

MARKET REPORT

Retail
Orange County Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

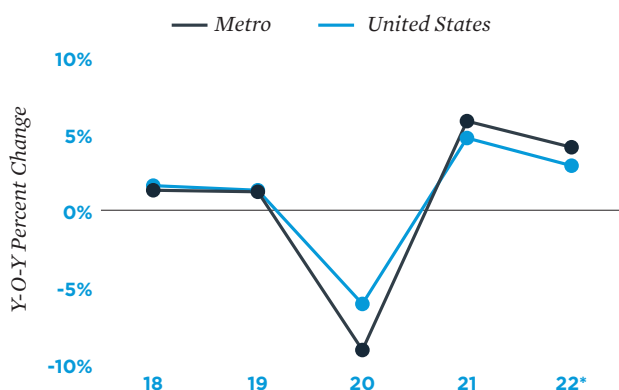
2Q/22

Vacancy Stays Regionally Low as Events, New Well-Paying Jobs Boost Retail Sales

Calendar of events elevate visitor volume. Orange County entered the second quarter with the lowest vacancy among California markets, highlighted by sub-5 percent availability in four of the metro's five major submarkets. In two of these neighboring locales, North County and Central County, retailers are slated to note near-term improvements in visitor volume and consumer spending as in-person events return to the Anaheim Convention Center. During March and April, the venue hosted a collection of conferences, including the Natural Products Expo West and WonderCon. The center's relatively full calendar of bookings through October indicates an influx of vendors and convention attendees will descend on the area in the coming quarters. This has the potential to generate billions in near-term economic impact and encourage retailer expansions.

Consumer spending to rise in professional epicenter. The number of traditional office-using positions in Orange County is on pace to reach a record mark this year, an achievement that will push the median household income to nearly \$100,000. Many of these higher-paying jobs are professional and business services-centric and located in Irvine Spectrum, Costa Mesa and Newport Beach, locales that comprise the Airport Area. Moving forward, the combination of organizations bolstering staff counts while returning existing employees to offices will boost midweek foot traffic and discretionary spending in these hubs. Consequently, retailer viability will be enhanced, allowing the area to remain the metro's tightest submarket.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**66,000
JOBS**
will be created

EMPLOYMENT:

After adding 18,200 positions in the first quarter, the metro entered April with a 4.0 percent unemployment rate, the lowest among Southern California markets. Continued hiring will lift the metro's job count to a record mark by year-end.



**85,000
SQ. FT.**
will be completed

CONSTRUCTION:

Retail inventory increases by just 0.1 percent for a fourth consecutive year, with Orange County tied with San Jose for the lowest delivery volume among major U.S. markets. The bulk of space finalized this year will be in Garden Grove.



**0
BASIS POINT**
change in vacancy

VACANCY:

Following compression of 20 basis points last year, Orange County vacancy will hold at 4.6 percent during 2022. Retailer demand and supply additions are expected to fall in line, supporting a second straight year of positive absorption.

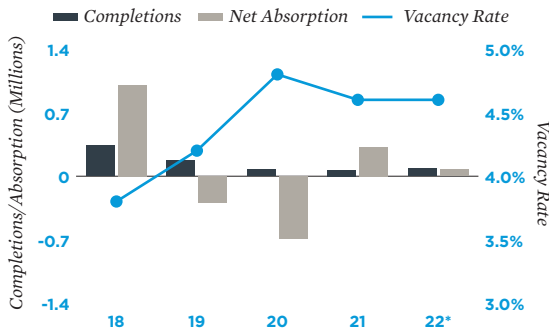


**2.2%
INCREASE**
in asking rent

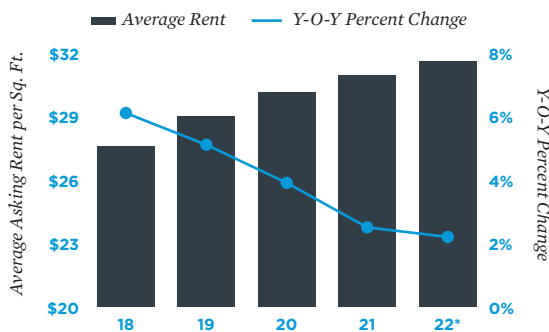
RENT:

Regionally tight availability supports an annual pace of rent growth comparable to last year's 2.5 percent recording. At an average of \$31.60 per square foot, Orange County's year-end asking rate trails the Los Angeles County mean by \$1.40 per square foot.

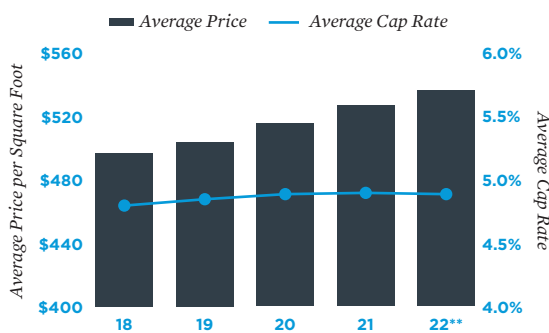
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

81,000 sq. ft. completed

- Supply additions remained sparse throughout the metro over the past year ended in March, as inventory grew by a scant 0.1 percent. A Sprouts Farmers Market in Garden Grove represented the largest recent delivery.
- Orange County's construction pipeline is among the smallest nationally, with just 25,000 square feet underway as of late April.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Both the single- and multi-tenant segments recorded positive absorption during the last 12 months, reducing overall vacancy to 4.7 percent.
- The metro's largest submarket by inventory, North County notched an 80-basis-point decrease in availability that slashed local vacancy to 4.5 percent, the lowest rate since 2008.



RENT

3.5% increase in the average asking rent Y-O-Y

- Supported by 5 percent-plus rent growth in West County and Airport Area, the metro's average asking rate climbed to \$30.92 per square foot in March.
- Rent growth was most pronounced in the multi-tenant sector, where the mean rate swelled 5.4 percent to a record \$31.06 per square foot. The single-tenant average is comparable, entering April at \$30.85 per square foot.

Investment Highlights

- Home to Southern California's tightest vacancy rate and several catalysts that will bolster long-term retail spending, Orange County is attracting investors seeking stability. Spanning the past year ended in March, deal flow rose by 35 percent on an annual basis, reflecting buyers' renewed confidence in the metro. Recent sales activity was evenly distributed across major submarkets, with increased transaction velocity registered across price tranches. The improvement in trading boosted the metro's average pricing 3 percent to \$536 per square foot. Still, the mean cap rate held in the high-4 percent range for an eighth straight year.
- Buyer competition is fierce for triple-net-leased assets along major thoroughfares, namely in North County. Fast food operations are trading at high-2 percent to high-3 percent cap rates, with yields for drug and convenience stores ranging from high-3 percent to low-4 percent.
- Trades involving storefronts and mixed-use properties have accounted for at least one-third of all sales activity over the past four quarters, with these assets providing investors with minimum returns in the 4 percent range. Beach communities are target locales for these assets, with pricing often exceeding \$1,000 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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