

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

Market Report

Orange County Office



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MARKET REPORT Q4

Office 2019 Orange County



MARKET ACTIVITY

<p>Direct Vacancy ▲ 12.7%</p>	<p>Net Absorption ▼ -331,307 SF</p>
<p>Overall Vacancy ▲ 13.6%</p>	<p>Gross Absorption ▼ 1,702,911 SF</p>
<p>Under Construction ▼ 450,824 SF</p>	<p>Rental Rates (FSG) ▼ \$2.70</p>
<p>Sale Price Change ▲ 18.3%</p>	<p>Deal Volume ▲ 0.7%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Experienced an increase of 30 BPS in Q4 to a rate of 13.6%.
- **Net Absorption:** Declined sharply in Q4 resulting in the worst quarter of 2019.
- **Office Supply:** In 2019 over 1.3M SF was delivered. Over 450K SF remains under construction.
- **Sales:** Pricing saw gains in Q4 with the median price PSF of \$287.80. In 2019 volume was over \$1.66B, but off 25% from 2018.
- **Asking Rents:** Down for second straight quarter.

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>

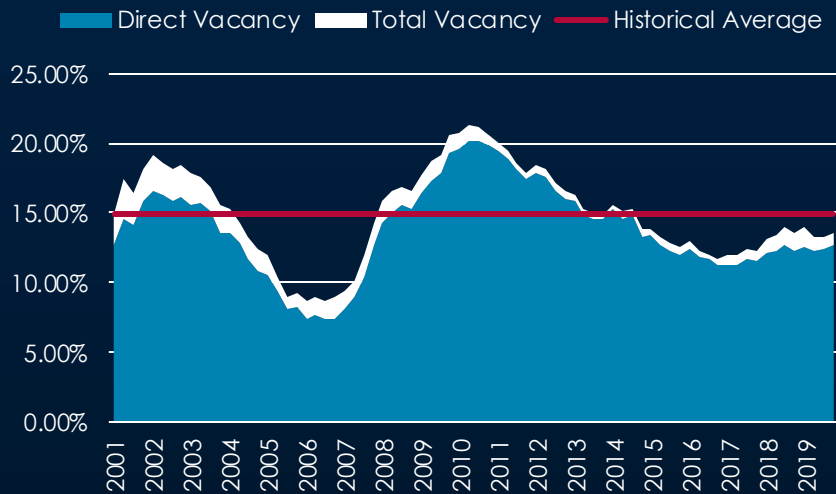
EXPERIENCE IN A CHANGING MARKET

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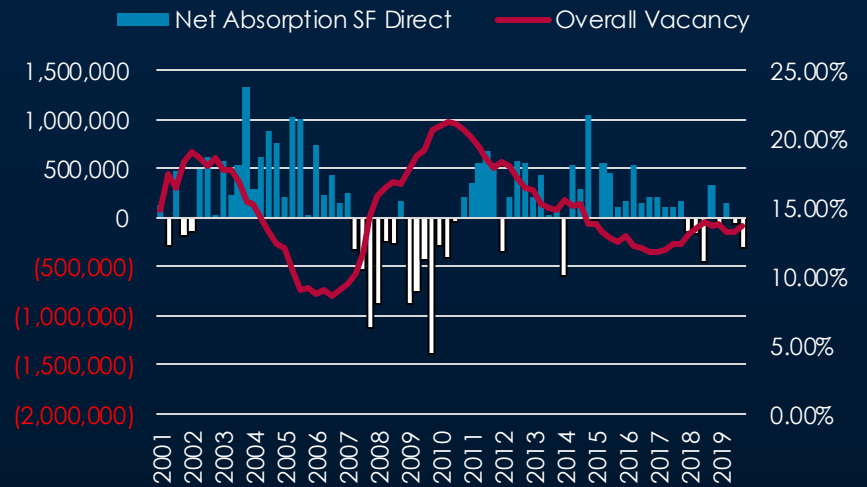


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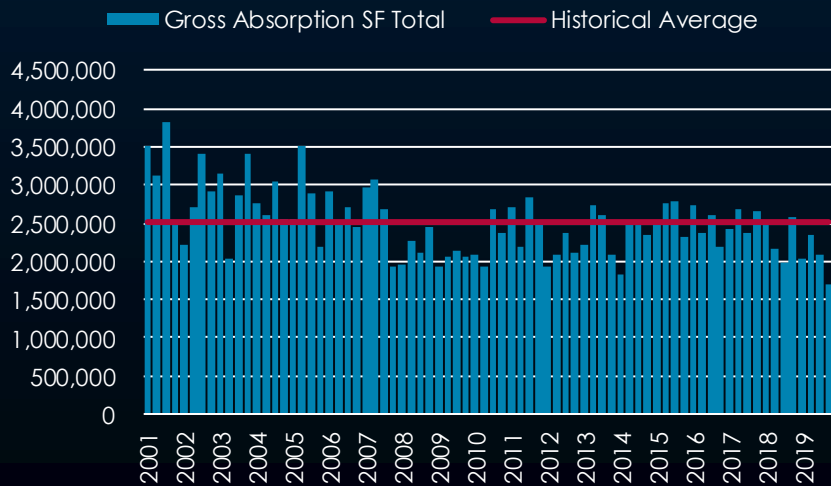
OVERALL VACANCY INCREASED BY 30 BPS IN Q4



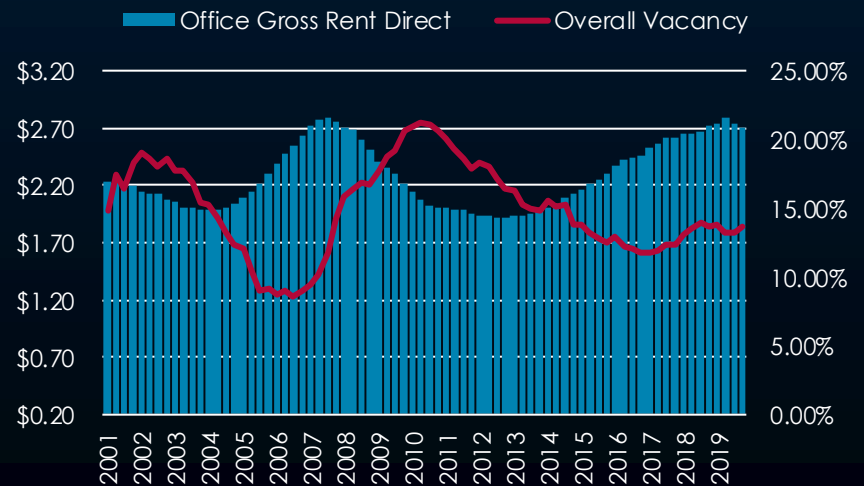
NET ABSORPTION WORST PERFORMING QUARTER OF 2019



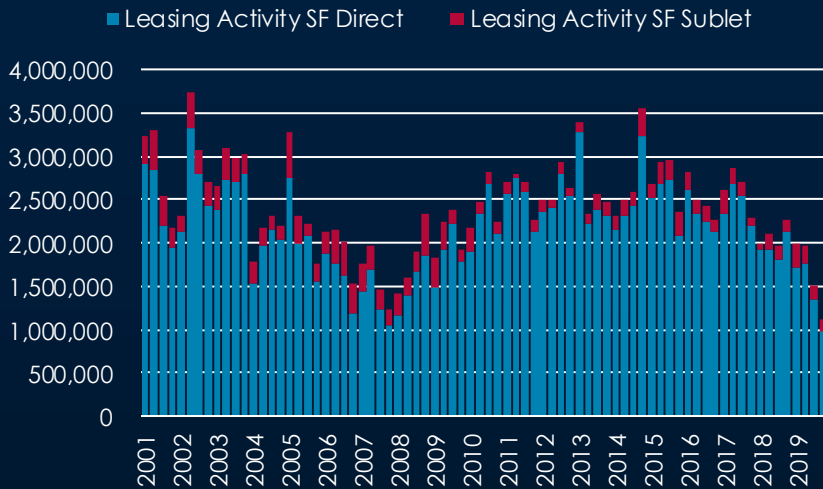
GROSS ABSORPTION FELL BELOW 2M SF. LOWEST TRACKED LEVEL



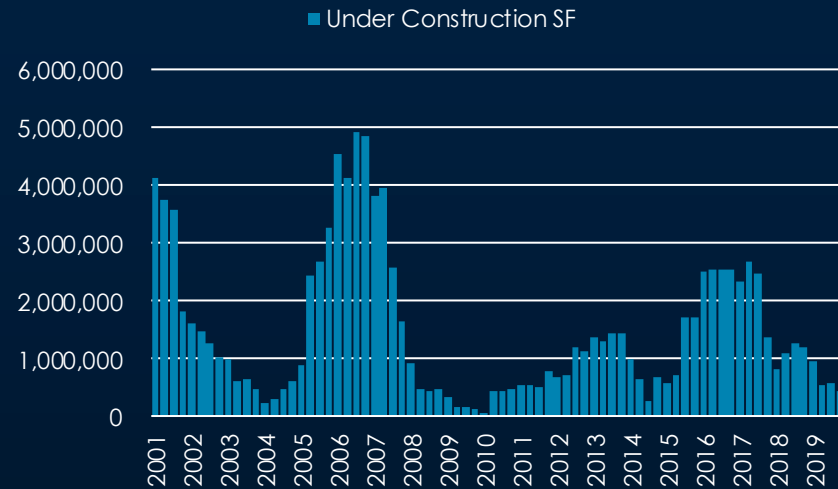
ASKING RENTS DROPPED AGAIN IN Q4 BUT BY ONLY \$0.01 PSF



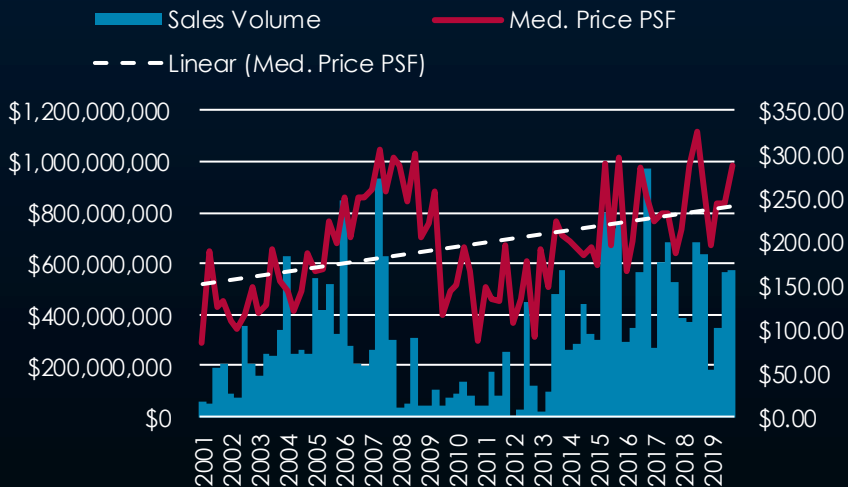
LEASING ACTIVITY CONTINUES TO DECLINE. Q4 WAS LOWEST TRACKED QUARTER



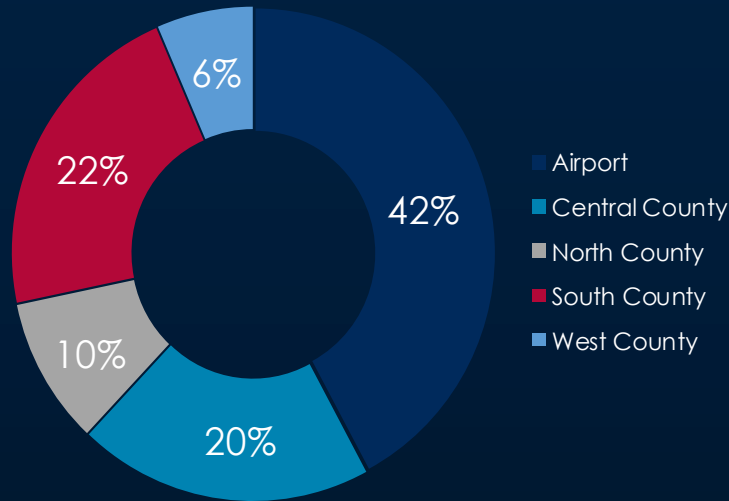
CONSTRUCTION ACTIVITY IN 2019 OVER 1.3M SF DELIVERED. OVER 450K SF REMAINS UC



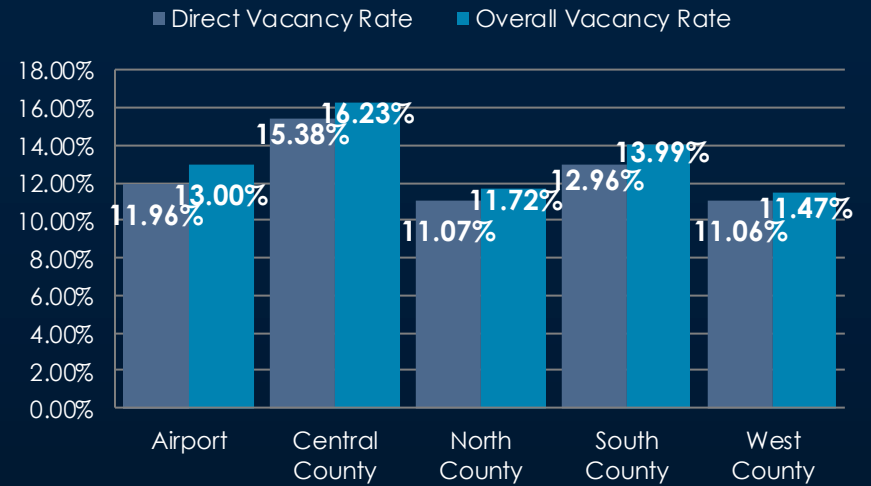
SALES MEDIAN PRICE PSF FOR Q4 WAS \$287.80



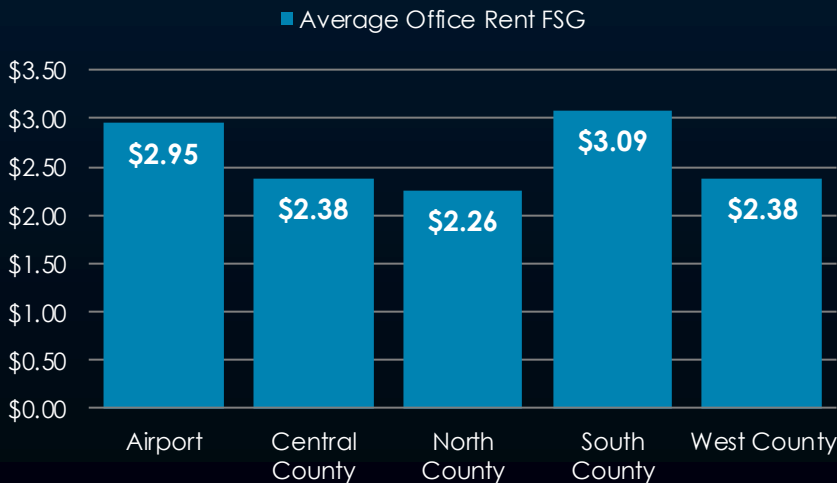
SQUARE FOOT BREAKDOWN- 87,221,410 SF MARKET SIZE



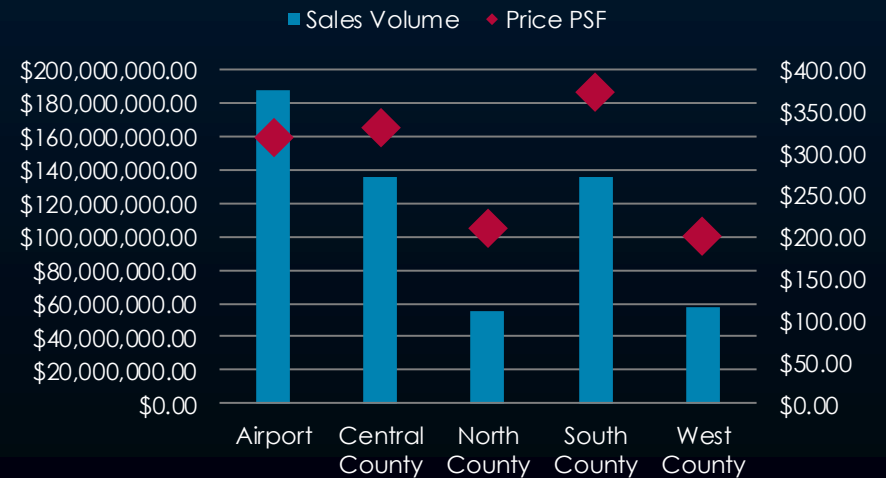
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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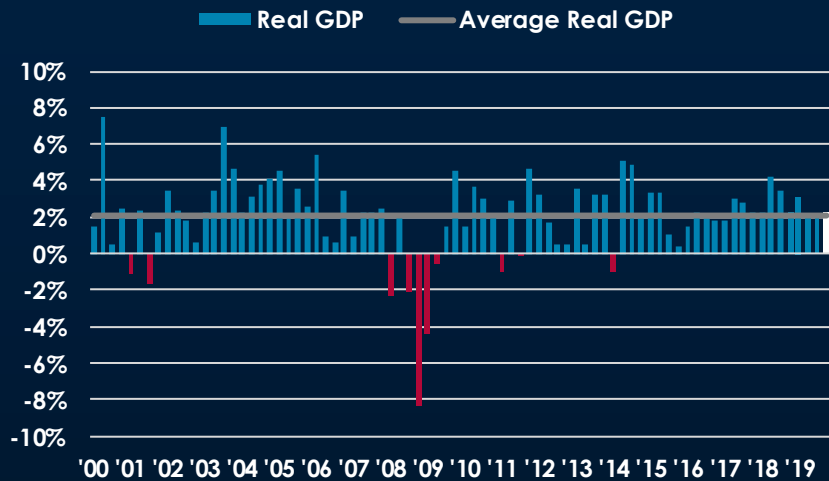
Economic Overview



Q4 2019

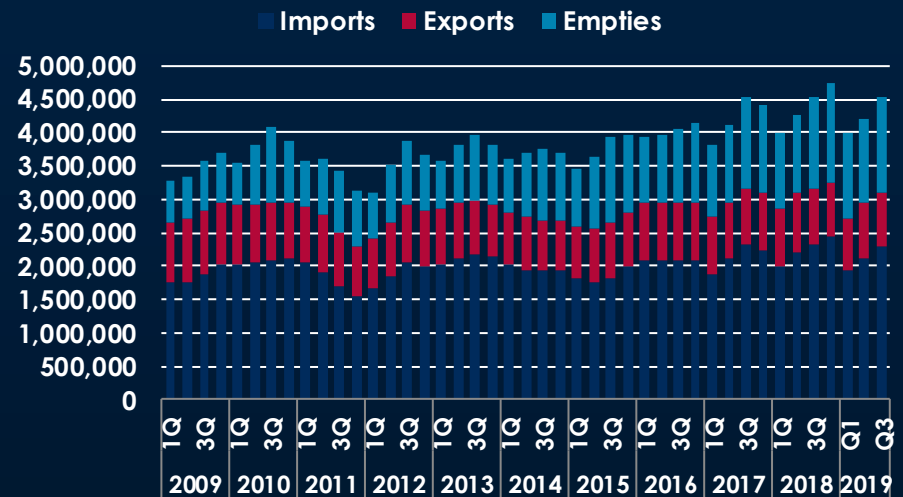
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

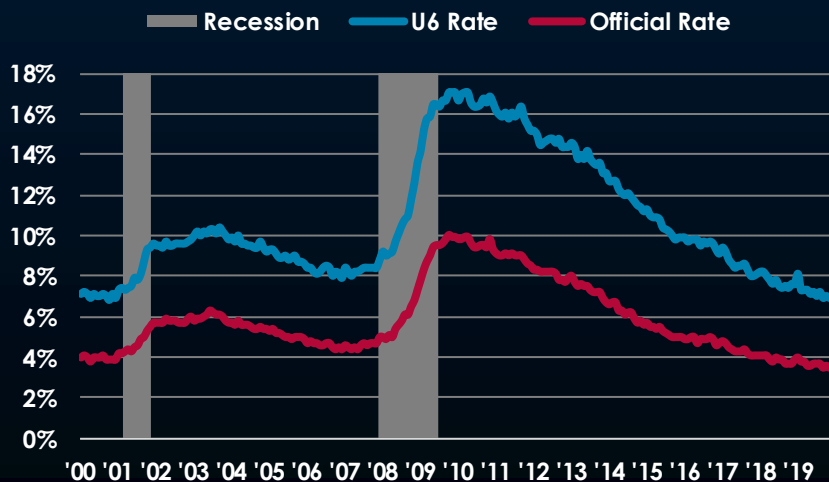


*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

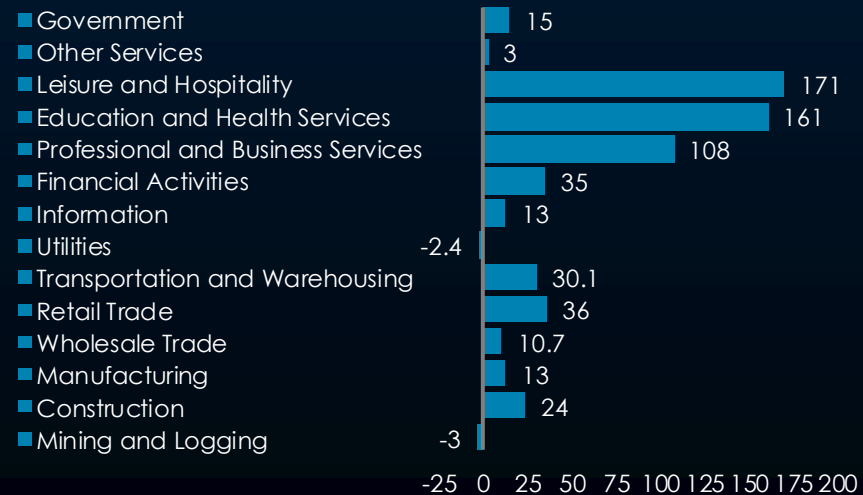
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



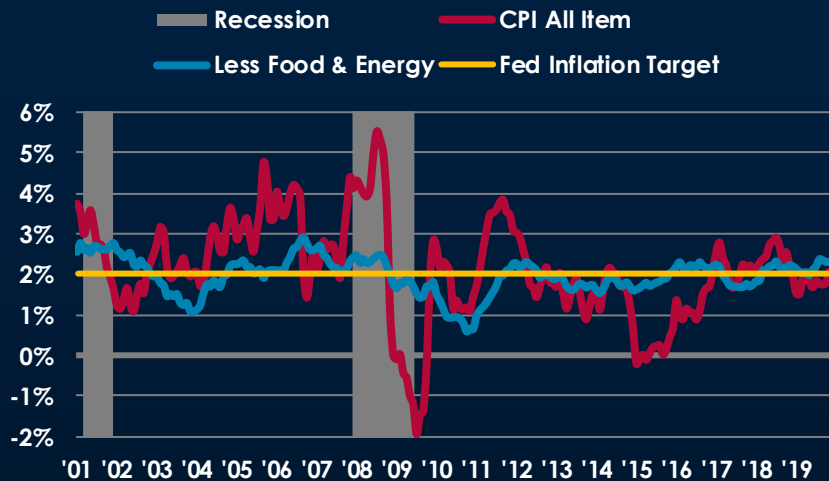
UNEMPLOYMENT CONTINUES DOWNWARD TREND



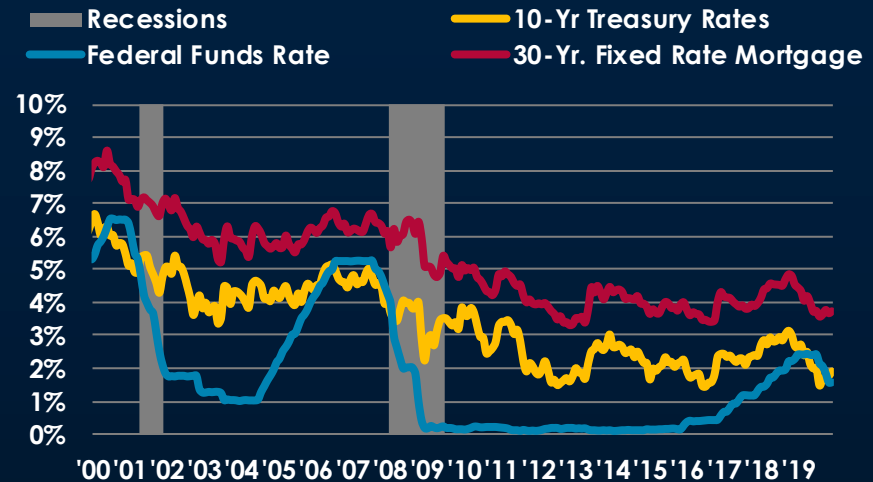
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



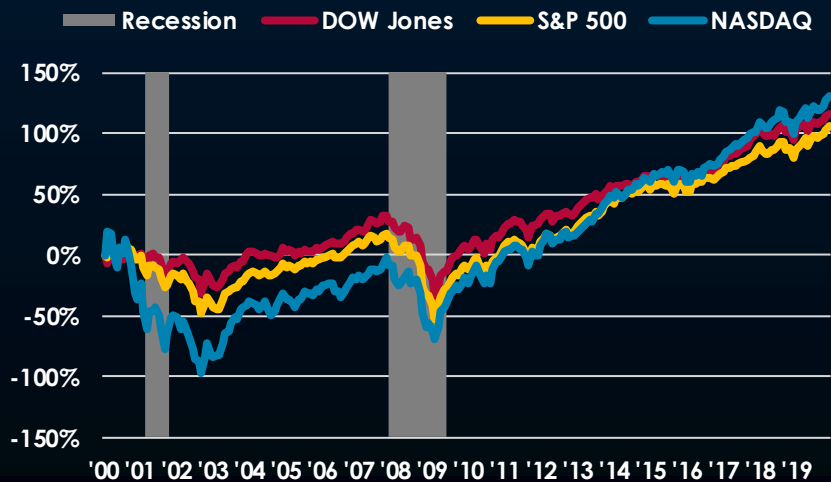
CPI JUST ABOVE 2% TARGET AT 2.05%



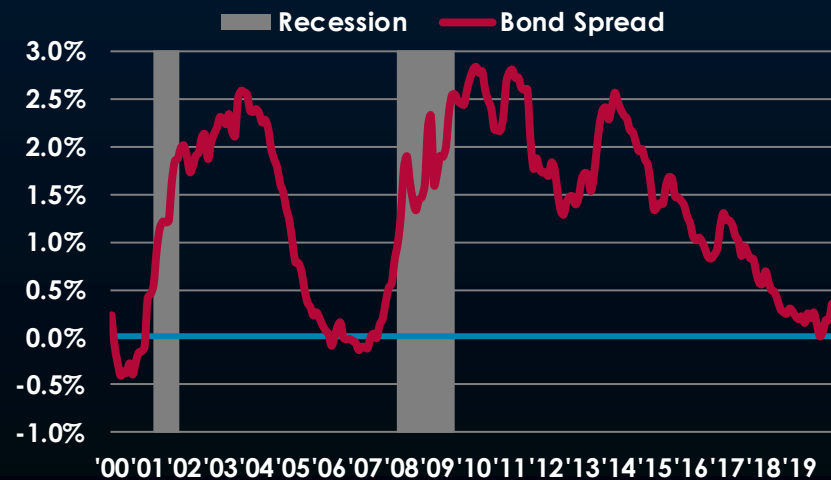
THE YIELD CURVE NORMALIZED IN Q4



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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