SECOND QUARTER 2015

ORANGE COUNTY

RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to 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 2015. Both availability and vacancy continued to trend downward, with vacancy dropping by over 10% since the second quarter of 2014. Net absorption posted a positive 61,000 square feet for the quarter, and lease rates continue to trend upward on an annual basis.
- **Construction -** There was over 1.1 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 the outlet center in south.
- **Vacancy -** Direct / sublease space (unoccupied) finished the second quarter of 2015 at 4.33%, a slight decrease from the previous quarter's 4.35% and a drop of 10.17% compared to the same quarter of 2014. General retail space and power centers had the lowest vacancy rates at only 2.89% and 2.76% respectively, while shopping centers had the highest at 5.33%.
- **Availability -** Direct / sublease space being marketed was 5.52% finishing up the quarter, down from the previous quarter's rate of 5.65% and 2.65% lower than the second 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 3.19%, while north county had the highest at 6.67%.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in Orange County came in at $1.88 at the end of the quarter, displaying a three-cent increase from the same quarter last year.
- **Absorption -** The Orange County retail market posted 60,936 square feet of positive net absorption in the second quarter, giving the retail market a total of nearly 3.2 million square feet of positive absorption since the first quarter of 2011.
- **Transaction Activity -** Leasing activity checked in at 604,000 square feet for the second quarter of the year, producing a total of over three million square feet leased over the past four quarters. Sales activity for the second quarter came in at 1.9 million square feet, displaying an increase from the same quarter of 2014 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 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 4.2% in May 2015, up from a revised 4.1% in April 2015 and below the previous year's estimate of 5.2%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 50,700 payroll jobs from May 2014 to May 2015. Most sectors showed gains in employment; the largest gains were 12,100 in educational and health services and 9,900 in professional and business services during that same period. Information posted the only year-over-year loss, dropping by 400 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, 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

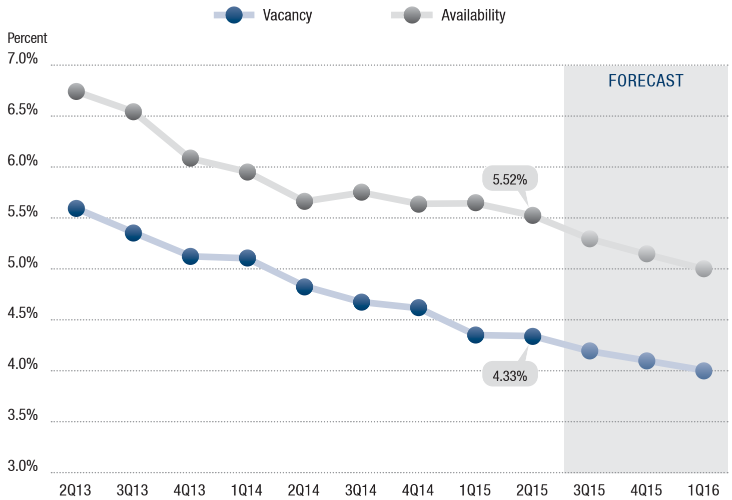
- **Employment -** We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **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 4.00%, by the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	4.33%	4.35%	4.82%	(10.17%)
Availability Rate	5.52%	5.65%	5.67%	(2.65%)
Average Asking Lease Rate	$1.88	$1.92	$1.85	1.62%
Sale & Lease Transactions	2,465,538	1,672,533	1,677,264	47.00%
Gross Absorption	890,814	1,091,628	1,287,180	(30.79%)
Net Absorption	60,936	385,336	676,395	N/A

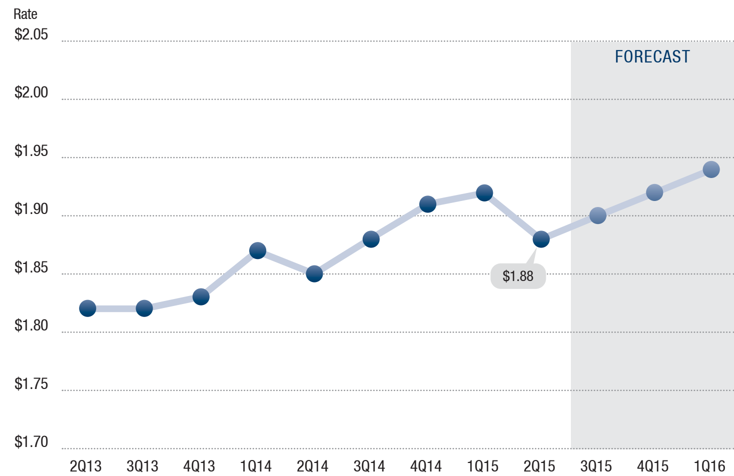
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



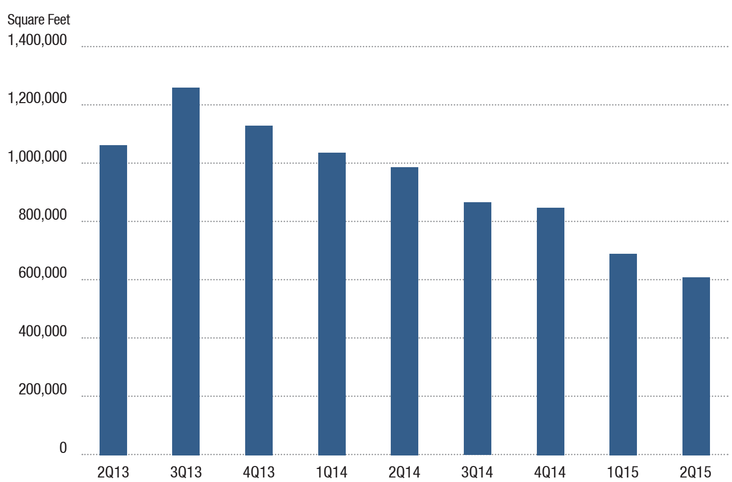
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



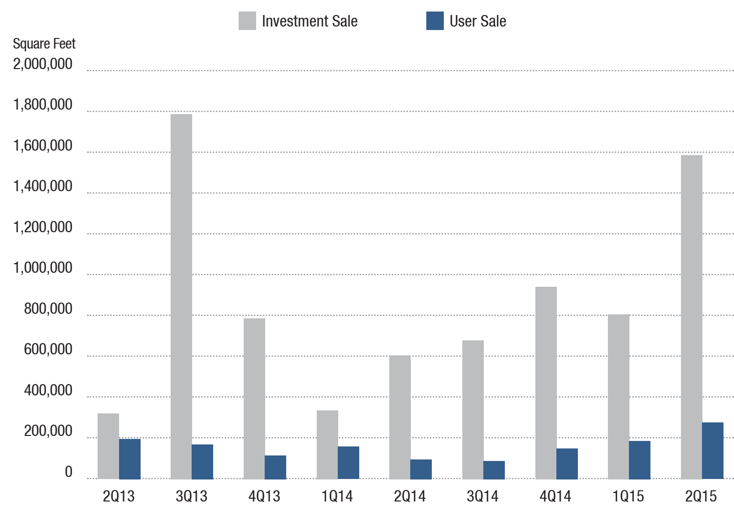
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



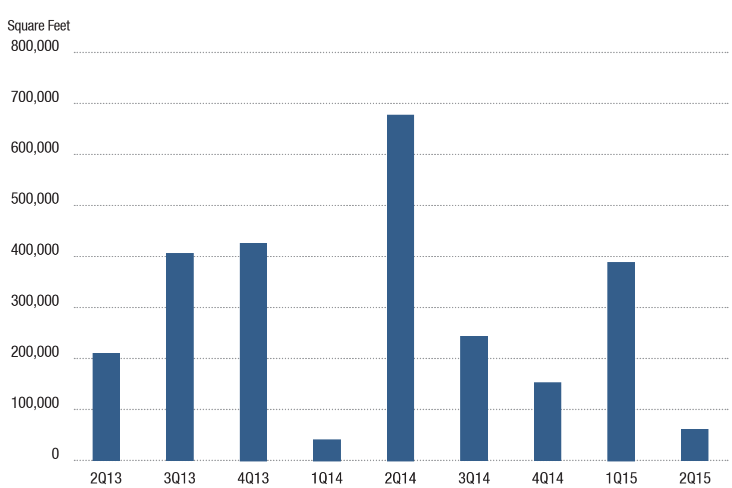
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



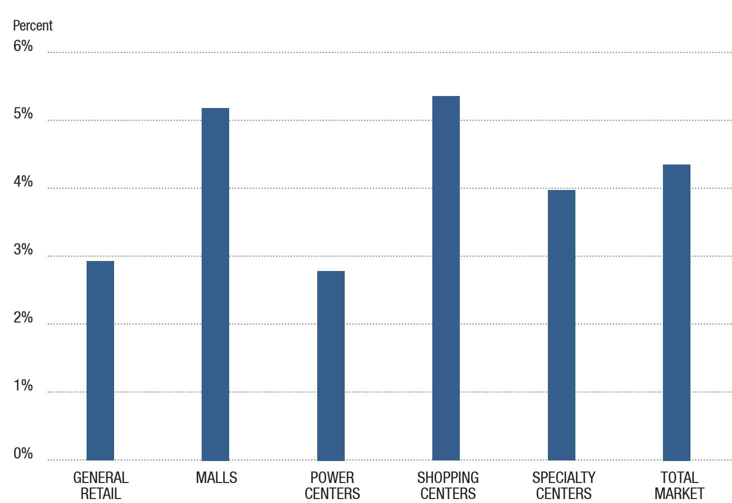
NET ABSORPTION

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



VACANCY RATE BY PRODUCT TYPE

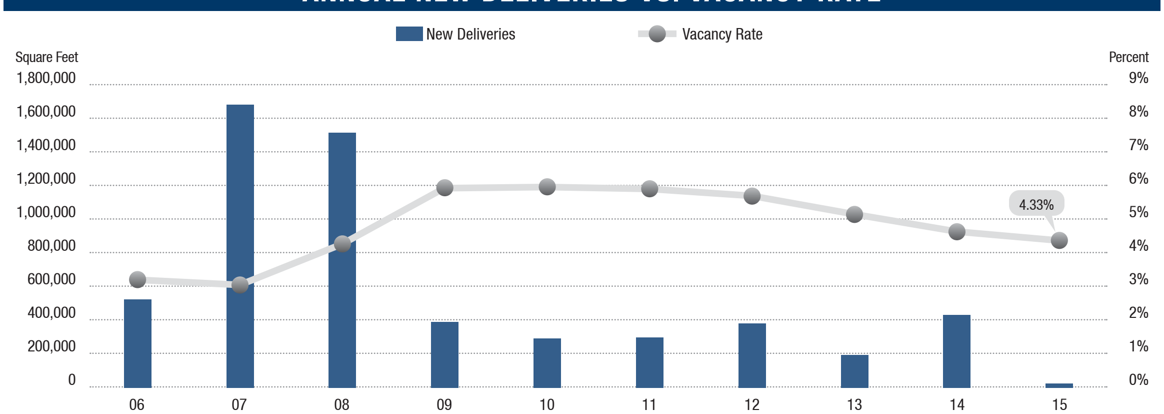
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Airport Area													
General Retail	1,025	6,355,481	33,000	6,700	130,559	2.05%	207,038	3.26%	$2.70	1,378	(13,744)	37,065	65,035
Malls	19	3,587,658	0	0	6,934	0.19%	13,333	0.37%	$0.00	0	2,898	0	4,499
Power Centers	35	1,416,989	0	0	56,845	4.01%	68,306	4.82%	$0.00	26,947	11,508	30,447	30,447
Shopping Centers	492	10,493,893	0	18,300	307,752	2.93%	388,951	3.71%	$2.29	57,676	62,589	106,528	161,711
Specialty Centers	1	190,642	0	0	26,170	13.73%	26,170	13.73%	$0.00	0	0	0	0
Airport Area Total	1,572	22,044,663	33,000	25,000	528,260	2.40%	703,798	3.19%	$2.41	86,001	63,251	174,040	261,692
Central County													
General Retail	1,787	11,435,375	0	282,100	404,322	3.54%	604,427	5.29%	$1.49	(14,150)	20,488	48,198	107,045
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	46,359	2.52%	59,299	3.22%	$2.77	1,671	256	21,326	28,964
Shopping Centers	818	15,363,348	0	15,200	898,195	5.85%	1,131,250	7.36%	$1.77	(6,452)	(2,859)	69,838	187,841
Specialty Centers	8	154,703	0	0	0	0.00%	0	0.00%	$0.00			0	0
Central County Total	2,680	31,689,228	0	297,300	1,503,376	4.74%	1,949,476	6.15%	$1.70	(18,931)	17,885	139,362	323,850
North County													
General Retail	1,589	11,131,757	0	445,987	368,772	3.31%	458,139	4.12%	$1.45	36,032	91,968	124,742	286,399
Malls	34	3,124,669	400,000	0	330,045	10.56%	355,045	11.36%	$0.00	(155)	(2,032)	570	570
Power Centers	111	4,457,654	0	0	127,560	2.86%	134,885	3.03%	$1.97	5,636	34,578	14,979	43,921
Shopping Centers	826	15,577,860	91,078	332,650	1,109,039	7.12%	1,344,391	8.63%	$1.64	(23,112)	90,550	142,180	332,967
Specialty Centers	1	68,462	0	0	0	0.00%	0	0.00%	$0.00			0	0
North County Total	2,561	34,360,402	491,078	778,637	1,935,416	5.63%	2,292,460	6.67%	$1.60	18,401	215,064	282,471	663,857
South County													
General Retail	847	6,920,363	0	39,682	217,647	3.15%	286,720	4.14%	$1.52	7,210	(205)	47,996	70,718
Malls	34	3,374,567	0	0	269,032	7.97%	311,832	9.24%	$2.36	(22,959)	(20,664)	0	8,090
Power Centers	98	3,998,891	0	0	98,191	2.46%	214,479	5.36%	$3.33	(1,828)	40,577	3,530	56,590
Shopping Centers	703	14,835,172	27,800	44,000	657,638	4.43%	865,817	5.84%	$2.31	15,468	(10,165)	115,769	234,264
Specialty Centers	2	283,613	345,000	0	12,758	4.50%	17,904	6.31%	$3.35	0	26,000	0	26,000
South County Total	1,684	29,412,606	372,800	83,682	1,255,266	4.27%	1,696,752	5.77%	$2.16	(2,109)	35,543	167,295	395,662
West County													
General Retail	1,016	6,954,439	0	119,737	115,778	1.66%	196,879	2.83%	$2.36	11,517	28,254	38,019	78,657
Malls	24	2,839,756	190,415	0	59,415	2.09%	127,253	4.48%	$2.92	608	62,737	608	62,737
Power Centers	19	858,521	0	0	17,578	2.05%	17,578	2.05%	$1.75	(7,749)	(7,749)	3,500	3,500
Shopping Centers	569	11,622,331	15,066	0	647,174	5.57%	736,545	6.34%	$2.23	(26,802)	29,297	85,519	188,432
Specialty Centers	3	282,244	0	0	0	0.00%	4,234	1.50%	$0.00	0	0	0	0
West County Total	1,631	22,557,291	205,481	119,737	839,945	3.72%	1,082,489	4.80%	$2.28	(22,426)	112,539	127,646	333,326
Orange County Total	**10,128**	**140,064,190**	**1,102,359**	**1,304,356**	**6,062,263**	**4.33%**	**7,724,975**	**5.52%**	**$1.88**	**60,936**	**444,282**	**890,814**	**1,978,387**
General Retail	6,264	42,797,415	33,000	894,206	1,237,078	2.89%	1,753,203	4.10%	$1.63	41,987	126,761	296,020	607,854
Malls	138	15,823,580	590,415	0	819,926	5.18%	961,963	6.08%	$2.65	(22,506)	42,939	1,178	75,896
Power Centers	303	12,570,927	0	0	346,533	2.76%	494,547	3.93%	$2.42	24,677	79,170	73,782	163,422
Shopping Centers	3,408	67,892,604	133,944	410,150	3,619,798	5.33%	4,466,954	6.58%	$1.93	16,778	169,412	519,834	1,105,215
Specialty Centers	15	979,664	345,000	0	38,928	3.97%	48,308	4.93%	$3.35	0	26,000	0	26,000
Orange County Total	**10,128**	**140,064,190**	**1,102,359**	**1,304,356**	**6,062,263**	**4.33%**	**7,724,975**	**5.52%**	**$1.88**	**60,936**	**444,282**	**890,814**	**1,978,387**

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



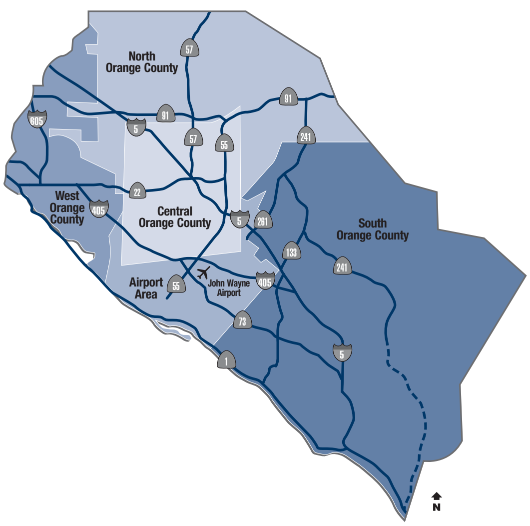
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
280-290 S. Clementine – 7 Properties	North County	394,819	$182.68	Greystar Real Estate Partners	CIM Group, LP
2957-3031 Michelson Dr.	Airport Area	105,395	$351.06	Sares-Regis Group	LBA Realty
18872 MacArthur Blvd. – 3 Properties	Airport Area	108,413	$230.93	Great Far East	The Colton Company
1820 Yorba Linda Blvd. – 7 Properties	North County	144,043	$332.94	PRES Companies	The Kavil Foundaion
580 Anton Blvd.	Airport Area	25,000	$850.00	Legacy Partners Residential	Roger Allensworth

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
21672 Plano Trabuco Rd. – Renewal	South County	50,145	Apr-2015	Haggen Food and Pharmacy	GIG TCG Wave Master Property, LLC
28721-28841 Los Alisos Blvd.	South County	10,000	Apr-2015	Tuesday Morning	TLI MFM, LLC
110-188 E. Yorba Linda Blvd.	North County	8,260	Apr-2015	G-Stage	Retail Properties of America, Inc.
13200-13370 Jamboree Rd.	Airport Area	6,720	Jun-2015	Namaste Plaza	The Irvine Company
14160 Culver Dr.	Airport Area	5,800	May-2015	Denny's	Culver, 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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