

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

Market Report

Inland Empire Office



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MARKET REPORT Q4

Office 2019 Inland Empire



MARKET ACTIVITY

<p>Direct Vacancy 8.8%</p>	<p>Net Absorption 100,454 SF</p>
<p>Overall Vacancy 9.3%</p>	<p>Gross Absorption 564,233 SF</p>
<p>Under Construction 353,004 SF</p>	<p>Rental Rates (FSG) \$1.87</p>
<p>Sale Price Change 8.7%</p>	<p>Deal Volume 571.3%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Fell by 20 BPS in Q4.
- **Net Absorption:** Best performing quarter of 2019.
- **Leasing Activity:** Down again to just over 350K SF.
- **Sales:** The median price PSF in Q4 was \$195.71. Q4 volume was highest since 2015. Volume in 2019 was over \$387M, but down 14.5% from 2018.
- **Asking Rents:** Plateauing. Minimal increase of \$0.01 PSF in Q4.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve normalized in Q4. The Fed signaled no change in rates are coming in 2020.
- **Trade:** Congress is expected to pass the USMCA trade deal in early 2020. The trade war with China looks to be coming to an end as Phase 1 of the deal is to be signed in mid-January.
- **Stock Market:** The DOW, S&P 500, & NASDAQ had significant returns in 2019. The DOW saw gains of 22.3%, S&P 500 gained 28.9%, NASDAQ finished at 35.2%. The market is expected to continue its rise in 2020.

ECONOMIC OUTLOOK

<p>U.S. Employment 3.5%</p>	<p>U6 Rate 6.9%</p>
<p>Interest Rate 3.7% <small>(30 year fixed)</small></p>	<p>Changing GDP 2.3%</p>
<p>Port Traffic Y/Y Δ 0.3%</p>	<p>NYSE Performance 7.5%</p>
<p>Inflation Change 2.0%</p>	<p>10 Yr. - 2 Yr. Spread 34 BPS</p>

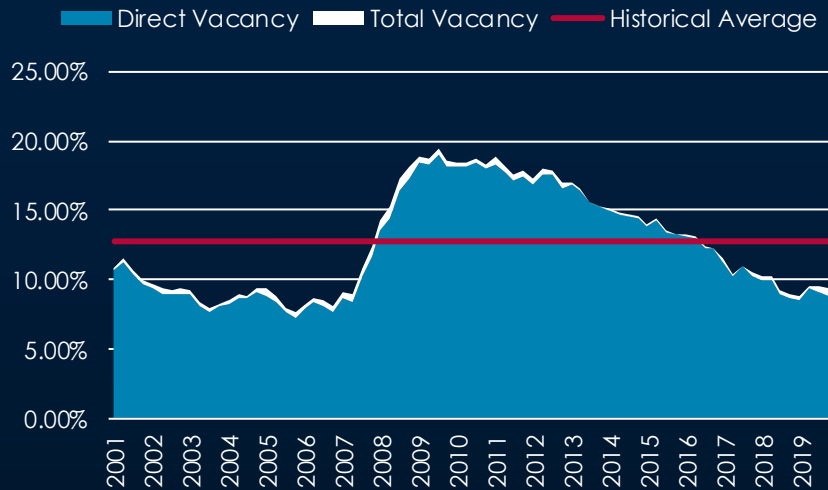
EXPERIENCE IN A CHANGING MARKET

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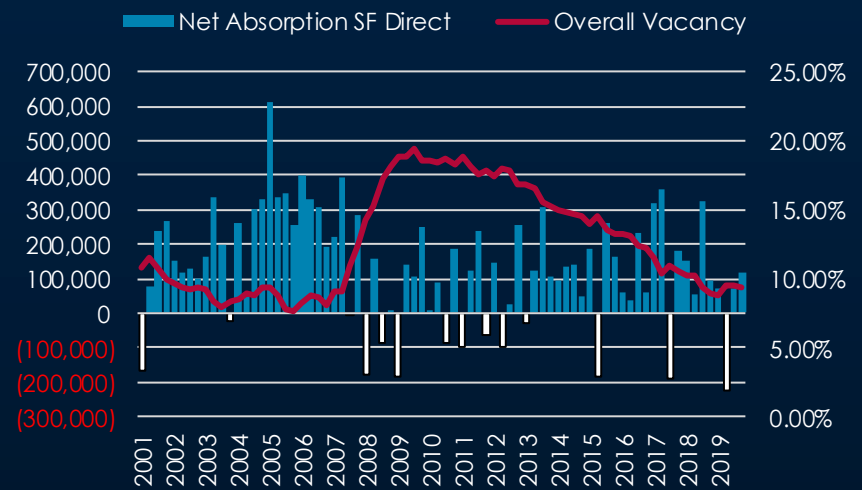


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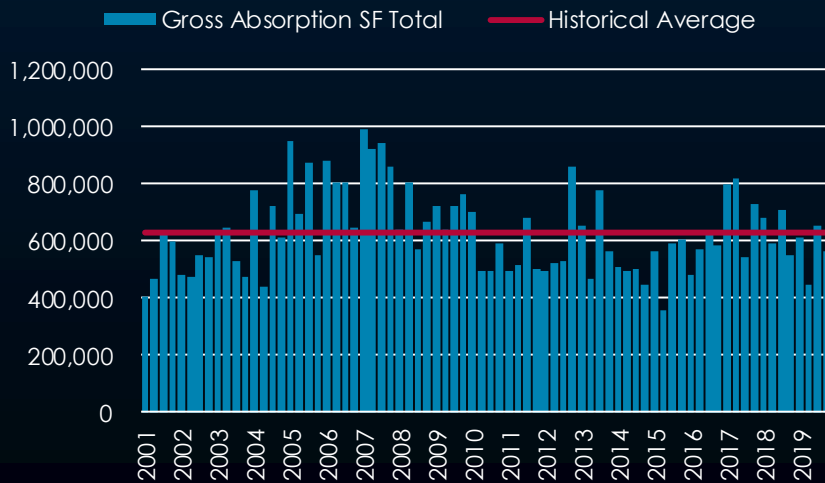
OVERALL VACANCY DROPPED 20 BPS IN Q4



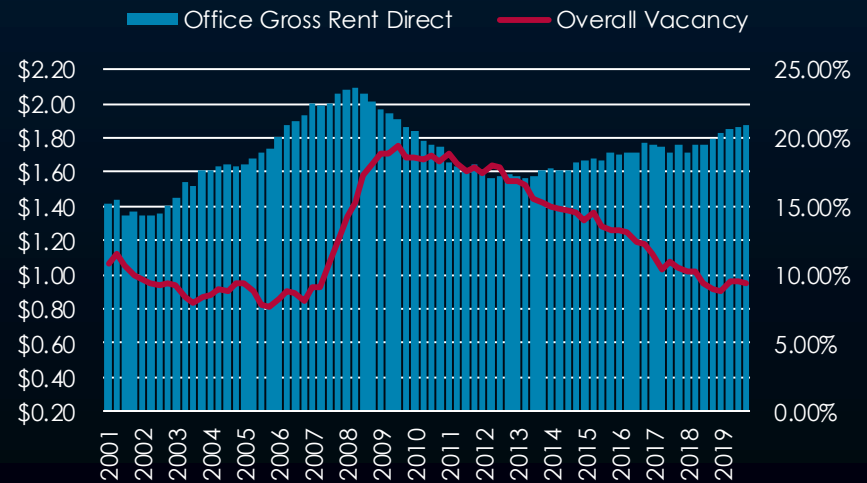
NET ABSORPTION Q4 WAS BEST PERFORMING QUARTER IN 2019



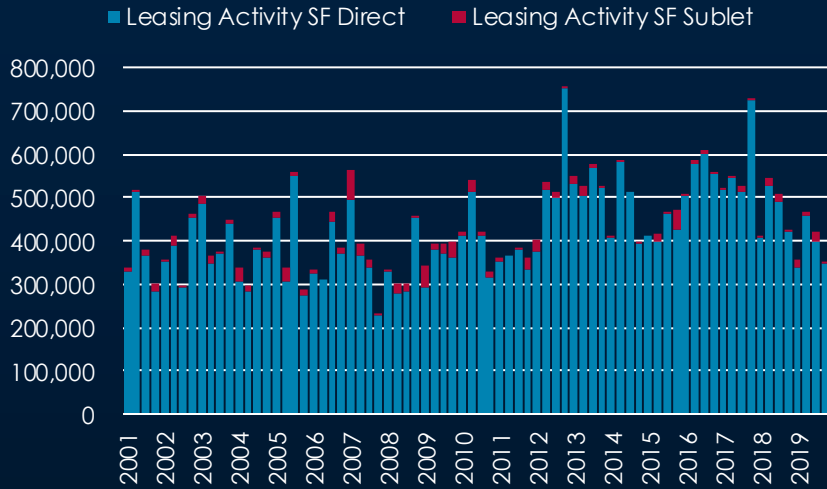
GROSS ABSORPTION FELL BACK BELOW THE HISTORIC AVERAGE



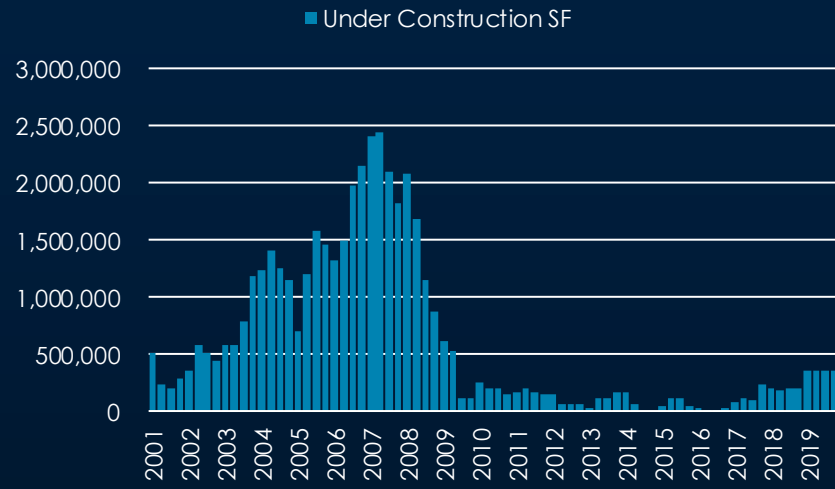
ASKING RENTS INCREASED BY \$0.01 PSF IN Q4



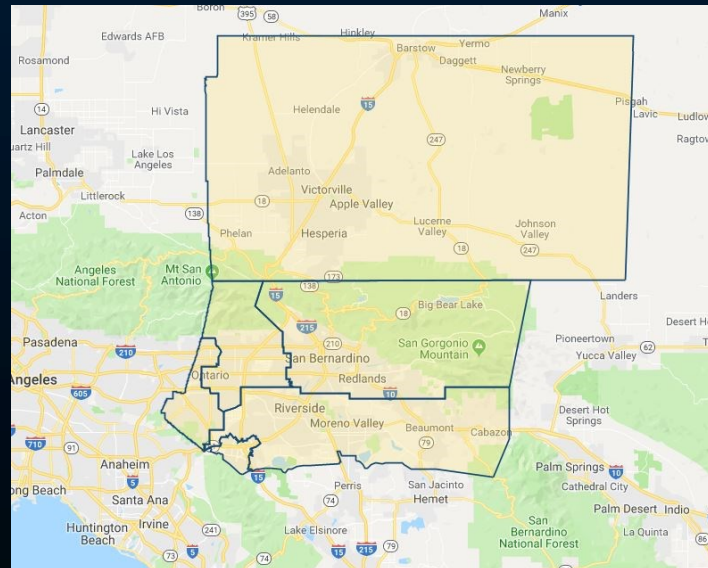
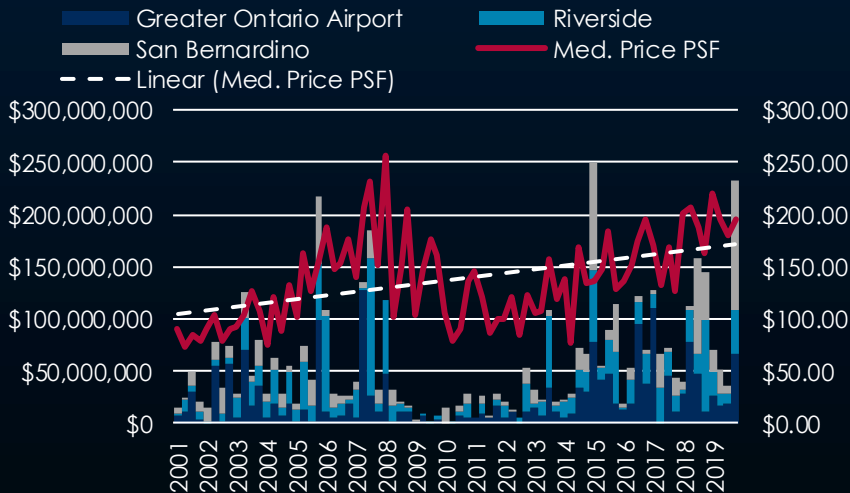
LEASING ACTIVITY FELL FOR 2ND STRAIGHT QUARTER



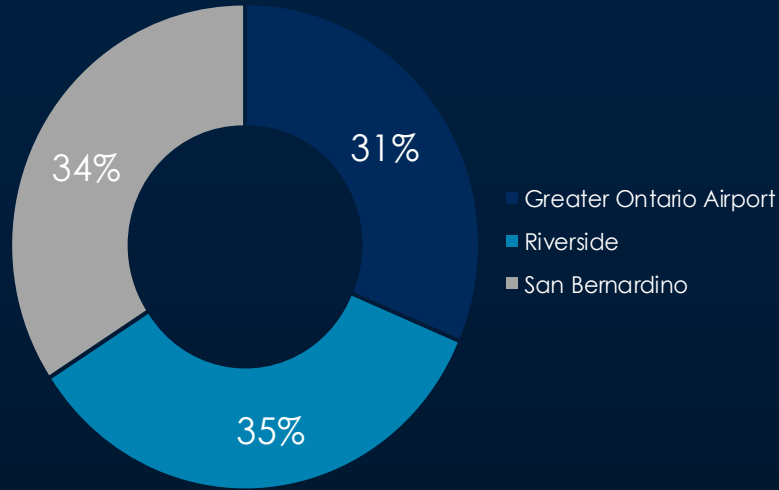
CONSTRUCTION ACTIVITY MINIMAL WITH JUST OVER 350K SF UNDER CONSTRUCTION



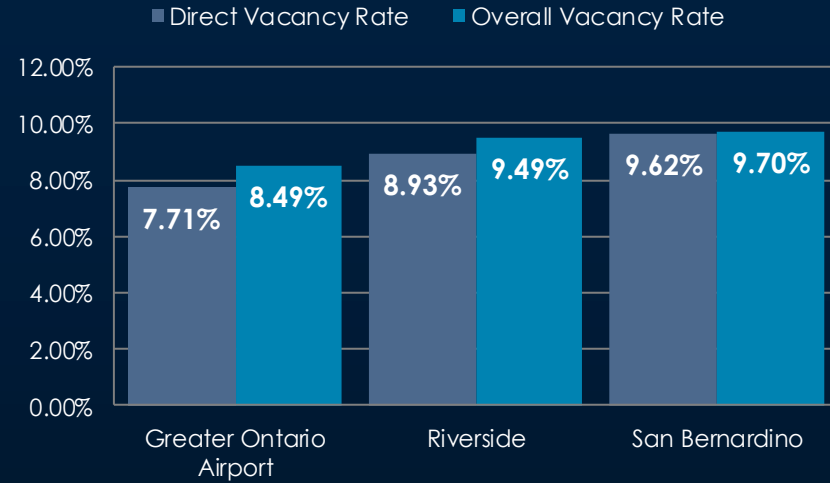
SALES THE MEDIAN PRICE PSF IN Q4 WAS \$195.71



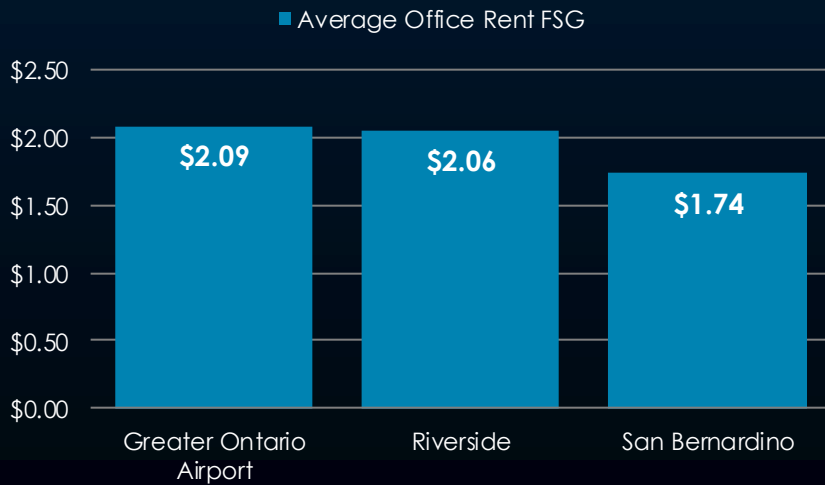
SQUARE FOOT BREAKDOWN- 34,968,239 SF MARKET SIZE



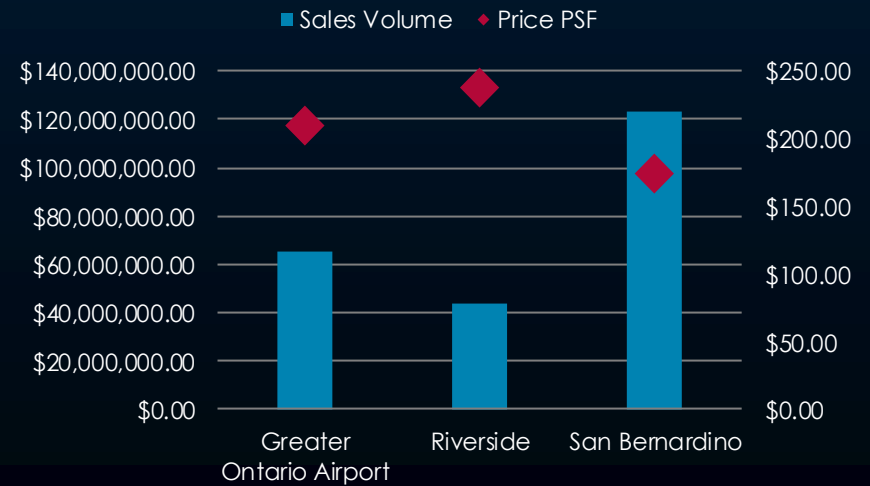
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

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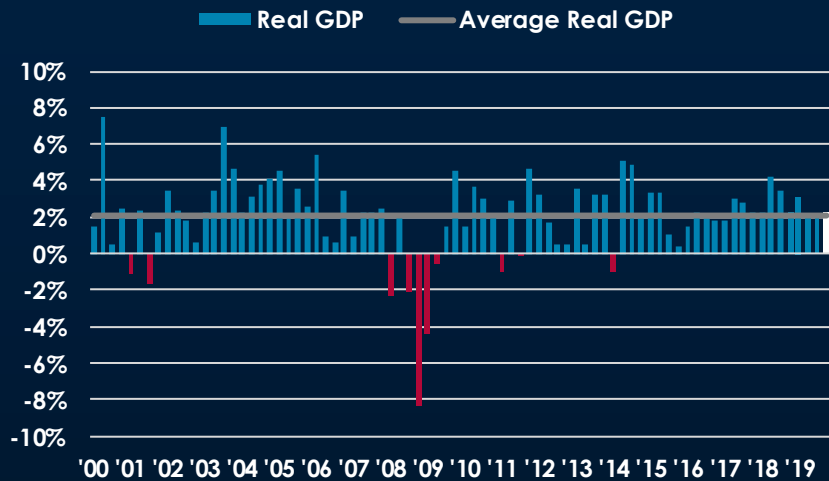
Economic Overview



Q4 2019

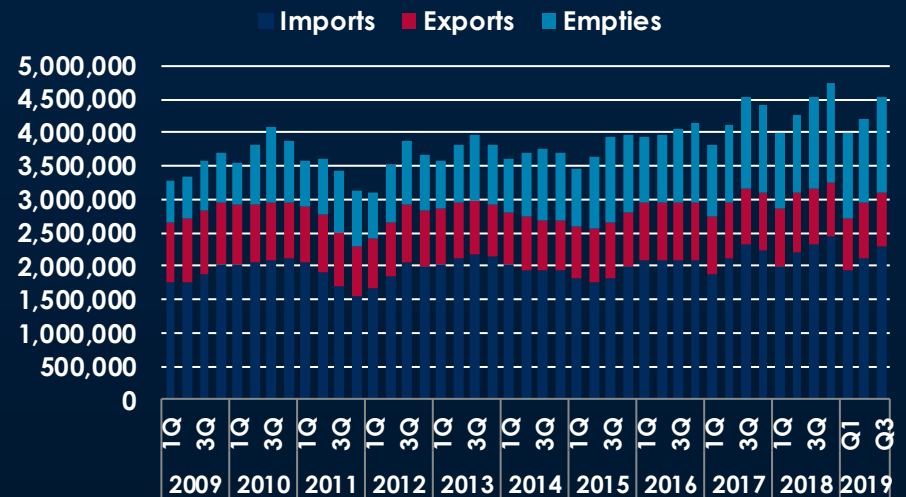
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

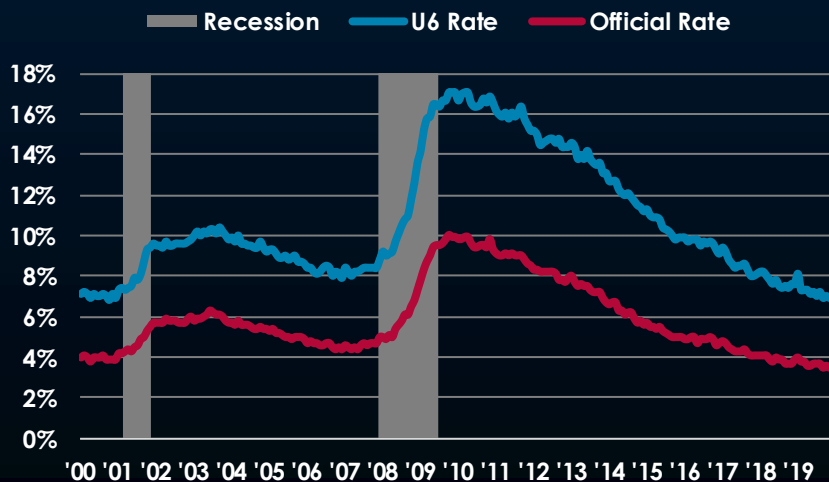


*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

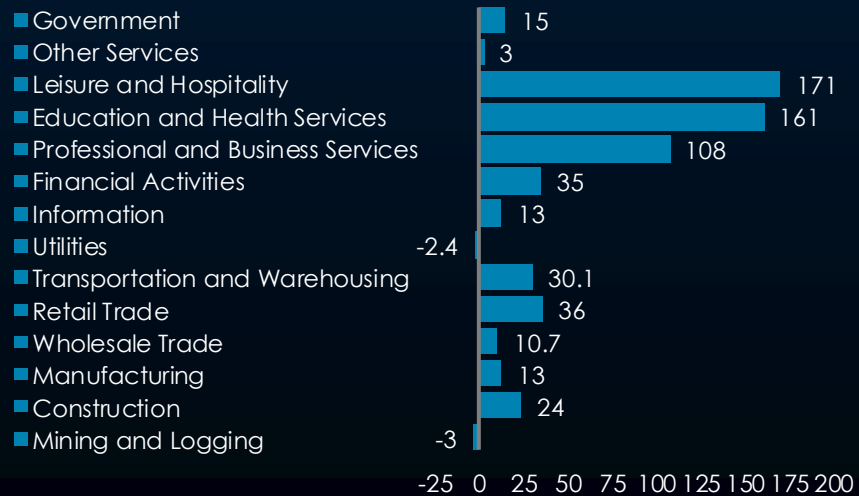
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



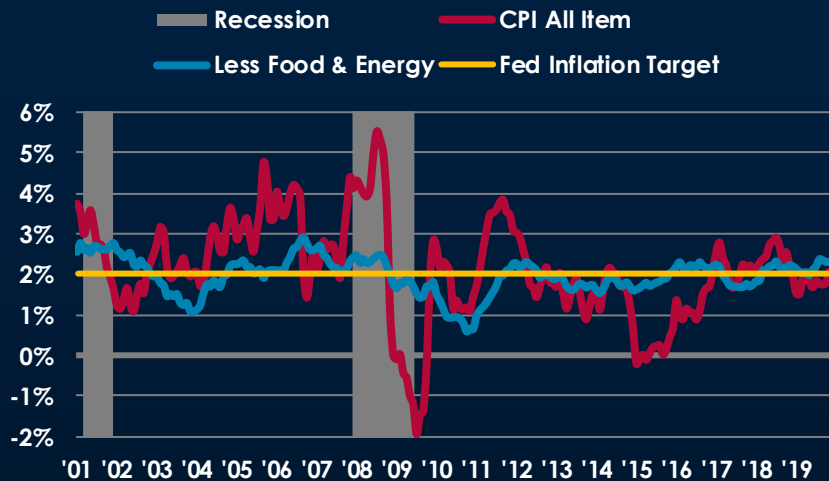
UNEMPLOYMENT CONTINUES DOWNWARD TREND



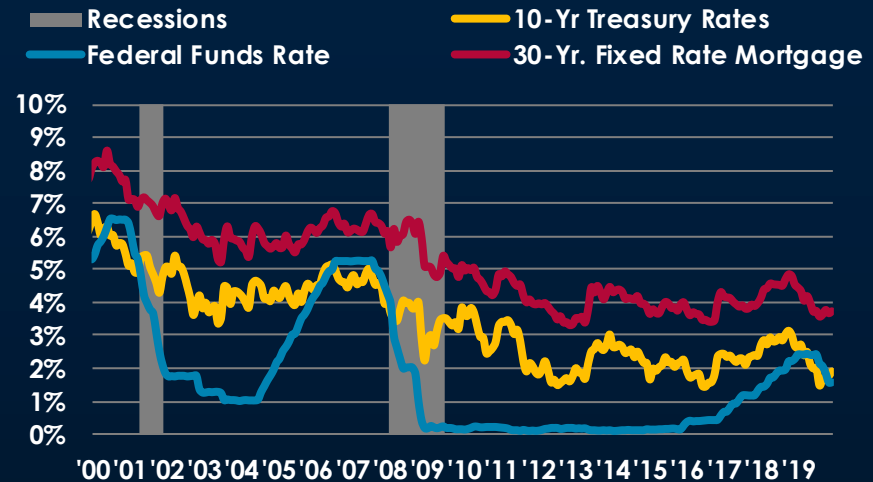
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



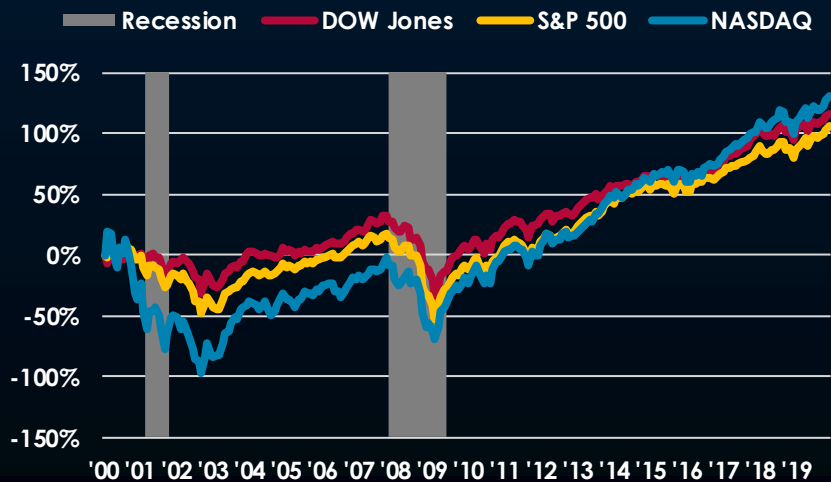
CPI JUST ABOVE 2% TARGET AT 2.05%



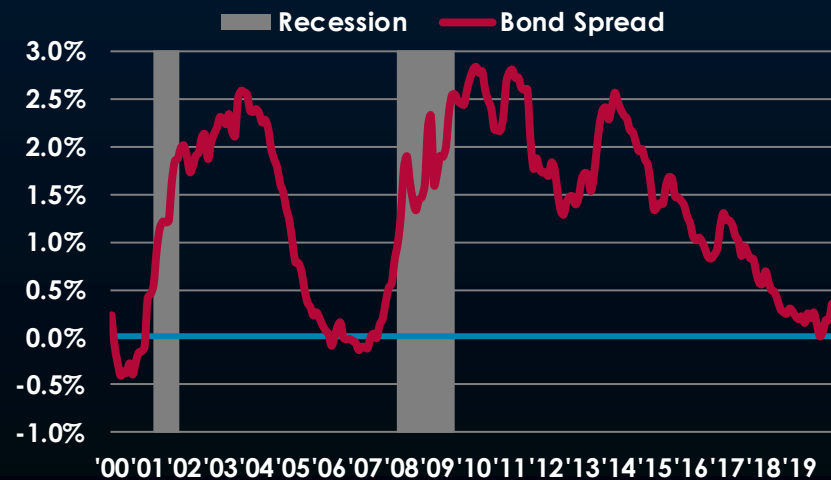
THE YIELD CURVE NORMALIZED IN Q4



ALL INDEXES SAW POSITIVE RETURNS IN Q4 AND FOR 2019



10-2 YEAR BOND SPREAD TURNED POSITIVE IN Q4



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.



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