

Orange County



Quick Stats

6.4%
Orange County
Unemployment Rate
as of November 2020

(1,089,488) SF
Negative Net Absorption
Current Quarter

Negative 2,000,175 SF
Past 12 Months

12.1%
Total Vacancy Rate
increased from Q4 2020

29,991 SF
Under Construction
Current Quarter

\$2.53 PSF
Weighted FSG Average
Asking Rental Rate

Orange County office fundamentals deteriorate to lowest levels in years

Orange County office fundamentals have collapsed, like the rest of the country, since the Covid-19 shutdown which began second quarter of 2020. Vacancy, which started the year at 10.5% first quarter and was 10.7% second quarter, finishes the year at 12.1%. Unfortunately, we do not anticipate office vacancy to have reached its peak. The vacancy rate following the last recession rose to a high of 17.3% in 2010. Following the 2009 economic recession office vacancy took six years before it started to recover. The long-term effect of this has yet to be fully determined or how severe of an adjustment this will have on any recovery. The impact because of new space utilization strategies around Covid-19 compliant work environments is still unfolding. We expect to see the vacancy rate hit a historical high in 2021 as companies “re-strategize” their space usage for return to work operations.

The labor market on the surface looks promising. Unemployment earlier this year was at a record high of 14.7% in May. The latest data available from the Bureau of Labor Statistics indicates unemployment was at 6.4% in November. The situation however is not on the mend yet, as the pandemic has forced most tenants to reevaluate their space use. As a result, move-outs during fourth quarter totaled its greatest level going back a decade in Orange County, with over 1M SF of negative net absorption and over 2M SF of negative net absorption year-to-date. We expect Orange County office vacancy to continue to rise on increased move-outs and further reduction in leasing activity.

Office tenants continue to view and utilize office space differently in this pandemic environment and we predict they will continue to do so for at least the near term. Just as reported in our previous quarterly market report, this has resulted in companies placing their unused office space up for lease at a record rate. Available sublease space for the OC office market now exceeds 3.4M SF. This is up 1M SF from the same time a year ago. The amount of available sublease space currently on the market is the highest on record in modern history for Orange County,

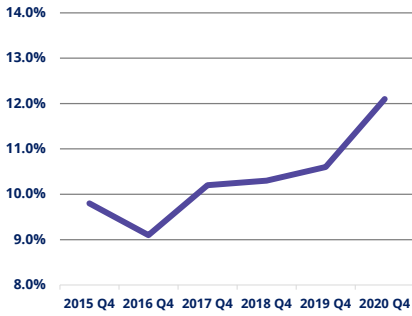
equalling levels not seen since the previous recession when available sublease space reached a high of 3.6M SF in 2008. We expect to surpass that in 2021.

Investment sale activity of office buildings in Orange County has contracted greatly from previous years due to the effects Covid-19. Annual office building investment sale activity for 2020 was a fraction of what it had been over the past seven years in terms of total dollar volume and number of transactions. Additionally, pricing on a per square foot average basis has decreased 16% from the previous year. However, there were two key transactions during the fourth quarter that were noteworthy. One of the largest fourth quarter sale transactions, 3131 Katella Avenue in Los Alamitos, was purchased by a foreign investor that closed for \$59M. Korean based investor, Fine Investment, purchased the 150K SF office building from Lincoln Property Company. Another sale that was interesting was the sale of the former Mitsubishi headquarters at 6400 Katella Avenue in Cypress. Duke Realty purchased the site comprised of office and industrial flex buildings reportedly to be demolished and planned to be developed into an Amazon distribution center.

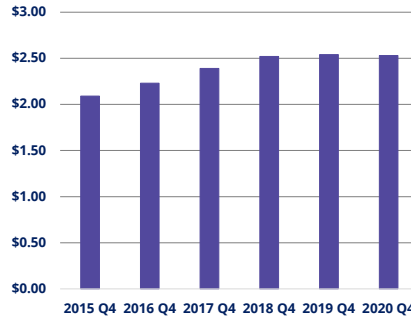
As mentioned in our last report, demand for space in medical office buildings remains robust. Orange County is one of the tightest medical office markets in which to find large blocks of medical space. An example of this is the newly built medical facility at 330 Old Newport Boulevard in Newport Beach. The 30K SF medical office building was delivered in 2020 with Keck Medicine of USC Oncology as its tenant, who will operate a state-of-the-art cancer treatment center and plans to collaborate with Hoag Hospital on treatment and clinical trials. The building was recently listed for sale, the asking price is not listed.

Trends we expect to continue to see going forward include increased demand in medical office buildings. Increased vacancy and increased sublease availability, is also expected. We expect to see asking rental rates decrease as well as pricing for office buildings on a per square foot average.

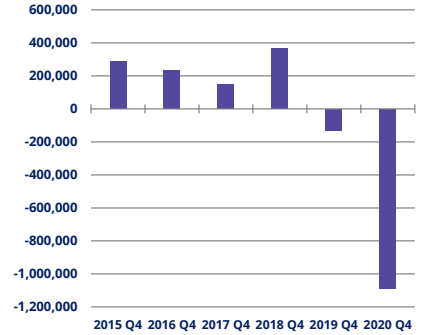
Vacancy Rent



Asking Rate



Net Absorption



Top leases

Tenant	Type	Address	Submarket	SF
Regional Center of Orange County	Renewal	1525 North Tustin Avenue	Central County	82,042
American Advisors Group	Renewal	18200 Von Karman Avenue	Airport Area	52,205
SEW Eurodrive	Sublease	15495 Sand Canyon Avenue	South County	40,443
Mission Loans LLC	Sublease	19500 Jamboree Road	Airport Area	30,039
Global Eagle Entertainment Inc.	New	1821 East Dyer Road	Central County	24,306

Top sales

Address	Buyer	Seller	Price	SF	P/SF (\$)
23961 Calle de la Magdalena	Healthcare Realty Trust Incorporated	Greenlaw Partners/UBS Realty Investors LLC	\$80,630,000	135,904	\$593
3131 Katella Avenue	Fine Investment	Lincoln Property Company	\$59,000,000	150,195	\$393
3800 West Chapman Avenue	The Regents of the University of California	Greenlaw Partners/CIGNA	\$45,100,000	168,672	\$267
6400 Katella Avenue	Duke Realty	Greenlaw Partners	\$39,166,429	178,000	\$220
17661-17671 Cowan	Jane Yoonjung Park	Michael Douglas	\$14,590,000	64,035	\$228

Under construction

Address	Developer	SF	Completion
1375 Sunflower Drive, Costa Mesa	SteelWave, Inc.	380,856	Q1 2021
Innovation Office Park, Irvine	Irvine Company	294,103	Q1 2021
15332 Newport Avenue, Tustin	Schools First Federal Credit Union	180,000	Q1 2021
17600 Laguna Canyon Road, Irvine	Irvine Company	114,875	Q1 2021
Legacy Medical Plaza, Tustin	ACS Development Group, Inc.	50,000	Q4 2021

Market by the numbers

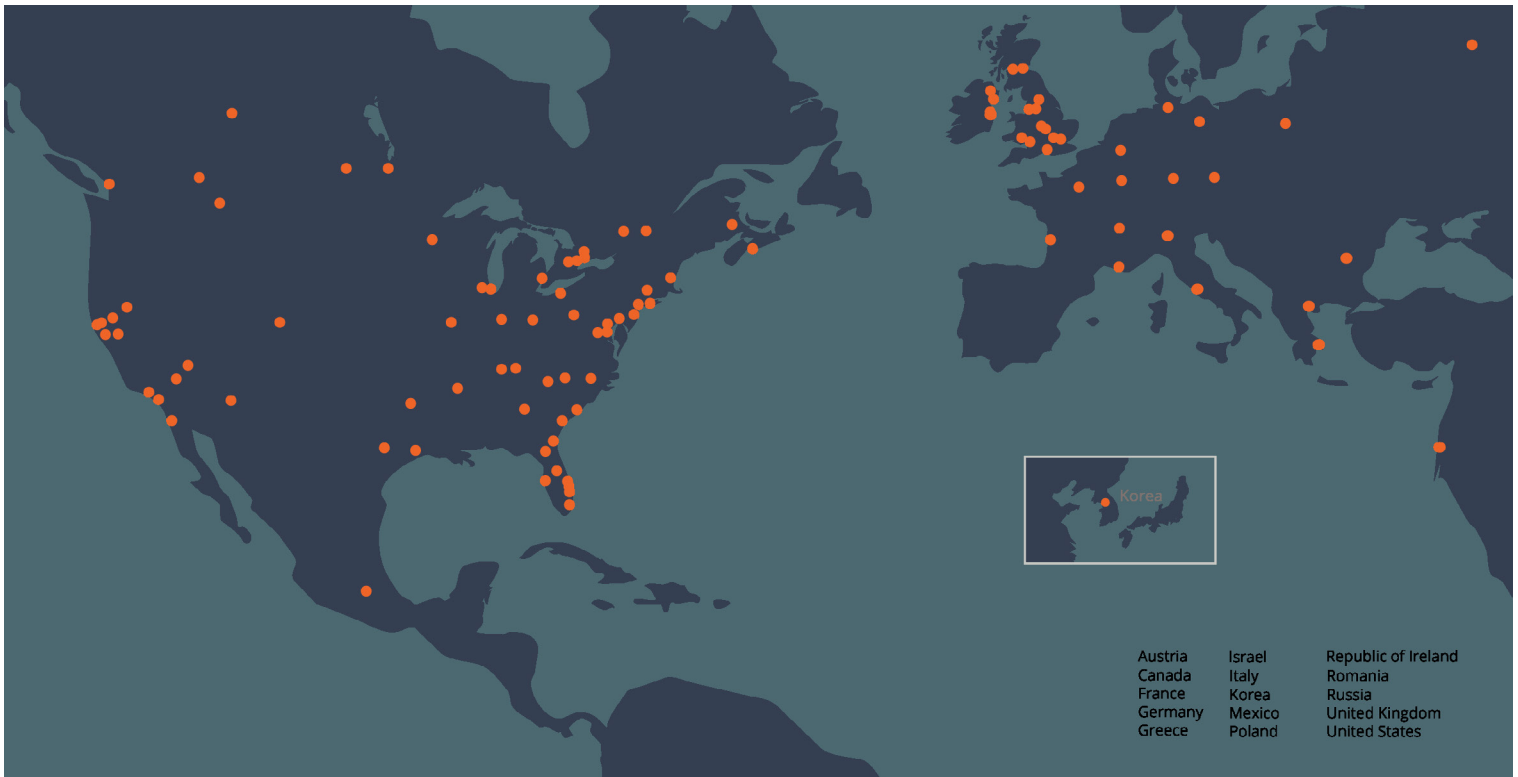
	VACANCY				NET ABSORPTION		AVG. ADVERTISED RATES (FSG)		
	Q4 2020 Inventory (SF)	Q4 2020 Vacancy (SF)	Q4 2020 Vacancy (%)	Q3 2020 Vacancy (%)	Current Quarter Absorption	12 Month Total Absorption	Q4 2020 Rental Rates FSG	Q3 2020 Rental Rates FSG	Qtr/Qtr Change (%)
AIRPORT AREA									
Costa Mesa	7,555,502	1,207,956	16.0%	13.5%	-191,261	-381,597	\$3.03	\$3.07	-1%
Irvine	26,257,623	4,069,998	15.5%	14.4%	-289,952	-660,811	\$2.58	\$2.64	-2%
Newport Beach	10,947,691	1,119,328	10.2%	9.8%	-45,002	-241,218	\$3.21	\$3.22	0%
Airport Area TOTAL	44,760,816	6,397,282	14.3%	13.1%	-526,215	-1,283,626	\$2.79	\$2.85	-2%
NORTH COUNTY									
Anaheim Hills	1,245,939	108,930	8.7%	10.6%	22,651	-21,218	\$1.83	\$1.87	-2%
Brea/La Habra	4,399,420	394,660	9.0%	5.5%	-152,915	-154,437	\$2.24	\$2.24	0%
Buena Park/La Palma	1,893,178	128,070	6.8%	9.5%	51,077	62,919	\$2.13	\$2.19	-3%
Fullerton	2,553,329	143,641	5.6%	4.7%	-23,093	630	\$2.24	\$2.21	1%
Placentia/Yorba Linda	623,445	56,480	9.1%	9.7%	3,866	-3,551	\$2.47	\$2.52	-2%
North County TOTAL	10,715,311	831,781	7.8%	6.8%	-98,414	-115,657	\$2.20	\$2.21	0%
SOUTH COUNTY									
Aliso Viejo/Laguna Hills	5,603,028	968,698	17.3%	14.9%	-131,218	-70,834	\$2.88	\$2.88	0%
Dana Point/San Clemente/SJC	2,204,743	172,364	7.8%	6.5%	-28,638	-38,414	\$2.36	\$2.24	5%
Foothill Ranch/Lake Forest/RSM	3,431,558	532,887	15.5%	10.2%	-181,375	-198,894	\$2.31	\$2.28	1%
Irvine Spectrum	14,171,371	1,455,152	10.3%	11.2%	232,268	444,093	\$2.67	\$2.69	-1%
Laguna Beach/Laguna Niguel	2,011,009	138,861	6.9%	5.9%	-20,023	-27,048	\$2.25	\$2.27	-1%
Mission Viejo	2,165,540	306,720	14.2%	13.3%	-19,206	39,841	\$2.54	\$2.53	0%
South County TOTAL	29,587,249	3,574,682	12.1%	11.2%	-148,192	148,744	\$2.64	\$2.65	0%
WEST COUNTY									
Cypress	1,956,330	169,699	8.7%	8.9%	4,620	-56,122	\$2.26	\$2.25	0%
Fountain Valley	2,078,731	105,942	5.1%	4.5%	-13,413	-7,457	\$1.84	\$1.82	1%
Garden Grove	1,633,296	90,739	5.6%	4.7%	-13,807	-12,596	\$1.94	\$1.97	-2%
Huntington Beach	3,456,713	442,743	12.8%	8.1%	-161,095	-206,410	\$2.11	\$2.12	0%
Los Alamitos/Stanton	958,931	61,277	6.4%	6.4%	263	141,173	\$2.49	\$2.42	3%
Seal Beach	506,012	41,396	8.2%	7.5%	-3,304	-16,450	\$3.39	\$3.42	-1%
Westminster	589,438	18,610	3.2%	2.0%	-6,953	5,496	\$2.42	\$2.42	0%
West County TOTAL	11,179,451	930,406	8.3%	6.6%	-193,689	-152,366	\$2.27	\$2.25	1%
CENTRAL COUNTY									
Anaheim	9,569,254	847,309	8.9%	9.0%	18,377	2,241	\$2.04	\$2.06	-1%
Orange	4,222,538	482,344	11.4%	11.1%	-37,937	-256,117	\$2.43	\$2.39	2%
Santa Ana	14,490,079	2,018,473	13.9%	13.6%	-42,384	-121,280	\$2.19	\$2.13	3%
Tustin	5,920,262	615,543	10.4%	10.3%	-5,547	-75,183	\$2.30	\$2.30	0%
Central County TOTAL	34,202,133	3,963,669	11.9%	11.9%	-67,491	-450,339	\$2.27	\$2.28	0%
ORANGE COUNTY									
TOTAL OFFICE	130,444,960	15,697,820	12.1%	11.2%	-1,034,001	-1,853,244	\$2.53	\$2.54	0%

A Growing, Multinational Presence

Avison Young at a Glance

- Founded: **1978**
- Total Real Estate Professionals: **5,000**
- Offices: **120**
- Countries: **20**
- Brokerage Professionals: **1,600+**
- Property Under Management: **290 million sf**

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