

1ST QTR 2022

ORANGE COUNTY OFFICE MARKET REPORT



OFFICEADVISORYGROUP.COM

LANDLORDS AWAIT FULL "RETURN TO OFFICE"

The office market suffered a mild Covid relapse in the first quarter as companies shed 550,126 SF of space. It was the biggest three-month retreat in a year. It follows Q4's strong net absorption total of 610,486 SF, the second largest quarterly gain in five years.

The weakness is confounding hopes that vaccine availability, plunging Covid infection rates and corporate America's "return to office" plans would begin to reverse the contraction now totaling 2.7 million SF since the first quarter of 2020. By this fall a clearer picture should emerge of the prevalence and effects of hybrid working arrangements brought about by Covid-19.

The countywide vacancy rate increased sixty basis points in Q1, settling at 13.9%. By comparison, during the financial crisis in 2010 the vacancy rate peaked at 18.7% in 2010.

Demand is mixed. Vacancy rates in West County and North County, 7.1% and 9.2% respectively, have remained in single digits since Covid hit. Moreover, in West County asking lease rates are at a record \$2.53 per SF, up 12.2% since early 2020. Additionally, the base inventories in North and West county have remained stable, while the remaining three submarkets added 13 buildings totaling 1,070,270 SF since early 2020.

Hit hardest by the pandemic are Class A buildings. Premium space accounts for 42% of the county's 117.6-million-SF inventory but represents 76% of negative net absorption since Q1 2020. Average asking rents have declined 8.2%, but when free rent and tenant improvement allowances are factored in, effective rents can be significantly less.

Among Orange County's five submarkets only South County reported first-quarter tenant growth. There was 99,518 SF of net absorption in the 27.3-million-SF submarket that drove down the vacancy rate 40 basis points to 14%. Average asking rents are \$2.79 per SF, down 6% since the lockdown.

Net absorption in the 43.8-million-SF Airport submarket was in the red by 270,173 SF in the first quarter. The vacancy rate rose 60 basis points to 16.9%, the county's highest.

Tenants in the 22.5-million-SF Central County submarket shed 266,484 SF of space in the first quarter combined with delivery of a new 69,500 SF building to drive up the vacancy rate 150 basis points to 14.2%.

The largest new lease in Q1 was signed by Cap Diagnostics for 53,980 SF in the Irvine Spectrum at \$2.15 per SF triple net. A renewal on 127,750 SF by Carrington Real Estate Services at 1600 S. Douglass Road, Anaheim, was the largest lease transaction in Q1.

UBS Wealth Management's \$36.8-million sale of 500 S. Main Street, Orange, was the largest trade. The 161,000-SF building was acquired by Lincoln Property Company. The most paid for office space was \$419 per SF for 7 Corporate Park, a 37,177-SF low-rise building in the Airport submarket.

FORECAST

The overall economic outlook improved in Q1 among local business executives answering a quarterly survey by economists at Cal State Fullerton economists. Nearly a quarter of those surveyed expect supply shortages to last more than one year.

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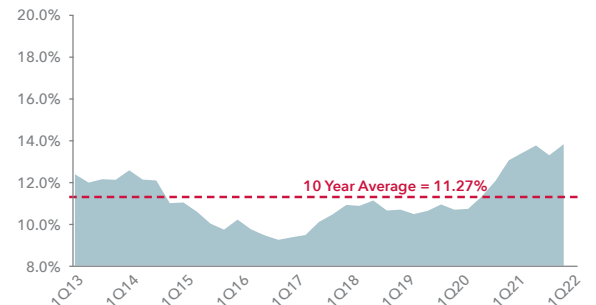
ECONOMIC INDICATORS

	Current Quarter	Prior Quarter
OC Unemployment	3.9%	4.6%
California Unemployment	5.0%	6.0%
US Unemployment	4.1%	4.3%

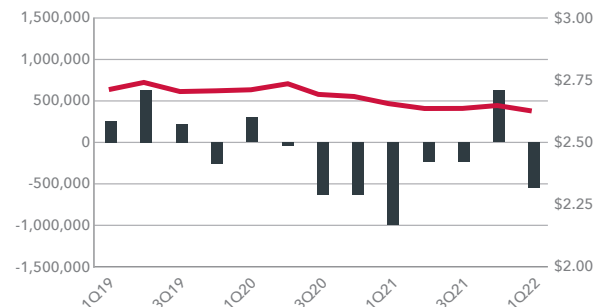
MARKET INDICATORS

	Current Quarter	Prior Quarter
Total Inventory (SF)	117,645,693	117,576,193
Vacancy Rate (%)	13.89%	13.38%
Net Absorption (SF)	(550,126)	610,486
Average Asking Rent (\$/SF)	\$2.63	\$2.65
Under Construction (SF)	1,188,054	1,257,554

OVERALL VACANCY



NET ABSORPTION VS ASKING RATES



ORANGE COUNTY MARKET STATISTICS - 1Q 2022

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	14,480,986	1,394,106	9.60%	1,029,824	7.10%	(103,785)	(103,785)	\$2.32	- 0 -
Central Orange County	263	22,548,683	4,008,008	17.70%	3,200,966	14.20%	(266,484)	(266,484)	\$2.45	137,000
West Orange County	127	9,501,102	1,065,725	11.20%	872,405	9.20%	(9,202)	(9,202)	\$2.53	- 0 -
Greater Airport Area	420	43,847,841	9,666,820	21.80%	7,414,889	16.90%	(270,173)	(270,173)	\$2.81	449,206
South Orange County	368	27,267,081	5,082,731	18.20%	3,827,990	14.00%	99,518	99,518	\$2.78	601,848
TOTALS	1,347	117,645,693	21,217,390	18.03%	16,346,074	13.9%	(550,126)	(550,126)	\$2.63	1,188,054

ORANGE COUNTY MARKET STATISTICS - 1Q 2022

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	299	48,841,457	11,796,966	23.70%	9,060,892	18.60%	(457,316)	(457,316)	\$2.77	989,885
Class B	970	64,280,119	9,166,967	14.20%	7,017,965	10.90%	(76,531)	(76,531)	\$2.62	198,169
Class C	78	4,524,117	253,457	5.60%	267,217	5.90%	(16,279)	(16,279)	\$2.15	- 0 -
TOTALS	1,347	117,645,693	21,217,390	18.0%	16,346,074	13.9%	(550,126)	(550,126)	\$2.63	1,188,054

RECENT TRANSACTIONS

PROPERTY	TYPE	TENANT/BUYER	LANDLORD/SELLER	SIZE
1404-1420 W Valley Blvd, Alhambra	Sale	Atwater Infrastructure	Mueller Family Trust	26,514
232 Katella, Orange	Sale	Kiddie Academy	Katella Commercial	25,321
330 E Lambert, Brea	Lease	7-Eleven	Millers	18,280
180 N Riverview, Anaheim	Lease	Network Pro	Kraemer	9,283
2030 N Main St, Irvine	Lease	FGMKL	Third Avenue Investments	6,252
1290 N Hancock, Anaheim	Lease	Progressive Property Mgt	Pietruskza	5,037
3111 N Tustin, Orange	Lease	Cardinal	LPC	5,000
419/421/423 E Imperial, Fullerton	Lease	Carrico Pediatric	IFP	4,525
24331 El Toro, Laguan Woods	Lease	Saddleback Medical	Mark IV	4,379
18 Truman, Irvine	Lease	Pomegranate Kids	Banning Holdings	4,385
17821 E 17th, Tustin	Lease	HomeAid	Centrium	2,770
17871 Park Plaza, Cerritos	Lease	Hudson Tool Steel	Cress Capital	2,739
2401 E Katella, Anaheim	Lease	QTS	Peregrine Realty	2,620
300 S Harbor, Anaheim	Lease	BAL Shipping	KF Properties	2,093
12410 Seal Beach, Seal Beach	Lease	Medex	Ranch Town Center	1,997

LEE & ASSOCIATES OFFICE ADVISORY GROUP

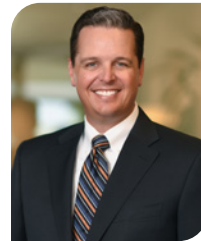
The OFFICE ADVISORY GROUP provides expert commercial real estate brokerage and advisory services for building owners, tenants/occupants, and investors throughout Orange County, Southern California and beyond.

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.

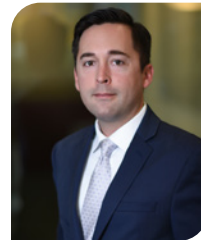


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