

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

# Market Report

Los Angeles Office

Central / Southeast



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# MARKET REPORT

# Q4

## Office 2019 Los Angeles Central/ Southeast



### MARKET ACTIVITY

### KEY TAKE AWAYS

### ECONOMIC OUTLOOK

#### MARKET

- **Vacancy Rate:** Down by 10 BPS to a rate of 15.9%
- **Net Absorption:** Only positive quarter of 2019.
- **Office Supply:** Over 1M SF was delivered in 2019. 460K SF of that was in Q4.
- **Sales:** Volume was down again in Q4. Total volume in 2019 was over \$1.1B. A 17% increase from 2018.
- **Asking Rents:** Remained the same as Q3. The rapid expansion of coworking & flexible office plans represent a downward pressure for the typical office space.

#### 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.



Direct Vacancy  
✓ 15.3%



Net Absorption  
▲ 6,350 SF



Overall Vacancy  
✓ 15.9%



Gross Absorption  
▲ 1,229,819 SF



Under Construction  
✓ 2,225,938 SF



Rental Rates (FSG)  
↔ \$3.11



Sale Price Q/Q Δ  
✓ 26.6%



Deal Volume Q/Q Δ  
✓ 71.6%



U.S. Employment  
✓ 3.5%



U6 Rate  
✓ 6.9%



Interest Rate  
▲ 3.7%  
(30 year fixed)



Changing GDP  
▲ 2.3%



Port Traffic Y/Y Δ  
▲ 0.3%



NYSE Performance  
▲ 7.5%



Inflation Change  
▲ 2.0%



10 Yr. - 2 Yr. Spread  
▲ 34 BPS

EXPERIENCE IN A CHANGING MARKET

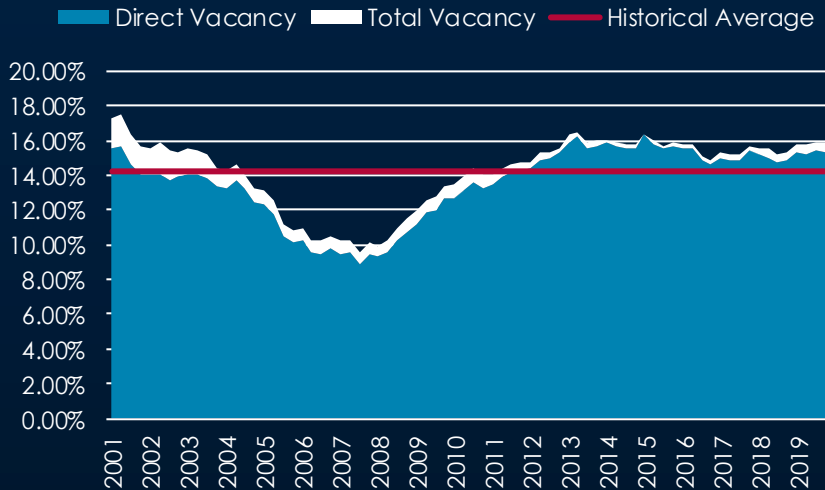
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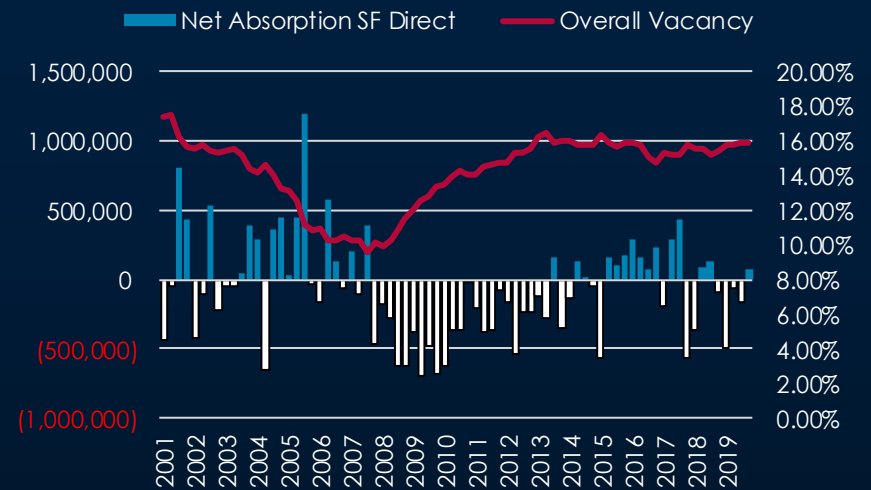
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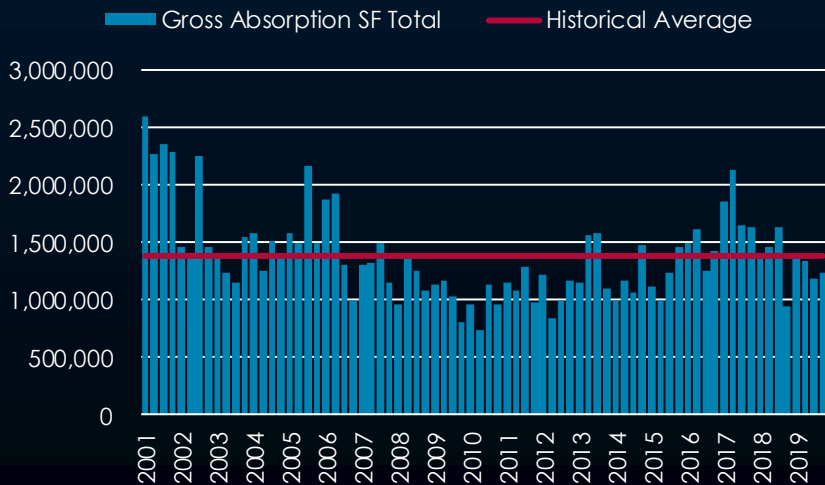
## OVERALL VACANCY DOWN BY 10 BPS FROM Q3 TO 15.9%



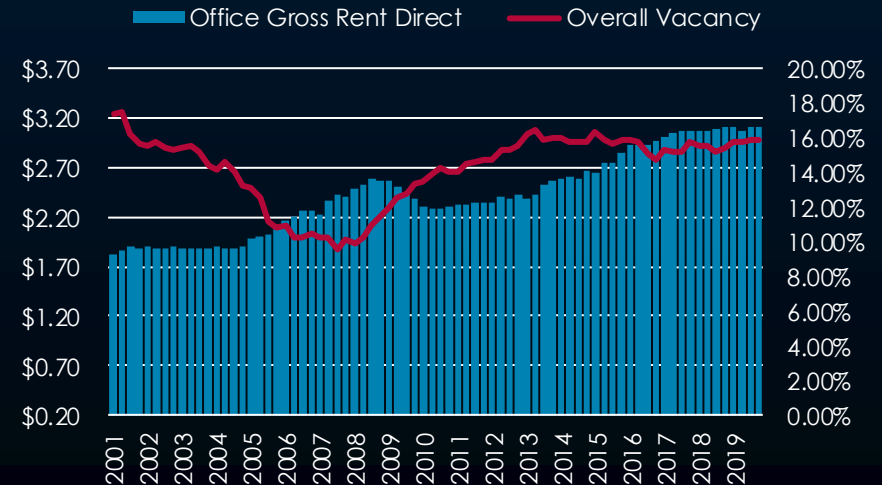
## NET ABSORPTION Q4 WAS THE ONLY POSITIVE QUARTER OF 2019



## GROSS ABSORPTION UP SLIGHTLY IN Q4 BUT REMAINS BELOW HISTORIC AVERAGE



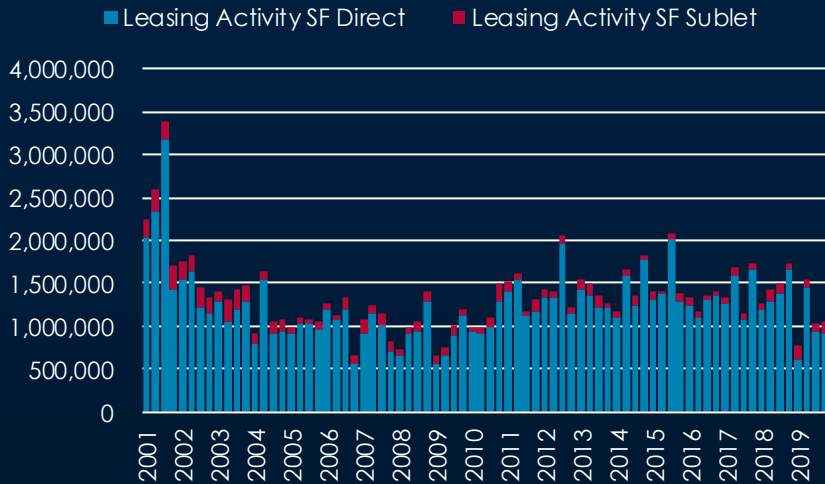
## ASKING RENTS REMAINED THE SAME AS Q3 AT \$3.11 PSF





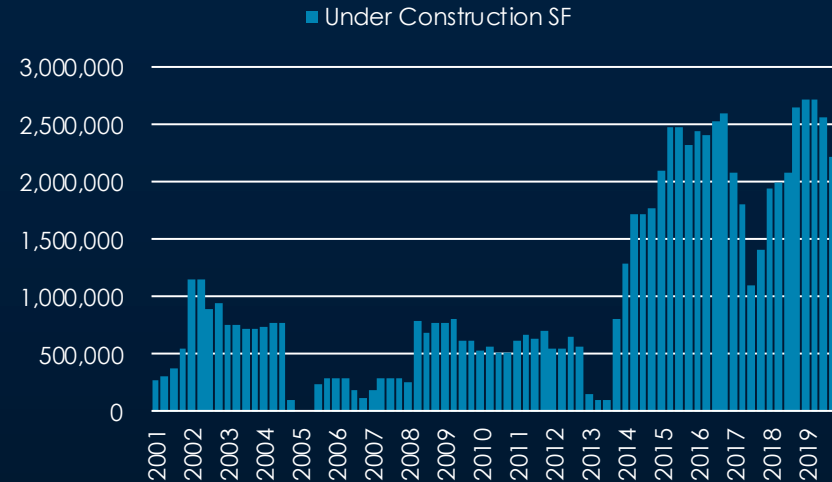
## LEASING ACTIVITY

UP BY ONLY 20K SF IN Q4. 2019 TOTALS DOWN 1.5M FROM 2018



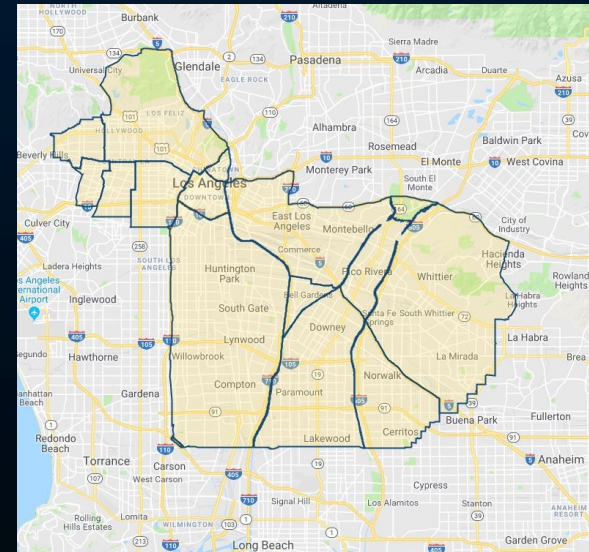
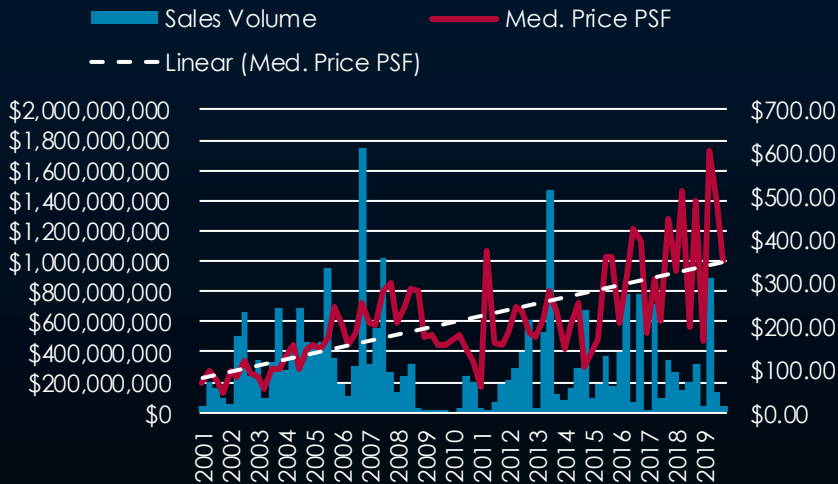
## CONSTRUCTION ACTIVITY

460K SF WAS DELIVERED IN Q4. TOTAL UC SLIGHT ABOVE 2.2M SF

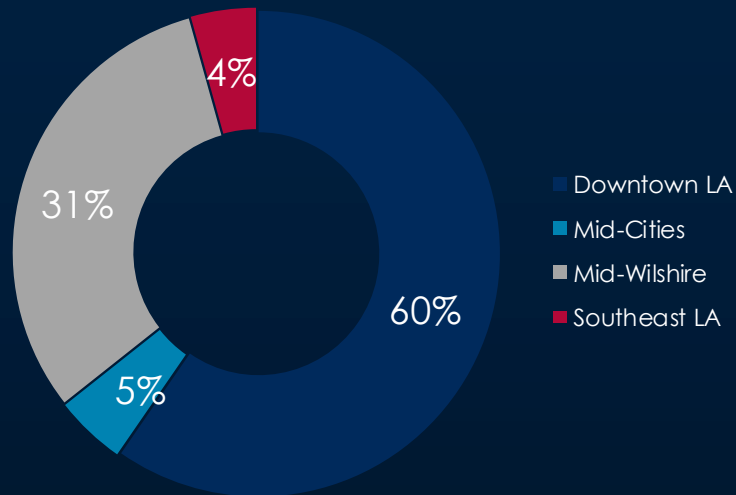


## SALES

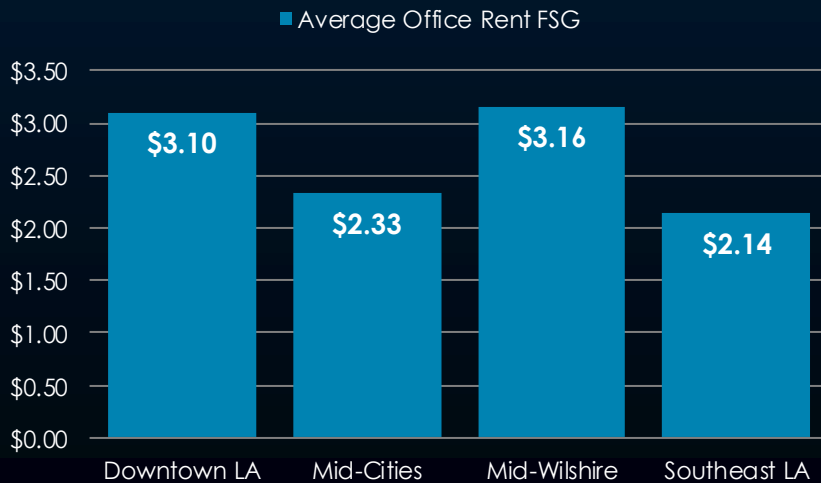
THE LACK OF HIGHLY DESIRABLE SALES IN Q4 LED TO LOWER VOLUME AND PRICES



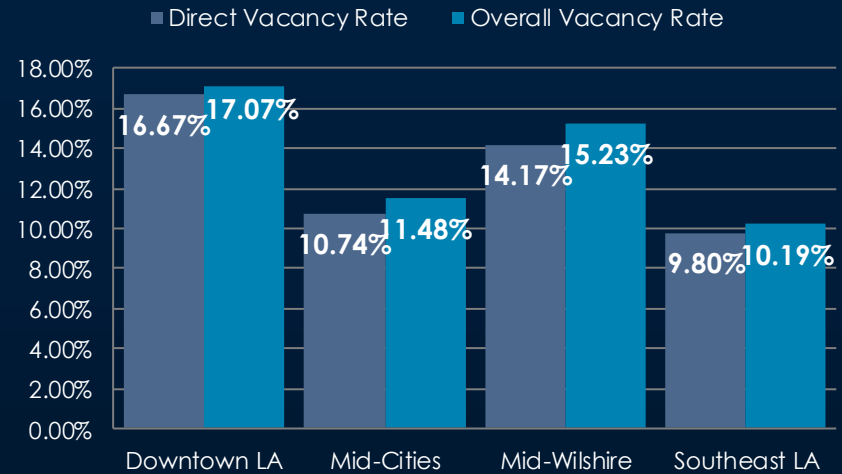
## SQUARE FOOT BREAKDOWN- 85,487,936 SF MARKET SIZE



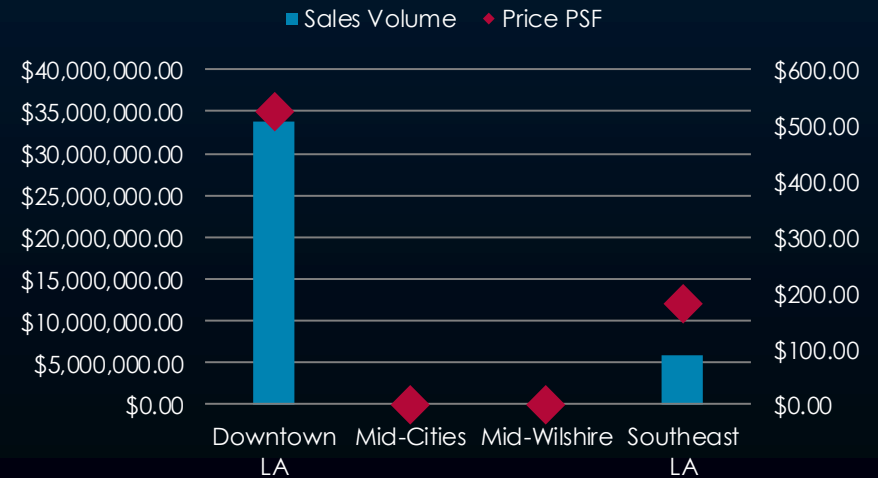
## AVERAGE RENT PSF



## VACANCY BREAKDOWN



## VOLUME BREAKDOWN



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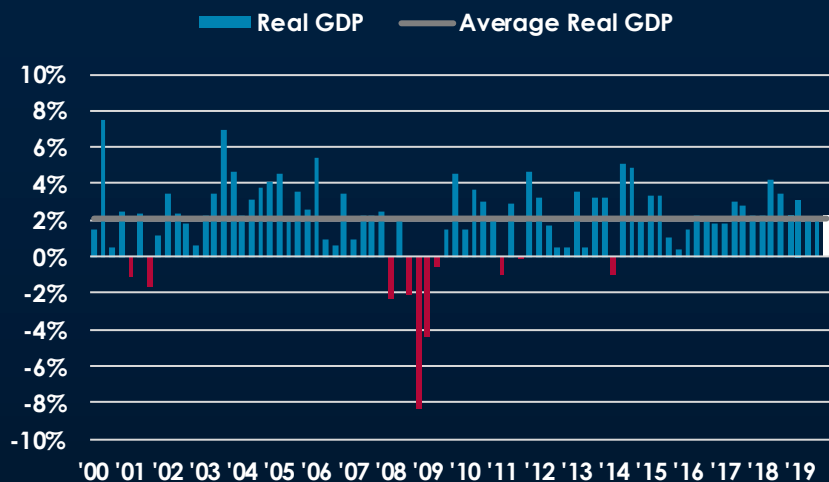
# Economic Overview



Q4 2019

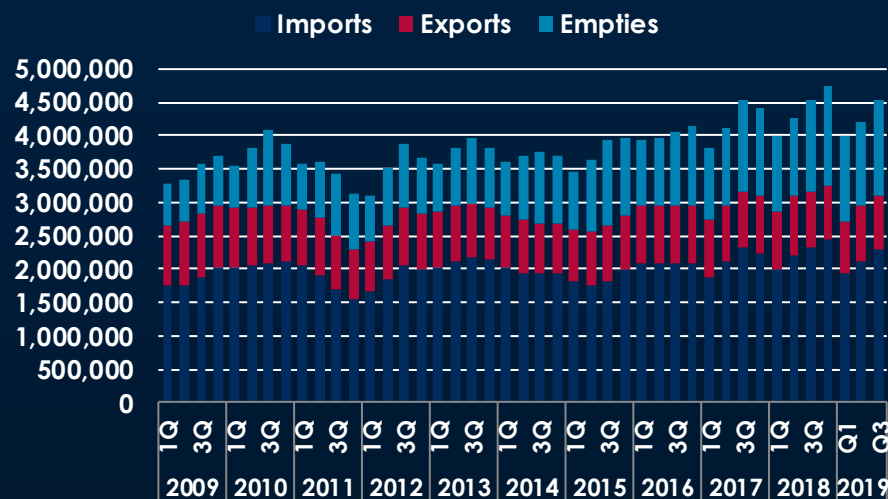
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

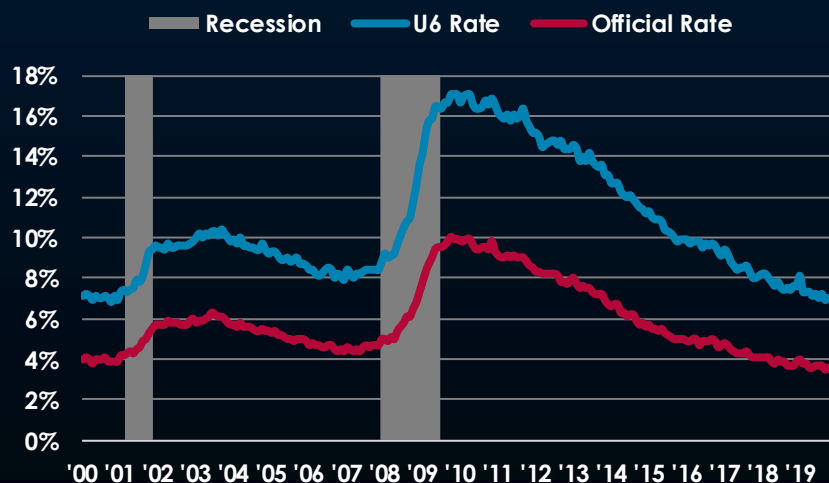


\*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

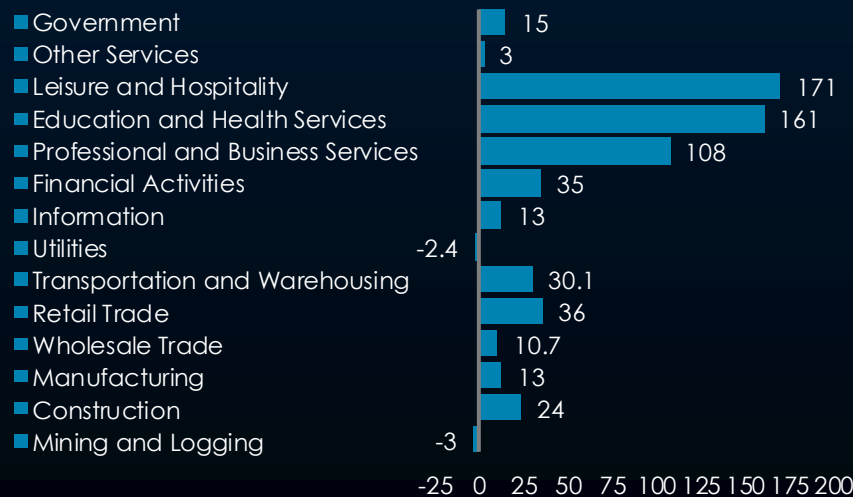
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



## UNEMPLOYMENT CONTINUES DOWNWARD TREND

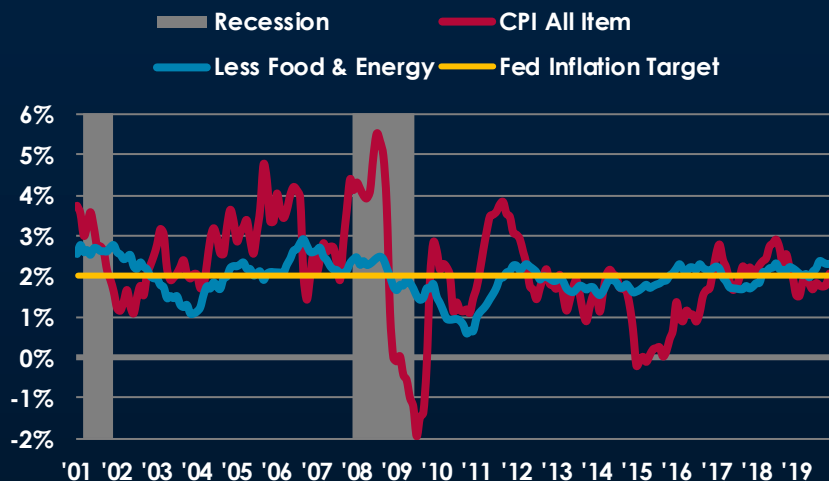


## MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH

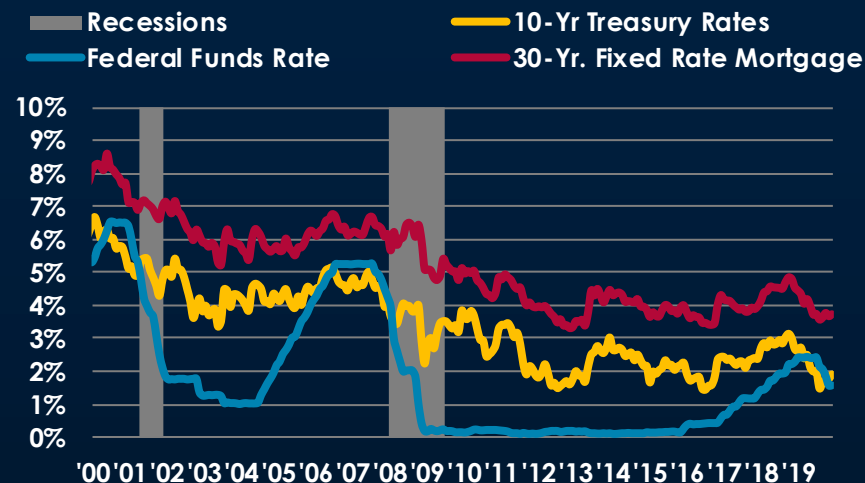


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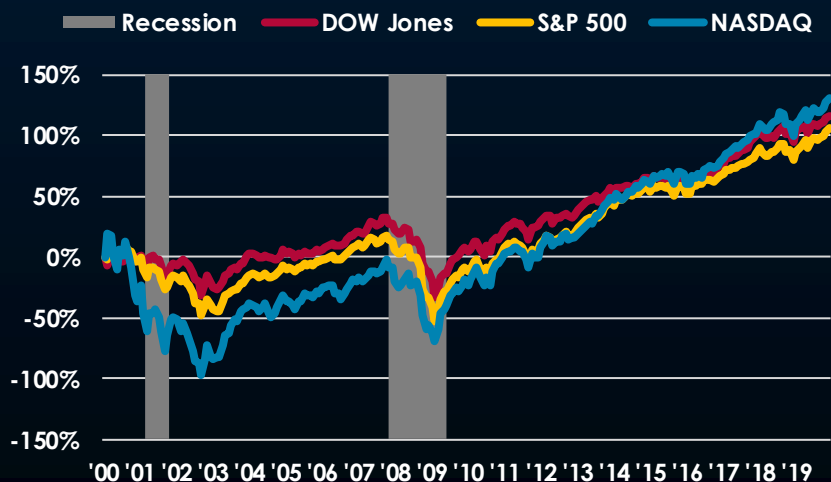
## CPI JUST ABOVE 2% TARGET AT 2.05%



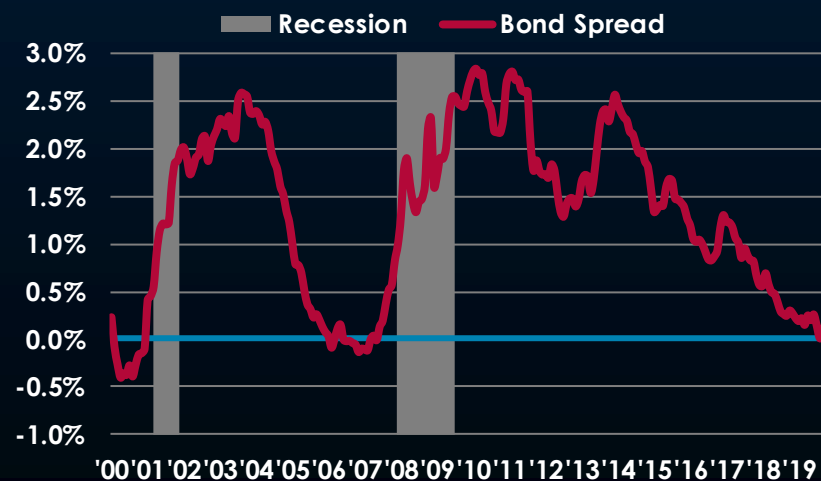
## THE YIELD CURVE NORMALIZED IN Q4



## 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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