Retail Market Trends Orange County

Grubb & Ellis Research

First Quarter 2008

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Property Solutions Worldwide

Retail Feels the Pinch

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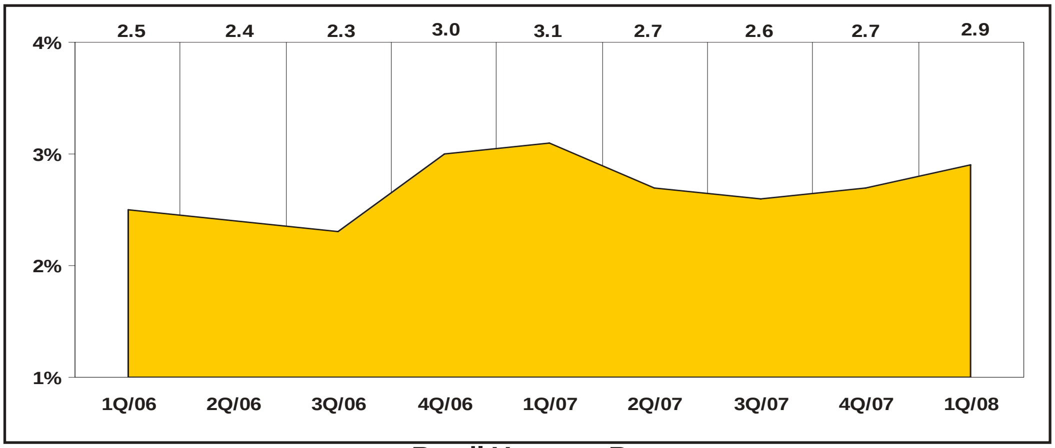
Executive Summary
The Orange County retail market has not escaped the economic slowdown brought on by the subprime meltdown unscathed, but it has fared better than other parts of the country. Consumers in the crosshairs of rising gas and food prices are finding they have less to spend on other retail goods and retailers are feeling the pressure of reduced sales. The result has been bankruptcy for some, the closure of stores for others and curtailed expansion plans. Home Depot, for example, is closing stores for the first time in its history due to performance and has cancelled plans for 50 new U.S. stores. It's telling that Home Depot is going forward with plans to open its 23rd store in Orange County in Huntington Beach later this year, a reflection of the strength of the Orange County market. Living Spaces is another retailer that thinks Orange County merits going against the trend. The furniture retailer recently signed a lease for a new 90,000-square-foot store in Irvine.

While Orange County is doing better than other markets, slowing demand and increased vacancy has made landlords more willing to negotiate on rents and concessions such as increased TIs and build-out time. Retailers are continuing to take down space in the best centers in each trade area, though the velocity of demand has cooled. They are closely scrutizing deals before making the decision to go ahead. Some retailers are putting their dollars into upgrading existing locations instead of opening new ones. One sector still experiencing growth is ethnic supermarkets with Asian and Hispanic grocery stores making deals.

The retail investment market has seen a slowdown in activty as well. More stringent underwriting has made it more difficult to finance purchases. There are pockets of special circumstance buyers and sellers, such as investors in 1031 exchanges, but for the most part investors are cautious. There is also a wide gap between buyers and sellers as to pricing, which is also slowing the market. All cash buyers are in a good position, but there is still the issue of pricing to be overcome before a deal can be made.



Retail Vacancy Rate

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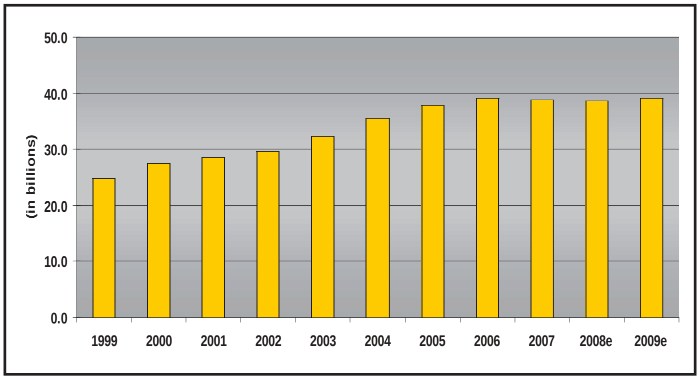
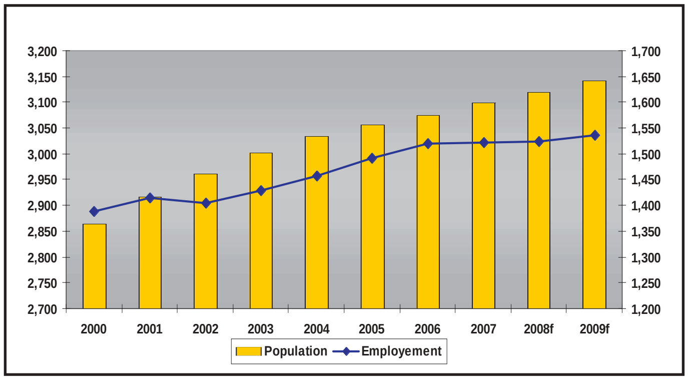
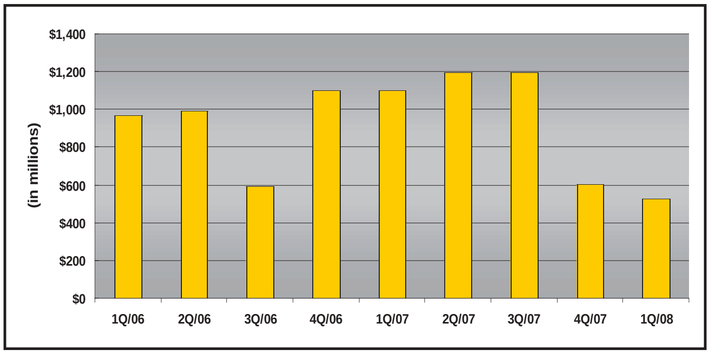
Orange County Taxable Retail Sales ($ bil.)



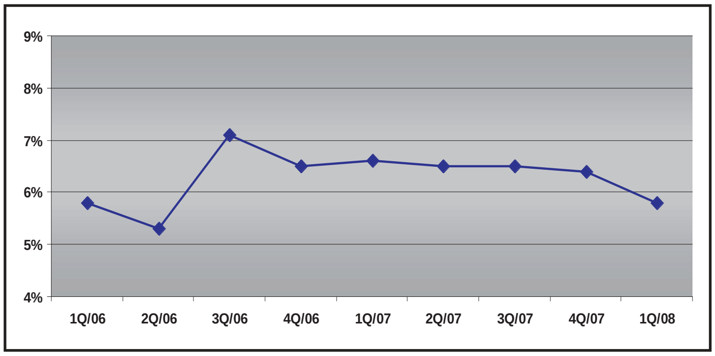
Orange County Population Vs. Employment (in thousands)



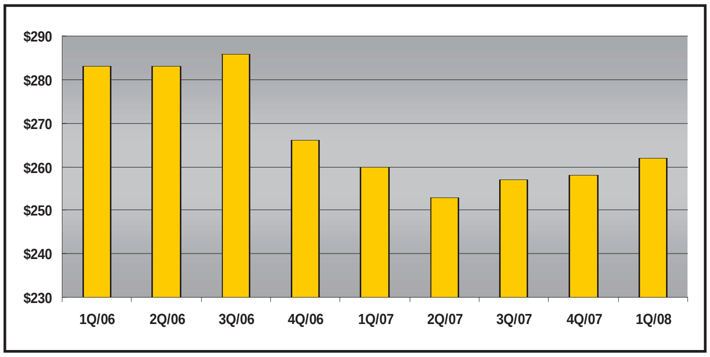
Orange County Retail Property Sales Volume ($ mil.)



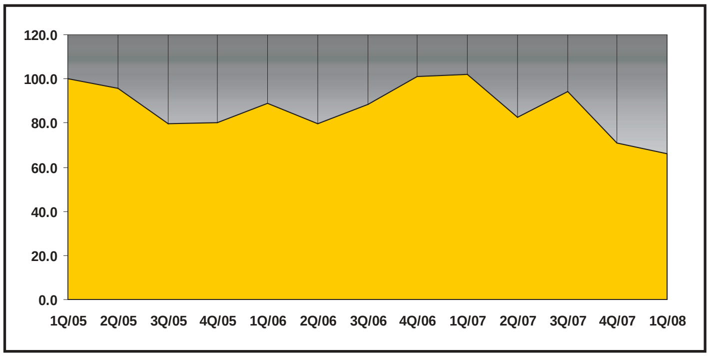
Capitalization Rate (OC - Select Retail Subtypes)



Orange County Retail Median Price (psf)



California Consumer Sentiment



Sources: REIS, RCA Capital, CoStar, and Chapman University

Retail Market Terms and Definitions

Net Absorption: The net change in physically occupied space over a period of time.

Average Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Retail rents are reported as triple net where all costs of operation are paid by the tenant.

Anchor Tenant: A large national or regional retailer that serves as a primary draw for a shopping center; a store strategically located in a retail property in order to enhance, bring attention to, or increase traffic at the property.

Capitalization "Cap" Rate: A calculation that reflects the relationship between one year's net operating income and the current market value of a particular property. The Cap rate is calculated by dividing the annual net operating income by the sales price (or asking sales price).

Community Center: A shopping center development that has a total square footage between 100,000 – 350,000 SF. Generally will have 2-3 large anchored tenants, but not department store anchors.

Freestanding Retail: Single tenant building with a retail tenant. Examples include video stores, fast food restaurant, etc.

Neighborhood Center: A shopping center development that has a total square footage between 30,000 – 150,000 SF. Generally will have 1-2 anchor tenants, often a supermarket and/or large pharmacy.

Outlet Center: Usually located in a rural or occasionally in a tourist location, an Outlet Center consists of manufacturer's outlet stores selling their own brands at a discount. 50,000 – 500,000 SF.

Power Center: The center typically consists of several freestanding (unconnected) anchors and only a minimum amount of small specialty tenants. 250,000 – 600,000 SF. A Power Center is dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or "category killers," i.e., stores that offer tremendous selection in a particular merchandise category at low prices.

Regional Mall: Enclosed mall from 300,000 SF and up, anchored by at least one major full service department store.

Specialty/Festival/Entertainment Center: These centers typically employ a unifying theme that is carried out by the individual shops in their architectural design and, to an extent, in their merchandise.

Strip Center: A strip center is an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores.

Super Regional Mall: Similar to a regional mall, but because of its larger size, a super regional mall has more anchors, a deeper selection of merchandise, and draws from a larger population base.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

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Recent Orange County Area Retail Transactions

51 Technology Irvine, CA 90,000 SF Lease	**1621 W Imperial Hwy** La Habra, CA 2,330 SF Lease	**31431 Santa Margarita** Rancho Santa Margarita, CA 2,100 SF Lease
802 Avenida Telega San Clemente, CA 2,038 SF Lease	**27678 Santa Margarita** Mission Viejo, CA 1,846 SF Lease	**30001 Town Center Dr.** Laguna Niguel, CA 1,460 SF Lease

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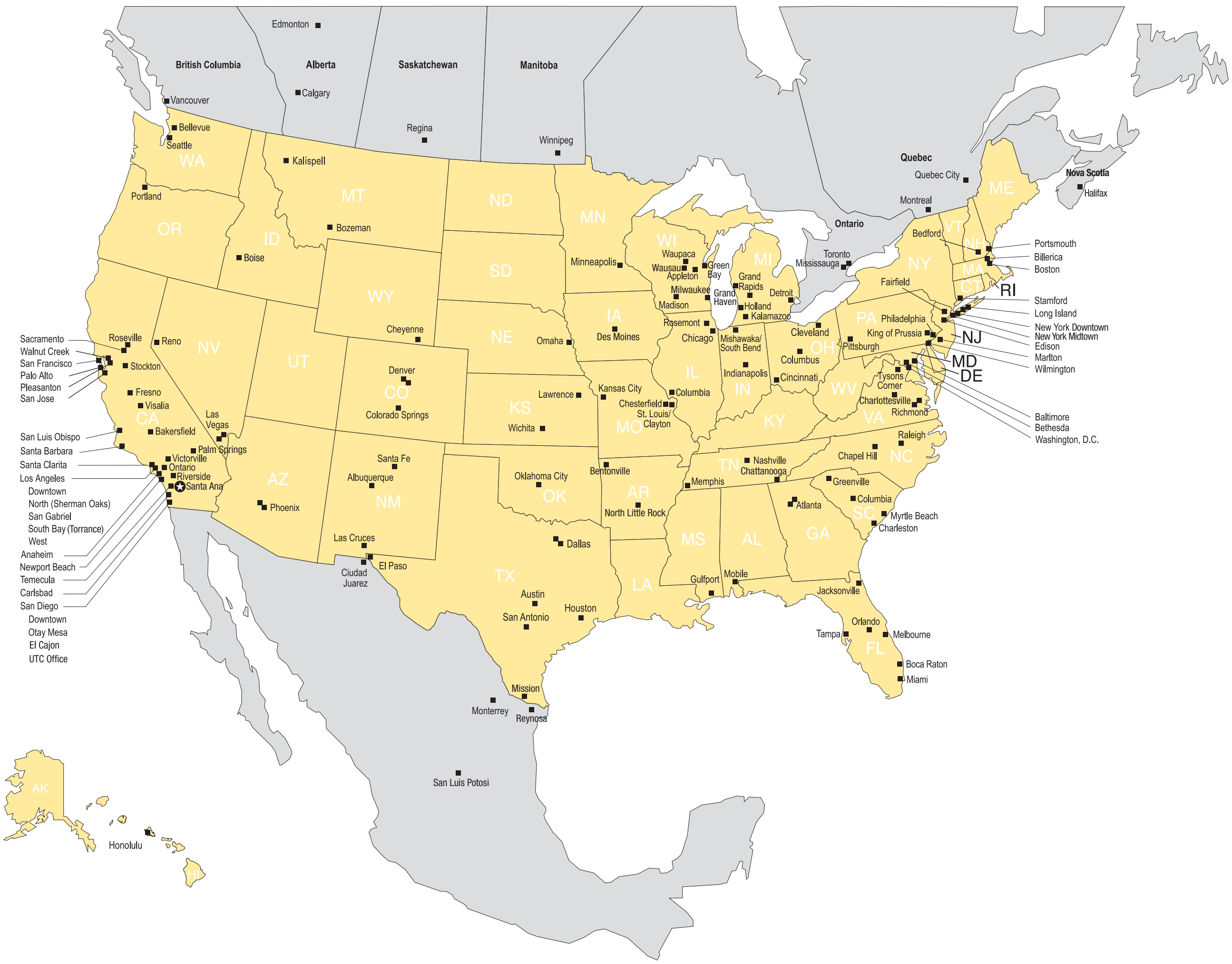

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