

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

Market Report

Los Angeles Office



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MARKET REPORT Q4

Office 2019 Los Angeles County



MARKET ACTIVITY

<p>Direct Vacancy ▲ 12.7%</p>	<p>Net Absorption ▼ -108,443 SF</p>
<p>Overall Vacancy ▲ 13.4%</p>	<p>Gross Absorption ▼ 3,739,323 SF</p>
<p>Under Construction ▲ 7,338,065 SF</p>	<p>Rental Rates (FSG) ▲ \$3.30</p>
<p>Sale Price Change ▲ 23.2%</p>	<p>Deal Volume ▲ 35.2%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Increased by 10 BPS in Q4 from Q3.
- **Net Absorption:** 2nd weakest quarter of 2019. Large amount of sublet space pushed total Net Absorption into negative levels.
- **Office Supply:** In 2019, LA County added over 2.3M SF of office space.
- **Sales:** Volume in 2019 surpassed \$4.1B. Down 20% from 2018.
- **Trends:** Technology companies leasing large amounts of space outside "Silicon Beach". Co-working companies will lease less space in 2020.

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>

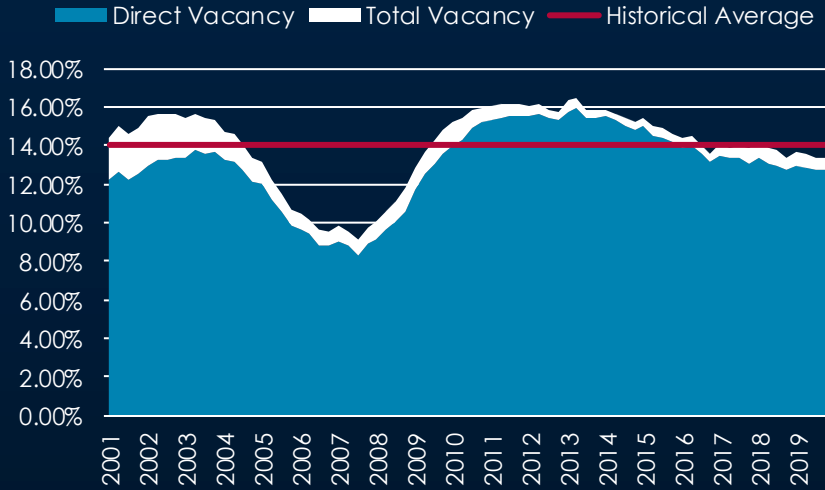
EXPERIENCE IN A CHANGING MARKET

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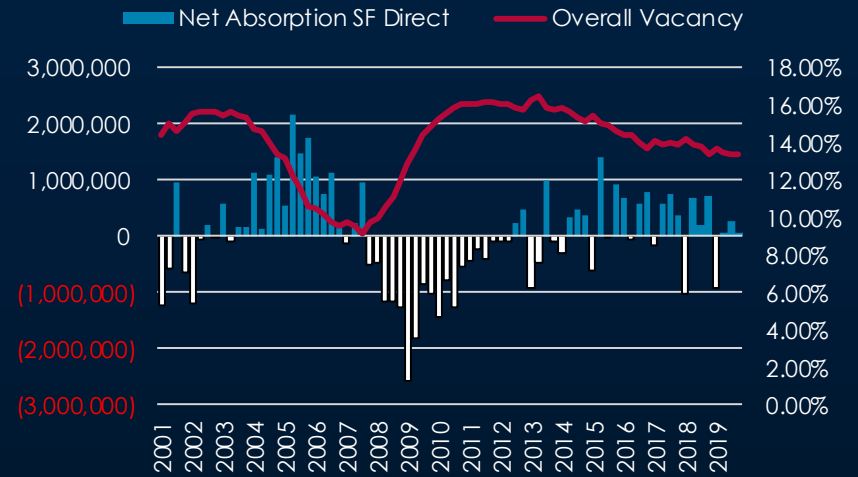


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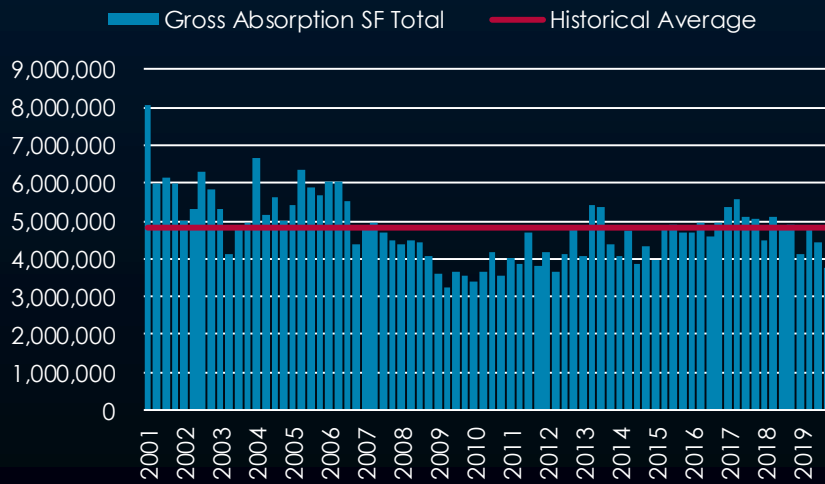
OVERALL VACANCY HELD ESSENTIALLY CONSTANT FROM Q3 ONLY 10 BPS INCREASE



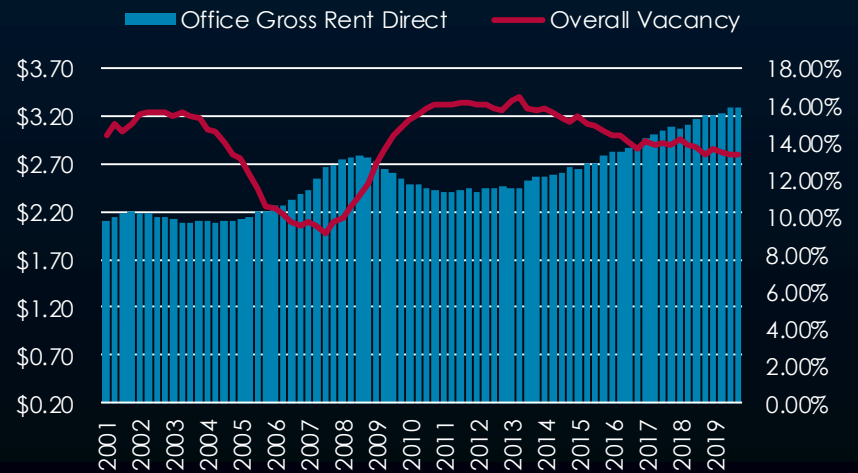
NET ABSORPTION Q4 WAS 2ND WEAKEST QUARTER OF 2019



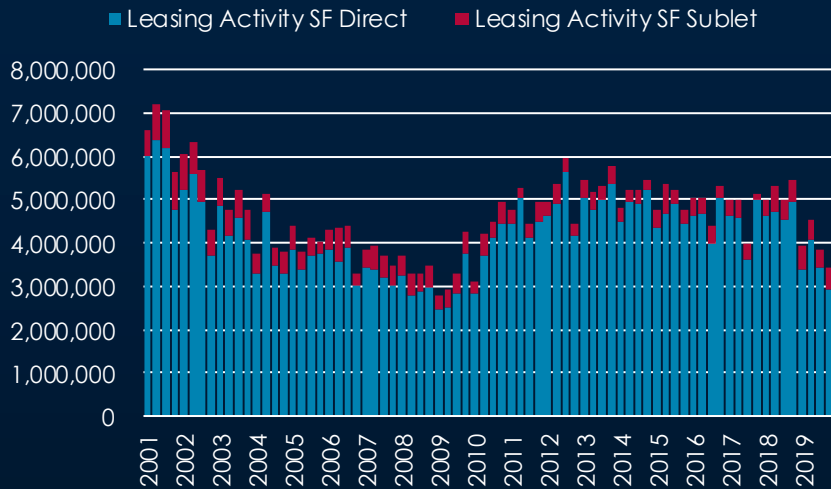
GROSS ABSORPTION FELL BELOW 4M SF FOR 1ST TIME SINCE 2015



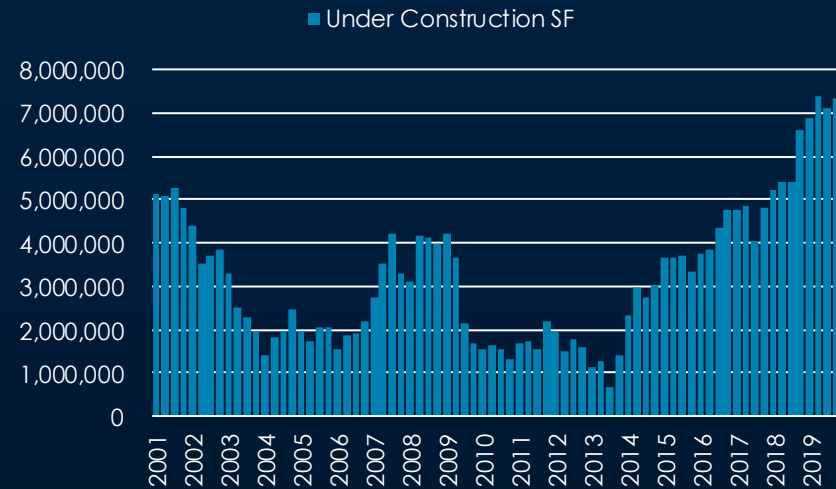
ASKING RENTS PLATEAUIING BUT SLIGHT INCREASE OF \$0.01 PSF



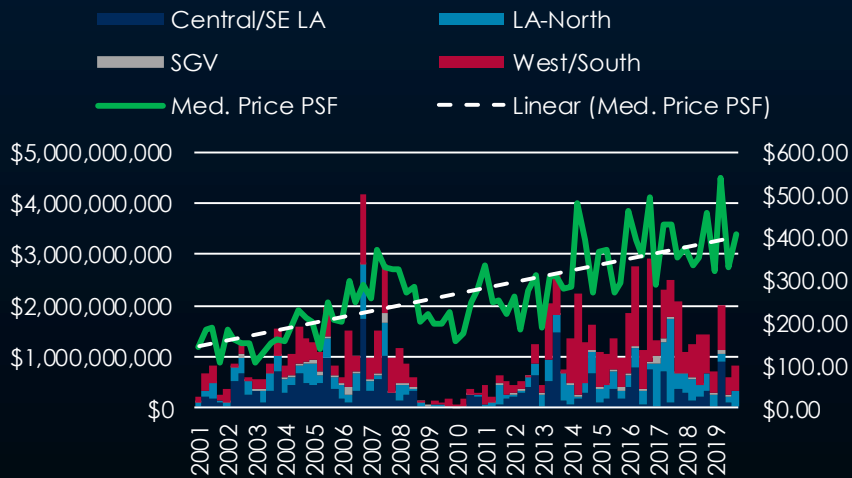
LEASING ACTIVITY LOWEST LEVEL OF 2019 AT JUST UNDER 3.5M SF



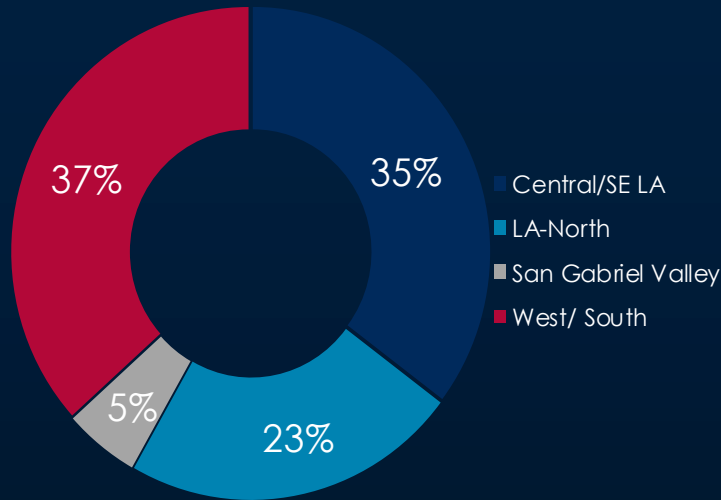
CONSTRUCTION ACTIVITY EXPANDED IN Q4 TO OVER 7.3M SF



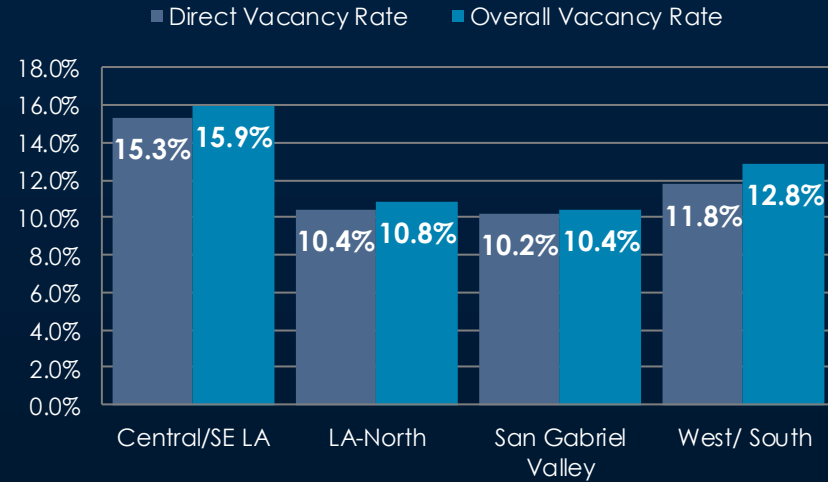
SALES MEDIAN PRICE PSF WAS \$405.33 IN Q4



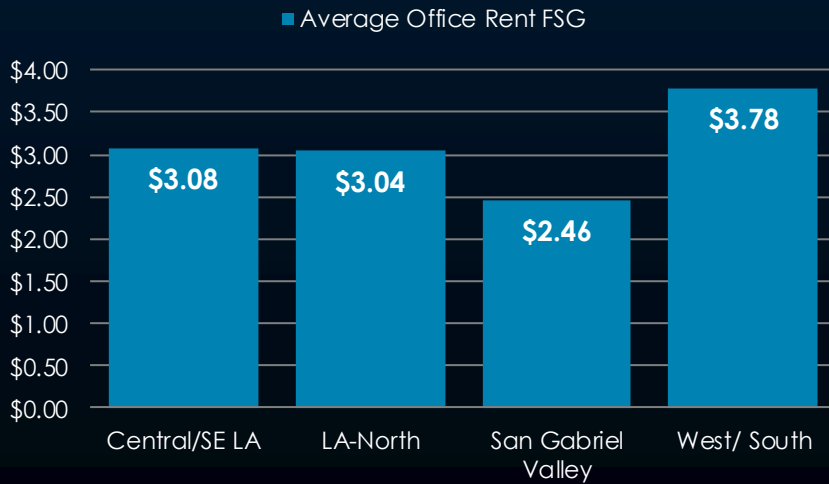
SQUARE FOOT BREAKDOWN- 242,621,463 SF MARKET SIZE



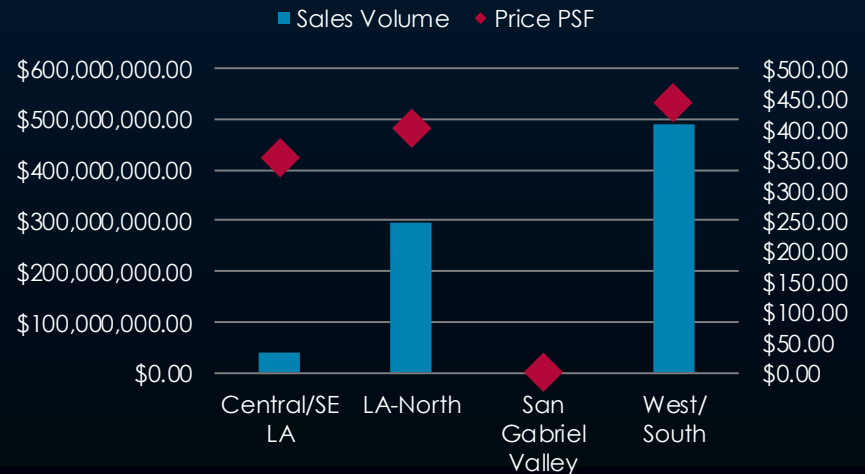
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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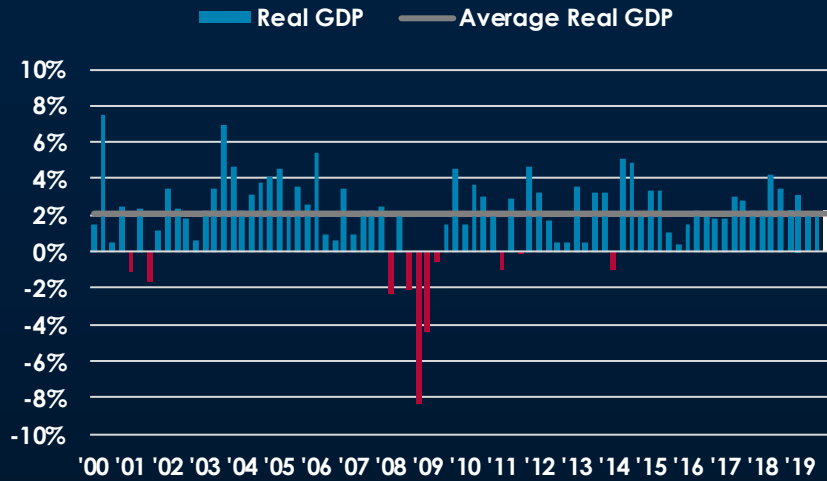
Economic Overview



Q4 2019

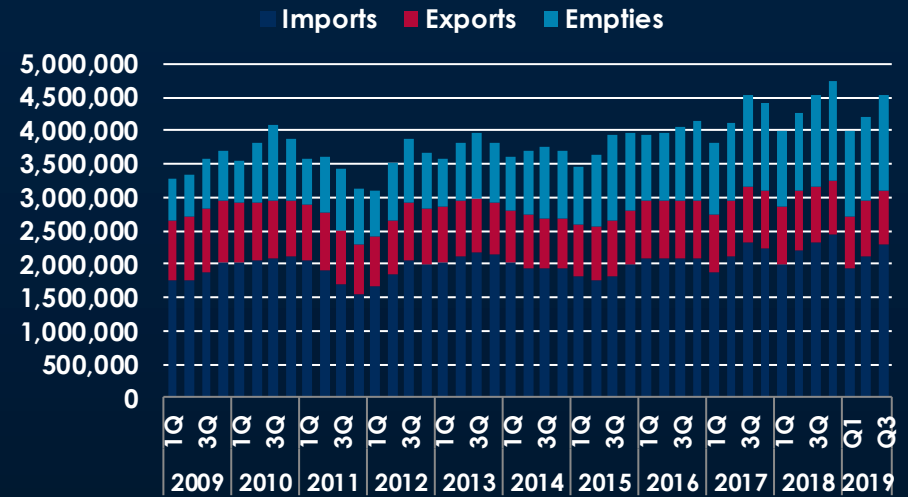
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

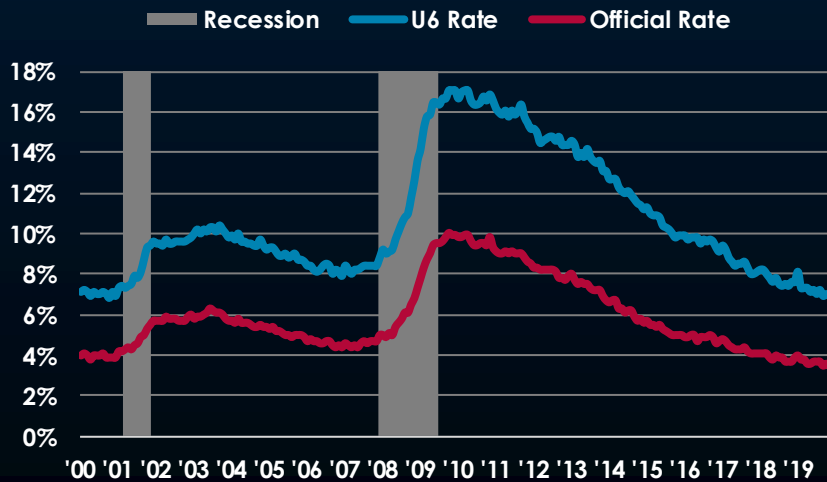


*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

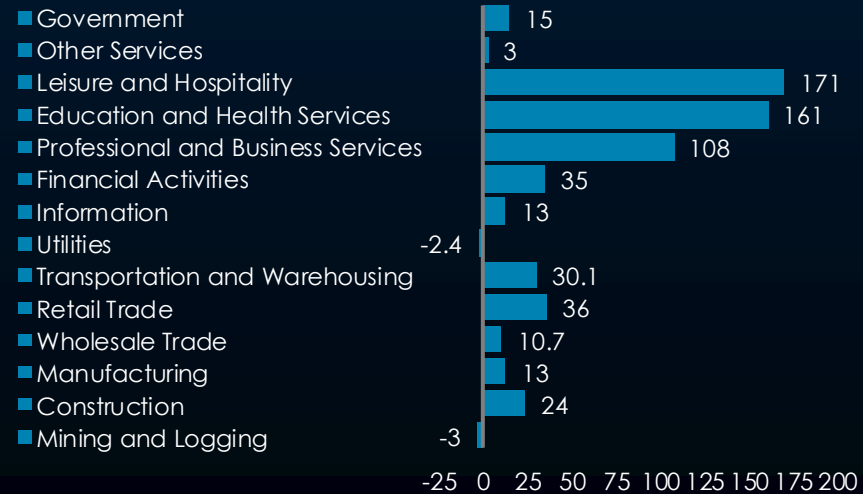
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



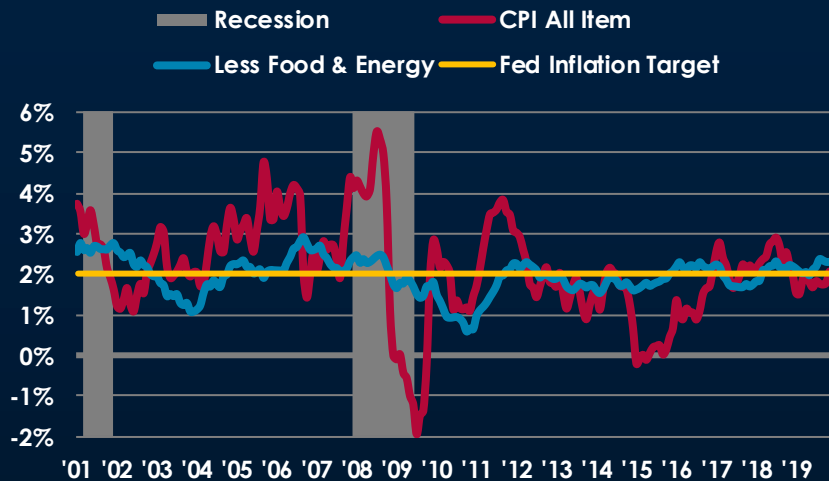
UNEMPLOYMENT CONTINUES DOWNWARD TREND



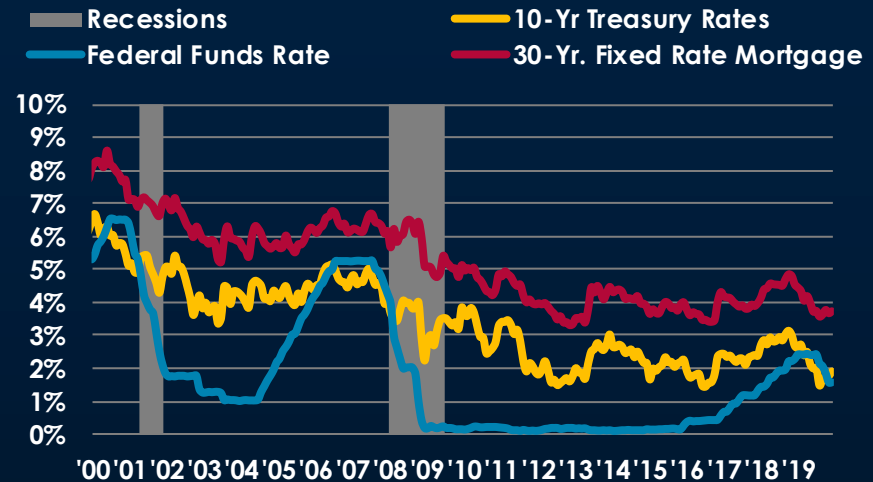
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



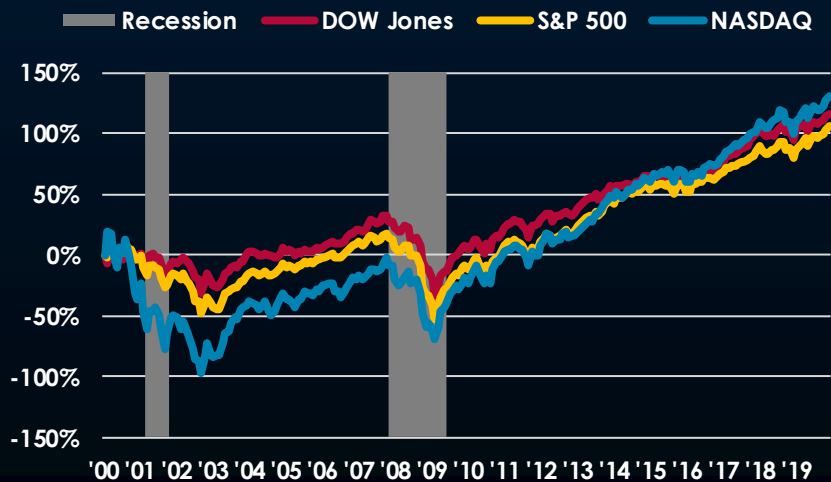
CPI JUST ABOVE 2% TARGET AT 2.05%



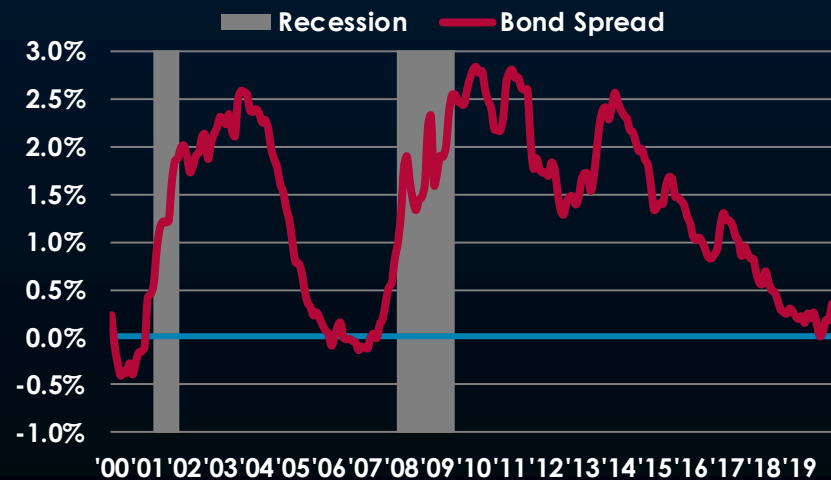
THE YIELD CURVE NORMALIZED IN Q4



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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