

YoY Chg      12-Mo. Forecast

**16.7%**

Vacancy Rate



**-717K**

Net Absorption, SF



**\$2.85**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2022

YoY Chg      12-Mo. Forecast

**1.7M**

Orange County Employment



**2.8%**

Orange County Unemployment Rate



**3.5%**

U.S. Unemployment Rate



Source: BLS

## ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

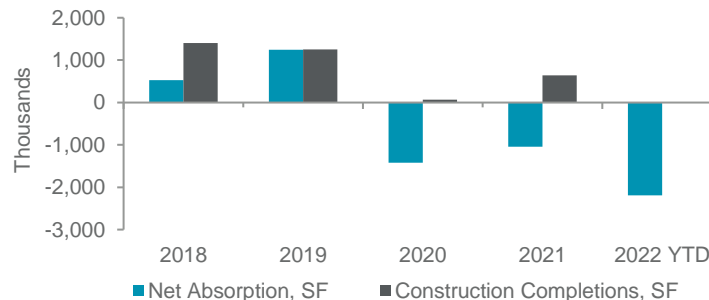
The total nonfarm employment in Orange County (OC) grew by 57,900 or +3.6% year-over-year (YOY) between August 2021 through August 2022, with the leisure and hospitality sector accounting for the most significant gains or 27,500 jobs added (+13.9% YOY). During the same time, the monthly unemployment rate decreased from 6.0% last year to 3.0% and is currently 20 basis points (bps) above the quarterly average of 2.8%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 5.1% in 2022 and 1.7% in 2023, while office employment is forecasted to grow by 4.0% in 2022 and high-tech employment by 2.4%. The annual unemployment rate is forecasted to decrease from 8.3% in 2021 to 4.8% in 2022 and 4.3% in 2023.<sup>2</sup>

## SUPPLY AND DEMAND:

At the end of Q3 2022, OC's overall office vacancy rate was 16.7%, an increase of 80 bps quarter-over-quarter (QOQ) and 190 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 slightly over 716,000 square feet (sf) in Q3 2022. Irvine continued its third consecutive quarter of occupancy losses at 236,702 sf, followed by Santa Ana (-197,102 sf). Class B accounted for most of the negative absorption as tenants returned 421,553 sf to the market. On a positive note, Irvine Spectrum (+135,433 sf) and Costa Mesa (+31,500 sf) posted notable positive absorption in Q3, signaling a healthy trajectory for key OC submarkets. Irvine Spectrum's positive absorption is largely due to CoStar Group finally taking occupancy at Spectrum Terrace, located at 17600 Laguna Canyon Road. Available sublease space continued to increase this quarter to 3.6 million square feet (msf), an increase of 20.2% QOQ and 34.1% YOY. The overall availability rate increased by 120 bps QOQ and 190 bps YOY. More notably, the overall availability rate has increased 810 bps from 13.3% since the COVID-19 pandemic began to 21.4% in Q3 2022.

Leasing activity remained strong in Q3 2022 at 1.5 msf across 288 deals, excluding renewals, compared to 1.6 msf (338 deals) in Q2 2022 and 1.4 msf (286 deals) in Q3 2021. Leasing velocity has reached 4.8 msf year-to-date (YTD), compared to 4.1 msf leased through this point in 2021. Most of the leasing activity in Q3 2022 took place in the Greater Airport Area (44% or 655,998 sf), followed by South County (34% or 511,305 sf). Comparing submarkets, Irvine (21%), Irvine Spectrum (19%), and Newport Beach (13%) accounted for 53% or 792,976 sf of new leases signed in Q3 2022. Class A continues to lead in leasing, accounting for 52% or 775,356 sf of all deals signed this quarter. Multiple 20,000+ sf deals signed this quarter were done by government agencies. Additionally, legal & accounting firms both made up a plethora of mid-sized deals in Q3 2022. A confidential tenant signed the largest new deal of the quarter, leasing 63,888 sf at Pacific Vista in South County. The largest renewal of the third quarter was a confidential tenant re-leasing 74,427 sf at Lakeshore Towers located at 18101 Von Karman Avenue in the Greater Airport Area.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY / ASKING RENT



# Orange County

Office Q3 2022



## PRICING: Asking Rates Hold Tight

The overall average asking rate across all classes has stayed relatively flat over the last four years. Largely due to landlords remaining firm on rents, although offering concessions in the form of free rent, larger than normal TI allowances and broker fees. The average asking rent rose 0.4% QOQ albeit fell 3.1% YOY to \$2.85 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 2.7% to \$2.48 psf. The largest movement in rates has occurred within Class C properties, with the average rate dropping 5.4% YOY to \$2.09 psf. Since the Pandemic began in Q1 2020, Class A rents have fallen 4.8% while the overall average asking rent has fallen 3.4%.

## FUTURE INVENTORY: South County Growing

The Orange County office market only has two developments currently under construction countywide. 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, OC's largest landowner, is responsible for developing the two projects. The first being Spectrum Terrace: located at 17700, 17800, 17900 Laguna Canyon Road, it is in its third and final phase of development. The project was slated to complete prior to Q3 2022 closing, but the project delivery got delayed until Q4 2022. It is strongly believed that a global tech company has fully leased one of the three buildings, although that is unconfirmed. The second project is Innovation Office Park: located at 200-260 Progress, it is in its second phase of development, expecting to deliver 258,500 sf in Q4 2022, with another 531,000 sf of planned future development. Lastly, Irvine Company announced they will begin constructing a 532,000 sf "Lab-Ready Campus" in Q4 2022 called Academy Point. The four-building life sciences campus will have 32,000-sf floor plates, ideal for mid to large-sized tenants.

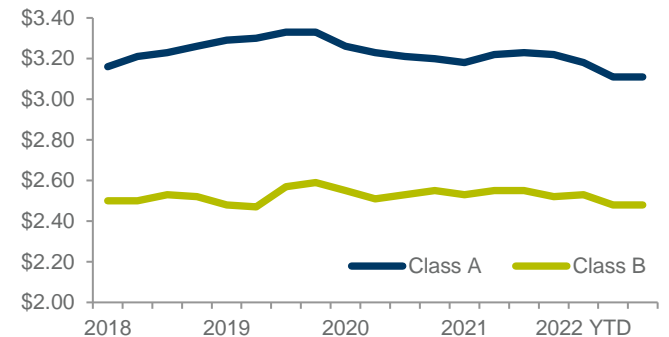
## SALES ACTIVITY: Activity Drops Drastically

The OC office market recorded \$499 million (M) in sales activity (21 properties) in Q3 2022, compared to \$622M (35 properties) in Q2 2022 and \$1.0 billion (40 properties) in Q3 2021. This represents a decrease in sales activity of 20% QOQ and 52% YOY. The average price psf was \$314 in Q3 2022, a decrease of 3.0% QOQ and 9.0% YOY. The leading buyers in 2022 YTD were private investors (41% vs. 39% in 2021), followed by REITs at 23% (vs. 9% in 2021) and institutional buyers at 15% (vs. 33% in 2021). Private sellers accounted for 40% of activity in 2022 YTD (vs. 55% in 2021), followed by institutional investors at 24% (vs. 37% in 2021) and REITs at 23% (vs. 0% in 2021).<sup>3</sup>

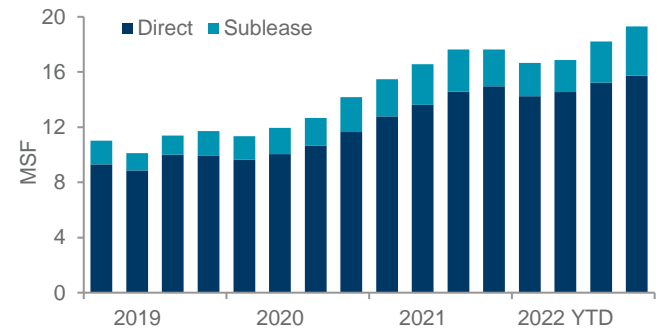
## OUTLOOK

- Tenants are reassessing their real estate footprint based on work-from-home policies as well as assessing both short and long-term needs working through and after the pandemic. Consequently, available sublease space on the market will continue to fluctuate as companies reconfigure their space needs.
- 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.

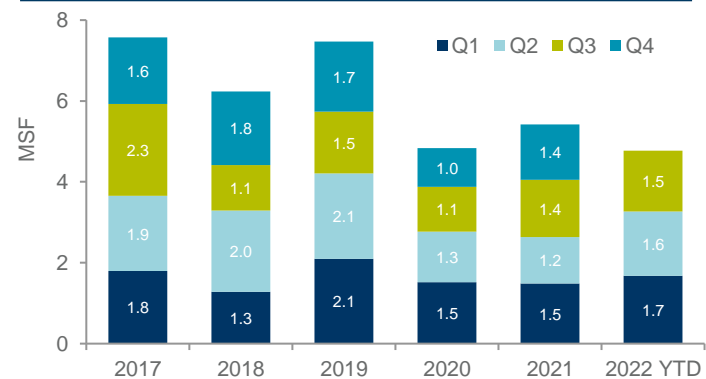
## AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



## 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	39,263,694	780,758	6,427,481	18.4%	-280,539	-874,944	2,366,056	0	0	\$3.07	\$3.17
South County	21,589,576	481,699	2,690,690	14.7%	2,624	-275,225	1,434,628	0	604,265	\$2.81	\$3.26
West County	4,366,205	74,080	650,972	16.6%	-15,840	-15,440	177,202	0	0	\$2.59	\$2.94
Central County	19,403,290	290,875	2,980,083	16.9%	-391,264	-945,122	559,592	0	0	\$2.50	\$2.84
North County	5,729,204	87,845	589,912	11.8%	-31,703	-79,570	234,187	0	0	\$2.49	\$2.63
<b>Class A</b>	<b>43,604,841</b>	<b>1,105,199</b>	<b>7,747,103</b>	<b>20.3%</b>	<b>-295,089</b>	<b>-990,343</b>	<b>2,690,415</b>	<b>0</b>	<b>604,265</b>	<b>\$3.11</b>	
<b>Class B</b>	<b>45,206,400</b>	<b>607,084</b>	<b>5,499,472</b>	<b>13.5%</b>	<b>-421,553</b>	<b>-1,192,456</b>	<b>2,033,382</b>	<b>0</b>	<b>0</b>	<b>\$2.48</b>	
<b>Class C</b>	<b>1,540,728</b>	<b>2,974</b>	<b>92,563</b>	<b>6.2%</b>	<b>-80</b>	<b>-7,502</b>	<b>47,868</b>	<b>0</b>	<b>0</b>	<b>\$2.09</b>	
<b>OC TOTALS</b>	<b>90,351,969</b>	<b>1,715,257</b>	<b>13,339,138</b>	<b>16.7%</b>	<b>-716,722</b>	<b>-2,190,301</b>	<b>4,771,665</b>	<b>0</b>	<b>604,265</b>	<b>\$2.85</b>	

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

## KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Lakeshore Towers - I	Irvine	Confidential	74,427	Renewal**
Pacific Vista – Bldg. E	Lake Forest / R.S. Margarita	Confidential	63,888	New
Create Tustin	Tustin	Confidential	50,832	New
Flight @ Tustin Legacy – Bldg. C	Tustin	Virgin Galactic	33,755	Expansion
The Heights – Bldg. C	Laguna Hills / Aliso Viejo	Confidential	32,921	New

## KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Irvine Executive Center	Irvine	Online Trading Academy / EKN Development Group	50,023	\$13.1M / \$262
The Eureka Building	Irvine	Ergo Capital Partners / Saddleback Church	46,236	\$20.8M / \$449
Garden Grove Education Center – Bldg. 2	Garden Grove	Pacific Development Partners / The Brooklyn Companies	45,451	\$14.0M / \$308
Brea Park Centre	Brea	Mahn Properties, LLC / ISYS Solutions Inc.	29,641	\$7.6M / \$257
9 Corporate Park	Irvine	Infinity Aqua / Ninecorp LLC	23,732	\$9.6M / \$402

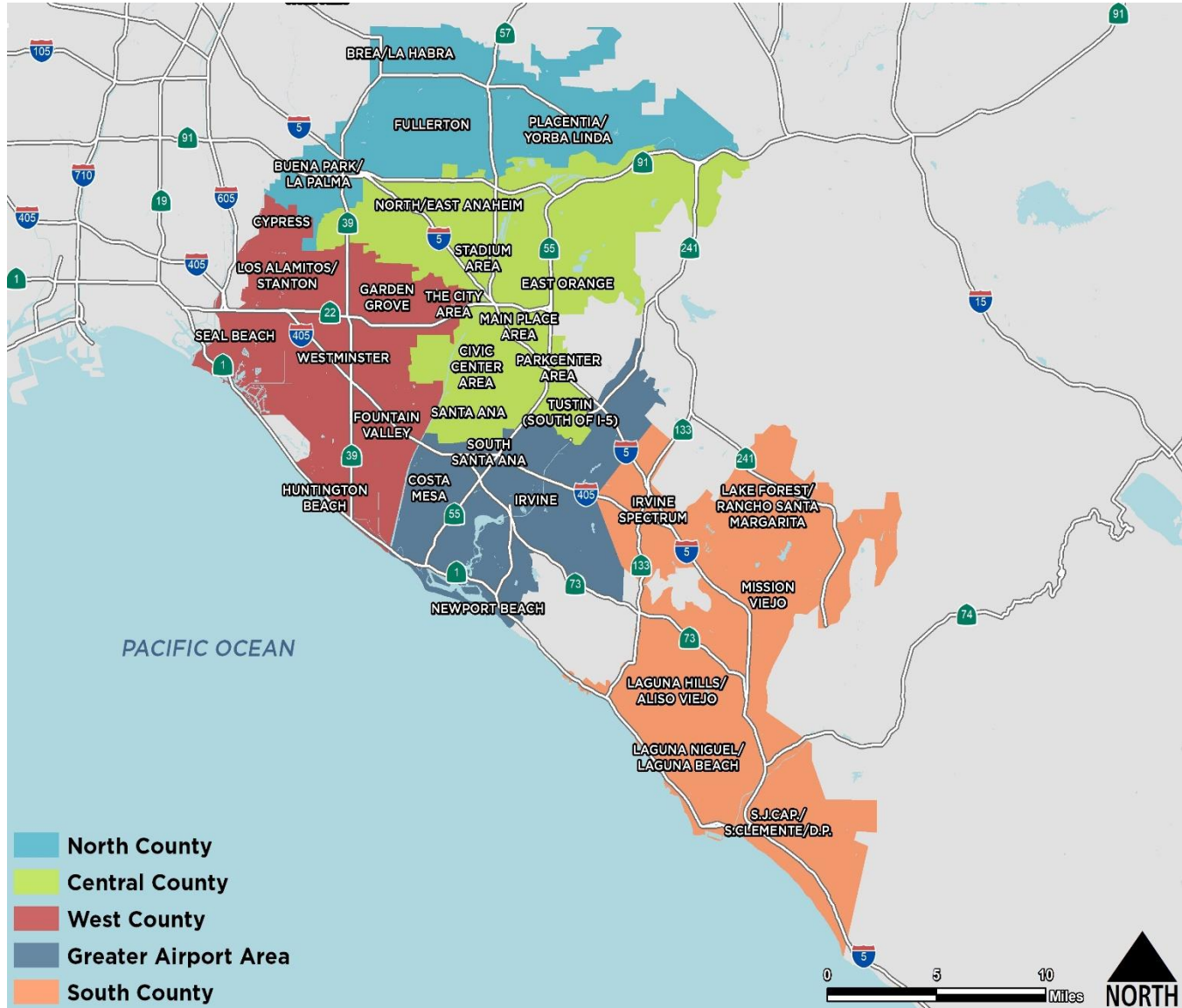
## KEY PROJECTS UNDER CONSTRUCTION 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Spectrum Terrace – Ph. III	Irvine Spectrum	Apple (17900 Laguna Canyon Rd.)	345,870	The Irvine Company
Innovation Office Park – Ph. II	Irvine Spectrum	N/A	258,508	The Irvine Company

# Orange County

Office Q3 2022

OFFICE SUBMARKETS



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