

Los Angeles office leasing is off to an expected slow start in 2021

Despite larger leases signed by Beyond Meat and the County of Los Angeles in El Segundo and Torrance, respectively, office leasing totaled just 2.0 million square feet (msf) in the first quarter of 2021 as the pandemic continues to limit activity in the market. This was lower than the 2.1 msf of leasing activity reported in Q4 2020, down 49.1% from the 4.0 msf of leasing activity reported in Q1 2020, and down 42.4% over the previous 5-year quarterly leasing average of 3.5 msf. As Los Angeles continues to relax COVID-19 restrictions and mass vaccination is now underway, space touring has increased, and leasing activity is expected to follow as the year goes on. Tenant options will remain abundant as the market continues to see a rise in both sublease and direct availabilities.

Market-wide availability increases to a new decade-long high of 23.6%

Overall availability increased by another 110 basis points (bps) over last quarter to 23.6% - its highest level since 2009. The addition of available sublease space has been a key contributor with sublease inventory swelling by 91% to over 9.0 msf since the pandemic began. An active short-term development pipeline also continues to add new direct space to available inventory. In contrast, average asking rents remain stubbornly high, increasing to \$3.85 per square foot (psf) per month, up 2.9% over last quarter. As seen in the past few quarters, the current elevated asking rents are misleading as landlords will have to be aggressive in securing tenants in the face of softer market conditions. Concessions such as parking abatement and contraction rights have become prevalent again and are not expected to go away anytime soon.

As the economy reopens, office space demand is expected to increase - albeit slowly

With a seasonally adjusted unemployment rate of 11.5% in February, unemployment in L.A. County remains much higher than the statewide unemployment rate of 8.5%, as well as the national unemployment rate of 6.2%. On the bright side, COVID-19 business restrictions are slowly being relaxed and with pent-up consumer demand and massive federal stimulus on the way, the overall economy is almost certainly forecasted to grow as the coronavirus becomes further controlled. While all the underlying ingredients are in place for a surging economy in the second half of 2021, a glut of office space has returned to market in the past year and it will take a long time to work through the supply-demand imbalance. As a result, the Los Angeles office market will remain a tenant-favorable market for at least the next 18-24 months.

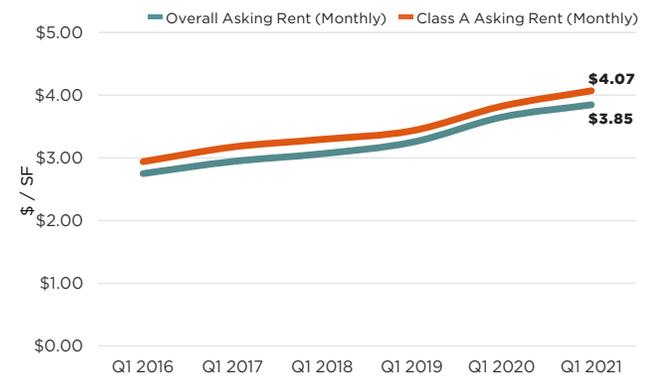
Outlook

- While most landlords have held firm on initial asking rents, we expect continued downward pressure on effective rents as concessions remain high, and continue to increase
- Marketed sublease inventory remains high, specifically in West L.A., but “shadow” availability (space which is available but not currently advertised) will be a bigger issue in 2021, especially in trophy buildings
- Even as an economic surge is expected on the other side of the pandemic, it will take time for the office market to catch up and tenants are well positioned to take advantage of current leasing conditions

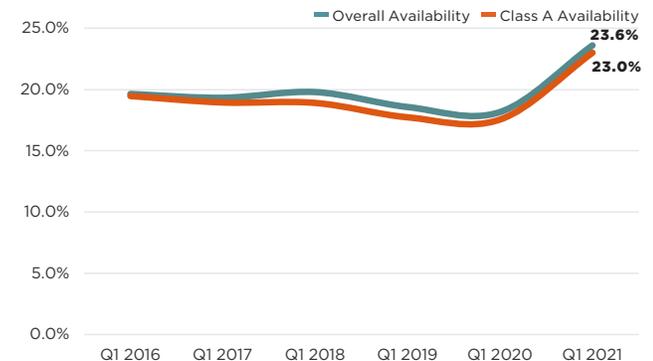
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	214.0 MSF	216.4 MSF	▲
Availability Rate	18.2%	23.6%	▲
Asking Rental Rate (Monthly)	\$3.65	\$3.85	▲
Class A Asking Rental Rate (Monthly)	\$3.82	\$4.07	▲
Quarterly Leasing Activity	4.0 MSF	2.0 MSF	▼

ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

50.8%

of top transactions were **new locations** by square footage

42.6%

of major transactions occurred in the **El Segundo** submarket by square footage

34.6%

Retail tenants represented 34.6% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Beyond Meat	281,110	888 N Douglas Street	New Location	El Segundo	Retail
LA County Department of Public Social Services	132,272	20101 Hamilton Avenue	New Location	South Bay	Government
Jones Day	109,120	555 S Flower Street	Renewal	Downtown LA	Legal Services
Belkin International	65,442	555 S Aviation Boulevard	Relocation	El Segundo	TAMI
LA Clippers	45,907	1212 S Flower Street	Renewal and Expansion	Downtown LA	Personal Services
LA County Department of Public Works	42,808	1000 S Fremont Avenue	Renewal	San Gabriel Valley	Government
LA County Department of Public Health	42,250	1000 S Fremont Avenue	Renewal	San Gabriel Valley	Government
Nossaman LLP	35,317	777 S Figueroa Street	Renewal	Downtown LA	Legal Services
Worley	32,566	1500 Hughes Way	Renewal	Long Beach	Engineering
IGN	26,835	2231 S Barrington Avenue	Relocation	Westwood/West LA	TAMI

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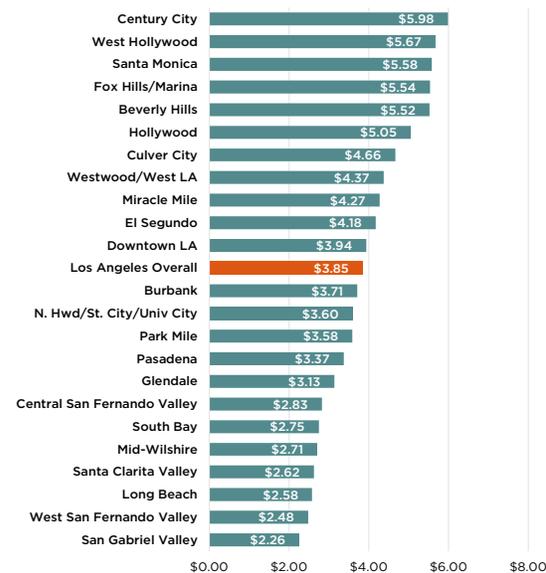
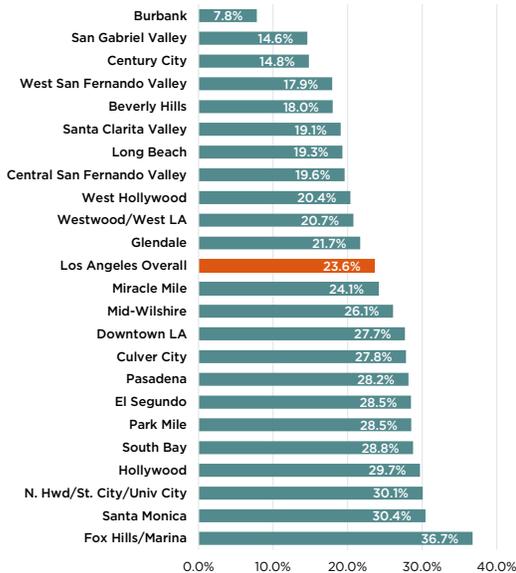
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AVAILABILITY RATE COMPARISON

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.

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