

# INVESTMENT FORECAST

Retail  
Orange County

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Orange County Ranks Among West Coast's Tightest Markets; Investors React to Minuscule Pipeline

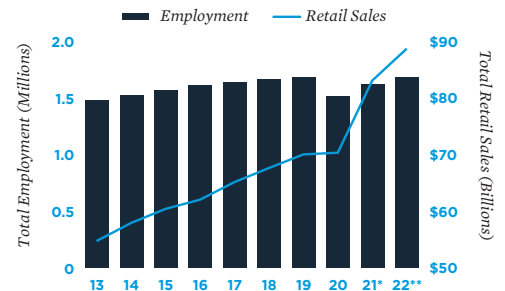
**Tourism and discretionary spending poised to improve.** Orange County's retail sector has proved resilient during the health crisis, having navigated convention cancellations, amusement park closures and a significant reduction of in-office operations. Entering 2022, vacancy was just 50 basis points above its pre-pandemic mark and 70 basis points below the average rate registered across the other nine major West Coast markets. Moving forward, vendors can expect an increase in retail sales as tourism recovers. Both Disney's D23 Expo and the National Association of Music Merchants convention will return to Anaheim during the second half of 2022, with theme parks expected to operate at full capacity this year. Additionally, the number of traditional office-using professionals is projected to reach a record mark, pushing the median annual household income near \$100,000. Together, these demand drivers will cultivate retailer expansions at a time when inventory grows by less than 0.1 percent. Steered toward the metro's existing stock, growing vendors will support positive absorption that lowers vacancy below the metro's trailing five-year average.

**Regional buyers strike as county's economy recovers.** Quarterly transaction velocity was strong throughout last year in Southern California's highest-priced market for retail investment. Confident in Orange County's collection of long-term demand drivers, single-tenant buyers are acquiring dining establishments in North and Central County cities, including Anaheim and Santa Ana. Here, restaurants are trading at cap rates in the mid-4 percent to high-5 percent range, with pricing below \$500 per square foot scarce. Investor demand for pre-1990s-built strip centers and midsize shopping centers is more widespread, with the latter property type providing buyers the opportunity to deploy more than \$10 million per acquisition. Currently, first-year yields for neighborhood centers with high-credit tenants are falling into the mid-3 percent to low-4 percent band.

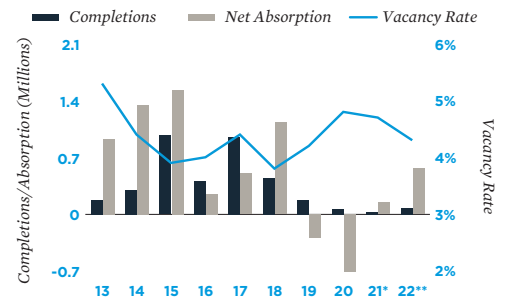
## 2022 Market Forecast

- Employment**  
up 4.0%  
After adding 100,000 positions last year, Orange County employers create another 65,000 jobs in 2022.
- Construction**  
80,000 sq. ft.  
For a third straight year, less than 100,000 square feet is delivered across the metro. The expansion of a neighborhood center in Garden Grove accounts for the bulk of supply additions.
- Vacancy**  
down 40 bps  
Improving retailer demand and sparse completions translate to the net absorption of nearly 570,000 square feet in 2022, lowering availability to 4.3 percent.
- Rent**  
up 2.7%  
The pace of rent growth in 2022 mirrors last year, when a 2.8 percent gain was registered. The steady rate of increase lifts the metro's average marketed rent to \$32.00 per square foot.
- Investment**  
The ongoing construction of the OC Streetcar from Garden Grove to Santa Ana has the potential to increase investor interest in retail properties proximate to Santa Ana Boulevard.

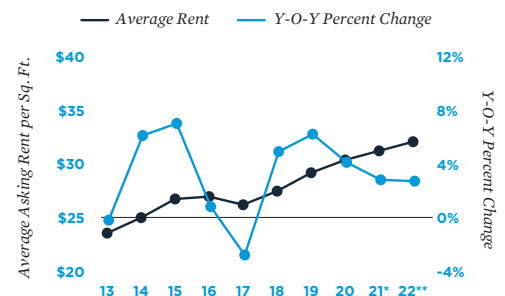
### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.