

## Orange County availability increases in Q1, ahead of any COVID-19 related impact

Even prior to the market-wide shut down caused by the rapidly evolving COVID-19 pandemic, the Orange County market saw an uptick in available office options. Overall availability in Orange County ended the quarter at 18.2%, increasing 60 basis points quarter over quarter. With the amount of office space in the development pipeline remaining low, there is very little fear of overbuilding compared to the construction boom seen a decade ago. Class A asking rents ended the quarter at \$3.28 per square foot (psf) per month which is effectively flat year over year. Overall asking rents increased to \$3.04 psf, an increase of 3.1% over the year. However, in such uncertain economic times, the impact of COVID-19 will undoubtedly result in a sharp slowdown in business activity in the near term.

### Leasing stalls with March a wash for demand

Leasing activity totaled 1.5 million square feet (msf) in the first quarter, an extension of the slow pace seen in Q4 2019 (1.4 msf). Large tenants, which were active last quarter, were notably dormant throughout Q1. The largest lease of the quarter involved the County of Orange renewing for 67,412 square feet (sf) at 1241 E Dyer Road in Santa Ana. As mentioned above, the COVID-19 pandemic has been an ongoing shock to the global economy and the Orange County regional economy has not been immune. As a result, expect a slowdown in leasing activity over the next few months as real estate decision makers put requirements on hold while waiting for greater clarity on business conditions.

### Office availability continues to vary widely submarket to submarket

From a low of just 10.0% availability in the North County to a high of 19.1% in the John Wayne Airport area, office availability varies widely within the region. Growth from professional services firms, as well as the technology sector, has had a significant impact on market stabilization. The region is far better positioned than a decade ago when average availability levels topped 25.0%. Still, with leasing activity slowing and the region's relatively high cost of living and doing business, expect area landlords to become even more aggressive this year when attracting and retaining tenants. Concessions are likely to be highly tenant-favorable and deal terms will see increased flexibility.

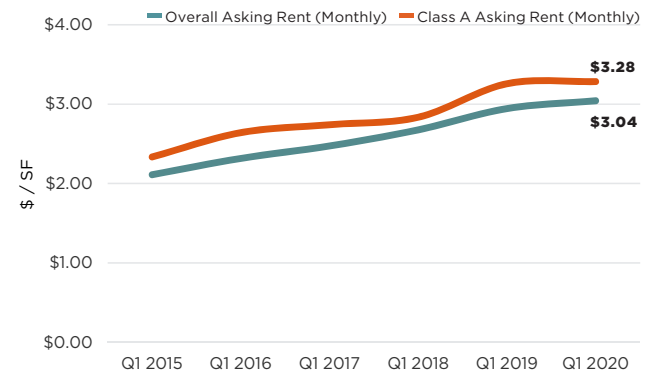
### Outlook

- Expect the Orange County office market to shift firmly tenant favorable in 2020 as a somewhat softening market faces additional challenges with the COVID-19 crisis
- A relatively small office development pipeline reduces fear of overbuilding, unlike previous cycles
- Economic uncertainty and disruption are already resulting in a sharp slowdown in business activity, and no one knows how long it will persist

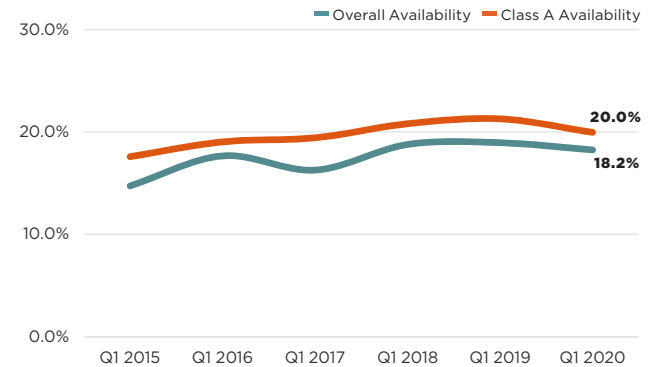
### KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	84.1 MSF	<b>84.1 MSF</b>	◀▶
Availability Rate	19.0%	<b>18.2%</b>	▼
Asking Rental Rate (Monthly)	\$2.94	<b>\$3.04</b>	▲
Class A Asking Rental Rate (Monthly)	\$3.26	<b>\$3.28</b>	▲
Quarterly Leasing Activity	1.5 MSF	<b>1.5 MSF</b>	◀▶

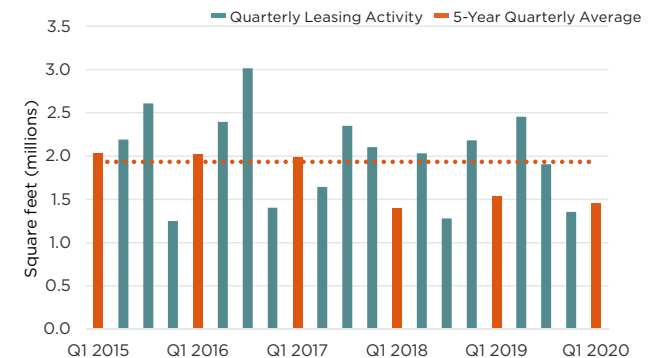
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

top transactions were new locations

50.5%

of large transactions occurred in the Central County submarket

18.1%

Manufacturing represented 18.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
County of Orange	67,412	1241 E Dyer Road	Renewal	Central County	Government
Kingdomway USA	51,588	2742 Dow Avenue	New Location	Central County	Manufacturing
Kimley-Horn	48,462	1100 W Town And Country Road	New Location	Central County	Professional Services
Better Mortgage Group	45,960	5 Park Plaza	New Location	Airport Area	Professional Services
Microchip Technology	43,920	165 Technology Drive	New Location	South County	TAMI
After School Programs (ASP)	39,675	15101 Alton parkway	New Location	South County	Education
Spaces	39,269	333 City Boulevard W	New Location	Central County	Coworking
States Title	30,616	4 Park Plaza	New Location	Airport Area	Financial Services
Conexant Systems, Inc.	22,514	1901 Main Street	Renewal	Airport Area	Manufacturing
American Advisors Group (AAG)	20,130	18200 Von Karman Avenue	Expansion	Airport Area	Financial Services

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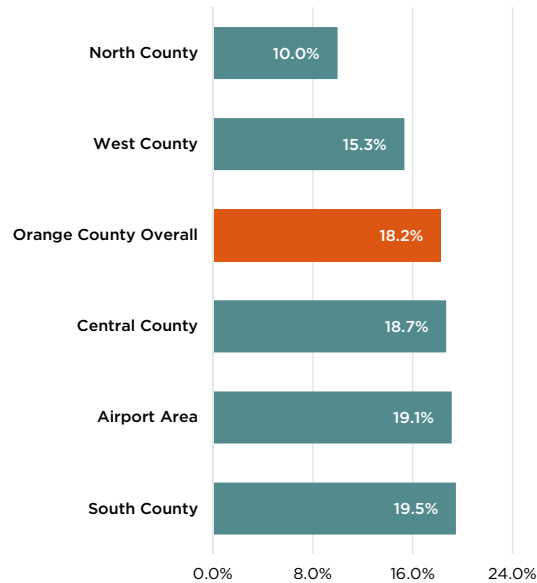
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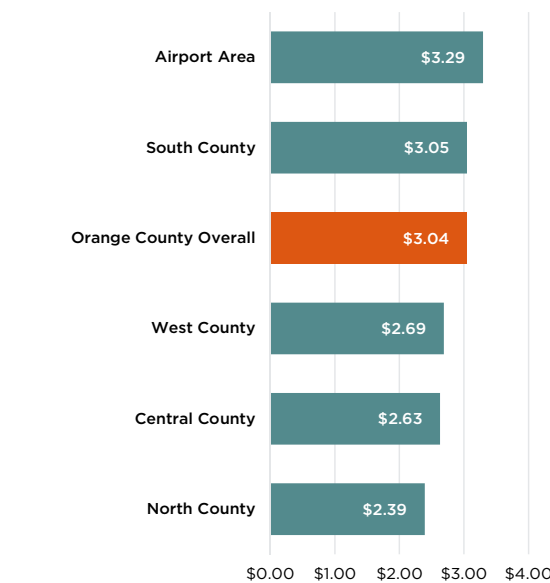
AVAILABILITY RATE COMPARISON

Orange County Submarkets



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.

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