

MARKET TRENDS | **ORANGE COUNTY**

OFFICE

MARKET DRIVERS

ALTHOUGH DIRECT NET ABSORPTION reported negative for the year at 609,154 SF, there were signs of recovery in 4Q 2021 as the market reported positive gains for the first time since the start of the pandemic with 642,950 SF.

LEASING ACTIVITY continued its momentum with over 2.1M SF being leased in the fourth quarter as landlords remain aggressive with pricing and offer concessions to capture tenants.

DIRECT ASKING LEASE RATES concluded the year at \$2.75/SF on a full-service basis. On average, asking rates for Class A sublet space are \$0.30-\$0.40/SF lower than direct space.

RECENTLY, developers have set their eyes on underutilized office space. Rexford Industrial purchased two office campuses for \$175M and intend to redevelop the properties into new logistic facilities. 275 Valencia in Brea, the largest deal in the fourth quarter at \$165M, was purchased by Amazon and will most likely be converted to a distribution hub.

OVER 787K SF was delivered to the market in 2021 with 1.0M SF currently under construction.

ECONOMIC REVIEW

ORANGE COUNTY'S LABOR MARKET continues to improve increasing by 9,500 jobs between October and November.

COUNTYWIDE UNEMPLOYMENT has steadily declined to 4.1% as of November 2021. This is down from 4.7% from the prior month and below the state average of 5.4%.

NEAR TERM OUTLOOK

THE ORANGE COUNTY OFFICE MARKET displayed signs of recovery in 4Q 2021. Although sublet availabilities are at all-time highs, it has moderately decreased since 2Q 2021 which can be attributed to rental rates for sublet space averaging \$0.30-\$0.40/SF lower than direct space. The effects of the Omicron variant and current rise in Covid cases are yet to be seen, but we can anticipate some tenants returning to a more cautious approach, causing delays on expansion efforts in early 2022.

SOURCE: COSTAR, EDD, OCBJ

Market Summary

	2021	2020	2019	% Change From A Year Ago
Direct Vacancy Rate	11.2%	10.3%	9.4%	8.45%
Availability Rate	16.0%	15.7%	12.7%	1.94%
Asking Lease Rate	\$2.75	\$2.73	\$2.71	0.73%
Lease Volume(SF)	8,527,435	8,272,494	11,375,830	3.08%
Sale Volume(SF)	7,074,550	4,040,737	7,684,789	75.08%
Net Absorption	(609,154)	(1,012,448)	629,636	N/A

▼ **-609,154**

NET ABSORPTION

▲ **11.2%**

VACANCY

▲ **\$2.75 FSG**

RATES

▲ **787K**

CONSTRUCTION DELIVERIES

YEAR-OVER-YEAR TREND

Market Highlights

DIRECT VACANCY levels increased to 11.2% in 2021, an increase of 8.5% YOY.

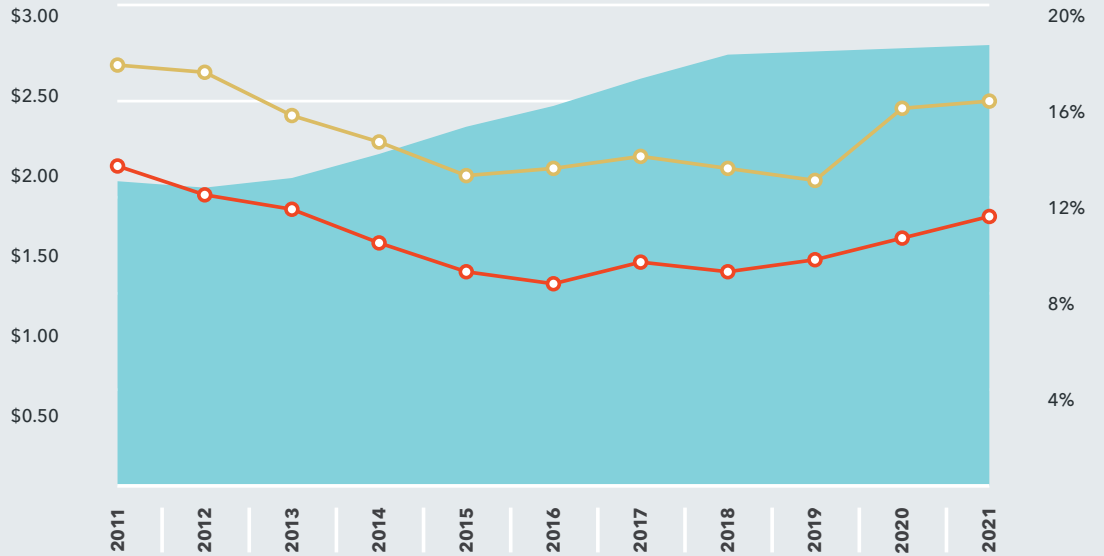
AVAILABLE SUBLEASE space totaled 2,967,648 SF, down 14.5% from the quarter prior.

AVERAGE ASKING RATES remained stagnant at \$2.75/SF on a full-service basis.

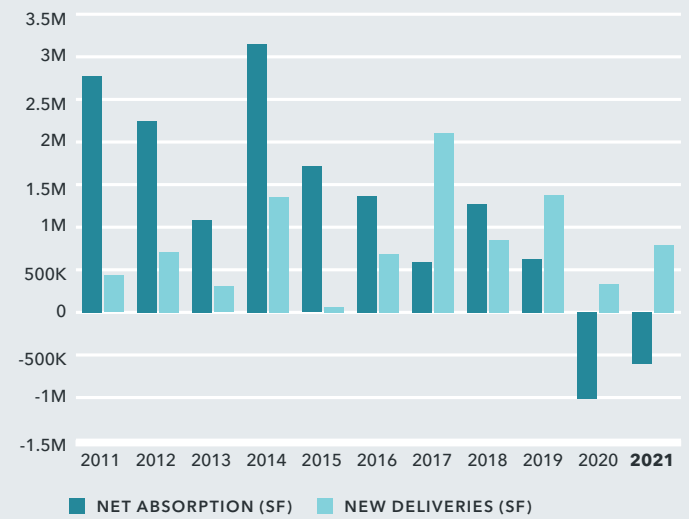
AVERAGE SALE PRICES for the year were at \$317.40/SF with cap rates at 6.2%.

Lease Rate, Vacancy & Availability

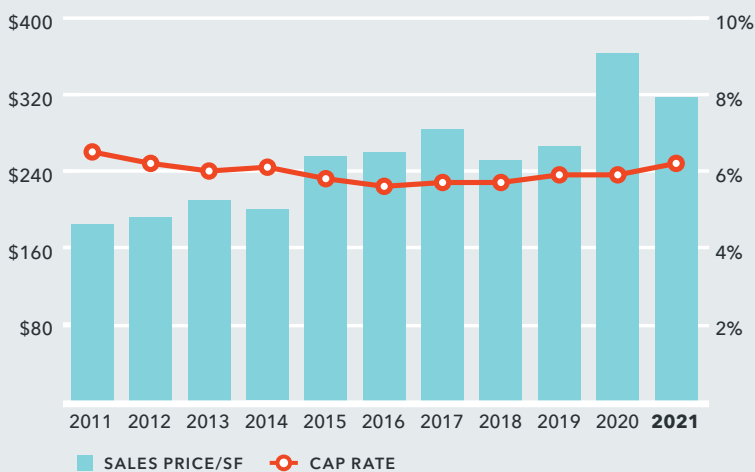
- DIRECT LEASE RATE (FSG)
- DIRECT VACANCY
- TOTAL AVAILABILITY



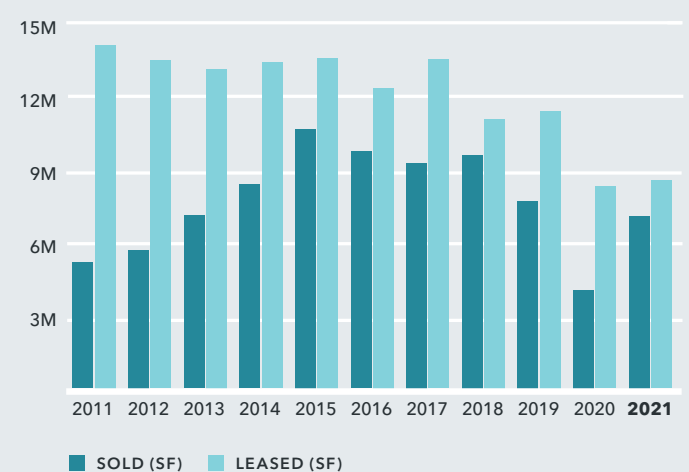
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Leasing Activity



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q Direct Net Absorption	2021 Direct Net Absorption	4Q Total Leasing Activity	2021 Total Leasing Activity	Average Direct Rental Rate (FS)
Costa Mesa	8,703,271	14.7%	1.1%	15.8%	20.6%	31,539	(134,638)	90,881	902,182	\$3.17
Irvine/Tustin Legacy	27,758,306	15.3%	1.7%	17.0%	21.3%	1,051	(604,282)	609,791	2,147,200	\$2.79
Newport Beach	13,091,169	10.2%	0.6%	10.7%	14.2%	31,942	(164,063)	141,564	727,989	\$3.18
South Santa Ana	2,484,797	19.5%	0.0%	19.5%	24.9%	(30,792)	(86,284)	0	64,382	\$2.75
Class A	26,408,997	17.0%	1.5%	18.4%	24.4%	45,770	(680,262)	422,769	2,149,983	\$3.20
Class B	23,637,600	11.9%	1.1%	13.0%	15.4%	(17,016)	(363,872)	409,244	1,644,660	\$2.83
Class C	1,990,946	2.7%	0.0%	2.7%	5.7%	4,986	54,867	10,223	47,110	\$3.21
Airport	52,037,543	14.1%	1.2%	15.3%	19.6%	33,740	(989,267)	842,236	3,841,753	\$2.93
Civic Center Area	5,511,691	6.3%	0.0%	6.3%	7.9%	191,664	150,959	9,085	60,863	\$1.84
East Orange	1,983,170	5.9%	0.5%	6.4%	15.4%	27,850	8,404	20,557	80,956	\$2.75
Main Place	2,989,862	13.6%	1.9%	15.5%	17.7%	(45,044)	(24,633)	39,958	111,554	\$2.61
Parkcenter	5,013,669	11.0%	0.0%	11.1%	14.4%	(24,310)	31,024	51,870	271,735	\$2.34
Santa Ana	5,062,702	13.1%	0.1%	13.2%	19.6%	59,114	75,879	77,542	341,500	\$2.55
Stadium Area	3,578,663	14.4%	0.6%	15.0%	26.2%	57,435	79,487	71,383	236,678	\$2.35
The City	2,663,513	11.0%	2.9%	13.9%	27.6%	82,610	14,853	52,766	90,133	\$2.57
Tustin	2,005,258	4.4%	0.0%	4.4%	6.9%	(1,815)	119,391	7,492	42,374	\$2.08
Class A	7,301,016	15.7%	1.7%	17.3%	26.8%	53,571	(14,270)	98,206	329,216	\$2.75
Class B	17,256,466	8.8%	0.3%	9.1%	13.9%	301,768	515,712	207,951	665,922	\$2.39
Class C	4,251,046	7.7%	0.0%	7.7%	10.2%	(7,835)	(46,078)	24,496	240,655	\$2.00
Central	28,808,528	10.4%	0.6%	11.0%	16.6%	347,504	455,364	330,653	1,235,793	\$2.46
Anaheim Hills	1,436,218	5.6%	2.7%	8.4%	8.8%	22,402	25,691	21,445	99,969	\$2.38
Brea/La Habra	4,705,552	6.4%	1.6%	8.1%	11.1%	(10,515)	86,987	35,808	128,547	\$2.53
Buena Park/La Palma	2,116,616	4.9%	0.2%	5.2%	7.1%	29,282	40,445	29,847	55,728	\$2.01
Fullerton	3,060,742	4.2%	1.1%	5.3%	6.2%	28,635	64,806	12,127	103,646	\$2.66
North/East Anaheim	6,220,807	5.7%	0.7%	6.4%	7.4%	(14,956)	18,886	11,257	65,601	\$2.49
Placentia/Yorba Linda	859,486	6.2%	0.0%	6.2%	10.2%	9,261	5,706	14,044	50,868	\$2.19
Class A	3,017,327	9.1%	3.2%	12.3%	13.3%	(29,241)	(67,341)	22,475	40,535	\$2.73
Class B	13,361,241	4.9%	0.8%	5.7%	7.8%	55,705	316,801	97,250	433,597	\$2.44
Class C	2,020,853	4.6%	0.0%	4.6%	4.9%	37,645	(6,939)	4,803	30,227	\$2.11
North	18,399,421	5.6%	1.1%	6.6%	8.4%	64,109	242,521	124,528	504,359	\$2.45
Irvine Spectrum	15,102,883	12.5%	2.0%	14.6%	16.5%	57,794	(160,341)	574,865	1,621,061	\$2.91
Laguna Hills/Aliso Viejo	6,019,591	15.3%	1.7%	17.0%	23.7%	60,243	(61,733)	106,479	301,754	\$2.71
Laguna Niguel/Laguna Beach	2,246,817	8.0%	0.1%	8.1%	8.3%	(23,588)	(42,205)	9,517	41,248	\$2.34
Lake Forest/Foothill Ranch	3,859,308	10.5%	0.8%	11.3%	16.5%	61,951	(80,674)	30,073	282,273	\$2.26
Mission Viejo	2,335,772	13.3%	1.4%	14.7%	15.4%	(11,781)	3,257	16,438	93,122	\$3.07
Dana Point/San Juan/San Clemente	2,996,735	5.6%	0.5%	6.1%	8.6%	3,338	19,358	12,711	124,304	\$2.85
Class A	10,567,990	14.6%	1.9%	16.5%	19.0%	85,877	(226,517)	463,790	1,033,879	\$2.93
Class B	20,674,406	10.9%	1.4%	12.3%	15.6%	72,674	(103,318)	281,766	1,372,181	\$2.77
Class C	1,318,710	5.4%	0.9%	6.3%	8.8%	(10,594)	7,497	4,527	57,702	\$2.56
South	32,561,106	11.9%	1.5%	13.4%	16.5%	147,957	(322,338)	750,083	2,463,762	\$2.80
Cypress	1,945,918	11.8%	0.0%	11.8%	19.1%	(4,131)	(63,021)	12,162	58,697	\$2.39
Fountain Valley	2,328,286	5.4%	0.7%	6.1%	6.6%	7,838	7,574	11,494	45,361	\$1.74
Garden Grove	2,194,528	4.2%	0.1%	4.3%	6.1%	11,851	15,082	7,928	50,126	\$1.96
Huntington Beach	3,976,828	8.9%	0.7%	9.6%	11.5%	41,662	89,366	33,593	203,750	\$2.46
Los Alamitos/Stanton	1,279,334	6.2%	0.0%	6.2%	3.8%	3,671	(5,733)	33,685	67,155	\$2.35
Seal Beach	574,594	11.9%	2.4%	14.3%	16.3%	(11,851)	(40,889)	12,964	29,823	\$3.44
Westminster	919,673	2.9%	0.6%	3.6%	6.5%	600	2,187	0	26,856	\$2.48
Class A	1,434,564	22.0%	1.6%	23.6%	33.6%	19,865	(93,474)	17,820	89,115	\$2.51
Class B	9,061,985	6.8%	0.4%	7.2%	8.3%	16,632	66,913	87,364	354,140	\$2.52
Class C	2,722,612	1.7%	0.1%	1.7%	3.0%	13,143	31,127	6,642	38,513	\$1.92
West	13,219,161	7.4%	0.5%	7.9%	10.0%	49,640	4,566	111,826	481,768	\$2.52
Orange County Total	145,025,759	11.2%	1.1%	12.3%	16.0%	642,950	(609,154)	2,159,326	8,527,435	\$2.75
Class A	48,712,894	15.9%	1.7%	17.6%	23.2%	175,842	(1,081,864)	1,025,060	3,642,728	\$2.95
Class B	84,008,698	9.3%	0.9%	10.2%	13.2%	429,763	432,236	1,083,575	4,470,500	\$2.68
Class C	12,304,167	4.8%	0.1%	4.9%	6.9%	37,345	40,474	50,691	414,207	\$2.31
Class Total	145,025,759	11.2%	1.1%	12.3%	16.0%	642,950	(609,154)	2,159,326	8,527,435	\$2.75

TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	Square Feet	Sale Price	Price/SF	Buyer	Seller
Pacific & Volt Corporate Park (2 Bldgs.)	Santa Ana/Orange	561,499	\$175,325,000	\$312.24	Rexford Industrial	Fortress Investment Group/Hines
275 Valencia Ave	Brea/La Habra	637,500	\$165,000,000	\$258.82	Amazon	Greenlaw Partners
Taco Bell Headquarters (2 Bldgs.)	Irvine Spectrum	271,060	\$159,000,000	\$586.59	Skyline Group Intl.	LBA Realty
City Tower	The City Area	435,802	\$150,500,000	\$345.34	Mega Home Group	Pacific Oak Strategic Opportunity REIT
2722 Michelson Dr	Irvine/Tustin Legacy	154,418	\$103,000,000	\$667.02	IRA Capital, LLC	LBA Realty

TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	Square Feet	Transaction Date	Landlord	Tenant
1375 Sunflower Dr	Costa Mesa	449,206	February 2021	Invesco Ltd.	Anduril
15505 Sand Canyon Ave	Irvine Spectrum	119,049	November 2021	Irvine Company	Genesis
17300 Laguna Canyon Rd	Irvine Spectrum	116,260	December 2021	Irvine Company	Hyundai Mobility
17600 Laguna Canyon Rd	Irvine Spectrum	114,780	February 2021	Irvine Company	CoStar

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
The Press	1375 Sunflower Dr	Costa Mesa	449,206	Invesco Ltd.	October 2022
Spectrum Terrace(3 Bldgs.)	Laguna Canyon Rd	Irvine Spectrum	345,786	Irvine Company	September 2022
Helen Caloggero Family Center	363 S Main St	East Orange	137,000	St. Joseph Hospital of Orange	October 2023
15120 Kensington Park Dr	15120 Kensington Park Dr	Tustin	69,500	Encompass Health	January 2022

DATA SOURCE: COSTAR, EDD, OCBJ

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

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**Commercial
Brokerage**

\$8B
TRANSACTION
VOLUME (ANNUAL)

23M
SALES SF
(ANNUAL)

42M
LEASING SF
(ANNUAL)

**Valuation
Advisory**

1,800+
ASSIGNMENTS
ANNUALLY

45/23
TOTAL NO.
APPRAISERS/MAI'S

**Asset
Services**

64M
MANAGEMENT
PORTFOLIO SF

\$11B
IN ASSETS UNDER
MANAGEMENT

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