

	YoY Chg	12-Mo. Forecast
19.6% Vacancy Rate	▲	▲
-245.8K Net Absorption, SF	▲	▲
\$2.85 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
3.5% Orange County Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

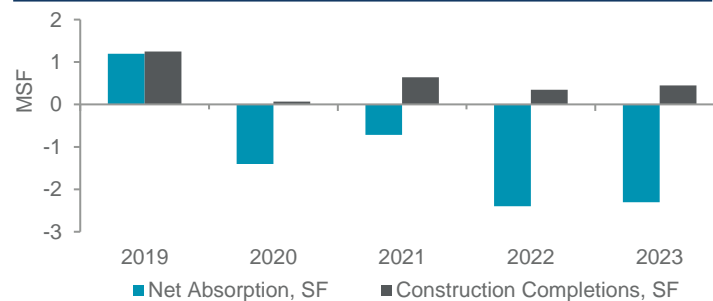
ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 29,300 or 1.7% year-over-year (YOY) between November 2022 and November 2023. The private education and health services sector accounted for the most gains, or 8,900 jobs added (+3.5% YOY), followed by the leisure and hospitality sector, adding 8,700 jobs (+3.9% YOY) and trade, transportation, and utilities adding 5,400 jobs (+2.0% YOY). During the same time, the monthly unemployment rate increased from 3.0% last year to 3.8% and is currently 30 basis points (bps) above the quarterly average of 3.5%.¹ The recovery from the 272,300 nonfarm job losses experienced between March and May 2020 has been completed, with 326,000 jobs fully recovered between June 2020 and November 2023. All employment sectors are projected to grow at a combined growth rate of 1.4% in 2024 and 1.2% in 2025 compared to the 5-year historical average of 0.4%.²

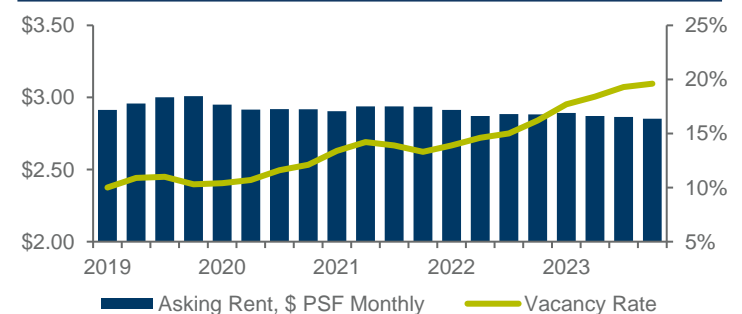
SUPPLY AND DEMAND

The OC office market continues to face uncertainty nearly four years after the onset of the COVID-19 pandemic. The overall vacancy rate has increased significantly by 920 bps since Q1 2020, reaching 19.6% in Q4 2023. This represents a 30-bps increase quarter-over-quarter (QOQ) and a 340-bps increase YOY. In Q4 2023, tenants vacated slightly under 246,000 square feet (sf), signifying that many are still not fully committed to “back in the office”. The Irvine submarket within the Greater Airport Area led to occupancy losses at -116,424 sf, mainly due to former WeWork spaces being re-listed as vacant (-70,607 sf), followed by Costa Mesa (-80,962 sf) in the Greater Airport Area. However, two submarkets posted positive absorption in Q4 2023: Irvine Spectrum (+92,007 sf) in South County and Stadium Area (+29,869 sf) in Central County. This positive absorption primarily resulted from Apple moving into their two buildings at ‘Spectrum Terrace’ (+170,954 sf), and New York Life Insurance taking occupancy at 2400 E. Katella Ave., respectively (+23,133 sf). Tenants have been actively reassessing their real estate needs over the last three years. However, this quarter continued the second consecutive decrease in available sublease space in the previous eight quarters. Overall available sublease space decreased to 3.7 million square feet (msf) this quarter, down 3.7% QOQ but still up 8.6% YOY. When combined with direct available space, 21.4 msf or 23.2% of the entire office inventory in OC is on the market and available for lease. This figure is elevated (-0.4% QOQ and +11.9% YOY) and well above the five-year quarterly average of 15.9 msf of overall availability at 17.3%. Leasing activity in Q4 2023 increased slightly, with 1.7 msf leased across 344 deals, excluding renewals. This compares to 1.6 msf (360 deals) in Q3 2023 and 1.6 msf (338 deals) in Q4 2022. The Greater Airport Area was the most active major market, accounting for 50.7% or 861,533 sf of leasing activity in Q4 2023 followed by Central County (25.3% or 429,003 sf). The three most active submarkets were Irvine (29.2%), Newport Beach (14.8%) and Irvine Spectrum (10.8%). Combined, these submarkets accounted for 54.8% or 930,197 sf of new leases signed in Q4 2023. Class A properties were in high demand, representing 55.3% or 938,553 sf of all new deals signed in the quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q4 2023



PRICING: Landlords Hold Firm on Asking Rents but Offer Increased Concessions

Despite increased market vacancies, the average asking rate across all classes has remained relatively stable over the past four years. Landlords have held firm on asking rental rates but are offering extended free rent periods, higher tenant improvement allowances, and broker bonuses to remain competitive. The average asking rent fell 0.3% QOQ and 1.0% 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 decreased by 0.6% to \$3.13 psf, while Class B rent decreased by 0.8% to \$2.45 psf. Recently developed Class A buildings with modern design elements and amenities command rates at a substantial premium to the market rent, ranging from \$4.65 to \$5.65 psf, and are nearly fully leased up.

FUTURE INVENTORY: Projects Waiting for Tenant Commitments to Begin

There are no active developments in the OC office market as of Q4 2023, although one is likely to begin construction in early 2024. The project 'ocV!BE' will be a 150,000 sf Class A building in the Stadium Area submarket, strategically positioned near the Honda Center and surrounding amenities. The development pipeline also has three noteworthy proposed projects: Flight @ Tustin Legacy Phase II in Tustin, Innovation Office Park Phase III in Irvine and Five Lagoon in Laguna Hills. However, due to the state of the office market, it is unlikely that these projects will break ground anytime soon without securing tenant commitments first. Lastly, The Irvine Company announced a proposed 512,000 sf "Lab-Ready Campus" called Academy Point in the latter half of 2022. This development would be the largest life sciences office campus in Orange County, but the plans were just scrapped. The project is now scheduled to become a 1,200-unit apartment complex but must first be entitled to residential use.

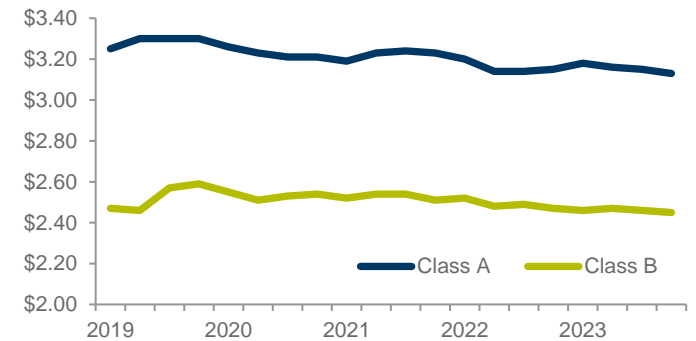
SALES ACTIVITY: Private Buyers and Sellers Continue to Dominate

The OC office market recorded \$204 million (M) in sales volume (11 properties) in Q4 2023, compared to \$314M (8 properties) in Q3 2023 and \$106M (4 properties) in Q4 2022.³ This represents a decrease of 35.1% QOQ in volume albeit up 92.0% YOY. The average price psf was \$257 in Q4 2023, increasing 2.0% QOQ although decreasing 3.3% YOY. The leading buyers as of Q4 2023 were private investors at 63% (vs. 49% in 2022), followed by users at 25% (vs. 32% in 2022) and institutional investors at 8% (vs. 14% in 2022). Private investors accounted for 45% of sales activity as of Q4 2023 (vs. 51% in 2022), followed by institutional investors at 35% (vs. 32% in 2022) and REITs at 13% (vs. 0% in 2022). There were two notable sales in the Greater Airport Area in Q4 2023: 2050 Main St. in Irvine sold for \$57.5M or \$183 psf, which is a 47.0% discount from the last sale in November 2011 and 3 Hutton Centre Dr. sold for \$28.9M or \$145 psf, a discount of 42.8% since the last sale in November 2016.

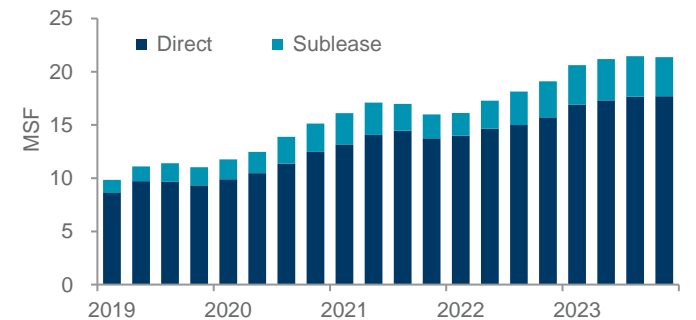
OUTLOOK

- Landlords will likely remain firm on asking rents while offering increased concession packages in the form of more months of free rent and higher tenant improvement allowances due to their existing debt commitments.
- Active tenant requirements of all sizes remain robust at 2.2 msf countywide over the next 24 months, led by Blizzard's search for a consolidated campus. While not all current tenants in the market will lease space in the short term, these active requirements indicate future leasing activity in the coming quarters.

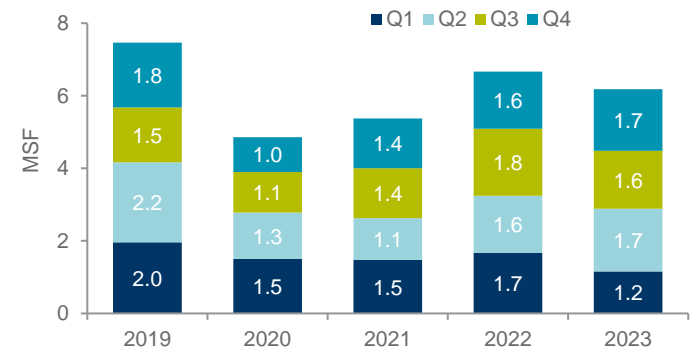
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



Orange County

Office Q4 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	40,164,553	7,198,097	864,223	20.1%	-246,158	-642,555	3,093,210	190,000	0	\$3.00	\$3.12
South County	22,306,139	3,547,909	864,584	19.8%	56,827	-794,085	1,452,217	258,046	0	\$2.93	\$3.37
West County	4,759,588	872,677	40,523	19.2%	8,822	-210,802	240,183	0	0	\$2.55	\$3.17
Central County	19,264,894	3,521,772	237,610	19.5%	-1,628	-597,270	1,094,947	0	0	\$2.67	\$2.95
North County	5,691,467	837,759	56,959	15.7%	-63,665	-60,628	300,481	0	0	\$2.32	\$2.79
Class A	44,836,223	9,283,562	1,345,370	23.7%	-190,539	-780,182	3,102,741	448,046	0	\$3.13	
Class B	45,614,229	6,523,190	714,116	15.9%	-49,721	-1,468,163	2,998,661	0	0	\$2.45	
Class C	1,736,189	171,462	4,413	10.1%	-5,542	-56,995	79,636	0	0	\$1.98	
OC TOTALS	92,186,641	15,978,214	2,063,899	19.6%	-245,802	-2,305,340	6,181,038	448,046	0	\$2.85	

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

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
19500 Jamboree Rd.	Irvine	Canon U.S.A., Inc.	92,893	New
5515 E. La Palma Ave.	North/East Anaheim	St. John Knits International, Inc.	84,493	New
1700 E. Saint Andrew	Santa Ana	County of Orange	70,462	New
100 Bayview Circle	Newport Beach	Best Choice Products	53,478	New
50 Pointe Dr.	Brea/La Habra	Avery Products Corporation	51,387	Renewal**

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2050 Main St.	Irvine	AEW Capital Management / Greenlaw Partners c/o Monster Beverage	314,074	\$57.5M / \$183
3 Hutton Centre Dr.	South Santa Ana	Cypress Office Properties c/o Harbert Management / Liu Corporation LLC	199,834	\$28.9M / \$145
1065 N. Link	North/East Anaheim	Oaktree Capital Management c/o Hines / Easterly Government Properties, Inc.	95,273	\$31.2M / \$327

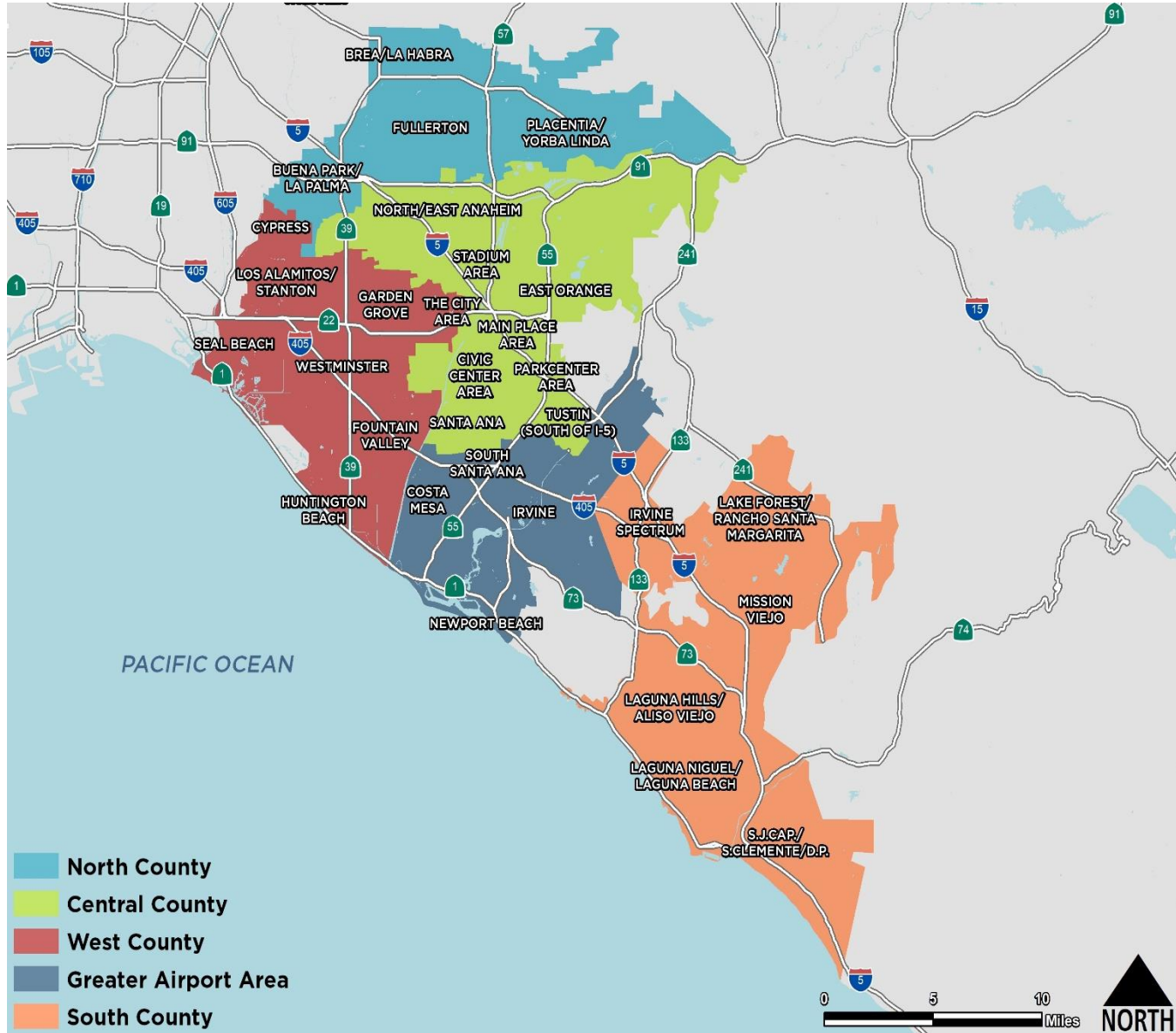
KEY PROJECTS COMPLETED 2023

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Innovation Office Park – Ph. II: 200-260 Progress	Irvine Spectrum	N/A	258,194	The Irvine Company
The Press: 1375 Sunflower Dr. – Bldg. 2	Costa Mesa	Anduril Industries	190,000	SteelWave

Orange County

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OFFICE SUBMARKETS



DALTON BRUSSEAU

Senior Research Analyst

Tel: +1 949 930 9244

dalton.brusseau@cushwake.com

JOLANTA CAMPION

Senior Research Director, Southern California

Tel: +1 858 625 5235

jolanta.campion@cushwake.com

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