

MARKET REPORT

RETAIL

Riverside-San Bernardino Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

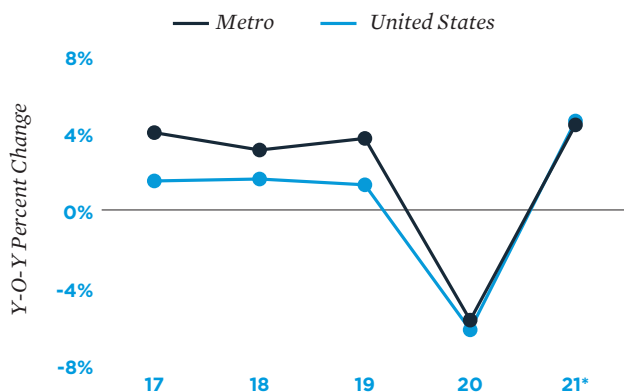
3Q/21

Population Gains Heighten Inland Empire Retail Demand, Investor Competition for Triple Net Assets

Second quarter absorption the highest in two decades. Seeking a regionally lower cost of living, individuals and families have re-located to Riverside-San Bernardino during the health crisis. The influx of new residents has translated to a historically strong rate of household formation that is lifting retail demand. Discount stores, home goods shops and fitness centers are responding by expanding or renewing existing leases, which has supported positive leasing momentum. From April through June of this year retailers absorbed more than 1.2 million square feet, lowering vacancy 70 basis points on a quarterly basis. During the three-month span, At Home and Floor & Decor each committed to 90,000 square feet at a former Sears in Rancho Cucamonga, while Brands 4 Less, Harbor Freight Tools and LA Fitness each inked agreements for more than 20,000 square feet.

Vacant properties face minimal competition. The Inland Empire's construction pipeline will present retailers with minimal near-term options. Less than 500,000 square feet is positioned for second half delivery with a high percentage of this space accounted for. Additionally, ongoing projects that will be completed next year account for less than 1 million square feet, a total skewed by the 595,000-square-foot Oak Valley Town Center in Calimesa. The lack of future supply additions, especially in San Bernardino County, should steer retailers to existing properties and allow vacancy to return to a pre-pandemic rate.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook



**65,000
JOBS**

will be created

EMPLOYMENT:

Industrial and health-related hiring will support a 4.4 percent rate of employment growth in 2021. This job creation allows Riverside-San Bernardino to recapture more than 70 percent of the 90,800 positions lost last year.



**730,000
SQ. FT.**

will be completed

CONSTRUCTION:

Completions will expand the region's inventory by just 0.4 percent in 2021 as annual delivery volume trails the prior five-year average by more than 250,000 square feet. South Riverside is slated to receive the largest influx of new supply this year.



**90
BASIS POINT**

decrease in vacancy

VACANCY:

Robust housing demand and a strong rate of household formation encourage retailers to expand or renew leases in 2021, resulting in the absorption of more than 2.1 million square feet of space. This activity will place year-end vacancy at 8.4 percent.



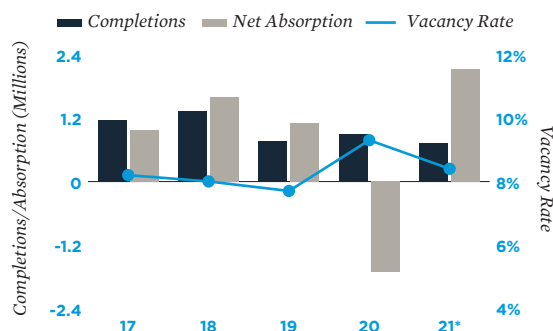
**3.6%
INCREASE**

in asking rent

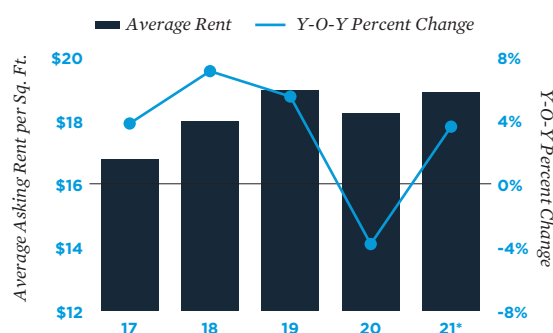
RENT:

Positive absorption in both the single- and multi-tenant segments will fuel rent growth, lifting the metro's average marketed rate to \$18.90 per square foot. This year's gain will nearly offset the 3.8 percent decline notched last year.

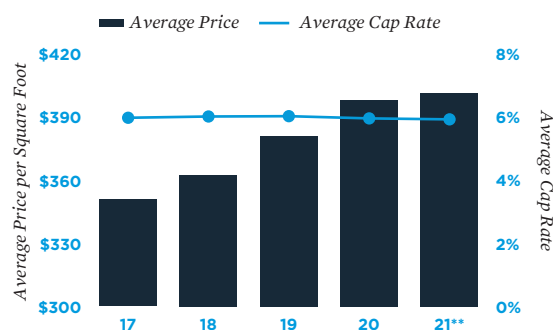
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q21 — 12-Month Period



CONSTRUCTION

759,000 square feet completed

- The region's retail inventory grew by 0.5 percent over the past four quarters ended in June. Recent supply additions were concentrated in Inland Empire East, highlighted by a Walmart in Lake Elsinore.
- Entering September, construction was underway on at least 1.3 million square feet of space with deliveries extending into 2022.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Retailers absorbed nearly 1.3 million square feet during the past 12 months, lowering vacancy to 8.6 percent. During the prior yearlong span, regional availability advanced 110 basis points.
- Inland Empire North noted a 290-basis-point decline in vacancy that lowered availability to 7.1 percent, the lowest rate since 2008.



RENT

1.5% increase in the average asking rent Y-O-Y

- Positive rent growth was recorded in each of the region's three submarkets during the past year, lifting the overall average asking rate to \$18.36 per square foot in June.
- The most pronounced gain occurred in Inland Empire North, where the mean marketed rate climbed 9.5 percent to \$14.24 per square foot.

Investment Highlights

- Deal flow in Riverside-San Bernardino fell by 5 percent during the 12-month period ended in June. Nevertheless, transaction velocity returned to a pre-pandemic pace in the second quarter of 2021, supported by the strongest single-tenant sales activity in two decades.
- Demand for triple net leased assets is high among Southern California investors, namely those seeking regionally discounted pricing and higher cap rates than those available in adjacent metros. Over the past year, single-tenant pricing rose 2 percent to an average of \$470 per square foot while the mean cap rate stayed in the mid-5 percent band.
- Fast-food establishments and restaurants near freeways and major thoroughfares have accounted for the bulk of triple net trades over the past year. South Riverside, the Coachella Valley and the city of Riverside have accounted for the most transactions.
- In contrast to the single-tenant segment, average pricing in the multi-tenant sector fell 2 percent to \$283 per square foot and the mean cap rate rose slightly to 6.6 percent. South Riverside is the most active submarket for shopping center trades. Here, minimum returns for neighborhood and strip centers fall in the high-3 to low-4 percent range.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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