

4TH QTR 2021

ORANGE COUNTY OFFICE MARKET REPORT



OFFICEADVISORYGROUP.COM

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

We will continue to see tenants cut their footprints 25%-45% to accommodate the "Work From Home" and "Hybrid" workforce. Look for a "flight to quality" to Class A buildings which provide convenient amenities, clean workspace, natural light, upgraded HVAC systems and outdoor spaces. Class C buildings, older product and high vacancy properties will continue to be pursued by industrial and residential developers for all time high land values which will continue to rise throughout 2022.

ORANGE COUNTY OFFICE

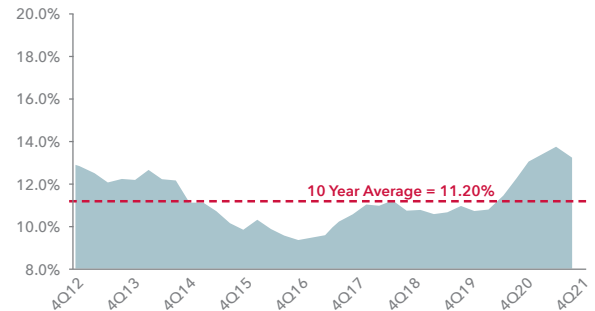
ECONOMIC INDICATORS

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

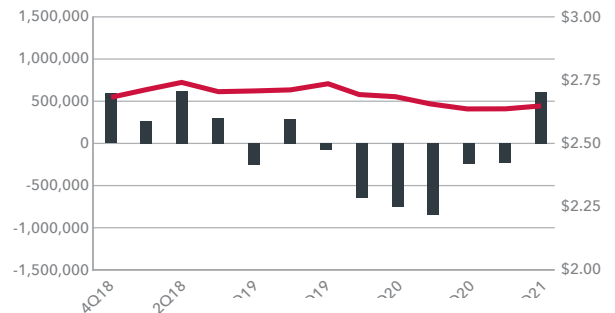
MARKET INDICATORS

	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 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

RECENT TRANSACTIONS

PROPERTY	TYPE	TENANT/BUYER	LANDLORD/SELLER	SIZE
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
3111 N Tustin, Orange	Lease	Cardinal	LPC	5,000
419/421/423 E Imperial, Fullerton	Lease	Carrico Pediatric	IFP	4,525
18 Truman, Irvine	Lease	Pomegranate Kids	Banning Holdings	4,385
24331 El Toro, Laguan Woods	Lease	Saddleback Medical	Mark IV	4,379
17821 E 17th, Tustin	Lease	HomeAid	Centrium	2,770
1290 Hancock, Anaheim	Lease	Logistics Fox	Pietruskza	2,440
300 S Harbor, Anaheim	Lease	Heredia	KF Properties	2,382
17821 E 17th, Tustin	Lease	Trinity	Centrium	2,328
1507 Chapman, Fullerton	Sale	Manifest	UPROPE LLC	1,709

LEE & ASSOCIATES OFFICE ADVISORY GROUP

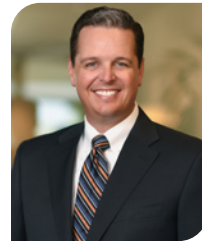
The OFFICE ADVISORY GROUP provides expert commercial real estate brokerage and advisory services for building owners, tenants/occupants, and investors throughout Orange County, Southern California and beyond.

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.

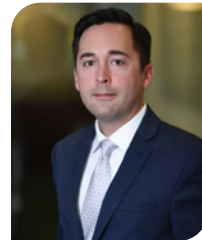


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