MARKET REPORT

Retail

Orange County Metro Area

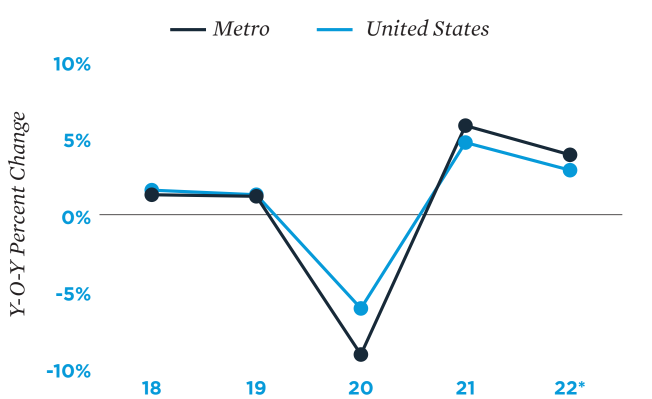
3Q/22

Post-Pandemic Recovery Aided by Influx of Tech-Field Talent

Orange County still recuperating. The market's retail fundamentals weathered the pandemic better than the neighboring metros of Los Angeles and San Diego, due in part to less severe health restrictions. In the second quarter of 2022, local vacancy was only 50 basis points over the 2019 rate, while the other two southern California metros lag by 70-plus basis points. The return of in-store shopping is reflected in recent hiring trends, with more than 80 percent of pandemic-related retail trade job losses recovered as of August. The margin was close to 90 percent for bars and restaurants. Meanwhile, traditionally office-using jobs will exceed pre-pandemic levels by the end of 2022, revitalizing important midweek foot traffic for sections of the market like the Airport Area, which saw substantial office vacancy rises during the pandemic. Stronger weekday consumer activity should aid retail fundamentals through the rest of 2022.

Population growth aids consumer spending. During the second quarter of 2022, the local population finally reversed a negative trend that started in 2018. With several growing firms, such as Anduril and Acorns, Orange County is becoming more appealing for individuals working in the tech industry. A lower cost-of-living than San Francisco and San Jose, combined with less population density, has attracted households seeking larger living spaces to areas like Irvine and Brea City. Elevated levels of in-migration have drawn retailers, compressing vacancies in the Airport Area and North County below the metrowide average of 4.7 percent as of July.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

63,500 JOBS *will be created*

EMPLOYMENT:

Job creation slows as the unemployment rate matched the pre-health crisis level of 2.7 percent in July. Over 12,000 jobs were added in the leisure and hospitality segment in the first half of 2022, as tourism returns after pandemic restrictions were lifted.

100,000 SQ. FT. *will be completed*

CONSTRUCTION:

Completions are regaining momentum after the health crisis slowdown. More square footage of retail space was finished in the first half of 2022 than in the entirety of 2020 or 2021, albeit deliveries are still down from pre-pandemic levels.

10 BASIS POINT *decrease in vacancy*

VACANCY:

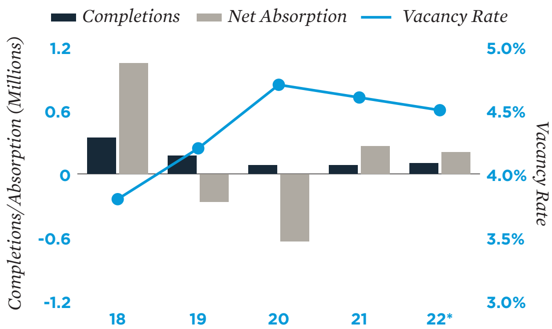
The vacancy rate will fall slightly to 4.5 percent as a net of over 200,000 square feet of space is poised to be absorbed by year-end. Construction levels below pre-pandemic norms and lifted health restrictions help tighten vacancy.

1.9% INCREASE *in asking rent*

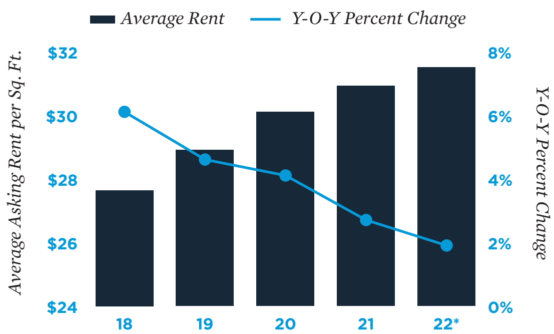
RENT:

Orange County's average asking rent climbs to \$31.50 per square foot as vacant stock shrinks. With only 12,000 square feet to be completed in the second half of 2022, a limited amount of new high-quality space will be entering the market for lease-up.

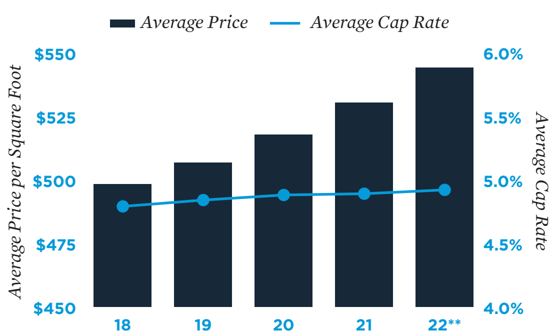
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

115,000 sq. ft. completed

- The metro reported 0.1 percent year-over-year inventory growth in June, even with a five-year high of 77,000 square feet finalized in the first quarter. The market has yet to return to pre-pandemic levels of construction.
- The West County submarket led the greater metro, with almost 64,000 square feet completed in the 12 months ending in June.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- Aided by few completions during the pandemic, the vacancy rate stayed relatively stable at about 4.7 percent over the 12 months ending in June, fluctuating by only 10 to 20 basis points between quarters since mid-2020.
- Both retail segments ended June with a vacancy rate of 4.7 percent. Single-tenant availability trended down, while multi-tenant moved upwards.

RENT

2.9% increase in the average asking rent Y-O-Y

- A slight vacancy squeeze has allowed the average asking rent to edge up by $0.25 during the second quarter to $31.18 per square foot in June.
- Few notable completions since 2019 has caused the Airport Area submarket to record an asking rent boost of 7.9 percent as of the second quarter, the fastest gain across the metro during the four quarters ending in June.

Investment Highlights

- While Orange County boasts the fastest-growing price per square foot among all major Southern California metros, at a year-over-year increase of 4 percent as of July, the metro's average sale price of $544 per square foot is at least 15 percent below the tech hubs of Northern California. Bay Area investors seeking upside could look south, given these dynamics.
- The Central County submarket leads in transactions, accounting for nearly 25 percent of sales thus far in 2022. Steady and stable increases in the average asking rent over the last five years has piqued investor interest, particularly in Santa Ana and the city of Orange.
- The North County submarket has reported an uptick in recent transaction volume. Suburban areas, such as Brea, Placentia and La Habra, have seen population and median household income growth, adding momentum to retail fundamentals and improving the local outlooks.
- Limited multi-tenant completions since 2019, and nothing substantial in the pipeline set to be completed until 2023, have boosted buyer interest. This has caused the average price per square foot for the segment to accelerate to $489, a 6 percent year-over-year surge during the second quarter.