

Office availability rate increases to 22.7% in Orange County in the third quarter 2021

The Orange County office market reported a 40-basis-point increase in the total availability rate from the previous quarter to 22.7%. While state and local restrictions on business have largely been eased due to the widespread availability of the COVID-19 vaccine, this remains the highest amount of availability seen in the market since 2012, even with sublease space beginning to level off. Despite rising availability, leasing activity increased to its highest level since COVID-19's onset as area companies are now more optimistic about the overall economy than at any time since the pandemic began. On the other hand, with so much available space on the market, we expect market conditions to remain tenant-favorable for the foreseeable future.

Quarterly leasing activity increases to highest level of pandemic

Leasing activity totaled 1.6 million square feet (msf) in the third quarter led by Terran Orbital's 89,006-square-foot (sf) sublease at 400 Spectrum Center Drive in the Irvine Spectrum, followed by Bandai Namco's 69,647-sf new lease at the Source H2O building, also in the Irvine Spectrum. Quarterly activity increased from the 1.3 msf reported in the second quarter and is above the 1.5 msf in leasing activity reported in the first quarter 2020. The market's overall average asking rent decreased from \$2.96 per square foot (psf) per month reported last quarter to \$2.93 psf. This was also down 4.4% from \$3.06 psf reported a year ago. While most owners of Class A buildings have held their asking rents flat over the past year, average taking rents have decreased and concessions have increasingly become more generous as it remains a tenant's market.

Overall economy continues to grow but office market fundamentals remain soft

With a seasonally adjusted unemployment rate of 6.0% in August, unemployment in Orange County remains much lower than the statewide unemployment rate of 7.5%, but slightly higher than the national unemployment rate of 5.2%. As predicted in previous reports, the re-opening of the economy has caused economic growth to accelerate. On the other hand, despite the office market seeing higher leasing activity in the third quarter, availability remains near a decade-long high. In addition, the long-term consequences of work-from-home continue to be largely unknown. As a result, a full office market recovery in Orange County will remain slow and uneven.

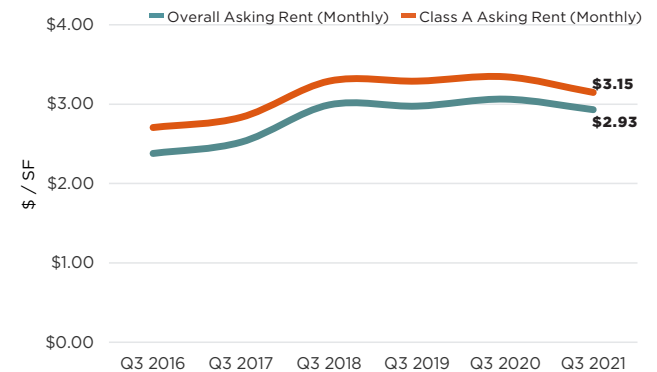
Outlook

- Expect further downward pressure on both asking and effective rents as landlords aggressively compete for occupancy
- Sublease space remains high market-wide, although it appears to finally be leveling off for now
- The recovery in the Orange County office market will be led by the area's technology and burgeoning life sciences ecosystem which have showed continued demand despite pandemic challenges

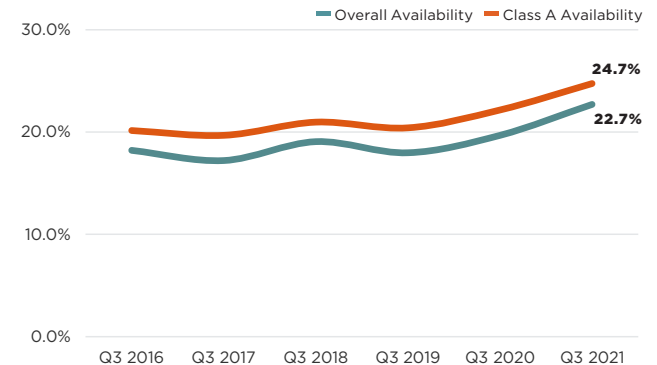
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	85.5 MSF	85.5 MSF	◀▶
Availability Rate	19.7%	22.7%	▲
Asking Rental Rate (Monthly)	\$3.06	\$2.93	▼
Class A Asking Rental Rate (Monthly)	\$3.34	\$3.15	▼
Quarterly Leasing Activity	1.6 MSF	1.6 MSF	◀▶

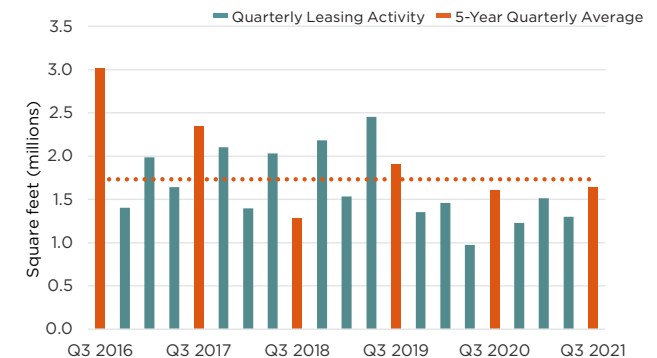
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

70.7%

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

64.4%

of large transactions occurred in the **South County** submarket by square footage

39.3%

TAMI represented 39.3% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Terran Orbital *	89,006	400 Spectrum Center Drive	New Location	South County	TAMI
Bandai Namco	69,647	15550 Sand Canyon Avenue	Relocation	South County	Retail
Oceans Church *	65,003	15253 Bake Parkway	New Location	South County	Non-profit
Accurate Background	63,412	7515 Irvine Center Drive	Renewal	South County	TAMI
Alliant Insurance Services	48,944	18100 Von Karman Avenue	New Location	Airport Area	Financial Services
Aerie Pharmaceuticals	26,855	2030 Main Street	Renewal	Airport Area	Pharmaceuticals
Comcast *	22,784	5300 California Avenue	New Location	Airport Area	TAMI
Hall Griffin LLP	21,441	1851 E 1st Street	Renewal	Central County	Legal Services
The Federal Savings Bank *	19,964	2600 Michelson Drive	New Location	Airport Area	Financial Services
Premier Workspaces	18,849	4000 MacArthur Boulevard	Renewal	Airport Area	Coworking

* Sublease

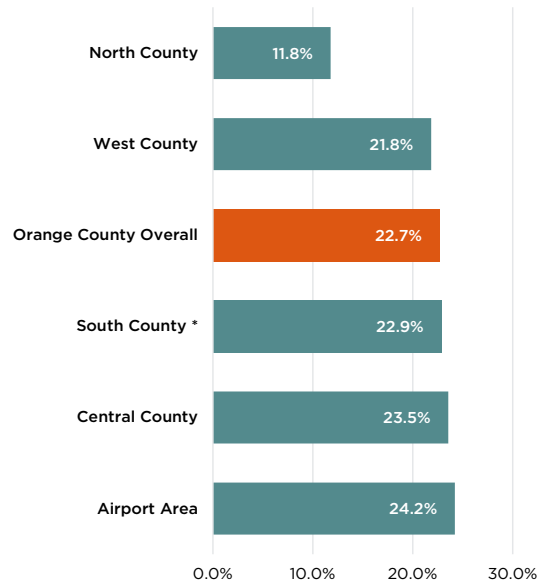
Source Savills Research

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AVAILABILITY RATE COMPARISON

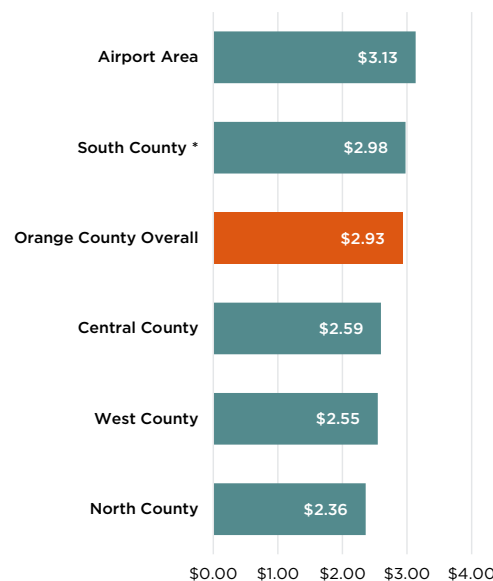
Orange County Submarkets



*Irvine Spectrum availability rate is 20.3% and average asking rent is \$3.45 PSF.

RENTAL RATE COMPARISON (\$/SF)

Orange County Submarkets



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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.

