

MARKET IMPROVES ON VACCINES, ECONOMIC NEWS

With encouraging economic news and an effective vaccination campaign that dramatically reduced infections, the office market showed hints of stabilization as companies hold to their plans for post-Covid office re-openings in the third quarter.

Second-quarter net absorption was negative 169,466 SF, a significant improvement from the negative 2.3-million-SF total of the previous three quarters. But for the new space included in the 117.4-million-SF inventory in Q2, net growth would be in the black. Four buildings totaling 218,513 SF were delivered in Q2 and five buildings totaling 829,738 SF remained under construction.

So far in the pandemic, vacancies have increased about 3.5 million SF, which includes 693,020 SF in nine new buildings. This has combined to push up the vacancy rate from 10.6% in Q1 last year to 13.6% at the end of the first half. Vacancies are the highest since Q2 2012, amid the recovery from the financial crisis and recession when vacancy peaked at 17.8% in 2010.

For another historical comparison, from 2007 through 2009 empty space increased about 6 million SF. That included 3 million SF in 27 buildings delivered during the period. Much of the oversupply of space was leased up with 4.6 million SF of absorption by 2012.

Asking rents since early last year have declined an average of 3.6% to 2018 levels. Landlords, as is typically the practice during times of stress, are offering free rent and other concessions rather than reduce the lease rate. Second-quarter net absorption was in the red in Orange County's five geographic zones.

Landlords have suffered the least in the 14.5-million-SF North County market, whose vacancy rate is 6.8%, up only 40 basis points since Q1 of last year. There was 4,253 SF of negative net absorption in Q2 but demand year to date is 78,942 SF.

West County, the smallest market with 9.6 million SF of inventory, posted 24,382 SF of negative net absorption in Q2 but is 36,332 SF in the black in the first half. The vacancy rate has climbed from 8.4% to 11.3% since Covid.

Central County's 22.5 million SF of inventory has seen 113,567 SF of contraction in the first half but only 2,000 SF of negative absorption in Q2. Tenants in the 43.7-million-SF Airport market shed 125,307 SF of space in Q2 for a total of 416,263 SF of negative absorption in the first half. Three buildings totaling 580,238 are under construction.

FORECAST

Cal State Fullerton's economists in Q2 predicted record national GDP growth this year of 6.8%. Mira Farka, associate professor, said: "This is the most optimistic forecast I've ever given. Welcome to the new roaring, soaring '20s."

ORANGE COUNTY OFFICE

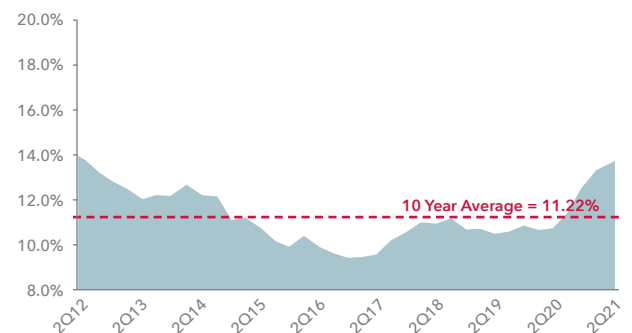
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	5.9%	6.3%
California Unemployment	7.5%	8.2%
US Unemployment	5.9%	6.0%

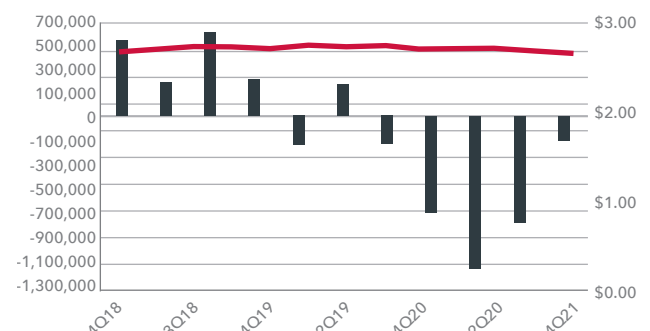
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,606,922	117,388,409
Vacancy Rate (%)	13.60%	13.30%
Net Absorption (SF)	(169,466)	(790,971)
Average Asking Rent (\$/SF)	\$2.64	\$2.67
Under Construction (SF)	829,738	1,048,251

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

SECOND QUARTER 2021 OFFICE MARKET REPORT



ORANGE COUNTY MARKET STATISTICS - 2Q 2021

BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	169	14,535,663	1,229,339	8.50%	983,397	6.80%	(4,253)	78,942	\$2.41	- 0 -
Central Orange County	263	22,466,930	4,223,893	18.60%	3,107,702	13.80%	(2,000)	(113,567)	\$2.41	249,500
West Orange County	129	9,648,244	1,087,867	11.30%	793,598	8.20%	(24,382)	36,332	\$2.49	- 0 -
Greater Airport Area	420	43,744,651	9,624,542	21.70%	6,824,264	15.60%	(125,307)	(416,263)	\$2.85	580,238
South Orange County	366	27,211,434	5,282,666	19.40%	4,290,479	15.80%	(13,524)	(545,881)	\$2.78	- 0 -
TOTALS	1,347	117,606,922	21,448,307	18.24%	15,999,440	13.6%	(169,466)	(960,437)	\$2.64	829,738

ORANGE COUNTY MARKET STATISTICS - 2Q 2021

BY SUBMARKET

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
Class A	313	50,060,879	11,554,007	22.80%	8,901,288	17.80%	(103,966)	(777,204)	\$2.76	540,238
Class B	953	62,809,677	9,562,888	15.20%	6,800,336	10.80%	(56,093)	(57,343)	\$2.64	289,500
Class C	81	4,736,366	331,412	7.00%	297,816	6.30%	(9,407)	(125,890)	\$2.32	- 0 -
TOTALS	1,347	117,606,922	21,448,307	18.2%	15,999,440	13.6%	(169,466)	(960,437)	\$2.64	829,738

RECENT TRANSACTIONS

PROPERTY	TYPE	TENANT/BUYER	LANDLORD/SELLER	SIZE
232 E Katella, Orange	Sale	Kiddie Academy	Katella Commercial	25,321
180 N Riverview, Anaheim	Lease	Network Pro	Kraemer	9,283
1290 N Hancock, Anaheim	Lease	Cat Exteriors	Pietruszka	8,544
580 W Central, Brea	Sublease	Stage to Amaze	Jewelscent Inc	6,100
12566 Valley View, Garden Grove	Lease	Titanium Health	Valley View Village	5,300
18 Truman, Irvine	Lease	Pomegranate Kids	Banning Holdings	4,385
17821 E 17th, Tustin	Sublease	Green Lending	Centrium	3,677
13522 Newport, Tustin	Lease	OC Oral Surgery	Newport Byran	3,512



Marshal J. Vogt
PRINCIPAL
mvogt@lee-associates.com
Lic #: 01519213



Matt Orville
PRINCIPAL
morville@lee-associates.com
Lic #: 01830994



Jaimeson Hearne
PRINCIPAL
jhearne@lee-associates.com
Lic #: 01925107

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www.officeadvisorygroup.com

714.564.7117

714.564.7145

714.564.7146