

# Orange County

## Retail Market Outlook 4Q 2017

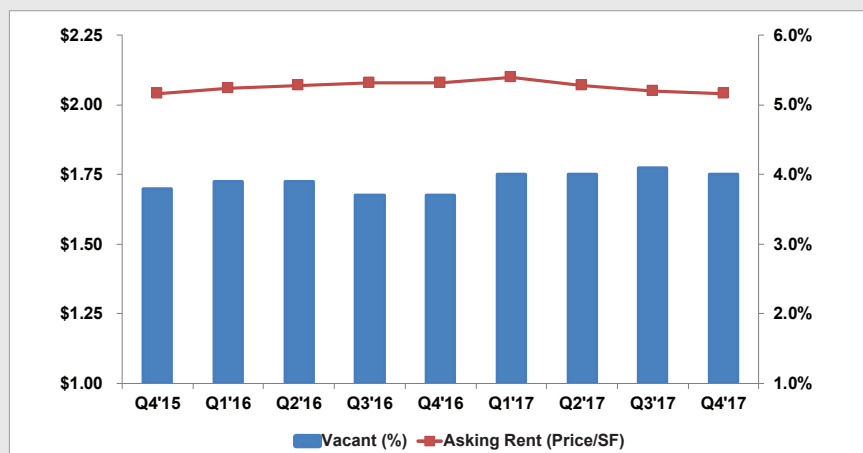
### MARKET OVERVIEW

In the fourth quarter of 2017, the Orange County retail market remained steady as the market worked to absorb vacant space that was placed on the market earlier in the year. The vacancy rate rose 30 basis points over last year to 4.0%. Much of this growth in vacant space is the result of new construction coming online. This year, 758,740 square feet of retail space was delivered to the market. Average asking rents remained steady over quarter but decreased 1.9% over last year to \$2.04/SF. The outlook is mixed with wages rising amid concerns over the impact of e-commerce on brick and mortar retail. The Bureau of Labor and Statistics reported annual wage growth of 4.9% in Orange County as a result of a robust economy. Orange County unemployment rate fell to 2.8% in December 2017, while the retail trade and leisure and hospitality sectors posted gains of 0.7% and 4.6% respectively, over the year. However, within the retail sector, employment in Health & Personal Care Stores were down 1.7%, Clothing & Accessories Stores were down 2.8% and Sporting Goods, Hobby, Book & Music Stores were down 1.5% over 2016.

### TRENDS TO WATCH

Outlook for retail is mixed going into 2018. While the 2017 holiday season posted one of the best performances for retailers nationwide since the recession, increasing competition from e-commerce is forcing many brick and mortar retailers to streamline, restructure, and innovate. Several major retailers filed for bankruptcy protection in 2017, including Toys R Us, True Religion, Gymboree, Payless, RadioShack, among others. Several more retailers are expected to file for bankruptcy in 2018, including Sears, PacSun, and Burlington Stores, Inc. The impact has been felt across the Southern California retail market, including Orange County, where Toys R Us and Sears are closing down two stores. While vacancy rates remain low, availability rates have increased over the year and some landlords have been forced to cut asking rents for some property types in an effort to attract tenants.

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



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### Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	4Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	4Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF NNN	AVERAGE SALE PRICE \$/PSF
Airport	32,514,591	24,888	3.9%	3.1%	159,161	688,513	353,652	1,329,957	\$2.33	\$367
Central	14,025,432	6,000	4.8%	4.1%	163,391	519,045	158,603	389,315	\$1.81	\$368
North	31,947,763	90,140	6.4%	5.1%	279,418	782,538	666,154	1,584,271	\$1.73	\$413
South	28,632,018	212,525	5.7%	4.4%	124,146	696,769	505,048	1,896,658	\$2.39	\$389
West	33,952,975	153,619	4.2%	3.3%	164,856	744,740	705,535	2,771,649	\$1.95	\$485
<b>Total</b>	<b>141,072,779</b>	<b>487,172</b>	<b>5.0%</b>	<b>4.0%</b>	<b>890,972</b>	<b>3,431,605</b>	<b>2,388,992</b>	<b>7,971,850</b>	<b>\$2.04</b>	<b>\$397</b>

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

### Leasing

Overall, average asking rents declined slightly over the year to \$2.04/SF. However, Malls and Power Centers saw a dramatic drop in average asking rents over the year. Malls fell 46% to \$1.43/SF and Power Centers dropped 24% to \$1.89/SF. Both of these properties types also saw vacancy increases. This trend has also affected Lifestyle Centers, which lowered asking rents by 37% over the year to \$1.43/SF, while the availability rate increased 150 basis points over the quarter to 11.6%. Higher end lifestyle centers have managed to avoid this trend, such as The Source in Buena Park, which delivered in 2017 and has seen significant occupancy growth despite its \$4.00/SF asking rent. Over the year, many of the most significant lease transactions have involved tenants that are resistant to e-commerce competition, including gyms and fitness clubs, which could function as new anchor tenants.

### Sales

Sale activity totaled 2.4 million square feet, which represented a 29.1% decrease over this time last year. However, average sale prices were up 30.2% over this time last year to \$397/SF with cap rates averaging 5.39%. This was an increase of 77 basis points over last quarter and 53 basis points over last year at this time. Overall, this indicates that investors are feeling confident enough to purchase properties with higher cap rates for greater return on their investments. In one of the largest sale transactions this quarter, a 204,523 square foot retail property called The Triangle in Costa Mesa was purchased for \$272/SF at a 6.50% cap rate. In another major transaction, Retail Opportunity Investments, Corp. purchased the 202,179 square foot Placentia Town Center for \$477/SF.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/PSF*	SQUARE FEET
Chuze Fitness	117-135 N Beach Blvd	North	Withheld	44,800
Planet Fitness	18601-18659 Yorba Linda Blvd	North	Withheld	18,705
Blink Fitness	2225-2229 W Ball Rd	North	Withheld	16,310
DDC Electric Supply	1548 E Warner Ave	Central	\$1.50	12,055
Memorial Care	26538 Moulton Pky	South	Withheld	9,400

\*All rents are NNN unless otherwise stated

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Tyler Mateen	1870 Harbor Blvd	Airport	\$272	204,523
Retail Opportunity Investments, Corp.	3200-3240 Yorba Linda Blvd	North	\$477	202,179
New Mark Merrill Co.	Placentia Town Center	North	\$256	139,762
Helen Ross	24280-24356 Swartz Dr	South	\$239	60,782
Lincoln Property Company	3600 W Orangewood Ave	North	\$330	42,685

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##### Pasadena

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##### Valencia

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##### Diamond Bar

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#### Ventura County

##### Oxnard

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##### Westlake Village

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##### Simi Valley

2655 First St., Ste. 250  
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#### Orange County

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##### Palm Desert

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