

FIGURES | ORANGE COUNTY OFFICE | Q1 2026

Office Market Stabilizing Amid Persistent Demand Headwinds

▲ 14.6%

Vacancy Rate

▼ (321,497)

SF Net Absorption

▶ 0

SF Construction Delivered

▶ 168,000

SF Under Construction

▲ \$2.84

FSG/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

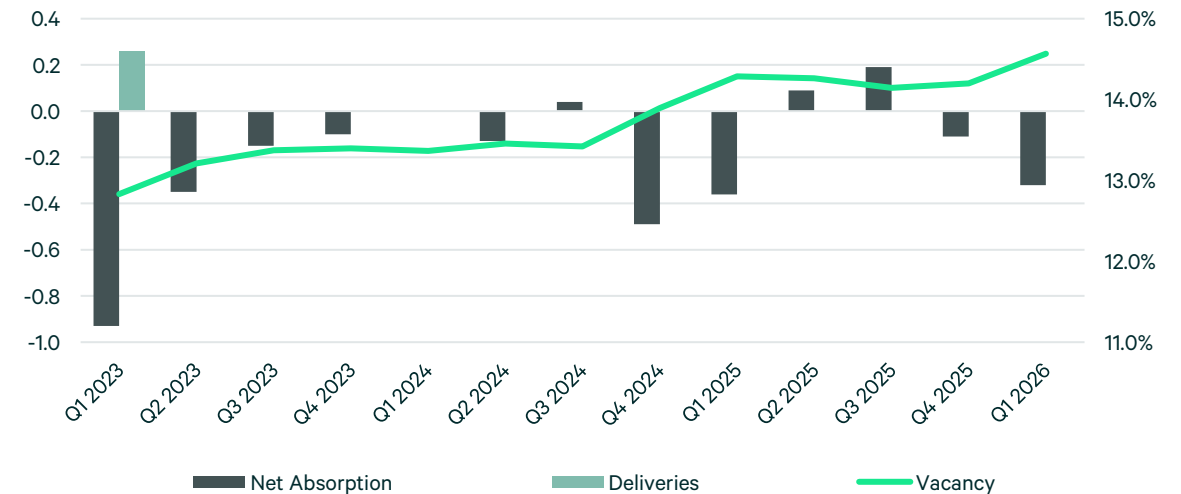
Market Overview

The Orange County (OC) office market showed further signs of stabilizing in Q1 2026 as vacancy increased slightly, but asking lease rates ticked higher, highlighting the inconsistent, although improving, office market. The quarter experienced 321,000 sq. ft. of negative net absorption as small, mid, and large-sized occupiers vacated space across the market.

Vacancy continued to decline incrementally, while availability further tightened. The vacancy rate in Q1 2026 ticked up to 14.6%, an increase of 40 basis points (bps) quarter-over-quarter from the revised Q4 2025 vacancy rate of 14.2%. Availability rates showed a decline to 19.6% in Q1 2026, a 180-bps decline quarter-over-quarter as listings were withdrawn from the market. Similarly, available sublease space continued to fall, declining 324,000 sq. ft. to 2.2 million sq. ft. in Q1 2026 due to withdrawals.

Rental rates saw a modest increase, with the average asking rate at \$2.84 FSG per sq. ft. per month, returning to its Q1 2025 level. Construction activity remained limited as well, with a single 168,000 sq. ft. project under way and no new deliveries since Q1 2023, keeping new supply constrained.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy
Sq. Ft. (000,000)



Source: CBRE Research, Q1 2026

Vacancy

Vacancy ticked upward at the start of the year as tepid leasing volume failed to compensate for tenant move outs. The OC vacancy rate landed at 14.6% for Q1 2026, a modest 40-bps increase over the revised 14.2% in Q4 2025. The increase in vacancy affected all asset classes and most submarkets, with only the North OC submarket seeing vacancy rates remain consistent quarter-over-quarter. Lackluster leasing activity was the main driver of the increase in vacancy, as new leasing fell short of replacing newly vacated space.

Occupiers continued their flight-to-quality as Class A space saw the lowest increase in vacancy, only experiencing a 20-bps increase quarter-over-quarter to 17.7% to end Q1 2026. Class B and C space saw a more dramatic shift, with vacancy increasing 60 bps and 110 bps to 11.6% and 9.4%, respectively. The surge in Class C vacancy underscored tenants' preference for better office product as companies continued to move towards return-to-office and hybrid work schedules.

At a submarket level, vacancy increased most dramatically in West OC, while Central OC, South OC, and Greater Airport Area (GAA) showed only modest increases and North OC remained consistent quarter-over-quarter. The 120-bps increase in vacancy to 16.6% in West OC was driven by one large tenant vacating nearly 69,000 sq. ft. of space in a relatively small submarket, while the modest bumps in Central OC, South, OC, and GAA reflected small and mid-sized tenants moving out of spaces across the market.

Asking Rent

The overall average direct asking lease rate in Q1 2026 was \$2.84 FSG per sq. ft. per month, increasing \$0.01 from the prior quarter and mirroring rents year-over-year. Class A asking rents fell \$0.02 to \$3.09 FSG per sq. ft. per month from Q4 2025, while Class B rates increased to \$2.48 FSG per sq. ft. per month. Institutional investors raised asking rates in several high-end districts such as Newport Center and Airport Area as vacancy rates compressed in those areas, signaling some owners were willing to push rates in premium buildings where demand remained high for well-amenitized spaces.

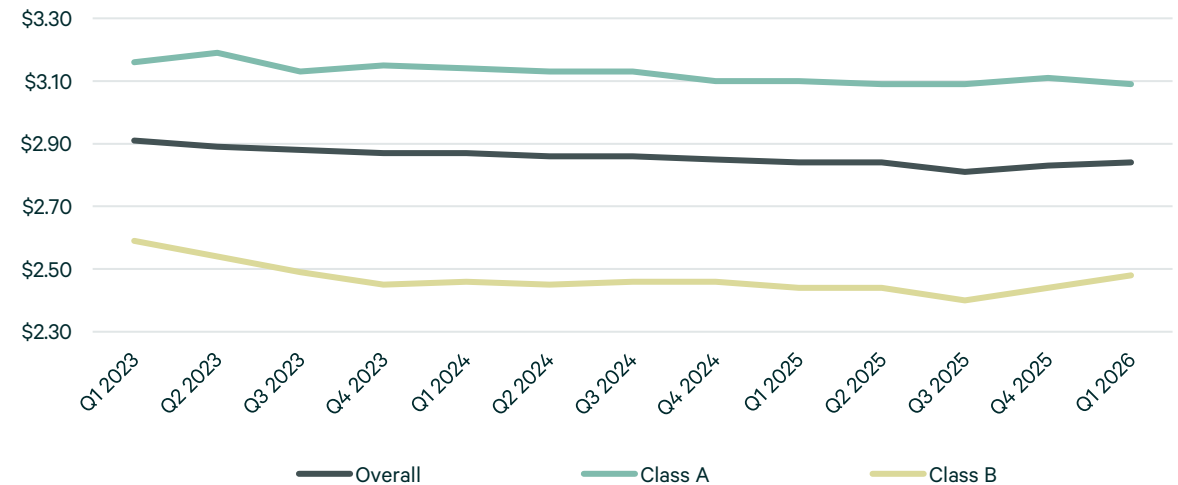
Submarket pricing remained highly differentiated. On a combined Class A and B basis, the Greater Airport Area commanded the highest average asking rent at \$2.92 FSG per sq. ft. per month, with Class A space there achieving \$3.31 FSG per sq. ft. per month. At the more affordable end, South Orange County averaged \$2.48 FSG per sq. ft. per month on a combined Class A and B basis, while West Orange County landed at \$2.43 FSG per sq. ft. per month and offered the lowest Class C rate in the county at \$1.66 FSG per sq. ft. per month.

Figure 2: Vacancy Rates by Class



Source: CBRE Research, Q1 2026

Figure 3: Average Direct Asking Rate by Class
\$ per sq. ft.



Source: CBRE Research, Q1 2026

Net Absorption

Overall, net absorption fell to negative 321,000 sq. ft. in Q1 2026 as tenant moveouts outpaced new occupancy across the market. Net absorption was negative across most submarkets and all asset classes, highlighting market adjustments and tenant concerns about ongoing economic headwinds and a challenging business environment.

In Q1 2026, Class A net absorption totaled negative 105,000 sq. ft., reversing three-straight quarters of positive growth in 2025. The change was largely a result of financial services either downsizing or leaving the market. Class B recorded 191,000 sq. ft. of negative absorption while Class C showed negative 50,000 sq. ft. net absorption in Q1 2026. The exodus of tenants from all asset classes underscored the broader struggles occupiers faced during the quarter as evolving economic policy and technological shifts forced leadership to reevaluate their space needs.

Negative net absorption was spread across most of Orange County, with only North Orange County realizing positive net absorption during the quarter. The GAA submarket posted the most negative absorption, totaling 106,000 sq. ft. of newly vacated space, as the decrease in leasing activity contributed to the broader losses during the quarter. Similarly, South OC, West OC, and Central OC posted negative absorption in Q1 2026. North OC posted 2,000 sq. ft. of positive absorption, hinting at the stability of that submarket amidst a challenging quarter for occupancy.

Construction Activity

In Q1 2026, 168,000 sq. ft. was under construction, with no new space being delivered in the quarter or over the past year. The pipeline remained stagnant since Q2 2024, following 258,000 sq. ft. of Class A completions in Q1 2023. The OC office market is expected to see a modest increase in development activity to address the prolonged lack of new construction, gradually expanding overall inventory. All active construction was in Central Orange County, where the OCVIBE project remained the singular office development project in the market.

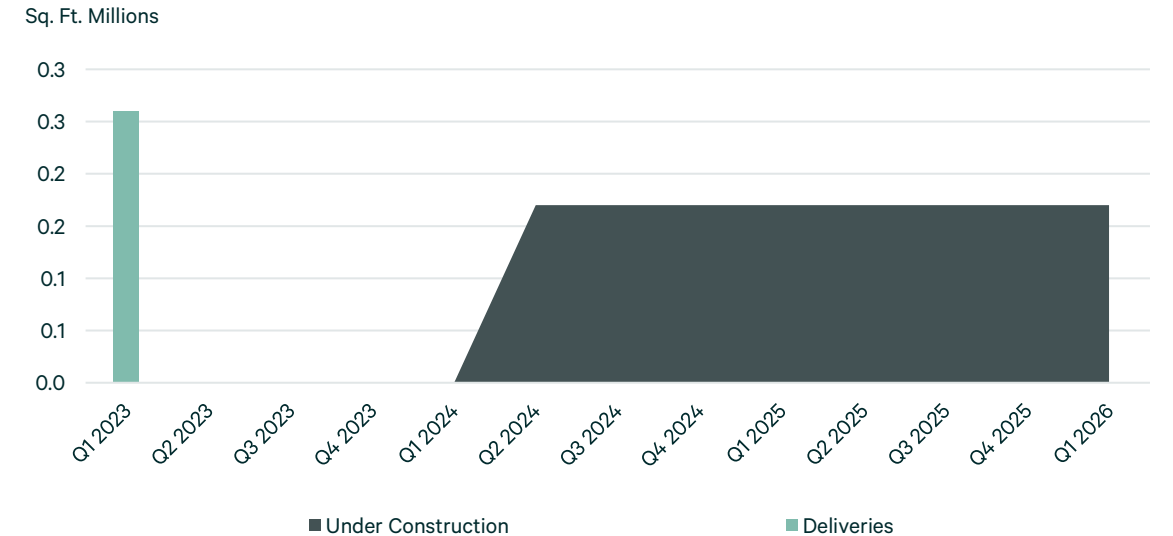
Conversely, office conversions continued to be a topic of interest as nearly 10 million sq. ft. of office space is underway or planned to be repurposed in coming years. As office conversion projects continue, the supply dynamics of the market will change, reducing the underlying available product and creating a significant shift in the fundamentals of Orange County. As a result, developers are expected to reevaluate the feasibility of new office projects in coming years.

Figure 4: Net Absorption Trend



Source: CBRE Research, Q1 2026

Figure 5: Construction Activity



Source: CBRE Research, Q1 2026

Leasing Activity

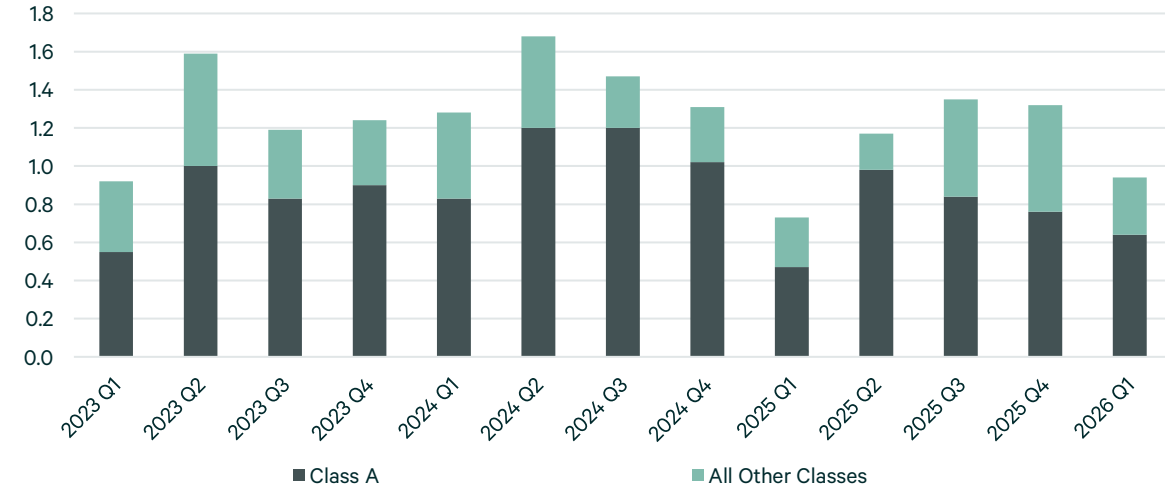
Leasing volume in Q1 2026 totaled 944,000 sq. ft., while activity over the last four quarters reached 4.8 million sq. ft. On a quarterly basis, Q1 2026 leasing declined 380,000 sq. ft., or 28.7%, from the 1.3 million sq. ft. recorded in Q4 2025 but was 219,000 sq. ft., or 30.2%, higher than the 725,000 sq. ft. signed in Q1 2025.

Within the market, the Greater Airport Area and South Orange County posted the highest positive leasing volumes in Q1 2026, with 575,000 sq. ft. and 272,000 sq. ft. transacting, respectively. Leasing activity in these submarkets was primarily driven by ongoing flight-to-quality, as premium office buildings continued to outperform traditional Class A assets with limited amenities. Central OC, North OC, and West OC also recorded positive leasing activity, with quarterly totals of 36,000 sq. ft., 43,000 sq. ft., and 16,000 sq. ft. signed.

Although a handful of large occupiers contracted their presence in the market, overall positive momentum continued in Q1 2026 as transactions above 50,000 sq. ft. helped drive leasing activity. Activity was spread across an array of sectors, building subtypes, and asset classes with financial services, business services, and legal services showing strong demand in Q1 2026.

Figure 6: Leasing Activity Trend

Sq. Ft. Millions



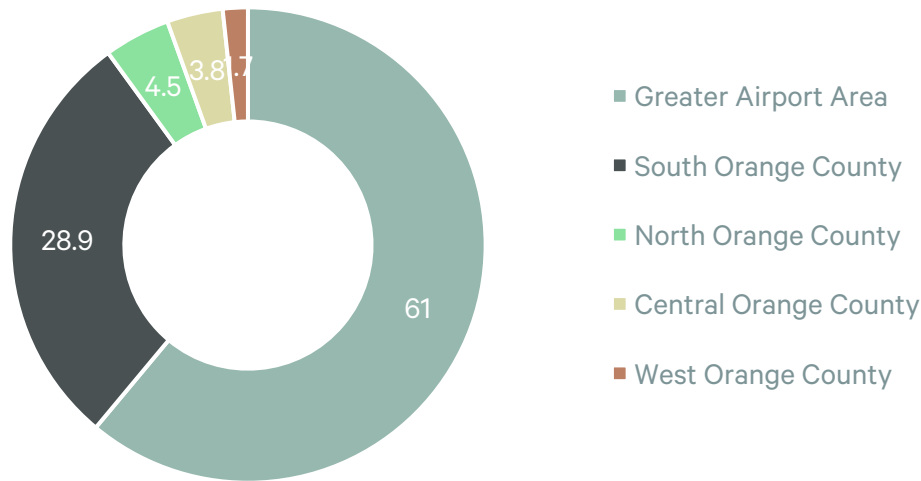
Source: CBRE Research, Q1 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Schneider Electric	105,642	New Lease	520 Technology Dr	South Orange County
Pathway Capital Management	65,583	Renewal/Contraction	18555-18575 Jamboree Rd	Greater Airport Area
O5 Group	55,338	New Lease	5271 California Ave	Greater Airport Area
The Regents of the University of California	53,794	Renewal/Expansion	111 Theory Dr	Greater Airport Area
Pan Pacific	44,430	Renewal	260 Progress	South Orange County
Yardi Systems	32,748	New Lease	18555-18575 Jamboree Rd	Greater Airport Area
Bober, Peterson, & Koby	27,587	Renewal/Expansion	2603 Main St	Greater Airport Area
MUFG Bank	26,808	New Lease	140 S State College Blvd	North Orange County

Source: CBRE Research, Q1 2026

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



Source: CBRE Research, Q1 2026

Market Statistics

Figure 9: Market Statistics by Class

Property Class	Net Rentable Area (MSF)	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	51.55	17.7	23.2	20.2	3.0	3.09	(105,000)	(105,000)	-	168,000
Class B	47.64	11.6	16.2	14.9	1.3	2.48	(166,000)	(166,000)	-	-
Class C	4.03	9.4	13.0	12.3	0.7	2.18	(50,000)	(50,000)	-	-
Total	103.21	14.6	19.6	17.4	2.1	2.84	(321,000)	(321,000)	-	168,000

Source: CBRE Research, Q1 2026

Market Statistics by Submarket

Figure 10: Market Statistics by Submarket

Submarket	Net Rentable Area (MSF)	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)
Central Orange County	15.58	17.4	21.2	18.3	2.9	2.65	(48,000)	(48,000)	-	168,000
Greater Airport Area	48.67	14.0	18.8	17.1	1.7	3.09	(106,000)	(106,000)	-	-
North Orange County	8.51	10.8	13.9	12.7	1.2	2.65	2,000	2,000	-	-
South Orange County	26.27	14.9	21.6	18.5	3.2	2.57	(92,000)	(92,000)	-	-
West Orange County	4.19	16.6	21.0	20.5	0.5	2.67	(78,000)	(78,000)	-	-
Total	103.21	14.6	19.6	17.4	2.1	2.84	(321,000)	(321,000)	-	168,000

Source: CBRE Research, Q1 2026

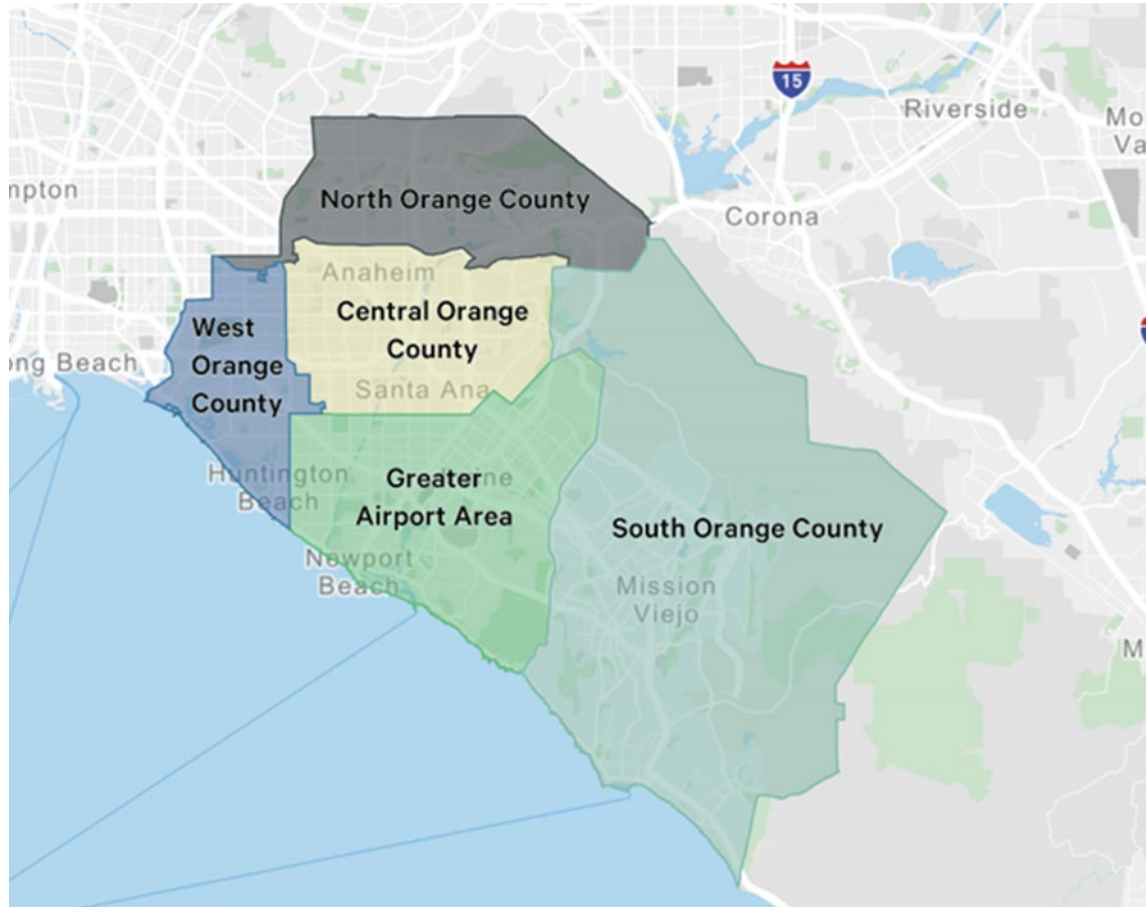
Economic Overview

The U.S. economy remains on solid footing five years into the current business cycle, even as headwinds continue to build. GDP growth is expected to average 2.1% in 2026, matching last year's pace and outperforming most advanced economies. A key differentiator is America's aggressive buildout of AI infrastructure — major technology companies are now investing nearly as much in data centers and related infrastructure as the entire residential construction sector, a scale of spending with few historical precedents. Even so, questions about the sustainability of AI-driven growth and its broader economic spillovers are unsettling both credit and equity markets.

The ongoing military conflict in the Middle East has emerged as a significant source of economic uncertainty. Disruptions to global energy supply through the Strait of Hormuz have contributed to elevated oil prices and added upward pressure to an inflation outlook that was already trending higher — headline inflation is now forecast to average 3.2% this year, up from the mid-2% range projected in February. The broader economic impact will depend largely on the duration and trajectory of the conflict, but even under more favorable scenarios, energy markets, shipping routes, and global supply chains would take considerable time to normalize.

In summary, the Orange County office market enters Q2 2026 amidst a period of economic resilience, though potential headwinds related to interest rate volatility and the overall health of capital markets are being closely monitored. The market's historical diversification provides a degree of insulation against external shocks, allowing for a more stable outlook compared to some national trends. Key indicators such as return-to-office rates, the acceleration of office conversions, and the dynamics of lease activity will remain crucial in shaping the market's performance.

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 Occupied 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:** Total Vacant 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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