

### LANDLORDS AWAIT FULL "RETURN TO OFFICE"

The office market suffered a mild Covid relapse in the first quarter as companies shed 550,126 SF of space. It was the biggest three-month retreat in a year. It follows Q4's strong net absorption total of 610,486 SF, the second largest quarterly gain in five years.

The weakness is confounding hopes that vaccine availability, plunging Covid infection rates and corporate America's "return to office" plans would begin to reverse the contraction now totaling 2.7 million SF since the first quarter of 2020. By this fall a clearer picture should emerge of the prevalence and effects of hybrid working arrangements brought about by Covid-19.

The countywide vacancy rate increased sixty basis points in Q1, settling at 13.9%. By comparison, during the financial crisis in 2010 the vacancy rate peaked at 18.7% in 2010.

Demand is mixed. Vacancy rates in West County and North County, 7.1% and 9.2% respectively, have remained in single digits since Covid hit. Moreover, in West County asking lease rates are at a record \$2.53 per SF, up 12.2% since early 2020. Additionally, the base inventories in North and West county have remained stable, while the remaining three submarkets added 13 buildings totaling 1,070,270 SF since early 2020.

Hit hardest by the pandemic are Class A buildings. Premium space accounts for 42% of the county's 117.6-million-SF inventory but represents 76% of negative net absorption since Q1 2020. Average asking rents have declined 8.2%, but when free rent and tenant improvement allowances are factored in, effective rents can be significantly less.

Among Orange County's five submarkets only South County reported first-quarter tenant growth. There was 99,518 SF of net absorption in the 27.3-million-SF submarket that drove down the vacancy rate 40 basis points to 14%. Average asking rents are \$2.79 per SF, down 6% since the lockdown.

Net absorption in the 43.8-million-SF Airport submarket was in the red by 270,173 SF in the first quarter. The vacancy rate rose 60 basis points to 16.9%, the county's highest.

Tenants in the 22.5-million-SF Central County submarket shed 266,484 SF of space in the first quarter combined with delivery of a new 69,500 SF building to drive up the vacancy rate 150 basis points to 14.2%.

The largest new lease in Q1 was signed by Cap Diagnostics for 53,980 SF in the Irvine Spectrum at \$2.15 per SF triple net. A renewal on 127,750 SF by Carrington Real Estate Services at 1600 S. Douglass Road, Anaheim, was the largest lease transaction in Q1.

UBS Wealth Management's \$36.8-million sale of 500 S. Main Street, Orange, was the largest trade. The 161,000-SF building was acquired by Lincoln Property Company. The most paid for office space was \$419 per SF for 7 Corporate Park, a 37,177-SF low-rise building in the Airport submarket.

### FORECAST

The overall economic outlook improved in Q1 among local business executives answering a quarterly survey by economists at Cal State Fullerton economists. Nearly a quarter of those surveyed expect supply shortages to last more than one year.

### ORANGE COUNTY OFFICE

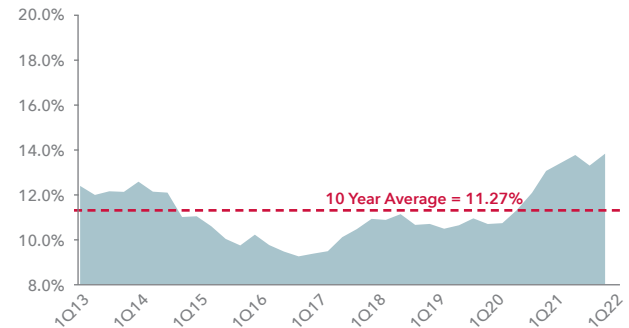
#### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.9%	4.6%
California Unemployment	5.0%	6.0%
US Unemployment	4.1%	4.3%

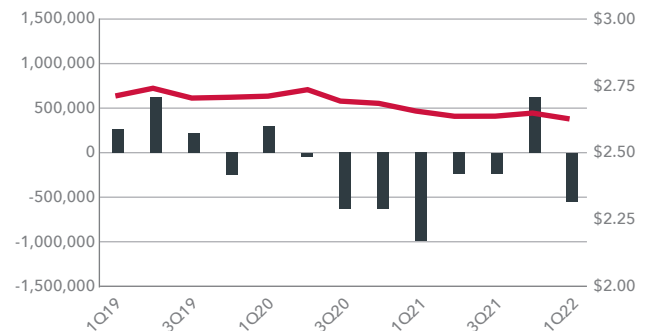
#### MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,645,693	117,576,193
Vacancy Rate (%)	13.89%	13.38%
Net Absorption (SF)	(550,126)	610,486
Average Asking Rent (\$/SF)	\$2.63	\$2.65
Under Construction (SF)	1,188,054	1,257,554

#### OVERALL VACANCY



#### NET ABSORPTION VS ASKING RATES



# ORANGE COUNTY

## FIRST QUARTER 2022 OFFICE MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 1Q 2022

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	14,480,986	1,394,106	9.60%	1,029,824	7.10%	(103,785)	(103,785)	\$2.32	- 0 -
Central Orange County	263	22,548,683	4,008,008	17.70%	3,200,966	14.20%	(266,484)	(266,484)	\$2.45	137,000
West Orange County	127	9,501,102	1,065,725	11.20%	872,405	9.20%	(9,202)	(9,202)	\$2.53	- 0 -
Greater Airport Area	420	43,847,841	9,666,820	21.80%	7,414,889	16.90%	(270,173)	(270,173)	\$2.81	449,206
South Orange County	368	27,267,081	5,082,731	18.20%	3,827,990	14.00%	99,518	99,518	\$2.78	601,848
<b>TOTALS</b>	<b>1,347</b>	<b>117,645,693</b>	<b>21,217,390</b>	<b>18.03%</b>	<b>16,346,074</b>	<b>13.9%</b>	<b>(550,126)</b>	<b>(550,126)</b>	<b>\$2.63</b>	<b>1,188,054</b>

### ORANGE COUNTY MARKET STATISTICS - 1Q 2022

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	299	48,841,457	11,796,966	23.70%	9,060,892	18.60%	(457,316)	(457,316)	\$2.77	989,885
Class B	970	64,280,119	9,166,967	14.20%	7,017,965	10.90%	(76,531)	(76,531)	\$2.62	198,169
Class C	78	4,524,117	253,457	5.60%	267,217	5.90%	(16,279)	(16,279)	\$2.15	- 0 -
<b>TOTALS</b>	<b>1,347</b>	<b>117,645,693</b>	<b>21,217,390</b>	<b>18.0%</b>	<b>16,346,074</b>	<b>13.9%</b>	<b>(550,126)</b>	<b>(550,126)</b>	<b>\$2.63</b>	<b>1,188,054</b>

### LEASE TRANSACTIONS 1Q 2022

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
275 McCormick, Ste A-200 & Bldg B Costa Mesa, CA	25,383	Mission Bible Church USA	TAVP Properties, LLC	Phil Cohen represented the Landlord.
2603 Main Street, Ste 900 Irvine, CA	18,251	Kahana & Feld LLP	Century Center Corp.	John Collins represented Tenant.
2400 E. Katella Avenue Anaheim, CA	16,215	Frazer, LP	CSHV Stadium Towers	Mark Joens represented Tenant.

### SALE TRANSACTIONS 1Q 2022

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
8845 Irvine Center Drive Irvine, CA	36,146	Spigen Inc.	4th Generation Properties, Inc.	Travis Haining represented the Seller.
73061 Fred Waring Drive Palm Desert, CA	5,132	GK Holding Palm Desert, LLC	Oracle Property Investments, LP	Bob Sattler represented the Buyer.
23191 La Cadena Drive Laguna Hills, CA	4,888	Bretschger & Associates, Inc.	eWorkplace Solutions, Inc.	Adam Wicker represented the Seller.

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