

CURRENT SWOON PALES AGAINST LAST RECESSION

Tenants shed 1.14 million SF of office space in the fourth quarter. It was the third straight quarter of negative net absorption and increased the year's retreat to 1.7 million SF.

By comparison, however, 2020's contraction was far less severe than the punishing effects of the last recession. The financial crisis produced 2.8 million SF of negative absorption in 2009 and negative 4.9 million SF over 12 quarters ending in Q3 2010.

Additionally, the current recession looks to be mercifully cut short by vaccine deliveries and increased probability of more federal economic stimulus. Many companies have begun planning to reopen offices by the third quarter. Other office users are evaluating how much remote working will blend into their operational culture. Schools everywhere are planning to reopen in the fall.

There is consensus among national analysts, including from the Urban Land Institute, that in some ways the pandemic is an accelerant, adding fuel to existing trends dramatically affecting commercial property. Skyrocketing online sales during the lockdown, for example, have intensified already-strong demand for last-mile distribution facilities.

Among the latest office trends involves more short-term, flexible co-working space. Although it still accounts for a small share of overall office use, flexible, shared space is being viewed more approvingly by companies assessing their long-term plans. Also, banks are reducing their footprints as customers have become more comfortable with mobile banking.

It's no surprise that the majority of the space in the red was in the 43.7-million-SF Airport submarket at year end. With most of the county's premium office buildings, the Airport submarket is the county's largest with a 37% share of the inventory. The North, West and Central County submarkets total 46.7 million SF and combined for negative 410,156 SF. The 26.5-million-SF South County submarket gained 8,737 SF for the year, posting a vacancy rate of 12%.

In another comparison with the last recession, the 1.3 million SF of Airport space that went back on the market in 2020 was 27% less than in 2009. The year-end vacancy rate was 14.9% in the Airport submarket.

The vacancy rate in the 22.3-million-SF Central County submarket settled at 13.2%, and negative absorption for the year totaled 166,816 SF.

At the end of 2020, 2,180,156 SF were listed as available for sublease, up from 514,611 SF at the end of the first quarter.

Sublet space available countywide at the end of 2020 totaled 3,282,533 SF, about 16% of available space. That was a 789,514- SF increase of second-hand space since Q1. Much of the sublease total consists of large blocks of space closed by corporate mandate that will be removed from the grey market inventory as employee inoculations mount. At its peak in the last recession sublet space also totaled 16% of available space, falling to 8% by late 2010.

FORECAST

The U.S. economy is expected to expand by 5.7% in 2021 after contracting 3.1% in 2020. There will be notable gains in travel and tourism and homebuilding, according to Chapman University's annual forecast.

ORANGE COUNTY OFFICE

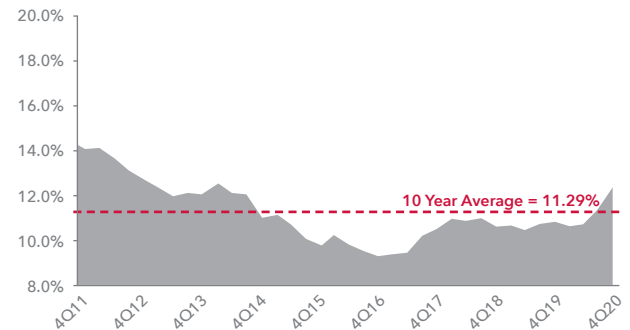
ECONOMIC INDICATORS

| | Current Quarter | Prior Quarter |
|-------------------------|-----------------|---------------|
| OC Unemployment | 7.5% | 11.8% |
| California Unemployment | 9.1% | 13.4% |
| US Unemployment | 7.1% | 9.9% |

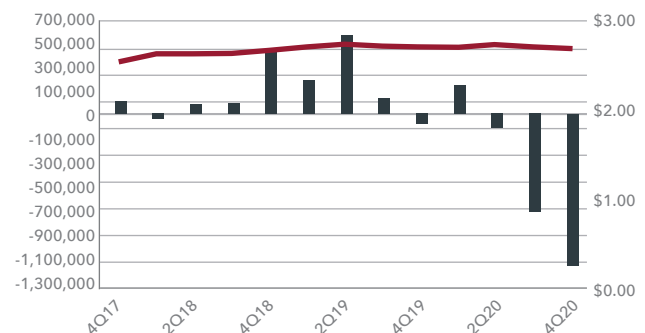
MARKET INDICATORS

| | Current Quarter | Prior Quarter |
|-----------------------------|-----------------|---------------|
| Total Inventory (SF) | 116,972,413 | 116,972,413 |
| Vacancy Rate (%) | 12.43% | 11.46% |
| Net Absorption (SF) | (1,141,267) | (724,598) |
| Average Asking Rent (\$/SF) | \$2.69 | \$2.71 |
| Under Construction (SF) | 1,324,352 | 1,324,352 |

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY

FOURTH QUARTER 2020 OFFICE MARKET REPORT



ORANGE COUNTY MARKET STATISTICS - 4Q 2020

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 | 170 | 14,632,136 | 1,316,930 | 9.00% | 1,062,339 | 7.30% | (84,834) | (133,098) | \$2.38 | - 0 - |
| Central Orange County | 262 | 22,381,886 | 3,873,571 | 17.10% | 2,947,535 | 13.20% | (94,319) | (166,816) | \$2.48 | 290,600 |
| West Orange County | 129 | 9,697,346 | 1,030,063 | 10.60% | 829,930 | 8.60% | (166,653) | (110,242) | \$2.37 | - 0 - |
| Greater Airport Area | 422 | 43,733,708 | 9,402,733 | 21.30% | 6,514,414 | 14.90% | (545,141) | (1,331,795) | \$2.87 | 471,888 |
| South Orange County | 359 | 26,527,337 | 5,257,609 | 19.40% | 3,189,417 | 12.00% | (250,320) | 8,737 | \$2.95 | 561,864 |
| TOTALS | 1,342 | 116,972,413 | 20,880,906 | 17.85% | 14,543,635 | 12.4% | (1,141,267) | (1,733,214) | \$2.69 | 1,324,352 |

ORANGE COUNTY MARKET STATISTICS - 4Q 2020

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 | 311 | 49,497,836 | 11,497,881 | 22.80% | 7,844,734 | 15.80% | (645,939) | (847,702) | \$2.90 | 866,242 |
| Class B | 946 | 62,591,337 | 9,092,762 | 14.40% | 6,510,422 | 10.40% | (471,721) | (861,034) | \$2.65 | 458,110 |
| Class C | 85 | 4,883,240 | 290,263 | 5.90% | 188,479 | 3.90% | (23,607) | (24,478) | \$2.26 | - 0 - |
| TOTALS | 1,342 | 116,972,413 | 20,880,906 | 17.9% | 14,543,635 | 12.4% | (1,141,267) | (1,733,214) | \$2.69 | 1,324,352 |

RECENT TRANSACTIONS

| PROPERTY | TYPE | TENANT/BUYER | LANDLORD/SELLER | SIZE |
|---------------------------------------|-------|-----------------------|---------------------|------------|
| 625 N Grand, Santa Ana | Sale | Amazon | Caribou Industries | 718,374 SF |
| 812 N Sycamore, Santa Ana | Sale | Santa Ana Parking LLC | Caribou Industries | 163,640 SF |
| 300 S Harbor, Anaheim | Lease | B of A | KF Properties | 28,981 SF |
| 330 S Main St, Orange | Lease | Costless | Main St Properties | 24,233 SF |
| 23521 Paseo de Valencia, Laguna Hills | Lease | ANHUI | Healthcare Realty | 10,588 SF |
| 618-624 N Main, Santa Ana | Sale | Oxford Construction | World Travel Bureau | 8,400 SF |
| 101 S Kraemer, Placentia | Lease | Alt Options | Kraemer Land | 5,126 SF |
| 17871 Park Plaza, Cerritos | Lease | Castlewood | Cress Capital | 4,591 SF |



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