Orange County’s retail market maintained stability heading into the second half of 2018. The vacancy rate held steady over last quarter and dipped 20 basis points below 2Q 2017. The average asking rent dropped to $2.02/SF, down 2.4% from 2Q 2017. A mere 21,882 SF of new inventory completed this quarter and all five properties were delivered fully leased mainly to national restaurant tenants. The largest project completed was 8,922 SF at 17150 Brookhurst St in Fountain Valley, which completely leased up to The Habit Burger Grill, WingStop, Tastea, and Chipotle.

Construction activity remained flat over the prior quarter as the market adjusts to evolving demand. Roughly 445,835 SF were under construction across 21 projects, up just 1.0% from 2Q 2017. About 60.0% of these developments are under 10,000 SF, averaging 4,900 SF. Two buildings within Tustin Legacy, a mixed-use community redevelopment of a former Marine base, were the biggest projects this quarter. Mess Hall Market, a 19,888 SF food hall building located in the Flight at Tustin Legacy, is a fully leased chef-driven concept with nine hand-selected tenants slated for a 1Q 2019 opening.

Vital signs appear healthy for the retail market as it responds to changing consumer spending habits. Smaller spaces are in demand to accommodate experimental pop up stores and major retailers adapting to fulfill online orders at physical stores. Developers are scaling back, as evidenced by 57.0% of new construction projects being Neighborhood or Strip Centers as opposed to Regional Malls or Lifestyle Centers. This strategy is proving effective as the Orange County retail market experienced positive absorption for three consecutive quarters while the national market saw a spike in negative absorption in 2Q 2018. Favorable economic trends indicate a solid future for Orange County retailers. The County’s unemployment rate stayed at 2.6% in April & May 2018 whereas the national rate was 3.6% during that time. Leisure and Hospitality added 700 jobs over the same period and total nonfarm employment gained 17,300 jobs from May 2017 to May 2018.

*Rents reflect buildings of 5,000 SF or greater.

Source: NAI Capital Research, CoStar
Orange County Retail Market 2Q 2018

Market Statistics*

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (SF)</th>
<th>TOTAL VACANCY (%)</th>
<th>2018 LEASING VOLUME (SF)</th>
<th>YTD LEASING VOLUME (SF)</th>
<th>2018 SALES VOLUME (SF)</th>
<th>YTD SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/SF NNN</th>
<th>AVERAGE SALE PRICE $/SF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>32,584,072</td>
<td>265,989</td>
<td>3.5%</td>
<td>2.8%</td>
<td>179,034</td>
<td>410,249</td>
<td>619,876</td>
<td>822,860</td>
<td>$2.27</td>
<td>$471</td>
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<tr>
<td>Central</td>
<td>14,043,599</td>
<td>15,000</td>
<td>4.4%</td>
<td>4.2%</td>
<td>102,189</td>
<td>166,004</td>
<td>79,771</td>
<td>148,601</td>
<td>$1.89</td>
<td>$421</td>
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<tr>
<td>North</td>
<td>31,926,030</td>
<td>118,853</td>
<td>5.9%</td>
<td>4.3%</td>
<td>169,335</td>
<td>333,048</td>
<td>415,976</td>
<td>648,764</td>
<td>$1.69</td>
<td>$243</td>
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<tr>
<td>South</td>
<td>28,743,311</td>
<td>39,993</td>
<td>5.0%</td>
<td>4.2%</td>
<td>219,642</td>
<td>369,800</td>
<td>146,452</td>
<td>230,346</td>
<td>$2.49</td>
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<tr>
<td>West</td>
<td>34,176,439</td>
<td>6,000</td>
<td>4.7%</td>
<td>3.9%</td>
<td>187,191</td>
<td>311,686</td>
<td>212,578</td>
<td>355,353</td>
<td>$1.92</td>
<td>$173</td>
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<tr>
<td>Total</td>
<td>141,473,451</td>
<td>445,835</td>
<td>4.7%</td>
<td>3.8%</td>
<td>857,391</td>
<td>1,590,787</td>
<td>1,474,653</td>
<td>2,205,924</td>
<td>$2.02</td>
<td>$290</td>
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</table>

Leasing

Leasing activity picked up in 2Q 2018 following a sluggish start to 2018. Leasing volume totaled 857,391 SF in 2Q 2018, up 16.9% over 1Q 2018, yet 8.7% down from 2Q 2017. The average asking rent dipped 2.4% year over year to $2.02/SF.

Despite an overall decline, rental rates climbed in Lifestyle Centers. Their average asking rent grew 7.1% over the same period to $2.40/SF, which was 36.5% less than the $3.78/SF peak in 3Q 2009. At the same time, the vacancy rate for Lifestyle Centers rose to 10.2%. This represented a 15-basis point jump from 1Q 2018. Several of the largest Lifestyle Centers in the area struggled with vacancy. For example, Anaheim GardenWalk was 74.2% occupied with 139,327 SF of vacant space even after AMC Theaters leased 21,648 SF in May. This property, built in 2008, has been slow to lease up.

Sales

Sales activity skyrocketed in 2Q 2018 compared to 1Q 2018. Investors focused on Neighborhood/Strip Centers and Power Centers. Sales volume totaled more than 1.4M SF, a massive 101.7% surge over 1Q 2018 and 9.0% from 2Q 2017. The average sales price registered at $290/SF under increased transaction volume. Orange County’s Airport market posted the highest average sales price at $471/SF. One noteworthy transaction involved the Plaza Costa Mesa, a 21,250 SF Strip Center, that sold for $8.7M or $411/SF at a 5.6% cap rate. DMP Properties purchased the center with a high credit Petco anchor tenant. Cap rates averaged 5.5% as compared to 4.8% in 2Q 2017, which means the retail market remains competitive for investors. The West market registered Orange County’s lowest cap rate at 5.1%.

Select Lease Transactions

<table>
<thead>
<tr>
<th>TENANT</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RENT $/ SF**</th>
<th>SQUARE FEET</th>
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<tbody>
<tr>
<td>AMC Theatres</td>
<td>321 W Katella Ave</td>
<td>Central</td>
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<tr>
<td>Planet Fitness</td>
<td>8321-8371 La Palma Ave</td>
<td>North</td>
<td>Withheld</td>
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<tr>
<td>Floor Décor</td>
<td>25872 Muirlands Blvd</td>
<td>South</td>
<td>Withheld</td>
<td>72,196</td>
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<td>Rock &amp; Brews</td>
<td>1222 Irvine Blvd</td>
<td>Airport</td>
<td>Withheld</td>
<td>6,060</td>
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<tr>
<td>The Mattress Firm</td>
<td>2200 Harbor Blvd</td>
<td>Airport</td>
<td>Withheld</td>
<td>3.50</td>
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Select Sales Transactions

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<tr>
<th>BUYER</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>SALE PRICE $/SF</th>
<th>SQUARE FEET</th>
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<tr>
<td>Nassim B &amp; Marie N Hanna Living Trust</td>
<td>1502 S Main St</td>
<td>Airport</td>
<td>$1,182</td>
<td>1,311</td>
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<td>DMP Properties</td>
<td>1815 Newport Blvd</td>
<td>Airport</td>
<td>$411</td>
<td>21,250</td>
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<td>Fisher Real Estate Partners, L.P.</td>
<td>2840 S Bristol St</td>
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<td>Private Investor</td>
<td>11512 Magnolia St</td>
<td>West</td>
<td>$254</td>
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<td>ValueRock Realty Partners</td>
<td>16171 Lake Forest</td>
<td>South</td>
<td>$219</td>
<td>41,150</td>
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</tbody>
</table>

* RBA includes all retail buildings. Rents reflect buildings of 5,000 SF or greater. **All rents are NNN unless otherwise noted

Source: NAI Capital Research, CoStar
**Orange County Retail Market 2Q 2018**

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<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Los Angeles County</th>
<th>Ventura County</th>
<th>Orange County</th>
</tr>
</thead>
</table>
| 16001 Ventura Blvd., Ste. 200  
Los Angeles, CA 91436  
818.905.2400 | **Downtown LA**  
601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700 | **Oxnard**  
300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400 | **Irvine**  
1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600 |
| **Property Management**  
120th South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415 | **West Los Angeles**  
11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500 | **Westlake Village**  
2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400 | **Coachella Valley**  
Palm Desert  
75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566 |
| **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 | **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 |
| **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 | **Victorville**  
13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200 | **Ontario**  
800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339 |

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