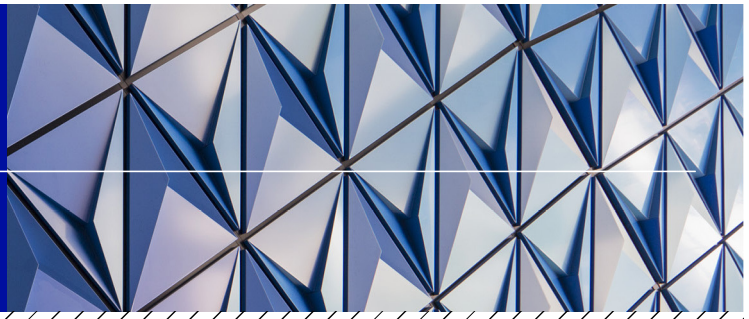
RESEARCH Q1 2021



Orange County Office Market Report

Vacancy Continues to Rise as New Supply Hits the Market

- The average asking rent held steady at $2.75/SF to start the year but was down 3.0% from 12 months ago.
- Vacancy increased to 14.8%, its highest point since 2013, while quarterly net absorption was negative, posting nearly 700,000 square feet of losses.
- Spectrum Terrace Phase II delivered, bringing 344,385 square feet of Class A space to the Irvine Spectrum. The project is 83.9% leased, but tenants have yet to take occupancy due to ongoing shelter-in-place mandates.
- Leasing volume spiked in the first quarter when defense tech giant Anduril Industries signed a 639,206-square-foot lease at The Press in Costa Mesa; Newmark was involved in the transaction.
- Sublet availability remains pronounced at 3.4%. South County accounted for a significant portion of space givebacks this quarter, with Carefusion and Cylance listing 105,643 square feet and 89,068 square feet for sublease, respectively.
- Sublet space, with its discounted rental rates, will appeal to companies looking to expand in time.

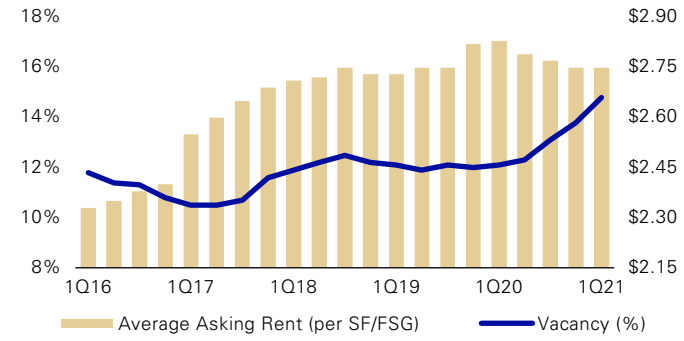
Absorption Gains are on the Horizon

Net absorption has been negative for five consecutive quarters, since the start of the economic downturn. Many tenants have implemented cost-saving measures, including downsizing and space givebacks, while most scheduled move-ins have been postponed. As vaccination counts increase throughout the region and offices progressively reopen, there will be a backlog of occupancy gains.

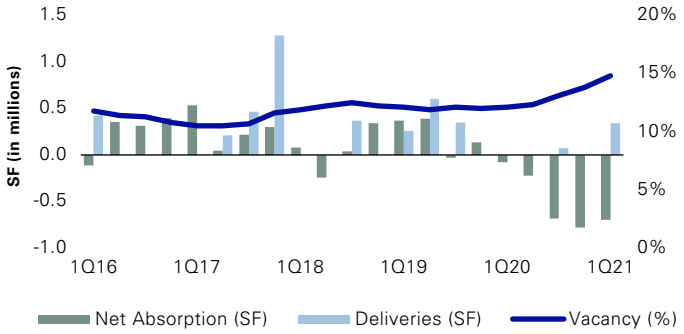
New construction has been well-received and will contribute to significant positive absorption in the quarters ahead.

Market Analysis

VACANCY AND ASKING RENT



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	95.9M	95.5M	95.5M	↑
Total Vacancy Rate	14.8%	13.8%	12.1%	↓
Quarterly Net Absorption (SF)	-698,593	-780,875	-78,696	↑
Average Asking Rent/SF/Month	$2.75 FSG	$2.75 FSG	$2.83 FSG	→
Deliveries (SF)	344,354	0	0	↑
Under Construction (SF)	1.1M	1.4M	1.2M	↓

Spectrum Terrace Phase I and II have sizable tenants in tow, including Alteryx (187,060 square feet), CoStar (114,875 square feet) and TGS Management LLC (114,875 square feet), with anticipated move-in dates later this year.

Anduril Industries will take occupancy of the 450,000-square-foot Press development in four phases, beginning in August, and will subsequently occupy an additional 190,000 square feet of R&D space that is currently in the planning stages.

Employment

Orange County's unemployment rate of 6.8% in February is a significant improvement from May's record high of 14.7% but remains higher than the national average of 6.2%. The metro lost 43,700 office-using jobs from pre-pandemic February to May of 2020 and has since recovered 16,800 jobs within that sector.

Continued job gains are expected in the months ahead, as Orange County has recently transitioned to the "red" tier of California's four-tiered, color-coded system. Entering this new tier authorizes officials to loosen restrictions on businesses: increasing capacity at indoor retailers, restarting indoor restaurant dining and reopening movie theaters and gyms, albeit with continued modifications. Job growth will follow.

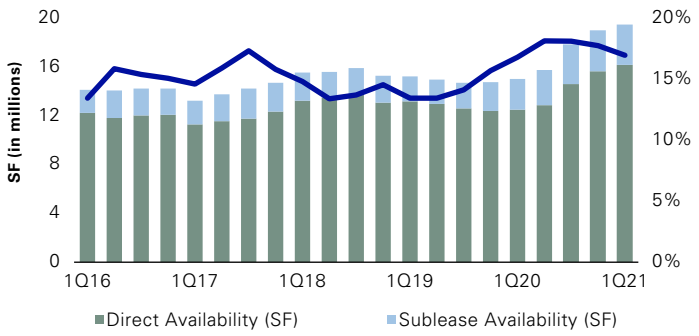
Outlook

The collateral effects of the pandemic continue to disrupt Orange County's office market, but the road to recovery is in sight. Daily new COVID-19 cases have steadily declined, and vaccine distribution is underway. Space inquiries are increasing, and many tenants plan a phased return to offices in the second half of 2021, so long as case counts remain low and business restrictions continue to ease.

Vacancy will remain at elevated levels in the near-term as the construction pipeline continues to deliver, but sizable move-ins will help the market return to equilibrium later this year. With greater economic certainty and quality space options available, leasing activity will likely ramp up as tenants can better evaluate space needs and implement go-forward strategies.

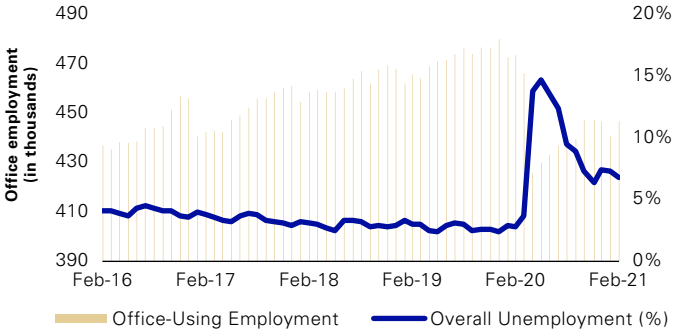
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Office-Using Employment

ANAHEIM - SANTA ANA - IRVINE



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Anduril Industries, Inc.	1375 Sunflower Avenue	Airport	New	639,206
CoStar Group	17600 Laguna Canyon Road	South County	New	114,875
Kofax	15211 Laguna Canyon Road	South County	Renewal	64,006

Sale Transactions

Buyer	Building(s)	Market Area	Sale Price/SF	Square Feet
Singerman Real Estate, LLC	15 & 25 Enterprise	South County	$309	297,277
Confluent Development	28570 Marguerite Parkway	South County	$280	35,778
Tappan Corporation	22471 Aspan Street	South County	$217	21,525

Submarket Statistics

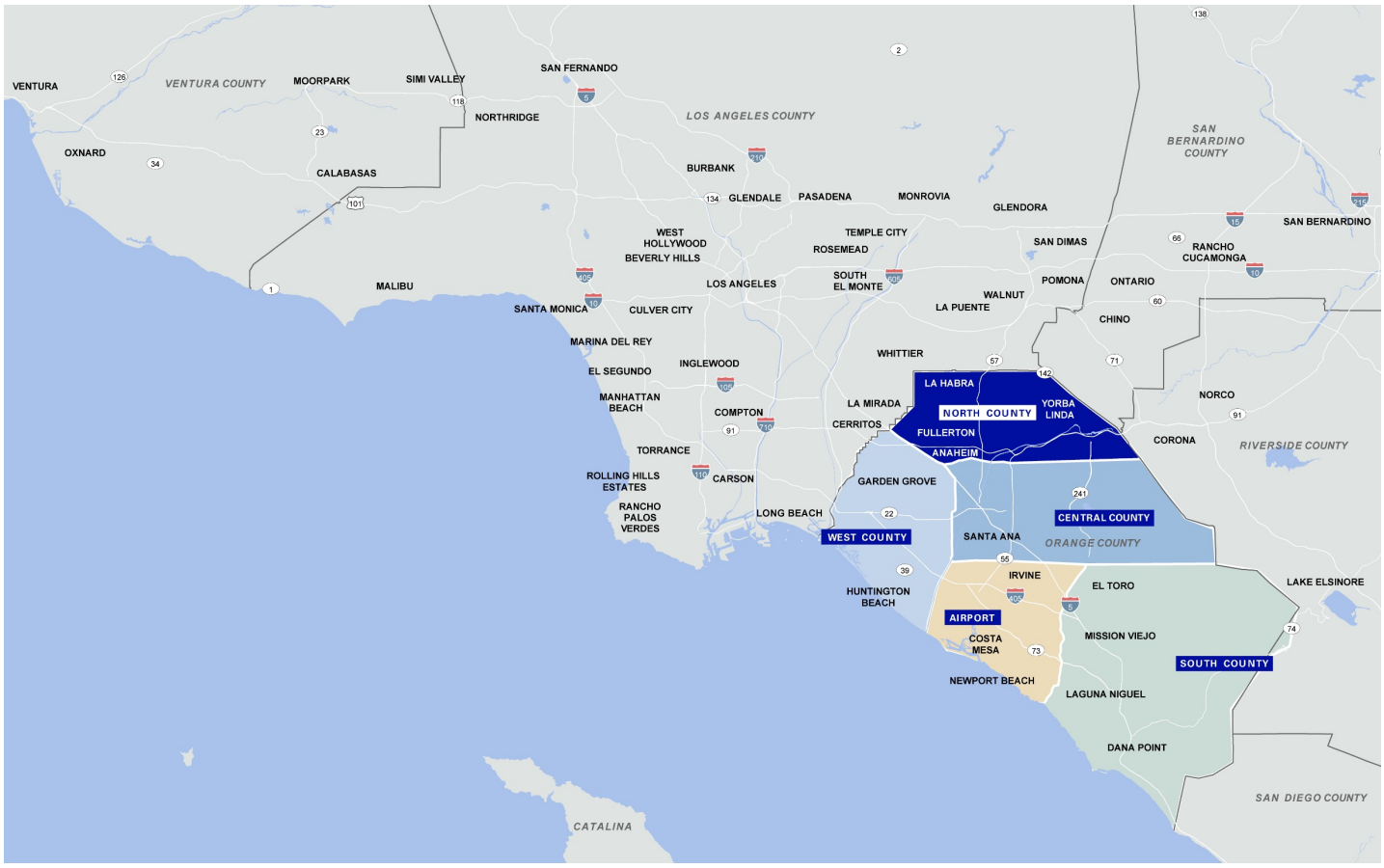
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Airport	**42,373,915**	**450,000**	**15.8%**	**-141,008**	**-141,008**	**$3.26**	**$2.74**	**$3.04**
Costa Mesa	5,711,727	450,000	18.0%	8,842	8,842	$3.41	$2.48	$3.28
Irvine	22,633,436	0	16.0%	-157,981	-157,981	$3.26	$2.66	$2.98
Newport Beach	8,825,233	0	10.8%	-41,304	-41,304	$3.26	$3.19	$3.21
Santa Ana (Airport Area)	4,786,235	0	17.1%	13,545	13,545	$2.94	$2.66	$2.74
Tustin	417,284	0	62.4%	35,890	35,890	-	-	-
Central County	**16,454,168**	**0**	**14.1%**	**-141,864**	**-141,864**	**$2.54**	**$2.24**	**$2.32**
Anaheim (Stadium Area)	3,588,828	0	12.0%	37,390	37,390	$2.83	$2.15	$2.44
Orange	6,155,509	0	15.3%	-129,241	-129,241	$2.39	$2.65	$2.44
Santa Ana	5,290,249	0	15.3%	-49,790	-49,790	$2.82	$1.96	$2.09
Tustin	1,419,582	0	9.9%	-223	-223	$2.65	$2.39	$2.27
North County	**7,120,046**	**0**	**8.8%**	**-94,461**	**-94,461**	**$2.33**	**$2.22**	**$2.24**
Anaheim (Anaheim Hills)	1,403,737	0	9.8%	-824	-824	$2.05	$1.94	$1.96
Brea	3,841,055	0	9.0%	-82,787	-82,787	$2.38	$2.31	$2.34
Fullerton	992,524	0	9.8%	-15,605	-15,605	-	$2.65	$2.50
La Habra	313,469	0	0.7%	2,056	2,056	-	$2.03	$2.03
Placentia	239,347	0	11.5%	0	0	-	$1.67	$1.67
Yorba Linda	329,914	0	5.1%	2,699	2,699	-	$2.14	$2.14
South County*	**22,899,639**	**671,317**	**16.8%**	**-355,728**	**-355,728**	**$3.02**	**$2.71**	**$2.80**
Aliso Viejo	2,275,940	0	29.0%	-65,245	-65,245	$3.41	$2.87	$3.07
Dana Point	210,660	0	3.7%	0	0	-	-	-
Foothill Ranch	705,061	0	11.0%	12,172	12,172	$2.70	$2.50	$2.61

** Although Capistrano Beach and Ladera Ranch comprise a portion of South County's inventory set, they are not cited in the above data table since their inventory totals are diminutive.*

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Irvine Spectrum	11,937,622	671,317	16.6%	-21,548	-21,548	$3.17	$2.74	$2.86
Laguna Beach	90,845	0	5.8%	200	200	-	-	-
Laguna Hills	1,454,808	0	14.7%	-5,668	-5,668	$2.95	$2.97	$2.94
Laguna Niguel	648,723	0	11.4%	-4,946	-4,946	$3.05	$2.44	$2.93
Lake Forest	2,273,265	0	22.7%	-209,473	-209,473	$2.12	$2.30	$2.25
Mission Viejo	1,513,882	0	9.8%	-22,393	-22,393	$2.52	$2.28	$2.41
Rancho Santa Margarita	293,615	0	5.9%	2,949	2,949	$1.95	$2.20	$2.17
San Clemente	365,291	0	14.2%	-22,391	-22,391	$2.40	$2.28	$2.32
San Juan Capistrano	835,466	0	5.9%	-19,385	-19,385	$2.50	$2.54	$2.52
West County	**7,024,327**	**0**	**10.6%**	**34,468**	**34,468**	**$2.75**	**$2.04**	**$2.32**
Cypress	1,563,321	0	13.3%	22,775	22,775	$2.51	$2.00	$2.22
Fountain Valley	983,665	0	2.8%	-417	-417	-	$2.05	$1.887
Garden Grove	646,135	0	7.7%	1,505	1,505	-	$1.94	$1.88
Huntington Beach	2,122,522	0	18.3%	21,966	21,966	$2.81	$2.13	$2.44
Los Alamitos	553,880	0	4.0%	-4,129	-4,129	-	$2.35	$2.35
Seal Beach	325,148	0	3.0%	-3,304	-3,304	$3.27	$3.15	$3.260
Stanton	115,576	0	6.7%	-1,980	-1,980	-	-	-
Westminster	714,080	0	4.7%	-1,948	-1,948	-	$1.68	$1.68
Market	**95,872,095**	**1,121,317**	**14.8%**	**-698,593**	**-698,593**	**$3.03**	**$2.55**	**$2.75**

Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries.
Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.



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