

Orange County Office Market Report

Pandemic Effects Linger; Hints of Normalcy on the Horizon

- Quarterly net absorption was negative, posting 479,166 square feet of losses. The year-to-date total is now negative 1.3 million square feet, and vacancy is 15.4%.
- The average asking rent of \$2.75/SF is down 1.4% from the same period of last year.
- Sublet availability is at a record high, on a square footage basis and as a percentage of existing inventory. Nearly 830,000 square feet came online in the past 12 months.
- The Airport area accounts for roughly 55.1% of the metro's sublease listings. Notable space givebacks in the submarket over the last three months include Anduril Industries (155,000 square feet), WeWork (122,682 square feet across four locations) and Impac Mortgage Holdings (30,039 square feet).
- Innovation Park delivered, bringing 297,894 square feet of speculative space to the Irvine Spectrum. The project is 10.5% leased.
- Two projects, totaling 1.1 million square feet are under construction; 63.0% is pre-leased.

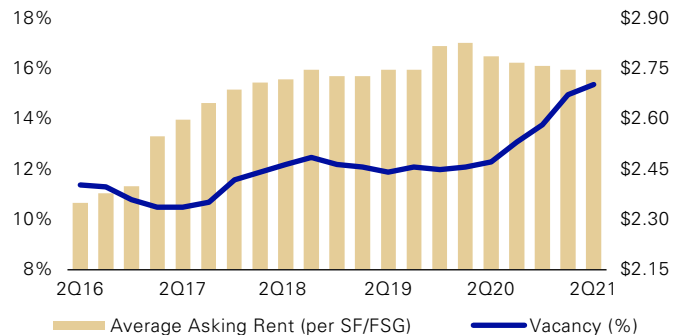
Airport Area Recovery Lags

Touring and leasing activity have begun to pick up in the metro as pandemic-related restrictions ease and workers return to the office. Space inquiries are increasing, and more longer-term requirements and negotiations are taking place. However, the Airport area is lagging neighboring submarkets.

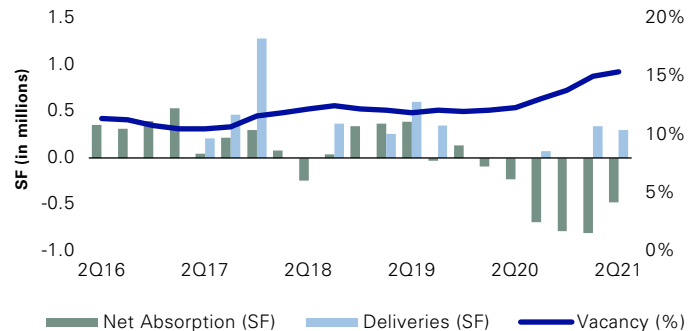
The rise in availability of sublet space in the Airport area has offered tenants space options at discounted rates and, consequently, put pressure on direct rents. When surveying Airport contract rents for Class A and B office lease transactions 10,000-square-foot and larger, excluding subleases, the monthly weighted rent averaged \$3.35/SF in

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) | 96.2M | 95.9M | 95.5M | ↑ |
| Total Vacancy Rate | 15.4% | 15.0% | 12.3% | ↓ |
| Quarterly Net Absorption (SF) | -479,166 | -808,861 | -229,122 | ↑ |
| Average Asking Rent/SF/Month | \$2.75 | \$2.75 | \$2.79 | → |
| Deliveries (SF) | 297,894 | 344,354 | 0 | ↑ |
| Under Construction (SF) | 1.0M | 1.1M | 1.2M | ↓ |

RESEARCH Q2 2021

2020, and \$2.73/SF in the first half of 2021, a 18.3% decrease. Weighted contract rates in South County, on the other hand, have experienced a 5.0% decrease over the same period, and are now \$3.00/SF.

Prior to the pandemic, the South County submarket drove both leasing and under-construction activity in the metro, with several notable tenants, such as Broadcom (660,000 square feet), relocating from the Airport area. In recent months, this trend has persisted, with Alteryx (187,060 square feet) and CoStar (114,875 square feet) relocating from Airport to take advantage of South County's new construction, a pattern that will likely continue once the COVID-19 disruption is no more.

Employment

Orange County's unemployment rate is the lowest in Southern California; compare 5.9% against 10.1% for Los Angeles, 7.2% for the Inland Empire and 6.4% for San Diego. The metro gained 19,100 total nonfarm jobs in May, the majority of which stemmed from the leisure/hospitality segment. Office-using employment

added 2,700 jobs over the same period and now represents 96.3% of what it was in February 2020 (before the declaration of a national health emergency).

California's economy fully reopened in mid-June, and job gains are expected in the months ahead as Orange County businesses recoup financial losses.

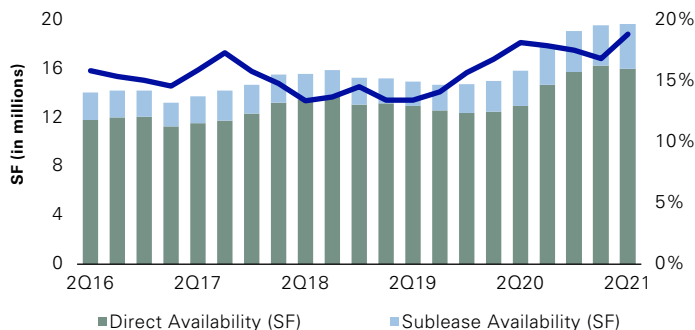
Outlook

Vaccination counts are increasing throughout the region, with roughly 59.0% of the county at least partially vaccinated, and a sense of normalcy is returning. Tenants are beginning to make more long-term decisions, while landlords have been reluctant to devalue buildings, anticipating that a recovery is on the horizon; however, direct asking rents may soften in the near term due to the large glut of sublet availability.

A significant portion of today's vacancy stems from leased new construction that tenants have yet to occupy. Elevated vacancy levels will decrease in time. Deal activity will likely ramp up in the second half of the year, along with absorption gains.

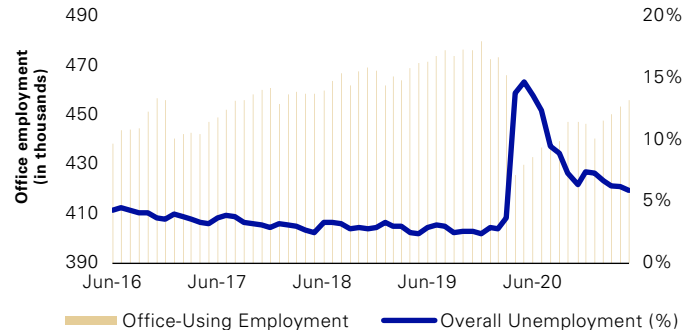
Sublease vs. Direct Availability (SF)

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 |
|----------------------------|----------------------|--------------|------------|-------------|
| Clean Energy | 4675 MacArthur Ct | Airport | Renewal | 49,043 |
| Alliant Insurance Services | 18100 Von Karman Ave | Airport | New | 48,944 |
| Midas Technologies | 48 Discovery | South County | New | 26,920 |

Sale Transactions

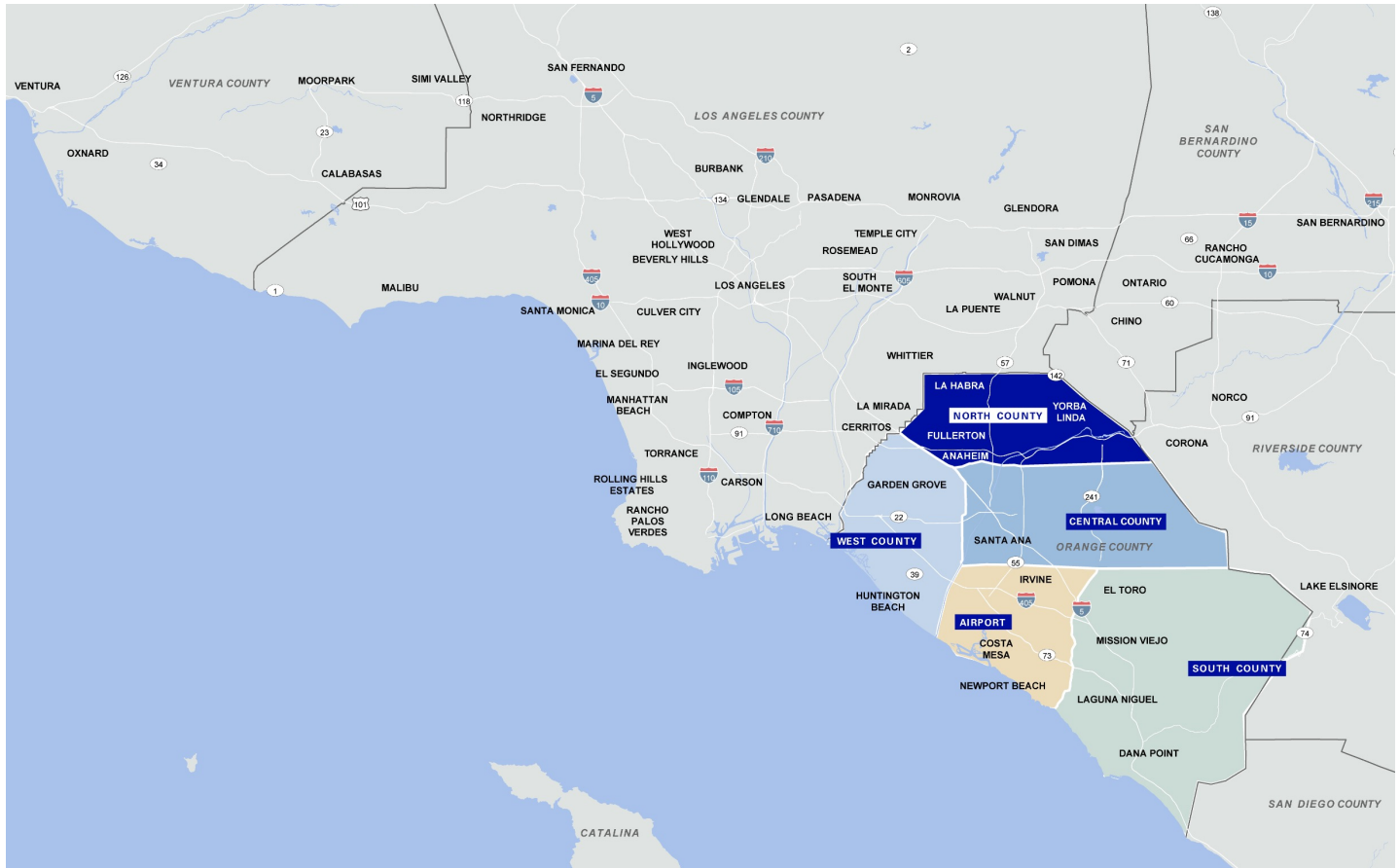
| Buyer | Building(s) | Market Area | Sale Price (PSF) | Square Feet |
|----------------------|------------------------------------|--------------|-------------------------|-------------|
| KB Property Advisors | 25521, 25561, 25541 Commercentre | South County | \$41,000,000 (\$263/SF) | 155,795 |
| Western Realco | 26110, 26160, 26140 Enterprise Way | South County | \$30,500,000 (\$204/SF) | 149,184 |
| Black Creek Group | 26200 Enterprise Way | South County | \$34,900,000 (\$241/SF) | 144,906 |

| 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 | 639,206 | 16.5% | -203,492 | -400,027 | \$3.25 | \$2.70 | \$3.03 |
| Costa Mesa | 5,711,727 | 639,206 | 20.4% | -106,577 | -110,508 | \$3.36 | \$2.27 | \$3.20 |
| Irvine | 22,633,436 | 0 | 16.4% | -15,790 | -219,618 | \$3.27 | \$2.66 | \$3.01 |
| Newport Beach | 8,825,233 | 0 | 12.2% | -112,063 | -165,677 | \$3.23 | \$3.05 | \$3.15 |
| Santa Ana (Airport Area) | 4,786,235 | 0 | 16.9% | 30,938 | 24,543 | \$2.96 | \$2.65 | \$2.75 |
| Tustin | 417,284 | 0 | 53.9% | 0 | 71,233 | - | - | - |
| Central County | 16,454,168 | 0 | 13.7% | 86,669 | -87,660 | \$2.46 | \$2.25 | \$2.31 |
| Anaheim (Stadium Area) | 3,588,828 | 0 | 13.4% | -48,956 | -11,566 | \$2.33 | \$2.15 | \$2.26 |
| Orange | 6,155,509 | 0 | 14.3% | 93,259 | -68,447 | \$2.44 | \$2.61 | \$2.48 |
| Santa Ana | 5,290,249 | 0 | 14.8% | 24,996 | -24,794 | \$2.82 | \$1.96 | \$2.11 |
| Tustin | 1,419,582 | 0 | 8.6% | 17,370 | 17,147 | \$2.65 | \$2.35 | \$2.30 |
| North County | 7,120,046 | 0 | 8.6% | -4,854 | -81,999 | \$2.33 | \$2.21 | \$2.23 |
| Anaheim (Anaheim Hills) | 1,403,737 | 0 | 9.2% | -10,039 | 6,453 | \$2.05 | \$1.90 | \$1.93 |
| Brea | 3,841,055 | 0 | 9.2% | -10,158 | -92,945 | \$2.37 | \$2.33 | \$2.35 |
| Fullerton | 992,524 | 0 | 8.5% | 12,684 | -2,921 | - | \$2.52 | \$2.52 |
| La Habra | 313,469 | 0 | 1.2% | -1,360 | 696 | - | \$2.06 | \$2.06 |
| Placentia | 239,347 | 0 | 14.0% | -6,108 | -6,108 | - | \$1.69 | \$1.69 |
| Yorba Linda | 329,914 | 0 | 2.0% | 10,127 | 12,826 | - | \$2.20 | \$2.20 |
| South County* | 23,197,533 | 373,423 | 18.3% | -354,971 | -750,291 | \$3.03 | \$2.72 | \$2.81 |
| Aliso Viejo | 2,275,940 | 0 | 31.5% | -84,537 | -116,535 | \$3.35 | \$2.87 | \$3.08 |
| Dana Point | 210,660 | 0 | 3.7% | 0 | 0 | - | - | - |
| Foothill Ranch | 705,061 | 0 | 14.6% | -25,489 | -13,317 | \$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.

| 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 | 373,423 | 18.9% | -253,545 | -360,993 | \$3.20 | \$2.76 | \$2.90 |
| Laguna Beach | 90,845 | 0 | 5.8% | 0 | 200 | - | - | - |
| Laguna Hills | 1,454,808 | 0 | 13.9% | 8,850 | 3,182 | \$2.95 | \$3.00 | \$2.96 |
| Laguna Niguel | 648,723 | 0 | 9.8% | 10,401 | 5,455 | \$3.05 | \$2.42 | \$2.90 |
| Lake Forest | 2,273,265 | 0 | 23.7% | -36,398 | -232,810 | \$2.12 | \$2.33 | \$2.24 |
| Mission Viejo | 1,513,882 | 0 | 5.9% | 465 | -21,928 | \$2.51 | \$2.32 | \$2.43 |
| Rancho Santa Margarita | 293,615 | 0 | 15.5% | 0 | 2,949 | \$1.95 | \$2.20 | \$2.17 |
| San Clemente | 365,291 | 0 | 2.2% | -4,664 | -27,055 | \$2.40 | \$2.22 | \$2.30 |
| San Juan Capistrano | 835,466 | 0 | 18.9% | 30,931 | 11,546 | \$2.50 | \$2.30 | \$2.33 |
| West County | 7,024,327 | 0 | 10.7% | -2,518 | 31,950 | \$2.66 | \$2.12 | \$2.30 |
| Cypress | 1,563,321 | 0 | 13.3% | 16,234 | 39,009 | \$2.53 | \$1.97 | \$2.21 |
| Fountain Valley | 983,665 | 0 | 2.8% | 2,110 | 1,693 | - | \$2.10 | \$2.10 |
| Garden Grove | 646,135 | 0 | 7.7% | 4,748 | 6,253 | - | \$1.94 | \$1.88 |
| Huntington Beach | 2,122,522 | 0 | 18.3% | 18,676 | 40,642 | \$2.64 | \$2.24 | \$2.33 |
| Los Alamitos | 553,880 | 0 | 4.0% | 284 | -3,845 | - | \$2.39 | \$2.39 |
| Seal Beach | 325,148 | 0 | 3.0% | 3,304 | 0 | - | - | - |
| Stanton | 115,576 | 0 | 6.7% | 2,410 | 430 | - | - | - |
| Westminster | 714,080 | 0 | 4.7% | -50,284 | -52,232 | - | \$1.68 | \$1.68 |
| Market | 96,169,989 | 1,012,629 | 15.4% | -479,166 | -1,288,027 | \$3.01 | \$2.54 | \$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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