

# Cautious optimism behind Orange County’s office debt market

By Conrad Smith and Connor Wilde | December 2024

Orange County (OC) has nearly \$1 billion in maturing office loans over the next decade. Alongside these upcoming maturities, the [lending landscape](#) for office properties is improving with increased lender interest for office space. This shift is driven by decreasing interest rates as the Fed funds interest rate dropped 50 basis points year-over-year from 5.3% in October 2023 to 4.8% in October 2024. Lower interest rates in the past have led to a surge in refinancing for those with floating-rate debt, and with the recent cuts on the short end of the curve, some owners with loans coming due may look to refinance or sell.

The total CMBS maturities from 2025-2035 amount to \$915 million, encompassing 48 maturing CMBS office loans, and totaling 3.7 million sq. ft. of space. With additional rate cuts expected, more investors are willing to test the market, as interest rates and a clearer understanding of occupier space needs have led to growing confidence in the office sector’s resilience and recovery. Office vacancy rates remain the highest average in 12 years at 14.7% and asking rates have stayed flat throughout 2024 at \$2.85 FSG per sq. ft. per month. With the prospect of conversions and supply coming offline, owners are waiting to make decisions on their asset until there are more positive signs in the market.

Total OC Office CMBS Maturities (2025-2036)

\$915M

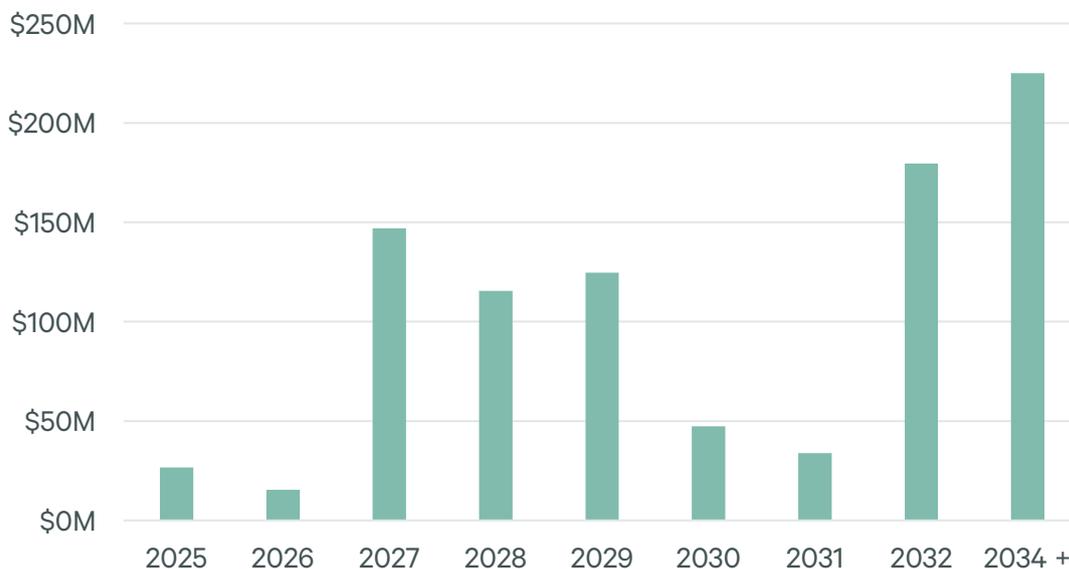
# of OC Office CMBS Loans Maturing (2025-2036)

48

Total OC Office Space Maturing (2025-2036)

3.7M SF

FIGURE 1: Orange County Office Maturity Balances by Year



Source: Trepp, October 2024.

## Debt maturities concentrated in key OC submarkets

The maturity balances in Orange County are heavily concentrated in the Greater Airport Area (GAA) and South Orange County (South OC). Of the county's office buildings with CMBS loans, the two submarkets account for 80% of the total maturing debt but only account for 3% of the office inventory. Although these submarkets hold less sq. ft. inventory compared to other CMBS office loan submarkets, office leasing and sales in the GAA and South OC are typically more expensive than other submarkets due to its extensive Class A space, newer buildings and centralized location. These characteristics lead to higher valuations and often larger debt balances compared to less sophisticated assets.

Total CMBS outstanding loan balance for OC office properties decreased by roughly \$220 million or 19% year-over-year. Seven of these loans were paid off. Total originated loans remained relatively unchanged compared to the prior year as optimistic borrowers wait for better lending terms. In 2023, there were two CMBS loans originated in Orange County, while 2024 YTD there have already been six CMBS loans originated. Investors are trading assets and refinancing in the market with the improved outlook on lending to office compared to that of recent years.

The office market nationally and in Orange County remains challenged as lenders have shifted focus to less-risky assets in industrial, multifamily, and retail. The post-pandemic [workplace requirements](#) are still being developed as companies look for data on workplace efficiency in the office versus at home. Despite this, the Orange County office lending outlook will continue to grow positively, albeit slowly, as owners and occupiers have a clearer picture of the future of office.

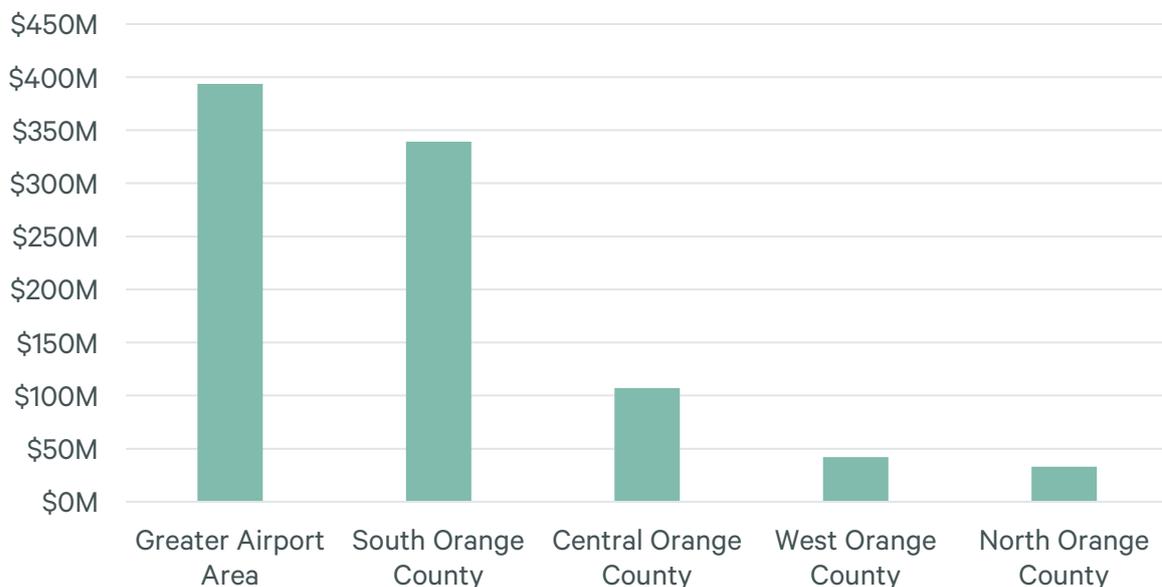
% Change in CMBS  
Outstanding Office Loan  
Balance (Year-over-Year)

-19%

Orange County CMBS Office  
Loans Originated 2024 YTD

6

FIGURE 2: Loan Maturity Balances by Submarket (2025-2036)



Source: Trepp, October 2024.

## Considerations for Investors

- 1 The next Fed Meeting will take place December 18, 2024, and an interest rate cut is viewed more likely than not by the [CME's FedWatch](#) tool.
- 2 As interest rates continue to decrease, the cost of borrowing becomes more attractive, encouraging investors and occupiers to engage in the market.
- 3 The outlook for the OC office market is cautiously optimistic – office will continue to be challenged, but the combination of improved lending conditions and steadier demand for office space provide a solid foundation for recovery.

## Considerations for Occupiers

- 1 Based on lower office valuations and revised underwriting, tenants may see reductions in asking rents in certain submarkets
- 2 Landlords offer extensive Tenant Improvement (TI) packages to fill their vacant space, benefitting occupiers with new space that attracts employees back into the office.
- 3 Tenants face a more challenging environment as leasing decisions become more complicated, this highlights the need for professional advisors to guide them through these decisions.

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