



FOURTH QUARTER 2014 ORANGE COUNTY RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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Prepared by:

Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Carla Mantecon
Market Research Assistant
e-mail: cmantecon@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Encouraging Numbers** - The Orange County retail market continued to stride forward in the fourth quarter of 2014. Both availability and vacancy continued to trend downward, dropping over 8% since the fourth quarter of 2013. Net absorption posted a positive 128,000 square feet for the quarter, and lease rates continue to trend upward.
- **Construction** - There was over 1.7 million square feet of retail space under construction in Orange County at the end of 2014, most of which was for general space in the north and central county submarkets.
- **Vacancy** - Direct/sublease space (unoccupied) finished the fourth quarter of 2014 at 4.67%, a decrease from the previous quarter's 4.72% and a drop of 9.67% compared to the same quarter of 2013. General retail space and power centers had the lowest vacancy rates at only 3.08% and 3.40% respectively, while shopping centers had the highest at 5.74%.
- **Availability** - Direct/sublease space being marketed was 5.67% finishing up the quarter, up from the previous quarter's rate of 5.79% and 7.95% lower than the fourth 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 2.71%, while north county had the highest at 6.34%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Orange County came in at \$1.91 at the end of the fourth quarter, displaying a eight-cent increase from the same quarter last year.
- **Absorption** - The Orange County retail market posted 127,847 square feet of positive net absorption in the fourth quarter, giving the retail market a total of nearly 2.4 million square feet of positive absorption since the fourth quarter of 2012.
- **Transaction Activity** - Leasing activity checked in at 530,000 square feet for the last quarter of the year, producing a total of over 3.2 million square feet leased over the past four quarters. Sales activity for the fourth quarter came in at 352,000 square feet, displaying a decrease from the same quarter of 2013 when just under 900,000 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 fourth quarter figures to end up somewhat higher. Details of the largest transactions for 2014 can be found on the back page of this report.
- **Employment** - The unemployment rate in Orange County was 5.0% in November 2014, unchanged from a revised 5.0% in October 2014 and below the previous year's estimate of 5.8%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 32,200 payroll jobs from November 2013 to November 2014. Most sectors showed gains in employment; the largest gains were 10,900 in educational and health services and 7,700 in construction during that same period. Manufacturing posted the largest year-over-year loss, dropping by 2,300 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 seven 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

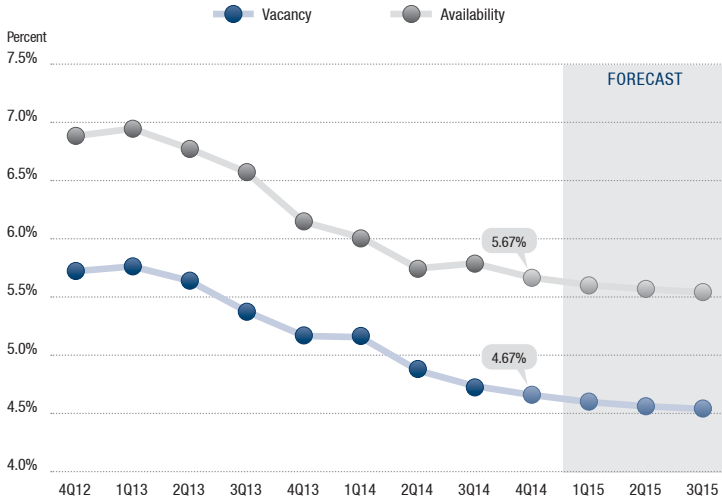
- **Employment** - We anticipate job growth of around 2.6%, or 38,000 jobs, in the Orange County area over the next four quarters according to Chapman University. The most rapid growth should take place in the construction, education & health, professional & business services, and leisure & hospitality 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 fourth quarter of 2015.

OVERVIEW

| | 2014 | 2013 | 2012 | % of Change vs. 2013 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Total Vacancy Rate | 4.67% | 5.17% | 5.72% | (9.67%) |
| Availability Rate | 5.67% | 6.16% | 6.88% | (7.95%) |
| Average Asking Lease Rate | \$1.91 | \$1.83 | \$1.87 | 4.37% |
| Sale & Lease Transactions | 5,385,883 | 8,504,118 | 8,602,656 | (36.67%) |
| Gross Absorption | 4,414,190 | 4,828,129 | 5,249,340 | (8.57%) |
| Net Absorption | 1,107,265 | 946,456 | 641,610 | N/A |

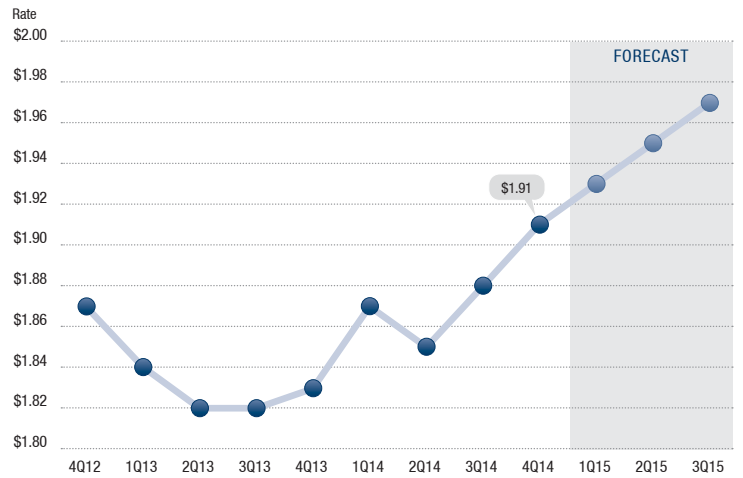
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



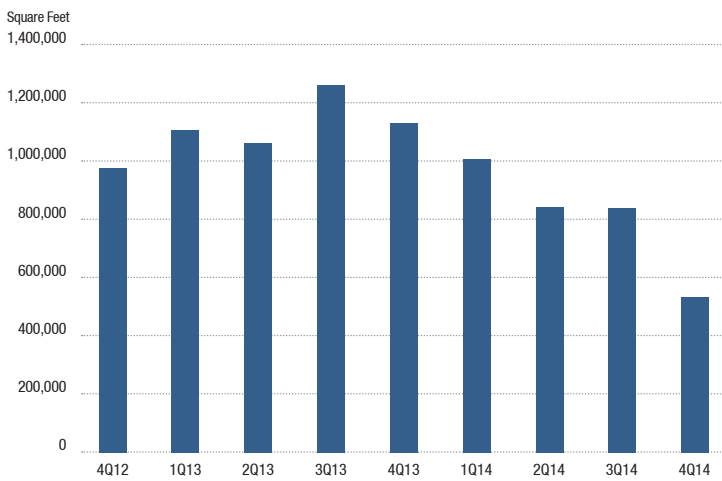
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



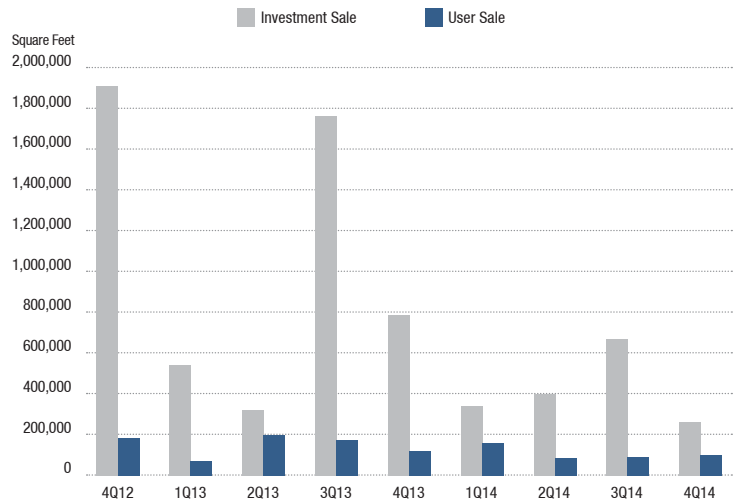
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



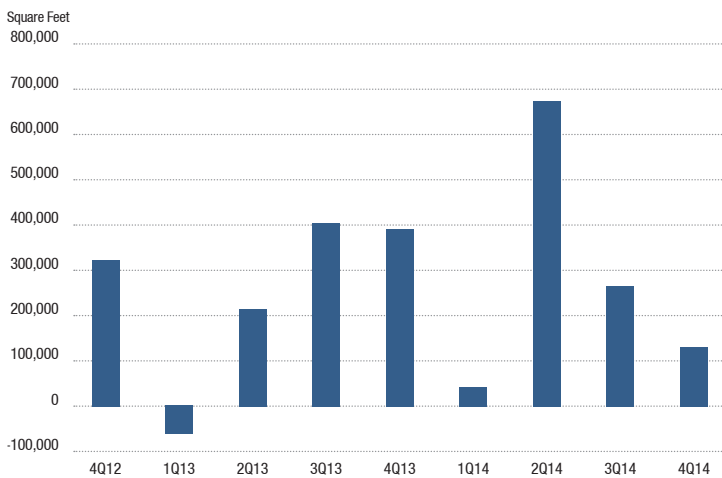
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



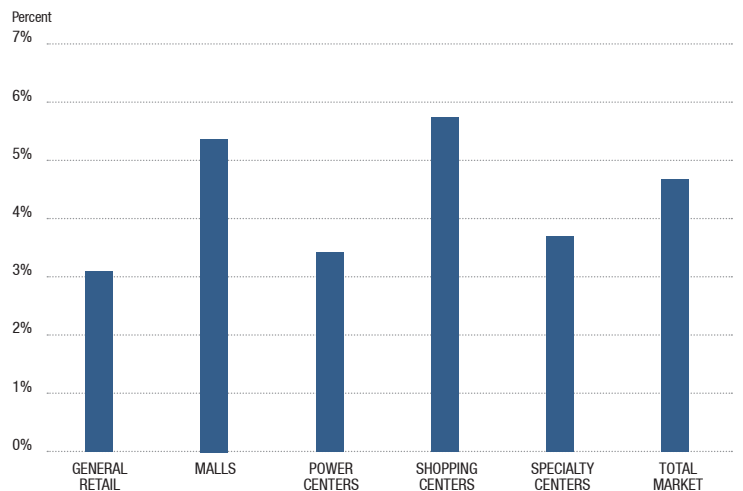
NET ABSORPTION

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



VACANCY RATE BY PRODUCT TYPE

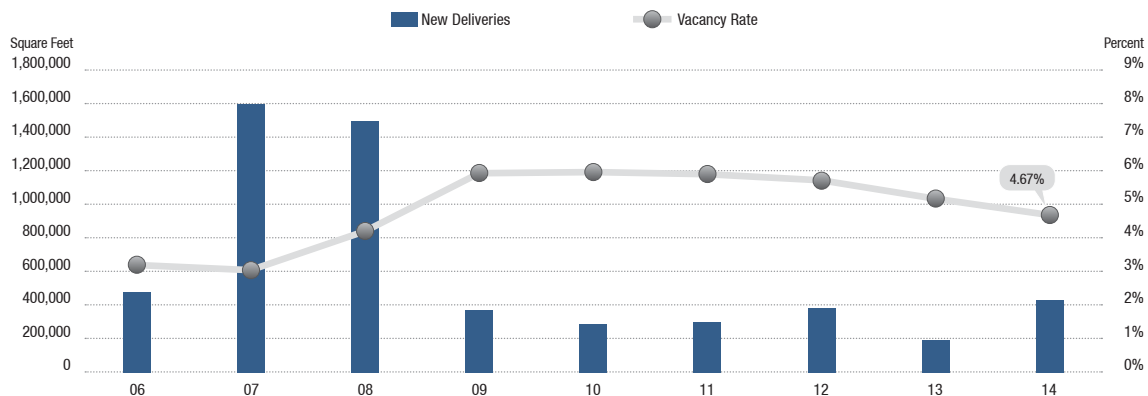
VACANCY – UNOCCUPIED SPACE



| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|-----------------------------|------------------|--------------------------|------------------|---------------------|-----------------------|---------------------|-----------------------|--------------------------|---------------------------|-----------------------|---------------------|-------------------------|-----------------------|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U/C | Square Feet Planned | Square Feet Vacant | Vacancy Rate QO2014 | Square Feet Available | Availability Rate QO2014 | Average Asking Lease Rate | Net Absorption QO2014 | Net Absorption 2014 | Gross Absorption QO2014 | Gross Absorption 2014 |
| Airport Area | | | | | | | | | | | | | |
| General Retail | 997 | 6,158,656 | 14,500 | 33,000 | 111,059 | 1.80% | 192,104 | 3.12% | \$2.77 | (5,002) | 48,399 | 23,990 | 159,198 |
| Malls | 20 | 3,594,134 | 0 | 0 | 9,832 | 0.27% | 9,832 | 0.27% | \$0.00 | (155) | 43,845 | 5,638 | 56,114 |
| Power Centers | 35 | 1,416,989 | 0 | 0 | 68,353 | 4.82% | 78,573 | 5.55% | \$0.00 | 3,495 | (36,551) | 5,837 | 24,272 |
| Shopping Centers | 492 | 10,508,077 | 45,527 | 0 | 377,877 | 3.60% | 405,076 | 3.85% | \$2.59 | 59,301 | 158,925 | 109,938 | 430,937 |
| Specialty Centers | 1 | 190,642 | 0 | 0 | 26,170 | 13.73% | 26,170 | 13.73% | \$0.00 | 0 | 0 | 0 | 0 |
| Airport Area Total | 1,545 | 21,868,498 | 60,027 | 33,000 | 593,291 | 2.71% | 711,755 | 3.25% | \$2.63 | 57,639 | 214,618 | 145,403 | 670,521 |
| Central County | | | | | | | | | | | | | |
| General Retail | 1,770 | 11,342,148 | 276,284 | 5,130 | 415,365 | 3.66% | 619,874 | 5.47% | \$1.43 | (2,001) | 128,635 | 50,463 | 366,097 |
| 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 | 46,615 | 2.53% | 94,663 | 5.15% | \$2.70 | (3,505) | 62,640 | 2,154 | 86,781 |
| Shopping Centers | 817 | 15,412,928 | 26,390 | 0 | 898,960 | 5.83% | 1,133,708 | 7.36% | \$1.69 | 51,200 | 183,131 | 140,916 | 648,929 |
| Specialty Centers | 11 | 933,484 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 5,197 | 0 | 5,197 |
| Central County Total | 2,665 | 32,424,362 | 302,674 | 5,130 | 1,515,440 | 4.67% | 2,002,745 | 6.18% | \$1.70 | 45,694 | 379,603 | 193,533 | 1,107,004 |
| North County | | | | | | | | | | | | | |
| General Retail | 1,564 | 10,884,922 | 524,438 | 0 | 424,597 | 3.90% | 546,476 | 5.02% | \$1.52 | (72,117) | (72,259) | 40,045 | 215,249 |
| Malls | 40 | 4,112,182 | 0 | 400,000 | 329,213 | 8.01% | 355,813 | 8.65% | \$0.00 | 41,425 | 57,616 | 46,455 | 125,220 |
| Power Centers | 111 | 4,457,654 | 0 | 0 | 162,138 | 3.64% | 152,413 | 3.42% | \$1.89 | (7,380) | 3,754 | 8,600 | 46,584 |
| Shopping Centers | 822 | 15,487,798 | 336,750 | 0 | 1,304,686 | 8.42% | 1,435,148 | 9.27% | \$1.58 | 11,431 | 140,058 | 114,265 | 569,786 |
| Specialty Centers | 1 | 68,462 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| North County Total | 2,538 | 35,011,018 | 861,188 | 400,000 | 2,220,634 | 6.34% | 2,489,850 | 7.11% | \$1.57 | (26,641) | 129,169 | 209,365 | 956,839 |
| South County | | | | | | | | | | | | | |
| General Retail | 828 | 6,602,986 | 77,600 | 0 | 198,386 | 3.00% | 270,014 | 4.09% | \$1.89 | (3,696) | 179,779 | 9,159 | 238,638 |
| Malls | 34 | 3,374,567 | 15,500 | 44,000 | 282,368 | 8.37% | 317,078 | 9.40% | \$2.75 | 44,000 | (129,337) | 44,000 | 78,163 |
| Power Centers | 97 | 3,963,615 | 5,000 | 0 | 138,768 | 3.50% | 214,678 | 5.42% | \$3.59 | 5,828 | 56,201 | 7,628 | 135,451 |
| Shopping Centers | 701 | 15,076,442 | 49,100 | 0 | 646,239 | 4.29% | 880,287 | 5.84% | \$2.34 | 46,294 | 122,637 | 120,162 | 567,142 |
| Specialty Centers | 2 | 283,613 | 229,382 | 345,000 | 38,758 | 13.67% | 19,504 | 6.88% | \$3.32 | 0 | (18,125) | 0 | 2,746 |
| South County Total | 1,662 | 29,301,223 | 376,582 | 389,000 | 1,304,519 | 4.45% | 1,701,561 | 5.81% | \$2.28 | 92,426 | 211,155 | 180,949 | 1,022,140 |
| West County | | | | | | | | | | | | | |
| General Retail | 1,000 | 6,853,524 | 91,737 | 2,500 | 139,132 | 2.03% | 173,079 | 2.53% | \$1.82 | (20,623) | 16,698 | 18,352 | 146,687 |
| Malls | 24 | 2,839,756 | 0 | 190,415 | 122,152 | 4.30% | 134,352 | 4.73% | \$2.92 | 0 | 72,439 | 0 | 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 | 570 | 11,721,942 | 25,740 | 15,066 | 684,659 | 5.84% | 776,219 | 6.62% | \$2.26 | (24,882) | 68,040 | 68,038 | 404,604 |
| Specialty Centers | 3 | 282,981 | 0 | 0 | 0 | 0.00% | 4,234 | 1.50% | \$0.00 | 4,234 | 11,206 | 4,234 | 15,440 |
| West County Total | 1,616 | 22,556,724 | 117,477 | 207,981 | 955,772 | 4.24% | 1,097,713 | 4.87% | \$2.24 | (41,271) | 172,720 | 90,624 | 657,686 |
| Orange County Total | 10,026 | 141,161,825 | 1,717,948 | 1,035,111 | 6,589,656 | 4.67% | 8,003,624 | 5.67% | \$1.91 | 127,847 | 1,107,265 | 819,874 | 4,414,190 |
| General Retail | 6,159 | 41,842,236 | 984,559 | 40,630 | 1,288,539 | 3.08% | 1,801,547 | 4.31% | \$1.68 | (103,439) | 301,252 | 142,009 | 1,125,869 |
| Malls | 145 | 16,817,569 | 15,500 | 634,415 | 898,065 | 5.34% | 971,575 | 5.78% | \$2.91 | 85,270 | 44,563 | 96,093 | 346,115 |
| Power Centers | 302 | 12,535,651 | 5,000 | 0 | 425,703 | 3.40% | 550,156 | 4.39% | \$2.62 | (1,562) | 90,381 | 24,219 | 297,425 |
| Shopping Centers | 3,402 | 68,207,187 | 483,507 | 15,066 | 3,912,421 | 5.74% | 4,630,438 | 6.79% | \$1.93 | 143,344 | 672,791 | 553,319 | 2,621,398 |
| Specialty Centers | 18 | 1,759,182 | 229,382 | 345,000 | 64,928 | 3.69% | 49,908 | 2.84% | \$3.32 | 4,234 | (1,722) | 4,234 | 23,383 |
| Orange County Total | 10,026 | 141,161,825 | 1,717,948 | 1,035,111 | 6,589,656 | 4.67% | 8,003,624 | 5.67% | \$1.91 | 127,847 | 1,107,265 | 819,874 | 4,414,190 |

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS OF 2014

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 | Malver Property, LLC | Granite Amerige, LP |
| 1025 E. Katella Ave. – 4 Properties | North County | 46,843 | \$346.90 | The Wolff Company II, LLC | Shopoff Realty Investments, LP |
| 27785 Santa Margarita Pky. – 3 Properties | South County | 24,250 | \$623.51 | Ullman Investments | Webb Management & Investments |
| 2222 Michelson Dr. – 2 Properties | Airport Area | 41,525 | \$313.06 | Lincoln Property Corporation | Wilks Land Co. |
| 270 Bristol St. – 5 Properties | Airport Area | 24,756 | \$521.09 | The Festival Companies | Donahue Schriber Commercial |

Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|------------------------|----------------|-------------|------------------|-----------------------------|-----------------------------|
| 6912 Edinger Ave. | West County | 100,800 | Jan-14 | Living Spaces | Brookhurst Shopping |
| 117-135 N. Beach Blvd. | North County | 56,800 | Apr-14 | Walmart Neighborhood Market | Sterik Buena Park |
| 1011 N. Tustin Ave. | North County | 47,277 | Sep-14 | Jerome's Furniture | 1011 Tustin, LLC |
| 1975 E. 17th St. | Central County | 46,000 | Aug-14 | Hobby Lobby | Hoblob 17, LLC |
| 901 S. South Coast Dr. | Airport Area | 39,566 | Apr-14 | Saks Off 5th | Arnel Commercial Properties |



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

Please Contact Us for Further Information

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voidco.com



Anaheim, CA
714.978.7880

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Los Angeles, CA
424.329.7500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

San Jose, CA
408.885.9110

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