MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Orange County

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Office availability rate increases to 21.4% as leasing activity slows in the second quarter

In the second quarter 2022, the total availability rate in the Orange County office market increased 60 basis points (bps) from 20.8% reported last quarter to 21.4%. The increase in availability is primarily contributed to a slowdown in leasing activity and an increase of available subleases that have been added to the market. With the hybrid workplace here to stay for now, occupiers are reevaluating their office space footprints to best fit their needs and future business plans. During the second quarter, some occupiers have decided to downsize their office space which has led to an increase in sublease availability. Both occupiers and landlords will have to continue to work hard at innovating new ideas to get employees back into the office.

Quarterly leasing activity decreases from last quarter but still up from a year ago

For the second consecutive quarter, leasing activity decreased and ended the second Q2 at 1.6 million square feet (msf). The top reported lease deals fell in the mid-size range with the largest lease signed by Americor, expanding by 31,446 square feet (sf) at 18200 Von Karman Avenue in Irvine. This was followed by an undisclosed tenant who subleased 31,407 sf at 43 Discovery in Irvine Spectrum and Lugano Diamonds & Jewelry's new 29,150-sf lease at 620 Newport Center Drive in Newport Beach. Despite the top lease deals being in the mid-size range, leasing activity is still up 5.0% from the 1.3 msf in leasing activity reported in the second quarter 2021. The overall average asking rent decreased from $2.90 per square foot (psf) per month reported last quarter to $2.86 psf per month. With availability over 20.0% market-wide, expect tenant-favorable office market conditions to continue in 2022 as landlords remain aggressive in attracting and retaining tenants.

Office market recovery remains slow as economic headwinds become more pronounced

As economic headwinds become more pronounced, it would not be surprising if leasing activity continues to be lower in the near-term. With the inflation rate expected to peak this summer at 9%, some occupiers might become cautious again as it relates to spending. In addition, sublease space remains elevated and it is likely that this will continue as occupiers reevaluate how much space they need. Despite the economic headwinds, the Orange County market remains highly desirable due to its well-educated talent base and high quality of life.

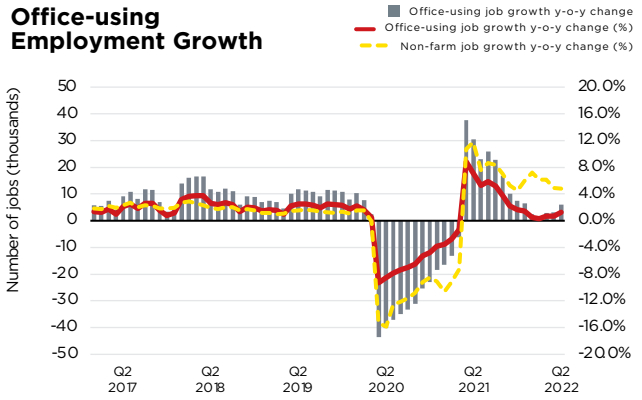
Outlook

- The Orange County office market is expected to remain tenant-favorable with high landlord concession packages for longer term deals
- Available sublease space has remained stubbornly high, and it is likely that this continues as occupiers re-evaluate how much space they need as many have adopted the hybrid workplace
- The overall trend of tenant flight to quality will continue as growing companies remain highly focused on newer projects, especially those emphasizing health and wellness

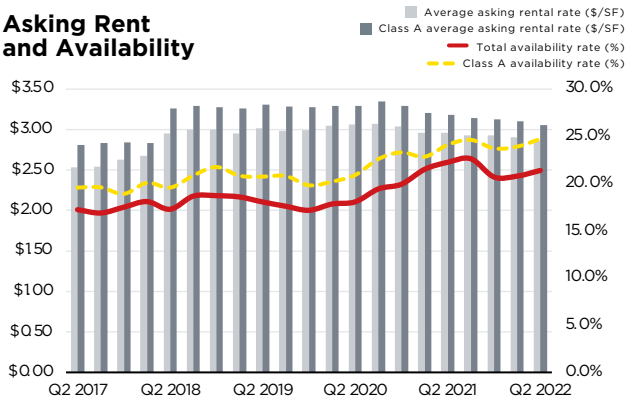
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	85.7 MSF	85.8 MSF	▲
Availability Rate	22.3%	21.4%	▼
Asking Rental Rate	$2.96	$2.86	▼
Class A Asking Rental Rate	$3.18	$3.05	▼
Quarterly Leasing Activity	1.3 MSF	1.6 MSF	▲
Available Sublease Space	3.3 MSF	3.2 MSF	▼

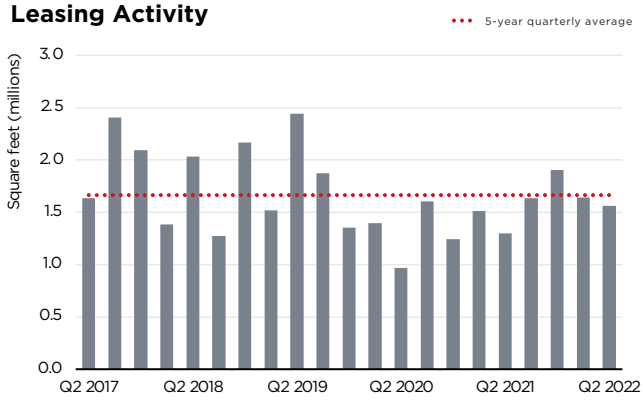
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.4%
Orange County unemployment rate as of May 2022)

1.3%
Office-using employment growth year over year (as of May 2022)

0.8 msf
Office space currently under construction

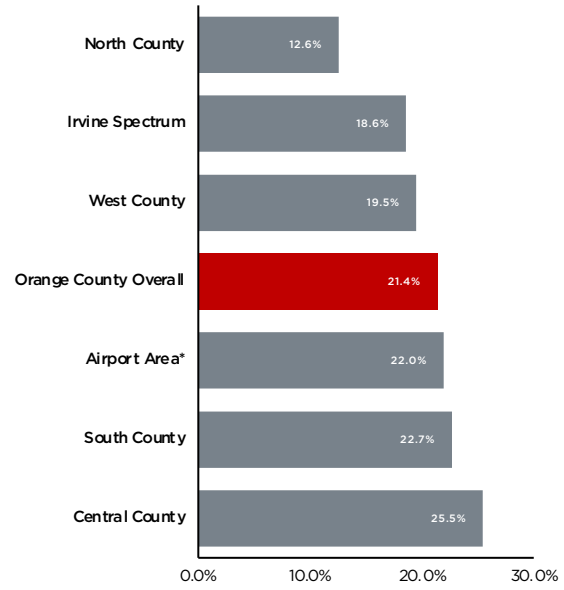
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Americor	31,446	18200 Von Karman	New Location	Airport Area	Financial Services & Insurance
Glasir Group*	31,407	43 Discovery	Sublease	Irvine Spectrum	TAMI
Lugano Diamonds & Jewelry Inc.	29,150	620 Newport Center Drive	New Location	Newport Beach	Retail
US Real Estate Services*	27,191	27442 Portola Parkway	Sublease	South County	Financial Services & Insurance
LoanDepot	27,153	15201 Laguna Canyon Road	New Location	South County	Financial Services & Insurance
Undisclosed	26,680	450 Exchange	New Location	Airport Area	N/A
Toll Brothers	26,680	350 Commerce Drive	New Location	Airport Area	Financial Services & Insurance
AMWINS	22,539	2010 Main Street	New Location	Airport Area	Financial Services & Insurance
New York Life	22,539	2020 Main Street	New Location	Airport Area	Financial Services & Insurance
Advantage Sales	21,960	15310 Barranca Parkway	New Location	South County	TAMI

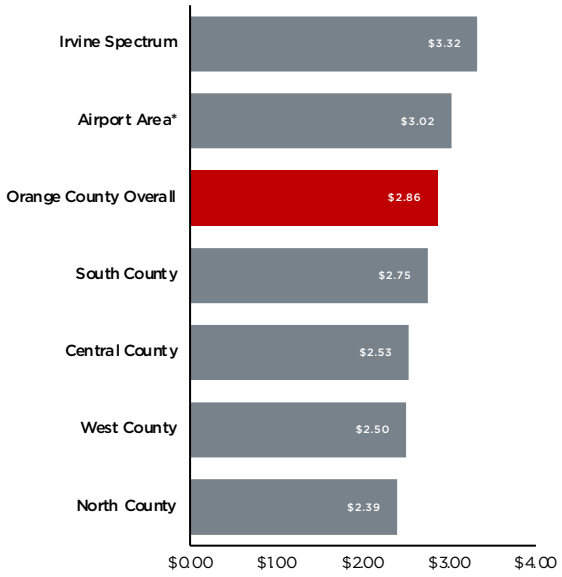
*Sublease

Source: Savills Research

Availability Rate Comparison (%)
Orange County Submarkets



Rental Rate Comparison ($/SF)
Orange County Submarkets



*Newport Center availability rate is 2.2% and average asking rent is $3.88 FSG.

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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