

INVESTMENT FORECAST

Office
Los Angeles

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Positive Absorption in Major Office Hubs Generates Reasons for Optimism Amid Variant Emergence

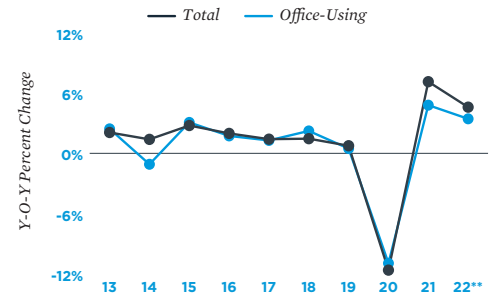
Divergent conditions in large submarkets blur near-term outlook. Los Angeles' office sector is in for a lengthier recovery than many other major U.S. markets, having entered this year with a historically high vacancy rate. Nevertheless, fundamentals in several of the metro's major regions are improving at a standout pace. West Los Angeles and the South Bay, which comprise 35 percent of the county's inventory, both noted positive leasing velocity in the second and third quarters of 2021, as tenants absorbed a combined 1.8 million square feet. Most notably, Silicon Beach registered a collection of 50,000-square-foot-plus commitments, most of which were inked by entertainment and tech firms. Contrasting these regions, vacant stock and sublease availability in Greater Downtown Los Angeles and the San Fernando Valley continued to rise. The emergence of new COVID-19 waves and potential restrictions could extend these submarkets' recovery and halt positive momentum in West Los Angeles if major tech companies push back reopening dates. Still, a silver lining exists for the county, as deliveries fall to an eight-year low in 2022.

Private investment supports transaction recovery. A notable percentage of in-state buyers came off the sidelines last year, elevating deal flow beyond pre-pandemic norms. Perceived future tenant demand for suburban Class B/C office space is driving investment activity in the San Fernando Valley, where returns in the 5 percent to 6 percent range are obtainable for smaller and midsize buildings. Buyers targeting similar assets in areas of above-average rent growth are competing for listings in West Los Angeles, where the mean price point hovers around \$800 per square foot and cap rates rarely exceed 5 percent. Juxtaposing private buyer activity, institutional demand remains subdued as the metro's blurred near-term outlook is creating hesitancy among some national owners. Still, select buildings that feature more than 100,000 square feet may be prime candidates for industrial conversions, as vacancy in the sector is extremely sparse metrowide.

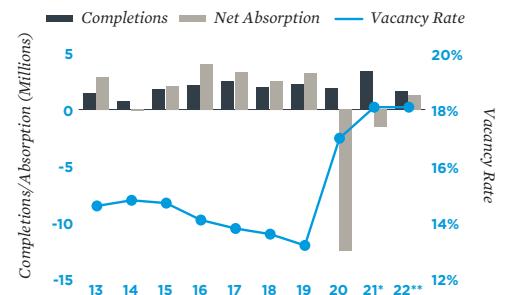
2022 Market Forecast

- Employment**
up 4.6%
Traditional office-using positions account for nearly 20 percent of the 200,000 jobs added in Los Angeles County this year.
- Construction**
1,600,000 sq. ft.
Office deliveries expand the metro's inventory by just 0.4 percent. Additions are extremely sparse outside of West Los Angeles, where 1.4 million square feet is slated for completion.
- Vacancy**
no change
After rising by nearly 500 basis points over the past two years, vacancy holds at 18.1 percent in 2022. Still, office availability remains well above the metro's long-term mean.
- Rent**
up 1.7%
Above-average rent gains in West Los Angeles and South Bay support a positive trajectory for Los Angeles' marketed rate, which reaches \$39.00 per square foot this year.
- Investment**
Recent vacancy compression, below-average pricing and mean yields in the low-5 percent range attract investors to South Bay and San Gabriel Valley office hubs this year.

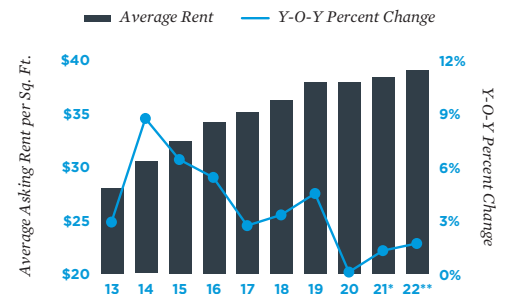
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.