

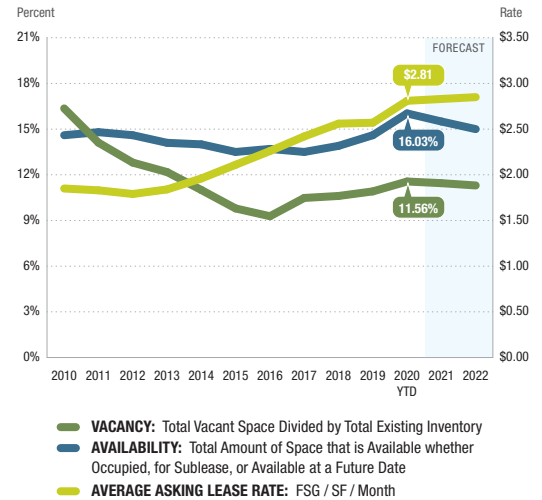
OVERVIEW. 3Q results reflect the ongoing challenges to the Orange County office market caused by the COVID-19 pandemic. Absorption, sale and lease activity and the vacancy/availability rates headed lower again during the period, as tenants held off on big facilities decisions until the near term-future of office occupancy becomes less opaque. An increase in short-term renewals has slowed the number of active relocation requirements and more sublease space is coming to market, which is recalibrating the supply-demand balance. Uncertainty over regulations associated with social distancing has many business operators opting to keep their employees working from home, while other are reevaluating their entire facilities strategies now that the remote work model is getting a thorough vetting.

VACANCY & AVAILABILITY. These two key metrics are becoming more of a concern for landlords as they compete for a shallower pool of tenants actively seeking new space. The overall vacancy rate moved up by 86 basis points during the quarter, a significant bump that can be directly attributed to the pandemic. Rather than move and expand, more tenants are opting to renew in place on a short-term basis until the impact of the virus abates. Class A space is taking the biggest hit due to its higher base rental rates and operating expenses. Class A vacancy is running over 5 percentage points higher than Class B. New construction is concentrated in Class A, which drives vacancy up as speculative space is delivered. The availability rate, which includes vacant space and space that is being marketed as available but is still occupied, moved up by 143 basis points in 3Q as more office users offered their spaces for sublease to cut operating costs and adapt to changes in workplace dynamics.

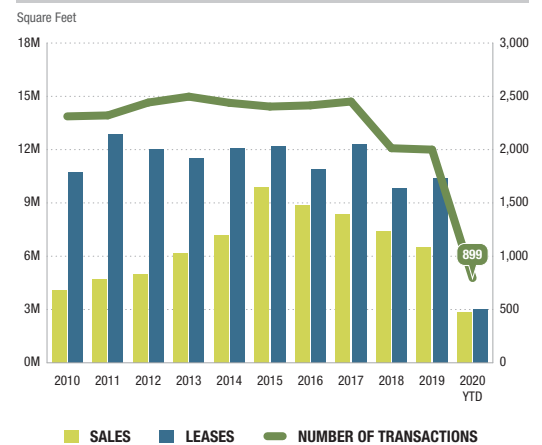
LEASE RATES. Average asking lease rates dipped slightly during the period, but effective rates are being pushed even lower due to a rise in concessions like free rent and tenant improvement allowances. Tenants are gaining the upper hand in lease negotiations as they see rising vacancy rates as an opportunity to take a stronger negotiating posture. South County and the Airport Area posted the highest average lease rates, with both submarkets over \$3.00 PSF. The Central, North and West County submarkets all have an average asking lease rate under \$2.50 PSF. The differential reflects higher levels of Class A development in the Airport and South County markets.

TRANSACTION ACTIVITY. Transaction volume fell again in 3Q to just 1.87 MSF after a significant drop in 2Q. By contrast, the office market saw 4.65 MSF of deals inked in 3Q of 2019. Contributing significantly to the decline is the rise in the number of short-term renewals, which often do not make it into the quarterly statistics. Many tenants have taken a defensive posture due to the uncertainty caused by the pandemic and the upcoming election, which seriously impacts new transaction activity. Most office users are not fully operational in their spaces, either prohibited from resuming in-person operations or, if allowed (essential businesses) opting instead to have their employees continue to work from home.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



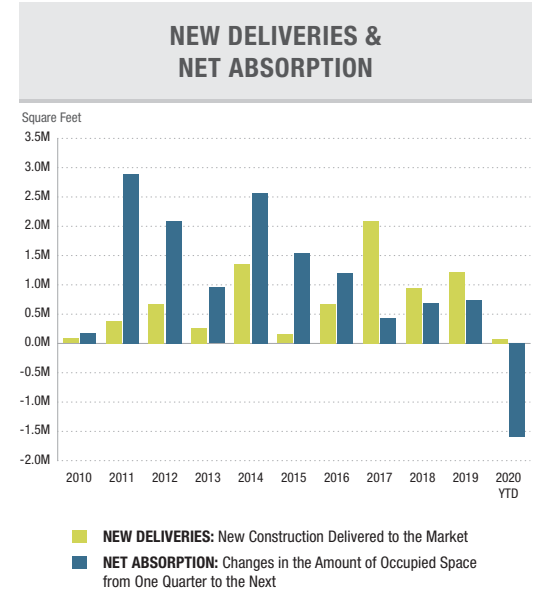
Market Statistics

	Change Over Last Quarter	3Q 2020	2Q 2020	3Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	11.56%	10.70%	10.70%	7.99%
Availability Rate	▲ UP	16.03%	14.60%	13.70%	17.02%
Average Asking Lease Rate	▼ DOWN	\$2.81	\$2.83	\$2.77	1.44%
Sale & Lease Transactions	▼ DOWN	1,879,221	2,161,274	4,611,783	(59.25%)
Gross Absorption	▬ FLAT	1,376,666	1,371,132	2,087,963	(34.07%)
Net Absorption	▼ NEGATIVE	(992,432)	(85,044)	59,103	N/A

ABSORPTION. Lower transaction volume has exacerbated the office market’s negative net absorption problem that began before the pandemic. In the past few years, fewer companies have been expanding when they move, opting instead to downsize into new space designed to accommodate higher employee density. Compounding that trend is the fact that companies have been forced to operate without using their space at all for two full quarters, and that has opened the eyes of many decision-makers who are finding that their businesses can still operate efficiently with a remote workforce. So far this year, net absorption, the net difference in occupied space in a period, is negative 1.6 MSF, most of which came in 3Q. Gross absorption was on par with 2Q at just under 1.4 MSF, but is down over 34% year-over-year.

CONSTRUCTION. Construction activity has been slowing down, which is helping to rebalance the market as demand is slowed by uncertainty over the pandemic. Two projects being built by the Irvine Company, Spectrum Terrace and Innovation Office Park, account for most of the space in the construction queue at 571,000 SF. The only other significant project underway is The Press, a 380,000 SF redevelopment of the former LA Times production facility. That project is being developed by Steelwave and is scheduled for completion in the first quarter of 2021.

EMPLOYMENT. The unemployment rate in Orange County was 9.9% in August 2020, down from a revised 12.4% in July 2020, and above the year-ago estimate of 3.0%. This compares with an unadjusted unemployment rate of 11.6% for California and 8.5% for the nation during the same period. Professional and business services decreased by 28,900 jobs over the year with administrative and support and waste services accounting for 76% of the drop (down 22,100 jobs), which includes temporary help firms.



Forecast

In the near term, we expect the office market to stay on its present course. Absorption, both gross and net, are likely to suffer further declines as tenants continue their struggle to return to normal operations. That will cause further increases in vacancy and availability, especially if the current upward trend in available sublease space continues. Office users continue to be burdened by social distancing regulations, which are both cumbersome and expensive to execute. Landlord incentives to secure new tenants are expected to continue and increase over the next several quarters, as those tenants in the market for new space will take advantage of rising vacancy and sluggish rent growth to negotiate more favorable terms. Fortunately, new deliveries will decline after the projects currently underway are delivered. Developers with projects yet to break ground are likely to put their projects on hold until the longer term impact of the pandemic becomes more apparent. Uncertainty over the upcoming election will dampen Q4 transaction activity and more tenants will be rethinking how they utilize their space over the long term, which will put a strain on the office market well into next year.

Significant Transactions

Sales						
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
15101 & 15191 Alton Pkwy. - 2 Properties	Irvine Spectrum	B	660,893	\$355,000,000	PRP Real Estate Investment Management	Rockpoint Group LLC
111 Pacifica	Irvine Spectrum	B	68,427	\$26,150,000	Toda America, Inc.	Canopi LLC
3001 Ivy Glenn Dr.	Laguna Niguel	B	42,074	\$10,600,000	HR Investments LLC	PASSCO Companies
101 Columbia	Aliso Viejo	B	38,142	\$7,000,000	Lone Cypress Real Estate & Development	Aacn Property Holdings LLC
51 Columbia	Aliso Viejo	B	34,299	\$16,850,000	KB Property Advisors	Newport Tie Up LLC

Leases						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
3345-3353 Michelson Dr.	Irvine	A	258,000	Jul-2020	Panasonic Avionics	LBA Realty
2441 W. La Palma Ave.	Anaheim	B	76,449	Jul-2020	West Coast University	Living Stream Ministry
1241 E. Dyer Rd.	Santa Ana	B	66,885	Aug-2020	Executive Office for Immigration Review	Greenlaw Partners
16815 Von Karman Ave.	Irvine	B	26,047	Aug-2020	Beckam Funding Corporation	The Blackstone Group
2461 W. La Palma Ave. - Renewal	Anaheim	B	25,837	Jul-2020	American Career College	Living Stream Ministry

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2020	Square Feet Available	Availability Rate 3Q2020	Average Asking Lease Rate	Net Absorption 3Q2020	Net Absorption 2020	Gross Absorption 3Q2020	Gross Absorption 2020
Airport Area													
Costa Mesa	70	7,210,363	471,888	27,476	1,197,137	16.60%	1,483,430	20.57%	\$3.27	(267,288)	(403,177)	28,969	152,958
Irvine	263	24,948,538	0	679,437	3,333,573	13.36%	4,576,421	18.34%	\$2.90	(315,492)	(416,718)	263,033	1,271,154
Newport Beach	122	10,038,456	0	0	980,405	9.77%	1,440,577	14.35%	\$3.28	(115,502)	(203,945)	131,425	352,517
Santa Ana	15	2,484,012	0	0	410,528	16.53%	563,307	22.68%	\$2.74	(75,050)	(62,064)	49,143	172,842
Tustin	4	417,353	0	0	272,226	65.23%	296,209	70.97%	\$4.50	0	98,688	25,599	150,448
Airport Area Total	474	45,098,722	471,888	706,913	6,193,869	13.73%	8,359,944	18.54%	\$3.07	(773,332)	(987,216)	498,169	2,099,919
Central County													
Anaheim	21	1,947,937	0	0	323,300	16.60%	404,252	20.75%	\$2.53	(35,913)	(39,981)	31,908	49,387
Orange	81	7,163,970	0	140,000	831,651	11.61%	1,299,311	18.14%	\$2.69	(40,083)	(75,472)	86,106	336,423
Santa Ana	163	12,164,505	0	612,325	1,760,929	14.48%	2,159,239	17.75%	\$2.35	(108,912)	(115,473)	175,884	600,385
Tustin	44	2,400,421	230,000	0	124,172	5.17%	226,099	9.42%	\$2.24	45,507	31,306	71,568	102,576
Central County Total	309	23,676,833	230,000	752,325	3,040,052	12.84%	4,088,901	17.27%	\$2.45	(139,401)	(199,620)	365,466	1,088,771
North County													
Anaheim Hills	82	6,425,776	0	0	461,779	7.19%	605,870	9.43%	\$2.23	(13,763)	(94,799)	28,395	123,426
Brea	41	4,049,605	0	0	232,465	5.74%	499,829	12.34%	\$2.55	(6,892)	(16,469)	25,664	134,259
Buena Park	16	1,048,740	0	0	92,893	8.86%	36,527	3.48%	\$2.26	4,206	11,423	4,206	15,375
Fullerton	29	2,356,737	0	0	120,975	5.13%	124,326	5.28%	\$2.29	7,339	11,367	20,654	56,754
La Habra	5	193,850	0	0	4,093	2.11%	3,796	1.96%	\$1.52	(1,465)	(3,413)	173	4,591
La Palma	10	712,038	0	0	80,667	11.33%	95,420	13.40%	\$1.94	1,590	(2,938)	3,350	22,259
Placentia	8	267,581	0	0	31,426	11.74%	34,197	12.78%	\$2.10	0	(644)	2,245	34,701
Yorba Linda	5	289,383	0	0	23,954	8.28%	23,954	8.28%	\$3.59	33,547	35,208	47,836	51,921
North County Total	196	15,343,710	0	0	1,048,252	6.83%	1,423,919	9.28%	\$2.43	24,562	(60,265)	132,523	443,286
South County													
Aliso Viejo	45	3,377,634	0	0	635,457	18.81%	953,129	28.22%	\$3.08	(56,890)	(13,937)	17,532	123,270
Dana Point	2	91,876	0	0	7,868	8.56%	7,868	8.56%	\$0.00	0	(6,588)	0	0
Foothill Ranch	10	806,438	0	0	93,643	11.61%	120,834	14.98%	\$3.01	(11,521)	(8,541)	0	45,851
Irvine Spectrum	177	13,590,207	561,864	374,638	1,464,345	10.78%	2,333,308	17.17%	\$3.19	(10,152)	(170,036)	200,178	1,016,365
Laguna Beach	5	192,434	0	0	12,243	6.36%	22,216	11.54%	\$2.61	(200)	(200)	0	2,890
Laguna Hills	32	1,772,335	0	465,000	236,855	13.36%	308,534	17.41%	\$2.92	22,246	(7,280)	36,433	102,378
Laguna Niguel	10	1,751,348	0	0	78,953	4.51%	116,646	6.66%	\$3.74	(18,037)	(14,897)	988	10,933
Lake Forest	40	2,117,647	0	0	219,344	10.36%	489,830	23.13%	\$2.30	(27,438)	(27,826)	17,819	56,001
Mission Viejo	37	2,031,526	0	0	266,891	13.14%	281,064	13.84%	\$2.81	7,861	73,967	26,098	131,166
Rancho Santa Margarita	6	252,716	0	0	17,459	6.91%	23,342	9.24%	\$2.23	(1,745)	(5,504)	900	8,098
San Clemente	10	455,615	0	0	56,701	12.44%	63,107	13.85%	\$2.61	(89)	(24,920)	6,740	27,146
San Juan Capistrano	20	971,944	0	0	18,887	1.94%	72,502	7.46%	\$2.36	(4,671)	(2,529)	3,793	10,770
South County Total	394	27,411,720	561,864	839,638	3,108,646	11.34%	4,792,380	17.48%	\$3.04	(100,636)	(208,291)	310,481	1,534,868
West County													
Cypress	27	1,935,928	0	0	174,319	9.00%	184,092	9.51%	\$2.28	12,850	(62,591)	19,734	37,992
Fountain Valley	34	2,032,625	0	0	95,004	4.67%	106,988	5.26%	\$1.97	845	2,636	12,122	46,460
Garden Grove	19	1,476,936	0	0	67,308	4.56%	67,308	4.56%	\$1.94	3,486	3,797	5,857	7,812
Huntington Beach	41	3,143,752	0	0	250,084	7.95%	361,828	11.51%	\$2.46	(8,116)	(59,083)	22,518	76,827
Los Alamitos	12	664,033	0	0	41,297	6.22%	58,872	8.87%	\$2.47	(13,987)	(18,421)	2,561	166,258
Seal Beach	7	480,612	0	0	36,384	7.57%	59,028	12.28%	\$3.42	2,218	(11,438)	2,218	37,118
Stanton	4	143,361	0	0	14,241	9.93%	5,928	4.14%	\$0.00	(921)	3,240	4,225	8,386
Westminster	11	455,385	0	0	12,449	2.73%	27,533	6.05%	\$2.42	0	0	792	12,449
West County Total	155	10,332,632	0	0	691,086	6.69%	871,577	8.44%	\$2.38	(3,625)	(141,860)	70,027	393,302
Orange County Total	1,528	121,863,617	1,263,752	2,298,876	14,081,905	11.56%	19,536,721	16.03%	\$2.81	(992,432)	(1,597,252)	1,376,666	5,560,146
Airport Area													
Class A	139	26,591,562	91,032	420,980	4,326,879	16.27%	5,688,572	21.39%	\$3.30	(635,423)	(616,563)	327,216	1,357,767
Class B	315	17,637,297	380,856	285,933	1,835,200	10.41%	2,613,671	14.82%	\$2.91	(127,304)	(362,530)	168,678	730,123
Class C	20	869,863	0	0	31,790	3.65%	57,701	6.63%	\$2.93	(10,605)	(8,123)	2,275	12,029
Central County													
Class A	44	7,353,901	50,000	752,325	1,177,978	16.02%	1,727,399	23.49%	\$2.66	(89,066)	(121,747)	111,229	382,177
Class B	214	14,193,658	180,000	0	1,709,041	12.04%	2,145,905	15.12%	\$2.40	(32,647)	(64,530)	247,012	646,336
Class C	51	2,129,274	0	0	153,033	7.19%	215,597	10.13%	\$2.02	(17,688)	(13,343)	7,225	60,258
North County													
Class A	28	3,239,778	0	0	290,407	8.96%	427,641	13.20%	\$2.68	(12,582)	(66,785)	17,623	71,853
Class B	145	11,210,600	0	0	739,276	6.59%	943,057	8.41%	\$2.40	37,494	4,279	114,550	362,597
Class C	23	893,332	0	0	18,569	2.08%	53,221	5.96%	\$2.03	(350)	2,241	350	8,836
South County													
Class A	82	10,528,380	344,354	695,412	1,416,620	13.46%	2,126,445	20.20%	\$3.40	4,443	3,269	138,758	840,935
Class B	301	16,362,246	217,510	144,226	1,673,706	10.23%	2,598,550	15.88%	\$2.87	(98,733)	(203,314)	167,761	683,325
Class C	11	521,094	0	0	18,320	3.52%	67,385	12.93%	\$2.41	(6,346)	(8,246)	3,962	10,608
West County													
Class A	18	1,724,188	0	0	213,378	12.38%	288,325	16.72%	\$2.50	955	(57,612)	22,835	60,431
Class B	122	7,186,845	0	0	474,548	6.60%	579,390	8.06%	\$2.35	(4,020)	(89,967)	47,192	324,592
Class C	15	1,421,599	0	0	3,160	0.22%	3,862	0.27%	\$2.23	(560)	5,719	0	8,279
Orange County													
Class A	311	49,437,809	485,386	1,868,717	7,425,262	15.02%	10,258,382	20.75%	\$3.18	(731,673)	(859,438)	617,661	2,713,163
Class B	1,097	66,590,646	778,366	430,159	6,431,771	9.66%	8,880,573	13.34%	\$2.71	(225,210)	(716,062)	745,193	2,746,973
Class C	120	5,835,162	0	0	224,872	3.85%	397,766	6.82%	\$2.21	(35,549)	(21,752)	13,812	100,010
Orange County Total	1,528	121,863,617	1,263,752	2,298,876	14,081,905	11.56%	19,536,721	16.03%	\$2.81	(992,432)	(1,597,252)	1,376,666	5,560,146

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



A Gap in Expectations

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The Orange County office property market has been significantly affected by the pandemic crisis. Transaction activity has slowed, the vacancy rate has increased, and net absorption has been negative since the onset of COVID-19. The reality of current market factors has driven tenants to be more aggressive in their negotiations for new space. Despite this increasing boldness, landlords are pushing back by upholding asking rents and denying additional concessions. Many landlords view the current market environment as temporary, and as such, are reluctant to sign long-term deals in which terms heavily favor prospective tenants. The gap in expectations has complicated and delayed the leasing process, which has further exacerbated the lull in activity.

It is important to note that every landlord is operating under unique circumstances that will impact their negotiating posture. While it is apparent that concessions are on the rise overall, landlords with high occupancy levels and little expected near-term lease rollover are in better position to take a harder stance. Conversely, those with higher vacancy, significant expected turnover, or substantial debt to service are more inclined to reach for a deal.

A rise in the amount of subleased space has changed the competitive landscape and a growing number of short-term lease extensions has reduced the number of active new requirements. With supply increasing and demand plummeting simultaneously, the gap is likely to continue widening, at least for the near term. Tenants of all size ranges and business sectors are still under-utilizing their existing spaces due to the work-from-home phenomenon. Business owners are uncertain about how long their operations will be interrupted, causing a reevaluation of long-term space usage.

Uncertainty and caution are the primary decision drivers for the time being, especially in light of the contentious upcoming election. In terms of the virus, the availability of a vaccine will certainly help clear things up, as it would likely allow employees back into the workplace under fewer restrictions. A move to higher employee density has been in play for the past few years, but it is in direct conflict with the regulations regarding social distancing. The outcome of the election and COVID-19 regulatory and medicinal advancements will surely impact expansion and contraction decisions heading into next year.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2020 Voit Real Estate Services, Inc. DRE License #01991785.

Represented in 150 Markets
Nationally & Internationally.



Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

AIRPORT AREA

Costa Mesa, Irvine, Newport Beach

CENTRAL COUNTY

Anaheim, Orange, Santa Ana, Tustin

NORTH COUNTY

Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

SOUTH COUNTY

Aliso Viejo, Dana Point, Foothill Ranch, Irvine Spectrum, Laguna Beach, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

WEST COUNTY

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton, Westminster