SECOND QUARTER 2014

ORANGE COUNTY

RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
DOWN

Transactions
DOWN

Deliveries
UP

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VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers -** The Orange County retail market continued to stride forward in the second quarter of 2014. Both availability and vacancy continued to trend downward, dropping 14% since the second quarter of 2013. Net absorption posted a positive 550,000 square feet for the quarter, and lease rates are higher than they were a year ago.
- **Construction -** There was just over 725,000 square feet of retail space under construction in Orange County at the end of the second quarter of 2014, most of which was for mall space in the north county submarket.
- **Vacancy -** Direct / sublease space (unoccupied) finished the second quarter of 2014 at 4.80%, a decrease from the previous quarter's 5.09% and a drop of 13.82% compared to the same quarter of 2013. General retail space and malls had the lowest vacancy rates at only 2.92% and 3.49% respectively, while shopping centers had the highest at 6.52%.
- **Availability -** Direct / sublease space being marketed was 5.87% finishing up the quarter, down from the previous quarter's rate of 6.02% and 14.06% lower than the second 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 3.60%, while north county had the highest at 7.62%.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in Orange County came in at $1.85 at the end of the second quarter, displaying a three-cent increase from the same quarter last year.
- **Absorption -** The Orange County retail market posted 547,245 square feet of positive net absorption in the second quarter, giving the retail market a total of nearly 2.3 million square feet of positive absorption since the second quarter of 2012.
- **Transaction Activity -** Leasing activity checked in at 625,000 square feet for the second quarter of the year, producing a total of over 4.8 million square feet leased over the past five quarters. Sales activity for the second quarter came in at 493,847 square feet, displaying a decrease from the same quarter of 2013 when just over 511,000 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 second 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 4.9% in May 2014, down from a revised 5.0% in April 2014 and below the previous year's estimate of 5.9%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 22,600 payroll jobs from May 2013 to May 2014. Most sectors showed gains in employment; the largest gains were 7,800 in professional and business services and 7,200 in construction during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,900 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 ten 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

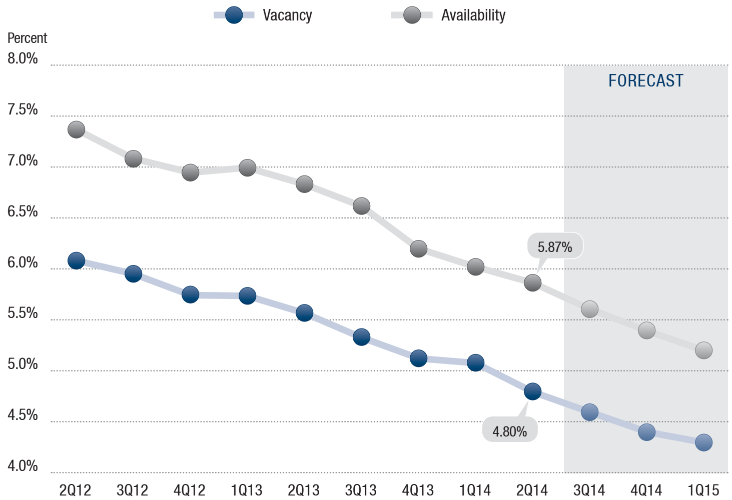
- **Employment -** We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth is forecasted to take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates -** Expect average asking lease rates to increase by 3%– 5% percent by 2015.
- **Vacancy -** We anticipate vacancy continuing to descend in coming quarters, dropping by 50 basis points, to around 4.30%, by the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	4.80%	5.09%	5.57%	(13.82%)
Availability Rate	5.87%	6.02%	6.83%	(14.06%)
Average Asking Lease Rate	$1.85	$1.87	$1.82	1.65%
Sale & Lease Transactions	1,118,387	1,309,221	1,572,157	(28.86%)
Gross Absorption	1,168,536	1,234,977	1,266,742	(7.75%)
Net Absorption	547,245	63,041	224,626	N/A

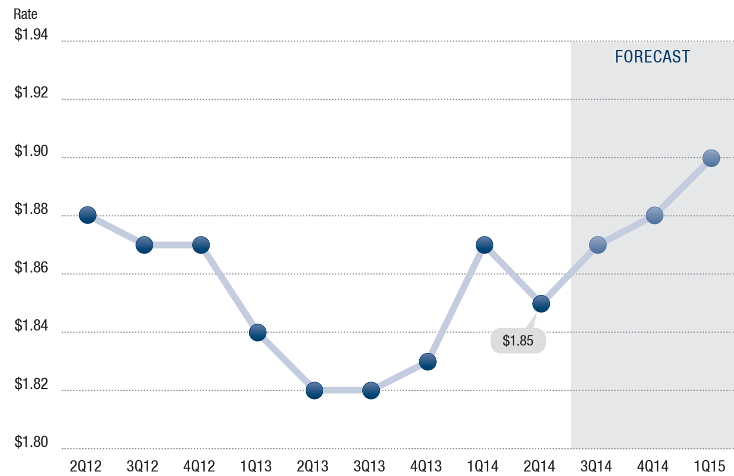
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



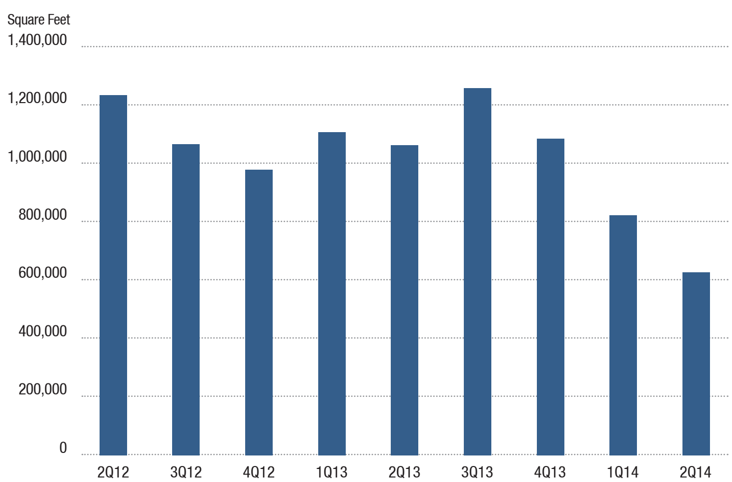
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



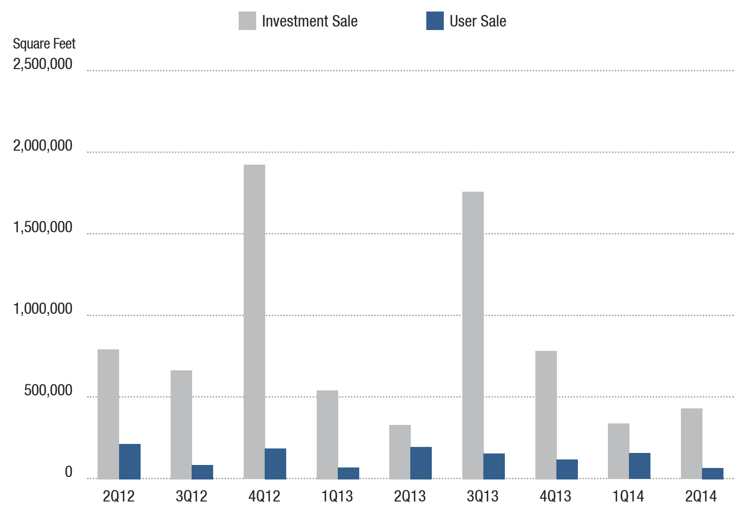
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



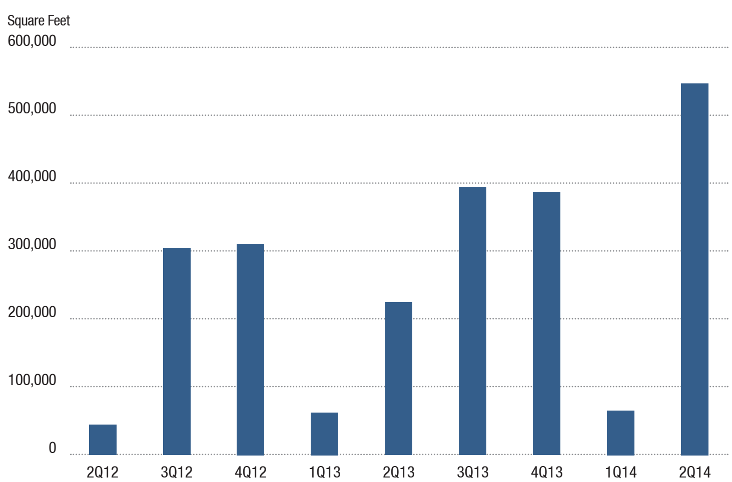
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



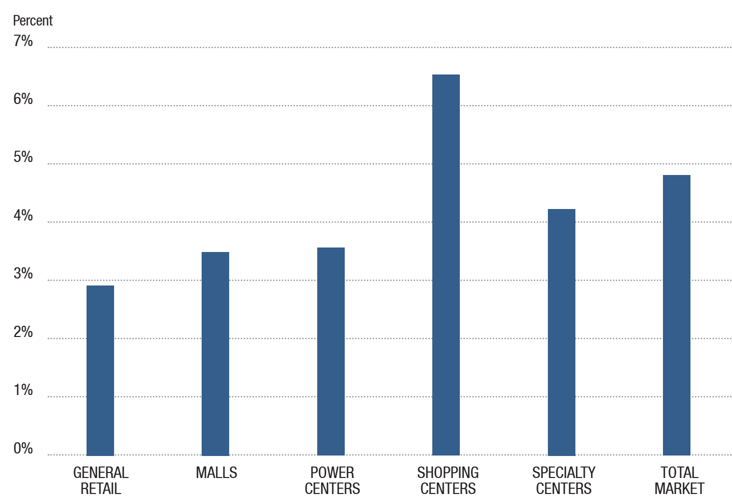
NET ABSORPTION

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



VACANCY RATE BY PRODUCT TYPE

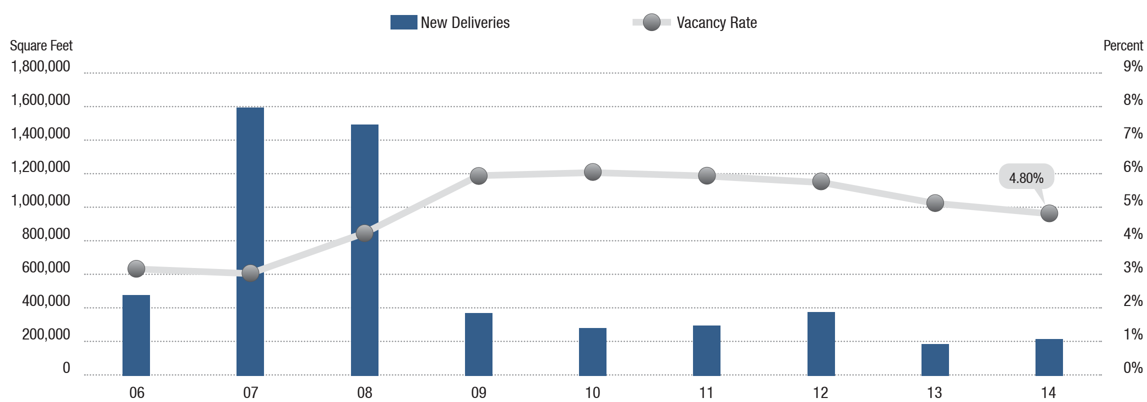
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Airport Area													
General Retail	988	6,113,306	18,085	47,500	91,603	1.50%	157,973	2.58%	$2.90	10,521	50,970	32,481	118,321
Malls	36	4,449,905	0	0	40,123	0.90%	57,942	1.30%	$0.00	(8,839)	18,315	16,000	48,761
Power Centers	19	561,218	0	0	41,402	7.38%	44,902	8.00%	$0.00	(1,600)	(14,361)	0	13,674
Shopping Centers	493	10,536,762	0	45,527	517,645	4.91%	499,584	4.74%	$2.17	65,318	27,372	93,699	193,161
Specialty Centers	1	190,642	0	0	26,170	13.73%	26,170	13.73%	$0.00	0	0	0	0
Airport Area Total	1,537	21,851,833	18,085	93,027	716,943	3.28%	786,571	3.60%	$2.27	65,400	82,296	142,180	373,917
Central County													
General Retail	1,758	10,973,187	127,926	148,438	416,756	3.80%	683,896	6.23%	$1.41	3,879	22,254	49,491	136,447
Malls	40	3,541,322	0	0	20,565	0.58%	21,641	0.61%	$0.00	5,688	2,001	6,348	11,925
Power Centers	28	1,467,085	0	0	43,474	2.96%	50,022	3.41%	$2.83	20,144	51,415	28,702	59,973
Shopping Centers	812	15,425,469	0	26,390	989,065	6.41%	1,263,783	8.19%	$1.74	201,824	91,049	269,789	406,569
Specialty Centers	11	933,484	0	0	0	0.00%	0	0.00%	$0.00	1,000	5,197	0	0
Central County Total	2,649	32,340,547	127,926	174,828	1,469,860	4.54%	2,019,342	6.24%	$1.69	232,535	171,916	354,330	614,914
North County													
General Retail	1,554	10,818,578	0	619,813	357,752	3.31%	559,029	5.17%	$1.43	8,818	(9,524)	90,126	127,963
Malls	66	5,384,372	460,208	0	404,499	7.51%	436,129	8.10%	$0.00	2,542	2,293	2,542	62,054
Power Centers	84	3,185,464	0	0	155,637	4.89%	168,819	5.30%	$1.93	(11,010)	(9,708)	3,826	9,228
Shopping Centers	817	15,502,337	0	325,350	1,417,671	9.14%	1,501,636	9.69%	$1.61	21,644	23,297	97,763	250,804
Specialty Centers	1	68,462	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
North County Total	2,522	34,959,213	460,208	945,163	2,335,559	6.68%	2,665,613	7.62%	$1.56	21,994	6,358	194,257	450,049
South County													
General Retail	831	6,665,127	6,233	57,200	199,842	3.00%	261,529	3.92%	$1.62	153,219	236,310	166,182	266,768
Malls	31	3,315,067	44,000	30,500	79,175	2.39%	124,091	3.74%	$2.75	3,743	14,356	4,307	14,920
Power Centers	97	3,962,221	0	5,000	104,530	2.64%	172,187	4.35%	$3.56	22,092	90,439	25,621	115,263
Shopping Centers	703	15,111,060	25,920	9,100	752,583	4.98%	1,029,039	6.81%	$2.27	27,577	(6,127)	148,751	284,040
Specialty Centers	2	283,613	0	682,671	36,841	12.99%	42,545	15.00%	$2.83	0	(16,208)	0	0
South County Total	1,664	29,337,088	76,153	784,471	1,172,971	4.00%	1,629,391	5.55%	$2.19	206,631	318,770	344,861	680,991
West County													
General Retail	1,009	6,982,001	45,746	244,706	148,680	2.13%	242,166	3.47%	$1.79	9,393	35,469	33,404	89,179
Malls	24	2,839,756	0	0	137,585	4.84%	134,352	4.73%	$2.92	5,785	10,406	5,785	11,785
Power Centers	19	858,521	0	0	12,278	1.43%	9,829	1.14%	$1.75	0	1,888	2,449	4,337
Shopping Centers	565	11,672,054	0	69,633	769,385	6.59%	786,226	6.74%	$2.19	5,638	(16,686)	91,270	174,144
Specialty Centers	3	282,981	0	0	11,337	4.01%	7,469	2.64%	$0.00	(131)	(131)	0	0
West County Total	1,620	22,635,313	45,746	314,339	1,079,265	4.77%	1,180,042	5.21%	$2.15	20,685	30,946	132,908	279,445
Orange County Total	**9,992**	**141,123,994**	**728,118**	**2,311,828**	**6,774,598**	**4.80%**	**8,280,959**	**5.87%**	**$1.85**	**547,245**	**610,286**	**1,168,536**	**2,399,316**
General Retail	6,140	41,552,199	197,990	1,117,657	1,214,633	2.92%	1,904,593	4.58%	$1.56	185,830	335,479	371,684	738,678
Malls	197	19,530,422	504,208	30,500	681,947	3.49%	774,155	3.96%	$2.73	8,919	47,371	34,982	149,445
Power Centers	247	10,034,509	0	5,000	357,321	3.56%	445,759	4.44%	$2.65	29,626	119,673	60,598	202,475
Shopping Centers	3,390	68,247,682	25,920	476,000	4,446,349	6.52%	5,080,268	7.44%	$1.91	322,001	118,905	701,272	1,308,718
Specialty Centers	18	1,759,182	0	682,671	74,348	4.23%	76,184	4.33%	$2.83	869	(11,142)	0	0
Orange County Total	**9,992**	**141,123,994**	**728,118**	**2,311,828**	**6,774,598**	**4.80%**	**8,280,959**	**5.87%**	**$1.85**	**547,245**	**610,286**	**1,168,536**	**2,399,316**

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



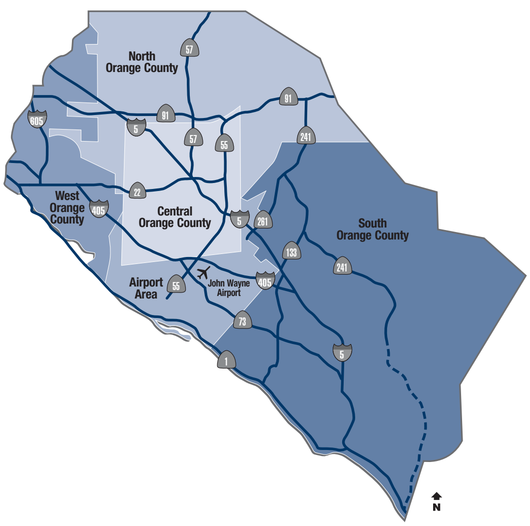
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
8100 E. Santa Ana Canyon Rd.	North County	77,833	$119.23	State Teachers Retirement System of Ohio	CW Capital Asset Management, LLC
13092 Harbor Blvd.	West County	83,731	$91.54	Wise JGXL, LLC	CW Capital Asset Management, LLC
20651-20671 Lake Forest Dr.	South County	19,402	$381.40	Jin Yu, Inc.	The Mayfield Trust
26732 Portola Pky.	South County	77,934	$84.54	Crown Realty & Development, Inc.	LNR Partners, Inc.
20025 Lake Forest Dr.	South County	10,607	$575.09	Anupam & Daksha Patel Trust	OWL Companies

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
117-135 N. Beach Blvd.	North County	56,800	Apr-14	Wal-Mart	Sterik Buena Park
2095 E. Katella Ave.	North County	36,500	Jun-14	Saddleback Church	Symetra Life Insurance Company
550-586 N. Euclid St.	North County	15,880	Apr-14	Old Navy	PK II Anaheim Plaza, LP
13721-13771 Newport Ave.	Central County	15,604	Apr-14	99 Cents Only	Tustin Plaza
7777 Edinger Ave.	West County	15,433	Apr-14	Old Navy	DJM Acquisition Group, 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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