Office market continues gradual recovery amid improving fundamentals

▲13.3%	▲(116,500)	▶0	▶168,000	▲$2.89
Vacancy Rate	SF Net Absorption	SF Construction Delivered	SF Under Construction	FSG/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

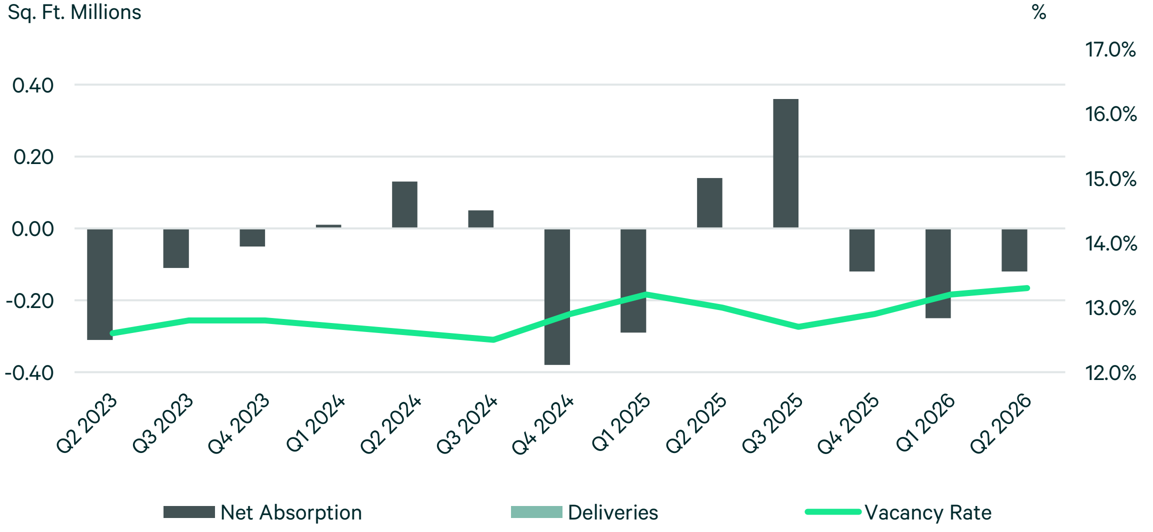
Market Overview

The Orange County office market demonstrated continued, if measured, progress in Q2 2026 as availability rates declined further, leasing activity accelerated, and asking rents pushed higher. While net absorption remained in negative territory, the quarter's results reinforced a broader stabilization trend that has been building across the market in 2026.

Net absorption recorded at negative 116,500 sq. ft. in Q2 2026, representing a moderate improvement from the negative 347,000 sq. ft. posted in Q1 2026. Despite a modest increase, absorption remained stubbornly negative, moving within a narrow band over the past 36 months. A marked improvement in lease velocity was largely offset by continued space reductions among existing occupiers. Leasing activity, however, showed healthy growth in Q2 2026, with 414 deals totaling over 2 million sq. ft. signed during the quarter.

Total vacancy remained virtually flat with a 10-basis point (bps) uptick quarter-over-quarter to 13.3% in Q2 2026, from the 13.2% adjusted rate in Q1 2026, and well below the cyclical peak of 15.3% recorded in Q1 2025. The average direct asking lease rate increased $0.05 to $2.89 FSG per sq. ft. per month in Q2 2026, reflecting growing market momentum and rising landlord confidence.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

Vacancy & Availability

The overall vacancy rate increased to 13.3% in Q2 2026, which remained nearly flat from the 13.2% logged in Q1 2026. While vacancy has increased incrementally over the past eight quarters, the market has remained largely stable as consistent office demand has kept pace with move-outs. Similarly, direct vacancy ticked up only slightly, less than 10 bps to 12.0% from just over 11.9% in Q1 2026, while available sublease space decreased by nearly 300,000 sq. ft. as listings expired and transitioned back to direct availability. The continued removal of obsolete inventory, including conversions such as 2020 E 1st Street in Santa Ana, further tightened supply countywide.

Class A properties continued to benefit from the flight-to-quality trend, with vacancy falling to 16.4% in Q2 2026 from 20.3% one year prior. The strongest submarket improvement was recorded in Central OC, where vacancy fell 240 bps to 15.0% due to incredibly strong leasing activity during the quarter. South OC declined 235 bps to 12.5% on the strength of 21 new leases totaling 270,000 sq. ft., led by technology and life science occupiers. The cumulative effects of vacancy increases in key districts led to the slight countywide increase; Airport Area increased 110 bps to 16.3%, Irvine Business Complex (IBC) increased 210 bps to 15.6%, and Downtown Anaheim increased 300 bps to 31.4%.

The availability rate continued its downward trend, reaching 18.0% in Q2 2026 — a significant improvement from the market's peak of 24.0% in Q1 2025. The decline in availability was led by Class C buildings with a 220 bps decrease to 10.8%, suggesting that while flight-to-quality remained a defining characteristic of the market, mid-tier product also attracted occupier interest at discounted rates.

Asking Rent

In Q2 2026, the overall average asking rent was $2.89 FSG per sq. ft. per month. Rents increased $0.05 quarter-over-quarter from $2.84 FSG per sq. ft. per month in Q1 2026 and increased $0.06 year-over-year from $2.83 FSG per sq. ft. per month in Q2 2025. Class A followed a similar trajectory, rising quarter-over-quarter by $0.09 from $3.09 FSG per sq. ft. per month to $3.18 FSG per sq. ft. per month, while Class B softened $0.03 from $2.48 FSG per sq. ft. per month to $2.45 FSG per sq. ft. per month, and Class C increased $0.13 from $2.18 FSG per sq. ft. per month to $2.31 per sq. ft. per month in Q2 2026. Average asking rates rose in Q2 2026 as landlords, driven by institutional owner’s rate increases, gained pricing power, enabling them to regain leverage as demand for best-in-class space outpaced available supply.

In Q2 2026, Class A asking rents were highest in the Greater Airport Area (GAA) at $3.34 FSG per sq. ft. per month, followed by West Orange County at $3.23 FSG per sq. ft. per month, underscoring the premium these locations command for top-tier product.

Figure 2: Vacancy Rates by Class

Source: CBRE Research, Q2 2026

Figure 3: Average Direct Asking Rate by Class

Source: CBRE Research, Q2 2026

Net Absorption

Net absorption recorded negative 116,500 sq. ft. in Q2 2026, which marked the fourteenth quarter of negative absorption in the last sixteen quarters. While the market moved toward stabilization, the trajectory was encouraging as the magnitude of negative absorption moderated considerably, and signaled a gradual rebalancing between occupier demand and available supply.

Class A properties continued to demonstrate relative resilience in the flight-to-quality environment, having posted positive absorption for much of 2025 before slipping back into negative territory in the first half of 2026. Premium locations remained the exception, as Newport Center recorded positive absorption of 25,000 sq. ft. in Q2 2026 and 6,000 sq. ft. in Q1 2026, underscoring persistent occupier preference for best-in-class product in desirable locations.

The picture at the submarket level was more nuanced. Central OC posted 23,000 sq. ft. of positive absorption and South OC contributed an additional 18,000 sq. ft. of new occupancy. The GAA continued to reverse course in Q2 2026 after positive gains were recorded in the second half of 2025, recording negative 148,000 sq. ft. as move-outs outpaced new occupancy. Irvine, accounting for over one-third of the total OC office market base, struggled with 153,000 sq.ft. of negative absorption despite multiple large transactions across the financial services, legal, and technology sectors. Additionally, Costa Mesa contributed 50,000 sq. ft. of positive absorption through several new healthcare industry leases.

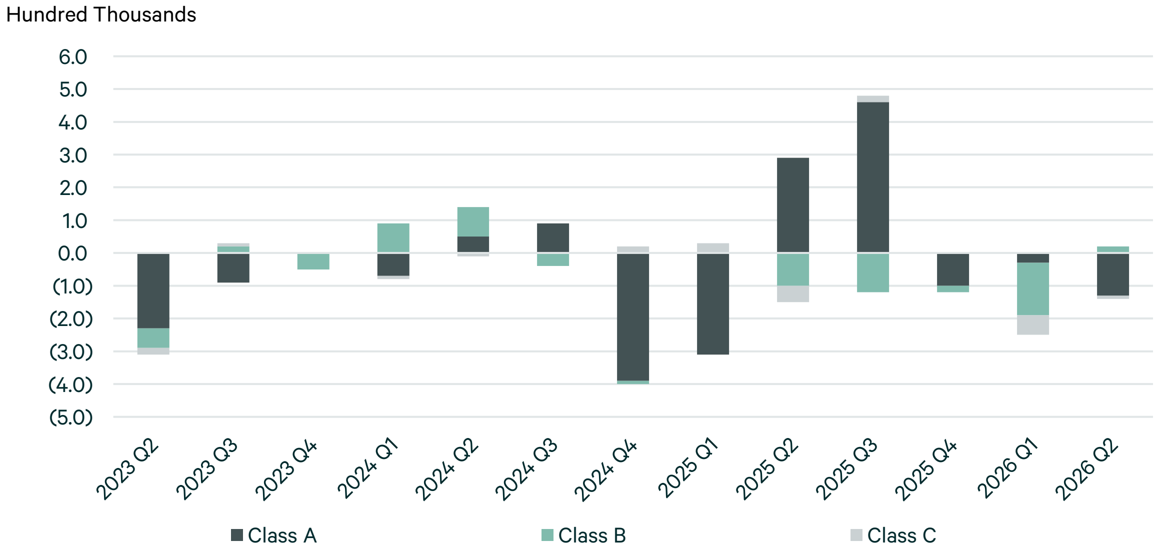
Despite strong leasing activity, the overall absorption figure reflected a bifurcated market in which tenants continued to renew and simultaneously downsize their footprint, as the market moved towards equilibrium.

Construction Activity

In Q2 2026, the market had 168,000 sq. ft. under construction and no new projects delivered. The OCVibe development remained the only project under construction over the past two years, showing developer's reluctance to break ground in the market. Orange County continued to see limited development for office space due to increasing construction costs and elevated availability, resulting in the pipeline remaining constrained.

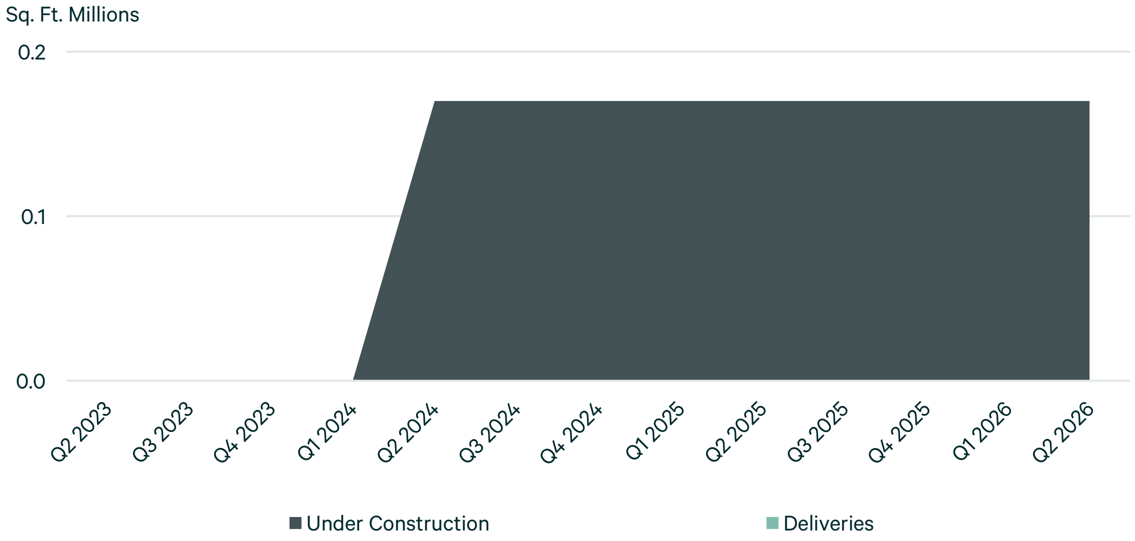
Office conversions continued to be a focal point in Orange County as developers targeted older, noncompetitive Class B & C buildings as potential projects to convert. If leasing activity continues to thrive and obsolete buildings are removed from the office base, the market will begin to tighten, and developers may find opportunities for new office projects in the future.

Figure 4: Net Absorption Trend



Source: CBRE Research, Q2 2026

Figure 5: Construction Activity



Source: CBRE Research, Q2 2026

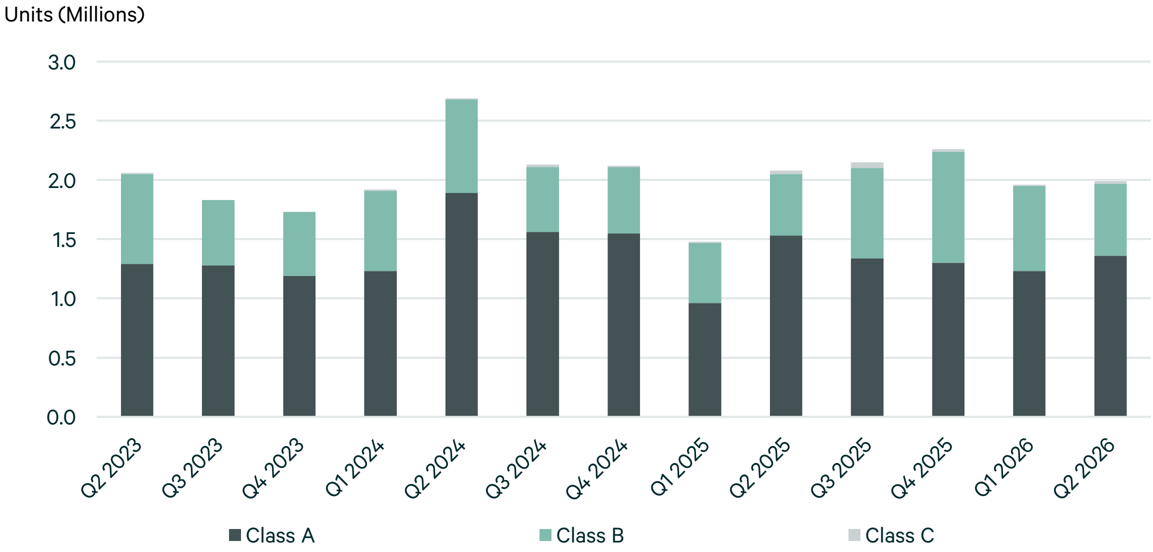
Leasing Activity

Total leasing volume reached nearly 2 million sq. ft. in Q2 2026. On a quarter-over-quarter basis, Q2 2026 leasing increased 1.2%, but declined 4.0% year-over-year. Class A captured 1.4 million sq. ft. in Q2 2026, up 10.4% quarter-over-quarter but down 11.2% year-over-year, whereas Class B reached 611,000 sq. ft., falling 14.7% quarter-over-quarter yet rising 17.1% year-over-year. The year-over-year shift in leasing activity indicated that while occupier confidence improved in 2026, with tenants committing to flight-to-quality, the signed deals were decided upon on a case-by-case basis dependent on occupier needs.

By geography, the Greater Airport Area was the most active submarket in Q2 2026 with 990,000 sq. ft. of leasing, followed by South Orange County at 619,000 sq. ft. Central Orange County posted 266,000 sq. ft., while West Orange County and North Orange County recorded 53,000 sq. ft. and 45,000 sq. ft., respectively. Leasing activity in Q2 2026 was primarily driven by tenant renewals, where market uncertainty and geopolitical tension moved occupiers away from pursuing long-term new leases.

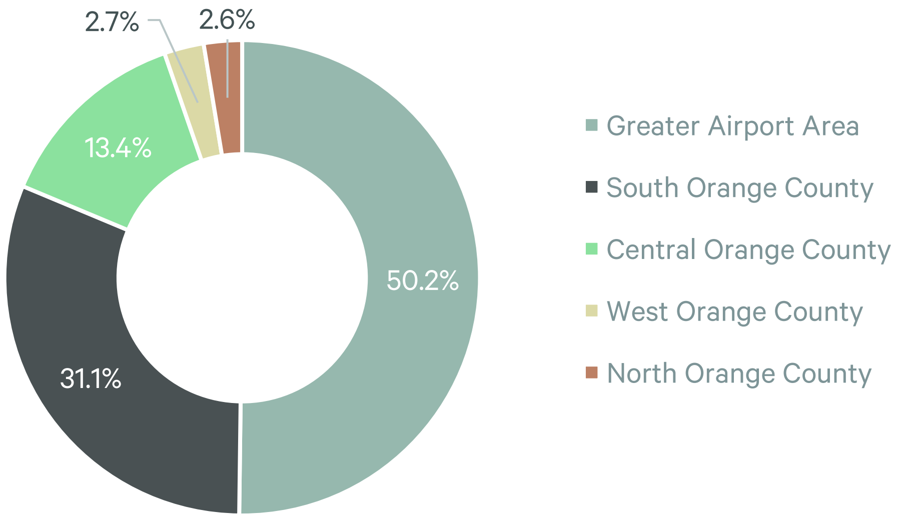
Transactions above 40,000 square feet were the main drivers of continued positive momentum in Q2 2026. While activity was spread across a vast array of sectors, the financial service industry saw strong demand throughout the quarter.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 7: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Confidential	254,588	Renewal	Irvine Spectrum	South Orange County
Confidential	234,819	Renewal	Irvine Spectrum	South Orange County
Z Supply	54,475	Renewal	3500 Hyland Ave	Greater Airport Area
Wells Fargo Bank	53,344	Renewal	2030 Main Street	Greater Airport Area
RWT	43,854	New Lease	4 Park Plaza	Greater Airport Area
Becton Dickinson & Co	42,901	New Lease	17700 Laguna Canyon Rd	South Orange County
Reliance	27,699	Renewal	10801 Walker St	West Orange County
Videlle Investments	27,000	New Lease	5 Hutton Centre Dr	Greater Airport Area

Source: CBRE Research, Q2 2026

Market Statistics by Class

Figure 9: Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	51.41M	16.4	21.4	18.9	2.5	3.18	(134,911)	(162,052)	-	168,000
Class B	46.84M	10.4	14.8	13.5	1.2	2.45	23,795	(137,542)	-	-
Class C	4.03M	9.0	10.8	10.2	0.7	2.31	(5,384)	(63,203)	-	-
Total	**102.27M**	**13.3**	**18.0**	**16.1**	**1.9**	**2.89**	**(116,500)**	**(362,797)**	**-**	**168,000**

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 10: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Class A Asking Rent ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Central Orange County	15.48M	15.0	17.9	15.7	2.3	2.69	2.88	23,432	16,171	-	168,000
Greater Airport Area	48.12M	13.6	18.1	16.6	1.6	3.13	3.34	(148,014)	(182,066)	-	-
North Orange County	8.35M	10.4	12.6	11.3	1.3	2.66	2.86	(3,043)	(3,355)	-	-
South Orange County	26.13M	12.5	19.0	16.4	2.6	2.65	2.95	18,385	(111,103)	-	-
West Orange County	4.20M	16.2	20.7	20.1	0.6	2.62	3.23	(7,260)	(82,444)	-	-
Total	**102.27M**	**13.3**	**18.0**	**16.1**	**1.9**	**2.89**	**3.18**	**(116,500)**	**(362,797)**	**-**	**168,000**

Source: CBRE Research, Q2 2026

Economic Overview

The U.S. economy enters mid-2026 navigating crosscurrents but growing at a healthy pace, with CBRE projecting GDP growth averaging 2.2%, broadly in line with 2025. The AI investment boom is certainly a key driver of this expansion. Concerns surrounding the sustainability of this growth are valid, but we expect AI-related business investment to continue.

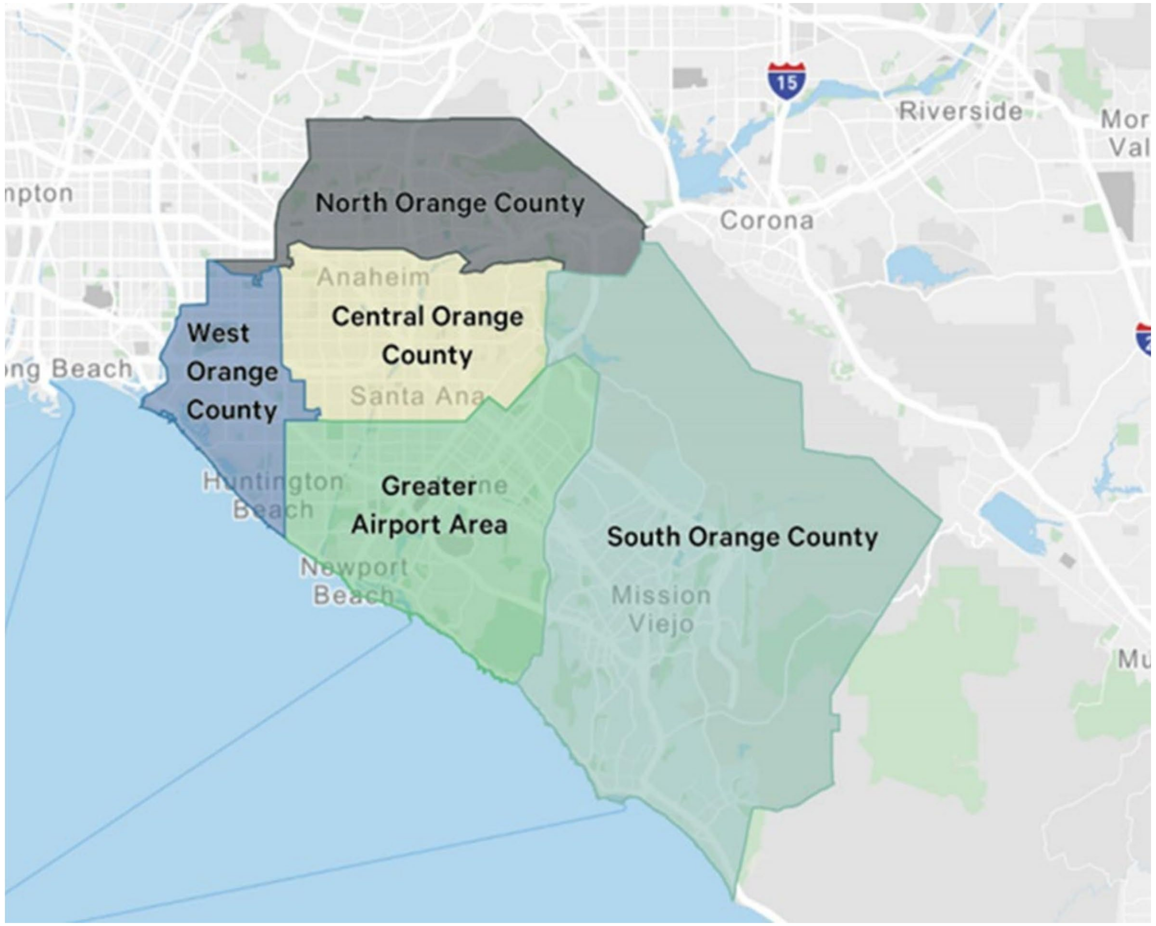
The more pressing concern in recent months has been the U.S./Iran conflict and its impact on world energy prices, which recently pushed U.S. inflation to 4.2%. Should the prospective peace deal announced in June come to fruition, inflation would fall to the upper 3% range by year-end as energy prices slowly decrease. Stickier inflation has pushed Treasury yields well above 4%, complicating real estate markets. On the upside, the prospect for peace and normal trade flows in the Persian Gulf could refresh the optimism the CRE market felt at the beginning of the year.

The Orange County office market enters the second half of 2026 with cautious optimism, supported by stabilizing fundamentals and a national economic backdrop that, while complex, continues to expand at a healthy pace. Locally, the market's ongoing rebalancing was marked by moderate negative absorption, tightening availability, and resilient asking lease rates, which points to a market that is finding its footing after several years of elevated vacancy and tepid demand.

Orange County's investment market, which saw a significant acceleration in transaction volume through the second half of 2025, is well-positioned to build on that momentum. The county's demonstrated appeal to institutional capital — particularly for Class A assets with strong occupancy — provides a durable foundation for increased investment activity.

The flight-to-quality trend that has defined the OC office market throughout the post-pandemic cycle remains firmly intact. Premium, well-amenitized Class A buildings in desirable locations such as Newport Center, the Airport Office Area, and Irvine Spectrum continue to attract occupiers willing to pay for best-in-class space, and this dynamic is expected to persist through the balance of 2026. As return-to-office mandates become more broadly adopted across large OC occupiers in financial services, technology, and professional services sectors, demand for quality office space should remain firm.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in vacant available Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the ”net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: vacant available Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all Class A and B multi-tenant office projects 5,000 sq. ft. and greater in size, excluding government, medical, and owner user buildings. Excludes buildings Under Construction or Planned. Under construction buildings which have begun construction as evidenced by site excavation or foundation work. Orange County is currently undergoing a building-by-building audit, removing functionally obsolete product and updating historical data, resulting in minor changes.

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