

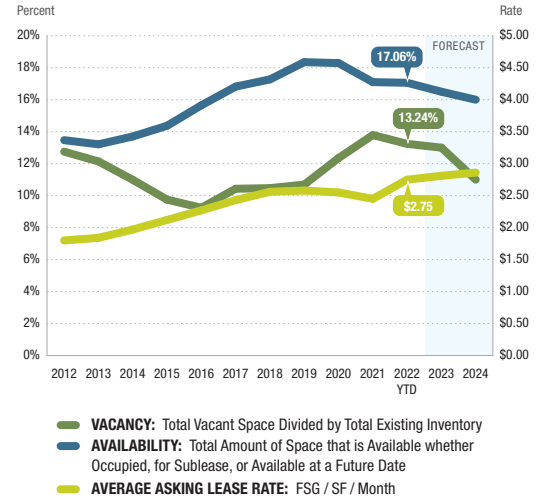
OVERVIEW. In our Q4 report we reported signs that the Orange County office market was stabilizing, and Q1 market performance confirmed our observations. Vacancy posted a moderate decline, average asking lease rates held steady and both gross and net absorption levels improved. The office market really suffered during the worst of the pandemic, as the initial lockdown essentially shut it down in Q2 of 2020 and the majority of office workers scrambled to adapt to technologies that allowed them to work from home. Ongoing safety protocols made it especially difficult for building owners and office-centric business owners to get people back in the office. Even today, with the worst of the health crisis behind us, less than half of office workers are back at their desks on a regular basis. High-rise and mid-rise buildings are facing the biggest challenge because of employee density and dependence on elevators for access to individual spaces. Add the fact that many businesses are considering long-term adoption of a work-from-home or hybrid model for their workforces, and it is easy to see that the office market still has some major challenges to overcome. We are still playing the wait-and-see game with some business owners whose uncertainty over how to approach their facilities going forward is slowing their decision-making process.

VACANCY & AVAILABILITY. After two years of consistent upward pressure on vacancy, the overall rate in Q1 actually declined by a substantial margin, shedding 55 basis points to end the period at 13.24%. That’s just 9 basis points higher than it was in Q1 of 2021, further evidence that the market is stabilizing. Class A buildings are still carrying the most vacancy, in part due to their higher employee density, the need for elevator access and extensive common areas. The Class A vacancy rate countywide for Q1 was 17.57%, down 50 basis points from Q4. By comparison, Class B space, where most of the low-rise inventory is concentrated, posted a Q1 vacancy rate of just 10.73%, down 65 basis points from Q4.

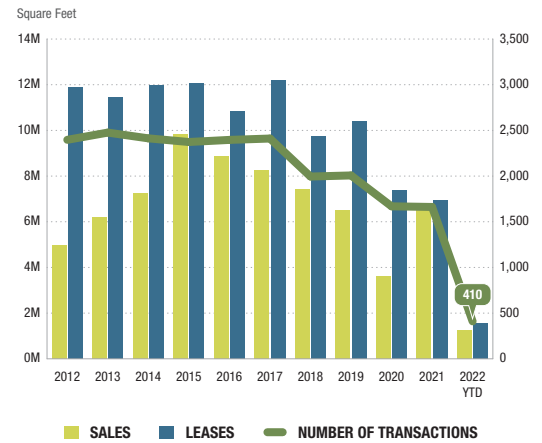
LEASE RATES. The average asking lease rate for all office space countywide rose a penny to \$2.75 in Q1. Class A space in the Airport Area is still the most expensive, ending the first quarter up slightly to \$3.19, followed closely by South County at \$2.96. Class B asking rents are highest in South County at \$2.82, up two cents, and lowest in North County at \$2.33, down seven cents in Q1. On a year-over-year basis, the overall average asking rate is unchanged, another indication that the market is stabilizing. However, most landlords are inclined to hold firm on their asking rates and be more flexible when it comes to negotiating concessions like free rent, free parking and tenant improvement allowances. So, the softness in the market is reflected in the gap between asking and effective rates.

TRANSACTION ACTIVITY. Lease and sale activity by square footage fell to 2.8 MSF in Q1 from 4.4 MSF in Q4, but the number of sale and lease transactions increased from 398 in Q4 to 410 in Q1. Countywide, 391 lease transactions and 19 sales were made in the current period. The higher lease count may reflect an increase in smaller transactions in Class B and Class C space. Many larger tenants, who tend to sign longer leases, are still unsure about their next moves, and some may be looking to reduce their footprint as they redesign their workspaces.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



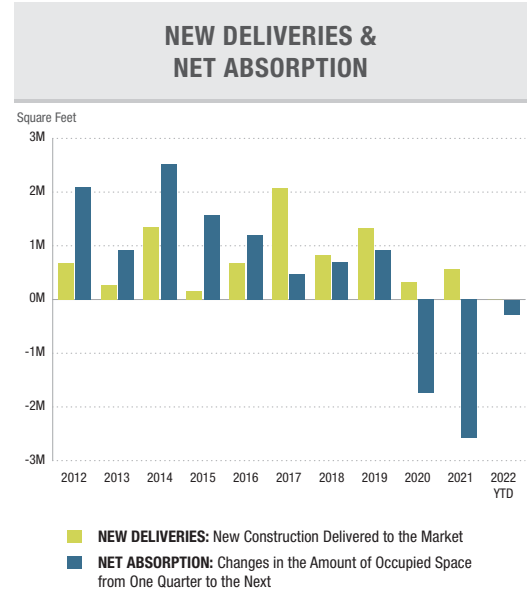
Market Statistics

	Change Over Last Quarter		1Q 2022	4Q 2021	1Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWNSIDE	DOWN	13.24%	13.79%	13.15%	0.64%
Availability Rate	▼ DOWNSIDE	DOWN	17.06%	17.10%	17.27%	(1.25%)
Average Asking Lease Rate	▲ UPSIDE	UP	\$2.75	\$2.74	\$2.75	0.00%
Sale & Lease Transactions	▼ DOWNSIDE	DOWN	2,794,084	4,378,734	1,821,650	53.38%
Gross Absorption	▲ UPSIDE	UP	2,508,561	1,206,229	1,670,869	50.14%
Net Absorption	▼ DOWNSIDE	NEGATIVE	(278,859)	(224,290)	(1,287,167)	N/A

ABSORPTION. Net absorption was still negative in Q1, as was expected, but the net loss in occupied space was moderate, rising just 54,569 SF to 278,859. That represents a significant improvement over the loss in Q1 of 2021, which totaled 1,287,167 SF, at a time when the full effects of pandemic lockdowns were still being felt. Irvine Spectrum, with its higher concentration of low-rise buildings, outperformed the rest of the county with a 374,367 net gain in occupied space.

CONSTRUCTION. Construction activity remains light, which eases upward pressure on vacancy. The construction queue is currently confined to just three projects, The Press in Costa Mesa along with Spectrum Terrace and Innovation Office Park in Irvine Spectrum. Low construction levels give the market a chance to get back into balance after being hit hard by the pandemic lockdowns. Currently, just over 993,161 SF is in the construction queue with another 986,408 in the planning stages.

EMPLOYMENT. The unemployment rate in Orange County was 3.7% in February 2022, down from a revised 4.2% in January 2022, and below the year-ago estimate of 7.4%. The bulk of the increase was in two sectors: Professional and Business Services (up 3,000 jobs), and Educational and Health Services (up 2,800 jobs).



Forecast

The office market has been in distress for two years, but the pandemic seems to be mostly in the rearview mirror with regard to planning decisions. Workplace design will be shaped by the degree to which businesses integrate work-from-home and hybrid work schedules. We are seeing normal redefined, and the pandemic's lasting effect will be less about public health than how workforces are deployed. Employees have adapted to the changes that were forced upon them and many of them have embraced those changes and choose to work where they can have the freedom and flexibility that supports their shift in personal priorities.

The new wild card in terms of the overall economy is the rise of inflation to levels not seen in over 40 years. At first thought to be transitory, the Fed held off on changing its monetary stance, but inflation has persisted, rising to 7.9% in February. That prompted the Federal Open Market Committee to end its bond-buying program and raise the Fed Funds Rate for the first time in four years. Additional rate hikes are expected throughout the year. Just how much the higher cost of capital will impact facilities decisions is still an unknown, but it is likely to be on every decision-maker's radar before making long-term lease commitments.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
500–600 Main St.	Orange	A	420,267	\$97,200,000	Lincoln Property Company	UBS Wealth Management
25500–25550 Commercentre Dr.	Lake Forest	B	321,381	\$96,000,000	Prologis, Inc.	Drawbridge Realty
10540 Talbert Ave.	Fountain Valley	B	111,986	\$26,450,000	KG Dongbu USA Inc.	Swift Real Estate Partners
2125 E Katella Ave.	Anaheim	A	106,068	\$31,500,000	Kingsbarn Realty Capital	Pendulum Property Partners
14351 Myford Rd.	Tustin	B	89,888	\$19,288,500	Panattoni Development Company, Inc.	Orange County Research Center

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1600 S. Douglass Rd. – Renewal	Anaheim	B	127,750	Mar-2022	Carrington Mortgage Services LLC	MultiEmployer Property Trust
15545 Sand Canyon Ave.	Irvine Spectrum	A	53,980	Jan-2022	Cap Diagnostics	The Irvine Company
2030 Main St. – Renewal	Irvine	A	45,590	Jan-2022	Wells Fargo Dealer Services	Third Avenue Investment
3100–3150 Bristol St.	Costa Mesa	A	39,650	Jan-2022	5.11 Inc.	Blackstone Inc.
3200 Bristol St. – Renewal	Costa Mesa	A	31,807	Feb-2022	Team Garage LLC	The Irvine Company



Return to the office... "Are we there yet?"

by **Russ Smith**

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"Shouldn't I be getting office space for free right now?" Some version of this question was asked frequently while I toured tenants through office space in 2020. We were all adjusting to life during a pandemic, especially in the office sector, and in that moment many of us were wondering if we would ever make it back to full-time work at our offices. Today we still see companies with concerns over bringing their workforces back in the same manner as before the pandemic, but the focus seems to be on when and how, rather than if.

Many in the office sector are predicting demand for office space to continue its recovery towards pre-pandemic levels. Vacancy and availability rates seemed to have topped out, and average asking lease rates remain flat. For the most part, office building owners have remained patient and worked diligently with their tenants throughout the pandemic to minimize sublease availability and delinquency.

Today, tenants looking for space seem to be taking their search seriously and are honing in on their space needs for the future. The flight to quality continues as companies are accepting the fact that they cannot eliminate, nor in some cases even reduce, their office footprint, so they want high-quality space that entices their employees to come into the office more often. In Orange County specifically, there seems to be a strong move towards newer, low-rise buildings rich in amenities. Developers like The Irvine Company are designing projects with modern amenities, such as walking paths, outdoor workspaces, conference centers, fitness centers, and onsite restaurants and cafes. This reveals that many companies with expiring leases are opting for free parking, private entries, and no elevators, versus high-rise buildings, even though the costs are similar.

For many companies, the way forward includes giving their workforce the option of a hybrid schedule, where they are in the office a few days a week and work from home the other days. Most office employees seem to prefer this over the traditional 9-5 work schedule, as confirmed by many recent surveys on employee preference for how and where they work. Having more control over their commute, and when their heavy focus hours happen during the day, is not something they want to give up. And given how competitive the labor market is, many employers are offering work-from-home flexibility to attract and retain talent. We may even see the four-day work week become a reality.

Please Contact Us for Further Information

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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