

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

Market Report

Los Angeles Office

West/ South



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MARKET REPORT Q4

Office 2019 Los Angeles West/ South



MARKET ACTIVITY

<p>Direct Vacancy ▲ 11.8%</p>	<p>Net Absorption ▼ -151,053 SF</p>
<p>Overall Vacancy ▲ 12.8%</p>	<p>Gross Absorption ▼ 1,465,816 SF</p>
<p>Under Construction ▲ 3,586,812 SF</p>	<p>Rental Rates (FSG) ▲ \$3.67</p>
<p>Sale Price Q/Q Δ ▼ 5.9%</p>	<p>Deal Volume Q/Q Δ ▲ 31.9%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Saw a slight increase of 10 BPS in Q4.
- **Net Absorption:** Fell back into negative territory in Q4.
- **Office Supply:** The West/South market remains a hotbed for new construction.
- **Trends:** Technology companies leasing large amounts of space. Co-working & creative office continue to increase footprint, but companies like WeWork may slow their expansions.

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>

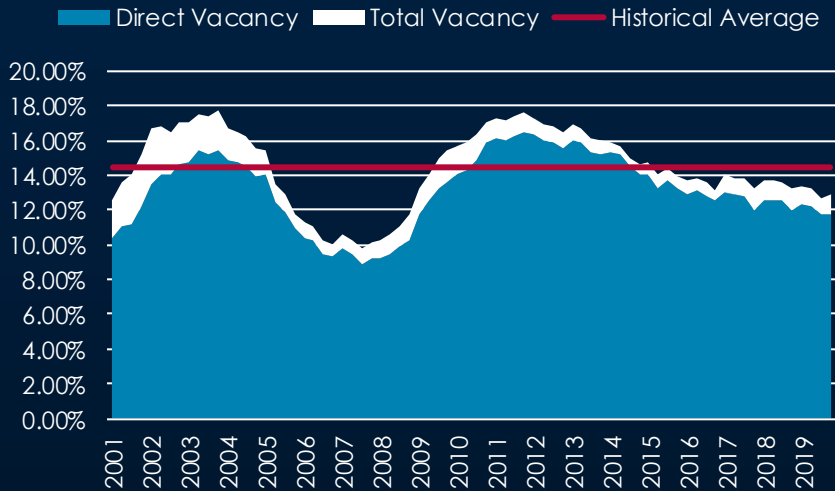
EXPERIENCE IN A CHANGING MARKET

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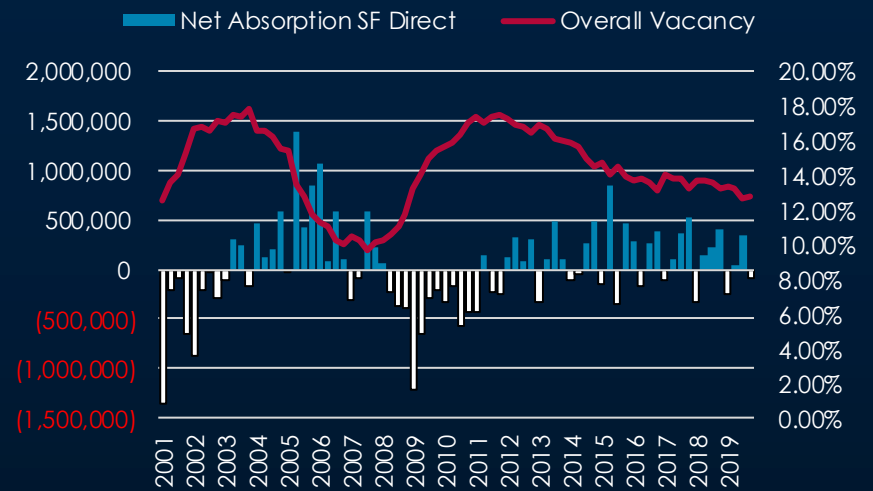


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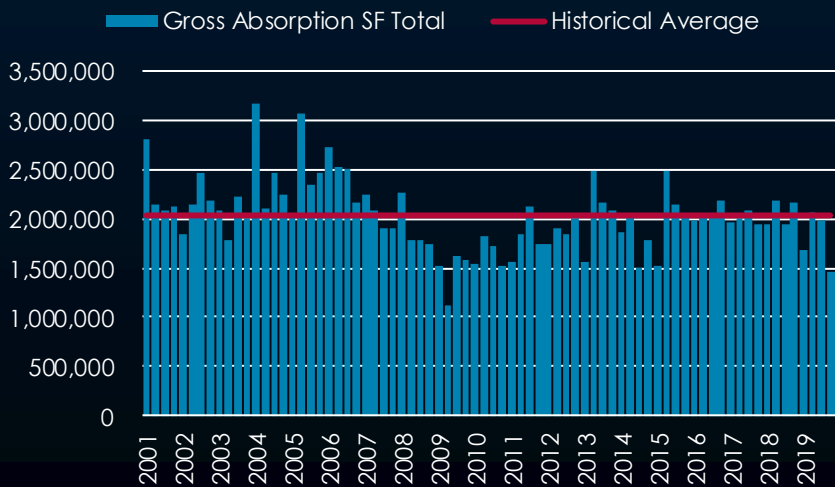
OVERALL VACANCY INCREASED BY 10 BPS FROM Q3



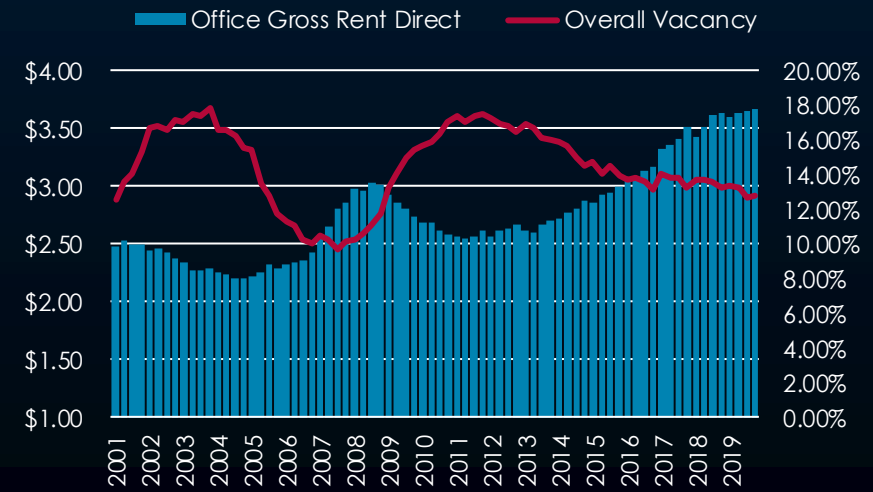
NET ABSORPTION TURNED NEGATIVE IN Q4



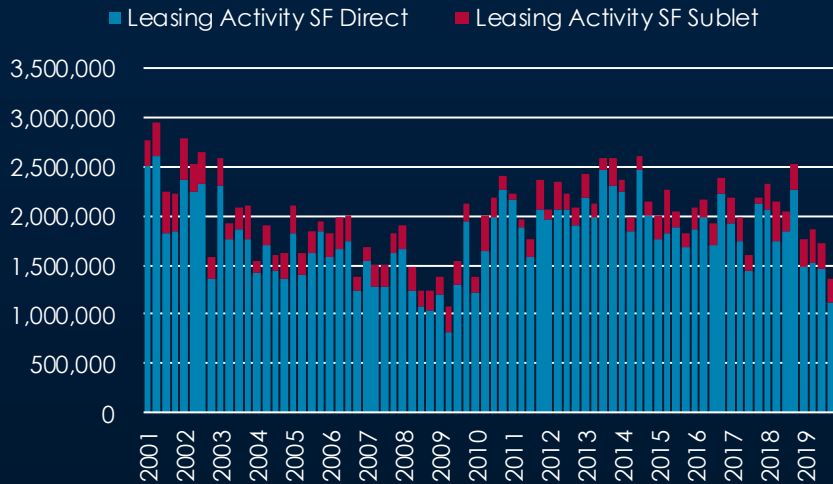
GROSS ABSORPTION DOWN AGAIN IN Q4 TO UNDER 1.5M SF



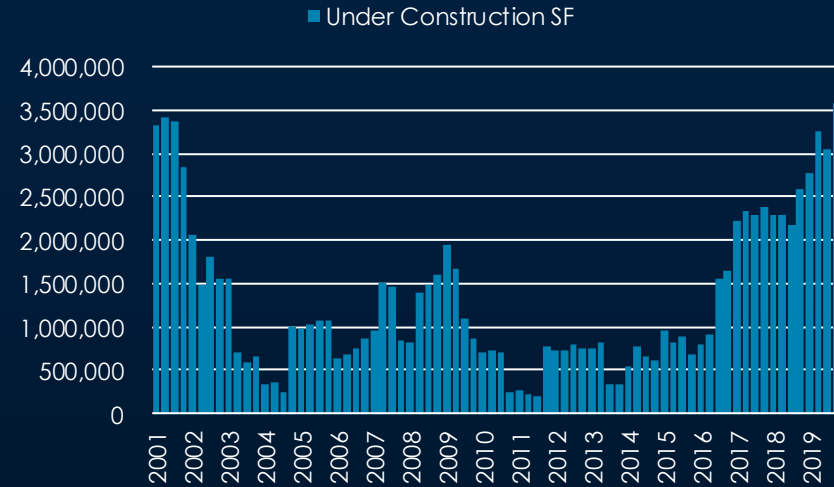
ASKING RENTS CONTINUE TO FLATTEN



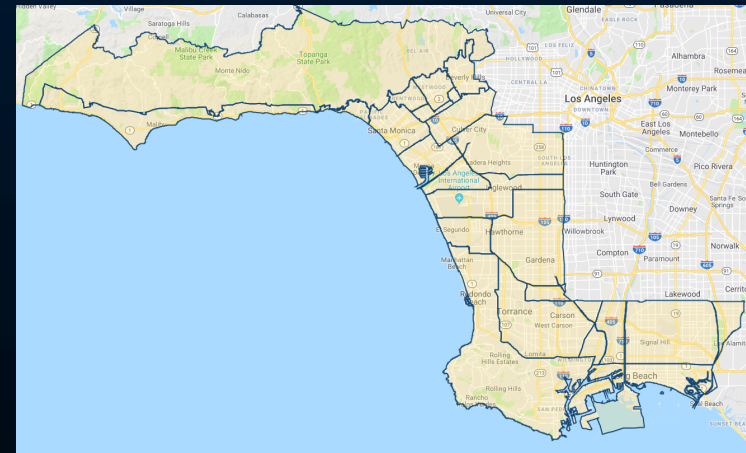
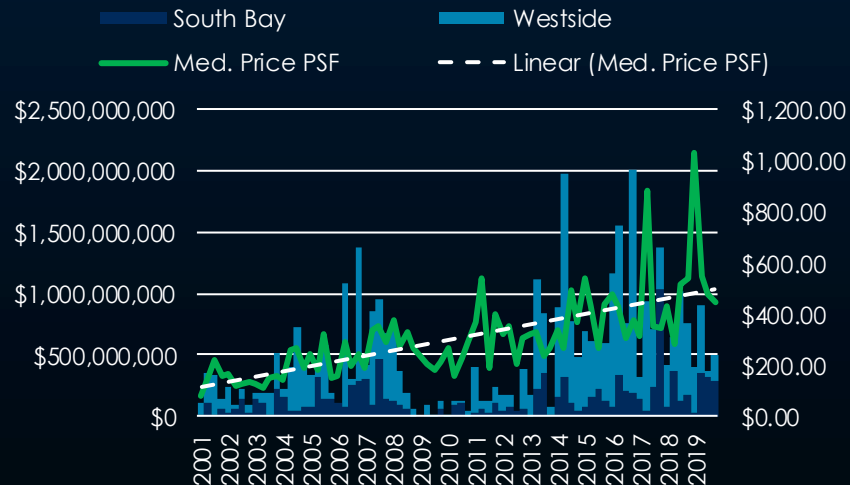
LEASING ACTIVITY WORST QUARTER OF 2019 FALLING BELOW 1.4M SF



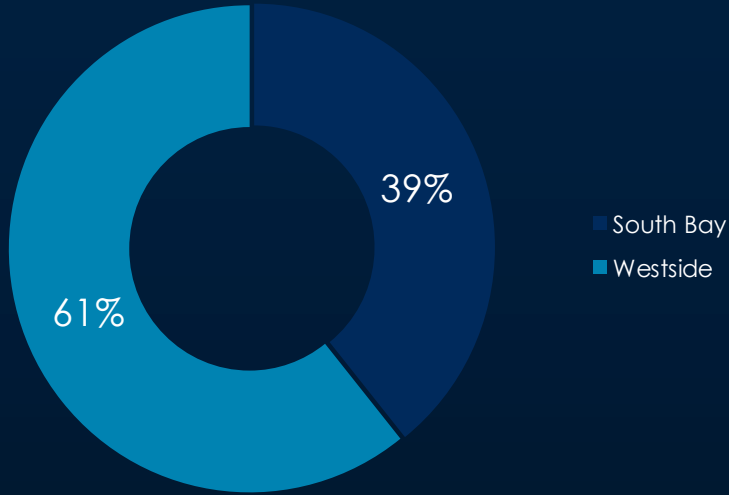
CONSTRUCTION ACTIVITY GREW TO OVER 3.5M SF IN Q4



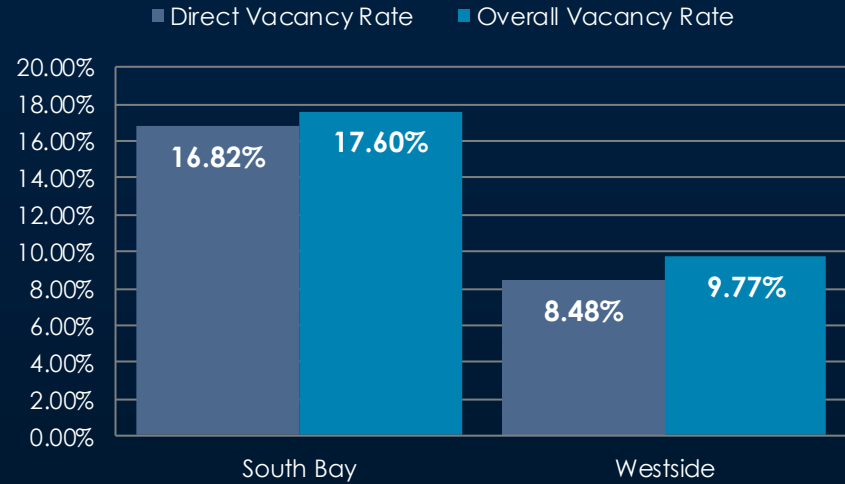
SALES MEDIAN PRICE PSF IN Q3 WAS \$445.64. VOLUME DOWN IN Q4



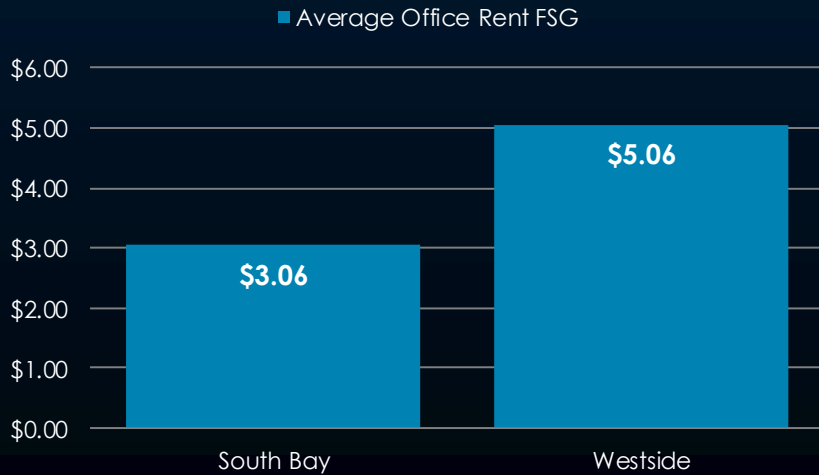
SQUARE FOOT BREAKDOWN- 88,954,270 SF MARKET SIZE



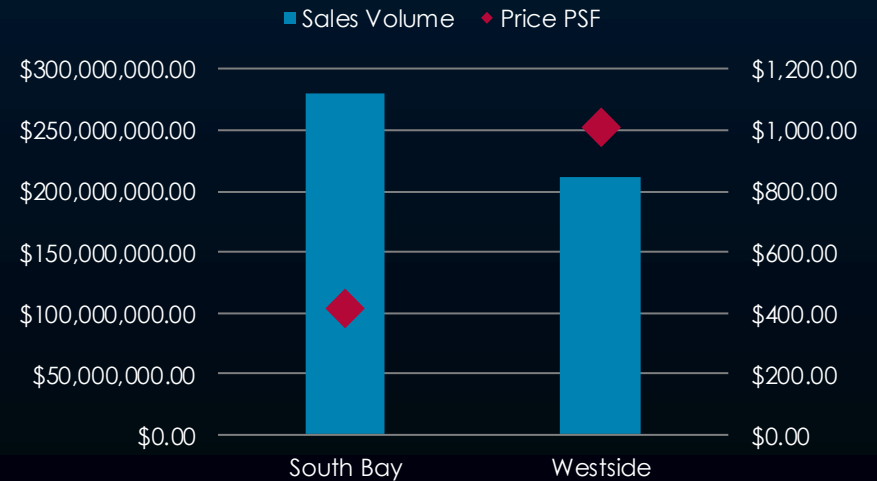
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q4 | 2019

Market Report

Los Angeles Office

South Bay



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MARKET REPORT Q4

Office 2019 Los Angeles South Bay



MARKET ACTIVITY

<p>Direct Vacancy ▲ 16.8%</p>	<p>Net Absorption ▼ -232,970 SF</p>
<p>Overall Vacancy ▲ 17.6%</p>	<p>Gross Absorption ▼ 535,732 SF</p>
<p>Under Construction ▲ 1,420,723 SF</p>	<p>Rental Rates (FSG) ▲ \$2.97</p>
<p>Sale Price Change ▼ 6.4%</p>	<p>Deal Volume ▼ 17.3%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Decreased by 70 BPS from Q3.
- **Net Absorption:** Returned to negative levels after positive Q3.
- **Office Supply:** The South Bay market is experiencing a boom with a few major developments beginning construction.
- **Sales:** Volume and pricing were slightly down in Q4. In 2019, total volume was nearly \$1B, A 34% increase from 2018.
- **Asking Rents:** Appear to be leveling out.

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>

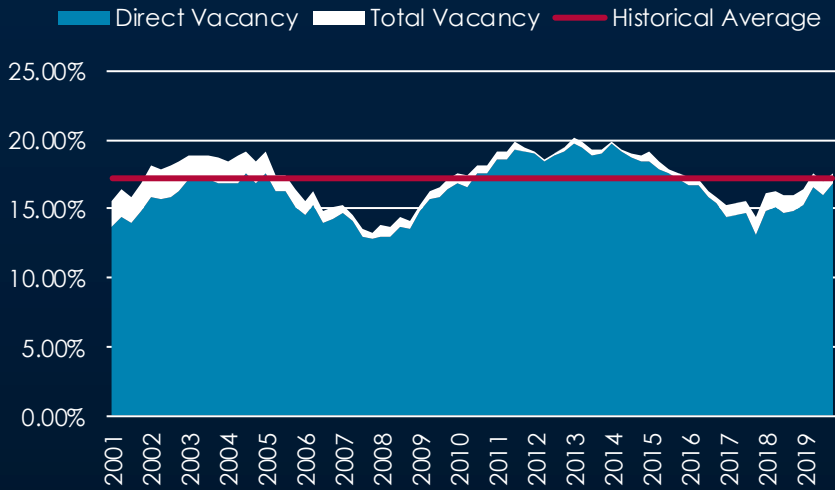
EXPERIENCE IN A CHANGING MARKET

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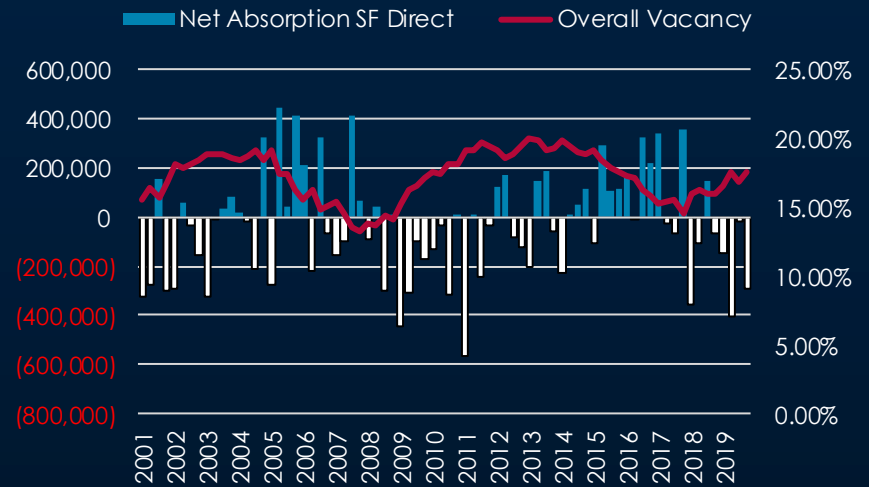


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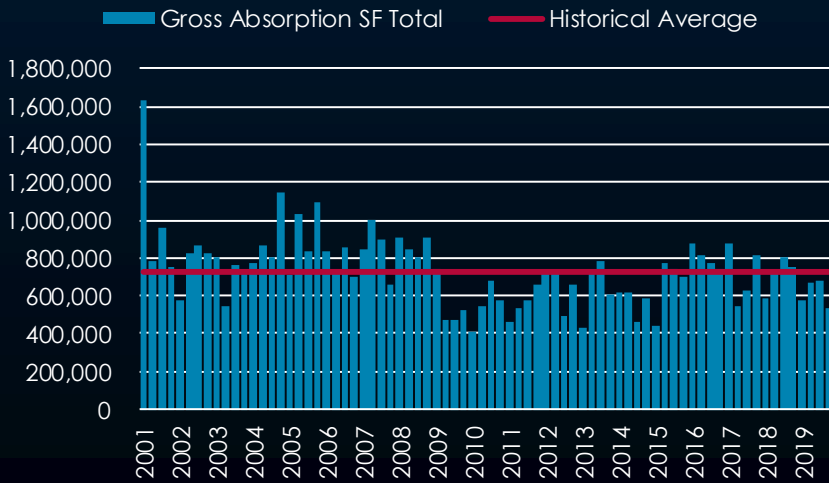
OVERALL VACANCY INCREASED BY 70 BPS IN Q4



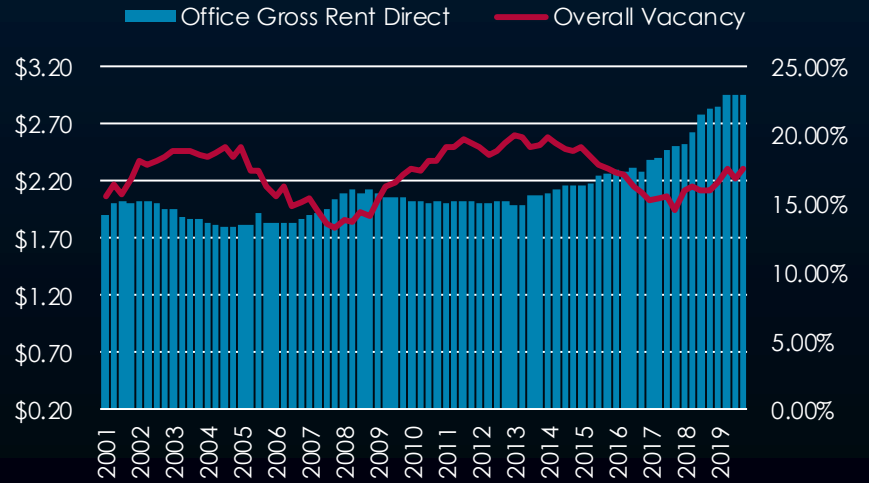
NET ABSORPTION REVERTED BACK TO NEGATIVE LEVELS IN Q4



GROSS ABSORPTION WEAKEST QUARTER IN 2019

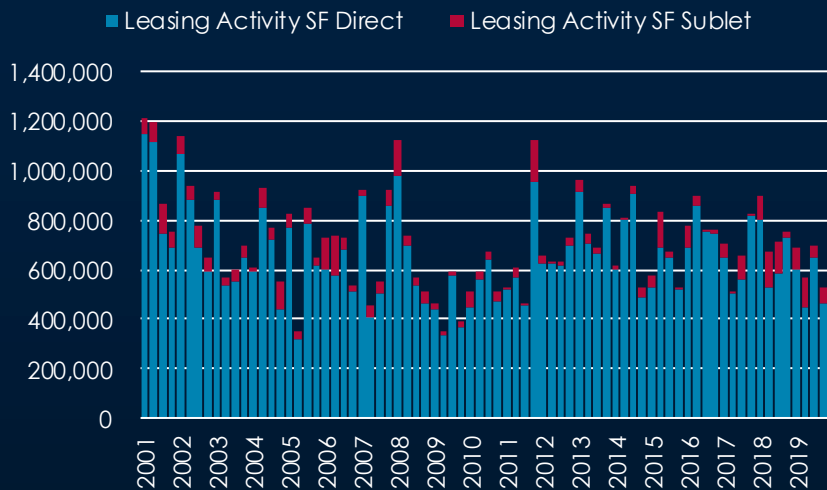


ASKING RENTS APPEAR TO BE CLOSE TO TOPPING OUT

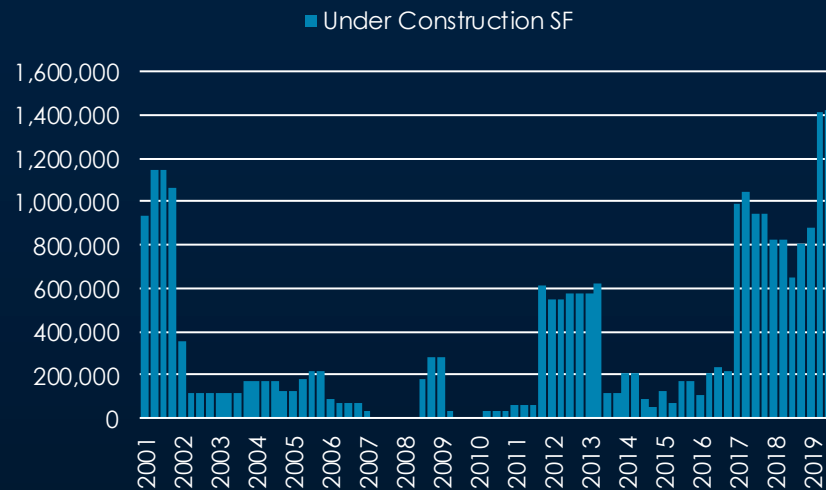


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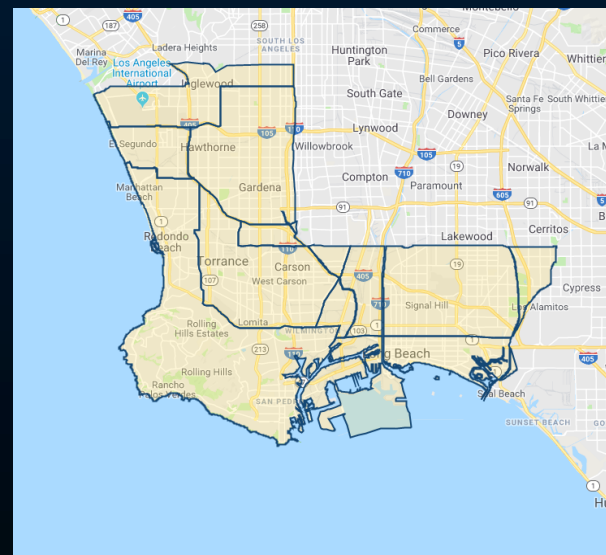
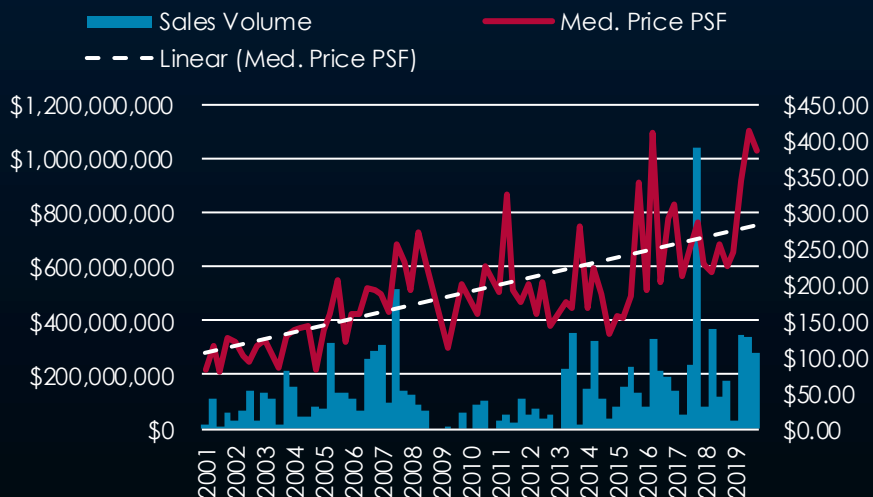
LEASING ACTIVITY LOWEST QUARTER OF 2019



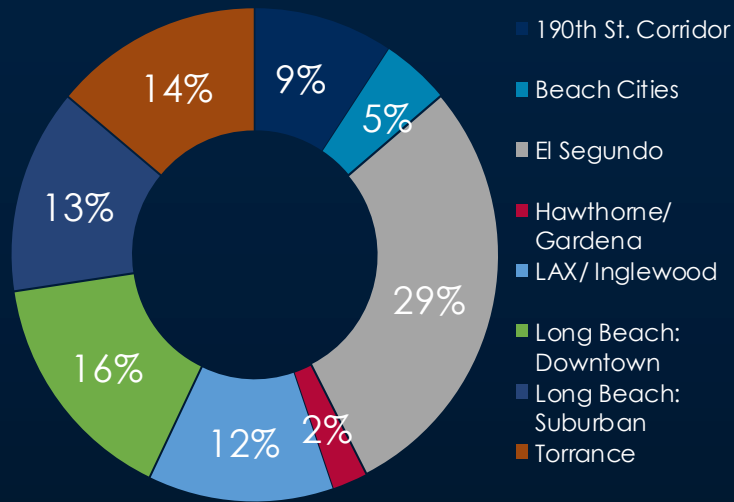
CONSTRUCTION ACTIVITY ABOVE 1.4M SF



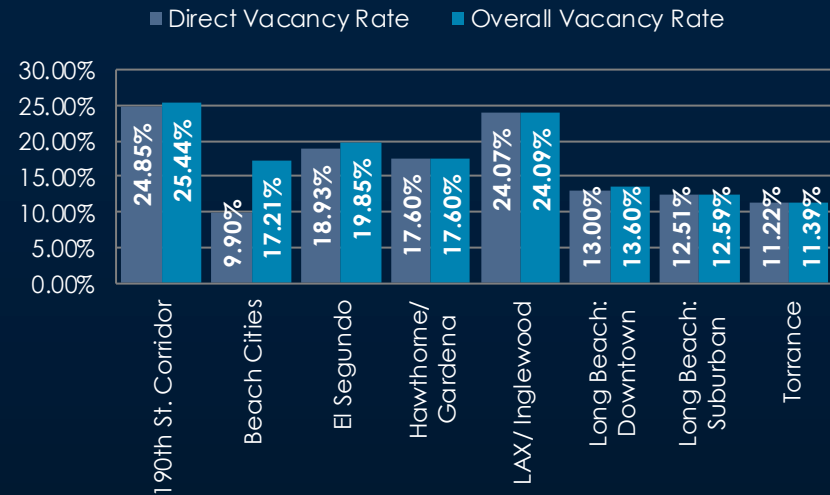
SALES THE MEDIAN PRICE PSF IN Q3 WAS \$386.48



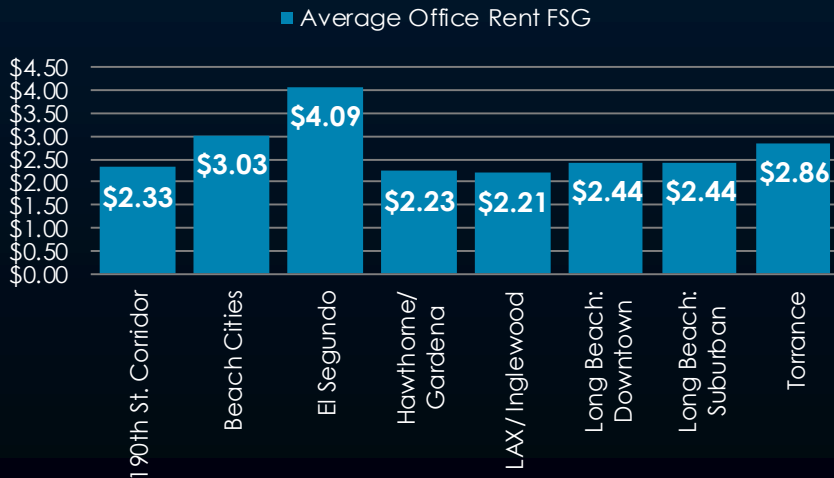
SQUARE FOOT BREAKDOWN- 34,894,481 SF MARKET SIZE



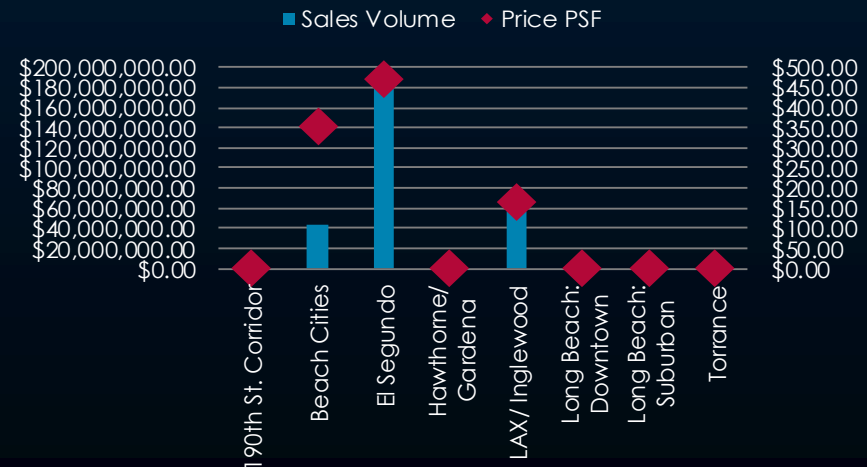
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

Orange County

Ventura

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Phoenix

Q4 | 2019

Market Report

Los Angeles Office

Westside



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MARKET REPORT Q4

Office 2019 Los Angeles Westside



MARKET ACTIVITY

<p>Direct Vacancy ∨ 8.5%</p>	<p>Net Absorption ∨ 81,917 SF</p>
<p>Overall Vacancy ∨ 9.8%</p>	<p>Gross Absorption ∨ 930,084 SF</p>
<p>Under Construction ∧ 2,166,089 SF</p>	<p>Rental Rates (FSG) ∧ \$5.06</p>
<p>Sale Price Change ∧ 0.1%</p>	<p>Deal Volume ∧ 307.5%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Continue downward trend.
- **Net Absorption:** Down again, but still positive.
- **Office Supply:** Construction activity increased to above 2.1M SF.
- **Sales:** The only recorded sales that occurred in Q4 were in the Santa Monica Market. Total volume in 2019 was over \$1.2B, but that represents a 40% decrease from 2018.
- **Trends:** Technology companies leasing large amounts of space & repurposing of buildings to creative office atmospheres.

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>

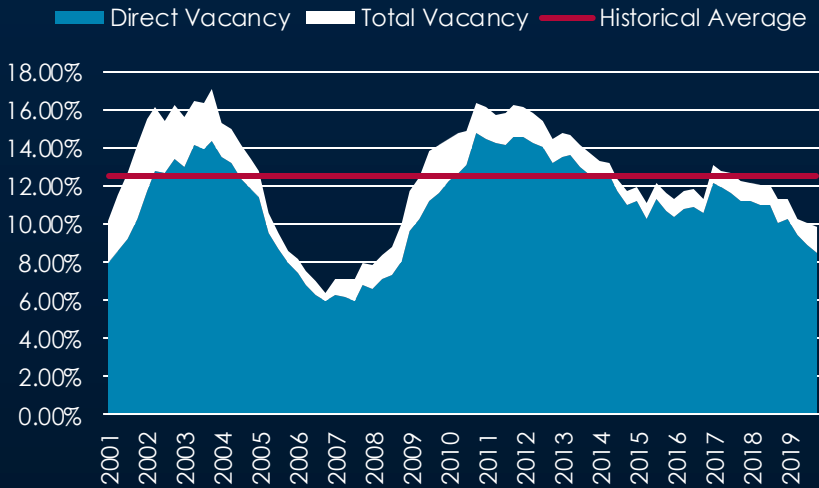
EXPERIENCE IN A CHANGING MARKET

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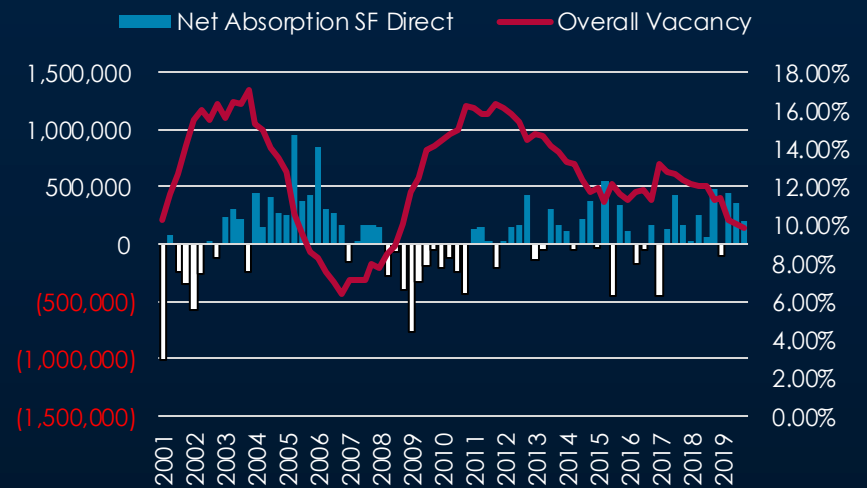


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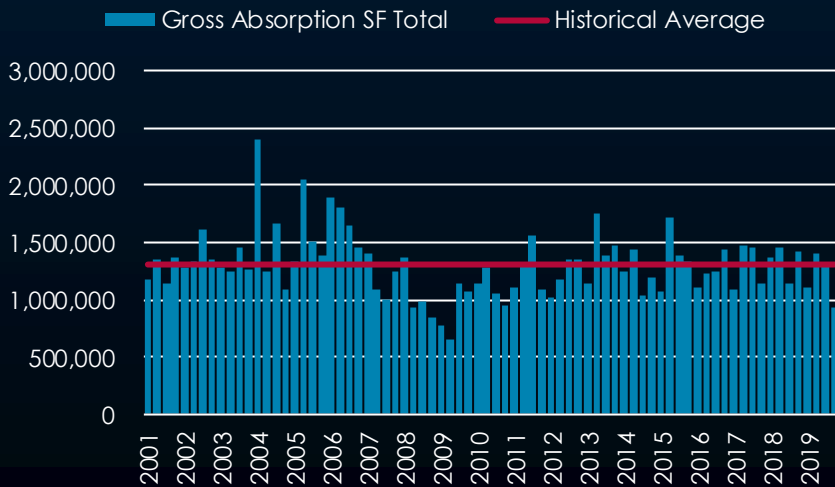
OVERALL VACANCY DOWN BY 20 BPS FROM Q3 TO 9.8%



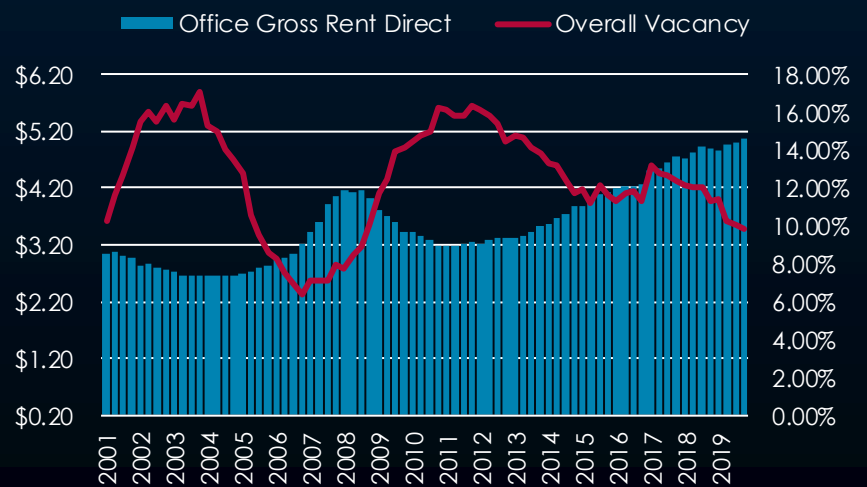
NET ABSORPTION DOWN AGAIN IN Q4, BUT REMAINS POSITIVE



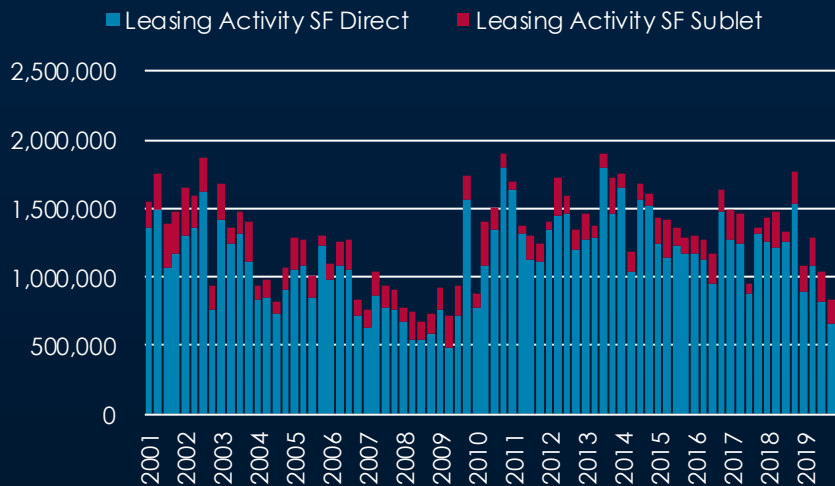
GROSS ABSORPTION FELL BELOW 1M SF FOR 1ST TIME SINCE 2010



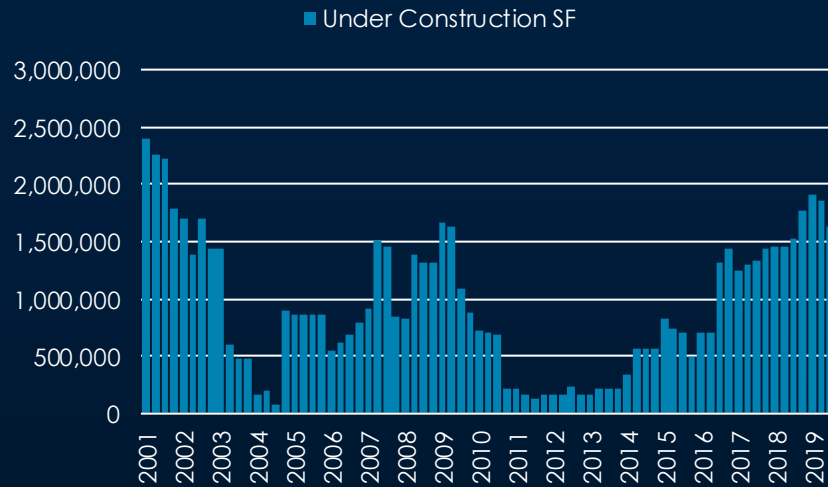
ASKING RENTS INCREASED BY \$0.07 PSF IN Q4



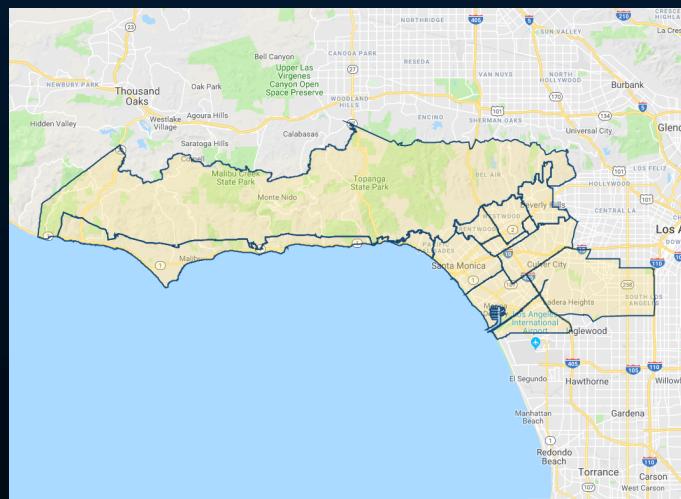
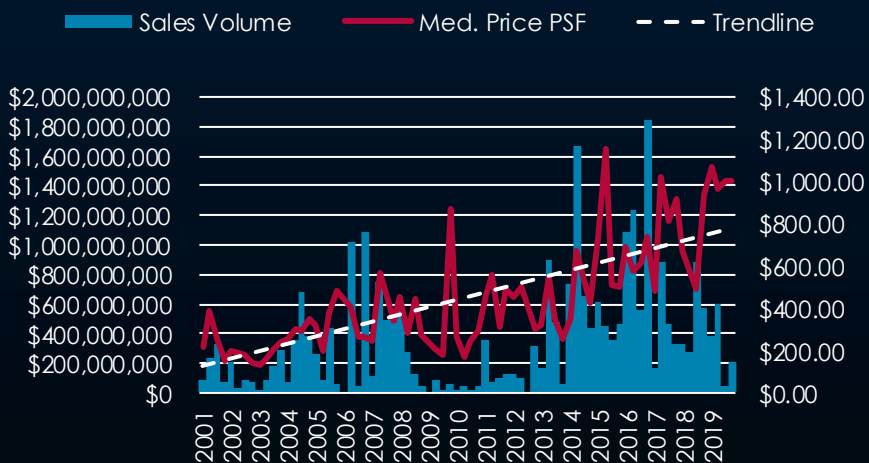
LEASING ACTIVITY FALLS AGAIN IN Q4 TO LOWEST SINCE 2010



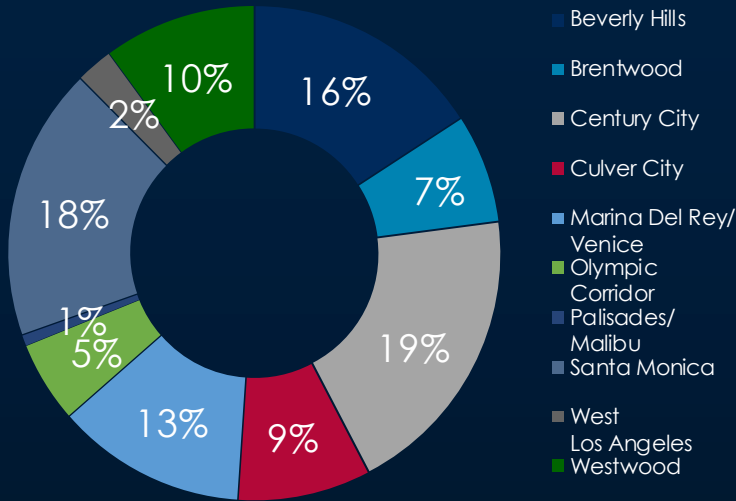
CONSTRUCTION ACTIVITY REMAINS STRONG



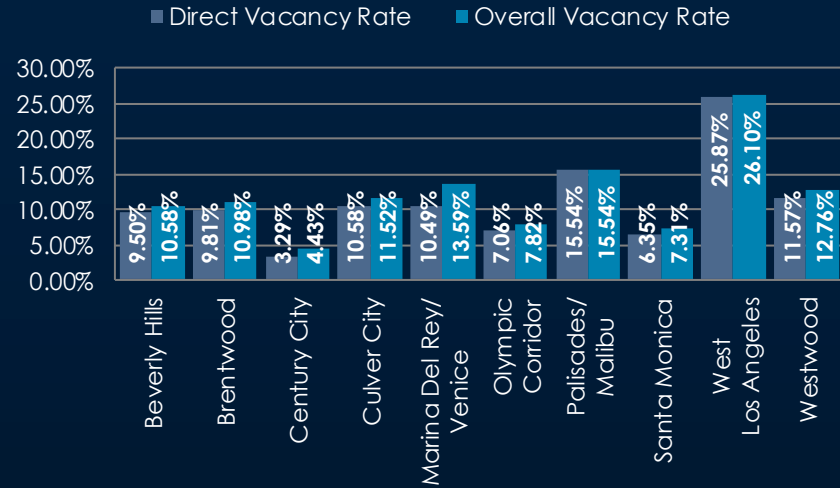
SALES MEDIAN PRICE PSF WAS \$1,006.21. VOLUME ABOVE \$200M



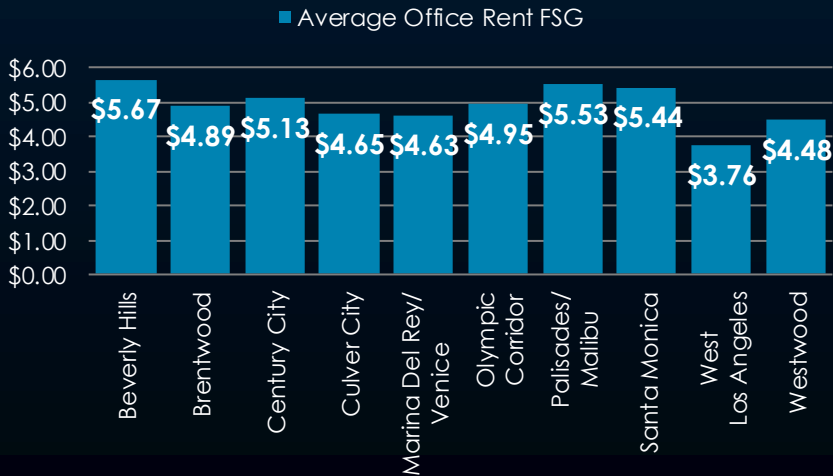
SQUARE FOOT BREAKDOWN- 54,059,789 SF MARKET SIZE



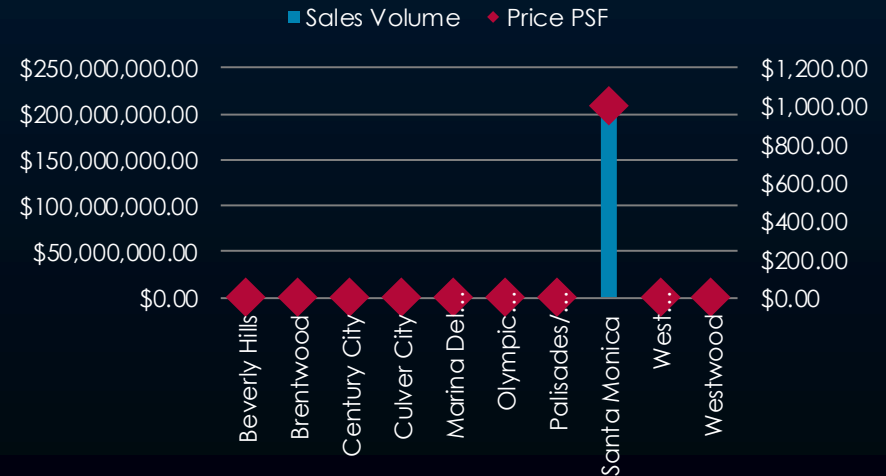
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

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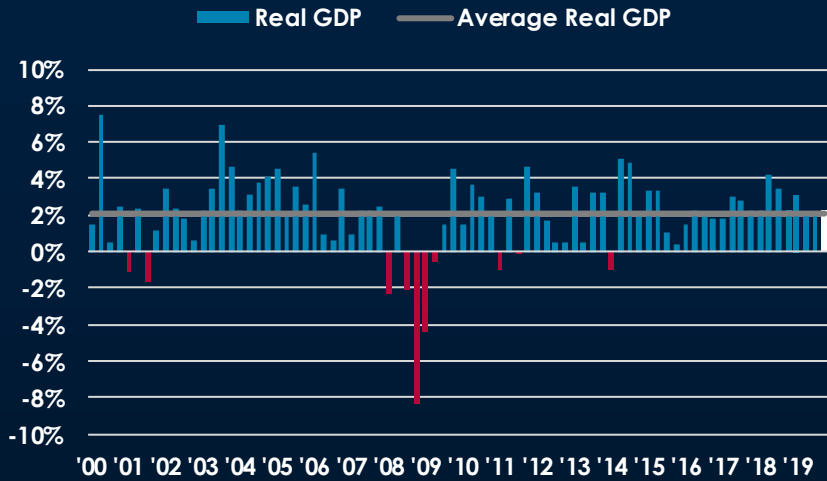
Economic Overview



Q4 2019

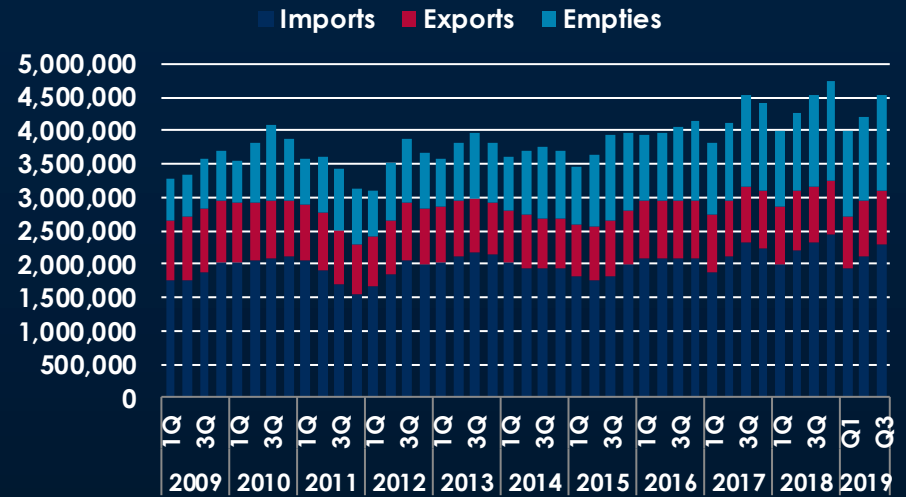
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GDP IN Q3 FINISHED AT 2.1%. Q4 ESTIMATE IS 2.3%

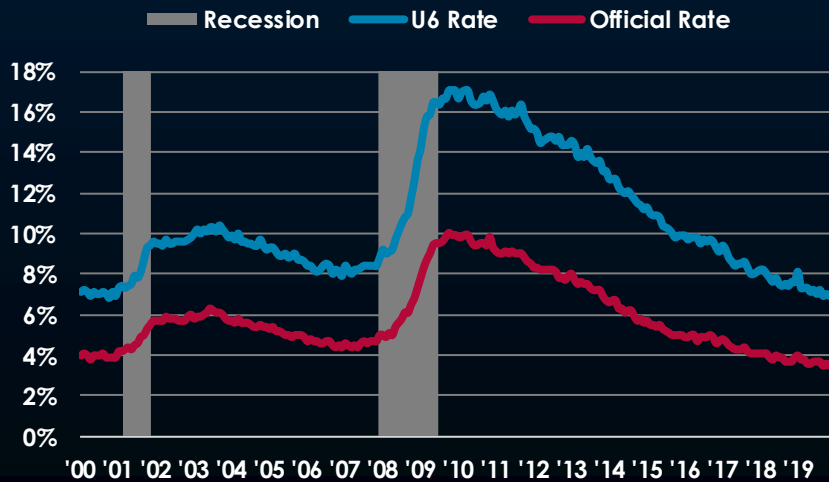


*2.3% for 4Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

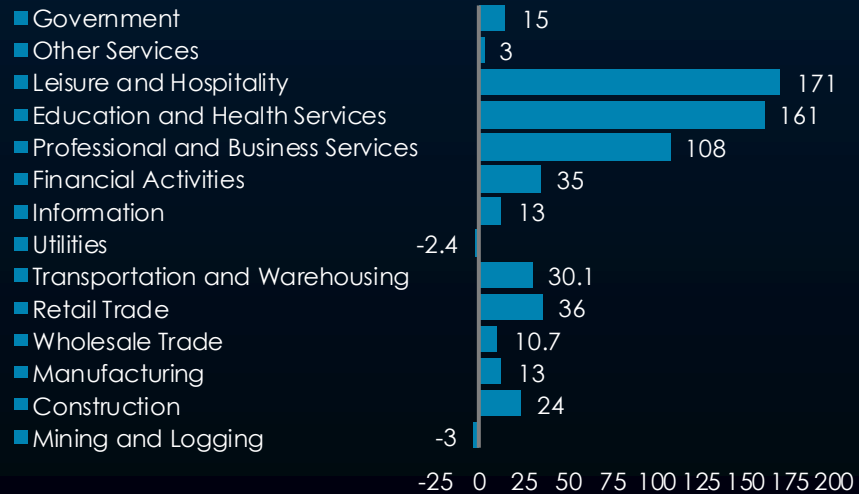
PORT ACTIVITY INCREASED IN Q3 BY 8.0% FROM Q2



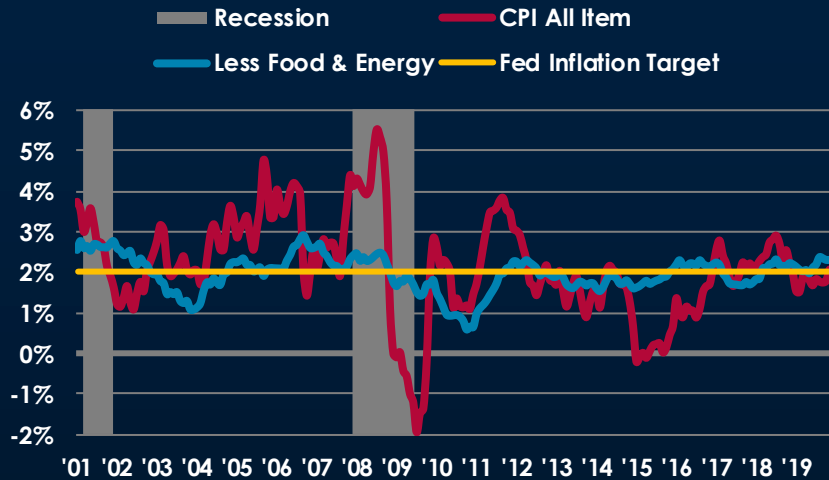
UNEMPLOYMENT CONTINUES DOWNWARD TREND



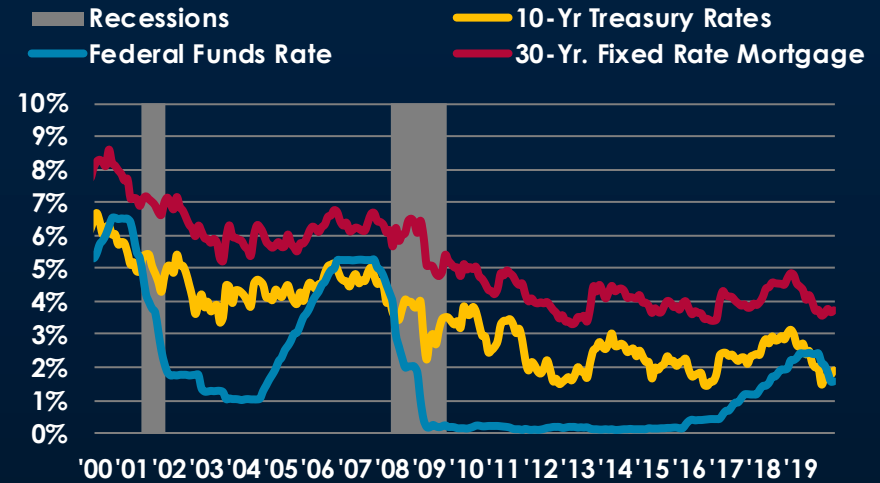
MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



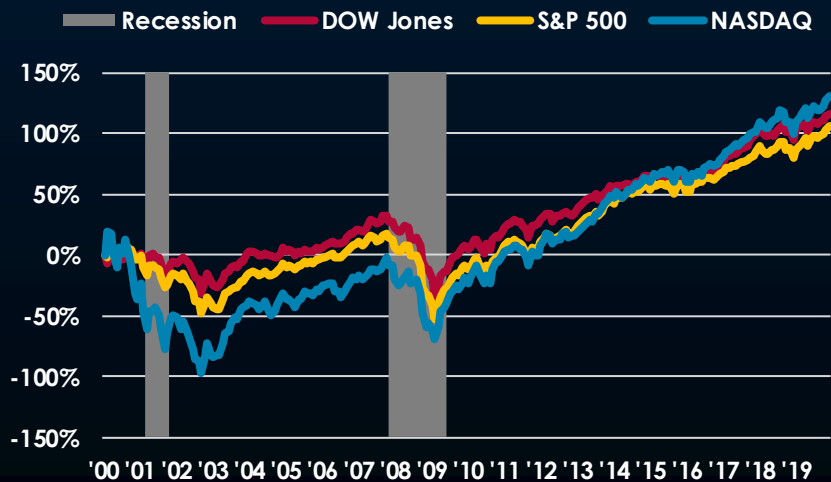
CPI JUST ABOVE 2% TARGET AT 2.05%



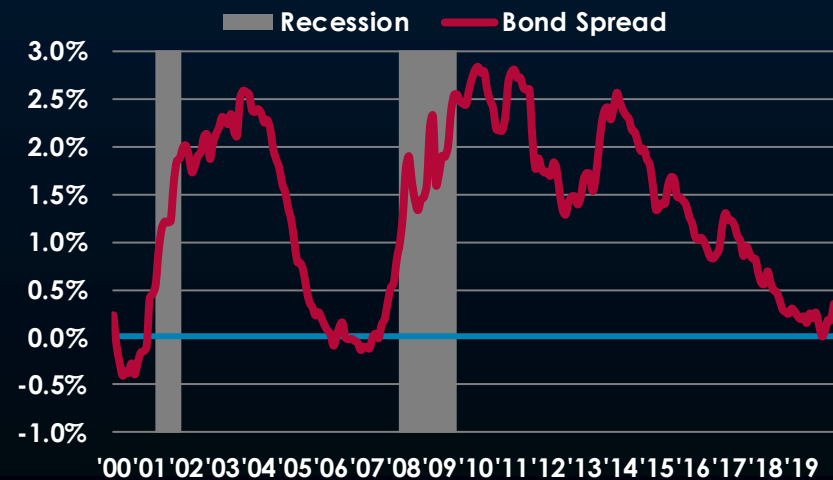
THE YIELD CURVE NORMALIZED IN Q4



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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