

# LOS ANGELES OFFICE MARKET

## A STRONG FIRST QUARTER SHOWING; COVID-19 SPREADS

- The average asking rent reached an all-time high of \$3.53/SF, up 4.4% from this time last year and 20.5% above last cycle's peak in 2008.
- Net absorption was positive for the 30th consecutive quarter. Burbank, which is seeing tightening fundamentals from entertainment company expansions, led other micro-markets in absorption gains; its vacancy tightened to a new cyclical low.
- After pronounced leasing activity in 2019, co-working occupancy growth has since declined.
- WeWork opened new locations, with additional move-ins to come. The company received another credit downgrade and some market watchers are questioning if the company has the capital to honor its future occupancies.
- Speculative development is at an all-time high with 3.7 million square feet, focused mostly in the Westside. Nearly half of this total is pre-leased, alleviating concerns of overbuilding. Renovation and conversion projects remain popular in the region with 5.4 million square feet currently underway.
- January's local unemployment rate of 4.5% was well below the 10-year average of 7.9%. The coronavirus threat, and its economic fallout, will elevate unemployment claims in the coming months.

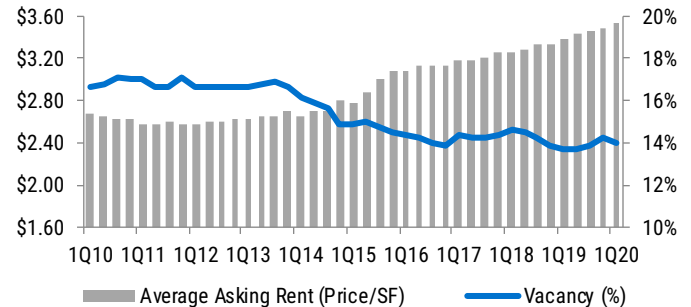
### LATE-MARKET CYCLE DYNAMICS PERSISTED

Peak market conditions abounded this quarter, with technology and media companies leading in space requirements amid record-high rents. A low unemployment rate once again fueled occupier appetites for modern office space to attract and retain talent, as companies built scale. A great deal of this was supported by venture capital funding, which invested \$7.8 billion in the metro in 2019—a new record. New funding allows companies to expand their workforces and their subsequent real estate occupancies. During the quarter, there was a moderate amount of new supply available to support active tenant demand.

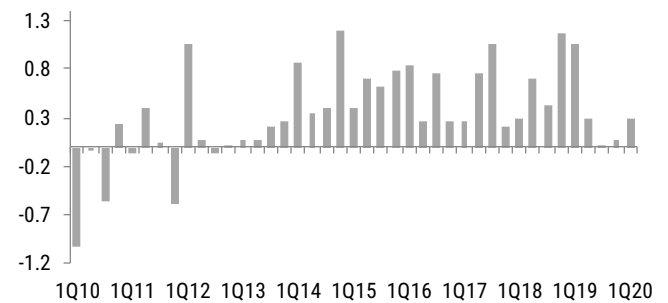
West Los Angeles remained the region's benefactor for tech and entertainment interest, but modern space options were few as companies looked to other submarkets, such as Tri-Cities with its more favorable rents. This quarter in Burbank, for instance, production company Titmouse leased 95,000 square feet in an expansion from North Hollywood, while Disney and Warner Brothers collectively took occupancy of 200,000 square feet at The Pinnacle.

### MARKET ANALYSIS

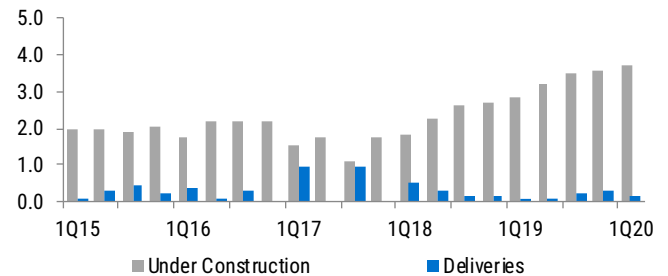
#### Asking Rent and Vacancy



#### 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	202 MSF	201 MSF	↑
Vacancy Rate	14.0%	14.2%	13.7%	↑
Quarterly Net Absorption	291,595	56,566	1,054,530	↓
Average Asking Rent	\$3.53	\$3.50	\$3.38	↓
Under Construction	3.7 MSF	3.6 MSF	2.8 MSF	↓
Deliveries	162,031	327,914	65,792	↑

## THE CORONAVIRUS' IMPACT

The spread of COVID-19 puts great pressure on Los Angeles' office market, which is already in the late stage of its cycle. In the short run, many tenants will put their space expansions on hold as cost-saving measures, such as layoffs, diminish their needed footprints. Additionally, new construction groundbreakings will likely stall due to labor shortages and fewer raw material supplies, stemming from supply chain disruptions. The obvious – decelerating leasing market conditions – plays a big role as well.

Forecasters differ on what the future holds, with some projecting U.S. GDP losses in the first half of 2020, followed by a rebound in the second half through 2021. However, the situation remains fluid and commercial real estate typically lags behind the economy by six months. COVID-19's impact largely hinges on how quickly the outbreak

can be contained through government and healthcare interventions. It is too early to assess as virus cases increase throughout the U.S.

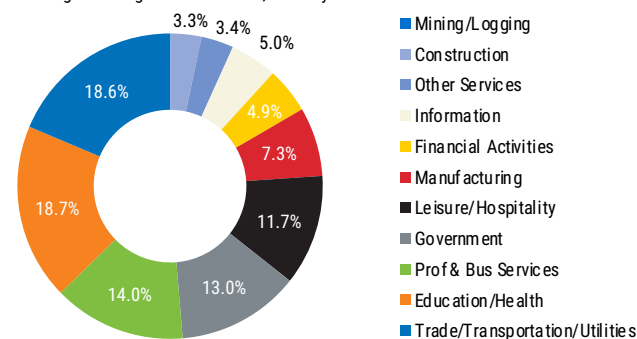
FAANG companies, the main drivers of growth in Los Angeles this real estate cycle, stand to benefit the most from stay-at-home orders, albeit for streaming media and, in the case of Amazon, parcel deliveries. FAANG companies may look to expand as more affordable space becomes available when other occupiers downsize to reduce costs.

In the longer term, the pandemic provides an opportunity for firms to gain further insight on remote working. This has implications for real estate because while some companies may favor it to reduce real estate costs, others may find that it is isolating, decreases work-life balance and leads to less productivity and collaboration. The pros and cons of remote working will be widely discussed in the months ahead.

## EMPLOYMENT BY INDUSTRY

### Not Seasonally Adjusted

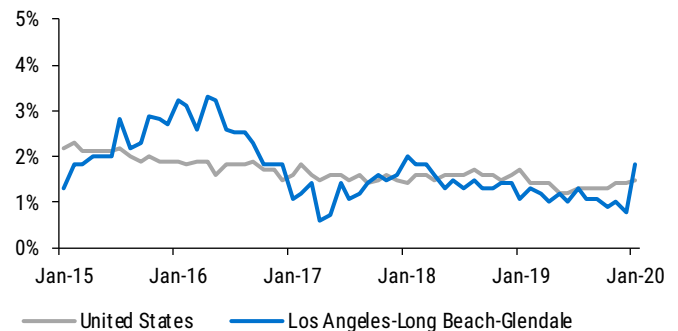
Los Angeles-Long Beach-Glendale, January 2020



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
Rubin Postaer & Associates	2525 Colorado Ave	Santa Monica	Renewal	186,894
Morgan Lewis	300 S Grand Ave	Downtown Los Angeles	Renewal/Expansion	101,000
Titmouse	2835 N Naomi St	Burbank	New Lease	95,000
Crystal Stairs	5110 W Goldlead Cir	Culver City	Renewal/Expansion	87,716
Service Titan	800 N Brand Blvd	Glendale	Expansion	80,000

## SALE TRANSACTIONS

Building(s)	Market Area	Sale Price	Price/SF	Square Feet
5900 Wilshire Blvd	Miracle Mile	\$312,000,000	\$671	465,100
Jefferson Palms Creative Campus	Culver City	\$169,000,000	\$1,096	154,135
1960 E Grand Ave.	El Segundo/Beach Cities	\$132,700,000	\$506	262,349
31303 Agoura Rd	Conejo Valley	\$69,000,000	\$272	253,720
199 S Los Robles Ave	Pasadena	\$55,000,000	\$328	167,901

## 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>36,286,624</b>	<b>113,000</b>	<b>19.7%</b>	<b>197,786</b>	<b>197,786</b>	<b>\$3.94</b>	<b>\$3.38</b>	<b>\$3.64</b>
<b>Mid-Wilshire</b>	<b>6,942,939</b>	<b>0</b>	<b>22.3%</b>	<b>-37,800</b>	<b>-37,800</b>	<b>\$2.90</b>	<b>\$2.67</b>	<b>\$2.72</b>
<b>Los Angeles North</b>	<b>31,578,604</b>	<b>240,000</b>	<b>9.9%</b>	<b>-234,774</b>	<b>-234,774</b>	<b>\$2.88</b>	<b>\$2.54</b>	<b>\$2.75</b>
Central Valley	7,904,674	0	11.8%	-85,744	-85,744	\$2.83	\$2.61	\$2.76
Conejo Valley	8,500,450	0	8.9%	64,073	64,073	\$2.79	\$2.64	\$2.72
East Valley	3,031,614	240,000	7.6%	18,221	18,221	\$3.67	\$2.69	\$3.45
Santa Clarita Valley	2,771,232	0	11.8%	989	989	\$2.75	\$2.33	\$2.67
West Valley	9,370,634	0	9.6%	-232,313	-232,313	\$2.72	\$2.40	\$2.51
<b>Park Mile</b>	<b>1,686,837</b>	<b>0</b>	<b>23.1%</b>	<b>-44,664</b>	<b>-44,664</b>	<b>\$3.26</b>	<b>\$4.01</b>	<b>\$3.70</b>
<b>San Gabriel Valley</b>	<b>13,866,020</b>	<b>0</b>	<b>10.2%</b>	<b>158,152</b>	<b>158,152</b>	<b>\$2.73</b>	<b>\$2.36</b>	<b>\$2.46</b>
Eastern SGV	7,838,697	0	8.2%	139,024	139,024	\$2.64	\$2.32	\$2.42
Western SGV	6,027,323	0	12.7%	19,128	19,128	\$2.83	\$2.40	\$2.51
<b>South Bay</b>	<b>32,396,534</b>	<b>450,872</b>	<b>17.7%</b>	<b>96,398</b>	<b>96,398</b>	<b>\$3.20</b>	<b>\$3.08</b>	<b>\$3.05</b>
190th Street Corridor	3,723,789	0	17.4%	74,080	74,080	\$2.94	\$2.36	\$2.58
Carson	1,005,395	0	31.2%	4,684	4,684	\$2.49	\$2.21	\$2.43
El Segundo/Beach Cities	12,173,077	0	15.6%	110,247	110,247	\$4.24	\$4.15	\$4.19
LAX/Century Blvd	3,408,238	450,872	32.7%	-54,305	-54,305	\$2.39	\$2.15	\$2.26
Long Beach Downtown	4,476,210	0	17.6%	-113,993	-113,993	\$3.04	\$2.23	\$2.53
Long Beach Suburban	4,599,263	0	16.2%	78,970	78,970	\$2.76	\$2.58	\$2.53
Torrance Central	3,010,562	0	8.1%	-3,285	-3,285	\$3.69	\$2.62	\$2.93

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<b>Tri-Cities</b>	<b>20,832,588</b>	<b>219,000</b>	<b>11.6%</b>	<b>265,369</b>	<b>265,369</b>	<b>\$3.43</b>	<b>\$3.09</b>	<b>\$3.34</b>
Burbank	6,665,056	0	8.3%	190,577	190,577	\$3.77	\$3.31	\$3.68
Glendale	6,225,067	0	14.6%	41,138	41,138	\$3.15	\$2.69	\$3.07
Pasadena	7,942,465	219,000	11.9%	33,654	33,654	\$3.52	\$3.20	\$3.41
<b>West Los Angeles</b>	<b>59,374,958</b>	<b>2,660,499</b>	<b>11.2%</b>	<b>-108,872</b>	<b>-108,872</b>	<b>\$5.31</b>	<b>\$4.85</b>	<b>\$5.12</b>
Beverly Hills	6,503,258	0	10.0%	-25,009	-25,009	\$6.03	\$5.14	\$5.64
Brentwood	3,329,333	0	10.9%	7,477	7,477	\$4.33	-	\$4.33
Century City	10,333,273	0	5.5%	-134,136	-134,136	\$5.77	-	\$5.77
Culver City	5,006,184	1,546,870	14.8%	-13,398	-13,398	\$3.87	\$4.15	\$4.13
Hollywood	3,874,299	543,477	15.5%	88,057	88,057	\$5.05	\$4.95	\$4.99
Marina Del Rey/Venice	1,619,531	0	24.4%	-5,848	-5,848	\$5.77	\$5.76	\$5.76
Miracle Mile	4,417,578	0	19.4%	-27,622	-27,622	\$4.47	\$3.33	\$4.23
Olympic Corridor	2,535,449	280,340	9.0%	-36,608	-36,608	\$4.86	\$3.50	\$4.80
Playa Vista	3,606,568	192,070	10.8%	-20,257	-20,257	\$5.68	\$4.49	\$5.13
Santa Monica	9,034,891	0	9.6%	-1,292	-1,292	\$6.36	\$5.62	\$6.00
West Hollywood	2,590,430	97,742	12.0%	-46,477	-46,477	\$5.10	\$4.30	\$4.84
Westside Other	3,376,355	0	6.5%	97,299	97,299	\$4.53	\$3.67	\$4.30
Westwood	3,147,809	0	14.5%	8,942	8,942	\$5.52	\$3.98	\$4.88
<b>Los Angeles</b>	<b>202,965,104</b>	<b>3,683,371</b>	<b>14.0%</b>	<b>291,595</b>	<b>291,595</b>	<b>\$3.81</b>	<b>\$3.28</b>	<b>\$3.53</b>



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