

Orange County

Retail Market Outlook 2Q 2017

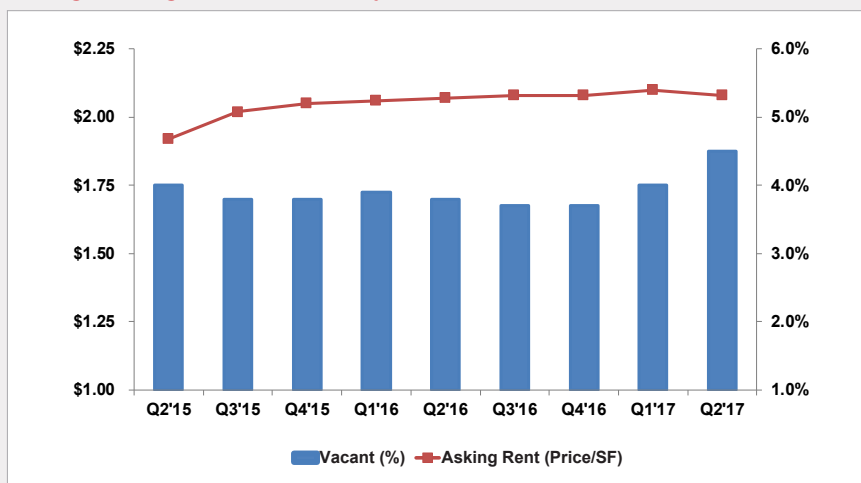
MARKET OVERVIEW

In the second quarter of 2017, the Orange County retail market saw steady rental rates with an increase in vacancy due to new construction and struggling retailers closing. The vacancy rate was 4.5%, up 50 basis points over the quarter and 70 basis points from last year. This year, 461,528 square feet have delivered including The Source at Beach, a 356,509 square foot lifestyle center in Buena Park that is 87.1% leased. On average, the asking rent held steady over the year at \$2.08/SF. The future outlook looks mixed, as more consumers are concerned about their economic future despite strong economic indicators. The latest survey of California residents released by Chapman University's Anderson Center for Economic Research shows that the California Composite Index of Consumer Sentiment declined in excess of 10 points from the first quarter to 98.7. This is significant, as a reading below 100 indicates pessimism. Nevertheless, the Orange County labor market saw unemployment fall from 4.3% in May 2016 to 3.8% in May 2017, which is the lowest level in Southern California.

TRENDS TO WATCH

Employment growth has not stopped retail vacancies from increasing in Orange County. According to the Census Bureau, e-commerce's share of total retail activity increased from 7.8% last year to 8.5% this year. As e-commerce adds growing pressure to traditional retailers, several national retailers are closing underperforming stores. This quarter, Payless Shoes announced that it would close eight stores in Orange County, while J.C. Penney announced that it would close three, including its 102,000 square foot store at The Village in Orange. Specialty and lifestyle centers have resisted this trend because they offer attractions and experiences to draw consumers in. An example is CGV Cultureplex cinema at The Source, which immerses patrons with a fusion of entertainment, dining and shopping. These property types should continue to see rent growth and steady occupancy.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

Orange County

Retail Market Outlook 2Q 2017



Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	31,851,018	154,325	4.3%	3.5%	185,548	337,775	1,734,450	1,903,978	\$2.39	\$130
Central	14,043,011	0	5.8%	4.3%	97,766	265,022	63,456	133,983	\$1.86	\$324
North	31,915,720	58,354	6.8%	6.6%	174,845	280,300	272,016	449,091	\$1.73	\$304
South	28,520,525	334,093	6.2%	4.7%	145,789	302,029	536,158	951,602	\$2.42	\$634
West	33,933,399	140,314	4.7%	3.4%	142,523	290,694	952,405	1,246,850	\$2.01	\$269
Total	140,263,673	687,086	5.5%	4.5%	746,471	1,475,820	3,558,485	4,685,504	\$2.10	\$169

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

Leasing

This quarter, tenants leased a total of 746,471 square feet of retail space. This represents a slight increase of 2% over the quarter, but remains 23% below last year at this time. Average asking rents closed the quarter at \$2.08/SF, down 1% from the prior quarter, and steady over this time last year. Over the past two quarters, mall properties have cut their average asking rents by over 21% to \$2.00/SF due to rising vacancy. Despite lower rents, the vacancy rate for Malls remains 60 basis points higher than last year at this time, while the vacancy rate for Power Centers remains 90 basis points higher. In the largest lease transaction this quarter, the House of Blues moved their restaurant from Downtown Disney to the nearby Anaheim GardenWalk, where they took over a 20,667 square foot space formerly occupied by UltraLuxe Cinemas.

Sales

Sales volume totaled over 3.5 million square feet, representing a 158% increase over the quarter and a 212% increase over this time last year. This increase in activity comes as investors have purchased larger quantities of lower priced product. The sale price this quarter averaged \$169/SF, which was 37% lower than last quarter and 54% lower than last year at this time. In one of the largest sales transactions this quarter, Sterling Organization purchased the 75,890 square foot Pavilion Plaza West in Garden Grove for \$145/SF. The Sterling Organization hopes to redevelop the mostly vacant property in order to attract new tenants. In another significant transaction, the Victory Automotive Group purchased a 60,220 square foot property in San Juan Capistrano for \$266/SF.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
House of Blues	321 W Katella Ave	North	Withheld	20,667
Day Care Center	4877-4991 La Palma Ave	West	\$1.20	17,500
JD Classics	4040 Campus Dr	Airport	\$3.24 FS	14,794
Go Nutrition Store.com	2565 McCabe Way	Airport	\$2.99	7,500
Goodwill Industries	31890-31892 Plaza Dr	South	\$2.00	6,767

*All rents are NNN unless otherwise stated

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Sterling Organization	9852 Chapman Ave	West	\$145	75,890
Victory Automotive Group, Inc.	33555-33633 Camino Capistrano	South	\$266	60,220
Harvest Capital, Inc.	11100 Garden Grove Blvd	West	\$307	29,935
Melanie Machine Company	32881 Camino Capistrano	South	\$348	26,181
2115 Bristol Trust	10520 Garden Grove Blvd	West	\$186	19,925

Orange County

Retail Market Outlook 2Q 2017



- **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

Orange County

Retail Market Outlook 2Q 2017



NAI Capital Research

J.C. Casillas

Vice President
Research, Marketing and Communications
jcasillas@naicapital.com

Jillian Olivas

Research and Communications Assistant
jolivas@naicapital.com

Kevin de Bree

Research Analyst
kdebree@naicapital.com

NAI Capital Southern California Office Locations

Headquarters

16001 Ventura Blvd., Ste. 200
Los Angeles, CA 91436
818.905.2400

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

Los Angeles County

Downtown LA

601 S. Figueroa St., Ste 3825
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St. Dr., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

27451 Tourney Rd., Ste. 200
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 1660
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Simi Valley

2655 First St., Ste. 250
Simi Valley, CA 93065
805.522.7132

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

Victorville

13911 Park Avenue, Ste. 206
Victorville, CA 92392
760.780.4200

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566