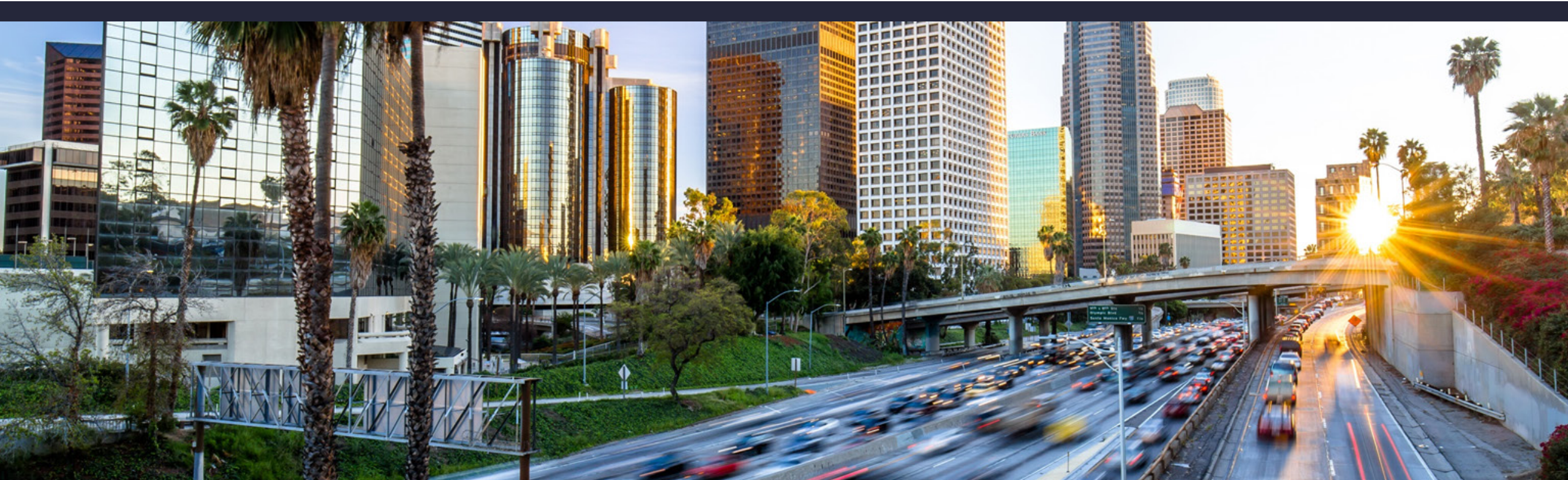




Los Angeles Office Market Analysis

August 2020



Just six months ago,

the question being asked amidst a solid decade-long economic expansion and an office market that was seeing record rental rates and building valuations was:

“Do economic expansions die of old age?”

Today,

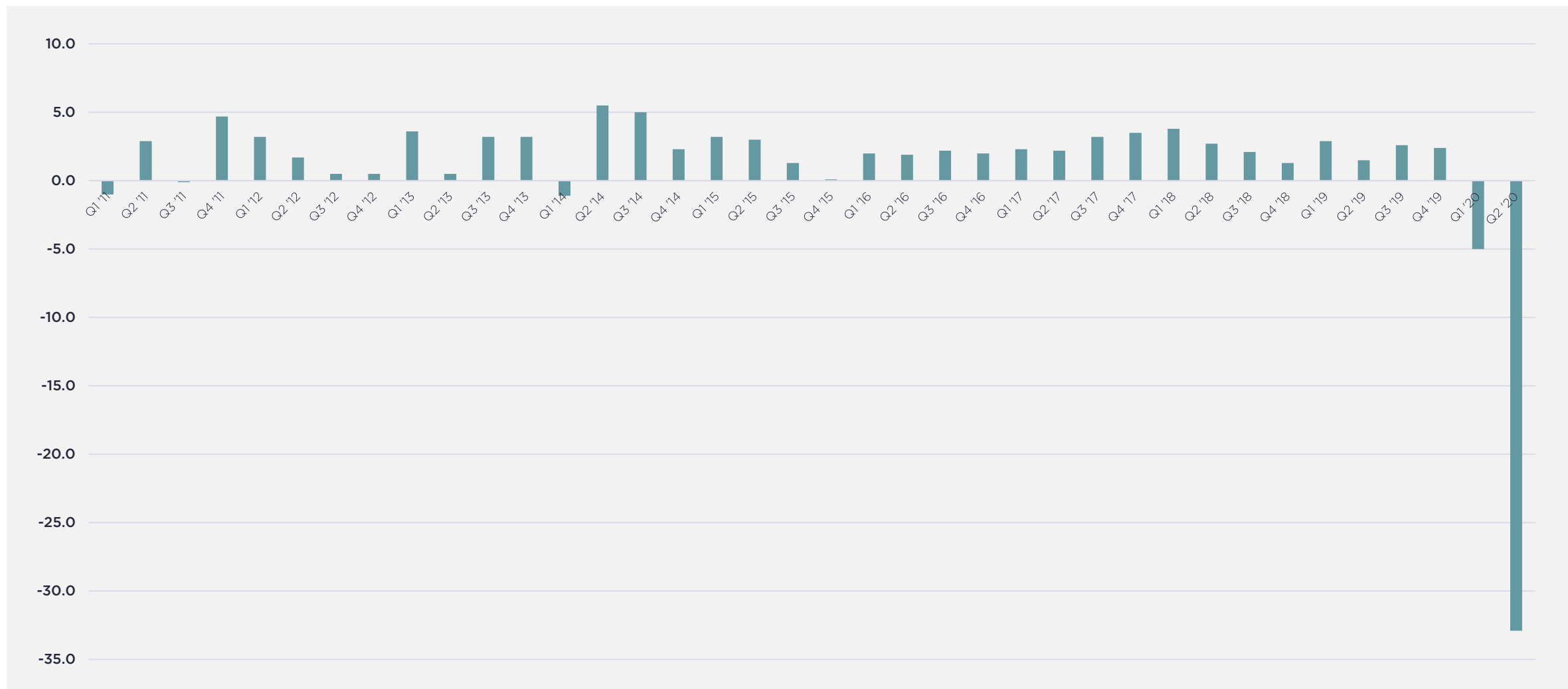
the question being asked amidst economic uncertainty and an unprecedented economic contraction is:

“When will COVID-19 go away and are we going back into lockdown?”

The Overall U.S. Economy Has Just Undergone an Unprecedented Contraction



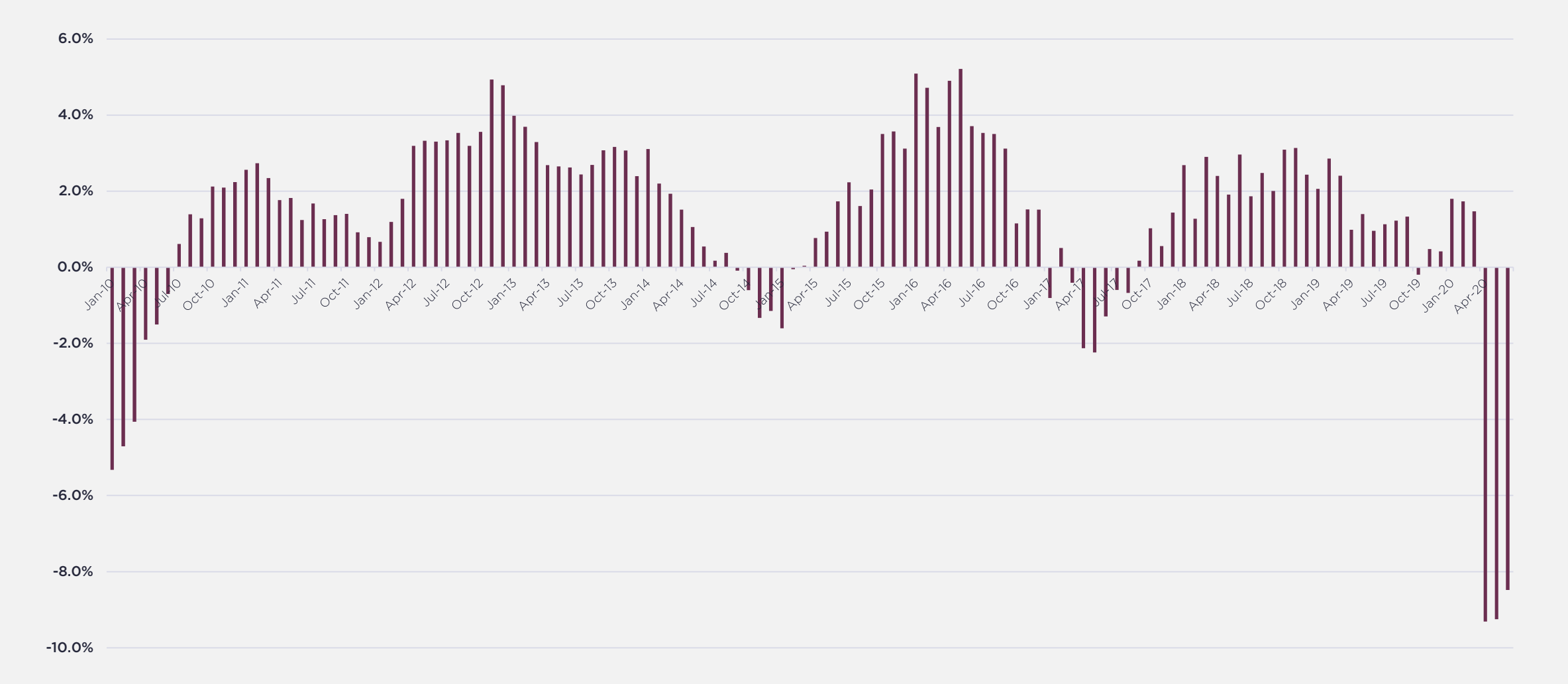
Real GDP Growth in the United States - quarterly growth of the real GDP in the United States (2011 - Present)



More Locally, the L.A. Regional Economy Has Been Heavily Affected



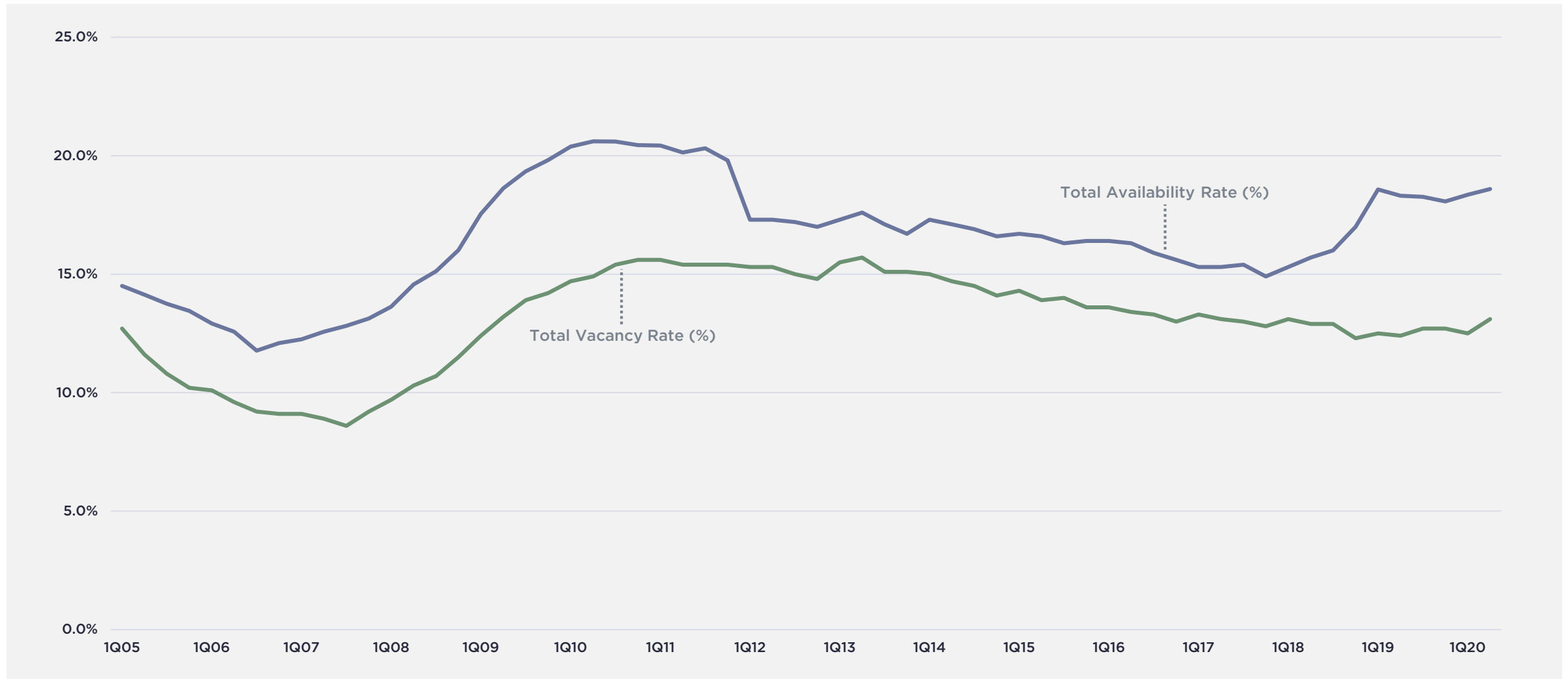
Los Angeles Job Growth - Monthly Year-over-Year Office-Using Job Growth (2010 - Present)



While L.A. Office Vacancy Rates Remain Relatively Low, Office Availability Is Rising



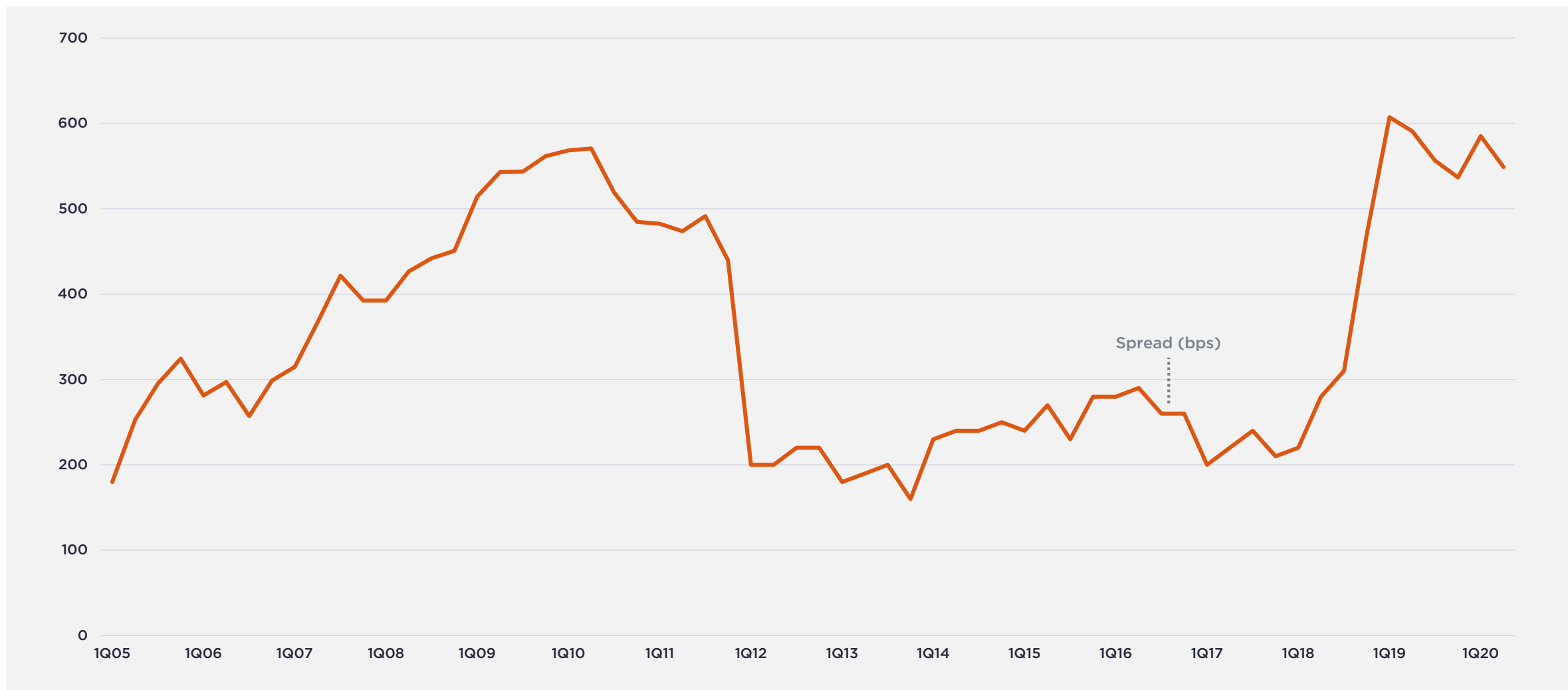
Los Angeles Office Market Availability vs Vacancy - Quarterly rates (2005 - Present)



A Rising Spread Between Office Vacancy and Office Availability Is a Leading Indicator that the Leasing Market Is Softening



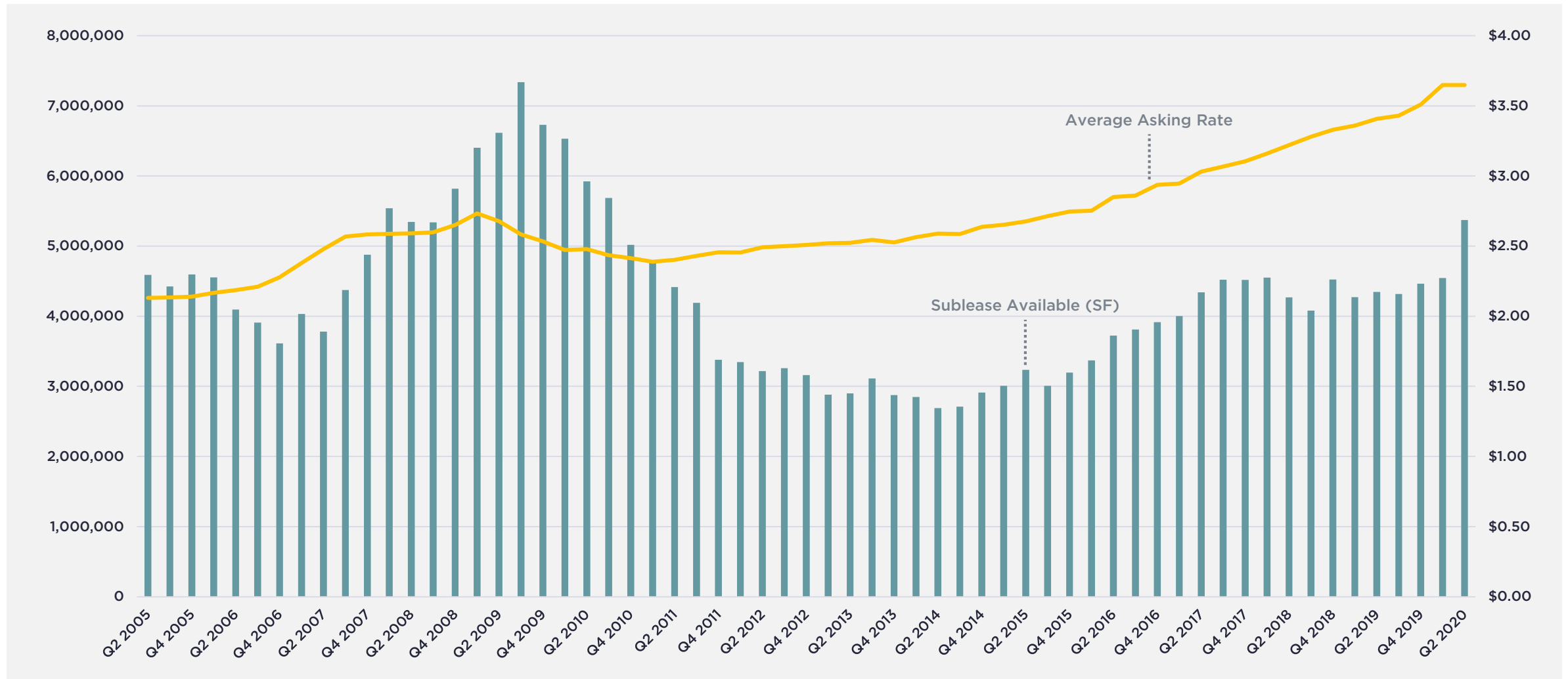
Los Angeles Office Market Spread - Quarterly rates (2005 - Present)



While Average Office Rents Haven't Decreased Yet, the Amount of Available Sublease Space Is Rising



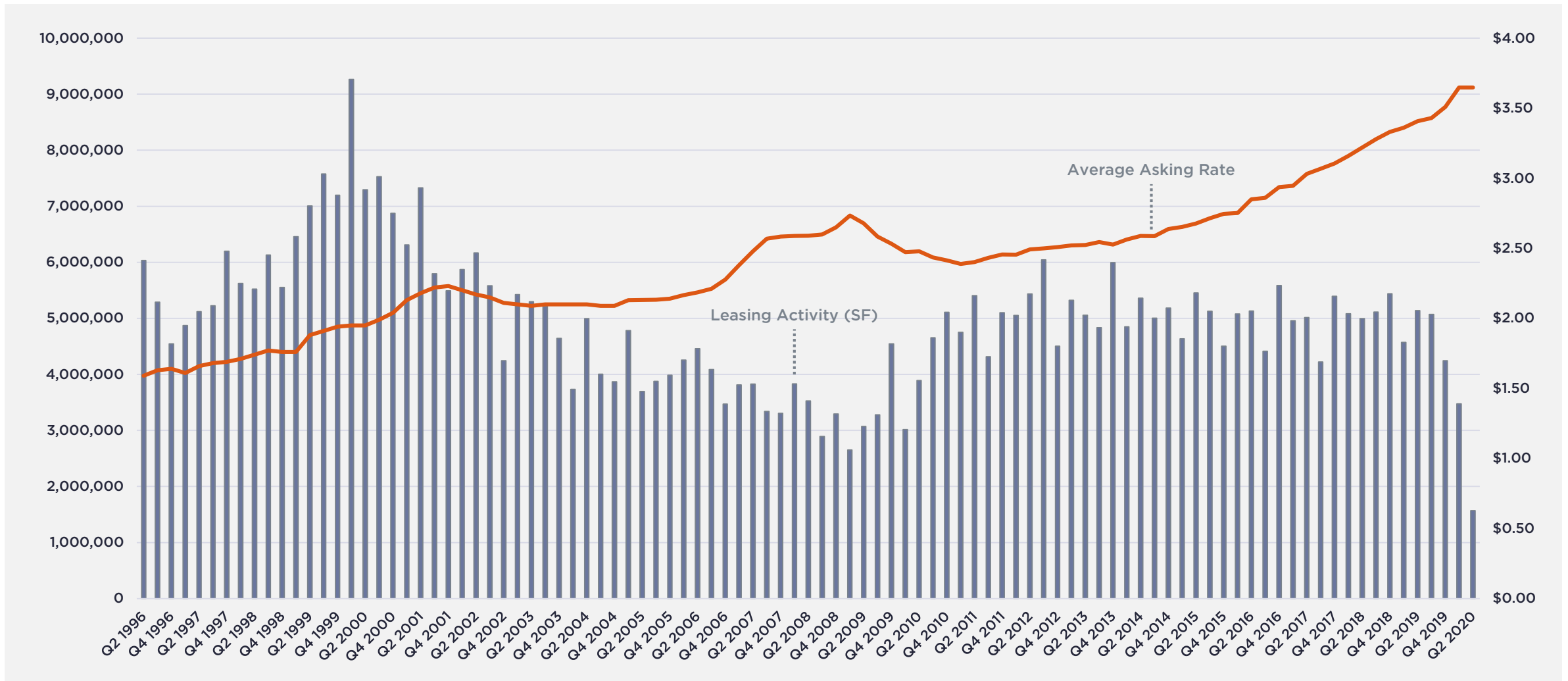
LA Office Market Historical Available Sublease Space vs. Average Rental Rate - Quarterly rates (2005 - Present)



Concurrently, Office Leasing Activity Has Plummeted



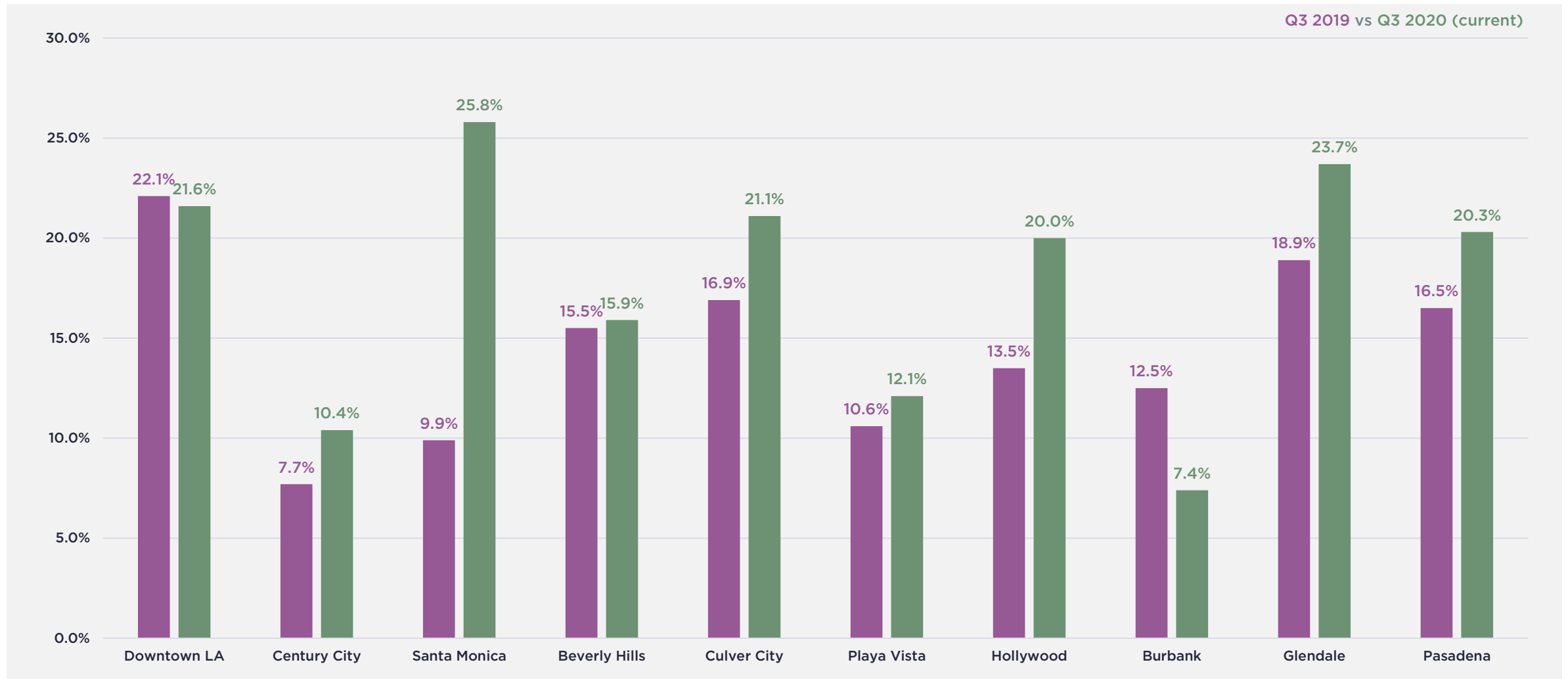
LA Office Market Historical Leasing Activity vs. Average Rental Rate - Quarterly rates (1996 - Present)



In Most Key L.A. Office Submarkets, Availability Levels Are Up From This Time Last Year



Key LA Office Submarkets Class A Availability Rates- Quarterly rates (Q3 2019 vs. Current)



However, New Office Construction Remains Constrained Compared to Previous Cycles

LA Office Market Completed Square Footage by Year - Yearly rates (2000 - Present)

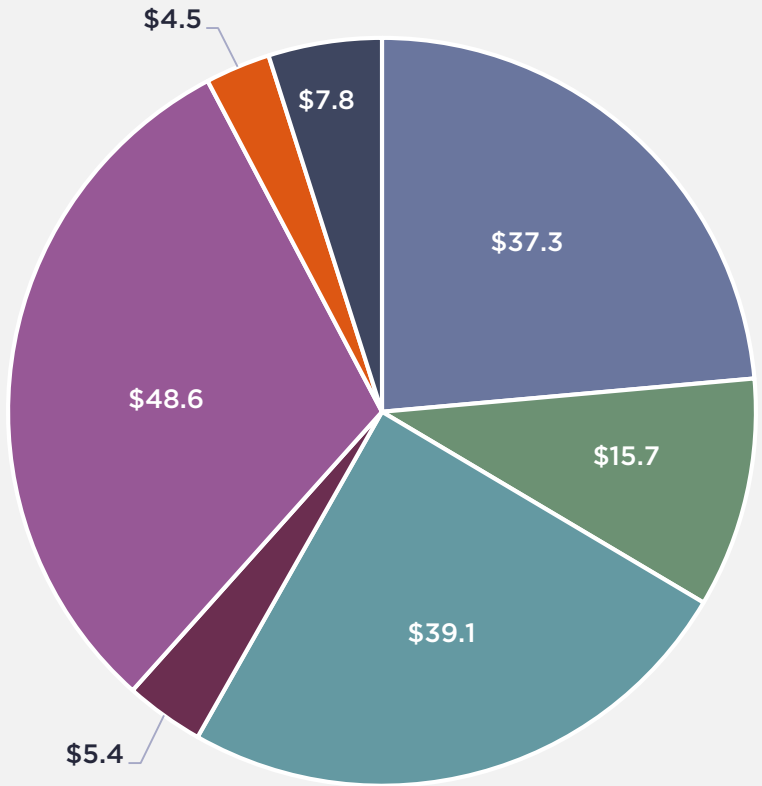


Commercial Real Estate Remains a Preferred Asset Class But Some Property Sectors Now More Favored Than Others

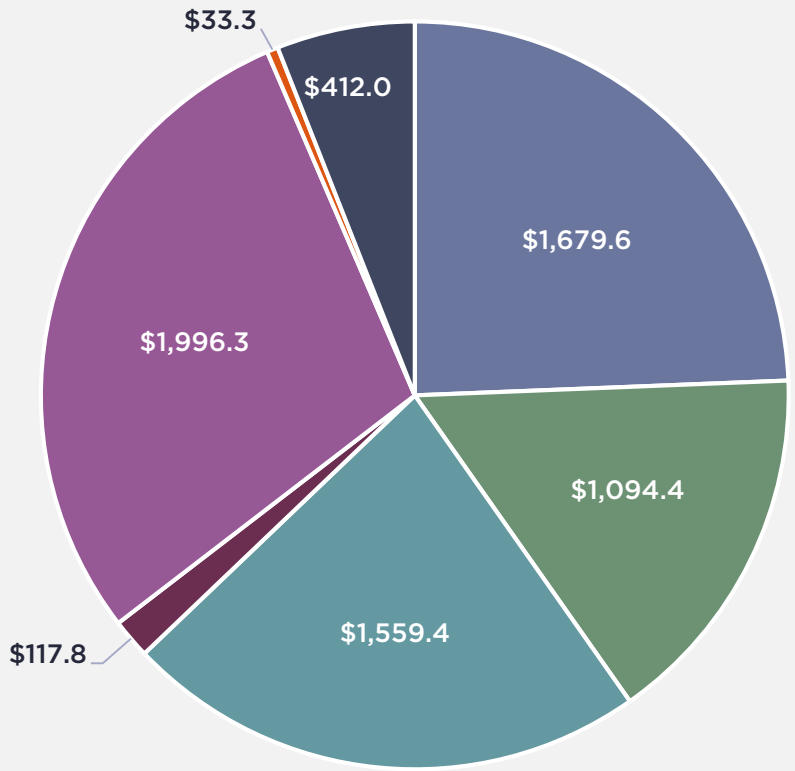


Investment Sales Volume - U.S. vs L.A. - 2020 YTD

U.S. 2020 YTD Investment Sales Volume
(\$ Billions)



L.A. 2020 YTD Investment Sales Volume
(\$ Millions)



Office Retail Industrial Hotel Multifamily Senior Housing & Care Land

Expect More Office Occupiers to Continue Their Work From Home Policies



These companies recently announced they will continue to allow employees to work from home:

Company	WFH Until
Amazon	January 2021
Box	Indefinitely
Doordash	January 2021
Facebook	Indefinitely
Gartner	January 2021
Google	July 2021
Microsoft	January 2021
Salesforce	January 2021

Company	WFH Until
Shopify	Indefinitely
Siemens	Indefinitely
Slack	Indefinitely
Spotify	January 2021
Square	Indefinitely
Twitter	Indefinitely
Uber	July 2021
Zillow	Indefinitely

Savills Take-Aways



In terms of the office leasing market, the market is currently in a period of price discovery.



With leasing activity down and expected to be low in the short-term, office landlords will be under increased pressure to drop their rents in order to compete for occupancy.



Office space densification which has been one of the 2-3 most important topics in the office sector over the past decade is expected to go back up as occupiers un-densify.



On the other hand, continued Work From Home policies are changing how companies utilize their office space. Expect reduced overall footprints, as well as possible changes in where companies decide to locate their headcount post-COVID (i.e., urban vs suburban, superstar cities vs more affordable cities, etc).



Not every company or owner will emerge from this downturn unscathed, however, the next generation of hot startups and world-beating disruptor companies are being seeded as we speak.



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