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PROPERTY ADVISORS

QUARTERLY MARKET UPDATE

LOS ANGELES - INLAND EMPIRE 3Q22

Inflation, uncertain markets, and pandemic recovery have proved to be a powerful recipe for changing market conditions across the last quarter. Overall, recent economic gains in Southern California have outpaced national averages, but much of that was due to the harder downturn the region saw compared to the rest of the country. The unemployment rate has come down considerably during the past year and today is in line with levels coming into pandemic.

A negative outlook for office sectors persists (much more extreme in Los Angeles than in the Inland Empire), but luxury and high-end office complexes are faring better than their competition. Multifamily conditions are stabilizing, with demand continuing to outpace supply. The retail sector is seeing increased experimentation and more risk-taking than other commercial sectors, with industrial or residential redevelopment a key strategy to take advantage of vacant big-box spaces or other challenging centers. The industrial market continues to experience strong growth due to heavy ecommerce demands, but the rise in interest rates may dampen some of that enthusiasm as financing becomes more expensive.

In the following pages, we outline the major market trends in the Los Angeles and Inland Empire market sectors, along with key indicators. In today's quickly changing environment, we remain ready to assist you with your commercial real estate valuation needs at any time.

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INDUSTRIAL

LOS ANGELES

- **The Los Angeles industrial market is among the best in the nation,** with vacancy rates presently at 2.2%.
- **Asking rents in the metro area have increased by 13.9% during the past year,** compared to 11.4% nationally.
- **With average market pricing currently at $330/SF, well above national averages, and cap rates at 4.1%, among the lowest seen among industrial markets in the nation,** investors pay top dollar for properties in the L.A. metro area.
- **Net absorption levels in 2022 have been more modest, but with vacancy near its lowest levels in decades, this is a product more of a lack of supply than demand.** There is limited space left for tenants to lease, and what space remains available is often in obsolete industrial properties that cannot work for many space users.
- **The L.A. vacancies have been much lower than the national average at 3.7%, compared to 7.3%.**

INLAND EMPIRE

- **Completed construction deliveries have averaged 20.8 million SF over the past three years,** and that total should reach 24.6 million SF in 2023.
- **Developers are struggling to produce enough industrial space to meet incoming demand for large warehouse and distribution centers** as they continue to account for the majority of net absorportion this year.
- **A recent announcement from Amazon confirming many facility closures throughout the country has not impacted the Inland Empire.** The market continues to be highly sought after, and the e-commerce giant has remained committed to the region.
- Annual rental rates have continued to increase dramatically **- rates are currently up 18.7% (compared to 16.4% a year ago).**
- **Rents in the Inland Empire are nearly double the national average for buildings with at least 200,000 SF.**

OFFICE

LOS ANGELES

- **Vacancies are at at 25 year high, and rental rates are down from a peak in 2Q20.**
- **The availability of sublease space is at a record high, 10.9 million SF available as of October.** Current levels are 5.5 million SF above amounts seen at the start of the pandemic. Sublease space typically inhibits landlords' ability to raise rental rates.
- **Average office asking rates in Los Angeles currently stand at $42.00/SF.**
- With the weak leasing environment and amount of available sublease space, **landlords will continue to find it difficult to increase rental rates for the rest of the year.**
- **Pricing is predicated to remain largely flat for the upcoming term.**

INLAND EMPIRE

- **The vacancy rate is continuing to hold at 6.4% while the overall market rent remains at $25.00/SF.**
- **Over the past year, rents have grown by 3.7%.**
- While the current rental rate growth sits just below the past five year average of 3.9%, **the Inland Empire has had some of the strongest rent gains of any office market in the rest of the nation** due to the high demand for medical office space.
- **Price appreciation has been positive for the past year years, currently at $220/SF.**
- **The average market cap rate of 7.1% remains just underneath the previous 10-year average of 7.4%.**
- **The pandemic caused one of the worst vacancy rates for the Inland Empire** since 2009 and the market is still recovering.

RETAIL

LOS ANGELES

- After vacancy rates peaked just above 5.5% in 2Q21, **the rates are beginning to return to pre-pandemic gross leasing rates at 4.9%.**
- **The market is predicted to continue improving throughout the rest of the year** while vacancies begin to trend downward as demand outpaces retail completions.
- **Average asking rents have increased by only 3.0%, trailing the national average of 4.2%.** However, the rates in the region remain substantially higher, with an average asking rental rate of $35/SF (vs the national average of $23/SF)
- **Average market cap rates, presently at 5.3%**, are far below the national average of 6.8%.
- The past quarters are trending upward, which is predicted to continue.

INLAND EMPIRE

- The annual rental rate five-year average currently sits at 3.9%**, while the local market gains are at 5.6%.**
- **Big-box spaces have been severely impacted** by the national closing of many recognized retailers.
- Despite the negative outlook of retail space, **many shopping centers are under construction near major housing developments.**
- During the economic recovery since the pandemic, buyers are targeting shopping centers anchored by nation credit tenants. As a result, **investments have surged and pricing has appreciated to a price of $280/SF and cap rates to 5.9%.**
- **Rents have increased by 5.6% over the past year** creating one of the fastest growth rates in the past decade.

MULTIFAMILY HOUSING

LOS ANGELES

- **Vacancy rates are currently at the lowest level in decades,** sitting at 3.5% (down substantially from a peak of 6.0% in 4Q20).
- After the record pace of gains seen in 2021 and the first half of 2022, **rent growth has slowed to a pre-pandemic level of 4.6%.**
- **Rental market regulations, combined with cities out of compliance with their required housing elements, will substantially impact the market.** It remains to be seen how realistic some Builder's Remedy projects will be - many experts are predicting extensive litigation to slow any development under the as-yet untested provisions.
- **2.8% of existing inventory is currently under construction in L.A. County.**
- **Average market cap rates, at 3.9%, are well below the U.S. average of 4.9%.**

INLAND EMPIRE

- **Submarkets with recent construction** (Southwest Riverside County/ Temecula and Greater Ontario/Rancho Cucamonga) **have the highest rent gains with overall metro rents jumping 5.3% over the past year.**
- Single-family home prices have risen faster than apartment rent pricing due to low interest rates. **The median home price is over $550,000+, up from last year's median price by 20%. Apartment asking rents are up to 5.3% throughout the past year.**
- Because of elevated demand, concessions are rare in the Inland Empire even in new properties**. This has created an evironment for dynamic leasing velocity in recent quarters.**
- **The average market cap rate is 4.2%,** compared with the five-year average of 4.7%.
- **High population growth has created a steady construction pipeline.**

LOS ANGELES INDUSTRIAL TRENDS

Overview

LOS ANGELES INDUSTRIAL

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
3.7M	(346K)	2.2%	13.9%

KEY INDICATORS

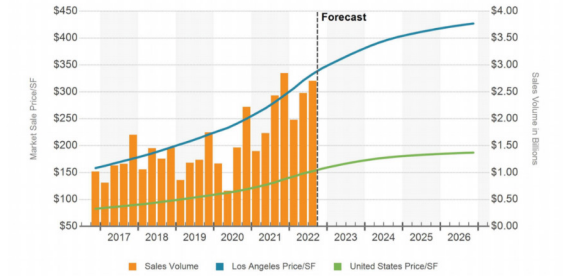
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	635,571,741	2.2%	$17.61	3.7%	(1,008,755)	0	4,163,929
Specialized Industrial	252,789,467	1.7%	$16.99	3.1%	(289,132)	0	217,525
Flex	57,035,330	4.9%	$25.26	6.6%	(22,687)	0	90,000
Market	**945,396,538**	**2.2%**	**$17.90**	**3.7%**	**(1,320,574)**	**0**	**4,471,454**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.2%	3.7%	2.1%	5.6%	2010 Q1	1.6%	2022 Q1
Net Absorption SF	(346K)	2,592,103	2,390,781	14,740,107	2021 Q4	(13,710,625)	2009 Q2
Deliveries SF	3.7M	5,428,671	6,600,597	13,850,385	2002 Q1	690,697	2011 Q1
Rent Growth	13.9%	4.7%	6.5%	15.2%	2022 Q2	-4.5%	2009 Q4
Sales Volume	$9.9B	$3.6B	N/A	$10B	2022 Q3	$976.7M	2009 Q3

Sales

LOS ANGELES INDUSTRIAL

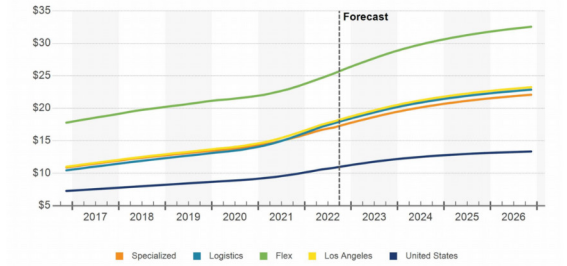
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

LOS ANGELES INDUSTRIAL

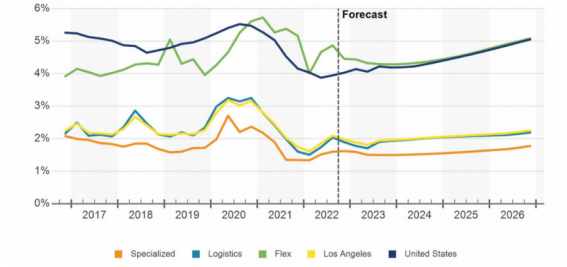
MARKET RENT PER SQUARE FEET



Vacancy

LOS ANGELES INDUSTRIAL

VACANCY RATE



INLAND EMPIRE INDUSTRIAL TRENDS

Overview

INLAND EMPIRE INDUSTRIAL

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
18.8M	15.2M	1.9%	18.7%

KEY INDICATORS

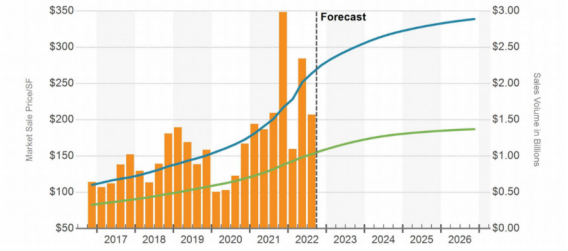
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	598,957,394	1.9%	$12.90	6.3%	(1,141,486)	0	40,150,537
Specialized Industrial	100,971,960	1.9%	$13.58	3.3%	(87,370)	0	990,307
Flex	15,241,105	3.8%	$17.49	4.6%	(50,294)	0	0
Market	**715,170,459**	**1.9%**	**$13.09**	**5.8%**	**(1,279,150)**	**0**	**41,140,844**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.2%	6.1%	2.7%	12.3%	2009 Q3	1.4%	2021 Q4
Net Absorption SF	15.2M	18,322,678	25,516,846	33,355,481	2021 Q4	(525,140)	2009 Q1
Deliveries SF	18.8M	18,752,279	29,044,844	33,694,977	2006 Q4	1,345,120	2011 Q3
Rent Growth	18.7%	5.0%	6.9%	20.0%	2022 Q2	-8.6%	2009 Q4
Sales Volume	$7.9B	$2.2B	N/A	$8B	2022 Q2	$487M	2001 Q2

Sales

INLAND EMPIRE INDUSTRIAL

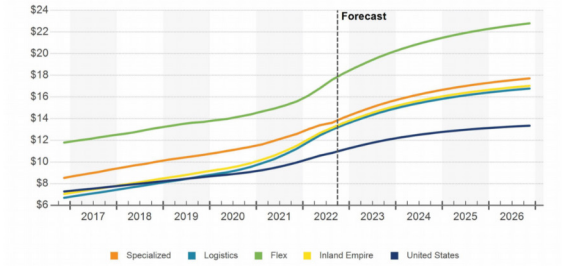
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

INLAND EMPIRE INDUSTRIAL

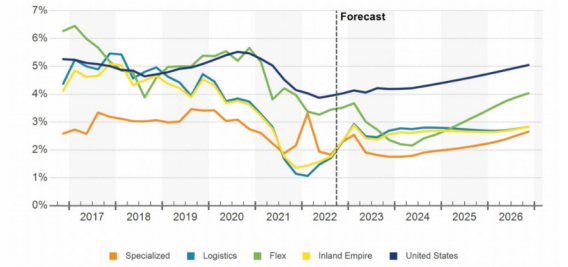
MARKET RENT PER SQUARE FEET



Vacancy

INLAND EMPIRE INDUSTRIAL

VACANCY RATE



LOS ANGELES OFFICE TRENDS

Overview

LOS ANGELES OFFICE

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
3.5M	(911K)	14.1%	1.1%

KEY INDICATORS

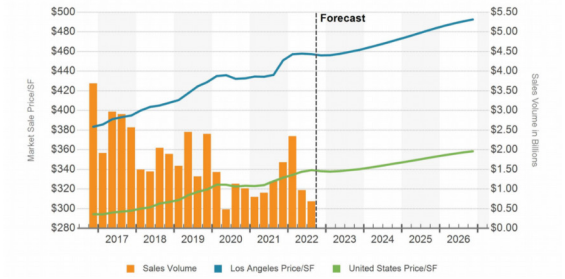
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	174,379,371	19.8%	$47.73	24.1%	(225,324)	0	3,361,481
3 Star	155,958,408	12.1%	$40.26	15.6%	(173,755)	0	313,765
1 & 2 Star	102,953,728	7.4%	$34.60	8.9%	(83,665)	0	60,766
Market	**433,291,507**	**14.1%**	**$41.96**	**17.5%**	**(482,744)**	**0**	**3,736,012**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.6%	10.8%	14.0%	14.1%	2022 Q4	6.8%	2007 Q3
Net Absorption SF	(911K)	874,571	(125,113)	12,966,014	2000 Q1	(10,125,616)	2021 Q1
Deliveries SF	3.5M	2,428,633	1,048,105	4,468,353	2002 Q3	645,042	1997 Q1
Rent Growth	1.1%	3.2%	1.7%	14.8%	2007 Q3	-11.1%	2009 Q3
Sales Volume	$5.6B	$5.2B	N/A	$11.5B	2017 Q3	$774.8M	2009 Q4

Sales

LOS ANGELES OFFICE

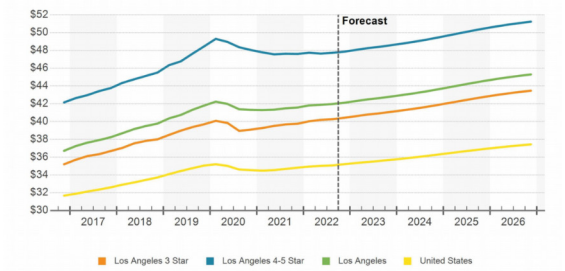
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

LOS ANGELES OFFICE

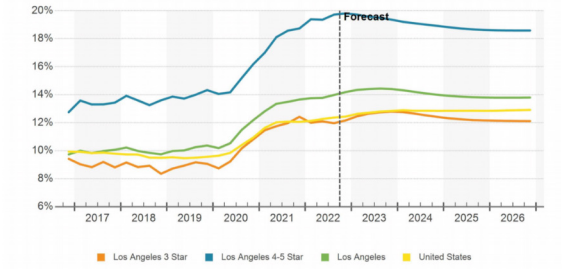
MARKET RENT PER SQUARE FEET



Vacancy

LOS ANGELES OFFICE

VACANCY RATE



INLAND EMPIRE OFFICE TRENDS

Overview

INLAND EMPIRE OFFICE

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
189K	618K	5.9%	3.7%

KEY INDICATORS

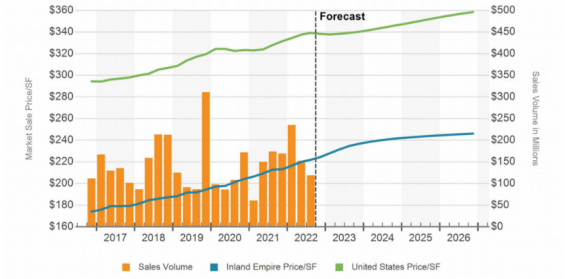
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	8,660,350	7.2%	$33.31	9.9%	(19,431)	0	49,830
3 Star	36,623,444	5.8%	$25.78	8.5%	(44,109)	0	163,359
1 & 2 Star	31,452,339	5.7%	$20.64	6.9%	(29,005)	0	0
Market	**76,736,133**	**5.9%**	**$24.53**	**8.0%**	**(92,545)**	**0**	**213,189**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.6%	9.5%	6.4%	16.0%	2009 Q3	5.8%	2022 Q3
Net Absorption SF	618K	1,024,758	222,709	2,995,166	2005 Q4	59,687	2008 Q4
Deliveries SF	189K	1,118,732	446,830	4,602,482	2007 Q4	121,972	2017 Q2
Rent Growth	3.7%	2.5%	2.8%	10.5%	2001 Q2	-12.1%	2009 Q3
Sales Volume	$656M	$407.8M	N/A	$730M	2022 Q2	$103.7M	2009 Q4

Sales

INLAND EMPIRE OFFICE

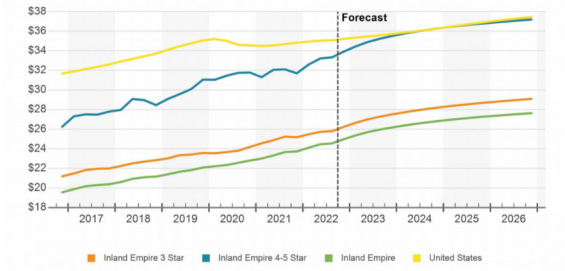
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

INLAND EMPIRE OFFICE

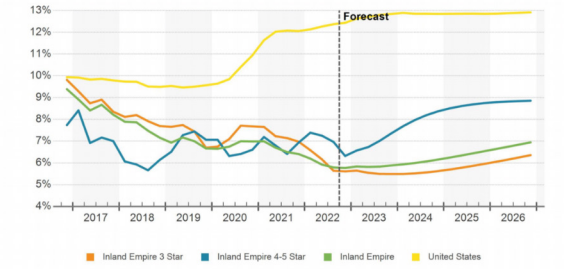
MARKET RENT PER SQUARE FEET



Vacancy

INLAND EMPIRE OFFICE

VACANCY RATE



LOS ANGELES RETAIL TRENDS

Overview

LOS ANGELES RETAIL

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
1.3M	1.6M	4.9%	3.0%

KEY INDICATORS

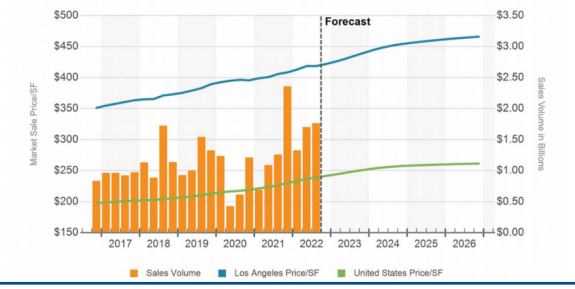
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	41,774,963	9.6%	$44.75	8.1%	(2,362)	0	210,617
Power Center	23,391,819	3.1%	$34.66	3.5%	0	0	0
Neighborhood Center	101,787,905	6.4%	$33.34	7.5%	(37,990)	0	161,200
Strip Center	35,989,565	5.0%	$30.95	5.7%	(9,209)	0	5,747
General Retail	239,727,283	3.6%	$34.61	4.4%	(11,482)	0	867,052
Other	2,419,542	8.5%	$39.82	9.2%	0	0	0
Market	**445,091,077**	**4.9%**	**$35.01**	**5.5%**	**(61,043)**	**0**	**1,244,616**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.3%	4.7%	4.8%	5.6%	2010 Q1	3.0%	2007 Q3
Net Absorption SF	1.6M	831,054	940,851	6,831,515	2007 Q3	(4,154,376)	2009 Q3
Deliveries SF	1.3M	2,252,231	1,794,463	6,489,706	2008 Q3	840,564	2022 Q2
Rent Growth	3.0%	1.5%	2.5%	4.8%	2007 Q2	-5.0%	2009 Q4
Sales Volume	$7.1B	$3.7B	N/A	$7.1B	2022 Q3	$979.8M	2009 Q4

Sales

LOS ANGELES RETAIL

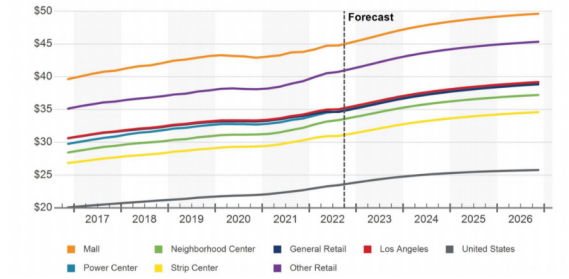
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

LOS ANGELES RETAIL

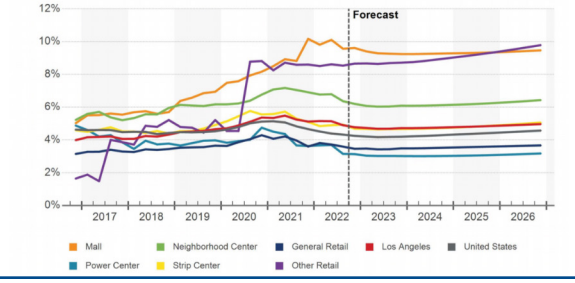
MARKET RENT PER SQUARE FEET



Vacancy

LOS ANGELES RETAIL

VACANCY RATE



INLAND EMPIRE RETAIL TRENDS

Overview

INLAND EMPIRE RETAIL

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
1M	2.4M	6.1%	5.6%

KEY INDICATORS

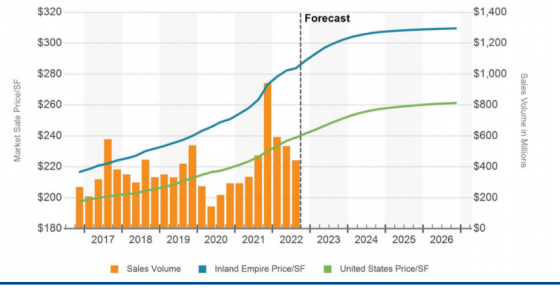
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	14,429,598	15.2%	$31.06	8.9%	0	0	595,314
Power Center	19,858,895	5.3%	$29.03	5.6%	(81,807)	0	79,965
Neighborhood Center	78,341,721	7.6%	$25.06	8.6%	(6,841)	0	372,973
Strip Center	15,330,132	4.4%	$22.15	5.6%	(4,615)	0	28,074
General Retail	67,765,759	2.9%	$22.31	3.7%	(9,572)	0	581,274
Other	3,101,499	12.6%	$24.03	12.6%	0	0	0
Market	**198,827,604**	**6.1%**	**$24.73**	**6.5%**	**(102,835)**	**0**	**1,657,600**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-1.0%	7.6%	6.2%	9.6%	2011 Q2	5.0%	2007 Q3
Net Absorption SF	2.4M	1,548,499	1,377,724	8,040,055	2007 Q1	(2,166,130)	2009 Q4
Deliveries SF	1M	2,057,105	1,941,653	7,024,310	2008 Q3	406,305	2011 Q1
Rent Growth	5.6%	0.5%	2.4%	6.2%	2022 Q1	-9.8%	2010 Q1
Sales Volume	$2.5B	$1.2B	N/A	$2.5B	2022 Q2	$399.3M	2010 Q1

Sales

INLAND EMPIRE RETAIL

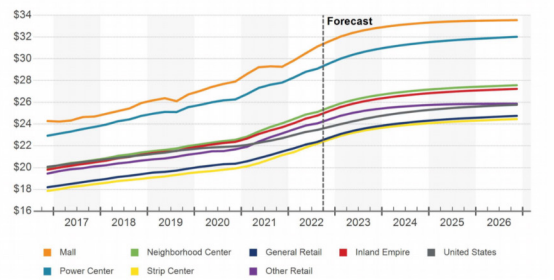
SALES VOLUME & MARKET SALE PRICE PER SF



Rent

INLAND EMPIRE RETAIL

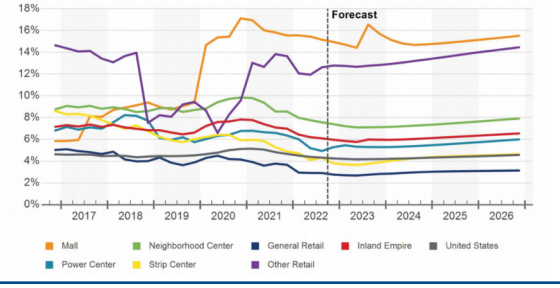
MARKET RENT PER SQUARE FEET



Vacancy

INLAND EMPIRE RETAIL

VACANCY RATE



LOS ANGELES MULTIFAMILY TRENDS

Overview

LOS ANGELES MULTIFAMILY

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rate	12 Mo. Asking Rent Growth
9,070	13,152	3.5%	4.6%

KEY INDICATORS

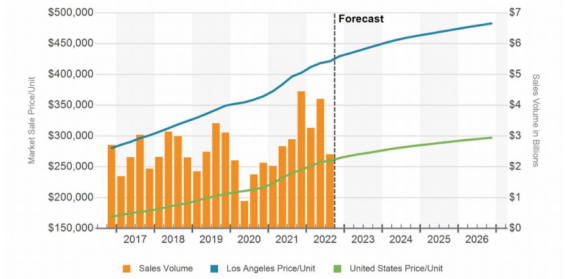
Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	138,394	6.9%	$3,307	$3,280	216	0	23,982
3 Star	214,735	3.2%	$2,318	$2,307	17	0	3,469
1 & 2 Star	645,027	2.8%	$1,654	$1,647	0	0	80
Market	**998,156**	**3.5%**	**$2,183**	**$2,171**	**233**	**0**	**27,531**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.4%	4.4%	3.6%	6.0%	2020 Q3	3.1%	2000 Q3
Absorption Units	13,152	5,076	8,050	32,588	2021 Q4	(5,480)	2002 Q1
Delivered Units	9,070	6,021	9,602	12,338	2021 Q2	883	2011 Q4
Demolished Units	113	646	584	1,552	2010 Q3	49	2002 Q2
Asking Rent Growth (YOY)	4.6%	2.6%	3.2%	8.1%	2001 Q1	-6.9%	2009 Q4
Effective Rent Growth (YOY)	4.8%	2.6%	3.2%	8.5%	2022 Q1	-6.8%	2009 Q4
Sales Volume	$14.2B	$6.5B	N/A	$14.8B	2022 Q2	$1.7B	2010 Q1

Sales

LOS ANGELES MULTIFAMILY

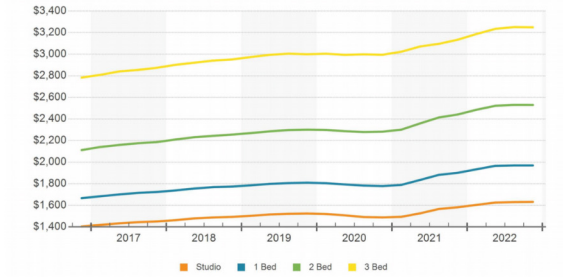
SALES VOLUME & MARKET SALE PRICE PER UNIT



Rent

LOS ANGELES MULTIFAMILY

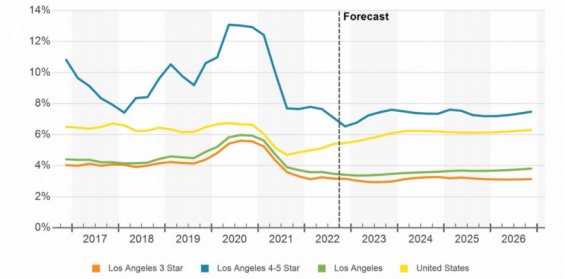
MARKET RENT PER UNIT BY BEDROOM



Vacancy

LOS ANGELES MULTIFAMILY

VACANCY RATE



INLAND EMPIRE MULTIFAMILY TRENDS

Overview

INLAND EMPIRE MULTIFAMILY

12 Mo. Delivered Units	12 Mo. Absorption Units	Vacancy Rate	12 Mo. Asking Rent Growth
1,563	(1,254)	3.8%	5.3%

KEY INDICATORS

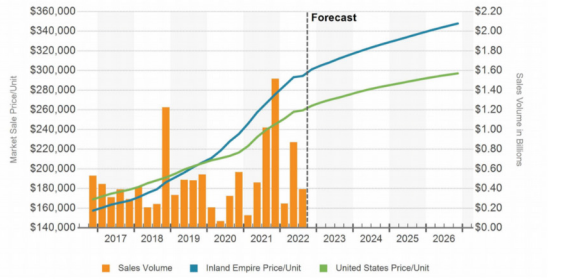
Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	36,462	6.2%	$2,548	$2,530	88	0	3,454
3 Star	71,474	3.2%	$2,016	$2,006	0	0	738
1 & 2 Star	60,692	3.0%	$1,320	$1,314	0	0	0
Market	**168,628**	**3.8%**	**$1,961**	**$1,950**	**88**	**0**	**4,192**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.6%	5.4%	5.3%	8.0%	2009 Q1	2.0%	2021 Q2
Absorption Units	(1,254)	1,676	1,107	6,347	2021 Q1	(1,357)	2022 Q3
Delivered Units	1,563	1,745	2,222	3,927	2005 Q3	16	2011 Q4
Demolished Units	31	62	74	296	2013 Q4	0	2021 Q4
Asking Rent Growth (YOY)	5.3%	4.1%	4.1%	15.0%	2021 Q4	-4.8%	2009 Q2
Effective Rent Growth (YOY)	5.0%	4.1%	4.0%	15.4%	2021 Q3	-4.7%	2009 Q2
Sales Volume	$3B	$1.2B	N/A	$3.7B	2022 Q2	$66.3M	2009 Q3

Sales

INLAND EMPIRE MULTIFAMILY

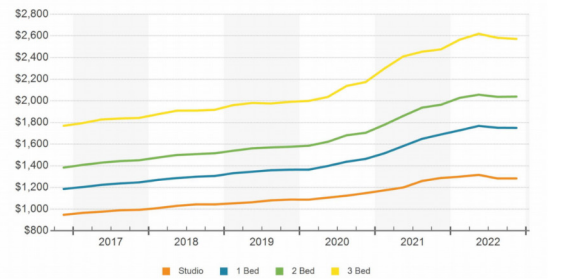
SALES VOLUME & MARKET SALE PRICE PER UNIT



Rent

INLAND EMPIRE MULTIFAMILY

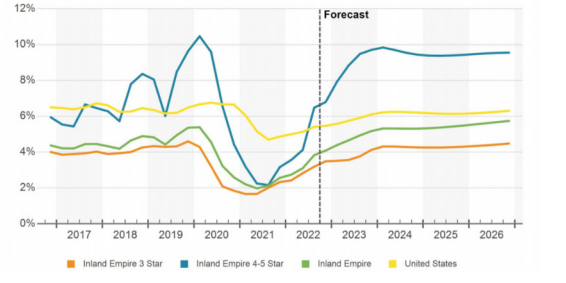
MARKET RENT PER UNIT BY BEDROOM



Vacancy

INLAND EMPIRE MULTIFAMILY

VACANCY RATE



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