

2021 Inland Empire Retail Overview



Presented By:

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Overview

- I. Retail Leasing Market
- II. Retail Investment Sales Market
- III. The Owner/User Market
- IV. Final Thoughts
- V. Questions

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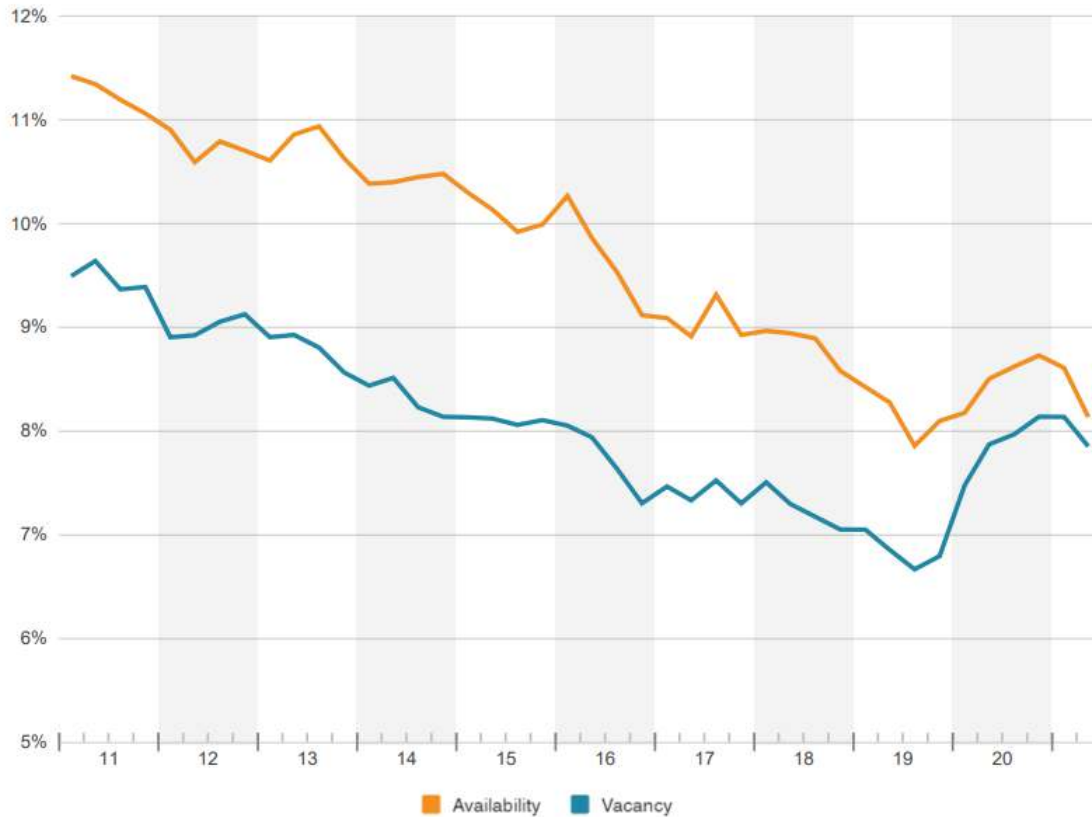
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Leasing

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Availability & Vacancy Rate

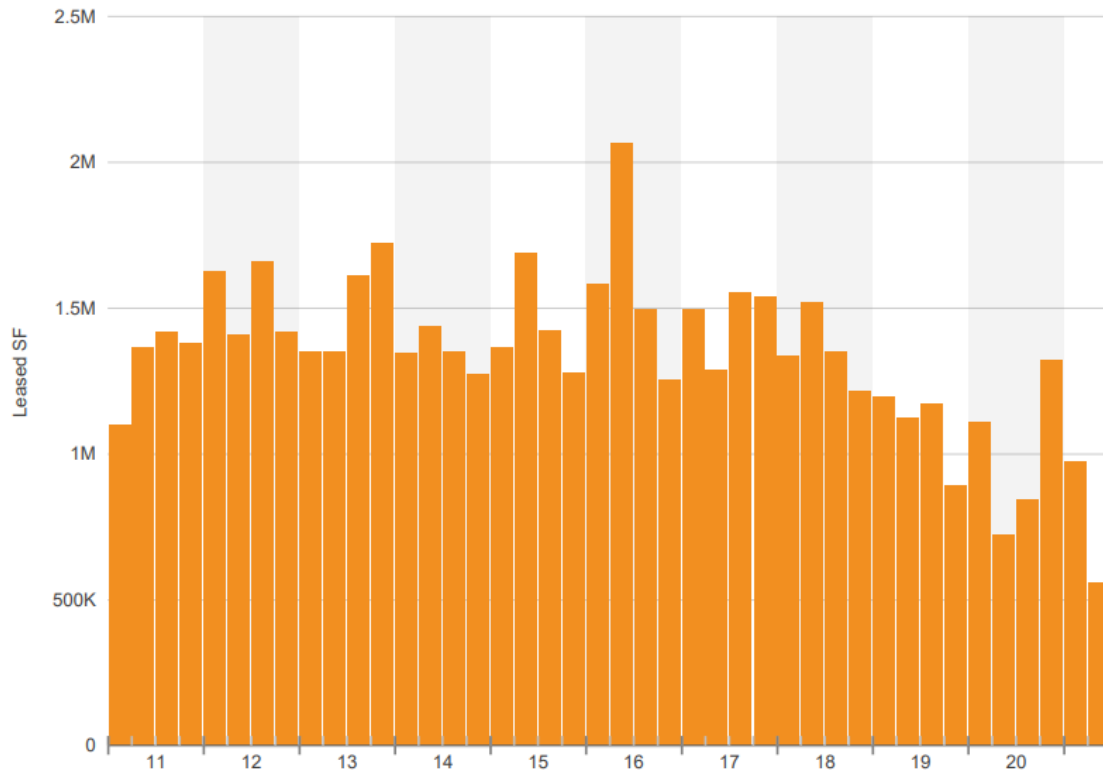


- I thought the pandemic's impact would have been worse.
- Highly impacted by big boxes such as Sears; Kmart; Nordstrom's; Bed, Bath & Beyond, & 24 Hour Fitness.
- Mom & Pop's were amazingly resilient

Vacancy Rate

	2021	2019
• Airport Area	5.4%	4.4%
• West San Bernardino	9.1%	6.5%
• Greater Riverside	8.0%	6.3%
• High Desert/MRV	6.5%	8.1%
• Temecula Valley	6.5%	6.0%
• East San Bernardino	9.1%	9.0%
• Coachella Valley	9.2%	9.1%

Leasing Activity



- Leasing activity has been positively impacted by some new big box leasing.
- High quality space has been replaced quickly.
- Less desirable space is still experiencing slow activity.

Spaces Greater Than 30,000 SF

Former Occupants

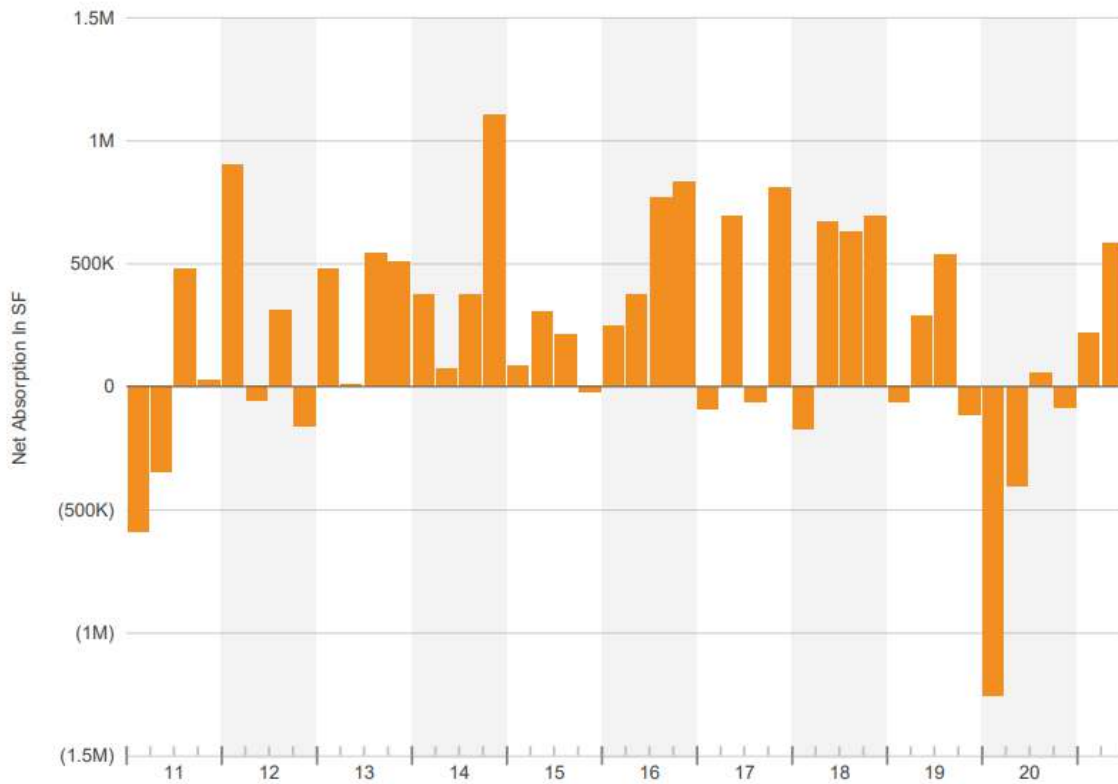
- Steinmart
- Toys R Us/Kids R Us
- Ralphs
- Kmart
- Sears
- Walmart
- Johns Incredible Pizza
- Joann Fabrics
- Sports Authority
- Sports Chalet
- Nordstroms
- Bed, Bath & Beyond
- Orchard Supply
- Food 4 Less

New Occupants

- At Home
- Hobby Lobby
- Big Lots
- Ross
- Northgate Markets
- Burlington
- Inland Auto Boat Storage
- CA Flooring
- Floor & Décor
- In Shape Fitness
- Amazon?



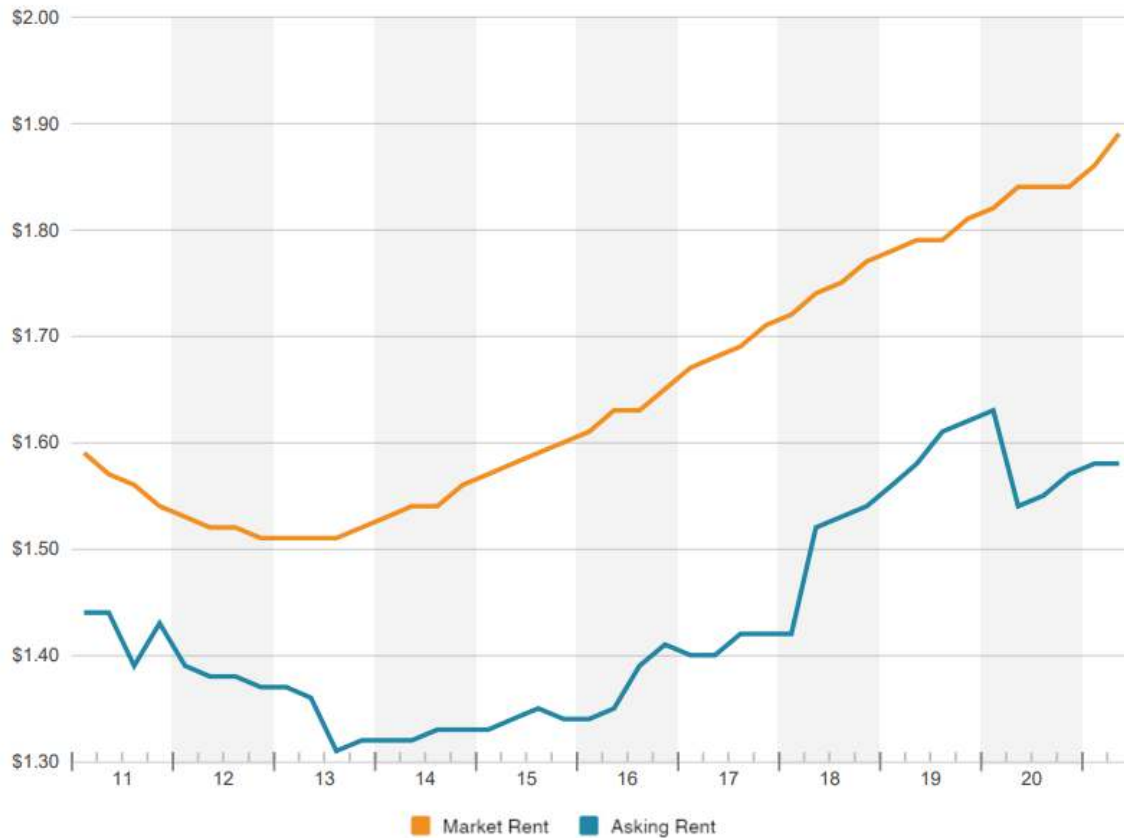
Net Absorption



- Check out that 1st & 2nd quarter of 2020!!
- Almost 2M SF came on the market in a very, very short window of time
- Small restaurant spaces are leasing quickly.
- Large restaurant spaces will mostly be redeveloped.

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Market Rent & Asking Rent Per SF



- Market Rent represents an implied formula that include occupied space.
- Asking rents are based upon actual vacant space.
- Should we be concerned that asking rates are 17% lower than implied market? Maybe

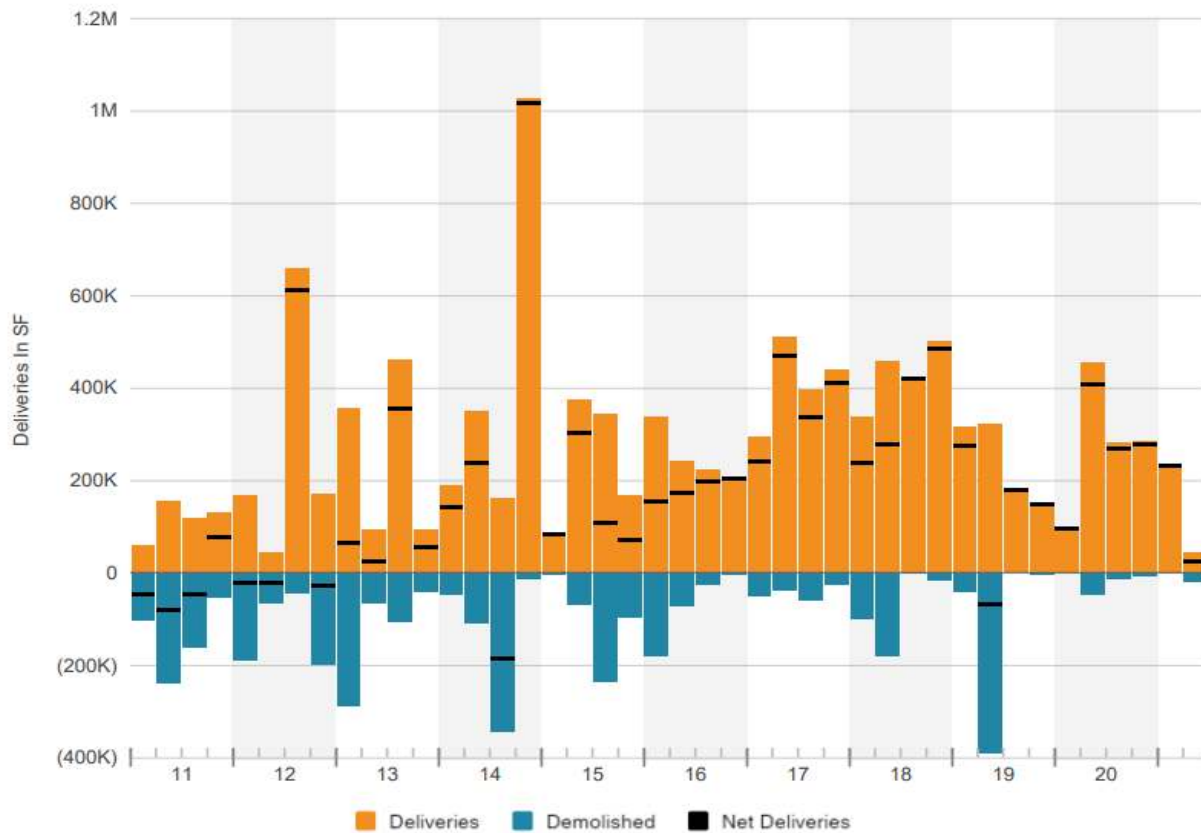
Months On Market



- The drop from 2016 to 2018 was a result of all the excess space from the 2000's finally being absorbed.
- The current upward trend is based upon the challenging space that has come on the market that might take a while to absorb.
- This graph is a “broker’s friend”

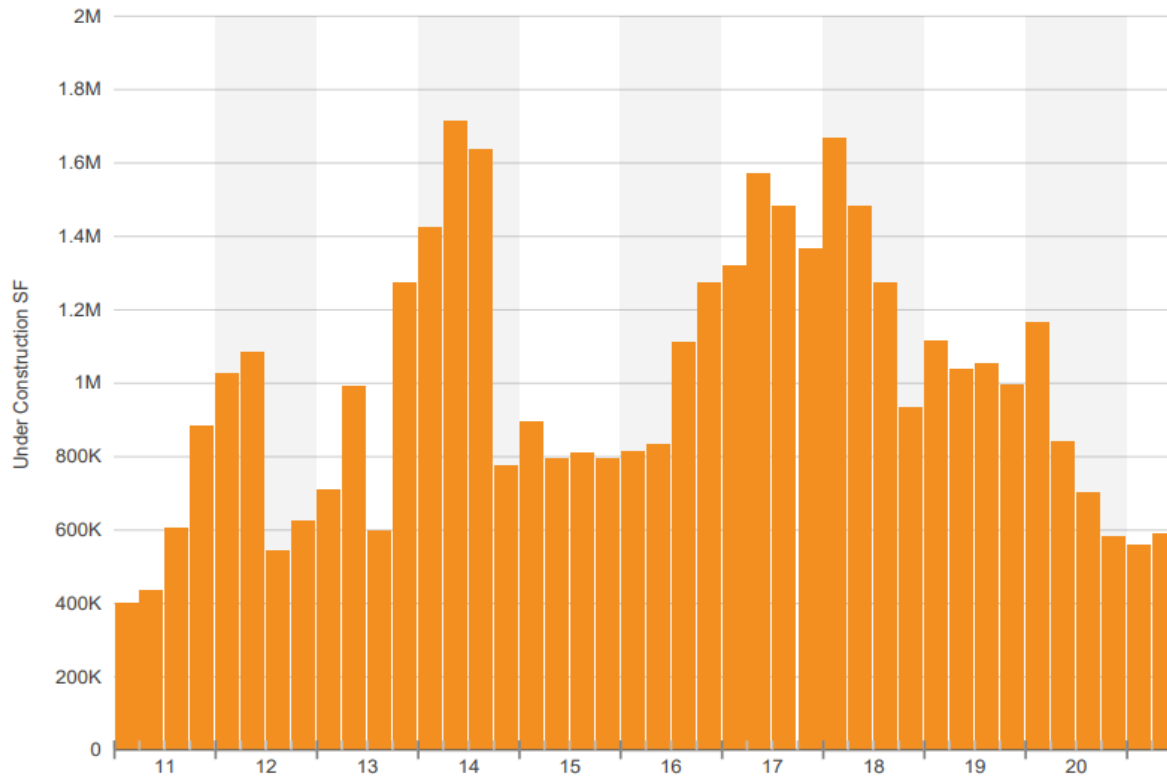
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Deliveries & Demolitions



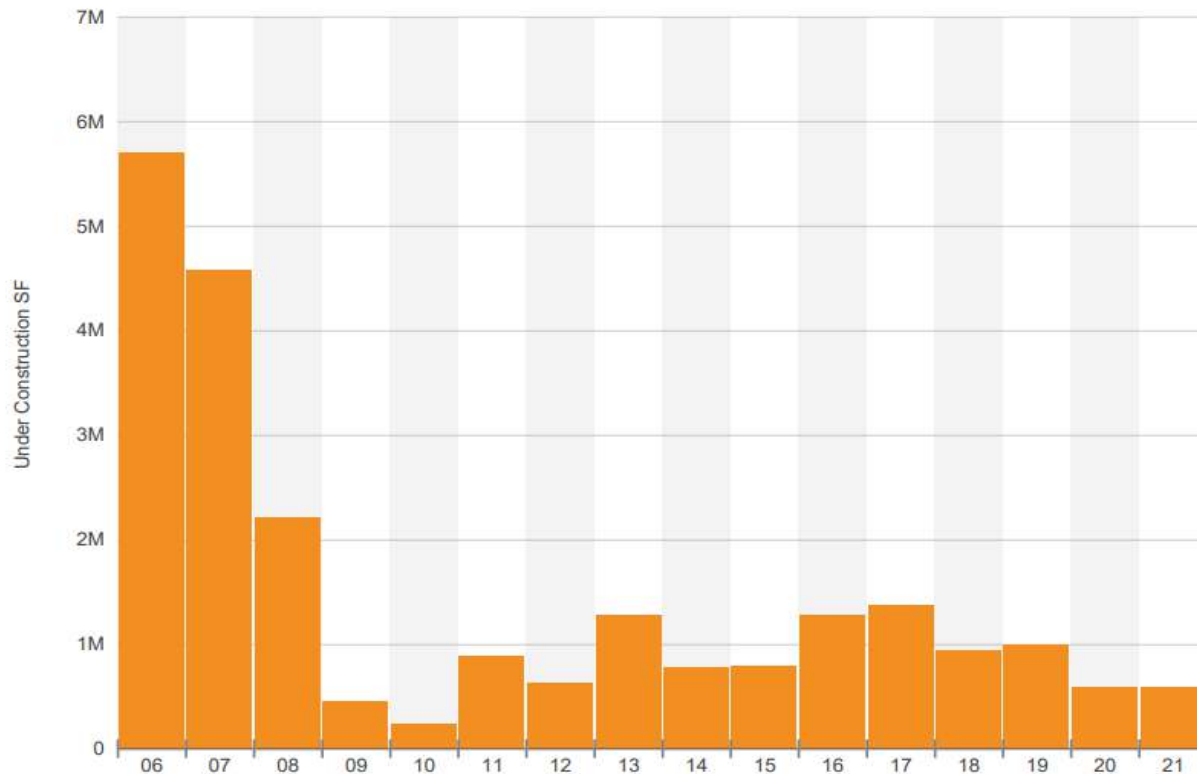
- I included this graph to show how little retail has been demolished over time.
- More likely needs to be demolished, but with the exception of a few mall anchor spaces that is not likely to happen.

Under Construction



- Construction has dropped by about half compared to the averages of the past 10 years.
- Total market is in excess of 190M SF. Construction is a blip.

Under Construction



- We will NEVER see the type of retail construction that we saw pre the Great Recession.
- We are over retailed.
- Residential growth will likely never be as strong as it was historically.
- It's OK

Under Construction Examples

- Highland - 7-Eleven & Shops
- Menifee - 14,000 SF multi-tenant shop building
- French Valley - Pads & Shops to Grocery Outlet & Rite Aid
- Riverside - Goddard Child Care Center
- Redlands - Multi-level retail building adjacent to the new parking structure in Packing District
- San Jacinto – Express Car Wash & Sonic Burger
- Perris – KFC & Multi-tenant building in front of Cardenas
- San Jacinto – Retail in conjunction with Soboba Casino
- Palm Desert – 12,375 SF “Food Court”
- Fontana – 10,000 SF Multi-tenant retail building anchored by Starbucks – Kaiser Hospital Adjacent
- Moreno Valley – Pilot Gas Station
- Riverside – Multi-tenant buildings anchored by Starbucks & Chipotle (both with drive thrus) & Circle K/76
- Victorville – multi-tenant building with
- Corona – Raising Canes, The Habit & Quick Quack Car Wash
- Moreno Valley – Arco AM & PM with Wendys

A photograph of a multi-tenant commercial building. The building features a Starbucks with a drive-thru, a Golden Corral restaurant, and a GameStop. There is an outdoor seating area with green umbrellas in front of the Starbucks. Several cars are parked in the lot. The text "Sales Data" and "Inland Empire Overview" is overlaid on the image.

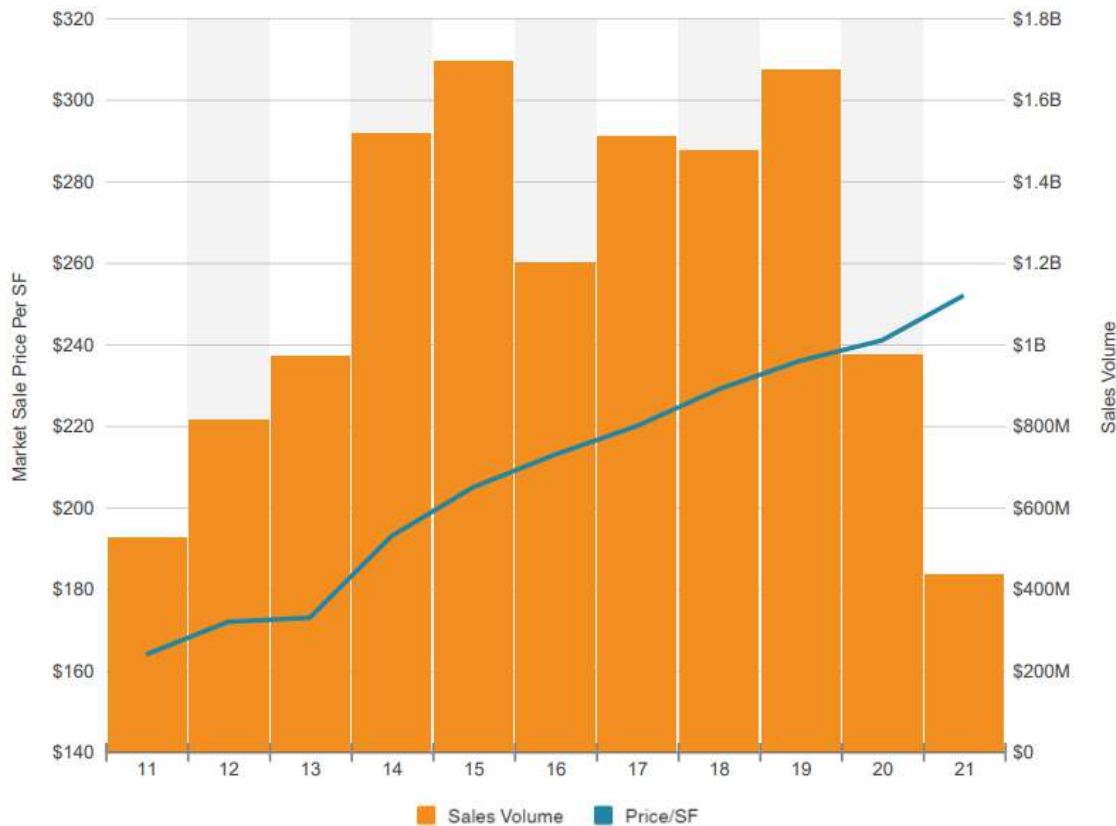
Sales Data

Inland Empire Overview

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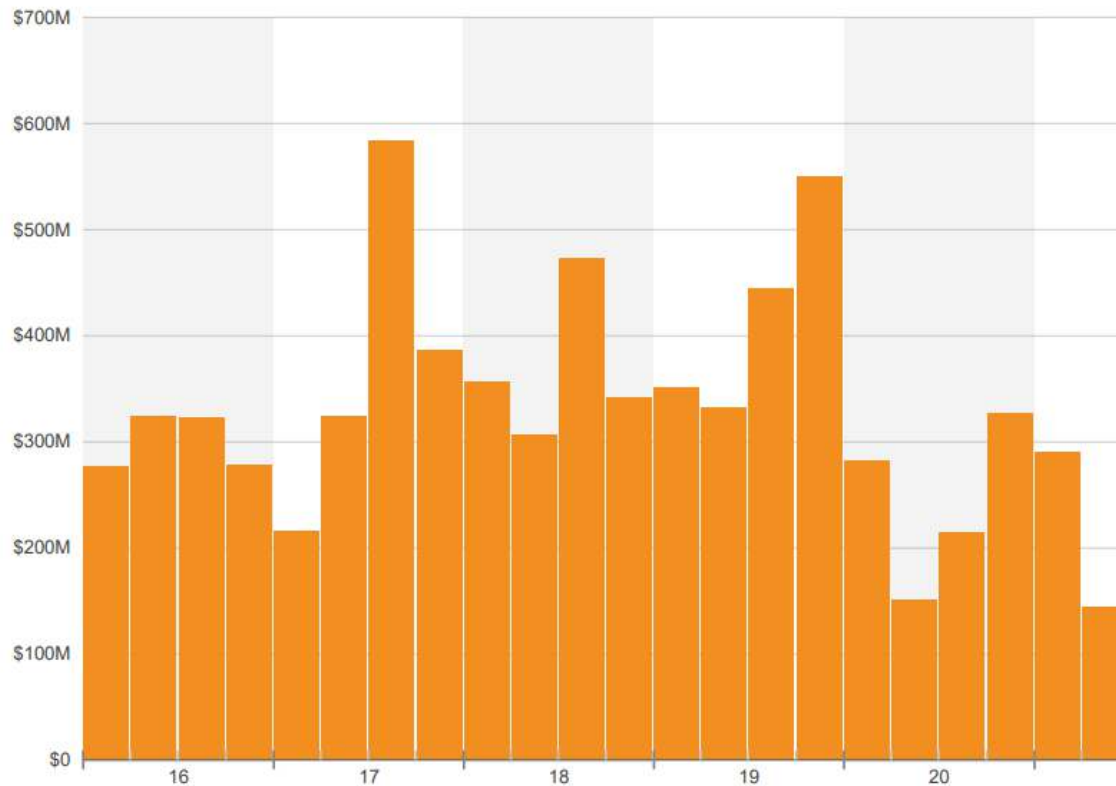
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Sales Volume & Market Sale Price Per SF



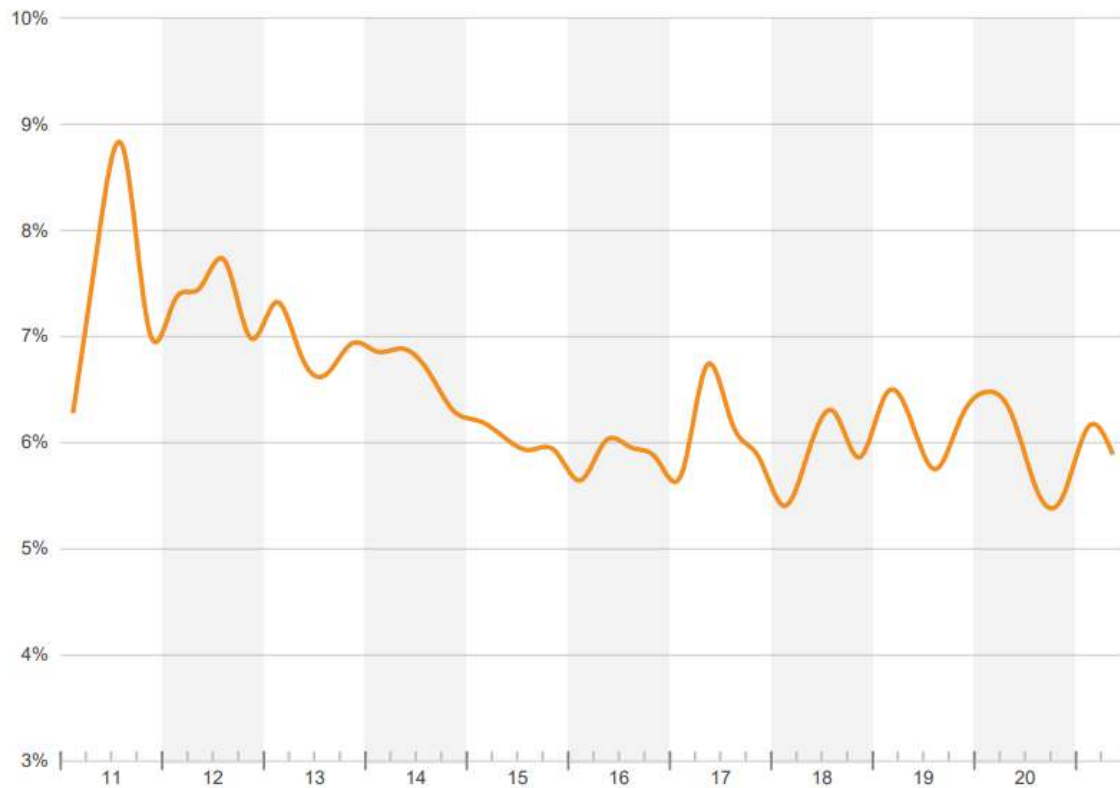
- Sales volume really dropped off during the pandemic.
- Rent rolls were so uncertain.
- The single tenant market dominated the past year.
- Single tenant contributed to the rising price/SF.

Sales Volume



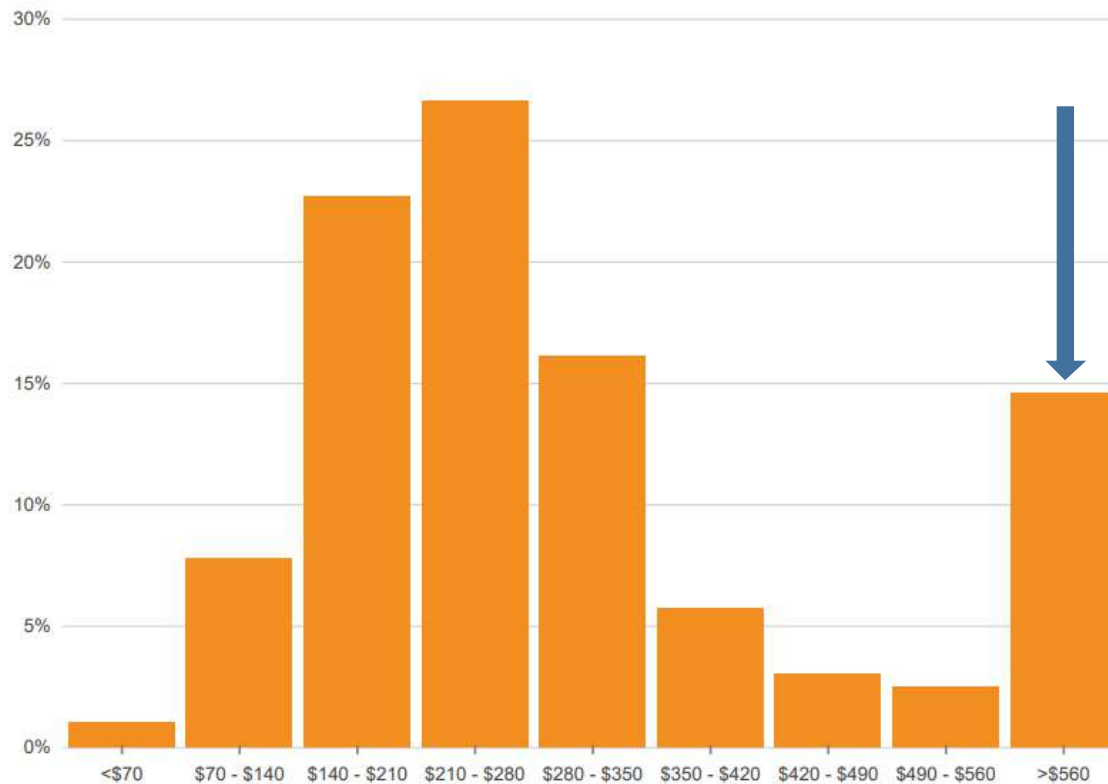
- Only 6 retail centers have sold in the IE over \$10M in the past year. All since Dec 30, 2020. Sold for an average of \$272/SF
- Sellers are coming to market as a result of Biden's proposed tax changes, but others are frozen for fear of changes being retroactive.
- The interest in "mostly mom & pops seems to be strengthening."

Cap Rate



- Despite this chart, cap rates seems to be “stretching” with newer construction commanding the lowest cap rates and older larger properties requiring much higher cap rates.
- Everything is being priced into a property including tenant mix, location, current rents, expirations, options, increases.
- A very inefficient market.

Market Sale Price Per SF Distribution



- These higher price per square foot single tenant properties skew the overall market.
- Let's see some examples

Single Tenant Sales

Tenant	City	Cap Rate	Price	PSF
Taco Bell	Ontario	3.68%	\$2.95M	\$1,275
Starbucks	Riverside	3.72%	\$4.3M	\$1,530
Taco Bell	Murrieta	3.8%	\$2.97	\$1,032
Wienerschnizel	Victorville	3.92%	\$1.53M	\$727
Taco Bell	Norco	3.93%	\$2.67M	\$784
Del Taco	Palm Springs	4.19%	\$2.75M	\$1,221
7-11	Yucaipa	4.22%	\$4.15M	
Jack in the Box	Fontana	4.24%	\$2.4M	\$1,034
Aldi	Hesperia	4.25%	\$3.76M	\$197
Starbucks	Lake Elsinore	4.25%	\$3.77M	\$1,176
Jack in the Box	Moreno Valley	4.46%	\$2.33M	\$866
Dutch Bros.	La Quinta	4.5%	\$2.47M	\$2,867
Raising Canes	Temecula	4.65%	\$6.88M	\$733

The Retail Owner/User Market

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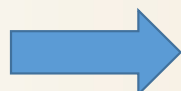
Why is the Retail Owner-User Market Thriving

Pier One



Independent Beauty Supply Store

Food 4 Less



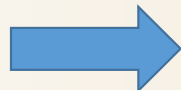
Regional Flooring Operator

Banner Mattress



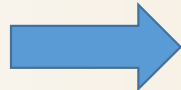
Cell Phone Franchisee

Credit Union



Health Services Provider

Steak & Shake



Independent Restaurant Operator

Acapulco Rest.



Japanese Rest.

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Why is the Retail Owner-User Market Thriving

1. Single Tenant Market Developed in the 2000's
2. Leases are Expiring and Tenants are Vacating/Going BK
3. Less Competition if One Sells vs. Leases
4. Selling and Exchanging Can Be Easier vs. Leasing
5. Gets the Owner Back to Their Goal of an Income Stream
6. Loan Rates, Especially SBA, Are at Record Lows
7. Owner/Users Can Pay Close to Leased Investment Values

Final Thoughts

- Erase the words “Retail Apocalypse” from the vernacular. It is a ridiculous sound bite.
- The market is stable.
- Costs will prohibit new construction.
- Rising NNN charges are a concern.
- The pandemic forced retailers to fight back and the impact of Amazon may be slowing.
- Retail will continue to be a product type with unique challenges and opportunities.



Questions

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