

# Orange County

## Retail Market Outlook 1Q 2017

### MARKET OVERVIEW

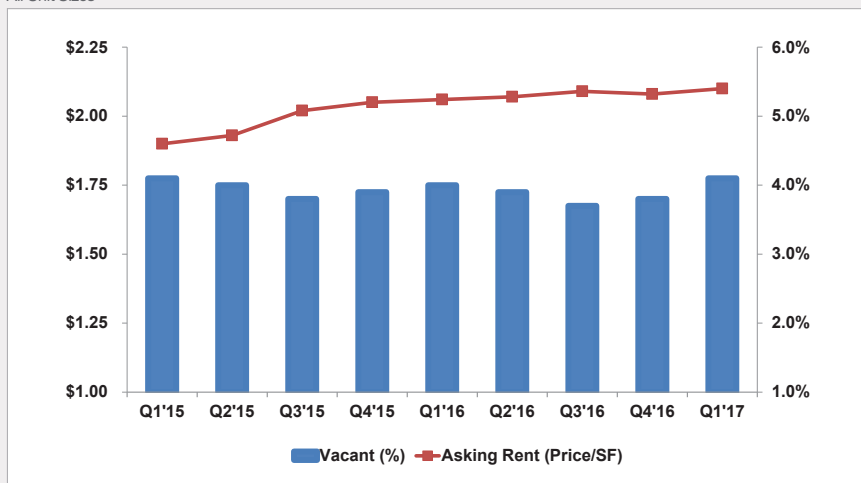
In the first quarter of 2017, the Orange County retail market remained strong, with a slight uptick in vacancy and average asking rents over the prior year. The vacancy rate closed at 4.1%, which was an increase of 30 basis points over the quarter and 10 basis points over the year. More than 400,000 square feet of new retail space was delivered to the market, contributing to the rise in the vacancy rate. Rents have made gains, with the average asking rent increasing 1% over the quarter and 2% over the year to \$2.10/SF. According to the Conference Board, the Consumer Confidence Index (CCI) increased in March to the highest level since December 2000. CCI is defined as the degree of optimism on the economy that consumers express through their saving and spending. Additionally, over the past year, the unemployment rate in Orange County has fallen from 4.2% to 3.7%, with the economy adding 23,300 new jobs. As consumer confidence and overall employment continue to increase, consumption, and therefore demand for retail space, will continue going into 2017.

### TRENDS TO WATCH

Despite increasing pressure on department, clothing and other retailers, market fundamentals remain strong in Orange County. The vacancy rates have remained low, due to its strong consumer base and vibrant economy. Nationally, e-commerce has become a large portion of total retail sales, increasing from 7.6% of total sales in 2015 to 8.3% in 2016 according to the Census Bureau. Shopping centers and malls are seeing tenants vacate space due to online competition. Nordstrom closed its 169,000 square foot department store at MainPlace Mall in Santa Ana this quarter. National electronics retailer Radio Shack filed a second bankruptcy in March and will close locations in an Anaheim strip center and in a neighborhood center in San Juan Capistrano. Specialty and lifestyle centers have resisted this trend and have continued to see strong rental growth and declining vacancies.

#### Average Asking Rent and Vacancy Rate

All Unit Sizes



Source: NAI Capital Research, CoStar

### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	31,754,200	189,623	4.4%	3.4%	149,740	149,740	126,801	126,801	\$2.41	\$423
Central	14,040,586	0	5.3%	5.5%	128,072	128,072	67,748	67,748	\$1.86	\$377
North	31,644,628	46,182	6.3%	4.5%	114,107	114,107	173,979	173,979	\$1.73	\$304
South	28,996,221	340,093	5.9%	4.4%	122,740	122,740	158,898	158,898	\$2.59	\$155
West	33,771,589	135,142	4.6%	3.6%	141,894	141,894	324,752	324,752	\$2.01	\$189
<b>Total</b>	<b>140,207,224</b>	<b>711,040</b>	<b>5.3%</b>	<b>4.1%</b>	<b>656,553</b>	<b>656,553</b>	<b>852,178</b>	<b>852,178</b>	<b>\$2.10</b>	<b>\$322</b>

RBA includes retail buildings of all sizes and classes. Rents reflect buildings of at least 5,000 square feet.

### Leasing

Tenants leased a total of 656,553 square feet of retail space this quarter. This represents an increase of 12% over the prior quarter, even as average asking rents have continued to increase. Average asking rents closed the quarter at \$2.10/SF, up 1% from the prior quarter, and 2% from this time last year. The largest leasing activity was among mall properties, as landlords were forced to drop their average asking rents by 24% over the prior quarter. Despite this, vacancy still ticked up 110 basis points to 3.6% for mall property types, as some major retailers are vacating their spaces. JCPenny announced that it would vacate 102,000 square feet at The Village in Orange regional mall this summer. In the largest lease transaction this quarter, Pavilions Supermarket opened up a new store in the Orchard Hills Shopping Center in Irvine, leasing 48,497 square feet of retail space.

### Sales

Sales activity totaled 852,178 square feet this quarter, representing a 57% decline over the quarter and 42% decline over the year. This comes as sale prices have continued to increase, with average sale prices closing the quarter at \$322/SF, up 29% from last year at this time. Cap rates averaged 5.15%, down 62 basis points from last year. Sale activity this quarter shows investors are moving away from larger retail properties and instead focusing more on smaller retail outlets. One of the most significant lease transactions this quarter involved an individual purchase of a 70,089 square foot neighborhood center in Yorba Linda for \$264/SF.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Pavilions Supermarket	3901-3949 Portola Pky	Airport	N/A	48,497
Haggen	28715-28841 Los Alisos Blvd	South	N/A	41,831
Stater Bros.	1019-1131 N State Blvd	North	N/A	37,440
Tenant Not Listed	1411 N Tustin St	North	\$1.50	20,000
Sanctuary Home Furnishings	31896 Plaza Dr	South	\$1.10	11,334

\*All rents are NNN unless otherwise stated

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Hye K & Kyong U Lim	4848-4852 Valley View Ave	North	\$264	70,089
Gershman Properties, LLC	6847-6931 Katella Ave	West	\$479	46,037
Red Rock Realty Investments	Grand Avenue Plaza	Central	\$188	42,060
JVS Development LLC	15550-15640 Brookhurst St	West	\$241	47,810
Zhixu Duan	10660-10708 Los Alamitos Blvd	West	\$301	29,908

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- **North**
  - Anaheim
  - Brea
  - Fullerton
  - La Habra
  - Orange
  - Villa Park
  - Yorba Linda

- **Central**
  - Tustin
  - Tustin Foothills
  - Santa Ana

- **West**
  - Buena Park
  - Cypress
  - Fountain Valley
  - Garden Grove
  - Huntington Beach
  - Seal Beach
  - Stanton

- **South**
  - Aliso Viejo
  - Dana Point
  - Foothill Ranch
  - Laguna Hills
  - Laguna Niguel
  - Lake Forest
  - Mission Viejo
  - Rancho Santa Margarita
  - San Clemente
  - San Juan Capistrano

- **Airport**
  - Costa Mesa
  - Irvine
  - Newport Beach

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#### Orange County

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