

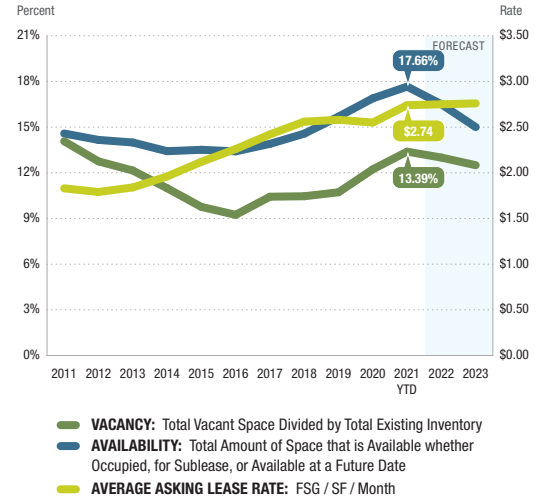
OVERVIEW. The Orange County office market remained in retreat during the first quarter of 2021, as the pandemic crisis is still weighing heavily on the office sector. The vaccine rollout is now in full swing and safety protocols began easing late in the period, but neither were in place early enough to impact Q1 office market metrics. Vacancy and availability made another significant move up and net absorption moved even further into negative territory. Average asking lease rates were slightly down, but landlord concessions are becoming more generous. The office product type has been hit especially hard by the pandemic due to higher employee density and the multi-tenant, elevator-served nature of office properties. The work-from-home strategy, which office users were forced to adopt, has worked better than expected, and that success has slowed progress towards a return to traditional work patterns. Uncertainty over the near-term health of the office market is on the rise especially as it relates to the Class A mid-rise and high-rise buildings that have been most impacted by the pandemic.

VACANCY & AVAILABILITY. The overall vacancy rate in Orange County rose to 13.39%, up another 116 basis points for the quarter. That came on top of a 111-basis-point spike in Q4. An increase was expected but the gap quarter-to-quarter was greater than anticipated. The Airport Area submarket, with its high concentration of mid-rise and high-rise Class A buildings, still has the highest vacancy rate of all major submarkets. Vacancy there rose by 51 basis points to 15.5% in Q1 on a base of over 45 MSF. North County, with a total base of 15 MSF, saw a vacancy decline in Q1, falling 27 basis points to just 7.57%. More than 80% of the inventory in North County is low-rise, Class B and C properties, less impacted by the pandemic safety protocols. South County took the hardest hit in terms of vacancy, rising 226 basis points to 14.31%. The availability rate, which includes vacant and occupied space offered for lease, has widened during the pandemic due in part to an increase in space available for sublease.

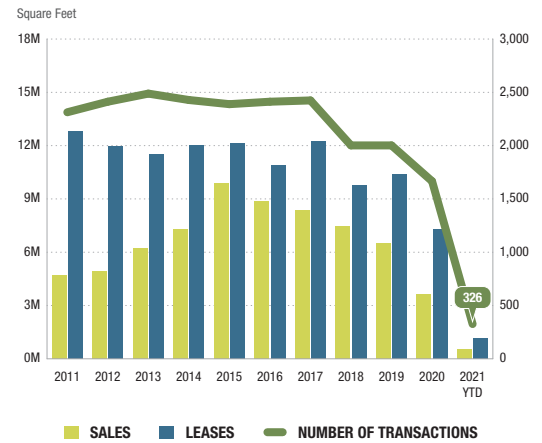
LEASE RATES. The average asking lease rate for all office space countywide fell by \$0.06 in Q1 to \$2.74 after a flat fourth quarter. Most of that decline was attributed to the South County submarket, which includes the Irvine Spectrum. All other submarkets were relatively unchanged. Though landlords have held the line on asking rates, concessions like free rent and higher tenant improvement allowances are more common, which means that effective rates are heading lower. Owners' difficulties are compounded by the rise in availability of large blocks of sublease space that hit the market during the pandemic. Also, tenants have been holding off on long-term moves while they rethink their facilities plans to reflect what they've learned from the challenges posed by the pandemic. The resulting decrease in new requirements has put further downward pressure on lease rates.

TRANSACTION ACTIVITY. Transaction volume fell sharply in the first quarter, as tenants delay moving to give themselves extra time to consider their future facilities plans. Countywide, 324 transactions were signed up during the period. Only 3 of those transactions were sales, a clear indication that office building investors and lenders have become more cautious. Lease and sale activity measured by square footage fell to just 1.67 MSF, the lowest it has been in years. As we reported last quarter, near-term uncertainty has caused a rise in short-term renewals versus relocations, and many of these transactions are not included in quarterly statistics. Speculation over how office space will be used in the future is in the headlines every day and that has business

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

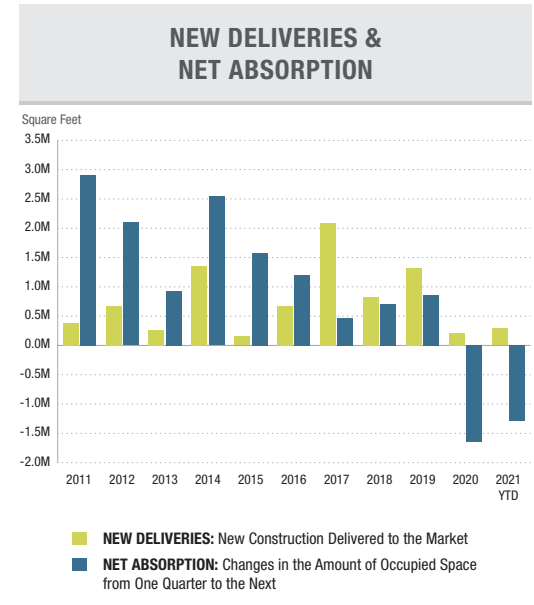
	Change Over Last Quarter	1Q 2021	4Q 2020	1Q 2020	% Change Over Last Year
Vacancy Rate	▲ UP	13.39%	12.23%	10.55%	26.91%
Availability Rate	▲ UP	17.66%	16.89%	13.90%	27.02%
Average Asking Lease Rate	▼ DOWN	\$2.74	\$2.80	\$2.80	(2.14%)
Sale & Lease Transactions	▼ DOWN	1,674,444	2,763,661	3,380,511	(50.47%)
Gross Absorption	▲ UP	1,758,473	1,219,155	1,893,443	(7.13%)
Net Absorption	▼ NEGATIVE	(1,287,167)	(1,033,464)	236,882	N/A

owners confused and uncertain about how they should adapt their operations to reflect what could be long-term changes in the way they do business. Until that becomes more clear, transaction activity will be negatively impacted.

ABSORPTION. Fewer relocations and an increase in short-term renewals significantly impacted net absorption in Q1. Net absorption (a measure of the net difference in total occupied space from one period to another) was well into negative territory in Q1, posting a net loss of 1,287,000 SF, after a similar loss in Q4. That brought total negative absorption in the past year to nearly 3.5 MSF on an inventory base of 122 MSF countywide. The Airport Area posted a 437,000 SF decline, followed by Central County that was hit hard by its 425,000 SF loss. South County also posted a substantial net loss of 346,000 SF. West and North County posted nominal declines.

CONSTRUCTION. The fact that construction activity has been on the decline for the past several years is good news for existing landlords. They are already competing against a rising inventory of sublease space, and not having first-generation space in the competitive set gives them a better chance to capture more of the depleted pool of active requirements. Just 821,000 SF of office space was in the construction queue as the year ended, all of it in just 2 projects, one in Costa Mesa, the other in the Irvine Spectrum. The high price of land will continue to limit construction activity to Class A space, and that it is the building class facing the biggest challenge from the pandemic crisis. So, even though there are another 2.2 MSF of office space in the planning stages, those projects are likely to be delayed for the time being. This will give the office market time to gain strength and get going in a better direction.

EMPLOYMENT. The unemployment rate in Orange County was 6.8% in February 2021, down from a revised 7.3% in January 2021, and above the year-ago estimate of 2.8%. Employment increased in six sectors: professional and business services (up 7,900 jobs), educational and health services (up 3,500 jobs), other services and government (up 3,100 jobs each), manufacturing (up 500 jobs), and information (up 100 jobs).



Forecast

The office market will be facing its current challenge for the balance of the year. Since it was hardest hit by the pandemic, it will take longer to regain its footing and get back on track than its industrial counterpart. The work-from-home strategy forced on office users during the past year has given rise to a complete reevaluation of the way business is conducted in the service, financial and tech sectors, which make up most of the companies that consume office space in Orange County. 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. The lack of new construction will help the recovery, as the lack of first-generation space will help with the absorption of existing direct and sublease availabilities. Landlords will be facing a further rise in tenant concessions, which will impact net operating income and put downward pressure on property values. Class A will face the toughest time given its higher price point. Well located Class B projects may benefit as tenants look for less expensive space in low-rise buildings that minimizes the impact of health and safety considerations that will be with us for the foreseeable future.

Significant Transactions

Sales						
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
15 & 25 Enterprise	Aliso Viejo	A	297,277	\$92,000,000	Harbor Associates, LLC	Invesco Ltd
28570 Marguerite Pkwy.	Mission Viejo	C	35,778	\$10,000,000	Confluent Development	Archer Properties LLC

Leases						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1375 Sunflower	Costa Mesa	A	449,206	Feb-2021	Andurill	Steelware
17600 Laguna Canyon	Irvine Spectrum	A	114,875	Mar-2021	Costar Group	The Irvine Company
121 Theory Dr. - Renewal	Irvine	B	63,440	Feb-2021	Linksys	The Irvine Company
1775 Flight Way	Tustin	A	27,440	Jan-2021	Syspro	Flight Phase I Owner LLC
1920 Main St.	Irvine	A	25,514	Jan-2021	Rate Plus, Inc.	Emmes Realty Services

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2021	Square Feet Available	Availability Rate 1Q2021	Average Asking Lease Rate	Net Absorption 1Q2021	Net Absorption 2021	Gross Absorption 1Q2021	Gross Absorption 2021
Airport Area													
Costa Mesa	68	7,115,616	449,206	27,476	1,087,305	15.28%	1,451,942	20.41%	\$3.34	(16,051)	(16,051)	149,318	149,318
Irvine	263	25,040,072	40,000	649,398	4,062,193	16.22%	5,525,125	22.07%	\$2.84	(336,034)	(336,034)	408,038	408,038
Newport Beach	122	10,038,455	0	0	1,154,229	11.50%	1,457,075	14.51%	\$3.13	(153,137)	(153,137)	102,065	102,065
Santa Ana	15	2,484,797	0	0	437,935	17.62%	571,970	23.02%	\$2.87	19,170	19,170	39,072	39,072
Tustin	4	417,353	0	0	247,970	59.41%	296,986	71.16%	\$3.40	48,239	48,239	48,239	48,239
Airport Area Total	472	45,096,293	489,206	676,874	6,989,632	15.50%	9,303,098	20.63%	\$2.96	(437,813)	(437,813)	746,732	746,732
Central County													
Anaheim	21	1,947,937	0	0	313,034	16.07%	393,000	20.18%	\$2.52	14,491	14,491	36,378	36,378
Orange	77	7,061,863	0	140,000	1,117,518	15.82%	1,429,776	20.25%	\$2.74	(272,910)	(272,910)	167,495	167,495
Santa Ana	163	12,170,358	0	612,325	1,821,047	14.96%	2,316,002	19.03%	\$2.34	(155,930)	(155,930)	122,311	122,311
Tustin	45	2,437,515	0	0	187,049	7.67%	276,581	11.35%	\$2.22	(10,600)	(10,600)	32,015	32,015
Central County Total	306	23,617,673	0	752,325	3,438,648	14.56%	4,415,359	18.70%	\$2.47	(424,949)	(424,949)	358,199	358,199
North County													
Anaheim Hills	82	6,425,776	0	0	403,483	6.28%	456,068	7.10%	\$2.28	10,584	10,584	76,015	76,015
Brea	41	4,049,605	0	0	480,805	11.87%	546,650	13.50%	\$2.55	(98,896)	(98,896)	5,940	5,940
Buena Park	16	1,048,740	0	0	41,310	3.94%	47,419	4.52%	\$2.19	(5,101)	(5,101)	2,405	2,405
Fullerton	29	2,356,737	0	0	113,830	4.83%	149,689	6.35%	\$2.36	28,476	28,476	55,177	55,177
La Habra	5	193,850	0	0	2,695	1.39%	2,695	1.39%	\$1.53	1,371	1,371	3,510	3,510
La Palma	10	712,038	0	0	70,867	9.95%	84,718	11.90%	\$1.93	14,745	14,745	15,844	15,844
Placentia	8	267,581	0	0	32,085	11.99%	51,586	19.28%	\$1.97	(1,409)	(1,409)	0	0
Yorba Linda	5	289,383	0	0	16,887	5.84%	32,095	11.09%	\$3.29	2,699	2,699	2,699	2,699
North County Total	196	15,343,710	0	0	1,161,962	7.57%	1,370,920	8.93%	\$2.43	(47,531)	(47,531)	161,590	161,590
South County													
Aliso Viejo	45	3,377,326	0	0	697,640	20.66%	1,002,235	29.68%	\$2.58	(28,912)	(28,912)	74,956	74,956
Dana Point	3	127,999	0	0	7,868	6.15%	7,868	6.15%	\$0.00	1,200	1,200	1,200	1,200
Foothill Ranch	10	806,438	0	0	101,134	12.54%	106,270	13.18%	\$2.35	(11,481)	(11,481)	15,710	15,710
Irvine Spectrum	176	13,775,444	332,385	374,638	1,726,015	12.53%	2,457,802	17.84%	\$2.93	(81,474)	(81,474)	160,816	160,816
Laguna Beach	5	192,434	0	0	15,805	8.21%	25,778	13.40%	\$2.57	0	0	0	0
Laguna Hills	32	1,790,755	0	465,000	313,121	17.49%	347,346	19.40%	\$2.78	(38,262)	(38,262)	15,552	15,552
Laguna Niguel	10	1,751,340	0	0	112,252	6.41%	116,445	6.65%	\$5.07	(11,546)	(11,546)	2,224	2,224
Lake Forest	40	2,117,647	0	0	510,468	24.11%	799,717	37.76%	\$2.22	(130,319)	(130,319)	41,401	41,401
Mission Viejo	37	2,031,526	0	0	314,700	15.49%	352,170	17.34%	\$2.98	(17,880)	(17,880)	21,678	21,678
Rancho Santa Margarita	6	252,716	0	0	16,673	6.60%	18,627	7.37%	\$2.23	(4,004)	(4,004)	300	300
San Clemente	10	455,615	0	0	81,357	17.86%	92,280	20.25%	\$2.83	(21,400)	(21,400)	6,738	6,738
San Juan Capistrano	20	971,944	0	0	59,296	6.10%	86,298	8.88%	\$2.71	(2,350)	(2,350)	14,986	14,986
South County Total	394	27,651,184	332,385	839,638	3,956,329	14.31%	5,412,836	19.58%	\$2.88	(346,428)	(346,428)	355,561	355,561
West County													
Cypress	27	1,935,928	0	0	174,681	9.02%	232,911	12.03%	\$2.36	(4,982)	(4,982)	3,022	3,022
Fountain Valley	27	2,032,625	0	0	105,815	5.21%	109,180	5.37%	\$1.99	127	127	2,173	2,173
Garden Grove	19	1,476,936	0	0	69,606	4.71%	66,542	4.51%	\$1.91	(3,360)	(3,360)	7,700	7,700
Huntington Beach	42	3,263,723	0	0	348,746	10.69%	493,685	15.13%	\$2.43	(20,367)	(20,367)	107,781	107,781
Los Alamitos	12	664,033	0	0	43,692	6.58%	57,432	8.65%	\$2.52	(1,065)	(1,065)	4,195	4,195
Seal Beach	7	480,612	0	0	34,748	7.23%	67,953	14.14%	\$3.38	6,648	6,648	6,648	6,648
Stanton	4	143,361	0	0	10,313	7.19%	8,870	6.19%	\$1.66	(380)	(380)	4,872	4,872
Westminster	11	455,385	0	0	18,724	4.11%	34,600	7.60%	\$2.43	(7,067)	(7,067)	0	0
West County Total	156	10,452,603	0	0	806,325	7.71%	1,071,173	10.25%	\$2.39	(30,446)	(30,446)	136,391	136,391
Orange County Total	1,524	122,161,463	821,591	2,268,837	16,352,896	13.39%	21,573,386	17.66%	\$2.74	(1,287,167)	(1,287,167)	1,758,473	1,758,473
Airport Area													
Class A	139	26,696,726	449,206	390,941	4,963,076	18.59%	6,281,906	23.53%	\$3.27	(325,445)	(325,445)	454,273	454,273
Class B	315	17,608,582	40,000	285,933	2,009,051	11.41%	2,940,177	16.70%	\$2.82	(113,277)	(113,277)	291,550	291,550
Class C	18	790,985	0	0	17,505	2.21%	81,015	10.24%	\$3.00	909	909	909	909
Central County													
Class A	44	7,378,485	0	752,325	1,292,612	17.52%	1,872,446	25.38%	\$2.71	(122,077)	(122,077)	147,801	147,801
Class B	210	14,084,322	0	0	1,867,383	13.26%	2,206,225	15.66%	\$2.39	(178,247)	(178,247)	199,657	199,657
Class C	52	2,154,866	0	0	278,653	12.93%	336,688	15.62%	\$2.08	(124,625)	(124,625)	10,741	10,741
North County													
Class A	28	3,239,778	0	0	368,400	11.37%	394,311	12.17%	\$2.68	(52,792)	(52,792)	39,517	39,517
Class B	145	11,210,600	0	0	731,032	6.52%	914,726	8.16%	\$2.40	37,837	37,837	118,678	118,678
Class C	23	893,332	0	0	62,530	7.00%	61,883	6.93%	\$2.16	(32,576)	(32,576)	3,395	3,395
South County													
Class A	82	10,877,214	114,875	695,412	1,804,405	16.59%	2,335,994	21.48%	\$3.09	(94,551)	(94,551)	156,876	156,876
Class B	301	16,252,876	217,510	144,226	2,117,479	13.03%	2,997,897	18.45%	\$2.81	(241,020)	(241,020)	198,111	198,111
Class C	11	521,094	0	0	34,445	6.61%	78,945	15.15%	\$2.39	(10,857)	(10,857)	574	574
West County													
Class A	17	1,752,748	0	0	243,251	13.88%	423,713	24.17%	\$2.51	(13,874)	(13,874)	39,329	39,329
Class B	124	7,278,256	0	0	558,494	7.67%	642,880	8.83%	\$2.34	(18,322)	(18,322)	95,312	95,312
Class C	15	1,421,599	0	0	4,580	0.32%	4,580	0.32%	\$0.00	1,750	1,750	1,750	1,750
Orange County													
Class A	310	49,944,951	564,081	1,838,678	8,671,744	17.36%	11,308,370	22.64%	\$2.98	(608,739)	(608,739)	837,796	837,796
Class B	1,095	66,434,636	257,510	430,159	7,283,439	10.96%	9,701,905	14.60%	\$2.43	(513,029)	(513,029)	903,308	903,308
Class C	119	5,781,876	0	0	397,713	6.88%	563,111	9.74%	\$2.05	(165,399)	(165,399)	17,369	17,369
Orange County Total	1,524	122,161,463	821,591	2,268,837	16,352,896	13.39%	21,573,386	17.66%	\$2.74	(1,287,167)	(1,287,167)	1,758,473	1,758,473

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 Modern Office

by **Shireen Feroohar**

SENIOR ASSOCIATE, IRVINE

949.263.5334 · sferoohar@voitco.com · Lic. #02111205

Through the last few decades of the evolution of the office environment, nothing has ever challenged the theory and structure of traditional office like this pandemic has. The uncertainty of this era has had everyone scrambling to find solutions to work from home as the “boiler room” is a thing of the past. As 2020 progressed, many employers questioned what the future of office life would be. Will it be safe to bring everyone back, and why have the overhead of office space when everyone is already working from home? The inclination has been to find one solution for all companies, but maybe it is time to change that mentality and have an open-minded office approach as we, hopefully, see the end of this pandemic.

As the past year has shown us safety was the most important thing for all of us. Now a year later, as vaccines are rolling out to help with everyone’s safety, employers are finding different answers to the transition challenges for their employees. Many companies are open to a flex or hybrid schedule. This will help manage the number of employees at one time in the office, but still allows a physical work environment for in-person collaboration. Other companies are looking for even larger office space to allow everyone back with increased social distancing. Employers are taking advantage of the decrease in office lease rates to enact these plans now. Another solution has been to look for space that has more private offices and not as much open floor plan, which is made more feasible by the increase in hybrid scheduling.

As office life as we once knew it has dramatically changed, companies have used this time to find innovative solutions, which they hope will not only increase productivity, but also help with occupancy costs. There will not be one solution for every company, but there will always be demand for an office space to facilitate collaboration, company growth, employee promotions, and team building, and to provide the overall balance we need between spending time at home and at work.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA
714.978.7880

Carlsbad, CA
760.472.5620

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Los Angeles, CA
424.329.7500

San Diego, CA
858.453.0505

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