

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2022

Market Report

Los Angeles Office

LA North



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MARKET REPORT Q4

Office 2022 Los Angeles North



MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Increased by 87 bps from Q3 to 17.3% in Q4. The highest rate since Q3 2011.
- **Net Absorption:** Declined 322K SF from Q3, totaling -542K SF in Q4.
- **Sales:** Volume in Q4 totaled \$81.1M from 3 sales. The median price PSF in Q4 was \$355.56.
- **Asking Rents:** Increased by \$0.03 PSF or 0.9% to a rate of \$3.24 PSF in Q4.

ECONOMIC OUTLOOK

- **Interest Rates:** The FOMC decided to increase interest rates twice in Q4. In November there was a 75 bps hike & after some positive economic data the increase lessened to 50 bps. This current rate hike cycle is the fastest in history. Rate hikes are expected to continue in 2023, but at a slower pace.
- **Inflation:** Appears to have peaked, but still causing pain in the U.S. economy.
- **Supply Chain:** The Freightos Baltic Index, cost from China/East Asia to North America West Coast declined 53% over Q4, ending at \$1,382 per container. Rates have fallen 92% since 2021.


Direct Vacancy
⬆ 15.3%


Net Absorption
⬆ -541,985 SF


Overall Vacancy
⬆ 17.3%


Gross Absorption
⬆ 1,002,970 SF


Under Construction
⬆ 1,409,909 SF


Rental Rates (FSG)
⬆ \$3.24


Median Sale \$/SF
⬆ \$355.56


Deal Volume
⬆ \$81.1M


U.S. Employment
⬆ 3.5%


U6 Rate
⬆ 6.5%


Interest Rate
⬆ 6.4%
(30 year fixed)


Changing GDP
⬆ 3.9%


Port Traffic Y/Y Δ
⬆ 6.0%


NYSE Performance
⬆ 7.1%


Inflation Change
⬆ 7.1%


10 Yr. - 2 Yr. Spread
⬆ -53 BPS

EXPERIENCE IN A CHANGING MARKET

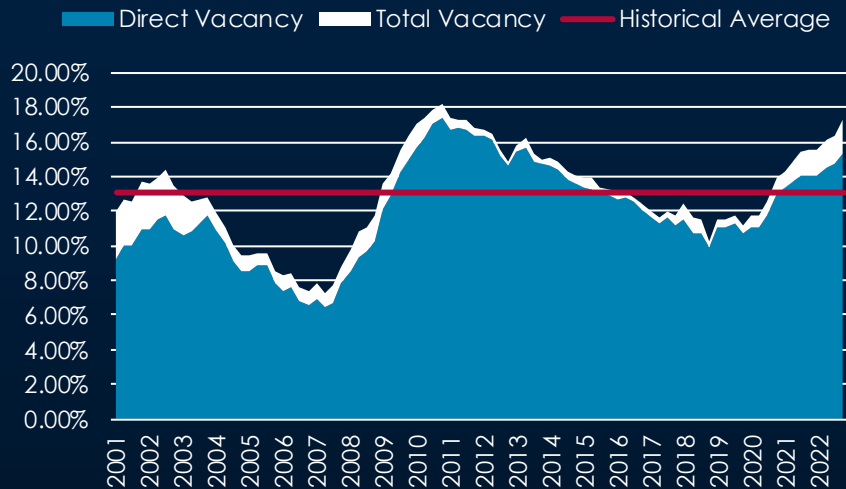
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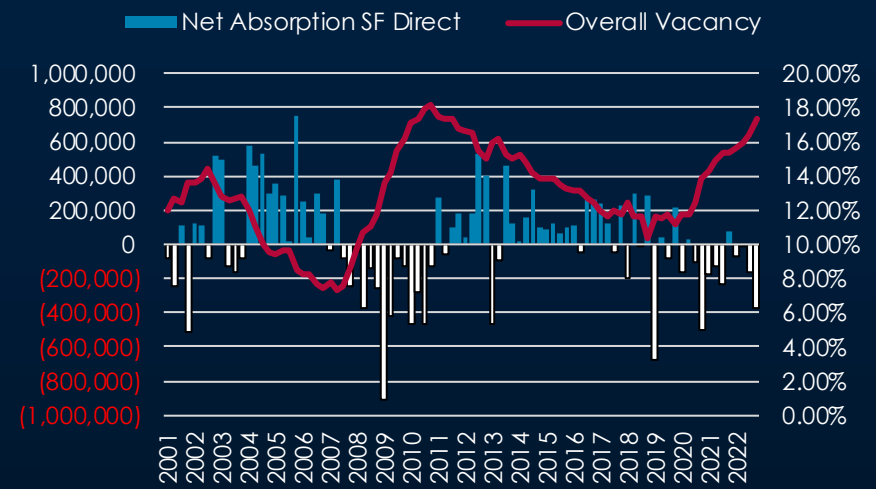
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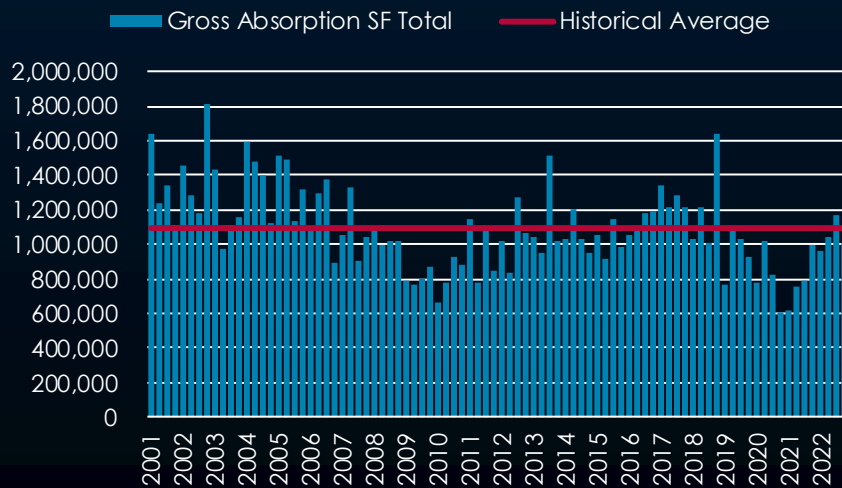
OVERALL VACANCY INCREASED BY 87 BPS FROM Q3 TO 17.3% IN Q4



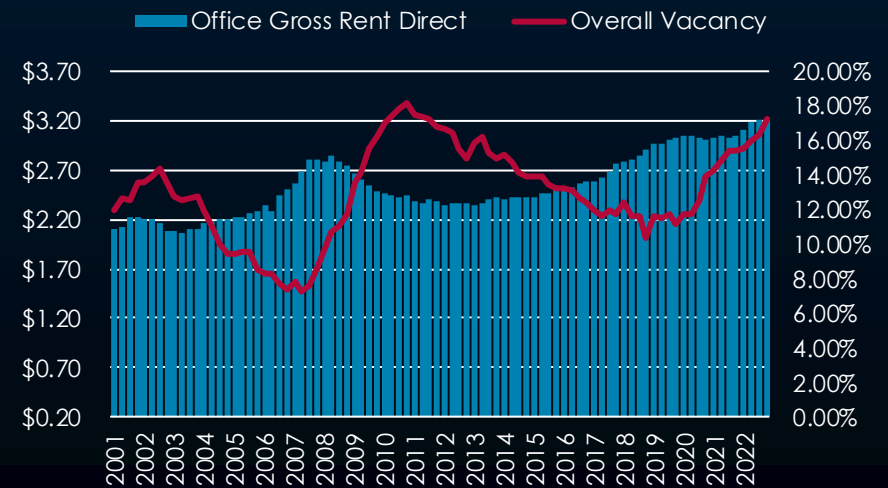
NET ABSORPTION FELL BY 322K SF OVERALL FROM Q3 TO -542K SF IN Q4



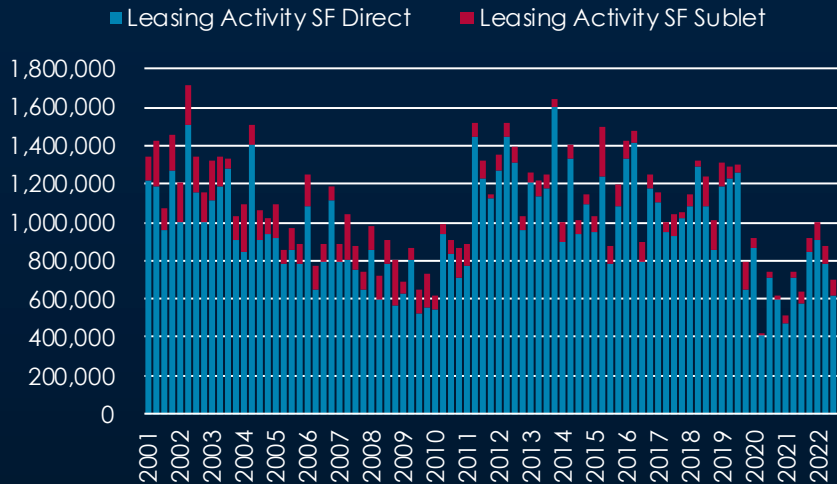
GROSS ABSORPTION DECLINED BY 13.9% FROM Q3 TO 1M SF IN Q4



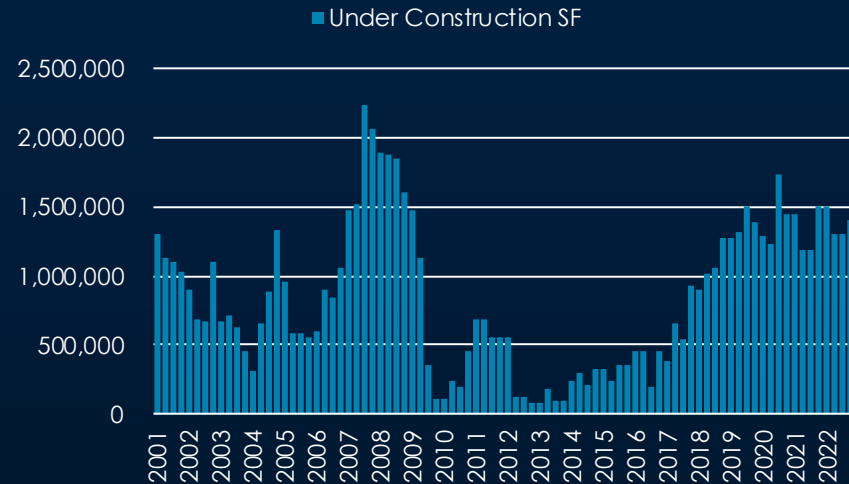
ASKING RENTS INCREASE OF \$0.03 PSF OR 0.9% FROM Q3 TO \$3.24 PSF IN Q4



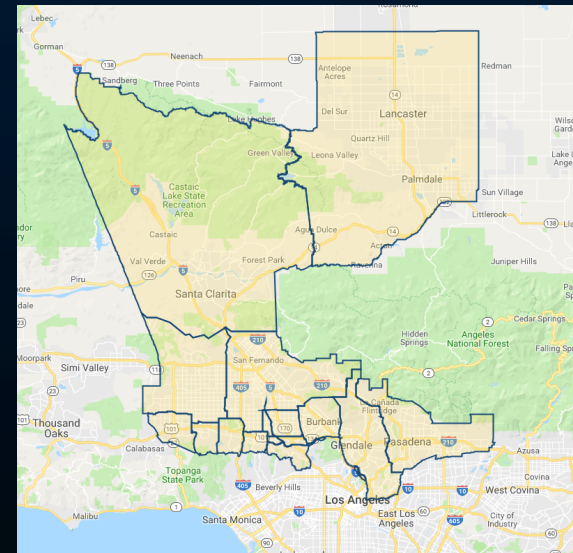
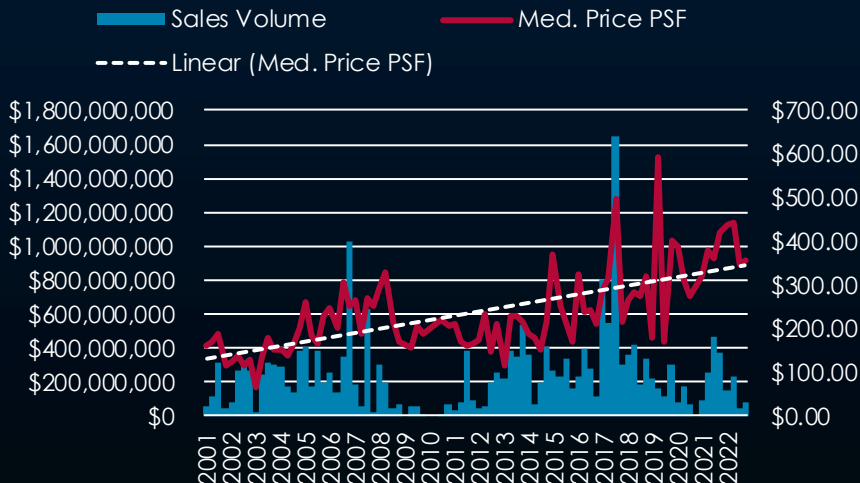
LEASING ACTIVITY INCREASED BY 3.8% FROM Q3 TO 724K SF IN Q4



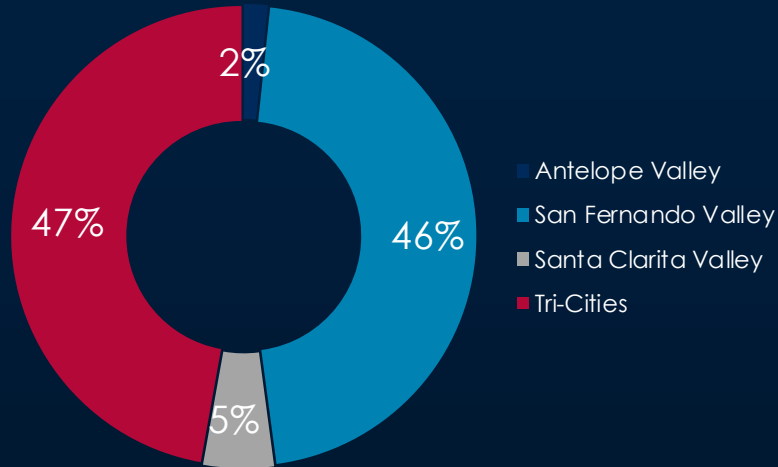
CONSTRUCTION ACTIVITY NO DELIVERIES IN Q4. UC REVISED TO 1.4M SF



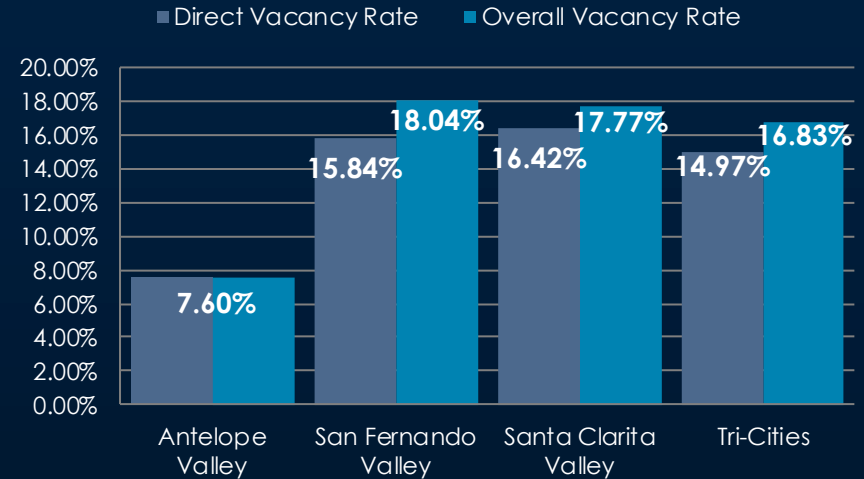
SALES 3 SALES IN Q4 TOTALING \$81.1M IN VOLUME. PRICE PSF OF \$355.56



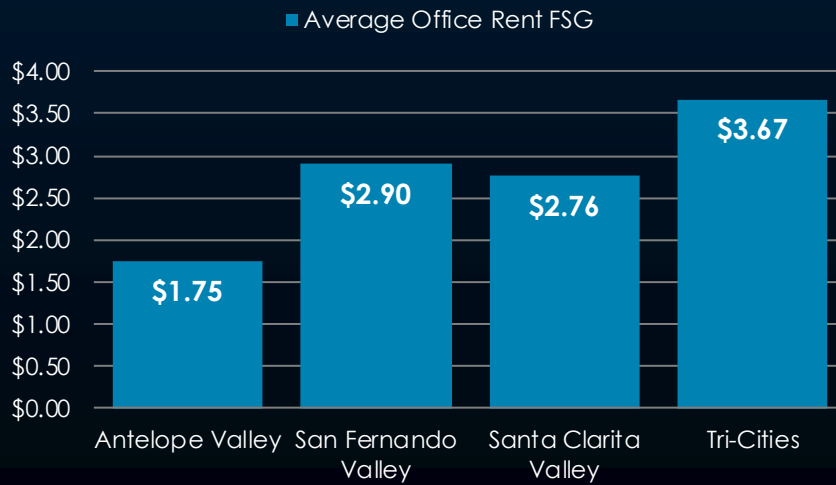
SQUARE FOOT BREAKDOWN- 57,879,935 SF MARKET SIZE



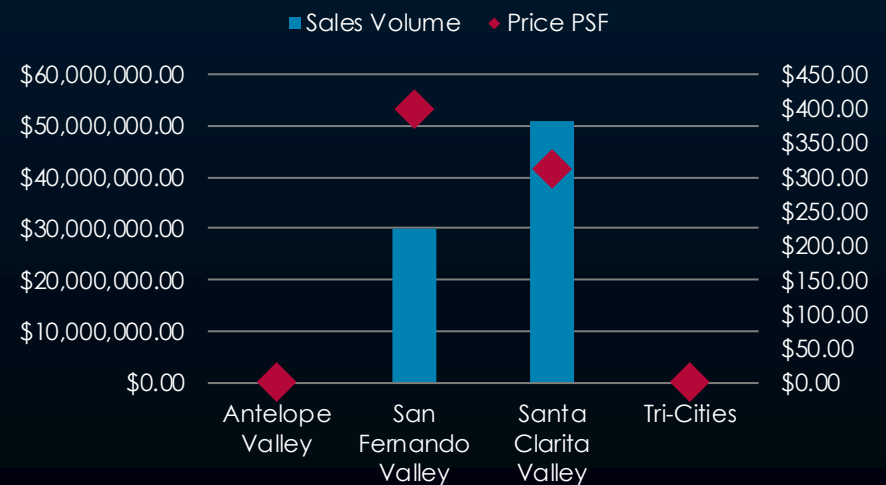
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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 2022

New buildings with original construction completed in the year 2022 and granted a Certificate of Occupancy. Renovated buildings are not included.



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Economic Overview

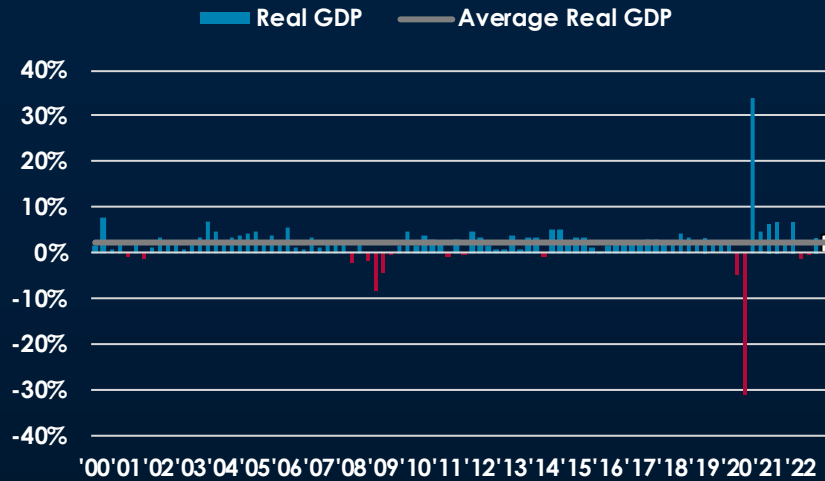


Q4 2022

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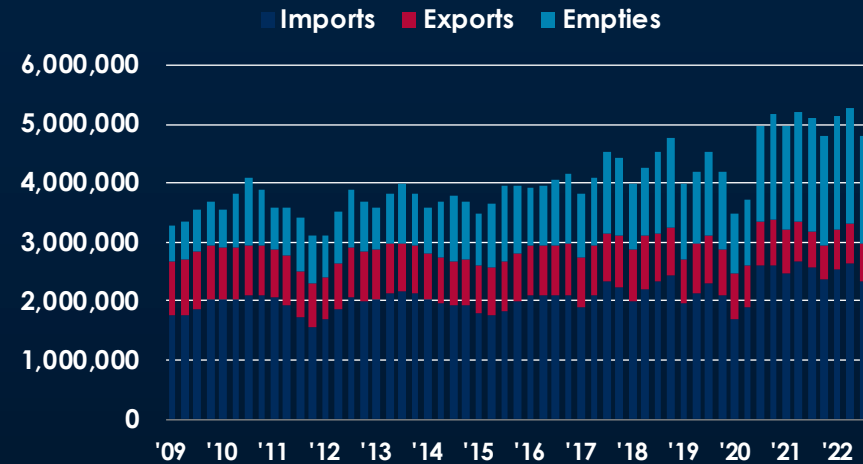
Q4 Market Report

GDP IN Q3 FINISHED AT 3.2%. Q4 EST. TO INCREASE AT 3.9%

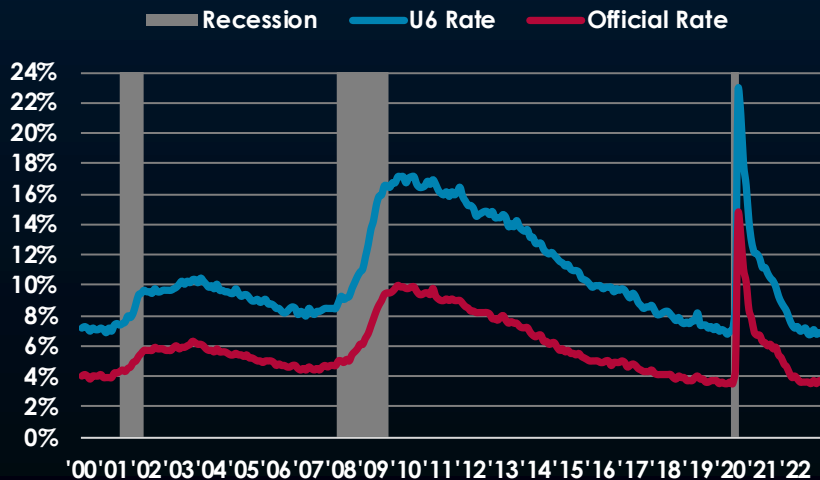


*3.9% Estimate for Q4-22 from the Federal Reserve Bank of Atlanta GDPNow

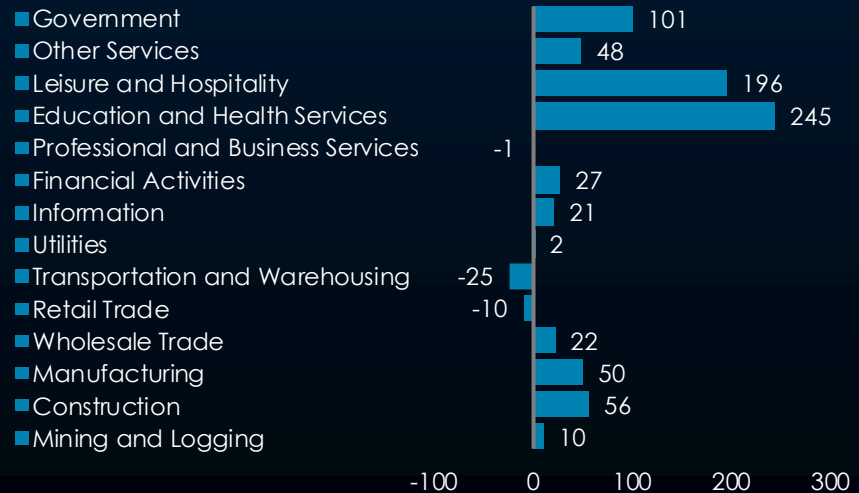
PORT ACTIVITY WAS DOWN 6.0% Y/Y IN Q3 & DOWN 9.4% FROM Q2



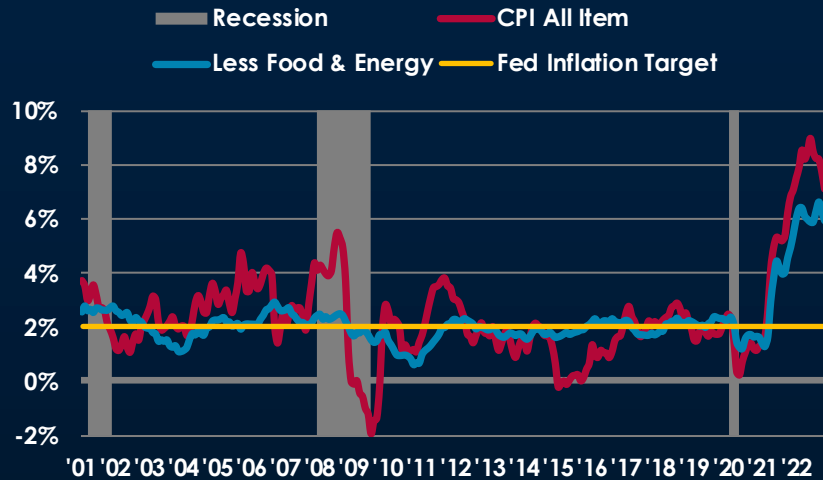
UNEMPLOYMENT CONTINUES TO BE STICKY AS THE FED TIGHTENS



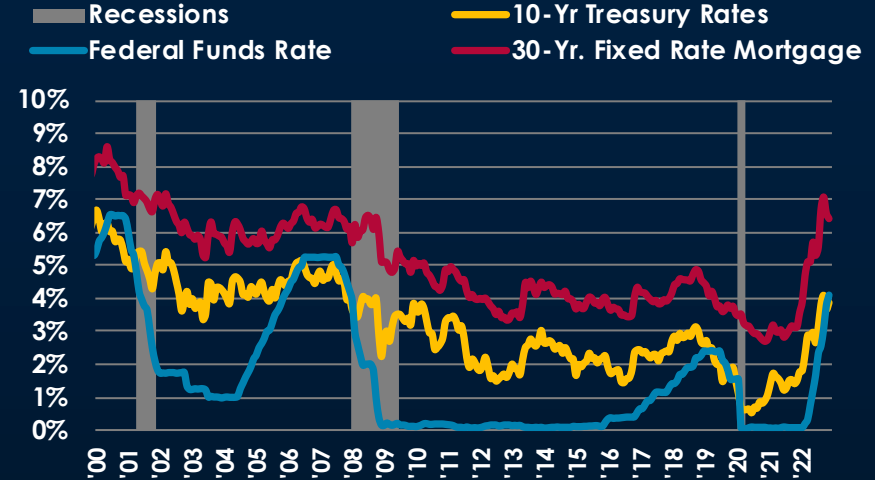
LEISURE & HOSPITALITY; EDUCATION & HEALTH SERVICES LED IN Q4



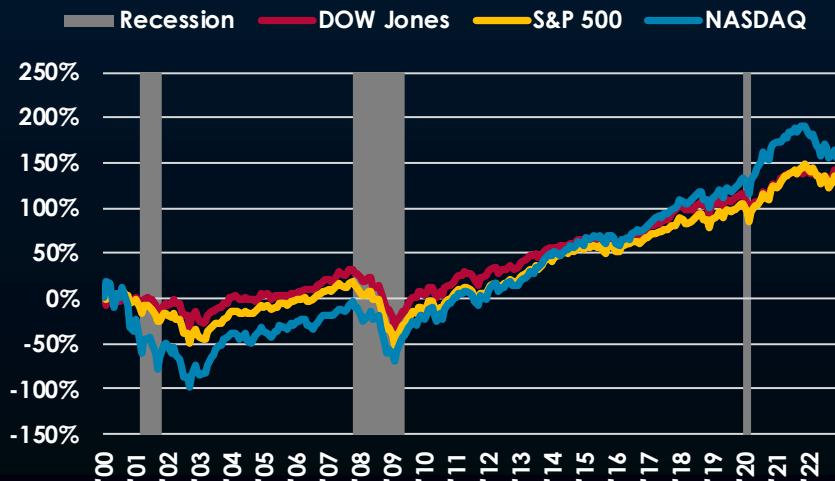
CPI HAS PEAKED BUT STILL CAUSING PAIN IN THE ECONOMY



THE FED CONTINUED ITS AGGRESSIVE RATE HIKES IN Q4



2022 STOCK MARKET RETURNS WORST SINCE 2008



10-2 YEAR SPREAD INVERTED DEEPER IN Q4 ENDING AT -53 BPS

