

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

# Market Report

Los Angeles Office

West/ South



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### MARKET ACTIVITY

<p>Direct Vacancy  <span>∨</span> 11.6%</p>	<p>Net Absorption  <span>∨</span> 260,268 SF</p>
<p>Overall Vacancy  <span>∨</span> 12.6%</p>	<p>Gross Absorption  <span>∨</span> 1,960,321 SF</p>
<p>Under Construction  <span>∨</span> 2,378,988 SF</p>	<p>Rental Rates (FSG)  <span>∧</span> \$3.64</p>
<p>Sale Price Q/Q Δ  <span>∨</span> 12.9%</p>	<p>Deal Volume Q/Q Δ  <span>∨</span> 63.6%</p>

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Continues to improve, falling 20 BPS to 12.6% overall.
- **Net Absorption:** Direct Net Absorption in Q3 outperformed Q2. A significant amount of sublet was not absorbed causing the overall number to dip slightly from Q2. Net Absorption in Q3 represented 0.29% of inventory.
- **Office Supply:** The West/South market remains a hotbed for new construction.
- **Trends:** Technology companies leasing large amounts of space. Co-working & creative office continue to increase footprint.

#### 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>

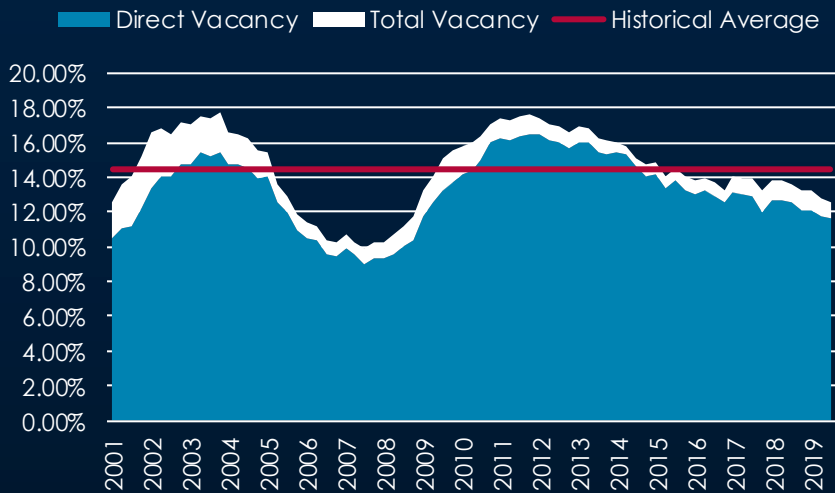
EXPERIENCE IN A CHANGING MARKET

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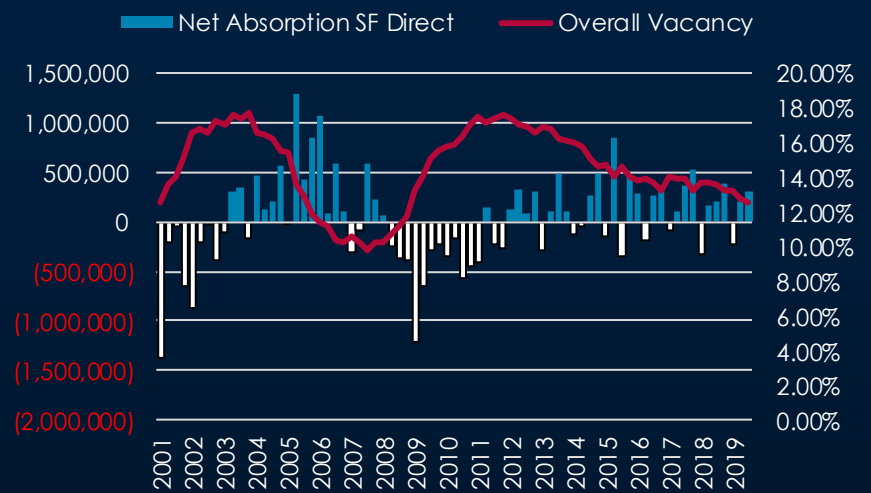


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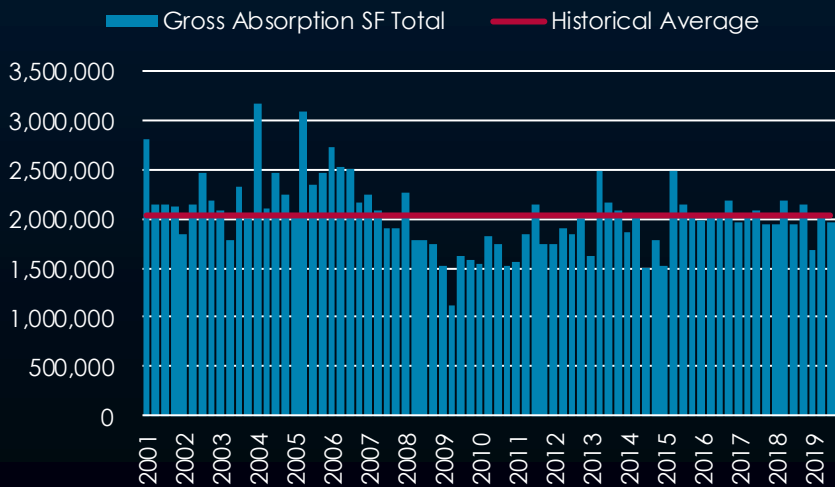
## OVERALL VACANCY DECLINED BY 20 BPS FROM Q2



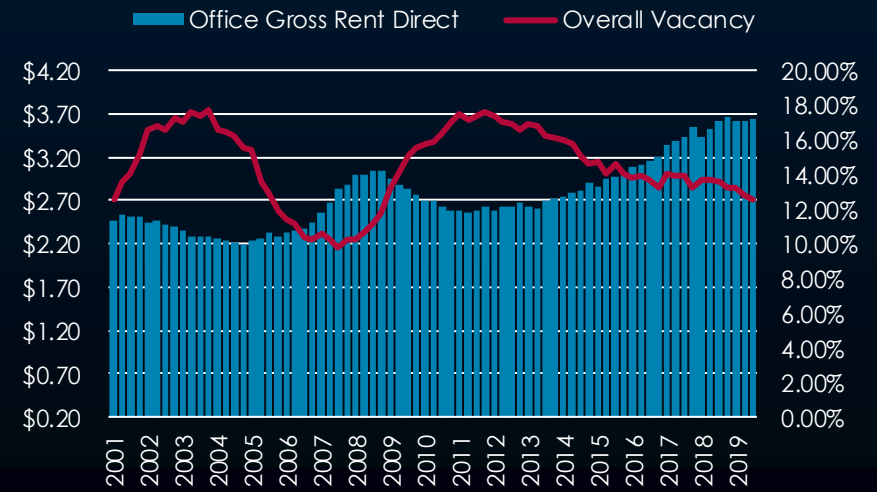
## NET ABSORPTION DIRECT OUTPERFORMED Q2, OVERALL DOWN SLIGHTLY



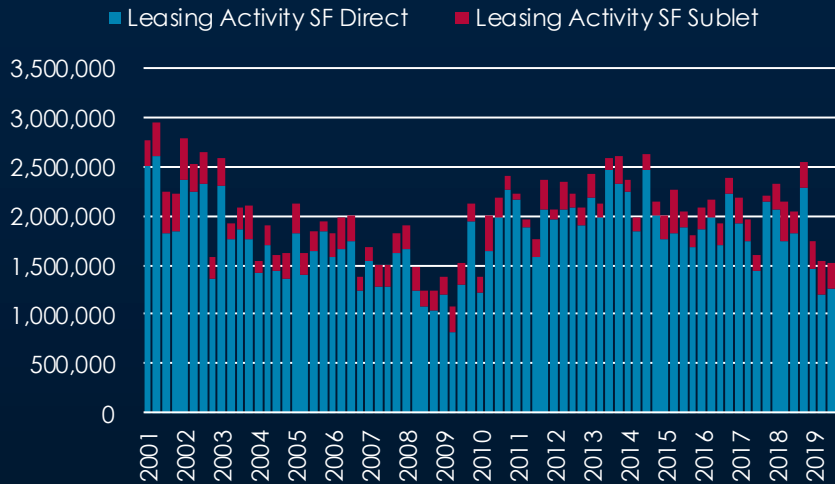
## GROSS ABSORPTION DOWN MARGINALLY TO JUST UNDER 2M SF



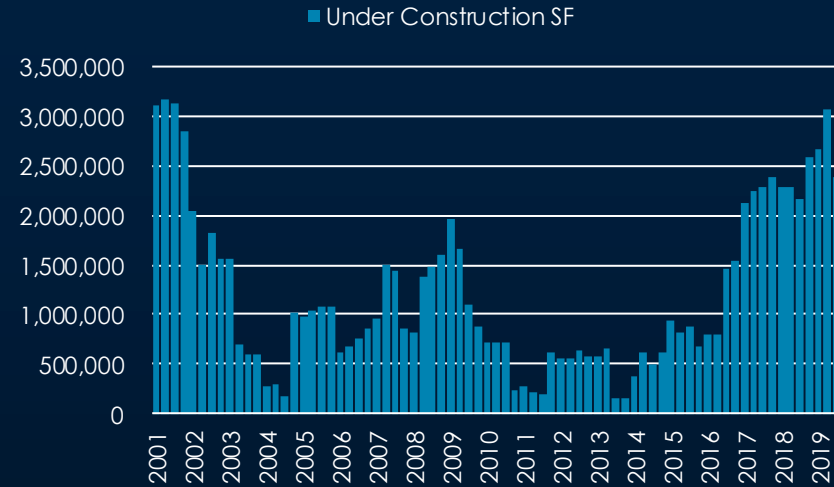
## ASKING RENTS ARE BEGINNING TO FLATTEN



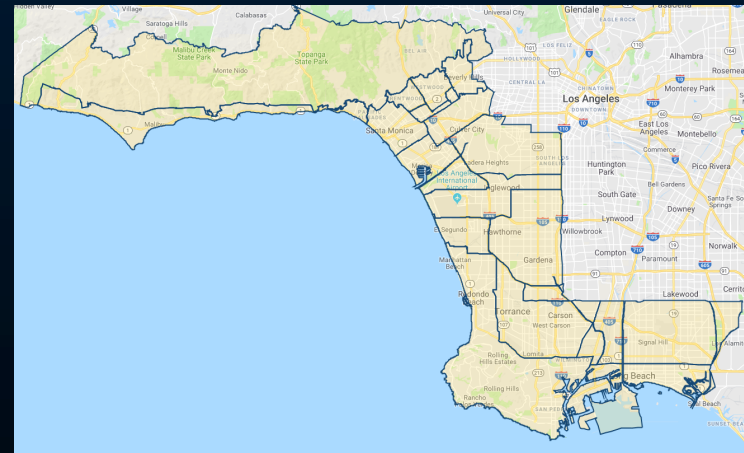
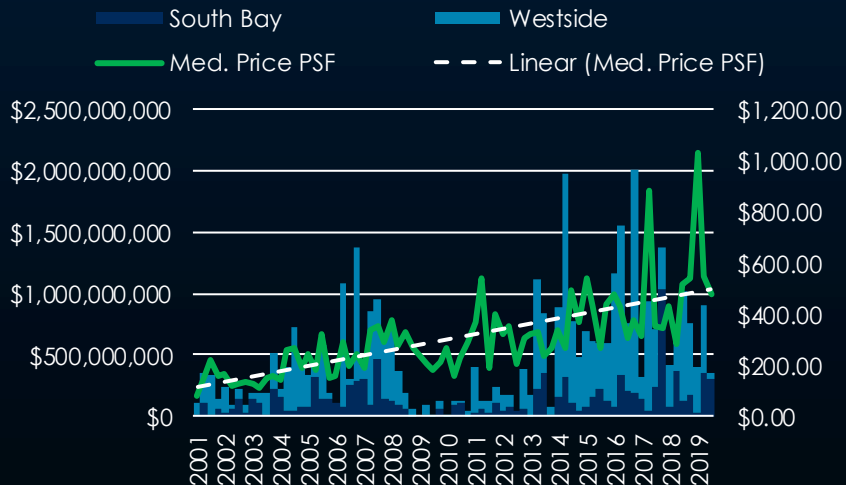
## LEASING ACTIVITY CONSISTENT WITH THE PERFORMANCE OF Q2



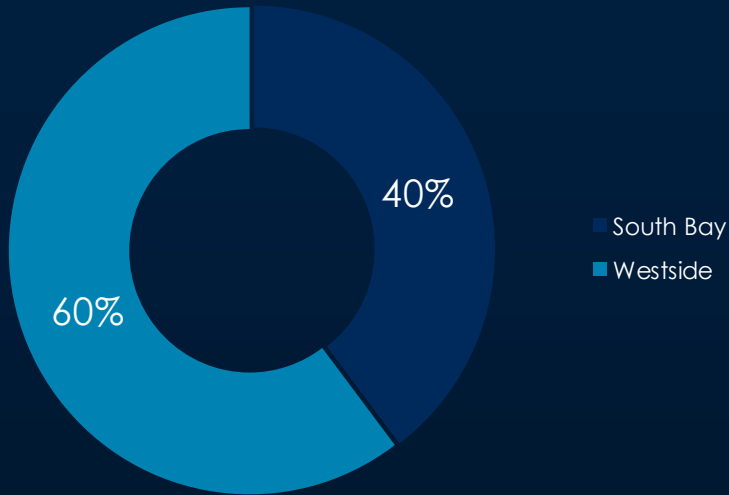
## CONSTRUCTION ACTIVITY YTD DELIVERIES SURPASSED 1M SF. OVER 2.3M REMAINS UC



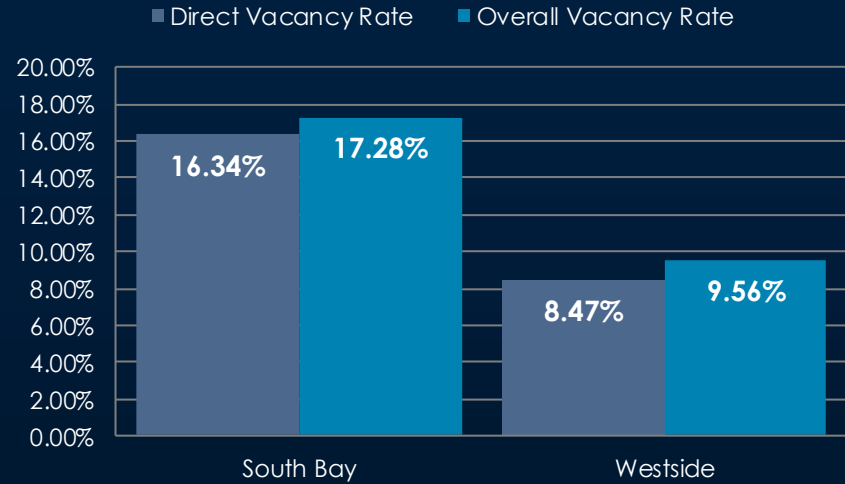
## SALES MEDIAN PRICE PSF IN Q3 WAS \$473.65. BACK ON TREND, VOLUME DOWN



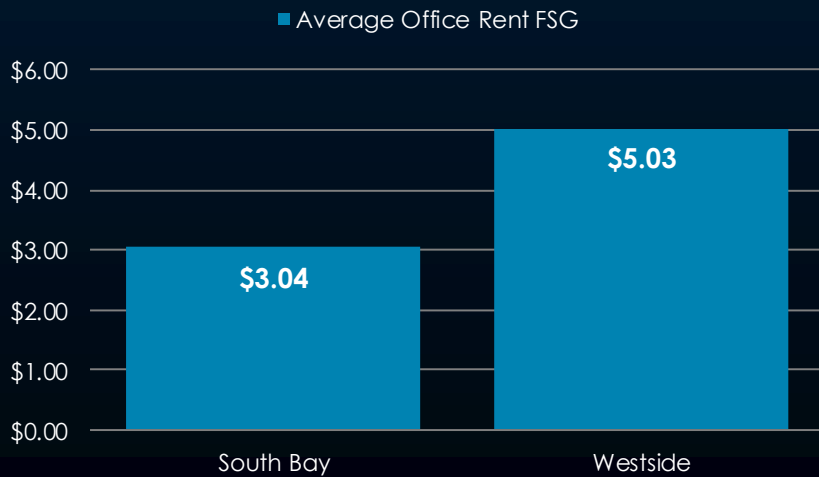
## SQUARE FOOT BREAKDOWN- 89,264,948 SF MARKET SIZE



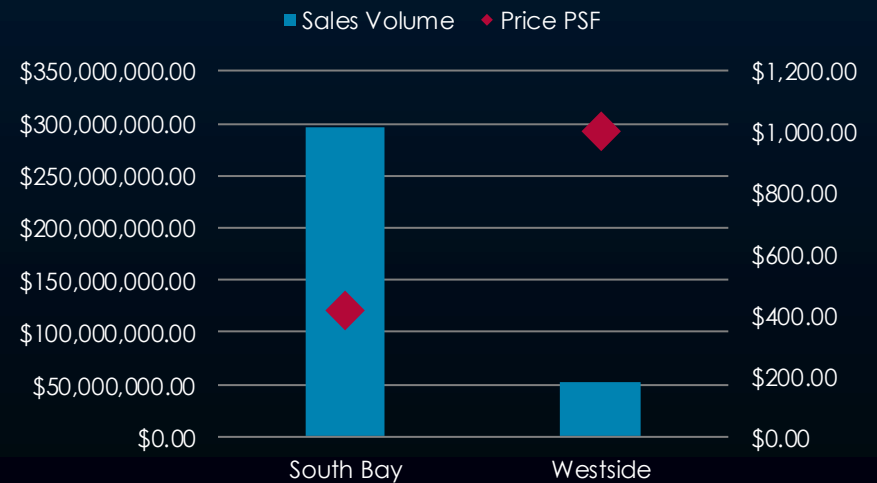
## VACANCY BREAKDOWN



## AVERAGE RENT PSF



## VOLUME BREAKDOWN



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Los Angeles

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# Market Report

Los Angeles Office

South Bay



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# MARKET REPORT Q3

## Office 2019 Los Angeles South Bay



### MARKET ACTIVITY

<p>Direct Vacancy  <span>∨</span> 16.3%</p>	<p>Net Absorption  <span>∧</span> 17,278 SF</p>
<p>Overall Vacancy  <span>∨</span> 17.2%</p>	<p>Gross Absorption  <span>∧</span> 677,453 SF</p>
<p>Under Construction  <span>∨</span> 1,191,771 SF</p>	<p>Rental Rates (FSG)  <span>∧</span> \$2.96</p>
<p>Sale Price Change  <span>∧</span> 19.9%</p>	<p>Deal Volume  <span>∨</span> 15.6%</p>

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Decreased by 10 BPS from Q2.
- **Net Absorption:** Direct Net Absorption continued to be negative in Q3. Over 60K SF of sublet space pushed the overall Net Absorption positive.
- **Office Supply:** The South Bay market is experiencing a boom with a few major developments beginning construction.
- **Sales:** In Q3, only six (6) sales were recorded. Four of those were part of a portfolio in Long Beach.
- **Asking Rents:** Climb to new record highs, but rate of increase slowing.

#### 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>

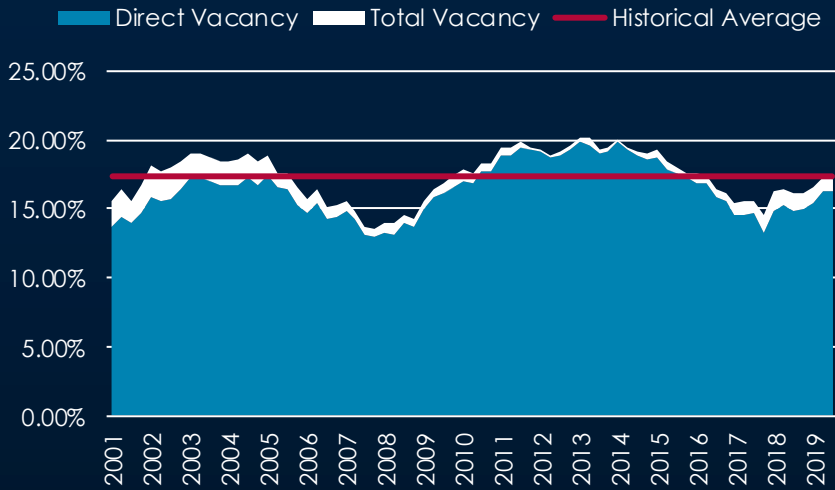
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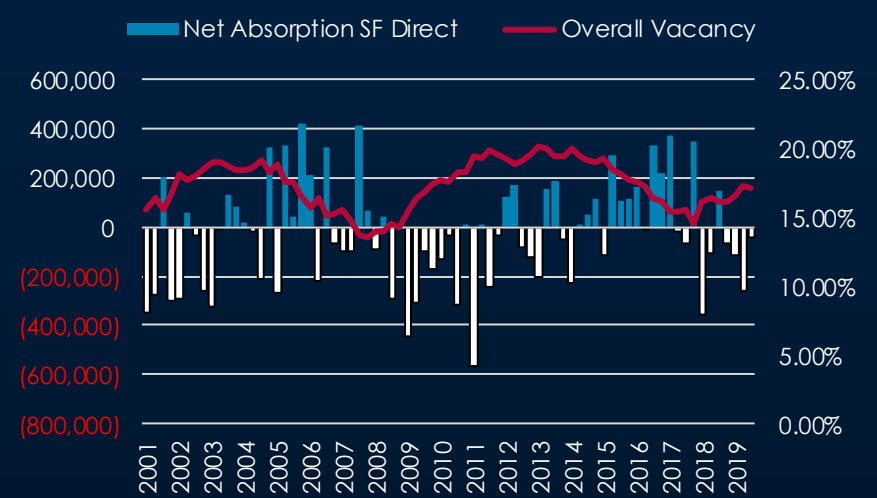


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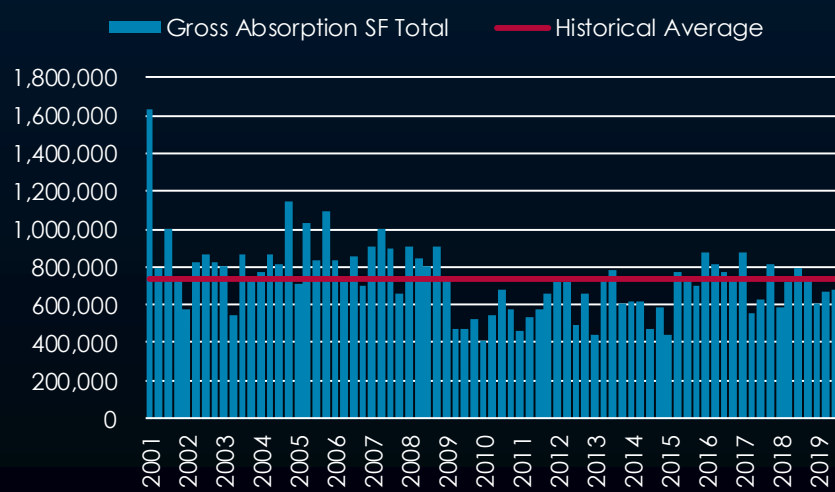
## OVERALL VACANCY FELL BY 10 BPS FROM Q2 TO 17.2%



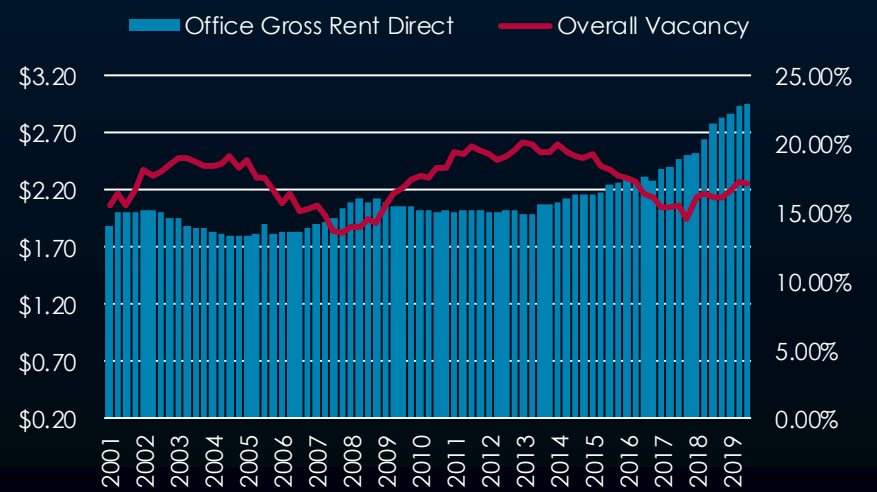
## NET ABSORPTION DIRECT IMPROVED FROM Q2, BUT STILL NEGATIVE. OVERALL TURNS POSITIVE



## GROSS ABSORPTION MINIMAL GAINS FROM Q2. REMAINS BELOW HISTORIC AVG.



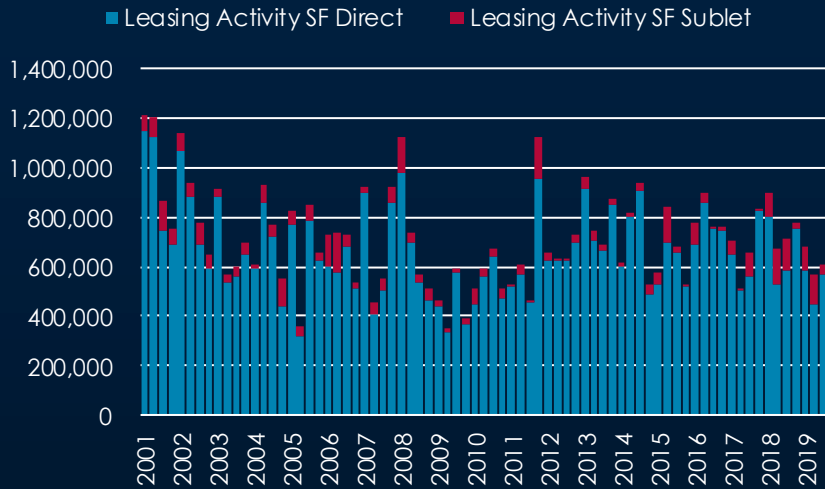
## ASKING RENTS CONTINUE RISE OF HISTORIC HIGHS



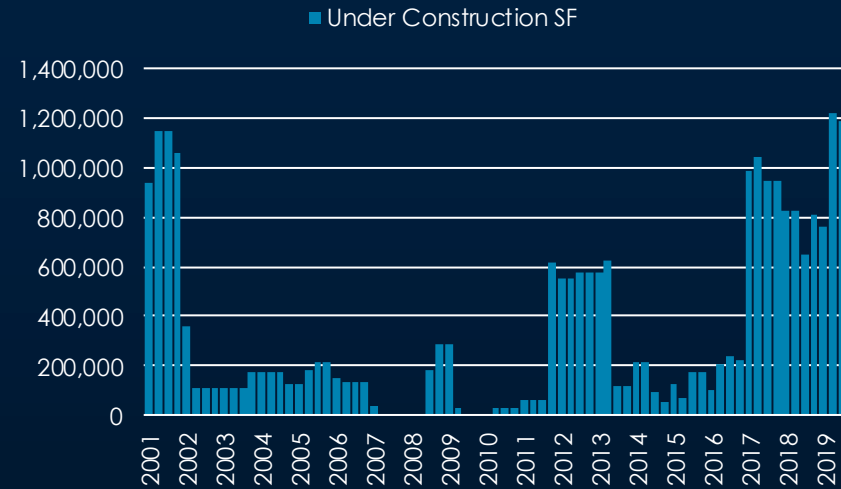
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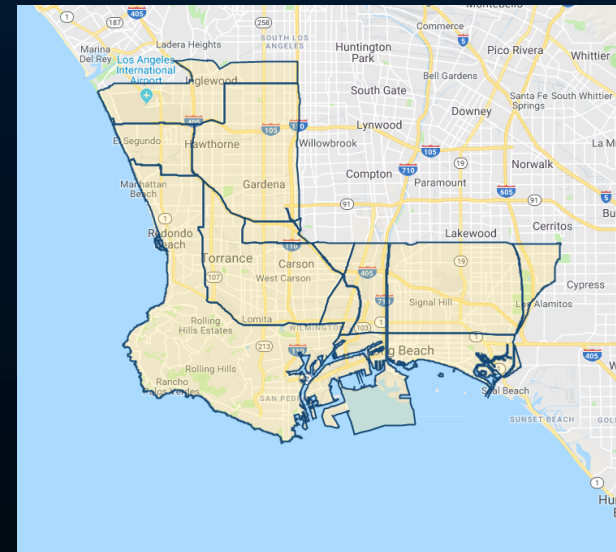
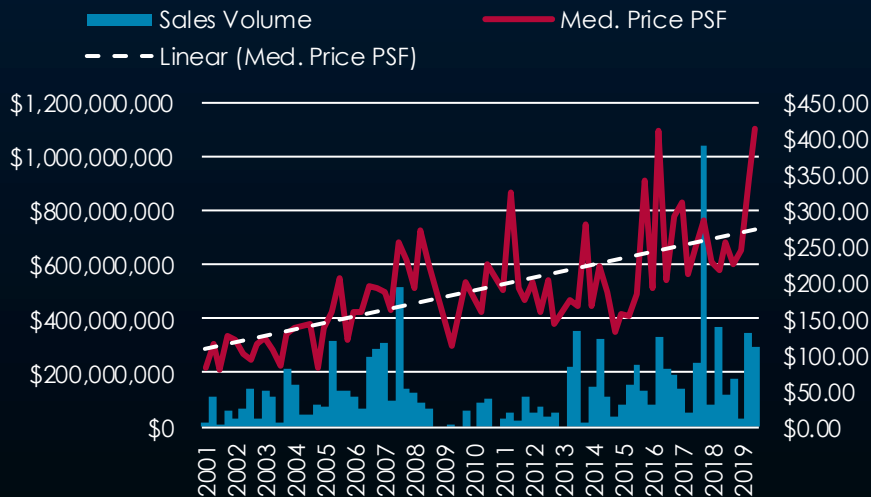
## LEASING ACTIVITY TICKED UP TO ABOVE 600K SF IN Q3



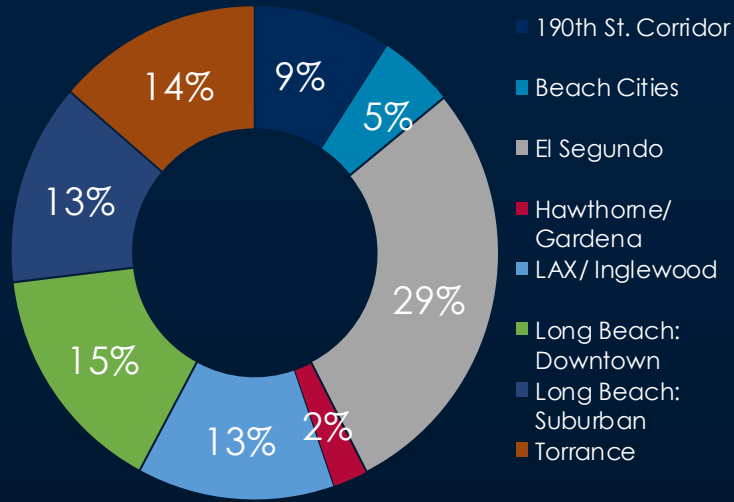
## CONSTRUCTION ACTIVITY REMAINS ABOVE 1M SF



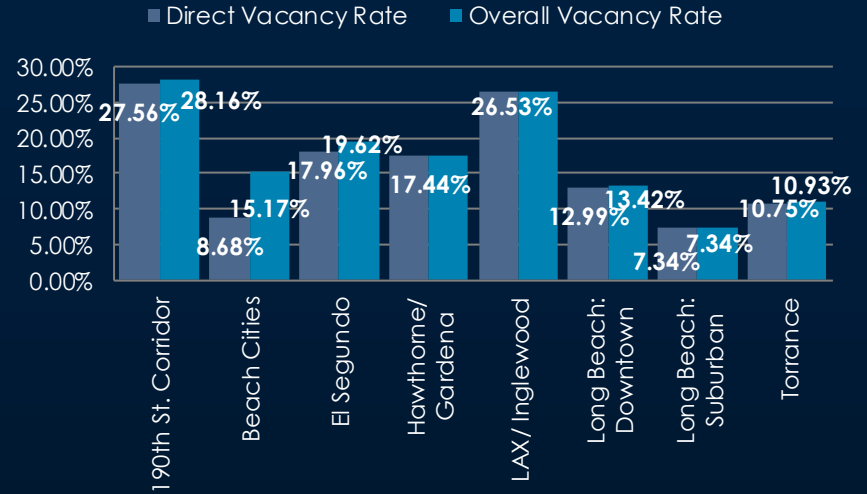
## SALES THE MEDIAN PRICE PSF IN Q3 WAS \$412.87



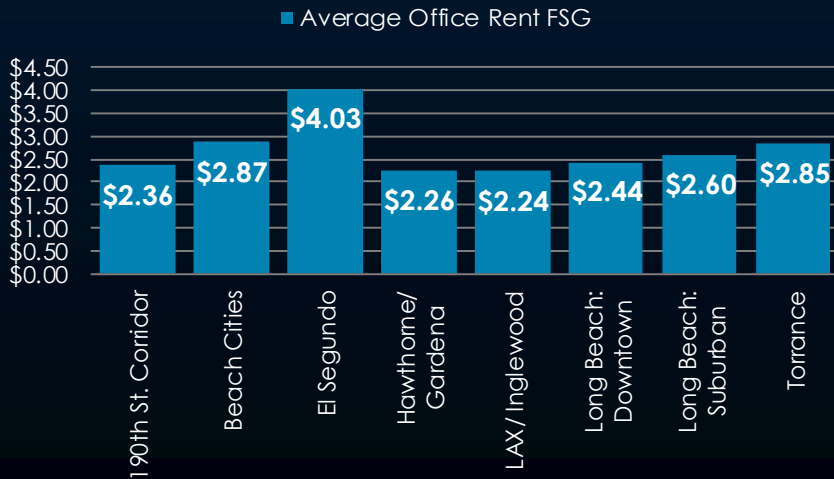
## SQUARE FOOT BREAKDOWN- 35,435,053 SF MARKET SIZE



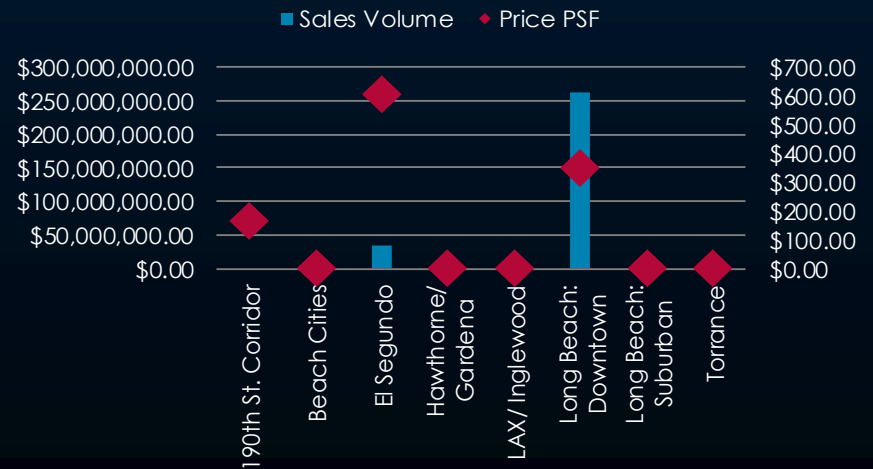
## VACANCY BREAKDOWN



## AVERAGE RENT PSF



## VOLUME BREAKDOWN



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# Market Report

Los Angeles Office

**Westside**



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### MARKET ACTIVITY

<p>Direct Vacancy ∨ 8.5%</p>	<p>Net Absorption ∨ 242,990 SF</p>
<p>Overall Vacancy ∨ 9.6%</p>	<p>Gross Absorption ∨ 1,282,868 SF</p>
<p>Under Construction ∨ 1,638,089 SF</p>	<p>Rental Rates (FSG) ∧ \$4.99</p>
<p>Sale Price Change ∧ 3.8%</p>	<p>Deal Volume ∨ 91.4%</p>

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Continue downward trend. Overall vacancy fell by 20 BPS to 9.6%.
- **Net Absorption:** Down from strong Q2. Represents 0.45% of inventory.
- **Office Supply:** Construction activity remains above 1.6 million square feet.
- **Sales:** Only one (1) sale was recorded in Q3.
- **Trends:** Technology companies leasing large amounts of space & repurposing of buildings to creative office atmospheres.

#### 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>

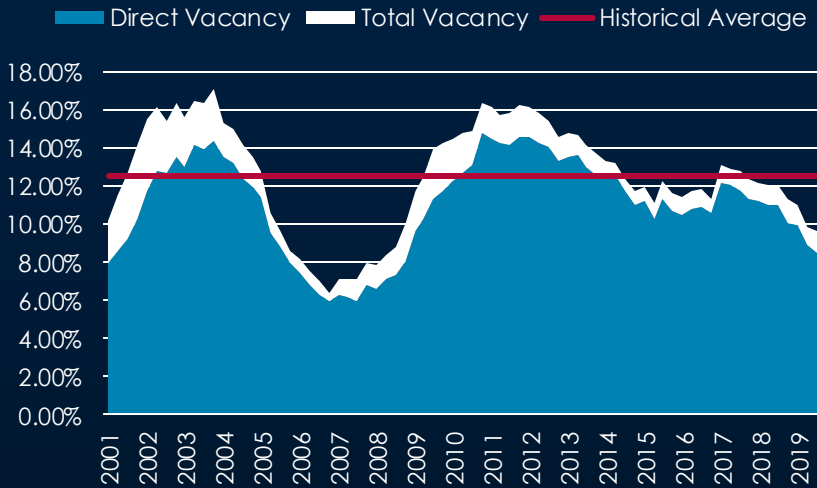
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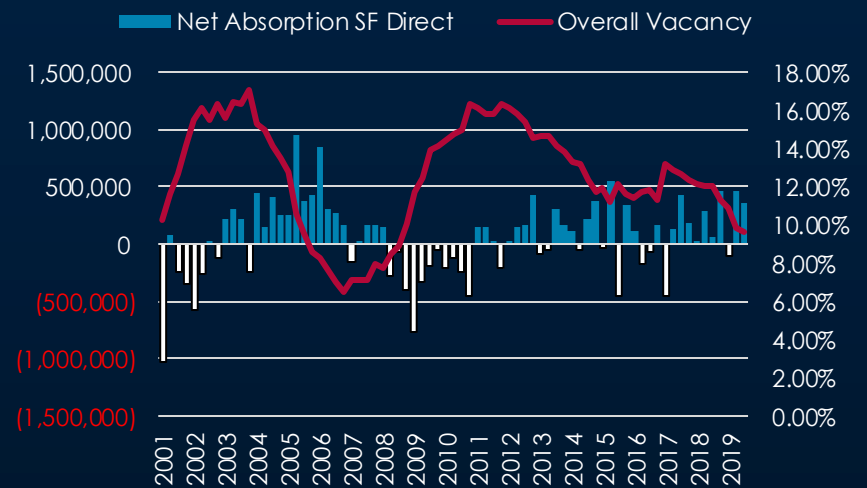


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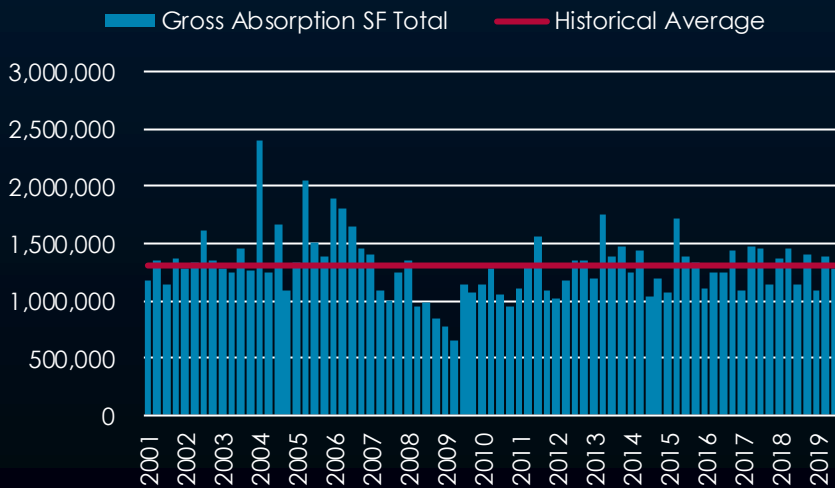
## OVERALL VACANCY DOWN BY 20 BPS FROM Q2 TO 9.6%



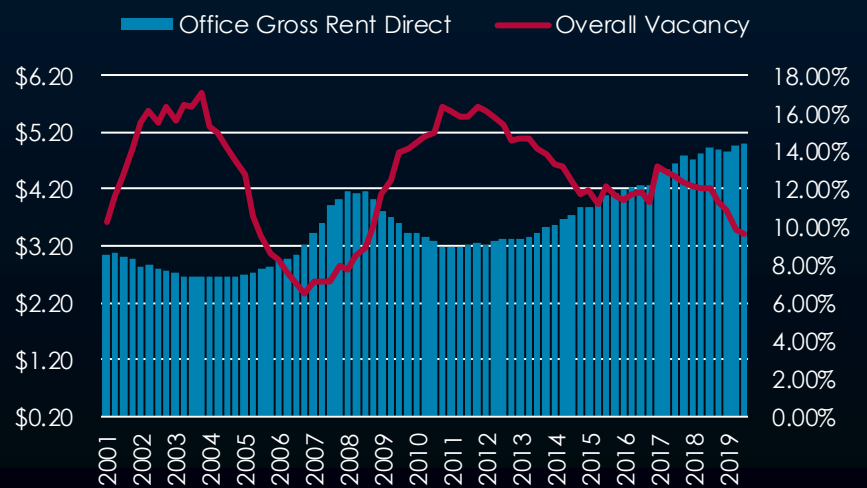
## NET ABSORPTION DOWN FROM STRONG Q2



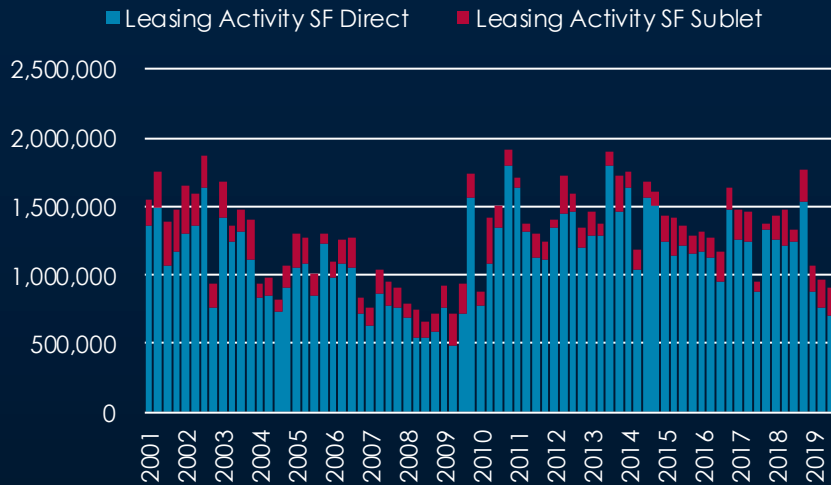
## GROSS ABSORPTION DIPPED SLIGHTLY IN Q3 TO JUST UNDER 1.3M SF



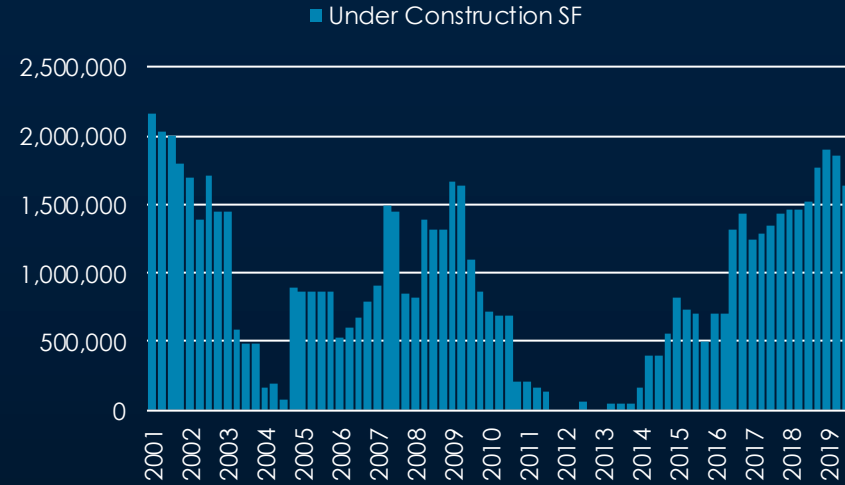
## ASKING RENTS INCREASED BY \$0.03 PSF. TREND SHOWS SIGNS OF FLATTENING



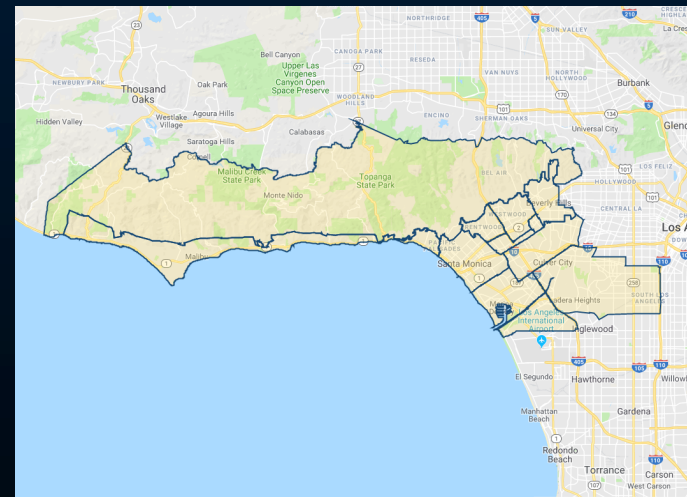
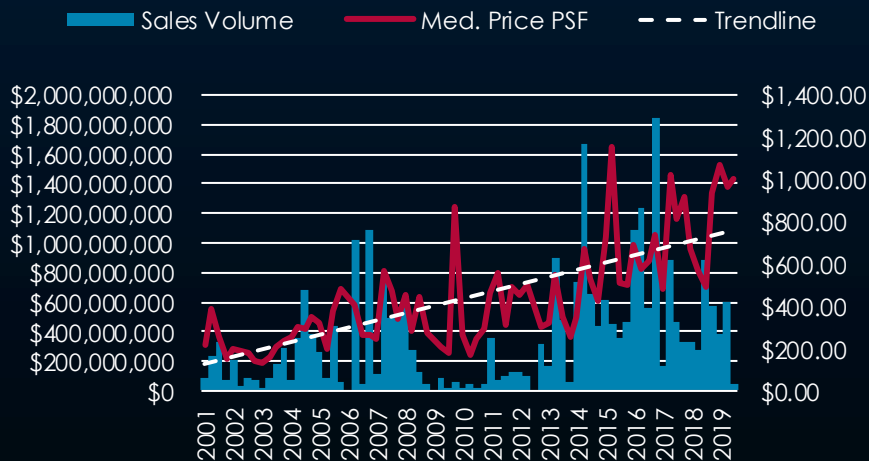
## LEASING ACTIVITY FALLS AGAIN IN Q3



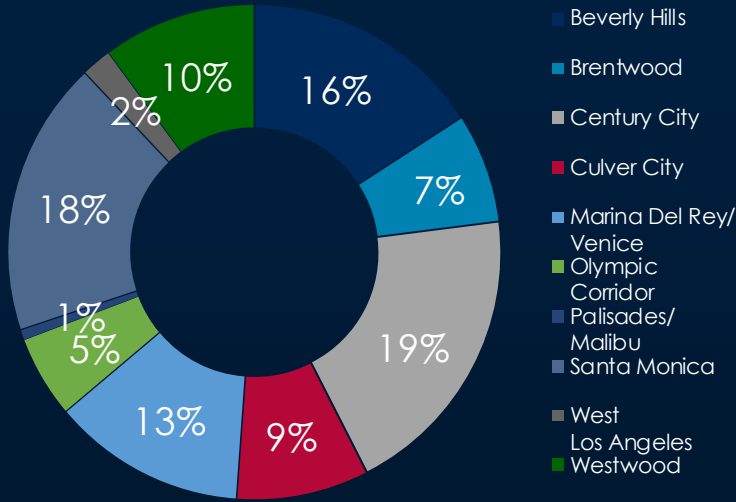
## CONSTRUCTION ACTIVITY REMAINS STRONG



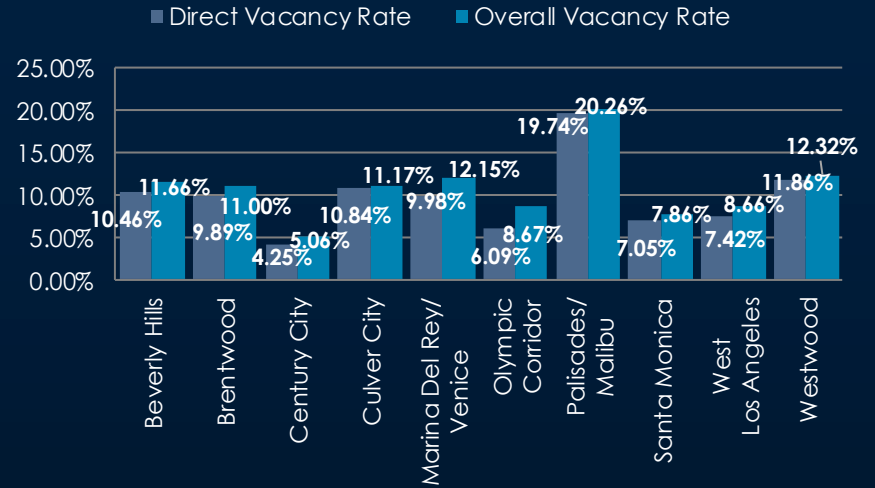
## SALES ONLY ONE RECORDED SALE IN Q3



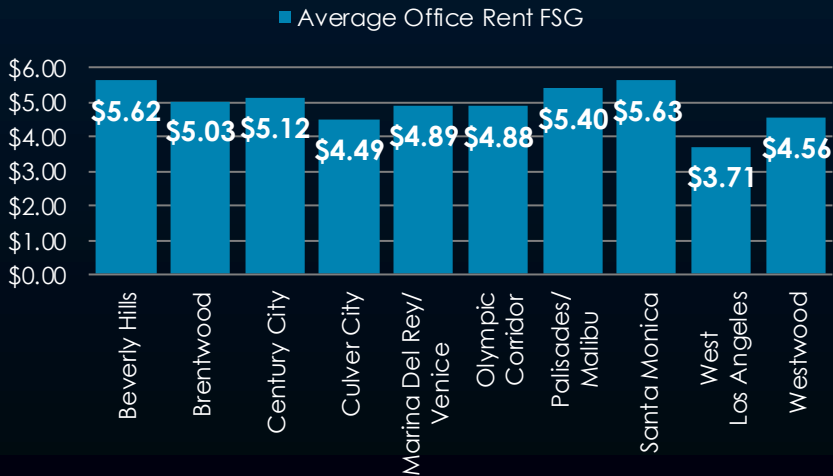
## SQUARE FOOT BREAKDOWN- 53,829,895 SF MARKET SIZE



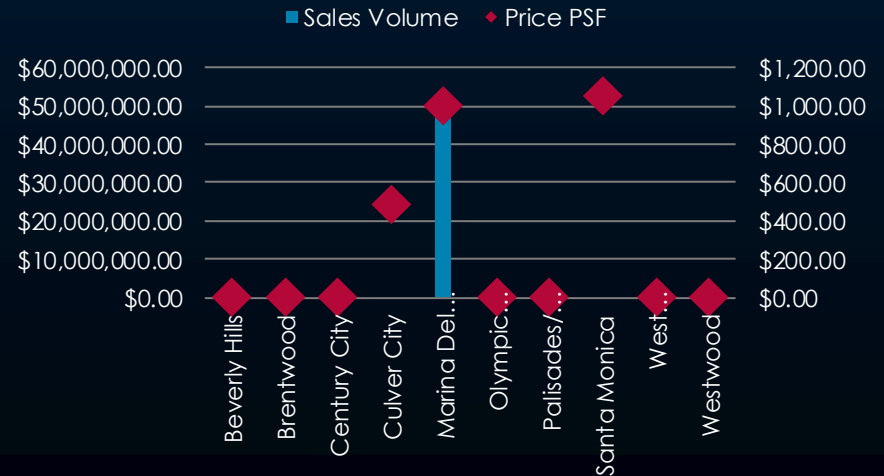
## VACANCY BREAKDOWN



## AVERAGE RENT PSF



## VOLUME BREAKDOWN



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# Economic Overview

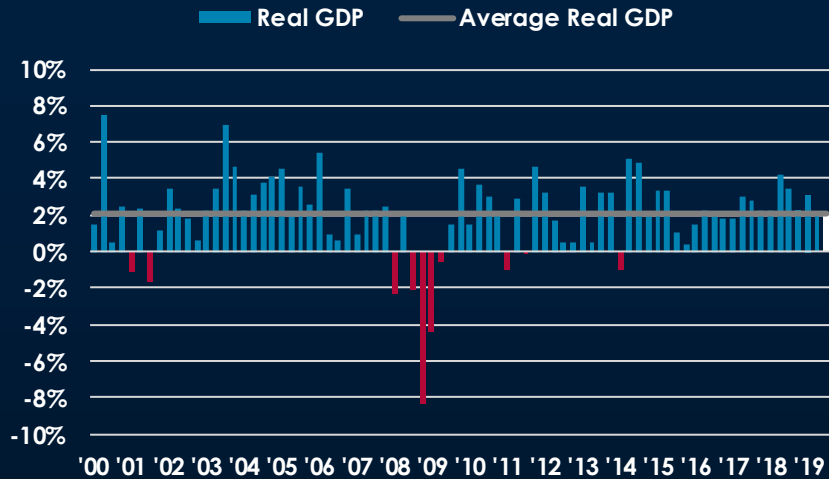


Q3 2019

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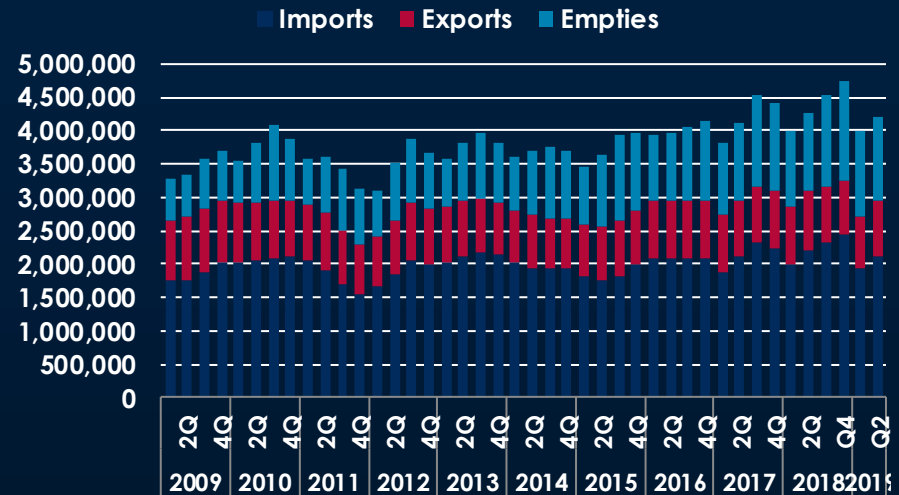


GDP IN Q2 FINISHED AT 2.0%. Q3 ESTIMATE IS 2.1%

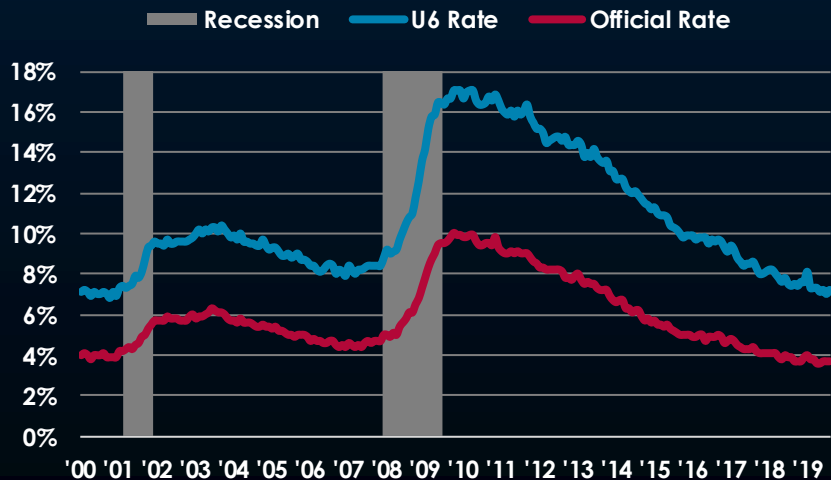


\*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

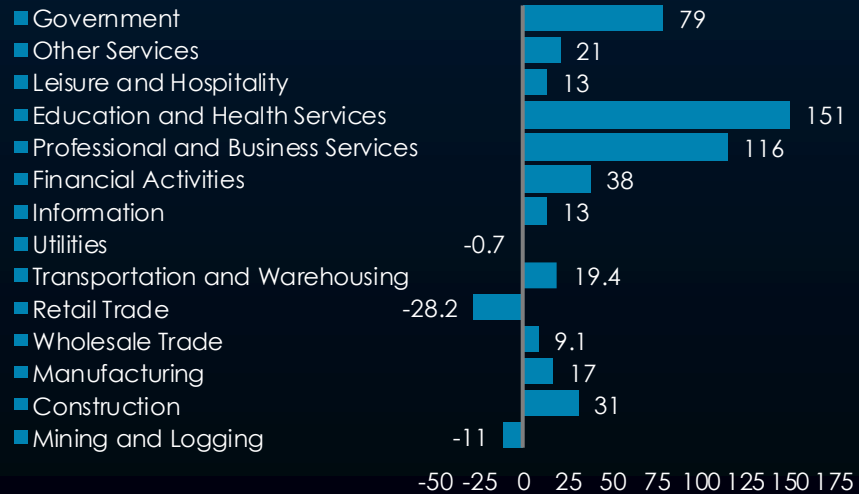
PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1



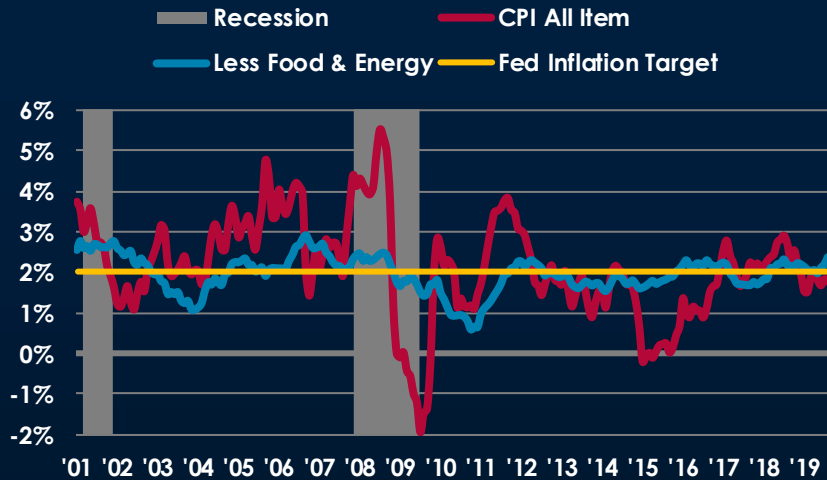
UNEMPLOYMENT CONTINUES DOWNWARD TREND



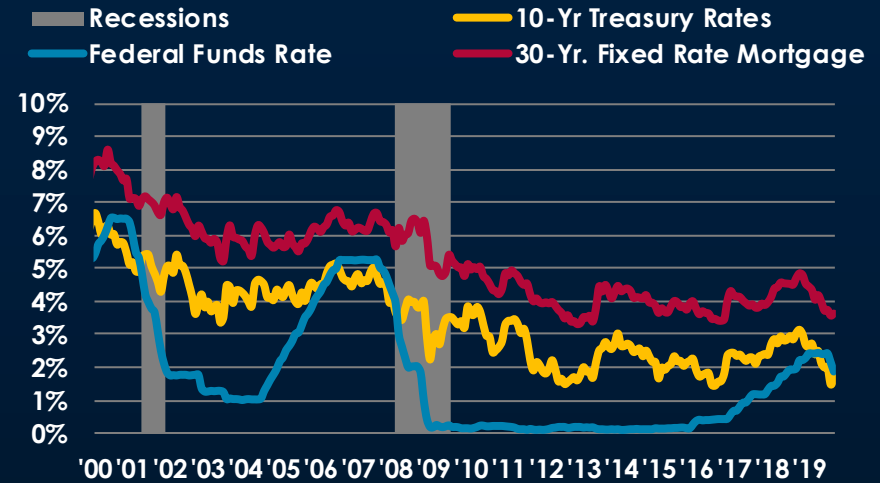
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



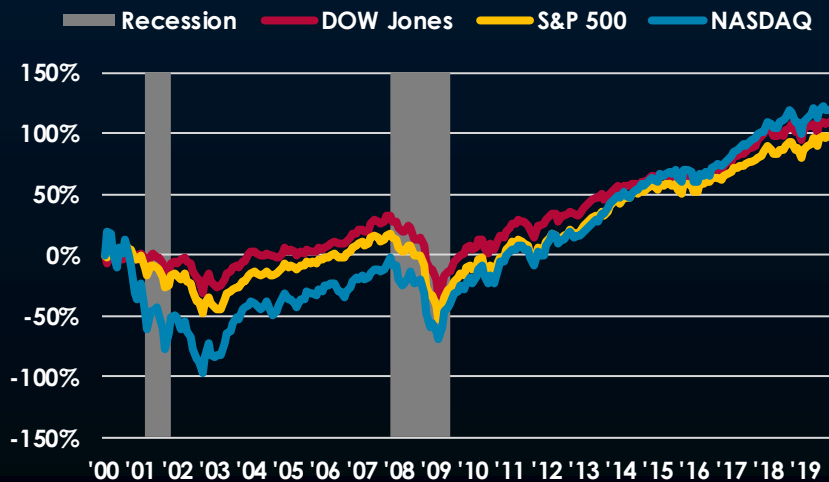
## CPI JUST BELOW 2% TARGET



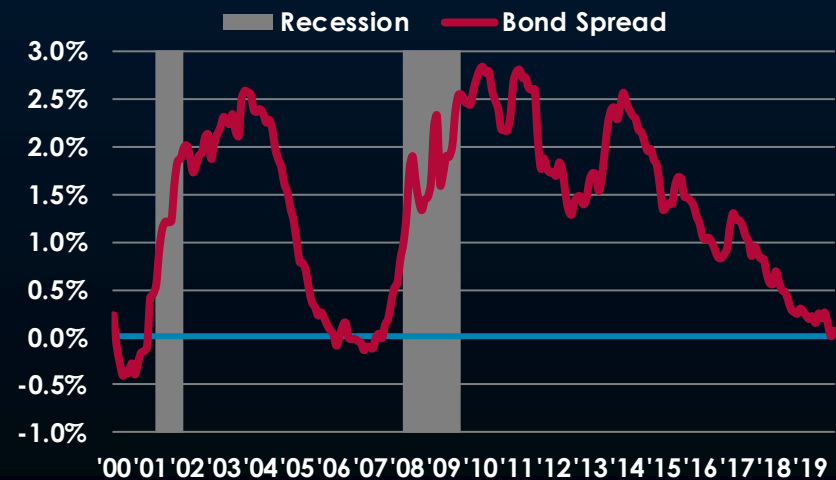
## THE YIELD CURVE REMAINS INVERTED



## 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.



## DAUM OFFICES

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