



## Orange County availability rate now at an eight-year high as sublease space continues to rise

In the third quarter, Orange County's overall availability rate increased 140 basis points (bps) over last quarter to 19.7%, which is now the highest reported since 2012. Class A availability increased 180 bps over the same period to 22.2%, a seven-year high. Due to the sharp contraction in business activity over the past six months, many area occupiers have focused on cost reduction (including real estate costs) leading to over 3.1 million square feet (msf) of sublease space coming available on the market, up 24% since the lockdowns began and the highest level reported in Orange County since 2008.

### Leasing activity up 65% from the previous quarter but mostly due to large outlier deals

After reporting just under 1.0 msf of leasing activity last quarter, leasing activity picked up with 1.6 msf recorded in the third quarter. Led by Panasonic Avionics' 258,823-square-foot (sf) new lease at Park Place in Irvine, as well as United Healthcare's 210,000-sf renewal at 5701 Katella Avenue in Cypress, the uptick was welcome in the face of pandemic uncertainty but remains 16% lower than quarterly activity one year ago. Overall average asking rents ended the quarter at \$3.06 per square foot (psf) per month, up slightly from the previous quarter. Class A asking rents also were up at \$3.34 psf per month. It should be noted that the increase in average rents was solely due to above-market-priced space in larger under-construction office projects, as landlords have mostly kept quoted rents in existing buildings flat.

### With continued uncertainty in the overall economy, expect demand to remain at a lower level

Now six months into the COVID-19 pandemic, many occupiers are unsure of what business needs may be from a hiring standpoint over the next year, and some tenants who have leases expiring are signing short-term extensions. On the landlord side, most owners have held firm on asking rents but with the sharp rise in overall availability, especially sublease space, combined with subdued demand, the ongoing market softening is expected to put downward pressure on rents. Looking into the final months of 2020, expect landlords to become more aggressive in attracting and retaining tenants as more occupiers extend work-from-home initiatives into 2021.

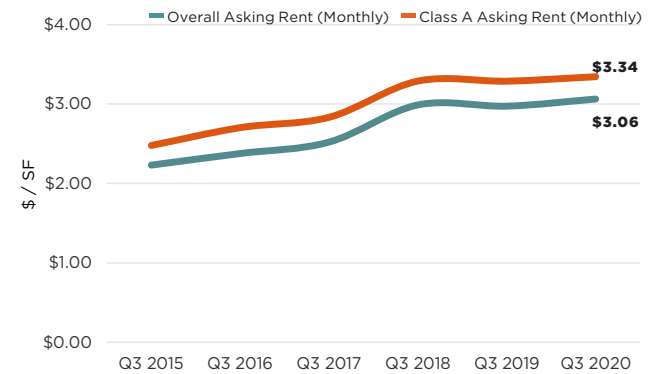
### Outlook

- Availability is expected to continue to rise as sublease space increases to a record high
- Landlords will offer more flexibility to existing and prospective tenants as the latter needs more time to figure out what their business may look like post-COVID-19
- While average rents have not decreased market-wide as of yet, numerous opportunities are already available for occupiers to lease high-quality subleases at a fraction of the cost of direct space

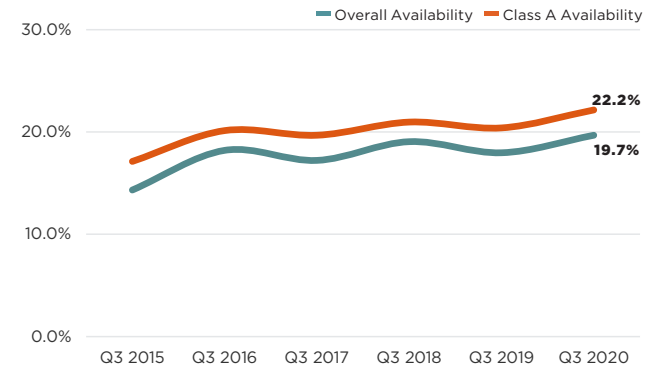
### KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	84.2 MSF	<b>85.3 MSF</b>	▲
Availability Rate	18.0%	<b>19.7%</b>	▲
Asking Rental Rate (Monthly)	\$2.97	<b>\$3.06</b>	▲
Class A Asking Rental Rate (Monthly)	\$3.29	<b>\$3.34</b>	▲
Quarterly Leasing Activity	1.9 MSF	<b>1.6 MSF</b>	▼

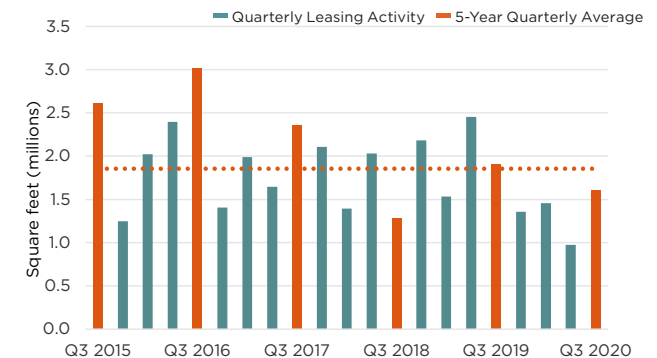
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

47.2%

of top transactions were **renewals** by square footage

49.2%

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

40.2%

**Financial Services** represented 40.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Panasonic Avionics	258,823	3337 - 3353 Michelson Drive	Relocation	Airport Area	Manufacturing
United Healthcare	210,000	5701 Katella Avenue	Renewal	West County	Financial Services
West Coast University	75,736	2411 W La Palma Avenue	Renewal	Central County	Education
Executive Office for Immigration Review	66,885	1241 E Dyer Road	New Location	Central County	Government
Alliant Insurance	61,000	1301 Dove Street	Renewal	Airport Area	Financial Services
Beckam Funding Corp	26,047	16815 Von Karman Avenue	New Location	Airport Area	Financial Services
American Career College	25,837	2461-2463 W La Palma Avenue	Renewal	Central County	Education
The Chicago School of Professional Psychology	22,759	2400 E Katella Avenue	New Location	Central County	Education
WHA Architects	22,370	680 Newport Center Drive	Relocation	Airport Area	Architecture
Genesis Bank	20,239	4675 MacArthur Court	New Location	Airport Area	Financial Services

Source Savills Research

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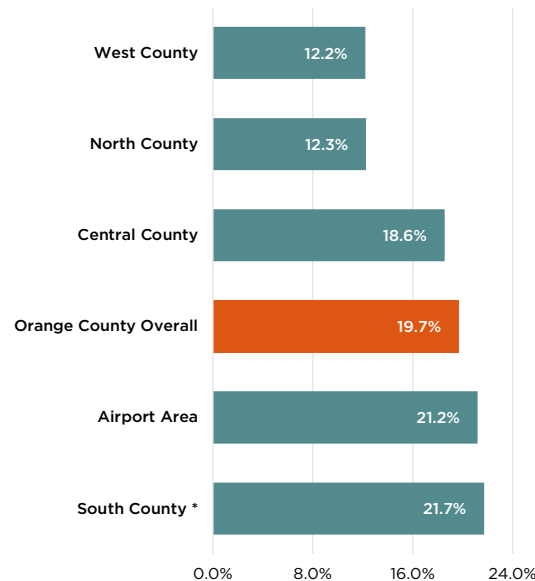
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AVAILABILITY RATE COMPARISON

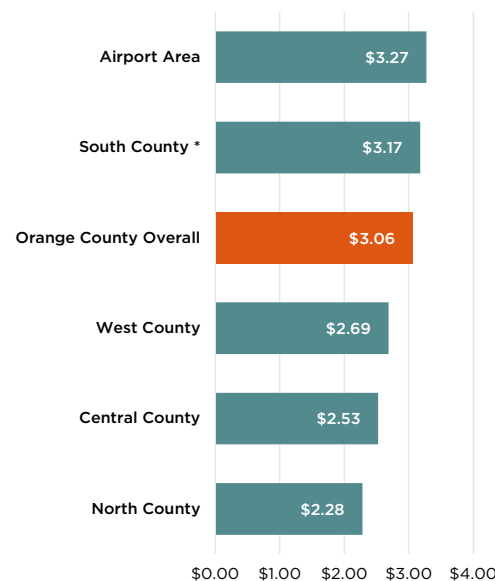
Orange County Submarkets



\*Irvine Spectrum availability rate is 21.2% 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.

