

MARKET REPORT

OFFICE

Los Angeles Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

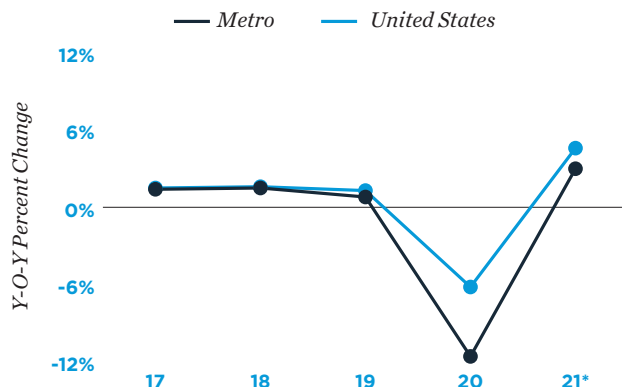
2Q/21

Expected Improvement in Post-Restriction Office Demand Tested by Deliveries and Record Vacancy

County on pace for protracted recovery. Ongoing vaccination efforts and the rollback of coronavirus restrictions have Los Angeles-based companies planning their return to in-person operations, yet the metro's office market is likely to remain challenged in 2021. Amid a span of business shutdowns that stretched into the early part of this year many tenants reduced their office footprints as leases rolled over. Others placed unused space on the sublease market. Together these decisions elevated vacancy to 17.5 percent. While leasing activity improved in the first quarter of this year, an overwhelming number of agreements were for less than 10,000 square feet. As additional businesses hash out their future space needs, sizable speculative properties and larger recently vacated spaces may struggle to secure tenants in the near term, placing upward pressure on availability.

Suburban market emerges as a bright spot. Home to a regionally lower cost of doing business and an inventory of low-rise, campus-style properties, South Bay appears further along in its recovery than other submarkets. During the first three months of 2021 vacancy in the area declined when 311,000 square feet was absorbed, ranking as the top locale in the metro during that span. Beyond Meat signed on for 280,000 square feet in El Segundo and L'Oréal inked a 70,000-square-foot lease at the same property, driving leasing activity. Additionally, Belkin International and the County of Los Angeles committed to sizable leases in South Bay cities.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**120,000
JOBS**

will be created

EMPLOYMENT:

Los Angeles County recaptures more than 20 percent of the 534,000 positions lost last year, translating to employment growth of 3.0 percent. The number of traditional office-using positions is expected to increase by 26,500 professionals in 2021.



**4,240,000
SQ. FT.**

will be completed

CONSTRUCTION:

Delivery volume matches the prior two-year total, expanding the metro's office inventory by 1.1 percent. Completions in South Bay and West Los Angeles account for roughly half the space slated for finalization.



**160
BASIS POINT**

increase in vacancy

VACANCY:

A wave of speculative construction and office tenants reducing their footprints as leases roll over expand the county's vacant stock by nearly 7 million square feet in 2021, pushing vacancy to 18.5 percent. Last year, a spike of 360 basis points was recorded.



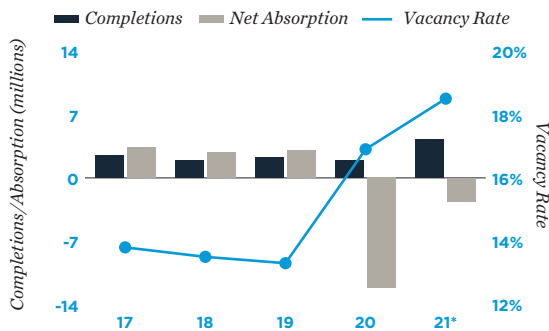
**1.4%
DECREASE**

in asking rent

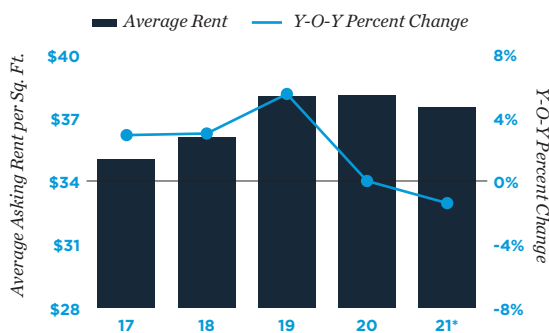
RENT:

An increase in sublease space and a rise in overall vacancy will require more landlords to offer discounts or concessions to attract tenants, lowering the average marketed rent to \$37.50 per square foot.

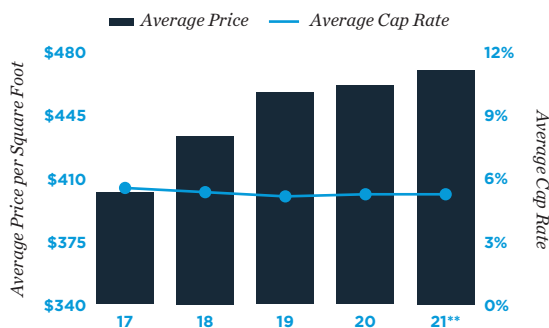
Supply and Demand



Rent Trends



Sales Trends



*Forecast **Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q21 – 12-Month Period



CONSTRUCTION

1,845,000 square feet completed

- Los Angeles' office inventory expanded by 0.5 percent over the past 12 months ended in March with nearly 70 percent of supply additions split between West Los Angeles and San Fernando Valley.
- Entering May, construction was underway on more than 7.8 million square feet of space with completions extending into 2023.



VACANCY

400 basis point increase in vacancy Y-O-Y

- The metro's vacant stock grew by 15.3 million square feet over the past year, lifting availability to 17.5 percent. All submarkets with at least 30 million square feet of space recorded 200-basis-point-plus increases.
- Class A vacancy spiked 540 basis points to 21.7 percent, while availability in the Class B/C segment rose 270 basis points to 13.7 percent.



RENT

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

- The overall average asking rent fell nominally to \$38.09 per square foot despite the mean Class A market rate rising 0.8 percent to \$42.42 per square foot.
- Among major submarkets, West Los Angeles noted the largest rent gain as 4.5 million square feet of Class A space hit the leasing market.

Investment Highlights

- After slowing through much of last year, sales activity returned to a pre-pandemic pace in early 2021 as the number of transactions closed from January through March represented the strongest quarterly deal flow since mid-2019. Still, sales velocity was down 15 percent on an annual basis during the past 12 months ended in the first quarter with investors exhibiting a preference for low-rise suburban properties.
- Average pricing increased nearly 3 percent to \$470 per square foot over the recent 12-month span, while the mean cap rate rose 10 basis points to 5.2 percent. Above-average returns were most prevalent in San Gabriel Valley, South Bay and San Fernando Valley.
- In contrast to overall sales activity, the number of medical office transactions increased 9 percent on an annual basis, with properties trading at a low-5 percent average yield. The segment's sub-10 percent vacancy rate and minimal construction pipeline have fueled strong investor demand that has translated to significant price growth.
- Mostly vacant assets or buildings positioned for redevelopment continue to attract upside-seeking investors, namely listings near existing or planned Metro stations in West Los Angeles and Mid-Wilshire.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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