

	YoY Chg	12-Mo. Forecast
19.7% Vacancy Rate	▲	▲
-592.8K Net Absorption, SF	▲	▲
\$2.86 Asking Rent, PSF	▼	▼

Overall, All Property Classes

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
1.7M Orange County Employment	▲	▲
4.0% Orange County Unemployment Rate	▲	▼
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

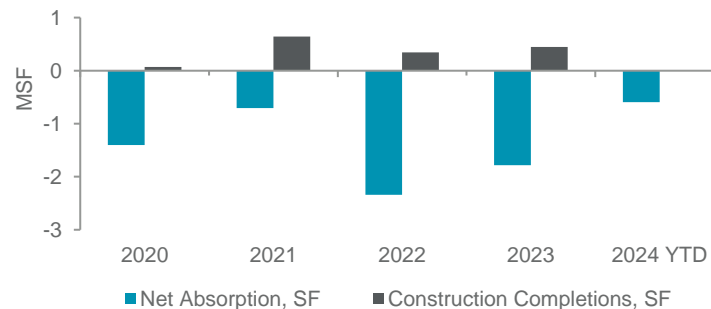
Total nonfarm employment in Orange County (OC) grew by 24,100 or 1.4% year-over-year (YOY) between February 2023 and February 2024. The private education and health services sector accounted for the most gains with 15,300 jobs added (+5.9% YOY), followed by the leisure and hospitality sector adding 4,600 jobs (+2.1% YOY) and government adding 4,000 jobs (+2.5% YOY). During the same time, the monthly unemployment rate increased from 3.4% last year to 4.2% and is currently 20 basis points (bps) above the quarterly average of 4.0%.¹ The recovery from the 272,500 nonfarm job losses experienced between March and May 2020 has been completed, with 275,700 jobs gained from June 2020 through February 2024. All employment sectors are projected to grow at a combined growth rate of 1.5% in 2024 and 1.2% in 2025 compared to the 5-year historical average of 0.2%.²

SUPPLY AND DEMAND

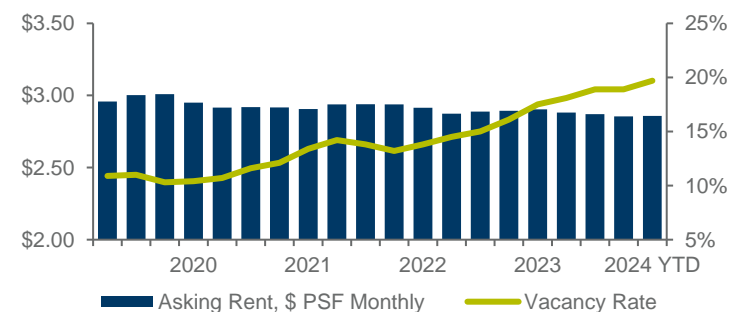
The OC office market continues to face uncertainty four years after the onset of the COVID-19 pandemic. The overall vacancy rate has increased significantly, up 930 bps since Q1 2020, reaching 19.7% in Q1 2024. At 19.7%, the vacancy rate increased by 80 bps quarter-over-quarter (QOQ) and 220 bps YOY. In Q1 2024, tenants vacated slightly under 593,000 square feet (sf), signifying that many are still trying to figure out their space needs in a hybrid work environment. The Irvine submarket within the Greater Airport Area led occupancy losses at -414,995 sf, largely due to Safran listing their space vacant for sublease (-80,088 sf), followed by Irvine Spectrum (-75,041 sf) in South County. On a positive note, a third of the submarkets posted positive net absorption in Q1 2024; led by Brea/La Habra (+125,985 sf) in North County and Main Place Area (+21,557 sf) in Central County. Over the past four years, tenants have put their excess space on the market for sublease, but the tide may be turning on that practice. After peaking in Q2 2023 with 3.8 million square feet (msf) of sublease space on the market, the amount of available sublease space has declined for three consecutive quarters to a total of 3.5 msf on the market in Q1 2024, a drop of 8.9%. In addition, direct available space has also decreased for the past two quarters. Overall, 20.8 msf or 22.7% of the entire office inventory in OC is on the market and available for lease, still much higher than the five-year quarterly average of 17.4%, but down from the 23.0% high in Q3 2023.

Leasing activity in Q1 2024 decreased slightly from the previous quarter, with 1.6 msf leased across 394 deals, excluding renewals. This compares to 1.8 msf (347 deals) in Q4 2023 and 1.2 msf (348 deals) in Q1 2023. The Greater Airport Area was the most active major market, accounting for 54.0% or 869,271 sf of leasing activity in Q1 2024 followed by South County (24.1% or 387,806 sf). The three most active submarkets were Irvine (32.2%), Irvine Spectrum (15.6%) and Costa Mesa (11.1%). Together, these submarkets accounted for 58.8% or 946,404 sf of new leases signed in Q1 2024. Class A properties were in high demand, representing 60.6% of all new deals signed in the quarter. The largest new deal of the quarter was Clear Start Tax subleasing 45,960 sf on the 7th & 8th floors of 5 Park Plaza in Irvine. The largest renewal was BSH Home Appliances leasing 44,940 sf at 1901 Main St. in Irvine.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



Orange County

Office Q1 2024



PRICING: Increased Landlord Concessions Remain In-Place

Despite rising market vacancies, the average asking rate across all classes has remained stable over the past four years. Landlords have held steady on asking rental rates but are offering extended free rent periods, higher tenant improvement allowances and broker bonuses to remain competitive. The average asking rent rose 0.4% QOQ albeit dropped 1.4% YOY to \$2.86 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 \$3.13 psf, while Class B rent increased by 0.4% to \$2.47 psf. Newly developed Class A properties with modern design elements and amenities are achieving rates at a substantial premium to the market rent, ranging from \$4.65 to \$5.65 psf, and are nearing full capacity.

FUTURE INVENTORY: ocV!BE Kicks Off Construction

There is currently one active development in the OC office market as of Q1 2024. The project 'ocV!BE' will be a 150,000 sf Class A building in the Stadium Area submarket, strategically positioned near the Honda Center and surrounding amenities. The submarket has not seen construction of its kind in over twenty years. The development pipeline also has three noteworthy proposed projects: Five Lagunas in Laguna Hills, Flight @ Tustin Legacy Phase II in Tustin and Innovation Office Park Phase III in Irvine. However, due to the state of the office market, it is unlikely that these projects will break ground anytime soon without securing tenant commitments first. Lastly, The Irvine Company previously announced a proposed 512,000 sf "Lab-Ready Campus" called Academy Point in the latter half of 2022. This development would have been the largest life sciences office campus in Orange County, but the plans were scrapped late last year. The project is now scheduled to become a 1,200-unit apartment complex but must first be entitled to residential use. Delivery of the project is anticipated in 2027.

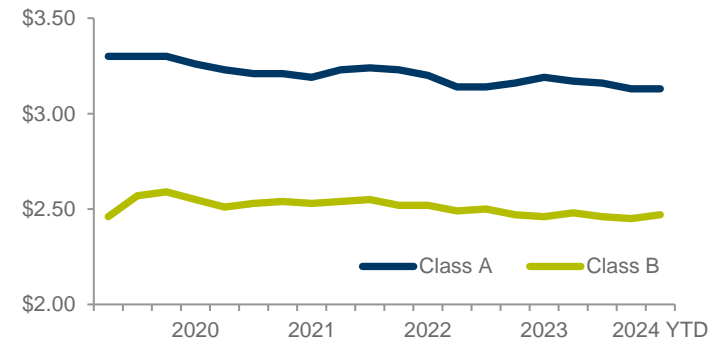
SALES ACTIVITY: Private Buyers and Sellers Continue to Dominate

The OC office market recorded \$72 million (M) in sales volume (4 properties) in Q1 2024, compared to \$187M (8 properties) in Q4 2023 and \$324M (8 properties) in Q1 2023.³ This represents a decrease in volume of 61.3% QOQ and 77.7% YOY. The average price psf was \$160 in Q1 2024, decreasing 25.9% QOQ and 32.5% YOY. The leading buyers as of Q1 2024 were private investors at 50% (vs. 63% in Q1 2023), followed by users at 25% (vs. 13%) and institutional investors at 25% (vs. 13%). Private investors accounted for 75% of sales activity as of Q1 2024 (vs. 25% in Q1 2023), followed by institutional investors at 25% (vs. 38%). There were two notable sales in the OC office market in Q1 2024: 1 MacArthur Pl. in South Santa Ana sold for \$31.1M or \$149 psf, which is a 42.5% discount from the last sale in April 2019, and 2700 N. Main St. in Main Place Area sold for \$18.6M or \$154 psf, a discount of 9.3% since the last sale in January 2016. Private buyers continue to capitalize on quality office product sold at depressed values.

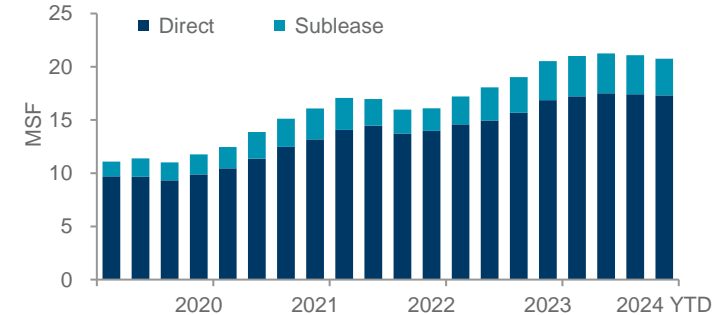
OUTLOOK

- Landlords are expected to remain firm on asking rents, while enhancing concession packages, offering more free rent months and higher tenant improvement allowances, given their existing debt commitments.
- Tenant demand across all sizes remains strong at 2.4 msf countywide for the next 24 months, primarily driven by Inari Medical. Although not all current market tenants will immediately lease space, these active requirements signal forthcoming leasing activity in the coming quarters.

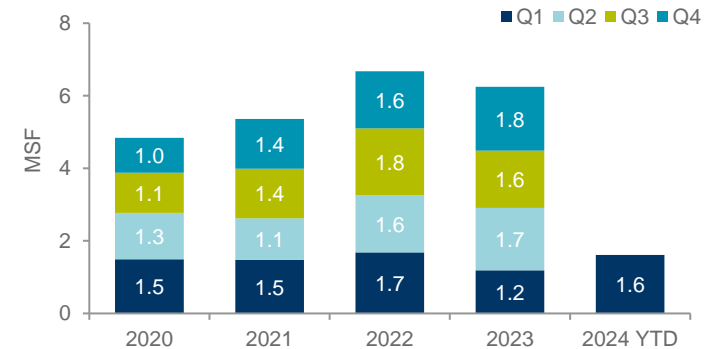
AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



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	39,981,956	7,250,575	911,794	20.4%	-508,072	-508,072	869,271	0	0	\$3.00	\$3.11
South County	22,291,302	3,698,572	708,700	19.8%	-68,292	-68,292	387,806	0	0	\$2.94	\$3.40
West County	4,759,588	867,887	39,728	19.1%	9,949	9,949	72,794	0	0	\$2.53	\$3.17
Central County	19,020,874	3,511,747	280,438	19.9%	-120,450	-120,450	198,570	0	150,000	\$2.61	\$2.90
North County	5,540,905	696,951	55,571	13.6%	94,085	94,085	79,846	0	0	\$2.43	\$2.76
Class A	44,917,223	9,416,380	1,339,365	23.9%	-317,294	-317,294	973,989	0	150,000	\$3.13	
Class B	44,941,213	6,417,193	656,866	15.7%	-261,307	-261,307	615,282	0	0	\$2.47	
Class C	1,736,189	192,159	0	11.1%	-14,179	-14,179	19,016	0	0	\$1.97	
OC TOTALS	91,594,625	16,025,732	1,996,231	19.7%	-592,780	-592,780	1,608,287	0	150,000	\$2.86	

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

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5 Park Plaza	Irvine	Clear Start Tax	45,960	Sublease
1901 Main St.	Irvine	BSH Home Appliances	44,940	Renewal**
5301 California Ave.	Irvine	LPA Design Studios	39,219	Renewal**
19540 Jamboree Rd.	Irvine	Consumer Portfolio Services	38,898	Renewal**
19900 MacArthur Blvd.	Irvine	Tax Rise, Inc.	38,717	Renewal** / Expansion

KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1 MacArthur Pl.	South Santa Ana	TPG Angelo Gordon & Co., L.P. c/o Ocean West Capital Partners / New American Funding	208,256	\$31.1M / \$149
2700 N. Main St.	Main Place Area	PRES Companies / Core Development Group	114,598	\$18.6M / \$162
1835, 1845, 1915 Orangewood Ave.	Stadium Area	David E. Eckhoff Living Trust / Orangewood Office Center LLC	108,780	\$11.5M / \$106

KEY PROJECT UNDER CONSTRUCTION 2024 YTD

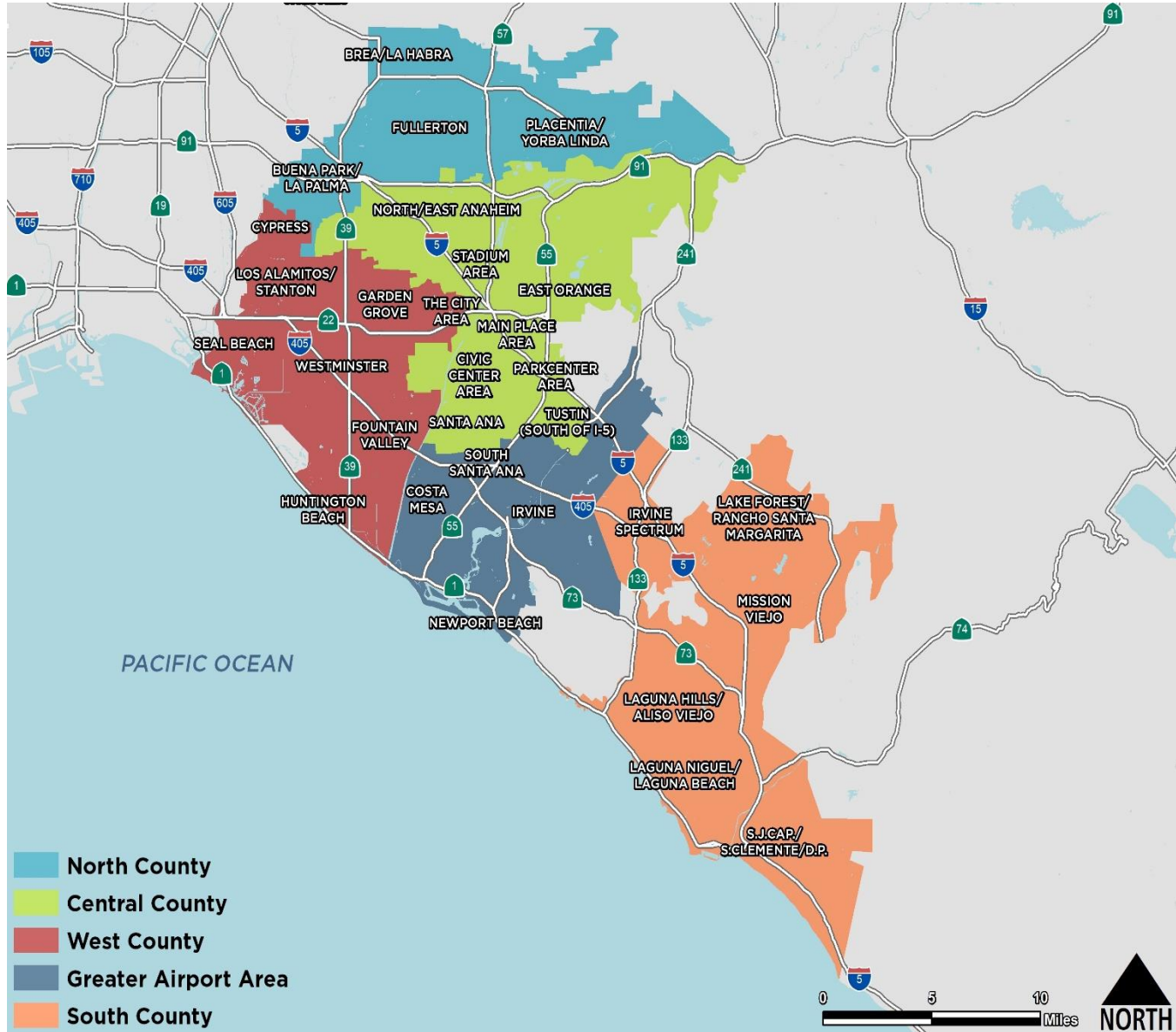
PROPERTY	SUBMARKET	TENANT	SF	OWNER
The Weave @ ocVIBE	Stadium Area	N/A	150,000	The Samueli Family

Orange County

Office Q1 2024



OFFICE SUBMARKETS



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