Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

DAUM
COMMERCIAL REAL ESTATE SERVICES

Q4 | 2018
Market Report
Los Angeles Office

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MARKET REPORT Q4 | Office 2018 Los Angeles County

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MARKET ACTIVITY

Direct Vacancy ⌄ 12.5%	Net Absorption ⌃ +1,672,252 SF
Overall Vacancy ⌄ 13.2%	Gross Absorption ⌃ 4,729,215 SF
Under Construction ⌃ 6,158,278 SF	Rental Rates (FSG) ⌃ $3.10
Sale Price Change ⌃ 15.4%	Deal Volume ⌄ -21.8%

KEY TAKE AWAYS

MARKET

- **Vacancy Rate**: Declines for 3rd consecutive quarter.
- **Net Absorption**: Jumps to highest level in Q4 since 2005 Q4.
- **Office Supply**: No end in sight for the construction boom. Over six million SF under construction.
- **Sales**: Pricing increased for 3rd straight quarter.
- **Trends**: Technology companies leasing large amounts or space outside "Silicon Beach". Co-working establishments continue to expand.

ECONOMIC OUTLOOK

- **Interest Rates**: The Fed is anticipating two (2) hikes in 2019; increasing borrowing costs.
- **Trade**: Tensions remain with China. USMCA still awaiting congressional ratification.
- **Stock Market**: Increased volatility, but corporate fundamentals remain strong.
- **Oil**: Crude Oil dropped 39% in Q4. Prices expected to remain low due to over-supply. Reduced transportation costs should benefit markets further away from ports.

ECONOMIC OUTLOOK

U.S. Employment ⌃ 3.9%	U6 Rate ⇔ 7.6%
Interest Rate ⌄ 4.6% (30 year fixed)	Changing GDP ⌄ 2.8%
Port Traffic Y/Y Δ ⌃ 1.5%	NYSE Performance ⌄ -14.4%
Inflation Change ⌄ +1.9%	10 Yr. - 2 Yr. Spread ⌄ 15 BPS

EXPERIENCE IN A CHANGING MARKET

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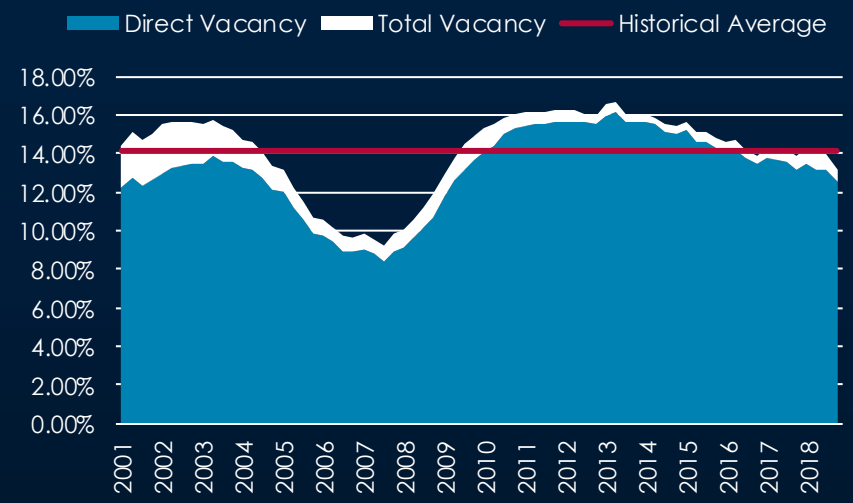
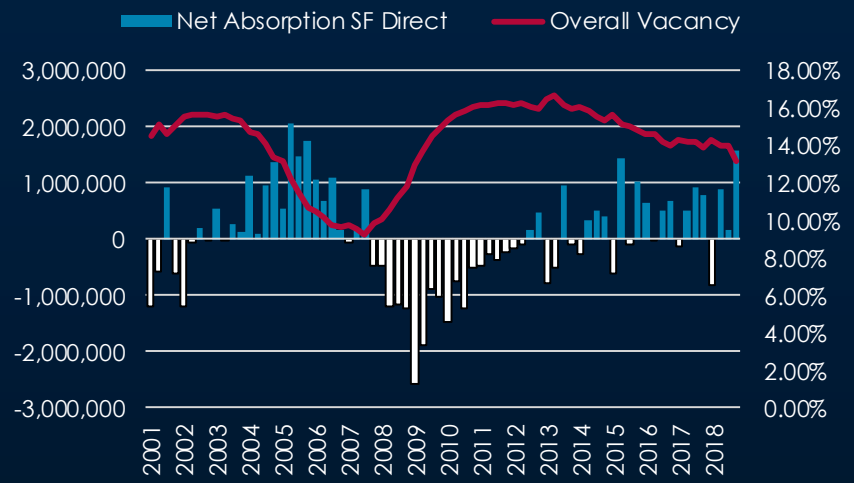
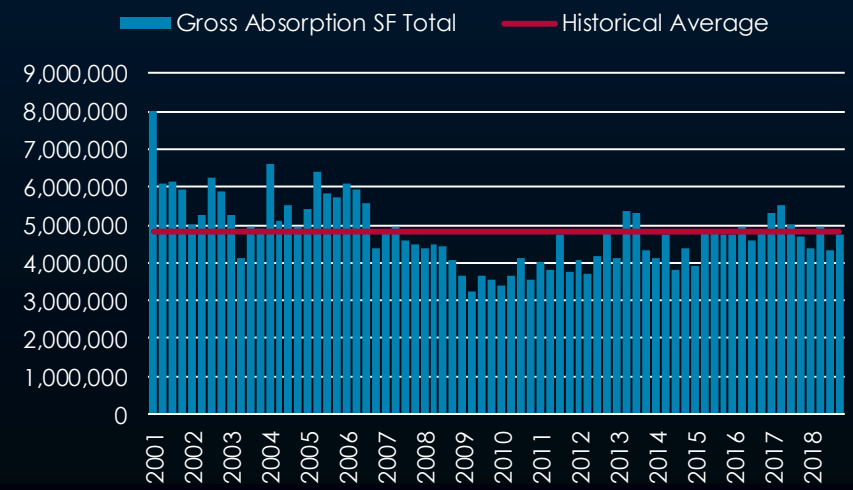
OVERALL VACANCY
Overall vacancy falls again for the 3rd quarter



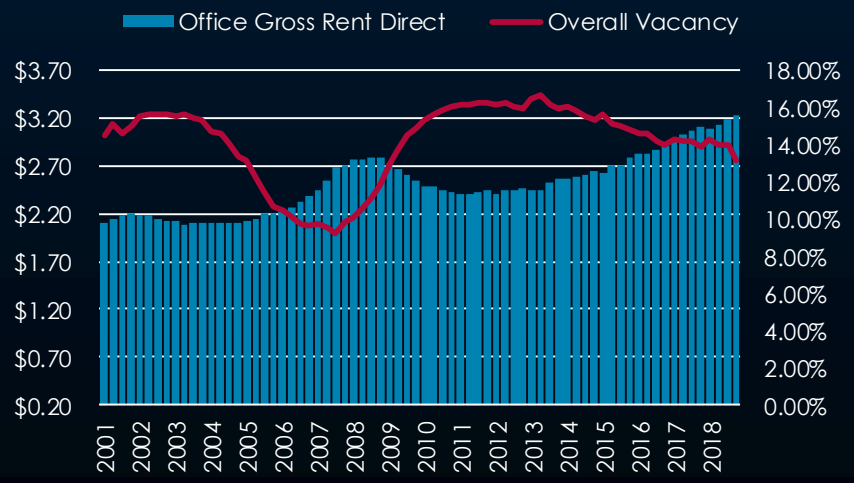
NET ABSORPTION HIGHEST IN 2018



GROSS ABORPTION RETURNS TO NEAR HISTORIC AVERAGE



ASKING RENTS CONTINUE TO CLIMB



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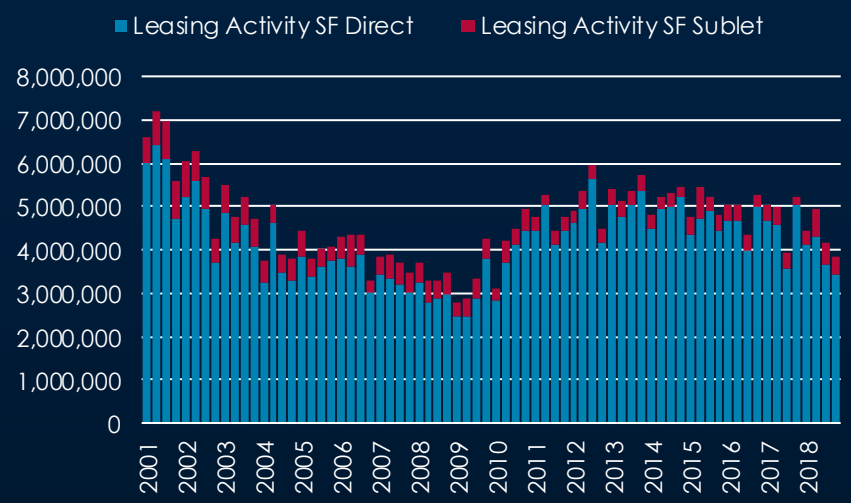
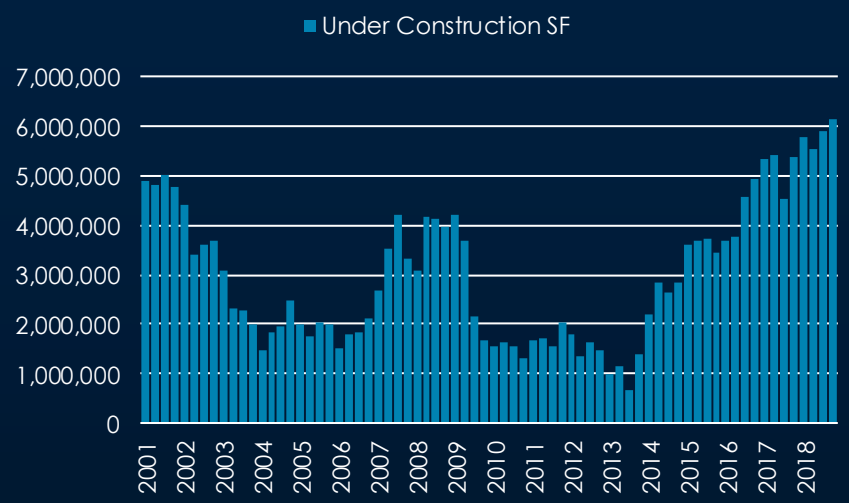
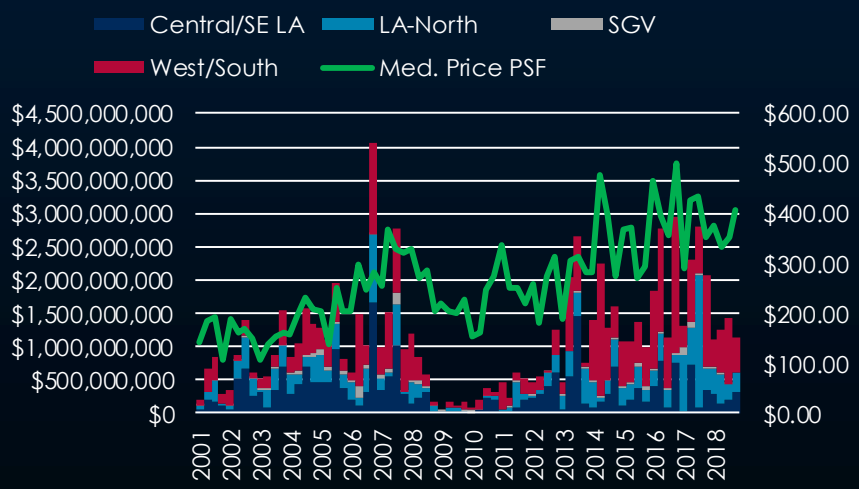
LEASING ACTIVITY DECLINES



CONSTRUCTION ACTIVITY CONTINUES TO INCREASE



SALES VOLUME REMAINS LOW FOR THE YEAR



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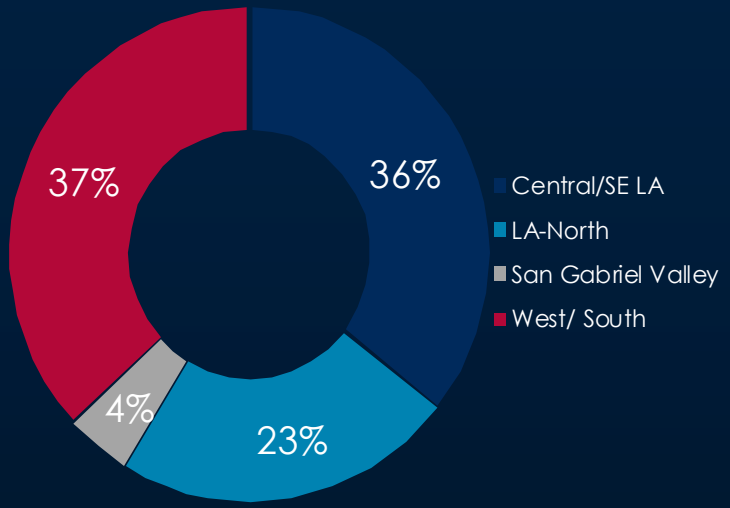
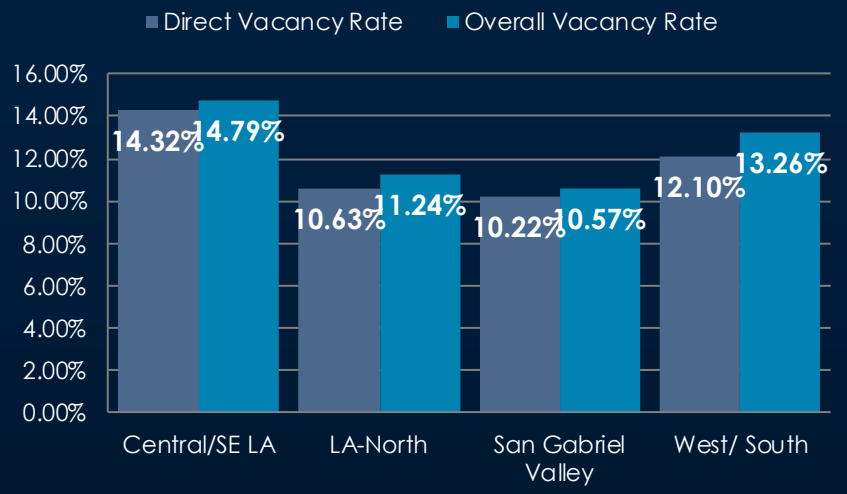
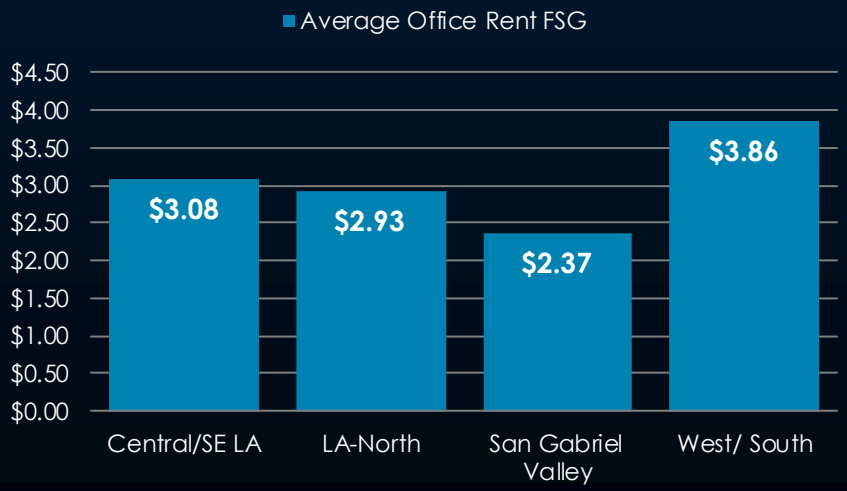
SQUARE FOOT BREAKDOWN– 241,388,533 SF MARKET SIZE



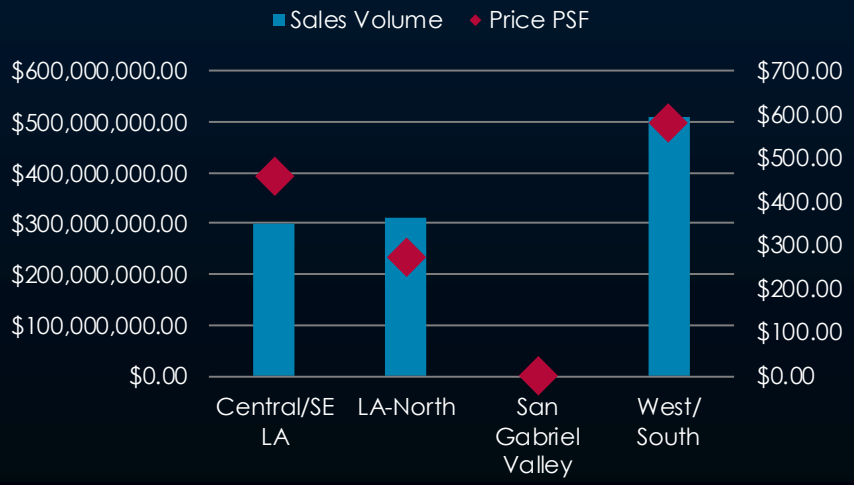
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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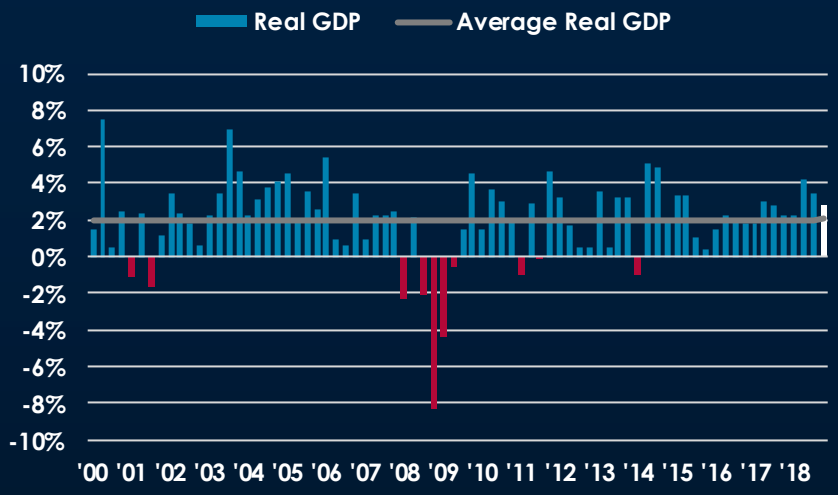
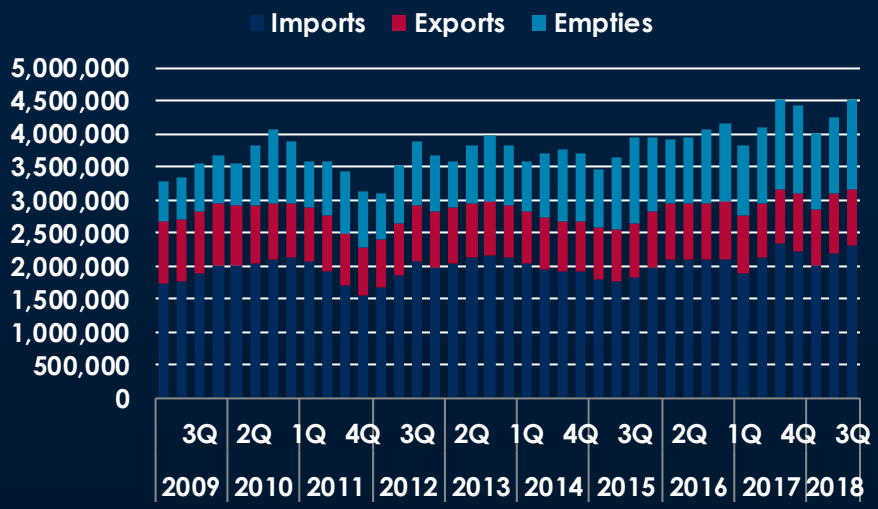
National Economic Overview //// Q4 2018

GDP

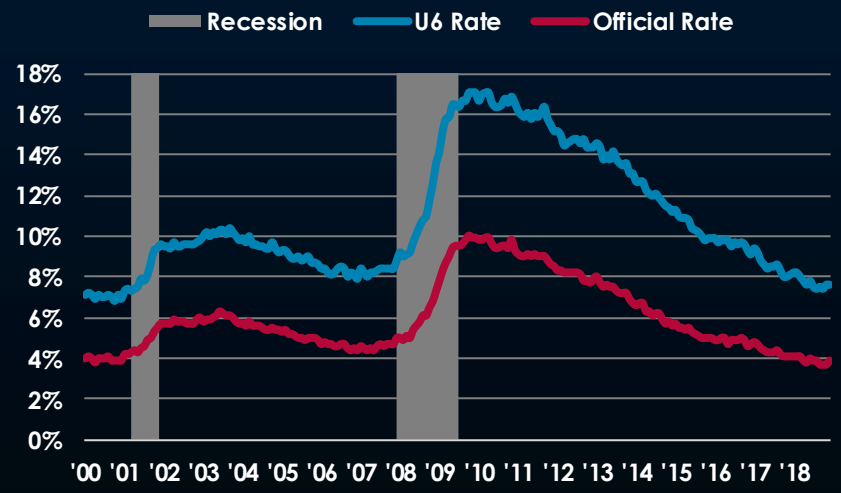


*2.8% for 4Q18 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

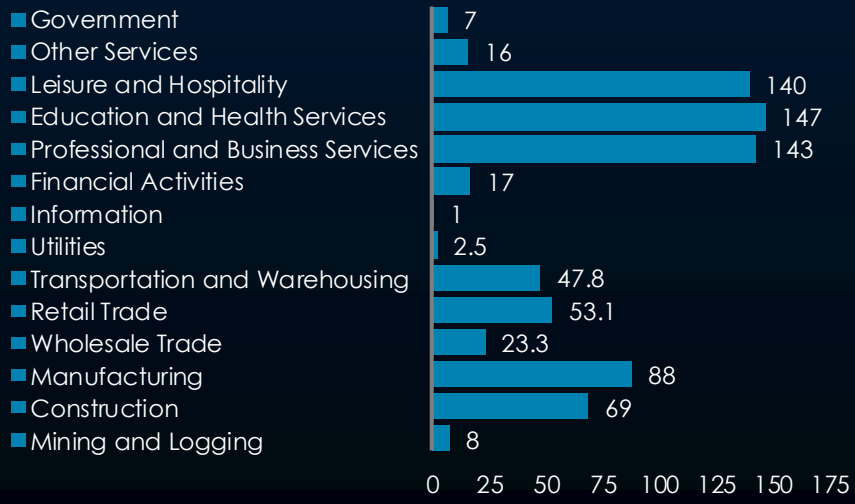
PORT ACTIVITY



UNEMPLOYMENT



EMPLOYMENT BY INDUSTRY



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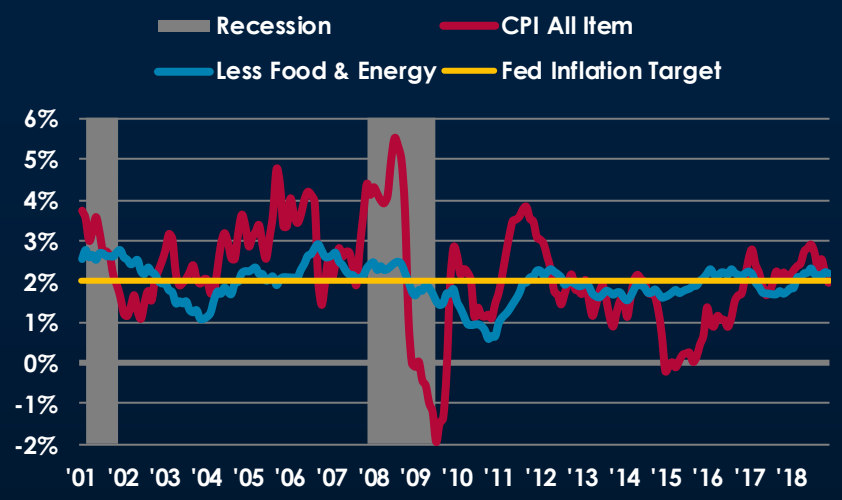
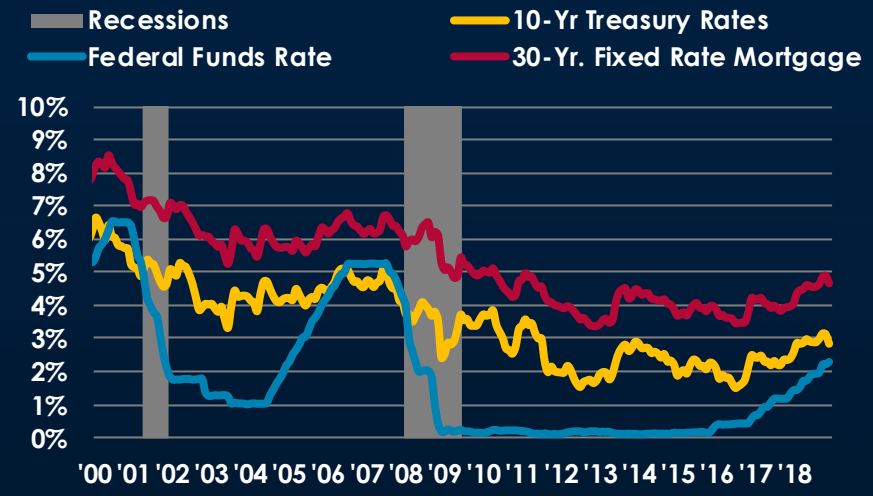
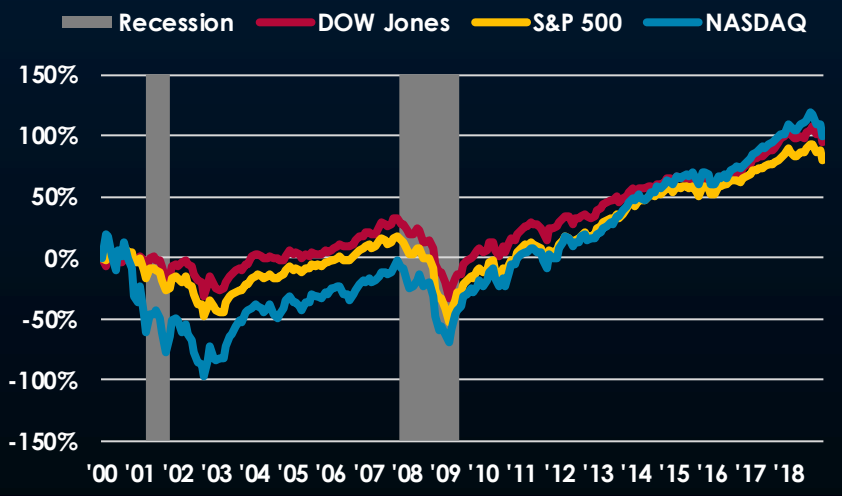


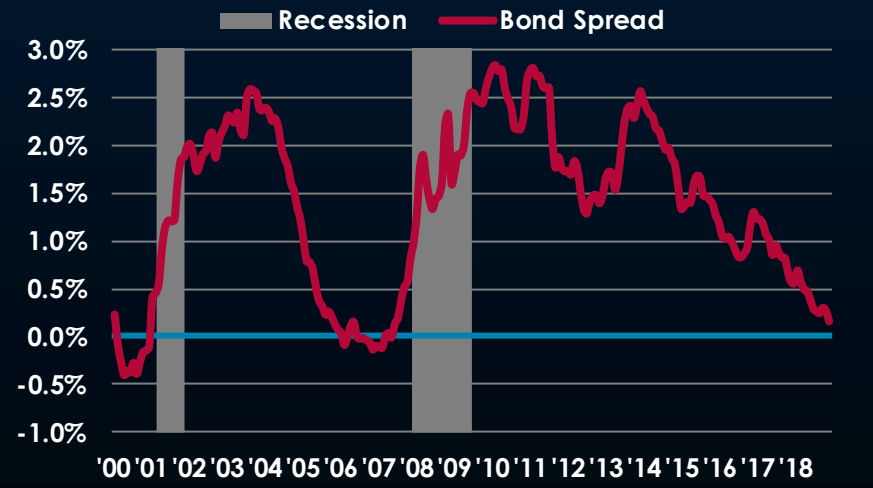
INTEREST RATES



STOCK MARKET PREFORMANCE



YIELD CURVE



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METHODOLOGY & TERMINOLOGY

Methodology
Non-Owner occupied, multi-tenant office buildings that are 30,000 square feet & greater.

Direct Vacant SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

Total Vacant W/ Sublet SF
Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

Direct Vacancy Rate
Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

Vacancy W/ Sublet Rate
Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

Gross Absorption
The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

Net Absorption
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

Under Construction
Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

Completed in 2018
New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included

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