



## Orange County office availability rate up to 21.6% with the start of 2021

Despite Anduril Industries signing one of the largest office leases in Orange County history in Q1 2021, market availability continued to climb reaching 21.6% this quarter, up 150 basis points (bps) from Q4 2020. With available sublease space now totaling over 3.2 million square feet (msf), sublease inventory has increased 31% from pre-pandemic levels and is at its highest since Q3 2008. As the state continues to relax COVID-19 lockdowns and vaccine availability has become more widespread, there has been a marked increase in tour activity and inquiries – a positive sign for demand recovery to come.

### Quarterly leasing activity increases with Anduril's mega lease

Compared to just 1.2 msf reported in Q4 2020, leasing activity increased to 1.5 msf in the first quarter mostly due to Anduril Industries' 630,000-square-foot (sf) pre-lease at The Press in Costa Mesa, as well as CoStar Group's 114,781-sf pre-lease at Spectrum Terrace in the Irvine Spectrum. Still, demand sits 17% below the region's 5-year quarterly average of 1.8 msf. Average asking rents continue to decrease amidst market softening, now at \$2.96 per square foot (psf) per month - down 2.3% over last quarter. With a substantial amount of lower-priced sublease space competing with direct space, we expect to see continued downward pressure on both asking and effective rents throughout 2021 as the market remains tenant favorable.

Organizations that are active in the market now will benefit from increased landlord flexibility as owners compete heavily to secure tenants.

### Economic optimism grows as business restrictions lift

With a seasonally adjusted unemployment rate of 6.8% in February, unemployment in Orange County remains lower than the statewide unemployment rate of 8.5% but higher than the national unemployment rate of 6.2%. As COVID-19 business limitations are relaxed the market will benefit from an uptick in consumer demand and stimulus support. However, with availability close to 22%, it will take time to work through the supply-demand imbalance, especially with the "flight to quality" from larger active requirements towards newer amenitized Class A projects that emphasize wellness. On the other hand, the lack of speculative office development compared to the previous real estate cycle will help keep fundamentals more balanced as the market begins to slowly recover.

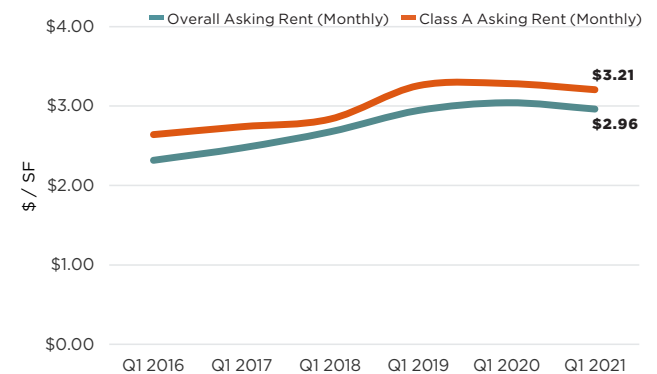
### Outlook

- Expect continued downward pressure on asking and effective rents as landlords will remain aggressive in attracting and retaining tenants
- Sublease inventory remains high, specifically in the Airport Area, but the pace of growth has slowed in the new year
- With mass vaccination now underway, economic growth is forecasted to surge later this year, however, the office market recovery could be uneven and slower than expected as occupiers navigate return to office planning

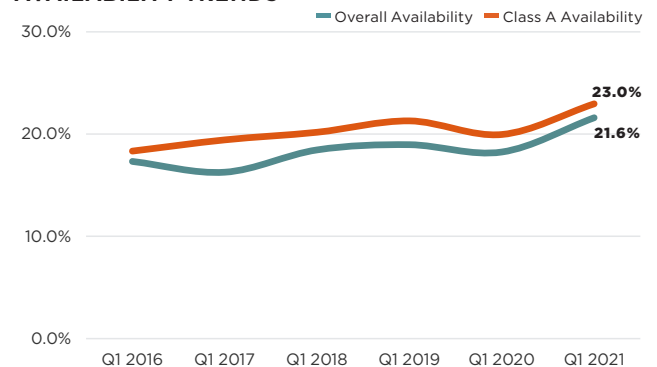
### KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	85.3 MSF	<b>85.4 MSF</b>	▲
Availability Rate	18.2%	<b>21.6%</b>	▲
Asking Rental Rate (Monthly)	\$3.04	<b>\$2.96</b>	▼
Class A Asking Rental Rate (Monthly)	\$3.28	<b>\$3.21</b>	▼
Quarterly Leasing Activity	1.5 MSF	<b>1.5 MSF</b>	◄►

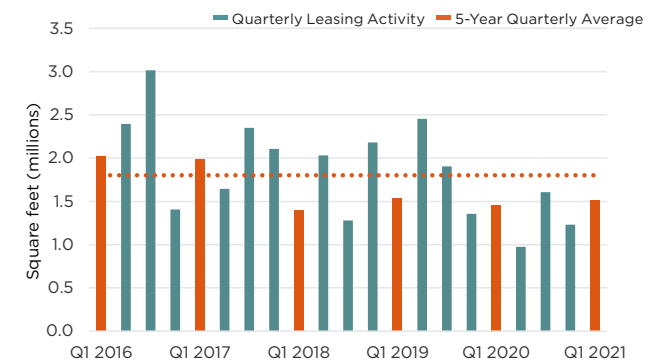
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

**80.9%**

of top transactions were **new locations** by square footage

**76.1%**

of large transactions occurred in the **Airport Area** submarket by square footage

**63.5%**

**Financial Services** represented 63.5% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Anduril Industries	630,000	1375 Sunflower Drive	New Location	Airport Area	Professional Services
Costar Group	114,781	17600 Laguna Canyon Road	New Location	South County	TAMI
Kofax	64,006	15211 Laguna Canyon Road	Renewal	South County	TAMI
Belkin International	44,240	121 Theory Drive	Renewal	Airport Area	TAMI
SEW	40,443	15495 Sand Canyon Avenue	Sublease	South County	Construction
California Pizza Kitchen	37,875	575 Anton Boulevard	Sublease	Airport Area	Retail
Mission Loans	30,039	19500 Jamboree Road	Sublease	Airport Area	Financial Services
RSM	29,629	17400 Laguna Canyon Road	Relocation	South County	Professional Services
Rate Plus	25,514	1920 Main Street	New Location	Airport Area	Financial Services
Incipio	22,994	1775 Flight Way	Relocation	Airport Area	TAMI

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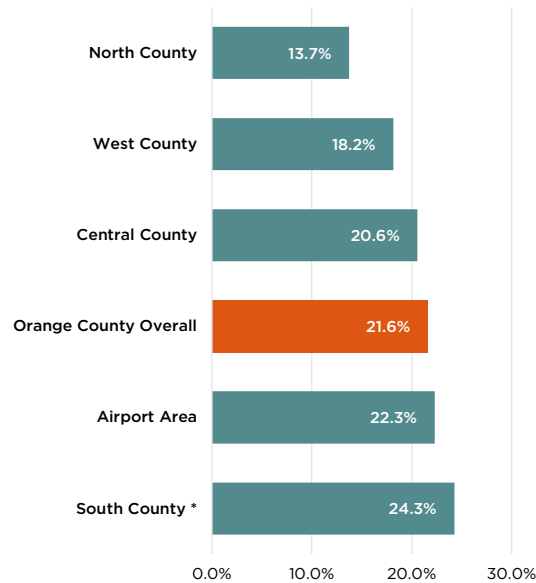
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AVAILABILITY RATE COMPARISON

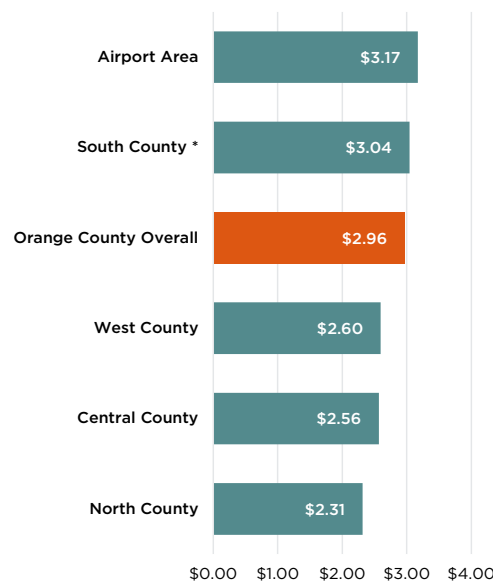
Orange County Submarkets



\*Irvine Spectrum availability rate is 22.1% and average asking rent is \$3.44 PSF

RENTAL RATE COMPARISON (\$/SF)

Orange County Submarkets



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. Availability includes both vacant space and space that will be available to lease within 12 months. Inventory includes all non-owner-occupied office buildings 20,000 square feet and greater.

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.

