

DEMAND IMPROVES BUT DELTA SOWS CAUTION

Office demand resumed in most of the county in the third quarter amid an economy straining to return to pre-pandemic normalcy, but tenants continued to shed blocks of space in the county's largest market around John Wayne Airport.

Nearly 540,000 SF of Q3 growth was reported in the North, Central and South County markets, which total 64.1 million SF. South County posted 318,539 SF of net absorption, its strongest quarter in more than three years.

But the 43.6-million-SF Airport market, which accounts for 37% of the total county inventory, ended the quarter with an added 433,151 SF in the red. In the last six quarters more than 2 million SF have gone back on the market, pushing up the Airport's vacancy rate from 11.4% to 16.5%. In the 9.6-million-SF West County market, there were 108,519 SF of Q3 negative absorption.

Countywide net absorption in the third quarter was negative 1,873 SF, a dramatic improvement from the 1.1 million SF of negative absorption in the first half and 2.6-million-SF retreat since Q1 last year.

It was hoped early this year that vaccine distribution would shorten the pandemic and the economy appeared poised for a rapid re-opening. But vaccine resistance plus emergence of the more-infectious Covid-19 Delta variant set off a surge in serious infections. This renewed concerns about employee health, causing some companies to delay office re-opening plans.

The largest Q3 lease was a direct deal for 90,000 SF on Von Karman Avenue in Irvine by health club operator Life Time. Additionally, the third quarter reported the most lease transactions since the lockdown, but three of the five largest deals were for sublease space, which climbed to an all-time high of 1.4% of total inventory. By comparison, vacant available sublease space reached 1.2% of total inventory in 2008, the start of the great recession. Of the 99 largest lease agreements in Q3, 14 were subleases.

In most economic downturns landlords will offer concessions of free rent and increased tenant improvement allowances before cutting lease rates. Additionally, building owners sometimes offer bonuses to procuring brokers. Currently, some landlords are offering brokers up to \$4 per SF for delivering new tenants. But building owners also have cut average asking rents nearly 9% for Class A space, which accounts for 42% of total inventory. Overall, average rents have fallen 3.6%.

The largest building sale of the quarter was Opal Holdings' \$150.5-million purchase of the 435,177-SF City Tower in Orange, which translates to \$346 per SF. That was followed by the sale of the 181,500-SF Taco Bell World Headquarters in the Irvine Spectrum to Skyline Group for \$624 per SF.

FORECAST

The state unemployment rate is projected to average 7.8% in 2021 and 6.4% next year, a marked improvement from last year but still well above the forecasted U.S. average of 5.7% in 2021 and 4.3% in 2022.

ORANGE COUNTY OFFICE

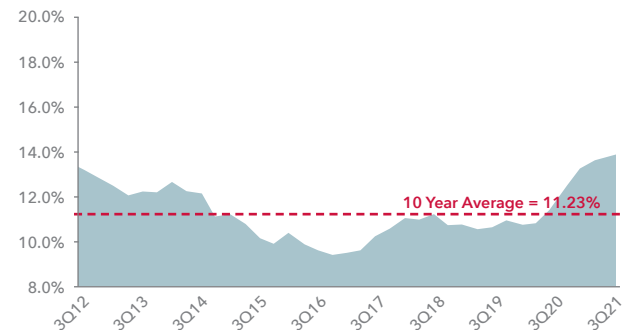
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	6.5%	6.0%
California Unemployment	7.5%	8.0%
US Unemployment	5.2%	5.9%

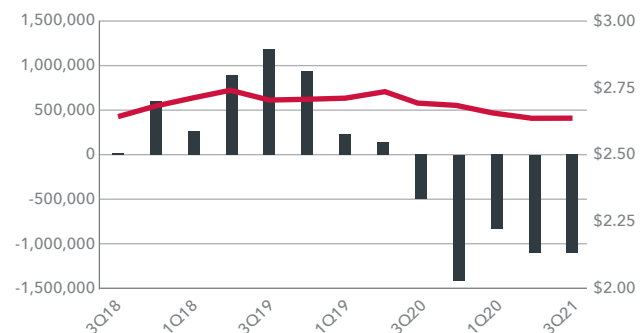
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,420,510	117,200,051
Vacancy Rate (%)	13.74%	13.58%
Net Absorption (SF)	(1,873)	(269,179)
Average Asking Rent (\$/SF)	\$2.64	\$2.64
Under Construction (SF)	1,042,353	1,262,812

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

THIRD QUARTER 2021 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 3Q 2021

BY AREA

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North Orange County	169	14,544,181	1,219,429	8.40%	938,736	6.50%	44,661	123,603	\$2.35	- 0 -
Central Orange County	263	22,570,316	4,347,888	19.20%	3,127,037	13.90%	176,597	7,030	\$2.42	69,500
West Orange County	128	9,614,086	1,185,860	12.30%	887,117	9.20%	(108,519)	(57,187)	\$2.53	- 0 -
Greater Airport Area	417	43,612,113	9,718,422	22.00%	7,192,887	16.50%	(433,151)	(849,414)	\$2.82	540,238
South Orange County	365	27,079,814	5,164,686	18.80%	3,993,216	14.70%	318,539	(341,150)	\$2.73	432,615
TOTALS	1,342	117,420,510	21,636,285	18.43%	16,138,993	13.7%	(1,873)	(1,117,118)	\$2.64	1,042,353

ORANGE COUNTY MARKET STATISTICS - 3Q 2021

BY SUBMARKET

	Bldg Count	SF RBA	Total SF Available	Avail. Rate	Total SF Vacant	Total Vac. Rate	Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
Class A	308	49,603,903	12,105,649	23.90%	9,118,489	18.40%	(417,063)	(1,323,025)	\$2.78	972,853
Class B	955	63,165,701	9,226,084	14.60%	6,789,145	10.70%	361,898	264,548	\$2.58	69,500
Class C	79	4,650,906	304,552	6.50%	231,359	5.00%	53,292	(58,641)	\$2.37	- 0 -
TOTALS	1,342	117,420,510	21,636,285	18.4%	16,138,993	13.7%	(1,873)	(1,117,118)	\$2.64	829,738

LEASE TRANSACTIONS 3Q 2021

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
330 E. Lambert Rd. #150 & 200 Brea, CA	18,280	7-Eleven	Miller Brothers Brea	Marshal Vogt, Jaimeson Hearne and Matt Orville represented the Landlord.
19762 MacArthur Blvd, Ste 110 & 120 Irvine, CA	4,095	Crossroads Institute for Psychotherapy and Assessment, Inc.	Encore Centerpointe LLC	Brian Garbutt represented the Landlord.
3701 Birch St., Suite 100 Newport Beach, CA	3,935	BHPS, LLC	3701 Birch LLC	David LaFosse represented the Tenant and Landlord.

SALE TRANSACTIONS 3Q 2021

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
1 Post Dr. Irvine, CA	22,245	Promis Diagnostics Inc.	Oak Canyon	Brian Garbutt and Jim deRegt represented the Seller.
31752 South Coast Hwy. Laguna Beach, CA	3,853	Haven Laguna Office, LLC	Vista Emerald LLC	Ryan Harman, Kevin Bayless and Jesse Knight represented the Seller.
418 E. La Habra Blvd. La Habra, CA	3,358	The Eric Agguire Family Trust	Holland Family Trust & McDonnell Family Trust	Chris Destino and Nick Tezak represented the Buyer.

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