

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q2 | 2020

Market Report

Phoenix Office



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MARKET REPORT Q2

Office 2020 Phoenix



MARKET ACTIVITY

<p>Direct Vacancy ▲ 14.6%</p>	<p>Net Absorption ▲ -363,260 SF</p>
<p>Overall Vacancy ▲ 15.5%</p>	<p>Gross Absorption ▼ 2,074,661 SF</p>
<p>Under Construction ▼ 1,144,991 SF</p>	<p>Rental Rates (FSG) ▲ \$2.31</p>
<p>Sale Price Change ▲ 11.7%</p>	<p>Deal Volume ▲ 0.70%</p>

KEY TAKE AWAYS

MARKET

- **Vacancy Rate:** Overall vacancy increased by 40 BPS to 15.5% largely due to an increased amount of sublet space.
- **Net Absorption:** Direct Net Absorption turned positive after negative Q1. Overall Q2 was negative due to over 500K SF of un-absorbed sublet space.
- **Office Supply:** Over 245K SF was delivered in Q2. Under construction just above 1.1M SF.
- **Leasing Activity:** Fell to lowest tracked level totaling 897K SF in Q2
- **Sales:** In Q2, the median price PSF was \$211.30. Volume essentially flat with an increase of 0.70%.

ECONOMIC OUTLOOK

- **GDP:** Q2 is expected to be the worst quarter in history with an estimated decline of over 35% from Q1 due to the unprecedented economic shutdowns from COVID-19. The NBER has declared the U.S. is in a recession that started in February.
- **Employment:** Over 47M Americans have filed for unemployment since economic shutdowns began 14 weeks ago in order to combat COVID-19.
- **Economic Relief:** As part of the larger \$2.2 Trillion CARES, Congress appropriated \$659B for the Paycheck Protection Program (PPP) to provide forgivable loans to small businesses. As of 6/29, over 4.8M loans have been approved. The efficacy of this program is paramount for the U.S. & CRE.

ECONOMIC OUTLOOK

<p>U.S. Employment ▲ 13.3%</p>	<p>U6 Rate ▲ 21.2%</p>
<p>Interest Rate ▼ 3.1% <small>(30 year fixed)</small></p>	<p>Changing GDP ▼ -35.3%</p>
<p>Port Traffic Y/Y Δ ▼ -12.6%</p>	<p>NYSE Performance ▲ 22.8%</p>
<p>Inflation Change ▼ 0.2%</p>	<p>10 Yr. - 2 Yr. Spread ▲ 50 BPS</p>

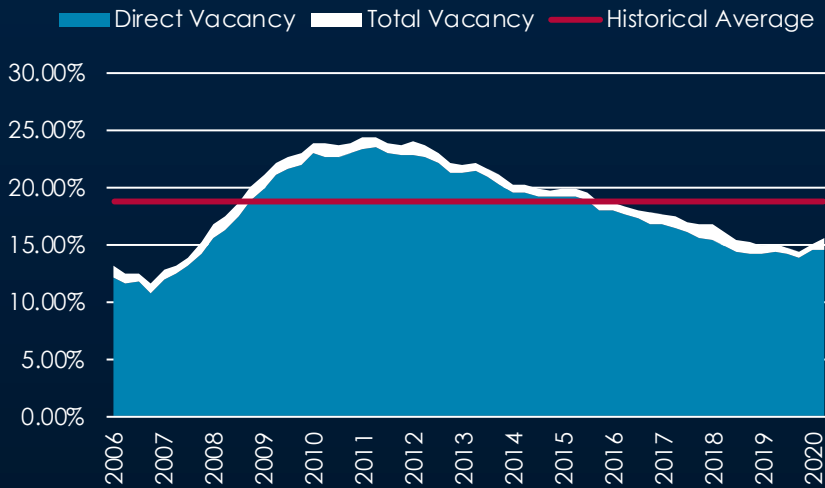
EXPERIENCE IN A CHANGING MARKET

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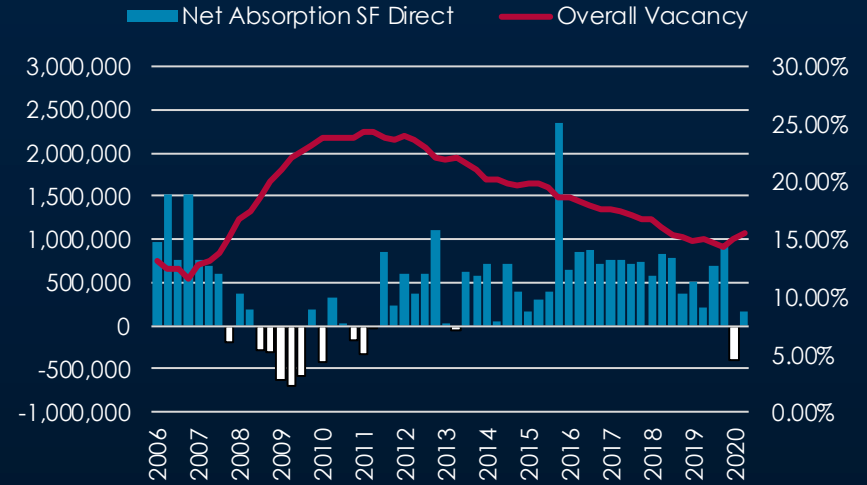


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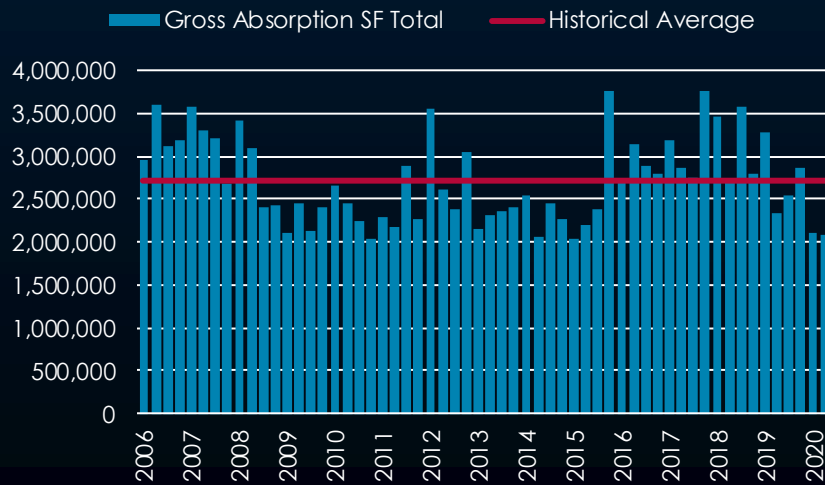
OVERALL VACANCY INCREASED BY 40 BPS IN Q2 TO 15.5%



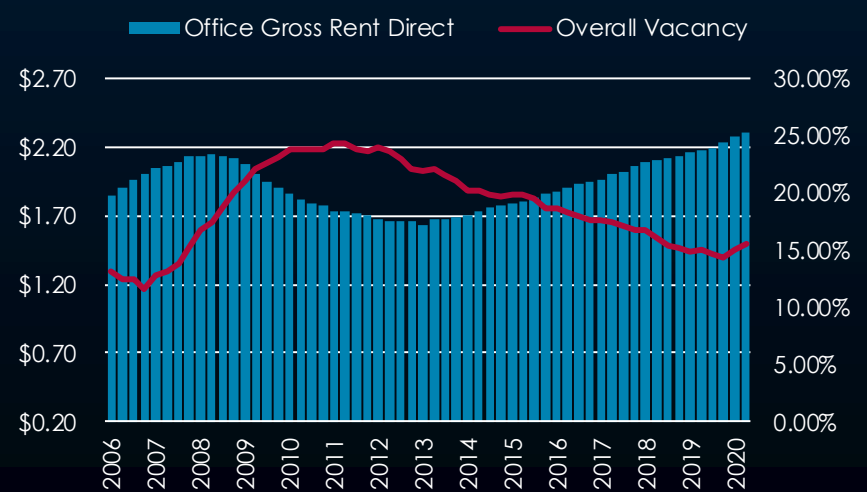
NET ABSORPTION DIRECT TURNED POSITIVE. OVERALL NEGATIVE DUE TO INFLUX OF SUBLET SF



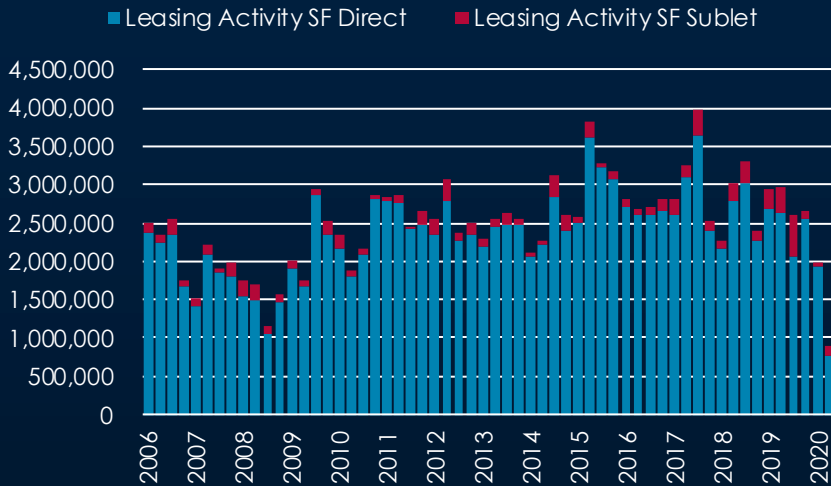
GROSS ABSORPTION FELL BY 2.1% FROM Q1 TO BELOW 2.1M SF



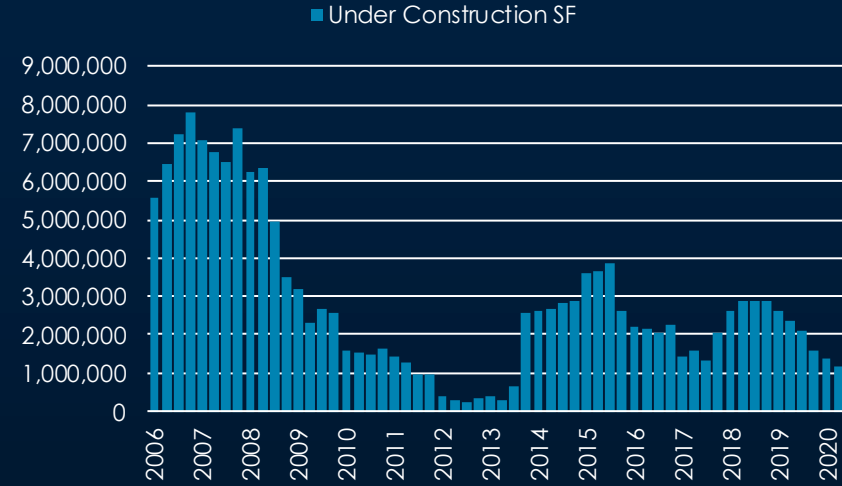
ASKING RENTS INCREASED BY \$0.03 PSF IN Q2



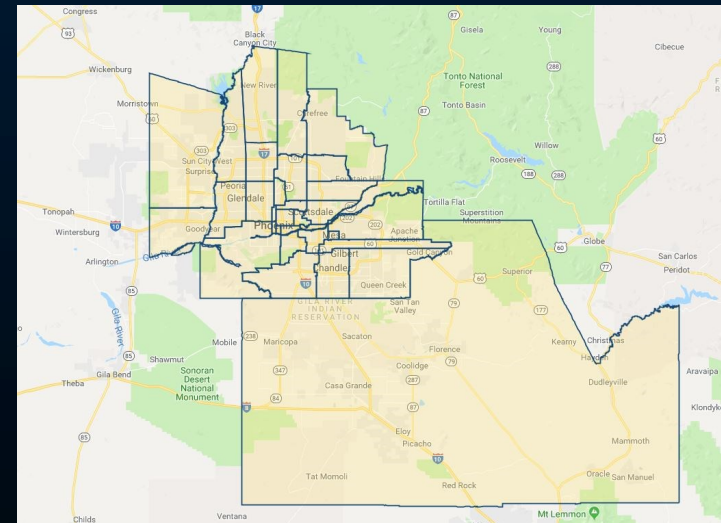
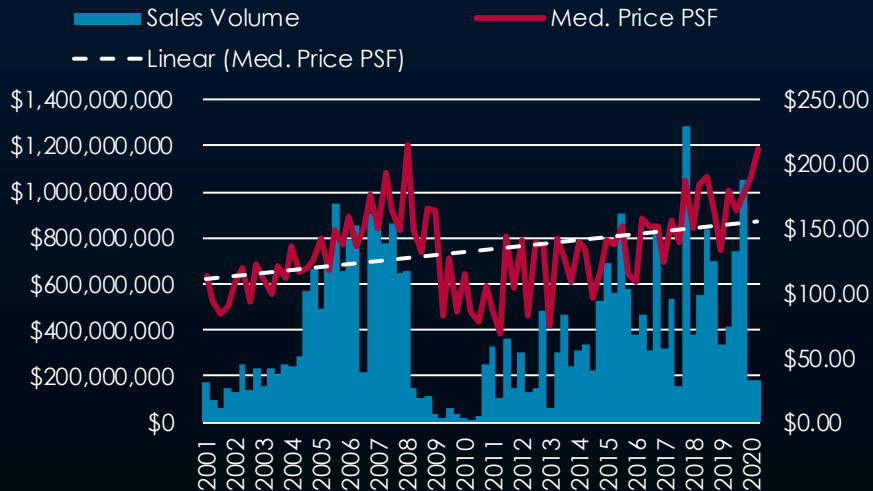
LEASING ACTIVITY DOWN 55% FROM Q1 TO LOWEST TRACKED LEVELS



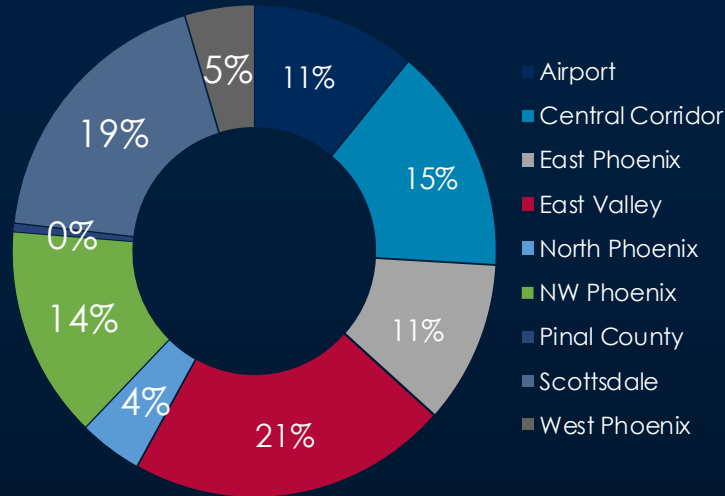
CONSTRUCTION ACTIVITY OVER 245K SF WAS DELIVERED IN Q2. UC ABOVE 1.1M SF



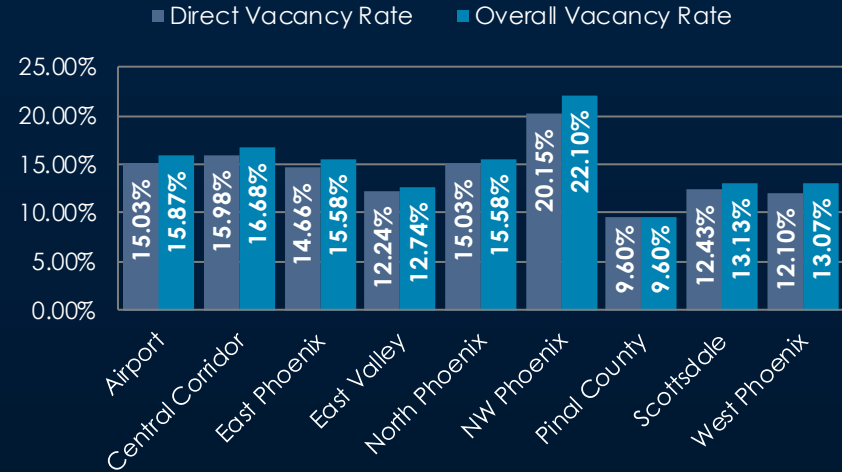
SALES PRICES INCREASE TO A MEDIAN OF \$211.30 PSF. VOLUME FLAT



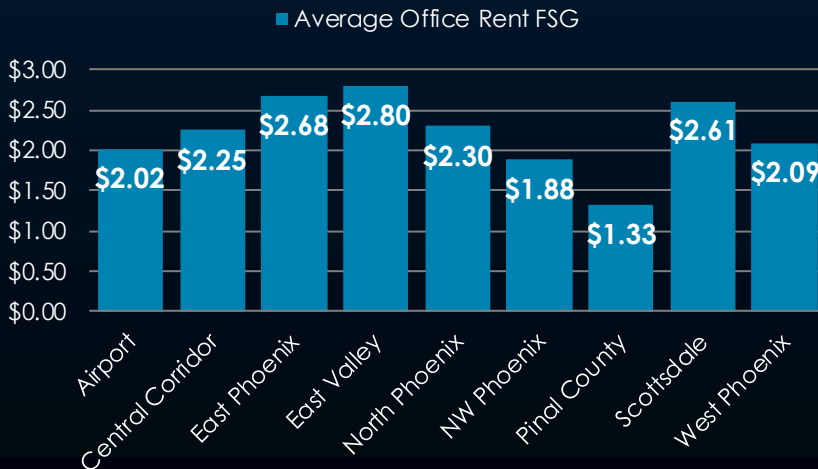
SQUARE FOOT BREAKDOWN- 132,493,109 SF MARKET SIZE



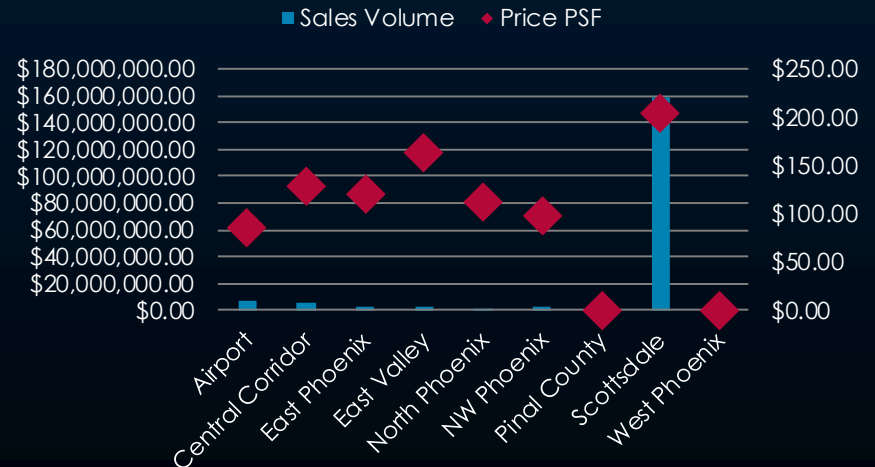
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



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 2020

New buildings with original construction completed in the year 2020 and granted a Certificate of Occupancy. Renovated buildings are not included.



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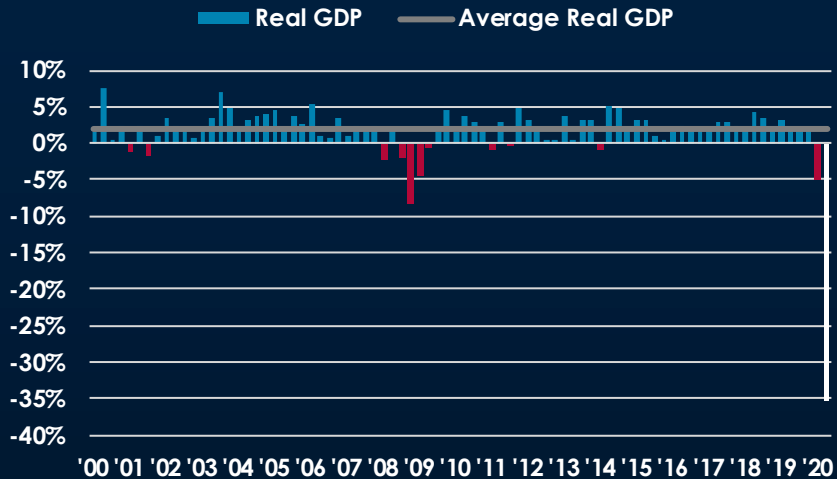
Economic Overview



Q2 2020

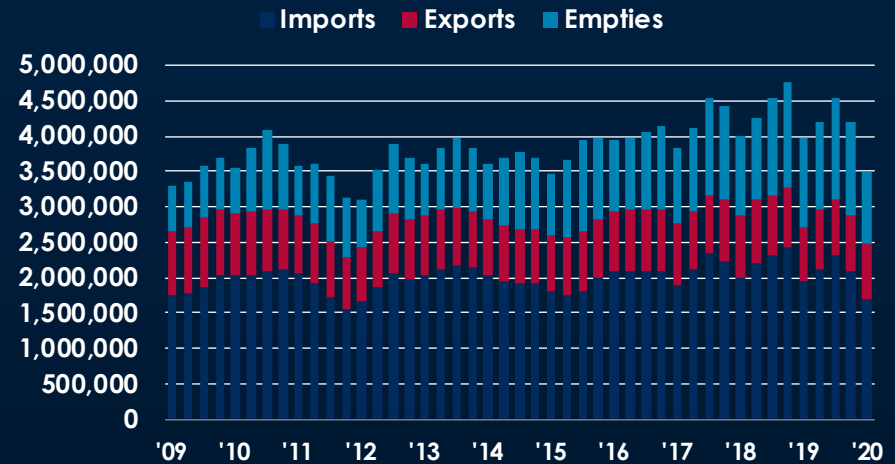
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GDP IN Q1 FINISHED AT -5.0%. Q2 EST. TO BE WORST IN HISTORY

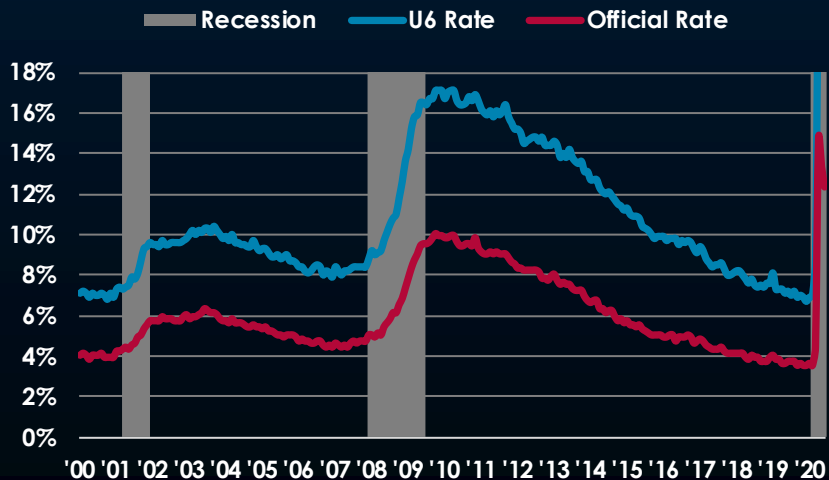


*-35.3% for 2Q20 based on CNBC/Moody's Analytics Rapid Update Survey

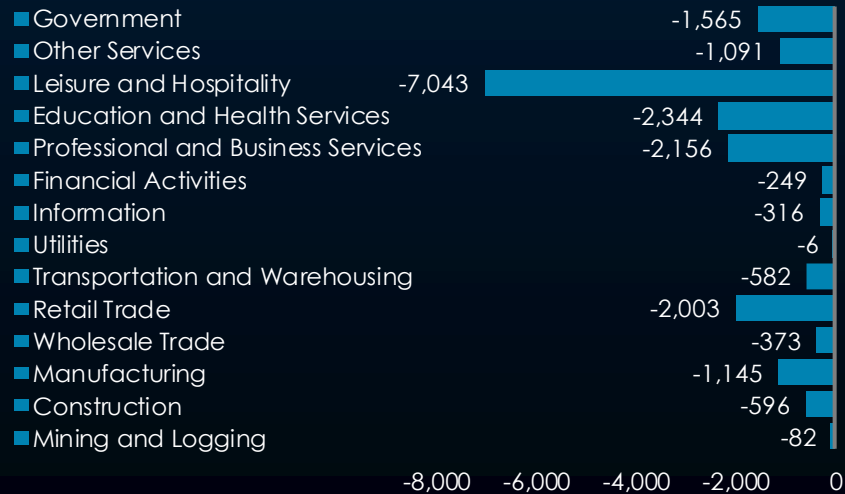
PORT ACTIVITY FELL BY 17.1% FROM Q3. DECLINE EXPECTED IN Q2-20



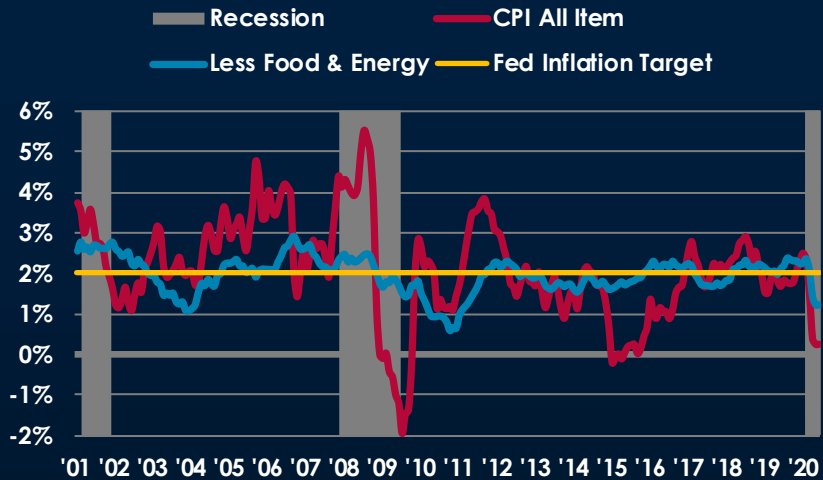
THE IMPACT FROM COVID-19 BEGINS TO SHOW



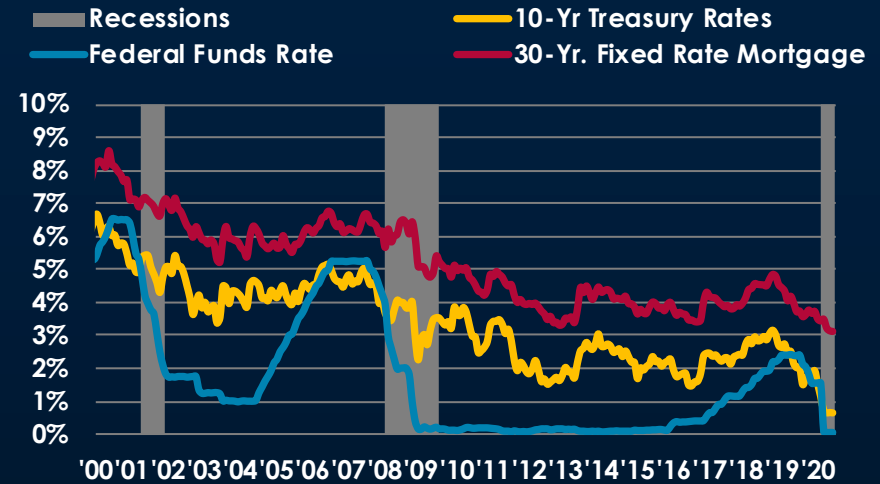
LEISURE & HOSPITALITY HIT HARD DUE TO SHUTDOWNS FROM COVID-19



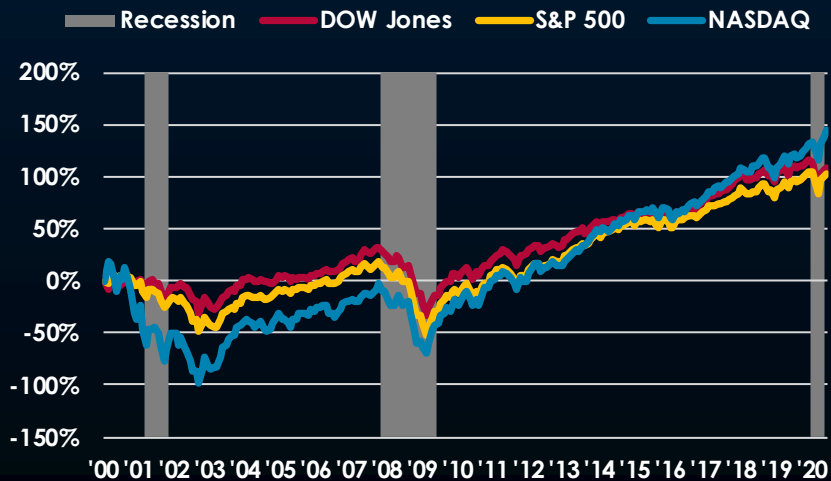
CPI FELL DRASTICALLY IN Q2



THE FEDERAL RESERVE CUT THE FED FUNDS RATE TO 0.0-0.25%



THE STOCK MARKET HAD ITS BEST QUARTER IN OVER 20 YEARS



10-2 YEAR BOND SPREAD INCREASED AS NEAR-TERM PROSPERITY DECLINES

