

	YoY Chg	12-Mo. Forecast
17.9% Vacancy Rate	▲	▲
-1.0M Net Absorption, SF	▼	▲
\$2.82 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
2.8% Orange County Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW: Employment Fundamentals Rebounding

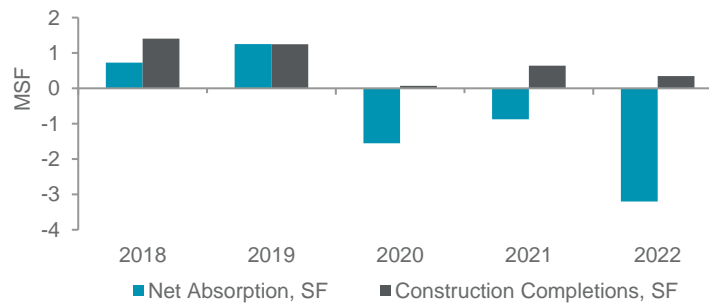
The total nonfarm employment in Orange County (OC) grew by 73,100 or +4.5% year-over-year (YOY) between November 2021 through November 2022, with the leisure and hospitality sector accounting for the most significant gains or 24,800 jobs added (+12.3% YOY), followed by educational and health services adding 17,600 jobs (+7.3% YOY) and professional and business services adding 15,700 jobs (+4.8% YOY). During the same time, the monthly nonemployment rate decreased from 4.1% last year to 3.0% and is currently 20 basis points (bps) above the quarterly average of 2.8%.¹ All employment sectors are expected to grow at a combined rate of 1.0% in 2023 and 1.3% in 2024, while office employment is forecasted to grow by 0.02% in 2023 and 0.9% in 2024. The annual unemployment rate is forecasted to decrease from 4.8% in 2022 to 4.6% in 2023 and 4.5% in 2024.²

SUPPLY AND DEMAND

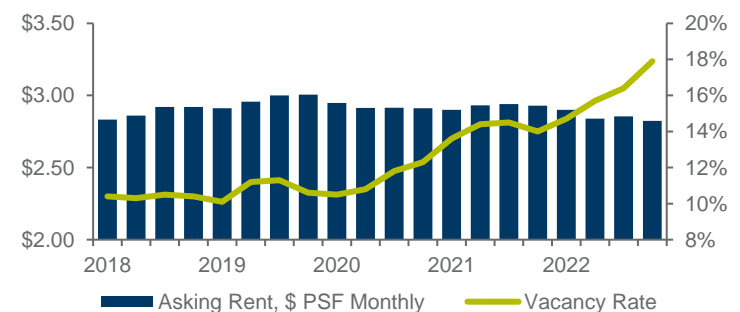
The overall office vacancy rate for OC in Q4 2022 was 17.9%, an increase of 150 bps quarter-over-quarter (QOQ) and 390 bps higher than a year ago. Since the pandemic began in Q1 2020, the overall vacancy rate has risen by 740 bps. Overall, tenants vacated slightly over 1.0 million square feet (msf) in Q4 2022. Brea/La Habra led occupancy losses at -202,039 square feet (sf), largely due to Mercury Insurance vacating, followed by The City Area (-187,802 sf) where CashCall and Prospect Medical Systems vacated large spaces. Class A accounted for most of the negative absorption as tenants returned -530,543 sf to the market. Two submarkets to post notable positive absorption for Q4 2022 were Stadium Area (+29,202 sf) and Seal Beach (+12,292 sf). Available sublease space continued to increase this quarter to 3.9 msf, an increase of 9.6% QOQ and 60.4% YOY, as occupiers remain uncertain about the future of their real estate needs. The overall availability rate stands at 22.4%, an increase of 120 bps QOQ and 420 bps YOY and is at the highest level in the last five years.

Leasing activity remained robust in Q4 2022 at 1.5 msf across 308 deals, excluding renewals, compared to 1.8 msf (327 deals) in Q3 2022 and 1.4 msf (249 deals) in Q4 2021. Total leasing velocity for 2022 was 6.5 msf, compared to 5.4 msf leased throughout 2021, demonstrating the steady recovery of the region post-pandemic. Most of the leasing activity in Q4 2022 took place in the Greater Airport Area (47% or 696,043 sf), followed by South County (22% or 317,052 sf). Comparing submarkets, Irvine (33%), Irvine Spectrum (15%), and Brea/La Habra (7%) accounted for 55% or 802,732 sf of new leases signed in Q4 2022. Class A continues to dominate in leasing, accounting for 55% or 807,316 sf of all new deals signed this quarter. Government agencies continue to lease up large 20,000+ sf spaces in Class A projects in Central and North County. Additionally, financial firms made up a handful of mid-sized deals in Q4 2022. The County of Orange signed the largest new deal of the quarter, leasing 61,406 sf at Fairway Center in North County. A notable deal signed was 99 Cents Only Stores leasing 35,000 sf at Flight @ Tustin Legacy, moving their corporate headquarters from Commerce in Los Angeles County.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q4 2022



PRICING: Asking Rates Fall Slightly

The overall average asking rate across all classes has stayed relatively flat over the last four years, despite the heightened vacancy in the market. Largely due to landlords remaining firm on rents, although offering concessions in the form of more free rent, larger than normal TI allowances and increased broker fees. The average asking rent fell 1.1% QOQ and 3.6% YOY to \$2.82 per square foot (psf) on a monthly full-service basis. Over the past 12 months, the average Class A asking rent has decreased by 4.3% to \$3.08 psf, while Class B rent has decreased by 2.8% to \$2.45 psf. Asking rates at Class A projects with modern design and amenities are ranging from \$4.65 to \$5.65 psf and are nearly fully occupied. The trend of occupiers seeking out the newest Class A projects with modern amenities is here to stay.

FUTURE INVENTORY: Limited Development

The Orange County office market has only one development currently under construction countywide, after the final phase of Spectrum Terrace was delivered this quarter. The entire 1.1 msf campus was just under 80% occupied at the time of its final phase delivery. The project under construction is Innovation Office Park: located at 200-260 Progress, it is in its second phase of development, expecting to deliver 258,194 sf in Q1 2023, with another 532,000 sf of planned future development. The project is being built by The Irvine Company on a speculative basis with Class A amenities featuring: an indoor/outdoor café, an event-ready outdoor pavilion, and a private fitness center & event space. In December, The Irvine Company proposed a modification of their original plan to reconfigure the final phases to feature fewer buildings and larger, more open floor plans. Lastly, in Q3 2022 The Irvine Company proposed a 512,000 sf “Lab-Ready Campus” called Academy Point, which would be the largest life sciences office campus of its type in Orange County. The development consists of four buildings designed to have 32,000-sf floor plates, ideal for mid to large-sized tenants. It is strongly believed that The Irvine Company will not begin construction until a tenant is committed.

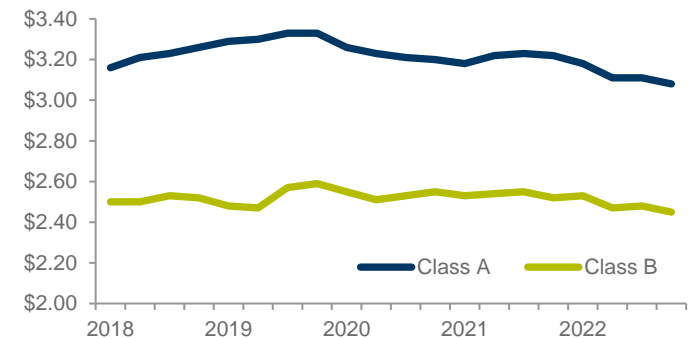
SALES ACTIVITY: Activity Falls as Interest Rates Rise

The OC office market recorded \$230 million (M) in sales activity (15 properties) in Q4 2022, compared to \$640M (32 properties) in Q3 2022 and \$888M (41 properties) in Q4 2021. This represents a decrease of 64% QOQ and 74% YOY. The average price psf was \$345 in Q4 2022, an increase of 7.3% QOQ and 7.7% YOY. The leading buyers in 2022 were private investors at 39.8% (vs. 39.1% in 2021), followed by institutional at 22.5% (vs. 32.8% in 2021) and REITs at 20.4% (vs. 9.3% in 2021). Private investors accounted for 39.9% of sales activity in 2022 (vs. 54.5% in 2021), followed by institutional investors at 24.4% (vs. 37.4% in 2021) and cross-border at 6.7% (vs. 4.7% in 2021).³

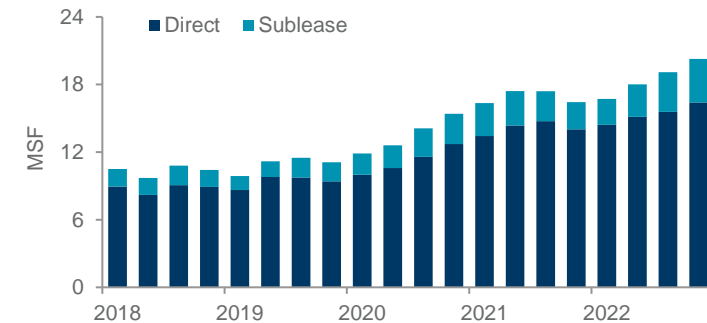
OUTLOOK

- 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 upwards as companies reconfigure their space needs.
- Active tenant requirements of all sizes remain strong at 2.4 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.

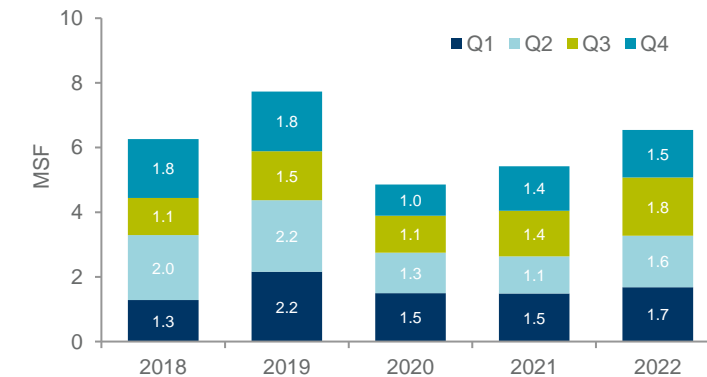
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



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	39,236,003	971,391	6,429,078	18.9%	-275,633	-1,152,159	3,131,373	0	0	\$3.03	\$3.13
South County	21,912,547	496,123	3,072,942	16.3%	-158,012	-352,912	1,779,621	345,870	258,194	\$2.82	\$3.25
West County	4,366,205	29,546	742,763	17.7%	-73,052	-61,508	273,669	0	0	\$2.55	\$2.80
Central County	19,438,761	261,229	3,293,673	18.3%	-311,861	-1,236,739	999,241	0	0	\$2.53	\$2.86
North County	5,454,260	85,946	757,846	15.5%	-201,859	-397,921	357,199	0	0	\$2.11	\$2.35
Class A	43,977,511	1,215,401	8,434,383	21.9%	-530,543	-1,521,589	3,562,368	345,870	258,194	\$3.08	
Class B	44,889,537	625,860	5,747,616	14.2%	-463,054	-1,647,869	2,915,738	0	0	\$2.45	
Class C	1,540,728	2,974	114,303	7.6%	-26,820	-31,781	62,997	0	0	\$2.02	
OC TOTALS	90,407,776	1,844,235	14,296,302	17.9%	-1,020,417	-3,201,239	6,541,103	345,870	258,194	\$2.82	\$3.08

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Fairway Center	Brea/La Habra	County of Orange	61,406	New Lease
Flight @ Tustin Legacy	Irvine	Liberty Dental	45,244	New Lease
Von Karman Towers	Irvine	Golden State Foods	41,949	Renewal**
Koll Center Newport	Newport Beach	Bank of the West	36,672	Renewal**
Harbor Corporate Center	Santa Ana	Profit Recovery Partners	36,384	New Lease

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
HERE	Laguna Hills/Aliso Viejo	Cigna Corporation & Cruzan / Kingsbarn Realty Capital & The Kelemen Company	223,974	\$63,750,000 / \$285
Oakbrook Plaza	Laguna Hills/Aliso Viejo	Angelo, Gordon & Co. / Buchanan Street Partners	119,927	\$28,100,000 / \$234
Plaza Laguna Hills	Laguna Hills/Aliso Viejo	Comerica, Inc. / TA Partners	35,437	\$7,000,000 / \$198

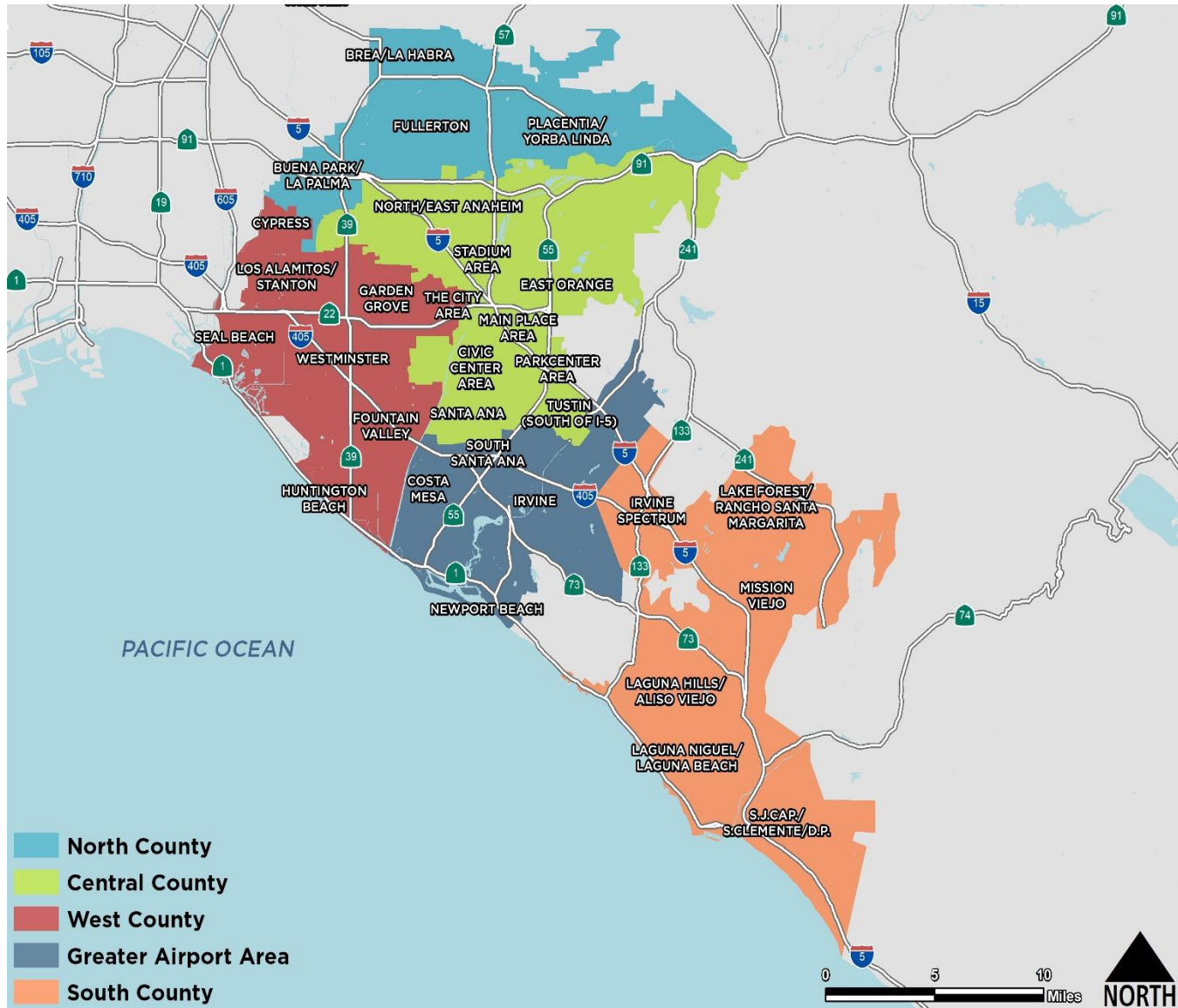
KEY PROJECTS UNDER CONSTRUCTION Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Innovation Office Park – Ph. II	Irvine Spectrum	N/A	258,194	The Irvine Company

Orange County

Office Q4 2022

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