

Orange County

Retail Market 3Q 2018

MARKET OVERVIEW

Orange County's retail market tightened up during 3Q 2018. The 3.4% vacancy rate fell 50 basis points below the previous quarter and 70 basis points from 3Q 2017. The average asking rent stayed flat over 2Q 2018, down a mere 1.0% year over year. Only 169,390 SF of new inventory came onto the market and all seven properties were completed fully leased. Irvine Spectrum's \$200M 140,000 SF retail expansion was the largest project completed, which repurposed a former Macy's site.

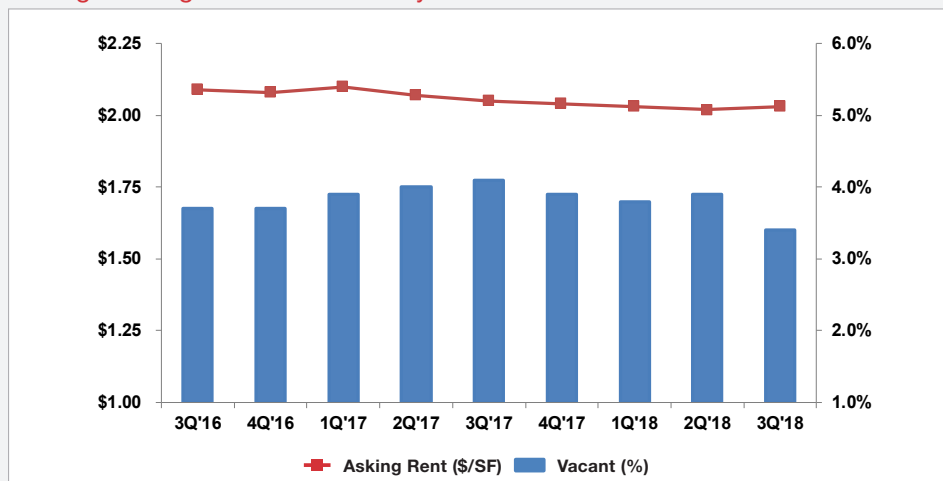
Construction activity saw several major developments approaching completion. Roughly 466,633 SF were under construction across 21 projects, which equates to 52% higher volume than 3Q 2017. The mixed-use Tustin Legacy remained the largest project in the pipeline with a 220,000 SF retail building and 19,888 SF food hall scheduled to be completed in 4Q 2018 and 1Q 2019, respectively. Approximately 23.5% of the quarter's total construction volume encompassed nine buildings within the 125,000 SF Yorba Linda Town Center shopping and dining destination. The Town Center is expected to be completed in 2Q 2019.

TRENDS TO WATCH

Proposed construction indicates developers are following the Irvine Spectrum's lead and focusing on expansions within successful properties. For example, a planned 229,382 SF addition to the popular Outlets at San Clemente is slated to break ground in 4Q 2018. Developers are also experimenting with mixed-use projects in densely populated areas to revitalize struggling retail centers, such as the Laguna Hills Mall.

Employment trends will sustain Orange County's retail market and support the need for greater density in population centers. The County's unemployment rate reached 3.1% in August 2018, which was below the national rate of 3.9%. Total nonfarm employment added 11,000 jobs from August 2017 to August 2018 while the Leisure and Hospitality sector gained 4,400 jobs over the same period. Expect a prosperous economy to propel the retail industry into a robust fourth quarter.

Average Asking Rent* and Vacancy Rate



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 3Q 2018

Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF NNN	AVERAGE SALE PRICE \$/SF
Airport	33,159,023	265,989	3.3%	2.3%	141,372	543,385	80,569	552,878	\$2.26	\$537
Central	14,071,211	15,000	4.5%	3.5%	32,224	200,528	54,681	225,206	\$1.82	\$628
North	31,960,412	117,206	6.4%	4.2%	163,526	516,641	223,835	878,308	\$1.71	\$372
South	28,529,362	50,038	4.6%	3.5%	270,050	654,684	201,334	421,085	\$2.44	\$510
West	33,329,473	18,400	4.6%	3.5%	114,894	449,322	288,216	711,473	\$2.02	\$455
Orange County	141,049,481	466,633	4.7%	3.4%	722,066	2,364,560	848,635	2,788,950	\$2.03	\$431

Leasing

Leasing activity maintained a steady pace this quarter. Volume totaled 722,066 SF, dipping 17.7% below the prior quarter and 34.5% from 3Q 2017. The South submarket witnessed a 17.4% quarterly uptick in leasing volume, the only market where activity increased. Mission Viejo saw the most transactions, accounting for 13% of the quarter's total leasing volume, as Michaels secured a 42,000 SF former Sports Authority space and Target leased a 29,851 SF pad previously occupied by Sport Chalet.

Rental rates continued to climb in lifestyle centers for the fourth straight quarter as vacancy dropped 70 basis points year over year to 8.7%. The vacancy rate declined due to four lease transactions at Park Place in Irvine totaling 45,457 SF.

Sales

Sales activity cooled down in 3Q 2018. Sales volume totaled 848,635 SF, a 27% decrease from 3Q 2017. The average sales price registered at \$431/SF and most transactions featured neighborhood/strip centers.

Orange County's Central submarket posted the highest average sales price at \$628/SF. One noteworthy transaction involved a 3,380 SF retail auto repair building that sold for about \$2.8M or \$825/SF at a 4.50% cap rate. A private investor purchased the building occupied by Big O Tires, which had nearly five and a half years left on its lease with two five-year extension options. Cap rates averaged 4.91%, 11-basis-points above 3Q 2017, and the Central market earned the county's lowest cap rate at 4.5%.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Michaels	25462 El Paseo	South	\$1.30	42,000
Target	27529-27573 Puerta Real	South	Withheld	29,851
Santa Ana Beauty School	23633-23635 El Toro Rd	South	Withheld	6,000
Fit Body Boot Camp	5711-6767 E La Palma Ave	North	Withheld	3,300
Blaze Pizza	209 E. Orangefair Mall	South	Withheld	3,000

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Paragon Commercial Group	2101 W Imperial Hwy	North	\$161	79,399
JC Financial Enterprises, Inc.	6300-6320 Lincoln Ave	West	\$225	10,000
TPM Products Inc	1281 E La Habra Blvd	North	\$252	9,900
Private Investor	2162-2166 W Lincoln Ave	North	\$184	7,020
Private Investor	8511 Katella Ave	West	\$655	5,683

Orange County

Retail Market 3Q 2018



- 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 3Q 2018



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

Katherine Tattersfield

Marketing Research Writer
ktattersfield@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 Tournay 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

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

Orange County

Irvine

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

Coachella Valley

Palm Desert

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