

INVESTMENT FORECAST

Office
Orange County Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Leasing Picking Up Steam as Limited Development Shifts Expanding Firms to Existing Offices

Improved demand fuels absorption, helping maintain stable vacancy. Less than 300,000 square feet of new office product is slated for completion in 2025 — well below historical norms — steering tenants toward existing stock and boosting renewal velocity. Stable corporate budgets and expansions in technology and financial services further reinforced leasing momentum, driving net absorption to 2 million square feet in 2024 — the strongest annual total in a decade. Meanwhile, ongoing office-to-industrial conversions keep tightening supply, funneling more firms into discounted Class A or Class B layouts. Landlords dealing with elevated debt pressures are keeping asking rents stable and sweetening concession packages with free rent and tenant improvements to preserve occupancy. Barring a significant change in tenant preference, minimal new supply and continued conversions should hold vacancy near its historical average through 2025.

Investors adjust strategies as conversions and capital flows shape the metro. Overall transaction velocity eased last year, as user acquisitions composed an elevated share of deals while institutional investors largely retreated. Average pricing dipped below prior peaks, with many 1980s- and early 2000s-vintage properties trading at discounts amid higher vacancy. At the same time, a growing number of office-to-residential conversions — including the Irvine Company’s plan to replace two office towers with 700 apartments — underscores municipal efforts to expand housing. Class B/C office availability in Central County submarkets, like Santa Ana and Orange, remains lower than its long-term average, attracting investors seeking stable occupancy. Looking ahead, looming loan maturities and weakening operating incomes could prompt more owners to list properties at reduced valuations, possibly fueling value-add and repositioning plays in 2025.

2025 MARKET FORECAST

+1.1%



EMPLOYMENT: Recruitment efforts continue in Orange County, with the creation of 18,000 positions in 2025. Roughly 7 percent of these additions are projected to be traditionally office-using roles.

278,000
sq. ft.



CONSTRUCTION: While developers will roughly double last year’s delivery volume in 2025, it will only increase total inventory by 0.2 percent. This rate represents the second-smallest tally since 2016.

-80 bps



VACANCY: For only the second time since 2020, vacancy will decrease this year amid conservative construction activity. A year-end rate of 15.3 percent will be the lowest in Southern California.

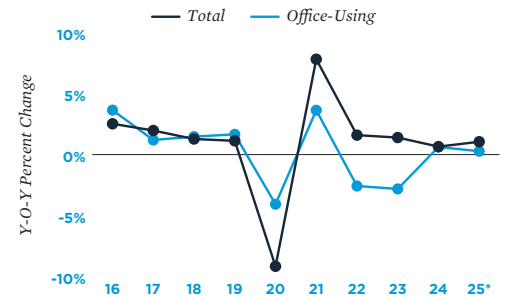
-0.3%



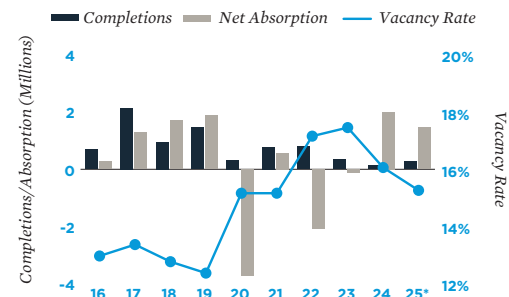
RENT: Firms’ recalibration of their office space needs will translate into a second consecutive year of declining rents, bringing the mean market rate to \$28.70 per square foot.

INVESTMENT: A relative dearth of mid-tier office additions in recent years could drive some buyers to execute value-add strategies on Class B opportunities, taking advantage of firmer tenant demand in this segment.

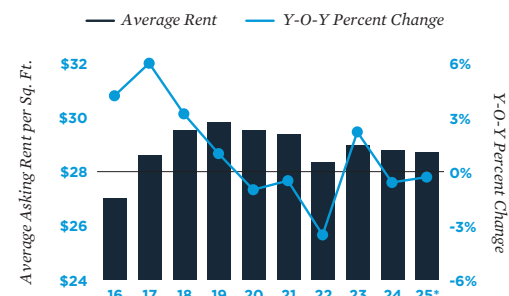
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.