

# INVESTMENT FORECAST

OFFICE

Los Angeles Metro Area

IPA

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2020


## Growing Office Users Preserve Tenant Demand As Wave of Supply Begins This Year


**Metro vacancy aligns with national average.** Amid a tight labor market, Los Angeles' collection of media, entertainment, tech and aerospace firms continued to expand last year, with many companies occupying additional or larger floor plans. These organizations' actions boosted absorption, reducing the metro's vacancy to a cycle-low level. Limited availability coupled with record asking rents prompted an uptick in construction, with developers slated to finalize more than 4 million square feet of office space in 2020, the third largest total among major U.S. metros. Downtown Los Angeles, West Los Angeles and Mid-Wilshire will each welcome more than 1 million square feet this year, likely placing short-term pressure on local vacancy rates despite encouraging pre-leasing. Outside these submarkets, tenant demand will outpace development, allowing county vacancy to withstand the influx of new supply and remain constrained.

**Opportunities abound for private investors seeking upgradeable properties.** Tight vacancy throughout most of Los Angeles County coupled with sizable clusters of office space throughout the metro will equate to widespread deal flow and a diverse buyer pool this year. Renowned for its concentration of tech firms and metro-leading asking rents, West Los Angeles remains a primary target for investors seeking sub-\$10 million Class B and C properties. Culver City has emerged as a top area for investors within the region. Here, pricing above \$1,000 per square foot is not uncommon, with minimum returns hovering in the high-3 percent range. In-state buyers seeking centralized assets or those in areas of population growth comb Tri-Cities and San Fernando Valley, where smaller buildings are available at 5 percent to low-6 percent returns. Similar to these locales, Mid-Wilshire is home to numerous sub-\$3 million listings; however, pricing below \$500 per square foot is rare due to its proximity to Downtown Los Angeles and Silicon Beach.


## 2020 Market Forecast

- Employment**  Los Angeles' workforce expands by 64,400 individuals in 2020, after employers added 66,500 positions last year.
 

up 1.4%
- Construction**  Delivery volume will rise by nearly 2 million square feet on a year-over-year basis, upping the metro's office stock by 1.1 percent.
 

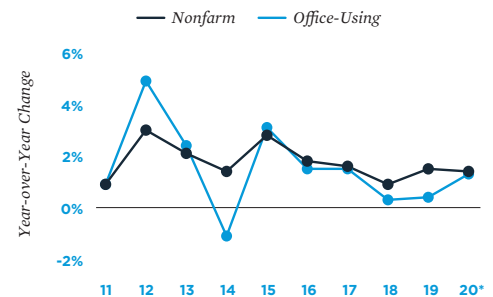
4.1 million sq. ft.
- Vacancy**  Office vacancy inches up to 13.1 percent on net absorption of 3 million square feet of space. In 2019, a reduction of 50 basis points was recorded.
 

up 10 bps
- Rent**  The metro's average asking rent climbs at a rate comparable to last year, climbing to \$41.22 per square foot.
 

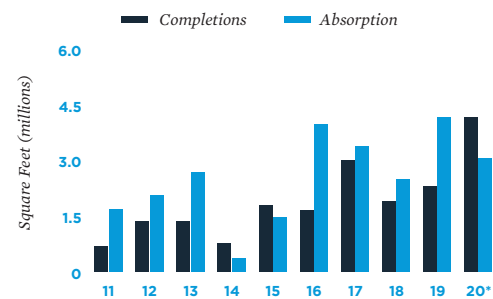
up 3.6%
- Investment**  The rapid growth of Los Angeles' education and health services sector heightens investor demand for medical office properties in Tri-Cities, South Bay and San Gabriel Valley. These areas possess inventories of Class C buildings available at low-4 percent to high-5 percent cap rates.
 

up 3.6%

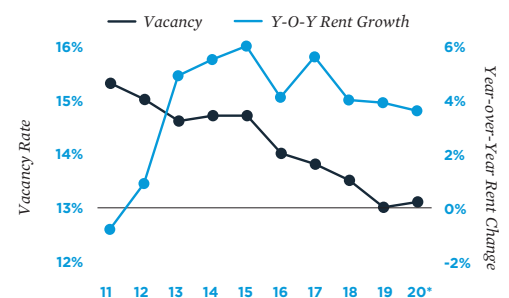
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.