

1Q25

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Orange County Office Market Overview



Market Observations

Economy

- Local non-farm job growth has stalled over the last year due to employment declines in the information, financial, manufacturing, construction, and business and professional sectors.
- Office-using employment dropped to its lowest level since May 2020, a time when the pandemic was in full effect. All three office-using sectors declined in the last year, with the information sector leading with a 6.4% reduction.
- The U.S. economy faces growing uncertainty after the Trump Administration introduced a wave of tariffs this quarter, with more to potentially follow. Businesses tend to adopt a wait-and-see approach during periods of volatility, which can dampen near-term leasing activity.

Major Transactions

- South County accounted for three of the top five deals of the quarter, all of which were signed in the notable Irvine Spectrum. Inari Medical and Kimley-Horn both signed new leases for 54,406 SF and 23,316 SF, respectively, while Zoll Medical took over a sublease for 26,920 SF.
- A 92,302-SF office property in Los Alamitos was sold for a record-breaking \$65.2 million (\$707/SF) to Lennar Homes. The last recorded sale of the property was in 2021 for \$26.5 million, a 30.4% appreciation even after adjusting for inflation. The property sits on 12.4 acres of land and will likely be converted to multi-family.
- Owner-users are purchasing properties at a fraction of their cost. This quarter, Western State College of Law acquired 15101 Red Hill Ave, a 51,065-SF office building in Tustin, for \$13.4 million. Newmark represented the seller.

Leasing Market Fundamentals

- Vacancy dropped to 17.3% this quarter but remains elevated by historical standards. Total vacancy is 90 bps above the five-year average.
- Quarterly net absorption was positive for the seventh-straight quarter, with 115,517 SF in net gains. Tarsus Pharmaceuticals' occupancy of its new 59,626-SF space at the Spectrum Terrace was this quarter's largest move-in.
- Muted office demand is prompting developers to scrap planned office projects, leaving the construction pipeline empty for the first time since the Global Financial Crisis in 2008.
- Some underperforming office properties will find new life as multifamily, industrial or medical developments. This, along with owner-user sales, will exert downward pressure on the region's office inventory, vacancy and availability.

Outlook

- Tenants in the market generally fall into one of two camps: 1) those wishing to retain an office presence for the lowest possible rent and 2) those seeking trophy-grade space in amenity-rich areas, as they reduce footprints. The latter group is using top-shelf space to lure workers back to the office.
- Only 12% of aspiring Orange County home buyers can afford a median-priced home (currently \$1.4 million). Tearing down or converting a portion of the metro's surplus office inventory to apartments makes sense, in cases where the numbers pencil out.
- A renewed sense of uncertainty following the Trump Administration's rollout of tariffs is growing among investors. Leasing activity will fluctuate in the quarters ahead as businesses contend with the volatile economic environment.

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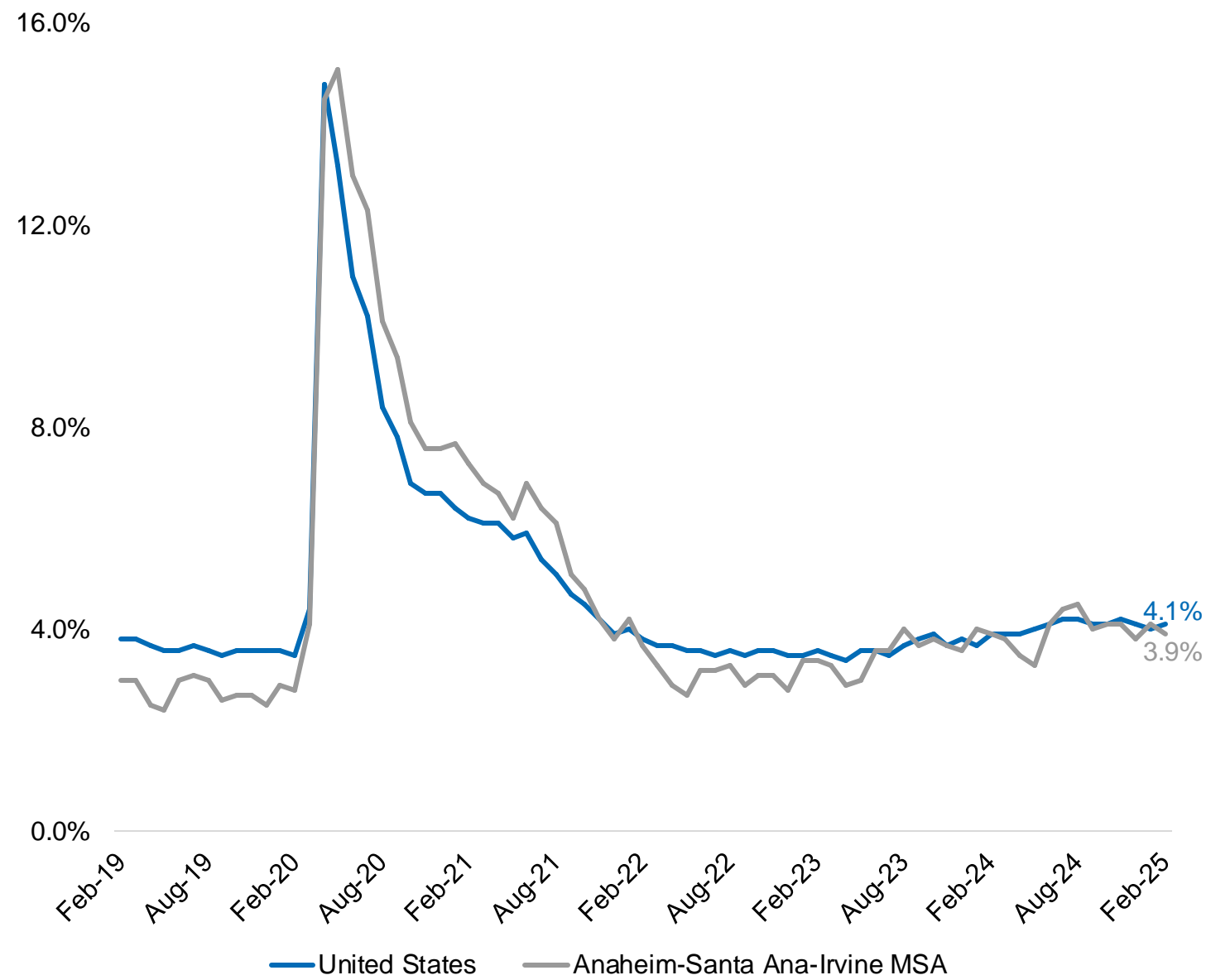
Economy



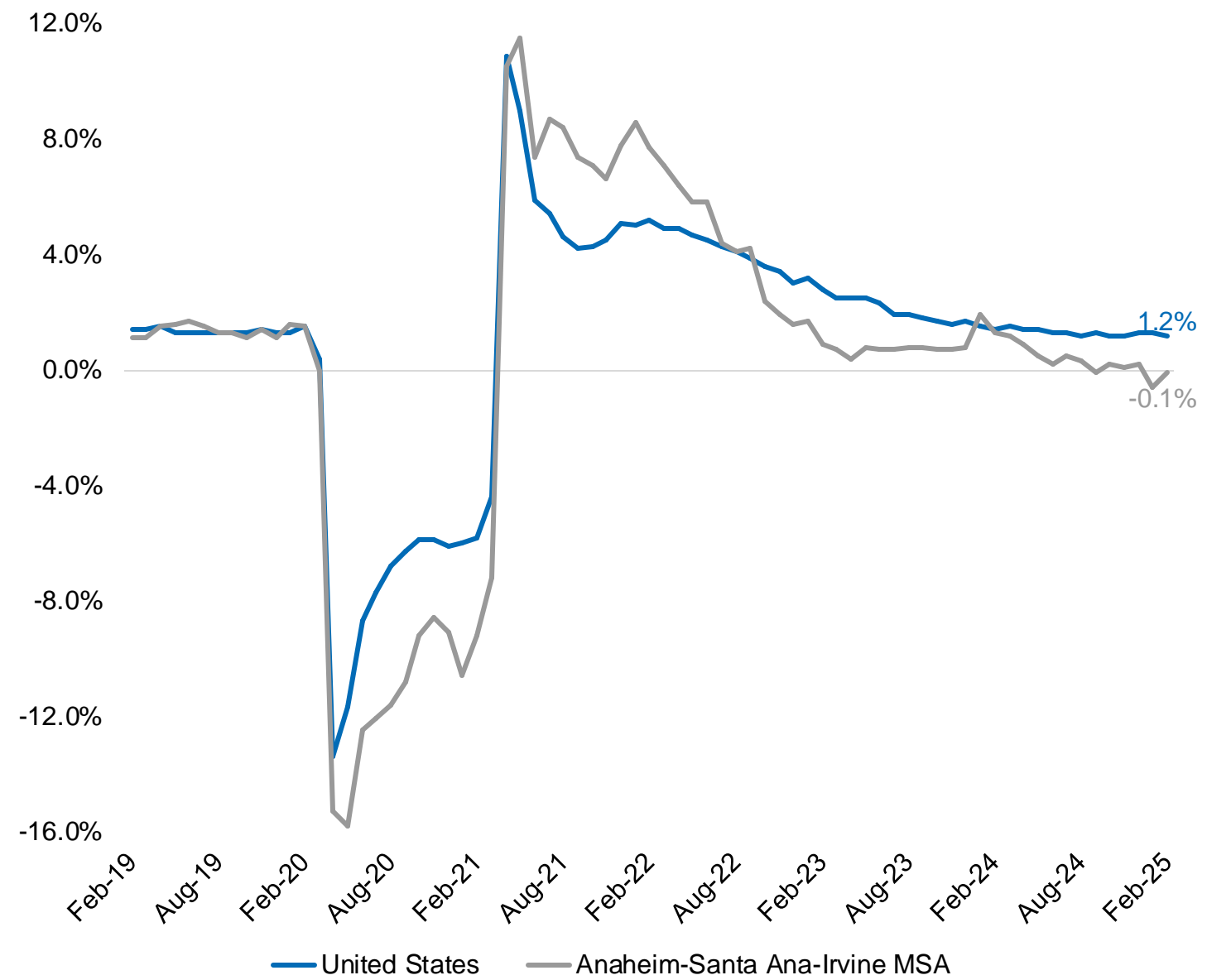
Local Employment Growth Is Stagnant

After reaching a three-year peak of 4.5% in August, local unemployment dropped 60 basis to 3.9% in February while year-over-year nonfarm employment growth has plateaued. In the months ahead, unemployment will continue to fluctuate as companies grapple with the uncertainty surrounding the economy.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month% Change

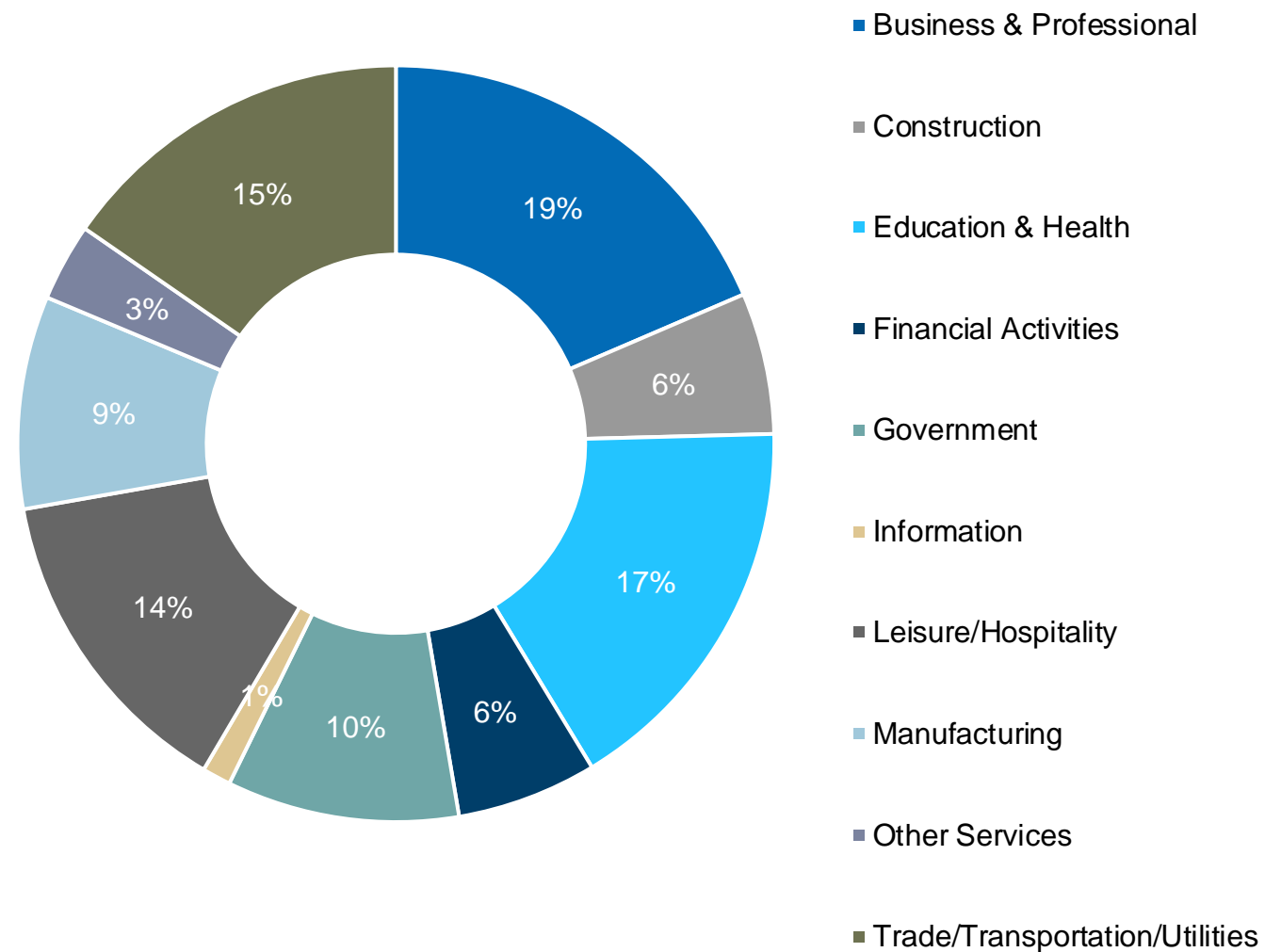


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: February 2025 data is preliminary.

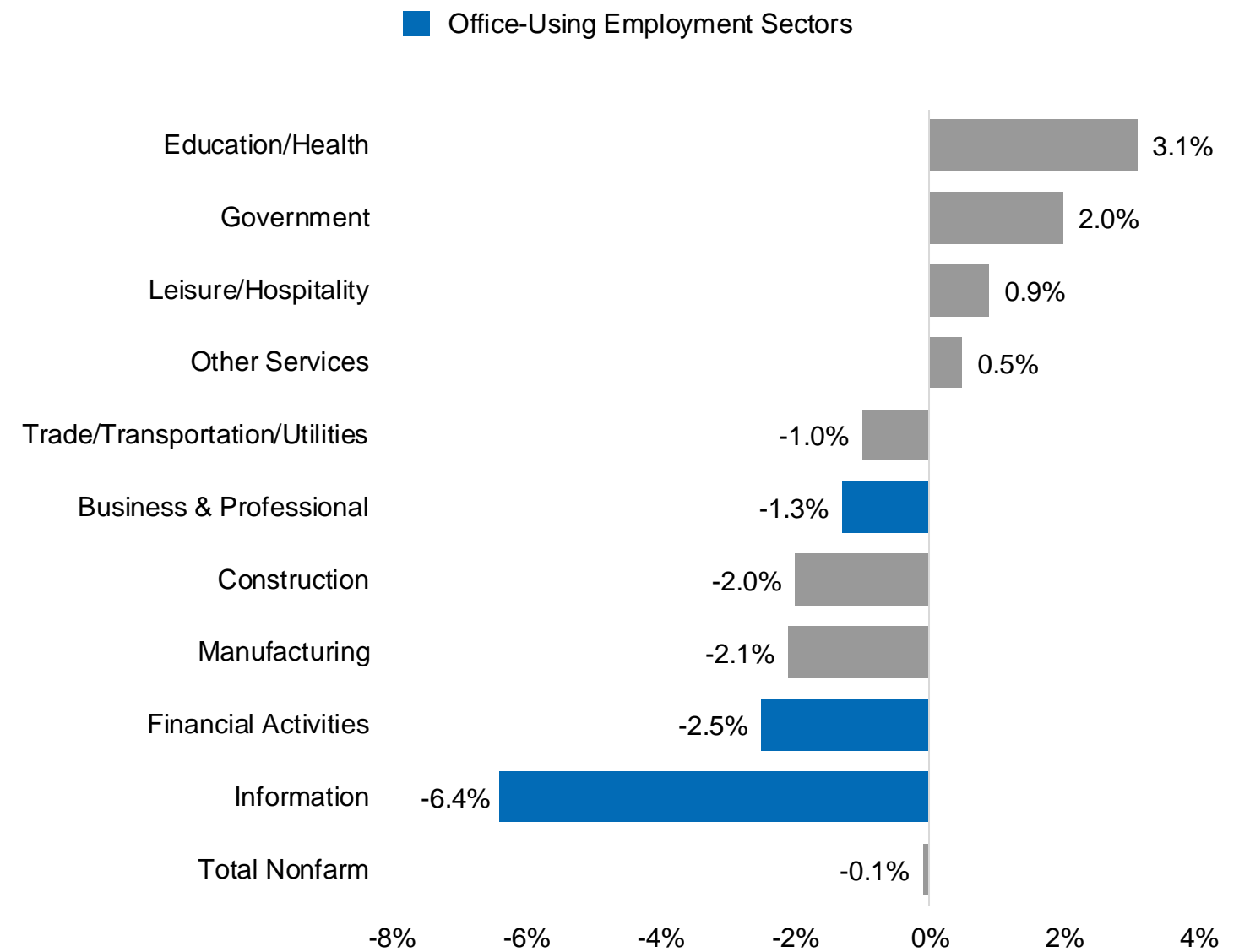
Information And Financial Sectors Lead In Job Losses

Tech companies, which are generally classified under the information sector, continue to focus on cost-cutting moves by shedding unneeded staff and space, while financial companies, contending with economic pressures and lingering inflation, are also downsizing. Business and professional had cuts as well.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

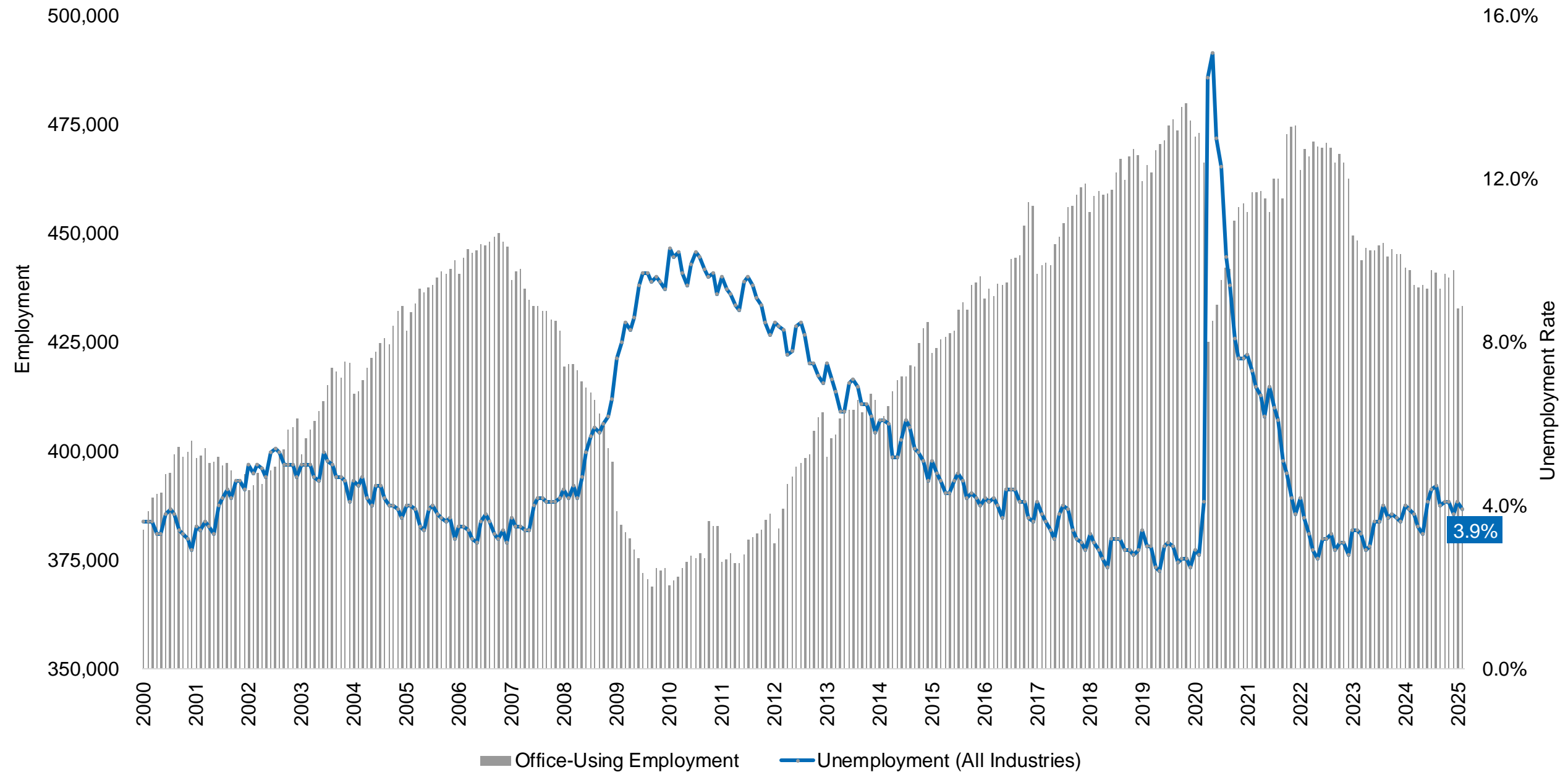


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: February 2025 data is preliminary.

Office-Using Employment Drops to Pandemic Levels

Office-using employment dropped to its lowest level since May of 2020 and has yet to recover from a string of layoffs in the tech, financial, and business and professional sectors. White-collar jobs are expected to remain flat or decline modestly going forward as employers contend with a volatile macroeconomic environment.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA

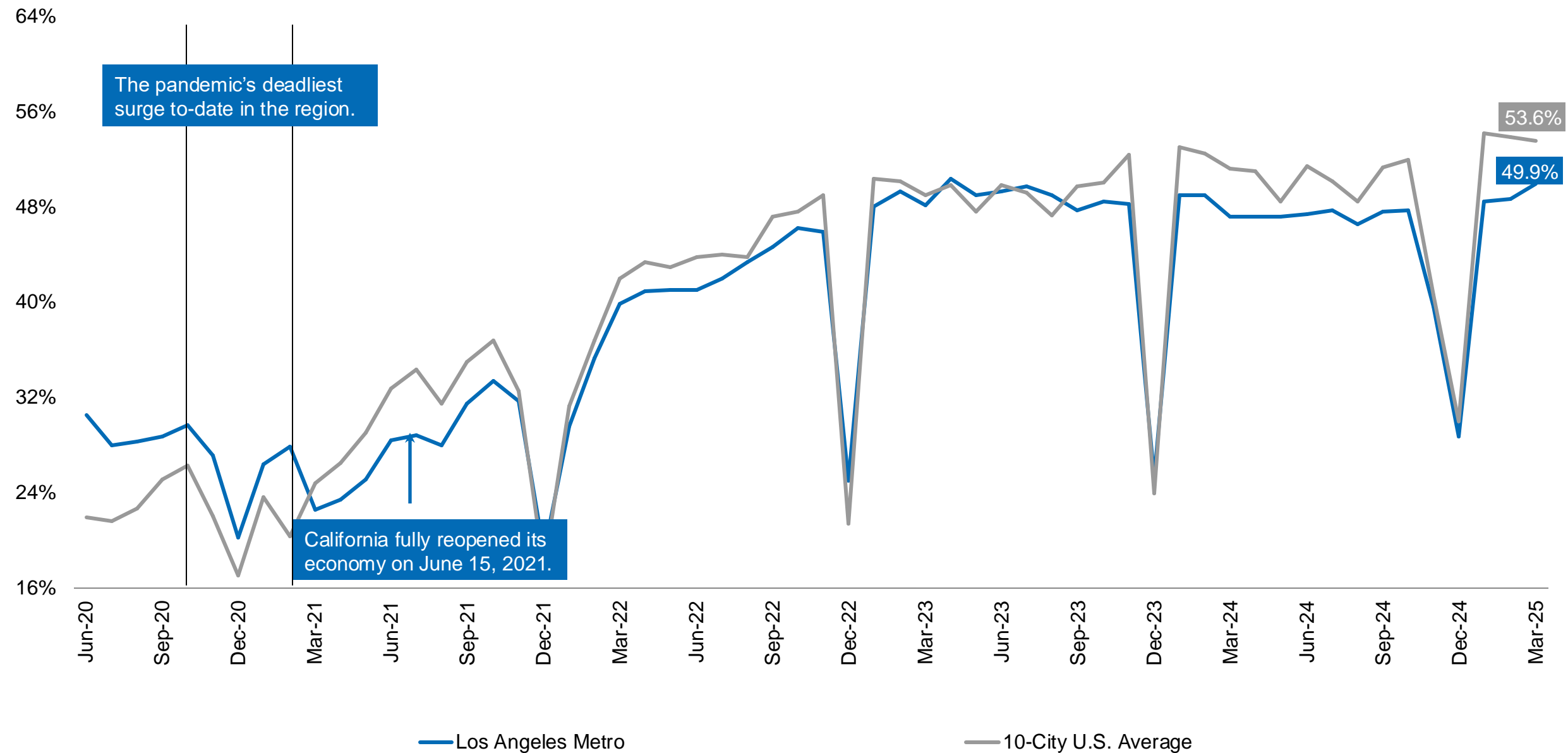
Note: February 2025 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Local Office Utilization is Up Since 2020, but Remains Sub-50%

The winter holidays aside, local utilization has generally hovered in the upper 40s since September 2022 as most companies continue to rely on hybrid work schedules despite employers' concerted efforts in bringing workers back to the office.

Los Angeles Metro Office Utilization Rates | Kastle Systems Return-to-Work Data Based on Key FOB Swipes



Source: Newmark Research, Kastle Systems
Note: Each month's percentage reflects the average of its final week.

CEOs Project Increased Office Attendance

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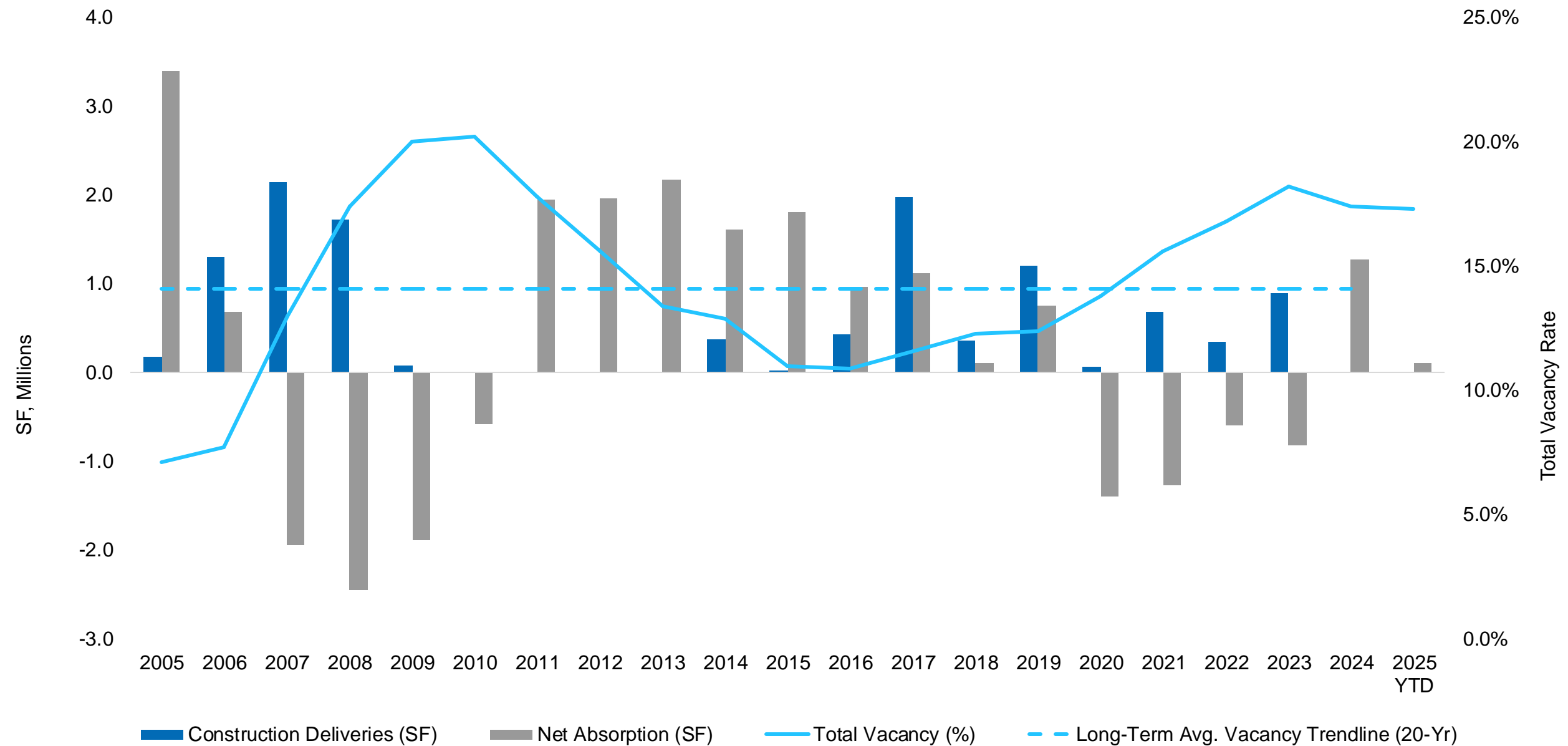
Leasing Market Fundamentals



Vacancy Drops to Its Lowest Level In Two Years

Vacancy levels continue to drop on a quarterly basis, albeit at a slower pace. This quarter's vacancy rate decreased to 17.3% (compared to 18.4% from six quarters ago) after the metro realized seven consecutive quarters of positive absorption. As more obsolete and vacant properties get removed from overall inventory, market fundamentals are expected to normalize. In the meantime, vacancy is expected to remain elevated in the quarters to come.

Historical Construction Deliveries, Net Absorption, and Vacancy

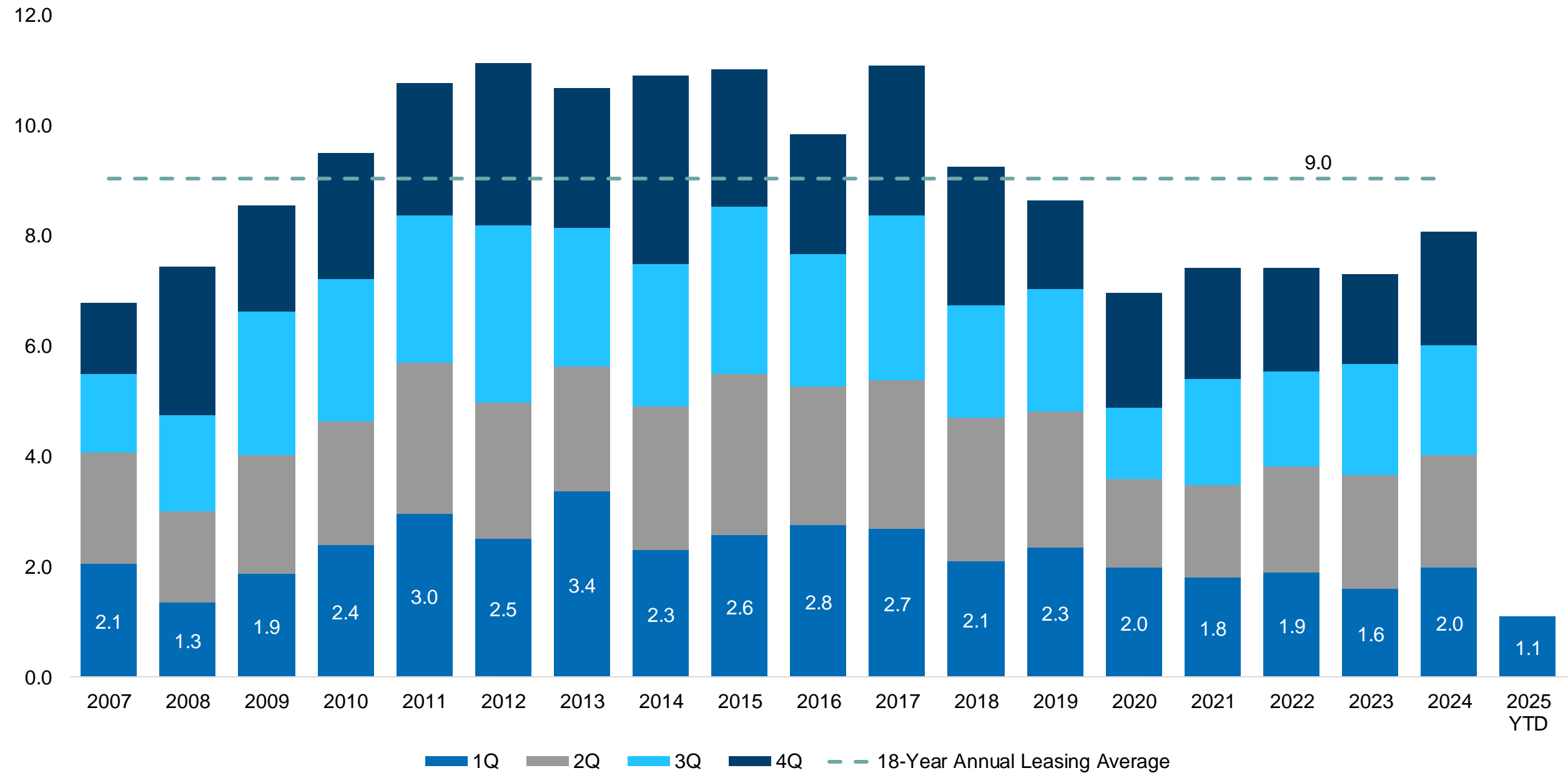


Source: Newmark Research

Starting Off the Year With Subdued Leasing Activity

Leasing activity in the first quarter of 2025 is almost half of the previous year's first quarter levels. Hybrid work models remain the general norm despite employers' concerted efforts in bringing workers back to the office. That, combined with the uncertainty surrounding the economy, are hampering overall leasing activity.

Total Leasing Activity (MSF)

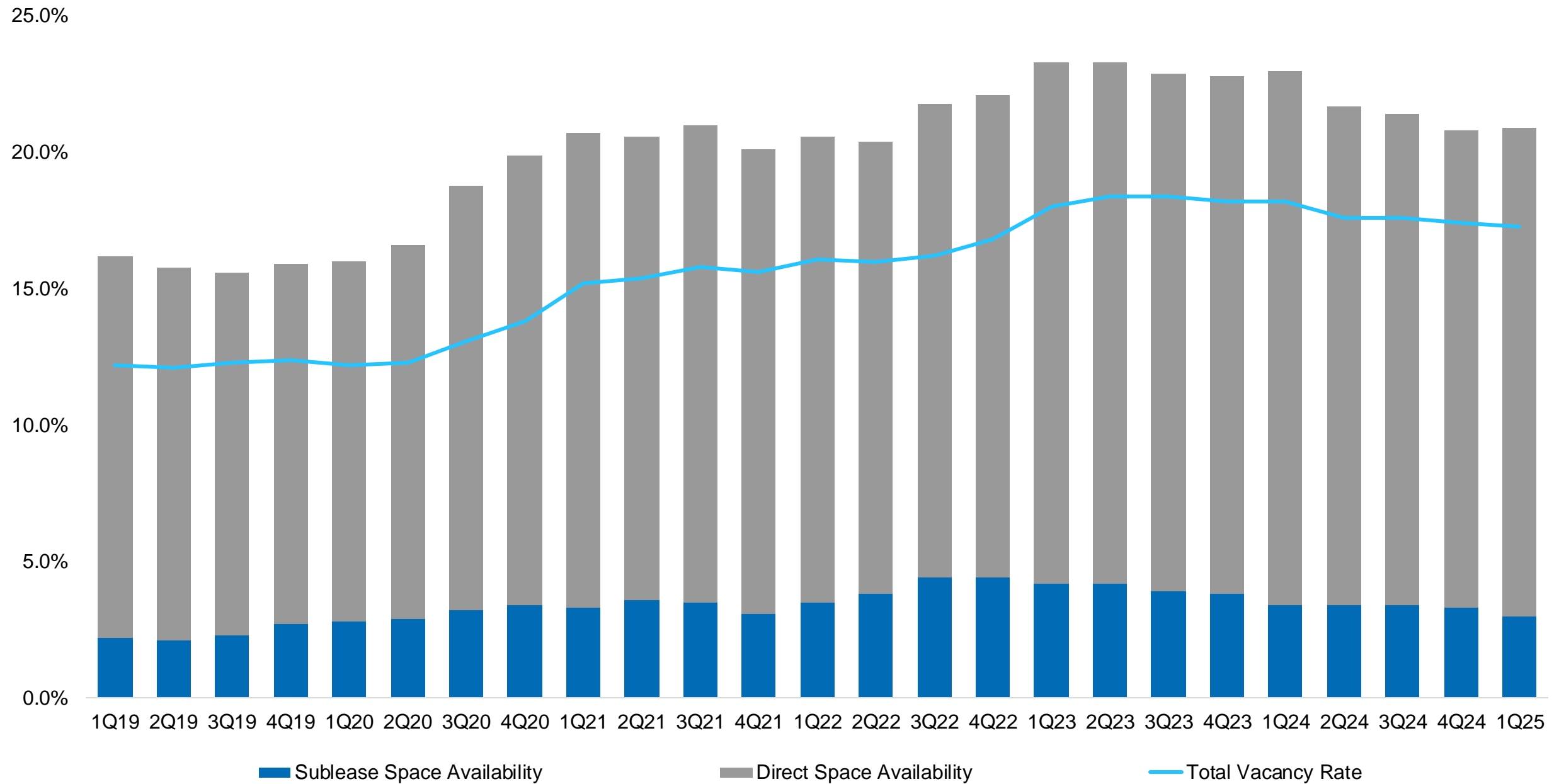


Source: Newmark Research, CoStar

Sublet Availability At Its Lowest Level In Five Years

Sublet availability dropped to its lowest level in 20 quarters, down to 3.0% of total inventory. The decrease in availability is not only contributed to increased leasing activity, but also to some properties withdrawing their listings while others are removed from inventory.

Available Space and Total Vacancy as Percent of Overall Market



Source: Newmark Research

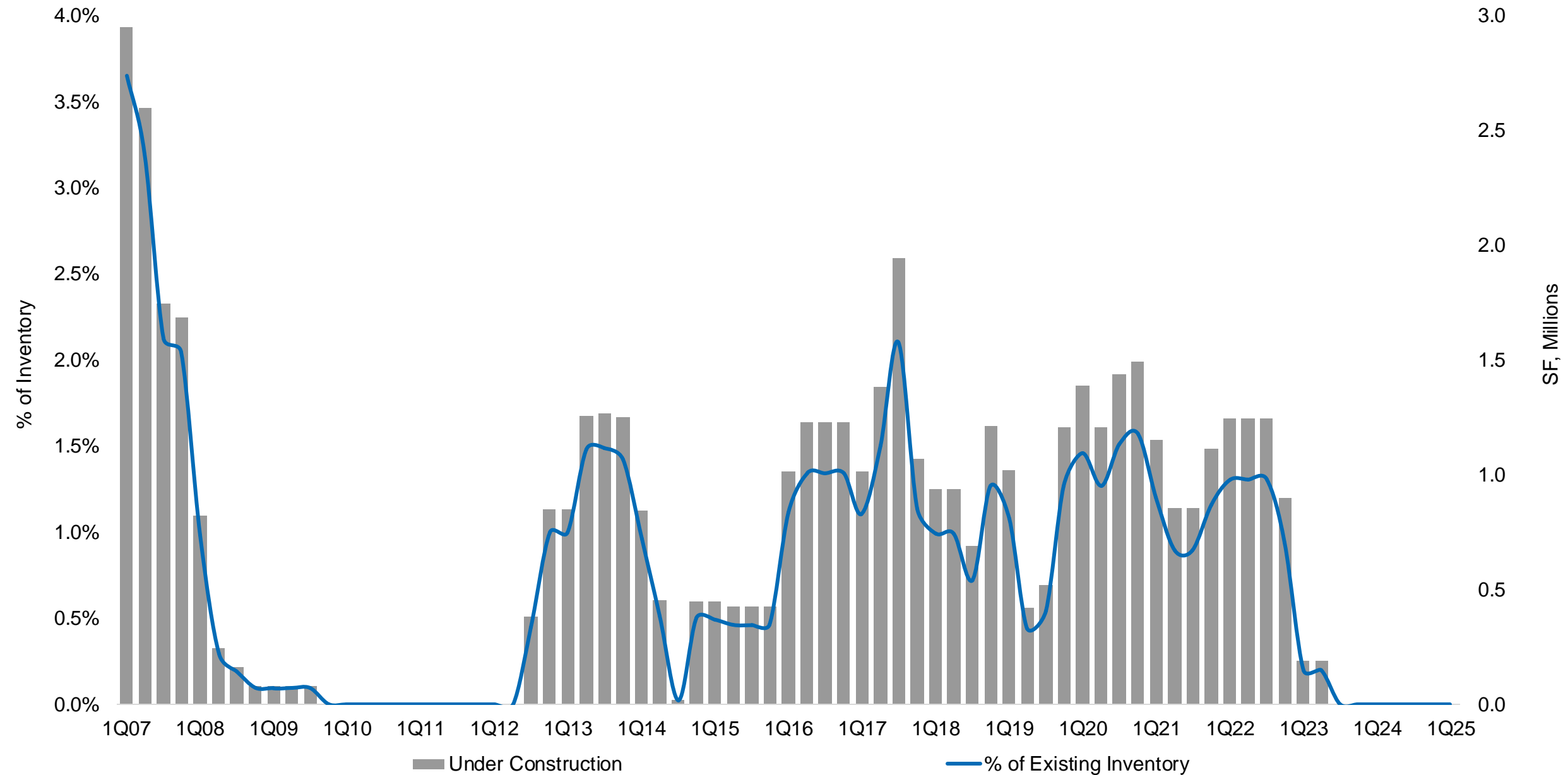
Total Availability Fluctuating Across All Submarkets

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No Speculative Development Currently Underway

Anduril's 190,000-SF expansion at The Press delivered in the third quarter of 2023, bringing under-construction activity to zero for the first time since 2010. It is unlikely a new speculative project will break ground over the next 12 months, based on current market dynamics.

Office Under Construction and % of Existing Inventory

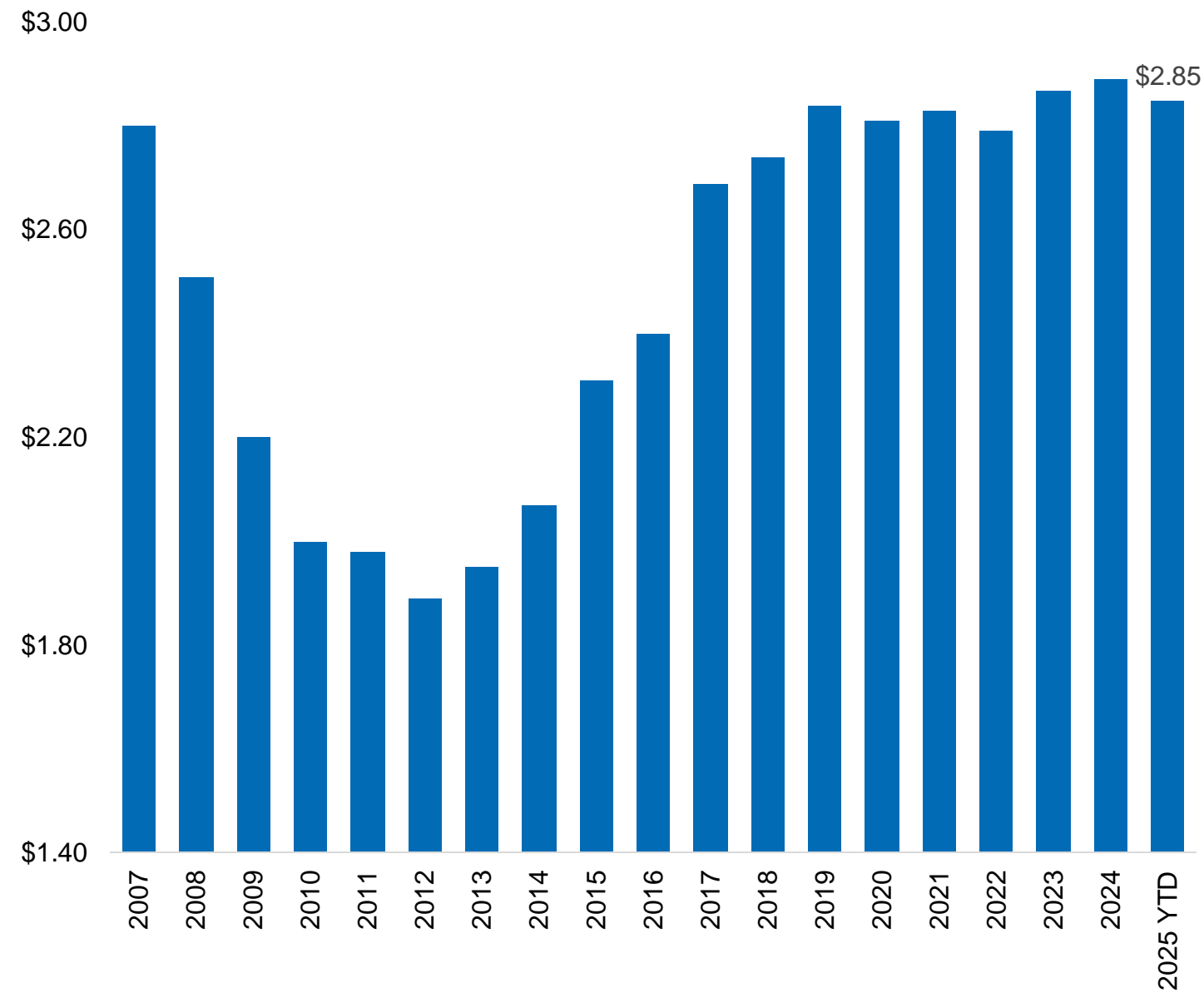


Source: Newmark Research

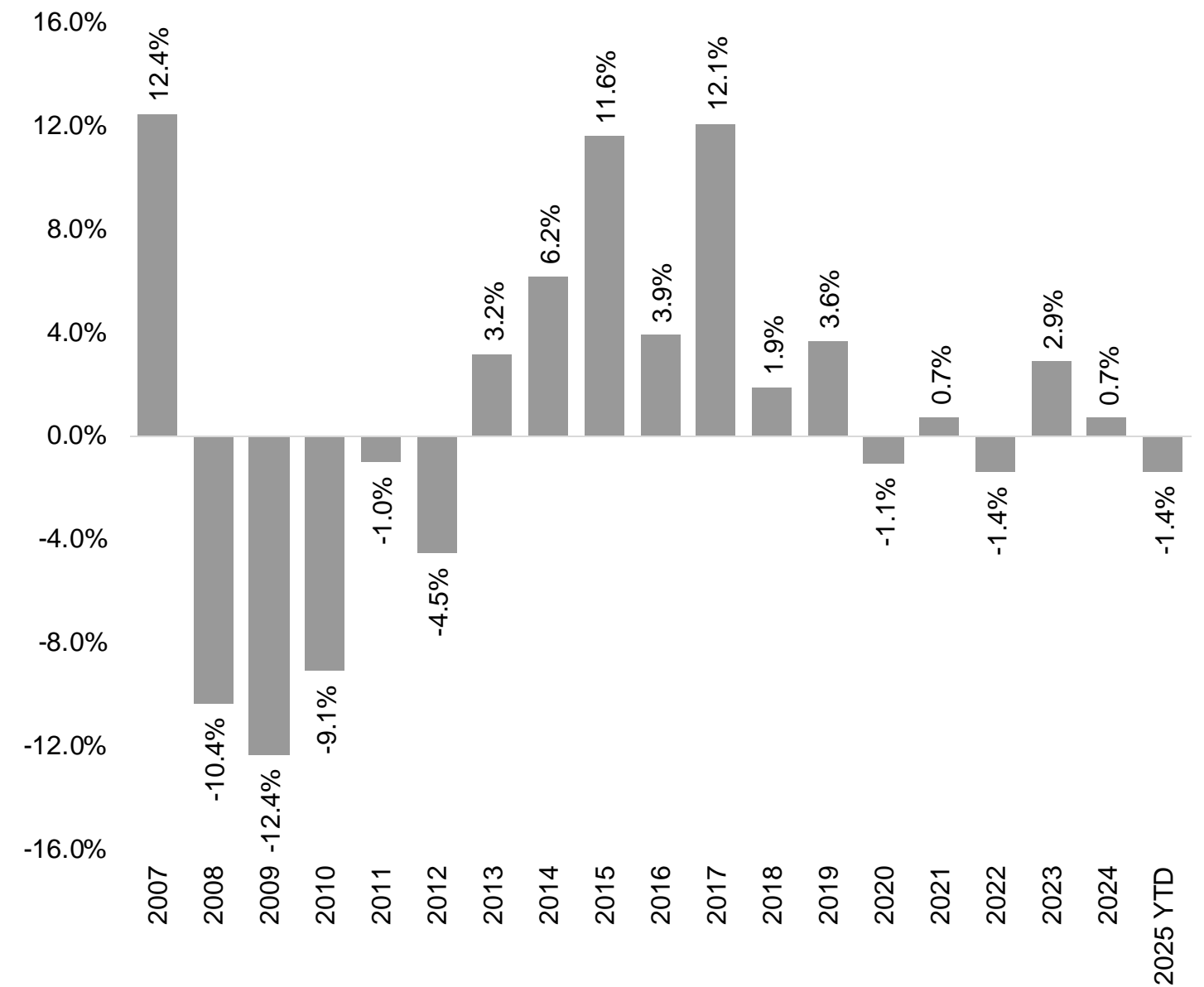
Asking Rents Remain Elevated

Leasing activity has been subdued in recent quarters, which has caused rent growth to stall. Rents have not substantially declined despite slower activity due to newer Class A listings presently on the market, in addition to inflation, which is keeping tenant improvement allowances elevated.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research

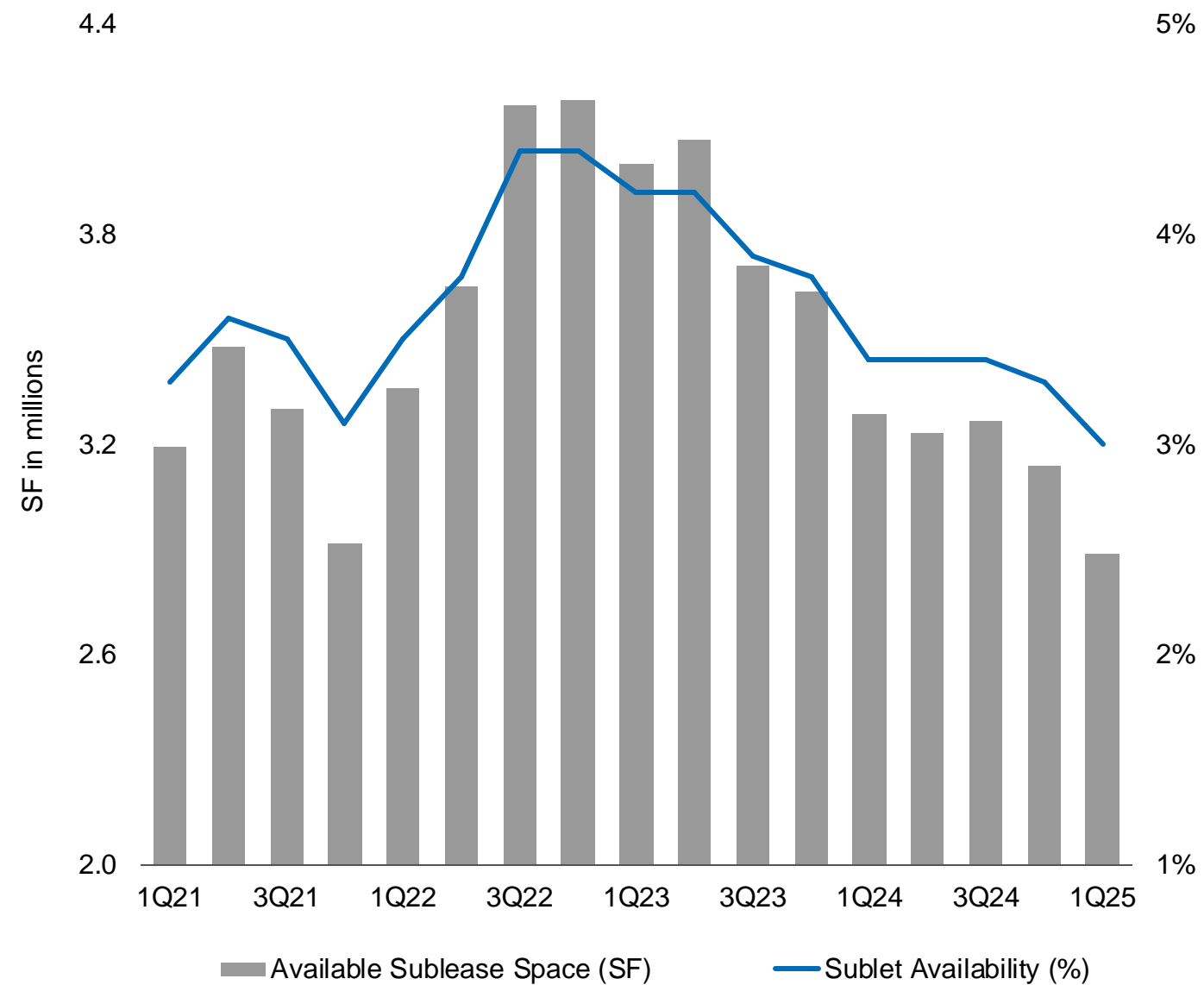
Airport and South County Command the Highest Rents

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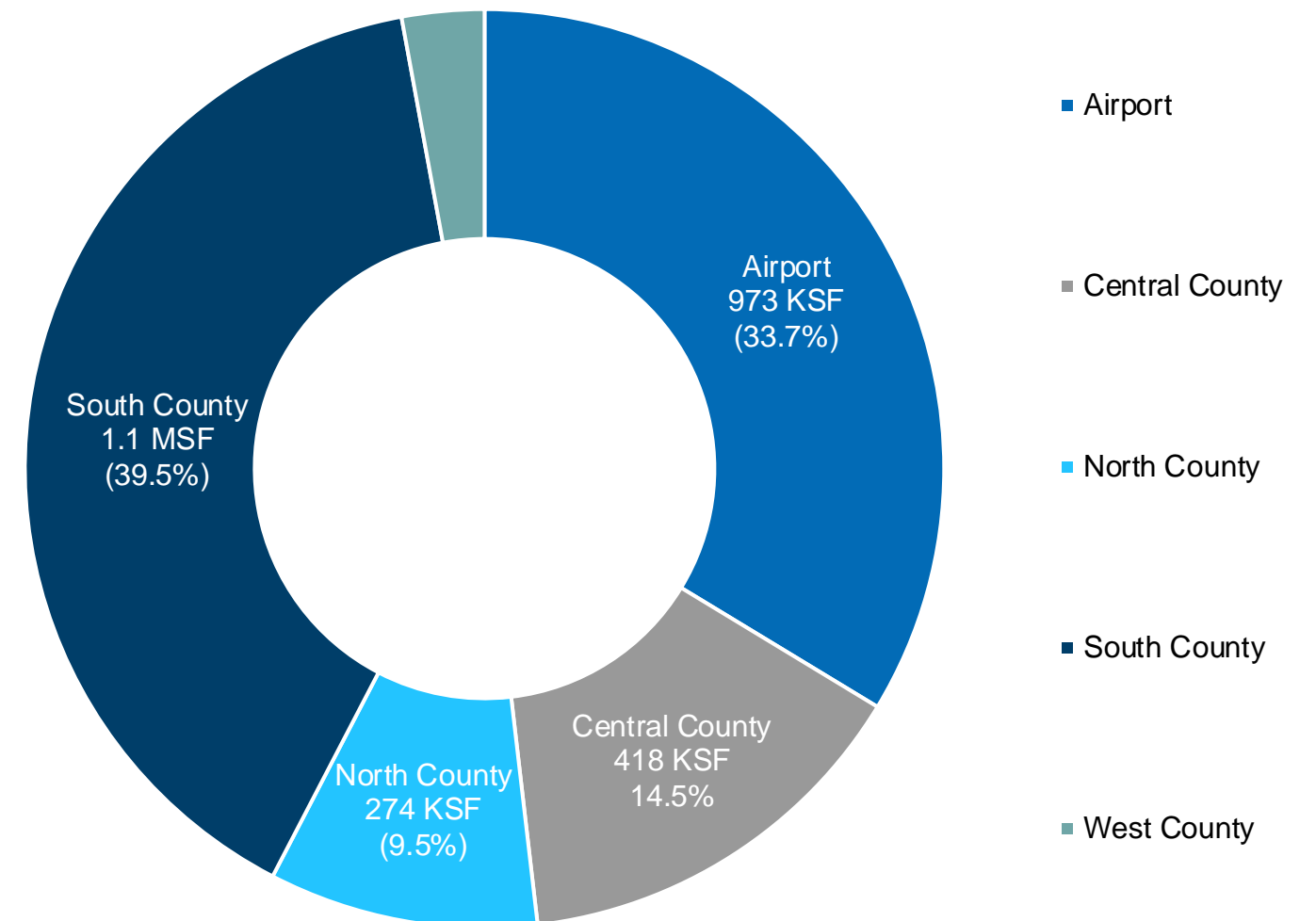
Sublet Availability In Downward Trajectory

Since hitting an all-time high in the fourth quarter of 2022, sublet availability has steadily declined and is now 1.3 MSF lower. At the submarket level, South County leads others in available sublease space, with 1.1 MSF or 39.5% of Orange County's sublet pool.

Available Sublease Space: Greater Market



Available Sublease Space by Submarket



Source: Newmark Research

Smaller, Fewer Leases Signed

This quarter's top deals all fell below 55,000 SF as leasing activity was generally subdued compared to previous quarters. South County leasing activity is catching up after the Airport Area solely dominated top activity for a few quarters in a row. Both submarkets are recognized for their supply of Class A product, and notable occupiers seeking trophy spaces continuously seek properties in those areas.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Inari Medical	510 Technology Dr	South County	Direct Lease	54,406
<i>The new deal is an expansion to the medical device company's existing sublet space that was leased last year.</i>				
EY	18101 Von Karman Ave	Airport	Renewal	36,666
<i>The consulting company has already been at this location for ten years.</i>				
Honeywell International	2955 Red Hill Ave	Airport	Lease Extension	28,606
<i>The tenant committed to an additional three years.</i>				
Zoll Medical	48 Discovery	South County	Sublease	26,920
<i>The medical device company took over Midas Technologies' lease, which is set to expire in 2027.</i>				
Kimley-Horn	20 Pacifica	South County	Direct Lease	23,316
<i>This will be the engineering services-provider's second Orange County location.</i>				

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How Trophy Buildings are Performing



Stark Contrast Between Trophy Product And Remainder Inventory

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Trophy Buildings' Leasing Activity Outpaces Remainder of the Market's

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Office Conversions and Distress



Home Ownership is Out of Reach for 88% of Buyers; Good News for the Rental Market

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34.1% of the Region's Office Market Obsolete or Unable to Service Debt

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Some Underperforming Office Properties Slated for Conversion

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Obsolete Office Properties Dropped From Total Inventory

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Removal Of Undesirable Product From Inventory Will Recalibrate Vacancy

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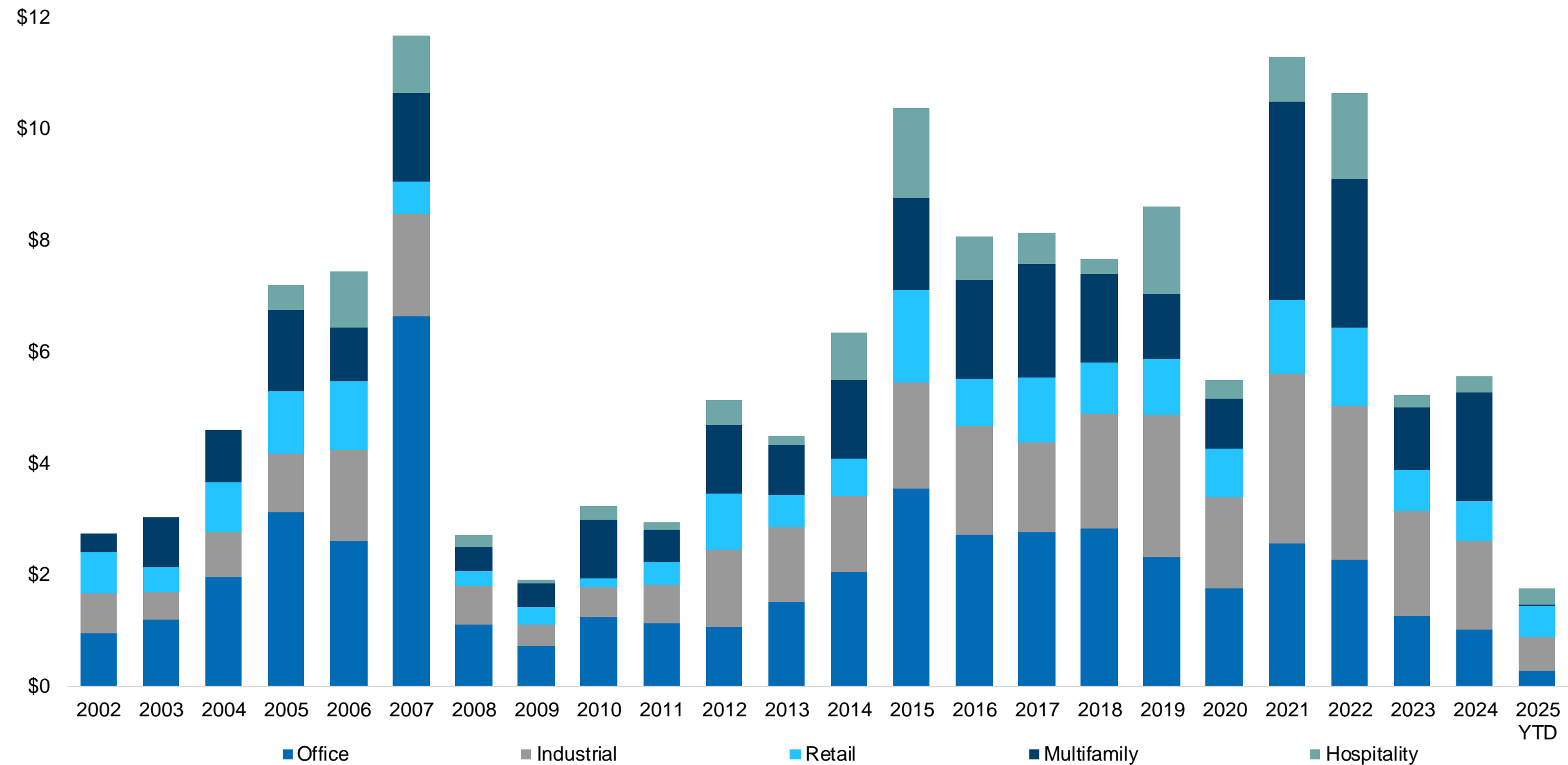
Sales Activity



Office Comprised Just 16.0% of Total Sales Volume This Quarter

This is a significant decline from 2018, when office comprised 36.8% of total volume. Structural shifts in leasing dynamics since the onset of COVID-19 remain an ongoing challenge for the property segment. This contrasts with other asset classes, such as industrial and multifamily, which have experienced heated rent growth amid high demand in recent years. Growth that is now moderating.

Orange County: Sales Volume Across Commercial Property Segments (\$ in Billions)

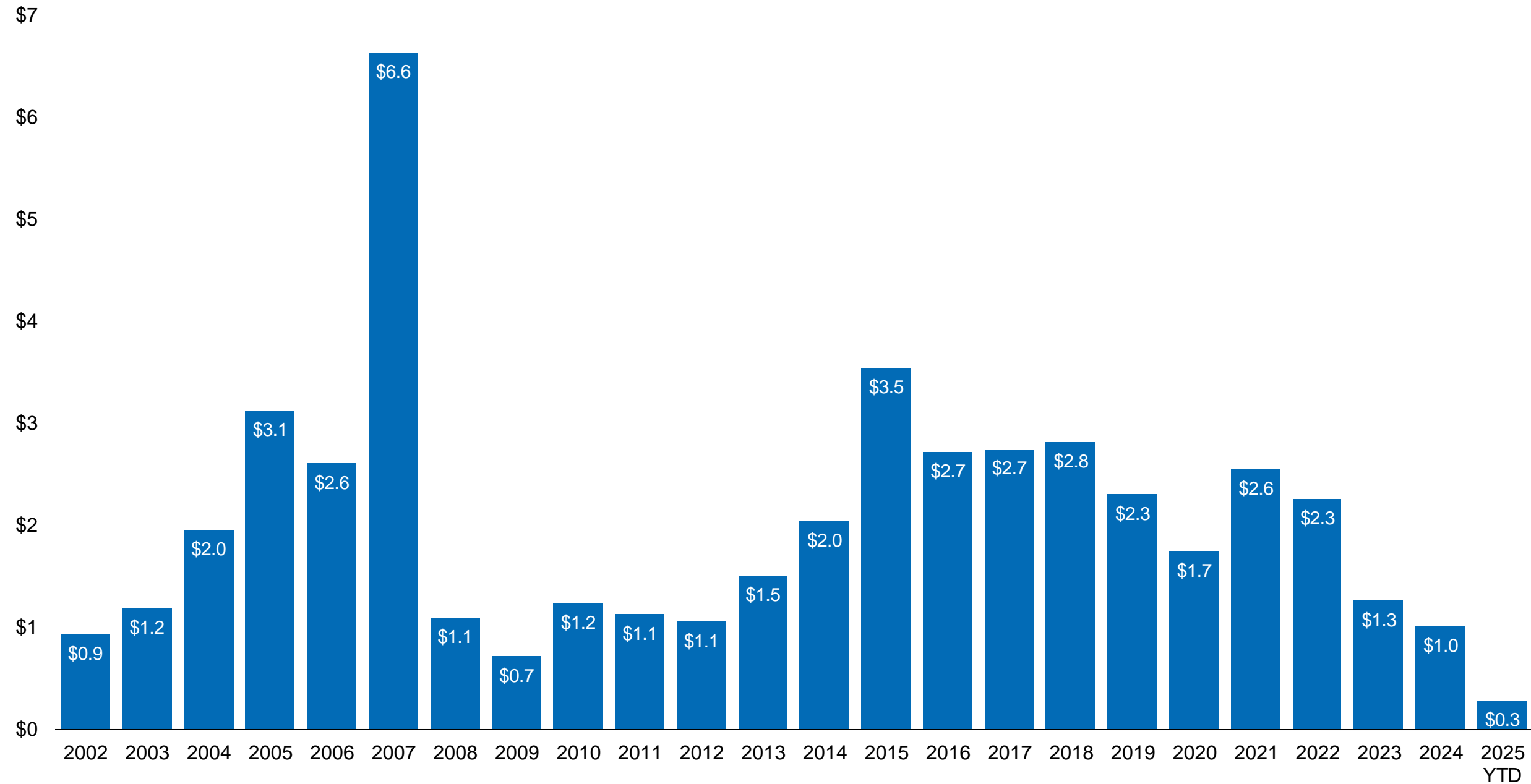


Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the first quarter of 2025.

Office Sales Volume: Up Close

Office sales volume totaled \$281 million this quarter, a slight improvement from the first quarter of 2024 where sales volume was \$174 million. Economic headwinds, concern regarding long-term adoption of hybrid work models, rising vacancy, looming debt maturities and a higher interest rate environment have most investors taking a wait-and-see approach to the asset class.

Orange County: Office Sales Volume (\$ in Billions)



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the first quarter of 2025.

Pricing is Decreasing, While Cap Rates Will Increase

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Opportunistic User Buyers Take Advantage Of Discounted Office Market

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Steep Discounts For Owner-User Buyers

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Submarket Snapshots



Airport

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Central County

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North County

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South County

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West County

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Appendix



Orange County Office Submarket Map and High-level Statistics | 1Q25

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