

Los Angeles Office

MARKET OVERVIEW

Q3 2023



Trendlines

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	5.5%	4.8%	↑	7.1%	↑
Net Absorption (Thousands SF)	(864.8)	(877.5)	↑	(654.5)	↔
Overall Vacancy Rate	17.3%	16.1%	↑	14.1%	↑
Overall Vacant SF (MSF)	63.4	58.4	↑	50.7	↑
Under Construction (MSF)	5.8	4.6	↑	5.4	↓
Asking Rent, Full Service (PSF)	\$3.44	\$3.52	↓	\$3.35	↔
Sales Volume (Millions)	\$423.2	\$576	↓	\$1,193.6	↓

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

The Los Angeles office market is still facing challenges due to tight financial conditions and a slowdown in job growth.

The Los Angeles metropolitan area had negative 864,780 SF of net absorption. Leasing activity continues to lag behind levels observed pre-pandemic levels as many businesses are cautiously managing their space needs by taking a wait-and-see approach. Los Angeles has a historically high vacancy rate, at 17.3%, and available sublease space, at 7.4 million SF.

Post-Labor Day occupancy levels are increasing as many corporate occupiers have strengthened their return-to-office mandates, providing some optimism for the office market. These mandates will increase usage and therefore boost leasing activity. Occupiers will continue to desire newer, well-equipped, Class A buildings in prime submarkets, like Century City.

Despite initial forecasts of a deceleration, the U.S. economy remained strong over the past few months. Although, economic conditions are becoming increasingly challenging—a potential interest rate increase at the November Federal Reserve meeting, higher energy prices, and a deteriorating worldwide economy. These factors will exert downward pressure on real estate valuations and overall leasing activity. The recession that economists had predicted in 2023 may finally start to materialize as we head into 2024.

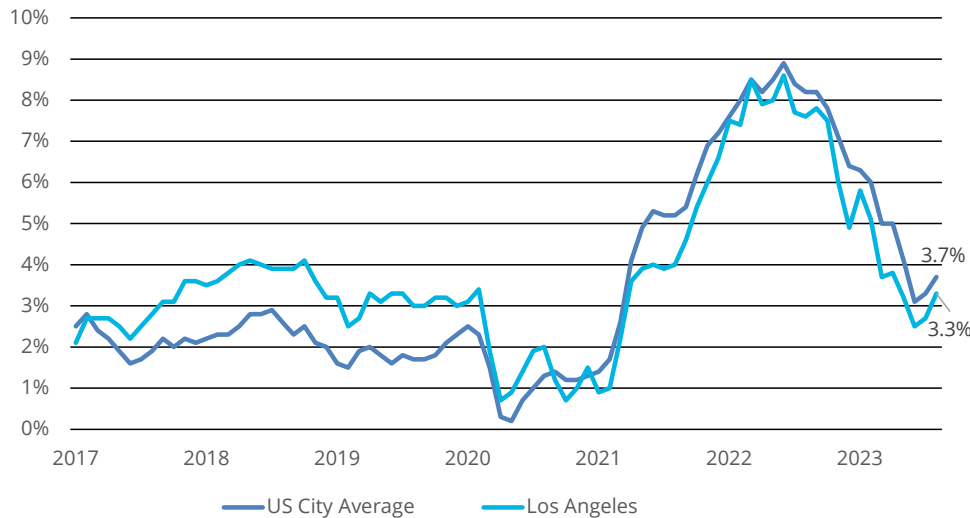


ECONOMY

Data Shows Interest Rate Hikes are Materializing

- Los Angeles nonfarm employment regressed by 17,700 jobs over the past three months as the impacts of high interest rates on the economy are starting to materialize. Although, Los Angeles job growth over the past year totals 99,700 jobs or 2.2%. Job gains were driven by a year-over-year increase of 6.9% in Leisure and Hospitality employment, the hardest hit sector during the pandemic.
- Los Angeles office-using employment decreased by 41,500 jobs in Q3. As we likely head into a recession, the labor market will continue to soften. Los Angeles office-using employment still remains near an all-time high of 2,744,000 jobs, or 0.2% above the pre-pandemic peak.
- The Los Angeles unemployment rate has remained higher than the national unemployment rate each month since January of 2023.
- Los Angeles office-using employment has increase by 13.1% since 2015, while national office-using employment has increased by 16.3%.
- In the latest Federal Reserve meeting, Chairman Jerome Powell stated that high rates are here to stay, likely through 2024, and hinted at the potential of another increase.
- Slowed consumer spending, job growth decreasing, and the 10-year treasury yield surging are all signs that a recession is lurking.

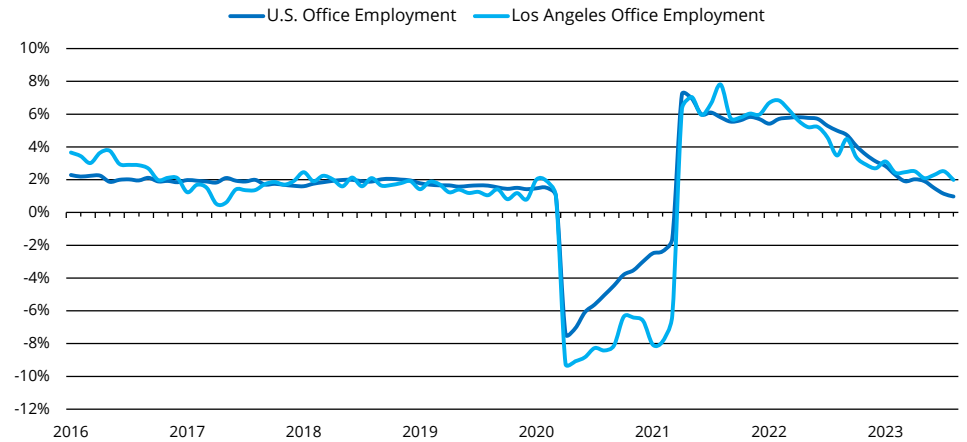
Consumer Price Index



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y Change in Office Jobs

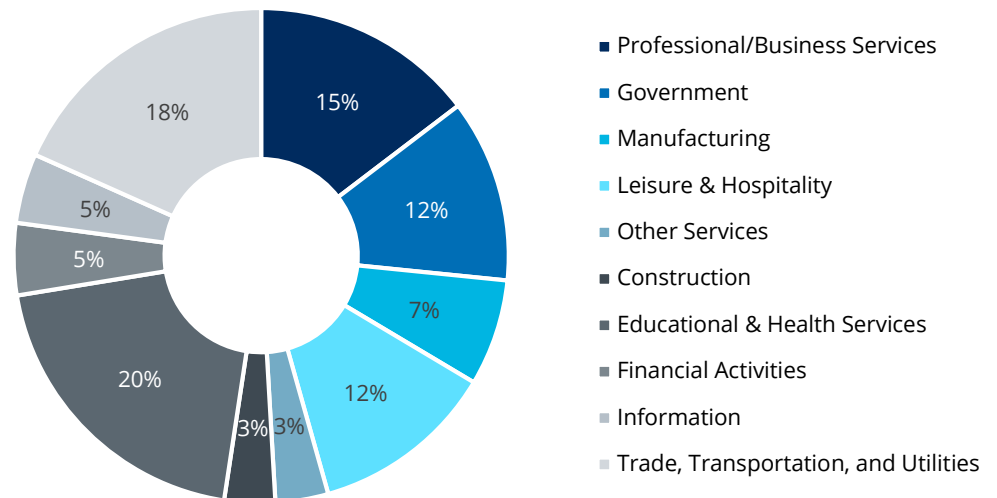
Los Angeles MSA | August 2023



Source: Bureau of Labor Statistics, Transwestern

Share of Employees By Industry

Los Angeles MSA | August 2023



Source: Bureau of Labor Statistics, Transwestern



MARKET FUNDAMENTALS

Net Absorption, Occupancy, & Leasing

Slow Leasing Activity Continues in Q3

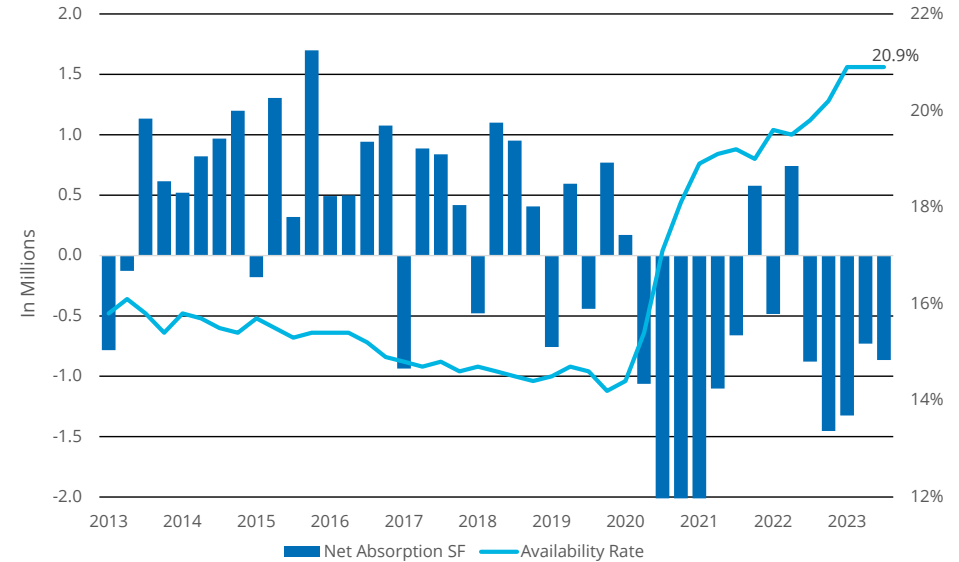
- Net absorption regressed for the fifth consecutive quarter, at negative 864,780 SF. West LA and the Tri-Cities had the most negative net absorption.
- Although, there were some major deals signed in the quarter. Clearlake Capital signed for 151,000 SF in Century City, Penske Media Corporation signed for 125,000 in West LA, and SKIMS signed for 101,000 SF in Hollywood. All three deals were signed at Class A properties in prime submarkets.
- Availability is at an all-time high, at 21% or 77 million SF.
- Los Angeles occupancy has remained stagnant over the past three quarters at 82.7%, well-below the national average of 86.3%.
- A bright spot in the market is that Century City is nearing full occupancy on Monday-Thursday (Bisnow).
- Los Angeles will continue to see softer leasing activity as elevated interest rates are here to stay through 2024.

Notable Leases

Tenant	Address	Submarket	Type	SF Leased
Clearlake Capital	1950 Avenue of The Stars	West Los Angeles	New	151,000
Penske Media Corporation	11355-11377 W Olympic Blvd	West Los Angeles	New	125,000
SKIMS	1601 Vine Street	Hollywood/Wilshire Corridor	New	101,000
ByteDance	900 Corporate Pointe	West Los Angeles	New	90,000
BlackLine Systems	21300 Victory Boulevard	San Fernando Valley	Renewal	89,000
Houlihan Lokey	10250 Costellation Boulevard	West Los Angeles	Renewal	67,000

Net Absorption & Availability

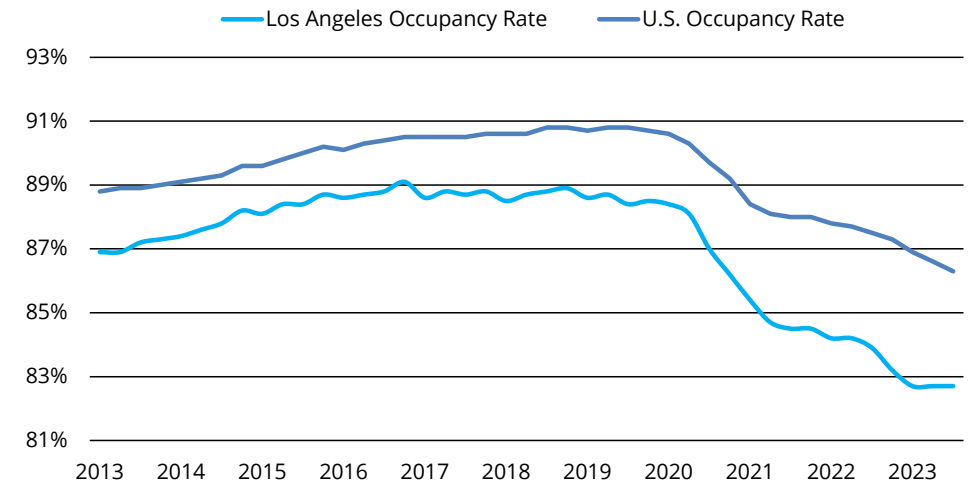
Los Angeles | Millions SF



Source: CoStar, Transwestern

Los Angeles Occupancy vs. US Occupancy

Los Angeles | % of Total SF



Source: CoStar, Transwestern.



RENTS

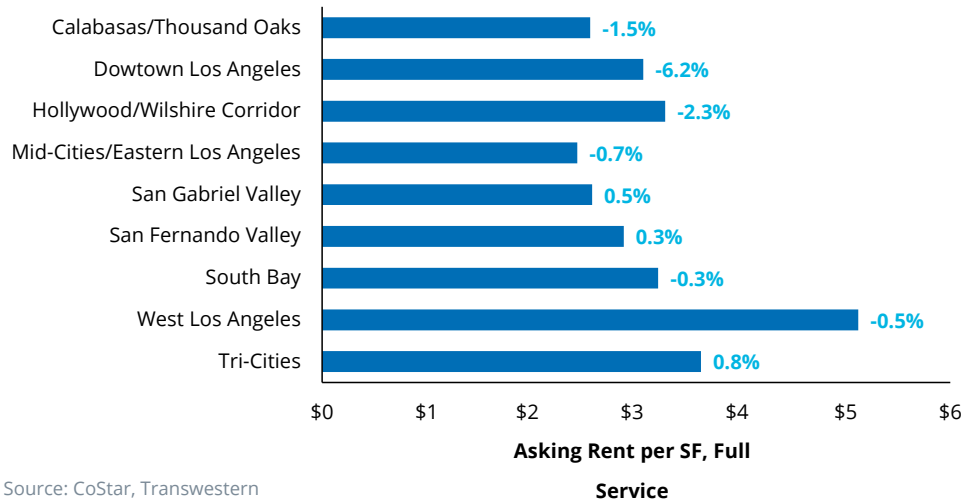
Rent Growth Slows as Owners Look To Fill Up Vacancies

Rent Growth has slowed in both Class A & B:

- Asking rents in Class A properties fell to \$3.57 per SF, down 1.86% from last year.
- Asking rents in Class B properties fell to \$3.28 per SF, down 2.41% from last year
- Asking rents in some pockets of the market are historically high, emphasizing the current flight to quality. Century City is asking an average of \$5.93 per SF and Beverly Hills is asking an average of \$6.11 per SF; both submarkets are up 3.0% from a year ago.
- Weak market conditions and an abundance of available sublease space gives landlords limited leverage to push rents and are thus more inclined to provide favorable terms to secure tenants. Rents remain mostly steady as owners can only go so low before failing to make financial sense.
- Asking rents have increased 4.67% over the last three years, bolstering property values. Asking rents in Class A properties have increased 0.56% over the last three years.
- Tenants will continue to expect elevated concessions and significant tenant improvement dollars if rents are to remain fairly stagnant.

Asking Rents by Submarket and YoY Growth

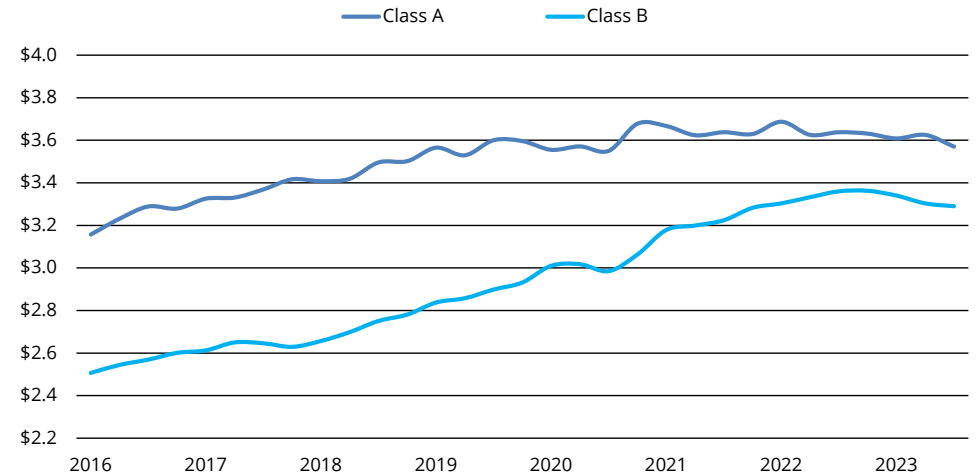
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents by Class

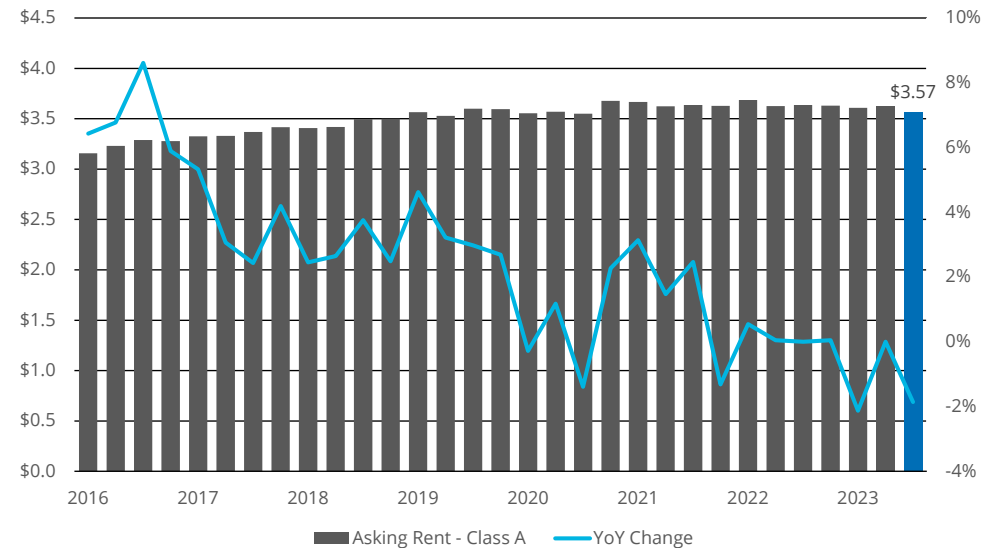
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents - Class A

Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern



CAPITAL MARKETS

Below Average Sales Volume Continues in Q3

- Sales volume remains well-below the historical average in the midst of economic headwinds. Sales volume increased in Q3 to \$423 million, a 50% increase from the previous quarter, but still 47% below the historical average for Los Angeles.
- Low sales volume is expected for the foreseeable future because debt costs are high, and underwriters are still adjusting to the implementation of measure ULA—which imposes additional transfer taxes on commercial properties exceeding 5 million in Los Angeles. Measure ULA will have a restraining effect on pricing in the future.

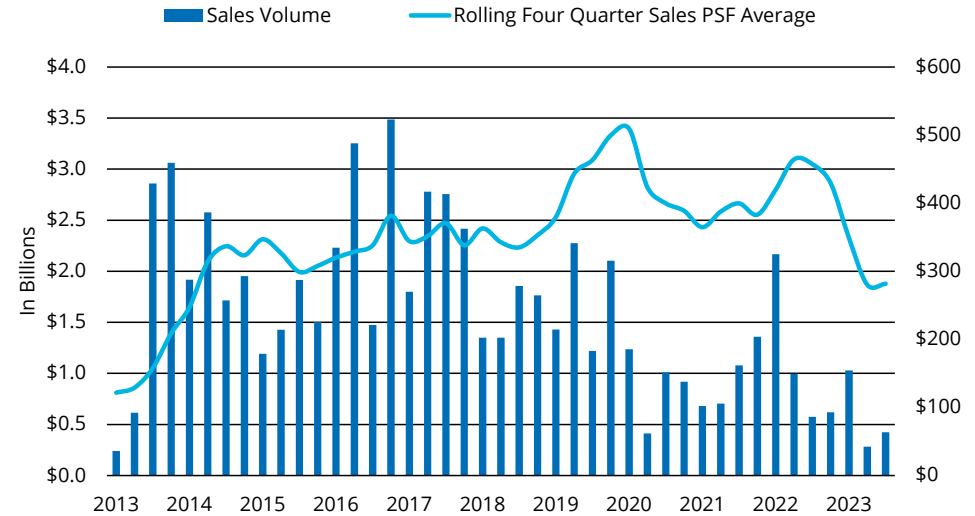
UNDER CONSTRUCTION

Developers are Building Class A Product in Prime Submarkets

- New construction continues to decline from its peak in Q3 2020 of 7.4 million SF. There is currently 5.8 million SF under construction, 82% being Class A product.
- Downtown Los Angeles—1.3 million SF and West Los Angeles—2.7 million SF, have the most office construction in Los Angeles. The most notable project is at 1950 Avenue of the Stars in Century City, a 731,250 SF Class A high rise tower set to deliver in 2026.
- Acquiring a construction loan is difficult because lenders are hesitant to take on higher levels of leverage. Lenders are cautious and apprehensive about the economy, interest rates, and the prominence of remote work on office-using jobs.

Sales Volume

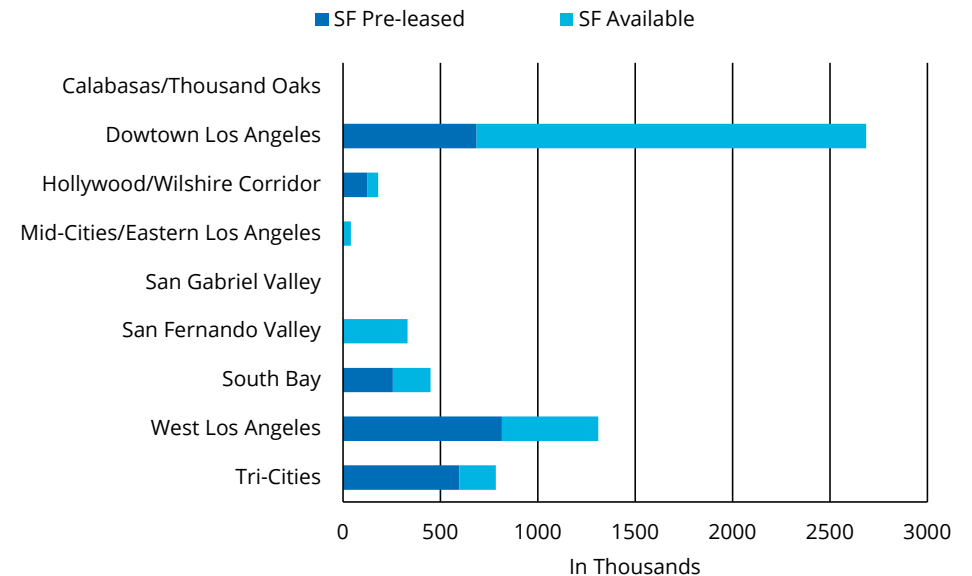
Los Angeles | \$/SF, Direct Rents



Source: CoStar, Transwestern

Under Construction by Submarket

Los Angeles Market



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



Notable Sales

Address	Submarket	Sales Price	Building SF	Price PSF	Buyer	Seller
2701 Olympic Blvd	West Los Angeles	\$165,500,000	219,571	\$754	JP Morgan	CalSTRS
3401 Exposition Blvd	West Los Angeles	\$40,000,000	63,376	\$631	XYZ.rent	Hudson Pacific Properties
604 Arizona Ave	West Los Angeles	\$32,500,000	46,707	\$696	David Zander	Hudson Pacific Properties
21688 Gateway Center Dr	San Gabriel Valley	\$23,000,000	81,796	\$281	Newegg Inc.	Buchanon Street Partners
825 N San Vicente Blvd	Hollywood/Wilshire Corridor	\$19,000,000	28,512	\$666	Robert Herscu	Hilldale Property Owner
824 E Carson St	South Bay	\$14,700,000	26,792	\$549	Torrance Memorial Medical Center	Continental Development Corporation

Source: Source: CoStar, Real Capital Analytics, Transwestern

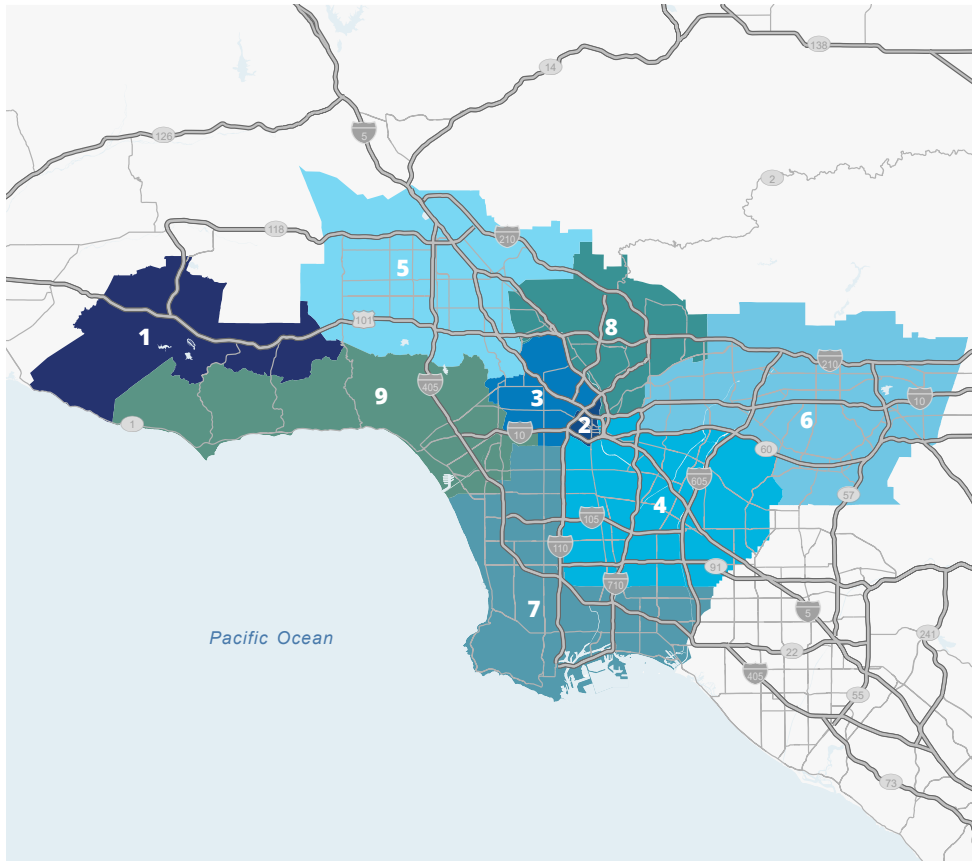
Market Indicators

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	41,910,243	5,358,067	12.8%	16.3%	784,295	(203,227)	(451,797)	\$3.62
West Los Angeles	74,653,208	13,056,385	17.5%	22.6%	1,310,030	(237,849)	(341,437)	\$5.12
South Bay	57,454,580	9,170,831	16.0%	18.8%	449,112	9,288	(474,252)	\$3.21
San Fernando Valley	37,366,082	5,113,340	13.7%	16.6%	331,000	(156,203)	(696,539)	\$2.88
San Gabriel Valley	25,699,610	1,899,463	7.4%	9.5%	0	(35,378)	(128,375)	\$2.58
Mid-Cities/Eastern Los Angeles	13,941,388	904,063	6.5%	8.4%	40,000	(1,926)	50,265	\$2.44
Hollywood/Wilshire Corridor	40,439,979	7,192,667	17.8%	20.2%	180,729	(45,963)	(316,221)	\$3.28
Downtown Los Angeles	58,713,568	11,126,307	19.0%	24.4%	2,686,229	(167,706)	(1,150,962)	\$3.07
Calabasas/Thousand Oaks	14,199,451	2,003,585	14.1%	18.5%	0	(25,816)	(250,391)	\$2.56
Total	364,378,109	55,824,708	13.9%	17.3%	5,781,395	(96,087)	(417,745)	\$3.19

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.

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