OC Q4 24

FOURTH QUARTER 2024 MARKET REPORT

ORANGE COUNTY OFFICE

Voit REAL ESTATE SERVICES

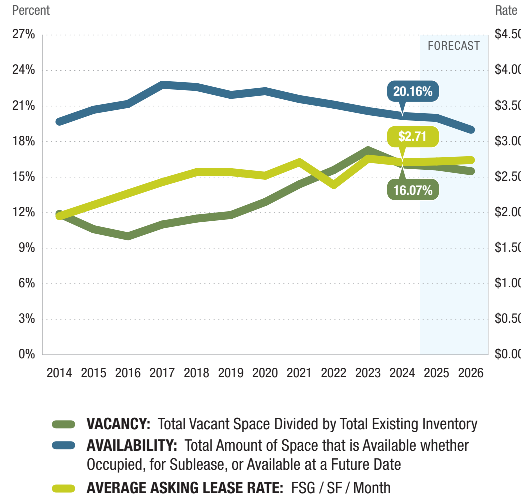
OVERVIEW. The Orange County office market is still throwing off its back foot, but for the second consecutive quarter, conditions managed to improve despite high vacancy, sluggish activity and the cloud of election uncertainty hanging overhead. In Q4 vacancy and availability both declined again. Net absorption moved slightly into negative territory, but that came on the heels of positive occupancy growth in Q3. Asking rents dipped slightly but were little changed year over year. Lease and sale activity was lower but gross absorption was up. As we have been reporting since the first pandemic lockdown, the shift in workplace dynamics threw the market into a tailspin and landlords have been pulling out all the stops to add amenities and offer generous incentives to capture quality tenants, many of whom are still unsure of what they really need. Owners looking to sell their office buildings are having a tough time in terms of valuations, but the number of closed sales increased in the final quarter.

VACANCY & AVAILABILITY. There is some good news to report on the vacancy front. The overall vacancy rate fell for the third consecutive period, ending Q4 at 16.07%, down 3 basis points on the heels of a 16-basis-point decline in Q3. As we reported last quarter, the decrease is 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 due to the property being repurposed to multi-family. But, given the rough road the asset class has been on since before the pandemic, this is good news. Class A space in the Airport Area submarket, where most of the county's Class A pace is located, recorded a large 54-basis-point decrease in vacancy for the period, but is still struggling with a vacancy rate of 21.31%. By comparison, Class B vacancy countywide fell another 20 basis points to just 12.28%.

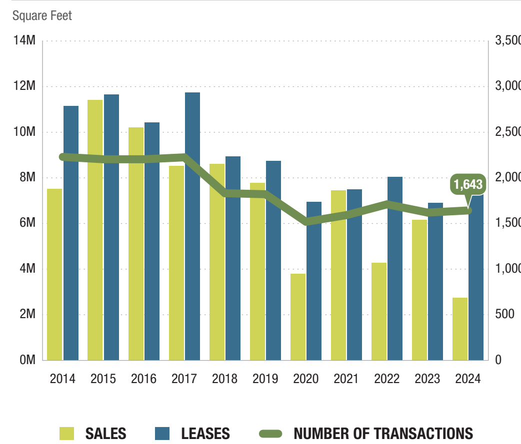
LEASE RATES. The average asking lease rate across all building classes countywide fell another $0.04 in Q4 to $2.71 after a $0.01 decline in Q3. Year-over-year asking rents are only 1.81% lower. However, asking rents don't accurately reflect market rate trends, as landlords generally hold firm on their "coupon" or asking rent, and use concessions like free rent, over-standard tenant improvements, signing bonuses and moving allowances to negotiate final terms. Thus, "effective" rates are much lower than asking rates. Of note is the fact that there are more lease renewals being done, many of them short term, that do not figure into the market statistics we track.

TRANSACTION ACTIVITY. Lease and sale activity fell to 2,383,350 SF in Q4 from 2,604,319 SF in Q3. Countywide 334 lease transactions were completed compared with 355 in Q3. Total square footage leased fell to 1,532,572 SF from 1,960,210 SF in Q3. Larger blocks of space continue to move more slowly than spaces under 10,000 SF, although in Q4 six leases were completed in spaces greater than 44,000 SF, which is a good sign. Sale transaction count increased to 13 from 7 in Q3. The largest of those sales was a 220,452 SF building on Main Street in Santa Ana. The property was sold by Muller Company to the Orange County Transportation Authority for $54,500,000.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

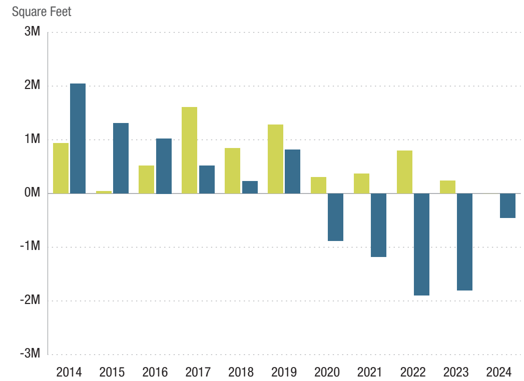
	Change Over Last Quarter		Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	▼	DOWN	16.07%	16.10%	17.27%	(6.93%)
Availability Rate	▼	DOWN	20.16%	20.58%	22.26%	(9.42%)
Average Asking Lease Rate	▼	DOWN	$2.71	$2.75	$2.76	(1.81%)
Sale & Lease Transactions	▼	DOWN	2,383,350	2,604,319	2,780,472	(14.28%)
Gross Absorption	▲	UP	2,232,332	2,116,505	2,405,733	(7.21%)
Net Absorption	▼	NEGATIVE	(47,400)	33,181	366,886	N/A

ABSORPTION. After the first visit to positive territory in years in Q3, net absorption fell slightly back into negative territory (47,400 SF) in the final period after a gain of 33,181 SF in Q3. Neither is a large number, but they are noteworthy when you realize absorption has been significantly and consistently in negative territory since before the pandemic. So, it does point to improving conditions overall. As previously reported, projects rich in amenities are faring best, as business owners are doing everything they can to get their workers back in the office.

CONSTRUCTION. Construction of new office space fell to zero earlier in the year, which was good news for office building owners, especially Class A, who have been struggling with high vacancy and a lack of on-site amenities to attract new tenants. But, as we reported last quarter, one new project, the OCVibe, is now underway. The first building in this mixed-use project in Anaheim is a 168,000 SF, 6-story, Class A building known as The Weave. It is in the initial phase of a master-planned mixed-use project that will eventually include two hotels, more than 20 restaurants, a 6,000-seat entertainment venue, parks and other retail amenities.

EMPLOYMENT. The Orange County unemployment rate dipped slightly to 4.0% in November 2024, down from 4.2% in October. Job growth was driven primarily by the private education and health services sector, with a significant increase of 11,900 jobs. The majority of this growth (83%) came from health care and social assistance, while the remaining portion was attributed to private educational services.

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 is not out of the woods and we expect 2025 to be another challenging year, especially for Class A product that is carrying very high vacancy into the new year. However, rumors of a massive correction in lease rates are fading, and there has been a renewed push from major corporations like Google, Meta and Amazon to get their workers back in the office full time. If that trend trickles down to local Orange County businesses, we could see a resurgence in active lease requirements, which could lead to further declines in vacancy. For now, landlords will have to remain generous with concessions and continue to invest in amenity upgrades for their properties to remain competitive. The sale market will continue to face major challenges. Several large Class A buildings have sold at deep discounts in the past year and we expect to see more of that activity heading into 2025, as a result of owners facing loan maturities in 2025 and 2026.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	City	Class	Square Feet	Total Price	Buyer	Seller
2677 N. Main St.	Santa Ana	A	220,452	$54,500,000	Orange County Transportation Authority	Muller Company
17772-17822 E. 17th St. - 5 Buildings	Tustin	B	185,000	$27,500,000	Kingsbarn Realty Capital	Segard Real Estate
17771 Cowan Ave.	Irvine	B	34,079	$9,179,000	AG Cowan	Circle Vision
438 E. Katella Ave.	Orange	B	32,424	$6,000,000	HY5	TCI Properties
2035 E. Ball Rd.	Anaheim	B	28,644	$5,550,000	Nobel University, Inc.	Rockview Dairies, Inc.

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
121 Theory Dr.	Irvine Spectrum	B	63,440	Nov-2024	Willow Laboratories	The Irvine Company
17700 Laguna Canyon Rd.	Irvine Spectrum	A	59,626	Dec-2024	Tarsus Pharmaceuticals	The Irvine Company
611 Anton Blvd.	Costa Mesa	A	59,409	Nov-2024	Acrisure	The Irvine Company
18191 Von Karman Ave.	Irvine	A	53,282	Oct-2024	Hyundai Glovis	Lakeshore Towers LP
41 Discovery - Renewal	Irvine Spectrum	B	44,820	Oct-2024	Ghost Media	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 Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Airport Area													
Costa Mesa	60	6,809,973	0	0	1,276,326	18.74%	1,703,091	25.01%	$3.19	126,731	174,607	248,213	779,985
Irvine	242	24,073,138	0	182,380	4,508,034	18.73%	5,413,784	22.49%	$2.82	(49,517)	(393,593)	621,361	2,553,445
Newport Beach	103	9,099,665	0	0	1,172,154	12.88%	1,699,371	18.68%	$3.21	22,333	(46,436)	193,921	723,318
Santa Ana	9	1,980,930	0	0	531,687	26.84%	577,508	29.15%	$2.55	10,999	34,333	20,967	128,438
Tustin	4	418,585	0	0	40,866	9.76%	40,866	9.76%	$3.12	6,183	61,976	6,183	74,756
Airport Area Total	418	42,382,291	0	182,380	7,529,067	17.76%	9,434,620	22.26%	$2.97	116,729	(169,113)	1,090,645	4,259,942
Central County													
Anaheim	21	1,964,515	168,137	401,000	417,198	21.24%	459,788	23.40%	$2.34	(5,333)	18,844	19,980	154,572
Orange	63	6,074,976	0	0	1,232,791	20.29%	1,483,174	24.41%	$2.16	28,871	(172,887)	109,069	258,231
Santa Ana	130	9,469,914	0	0	1,517,685	16.03%	1,787,959	18.88%	$2.27	(55,140)	(45,404)	339,941	992,260
Tustin	38	1,965,050	0	0	174,932	8.90%	193,076	9.83%	$2.30	(10,576)	(54,443)	6,859	83,642
Central County Total	252	19,474,455	168,137	401,000	3,342,606	17.16%	3,923,997	20.15%	$2.28	(42,178)	(253,890)	475,849	1,488,705
North County													
Anaheim Hills	63	4,259,981	0	0	445,204	10.45%	495,254	11.63%	$2.42	11,817	1,559	57,670	227,953
Brea	37	3,756,649	0	0	444,922	11.84%	769,821	20.49%	$2.73	(24,723)	(141,041)	44,459	428,927
Buena Park	18	1,204,984	0	0	78,988	6.56%	76,910	6.38%	$2.36	(5,470)	(45,841)	3,169	38,301
Fullerton	16	867,909	0	0	32,535	3.75%	68,970	7.95%	$2.34	(2,164)	6,880	19,708	94,004
La Habra	3	115,103	0	0	1,943	1.69%	1,943	1.69%	$1.79	961	1,749	961	3,303
La Palma	7	542,913	0	0	146,594	27.00%	164,823	30.36%	$1.75	12,060	(51,576)	20,728	47,173
Placentia	6	197,762	0	0	47,968	24.26%	49,288	24.92%	$2.02	(7,297)	(10,361)	4,637	19,865
Yorba Linda	5	289,383	0	0	19,603	6.77%	21,440	7.41%	$2.24	21,996	(1,195)	25,806	28,671
North County Total	155	11,234,684	0	0	1,217,757	10.84%	1,648,449	14.67%	$2.48	7,180	(239,826)	177,138	888,197
South County													
Aliso Viejo	36	2,675,982	0	0	857,303	32.04%	1,157,306	43.25%	$2.93	(15,190)	(139,769)	66,375	638,750
Dana Point	3	127,999	0	0	0	0.00%	0	0.00%	$0.00	0	2,400	0	3,900
Foothill Ranch	7	639,436	0	0	208,615	32.62%	262,886	41.11%	$2.50	0	64,259	50,720	126,047
Irvine Spectrum	170	13,329,781	0	0	1,943,093	14.58%	2,668,782	20.02%	$3.23	(120,246)	10,055	151,783	1,464,270
Laguna Beach	4	124,004	0	0	2,472	1.99%	3,992	3.22%	$0.00	2,472	2,472	2,472	2,472
Laguna Hills	28	1,341,232	0	465,000	255,691	19.06%	288,370	21.50%	$2.68	9,835	15,796	18,724	112,773
Laguna Niguel	7	395,699	0	0	82,859	20.94%	95,484	24.13%	$2.37	(9,492)	(19,107)	2,514	25,035
Lake Forest	40	2,172,465	0	0	289,536	13.33%	304,075	14.00%	$2.07	38,437	162,919	62,427	227,290
Mission Viejo	24	1,276,103	0	0	228,369	17.90%	270,032	21.16%	$2.35	(17,958)	4,730	10,064	81,297
Rancho Santa Margarita	5	212,716	0	0	20,235	9.51%	27,014	12.70%	$2.20	(406)	3,124	3,512	10,331
San Clemente	8	411,212	0	0	18,773	4.57%	25,680	6.24%	$2.25	5,457	(2,019)	8,664	22,975
San Juan Capistrano	19	944,993	0	0	30,485	3.23%	46,891	4.96%	$2.85	(7,730)	14,102	1,909	36,212
South County Total	351	23,651,622	0	465,000	3,937,431	16.65%	5,150,512	21.78%	$2.74	(114,821)	118,962	379,164	2,751,352
West County													
Cypress	27	1,819,947	0	0	128,822	7.08%	173,867	9.55%	$2.31	7,372	8,720	49,478	79,999
Fountain Valley	26	1,180,227	0	0	33,399	2.83%	33,399	2.83%	$2.60	(10,108)	5,011	1,145	21,551
Garden Grove	14	710,092	0	0	63,288	8.91%	66,035	9.30%	$1.70	(5,479)	16,626	2,521	35,561
Huntington Beach	32	1,805,421	0	0	300,351	16.64%	360,045	19.94%	$2.12	(12,891)	20,169	30,541	119,015
Los Alamitos	8	441,664	0	0	8,162	1.85%	12,365	2.80%	$3.30	(4,724)	(5,378)	1,250	6,992
Seal Beach	6	452,518	0	0	46,031	10.17%	51,294	11.34%	$3.44	3,447	11,357	7,811	21,272
Stanton	4	143,361	0	0	19,313	13.47%	18,357	12.80%	$1.49	1,156	21,355	3,663	25,015
Westminster	11	445,789	0	0	46,604	10.45%	46,604	10.45%	$2.41	6,917	18,452	13,127	27,838
West County Total	128	6,999,019	0	0	645,970	9.23%	761,966	10.89%	$2.42	(14,310)	96,312	109,536	337,243
Orange County Total	**1,304**	**103,742,071**	**168,137**	**1,048,380**	**16,672,831**	**16.07%**	**20,919,544**	**20.16%**	**$2.71**	**(47,400)**	**(447,555)**	**2,232,332**	**9,725,439**
Airport Area													
Class A	122	25,731,847	0	182,380	5,482,856	21.31%	6,773,700	26.32%	$3.16	181,847	131,132	709,050	2,838,629
Class B	278	15,633,843	0	0	2,031,675	13.00%	2,626,752	16.80%	$2.51	(69,037)	(300,137)	335,679	1,333,744
Class C	18	1,016,601	0	0	14,536	1.43%	34,168	3.36%	$2.85	3,919	(108)	45,916	87,569
Central County													
Class A	35	6,388,248	168,137	326,000	1,582,429	24.77%	1,754,420	27.46%	$2.67	4,362	(138,358)	127,513	496,125
Class B	176	11,340,165	0	75,000	1,560,012	13.76%	1,930,947	17.03%	$2.22	(29,644)	(87,435)	343,306	934,722
Class C	41	1,746,042	0	0	200,165	11.46%	238,630	13.67%	$1.23	(16,896)	(28,097)	5,030	57,858
North County													
Class A	20	2,428,817	0	0	637,053	26.23%	851,889	35.07%	$2.74	30,803	(42,471)	72,403	249,617
Class B	116	7,947,791	0	0	561,384	7.06%	778,920	9.80%	$2.38	(4,121)	(171,127)	102,948	632,057
Class C	19	858,076	0	0	19,320	2.25%	17,640	2.06%	$2.32	(19,502)	(26,228)	1,787	6,523
South County													
Class A	67	9,056,157	0	465,000	1,834,583	20.26%	2,519,668	27.82%	$3.05	(58,080)	(13,732)	86,153	1,453,898
Class B	267	13,748,411	0	0	2,075,827	15.10%	2,600,140	18.91%	$2.38	(59,274)	130,431	288,486	1,272,774
Class C	17	847,054	0	0	27,021	3.19%	30,704	3.62%	$2.58	2,533	2,263	4,525	24,680
West County													
Class A	12	1,309,359	0	0	263,009	20.09%	337,947	25.81%	$2.51	(7,158)	37,707	31,833	96,366
Class B	101	5,166,242	0	0	382,201	7.40%	423,259	8.19%	$2.38	(9,392)	52,291	74,703	230,803
Class C	15	523,418	0	0	760	0.15%	760	0.15%	$0.00	2,240	6,314	3,000	10,074
Orange County													
Class A	256	44,914,428	168,137	973,380	9,799,930	21.82%	12,237,624	27.25%	$3.23	151,774	(25,722)	1,026,952	5,134,635
Class B	938	53,836,452	0	75,000	6,611,099	12.28%	8,360,018	15.53%	$2.39	(171,468)	(375,977)	1,145,122	4,404,100
Class C	110	4,991,191	0	0	261,802	5.25%	321,902	6.45%	$1.50	(27,706)	(45,856)	60,258	186,704
Orange County Total	**1,304**	**103,742,071**	**168,137**	**1,048,380**	**16,672,831**	**16.07%**	**20,919,544**	**20.16%**	**$2.71**	**(47,400)**	**(447,555)**	**2,232,332**	**9,725,439**

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 Q4 24

FOURTH QUARTER 2024 MARKET REPORT
ORANGE COUNTY OFFICE

Voit
REAL ESTATE SERVICES

Charting a Course Through Change and Opportunity

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The Orange County office market reflects both promise and uncertainty. The return of a Trump Administration brings renewed optimism for the CRE industry, as a number of policy initiatives and legislative stances are poised to bolster the market.

Key measures include the preservation of 1031 exchanges and REIT tax status, both of which are cornerstones for investment strategies. The rejection of California's Prop 33, which would have introduced rent control, provides a rare reprieve for investors in an otherwise challenging regulatory environment. Additionally, the potential extension of accelerated depreciation benefits, reductions for pass-through business income, reductions to the capital gains tax rate and increases to the inheritance-tax exclusion all provide market participants with reason for optimism. Together, these changes could unlock significant liquidity, encourage reinvestment, and support wealth preservation.

The "flight-to-quality" trend remains a defining characteristic of the OC office market. As companies recalibrate their office space strategies, demand for high-end, amenity-rich properties continues to drive leasing activity. Net absorption data from Q4 2024 tells a mixed story. While Q3 marked the first positive absorption figures in years, the momentum was short-lived, with the market slipping back into negative territory in the final quarter. The trend appears more positive than it is, skewed by factors like the demolition of obsolete buildings and an absence of new construction. While developments completed since 2020 have added 2.5 MSF in tenant occupancy, office spaces built 25 years ago or more have collectively lost nearly 5 MSF of tenants over the same period. The demand for quality is particularly evident in sectors such as technology and healthcare, which continue to dominate leasing volumes.

Despite high vacancy rates in older and mid-tier properties, the absence of speculative development and the removal of obsolete stock are preventing a supply glut. This controlled environment supports gradual market stabilization, but it remains clear that only high-quality assets will thrive in the evolving office landscape. For landlords with dated properties, the imperative to innovate or face obsolescence has never been greater.

The investment landscape exhibits a careful balancing act between possibilities and obstacles. Sales volume in 2024 was down 42% from the 5-year average, and the prevalence of negative leverage continues to restrain transaction activity. However, recent Federal Reserve rate cuts offer a glimmer of hope. For investors willing to navigate the complexities, the market presents a rare entry point characterized by higher yields and significantly reduced property values. Institutional investors have largely retreated, leaving a window of opportunity for well-capitalized private investors and user-buyers.

For those with a long-term view, current market conditions offer the potential for attractive returns. Buyers can acquire properties at pricing far below replacement cost, enabling repositioning or redevelopment projects. As valuations stabilize, Orange County could witness increased investment activity in 2025, especially in properties aligned with the flight-to-quality trend.

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

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