# MARKET REPORT

**Retail**

*Riverside-San Bernardino Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

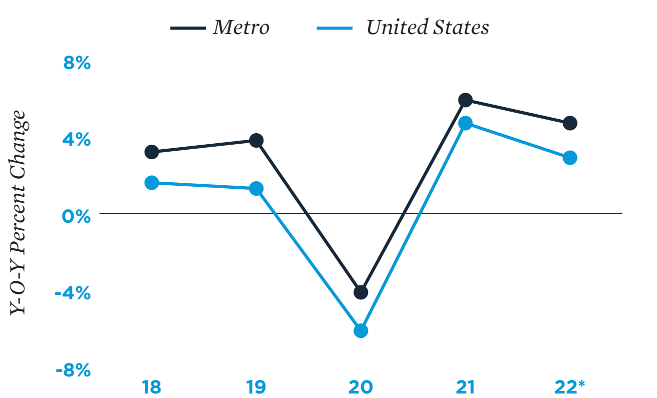
3Q/22

## Strong Growth Projections Convince Brand-Name Retailers to Prioritize Inland Expansion

**Metro well-positioned for further vacancy compression.** Availability in Riverside-San Bernardino fell 130 basis points during the 12-month interval ended in June, the largest drop recorded across major California markets. This performance was capped off by retailers absorbing 1.3 million square feet of space in the first half of 2022, a total more than four times the volume of space added to inventory. Such a disparity indicates vendors are expanding by backfilling existing properties. This trend is likely to continue based on population and economic growth expectations, and the metro's active construction pipeline. As of August, the Inland Empire's job count exceeded its pre-pandemic mark by 80,900 roles, with historically strong rates of in-migration and household formation expected for at least the next two years. Meanwhile, retail inventory is slated to expand by less than 1.0 percent for an eighth consecutive year.

**Logistics hub attracts expanding retailers.** Home to a significant portion of the metro's industrial space, Inland Empire West also lays claim to the tightest retail conditions. The submarket, which encompasses three of the area's five largest cities by populace, entered the second half with a 5.9 percent vacancy rate, 120 basis points below the metrowide average. Local job creation and strong demand for lower-cost housing are heightening demand for necessity retailers at a time when construction is relatively sparse. This may spark a wave of near-term project starts, as more than 950,000 square feet of space was proposed throughout the submarket as of August.

### Employment Trends




* *Forecast*

*Sources: BLS; CoStar Group, Inc.*

## Retail 2022 Outlook

**75,000 JOBS** *will be created*

### EMPLOYMENT:

Retail trade, transportation and utilities hiring accounted for nearly 20 percent of the 66,000 jobs added through July. Further expansion of this sector with health and professional services-related gains will support a 4.7 percent annual growth rate.

**1,120,000 SQ. FT.** *will be completed*

### CONSTRUCTION:

The Inland Empire represents the only major California market to add more than 1 million square feet of retail space during 2022. Nevertheless, local inventory expands by 0.7 percent, with deliveries concentrated in Riverside County.

**90 BASIS POINT** *decrease in vacancy*

### VACANCY:

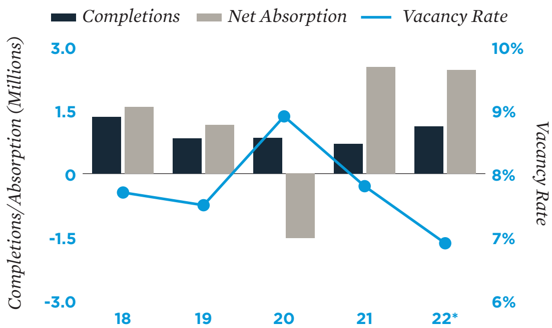
Retailer demand for existing and newly built space allows the metro to record the largest vacancy compression among California markets. At 6.9 percent, year-end availability reaches its lowest mark since 2007.

**5.8% INCREASE** *in asking rent*

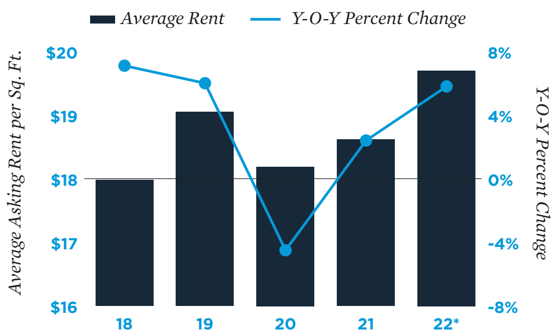
### RENT:

Tenants absorb a net of roughly 2.5 million square feet for a second straight year, elevating the average asking rent to \$19.70 per square foot. While this rate is the highest year-end mark since 2008, it trails the national mean by nearly \$2 per square foot.

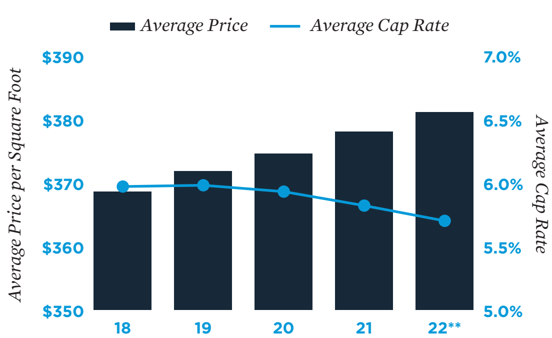
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 2Q*

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

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*Price: $250*

## 2Q 2022 - 12-Month Period

### CONSTRUCTION
**592,000** **sq. ft. completed**

- Retail stock grew by 0.4 percent in the 12-month span ended in June, with single-tenant deliveries accounting for 70 percent of supply additions.
- Construction was underway on more than 1.5 million square feet at the onset of August. Multi-tenant space comprises 75 percent of the active pipeline, highlighted by a pair of shopping centers in Calimesa and Ontario.

### VACANCY
**130** **basis point decrease in vacancy Y-O-Y**

- Driven by single-tenant demand, a net of over 2.6 million square feet was absorbed during the past four quarters, lowering vacancy to 7.1 percent.
- Single-tenant availability fell below 7.0 percent for the first time since 2008, while vacancy in the multi-tenant segment entered July at 8.3 percent, 50 basis points below its long-term average.

### RENT
**4.9%** **increase in the average asking rent Y-O-Y**

- Noteworthy tenant demand allowed the average asking rent to reach $19.28 per square foot in June, a rate 12 percent below the all-time high.
- The average multi-tenant rate entered the second half at its highest mark since late 2009, while the mean asking rent for single-tenant space trailed its pre-pandemic recording by 3 percent.

## Investment Highlights

- Encouraging growth prospects and regionally high rates of return are heightening competition among Southern California-based investors for Inland Empire retail properties. Recent deal flow reflects this, as multi-tenant trading nearly doubled over the past year ended in June, highlighted by buyer demand for neighborhood centers. Single-tenant sales activity rose by nearly 50 percent, with transaction velocity in the first half of 2022 still exceeding pre-pandemic norms.
- Net leased single-tenant assets in the sub-$5 million tranche are in high demand, namely dining places near major freeways. Trading is widespread; however, transactions are most frequent in the Coachella and Mojave River valleys and areas proximate to Ontario International Airport. Minimum returns for restaurants fall into the low-4 percent band, with first-year yields for fast food establishments in the mid- to high-3 percent range.
- Opportunities to acquire 100,000-square-foot-plus properties exist in the Inland Empire, drawing some institutional attention to the marketplace. Nevertheless, small and midsize centers dominate the multi-tenant sales landscape. Neighborhood centers of this size often trade at high-5 to mid-7 percent cap rates, with South Riverside County a coveted destination.