

Orange County

Office Market Outlook Q1 2023

MARKET OVERVIEW

In the first quarter, Orange County's office market struggled to pick up demand, resulting in an increase in the vacancy rate. Occupancy declined across all submarkets, leading to a quarter-over-quarter rise of 110 basis points in the vacancy rate, reaching 13.3%. This represented a 160 basis points increase compared to the first quarter of the previous year. Additionally, sublease space availability increased by 4.6% from the previous quarter and experienced a significant year-over-year rise of 34.3%, surpassing the all-time high during the Great Recession, totaling over 4.5 million square feet. Overall, during Q1, Orange County's office market reached 27 million square feet of available office space.

Despite these changes, the average asking rent remained relatively stable, with a decrease of only 1 cent compared to the previous quarter and a mere 2.2% year over year, amounting to \$2.67 per square foot on a full-service gross basis. With the average asking rent for office space trending lower, the amount of space under construction significantly dropped by 77.6% year over year, reaching 285,361 square feet in the first quarter.

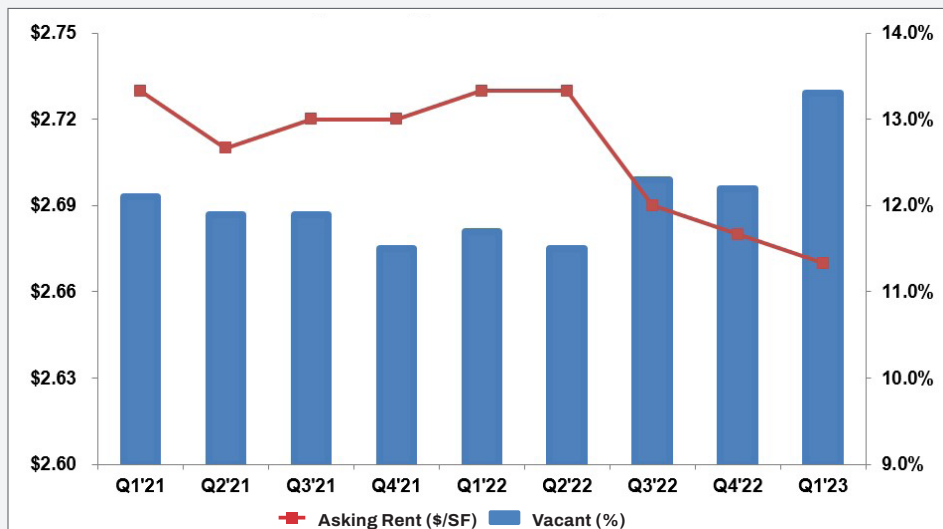
TRENDS TO WATCH

In Q1, Orange County saw a vacancy rate of 31.1% in newly constructed office buildings since 2020, totaling 2.2 million square feet. These buildings had an average of 2 stories, and no completed projects exceeded four stories. The average asking rent for new construction remained unchanged from the previous quarter but declined by 24.5% compared to Q1 2020, reaching \$3.94 per square foot.

Over the past year, low-mid-rise office buildings (6 stories and below) added over 1 million square feet of vacant space, while high-rise buildings (7 stories or higher) contributed over 1.4 million square feet. The vacancy rate in low-mid-rise buildings stood at 11.6%, representing 14.2 million square feet of vacant space, while high-rise buildings had a higher vacancy rate of 19.4%, totaling 6.7 million square feet. Rent in low-mid-rise buildings declined by 1.9% to \$2.63 per square foot, while high-rise buildings experienced a 1% drop to \$2.94 per square foot.

Although Orange County's office market is primarily comprised of suburban office submarkets with low-mid-rise buildings, the increase in vacant space has been observed across the market. Vacancy rates have risen at a higher pace in high-rise buildings, while rent decreases have been more significant in low-mid-rise office buildings. The demand for office space is being influenced by work-from-home trends, resulting in reduced occupancy and cash flow challenges for building owners, especially considering the rise in interest rates. Both landlords and tenants will face distress, leading to a challenging recovery period that will impact real estate values.

Average Asking Rent and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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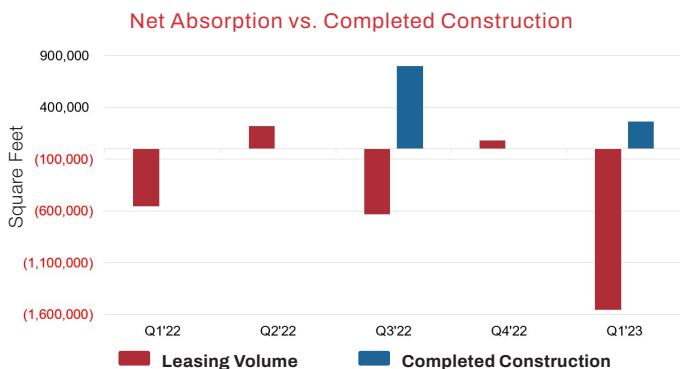
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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Airport	73,867,373	7,072	20.2%	15.6%	831,302	831,302	1,108,865	1,108,865	\$2.73	\$214
Central	14,946,981	155,200	17.0%	13.1%	117,024	117,024	22,299	22,299	\$2.56	\$252
North	19,209,828	20,000	10.8%	8.5%	207,304	207,304	29,036	29,036	\$2.47	\$333
South	35,004,374	97,893	17.5%	13.4%	340,579	340,579	385,512	385,512	\$2.72	\$265
West	13,966,520	5,196	10.1%	7.6%	133,926	133,926	46,604	46,604	\$2.52	\$260
Orange County	156,995,076	285,361	17.2%	13.3%	1,630,135	1,630,135	1,592,316	1,592,316	\$2.67	\$230

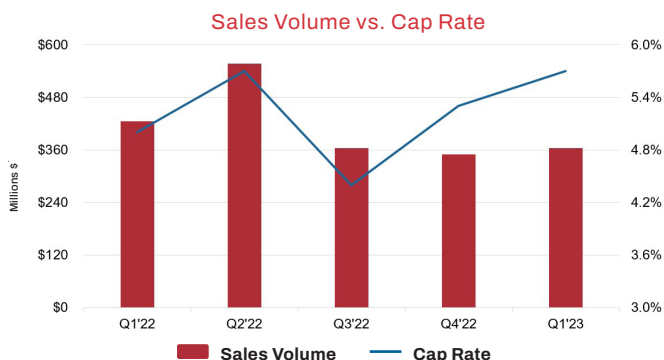
Net Absorption, Completed Construction Trends

Q1 2023 saw a shift in momentum in the office market, following a slightly positive performance in Q4 2022, as net absorption turned negative. During the period from Q1 2022 to Q1 2023, 1 million square feet of construction was completed, while the net absorption recorded a negative figure of 2.4 million square feet.



Sales and Cap Rate Trends

Uncertain demand led to a 14.4% drop in Q1 2023 sales volume compared to Q1 2022. Buyers and sellers adapted to the changing market. The average cap rate rose 70 basis points to 5.7%, while average sale price per square foot decreased by 19.4% as office market activity slowed.



Select Lease Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
7755 Center Ave	Huntington Beach	West	56,000*
141 Innovation Dr	Irvine	Airport	55,635
15271 Laguna Canyon Rd	Irvine	Airport	40,206*
2441 W La Palma Ave	Anaheim	North	34,798*
17911 Von Karman Ave	Irvine	Airport	32,334*

*Renwal

Select Sales Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
VKCC (Portfolio of 9 Office Properties)	Irvine	Airport	450,000
4 Hutton Centre Dr	Santa Ana	Central	216,864
27442 Portola Pky (2 Office Properties)	Foothill Ranch	South	212,621
16355 Laguna Canyon Rd	Irvine	Airport	113,882
16752 Armstrong Ave	Irvine	Airport	81,600

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- **North**
 - Anaheim
 - Brea
 - Fullerton
 - La Habra
 - Orange
 - Villa Park
 - Yorba Linda

- **Central**
 - Tustin
 - Tustin Foothills
 - Santa Ana

- **West**
 - Buena Park
 - Cypress
 - Fountain Valley
 - Garden Grove
 - Huntington Beach
 - Seal Beach
 - Stanton

- **Airport**
 - Costa Mesa
 - Irvine
 - Newport Beach

- **South**
 - Aliso Viejo
 - Dana Point
 - Foothill Ranch
 - Laguna Hills
 - Laguna Niguel
 - Lake Forest
 - Mission Viejo
 - Rancho Santa Margarita
 - San Clemente
 - San Juan Capistrano

Orange County

Office Market Outlook Q1 2023



NAI Capital Commercial Southern California Office Locations

Headquarters

15821 Ventura Blvd., Ste. 320
Los Angeles, CA 91436
818.905.2400

Los Angeles County

Downtown LA

707 Wilshire Blvd., Ste. 5125
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

25060 Avenue Stanford., Ste. 165
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 470
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Victorville

13911 Park Ave., Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 200
Palm Desert, CA 92211
760.346.1566