Rising vacancy and declining lease rates underscore challenges in the market

▲5.5%
Vacancy Rate

▼(692,000)
SF Net Absorption

▼209,000
SF Construction Delivered

▼676,000
SF Under Construction

▼$1.49
NNN/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

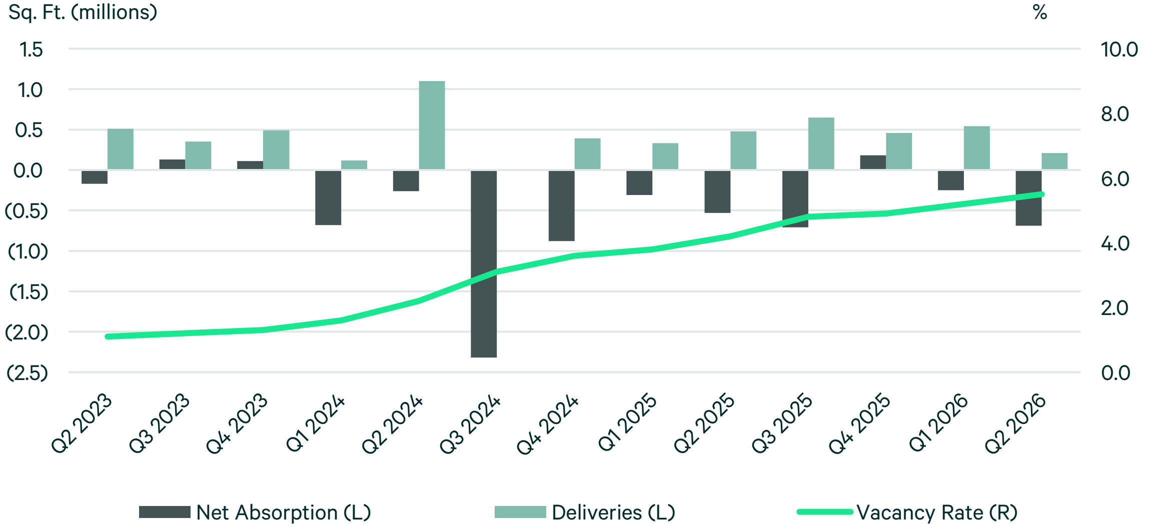
Market Overview

The market continued to adjust to challenging conditions in Q2 2026 as negative absorption and rising vacancy persisted across Orange County (OC). Net absorption fell to negative 692,000 sq. ft. as lackluster leasing failed to replace the large move-outs across the market. Vacancy climbed 30 basis points (bps) from a revised 5.2% in Q1 2026 to 5.5% in Q2 2026 while average asking rents reflected the broader downward pricing pressure, declining 3.9% quarter-over-quarter and 8.0% year-over-year.

Construction activity also pulled back, with space under construction totaling 676,000 sq. ft. at quarter end — down roughly 1.3 million sq. ft. from the prior year. The decline in development correlated with rising construction costs and increasing availability, making speculative development increasingly difficult to justify.

While leasing activity declined amid a pullback in tenant demand, the new leasing tenant mix remained diversified as advanced manufacturing, logistics, and services were all active. Leasing was broadly spread across submarkets, though large-block demand above 100,000 sq. ft. retreated after a brief uptick in Q1 2026.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

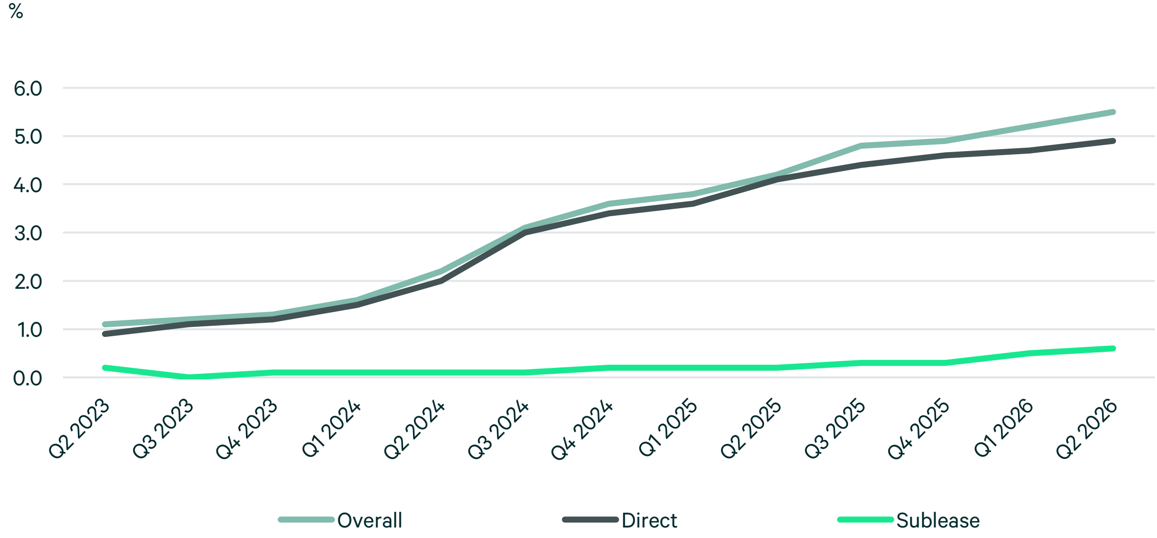
Vacancy Rate

In Q2 2026, overall vacancy climbed to 5.5% — up 30 basis points quarter-over-quarter and 130 basis points year-over-year — marking the highest vacancy rate recorded in the past 20 years. Leasing activity failed to offset the rise, as two new construction deliveries at 5235 E Hunter and 11311 Western contributed 209,000 sq. ft. of vacant space to the market. Direct vacancy reached 4.9%, reflecting a 20-basis point increase from Q1 2026 and an 80-basis point rise versus Q2 2025. Persistent vacancy intensified pricing pressure on institutional landlords competing for a shrinking pool of active tenants.

The highest vacancy was concentrated in buildings exceeding 100,000 sq. ft., a trend driven by corporate occupiers' growing reluctance to commit to large-block space amid an uncertain economic backdrop. However, smaller buildings also struggled with the 10,000-39,999 sq. ft. size range adding over 300,000 sq. ft. of vacant space to the market quarter-over-quarter.

At the submarket level, the Airport Area posted the tightest conditions with an overall vacancy rate of 4.2%, followed by West Orange County at 4.9%. North Orange County came in at 5.7%, while South Orange County recorded the highest vacancy in the market at 8.3%, reflecting more pronounced availability pressures in that corridor. Orange County sublease availability reached 1.6 million sq. ft. across all four submarkets as tenants gave back unused space to the market.

Figure 2: Vacancy Rate



Source: CBRE Research, Q2 2026

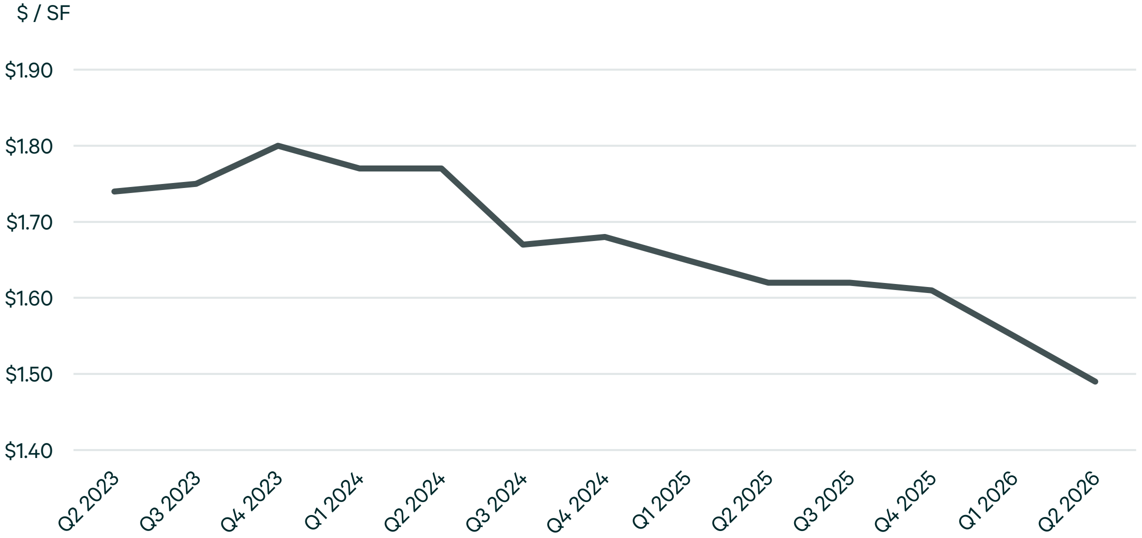
Asking Rent

Average asking rent fell to $1.49 NNN per sq. ft. per month in Q2 2026, down 3.9% from $1.55 NNN per sq. ft. per month in Q1 2026 and 8.0% below year-ago levels, as landlords increasingly adjusted pricing to attract tenants in a softening market. The decline extended a broader downward trend that began after rents peaked at $1.80 NNN per sq. ft. per month in Q4 2023. The decline in asking rents tracked broader macroeconomic headwinds, including persistent inflation and shifting trade policy, that carried into 2026.

Concessions increased as landlords relied on additional free rent and early occupancy to entice tenants to commit. The average free rent for new deals with a five-year term totaled 3.6 months in Q2 2026, up from 2.4 months of free rent in Q1 2026.

Submarket pricing varied considerably with South Orange County commanding the highest average asking rent at $1.73 NNN per sq. ft. per month, followed by West Orange County at $1.51 NNN per sq. ft. per month. The Airport Area and North Orange County trailed at $1.44 NNN per sq. ft. per month and $1.41 NNN per sq. ft. per month, respectively. The resulting $0.32 spread between the highest- and lowest-priced submarkets underscored a clear pricing gradient across the market, reflecting differences in building quality, tenant demand, and submarket fundamentals.

Figure 3: Average Direct Asking Rate



Source: CBRE Research, Q2 2026

Net Absorption

In Q2 2026, the market recorded total net absorption of negative 692,000 sq. ft., extending a persistent run of net occupancy losses as move-outs outpaced new leasing. New vacancies were concentrated in spaces below 100,000 sq. ft., with 72% of negative absorption falling in that size range. Additionally, the 100,000-249,999 sq. ft. size range struggled as expiring leases and space give-backs weighed on occupancy.

At the submarket level, West Orange County was the only submarket to post positive net absorption, posting 48,000 sq. ft. due to a large lease above 100,000 sq. ft. being signed, along with solid leasing activity in the submarket. All other submarkets recorded net occupancy losses. North Orange County saw the steepest decline at negative 396,000 sq. ft. as multiple move-outs in the 100,000-249,999 sq. ft. size range weighed heavily on the submarket. The Airport Area realized negative 211,000 sq. ft. of net absorption while South Orange County contracted by negative 132,000 sq. ft., underscoring that the weakness was broad-based across the county rather than concentrated in any specific submarket.

Expiring leases and inconsistent demand continued to impact the market through H1 2026. While Orange County has seen some relief in certain size ranges and submarkets, the overall trend signaled the market is still adjusting from the post-pandemic real estate surge.

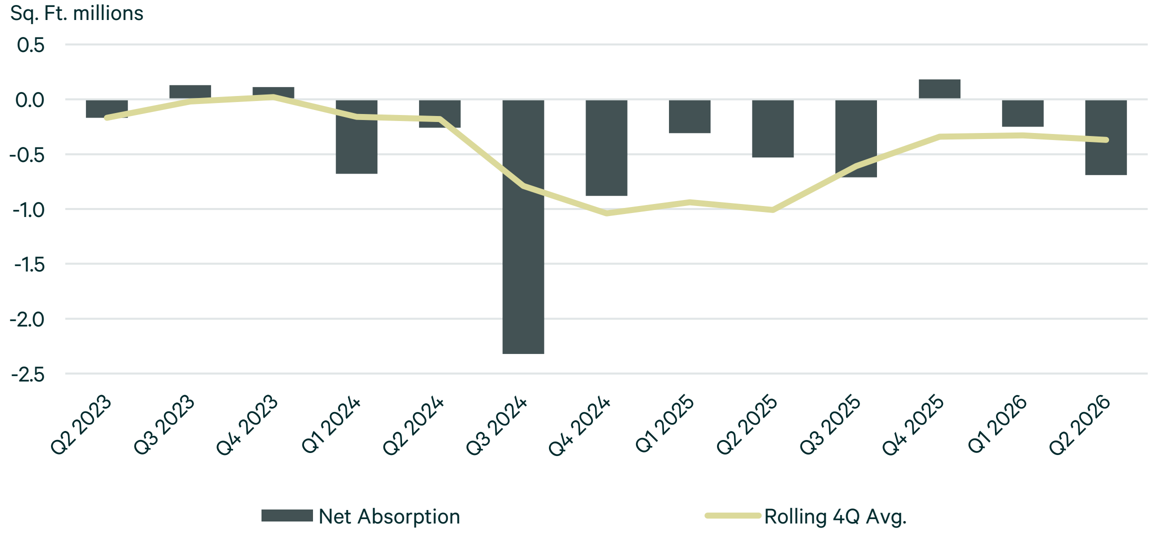
Construction Activity

In Q2 2026, the construction pipeline continued to pull back, with 676,000 sq. ft. underway at quarter end and 209,000 sq. ft. delivered during the quarter. Under construction volume declined 65.7% year-over-year, while deliveries fell 56.8% from a year earlier and 61.4% from the prior quarter. The decline in development coincided with increasing construction costs and elevated availability in the market.

All projects under construction at the end of Q2 2026 were above 50,000 sq. ft. as developers opted to prioritize larger buildings over small-bay options. Of the seven projects under construction, three were above 100,000 sq. ft. The preference of larger buildings extended to new deliveries as two projects delivered vacant in Q2 2026 - a 121,000 sq. ft. building in Anaheim and an 88,000 sq. ft. building in Garden Grove.

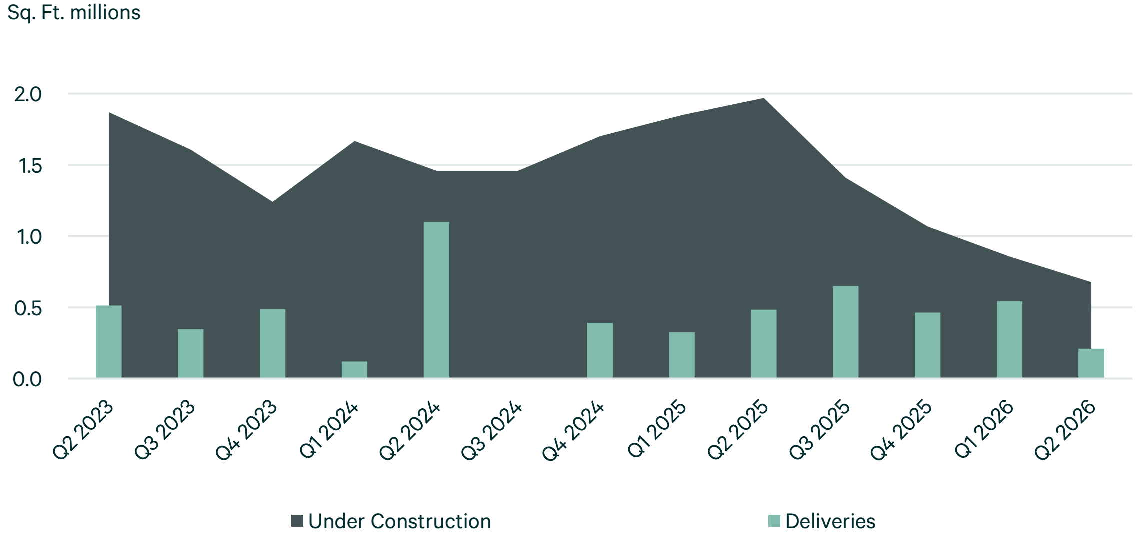
Looking forward, as the supply pipeline thins, the market is expected to tighten as existing product is absorbed, especially in the smaller size ranges where the vacancy rate is below 5%. As the market readjusts to a new equilibrium, the dwindling development pipeline will limit available options for new, Class A buildings.

Figure 4: Net Absorption Trend



Source: CBRE Research, Q2 2026

Figure 5: Construction Activity



Source: CBRE Research, Q2 2026

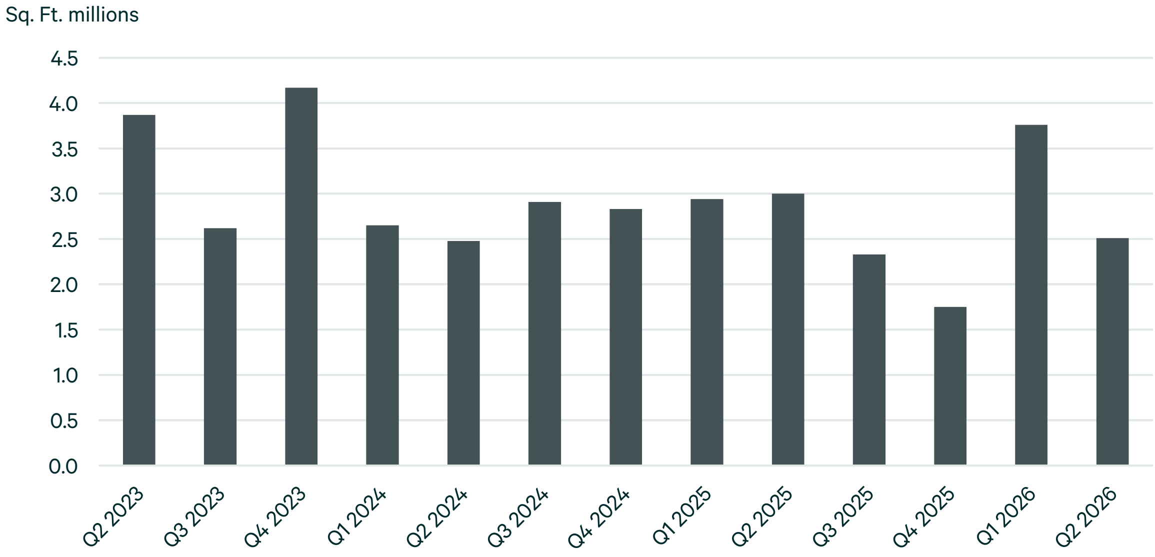
Leasing Activity

Leasing activity in Q2 2026 totaled 2.5 million sq. ft., declining 33.3% from the prior quarter and 16.4% year-over-year. The decline reversed the temporary spike seen in Q1 2026, reverting to the broader demand contraction that has characterized the past three years. However, leasing was spread across multiple sectors, reinforcing OC's diverse tenant mix and flexibility. Logistics, retail, and services occupiers signed new leases in Q2 2026, with manufacturing seeing the largest number of new deals signed during the quarter.

Activity above 100,000 sq. ft. was lackluster in Q2 2026 with only two new deals signed during the quarter, down from six signed in Q1 2026. Occupiers extended their decision timelines, using favorable market conditions to delay long-term commitments where possible.

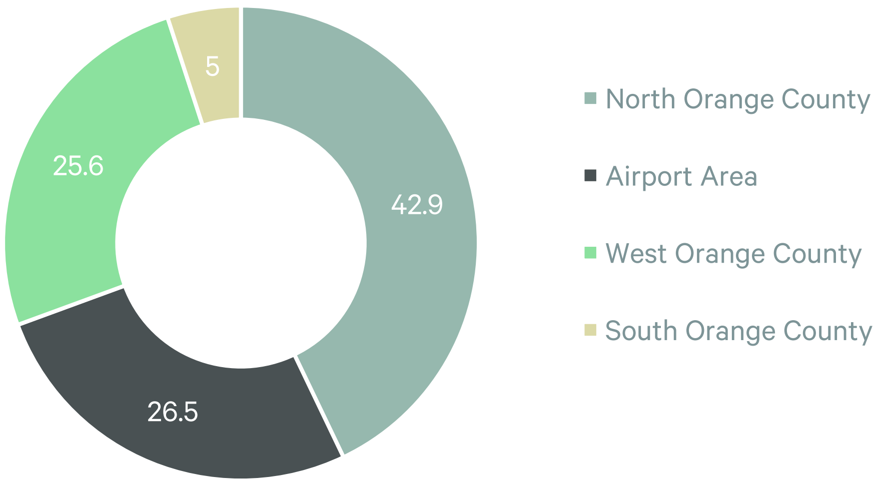
At the submarket level, North Orange County led leasing activity with 1.1 million sq. ft., followed by the Airport Area at 665,000 sq. ft. West Orange County contributed 641,000 sq. ft., while South Orange County accounted for 126,000 sq. ft. — rounding out a quarter in which leasing was respectable across all four submarkets despite the overall volume decline.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q2 2026

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



Source: CBRE Research, Q2 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Harbor Distributing	223,000	Renewal	5600 Argosy Ave	West Orange County
Columbia Container Lines LAX	156,000	New Lease	691-71 Burning Tree Rd	North Orange County
Confidential Tenant	122,000	New Lease	11251-11261 Warland Dr	West Orange County
Axis Product Development	99,000	New Lease	752 N Poplar St	North Orange County
Confidential Tenant	87,000	New Lease	2801-2803 S Yale St	Airport Area
Targus US	84,000	New Lease	1206 N Miller St	North Orange County
FN Tech	82,000	Renewal	3000 W Segerstrom Ave	Airport Area
Waxies Enterprises	79,000	Renewal	3220 S Fairview St	Airport Area

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.

In Q2 2026, Orange County experienced the continuation of challenging conditions that impacted the market over the past two years. While Q1 2026 offered early signs of recovery, Q2 2026 fundamentals signaled that the market has yet to reach an inflection point. If rising interest rates and the broader geopolitical uncertainty abate, Orange County's proximity to metropolitan centers, the Port of Long Beach and Port of Los Angeles, and a deep talent pool ensure that the market will recover.

Market Statistics by Product Type

Figure 9

Product Type	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Distribution/Logistics	74.11M	9.9	13.2	11.3	1.9	1.43	(752,000)	(904,000)	209,000	676,000
Manufacturing - General	138.92M	3.6	4.4	3.9	0.5	1.53	202,000	202,000	-	-
R&D/Flex	39.57M	4.2	5.4	4.8	0.6	1.59	(141,000)	(242,000)	-	-
Other Industrial	28,000	100.0	100.0	100.0	-	-	-	-	-	-
Total	**252.63M**	**5.5**	**7.2**	**6.2**	**0.9**	**1.49**	**(692,000)**	**(943,000)**	**209,000**	**676,000**

Source: CBRE Research, Q2 2026

Market Statistics by Size

Figure 10

Size Range	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Below 50K SF	112.82M	3.0	3.9	3.5	0.4	1.53	(261,000)	(561,000)	-	-
50K-99,999 SF	49.95M	4.3	5.6	4.8	0.8	1.58	(190,000)	(103,000)	88,000	262,000
100K-249,999 SF	56.23M	11.1	13.1	10.8	2.3	1.50	(340,000)	(175,000)	121,000	413,000
250K-499,999 SF	23.92M	9.0	15.1	13.9	1.2	1.40	99,000	(104,000)	-	-
500K-749,999 SF	3.39M	-	-	-	-	-	-	-	-	-
750,000 SF +	6.33M	-	-	-	-	-	-	-	-	-
Total	**252.63M**	**5.5**	**7.2**	**6.2**	**0.9**	**1.49**	**(692,000)**	**(943,000)**	**209,000**	**676,000**

Source: CBRE Research, Q2 2026

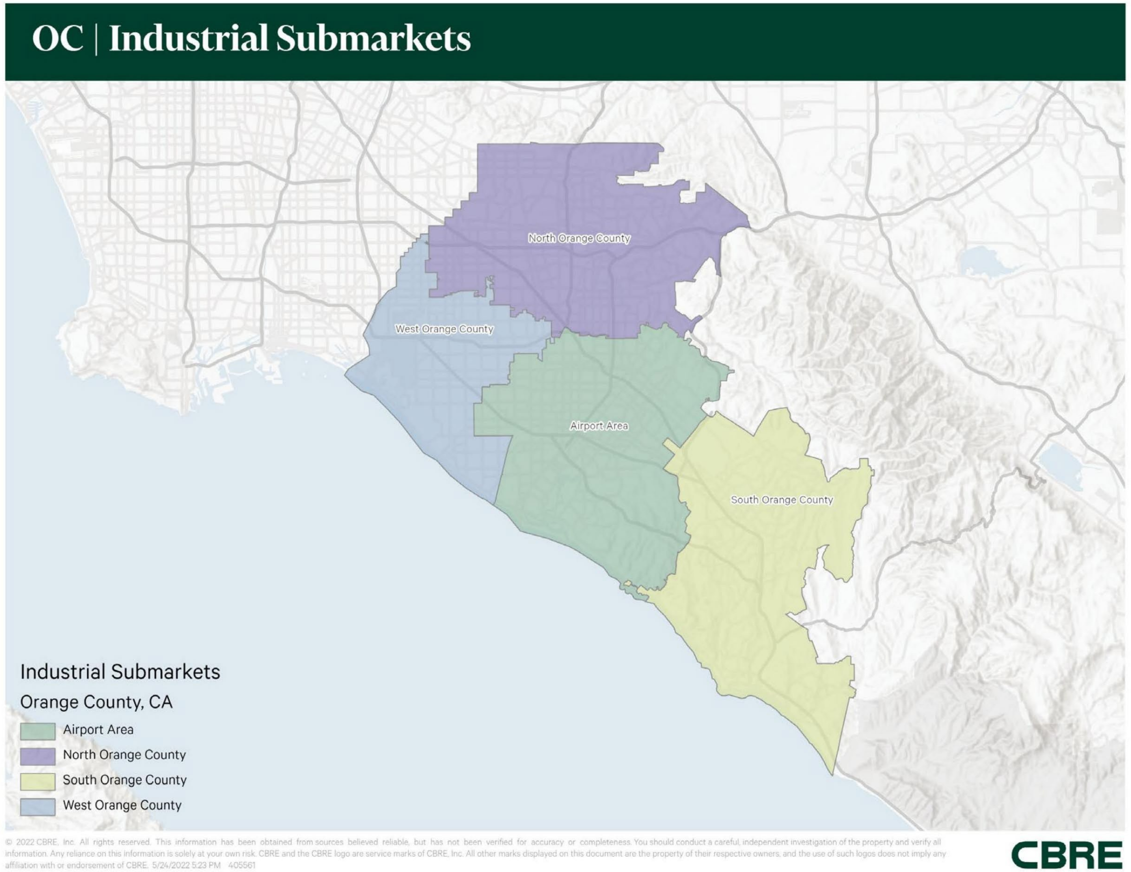
Market Statistics by Submarket

Figure 11

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Airport Area	65.20M	4.2	5.0	4.3	0.8	1.44	(211,000)	234,000	-	299,000
North Orange County	112.62M	5.7	7.4	6.3	1.1	1.41	(396,000)	(850,000)	121,000	116,000
South Orange County	34.68M	8.3	10.3	9.5	0.8	1.73	(132,000)	(358,000)	-	-
West Orange County	40.13M	4.9	7.2	6.3	0.9	1.51	48,000	32,000	88,000	261,000
Total	**252.63M**	**5.5**	**7.2**	**6.2**	**0.9**	**1.49**	**(692,000)**	**(943,000)**	**209,000**	**676,000**

Source: CBRE Research, Q2 2026

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. Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in Orange County. Buildings which have begun construction as evidenced by site excavation or foundation work.

Contacts

Taylor Coyne
Research Director
taylor.coyne@cbre.com

Rick Cozart
Research Manager
rick.cozartii@cbre.com

Chris DiFrancesco
Field Research Analyst
chris.difrancesco@cbre.com