MARKET REPORT

Retail

Riverside-San Bernardino Metro Area

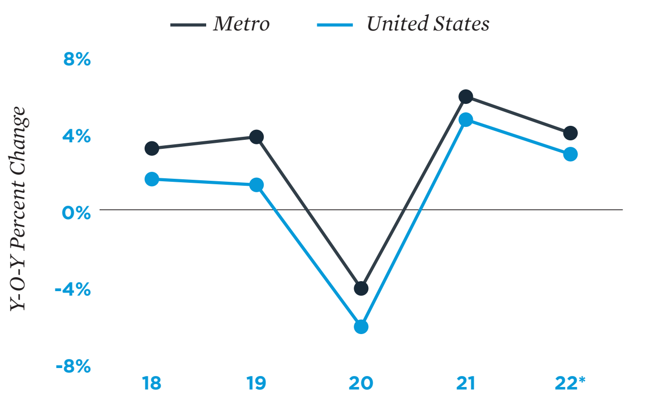
2Q/22

Necessity Retailers Enlarge Footprints Amid Residential Construction

Retail demand poised to reach new heights. The Inland Empire entered April following five straight quarters of positive retail absorption that coincided with strong population growth and diverse hiring. Vendor demand for available space was most pronounced during the first three months of 2022, when retailers, including grocers, apparel shops and home goods stores, absorbed nearly 1 million square feet. Moving forward, demand for regionally affordable living options is poised to preserve locally strong rates of in-migration and household formation during the remainder of this year. This growth and the metro's record job count bode well for consumer spending at necessity-based retailers and restaurants, circumstances that are positioned to support a historically strong year for retail absorption.

Homebuilding a catalyst for inventory growth. Developers are following single-family construction in the Inland Empire. Of the retail properties underway, most are in South Riverside County cities and Calimesa. In the latter locale, the 3,000-home-plus Summerwind Trails community continues its buildout, fueling a need for nearby shopping. Elsewhere, a combined 175,000 square feet of retail is ongoing in Murrieta and Menifee, areas where national homebuilders continue to open and plan new dwellings. Outside of Riverside County, retail developers are most active in Ontario, home to a regionally top-selling master-planned community. These locales' demand drivers suggest new spaces should secure tenants in relatively short timeframes, minimizing their impact on local vacancy.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

63,700 JOBS *will be created*

EMPLOYMENT:

Backed by unwavering industrial sector expansion, the Inland Empire added 27,700 positions during the first quarter of this year, lowering area unemployment to 5.4 percent. The metro is on pace to record a 4.0 percent rate of job growth during 2022.

1,585,000 SQ. FT. *will be completed*

CONSTRUCTION:

Delivery volume eclipses the prior two-year total, with two shopping centers in Calimesa and Ontario accounting for half the space finalized. Apart from these projects, properties slated for 2022 completion average just under 10,000 square feet.

90 BASIS POINT *decrease in vacancy*

VACANCY:

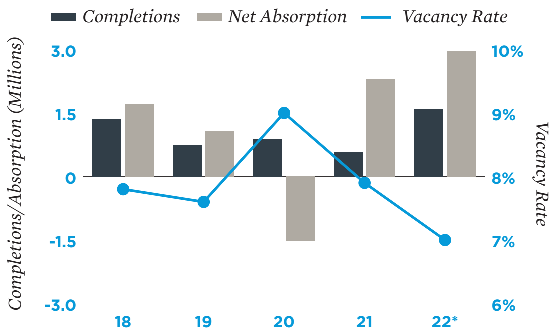
Retailer demand reaches its strongest level on record, with vendors expected to absorb nearly 3 million square feet of space this year. This leasing velocity reduces vacancy to 7.0 percent, the lowest year-end rate since 2008.

4.8% INCREASE *in asking rent*

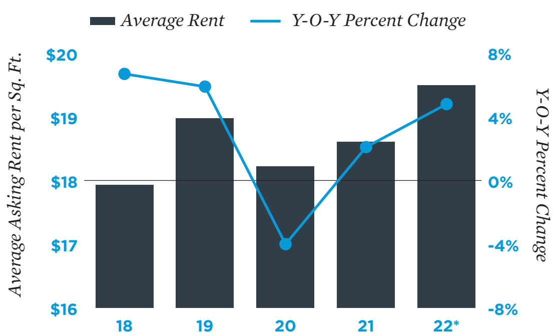
RENT:

The pace of rent growth more than doubles on an annual basis, allowing the metro to recoup all losses from 2020, when the average rate declined by 4 percent. By year-end, the Inland Empire's mean marketed rent will reach $19.50 per square foot.

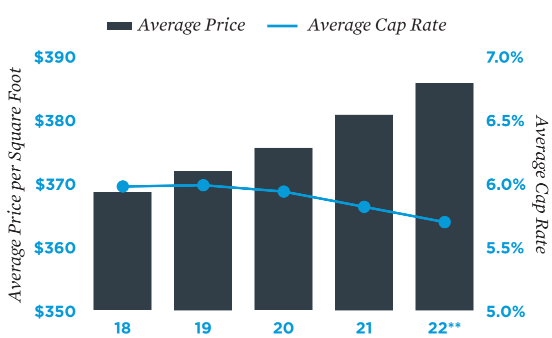
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q 2022 - 12-Month Period

CONSTRUCTION

552,000 sq. ft. completed

- Driven by single-tenant completions, retail inventory grew by 0.3 percent during the 12-month period ended in March, a decline in supply additions following the delivery of 1 million square feet over the prior yearlong span.
- Projects in Riverside County account for 80 percent of the metro's active pipeline, which comprised 1.5 million square feet as of mid-April.

VACANCY

150 basis point decrease in vacancy Y-O-Y

- Vendors absorbed more than 2.9 million square feet of space during the past year, dropping vacancy to 7.4 percent, the lowest mark since late 2019.
- Robust demand for single-tenant space lowered availability 150 basis points to 7.2 percent. The multi-tenant segment recorded similar compression, as positive absorption was noted in each of the past four quarters.

RENT

4.5% increase in the average asking rent Y-O-Y

- The average asking rent reached $19.01 per square foot in March, as upward momentum over the past 12 months nearly offset the 5.3 percent decline in marketed rates recorded during the prior yearlong stretch.
- Rent growth was most pronounced in the multi-tenant segment, where the marketed rate rose 6.7 percent to $20.49 per square foot.

Investment Highlights

- Tightening vacancy, population expansion and cap rates that exceed neighboring metros are all heightening buyer competition for Inland Empire properties. Recent sales activity reflects this, as over the past 12 months ended in March deal flow doubled on an annual basis, with the fourth quarter of last year representing a record three-month period for sales activity. Buyer interest should remain robust, as the metro's average asking rent trails the prior peak by 10 percent — an indication of upside potential.
- Approximately half of recent transactions involved post-2000-built properties, with the bulk of these assets trading at low-4 to low-6 percent returns. Still, the metro's average price point adjusted by just 2.0 percent over the past year to $386 per square foot, with the mean cap rate holding in the high-5 to low-6 percent range for a seventh straight year.
- Single-tenant properties with triple-net leases in place are in high demand, as are smaller shopping centers proximate to freeways and areas of population growth. South Riverside County, the Coachella Valley and the Airport Area top the list of most active locales. Here, first-year minimums for single-tenant assets are in the low-4 percent band, with sub-$300 per square foot pricing selectively available for multi-tenant assets.

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