



NEWMARK

Orange County:
Office Market Overview

1Q26

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Orange County Office Market Observations



Economy

- Recent state and local market employment figures were unavailable at the time of writing due to the last federal government shutdown and subsequent delays from the Bureau of Labor Statistics to collect and process data.
- Local office-using employment in December 2025 was reminiscent of May 2020 levels, a time when the pandemic was in full effect. All three office-using sectors declined in the last year, with the information (technology) sector leading with a 4.2% reduction.
- U.S. unemployment reached its highest level in four years in November (4.6%) and dropped to 4.4% in February. Healthcare is propelling job growth, while white-collar counts are fewer.
- The Fed maintained its benchmark rate this quarter and projects one quarter-point cut in 2026 and another in 2027. The U.S. war with Iran complicates the outlook, though.



Leasing Market Fundamentals

- Vacancy dropped from 17.1% to 15.7% over the last year following a surge in net absorption. Total vacancy is now 120 bps below the five-year average.
- Quarterly absorption totaled 218,538 SF in net gains, marking the tenth positive quarter in the last eleven. This quarter's top move-in was Anduril occupying The Hive at 3333-3337 Susan St, a 190,051-SF campus in the Airport Area.
- 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. The last project delivered over two years ago.
- 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.



Major Transactions

- The bulk of leases signed this quarter originated from the Airport Area, the largest of which was a renewal signed by Pathway Capital. The financial consultant company has occupied its 65,583-SF space at The Boardwalk (18565-18575 Jamboree Rd) in Irvine since 2018.
- Von Karman Creative Campus, an office campus totaling 432,940 SF across nine buildings, was acquired by a Lennar-backed joint venture for \$232.1 million, marking the largest transaction of the year to date. The property has since been demolished with a proposed use for residential development.
- Another three-building office campus totaling 229,679 SF was sold to a local real estate company, The Khoshbin Company, for \$59.0 million. The Landing, located at 2955-2995 Red Hill Ave, was last sold to GEM Realty Capital in 2019 for \$72.0 million; 18.1% higher.



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. The Irvine Company especially benefits from this trend as they own 13 of the 20 trophy properties in the market.
- Only 14% 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.
- At the present, the U.S. economy is on track to expand roughly 2.4% in 2026, despite a Q4 2025 stumble (0.7% annualized, partly attributable to the government shutdown), with Q1 signaling a recovery toward trend growth. Oil price escalation and persistent tariff-driven inflation remain the primary near-term threats to business confidence and consumer spending.

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Economy

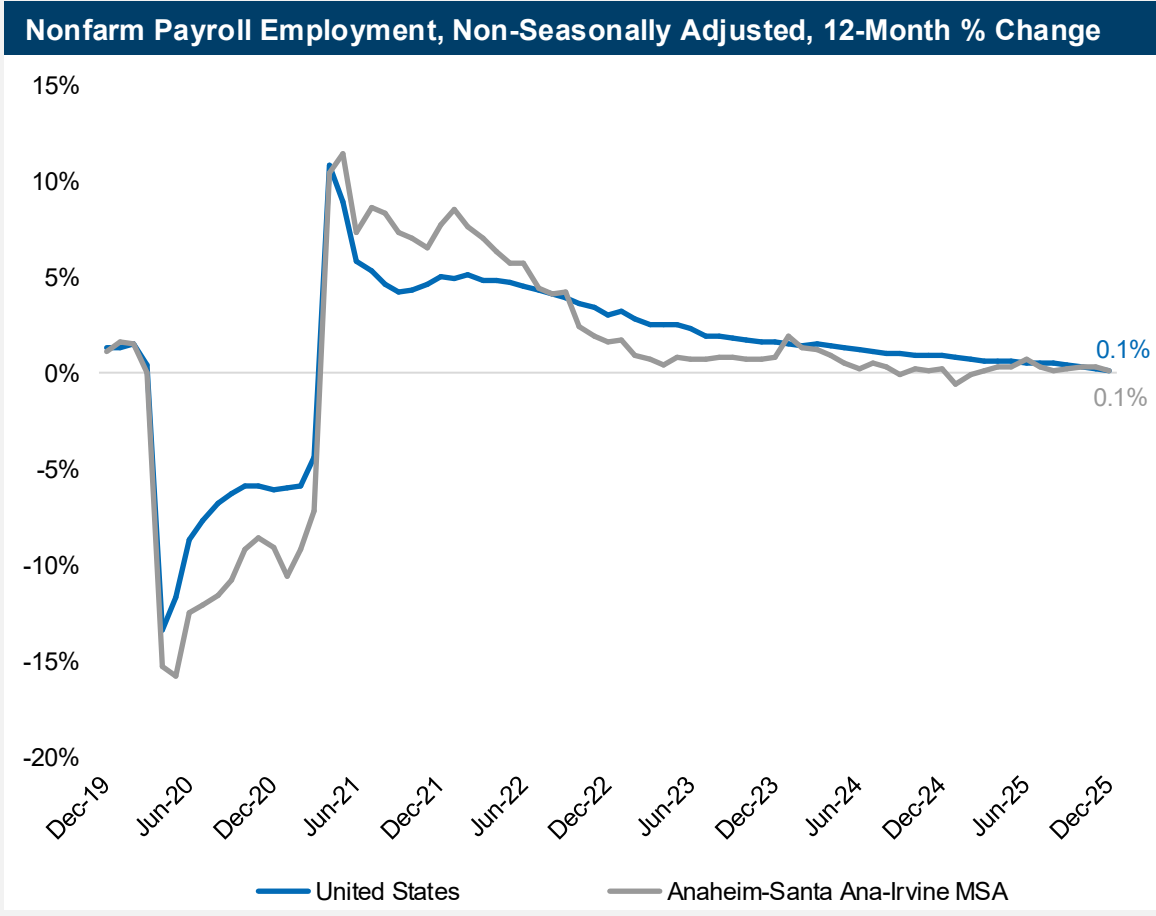
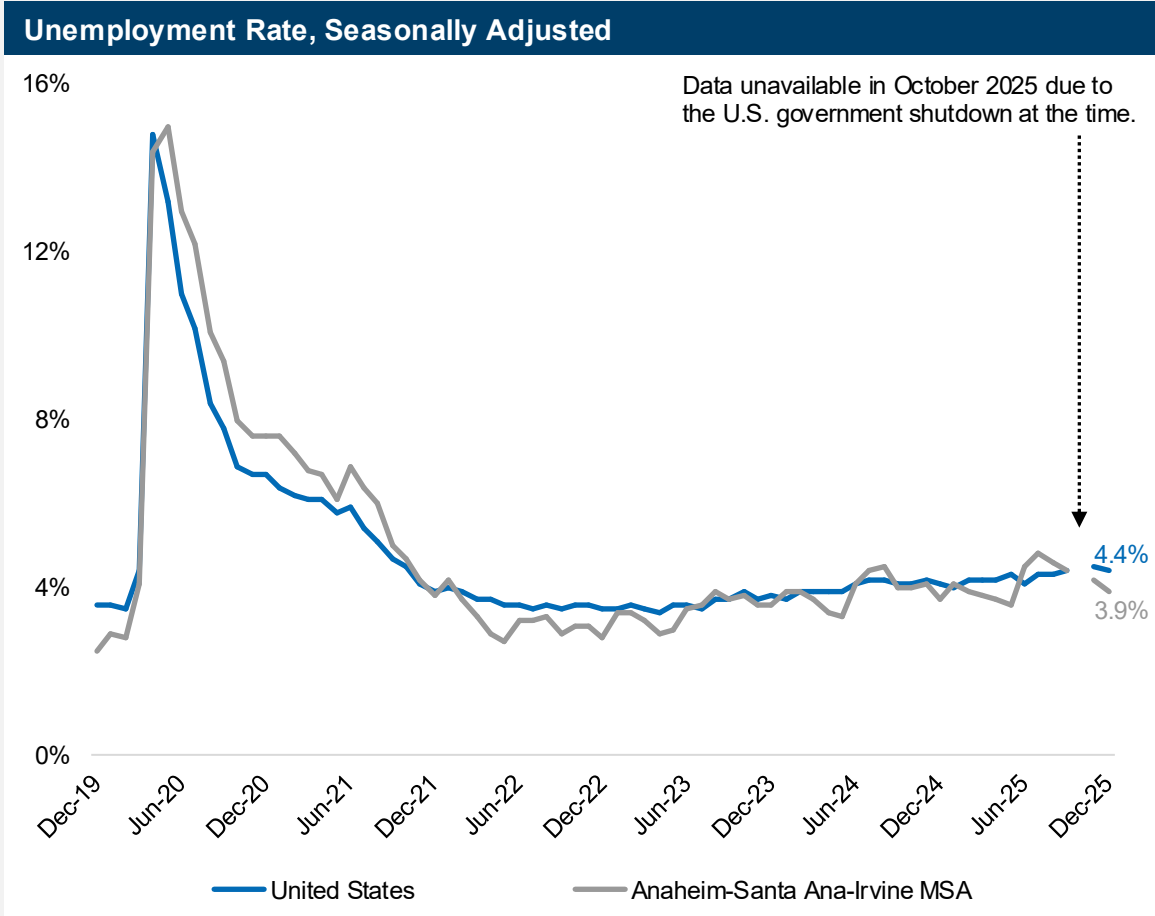
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Local Employment Growth Is Stagnant

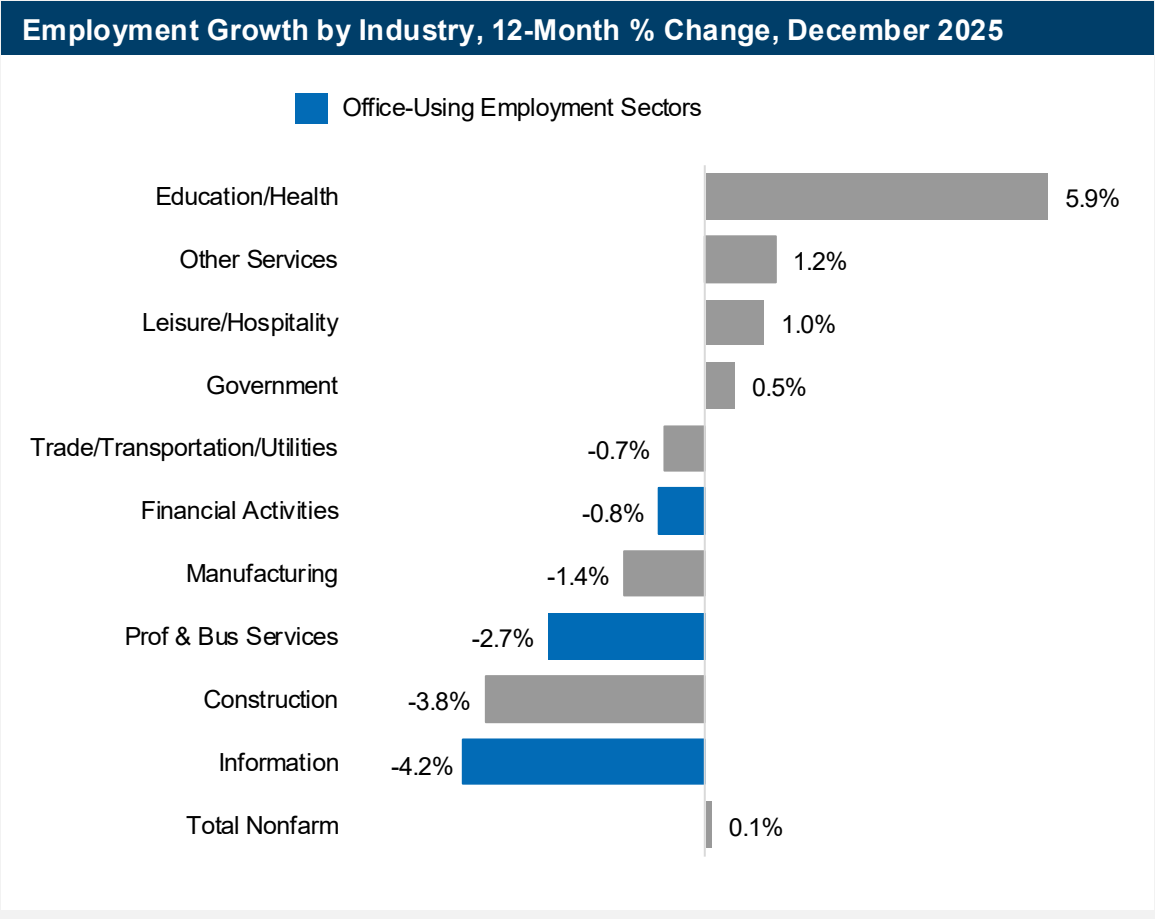
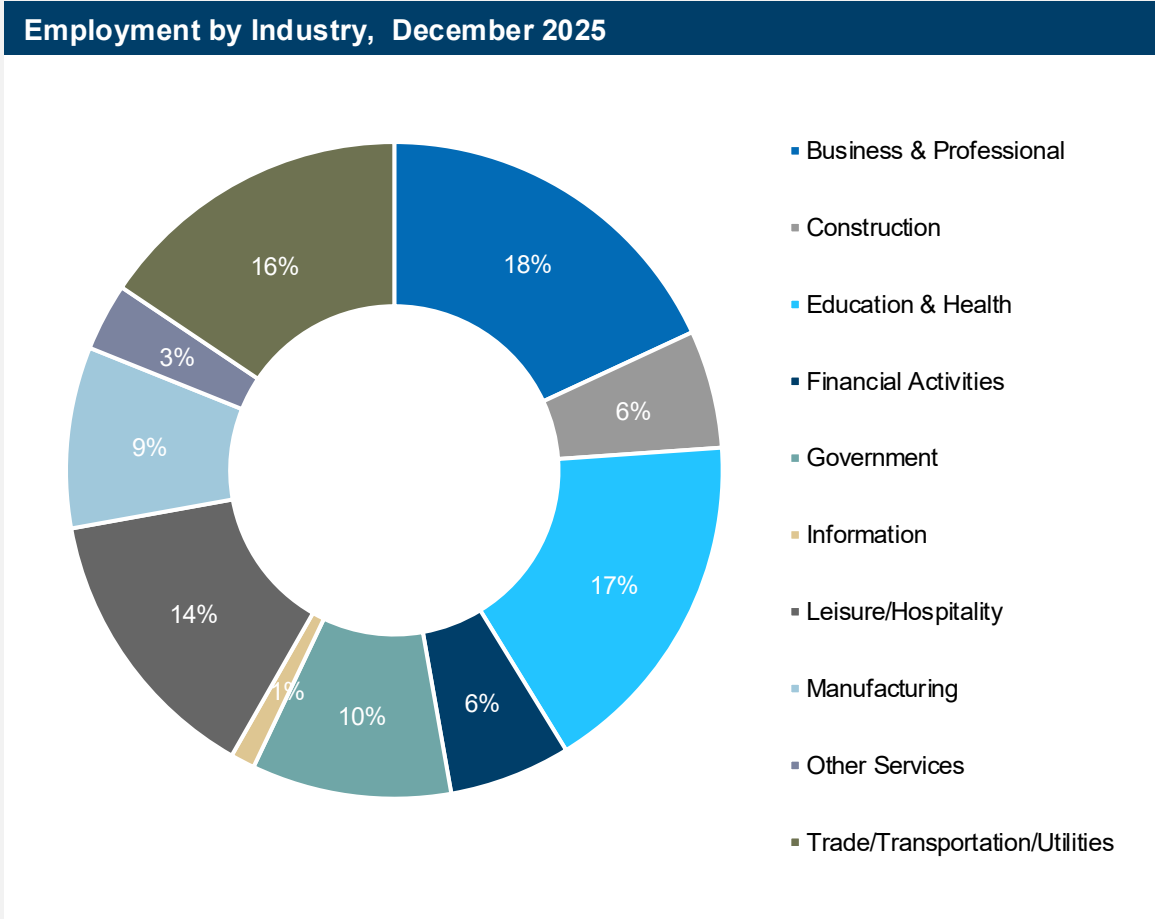
Local unemployment dropped 90 basis points from July (4.8%) to December (3.9%) while year-over-year nonfarm employment growth has plateaued. On a national level, unemployment reached levels last seen in 2021. In the months ahead, unemployment will continue to fluctuate as companies grapple with the uncertainty surrounding the economy.



Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
 Note: Due to a lapse in federal appropriations and a government shutdown in early 2026, the BLS has delayed or suspended the release of various employment reports. Early 2026 employment data was unavailable at the time of writing.

All Office-Using Employment Sectors Experienced Decline in the Last Year

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 and professional services companies, contending with economic pressures and lingering inflation, are also downsizing. This quarter, software company UKG shut down its Santa Ana office location made up of 209 employees while First Foundation and Wescom Financial collectively laid off 138 workers from their Irvine and Anaheim offices, respectively.

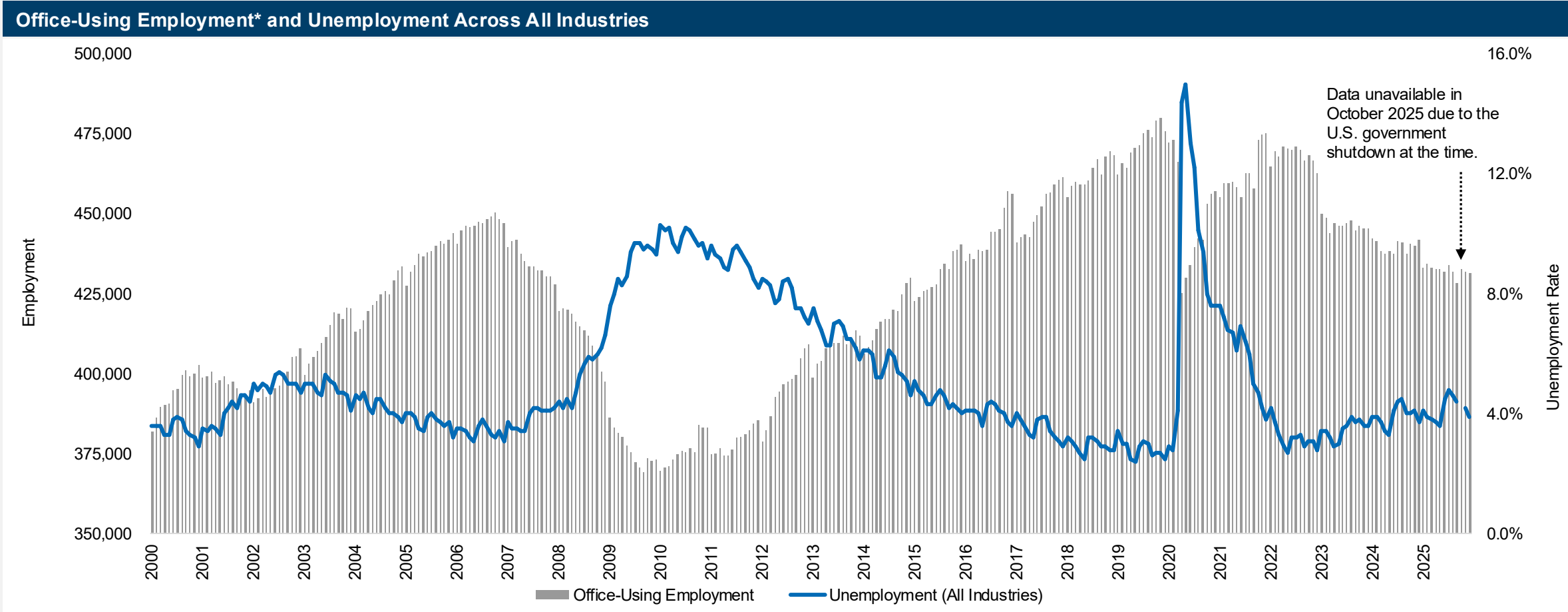


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA

Note: Due to a lapse in federal appropriations and a government shutdown in early 2026, the BLS has delayed or suspended the release of various employment reports. Early 2026 employment data was unavailable at the time of writing.

Office-Using Employment Drops to Early 2020 Levels

Office-using employment in December dropped to its lowest level since May 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.



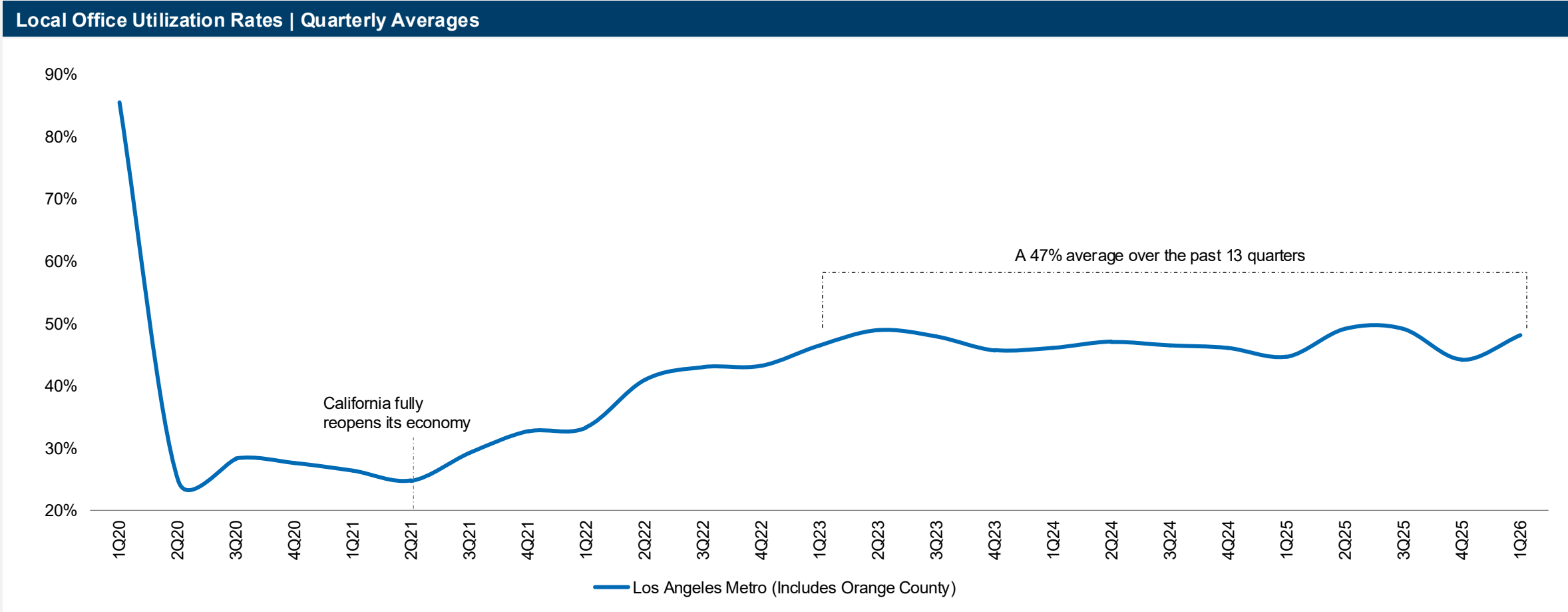
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*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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

Hybrid work, which has led to a structural shift in how office space is utilized in the region, persists.



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Market Fundamentals

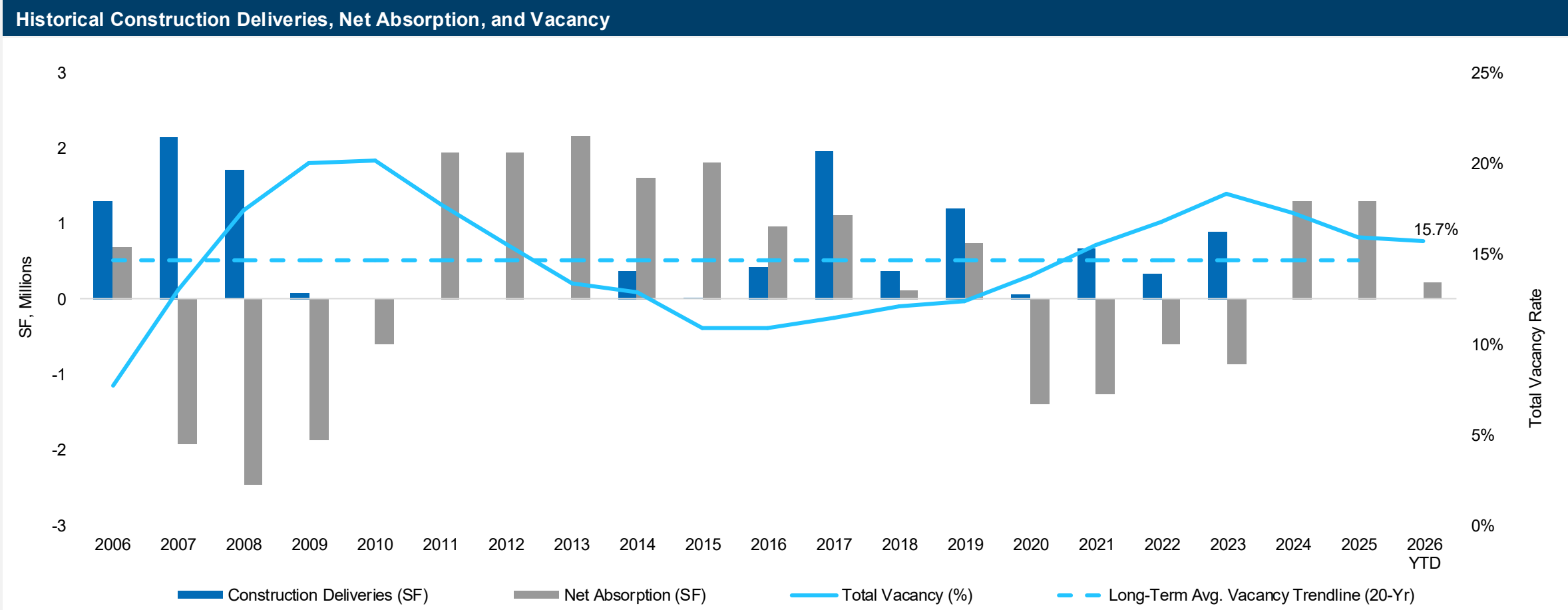
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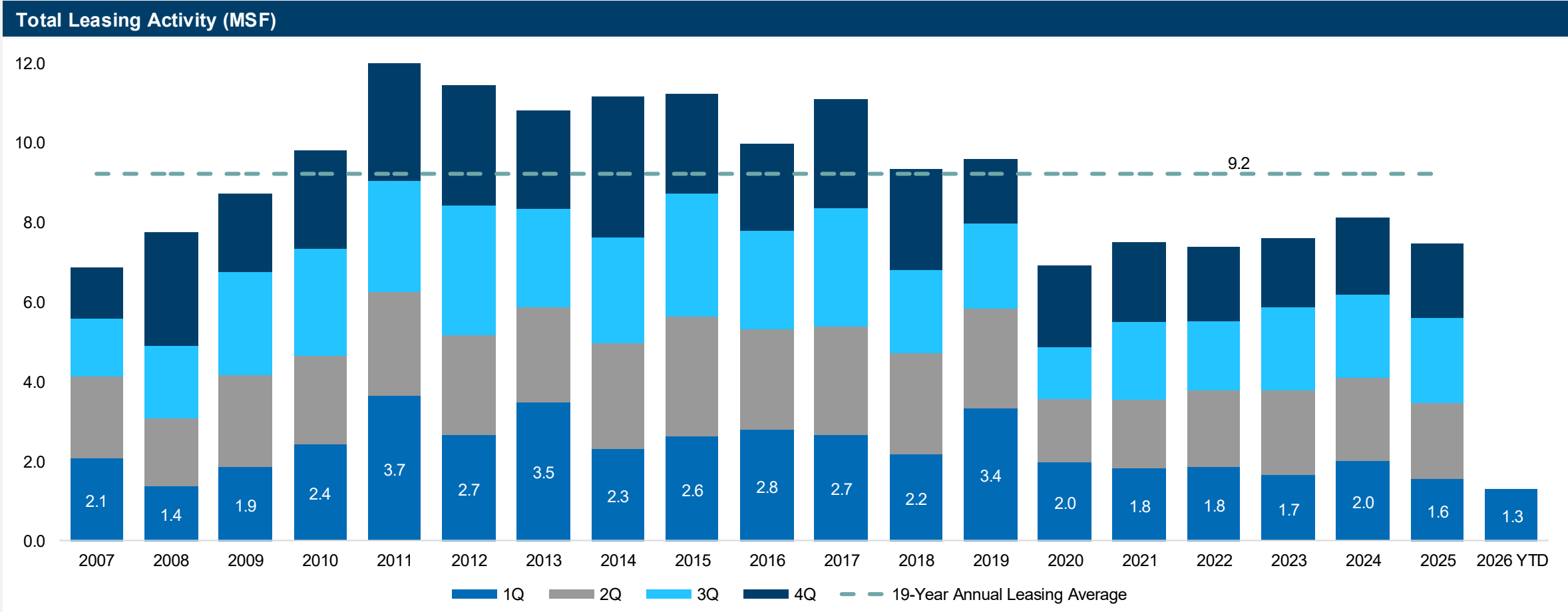
Net Absorption Gains Driving Down Vacancy

Vacancy dropped from 18.3% in 2023 to 15.7% this quarter following a surge in net absorption over the last two years. As more obsolete and vacant properties get removed from inventory for redevelopment and owner-use, market fundamentals are expected to normalize. For now, vacancy is expected to remain elevated in the quarters to come.



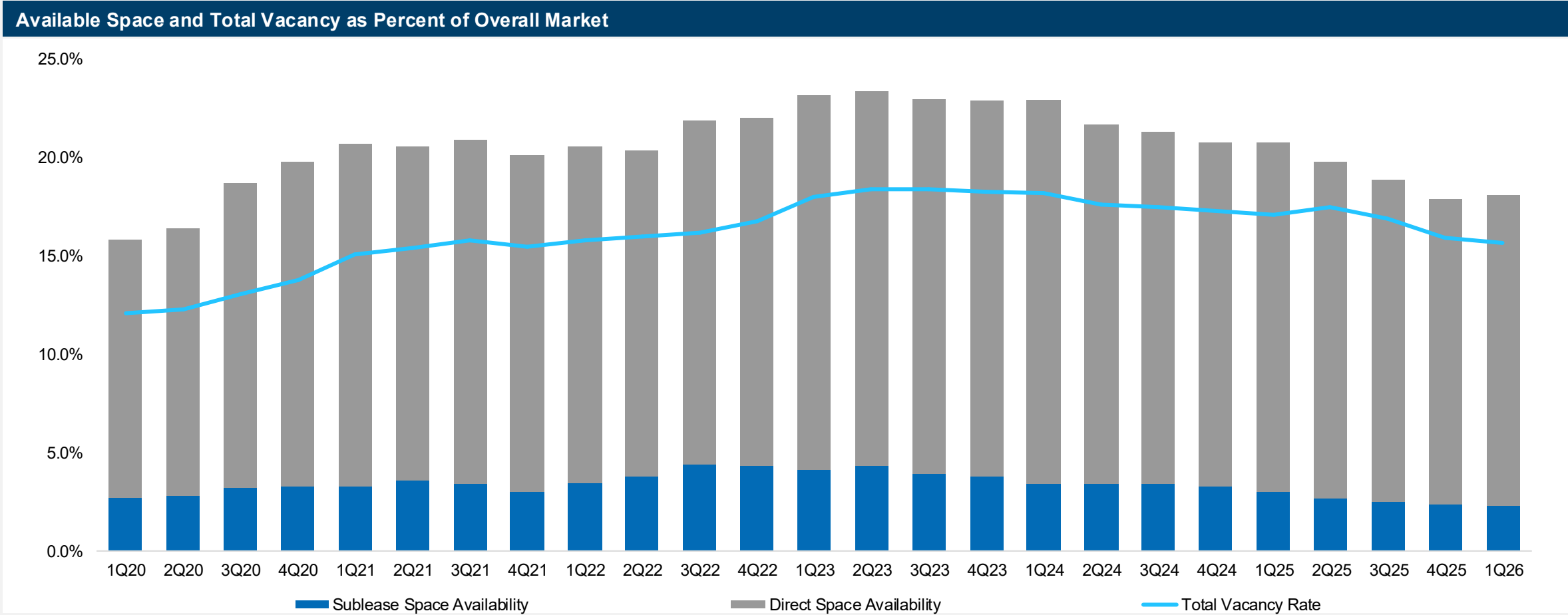
Quarterly Leasing Activity Lowest in Decades

Leasing activity for the first quarter of the year was at a record low compared to prior quarters. Hybrid work models remain the general norm despite employers' concerted efforts in bringing employees back to the office. That, combined with the uncertainty surrounding the economy, are hampering overall leasing activity as occupiers focus on cost-savings.



Sublet Availability at its Lowest Level in 6.5 Years

Sublet availability dropped to its lowest level in 26 quarters, down to 2.3% of total inventory. The decrease is from a mix of space finding subtenants, withdrawn listings, office redevelopment to other uses, and space coming to term and transitioning to direct availability.

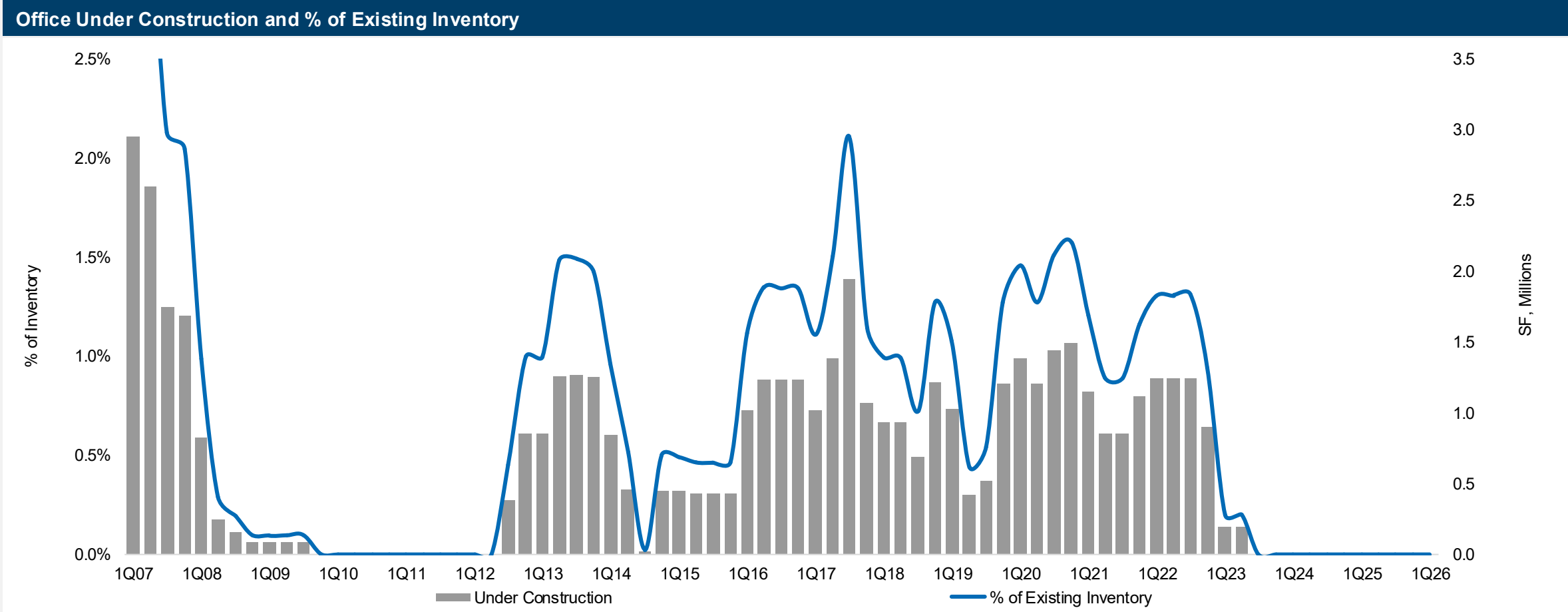


Total Availability Fluctuating Across All Submarkets

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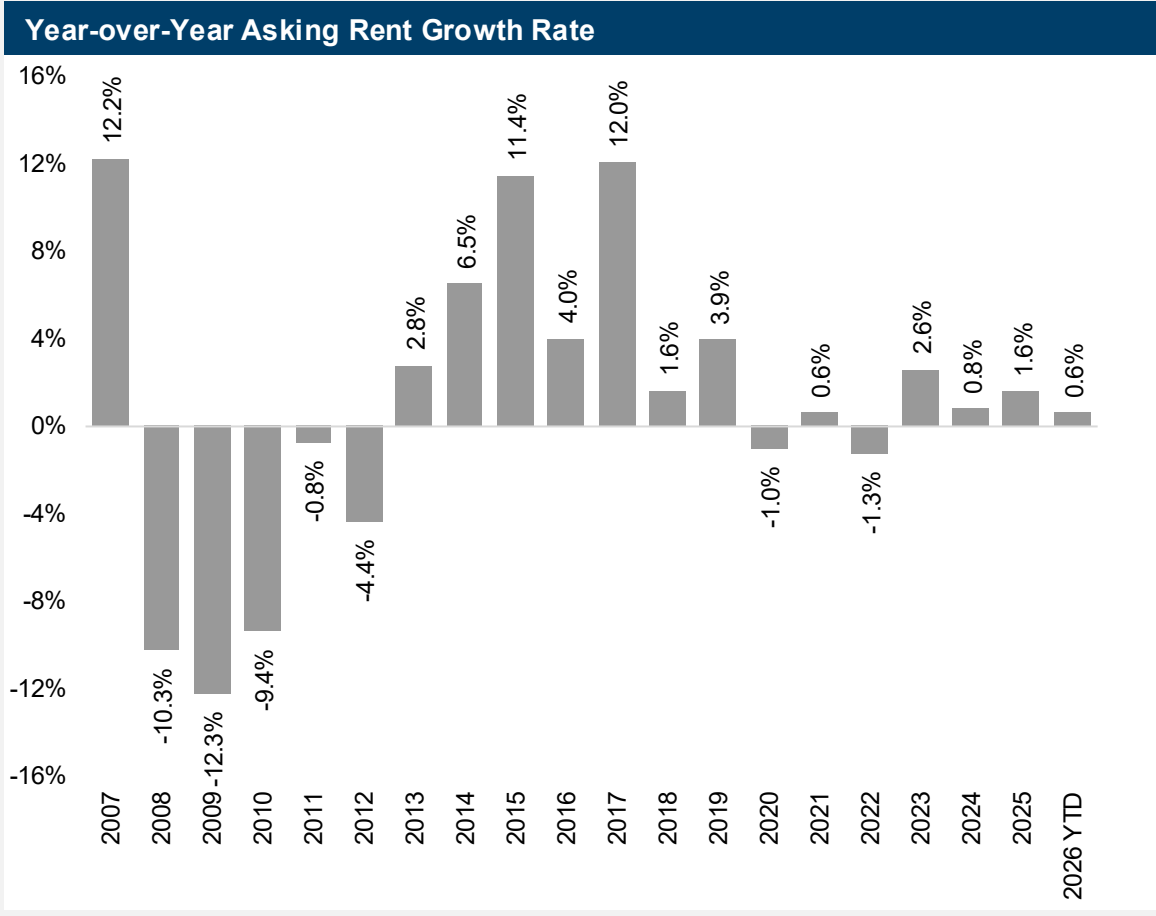
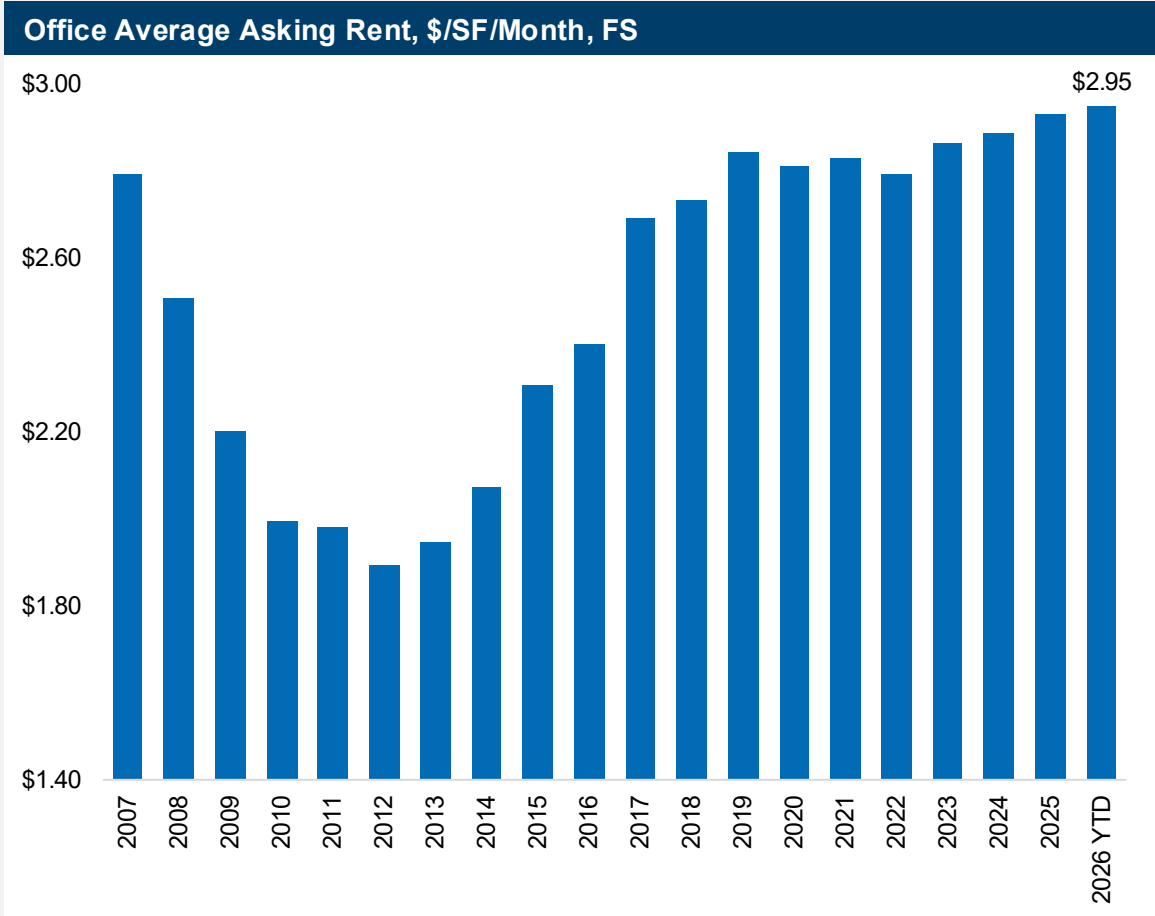
No Speculative Development Currently Underway

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.



Asking Rents Elevated Despite Softening Leasing Activity

Asking rents are at a record high despite slowed leasing activity thanks to inflation and newer Class A listings presently on the market. Landlords are preserving face rents while providing more in concessions to overcome debt and valuation concerns.

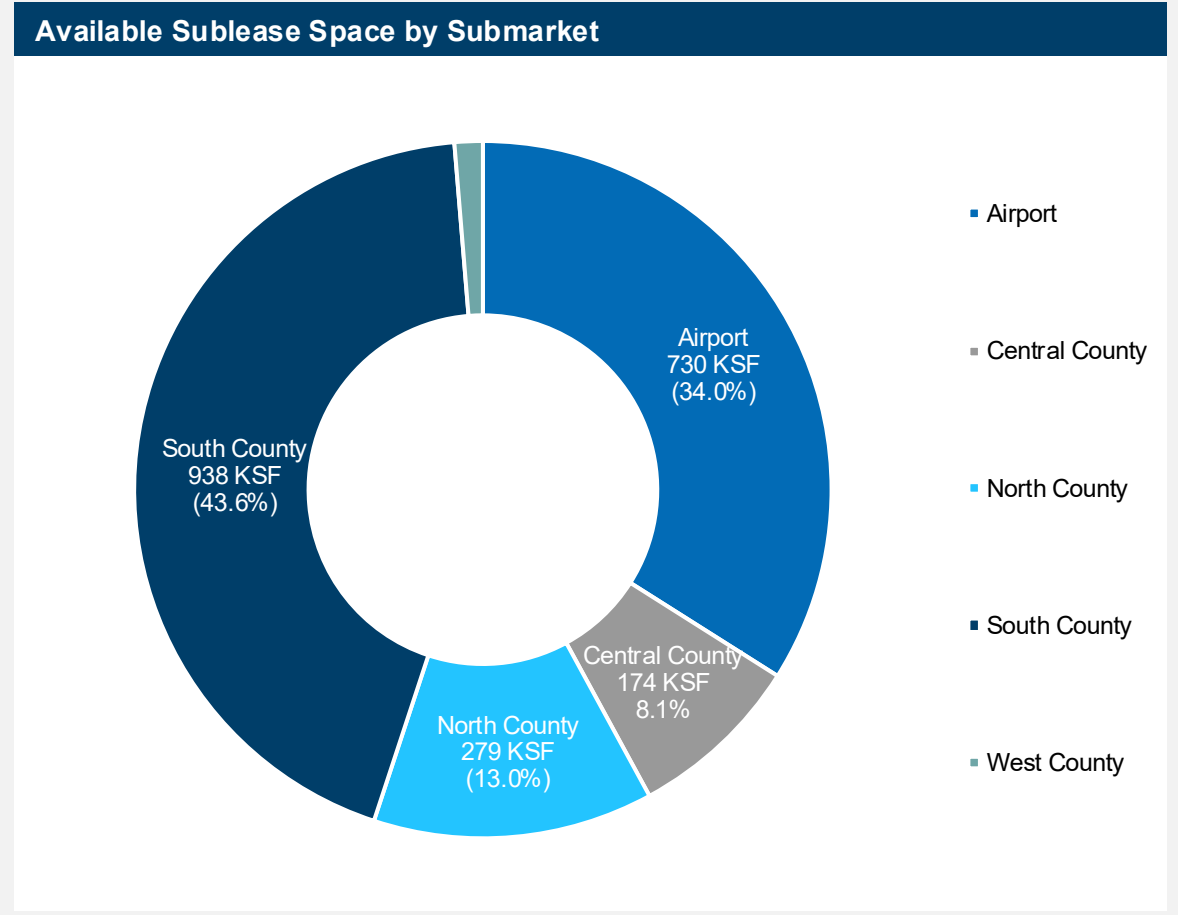
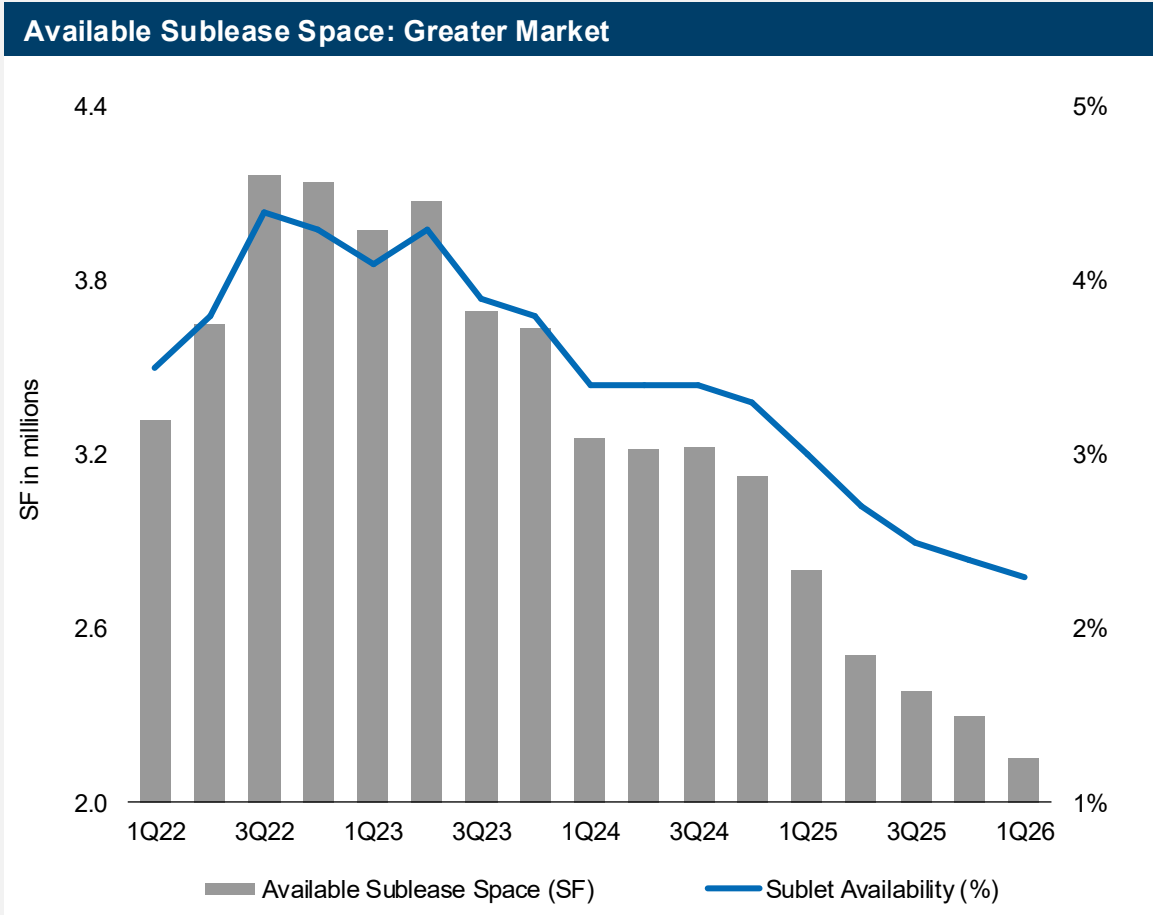


Airport and South County Command the Highest Rents

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Sublet Availability in Downward Trajectory

Since hitting an all-time high in the third quarter of 2022, sublet availability has steadily declined and is now 2.0 MSF lower. At the submarket level, South County leads others in available sublease space, with 937,739 SF or almost half of Orange County's sublet pool.



Tenants Leasing with The Irvine Company are Signing Bigger Deals

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Airport Area Dominates Top Deals List

The Airport Area continues to generate the bulk of leasing activity in the market. Its central location and inventory of trophy spaces makes it a top choice for notable tenants aiming to keep workers in the office.

Notable 1Q26 Lease Transactions

Tenant	Building(s)	Submarket	Lease Type	Square Feet
Pathway Capital	18565-18575 Jamboree Rd	Airport Area	Renewal	65,583
<i>The financial consultant company moved into The Boardwalk in 2018.</i>				
05 Apparel	5271 California Ave	Airport Area	Direct Lease	55,338
<i>The fashion group is expanding its office footprint to house the Billabong team following its acquisition of the license from Authentic Brands Group.</i>				
Regents of University of California	111 Theory Dr	Airport Area	Direct Lease, Renewal	53,794
<i>The tenant signed two separate deals; a renewal for its original 26,897-SF space and a direct lease for an additional 26,897 SF.</i>				
Pan Pacific	260 Progress	South County	Direct Lease	44,430
<i>The tenant will occupy the entire building at The Irvine Company's newest development Innovation Office Park.</i>				

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How Trophy Buildings are Performing

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Stark Contrast Between Trophy Product and Remainder Inventory

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Trophy Buildings' Leasing Activity Outpaces the Rest of the Market

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Office Conversions and Distress

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Home Ownership is Out of Reach for 86% of Buyers; Good News for the Rental Market

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29.8% 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

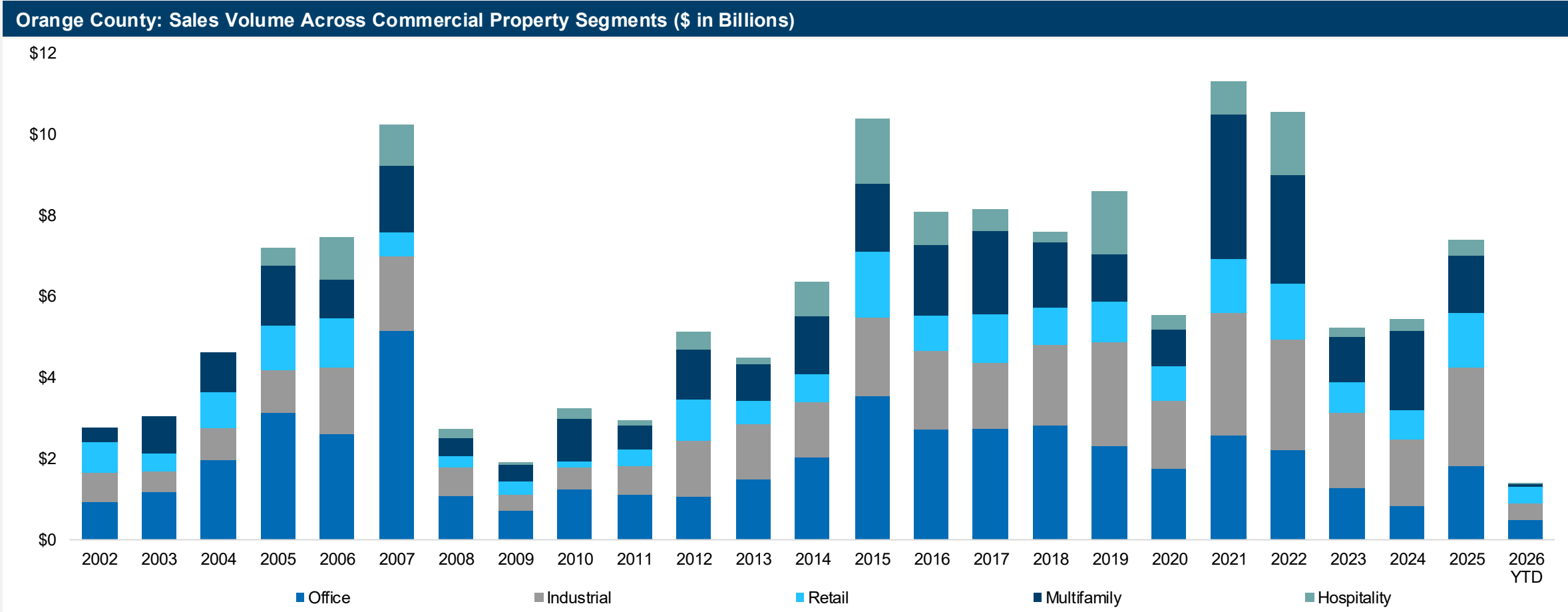
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Office Comprised 35.6% of Total Sales Volume Year-to-Date

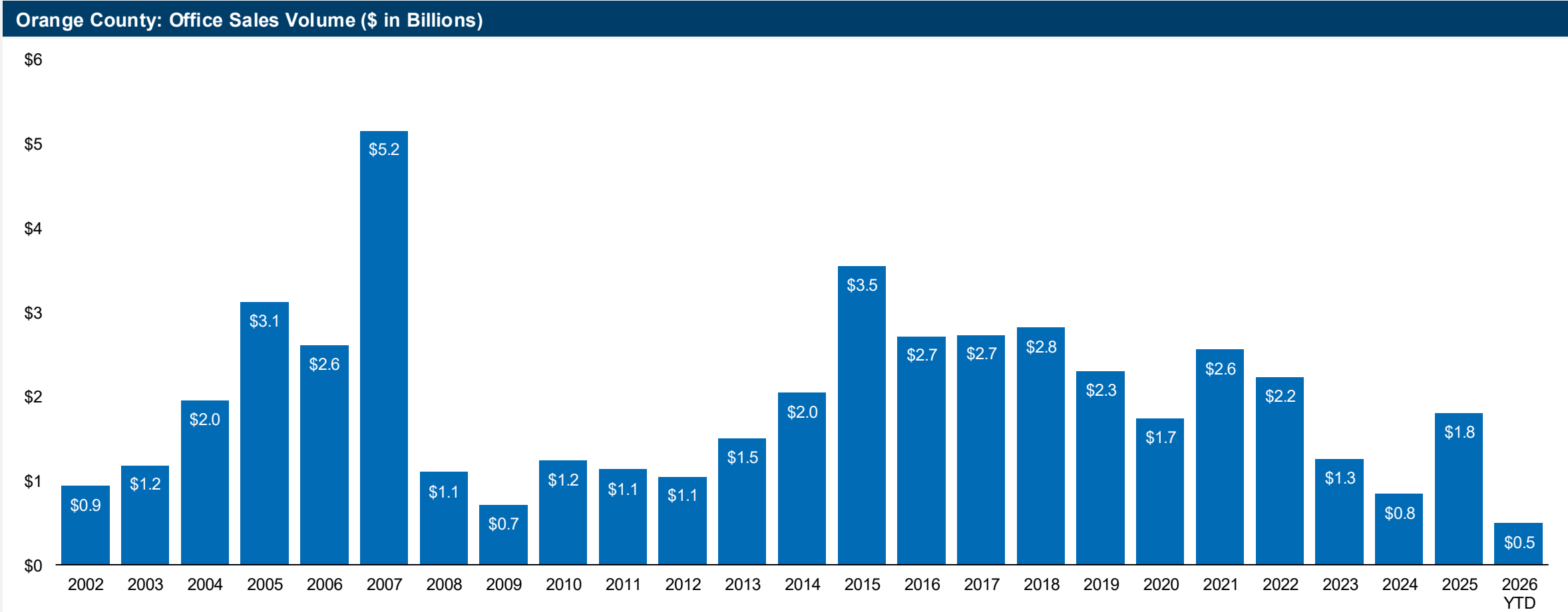
This is close to 2018 levels, when office comprised 37.2% of total volume. While leasing dynamics since the onset of COVID-19 remain an ongoing challenge for the property segment, discounted inventory pricing and office-to-multifamily conversions fueled recent sales activity. Other asset classes such as industrial and multifamily, which have experienced heated rent growth amid high demand in recent years, remain favorable to investors.



Source: MSCI Real Capital Analytics, Newmark Research
 Note: Preliminary data is cited for the first quarter of 2026.

Office Sales Volume: Up Close

Office sales volume totaled \$491 million in the first quarter of the year compared to last year’s first quarter total of \$314 million. The bulk of sales activity is driven by owner-users taking advantage of discounted inventory and investors seeking to redevelop dated office buildings to other uses.



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the first quarter of 2026.

Pricing is Recovering, While Cap Rates Will Increase

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Institutional Buyers Make a Comeback This Quarter

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Steep Discounts For Owner-User Buyers

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Owner-User Purchases are also Lowering the Office Base

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Submarket Snapshots

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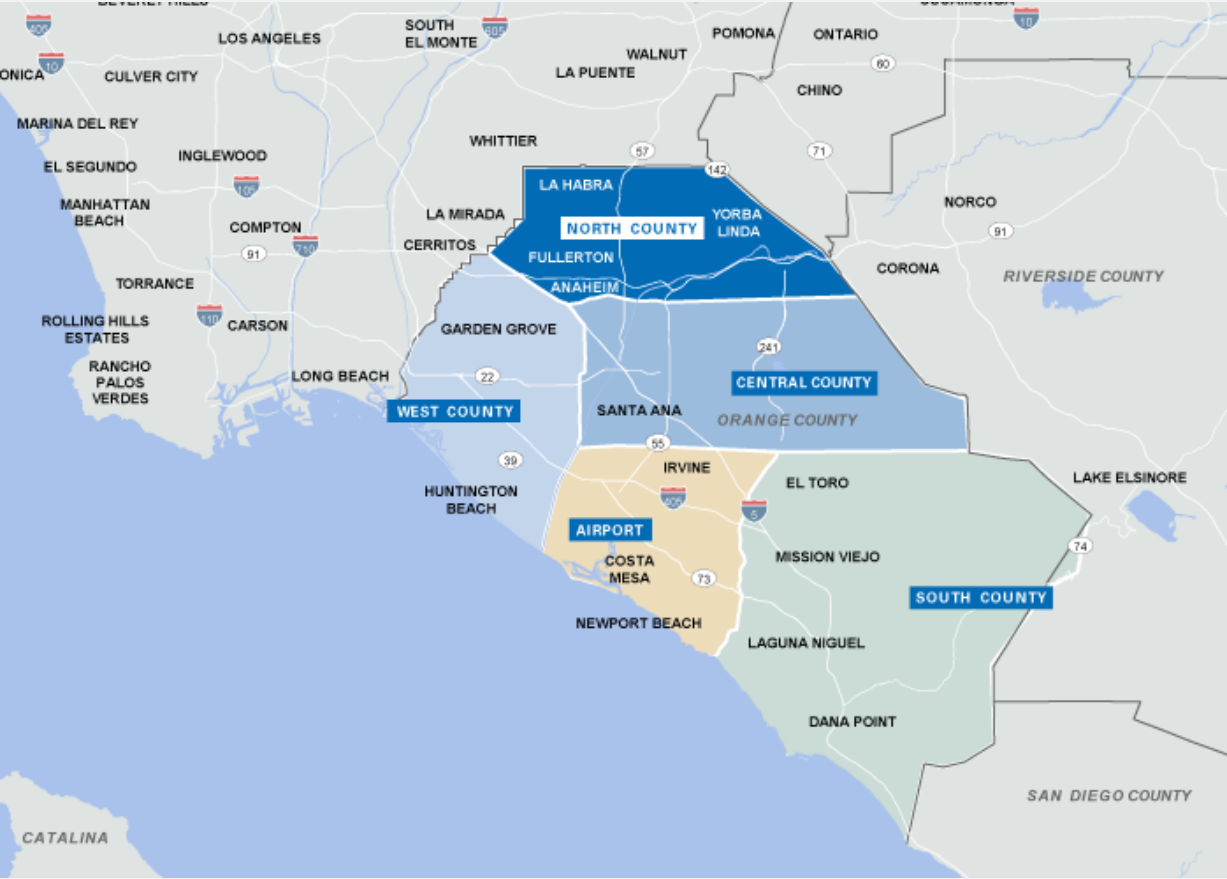
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Orange County Office Submarket Map and High-Level Statistics | 1Q26



Marketwide Statistics | 1Q26

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	93.8M	94.3M	94.4M	↓
Vacancy Rate	15.7%	15.9%	17.1%	↓
Quarterly Net Absorption (SF)	219K	991K	249K	→
Average Asking Rent/SF	\$2.95 FSG	\$2.93 FSG	\$2.84 FSG	→
Under Construction (SF)	0	0	0	→
Deliveries (SF)	0	0	0	→

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Newmark business contact for this information

Fahima Dawd

Senior Research Analyst
Orange County
fahima.dawd@nmrk.com

Dain Fedora

Head of Research
Southwest
dain.fedora@nmrk.com

Orange County Office

18401 Von Karman Ave., Suite 150
Irvine, CA 92612
t 949-608-2000

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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