THIRD 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

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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 2015. Both availability and vacancy continued to trend downward, with vacancy dropping by over 10% since the third quarter of 2014. Net absorption posted a positive 187,000 square feet for the quarter, and lease rates continue to trend upward.
- **Construction -** There was over 800,000 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 third quarter of 2015 at 4.14%, a slight decrease from the previous quarter's 4.25% and a drop of 10.2% compared to the same quarter of 2014. Power retail space and general centers had the lowest vacancy rates at only 2.24% and 2.78% respectively, while shopping centers had the highest at 5.14%.
- **Availability -** Direct / sublease space being marketed was 5.19% finishing up the quarter, down from the previous quarter's rate of 5.43% and 8.47% lower than the third quarter of 2014. Power retail space and general 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 2.90%, while north county had the highest at 6.19%.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in Orange County came in at $1.94 at the end of the quarter, displaying a six-cent increase from the same quarter last year.
- **Absorption -** The Orange County retail market posted 186,702 square feet of positive net absorption in the third quarter, giving the retail market a total of nearly 3.75 million square feet of positive absorption since the first quarter of 2011.
- **Transaction Activity -** Leasing activity checked in at 660,000 square feet for the third quarter of the year, producing a total of over 3.1 million square feet leased over the past four quarters. Sales activity for the third quarter came in at over 480,000 square feet, displaying a decrease from the same quarter of 2014 when over 621,000 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 4.5% in August 2015, down from a revised 4.7% in July 2015 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 6.1% 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 48,500 payroll jobs from August 2014 to August 2015. Most sectors showed gains in employment; the largest gains were 9,500 in educational and 8,400 in leisure and hospitality during that same period. Information posted the only year-over-year loss, dropping by 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 ten 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

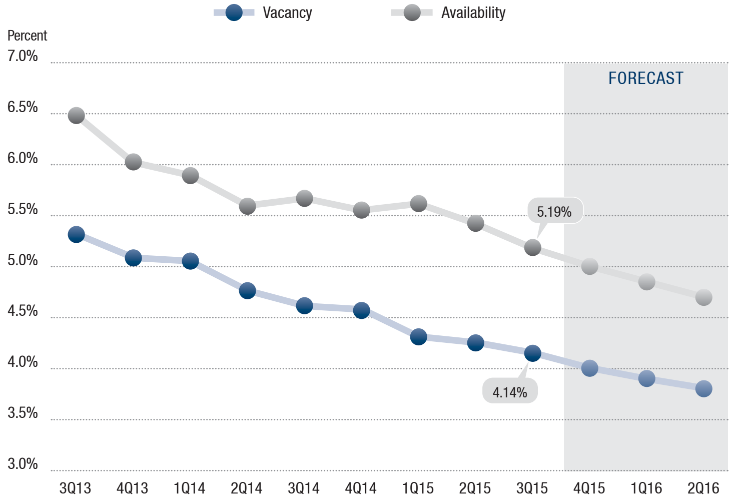
- **Employment -** We anticipate job growth of around 3.1%, or 47,000 jobs, in the Orange County area during the year according to Chapman University. The most rapid growth should take place in the professional & business services, education & health, leisure & hospitality, and construction sectors.
- **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 3.8%, by the second quarter of 2016.

## OVERVIEW

| | 3Q15 | 2Q15 | 3Q14 | % of Change vs. 3Q14 |
|---|---|---|---|---|
| Total Vacancy Rate | 4.14% | 4.25% | 4.61% | (10.20%) |
| Availability Rate | 5.19% | 5.43% | 5.67% | (8.47%) |
| Average Asking Lease Rate | $1.94 | $1.92 | $1.88 | 3.19% |
| Sale & Lease Transactions | 1,139,049 | 3,735,572 | 1,500,676 | (24.10%) |
| Gross Absorption | 933,496 | 920,894 | 1,107,785 | (15.73%) |
| Net Absorption | 186,702 | 98,277 | 249,216 | N/A |

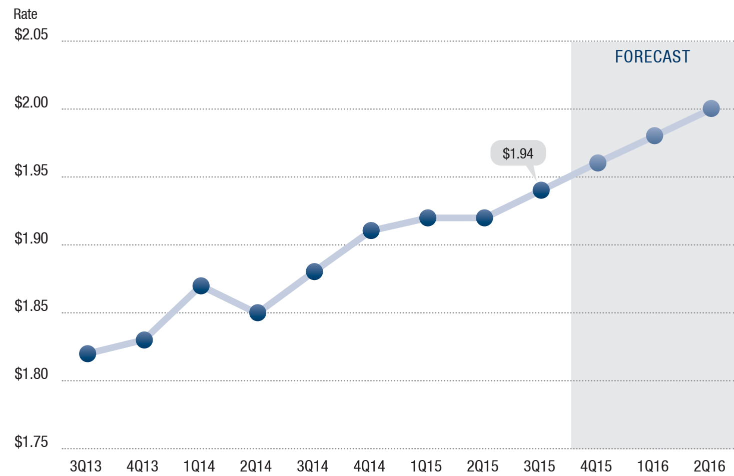
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



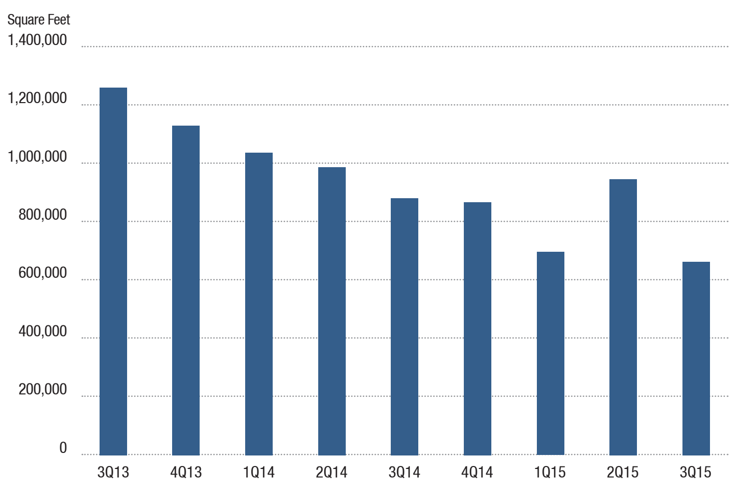

## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS




## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER

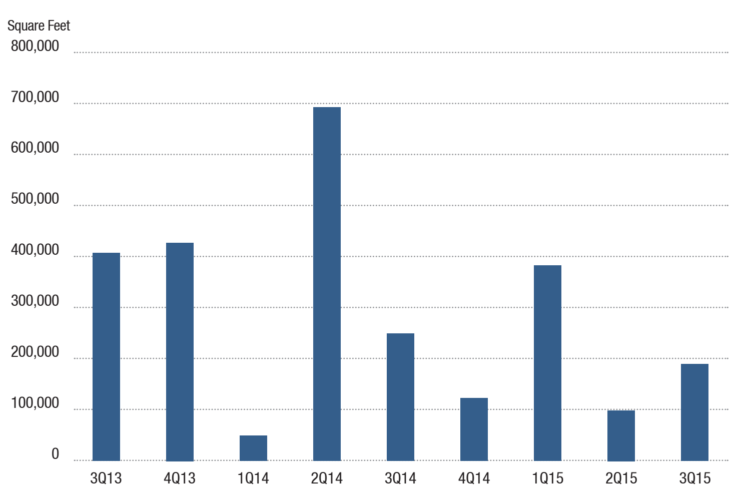



## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

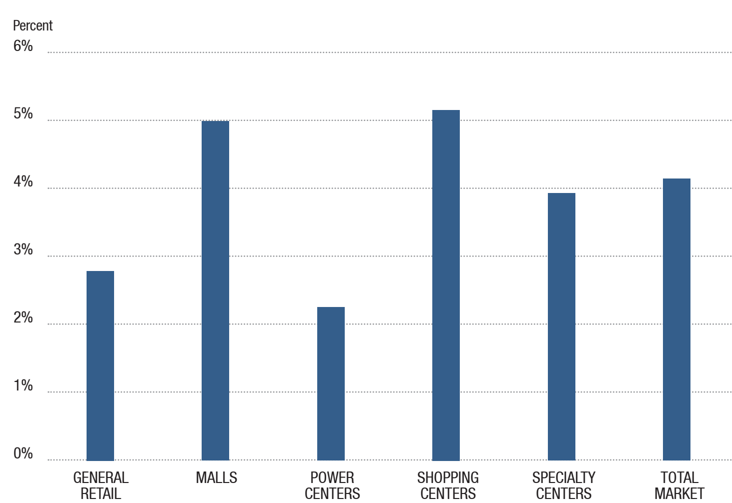

## NET ABSORPTION

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




## VACANCY RATE BY PRODUCT TYPE

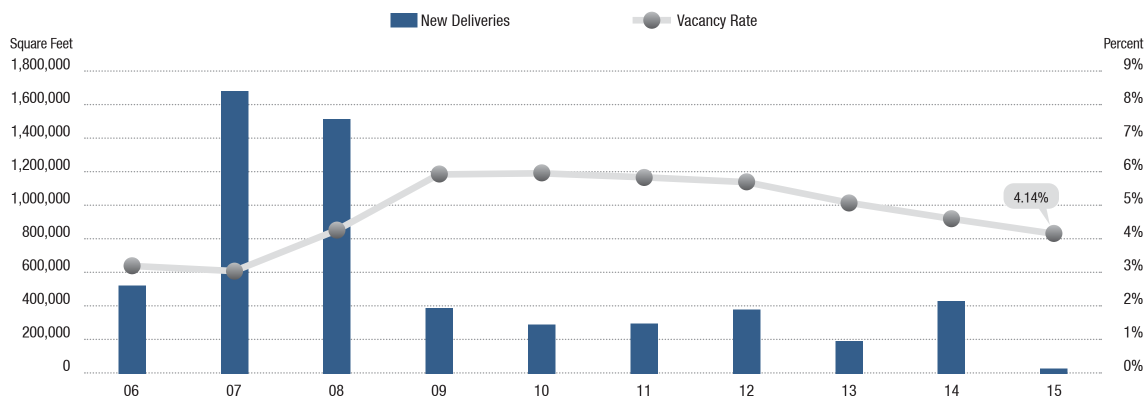
VACANCY – UNOCCUPIED SPACE



| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U/C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 3Q2015 | Square Feet Available | Availability Rate 3Q2015 | Average Asking Lease Rate | Net Absorption 3Q2015 | Net Absorption 2015 | Gross Absorption 3Q2015 | Gross Absorption 2015 |
| **Airport Area** | | | | | | | | | | | | | |
| General Retail | 960 | 5,784,863 | 33,000 | 6,700 | 119,993 | 2.07% | 141,876 | 2.45% | $3.07 | (4,687) | (8,348) | 33,664 | 105,812 |
| Malls | 20 | 3,571,748 | 0 | 0 | 6,934 | 0.19% | 12,036 | 0.34% | $0.00 | 0 | 2,898 | 0 | 4,499 |
| Power Centers | 35 | 1,415,689 | 0 | 0 | 48,545 | 3.43% | 80,964 | 5.72% | $0.00 | 8,300 | 19,808 | 15,020 | 45,467 |
| Shopping Centers | 393 | 7,688,592 | 0 | 14,800 | 225,562 | 2.93% | 279,531 | 3.64% | $2.06 | (4,931) | 45,267 | 49,935 | 153,965 |
| Specialty Centers | 1 | 190,642 | 0 | 0 | 26,170 | 13.73% | 26,170 | 13.73% | $0.00 | 0 | 0 | 0 | 0 |
| Airport Area Total | 1,409 | 18,651,534 | 33,000 | 21,500 | 427,204 | 2.29% | 540,577 | 2.90% | $2.83 | (1,318) | 59,625 | 98,619 | 309,743 |
| **Central County** | | | | | | | | | | | | | |
| General Retail | 1,343 | 8,505,018 | 0 | 146,174 | 249,365 | 2.93% | 364,975 | 4.29% | $1.85 | 6,078 | 8,793 | 54,720 | 123,105 |
| Malls | 25 | 2,687,778 | 0 | 0 | 154,500 | 5.75% | 154,500 | 5.75% | $0.00 | 0 | 0 | 0 | 0 |
| Power Centers | 40 | 1,838,872 | 0 | 0 | 30,712 | 1.67% | 53,092 | 2.89% | $2.88 | 15,647 | 15,903 | 19,552 | 48,516 |
| Shopping Centers | 624 | 10,840,093 | 0 | 18,355 | 660,843 | 6.10% | 846,397 | 7.81% | $1.81 | 39,419 | 43,403 | 133,691 | 304,865 |
| Specialty Centers | 8 | 154,703 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | $3.46 | 0 | 0 | 0 | 0 |
| Central County Total | 2,040 | 24,026,464 | 0 | 164,529 | 1,095,420 | 4.56% | 1,418,964 | 5.91% | $1.84 | 61,144 | 68,099 | 207,963 | 476,486 |
| **North County** | | | | | | | | | | | | | |
| General Retail | 1,599 | 11,121,078 | 6,600 | 435,987 | 362,984 | 3.26% | 443,844 | 3.99% | $1.48 | (8,212) | 86,174 | 80,918 | 369,385 |
| Malls | 35 | 3,304,017 | 400,000 | 0 | 296,274 | 8.97% | 321,274 | 9.72% | $0.00 | 33,771 | 31,739 | 33,771 | 34,341 |
| Power Centers | 111 | 4,457,654 | 0 | 0 | 82,674 | 1.85% | 99,029 | 2.22% | $1.97 | 44,886 | 79,464 | 55,139 | 99,060 |
| Shopping Centers | 833 | 15,591,452 | 85,077 | 322,650 | 1,077,122 | 6.91% | 1,274,330 | 8.17% | $1.58 | (7,983) | 100,967 | 85,461 | 419,866 |
| Specialty Centers | 1 | 68,462 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | $0.00 | 0 | 0 | 0 | 0 |
| North County Total | 2,579 | 34,542,663 | 491,677 | 758,637 | 1,819,054 | 5.27% | 2,138,477 | 6.19% | $1.57 | 62,462 | 298,344 | 255,289 | 922,652 |
| **South County** | | | | | | | | | | | | | |
| General Retail | 851 | 6,924,437 | 0 | 56,682 | 172,430 | 2.49% | 251,298 | 3.63% | $1.60 | 27,560 | 45,012 | 57,966 | 141,113 |
| Malls | 34 | 3,374,567 | 0 | 0 | 278,611 | 8.26% | 312,611 | 9.26% | $1.98 | (9,579) | (30,243) | 0 | 8,090 |
| Power Centers | 98 | 3,999,899 | 0 | 0 | 108,425 | 2.71% | 160,666 | 4.02% | $3.28 | (10,234) | 30,343 | 13,859 | 70,449 |
| Shopping Centers | 704 | 14,790,890 | 82,262 | 4,000 | 595,694 | 4.03% | 770,216 | 5.21% | $2.53 | 42,159 | 30,139 | 128,961 | 365,144 |
| Specialty Centers | 2 | 283,613 | 0 | 0 | 11,158 | 3.93% | 15,924 | 5.61% | $0.00 | 1,600 | 27,600 | 0 | 0 |
| South County Total | 1,689 | 29,373,406 | 82,262 | 60,682 | 1,166,318 | 3.97% | 1,510,715 | 5.14% | $2.30 | 51,506 | 102,851 | 200,786 | 584,796 |
| **West County** | | | | | | | | | | | | | |
| General Retail | 1,528 | 10,337,483 | 0 | 255,163 | 281,175 | 2.72% | 395,118 | 3.82% | $2.12 | 3,961 | 45,228 | 28,264 | 152,302 |
| Malls | 26 | 2,964,346 | 190,415 | 0 | 55,579 | 1.87% | 128,076 | 6.00% | $2.92 | 3,836 | 66,573 | 11,836 | 74,573 |
| Power Centers | 19 | 857,986 | 0 | 0 | 10,820 | 1.26% | 18,820 | 2.19% | $0.00 | 6,758 | (991) | 6,758 | 10,258 |
| Shopping Centers | 893 | 19,181,839 | 15,066 | 29,240 | 942,451 | 4.91% | 1,124,242 | 5.86% | $2.04 | (1,647) | 23,772 | 123,981 | 385,256 |
| Specialty Centers | 3 | 282,244 | 0 | 0 | 0 | 0.00% | 5,669 | 2.01% | $0.00 | 0 | 0 | 0 | 0 |
| West County Total | 2,469 | 33,623,898 | 205,481 | 284,403 | 1,290,025 | 3.84% | 1,671,925 | 4.97% | $2.09 | 12,908 | 134,582 | 170,839 | 622,389 |
| **Orange County Total** | **10,186** | **140,217,965** | **812,420** | **1,289,751** | **5,798,021** | **4.14%** | **7,280,658** | **5.19%** | **$1.94** | **186,702** | **663,501** | **933,496** | **2,916,066** |
| General Retail | 6,281 | 42,672,879 | 39,600 | 900,706 | 1,185,947 | 2.78% | 1,597,111 | 3.74% | $1.79 | 24,700 | 176,859 | 255,532 | 891,717 |
| Malls | 140 | 15,902,456 | 590,415 | 0 | 791,898 | 4.98% | 928,497 | 5.84% | $2.38 | 28,028 | 70,967 | 45,607 | 121,503 |
| Power Centers | 303 | 12,570,100 | 0 | 0 | 281,176 | 2.24% | 412,571 | 3.28% | $2.58 | 65,357 | 144,527 | 110,328 | 273,750 |
| Shopping Centers | 3,447 | 68,092,866 | 182,405 | 389,045 | 3,501,672 | 5.14% | 4,294,716 | 6.31% | $1.96 | 67,017 | 243,548 | 522,029 | 1,629,096 |
| Specialty Centers | 15 | 979,664 | 0 | 0 | 37,328 | 3.81% | 47,763 | 4.88% | $3.46 | 1,600 | 27,600 | 0 | 0 |
| **Orange County Total** | **10,186** | **140,217,965** | **812,420** | **1,289,751** | **5,798,021** | **4.14%** | **7,280,658** | **5.19%** | **$1.94** | **186,702** | **663,501** | **933,496** | **2,916,066** |

Lease rates are on a triple-net basis.

## ANNUAL NEW DELIVERIES VS. VACANCY RATE



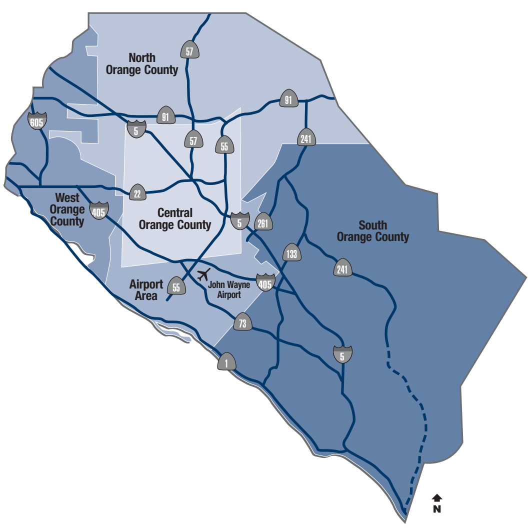
# MAJOR TRANSACTIONS

## Sales Transactions

| Property Address | Submarket | Square Feet | Sale Price Per SF | Buyer | Seller |
|---|---|---|---|---|---|
| 21672 Plano Trabuco Rd. | South County | 50,415 | $271.82 | GSUN Investments, Inc. | Garrison Investment Group |
| 22331 El Paseo | South County | 22,000 | $438.64 | Albee Properties, LLC | American Housing Partners, Inc. |
| 665 N. Tustin St. | Central County | 30,400 | $273.03 | Eddie R. Fischer | Lipset Trust |
| 6006 Lincoln Ave. | West County | 14,280 | $451.68 | Jwr Living Trust | Grae Valley View, LLC |
| 2225 E. Katella Ave. (3 Properties) | North County | 36,186 | $174.10 | Cathedral Center of St. Paul | Will of Gladys K. Smith |

## Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|---|---|---|---|---|---|
| 8030-8060 Dale St. | North County | 44,100 | Jul-2015 | Orchard Supply Hardware | Dale & La Palma Partners, LP |
| 26532 Towne Center Dr. | South County | 33,287 | Sep-2015 | Maiselle Fine Furnishings | Foothill Ranch, LLC |
| 6214-6246 Irvine Blvd. | South County | 20,550 | Jul-2015 | Homes Good | The Irvine Company |
| 11100 Garden Grove Blvd. | West County | 14,140 | Sep-2015 | East Seafood Buffet | Red Mountain Retail Group, Inc. |
| 16112 Harbor Blvd. | West County | 8,900 | Jul-2015 | LV Mattress | Ho Family Trust |




## 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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