

	YoY Chg	12-Mo. Forecast
19.4% Vacancy Rate	▲	▲
-697K Net Absorption, SF	▼	▲
\$2.82 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
3.2% Orange County Unemployment Rate	▲	▬
3.6% U.S. Unemployment Rate	▬	▲

Source: BLS

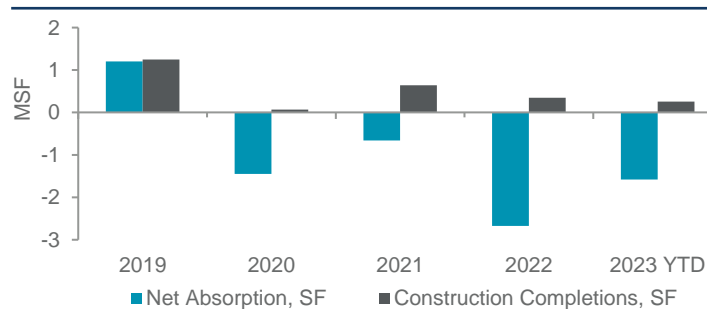
ECONOMIC OVERVIEW

Total nonfarm employment in Orange County (OC) grew by 45,600 or +2.7% year-over-year (YOY) between May 2022 and May 2023. The leisure and hospitality sector accounted for the most gains, or 13,100 jobs added (+6.0% YOY), followed by the private education and health services sector adding 10,300 jobs (+4.1% YOY) and professional and business services adding 4,600 jobs (+1.4% YOY). During the same time, the monthly unemployment rate increased from 2.7% last year to 3.2%, aligning with the quarterly average of 3.2%.¹ The recovery from the job losses experienced between March and May 2020 at the onset of the pandemic has been completed, with 272,300 nonfarm jobs fully recovered as of May 2023. Since June 2020, a total of 305,000 jobs have been added. All employment sectors are projected to continue growing at a combined growth rate of 2.5% in 2023 and 0.9% in 2024 compared to the 5-year historical average of 0.6%.²

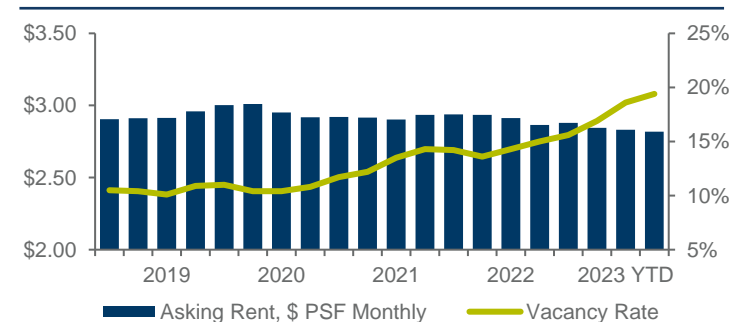
SUPPLY AND DEMAND

The OC office market continues to face challenges even three years after the onset of the COVID-19 pandemic. The overall vacancy rate has increased significantly by 900 basis points (bps) since Q1 2020, reaching 19.4% in Q2 2023. This represents an 80-bps increase quarter-over-quarter (QOQ) and a 440-bps increase YOY. In Q2 2023, tenants vacated slightly under 697,000 square feet (sf). Although this is an improvement from Q1 2023, it still indicates ongoing occupancy losses in the market. The Lake Forest/R.S. Margarita submarket within South County led occupancy losses at -159,594 sf, largely due to Loan Depot (-144,398 sf) vacating, followed by Newport Beach (-103,544 sf) in the Greater Airport Area. However, two submarkets posted positive absorption in Q2 2023: Irvine Spectrum (+49,376 sf) in South County and Brea/La Habra (+49,264 sf) in North County. This positive absorption was largely the result of Supernal moving into Discovery Park, and the County of Orange taking occupancy at Fairway Center II respectively. As tenants reassess their real estate needs due to work-from-home policies and the uncertain economic future, more space is being added to the market. Overall available sublease space increased to 4.1 million square feet (msf) this quarter, up 4.3% QOQ and 51.4% YOY. When combined with direct available space, 23.7% of the entire office inventory in OC is on the market and available for lease. This represents a historical high, surpassing the 5-year quarterly average of 16.6%. Leasing activity in Q2 2023 picked up slightly, with 1.6 msf leased across 364 deals, excluding renewals. This compares to 1.2 msf (350 deals) in Q1 2023 and 1.6 msf (340 deals) in Q2 2022. The Greater Airport Area was the most active submarket, accounting for 46% or 730,884 sf of leasing activity in Q2 2023 followed by South County (26% or 418,286 sf). The three most active submarkets were Irvine (28%), Irvine Spectrum (20%) and Costa Mesa (7%). Combined, these submarkets accounted for 55% or 868,879 sf of new leases signed in Q2 2023. Class A properties were in high demand, representing 51% or 809,487 sf of all new lease deals signed in the quarter. Axonics signed the largest new deal since Q1 2021, leasing 145,486 sf at Sand Canyon Business Center in South County. A notable renewal was signed this quarter by the County of Orange Healthcare Agency, leasing 81,882 sf at Park Tower for 263 months.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q2 2023



PRICING: Asking Rates Remain Firm

Despite increased vacancies in the market, the average asking rate across all classes has remained constant over the past four years. Landlords have not significantly lowered rental rates but have instead offered concessions in the form of increased months of free rent and higher-than-usual tenant improvement allowances. The average asking rent fell 0.4% QOQ and 1.4% YOY to \$2.82 per square foot (psf) on a monthly full-service basis. Over the past 12 months, the average Class A asking rent decreased by 1.9% to \$3.07 psf, while Class B rent decreased by 0.4% to \$2.47 psf. Newly developed Class A projects with modern design and amenities command higher asking rates, ranging from \$4.65 to \$5.65 psf, and are near full occupancy.

FUTURE INVENTORY: Limited Pipeline

The completion of the second phase of Innovation Office Park in Q1 2023 marked the end of all current office construction countywide. This project delivered 258,194 sf of creative Class A low-rise office space in Irvine Spectrum, with a current vacancy rate of 77.8%. There are three notable proposed projects in the development pipeline: Flight @ Tustin Legacy Phase II in Tustin, Innovation Office Park Phase III in Irvine and Five Lagunas in Laguna Hills. However, due to the state of the market, it is unlikely these projects will break ground anytime soon without securing tenants.

Lastly, The Irvine Company announced a proposed 512,000 sf "Lab-Ready Campus" called Academy Point in the second half of 2022. It would be the largest life sciences office campus of its type in Orange County, featuring four buildings with 32,000-sf floor plates suitable for mid-to-large-sized tenants. There is no current timeline for the project, and it is strongly believed that The Irvine Company is likely waiting for a tenant commitment before initiating construction.

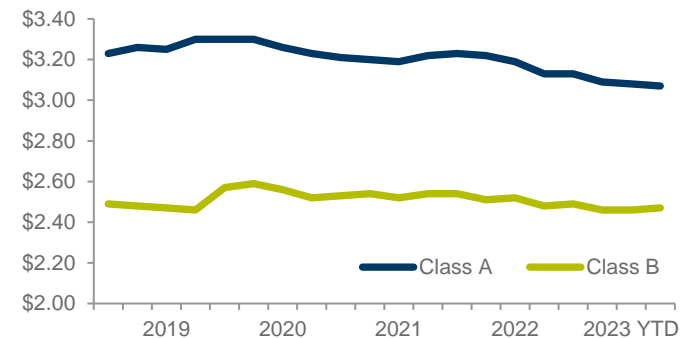
SALES ACTIVITY: Interest Rates Continue to Impede Deal Volume

The OC office market recorded \$147 million (M) in sales volume (5 properties) in Q2 2023, compared to \$339M (9 properties) in Q1 2023 and \$422M (12 properties) in Q2 2022. This represents a decrease of 57% QOQ in volume and 65% YOY. The average price psf was \$254 in Q2 2023, a decrease of 20% QOQ and 18% YOY. The leading buyers as of mid-2023 were private investors at 73% (vs. 31% in 2022), followed by institutional at 15% (vs. 17% in 2022) and REITs at 12% (vs. 13% in 2022). Institutional investors accounted for 64% of sales activity as of mid-2023 (vs. 43% in 2022), followed by private investors at 28% (vs. 46% in 2022)³. Two notable transactions during Q2 2023 involved the properties at 200 & 201 E. Sandpointe Ave. and 625 The City Dr. S. Watermarke Properties acquired both properties with the intention of converting them into multifamily developments. These projects had existing cash flow at the time of acquisition, while the buyer seeks entitlements for their redevelopment.

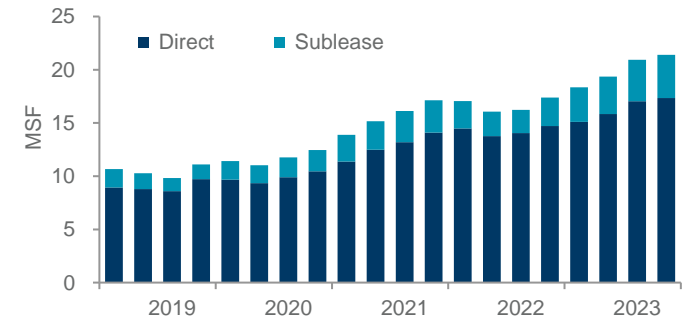
OUTLOOK

- Tenants are reassessing their real estate needs and footprint due to work-from-home policies and evaluating their short-term and long-term space requirements. This reassessment is expected to result in an increase in available sublease space as companies reconfigure their space needs before their lease expirations.
- Active tenant requirements of all sizes remain robust at 2.2 msf over the next 24 months countywide, led by Blizzard's search for a consolidated campus. While not all current tenants in the market will lease space in the short term, these active requirements serve as an indicator for future leasing activity in the coming quarters.

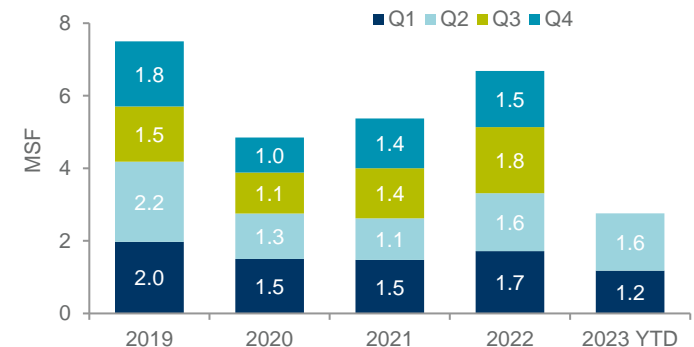
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



Orange County

Office Q2 2023

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY ** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Greater Airport Area	39,548,611	7,016,458	988,703	20.2%	-319,253	-556,413	1,395,781	0	0	\$3.05	\$3.16
South County	22,011,775	3,251,860	697,970	17.9%	-119,641	-315,601	673,397	258,194	0	\$2.71	\$2.95
West County	4,339,523	834,453	39,290	20.1%	-72,964	-162,003	81,692	0	0	\$2.56	\$3.05
Central County	18,783,281	3,562,543	277,360	20.4%	-249,819	-565,999	462,685	0	0	\$2.62	\$2.94
North County	5,536,425	734,248	88,018	14.9%	65,148	17,274	145,075	0	0	\$2.32	\$2.64
Class A	44,553,714	9,154,692	1,346,987	23.6%	-286,556	-572,345	1,388,791	258,194	0	\$3.07	
Class B	44,118,901	6,086,346	729,387	15.4%	-343,679	-949,922	1,332,768	0	0	\$2.47	
Class C	1,547,000	158,524	14,967	11.2%	-66,294	-60,475	37,071	0	0	\$1.98	
OC TOTALS	90,219,615	15,399,562	2,091,341	19.4%	-696,529	-1,582,742	2,758,630	258,194	0	\$2.82	

*Rental rates reflect full service asking. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
15505-15545 Sand Canyon Ave.	South County	Axonics	145,486	New
200 W. Santa Ana Blvd.	Central County	County of Orange Health Care Agency	81,882	Renewal**
17800 Laguna Canyon Rd.	South County	Apple	55,664	New
3 MacArthur Pl.	Greater Airport Area	Samsung Electronics America	43,306	New
1515 E. Orangewood Ave.	Central County	County of Orange Health Care Agency	40,580	New

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Griffin Towers (5 & 6 Hutton Centre Dr.)	Greater Airport Area	Blackstone Inc. / Barker Pacific Group c/o Kingsbarn Realty Capital	560,163	\$82.0M / \$146
200 & 201 E. Sandpointe Ave.	Greater Airport Area	Cress Capital / Watermarke Properties	317,061	\$36.3M / \$114
City Centre I (625 The City Dr. S.)	Central County	TA Realty / Watermarke Properties	150,161	\$22.5M / \$150

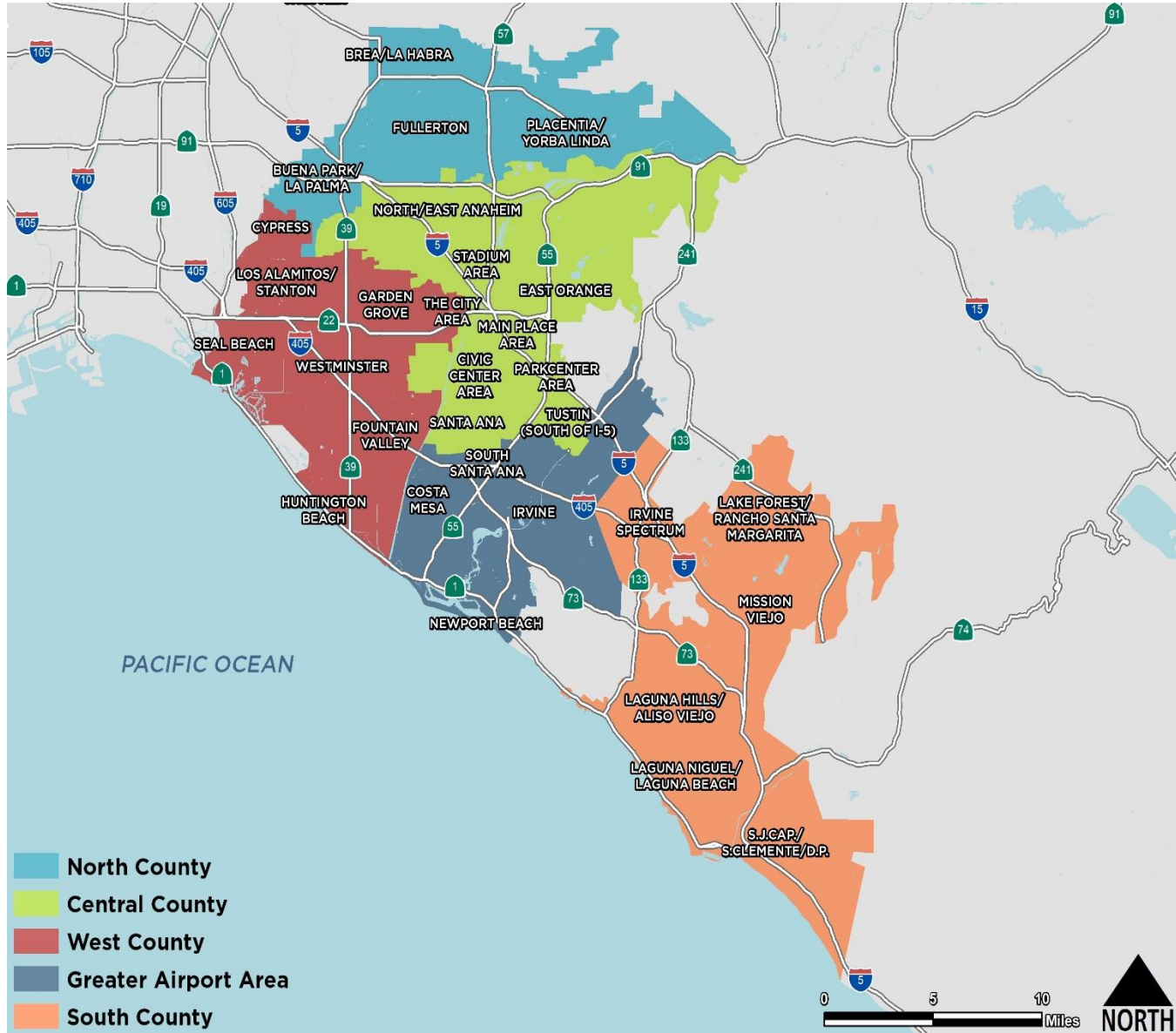
KEY PROJECTS COMPLETED 2023 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Innovation Office Park – Ph. II	South County	N/A	258,194	The Irvine Company

Orange County

Office Q2 2023

OFFICE SUBMARKETS



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