

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2023

Market Report

Phoenix Office



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Overall vacancy increased by 56 bps to 21.6% in Q3. The amount of vacant sublet space continues to increase, surpassing 6.1M SF in Q3.
- **Net Absorption:** Remains negative, totaling -747K SF.
- **Leasing Activity:** Declined by 18.8% in Q3 1.86M SF.
- **Sales:** In Q3, the median price PSF was \$192.68. Volume was up 27.2% in Q3 totaling \$218.7M. The largest sale of Q3 was 3131-3133 E Camelback Rd. in the East Phoenix submarket, which sold for \$72.1M at \$242.21 PSF.

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
⬆ 17.0%


Net Absorption
⬆ -747,365 SF


Overall Vacancy
⬆ 21.6%


Gross Absorption
⬇ 2,767,059 SF


Under Construction
⬆ 956,088 SF


Rental Rates (FSG)
⬆ \$2.49


Median Sale \$/SF
⬇ \$192.68


Deal Volume
⬇ \$218.7M


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

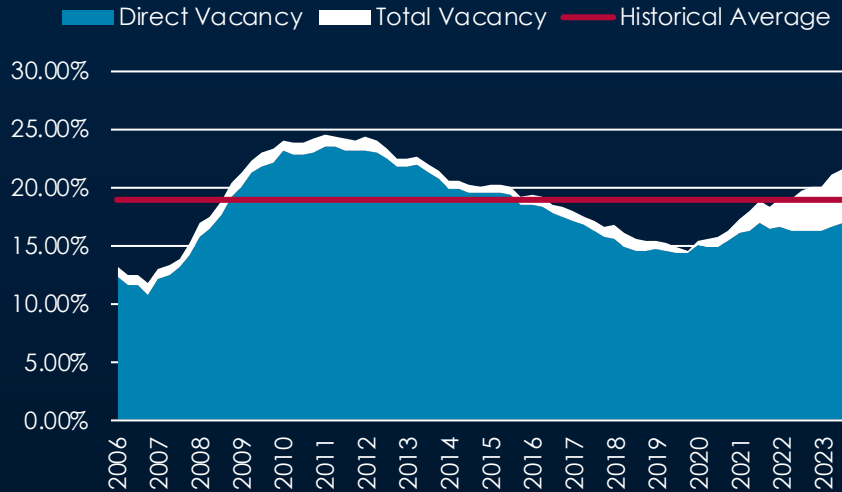
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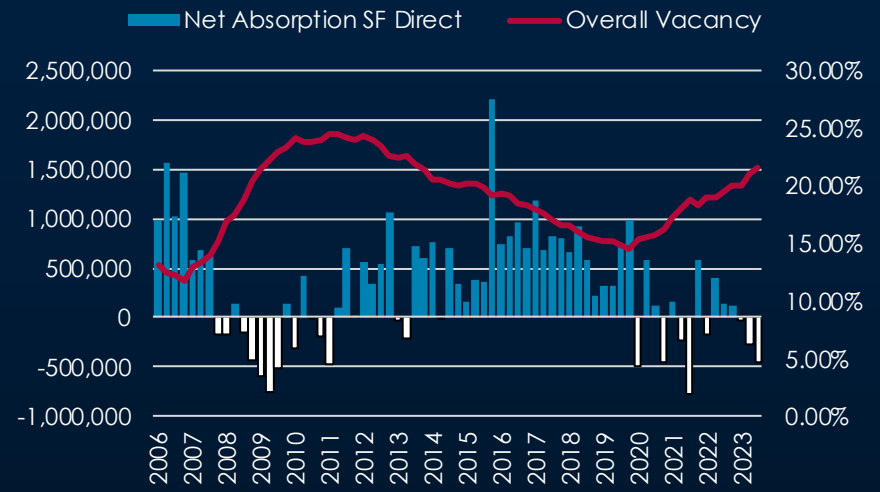
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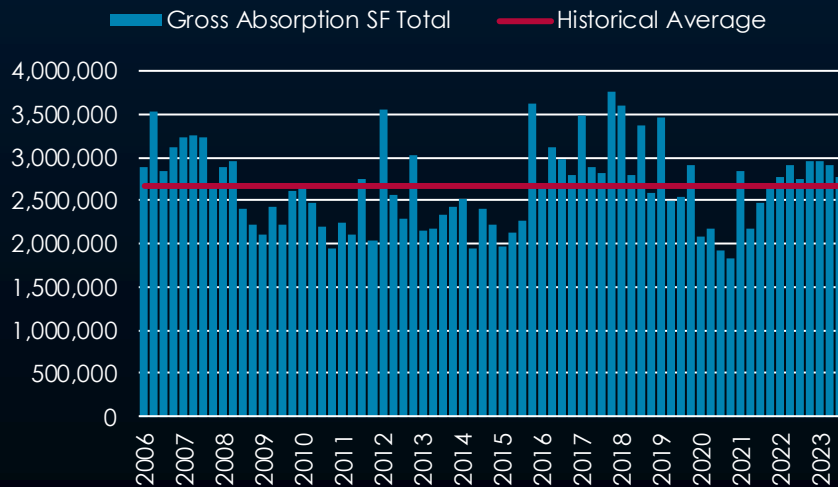
OVERALL VACANCY INCREASED BY 56 BPS IN Q3 TO 21.6%



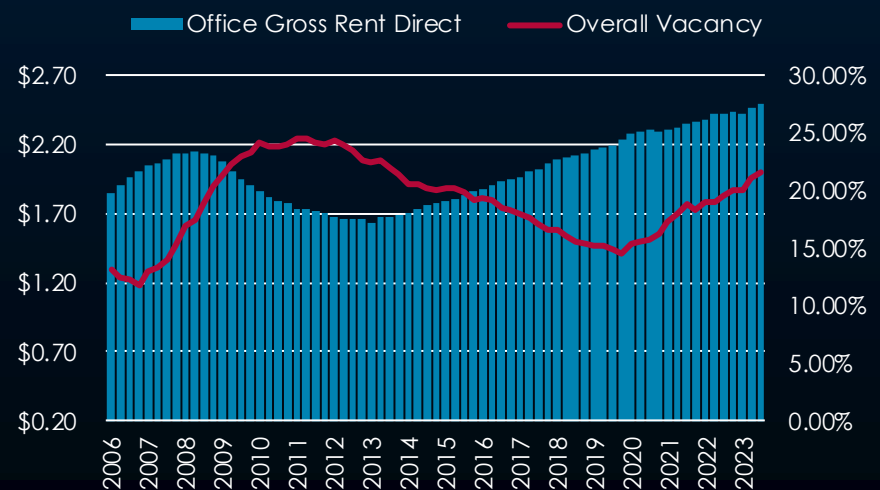
NET ABSORPTION REMAINS NEGATIVE IN Q3 TOTALING -747K SF



GROSS ABSORPTION DECLINED BY 5.4% FROM REVISED Q2 TO 2.77M SF IN Q3

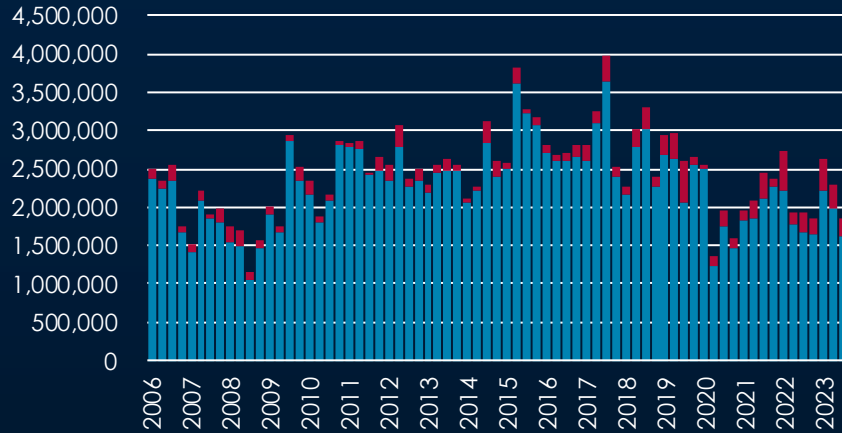


ASKING RENTS INCREASED BY \$0.02 OR 0.8% FROM Q2 TO \$2.49 PSF IN Q3



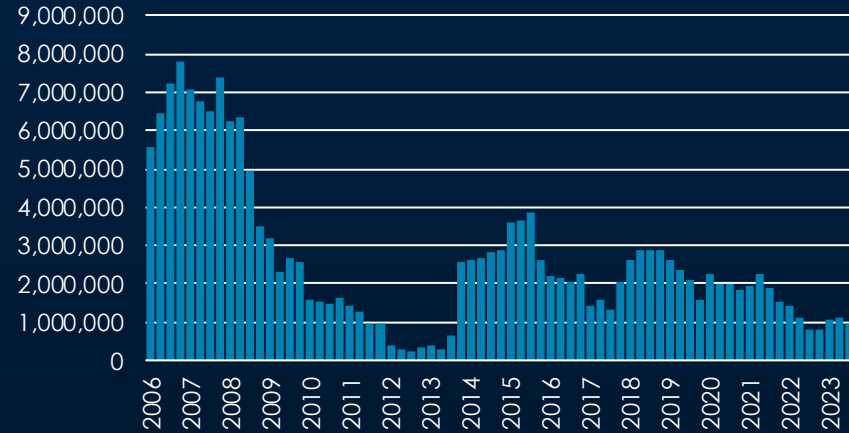
LEASING ACTIVITY DECLINED BY 18.8% FROM Q2 TO 1.86M SF IN Q3

■ Leasing Activity SF Direct ■ Leasing Activity SF Sublet



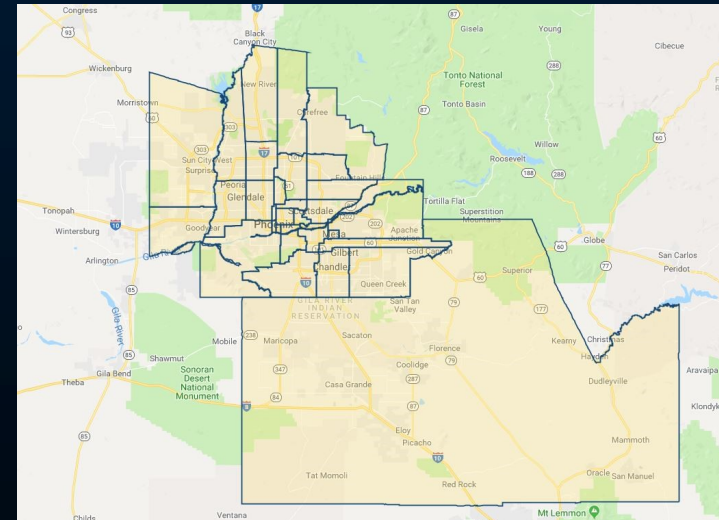
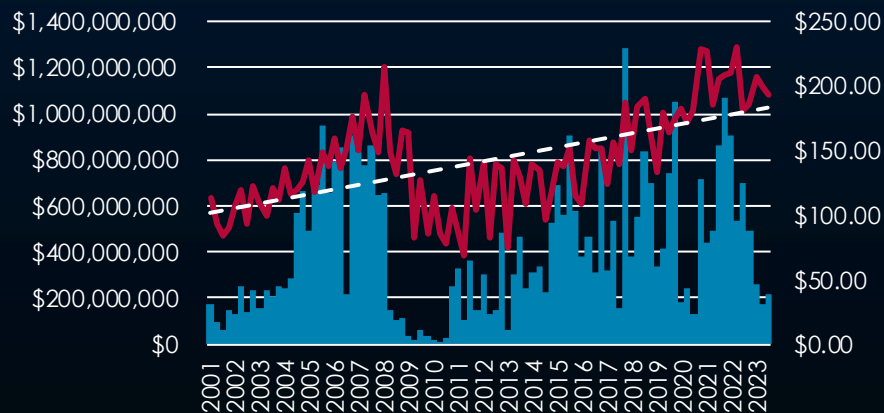
CONSTRUCTION ACTIVITY 208K SF WAS DELIVERED IN Q3. UC REVISED TO 956K SF

■ Under Construction SF

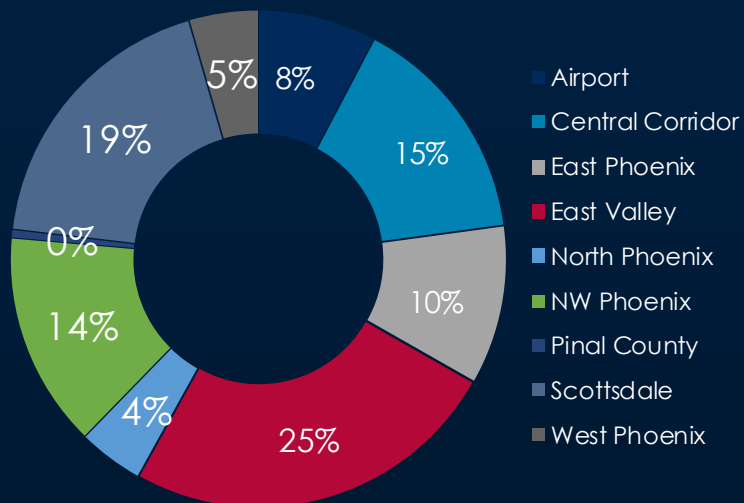


SALES THE MEDIAN PRICE IN Q3 WAS \$192.68 PSF. VOLUME WAS \$218.7M IN Q3

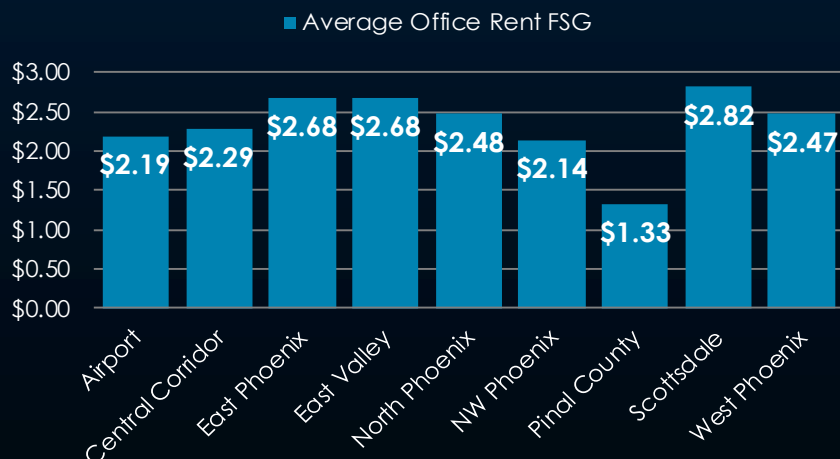
■ Sales Volume ■ Med. Price PSF
- - Linear (Med. Price PSF)



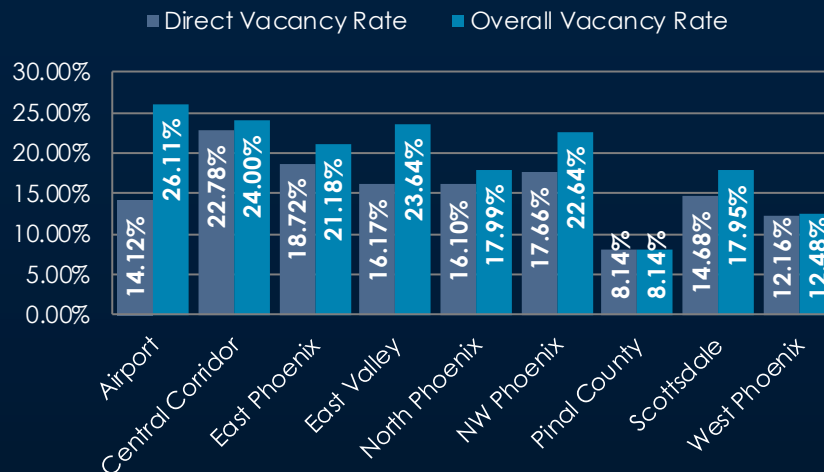
SQUARE FOOT BREAKDOWN- 132,864,722 SF MARKET SIZE



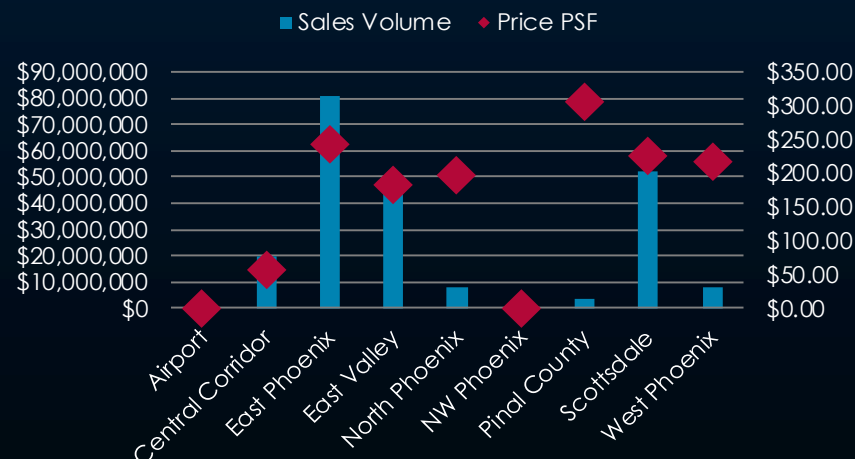
AVERAGE RENT PSF



VACANCY BREAKDOWN



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

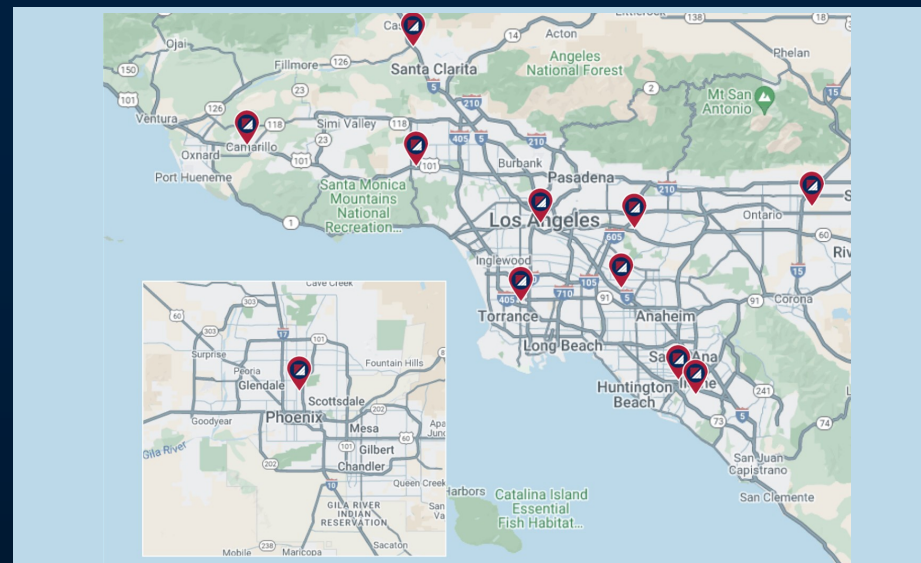
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

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 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

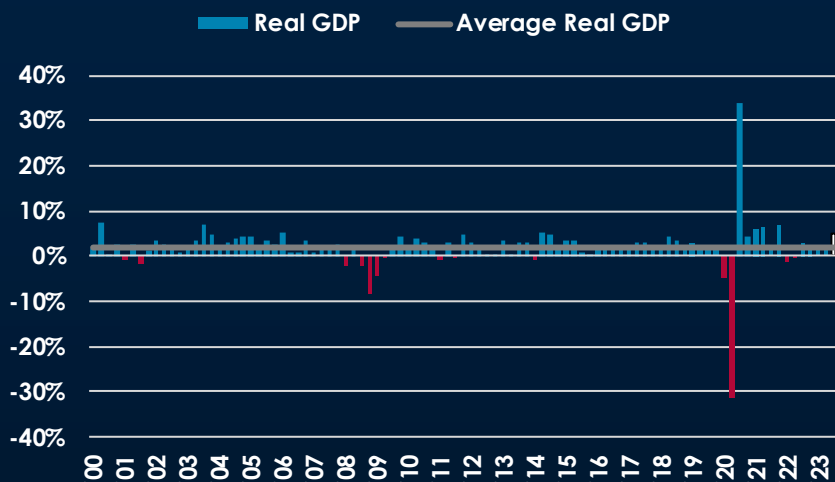


Q3 2023

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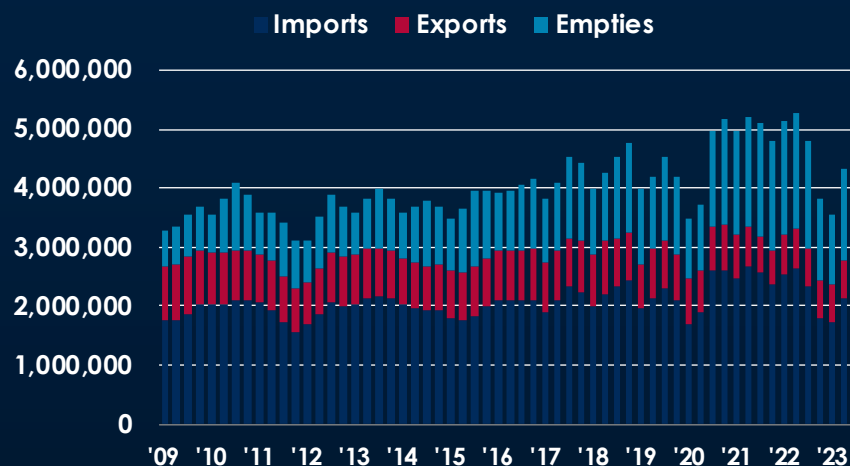
Q3 Market Report

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

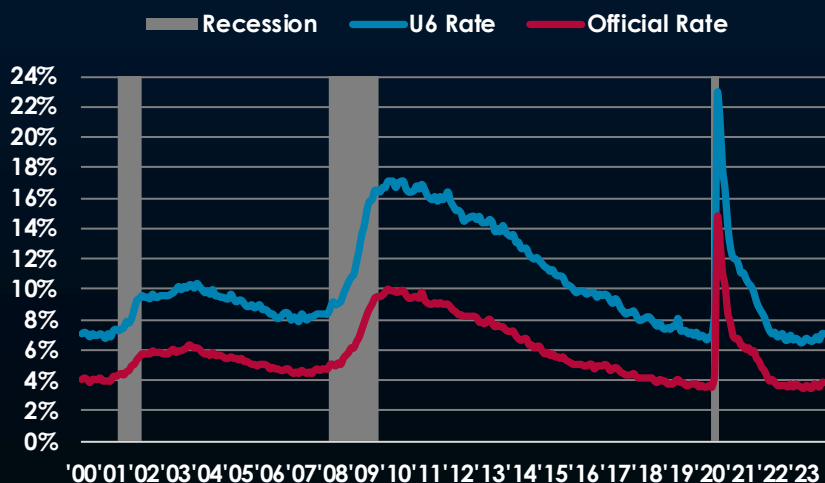


*4.9% Estimate for Q3-23 from the Federal Reserve Bank of Atlanta GDPNow

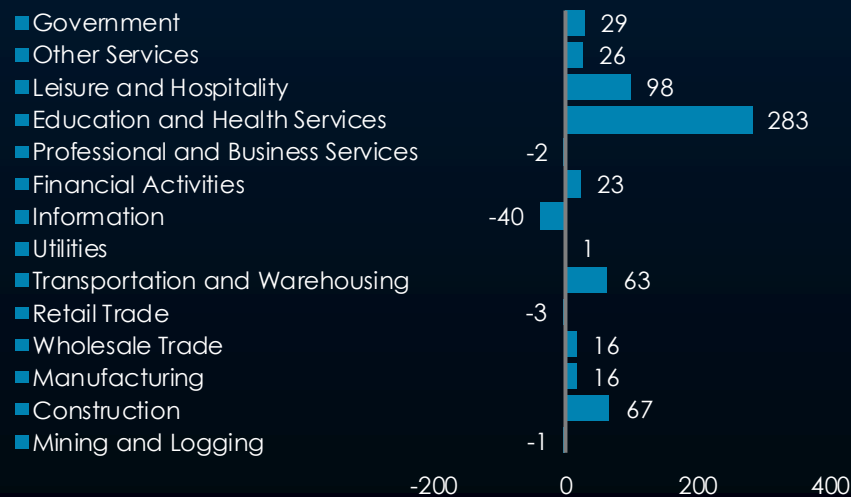
PORT ACTIVITY IN Q2 WAS DOWN 18.3% Y/Y. QTD Q3 DOWN 16.8% Y/Y



UNEMPLOYMENT CONTINUES TO BE STICKY IN Q3

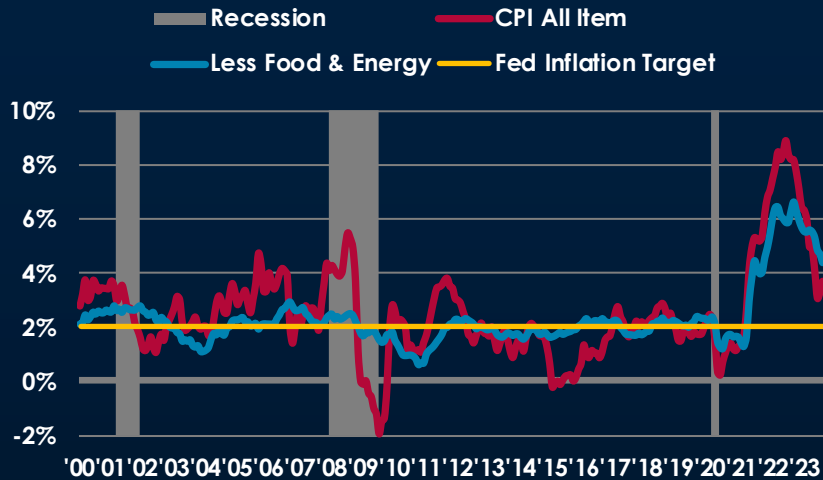


EDUCATION & HEALTH SERVICES LED JOB GAINS IN Q3

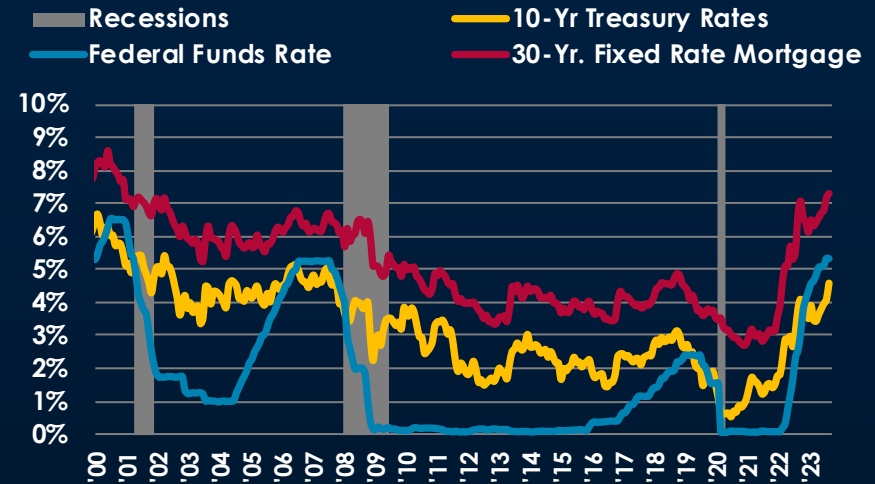


Q3 Market Report

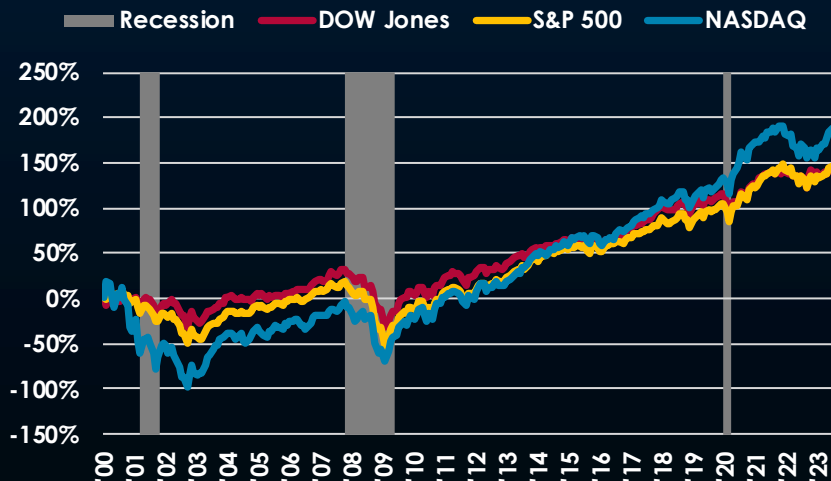
INCREASE IN GAS PRICES PUSHED CPI HIGHER IN LATEST AUG. REPORT



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

