MARKET REPORT

RETAIL

Orange County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

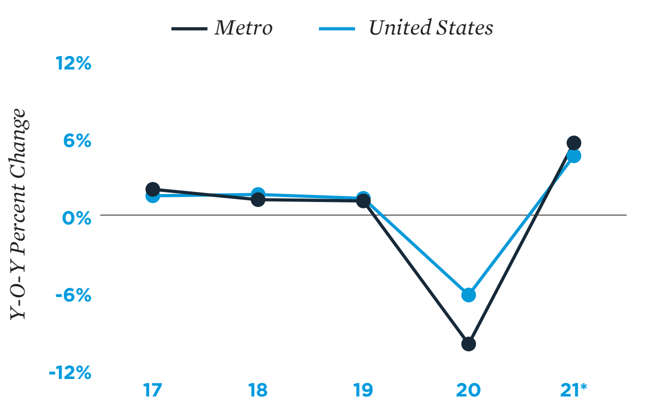
3Q/21

Orange County's Retail and Economic Performance Fuels Optimism, Yet Near-Term Hurdles Loom

Positive leasing emerges. After a 15-month span of negative absorption, Orange County's retail sector registered a decline in vacant stock during the second quarter of 2021. This step toward a broader recovery coincided with the reopening of California's economy and area amusement parks welcoming back guests, which boosted tourism and patronage at local restaurants, bars and shopping centers. Retail improvement has also corresponded with a strong rate of household formation and a regionally low unemployment rate that is lifting spending at necessity and home goods stores. In response, some retailers are expanding, highlighted by At Home's commitment to 105,000 square feet in Tustin and a recently shuttered Fry's Electronics being backfilled. Positive leasing and renewal activity is expected to continue in the second half, allowing vacancy to hold more than 100 basis points below that of other Southern California metros.

Delta variant extends recovery timeline. Momentum generated in the second quarter may be tempered during the remainder of 2021 as the recent rise in COVID-19 cases has altered the schedules of some major events. Disney has postponed its D23 Expo at the Anaheim Convention Center until 2022. At the same venue, VidCon has been canceled and the National Association of Music Merchants has pushed its show to next June. Additionally, the variant has influenced some corporations to renege on returning staff to offices. Retailers in the Airport Area will be most impacted by these decisions as the submarket is home to nearly 40 percent of the metro's office stock.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

85,000 JOBS
will be created

EMPLOYMENT:

Leisure and hospitality-related hiring and additions by traditional office-using firms enable Orange County to recover half of the 167,200 positions lost last year. Still, the number of employed individuals will trail the pre-pandemic mark by 5.5 percent.

34,000 SQ. FT.
will be completed

CONSTRUCTION:

Less than 200,000 square feet of retail space is delivered for a third consecutive year. A 10,000-square-foot addition at Portola Center, a master-planned community in Lake Forest, represents the largest property slated for second half completion.

0 BASIS POINT
change in vacancy

VACANCY:

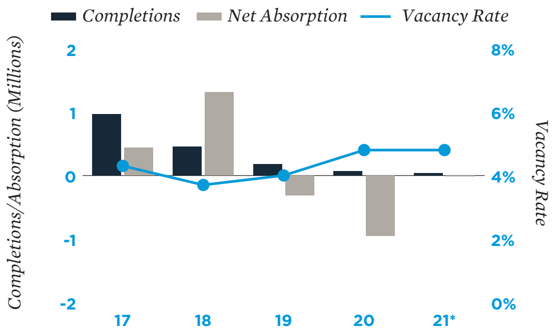
The return of positive single-tenant absorption combats an increase in multi-tenant availability, allowing overall vacancy to hold at 4.8 percent. Nevertheless, this rate will exceed the prior five-year mean by 60 basis points.

1.0% INCREASE
in asking rent

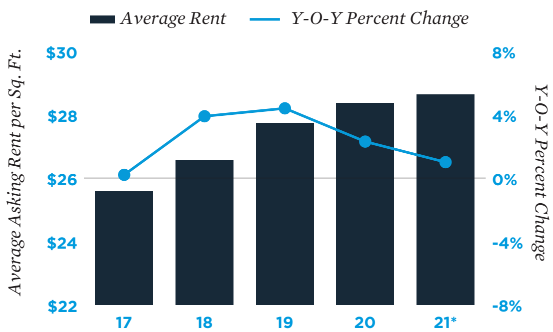
RENT:

Steady vacancy supports a fifth straight year of positive rent growth, lifting the metro's average marketed rate to $28.65 per square foot. This year-end figure will trail that of neighboring Los Angeles County by nearly $3 per square foot.

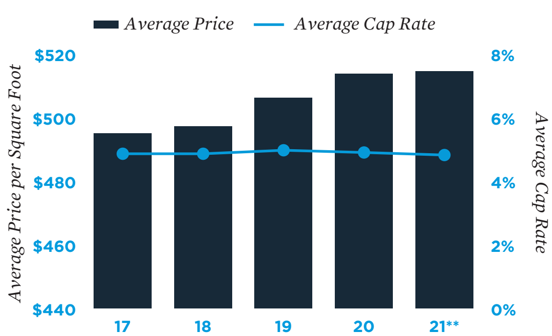
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q21 — 12-Month Period

CONSTRUCTION

44,000 square feet completed

- Developers increased Orange County's retail inventory by less than 0.1 percent over the last 12 months ended in June. Only the Airport Area submarket added more than 20,000 square feet of space.
- Entering September, construction was underway on 92,000 square feet with completion dates extending into 2022.

VACANCY

70 basis point increase in vacancy Y-O-Y

- Vacant stock grew by 927,000 square feet over the past four quarters as all submarkets noted an increase in retail availability. The metro's 4.9 percent vacancy rate in June was the highest mark since early 2014.
- Multi-tenant availability rose 100 basis points to 4.7 percent while single-tenant vacancy reached 5.1 percent after a 50-basis-point uptick.

RENT

0.7% increase in the average asking rent Y-O-Y

- After rising 5.2 percent during the prior yearlong span, the average asking rent increased moderately over the past four quarters to $28.44 per square foot. This marketed rate is a record figure for the metro.
- Multi-tenant rent rose 3.6 percent to a mean of $26.73 per square foot. In contrast, the single-tenant sector recorded a 1.2 percent dip.

Investment Highlights

- Sales activity slowed by 14 percent over the 12-month span ended in the second quarter; however, the April through June stretch of this year represented the strongest period for trading velocity since the onset of the health crisis.
- Investor demand for single-tenant properties has remained strong as sales activity in the sector rose nearly 2 percent over the past year. The increase in transactions coincided with a 2 percent uptick in pricing that lifted the segment's average to a record $580 per square foot. Restaurant trades have accounted for the largest percentage of closings with first-year returns frequently falling in the 5 percent range.
- Average multi-tenant pricing declined 4 percent over the past four quarters to $423 per square foot as pre-1980s-built properties accounted for two-thirds of the sector's deal flow. North County cities recorded the most transactions with buyers acquiring smaller neighborhood and strip centers at mid-5 percent minimum cap rates.
- Mixed-use assets have accounted for 20 percent of all sales activity since last July with investors active in South County, Costa Mesa and Newport Beach. Here, first-year yields fall in low-4 percent band.

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