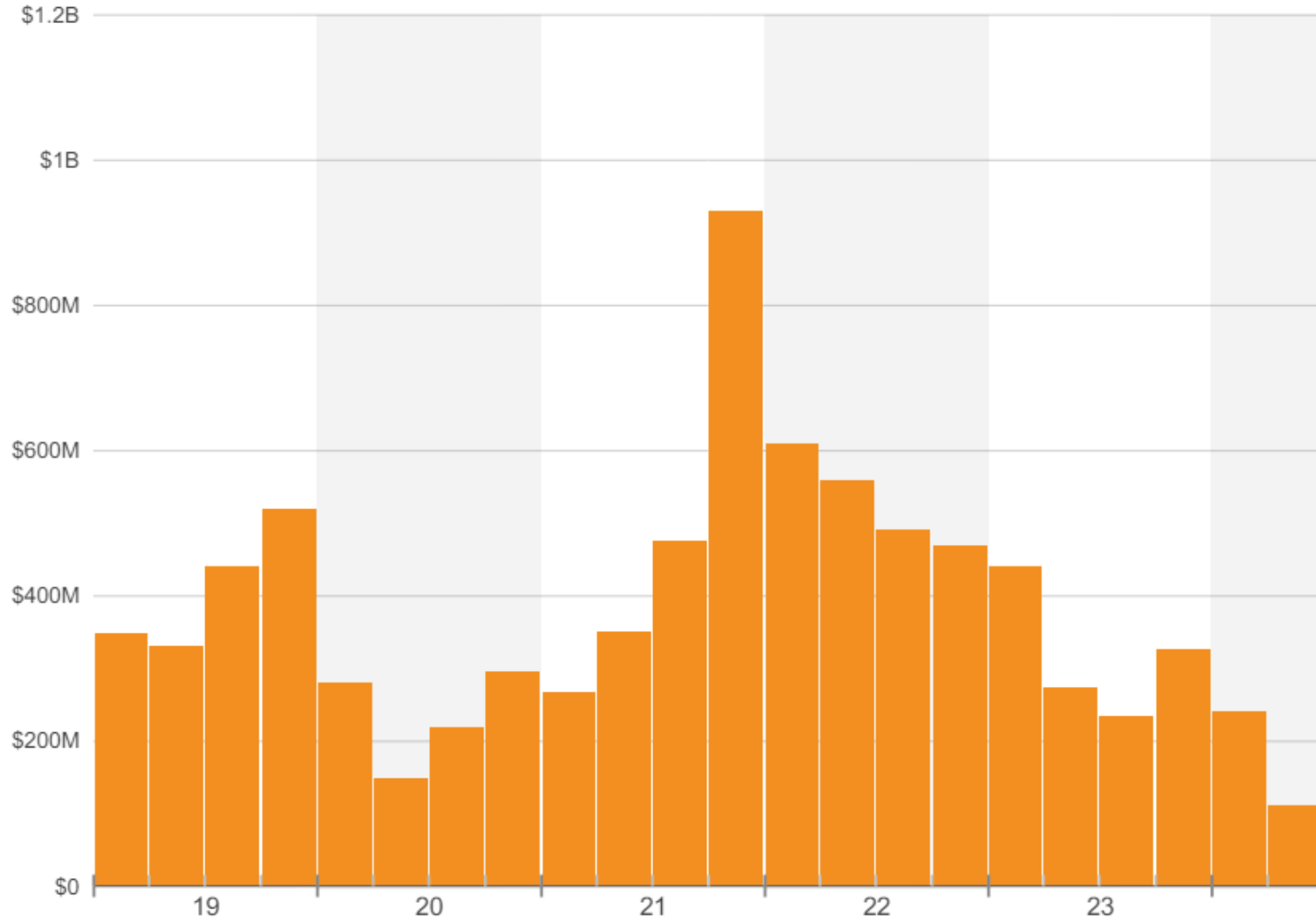
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Sales Volume



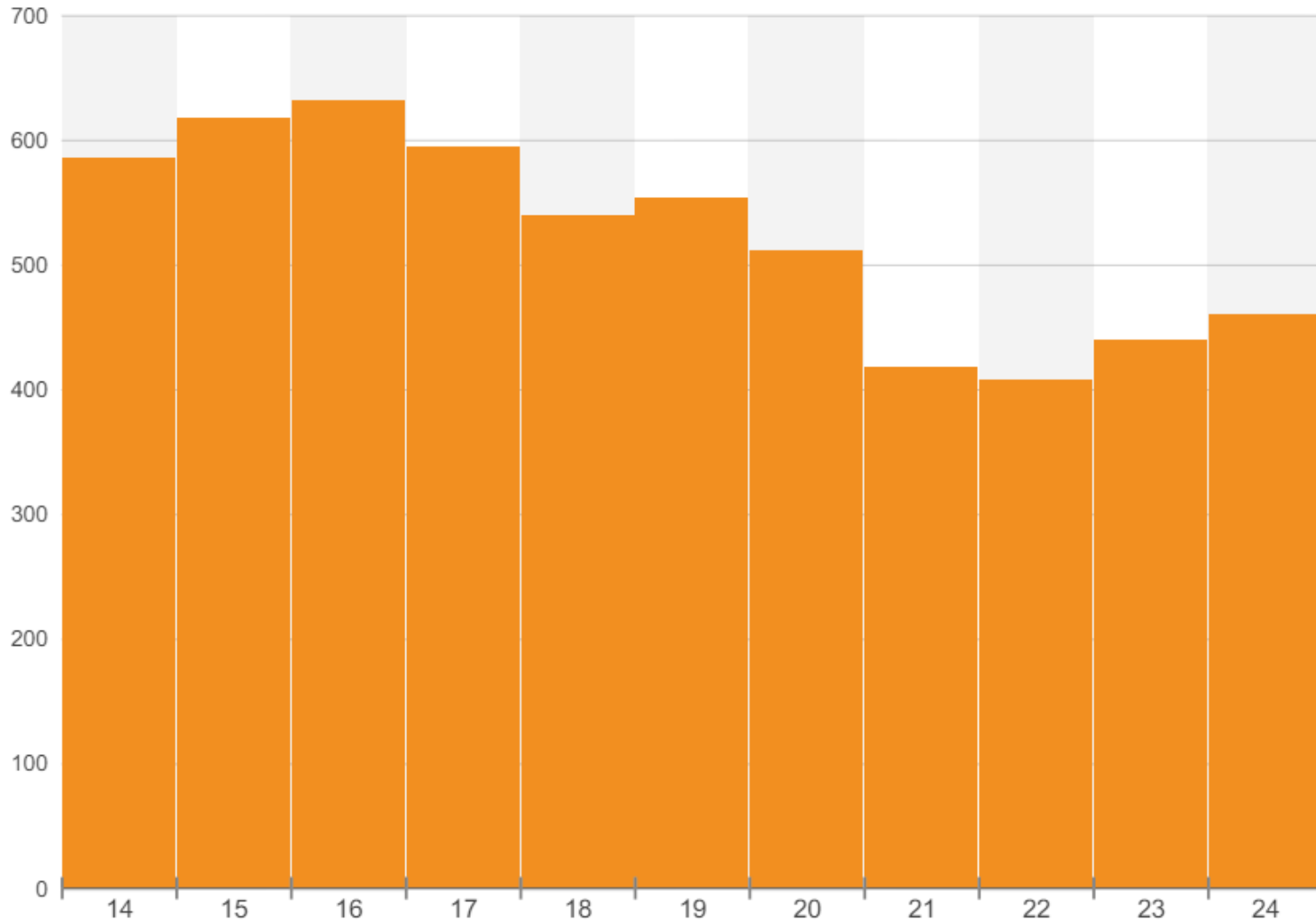
- Trending way below the past 10 years.
- Currently trending below 2020.
- 2021 & 2022 each broke the \$2B in sales mark.
- Will be lucky to get to \$1B in 2024.

Sales Volume



- ☐ Most sales are all cash transactions.
- ☐ 1031 buyers are down substantially.
- ☐ Debt is currently about 6.25 to 6.75% while asking cap rates for most product is below this amount.

For Sale Total Listings

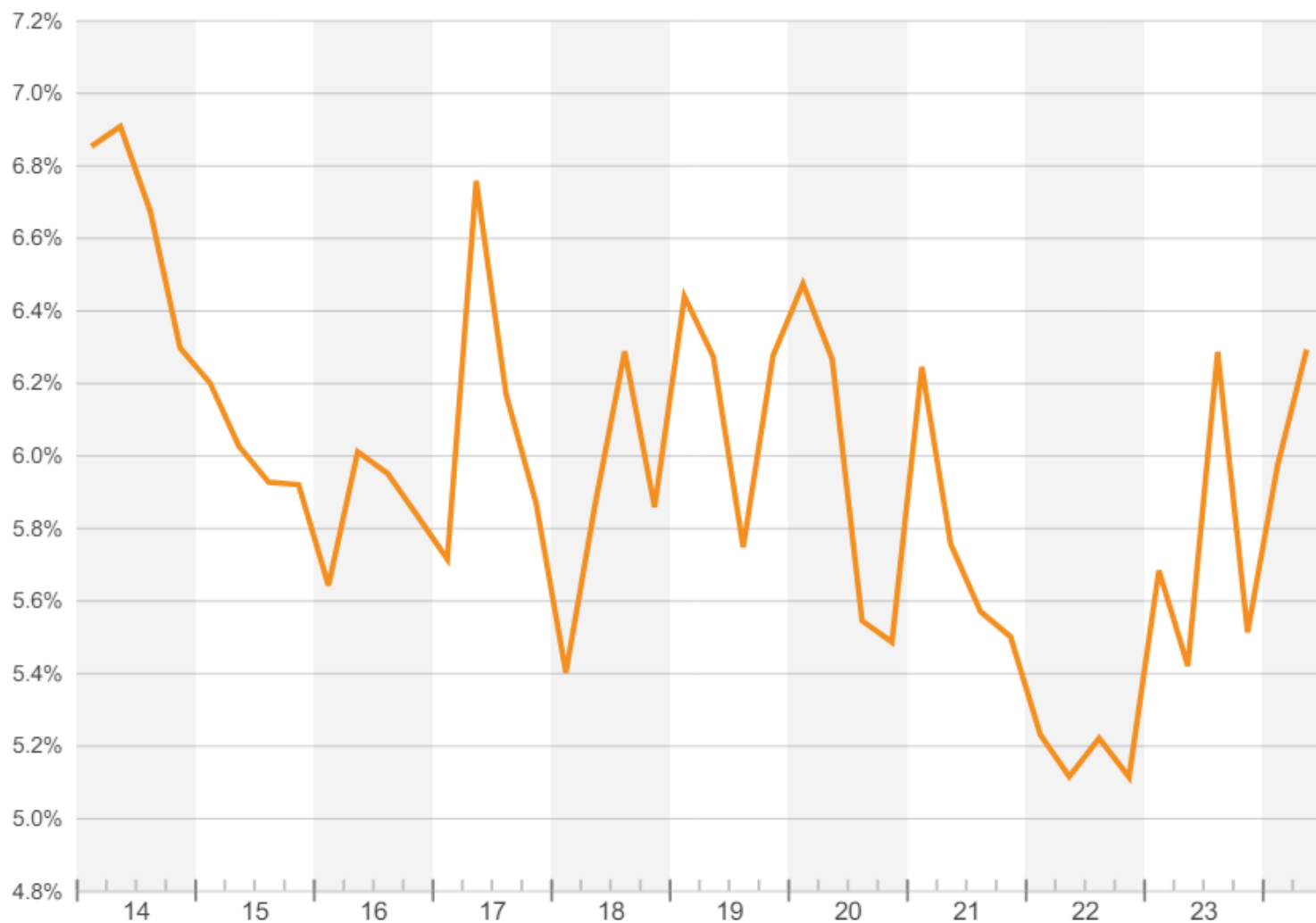


- The issue isn't a lack of sellers. The issue is a lack of sellers willing to meet the market.
- Buyers are being patient.
- Sellers are pretty pleased with their property. Motivations are mostly related to a dislike of management.

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Cap Rate



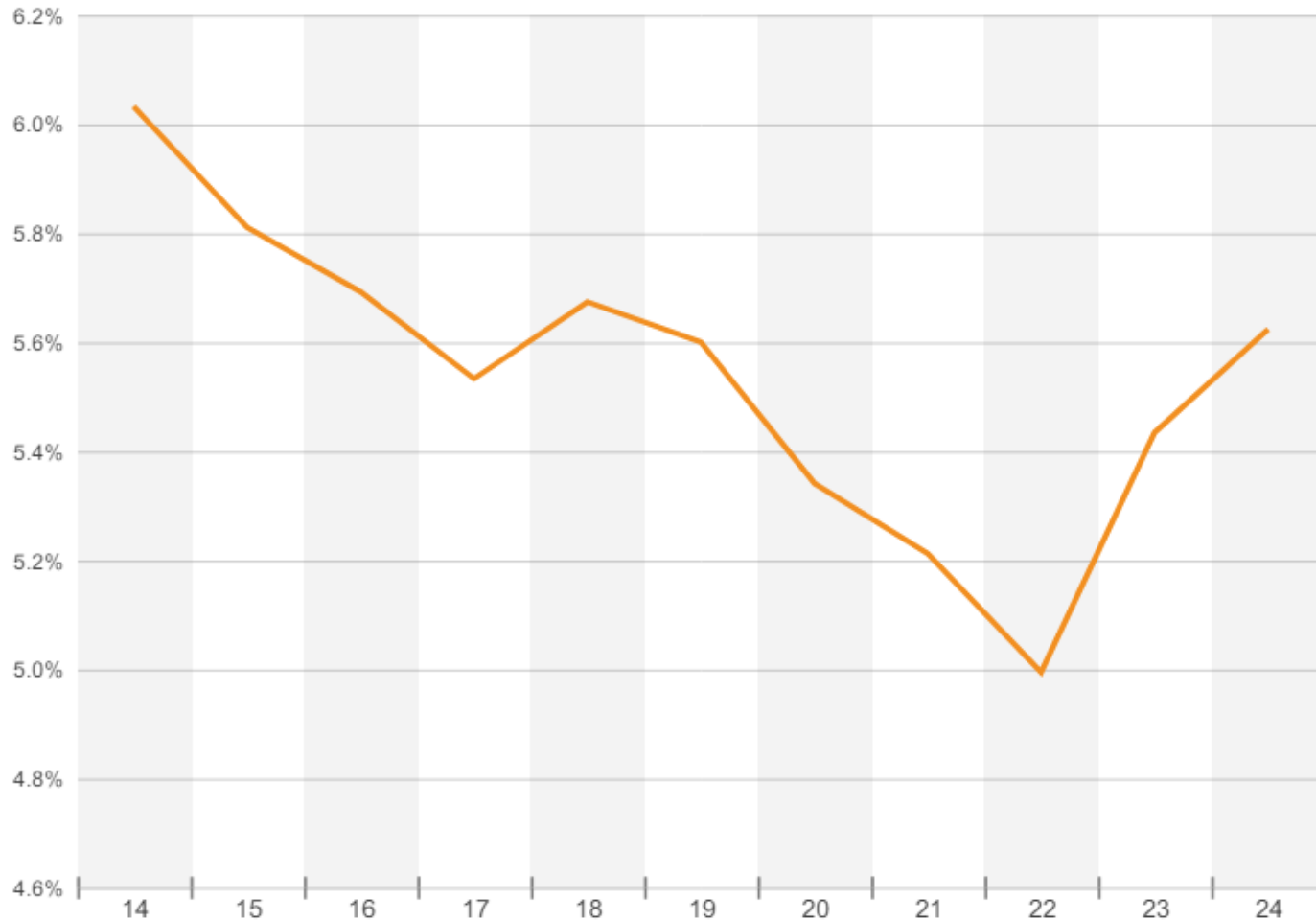
❑ Cap rate chaos.

❑ Multi-tenant over \$5M should likely be 6.5% or higher.

❑ Multi-tenant below \$5M is likely a 6.0% or higher.

❑ Single tenant needs a 5 in front of it unless luck is a part of the plan.

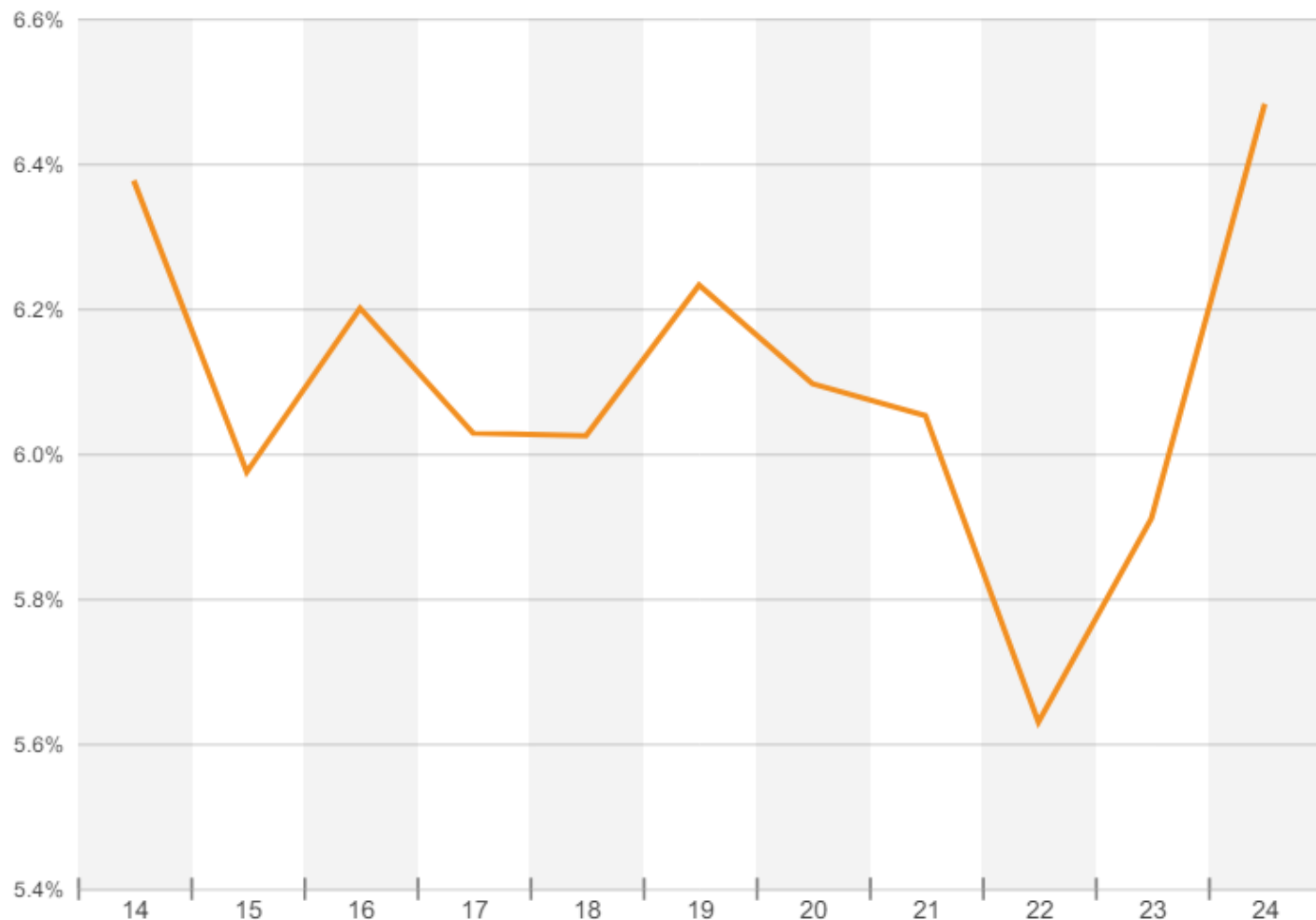
Cap Rate



- ❑ Single Tenant
- ❑ Have been below 6% the past 10 Years.
- ❑ Peaked at 5% average in mid 2022.
- ❑ Most high quality, newly constructed, credit tenant NNN properties are trading +/- 5%. Not many of them.

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Cap Rate



- ❑ Multi-Tenant

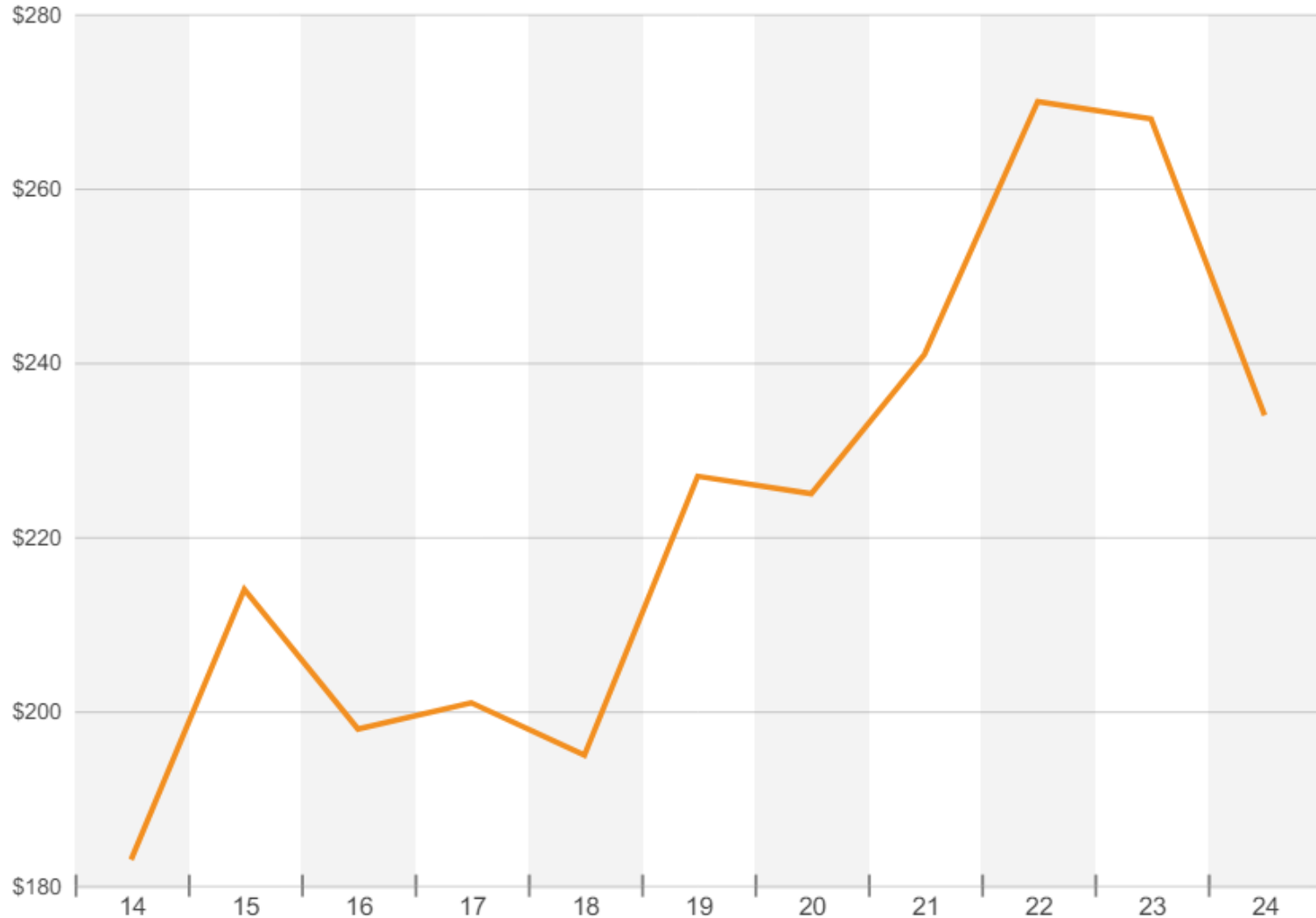
- ❑ Narrow range of 6 to 6.4% from 2014 to 2021.

- ❑ Then a 40 basis point average drop.

- ❑ Then a 100 basis point increase.

- ❑ Every property is unique.

Sale Price Per SF



❑ Is becoming pretty irrelevant on the total.

❑ A Dutch Bros. or Starbucks or Express Car Wash can easily skew the numbers dramatically as they are selling about \$2,000/SF.

Sales – what is not in the data

- Difficult to be a motivated seller when occupancy and rents are as high as they are. It is possible that there will be many who regret not selling.
- Retail sales are driven from 1031 buyers that usually start with multi-family sellers which has been down considerably. Possibly as much as 80%.
- Loans expiring are starting to affect motivation. We are starting to hear of owners wanting to sell due to expiring debt, although most retail properties are not highly leveraged.
- No distress in the market.

Questions

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