

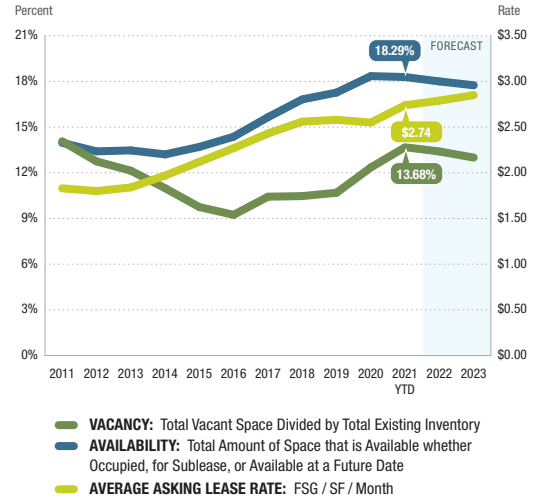
OVERVIEW. Orange County office market metrics in 3Q indicate that the worst may be over for a sector that had been struggling even before being slammed by the COVID-19 pandemic. Office space, which accommodates much higher employee density than its industrial counterpart, has experienced consistent negative net absorption, falling lease rates and rising vacancy since the first pandemic lockdown. But in 3Q the vacancy rate actually ticked lower and average asking lease rates were unchanged. Net absorption was still negative, but did not worsen, as many expected. Gross absorption was way up and leasing activity was flat at 3 MSF. There is still widespread reluctance among office users to make leasing decisions. Many are unsure of what they actually need in terms of space size, configuration and building class. The remote-work model, which was already being tested before the pandemic, was forced on office users, and many of them have been surprised and intrigued by how well it has worked. This has many of the tenants who are making moves considering downsizing. Others are playing a wait-and-see game as they evaluate their options while they ride this latest pandemic wave to its conclusion.

VACANCY & AVAILABILITY. The vacancy rate in Orange County made a surprising decline in 3Q, falling 8 basis points to 13.68%. That came after 61 and 101-basis-point increases in the previous two quarters. The availability rate, which includes vacant and occupied space offered for lease or sublease, is at 23.75% for Class A, 15.05% for Class B and 8.62% for Class C. The spread between vacancy and availability reflects the large amount of space offered for sublease.

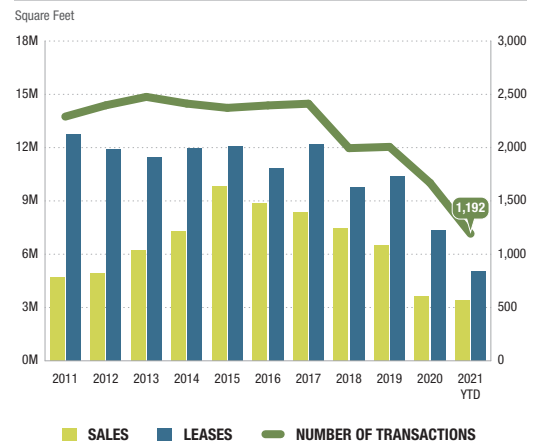
LEASE RATES. The average asking lease rate for all office space countywide was flat in 3Q, holding steady at \$2.74. But, as we reported last quarter, asking rates do not reflect true market conditions. Landlords tend to hold the line on asking rate and shift negotiations to concessions like free rent, free parking and higher tenant improvement allowances. So, the gap between asking and effective rate has widened substantially during the pandemic. Some landlords are getting ahead of the renewal process by approaching their existing tenants early with ‘blend & extend’ opportunities. They must also compete with space offered for sublease in their own properties, which is often offered at a substantially lower price than direct lease space. Many tenants are still holding off on new deals as they contemplate potential changes to their facilities precipitated by the pandemic-induced remote work phenomenon.

TRANSACTION ACTIVITY. Lease and sale activity by square footage was flat in 3Q at just over 3 MSF, but the number of transactions was slightly lower at 409. Countywide, 399 lease transactions and 10 sales were inked in the third quarter. Tenants who are not forced to move have been holding off on relocation decisions while they take a hard look at how much physical space they will need in the long term. They have all been forced into remote work platforms and the adoption of the latest in communication technology. Depending on the type of business, the new format has been surprisingly effective and will be here to stay to one degree or another. That impacts not only space requirements, but also workspace design.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



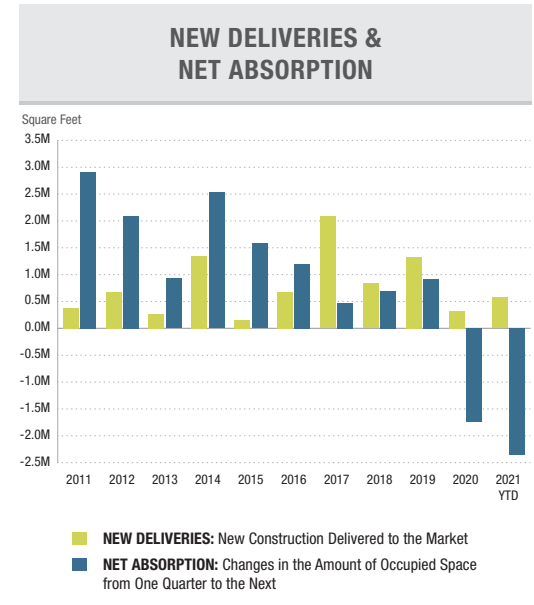
Market Statistics

	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	13.68%	13.76%	11.25%	21.57%
Availability Rate	▼ DOWN	18.29%	18.35%	15.65%	16.87%
Average Asking Lease Rate	▬ FLAT	\$2.74	\$2.74	\$2.81	(2.49%)
Sale & Lease Transactions	▬ FLAT	3,085,331	3,096,005	2,432,087	26.86%
Gross Absorption	▲ UP	2,647,987	1,206,229	1,159,197	128.43%
Net Absorption	▼ NEGATIVE	(547,912)	(512,502)	(753,094)	N/A

ABSORPTION. Fewer relocations and an increase in short-term renewals have definitely impacted net absorption, which had been running negative even before the pandemic. Net absorption stayed in negative territory in 3Q, posting a loss of 547,912 SF compared with 512,502 SF in 2Q. But that was an improvement on a year-over-year basis. In the same quarter last year, the net loss in occupied space topped 753,000 SF. Interestingly, the entire loss in 3Q came from the Airport Area, which lost more than 580,000 SF in net occupancy. Irvine accounted for almost 60% of that total. The Central and North submarkets posted small net gains, while West County and South County experienced slight declines. Of note is the fact that almost 95% of 3Q's decline in occupancy came from Class A buildings.

CONSTRUCTION. Fortunately for the supply side, construction activity has slowed substantially in response to the pandemic, which gives leasing activity a chance to catch. Currently, 823,928 SF is in the construction queue. Of that total, 347,722 SF is being built by the Irvine Company in its Irvine Terrace project. The good news there is that given that company's size and financial strength, it can easily adjust to a protracted lease-up period if need be. The other project underway is The Press, a 449,206 SF project in Costa Mesa. Another 930,188 SF of it is in the planning stage.

EMPLOYMENT. The unemployment rate in Orange County was 6.0% in August 2021, down from a revised 6.3% in July 2021, and below the year-ago estimate of 10.7%. Professional and business services grew by 2,700 jobs, with administrative and support (up 2,000 jobs), which includes temporary help firms, accounting for 74% of the increase. Three other sectors grew over the month, including leisure and hospitality (up 2,100 jobs), educational and health services (up 1,000 jobs), and construction (up 400 jobs).



Forecast

Hopefully, 3Q performance bodes well for the office market going forward, but until the pandemic is truly behind us, things are likely to remain choppy, as employers hesitate to ramp up to full capacity in their existing offices. Fundamental change in the way business is done was thrust on office-using businesses and it will take some time for their leaders to sort things out and set a new direction. The idea of returning to the status quo is unlikely, and it took the worst health crisis in 100 years to change the paradigm. The first post-pandemic moves will tell us a lot about the direction and health of the office market moving forward. Many tenants will change their business models, embracing remote or hybrid work schedules. That will impact how much space is needed and how it will be configured.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
333 City Blvd. W.	Orange	A	435,177	\$150,500,000	Opal Holdings	Pacific Oak Strategic Opportunity REIT, Inc.
1801 E. Saint Andrew Pl.	Santa Ana	B	370,374	\$105,300,000	Rexford Industrial Realty, Inc.	Fortress Investment Group, LLC
2401-2421 N. Glassell St.	Orange	B	191,125	\$70,025,000	Rexford Industrial Realty, Inc.	Hines
14402 Franklin Ave.	Tustin	B	70,445	\$21,000,000	National Distributing Company	Young's Holdings, Inc.
1820 E. 1st St.	Santa Ana	B	62,268	\$13,155,000	Midtown Plaza Sun LLC	PRES Companies

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
400 Spectrum Center Dr.	Irvine Spectrum	A	89,068	Sept-2021	Terran Orbital	The Irvine Company
15550 Sand Canyon Ave.	Irvine Spectrum	B	69,647	Sept-2021	Bandai Namco	Irvine Ranch Water District
17400 Laguna Canyon	Irvine Spectrum	A	29,708	Aug-2021	Fisher & Paykel Associates	The Irvine Company
14191 Myford	Tustin	B	28,086	Aug-2021	Avid Bio Services	Myford Investors II LLC
2030 Main St. - Renewal	Irvine	A	26,855	Jul-2021	Aerie Pharmaceutical	The Praedium Group

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Airport Area													
Costa Mesa	69	7,161,601	449,206	0	1,169,316	16.33%	1,657,133	23.14%	\$3.24	(105,668)	(183,694)	191,015	450,843
Irvine	263	25,048,496	0	465,188	4,389,238	17.52%	5,782,878	23.09%	\$2.82	(347,666)	(909,877)	558,222	1,354,983
Newport Beach	121	10,008,650	0	0	1,156,374	11.55%	1,665,661	16.64%	\$3.01	(47,753)	(229,176)	151,769	378,553
Santa Ana	15	2,484,797	0	0	512,078	20.61%	600,460	24.17%	\$2.75	(76,654)	(55,643)	6,330	91,451
Tustin	4	418,585	0	0	231,245	55.24%	275,830	65.90%	\$4.41	(2,709)	41,970	0	48,239
Airport Area Total	472	45,122,129	449,206	465,188	7,458,251	16.53%	9,981,962	22.12%	\$2.91	(580,450)	(1,336,420)	907,336	2,324,069
Central County													
Anaheim	21	1,947,937	0	0	358,182	18.39%	690,941	35.47%	\$2.61	(26,698)	(10,529)	63,611	122,675
Orange	77	7,060,741	0	0	1,056,035	14.96%	1,616,434	22.89%	\$2.68	(48,852)	(385,028)	97,513	317,948
Santa Ana	163	12,188,790	0	0	1,685,702	13.83%	2,164,979	17.76%	\$2.40	82,828	13,548	234,930	552,060
Tustin	44	2,367,537	0	0	96,895	4.09%	164,514	6.95%	\$2.37	53,212	(26,248)	249,231	305,622
Central County Total	305	23,565,005	0	0	3,196,814	13.57%	4,636,868	19.68%	\$2.51	60,490	(408,257)	645,285	1,298,305
North County													
Anaheim Hills	80	6,358,625	0	0	394,797	6.21%	478,603	7.53%	\$2.36	9,896	1,204	63,548	167,740
Brea	41	4,048,512	0	0	333,752	8.24%	426,839	10.54%	\$2.54	26,359	(85,546)	49,532	69,384
Buena Park	16	1,048,740	0	0	40,583	3.87%	45,086	4.30%	\$2.04	(711)	(4,374)	620	11,139
Fullerton	29	2,299,957	0	0	112,321	4.88%	139,036	6.05%	\$2.63	16,579	48,556	24,341	97,058
La Habra	5	193,850	0	0	8,193	4.23%	7,232	3.73%	\$1.48	(4,537)	(4,127)	1,043	4,553
La Palma	10	712,038	0	0	80,326	11.28%	99,028	13.91%	\$1.87	(9,831)	2,346	5,143	22,828
Placentia	8	267,581	0	0	40,607	15.18%	59,024	22.06%	\$2.16	(3,484)	(9,931)	1,320	4,590
Yorba Linda	5	289,383	0	0	4,492	1.55%	19,053	6.58%	\$2.24	638	15,094	3,122	17,751
North County Total	194	15,218,686	0	0	1,015,071	6.67%	1,273,901	8.37%	\$2.42	34,909	(36,778)	148,669	395,043
South County													
Aliso Viejo	45	3,380,348	0	0	729,025	21.57%	922,683	27.30%	\$2.63	31,759	(94,004)	83,050	166,359
Dana Point	3	127,999	0	0	7,868	6.15%	7,868	6.15%	\$0.00	0	1,200	0	1,200
Foothill Ranch	10	818,279	0	0	153,477	18.76%	201,515	24.63%	\$2.62	(61,198)	(91,015)	27,191	54,518
Irvine Spectrum	180	14,082,542	374,722	0	2,157,351	15.32%	2,701,593	19.18%	\$2.96	(2,818)	(67,893)	324,133	874,310
Laguna Beach	5	192,434	0	465,000	13,043	6.78%	23,016	11.96%	\$2.62	3,762	2,762	3,762	3,762
Laguna Hills	33	1,822,080	0	0	303,930	16.68%	338,871	18.60%	\$2.76	3,639	(35,613)	38,101	85,601
Laguna Niguel	10	1,751,507	0	0	89,878	5.13%	101,409	5.79%	\$2.12	10,677	9,777	13,581	33,169
Lake Forest	40	2,121,391	0	0	294,552	13.88%	419,700	19.78%	\$2.20	(465)	(138,117)	257,252	308,316
Mission Viejo	36	2,001,725	0	0	320,907	16.03%	336,223	16.80%	\$3.20	(19,010)	(48,706)	31,545	73,965
Rancho Santa Margarita	6	252,716	0	0	16,882	6.68%	25,037	9.91%	\$2.27	(1,954)	(4,213)	0	2,045
San Clemente	10	465,252	0	0	69,462	14.93%	73,955	15.90%	\$2.83	18,170	(7,526)	26,238	35,539
San Juan Capistrano	20	971,944	0	0	38,916	4.00%	53,354	5.49%	\$2.58	(9,697)	20,264	9,033	62,131
South County Total	398	27,988,217	374,722	465,000	4,195,291	14.99%	5,205,224	18.60%	\$2.86	(27,135)	(453,084)	813,886	1,700,915
West County													
Cypress	27	1,935,928	0	0	136,725	7.06%	358,168	18.50%	\$2.43	19,127	32,748	36,478	77,819
Fountain Valley	33	1,998,297	0	0	114,195	5.71%	117,110	5.86%	\$1.87	(877)	(14,444)	15,681	28,236
Garden Grove	19	1,476,866	0	0	68,141	4.61%	65,939	4.46%	\$1.92	5,290	(7,631)	9,983	20,193
Huntington Beach	42	3,186,301	0	0	365,293	11.46%	416,347	13.07%	\$2.49	(30,386)	(62,608)	59,659	189,897
Los Alamitos	12	664,033	0	0	62,279	9.38%	149,751	22.55%	\$2.53	(5,433)	(16,760)	8,295	12,490
Seal Beach	7	480,612	0	0	70,234	14.61%	107,237	22.31%	\$3.43	(10,078)	(27,556)	0	17,657
Stanton	4	143,361	0	0	16,573	11.56%	16,573	11.56%	\$1.64	(8,670)	(7,814)	1,024	7,132
Westminster	11	455,385	0	0	20,633	4.53%	26,153	5.74%	\$2.49	(4,699)	(8,977)	1,691	23,704
West County Total	155	10,340,783	0	0	854,073	8.26%	1,257,278	12.16%	\$2.58	(35,726)	(113,042)	132,811	377,128
Orange County Total	1,524	122,234,820	823,928	930,188	16,719,500	13.68%	22,355,233	18.29%	\$2.74	(547,912)	(2,347,581)	2,647,987	6,095,460
Airport Area													
Class A	138	26,634,004	449,206	182,380	5,180,654	19.45%	6,742,290	25.31%	\$3.22	(356,263)	(867,170)	541,694	1,409,448
Class B	316	17,697,140	0	282,808	2,257,747	12.76%	3,157,497	17.84%	\$2.76	(227,017)	(474,093)	362,812	908,803
Class C	18	790,985	0	0	19,850	2.51%	82,175	10.39%	\$3.66	2,830	4,843	2,830	5,818
Central County													
Class A	44	7,377,491	0	0	1,404,602	19.04%	1,924,948	26.09%	\$2.71	(55,655)	(208,153)	143,070	348,337
Class B	210	14,064,626	0	0	1,592,564	11.32%	2,451,492	17.43%	\$2.43	597	(201,696)	430,039	839,720
Class C	51	2,122,888	0	0	199,648	9.40%	260,428	12.27%	\$2.10	115,548	1,592	72,176	110,248
North County													
Class A	27	3,204,402	0	0	395,900	12.35%	449,238	14.02%	\$2.70	3,953	(59,060)	30,269	85,131
Class B	144	11,120,952	0	0	559,924	5.03%	766,307	6.89%	\$2.38	29,397	53,069	111,926	295,218
Class C	23	893,332	0	0	59,247	6.63%	58,356	6.53%	\$2.14	1,559	(30,787)	6,474	14,694
South County													
Class A	83	10,775,784	374,722	465,000	1,891,920	17.56%	2,153,183	19.98%	\$2.97	(79,300)	(209,576)	232,238	644,468
Class B	303	16,668,477	0	0	2,275,806	13.65%	2,965,522	17.79%	\$2.82	37,836	(240,792)	565,675	1,035,246
Class C	12	543,956	0	0	27,565	5.07%	86,519	15.91%	\$2.42	14,329	(2,716)	15,973	21,201
West County													
Class A	17	1,752,748	0	0	302,105	17.24%	543,378	31.00%	\$2.51	(32,019)	(82,449)	33,783	85,584
Class B	124	7,200,764	0	0	544,927	7.57%	706,859	9.82%	\$2.61	(1,329)	(30,667)	97,926	287,990
Class C	14	1,387,271	0	0	7,041	0.51%	7,041	0.51%	\$1.62	(2,378)	74	1,102	3,554
Orange County													
Class A	309	49,744,429	823,928	647,380	9,175,181	18.44%	11,813,037	23.75%	\$2.92	(519,284)	(1,426,408)	981,054	2,572,968
Class B	1,097	66,751,959	0	282,808	7,230,968	10.83%	10,047,677	15.05%	\$2.51	(160,516)	(894,179)	1,568,378	3,366,977
Class C	118	5,738,432	0	0	313,351	5.46%	494,519	8.62%	\$2.04	131,888	(26,994)	98,555	155,515
Orange County Total	1,524	122,234,820	823,928	930,188	16,719,500	13.68%	22,355,233	18.29%	\$2.74	(547,912)	(2,347,581)	2,647,987	6,095,460

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.



Commercial Real Estate's Inflection Point

by **Chris Drzyzga**

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Eighteen months into the remote work experiment the jury is still out, but the “winners” are starting to separate themselves from the pack. Last quarter, I highlighted how “flexible” and “hybrid” workplaces are an integral part of any successful real estate strategy and that companies willing to adapt will have a tremendous opportunity to carve out greater market share. However, this will not be feasible without integrating the latest technology solutions into the business model.

Tenants and landlords who utilize a comprehensive suite of software solutions experienced far fewer disruptions during the pandemic. Some even notched record revenues. These companies are now distancing themselves from their competition by doubling down on their technology strategy. Properties that do not (or cannot) embrace the technological changes will be repurposed for other uses such as residential, medical, data centers and even vertical farming! Yes, I said it, vertical farming! High rises in the central business districts will no longer be 100% office. As this trend materializes, it will be to the benefit of low-rise suburban office, something that Orange County has quite a bit of. Low-rise office is already experiencing greater demand and less vacancy than its high-rise counterpart. Tenants are trading the parking structures and elevators for shorter commutes, simplified ingress/egress and open-area environments.

Lower overhead costs, greater efficiencies, and better data to drive decision-making has turned into a huge competitive advantage for tenants and landlords alike. For property owners, technology is changing not only how buildings are acquired and operated, but also how people are interacting within them. Whether you are monitoring parking lots, providing virtual tours, using sensors to optimize energy consumption, facilitating tenant activities or marketing vacant space, there is a technology solution available. On the other hand, tenants can return to the office confident that their experience will be efficient and safe. Regardless of industry, businesses are leveraging virtual meetings, scheduling systems, data analytics and much more to improve their customer experience and drive revenues.

Historically, the commercial real estate industry has been very slow to adopt new technologies. There are several reasons for this, but we are now at an inflection point where those who do not adapt will be at a serious competitive disadvantage.

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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.

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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