

## Orange County Primed for Near-Term Spike in Retail Spending; Broader Recovery Further Off

**Reasons for optimism line up.** Orange County enters this year as Southern California's tightest retail market despite a recent increase in vacancy, an encouraging position considering the lack of conventions and theme park operations dating back to last March. With the metro recently moving into a less stringent restriction tier and California planning to fully reopen in mid-June, a surge in retail spending may occur this summer as pent-up demand for shopping, dining out and entertainment is released and tourism improves. The metro's sizable populace of higher-earning households that have bolstered their discretionary incomes during the health crisis could further drive a near-term spike in sales. Additionally, typically well-paying office positions are expected to drive job creation this year, benefiting submarkets where retailer profitability is tied to midweek foot traffic.

**Large-scale improvement may be more than a year away.** The reopening of Disneyland Resort and other theme parks is viewed as a major step in the metro's retail recovery; however, initial capacity restrictions and ticket sale limitations will lessen the near-term impact these attractions have on the overall economy. The lack of conventions during the remainder of this year will also hinder Orange County's resurgence as many events previously held at the Anaheim Convention Center have already chosen other locations where restrictions have been eliminated. A slower rate of recovery may force additional stores to shutter, which when combined with planned big-box closures could increase vacancy for a third straight year.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

### Retail 2021 Outlook



**30,000** JOBS  
will be created

#### EMPLOYMENT:

Staff additions by traditionally office-using firms support job creation as Orange County recovers nearly 20 percent of the 167,000 positions lost last year. The metro's 2.0 percent rate of employment growth trails the national increase.



**110,000** SQ. FT.  
will be completed

#### CONSTRUCTION:

Delivery volume is muted for a third consecutive year as the metro's retail inventory expands by just 0.1 percent. The 54,000-square-foot food hall component of the Press work campus in Costa Mesa represents the largest upcoming completion.



**70** BASIS POINT  
increase in vacancy

#### VACANCY:

Despite a limited pipeline, vacancy will climb to 5.5 percent in 2021 as the combination of big-box closures and retailers putting expansion plans on hold limits the number of larger lease executions. The expected increase in vacancy mirrors last year's gain.

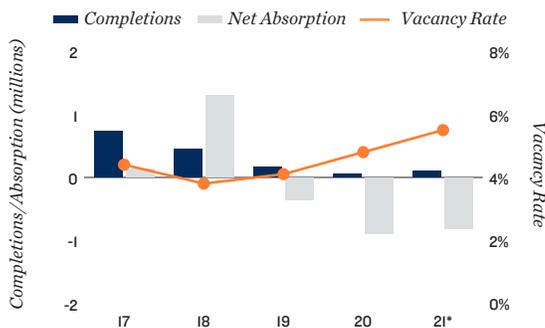


**0.4%** DECREASE  
in asking rent

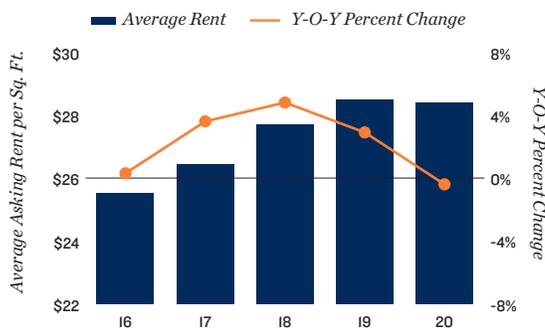
#### RENT:

A third straight year of negative net absorption ends a stretch of positive rent growth that began in 2017. Still, the metro's average market rate ends 2021 at a near historical high of \$28.40 per square foot.

### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 2020



### CONSTRUCTION

**60,000** square feet completed

- Deliveries notably trailed the prior five-year average of 550,900 square feet as no submarket added more than 20,000 square feet of space.
- Development activity remained sparse at the onset of this year with Central County representing the only submarket with more than one project under construction.



### VACANCY

**70** basis point increase in vacancy Y-O-Y

- Orange County's vacant stock increased by nearly 1 million square feet last year, lifting availability to 4.8 percent, the highest rate since 2014.
- Airport Area and North County retailers were most impacted by non-essential business closures and the sizable reduction in tourism last year, equating to triple-digit vacancy increases in both submarkets.



### RENT

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

- Amid the uptick in vacancy, operations remained relatively tight overall. Sub-5 percent availability and minimal supply gains helped to keep rent growth on an upward trajectory, rising to \$28.50 per square foot.
- Above-average rent gains were recorded in South County and West County, supported by unchanged vacancy in both locales.

### Investment Highlights

- Transaction activity declined by 13 percent last year yet deal flow returned to a pre-pandemic pace in the fourth quarter, driven by 1031 tax-deferred exchanges. Sales volume surpassed the \$1 billion mark for a sixth consecutive year, supported by mall trades in Westminster and Orange as well as several power center closings in Fullerton.
- Despite a slowdown in deal flow, pricing continued to climb last year, reaching an average of \$483 per square foot. The mean cap rate was unchanged at 5 percent, with opportunities to obtain above-average returns most frequent in North County cities.
- Trades in Anaheim, Fullerton and cities off Garden Grove Freeway have accounted for nearly half of all transactions since the onset of the health crisis. In these areas minimum returns range from low- to mid-3 percent for fast-food establishments, with neighborhood and strip centers available at high-4 to high-5 percent yields.
- Chances to acquire grocers and drugstores have been sparse as owners hold assets that performed well during the worst of the downturn.