

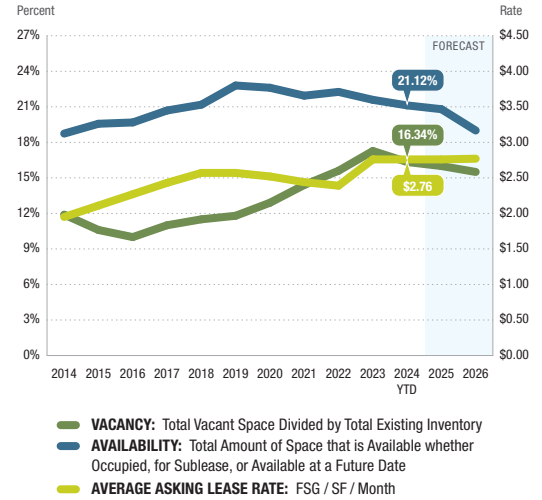
OVERVIEW. The Orange County office market continued to struggle in Q2 as it continues to face significant challenges. Asking rents were flat, but effective rates after generous tenant concessions tell a different story. Net absorption remained in negative territory. Lease and sale activity fell again by square footage and transaction count. Vacancy moved lower but that was due primarily to some larger spaces being removed from the speculative inventory after being sold to owner / users. The shift in workplace dynamics continues to disrupt the market and many business owners are still battling with the pandemic-induced work-from-home and hybrid-work dilemmas. Short-term renewals and downsizing are both on the rise. Amenity-rich buildings in premier locations continued to see the most activity. The sale market is very soft with several Class A buildings selling for significantly less than their previous values.

VACANCY & AVAILABILITY. The overall vacancy rate decreased to 16.34% in Q2 from 16.83% in Q1. The decrease was mainly due to several large spaces being removed from the speculative inventory because they were sold to owner / users or were no longer being marketed due to the property being repurposed to multi-family. Class A building owners continue to face the biggest challenge in the office sector. Class A vacancy has risen to almost 22%, while availability has increased to almost 28%. The Airport Area has the largest inventory of Class A space at 25.7 MSF, and 22.45% of that total is currently vacant. Large blocks of space, which are slower to move, are concentrated in that area. Class B and C buildings are faring much better across all submarkets with a current vacancy rate of 12.83% and 5.82%, respectively. Class B buildings represent just over half of the county's 104.3 MSF inventory, while Class C's share is just 4%.

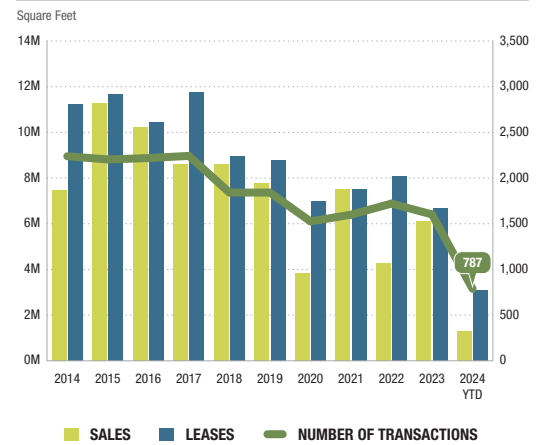
LEASE RATES. The average asking lease rate across all building classes countywide moved up a penny to \$2.76 in Q2, but asking rents, as we have been reporting, do not accurately reflect complete market conditions. The effective rate, which accounts for concessions like free rent, over-standard tenant improvements, signing bonuses and moving allowances offered to tenants, moved lower again in Q2. Landlords do their best to maintain their coupon or "face" rate in their lease documentation, as they believe it better positions their properties for refinancing and disposition. The highest average asking lease rate is for Class A space in the Irvine Spectrum, in a submarket dominated by The Irvine Company.

TRANSACTION ACTIVITY. Lease and sale activity fell again in Q2, declining to 1,997,061 SF from 2,376,381 SF in Q1. 376 lease transactions were completed compared with 398 in Q1, and total square feet leased fell by 150,000 SF for the second consecutive quarter. Leasing activity is primarily concentrated in spaces under 10,000 SF, while larger blocks of space are seeing little activity. Sale transaction count fell from 8 to 5 and total square footage sold declined to 537,688 SF from 767,903 SF in Q1. The biggest sale was closed at 2020 Main Street in Irvine. The 271,106 SF building sold for just \$53,715,000, or \$198.13 PSF. Another 242,706 SF building at 45 Enterprise in Aliso Viejo was sold to an owner / user for \$44,250,000, or \$182.32 PSF. Both of these prices represent a steep discount to pre-pandemic pricing.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



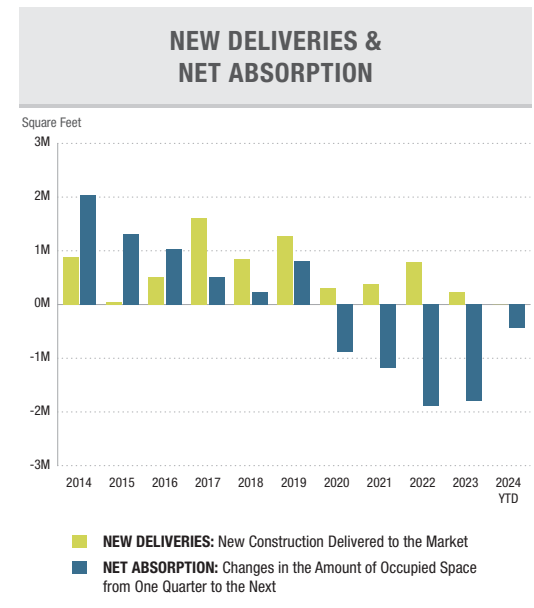
Market Statistics

	Change Over Last Quarter	Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▼ DOWN	16.34%	16.83%	17.04%	(4.13%)
Availability Rate	▼ DOWN	21.12%	21.59%	22.61%	(6.60%)
Average Asking Lease Rate	▲ UP	\$2.76	\$2.75	\$2.64	4.55%
Sale & Lease Transactions	▼ DOWN	1,997,061	2,376,381	3,251,320	(38.58%)
Gross Absorption	▲ UP	2,909,409	2,467,193	1,805,694	61.12%
Net Absorption	▼ NEGATIVE	(225,869)	(207,467)	(499,618)	N/A

ABSORPTION. Countywide net absorption remained solidly in negative territory again in Q2, ending the quarter with a net loss in occupied space of 225,869 SF, a little more than the negative 207,467 SF in the first period. Large blocks of space are languishing on the market for extended periods and a significant portion of those tenants with active requirements are downsizing in response to work-from-home and hybrid workplace trends. As previously reported, projects rich in amenities are faring best across all building classes, as business owners looking for space are doing their best to encourage employees to spend more time in the office.

CONSTRUCTION. For the second consecutive period, no new construction activity was reported throughout the county. This is good news for the owners of existing projects in all building classes. The lack of new inventory softens the blow delivered by the substantive decline in leasing activity. This allows the owners of existing buildings to compete more effectively, and stops the migration of tenants to first-generation product, which is typical in markets that have a steady stream of new deliveries. However, some of Orange County's inventory is aging and lacks the latest amenities business owners are looking for to attract and retain employees. Surprisingly, 1.2 MSF of office space is in the planning queue, but none of it is expected to break ground any time soon.

EMPLOYMENT. Orange County's unemployment rate decreased to 3.2% in May 2024, down from 3.7% in April 2024. Several sectors crucial to office space demand demonstrated growth. Professional and business services, a significant driver of office occupancy, added 300 jobs. Additionally, the government sector, which often requires office space, increased by 600 jobs.



Forecast

The office market will continue to experience difficulty going forward. Problems associated with changes in workplace dynamics have no clear solution. While companies are pulling out all the stops to entice workers back into the office, fewer than half of all office employees are back in the office full time. This is not just an Orange County problem—it is a national problem and it will be with us for the foreseeable future. Office building owners who have the capital and are committed for the long term may be wise to invest in amenities that will shorten marketing time and retain existing tenants. But those struggling with high vacancy and who also have loans reaching maturity could be in trouble. Underwriting criteria are tightening up and interest rates have more than doubled since most loans were originated. We have already seen several high-profile Class A projects trade at deep discounts as a result. This trend will continue over the next couple of years as the number of loans that need to be refinanced increases.

Significant Transactions

Sales

Property Address	City	Class	Square Feet	Total Price	Buyer	Seller
2020 Main St.	Irvine	A	271,106	\$53,715,000	MGR Real Estate	PRISA 2020 Main LLC
45 Enterprise	Aliso Viejo	A	242,706	\$44,250,000	MicroVention	Pacific Life Insurance Company
999 Town & Country Rd.	Orange	B	98,907	\$17,900,000	N/A	Frontal EW Town & Country, LLC
1 Banting	Irvine Spectrum	B	69,948	\$60,000,000	1 Banting LLC	Telemetry Properties LLC
640 N. Tustin Ave.	Santa Ana	C	29,300	\$4,400,000	Holiday Travel Park, LLC	Paul Terrence & Lisa Kott

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2050 Main St. - Renewal	Irvine	A	44,304	Apr-2024	Fisher & Phillips LLP	2050 Main Street Holdings, LLC
19540 Jamboree Rd. - Renewal	Irvine	A	38,898	May-2024	Consumer Portfolio Services, Inc.	Jacaranda Holdings LLC
3075 E. Imperial Hwy. - Renewal	Brea	B	35,390	Apr-2024	CMRE Financial Service	F.E. Colyear Properties, LLC
2035 E. Ball Rd. - Renewal	Anaheim	B	28,644	Apr-2024	Orange County Health Care Agency	Stadium Corporate Plaza
18500 Von Karman Ave.	Irvine	A	20,528	Apr-2024	K2 Speed	The Irvine Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	60	6,809,973	0	0	1,495,533	21.96%	1,879,278	27.60%	\$3.13	3,992	40,519	220,655	381,626
Irvine	243	24,107,217	0	465,188	4,391,332	18.22%	5,813,762	24.12%	\$2.81	(173,827)	(271,772)	749,717	1,294,020
Newport Beach	104	9,174,665	0	0	1,213,438	13.23%	1,864,311	20.32%	\$3.05	45,415	(51,481)	158,236	307,647
Santa Ana	9	1,980,930	0	0	556,602	28.10%	595,293	30.05%	\$2.57	31,778	11,090	31,778	49,978
Tustin	4	418,585	0	0	47,049	11.24%	70,043	16.73%	\$4.70	16,291	55,793	16,291	42,432
Airport Area Total	420	42,491,370	0	465,188	7,703,954	18.13%	10,222,687	24.06%	\$2.90	(76,351)	(215,851)	1,176,677	2,075,703
Central County													
Anaheim	21	1,964,515	0	150,000	438,973	22.35%	460,481	23.44%	\$2.50	(12,463)	(2,931)	41,358	92,704
Orange	63	6,074,976	0	0	1,129,515	18.59%	1,635,635	26.92%	\$2.11	(30,330)	(48,389)	37,160	93,381
Santa Ana	130	9,469,914	0	150,000	1,654,030	17.47%	2,113,566	22.32%	\$2.41	(35,203)	1,220	295,724	554,667
Tustin	38	1,965,050	0	0	173,799	8.84%	187,375	9.54%	\$1.90	7,885	(28,762)	26,725	67,133
Central County Total	252	19,474,455	0	300,000	3,396,317	17.44%	4,397,057	22.58%	\$2.32	(70,111)	(78,862)	400,967	807,885
North County													
Anaheim Hills	64	4,288,625	0	0	504,070	11.75%	560,287	13.06%	\$2.40	6,898	(45,074)	73,413	99,066
Brea	37	3,756,649	0	0	468,831	12.48%	639,684	17.03%	\$2.61	(63,067)	(101,027)	100,692	310,245
Buena Park	18	1,204,984	0	0	81,567	6.77%	80,674	6.70%	\$2.39	(5,607)	(48,752)	20,824	24,669
Fullerton	16	867,909	0	0	59,232	6.82%	127,204	14.66%	\$2.29	(4,323)	4,998	7,611	38,745
La Habra	3	115,103	0	0	5,246	4.56%	5,246	4.56%	\$1.78	(402)	(1,152)	0	0
La Palma	7	542,913	0	0	167,931	30.93%	166,336	30.64%	\$0.00	(60,997)	(72,836)	2,042	16,008
Placentia	6	197,762	0	0	46,014	23.27%	43,304	21.90%	\$2.01	(1,951)	(4,377)	11,468	12,919
Yorba Linda	5	289,383	0	0	21,160	7.31%	22,997	7.95%	\$2.25	0	200	0	200
North County Total	156	11,263,328	0	0	1,354,051	12.02%	1,645,732	14.61%	\$2.46	(129,449)	(268,020)	216,050	501,852
South County													
Aliso Viejo	36	2,675,982	0	0	902,657	33.73%	1,242,615	46.44%	\$2.75	(109,349)	(140,430)	316,916	499,951
Dana Point	3	127,999	0	0	0	0.00%	0	0.00%	\$0.00	900	2,100	1,200	2,400
Foothill Ranch	7	639,436	0	0	235,804	36.88%	237,554	37.15%	\$2.50	(18,207)	(13,650)	7,243	48,138
Irvine Spectrum	170	13,329,781	0	0	1,721,225	12.91%	2,287,220	17.16%	\$3.17	106,997	97,105	623,370	957,536
Laguna Beach	4	124,004	0	0	4,944	3.99%	4,944	3.99%	\$0.00	0	0	0	0
Laguna Hills	28	1,341,232	0	465,000	240,760	17.95%	282,643	21.07%	\$2.72	(1,455)	22,816	16,916	85,196
Laguna Niguel	7	395,699	0	0	81,738	20.66%	83,047	20.99%	\$2.37	(9,360)	(4,350)	868	11,140
Lake Forest	40	2,172,465	0	0	327,548	15.08%	332,835	15.32%	\$2.14	22,231	74,979	40,581	153,923
Mission Viejo	24	1,276,103	0	0	244,615	19.17%	301,002	23.59%	\$2.30	2,386	(1,439)	21,097	36,266
Rancho Santa Margarita	5	212,716	0	0	21,252	9.99%	28,397	13.35%	\$2.41	2,107	2,107	2,107	2,107
San Clemente	8	411,212	0	0	30,971	7.53%	32,492	7.90%	\$2.72	538	(5,790)	3,431	12,778
San Juan Capistrano	19	944,993	0	0	28,504	3.02%	54,333	5.75%	\$2.82	1,431	16,958	3,142	24,934
South County Total	351	23,651,622	0	465,000	3,840,018	16.24%	4,887,082	20.66%	\$2.91	(1,781)	50,406	1,036,871	1,834,369
West County													
Cypress	27	1,819,947	0	0	162,684	8.94%	202,323	11.12%	\$2.43	5,805	7,114	8,805	27,344
Fountain Valley	26	1,180,227	0	0	38,409	3.25%	38,499	3.26%	\$2.00	2,792	1	3,567	3,567
Garden Grove	14	710,092	0	0	55,553	7.82%	57,502	8.10%	\$2.09	7,081	14,068	13,303	22,595
Huntington Beach	32	1,805,421	0	0	287,655	15.93%	338,677	18.76%	\$2.12	25,303	32,805	37,059	66,053
Los Alamitos	8	441,664	0	0	6,268	1.42%	7,416	1.68%	\$2.35	8	(3,484)	1,392	2,912
Seal Beach	6	452,518	0	0	51,856	11.46%	64,875	14.34%	\$3.47	0	8,997	1,708	11,656
Stanton	4	143,361	0	0	18,261	12.74%	19,777	13.80%	\$1.92	7,633	13,539	7,633	13,539
Westminster	11	445,789	0	0	59,105	13.26%	59,105	13.26%	\$2.50	3,201	5,951	5,377	9,127
West County Total	128	6,999,019	0	0	679,791	9.71%	788,174	11.26%	\$2.49	51,823	78,991	78,844	156,793
Orange County Total	1,307	103,879,794	0	1,230,188	16,974,131	16.34%	21,940,732	21.12%	\$2.76	(225,869)	(433,336)	2,909,409	5,376,602
Airport Area													
Class A	122	25,731,847	0	182,380	5,775,850	22.45%	7,406,213	28.78%	\$3.09	(78,597)	(84,133)	774,823	1,360,215
Class B	280	15,742,922	0	282,808	1,864,657	11.84%	2,724,211	17.30%	\$2.67	(9)	(116,778)	389,999	685,608
Class C	18	1,016,601	0	0	63,447	6.24%	92,283	9.08%	\$2.67	2,255	(14,940)	11,855	29,880
Central County													
Class A	35	6,388,248	0	300,000	1,540,276	24.11%	1,783,158	27.91%	\$2.25	(57,410)	(43,818)	198,569	287,281
Class B	176	11,340,165	0	0	1,680,174	14.82%	2,405,216	21.21%	\$1.42	(20,651)	(30,337)	172,291	480,509
Class C	41	1,746,042	0	0	175,867	10.07%	208,683	11.95%	\$2.32	7,950	(4,707)	30,107	40,095
North County													
Class A	20	2,428,817	0	0	596,219	24.55%	672,676	27.70%	\$2.73	(43,054)	(72,613)	100,426	147,733
Class B	117	7,976,435	0	0	745,451	9.35%	960,675	12.04%	\$2.37	(83,644)	(192,417)	114,487	351,484
Class C	19	858,076	0	0	12,381	1.44%	12,381	1.44%	\$2.31	(2,751)	(2,990)	1,137	2,635
South County													
Class A	67	9,056,157	0	465,000	1,600,775	17.68%	2,116,511	23.37%	\$3.41	50,177	20,652	799,162	1,164,342
Class B	267	13,748,411	0	0	2,208,336	16.06%	2,734,594	19.89%	\$2.76	(52,418)	31,598	224,371	655,277
Class C	17	847,054	0	0	30,907	3.65%	35,977	4.25%	\$2.52	460	(1,844)	13,338	14,750
West County													
Class A	12	1,309,359	0	0	247,554	18.91%	286,719	21.90%	\$2.60	23,535	44,147	25,552	46,164
Class B	101	5,166,242	0	0	424,311	8.21%	493,529	9.55%	\$2.45	29,758	30,770	51,762	103,555
Class C	15	523,418	0	0	7,926	1.51%	7,926	1.51%	\$1.74	(1,470)	4,074	1,530	7,074
Orange County													
Class A	256	44,914,428	0	947,380	9,760,674	21.73%	12,265,277	27.31%	\$3.05	(105,349)	(135,765)	1,898,532	3,005,735
Class B	941	53,974,175	0	282,808	6,922,929	12.83%	9,318,205	17.26%	\$2.06	(126,964)	(277,164)	952,910	2,276,433
Class C	110	4,991,191	0	0	290,528	5.82%	357,250	7.16%	\$1.78	6,444	(20,407)	57,967	94,434
Orange County Total	1,307	103,879,794	0	1,230,188	16,974,131	16.34%	21,940,732	21.12%	\$2.76	(225,869)	(433,336)	2,909,409	5,376,602

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.



Flex, Adapt, Thrive: Orange County's Office Market in Transition

by **Stefan Rogers**

SENIOR VICE PRESIDENT / PARTNER, IRVINE
949.263.5362 · srogers@voitco.com · Lic. #01376946

The Orange County office market is currently navigating a complex landscape shaped by evolving work patterns and economic pressures.

The broader U.S. economy is experiencing modest growth, but many are concerned with the potential for a recession by the end of 2024 or early 2025. Economic uncertainty, coupled with elevated interest rates and inflation, has constrained expansion plans, indicating continued negative space absorption through early next year.

The trend towards remote and hybrid work models is expected to persist. Many companies are still evaluating their long-term office needs, leading to a cautious approach in making new leasing commitments. This uncertainty is likely to keep vacancy rates elevated and put downward pressure on rents in the near term.

As companies adapt to new work styles, the demand for traditional office layouts is shifting towards more flexible and collaborative spaces. Modern office designs now favor open floor plans, co-working spaces, and amenities that support a hybrid workforce. This trend is expected to continue, with landlords needing to invest in renovations to meet tenant expectations.

Premium office space in desirable locations is still performing better than older, less well-located buildings. Class A office buildings, which offer better amenities and locations, continue to attract tenants willing to pay higher rents. However, Class B and C buildings are struggling to keep up and see a greater need to offer incentives.

Tenants are leveraging the current market conditions to negotiate better lease terms. Cost reduction is a primary focus, with many businesses demanding rent concessions and flexible lease terms to lower their real estate expenses. Workspace optimization has become crucial as companies adapt to hybrid work models, often downsizing their office footprints and investing in co-working or flexible office solutions. Strategic location choices are also gaining importance, with businesses prioritizing areas that offer better amenities, access to talent pools, and proximity to industry hubs, especially in sectors like technology and life sciences.

In summary, the Orange County office market is undergoing significant changes driven by shifts in work patterns and economic pressures. Landlords must adapt to a more competitive environment, while tenants can take advantage of current market conditions to negotiate favorable lease terms. The future of the market will likely be shaped by how well it can adapt to the evolving needs of the modern workforce.

While there are growth opportunities in specific sectors like life sciences and technology, the overall market is expected to remain under pressure until economic conditions stabilize. A potential recession could further impact demand, but a recovery is anticipated once economic growth resumes and businesses gain more confidence in long-term planning.

Landlords and tenants alike will need to remain adaptable, focusing on flexibility and strategic planning to navigate the evolving office space landscape in Southern California.

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA 714.978.7880	Carlsbad, CA 760.472.5620	Inland Empire, CA 909.545.8000	Irvine, CA 949.851.5100	Los Angeles, CA 424.329.7500	San Diego, CA 858.453.0505
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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