

# Los Angeles Office

## MARKET OVERVIEW

### Q1 2024



#### Trendlines

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
<b>Unemployment Rate</b>	5.3%	4.8%	↑	7.0%	↓
<b>Net Absorption (Thousands SF)</b>	(1,517.9)	(1,427.0)	↓	(612.2)	↔
<b>Overall Vacancy Rate</b>	18.5%	17.0%	↑	14.0%	↑
<b>Overall Vacant SF (MSF)</b>	67.7	61.8	↑	50.2	↑
<b>Under Construction (MSF)</b>	2.8	4.0	↓	5.0	↓
<b>Asking Rent, Full Service (PSF)</b>	\$3.50	\$3.50	↔	\$3.35	↔
<b>Sales Volume (Millions)</b>	\$176.2	\$1,034	↓	\$1,188.7	↑

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

### Los Angeles Office Overview

Leasing activity in Los Angeles remains sluggish due to tight financial conditions, hybrid work models, and office-using employment growth flattening out over the past year. The result, negative 1.5 million SF of net absorption in Q1 2024, as well as the seventh consecutive quarter that absorption has been negative. Corporate occupiers continued to downsize, list sublease space, and new deals are driven by expirations.

Los Angeles' office market fundamentals are at their worst position in decades. Availability, at 21.7%, is the highest mark ever and continues to rise from around 14% in early 2020. Direct asking rents have held steady at \$3.5 per SF over the past year while an abundance of concessions are being offered to increase occupancies. Sales volume totaled \$176 million in Q1 2024, an 87% decrease from the previous quarter, and 83% lower than the five-year quarterly average. On the bright side, supply-side pressure is minimal; Century City is the only submarket slated to add more than 400,000 SF due to the construction of 731,250 SF at 1950 Avenue of the Stars.

In Los Angeles, the profile of office buyers has shifted, moving away from institutional entities towards private wealth. These private buyers often opt to make purchases with all-cash transactions or through private money lenders. This change, coupled with the rise of remote work and a scarcity of capital available for financing office acquisitions, has resulted in declining valuations of office properties. Most prominently, this is taking place in Downtown Los Angeles where buildings have traded for 50% discounts relative to previous pricing. The 'reset' of office property values will continue in Los Angeles in the coming quarters as many owners will begin to undergo distressed sales at discounted valuations.

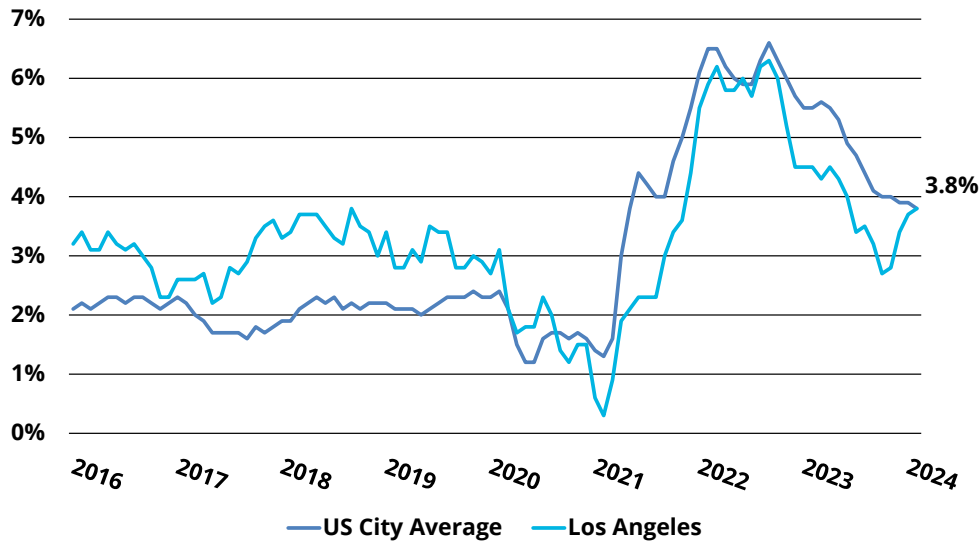


ECONOMY

### Office-Using Employment Slows in Los Angeles

- Los Angeles nonfarm employment decreased by 48,700 jobs over the past three months as the labor market is feeling the effects of high interest rates. Los Angeles non-farm job growth over the past year totals 9,400 jobs, or 0.2%. Job gains were driven by a 5% year-over-year increased in education & health services.
- Los Angeles office-using employment decreased by 7,100 jobs in Q1 2024. Los Angeles office using employment is at 2,731,400 jobs, or 0.3% above the pre-pandemic peak.
- As of February 2024, the Los Angeles unemployment rate is 5% and the national unemployment rate is 3.9%.
- Los Angeles office-using employment has increased by 13.9% since early 2020, while national office-using employment has increased by 12.9%.
- At the March 19th-20th meeting, the Federal Reserve held interest rates steady at 5.25% - 5.5% and suggested it still expects to cut rates three times this year. It's the fifth straight policy meeting where the central bank has opted not to raise or cut interest rates.

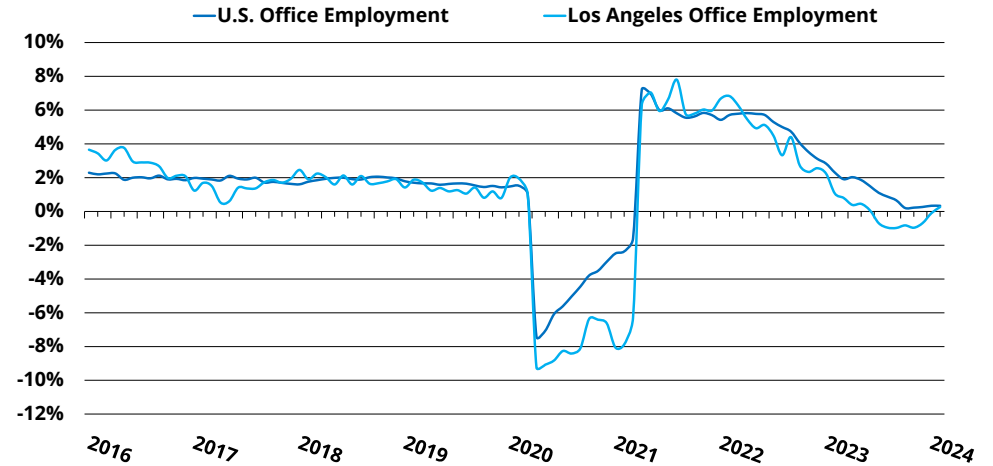
### Core Consumer Price Index



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y Change in Office Jobs

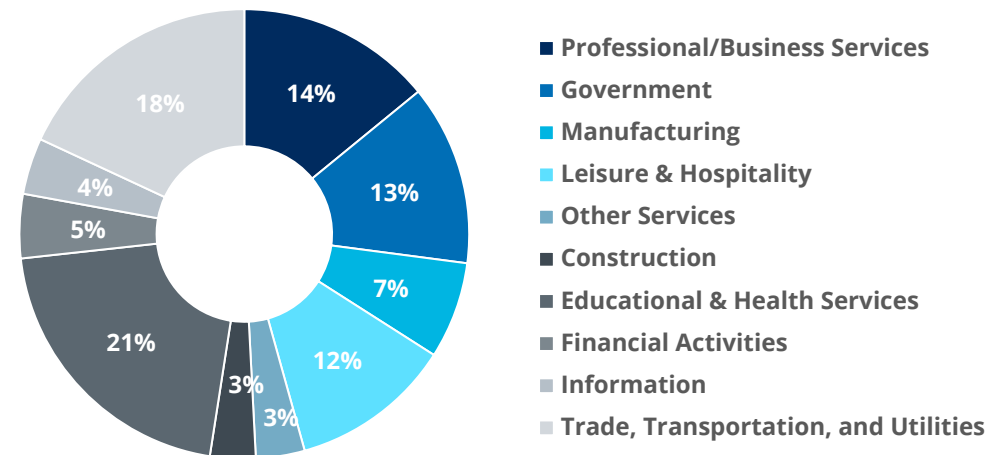
Los Angeles MSA | February 2024



Source: Bureau of Labor Statistics, Transwestern

### Share of Employees By Industry

Los Angeles MSA | February 2024



Source: Bureau of Labor Statistics, Transwestern



MARKET FUNDAMENTALS

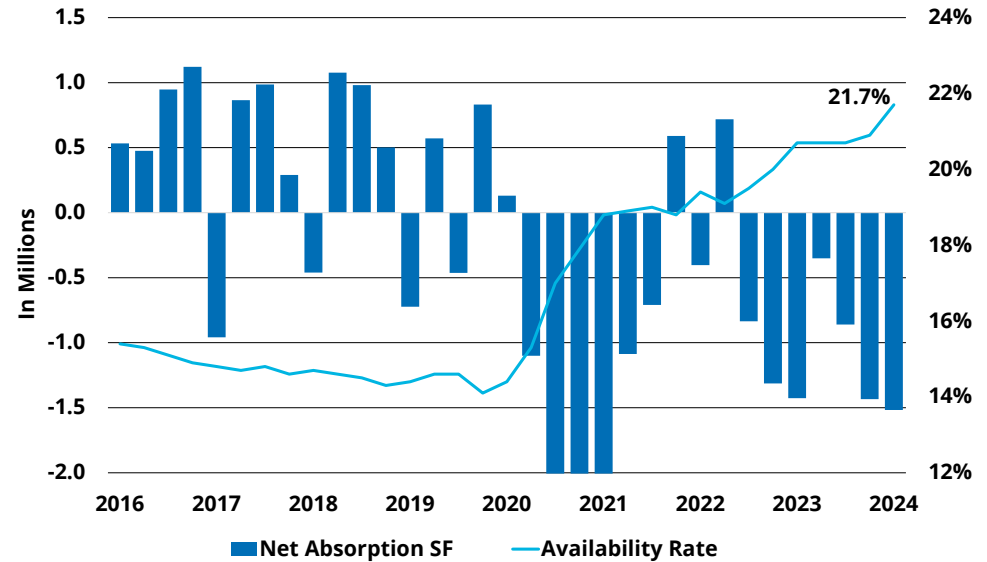
### Net Absorption, Occupancy, & Leasing

#### Slow, Expiration Driven Leasing Activity in Q1

- Net absorption regressed for the seventh consecutive quarter, at negative 1.5 million SF. Downtown LA and West LA had the most negative net absorption.
- Snap's renewal, for 486,214 SF at 2850-3250 Ocean Park Blvd in Santa Monica was the largest deal of Q1 2024. Other large occupiers were Lionsgate, renewing for 152,210 SF in Santa Monica, and Riot Games, renewing for 78,000 SF in West LA.
- Availability is at an all-time high, at 21.7% or 80 million SF.
- Los Angeles occupancy decreased 1.5% over the past year to 81.5%, well below the national average of 85.9%.
- Los Angeles leasing activity will remain slow due to the slowdown in hiring and overall economic activity. Occupiers will continue to downsize and seek high-quality space in 2024.

### Net Absorption & Availability

Los Angeles | Millions SF



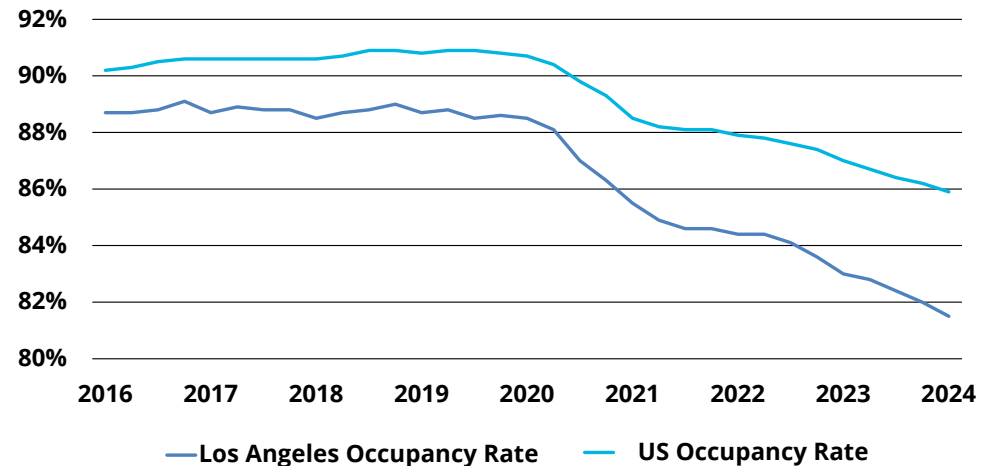
Source: CoStar, Transwestern

### Notable Leases

Tenant	Address	Submarket	Type	SF Leased
<b>Snap</b>	2850-3250 Ocean Park Blvd	Santa Monica	Renewal	486,214
<b>Lionsgate</b>	2600-2800 Colorado Ave	Santa Monica	Renewal	152,210
<b>Riot Games</b>	12312 W Olympic Blvd	West Los Angeles	Renewal	78,000
<b>Mitsubishi UFJ Financial Group</b>	555 S Flower St	Downtown Los Angeles	Relocation	62,000
<b>State of California</b>	101 N Brand Blvd	Glendale	Renewal	37,000
<b>JAMS</b>	515 S Flower St	Downtown Los Angeles	-	27,300

### Los Angeles Occupancy Rate & U.S. Occupancy Rate

Los Angeles | Millions SF



Source: CoStar, Transwestern.



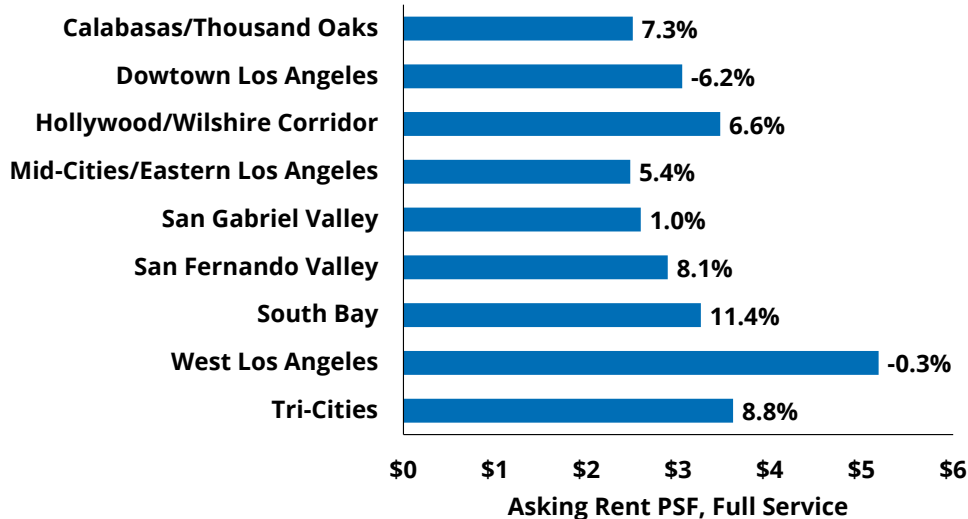
RENTS

### Rent Growth Holds Steady as Landlords Seek to Increase Occupancies

- Rent Growth made little movement over the past year in Class A & Class B:
  - Asking rents in Class A properties increased to \$3.72 per SF, up 0.9% from a year ago.
  - Asking rents in Class B properties fell to \$3.24 per SF, down 0.6% from a year ago.
- Century City is asking an average of \$6.1 per SF, up 5.1% from a year ago, and 14.3% from early 2020. Century City is emerging as Los Angeles' preferred CBD.
- Downtown Los Angeles is asking an average of \$3.04 per SF, down 2.2% from a year ago, and down 5.9% from early 2020.
- 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.
- Overall asking rents have increased 5.8% since early 2020 despite historically weak demand. This is the result of many landlords holding rents steady while increasing concessions, and landlords of trophy offices have had the leverage to increase rents due to the post pandemic trend of flight-to-quality.

### Asking Rates by Submarket & YoY Growth

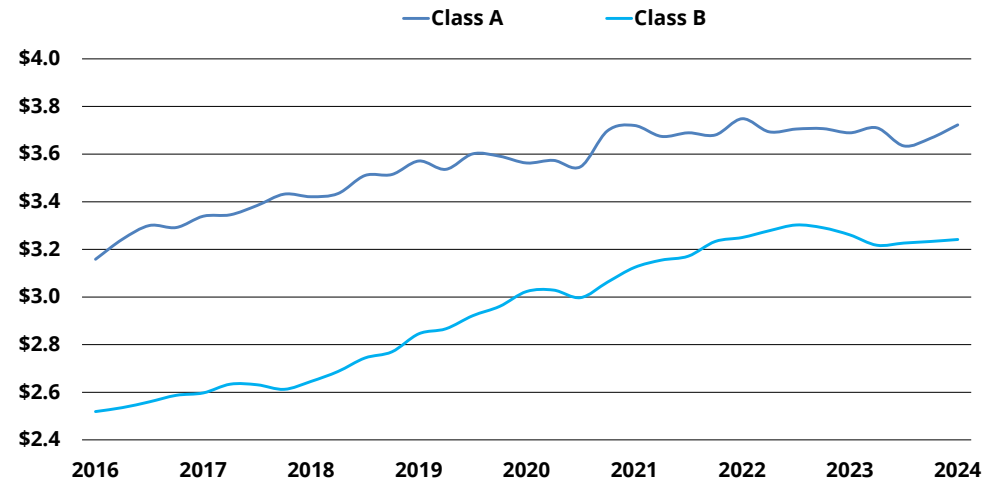
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

### Asking Rents by Class

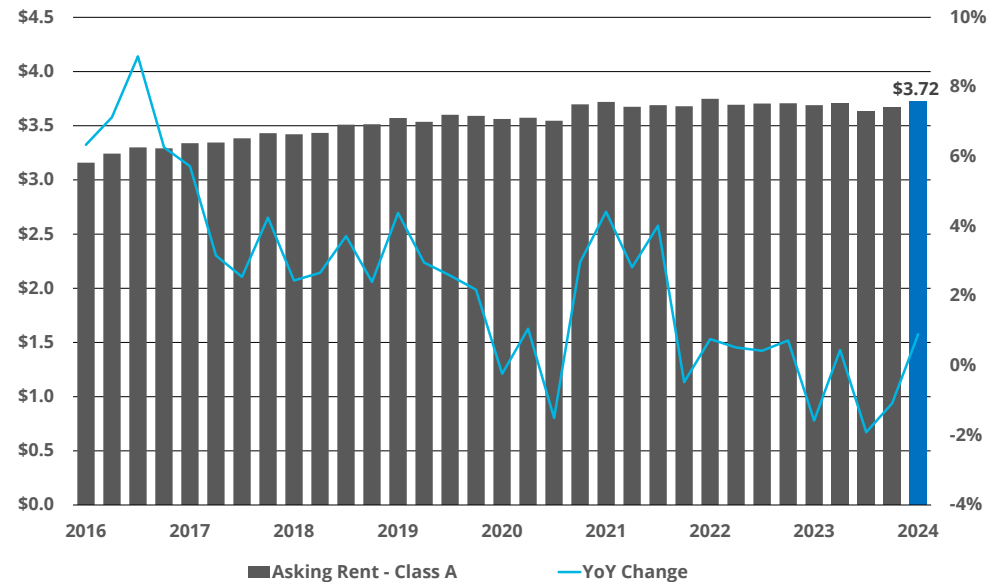
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

### Asking Rents - Class A

Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern



CAPITAL MARKETS

### Q1 2024 Sales Volume Halts; Private Capital Ready to Deploy on Distress

- Q1 2024 saw just \$176 million of sales volume, an 83% decrease from Q4 2023, and 87% below the five-year quarterly average. Market weakness and questions around the future trajectory for office space have damaged investor demand.
- The largest deal of Q1 2024 was 1940 E Mariposa Ave, located in South Bay. It sold for \$25 million, or \$294 per SF to NantWorks, a biotech holding company ran by billionaire Patrick Soon-Shiong. The deal came at just a 5% discount to its 2020 pricing as NantWorks plans to own and occupy the space.
- 777 S Figueroa St is nearing a sale to South Korea’s Consus Asset Management for approximately \$145 million, or \$145 per square foot. This pricing is about half of the property’s \$289 million debt and a third of its last sale price in 2013. It aligns closely with Aon Tower’s \$134 per square foot sale in Q4 2023 in Downtown LA.
- Most prominently, distressed sales at low valuations are taking place in Downtown Los Angeles.

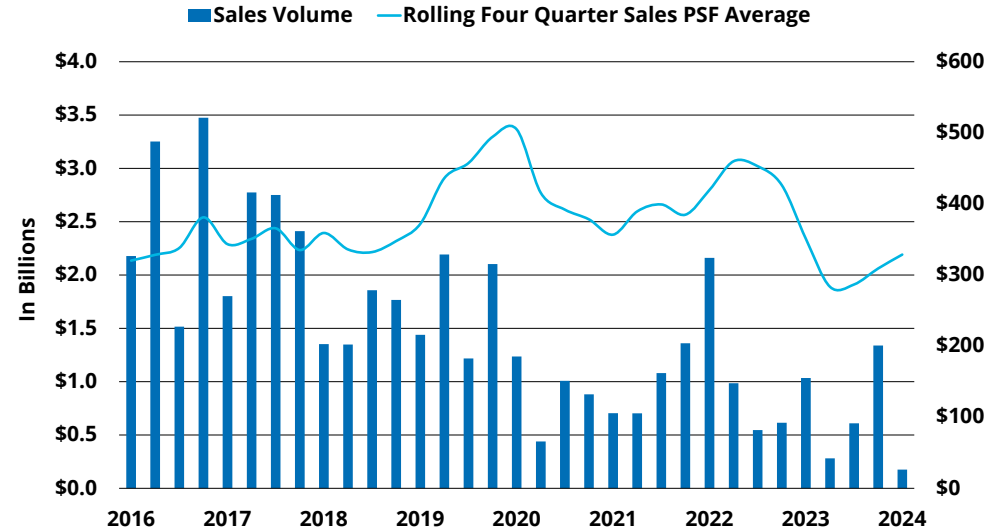
UNDER CONSTRUCTION

### Los Angeles Office Construction Declines, Class A Projects Prevail Amid Economic Uncertainty

- New construction continues to decline from its peak in Q3 2020 of 6.3 million SF. There is currently 2.8 million SF under construction, 82.1% or 2.3 million SF being Class A product. The post-pandemic flight-to-quality trend has made Class A projects the only practical option.
- West Los Angeles—1.3 million SF and Tri-Cities—386,000 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.
- Lenders remain cautious and apprehensive about the economy, interest rates, and the future trajectory of office space. Construction activity will continue to be muted in future quarters.

### Sales Volume

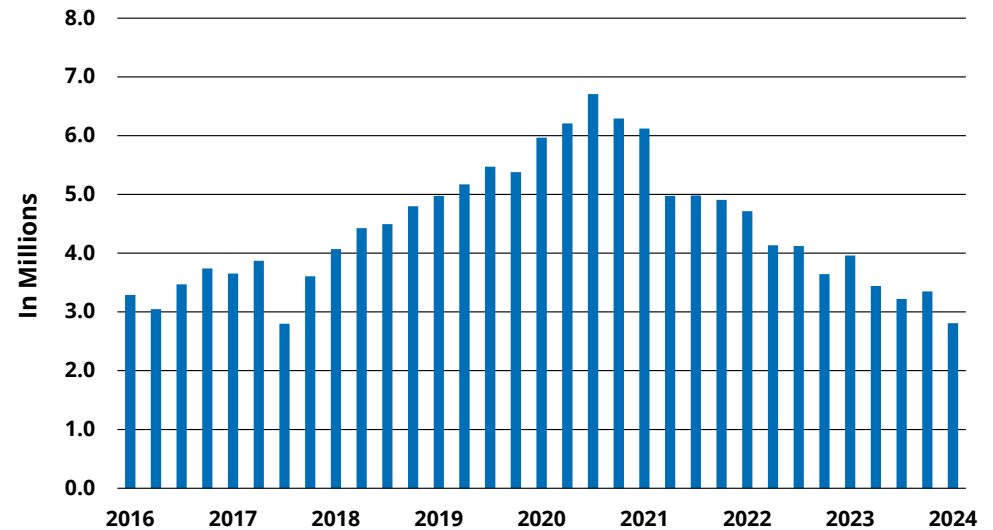
Los Angeles Market



Source: CoStar, Transwestern

### Total Under Construction

Los Angeles Market



Source: CoStar, Transwestern



**Notable Sales**

Address	Submarket	Sales Price	Building SF	Price PSF	Buyer	Seller
1940 East Mariposa Ave	South Bay	\$25,000,000	81,800	\$306	NantBio, LLC	Montana Avenue Capital Partners
501 S Beverly Dr	West LA	\$21,300,000	23,075	\$923	Dr. Daniel Barrett	Abady Holdings Corporation
4055 Wilshire Blvd	Mid-Wilshire	\$15,000,000	70,760	\$212	Calvin Chun	Jamison Services, Inc
6338-6340 Variel Ave	Woodland Hills	\$12,070,267	41,836	\$289	Tzvika Diner	Brasa Capital Management
2014-2022 E 7th St	Downtown Los Angeles	\$11,900,000	22,851	\$521	Sean Andrade	ASB Real Estate Investments
5995 Sepulveda Boulevard	Culver City	\$10,200,000	27,090	\$377	Payam Bahari	Reading International, Inc

Source: Source: CoStar, Real Capital Analytics, Transwestern

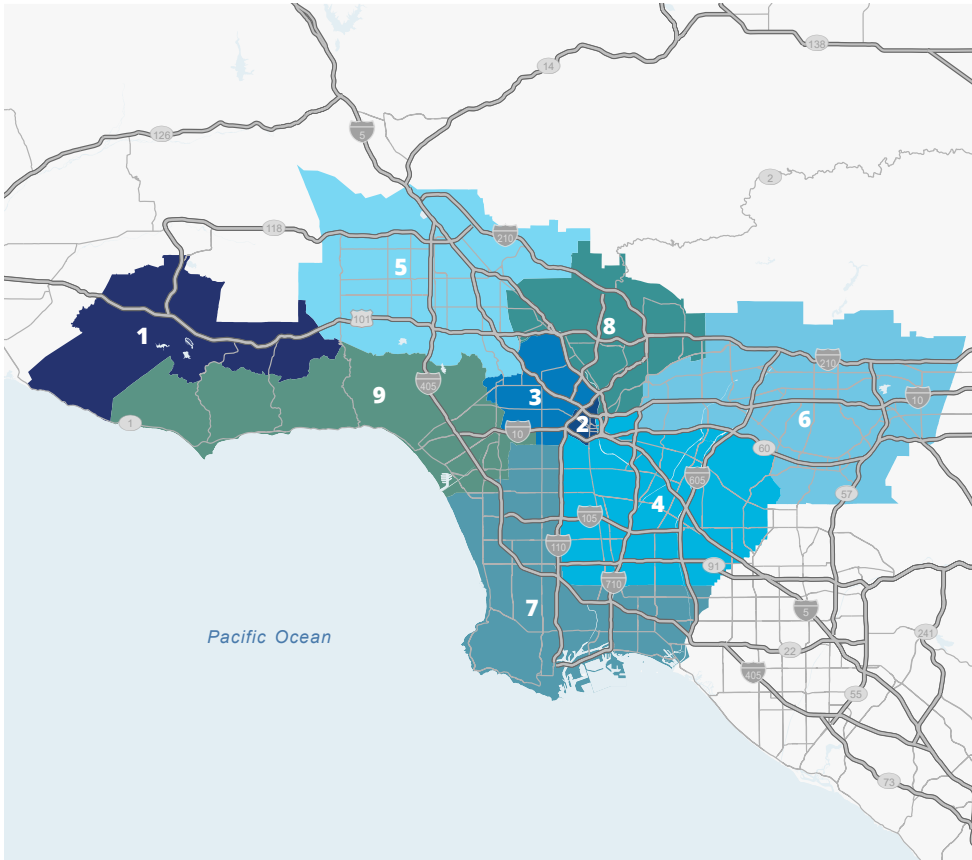
**Market Indicators**

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	41,714,875	6,451,480	15.5%	18.6%	386,308	(310,729)	\$4.10
West Los Angeles	74,058,809	14,083,709	19.0%	22.9%	1,385,844	(557,587)	\$5.35
South Bay	57,253,883	8,729,561	15.2%	18.4%	324,000	239,591	\$3.72
San Fernando Valley	37,472,166	5,231,661	14.0%	18.0%	331,000	16,778	\$3.06
San Gabriel Valley	28,571,044	2,042,730	7.1%	11.4%	20,627	75,729	\$2.58
Mid-Cities/Eastern Los Angeles	14,475,142	986,032	6.8%	10.4%	0	10,708	\$2.71
Hollywood/Wilshire Corridor	39,911,979	7,741,553	19.4%	21.9%	222,241	(390,385)	\$3.74
Downtown Los Angeles	58,317,580	13,141,647	22.5%	26.3%	137,281	(538,546)	\$3.18
Calabasas/Thousand Oaks	13,949,797	1,944,548	13.9%	19.3%	0	(79,719)	\$3.00
<b>TOTAL</b>	<b>365,725,275</b>	<b>60,352,921</b>	<b>14.8%</b>	<b>18.5%</b>	<b>2,807,301</b>	<b>(1,534,160)</b>	<b>\$3.50</b>

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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