



2023 Inland Empire Retail Overview

Presented By:

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Overview

I. Retail Leasing Market

II. Retail Investment Sales Market

III. Questions

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A cartoon illustration of a man in a blue top hat and a woman holding a large green dollar sign. The man is on the left, wearing a black suit jacket, a white shirt, and a red bow tie. He has a white mustache and is looking towards the right. The woman is on the right, wearing a black dress and holding a large green dollar sign in front of her face. The background is a plain, light gray color.

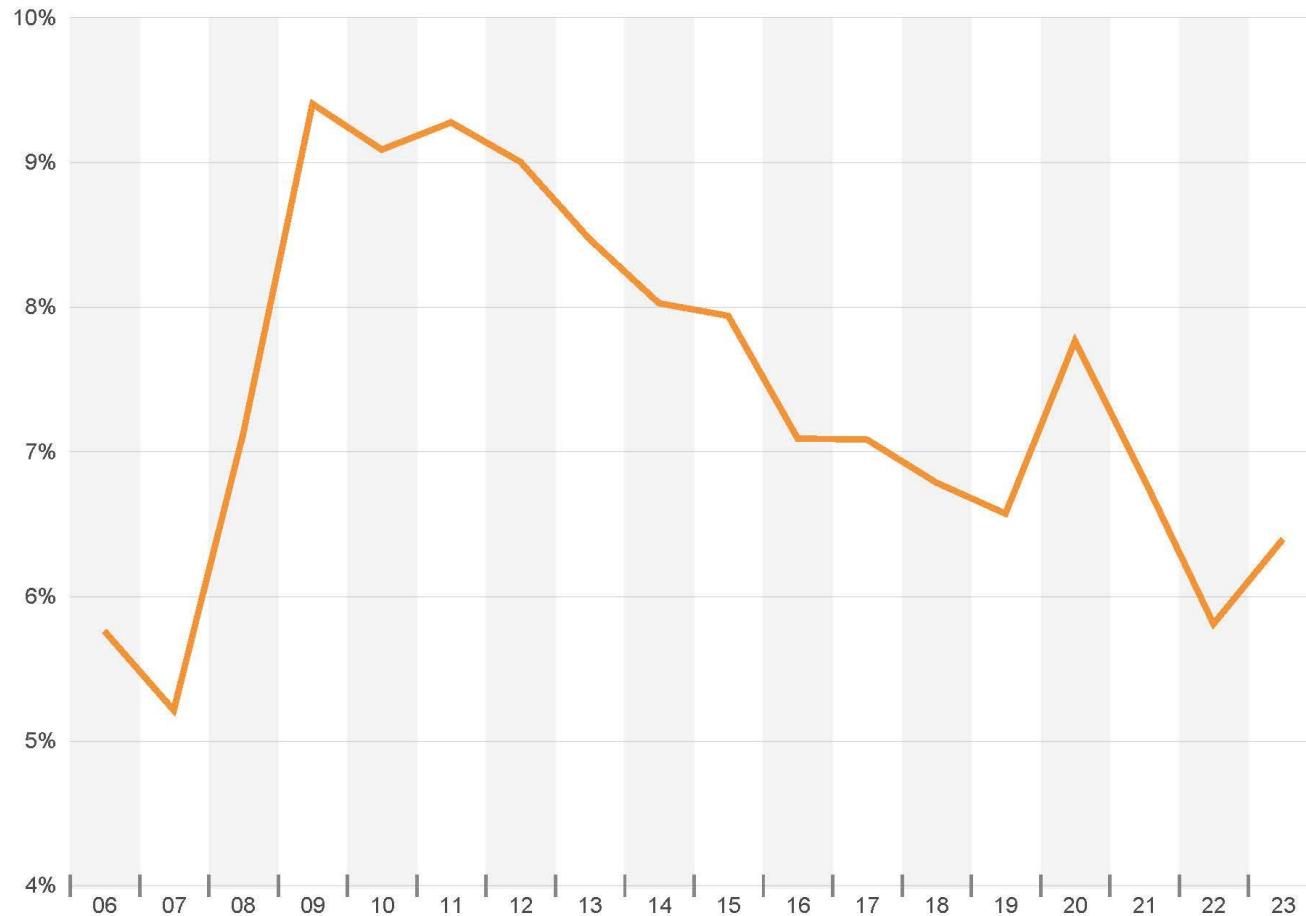
Today's Theme – There Has Never
Been a Better Time to Be an Inland
Empire Retail Property Owner

Leasing

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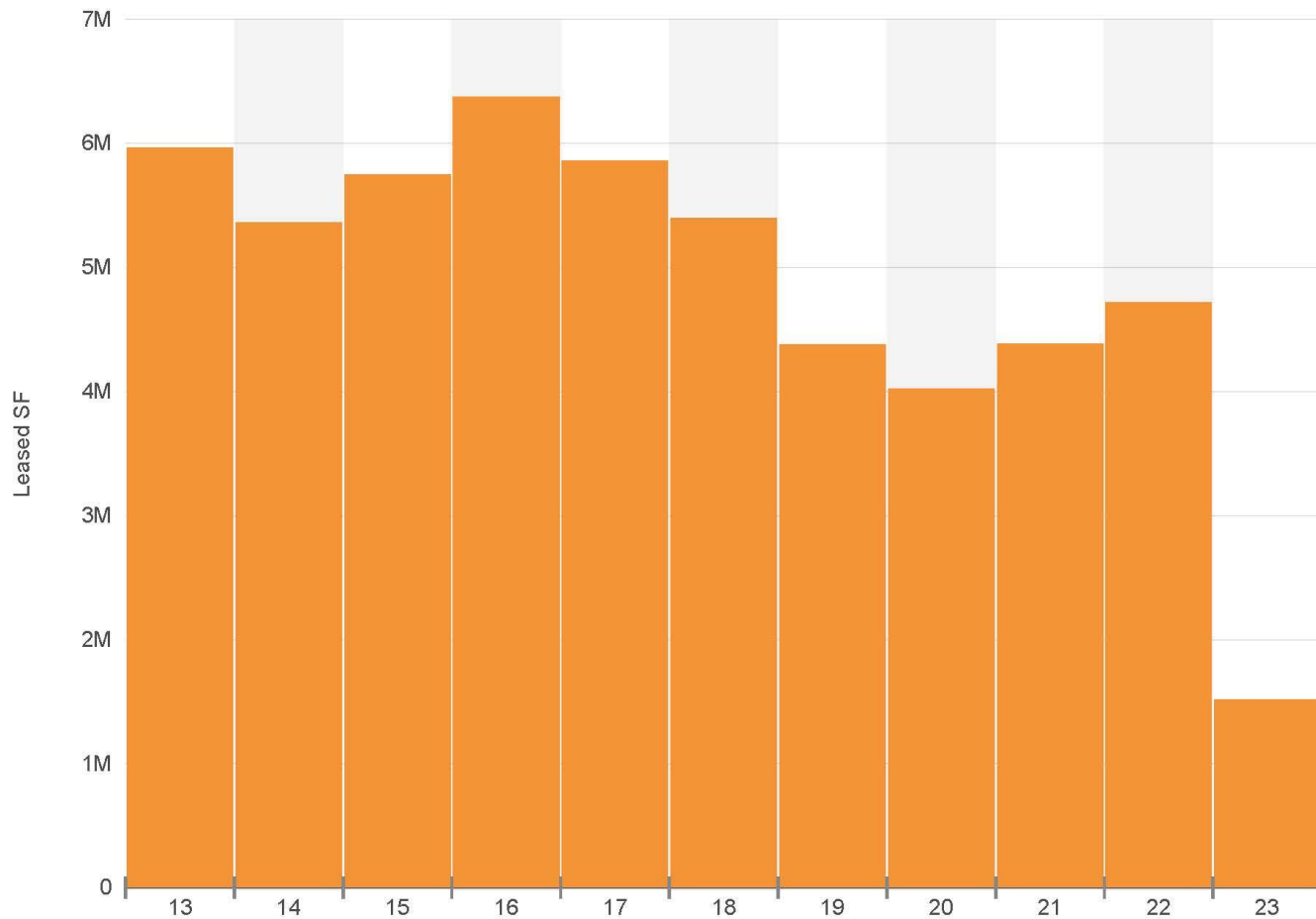
Vacancy Rate



Vacancy Rates

- ❑ Currently just above 6%, but this is a near record low.
- ❑ On a base of 200M SF
- ❑ Biggest challenge from brokers – “not enough good space”

Leasing Activity

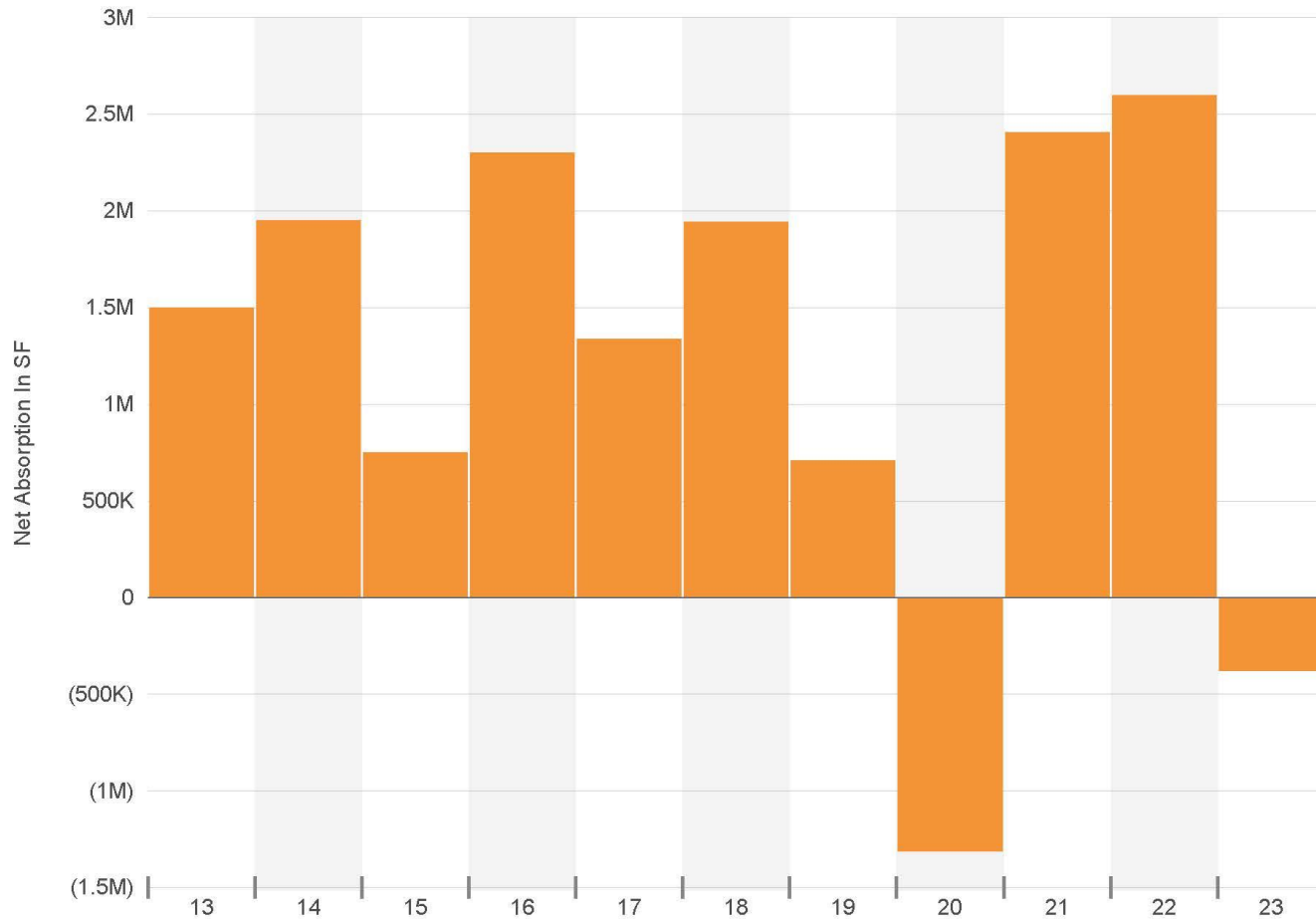


❑ Worst start in over a decade.

❑ On track for about 3.6M in 2023

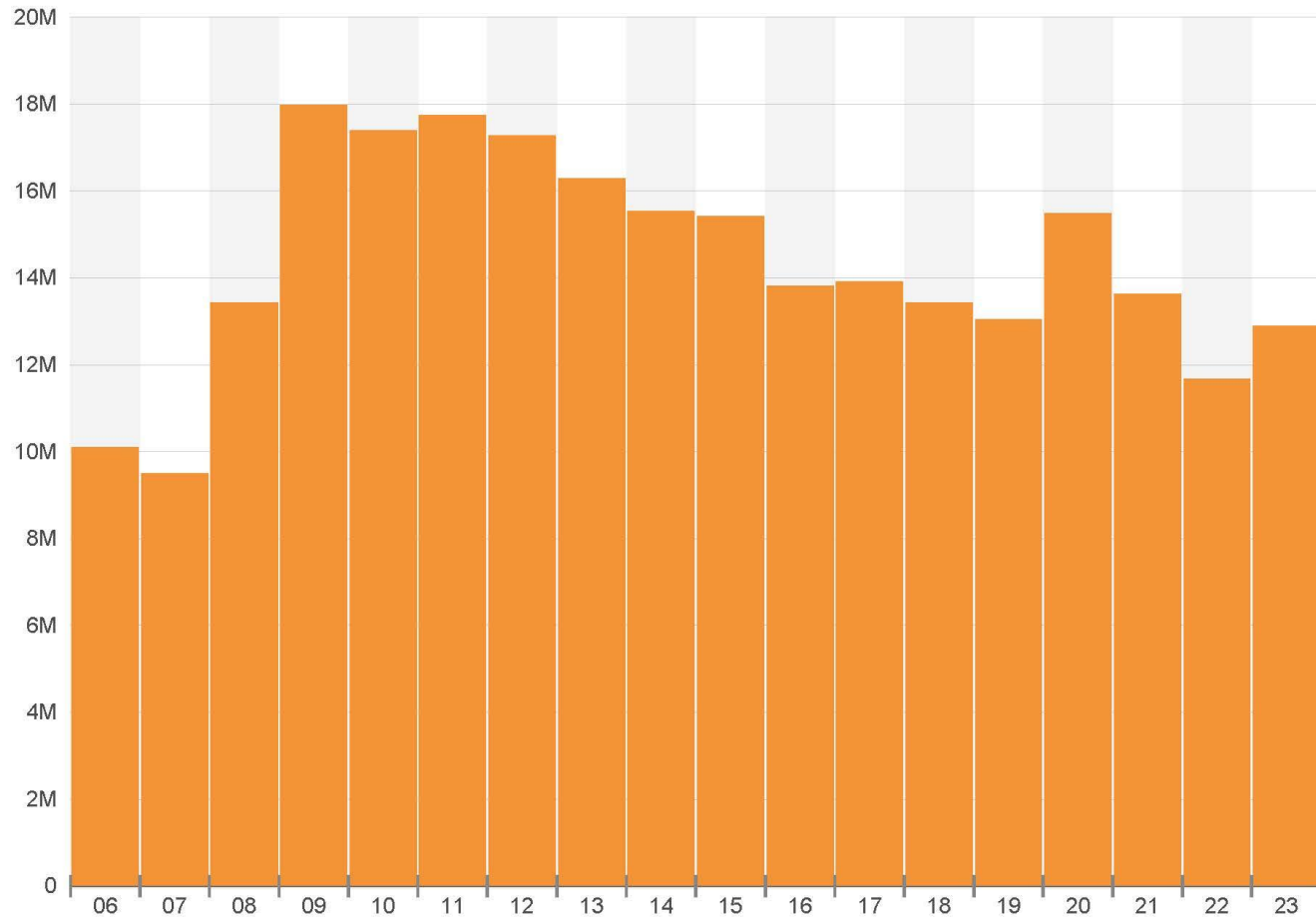
❑ It is feeling much more like 2019.

Net Absorption



- ❑ More businesses closing than space getting leased.
- ❑ Closures include Bed, Bath & Beyond, Tuesday Morning, Party City
- ❑ Strategic closures including Drug Stores, Banks, Sit Down Restaurants.

Vacant SF



❑ 12.5M SF

❑ 6M less than 2019, but it does not “feel” like it.

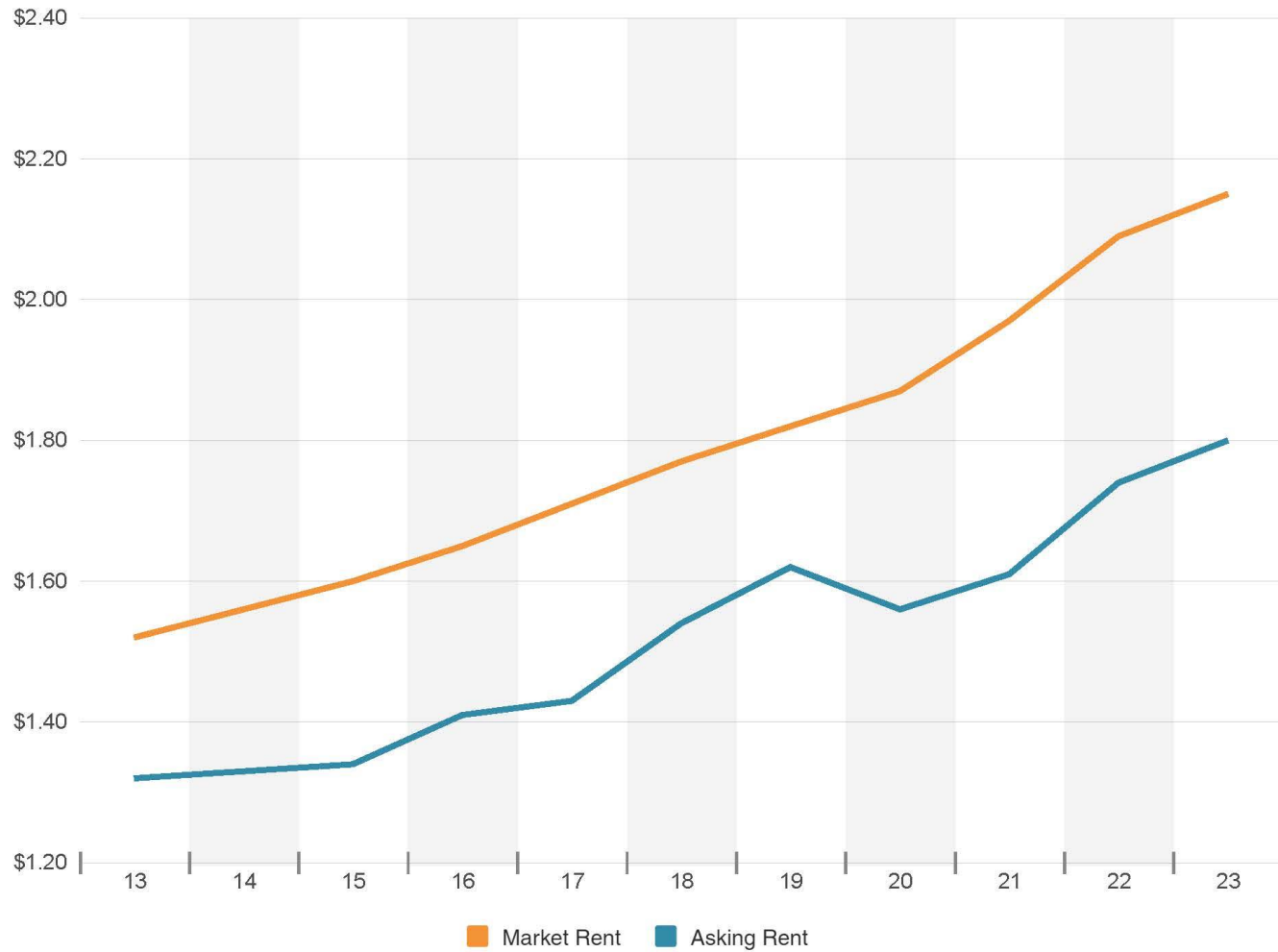
❑ Good to Great Space has very little vacancy.

❑ Most vacancy in older, uglier properties – obsolete.

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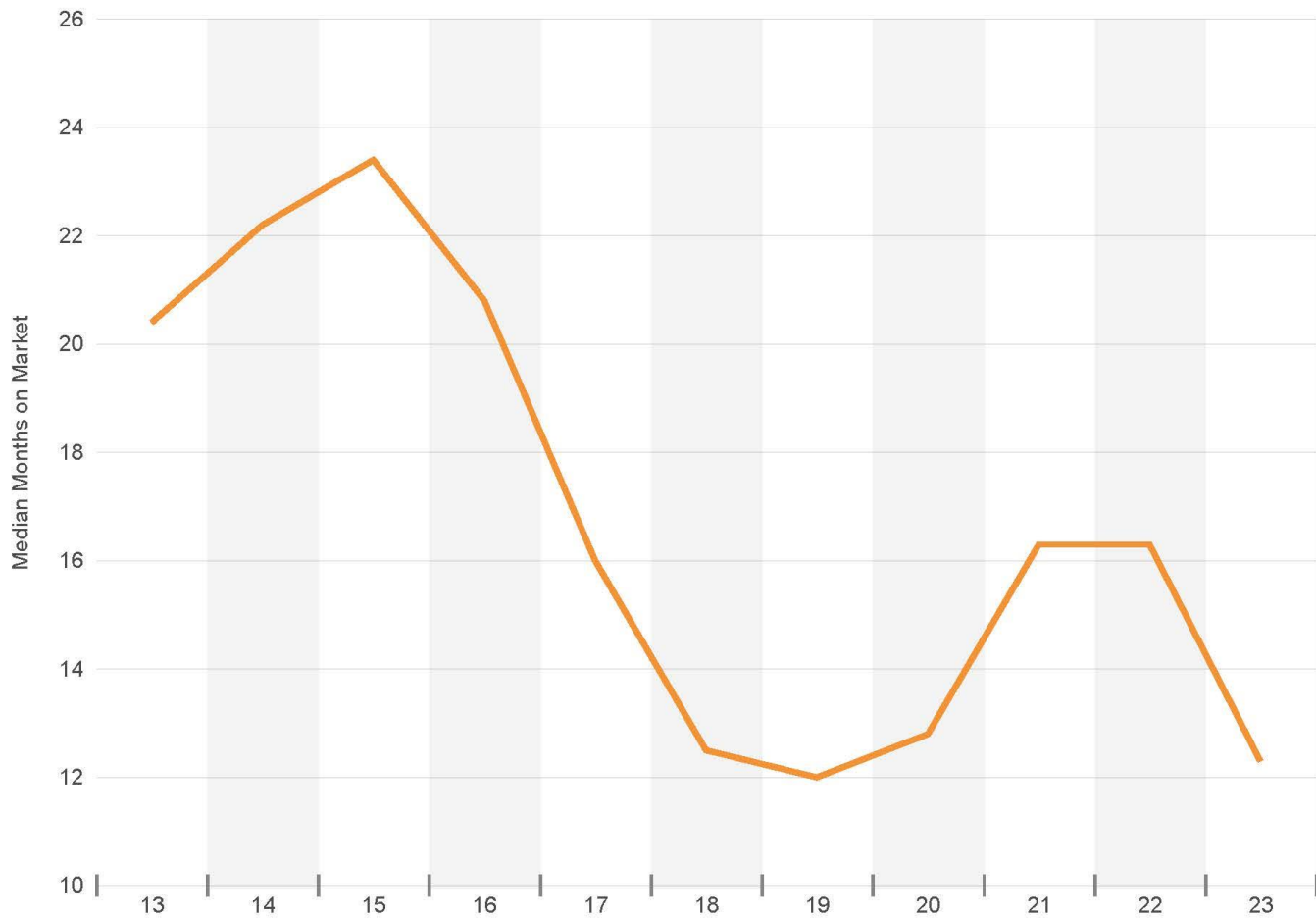
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Market Rent & Asking Rent Per SF



- This is a Costar Thing
- Market Rent factors in occupied space and some Costar guesstimates.
- Asking rents are actual – many brokers, especially higher quality properties don't post rents with Costar.

Months On Market

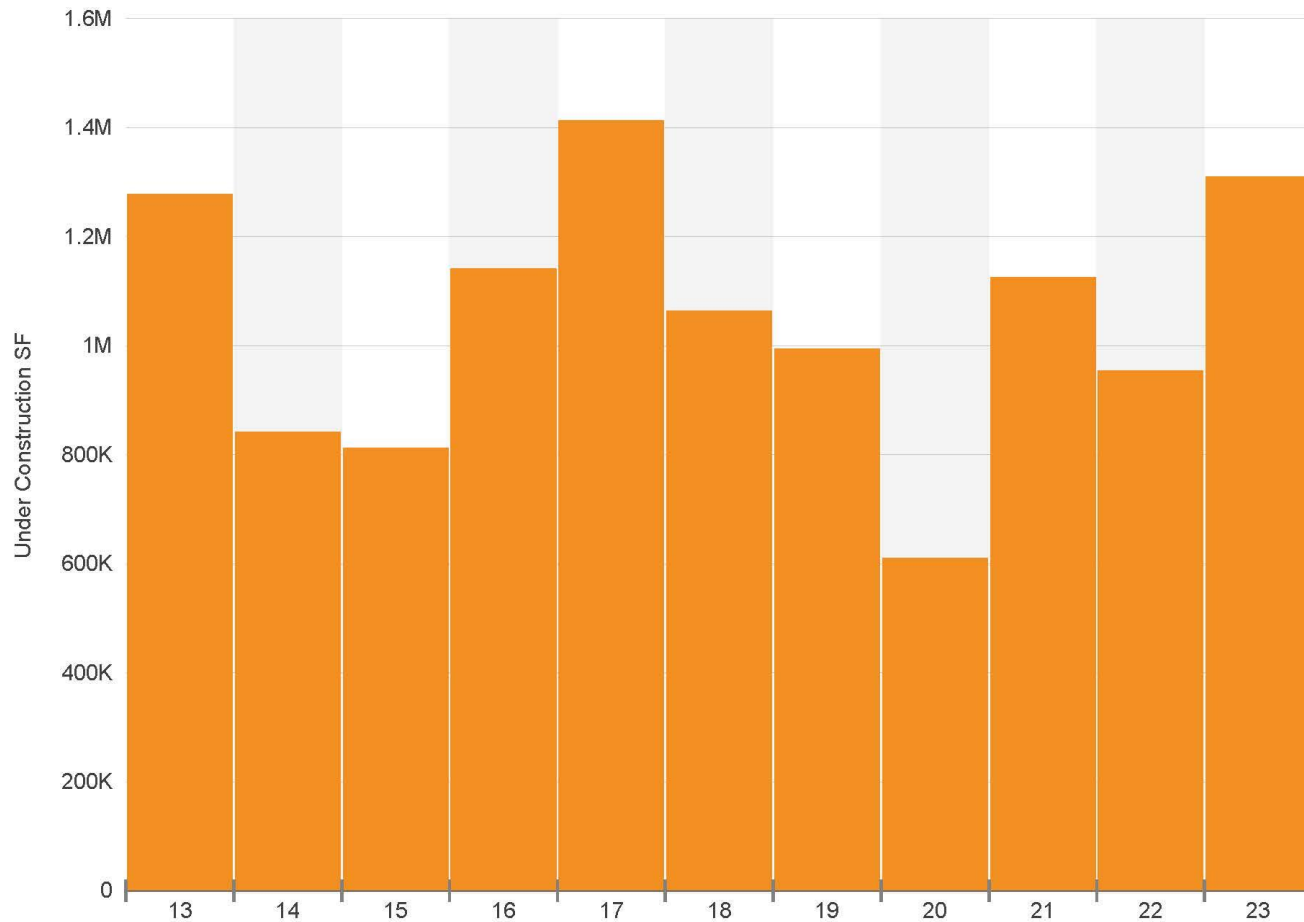


☐ Back to 2019

☐ Look how quickly all the 2020 & 2021 vacancy leased.

☐ Quality space is leasing very quickly

Under Construction



- Construction activity is up and nearing the best in 10 years.
- Almost all construction is pre-leased.
- A few neighborhood or larger projects
- Mostly freestanding pad developments including gas stations, express car washes, fast food, a little multi-tenant.

Vacancy Rate, Lease Rate & UC by Sub-Market

	Vacancy Rate	Lease Rate	Under Construction
• Airport Area	3.4%	\$2.32	140K
• West San Bernardino	7.0%	\$2.51	141K
• Greater Riverside	5.6%	\$2.27	174K
• High Desert/MRV	4.8%	\$1.73	103K
• Temecula Valley	4.7%	\$2.40	478K
• East San Bernardino	8.4%	\$1.80	144K
• Coachella Valley	7.1%	\$2.14	100K

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Leasing – what is not in the data

- Leasing is getting much more difficult – more city approvals, more co-tenant approvals, more tenant improvement allowances, a lot of negotiation!
- Best in class shop space is now \$4.00/SF/month or higher with NNN estimated at over \$1.00/SF/month.
- Retail is mostly at the bottom of the land value food chain.
- Owner/User SBA transactions are significantly reduced because leasing is now on par with buying.
- Out of state fast food uses are not even considering CA at this time. AB257 – FAST Recovery Act



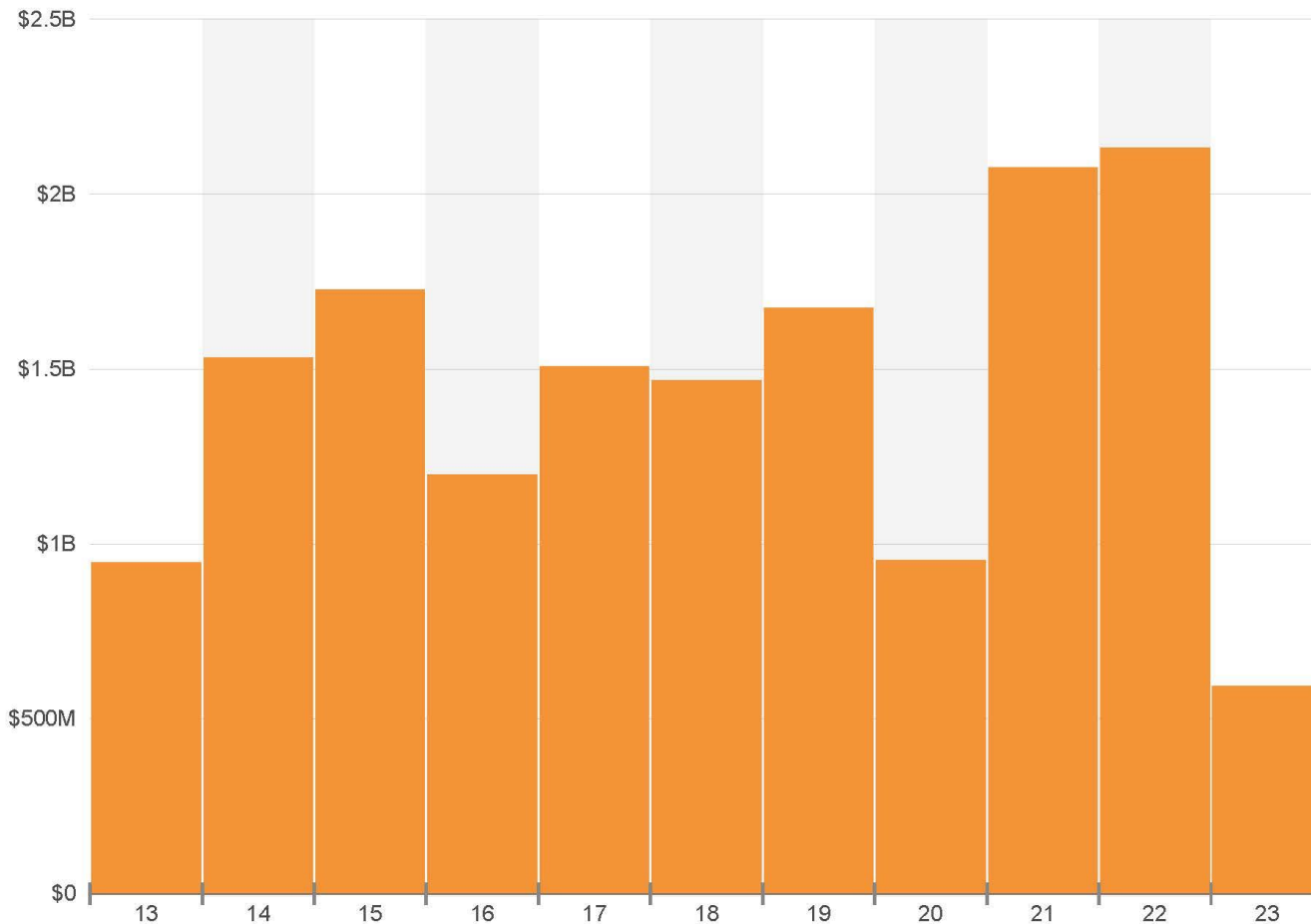
Sales Data

Inland Empire Overview

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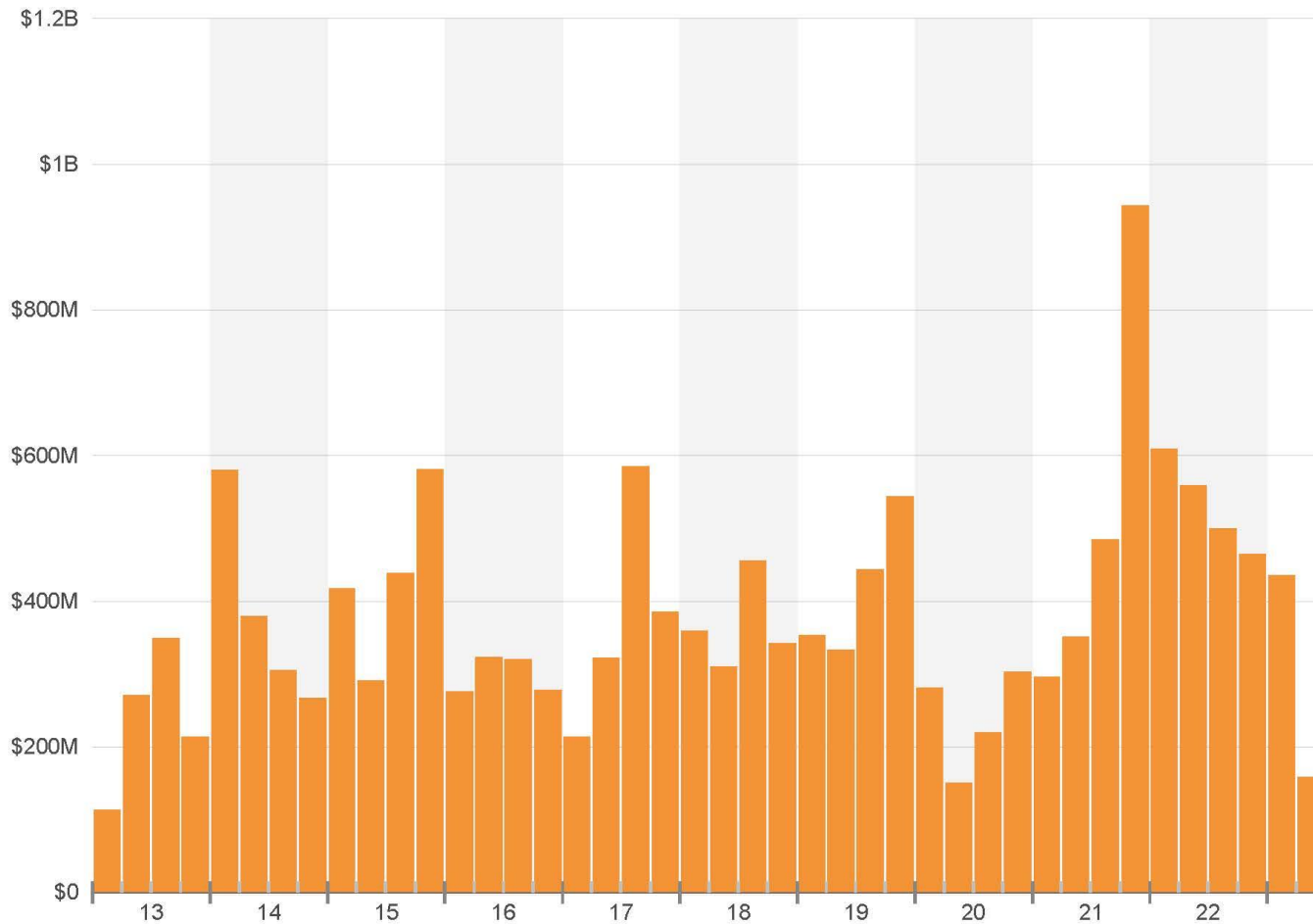
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Sales Volume



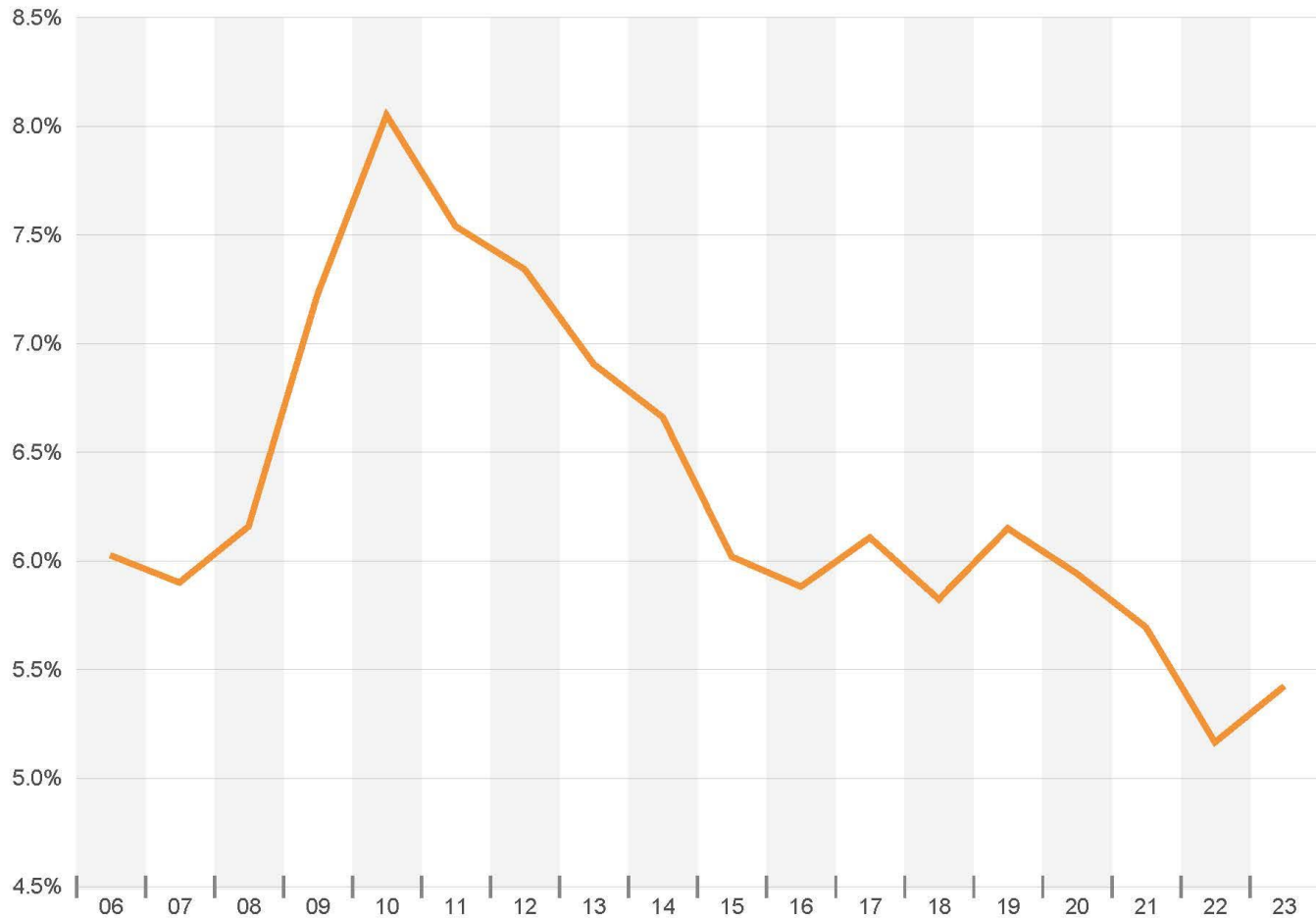
- ❑ Annual data shows a pace o par with 2014 – 1019.
- ❑ Disconnect between buyers and sellers.
- ❑ Cost of capital & recession possibility are the primary ISSUES.
- ❑ 2021 – 2022 were an aberration. Retail owners sold to take gains, and invest mostly in multi-family.

Sales Volume



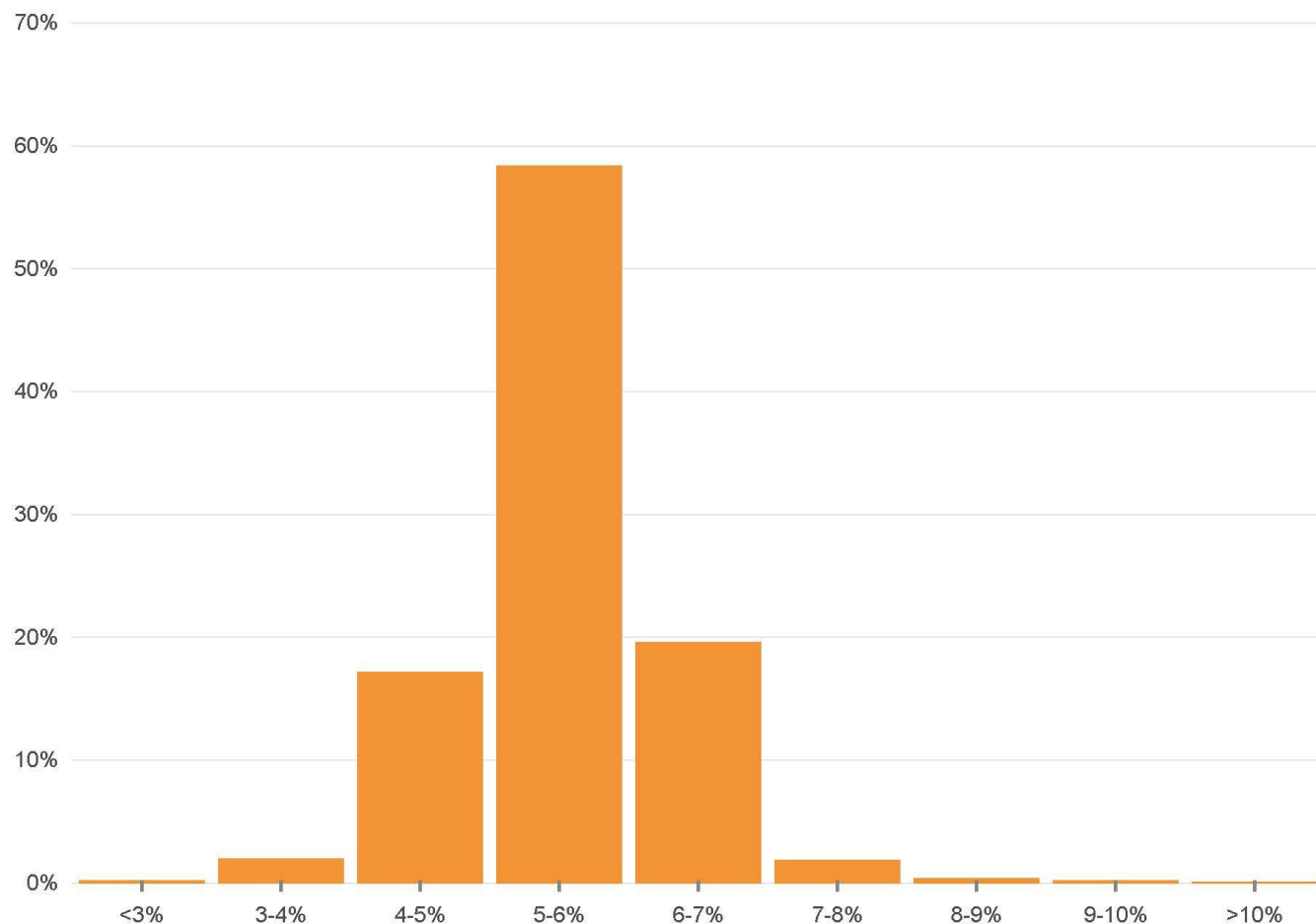
- ❑ 4th Quarter 2021 was the peak.
- ❑ Steady declines since.
- ❑ Banking industry challenges and debt ceiling talks have hurt 2nd quarter 2023 activity.

Cap Rate



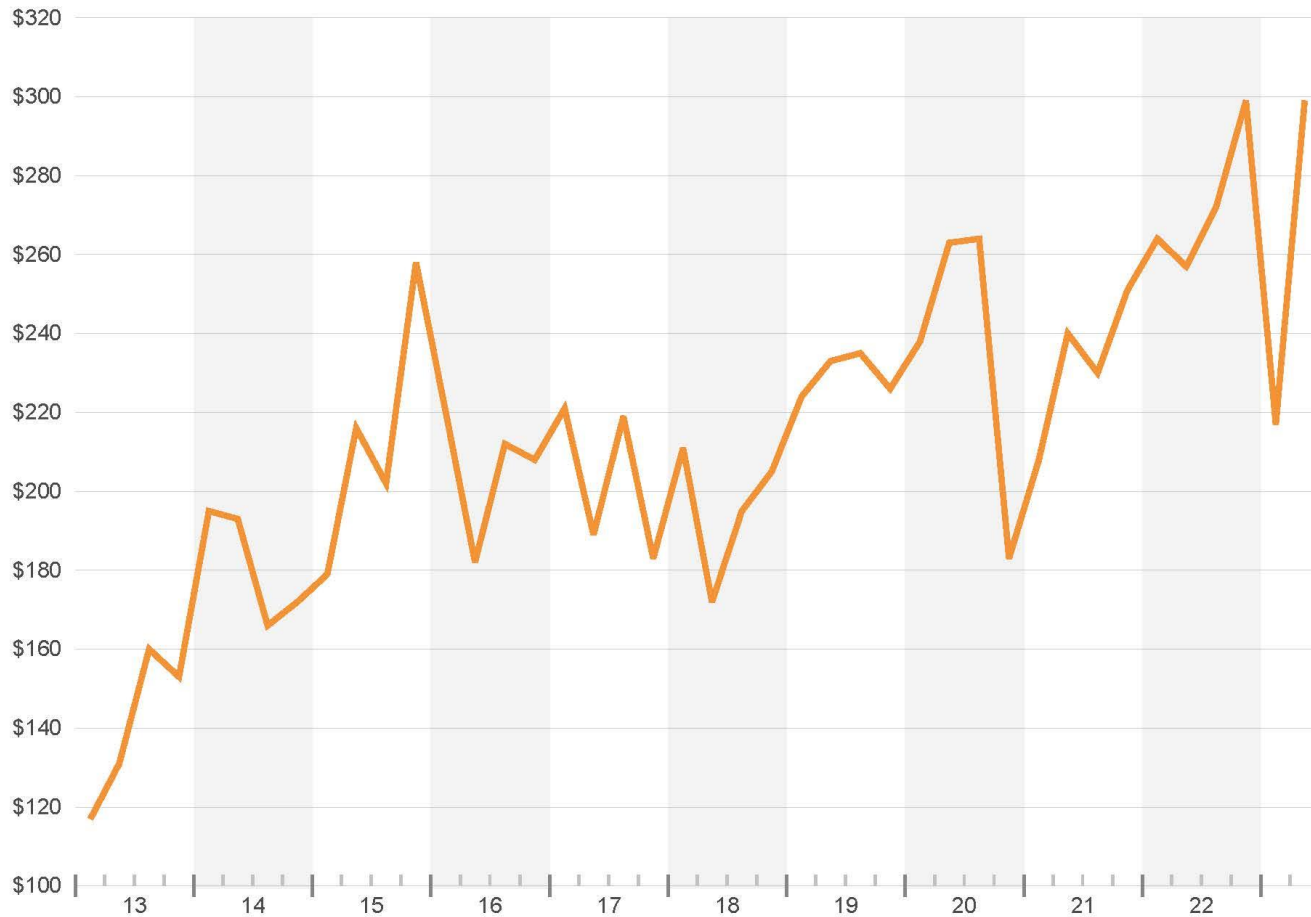
- ❑ The multi-tenant market is now between 6% to 7% cap rates.
- ❑ Single tenant is mostly between 4.5% to 5.5%.
- ❑ “New pricing” is becoming par for the course.

Market Cap Rate Distribution



- Tighter distribution than we have seen in a while.
- I think we will see a lot more sales in the 6 to 7% range over the next 12 months.
- The curve is shifting right.

Sale Price Per SF



- ❑ Record PSF at about \$300/SF
- ❑ Steady upward trend – is it cap rate or rent driving this equation?
RENT
- ❑ \$120/SF in 2013 to \$300/SF today – retail apocalypse?

Sales – what is not in the data

- Difficult to be a motivated seller when occupancy and rents are as high as they are. It is possible that there will be many who regret not selling.
- Retail sales are driven from 1031 buyers that usually start with multi-family sellers which has been down considerably – Los Angeles Mansion Tax did not help.
- Locked in financing for multi-family owners reduces motivation.
- Flip side – great time to be a 1031 buyer moving money out of state.
- A majority of sellers just want to “move on”.

Questions

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