

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

# Market Report

Orange County Office



Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice.

# MARKET REPORT Q3

## Office 2019 Orange County



### MARKET ACTIVITY

<p>Direct Vacancy ▲ 12.2%</p>	<p>Net Absorption ▼ -36,292 SF</p>
<p>Overall Vacancy ▲ 13.2%</p>	<p>Gross Absorption ▼ 2,055,697 SF</p>
<p>Under Construction ▼ 560,824 SF</p>	<p>Rental Rates (FSG) ▼ \$2.70</p>
<p>Sale Price Change ▼ 3.6%</p>	<p>Deal Volume ▲ 19.3%</p>

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Experienced minimal increase of 10 BPS in Q3 to a rate of 13.2%.
- **Net Absorption:** Slipped back into negative territory.
- **Office Supply:** YTD 2019 over 1.2M SF has been delivered. Over 560K SF remains under construction.
- **Sales:** Pricing down slightly with the median price PSF of \$236.20 in Q3. Volume up over 19%.
- **Asking Rents:** Down from Q2.

#### 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>

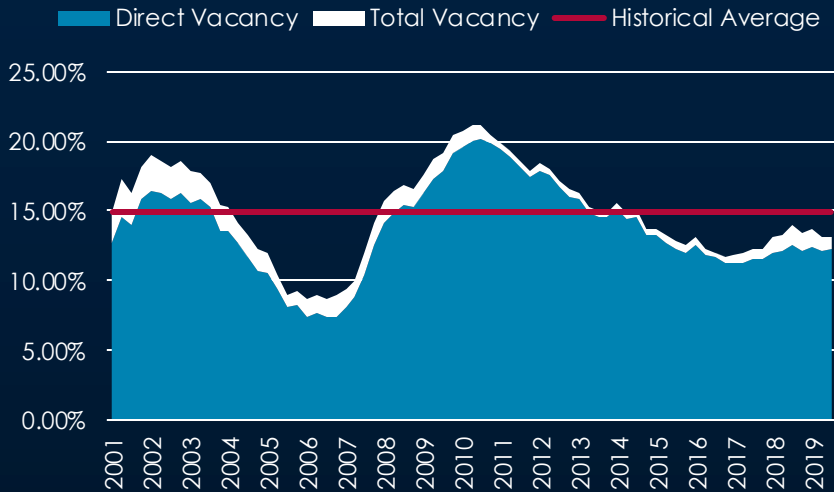
EXPERIENCE IN A CHANGING MARKET

@DAUMCOMMERCIAL

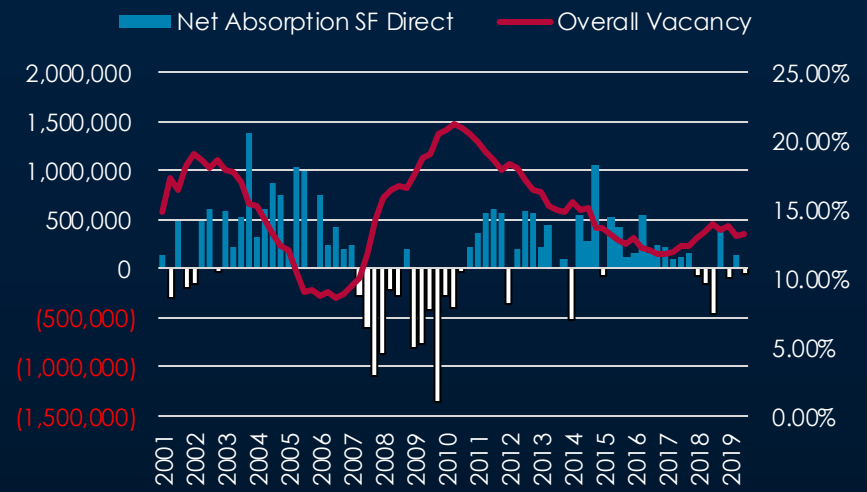


Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice.

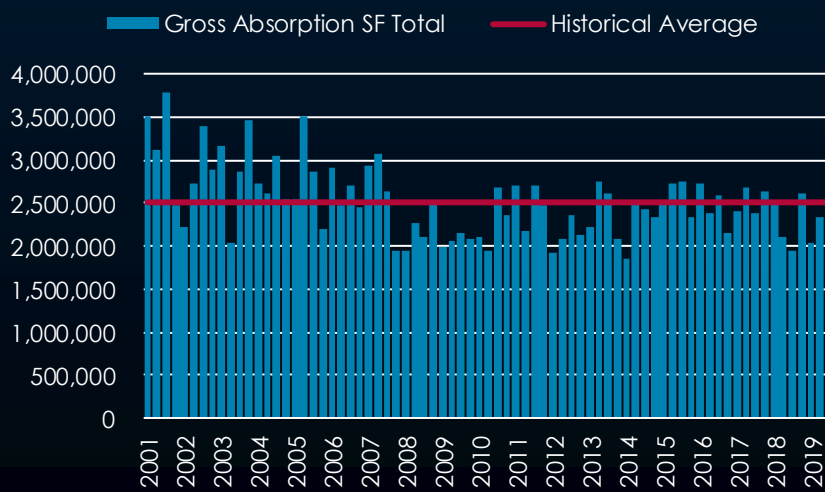
## OVERALL VACANCY INCREASED, BUT ONLY BY 10 BPS



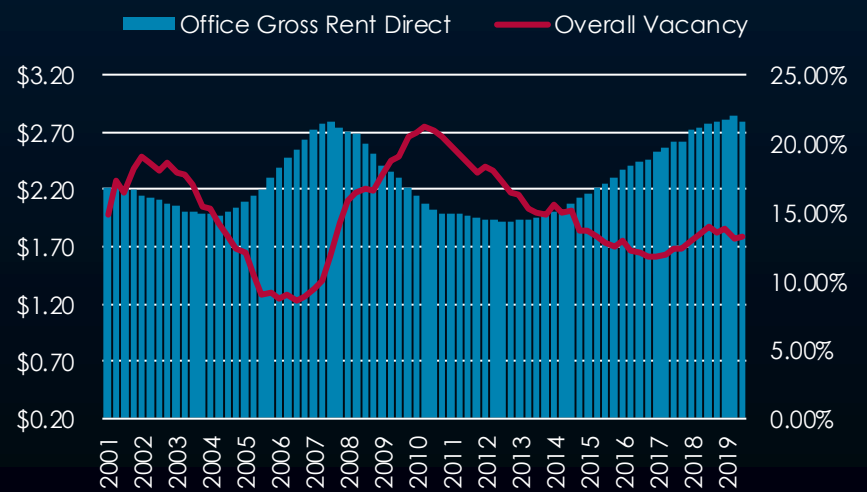
## NET ABSORPTION TURNED NEGATIVE IN Q3



## GROSS ABSORPTION DOWN FROM Q2 TO SLIGHTLY ABOVE 2M SF

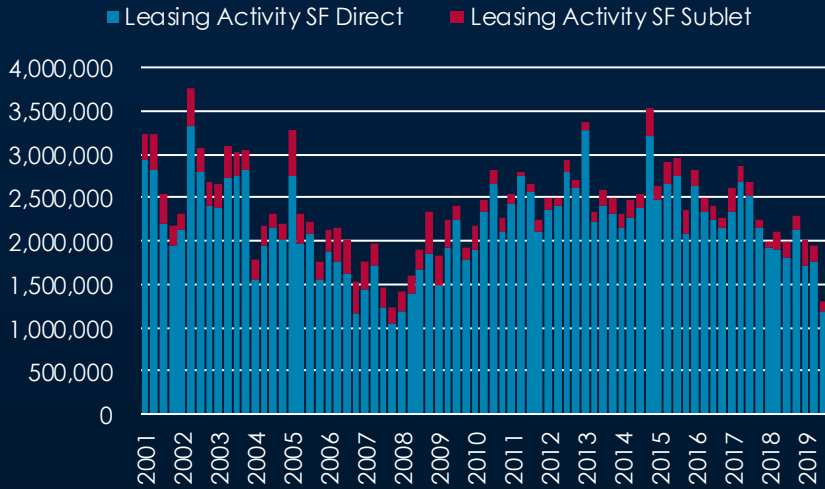


## ASKING RENTS FELL IN Q3. A TREND TO WATCH

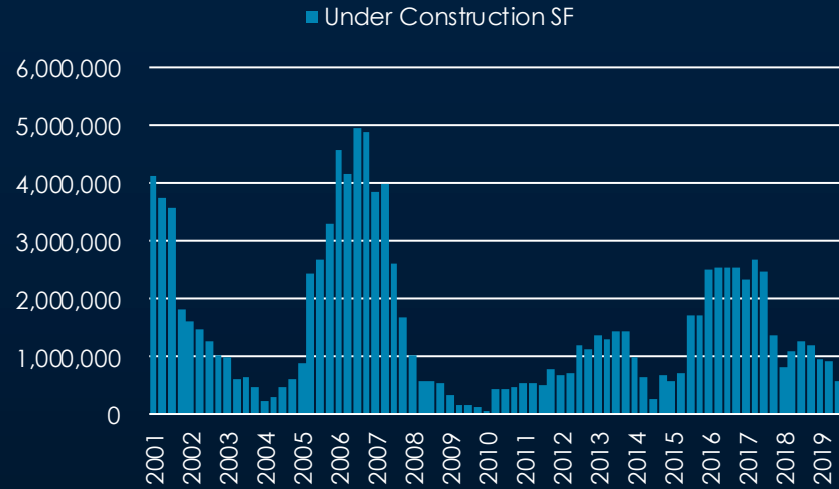


Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice.

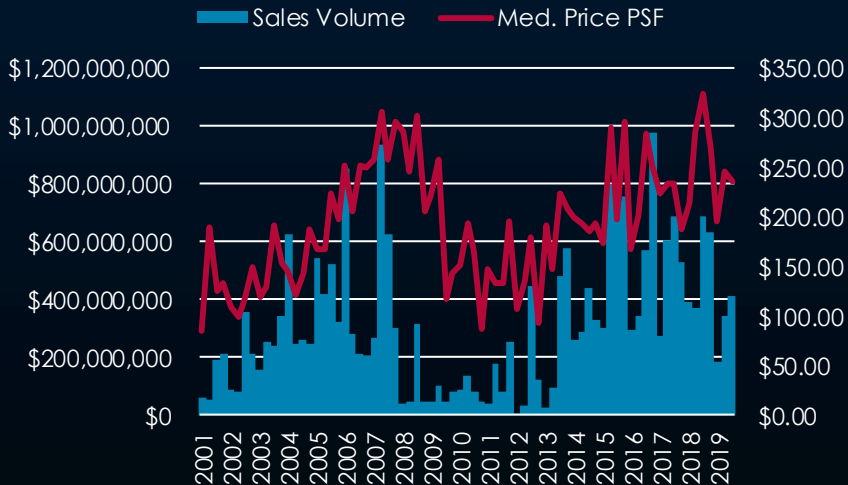
## LEASING ACTIVITY DOWN OVER 30% FROM Q2 TO BELOW 1.5M SF



## CONSTRUCTION ACTIVITY YTD 2019 OVER 1.2M SF DELIVERED. OVER 550K SF REMAINS UC

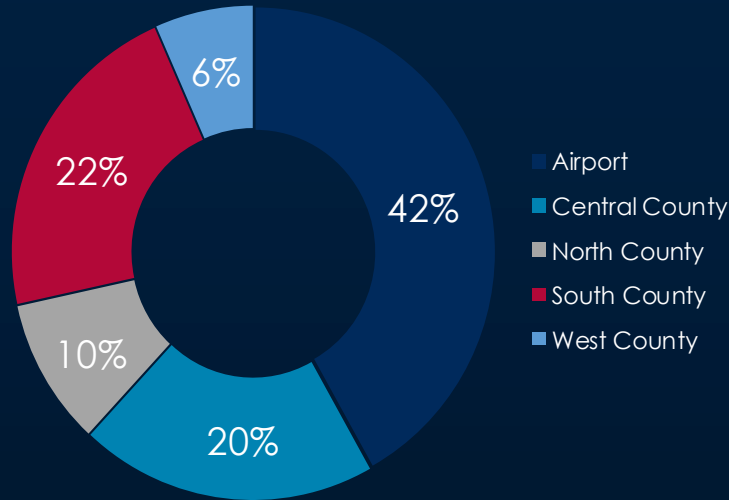


## SALES MEDIAN PRICE PSF FOR Q3 WAS \$236.20. VOLUME UP OVER 19%

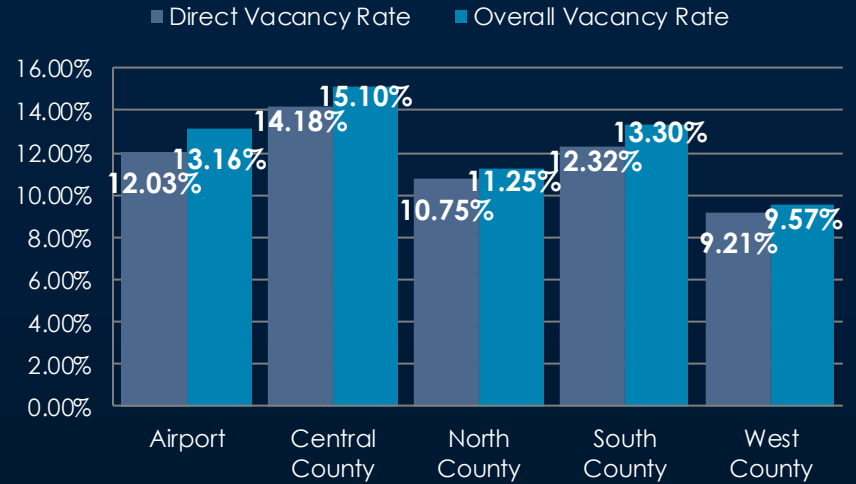




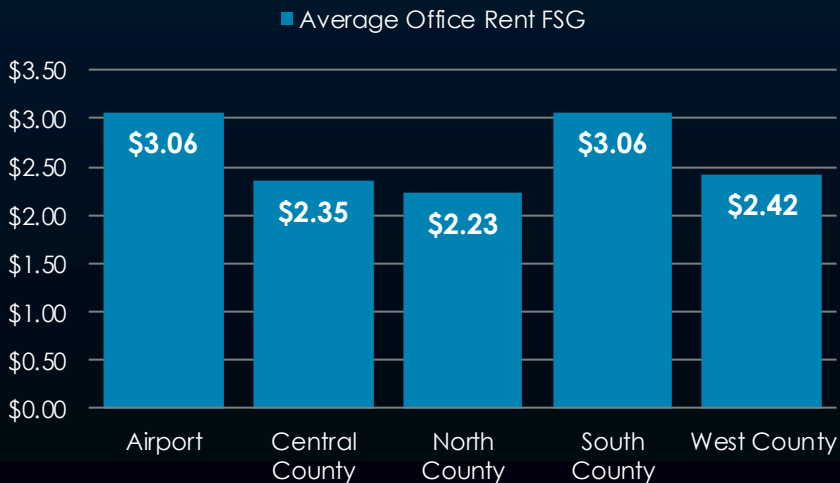
## SQUARE FOOT BREAKDOWN- 87,329,496 SF MARKET SIZE



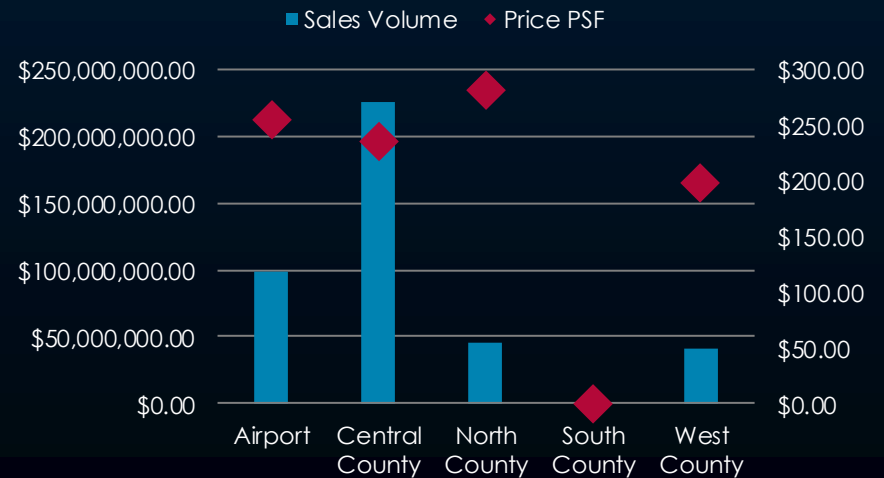
## VACANCY BREAKDOWN



## AVERAGE RENT PSF



## VOLUME BREAKDOWN



Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

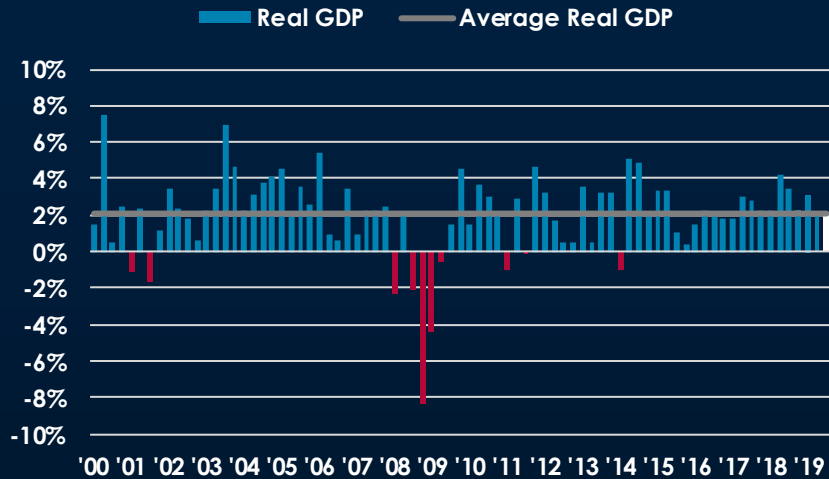
# Economic Overview



Q3 2019

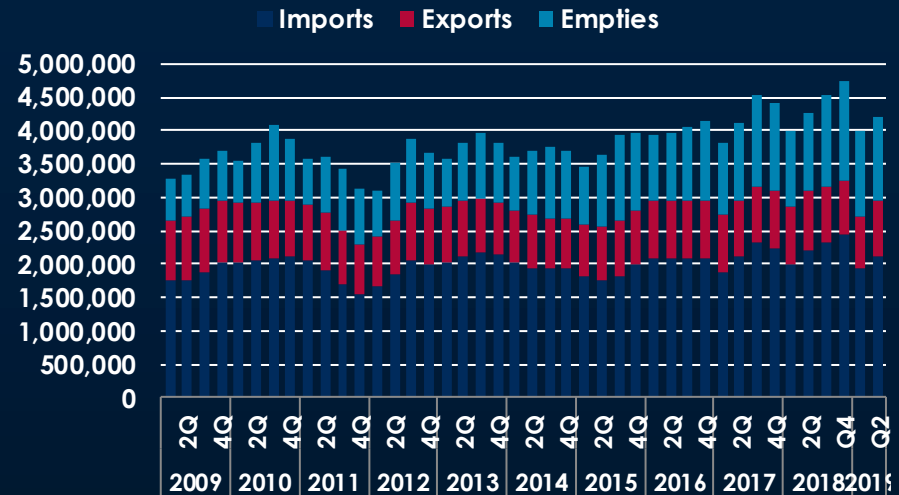
Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice.

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

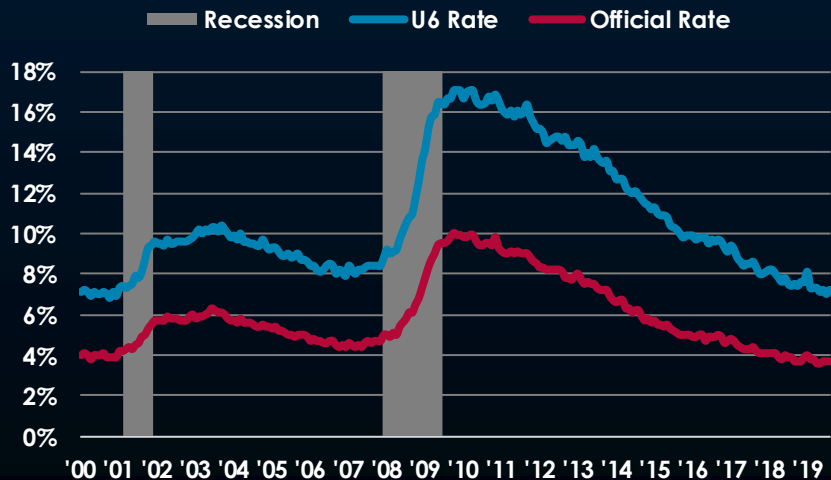


\*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

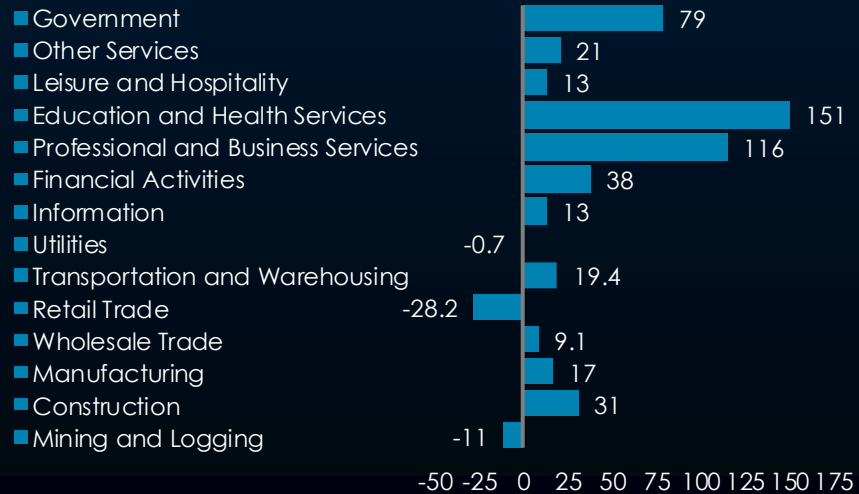
PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1



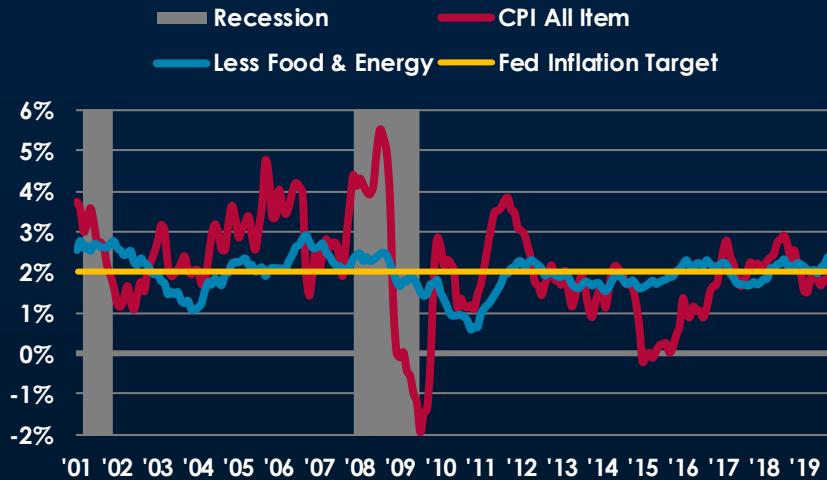
UNEMPLOYMENT CONTINUES DOWNWARD TREND



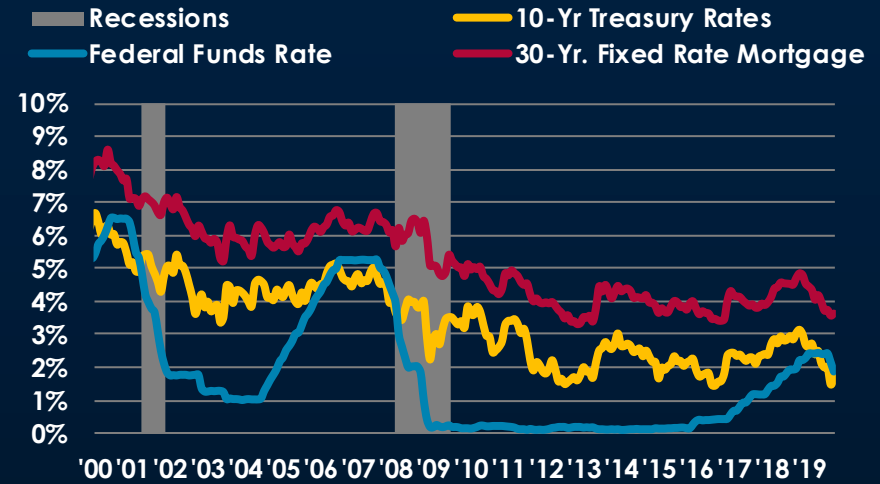
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



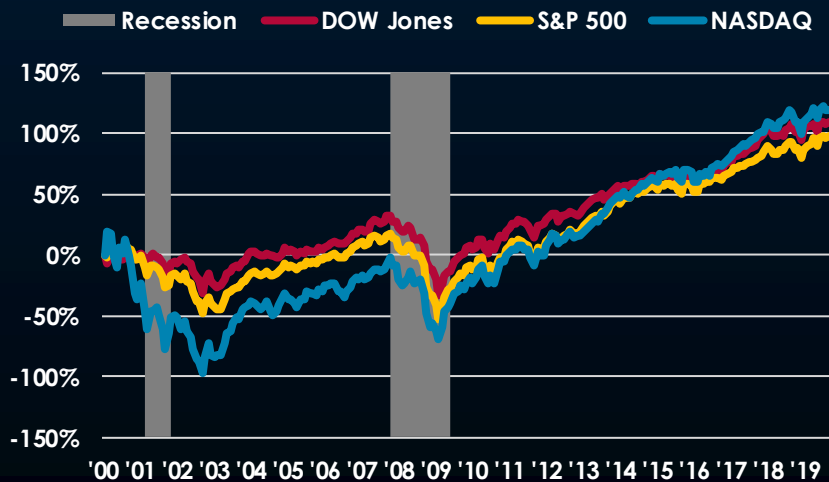
## CPI JUST BELOW 2% TARGET



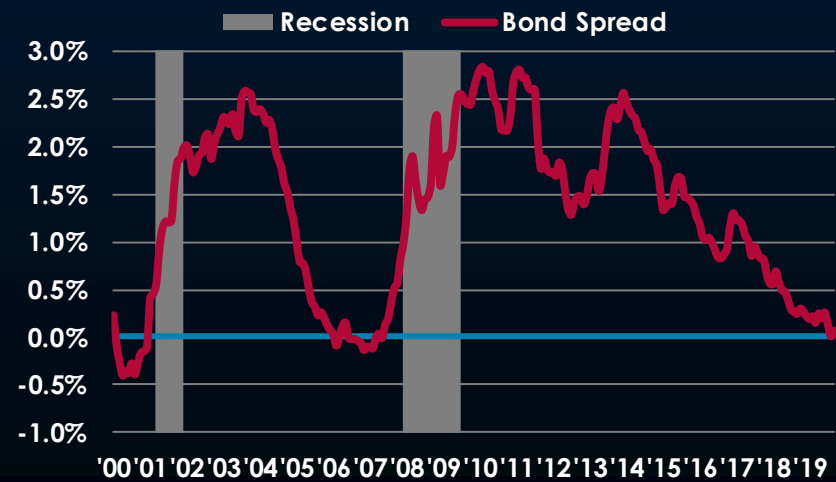
## THE YIELD CURVE REMAINS INVERTED



## 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

LOS ANGELES, CALIFORNIA  
801 S. Figueroa Street, Suite 600  
Los Angeles, CA 90017 213-626-9101

LOS ANGELES NORTH, CALIFORNIA  
21820 Burbank Boulevard, Suite 201  
Woodland Hills, CA 91367  
818-887-3600

SANTA CLARITA VALLEY, CALIFORNIA  
28494 Westinghouse Place, Suite 312  
Valencia, CA 91355  
661-705-2299

SAN GABRIEL VALLEY, CALIFORNIA  
13181 Crossroads Pkwy. N, Suite 100  
City of Industry, CA 91746 562-695-7244

SOUTH BAY, CALIFORNIA  
1025 W. 190th Street, Suite 420  
Gardena, CA 90248  
310-538-6700

MID-COUNTIES, CALIFORNIA  
13810 Cerritos Corporate Drive, Suite C  
Cerritos, CA 90703  
562-207-3300

ORANGE COUNTY, CALIFORNIA  
4400 MacArthur  
Boulevard, Suite 950 Newport Beach, CA 92660  
949-724-1900

VENTURA & SANTA BARBARA, CALIFORNIA  
751 Daily Drive, Suite 105 Camarillo, CA 93010  
805-987-8866

INLAND EMPIRE, CALIFORNIA  
3595 E. Inland Empire Boulevard, Bldg. 5  
Ontario, CA 91764  
909-980-1234

PHOENIX ARIZONA  
1702 E. Highland Avenue, Suite 120  
Phoenix, AZ 85016  
602-957-7300