

MARKETBEAT GREATER LOS ANGELES



Office Q2 2022

21.4%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



58.1K

Net Absorption, SF



\$3.70

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

4.5M

Los Angeles County
Employment

YoY
Chg



12-Mo.
Forecast



5.3%

Los Angeles County
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

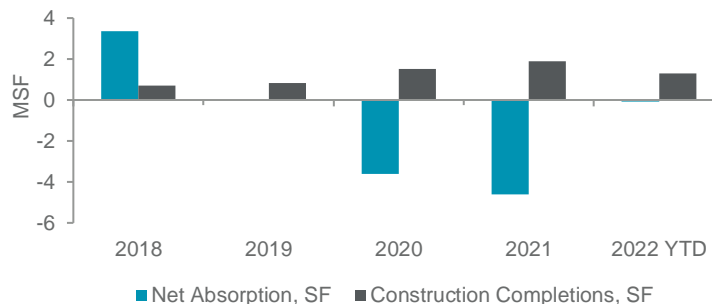
Labor market growth in Los Angeles County slowed in the spring months of 2022 as unemployment inches ever closer to returning to pre-COVID-19 levels. Between April and May, total nonfarm employment grew by a modest 9,700 jobs, bringing the monthly unemployment rate down from 4.7% to 4.5%. Nonfarm employment grew by 230,700 jobs, an increase of 5.4% year-over-year (YOY). During the same time, the monthly unemployment rate decreased from 19.2% last year to 4.5%. The current monthly rate is 80 basis points (bps) below the quarterly average of 5.3% yet 110 bps above the 3.4% rate of California. Employment in office-using industries gained 29,100 jobs YOY but dipped by 4,500 jobs between April and May as companies continue to adjust their work strategies amid the global pandemic. Scientific and technical services accounted for most of the YOY growth, adding 15,500 jobs to the County. Overall, the labor market in Los Angeles County has regained much of the ground lost in the early months of the pandemic. But rising interest rates, gas prices and fears of a looming economic recession risk undoing much of the recent growth.

SUPPLY AND DEMAND: GLA Posts First Occupancy Gains Since 2020, But Sublease Space on the Rise

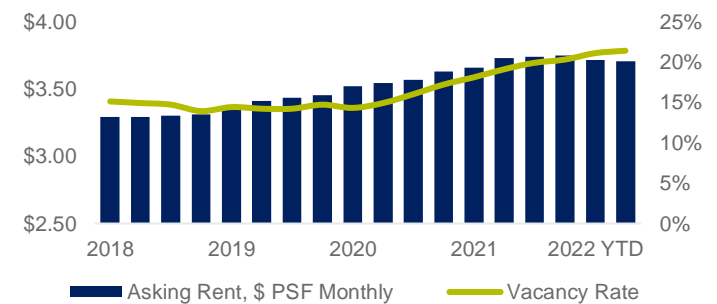
Amidst a looming economic recession and the ever presence of the COVID-19 pandemic, the Greater Los Angeles (GLA) pulled through the chaos and emerged relatively unscathed entering the second half of the year. A multitude of large-sized move-ins helped push occupancy gains across the region, netting GLA with 58,118 square feet (sf) of positive absorption in Q2 2022. This was a welcome change after eight consecutive quarters of occupancy losses during which combined tenants returned nearly 1.0 million square feet (msf). On annual basis, net absorption remained negative at 82,166 sf year-to-date (YTD) due to tenants returning 140,000 sf in Q1 2022 to the market. The more notable move-ins in Q2 2022 include Company 3, major post-production and visual effects company for the film industry, which took possession of their new space in Hollywood for 129,178 sf. Other significant tenants moving in across the region during the same period include the County of Los Angeles (86,319 sf), SAE Institute (41,100 sf) and Skyrise (27,160 sf). Despite the positive momentum in occupancy gains achieved in Q2 2022, vacancy increased by 30 bps quarter-over-quarter (QOQ) and 230 bps YOY to 21.4% due to a handful of construction completions.

While the change in move-in velocity was a welcome one after two long years of losses, a worrying trend from the early months of the pandemic has cropped up once more. With cases of COVID-19 on the rise and anxiety over a new economic recession building, large occupiers once again reevaluated their space needs in earnest. As a result, over 230,000 sf of sublease space was added QOQ with the largest blocks of space coming from Kayne Anderson (75,058 sf), FabFitFun (54,630 sf) and the Westfield Group (54,032 sf).

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT





As of Q2 2022, over 3.9 msf of new office product was under construction. The Westside Pavilion conversion is still the largest and most anticipated project in the pipeline as the conversion of the former mall into creative office space is planned to be fully occupied by tech giant Google (584,000 sf) when it delivers. Among Q2 2022 deliveries were 10 W. Walnut in Pasadena and 1550 Euclid St. in Santa Monica which added 215,500 sf and 45,243 sf, respectively, of new office product to the GLA market.

Though economic and pandemic pressures pressed some occupiers to put their spaces back on the market for sublease (+238,400 sf QOQ), these same conditions did little to deter others from signing on for new office space in the region. Overall leasing activity, excluding renewals, totaled 3.0 msf in Q2 2022, bringing 2022 YTD activity to 6.7 msf. Compared to the same period the year prior, leasing activity has increased 40% or by 1.9 msf. The largest deal of note in Q2 2022 was Amazon signing a new lease in Santa Monica for 207,821 sf, while Dine Brands (parent company of IHOP and Applebee's) took 92,670 sf in Pasadena and Blue Shield of California leased 71,753 sf in Long Beach. While many of these firms were expanding their footprint in the market others were consolidating amid the current market conditions. The most notable of these was TCW Group which will be downsizing from more than 200,000 sf at their branded location at 865 Figueroa to 129,317 sf at 515 S. Flower St. Sublease listings, rightsizing and restructurings are likely to continue throughout the rest of the year as companies grapple with the realities of the current economic climate taking shape. Netflix is among such tenants who confirmed will be putting 180,000 sf of sublease space back on the market in Q3 2022.

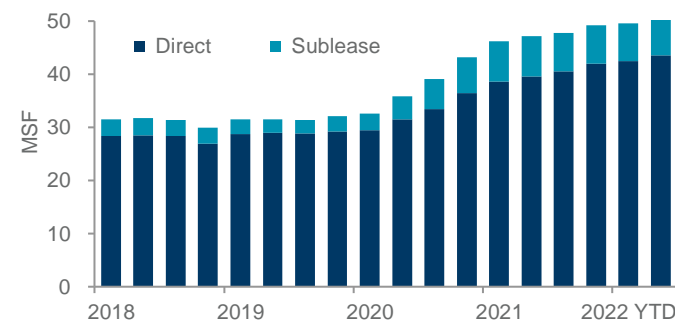
PRICING: Asking Rents Growth Is Leveling Off

Asking lease rates climbed steadily throughout 2020 and 2021 despite the pandemic, but these tailwinds seem to have lost much of their gust in 2022. The average asking rent across all classes dropped \$0.01 (-0.3%) QOQ and \$0.02 (-0.6% YOY) to \$3.70 per square foot (psf) on a monthly full-service basis for the GLA region in Q2 2022. This is the second consecutive quarter in which the average asking rate has decreased, likely a result of softening demand in some submarkets and an influx of sublease space entering the market at reduced rates. The average Class A rate was mostly unaffected and only dropped \$0.01 QOQ to \$3.99 psf in Q2 2022. Demand for high-quality office space is still high, and the amenities on offer continue to justify the high price of entry. West Los Angeles continues to command the highest asking rates in the region, averaging \$5.02 psf overall and \$5.24 psf for Class A space.

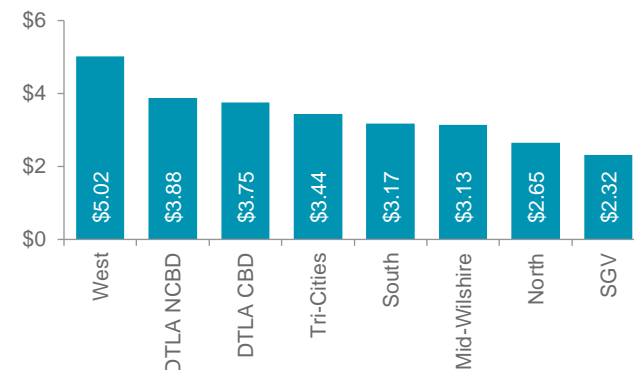
OUTLOOK

- Return to the office is here, but for how long?: office usage has increased dramatically since the start of the new year thanks to COVID-19 infections dropping and more citizens getting the vaccine. Even with these steps forward, office occupancy in LA has remained static at 41%.² A looming recession and another surge of COVID-19 may threaten further return-to-office efforts throughout the rest of the year.
- Economic recovery: office-using employment has since returned to pre-pandemic norms and total nonfarm employment for LA County is not far behind. Labor force growth slowed between April and May with some office-using industries shedding some of their workforces.
- Quality is still king: Class A office made up the bulk of the large blocks of space leased in Q2 2022. Those pushing for a return to in-person work have targeted amenity-rich buildings to ease their employees back to the office.
- Market trajectory: we are expecting to see a continued uptick in the amount of vacant space – with large blocks of sublease space in particular - returning to the market. Leasing activity is expected to rise throughout the remainder of the year, though it will likely be fueled by large tech firms, law offices and downsizing renewals. Asking rates are likely to fall further but remain steadily above pre-pandemic levels.

DIRECT AVAILABLE VS. SUBLEASE SPACE AVAILABLE



AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



MARKETBEAT GREATER LOS ANGELES



Office Q2 2022

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	27,750,804	301,593	6,384,572	24.1%	-11,798	-395,759	635,406	0	\$3.75	\$3.88
Los Angeles Downtown Non-CBD	12,689,150	295,358	4,261,497	35.9%	25,987	181,396	393,827	214,000	\$3.88	\$4.34
Mid-Wilshire	13,012,615	149,248	3,342,879	26.8%	301,812	283,145	310,185	186,524	\$3.13	\$3.04
Los Angeles West	57,075,705	1,702,953	9,759,984	20.1%	-350,367	184,957	2,763,348	1,561,730	\$5.02	\$5.24
Los Angeles North	31,679,760	355,468	4,741,171	16.1%	73,026	128,787	1,074,804	646,000	\$2.65	\$2.78
Los Angeles South	31,990,074	976,195	7,294,944	25.9%	-54,515	-312,409	749,115	60,000	\$3.17	\$3.48
Tri-Cities	25,001,720	376,585	4,222,242	18.4%	19,080	-197,723	558,289	1,248,454	\$3.44	\$3.56
San Gabriel Valley	12,523,480	102,949	1,136,333	9.9%	54,893	45,440	208,612	62,000	\$2.32	\$2.58
GLA GRAND TOTAL	211,723,308	4,260,349	41,143,622	21.4%	58,118	-82,166	6,693,586	3,978,708	\$3.70	\$3.99

**Rental rates reflect full service asking, psf/mo. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2450 Colorado Ave.	Santa Monica LA West	Amazon	207,821	New Lease
865 S. Figueroa St.	Financial District Downtown CBD	Quinn Emanuel Urquhart & Sullivan	135,000	Renewal*
515 S. Flower St.	Financial District Downtown CBD	TCW Group, Inc.	129,317	New Lease
10 W. Walnut	Pasadena Tri-Cities	Dine Brands Global, Inc.	92,670	New Lease
3840 Kilroy Airport Way	Suburban Long Beach South Bay	Blue Shield of California	71,753	New Lease

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER BUYER	SF	PRICE / \$ PSF
1 World Trade Center	Downtown Long Beach LA South	Greenlaw Partners Safehold, Inc.	574,981	\$60.6M / \$105
21555 Oxnard St.	Warner Center LA North	T&A Warner Center Investors, LLC The Kroenke Group	309,673	\$175.0M / \$565
555 S. Aviation Blvd.	El Segundo/Beach Cities LA South	Tishman Speyer FS Investments	259,106	\$205.5M / \$793
2625 Townsgate Rd.	Westlake Village LA North	Lineage Family Office Efreem Harkham Trust	132,900	\$35.1M / \$264
225 West Broadway	Glendale Tri-Cities	N/A 3D Investments	120,828	\$27.5M / \$228

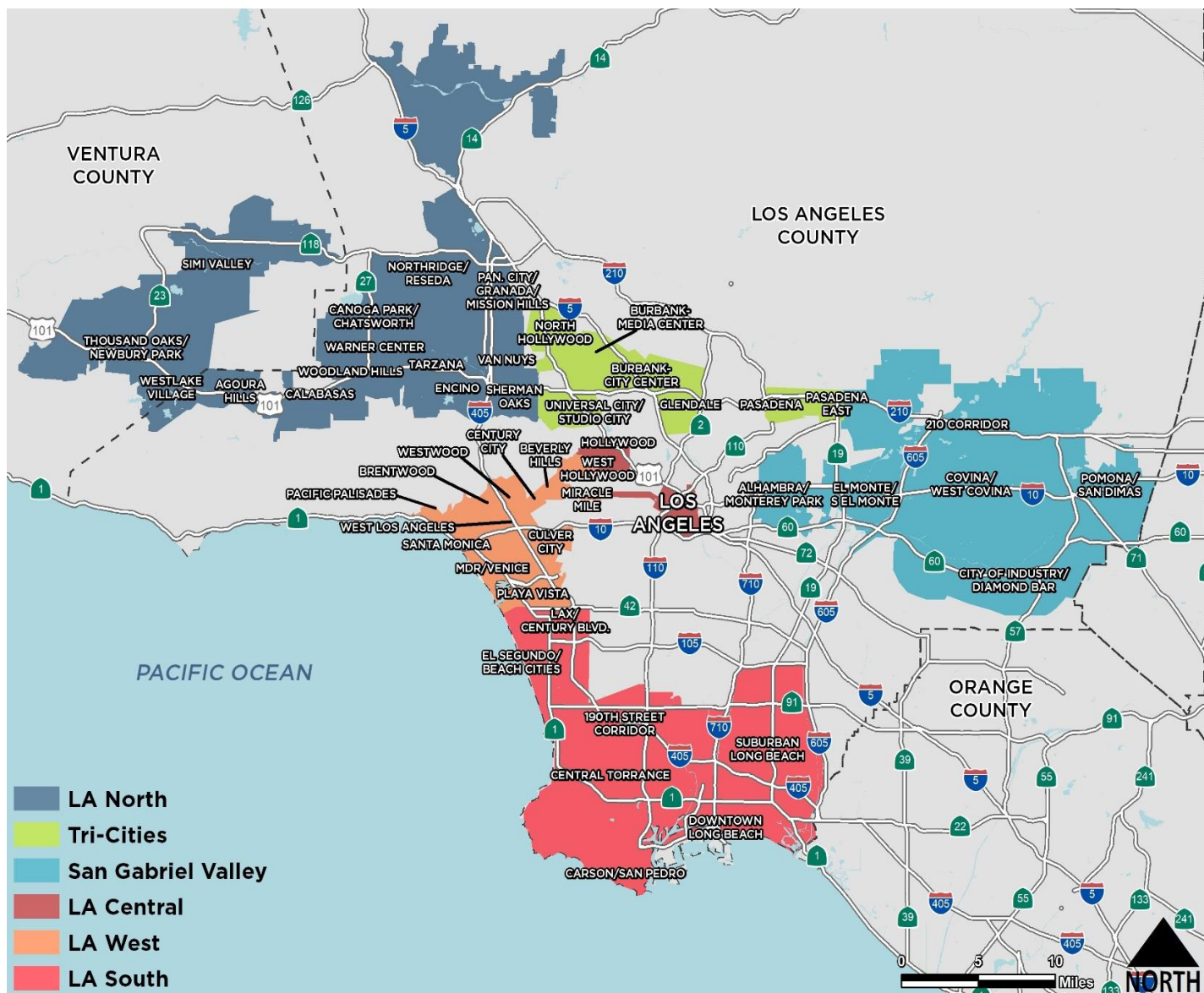
KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	MAJOR TENANTS	SF	OWNER DEVELOPER
9336 Washington Blvd.	Culver City Los Angeles West	Amazon Studios, LLC	574,584	Hackman Capital Partners Hackman Capital
6181 Centinela Ave.	Culver City Los Angeles West	N/A	315,000	Lincoln Property Company Lincoln Property Company

Sources: ¹www.bls.gov, Moody's Analytics economy.com ²Kastle Systems as of June 29, 2022.



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