

# Orange County

## Retail Market Outlook Q2 2023

### MARKET OVERVIEW

A changing economy has caused sluggish demand for retail space in Orange County's post-pandemic recovery in Q2 2023. Landlords are currently grappling with a slow progression as retailers pivot back to brick and mortar and occupy some of the retail space that was previously vacated during the pandemic shutdown. However, progress in this regard has been slow. As of Q2 2023, the total vacant square footage on the market has decreased by 247,608 square feet compared to Q2 2022, bringing it down to 6 million square feet. Occupancy is still just 78,936 square feet short of its Q2 2020 levels when the rapid pace of space vacating began. Orange County's retail market has made significant strides toward returning to pre-pandemic vacancy levels. Currently, the vacancy rate stands at 4.3%, which is well below the peak rate of 6.7% during the Great Recession in Q3 2010.

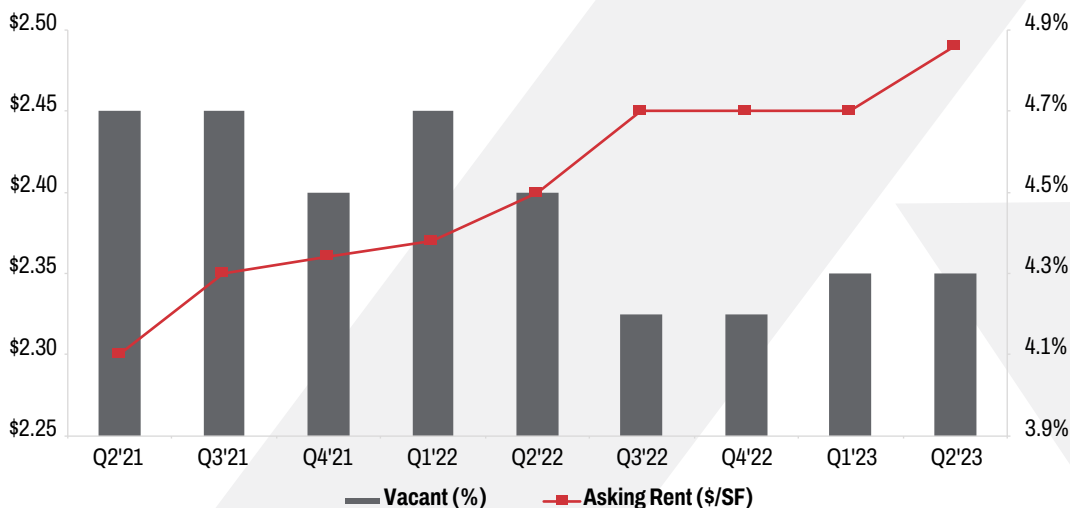
The drop in vacant space in Q2 2023 boosted landlord confidence, resulting in a 1.6% increase in the average asking rent for available space compared to the previous quarter. This represents a 3.8% increase from the same time last year. Net absorption saw a slight positive increase of 42,276 square feet quarter over quarter, although it wasn't sufficient to push it into positive territory for the year. Additionally, available sublease space increased by 12.1% from the prior quarter due to excess capacity from existing retailers. The average sale price per square foot dropped by 39.9% year over year, with sales volume on a square footage basis declining by 30.8% quarter over quarter.

### TRENDS TO WATCH

Landlords will continue to make adjustments to their asking rents as they work towards improving cash flow and filling vacant spaces. In South Orange County, where approximately 1.6 million square feet of retail space sits vacant, the largest inventory in the region, there has been a 2-cent decrease in asking rent for direct space on a quarter-over-quarter basis, lowering it to \$2.97 per square foot triple net. In the Airport area, which boasts the region's most prestigious retail spaces and leads Orange County with the highest average rent, Q2 saw a net gain of 69,540 square feet in positive absorption, resulting in a 30-basis point reduction in vacancy to 3.4%. Nevertheless, the average asking rent in this area decreased by 3.2%, contributing to a 27.1% increase in leasing volume quarter over quarter. Property owners will need to absorb additional costs to entice replacement tenants, and some may still face challenges filling large second-generation vacated spaces.

With a 12.1% increase in available sublease space in Orange County quarter over quarter, well-located retail spaces offered for sublease will be in high demand among expanding retailers. As the demand for retail space rises and rent growth strengthens, the retail market is exhibiting signs of stabilization compared to the previous rapid increase in vacancy rates. Both sublessors and landlords will continue their aggressive competition to attract tenants to their spaces as the retail sector undergoes its recovery. Tenants and investors will persist in their quest for opportunities as the retail market continues to evolve.

### VACANCY RATE AND AVERAGE ASKING RENT



### MARKET OUTLOOK

**Asking  
Rental Rates**



**Sale  
Prices**



**Availability  
Vacancy Rates**



**Landlord  
Concessions**



**Leasing/Sales  
Volume**



**New  
Construction**



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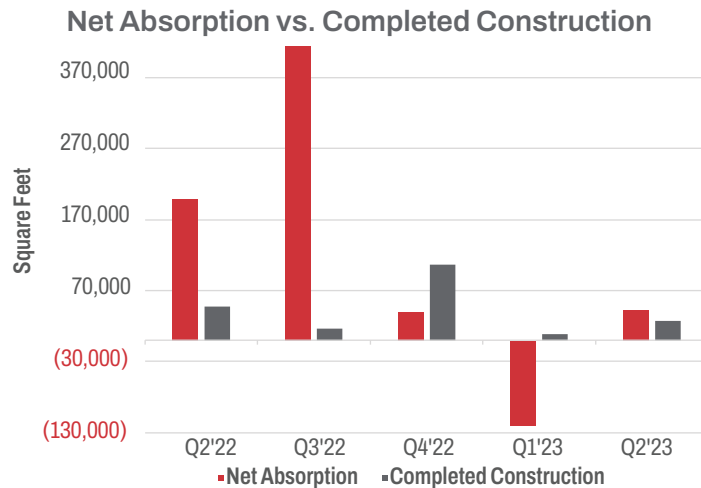
### MARKET STATISTICS\*

Submarket	Existing Total RBA (SF)	Under Construction (SF)	Total Available (%)	Total Vacancy (%)	Leasing Volume (SF)	YTD Leasing Volume (SF)	Sales Volume (SF)	YTD Sales Volume (SF)	Average Asking Rent \$/SF NNN	Average Sale Price \$/SF
Airport	32,585,154	0	3.4%	3.4%	161,568	340,356	105,195	305,786	\$3.02	\$595
Central	14,343,530	5,000	3.8%	3.9%	42,840	104,967	325,328	376,710	\$2.22	\$59
North	32,135,288	31,200	4.7%	4.5%	150,931	321,570	66,045	248,944	\$2.12	\$571
South	28,993,777	49,375	5.5%	5.6%	188,760	372,236	7,014	386,497	\$2.97	\$926
West	32,217,209	11,903	3.9%	4.1%	98,113	273,343	180,564	354,163	\$2.25	\$405
<b>Orange County</b>	<b>140,274,958</b>	<b>97,478</b>	<b>4.3%</b>	<b>4.3%</b>	<b>642,212</b>	<b>1,412,472</b>	<b>684,146</b>	<b>1,672,100</b>	<b>\$2.49</b>	<b>\$277</b>

\*RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

### LEASING TRENDS

In the second quarter of 2023, the market experienced positive net absorption as demand outpaced the new supply introduced to the market through construction. Over the past five quarters, the market has added 206,957 square feet of retail space, while 574,712 square feet have been absorbed.

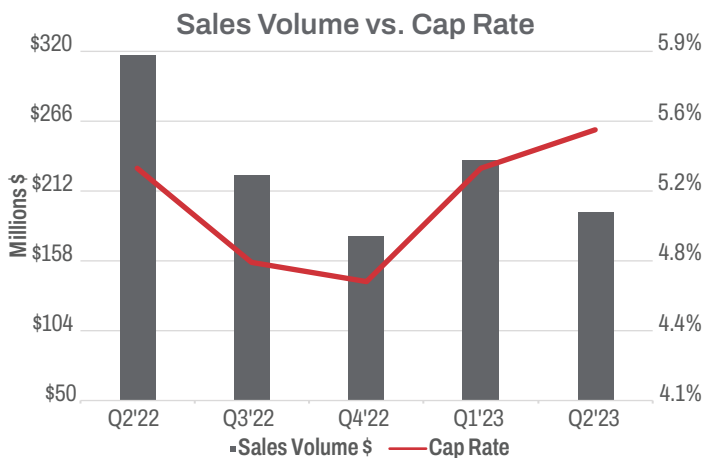


### Select Lease Transactions

Address	City	Submarket	Square Feet
13652-13692 Jamboree Rd: 24 Hour Fitness	Tustin	Central	48,620
26501-26505 Aliso Creek Rd: 99 Ranch Market	Aliso Viejo	South	46,817
27241-27291 La Paz Rd: Off Broadway Shoe Warehouse	Laguna Niguel	South	20,236
1961-1985 W Malvern Ave: Kid's Empire	Fullerton	North	20,043
17020-17150 Magnolia St: Goodwill Industries of Orange County	Fountain Valley	West	15,000

### SALES TRENDS

In Q2 2023, investors adapted to a changing market environment that was influenced by rising interest rates, lackluster occupancy, and a lower price per square foot. Consequently, there was a 38.2% plunge in sales volume in Q2 2023 compared to Q2 2022. Additionally, the cap rate increased, rising by 20 basis points from Q2 2022 to 5.5%.



### Select Sales Transactions

Address	City	Submarket	Square Feet
2102 N Tustin St: Super Regional Mall	Orange	North	278,000
9032-9132 Adams Ave: Neighborhood Center	Huntington Beach	West	63,116
3370-3400 S Bristol St: Strip Center	Santa Ana	Central	42,782
1450-1478 S Harbor Blvd: Neighborhood Center	La Habra	North	24,314
2005-2025 N Tustin Ave: Strip Center	Santa Ana	North	22,537