

Orange County Office Market Report

Absorption Was Back in the Red; Sublease Space Increases

- Trophy-grade assets are holding their asking rates.
- Vacancy increased 30 basis points from last quarter after net absorption losses of 273,304 square feet.
- Most absorption losses were based in the Airport submarket.
- Three major projects are underway and scheduled for completion in 2022, with The Press (449,206 square feet pre-leased to Anduril) in Costa Mesa, the third phase of Spectrum Terrace (374,722 square feet across three buildings) in the Irvine Spectrum and the second phase of Innovation Office Park (258,508 square feet across seven buildings), also in the Irvine Spectrum.
- New construction has been well-received, given the full leasing of the first and second phases of Spectrum Terrace. The first phase of Innovation Office Park delivered last year and is currently 53.0% leased.
- Available sublease space increased by 381,250 square feet over the last three months and now represents 3.4% of inventory.

A Closer Look at Sublease Space

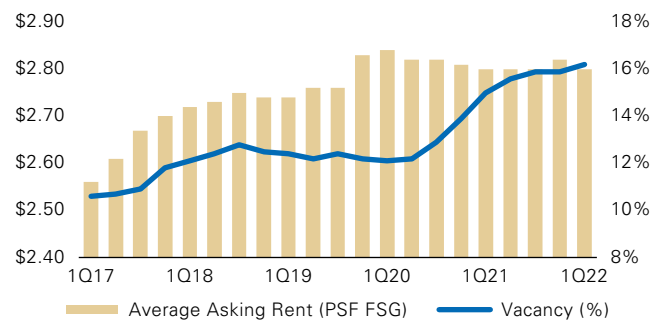
Sublet availability progressively decreased in the second half of 2021, from 3.5 million square feet in the second quarter of that year to 2.9 million square feet by the fourth quarter. This drop can be attributed to two factors.

Some occupiers began de-listing space as they prepared to reboard their offices by early 2022; most reentry plans were later delayed to early spring following the Omicron surge in the winter months. The second factor is the familiar flight-to-quality trend that occurs in downturns, or, in the case of COVID-19's early days, times of uncertainty; tenants generally seek to upgrade their existing spaces in opportune periods. In other words, trophy-grade sublease offerings, which have discounted rents relative to direct available space, are finding tenants.

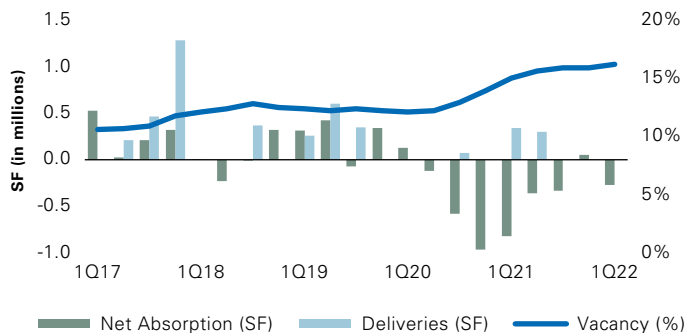
** includes ground-up construction and excludes renovation projects*

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	96.0M	96.1M	95.8M	↑
Total Vacancy Rate	16.2%	15.9%	15.0%	↓
Quarterly Net Absorption (SF)	-273K	54K	-818K	↑
Average Asking Rent/SF/Month	\$2.80 FSG	\$2.82 FSG	\$2.80 FSG	→
Deliveries (SF)*	0	0	344K	↑
Under Construction (SF)	1.1M	1.1M	1.1M	→

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This quarter's sublease increase suggests sublet availability will fluctuate in the quarters ahead. Getting more people back into the office is the first step to assess and then execute on long-term real estate needs. To what degree a given company decides to embrace a work-from-home model over the mid- to long-term will determine whether an occupier will downsize or maintain its footprint. Strategies will vary.

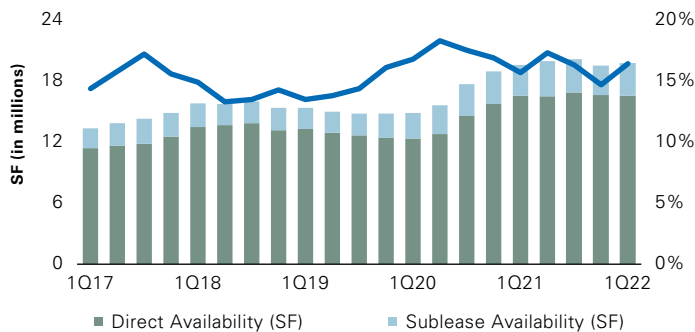
Absorption: Airport and South County

Airport's net occupancy losses of 222,160 square feet can be traced to several move-outs, including Happy Money (72,010 square feet at 1700 Flight Way), Alliant Insurance Services (52,590 square feet at 1301 Dove Street) and HireRight LLC (40,000 square feet at 3349 Michelson Drive).

South County led other submarkets in net absorption gains, with the Irvine Spectrum alone contributing 131,427 square feet. Most of this came from Terran Orbital settling into 90,000 square feet at 400 Spectrum Center and Gen Home Mortgage moving into 25,000 square feet at 2300 Main Street; both were subleases.

Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A % OF OVERALL AVAILABLE SF



Prior to the pandemic, Spectrum established itself as Orange County's center of gravity by offering an attractive labor pool, premier amenities, apartment development, access to UCI and new office construction. Tenants from across the market relocated to the area and will continue to do so. Spectrum also has a growing tech and life sciences base, two industry segments that have remained active throughout the pandemic.

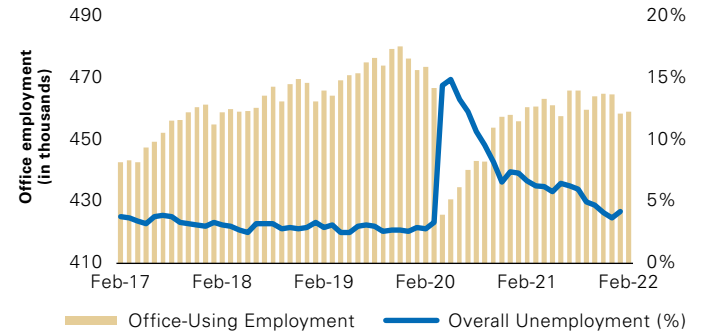
Outlook

Office-using employment totaled 459,200 jobs in February and represents 96.9% of what it was prior to the pandemic. This average will inch higher in the months ahead.

The focus for most occupiers is on reboarding, since the office plays a crucial role in advancing a company's culture and cultivating next-gen workers. More long-term real estate decisions will be made after this happens, which will shape the trajectory of the greater market. Regardless of how this trajectory plays out, it is safe to say that Class A properties in desirable locations remain better insulated than lower caliber buildings.

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(s)	Market Area	Lease Type	Square Feet
Carrington	1600 S Douglass Road	Central County	Renewal	127,750
CAP Diagnostics	15545 Sand Canyon Avenue	South County	Direct	53,980
5.11 Inc.	3100-3150 Bristol Street	Airport	Direct	39,650

Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Lincoln Property Company	The Square on Main	Central County	\$97,200,000 (\$231/SF)	420,267
Prologis	Pacific Vista	South County	\$96,000,000 (\$299/SF)	321,381
Kingsbarn Realty Capital	Stadium Crossings	Central County	\$31,500,000 (\$297/SF)	106,068

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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	42,566,137	449,206	18.1%	-222,160	-222,160	\$3.28	\$2.69	\$3.05
Costa Mesa	5,709,373	449,206	22.2%	-59,659	-59,659	\$3.32	\$2.26	\$3.07
Irvine	23,007,923	0	17.7%	-4,225	-4,225	\$3.15	\$2.69	\$2.98
Newport Beach	8,548,187	0	13.9%	-94,017	-94,017	\$3.55	\$3.05	\$3.34
Santa Ana (Airport Area)	4,779,138	0	20.5%	-85,659	-85,659	\$2.86	\$2.65	\$2.68
Tustin	521,516	0	35.0%	21,400	21,400	-	-	-
Central County	16,201,967	0	14.7%	-53,532	-53,532	\$2.50	\$2.23	\$2.32
Anaheim (Stadium Area)	3,549,622	0	15.2%	-84,393	-84,393	\$2.67	\$2.02	\$2.32
Orange	5,944,950	0	13.7%	31,599	31,599	\$2.38	\$2.64	\$2.45
Santa Ana	5,287,813	0	16.6%	2,699	2,699	\$2.83	\$2.03	\$2.14
Tustin	1,419,582	0	10.7%	-3,437	-3,437	\$2.65	\$2.47	\$2.31
North County	7,329,209	0	9.1%	-94,908	-94,908	\$2.41	\$2.25	\$2.31
Anaheim (Anaheim Hills)	1,403,737	0	9.0%	8,444	8,444	\$2.05	\$2.12	\$2.10
Brea	3,842,277	0	10.5%	-94,442	-94,442	\$2.45	\$2.32	\$2.40
Fullerton	1,397,654	0	7.6%	-24,629	-24,629	-	\$2.36	\$2.27
La Habra	174,469	0	0.8%	6,835	6,835	-	\$1.96	\$1.96
Placentia	239,347	0	9.4%	8,884	8,884	-	\$1.73	\$1.88
Yorba Linda	271,725	0	1.5%	0	0	-	\$2.25	\$2.25
South County*	23,102,584	633,230	17.3%	87,267	87,267	\$3.15	\$2.67	\$2.84
Aliso Viejo	2,434,109	0	29.4%	-63,705	-63,705	\$3.33	\$2.81	\$3.07
Dana Point	210,660	0	0.0%	7,868	7,868	-	-	-
Foothill Ranch	705,061	0	10.6%	14,158	14,158	\$2.70	\$2.50	\$2.62

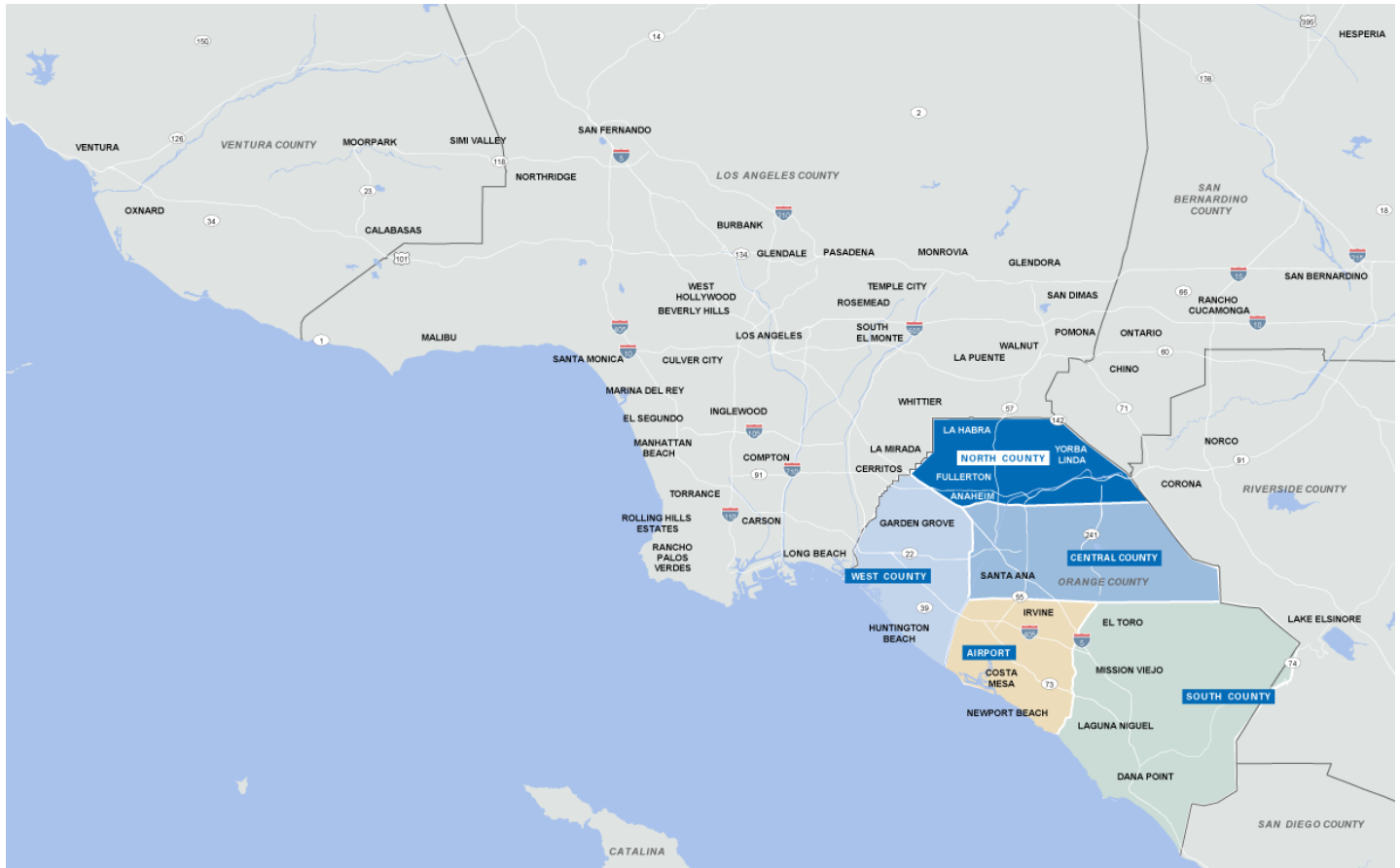
* Although Capistrano Beach and Ladera Ranch comprise a portion of South County's inventory set, they are not cited in the above data table since their inventory totals are diminutive.

RESEARCH Q1 2022

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	12,449,477	633,230	18.2%	131,427	131,427	\$3.44	\$2.71	\$2.97
Laguna Beach	90,845	0	5.5%	-2,452	-2,452	-	-	\$3.50
Laguna Hills	1,450,370	0	16.8%	8,108	8,108	\$2.95	\$2.88	\$2.89
Laguna Niguel	671,719	0	15.0%	3,610	3,610	\$1.70	\$2.48	\$2.18
Lake Forest	2,162,741	0	14.2%	-17,270	-17,270	\$2.12	\$2.25	\$2.22
Mission Viejo	1,463,882	0	14.5%	-5,402	-5,402	\$2.94	\$2.51	\$2.78
Rancho Santa Margarita	179,182	0	11.0%	4,233	4,233	\$1.95	\$2.20	\$2.17
San Clemente	365,291	0	7.2%	5,334	5,334	\$2.43	\$2.42	\$2.42
San Juan Capistrano	835,466	0	2.3%	1,358	1,358	\$2.50	\$2.60	\$2.61
West County	6,795,924	0	11.7%	10,029	10,029	\$2.82	\$2.18	\$2.49
Cypress	1,485,032	0	15.4%	-1,525	-1,525	\$2.52	\$2.24	\$2.38
Fountain Valley	835,369	0	2.3%	8,955	8,955	-	-	-
Garden Grove	598,593	0	7.6%	3,786	3,786	-	\$1.64	\$1.66
Huntington Beach	2,157,238	0	15.2%	18,102	18,102	\$2.77	\$2.21	\$2.51
Los Alamitos	674,018	0	3.5%	144	144	-	\$2.44	\$2.41
Seal Beach	338,033	0	24.5%	-20,181	-20,181	\$3.42	\$3.15	\$3.42
Stanton	115,576	0	7.3%	3,115	3,115	-	\$1.15	\$1.46
Westminster	592,065	0	9.3%	-2,367	-2,367	-	\$2.41	\$2.41
Market	95,995,821	1,082,436	16.2%	-273,304	-273,304	\$3.07	\$2.54	\$2.80

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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