



Office Q2 2020

YoY
Chg**21.4%**

Vacancy Rate

**-278K**

Net Absorption, SF

**\$44.36**

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS
Q2 2020YoY
Chg**3.9M**Los Angeles County
Employment**20.9%**Los Angeles County
Unemployment Rate**13.0%**U.S.
Unemployment RateSource: BLS, Moody's Analytics
2020Q2 data are based on latest available data

ECONOMY: Unemployment Rate Hits Highest Recorded

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%. The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. 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](#).

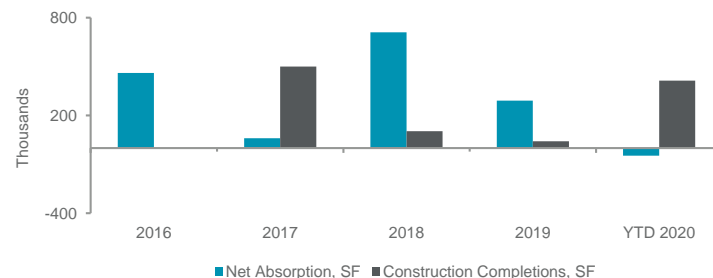
DEMAND: Leasing Activity Diminishes Further

Downtown Los Angeles (DTLA) market is comprised of the CBD and the Non-CBD, currently contains 38.4 million square feet (msf) of office inventory. After a slow first quarter, leasing activity in Downtown Los Angeles (DTLA) dipped again in the second quarter 2020 posting 298,523 sf, down 12.7% from the previous quarter and falling 69.1% percent year-over-year (YOY). This is the lowest quarterly total since the fourth quarter of 2013. Leasing in DTLA was steadily declining since midyear 2019 and was compounded by the economic downturn as companies have opted for renewals over relocation during the current climate. Additionally, DTLA occupancy losses of 277,741 sf brings year-to-date overall net absorption to -82,340 sf. In the second quarter 2020 overall vacancy increased 240 bps year-over-year to 21.4% and 90 bps from the first quarter. Although much of the space hasn't been vacated, jumps in the amount of space that became available indicates the overall slowdown of the market and potential for increasing vacancy as the year progresses.

CBD: Pandemic Compounds Slow Start to the Year

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.

DTLA SPACE DEMAND / DELIVERIES



DTLA OVERALL VACANCY & ASKING RENT



DOWNTOWN LOS ANGELES

Office Q2 2020

Non-CBD: Strong Occupancy Gains in Q1 Keeps YTD Absorption Positive

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.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Bunker Hill	10,963,322	108,240	1,957,694	18.8%	-47,798	-84,915	206,205	0	\$46.66	\$46.66
Financial District	16,732,825	144,752	3,472,514	21.2%	-117,486	-90,125	242,020	0	\$43.25	\$45.50
CBD TOTALS	27,696,147	252,992	5,430,208	19.4%	-165,284	-175,040	448,225	0	\$44.53	\$46.01
South Park	2,181,744	27,348	416,236	20.3%	23,145	61,608	22,504	82,200	\$40.61	\$39.58
Little Tokyo/Chinatown	610,753	1,452	47,583	8.0%	46,006	43,247	3,156	0	\$41.08	\$43.20
Central City West	3,980,809	14,270	535,171	13.8%	-175,019	-134,730	157,367	0	\$33.00	N/A
Historic District	1,970,904	0	699,069	35.5%	8,327	-5,185	42,944	660,456	\$44.61	N/A
Fashion District	109,914	2,823	28,675	28.7%	938	163	938	1,256,697	\$33.20	N/A
Arts District	1,883,495	53,881	726,876	41.5%	-15,854	162,544	0	305,000	\$61.50	\$56.73
Non-CBD TOTALS	10,695,683	252,992	2,453,610	23.3%	-112,457	127,647	226,909	2,304,353	\$43.79	\$47.09
DTLA TOTALS	38,433,766	352,766	7,883,818	21.4%	-277,741	-47,393	675,134	2,304,353	\$44.36	\$46.05

*Rental rates reflect full service asking **YTD Absorption Total is not reflective of the U.S. Overview Tables

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
233 South Beaudry Ave / The Exchange	Non-CBD / Central City West	LA Dept. of Water and Power	132,000	New Lease
865 South Figueroa St / TCW	CBD / Financial District	Allen Matkins	63,000	Renewal*
725 South Figueroa St / E&Y Plaza	CBD / Financial District	Pillsbury Winthrop	57,000	Renewal*
333 South Grand Ave / Wells Fargo	CBD / Bunker Hill	Dykema Gossett	26,000	Renewal*
725 South Figueroa St / E&Y Plaza	CBD / Financial District	California Fair Plan Assoc.	25,315	New Lease

*Renewals not included in leasing statistics

KEY CONSTRUCTION COMPLETIONS Q2 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	Owner/Developer
712 South Olive St	CBD / Financial District	PK Market	103,000	Atlas Capital Group

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