



VIEWPOINT

Coming Attraction: The Investment Appeal of Entertainment Production Facilities

HOLLYWOOD

CBRE

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EXECUTIVE SUMMARY

- As the media & entertainment industry enters an era of accelerated demand, production facilities are an increasingly attractive commercial real estate investment.
- Most of the 11 million sq. ft. of sound stage space in North America is concentrated in filming hubs like Los Angeles and Georgia. Los Angeles alone accounts for half of this inventory.
- Institutional investors have been increasingly attracted to the sound stage sector over the past decade, creating a burgeoning new asset class within commercial real estate.
- The entertainment industry is a major space occupier and employs more than 3 million people in the U.S. COVID-19 restrictions that have limited entertainment production caused a temporary decrease in industry employment but demand for production space has been growing rapidly, largely due to a pandemic-related 74% year-over-year increase in streaming video demand.
- Film production locations are increasingly far-flung, as tax incentive programs have helped states like Georgia and Louisiana become major production centers. However, traditional entertainment hubs like Los Angeles and New York remain prime sources of industry talent.



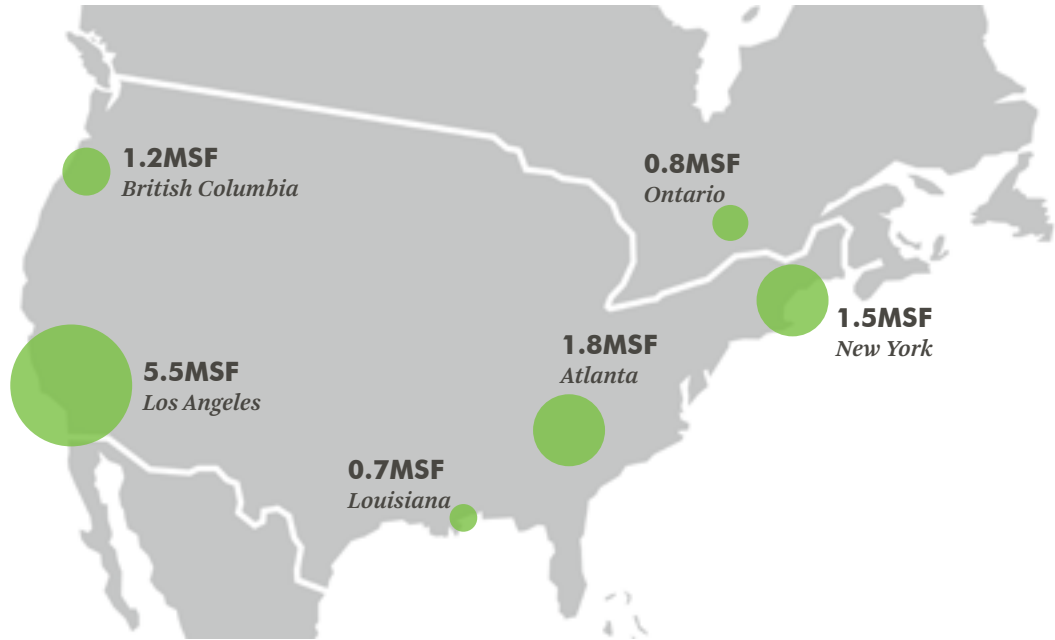
INTRODUCTION

The entertainment industry has long been synonymous with Los Angeles—the home of Hollywood, movie stars and major studios. It is, after all, where the movie industry began and it has remained the epicenter of global entertainment output for well over a century. But as movie production becomes more expensive, content production becomes ubiquitous and indoor production space grows scarcer, the magic of Tinseltown is expanding to other U.S. markets.

This CBRE Viewpoint details the breadth of production space (commonly known as sound stages) across North America and complements CBRE’s recent report on the Los Angeles production scene. Sound stages have often been overlooked as attractive commercial real estate assets due to the relatively small size of the sector’s footprint, but the dynamism of content creation and the expanding reach of institutional capital is changing this. Indeed, sound stages have become a burgeoning asset class among institutional investors over the past decade.

PRODUCTION SPACE IN AN EVOLVING CONTENT LANDSCAPE

Figure 1. Major North American Markets By Production Space Footprint



A production space,¹ also known as a sound stage, generally is a facility for filming movies and television programs. Sound stage space across North America totals more than 11 million sq. ft., most of it in filming hubs like Los Angeles and Georgia. Los Angeles alone accounts for half of this total with 441 sound stages operated by 64 film and television studios.

These production spaces have long been overlooked as investment assets due to their ownership structure, limited inventory and intensive operating model. However, institutional investors have been increasingly attracted to the sound stage sector over the past decade, catalyzing their rapid evolution as an asset class.

The advent of streaming video has created seemingly insatiable demand for content that presents unique opportunities for real estate investors. The top five streaming companies invested a staggering \$25 billion in new productions in 2019 alone, resulting in intense competition for any available filming space as e-commerce and logistics companies operators jostle for the same industrial facilities by film and television

Source: "Casting Call: Los Angeles's Starring Role in the Evolving Production Landscape," CBRE Research, Q3 2020

1. "Sound stages" or "production space" is defined as a structure dedicated to filming movies, television, music videos, streaming content, and more. Standing sets, back lots, on-site locations, ranches, office complexes, production mills, post-production space, and sound mixing labs were excluded.

studios. Occupancy rates for production space in most major markets have been well above 90% for several years.

Simultaneously, the large amount of capital entering the sound stage market has also helped to shift the competitive landscape. Over the past decade, well-heeled institutional investors and operators have moved sought to build portfolios and standardize operations of production space. Hudson Pacific Properties and Hackman Capital have been especially active in large acquisitions. For example, Hudson Pacific sold a 49% stake in three Hollywood studios and five on-lot or adjacent Class A office properties to Blackstone at a valuation of \$1.69 billion. And Hackman Capital recently acquired New York's iconic Silvercup Studios.

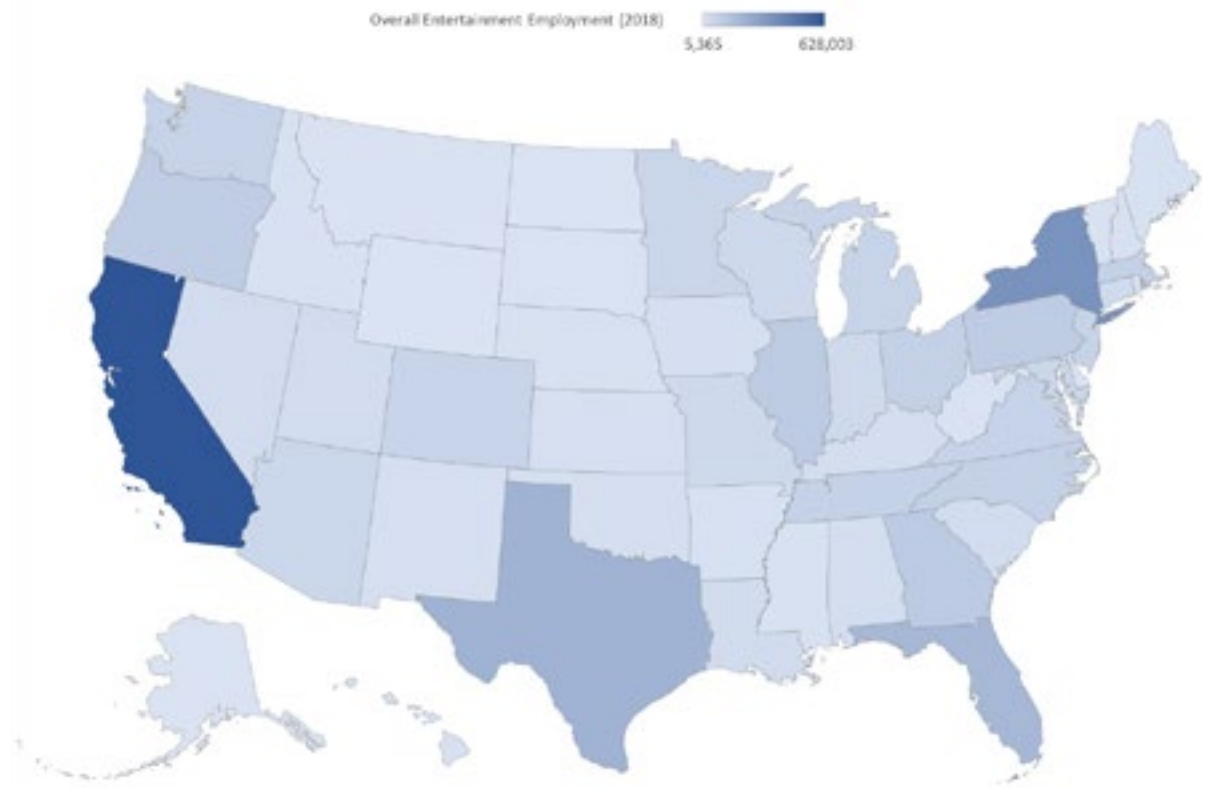
Much as in other emergent commercial real estate asset classes over the past several decades, the influx of capital to production studios has driven standardization across the sector. As a result, production sector cap rates have begun to converge with those of other more liquid asset classes.



ENTERTAINMENT EMPLOYMENT GROWTH

The U.S. is the world leader in media creation. In 2018, more than 3.4 million people were employed in the U.S. entertainment industry,² representing approximately 2.3% of the nation’s total workforce. Over the past decade, the evolution of the entertainment industry—especially the rise of streaming video on demand (SVOD) and consumer demand for more content—has led to broad-based employment growth. From 2010 to 2018, U.S. entertainment sector employment grew by 20% or nearly 670,000 jobs.

Figure 2: Entertainment Industry Employment Density By State



1 “Production space” is defined as a structure dedicated to filming movies, television, music videos, streaming content and more. Standing sets, back lots, on-site locations, ranches, office complexes, production mills, post-production space and sound mixing labs were excluded.

2 The “entertainment industry” includes the following NAICS Association industry codes: 512 — Motion Picture and Sound Recording, 515 — Broadcasting (excluding internet) and 711 — Performing Arts and Spectator Sports. Source: LAEDC, California Employment Development Department (CA EDD), Q3 2020.

Source: U.S. Department of Commerce – Bureau of Economic Analysis (BEA), CBRE Research, Q3 2020.

As the home of Hollywood and many of the most prominent media brands, California has the largest entertainment employment base totaling more than 628,000 (up by 97,000 between 2010 and 2018). New York is the second largest entertainment market, employing nearly 360,000 people (up by more than 48,000 between 2010 and 2018). In recent years, other states have emerged as rich sources of entertainment talent. Texas, for example, had the second highest amount of entertainment jobs added since 2010 (53,011) and has quickly risen to the third largest market for entertainment-related professions.

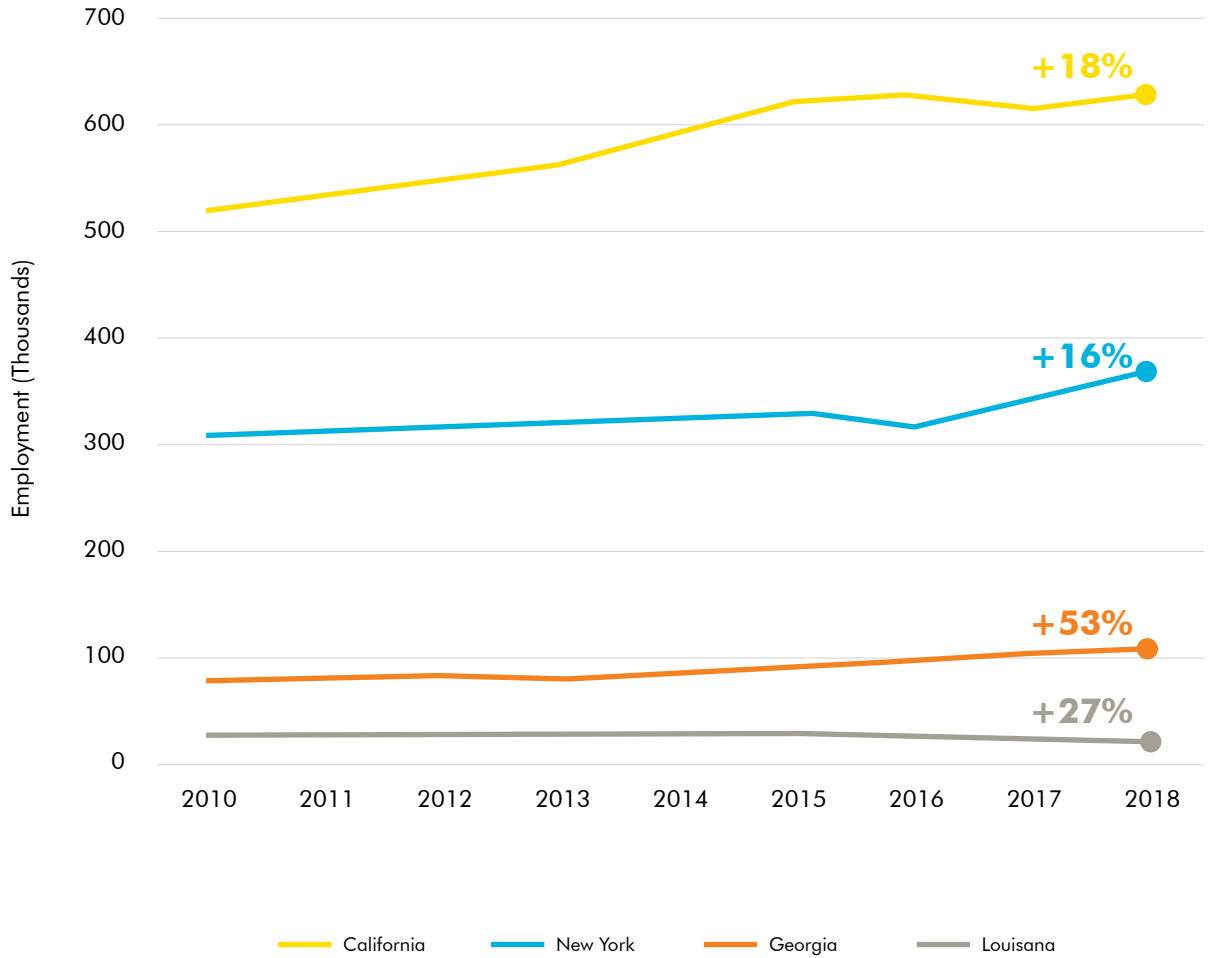
Figure 3: State Rankings By Total Entertainment Employment & Employment Growth

| Rank | State | Total Employment | Rank | State | Total Employment |
|------|----------------|------------------|------|----------------|------------------|
| 1 | California | 628,003 | 1 | California | 96,817 |
| 2 | New York | 358,120 | 2 | Texas | 53,011 |
| 3 | Texas | 216,548 | 3 | New York | 48,854 |
| 4 | Florida | 192,666 | 4 | Florida | 47,101 |
| 5 | Illinois | 112,150 | 5 | Georgia | 37,936 |
| 6 | Georgia | 109,858 | 6 | Oregon | 23,628 |
| 7 | Pennsylvania | 105,005 | 7 | North Carolina | 22,200 |
| 8 | Oregon | 99,922 | 8 | Tennessee | 20,772 |
| 9 | Massachusetts | 86,460 | 9 | Massachusetts | 20,508 |
| 10 | North Carolina | 86,358 | 10 | Pennsylvania | 19,765 |

Markets with a relatively high supply of indoor filming space have, in turn, reported increases in entertainment industry employment.

Source: U.S. Department of Commerce – Bureau of Economic Analysis (BEA), CBRE Research, Q3 2020.

Figure 4: Entertainment Employment Growth In Biggest U.S. Filming Hubs

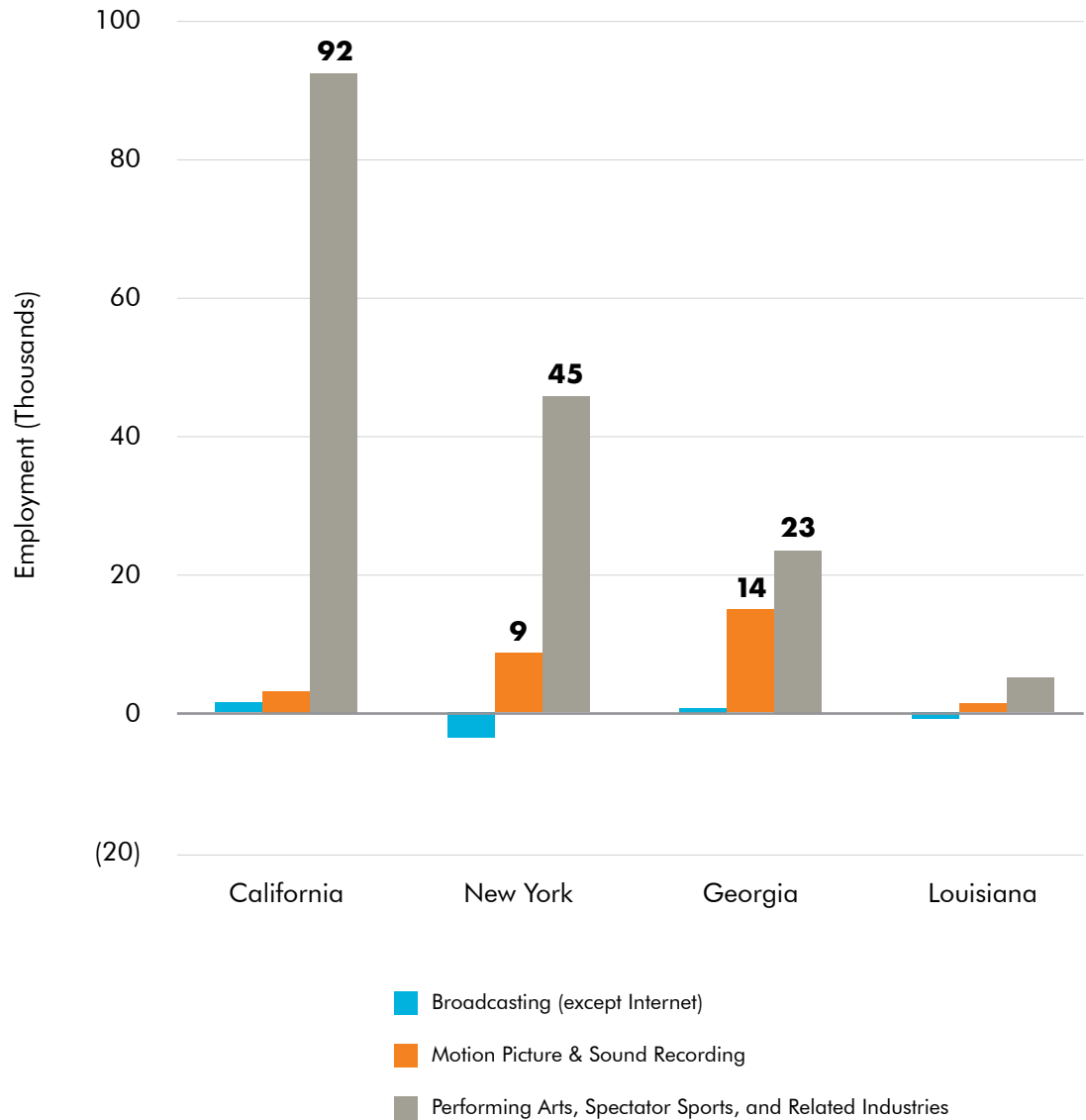


Despite the explosion of filming in other locales, California and New York remain the undisputed leaders in entertainment employment and the preferred home of both on- and off-screen talent. Accordingly, entertainment producers want to be close by.

The use of tax incentives has jump-started growth of filming in other markets like Georgia, which has become a hub for feature-length films that require entertainment talent to temporarily relocate. As a result, Georgia’s movie and sound production employment base has grown by 161% or 14,275 jobs between 2010 and 2018, compared with New York’s 14% gain of 9,034 jobs over the same period.

Source: U.S. Department of Commerce – Bureau of Economic Analysis (BEA), CBRE Research, Q3 2020.

Figure 5: Entertainment Employment Growth By Major Filming Hubs & Industry Category, 2010–2018



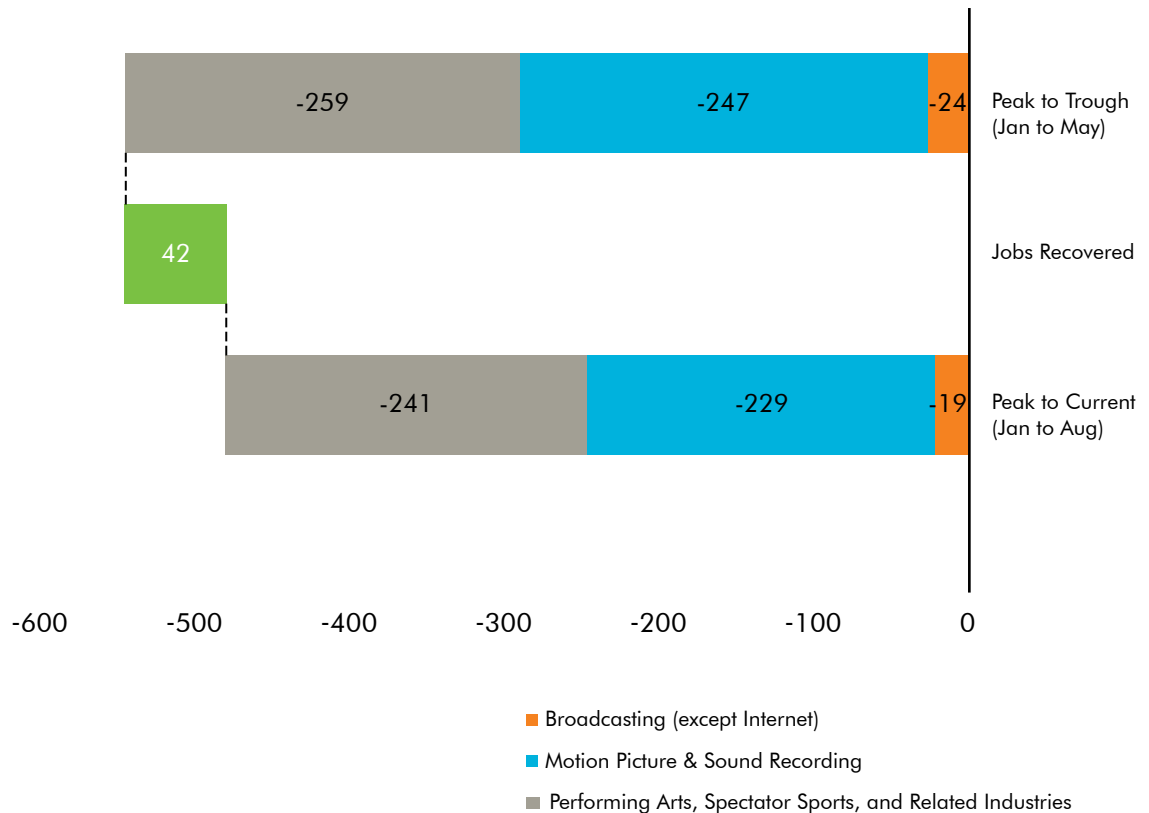
Overall entertainment talent—actors, writers, directors and producers—has grown across all regions. California added more than 92,000 performing jobs between 2010 and 2018, an increase of 30%. New York and Georgia also added an impressive amount of entertainment talent as well, increasing their performing arts labor pools by 44,724 jobs and 23,049 respectively.

Source: U.S. Department of Commerce – Bureau of Economic Analysis (BEA), CBRE Research, Q3 2020.

COVID-19 IMPACTS

Television and movie production abruptly stopped beginning in mid-March due to COVID-19 restrictions, causing a sharp decline in entertainment employment.

Figure 6: Covid-19 Impact On U.S. Entertainment Industry Employment



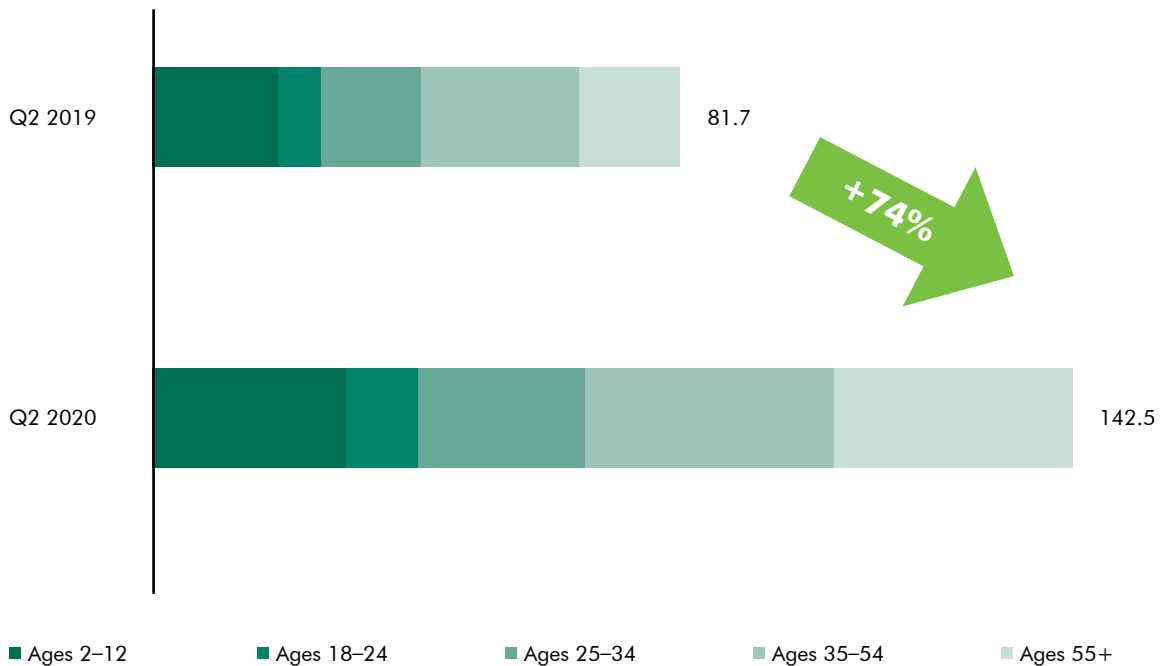
These job losses likely are temporary given pent up demand, and many stalled productions have since resumed. In mid-July, New York allowed production crews no larger than 50 people to resume work. Pinewood Atlanta, the largest studio in Georgia, plans to reopen this fall with stringent safety guidelines for its production crews.

Source: U.S. Bureau of Labor Statistics (BLS), CBRE Research, Q3 2020.

EXPLOSIVE GROWTH OF VIDEO STREAMING

A sea change in how consumers access content is underpinning the growing investor interest in sound stage facilities. The rise of video streaming has dramatically reshaped the entertainment landscape, as media firms and tech companies vie for market share and access to production space. The top five streaming companies invested a staggering \$25 billion in new productions in 2019 alone. COVID-19 restrictions have accelerated consumers’ shift to streaming platforms, causing a 74% year-over-year increase in video streaming that now constitutes 25% of all TV viewing.

Figure 7: Average Weekly Streaming Minutes by Age (Billions)



In Los Angeles alone, streaming companies occupy 3.7 million sq. ft. of office space—up by 1.8 million sq. ft. in just four years.

The explosion in filming to meet consumer demand has led observers to describe the current era of media as “the golden age of content.” Moreover, the robust demand appears unlikely to wane in the near term given the backlog in production caused by COVID-19 restrictions. This has caused intense competition for any available indoor production space to support content development driven by dynamic new entrants to the media industry.

Source: <https://www.nielsen.com/us/en/insights/article/2020/streaming-video-aug-2020-milestone/>

INCENTIVES & THE GLOBAL PRODUCTION ECOSYSTEM

Major film productions increasingly are taking place in far-flung locations, but traditional markets like Los Angeles and New York City remain the central hubs for media and entertainment. Emerging film locales like Georgia and Louisiana have heavily leveraged tax incentive programs to catalyze their nascent media and entertainment sectors.

Figure 8: Summary Of Tax Incentives By Major Filming Market

| | | California | Georgia | New York | British Columbia | Ontario | Louisiana |
|----------------------------|----------------------------------|--|----------------|-----------------|-------------------------|----------------|------------------|
| Feature Films | Theatrical Features | 62 | 36 | 57 | 16 | 4 | 6 |
| | Streaming Features | 11 | 3 | 13 | 3 | 2 | 2 |
| | Total Features | 73 | 39 | 70 | 19 | 6 | 8 |
| Tax Credit Characteristics | Sound Stage SF | 5.5 MSF | 1.8 MSF | 1.5 MSF | 1.2 MSF | 0.8 MSF | 0.7 MSF |
| | Tax Credit Amount (For Features) | 20% (non-indie); 25% indie | 20% | 30% | 28% | 21.5% | 25% |
| | Credit Type | Non-transferable (non-indie); Transferable (indie) | Transferable | Refundable | Refundable | Refundable | Refundable |
| | Sunset Date | 2025 | None | 2022 | None | None | None |
| | Annual Cap (US\$) | \$330 Million | None | \$420 Million | None | None | \$150 Million |

The lion’s share of film budgets is for post-production and “above-the-line” costs (on- and off-camera creative talent) that production studios frequently find difficult or impossible to renegotiate. “Below-the-line” costs of hourly labor and filming are easier to reduce. And the most effective way to do this is by moving the production out of high-cost markets to those with lower labor rates, cheaper rents and favorable tax policies. Despite the economic advantages to low-cost markets, talent is more apt to film out-of-state for a feature film as opposed to a television shoot, as movie filming typically lasts between 1–2 months.

Source: CBRE Research, Q3 2020.

In years ahead, the North American film industry should become more interconnected as content production, post-production and management become more globalized. Amid this evolution, the key entertainment hubs are adding more professional services in support of the global entertainment ecosystem. For example, Los Angeles's explosive employment growth of promoters, agents and managers (up 140% since 2010) has outpaced its 35% increase in performers over the same time, reflecting the city's central role in providing total film production infrastructure.

Amid this evolution, the key entertainment hubs are adding more professional services in support of the global entertainment ecosystem.

ADAPTIVE RE-USE ACCELERATES

The surge in content production and proliferation of streaming platforms has driven intense demand for regional production space. With sound stage vacancy rates consistently in the low single-digits and steadily climbing rental rates in the most in-demand locations, production companies have increasingly sought alternative filming locations.

At its most basic, the physical requirements for effective sound stage space (e.g., high ceilings and large unobstructed floorplates) closely resemble those of the average industrial building. Certain building characteristics are unique to sound stages, particularly sound proofing and suspended weight loads. For less demanding productions, traditional industrial space often will suffice. As a result, many industrial properties are of interest to production companies and investors.

In predominantly infill markets like Los Angeles and New York, conversions of industrial properties to production facilities are increasingly common.



7

Stages



5,419 SF

Average Stage Size



37,930 SF

Total Production Space

**CASE STUDY:
SIREN STUDIOS, HOLLYWOOD**

Siren Studios, located in the heart of Hollywood, exemplifies the adaptive reuse of non-studio space. Its seven stages include both former industrial space and new purpose-built construction. With over \$50 million invested in upgrading the spaces, the studio is popular for smaller shoots that are best suited for the its small floorplates, including fashion photography and advertisements.

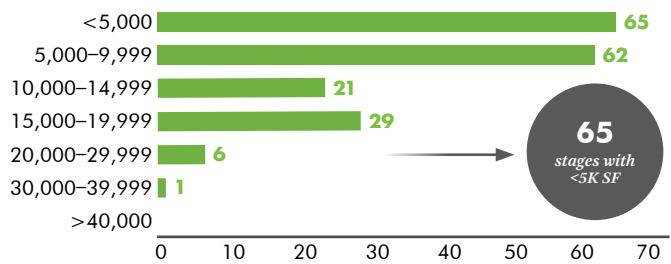
GEORGIA



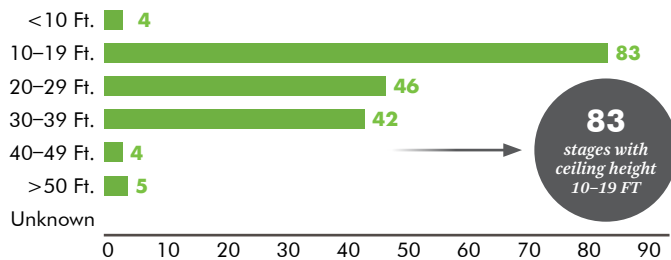
QUICK FACTS:

- Georgia is the second largest filming market in the U.S. by total sound stage square feet.
- Entertainment employment grew by nearly 38,000 jobs from 2010 to 2018—an increase of 53%—as production companies increasingly used the state as a site for feature films.
- Mid- to large-sized stage space is far more common in Georgia than in California, due in large part to the relative youth of the filming market.
- High-ceiling stages abound in Georgia, meaning the market can easily accommodate large-scale and intricate sets.
- Unlike California, Georgia’s tax incentive program is unhampered by annual caps or expiration dates, making the process of securing tax credits less challenging.

SOUND STAGE BREAK DOWN BY SIZE SEGMENT



SOUND STAGE BREAKDOWN BY HEIGHT SEGMENT



STUDIO SPOTLIGHT: PINWOOD ATLANTA

Located just 30 minutes from downtown Atlanta, Pinewood Atlanta Studios has quickly become one of Georgia’s most sought-after filming locations. Sitting on more than 700 acres, the studio encompasses 18 sound stages totaling over 360,000 sq. ft. of filmable indoor space—the largest sound stage footprint in the state. Since opening in 2014, the studio has hosted some of the biggest box office draws in the past decade, including Marvel’s “Ant-Man and the Wasp” and “Avengers: Endgame.”

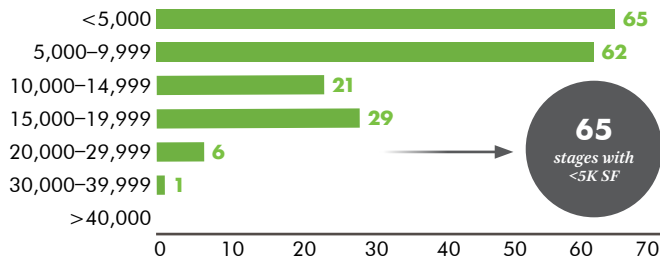
NEW YORK



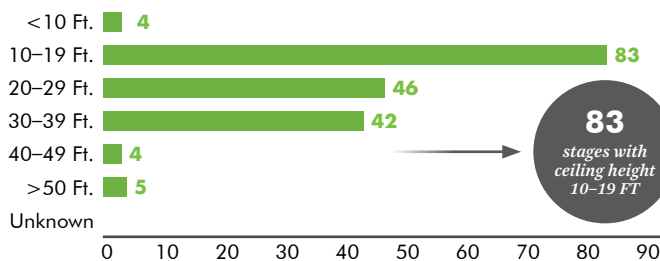
QUICK FACTS:

- Despite being the third largest film market by sound stage square feet, New York’s film industry is the oldest in the nation, beginning in 1896.
- New York’ entertainment sector employment grew by 49,000 jobs from 2010 to 2018—an increase of 16%.
- Due to the density of the market, small to mid-sized stages are more common than larger ones.
- Low-ceiling production facilities are common, making them best-suited smaller scale productions like television series.
- Like California, New York’s film tax incentive program has an annual cap. Total statewide incentives currently max out at \$420 million (compared with California’s \$330 million).

SOUND STAGE BREAK DOWN BY SIZE SEGMENT



SOUND STAGE BREAKDOWN BY HEIGHT SEGMENT



STUDIO SPOTLIGHT: BROADWAY STAGES

Starting in 1983 as a single sound stage converted from an old movie theater in Astoria, Queens, Broadway Stages has become the largest film studio in New York City. With locations spread across Queens, Staten Island and Brooklyn, the studio operates nearly 40 stages totaling more than 400,000 sq. ft. of indoor sound stage space. Recent notable productions include television’s “Saturday Night Live,” “Marvel’s Daredevil,” “Mr. Robot” and “The Marvelous Mrs. Maisel.”

BRITISH COLUMBIA

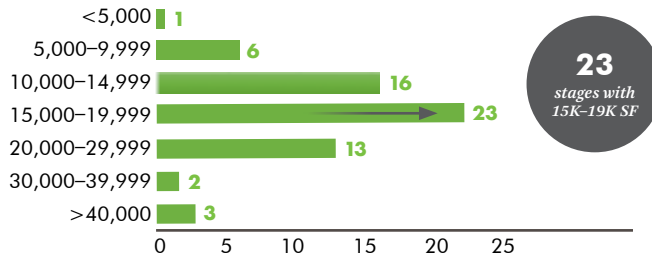


QUICK FACTS:

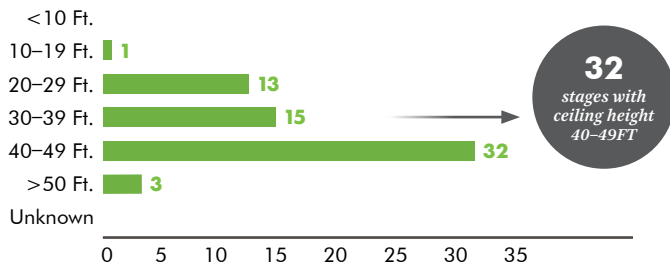
- The fourth largest filming market in North America, British Columbia was one of the first places to adopt tax incentives for movie and television productions.
- Mid- to large-sized stages are most common.
- High-ceiling stages are plentiful and can accommodate large-scale productions.



SOUND STAGE BREAK DOWN BY SIZE SEGMENT



SOUND STAGE BREAKDOWN BY HEIGHT SEGMENT



STUDIO SPOTLIGHT: MAMMOTH STUDIOS

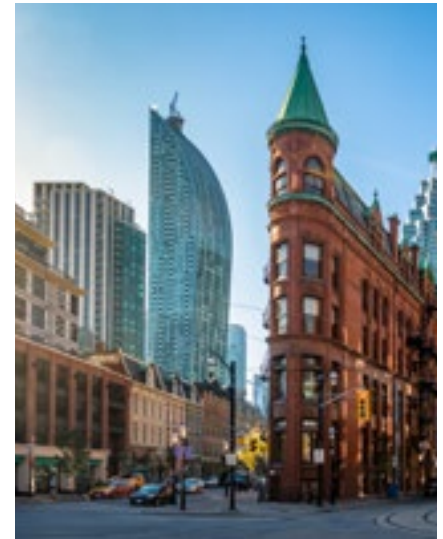
Located in Burnaby, Mammoth Studios lives up to its name as the largest film studio in British Columbia with more than 250,000 sq. ft. of indoor filming space. Mammoth Studios is also home to the largest sound stage in North America at 123,883 sq. ft. and 40 feet tall. Several big budget films have been made here, including “Sonic the Hedgehog,” “The Predator,” “The Revenant” and “Deadpool 2.”

ONTARIO

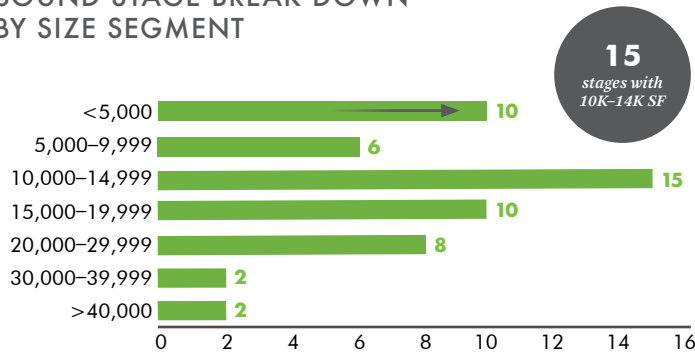


QUICK FACTS:

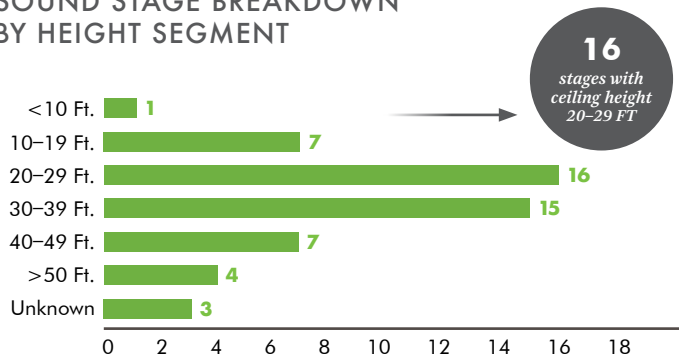
- Ontario has a number of varying stage sizes, though small to mid-sized stages are most common.
- Standard height stages are the norm.



SOUND STAGE BREAK DOWN BY SIZE SEGMENT



SOUND STAGE BREAKDOWN BY HEIGHT SEGMENT



STUDIO SPOTLIGHT: PINWOOD STUDIOS TORONTO

Only a few minutes’ drive from the Studio District, Pinewood Studios’ Toronto location is the primary purpose-built facility in the city. The studio has 12 sound stages, including a nearly 46,000-sq.-ft. mega stage, for a total of more than 208,000 sq. ft. of indoor filming space. Pinewood Toronto has hosted a number of genre movie and television productions over the years, including “IT: Chapter Two,” “SHAZAM!,” “Star Trek: Discovery” and “The Expanse.”

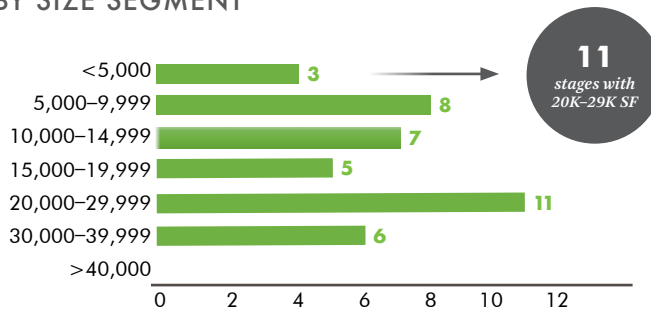
LOUISIANA



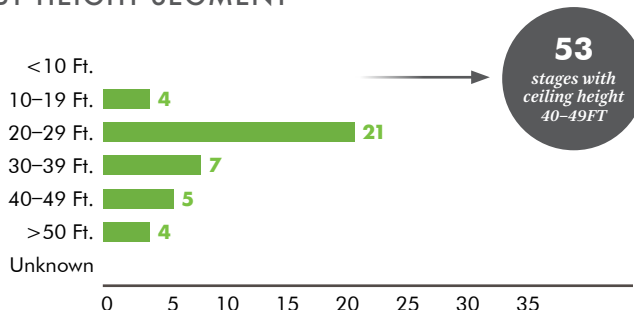
QUICK FACTS:

- While small compared to other filming markets, Louisiana has become a top-tier filming location among major studios.
- Louisiana’s entertainment sector employment grew by nearly 8,000 jobs from 2010 to 2018—an increase of 27%.
- The market has a range of stage sizes that can accommodate a wide array of production needs.
- Mid- to high-ceiling space is common.
- The state offers a film tax incentive program capped at \$150 million per year.

SOUND STAGE BREAK DOWN BY SIZE SEGMENT



SOUND STAGE BREAKDOWN BY HEIGHT SEGMENT



STUDIO SPOTLIGHT: CELTIC STUDIOS

Celtic Studios (also known as the Celtic Media Centre) is the largest film production studio in Louisiana. Established in 2008, it includes seven sound stages totaling nearly 150,000 sq. ft. of indoor filming space. The studio bills itself as a one-stop shop for filming, offering almost 100,000 sq. ft. of office space for production needs. Recent productions filmed at Celtic Studios include “Fantastic Four,” “Oblivion” and “Greyhound.”

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