Retail Research

Market Report

Third Quarter 2017

Ventura County

IPA Institutional Property Advisors

A Division of Marcus & Millichap

Investors Venture to Ventura as Income Growth Bolsters Retail Spending

Retailers benefit from minimal construction and local job growth. Hosting a considerable number of medical and education professionals, Ventura County is home to a large percentage of households that earn more than $85,000 annually. Continued hiring by the Ventura County Medical Center and the metro's collection of colleges will support overall job gains, increased earnings and household growth. Rising incomes bode well for stores in both coastal cities and inland suburban communities. Existing retailers metrowide will profit from a multiyear stretch of limited retail construction. Overall, the lack of new retail space brought online during this cycle has allowed metro vacancy to dip below 5 percent, increasing tenant demand for existing space. Cycle-low vacancy will persist this year and raise average asking rents following a period of stagnant rate growth, yet the metro's rate will significantly trail the previous cycle's peak pricing.

Retail 2017 Outlook

41,100 sq. ft. will be completed

Construction:
Annual delivery volume remains below 100,000 square feet for a sixth consecutive year, with three projects delivered in 2017.

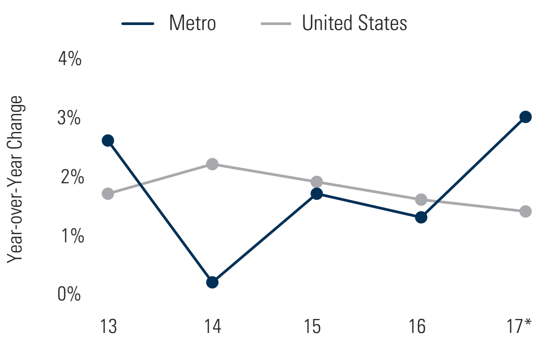
80 basis point decrease in vacancy

Vacancy:
The lack of new construction heightens tenant demand for existing space, reducing vacancy to 4.8 percent.

2.8% increase in asking rents

Rents:
The average asking rent advances to $21.60 per square foot by year end, trailing the previous cycle's peak rate by 20 percent.

Employment Trends



* Forecast

HIGHLIGHTS

- Ventura County employers added 9,300 jobs over the past year ending in June, increasing the local employment base by 3.1 percent. The education and health sector drove overall job gains, creating 5,200 positions. Recent hiring reduced the local unemployment rate to 4.4 percent, a 10-year low.
- Developers brought 61,200 square feet of retail online over the last 12 months. A 28,600-square-foot extension of The Collection at Riverpark in Oxnard represented the largest delivery. As of midyear, one smaller project was underway.
- A limited construction pipeline has supported consistent leasing activity, tightening vacancy and reviving rent growth. The potential for upside has sustained local and Southern California-based investors' interest in the metro.

2Q17 - 12-MONTH TREND

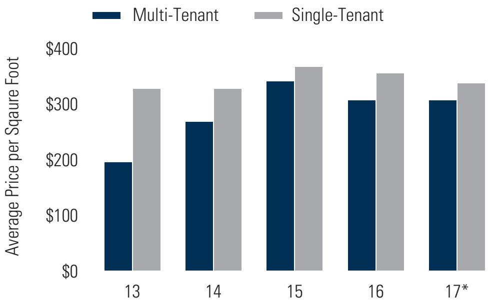
SALES TRENDS

Value-Add Deal Flow Reduces Pricing

- Sales velocity remains consistent for a second straight year. Half the closed transactions were in neighboring Oxnard, Ventura and Camarillo.
- The average retail price remained approximately in the $330 range over the past 24 months. Single-tenant trades captured higher prices in the $350 per square foot arena with cap rates in the mid-5 percent area. Multi-tenant assets traded in the high-$290 to low-$300 price per square foot span with low-6 percent first-year yields.

Outlook: Investor competition for post-2000-built properties in coastal cities and Moorpark/Simi Valley should heat up as retail development activity comes to a halt.

Pricing Trends



* Trailing 12 months through 2Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding a possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 percent for most retail properties. At the end of 2016, the combination of increasing rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and nominally higher interest rates may also encourage additional lenders to participate.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau