

# FIRST QUARTER 2014 ORANGE COUNTY RETAIL

**Voit**  
REAL ESTATE SERVICES

## MARKET CHANGE

*Compared to the Previous Quarter:*

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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VOIT Real Estate Services

## HIGHLIGHTS

- **Encouraging Numbers** - The Orange County retail market continued to stride forward in the first quarter of 2014. Both availability and vacancy continued to trend downward, dropping over 11% from the first quarter of 2013. Net absorption posted a positive 105,000 square feet for the start of 2014, and lease rates finally began to increase.
- **Construction** - There was just over 800,000 square feet of retail space under construction in Orange County at the end of the first quarter of 2014, over half of which was for mall space in the north county submarket. The overall slowdown in construction since the recession has eased and will continue to ease the upward pressure on vacancy rates and the downward pressure on lease rates.
- **Vacancy** - Direct / sublease space (unoccupied) finished the first quarter of 2014 at 5.06%, a decrease from the previous quarter's 5.12% and a drop of 11.38% compared to the same quarter of 2013. General retail space and malls had the lowest vacancy rates at only 3.00% and 3.56%, respectively, while shopping centers had the highest at 6.91%.
- **Availability** - Direct/sublease space being marketed was 5.99% finishing up the quarter, down from the previous quarter's rate of 6.16% and almost 14% lower than the first quarter of 2013. Power centers and malls had the lowest rates of all retail product types, while shopping centers had the highest. The airport area had the lowest availability rate of all submarkets at 4.03%, while north county had the highest at 7.76%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Orange County came in at \$1.87 at the end of the first quarter, displaying a four-cent increase from the previous quarter, an indication of stability.
- **Absorption** - The Orange County retail market posted over 105,000 square feet of positive net absorption in the first quarter — giving the retail market a total of nearly 1.8

million square feet of positive absorption since the first quarter of 2012.

- **Transaction Activity** - Leasing activity checked in at over 636,000 square feet for the first quarter of the year, producing a total of over 5.1 million square feet leased over the past five quarters. Sales activity for the first quarter came in at 387,565 square feet, displaying a decrease from the same quarter of 2013 when almost 700,000 square feet sold. The overall drop in transaction volume is likely partly attributable to a lack of supply, as less space is being vacated while new construction remains low. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher. Details of the largest transactions for the quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in Orange County was 5.8% in February 2014 — unchanged from a revised 5.8% in January 2014 and below the previous year's estimate of 6.6%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 31,000 payroll jobs from February 2013 to February 2014. Most sectors showed gains in employment; the largest gains were 8,600 in construction and 8,100 in professional and business services during that same period. Financial activities posted the largest year-over-year loss, dropping by 1,700 jobs.
- **Overall** - Both vacancy and availability have continued to trend downward, which should translate to further gradual increases in asking lease rates in the coming quarters. The market has posted nine consecutive quarters of positive net absorption, the longest streak recorded in over seven years. As long as job creation continues and consumer confidence stabilizes, the retail market will continue to flourish.

## FORECAST

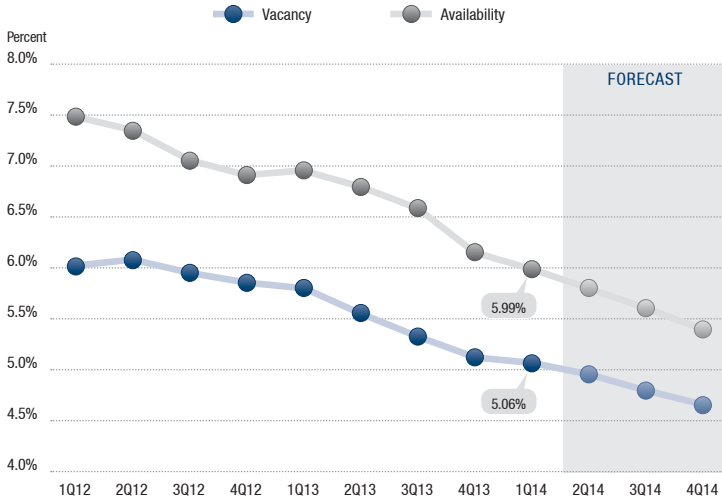
- **Employment** - We anticipate job growth of around 1.5%, or 30,000 jobs, in the Orange County area over the year. Look for professional and business services and research-oriented businesses - IT, defense, medical and alternative energy companies to lead the way for employment gains in the coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% - 5% percent by 2015.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by 40 basis points, to around 4.65%, by 2015.

## OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	5.06%	5.12%	5.71%	(11.38%)
Availability Rate	5.99%	6.16%	6.96%	(13.94%)
Average Asking Lease Rate	\$1.87	\$1.83	\$1.84	1.63%
Sale & Lease Transactions	1,023,456	2,087,230	1,800,066	(43.14%)
Gross Absorption	1,216,561	1,181,940	1,148,748	5.90%
Net Absorption	105,566	382,016	62,934	N/A

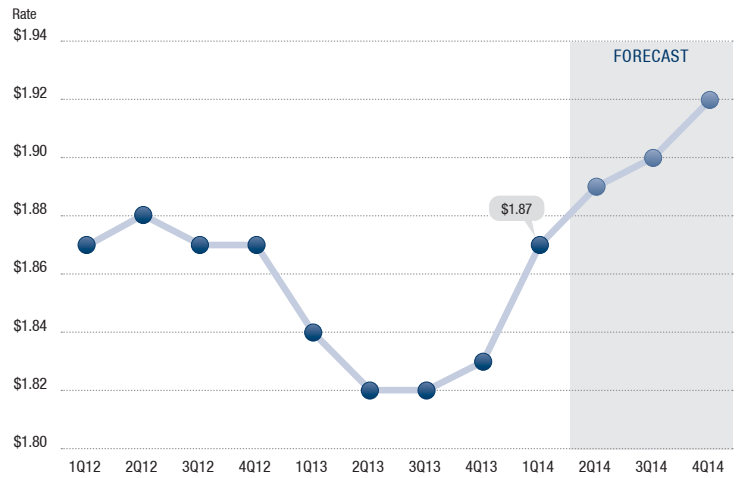
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



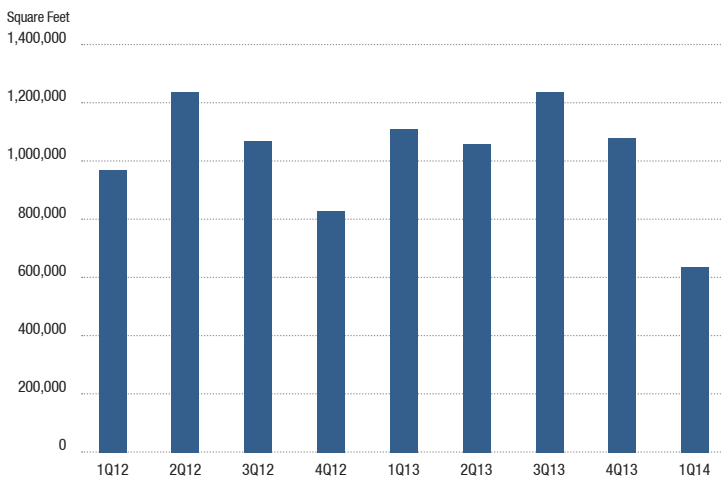
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



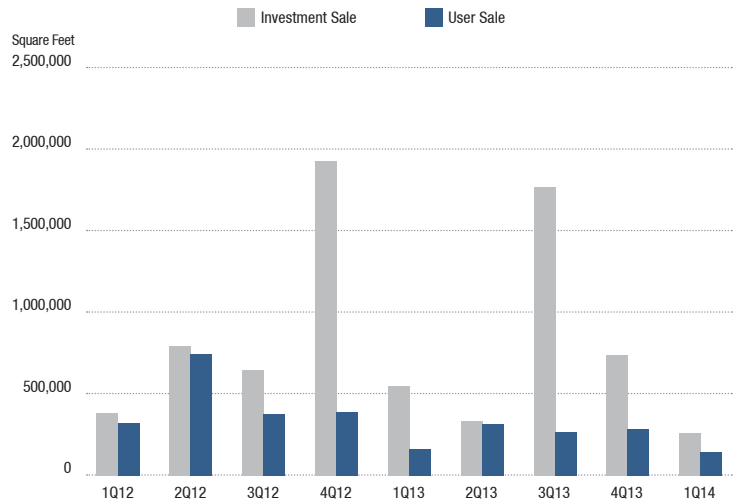
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



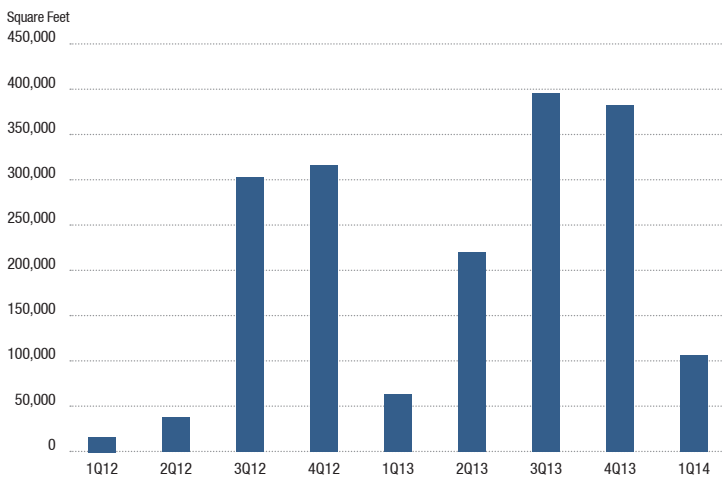
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



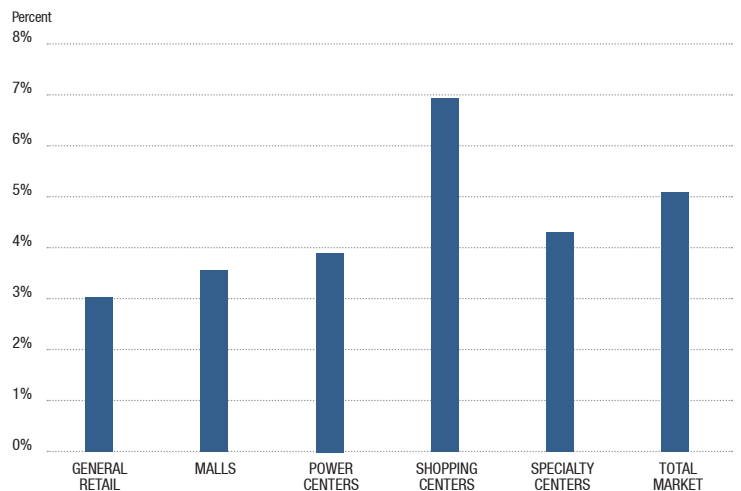
## NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



## VACANCY RATE BY PRODUCT TYPE

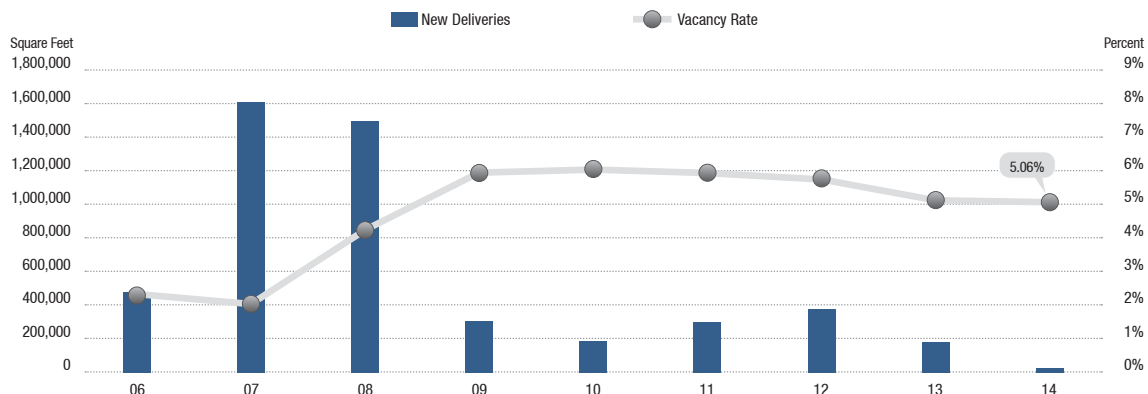
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
<b>Airport Area</b>													
General Retail	968	6,025,456	30,348	47,500	86,711	1.44%	167,017	2.77%	\$2.38	43,099	108,473	85,840	246,905
Malls	36	4,449,905	0	0	31,284	0.70%	57,942	1.30%	\$0.00	27,154	59,075	32,761	72,439
Power Centers	19	561,218	0	0	39,802	7.09%	43,302	7.72%	\$0.00	(12,761)	(1,868)	13,674	34,316
Shopping Centers	494	10,540,961	0	45,527	572,099	5.43%	582,914	5.53%	\$2.17	(20,082)	108,641	105,712	466,497
Specialty Centers	1	190,642	0	0	26,170	13.73%	26,170	13.73%	\$0.00	0	7,724	0	7,724
<b>Airport Area Total</b>	<b>1,518</b>	<b>21,768,182</b>	<b>30,348</b>	<b>93,027</b>	<b>756,066</b>	<b>3.47%</b>	<b>877,345</b>	<b>4.03%</b>	<b>\$2.20</b>	<b>37,410</b>	<b>282,045</b>	<b>237,987</b>	<b>827,881</b>
<b>Central County</b>													
General Retail	1,718	10,828,297	107,000	274,234	415,170	3.83%	673,736	6.22%	\$1.50	14,321	115,273	82,581	377,291
Malls	40	3,541,322	0	0	26,253	0.74%	20,981	0.59%	\$0.00	(3,687)	14,649	5,577	60,269
Power Centers	28	1,467,085	0	0	63,618	4.34%	45,025	3.07%	\$2.94	31,271	(6,854)	31,271	1,760
Shopping Centers	809	15,406,740	0	22,990	1,199,926	7.79%	1,282,245	8.32%	\$1.67	(119,812)	66,664	133,780	686,642
Specialty Centers	11	933,484	0	0	1,000	0.11%	1,000	0.11%	\$0.00	4,197	(555)	4,197	866
<b>Central County Total</b>	<b>2,606</b>	<b>32,176,928</b>	<b>107,000</b>	<b>297,224</b>	<b>1,705,967</b>	<b>5.30%</b>	<b>2,022,987</b>	<b>6.29%</b>	<b>\$1.67</b>	<b>(73,710)</b>	<b>189,177</b>	<b>257,406</b>	<b>1,126,828</b>
<b>North County</b>													
General Retail	1,533	10,712,590	0	620,771	357,046	3.33%	586,518	5.48%	\$1.52	(13,718)	149,339	32,937	383,929
Malls	66	5,384,372	460,208	0	407,041	7.56%	440,601	8.18%	\$0.00	(249)	68,734	59,512	144,040
Power Centers	84	3,185,400	0	0	144,627	4.54%	174,275	5.47%	\$1.93	1,302	(66,248)	5,402	30,445
Shopping Centers	812	15,525,749	6,810	325,350	1,389,638	8.95%	1,505,586	9.70%	\$1.63	43,720	(2,651)	147,741	685,870
Specialty Centers	1	68,462	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North County Total</b>	<b>2,496</b>	<b>34,876,573</b>	<b>467,018</b>	<b>946,121</b>	<b>2,298,352</b>	<b>6.59%</b>	<b>2,706,980</b>	<b>7.76%</b>	<b>\$1.61</b>	<b>31,055</b>	<b>149,174</b>	<b>245,592</b>	<b>1,244,284</b>
<b>South County</b>													
General Retail	821	6,551,801	156,233	58,400	214,001	3.27%	264,652	4.04%	\$1.81	89,933	66,515	107,769	211,739
Malls	25	3,141,512	0	15,000	66,778	2.13%	109,578	3.49%	\$2.75	0	(6,500)	0	31,400
Power Centers	97	3,962,232	0	5,000	126,622	3.20%	134,060	3.38%	\$3.04	68,347	10,583	89,642	57,800
Shopping Centers	703	15,130,208	34,320	10,300	773,844	5.11%	996,649	6.59%	\$2.28	(31,057)	181,162	137,096	684,728
Specialty Centers	2	283,613	0	682,671	36,841	12.99%	42,545	15.00%	\$2.83	(16,208)	26,867	0	26,867
<b>South County Total</b>	<b>1,648</b>	<b>29,069,366</b>	<b>190,553</b>	<b>771,371</b>	<b>1,218,086</b>	<b>4.19%</b>	<b>1,547,484</b>	<b>5.32%</b>	<b>\$2.25</b>	<b>111,015</b>	<b>278,627</b>	<b>334,507</b>	<b>1,012,534</b>
<b>West County</b>													
General Retail	1,000	6,947,749	0	170,037	157,177	2.26%	236,219	3.40%	\$1.91	23,972	5,611	52,775	169,398
Malls	19	2,283,530	6,000	0	137,370	6.02%	149,570	6.55%	\$2.92	4,621	(2,218)	6,000	900
Power Centers	19	858,521	0	0	12,278	1.43%	12,278	1.43%	\$1.87	1,888	(1,293)	1,888	4,095
Shopping Centers	564	11,677,410	0	69,633	783,384	6.71%	822,487	7.04%	\$2.11	(30,685)	189,374	80,406	450,242
Specialty Centers	3	282,981	0	0	11,206	3.96%	9,929	3.51%	\$1.50	0	(2,335)	0	2,305
<b>West County Total</b>	<b>1,605</b>	<b>22,050,191</b>	<b>6,000</b>	<b>239,670</b>	<b>1,101,415</b>	<b>5.00%</b>	<b>1,230,483</b>	<b>5.58%</b>	<b>\$2.11</b>	<b>(204)</b>	<b>189,139</b>	<b>141,069</b>	<b>626,940</b>
<b>Orange County Total</b>	<b>9,873</b>	<b>139,941,240</b>	<b>800,919</b>	<b>2,347,413</b>	<b>7,079,886</b>	<b>5.06%</b>	<b>8,385,279</b>	<b>5.99%</b>	<b>\$1.87</b>	<b>105,566</b>	<b>1,088,162</b>	<b>1,216,561</b>	<b>4,838,467</b>
General Retail	6,040	41,065,893	293,581	1,170,942	1,230,105	3.00%	1,928,142	4.70%	\$1.64	157,607	445,211	361,902	1,389,262
Malls	186	18,800,641	466,208	15,000	668,726	3.56%	778,672	4.14%	\$2.91	27,839	133,740	103,850	309,048
Power Centers	247	10,034,456	0	5,000	386,947	3.86%	408,940	4.08%	\$2.63	90,047	(65,680)	141,877	128,416
Shopping Centers	3,382	68,281,068	41,130	473,800	4,718,891	6.91%	5,189,881	7.60%	\$1.89	(157,916)	543,190	604,735	2,973,979
Specialty Centers	18	1,759,182	0	682,671	75,217	4.28%	79,644	4.53%	\$2.83	(12,011)	31,701	4,197	37,762
<b>Orange County Total</b>	<b>9,873</b>	<b>139,941,240</b>	<b>800,919</b>	<b>2,347,413</b>	<b>7,079,886</b>	<b>5.06%</b>	<b>8,385,279</b>	<b>5.99%</b>	<b>\$1.87</b>	<b>105,566</b>	<b>1,088,162</b>	<b>1,216,561</b>	<b>4,838,467</b>

Lease rates are on a triple-net basis.

## ANNUAL NEW DELIVERIES VS. VACANCY RATE



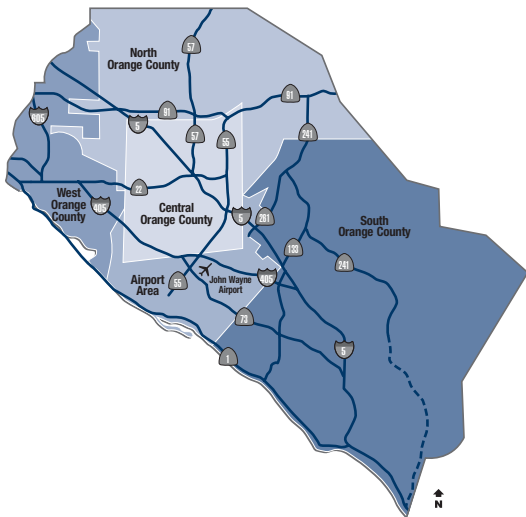
**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
101 Via Suerte – 7 Properties	South	103,175	\$225.60	Equity One, Inc.	Vestar Development Company
2 Hutton Centre Dr.	Airport Area	13,468	\$809.33	MacArthur Plaza, LLC	Fried Asset Management, Inc.
303 Broadway Ave.	South	16,747	\$534.42	MUC Laguna, LP	Broadway Ocean, LLC
26761 Aliso Creek Rd.	South	26,040	\$311.06	RPM Catalina & Tanguo Verde, LLC	M&Z Creek Associates
23000 Savi Ranch Pkwy.	North	46,449	\$142.09	Caledge Investments, LLC	Coh-bel, LLC

**Lease Transactions**

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8872-8930 Warner Ave.	West	29,040	Mar-14	Smart & Final	Rettan Corporation
16555 Von Karman Ave.	Airport Area	26,640	Jan-14	Seafood City	Harsch Investment Properties
1612-1688 W. Katella Ave.	North	21,070	Feb-14	Habitat for Humanity	Euclid Shopping Center, LLC
13031 Goldenwest St. – Renewal	West	10,284	Feb-14	Harley-Davidson Dealer	Franz R. Craig
3935 Alton Pkwy.	Airport Area	8,000	Jan-14	LePort Schools	The Irvine Company



**SUBMARKETS**

**NORTH COUNTY**

Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

**WEST COUNTY**

Anaheim, Buena Park, Cypress, Garden Grove, Fountain Valley/Huntington Beach, Los Alamitos, Midway City, Seal Beach, Stanton, Sunset Beach, Surfside, Westminster

**CENTRAL COUNTY**

Anaheim, Garden Grove, Orange/Villa Park, Fountain Valley/Midway City/Santa Ana/Westminster, Stanton, Tustin

**AIRPORT AREA**

Corona Del Mar, Costa Mesa, Fountain Valley, Huntington Beach, Irvine, Laguna Beach, Newport Beach, Santa Ana/Westminster, Tustin

**SOUTH COUNTY**

Aliso Viejo, Capistrano Beach, Dana Point, Foothill Ranch, Irvine Spectrum, Ladera Ranch, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

**Please Contact Us for Further Information**

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Inland Empire, CA 909.545.8000	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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