MARKETBEAT

DOWNTOWN LOS ANGELES

Office Q3 2021

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
25.0% Vacancy Rate	▲	▲
-749K YTD Absorption, SF	▼	▲
$45.95 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)
Stats are not reflective of U.S. Tables

ECONOMIC INDICATORS
Q3 2021

	YoY Chg	12-Mo. Forecast
4.3M Los Angeles Employment	▲	▲
8.2% Los Angeles Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS, CA EDD and Moody's Analytics
2021Q3 data are based on latest available data

Economy: Slow But Steady Employment Gains

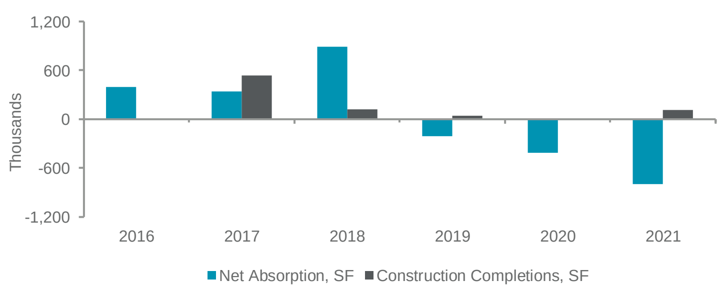
The labor market continues to improve in Los Angeles County—albeit at moderate pace. Nonfarm employment grew from August to September by 31,500 jobs pushing the civilian unemployment rate down to 8.2%. Compared to the same period the year prior, Nonfarm employment for Los Angeles County added 254,600 jobs—an increase of 6.3% year-over-year (YOY). Though a marked improvement over market conditions during the height of the pandemic, the unemployment rate for LA County continued to lag behind the state (6.4%) and the U.S. unemployment rate (5.2%), respectively. Even as lockdown restrictions ease and people return to in-person work, the region still has a long way to go before employment returns to pre-pandemic levels. Office-using industries reported strong growth YOY with professional and business services adding 31,000 jobs while tech-centric firms in the information field added 18,200 within the same timeframe. Overall, the county's continued employment growth with each month is a clear sign that the market is moving in the right direction even if it takes a while to get there.

Downtown Los Angeles: One Step Forward, Two Steps Back

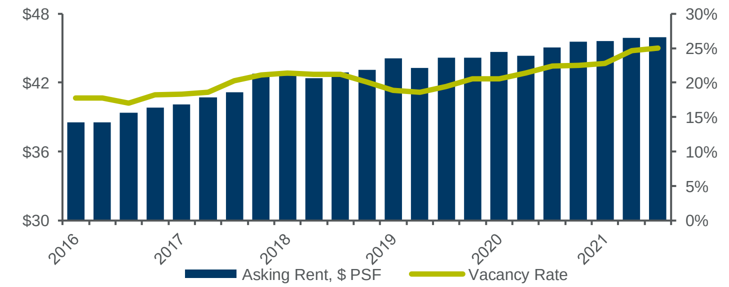
Downtown Los Angeles (DTLA) market, comprised of the Central Business District (CBD) and the Non-CBD, currently contains 39.0 million square feet (msf) of office inventory.

The recovery effort has been slow going throughout the Greater Los Angeles (GLA) region—but none more so than in DTLA where a slew of newly vacated office space pushed the amount of vacant square feet on the market by 225,342 square feet in Q3 2021. Hybrid and remote working models as a result of the pandemic have continually encouraged large occupiers over the last year to reassess their space needs. As a result, overall office vacancy in DTLA has increased 300 basis points (bps) compared to Q3 2020. Despite concerns regarding the future of GLA's office landscape many occupiers, particularly those in the tech and media business, have re-committed to in-person work. With 163,924 square feet of office leasing activity taking place in Q3 2021, year-to-date (YTD) resulted in 537,062 square feet of activity. This activity was able to offset some, though not enough of the move-outs, leaving net absorption negative 83,972 square feet for the quarter. While occupier interest remains, the shape LA's downtown takes in the coming months and years may be vastly different than before the pandemic.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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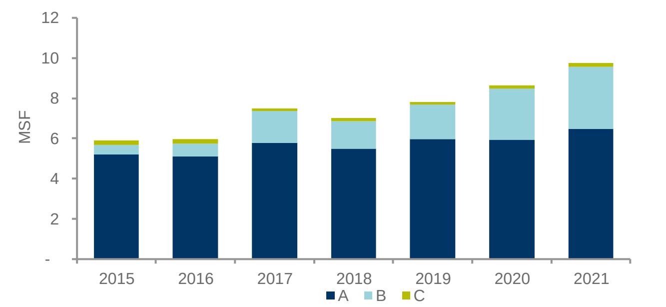
Central Business District (CBD): Mild Progress

Occupancy in the heart of LA dropped for the third consecutive quarter in a row, resulting in 147,934 square feet (sf) of vacant space returning to the market in Q3 2021. Overall vacancy totaled 23.3%--a 50 basis point (bps) increase from the previous quarter and 160 bps higher than the same period the year before. Additionally, the persisting trend of occupiers right-sizing their space requirements amid the pandemic added an additional 43,483 square feet of sublease space to the CBD in Q3. Though the city's high-rises continue to underperform quarter after quarter, Q3 provided some noteworthy highlights—particularly in leasing activity and lease rates. Notable deals include the Executive Office for Immigration Review (GSA – EOIR) recommitting to their multi-floor space at the City National Bank Building (77,678 st) and workforce education firm InStride signing a brand-new lease at The Bloc (23,234 st). Overall leasing activity levels were on par for the previous quarter, but the seemingly drip-feed pace of new deals has led to a noticeable drop in activity levels compared to the same time in 2020. YTD leasing activity for the CBD totaled 337,858 st—a 30% decrease from the year prior—and a far cry from the heights achieved before the COVID-19 pandemic. Despite the slowdown rents in the CBD climbed slightly by 30 bps quarter-over-quarter with overall average asking lease rates totaling $45.21 psf/yr in Q3 2021. Class A products recorded similar upticks from the previous quarter with rents climbing to $46.70 psf/yr—an increase of 30 bps from Q2 and 40 bps over the previous year, respectively. The frequent rise in asking rates can be traced to landlords offering more enticing concessions and amenities in order to lure occupiers back to the office space. Whether this move will pay dividends remains to be seen as LA's downtown has historically recovered from economic downturns at a slower pace compared to its contemporaries.

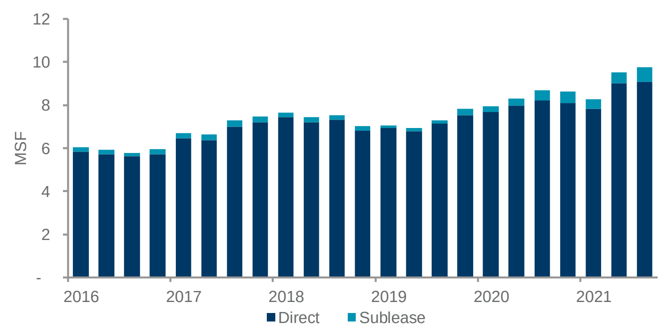
Non-CBD: A Recurring Hot Spot for Tech

Leasing activity outside of LA's CBD fell well below the tone set by the pre-pandemic norm as many of the tech and media firms who flocked to the area pressed pause on their expansion plans. For the fifth consecutive quarter, the Non-CBD area failed to crack six-digits with overall leasing activity totaling 61,003 sf in Q3 2021. YTD, meanwhile, totaled 199,204 sf—a 21% decline from the same period the year prior and an 83% decrease when compared to Q3 2019. Tech and media firms have been consistent drivers of growth for the area, particularly around the Arts and Fashion Districts of DTLA, and Q3 2021 proved to be no exception. Popular live-streaming service for gaming, Twitch, signed a new deal for a sublease space within the Arts District for 20,279 sf of space. The pause from companies leasing space throughout 2020 and into early 2021 put a damper on occupancy gains. The flattened activity showed a small QOQ increase to overall vacancy rates to 29.3% or a 30-bps increase. The non-CBD will accrue more vacant space in the forthcoming quarters as large projects, California Market Center (1.3 msf), is scheduled to deliver with minimal pre-leasing in place. With a lack of leasing volume and more vacant space re-entering the market, overall asking lease rates declined 0.8% from the previous quarter to $47.66 psf/yr. Despite the quarter-to-quarter decline, rates in DTLA's Non-CBD are still 5.4% higher than the same period last year and dwarf the pre-pandemic high of $44.15 psf/yr achieved in Q4 2019. Rates for Class A space was static quarter-over-quarter at $56.00 psf/yr, though considering how in-demand high-class space is in and around the Arts District by tech and media firms, rates are still 11.7% higher than pre-pandemic levels.

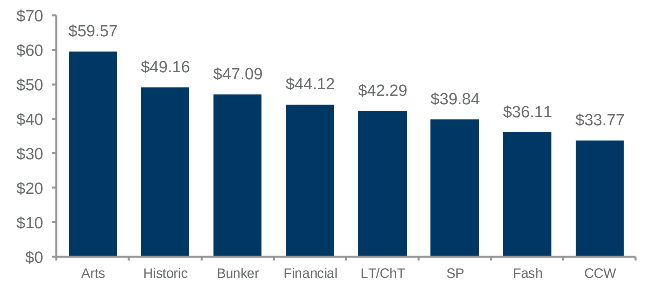
VACANT SPACE BY CLASS



DIRECT VS SUBLEASE AVAILABLE SPACE



SUBMARKET DIRECT ASKING RENT



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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	11,017,979	169,824	2,183,989	21.4%	-32,930	-100,324	109,230	0	$47.09	$47.21
Financial District	16,732,825	281,777	3,835,739	24.6%	-115,004	-443,724	228,628	0	$44.12	$46.30
CBD TOTALS	**27,750,804**	**451,601**	**6,019,728**	**23.3%**	**-147,934**	**-544,048**	**337,858**	**0**	**$45.21**	**$46.70**
South Park	2,284,984	129,626	523,440	28.6%	69,711	-65,853	32,028	0	$39.84	$37.17
Little Tokyo/Chinatown	516,253	10,927	50,141	11.8%	-8,729	1,320	1,320	0	$42.28	$35.40
Central City West	3,980,809	50,777	630,126	17.1%	-13,342	-121,422	40,037	0	$33.77	N/A
Historic District	2,185,911	0	892,343	40.8%	46,600	-9,850	24,310	0	$49.16	$60.60
Fashion District**	177,342	2,833	99,003	57.4%	1,736	-1,195	6,375	0	$36.11	$27.00
Arts District	2,078,841	52,131	846,381	43.2%	-34,473	-8,436	90,965	214,000	$59.57	$63.60
Non-CBD TOTALS**	**11,224,140**	**246,294**	**3,041,434**	**29.3%**	**61,503**	**-205,436**	**199,204**	**214,000**	**$47.66**	**$56.00**
DTLA TOTALS**	**38,974,944**	**697,895**	**9,061,162**	**25.0%**	**-86,431**	**-749,484**	**537,062**	**214,000**	**$45.95**	**$47.72**

*Rental rates reflect full service asking **Stats do not match National numbers*

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
606 South Olive Street	Financial District	GSA - EOIR	77,678	Renewal*
700 South Flower Street	Financial District	InStride	23,234	Direct
444 South Flower Street	Bunker Hill	PeopleSpace	22,500	Renewal*
1019 East 4th Place	Arts District	Twitch	20,279	Sublease
333 South Grand Avenue	Bunker Hill	Webcor Builders	14,172	Direct

Renewals not included in leasing statistics

KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
640 South Santa Fe / Produce LA	Arts District	N/A	116,128	Continuum Partners

KEY SALES TRANSACTIONS YTD 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
500 & 540 South Santa Fe Avenue / Switchyard	Arts District	C.E.G Construction / SteelWave	152,586	$80.0M/$509
717 West Temple Avenue	Bunker Hill	California Community Foundation / 1st City Savings Federal Credit	56,657	$15.4M/$261

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