

Orange County

Office Market Outlook Q2 2020

MARKET OVERVIEW

After an entire quarter under a COVID-19 shutdown, the Orange County office market experienced lower transaction volume, an uptick in vacancy and landlords propping up asking rents. Leasing volume declined 43% over the prior quarter, down 57.1% from Q2 2019 to 1.3M SF. During the same period sales volume fell 44.7% and 64.5%, respectively, to a mere 688K SF. Transaction volume is at 42.8% of the total figure from 2009 in the depths of the Financial Crisis — indicating that if the shutdown persists in the second half of 2020, annual transaction volume could end up lower than the last recession. Tenants placed a lower rate of sublease space on the market this quarter. Available sublease space is up only 4.7% over the prior quarter and 21.2% from Q2 2019 - revealing that tenants were shedding space prior to the shutdown.

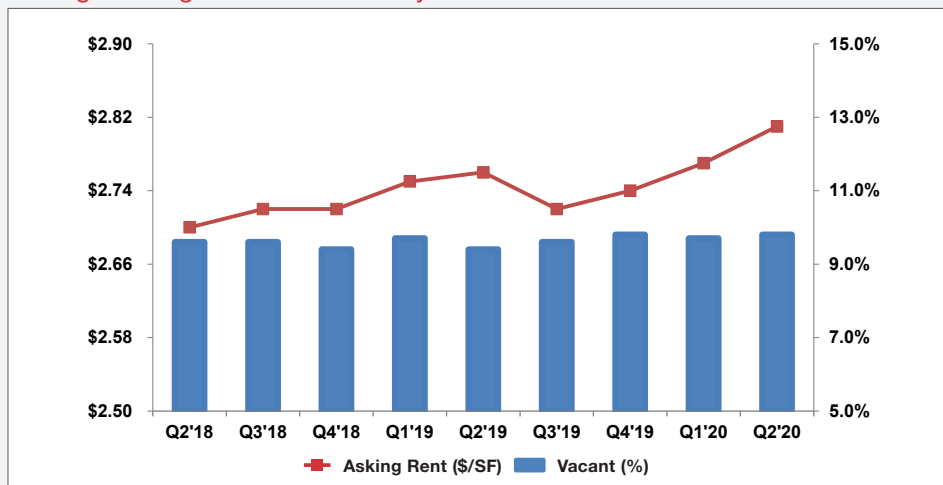
The Paycheck Protection Program (PPP), which provides small businesses with funding for up to eight weeks of payroll costs, including benefits, mortgage interests, rent and utilities, appears to be working to maintain occupancy. Vacancy remained in single digits, up only 10 bps over Q1 2020 to 9.8%. The average asking rent reflected unwavering optimism from landlords and completed construction. The average rent is up \$0.04/SF from the previous quarter to a record-high \$2.81/SF. Over 1.6M SF of office space remains under construction.

TRENDS TO WATCH

The impact of the shutdown on Orange County's office market continues to develop. Employment in Orange County showed signs of recovery in June. Employment growth is the lifeblood of demand for the office market and jobs appear to be coming back. Following a mixed jobs report in May, the County added 71,600 jobs over the month of June, including 14,900 jobs in office-occupying sectors.

NAI Capital conducted a COVID-19 Impact Survey of its office market professionals to get a pulse of where the market could be headed. Many office brokers (67%) believe pricing will decline. All brokers surveyed see a decline in transaction volume, a rise in vacancy and landlords offering more concessions like free rent on new leases and rent abatement or deferment for exiting tenants as the market adjusts to lower demand.

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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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANT (%)	Q2'20 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2'20 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF)	AVERAGE SALE PRICE (\$/SF)
Airport	72,931,378	1,006,241	15.9%	11.3%	601,514	1,800,497	153,945	409,143	\$2.82	\$428
Central	15,209,348	0	12.3%	8.1%	155,789	372,368	1,915	53,054	\$2.53	\$379
North	19,813,279	0	9.5%	7.6%	134,637	357,690	16,656	386,159	\$2.53	\$222
South	34,890,666	619,968	14.4%	10.2%	354,711	909,064	510,693	984,299	\$3.05	\$396
West	15,000,632	0	7.2%	5.8%	64,063	170,990	4,712	100,147	\$2.34	\$541
Orange County	157,845,303	1,626,209	13.6%	9.8%	1,310,714	3,610,609	687,921	1,932,802	\$2.81	\$400

Leasing

Total market leasing activity slowed to the lowest quarterly volume since Q1 2008 at 1.3M SF. This quarter's leasing volume pushed the YTD total to 48.3% below the first half of 2019. While leasing volume dropped overall, subleasing volume this quarter remained roughly on par with levels seen for the past five years at 150K SF.

The largest leasing transactions since the COVID-19 shutdown took place in the Airport market, which saw the highest leasing volume YTD by square footage at 1.8M SF. Still, leasing activity in the Airport area fell 43% in the first half of 2020 compared to the same period in 2019. Irvine continued to be the epicenter of activity. Park Place in Irvine improved its occupancy as Panasonic Avionics leased 251K SF this quarter.

Sales

Quarterly sales volume totaled nearly 700K SF valued at \$274M, bringing the YTD total to 42.8% below this time last year. This was the lowest quarterly sales volume since Q1 2013. The average sales price gained 51.6% from Q2 2019 to \$400/SF while the average cap rate for investment sales over \$2M dipped 60 bps year over year to 5.4%.

Investors concentrated on building their portfolios in the South market, the only area to post a quarterly uptick in sales volume. Year-to-date, sales in the South market were up 12% from the first half of 2019. IRA Capital, LLC purchased Element in Aliso Viejo, a three-building, 165K portfolio, for \$73.5M or \$445/SF. The property was 100% occupied at sale by Glaukos Corporation through 2032. The seller acquired the asset in 2016 for \$32M, which equates to 104% appreciation.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RATE \$/SF**	SQUARE FEET
American Home Loans***	15360 Barranca Pky.	Airport	\$1.25	39,060
Tencent America	15201 Laguna Canyon Rd.	Airport	\$2.65	27,153
Servicing Solutions, Inc	1900 S. State College Blvd.	North	\$3.15	24,647
Global Eagle Entertainment***	1821 E. Dyer Rd.	Airport	\$2.75	24,224
Asics	7755 Irvine Center Dr.	Airport	\$3.75	21,283

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
City of Hope	15161 Alton Pkwy.	South	\$472	189,000
IRA Capital, LLC	26600 - 26700 Aliso Viejo Pkwy.	South	\$445	165,028
Menlo Equities	26521 - 26561 Rancho Pkwy. S.	South	\$249	155,665
Tustin Ca LLC	4128 W. Commonwealth Ave.	North	\$222	16,656
Golden Top LLC	17772 Irvine Blvd.	Airport	\$201	16,325

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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

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NAI Capital Southern California Office Locations

Headquarters

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

Property Management

120^{1/2} South El Camino Real, Ste. 210
San Clemente, CA 92674
949.874.0415

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. 1660
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

Temecula

27720 Jefferson Ave., Ste. 330
Temecula, CA 92590
951.491.7590

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

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Delivering Results.