

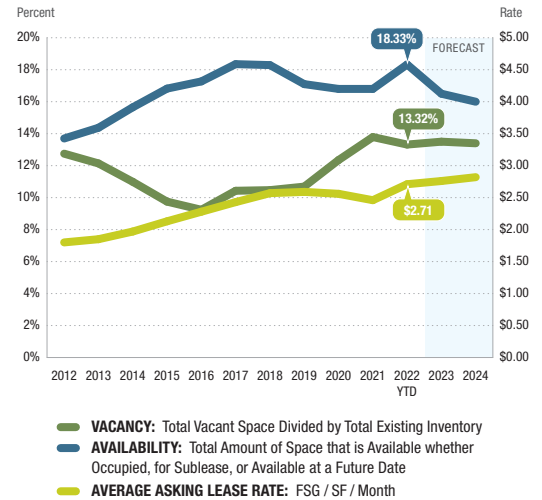
OVERVIEW. Orange County office market metrics were a mixed bag in Q3, as the market continued to struggle with its recovery from the pandemic-induced slowdown. Vacancy ticked slightly lower, but transaction activity and absorption were down sharply. Even though lockdowns are well behind us, the pandemic has had a lasting effect on the way traditional office users evaluate their demand for space. Hybrid and work-from-home business models have not gone away, as many workers have taken a liking to the increased flexibility and lifestyle changes being away from the office affords. National studies show that over half the office workforce is still not in the office full time. Unsure how long this phenomenon will last, business owners are hesitant to commit to new long-term leases, opting instead to maintain a wait-and-see approach. Thankfully, the market is facing its challenges without the burden of high levels of construction, which plagued the office market in previous down cycles.

VACANCY & AVAILABILITY. The overall vacancy rate in Q3 moved slightly lower, ending the period at 13.32%, a decline of 23 basis points. Year over year, vacancy has fallen by 36 basis points, which indicates the overall market has stabilized. However, Class A buildings are still carrying the bulk of the vacancy due to their bigger price tag, higher employee density, need for elevator access and extensive common areas. The Class A vacancy rate countywide for Q3 was 18.5%, up from 18.1% in Q2. Class B space, where most of the low-rise inventory is concentrated, posted a Q3 vacancy rate of just 10.32%, a decline of 65 basis points. The availability rate, which includes occupied space offered for lease or sublease, rose by 89 basis points during the period, an indicator of a rise in sublease activity.

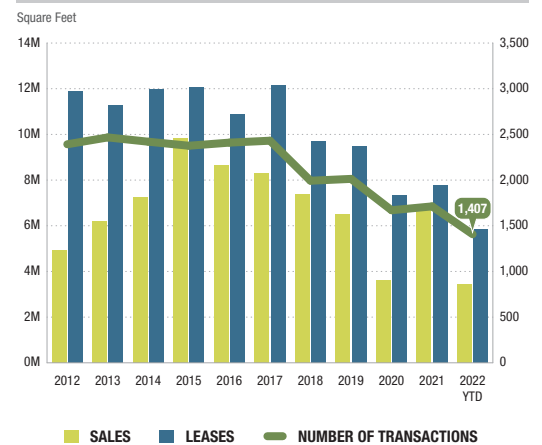
LEASE RATES. The average asking lease rate for all office space countywide fell slightly during Q3, down \$0.04 to \$2.71. Class A space in the Airport Area is still the most expensive, but it slipped by \$0.11 to end the period at \$3.10, followed closely by South County, which fell \$0.06 to \$2.88. Class B asking rents are still highest in Airport Area at \$2.74, down 4 cents, and lowest in Central County at \$2.33, up 9 cents during the period. On a year-over-year basis, the overall average asking rate is down by 3 cents, a 1.1% decline. Considering the degree to which the office market was impacted by the pandemic, it has shown remarkable resilience.

TRANSACTION ACTIVITY. Lease and sale activity fell to 2.1 MSF in Q3 from over 3.5 MSF in Q2, and the number of sale and lease transactions decreased to 358 in Q3 from 538 in Q2. Countywide, 346 lease transactions and 12 sales were made during the third quarter. Lower activity levels continue to reflect the uncertainty of larger tenants, many of whom are unwilling to make major leasing commitments given the changes in workforce preferences and increasing doubt about the general economy. So, most of the activity is in the smaller size ranges. The largest lease deal of the quarter was a 72,427 SF renewal by First Foundation Inc. at 18101 Von Karman Avenue in Irvine. The largest sale of the period was a 50,023 SF acquisition by EKN Development at 17780 Fitch Avenue.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



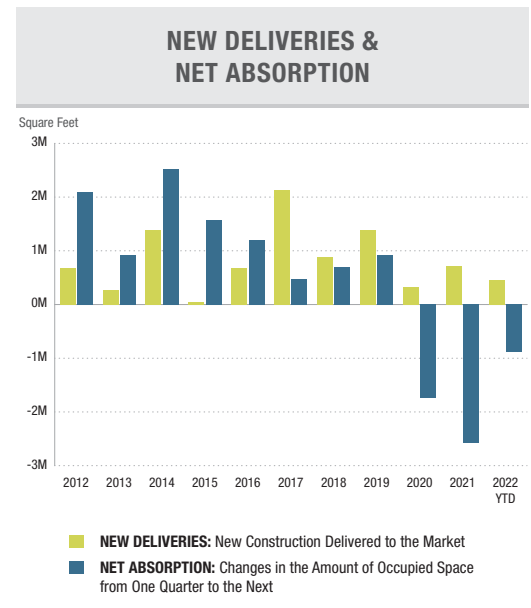
Market Statistics

	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	13.32%	13.55%	13.68%	(2.61%)
Availability Rate	▲ UP	18.33%	16.80%	18.29%	0.21%
Average Asking Lease Rate	▼ DOWN	\$2.71	\$2.75	\$2.74	(1.09%)
Sale & Lease Transactions	▼ DOWN	2,099,641	3,579,969	4,375,778	(52.02%)
Gross Absorption	▼ DOWN	2,274,113	3,537,622	2,647,987	(14.12%)
Net Absorption	▼ NEGATIVE	(413,803)	(198,002)	(547,912)	N/A

ABSORPTION. Net absorption, the change in occupied space quarter to quarter, fell further into negative territory in Q3 with a net loss of 413,803 SF, more than double the loss of 198,002 SF in Q2. The biggest loss was suffered in Central County at almost 259,000 SF, primarily due to the vacating of a 171,330 SF space by Collector Universe in Santa Ana. South County was the only submarket to post a net gain in occupied space, primarily due to a strong quarter for the Irvine Spectrum where the Irvine Company is dominant. By building class, it was Class A that took the entire loss, posting a decline in occupied space of over 531,000 SF, while Class B and Class C both posted modest gains. Year to date, negative net absorption stands at more than 890,000 SF on a base of 122 MSF.

CONSTRUCTION. The construction queue was unchanged in Q3 at 1,051,000 SF in the only three active projects: The Press in Costa Mesa, the Spectrum Terrace, and Innovation Office Park in the Irvine Spectrum. Another 1,680,000 SF is in the planning stages, with locations in Irvine and Laguna Hills. Until changes to the way office space is being used are sorted out, construction activity will remain light, which bodes well for existing landlords as they grapple with high vacancy.

EMPLOYMENT. The unemployment rate in Orange County was 3.0% in August 2022, up from a revised 2.8% in July 2022, and below the year-ago estimate of 6.0%. Five sectors declined over the month: other services (down 3,100 jobs), leisure and hospitality (down 1,400 jobs), financial activities (down 600 jobs), information (down 400 jobs), and professional and business services (down 300 jobs).



Forecast

The office market remains challenging and will continue to face evolution beyond pre-pandemic realities. The unexpected success of the previously forced work-from-home environment has slowed decision making enough to keep requirements of all sizes on the sidelines. We expect this uncertainty to continue into next year, which will keep asking lease rates flat and net absorption in negative territory. However, effective rates are likely to move lower, as landlords increase concessions like free rent and tenant improvement allowances to attract tenants.

On the economic front, inflation continues to loom large and that has businesses looking to cut costs wherever possible, including office rents. This will keep downward pressure on Class A rents, but may also give an additional boost to Class B buildings that offer similar amenities for less.

Significant Transactions

Sales

Property Address	City	Class	Square Feet	Total Price	Buyer	Seller
17780 Fitch	Irvine	B	50,023	\$13,110,000	EKN Development Group	Online Trading Academy
1621 Alton Pkwy.	Irvine	B	46,236	\$20,775,000	Saddleback Church	Ergo Capital Partners
12951 Euclid St.	Garden Grove	B	45,451	\$14,000,000	The Brooklyn Companies	Pacific Development Partners
7390 Lincoln Way	Garden Grove	B	41,184	\$20,000,000	Scannell Properties	Pacific Bay Lending Group
2650 E. Imperial Hwy.	Brea	B	29,641	\$7,620,000	ISYS Solutions, Inc.	Mahn Properties, LLC

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
18101 Von Karman Ave. - Renewal	Irvine	A	72,427	Aug-2022	First Foundation Inc.	Lakeshore Land Owner Pt LLC
2642 Michelle Dr.	Tustin	B	46,277	Aug-2022	General Services Administration	Excelsior Partners LLC
85 Enterprise	Aliso Viejo	A	32,921	Aug-2022	General Services Administration	Enterprise Office Owner LLC
100 Technology Dr.	Irvine Spectrum	B	31,603	Aug-2022	Mullen Automotive	The Irvine Company
895 Dove St. - Renewal	Newport Beach	A	28,558	Jul-2022	Newmeyer & Dillion, LLC	Newport Plaza Office LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Airport Area													
Costa Mesa	70	7,267,585	449,206	0	1,208,918	16.63%	1,794,238	24.69%	\$2.96	24,453	125,594	235,022	648,546
Irvine	261	25,034,691	0	1,215,304	4,019,926	16.06%	5,757,083	23.00%	\$2.80	9,170	(134,489)	494,740	2,495,636
Newport Beach	121	9,974,901	0	0	1,145,587	11.48%	1,417,519	14.21%	\$3.01	(68,630)	(182,239)	180,056	592,255
Santa Ana	15	2,486,772	0	0	616,623	24.80%	724,212	29.12%	\$2.75	(34,263)	(155,381)	918	42,235
Tustin	4	418,585	0	0	177,017	42.29%	143,199	34.21%	\$4.40	13,918	28,551	13,918	107,395
Airport Area Total	471	45,182,534	449,206	1,215,304	7,168,071	15.86%	9,836,251	21.77%	\$2.86	(55,352)	(317,964)	924,654	3,886,067
Central County													
Anaheim	21	1,947,835	0	0	458,159	23.52%	534,350	27.43%	\$2.45	5,342	(98,388)	5,456	80,937
Orange	77	7,031,759	0	0	1,019,422	14.50%	1,683,055	23.94%	\$2.64	(80,385)	(112,290)	137,925	360,784
Santa Ana	164	12,219,360	0	0	1,950,653	15.96%	2,231,483	18.26%	\$2.49	(167,899)	(426,817)	263,201	481,340
Tustin	43	2,375,262	0	0	185,171	7.80%	185,035	7.79%	\$1.74	(16,031)	(50,481)	10,671	115,741
Central County Total	305	23,574,216	0	0	3,613,405	15.33%	4,633,923	19.66%	\$2.46	(258,973)	(687,976)	417,253	1,038,802
North County													
Anaheim Hills	80	6,359,976	0	0	594,919	9.35%	636,780	10.01%	\$2.47	(164,560)	(235,952)	93,118	199,671
Brea	40	3,925,482	0	0	465,779	11.87%	631,329	16.08%	\$2.65	(20,828)	(190,695)	43,621	135,698
Buena Park	16	1,048,740	0	0	15,788	1.51%	14,841	1.42%	\$2.14	4,785	4,654	5,910	17,130
Fullerton	29	2,329,741	0	0	131,613	5.65%	145,525	6.25%	\$2.71	10,242	(101)	39,725	91,058
La Habra	5	193,849	0	0	2,282	1.18%	3,243	1.67%	\$1.79	165	3,502	165	5,565
La Palma	10	720,556	0	0	90,351	12.54%	128,579	17.84%	\$1.91	9,700	3,261	33,366	41,544
Placentia	8	267,581	0	0	31,732	11.86%	49,086	18.34%	\$2.25	2,113	(3,572)	5,383	22,058
Yorba Linda	5	289,383	0	0	7,060	2.44%	21,621	7.47%	\$2.27	0	0	0	0
North County Total	193	15,135,308	0	0	1,339,524	8.85%	1,631,004	10.78%	\$2.51	(158,383)	(418,903)	221,288	512,724
South County													
Aliso Viejo	45	3,371,202	0	0	742,875	22.04%	956,004	28.36%	\$2.59	(52,504)	(50,414)	46,384	147,929
Dana Point	4	157,073	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	9	735,061	0	0	56,370	7.67%	92,708	12.61%	\$3.75	22,833	30,789	50,024	73,642
Irvine Spectrum	180	14,087,001	601,848	0	1,321,437	9.38%	2,488,129	17.66%	\$2.85	92,495	598,992	383,595	1,948,465
Laguna Beach	6	194,004	0	0	13,015	6.71%	22,988	11.85%	\$2.63	0	(1,472)	0	3,848
Laguna Hills	33	1,828,152	0	465,000	289,994	15.86%	345,703	18.91%	\$2.78	16,087	14,699	44,149	145,160
Laguna Niguel	11	1,777,473	0	0	84,431	4.75%	100,501	5.65%	\$2.13	(8,797)	(4,758)	11,009	27,658
Lake Forest	41	2,202,827	0	0	321,673	14.60%	393,808	17.88%	\$2.19	27,888	(36,138)	71,882	86,666
Mission Viejo	37	2,044,691	0	0	355,070	17.37%	391,010	19.12%	\$2.96	(5,858)	(30,348)	32,990	74,427
Rancho Santa Margarita	6	252,716	0	0	21,399	8.47%	22,517	8.91%	\$2.26	(2,549)	(2,872)	0	3,411
San Clemente	10	465,252	0	0	50,031	10.75%	54,864	11.79%	\$2.95	(2,099)	8,445	5,639	27,025
San Juan Capistrano	20	971,944	0	0	48,762	5.02%	59,931	6.17%	\$2.54	(3,555)	(20,181)	8,587	13,740
South County Total	402	28,087,396	601,848	465,000	3,305,057	11.77%	4,928,163	17.55%	\$2.77	83,941	506,742	654,259	2,551,971
West County													
Cypress	27	1,903,928	0	0	238,625	12.53%	568,627	29.87%	\$2.51	399	(21,411)	1,699	32,424
Fountain Valley	33	1,999,041	0	0	101,170	5.06%	120,701	6.04%	\$1.88	(12,477)	18,891	416	37,992
Garden Grove	19	1,474,997	0	0	61,075	4.14%	60,886	4.13%	\$2.04	758	(3,044)	11,100	19,268
Huntington Beach	42	3,162,294	0	0	329,968	10.43%	453,991	14.36%	\$3.01	13,402	4,826	39,582	110,193
Los Alamitos	12	665,928	0	0	31,656	4.75%	41,668	6.26%	\$2.53	(4,581)	23,153	0	37,340
Seal Beach	7	480,612	0	0	65,235	13.57%	70,194	14.61%	\$3.42	(4,248)	7,362	3,070	59,896
Stanton	4	143,361	0	0	5,182	3.61%	5,182	3.61%	\$1.97	(1,083)	4,079	792	10,053
Westminster	11	455,385	0	0	27,844	6.11%	56,044	12.31%	\$2.43	(17,206)	(6,419)	0	23,566
West County Total	155	10,285,546	0	0	860,755	8.37%	1,377,293	13.39%	\$2.63	(25,036)	27,437	56,659	330,732
Orange County Total	1,526	122,265,000	1,051,054	1,680,304	16,286,812	13.32%	22,406,634	18.33%	\$2.71	(413,803)	(890,664)	2,274,113	8,320,296
Airport Area													
Class A	137	26,474,513	449,206	932,496	5,125,014	19.36%	6,791,435	25.65%	\$3.10	(159,956)	(559,981)	506,646	2,305,804
Class B	318	18,001,317	0	282,808	2,016,270	11.20%	2,949,685	16.39%	\$2.74	104,140	199,708	379,046	1,494,123
Class C	16	706,704	0	0	26,787	3.79%	95,131	13.46%	\$2.87	464	42,309	38,962	86,140
Central County													
Class A	43	7,307,866	0	0	1,638,224	22.42%	2,231,837	30.54%	\$2.84	(251,147)	(323,188)	118,219	331,785
Class B	213	14,251,315	0	0	1,798,650	12.62%	2,117,674	14.86%	\$2.33	(9,080)	(378,482)	279,827	641,828
Class C	49	2,015,035	0	0	176,531	8.76%	284,412	14.11%	\$2.03	1,254	13,694	19,207	65,189
North County													
Class A	24	2,881,270	0	0	539,425	18.72%	664,555	23.06%	\$2.71	(167,189)	(234,465)	58,095	109,648
Class B	147	11,419,646	0	0	773,485	6.77%	939,095	8.22%	\$2.47	10,310	(180,586)	162,123	360,559
Class C	22	834,392	0	0	26,614	3.19%	27,354	3.28%	\$2.10	(1,504)	(3,852)	1,070	42,517
South County													
Class A	82	10,677,878	345,786	465,000	1,374,786	12.88%	2,200,083	20.60%	\$2.88	23,338	286,195	317,681	1,220,632
Class B	307	16,848,856	256,062	0	1,917,539	11.38%	2,713,808	16.11%	\$2.72	48,357	222,588	320,707	1,312,046
Class C	13	560,662	0	0	12,732	2.27%	14,272	2.55%	\$2.28	12,246	(2,041)	15,871	19,293
West County													
Class A	14	1,482,154	0	0	353,625	23.86%	746,252	50.35%	\$2.70	23,597	(5,775)	33,772	56,927
Class B	127	7,416,121	0	0	502,730	6.78%	627,891	8.47%	\$2.57	(47,733)	35,666	22,887	271,859
Class C	14	1,387,271	0	0	4,400	0.32%	3,150	0.23%	\$2.00	(900)	(2,454)	0	1,946
Orange County													
Class A	300	48,823,681	794,992	1,397,496	9,031,074	18.50%	12,634,162	25.88%	\$2.88	(531,357)	(837,214)	1,034,413	4,024,796
Class B	1,112	67,937,255	256,062	282,808	7,008,674	10.32%	9,348,153	13.76%	\$2.48	105,994	(101,106)	1,164,590	4,080,415
Class C	114	5,504,064	0	0	247,064	4.49%	424,319	7.71%	\$1.97	11,560	47,656	75,110	215,085
Orange County Total	1,526	122,265,000	1,051,054	1,680,304	16,286,812	13.32%	22,406,634	18.33%	\$2.71	(413,803)	(890,664)	2,274,113	8,320,296

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.



Uncertainty Continues for the Orange County Office Market

by **Stefan Rogers, MRICS**

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Time has flown by since the pandemic's initial impact on the office market, but the fallout continues, and uncertainty still reigns. Hybrid and remote policies are still evolving and still heavily impacting office space demand. Add to that a huge dose of economic uncertainty, and it's no wonder there's no clear recovery in sight for Orange County office space.

Regional office use as a percentage of pre-pandemic attendance has largely plateaued in the low 40% range, a massive shift. Corporate America continues to offload space, which has driven the availability rate in Class A and B+ properties to increase, sitting now at approximately 25% countywide.

On the flip side, we are starting to see more businesses committing to longer lease terms, and the past four quarters recorded the highest level of new leasing activity since the start of the pandemic, with more than 2 MSF of new leases signed during each quarter. However, that's still about 15% less than the typical quarter from 2016–19. And the median time-on-market for available space is the highest in almost ten years. The office market recovery, if you can call it that, is still very much in its early stages. Given that firms have adopted different strategies for working from the office with hybrid and remote models, a full recovery to pre-pandemic norms is not anticipated in the near-term forecast.

There's now a 20% delta between asking rents for sublease space and asking rents for direct space in Orange County, a huge challenge for landlords trying to achieve market rents in their buildings. This of course presents an obvious opportunity for tenants looking to secure value deals on sublease space.

However, rental values are showing early signs of a recovery, with most of the growth focused on newer, well-amenitized Class A and B+ low-rise. The best quality space typically leases first, and attracts the highest rents, which we've seen amplified recently as businesses look to reimagine and "weaponize" their workplaces to attract employees back to the office. The Irvine Company typically leads the market in developing new workplace environments and has seen the lion's share of leasing activity at Spectrum Terrace and Innovation Park, attracting brands such as Amazon, Apple, and Hyundai Genesis.

Office landlords face a continuous and prolonged headwind when it comes to attracting and retaining tenants, and maintaining face rental values, at least in older, lower quality and less-amenitized buildings. As the dust settles, we're seeing quite a few of these properties developed into multifamily, last-mile distribution and light industrial, as growing obsolescence drives office values down. We expect this trend to continue as the office market evolves over the coming years.

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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