

» Pace Of Negative Absorption Accelerates

Key Takeaways

- › Net absorption was negative 2,963,800 square feet this quarter, making it the second lowest quarter on record for the Greater Los Angeles office market. The economic impact of COVID-19 is leading much of those still employed in the office workforce to continue to work from home, provided they are able to do so.
- › Leasing activity increased over the previous quarter, reaching 2,168,600 square feet. While continuing on a positive trajectory, this is still less than half the quarterly amount seen pre-COVID-19 as firms have put expansion plans on hold.
- › Vacancy rates have increased to 15.1% as tenants look to shed space. Vacant sublease space has increased by over 1 million square feet this quarter, bringing the sublease vacancy rate to 1.3%.
- › Paradoxically, the rental rate continues to increase, up \$0.03 to \$3.26 per square foot (PSF) full-service gross (FSG). This is due to more expensive Class A space being returned to the market, raising rates for the region as a whole. Pricing will likely come down in future quarters as office tenants continue to grapple with the longer term impacts of the current work-from-home paradigm.

Los Angeles County Office Market

Due to uncertainty of the economic impact of COVID-19, office demand has been negative as tenants have reexamined their business options and real estate needs. Tenants and landlords are working together to find the best leasing options as businesses continue to navigate through these unprecedented times. In many cases, lease terms are being handled on a case-by-case basis as some tenants are electing to sign short-term renewals or month-to-month options.

Market Indicators | Relative to Prior Period

| | Q3 2020 | Forecast |
|----------------|---------|----------|
| Vacancy | ↑ | ↑ |
| Net Absorption | ↓ | ↓ |
| Construction | → | ↓ |
| Rental Rate | ↑ | → |

Summary Statistics | GLA, Q3 2020

| | Class A | Class B | All Classes |
|-----------------------------------|----------|---------|-------------|
| Vacancy Rate | 14.7% | 16.0% | 15.1% |
| Change from Q2 '20 (Basis Points) | +160 | +120 | +110 |
| Net Absorption* | -2,272.5 | -488.9 | -3,399.8 |
| Construction Completions* | 109.3 | 126.3 | 235.6 |
| Under Construction* | 6,219.9 | 3,031.0 | 9,247.0 |

*SF, Thousands

Asking Rents | GLA, Q3 2020

| | Class A | Class B | All Classes |
|---------------------------|---------|---------|-------------|
| Average Asking Rent (FSG) | \$3.72 | \$2.83 | \$3.26 |
| Change from Q2 '20 (\$) | +\$0.03 | -\$0.03 | +\$0.03 |
| Y.O.Y. Change (%) | -0.5% | +2.9% | +0.0% |

GLA Labor Force | GLA, August 2020

| | Total Non-farm | Prof. & Business Services | Financial Activities |
|--------------------------------|----------------|---------------------------|----------------------|
| 12-mo Employment Growth (%) | -9.9% | -8.2% | -2.3% |
| 12-mo Actual Employment Change | -766,600 | -93,500 | -8,800 |

Hollywood/Wilshire Corridor

This quarter, Television Center was renamed Hollywood Media Center as BLT Enterprises purchased the 212,000-square-foot building for \$65 million, or roughly \$300 a foot. The buyer has been expanding into Hollywood, seeing a once-in-a-generation opportunity to acquire production and studio space in the Hollywood Media District. Located near Paramount and Sunset Bronson Studios, this property will likely get redeveloped to attract more attention from media and technology companies.

Downtown Los Angeles

The Downtown L.A. office market recorded negative 373,100 square feet of absorption for the quarter. Vacancy rose to 20.4% and 1,224,800 square feet remains under construction with very little pre-leasing activity.

The largest project under construction in Downtown is the Broadway Trade Center at 801 S Broadway. This is a mixed-use redevelopment property combining hotel, retail and 627,500 square feet of office space.

West Los Angeles

Headwinds from the COVID-19 pandemic are likely to erode the favorable conditions that landlords have enjoyed in West Los Angeles for much of the last decade.

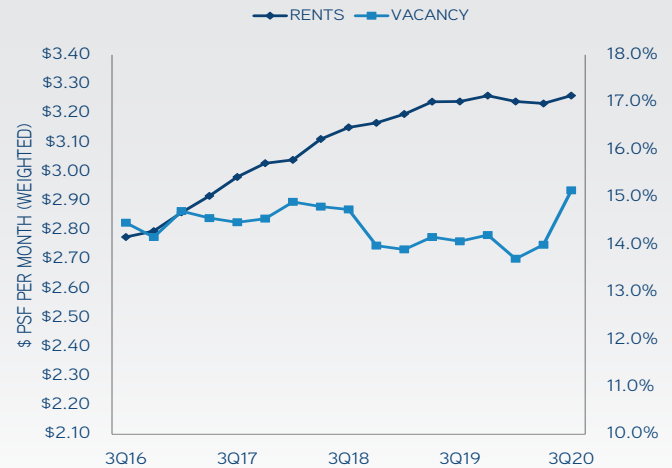
Long seen as the most desirable office location in Greater Los Angeles with the highest asking rents in the region. A decades-long run-up in rents has come to a close with asking rents declining by \$0.06 PSF FSG over the quarter and the vacancy rate rising by 230 basis points.

This market downturn comes at a particularly unfortunate time for the West Los Angeles office market as more than 3.3 million square feet across 19 projects is currently under construction. If it remains vacant, this new space will increase the vacancy rate by over 6%.

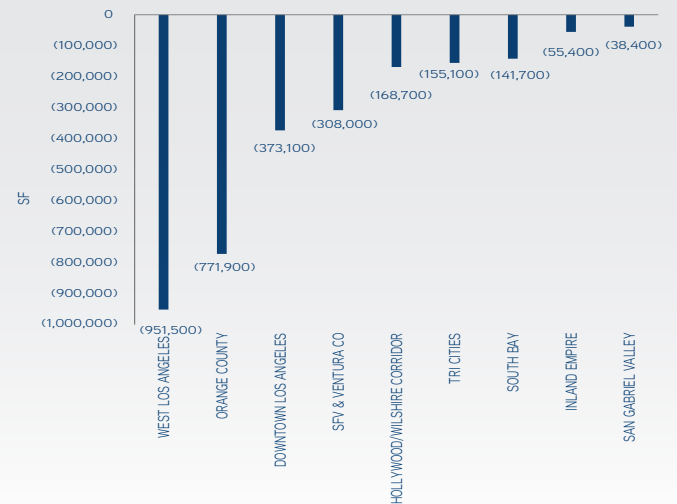
San Fernando Valley & Ventura County

Demand continued to shrink in the San Fernando Valley and Ventura County office market as 308,000 square feet was returned vacant this quarter and the vacancy rate increased to 14.5%. Asking rental rates peaked and have started to decline, down \$0.02 PSF FSG to end the quarter at \$2.56 PSF FSG. Two office building projects are currently under construction with both projects expected to deliver at the end of this year. This will add 365,000 square feet of space to the market, raising the vacancy rate by an additional 110 basis points when completed.

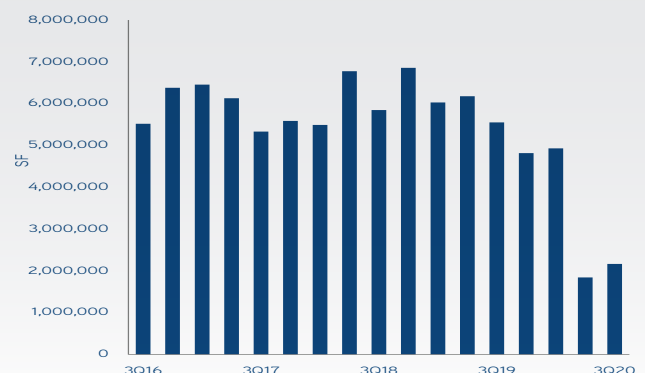
Historical Vacancy v. Rents | GLA Office Market Q3 '16-'20



Net Absorption by Submarket | GLA Office Market Q3 '20



Historical Leasing Activity | GLA Office Market Q3 '16-'20



South Bay

Despite the impact of COVID-19, South Bay rental rates increased for the 28th consecutive quarter to \$3.07 PSF FSG. This was mostly due to increases in asking rental rates in the El Segundo submarket, which serves as a lower-priced alternative to tenants seeking to escape the higher rents of the West Los Angeles office market.

Construction activity consists of 937,000 square feet, all within the El Segundo submarket. The largest project is a remodel of the former Northrup property by Hackman Capital Partners.

San Gabriel Valley

The San Gabriel Valley market had a sleepy quarter, leasing only 58,600 square feet of space this quarter. Net absorption recorded negative 38,400 square feet this quarter and the vacancy rate increased by 100 basis points. The primary office demand driver for the San Gabriel Valley is local and municipal governments and social services. Lower tax revenue and paltry federal assistance will lead these tenants to be next on the COVID-19 chopping block. A growing wave of employee furloughs and local government spending cuts will soon make its way into this office market.

Tri-Cities

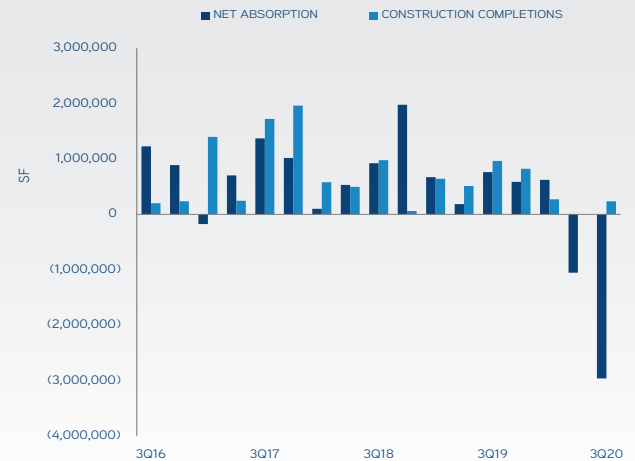
Netflix's lease of 171,000 square feet in Burbank for its animation studio is the biggest office lease of the year and points to longer-term shifts in media and entertainment. Notably, animation has been one sector of the entertainment industry not significantly impacted by an COVID-19. While Netflix could have animators working from anywhere, by moving to Burbank the company is firmly within an established animation cluster that is home to Disney, Warner Brothers and Nickelodeon studios. With movie studios at a significant disadvantage, now is the time for Netflix to shine. They are still in talks to take the entirety of a 250,000-square-foot former IKEA building in Burbank.

Orange County

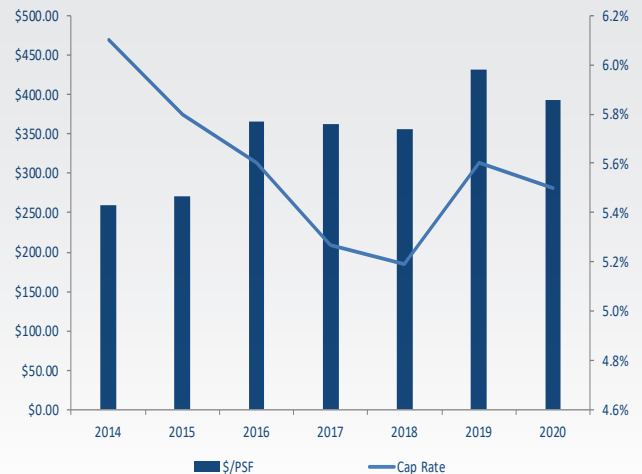
The pace of negative net absorption has continued to accelerate, nearly doubling every quarter for the last three quarters to end at negative 779,100 square feet for the third quarter of 2020 and negative 1,315,400 square feet year-to-date. The vacancy rate increased by 90 basis points to end at 14.6% and the sublease vacancy rate increased to 1.6%.

Leasing activity was only 716,900 square feet, which is the lowest quarter on record.

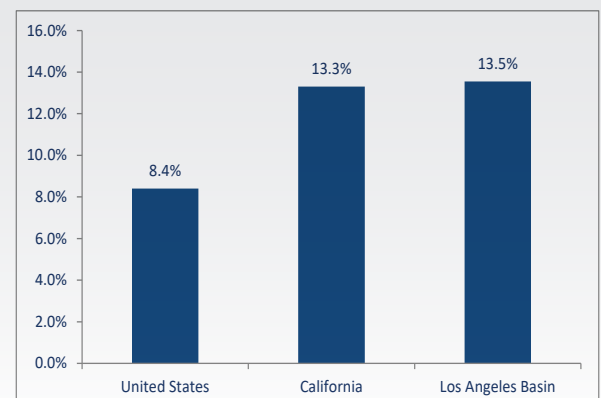
Historical Net Absorption & Construction Completions GLA Office Market Q3 '16-'20



Investment Trends Chart GLA Office Market '14-'20



Unemployment Rate | U.S., CA & LA | August 2020



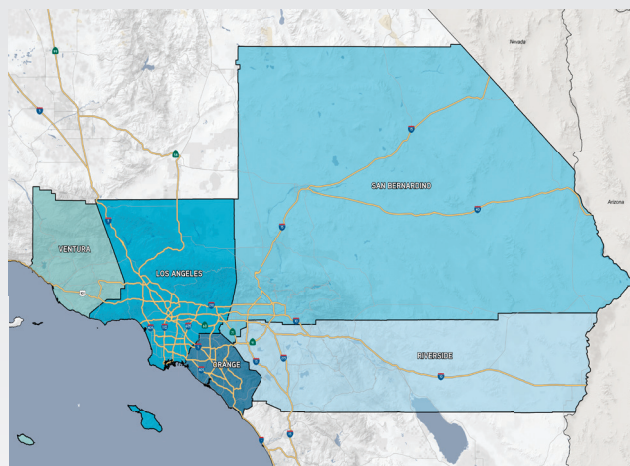
Inland Empire

The total vacancy rate for the Inland Empire office market increased 40 basis points over the quarter to end at 11.9%. Much like the San Gabriel Valley, a significant portion of the office demand in the Inland Empire is from state and local governments. These agencies are starting to feel the effects of lower tax revenue. Unlike private businesses, there has not been stimulus measures put into place to contain the economic fallout. As such, we expect strong negative absorption in future quarters as government agencies struggle to contain costs.

Market Description

The Los Angeles Basin office market is comprised of 314.5 million square feet of multi-tenant office space in buildings 25,000 square feet or larger. It ranks as the third largest office market in the nation, following New York City and the Greater Washington D.C. area. Most of its space, 55%, was built in or after 1985, making it a relatively young market. It is also relatively decentralized, with only 11% of the space located within Downtown Los Angeles and 89% dispersed throughout the region. Low-rise buildings make up 40% of the space, followed by 31% in mid-rise buildings and 29% in high-rise structures.

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

Greater Los Angeles County Office Market
Q3 2020

SALES ACTIVITY

| PROPERTY ADDRESS | SIZE SF | SALE PRICE | PRICE PSF | BUYER | SELLER |
|--|------------|--------------|-----------|---------------------------|----------------------------|
| 7334 Topanga Canyon Blvd, Canoga Park | 253,700 SF | \$69,000,000 | \$272 PSF | Drawbridge Realty | TPG Capital, LP |
| 6311 Romaine St, Hollywood | 212,000 SF | \$64,000,000 | \$302 PSF | BLT Enterprises | Henley Management Company |
| 924-960 Overland Ct, San Dimas | 177,500 SF | \$42,850,000 | \$241 PSF | Menlo Equities | Walton Street Capital, LLC |
| 4553 La Tienda Rd & 120 Via Merida, Westlake Village | 218,000 SF | \$36,800,000 | \$169 PSF | Younan Properties, Inc. | Lionstone Partners, LLC |
| 3480 Vine St, Riverside | 44,400 SF | \$16,000,000 | \$360 PSF | Boyd Watterson Asset Mgmt | DIG TWP, LLC |

LEASING ACTIVITY

| PROPERTY ADDRESS | LEASED SF | LEASE TYPE | BLDG CLASS | LESSEE | LESSOR |
|--------------------------------------|------------|--------------|------------|---------------------------|---------------------------|
| 2300 W Empire Ave., Burbank | 171,000 SF | Direct | A | Netflix | New York Life Real Estate |
| 12215 Vistroy Blvd, North Hollywood | 98,000 SF | Direct - New | C | West Coast University | Valley Plaza LLC |
| 12105 W Waterfront Dr., Playa Vista | 84,616 SF | Expansion | A | Facebook | Tishman Speyer |
| 550 N. Continental Blvd., El Segundo | 68,481 SF | Renewal | B | Spectrum Pacific West LLC | Brighforward LLC/Neman |
| 1840 Victory Blvd., Glendale | 66,712 SF | Direct | B | Comcast | LLJ Office Ventures 6 LLC |

MAJOR DEVELOPMENTS

| PROJECT | DEVELOPER | SIZE SF | SUBMARKET | STATUS | ESTIMATED COMPLETION |
|--|---------------------|------------|------------------|--------------------|----------------------|
| 17400-17900 Laguna Canyon Rd (Spectrum Terrace II) | Irvine Company | 602,900 SF | South County | Under Construction | 4Q 2020 |
| 10800 W. Pico Blvd., Los Angeles | Hudson Pacific | 584,000 SF | West Los Angeles | Under Construction | Q4 2022 |
| 11355-11377 W. Olympic Blvd, Los Angeles | McCarthy Cook & Co. | 553,500 SF | Olympic Corridor | Under Construction | Q1 2022 |
| 888 N. Douglas St., El Segundo | Hackman Capital | 550,000 SF | El Segundo/ | Under Construction | Q1 2021 |
| 6181 Centinela Ave., Culver City | Lincoln Property | 315,000 | Marina Del Rey/ | Under Construction | Q2 2021 |

| OFFICE OVERVIEW | | | | | | | | | | | | | |
|--|-------|--------------------------|-------------------|---------------------|------------------|-------------------------------|--|-------------------------------|--|--------------------------------|----------------------------------|-----------------------------|--------------------------------------|
| Greater Los Angeles County Office Market | | | | | | | | | | | | | |
| Q3 2020 | | | | | | | | | | | | | |
| EXISTING PROPERTIES | | | VACANCY | | | | ACTIVITY | | ABSORPTION | | CONSTRUCTION | | RENTS |
| Submarket/ Class | Bldgs | Total Inventory SF | Direct Vacancy | Sublease Vacancy | Total Vacancy | Total Vacancy Prior Qtr | Leasing Activity Current Qtr SF | Leasing Activity YTD SF | Net Absorption Current Qtr SF | Net Absorption YTD SF | Completions Current Qtr SF | Under Construction SF | Weighted Avg Asking Lease Rate |
| BUILDING CLASS | | | | | | | | | | | | | |
| A | 909 | 168,040,300 | 13.0% | 1.7% | 14.7% | 13.1% | 1,280,200 | 5,058,100 | (2,272,500) | (1,556,700) | 109,300 | 6,215,900 | \$3.72 |
| B | 1,895 | 129,744,800 | 15.1% | 1.0% | 16.0% | 14.8% | 771,200 | 3,452,900 | (488,900) | (1,487,200) | 126,300 | 3,031,000 | \$2.83 |
| C | 387 | 16,668,800 | 12.2% | 1.9% | 14.1% | 11.2% | 118,000 | 498,900 | (193,500) | (333,800) | 0 | 0 | \$2.14 |
| HOLLYWOOD/WILSHIRE CORRIDOR | | | | | | | | | | | | | |
| Subtotal | 117 | 15,053,500 | 19.3% | 1.6% | 20.8% | 18.4% | 52,100 | 384,200 | (168,700) | (93,800) | 0 | 790,000 | \$3.09 |
| DOWNTOWN LOS ANGELES | | | | | | | | | | | | | |
| Subtotal | 85 | 34,567,900 | 19.2% | 1.2% | 20.4% | 19.6% | 58,800 | 707,800 | (373,100) | (464,200) | 0 | 1,224,800 | \$3.60 |
| WEST LOS ANGELES | | | | | | | | | | | | | |
| Subtotal | 458 | 58,381,100 | 11.0% | 1.9% | 12.9% | 9.9% | 397,400 | 1,767,400 | (951,500) | (557,600) | 165,600 | 3,563,800 | \$4.79 |
| TRI CITIES | | | | | | | | | | | | | |
| Subtotal | 193 | 23,050,000 | 11.6% | 0.9% | 12.4% | 11.9% | 295,800 | 785,800 | (155,100) | 12,900 | 0 | 961,000 | \$3.26 |
| SAN FERNANDO VALLEY & VENTURA COUNTY | | | | | | | | | | | | | |
| Subtotal | 427 | 33,542,100 | 13.8% | 0.7% | 14.5% | 12.9% | 238,400 | 1,136,600 | (308,000) | (654,000) | 0 | 365,000 | \$2.56 |
| SOUTH BAY | | | | | | | | | | | | | |
| Subtotal | 282 | 31,818,400 | 17.8% | 1.6% | 19.3% | 18.4% | 200,800 | 649,100 | (141,700) | (223,000) | 0 | 937,000 | \$3.07 |
| SAN GABRIEL VALLEY | | | | | | | | | | | | | |
| Subtotal | 159 | 10,218,600 | 8.2% | 0.1% | 8.3% | 7.3% | 58,600 | 150,200 | (38,400) | (7,400) | 0 | 0 | \$2.41 |
| LOS ANGELES COUNTY SUBTOTAL | | | | | | | | | | | | | |
| Total | 1,721 | 206,631,600 | 14.4% | 1.3% | 15.7% | 14.0% | 1,301,900 | 5,581,100 | (2,136,500) | (1,987,100) | 165,600 | 7,841,600 | \$3.48 |
| ORANGE COUNTY | | | | | | | | | | | | | |
| SUBTOTAL | 1,049 | 87,429,800 | 13.0% | 1.6% | 14.6% | 13.4% | 716,900 | 2,877,200 | (771,900) | (1,315,400) | 70,000 | 1,201,300 | \$2.94 |
| INLAND EMPIRE | | | | | | | | | | | | | |
| SUBTOTAL | 423 | 20,392,100 | 11.5% | 0.4% | 11.9% | 11.5% | 149,800 | 512,500 | (55,400) | (97,300) | 0 | 204,100 | \$2.00 |
| GREATER LOS ANGELES BASIN TOTAL | | | | | | | | | | | | | |
| Total | 3,193 | 314,453,500 | 13.8% | 1.3% | 15.1% | 14.0% | 2,168,600 | 8,970,800 | (2,963,800) | (3,399,800) | 235,600 | 9,247,000 | \$3.26 |

Note: revisions to the inventory base were made effective Q2 2020, historical data reported here reflect these revisions and may not match data reported in previous quarters.

Definitions of key terms in this report

Total Rentable Square Feet:

Office space in buildings with 25,000 square feet or more of speculative office space, including competitive space in Class A, B and C single-tenant and multi-tenant buildings. Excludes non-competitive owner-occupied buildings, buildings that include 30 percent or greater of medical or retail space, and space that is under-construction, under-renovation or off-market.

Class A Space:

Space that an image-conscious company would lease for its headquarters. Typically, this space has a very high level of finish, an excellent location and commands the highest rents in the market.

Class B Space:

Highly functional, attractive space that is less prestigious than Class A Space and commands lower rental rates.

Class C Space:

Functional, competitive space with a lower level of finish and/or a less desirable location than Class B Space and commands lower rental rates.

Low-Rise:

Buildings with four or fewer total floors.

Mid-Rise:

Buildings with five or 13 total floors.

High-Rise:

Buildings with 14 or more floors.

Direct Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, plus space that is vacant but not available for direct lease or sublease (for example, space being held for a future commitment).

Total Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease or for sublease, plus space that is vacant but not available for direct lease or sublease.

Net Absorption:

Net change in occupied square feet from one period to the next (including the impact of change in vacant space available for sublease).

Leasing Activity:

Square feet leased from all known transactions completed during the quarter, excluding lease renewals.

Weighted Average Asking Rental Rates:

Rental rates weighted by the total square feet available for direct lease. Data, reported on a monthly basis, is based on per square foot (PSF) full service gross (FSG) rents and includes all costs associated with occupying the space, including taxes, insurance, maintenance, janitorial service and utilities.

Space Added (Net):

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note:

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

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443 offices in 68 countries on 6 continents

| | |
|--------------------|--|
| United States: 159 | > \$3.5 billion in annual revenue |
| Canada: 48 | > 2.0 billion square feet under management |
| Latin America: 20 | |
| Asia Pacific: 45 | > Over 18,700 professionals |
| EMEA: 114 | |

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