

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

# Market Report

Inland Empire Office



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# MARKET REPORT Q3

## Office 2019 Inland Empire



### MARKET ACTIVITY

<p>Direct Vacancy  <span>∨</span> 9.3%</p>	<p>Net Absorption  <span>∧</span> 6,239 SF</p>
<p>Overall Vacancy  <span>↔</span> 9.7%</p>	<p>Gross Absorption  <span>∧</span> 667,884 SF</p>
<p>Under Construction  <span>∧</span> 353,004 SF</p>	<p>Rental Rates (FSG)  <span>∧</span> \$1.86</p>
<p>Sale Price Change  <span>∨</span> 7.6%</p>	<p>Deal Volume  <span>∨</span> 31.1%</p>

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Direct vacancy saw a reduction of 20 BPS in Q3. A substantial amount of vacated sublet space pushed the overall vacancy rate to the same level as Q2 at 9.7%.
- **Net Absorption:** Rebounded after poor Q2. Over 70K SF of un-absorbed sublet space brought the overall net absorption figure to just over 6K SF.
- **Leasing Activity:** Down slightly from Q2 to below 400K SF.
- **Asking Rents:** Plateauing. Minimal increase of \$0.01 PSF in Q3.

#### ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve remained inverted in Q3. In Q3, the 10-2 Spread inverted as well for the 1st time since 2007. The Fed cut rates twice in Q3, both by 25 BPS. An additional rate cut could transpire in Q4, if economy weakens.
- **Trade:** The trade dispute with China continues with no end in sight. Talks between the two most powerful economies are set to resume in Oct.
- **Stock Market:** The Dow and S&P posted minimal gains of 1.2% in Q3. NASDAQ finished negative.
- **Oil:** Crude Oil was down 6.7% in Q3.

### ECONOMIC OUTLOOK

<p>U.S. Employment  <span>∧</span> 3.7%</p>	<p>U6 Rate  <span>∧</span> 7.2%</p>
<p>Interest Rate  <span>∨</span> 3.6%  <small>(30 year fixed)</small></p>	<p>Changing GDP  <span>∧</span> 2.1%</p>
<p>Port Traffic Y/Y Δ  <span>∨</span> 1.1%</p>	<p>NYSE Performance  <span>∧</span> 0.9%</p>
<p>Inflation Change  <span>∨</span> 1.7%</p>	<p>10 Yr. - 2 Yr. Spread  <span>∨</span> 6 BPS</p>

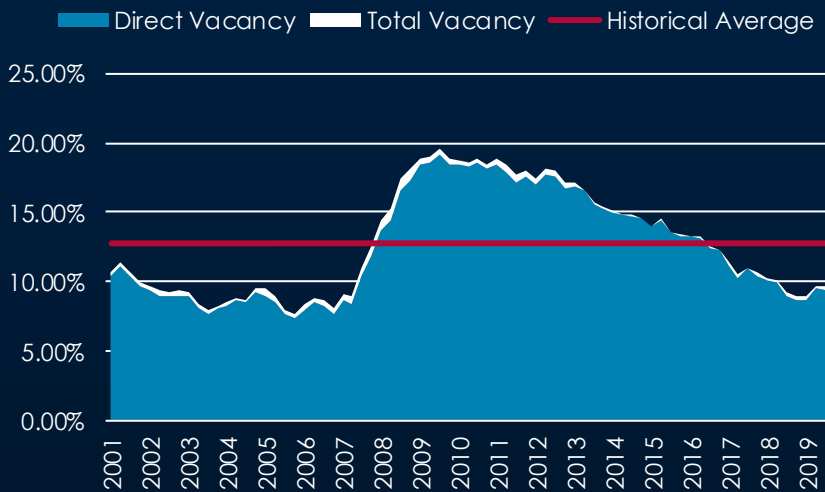
EXPERIENCE IN A CHANGING MARKET

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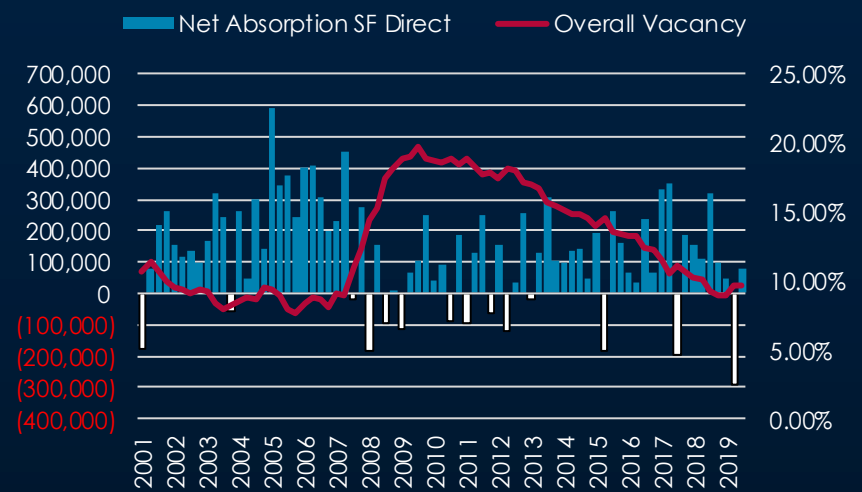


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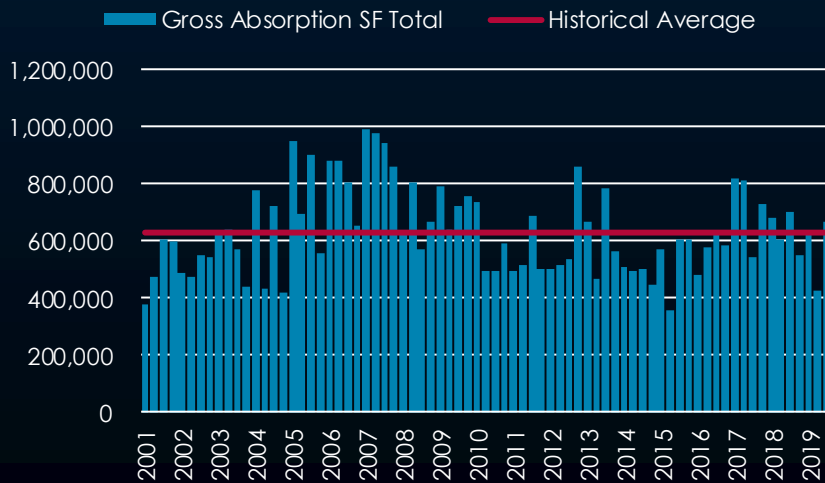
## OVERALL VACANCY REMAINED THE SAME AS Q2



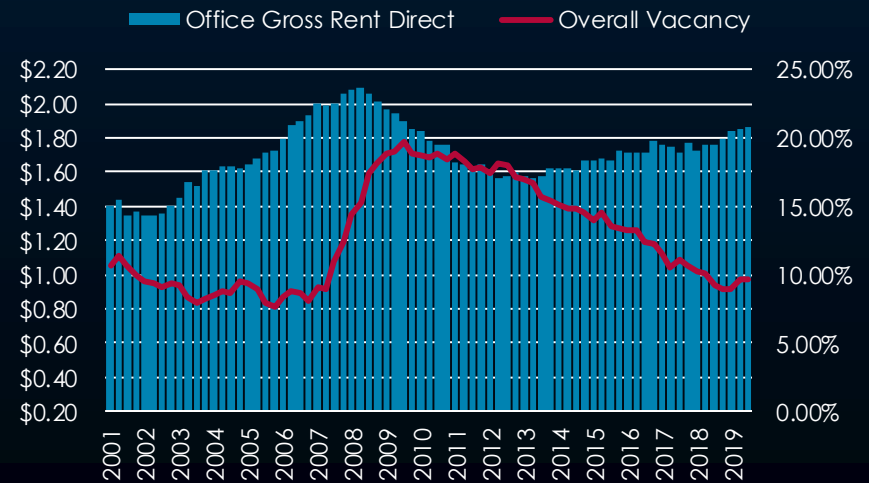
## NET ABSORPTION BOUNCED BACK TO POSITIVE LEVELS



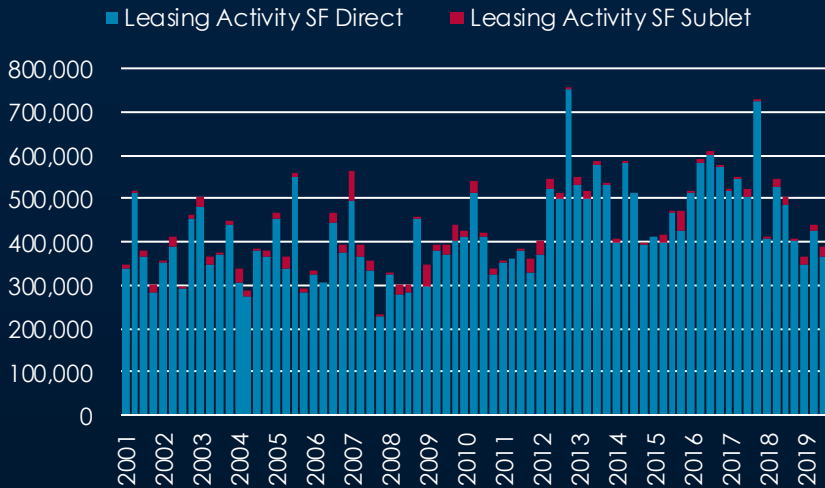
## GROSS ABSORPTION JUMPED ABOVE HISTORIC AVERAGE



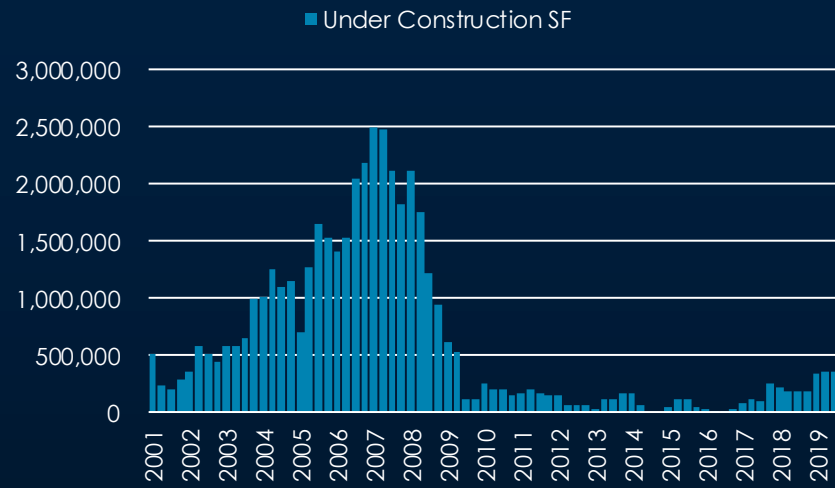
## ASKING RENTS PLATEAUING. ONLY \$0.01 PSF INCREASE IN Q3



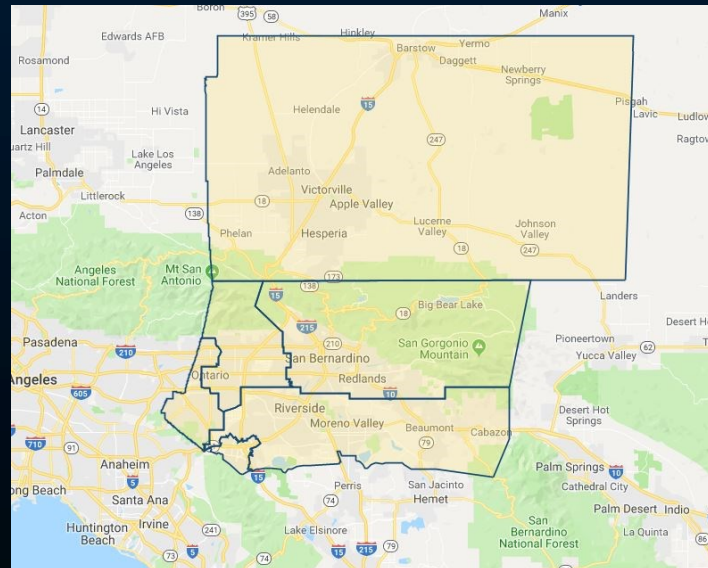
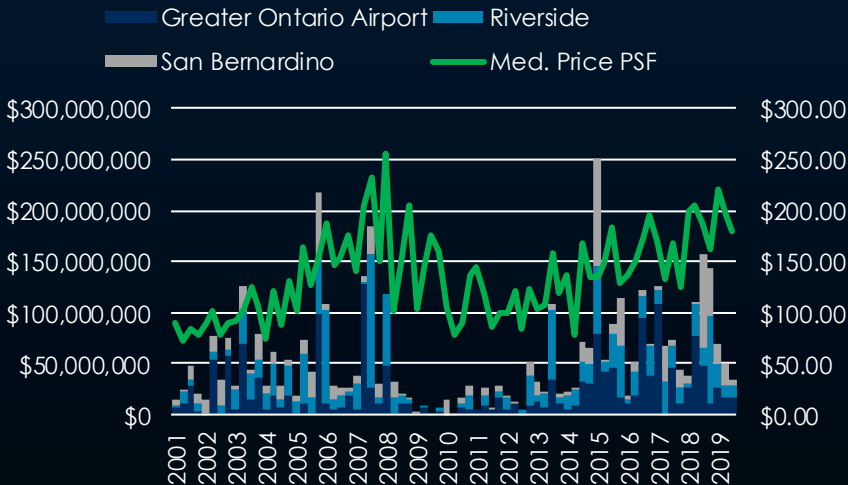
## LEASING ACTIVITY FELL FROM Q2 TO UNDER 400K SF



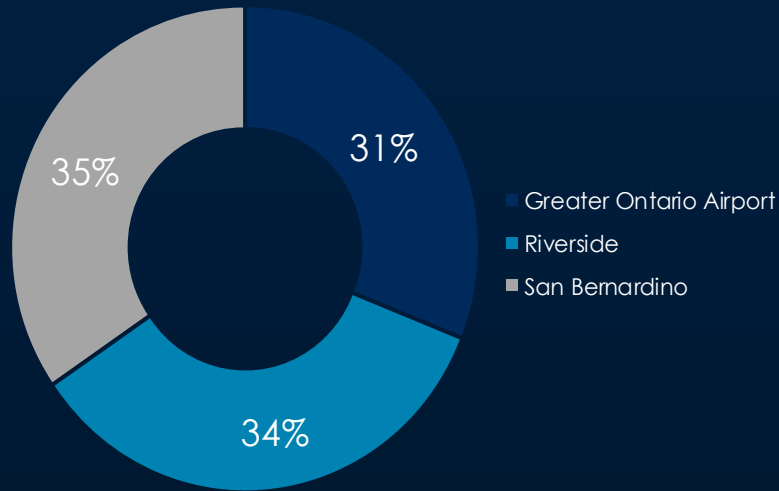
## CONSTRUCTION ACTIVITY MINIMAL WITH JUST OVER 350K SF UNDER CONSTRUCTION



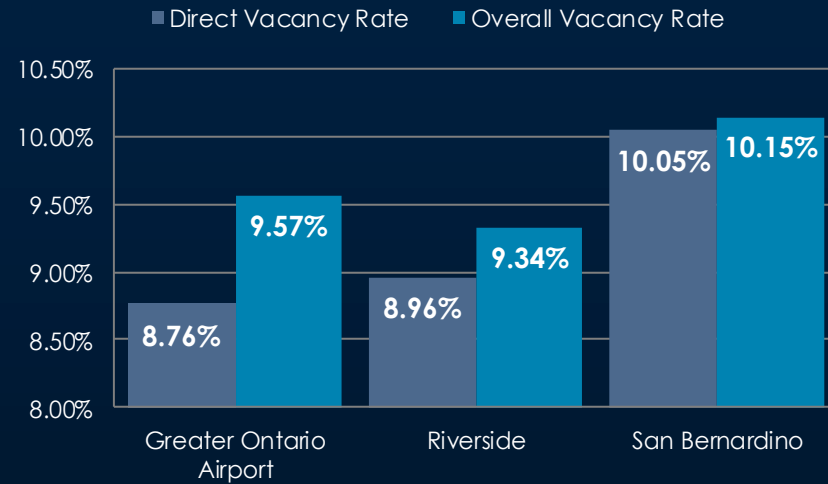
## SALES THE MEDIAN PRICE PSF IN Q3 WAS \$180.05. VOLUME DOWN OVER 31%



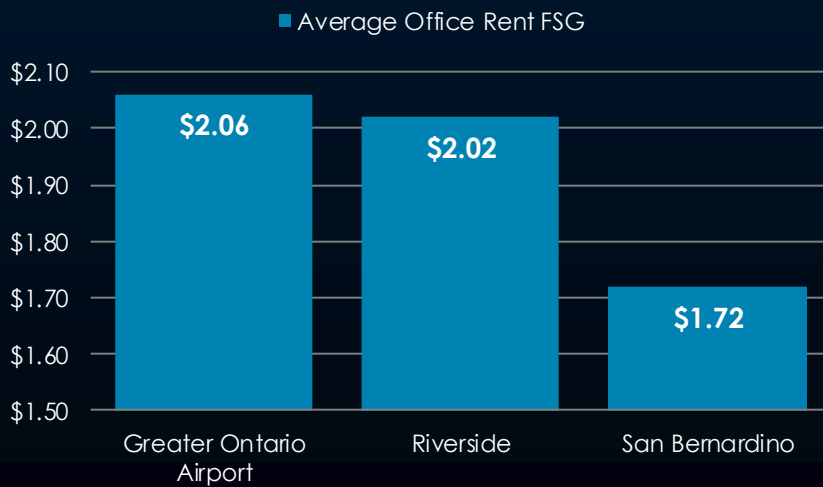
## SQUARE FOOT BREAKDOWN- 35,086,969 SF MARKET SIZE



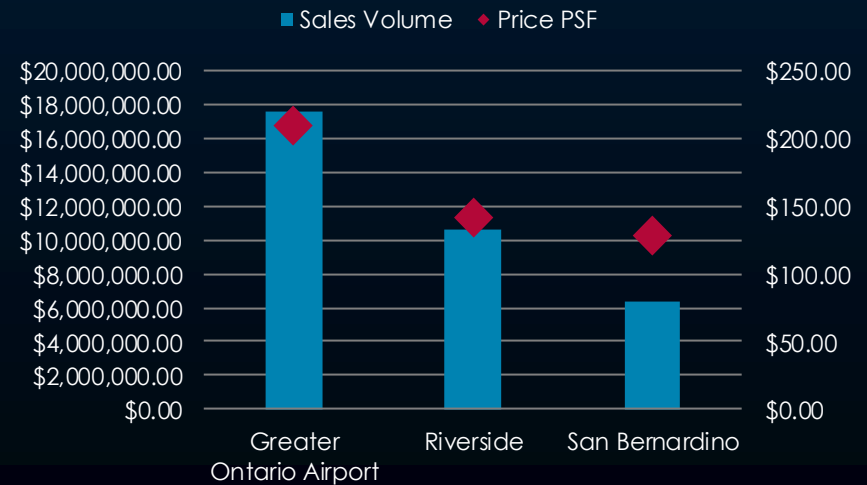
## VACANCY BREAKDOWN



## AVERAGE RENT PSF



## VOLUME BREAKDOWN



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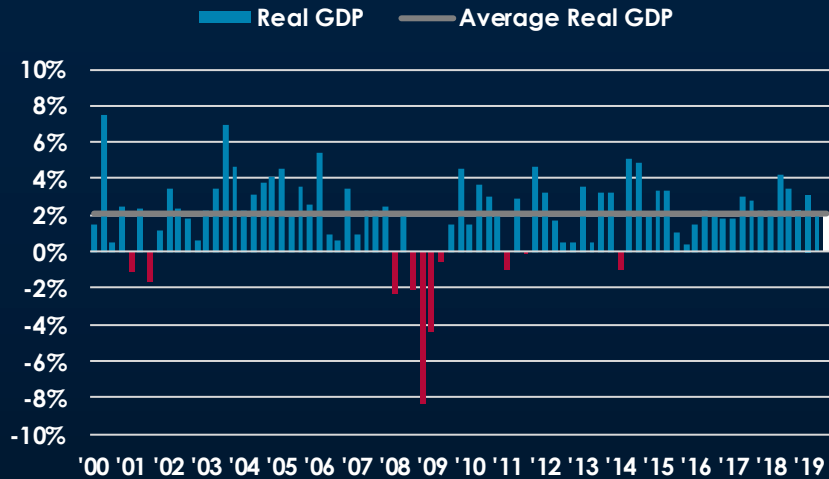
# Economic Overview



Q3 2019

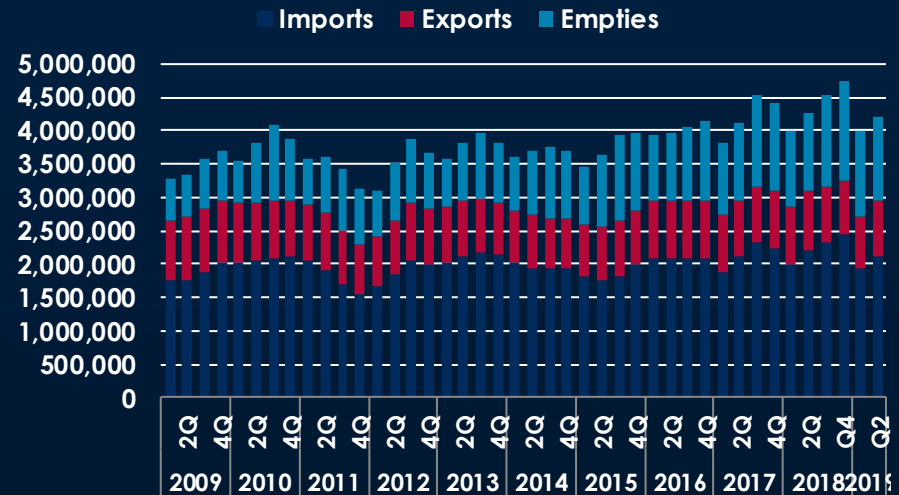
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GDP IN Q2 FINISHED AT 2.0%. Q3 ESTIMATE IS 2.1%

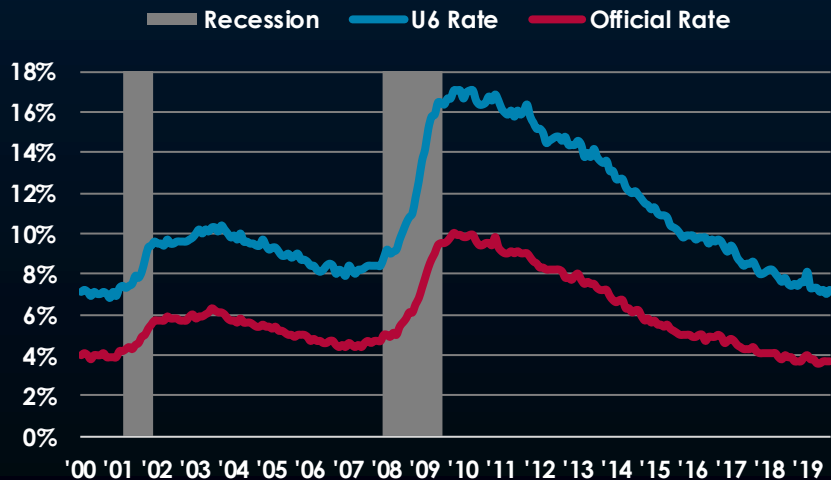


\*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

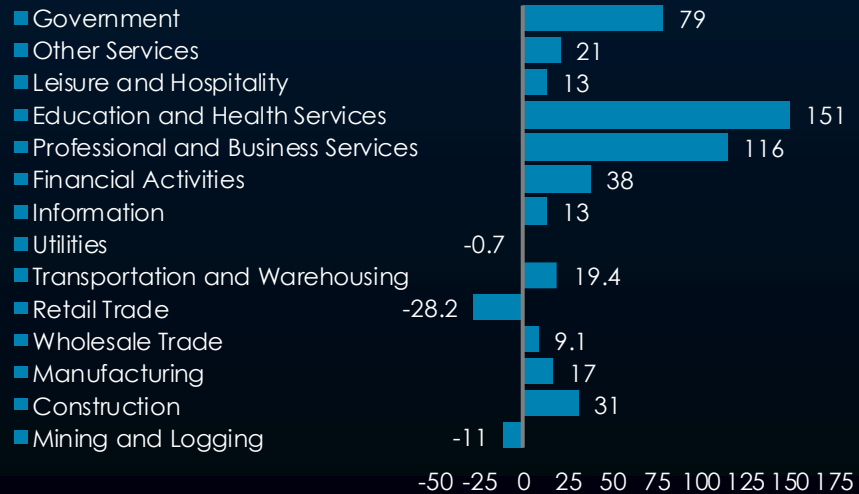
PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1



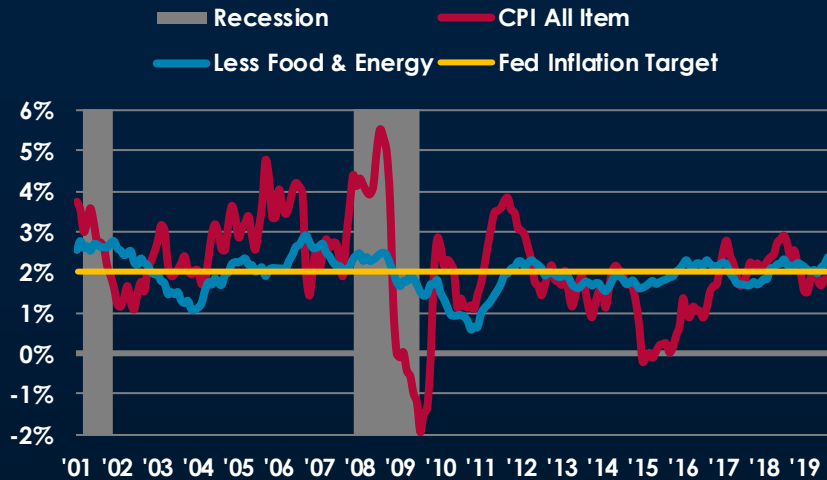
UNEMPLOYMENT CONTINUES DOWNWARD TREND



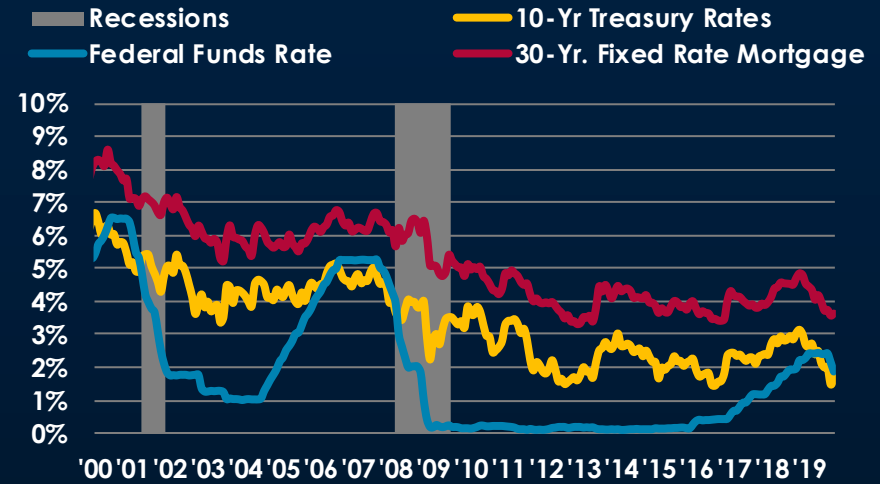
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



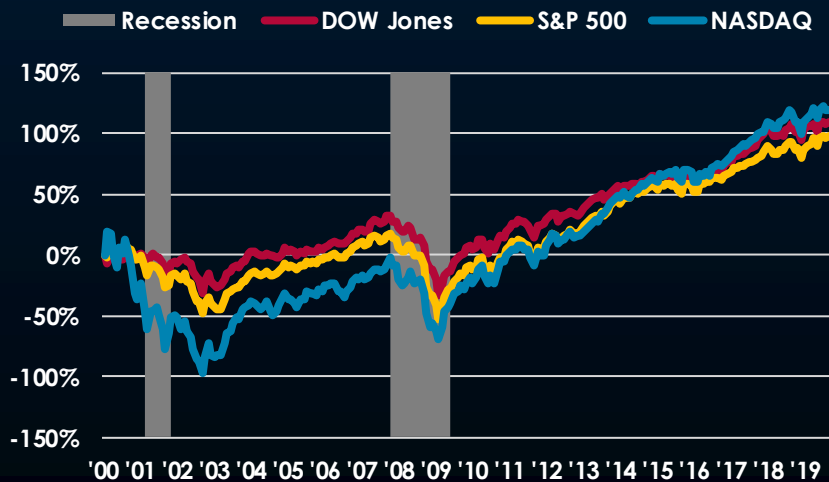
## CPI JUST BELOW 2% TARGET



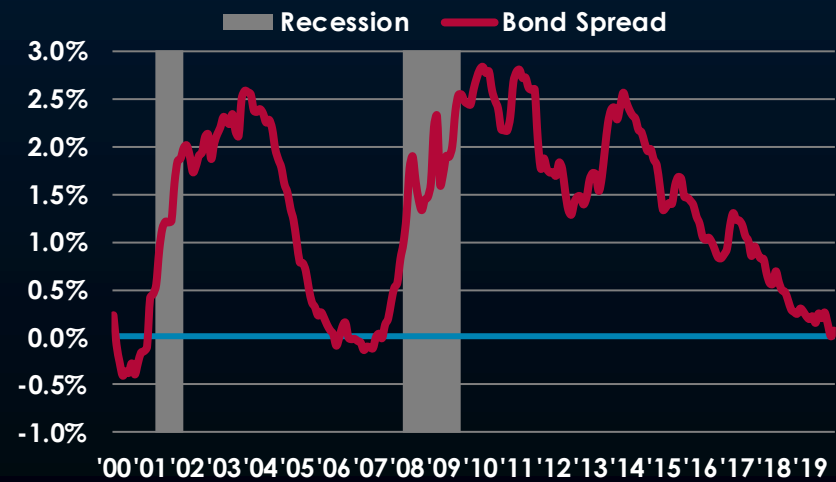
## THE YIELD CURVE REMAINS INVERTED



## VOLATILE Q3 FOR INDEXES. DOW & S&P UP 1.2%. NASDAQ DOWN



## 10-2 YEAR BOND SPREAD INVERTED IN Q3





## 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 2019

New buildings with original construction completed in the year 2019 and granted a Certificate of Occupancy. Renovated buildings are not included.



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