

INVESTMENT FORECAST

Office
Orange County Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Conversions Poised to Have a Tangible Impact on Metro's Office Stock and Investment Landscape

Industrial fundamentals have positive implications for office sector. Orange County closed out 2023 with its highest year-end vacancy in over a decade. Still, a trio of factors suggests the metro will register only a slight increase to this rate in 2024, with local vacancy holding below that of neighboring Los Angeles and San Diego. A high percentage of the 20,000- to 50,000-square-foot-plus leases inked last year have 2024 move-in dates, which will aid overall net absorption. Perhaps more significant, the local office inventory has the potential to shrink. A lack of supply additions this year coincides with some recently transacted properties being removed from stock as part of conversion projects. Whether entailing a gutting of the interior or a complete teardown, most of these conversions will be of the office-to-industrial variety in areas that include Santa Ana and Orange proper. With the metro claiming the lowest industrial vacancy rate among major West Coast markets at the onset of this year, additional conversions are possible beyond 2024.

Diverse trading activity possible. The metro's high number of traditional office-using roles relative to its total workforce will preserve investor confidence, as this dynamic serves as a backstop for long-term space demand. As such, private buyers should continue to target smaller, older assets. Listings in North and West County cities, including Garden Grove, Anaheim and Huntington Beach, may be appealing as collective Class B/C vacancy across these areas is in the 8 percent band. Regional and institutional buyers, meanwhile, may eye properties over 100,000 square feet in areas like Irvine and Santa Ana. Last year, assets of this size with vacancy issues traded for an average of \$200 per square foot, a significant discount to the metro's mean pricing. The removal of some larger properties from stock may also stoke interest for better-performing Class A and B listings.

2024 MARKET FORECAST

+1.0%



EMPLOYMENT: By year-end, traditional office-using jobs are expected to account for nearly 28 percent of Orange County's workforce, more than 5 percent above the national measure.

137,000
sq. ft.



CONSTRUCTION: The metro records its lowest annual delivery volume since 2010, with just three major U.S. office markets — Oakland, Milwaukee and Louisville — slated to add less space this year.

+20 bps



VACANCY: Notable move-ins, minimal new supply and some space being removed from stock allows Orange County to register a moderate vacancy increase, placing its rate at 18 percent.

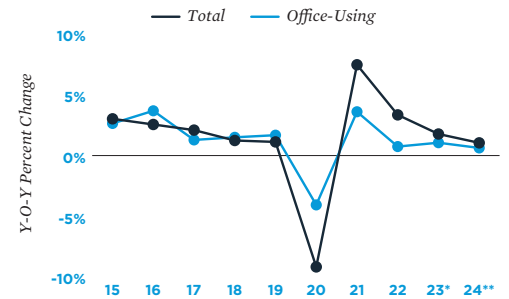
-0.7%



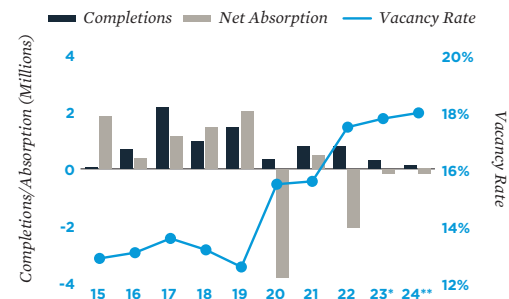
RENT: A third consecutive year of negative net absorption, albeit relatively slight, requires some operators to budge on rents, a dynamic that lowers the mean marketed rate to \$28.71 per square foot.

INVESTMENT: Recent rent growth at medical office properties and a subsector vacancy rate on par with its long-term average will steer some private investors to listings across the metro suitable for health-related tenants.

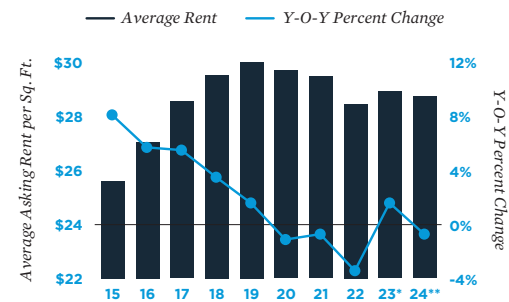
Employment Trends



Supply and Demand



Rent Trends



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

Al Pontius

Senior Vice President
Director IPA Office
Tel: (415) 963-3000 | apontius@ipausa.com

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 2023. 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.