

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

Market Report

Phoenix 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 Phoenix



MARKET ACTIVITY

<p>Direct Vacancy ✓ 14.5%</p>	<p>Net Absorption ▲ 746,994 SF</p>
<p>Overall Vacancy ✓ 15.1%</p>	<p>Gross Absorption ▲ 2,726,958 SF</p>
<p>Under Construction ✓ 1,303,300 SF</p>	<p>Rental Rates (FSG) ▲ \$2.20</p>
<p>Sale Price Change ▲ 20.6%</p>	<p>Deal Volume ▲ 53.8%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Overall vacancy fell 30 BPS to 15.1%.
- **Net Absorption:** Outperformed Q2 by a significant margin. Total Net Absorption was nearly 750K SF. Representing 0.57% of inventory.
- **Office Supply:** Construction activity slightly above 1.3 Million SF.
- **Leasing Activity:** Dropped by over 900K SF from Q2 to just above 1.5M SF.
- **Sales:** Q3 had the highest sales volume YTD in 2019 with over \$600M. Three (3) sales were over \$50M.

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>

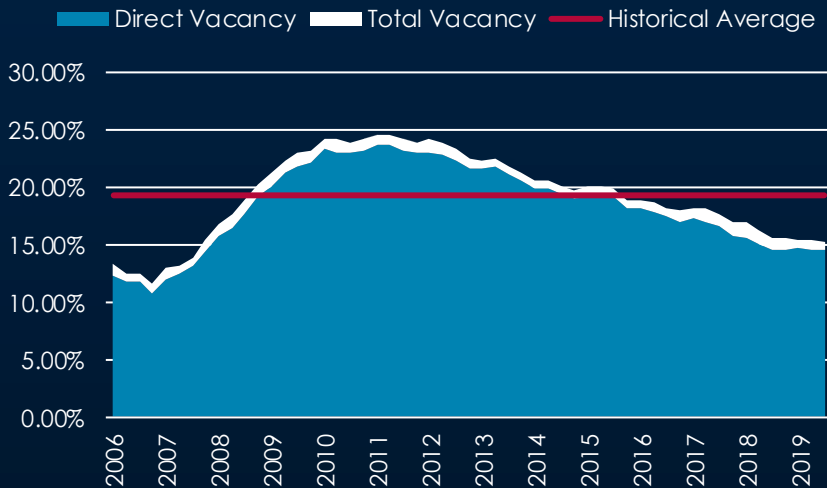
EXPERIENCE IN A CHANGING MARKET

@DAUMCOMMERCIAL

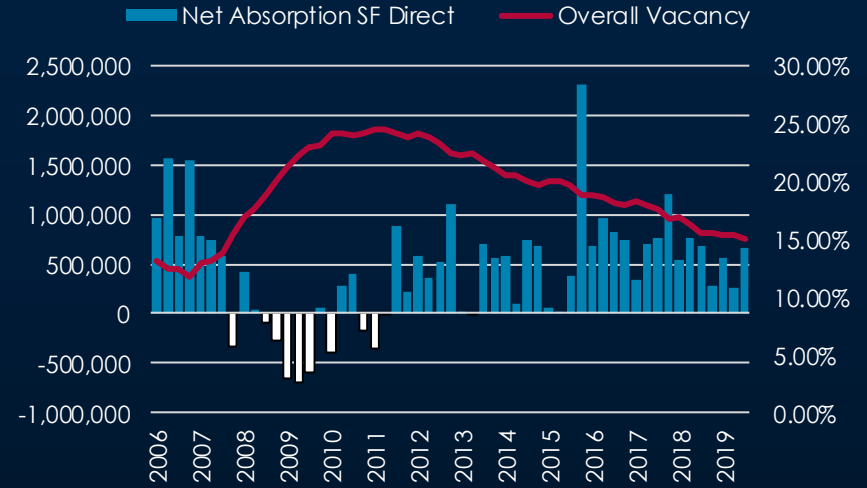


Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of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

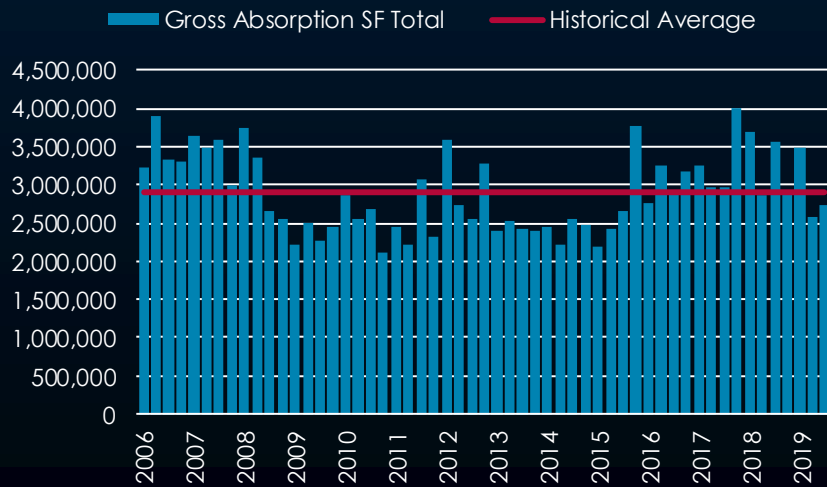
OVERALL VACANCY FLAT FROM PREVIOUS QUARTER



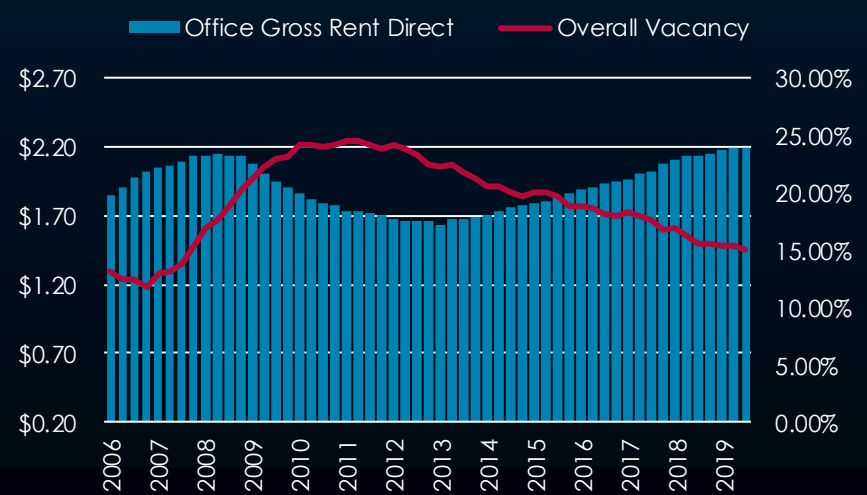
NET ABSORPTION SIGNIFICANTLY HIGHER IN Q3 TO JUST BELOW 750K SF



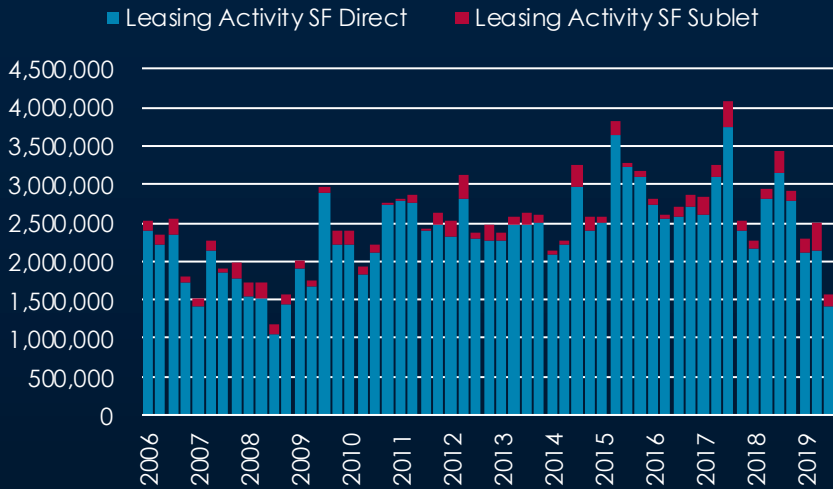
GROSS ABSORPTION UP FROM Q2, BUT REMAINS BELOW HISTORIC AVERAGE



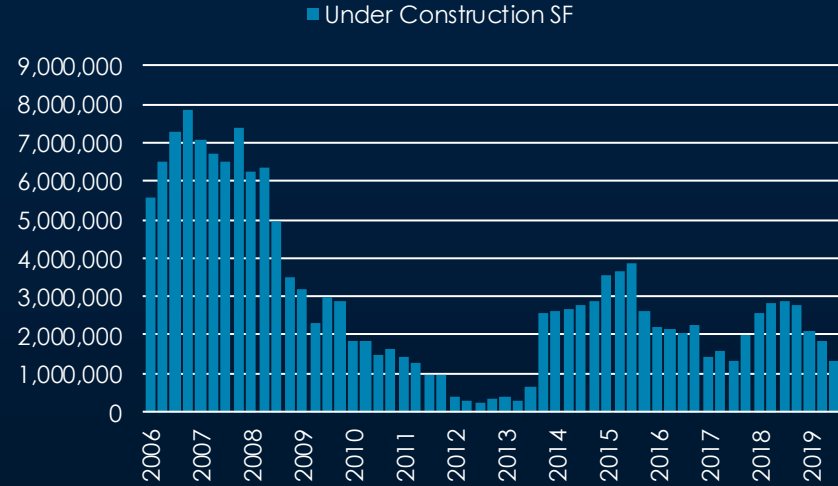
ASKING RENTS CONTINUE TO INCREASE BUT MINIMAL GAIN



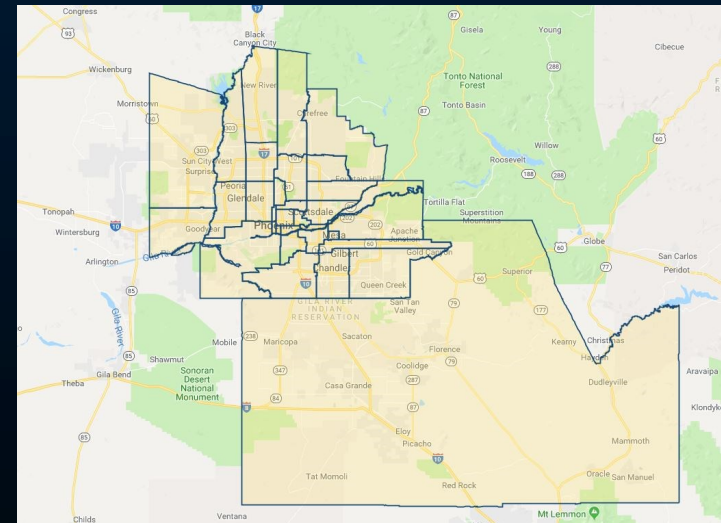
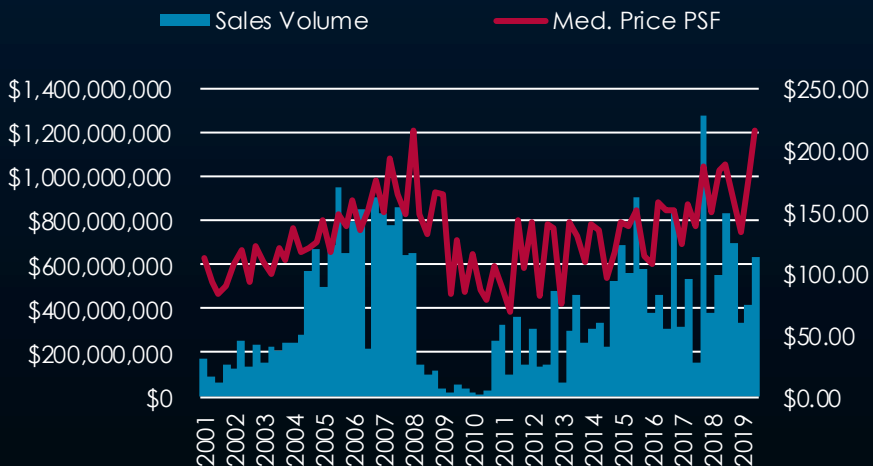
LEASING ACTIVITY PLUMMETED FROM Q2 TO JUST OVER 1.5M SF IN Q3



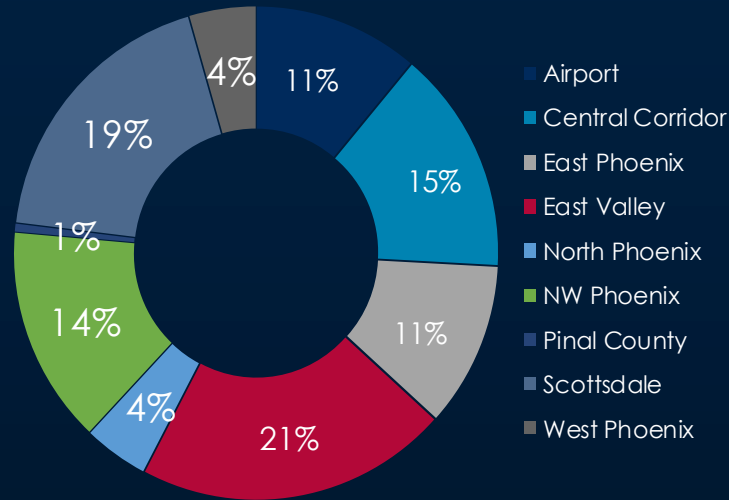
CONSTRUCTION ACTIVITY UNDER CONSTRUCTION CURRENTLY ABOVE 1.3M SF



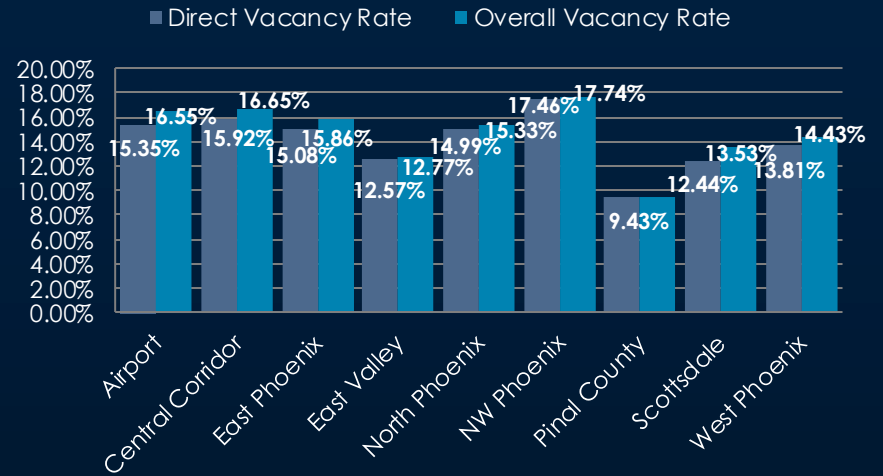
SALES PRICES INCREASE TO A MEDIAN OF \$215.62 PSF. VOLUME UP



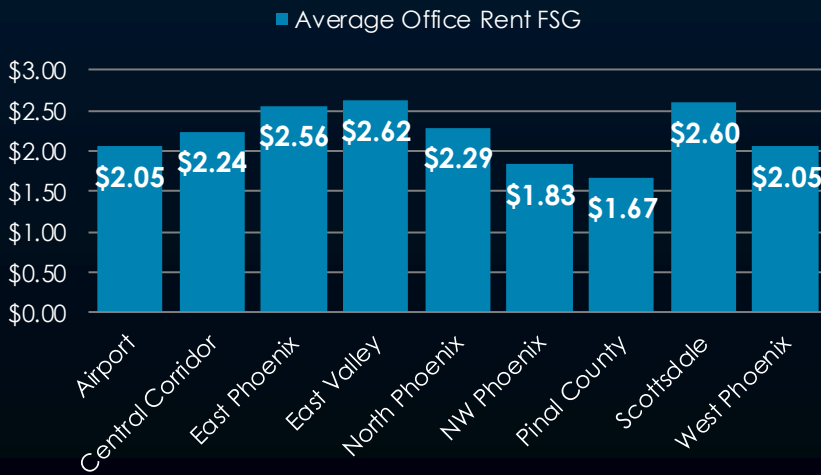
SQUARE FOOT BREAKDOWN- 129,961,232 SF MARKET SIZE



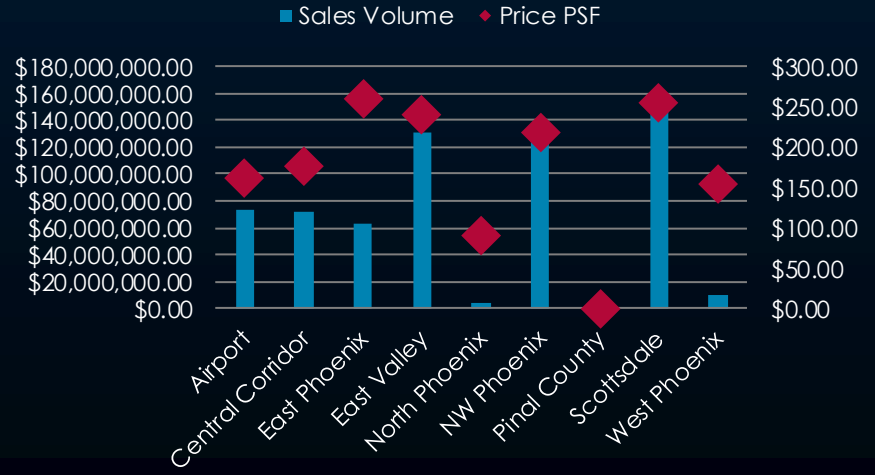
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

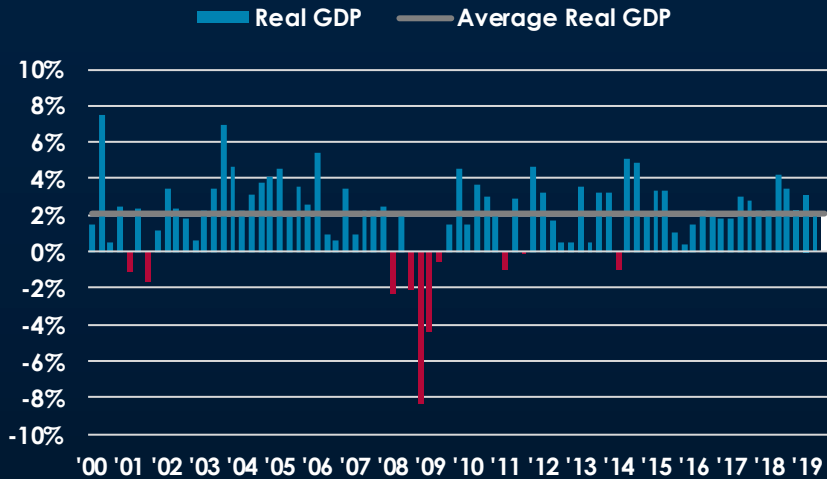
Economic Overview



Q3 2019

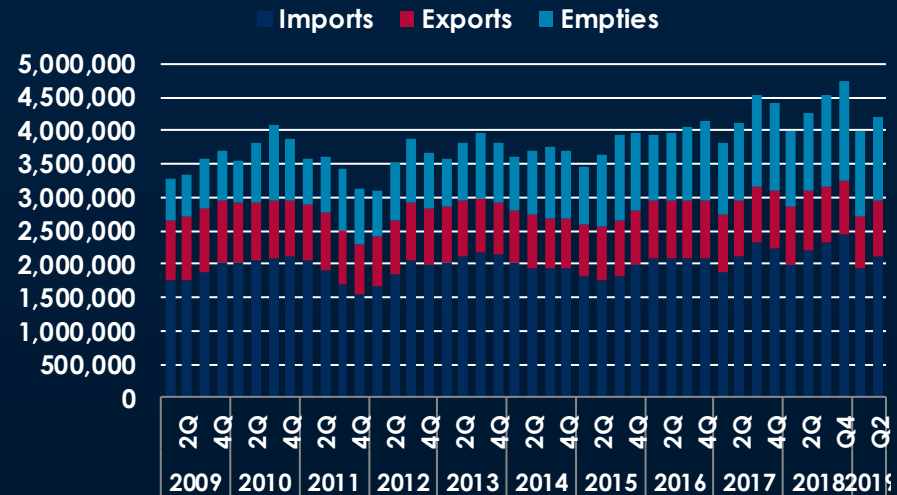
Although all information is furnished regarding for sale, rental or financing is from sources deemed reliable, such information has not been verified and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, changes of 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%

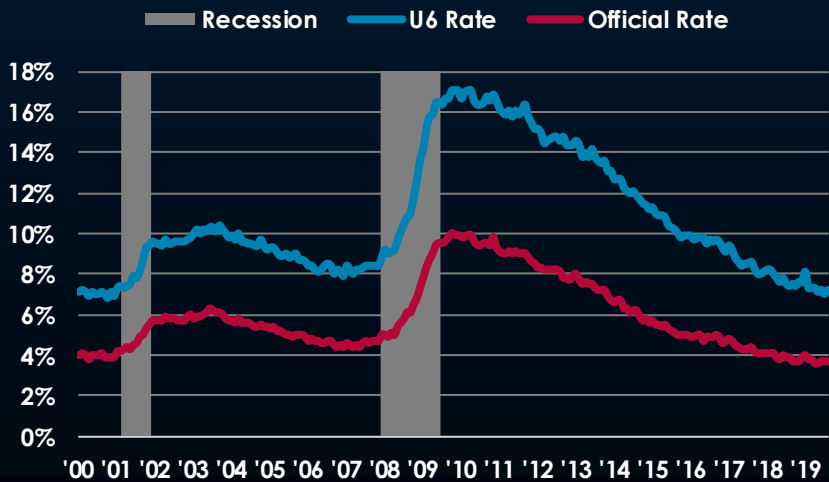


*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

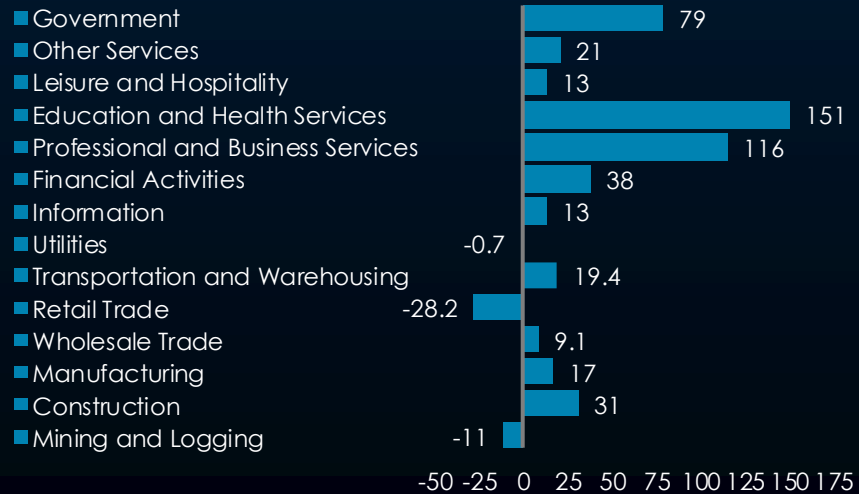
PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1



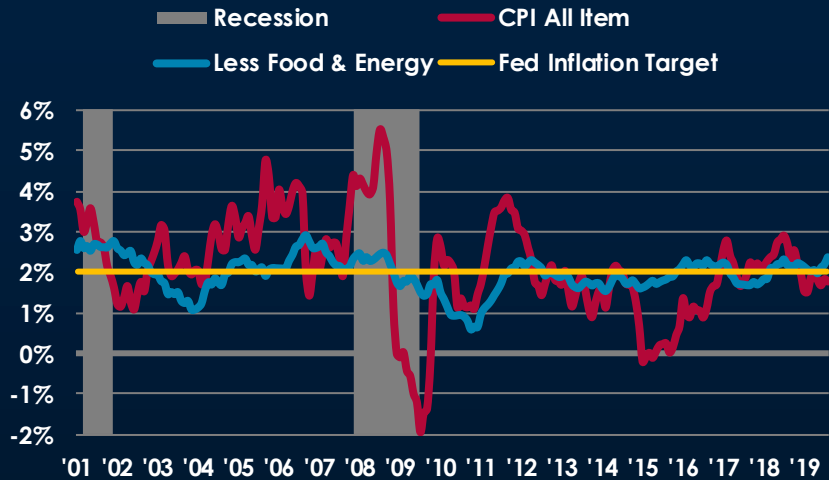
UNEMPLOYMENT CONTINUES DOWNWARD TREND



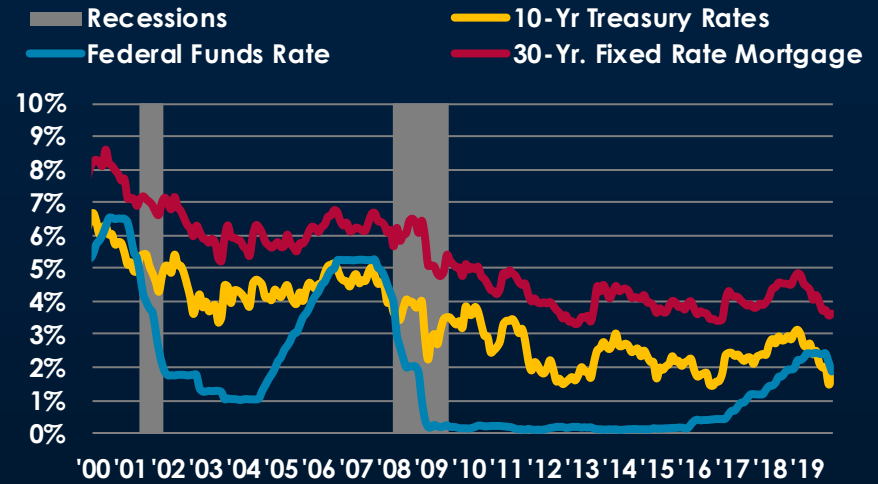
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



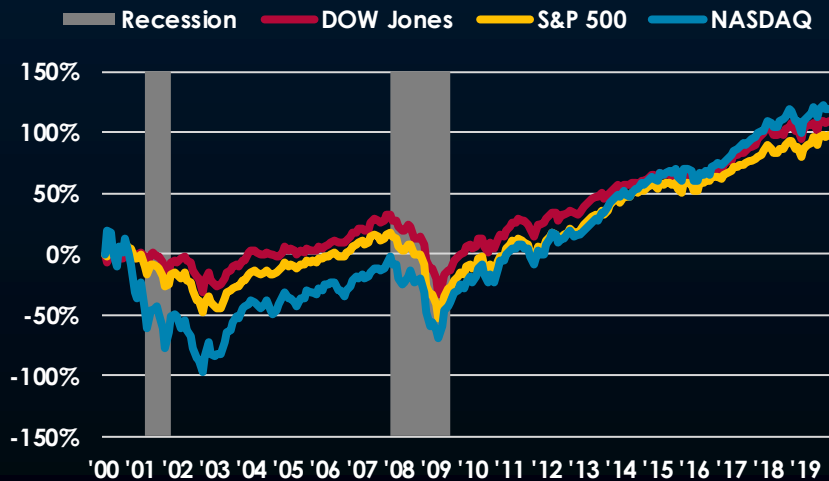
CPI JUST BELOW 2% TARGET



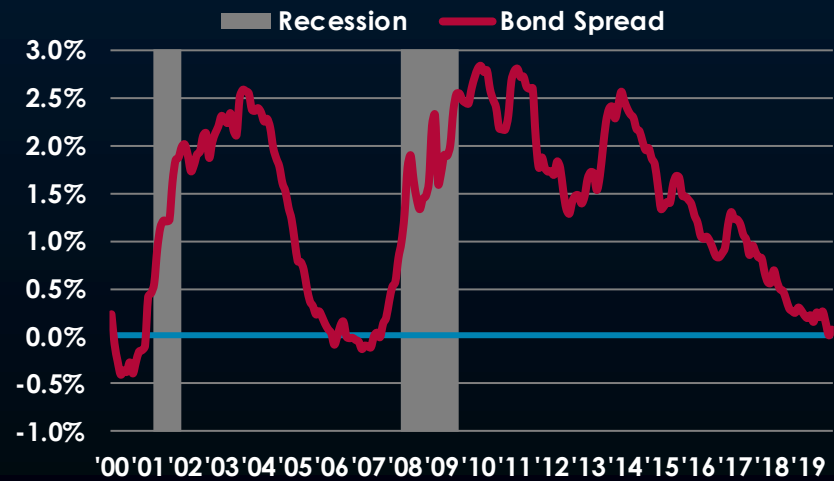
THE YIELD CURVE REMAINS INVERTED



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