

HEALTHY TENANT GROWTH RETURNED IN Q4

After six straight quarterly losses since the lockdown, countywide demand for space returned in the fourth quarter with positive net absorption across all five county submarkets.

There were 610,486 SF of net absorption in Q4. It was the third strongest quarter since 2015. The healthy end to the year reduced the countywide losses for 2021 to 711,560 SF, an improvement from the 1.3-million-SF contraction in 2020. In contrast to the Covid office downturn, Orange County office tenants shed 4.5 million SF from 2007-2009 following the financial meltdown.

One building was completed in the fourth quarter, a 91,032-SF expansion at shoemaker Vans' Costa Mesa headquarters. Countywide, seven buildings totaling 1,059,385 SF are underway.

Most tenant growth was in the 22.4-million-SF Central County submarket, which posted 262,055 SF of positive net absorption in Q4 and 269,085 SF for the year. It was the third straight quarter of positive absorption. There are two buildings totaling 206,500 SF under construction.

North County reported net tenant growth of 124,286 SF for 2021. The 14.5-million-SF submarket only had one negative quarter of 4,253 SF in Q2.

South County posted 151,937 SF of fourth-quarter growth but was in the red for the year by 394,281 SF. Four buildings totaling 403,679 SF are under construction.

The Airport submarket, the county's largest with 43.9 million SF, posted 151,937 SF of growth in Q4. It was the first quarter of growth in the submarket in 18 months and cut the Airport's losses to negative 677,377 SF for the year. Some 1.2-million SF went back on the market in 2020. One building totaling 449,206 is underway.

Landlords in West County, the smallest submarket surveyed with 128 buildings totaling 9.6 million SF, perhaps have suffered the least in the pandemic. The small submarket reported 23,914 SF of tenant growth in Q4 and demand is off less than 143,000 SF since the lockdown.

Average countywide rents are \$2.65 per SF, down 3.3% from the \$2.74 per SF peak in Q2 2020. Landlords typically are loathe to discount their published rents in periods of stress, opting instead to offer months of free rent or other off-the-book concessions. In the aftermath of the last recession, landlords were forced to cut asking rents 27% from the \$2.60 peak reached in 2007.

Four of the five largest leases in Q4 were for Irvine Company-owned office space. The three largest leases totaled 339,909 SF in buildings in the Irvine Spectrum. Lincoln Property signed a 72,010-SF tenant for its 870,000-SF Flight at Tustin Legacy.

The largest sale of the fourth quarter was Amazon's \$258.82-per-SF cash purchase of a 39-year-old, 637,500-SF office building in Brea from Cerberus. In the Airport submarket, the largest deal was the \$64-million purchase of 1301 Dove Street by Ocean West Capital Partners for \$297.87 per SF.

FORECAST

Chapman University economist Jim Doti predicted that national and local housing prices will begin to decline in late 2022 as the Federal Reserve Board raises interest rates to curb inflation. Doti said 30-year fixed mortgage rates will hit 3.9% by the fourth quarter.

ORANGE COUNTY OFFICE

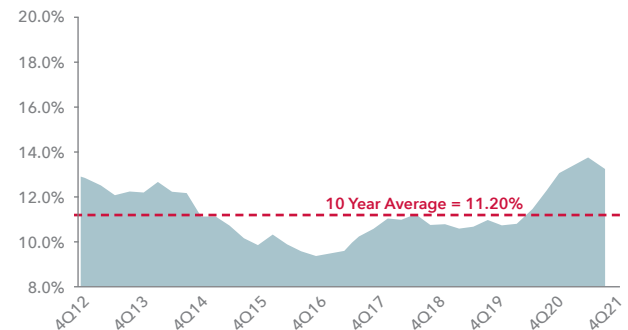
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	4.6%	6.5%
California Unemployment	6.0%	7.5%
US Unemployment	4.3%	5.2%

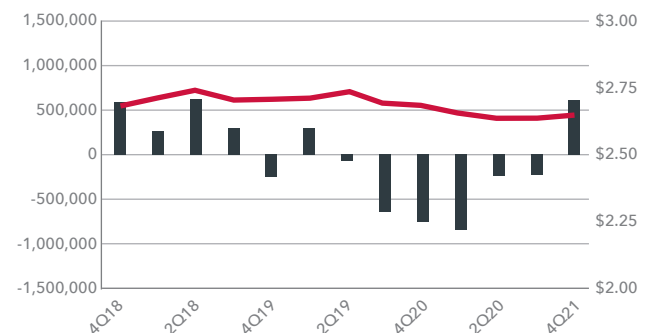
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,631,156	117,540,124
Vacancy Rate (%)	13.28%	13.73%
Net Absorption (SF)	610,486	(231,687)
Average Asking Rent (\$/SF)	\$2.65	\$2.64
Under Construction (SF)	1,059,385	1,150,417

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

FOURTH QUARTER 2021 OFFICE MARKET REPORT

ORANGE COUNTY MARKET STATISTICS - 4Q 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	14,573,964	1,255,446	8.60%	938,053	6.40%	683	124,286	\$2.32	- 0 -
Central Orange County	262	22,450,739	3,885,170	17.10%	2,864,982	12.80%	262,055	269,085	\$2.46	206,500
West Orange County	128	9,558,079	1,084,549	11.30%	863,203	9.00%	23,914	(33,273)	\$2.56	- 0 -
Greater Airport Area	420	43,931,412	9,224,476	20.80%	7,144,985	16.30%	151,937	(677,377)	\$2.79	449,206
South Orange County	366	27,116,962	4,524,238	16.40%	3,812,917	14.10%	171,897	(394,281)	\$2.73	403,679
TOTALS	1,345	117,631,156	19,973,879	16.98%	15,624,140	13.3%	610,486	(711,560)	\$2.65	1,059,385

ORANGE COUNTY MARKET STATISTICS - 4Q 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	297	48,829,182	11,105,644	22.30%	8,544,847	17.50%	334,043	(907,010)	\$2.76	989,885
Class B	971	64,305,000	8,593,845	13.30%	6,886,936	10.70%	245,492	227,404	\$2.60	69,500
Class C	77	4,496,974	274,390	6.10%	192,357	4.30%	30,951	(31,954)	\$2.38	- 0 -
TOTALS	1,345	117,631,156	19,973,879	17.0%	15,624,140	13.3%	610,486	(711,560)	\$2.65	1,059,385

LEASE TRANSACTIONS 4Q 2021

PROPERTY	SF	TENANT	LANDLORD	REPRESENTING BROKERS
2400 E. Katella Avenue Anaheim, CA	16,215	Frazer, LP	CSHV Stadium Towers	Mark Joens representee the Tenant.
26632 Towne Centre Drive, #230 & 350 Foothill Ranch, CA	12,404	Visual Concepts Entertainment	Pinnacle Asset Management Group, LLC	Kurt Bruggeman and Ryan Swanson represented the Landlord.
100 Bayview Circle, Suite 5100 Newport Beach, CA	5,826	Johnson Attorneys Group, Inc.	GPI Bayview, LLC	Travis Haining and Matt Durkin represented the Tenant.

SALE TRANSACTIONS 4Q 2021

PROPERTY	SF	BUYER	SELLER	REPRESENTING BROKERS
14851 Yorba Street Tustin, CA	73,180	14851 Yorba Street, LLC	Yorba Myrtle, LLC	Mia Pham represented the Buyer.
17891 Cartwright Road Irvine, CA	28,193	GreatProperty2.0 LLC	17891 Cartwright LLC	Travis Haining represented the Seller.
11840 Firestone Boulevard Norwalk, CA	3,280	MJ Park DVM, Inc.	Legal Aid Society of OC	Chris Destino, Connor Howland, John Son & Nick Tezak represented the Buyer.

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