

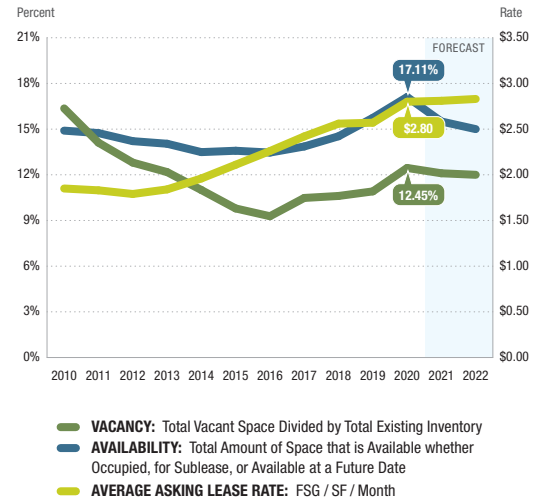
OVERVIEW. The Orange County office market showed signs of softening before the coronavirus pandemic, and the market metrics have deteriorated since the first lockdown back in March. Vacancy and availability rose substantially in Q4, gross absorption slowed further and net absorption remained in negative territory. Average asking lease rates were flat, but concessions continued to increase. The office product type has been harder hit by the pandemic protocols than its industrial counterpart due to higher employee density, multitenant, elevator-served buildings and the rise in the work-from-home strategy that has taken hold. Many businesses, forced into a remote work environment, are finding it to be less of a drag on efficiency than first thought. Office-based employees can remain productive by taking full advantage of the latest in communication technologies. That has business owners reevaluating their needs for space in the future, and that could put even more pressure on vacancy and absorption in the future. To be sure, these are uncertain times for the office product type, especially Class A mid- and high-rise buildings that have been most impacted by social distancing regulations.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County rose to 12.45%, up 111 basis points in Q4. While this was not unexpected, it is significant and the trend may be accelerating. The Airport Area submarket has been hit hardest, due to its high concentration of mid-rise and high-rise Class A buildings. Vacancy in the Airport area hit 15% in the final quarter of 2020. By contrast, North County has fared best with a vacancy rate of just 7.84%, which, in part, reflects the fact that the inventory is skewed toward low-rise Class B and C buildings. Central County vacancy held steady at 12.77%. Looking at vacancy by building class is more revealing. Vacancy in Class A is up to 15.94%, compared with the Class B rate of 10.56% and just 4.46% for Class C space. The availability rate, which includes vacant and occupied space offered for lease, is rising even faster. Countywide 17.11% of the office inventory is on the market. In the Airport Area that rate rose to 20.67%. This indicates an increase in available sublease space and fewer renewals by tenants nearing the end of their lease terms.

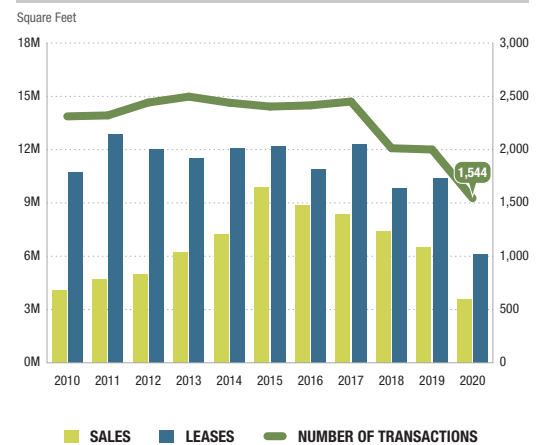
LEASE RATES. The average asking lease rate for all office space countywide held steady in Q4, falling only a penny in the period to \$2.80. It is common for landlords to hold the line on asking rates for as long as possible and offer more concessions like free rent and higher tenant improvement allowances when tenant demand softens. This widens the gap to effective rates which are more difficult to track. Concessions are definitely on the rise, as landlords look to get their vacant space leased up as quickly as possible to mitigate future rental income loss. They are also looking at competing with less expensive sublease space offered by larger tenants looking to downsize due to new occupancy strategies. A good example of this is the law firm of Rutan & Tucker that moved out of 206,000 SF on Anton in Costa Mesa into 51,000 SF at the Boardwalk project in Irvine.

TRANSACTION ACTIVITY. Transaction volume fell in Q4 after a rise in Q3. In all, 386 transactions were inked during the period—283 of them were leases and another 103 were sales. The number of leases fell from 369 in Q3, but sales transactions were up a bit from 92 in same period. This quarter last year recorded 525 combined leases and sales. Near-term uncertainty has caused a rise in short-term, in-place lease renewals rather than moves, and many of these transactions do not make it into the quarterly statistics. Tenants continue to take a defensive posture due to the uncertainty caused by the pandemic, which has clearly impacted new transaction activity. Many of them are reevaluating their occupancy strategies after being forced into switching to a work-from-home platform or an abbreviated in-office schedule that has worked better than expected for many office-using companies.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



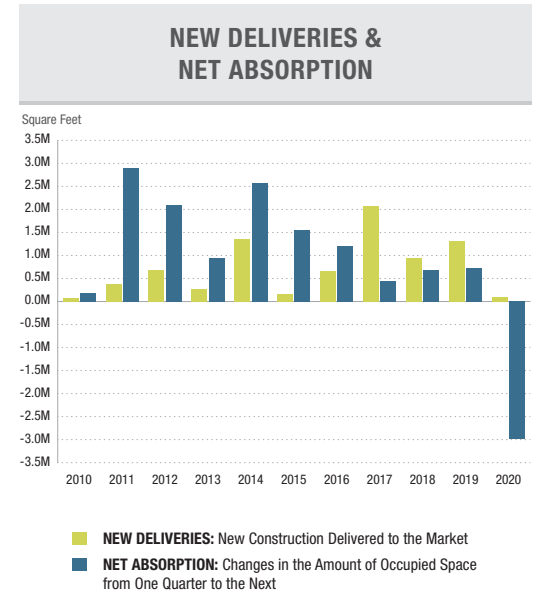
Market Statistics

	Change Over Last Quarter	4Q 2020	3Q 2020	4Q 2019	% Change Over Last Year
Vacancy Rate	▲ UP	12.45%	11.35%	10.77%	15.55%
Availability Rate	▲ UP	17.11%	15.74%	13.46%	27.13%
Average Asking Lease Rate	▼ DOWN	\$2.80	\$2.81	\$2.77	1.08%
Sale & Lease Transactions	▼ DOWN	1,962,054	2,342,672	4,113,085	(52.30%)
Gross Absorption	▲ UP	1,688,600	1,159,505	1,848,481	(8.65%)
Net Absorption	▼ NEGATIVE	(1,389,829)	(766,822)	(43,149)	N/A

ABSORPTION. Lower new transaction volume and an increase in short-term renewals added more downward pressure on net absorption in 2020's final quarter. Net absorption, which measures the net difference in total occupied space, continued in negative territory in Q4. The net loss was nearly 1.4 MSF, double the Q3 decline. That brought total negative absorption for the year to just less than 3 MSF, a level the market hasn't seen since the last recession. Over half the net loss came from the Airport Area, which has 37% of the county's inventory and the highest concentration of Class A space, hit hardest by the virus shutdown protocols. Gross absorption, which measures total move-ins, managed to increase in Q4 by 312,000 SF to 1,688,000 SF. However, a significant portion of those deals were driven by tenants who were downsizing.

CONSTRUCTION. Construction activity has been declining in recent quarters, which given the slowdown in transaction activity, will help the office market return to equilibrium more quickly. A little more than 1 MSF of office space was in the construction queue as the year ended. Fortunately, the bulk of that space is being developed by the Irvine Company. Its dominant presence as the county's largest property owner gives it the ability to manage a slow leasing market better than other local developers. The two projects they have underway are low-rise campuses in the Irvine Spectrum submarket. The other speculative project is The Press, a 380,000 SF creative office project being built on the former LA Times property. Vans is also nearing completion of its 91,000 SF headquarters in Costa Mesa. Another 2.3 MSF of office space is in the planning stages, but we expect those projects to be on the back burner until the market changes direction.

EMPLOYMENT. The unemployment rate in Orange County was 6.4% in November 2020, down from a revised 7.3% in October 2020, and above the year-ago estimate of 2.6%. This compares with an unadjusted unemployment rate of 7.9% for California and 6.4% for the nation during the same period. Other sectors with year-over-year declines included: professional and business services (down 13,800 jobs); government (down 13,300 jobs); educational and health services (down 11,300 jobs); other services (down 8,800 jobs); financial activities (down 5,400 jobs); and information (down 4,200 jobs).



Forecast

Given the fact that the year ended with additional pandemic restrictions on business activity, current market trends are expected to continue well into 2021. The office market has been hit particularly hard due to the labor intensity of office-using businesses. We expect negative absorption to continue, as expansion plans are put on hold and business owners take a harder look at how much space they will need when their current leases expire. Fortunately, the construction pipeline is drying up, which means those tenants on the hunt for space will be forced to choose from existing inventory to fulfill their requirements. Landlords will continue to offer incentives to increase occupancy in their projects, which means more free rent and an increase in tenant improvement allowances going forward. Class B and Class C buildings may be the beneficiaries as tenants look to reduce occupancy costs and decentralize operations to adjust to a work environment that may be here to stay. Technology was already reshaping the workplace before the pandemic hit, and the pace of that change is likely to accelerate throughout the coming year.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
6400 Katella Ave.	Cypress	A	178,000	\$73,411,000	Duke Realty	Greenlaw Partners
3800 W Chapman Ave.	Orange	A	168,672	\$45,100,000	The Regents of the University of California	Greenlaw Partners
3131 Katella Ave. - 2 Buildings	Los Alamitos	B	150,195	\$59,000,000	Fine Investment	Lincoln Property Company
17661-17671 Cowan	Irvine	B	64,035	\$14,600,000	Hanyon Holdings Inc.	Granite Trust IRV, LLC
18802 Bardeen Ave.	Irvine	B	26,383	\$8,350,000	St. Paul American Coptic Orthodox Church	Sares-Regis Group

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5 Hutton Centre Dr. – Renewal	Santa Ana	A	92,958	Dec-2020	UKG, Inc.	BRE/OC Griffin, LLC
1610 E Saint Andrew Pl.	Santa Ana	B	62,870	Oct-2020	Collectors Universe	The Brookhollow Group
18200 Von Karman Ave – Renewal	Irvine	B	61,368	Nov-2020	American Advisors Group (AAG) *	The Irvine Company
400 Spectrum Center Dr.	Irvine Spectrum	A	44,534	Oct-2020	Intercontinental Capital Group	The Irvine Company
3161 Michelson Dr.	Irvine	A	42,260	Oct-2020	Network Capital Funding	Manulife US Real Estate Investment

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2020	Square Feet Available	Availability Rate 4Q2020	Average Asking Lease Rate	Net Absorption 4Q2020	Net Absorption 2020	Gross Absorption 4Q2020	Gross Absorption 2020
Airport Area													
Costa Mesa	70	7,210,363	471,888	27,476	1,204,238	16.70%	1,497,027	20.76%	\$3.21	(209,457)	(612,634)	89,610	242,568
Irvine	263	24,948,538	0	679,437	3,782,561	15.16%	5,328,206	21.36%	\$2.85	(324,877)	(741,595)	519,731	1,790,885
Newport Beach	122	10,038,456	0	0	1,021,430	10.18%	1,555,567	15.50%	\$3.26	(34,657)	(238,602)	181,743	534,260
Santa Ana	15	2,484,012	0	0	457,105	18.40%	584,781	23.54%	\$2.89	(39,753)	(101,817)	2,233	175,075
Tustin	4	417,353	0	0	296,209	70.97%	355,870	85.27%	\$4.50	0	98,688	0	150,448
Airport Area Total	474	45,098,722	471,888	706,913	6,761,543	14.99%	9,321,451	20.67%	\$3.00	(608,744)	(1,595,960)	793,317	2,893,236
Central County													
Anaheim	21	1,947,937	0	0	328,833	16.88%	380,845	19.55%	\$2.51	(25,329)	(65,310)	15,293	64,680
Orange	81	7,163,970	0	140,000	838,040	11.70%	1,321,289	18.44%	\$2.70	(17,608)	(93,080)	146,425	482,848
Santa Ana	163	12,164,505	0	612,325	1,673,239	13.76%	2,156,226	17.73%	\$2.37	(25,944)	(141,417)	116,868	717,253
Tustin	44	2,400,421	0	0	182,681	7.61%	243,659	10.15%	\$2.22	4,473	35,779	64,385	166,961
Central County Total	309	23,676,833	0	752,325	3,022,793	12.77%	4,102,019	17.33%	\$2.46	(64,408)	(264,028)	342,971	1,431,742
North County													
Anaheim Hills	82	6,425,776	0	0	450,905	7.02%	519,389	8.08%	\$2.28	(5,310)	(100,109)	44,606	168,032
Brea	41	4,049,605	0	0	380,318	9.39%	540,927	13.36%	\$2.54	(151,178)	(167,647)	3,152	137,411
Buena Park	16	1,048,740	0	0	97,078	9.26%	49,028	4.67%	\$2.19	(2,209)	9,214	62,605	77,980
Fullerton	29	2,356,737	0	0	131,573	5.58%	142,145	6.03%	\$2.46	(12,030)	(663)	14,795	71,549
La Habra	5	193,850	0	0	4,066	2.10%	4,066	2.10%	\$1.50	(146)	(3,559)	410	5,001
La Palma	10	712,038	0	0	85,612	12.02%	87,460	12.28%	\$1.87	(7,583)	(10,521)	3,207	25,466
Placentia	8	267,581	0	0	30,676	11.46%	35,281	13.19%	\$1.97	750	106	750	35,451
Yorba Linda	5	289,383	0	0	22,596	7.81%	19,586	6.77%	\$3.53	1,358	36,566	9,437	61,358
North County Total	196	15,343,710	0	0	1,202,824	7.84%	1,397,882	9.11%	\$2.43	(176,348)	(236,613)	138,962	582,248
South County													
Aliso Viejo	45	3,377,634	0	0	667,029	19.75%	982,180	29.08%	\$3.02	(93,117)	(107,054)	8,920	132,190
Dana Point	2	91,876	0	0	10,268	11.18%	9,068	9.87%	\$0.00	1,200	(5,388)	3,600	3,600
Foothill Ranch	10	806,438	0	0	89,653	11.12%	116,844	14.49%	\$3.09	3,612	(4,929)	3,812	49,663
Irvine Spectrum	177	13,590,207	561,864	374,638	1,348,845	9.93%	2,259,482	16.63%	\$3.14	3,183	(166,853)	270,674	1,287,039
Laguna Beach	5	192,434	0	0	15,805	8.21%	25,778	13.40%	\$2.61	(3,562)	(3,762)	200	3,090
Laguna Hills	32	1,772,335	0	465,000	274,859	15.51%	320,230	18.07%	\$2.85	(37,757)	(45,037)	16,308	118,686
Laguna Niguel	10	1,751,348	0	0	102,206	5.84%	115,903	6.62%	\$3.77	(24,105)	(39,002)	2,970	13,903
Lake Forest	40	2,117,647	0	0	386,920	18.27%	680,555	32.14%	\$2.27	(177,235)	(205,061)	10,645	66,646
Mission Viejo	37	2,031,526	0	0	300,114	14.77%	341,662	16.82%	\$2.70	(20,264)	53,703	14,611	145,777
Rancho Santa Margarita	6	252,716	0	0	14,745	5.83%	16,699	6.61%	\$2.23	2,714	(2,790)	2,714	10,812
San Clemente	10	455,615	0	0	57,231	12.56%	69,509	15.26%	\$2.77	294	(24,626)	3,486	30,632
San Juan Capistrano	20	971,944	0	0	36,313	3.74%	59,956	6.17%	\$2.41	(12,063)	(14,592)	1,506	12,276
South County Total	394	27,411,720	561,864	839,638	3,303,988	12.05%	4,997,866	18.23%	\$2.99	(357,100)	(565,391)	339,446	1,874,314
West County													
Cypress	27	1,935,928	0	0	170,109	8.79%	191,995	9.92%	\$2.29	4,210	(58,381)	30,487	68,479
Fountain Valley	34	2,032,625	0	0	105,942	5.21%	110,790	5.45%	\$1.97	(13,413)	(10,777)	4,827	51,287
Garden Grove	19	1,476,936	0	0	66,246	4.49%	66,246	4.49%	\$1.94	1,062	4,859	1,712	9,524
Huntington Beach	41	3,143,752	0	0	428,351	13.63%	508,055	16.16%	\$2.47	(173,177)	(232,260)	24,730	101,557
Los Alamitos	12	664,033	0	0	43,187	6.50%	59,182	8.91%	\$2.48	(1,890)	(20,311)	560	166,818
Seal Beach	7	480,612	0	0	41,396	8.61%	62,332	12.97%	\$3.39	(3,304)	(14,742)	0	37,118
Stanton	4	143,361	0	0	9,933	6.93%	9,933	6.93%	\$0.00	3,283	6,523	11,588	19,974
Westminster	11	455,385	0	0	11,657	2.56%	27,533	6.05%	\$2.42	0	0	0	12,449
West County Total	155	10,332,632	0	0	876,821	8.49%	1,036,066	10.03%	\$2.38	(183,229)	(325,089)	73,904	467,206
Orange County Total	1,528	121,863,617	1,033,752	2,298,876	15,167,969	12.45%	20,855,284	17.11%	\$2.80	(1,389,829)	(2,987,081)	1,688,600	7,248,746
Airport Area													
Class A	139	26,591,562	471,888	420,980	4,760,193	17.90%	6,523,242	24.53%	\$3.23	(545,144)	(1,161,707)	450,331	1,808,098
Class B	315	17,637,297	0	285,933	1,967,813	11.16%	2,743,766	15.56%	\$2.86	(57,693)	(420,223)	340,570	1,070,693
Class C	20	869,863	0	0	33,537	3.86%	54,443	6.26%	\$2.95	(5,907)	(14,030)	2,416	14,445
Central County													
Class A	44	7,353,901	0	752,325	1,162,279	15.80%	1,672,902	22.75%	\$2.70	(46,527)	(168,274)	115,462	497,639
Class B	214	14,193,658	0	0	1,693,107	11.93%	2,154,410	15.18%	\$2.40	(870)	(65,400)	200,982	847,318
Class C	51	2,129,274	0	0	167,407	7.86%	274,707	12.90%	\$2.06	(17,011)	(30,354)	26,527	86,785
North County													
Class A	28	3,239,778	0	0	313,667	9.68%	437,203	13.49%	\$2.67	(23,327)	(90,112)	12,739	84,592
Class B	145	11,210,600	0	0	860,402	7.67%	900,915	8.04%	\$2.41	(149,631)	(145,352)	125,078	487,675
Class C	23	893,332	0	0	28,755	3.22%	59,764	6.69%	\$2.08	(3,390)	(1,149)	1,145	9,981
South County													
Class A	82	10,528,380	344,354	695,412	1,378,384	13.09%	2,082,562	19.78%	\$3.32	(94,007)	(90,738)	184,038	1,024,973
Class B	301	16,362,246	217,510	144,226	1,902,016	11.62%	2,843,136	17.38%	\$2.84	(258,310)	(461,624)	155,208	838,533
Class C	11	521,094	0	0	23,588	4.53%	72,168	13.85%	\$2.41	(4,783)	(13,029)	200	10,808
West County													
Class A	18	1,724,188	0	0	267,892	15.54%	342,984	19.89%	\$2.48	(56,275)	(113,887)	9,843	70,274
Class B	122	7,186,845	0	0	602,039	8.38%	686,752	9.56%	\$2.37	(122,576)	(212,543)	63,501	388,093
Class C	15	1,421,599	0	0	6,890	0.48%	6,330	0.45%	\$0.00	(4,378)	1,341	560	8,839
Orange County													
Class A	311	49,437,809	816,242	1,868,717	7,882,415	15.94%	11,058,893	22.37%	\$3.11	(765,280)	(1,624,718)	772,413	3,485,576
Class B	1,097	66,590,646	217,510	430,159	7,025,377	10.55%	9,328,979	14.01%	\$2.67	(589,080)	(1,305,142)	885,339	3,632,312
Class C	120	5,835,162	0	0	260,177	4.46%	467,412	8.01%	\$2.33	(35,469)	(57,221)	30,848	130,858
Orange County Total	1,528	121,863,617	1,033,752	2,298,876	15,167,969	12.45%	20,855,284	17.11%	\$2.80	(1,389,829)	(2,987,081)	1,688,600	7,248,746

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.



The Future of Office Space

by **Stefan Rogers**

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When Covid-19 hit, nobody really knew what it meant for the future of office space. The doomsayers proclaimed “the office is dead” and the general consensus was that “working from home is going just great!” But what really happened?

What happened was the inevitable: Change! We adapt and evolve. As 2020 demonstrated, things sometimes need to get pretty bad to effect positive change. For decades, the office space arena remained largely unchanged, partly due to the inherently stubborn nature of bricks and mortar. The exponential rise of technology and changing social norms had yet to create a paradigm shift. Then came Covid-19, the ultimate accelerator of evolution and catalyst for change. And for a brief moment, it looked like office space really could be dying. Then technology saved us. We adapted.

The future of office space could definitely be smaller, more flexible, efficient, and cost-effective. It could enhance personal freedom to work when, where and with whom we choose. It could enable a more flexible work schedule so we can truly work, live and play. It could positively impact a company’s ability to win new business, or recruit and retain top talent. It could serve as a central communal hub for a decentralized workforce to come together for communal events, or to be the nexus of collaboration and new ideas. All of these potentials will likely have positive financial and social outcomes for your business.

So yes, if you own a business you should probably look at downsizing and /or consolidating your real estate footprint. Just don’t overlook all the other opportunities to add value to your office space and, in turn, your people, your business and your community. Your office space is one of your largest expense items, and as the face of your business you need to make it count! Most office landlords are rapidly adapting to their customers’ needs. It’s a tenant’s market again so there are plenty of options and now is the perfect time to negotiate a new deal.

As the office market recovers, landlords are rapidly adapting around the inherent obsolescence of bricks and mortar and the financial constraints of rising vacancies and a recent downturn in rents. Ground floor exterior walls are being traded for roll up doors or openings to improve air flow and connect outdoor workspaces. Covid-19 health measures like HVAC infrastructures are being upgraded, often beyond CDC-prescribed guidelines, to enhance workplace safety and wellness. Landlords are providing more lifestyle amenities onsite such as gyms, open spaces, and food and entertainment options. More flexible lease terms are being delivered and more convenient workspaces such as coworking environments and turnkey, fully furnished suites are growing in prevalence.

These are exciting times! Now is the perfect opportunity for every business owner to reconsider the future of their office space. It’s 2021 and the future of office space is now.

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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. ©2021 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