

Los Angeles Office

MARKET OVERVIEW

Q2 2023



Struggles Continue Across The Los Angeles Market To Conclude The 1st Half Of 2023

The Los Angeles office market continued to suffer in the second quarter of 2023 as recent economic uncertainty has intensified the already challenging market conditions. The gloom over the sector has caused many landlords to default on loans and the “perceived value” of office properties amongst buyers has decreased significantly. This resulted in many properties selling at discounts from pre-pandemic levels. The newest properties in the market are expected to see the greatest value as tenants are more inclined to upgrade to Class A spaces.

TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	4.8	↔	7.1	↑
NET ABSORPTION (Thousands SF)	(729.6)	480.0	↓	(719.7)	↓
OVERALL VACANCY RATE	17.6%	16.0%	↑	14.0%	↑
OVERALL VACANT SF (MSF)	58.7	53.3	↑	46.4	↑
UNDER CONSTRUCTION (MSF)	4.0	4.1	↓	4.9	↓
ASKING RENT, FULL SERVICE (PSF)	\$41.79	\$42.02	↓	\$40.12	↓
SALES VOLUME (Millions)	\$249.3	\$998	↓	\$1,188.6	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

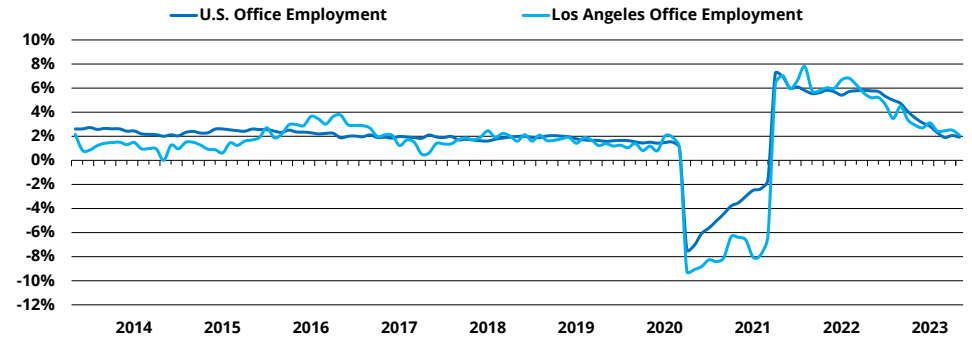
ECONOMY

Relatively Tight Job Market

- Despite increased interest payments faced by businesses and consumers, economic conditions in the Los Angeles metropolitan area remain robust. Office employment is healthy and on par with its pre-pandemic totals, adding 17,000 new jobs over the past three months. The unemployment rate slightly decreased by .2% over the same period to 4.8%.
- The Los Angeles unemployment rate remains consistently higher than the national unemployment rate of 3.6%.

Y-O-Y CHANGE IN OFFICE JOBS

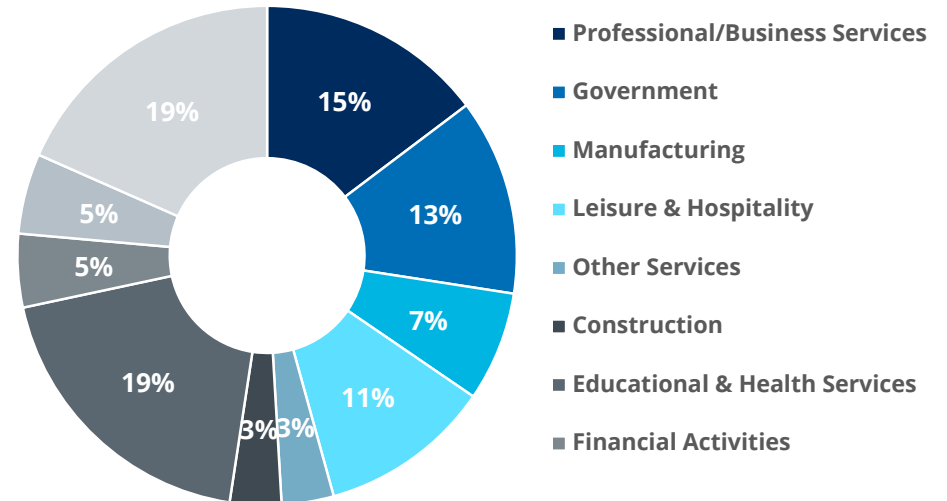
Los Angeles MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Los Angeles MSA | June 2023



Source: Bureau of Labor Statistics, Transwestern



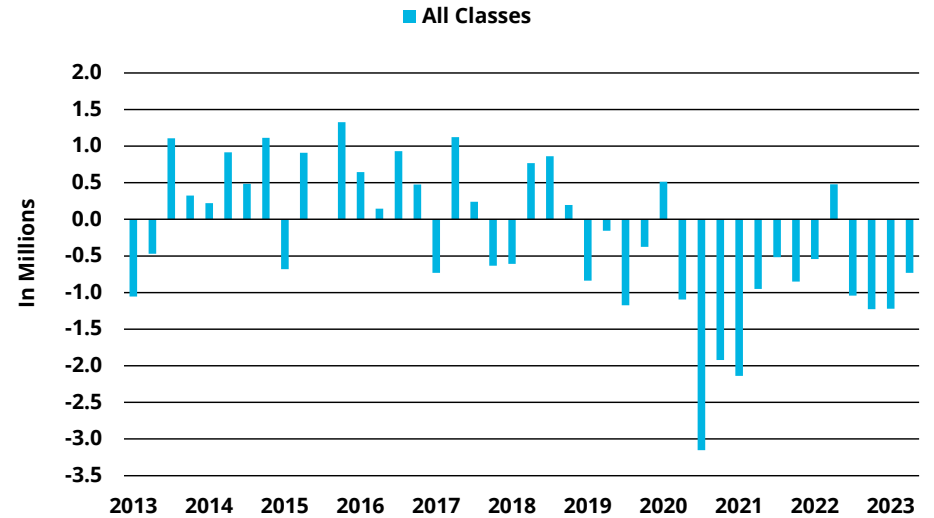
MARKET FUNDAMENTALS

Supply & Demand

- Overall net absorption remained negative in Q2 but most notably, it did not reach the height of negative 1M SF that every quarter has endured since Q3 2022. West Los Angeles, Pasadena, and Sherman Oaks showed the strongest net absorption year-over-year. Downtown Los Angeles and Burbank have experienced the weakest demand during the same period.
- New construction remained stagnant over the past few quarters at 3.9M SF. Acquiring a construction loan has become more challenging as lenders have become hesitant to take on higher levels of leverage. Lenders remain cautious and apprehensive about the economy, interest rates, and the influence of remote work on the office market.

NET ABSORPTION

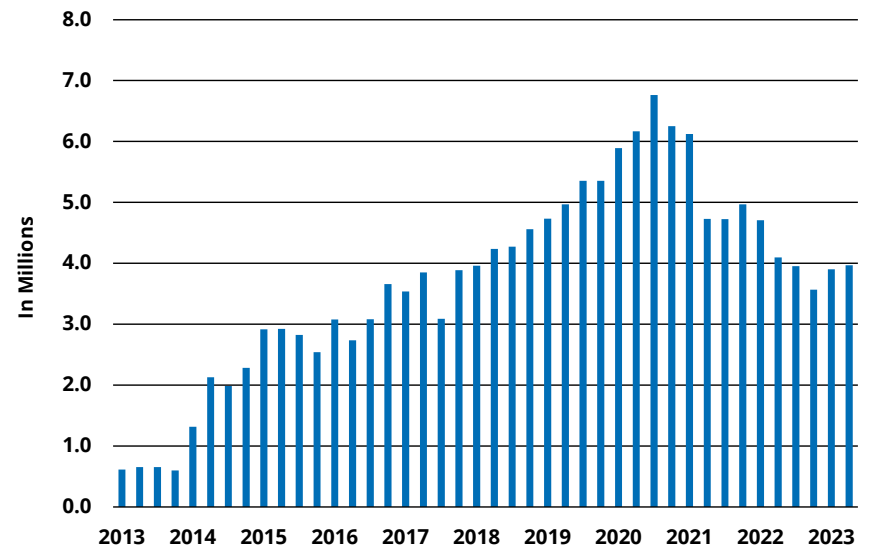
Los Angeles | Millions SF



Source: CoStar, Transwestern

UNDER CONSTRUCTION

Los Angeles | Millions SF



Source: CoStar, Transwestern.



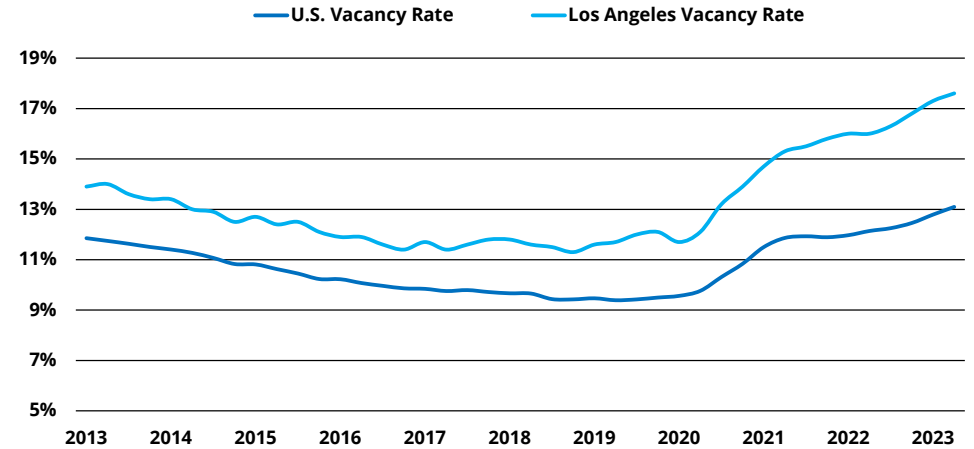
MARKET FUNDAMENTALS

Vacancy

- Los Angeles vacancy rates are persistently high at 17.6%, which is significantly above the national average of 13.1%. Since the second quarter of 2020, vacancy rates have experienced marginal increases in each subsequent quarter, a trend resulting from the sustained prevalence of remote work post-pandemic.
- Class A vacancy has steadied at 22% over the past three quarters. Class B vacancy has increased 1% over the past three quarters to 15.5%.

VACANCY RATE

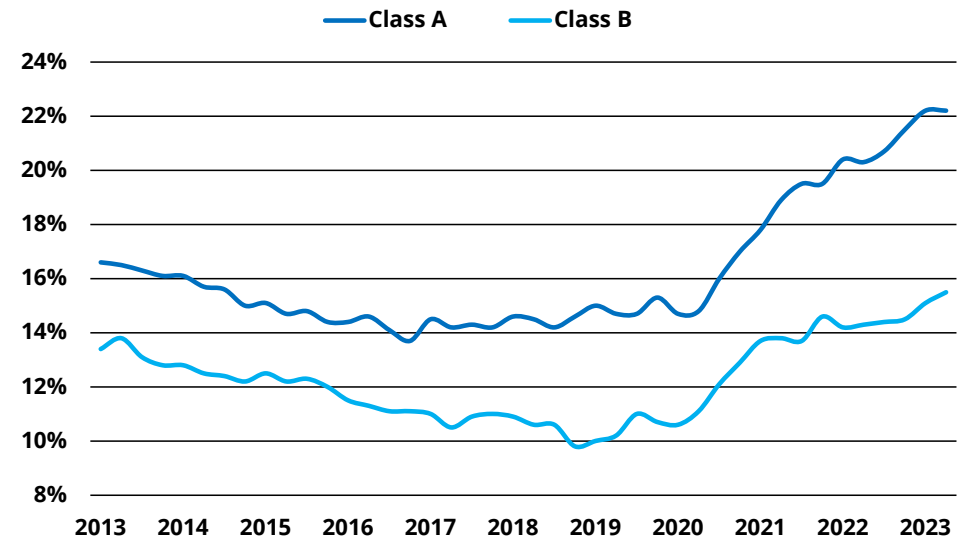
Los Angeles | % of Stock



Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS

Los Angeles | % of Stock



Source: CoStar, Transwestern



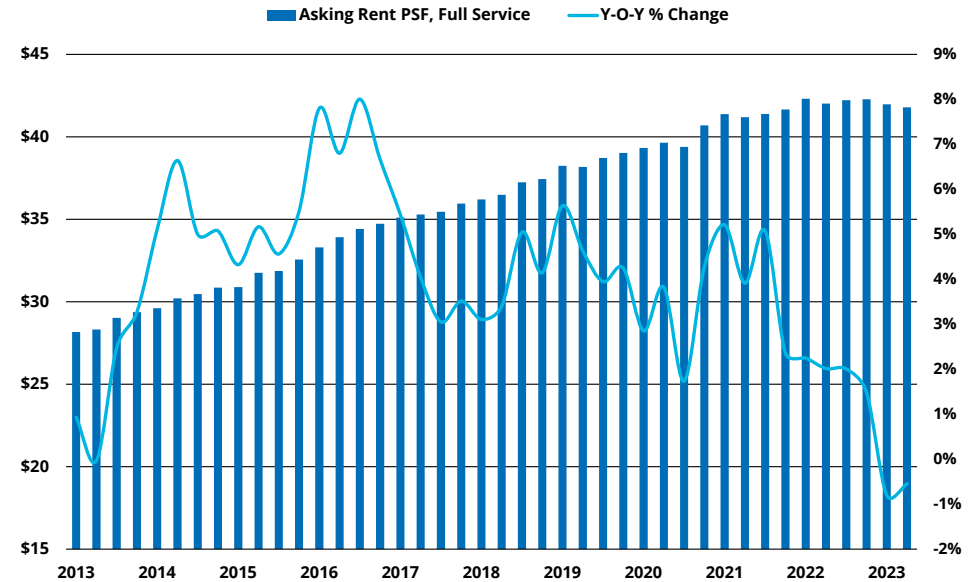
MARKET FUNDAMENTALS

Rents

- Rental rates are holding steady as owners are reluctant to devalue their assets and instead are providing many concessions to attract tenants. Rents decreased by 0.5% year-over-year from \$42.02 to \$41.79 in Q2 2023.
- Due to the weak market conditions and the abundance of available sublease space, landlords have limited leverage to push rents and are thus more inclined to provide favorable terms to secure tenants.

ASKING RENT

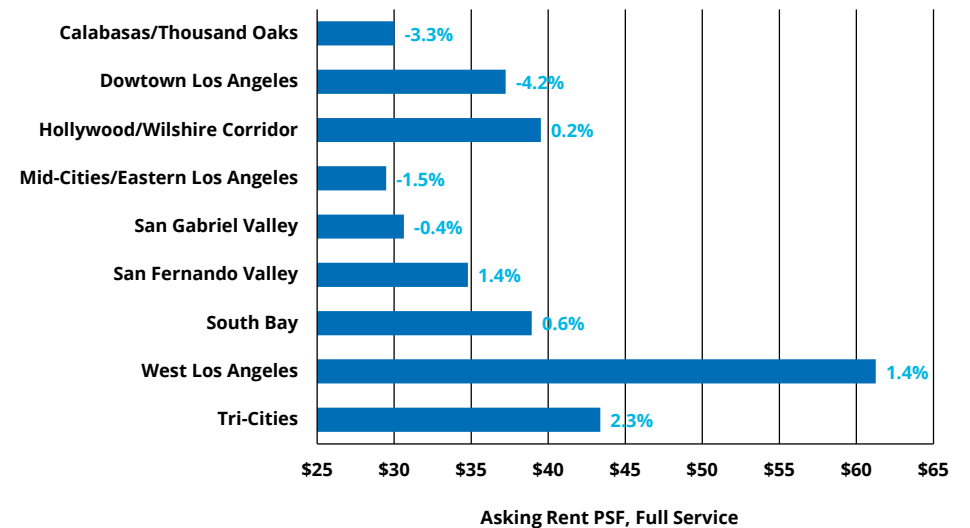
Los Angeles | \$/SF, Direct Rents



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH

Los Angeles | % change



Source: CoStar, Transwestern



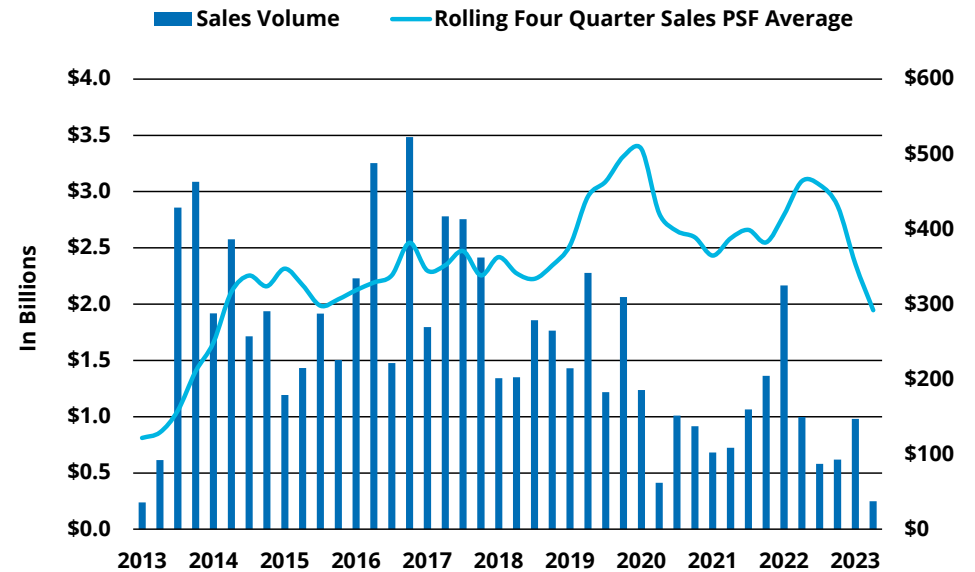
CAPITAL MARKETS

Decrease in Overall Volume

- Sales volume in Q2 totaled \$250M, the lowest quarterly office investment numbers since Q2 2020. This was unsurprising as debt costs increased, and the implementation of Measure ULA—which imposes additional transfer taxes on commercial properties exceeding 5 million in Los Angeles. It is likely that these measures will have a restraining effect on pricing in the future.

INVESTMENT VOLUME

Los Angeles Market



Source: Transwestern Research, Real Capital Analytics, Q3 2022.



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SQUARE FEET LEASED
THE SWITCH	1840 Victory	Tri-Cities	New	67,712
MOTIVE ENERGY TELECOMMUNICATION	8521 Fallbrook Ave	San Fernando Valley	New	26,427
SYRACUSE UNIVERSITY	5250 Lankershim Blvd	San Fernando Valley	New	21,377
LA COUNTY SHERIFF'S DEPARTMENT	1-25 Cupania Cir	San Gabriel Valley	Renewal	42,000
PHAIDON INTERNATIONAL	5570 Lincoln Blvd	West Los Angeles	New	32,303
HURST MEDIA PRODUCTION GROUP	655 N Central Ave	Tri-Cities	New	20,012

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
433 S SPRING ST	Downtown Los Angeles	\$40,000,000	334,000	\$120	UCLA	Rising Realty Partners
16633 VENTURA BLVD	San Fernando Valley	\$39,230,000	183,402	\$214	TriStar Realty Group LLC	Ventura-Petit East LLC
400 OCEANGATE	South Bay	\$35,000,000	157,683	\$222	David Orenstein	Keesal, Young, & Logan
701 E 28TH ST	South Bay	\$29,000,000	68,845	\$421	Uninational Corporation	Jamison Services, Inc
20285 S WESTERN AVE	South Bay	\$20,100,000	78,839	\$255	Richardson Kontogouris Emerson LLP	Garrison Investment Group
30440-30500 AGUARO RD	Calabasas/Thousand Oaks	\$9,750,000	22,256	\$438	BendPak Inc	Conrad N. Hilton Foundation

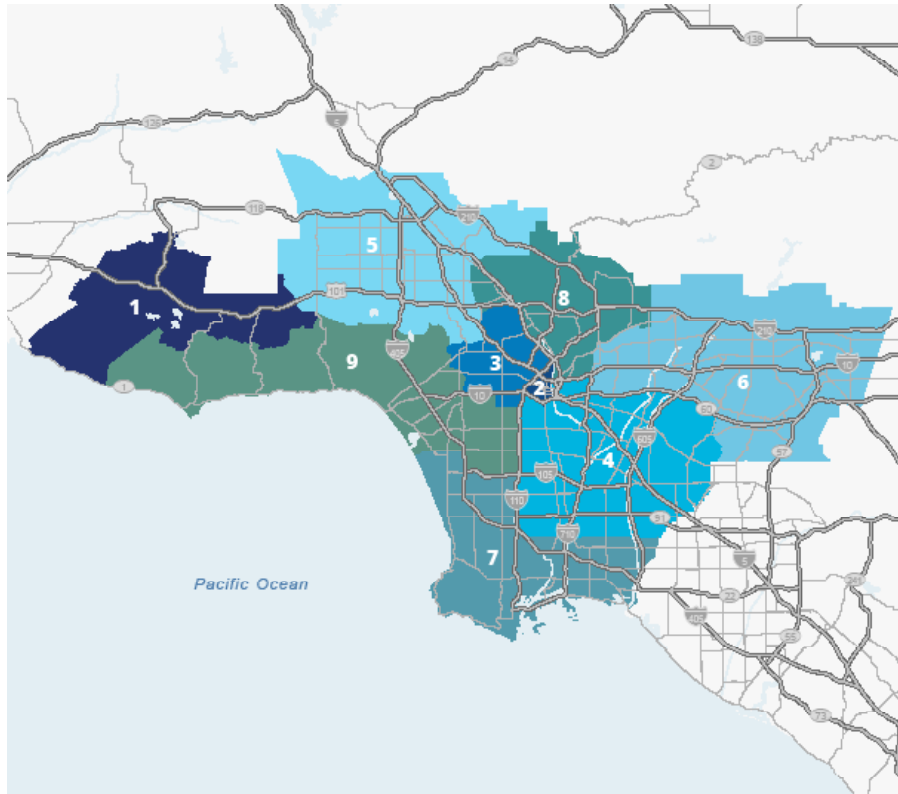
SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
TRI-CITIES	41,376,324	5,063,267	12.2%	14.4%	1,229,295	(105,227)	581,906	\$43.38
WEST LOS ANGELES	76,345,420	12,874,286	16.9%	19.8%	1,326,458	379,141	(49,452)	\$61.26
SOUTH BAY	54,417,156	8,678,083	15.9%	18.2%	624,112	(163,824)	(1,055,367)	\$38.93
SAN FERNANDO VALLEY	37,269,232	5,000,663	13.4%	15.1%	433,000	(48,529)	(668,349)	\$34.79
SAN GABRIEL VALLEY	28,145,137	2,220,995	7.9%	8.1%	46,000	(32,738)	(209,974)	\$30.63
MID-CITIES/EASTERN LOS ANGELES	13,958,759	906,286	6.5%	6.8%	40,000	79,598	(19,654)	\$29.48
HOLLYWOOD/WILSHIRE CORRIDOR	40,439,864	7,224,423	17.9%	19.5%	65,729	49,538	(920,617)	\$39.52
DOWNTOWN LOS ANGELES	58,240,235	12,027,261	20.7%	22.5%	293,100	(37,991)	(712,516)	\$37.24
CALABASAS/THOUSAND OAKS	14,207,958	2,037,298	14.3%	17.7%	0	(5,905)	(181,897)	\$30.02
TOTAL	364,400,085	56,032,562	14.0%	15.8%	4,057,694	12,674	(359,547)	\$38.36

Source: Source: CoStar, Real Capital Analytics, Transwestern



SUBMARKET MAP



Los Angeles Office Submarkets

- 1 Calabasas/Thousand Oaks
- 2 Downtown Los Angeles
- 3 Hollywood/Wilshire Corridor
- 4 Mid Cities/Eastern LA
- 5 San Fernando Valley
- 6 San Gabriel Valley
- 7 South Bay
- 8 Tri-Cities
- 9 West LA



FOR MORE INFORMATION

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RESEARCH METHODOLOGY

The information in this report is a compilation of single- and multi-tenant office properties 10,000 SF and larger in Los Angeles. Medical offices and government-owned buildings are excluded from analysis.

ABOUT TRANSWESTERN

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