

INVESTMENT FORECAST

Retail

Riverside-San Bernardino

IPA

INSTITUTIONAL
PROPERTY
ADVISORS


2022


Robust Population Expansion and Record Headcounts Elicit Heightened Demand for Inland Empire Retail


Region leads state in leasing velocity. Population growth in Riverside-San Bernardino substantially outstripped all other major California markets last year, boosting local consumer spending and motivating necessity-based merchants to expand. During the 12-month window, vacancy fell by 100 basis points on net absorption of nearly 2.2 million square feet, while availability rose or was unchanged across every other market statewide. Moving forward, the Inland Empire's lower cost of living, as well as expanding industrial and health sectors, will continue to draw new residents to the region, with the local populace expected to expand by more than 200,000 residents over the next five years. This projected growth represents the elixir for positive, near-term leasing momentum, as the region historically attracts only a moderate volume of tourists. Discount stores and home goods related vendors are positioned to lead the way, evidenced by Crazy Boss Big Discount Store, At Home, and Floor & Decor all recently committing to big-box space. Additional midsize and large-scale leases during a year of sub-1 percent inventory growth have the potential to lower vacancy to its tightest rate since 2007.


Growth prospects entice buyers. Sales activity improved significantly last year with deal flow evenly distributed between Riverside and San Bernardino counties, an indication of buyers' overall confidence in the region's retail fundamentals. Investors from throughout California are pursuing listings at a time when upside potential abounds. Entering 2022, the metro's average asking rent trailed its prior peak by more than 10 percent. At the same time, single and multi-tenant vacancy rates are either below or comparable to their long-term averages. The lack of construction activity in San Bernardino County is attracting buyers to single-tenant assets in the area. Here, minimum returns fall into the high-3 percent to low-4 percent band. Elsewhere, South Riverside County is attracting multi-tenant investors as the submarket has been a standout locale for rent growth.


2022 Market Forecast

- Employment**  Metro employers add 37,000 jobs in 2022, supporting a pace of job creation nearly on par with the national rate of increase.

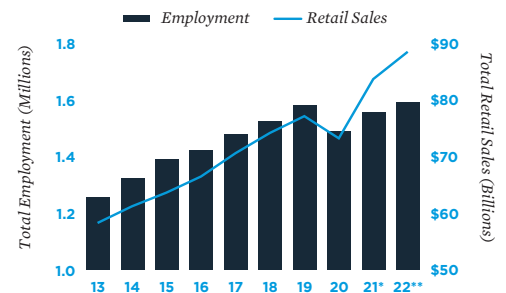
up 2.4%
- Construction**  Delivery volume in 2022 exceeds the prior five-year average by 450,000 square feet. Oak Valley Town Center in Calimesa accounts for 40 percent of this year's supply additions.

1,400,000 sq. ft.
- Vacancy**  Encouraged by robust population forecasts, retailers absorb more than 2 million square feet of space for a second straight year, lowering vacancy to 7.6 percent.

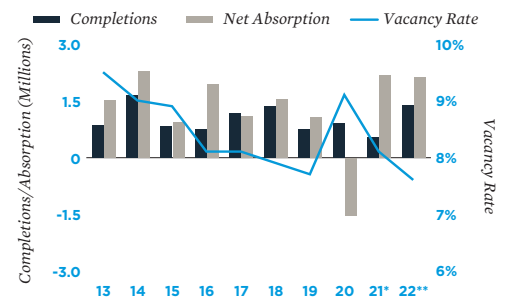
down 50 bps
- Rent**  Tightening conditions enable the pace of rent growth to surpass last year's 3.1 percent increase, elevating the Inland Empire's average asking rate to \$19.50 per square foot.

up 3.7%
- Investment**  Industrial and residential growth in the Mojave River Valley off Interstate 15 has the potential to draw more investors to single-tenant assets and shopping centers in cities like Victorville.

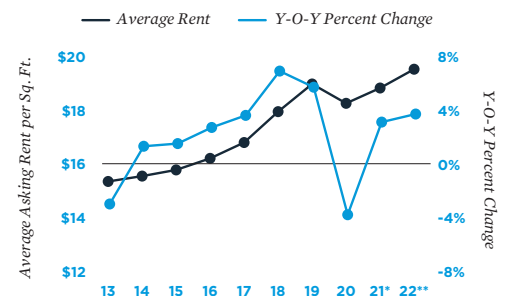
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.