

# ORANGE COUNTY

## FOURTH QUARTER 2022 OFFICE MARKET REPORT

### SLIDE CONTINUES DUE TO HYBRID SCHEDULES, SLOWER GROWTH

Demand for office space continued its overall decline in 2022 as hybrid schedules become the norm and companies shed space amid concerns about the slowing economy and a possible recession. Countywide net absorption was negative 623,844 SF for the year, bringing the total demand deficit to 2.2 million SF since the lockdown. Absorption in the five years before the pandemic averaged 928,413 SF per year.

There was 948,955 SF of added available sublease space in 2022, up 1.7 million SF since the lockdown. Available second-hand space now totals 4.2 million SF, or 3.6% of the total 117 million SF inventory. The overall vacancy rate at the close of 2022 was 14.3%, up 1.20 percentage points for the year and 3.56 percentage points since the lockdown.

There have been 17 buildings totaling 1.87 million SF added to the office inventory since the pandemic hit at the end of Q1 2020. The combination of new inventory and tenant contraction brings the total of vacant space since the lockdown to 4.35 million SF.

Across all five submarkets vacancy rates range from 10.2% to 16.3%. Asking full-service rents averaged 2.54 per SF, a 7.6% decline since Q1 2020. Despite the overall negative report, the two largest of the county's five submarkets, the Airport and South County, posted absorption gains in 2022.

After recording negative growth in eight of the last 11 quarters, the 44.5-million-SF Airport submarket recorded strong fourth-quarter demand and finished the year 456,992 SF in the black. In the previous two years, however, 1.9 million SF of space went back on the market, pushing the vacancy rate from 10.4% to 15.6%. Asking rents averaged \$2.54 per SF at the close of 2022, a 6.9% decline since the lockdown.

Demand for space in South County dramatically improved in 2022. After putting 385,477 back on the market in 2021 and posting 109,332 SF of Q4 negative growth, net absorption was up 376,029 SF in 2022.

Tenants shed 822,817 SF in the 22.3-million-SF Central County submarket in 2022. The vacancy rate rose 40 basis points from Q3 to settle at 16.3%, the county's highest.

The 14.3-million-SF North County submarket posted four quarters of negative absorption in 2022 totaling 604,265 SF and driving up the vacancy rate 330 basis points to 10.2%.

The 8.6-million-SF West County submarket ended the year with 29,783 SF of negative net absorption. The vacancy rate was 10.4%.

The largest lease of the fourth quarter was Apple's 27-month lease of 115,290 SF of Class A space in the Spectrum from the Irvine Company. Five of the top 10 leases in the fourth quarter were in the Tustin Legacy submarket. For the largest sale, Adelfi Credit Union sold four buildings on Imperial Highway in Brea totaling 288,189 SF for \$80 million to Healthcare Property Advisors. Each building traded for \$277 per SF.

### MARKET FORECAST

In their recent annual forecast for 2023, Cal State Fullerton economists said high inflation will be stickier than expected, forcing the Fed to keep interest rates elevated and making a recession difficult to avoid within the next 12 months.

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## ORANGE COUNTY

### ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.0%	3.0%
California Unemployment	4.0%	4.1%
US Unemployment	3.7%	3.5%

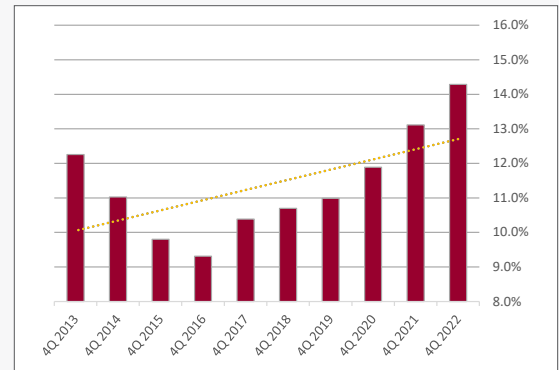
Source: EDD

### OFFICE MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,073,654	116,919,425
Vacancy Rate (%)	14.3%	14.1%
Net Absorption (SF)	28,768	(501,928)
Average Asking Rent (\$/SF)	\$2.57	\$2.62
Under Construction (SF)	392,748	738,735

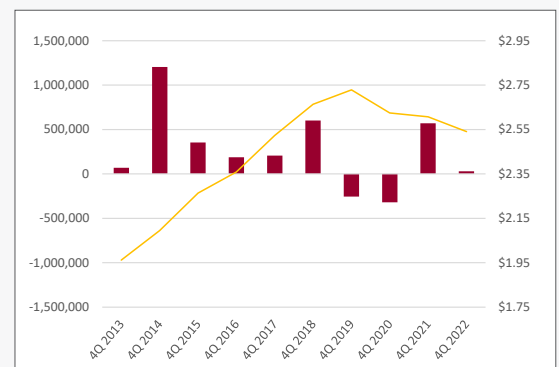
Source: CoStar

### OVERALL VACANCY



Source: CoStar

### NET ABSORPTION VS ASKING RATES



Source: CoStar

# ORANGE COUNTY

## FOURTH QUARTER 2022 OFFICE MARKET REPORT

### ORANGE COUNTY MARKET STATISTICS - 4Q 2022



Orange County Submarket	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	4th. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North	167	14,317,993	1,639,038	11.40%	1,453,514	10.20%	(171,046)	(604,265)	\$1.94	0
Central	261	22,345,569	4,788,788	21.30%	3,650,051	16.30%	(101,368)	(822,817)	\$2.37	137,000
West	127	8,627,187	1,204,143	14.00%	892,986	10.40%	(51,459)	(29,783)	\$2.57	0
Greater Airport	421	44,453,335	9,655,491	21.70%	7,084,619	15.90%	461,963	456,992	\$2.72	0
South	368	27,329,570	5,211,433	18.60%	3,647,829	13.30%	(109,322)	376,029	\$2.69	255,748
<b>TOTALS</b>	<b>1,344</b>	<b>117,073,654</b>	<b>22,498,893</b>	<b>19.22%</b>	<b>16,728,999</b>	<b>14.3%</b>	<b>28,768</b>	<b>(623,844)</b>	<b>\$2.57</b>	<b>392,748</b>

Source: CoStar

Building Class	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	4th. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
A	297	49,262,556	12,719,351	25.70%	9,645,473	19.60%	180,646	(507,688)	\$2.72	194,893
B	966	63,767,422	9,429,168	14.70%	6,887,005	10.80%	(154,529)	(180,201)	\$2.55	197,855
C	81	4,043,676	350,374	8.70%	196,521	4.90%	2,651	64,045	\$2.22	0
<b>TOTALS</b>	<b>1,344</b>	<b>117,073,654</b>	<b>22,498,893</b>	<b>19.22%</b>	<b>16,728,999</b>	<b>14.3%</b>	<b>28,768</b>	<b>(623,844)</b>	<b>\$2.57</b>	<b>392,748</b>



Source: CoStar

### LEASE TRANSACTIONS - 4Q 2022

Property	SF	Tenant	Landlord	Representing Brokers
 3540 Howard Way, #200 Costa Mesa, CA	12,940	Serve First Solutions, Inc.	3540 Howard, LLC	Allen Basso, Eric Darnell and Kylee King represented the Landlord.
 5255 E. Hunter Avenue Anaheim, CA	11,692	Rexford Industrial Realty	Ball WCEC, LLC	Mark Joens represented the Tenant Ball WCEC, LLC the Lessor was Rexford Industrial Realty

Source: CoStar

### SALE TRANSACTIONS - 4Q 2022

Property	SF	Buyer	Seller	Representing Brokers
 2900-D Bristol Street #204/205, Costa Mesa, CA	2,580	David Beador	Slackline LLC	Allen Basso, Eric Darnell and Kylee King represented the Seller.
 180 S. Anita Drive Orange, CA	13,646	Bethany Missionary Association	Anita Drive, LLC	Marshal Vogt, David Williams, Matt Orville & Jaimeson Hearne represented the Seller Anita Drive, LLC & the Buyer was Bethany Missionary Association

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