

# Orange County

## Retail Market 2Q 2019

### MARKET OVERVIEW

Orange County's retail market experienced rising rent as vacancy leveled off and availability crept up. The average asking rent jumped 7.4% annually, up 1.4% from 1Q 2019 to \$2.17/SF. Asking rent on smaller spaces was elevated this quarter. Laguna Heights Marketplace raised its asking rent to \$4.50/SF on a 600 SF unit. Vacancy was up 10 bps over the prior quarter at 3.7%, down 20 bps below 2Q 2018. New construction spurred this increase as 38,549 SF of inventory came online with some vacancies, including Fullerton Marketplace.

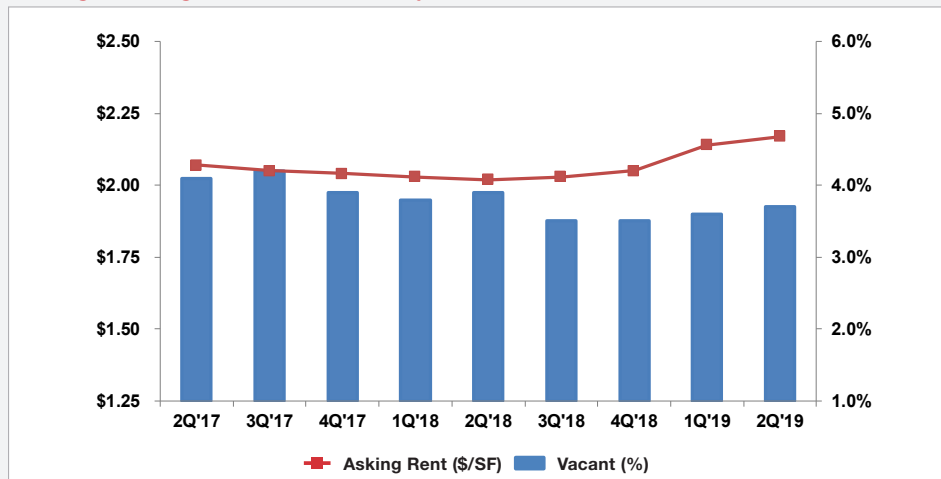
Availability inched up 10 bps over the prior quarter to 4.6% as landlords are dividing blocks of space into divisible units to accommodate retailers rightsizing their footprints due to ecommerce. This strategy brought more smaller blocks of available space to the market. For example, Westminster Mall is offering a former Sears store as 90,450 SF blocks and will divide them into 5,000 SF units. Looming closures from national tenants that are occupying their spaces also impacted availability as the landlords have put these spaces on the market for lease.

### TRENDS TO WATCH

Construction is winding down with 95,967 SF under construction at the end of the quarter, 83,001 SF of which should be completed by yearend. Most of these projects are built-to-suits or in mixed-use developments and will likely have a minimal impact on vacancy but may push up the average rent. These smaller projects reflect the trend of retailers adjusting space needs. This quarter posted the lowest construction volume since 2010, although project size began decreasing in 2015; average building size went from 25,037 SF in 2015 to 8,580 SF in 2019. Thus far in 2019, no properties were completed or broke ground that exceeded 50K SF. Proposed projects signify that this trend should persist for the next few years.

Employment trends will keep The County's retail market steady in the second half of 2019. The OC unemployment rate decreased 20 bps from April to May 2019 to 2.4%, Southern California's lowest rate. Orange County's labor market will remain strong through 2019, yet population outmigration due to the high cost of living may impact the retail sector.

Average Asking Rent\* and Vacancy Rate



### 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 (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	32,962,533	30,172	3.3%	2.8%	207,466	386,153	138,187	279,477	\$2.38	\$450
Central	13,911,140	0	3.5%	2.9%	70,051	108,522	95,224	212,234	\$1.92	\$245
North	31,589,182	2,000	5.4%	4.4%	219,765	356,905	553,610	711,377	\$1.82	\$341
South	28,512,978	25,193	5.1%	4.0%	141,420	353,990	319,130	366,341	\$2.60	\$426
West	32,685,141	38,602	5.2%	4.0%	99,226	186,240	254,481	479,472	\$2.23	\$371
<b>Orange County</b>	<b>139,660,974</b>	<b>95,967</b>	<b>4.6%</b>	<b>3.7%</b>	<b>737,928</b>	<b>1,391,810</b>	<b>1,360,632</b>	<b>2,048,901</b>	<b>\$2.17</b>	<b>\$378</b>

### Leasing

Second quarter leasing activity increased 13% following a sluggish 1Q 2019. Central and North submarkets posted quarterly gains of 82.1% and 60.2%, respectively. Anaheim GardenWalk lifestyle center (Central submarket) improved its occupancy by leasing 28,562 SF to nine new local tenants, including K-POP Games and Kip Barry's Magic Café. These experiential tenants are considered ecommerce proof and diversify this shopping/entertainment destination. These deals represent a successful shift in leasing strategy executed by new ownership that bought the center in 4Q 2018.

The North submarket saw the strongest demand this quarter with 219,765 SF leased, accounting for 41.4% of total market volume. Local as opposed to national tenants primarily drove this activity. Heart Academy of Dance leased 9,840 SF at La Habra Plaza previously occupied by Dollar Tree for an asking rate of \$1.25/SF.

### Sales

Sales activity soared 98% above 1Q 2019 to over 1.3M SF in 111 transactions. The average sales price registered \$378/SF while cap rates averaged 4.6%. The average cap rate dropped 90 bps annually, holding steady compared to 1Q 2019.

Investors seized opportunities in the North submarket, which witnessed the highest number of transactions as well as volume. A private investor purchased Anaheim West Plaza, an 80K SF neighborhood center for just over \$11.7M or \$212/SF. Although the center was 63% occupied at sale, this deal represented a value-add for the buyer. The property is forecasted to double its NOI in the next six months through leases that were still under negotiations at the end of the quarter, such as a 37,357 SF transaction with a fitness tenant.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
EoS Fitness	1501 N Tustin Ave	Airport	\$2.25	35,000
Guadalajara Furniture	117 N Broadway	Airport	\$0.79 MG	18,750
Heart Academy of Dance	1279 E La Habra Blvd	North	\$1.25	9,840
K-POP Games	321 W Katella Ave	Central	Withheld	7,058
Richard & Christina's Haunted Maze	321 W Katella Ave	Central	Withheld	5,998

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Private Investor	3150-3170 W. Lincoln Ave	North	\$212	80,429
Private Investor	17401 - 17491 Beach Blvd	West	\$435	35,890
Private Investor	341 E Whittier Blvd	North	\$144	21,960
Private Investor	16181 Lake Forest Dr	South	\$393	17,600
Pacific Auto Center	2524 Harbor Blvd	Airport	\$487	16,440

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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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