

	YoY Chg	12-Mo. Forecast
16.7% Vacancy Rate	▲	▲
-991K Net Absorption, SF	▼	▲
\$2.84 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
1.6M Orange County Employment	▲	▲
3.4% Orange County Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

The total nonfarm employment in Orange County (OC) grew by 76,100 or +4.8% year-over-year (YOY) between May 2021 through May 2022. Leisure and hospitality had the largest YOY gain (+45,100 jobs), accounting for 59% of the total gains. During the same time, the monthly unemployment rate decreased from 6.2% last year to 2.4% and is currently 100 basis points (bps) below the quarterly average of 3.4%.¹ All employment sectors are expected to grow at a combined rate of 5.2% in 2022 and 2.0% in 2023, while office employment is forecasted to grow by 3.6% in 2022 and high-tech employment by 4.4%. The annual unemployment rate is forecasted to decrease from 8.3% in 2021 to 4.7% in 2022 and 3.7% in 2023.²

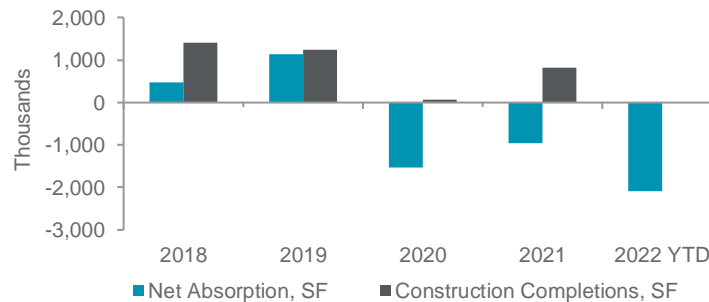
SUPPLY AND DEMAND: Sublease Space Increasing

At the end of Q2 2022, OC's overall office vacancy rate was 16.7%, an increase of 110 bps quarter-over-quarter (QOQ) and 180 bps higher than a year ago. Since the Pandemic began in Q1 2020, the overall vacancy rate has risen by 610 bps. Overall, tenants vacated just under 1.0 million square feet (msf) in Q2 2022. Irvine took another large hit this quarter with 294,726 square feet (sf) of occupancy losses, followed by Santa Ana (-75,036 sf). Class A accounted for most of the negative absorption as tenants returned 659,171 sf to the market. The amount of available sublease space increased greatly this quarter to 3.1 msf, an increase of 4.5% QOQ and 53.4% YOY. The overall availability rate increased by 150 bps QOQ and 90 bps YOY. More notably, the overall availability rate has increased 710 bps from 13.3% since the COVID-19 pandemic began to 20.3% in Q2 2022. Leasing activity remained steady in Q2 2022 at 1.4 msf across 309 deals, excluding renewals, compared to 1.7 msf (338 deals) in Q1 2022 and 1.1 msf (249 deals) in Q2 2021. Year-to-date (YTD), leasing velocity has reached 3.1 msf compared to 2.6 msf leased in the first half of 2021. Most of the leasing activity in Q2 2022 took place in the Greater Airport Area (55% or 775,388 sf), followed by South County (26% or 364,938 sf). Comparing submarkets, Irvine (32%), Irvine Spectrum (17%), and Newport Beach (12%) accounted for 61% or 852,353 sf of new leases signed in Q2 2022. Class A continues to lead in leasing, accounting for 57% or 794,288 sf of all deals signed this quarter. A confidential tenant signed the largest new deal of the quarter, leasing 53,360 sf at Market Place Center in South County. The largest renewal of the second quarter was Mitsubishi Electric re-leasing 48,971 sf at Warland/Cypress Business Center located at 5900-A Katella Avenue in Cypress.

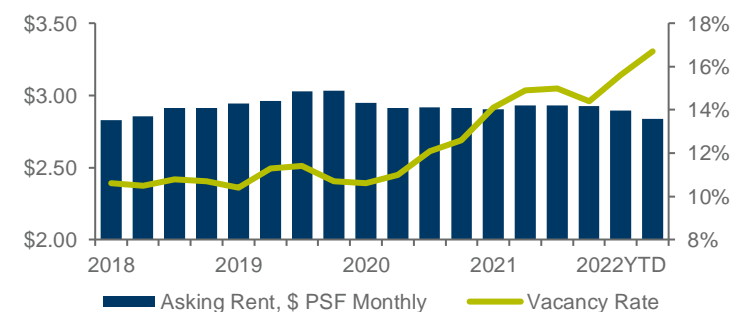
PRICING: Asking Rates Decline

The overall average asking rate across all classes has stayed relatively flat over the last two years. The average asking rent fell 1.9% QOQ and 3.1% YOY to \$2.84 per square foot (psf) on a monthly full-service basis. Over the past 12 months, the average Class A asking rent has decreased by 3.7% to \$3.11 psf, while Class B rent has decreased by 3.1% to \$2.48 psf. The largest movement in rates has occurred within Class C properties, with the average rate dropping 10.8% YOY to \$2.08 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q2 2022



FUTURE INVENTORY: South County Booming

There are currently only two major developments under construction across the Orange County office market. Both projects are being built on a speculative basis with a low-rise finish and modernized Class A amenities. Notably, both developments are being constructed in South County within the Irvine Spectrum submarket. The Irvine Company is responsible for developing the two projects: Spectrum Terrace and Innovation Office Park. Spectrum Terrace is located at 17700, 17800, 17900 Laguna Canyon Road and is in its third and final phase of development. The project is expected to deliver 346,000 sf in Q3 2022, but the entire project spans 1.1 msf over 73 acres of the natural landscape. Innovation Office Park is located at 200-260 Progress and is in its second phase of development, expecting to deliver 258,500 sf in Q3 2022, with another 532,000 sf of planned future development.

SALES ACTIVITY: Largest Sale Since Q3 2020

The OC office market recorded \$453 million (M) in sales activity (22 properties) in Q2 2022, compared to \$516M (23 properties) in Q1 2022 and \$489M (34 properties) in Q2 2021. The average price psf was \$339 in Q2 2022, up +3.9% QOQ and -7.0% YOY. The average cap rate decreased to 6.1% in Q2 2022 compared to 6.5% last quarter and remained unchanged compared to a year ago. The leading buyers in 2022 YTD were private investors (48% vs. 39% in 2021), followed by institutional investors (10% vs. 33% in 2021). Private sellers accounted for 47% of activity in 2022 YTD (vs. 55% in 2021), followed by institutional investors at 34% (vs. 37% in 2021).³

The largest sale in Q2 2022 was a four-building office project named Intersect. Consisting of 17838, 17872 Gillette Avenue & 17875, 17877 Von Karman Avenue in the city of Irvine, Intersect was purchased for \$235.3M by MetLife Investment Management from a joint venture between Hines and PIMCO. Another notable sale was the off-market purchase of a 103,281-sf Class B office named Airspace, located at 15771 Red Hill Avenue in Tustin. The property was sold for \$46.0M by a joint venture between SteelWave and GEM Realty Capital to Rexford Industrial. Following the expiration of the current long-term leases, Rexford plans to redevelop the site for industrial use.

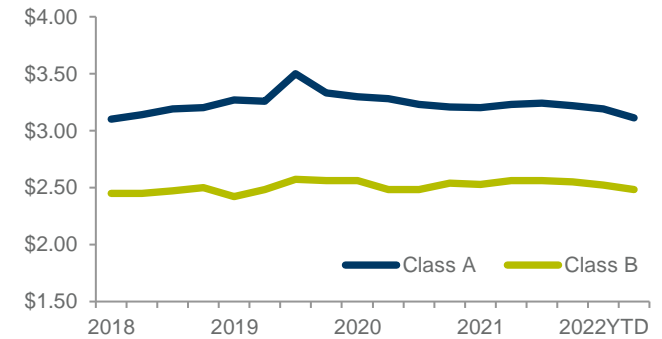
A trend of developers buying underutilized office space with the intent to redevelop it for industrial or hospitality use is expected to continue, resulting in large blocks of office inventory being removed from the market over the coming years. The Q3 2021 sale of the Volt Campus at 2401-2421 North Glassell Street to Rexford Industrial is an example of the above, where Rexford bought the fully leased property with the intention of waiting out the leases before building a brand-new Class A industrial facility.

Sources: ¹www.bls.gov Anaheim-Santa-Ana-Irvine Metropolitan Division ²Los Angeles-Long Beach-Anaheim, CA MSA. Moody's Analytics economy.com 6/2022. ³RCA.

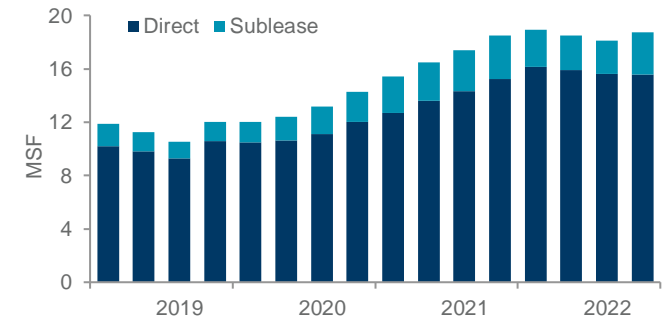
OUTLOOK

- Occupiers are still trying to grapple with the uncertainty of their real estate footprint and requirements, given the new hybrid work model and work-from-home policies introduced at the start of the COVID-19 pandemic.
- Active tenant requirements of all sizes remain robust at 3.0 msf over the next 24 months countywide, led by Blizzard's search for a consolidated campus. While many of these tenants paused their plans due to COVID-19, a majority have reactivated their requirements or begun exploring the market. While not all current tenants in the market will transact in the short term, these levels provide a barometer for leasing activity in subsequent quarters.

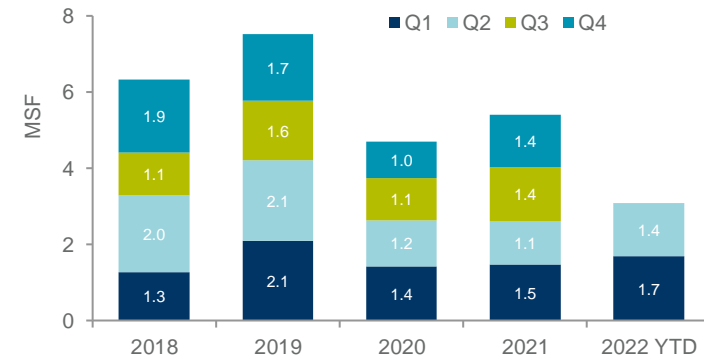
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



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	39,477,827	726,093	6,846,561	19.2%	-365,680	-945,820	1,700,502	0	0	\$3.06	\$3.18
South County	21,646,648	437,854	2,886,352	15.4%	-228,888	-380,898	808,729	0	604,378	\$2.85	\$3.26
West County	4,390,872	35,319	671,736	16.1%	-36,671	19,544	108,578	0	0	\$2.67	\$3.00
Central County	20,137,753	379,825	2,739,317	15.5%	-262,621	-725,304	351,405	0	0	\$2.49	\$2.84
North County	6,491,239	87,979	569,662	10.1%	-97,110	-60,225	129,279	0	0	\$2.39	\$2.54
Class A	43,486,473	1,018,612	8,079,179	20.9%	-659,171	-1,027,297	1,850,834	0	604,378	\$3.11	
Class B	46,867,852	644,569	5,525,310	13.2%	-318,554	-1,051,786	1,212,959	0	0	\$2.48	
Class C	1,790,014	3,889	109,139	6.3%	-13,245	-13,620	34,700	0	0	\$2.06	
OC TOTALS	92,144,339	1,667,070	13,713,628	16.7%	-990,970	-2,092,703	3,098,493	0	604,378	\$2.84	

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

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
450 Exchange	Irvine	Confidential	53,360	New
5900 Katella Ave.	Cypress	Mitsubishi Electric	48,971	Renewal**
1901 Main St.	Irvine	Morgan Stanley	44,940	Renewal**
18200 Von Karman Ave.	Irvine	Confidential	37,248	Renewal & Expansion
27442 Portola Pkwy.	Lake Forest / R.S. Margarita	US Real Estate Services	27,191	Sublease

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Intersect	Irvine	Hines & PIMCO / MetLife Investment Management	415,597	\$235.3M / \$566
Airspace	Tustin	Steelwave & GEM Realty Capital / Rexford Industrial	103,281	\$46.0M / \$445
Katella-Lewis Center	Stadium Area	801 East Katella Inc. / Planned Parenthood Federation of America Inc.	43,286	\$18.2M / \$419
Crestview	East Orange	Angelo, Gordon & Co. / Lutheran High School Association of Orange County	58,367	\$15.1M / \$259
2701 & 2751 E. Chapman Ave.	Fullerton	TW Service / Core Spaces	33,578	\$12M / \$357

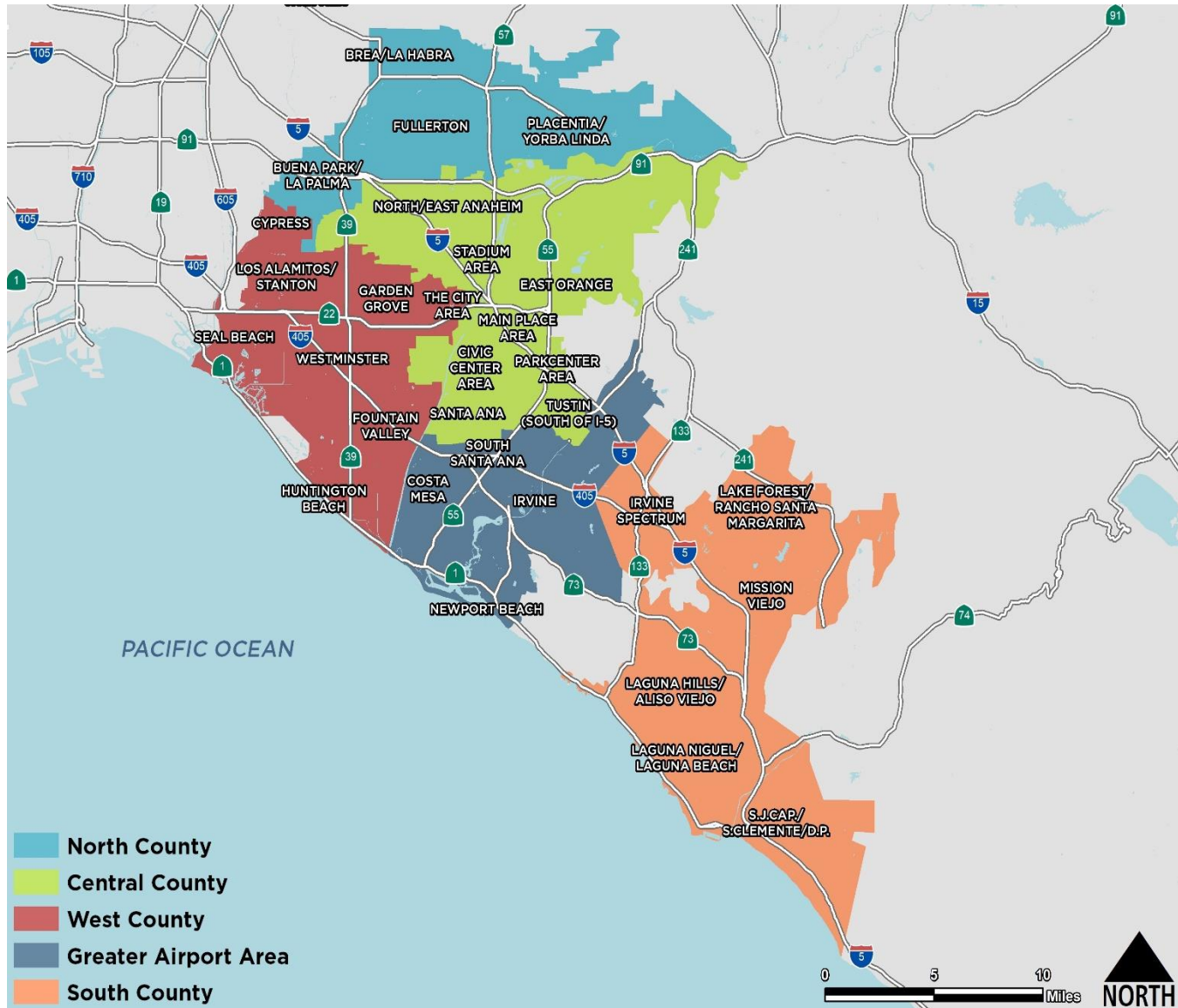
KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Spectrum Terrace – Ph. III	Irvine Spectrum	N/A	345,870	The Irvine Company
Innovation Office Park – Ph. II	Irvine Spectrum	N/A	258,508	The Irvine Company

Orange County

Office Q2 2022

OFFICE SUBMARKETS



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