

Orange County

Retail Market Outlook Q1 2020

MARKET OVERVIEW

Prior to the COVID-19 shutdown, Orange County's retail market held its footing with continued rent growth and low vacancy in the first quarter. The average asking rent grew for the seventh consecutive quarter — up 0.9% from the prior quarter and 7.4% year over year to \$2.31/SF. Vacancy inched up a mere 20 bps from the previous year, unchanged from Q4 2019 at 3.9%. New construction contributed to the rise in rent and vacancy as 266K SF of retail space was added to the market since Q1 2019. Many of these projects were built-to-suit. By the end of Q1, only 15% of the projects remained available, demonstrating healthy tenant demand for new retail space.

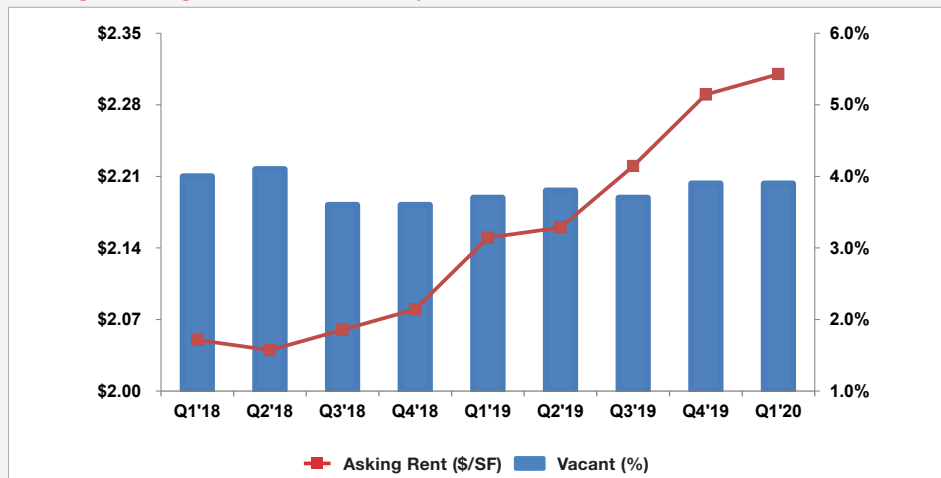
However, the first quarter ended with the unprecedented COVID-19 shutdown. Now the OC retail market faces uncertainty as the pandemic plays out. The County's limited space under construction of 138K SF across ten projects will not impact the balance between supply and demand. Nevertheless, the shutdown of non-essential retail along with the closure of Disneyland and the drop in tourism will present a challenge for some OC retailers.

TRENDS TO WATCH

Employment and income are critical drivers of the demand for retail space. According to the EDD, Orange County shed 13,200 jobs over the month in March. Professional & Business Services lost 5,500 jobs while Leisure and Hospitality lost 3,000 jobs. The Retail Trade sector itself lost 1,800 jobs, mostly in car dealerships, specialty stores and apparel. Conversely, essential retailers such as grocery stores along with food and beverage stores posted moderate gains. These trends reveal that some OC retailers will fare better than others during the shutdown.

The COVID-19 shutdown will have a lasting impact on demand for retail space in the coming quarters. NAI Capital conducted a COVID-19 Impact Survey of retail market professionals to get a pulse of where the market could be headed. Respondents said: rents will decline as market conditions won't sustain pre-pandemic growth and some tenants move toward online-only sales. Sales prices will remain flat; however, quality centers will still see demand from investors. Vacancy will increase and landlords will offer more concessions to keep tenants. Many landlords are proactively renegotiating leases, offering abatement or deferring rent with repayment plans.

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
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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	Q1 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q1 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF NNN)	AVERAGE SALE PRICE (\$/SF)
Airport	33,273,652	59,139	3.9%	3.1%	102,206	102,206	160,468	160,468	\$2.55	\$291
Central	13,830,019	53,168	4.7%	2.7%	51,216	51,216	60,489	60,489	\$2.08	\$432
North	31,606,310	3,150	5.9%	4.6%	114,533	114,533	161,966	161,966	\$1.87	\$417
South	28,412,777	2,800	5.3%	4.5%	183,801	183,801	261,499	261,499	\$2.79	\$428
West	32,462,274	19,732	5.1%	4.1%	105,780	105,780	312,021	312,021	\$2.25	\$417
Orange County	139,585,032	137,989	5.0%	3.9%	557,536	557,536	956,443	956,443	\$2.31	\$400

Leasing

Quarterly leasing activity softened to the lowest level seen since Q4 2016 in terms of square footage, down 25% from the prior quarter and 30.3% from Q1 2019 to 558K SF. It's important to note retailers continued taking smaller spaces this quarter, which accounted for some of this softening. The average deal size shrank from 2,679 SF in Q1 2019 to 2,419 SF this quarter.

The South market saw the strongest leasing activity, up 13.3% from the prior quarter, yet down 23.5% below Q1 2019 to 184K SF. South represented 33% of total market leasing volume. The market worked to absorb big-box space from recent closures. Furniture City leased a 45K SF former Toys R Us at Mission Viejo Freeway Center at an asking rate of \$1.99/SF. This store will be the local brand's second location.

Sales

First quarter sales volume increased 44.3% from Q1 2019 in terms of square footage as over 956K SF valued at \$383M changed hands. This quarter also saw the highest Q1 dollar volume on record, indicating investor confidence in Orange County retail assets. The average sales price dipped 7.5% over the same period to \$400/SF while the average cap rate on investment sales \$2M+ declined 40 bps to 4.2%.

The West market spurred the year-over-year uptick in sales activity, rising 41.5% to 312K SF or 32.6% of total market transaction volume by square feet. Investors focused on solid assets anchored by grocery, drug, and convenience stores. Blackstone Group purchased a 676K SF portfolio of six grocery-anchored shopping centers for \$292M or \$432/SF this quarter. The assets were collectively 94% occupied at the time of sale.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Furniture City	25362 El Paseo	South	\$1.99	44,960
Holiday Inn Express Anaheim West	727 S. Beach Blvd.	Central	TBD	35,325
Dollar Tree	14542 Beach Blvd.	West	TBD	11,500
TBD	7582 Warner Ave.	West	\$1.85 FSG	8,300
All American Jiu Jitsu	7691 Knott Ave.	North	\$1.00 FSG	5,650

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Private Investor	2455 E. Imperial Hwy	North	\$409	109,505
Private Investor	18500-18532 Yorba Linda Blvd.	North	\$372	31,000
Premier Commercial Brokerage	100 - 290 W. Lincoln Ave.	Central	\$492	29,960
Private Investor	2346 Newport Blvd.	Airport	\$452	11,771
Private Investor	108-122 N. Tustin Ave.	North	\$263	9,498

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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

- Airport**
 - Costa Mesa
 - Irvine
 - Newport Beach
- South**
 - Aliso Viejo
 - Dana Point
 - Foothill Ranch
 - Laguna Hills
 - Laguna Niguel
 - Lake Forest
 - Mission Viejo
 - Rancho Santa Margarita
 - San Clemente
 - San Juan Capistrano

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Orange County

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