

Orange County

Office Market Outlook Q2 2022

MARKET OVERVIEW

Orange County's office market gained occupancy as companies persisted in bringing their people back into the office post pandemic. The vacancy rate inched downward as demand for office space got a boost in most submarkets in the second quarter, since seeing an increase in the first quarter of 2022. Many submarkets saw gains in occupancy as the vacancy rate decreased 30 basis points quarter over quarter to 11.4 percent, down 40 basis points from last year at this time. The average asking rent remained flat for the second consecutive quarter as space under construction totaled 1,278,873 square feet in the second quarter, down 1.7 percent year over year.

Available office space on the market lessened this quarter compared to last year at this time, while work from home and space utilization strategies continued to play out. In the Airport area, which is the largest submarket, office space put on the market declined 1.0 percent on a direct basis with sublease space decreasing at more than twice the rate at 2.5 percent year over year. Orange County's total available office space hit 24.5 million square feet this quarter – down 2.3 percent from last year. In contrast, available sublease space increased 4.3 percent from last year, still shy of the Great Recession's all-time high, to more than 3.7 million square feet. The average asking rent remained unmoved from the previous quarter, up 2-cents year over year, at \$3.73 per square foot, full service gross.

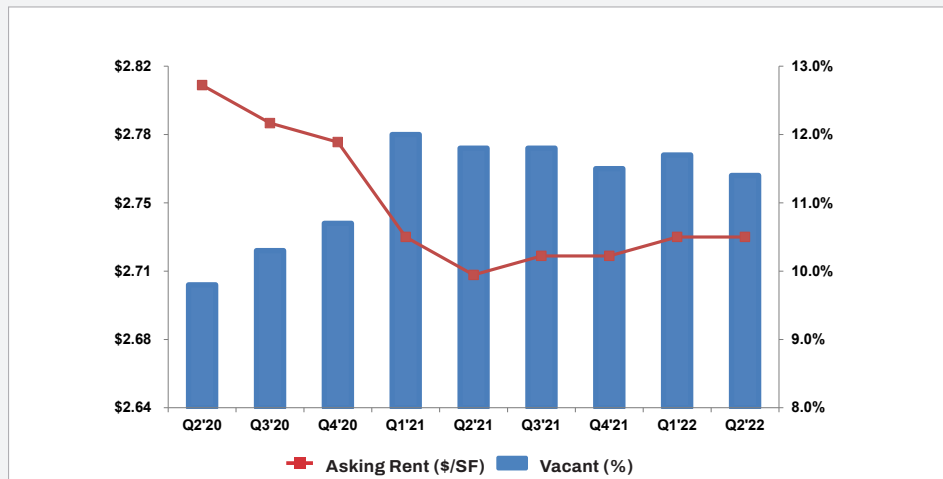
TRENDS TO WATCH

Tenants seeking value will look to lease where there is the most available space, helping to keep rents steady. The Airport submarket, which holds 55 percent of the available office space, saw rent remain flat year over year at \$2.75 per square foot. Airport as the largest submarket weighted on the average rent in region which did not budge from the previous quarter. Airport captured the most leasing activity year to date in the second quarter of 2022, up 11.1 percent from 2021 to more than 2.9 million square feet, which boosted leasing volume 16.4 percent above last year in the region. Year to date office building sale volume in Orange County climbed 47.6 percent year over year. The average sale price per square foot was up 20.6 percent year over year.

In the first half of 2022 low to mid-rise office buildings (buildings 6-stories and under) gained 328,584 square feet of positive net absorption while high-rise buildings (7-stories or higher) experienced 451,935 square feet of negative net absorption. The vacancy rate in low to mid-rise office buildings registered 10.2 percent while high-rise buildings showed a much higher rate at 15.9 percent. Rent in low to mid-rise buildings increased 0.8 percent to \$2.67 per square foot. In contrast, rent for high-rise buildings saw a 0.3 percent drop year over year to \$3.03 per square foot.

Office buildings will continue to see demand improve as the flight quality low to mid-rise office buildings within suburban submarkets takes shape.

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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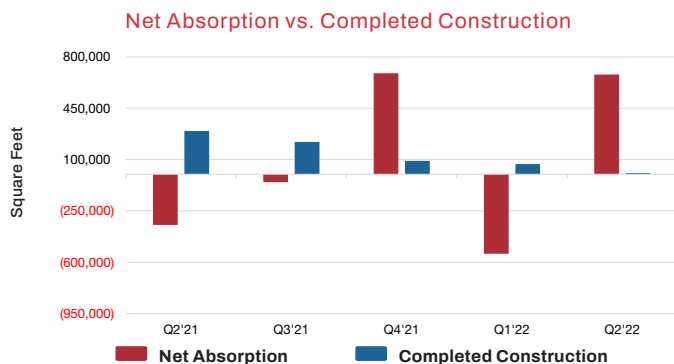
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Market Statistics*

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	73,282,446	794,992	18.5%	13.6%	1,496,765	2,940,188	820,507	1,566,547	\$2.75	\$441
Central	14,983,293	140,850	14.9%	9.7%	120,454	260,605	134,745	601,708	\$2.54	\$273
North	19,507,870	5,940	9.6%	8.0%	118,992	436,390	154,766	316,699	\$2.50	\$281
South	34,945,018	316,288	15.3%	10.9%	669,052	1,205,236	308,660	996,182	\$2.81	\$296
West	14,036,321	20,803	10.6%	7.3%	84,747	231,907	39,657	174,768	\$2.62	\$335
Orange County	156,754,948	1,278,873	15.6%	11.4%	2,490,010	5,074,326	1,458,335	3,655,904	\$2.73	\$375

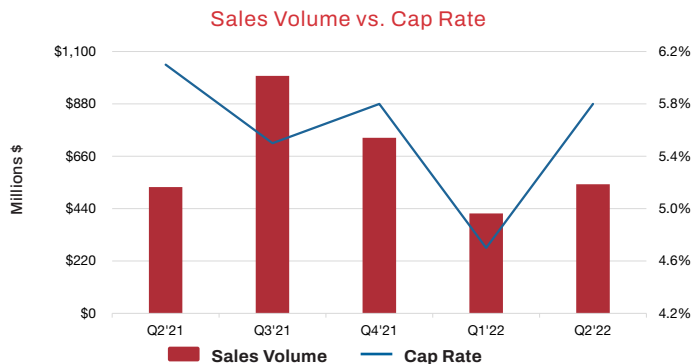
Net Absorption, Completed Construction Trends

Office market net absorption depicted the change in momentum that happened in the second quarter of 2022. After a positive fourth quarter, net absorption turned negative in the Q1 and bounced back in Q2 of 2022. From the second quarter of 2021 to the second quarter of 2022 completed construction totaled 684,136 square feet and net absorption totaled a positive 427,513 square feet.



Sales and Cap Rate Trends

Sales volume increased 29.2 percent from the first quarter of 2022, as buyers and sellers adjusted to the uncertainty in demand in the second quarter of 2022. The average cap rate increased 110 basis points from the previous quarter to 5.8 percent. The average sale price per square foot sold in the second quarter of 2022 increased 20.6 percent year over year as investors capitalized on opportunities in the office market.



Select Lease Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
535 Anton Blvd	Costa Mesa	Airport	53,751
1901 Main St	Irvine	Airport	44,928*
6101 Gateway Dr	Cypress	West	34,080*
3200 Bristol St	Costa Mesa	Airport	31,966
5900 Katella Ave	Cypress	Airport	31,500

*Renwal

Select Sales Transactions

ADDRESS	CITY	SUBMARKET	SIZE SF
Von Karman Ave/Gillette Ave (4 Building Portfolio)	Irvine	Airport	452,204
15771 Red Hill Ave	Tustin	Central	103,281
1801 W Romneya Dr	Anaheim	North	87,854
4340 Von Karman Ave	Newport Beach	Airport	68,425
3010 W Orange Ave	Anaheim	North	68,182

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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

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

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

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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