



YoY
Chg

12-Mo.
Forecast

16.4%

Vacancy Rate

**-1.4M**

Net Absorption, SF

**\$2.90**

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2022

YoY
Chg

12-Mo.
Forecast

1.6MOrange County
Employment**4.6%**Orange County
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS

ECONOMIC OVERVIEW

The total nonfarm employment in Orange County (OC) grew by 92,800 or +6.1% year-over-year (YOY) between February 2021 through February 2022. The county remains below the February 2020 pre-pandemic nonfarm employment level of 1,683,400 jobs. Seventy-seven percent of the 269,400 jobs lost between February and April 2020 have been recovered. During the same time, the monthly unemployment rate decreased from 7.4% last year to 3.7% and is currently 90 basis points (bps) below the quarterly average of 4.6%.¹ All employment sectors are expected to grow at a combined rate of 5.4% in 2022 and 2.2% in 2023, while office employment is forecasted to grow by 3.8% in 2022 and high-tech employment by 4.4%. The annual unemployment rate is forecasted to decrease from 9.4% in 2021 to 5.6% in 2022 and 4.0% in 2023.²

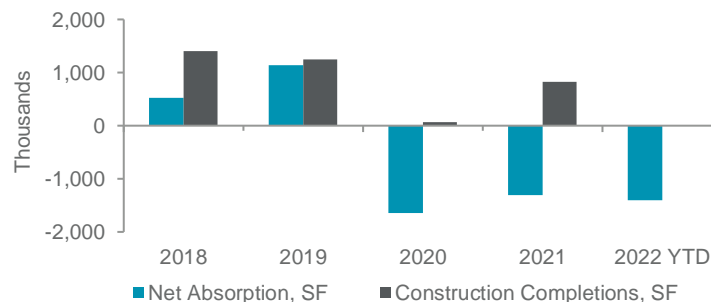
SUPPLY AND DEMAND

At the end of Q1 2022, OC's overall office vacancy rate was 16.4%, an increase of 150 bps quarter-over-quarter (QOQ) and 220 bps YOY. Since the start of the pandemic in Q1 2020, the vacancy rate has risen by 570 bps. Overall, tenants vacated approximately 1.4 million square feet (msf) in Q1 2022. Irvine took the largest hit this quarter with 332,836 square feet (sf) of occupancy losses, followed by Santa Ana (-251,841 sf). Class B accounted for most of the negative net absorption as tenants returned 950,400 sf to the market. The amount of available sublease space continued to drop for the third consecutive quarter. In Q1 2022, there was approximately 2.5 msf of available sublease space, a decrease of 6.3% QOQ and 20.5% YOY. Leasing activity throughout all of OC remained mostly flat in Q1 2022 at 1.5 msf compared to 1.5 msf in Q1 2021. New leasing activity in Q1 2022 is down 27.4% compared to pre-pandemic (Q1 2019) level. Most of the leasing activity took place in the Greater Airport Area (55% or 840,700 sf), followed by South County (28% or 420,300 sf). Comparing submarkets, Irvine (29%), Irvine Spectrum (24%) and Costa Mesa (18%) accounted for 71% or 1.1 msf of new deals signed in Q1 2022. Class A continues to dominate leasing, accounting for 63% or 965,000 sf leased in Q1 2022. Amazon signed the largest new deal of the quarter, leasing 116,261 sf at Spectrum Terrace and taking the space that WeWork had previously leased back in 2019 but would come to terminate their lease prior to moving in. The largest deal of the quarter was the renewal of Carrington Mortgage, which remained in the entirety of 1600 Douglass Road in Anaheim, totaling 127,750 sf.

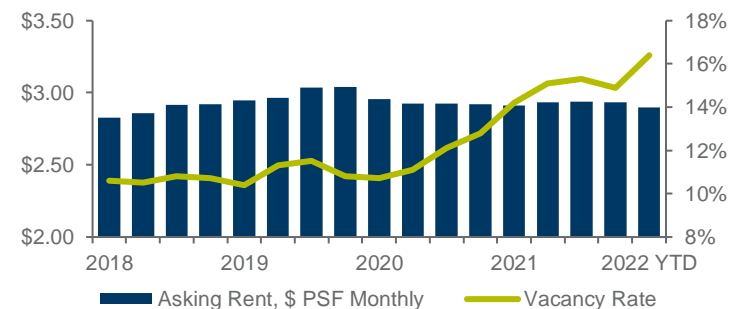
PRICING

The overall average asking rate across all classes has stayed relatively flat throughout the pandemic. The average asking rent fell 1.2% QOQ to \$2.90 per square foot (psf) on a monthly full-service basis and is down 0.4% YOY. Over the past 12 months, Class A average asking rent has decreased by 0.3% to \$3.19 psf, while Class B rent has decreased by 0.4% to \$2.52 psf. The only real movement in rates has happened with Class C properties, with the average rate dropping 5.5% QOQ to \$2.08 psf and 11.5% YOY.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q1 2022



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FUTURE INVENTORY

There are currently two major development projects under construction in OC delivering low-rise, Class A office products. Both are in the South County submarket of Irvine Spectrum and being developed by The Irvine Company. The first is Spectrum Terrace, which is in its third and final phase of development. 17700, 17800 and 17900 Laguna Canyon is expected to deliver 373,000 sf in Q3 2022. The entire project encompasses just under 1.1 msf of office space. The first two phases of the project have been fully leased. The second development project is Innovation Office Park, a seven-building project. Innovation Office Park located at 200-260 Progress is in its second phase of development is expected to deliver 258,508 sf in Q4 2022. The first phase was completed in Q2 2021, and another 532,000 sf is planned for future development.

SALES ACTIVITY

The OC office market recorded \$473 million in sales activity (19 properties) and 1.6 msf in Q1 2022 compared to \$876 million (40 properties) in Q4 2021 and \$157 million (14 properties) in Q1 2021. The average pricepsf decreased to \$320 in Q1 2022 compared to the 2021 annual average of \$354. The average cap rate increased to 6.6% in Q1 2022 compared to the 2021 annual average of 6.2%. The leading buyers in Q1 2022 were private investors (56% vs. 39% in 2021), followed by REITs (21% vs. 9% in 2021). Private sellers accounted for 57% of activity in Q1 2022 (vs. 54% in 2021), followed by cross-border sellers at 24% (vs. 5% in 2021).³

The largest sale in Q1 2022 was a five-building office project named The Square on Main. Consisting of 500, 530, 550, 600 S Main and 1518 W La Veta in the city of Orange, The Square on Main was purchased for \$97.2 million by a partnership of Lincoln Property Company and TriGate Capital from UBS Wealth Management and Orion Property Partners. Another notable sale was Prologis's purchase of a five-building 322,000-sf Class A corporate office campus named Pacific Vista located at 25500-25550 Commercentre Drive in Lake Forest for \$96.0 million from Drawbridge Realty. Currently, Prologis plans to continue to operate the property as an office project.

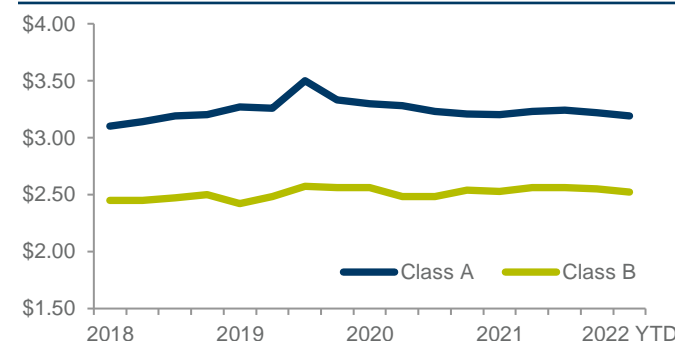
A trend of developers buying underutilized office space with the intent to redevelop it for distribution/logistics space is expected to continue, resulting in the removal of large blocks of office space from the existing inventory. Last year's portfolio sale of a 222,000-sf four-office building in Lake Forest to the joint venture of Western Realco and RREEF, which acquired the sites on a land basis with an intent to redevelop them into new high-end industrial use, is another example of this trend.

Sources: ¹www.bls.gov ²Los Angeles-Long Beach-Anaheim, CA MSA. Moody's Analytics economy.com 2/2022. ³RCA.

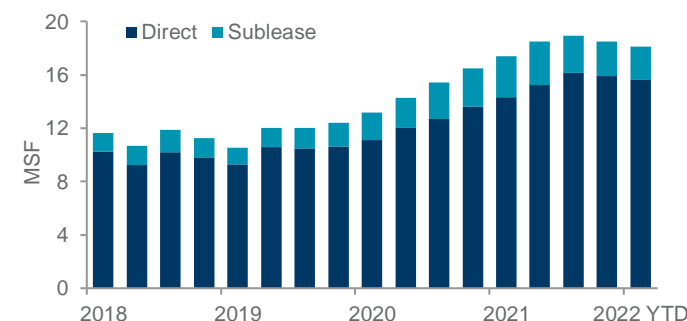
OUTLOOK

- Although covid restrictions had been virtually all removed in OC, it appears employee attitudes towards coming into the office may have shifted. A January 2022 survey from Pew Research shows that 76% of workers who are still teleworking, while their company's offices are now open, are doing so because they prefer it, compared with 42% who are concerned about exposure to COVID-19, which may put a damper on office space requirements.
- While the asking rates that landlords are advertising have barely budged throughout the pandemic, the concessions offered to prospective tenants have skyrocketed. Landlords are giving additional free rent, T1 dollars to reduce rent, free parking, moving and furniture allowances and broker bonuses to fill their space.

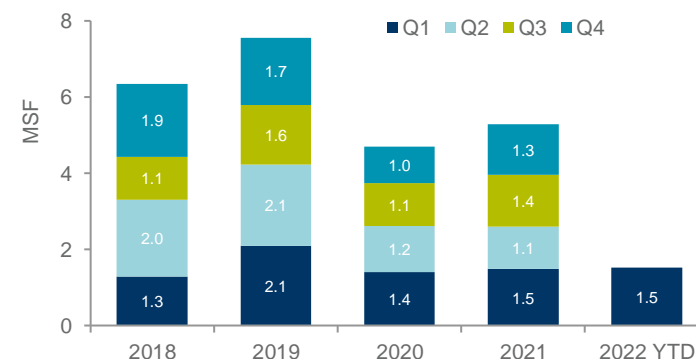
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



Orange County

Office Q1 2022

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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY ** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Greater Airport Area	39,604,336	541,424	6,920,312	18.8%	-638,624	-638,624	840,694	0	0	\$3.15	\$3.30
South County	21,580,052	378,938	2,912,549	15.3%	-206,431	-206,431	420,318	0	631,931	\$2.89	\$3.29
West County	4,378,757	24,166	675,781	16.0%	30,537	30,537	55,388	0	0	\$2.70	\$3.03
Central County	20,209,192	327,111	2,590,835	14.4%	-490,984	-490,984	138,528	0	0	\$2.48	\$2.83
North County	6,779,491	69,604	766,632	12.3%	-97,267	-97,267	71,804	0	0	\$2.38	\$2.52
Class A	43,373,442	674,823	8,082,214	20.2%	-454,896	-454,896	964,891	0	631,931	\$3.19	
Class B	47,313,817	663,474	5,684,923	13.4%	-947,368	-947,368	536,622	0	0	\$2.52	
Class C	1,864,569	2,946	98,972	5.5%	-505	-505	25,219	0	0	\$2.08	
OC TOTALS	92,551,828	1,341,243	13,866,109	16.4%	-1,402,769	-1,402,769	1,526,732	0	631,931	\$2.90	\$3.19

*Rental rates reflect full service asking. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1600 Douglass Rd.	Stadium Area	Carrington Mortgage	127,750	Renewal**
17300 Laguna Canyon	Irvine Spectrum	Amazon	116,261	New
19500 Jamboree Rd.	Irvine	Consumer Portfolio Services	68,937	Renewal
15505-15545 Sand Canyon Ave.	Irvine Spectrum	Cap Diagnostics	53,980	New
2030 Main St.	Irvine	Wells Fargo Dealer Services	45,590	Renewal

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
The Square on Main	Orange	UBS & ORION / Lincoln Property Company & TriGate Capital	420,267	\$97.2M / \$231
Pacific Vista	Lake Forest	Drawbridge Realty / Prologis	321,381	\$96.0M / \$299
Fountain Valley Business Park	Fountain Valley	Swift Real Estate Partners / KG Dongbu USA Inc.	111,986	\$26.5M / \$236
14351 Myford Rd.	Tustin	Orange County Research Center / Panattoni	89,888	\$19.3M / \$215
7 Corporate Park	Irvine	The Kelemen Company / 7C Blue Sky Venture LLC	37,177	\$15.6M / \$419

KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Spectrum Terrace Phase III	Irvine Spectrum	N/A	373,423	The Irvine Company
Innovation Office Park Phase II	Irvine Spectrum	N/A	258,508	The Irvine Company

Orange County

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