

FIRST QUARTER 2016 ORANGE COUNTY RETAIL

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



HIGHLIGHTS

- Encouraging Numbers** - The Orange County retail market continued at a steady pace in the first quarter of 2016. New developments delivered this quarter pushed a slight increase in vacancy rate compared to last quarter, and availability remained roughly the same. Vacancies should hover around 4% for the first half of the year and rents are expected to continue to show positive year-over-year growth going forward.
- Construction** - New developments have recently delivered or are coming on line, most prominently, the 191,000 square foot Pacific City in Huntington Beach and the 450,000 square foot The Source in Buena. Mixed use and the expansion and redevelopment of existing centers are the most active venues for current development. La Floresta in Brea comprises 87,000 SF and is building its center around a Whole Foods Market. The Source in Buena Park features a unique selection of world-renowned, regional and local shopping, dining, and entertainment options.
- Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2016 at 4.33%, a slight increase from the previous quarter's 4.00% and an uptick of 4.84% change when compared to the same quarter of 2015. Power centers and general retail had the lowest vacancy rates at only 1.98% and 2.87% respectively, while shopping centers had the highest at 5.10%.
- Availability** - Direct/sublease space being marketed was 5.39% finishing up the quarter, up from the previous quarter's rate of 5.37% and 10.32% lower than the first quarter of 2015. The airport area had the lowest availability rate of all submarkets at 2.62%, while North County had the highest at 7.60%.
- Lease Rates** - Tight vacancies will keep centers full and provide a foundation for above average rent growth over the next few years. The average asking triple-net lease rate per month per square foot in Orange County came in at \$2.10 at the end of the quarter, displaying a seventeen cent increase from the same quarter last year.
- Absorption** - The Orange County retail market posted 70,717 square feet of positive net absorption in first quarter of 2016, giving the retail market a total of 2.51 million square feet of positive absorption since the first quarter of 2014.
- Transaction Activity** - Sales activity for first quarter 2016 came in at 453,261 square feet, giving the retail market a total of 10.3 million square feet sold since the first quarter of 2014. Leasing activity checked in at 802,643 square feet for the quarter. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Details of the largest transactions can be found on the back page of the report.
- Employment** - The unemployment rate in Orange County was 4.0% in February 2016, unchanged from a revised 4.0 percent in January 2016, and below the previous year's estimate of 4.7%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 42,300 payroll jobs from February 2015 to February 2016. Professional and business services grew by 5,000 jobs overall, led by an increase of 4,300 jobs in administrative and support services, which includes temporary help firms.
- Overall** - Although vacancy increased slightly this quarter, both vacancy and availability are on a continual downward trend, which should translate to further gradual increases in asking lease rates in the coming quarters. The market has posted ten consecutive quarters of positive net absorption, which has given way to higher occupancy costs. Job growth and higher incomes over the last year, continuing into the coming year, have helped the retail market to continue to flourish.

FORECAST

- Employment** - After once again achieving record high employment levels in 2015, leisure and hospitality jobs in Orange County are projected to increase by 2.0% to 203,400 workers in 2016, according to LAEDC. Leisure and hospitality added 8,500 jobs with 90 percent of gain in accommodation and food services (up 7,600), between February 2015 and February 2016.
- 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, settling slightly below 4% by the fourth quarter of 2016. Vacancy rates are likely to return to their 3% trough of 2007.

OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	4.33%	4.00%	4.13%	4.84%
Availability Rate	5.39%	5.37%	6.01%	(10.32%)
Average Asking Lease Rate	\$2.10	\$2.08	\$1.93	8.81%
Sale & Lease Transactions	1,255,904	3,306,081	2,006,437	(37.41%)
Gross Absorption	1,037,653	1,525,857	1,094,946	(5.23%)
Net Absorption	70,717	541,605	386,320	N/A

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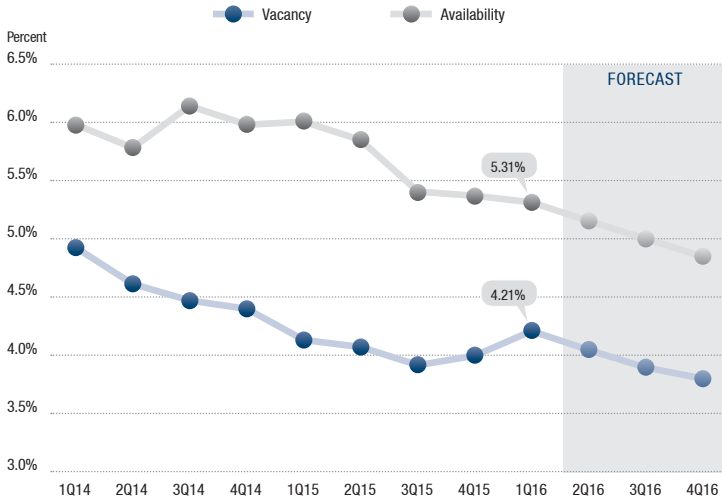
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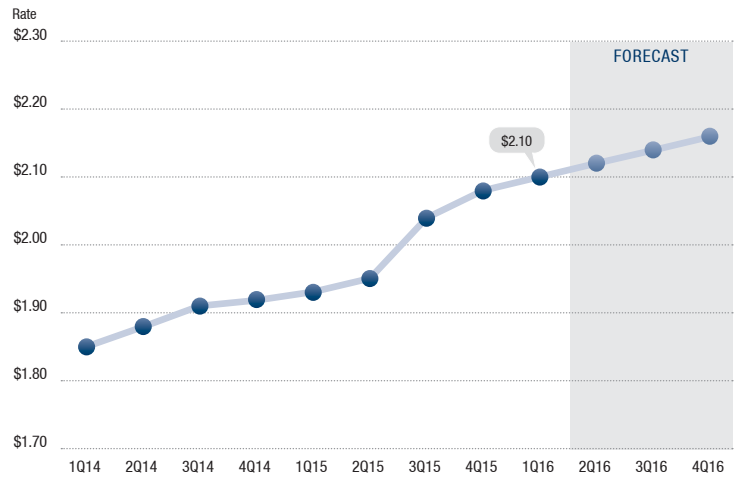
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



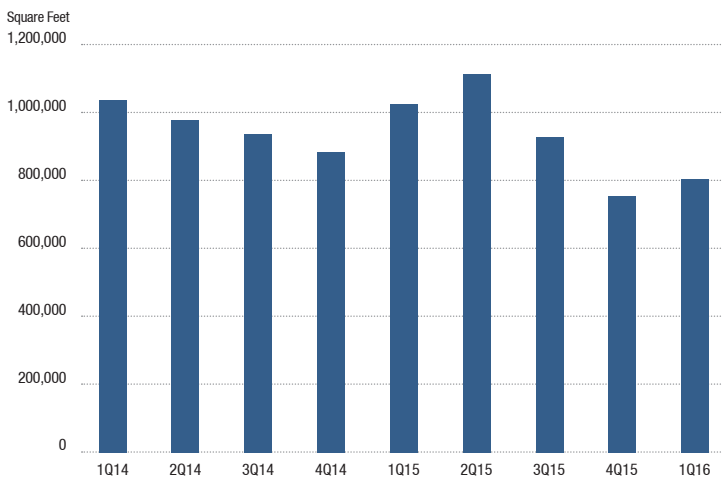
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



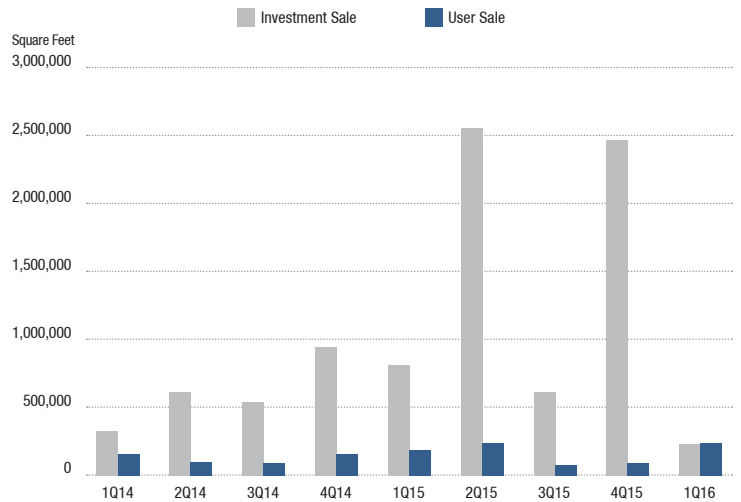
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



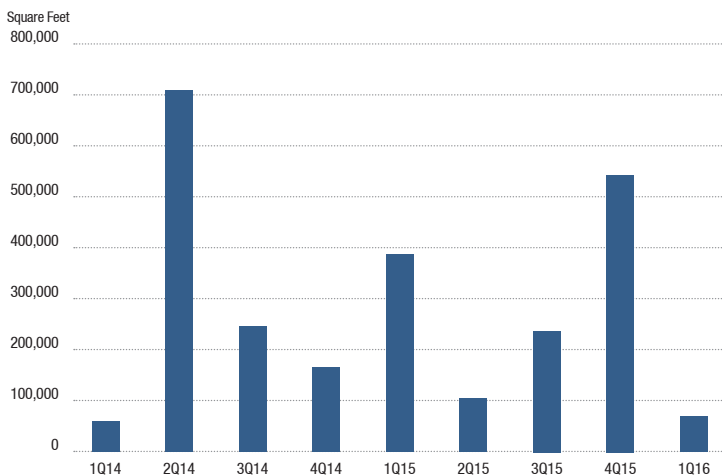
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



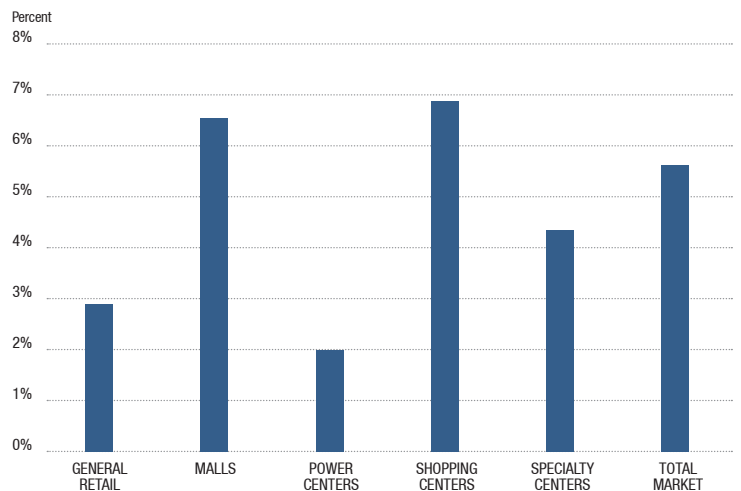
NET ABSORPTION

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



VACANCY RATE BY PRODUCT TYPE

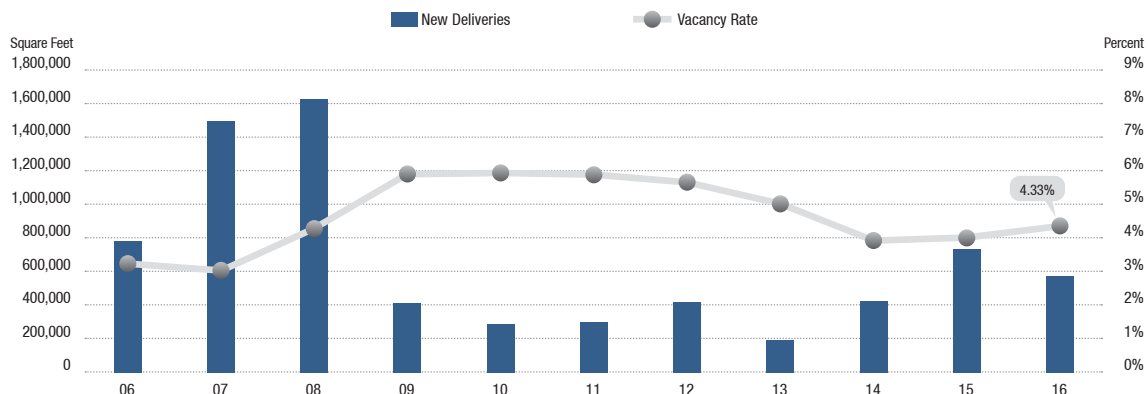
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
Airport Area													
General Retail	977	5,956,656	3,000	3,700	153,977	2.58%	221,650	3.72%	\$3.05	(11,236)	5,931	51,823	150,814
Malls	20	3,571,748	0	0	6,934	0.19%	10,035	0.28%	\$0.00	4,400	(1,502)	4,400	4,499
Power Centers	35	1,415,689	0	0	40,319	2.85%	83,339	5.89%	\$0.00	(2,375)	30,409	0	56,068
Shopping Centers	391	7,635,743	0	42,027	247,108	3.24%	299,259	3.92%	\$3.01	(8,615)	(1,356)	24,146	211,143
Specialty Centers	1	190,642	9,000	0	43,375	22.75%	34,243	17.96%	\$0.00	(17,205)	0	0	0
Airport Area Total	1,424	18,770,478	12,000	45,727	491,713	2.62%	648,526	3.46%	\$3.03	(35,031)	33,482	80,369	422,524
Central County													
General Retail	1,363	8,181,739	0	180,401	251,274	3.07%	328,762	4.02%	\$2.24	(35,288)	26,430	46,966	154,739
Malls	25	2,686,718	0	0	0	0.00%	0	0.00%	\$0.00	0	4,000	0	5,000
Power Centers	42	2,154,847	0	0	30,278	1.41%	70,048	3.25%	\$0.00	(1,180)	83,777	14,370	53,389
Shopping Centers	641	11,146,131	0	38,620	690,705	6.20%	784,910	7.04%	\$1.96	(23,899)	38,935	116,332	443,014
Specialty Centers	8	154,703	0	0	4,589	2.97%	4,589	2.97%	\$0.00	0	(4,589)	0	0
Central County Total	2,079	24,324,138	0	219,021	976,846	4.02%	1,188,309	4.89%	\$2.02	(60,367)	148,553	177,668	656,142
North County													
General Retail	1,639	11,205,858	17,800	316,713	386,807	3.45%	477,562	4.26%	\$1.54	4,783	67,053	58,936	426,113
Malls	36	3,953,381	0	0	693,313	17.54%	718,313	18.17%	\$2.32	27,961	31,739	27,961	34,341
Power Centers	111	4,240,730	0	0	61,155	1.44%	174,516	4.12%	\$2.63	11,206	83,777	15,196	103,373
Shopping Centers	851	15,669,182	0	338,990	1,074,593	6.86%	1,301,733	8.31%	\$1.70	35,274	86,706	193,401	580,764
Specialty Centers	1	68,462	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County Total	2,638	35,137,613	17,800	655,703	2,215,868	6.31%	2,672,124	7.60%	\$1.66	79,224	269,275	295,494	1,144,591
South County													
General Retail	857	6,847,525	0	69,407	156,056	2.28%	188,435	2.75%	\$1.84	389	59,037	37,332	166,619
Malls	30	3,324,559	0	0	273,482	8.23%	307,482	9.25%	\$0.00	3,746	(28,860)	8,196	9,473
Power Centers	99	4,006,411	0	0	96,226	2.40%	142,843	3.57%	\$3.34	9,486	33,056	13,893	93,412
Shopping Centers	713	14,793,033	49,229	101,045	723,619	4.89%	874,752	5.91%	\$2.58	72,206	(105,479)	191,660	528,357
Specialty Centers	2	283,613	0	229,382	9,178	3.24%	15,924	5.61%	\$3.46	0	29,580	0	0
South County Total	1,701	29,255,141	49,229	399,834	1,258,561	4.30%	1,529,436	5.23%	\$2.49	85,827	(12,666)	251,081	797,861
West County													
General Retail	1,578	10,826,831	11,000	339,263	288,093	2.66%	312,508	2.89%	\$1.83	(38,492)	98,583	71,521	239,720
Malls	35	3,168,861	0	0	118,927	3.75%	195,765	6.00%	\$3.01	35,302	158,338	42,697	162,338
Power Centers	19	857,986	0	0	22,391	2.61%	22,391	2.61%	\$0.00	(9,683)	(2,879)	0	10,258
Shopping Centers	894	18,989,010	6,278	29,240	746,911	3.93%	1,048,167	5.52%	\$2.18	21,066	46,742	116,111	525,068
Specialty Centers	3	282,244	0	0	9,841	3.49%	16,050	5.69%	\$0.00	(7,129)	(2,712)	2,712	0
West County Total	2,529	34,124,932	17,278	368,503	1,186,163	3.48%	1,594,881	4.67%	\$2.14	1,064	298,072	233,041	937,384
Orange County Total	10,371	141,612,302	96,307	1,688,788	6,129,151	4.33%	7,633,276	5.39%	\$2.10	70,717	736,716	1,037,653	3,958,502
General Retail	6,414	43,018,609	31,800	909,484	1,236,207	2.87%	1,528,917	3.55%	\$1.94	(79,844)	257,034	266,578	1,138,005
Malls	146	16,705,267	0	0	1,092,656	6.54%	1,231,595	7.37%	\$2.75	71,409	163,715	83,254	215,651
Power Centers	306	12,675,663	0	0	250,369	1.98%	493,137	3.89%	\$3.24	7,454	228,140	43,459	316,500
Shopping Centers	3,490	68,233,099	55,507	549,922	3,482,936	5.10%	4,308,821	6.31%	\$2.11	96,032	65,548	641,650	2,288,346
Specialty Centers	15	979,664	9,000	229,382	66,983	6.84%	70,806	7.23%	\$3.46	(24,334)	22,279	2,712	0
Orange County Total	10,371	141,612,302	96,307	1,688,788	6,129,151	4.33%	7,633,276	5.39%	\$2.10	70,717	736,716	1,037,653	3,958,502

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
2101 W. Coast Hwy. (3 Properties)	Airport Area	20,852	\$3,440.92	MX3 Ventures, LLC	Ardell Investment Company
22722 Avenida Empresa	South County	49,078	\$275.07	Graham Properties, LP	Jad Realty, LLC
25270–25280 Marguerite Pkwy.	South County	24,318	\$419.44	The Robert Victor Zakari Living Trust	The BROE Group
4911–4955 Lincoln Ave.	West County	23,564	\$271.39	Alexander Keith	Astani Enterprises, Inc.
303 3rd St.	West County	15,000	\$400.00	Finn West	Ben Adam Trainer Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
21672 Plano Trabuco Rd.	South County	38,068	Jan-2016	Smart & Final	GSUN Investments, Inc.
420–490 S. Anaheim Hills Rd.	North County	20,000	Mar-2016	Fresh Fair Farms Market	Lin Investments
30202–30272 Crown Valley Pkwy.	South County	17,600	Jan-2016	Planet Fitness	JP Morgan Chase National Association
1076–1218 Irvine Blvd.	Central County	14,888	Mar-2016	Trader Joe's	Kimco Realty Corporation
3303 Hyland Ave.	Airport Area	12,000	Feb-2016	Room & Board	Rockwood Capital, LLC



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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