

# Los Angeles County

## Office Market Outlook Q2 2020

### MARKET OVERVIEW

The Los Angeles County office market is witnessing lower transaction volume, rising vacancy and slowed rent growth after spending Q2 2020 under a COVID-19 shutdown. Leasing volume declined 59.4% over the prior quarter, down 72.7% from Q2 2019 to 1.8M SF. During the same period sales volume fell 55.1% and 74.4%, respectively, to a mere 1M SF. Tenants are shedding excess space and trying to recoup occupancy costs through subleasing. Available sublease space increased significantly, up 1.1M SF from Q1 2020 to 6.1M SF, the largest quarterly jump on record. Year-to-date, sales and leasing volume combined was 45.2% of the total for all of 2009 in the depths of the financial crisis – indicating that if the shutdown continues in the second half of 2020, annual transaction volume could be lower than the last recession.

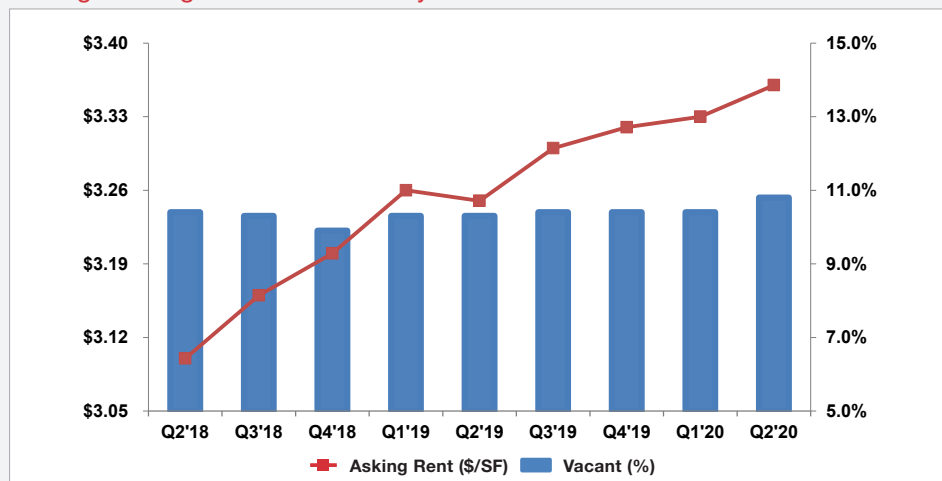
The Paycheck Protection Program, which provides businesses with funds for up to eight weeks of payroll costs including benefits, interest on mortgages, rent and utilities, appears to be working to maintain occupancy. Vacancy only increased 40 bps from Q1 2020 to 10.8% this quarter and the average rent ticked up \$0.03/SF to \$3.36/SF. Office space under construction remained at a historic high, up 46.8% from its Q2 2008 peak of 5.2M SF to nearly 7.6M SF this quarter.

### TRENDS TO WATCH

The impact of the shutdown on the office market continues to take shape. Vital office-occupier employment is expected to gradually come back. LA County employment rebounded in May, adding 8,100 jobs in Administrative & Support Services and 1,900 jobs in Management, Scientific & Technical Consulting Services.

NAI Capital conducted a COVID-19 Impact Survey of its office market professionals to get a pulse of where the market could be headed. Most office brokers (80%) believe office pricing will decline, vacancy will rise, and landlords will offer tenants more concessions. Landlords and tenants are renegotiating leases, and landlords are offering tenants rent abatement, and or deferring rent into 2021. It is interesting to note that 100% of office brokers anticipate leasing to decline while 20% think sales volume will remain unchanged as tenants and investors take a wait-and-see approach and the market adjusts.

#### Average Asking Rent\* and Vacancy Rate



### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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### Market Statistics\*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	Q2 2020 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	Q2 2020 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Central	64,610,797	1,050,564	18.0%	14.3%	395,538	1,017,189	0	41,952	\$3.23	-
Mid-Wilshire	15,962,895	468,000	17.2%	15.7%	50,778	191,899	9,560	17,358	\$2.79	\$351
LA North	60,788,790	958,319	14.0%	10.3%	361,331	1,276,175	57,049	593,330	\$2.69	\$330
San Gabriel Valley	34,944,021	94,210	8.2%	6.5%	93,992	299,438	125,242	418,421	\$2.39	\$549
South Bay	65,133,821	1,239,472	15.4%	12.0%	217,192	727,400	238,097	714,219	\$3.08	\$231
Tri-Cities	41,772,069	181,317	12.0%	8.7%	158,100	568,912	630,910	857,683	\$3.38	\$277
LA West	100,221,902	3,583,994	15.2%	9.5%	511,324	2,107,330	2,800	787,843	\$4.92	\$1,107
<b>Los Angeles County</b>	<b>383,434,295</b>	<b>7,575,876</b>	<b>14.6%</b>	<b>10.8%</b>	<b>1,788,255</b>	<b>6,188,343</b>	<b>1,063,658</b>	<b>3,430,806</b>	<b>\$3.36</b>	<b>\$305</b>

### Leasing

Quarterly leasing volume plummeted 59.4% from the prior quarter and 72.7% from Q2 2019 to 1.8M SF — the lowest quarterly volume on record. The first half of 2020 saw leasing volume decline 51.1% compared to the first half of 2019. The predicted uptick in subleasing activity did not transpire in terms of transactions as subleasing volume totaled a mere 150K SF, another record low.

Although LA West witnessed the highest leasing volume, some of the quarter's largest leasing transactions involved government tenants in the Central market. The Los Angeles Department of Water and Power leased 132K SF in Westlake and the Los Angeles Homeless Services Authority signed on for 58K SF at AON Center in the Downtown LA Financial District at an asking rate of \$1.92/SF NNN.

### Sales

Total market sales activity dropped 55.1% from Q1 2020 and 74.4% year over year to just over 1M SF valued at \$324M. This was the lowest quarterly sales volume since Q1 2010 and brought the total for the first half of 2020 to 3.4M SF sold, down 51.2% compared to the first half of 2019. The average sales price registered \$305/SF while the average cap rate on investment sales \$2M+ dipped 30 bps from Q2 2019 to 4.7%.

Investors focused on value-add opportunities this quarter. Atlas Capital Group purchased the 315K SF asset at 101 S. Marengo Ave. in Pasadena for \$72M or \$229/SF. Bank of America vacated the space in 2019 and Atlas Capital will completely renovate to create one of the Tri-Cities' premiere office buildings.

### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Los Angeles Dept. of Water and Power	233 S. Beaudry Ave.	Central	TBD	132,000
Facebook	12105 W. Waterfront Dr.	LA West	\$4.65 NNN	85,000
The Los Angeles Homeless Services Authority	707 Wilshire Blvd.	Central	\$1.92 NNN	58,353
Kaiser Permanente	4900 Rivergrade Rd.	SGV	\$2.70	18,213
Seven Corners Insurance Solutions	21241 S. Western Ave.	South Bay	\$2.65	11,503

### Select Sales Transactions

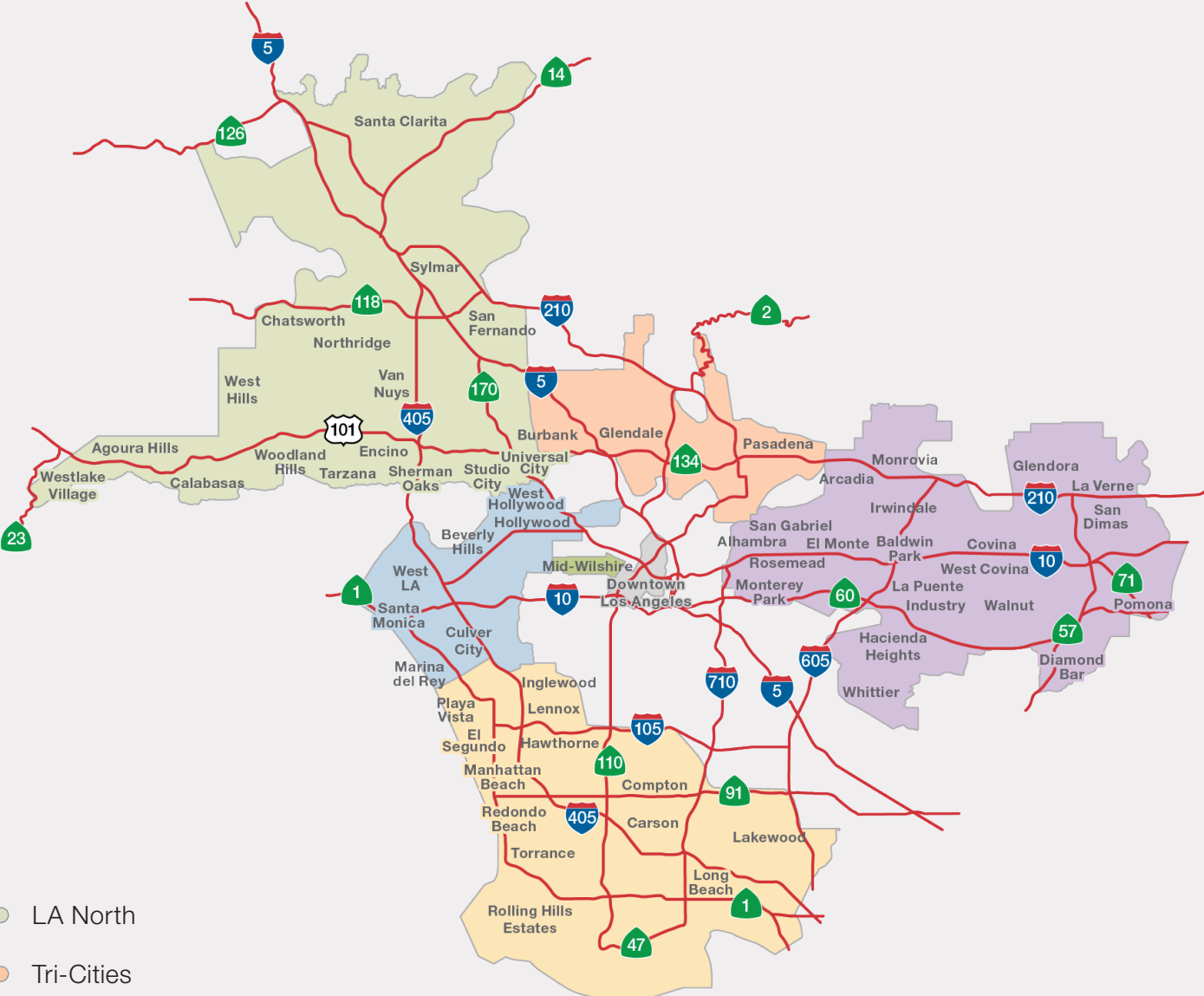
BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Atlas Capital Group, LLC	101 S. Marengo Ave.	Tri-Cities	\$229	315,000
Omninet Capital	2355 - 2377 Crenshaw Blvd.	South Bay	\$188	207,281
IRA Capital, LLC	420 W. Rowland St.	SGV	\$633	62,969
21100 Erwin Street LLC	21100 Erwin St.	LA North	\$311	41,058
Alliant Strategic	7334 Topanga Canyon Blvd.	LA North	\$235	34,884

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COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE



- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

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### NAI Capital Southern California Office Locations

#### Headquarters

15821 Ventura Blvd., Ste. 320  
Los Angeles, CA 91436  
818.905.2400

#### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

707 Wilshire Blvd., Ste. 5125  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

25060 Avenue Stanford, Ste. 165  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Ave., Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566