



Orange County sees a modest increase in availability as COVID-19 lockdown causes the economy to contract

Overall availability in Orange County ended the second quarter at 18.4%, increasing 20 basis points over the previous quarter, but it is still 10 basis points lower than what was reported a year ago. Class A availability, now at 20.5%, increased 50 basis points from Q1, but is also below where it sat one year ago (21.2%). While these increases may seem slight given all the disruption caused by ongoing pandemic fallout, impacts on the overall economy and business environment have been severe. As a result, availability is expected to continue to increase over the coming quarters as businesses re-evaluate both workforce and work space needs.

Leasing demand drops 33% from first quarter

Leasing activity totaled just over 970,000 square feet (sf) in the second quarter, marking the lowest reported yearly leasing total in over a decade. This was a decline of 33% over the quarter and 60% over the year. There were no leases greater than 50,000 sf seen. Overall asking rents ended the quarter at \$3.05 per square foot (psf) per month, holding flat from Q1. Class A asking rents also remain unchanged, now at \$3.29 psf per month. While landlords are hesitant to significantly lower asking rates, even in the face of a dramatic pullback in demand, tenants are likely to see more favorable terms and generous concession packages in the current environment.

Cautious optimism emerges going into the second half of the year as economy begins to re-open

As mentioned in previous reports, the regional office market is far better positioned for resiliency than it was a nearly a decade ago, when average availability levels topped 25% and the market was navigating its way through the post-subprime mortgage industry meltdown and the previous decade's overbuilding. Still, rising availability due to the overall economic contraction is worrisome. In addition, the recent increase in sublease space marketwide will inevitably put downward pressure on asking rents. While there is cautious optimism as lockdown measures are slowly eased and the economy begins to grow again, conditions are firmly tenant-favorable and expected to remain that way for the near future.

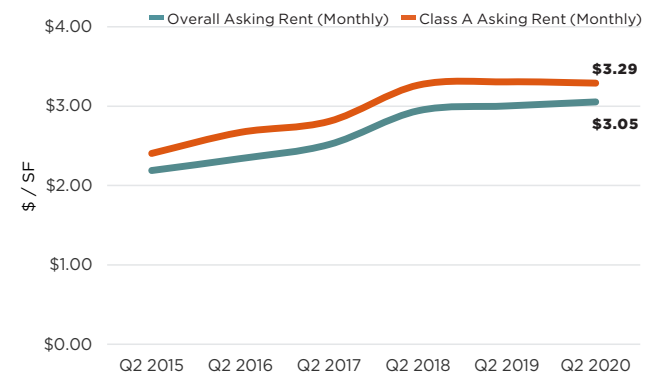
Outlook

- Expect downward pressure on asking rents as availability increases and leasing activity remains subdued
- Development activity remains historically low, assuaging fears of overbuilding
- Capital markets remain mostly frozen, although with so much dry powder sitting on the sidelines, an uptick in investment sales activity is expected as the economy reopens

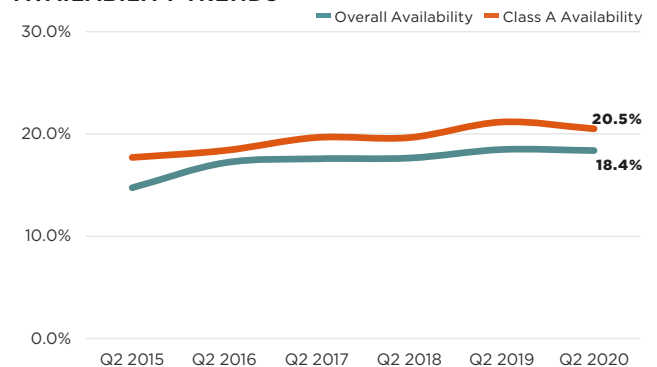
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	84.1 MSF	84.5 MSF	▲
Availability Rate	18.5%	18.4%	▼
Asking Rental Rate (Monthly)	\$3.00	\$3.05	▲
Class A Asking Rental Rate (Monthly)	\$3.31	\$3.29	▼
Quarterly Leasing Activity	2.6 MSF	0.97 MSF	▼

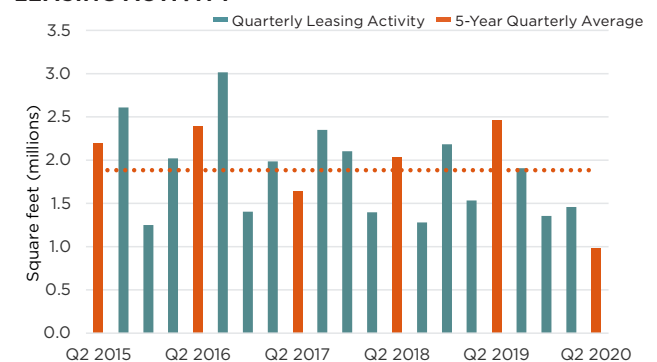
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

6 of 10

of top transactions were **renewals or expansions**

43.3%

of large transactions occurred in the **South County** submarket

35.1%

Financial Services represented 35.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
American Home Loans	39,060	15360 Barranca Parkway	Relocation	South County	Financial Services
Orange County Healthcare Agency	34,009	500 City Parkway W	New Location	Central County	Government
Lantronix, Inc	26,897	7535 Irvine Center Drive	Renewal	South County	TAMI
Confie	26,019	7711 Center Avenue	Renewal	West County	Financial Services
Bryan Cave Leighton Paisner LLP	24,097	1920 Main Street	Relocation	Airport Area	Legal Services
Asics	21,283	7755 Irvine Center Drive	New Location	South County	Retail
Interactive Mortgage	19,947	1 City Boulevard W	Expansion	Central County	Financial Services
Kushner Carlson	17,893	85 Enterprise	Renewal and Expansion	South County	Legal Services
Coast Huntington Executive Suites	17,578	7755 Center Avenue	Renewal	West County	Coworking
Blue Sky	15,776	410 Exchange	Renewal	Airport Area	Retail

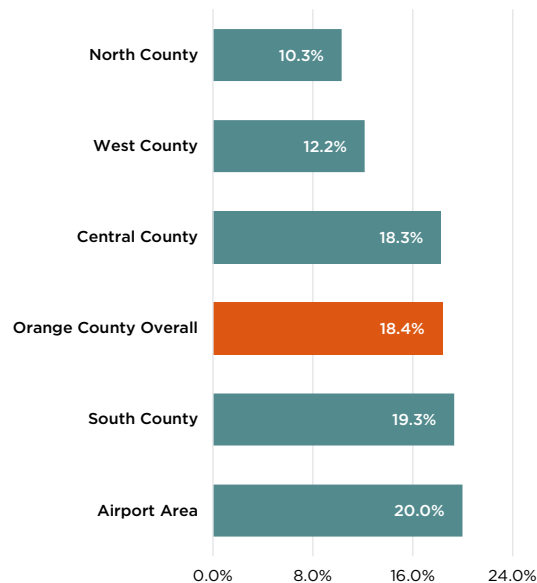
Source Savills Research

For more information, please contact us:

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

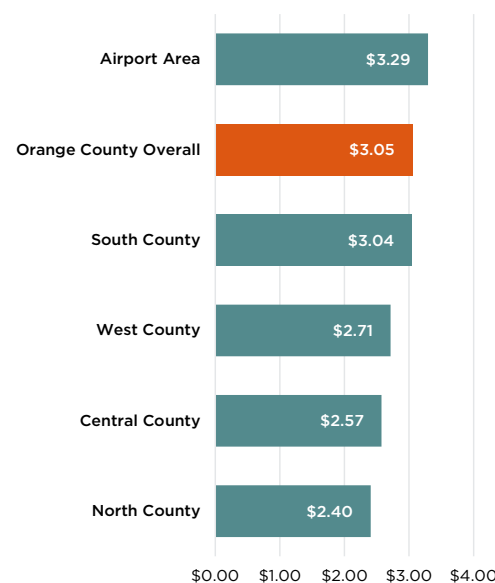
AVAILABILITY RATE COMPARISON

Orange County Submarkets



RENTAL RATE COMPARISON (\$/SF)

Orange County Submarkets



Royce Sharf
Executive Vice President,
Branch Manager
rsharf@savills.us

Michael Soto
Research Director
msoto@savills.us

About Savills Inc.
Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

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.

Copyright © 2020 Savills

savills.us

