

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2023

Market Report

Los Angeles Office

Central / Southeast



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MARKET REPORT Q3

Office 2023 Los Angeles Central/ Southeast



MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Drop of 103 bps from Q2 to 21.3%.
- **Net Absorption:** Surged to over 1M SF in Q3.
- **Sales:** No recorded sales in Q3.
- **Trends to Watch:** Hybrid work models appear to be the way many companies will operate going forward. As a potential recession looms over the economy, companies are beginning to reduce office footprints to lower costs. The rise in interest rates compounded with lower occupancy rates has forced some property owners to default on loans, with potentially more on the horizon.

ECONOMIC OUTLOOK

- **Interest Rates:** In July, the FOMC decided to hike interest rates 25bps to a target range of 5.25% - 5.50%. At the September meeting, the FOMC decided to pause & maintain rates at the current level. FOMC members anticipate at least one more hike to occur in 2023. The 10 Year Treasury is currently at its highest rate since 2007 given the increased economic anxiety.
- **Inflation:** Headline CPI increased in the latest August report largely due to gasoline prices. CPI remains well above the Fed's 2% target rate.
- **Supply Chain:** The cost from China/East Asia to North America West Coast increased 41.5% over Q3, ending at \$1,687 per container. (Freightos)


Direct Vacancy
✓ 19.7%


Net Absorption
▲ 1,012,943 SF


Overall Vacancy
✓ 21.3%


Gross Absorption
▲ 2,891,315 SF


Under Construction
✓ 418,900 SF


Rental Rates (FSG)
✓ \$3.10


Median Sale \$/SF
✓ N/A


Deal Volume
✓ N/A


U.S. Employment
▲ 3.8%


U6 Rate
▲ 7.1%


Interest Rate
▲ 7.3%
(30 year fixed)


Changing GDP
✓ 2.1%


Port Traffic Y/Y Δ
✓ 16.8%


NYSE Performance
✓ 3.5%


Inflation Change
▲ 3.7%


10 Yr. - 2 Yr. Spread
▲ -44 BPS

EXPERIENCE IN A CHANGING MARKET

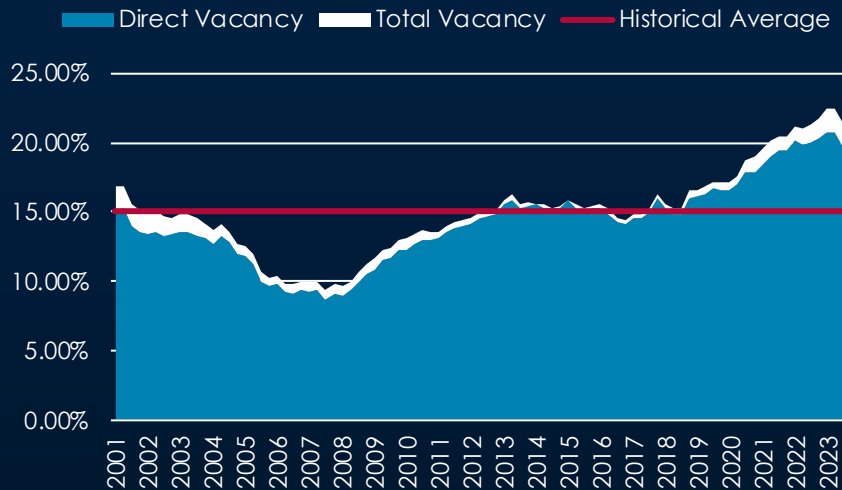
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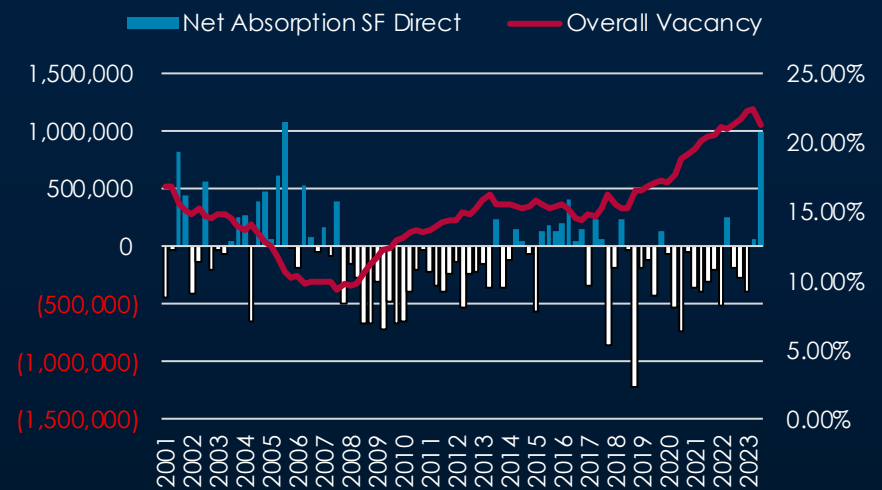
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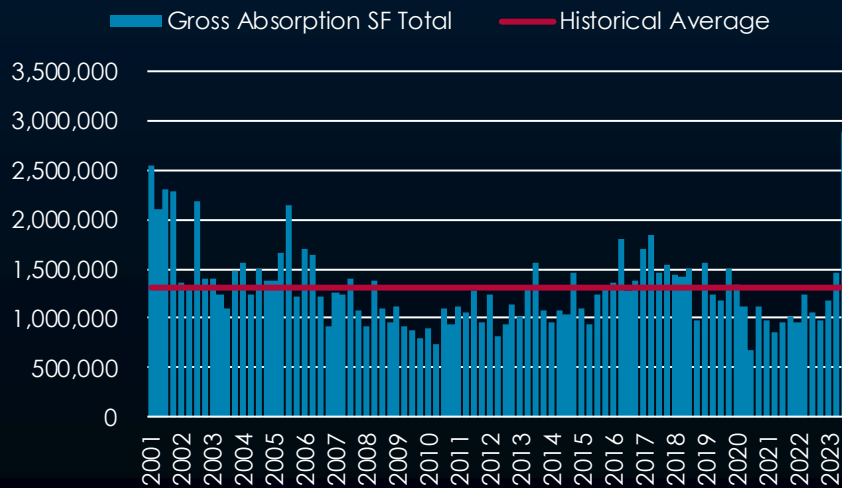
OVERALL VACANCY DECLINE OF 103 BPS FROM Q2 TO 21.3% IN Q3



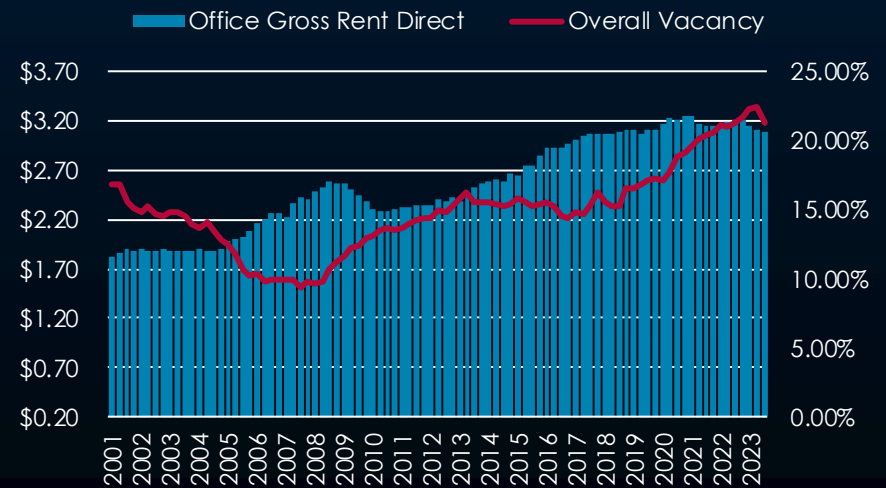
NET ABSORPTION SPIKED IN Q3 TO OVER 1M SF



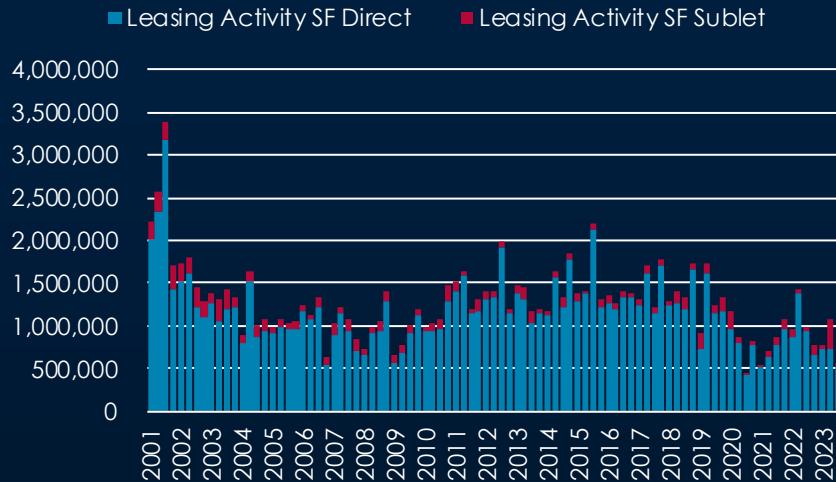
GROSS ABSORPTION INCREASED BY 99% FROM Q2 TO 2.89M SF IN Q3



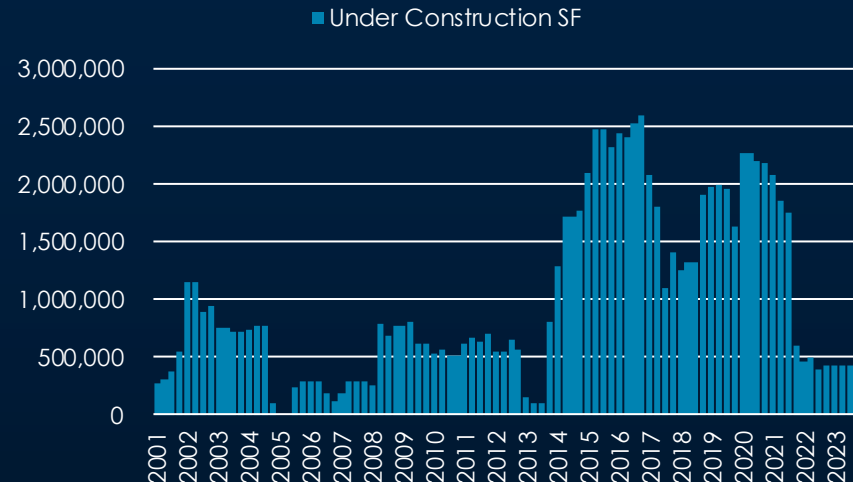
ASKING RENTS FELL 0.3% OR \$0.01 PSF FROM Q2 TO \$3.10 PSF IN Q3



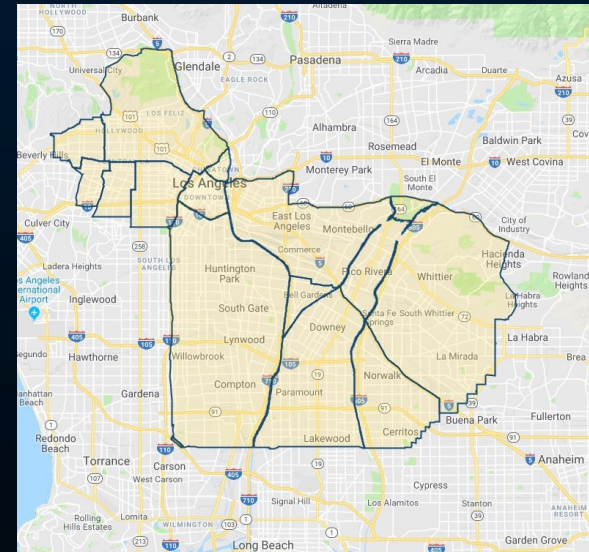
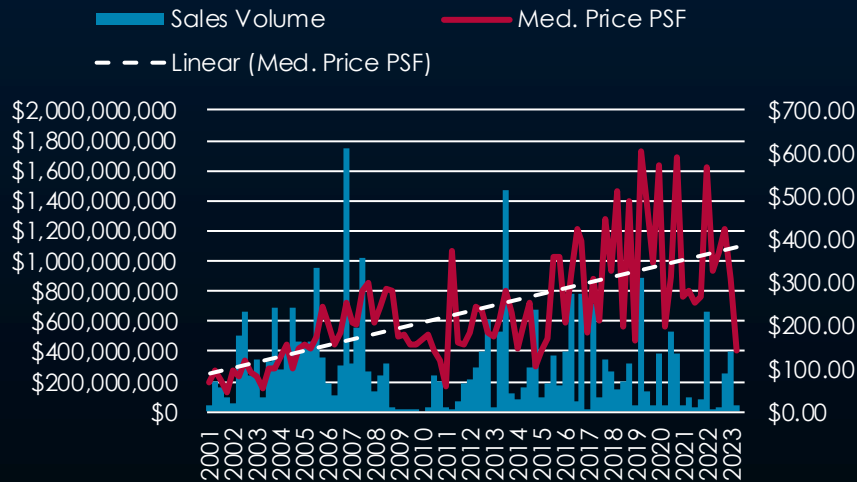
LEASING ACTIVITY DECLINED BY 47.9% FROM Q2 TO 558K SF IN Q3



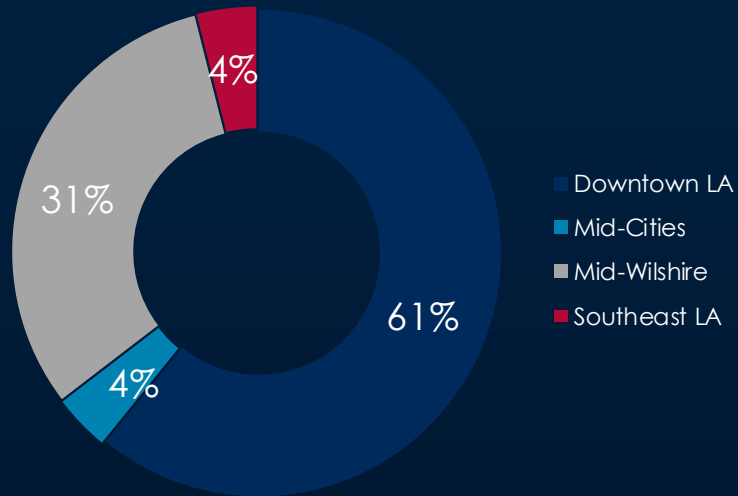
CONSTRUCTION ACTIVITY ONE DELIVERY IN Q3 OF 125K SF. UC REVISED TO 419K SF



SALES NO RECORDED SALES IN Q3

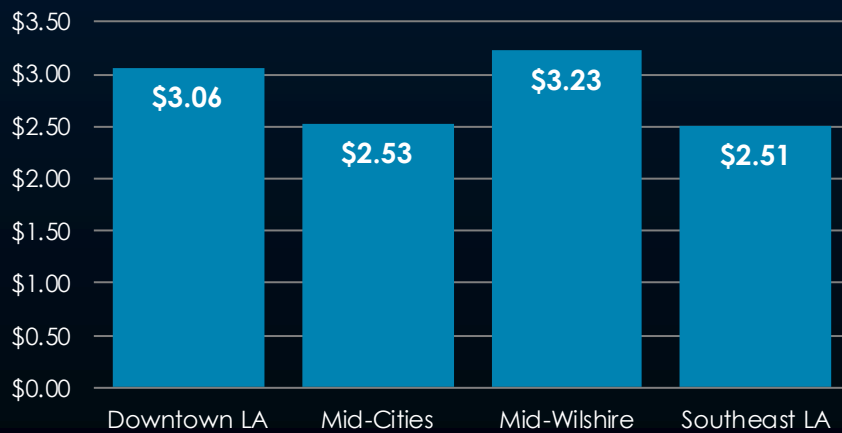


SQUARE FOOT BREAKDOWN- 89,016,931 SF MARKET SIZE



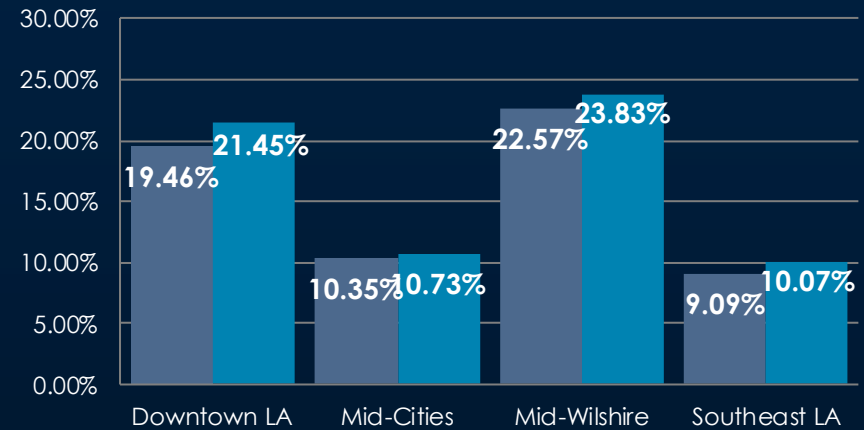
AVERAGE RENT PSF

■ Average Office Rent FSG



VACANCY BREAKDOWN

■ Direct Vacancy Rate ■ Overall Vacancy Rate



VOLUME BREAKDOWN

■ Sales Volume ◆ Price PSF



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

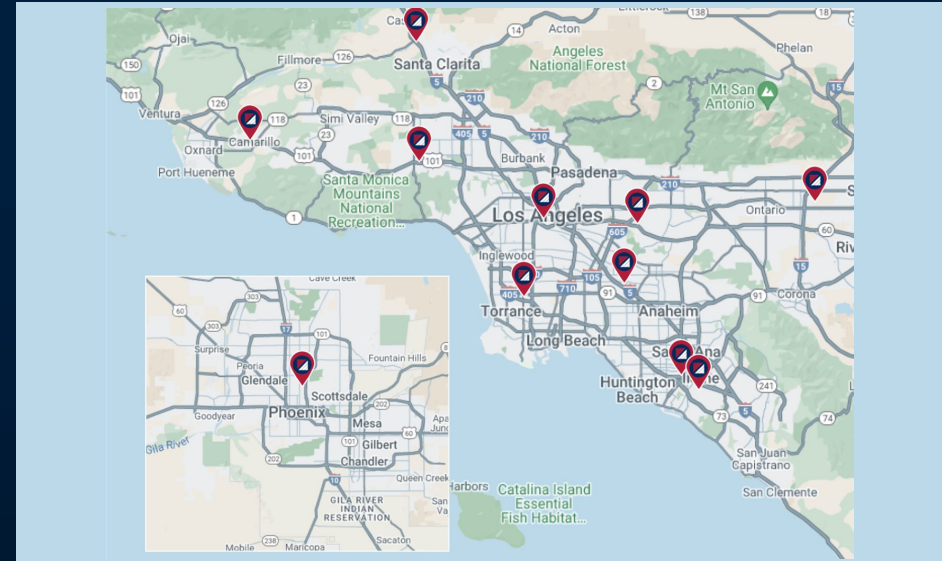
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

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 2023

New buildings with original construction completed in the year 2023 and granted a Certificate of Occupancy. Renovated buildings are not included.



MARKET	OFFICE ADDRESS	PHONE NUMBER
LOS ANGELES	801 S FIGUEROA ST. SUITE 600 LOS ANGELES, CA 90017	213-626-9101
LOS ANGELES NORTH	21820 BURBANK BLVD. SUITE 130 WOODLAND HILLS, CA 91367	818-887-3600
SANTA CLARITA VALLEY	27200 TOURNEY RD. SUITE 425 VALENCIA, CA 91355	661-705-2299
SAN GABRIEL VALLEY	13181 CROSSROADS PKWY N. SUITE 100 CITY OF INDUSTRY, CA 91746	562-695-7244
SOUTH BAY	19191 S VERMONT AVE. SUITE 850 TORRANCE, CA 90502	310-538-6700
MID-COUNTIES	13810 CERRITOS CORPORATE DR. SUITE C CERRITOS, CA 90703	562-207-3300
ORANGE COUNTY	4400 MACARTHUR BLVD. SUITE 950 NEWPORT BEACH, CA 92660	949-724-1900
VENTURA COUNTY	751 DAILY DR. SUITE 105 CAMARILLO, CA 93010	805-987-8866
INLAND EMPIRE	3595 E INLAND EMPIRE BLVD. BLDG 5 ONTARIO, CA 91764	909-980-1234
PHOENIX	1702 E HIGHLAND AVE. SUITE 120 PHOENIX, AZ 85016	602-957-7300
INVESTMENT DIVISION	650 TOWN CENTER DR. SUITE 120 COSTA MESA, CA 92626	949-341-4500

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Economic Overview

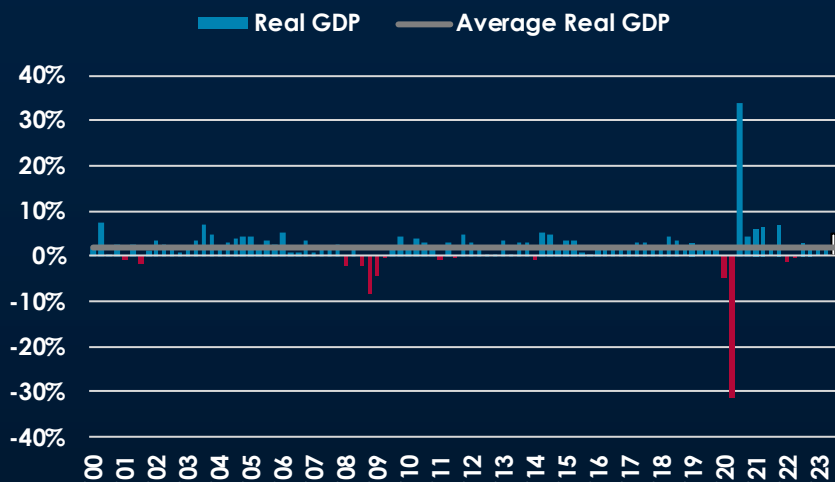


Q3 2023

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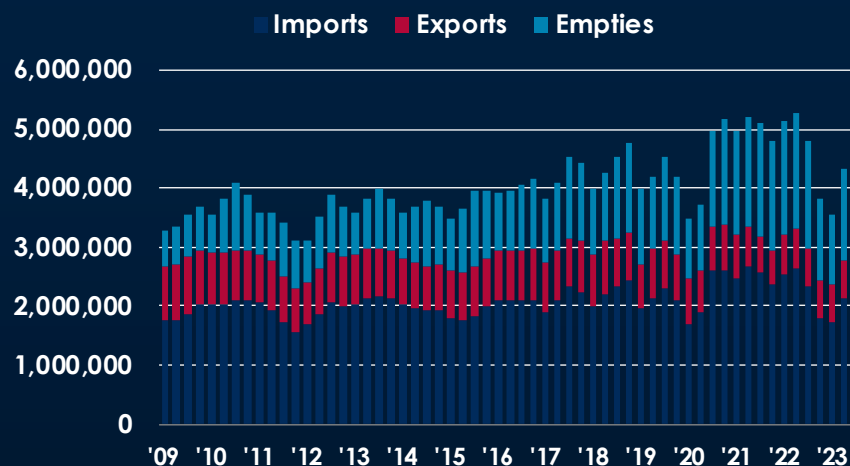
Q3 Market Report

GDP IN Q2 FINISHED AT 2.1%. Q3 ESTIMATE AT 4.9% PER GDPNOW

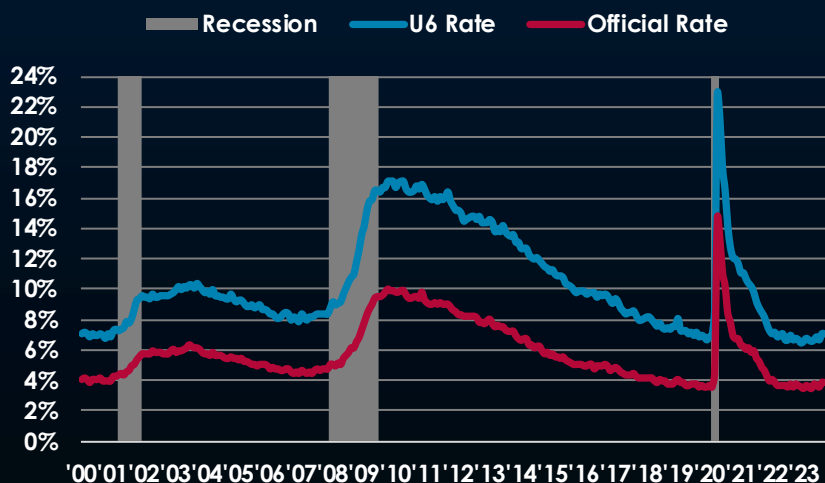


*4.9% Estimate for Q3-23 from the Federal Reserve Bank of Atlanta GDPNow

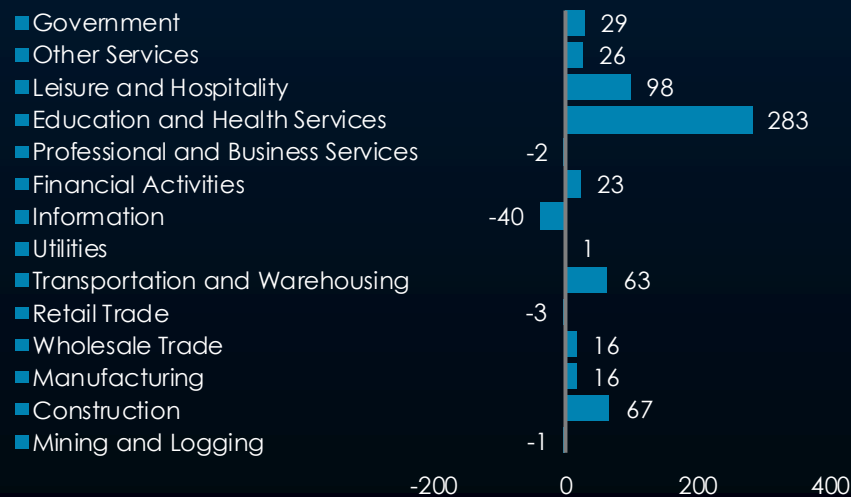
PORT ACTIVITY IN Q2 WAS DOWN 18.3% Y/Y. QTD Q3 DOWN 16.8% Y/Y



UNEMPLOYMENT CONTINUES TO BE STICKY IN Q3

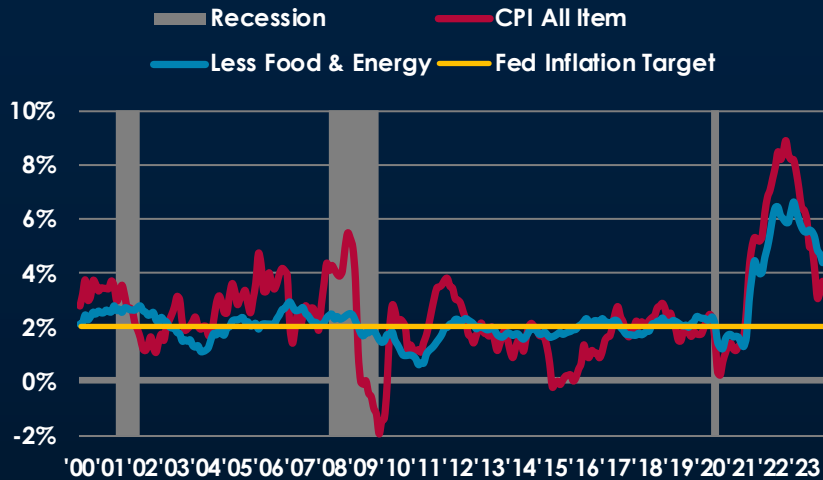


EDUCATION & HEALTH SERVICES LED JOB GAINS IN Q3

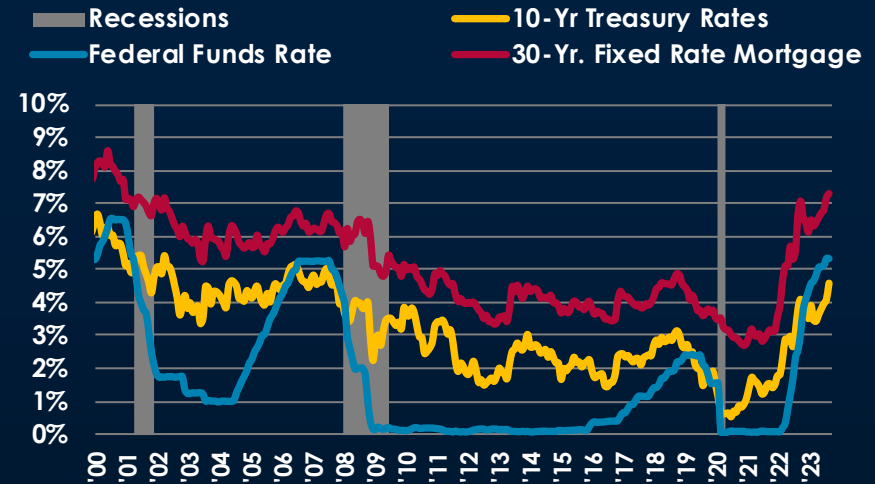


Q3 Market Report

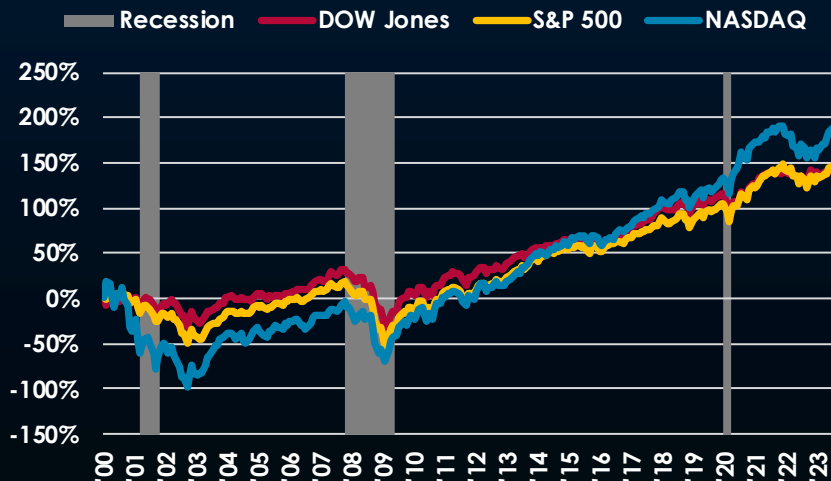
INCREASE IN GAS PRICES PUSHED CPI HIGHER IN LATEST AUG. REPORT



THE FED HELD RATES AGAIN IN SEPTEMBER. 10YR UP 78 BPS IN Q3



THE MAJOR INDEXES WERE DOWN AN AVERAGE 3.5% IN Q3



10-2 YEAR SPREAD NARROWED IN Q3 ENDING AT -44 BPS

