

INVESTMENT FORECAST

Office
Orange County Metro Area

IPA

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ADVISORS

2024

California's Tightest Retail Vacancy Calls Investor Attention to Orange County

Rapid apartment development helps recover retail net absorption. Orange County hosts the delivery of just 80,000 square feet of retail space this year, the smallest slate for any major market. Limited new supply will enable vacancy to tick down to 4.5 percent, as rapid construction in the multifamily sector helps revive retailer demand for space. A six-year high apartment completion total set for 2024 is creating new opportunities for retailers to capitalize on the metro's densification. Areas surrounding John Wayne Airport have the strongest potential in this regard. North and South Irvine, in particular, each featured multifamily pipelines exceeding 10 percent of their local inventories at the start of 2024. Elsewhere, Laguna Hills-Aliso Viejo is already seeing a rush in demand from retailers, with Savers, Tesla and Bowlero topping a growing list of tenants moving into the area this year. The demolition and redevelopment of the Laguna Hills Mall, which developers eventually plan to convert to apartments, offices and hotel rooms, should help bring in additional economic activity and retailer interest.

Metro's strength attracts out-of-market capital. Orange County is projected to post the lowest vacancy rate of any major California metro, while the local 2.7 percent gain in the average asking rent will be the state's second highest this year. This overall trajectory should attract more out-of-market capital, especially from the three other major Southern California metros, which may each face higher levels of downside risk from elevated supply in 2024. Laguna Hills-Aliso Viejo, Santa Ana and the Northern Portions of Orange County should be attractive to these types of investors moving forward, due to their below-metro average pricing, as well as their strong leasing trends.

2024 MARKET FORECAST

+1.0%



EMPLOYMENT: Hiring slows from last year's 1.8 percent pace, but remains akin to 2019, when the labor base grew by 1.1 percent. Approximately 18,000 new roles will be created in 2024.

80,000
sq. ft.



CONSTRUCTION: While this year's completion total will be a national low, stock growth is set to accelerate from the near-negligible addition of just 49,000 square feet in 2023.

-10 bps



VACANCY: The vacancy rate will resume downward momentum, dropping to 4.5 percent in 2024. Orange County is set to be the only major California market to record a vacancy decline this year.

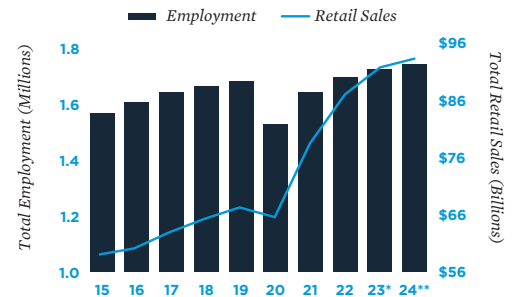
+2.7%



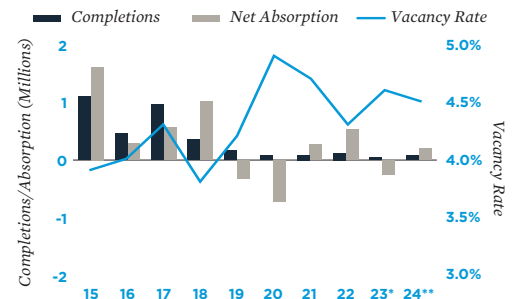
RENT: Lower vacancy enables the average asking rent to grow faster than the long-term pace of 1.2 percent. At \$34.10 per square foot, the metric will remain as the fifth highest in the U.S. entering 2025.

INVESTMENT: Improving midweek foot traffic in Santa Ana and Anaheim may draw investors to surrounding retail assets. A net of 361,000 square feet of office space was absorbed here in 2023, the strongest since 2016.

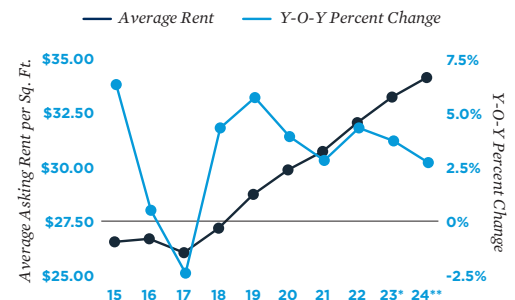
Economic Trends



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 January 3, 2023. 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.