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Orange County Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- A push for increased vaccination rates have allowed for greater reopening efforts, enabling the Orange County unemployment rate to rebound from a high of 14.9 percent in May 2020 to **6.2 percent** in April 2021.
- Post-COVID office-using job losses have totaled **3.3 percent** compared with leisure and hospitality job losses that totaled 18.1 percent, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Office demand

- Post-pandemic leasing activity decreased by an annualized rate of **37.9 percent** compared with the prior 20-year annual average as office occupiers focused on return-to-work efforts before strategizing their long-term occupancy plans.
- The number of lease transactions in Q2 2021 increased by **9.6 percent** from the same period one year prior.



Office supply

- The total vacancy rate in Orange County was **13.7 percent** in the second quarter of 2021, which is nominally higher than the 2000 to present average of 12.1 percent and remains lower than the post-millennium peak of 17.3 percent from the Global Financial Crisis.
- The sublease market accounts for **2.0 msf** of vacant space, which has not surpassed the scale of sublease vacancy of 2.4 msf that was reported following the burst of the Dot-com bubble.

Key takeaways



Pricing trends

- Asking rents decreased by **0.2 percent** quarter-over-quarter in June 2021, as compared to 4.4 percent year-over-year signaling that the rent drop is subsiding. Demand is picking up as office occupiers return to work and tenants that postponed their real estate decisions re-enter the market.



Capital markets

- Deal volume has been slow to return to pre-COVID levels. Orange County office dollar volume has totaled just \$2.4 billion since the beginning of 2020, which represents an annualized decrease of **72.0 percent** compared with the previous five-year average.

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Economic and demographic trends

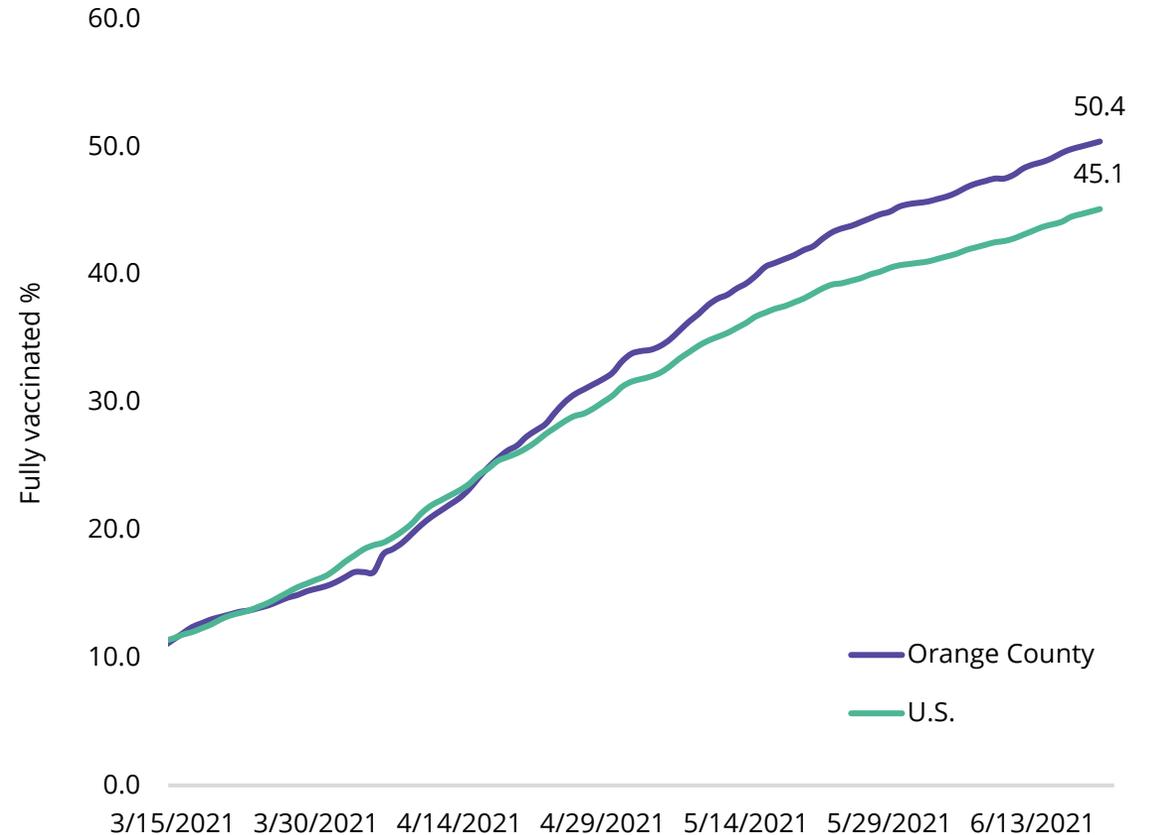
The pandemic immediately shocked the Orange County economy, but there are signs of a recovery as the market reopens.

Vaccination rates

50.4%

Share of total Orange County population that is fully vaccinated

Orange County proportionate vaccination rates have surpassed U.S. averages, an important metric that has allowed the market to loosen restrictions.



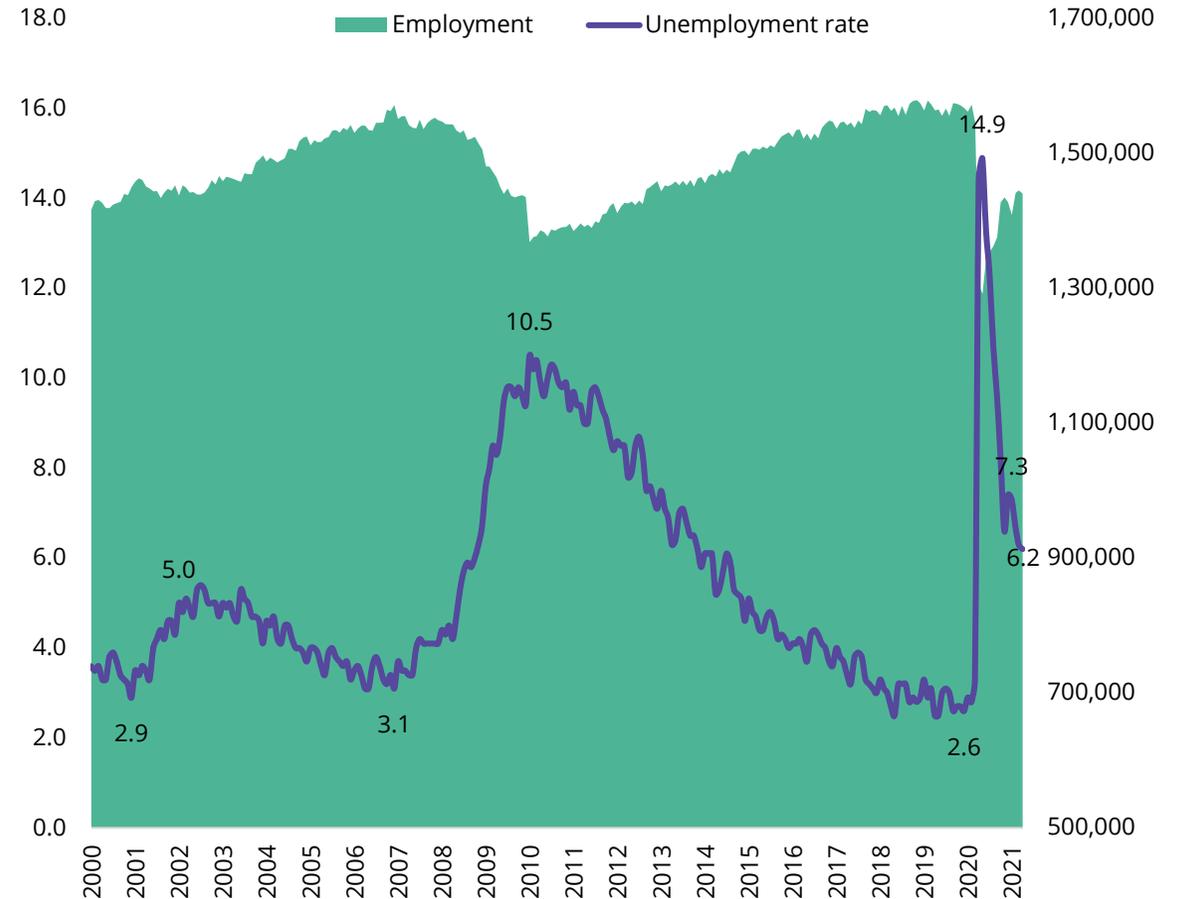
Source: CDC

Employment and unemployment rate

6.2%

Orange County unemployment rate as of April 2021, below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with 280,000 job losses between February 2020 and May 2020. However, reopening efforts enabled the economy to add 10.3% jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-3.3%

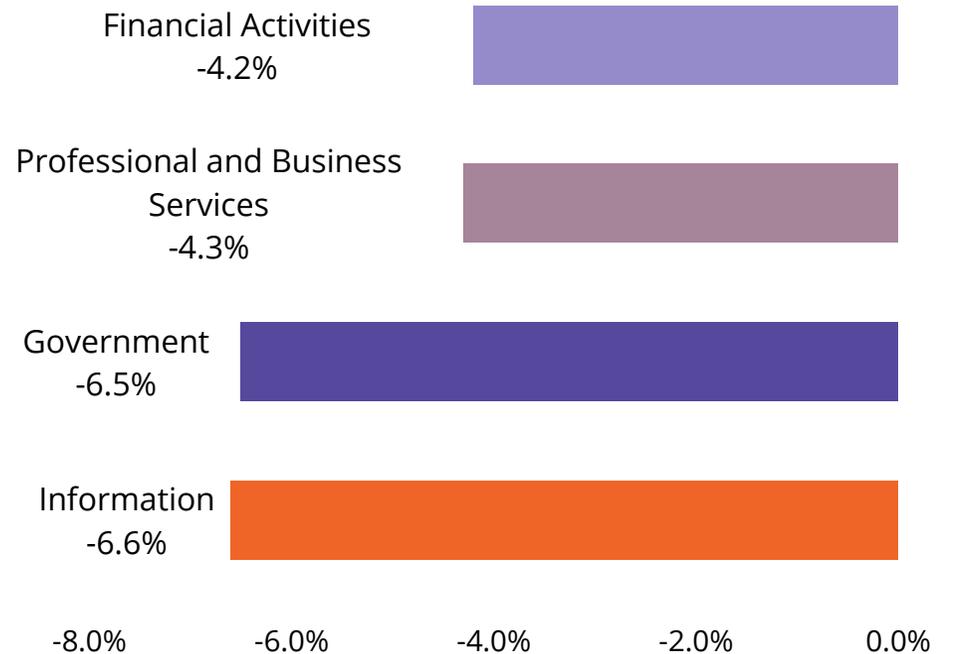
Change in office-using employment during the pandemic

Orange County MSA job losses have declined by 6.8% since the start of the pandemic, though office-using jobs contracted by just 3.3%. This recession's impact on the labor market has been less severe than the global financial crisis, when job losses totaled 9.4%.

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Total change in Orange County MSA* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

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Office occupier conditions

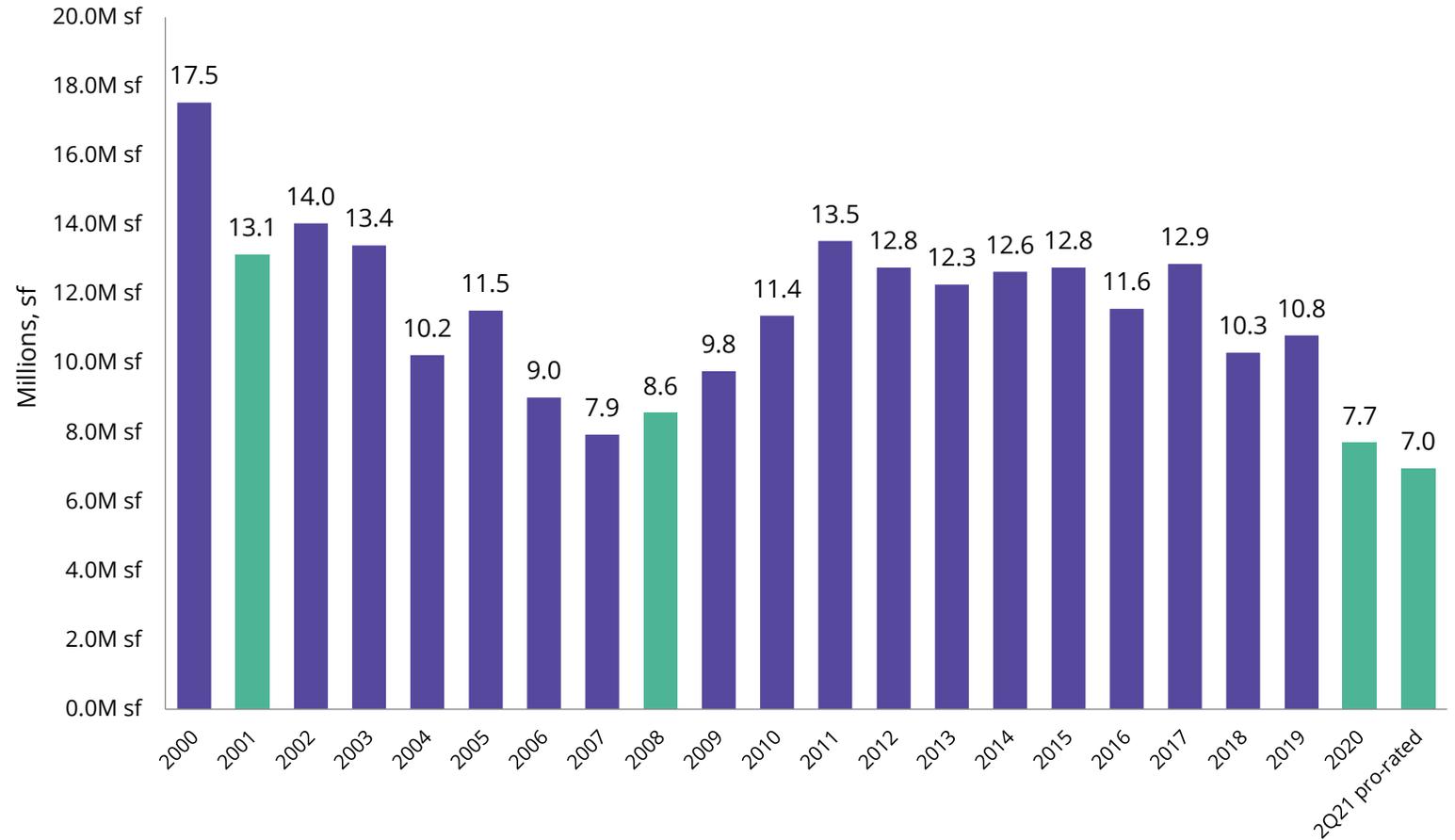
Demand has been temporarily disrupted as tenants navigate an evolving return-to-work and work-from-home strategies.

Office leasing activity

-37.9%

2020 to pro-rated 2021 vs. prior 20-year annual average leasing activity

There is no modern precedent for the post-COVID slowdown in leasing activity—neither 2001 nor 2008—due to the sudden change in office occupiers’ future workplace strategies and the 2020 recession.



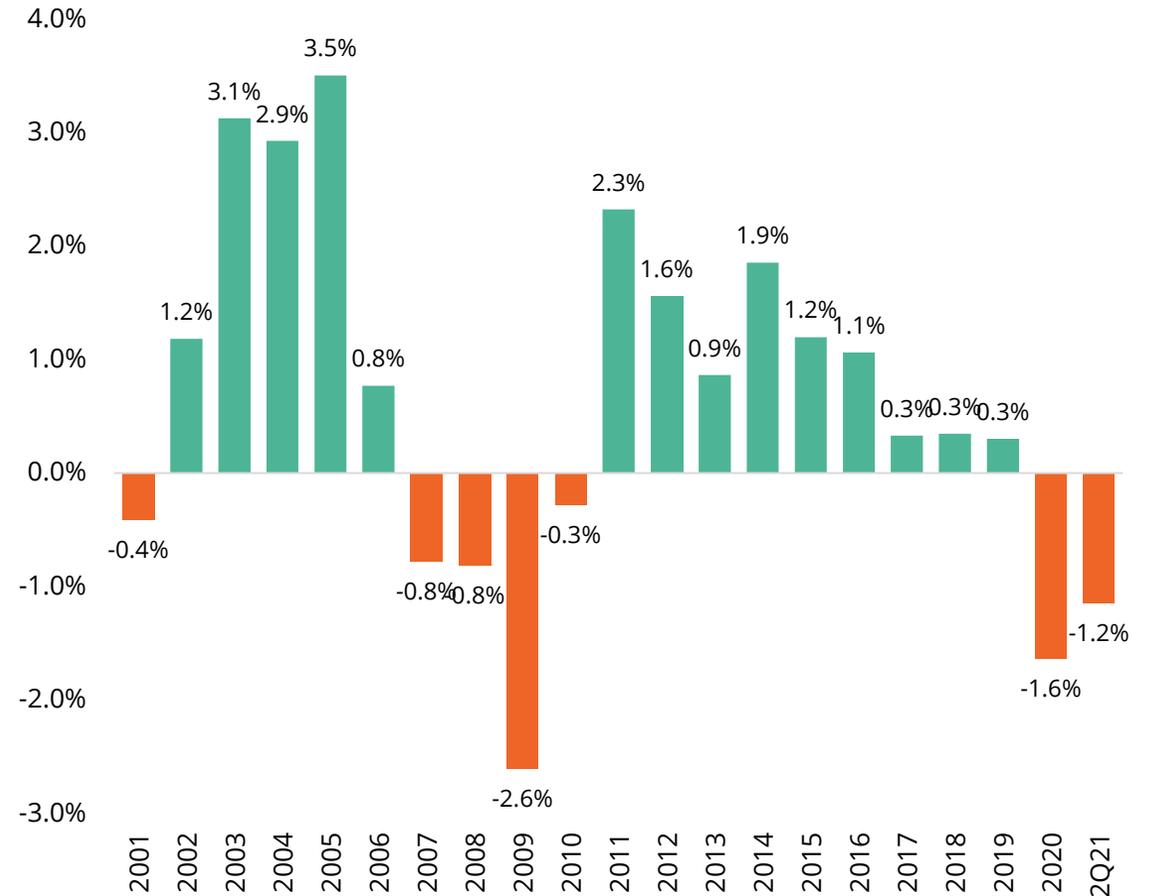
Source: AVANT by Avison Young, CoStar

Absorption

-2.8%

Net absorption as a percentage of inventory, 2020 through 2Q 2021

Negative absorption from 2020 to Q2 2021 has totaled 3.6 million sf, totaling -2.8% of the existing stock. This negative absorption significantly surpasses the lows of the early 2000s recession (-0.4%) but are not nearly as severe as the global financial crisis (-4.5%).



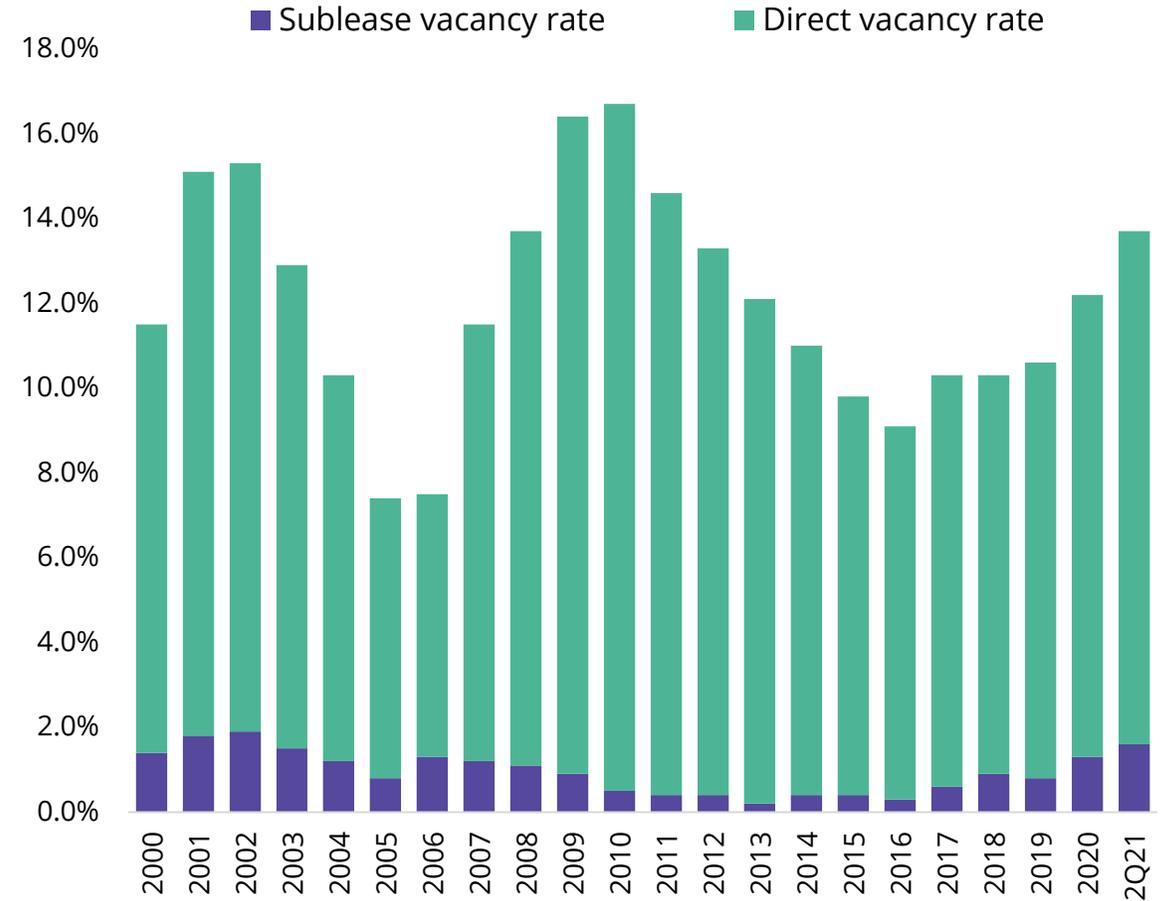
Source: AVANT by Avison Young

Vacancy rate

13.7%

Orange County vacancy at its highest level in the last decade

The Q2 2021 vacancy rate is elevated in terms of sublease (1.6%), direct (12.1%) and total (13.7%) percentages compared with post-2000 levels. However, the total vacancy rate has not surpassed the peaks reported in the past two recessions, as the Dot-com Recession vacancy rate reached 15.3% in 2002 and the Global Financial Crisis recession vacancy rate reached 16.7% in 2010.



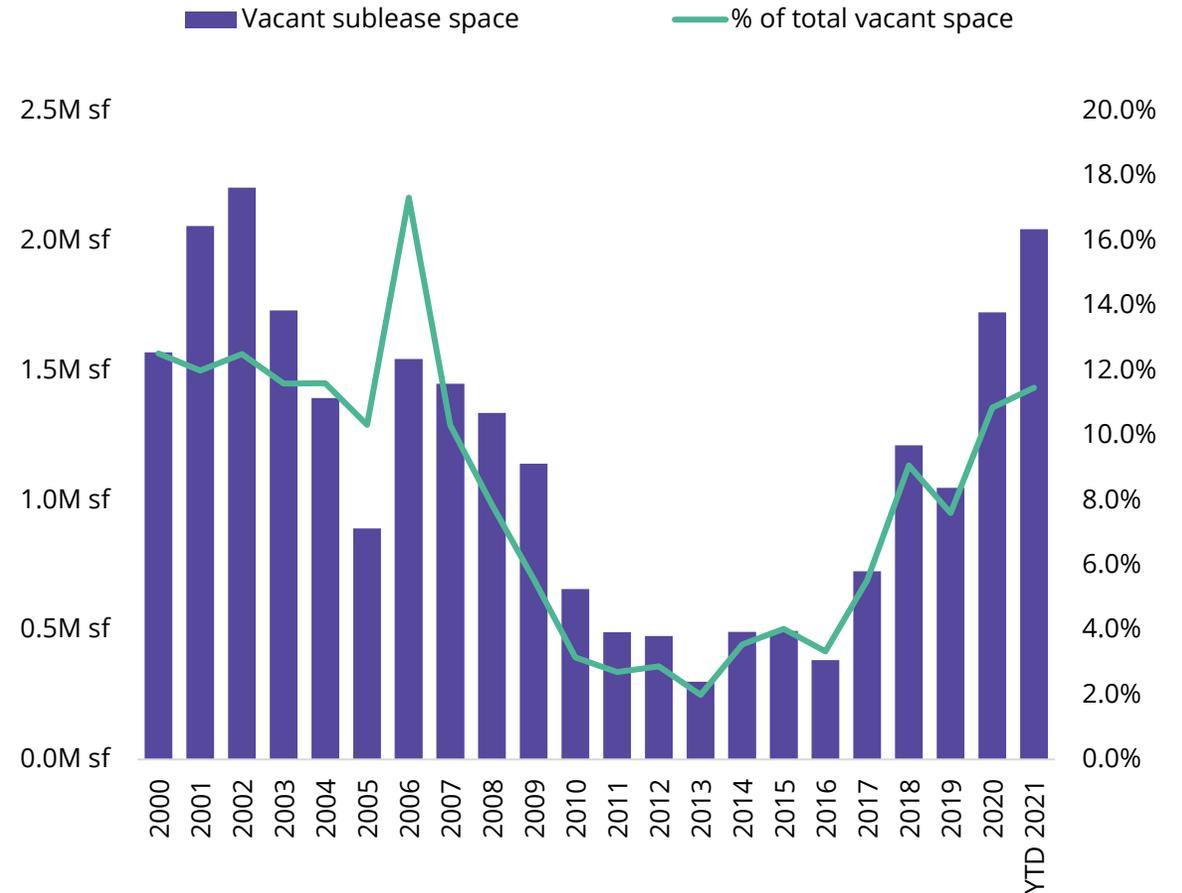
Source: AVANT by Avison Young

Vacant sublease space

2.0 msf

Elevated vacant sublease space but not a record high

The share of sublease-to-total vacant space of 11.5% has not surpassed the peaks of 17.3% from the Global Financial Crisis or 12.5% from the Dot-com Recession.



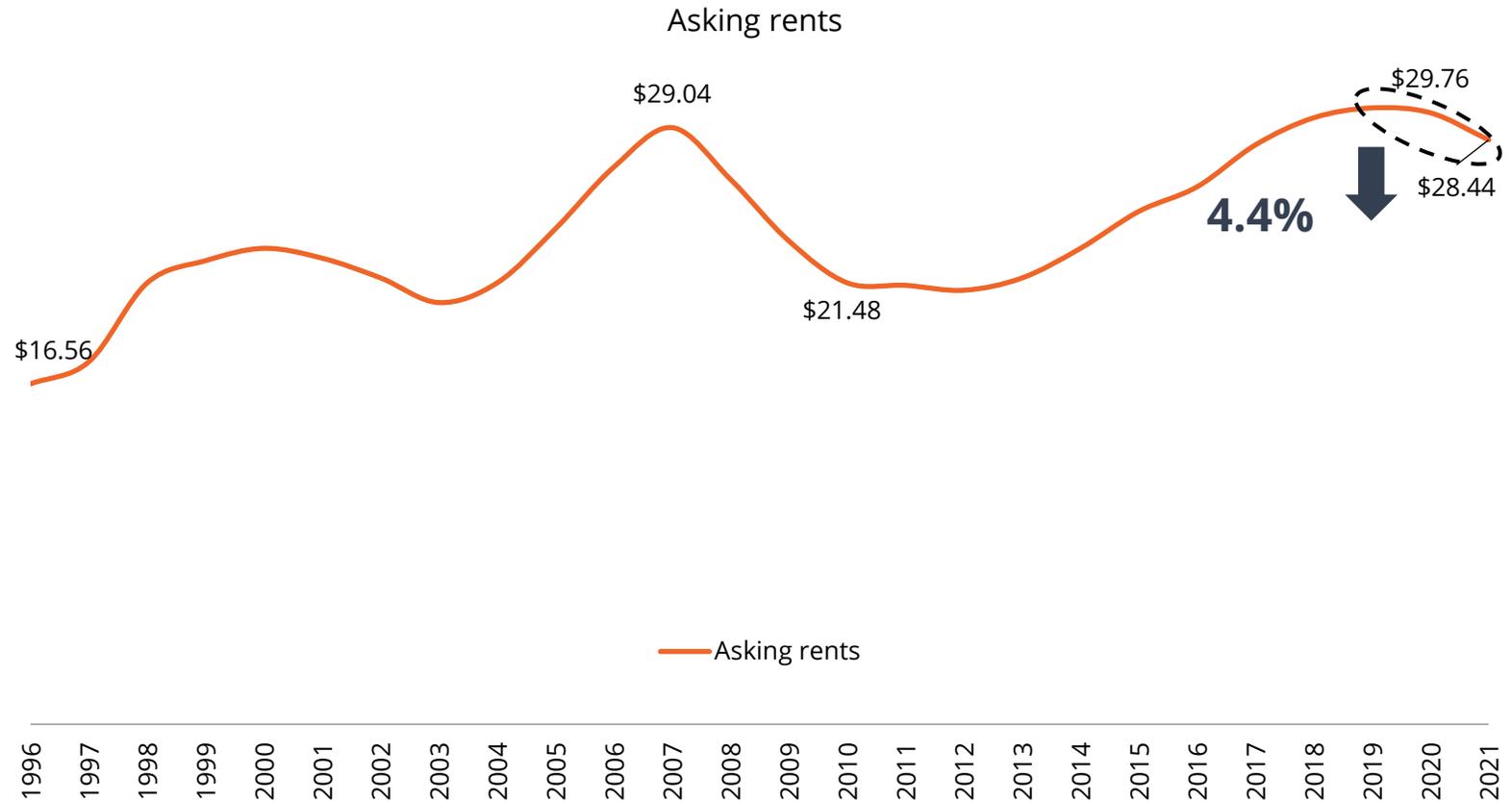
Source: AVANT by Avison Young

Asking rents

-4.4%

Year-to-date change in Orange County asking rents

Asking rents decreased by 0.2% quarter-over-quarter in June 2021, signaling that the drop in rent is subsiding. Demand is picking up as office occupiers return to work and tenants that postponed their real estate decisions re-enter the market.



Source: AVANT by Avison Young, CoStar

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Orange County office construction pipeline

23 properties

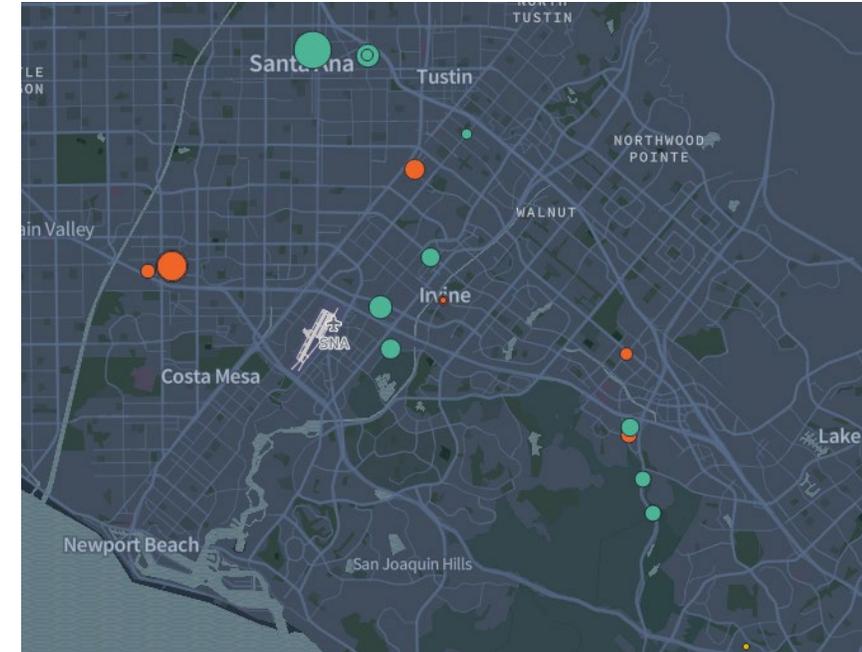
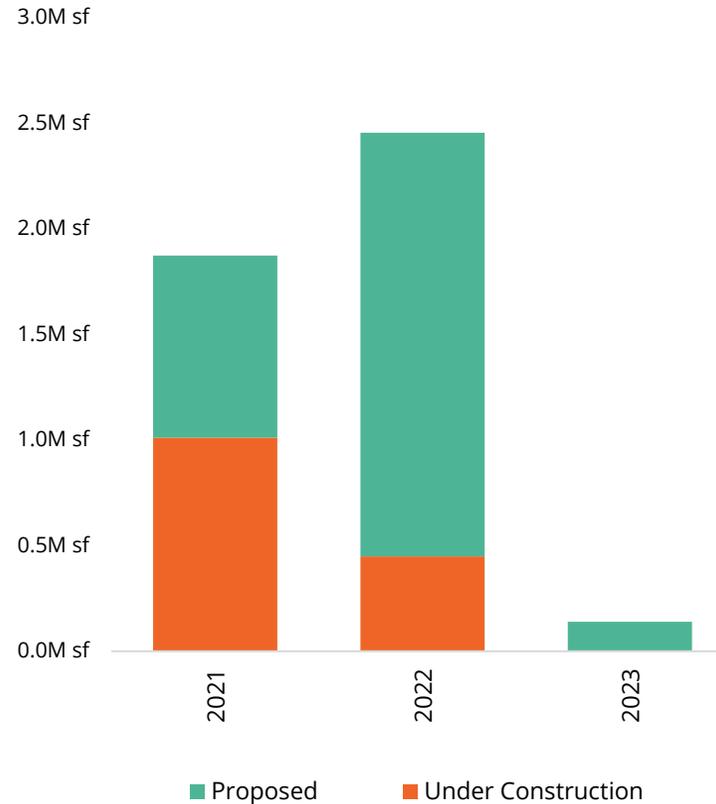
proposed or under construction

3.6 msf

proposed or under construction

3.1%

share of office inventory



Source: AVANT by Avison Young

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Capital market conditions

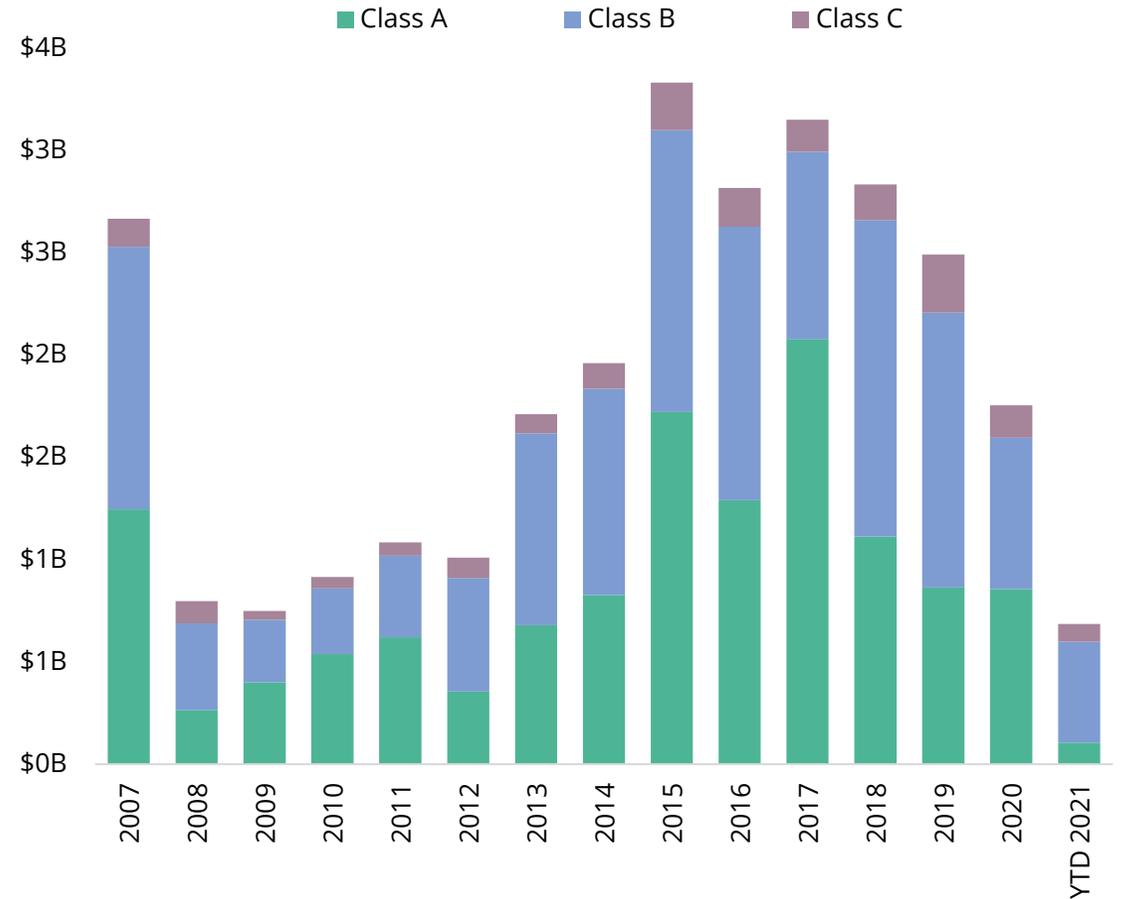
Pent-up investor demand has been sidelined by pandemic concerns over the past year, though pricing has continued to rise.

Office investment dollar volume

\$2.4B

Orange County office dollar volume 2020 to present

Office sales activity has temporarily paused as investors have had difficulty underwriting deals in an unprecedented environment. Post-COVID investment dollar volume decreased by an annualized rate of 72.0% compared with the prior five-year average.



Source: AVANT by Avison Young, RCA, CoStar

Looking forward



Here's what we can expect

- The vaccination rate in Orange County will be a significant driver in the recovery of its economy. **Over 50% of its populace, which is above the national average, have been fully vaccinated.** This is positively impacting the commercial economy; for instance, Disneyland, the region's top employer before the pandemic, is on a hiring spree. Confidence in this high vaccination rate will positively impact employment trends and the countywide business climate.
- Despite the improving labor sentiment, **upward pressure is anticipated on vacancy and sublease availability rates.**
- More large-scale office leases are anticipated in the second half of 2021. Anduril Industries, a technology defense contractor, and Costar Group signed two new leases for close to three-quarters of a million square feet combined in 2021 – potential leading indicators for resurgent leasing activity. However, **stronger demand is unlikely to offset supply pressure.**



Get in touch



Keith Kropfl

Principal

Director of Brokerage Services – Orange County

+ 1 949 430 0680

keith.kropfl@avisonyoung.com



Alan Pekarcik

Principal

+1 949 757 1595

alan.pekarcik@avisonyoung.com



Peter Hauser

Principal

+1 949 430 0687

alan.pekarcik@avisonyoung.com



Chris Casey

Principal

+1 949 430 0686

chris.casey@avisonyoung.com

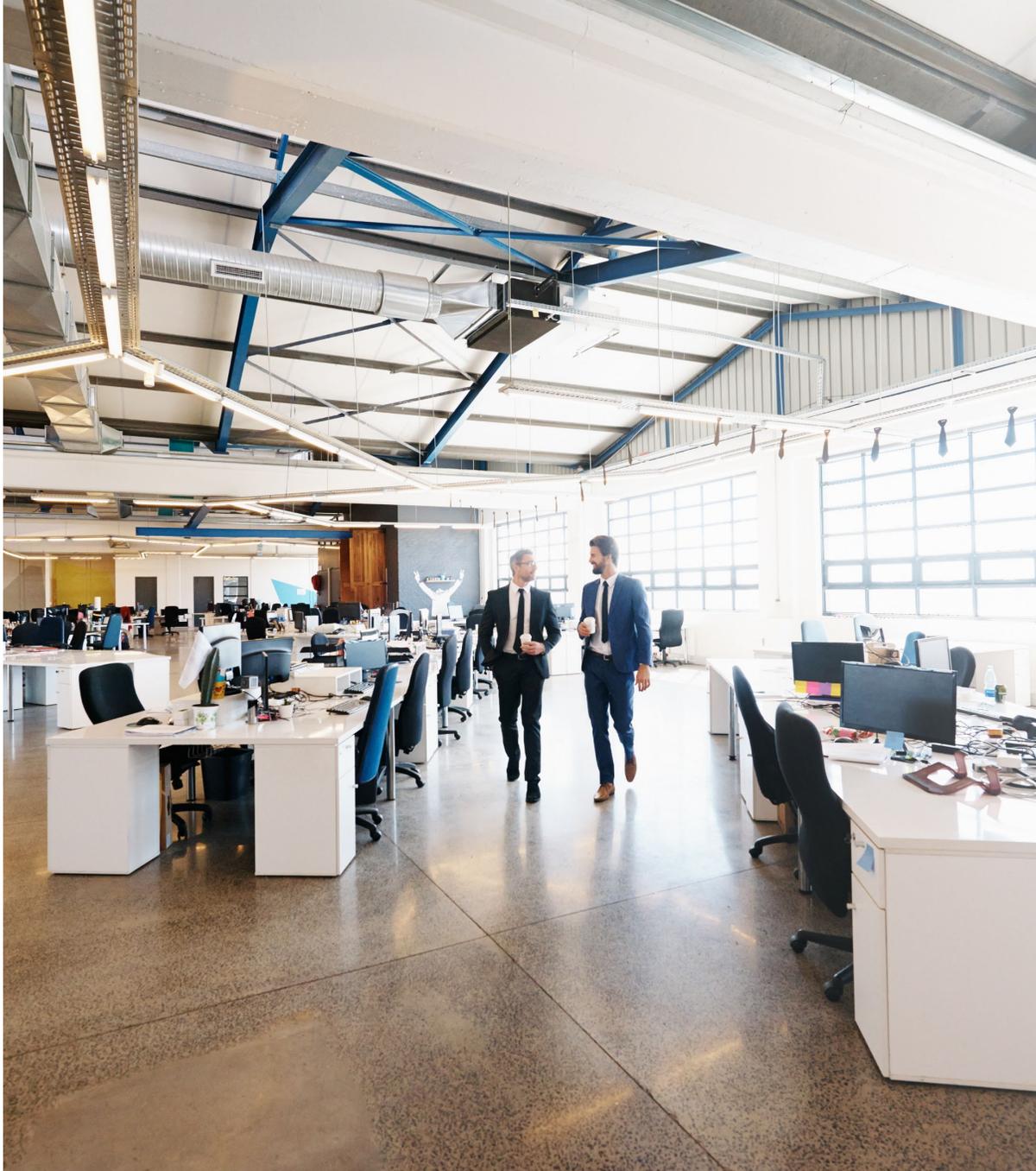


Arlyn Stoik

Principal

+1 949 430 0677

arlyn.stoik@avisonyoung.com



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Let's talk

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