

# Orange County Office Market Report

## Rents and Vacancy Are Generally Flat; Economic Uncertainty is Present

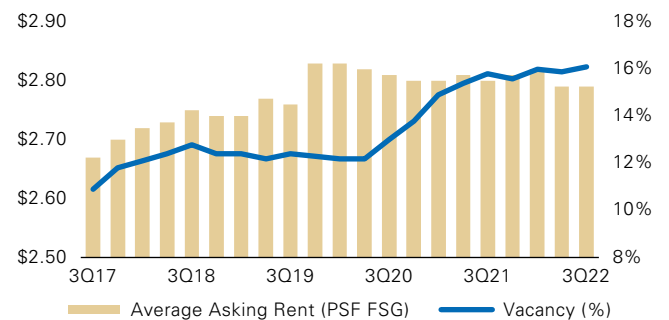
- The direct average asking rent remained unchanged from the previous quarter and has been generally flat since the start of the pandemic.
- Quarterly net absorption was negative 111,818 square feet, causing vacancy to increase 20 basis points to 16.1%.
- Johnson & Johnson Vision (171,330 square feet at 1700 E. Saint Andrew Place), WeWork (71,286 square feet at 2211 Michelson Drive), and Lantronix (44,486 square feet at 7535 Irvine Center Drive) were among this quarter's top move-outs.
- Vacancy has hovered in the 15.4% to 16.1% range since 2021. It will likely increase as the U.S. economy down-cycles.
- South County continues to lead other submarkets in net absorption gains as tenants commit to Class A, trophy space. The greater market's top four move-ins were all in Irvine Spectrum, with the CoStar Group, Supernal, Sega of America and Glasir Group collectively occupying 283,529 square feet.
- Three major projects are underway, with The Press in Costa Mesa (449,206 square feet pre-leased to Anduril) scheduled to complete early 2023, while the final phase of Spectrum Terrace (345,900 square feet across three buildings) and Innovation Office Park (258,395 square feet across seven buildings) in the Irvine Spectrum aim to finish later this year.
- Anduril has been progressively occupying space upon each completed phase of The Press, while Apple will reportedly occupy one of Spectrum Terrace's Phase III buildings. No pre-leasing activity has been announced to date in the Innovation Office Park buildings.
- No new construction has been announced in the last five quarters.

### Tech Scales Down Amid Economic Instability

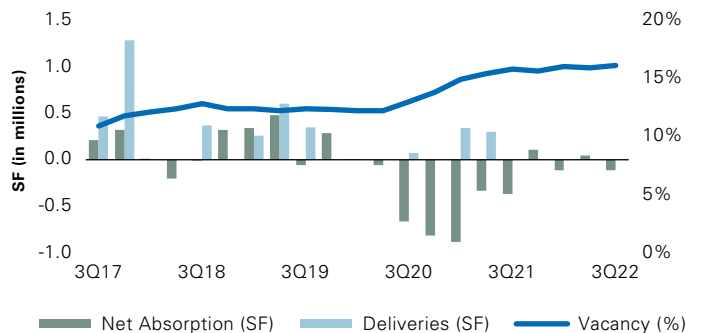
Big Tech companies are bracing for an economic downturn following a period of slowed growth. To date, Tesla, Apple,

### Market Analysis

#### ASKING RENT AND VACANCY



#### NET ABSORPTION



### Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	96.2M	96.2M	96.2M	↑
Total Vacancy Rate	16.1%	15.9%	15.8%	↓
Quarterly Net Absorption (SF)	-112K	47K	-364K	↑
Average Asking Rent/SF/Month	\$2.79 FSG	\$2.79 FSG	\$2.80 FSG	→
Deliveries (SF)*	0	0	0	↑
Under Construction (SF)	1.1M	1.1M	824K	↑

\* includes ground-up construction and excludes renovation projects

## RESEARCH Q3 2022

Oracle and Microsoft have announced national layoffs in the last three months, with hiring freezes in place. Rivian also declared plans to discharge 840 employees nationally, 140 of which are in Orange County. Historically, venture capitalists retract investments in the face of economic instability, making big and small tech operators prone to fluctuations.

Other sectors seeing layoffs in Orange County include manufacturing, biotech and banking, where Schneider Electric, Invitae Corporation, and Texana Bank all reported job cuts. Layoffs are typically a pre-cursor for downsizing real estate footprints, which will likely occur in the months ahead. Unemployment of 3.0% will likely see moderate increases through year-end as stagnant business activity prompts companies to slow new hiring and downsize, where applicable.

### Strong Quarterly Sales Activity

This quarter's office sales volume outperformed the first half of the year. In a partnership with private equity investor PGGM, insurance provider MetLife acquired Intersect, a Class A, creative

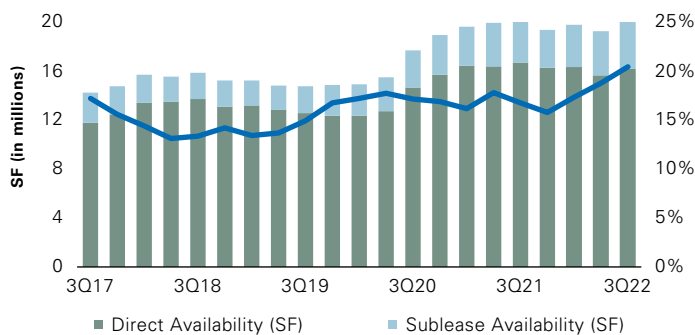
office campus, for \$235 million in the largest office sale in Orange County this year. The campus spans across four buildings for a total of 453,975 square feet of office space and is 85.0% leased. The transaction reinforces the theme of flight-to-quality where tenants are seeking low-rise, quality spaces to appeal to workers. New buildings, specifically those built from 2015 onwards, are outperforming older product from a net occupancy standpoint.

### Outlook

Economic headwinds have prompted several tech players to put a temporary hold on their expansion plans as they assess current conditions. Decision-makers are also awaiting stability of remote-work patterns to define long-term real estate needs. Companies whose average employee is in the office three to five days are expected to retain their footprints, while two days or less will lead to space reductions. In the event hiring slows and unemployment rises, leverage will shift from employees to employers, which may prompt some office occupiers to mandate a full return to the office. The market remains in a wait-and-see position as it navigates the current economic climate.

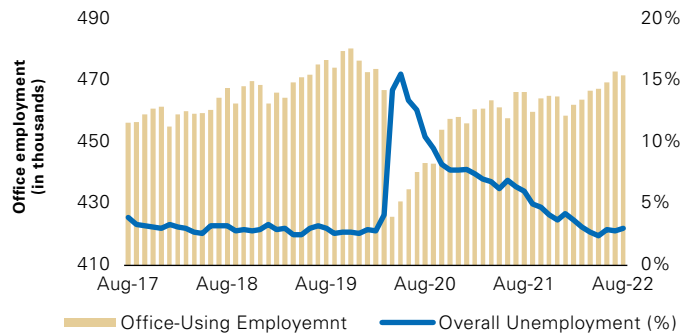
### Sublease vs. Direct Availability (SF)

#### 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
Collectors Universe	1600-1610 East Saint Andrew Place	Airport	Expansion	102,000
First Foundation Inc.	18101 Von Karman Avenue	Airport	Extension	72,427
General Services Administration	2642 Michelle Drive	Airport	New	50,832

### Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
MetLife Investment Management/PGGM	17838/17872 Gillette Avenue, 17877/17875 Von Karman Avenue	Airport	\$235,200,000 (\$519/SF)	453,975
CBRE/Healthcare Realty Trust Inc.	26732 Crown Valley Parkway	South County	\$65,620,000 (\$549/SF)	119,497
Scannell Properties	7390 Lincoln Way	West County	\$20,000,000 (\$486/SF)	41,184

RESEARCH Q3 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)
<b>Airport</b>	<b>42,673,857</b>	<b>449,206</b>	<b>17.7%</b>	<b>-121,974</b>	<b>-97,073</b>	<b>\$3.28</b>	<b>\$2.66</b>	<b>\$3.03</b>
Costa Mesa	5,709,373	449,206	23.3%	-36,631	-121,118	\$3.26	\$2.24	\$3.00
Irvine	23,115,643	0	17.5%	-120,352	-14,952	\$3.19	\$2.65	\$3.00
Newport Beach	8,548,187	0	12.5%	-4,324	18,343	\$3.48	\$3.05	\$3.29
Santa Ana (Airport Area)	4,779,138	0	19.2%	39,333	7,769	\$2.85	\$2.65	\$2.68
Tustin	521,516	0	36.6%	0	12,885	\$4.50	\$2.10	\$4.21
<b>Central County</b>	<b>16,374,212</b>	<b>0</b>	<b>17.5%</b>	<b>-155,773</b>	<b>-503,542</b>	<b>\$2.56</b>	<b>\$2.21</b>	<b>\$2.35</b>
Anaheim (Stadium Area)	3,549,622	0	19.0%	18,023	-219,734	\$3.03	\$2.29	\$2.56
Orange	5,944,950	0	16.4%	-51,340	-92,472	\$2.37	\$2.36	\$2.36
Santa Ana	5,460,058	0	19.3%	-132,544	-176,176	\$2.74	\$2.18	\$2.29
Tustin	1,419,582	0	11.5%	10,088	-15,160	\$2.65	\$1.62	\$1.78
<b>North County</b>	<b>7,329,209</b>	<b>0</b>	<b>9.7%</b>	<b>-7,306</b>	<b>-117,950</b>	<b>\$2.48</b>	<b>\$2.31</b>	<b>\$2.39</b>
Anaheim (Anaheim Hills)	1,403,737	0	8.4%	7,222	17,004	-	\$2.07	\$2.07
Brea	3,842,277	0	11.8%	-6,939	-117,885	\$2.48	\$2.41	\$2.45
Fullerton	1,397,654	0	7.9%	-6,973	-29,043	-	\$2.40	\$2.37
La Habra	174,469	0	1.3%	-1,366	6,001	-	\$2.13	\$2.13
Placentia	239,347	0	9.3%	750	9,041	-	\$1.73	\$1.89
Yorba Linda	271,725	0	2.6%	0	-3,068	-	\$2.11	\$2.11
<b>South County*</b>	<b>23,045,937</b>	<b>633,230</b>	<b>15.3%</b>	<b>171,042</b>	<b>526,421</b>	<b>\$3.03</b>	<b>\$2.67</b>	<b>\$2.80</b>
Aliso Viejo	2,434,109	0	28.8%	-38,356	-50,174	\$3.19	\$2.93	\$3.05
Dana Point	210,660	0	0.0%	0	7,868	-	-	-
Foothill Ranch	705,061	0	15.9%	-8,090	-23,188	\$2.70	\$2.50	\$2.59

\* 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 Q3 2022

Submarket Statistics								
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Irvine Spectrum	12,392,830	633,230	13.6%	259,922	671,205	\$3.19	\$2.72	\$2.89
Laguna Beach	90,845	0	2.7%	1,868	28	-	-	\$3.50
Laguna Hills	1,450,370	0	18.1%	-6,466	-9,863	\$2.95	\$2.88	\$2.89
Laguna Niguel	671,719	0	13.2%	6,290	15,154	\$1.70	\$2.47	\$2.20
Lake Forest	2,162,741	0	16.5%	-22,242	-66,139	\$2.12	\$2.26	\$2.23
Mission Viejo	1,463,882	0	15.5%	-12,652	-20,745	\$2.98	\$2.40	\$2.69
Rancho Santa Margarita	179,182	0	11.2%	1,380	3,746	-	\$2.20	\$2.20
San Clemente	365,291	0	4.6%	-545	14,693	\$2.70	\$2.43	\$2.59
San Juan Capistrano	835,466	0	4.6%	-10,067	-17,724	\$2.50	\$2.62	\$2.61
<b>West County</b>	<b>6,795,924</b>	<b>0</b>	<b>11.6%</b>	<b>2,193</b>	<b>17,388</b>	<b>\$2.77</b>	<b>\$2.29</b>	<b>\$2.56</b>
Cypress	1,485,032	0	16.1%	8,867	-10,944	\$2.55	\$2.29	\$2.45
Fountain Valley	835,369	0	1.9%	-1,956	12,240	-	\$2.25	\$2.25
Garden Grove	598,593	0	6.0%	9,273	13,515	-	\$1.95	\$1.95
Huntington Beach	2,157,238	0	15.5%	-21,608	12,855	\$2.79	\$2.26	\$2.56
Los Alamitos	674,018	0	3.2%	3,791	2,286	-	\$2.64	\$2.48
Seal Beach	338,033	0	24.6%	-97	-20,397	\$3.43	\$3.15	\$3.42
Stanton	115,576	0	1.8%	3,247	9,524	-	-	\$2.02
Westminster	592,065	0	9.1%	676	-1,691	\$2.35	\$2.41	\$2.38
<b>Market</b>	<b>96,219,139</b>	<b>1,082,436</b>	<b>16.1%</b>	<b>-111,818</b>	<b>-174,756</b>	<b>\$3.04</b>	<b>\$2.55</b>	<b>\$2.79</b>

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.

