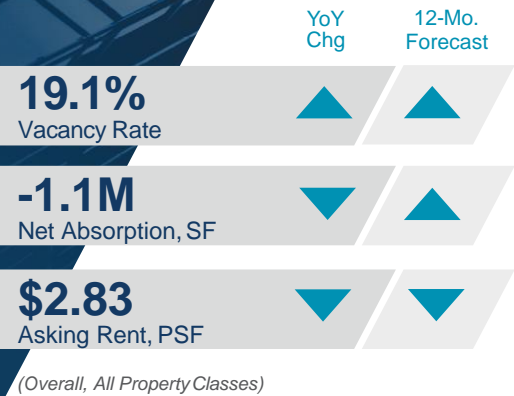
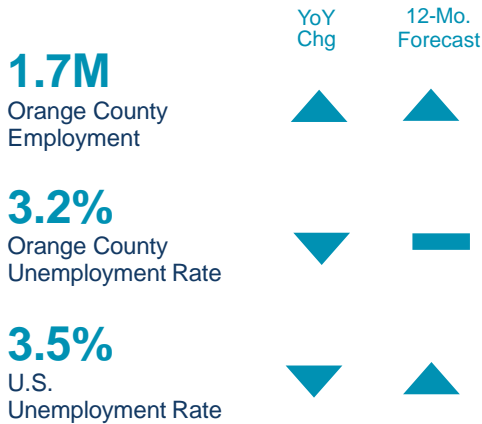


Orange County

Office Q1 2023



ECONOMIC INDICATORS Q1 2023



Source: BLS

ECONOMIC OVERVIEW

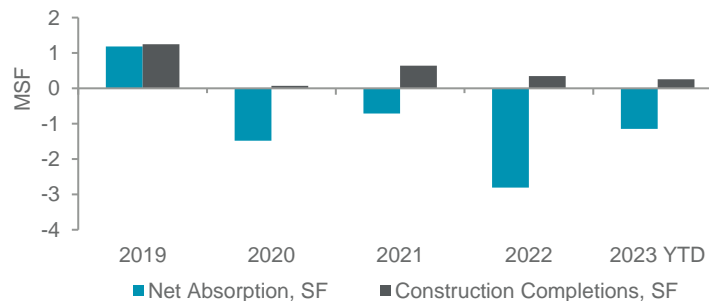
The total nonfarm employment in Orange County (OC) grew by 44,600 or +2.7% year-over-year (YOY) between February 2022 and February 2023, with the leisure and hospitality sector accounting for the most gains or 16,100 jobs added (+7.8% YOY), followed by educational and health services adding 9,900 jobs (+4.0% YOY) and professional and business services adding 6,300 jobs (+1.9% YOY). During the same time, the monthly unemployment rate decreased from 3.7% last year to 3.4% and is currently 20 basis points (bps) above the quarterly average of 3.2%.¹ All employment sectors are expected to grow at a combined rate of 2.1% in 2023 and 0.8% in 2024, while office employment is forecasted to grow by 0.7% in 2023 and 0.4% in 2024. The annual unemployment rate is forecasted to decrease from 4.8% in 2022 to 4.3% in 2023 and 4.5% in 2024, below the 10-year historical average of 6.5%.²

SUPPLY AND DEMAND

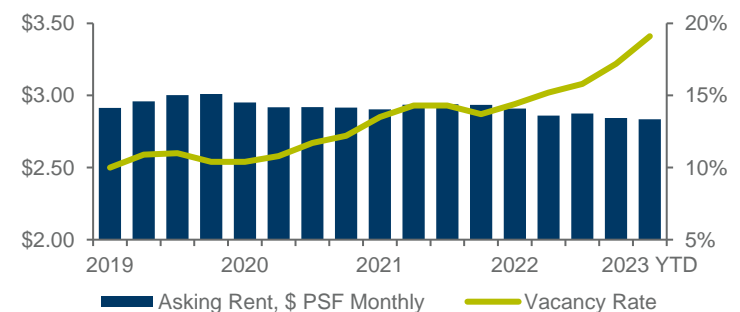
The OC office market has continued to struggle three years after covid restrictions upended normal work life. Since the pandemic began in Q1 2020 the overall vacancy rate has risen 870 bps to 19.1% in Q1 2023, which is also up 190 bps quarter-over-quarter (QOQ) and up 470 bps YOY. Overall, tenants vacated slightly over 1.1 million square feet (msf) in Q1 2023, the highest quarterly level so far. The Irvine submarket led occupancy losses at -599,616 square feet (sf), largely due to Impac Mortgage (-120,163 sf) terminating their lease early, followed by Lake Forest/R.S. Margarita (-196,705 sf) where Ossur and Kaiser Aluminum Fabricated Products vacated large spaces. However, not all was negative as two submarkets to post notable positive absorption for Q1 2023 were Costa Mesa (+296,169 sf) and Irvine Spectrum (+140,373 sf). This positive absorption is largely the result of Anduril Industries moving into the newly renovated, "The Press", and Amazon occupying their new space at "Spectrum Terrace".

As tenants continue to reassess their real estate needs due to work-from-home policies and the uncertain economic future, ever more office space has been added to the market. Overall available sublease space increased this quarter to 3.9 msf, up 9.1% QOQ and 79.6% YOY. When combined with direct available space, 23.5% of the entire office inventory in OC is on the market available for lease – a historical high. Leasing activity softened in Q1 2023 with 1.1 msf leased across 332 deals, excluding renewals, compared to 1.5 msf (327 deals) in Q4 2022 and 1.7 msf (342 deals) in Q1 2022. Most of the leasing activity in Q1 2023 took place in the Greater Airport Area (55% or 619,918 sf), followed by South County (21% or 241,412 sf). The three most active submarkets - Irvine (40%), Irvine Spectrum (12%), and Newport Beach (9%) - accounted for 61% or 688,634 sf of new leases signed in Q1 2023. Class A product continued to lead in leasing, accounting for 51% or 577,543 sf of all new deals signed this quarter. Seegene, Inc. signed the largest new deal of the quarter, leasing 55,635 sf at UCI Research Park in South County. A notable renewal signed in the quarter was DaVita Healthcare leasing 40,206 sf at Discovery Park for 84 months, after shedding 25,792 sf from its original lease.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

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PRICING: Asking Rates Continue to Hold

Despite the increased vacancies in the market, the average asking rate across all classes has remained stable over the past four years. Rather than landlords conceding on rental rates, concessions have come in the form of increased months of free rent and higher-than-usual tenant improvement allowances. The average asking rent fell 0.3% QOQ and 2.6% YOY to \$2.83 per square foot (psf) on a monthly full-service basis. Over the past 12 months, the average Class A asking rent decreased 3.1% to \$3.08 psf, while Class B rent decreased 2.4% to \$2.47 psf. Asking rates at the newest Class A projects with modern design and amenities are ranging from \$4.65 to \$5.65 psf and are nearly fully occupied. These projects resemble the “flight to quality” trend and are the types of buildings that occupiers are excited to move their business into.

FUTURE INVENTORY: Limited Pipeline

Once the second phase of Innovation Office Park wrapped up construction this quarter, that spelled the end of all current office construction countywide. Innovation Office Park delivered 258,194 sf of creative Class A low-rise product in Irvine Spectrum of which 85.6% is vacant. There are two notable proposed office projects in the development pipeline: Flight @ Tustin Legacy Phase II in Tustin and Innovation Office Park Phase III in Irvine. Due to the state of the office market, both developments will likely not begin construction until a tenant has committed to doing a build-to-suit. Lastly, first announced in the second half of 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 would consist of four buildings designed to have 32,000-sf floor plates, ideal for mid to large-sized tenants. Although there is no current timeline for the project, it is strongly believed that The Irvine Company will not begin construction until a tenant is committed.

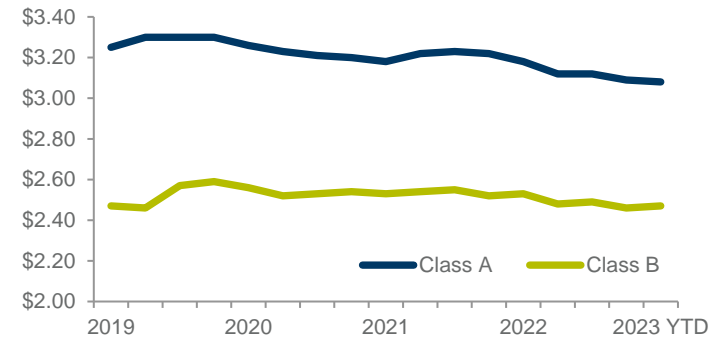
SALES ACTIVITY: Interest Rates Hampering Deal Volume

The OC office market recorded \$401 million (M) in sales volume (24 properties) in Q1 2023, compared to \$285M (16 properties) in Q4 2022 and \$580M (27 properties) in Q1 2022. This represents an increase of 41% QOQ in volume albeit a decrease of 31% YOY. The average price psf was \$335 in Q1 2023, a decrease of 4% QOQ although up 3% YOY. The leading buyers in Q1 2023 were private investors at 68% (vs. 46% in 2022), followed by institutional at 18% (vs. 23% in 2022) and REITs at 14% (vs. 7% in 2022). Private investors accounted for 55% of sales activity in Q1 2023 (vs. 46% in 2022), followed by institutional investors at 44% (vs. 25% in 2022)³. Although this quarter had a slight uptick in sales activity, the deal volume will remain at reduced levels until interest rates level out or trend down to a more stabilized level. In the current environment, the expectation between buyers and sellers is too wide and neither party can agree on a value.

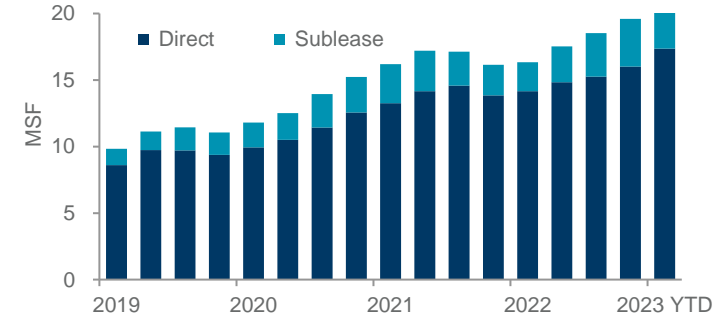
OUTLOOK

- Tenants are reassessing their real estate footprint based on work-from-home policies as well as assessing both short and long-term needs. Consequently, available sublease space on the market will continue to climb as companies reconfigure their space needs prior to their lease expirations.
- Active tenant requirements of all sizes remain robust at 2.3 msf over the next 24 months countywide, led by Inari Medical. 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.

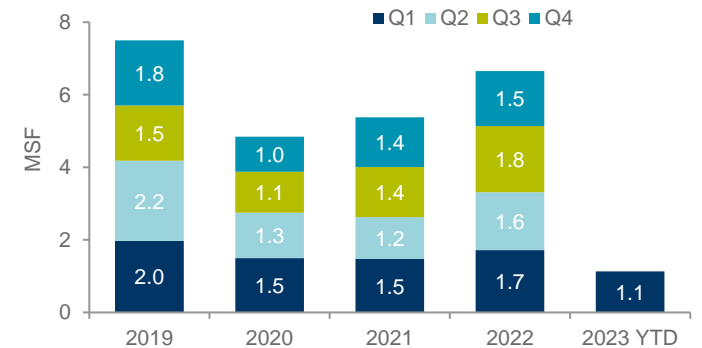
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



Orange County

Office Q1 2023

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET 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	39,544,819	7,002,000	951,458	20.1%	-382,537	-382,537	619,918	0	0	\$3.04	\$3.14
South County	22,007,952	3,294,588	645,010	17.9%	-266,726	-266,726	241,412	258,194	0	\$2.79	\$3.17
West County	4,366,205	788,273	34,824	18.9%	-112,547	-112,547	41,396	0	0	\$2.63	\$2.93
Central County	19,092,005	3,384,073	296,527	19.3%	-334,522	-334,522	149,894	0	0	\$2.62	\$2.92
North County	5,454,260	798,935	95,881	16.4%	-50,303	-50,303	74,659	0	0	\$2.26	\$2.62
Class A	44,547,234	9,169,458	1,306,107	23.5%	-391,015	-391,015	577,543	258,194	0	\$3.08	
Class B	44,368,564	5,989,858	714,619	15.1%	-761,439	-761,439	525,202	0	0	\$2.47	
Class C	1,549,443	108,553	2,974	7.2%	5,819	5,819	24,534	0	0	\$2.04	
OC TOTALS	90,465,241	15,267,869	2,023,700	19.1%	-1,146,635	-1,146,635	1,127,279	258,194	0	\$2.83	

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

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
141 Innovation Dr.	Greater Airport Area	Seegene, Inc.	55,635	New
15271 Laguna Canyon Rd.	South County	DVA Healthcare Renal Care, Inc.	40,206	Renewal**
2441 W. La Palma Ave.	Central County	Anaheim Clinical Trials	34,798	Renewal**
17911 Von Karman Ave.	Greater Airport Area	KTGY	32,334	Renewal**
1065 N. PacifiCenter Dr.	Central County	State of California – Department of Industrial Relations	30,140	Renewal**

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Von Karman Corporate Center	Greater Airport Area	EQ Office / IRA Capital	451,477	\$98.0M / \$217
Hutton Centre (4 Hutton Centre Dr.)	Greater Airport Area	LaSalle Investment Management / Sakura Paper	216,864	\$25.0M / \$115
Foothill Plaza (27422 & 27442 Portola Pkwy.)	South County	Barings / Canon Property Holdings	210,902	\$31.5M / \$149

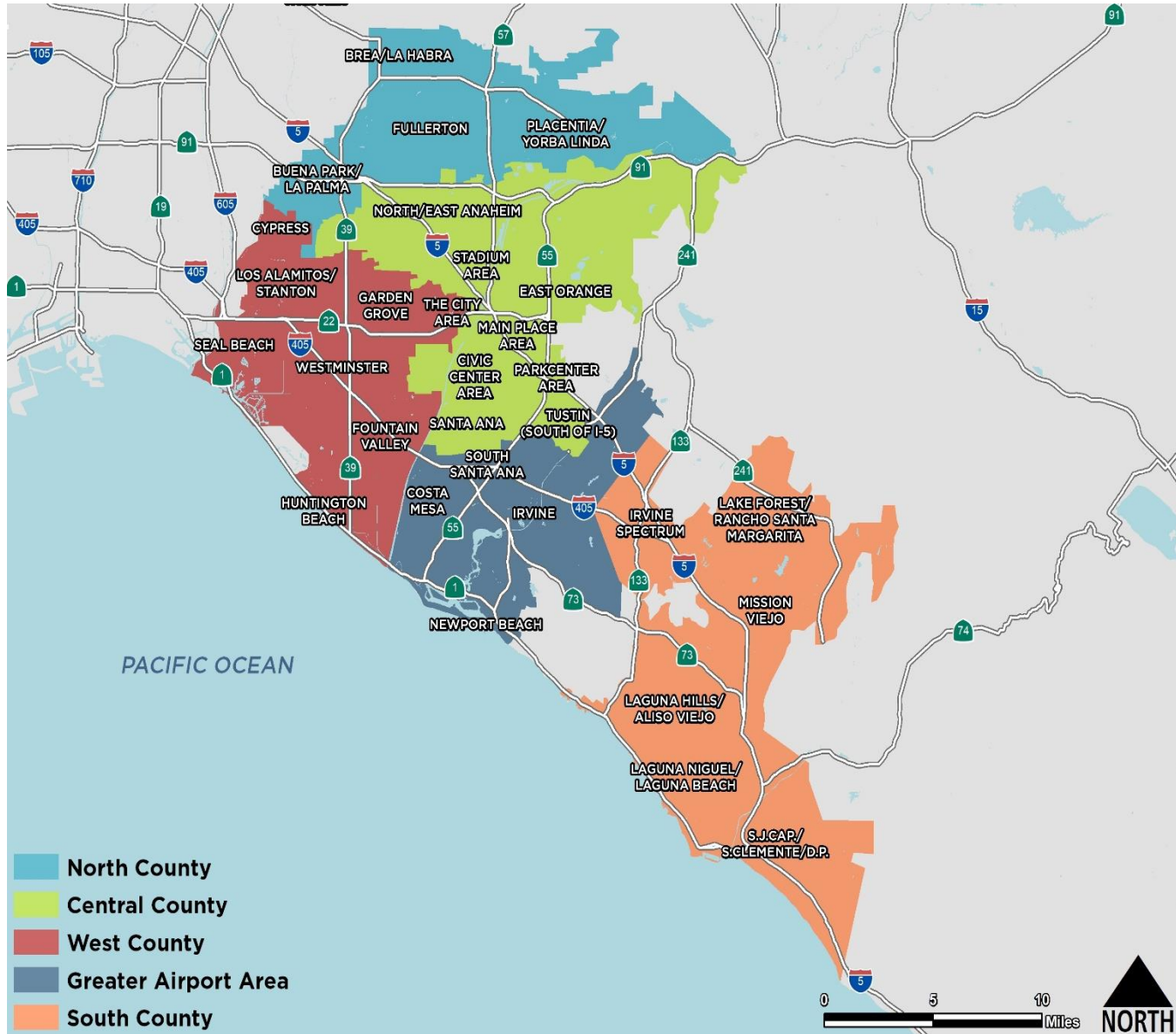
KEY PROJECTS COMPLETED Q1 2023

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

Orange County

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OFFICE SUBMARKETS



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