

Orange County Office

MARKET OVERVIEW

Q2 2023



New vacancies and negative absorption headlined the second quarter in the Orange County Office Market amid a challenging economic environment.

The Orange County office market continued to see new vacancies and negative absorption in the 1st half of 2023 amid a challenging economic environment. However, as a Southern California tech hub, OC employees are concerned about potential layoffs and companies are reestablishing standards by mandating a return to the office. This shift is expected to influence long-term real estate decisions and may provide an influx of new leases. The Greater Airport Area will continue to lease space to financially solvent companies and well-established tech firms.

TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	2.7	↑	4.8	↑
NET ABSORPTION (Thousands SF)	(223.6)	353.8	↓	(137.2)	↓
OVERALL VACANCY RATE	15.2%	13.0%	↑	12.1%	↑
OVERALL VACANT SF (MSF)	19.8	16.8	↑	15.5	↑
UNDER CONSTRUCTION (MSF)	0.2	1.2	↓	1.0	↓
ASKING RENT, FULL SERVICE (PSF)	\$32.14	\$32.60	↓	\$32.55	↓
SALES VOLUME (Millions)	\$178.2	\$546	↓	\$512.0	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern



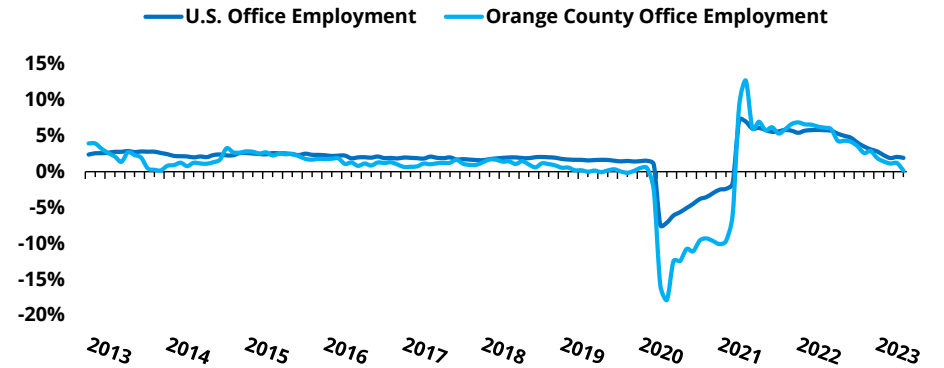
ECONOMY

Rocky Seas on the Horizon

- Local employment slightly regressed during this uncertain period. This quarter, Orange County lost 3,264 jobs and the unemployment increased 20 basis points to 3.2%. Economic developments may lead this number to increase as the potential for more layoffs remain.
- Orange County continues to outperform the national unemployment rate which has remained higher at 3.6%.

Y-O-Y CHANGE IN OFFICE JOBS

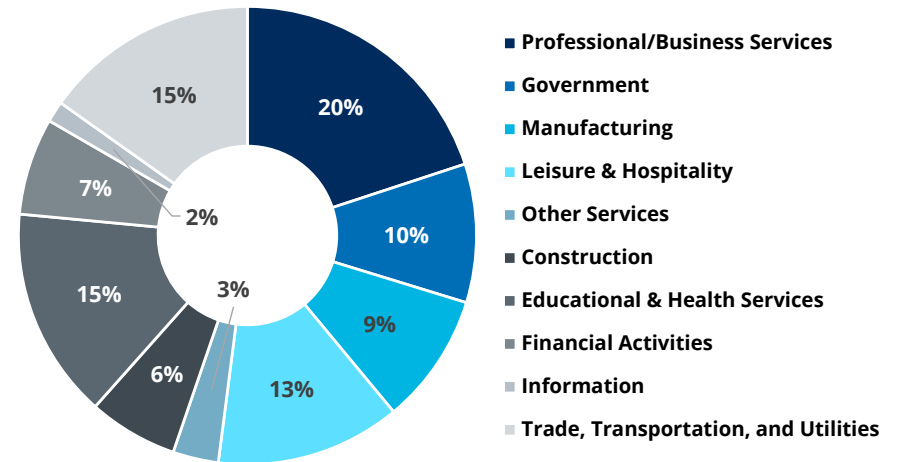
Orange County MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Orange County MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern



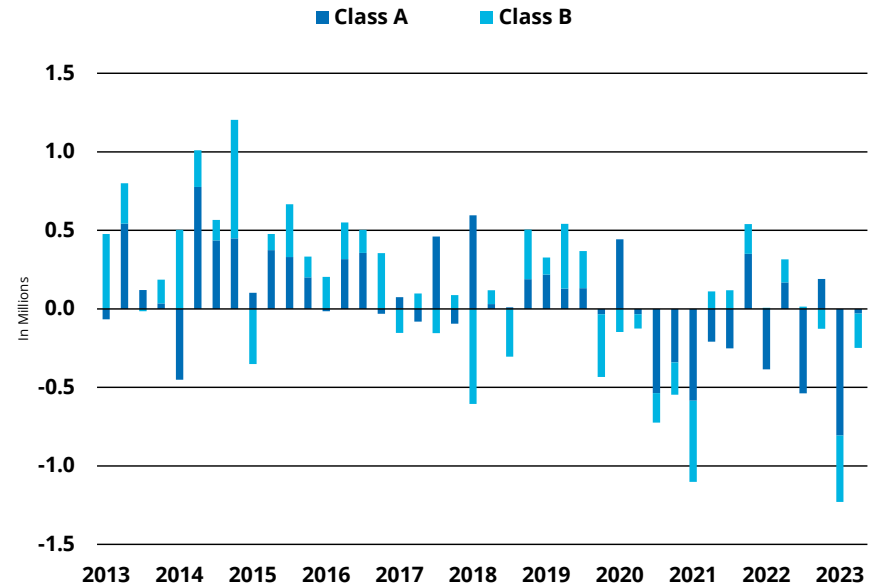
MARKET FUNDAMENTALS

Supply & Demand

- Net absorption regressed for the second consecutive quarter at negative 225,000 SF, however this was far less than negative 1.2M SF of net absorption in Q1 2023.
 - The largest lease of the quarter was Apple moving into 56,000 SF in the Greater Airport Area submarket.
 - The largest renewal of the quarter was Orange County Health Care Agency for 82,000 SF in the Central County submarket.
- Orange County has 235,000 SF under construction in Q2 2023, an 81% decline year-over-year from Q2 2022. Acquiring a construction loan has become more challenging as lenders have become hesitant to obtain higher levels of leverage. Lenders remain cautious and apprehensive about the economy, interest rates, and the influence of remote work on the office market.

NET ABSORPTION

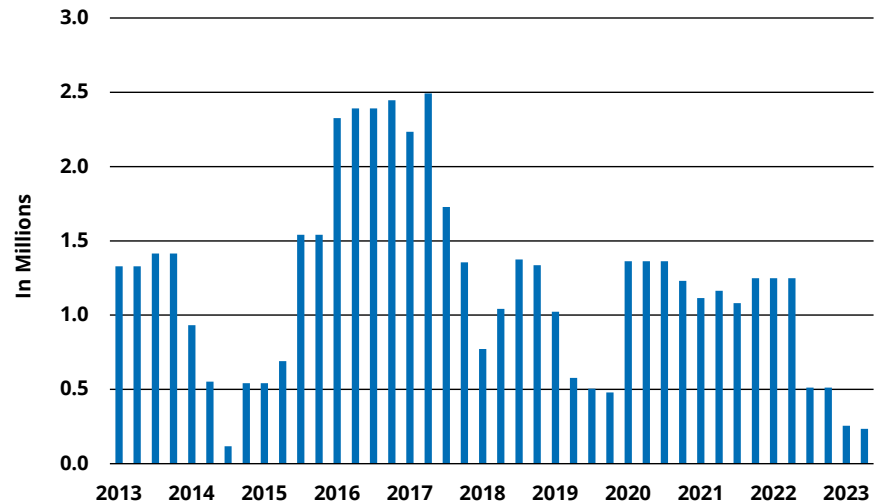
Orange County | Millions SF



Source: CoStar, Transwestern

UNDER CONSTRUCTION

Orange County | Millions SF



Source: CoStar, Transwestern.



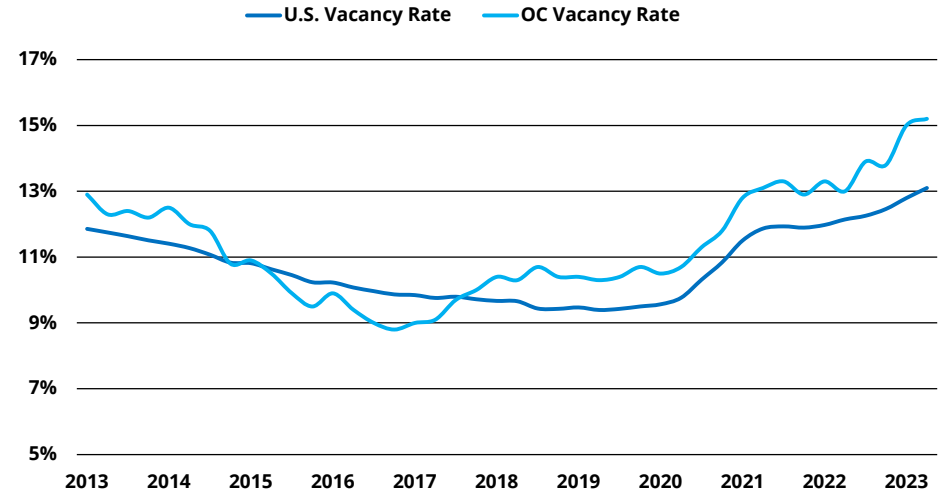
MARKET FUNDAMENTALS

Vacancy

- Orange County vacancy rates grew 0.2% to 15.2% in Q2 2023. This figure is 2.2% above the national average of 13.1%. Class A vacancy remained at 22% while Class B increased to 12.1%.
- Vacancies will likely continue to grow in OC, a trend that has persisted since Q1 of 2018, largely due to the prominence of remote work in the tech sector.

VACANCY RATE

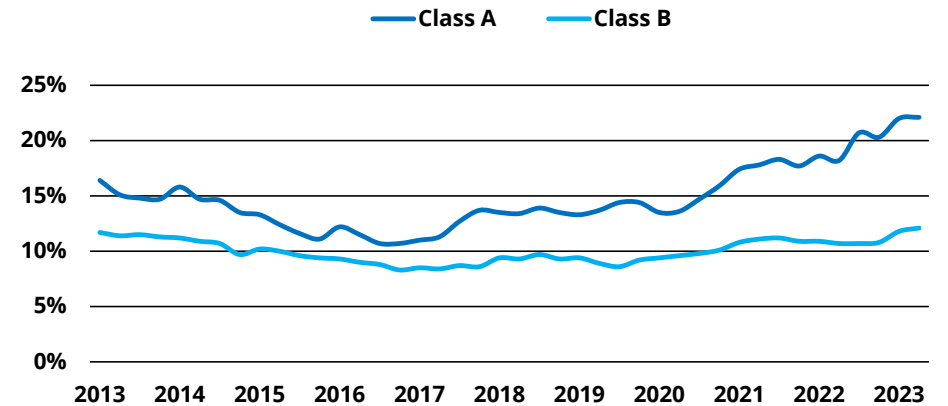
Orange County | % of Stock



Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS

Orange County | % of Stock



Source: CoStar, Transwestern



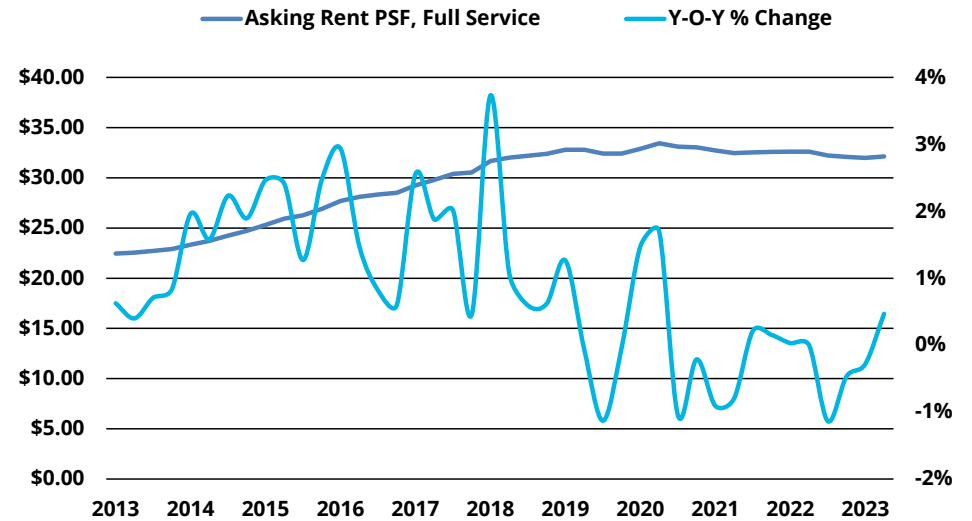
MARKET FUNDAMENTALS

Rents

- Asking rents remained steady as owners are reluctant to devalue their assets and instead are providing concessions to attract tenants.
- Orange County asking rents increased by 0.5% year-over-year to \$32.14 in Q2 2023. The Greater Airport Area and South County have the highest average rent at \$33.25 and \$33.20 PSF. North County has the lowest average rent at \$27.38 PSF.

ASKING RENT

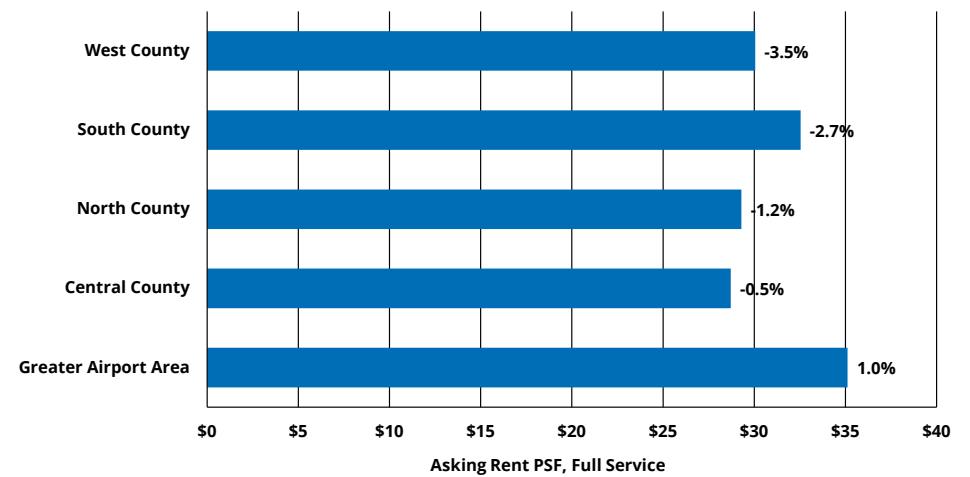
Orange County | \$/SF, Direct Rents



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH

Orange County | % of Change



Source: CoStar, Transwestern



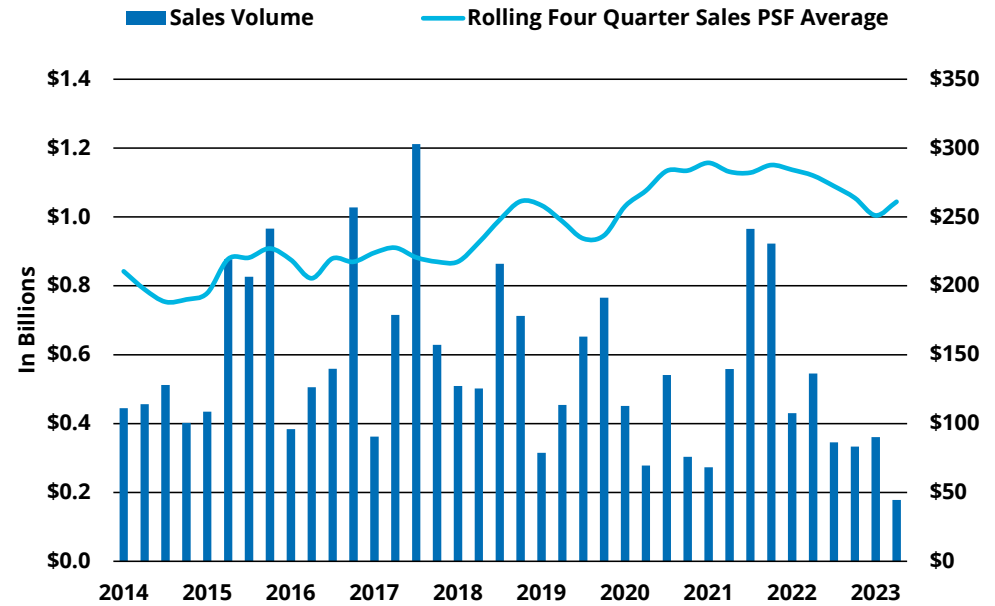
CAPITAL MARKETS

Decrease in Overall Volume

- Unsurprisingly, sales volume slowed given the current state of interest rates as the FED attempts to initiate a soft landing. Orange County sales volume decreased by 51% quarter-over-quarter from \$361M to \$178M in Q2 2023. \$178M is also a 59% decrease in sales volume year-over-year.
- Sales volume will remain low for the foreseeable future as the current economic climate glooms over debt and equity markets.

INVESTMENT VOLUME

Orange County Market



Source: Transwestern Research,



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SQUARE FEET LEASED
ORANGE COUNTY HEALTH CARE AGENCY	200 W Santa Ana Blvd	Central County	Renewal	81,882
APPLE	17800 Laguna Canyon Rd	Greater Airport Area	New	55,667
SAMSUNG	3 MacArthur Pl	Central County	New	43,306
CONSUMER PORTFOLIO SERVICES, INC	15540 Jamboree Rd	Greater Airport Area	Renewal	38,898
OPTIMA TAX RELIEF	6 Hutton Centre Rd	Greater Airport Area	New	38,090
VISION EVANGELISM	15253 Bake Pky	Greater Airport Area	New	32,502

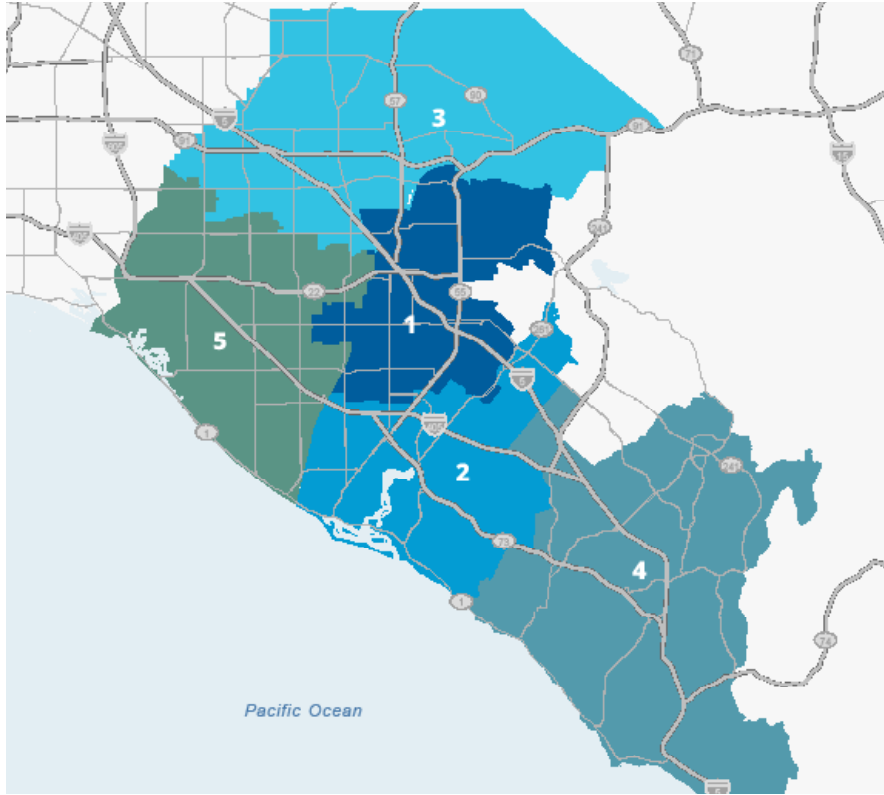
NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
5 HUTTON CENTRE DR	Central County	\$41,444,467	299,038	\$139	Barker Pacific Group	Blackstone Inc.
6 HUTTON CENTRE DR	Central County	\$40,555,533	261,125	\$155	Barker Pacific Group	Blackstone Inc.
625 THE CITY DR S	Central County	\$22,500,000	150,161	\$150	Watermarke Prperties, Inc.	Ta Realty
17900 VON KARMAN AVE	Greater Airport Area	\$16,900,000	70,964	\$238	FinFare	Wilshire Capital Partners
23041 AVENIDA DE LA CARLOTA	South County	\$15,529,000	67,587	\$230	View Pointe LLC	Lincoln Property Company
8 HUGHES	Greater Airport Area	\$11,866,000	41,563	\$285	Thomas Giancursio	Sivers Investment Company

SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	LEASING ACTIVITY SF	TOTAL VACANCY RATE	SUBLEASE AVAILABILITY RATE	QUARTERLY NET ABSORPTION SF	12-MO. NET ABSORPTION SF	UNDER CONSTRUCTION SF	ASKING RENT \$/SF, FULL-SERVICE
GREATER AIRPORT AREA	51,155,517	7,607,518	14.9%	17.0%	0	(114,666)	(486,181)	\$35.12
CENTRAL COUNTY	26,512,978	4,290,752	15.4%	16.2%	137,000	(2,021)	(461,731)	\$28.71
NORTH COUNTY	16,148,136	1,175,963	7.1%	9.2%	0	96,604	(211,357)	\$29.29
SOUTH COUNTY	30,405,729	3,916,297	12.9%	15.7%	97,893	(51,817)	(688,815)	\$32.54
WEST COUNTY	11,602,147	1,019,283	8.8%	9.2%	0	84,096	(263,843)	\$30.05
TOTAL	135,824,507	18,009,813	11.8%	13.5%	234,893	2,439	(422,385)	\$31.14

SUBMARKET MAP



Orange County Office Submarkets

- 1** Central County
- 2** Greater Airport Area
- 3** North County
- 4** South County
- 5** West County



FOR MORE INFORMATION

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RESEARCH METHODOLOGY

The information in this report is a compilation of single- and multi-tenant office properties 10,000 SF and larger in Orange County. Medical offices and government-owned buildings are excluded from analysis.

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