NEWMARK

Orange County:

Office Market Overview

4Q25

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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 (ended on November 12) and subsequent delays from the Bureau of Labor Statistics to collect and process data.
- Local office-using employment in September is reminiscent of April 2020 levels, 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 2.9% reduction.
- The Fed cut interest rates three times this year (25 bps each), national unemployment is rising, corporate layoffs are pronounced and the general mood among businesses and consumers is darkening heading into 2026.

Leasing Market Fundamentals

- Vacancy dropped from 16.9% last quarter to 16.1% following a surge in net absorption. Total vacancy is 80 bps below the five-year average.
- Quarterly absorption totaled 786,717 SF in net gains, marking the ninth positive quarter in the last ten. This quarter's top move-in was Hyundai occupying all of 2300 Main St, a 133,745-SF building 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 is a renewal signed by Medtronic. The medical technology company has occupied the entirety of the 101,964-SF office property at 5290 California Ave in Irvine since 2018.
- An office campus totaling 392,523 SF across four buildings was acquired by MGR Real Estate for $89.0 million, marking one of the largest transactions of the year. The Orange City Square property was last sold in 2007 for $130.0 million, a 56% discount after adjusting for inflation. Newmark represented the seller.
- Owner-users are also taking advantage of the discounted office market. This quarter, Edwards Lifesciences acquired a second office property adjacent to the one it owned since 2017 for $19.0 million. The two-building office campus, totaling 133,417 SF at 1901 and 1921 E Alton Ave in Santa Ana, are near the company's headquarters in Irvine.

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 13% 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.
- J.P. Morgan expects U.S. business spending to remain resilient or even accelerate in 2026, driven by factors like AI adoption, easing labor constraints, and potential policy stimulus. Though, growth might moderate from peak 2025 levels, with some signs pointing to a slower start to the year before picking up.

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Economy

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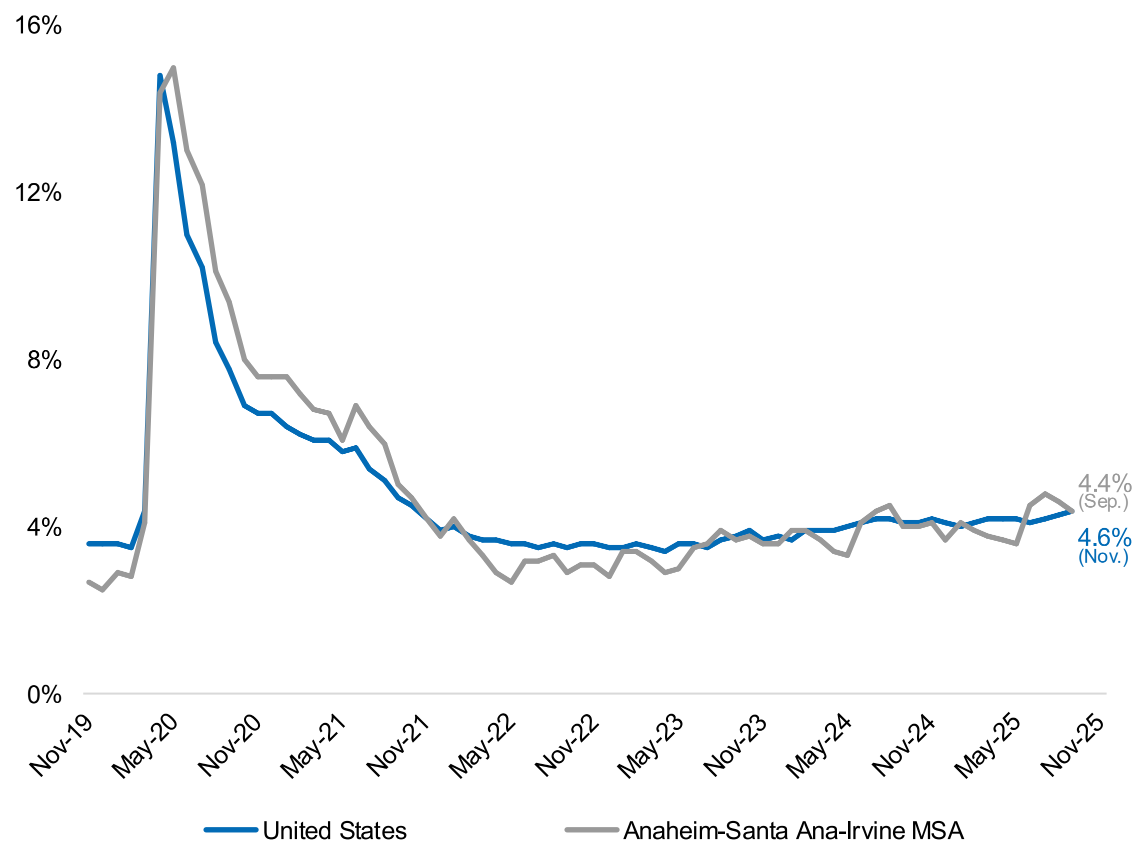
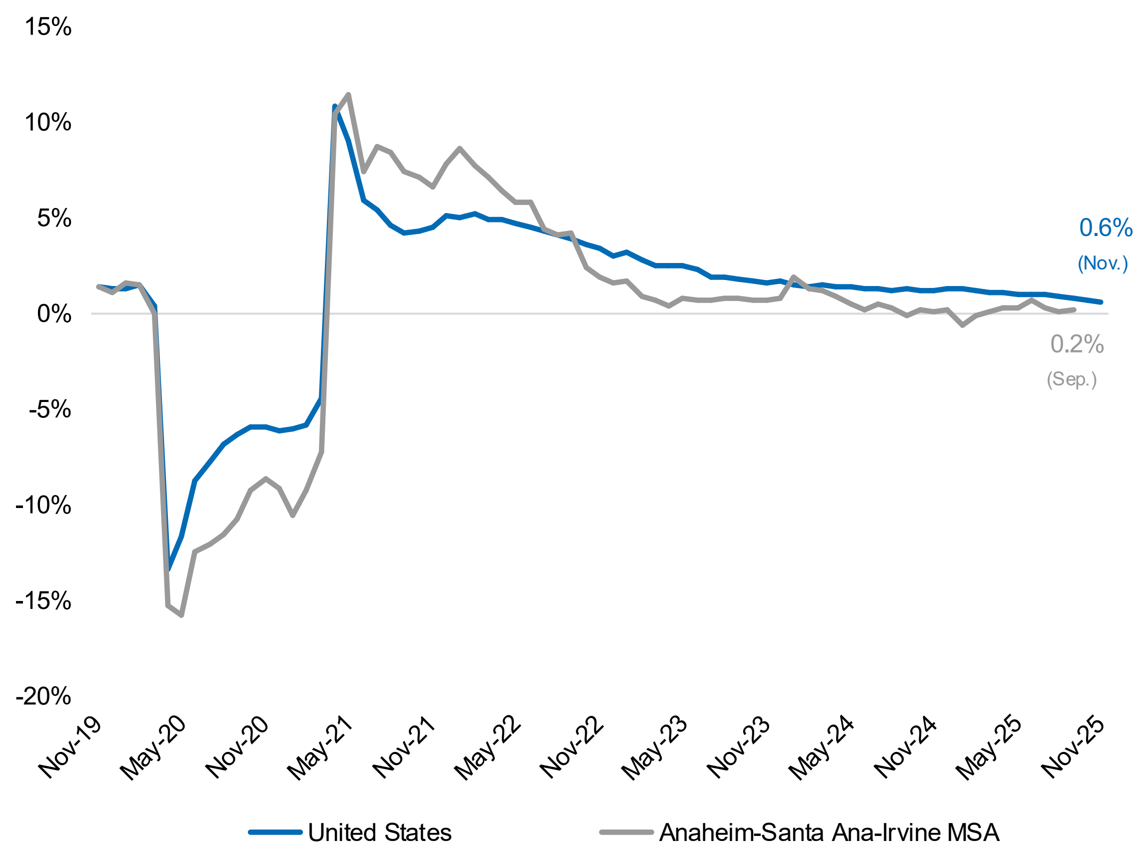
Local Employment Growth Is Stagnant

Local unemployment jumped 80 basis points from May (3.6%) to September (4.4%) while year-over-year nonfarm employment growth has plateaued. On a national level, unemployment reached its highest level in four years. 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

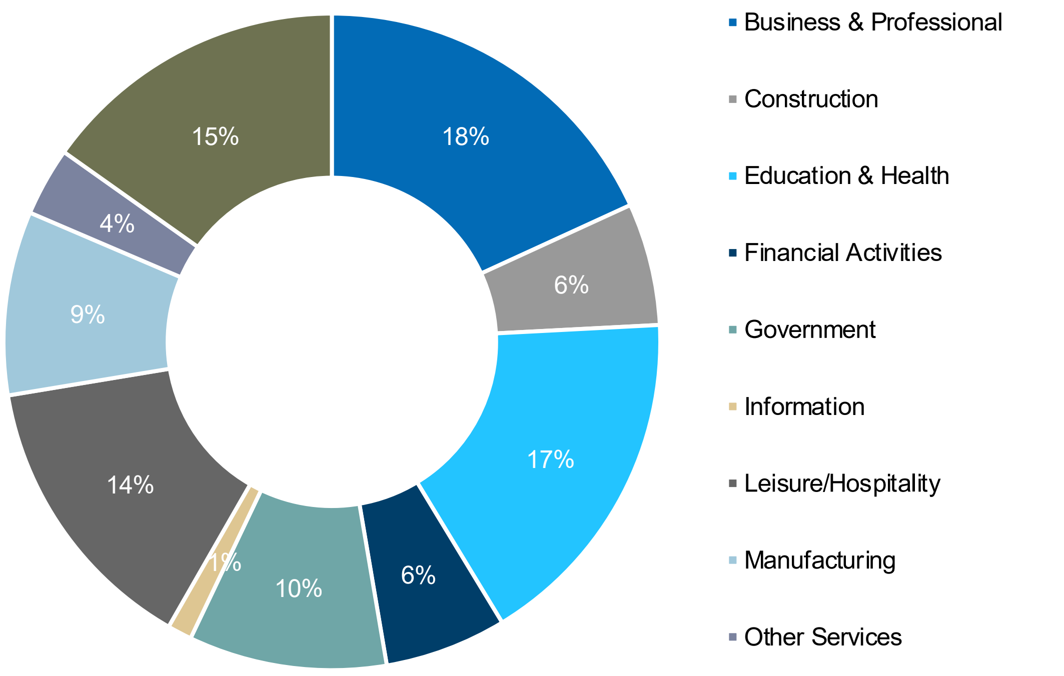


Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA
Note: Local employment statistics for October were unavailable due to the federal government shutdown. November's figures are delayed.

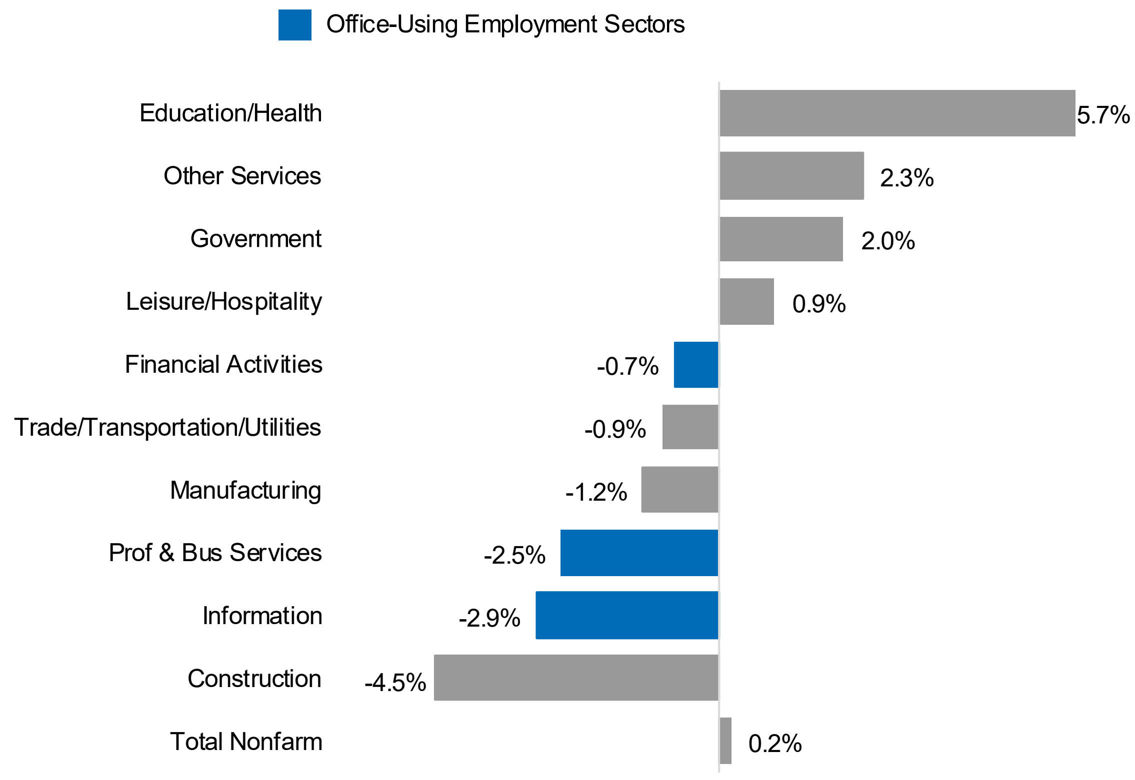
All Office-Using Employment Sectors Experienced Decline in the Last Year

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. Just this quarter, Amazon, Verizon and Nationstar Mortgage collectively laid off 419 workers from their Orange County offices.

Employment by Industry, September 2025



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



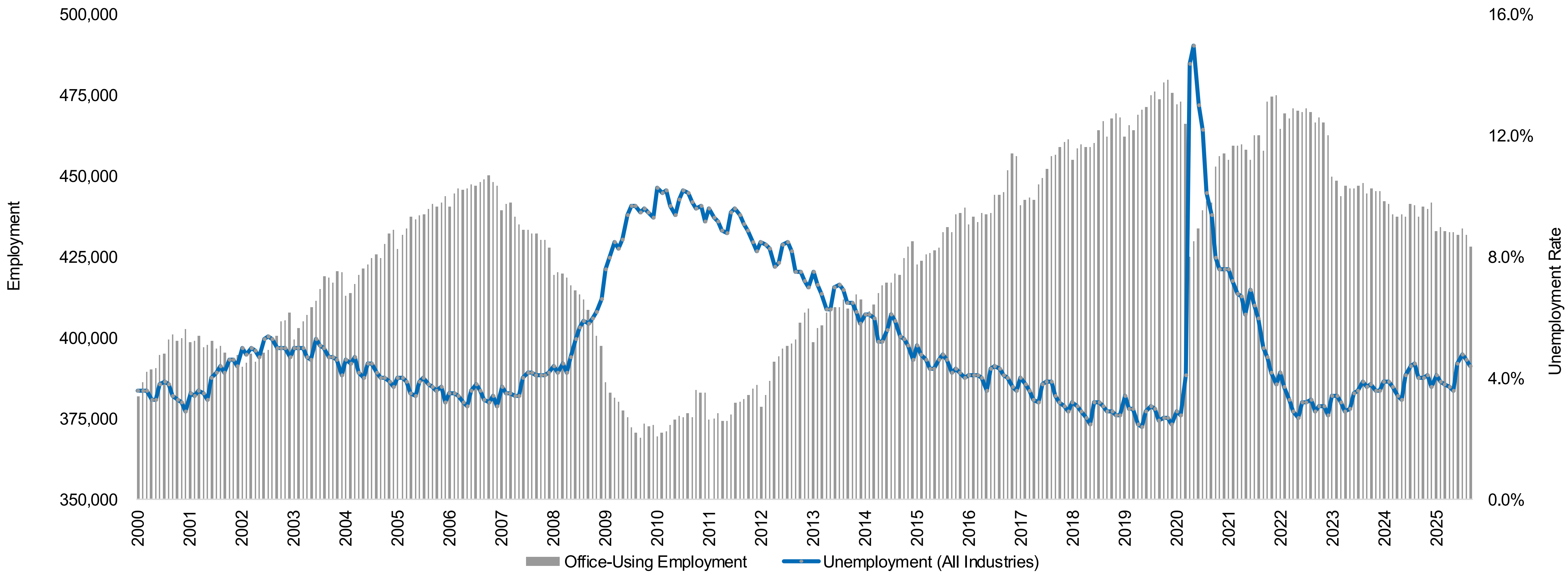
Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA

Note: Local employment statistics for October were unavailable due to the federal government shutdown. November's figures are delayed.

Office-Using Employment Drops to Early 2020 Levels

Office-using employment in September dropped to its lowest level since April 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



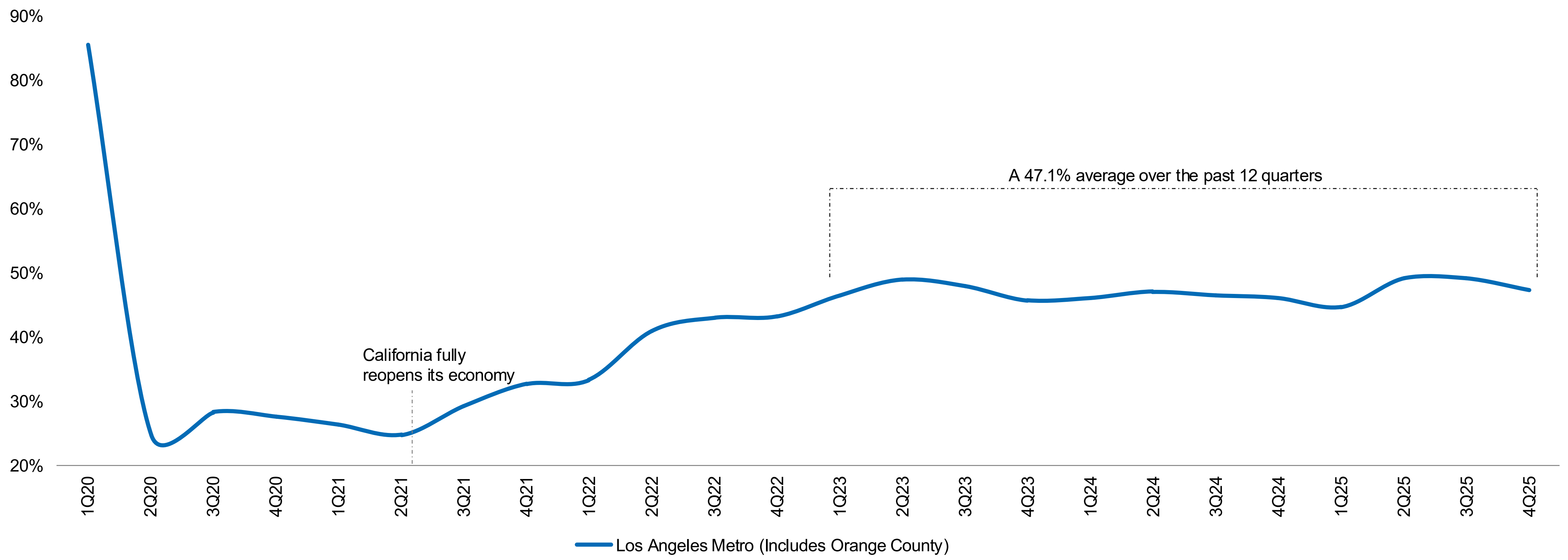
Source: U.S. Bureau of Labor Statistics, Anaheim-Santa Ana-Irvine, CA

Note: Local employment statistics for October were unavailable due to the federal government shutdown. November's figures are delayed. *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

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Market Fundamentals

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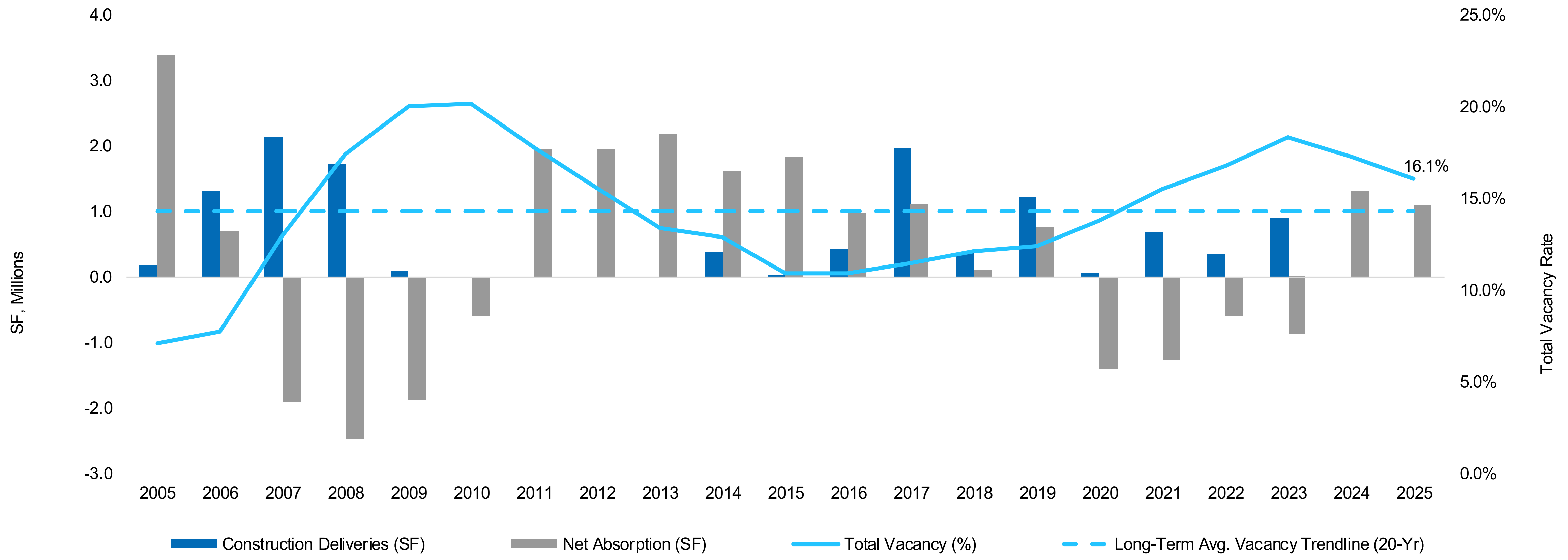
Net Absorption Gains Driving Down Vacancy

Vacancy dropped from 17.3% in 2024 to 16.1% by year-end 2025 following a surge in net absorption in the second half of the year. 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.

Historical Construction Deliveries, Net Absorption, and Vacancy

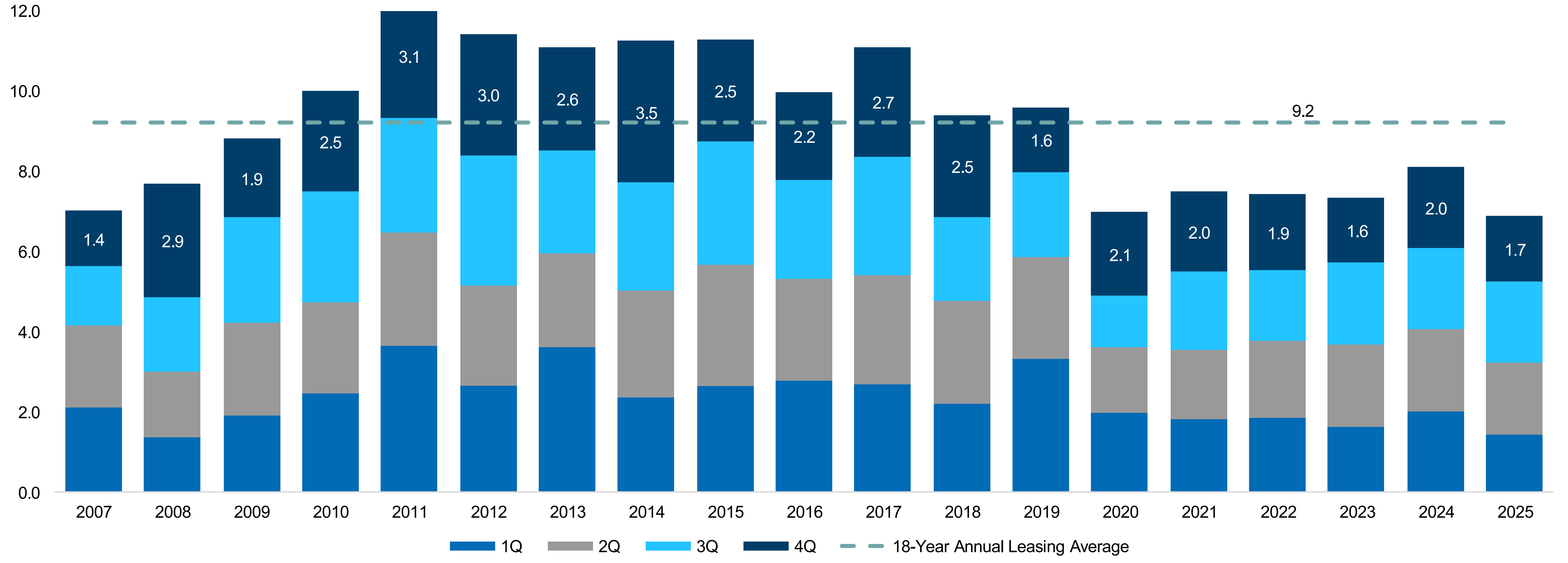


Source: Newmark Research

Annual Leasing Activity Lowest in Decades

Leasing activity for 2025 was at a record low compared to prior years. 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.

Total Leasing Activity (MSF)

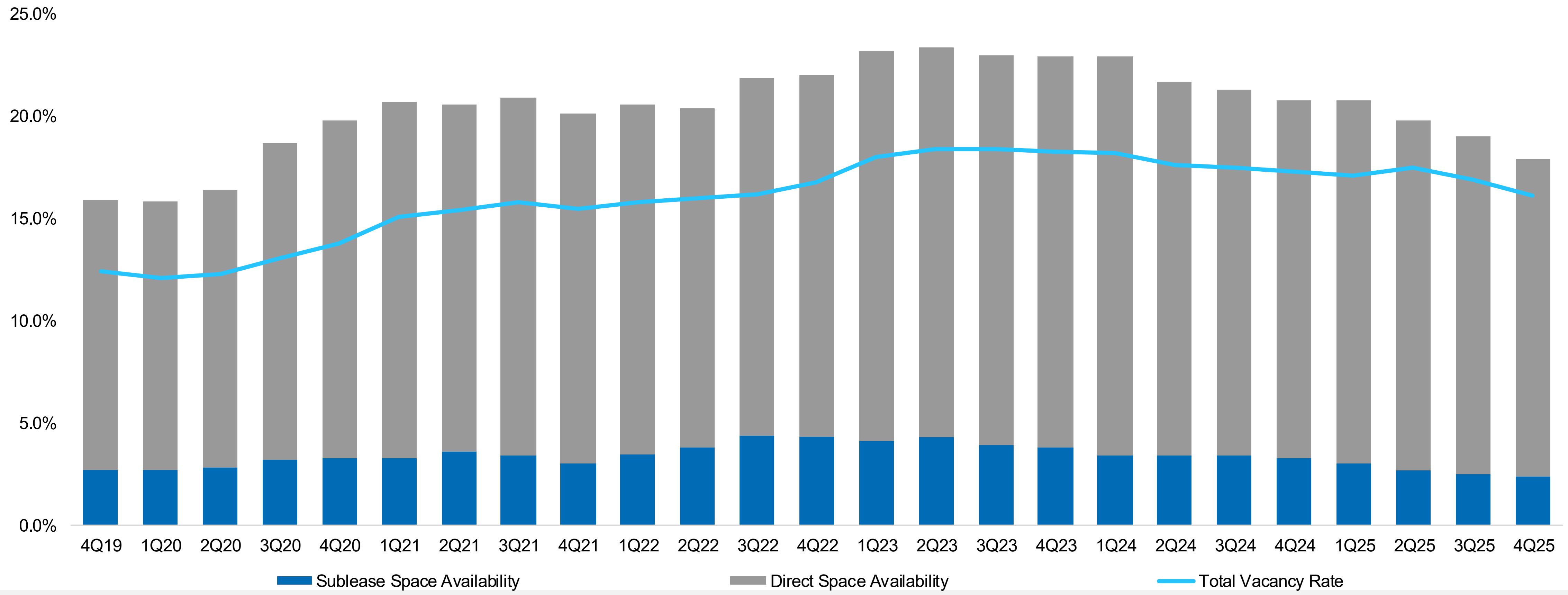


Source: Newmark Research. CoStar

Sublet Availability at its Lowest Level in Six Years

Sublet availability dropped to its lowest level in 25 quarters, down to 2.4% 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

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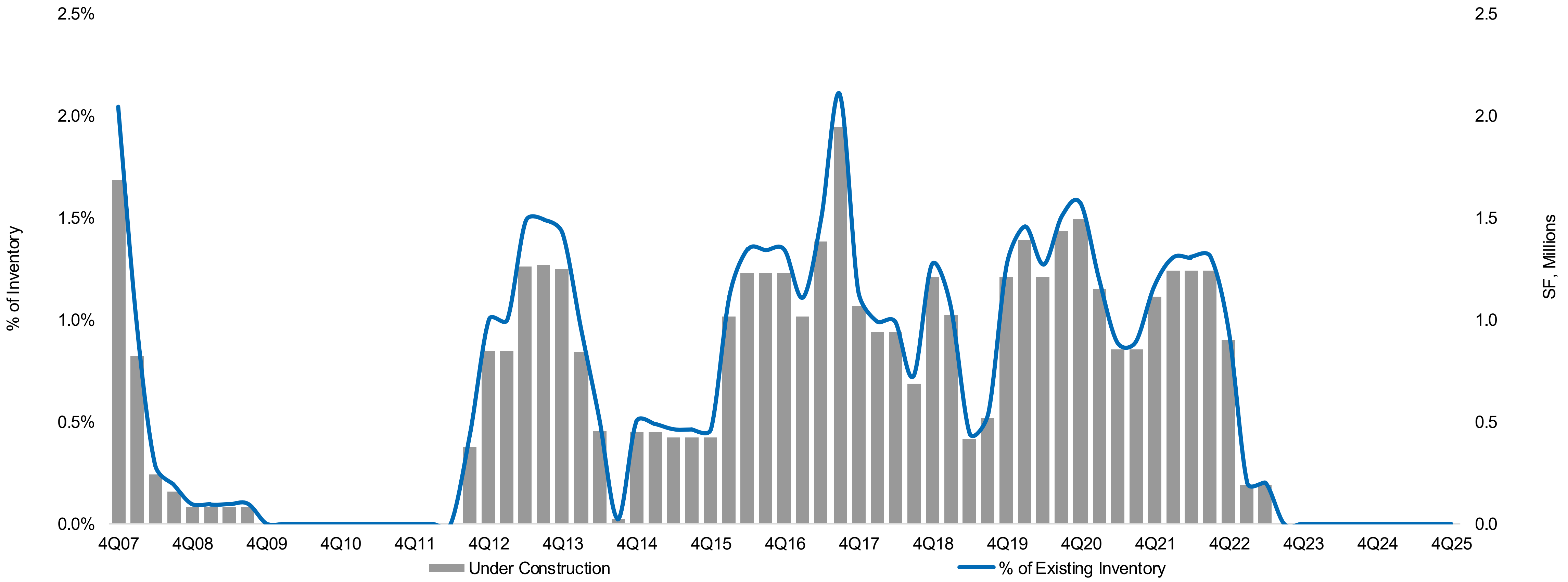
No Speculative Development Currently Underway

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

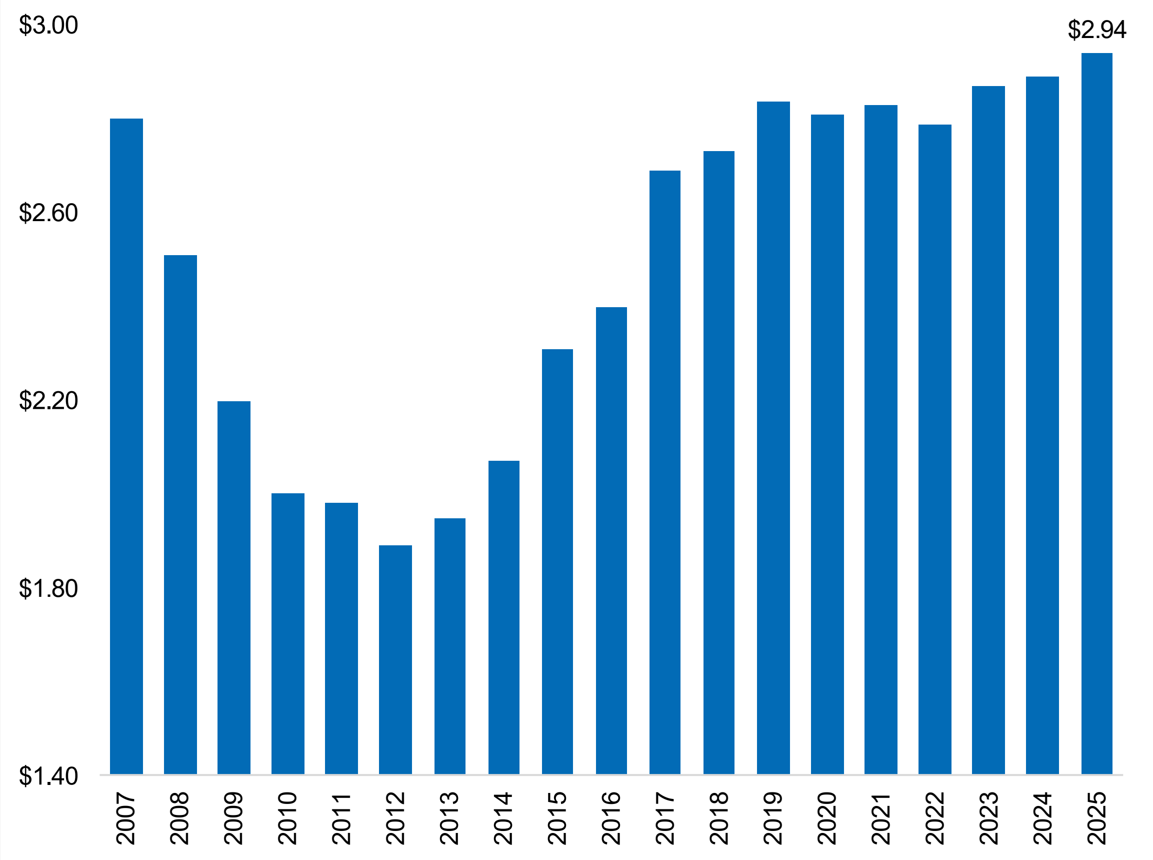


Source: Newmark Research

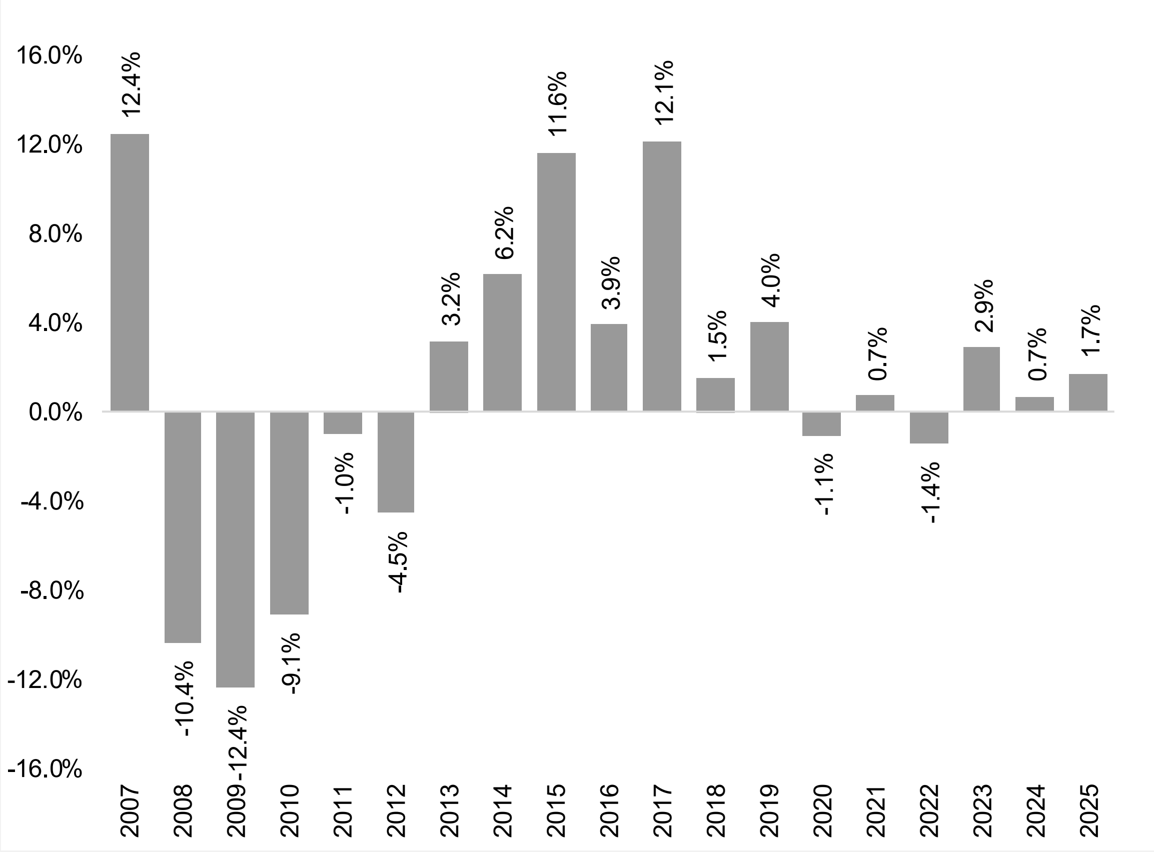
Asking Rents Remain Elevated

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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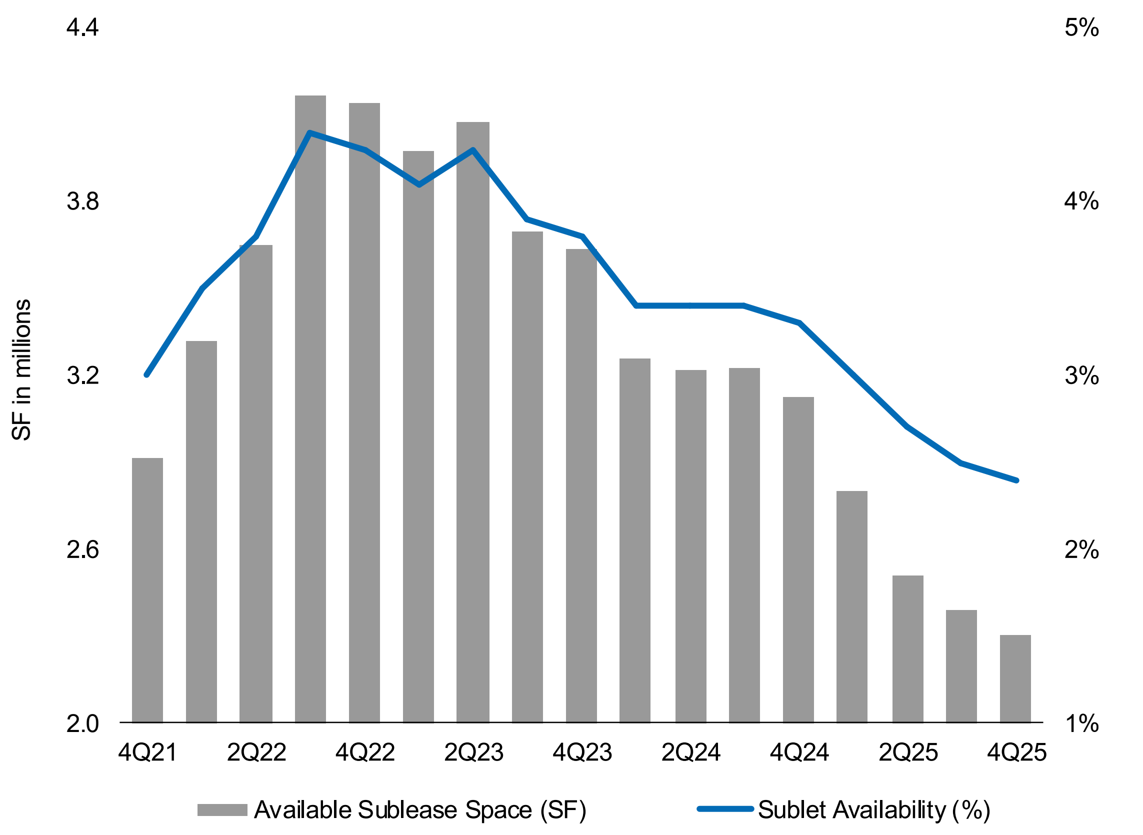
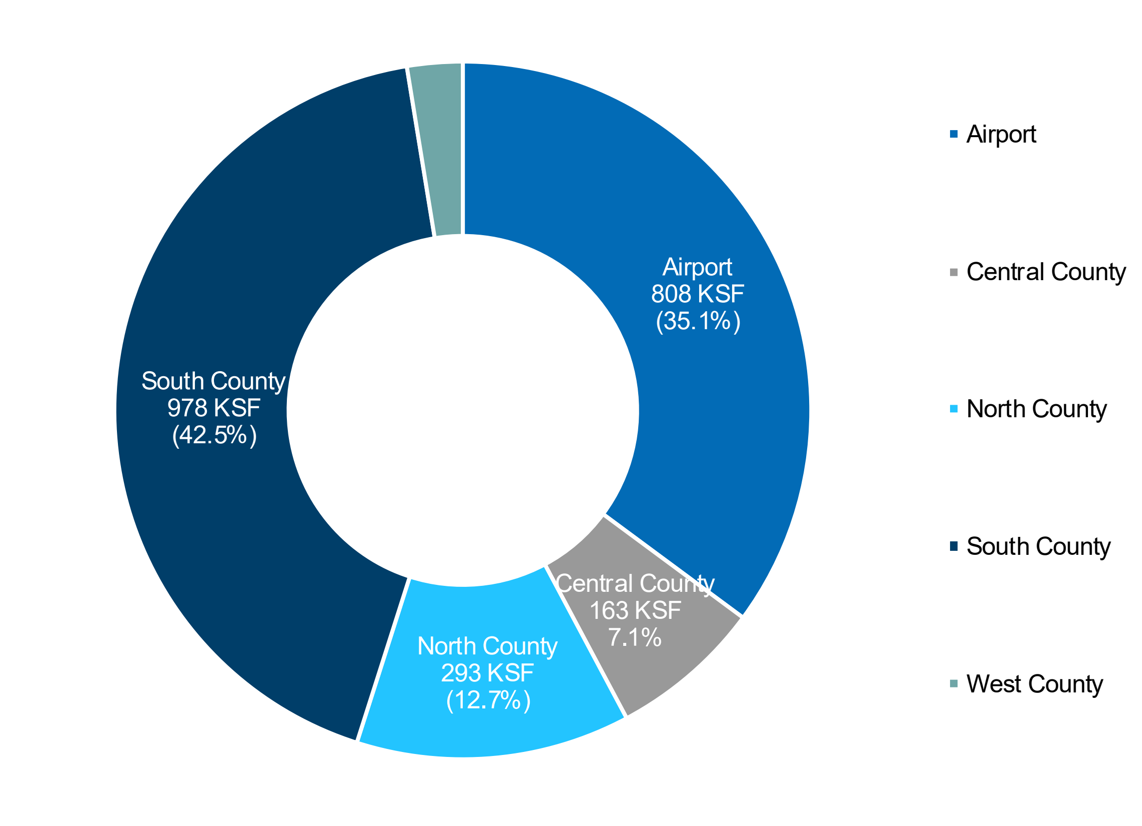
Sublet Availability in Downward Trajectory

Since hitting an all-time high in the third quarter of 2022, sublet availability has steadily declined and is now 1.9 MSF lower. At the submarket level, South County leads others in available sublease space, with 978,156 SF or almost half of Orange County's sublet pool.

Available Sublease Space: Greater Market



Available Sublease Space by Submarket



Source: Newmark Research

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 4Q25 Lease Transactions

Tenant	Building(s)	Submarket	Lease Type	Square Feet
Medtronic	5290 California Ave	Airport Area	Renewal	101,964
The medical device company has occupied the entire building since 2018.				
County of Orange	1700 E Saint Andrew Pl	Central County	Renewal/Expansion	99,589
The tenant's office footprint expanded by an additional 30,000 SF.				
Stanbridge University	3349 & 3351 Michelson Dr	Airport Area	Direct Lease	83,952
The Irvine-based university split its new office footprint between the two buildings at Park Place in Irvine.				
DK Law Group	555 Anton Blvd	Airport Area	Direct Lease	56,877
The tenant will commit to the new space for seven years.				

Source: Newmark Research

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How Trophy Buildings are Performing

4Q25

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

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Home Ownership is Out of Reach for 87% of Buyers; Good News for the Rental Market

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34.0% 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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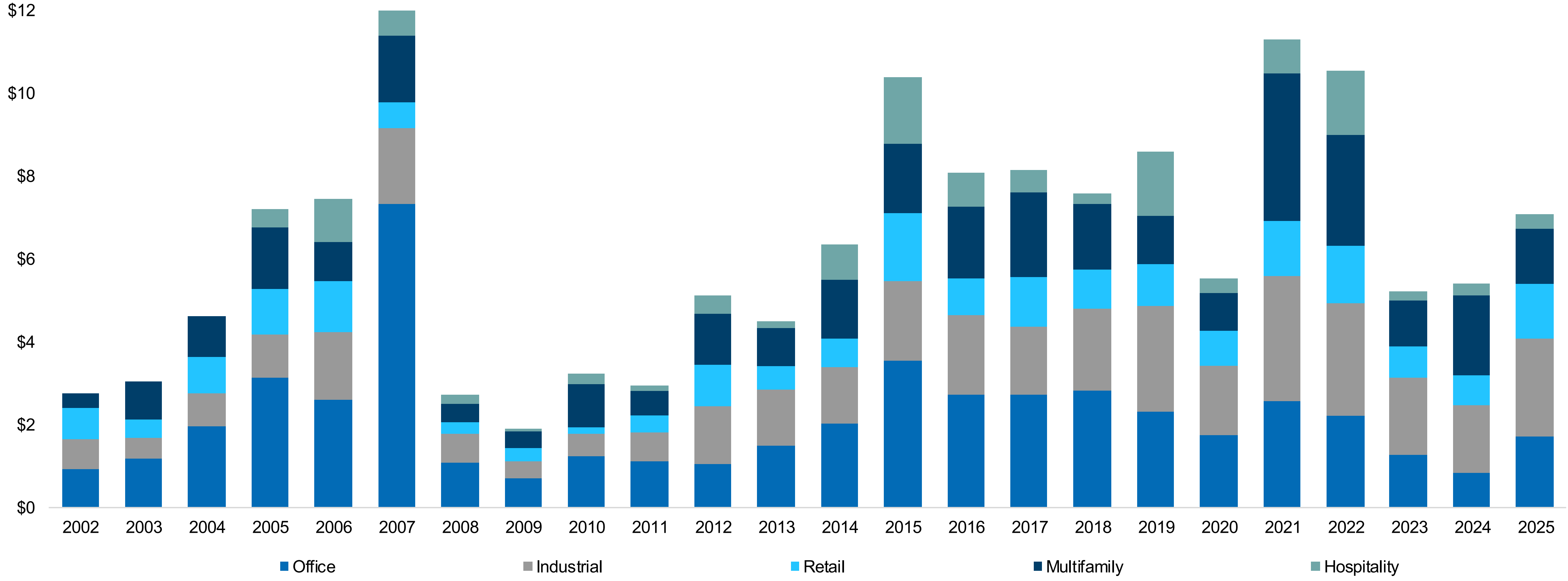
Office Comprised Just 24.2% of Total Sales Volume for the Year

This is a significant decline from 2018, when office comprised 37.1% 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)

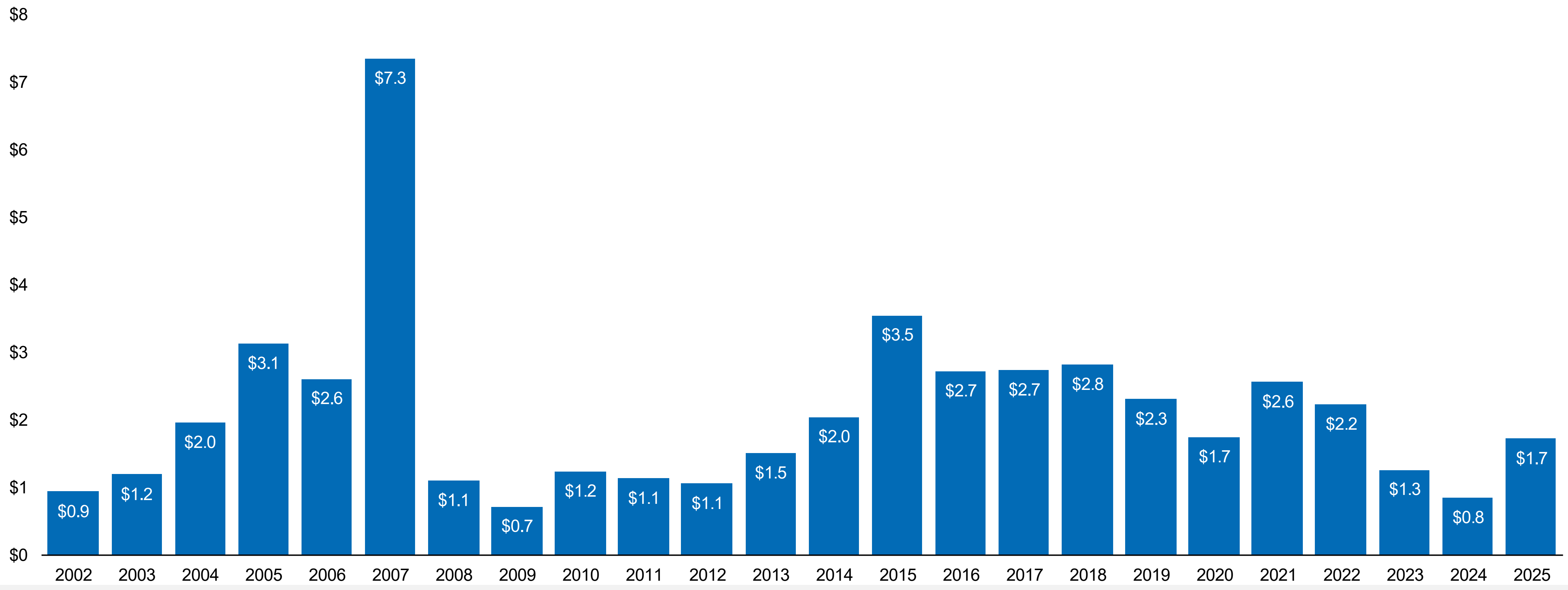


Source: MSCI Real Capital Analytics, Newmark Research
Note: Preliminary data is cited for the fourth quarter of 2025.

Office Sales Volume: Up Close

Office sales volume totaled $1.7 billion this year, more than double the volume seen in the previous year. The bulk of sales activity is driven by owner-users taking advantage of discounted inventory and investors seeking to redevelop dated office buildings for other uses.

Orange County: Office Sales Volume ($ in Billions)



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

Pricing is Decreasing, While Cap Rates Will Increase

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Opportunistic Investors Take Advantage of Discounted Office Market

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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

4Q25

Airport Area

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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

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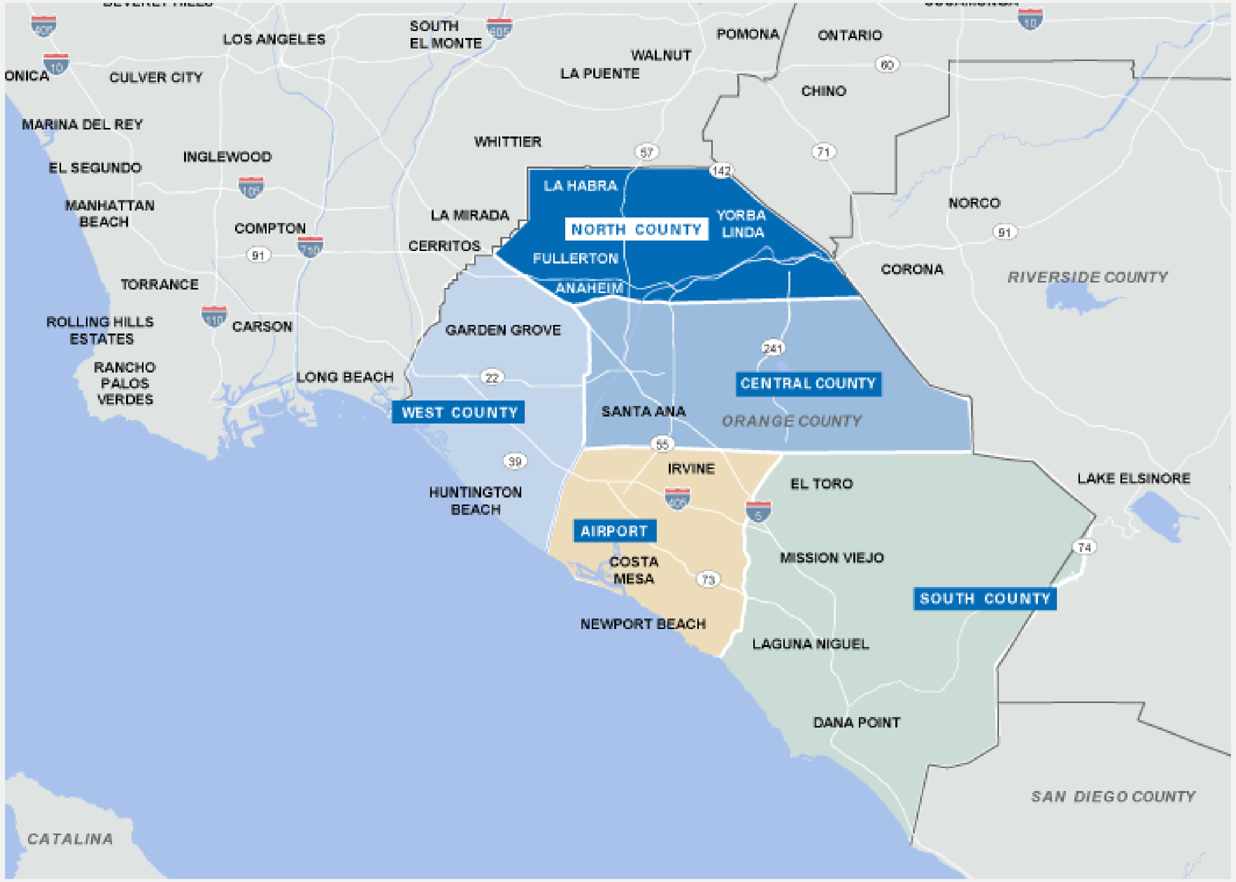
Orange County Office Submarket Map and High-Level Statistics | 4Q25



Marketwide Statistics | 4Q25

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	94.3M	94.3M	95.3M	↓
Vacancy Rate	16.1%	16.9%	17.3%	↓
Quarterly Net Absorption (SF)	787K	473K	142K	→
Average Asking Rent/SF	$2.94 FSG	$2.82 FSG	$2.89 FSG	→
Under Construction (SF)	0	0	0	→
Deliveries (SF)	0	0	0	→

Source: Newmark Research,

Orange County Office Submarket Statistics | 4Q25 (page 1 of 3)

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