MARKET REPORT

Retail

Orange County Metro Area

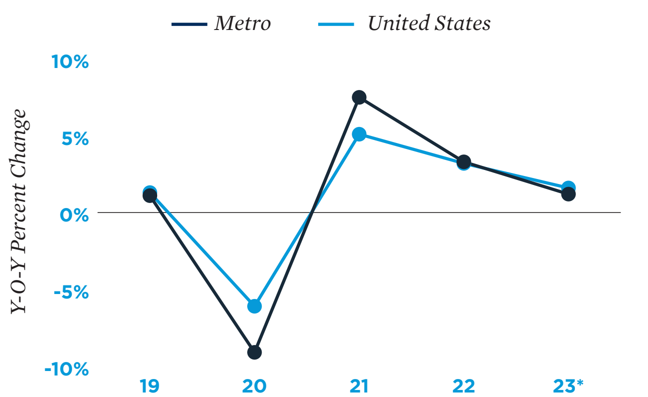
4Q/23

Obsolete Multi-Tenant Spaces Slated for Removal; Single-Tenant Market Thrives in High-Traffic Areas

Redevelopment to mixed-use apparent. Orange County had the second-lowest multi-tenant vacancy rate among major California markets in June at 5.0 percent. While big-box closures may place some upward pressure on vacancy, leases recently signed by Savers, EOS Fitness and ACE Hardware for 20,000-square-foot-plus floor plans suggest shuttered spaces should be backfilled over the near term. A limited construction pipeline and obsolete space being removed from the market will also aid the segment going forward. Proposed redevelopment and demolition projects have been on the rise, highlighted by the razing of the Laguna Hills Mall and the proposed revamping of Westminster Mall and South Coast Plaza Village.

Retailers prioritize the Airport Area. Among major Southern California markets, Orange County was home to the lowest single-tenant vacancy rate in June at 4.2 percent. The second quarter of 2023 marked the fifth straight period of positive single-tenant net absorption. Most new leases inked during the first nine months of 2023 were for spaces under 5,000 square feet, highlighting demand for smaller floor plans in high-traffic areas. Restaurant and fast food space in the Airport Area was sought after, lowering sector vacancy here to 3.4 percent. Home to one-third of the metro's office space, the area has benefited from the return of midweek foot traffic. John Wayne International Airport also recorded an 8 percent increase in passenger volume year-over-year in August, aiding nearby retailers.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; John Wayne Airport

Retail 2023 Outlook

EMPLOYMENT:

21,000 JOBS *will be created*

Total employment in Orange County will expand by 1.2 percent in 2023. Most of this gain will be driven by the education, health services and public sectors, but retail trade also shows signs of steady job creation.

CONSTRUCTION:

95,000 SQ. FT. *will be completed*

Delivery volume falls below the 200,000-square-foot mark for a fifth straight year, as inventory expands by just 0.1 percent in 2023. San Juan Capistrano accounts for nearly half of this year's supply additions.

VACANCY:

20 BASIS POINT *increase in vacancy*

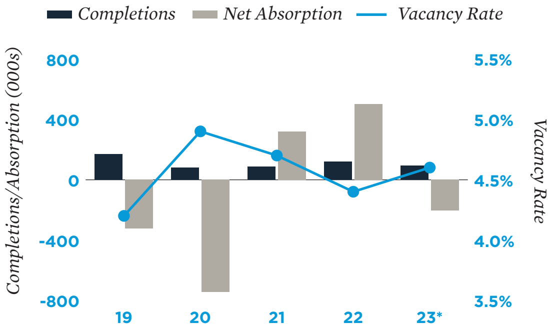
More than 200,000 square feet is expected to come back to the market on net by year-end, raising vacancy to 4.6 percent. This metric, however, is 20 basis points below Orange County's long-term average.

RENT:

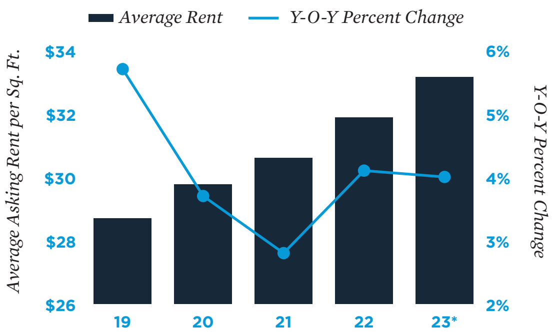
4.0% INCREASE *in asking rent*

The average asking rent in Orange County will increase to $33.15 per square foot by year-end. The metro claims the highest mean among major Southern California markets for the first time since 2015.

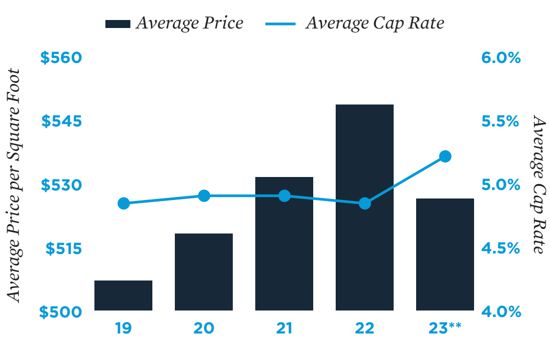
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2023 - 12-Month Period

CONSTRUCTION

58,000 sq. ft. completed

- Completions slowed during the trailing 12 months ended in June compared to the previous span, resulting in a nominal total inventory change.
- West County received nearly all of the new space delivered during the year-long period as nearly 41,000 square feet came online here. Garden Grove, Westminster and Cypress gained most of these builds.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Limited new supply required most expanding retailers to move into existing spaces, enabling vacancy to enter the third quarter at 4.5 percent.
- Single-tenant vacancy fell 70 basis points annually to its lowest level since 2018, closing out June at 4.2 percent. In contrast, multi-tenant vacancy rose 40 basis points to 5.0 percent, its highest mark since 2015.

RENT

7.1% increase in the average asking rent Y-O-Y

- Over the recent 12-month span, the metro noted its largest year-over-year jump in asking rents, lifting the mean rate to $33.04 per square foot.
- At $55.80 per square foot in June, the Airport Area had the highest average asking rent among all U.S. submarkets with more than 10 million square feet of space, outside of New York City.

Investment Highlights

- Transaction velocity in Orange County decreased across the first half of the year, hindered by stricter lending practices. This pullback contributed to a decline in average pricing, particularly in multi-tenant space, which fell more than 6 percent. The segment's mean rate during the year ended in June fell in line with the 2019 average of $450 per square foot.
- While a drop in multi-tenant deals occurred, preliminary data shows several portfolio sales still took place during the first nine months of 2023. Institutional investors active in the metro are targeting inland thoroughfares such as Fountain Valley along Interstate 405, and Laguna Woods proximate to Interstate 5. Well-located, highly-occupied, sub-$5 million centers were commonly targeted.
- Single-tenant pricing rose roughly 1 percent to an average of $623 per square foot during the yearlong span preceding July. Private, in-state buyers actively pursued deals in this segment, motivated by recent property performance. Over the yearlong period, four of Orange County's six submarkets logged vacancy compression as post-pandemic tourism and resilient consumer spending supported strong tenant demand.

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