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NEWMARK

Orange County Office Market Overview

Market Observations

Economy

- Local non-farm job growth has stalled over the last year due to employment declines across most industries, especially in the information, construction and financial activities 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 5.1% reduction.
- The U.S. economy continues to face growing uncertainty after the Trump Administration introduced a wave of tariffs earlier this year, 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

- Central County, the typically sleepy submarket in terms of leasing activity, accounted for the top two deals of the quarter. Regional Center Orange County renewed and expanded its existing space in Santa Ana for a total of 102,631 SF while Regents of the University of California signed a new lease for 92,489 SF in Anaheim.
- City Plaza, a 369,134-SF office property in Orange, was sold to Surlamer Investments for a record-low price per square foot ($52/SF or $18.5 million). The property sits on 11.3 acres of land and will likely be converted to multi-family.
- Owner-users are purchasing properties at a fraction of their cost. This quarter, owners of the Anaheim Ducks acquired Stadium Tower in Anaheim, a 261,858-SF office building, for $72.1 million. Newmark represented the seller. The property last traded in 2017 for $76.6 million, a 29.0% depreciation after adjusting for inflation.

Leasing Market Fundamentals

- Vacancy rose to 17.5%, marking the first increase after seven consecutive quarters of decline. Total vacancy is 110 bps above the five-year average.
- Quarterly absorption dropped to -411,436 SF following seven consecutive quarters of net gains. The drop was mainly driven by limited move-ins, the largest being Serendipity Labs occupying 39,053 SF at 3200 Park Center Dr.
- 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 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.

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 $1.5 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 and the general business community. Leasing will fluctuate in the quarters ahead as businesses contend with the volatile economic environment.

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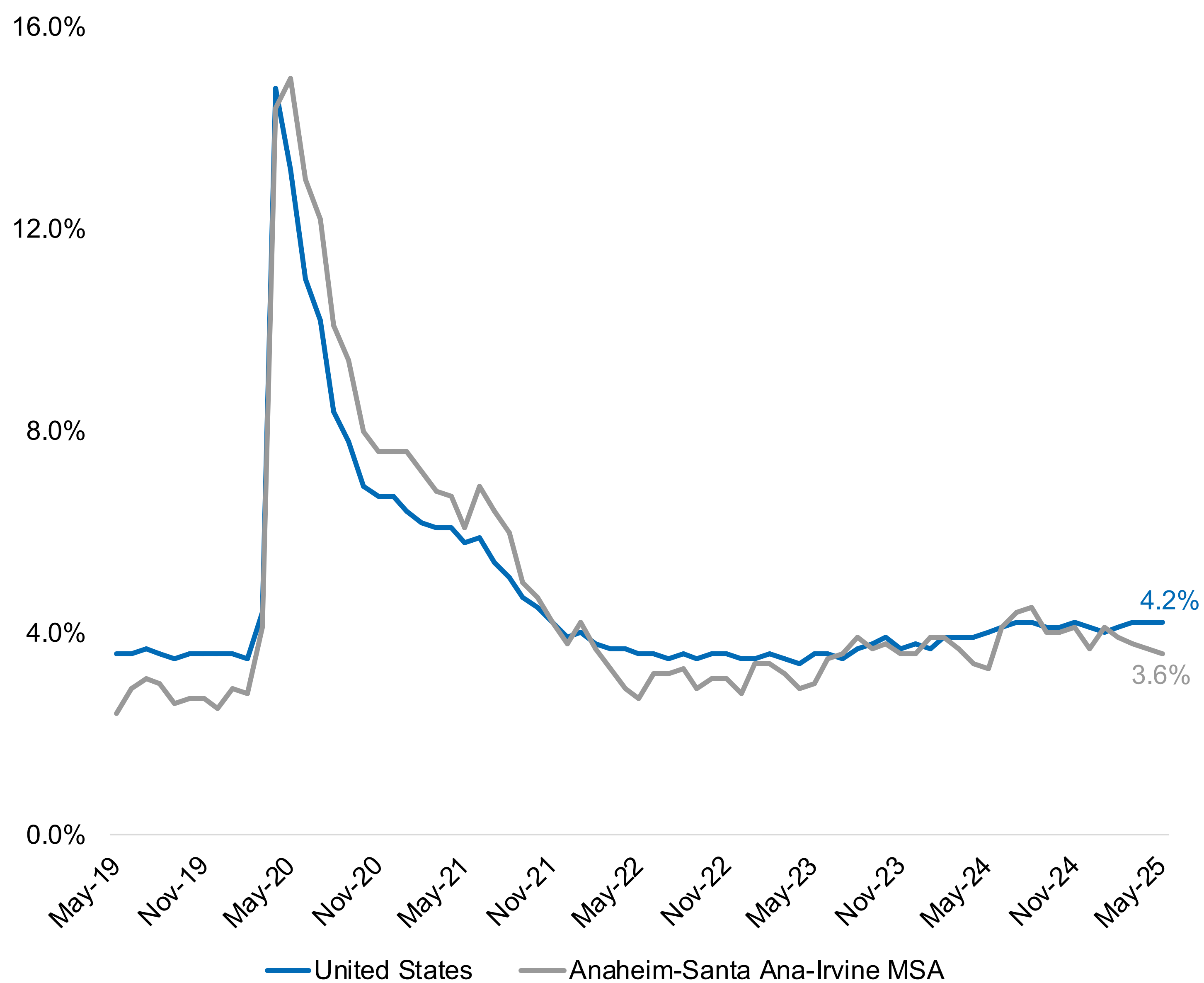
Economy

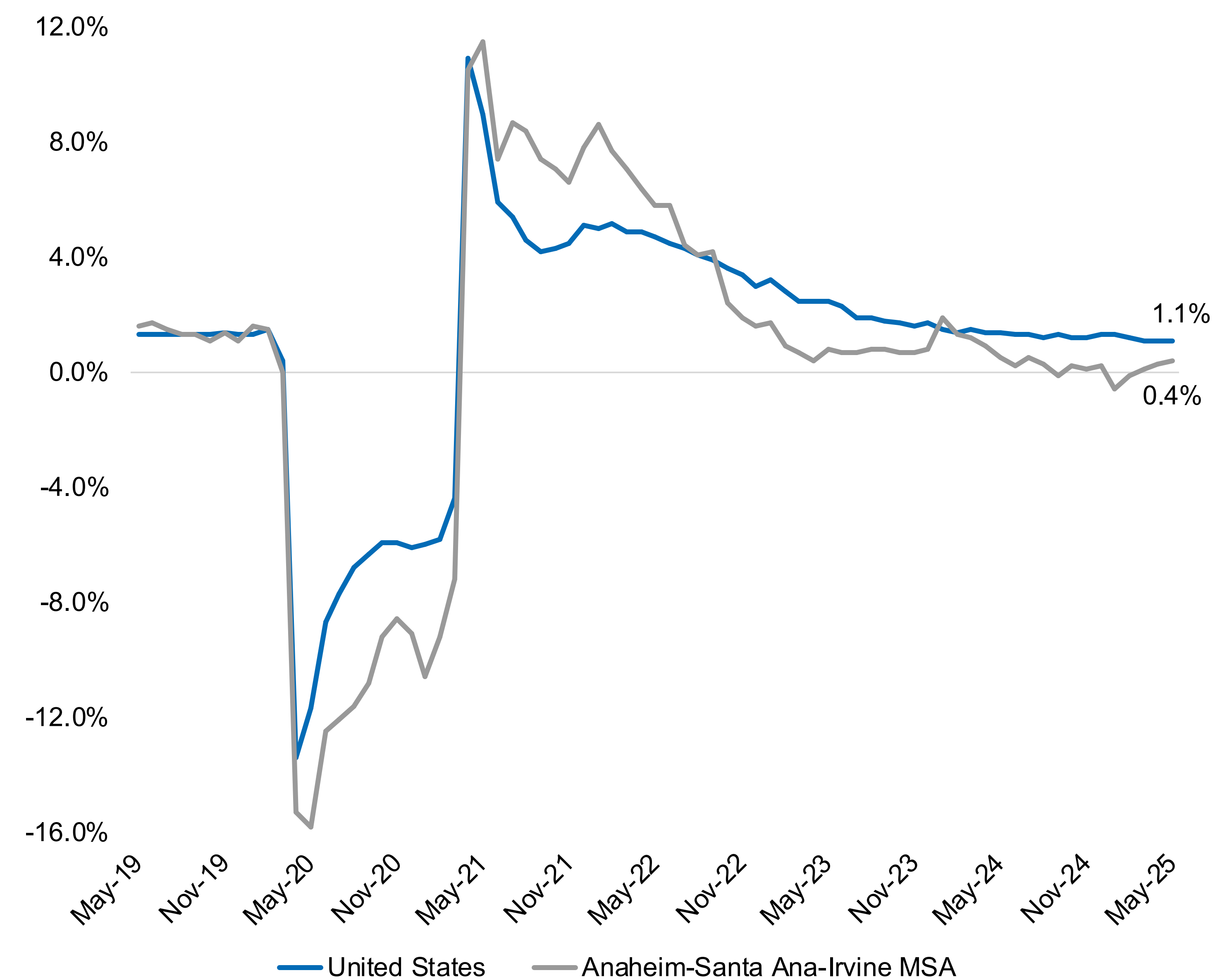
Local Employment Growth Is Stagnant

Local unemployment dropped 50 basis points since January to 3.6% in May 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

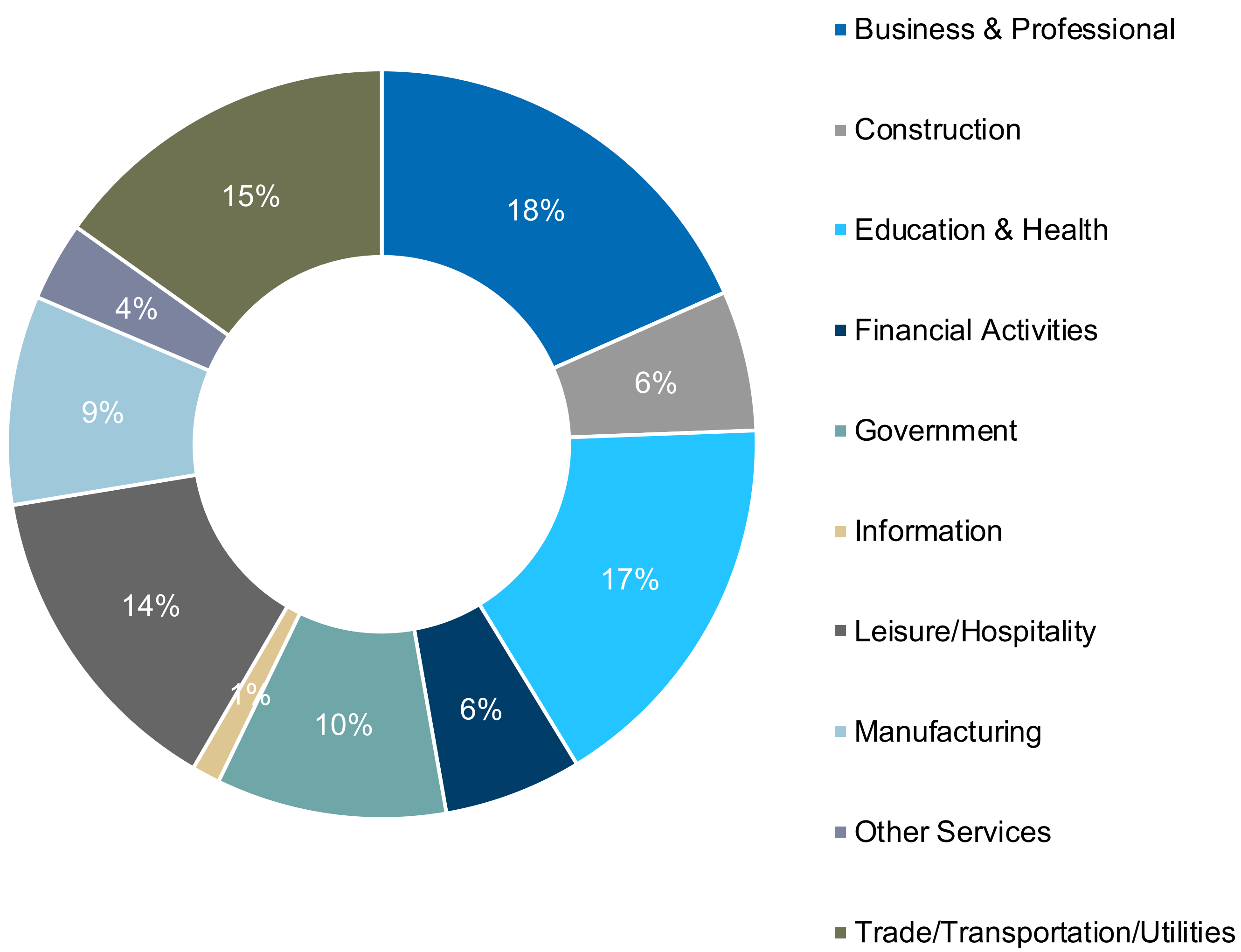


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
Note: May 2025 data is preliminary.

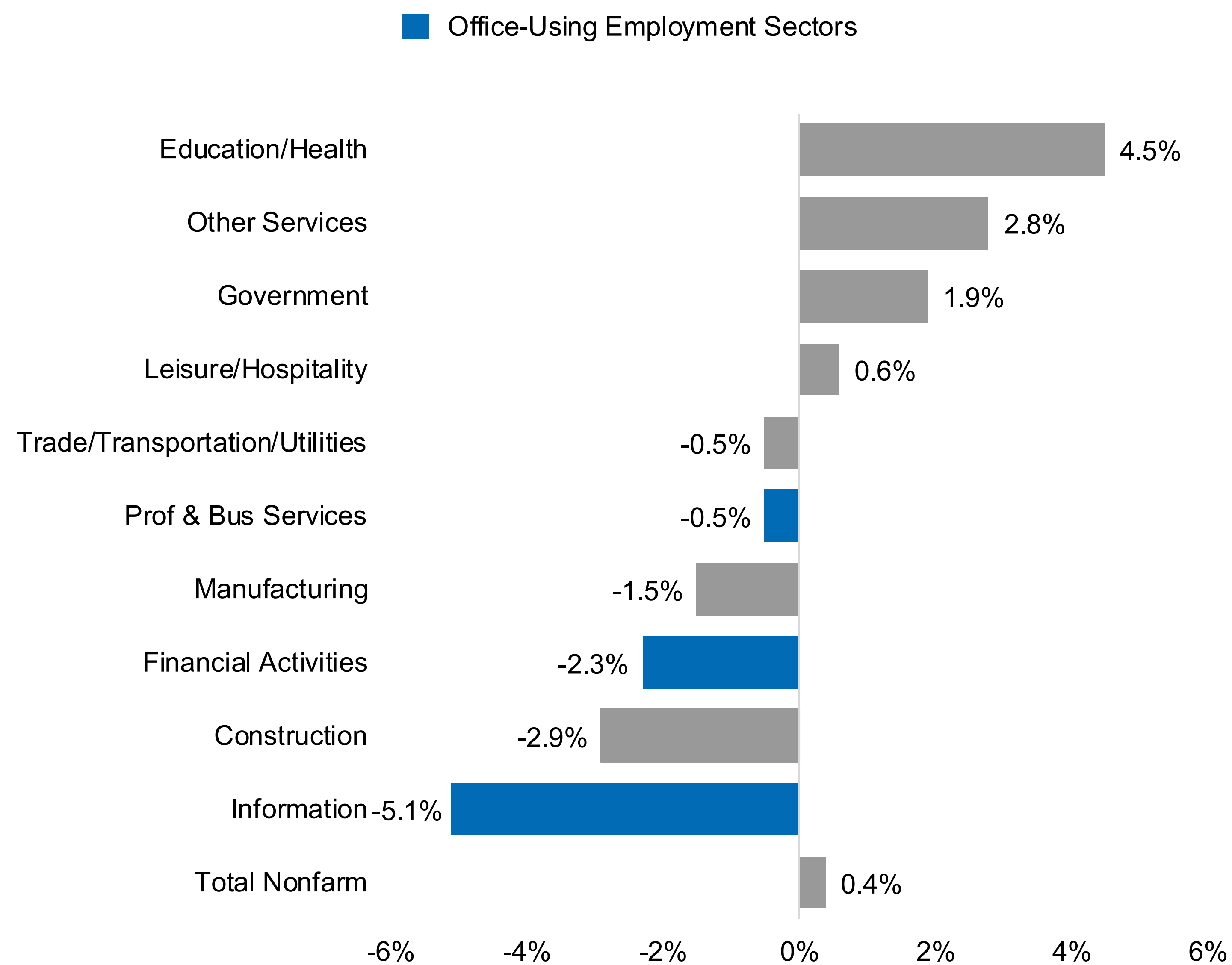
Information Sector Leads In Job Losses

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 and professional services companies, contending with economic pressures and lingering inflation, are also downsizing.

Employment by Industry, May 2025



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

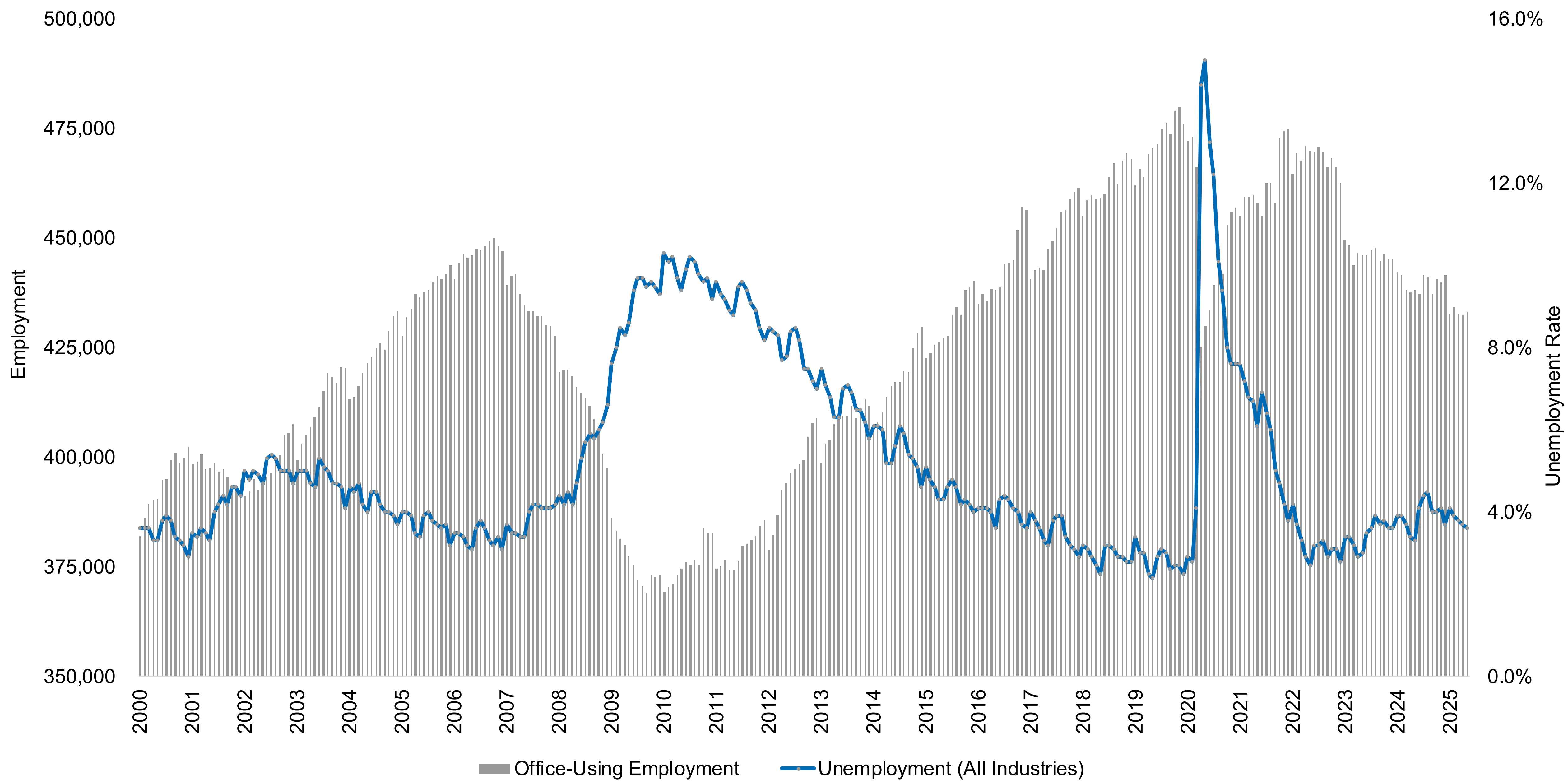


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
Note: May 2025 data is preliminary.

Office-Using Employment Drops to Pandemic Levels

Office-using employment dropped by 2.0% since January 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

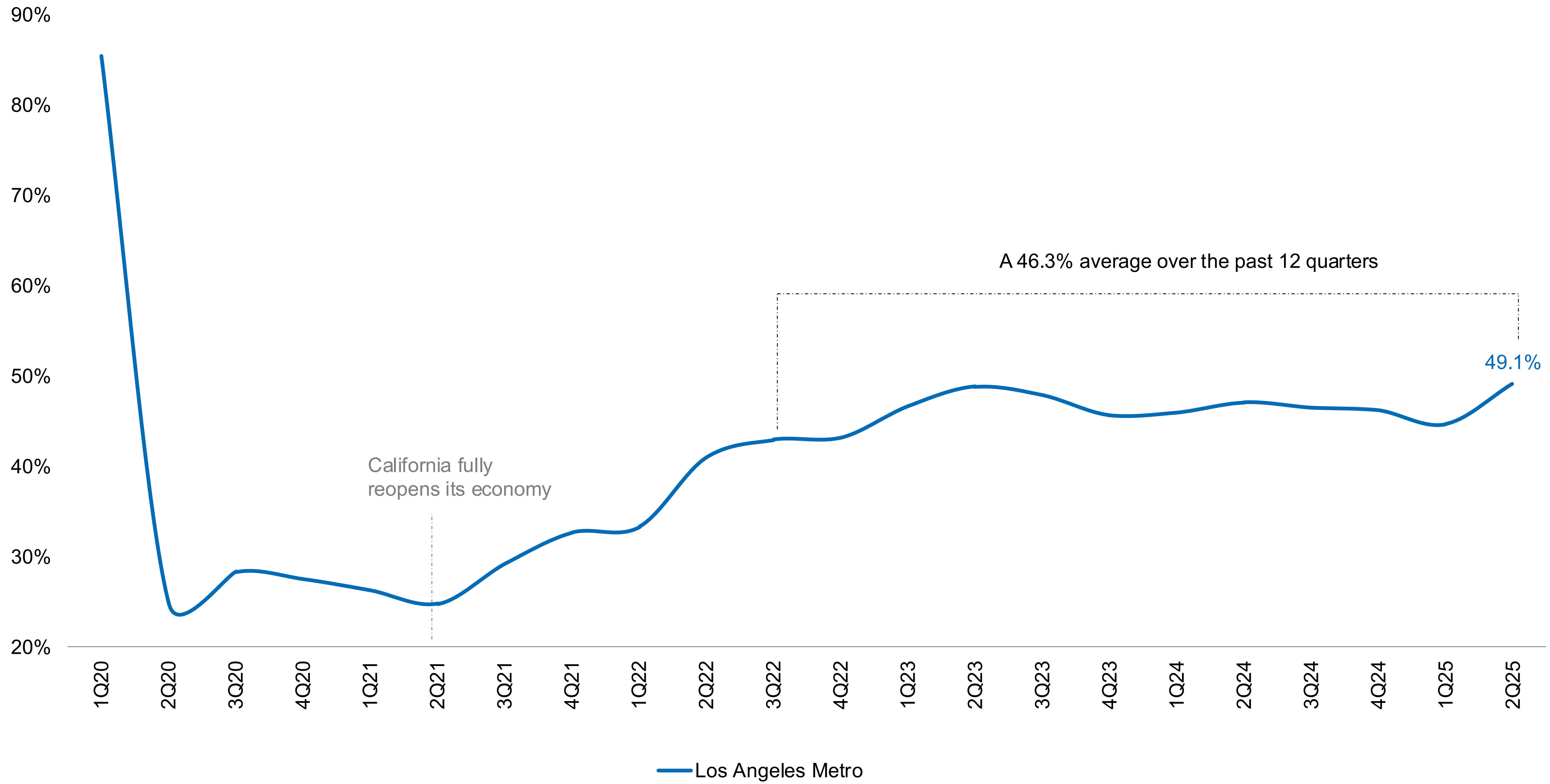


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
Note: May 2025 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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

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

Local Office Utilization Rates | Quarterly Averages



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

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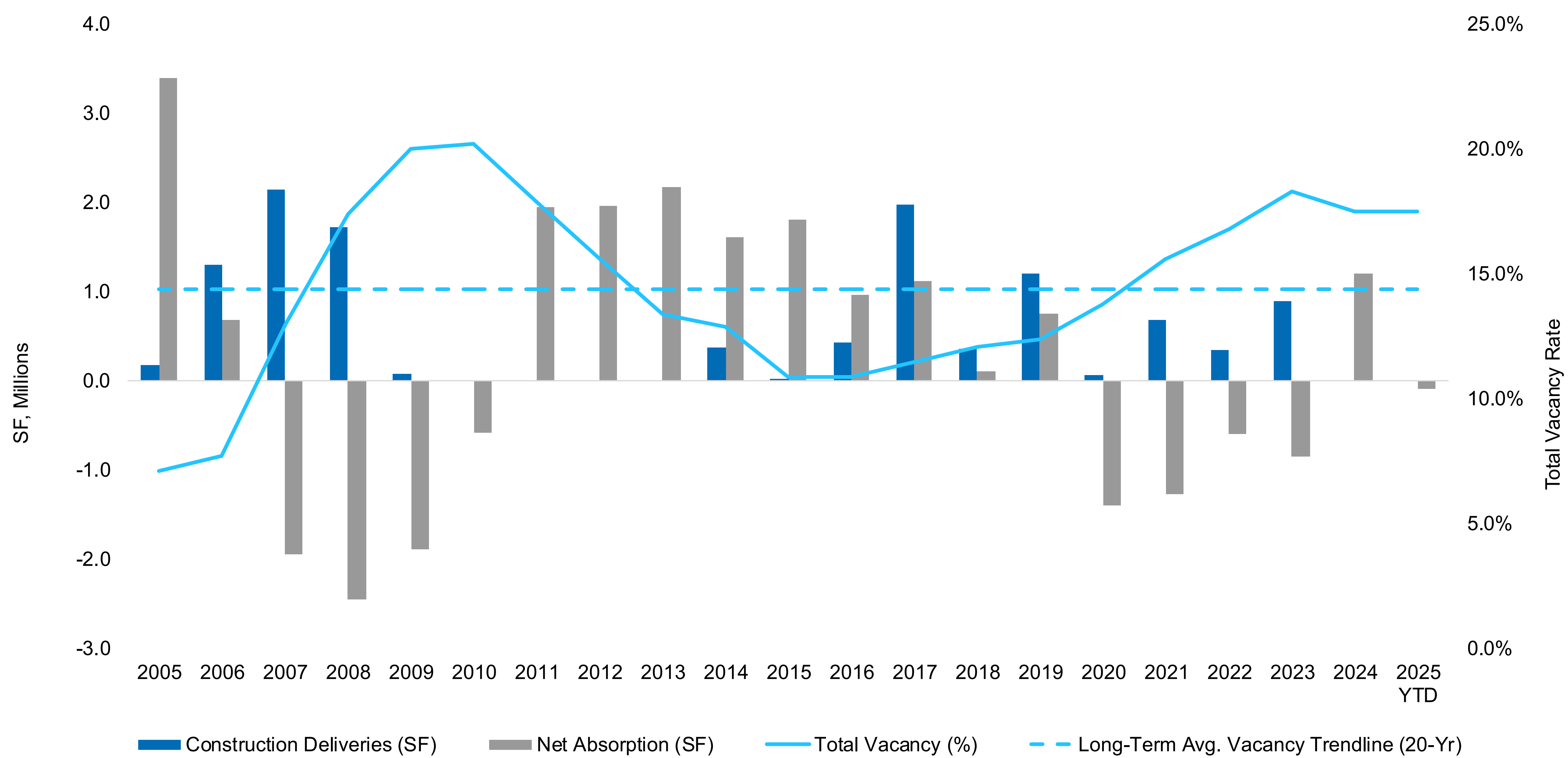
Leasing Market Fundamentals

Net Absorption Back in the Negative

Vacancy increased for the first time in eight quarters following a drop in net absorption, jumping from 17.1% in the previous quarter to 17.5%. 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

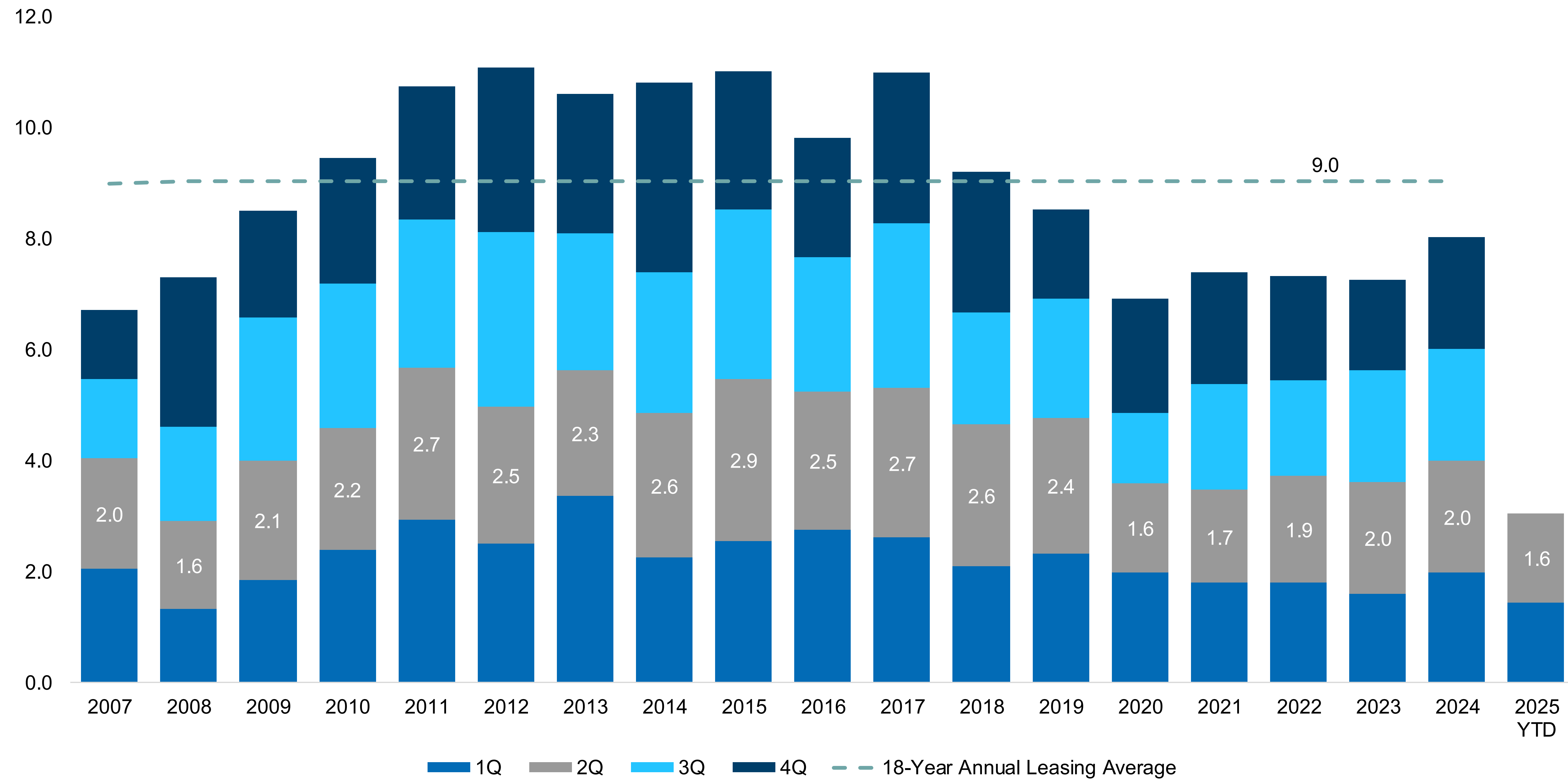


Source: Newmark Research

Starting Off the Year with Subdued Leasing Activity

Year-to-date leasing activity has fallen to its lowest level since the same period in 2008 during the Great Financial Crisis. 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)

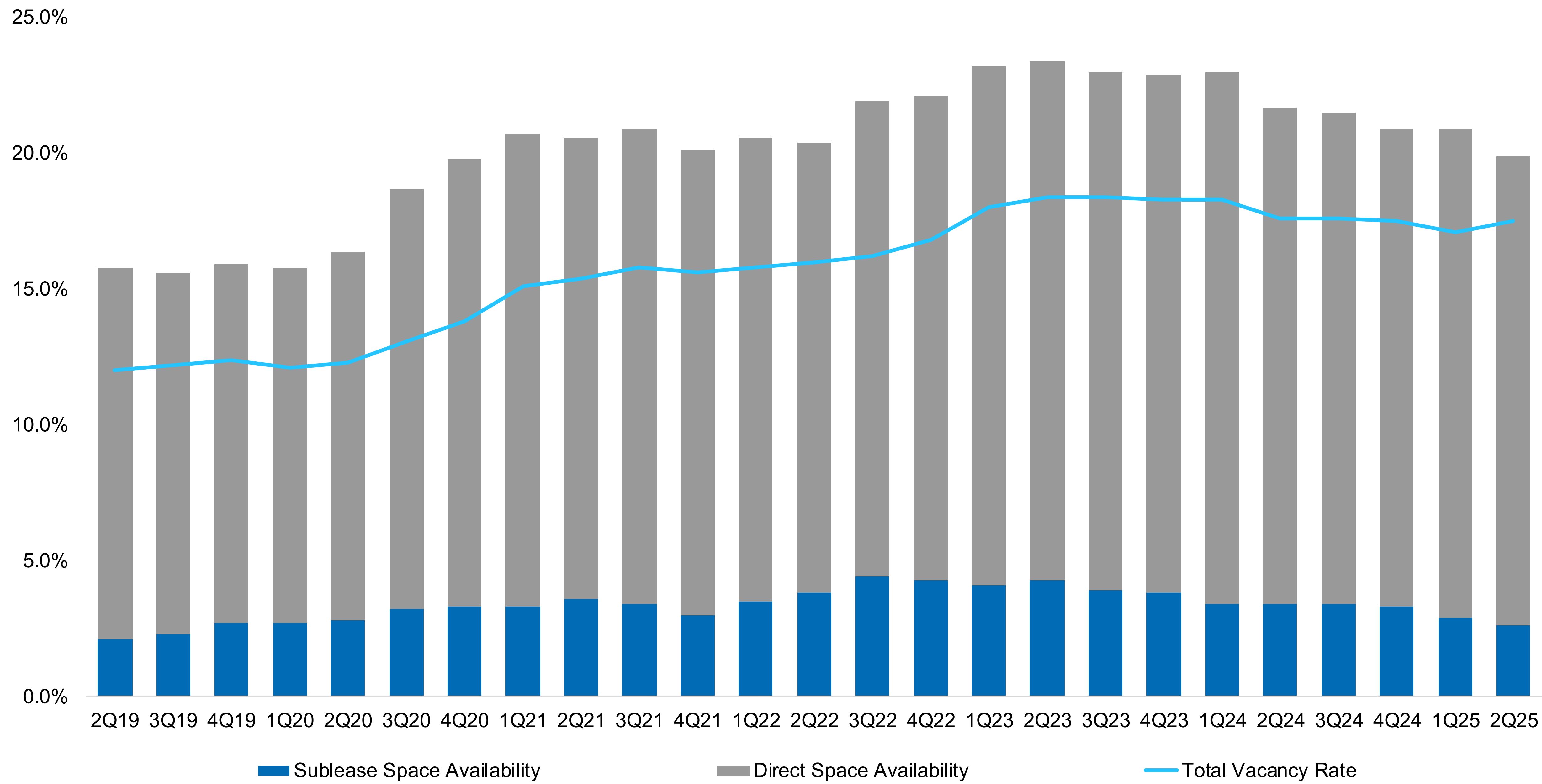


Source: Newmark Research, CoStar

Sublet Availability at its Lowest Level in Six Years

Sublet availability dropped to its lowest level in 24 quarters, down to 2.6% 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.

Available Space and Total Vacancy as Percent of Overall Market



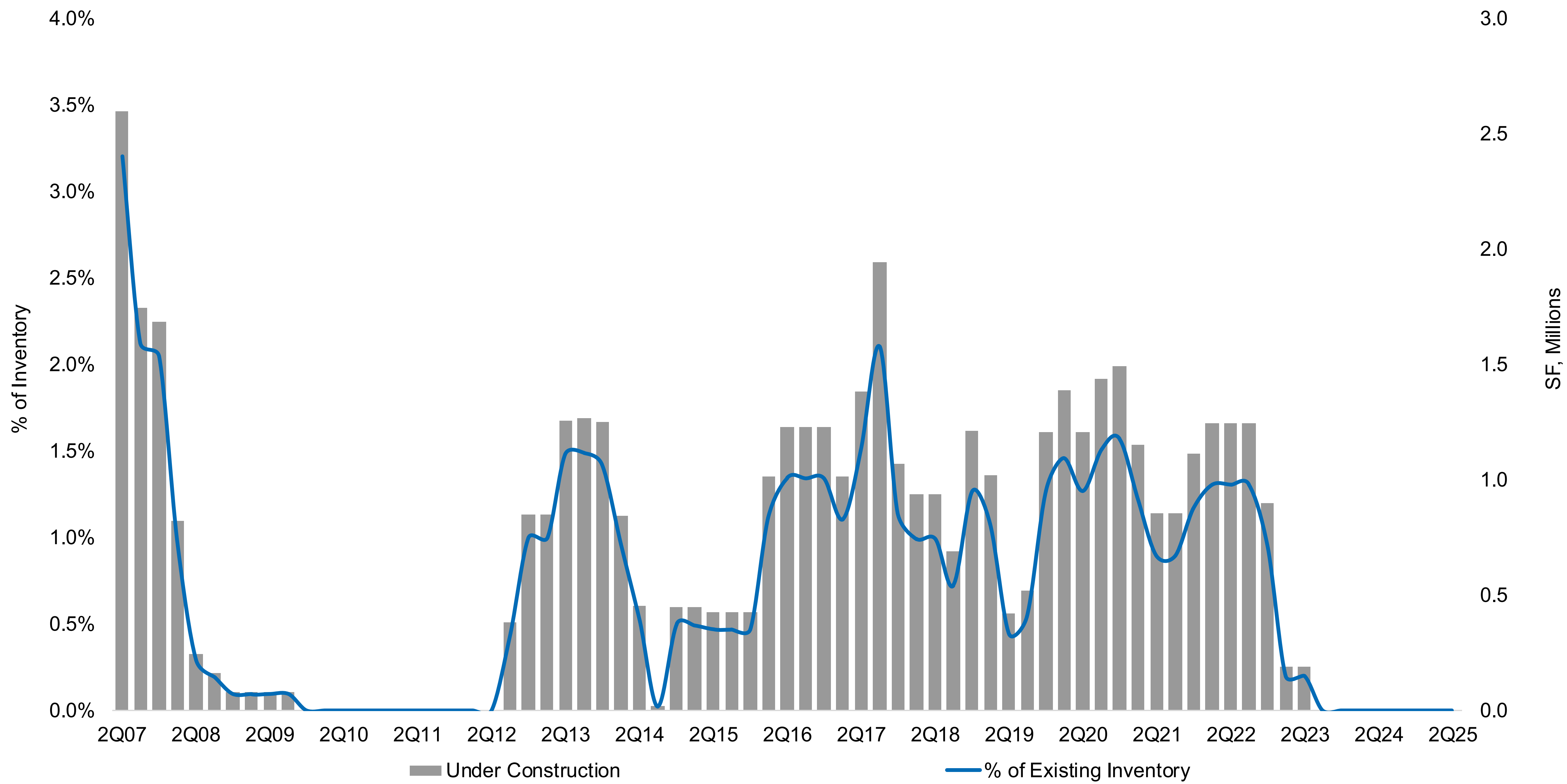
Source: Newmark Research

Total Availability Fluctuating Across All Submarkets

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

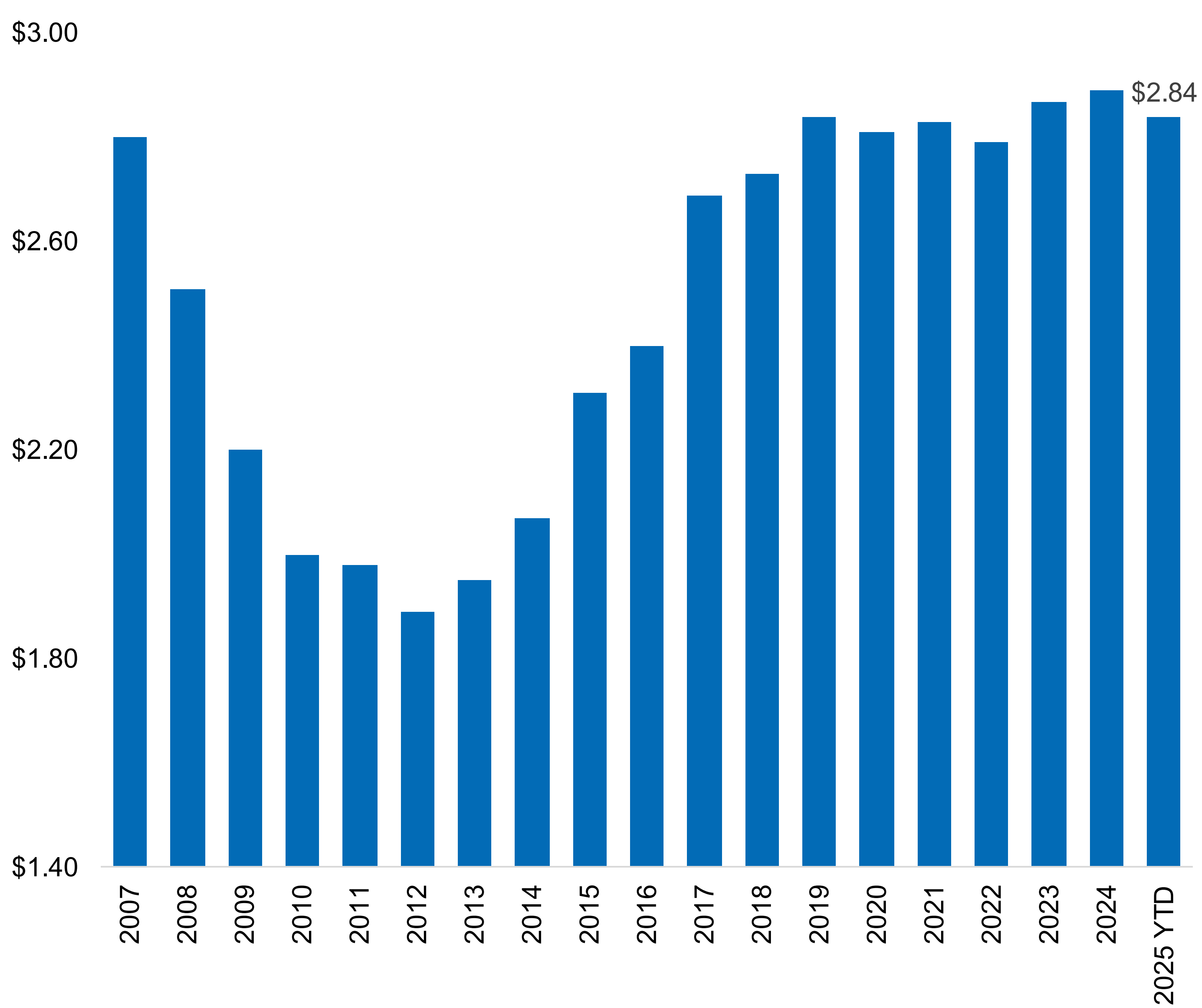


Source: Newmark Research

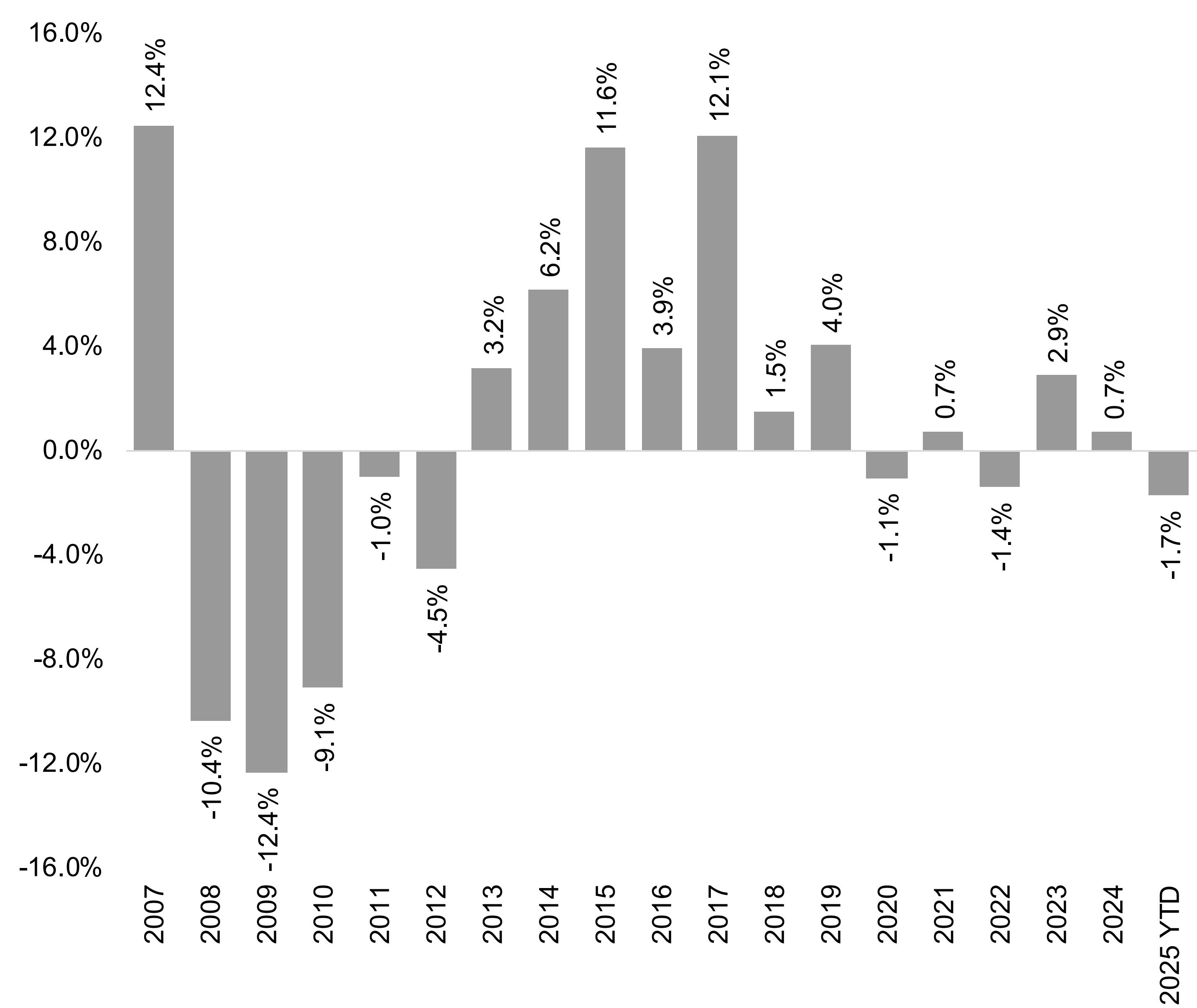
Asking Rents Remain Elevated

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



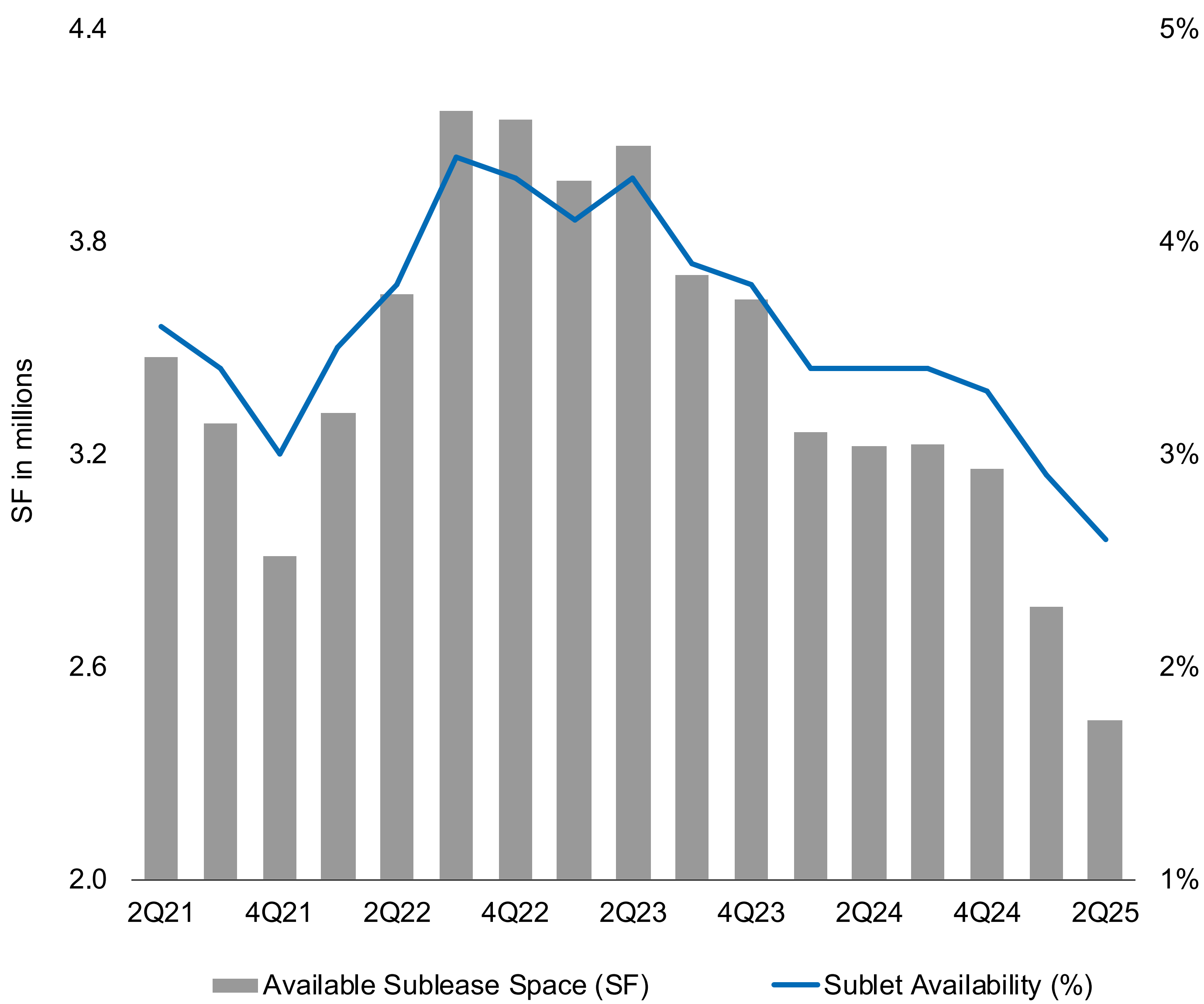
Source: Newmark Research

Airport and South County Command the Highest Rents

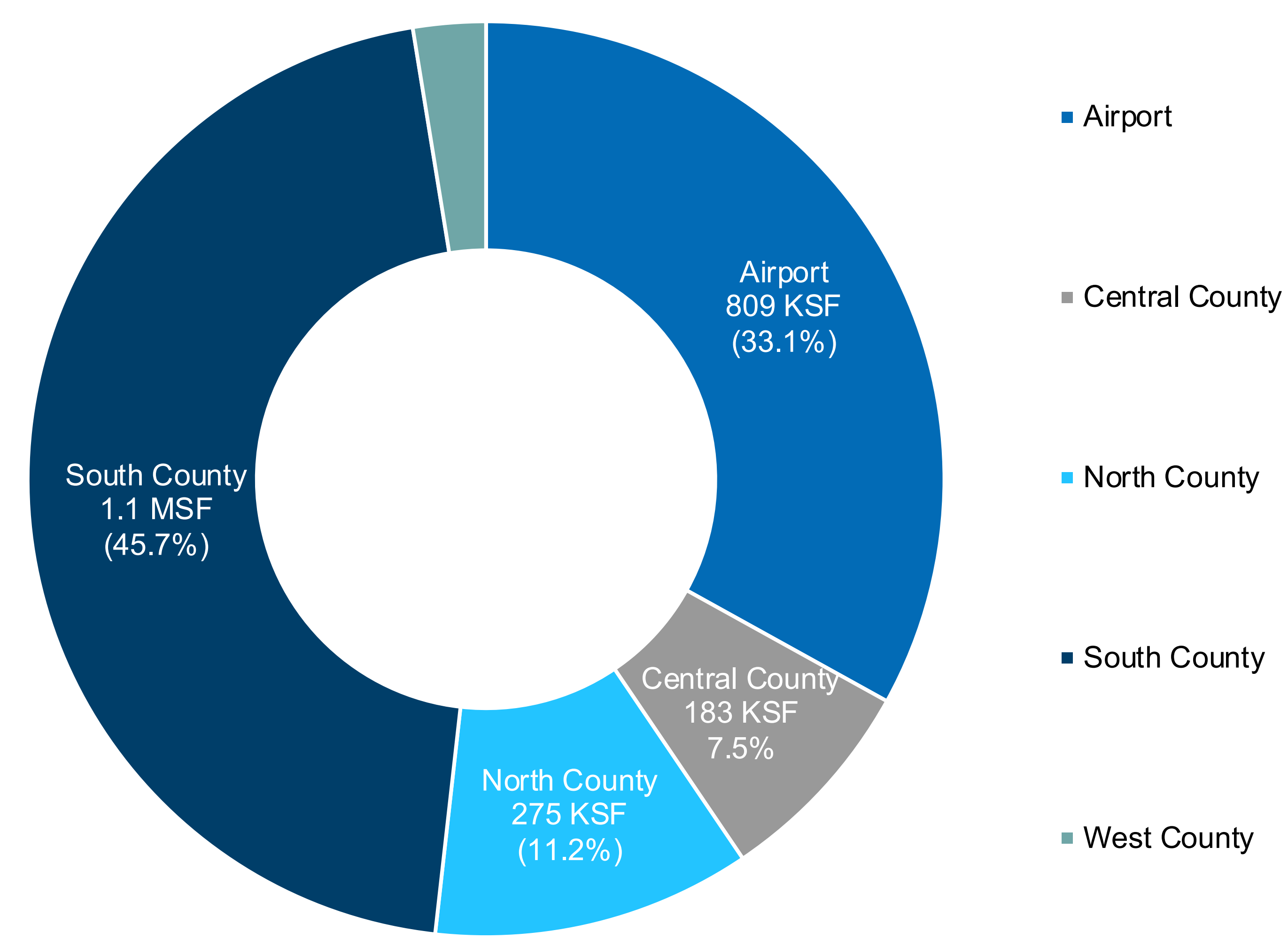
Sublet Availability in Downward Trajectory

Since hitting an all-time high in the third quarter of 2022, sublet availability has steadily declined and is now 1.7 MSF lower. At the submarket level, South County leads others in available sublease space, with 1.1 MSF or almost half of Orange County's sublet pool.

Available Sublease Space: Greater Market



Available Sublease Space by Submarket



Source: Newmark Research

Central County Leads Top Deals List

The top two leases of the quarter originated from Central County after Airport Area and South County dominated top leasing activity for several consecutive quarters. The submarket is generally regarded as a cost-effective alternative for tenants priced out of the Airport Area.

Notable Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Regional Center Orange County	1525 N Tustin Ave	Central County	Renewal/Expansion	102,631
The tenant has occupied Tustin Centre II, which serves as its headquarters, since 2010 and expanded into Tustin Centre I for an additional 20,589 SF.				
Regents of the University of California	1900 S State College Blvd	Central County	Direct Lease	92,489
The governing board of the University of California signed for its first office lease in the area.				
University of California Irvine	5000 Birch St	Airport	Direct Lease	62,977
The new office is down the street from the university campus and other office locations.				
Zillow	2600 Michelson Dr	Airport	Renewal/Downsize	60,714
The tenant downsized its office space by almost 20,000 SF since occupying in 2019.				
Callahan & Blaine	19900 MacArthur Blvd	Airport	Direct Lease	44,789
This is the legal services provider's second location.				

Source: Newmark Research

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How Trophy Buildings are Performing

Stark Contrast Between Trophy Product And Remainder Inventory

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

35.0% of the Region’s Office Market Obsolete or Unable to Service Debt

Some Underperforming Office Properties Slated for Conversion

Obsolete Office Properties Dropped From Total Inventory

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Removal Of Undesirable Product From Inventory Will Recalibrate Vacancy

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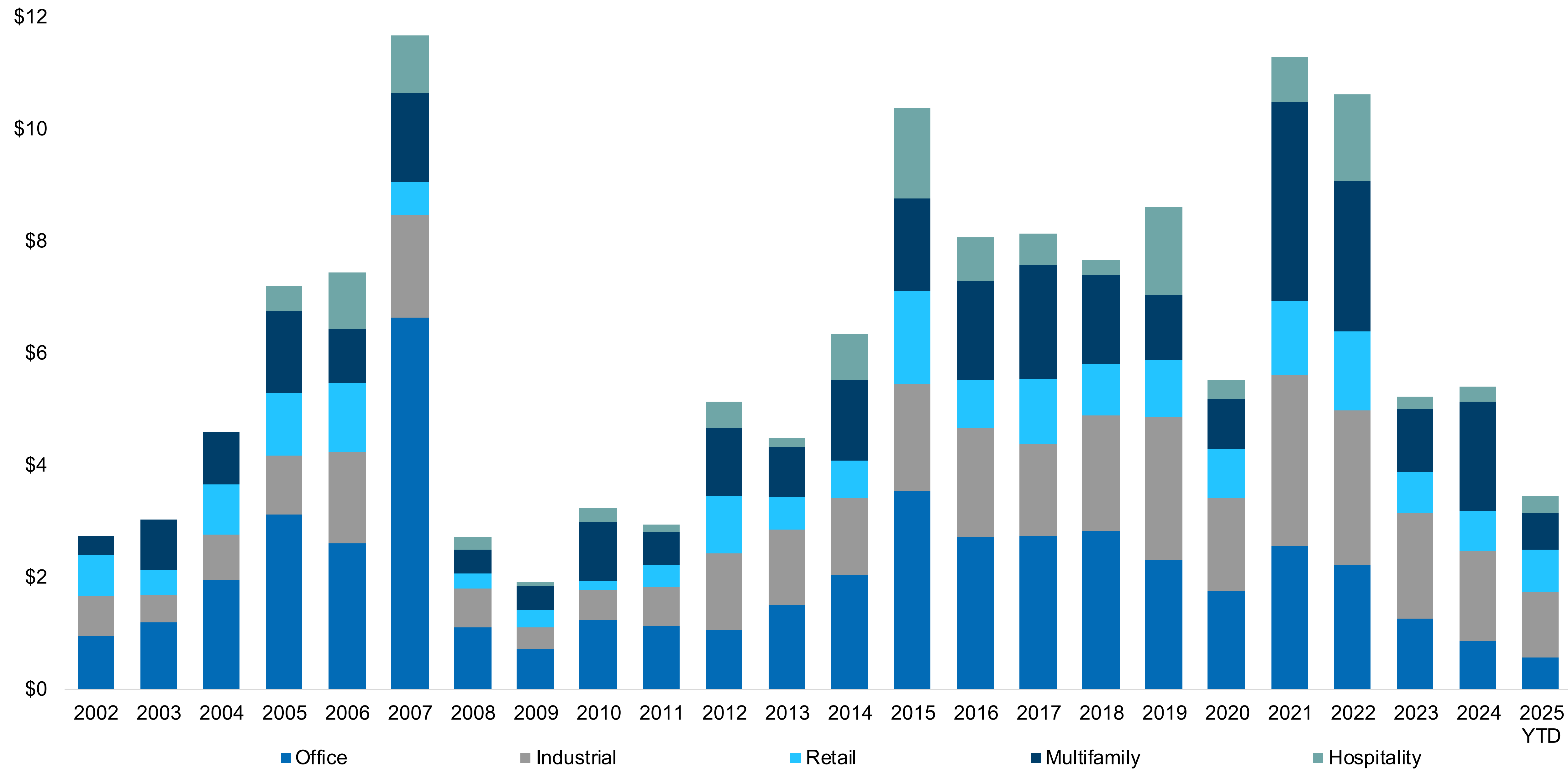
Sales Activity

Office Comprised Just 16.3% 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)

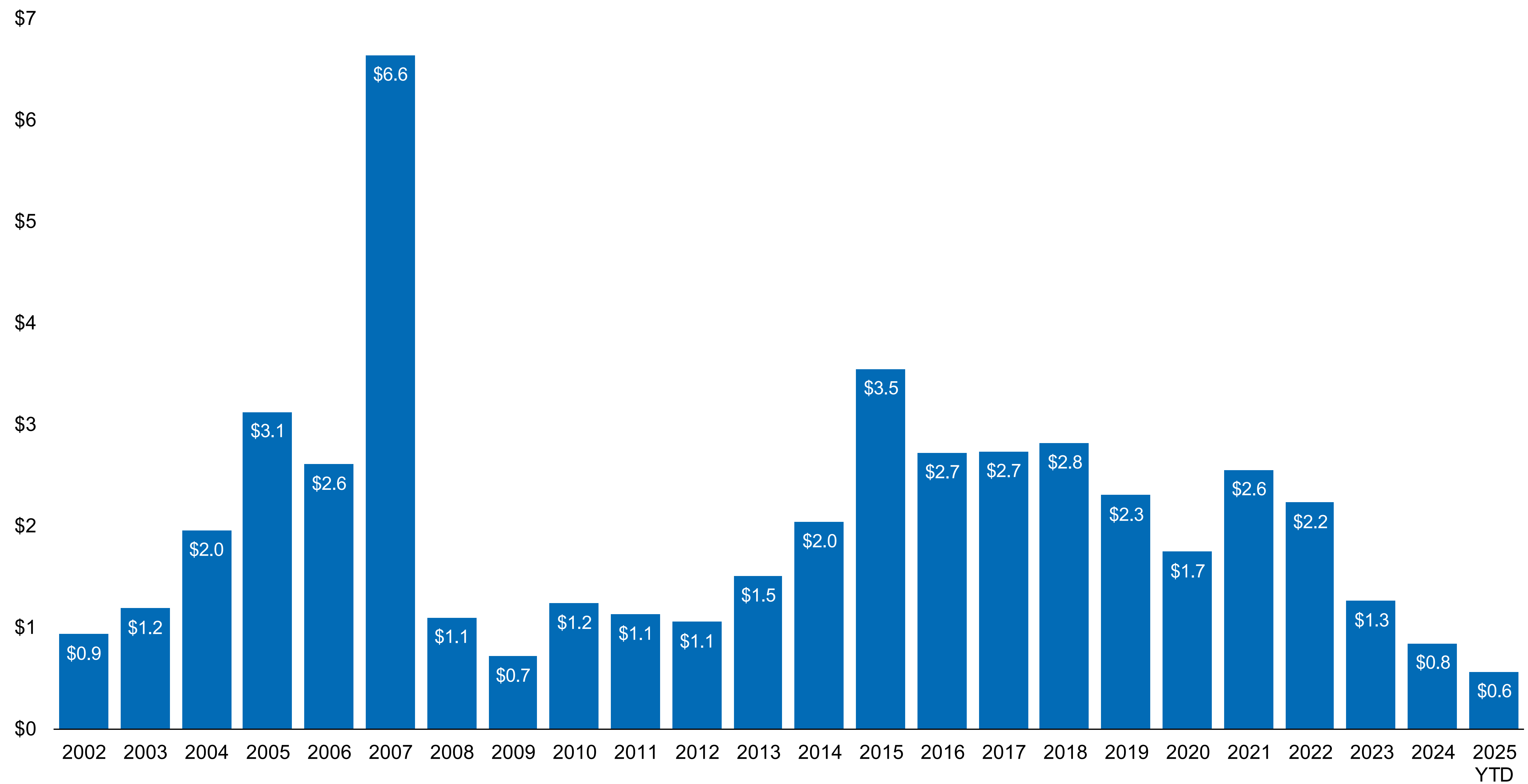


Source: MSCI Real Capital Analytics, Newmark Research
Note: Preliminary data is cited for the second quarter of 2025.

Office Sales Volume: Up Close

Office sales volume totaled $563 million in the first half of the year, a slight improvement from the previous year where sales volume in the first half of 2024 was $298 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 second quarter of 2025.

Pricing is Decreasing, While Cap Rates Will Increase

Opportunistic User Buyers Take Advantage Of Discounted Office Market

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Steep Discounts For Owner-User Buyers

Owner-User Purchases Are Also Lowering the Office Base

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Submarket Snapshots

Airport


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Central County

North County

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West County

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Appendix

Orange County Office Submarket Map and High-level Statistics | 2Q25

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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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