

Los Angeles Office Market Report

Vaccine Injects Optimism Into Office Market

- Asking rent has yet to soften and remains high. Many landlords are reluctant to devalue their buildings, knowing a recovery is on the horizon.
- Vacancy increased to its highest point since 2013, while quarterly net absorption losses were pronounced.
- Net absorption for 2020 was in the red, with 4.1 million square feet. This was the second worst year on record, behind 2009's 4.3 million square feet in losses.
- Under-construction activity represents 2.0% of existing inventory, double the 15-year average of 1.0%.
- Nearly 700,000 square feet delivered this quarter; while 68.0% is leased, tenants have yet to take occupancy due to shelter-in-place mandates. This partly accounts for vacancy's increase this quarter.
- Co-working occupiers are reducing their footprints, cancelling or renegotiating leases and closing locations.

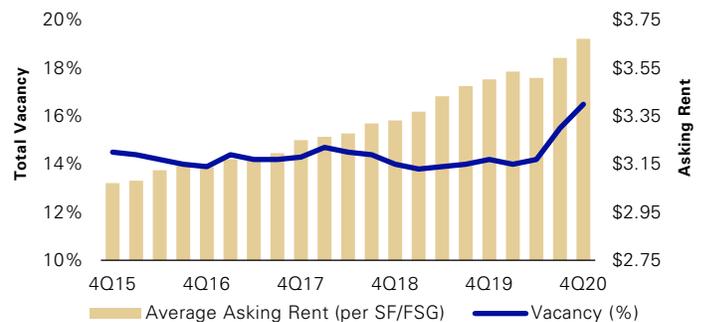
Sublease Space Reaches an All-Time High

Sublet availability exceeded 8.1 million square feet (4.0% of inventory) by year-end, an all-time high. The run-up in sublease space is steep when surveying past real estate cycles. It took eight quarters in the early 2000s recession to reach its peak (7.7 million square feet) and seven quarters during the Great Recession years (6.9 million square feet).

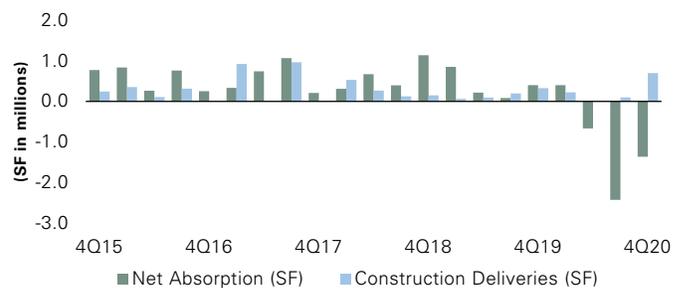
West Los Angeles represents the bulk of today's sublease availability, with almost 3.9 million square feet. Most of this is from tech companies, which are better suited for the work-from-home model than more traditional occupiers. While growing sublease supply will lead to additional softening in the market, it provides opportunities for expanding tenants looking for premium space at a discount.

Market Analysis

TOTAL VACANCY AND MONTHLY AVERAGE ASKING RENT



NET ABSORPTION AND CONSTRUCTION DELIVERIES



Market Summary

| | Current Quarter | Prior Quarter | Year Ago | 12-Month Forecast |
|-------------------------------|-----------------|---------------|------------|-------------------|
| Total Inventory (SF) | 204M | 203M | 202M | ↑ |
| Total Vacancy Rate | 16.5% | 15.5% | 14.2% | ↑ |
| Quarterly Net Absorption (SF) | -1.4M | -2.4M | 400,813 | → |
| Average Asking Rent/SF/Month | \$3.67 FSG | \$3.59 FSG | \$3.50 FSG | ↓ |
| Deliveries (SF) | 699,296 | 97,742 | 327,914 | ↑ |
| Under Construction (SF) | 4.1M | 4.7M | 3.5M | ↓ |

Content Creation Drives Demand

With viewership counts skyrocketing during the pandemic, the streaming wars rage on, increasing demand for production space. This includes studio space and offices to support post-production work. Netflix is leading the charge and is on track to reach 200 million subscribers by year-end; the company, after dominating office leasing activity in Hollywood in recent years, signed 2020's largest lease for 171,000 square feet in Burbank. The company has additional space requirements as well.

Investors remain bullish on the entertainment industry and the real estate assets supporting it, if Blackstone's 49.0% stake in Hudson Pacific Properties' studio and office portfolio for \$1.7 billion earlier this year is any indication. New development is also on the horizon. For Hudson, the company announced plans to expand Sunset Gower Studios in Hollywood to more than 1.1 million square feet. Blackstone, meanwhile, is partnering with Worthe Real Estate to develop a 500,000-square-foot tower in Burbank for what will likely be post-production space and supporting offices; groundbreaking is slated for 2022.

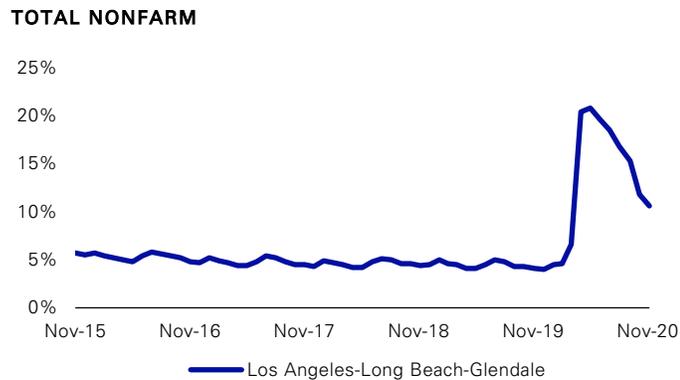
In Culver City, where Amazon and HBO have large space commitments, a square block of properties sold as a redevelopment opportunity to a major tech and media company for their rumored content division.

Outlook

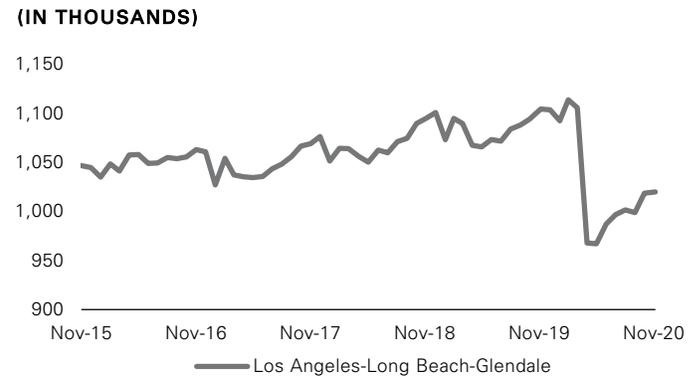
Today's unprecedented office landscape would have been impossible to predict this time last year, and the lasting effects of trends such as remote working remain to be seen. While more workers will return to the office as vaccination counts increase throughout the nation, next year's occupancy growth will be progressive at best. Current office utilization averages 30.3% in Los Angeles, outpacing other gateway markets, according to data from Kastle Systems.

The labor market is already on the road to recovery, while the full reopening of film and production in the region will create a surge in demand from tech-media occupiers. Companies as a whole, meanwhile, will continue to assess space needs and execute go-forward strategies.

Unemployment Rate



Office-Using Employment



Lease Transactions

| Tenant | Building | Market Area | Lease Type | Square Feet |
|-------------------|----------------------|-------------------------|-------------------|-------------|
| J.P. Morgan | 2029 Century Park E. | Century City | Renewal | 103,214 |
| USC | 1000 S Fremont Ave. | Western SGV | Renewal/Expansion | 87,900 |
| Fisker Automotive | 1888 Rosecrans Ave. | El Segundo/Beach Cities | New | 72,649 |

Sale Transactions

| Buyer | Building(s) | Market Area | Sale Price/SF | Square Feet |
|------------------------------------|----------------------------|--------------|---------------|-------------|
| Deka Immobilien | 915 Wilshire Blvd. | Downtown LA | \$505 | 388,126 |
| LPC West/Russell Geyser | 959 Seward (2 Bldgs.) | Hollywood | \$713 | 261,000 |
| Northwestern Mutual Life Insurance | Colorado Campus (4 Bldgs.) | Santa Monica | \$1,810 | 91,694 |

| Submarket Statistics | | | | | | | | |
|-----------------------------|-----------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------------------|---------------------------------------|-------------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Net Absorption (SF) | YTD Net Absorption (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
| Downtown Los Angeles | 36,328,624 | 343,200 | 20.4% | -41,893 | -111,382 | \$3.96 | \$3.42 | \$3.63 |
| Mid-Wilshire | 6,942,939 | 0 | 27.1% | -33,281 | -257,885 | \$2.90 | \$2.62 | \$2.69 |
| Los Angeles North | 31,748,015 | 235,517 | 12.7% | -445,494 | -979,617 | \$2.82 | \$2.56 | \$2.71 |
| Central Valley | 8,060,091 | 0 | 15.1% | -133,568 | -229,778 | \$2.71 | \$2.59 | \$2.68 |
| Conejo Valley | 8,508,293 | 0 | 13.1% | -221,978 | -300,025 | \$2.87 | \$2.69 | \$2.76 |
| East Valley | 3,031,614 | 235,517 | 9.7% | -20,346 | -36,701 | \$3.55 | \$2.84 | \$3.32 |
| Santa Clarita Valley | 2,777,383 | 0 | 13.0% | -26,957 | -33,286 | \$2.73 | \$2.40 | \$2.67 |
| West Valley | 9,370,634 | 0 | 11.1% | -42,645 | -379,827 | \$2.60 | \$2.38 | \$2.45 |
| Park Mile | 1,686,837 | 0 | 24.7% | -7,696 | -70,485 | \$3.19 | \$4.00 | \$3.70 |
| San Gabriel Valley | 13,890,502 | 0 | 9.9% | -9,420 | 101,513 | \$2.58 | \$2.40 | \$2.44 |
| Eastern SGV | 7,890,891 | 0 | 8.4% | -22,533 | 142,348 | \$2.54 | \$2.34 | \$2.39 |
| Western SGV | 5,999,611 | 0 | 12.0% | 13,113 | -40,835 | \$2.65 | \$2.45 | \$2.50 |
| South Bay | 32,026,106 | 450,872 | 18.6 % | -63,481 | -498,907 | \$3.25 | \$2.86 | \$2.99 |
| 190th Street Corridor | 3,800,990 | 0 | 16.6% | 17,105 | 131,138 | \$2.99 | \$2.53 | \$2.72 |
| Carson | 1,005,395 | 0 | 29.7% | -275 | 20,589 | \$2.49 | - | \$2.46 |
| El Segundo/Beach Cities | 11,837,733 | 0 | 14.1% | 55,632 | -117,640 | \$4.23 | \$3.95 | \$4.11 |
| LAX/Century Blvd | 3,295,953 | 450,872 | 38.1% | -27,966 | -170,215 | \$2.42 | \$2.40 | \$2.34 |
| Long Beach Downtown | 4,476,210 | 0 | 20.8% | -64,744 | -256,983 | \$3.05 | \$2.24 | \$2.53 |
| Long Beach Suburban | 4,599,263 | 0 | 19.3% | -7,446 | -62,989 | \$2.86 | \$2.67 | \$2.61 |
| Torrance Central | 3,010,562 | 0 | 9.4% | -35,787 | -42,807 | \$3.50 | \$2.59 | \$2.81 |

| Submarket Statistics | | | | | | | | |
|-------------------------|----------------------|-------------------------|--------------------|-------------------------|-------------------------|--------------------------------|--------------------------------|------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Net Absorption (SF) | YTD Net Absorption (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
| Tri-Cities | 20,899,300 | 1,161,250 | 13.8% | -248,999 | -169,639 | \$3.43 | \$3.11 | \$3.34 |
| Burbank | 6,731,768 | 942,250 | 10.1% | -77,398 | 123,735 | \$3.90 | \$3.34 | \$3.78 |
| Glendale | 6,225,067 | 0 | 14.8% | -25,281 | 10,465 | \$3.17 | \$2.74 | \$3.11 |
| Pasadena | 7,942,465 | 219,000 | 16.1% | -146,320 | -303,839 | \$3.54 | \$3.19 | \$3.39 |
| West Los Angeles | 60,651,930 | 1,945,243 | 16.1% | -512,829 | -2,066,865 | \$5.79 | \$4.79 | \$5.46 |
| Beverly Hills | 6,522,545 | 46,000 | 14.0% | -113,369 | -244,625 | \$6.33 | \$5.21 | \$5.74 |
| Brentwood | 3,329,333 | 0 | 13.2% | -28,236 | -75,899 | \$4.35 | - | \$4.35 |
| Century City | 10,333,273 | 0 | 7.1% | -65,128 | -222,176 | \$6.41 | - | \$6.41 |
| Culver City | 5,420,859 | 1,543,343 | 18.7% | -9,161 | -181,081 | \$4.10 | \$4.05 | \$4.05 |
| Hollywood | 4,351,692 | 79,847 | 37.5% | -183,822 | -358,743 | \$5.13 | \$4.84 | \$5.00 |
| Marina Del Rey/Venice | 1,675,837 | 0 | 32.3% | -8,932 | -94,831 | \$5.32 | \$5.63 | \$5.56 |
| Miracle Mile | 4,417,578 | 0 | 22.0% | 2,281 | -264,225 | \$4.67 | \$2.85 | \$4.29 |
| Olympic Corridor | 2,387,284 | 200,000 | 13.9% | -8,632 | -119,114 | \$5.04 | \$3.49 | \$4.89 |
| Playa Vista | 3,771,768 | 0 | 15.1% | 24,956 | -36,952 | \$6.52 | \$4.49 | \$6.08 |
| Santa Monica | 9,223,687 | 30,000 | 13.3% | -10,298 | -241,793 | \$6.36 | \$5.59 | \$6.06 |
| West Hollywood | 2,688,172 | 0 | 17.6% | -38,771 | -111,780 | \$5.45 | \$3.92 | \$4.92 |
| Westside Other | 3,382,093 | 0 | 11.3% | -32,072 | -28,669 | \$4.60 | \$3.56 | \$4.31 |
| Westwood | 3,147,809 | 46,053 | 16.5% | -41,645 | -86,977 | \$5.52 | \$3.96 | \$4.74 |
| Market | 204,174,253 | 4,136,082 | 16.5% | -1,363,093 | -4,053,267 | \$4.10 | \$3.23 | \$3.67 |

Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries. Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.

