

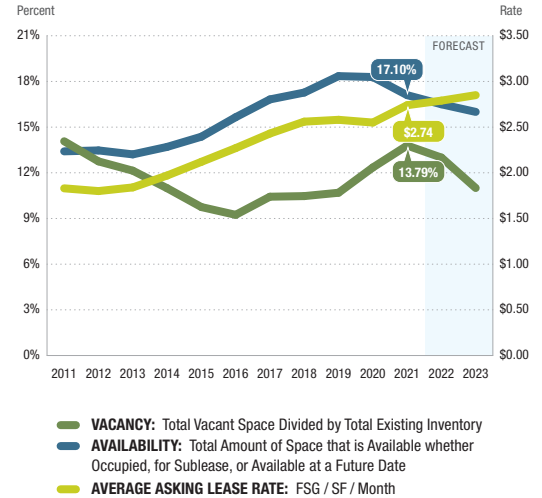
**OVERVIEW.** The Orange County office market showed signs of stabilizing in Q4 even though the pandemic continued to make life difficult for both landlords and tenants. The office market has taken much more of a hit from pandemic lockdowns and ongoing safety measures than its industrial counterpart because of much higher employee densities and indoor environments. But, in the final quarter of the year, average asking lease rates were unchanged, vacancy posted a modest rise and the availability rate actually went down. Absorption was still negative, but at just half the loss of the previous quarter. Gross absorption was up and leasing activity fell slightly. These mixed results indicate that the worst may be over and as pandemic protocols ease, tenants will begin focusing on the future. But for now, there is still widespread reluctance among office users to make leasing decisions. Many are still unsure of what they actually need in terms of space size, configuration and building class. So, it is a wait-and-see game for business owners across the office sector. Defeating COVID-19 or finally deciding to learn to live with it is the key to a strong turnaround.

**VACANCY & AVAILABILITY.** The vacancy rate in Orange County may be topping out after almost two years of challenging times due to the pandemic. In Q4, the rate rose by only 11 basis points following a slight decline in Q3. Year-over-year, overall vacancy rose by 11.6%, which has made it tough on landlords, especially in Class A projects where the vacancy rate is highest. The availability rate declined in Q4 by 119 basis points to 17.1% overall, which may be indicative of a decline in available sublease space. This raises expectations for further market stability, especially if pandemic protocols are phased out.

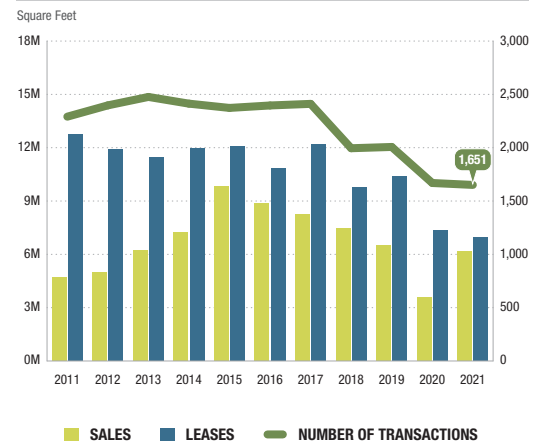
**LEASE RATES.** The average asking lease rate for all office space countywide was unchanged, holding at \$2.74 in Q4. Class A space in the Airport Area is the most expensive, ending the year at \$3.20, followed closely by South County at \$2.94. Class B asking rents are highest in South County at \$2.80 and lowest in North County at \$2.40. In 2021, the overall average asking rate fell by just 2.1%, much less than many industry professionals expected. However, landlords tend to hold the line on their asking rates and focus their negotiations on concessions like free rent, free parking and higher tenant improvement allowances. So, the gap between asking and effective rates remains wide. We don't expect rates to move higher until office users get a clearer picture on how to move forward with their facilities.

**TRANSACTION ACTIVITY.** Lease and sale activity by square footage fell slightly in Q4 to 3.8 MSF from 4.3 MSF in Q3, but the number of sale and lease transactions was significantly lower at 387. Countywide, 370 lease transactions and 17 sales were made in the final quarter of 2021. Tenants are still unsure about their next moves because of changes to the overall work environment resulting from pandemic protocols. Many are considering making these changes permanent, which would allow them to substantially reduce their space footprint. Fewer full time employees in the office every day will change workplace design going forward.

**VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES**



**TRANSACTION VOLUME & NUMBER OF TRANSACTIONS**



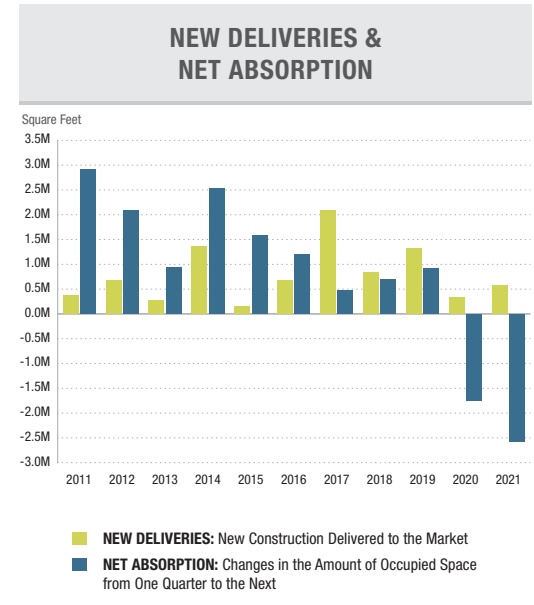
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▲ UP	13.79%	13.68%	12.35%	11.60%
Availability Rate	▼ DOWN	17.10%	18.29%	16.82%	1.67%
Average Asking Lease Rate	▬ FLAT	\$2.74	\$2.74	\$2.80	(2.14%)
Sale & Lease Transactions	▼ DOWN	3,860,506	4,328,019	2,877,996	34.14%
Gross Absorption	▲ UP	2,844,252	1,206,229	1,219,155	133.30%
Net Absorption	▼ NEGATIVE	(224,290)	(547,912)	(1,139,106)	N/A

**ABSORPTION.** Net absorption remained in negative territory as expected in Q4, but the net loss in occupied space narrowed significantly to just 224,290 SF versus a loss 547,912 SF in Q3. For the year, the Orange County Office market sustained a net loss of 2,571,871 SF. Almost 58% of that was in Class A buildings that represent just 40.7% of the 122 MSF of office inventory. Only Class B space in the North County submarket managed a gain in occupied space for the year, and that was a modest 54,592 SF on a base of 11.1 MSF.

**CONSTRUCTION.** Construction activity is still confined to just two projects, which gives leasing activity a chance to catch up after being heavily impacted by the pandemic. Currently, 794,992 SF is in the construction queue. Of that total, 345,786 SF is being built by The Irvine Company in its Irvine Terrace project. The good news there is that given The Irvine Company's size and financial strength, it can easily adjust to a protracted lease-up period if need be. The other project is The Press, a 449,206 SF project in Costa Mesa. That project is fully leased to Anduril and is scheduled for delivery in the third quarter. Another 1.1 MSF is in the planning stage, but some projects will likely be delayed until the pandemic is fully behind us and the direction of the market becomes less opaque.

**EMPLOYMENT.** The unemployment rate in Orange County was 4.1% in November 2021, down from a revised 4.7% in October 2021, and well below the year-ago estimate of 6.6%. Trade, transportation, and utilities added 4,500 jobs, the largest increase of any sector. This accounted for nearly half of the total increase in nonfarm employment, and was almost all in retail trade. The remaining job gains were in warehousing and utilities (up 1,200 jobs) while wholesale trade declined by 800 jobs.



## Forecast

Until business decision-making is no longer reacting to the pandemic that has been with us for nearly two years, the office market will have trouble rebounding fully. Q4 results indicate that the worst is behind us, but things are not likely to change significantly until business owners take the plunge and execute new workplace plans that reflect the changes in the way they now do business. Expect many businesses to reduce facility size while reinventing interiors that reflect new ways to be more productive and promote growth. The office market will never be the same as it was pre-pandemic. Employees have adapted to the changes forced upon them back in March of 2020 and many of them have embraced those changes and will choose to work where they can have the freedom and flexibility that supports their new personal priorities. It's still early and we don't know how much the facilities decisions soon to be made will affect vacancy, absorption and pricing. However, we believe it is safe to say that even those businesses with healthy growth will be taking a good hard look at reducing the amount of space they occupy.

## Significant Transactions

### Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
275 Valencia Ave.	Brea	B	637,500	\$165,000,000	Amazon	Greenlaw Partners
1390-1440 N Harbor & 1450 Brea Blvd.	Fullerton	B	230,193	\$45,500,000	Barker Pacific Group	UBS Realty Investors LLC
1301 Dove St.	Newport Beach	A	213,523	\$64,000,000	Ocean West Capital Partners	PGIM, Inc.
2722 Michelson Dr.	Irvine	B	154,418	\$103,000,000	IRA Capital, LLC	LBA Realty
2727 E. Imperial Hwy.	Brea	B	104,662	\$35,425,000	Duke Realty Corporation	Healthcare Property Advisors

### Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
15505 Sand Canyon Ave.	Irvine Spectrum	A	119,049	Nov-2021	Verizon Wireless	The Irvine Company
15555 Laguna Canyon Ave.	Irvine Spectrum	A	105,600	Oct-2021	Genesis	The Irvine Company
7515 Irvine Center Dr – Renewal	Irvine Spectrum	B	63,415	Oct-2021	Accurate Background	The Irvine Company
1700 Flight Way	Tustin	A	60,998	Nov-2021	Virgin Galactic	Payff, Inc. dba Happy Money
915 W Imperial Hwy	Brea	A	30,540	Nov-2021	NCH Management Systems, Inc.	Evangelical Christian Credit

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
<b>Airport Area</b>													
Costa Mesa	69	7,161,601	449,206	0	1,261,719	17.62%	1,683,584	23.51%	\$3.23	(90,455)	(274,149)	189,557	640,400
Irvine	263	25,048,496	0	703,788	4,478,637	17.88%	5,512,498	22.01%	\$2.82	(116,160)	(1,026,037)	862,341	2,217,324
Newport Beach	121	10,008,650	0	0	1,130,597	11.30%	1,532,101	15.31%	\$3.06	32,935	(196,241)	240,543	619,096
Santa Ana	15	2,484,797	0	0	485,662	19.55%	618,923	24.91%	\$2.75	(7,060)	(62,703)	23,732	115,183
Tustin	4	418,585	0	0	203,820	48.69%	203,820	48.69%	\$4.41	27,425	69,395	27,425	75,664
<b>Airport Area Total</b>	<b>472</b>	<b>45,122,129</b>	<b>449,206</b>	<b>703,788</b>	<b>7,560,435</b>	<b>16.76%</b>	<b>9,550,926</b>	<b>21.17%</b>	<b>\$2.92</b>	<b>(153,315)</b>	<b>(1,489,735)</b>	<b>1,343,598</b>	<b>3,667,667</b>
<b>Central County</b>													
Anaheim	21	1,947,937	0	0	314,224	16.13%	678,505	34.83%	\$2.56	28,245	17,716	79,013	201,688
Orange	77	7,060,741	0	0	1,048,986	14.86%	1,542,121	21.84%	\$2.69	(24,993)	(410,021)	198,179	516,127
Santa Ana	163	12,188,790	0	0	1,647,245	13.51%	1,851,474	15.19%	\$2.42	61,718	75,266	366,533	918,593
Tustin	44	2,367,537	0	0	156,227	6.60%	210,216	8.88%	\$2.28	(14,495)	(40,743)	19,711	325,333
<b>Central County Total</b>	<b>305</b>	<b>23,565,005</b>	<b>0</b>	<b>0</b>	<b>3,166,682</b>	<b>13.44%</b>	<b>4,282,316</b>	<b>18.17%</b>	<b>\$2.50</b>	<b>50,475</b>	<b>(357,782)</b>	<b>663,436</b>	<b>1,961,741</b>
<b>North County</b>													
Anaheim Hills	80	6,358,625	0	0	414,674	6.52%	473,495	7.45%	\$2.38	(30,202)	(28,998)	42,752	210,492
Brea	41	4,048,512	0	0	328,530	8.11%	484,534	11.97%	\$2.59	3,292	(82,254)	57,706	127,090
Buena Park	16	1,048,740	0	0	26,573	2.53%	24,043	2.29%	\$2.12	14,010	9,636	19,810	30,949
Fullerton	29	2,299,957	0	0	135,552	5.89%	153,530	6.68%	\$2.77	(19,498)	29,058	29,399	126,457
La Habra	5	193,850	0	0	7,884	4.07%	6,316	3.26%	\$1.48	1,599	(2,528)	4,562	9,115
La Palma	10	712,038	0	0	74,406	10.45%	116,060	16.30%	\$1.90	6,176	8,522	8,112	30,940
Placentia	8	267,581	0	0	34,831	13.02%	54,133	20.23%	\$2.14	5,776	(4,155)	11,265	15,855
Yorba Linda	5	289,383	0	0	3,992	1.38%	18,553	6.41%	\$2.24	0	15,094	0	17,751
<b>North County Total</b>	<b>194</b>	<b>15,218,686</b>	<b>0</b>	<b>0</b>	<b>1,026,442</b>	<b>6.74%</b>	<b>1,330,664</b>	<b>8.74%</b>	<b>\$2.44</b>	<b>(18,847)</b>	<b>(55,625)</b>	<b>173,606</b>	<b>568,649</b>
<b>South County</b>													
Aliso Viejo	45	3,380,348	0	0	707,796	20.94%	990,575	29.30%	\$2.63	14,268	(79,736)	41,111	207,470
Dana Point	3	127,999	0	0	0	0.00%	0	0.00%	\$0.00	7,868	9,068	7,868	9,068
Foothill Ranch	10	818,279	0	0	91,812	11.22%	114,364	13.98%	\$3.25	22,002	(69,013)	22,002	76,520
Irvine Spectrum	180	14,082,542	345,786	0	2,216,088	15.74%	2,076,481	14.75%	\$2.95	(119,340)	(187,233)	395,499	1,269,809
Laguna Beach	5	192,434	0	465,000	13,043	6.78%	22,016	11.44%	\$2.59	0	2,762	0	3,762
Laguna Hills	33	1,822,080	0	0	309,877	17.01%	362,868	19.92%	\$2.81	210	(35,403)	65,219	150,820
Laguna Niguel	10	1,751,507	0	0	109,438	6.25%	113,242	6.47%	\$2.03	(19,560)	(9,783)	4,195	37,364
Lake Forest	40	2,121,391	0	0	292,410	13.78%	410,493	19.35%	\$2.20	(10,567)	(148,684)	13,743	322,059
Mission Viejo	36	2,001,725	0	0	325,254	16.25%	344,120	17.19%	\$3.11	(17,340)	(66,046)	17,240	91,205
Rancho Santa Margarita	6	252,716	0	0	24,468	9.68%	25,920	10.26%	\$2.25	(9,540)	(13,753)	0	2,045
San Clemente	10	465,252	0	0	65,125	14.00%	74,805	16.08%	\$2.77	4,337	(3,189)	9,712	45,251
San Juan Capistrano	20	971,944	0	0	28,471	2.93%	57,262	5.89%	\$2.63	6,586	26,850	8,580	70,711
<b>South County Total</b>	<b>398</b>	<b>27,988,217</b>	<b>345,786</b>	<b>465,000</b>	<b>4,183,782</b>	<b>14.95%</b>	<b>4,592,146</b>	<b>16.41%</b>	<b>\$2.84</b>	<b>(121,076)</b>	<b>(574,160)</b>	<b>585,169</b>	<b>2,286,084</b>
<b>West County</b>													
Cypress	27	1,935,928	0	0	230,070	11.88%	375,898	19.42%	\$2.40	(4,521)	28,227	6,170	83,989
Fountain Valley	33	1,998,297	0	0	115,658	5.79%	114,677	5.74%	\$1.74	(1,462)	(15,906)	4,357	32,593
Garden Grove	19	1,476,866	0	0	60,341	4.09%	101,145	6.85%	\$1.92	5,997	(1,634)	6,957	27,150
Huntington Beach	42	3,186,301	0	0	330,650	10.38%	391,466	12.29%	\$2.43	29,887	(32,721)	53,099	242,996
Los Alamitos	12	664,033	0	0	59,026	8.89%	28,010	4.22%	\$2.52	1,940	(14,820)	1,940	14,430
Seal Beach	7	480,612	0	0	84,421	17.57%	93,682	19.49%	\$3.44	(14,187)	(41,743)	4,309	21,966
Stanton	4	143,361	0	0	12,513	8.73%	12,513	8.73%	\$1.64	1,611	(6,203)	1,611	8,743
Westminster	11	455,385	0	0	21,425	4.70%	26,945	5.92%	\$2.38	(792)	(9,769)	0	23,704
<b>West County Total</b>	<b>155</b>	<b>10,340,783</b>	<b>0</b>	<b>0</b>	<b>914,104</b>	<b>8.84%</b>	<b>1,144,336</b>	<b>11.07%</b>	<b>\$2.53</b>	<b>18,473</b>	<b>(94,569)</b>	<b>78,443</b>	<b>455,571</b>
<b>Orange County Total</b>	<b>1,524</b>	<b>122,234,820</b>	<b>794,992</b>	<b>1,168,788</b>	<b>16,851,445</b>	<b>13.79%</b>	<b>20,900,388</b>	<b>17.10%</b>	<b>\$2.74</b>	<b>(224,290)</b>	<b>(2,571,871)</b>	<b>2,844,252</b>	<b>8,939,712</b>
<b>Airport Area</b>													
Class A	138	26,634,004	449,206	420,980	5,058,756	18.99%	6,563,353	24.64%	\$3.20	(75,242)	(942,412)	816,798	2,226,246
Class B	316	17,697,140	0	282,808	2,483,414	14.03%	2,911,396	16.45%	\$2.79	(78,949)	(553,042)	525,924	1,434,727
Class C	18	790,985	0	0	18,265	2.31%	76,177	9.63%	\$1.95	876	5,719	876	6,694
<b>Central County</b>													
Class A	44	7,377,491	0	0	1,401,292	18.99%	1,979,633	26.83%	\$2.75	(21,005)	(229,158)	211,448	559,785
Class B	210	14,064,626	0	0	1,565,740	11.13%	2,057,654	14.63%	\$2.41	69,309	(132,387)	419,895	1,259,615
Class C	51	2,122,888	0	0	199,650	9.40%	245,029	11.54%	\$2.09	2,171	3,763	32,093	142,341
<b>North County</b>													
Class A	27	3,204,402	0	0	374,821	11.70%	422,479	13.18%	\$2.76	(27,396)	(86,456)	27,404	112,535
Class B	144	11,120,952	0	0	597,628	5.37%	853,064	7.67%	\$2.40	1,523	54,592	137,416	432,634
Class C	23	893,332	0	0	53,993	6.04%	55,121	6.17%	\$2.11	7,026	(23,761)	8,786	23,480
<b>South County</b>													
Class A	83	10,775,784	345,786	465,000	1,749,785	16.24%	1,803,236	16.73%	\$2.94	51,875	(157,701)	159,998	804,466
Class B	303	16,668,477	0	0	2,396,437	14.38%	2,722,673	16.33%	\$2.80	(164,636)	(405,428)	416,768	1,452,014
Class C	12	543,956	0	0	37,560	6.90%	66,237	12.18%	\$2.36	(8,315)	(11,031)	8,403	29,604
<b>West County</b>													
Class A	17	1,752,748	0	0	354,205	20.21%	492,094	28.08%	\$2.51	12,326	(70,123)	32,817	118,401
Class B	124	7,200,764	0	0	556,213	7.72%	648,556	9.01%	\$2.54	3,577	(27,090)	43,056	331,046
Class C	14	1,387,271	0	0	3,686	0.27%	3,686	0.27%	\$0.00	2,570	2,644	2,570	6,124
<b>Orange County</b>													
Class A	309	49,744,429	794,992	885,980	8,938,859	17.97%	11,260,795	22.64%	\$2.92	(59,442)	(1,485,850)	1,248,465	3,821,433
Class B	1,097	66,751,959	0	282,808	7,599,432	11.38%	9,193,343	13.77%	\$2.51	(169,176)	(1,063,355)	1,543,059	4,910,036
Class C	118	5,738,432	0	0	313,154	5.46%	446,250	7.78%	\$2.00	4,328	(22,666)	52,728	208,243
<b>Orange County Total</b>	<b>1,524</b>	<b>122,234,820</b>	<b>794,992</b>	<b>1,168,788</b>	<b>16,851,445</b>	<b>13.79%</b>	<b>20,900,388</b>	<b>17.10%</b>	<b>\$2.74</b>	<b>(547,912)</b>	<b>(2,571,871)</b>	<b>2,844,252</b>	<b>8,939,712</b>

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 Workplace of the Future

### by Stefan Rogers

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After almost two years of uncertainty, many businesses are still waiting to officially return to the workplace in full capacity. Many never will. And a lot of businesses that have returned are doing so quite differently than pre-Covid times. Remote working was inevitable with today's technologies and social change, and many businesses are thriving under this model. This phenomenon has led to a significant decrease in the demand for office space, particularly in older and more obsolescent buildings with fewer amenities.

For employees, "Zoom Fatigue" is real phenomenon, and isolation and boredom have set in, increasing mental health issues. Personnel issues have skyrocketed, and many employees are working longer hours on average than previous years. Remote working within certain industries and business models has offered employees more personal choice and freedom. Consequently, many businesses are now struggling to control their workforce and enforce the return to office policies needed to get back to business.

Office building owners have been forced to react by repositioning assets, refinancing, considering redeveloping or repurposing, or in some instances, developing new buildings that meet the criteria to satisfy the evolving demand for and use of office space. Many have been hit hard by the sudden shift in demand and have yet to recover, particularly those exposed to large corporate users with short-term lease expirations, as the professional services industry in particular has offloaded huge blocks of now unwanted space.

So, what can we expect the workplace of the future to look like? Generally speaking, it will be a hybrid of operating models from before and during the pandemic. Every business will benefit from a more customized environment and workplace strategy, shaped around a functional remote work model that optimizes performance in and out of the office. Moreover, this customized approach has the ability to incorporate various strategies targeting improved collaboration, information sharing, socializing and community. Employees' specific work and personal needs may be accommodated through a mix of traditional and modern work environments and work schedules. And businesses will likely consider redesigning their workplaces to gain a competitive edge for recruitment, business development and branding.

The pandemic-driven turmoil that has resulted in the office space market is unprecedented. Hybrid work models are driving down office demand by record amounts. We expect it could be many years before demand and average rental terms return to pre-pandemic levels. However, demand has generally remained strong for newer office projects with modern amenities, driving record rents and creating essentially a two-tiered market. And demand for coworking and flexible office solutions is rising fast once again.

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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.

## 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