LOS ANGELES

EXECUTIVE SUMMARY

- Despite consistent deliveries of office product to the market, vacancy is continuing to decrease, indicating not only market health but the heavy demand for office spaces with no KPI's suggesting a decrease.
- In desirable submarkets, particularly on the Westside and Downtown, preleasing space has become much more prevalent and necessary to lock larger blocks of space as the market is experiencing record low vacancy.
- Robust investment volume across all product categories has fed into the development boom happening across Los Angeles County; and with the high demand for office space across Los Angeles County, leasing activity is expected to continue to increase as product is delivered to market.

Development in the Los Angeles County office market continues to increase with 344% more product delivered in the third quarter of 2019 than the second quarter, with an additional 957,387 SF under construction. There has been a geographic shift to more affordable markets, the Tri City Submarket cluster being an example.

With a continuous influx of highly sophisticated companies and over $12 billion invested in commercial real estate near the end of 2019, not only has Los Angeles established itself as a predominate commercial real estate investment hub it also has cemented its reputation as a destination attracting extremely skilled labor. With an adjusted unemployment rate remaining steady at 4%, a winning bid to host the 2028 Olympics, and massive amounts of market supported development across all product types, Los Angeles County will foreseeably experience consistently high leasing activity. Tertiary submarkets with higher vacancy will likely continue to attract redevelopment as hot spots for "Live, Work, Play" neighborhoods. Los Angeles has been at the forefront of cannabis product development since its emergence in the U.S., and the commercial real estate market is reflecting that with cannabis specific development happening across the county.

The office market has continued to see high demand for product. Major anchor tenants have resorted to preleasing large blocks of space in on going developments well before completion and delivery to market. This has proven to be a necessity in desirable Westside submarkets, as a growing number of available spaces are under 3,000 sf.

The retail sector did see a marginal decrease in investment volume, year-over-year in 2019, but historically the retail sector sees the most fluctuation in investment volume. E-commerce once considered the "death" of brick and mortar retail, has begun to incorporate brick and mortar store back into their product distribution. Reformation, (Los Angeles Retail Store) allows their customers to put a cart together online but come into the store to try on the clothes in person, allowing the customers to start the process online and finish in the store. The retail sector continues to dynamically adapt to changes in consumer preference.

The multi-family sector is booming in the Los Angeles Market. Areas like the Arts District have attracted major tenants like Spotify and Warner Music Group. The employment opportunities offered by those tenants has drawn residential developers to the same neighborhoods with the intent of creating "Live, Work, Play" communities. This trend is exemplified by the Historic West Adams neighborhood which is currently undergoing revitalization with the intention of the final product delivered to be the same type of "Live, Work, Play" community.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

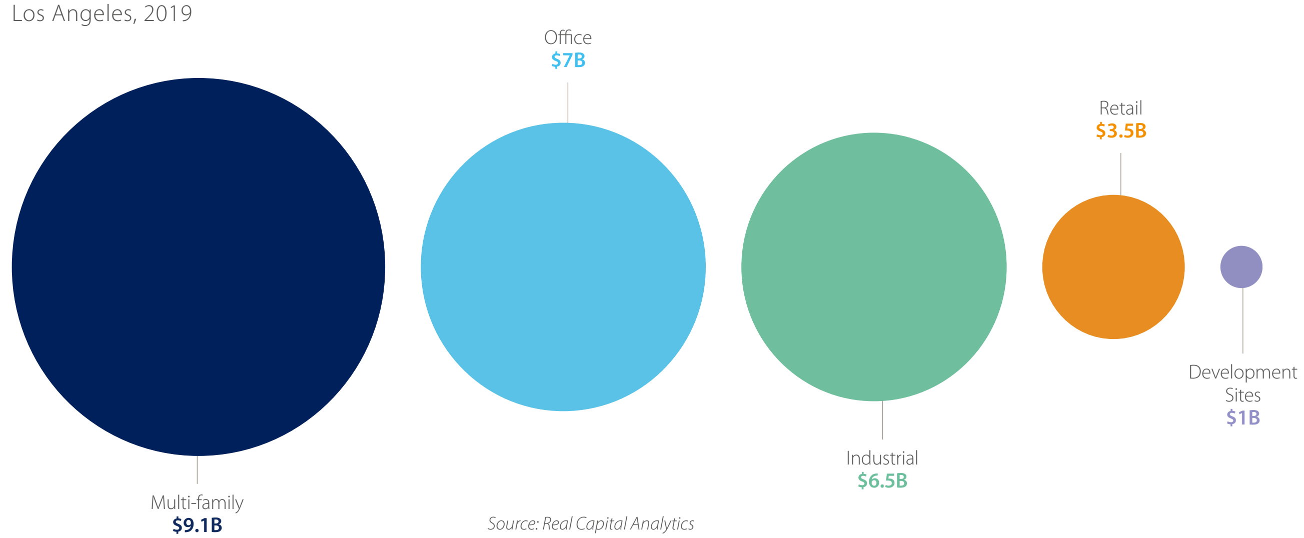
Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑
Vacant Space	↓	↓	↓
Construction Levels	↓	↓	→
Leasing Volume	↑↑	↑	↑
Investment Volume	↑	↑↑	↑

Investment volume in the industrial sector increased by 33% in 2019 over the previous year in Los Angeles County. The two driving factors contributing to this abrupt increase, unique to Los Angeles, are the high demand for studio spaces from major production studios and the increasing attraction of flex space for office users. These are generally tech and engineering companies where an R&D component is necessary.

TOTAL SALES VOLUME

Los Angeles, 2019



Source: Real Capital Analytics