

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2023

Market Report

Los Angeles Office

West/ South



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Increased 70 bps in Q3 to 23.6%.
- **Net Absorption:** Declined in Q3 totaling -612K SF.
- **Leasing:** Total leasing activity was up 24.9% in Q3 finishing at 1.36M SF.
- **Trends:** Hybrid & permanent work from home policies have pushed vacancies to record highs as many companies are relocating or have chosen to reduce footprints. Large entertainment & technology companies have started to scale back on leasing space due to challenging current business environments.

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
⬆ 20.3%


Net Absorption
⬆ -611,590 SF


Overall Vacancy
⬆ 23.6%


Gross Absorption
⬆ 1,740,740 SF


Under Construction
⬆ 1,682,630 SF


Rental Rates (FSG)
⬆ \$3.93


Median Sale \$/SF
⬆ \$663.49



Deal Volume
⬆ \$254M


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

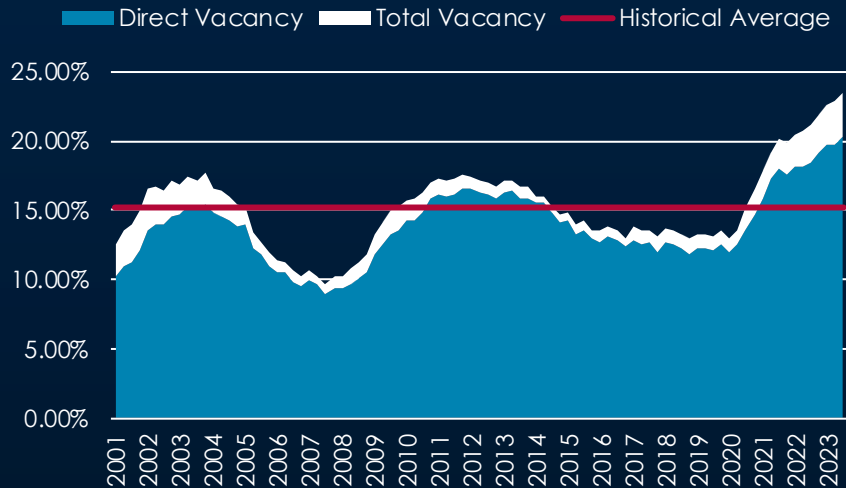
EXPERIENCE IN A CHANGING MARKET
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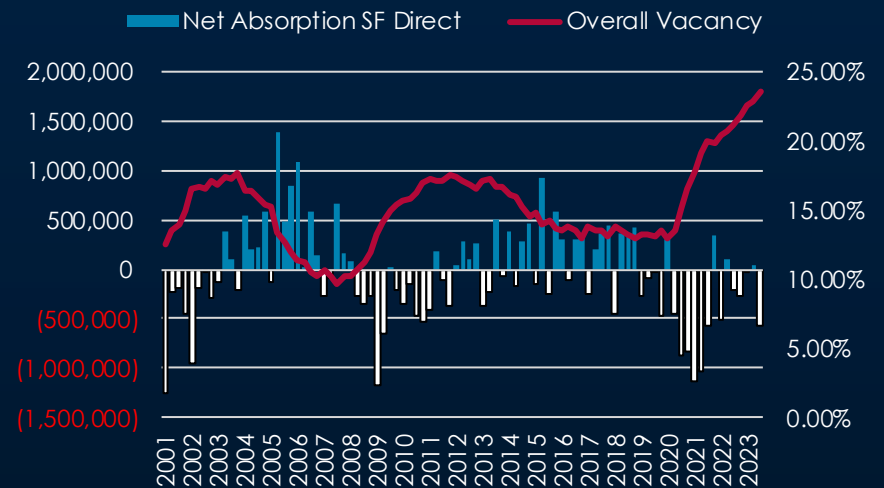
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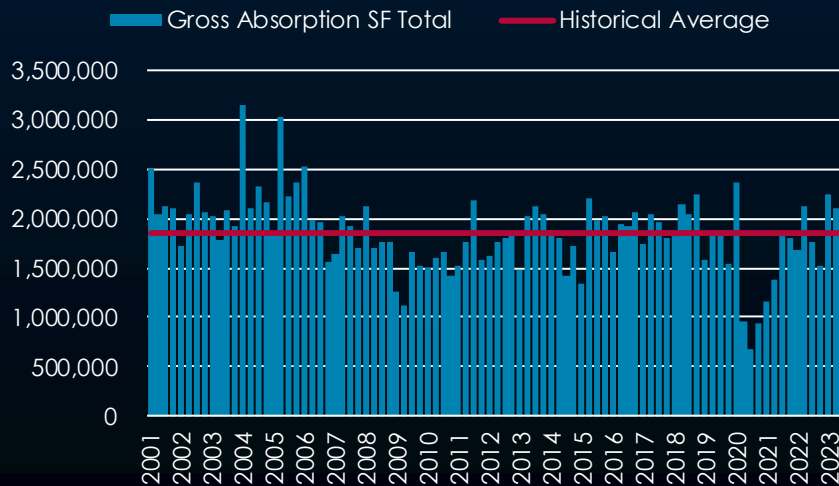
OVERALL VACANCY INCREASED BY 70 BPS FROM Q2 TO 23.6% IN Q3



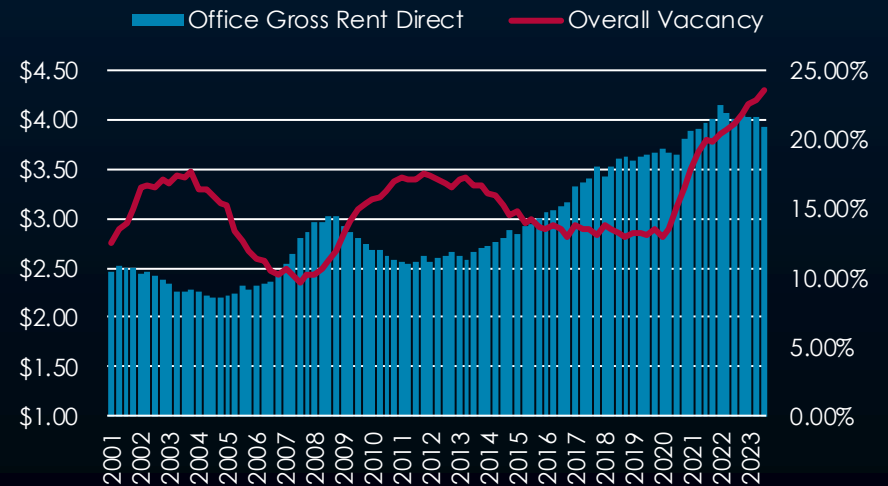
NET ABSORPTION DECLINED FROM Q2 TOTALING -612K SF IN Q3



GROSS ABSORPTION DECLINED BY 17.6% FROM Q2 TO 1.74M SF IN Q3

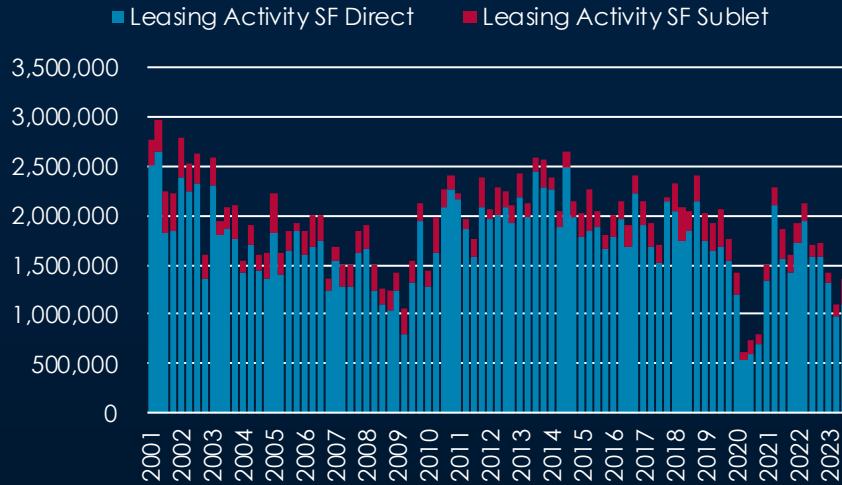


ASKING RENTS FELL \$0.11 PSF OR 2.7% FROM Q2 TO \$3.93 PSF IN Q3

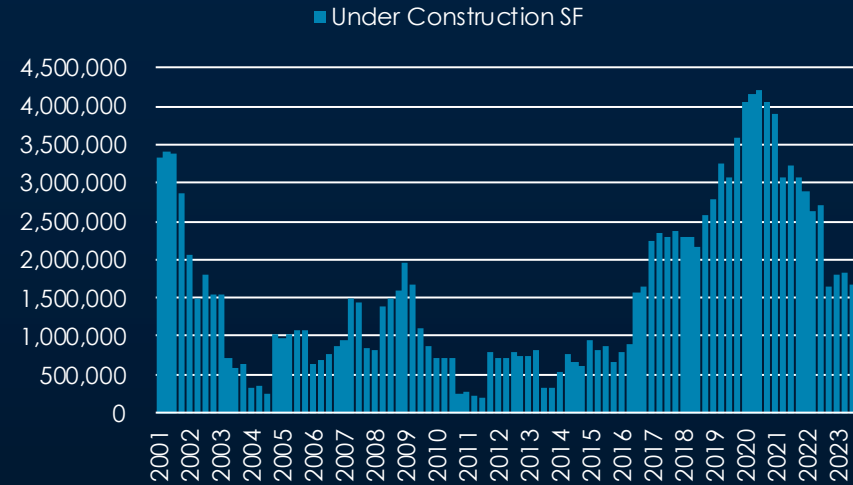


Q3 Market Report

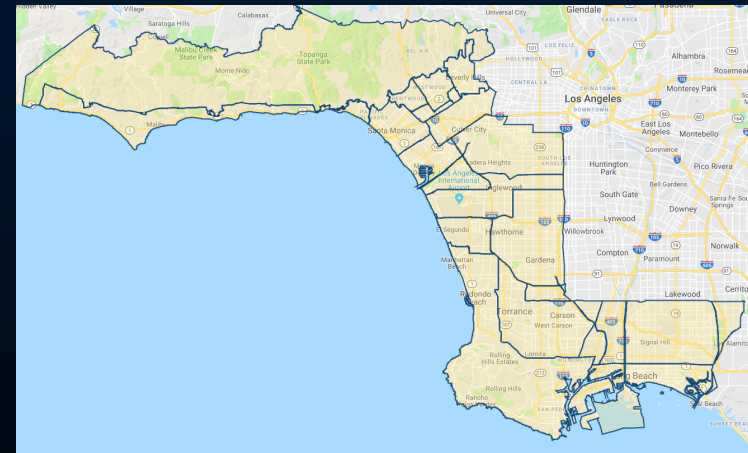
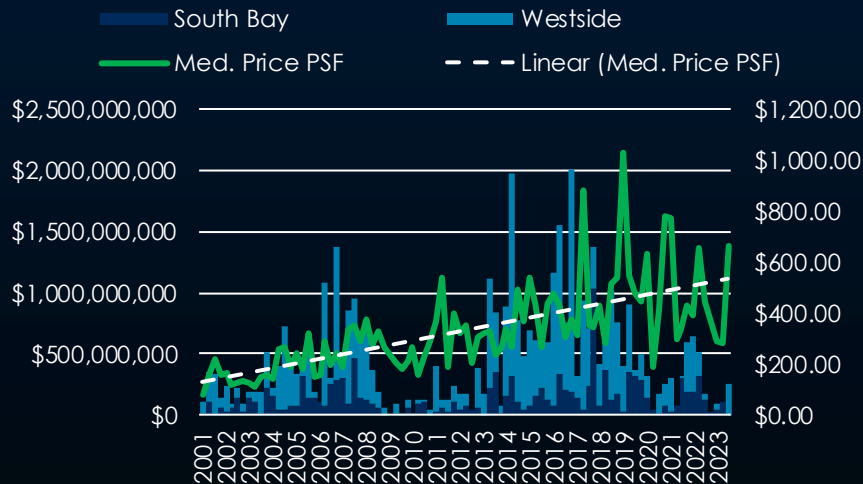
LEASING ACTIVITY
TOTALLED 1.36M SF IN Q3. UP 24.9% FROM Q2



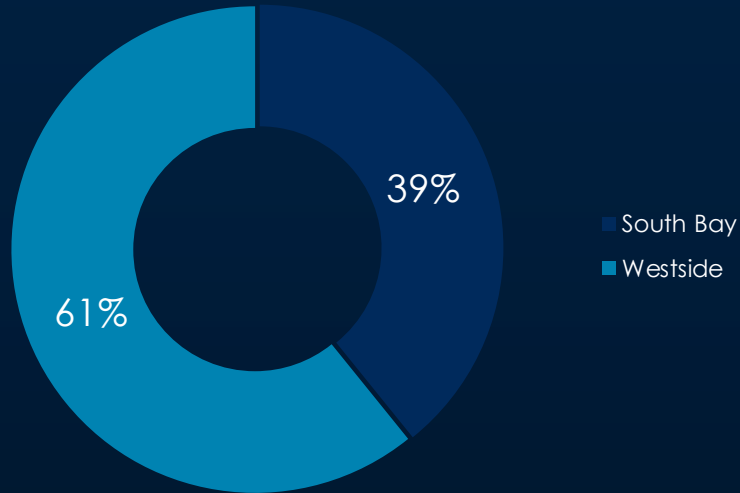
CONSTRUCTION ACTIVITY
150K SF WAS DELIVERED IN Q3. UC REVISED TO 1.68M SF



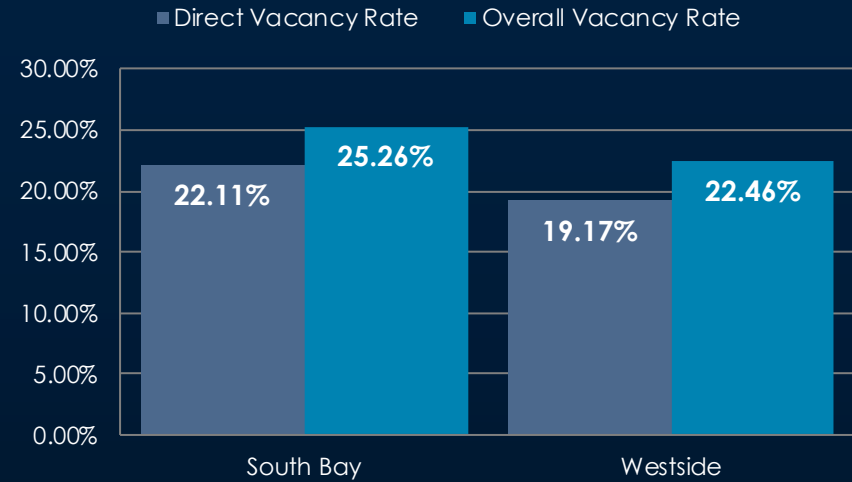
SALES
VOLUME TOTALLED \$254M FROM 4 SALES IN Q3



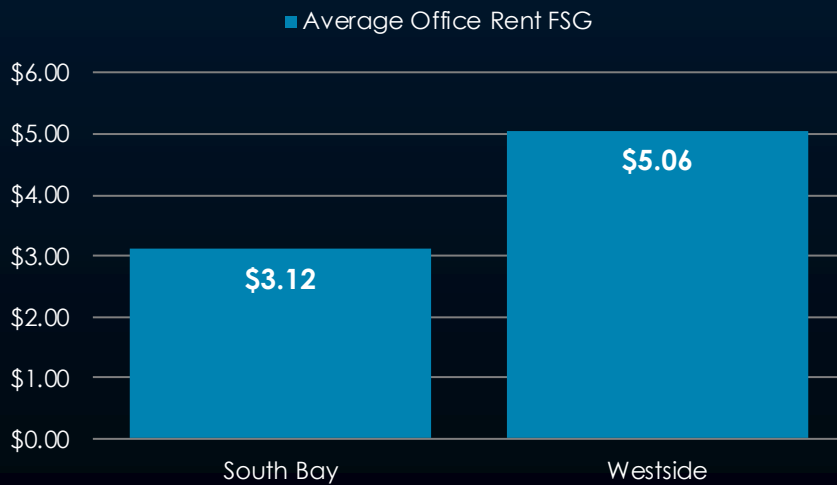
SQUARE FOOT BREAKDOWN- 92,886,085 SF MARKET SIZE



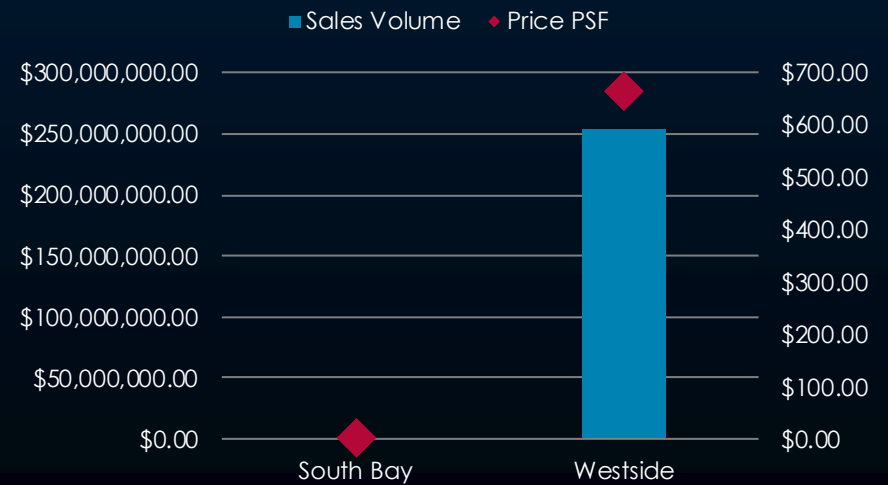
VACANCY BREAKDOWN



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

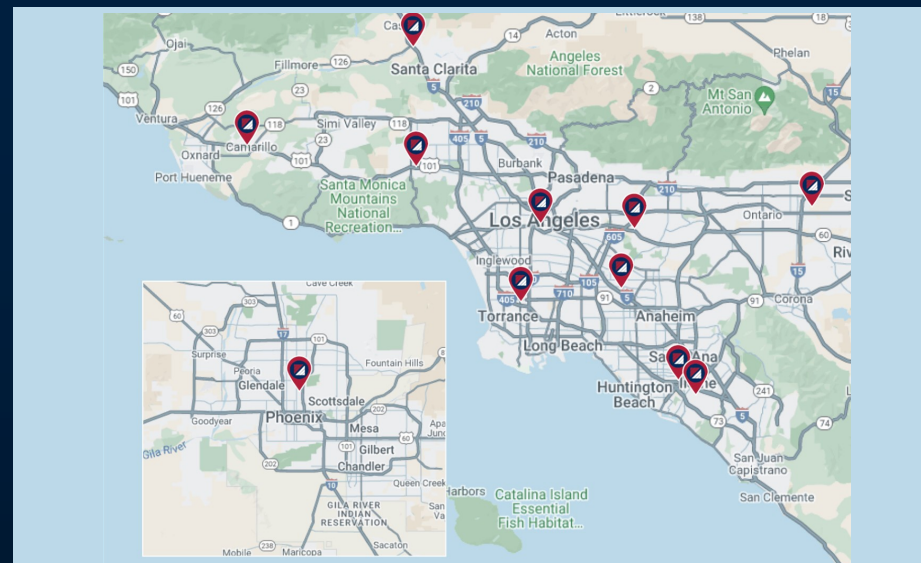
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

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 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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Market Report

Los Angeles Office

South Bay



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MARKET REPORT Q3

Office 2023 Los Angeles South Bay



MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Increased by 43 bps from Q2 to a new record high rate of 25.3% in Q3.
- **Net Absorption:** Improved slightly from Q2, but remains negative totaling -157K SF in Q3.
- **Sales:** No recorded sales in Q3. Volume in Q2 was revised upward to \$108.9M at a price PSF of \$279.10.
- **Asking Rents:** Remained the same as in Q2 at a rate of \$3.12 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
⬆ 22.1%



Net Absorption
⬆ -156,864 SF


Overall Vacancy
⬆ 25.3%


Gross Absorption
⬇ 550,692 SF



Under Construction
⬇ 421,652 SF


Rental Rates (FSG)
⬇ \$3.12


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

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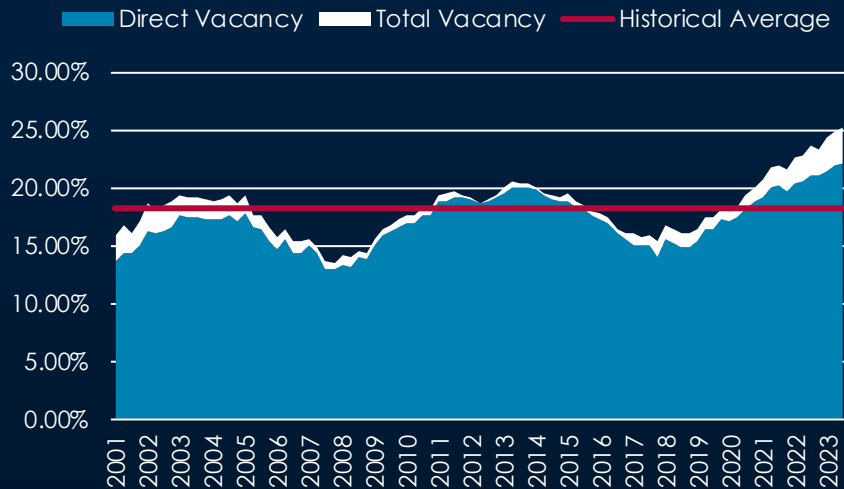


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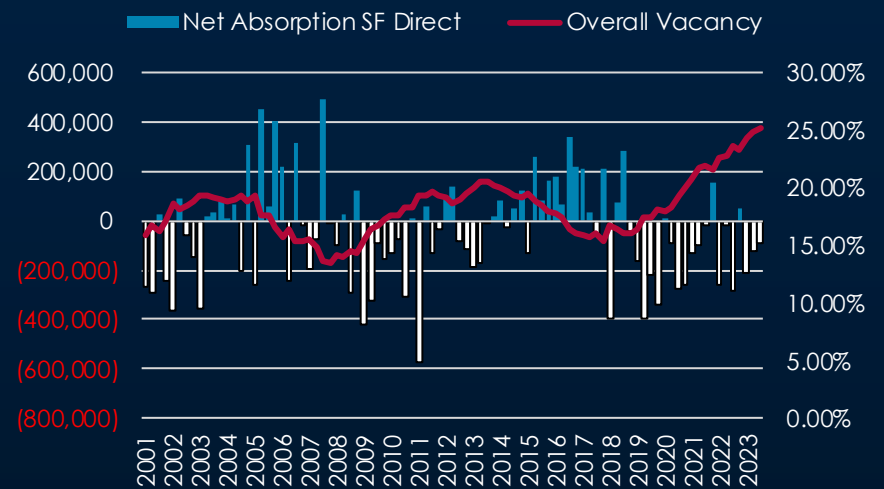
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Q3 Market Report

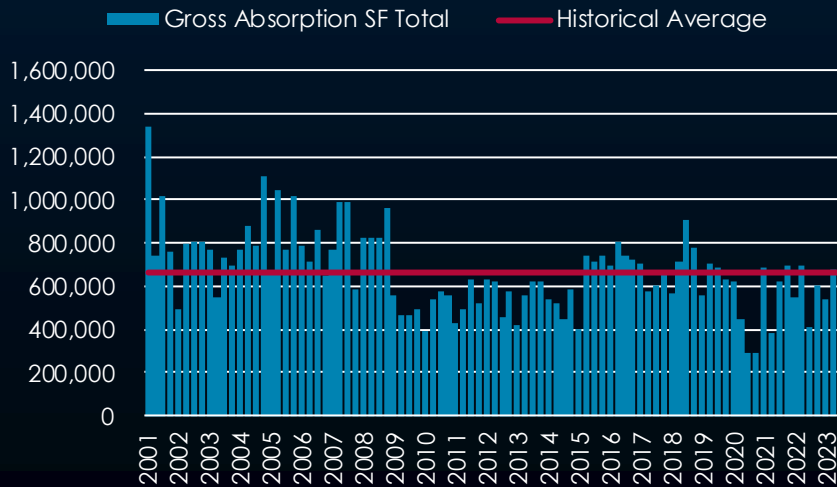
OVERALL VACANCY
INCREASED BY 43 BPS IN Q3 TO 25.3%



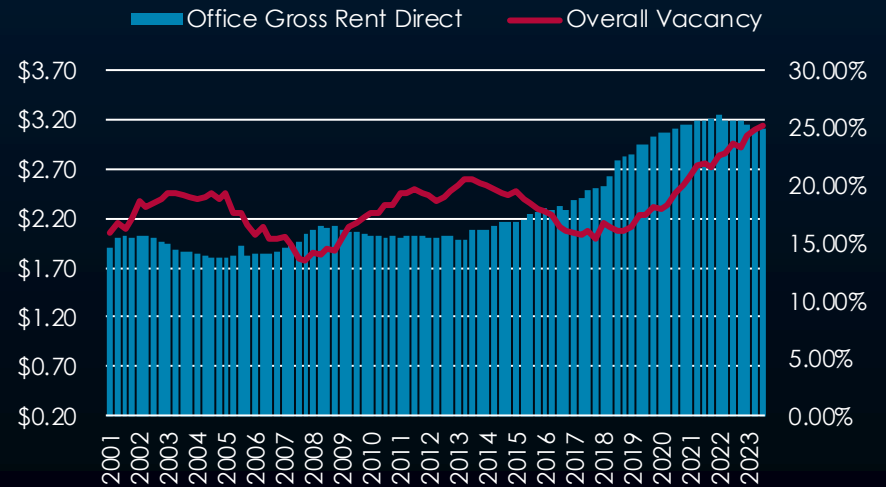
NET ABSORPTION
IMPROVED SLIGHTLY FROM Q2 TOTALING -157K SF IN Q3



GROSS ABSORPTION
DECLINED 18.4% FROM Q2 TO 551K SF IN Q3



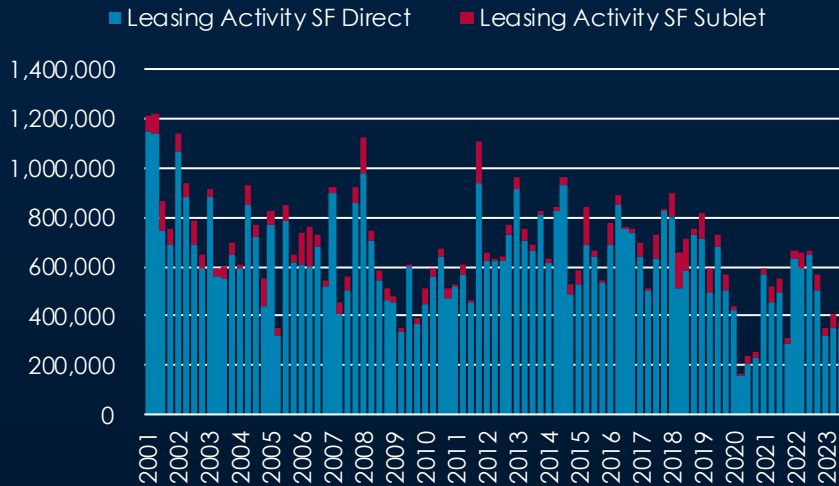
ASKING RENTS
REMAINED THE SAME AS Q2 AT A RATE OF \$3.12 PSF IN Q3



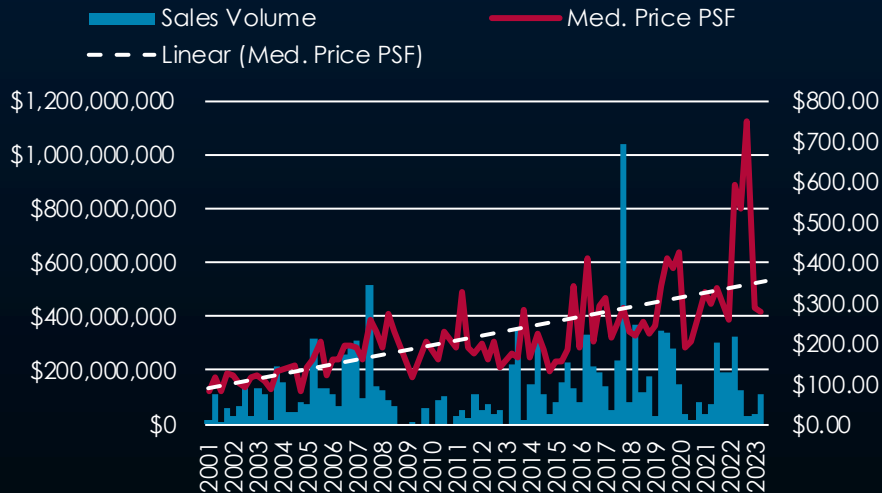
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Q3 Market Report

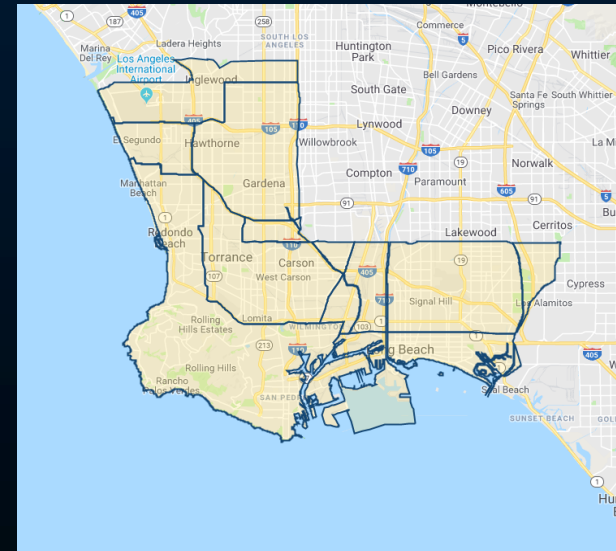
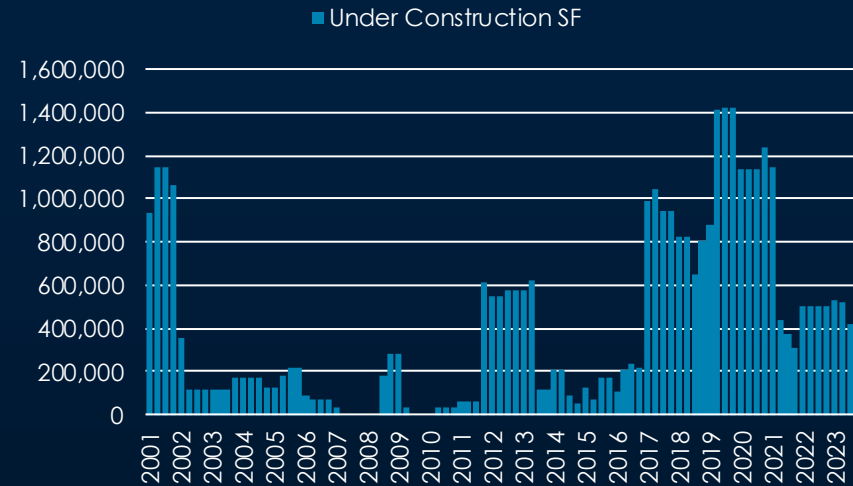
LEASING ACTIVITY DECLINED 6.3% FROM Q2 TO 379K SF IN Q3



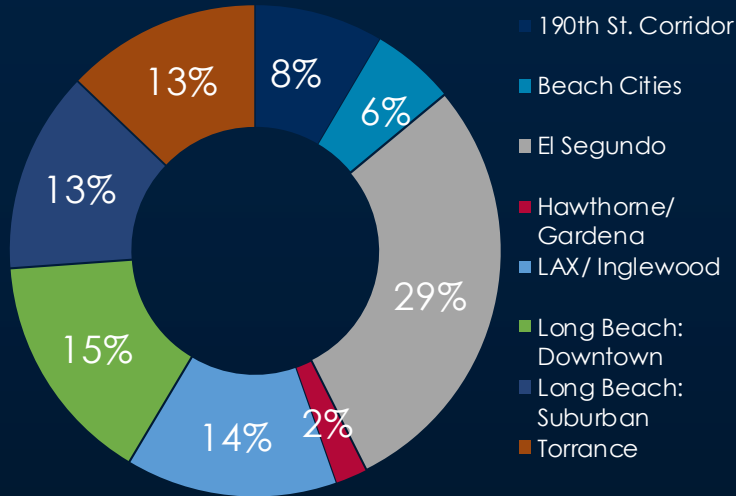
SALES NO RECORDED SALES IN Q3



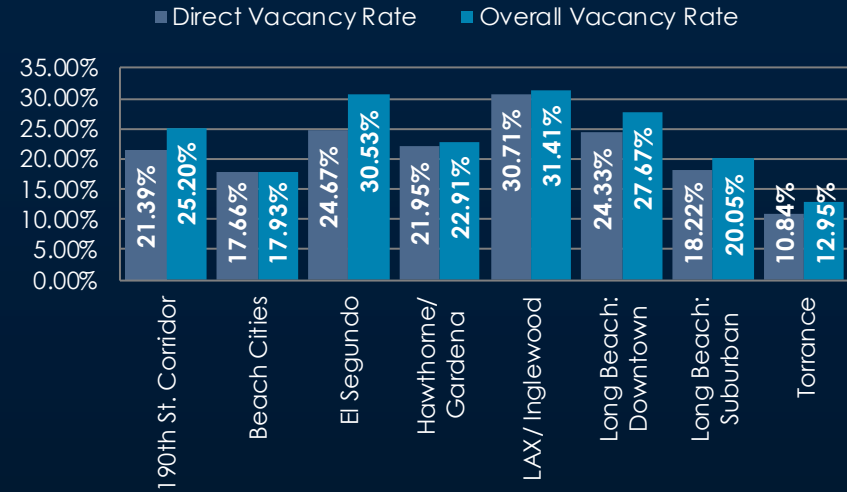
CONSTRUCTION ACTIVITY 100K SF WAS DELIVERED IN Q3. UC REVISED TO 422K SF



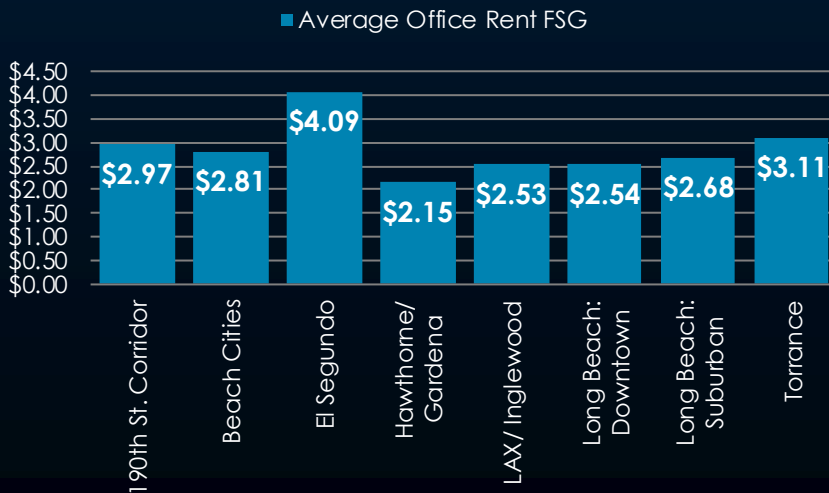
SQUARE FOOT BREAKDOWN- 36,403,924 SF MARKET SIZE



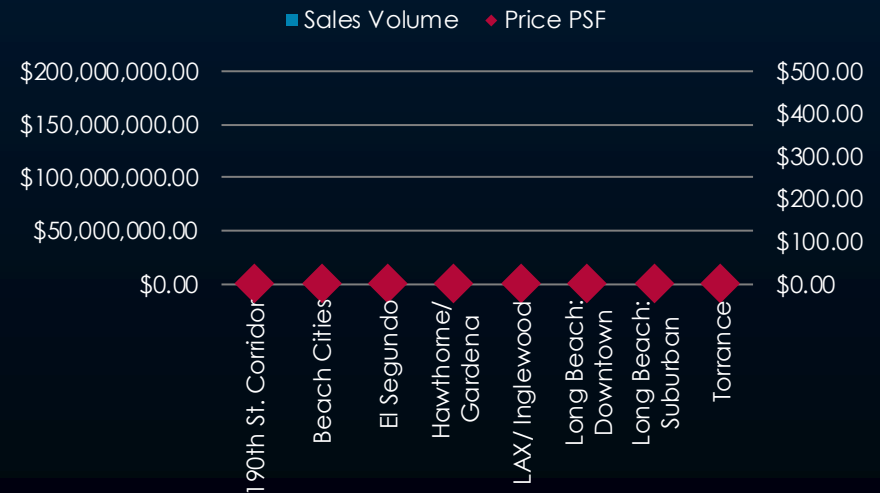
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



METHODOLOGY & TERMINOLOGY

Methodology

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Direct Vacant SF

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Net Absorption

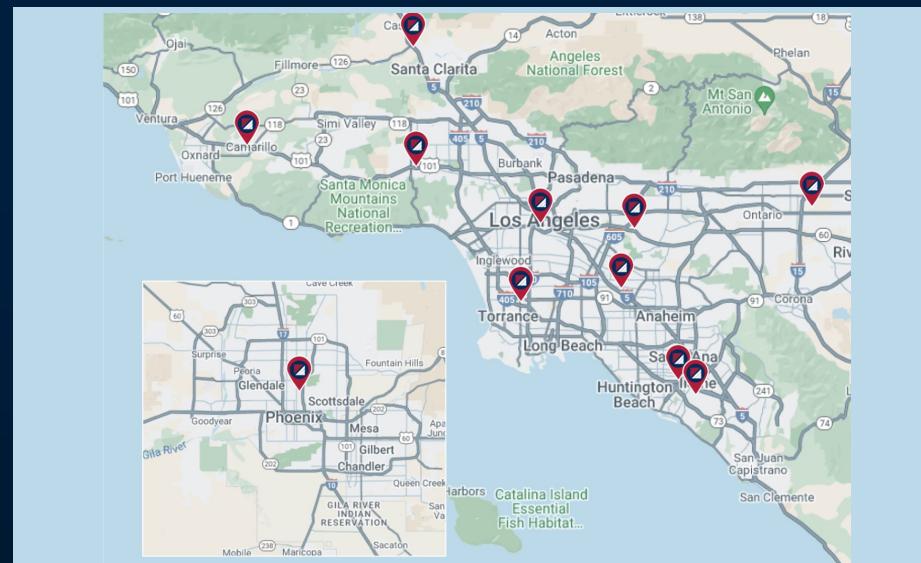
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Under Construction

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Completed in 2023

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Market Report

Los Angeles Office

Westside



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Increased 87 bps from Q2 to a rate of 22.5% in Q3.
- **Net Absorption:** Turned negative in Q3 totaling -455K SF.
- **Sales:** Volume in Q3 totaled \$254M. Led by the \$165.5M sale of the Pen Factory building in Santa Monica to J.P. Morgan Asset Management.
- **Trends:** This market will face challenges if technology & entertainment companies begin to reduce their space requirements due to permanent work from home or hybrid policies & changing business climate.

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
⬆ 19.2%


Net Absorption
⬆ -454,726 SF


Overall Vacancy
⬆ 22.5%


Gross Absorption
⬆ 1,190,048 SF


Under Construction
⬆ 1,260,978 SF


Rental Rates (FSG)
⬆ \$5.06


Median Sale \$/SF
⬆ \$663.49


Deal Volume
⬆ \$254M


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
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NYSE Performance
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Inflation Change
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10 Yr. - 2 Yr. Spread
⬆ -44 BPS

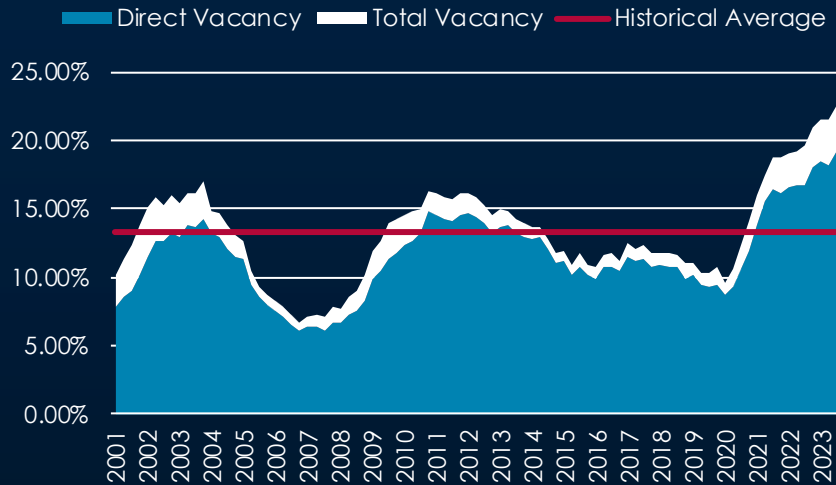
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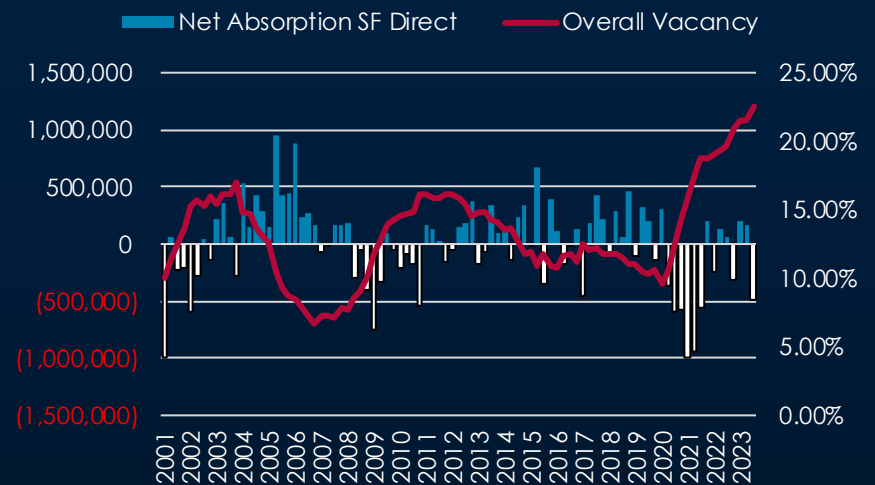
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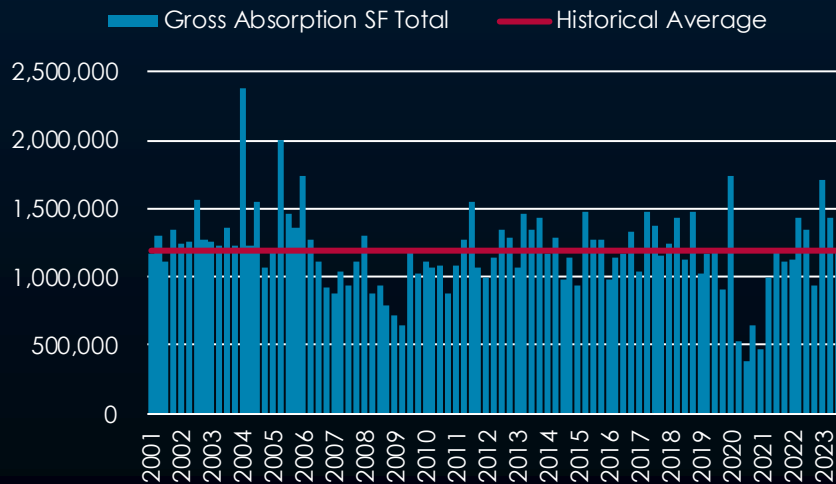
OVERALL VACANCY INCREASED BY 87 BPS FROM Q2 TO 22.5% IN Q3



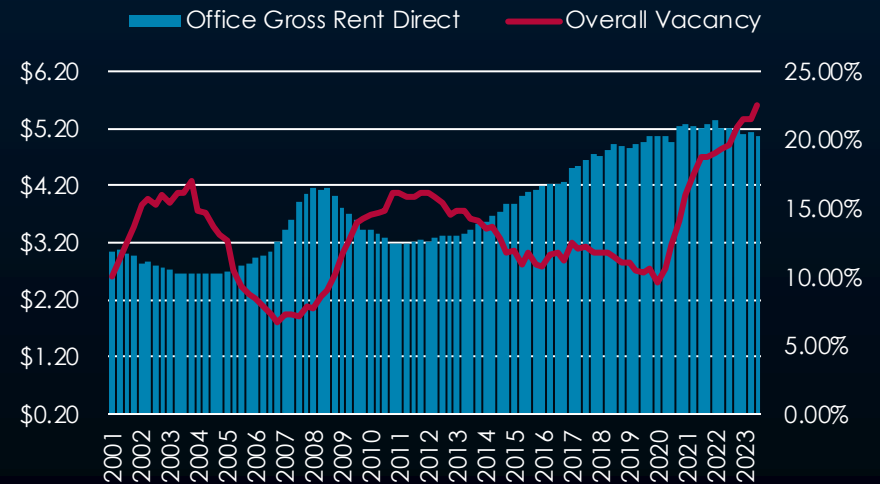
NET ABSORPTION TURNED NEGATIVE IN Q3 TOTALING -455K SF



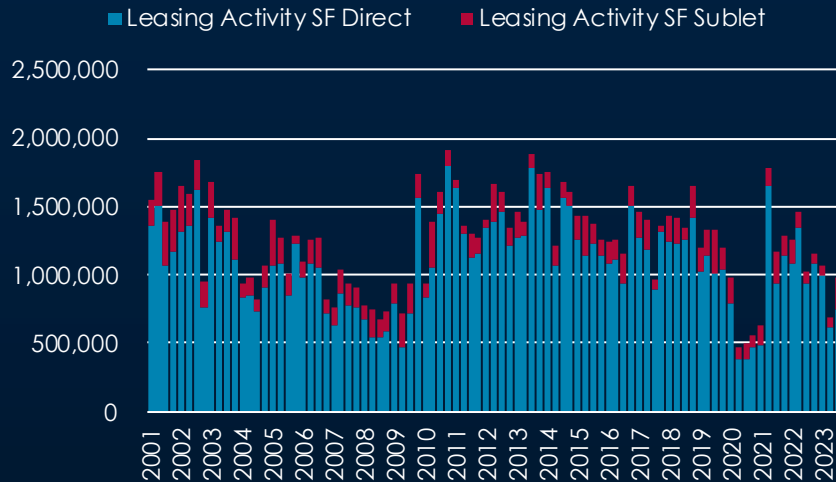
GROSS ABSORPTION DECLINED 17.2% FROM Q2 TOTALING 1.2M SF IN Q3



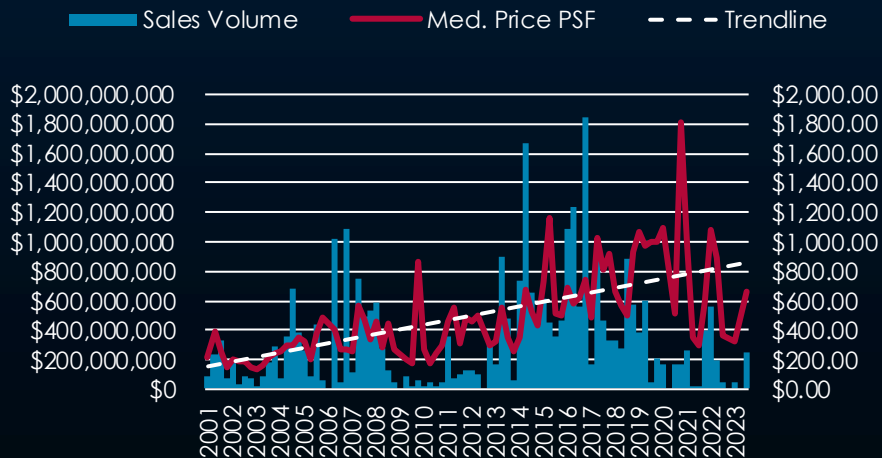
ASKING RENTS DECLINED BY \$0.09 PSF OR 1.7% TO \$5.06 PSF IN Q3



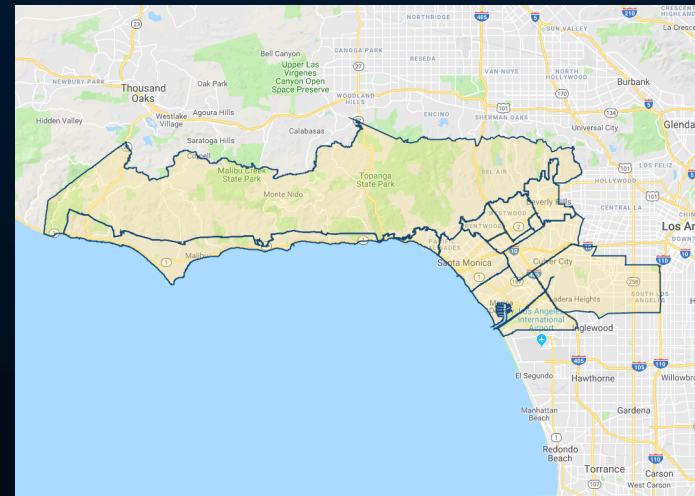
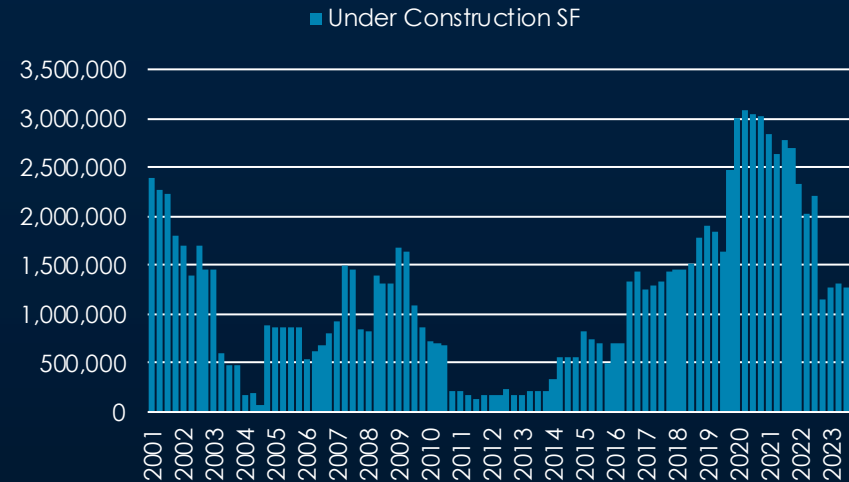
LEASING ACTIVITY INCREASED BY 42% FROM Q2 TOTALING 977K SF IN Q3



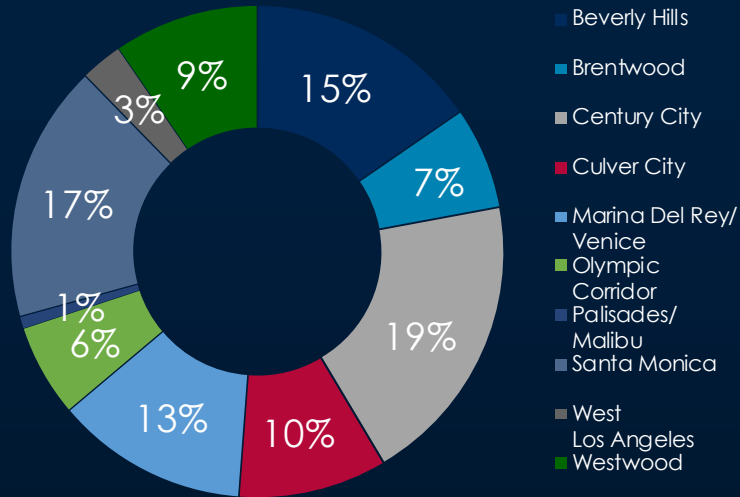
SALES VOLUME IN Q3 TOTALED \$254M AT A PRICE PSF OF \$663.49



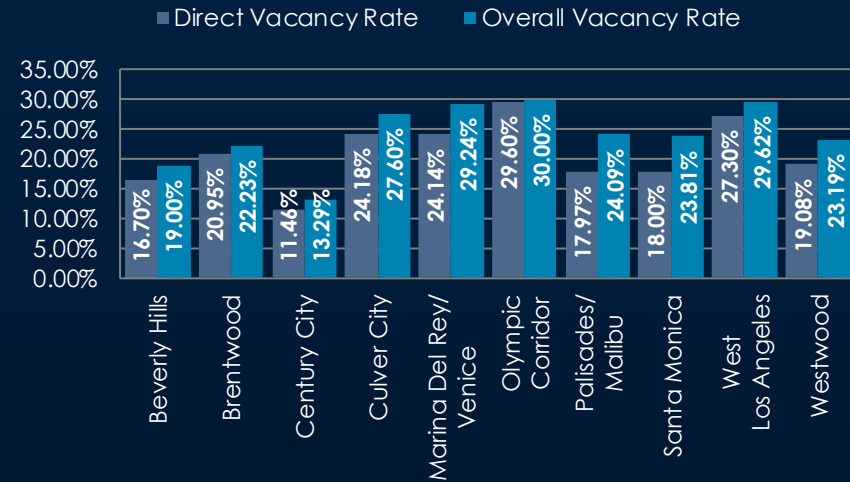
CONSTRUCTION ACTIVITY 50K SF WAS DELIVERED IN Q3. UC REVISED TO 1.26M SF



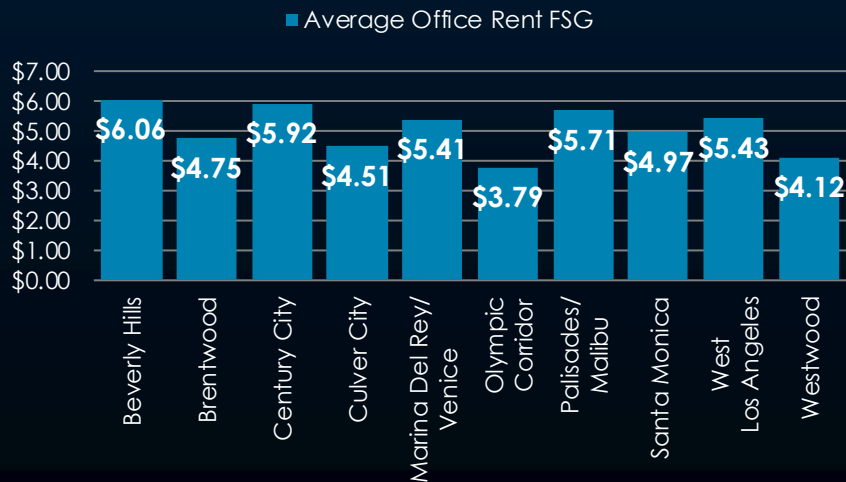
SQUARE FOOT BREAKDOWN- 56,482,161 SF MARKET SIZE



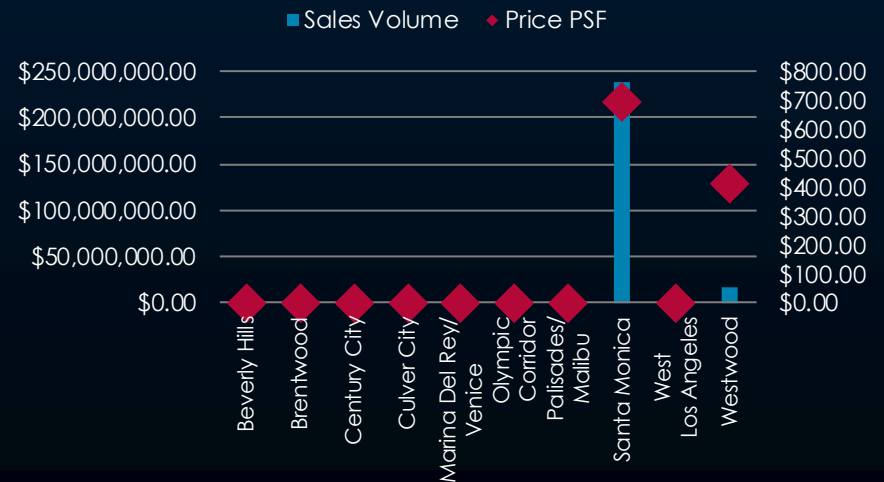
VACANCY BREAKDOWN



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

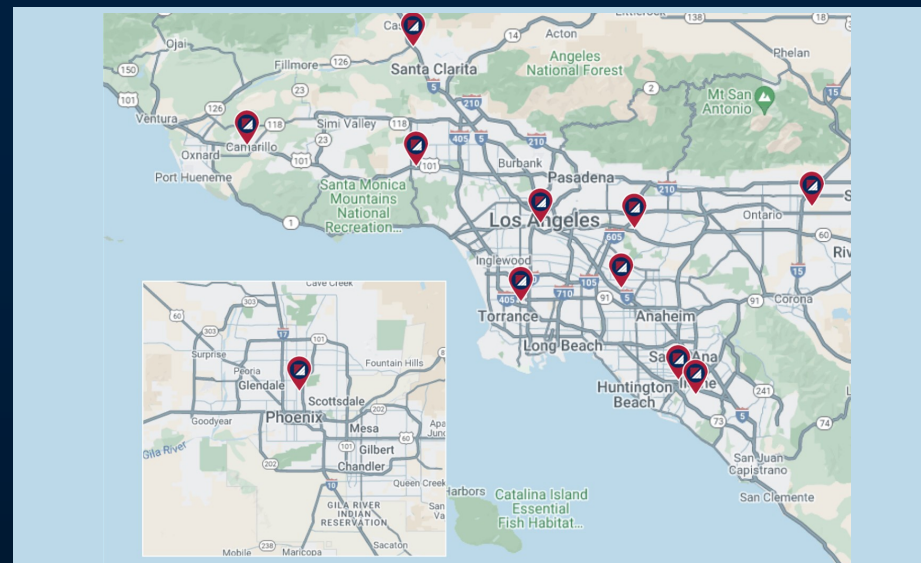
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

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 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

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Economic Overview

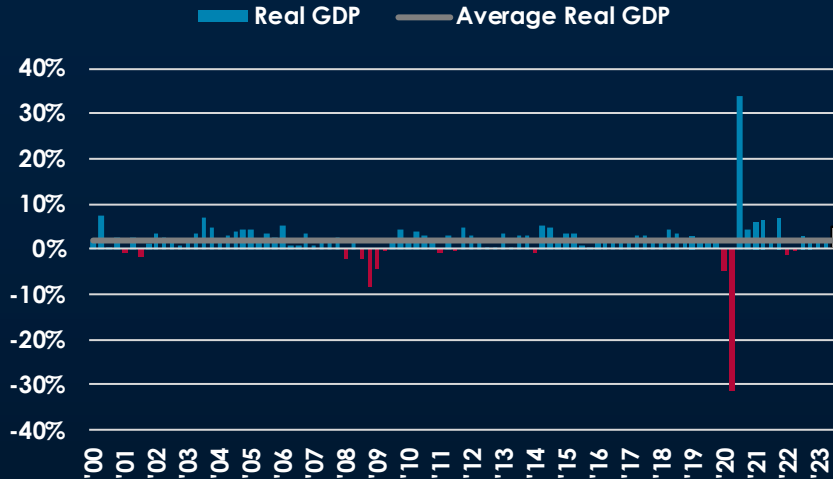


Q3 2023

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.

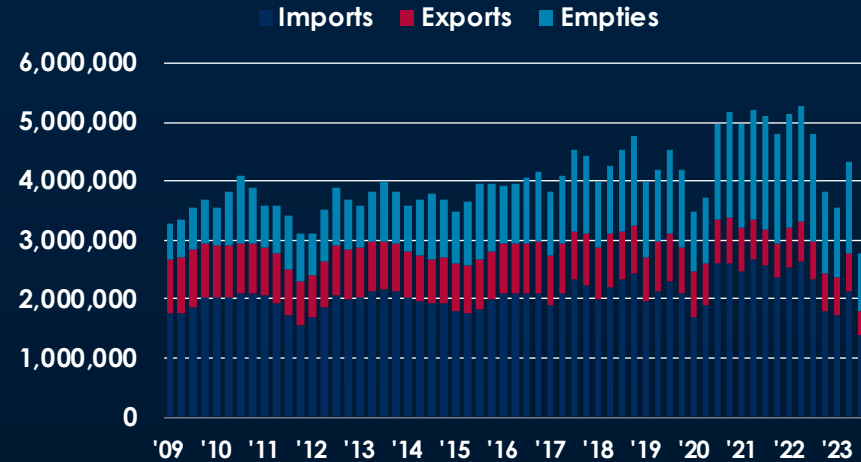
Q3 Market Report

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

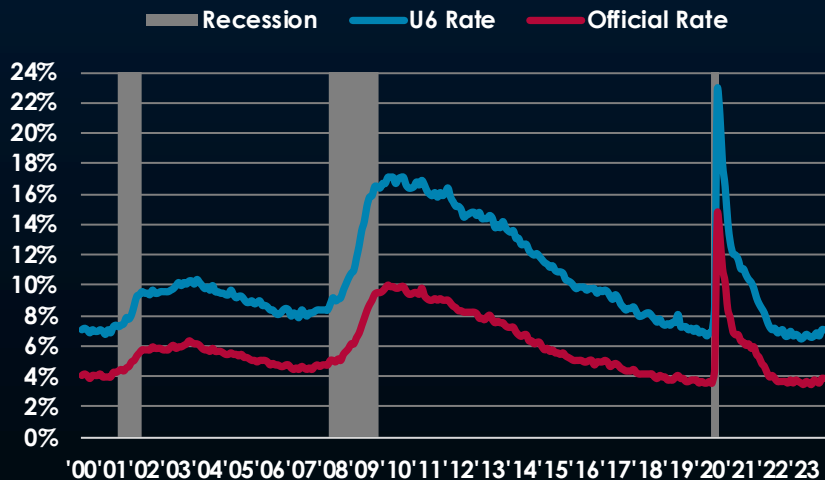


*4.9% Estimate for Q3-23 from the Federal Reserve Bank of Atlanta GDPNow

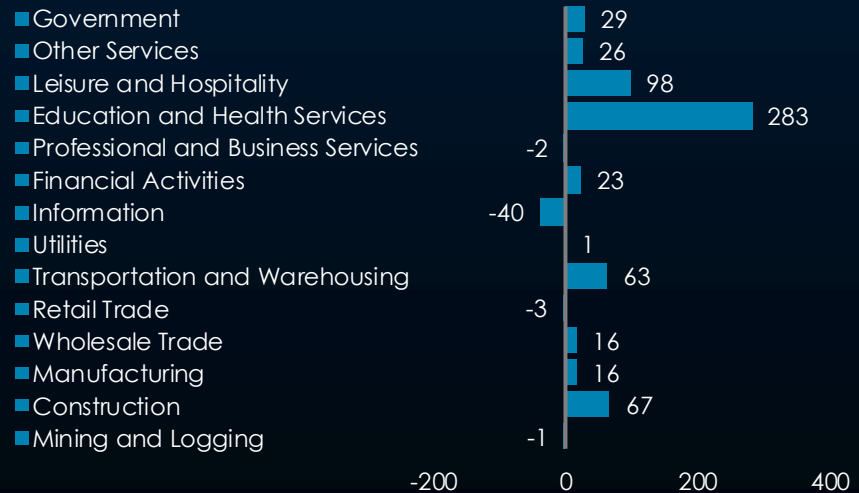
PORT ACTIVITY IN Q2 WAS DOWN 18.3% Y/Y. QTD Q3 DOWN 16.8% Y/Y



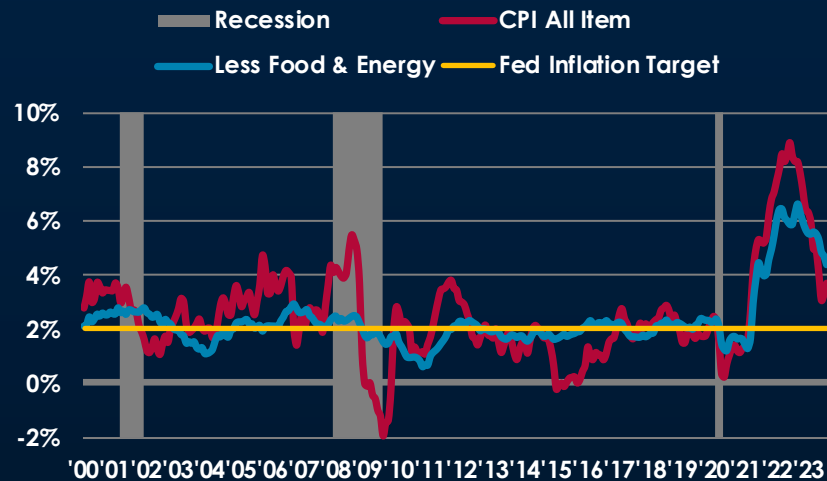
UNEMPLOYMENT CONTINUES TO BE STICKY IN Q3



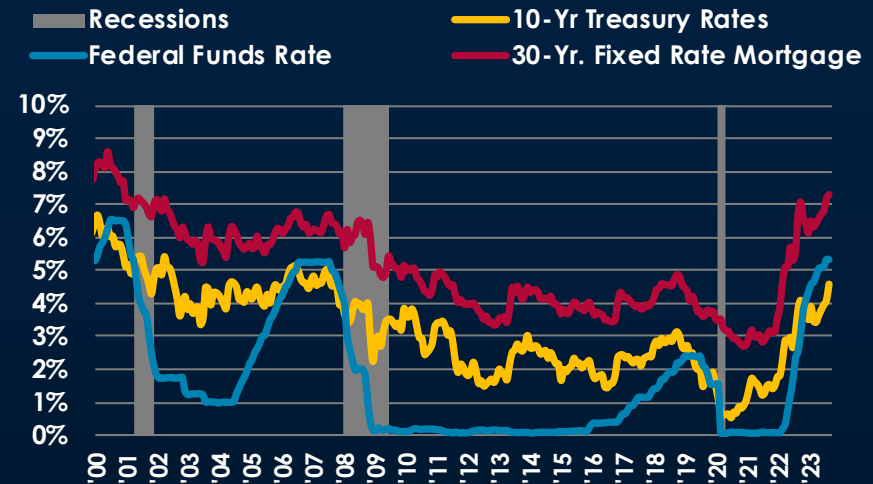
EDUCATION & HEALTH SERVICES LED JOB GAINS IN Q3



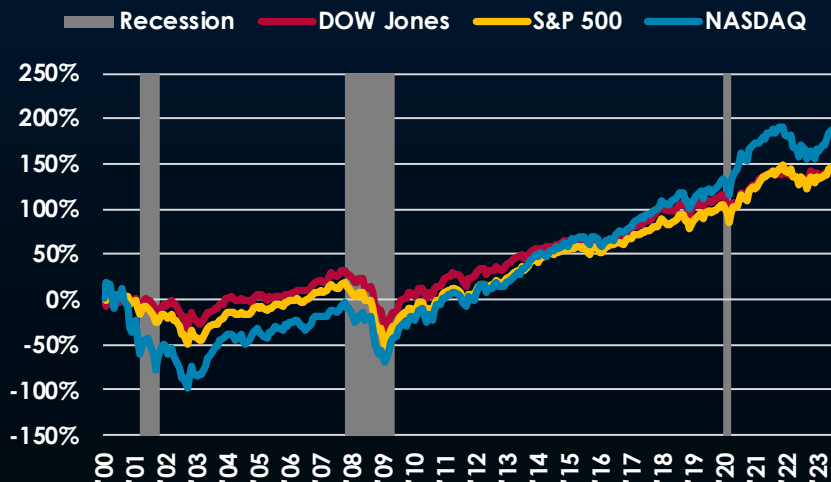
INCREASE IN GAS PRICES PUSHED CPI HIGHER IN LATEST AUG. REPORT



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

