



Orange County office availability rate ends 2020 at 20.1% amidst a slowing economy

At year-end, the overall availability rate in Orange County increased an additional 40 basis points (bps) from last quarter to 20.1% and is now at an eight-year high. Due to a resurgence in COVID-19 caseload and lockdown restrictions, local companies have indefinitely extended remote work policies and are delaying their long-term real estate decisions. In addition, slow economic growth has resulted in companies cutting costs, with over 3.2 million square feet (msf) of sublease space now available on the market. Sublease inventory is up 28% since pre-pandemic and is now at the highest level reported in Orange County since Q3 2008.

Annual leasing activity hits record low of just 5.3 million square feet

With just 1.2 msf of leasing activity reported in Q4, 2020 total demand stood at 5.3 msf and marks the lowest annual leasing total on record for the market. Compared to the 7.3 msf of leasing activity reported in 2019, transaction volume is down 27% from a year ago. Overall average asking rents ended the year at \$3.03 per square foot (psf) per month, down slightly from \$3.06 psf reported last quarter but still up 1.8% from a year ago. Class A average rents ended the year at \$3.28 psf, down from \$3.34 psf last quarter but on par with pricing seen at the end of last year. While most landlords have held firm on asking rents during the pandemic, taking rents are declining and owners will have to be aggressive with concessions in order to secure tenancy amidst market softening.

Underlying market fundamentals are expected to remain soft as vaccine begins rolling out

Since peaking at a high of 14.7% in May, the seasonally adjusted unemployment rate in Orange County decreased to 6.4% in November as the economy began reopening. However, due to a second COVID-19 surge and stricter lockdowns to control infections at year-end, the overall economy is seeing another slowdown which will keep leasing activity low. Recent advancements on vaccine availability and distribution have created optimism that there could be an end to the pandemic in the next several months. However, underlying office market fundamentals are expected to remain soft through the first half of 2021 as organizations continue working remotely and most companies delay major real estate decisions until there is sustained economic growth again.

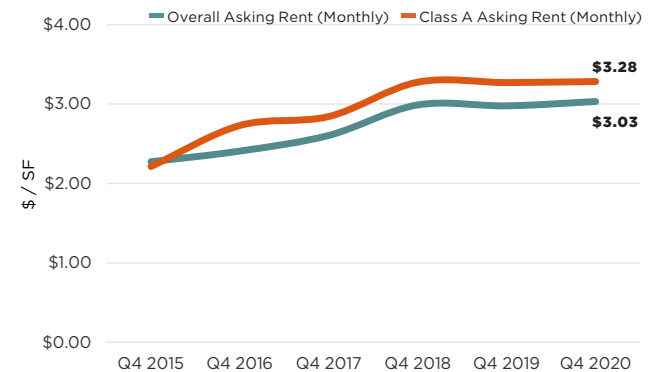
Outlook

- Expect overall office leasing activity to remain low through at least the first half of 2021
- With availability and vacancy rates rising, landlords are under increased pressure to discount rents while keeping concessions high
- Assuming widespread vaccination, the market could see demand return in the second half of 2021, but expect market fundamentals to continue to be soft for the time being

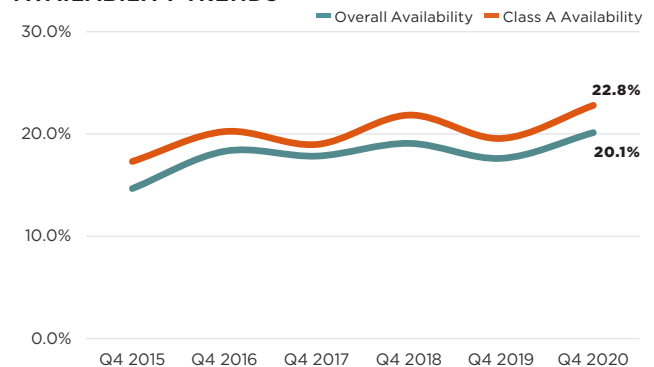
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	85.0 MSF	85.3 MSF	▲
Availability Rate	17.6%	20.1%	▲
Asking Rental Rate (Monthly)	\$2.98	\$3.03	▲
Class A Asking Rental Rate (Monthly)	\$3.27	\$3.28	▲
Quarterly Leasing Activity	1.4 MSF	1.2 MSF	▼

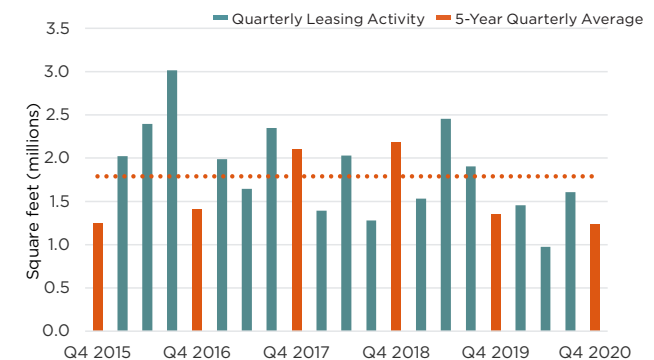
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

33.6%

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

38.9%

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

46.1%

Financial Services represented 46.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
American Advisors Group	67,774	18200 Von Karman Avenue	Renewal	Airport Area	Financial Services
Collectors Universe	62,870	1610 E Saint Andrew Place	Expansion	Central County	Professional Services
InterContinental Capital Group	44,534	400 Spectrum Center Drive	New Location	South County	Financial Services
iHerb	29,708	17400 Laguna Canyon Road	New Location	South County	Retail
Blind Squirrel Games	26,057	1251 E Dyer Road	Renewal	Central County	TAMI
CommerceWest Bank	25,207	2445 McCabe Way	New Location	Airport Area	Financial Services
Acrisure	24,673	3 Polaris Way	New Location	South County	Financial Services
Global Eagle	24,306	1821 E Dyer Road	Renewal	Central County	TAMI
FCCP	23,510	1400 S Douglass Road	New Location	Central County	Non-profit Organizations
Integra Capital Group	23,026	20 Pacifica	Restructure	South County	Professional Services

Source Savills Research

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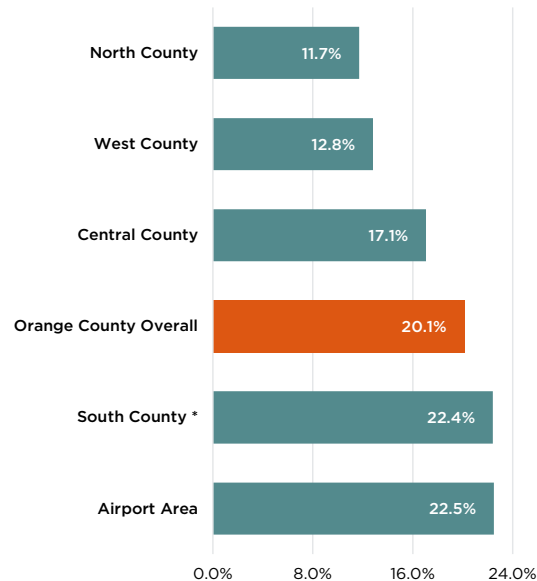
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AVAILABILITY RATE COMPARISON

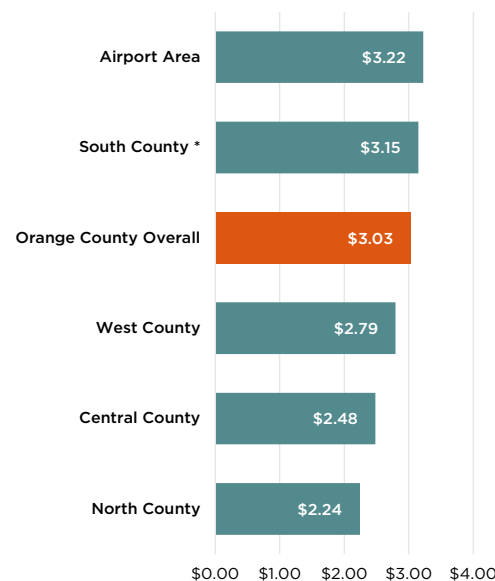
Orange County Submarkets



*Irvine Spectrum availability rate is 20.1% and average asking rent is \$3.45 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.

