OC Q3 24

THIRD QUARTER 2024 MARKET REPORT

ORANGE COUNTY OFFICE

Voit REAL ESTATE SERVICES

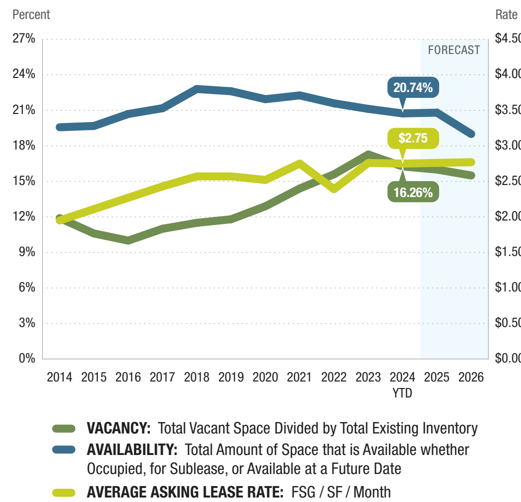
OVERVIEW. The Orange County office market struggles began before the pandemic and have been ongoing since. But there is finally some good news to report, as the trajectory of several key market metrics is shifting. Net absorption moved into positive territory for the first time in years. Vacancy and availability, which have both reached levels of concern, headed lower in Q3, while asking rents remained flat. Lease and sale activity suffered only a slight decline. Gross absorption was down for the period, but little changed year over year. As we have been reporting since the first pandemic lockdown, the shift in workplace dynamics has motivated landlords to focus their efforts on adding amenities and creating flexible workspaces to attract businesses that are still not back in the office full time. The sale market was still soft in Q3, as prices have fallen sharply, especially for Class A properties that are experiencing the highest vacancy levels.

VACANCY & AVAILABILITY. The overall vacancy rate decreased to 16.26% in Q3, its second consecutive decline. As we reported last quarter, the recent fall in vacancy is in due in part to several large spaces being removed from the speculative inventory because they were sold to owner / users or were no longer being marketed. Class A vacancy is still highest at 21.98%, up 21 basis points in Q3. Unfortunately, availability in Class A moved up by 57 basis points, likely due to an increase in sublease inventory. The Airport Area has the largest inventory of Class A space at 25.7 MSF, 21.85% of which sits vacant. However, that rate is 60 basis points lower for the period, a good sign.

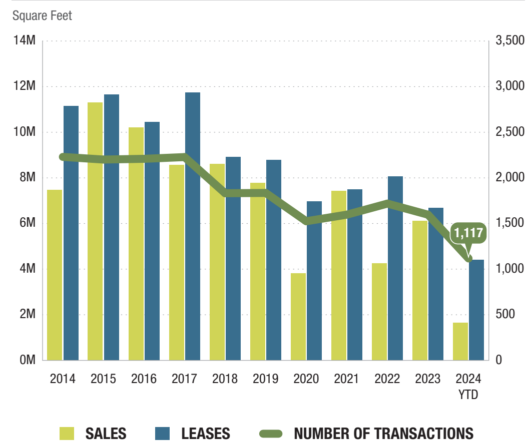
LEASE RATES. The average asking lease rate across all building classes countywide moved down $0.01 to $2.75 in Q3, but asking rents do not accurately reflect actual market conditions because landlords typically hold the line on their "coupon" or asking rent, preferring to negotiate with tenants on concessions like free rent and tenant improvements. So, effective rates are much lower than asking rents, as landlords have been increasing concessions to fill their vacant spaces more quickly. In Q3, the highest average asking lease rates were recorded in the Airport Area and South County submarkets, at $2.89 and $2.92, respectively. Both of those areas are dominated by The Irvine Company with its massive inventory of high-quality office buildings and deep roster of existing tenants.

TRANSACTION ACTIVITY. Lease and sale activity fell slightly in Q3, declining to 1,772,930 SF from 1,921,338 SF in Q2. Completed lease transactions numbered 125, compared with 138 in Q2, and total square leased fell by 147, 829 SF. Leasing remains concentrated in spaces in the lower size ranges, while larger blocks of space are generally seeing less activity. However, there were two notable exceptions to that trend in Q3. Google renewed their lease on 190,238 SF from ESRI on Jamboree Road in Irvine, and the Irvine Company renewed their lease with JP Morgan Chase at 3 Park Plaza, also in Irvine. Sale transaction count moved up from 4 to 5 in Q3. The largest of those sales was a 157,279 SF building at 5 Peters Canyon Road, sold to TP Link by Pendulum Property Partners for $40,600,000.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

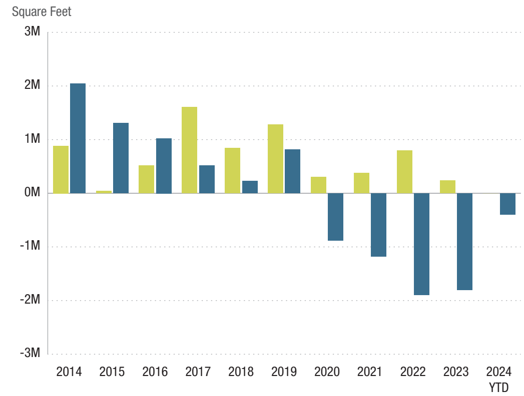
	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	DOWN	16.26%	16.34%	17.47%	(6.93%)
Availability Rate	DOWN	20.74%	21.12%	21.94%	(5.46%)
Average Asking Lease Rate	DOWN	$2.75	$2.76	$2.72	0.96%
Sale & Lease Transactions	DOWN	1,772,930	1,921,338	4,213,342	(57.92%)
Gross Absorption	DOWN	2,116,505	2,909,409	2,159,730	(2.00%)
Net Absorption	POSITIVE	33,181	(225,869)	(403,741)	N/A

ABSORPTION. Countywide net absorption was the biggest news of the third quarter, as it was the first visit to positive territory in years. Of the cities we track, 22 of 36 reported net growth in occupied space in Q3, a significant improvement. The North, South and West County regions notched modest gains for the period, while the Airport Area and Central County submarkets recorded declines. By building class, it was Class B that led the way with a net gain in occupied space of 72,665 SF. Class C was up by 2,257 SF while Class A was in negative territory by 41,731 SF. While these numbers are not stellar from a historical perspective, they may be the first indication that the health of the office market is improving. As previously reported, projects rich in amenities are faring best, as business owners are working with landlords to create an overall work environment that encourages employees to spend more time in the office.

CONSTRUCTION. Construction of new office buildings came to a complete halt early in the year, which was generally good news for owners of existing inventory who have been struggling with rising vacancy and slower transaction velocity since before the pandemic. But Q3 saw one major project, the OCVibe mixed-use project, get under way. The first building, a 168,000 SF building known as The Weave, is a 6-story building and the initial phase of a master planned mixed-use project that will eventually include two hotels, more than 20 restaurants, a 6000-seat entertainment venue, parks and other retail amenities. The project wraps around the existing Honda Center on Katella Avenue and is just across the street from the ARTIC transportation center.

EMPLOYMENT. Orange County's unemployment rate rose to 4.5% in August 2024, up from 4.4% in July and 4.0% year over year. Private education and health services led the job growth statistics, adding 12,200 positions, over half the total nonfarm increase.

NEW DELIVERIES & NET ABSORPTION



NEW DELIVERIES: New Construction Delivered to the Market

NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

Forecast

The office market will continue to struggle in the near term, but current market metrics may indicate the worst of the market correction is in the rearview mirror. If demand keeps running at its current pace, net absorption could improve. The recent renewal of larger leases with JP Morgan Chase and Google may indicate the county's largest tenants have a better sense of direction in terms of their need for space. If this becomes a trend, larger blocks of space, which make up most of the Class A vacancy, may be absorbed at a faster pace. The problems associated with changes in workplace dynamics are not going away any time soon, but more tenants are getting a handle on how to move forward, and that could have a positive impact on leasing activity. Several large Class A buildings have sold at deep discounts in the past year and we may see more of that activity heading into 2025, which could establish a bottom to the recent correction in asset valuation.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	City	Class	Square Feet	Total Price	Buyer	Seller
5 Peter Canyon Rd.	Irvine	A	157,279	$40,600,000	TP Link	Pendulum Property Parnters
999 W Town & Country Rd.	Orange	B	98,907	$17,900,000	Hampton Tedder Electric	Segard Real Estate
17101 Armstrong Ave.	Irvine	B	57,301	$13,000,000	City of Irvine	Resources Global Professionals
5530 Beach Blvd.	Buena Park	B	34,000	$9,807,783	Bloomingkoco, LLC	SCND Beach Point
100 Newport Center Dr.	Newport Beach	B	17,377	$36,500,000	The Irvine Company	100 Newport Center Drive LLC*

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
19510-19520 Jamboree Rd. - Renewal	Irvine	A	190,238	Aug-2024	Google	ESRI
3 Park Plaza - Renewal	Irvine	A	155,000	Aug-2024	JPMorgan Chase	The Irvine Company
19111 Von Karman Ave. - Renewal	Irvine	A	55,355	Aug-2024	Pepperdine University	Lakeshore Towers LP
2030 Main St. - Renewal	Irvine	A	52,958	Jul-2024	Wells Fargo Dealer Services, Inc.	Third Avenue Investment
15480 Laguna Canyon Rd	Irvine Spectrum	B	44,820	Jul-2024	St. Joesph Health Systems	The Irvine Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	60	6,809,973	0	0	1,418,516	20.83%	1,846,278	27.11%	$3.12	7,357	47,876	150,146	531,772
Irvine	243	24,107,217	0	182,380	4,459,397	18.50%	5,645,669	23.42%	$2.80	(72,304)	(344,076)	638,064	1,932,084
Newport Beach	103	9,099,665	0	0	1,180,497	12.97%	1,729,727	19.01%	$3.05	(17,288)	(68,769)	221,750	529,397
Santa Ana	9	1,980,930	0	0	544,358	27.48%	594,968	30.03%	$2.56	12,244	23,334	57,493	107,471
Tustin	4	418,585	0	0	47,049	11.24%	63,860	15.26%	$3.12	0	55,793	26,141	68,573
Airport Area Total	419	42,416,370	0	182,380	7,649,817	18.04%	9,880,502	23.29%	$2.89	(69,991)	(285,842)	1,093,594	3,169,297
Central County													
Anaheim	21	1,964,515	168,137	401,000	411,865	20.97%	449,906	22.90%	$2.34	27,108	24,177	41,888	134,592
Orange	63	6,074,976	0	0	1,262,884	20.79%	1,522,639	25.06%	$2.04	(153,369)	(201,758)	55,781	149,162
Santa Ana	130	9,469,914	0	0	1,668,203	17.62%	2,121,474	22.40%	$2.50	8,516	9,736	97,652	652,319
Tustin	38	1,965,050	0	0	186,710	9.50%	205,484	10.46%	$1.91	(15,105)	(43,867)	9,650	76,783
Central County Total	252	19,474,455	168,137	401,000	3,529,662	18.12%	4,299,503	22.08%	$2.36	(132,850)	(211,712)	204,971	1,012,856
North County													
Anaheim Hills	64	4,288,625	0	0	474,636	11.07%	545,113	12.71%	$2.45	34,816	(10,258)	71,217	170,283
Brea	37	3,756,649	0	0	499,381	13.29%	641,756	17.08%	$2.69	(15,291)	(116,318)	74,223	384,468
Buena Park	18	1,204,984	0	0	72,293	6.00%	72,293	6.00%	$2.39	8,381	(40,371)	10,463	35,132
Fullerton	16	867,909	0	0	55,010	6.34%	84,581	9.75%	$2.20	4,046	9,044	35,551	74,296
La Habra	3	115,103	0	0	2,904	2.52%	2,904	2.52%	$1.80	1,940	788	2,342	2,342
La Palma	7	542,913	0	0	158,654	29.22%	169,496	31.22%	$0.00	9,200	(63,636)	10,437	26,445
Placentia	6	197,762	0	0	40,671	20.57%	41,991	21.23%	$2.01	1,313	(3,064)	2,309	15,228
Yorba Linda	5	289,383	0	0	41,599	14.38%	43,436	15.01%	$2.24	(23,391)	(23,191)	2,665	2,865
North County Total	156	11,263,328	0	0	1,345,148	11.94%	1,601,570	14.22%	$2.50	21,014	(247,006)	209,207	711,059
South County													
Aliso Viejo	36	2,675,982	0	0	840,692	31.42%	1,195,703	44.68%	$2.69	15,851	(124,579)	72,424	572,375
Dana Point	3	127,999	0	0	0	0.00%	0	0.00%	$0.00	300	2,400	1,500	3,900
Foothill Ranch	7	639,436	0	0	208,615	32.62%	231,154	36.15%	$2.50	77,909	64,259	27,189	75,327
Irvine Spectrum	170	13,329,781	0	0	1,731,689	12.99%	2,420,991	18.16%	$3.17	33,196	130,301	354,951	1,312,487
Laguna Beach	4	124,004	0	0	4,944	3.99%	4,944	3.99%	$0.00	0	0	0	0
Laguna Hills	28	1,341,232	0	465,000	260,091	19.39%	298,007	22.22%	$2.66	(16,855)	5,961	8,853	94,049
Laguna Niguel	7	395,699	0	0	73,367	18.54%	85,943	21.72%	$2.42	(5,265)	(9,615)	11,381	22,521
Lake Forest	40	2,172,465	0	0	278,014	12.80%	297,723	13.70%	$2.16	49,503	124,482	10,940	164,863
Mission Viejo	24	1,276,103	0	0	214,289	16.79%	270,830	21.22%	$2.33	24,127	22,688	34,967	71,233
Rancho Santa Margarita	5	212,716	0	0	19,829	9.32%	31,509	14.81%	$2.29	1,423	3,530	4,712	6,819
San Clemente	8	411,212	0	0	24,230	5.89%	26,575	6.46%	$2.84	(1,686)	(7,476)	1,533	14,311
San Juan Capistrano	19	944,993	0	0	23,630	2.50%	47,491	5.03%	$2.85	4,874	21,832	9,369	34,303
South County Total	351	23,651,622	0	465,000	3,679,390	15.56%	4,910,870	20.76%	$2.92	183,377	233,783	537,819	2,372,188
West County													
Cypress	27	1,819,947	0	0	168,450	9.26%	214,560	11.79%	$2.42	(5,766)	1,348	3,177	30,521
Fountain Valley	26	1,180,227	0	0	23,291	1.97%	33,652	2.85%	$2.60	15,118	15,119	16,839	20,406
Garden Grove	14	710,092	0	0	58,229	8.20%	63,095	8.89%	$1.78	8,037	22,105	10,445	33,040
Huntington Beach	32	1,805,421	0	0	295,721	16.38%	376,908	20.88%	$1.99	255	33,060	22,421	88,474
Los Alamitos	8	441,664	0	0	3,438	0.78%	14,879	3.37%	$3.34	2,830	(654)	2,830	5,742
Seal Beach	6	452,518	0	0	51,235	11.32%	63,064	13.94%	$3.44	(1,087)	7,910	1,805	13,461
Stanton	4	143,361	0	0	19,513	13.61%	19,513	13.61%	$1.92	6,660	20,199	7,813	21,352
Westminster	11	445,789	0	0	53,521	12.01%	53,521	12.01%	$2.50	5,584	11,535	5,584	14,711
West County Total	128	6,999,019	0	0	673,398	9.62%	839,192	11.99%	$2.47	31,631	110,622	70,914	227,707
Orange County Total	**1,306**	**103,804,794**	**168,137**	**1,048,380**	**16,877,415**	**16.26%**	**21,531,637**	**20.74%**	**$2.75**	**33,181**	**(400,155)**	**2,116,505**	**7,493,107**
Airport Area													
Class A	122	25,731,847	0	182,380	5,622,225	21.85%	7,193,206	27.95%	$3.11	33,418	(50,715)	769,364	2,129,579
Class B	279	15,667,922	0	0	1,984,303	12.66%	2,627,503	16.77%	$2.63	(114,322)	(231,100)	312,457	998,065
Class C	18	1,016,601	0	0	43,289	4.26%	59,793	5.88%	$2.83	10,913	(4,027)	11,773	41,653
Central County													
Class A	35	6,388,248	168,137	326,000	1,586,791	24.84%	1,829,200	28.63%	$2.67	(98,902)	(142,720)	81,331	368,612
Class B	176	11,340,165	0	75,000	1,758,380	15.51%	2,243,536	19.78%	$2.30	(27,454)	(57,791)	110,907	591,416
Class C	41	1,746,042	0	0	184,491	10.57%	226,767	12.99%	$1.92	(6,494)	(11,201)	12,733	52,828
North County													
Class A	20	2,428,817	0	0	616,731	25.39%	693,553	28.56%	$2.75	(661)	(73,274)	29,481	177,214
Class B	117	7,976,435	0	0	712,702	8.94%	889,700	11.15%	$2.42	25,411	(167,006)	177,625	529,109
Class C	19	858,076	0	0	15,715	1.83%	18,317	2.13%	$2.33	(3,736)	(6,726)	2,101	4,736
South County													
Class A	67	9,056,157	0	465,000	1,782,805	19.69%	2,458,731	27.15%	$3.60	23,696	44,348	203,403	1,367,745
Class B	267	13,748,411	0	0	1,867,283	13.58%	2,420,811	17.61%	$2.61	158,107	189,705	329,011	984,288
Class C	17	847,054	0	0	29,302	3.46%	31,328	3.70%	$2.67	1,574	(270)	5,405	20,155
West County													
Class A	12	1,309,359	0	0	264,112	20.17%	348,945	26.65%	$2.59	718	44,865	18,369	64,533
Class B	101	5,166,242	0	0	406,286	7.86%	487,247	9.43%	$2.41	30,913	61,683	52,545	156,100
Class C	15	523,418	0	0	3,000	0.57%	3,000	0.57%	$0.00	0	4,074	0	7,074
Orange County													
Class A	256	44,914,428	168,137	973,380	9,872,664	21.98%	12,523,635	27.88%	$3.14	(41,731)	(177,496)	1,101,948	4,107,683
Class B	940	53,899,175	0	75,000	6,728,954	12.48%	8,668,797	16.08%	$2.53	72,655	(204,509)	982,545	3,258,978
Class C	110	4,991,191	0	0	275,797	5.53%	339,205	6.80%	$2.13	2,257	(18,150)	32,012	126,446
Orange County Total	**1,306**	**103,804,794**	**168,137**	**1,048,380**	**16,877,415**	**16.26%**	**21,531,637**	**20.74%**	**$2.78**	**33,181**	**(400,155)**	**2,116,505**	**7,493,107**

This survey consists of office properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

OC Q3 24

THIRD QUARTER 2024 MARKET REPORT

ORANGE COUNTY OFFICE

Voit REAL ESTATE SERVICES

Orange County's Office Market Dynamics

by Linda Ly
SENIOR ASSOCIATE, IRVINE
d 949.263.5343 · c 949.307.0189 · lly@voitco.com · Lic. #01995684

The Orange County office real estate market presents a dynamic and evolving landscape, reflecting broader trends from the commercial property sector and current economic conditions. As we delve into this quarter, significant shifts are impacting investors, occupiers, and landlords alike.

The overall vacancy rate has surpassed 16%, while the availability rate stands above 20%, underscoring the ongoing challenges faced by landlords and the substantial surplus of office space. This oversupply has intensified competition for tenants, prompting property owners to offer flexible lease terms and enhanced incentives. Tenant preferences are shifting towards newer buildings with high-end amenities and creative design features.

Despite these challenges, the rental rate for office space has stabilized. However, tenants are becoming increasingly discerning and cost-conscious, forcing landlords to focus on adding value through property improvements and unique amenities like outdoor spaces, fitness centers, and on-site dining options. This trend is particularly evident in the demand for modern, flexible workspaces that can accommodate hybrid work models.

A striking development is the ongoing transformation of the office inventory. Many property owners and developers are exploring repurposing opportunities, converting office spaces into industrial facilities, multifamily housing, medical centers, and data centers. This trend highlights the adaptability of the market and the willingness of stakeholders to pivot in response to changing demands.

As we look ahead, the Orange County office market is at a crossroads. High vacancy and availability rates, coupled with stable rental prices and rising cap rates, paint a picture of a sector in flux. The strategic repurposing of office properties has emerged as a key strategy for owners and investors. In this changing landscape, flexibility and innovation will be crucial. Those who can navigate these shifts skillfully may find new opportunities amidst the challenges. The office markets are experiencing a gradual recovery as many companies adapt to hybrid work models. The technology sector, a significant presence in both Orange County and Los Angeles, is at the forefront of the return-to-office movement. Major tech companies are implementing policies requiring employees to work from the office for a specified number of days per week, influencing smaller firms and other industries to follow suit. This shift indicates a complex balancing act between maintaining flexibility for employees and fostering in-person collaboration as the post-pandemic landscape evolves.

The Orange County office market is characterized by significant challenges and opportunities. The high vacancy and availability rates, coupled with evolving tenant preferences and investment dynamics, require a proactive and adaptive approach from all stakeholders. The strategic repurposing of office properties offers a promising avenue for growth and adaptation. As we move forward, staying alert and adaptive will be essential for thriving in this new era of office real estate.

Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

AIRPORT AREA
Costa Mesa, Irvine, Newport Beach

CENTRAL COUNTY
Anaheim, Orange, Santa Ana, Tustin

NORTH COUNTY
Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

SOUTH COUNTY
Aliso Viejo, Dana Point, Foothill Ranch, Irvine Spectrum, Laguna Beach, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

WEST COUNTY
Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton, Westminster

Please Contact Us for Further Information

Tony Tran
Regional Director of Research
ttran@voitco.com

Anaheim, CA	Carlsbad, CA	Inland Empire, CA	Irvine, CA	Los Angeles, CA	San Diego, CA
714.978.7880	760.472.5620	909.545.8000	949.851.5100	424.329.7500	858.453.0505