OC1Q22

FIRST QUARTER 2022 MARKET REPORT ORANGE COUNTY OFFICE



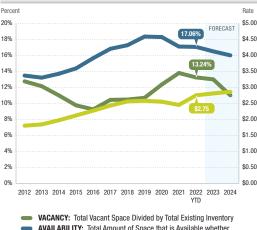
OVERVIEW. In our Q4 report we reported signs that the Orange County office market was stabilizing, and Q1 market performance confirmed our observations. Vacancy posted a moderate decline, average asking lease rates held steady and both gross and net absorption levels improved. The office market really 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 is 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



VACANCY: Total Vacant Space Divided by Total Existing Inventory
 AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
 AVERAGE ASKING LEASE RATE: FSG / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

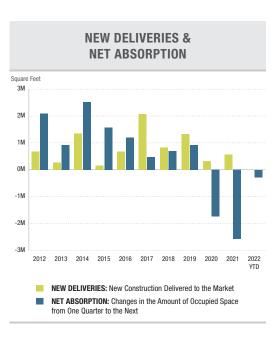
	Change Ove	r Last Quarter	10 2022	4Q 2021	1Q 2021	% Change Over Last Year	
Vacancy Rate		DOWN	13.24%	13.79%	13.15%	0.64%	
Availability Rate		DOWN	17.06%	17.10%	17.27%	(1.25%)	
Average Asking Lease Rate		UP	\$2.75	\$2.74	\$2.75	0.00%	
Sale & Lease Transactions		DOWN	2,794,084	4,378,734	1,821,650	53.38%	
Gross Absorption		UP	2,508,561	1,206,229	1,670,869	50.14%	
Net Absorption		NEGATIVE	(278,859)	(224,290)	(1,287,167)	N/A	

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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

<u> </u>								
Sales								
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller		
500-600 Main St.	Orange	Α	420,267	\$97,200,000	Lincoln Property Company	UBS Wealth Management		
25500–25550 Commercentre Dr.	Lake Forest	В	321,381	\$96,000,000	Prologis, Inc.	Drawbridge Realty		
10540 Talbert Ave.	Fountain Valley	В	111,986	\$26,450,000	KG Dongbu USA Inc.	Swift Real Estate Partners		
2125 E Katella Ave.	Anaheim	Α	106,068	\$31,500,000	Kingsbarn Realty Capital	Pendulum Property Partners		
14351 Myford Rd.	Tustin	В	89,888	\$19,288,500	Panattoni Development Company, Inc.	Orange County Research Center		
Leases								
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	0wner		
1600 S. Douglass Rd. – Renewal	Anaheim	В	127,750	Mar-2022	Carrington Mortgage Services LLC	MultiEmployer Property Trust		
15545 Sand Canyon Ave.	Irvine Spectrum	Α	53,980	Jan-2022	Cap Diagnostics	The Irvine Company		
2030 Main St. – Renewal	Irvine	Α	45,590	Jan-2022	Wells Fargo Dealer Services	Third Avenue Investment		
3100–3150 Bristol St.	Costa Mesa	Α	39,650	Jan-2022	5.11 Inc.	Blackstone Inc.		
3200 Bristol St. – Renewal	Costa Mesa	Α	31,807	Feb-2022	Team Garage LLC	The Irvine Company		

		INVENTORY			VAC	CANCY	& LEA	& LEASE RATES			ABSOF	RPTION	
	Number of	Net Rentable	Square Feet	Square Feet	Square Feet	Vacancy Rate	Square Feet	Availability Rate	Average Asking	Net Absorption	Net Absorption	Gross Absorption	Gross Absorption
	Bldgs.	Square Feet	U/C	Planned	Vacant	102022	Available	102022	Lease Rate	102022	2022	102022	2022
Airport Area													
Costa Mesa	70	7,267,585	449,206	0	1,215,156	16.72%	1,629,399	22.42%	\$3.17	88,781	88,781	176,087	176,087
Irvine	261	25,034,691	0	521,408	4,217,675	16.85%	5,545,420	22.15%	\$2.84	(35,344)	(35,344)	914,551	914,551
Newport Beach	121	9,974,901	0	0	1,248,947	12.52%	1,564,604	15.69%	\$3.05	(152,464)	(152,464)	108,511	108,511
Santa Ana Tustin	15 4	2,486,772 418,585	0	0	564,513 273,121	22.70% 65.25%	668,367 193,312	26.88% 46.18%	\$2.75 \$4.41	(78,851) (69,301)	(78,851) (69,301)	1,106 6,834	1,106 6,834
Airport Area Total	471	45,182,534	449,206	521.408	7,519,412	16.64%	9,601,102	21.25%	\$2.93	(247,179)	(247,179)	1,207,089	1,207,089
Central County	7/1	40,102,004	443,200	321,400	7,515,412	10.0470	3,001,102	21.2070	Ψ2.55	(241,110)	(241,113)	1,207,000	1,207,003
Anaheim	21	1,947,835	0	0	338,130	17.36%	431,722	22.16%	\$2.42	(39,899)	(39,899)	43,576	43,576
Orange	77	7,031,759	0	0	928,034	13.20%	1.540.485	21.91%	\$2.65	50,168	50,168	110,320	110,320
Santa Ana	164	12,219,360	0	0	1,784,390	14.60%	2,066,663	16.91%	\$2.45	(203,164)	(203,164)	66,470	66,470
Tustin	43	2,375,262	0	0	158,094	6.66%	246,921	10.40%	\$2.35	(3,717)	(3,717)	94,979	94,979
Central County Total	305	23,574,216	0	0	3,208,648	13.61%	4,285,791	18.18%	\$2.49	(196,612)	(196,612)	315,345	315,345
North County													
Anaheim Hills	80	6,359,976	0	0	434,595	6.83%	488,102	7.67%	\$2.12	(59,693)	(59,693)	41,601	41,601
Brea	40	3,925,482	0	0	363,163	9.25%	531,819	13.55%	\$2.58	(114,333)	(114,333)	52,437	52,437
Buena Park	16	1,048,740	0	0	9,753	0.93%	11,306	1.08%	\$2.13	11,020	11,020	11,020	11,020
Fullerton	29	2,329,741	0	0	142,223	6.10%	171,865	7.38%	\$2.78	(8,519)	(8,519)	25,677	25,677
La Habra	5	193,849	0	0	1,448	0.75%	916	0.47%	\$1.89	4,868	4,868	5,400	5,400
La Palma	10	720,556	0	0	70,305	9.76%	136,978	19.01%	\$1.92	3,175	3,175	5,988	5,988
Placentia Vorba Linda	8 5	267,581	0	0	33,696	12.59% 1.38%	49,754	18.59%	\$2.24 \$2.24	(665)	(665)	11,905 0	11,905
Yorba Linda		289,383			3,992		18,553	6.41%					
North County Total	193	15,135,308	0	0	1,059,175	7.00%	1,409,293	9.31%	\$2.37	(164,147)	(164,147)	154,028	154,028
South County Aliso Viejo	45	3,371,202	0	0	712 000	21.16%	07/ 070	28.92%	\$2.63	(06 000)	(06 000)	27.040	27.040
Dana Point	45	157,073	0	0	713,268	0.00%	974,870 0	0.00%	\$2.03	(26,890)	(26,890)	37,242 0	37,242 0
Foothill Ranch	9	735,061	0	0	71,913	9.78%	107,194	14.58%	\$3.25	15,246	15,246	22,818	22,818
Irvine Spectrum	180	14,087,001	543,955	0	1,500,565	10.65%	1,843,357	13.09%	\$2.97	374,367	374,367	535,413	535,413
Laguna Beach	6	194,004	0 10,000	0	15,495	7.99%	25,468	13.13%	\$2.72	(2,452)	(2,452)	1,000	1,000
Laguna Hills	33	1,828,152	0	465,000	294,257	16.10%	379,616	20.77%	\$2.81	5,497	5,497	51,332	51,332
Laguna Niguel	11	1,777,473	0	0	115,641	6.51%	120,373	6.77%	\$2.01	5,403	5,403	13,428	13,428
Lake Forest	41	2,202,827	0	0	318,546	14.46%	457,323	20.76%	\$2.24	(24,602)	(24,602)	7,647	7,647
Mission Viejo	37	2,044,691	0	0	350,891	17.16%	403,099	19.71%	\$3.08	(21,615)	(21,615)	13,502	13,502
Rancho Santa Margarita	6	252,716	0	0	18,850	7.46%	22,169	8.77%	\$2.26	0	0	0	0
San Clemente	10	465,252	0	0	64,170	13.79%	64,590	13.88%	\$2.86	(245)	(245)	9,160	9,160
San Juan Capistrano	20	971,944	0	0	26,891	2.77%	65,970	6.79%	\$2.62	1,690	1,690	3,280	3,280
South County Total	402	28,087,396	543,955	465,000	3,490,487	12.43%	4,464,029	15.89%	\$2.86	326,399	326,399	694,822	694,822
West County													
Cypress	27	1,903,928	0	0	229,206	12.04%	369,862	19.43%	\$2.39	474	474	22,988	22,988
Fountain Valley	33	1,999,041	0	0	86,025	4.30%	91,898	4.60%	\$1.75	34,801	34,801	34,801	34,801
Garden Grove	19	1,474,997	0	0	60,004	4.07%	101,188	6.86%	\$1.92	(1,783)	(1,783)	2,388	2,388
Huntington Beach Los Alamitos	42 12	3,162,294 665,928	0	0	338,372 59,808	10.70% 8.98%	401,492 27,592	12.70% 4.14%	\$2.85 \$2.54	(14,241) (782)	(14,241) (782)	45,556 3,307	45,556 3,307
Seal Beach	7	480,612	0	0	97,792	20.35%	61,796	12.86%	\$3.44	(15,507)	(15,507)	18,268	18,268
Stanton	4	143,361	0	0	10,428	7.27%	10,428	7.27%	\$1.58	2,085	2,085	5,077	5,077
Westminster	11	455,385	0	0	23,792	5.22%	29,312	6.44%	\$2.43	(2,367)	(2,367)	4,892	4,892
West County Total	155	10,285,546	0	0	905,427	8.80%	1,093,568	10.63%	\$2.62	2,680	2,680	137,277	137,277
Orange County Total	1,526	122,265,000	993,161	986,408	16,183,149	13.24%	20,853,783	17.06%	\$2.75	(278,859)	(278,859)	2,508,561	2,508,561
Airport Area	, , , , , , , , , , , , , , , , , , , ,	,,	, .		.,,		.,,			(-,,	(-,,	,,.	,,
Class A	137	26,474,513	449,206	238,600	5,185,445	19.59%	6,632,877	25.05%	\$3.19	(378,549)	(378,549)	680,895	680,895
Class B	318	18,001,317	0	282,808	2,290,988	12.73%	2,922,642	16.24%	\$2.80	87,813	87,813	518,166	518,166
Class C	16	706,704	0	0	42,979	6.08%	45,583	6.45%	\$2.97	43,557	43,557	8,028	8,028
Central County													
Class A	43	7,307,866	0	0	1,288,540	17.63%	1,888,821	25.85%	\$2.77	(21,097)	(21,097)	87,012	87,012
Class B	213	14,251,315	0	0	1,727,363	12.12%	2,149,831	15.09%	\$2.36	(170,000)	(170,000)	217,693	217,693
Class C	49	2,015,035	0	0	192,745	9.57%	247,139	12.26%	\$2.06	(5,515)	(5,515)	10,640	10,640
North County													
Class A	24	2,881,270	0	0	310,971	10.79%	406,929	14.12%	\$2.73	(39,068)	(39,068)	49,363	49,363
Class B	147	11,419,646	0	0	719,941	6.30%	974,451	8.53%	\$2.33	(119,589)	(119,589)	70,352	70,352
Class C	22	834,392	0	0	28,263	3.39%	27,913	3.35%	\$2.13	(5,490)	(5,490)	34,313	34,313
South County		40.0== 0==	0.45 =00	405.000	4 46 * 10=	40.000	4 000 17-	47	40.00	470.000	470 0-0	000 001	000 00 :
Class A	82	10,677,878	345,786	465,000	1,424,185	13.34%	1,829,176	17.13%	\$2.96	176,850	176,850	260,024	260,024
Class B	307	16,848,856	198,169	0	2,013,625	11.95%	2,516,137	14.93%	\$2.82	163,387	163,387	433,960	433,960
Class C	13	560,662	0	0	52,677	9.40%	118,716	21.17%	\$2.27	(13,838)	(13,838)	838	838
West County	4.4	1 400 151	•	^	000 000	04.000/	E47.004	04.000/	#0.70	(00.447)	(00.447)	10.000	10.000
Class A	14	1,482,154	0	0	368,893	24.89%	517,264	34.90%	\$2.76	(30,417)	(30,417)	12,300	12,300
Class B Class C	127 14	7,416,121 1,387,271	0	0	535,534 1,000	7.22% 0.07%	575,304 1,000	7.76% 0.07%	\$2.56 \$2.00	32,151 946	32,151 946	123,031 1,946	123,031 1,946
	14	1,301,211	U	U	1,000	0.0770	1,000	0.0770	ψ2.00	340	340	1,940	1,940
Orange County Class A	300	48,823,681	794,992	703,600	8,578,034	17.57%	11,275,067	23.09%	\$2.94	(292,281)	(292,281)	1,089,594	1,089,594
Class B	1,112	67,937,255	198,169	282,808	7,287,451	10.73%	9,138,365	13.45%	\$2.94	(6,238)	(6,238)	1,363,202	1,363,202
Class C	1,112	5,504,064	190,109	202,000	317,664	5.77%	440,351	8.00%	\$1.99	19,660	19,660	55,765	55,765
Orange County Total	1,526	122,265,000	993,161	986,408	16,183,149	13.24%	20,853,783	17.06%	\$2.75	(278,859)	(278,859)	2,508,561	2,508,561
- Jungo Godinty Total	1,020	11212200,000	000,101	-000,400	10,100,140	10124/0		11.00/0	Ψ2.173	(270,000)	(210,000)	<u></u>	

OC1Q22 FIRST QUARTER 2022 MARKET REPORT ORANGE COUNTY OFFICE





Return to the office... "Are we there yet?" **by Russ Smith**VICE PRESIDENT, IRVINE

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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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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-theart 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

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.