

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

Market Report

Los Angeles Office

Central / Southeast



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MARKET REPORT Q3

Office 2019 Los Angeles Central/ Southeast



MARKET ACTIVITY

<p>Direct Vacancy ▲ 15.4%</p>	<p>Net Absorption ▼ -334,657 SF</p>
<p>Overall Vacancy ▲ 16.0%</p>	<p>Gross Absorption ▼ 1,002,815 SF</p>
<p>Under Construction ▼ 2,412,040 SF</p>	<p>Rental Rates (FSG) ▼ \$3.11</p>
<p>Sale Price Q/Q Δ ▼ 36.5%</p>	<p>Deal Volume Q/Q Δ ▼ 87.0%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Up by 40 BPS to a rate of 16.0%
- **Net Absorption:** Reverted back to negative levels after positive Q2.
- **Office Supply:** Nearly 200K SF was delivered in Q3. Over 2.4M SF remains under construction.
- **Sales:** Volume plummeted in Q3 from the six year high recorded in Q2.
- **Asking Rents:** Increased slightly by only \$0.04 PSF. The rapid expansion of coworking & flexible office plans represent a downward pressure for the typical office space.

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

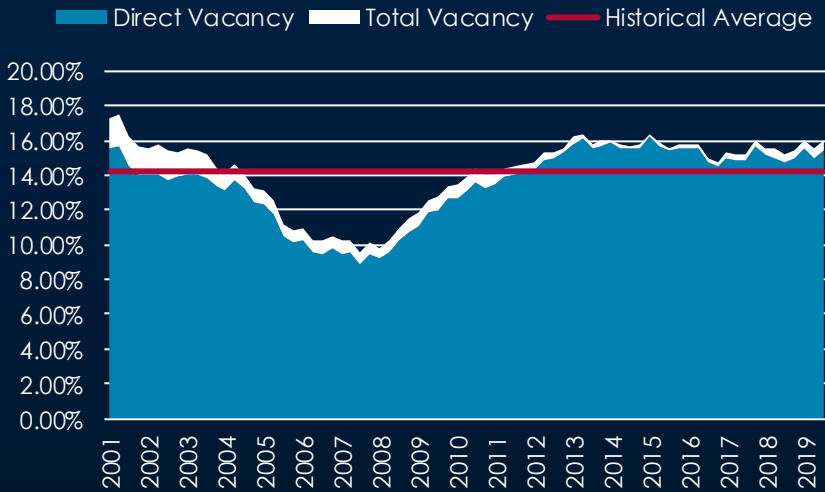
EXPERIENCE IN A CHANGING MARKET

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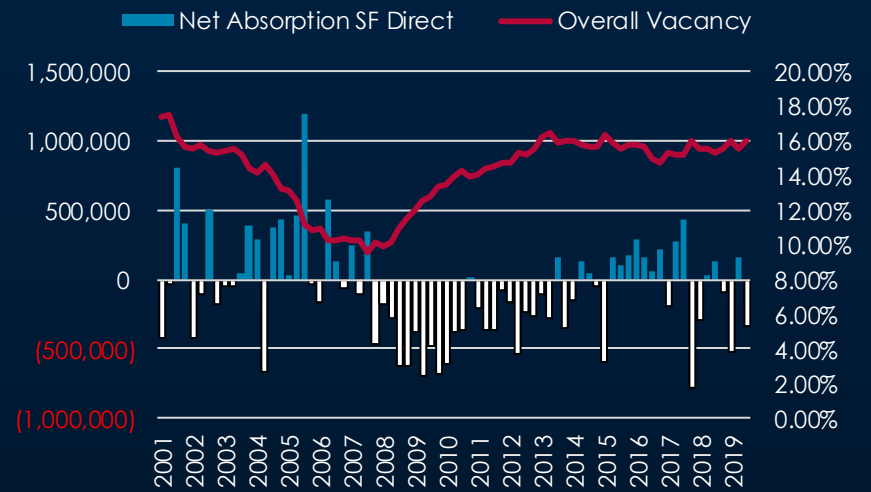


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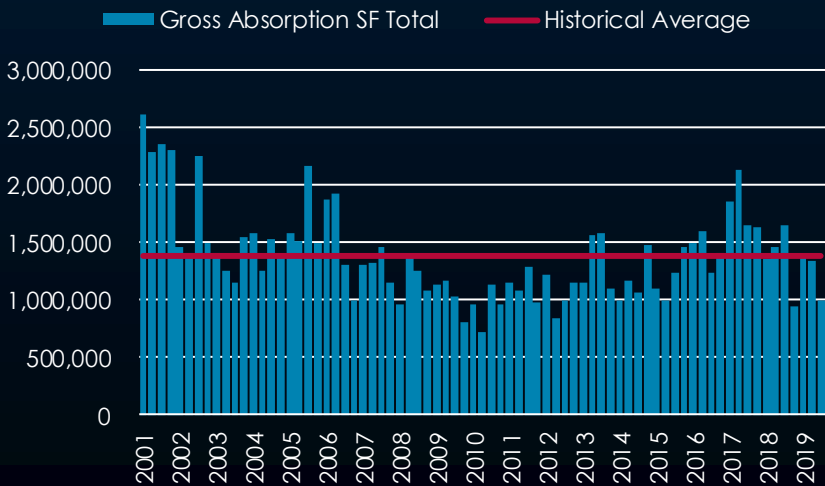
OVERALL VACANCY INCREASED BY 40 BPS FROM Q2 TO 16.0%



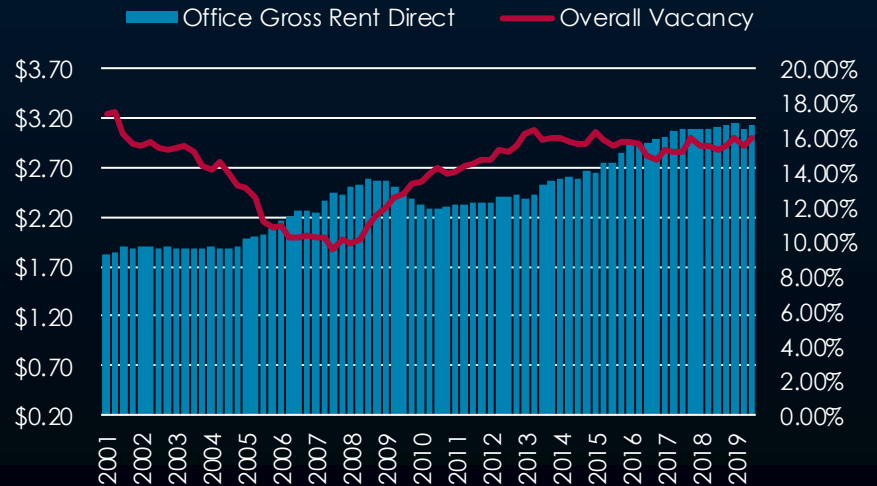
NET ABSORPTION NEGATIVE IN Q3 AFTER POSITIVE Q2. REPRESENTS 0.4% OF INVENTORY



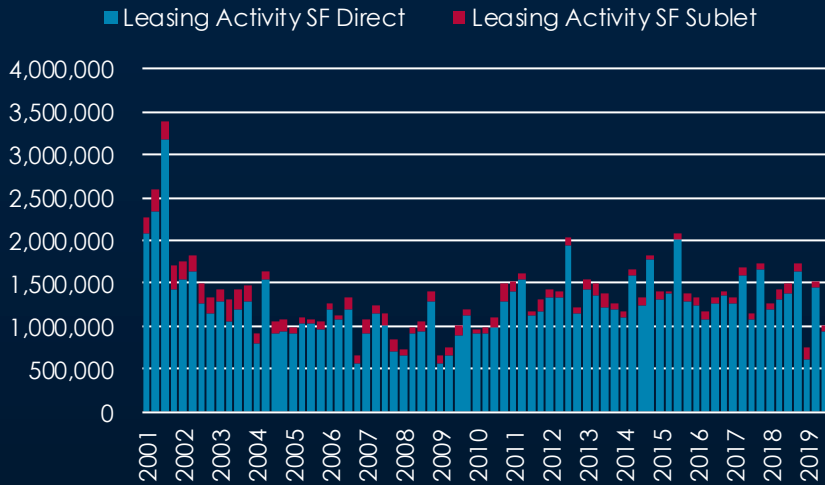
GROSS ABSORPTION ONLY 1M SF OF GROSS ABSORPTION IN Q3



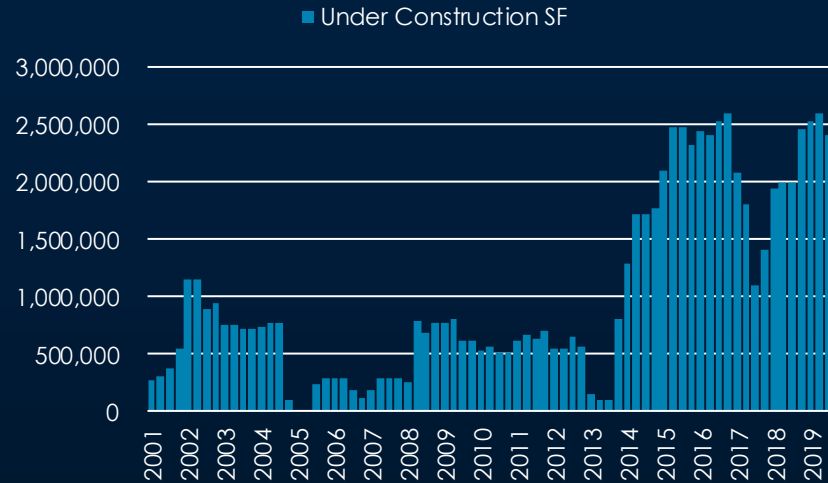
ASKING RENTS INCREASED BY \$0.04 TO \$3.11 PSF



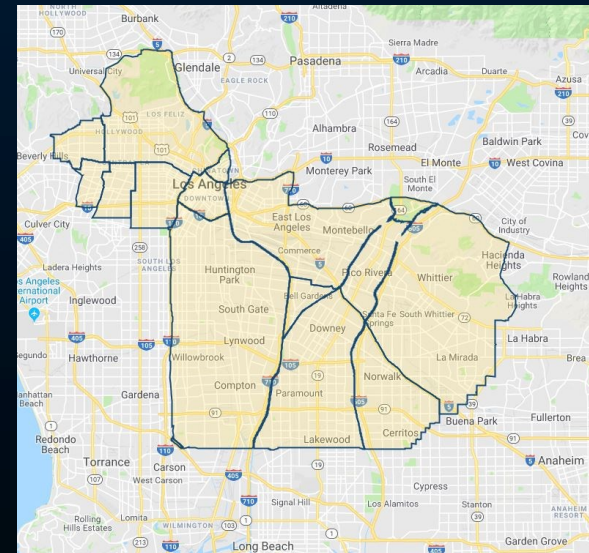
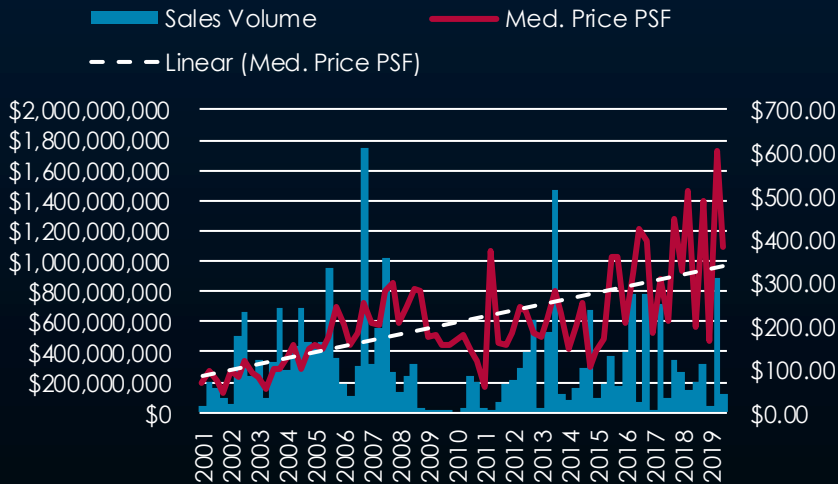
LEASING ACTIVITY DROPPED BY OVER 500K SF FROM Q3 TO 1M SF



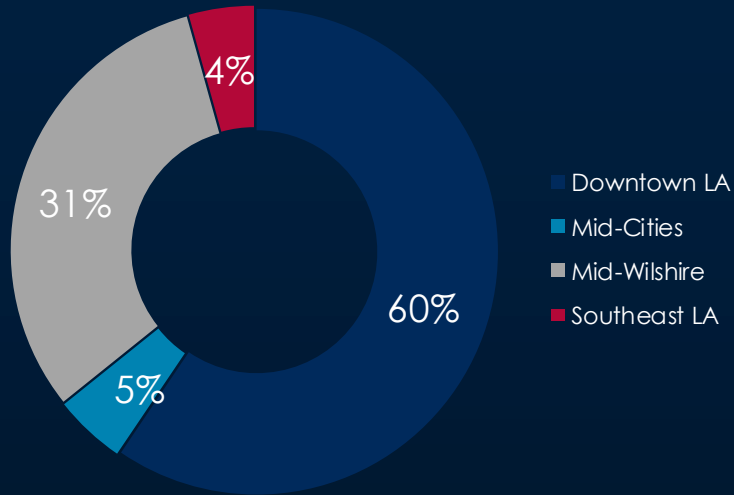
CONSTRUCTION ACTIVITY JUST ABOVE 2.4M SF UC. LED BY PROJECTS IN DOWNTOWN & MID-WILSHIRE



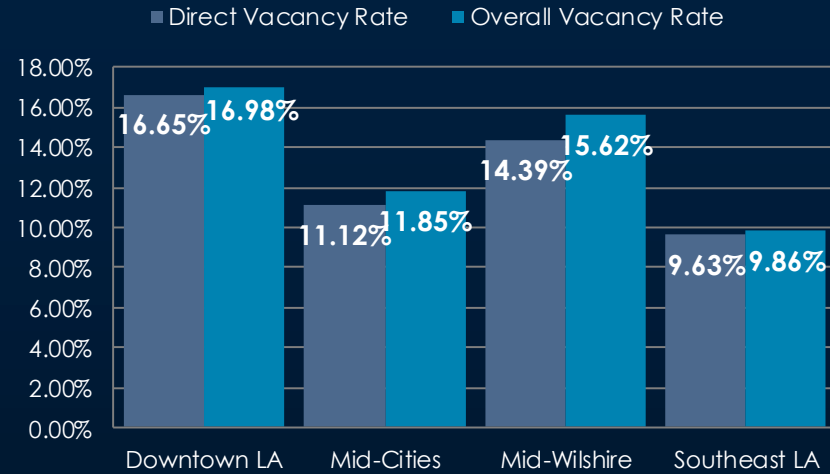
SALES THE LACK OF HIGHLY DESIRABLE SALES IN Q3 LED TO LOWER VOLUME AND PRICES



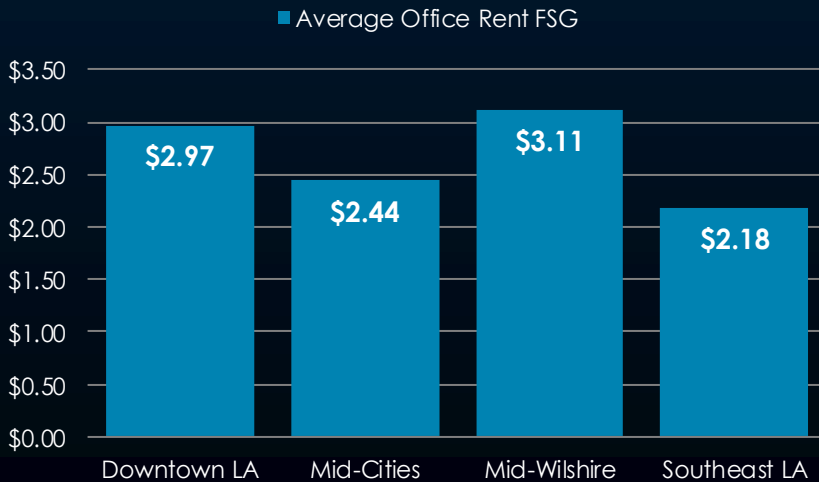
SQUARE FOOT BREAKDOWN- 85,487,936 SF MARKET SIZE



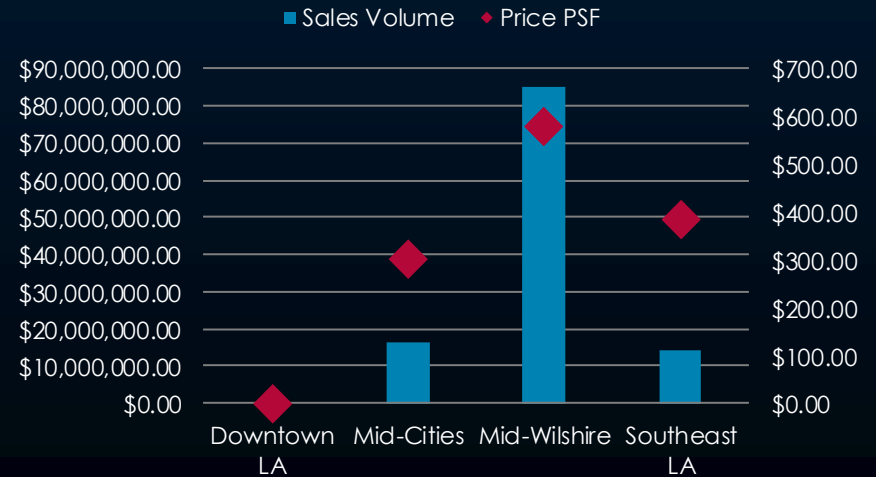
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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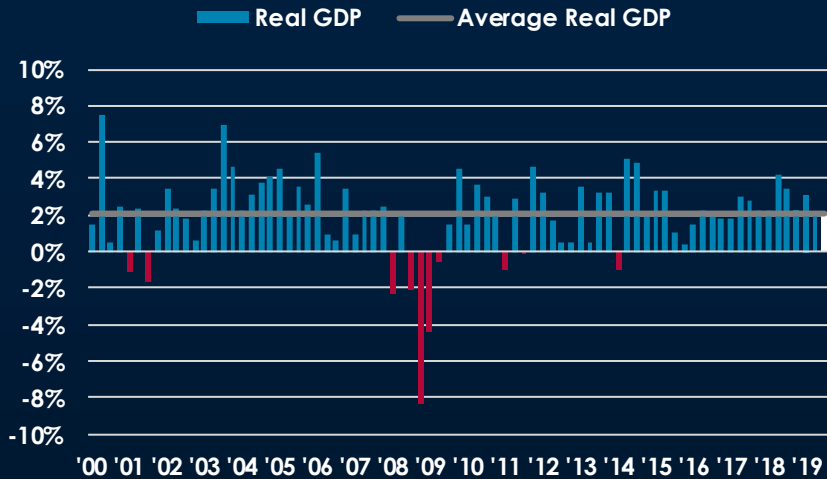
Economic Overview



Q3 2019

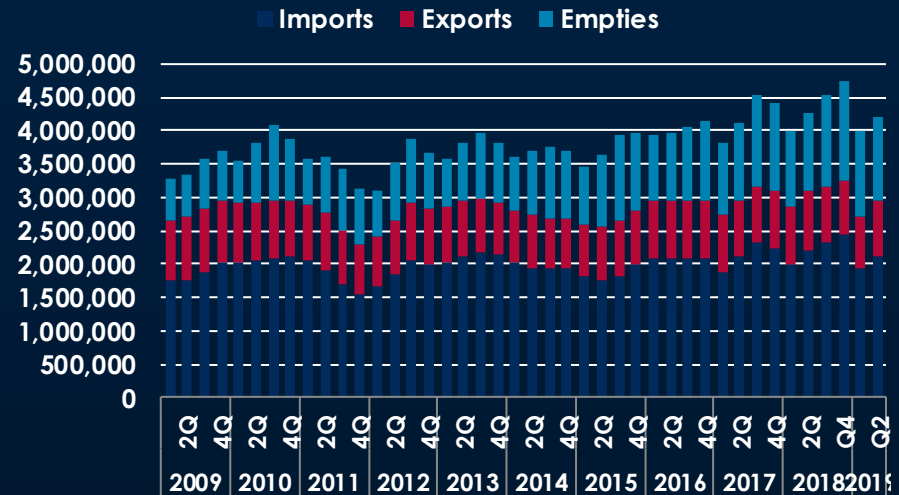
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GDP IN Q2 FINISHED AT 2.0%. Q3 ESTIMATE IS 2.1%

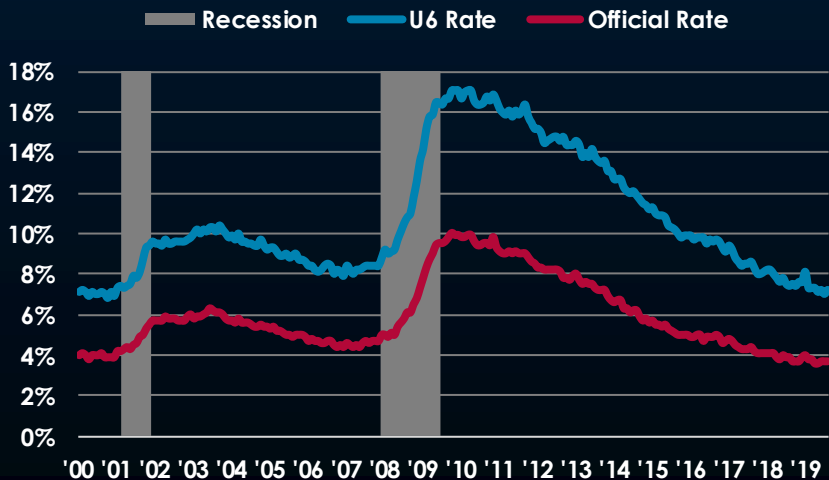


*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

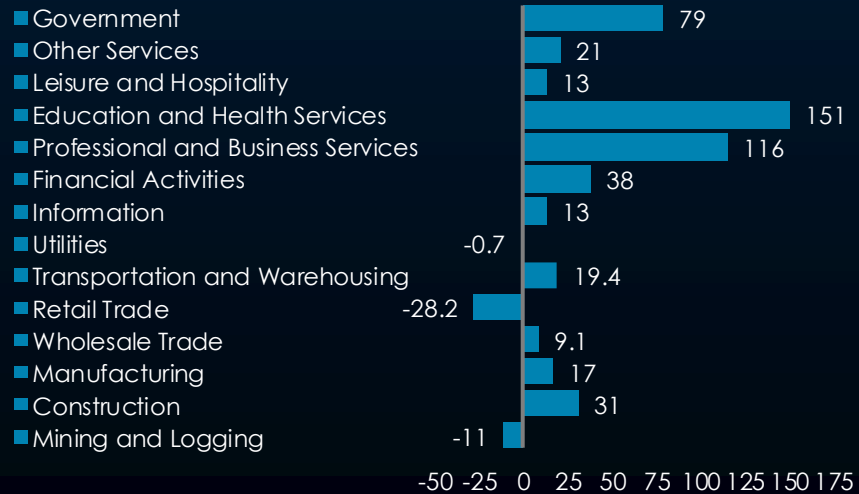
PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1



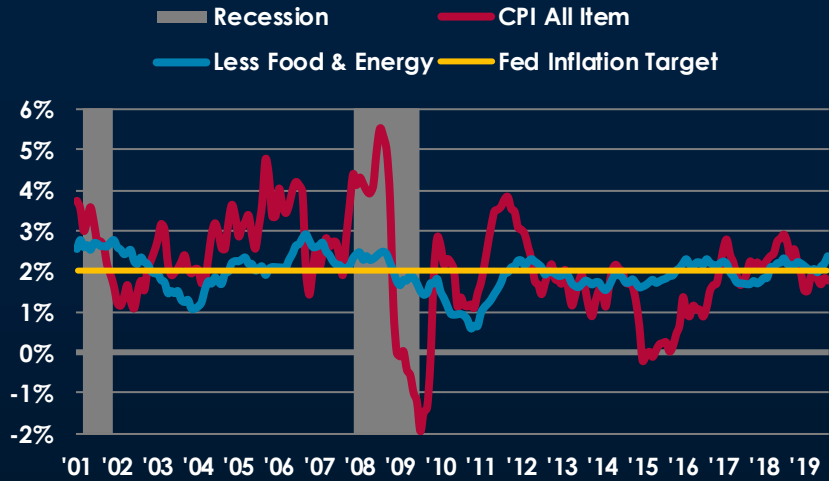
UNEMPLOYMENT CONTINUES DOWNWARD TREND



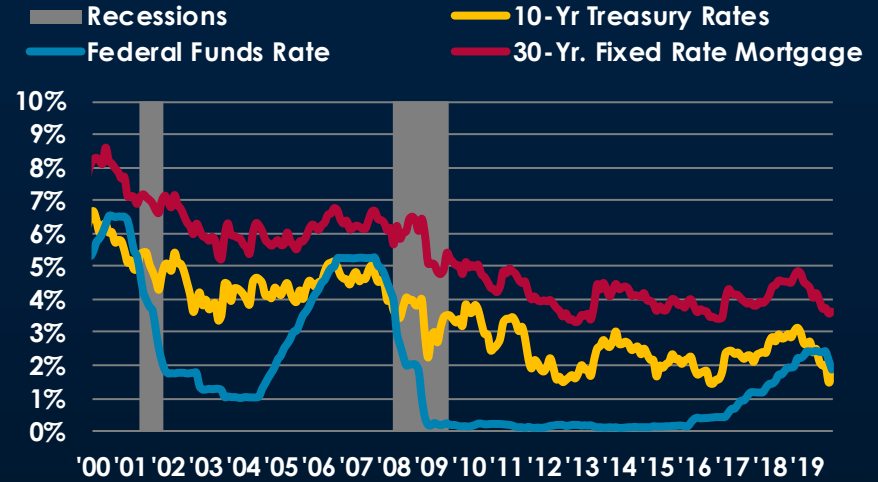
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



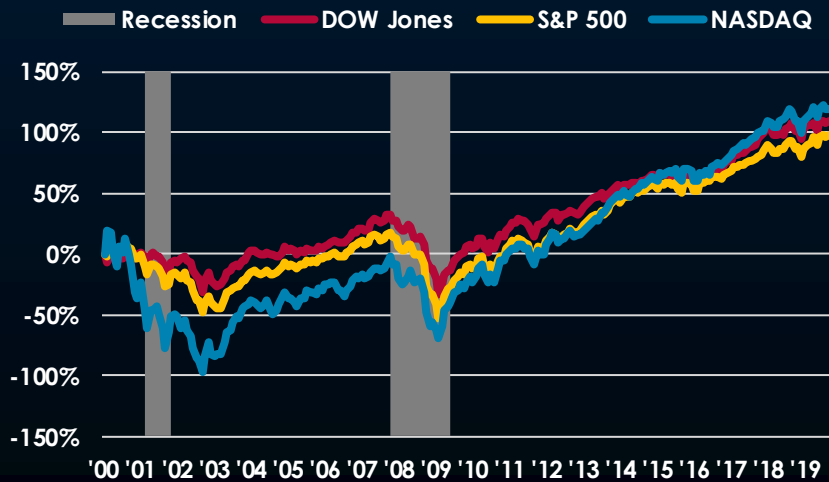
CPI JUST BELOW 2% TARGET



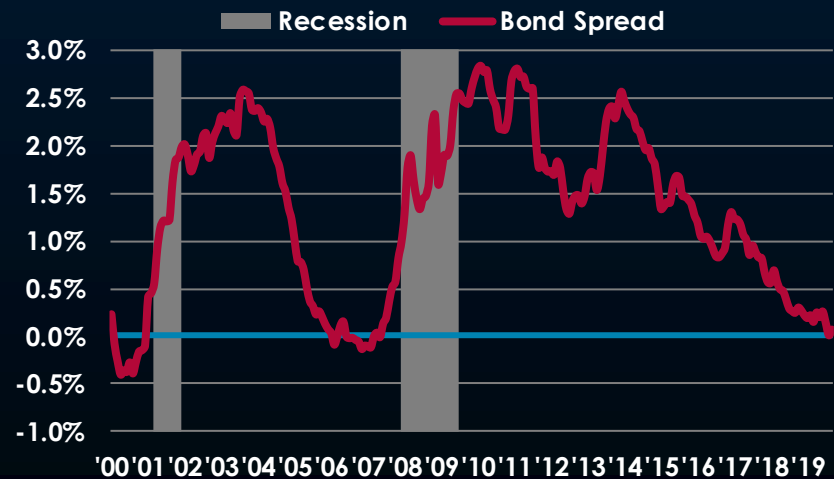
THE YIELD CURVE REMAINS INVERTED



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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