

Los Angeles Office

MARKET OVERVIEW

Q4 2023



Trendlines

	Q4 2022	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	4.4%	5.3%	↑	7.0%	↓
Net Absorption (Thousands SF)	(1469.6)	(1,312.5)	↑	(641.6)	↔
Overall Vacancy Rate	16.6%	17.9%	↑	14.0%	↑
Overall Vacant SF (MSF)	60.6	65.7	↑	50.5	↑
Under Construction (MSF)	3.7	3.2	↓	5.4	↓
Asking Rent, Full Service (PSF)	\$3.52	\$3.46	↓	\$3.35	↔
Sales Volume (Millions)	\$619	\$737.6	↑	\$1,182.3	↑

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

Slow Leasing & Distressed Sales Highlight Q4

Leasing activity in the Los Angeles office market remains slow amid tight financial conditions, a slowdown in job growth, and a misalignment between company needs and employee demands. The result, negative 1.3 million SF of net absorption. Leasing activity continues to lag behind pre-pandemic levels as many corporate occupiers have opted for a hybrid work model, where employees split days between the office and home. This allows corporate occupiers to downsize, list sublease space, and new deals become expiration driven.

Despite long-term uncertainty around the future utilization of office space, sales volume increased to \$738 million in Q4, a rapid 74% increase from the previous quarter, but still 4.4% below the historical average for Los Angeles. Most investors secured office properties at discounts, while others opted for acquisitions at record-high price per square foot figures.

While many economists predicted a recession, the U.S. economy is headed for a soft landing. In December, job growth reached 216,000 jobs, aligning with the Federal Reserve's target of around 200,000 jobs per month. Core CPI, excluding volatile food and energy prices, rose by 3.2% in December, significantly lower than the 4.9% reported in December 2022, indicating a notable slowdown in inflation. With data suggesting a trajectory towards a soft landing, and the Federal Reserve hinting at the possibility of three rate cuts this year, expect office leasing activity to pick up in 2024.

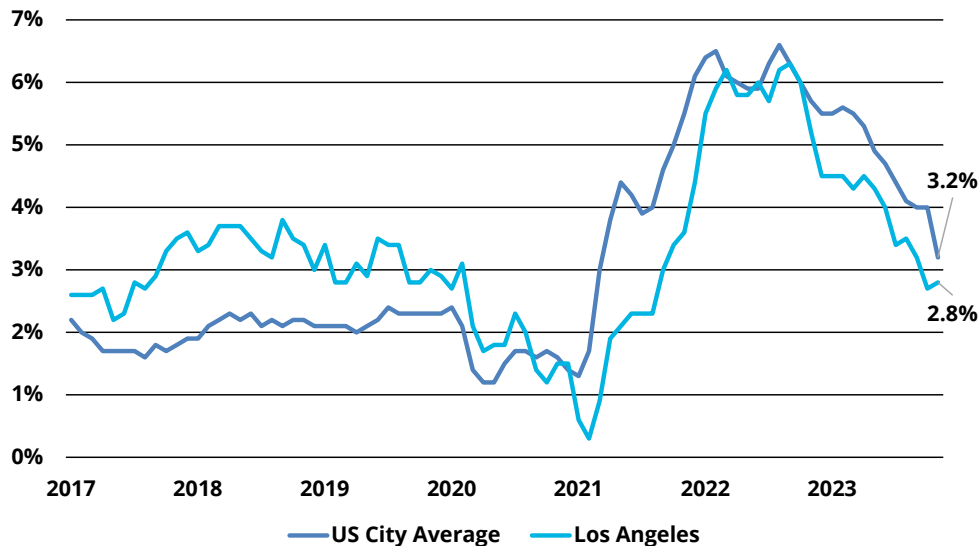


ECONOMY

Data Shows a Soft Landing is Materializing

- Los Angeles nonfarm employment increased by 96,000 jobs over the past three months as the labor market continues to grow at a moderate pace, aligning with the federal reserve's objectives. Los Angeles job growth over the past year totals 77,700 jobs or 1.7%. Job gains were driven by a year-over-year increase of 6.4% in leisure & hospitality employment, the hardest hit sector during the pandemic.
- Los Angeles office-using employment increased by 72,500 jobs in Q4. Los Angeles office-using employment is at an all-time high of 2,814,500 jobs, or 2.8% above the pre-pandemic peak.
- As of November 2023, the Los Angeles unemployment rate is 5% and the national unemployment rate 3.7%.
- Los Angeles office-using employment has increased by 8.3% since 2016, while national office-using employment has increased by 11.7%.
- At the final meeting of the year, the Federal Reserve maintained interest rates within the range of 5.25% to 5.5%, signaling a rapid improvement in inflation, steady job creation, and leaving the possibility of rate cuts open for 2024.

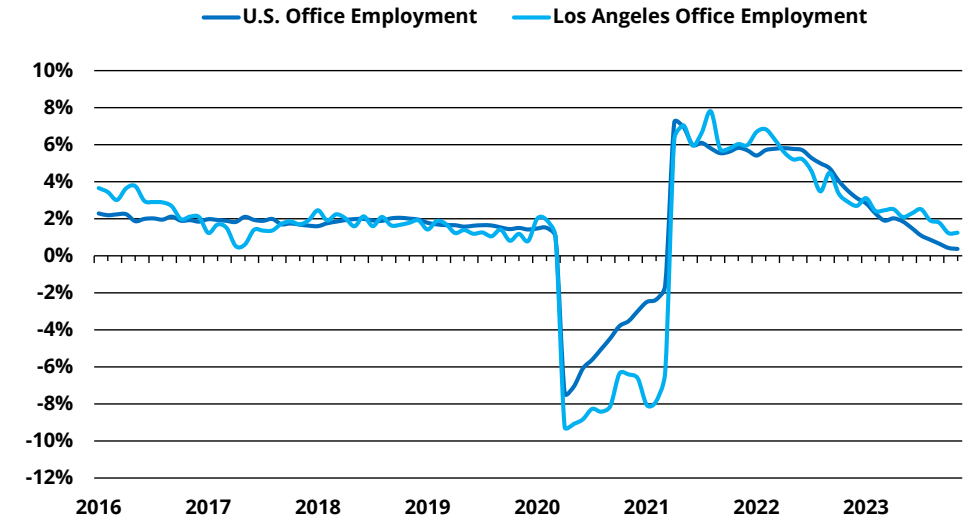
Core Consumer Price Index



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y Change in Office Jobs

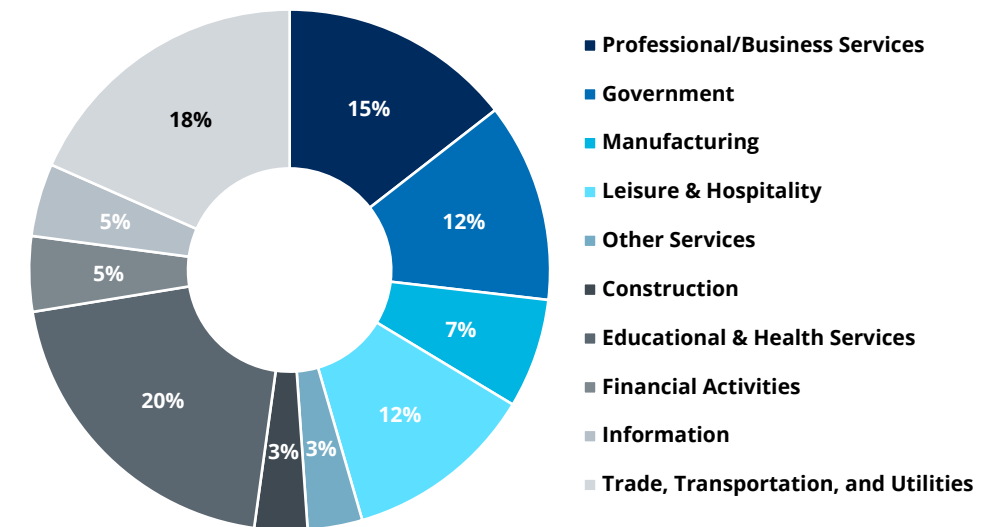
Los Angeles MSA | November 2023



Source: Bureau of Labor Statistics, Transwestern

Share of Employees By Industry

Los Angeles MSA | November 2023



Source: Bureau of Labor Statistics, Transwestern



MARKET FUNDAMENTALS

Net Absorption, Occupancy, & Leasing

Slow, Expiration Driven Leasing Activity in Q4

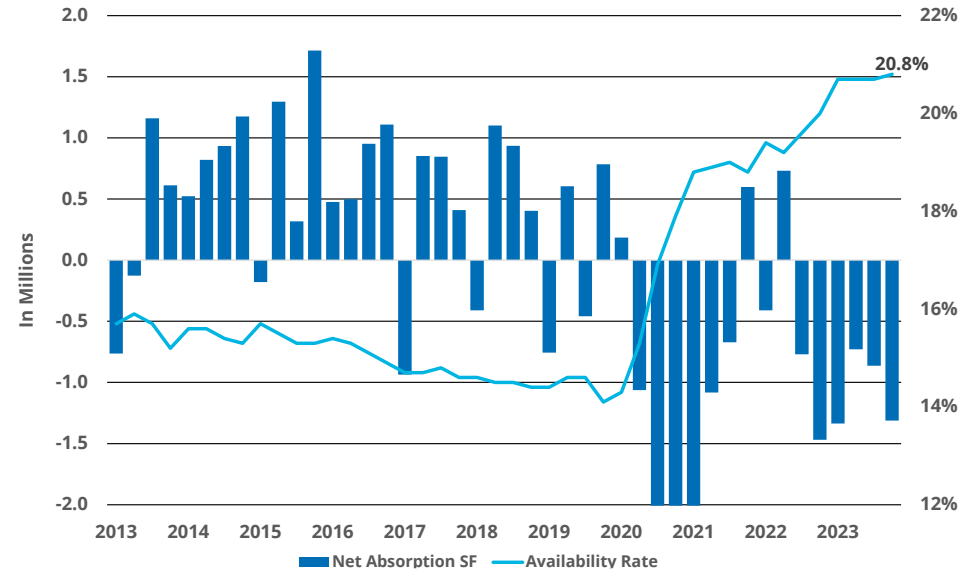
- Net absorption regressed for the sixth consecutive quarter, at negative 1.3 million SF.
- West LA and Tri-Cities had the most negative net absorption.
- The County of Los Angeles signed the largest deal of Q4, occupying 175,000 SF in the South Bay. Other big occupiers were Sidley Austin LLP for 75,000 SF in Century City and Cedars Sinai for 47,000 SF in West LA.
- Availability is at an all-time high, at 21% or 77 million SF.
- Los Angeles occupancy has decreased 0.7% over the past year to 82.1%, well-below the national average of 86.1%.
- Los Angeles leasing activity will remain slow in 2024 as demand has become expiration driven. Occupiers will continue to downsize and seek high-quality space.

Notable Leases

Tenant	Address	Submarket	Type	SF Leased
Los Angeles County	1500 Hughes Way	South Bay	New	175,000
Sidley Austin LLP	1950 Avenue of the Stars	West Los Angeles	Pre-lease	75,000
Cedars Sinai	6801 Park Terrace Dr.	West Los Angeles	Renewal	47,000
Los Angeles County	3179 Temple Ave.	San Gabriel Valley	Renewal	50,000
Travelers Insurance	21680 Gateway Center Dr.	San Gabriel Valley	New	40,000
Stubhub	120 Broadway	West Los Angeles	Sublease	30,000

Net Absorption & Availability

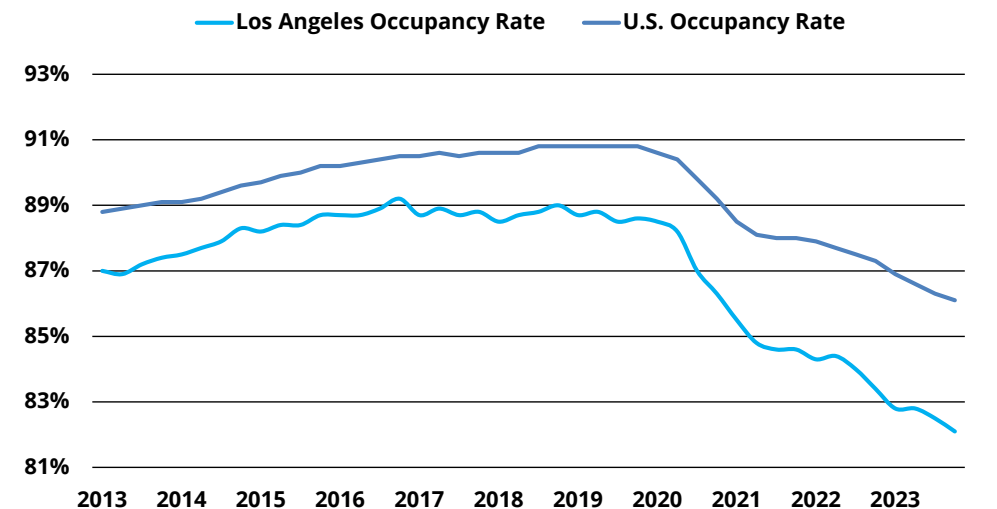
Los Angeles | Millions SF



Source: CoStar, Transwestern

Los Angeles Occupancy vs. US Occupancy

Los Angeles | Millions SF



Source: CoStar, Transwestern.



RENTS

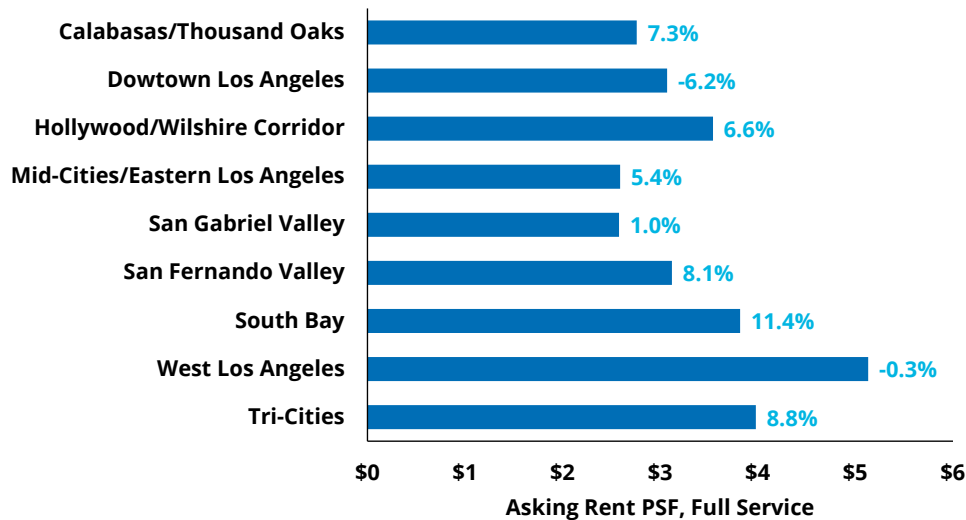
Rent Growth Halts as Landlords Seek to Fill Vacancies.

Rent Growth has slowed in both Class A & B:

- Asking rents in Class A properties fell to \$3.65 per SF, down 1.2% from last year.
- Asking rents in Class B properties fell to \$3.25 per SF, down 1.4% from last year.
- Century City is asking an average of \$6.10 per SF, up 3.1% from a year ago.
- Downtown Los Angeles is asking an average of \$3.10 per SF, down 1.4% from a year ago.
- Weak demand and an abundance of available sublease space gives most landlords limited leverage to raise rents and are thus more inclined to provide favorable terms to secure tenants. Rents remained mostly steady as owners can only go so low before failing to make financial sense.
- Asking rents in Los Angeles have increased 3.2% over the past three years despite historically weak demand. Asking rents in Class A properties have increased by 1.8% over the past three years.

Asking Rates by Submarket & YoY Growth

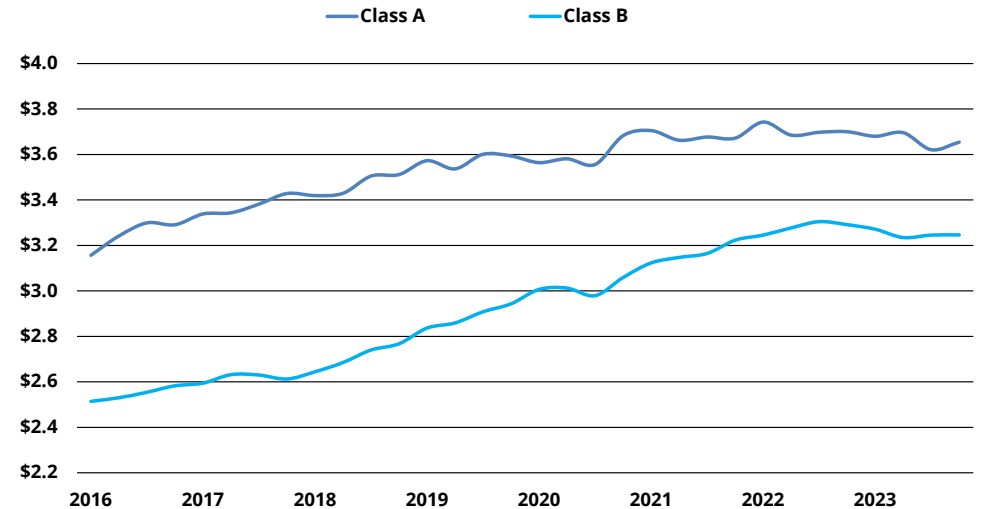
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents by Class

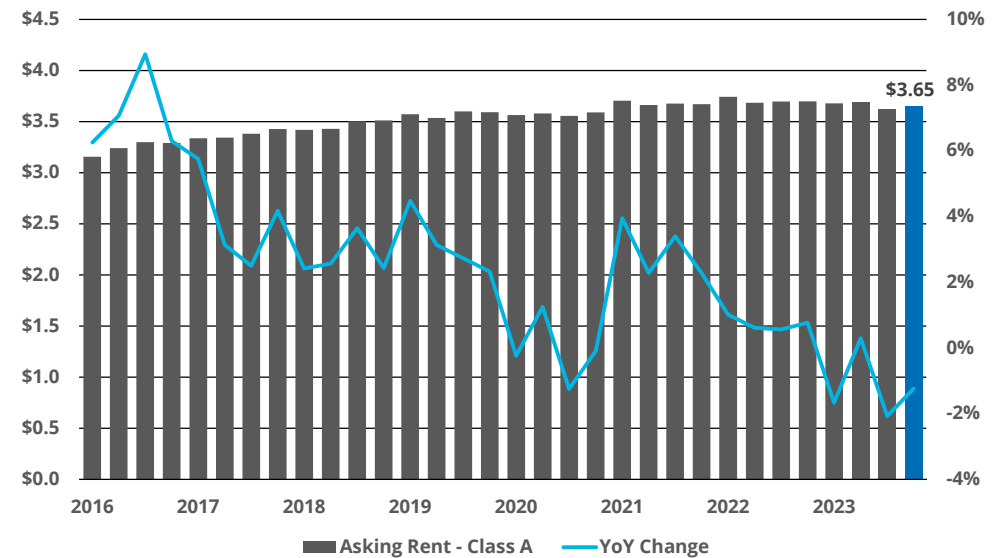
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents - Class A

Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern



CAPITAL MARKETS

Sales Volume Picked Up in Q4 as Distress Flooded the Market

- Q4 saw accelerated activity in capital markets, with some investors securing office properties at historic discounts, while others opted for acquisitions at record-high price per square foot figures. Sales volume increased to \$738 million, a rapid 74% increase from the previous quarter, but still 4.4% below the historical average for Los Angeles.
- Aon Tower, located at 707 Wilshire Blvd in Downtown Los Angeles, was sold to Carolwood LP for \$148 million, equating to \$133 per SF—one of the lowest price per SF deals for an office tower in Downtown Los Angeles in the past decade. The purchase price is also 48.5% lower than the building’s previous sale in 2014.
- FanDuel acquired 9000 Wilshire Blvd in Beverly Hills at \$1414 per SF and \$71 million, over four times the average office sale price per SF in Southern California. The property has 50,200 SF of class A office space.
- Pierpoint, located at 1540 2nd Street in Santa Monica, was purchased by First Citizens Bank for \$86.8 million and \$1127 per SF. The property has 76,890 SF of creative office space.

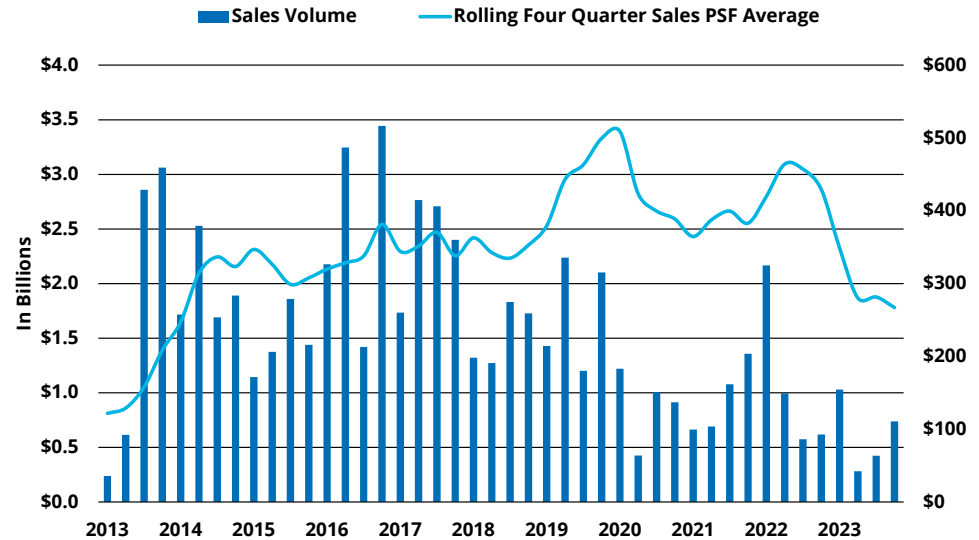
UNDER CONSTRUCTION

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 3.2 million SF under construction, 78.5% being Class A product.
- West Los Angeles—1.3 million SF and Tri-Cities—785,000 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

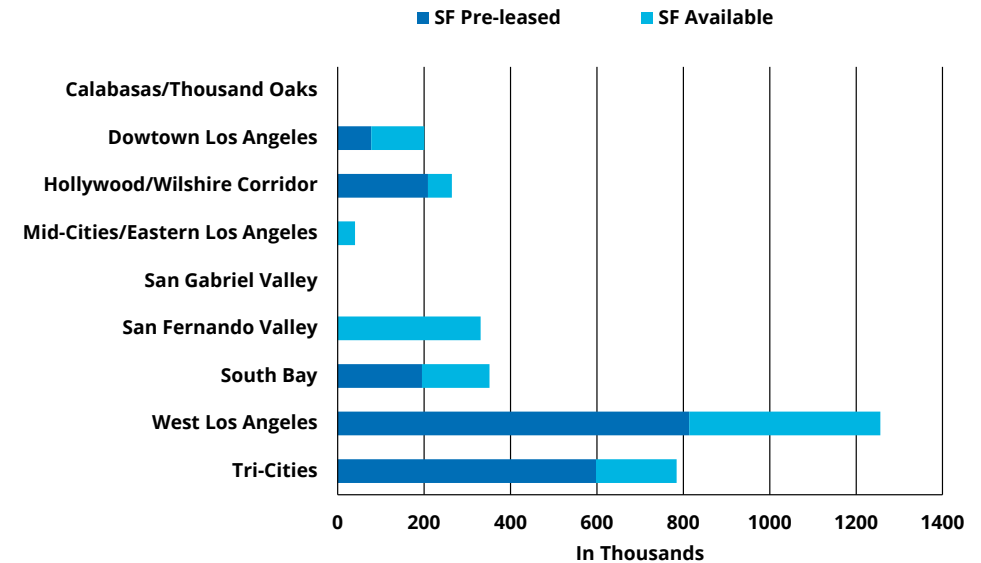
Los Angeles Market



Source: CoStar, Transwestern

Under Construction by Submarket

Los Angeles Market



Source: CoStar, Transwestern



Notable Sales

Address	Submarket	Sales Price	Building SF	Price PSF	Buyer	Seller
Aon Tower - 707 Wilshire Blvd	Downtown Los Angeles	\$147,800,000	1,110,264	\$133	Carolwood LP	Shorenstein Properties
Pierpoint - 1540 2nd St	West Los Angeles	\$86,680,000	76,892	\$1127	First Citizens Bank & Trust Co	Realty Bancorp Equities
9000 Wilshire Blvd	West Los Angeles	\$71,000,000	50,200	\$1414	FanDuel	Skanska
Westwood Terrace Bldg - 1640 S Sepulveda Blvd	West Los Angeles	\$44,710,000	164,682	\$271	Harbor Associates	JP Morgan
450 N Brand Blvd	Tri-Cities	\$34,670,000	273,992	\$127	Central Brand LLC	Kennedy Wilson, Inc
1700 E Walnut Ave	South Bay	\$31,170,000	120,000	\$260	Montana Ave Capital Partners	CalSTRS

Source: Source: CoStar, Real Capital Analytics, Transwestern

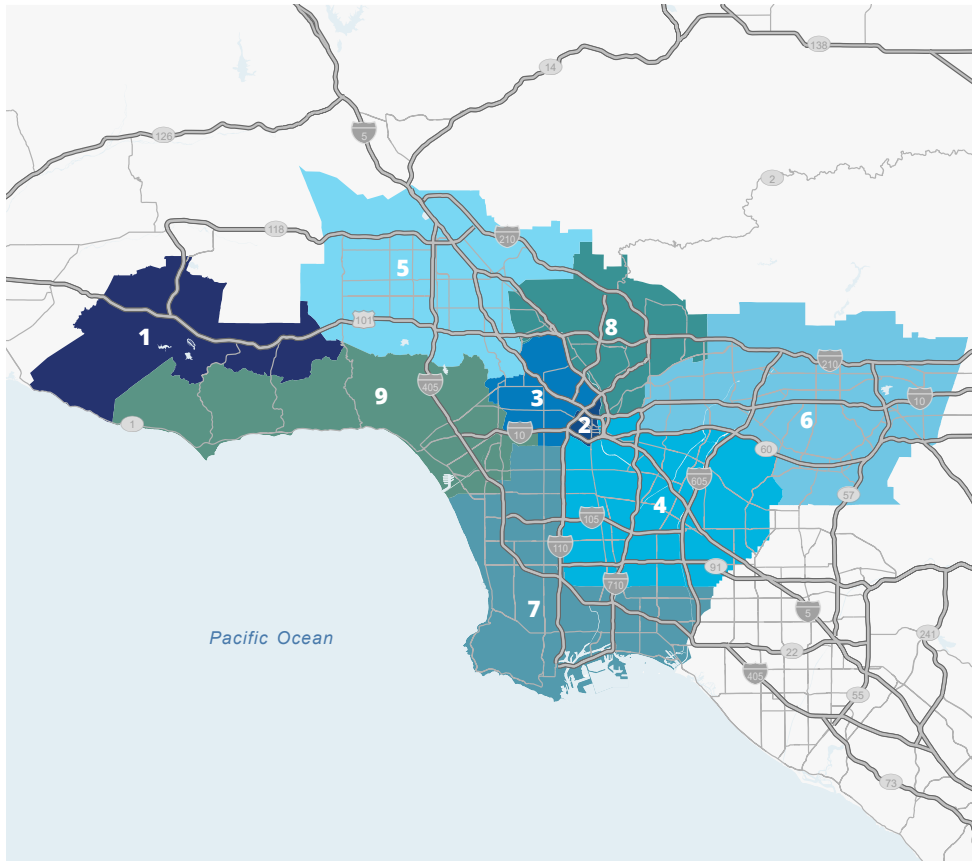
Market Indicators

Submarket	Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Overall Vacancy Rate	Under Construction SF	Net Absorption SF	Asking Rent PSF, Full Service
Tri-Cities	42,014,159	5,932,673	14.1%	17.0%	784,295	(489,339)	\$4.10
West Los Angeles	74,146,494	13,412,347	18.1%	21.9%	1,256,148	(407,887)	\$5.13
South Bay	57,525,297	8,967,802	15.6%	19.7%	351,460	189,844	\$3.82
San Fernando Valley	37,397,026	5,160,898	13.8%	18.0%	331,000	(167,708)	\$3.12
San Gabriel Valley	28,152,242	2,121,224	7.5%	9.7%	0	50,861	\$2.58
Mid-Cities/Eastern Los Angeles	14,199,275	982,730	6.9%	9.5%	40,000	(85,165)	\$2.59
Hollywood/Wilshire Corridor	40,450,328	7,389,136	18.3%	20.6%	264,229	(111,842)	\$3.74
Downtown Los Angeles	59,127,108	12,629,108	21.4%	25.0%	200,381	(218,485)	\$3.10
Calabasas/Thousand Oaks	14,077,061	1,943,713	13.8%	19.4%	0	(72,735)	\$2.92
TOTAL	367,088,990	58,539,631	14.4%	17.9%	3,227,513	(1,312,456)	\$3.46

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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