

Orange County

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Leasing activity slows in the fourth quarter as overall market activity remains low

In the fourth quarter 2023, Orange County office leasing activity recorded 1.5 million square feet (msf), a 16% decrease recorded last quarter and a 1.0% increase recorded from one year ago. Much of this quarter's deal volume stemmed from deals signed in the Business Services sector. Although there was a lack of larger 100,000-square-foot-plus deals signed in Q4, deal volume in the 20,000-square-foot range was strongest. Macroeconomic concerns, high inflation, and year end business performances resulted in many occupiers taking a wait-and-see approach which has led to a slowdown in office space demand. Many tenants are continuing to downsizing square footages and/or subleasing their existing office space while landlords remain aggressive to preserving occupancy.

Total availability rate holds steady at 23.9%

Office availability slightly decreased 10 basis points (bps) from 24.0% last quarter to 23.9% in Q4. Available sublease space of 3.5 msf decreased 8.8% from last quarter and also 8.4% from last year. Notable subleases added to the market included Innovation Solutions Insurance (69,362 sf) in Irvine and both Del Taco (25,700 sf), and CalAmp (23,000 sf) in Lake Forest. Despite sublease space continuing to be added to the market, the rate at which local occupiers putting space on the market for sublease has slowed, especially as sublease terms have expired and the space has become directly available.

Expect market activity to remain slow into next year

Office leasing activity is expected to remain slow into the first part of 2024. The overall asking rental rate slightly decreased from last quarter at \$2.79 per square foot (psf) per month as landlords contend with challenging availability rates. The average asking rental rate is down nearly 2.5% from \$2.86 psf reported a year ago. While office using employment increased by 2.1% year-over-year and the Orange County unemployment rate remains low at just 3.7%, expect office leasing activity to continue to be below pre-pandemic levels as occupiers rethink how they utilize their office space.

Key Statistics

	Q4 2022	Q4 2023	Y-0-Y
Inventory	85.8 msf	84.6 msf	-1. msf
Availability Rate	22.6%	23.9%	+130 bps
Asking Rental Rate	\$2.86	\$2.79	-2.5%
Class A Asking Rental Rate	\$3.01	\$2.95	-1.9%
Quarterly Leasing Activity	1.5 msf	1.5 msf	+15,200 sf
Available Sublease Space	3.8 msf	3.5 msf	+0.3 msf

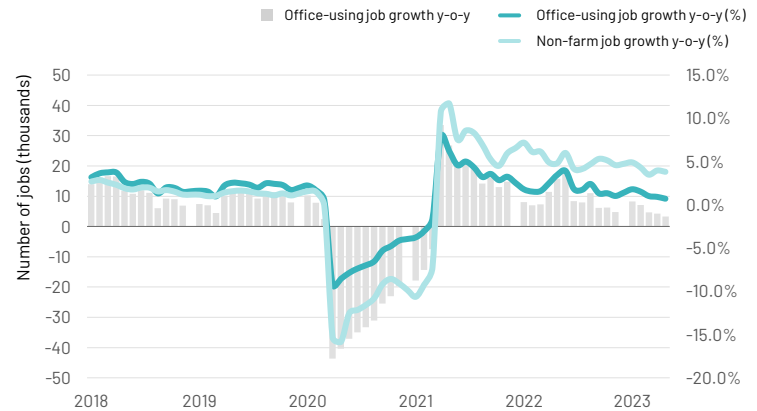
Outlook

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

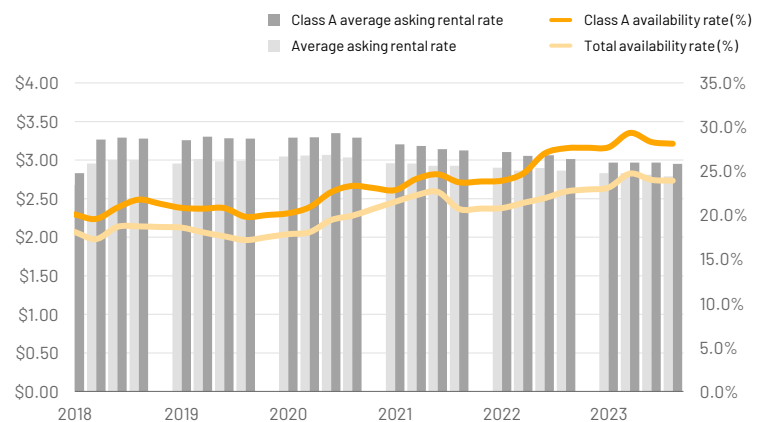
02 Concessions will continue to grow as office landlords do not have much leeway to significantly lower rents due to debt obligations

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

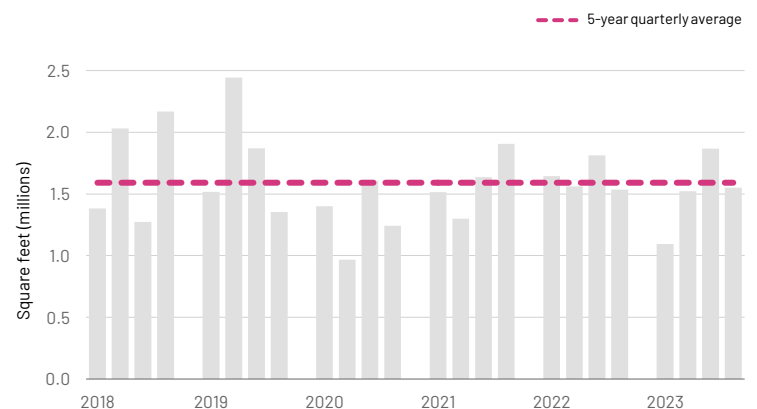
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

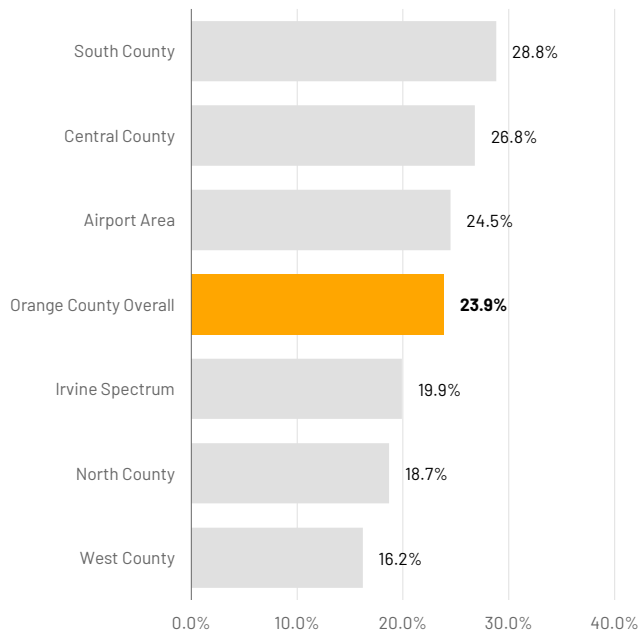
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Canon U.S.A., Inc.	● Manufacturing	Airport Area	19500 Jamboree Road	92,893	Relocation
Saint John Knits	● Retail	North County	5515 E La Palma Avenue	84,493	Relocation
County of Orange	● Government	Central County	1700 E Saint Andrew Place	70,000	New Location
Best Choice Products	● Retail	Airport Area	100 Bayview Circle	53,478	New Location
HDR Engineering	● Architecture, Engineering & Construction	Airport Area	3220 El Camino Real	44,210	New Location**
ConsumerDirect, Inc.	● Business, Professional, and Consulting Services	Airport Area	2983 Michelson Drive	40,459	Relocation
Staar Surgical Company	● Manufacturing	South County	25510 Commercentre Drive	36,291	Relocation
Postacute Care Partners	● Healthcare	Airport Area	5161 California Avenue	31,720	New Location**
Troutman Pepper	● Legal Services	South County	100 Spectrum Center Drive**	24,022	New Location
Resolution Processing	● Business, Professional, and Consulting Services	South County	2600 Michelson Drive**	22,951	New Location**

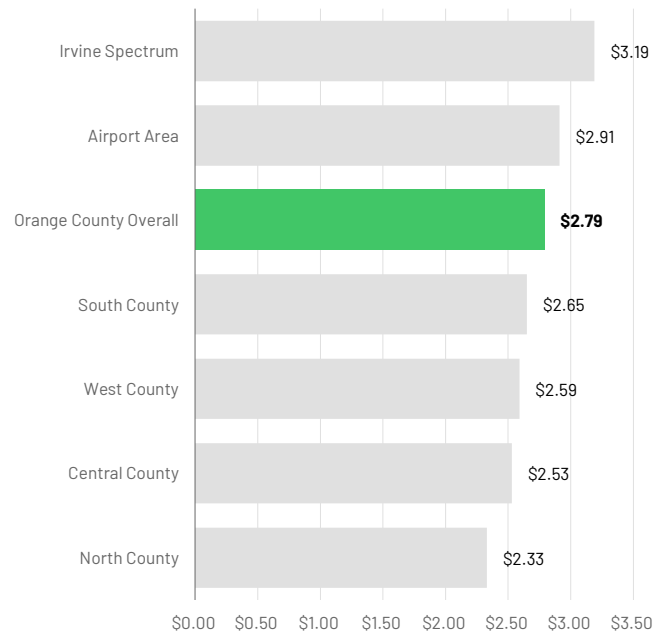
Availability Rate Comparison (%)

ORANGE COUNTY SUBMARKETS



Rental Rate Comparison (\$/sf)

ORANGE COUNTY SUBMARKETS



Orange County Q4 2023 - Office

Note: Rents quoted are monthly

For more information, please contact us:

savills.us

Savills Orange County
520 Newport Center Drive
8th Floor
Newport Beach, CA 92660
+1 949 706 6600

Royce Sharf
Vice Chair,
Branch Manager
rsharf@savills.us

Caitlin Matteson
Research Manager
+1 949 706 6588
cmatteson@savills.us

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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