MARKETBEAT

GREATER LOS ANGELES

Office Q2 2020

	YoY Chg
14.9% Vacancy Rate	▲
56K Net Abs. YTD, SF	▼
$3.52 Asking Rent, PSF	▲

(Overall psf/mo, All Property Classes)

ECONOMIC INDICATORS Q2 2020

	YoY Chg
3.9M Los Angeles County Employment	▼
20.9% Los Angeles County Unemployment Rate	▲
13.0% U.S. Unemployment Rate	▲

Source: BLS, Moody's Analytics
2020Q2 data are based on latest available data

ECONOMY: Unemployment Rate Hits Highest Recorded

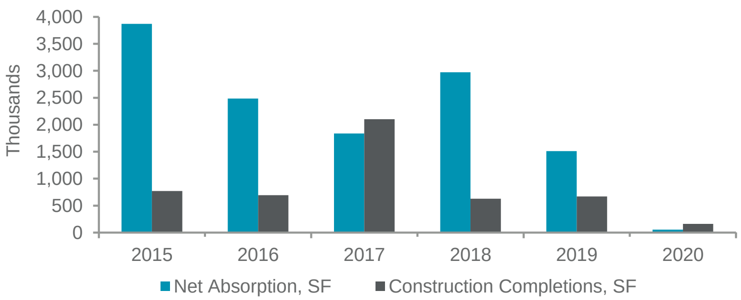
The U.S. unemployment rate surprisingly fell to 13.3% in May, as the economy gained 2.5 million jobs. Although the job report is showing the first signs of a recovery with the reopened economy, the job market remains in a deep hole with more jobs lost during the pandemic than in the Great Recession or dot-com bust. Los Angeles County's May unemployment rate reached 20.9%, far exceeding the statewide average of 16.3%, and the highest unemployment rate the county has experienced since record keeping began in the mid-1970s - the previous record was 12.6% in October 2010. Between May 2019 and May 2020, Los Angeles County nonfarm employment decreased by 602,600, or 13.2%. Sectors that fuel the demand for office space posted significant losses with the professional and business services reporting 61,500 fewer jobs than a year ago while the educational and health services sector lost 60,500 jobs. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID here.

DEMAND: Office Leasing Activity Slumber, Sublease Availability Rising & Absorption Undone

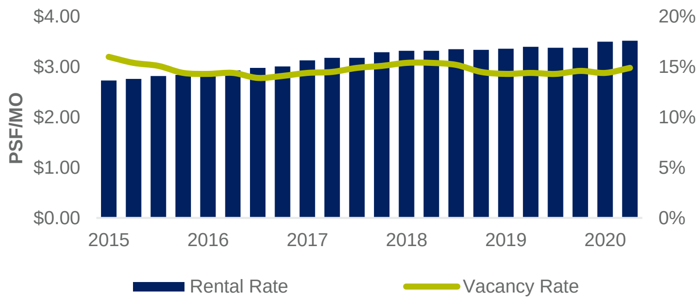
Greater Los Angeles' current office inventory of 204 msf has increased by 2.2 msf from this time last year, with over 8.5 msf of new office projects (Under Construction/Under Renovation) still underway. Construction projects have remained relatively on track for their expected delivery dates as developers and essential workers adjusted to new COVID-19 policies at job sites. Through the first half of 2020, there has been 1.2 msf of new product delivered to the market. An additional 3.3 msf of projects is anticipated to hit the market prior to year-end.

New leasing activity continued its downward trend posting 1.2 million square feet (msf) in the second quarter 2020, the lowest since the Great Recession, down 52.3% from last quarter. The 3.8 msf of leasing activity year-to-date is down 54.1% from this time last year. Despite tenants' reluctance to make real estate decisions in the midst of ongoing economic uncertainty, deals that were in progress were able to close, with the two largest deals occurring in Downtown Los Angeles (DTLA). The largest direct new lease was the Los Angeles Department of Water & Power signing for 132,000 sf at 233 South Beaudry Ave. in Central City West. The second largest lease was a renewal with the US Army Corps of Engineers re-committing at 915 Wilshire Blvd. Renewal activity continued momentum posting 1.4 msf of activity year-to-date, 28.6% higher than this time last year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



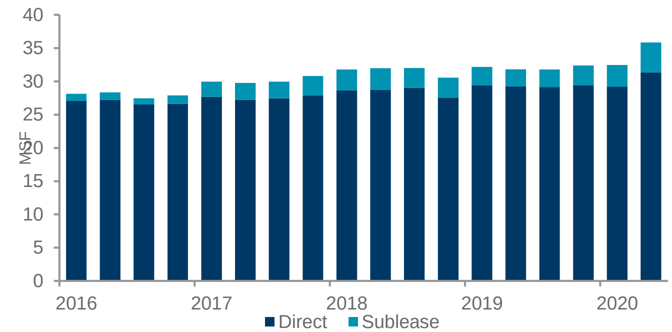
The first quarter's positive net absorption of 1.2 msf (just shy of the 1.5 msf posted in all of 2019) made for a strong start to 2020; however, the second quarter neutralized this growth with posted net absorption of -1.3 msf. Net absorption has been a tale of two tapes when comparing the first two quarters of 2020, with the mid-year total f for positive net absorption levelling out at just 55,968 sf. The overall vacancy rate increased to 14.9% up 50 bps from this time last year. Sublease vacancy increased 20 bps from the previous quarter to 1.8 msf. Much of the sublease space that was brought to the market will be available in the future as companies are determining how to proceed during these unprecedented times. Available sublease space increased 100 bps from the previous quarter to 4.5 msf and represents a 2.6% availability rate.

PRICING: Asking Rents Flat and Sales Volume Flatten More

Overall asking rental rates in the region increased by 3.5% or $0.12 from one year ago, closing the second quarter at $3.52 psf/mo. However, rents remained relatively flat from the previous quarter, increasing a mere 0.6% or $0.02 as a result of economic uncertainty. Overall Class A rents closed at $3.78 psf/mo., posting even less growth at 0.25% or $0.01 increase from last quarter and 2.7% or $0.10 from a year ago. Rent growth was highest in the Tri-Cities submarket, increasing by 1.9% or $0.06 psf/mo from the first quarter and 5.3% or $0.17 from a year ago. The Burbank – Media Center area was the biggest contributor to Tri-Cities rent growth due to increasing demand for premium space by high profile companies in Media & Entertainment. Over the past year firms like Warner Brothers, Disney, Netflix and Titmouse have all signed substantial leases in the neighborhood.

Office sales declined sharply in the second quarter both in volume by sf and by number of deals. The first quarter posted 1.8 msf from the 16 transactions tracked, while the second quarter posted 815,500 sf with only three significant transactions. The largest sales in Q2? both in sale price and sf occurred in Pasadena with the sale of the 250,000-sf Pasadena Corporate Park (3465 & 3475 E. Foothill) to Cherng Family Trust for $78 million or $312 psf. This past quarter also saw Atlas Capital Group purchase the former Bank of America Pasadena Center at 101 S Marengo Ave for $72 million or $200 psf, which Atlas likely is approaching as a value-add opportunity for renovation and repositioning.

DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



SUBMARKET ASKING RENT

OUTLOOK

- In lieu of the pandemic, the development pipeline remains largely on track with spec construction moving forward. Developers appear to be pushing through changes to worksite conditions and safety policies. Especially low-rise projects in suburban areas that lend to the changing needs of tenants focused on employees returning to work with less restrictions in place.
- Greater Los Angeles, unlike other gateway markets, hasn't experienced a large uptick in sublease availabilities. As more companies adjust and make harder decisions on their real estate needs, sublease vacancy rates are expected to rise in the second half of the year.
- Overall asking rates flattened across most submarkets, but haven't seen downward pressures to reduce rates. Landlords have held face rates and in some instances have succumbed to larger effective rate concessions. With lingering economic uncertainty and phased re-opening, an adjustment to lowering asking rates and more generous face rate concessions are expected to rise throughout the second half 2020.

MARKETBEAT

GREATER LOS ANGELES

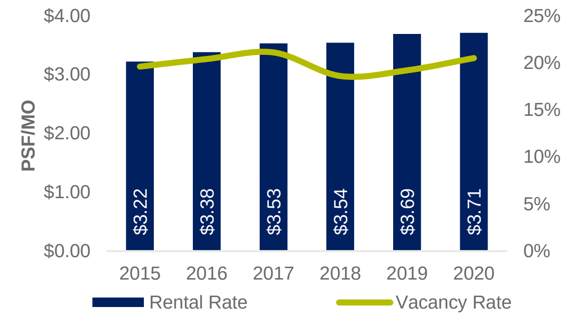
Office Q2 2020

CUSHMAN & WAKEFIELD

LOS ANGELES DOWNTOWN (CBD)

Market fundamentals across the CBD continued to waver due to tenants' reluctance to make real estate decisions in the midst of ongoing economic uncertainty. Leasing activity reduced by 57.0% from the previous quarter posting just 134,794 sf and bringing the year-to-date totals to 426,187 sf , down 43.4% from a year ago. Overall asking rents of $44.36 price per square feet per year (psf/yr) dropped 0.5% quarter-over-quarter; despite the small dip, rents are up 1.4% from a year ago. The impact on sublease vacancy was not materially felt as it reached 0.9% in the second quarter, up 30 bps from the first quarter and 50 bps from this time last year. We anticipate vacancies in the CBD will rise further before year-end due to an increasing sublease and tenant consolidation on a direct basis. Many companies are considering the short-term implication of reassessing size requirements as employees navigate working from home, consolidating locations or even shutting-down operations. As offices begin to reopen, multi-tenant office buildings present more challenges to adhere to new safety standards for employee safety. Deals that had been in late stages of negotiations were able to close, the largest lease in the CBD came from the US Army Corps of Engineers renewal for 115,000 sf at 915 Wilshire Boulevard and Allen Matkins signing a renewal within 865 South Figueroa Street for 63,000 sf. The legal sector was the most active of all sectors with four of the top five leases signed in the second quarter.

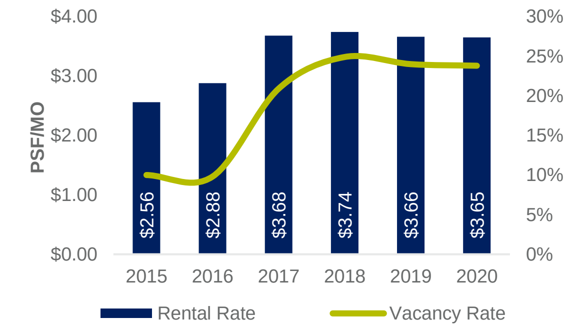
Overall Rental vs. Vacancy Rate
CENTRAL BUSINESS DISTRICT



LOS ANGELES DOWNTOWN (NON-CBD)

New leasing activity in the Non-CBD rebounded in the second quarter 2020 boosted by the 132,000 sf new direct deal signed by the LA Department of Water and Power (LADWP) at 233 S Beaudry Ave. Absent of this large deal, leasing activity would far more dismal from the 80.5% decrease in activity from this time last year. Despite the large commitment by LADWP many companies have been reassessing their space requirements as sublease vacancy increased 40 bps from the first quarter and sublease availability rose 150 bps to 2.1% during the same period. At mid-year overall net absorption remained positive at 127,676 sf despite occupancy losses of 112,457 sf in the second quarter. Large leases occurring over the past few quarters with third and fourth quarter move-ins could buoy the overall net absorption prior to year-end as Ghost Management (115k sf), ASU (82k sf) and Hyperloop (41k sf) could potentially occupy their space. Overall asking rents of $43.79 dipped just 1.0% from the first quarter, but maintained healthy year-over-year gains of 6.4%. With 2.3 msf of projects in the construction pipeline and minimal pre-leasing the vacancy rate could surge as buildings deliver and conditions persist.

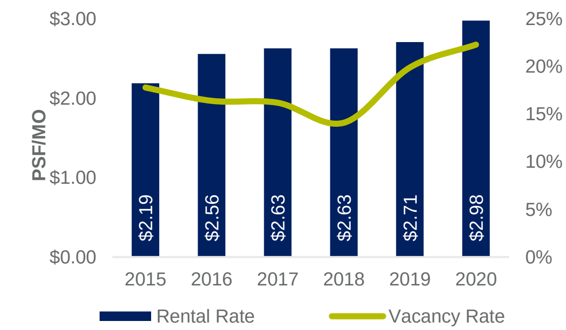
Overall Rental vs. Vacancy Rate
NON-CENTRAL BUSINESS DISTRICT



MID-WILSHIRE

Mid-Wilshire market is comprised of Hollywood, Mid-Wilshire, and Park Mile submarkets and contains 12.5 msf of office inventory. Totaling just 41,550 sf, new leasing activity in the second quarter dropped 71.7% from the first quarter 2020 showing the strong affect economic uncertainty has had on the market. Over 100k sf of sublease space came onto the market in the second quarter bringing sublease vacancy to 1.0%, up 80 bps from last quarter. Occupancy losses increased 71.6% in the second quarter as overall net absorption totaled -266,737 sf. This further compounded the first quarter occupancy losses bringing mid-year overall net absorption to -355,675 sf. Class A overall asking rents closed at $2.98 psf/mo, while overall asking rents posted just slightly higher at $2.99 psf/mo. The disparity between asking rents in Hollywood and the other two submarkets for Class A and Class B space throws off what is usually a wider gap in asking rents. The reduction of Class A space and addition of vacant space in class B & C buildings in Hollywood have slightly skewed asking rents in the Mid-Wilshire market. Direct available space increased 527,585 sf in the second quarter, bringing the direct availability rate to 23.3%, up 110 bps from the previous quarter. Vacancy will increase as companies consolidate office space, reduce their overall need for office space or close operations due to looming economic conditions and change brought on by the pandemic.

Overall Rental vs. Vacancy Rate
MID-WILSHIRE



MARKETBEAT

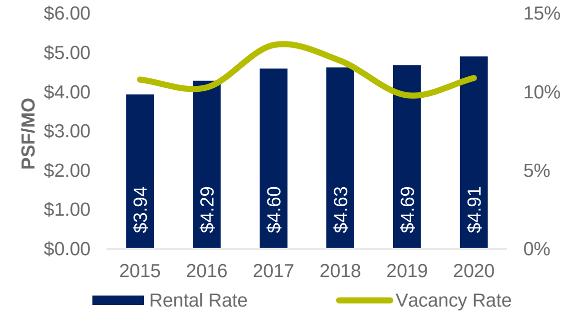
GREATER LOS ANGELES

Office Q2 2020

LOS ANGELES WEST

After twelve consecutive quarters of positive net absorption in the LA West office market, second quarter 2020 recorded negative net absorption of 548,475 sf, bringing the year-to-date figure to -297,710 sf. This represents the lowest second quarter year-to-date absorption seen over the past three years. Slowdowns in demand amidst the climate of the COVID-19 pandemic led to the 80-bp increase in overall vacancy over the previous quarter to 10.9%. Despite this uptick, overall vacancy declined 20-bp from a year ago, primarily attributed to occupancy gains in Santa Monica, Century City and Culver City over the past year. Sublease offerings for large blocks of space by tenants have contributed to a 26.9% increase in sublease availabilities in LA West for a total 1.9 msf at mid-year. With continued interest indicated by major tech, media and entertainment tenants for high-quality, large blocks of space in LA West, average asking rates remained intact at record heights of $4.91 psf/mo, trending upward by 4.3% increase YOY. Asking rates for Class A space, accounting for the majority of Westside leasing activity, recorded more significant growth YOY of 5.2%, reaching $5.07 psf/mo. As anticipated, second quarter 2020 new leasing activity slowed substantially with year-to-date transaction totals of 1.2 msf amounting to nearly a third of that posted in second quarter 2019. Renewal activity in the market was particularly strong, with tenants recommitting to their space representing most of the large-scale transactions of the first half of the year. While 2020 has seen limited new construction completions, 3.1 msf of new office projects are in the development pipeline with nearly 2.1 msf expected to deliver by 2021.

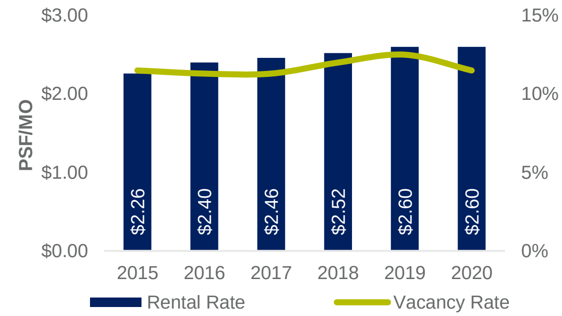
Overall Rental vs. Vacancy Rate
LOS ANGELES WEST



LOS ANGELES NORTH

New leasing activity of 326,554 sf in LA North in second quarter 2020 brought year-to-date totals to 723,050 sf, nearly half the activity recorded in in the first half of 2019. The majority of transactions seen year-to-date were concentrated in the Central San Fernando Valley, representing nearly 40.0% of new leasing activity. The largest lease of the quarter was a signed by the State of California Toxis Substance Control at 9211 Oakdale in Chatsworth renewing for 49,299-sf. Despite slowing leasing velocity, overall vacancy recorded improvements of 20-bps over the previous quarter and a more significant 70-bps year-over-year. The declining trend in vacancy is attributed to several sizeable move-ins over the first half of the year, with significant occupancies including The Refinery and Renegade Entertainment both moving in at the Sherman Oaks Galleria for 38,024 sf and 26,024 sf respectively, as well as National Veterinary Associates moving into 27,068-sf at 1 Baxter Way in Westlake Village. These large-scale move-ins coupled with additional significant mid-sized occupancies brought LA North's overall net absorption to 245,787 sf year-to-date, just shy of the 298,182 sf recorded in second quarter 2019. Overall average asking rates held steady over the previous quarter at $2.60 psf/mo, while recording slight upward growth of 2.4% YOY. Encino recorded the most notable rent increases, growing 12.9% YOY to an average of $2.95 psf/mo, followed by Sherman Oaks with a 9.8% bump YOY to $2.96 psf/mo. While activity in the market has slowed during the COVID-19 pandemic, anticipated move-ins for leases signed earlier in the year will help keep LA North's occupancy and fundamentals in check.

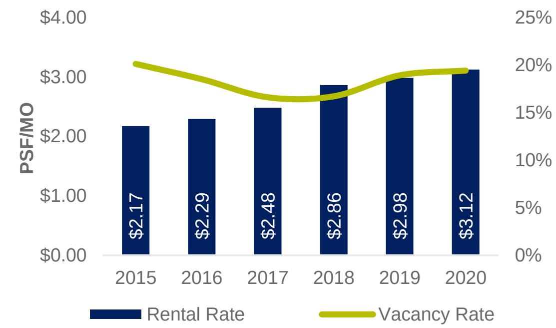
Overall Rental vs. Vacancy Rate
LOS ANGELES NORTH



LOS ANGELES SOUTH

The year started off with great momentum, but the headwinds from the economic slowdown on the back of COVID-19 pandemic has had a huge impact on the office market. With huge job losses in the office sector employment, the South Bay office market posted occupancy losses of 276,925 sf in the second quarter, wiping out the gains in the first quarter. This brought the mid-year total to negative 40,043 sf and overall vacancy increased to 19.4%, 120 bps higher than Q12020. Even with net occupancy losses of 100,997 sf in the second quarter, the El Segundo submarket ended the first half of the year in the black with 105,572 sf. With companies taking a wait-and-see approach before making long-term commitments, leasing volume is down substantially. New leasing activity fell by more than half from first quarter 2020, totaling just 124,036 sf in the second quarter. The mid-year leasing total of 480,555 sf was lower than the quarterly total of all four quarters in 2019 and 15.7% lower than 2019's quarterly average. The ongoing effects of the pandemic have created a need for companies to re-evaluate space occupancy and sublease space has been on the rise. Totaling 593,359 sf at the close Q2, available sublease space now accounts for 9.1% of the total available space in the South Bay. Surprisingly, rents in the South Bay remained relatively healthy and was up 4.0% year-over-year with an average of $3.12 psf/mo.

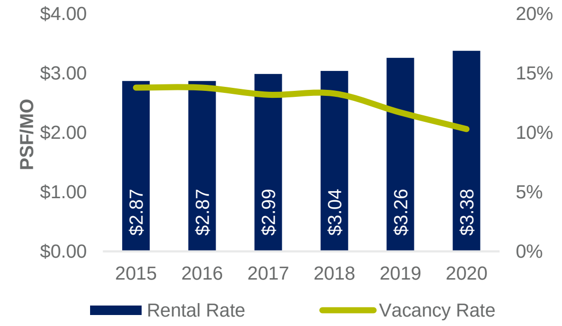
Overall Rental vs. Vacancy Rate
LOS ANGELES SOUTH



TRI-CITIES

In the second quarter the Tri-Cities markets' momentum continued across most fundamentals. The 207k sf of positive overall net absorption was the seventh consecutive quarter of occupancy gains and brought the mid-year total to 373k sf, the highest across the entire Los Angeles market. Coming off peak leasing activity over the past few quarters, large move-ins from Disney, Titmouse and Warner Brothers contributed to the reduction of the overall vacancy rate to 10.3%, a 120 bps decrease from the previous quarter and 270 bps drop from this time last year. This kind of demand put upward pressure on overall asking rental rates with a 5.3% increase or $0.17 psf change to $3.38 psf/mo from a year ago. The Burbank – Media District has the highest overall class A asking rate of $4.37 psf/mo, increasing 8.4% from a year ago and was the biggest contributor to Tri-Cities rent growth due to increasing demand for premium space by high profile companies in the Media & Entertainment and Tech sectors. After another strong performance in the first quarter, leasing activity sharply declined in the second quarter bringing year-to-date totals to 461k sf, a 55.0% decrease from this time last year. The largest lease of the quarter was Picture Head taking 37,370 sf at 3900 W. Alameda Ave. in the Burbank – Media District. Another development project hit the market with 143k sf of creative office at the Avion Burbank 60-acre mixed use campus, bringing the total under construction number to 593k sf. The two largest sales in the second quarter across all of Los Angeles occurred in Pasadena with 101 S. Marengo Ave. selling for $72M or $200 psf and 3465 & 3475 E. Foothill trading at $78M or $312 psf.

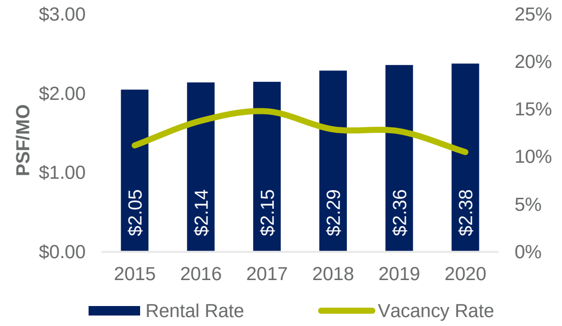
Overall Rental vs. Vacancy Rate
TRI-CITIES



SAN GABRIEL VALLEY

San Gabriel Valley (SGV) recorded a significant slowdown in leasing activity in second quarter 2020 bringing year-to-date totals to 88,834 sf, nearly a third of the levels posted during the same period of 2019. The largest lease of the quarter was signed by Kaiser Permanente for 18,213 sf at 4900 Rivergrade Road in the 210 Corridor. Despite minimal transactions year-to-date, overall vacancy displayed improvements of 30 bps since the previous quarter and more significantly 170 bps year-over-year. Several large-scale occupancies over the first half of the year have contributed to this declining trend, with the most notable being Children's Oncology moving into their 35,559-sf space at 800 Royal Oaks Drive and Priva Path occupying 23,629 sf at Huntington Plaza, both in the 210 Corridor. Overall net absorption held strong with 177,738 sf taken off the market year-to-date, exceeding that of second quarter 2019 by 47,374 sf (or 36.3%). While overall average asking rents in SGV recorded a slight uptick of just $0.02 psf since the previous quarter to $2.38 psf/mo, more substantial rent growth of $0.08 psf/mo, or 3.5% was recorded year-over-year. Alhambra/Monterey Park saw the most significant rent growth over the previous year, increasing $0.15 psf or 6.6% to $2.40 psf/mo. Although recording limited transaction volume this quarter, strong market fundamentals were displayed over the first half of the year reflect steady demand for SGV office product.

Overall Rental vs. Vacancy Rate
SAN GABRIEL VALLEY



MARKETBEAT

GREATER LOS ANGELES

Office Q2 2020

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	OVERALL ASKING RENT (ALL CLASSES)*	OVERALL ASKING RENT (CLASS A)*
Los Angeles Downtown CBD	27,696,147	252,992	5,430,208	20.5%	-165,284	-175,040	448,225	0	$3.71	$3.83
Los Angeles Downtown Non-CBD	10,737,619	99,774	2,453,610	23.8%	-112,457	127,647	226,909	305,000	$3.65	$3.92
Mid-Wilshire	12,473,229	128,871	2,652,452	22.3%	-266,737	-403,068	188,309	464,234	$2.99	$2.93
Los Angeles West	53,962,456	688,389	5,202,941	10.9%	-548,475	-297,710	1,166,681	3,133,735	$4.91	$5.07
Los Angeles North	31,023,760	106,746	3,462,723	11.5%	-129,116	245,787	723,050	284,374	$2.60	$2.72
Los Angeles South	31,171,386	367,985	5,669,710	19.4%	-276,925	-40,043	480,555	902,872	$3.12	$3.43
Tri-Cities	24,396,651	154,925	2,351,153	10.3%	207,479	373,264	461,181	593,297	$3.38	$3.52
San Gabriel Valley	12,582,365	16,861	1,310,143	10.5%	32,019	177,738	88,834	62,000	$2.38	$2.65
GRAND TOTAL	204,043,613	1,816,543	28,532,940	14.9%	-1,259,496	55,968	3,783,744	5,745,512	$3.52	$3.78

Rental rates reflect full service asking $psf/mo

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
233 South Beaudry Avenue	Los Angeles Downtown Non-CBD / Central City West	Los Angeles Department of Water & Power	132,000	Direct
915 Wilshire Boulevard	Los Angeles Downtown CBD / Financial District	US Army Corps of Engineers	115,000	Renewal*
12105 West Waterfront Drive	Los Angeles West / Playa Vista	Confidential	84,616	Direct/Expansion
865 South Figueroa Street	Los Angeles Downtown CBD / Financial District	Allen Matkins	63,000	Renewal*
725 South Figueroa Street	Los Angeles Downtown CBD / Financial District	Pillsbury Winthrop	57,000	Renewal*

Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
101 South Marengo Avenue / Pasadena Center	Tri-Cities / Pasadena	Woodridge Capital Partners / Atlas Capital Group	360,000	$72M/$200
3465 & 3475 East Foothill / Pasadena Corporate Park	Tri-Cities / Pasadena East	Wells REIT / Cherng Family Trust	250,000	$78M/$312
2355 & 2377 Crenshaw Boulevard / Park Del Amo	LA South / Central Torrance	TA Realty / Omninet Capital	205,514	$39M/$191

KEY CONSTRUCTION COMPLETIONS YTD 2020

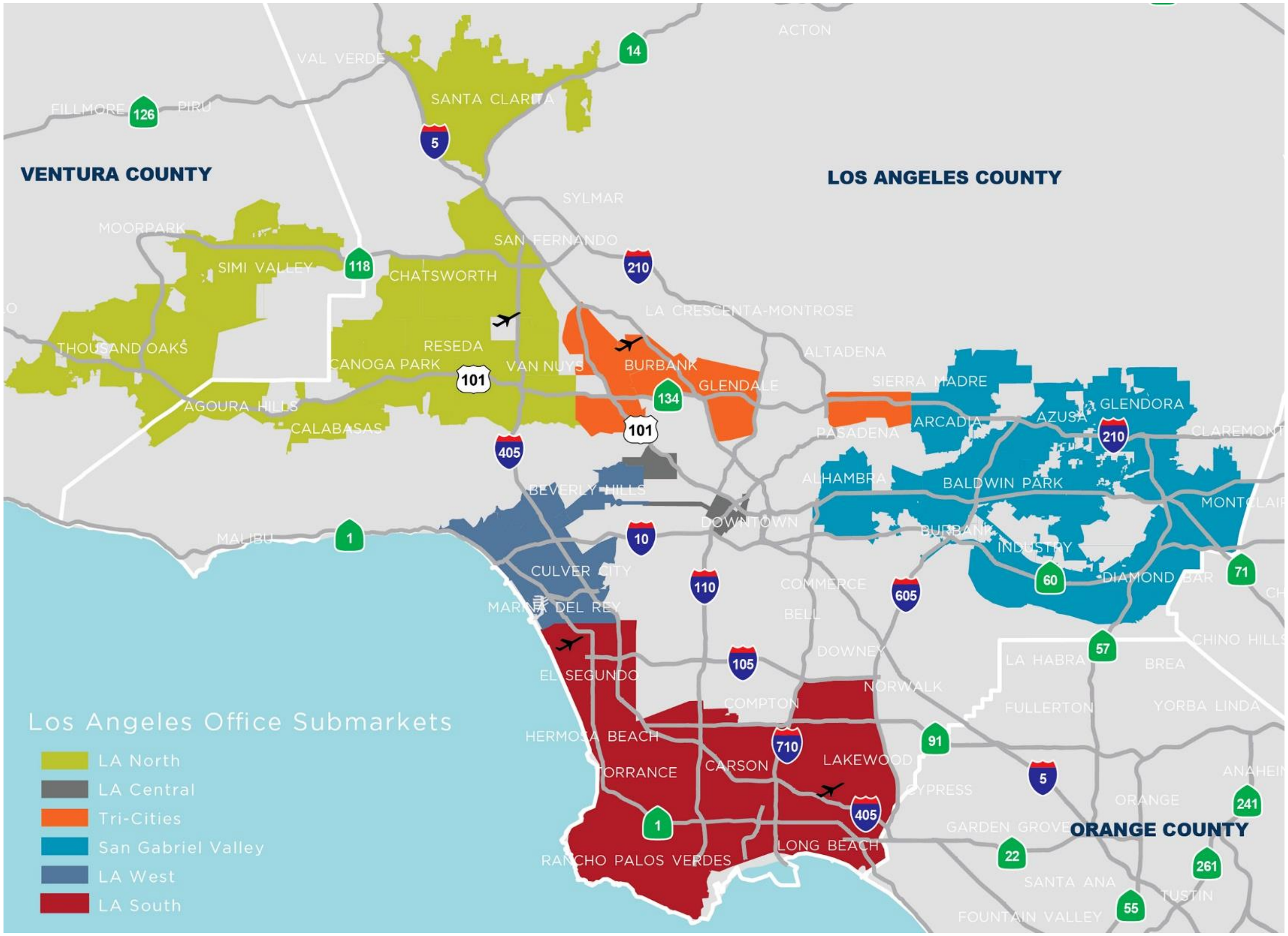
PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
2200-2230 Imperial Highway / Flyte	Los Angeles South / El Segundo/Beach Cities	AT&T Wireless	566,783	Swift Real Estate Partners / Kilroy Industries
757 South Alameda Street / ROW DTLA Building III	Los Angeles Downtown / Arts District	Vacant	310,453	Atlas Capital Group
4800, 4820 & 4840 Alla Road / Del Ray Crossing	Los Angeles West / MDR/Venice	Vacant	162,031	Continental Development Corporation
712 South Olive Street	Los Angeles Downtown / Financial District	PK Market	103,000	Atlas Capital Group

MARKETBEAT

GREATER LOS ANGELES

Office Q2 2020

OFFICE SUBMARKETS



ERIC KENAS
Market Director, Research
Tel: +1 213 955 6446
eric.kenas@cushwake.com

TINA ARAMBULO
Industrial Research Director
Tel: +1 213 525 1918
tina.arambulo@cushwake.com

DAVIS DREAR
Research Analyst - DTLA
Tel: +1 213 955 6451
davis.drear@cushwake.com

LIZA DAVATGAR
Research Analyst – LA West
Tel: +1 213 955 5175
liza.davatgar@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of $8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

cushmanwakefield.com