

# LOS ANGELES OFFICE MARKET

## VACANCY RISES AS ABSORPTION TAKES A HARD HIT

- Landlords are still in a period of rent discovery, and, for now, the average asking rent is at a record high. Rent will trend down in time.
- Tenants are reluctant to make long-term decisions, and short-term renewals and extensions dominate leasing activity. New leases and expansions are rare as tenants evaluate their space needs.
- Vacancy climbed to its highest point in five years after substantial quarterly net absorption losses of 1.8 million square feet. More than 730,000 square feet of this total came from vacant sublet space.
- Sublet availability climbed to 3.4% after adding over 1.3 million square feet this quarter alone.
- Current sublet availability of nearly 6.9 million square feet is on par with the peak following the Great Recession in 2009, which took four quarters to reach, as opposed to only two quarters in 2020.
- Construction activity remains high, with 4.7 million square feet underway. While oversupply is always a concern in a down market, 52.0% of construction is pre-leased.

## FAANG COMPANIES INSULATE MARKET

Tech and media companies were at the forefront of leasing activity during the 2008 to early 2020 real estate cycle. While most of today's subleases are from tech companies, several FAANG companies remain in expansion mode. To a degree, they will help offset space givebacks from smaller players.

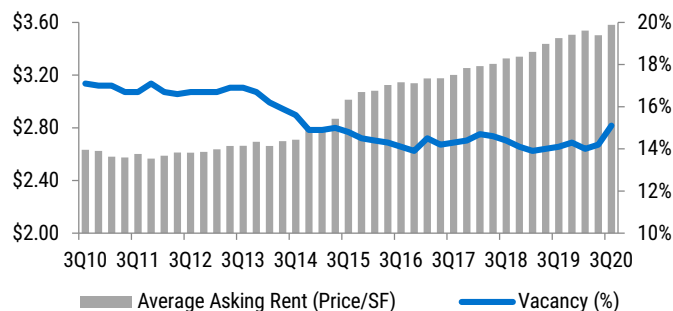
Netflix continued to build scale this quarter after leasing 171,000 square feet at the Burbank Empire Center for its first dedicated animation studio. The company previously subleased a smaller space in the same building park. Netflix, which has committed to 1.3 million square feet in Hollywood, also has a massive Burbank requirement for studio lot space. The company's CEO has expressed his desire to have employees back in the office, and this will favor future absorption gains.

Facebook continues to expand, after leasing an additional 85,000 square feet in June at The Brickyard in Playa Vista. The company is also actively pursuing further growth opportunities in West Los Angeles as FAANG companies continue to look at expansion opportunities in Culver City.

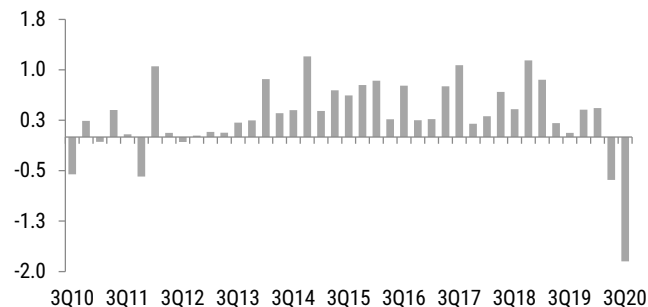
The streaming wars are far from over, especially after viewership counts skyrocketed following shelter-in-place mandates. Disney reported it had over 100 million streaming video subscribers in August and plans to launch a new streaming service under the Star brand it acquired from Fox.

### MARKET ANALYSIS

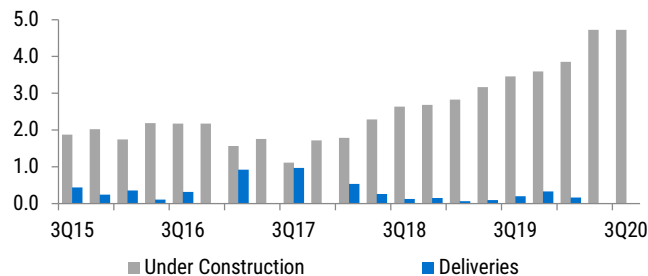
#### Asking Rent and Vacancy



#### Net Absorption (SF, Millions)



#### Construction and Deliveries (SF, Millions)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	203 MSF	203 MSF	202 MSF	↑
Vacancy Rate	15.1%	14.2%	14.1%	↑
Quarterly Net Absorption	-1,848,049	-636,306	62,443	↓
Average Asking Rent	\$3.58	\$3.50	\$3.48	↓
Under Construction	4.7 MSF	4.7 MSF	3.5 MSF	↓
Deliveries	0	0	197,726	↑

Netflix is reportedly on track to have 200 million subscribers by year-end; the company accounted for nearly 13% of global internet traffic in the first six months of 2019.

Absorption in West Los Angeles and Tri-Cities stands to benefit from these companies, along with Google's new One Westside campus that is set to deliver in 2022. Same for Amazon's set Culver City move-ins.

## OUTLOOK

The return of film production will create a much-needed boost for the region's tech and media occupiers, big, small and in-between. There are also residual benefits for companies that support Los Angeles's

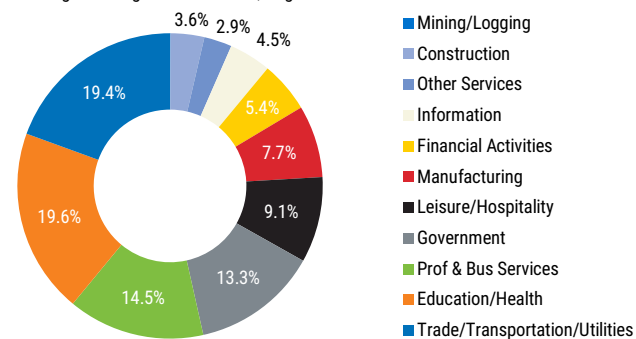
dominant industry, including talent agencies, law firms, marketing companies and post-production. For now, most businesses are in a holding pattern as Los Angeles inches closer to a Tier 3 designation, under Governor Newsom's four-tiered system that measures COVID-19 transmission rates in the state's counties. Moving down in tiers allows a county's economy to further reopen.

The office market's near-term outlook is not favorable and will be defined by rising vacancy and a decline in rents. There is also the ongoing work-from-home-versus-in-the-office debate, and what that the implications are for future space needs. This debate will continue, especially in a pre-vaccine environment.

## EMPLOYMENT BY INDUSTRY

Not Seasonally Adjusted

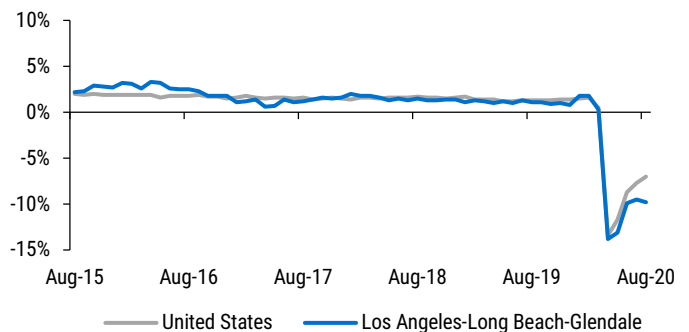
Los Angeles-Long Beach-Glendale, August 2020



Source: U.S. Bureau of Labor Statistics (Preliminary Data)

## PAYROLL EMPLOYMENT

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics (Preliminary Data)

## LEASE TRANSACTIONS

Tenant	Building	Market Area	Type	Square Feet
Netflix	2300 W Empire Ave	Burbank	New Lease	171,000
Comcast	1840 Victory Blvd	Burbank	New Lease	66,712
Universal Music Group	2100 Colorado Ave	Santa Monica	Renewal	64,665
LegalZoom	101 N Brand Blvd	Glendale	Extension	56,345
Bolton & Company	3475 E Foothill Blvd	Pasadena	Renewal	41,605

## SALE TRANSACTIONS

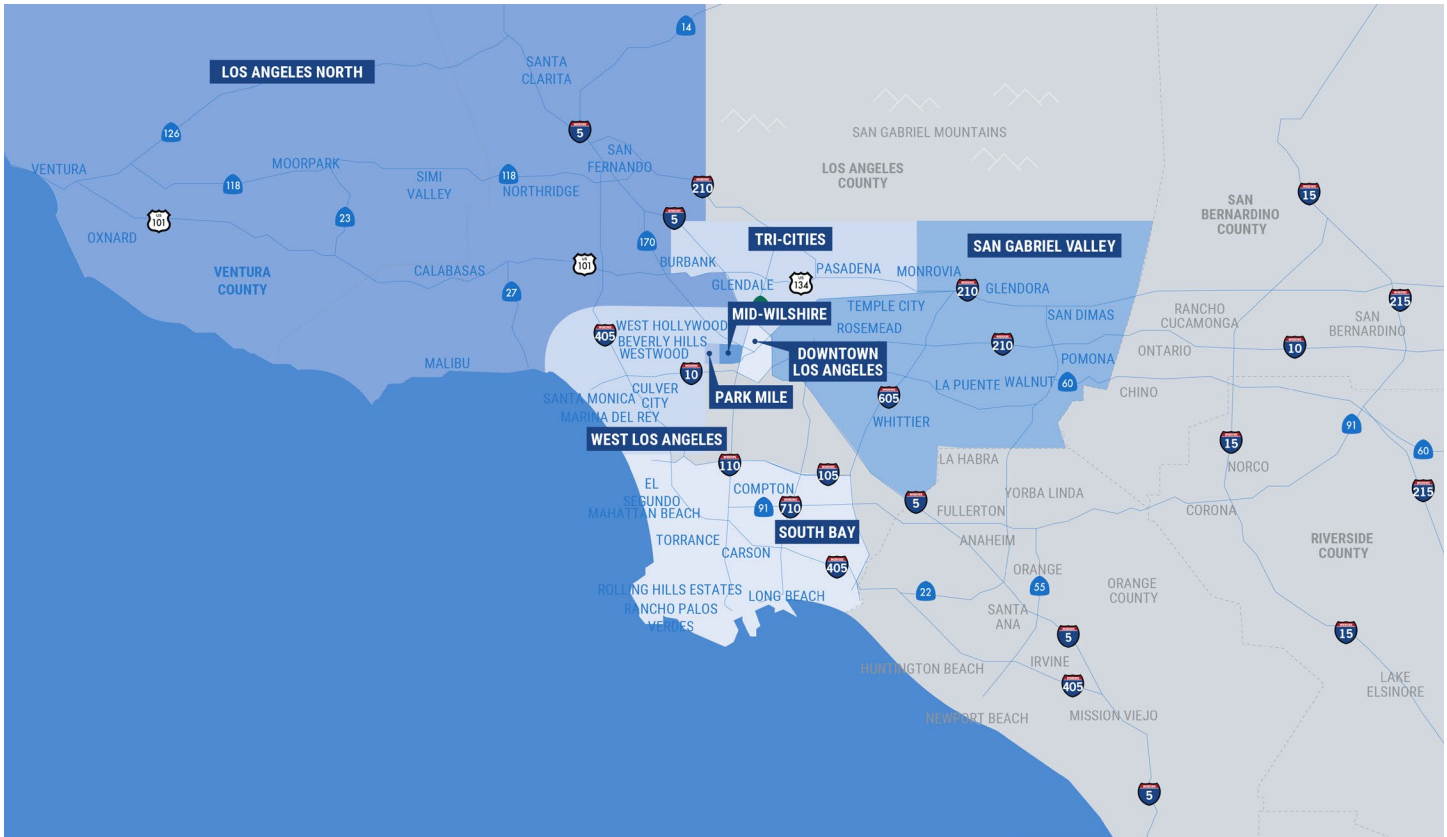
Building(s)	Market Area	Sale Price	Price/SF	Square Feet
U.S. Bank Tower	Downtown Los Angeles	\$430,000,000	\$300	1,432,607
900 Corporate Pointe	Culver City	\$120,000,000	\$417	287,800
6311 Romaine St	Hollywood	\$64,000,000	\$302	212,000
17777 Center Court Dr	Mid-Counties	\$44,000,000	\$257	170,977
924 & 960 Overland Ct	Eastern SGV	\$42,850,000	\$241	177,541

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Downtown Los Angeles</b>	<b>36,328,624</b>	<b>113,000</b>	<b>20.2%</b>	<b>-183,347</b>	<b>-33,262</b>	<b>\$3.94</b>	<b>\$3.47</b>	<b>\$3.69</b>
<b>Mid-Wilshire</b>	<b>6,942,939</b>	<b>0</b>	<b>26.8%</b>	<b>-27,931</b>	<b>-238,461</b>	<b>\$2.91</b>	<b>\$2.62</b>	<b>\$2.69</b>
<b>Los Angeles North</b>	<b>31,586,447</b>	<b>235,547</b>	<b>11.0%</b>	<b>-163,255</b>	<b>-503,484</b>	<b>\$2.83</b>	<b>\$2.54</b>	<b>\$2.70</b>
Central Valley	7,904,674	0	12.1%	-63,613	-57,880	\$2.72	\$2.67	\$2.69
Conejo Valley	8,508,293	0	10.9%	-32,694	-108,399	\$2.86	\$2.57	\$2.71
East Valley	3,031,614	235,547	8.3%	-27,265	6,306	\$3.64	\$2.81	\$3.37
Santa Clarita Valley	2,771,232	0	12.0%	1,562	-6,329	\$2.75	\$2.30	\$2.68
West Valley	9,370,634	0	10.7%	-41,245	-337,182	\$2.58	\$2.42	\$2.47
<b>Park Mile</b>	<b>1,686,837</b>	<b>0</b>	<b>23.1%</b>	<b>8,422</b>	<b>-44,148</b>	<b>\$3.20</b>	<b>\$3.97</b>	<b>\$3.67</b>
<b>San Gabriel Valley</b>	<b>13,922,742</b>	<b>0</b>	<b>10.1%</b>	<b>-41,238</b>	<b>99,850</b>	<b>\$2.69</b>	<b>\$2.36</b>	<b>\$2.45</b>
Eastern SGV	7,890,891	0	8.2%	-9,013	153,798	\$2.62	\$2.34	\$2.43
Western SGV	6,031,851	0	12.6%	-32,225	-53,948	\$2.79	\$2.38	\$2.46
<b>South Bay</b>	<b>31,974,790</b>	<b>450,872</b>	<b>18.3%</b>	<b>-421,952</b>	<b>-294,710</b>	<b>\$3.19</b>	<b>\$2.86</b>	<b>\$2.95</b>
190th Street Corridor	3,723,789	0	16.3%	-18,076	120,610	\$2.93	\$2.47	\$2.62
Carson	1,005,395	0	29.6%	-3,366	20,864	\$2.49	\$1.96	\$2.45
El Segundo/Beach Cities	11,751,333	0	14.0%	-149,644	-75,992	\$4.20	\$3.93	\$4.08
LAX/Century Blvd	3,408,238	450,872	39.3%	-15,871	-141,964	\$2.41	\$2.39	\$2.35
Long Beach Downtown	4,476,210	0	18.9%	-85,918	-171,702	\$3.05	\$2.23	\$2.54
Long Beach Suburban	4,599,263	0	18.9%	-145,297	-45,548	\$2.79	\$2.60	\$2.55
Torrance Central	3,010,562	0	8.0%	-3,780	-978	\$3.56	\$2.55	\$2.79

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<b>Tri-Cities</b>	<b>20,899,300</b>	<b>1,161,250</b>	<b>12.4%</b>	<b>-89,236</b>	<b>111,112</b>	<b>\$3.39</b>	<b>\$3.16</b>	<b>\$3.33</b>
Burbank	6,731,768	942,250	8.6%	-40,437	220,167	\$3.89	\$3.30	\$3.77
Glendale	6,225,067	0	14.4%	-2,788	37,927	\$3.10	\$2.70	\$3.05
Pasadena	7,942,465	219,000	14.1%	-46,011	-146,982	\$3.54	\$3.28	\$3.43
<b>West Los Angeles</b>	<b>59,353,907</b>	<b>2,761,720</b>	<b>13.1%</b>	<b>-929,512</b>	<b>-1,149,720</b>	<b>\$5.65</b>	<b>\$4.82</b>	<b>\$5.33</b>
Beverly Hills	6,508,034	0	11.9%	-58,844	-106,205	\$6.10	\$4.87	\$5.44
Brentwood	3,329,333	0	12.6%	-40,547	-56,085	\$4.38	-	\$4.38
Century City	10,333,273	0	6.7%	-114,094	-179,703	\$6.46	-	\$6.46
Culver City	5,006,184	1,609,423	15.7%	-43,454	-84,254	\$4.11	\$4.09	\$4.09
Hollywood	3,872,671	552,145	22.7%	-133,246	-192,859	\$5.08	\$5.05	\$5.07
Marina Del Rey/Venice	1,675,837	0	28.6%	-440	-32,959	\$5.56	\$5.73	\$5.69
Miracle Mile	4,417,578	0	24.1%	-236,858	-262,580	\$4.25	\$2.85	\$4.00
Olympic Corridor	2,387,284	280,340	12.9%	-35,427	-94,528	\$5.04	\$3.50	\$4.90
Playa Vista	3,606,568	192,070	9.8%	-18,320	13,696	\$5.68	\$4.44	\$5.11
Santa Monica	9,102,551	30,000	10.7%	-114,797	-109,104	\$6.44	\$5.73	\$6.16
West Hollywood	2,590,430	97,742	11.2%	-19,546	-24,803	\$5.29	\$4.11	\$4.77
Westside Other	3,376,355	0	9.0%	-83,378	12,871	\$4.55	\$3.46	\$4.24
Westwood	3,147,809	0	14.8%	-30,561	-33,207	\$5.52	\$3.85	\$4.74
<b>Los Angeles</b>	<b>202,695,586</b>	<b>4,722,389</b>	<b>15.1%</b>	<b>-1,848,049</b>	<b>-2,052,823</b>	<b>\$3.94</b>	<b>\$3.24</b>	<b>\$3.58</b>



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