

Ventura County

Office Market Outlook Q2 2023

MARKET OVERVIEW

During 2Q 2023, the office market in Ventura County saw a slight increase in vacancies, with vacant space increasing by just 0.2% quarter-over-quarter, compared to a higher 6.7% year-over-year rise. The total vacant space reached 3.6 million square feet, influenced by remote work and the return to the office struggles. Despite the deceleration in overall office vacancies, the growth rate of available sublease space suggests that the office market is still affected by the pandemic fallout. Quarterly, there was an 8.7% increase, and annually, a 23.9% increase in available sublease space, totaling 810,345 square feet, surpassing the peak observed during the Great Recession.

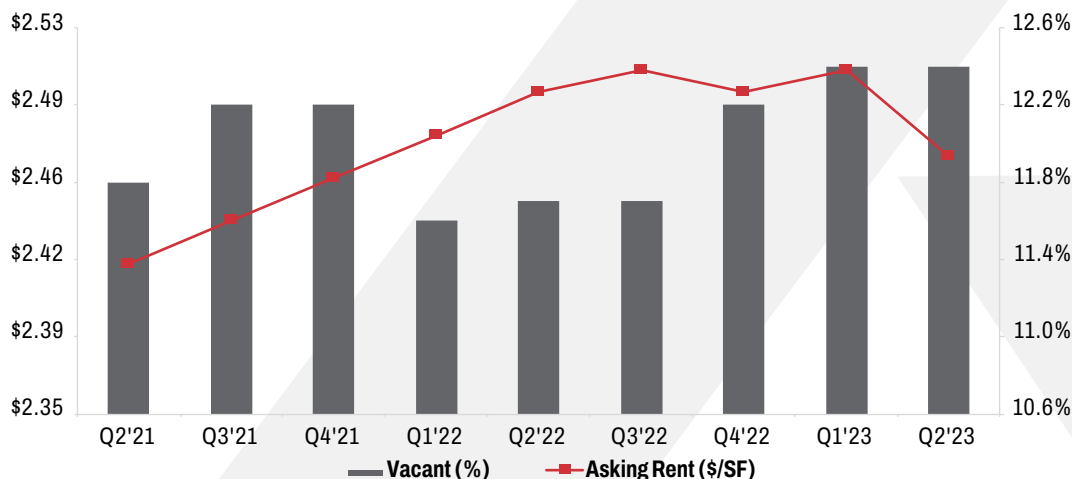
Overall, Ventura County had a substantial 4.5 million square feet of available office space during Q2. Encouraging workers to return to the office following the pandemic posed a challenge for office building owners, leading to rising vacancy rates. While the rate of increase in vacant space appears to be decelerating, the average asking rent for office spaces also experienced softening. Due to the accumulating vacancies, office building owners were forced to reduce rents, resulting in a decrease of 5 cents compared to the previous quarter. On a year-over-year basis, there was a drop of 2.4% in the average rent, bringing it down to \$2.47 per square foot. The low rent growth for office space and lackluster demand have not stimulated any construction. Around 2020/21, there was only an addition of 83,533 square feet in approximately a dozen small buildings, with an average size of 8,300 square feet.

TRENDS TO WATCH

The future growth in employment in office-occupying sectors and potential changes in interest rates are expected to drive office leasing. In July, the Federal Reserve increased interest rates to a 22-year high, leading to a significant 74% year-over-year decline in office sales volume and a 30.2% decrease in the average sale price. The office market conditions, and demand are anticipated to continue evolving. In June, the unemployment rate in Ventura County rose to 4.2%, higher than the previous month and the previous year. The largest office-occupying sector, professional and business services, remained flat compared to last year. The overall recovery of the office market will depend on the speed of employment recovery. However, Ventura County faces challenges in job growth due to the lack of labor force growth and the absence of new business formation or organic business expansion.

To remain competitive, landlords will offer lower rent. However, rising interest rates and uncertainties surrounding back to the office work environment may potentially cause investors and tenants to delay sale transactions and long-term leases. Ongoing work-from-home trends are also influencing the demand for office space, resulting in reduced occupancy and cash flow challenges for building owners, especially considering the rise in interest rates. As a result, both landlords and tenants are likely to face distress, leading to a challenging recovery period that will impact real estate values moving forward. Investors will closely monitor the evolving dynamics of the office market and the effects of these factors in shaping their future investment decisions.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



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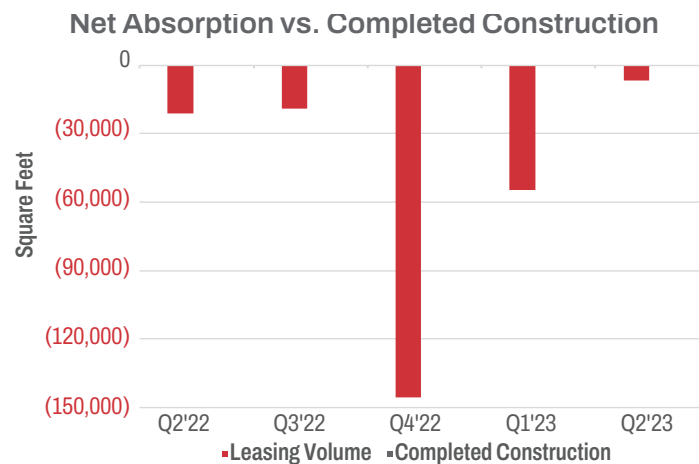
MARKET STATISTICS*

Submarket	Existing Total RBA (SF)	Under Construction (SF)	Total Available (%)	Total Vacancy (%)	Leasing Volume (SF)	YTD Leasing Volume (SF)	Sales Volume (SF)	YTD Sales Volume (SF)	Average Asking Rent \$/SF NNN	Average Sale Price \$/SF
East	17,437,494	0	19.7%	15.7%	158,801	448,880	59,398	173,055	\$2.49	\$231
West	11,615,297	0	9.0%	7.5%	111,076	198,183	57,440	80,513	\$2.43	\$198
Ventura County	29,052,791	0	15.4%	12.4%	269,877	647,063	116,838	253,568	\$2.47	\$216

*RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

LEASING TRENDS

The market's supply and demand shift is emphasized by the last five quarters, indicating a significant disparity between the demand and supply of office space. With no construction adding any square footage to the market, consecutive quarters of negative net absorption have resulted in a total of 1,015,809 square feet back on the market as of Q2 2023.

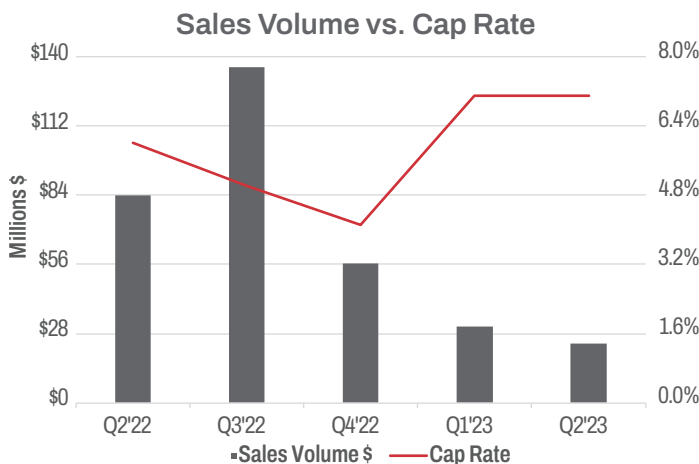


Select Lease Transactions

Tenant	Address	City	Submarket	Square Feet
Lease Renewal	2259 Ward Ave	Simi Valley	East	10,000
New Direct Lease	2901 N Ventura Rd	Oxnard	West	9,852
New Direct Lease	1701 Solar Dr	Oxnard	West	9,671
New Direct Lease	300 E Esplanade Dr	Oxnard	West	9,110
New Direct Lease	300 E Esplanade Dr	Oxnard	West	7,934

SALES TRENDS

The last five quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 72.7% below Q2 2022, amounting to approximately \$54.5 million year to date. Additionally, the average cap rate on investment sales increased by 110 basis points from the second quarter of 2022, reaching 7.1 percent.



Select Sales Transactions

Tenant	Address	City	Submarket	Square Feet
Oxnard Housing Authority	2900 Saviers Rd	Oxnard	West	26,392
BendPak Inc	30440-30500 Agoura Rd	Agoura Hills	East	22,256
Skye Sierra Trust	23501 Park Sorrento	Calabasas	East	21,935
California Dermatology Institute	145 Park Ln	Moorpark	East	15,207
Douglas A. Bordner	3212 Loma Vista Rd	Ventura	West	9,830