MARKET REPORT

OFFICE

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

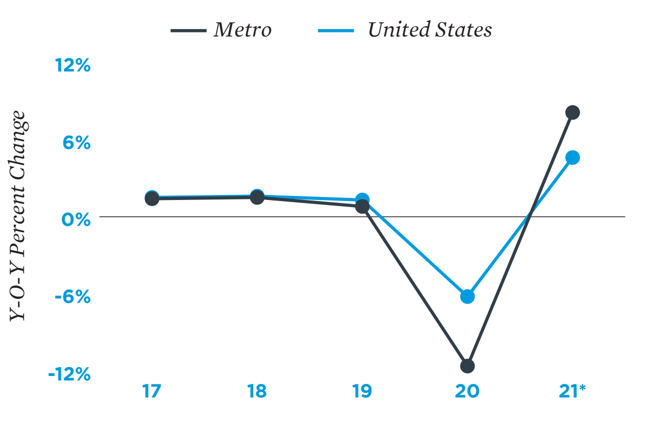
4Q/21

Reasons for Optimism Emerge as Timelines for Office Homecomings Become More Concrete

Major employers plan early 2022 return. Los Angeles County entered the second half of 2021 with its highest vacancy rate since at least 2007 as availability sits above 20 percent in downtown and Silicon Beach. Near term, office vacancy is poised to remain historically high as the emergence of COVID-19 variants has altered reopening plans for many companies including tech and production firms that anticipated a return to in-office operations in September or October. However, longer term the outlook is brighter. Despite businesses reducing their office footprints, major employers within the tech, media and aerospace sectors are not leaving the area. Additionally, employee vaccination requirements adopted by the Big Five tech corporations and major studios including ViacomCBS and Disney increase the likelihood of a full-scale return to in-office work early next year.

Demand for sublease space improves in tech hub. The metro's largest submarket by inventory, West Los Angeles has recorded a notable increase in sublease space since the onset of the health crisis. While potentially concerning, the rise in available floor plans has created opportunities for certain firms, which supported positive leasing activity in the second quarter. Spanning the three-month window, more than 700,000 square feet was absorbed in the submarket, highlighted by GoodRx subleasing 88,000 square feet in Santa Monica and Alo Yoga making a similar commitment for 73,000 square feet in Beverly Hills.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook

330,000 JOBS
will be created

EMPLOYMENT:

Los Angeles County is on pace to recapture more than 60 percent of the 534,300 jobs lost last year, equating to an 8.1 percent rate of employment growth in 2021. The traditional office-using sector is expected to add 47,500 positions.

4,900,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions will increase the metro's inventory by 1.3 percent as the volume of space delivered in 2021 exceeds the prior two-year total. West Los Angeles, South Bay and Greater Downtown Los Angeles will each add more than 1 million square feet.

170 BASIS POINT
increase in vacancy

VACANCY:

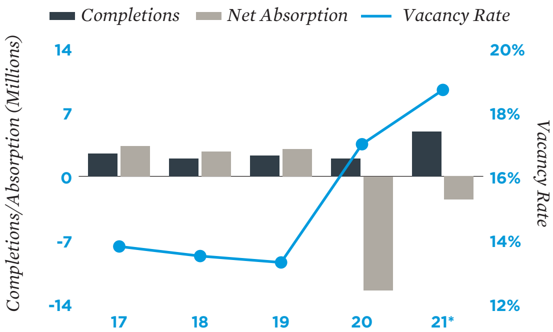
The largest volume of supply additions since at least 2007 and an increase in sublet space will push vacancy up to 18.7 percent, a rate 440 basis points above the prior five-year average. Last year, availability rose 370 basis points.

1.0% INCREASE
in asking rent

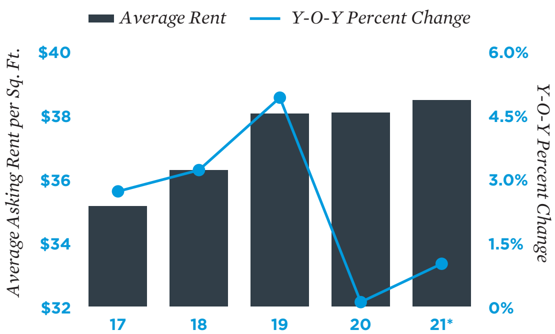
RENT:

An influx of new stock will require more existing properties with available space to offer tenant concessions, limiting the pace of rent growth for a second straight year. Still, the metro's average marketed rate will rise slightly to $38.45 per square foot.

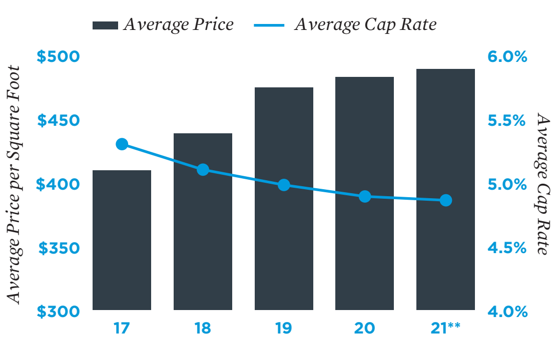
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q21 — 12-Month Period

CONSTRUCTION

3,316,000 sq. ft. completed

- Completions during the yearlong period ended in June increased Los Angeles' inventory by 0.9 percent. Recent delivery volume eclipsed the total from the prior 12-month span by 1 million square feet.
- Supply additions in West Los Angeles accounted for more than 40 percent of the space added over the past four quarters.

VACANCY

320 basis point increase in vacancy Y-O-Y

- Vacant stock grew by 12.9 million square feet over the past year, raising availability to 17.7 percent. Triple-digit basis point increases were noted in all submarkets with inventories exceeding 30 million square feet.
- Class A vacancy rose 480 basis points to 22.1 percent, while Class B/C availability increased 180 basis points to 13.8 percent.

RENT

0.3% increase in the average asking rent Y-O-Y

- The average asking rent reached a record mark of $38.26 per square foot in June following a nominal yearlong gain.
- A historically high volume of vacant Class A space pushed the sector's mean marketed rate up 1.1 percent to $42.47 per square foot. In contrast, the average Class B/C asking rent fell 0.7 percent.

Investment Highlights

- Sales activity declined by nearly 20 percent over the past 12 months ended in June although the number of Class A trades increased on a year-over-year basis. Local buyers and investors from neighboring markets supported overall deal flow as many out-of-state parties continued to await more clarity on the pace of Los Angeles' office recovery.
- Upper- and mid-tier transactions accounted for more than 40 percent of recent sales activity, lifting the metro's average pricing up 2 percent to $489 per square foot. The mean cap rate over the past year was unchanged at 4.9 percent, with minimum first-year returns recorded in the high-2 to high-3 percent range.
- Since last July, transactions involving medical office buildings or loft/creative space have accounted for one-third of all deal flow. Suburbs including the San Gabriel and San Fernando Valleys have attracted the most medical office investment. Overall, these assets are trading at a 5.5 percent average cap rate, with mean pricing near $480 per square foot. Mid-Wilshire and West Los Angeles have noted the most loft/creative space closings. In both locales, sub-$500 per square foot pricing is rare, with yields falling in 4 percent to low-6 percent band.

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