

THIRD 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

FLAT



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VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County retail market continued to stride forward in the third quarter of 2014. Both availability and vacancy continued to trend downward, dropping over 10% since the third quarter of 2013. Net absorption posted a positive 220,000 square feet for the quarter, and lease rates are higher than they were a year ago.
- **Construction** - There was over 1.6 million square feet of retail space under construction in Orange County at the end of the third quarter of 2014, most of which was for general space in the north and central county submarkets.
- **Vacancy** - Direct/sublease space (unoccupied) finished the third quarter of 2014 at 4.74%, a decrease from the previous quarter's 4.88% and a drop of 11.90% compared to the same quarter of 2013. General retail space and power centers had the lowest vacancy rates at only 2.81% and 3.31% respectively, while shopping centers had the highest at 6.00%.
- **Availability** - Direct/sublease space being marketed was 5.87% finishing up the quarter, up from the previous quarter's rate of 5.75% and 10.79% lower than the third quarter of 2013. 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 3.22%, while north county had the highest at 7.31%.
- **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 third quarter, displaying a six-cent increase from the same quarter last year.
- **Absorption** - The Orange County retail market posted 218,853 square feet of positive net absorption in the third quarter, giving the retail market a total of nearly 2.5 million square feet of positive absorption since the third quarter of 2012.
- **Transaction Activity** - Leasing activity checked in at 616,000 square feet for the third quarter of the year, producing a total of over 4.7 million square feet leased over the past five quarters. Sales activity for the third quarter came in at 594,000 square feet, displaying a decrease from the same quarter of 2013 when just over 1.9 million 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 third 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 5.4% in August 2014, down from a revised 5.8% in July 2014 and below the previous year's estimate of 6.4%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 17,900 payroll jobs from August 2013 to August 2014. Most sectors showed gains in employment; the largest gains were 5,500 in educational and health services and 5,300 in leisure and hospitality during that same period. Financial activities posted the largest year-over-year loss, dropping by 4,200 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 six 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

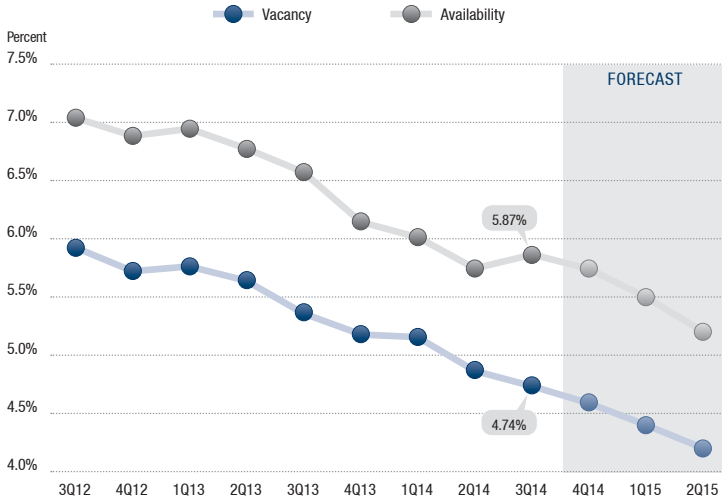
- **Employment** - We anticipate job growth of around 2.6%, or 37,000 jobs, in the Orange County area over the year. The most rapid growth is forecast to take place in the construction, education & health, professional & business services, and leisure & hospitality sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 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 4.20%, by the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	4.74%	4.88%	5.38%	(11.90%)
Availability Rate	5.87%	5.75%	6.58%	(10.79%)
Average Asking Lease Rate	\$1.88	\$1.85	\$1.82	3.30%
Sale & Lease Transactions	1,209,777	1,411,020	3,187,375	(62.04%)
Gross Absorption	1,078,295	1,286,966	1,237,613	(12.87%)
Net Absorption	218,853	676,394	406,979	N/A

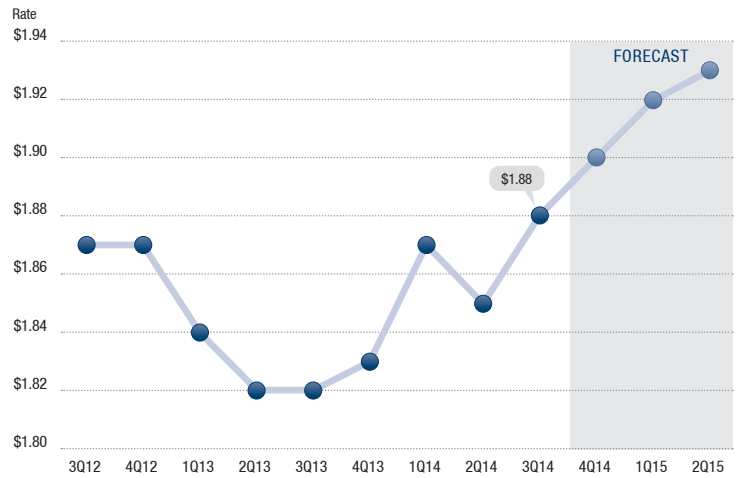
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



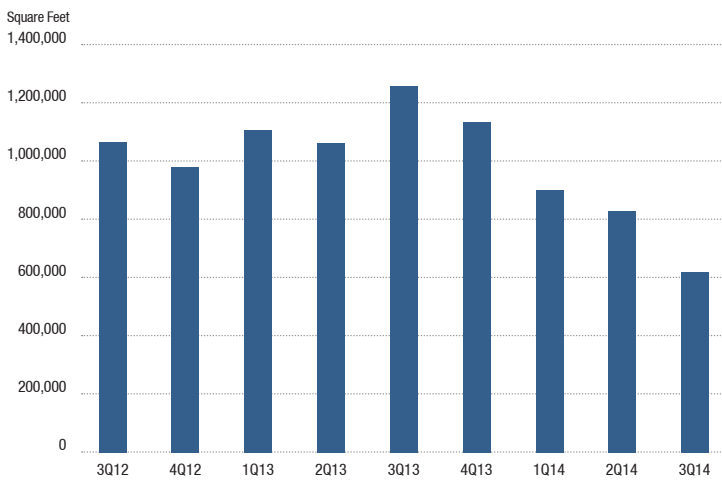
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



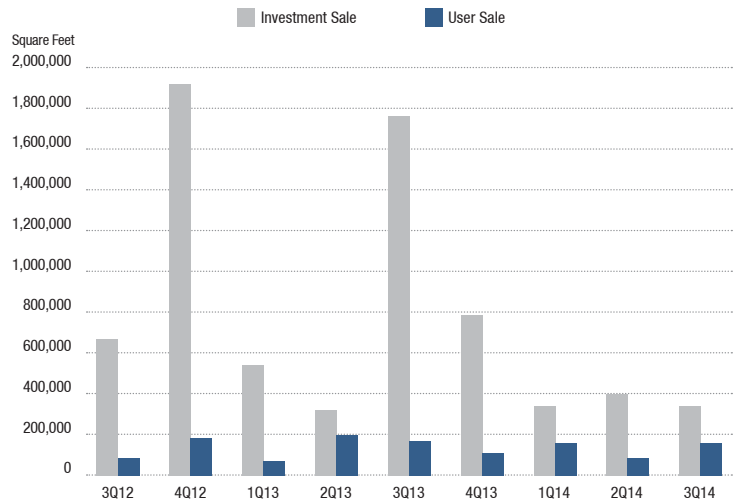
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



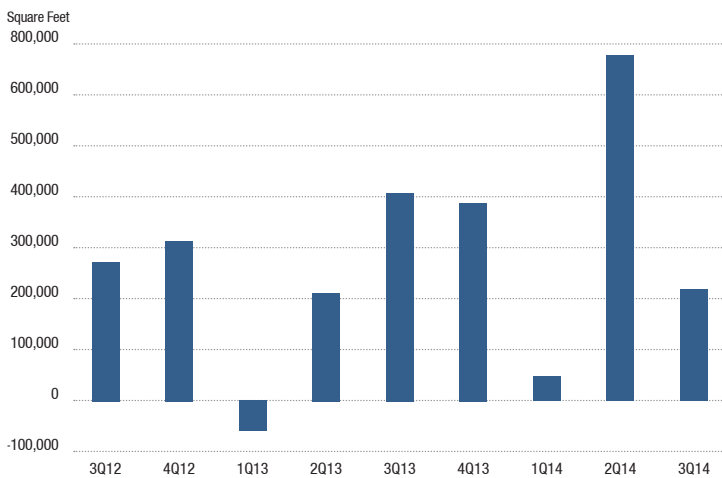
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



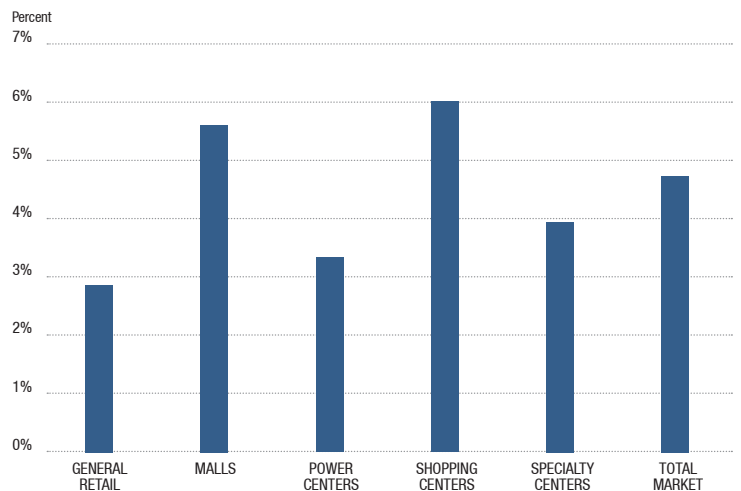
NET ABSORPTION

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



VACANCY RATE BY PRODUCT TYPE

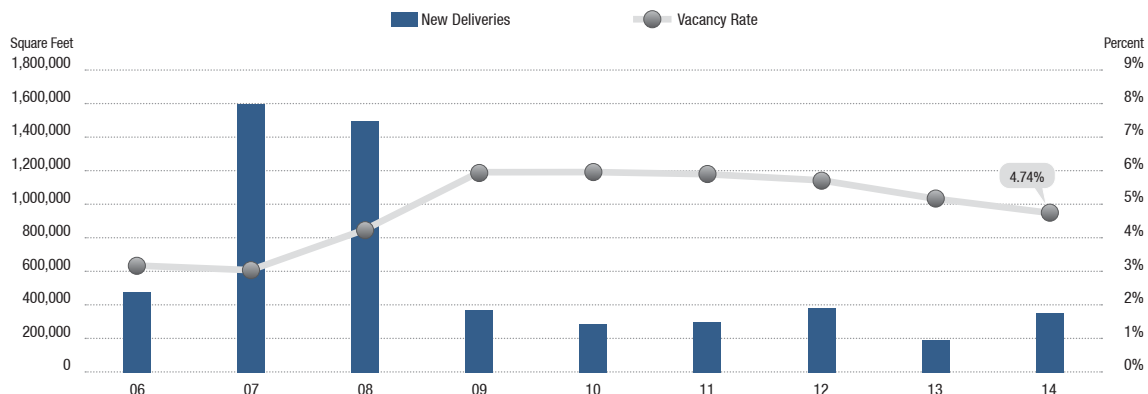
VACANCY – UNOCCUPIED SPACE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Airport Area													
General Retail	993	6,130,983	14,500	51,085	90,689	1.48%	159,463	2.60%	\$2.74	(2,444)	49,184	14,512	133,833
Malls	20	3,594,134	0	0	9,677	0.27%	14,300	0.40%	\$0.00	0	44,000	6,476	50,476
Power Centers	35	1,416,989	0	0	71,848	5.07%	78,573	5.55%	\$0.00	0	(40,046)	0	18,435
Shopping Centers	494	10,549,168	45,527	0	443,729	4.21%	425,452	4.03%	\$2.63	99,640	101,288	159,029	327,666
Specialty Centers	1	190,642	0	0	26,170	13.73%	26,170	13.73%	\$0.00	0	0	0	0
Airport Area Total	1,543	21,881,916	60,027	51,085	642,113	2.93%	703,958	3.22%	\$2.65	97,196	154,426	180,017	530,410
Central County													
General Retail	1,767	11,030,680	276,284	5,130	410,318	3.72%	659,772	5.98%	\$1.44	6,016	140,990	75,567	323,442
Malls	27	2,896,930	0	0	154,500	5.33%	154,500	5.33%	\$0.00	0	0	0	0
Power Centers	42	2,137,423	0	0	43,110	2.02%	90,658	4.24%	\$2.68	9,929	66,145	9,929	84,627
Shopping Centers	816	15,442,486	26,390	0	953,003	6.17%	1,149,498	7.44%	\$1.73	35,017	133,431	115,629	508,003
Specialty Centers	11	933,484	0	0	0	0.00%	0	0.00%	\$0.00	0	5,197	0	5,197
Central County Total	2,663	32,441,003	302,674	5,130	1,560,931	4.81%	2,054,428	6.33%	\$1.71	50,962	345,763	201,125	921,269
North County													
General Retail	1,562	10,857,381	440,513	0	353,300	3.25%	559,344	5.15%	\$1.49	1,472	(3,572)	41,911	171,774
Malls	40	4,112,182	0	425,000	370,068	9.00%	366,319	8.91%	\$0.00	20,118	16,761	22,361	78,765
Power Centers	111	4,457,654	0	0	154,758	3.47%	182,392	4.09%	\$1.89	15,192	11,134	23,106	37,984
Shopping Centers	823	15,517,950	331,350	0	1,323,402	8.53%	1,452,701	9.36%	\$1.59	103,028	123,566	192,951	455,521
Specialty Centers	1	68,462	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North County Total	2,537	35,013,629	771,863	425,000	2,201,528	6.29%	2,560,756	7.31%	\$1.57	139,810	147,889	280,329	744,044
South County													
General Retail	829	6,564,723	57,200	0	195,340	2.98%	255,772	3.90%	\$1.60	9,239	183,983	25,518	230,637
Malls	31	3,315,067	30,500	44,000	282,368	8.52%	325,168	9.81%	\$2.32	(207,500)	(188,837)	0	18,663
Power Centers	97	3,962,215	5,000	0	144,596	3.65%	144,596	5.52%	\$3.57	(40,066)	50,373	12,560	127,823
Shopping Centers	702	15,081,085	49,100	0	715,377	4.74%	952,083	6.31%	\$2.29	40,787	53,499	154,460	440,800
Specialty Centers	2	283,613	229,382	345,000	38,758	13.67%	19,504	6.88%	\$3.32	(1,917)	(18,125)	2,746	2,746
South County Total	1,661	29,206,703	371,182	389,000	1,376,439	4.71%	1,771,340	6.06%	\$2.19	(199,457)	80,893	195,284	820,669
West County													
General Retail	1,005	6,979,762	91,737	190,415	118,509	1.70%	228,131	3.27%	\$1.76	7,750	37,321	39,054	128,335
Malls	24	2,839,756	0	0	122,152	4.30%	134,352	4.73%	\$2.92	15,433	72,439	15,433	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	567	11,705,025	69,633	0	662,272	5.66%	819,310	7.00%	\$2.23	100,956	90,427	160,850	335,871
Specialty Centers	3	282,981	0	0	4,234	1.50%	4,234	1.50%	\$0.00	6,203	6,972	6,203	11,206
West County Total	1,618	22,666,045	161,370	190,415	916,996	4.05%	1,195,856	5.28%	\$2.19	130,342	211,496	221,540	566,367
Orange County Total	10,022	141,209,296	1,667,116	1,060,630	6,698,007	4.74%	8,286,338	5.87%	\$1.88	218,853	940,467	1,078,295	3,582,759
General Retail	6,156	41,563,529	880,234	246,630	1,168,156	2.81%	1,862,482	4.48%	\$1.58	22,033	407,906	196,562	988,021
Malls	142	16,758,069	30,500	469,000	938,765	5.60%	994,639	5.94%	\$2.73	(171,949)	(55,637)	44,270	234,522
Power Centers	304	12,832,802	5,000	0	424,141	3.31%	580,265	4.52%	\$2.59	(14,945)	91,943	45,595	273,206
Shopping Centers	3,402	68,295,714	522,000	0	4,097,783	6.00%	4,799,044	7.03%	\$1.95	379,428	502,211	782,919	2,067,861
Specialty Centers	18	1,759,182	229,382	345,000	69,162	3.93%	49,908	2.84%	\$3.32	4,286	(5,956)	8,949	19,149
Orange County Total	10,022	141,209,296	1,667,116	1,060,630	6,698,007	4.74%	8,286,338	5.87%	\$1.88	218,853	940,467	1,078,295	3,582,759

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



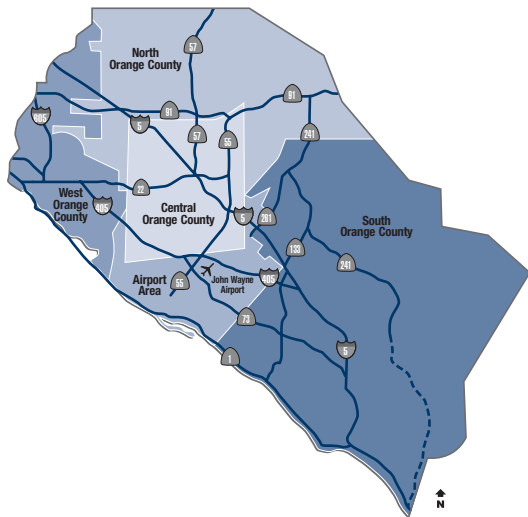
MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
1961-1985 W. Malvern Ave. – 5 Properties	North County	163,514	\$296.61	Shin Yen International Pty, Ltd.	BlackRock, Inc.
1975 E. 17th St.	Central County	46,000	\$154.35	Red Mountain Retail Group, Inc.	Frances Drooz
111 Main St.	Airport Area	8,000	\$456.62	Balboa 111 Main, LLC	Stephan G. Lang
574 S. Coast Hwy.	South County	2,987	\$1,305.66	Radiant Properties	Macres Family Trust A
2700 S. Bristol St.	Airport Area	6,975	\$428.67	Sabo Holdings, LLC	Los Robles Partnership, LP

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
27991-28031 Greenfield Dr.	South County	29,500	Aug-14	Nordstrom Rack	Rancho Niguel Commercial
16201 Harbor Blvd.	West County	14,535	Jul-14	Planet Fitness	Harboredinger Holding, LLC
6010-6038 Ball Rd.	North County	12,000	Sep-14	Out of the Park Pizza	Burns Family Trust
23042-23062 Alicia Pky.	South County	8,800	Aug-14	Dollar Tree	O-A Plaza OPCO, LLC
1337-1545 S. Harbor Blvd.	North County	7,400	Sep-14	Sola Salon	Retail Properties of America, Inc.



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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