

Orange County

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Leasing activity picks up in the second quarter while overall market activity flattens

In the second quarter 2023, the Orange County office leasing activity recorded 1.5 million square feet (msf), an 39% increase from the 1.1 msf recorded last quarter. Much of this increase stemmed from deals signed in the healthcare and TAMI industries. Of the top ten leases signed in the second quarter, just one lease was a renewal which was quite a change from the six renewals signed last quarter. Despite the increase in leasing activity, macroeconomic concerns such as recession fears, increasing interest rates, and a slowdown in hiring have caused occupiers to have a wait-and-see approach which has led to a slowdown in office space demand. This has also led to many tenants downsizing square footages and/or subleasing their existing office space while landlords remain aggressive to preserving occupancy.

Total availability rate recorded a historical high of 24.7%

Office availability increased 160 basis points (bps) from 23.1% last quarter to a new all-time high of 24.7% in the first quarter. In addition, available sublease space now totals more than 4.0 msf, a 24.8% increase from 3.2 msf reported just a year ago. With Flour adding 80,600 square feet (sf) on the market in Aliso Viejo, ServiceLink adding 62,850 sf in Irvine, and Nogin and Syspro both adding a total of 40,800 sf in Tustin, available sublease space continues to increase. Despite sublease space continuing to be added to the market, sublease volume slowed in the second quarter showing an increase of just 0.2% compared to 2%-3% in the prior quarters.

Expect market activity to remain slow

Office leasing activity is expected to see a slowdown through the second half of the year. The overall asking rental rate stayed flat from last quarter holding at \$2.83 per square foot (psf) per month as landlords wait to see how economic headwinds may unfold. Office using employment increased by just 0.7% year-over-year and the Orange County unemployment rate has held steady at 3.2%, lower than the California unemployment rate of 4.5%.

Key Statistics

	Q2 2022	Q2 2023	Y-0-Y
Inventory	85.8 msf	84.7 msf	-1.1 msf
Availability Rate	21.4%	24.7%	+330 bps
Asking Rental Rate	\$2.86	\$2.83	-1.0%
Class A Asking Rental Rate	\$3.05	\$2.98	-2.6%
Quarterly Leasing Activity	1.6 msf	1.5 msf	-2.5 msf
Available Sublease Space	3.7 msf	4.0 msf	+0.3 msf

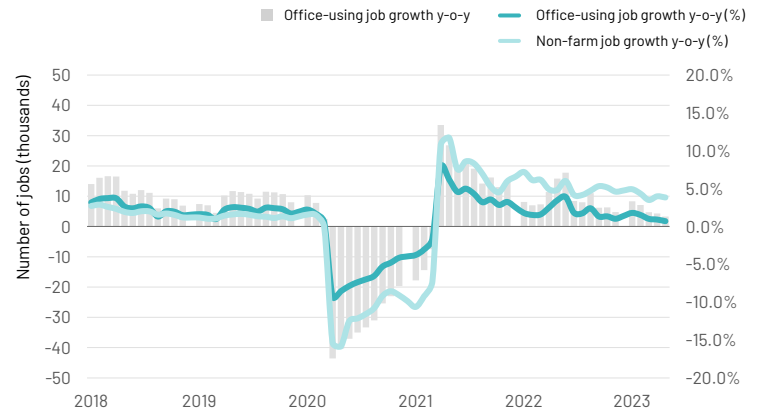
Outlook

01 Due to continued economic uncertainty, expect some tenants without near-term lease expirations to take a "wait-and-see" approach before transacting

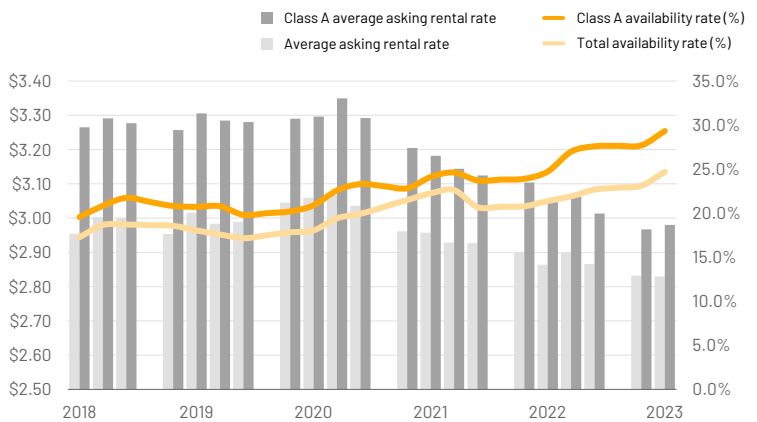
02 Available sublease space is forecasted to continue to increase as occupiers remain focused on right-sizing their existing real estate footprints

03 Expect increased occupier flight to capital as landlords in a strong financial position benefit at the expense of those landlords who have distressed assets

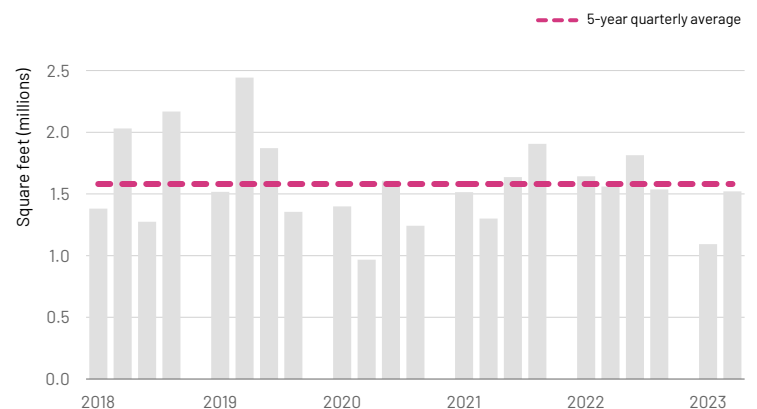
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

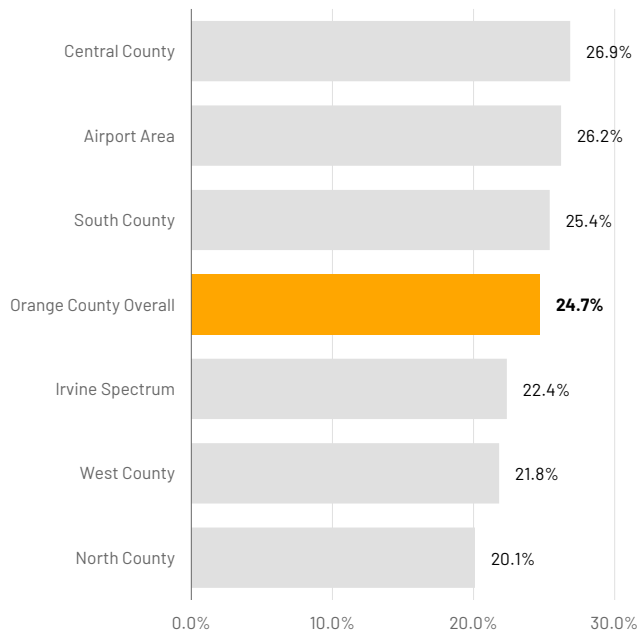
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Axonics	● Manufacturing	Irvine Spectrum	15515-15525 Sand Canyon Avenue	145,960	Relocation
Orange County Health Care Agency	● Government	Central County	200 W. Sana Ana Boulevard	81,882	Renewal
Apple	● TAMI	Irvine Spectrum	17800 Laguna Canyon Road*	55,664	New Lease
Avery Dennison Corporation	● Manufacturing	North County	50 Pointe Drive	51,387	New Lease
Samsung	● TAMI	Airport Area	3 MacArthur Place	43,306	New Lease
Orange County Health Care Agency	● Government	Central County	1515 E Orangewood Avenue	40,580	New Lease
Optima Tax Relief	● Business Services	Airport Area	6 Hutton Centre Drive	38,090	New Lease
Western Growers	● Agriculture	Irvine Spectrum	6501 Irvine Center Drive	32,003	Relocation
Alleviate Financial	● Financial Services	Airport Area	4 Park Plaza**	31,026	Sublease
Touzi Capital	● Financial Services	Airport Area	3161 Michelson Drive*	27,135	Sublease

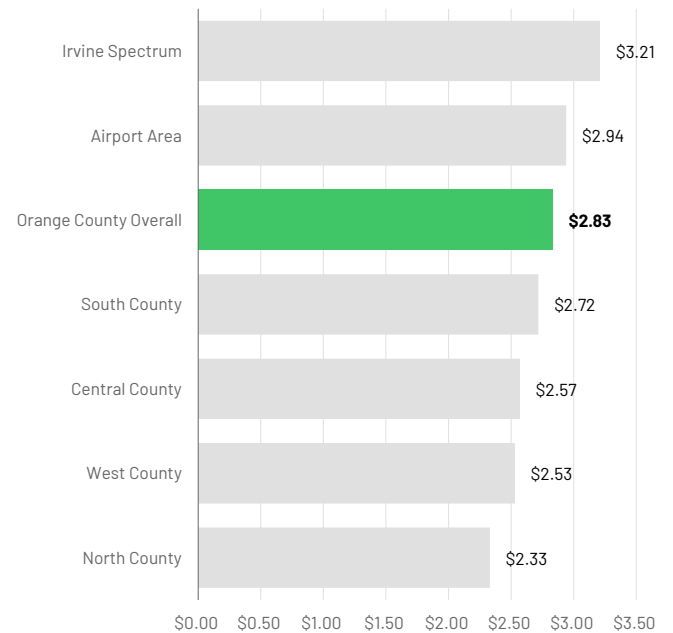
Availability Rate Comparison (%)

ORANGE COUNTY SUBMARKETS



Rental Rate Comparison (\$/sf)

ORANGE COUNTY SUBMARKETS



Orange County Q2 2023 - Office

Note: Rents quoted are monthly

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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