

MARKET REPORT

Office
Orange County Metro Area

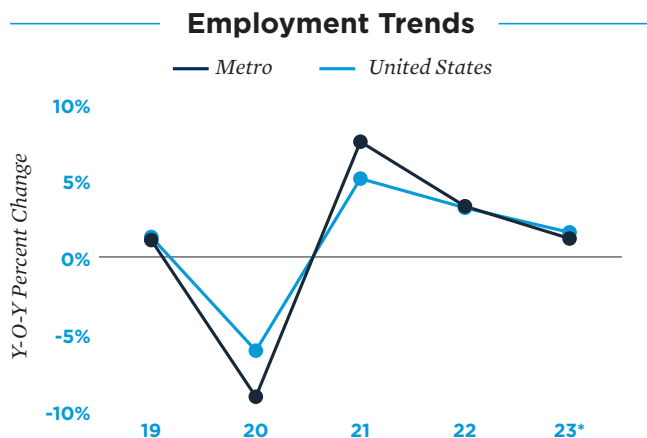
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

Orange County's Second Quarter Absorption Total a Potential First Step Toward Stability

South County spearheads initial turnaround. After five straight quarters of negative net absorption, Orange County's office sector returned to positive territory in the April-June period. Class A leasing was to credit, with tenants absorbing a net of 240,000 square feet of this space over the three-month interval. A flight-to-quality was most apparent in South County, which includes Irvine Spectrum. Here, Class A vacancy fell 210 basis points in the first half of 2023. More impressive, the area entered July on a five-quarter streak of positive upper-tier absorption, potentially fueled by an average asking rent that is more than \$5 per square foot below its prior peak. This momentum and a lack of traditional office space in the local pipeline indicates properties with significant chunks of available square feet may receive more interest from prospective tenants.

Larger floor plans receiving interest. Entering July, metro vacancy was notably above its long-term mean, a dynamic whose improvement hinges on mid- and large-scale lease commitments. Fortunately, the frequency of these executions has risen since April, with a mix of financial, medical device and tech firms agreeing to occupy one to three floors at various buildings. Specifically, Axonics recently signed on for 120,000 square feet in Irvine, marking the largest commitment in two years. Sublease activity has also improved of late, with preliminary data from the June-September period detailing four executions that accounted for a collective 150,000 square feet.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**21,000
JOBS**
will be created

EMPLOYMENT:

The metro's job count grew by 1.3 percent over the first eight months of 2023. Hiring in June and July, however, points to a potential slowdown in additions. Still, the year-end tally of positions will reach an all-time high.



**500,000
SQ. FT.**
will be completed

CONSTRUCTION:

For a fourth straight year, developers add less than 1 million square feet to stock. A collection of buildings at Innovation Office Park in Irvine Spectrum account for more than half of the space completed during 2023.



**120
BASIS POINT**
increase in vacancy

VACANCY:

Sublease activity and sparse speculative additions prevent a large second half vacancy increase from occurring. At 18.7 percent, the metro's year-end rate will be 170 basis points below Los Angeles' recording.

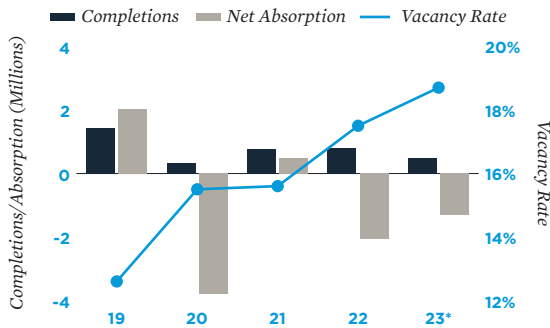


**0.4%
DECREASE**
in asking rent

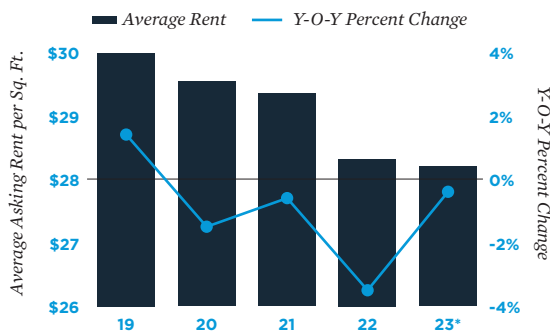
RENT:

Mirroring other Southern California markets, Orange County notes a slight decline in rent during 2023, with the average asking rate ending the year at \$28.20 per square foot. This figure trails the 2019 peak by 6 percent.

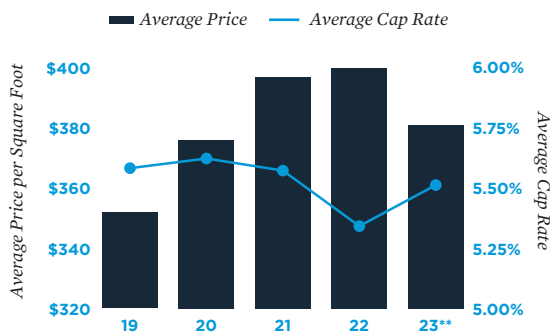
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

1,073,000 sq. ft. completed

- Driven by the delivery of 795,000 square feet in the third quarter of 2022, Orange County's office stock grew by 0.7 percent over the 12-month interval ending in June — the largest gain among Southern California markets.
- As of September, a 137,000-square-foot medical office property in the city of Orange highlighted the metro's active pipeline.



VACANCY

190 basis point increase in vacancy Y-O-Y

- Local vacant stock swelled by more than 2.8 million square feet over the four-quarter period ending in June. At 18.2 percent, metro vacancy entered the second half 260 basis points above its long-term average.
- The Class A sector noted the largest increase in vacancy over the past year, with the segment's rate rising 300 basis points to 26.7 percent.



RENT

2.0% decrease in the average asking rent Y-O-Y

- Since peaking in the second quarter of 2020, the average asking rent has declined by 7 percent, sitting at \$28.27 per square foot in June of this year.
- Despite a notable increase in Class A space available for lease, the sector's mean marketed rate rose 1.7 percent over the past year ending in June. Meanwhile, the average Class B/C asking rent dropped 4.3 percent.

Investment Highlights

- Among major California office markets, only Los Angeles recorded more closings than the metro during the 12-month window ending in June. Orange County achieved this standing, despite a 25 percent year-over-year reduction in sales activity over the first half of 2023. In a sign of private buyer confidence, transaction velocity was less altered in the \$1 to \$10 million tranche during this recent six-month span, declining just 11 percent.
- Investors remain active in Irvine, primarily targeting early 2000s-built Class B properties. Here, buildings of this and slightly older vintage have recently secured lease commitments larger than 20,000 square feet, following renovations. This dynamic, paired with a scant development pipeline, may increase the appeal of these listings, specifically among buyers with previous experience upgrading and re-tenanting buildings.
- Elsewhere in the county, Class B and C trades have been well dispersed, with mid-tier pricing varying widely, from \$200 to \$1,000-plus per square foot, depending on location, vintage and in-place leases. Across both property tiers, values are highest in coastal cities along Highway 1, with Santa Ana offering buyers an average price point of roughly \$250 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com