

Orange County

Continued uncertainty holds back market activity

- Leasing volume declined as companies started to tighten up budgets amid economic uncertainty.
- Sublease availability reached a new high as tech tenants continued to give back space.
- Although asking rents were slightly higher, tenants were still able to get better deals, since landlords were offering higher concessions.
- Another creative office project delivered in South County, while obsolete offices in Central County are being converted to industrial.

Amid continued economic uncertainty in 2023, many companies focused on streamlining their operations, resulting in a quiet quarter for the office leasing market. Compared to last quarter, leasing declined 10% and average leasing size shrank 38% in Q1. Meanwhile, tenants continued to give back space. During the quarter, total sublease availability reached a new high, 3.9 million s.f., reflecting a 3.6% quarter-over-quarter increase. Tech tenants contributed nearly half of the additional sublease space due to their on-going reassessment on office demand.

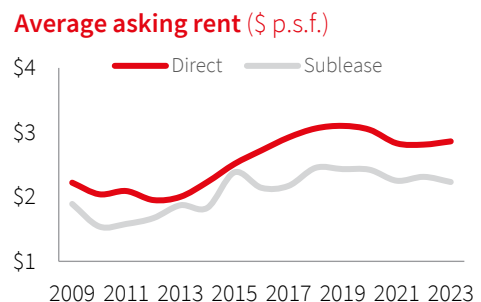
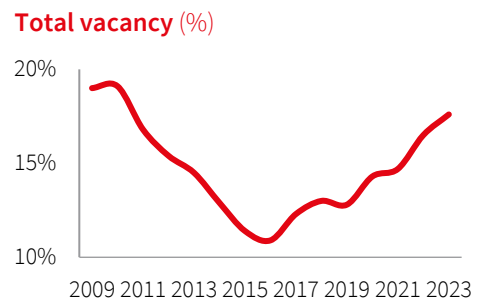
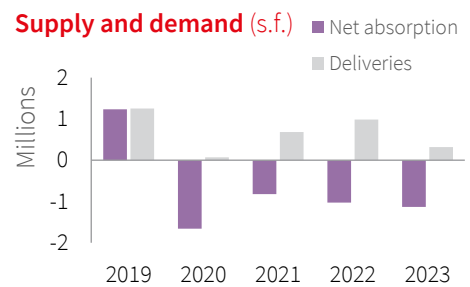
Driven by flight-to-quality, average asking rent grew 1.8% QoQ, since premium buildings command higher rates over the market. Landlords facing elevated vacancies offered high concessions to attract occupiers, resulting in tenants securing better contracts despite higher face rents.

On the supply side, the second phase of Irvine Company's Innovation Office Park was delivered in February. One of the seven buildings in the second phase has already achieved a 55% occupancy rate. In Central County, Elevate @ Harbor in Santa Ana, comprised of two office properties, are being demolished to make way for proposed industrial facilities after being sold in February. In total, 17 properties with 3.2 million s.f. of office space are slated for office-to-industrial conversion in Orange County.

Outlook

Hybrid work has changed the demand pattern for office space. Maturing loans and rising interest rates will create additional challenges for some owners. Landlords with higher quality offices are in a better position to weather current economic headwinds. Looking ahead, a clearer economic outlook and stricter return-to-office mandates would help boost leasing momentum in Orange County.

Fundamentals	Forecast
YTD net absorption	-1,132,877 s.f. ▼
Under construction	0 s.f. ►
Total vacancy	17.6% ▲
Sublease vacancy	2,327,593 s.f. ▲
Direct asking rent	\$2.86 p.s.f. ►
Sublease asking rent	\$2.23 p.s.f. ▼
Concessions	Rising ▲



Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
Costa Mesa	Totals	7,885,814	-70	-70	0.0%	13.7%	16.6%	\$3.02	0	0
Fountain Valley	Totals	1,040,580	5,730	5,730	0.6%	2.5%	3.8%	\$2.98	0	0
Irvine	Totals	24,697,882	-599,223	-599,223	-2.4%	17.6%	20.0%	\$2.97	0	0
Newport Beach	Totals	5,862,543	-71,053	-71,053	-1.2%	17.0%	17.8%	\$3.18	0	0
Newport Center (Fashion Island)	Totals	3,491,320	-5,367	-5,367	-0.2%	3.6%	4.2%	\$4.31	0	0
South Santa Ana	Totals	2,464,214	-60,283	-60,283	-2.4%	25.4%	25.4%	\$2.79	0	0
Tustin Legacy	Totals	457,029	58,121	58,121	12.7%	13.2%	13.2%	\$4.63	0	0
Airport Area	Totals	45,899,382	-672,145	-672,145	-1.5%	15.8%	17.8%	\$3.02	0	0
Civic Center Area	Totals	2,465,435	1,219	1,219	0.0%	7.6%	7.6%	\$2.40	0	0
East Orange	Totals	967,781	-2,134	-2,134	-0.2%	9.1%	9.1%	\$2.74	0	0
Garden Grove	Totals	608,613	-469	-469	-0.1%	9.8%	9.8%	\$1.80	0	0
Main Place Area	Totals	1,751,085	-39,044	-39,044	-2.2%	13.8%	17.8%	\$2.54	0	0
Parkcenter Area	Totals	2,333,623	-84,223	-84,223	-3.6%	21.5%	21.8%	\$2.45	0	0
Santa Ana	Totals	3,071,396	-131,659	-131,659	-4.3%	18.5%	24.9%	\$2.44	0	0
Stadium Area	Totals	2,961,719	-42,631	-42,631	-1.4%	21.9%	22.3%	\$2.66	0	0
The City Area	Totals	1,899,590	-22,288	-22,288	-1.2%	33.3%	33.5%	\$2.75	0	0
Tustin (South of I-5)	Totals	1,478,521	-39,789	-39,789	-2.7%	3.6%	6.8%	\$2.16	0	0
Central County	Totals	17,537,763	-361,018	-361,018	-2.1%	17.0%	18.9%	\$2.56	0	0
Anaheim Hills	Totals	766,739	10,188	10,188	1.3%	13.1%	14.8%	\$2.16	0	0
Brea-La Habra	Totals	3,774,034	-16,593	-16,593	-0.4%	12.7%	13.8%	\$2.69	0	0
Buena Park-La Palma	Totals	1,209,736	-27,546	-27,546	-2.3%	8.8%	8.9%	\$2.64	0	0
Fullerton	Totals	1,288,380	9,118	9,118	0.7%	3.4%	5.9%	\$2.31	0	0
North-East Anaheim	Totals	2,344,263	3,842	3,842	0.2%	8.5%	17.8%	\$2.06	0	0
Placentia-Yorba Linda	Totals	315,872	-3,207	-3,207	-1.0%	16.6%	17.4%	\$2.20	0	0
North County	Totals	9,699,024	-24,198	-24,198	-0.2%	10.1%	13.3%	\$2.47	0	0
Irvine Spectrum	Totals	12,562,684	129,038	129,038	1.0%	13.2%	16.5%	\$3.11	316,087	0
Laguna Hills-Aliso Viejo	Totals	3,980,901	-108,654	-108,654	-2.7%	21.9%	27.6%	\$2.95	0	0
Laguna Niguel-Laguna Beach	Totals	755,153	-7,382	-7,382	-1.0%	12.2%	12.6%	\$2.04	0	0
Lake Forest-Foothill Ranch	Totals	3,045,987	-16,837	-16,837	-0.6%	15.2%	17.1%	\$2.30	0	0
Mission Viejo	Totals	1,326,971	-19,235	-19,235	-1.5%	19.7%	20.3%	\$2.70	0	0
San Juan Cap-S Clemente-Dana Point	Totals	1,626,414	-1,185	-1,185	-0.1%	6.9%	7.7%	\$2.85	0	0
South County	Totals	23,298,110	-24,255	-24,255	-0.1%	14.8%	18.0%	\$2.90	316,087	0
Cypress	Totals	1,273,043	-21,798	-21,798	-1.7%	20.9%	21.1%	\$2.30	0	0
Huntington Beach	Totals	1,929,417	-33,694	-33,694	-1.7%	19.3%	20.1%	\$3.05	0	0
Los Alamitos-Stanton	Totals	477,122	9,892	9,892	2.1%	2.9%	2.9%	\$2.74	0	0
Seal Beach	Totals	340,365	11,495	11,495	3.4%	15.3%	15.8%	\$3.34	0	0
Westminster	Totals	396,076	-17,156	-17,156	-4.3%	13.6%	14.9%	\$2.35	0	0
West County	Totals	4,416,023	-51,261	-51,261	-1.2%	17.2%	17.7%	\$2.72	0	0
Orange County	Totals	100,850,302	-1,132,877	-1,132,877	-1.1%	15.3%	17.6%	\$2.86	316,087	0
Costa Mesa	A	4,713,737	-70,217	-70,217	-1.5%	17.8%	21.9%	\$3.20	0	0
Irvine	A	13,868,093	-315,554	-315,554	-2.3%	21.5%	24.3%	\$3.01	0	0
Newport Beach	A	3,218,664	-70,459	-70,459	-2.2%	23.1%	24.2%	\$3.27	0	0
Newport Center (Fashion Island)	A	2,606,657	6,130	6,130	0.2%	2.2%	2.9%	\$4.35	0	0
South Santa Ana	A	2,092,214	-60,283	-60,283	-2.9%	27.5%	27.5%	\$2.77	0	0
Tustin Legacy	A	457,029	58,121	58,121	12.7%	13.2%	13.2%	\$4.63	0	0
Airport Area	A	26,956,394	-452,262	-452,262	-1.7%	19.5%	21.9%	\$3.08	0	0
Civic Center Area	A	564,904	-9,158	-9,158	-1.6%	9.5%	9.5%	\$1.89	0	0
Main Place Area	A	1,310,014	-21,735	-21,735	-1.7%	11.9%	17.4%	\$2.70	0	0
Parkcenter Area	A	965,849	-35,006	-35,006	-3.6%	31.8%	31.8%	\$2.72	0	0
Santa Ana	A	94,557	-56,627	-56,627	-59.9%	9.1%	9.1%	\$2.70	0	0
Stadium Area	A	1,425,785	-46,207	-46,207	-3.2%	26.8%	27.7%	\$2.74	0	0
The City Area	A	1,368,188	-20,299	-20,299	-1.5%	40.5%	40.5%	\$2.78	0	0
Central County	A	5,729,297	-189,032	-189,032	-3.3%	25.5%	27.0%	\$2.72	0	0
Anaheim Hills	A	131,137	2,746	2,746	2.1%	7.6%	17.4%	\$2.39	0	0
Brea-La Habra	A	1,367,334	-17,300	-17,300	-1.3%	15.4%	18.1%	\$3.09	0	0
Buena Park-La Palma	A	374,186	-13,822	-13,822	-3.7%	16.5%	16.5%	\$2.92	0	0
North-East Anaheim	A	823,009	6,566	6,566	0.8%	15.1%	40.0%	\$1.98	0	0
North County	A	2,695,666	-21,810	-21,810	-0.8%	15.1%	24.5%	\$2.65	0	0
Irvine Spectrum	A	6,418,612	179,754	179,754	2.8%	15.2%	19.5%	\$3.55	316,087	0
Laguna Hills-Aliso Viejo	A	1,754,626	-95,923	-95,923	-5.5%	22.7%	33.9%	\$3.28	0	0
Laguna Niguel-Laguna Beach	A	173,688	-6,961	-6,961	-4.0%	22.4%	24.2%	\$1.70	0	0
Lake Forest-Foothill Ranch	A	421,507	-13,071	-13,071	-3.1%	12.3%	22.0%	\$2.44	0	0
Mission Viejo	A	559,472	-12,001	-12,001	-2.1%	26.4%	27.4%	\$2.98	0	0
South County	A	9,327,905	51,798	51,798	0.6%	17.3%	22.9%	\$3.28	316,087	0
Cypress	A	361,624	-22,287	-22,287	-6.2%	46.8%	46.8%	\$2.55	0	0
Huntington Beach	A	678,004	-33,708	-33,708	-5.0%	39.4%	41.3%	\$3.14	0	0
Seal Beach	A	277,241	11,755	11,755	4.2%	17.3%	17.3%	\$3.45	0	0
West County	A	1,316,869	-44,240	-44,240	-3.4%	36.8%	37.8%	\$2.95	0	0
Orange County	A	46,026,131	-655,546	-655,546	-1.4%	20.0%	23.3%	\$3.03	316,087	0

Costa Mesa	B	3,172,077	70,147	70,147	2.2%	7.7%	8.8%	\$2.60	0	0
Fountain Valley	B	1,040,580	5,730	5,730	0.6%	2.5%	3.8%	\$2.98	0	0
Irvine	B	10,829,789	-283,669	-283,669	-2.6%	12.5%	14.5%	\$2.86	0	0
Newport Beach	B	2,643,879	-594	-594	0.0%	9.6%	9.9%	\$2.90	0	0
Newport Center (Fashion Island)	B	884,663	-11,497	-11,497	-1.3%	7.7%	7.9%	\$4.25	0	0
South Santa Ana	B	372,000	0	0	0.0%	13.3%	13.3%	\$3.08	0	0
Airport Area	B	18,942,988	-219,883	-219,883	-1.2%	10.5%	12.0%	\$2.85	0	0
Civic Center Area	B	1,900,531	10,377	10,377	0.5%	7.1%	7.1%	\$2.63	0	0
East Orange	B	967,781	-2,134	-2,134	-0.2%	9.1%	9.1%	\$2.74	0	0
Garden Grove	B	608,613	-469	-469	-0.1%	9.8%	9.8%	\$1.80	0	0
Main Place Area	B	441,071	-17,309	-17,309	-3.9%	19.2%	19.2%	\$2.18	0	0
Parkcenter Area	B	1,367,774	-49,217	-49,217	-3.6%	14.3%	14.7%	\$1.96	0	0
Santa Ana	B	2,976,839	-75,032	-75,032	-2.5%	18.8%	25.4%	\$2.43	0	0
Stadium Area	B	1,535,934	3,576	3,576	0.2%	17.3%	17.3%	\$2.53	0	0
The City Area	B	531,402	-1,989	-1,989	-0.4%	14.6%	15.5%	\$2.61	0	0
Tustin (South of I-5)	B	1,478,521	-39,789	-39,789	-2.7%	3.6%	6.8%	\$2.16	0	0
Central County	B	11,808,466	-171,986	-171,986	-1.5%	12.9%	15.0%	\$2.40	0	0
Anaheim Hills	B	635,602	7,442	7,442	1.2%	14.3%	14.3%	\$2.10	0	0
Brea-La Habra	B	2,406,700	707	707	0.0%	11.2%	11.3%	\$2.44	0	0
Buena Park-La Palma	B	835,550	-13,724	-13,724	-1.6%	5.4%	5.5%	\$2.25	0	0
Fullerton	B	1,288,380	9,118	9,118	0.7%	3.4%	5.9%	\$2.31	0	0
North-East Anaheim	B	1,521,254	-2,724	-2,724	-0.2%	4.9%	5.8%	\$2.24	0	0
Placentia-Yorba Linda	B	315,872	-3,207	-3,207	-1.0%	16.6%	17.4%	\$2.20	0	0
North County	B	7,003,358	-2,388	-2,388	0.0%	8.2%	9.0%	\$2.33	0	0
Irvine Spectrum	B	6,144,072	-50,716	-50,716	-0.8%	11.0%	13.5%	\$2.66	0	0
Laguna Hills-Aliso Viejo	B	2,226,275	-12,731	-12,731	-0.6%	21.3%	22.5%	\$2.65	0	0
Laguna Niguel-Laguna Beach	B	581,465	-421	-421	-0.1%	9.2%	9.2%	\$2.37	0	0
Lake Forest-Foothill Ranch	B	2,624,480	-3,766	-3,766	-0.1%	15.6%	16.3%	\$2.23	0	0
Mission Viejo	B	767,499	-7,234	-7,234	-0.9%	14.8%	15.2%	\$2.27	0	0
San Juan Cap-S Clemente-Dana Point	B	1,626,414	-1,185	-1,185	-0.1%	6.9%	7.7%	\$2.85	0	0
South County	B	13,970,205	-76,053	-76,053	-0.5%	13.2%	14.7%	\$2.56	0	0
Cypress	B	911,419	489	489	0.1%	10.7%	10.9%	\$1.98	0	0
Huntington Beach	B	1,251,413	14	14	0.0%	8.5%	8.5%	\$2.80	0	0
Los Alamitos-Stanton	B	477,122	9,892	9,892	2.1%	2.9%	2.9%	\$2.74	0	0
Seal Beach	B	63,124	-260	-260	-0.4%	6.1%	9.0%	\$1.88	0	0
Westminster	B	396,076	-17,156	-17,156	-4.3%	13.6%	14.9%	\$2.35	0	0
West County	B	3,099,154	-7,021	-7,021	-0.2%	8.9%	9.2%	\$2.33	0	0
Orange County	B	54,824,171	-477,331	-477,331	-0.9%	11.3%	12.8%	\$2.59	0	0