CUSHMAN & WAKEFIELD

OFFICE EXCELLENCE:

Comparing Trophy and Class A Properties in Orange County

Better never settles

INTRODUCTION

The commercial real estate market in Orange County has experienced significant shifts due to the COVID-19 pandemic, particularly affecting how businesses use office space. The rise of hybrid and remote work models has blurred the traditional distinctions between different classes of office properties. However, **Trophy properties have demonstrated remarkable resilience, maintaining their attractiveness and demand due to several key characteristics.**

KEY CHARACTERISTICS

Trophy properties are distinguished by:

01

PRIME LOCATIONS: Often situated in highly desirable areas.

02

HIGH-QUALITY DESIGN AND MATERIALS: Superior architectural design and construction materials.

03

EFFICIENT BUILDING SYSTEMS: State-of-the-art HVAC, lighting and other building systems.

04

ADAPTABLE FLOOR PLATES: Flexible layouts that can accommodate various tenant needs.

05

MODERN AMENITIES: Features like fitness centers, advanced security and smart building technologies.

06

WELL-CAPITALIZED OWNERSHIP: Strong financial backing that ensures proper maintenance and upgrades.

ORANGE COUNTY'S OFFICE INVENTORY

Orange County's total office inventory base is 91.5 million square feet (msf), clearly distinguishing between Trophy and Class A properties:

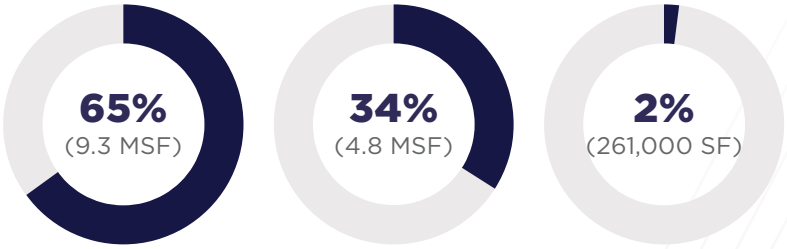
TROPHY PROPERTIES

TOTAL INVENTORY:
14.4 MSF
(16% OF 91.5 MSF BASE)

NUMBER OF PROPERTIES:
59

AVERAGE PROPERTY SIZE:
244 KSF

LOCATION DISTRIBUTION:



OFFICE INVENTORY, EXCLUDING TROPHY PROPERTIES

TOTAL INVENTORY:
77.1 MSF
(84% OF 91.5 MSF BASE)

NUMBER OF PROPERTIES:
1,113

AVERAGE PROPERTY SIZE:
69.2 KSF

CLASS A PROPERTIES, EXCLUDING TROPHY PROPERTIES

TOTAL INVENTORY:
30.5 MSF
(40% OF 77.1 MSF BASE)

NUMBER OF PROPERTIES:
210

AVERAGE PROPERTY SIZE:
145.4 KSF

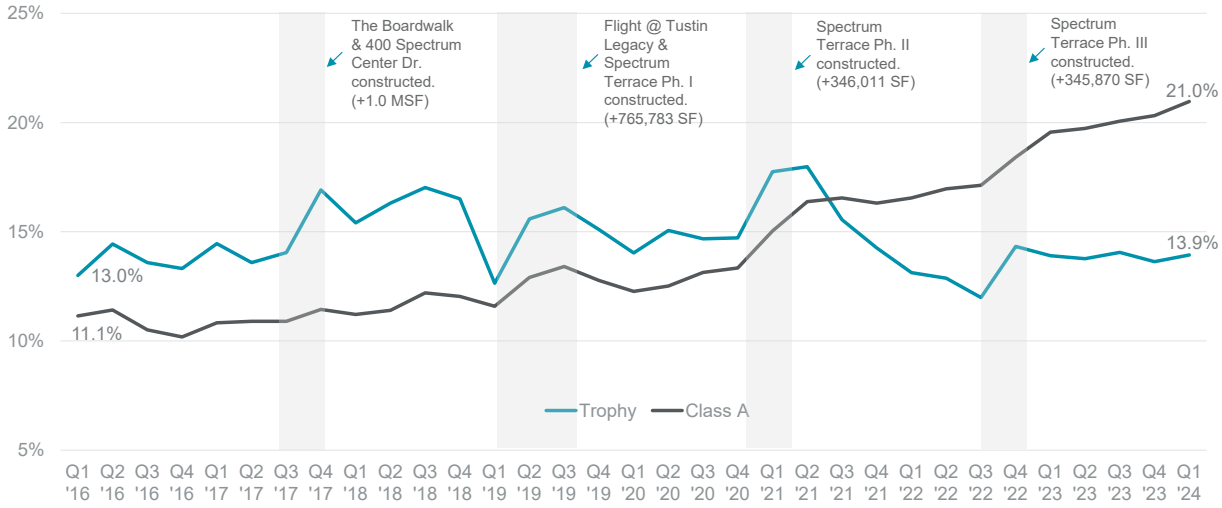
COMPARATIVE INSIGHTS

- **LOCATION:** Trophy properties are predominantly located in the Greater Airport submarket, a prime area with higher demand, while Class A properties are more widely dispersed.
- **BUILDING SIZE:** Trophy properties tend to be larger on average (244,000 sf) compared to Class A (145,400 sf).
- **MARKET DISTRIBUTION:** Trophy assets represent a smaller portion of the total office inventory but are concentrated in high-value locations.

DIRECT VACANCY

At the end of Q1 2024, Trophy properties posted a direct vacancy rate of 13.9%, whereas Class A properties, excluding Trophy assets, recorded 21.0% vacancy.

TROPHY VS. CLASS A: DIRECT VACANCY RATE



Source: Cushman & Wakefield Research 2024.

Q1 2024 DIRECT VACANCY RATES

TROPHY PROPERTIES:
13.9%

CLASS A PROPERTIES
21.0%

In comparison, back in Q1 2016, Trophy properties recorded a 13.0% direct vacancy rate, while Class A properties recorded 11.1%. Since Q1 2016, the direct vacancy in Trophy properties has increased by just 90 basis points (bps), while the vacancy in Class A properties has increased by 980–bps.

HISTORICAL VACANCY COMPARISON (Q1 2016 VS. Q1 2024)

TROPHY PROPERTIES:
INCREASED FROM 13.0% TO 13.9% (90–BPS INCREASE)

CLASS A PROPERTIES:
INCREASED FROM 11.1% TO 21.0% (980–BPS INCREASE)

The data indicates that Trophy properties have maintained relatively stable vacancy rates despite a slight increase. In contrast, Class A properties have seen a significant rise in vacancy rates, suggesting a shift in tenant preferences and market dynamics.

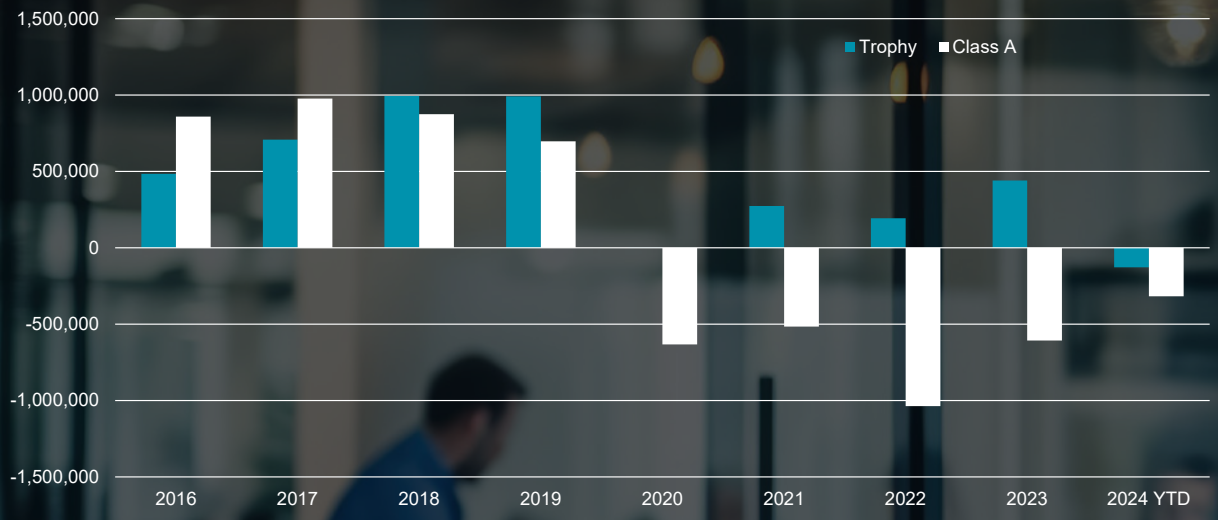
INVENTORY GROWTH

Due to the strong performance of Trophy properties, 4.8 msf of new inventory was delivered from Q1 2016 to Q1 2024, marking a 51% growth in the Trophy asset inventory base.

ABSORPTION

Before the onset of the COVID-19 pandemic, Trophy and Class A properties were performing similarly. From 2016-2019, Trophy assets recorded 3.2 msf of occupancy gains, while Class A assets recorded 3.4 msf.

TROPHY VS. CLASS A: NET ABSORPTION



Source: Cushman & Wakefield Research 2024.

PRE-PANDEMIC (2016-2019)

TROPHY PROPERTIES:
3.2 MSF OF OCCUPANCY GAINS

CLASS A PROPERTIES:
3.4 MSF OF OCCUPANCY GAINS

However, since 2020, there has been a significant shift. Trophy assets have recorded 781,114 sf of occupancy gains, while Class A assets recorded occupancy losses of -3.1 msf. This continued trend further highlights the point that occupiers are choosing to lease space in trophy assets that offer their employees the best location, work experience and surrounding amenities.

PANDEMIC AND BEYOND (2020-2024)

TROPHY PROPERTIES:
781,114 SF OF OCCUPANCY GAINS

CLASS A PROPERTIES:
-3.1 MSF OF OCCUPANCY LOSSES

The stark contrast in absorption trends since 2020 highlights a clear preference shift towards Trophy properties, likely driven by their superior amenities, prime locations and better work environments.

ASKING RENT

From Q1 2016 — Q1 2024, the average asking rent at Trophy properties increased by $0.20 per square foot (psf) or 6.1%, while the average rent for Class A properties increased by $0.42 per square foot (psf) or 15.4%.

RENT GROWTH (Q1 2016 – Q1 2024)

TROPHY PROPERTIES:
INCREASED BY $0.20 PSF (+6.1%)

CLASS A PROPERTIES:
INCREASED BY $0.42 PSF (+15.4%)

At the end of Q1 2024, Trophy properties posted an overall asking rent of $3.53 psf on a monthly full-service basis, while Class A properties posted $3.12 psf. In other words, occupiers are currently willing to pay on average 13.1% more for their space in a Trophy building.

TROPHY VS. CLASS A: ASKING RENT

Source: Cushman & Wakefield Research 2024.

Q1 2024 ASKING RENTS

TROPHY PROPERTIES:
$3.53 PSF

CLASS A PROPERTIES:
$3.12 PSF

Even though the rent growth percentage for Class A properties has been higher, Trophy properties still command a premium, with occupiers willing to pay 13.1% more for the benefits associated with these top-tier buildings.

CONCLUSION

The resilience of Trophy properties in the wake of the pandemic highlights a trend toward high-quality, adaptable and well-located office spaces. As businesses continue to navigate the hybrid work model, the demand for Trophy properties will likely remain strong due to their superior features and amenities. Class A properties, while still significant, may face more competition and need to adapt to maintain their market position.

In conclusion, while the pandemic has blurred some distinctions between office property classes, the Trophy properties' premium qualities remain a cornerstone of the commercial real estate market in Orange County.

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ABOUT CUSHMAN & WAKEFIELD

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