

# MARKETBEAT ORANGE COUNTY

Office Q2 2020



CUSHMAN &  
WAKEFIELD

YoY  
Chg

**12.2%**

Vacancy Rate



**-749K**

YTD Net Absorption, SF



**\$2.94**

Asking Rent, PSF



(Overall, All Property Classes)

Stats are not reflective of U.S. Overview Tables

## ECONOMIC INDICATORS Q2 2020

YoY  
Chg

**1.3M**

Orange County  
Employment



**14.5%**

Orange County  
Unemployment Rate



**13.0%**

U.S.  
Unemployment Rate



Source: BLS, Moody's Analytics

2020Q2 data are based on latest available data

## ECONOMIC OVERVIEW

The Covid-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the month of May unemployment went up to 13.0% from a pre-recession level of 3.6% in January of this year. Orange County's unemployment rate of 14.5% stayed slightly below California's statewide average of 15.9%, which is the highest the unemployment rate has been since March 2010, a record high of 10.1%. Between May 2019 and May 2020, Orange County nonfarm employment decreased by 256,400, or 15.3%. Professional and business services saw a year-over-year job loss of 41,200. In the second quarter of 2020 the U.S. economy felt its effects more fully, as government mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

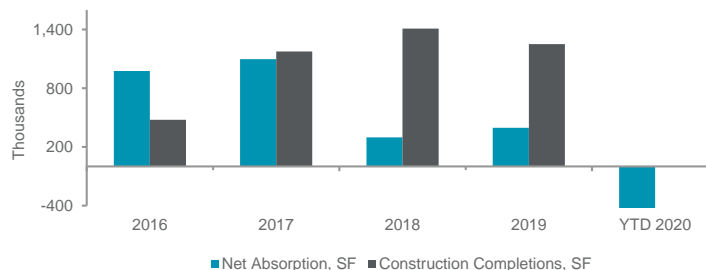
## SUPPLY: Leasing Activity Slows Down

New leasing activity finished the second quarter 2020 at 982,673 square feet (sf) which brings the mid-year total to 2.5 million square feet (msf), a decrease of 37.2% from this time last year. Second quarter's largest transaction of 250,000 sf at 3343 & 3347 Michelson (Park Place) was signed by Panasonic and represented by Cushman & Wakefield. Other top leases within Irvine came from deals signed by Bryan Cave LLP (24,097 sf) and Kura Sushi USA, Inc. (17,868 sf) for an additional 42k sf in transactions this quarter. The second largest deal of the quarter was inked in Buena Park with Ria Financial Services renewing 27,978 sf at 7001 Village drive and expanding into an additional 60,689 sf at 7000 Village drive taking 88,478 sf of space. The continued reduction in leasing volume quarter-over-quarter can be attributed to more companies taking a wait-and-see approach before making long-term real estate decisions due to economic uncertainty.

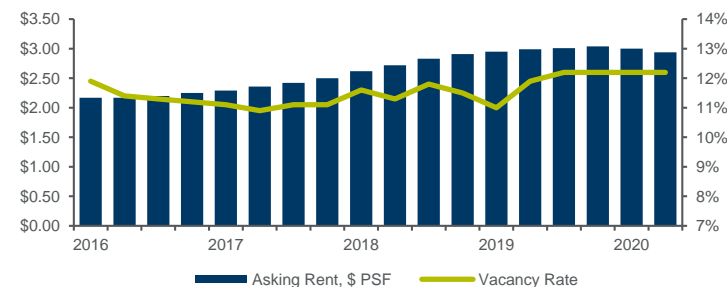
## PRICING: Asking Rents Decrease at Mid-Year

Orange County's overall asking rates decreased to \$2.94 per square foot per month (psf/mo), a decrease of \$0.06 or 2.0% from the previous quarter and a decrease of \$0.08 or 2.6% from a year ago. Class A overall rents in Orange County finished mid-year at \$3.28 psf/mo decreasing by 2.1% from the year ago. This is the first time asking rents have decreased since the Great Recession. The Irvine Spectrum remains the most expensive office market with Class A overall asking rates of \$3.89 psf/mo, remaining unchanged from the previous quarter and down 1.3% from a year ago.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# ORANGE COUNTY

Office Q2 2020



CUSHMAN &amp; WAKEFIELD

## DEMAND: Record Low Absorption, Sublease Rising & Sluggish Sales

Orange County overall net absorption finished the second quarter with negative 616k sf, a large downward swing of 250.2% from the positive net absorption of 399,266 sf recorded in the second quarter 2019. After two consecutive quarters of negative absorption the Orange County market at mid-year has overall negative net absorption of 749k sf. The Greater Airport Area closed the second quarter with the largest negative net absorption of 408K sf and Central County posted occupancy losses of 123k sf. All five submarkets posted negative net absorption in the second quarter. Through the work from home mandate, many companies reevaluated the total amount of square feet reasonably needed to operate under the current state of the market. This led to a slight overall increase in sublease space put on the market and a 30 basis point (bp) increase to a 2.5% sublease availability rate. Companies such as Cylance vacated 22K sf at Spectrum Center in South County and Kareo vacated 52k sf at Park Place in The Greater Airport Area, both marketing their space for sublease. The second half of the year could prove challenging as harder real estate decisions are made to occupy less space, reflecting increases to the overall vacancy rate that posted a 30 bp increase in the second quarter to 12.2% from a year ago.

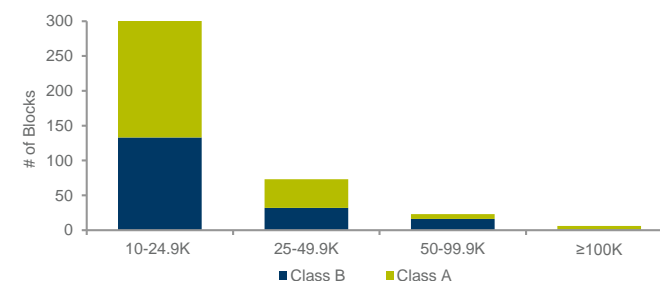
Since first quarter 2020 an additional 438,593 sf of Class A office space began construction with prospective completion dates at year end 2020 and into early 2021. While no new construction deliveries were realized in 2020, the effects of the downturn have put pressure on delivery dates actually being met for these projects. With an overall market decrease in leasing activity, it is anticipated for overall vacancy to gradually increase as these developments complete with vacant space due to lack of potential pre-leasing or competition with a growing supply of viable space.

Sales activity saw a slight decrease in activity from first quarter with a total of 489,342 sf of deals trading to investors, a quarter-over-quarter drop of 25.3% and an overall decrease of 13.8% from this time last year. The largest sale in the second quarter was at 15161 Alton Parkway in Irvine Spectrum (South County), where City of Hope Medical bought the 189,500 sf office building from Fivepoint Communities for \$74 million or \$433 psf and plan to immediately convert the building into a medical office and world class cancer center.

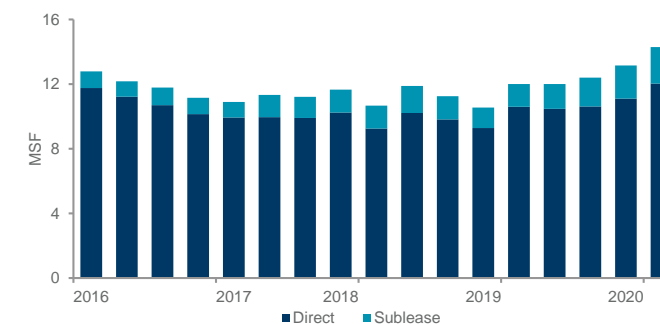
## Outlook

- Orange County saw an increase in sublease activity as more companies had to make decisions shifting into a work from home environment. With lingering economic uncertainty and delayed phased re-opening throughout the county, sublease vacancy rates are expected to continually rise throughout the second half of the year.
- With the development of new Class A office product set to deliver later in the year, developers and property management have had to implement new onsite work protocols and improved safety conditions in order to meet new standards and tenants demands. As shelter-in-place stays in effect throughout Orange County pre-leasing activity is anticipated to slow within these new developments as tenants hold off on making long-term decisions.

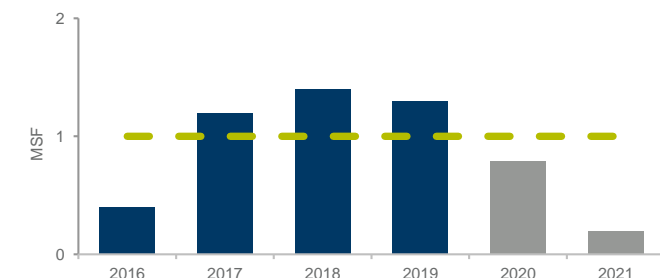
## BLOCKS OF CONTIGUOUS SPACE



## DIRECT VS. SUBLEASE AVAILABLE COMPARISON



## NEW SUPPLY





SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
South Santa Ana	1,936,514	2,233	288,888	15.0%	58,968	45,323	132,426	0	\$2.40	\$2.34
Costa Mesa	5,504,797	88,156	796,263	16.1%	-36,472	-104,236	74,255	0	\$3.05	\$3.37
Newport Beach	8,048,768	59,960	680,801	9.2%	-69,751	-108,545	69,836	0	\$3.48	\$3.60
Irvine	24,181,834	333,908	3,026,415	13.9%	-361,441	-236,698	850,107	0	\$3.20	\$3.32
<b>GREATER AIRPORT AREA</b>	<b>39,671,913</b>	<b>484,257</b>	<b>4,792,367</b>	<b>13.3%</b>	<b>-408,696</b>	<b>-404,156</b>	<b>1,126,624</b>	<b>0</b>	<b>\$3.17</b>	<b>\$3.31</b>
Irvine Spectrum	10,683,540	253,006	1,324,864	14.8%	15,281	-89,570	399,700	787,744	\$3.53	\$3.89
Lake Forest/R.S. Margarita	2,680,958	0	178,760	6.7%	-5,408	22,057	31,820	0	\$2.42	\$2.70
Laguna Hills/Aliso Viejo	4,296,977	19,623	626,876	15.0%	-37,810	-45,008	80,820	0	\$3.01	\$3.30
Laguna Niguel/Laguna Beach	574,657	0	29,520	5.1%	5,281	10,291	10,773	0	\$2.94	\$3.15
Mission Viejo	1,289,140	9,520	158,031	13.0%	-13,003	-23,291	28,291	0	\$2.42	\$2.37
S.J. Cap/S. Clemente/Dana Point	1,274,048	8,103	35,186	3.4%	-2,463	-13,530	4,281	0	\$2.48	\$2.40
<b>SOUTH COUNTY</b>	<b>20,799,320</b>	<b>290,261</b>	<b>2,353,237</b>	<b>12.7%</b>	<b>-38,122</b>	<b>-139,051</b>	<b>556,215</b>	<b>787,744</b>	<b>\$3.18</b>	<b>\$3.55</b>
Seal Beach	310,241	16,257	22,091	12.4%	0	-15,250	0	0	\$3.11	\$3.11
Westminster	262,284	0	792	0.3%	0	0	0	0	\$2.25	N/A
Huntington Beach	1,303,980	4,669	182,011	14.3%	-12,900	-44,154	19,845	0	\$2.98	\$3.13
Fountain Valley	320,225	7,818	29,039	11.5%	-1,770	-4,730	2,380	0	\$1.58	N/A
Garden Grove	541,785	0	44,513	8.2%	1,250	-1,623	4,376	0	\$2.02	N/A
Los Alamitos/Stanton	435,342	0	164,320	37.7%	-341	1,964	7,038	0	\$1.83	N/A
Cypress	1,212,927	0	136,403	11.2%	-10,425	-51,566	18,499	0	\$2.19	N/A
<b>WEST COUNTY</b>	<b>4,386,784</b>	<b>28,744</b>	<b>579,169</b>	<b>13.9%</b>	<b>-24,186</b>	<b>-115,359</b>	<b>52,147</b>	<b>0</b>	<b>\$2.55</b>	<b>\$3.13</b>
Parkcenter Area	2,802,093	2,113	346,813	12.4%	-35,128	-9,843	95,118	0	\$2.33	\$2.80
Stadium Area	3,577,777	9,623	365,950	10.5%	-31,183	-10,999	48,363	0	\$2.79	\$2.89
The City Area	2,277,180	2,238	404,813	17.9%	-17,670	-23,135	178,664	0	\$2.70	\$2.90
Main Place Area	2,051,411	0	249,595	12.2%	22,264	25,337	86,717	0	\$2.67	\$2.95
Tustin (South of I-5)	783,575	0	12,436	1.6%	0	0	1,943	180,000	\$2.32	N/A
Santa Ana	2,971,558	11,893	372,532	12.9%	-7,556	-2,834	82,466	0	\$2.00	N/A
North/East Anaheim	2,978,550	0	255,897	8.6%	-19,074	12,718	66,495	0	\$2.32	\$2.54
East Orange	427,246	0	22,589	5.3%	-5,444	-6,840	1,396	0	\$2.46	N/A
Civic Center Area	2,033,998	0	225,320	11.1%	-29,687	-44,106	6,438	0	\$1.79	N/A
<b>CENTRAL COUNTY</b>	<b>19,921,388</b>	<b>25,867</b>	<b>2,255,945</b>	<b>11.5%</b>	<b>-123,478</b>	<b>-59,702</b>	<b>567,600</b>	<b>180,000</b>	<b>\$2.39</b>	<b>\$2.86</b>
Fullerton	1,398,121	0	25,196	1.8%	3,839	12,359	23,663	0	\$2.32	N/A
Brea/La Habra	3,834,369	7,384	121,769	3.4%	-9,068	-36,648	40,554	0	\$2.53	\$2.79
Placentia/Yorba Linda	270,646	2,832	36,076	14.4%	-14,142	-7,876	15,791	0	\$1.98	N/A
Buena Park/La Palma	1,172,333	0	162,927	13.9%	-1,742	1,699	88,528	0	\$2.38	\$2.85
<b>NORTH COUNTY</b>	<b>6,675,469</b>	<b>10,216</b>	<b>345,968</b>	<b>5.3%</b>	<b>-21,113</b>	<b>-30,466</b>	<b>168,536</b>	<b>0</b>	<b>\$2.39</b>	<b>\$2.81</b>
<b>ORANGE COUNTY TOTALS</b>	<b>91,454,874</b>	<b>839,345</b>	<b>10,326,686</b>	<b>12.2%</b>	<b>-615,595</b>	<b>-748,734</b>	<b>2,471,122**</b>	<b>967,744</b>	<b>\$2.94</b>	<b>\$3.28</b>

\*Rental rates reflect full service asking \*\*Leasing and Absorption Total is not reflective of the U.S. Overview Tables





## KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3343 & 3347 Michelson / Park Place	Irvine	Panasonic	250,000	Direct
7000 & 7001 Village Drive	Buena Park	Ria Financial Services	88,478	Renewal/Expansion*
15360 Barranca Parkway	Irvine Spectrum	American Home Loans	39,060	Direct
500 City Parkway West	The City Area	Orange County Health Care Agency	34,009	Direct
7535 Irvine Center Drive	Irvine Spectrum	Latronix	26,897	Renewal*
7711 Center Avenue	Huntington Beach	Confie Administrative Services	26,019	Renewal*
1920 Main Street	Irvine	Bryan Cave	24,097	Direct
1 City Boulevard West	The City Area	Winnpointe Corporation	19,947	Direct
17461 Derian Avenue	Irvine	Kura Sushi USA, Inc	17,868	Direct
25531 Commercentre Drive	Lake Forest/ R.S. Margarita	Anyone Home	11,300	Renewal*
100 Bayview Circle	Newport Beach	Signature Bank	11,176	Direct

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$PSF
15161 Alton Parkway	Irvine Spectrum	FivePoint Communities / City of Hope Medical	189,500	\$108M/\$568
26521-26561 Rancho Parkway	Lake Forest / R.S. Margarita	Everwest Real Estate Investors / Menlo Equities	152,880	\$39M/\$253
26650, 26600 & 26700 Aliso Viejo Parkway (Portfolio Sale)	Laguna Hills / Aliso Viejo	Stillwater Investment Group / IRA Capital	146,962	\$74M/\$433

## KEY UNDER CONSTRUCTION PROJECTS YTD 2020

PROPERTY	SUBMARKET	SF	OWNER / DEVELOPER
17700-17900 Laguna Canyon – Spectrum Terrace (Phase III)	Irvine Spectrum	373,423	The Irvine Company
17400-17600 Laguna Canyon – Spectrum Terrace (Phase II)	Irvine Spectrum	344,353	The Irvine Company
15332 Newport Avenue	Tustin	180,000	SchoolsFirst Credit Union
15550 Sand Canyon- The Source H20	Irvine Spectrum	69,968	KPRS Construction

# ORANGE COUNTY

Office Q2 2020

CUSHMAN &  
WAKEFIELD

## OFFICE SUBMARKETS

**ERIC A. KENAS**

Market Director, Research  
Tel: +1 213.955.6446  
[eric.kenas@cushwake.com](mailto:eric.kenas@cushwake.com)

**PETER LEWIS**

Research Analyst  
Tel: +1 949.930.4372  
[Peter.Lewis@cushwake.com](mailto:Peter.Lewis@cushwake.com)

**A CUSHMAN & WAKEFIELD  
RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

[cushmanwakefield.com](http://cushmanwakefield.com)