

1ST QTR 2023



ORANGE COUNTY OFFICE MARKET REPORT



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ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES



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DESPITE JOB GAINS OFFICE FOOTPRINTS CONTINUE TO SHRINK

In view of the strong job growth since the pandemic, historical patterns dictate that office demand would have rebounded by now. Increased demand for space has decoupled from employment gains with corporate users succumbing to hybrid work schedules and reducing their office footprints. OC employers cut 153,800 workers in 2020, but 162,300 positions were added since. However, tenants shed a record amount of space in the first quarter, affirming that the lingering impact of post pandemic workplace arrangements has yet to play out.

Negative net absorption totaled 1,227,762 SF in the first quarter. There were net losses in four of the county's five submarkets.

- There was a record 873,200 SF of negative net absorption in the first quarter in the 44.5-million-SF Airport submarket, the county's largest.
- In the South County submarket there was 264,840 SF of negative net absorption on 27.5 million SF of inventory that included delivery of four buildings totaling 197,855 SF.
- There was 80,228 SF of Q1 negative absorption in West County where net absorption has been in the red for the last three quarters and for eight quarters in three years since the lockdown.
- In the 22.3-million-SF Central County submarket there was 52,863 SF of negative net absorption in Q1 and 875,680 SF of contraction in the last five quarters.
- The only submarket in the black in Q1 was the 14.3-million-SF North County submarket, which posted 43,369 SF of net growth in Q1. This followed four straight quarters of absorption declines totaling 604,265 SF.

With 117.2 million SF of office space countywide, the Q1 vacancy rate settled at 15.5%, up 124 basis points from the end of 2022. Available space totaled 23.7 million SF, topping 20% for the first time. Since the lockdown, countywide vacancies have risen by 4.5 million SF to 15.9 million SF, short of the 2010 record 17.7 million SF. But the 224,287 SF of available sublease space added in the first quarter brings the total to 4.3 million SF. Second-hand space has surpassed the previous peak of 3.5 million SF reached in 2008 after the collapse of 18 subprime lenders based in Irvine, which triggered a financial meltdown.

Tenants vacating or subleasing office space in Q1 include Hyundai Capital, which is subleasing several floors in Irvine. Software companies Oracle and Alteryx and real estate information firms CoStar and Zillow also cut back space. There have been five straight quarters of added sublease space totaling 364,076 SF.

The 10 largest leases in the first quarter ranged from a high of 32,003 SF to 18,750 SF. Five were for sublet space and five were direct new leases.

The largest sale in the first quarter was \$93.7 million paid by IRA Capital for the 417,000-SF, nine-building Von Karman Corporate Center office park in the Irvine Business Center.

MARKET FORECAST

Orange County business executives who believe business activity will remain unchanged in the second quarter increased to 42.4% from 31.3%, according to the OC Business Expectations Survey by the Cal State Fullerton economist Anil Puri.

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ORANGE COUNTY

ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.4%	3.0%
California Unemployment	4.4%	4.0%
US Unemployment	3.5%	3.7%

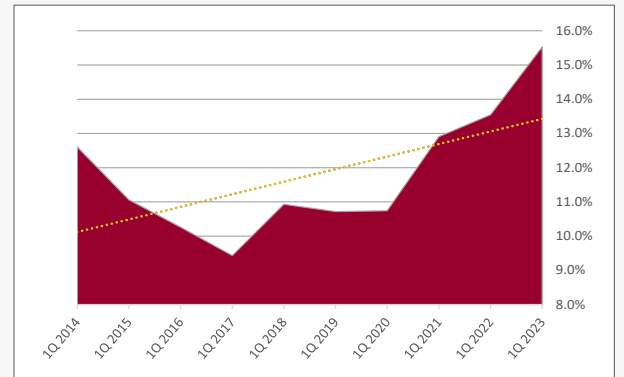
Source: EDD

OFFICE MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,262,611	117,073,654
Vacancy Rate (%)	15.5%	14.3%
Net Absorption (SF)	(1,227,762)	28,768
Average Asking Rent (\$/SF)	\$2.57	\$2.57
Under Construction (SF)	234,893	392,748

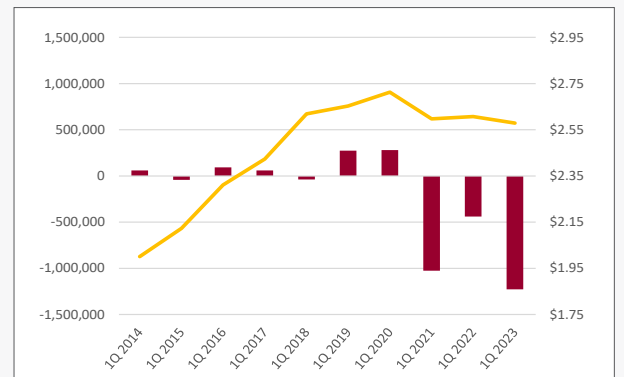
Source: CoStar - (Existing Buildings 30K+ SF)

OVERALL VACANCY



Source: CoStar - (Existing Buildings 30K+ SF)

NET ABSORPTION VS ASKING RATES



Source: CoStar - (Existing Buildings 30K+ SF)

ORANGE COUNTY MARKET STATISTICS -1Q 2023

Orange County Submarket	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	1st. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
North	168	14,344,285	1,710,963	11.90%	1,367,579	9.5%	43,369	43,369	\$2.37	0
Central	260	22,289,717	4,733,619	21.10%	3,702,914	16.6%	(52,863)	(52,863)	\$2.37	137,000
West	127	8,627,187	1,280,857	14.80%	973,214	11.3%	(80,228)	(80,228)	\$2.53	0
Greater Airport	421	44,474,914	10,665,319	24.00%	8,052,621	18.1%	(873,200)	(873,200)	\$2.71	0
South	372	27,526,508	5,296,110	19.20%	4,110,524	14.9%	(264,840)	(264,840)	\$2.66	97,893
TOTALS	1,348	117,262,611	23,686,868	20.20%	18,206,852	15.5%	(1,227,762)	(1,227,762)	\$2.57	234,893

Source: CoStar - (Existing Buildings 30K+ SF)

Building Class	Bldg Count	Total SF Inventory	Total SF Available	Availability Rate	Total SF Vacant	Total Vac. Rate	1st. Qrt. Net Absorption	YTD Net Absorption	Avg Asking Lease Rate	SF Under Construction
A	298	49,325,747	13,558,809	27.40%	10,660,794	21.6%	(833,221)	(833,221)	\$2.69	234,893
B	968	63,847,109	9,863,325	15.40%	7,359,068	11.5%	(404,072)	(404,072)	\$2.54	0
C	82	4,089,755	264,734	6.50%	186,990	4.6%	9,531	9,531	\$2.13	0
TOTALS	1,348	117,262,611	23,686,868	20.20%	18,206,852	15.5%	(1,227,762)	(1,227,762)	\$2.57	234,893

Source: CoStar - (Existing Buildings 30K+ SF)

RECENT TRANSACTIONS

PROPERTY	TYPE	TENANT/BUYER	LANDLORD/SELLER	SIZE
1601 E 1st, Santa Ana	Lease	Contempo Group	The Place Banquet	11,630
5334 E Chapman, Orange	Sale	Bhaskar	J Deming	8,383
251 Stevens, Santa Ana	Lease	Premier Ambulance	TA Realty	6,000
10055 Slater, Fountain Valley	Lease	Tran	FVSD	4,007
4501 E La Palma, Anaheim	Lease	Farano Law	Erdtsieck	3,801
3111 N Tustin, Orange	Lease	Azteca	OLU	3,001
10055 Slater, Fountain Valley	Lease	Benedict	FVSD	2,996
21072 Bake, Lake Forest	Lease	Smith & Severson	CapRock	2,191
400 N Tustin, Santa Ana	Lease	Westrep	ParkCenter 400	2,054
936 E Lincoln, Orange	Lease	S Gibbons	Ajer Holdings	1,800
3111 N Tustin, Orange	Lease	Urban Futures	OLU	1,793
151 Yorba, Tustin	Lease	Wang & Deng	Tycon 151	1,262
17821 E 17th, Tustin	Lease	Morales	Centrium	979

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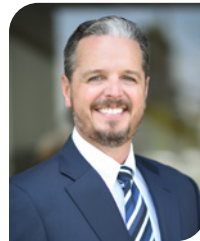
The OFFICE ADVISORY GROUP provides expert commercial real estate brokerage and advisory services for building owners, tenants/occupants, and investors throughout Orange County, Southern California and beyond.

WE THINK LIKE YOU

As owners of commercial real estate property and owners of our company, we understand the decisions, trials, and tribulations our clients face. With firsthand experience, we are able to offer expert advice strategically focused on the needs of owners, and we have the authority to make decisions directly related to the assignment at hand without any corporate interference or delays.

PERSISTENCE

When we formed the OFFICE ADVISORY GROUP, we implemented a motto: "Persistence is everything!" What does this mean to our clients? WE NEVER GIVE UP!!! Our 3-member team is engaged with every assignment and each one of us will see every sale, investment, lease, etc. to the end.



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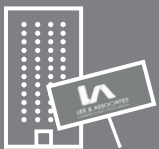
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