

# INVESTMENT FORECAST

Office  
Orange County

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Tech-Centric Corporations Fuel Orange County's Recovery; Trading Improves Alongside Tenant Demand

**Positive absorption reemerges.** Spanning the past two years, Orange County's vacant office stock rose by 6 million square feet; however, signs of improvement have recently surfaced. During the second half of 2021, a collection of lease commitments exceeding 25,000 square feet was executed, spearheaded by a slew of agreements in Irvine. Here, satellite manufacturer Terran Orbital and electric motorbike producer Super73 subleased mid-sized floorplans. Bandai Namco and Hyundai-affiliated Supernal also inked direct agreements totaling 175,000 square feet. The recent rise in mid- and large-scale commitments suggests firms intend to expand payrolls in the near term, which may require them to fill additional space. This, in concert with a restrained construction pipeline and expectations for the number of office-using jobs to surpass the pre-pandemic mark, will aid properties with available square footage. Still, hurdles persist as some major employers including Irvine-headquartered Mazda have adopted a virtual-first workplace and may sublease space.

**Investors with differing strategies and cash reserves target similar properties.** The Class B/C office segment is recovering faster from the impacts of the health crisis than Orange County's high-end buildings. The third quarter of 2021 represented the strongest three-month span for Class B/C absorption in six years, a performance that is bolstering buyer confidence and diversifying lower and mid-tier buyer pools. Both smaller, sub-\$5 million assets, and 100,000-square-foot-plus buildings are attracting capital in larger South and North County cities as well as areas near John Wayne International Airport. In these locales, properties with near-term lease certainty are commanding the highest pricing, with minimum returns in the 3 percent to 4 percent range. Larger buildings with upcoming lease expirations are receiving increased attention from conversion-focused investors, as some of these assets are prime candidates for industrial use.

## 2022 Market Forecast

- Employment**  
up 4.0%
 

Staff additions by traditional office-using firms account for nearly one-fourth of the 65,000 positions created in 2022.
- Construction**  
830,000 sq. ft.
 

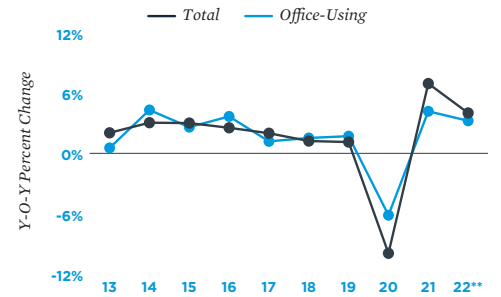
For a third straight year, the annual delivery volume falls below 1 million square feet. A trio of speculative properties in Irvine Spectrum highlights the list of upcoming completions.
- Vacancy**  
down 40 bps
 

After rising by 400 basis points over the past two years, vacancy declines slightly to 16.1 percent in 2022 as office-using tenants absorb more than 1 million square feet.
- Rent**  
up 1.4%
 

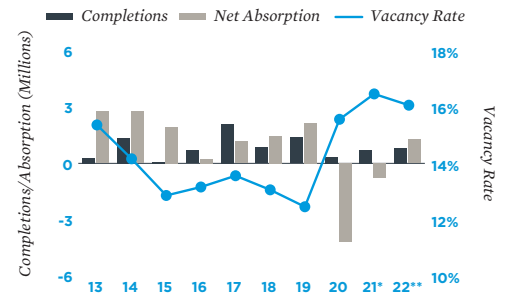
The absorption of Class B and high-end space lifts the metro's average marketed rate to \$29.10 per square foot, a figure that trails the pre-pandemic mark by roughly 3.0 percent.
- Investment**

The lack of ongoing and proposed medical office projects metrowide is poised to attract additional capital to the property type as subsector vacancy holds below its long-term average.

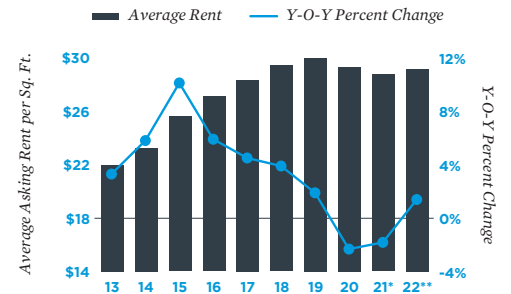
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.