

OFFICE MARKET OVERVIEWS

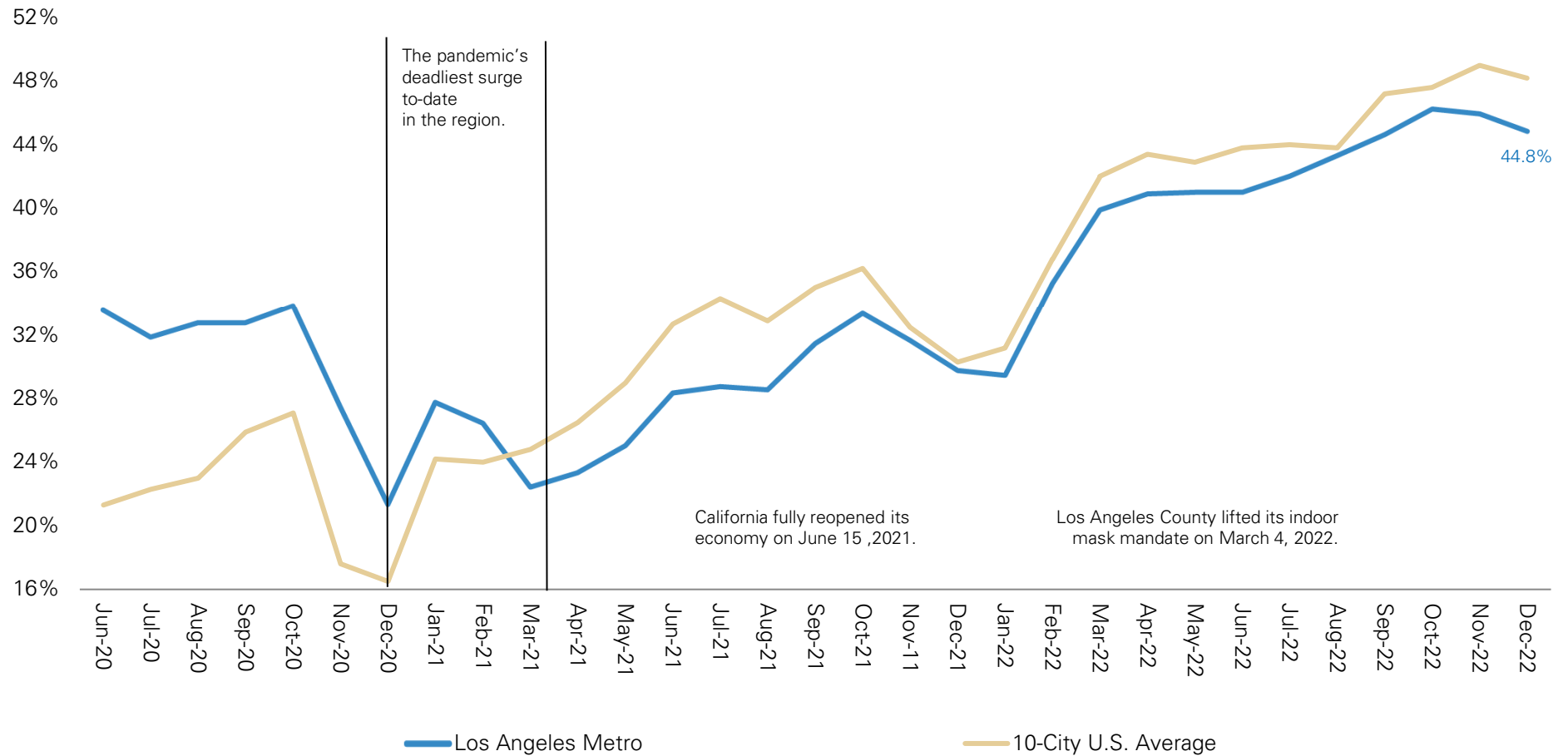
Orange County & Los Angeles



Los Angeles Metro Office Utilization Rates

Since Mid-2020 | Kastle Systems Return to Work Data Based on Key FOB Swipes

Companies are progressively reboarding their offices on account of loosening restrictions and an improved public health situation. Recent softening in the economy, which has yet to impact unemployment, is also shifting leverage from employees to employers.



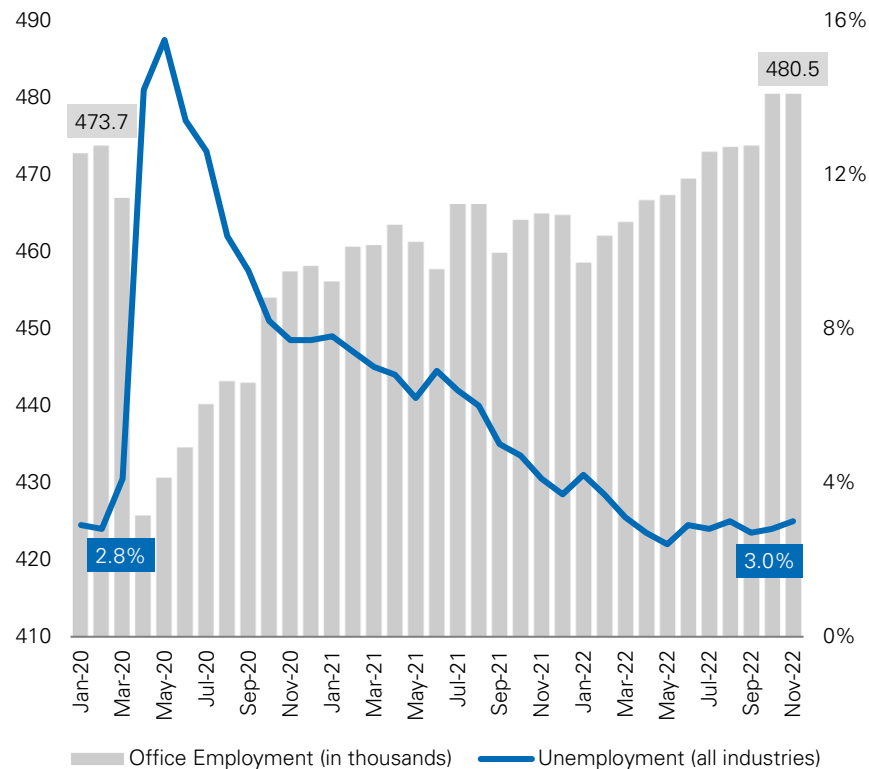
Source: Newmark Research, Kastle Systems (Each month's percentage reflects the average of its final week.)

Office-Using Employment

Through November 2022 (jobs in thousands)

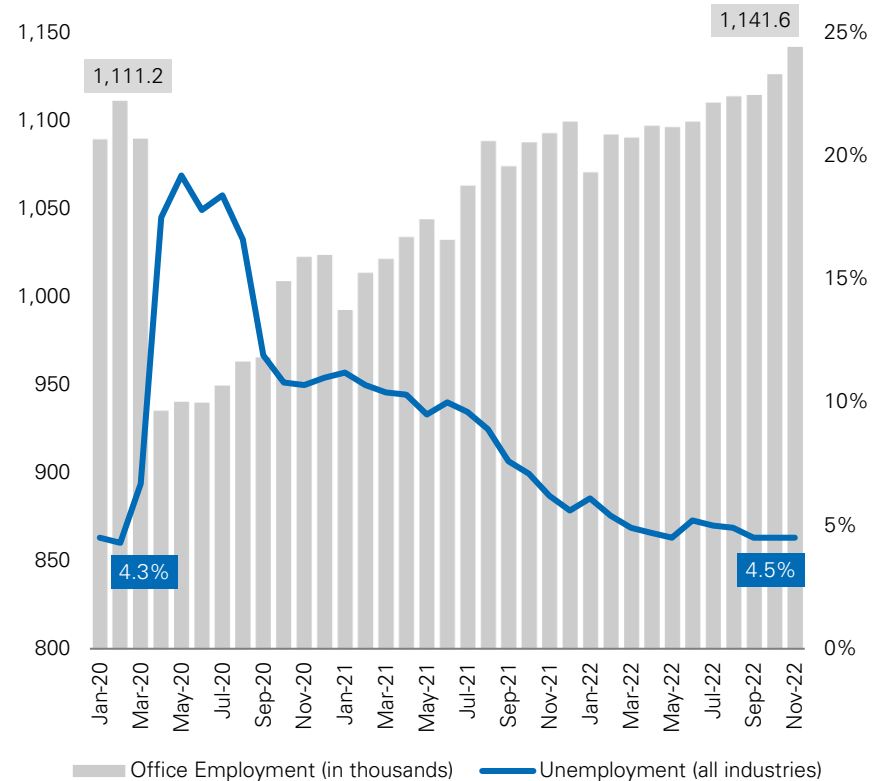
Orange County

- November's **unemployment** rate of 3.0% was the lowest in Southern California.
- Current **office-using employment** represents 101% of what it was in February 2020.



Los Angeles

- Unemployment was 4.5% in November, the fourth consecutive month the average was sub-5.0%.
- Current **office-using employment** represents 103% of what it was in February 2020.

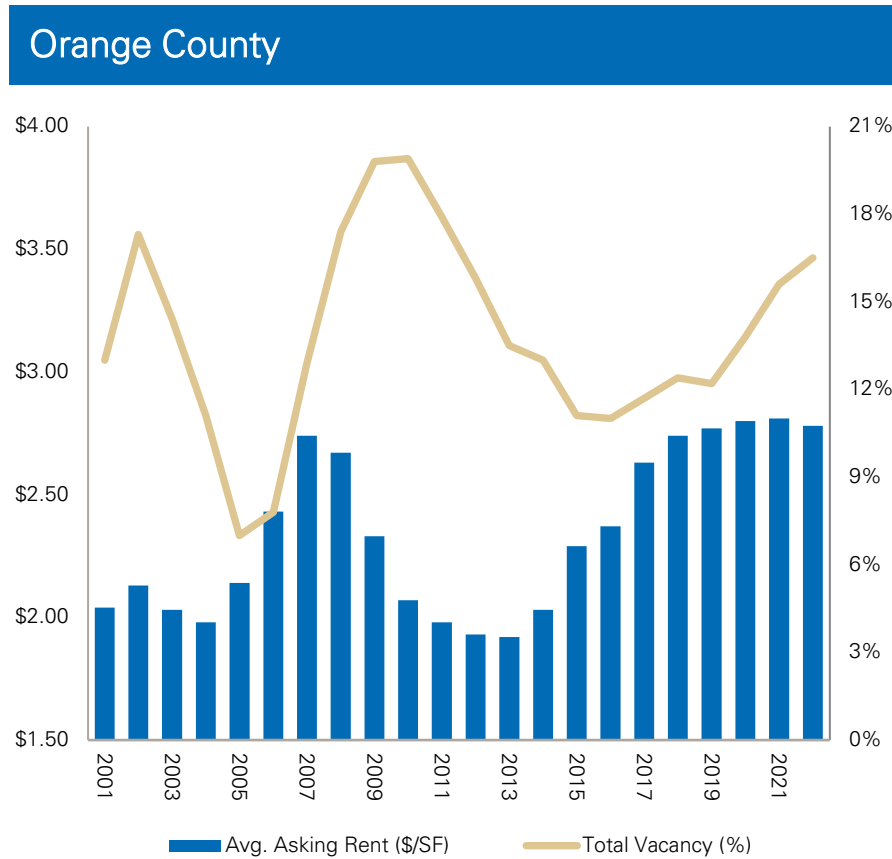


Office-using employment includes professional and business services, financial activities and information sectors
 Source: Newmark Research, U.S. Bureau of Labor Statistics (based on the most current data available)

Total Vacancy and Asking Rent Through 4Q'22

Orange County's vacancy rose to its highest point in 11 years, while Los Angeles' average is at a record high.

Asking rents have been generally flat since the onset of the COVID-19 pandemic in both markets. Most institutional landlords are reluctant to devalue their buildings and are offering more in way of concessions to secure business. As is the case in any downturn, trophy Class A space remains sought after.



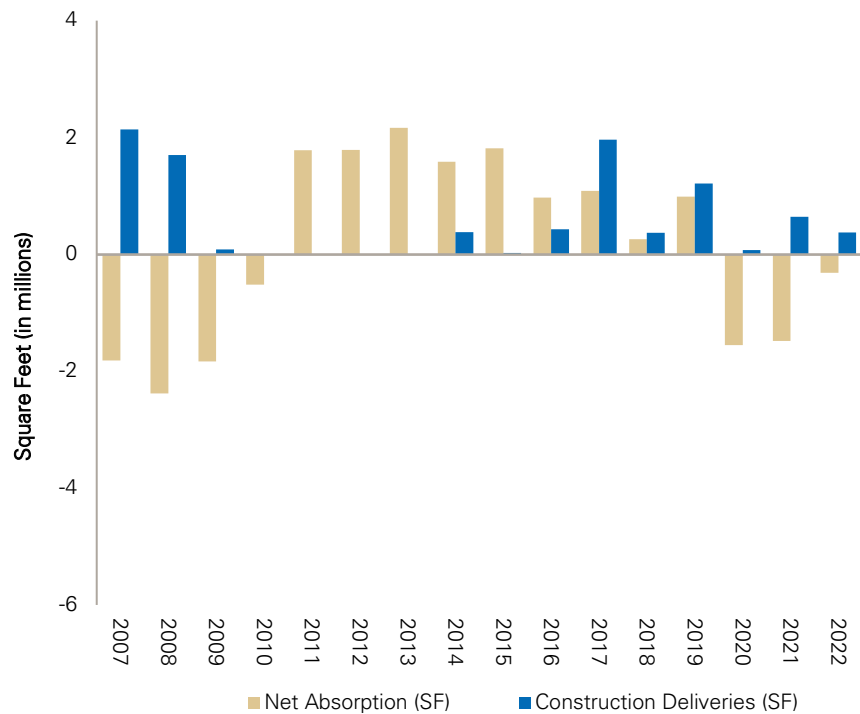
Source: Newmark Research

Net Absorption and Construction Deliveries Through 4Q'22

Orange County

There was nearly 0.4 million square feet in net occupancy losses in 2022.

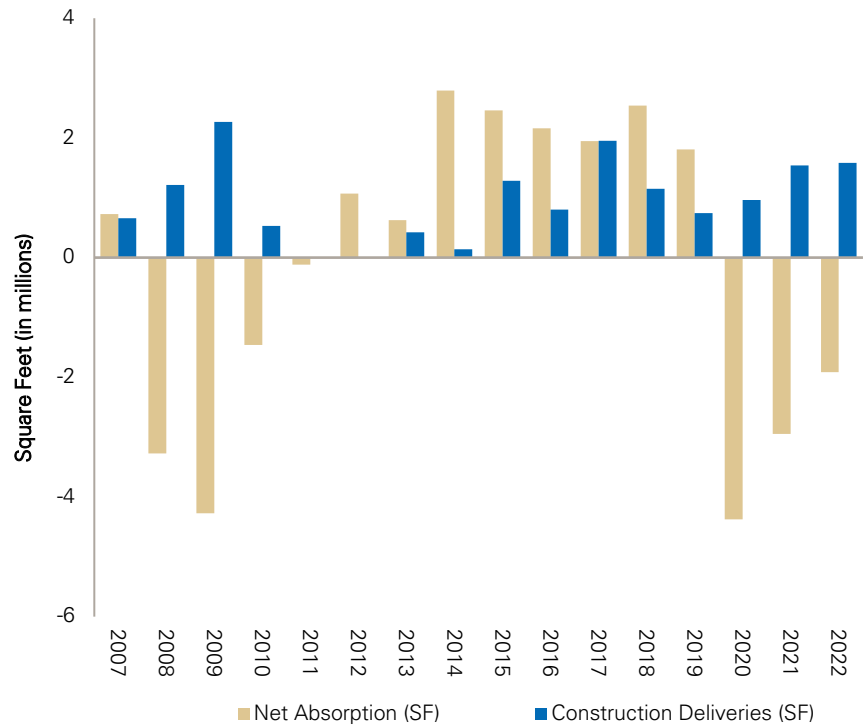
Eight buildings are currently under construction, totaling 707,714 SF. All will deliver in 2023 and are collectively 63.5% pre-leased.



Los Angeles

Net occupancy losses totaled 2.0 million square feet in 2022.

2.1 million square feet in ground-up construction is underway, 56.2% of which is currently pre-leased.

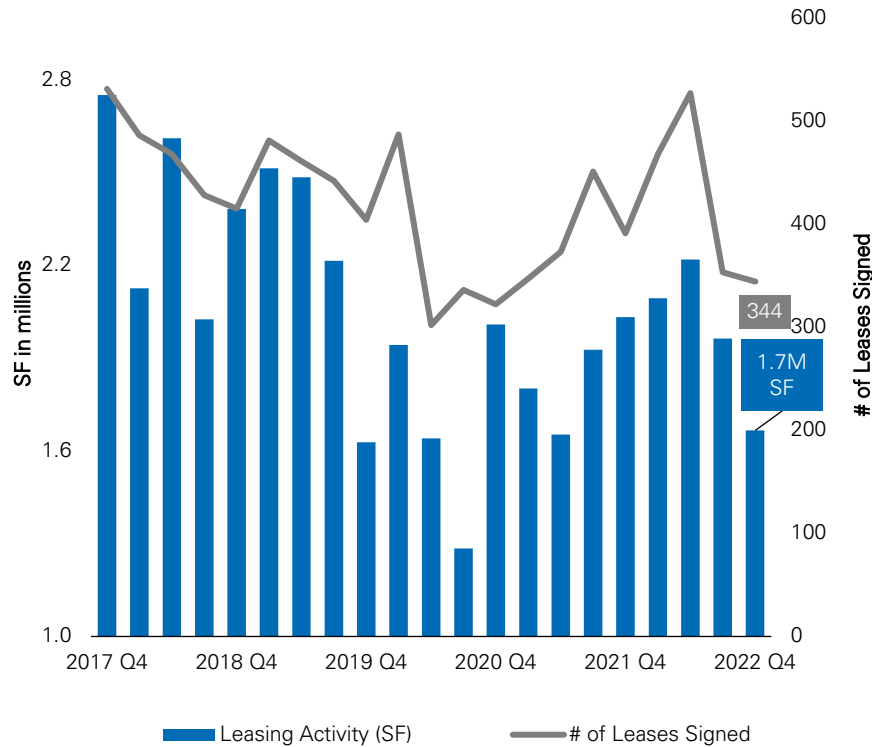


Source: Newmark Research

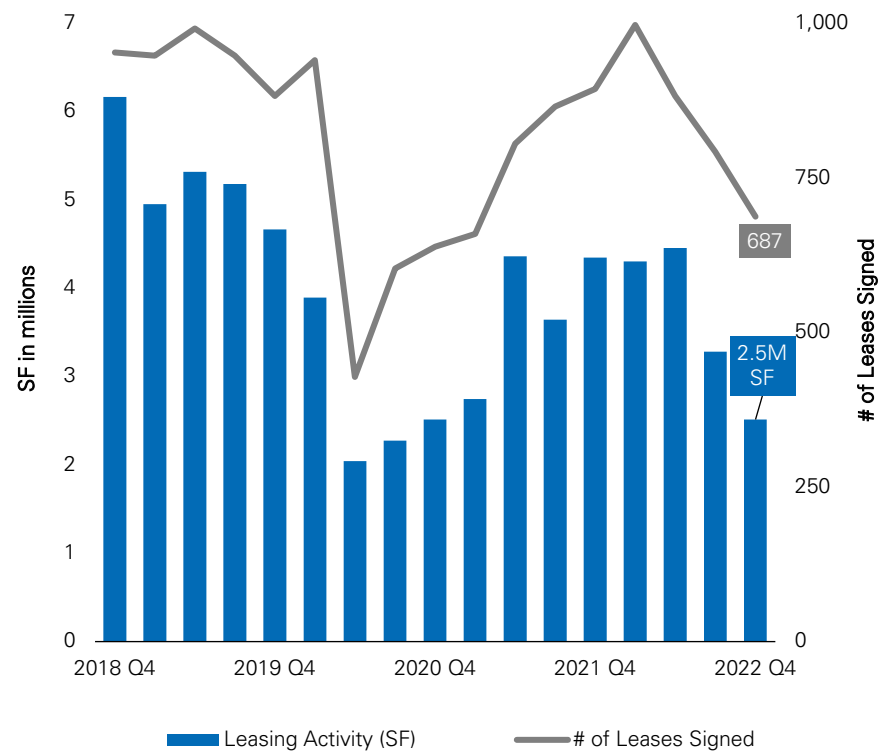
Overall Leasing Activity Slows in the Second Half of 2022

Ongoing space reductions from traditional occupiers, coupled with a cloudy economic outlook that has prompted many firms to undertake cost-cutting initiatives, is behind the reduction. Tech, which has led other industries in footprint expansions in recent years, has also hit the pause button.

Orange County



Los Angeles

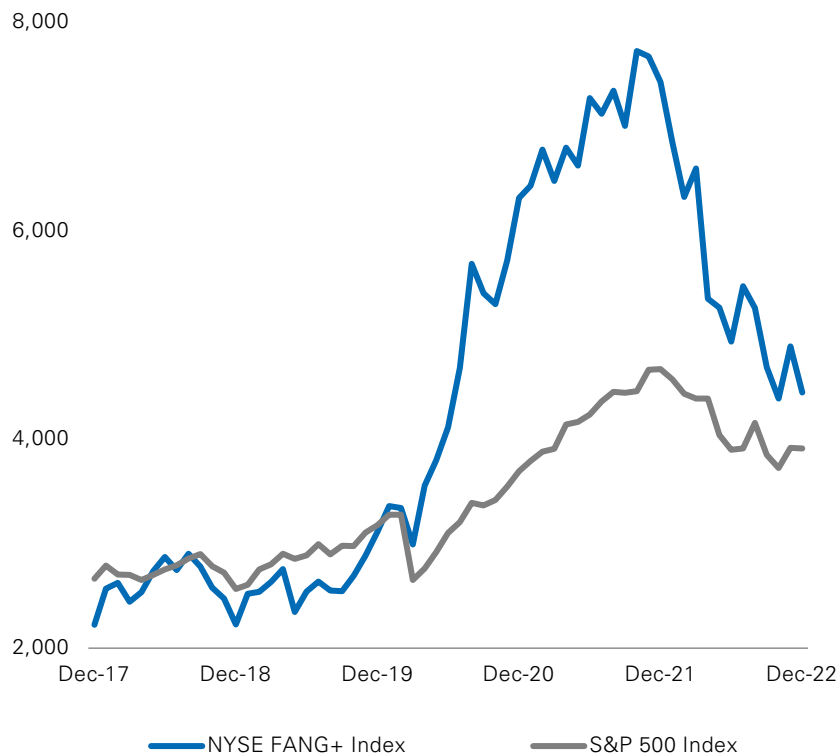


Source: Newmark Research, CoStar

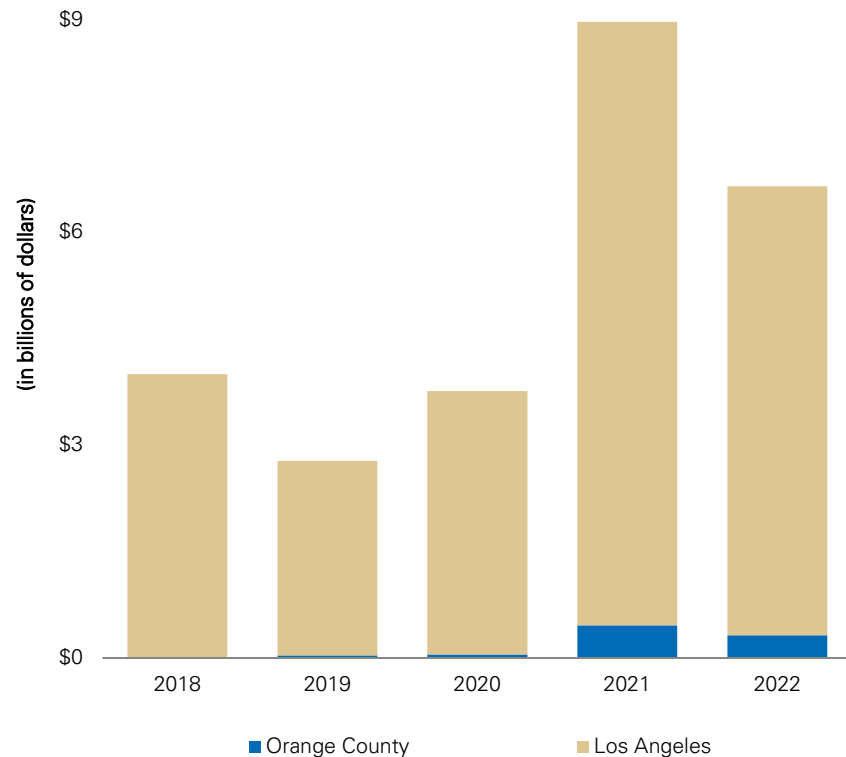
Changes in the Stock Market and Local Venture Capital Funding Will Impact Office Leasing Velocity for the Foreseeable Future

A sharp decline in the NYSE FANG+ index highlights the market cap declines big tech companies have experienced. Local VC funding meanwhile noticeably slowed in the last three quarters of 2022, given the higher cost of debt associated with rising interest rates. Less funding will stymie the growth plans of start-ups in the region.

NYSE FANG+ Index Comes Back to Earth



OC and LA VC Funding Decelerates



The VC Funding data set includes Angel, Pre-Seed, Seed and Series A-C funding rounds; \$250,000+ in funding per round
 Source: Newmark Research, Crunchbase, Investing.com, S&P Dow Jones Indices LLC

Current Sublet Availability, by Submarket

All Size Segments

Tech leads other industries in sublease listings. Many tech companies leased trophy spaces, which were very hard to come by prior to COVID-19 and have excess space to give back. Recent layoffs in the segment will lead to more sublease space.

Orange County				
Submarket	Sublet Available (SF)	Sublet Available % of Total Market	12-Month Change in Sublet Available (SF)	YE 2019 Change in Sublet Available (SF)
Airport Area	1,976,115	47.5%	+441,776	+776,714
Central County	448,835	10.8%	+157,732	+256,672
North County	388,107	9.3%	+215,255	+305,233
South County	1,200,287	28.8%	+305,063	+344,050
West County	148,816	3.6%	-5,144	-26,581
Orange County	4,162,160	100.0%	+1,114,682	+1,656,088

Los Angeles				
Submarket	Sublet Available (SF)	Sublet Available % of Total Market	12-Month Change in Sublet Available (SF)	YE 2019 Change in Sublet Available (SF)
Downtown LA	1,390,998	13.0%	-70,960	+600,625
Mid-Wilshire	35,580	0.3%	+13,956	-42,931
LA North	2,067,717	19.4%	+631,010	+1,694,994
Park Mile	38,695	0.4%	+29,771	+10,911
San Gabriel Valley	166,268	1.6%	-39,253	+107,596
South Bay	1,720,220	16.1%	+561,390	+933,378
Tri-Cities	1,332,466	12.5%	+117,686	+816,371
West LA	3,911,257	36.7%	+398,093	+1,759,360
Los Angeles	10,663,201	100.0%	+1,641,693	+5,880,304

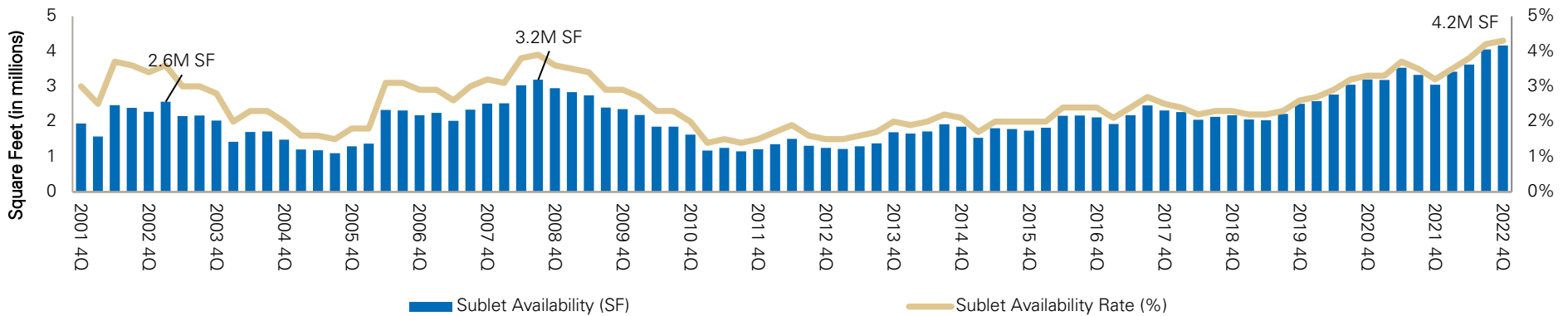
Source: Newmark Research

Historical Sublet Availability

All Size Segments

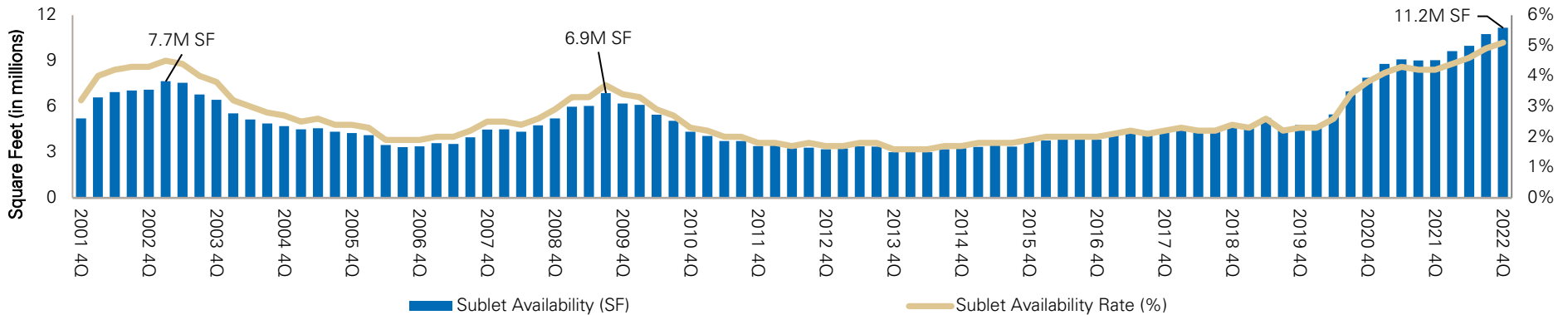
Orange County's sublet availability increased by 1.1M SF from 2021 to 2022.

Current sublet availability is at a record high: as a percentage of existing inventory and on a square footage basis.



Los Angeles' sublet availability increased by 2.1M SF in 2022

Current sublet availability is at a record high: as a percentage of existing inventory and on a square footage basis.

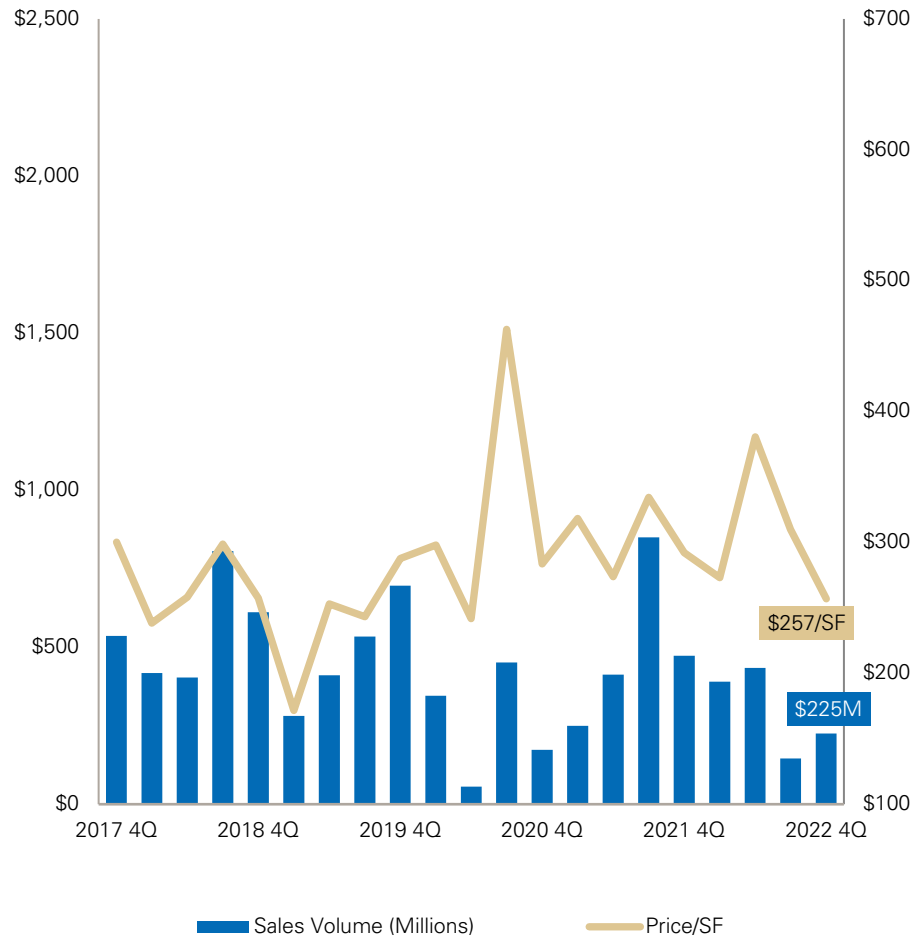


Source: Newmark Research

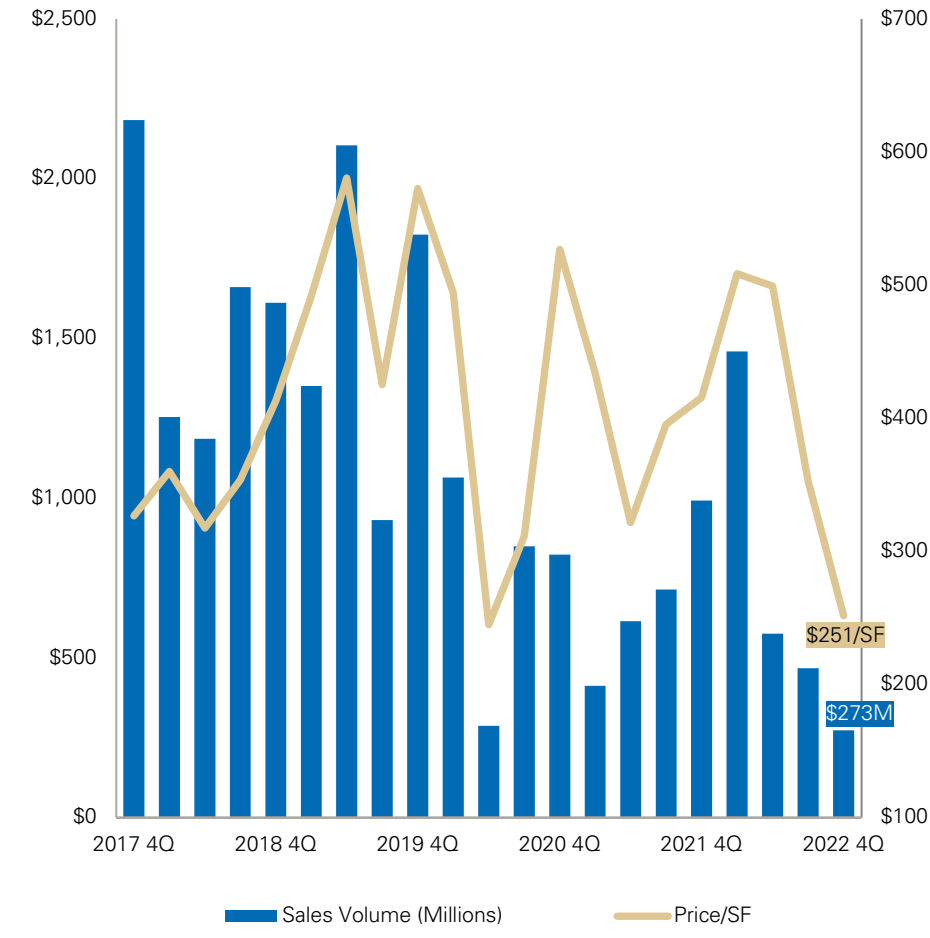
Sales Volume and Price/SF

Last 5 Years, Buildings 15,000 SF and Greater

Orange County



Los Angeles



Source: Newmark Research, CoStar

Sales Analysis by Building Size

Based on Office Building Sales in 2022

Building Size	ORANGE COUNTY				LOS ANGELES			
	#	RBA	\$ Volume	Price/SF	#	RBA	\$ Volume	Price/SF
15K-49K SF	47	1,280,185	\$410M	\$309	87	2,086,306	\$819M	\$400
50K-249K SF	36	3,318,163	\$784M	\$303	37	2,987,996	\$1.1B	\$354
250K-499K SF	0	0	-	-	5	1,298,238	\$810M	\$687
> 500K SF	0	0	-	-	0	0	-	-

excludes medical office and telecommunications facilities

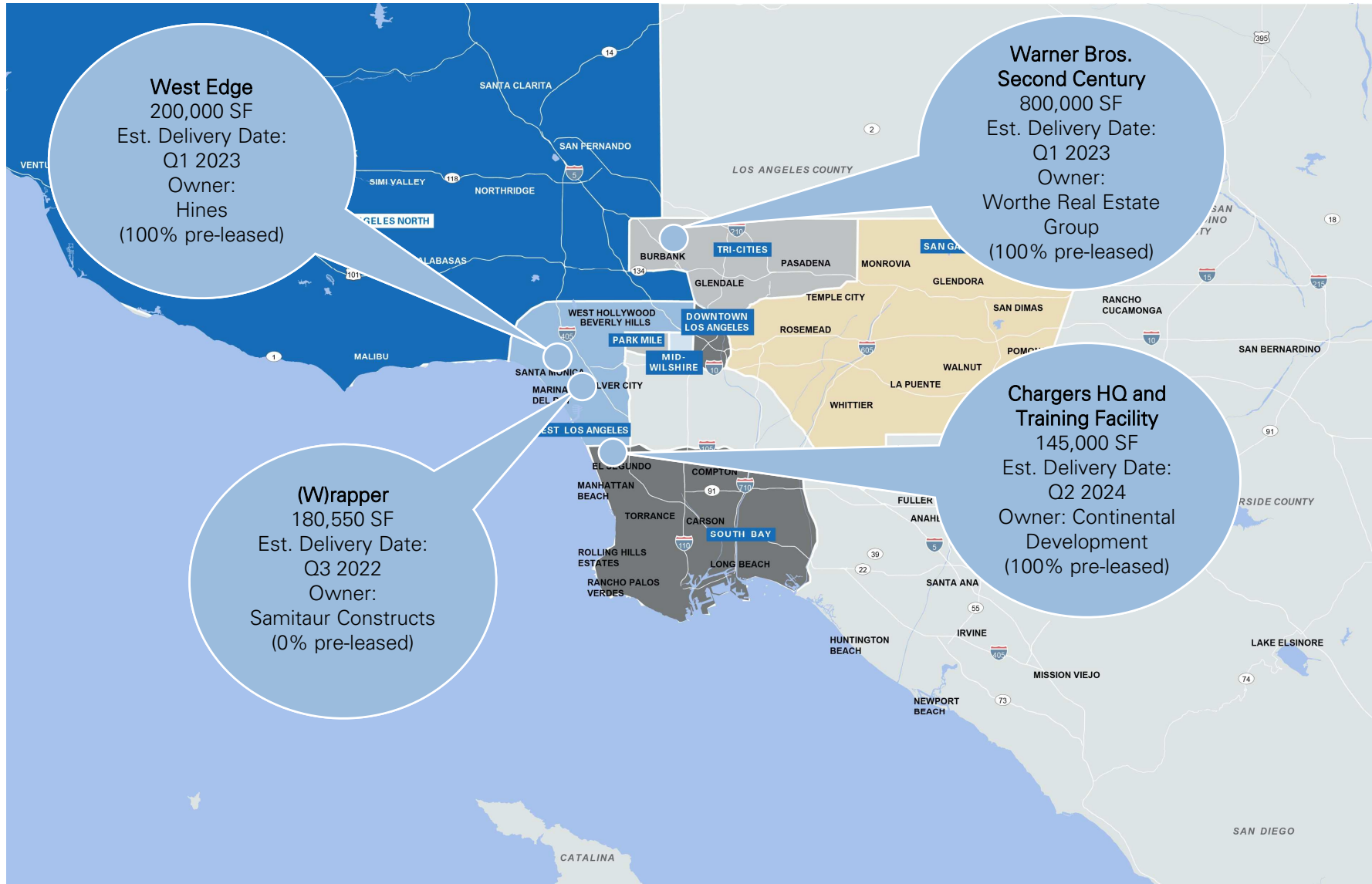
Source: Newmark Research, CoStar

Under Construction Projects | Orange County



Source: Newmark Research

Select Under Construction Projects | Los Angeles



Source: Newmark Research

Key Trends To Watch

1

Local office-utilization has generally hovered in the low-to-mid- 40%-range since April 2022. Most companies that have mandated returns to the office have adopted a three-days-in, two-days-out model. Tuesday through Thursday are the busiest in-the-office days.

2

For traditional occupiers: staff cuts in the early days of the pandemic followed by the Great Resignation left many companies scrambling to backfill positions and to improve retention rates. No one wants a repeat of this.

3

Many companies view the hybrid work model as a strategy to reduce office space and cut costs in lieu of laying off employees, which can be challenging to retain in a still-competitive (though slowing) labor market. Tenants are generally 'trading up while paring down' by leasing trophy space that is noticeably smaller than their previous footprint.

4

Tech companies whose valuations have taken a sizeable hit in recent months will maintain hiring freezes, announce layoffs and/or delay their space expansion plans. Leasing activity throughout the greater region, which has noticeably decelerated, will remain flat. More tech companies will mandate returns to the office; traditional companies will increasingly follow suit.

5

With rising interest rates, investors' yield demands for investment-grade property has increased, which, in turn, has caused sale values to cool from all-time highs. A pricing correction is underway to narrow the gap between the expectations of buyers and sellers.

Andrew Robben

Managing Director

Orange County

andrew.robben@nrmk.com

RE License #01372891

Dain Fedora

Vice President of Research

Southern California

dain.fedora@nrmk.com

Fahima Dawd

Research Analyst

Orange County

fahima.dawd@nrmk.com

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

Orange County

18401 Von Karman Ave.

Suite 150

Irvine, CA 92612

t 949-608-2000

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