

ORANGE COUNTY

THIRD QUARTER 2022 OFFICE MARKET REPORT

DEMAND WEAKENS UNDER LABOR MARKET PRESSURES

Nationally, a white-hot labor market is confounding a return-to-office push among employers that started last year. In samplings of 8,000 workers, Gallup said the desire to work exclusively from home has more than doubled since last fall. Sixty percent said they would change jobs to work remotely. Orange County tenant demand is mirroring U.S. trends posting another loss in the third quarter, as companies continue to balk at pushing post-Covid return-to-office mandates on workers and amid concerns about slower growth, inflation, and the rising cost of credit.

- The county's sublease total is 4.1 million SF or 19% of available space. Sublease space increased by 359,733 SF in Q3, the most in any quarter since the lockdown. Second-hand space has grown by 865,043 SF this year and is up 1.8-million SF since mid-2020.
- Negative net absorption totals 660,082 SF year-to-date with 501,928 SF of negative net absorption in the third quarter, the third largest quarterly retreat since the lockdown. Companies shed 809,986 SF in 2020 and 1.2 million SF in 2021.

Third-quarter net absorption was in the red in four of the county's five submarkets.

- The South County submarket has been least affected by the pandemic. Since early 2020, total occupancy in the 27-million-SF submarket has increased by 392,634 SF, net absorption is positive 501,383 SF, four buildings totaling 635,341 SF have been added and the vacancy rate virtually remains unchanged at 11.8%.
- The 22.5-million-SF Central County submarket posted the largest loss in the third quarter with 248,969 SF going back on the market. Central County tenants have shed 721,449 SF of space year to date, driving up the vacancy rate 350 basis points since last year to 15.8%.
- The Airport submarket, the county's largest, accounts for 38% of the total inventory. Negative net absorption totals 1.8 million since the lockdown but only 4,971 SF of that loss has come this year. In the Airport submarket in Q3 there was 208,184 SF of sublease space added to inventory. Forty-three percent of available sublease space is in the Airport submarket.
- Until this year, the 14.5 million SF North County submarket had a 6.4% vacancy rate. In the last three quarters its vacancy rate has risen to 9.2% on negative absorption of 403,759 SF year to date, including 175,661 SF of sublease space added in Q3.

Among the top 10 Orange County buildings sold in Q3, two were purchased by large midwestern industrial developers with redevelopment plans.

The largest new lease of Q3 was for 52,309 SF of Class B space at 4350 Von Karman Ave., Newport Beach, at \$2.67 per SF full service.

MARKET FORECAST

Forty-one percent of Orange County executives expect significant or some growth in their respective industries, compared to 33.4% in the second quarter, according to a business expectations survey by Cal State Fullerton economists, who report the results are in contrast to expectations of lower growth for the regional economy overall.

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ORANGE COUNTY

ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.0%	2.8%
California Unemployment	4.1%	3.4%
US Unemployment	3.5%	3.7%

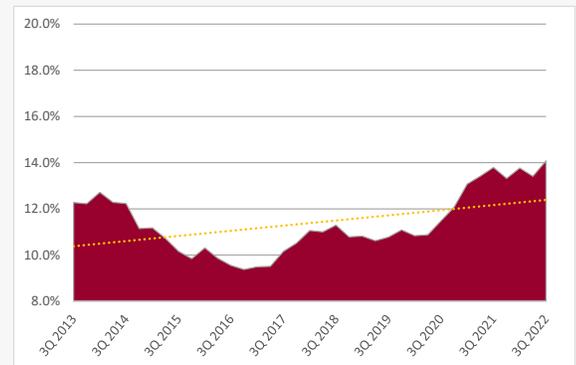
Source: EDD

OFFICE MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	116,919,425	116,563,356
Vacancy Rate (%)	14.1%	13.3%
Net Absorption (SF)	(501,928)	215,928
Average Asking Rent (\$/SF)	\$2.62	\$2.62
Under Construction (SF)	738,735	1,187,853

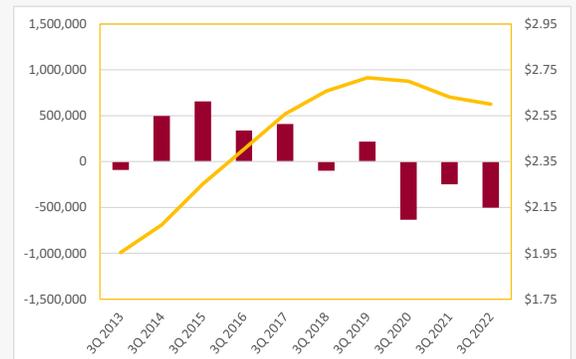
Source: CoStar

OVERALL VACANCY



Source: CoStar

NET ABSORPTION VS ASKING RATES



Source: CoStar

ORANGE COUNTY

THIRD QUARTER 2022 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 2022

Orange County Submarket	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	3rd. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North	169	14,484,374	1,621,475	11.20%	1,329,798	9.20%	(188,518)	(403,759)	\$2.38	0
Central	262	22,450,757	4,335,027	19.20%	3,548,683	15.80%	(248,969)	(680,184)	\$2.38	137,000
West	127	8,626,815	1,245,926	14.40%	841,527	9.80%	(20,856)	21,676	\$2.59	0
Greater Airport	419	44,311,013	9,764,275	22.00%	7,546,582	17.00%	(37,448)	(46,181)	\$2.73	0
South	366	27,046,466	5,255,301	17.00%	3,192,721	11.80%	(6,137)	562,481	\$2.70	601,735
TOTALS	1,343	116,919,425	22,222,004	19.01%	16,459,311	14.1%	(501,928)	(545,967)	\$2.62	738,735

Source: CoStar

Building Class	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	3rd. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
A	297	49,029,488	12,841,709	25.90%	9,495,914	19.40%	(539,027)	(606,679)	\$2.72	540,679
B	966	63,967,990	9,048,553	14.10%	6,773,967	10.60%	3,293	(34,965)	\$2.56	198,056
C	80	3,921,947	331,742	8.50%	189,430	4.80%	33,806	95,677	\$2.15	0
TOTALS	1,343	116,919,425	22,222,004	19.0%	16,459,311	14.1%	(501,928)	(545,967)	\$2.62	738,735

Source: CoStar

LEASE TRANSACTIONS 3Q 2022

Property	SF	Tenant	Landlord	Representing Brokers
 100 Progress, Suite 150 Irvine, CA	6,096	Beach Cities Commercial Bank	The Irvine Company	Kevin Bayless, Ryan Harman and Jesse Knight represented the Tenant.
 19750 South Vermont Torrance, CA	5,403	West Coast EMT Training, Inc	Torrance Vermont Property, LLC	Mark Joens represented the Lessee West Coast EMT Training, Inc.

Source: CoStar

SALE TRANSACTIONS 3Q 2022

Property	SF	Buyer	Landlord	Representing Brokers
 23151 Moulton Parkway Laguna Hills, CA	10,000	Presidio Capital Real Estate	Vivian Dohi	Allen Basso, Eric Darnell and Kylee King represented the Buyer.
 2650 E. Imperial Highway Brea, CA	27,258	ISYS Imperial, LLC	Mahn Property, LLC	Marshal Vogt, John Son, Jaimeson Hearne & Matt Orville represented the Seller Mahn Property.

Source: CoStar

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