

ORANGE COUNTY

SECOND QUARTER 2022 OFFICE MARKET REPORT

HEALTHY DEMAND RETURNS TO SOUTH COUNTY

With Covid clearly a long-term issue, many mainstream tenants are still modifying hybrid workplace schedules, as the overall office market attempts to come to terms with what one headline writer called “the fuzzy math of three days a week in the office.” Space everywhere is being effectively discounted with offers of free rent and hefty tenant improvement allowances. While most users are standing pat or reducing space, some companies are taking advantage by leasing premium space at considerable savings. Among current growth-minded office users many companies, particularly those with a younger workforce, clearly are favoring low-rise, high-amenity offices with outdoor space and surface parking. This is the type of environment found with greater frequency in the Airport and South County submarkets.

In contrast to the anemic office demand afflicting most of Orange County, the South County submarket is staging a mini recovery. Since the first half of last year, there was 829,178 SF of positive net absorption in South County, which makes up 23% of the county’s 116.4-million-SF office inventory. Most of this year’s 518,618 SF of South County tenant growth was in the second quarter. The Irvine Company inked two major second-quarter leases - 116,000 SF with Amazon and 114,000 SF with CoStar - at its 1.1-million-SF Spectrum Terrace office park in Irvine on Laguna Canyon Road. Meanwhile, in the North, Central and West County submarkets, as well as the Airport, the largest submarket, there were 1,437,307 SF of negative net absorption in the last four quarters. In the last two quarters, tenants in the North, Central and Airport submarkets shed 655,189 SF and added 42,532 SF in West County.

On the strength of tenant expansion in the South County submarket alone the countywide vacancy rate - which settled at 13.4% at the end of Q2 - is 10 basis points less than a year ago. Many high-rise and older office properties in second-tier locations are experiencing extremely high vacancy. One example is Greenlaw Partners’ 368,000-SF City Plaza in Orange, which is offered for sale. Virtually the entire 18-story building is vacant.

The largest sale of the quarter was MetLife’s \$155.4-million purchase of two Class A buildings totaling 312,000 SF on Von Karman Avenue from seller Hines-PIMCO in the Airport submarket. After more than five years on the market The Broadway Building at 1600 Broadway, Santa Ana, traded for \$110 per SF. The 10-story, 107,248-SF high-vacancy redevelopment project on one acre was acquired by Core Investments of Fullerton for \$11.8 million.

MARKET FORECAST

In their Spring forecast, Cal State Fullerton economists said that central bankers’ tightening money policy will slow Orange County growth this year. “There are few signs of imbalance in any of the major sectors of the economy;” the economists said, adding that “labor remains strong, and personal incomes continue to improve.”

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ORANGE COUNTY

ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	2.4%	3.9%
California Unemployment	3.4%	5.0%
US Unemployment	3.6%	4.1%

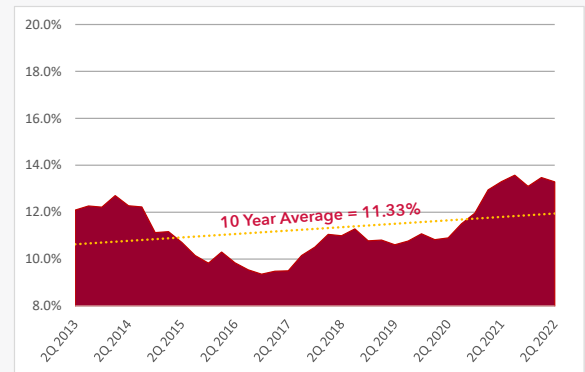
Source: EDD

OFFICE MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,563,356	116,563,356
Vacancy Rate (%)	13.3%	12.1%
Net Absorption (SF)	215,928	(374,802)
Average Asking Rent (\$/SF)	\$2.62	\$2.63
Under Construction (SF)	1,187,853	1,187,853

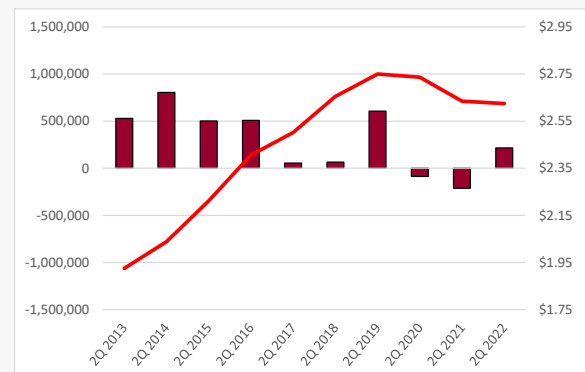
Source: CoStar

OVERALL VACANCY



Source: CoStar

NET ABSORPTION VS ASKING RATES



Source: CoStar

ORANGE COUNTY

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ORANGE COUNTY MARKET STATISTICS - 2Q 2022



Orange County Submarket	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	2nd Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North	169	14,481,266	1,339,853	9.30%	1,141,280	7.90%	(111,456)	(215,241)	\$2.31	0
Central	261	22,425,582	4,187,631	18.60%	3,299,714	14.70%	(205,996)	(472,480)	\$2.37	137,000
West	127	8,634,855	1,213,407	14.10%	820,671	9.50%	51,734	42,532	\$2.62	0
Greater Airport	421	43,943,885	9,483,315	21.40%	7,059,928	16.10%	212,648	32,477	\$2.78	449,206
South	367	27,077,768	4,713,908	17.00%	3,171,457	11.70%	268,998	453,838	\$2.79	601,647
TOTALS	1,345	116,563,356	20,938,114	17.96%	15,493,050	13.3%	215,928	(158,874)	\$2.62	1,187,853

Source: CoStar

Building Class	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	2nd Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
A	296	48,530,223	11,714,075	23.70%	8,507,681	17.50%	265,242	(141,222)	\$2.78	989,885
B	969	64,120,686	8,852,069	13.80%	6,762,133	10.50%	(75,706)	(79,523)	\$2.59	197,968
C	80	3,912,447	371,970	9.50%	223,236	5.70%	26,392	61,871	\$2.28	0
TOTALS	1,345	116,563,356	20,938,114	18.0%	15,493,050	13.3%	215,928	(158,874)	\$2.62	1,187,853



Source: CoStar

LEASE TRANSACTIONS 2Q 2022

Property	SF	Tenant	Landlord	Representing Brokers
 975 W. Imperial Hwy. Brea, CA	10,293	Evrilholder Products, LLC	Evangelical Christian	Mark Joens represented the Tenant.
 2 Technology Dr. Irvine, CA	19,500	Studio Oh	The Irvine Company	Craig Fitterer and Mark Jerue represented the Tenant.

Source: CoStar

SALE TRANSACTIONS 2Q 2022

Property	SF	Buyer	Landlord	Representing Brokers
 3010 Orange Ave. Anaheim, CA	70,000	Exbon Development, Inc.	Jamison Realty, Inc.	Mark Joens & John Son represented the Seller.
 9800 Muirlands Blvd. Irvine, CA	56,773	Oceans Church	Chapman University	Scott Colton represented the Buyer.

Source: CoStar

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