

# FIRST QUARTER 2015 ORANGE COUNTY RETAIL

**Voit**  
REAL ESTATE SERVICES

## MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



## HIGHLIGHTS

- **Encouraging Numbers** - The Orange County retail market continued to stride forward in the first quarter of 2015. Both availability and vacancy continued to trend downward, with vacancy dropping by over 15% since the first quarter of 2014. Net absorption posted a positive 403,000 square feet for the quarter, and lease rates continue to trend upward.
- **Construction** - There was over one million square feet of retail space under construction in Orange County at the end of the quarter, most of which was for mall space in the north and west county submarkets.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2015 at 4.32%, a decrease from the previous quarter's 4.61% and a drop of 15.46% compared to the same quarter of 2014. General retail space and specialty centers had the lowest vacancy rates at only 2.90% and 2.21% respectively, while shopping centers had the highest at 5.40%.
- **Availability** - Direct/sublease space being marketed was 5.67% finishing up the quarter, up from the previous quarter's rate of 5.62% and 4.71% lower than the first quarter of 2014. General retail space and power centers 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 3.65%, while north county had the highest at 6.61%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Orange County came in at \$1.92 at the end of the quarter, displaying a five-cent increase from the same quarter last year.
- **Absorption** - The Orange County retail market posted 403,211 square feet of positive net absorption in the first quarter, giving the retail market a total of nearly 2.6 million square feet of positive absorption since the fourth quarter of 2012.
- **Transaction Activity** - Leasing activity checked in at 527,000 square feet for the first quarter of the year, producing a total of over 3.2 million square feet leased over the past four quarters. Sales activity for the first quarter came in at 646,000 square feet, displaying an increase from the same quarter of 2014 when just under 500,000 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 this quarter's 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 4.6% in February 2015, down from a revised 5.0% in January 2015 and below the previous year's estimate of 6.0%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 51,300 payroll jobs from February 2014 to February 2015. Most sectors showed gains in employment; the largest gains were 13,000 in professional and business services and 8,800 in educational and health services during that same period. Information posted the only year-over-year loss, dropping by 600 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 eight consecutive quarters of positive net absorption, which has given way to higher occupancy costs. 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 2.6%, or 38,000 jobs, in the Orange County area during 2015 according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% percent over the next four quarters.
- **Vacancy** - We anticipate vacancy continuing to descend in coming quarters, dropping by 50 basis points, to around 3.70%, by the fourth quarter of 2015.

## OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	4.32%	4.61%	5.11%	(15.46%)
Availability Rate	5.67%	5.62%	5.95%	(4.71%)
Average Asking Lease Rate	\$1.92	\$1.91	\$1.87	2.67%
Sale & Lease Transactions	1,173,433	1,713,709	1,534,801	(23.54%)
Gross Absorption	1,037,809	827,179	1,214,163	(14.52%)
Net Absorption	403,211	139,885	45,075	N/A

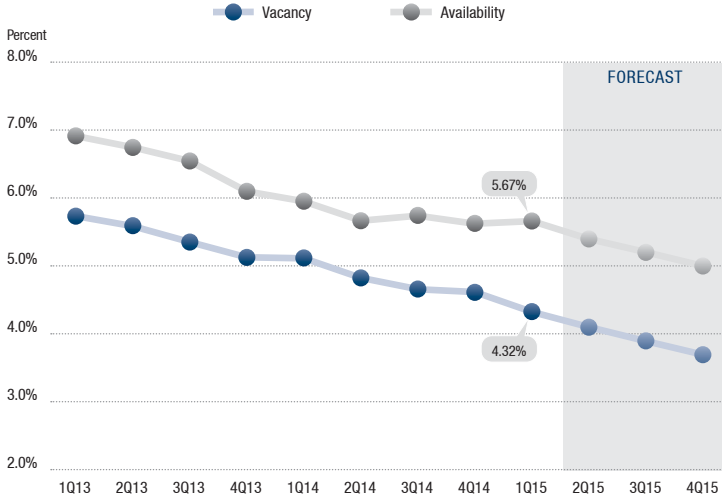
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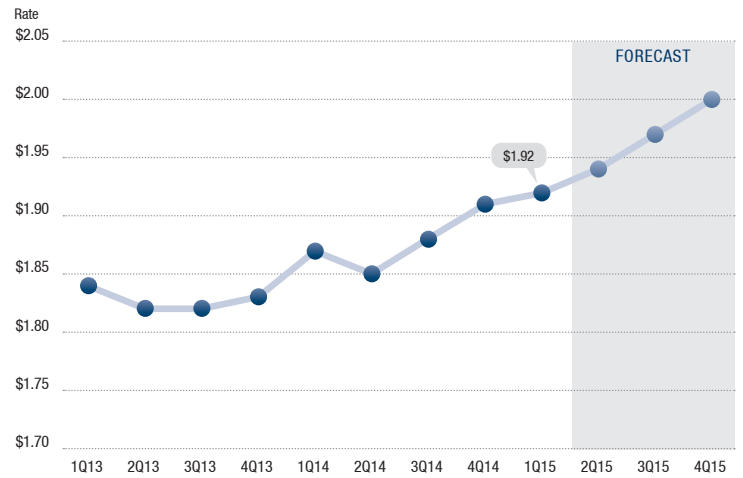
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



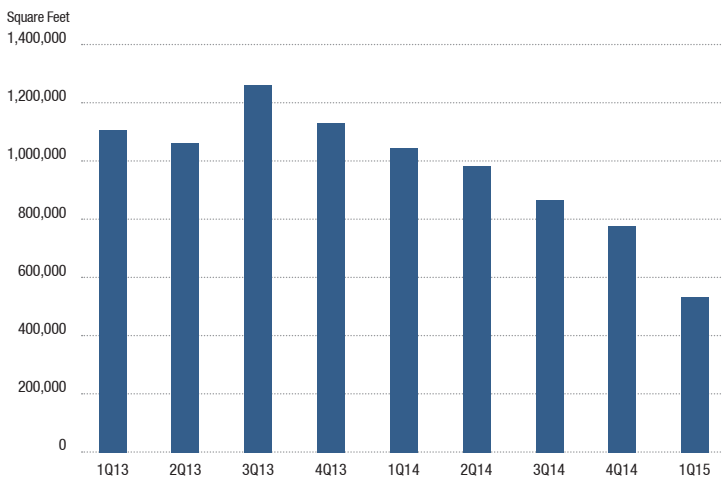
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



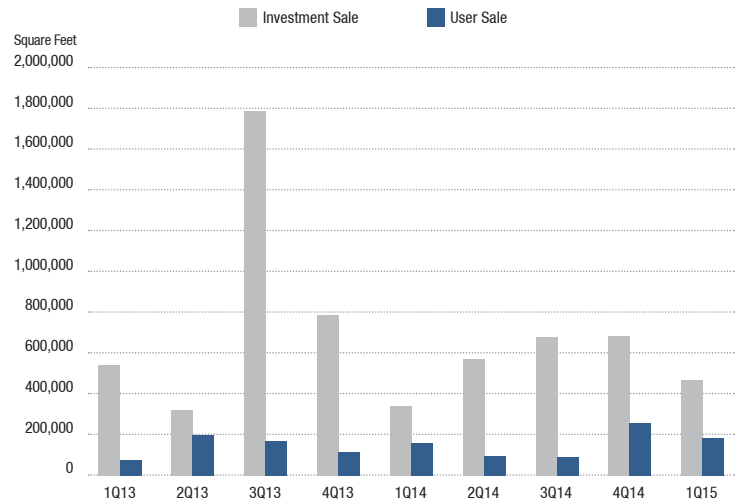
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



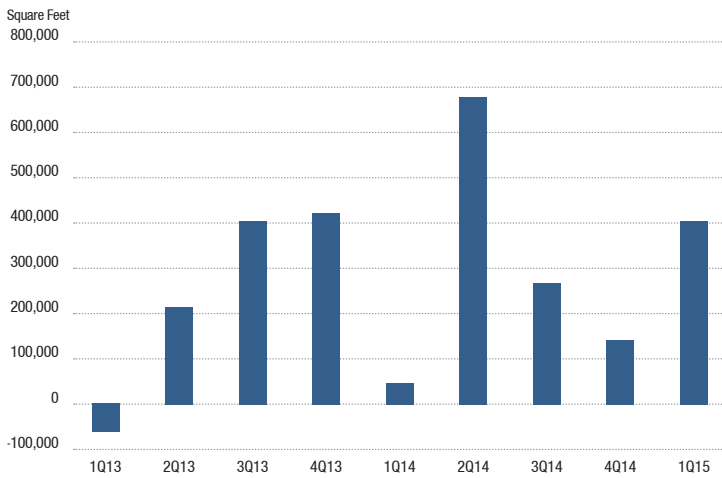
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



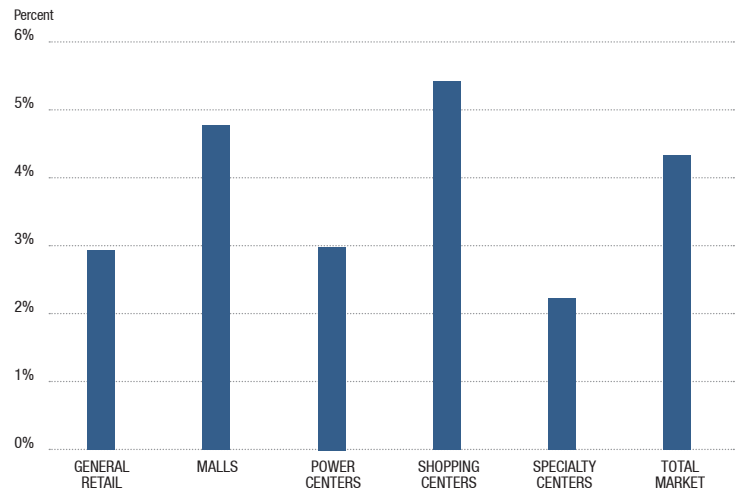
## NET ABSORPTION

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



## VACANCY RATE BY PRODUCT TYPE

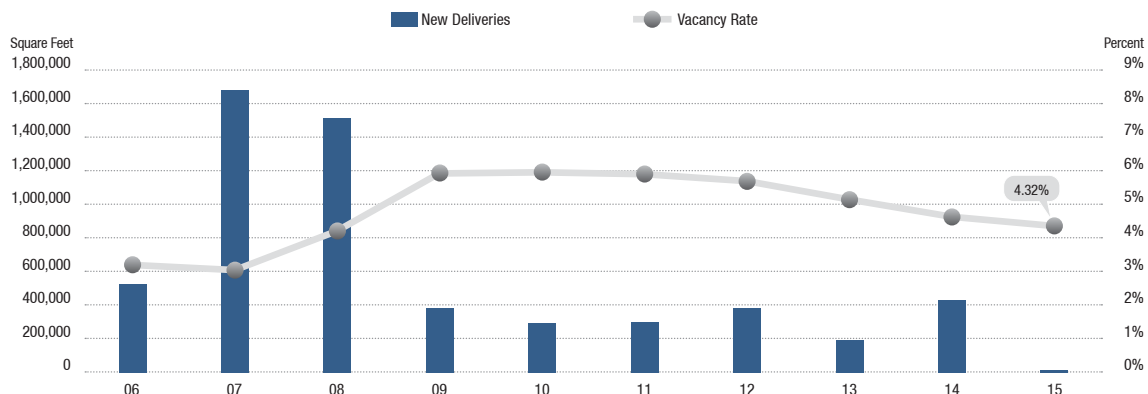
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
<b>Airport Area</b>													
General Retail	998	6,158,138	33,000	18,200	126,356	2.05%	228,315	3.71%	\$2.75	(14,797)	48,399	26,970	159,198
Malls	19	3,587,658	0	0	6,934	0.19%	6,934	0.19%	\$0.00	2,898	43,845	4,499	56,114
Power Centers	35	1,416,989	0	0	83,792	5.91%	93,166	6.57%	\$0.00	(15,439)	(36,551)	0	24,272
Shopping Centers	494	10,517,035	0	45,527	372,707	3.54%	444,101	4.22%	\$2.58	4,499	158,925	54,981	430,937
Specialty Centers	1	190,642	0	0	26,170	13.73%	26,170	13.73%	\$0.00	0	0	0	0
<b>Airport Area Total</b>	<b>1,547</b>	<b>21,870,462</b>	<b>33,000</b>	<b>63,727</b>	<b>615,959</b>	<b>2.82%</b>	<b>798,686</b>	<b>3.65%</b>	<b>\$2.62</b>	<b>(22,839)</b>	<b>214,618</b>	<b>86,450</b>	<b>670,521</b>
<b>Central County</b>													
General Retail	1,771	11,364,266	5,130	276,284	384,107	3.38%	606,509	5.34%	\$1.42	34,758	128,635	58,967	366,097
Malls	27	2,896,930	0	0	154,500	5.33%	154,500	5.33%	\$0.00	0	0	0	0
Power Centers	40	1,838,872	0	0	48,030	2.61%	123,434	6.71%	\$2.73	(1,415)	62,640	7,638	86,781
Shopping Centers	816	15,370,103	0	18,600	893,548	5.81%	1,192,569	7.76%	\$1.70	1,788	183,131	92,801	648,929
Specialty Centers	11	933,484	0	0	0	0.00%	0	0.00%	\$0.00	0	5,197	0	5,197
<b>Central County Total</b>	<b>2,665</b>	<b>32,403,655</b>	<b>5,130</b>	<b>294,884</b>	<b>1,480,185</b>	<b>4.57%</b>	<b>2,077,012</b>	<b>6.41%</b>	<b>\$1.69</b>	<b>35,131</b>	<b>379,603</b>	<b>159,406</b>	<b>1,107,004</b>
<b>North County</b>													
General Retail	1,563	10,852,460	0	442,487	357,351	3.29%	479,827	4.42%	\$1.59	69,172	(72,259)	159,401	215,249
Malls	39	4,074,141	400,000	0	331,090	8.13%	396,766	9.74%	\$0.00	(1,877)	57,616	0	125,220
Power Centers	111	4,457,654	0	0	133,196	2.99%	140,212	3.15%	\$1.67	28,942	3,754	28,942	46,584
Shopping Centers	820	15,477,704	54,795	336,750	1,101,514	7.12%	1,293,615	8.36%	\$1.60	111,662	140,058	190,587	569,786
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>2,534</b>	<b>34,930,421</b>	<b>454,795</b>	<b>779,237</b>	<b>1,923,151</b>	<b>5.51%</b>	<b>2,310,420</b>	<b>6.61%</b>	<b>\$1.60</b>	<b>207,899</b>	<b>129,169</b>	<b>378,930</b>	<b>956,839</b>
<b>South County</b>													
General Retail	842	6,821,252	0	77,800	228,857	3.36%	319,856	4.69%	\$1.96	(11,915)	179,779	22,970	238,638
Malls	34	3,374,567	0	0	246,073	7.29%	300,633	8.91%	\$2.36	2,295	(129,337)	8,090	78,163
Power Centers	97	3,990,710	0	5,000	99,863	2.50%	217,280	5.44%	\$3.59	38,905	56,201	49,560	135,451
Shopping Centers	703	14,833,942	0	49,100	663,209	4.47%	906,167	6.11%	\$2.30	(3,536)	122,637	105,523	567,142
Specialty Centers	2	283,613	345,000	229,382	12,758	4.50%	19,504	6.88%	\$3.32	26,000	(18,125)	26,000	2,746
<b>South County Total</b>	<b>1,678</b>	<b>29,304,084</b>	<b>345,000</b>	<b>361,282</b>	<b>1,250,760</b>	<b>4.27%</b>	<b>1,763,440</b>	<b>6.02%</b>	<b>\$2.27</b>	<b>51,749</b>	<b>211,155</b>	<b>212,143</b>	<b>1,022,140</b>
<b>West County</b>													
General Retail	1,001	6,875,895	2,500	91,737	122,395	1.78%	166,834	2.43%	\$2.25	16,737	16,698	40,638	146,687
Malls	24	2,839,756	190,415	0	60,023	2.11%	127,861	4.50%	\$2.99	62,129	72,439	62,129	86,618
Power Centers	19	858,521	0	0	9,829	1.14%	9,829	1.14%	\$1.75	0	4,337	0	4,337
Shopping Centers	570	11,654,851	15,066	25,740	632,699	5.43%	740,798	6.36%	\$2.24	52,405	68,040	98,113	404,604
Specialty Centers	3	282,244	0	0	0	0.00%	4,234	1.50%	\$0.00	0	0	0	15,440
<b>West County Total</b>	<b>1,617</b>	<b>22,511,267</b>	<b>207,981</b>	<b>117,477</b>	<b>824,946</b>	<b>3.66%</b>	<b>1,049,556</b>	<b>4.66%</b>	<b>\$2.28</b>	<b>131,271</b>	<b>161,514</b>	<b>200,880</b>	<b>657,686</b>
<b>Orange County Total</b>	<b>10,041</b>	<b>141,019,889</b>	<b>1,045,906</b>	<b>1,616,607</b>	<b>6,095,001</b>	<b>4.32%</b>	<b>7,999,114</b>	<b>5.67%</b>	<b>\$1.92</b>	<b>403,211</b>	<b>1,096,059</b>	<b>1,037,809</b>	<b>4,414,190</b>
General Retail	6,175	42,072,011	40,630	906,508	1,219,066	2.90%	1,801,341	4.28%	\$1.76	93,955	301,252	308,946	1,125,869
Malls	143	16,773,052	590,415	0	798,620	4.76%	986,694	5.88%	\$2.70	65,445	44,563	74,718	346,115
Power Centers	302	12,562,746	0	5,000	374,710	2.98%	583,921	4.65%	\$2.62	50,993	90,381	86,140	297,425
Shopping Centers	3,403	67,853,635	69,861	475,717	3,663,677	5.40%	4,577,250	6.75%	\$1.93	166,818	672,791	542,005	2,621,398
Specialty Centers	18	1,758,445	345,000	229,382	38,928	2.21%	49,908	2.84%	\$3.32	26,000	(12,928)	26,000	23,383
<b>Orange County Total</b>	<b>10,041</b>	<b>141,019,889</b>	<b>1,045,906</b>	<b>1,616,607</b>	<b>6,095,001</b>	<b>4.32%</b>	<b>7,999,114</b>	<b>5.67%</b>	<b>\$1.92</b>	<b>403,211</b>	<b>1,096,059</b>	<b>1,037,809</b>	<b>4,414,190</b>

Lease rates are on a triple-net basis.

## ANNUAL NEW DELIVERIES VS. VACANCY RATE



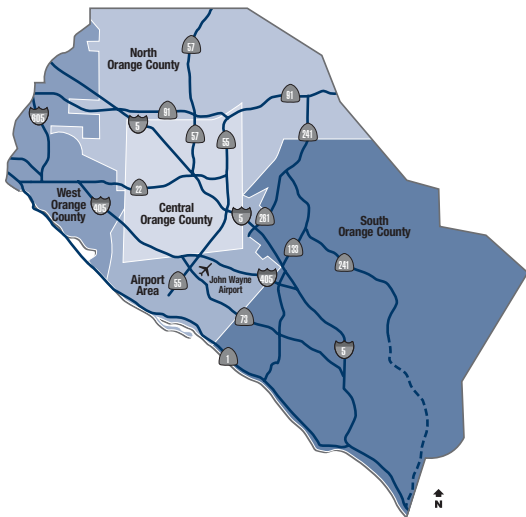
## MAJOR TRANSACTIONS

### Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
100-150 5th St.	West County	96,000	\$698.15	CAPREF Strand, LLC	CIM Huntington, LLC
30652 Santa Margarita Pky. – 3 Properties	South County	49,948	\$570.59	VR RSM One, LLC	Ontario Grove, LP
4935-4995 Warner Ave.	West County	13,772	\$1,161.78	Gartenstein Properties, LLC	4935 Warner Avenue, LLC
2840 S. Bristol St.	Airport Area	58,450	\$235.24	IRA Bristol, LLC	Property OC 101, LLC
27001 La Paz Rd. – 9 Properties	South County	71,848	\$187.89	VR Realty Investment One, LLC	Garden Plaza Partners, LLC

### Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
19330 Goldenwest St.	West County	40,000	Feb-2015	LA Fitness	Vestar Development Company
8060 Dale St.	North County	30,100	Jan-2015	Orchard Supply Hardware	Dale & La Palma Partners, LP
3555-3575 Katella Ave.	North County	4,050	Feb-2015	Sherwin Williams	NSPS, Ltd.
1140 Irvine Blvd.	Airport Area	4,015	Jan-2015	Sherwin Williams	Tustin Heights Sc.
23052 Lake Forest Dr.	South County	3,648	Jan-2015	CKO Boxing	Acquiport Three Corporation



### 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

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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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