MARKET IN MINUTES

Savills Research

Q3 2020

LOS ANGELES

Leasing activity declines 18% over the quarter with tenants delaying long-term real estate commitments

Six months into the COVID-19 global pandemic, office leasing activity in Los Angeles has continued to remain low with just 1.6 million square feet (msf) leased in Q3. This total is down 18% from the previous quarter and represents a 61% decline year over year. Most occupiers are continuing to put long-term real estate decision-making on hold with short-term extensions accounting for many of the leases that did close in the quarter. With an increasing number of high-profile corporations publicly announcing their employees will be working from home until 2021, expect leasing demand to continue to be low as the path of the virus and a timetable for a vaccine remains uncertain.

Market-wide availability rate now at 20.1% as available sublease space reaches highest level in a decade

Overall availability increased 160 basis points (bps) over last quarter to 20.1% in the third quarter, marking the highest level of availability seen market-wide since 2012. Class A availability also increased 150 bps over the quarter to 19.6%. Available sublease space has surged to over 7.0 msf during the pandemic increasing nearly 50% since the lockdown began. Quoted asking rents are holding firm, even in the face of a softening market, although these are expected to decrease in the months ahead. The market's overall average asking rent ended the quarter at $3.66 per square foot (psf) per month (flat from Q2) while the Class A asking rent increased 1.8% to $3.89 psf. However, this increase in average rents was solely due to high-priced availabilities in under-construction projects, as most landlords of existing buildings have been hesitant to reduce quoted rents despite increasing downward pressure due to tepid demand and a sharp rise in availability.

The overall economy has begun growing again but it will be a long slow road to recovery in the L.A. office market

With the L.A. County unemployment rate dropping to 16.1% in August from a high of 20.9% in May, employment gains are being reported again as lockdowns are eased and businesses slowly re-open. On the other hand, there remains a great amount of uncertainty in the overall economy over fears of a second wave of infections in the fall and winter, as well as further expected office-using job losses the longer current circumstances persist . This has caused leasing demand to remain low as most occupiers still do not know what hiring needs will be over the short-term. As a result, a lower level of leasing demand will continue to put downward pressure on average rents, especially as availability increases. This includes an increasing amount of "shadow space" as more tenants make their spaces quietly available without formally marketing them.

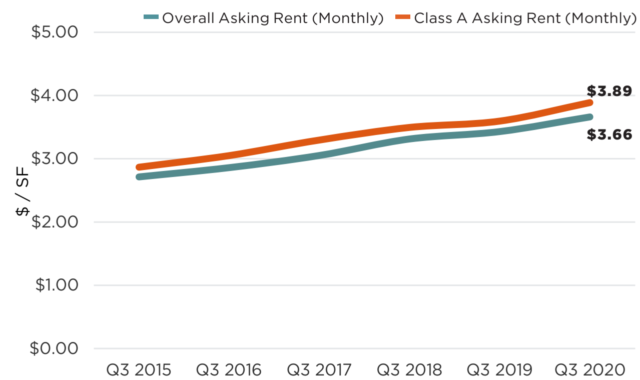
Outlook

- While average rental rates have not experienced a widespread decrease as of yet, pressure is building as landlords increasingly become more aggressive in attracting and retaining tenants
- Regulatory uncertainty is adding to larger economic uncertainty as proposed state and local legislation could compound an already-high cost of doing business
- With Hollywood studio production slowly re-opening, cautious optimism within the entertainment/media sector is expected, although full-scale film production is not likely to commence until the beginning of 2021 at the earliest

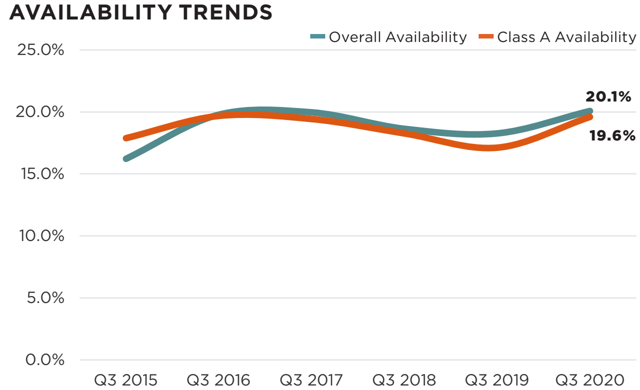
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	213.8 MSF	**214.6 MSF**	▲
Availability Rate	18.3%	**20.1%**	▲
Asking Rental Rate (Monthly)	$3.43	**$3.66**	▲
Class A Asking Rental Rate (Monthly)	$3.60	**$3.89**	▲
Quarterly Leasing Activity	4.1 MSF	**1.6 MSF**	▼

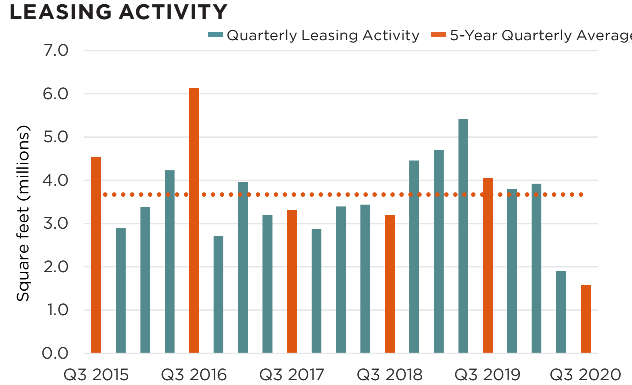
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

51.1%
top transactions were **new locations** by square footage

32.1%
of major transactions occurred in the **Burbank** submarket by square footage

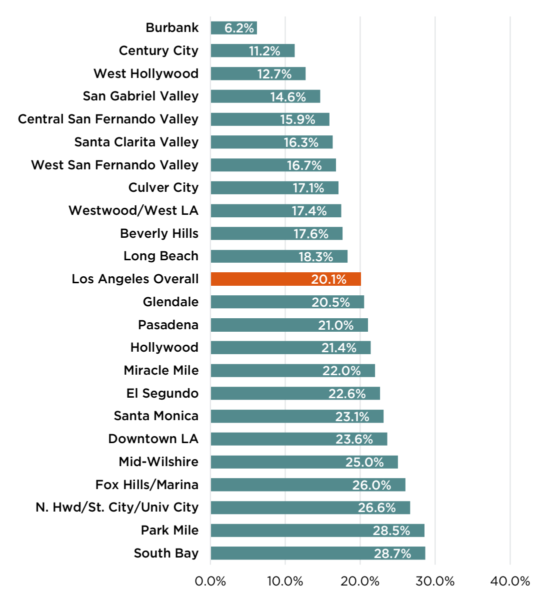
60.8%
TAMI tenants represented 60.8% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Netflix	171,000	2300 W Empire Avenue	New Location	Burbank	TAMI
Confidential	66,712	1840 Victory Boulevard	New Location	Glendale	TAMI
Universal Music Group	64,665	2100 Colorado Avenue	Renewal	Santa Monica	TAMI
LegalZoom	49,008	101 N Brand Boulevard	Extension	Glendale	Professional Services
Bolton & Company	41,605	3475 E Foothill Boulevard	Renewal	Pasadena	Financial Services
SCS Engineers	34,286	3900 Kilroy Airport Way	New Location	Long Beach	Engineering
Premier Executive Suites	28,856	11400 W Olympic Boulevard	Renewal	Westwood/West LA	Executive Suite
Carmichael International	28,777	1200 Corporate Center Dr	Relocation	San Gabriel Valley	Transportation
Yukevich Cavanaugh	25,986	355 S Grand Avenue	Extension	Downtown LA	Legal Services
Ben Group, Inc.	21,190	14724-14726 Ventura Boulevard	Relocation	Central San Fernando Valley	TAMI

Source Savills Research

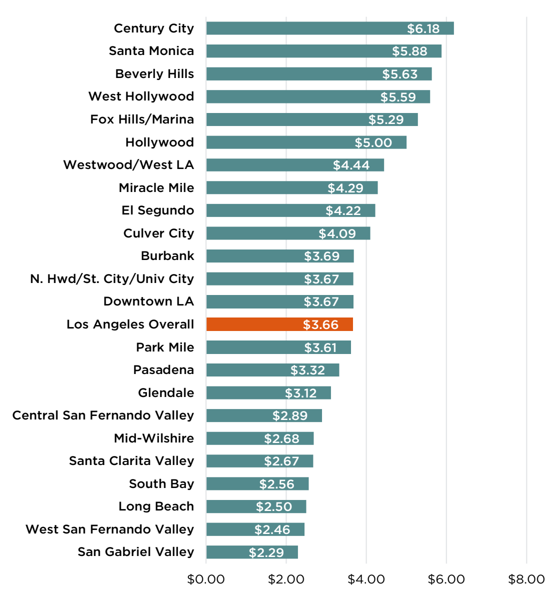
AVAILABILITY RATE COMPARISON

Los Angeles Submarkets



RENTAL RATE COMPARISON ($/SF)

Los Angeles Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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