MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Orange County

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Office availability rate remains above 20% despite increase in leasing activity

In the third quarter 2022, the total availability rate in the Orange County office market increased 90 basis points (bps) from 21.3% reported last quarter to 21.9%. The increase in availability is primarily contributed to subdued demand, an increase in sublease inventory, and sublease space converting to available direct space. 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, which has led to many tenants downsizing square footage. Available sublease space now totals more than 3.7 million square feet (msf), a 12% increase from one year ago. Both occupiers and landlords are continuing to work on innovating ideas to get employees back into the office.

Despite the availability rate increasing, leasing activity increased in the third quarter

Despite an increase seen in available space, leasing activity increased by 16% in the third quarter recording 1.8 msf, which surpassed the 5-year average of 1.7 msf. The top reported lease was signed by Collectors Universe, taking 285,635 square feet (sf) at 1600 & 1610 E Saint Andrew Place in Santa Ana. This was followed by First Foundation which leased 72,427 sf at 18101 Von Karman Avenue in Irvine and Mr. Cooper which leased 63,888 sf at 25520 Commercentre Drive in Lake Forest. The overall average asking rent increased from $2.86 per square foot (psf) per month reported last quarter to $2.90 psf per month. Despite this increase, average asking rents are still lower compared to one year ago ($2.93 psf). With availability over 20.0% market-wide, expect tenant-favorable office market conditions to continue in the second half of 2022 as landlords remain aggressive in attracting and retaining tenants.

Office market recovery remains slow as economic headwinds become more pronounced

As economic headwinds have become more pronounced, it would not be surprising if leasing activity continues to be lower through year-end. As consumers contend with 40-year-high inflation and rising interest rates, occupiers will be cautious with spending. In addition, sublease space remains elevated, and it is likely that this will continue as occupiers reevaluate space options. Despite the economic headwinds, the Orange County market remains highly desirable due to its well-educated talent base and high quality of life.

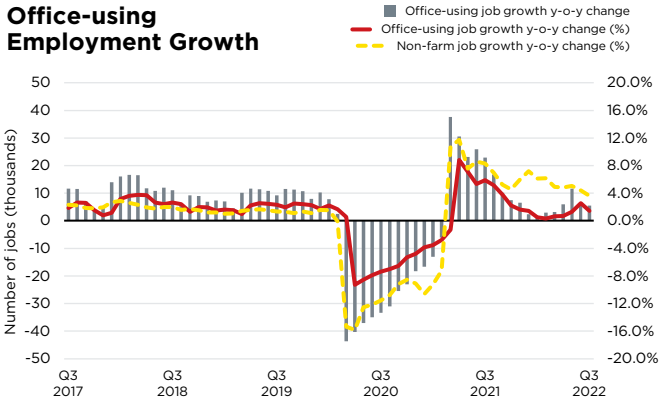
Outlook

- 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 reevaluate 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

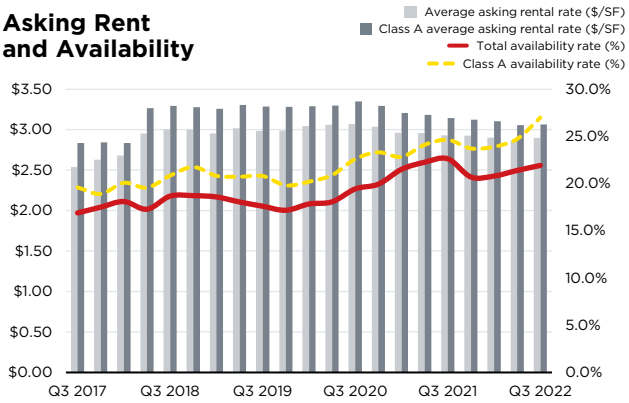
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	85.7 MSF	85.8 MSF	▲
Availability Rate	22.6%	21.9%	▼
Asking Rental Rate	$2.93	$2.90	▼
Class A Asking Rental Rate	$3.14	$3.06	▼
Quarterly Leasing Activity	1.6 MSF	1.8 MSF	▲
Available Sublease Space	3.3 MSF	3.7 MSF	▲

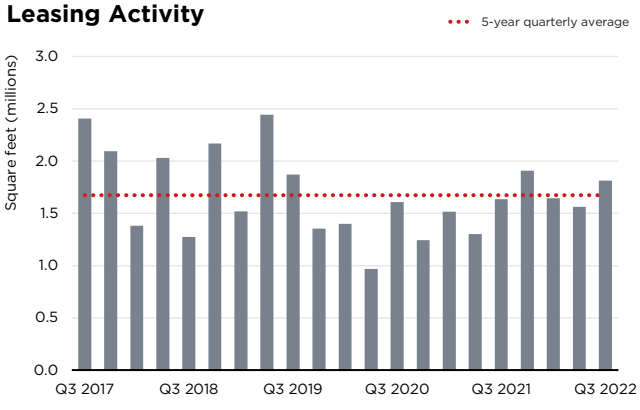
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.8%
Orange County unemployment rate as of August 2022)

1.2%
Office-using employment growth year over year (as of August 2022)

0.6 msf
Office space currently under construction

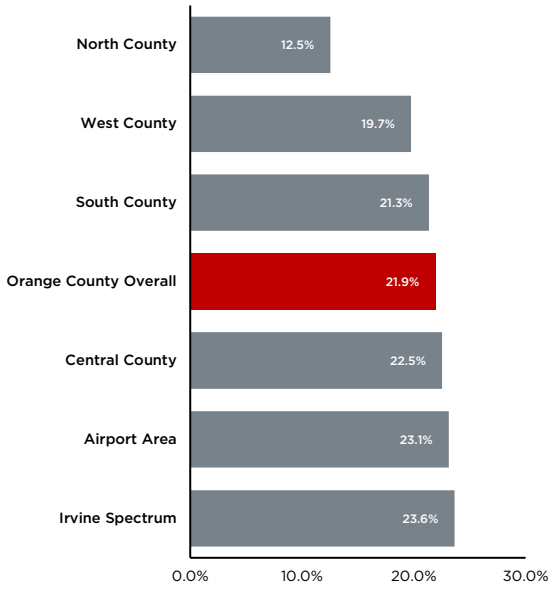
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Collectors Universe	285,635	1600 & 1610 E Saint Andrew Place	Renewal & Expansion	Central County	Retail
First Foundation	72,427	18101 Von Karman Avenue	Renewal	Airport Area	Financial Services & Insurance
Mr. Cooper	63,888	25520 Commercentre Drive	New Location	South County	Financial Services & Insurance
General Services Administration	46,277	2642 Michelle Drive	New Location	Central County	Government
Virgin Galactic	34,262	1700 Flight Way	Expansion	Airport Area	Engineering
General Services Administration	32,921	85 Enterprise	New Location	South County	Government
Mullen Automotive	31,600	100 Technology Drive	New Location	Irvine Spectrum	Transportation
Glasir Group*	31,407	43 Discovery	Sublease	Irvine Spectrum	Financial Services & Insurance
Newmeyer & Dillion	28,558	895 Dove Street	New Location	Airport Area	Legal Services
US Real Estate Services	27,191	27442 Portola Parkway	New Location	South County	Financial Services & Insurance

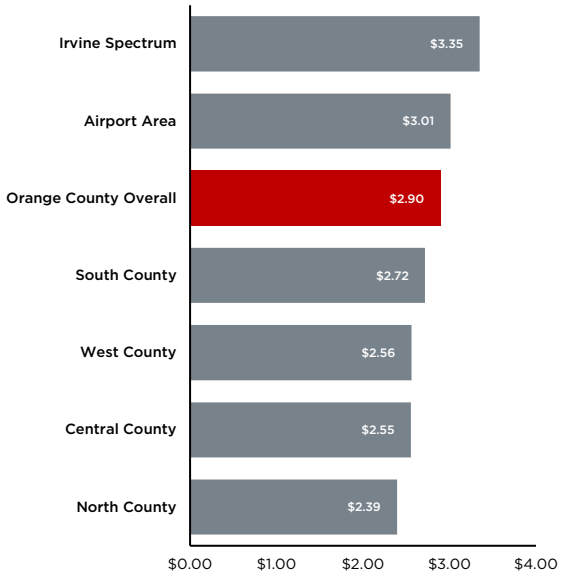
*Sublease

Source: Savills Research

Availability Rate Comparison (%)
Orange County Submarkets



Rental Rate Comparison ($/SF)
Orange County Submarkets



*Newport Center availability rate is 4.1% and average asking rate is $4.24 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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