



TRANSWESTERN

Los Angeles Office Report

Q2 2024



Trendlines

	Q2 2024	ONE YEAR AGO	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	5.2%	4.7%	↑	7.2%	↓
Net Absorption (Thousands SF)	(526.0)	(250.5)	↓	(768.7)	↔
Overall Vacancy Rate	19.9%	18.2%	↑	15.8%	↑
Overall Vacant SF (MSF)	62.6	57.5	↑	49.5	↑
Under Construction (MSF)	1.9	2.9	↓	4.2	↓
Asking Rent, Full Service (PSF)	\$3.55	\$3.51	↔	\$3.46	↔
Sales Volume (Millions)	\$223.9	\$282	↓	\$976.5	↑

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

Los Angeles Office Overview

The Los Angeles office market continued to struggle in Q2 2024, with vacancy climbing to 19.9%, up from around 10% in early 2020. Leasing activity has lagged due to tight financial conditions and the rise of hybrid work models. The market faces significant challenges as more pre-pandemic leases expire, coupled with job losses in key sectors like entertainment and tech. Corporate occupiers have downsized and listed sublease space, with new deals primarily driven by lease expirations; available sublease space has reached a record 2.8 million square feet.

As there have been minimal rent reductions since early 2020, landlords are offering attractive concessions to lure tenants, with some packages equating to several years' worth of total rent over a 10-year lease. Asking rents, at \$3.55 per SF, have held steady year-over-year and increased by 6.6% since early 2020. 'Newer' Class A buildings in safe, amenity-rich areas have seen the greatest tenant interest. For instance, the 1950 Avenue of the Stars project in Century City is 85% preleased ahead of its 2026 completion.

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 default on their loans.

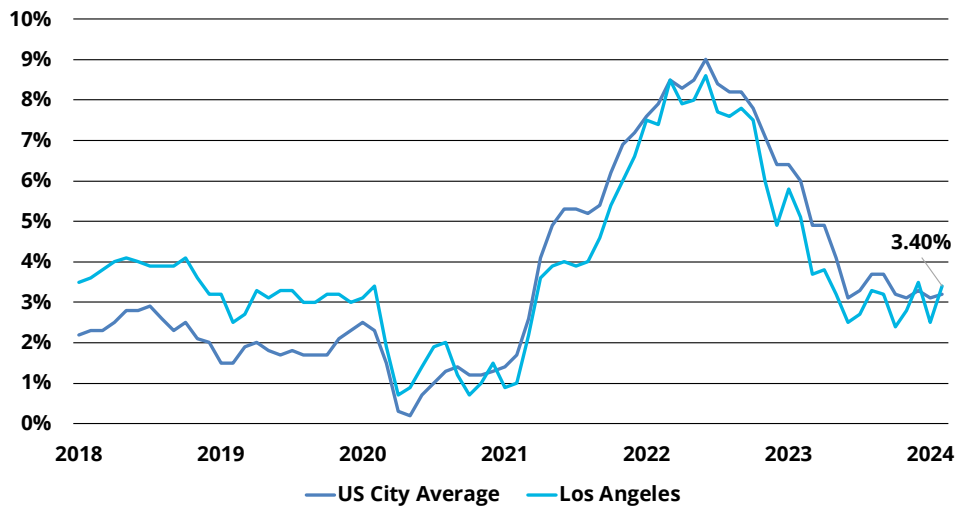


ECONOMY

Office-Using Employment Slows in Los Angeles

- Los Angeles nonfarm employment increased by 43,500 jobs over the past three months. The labor market continues to grow despite high interest rates.
- Los Angeles nonfarm job growth over the past year totals 27,500 jobs, or 0.6%. Job gains were driven by a 4% year-over-year increase in education & health services.
- Los Angeles office-using employment increased by 26,200 jobs in Q2 2024. Los Angeles office-using employment is at 2,754,700 jobs, or 1.5% above the pre-pandemic peak.
- As of May 2024, the Los Angeles unemployment rate is 5.2%, and the national unemployment rate is 4%.
- Los Angeles office-using employment has increased by 1.5% since early 2020, while national office-using employment has increased by 6.3%.
- During the June Federal Reserve meeting, the Fed unanimously voted to hold policy rates steady for the seventh consecutive time, leaving the Fed Funds Target Rate unchanged at 5.25% to 5.50%. The Fed is still expecting to cut rates at some point in 2024.

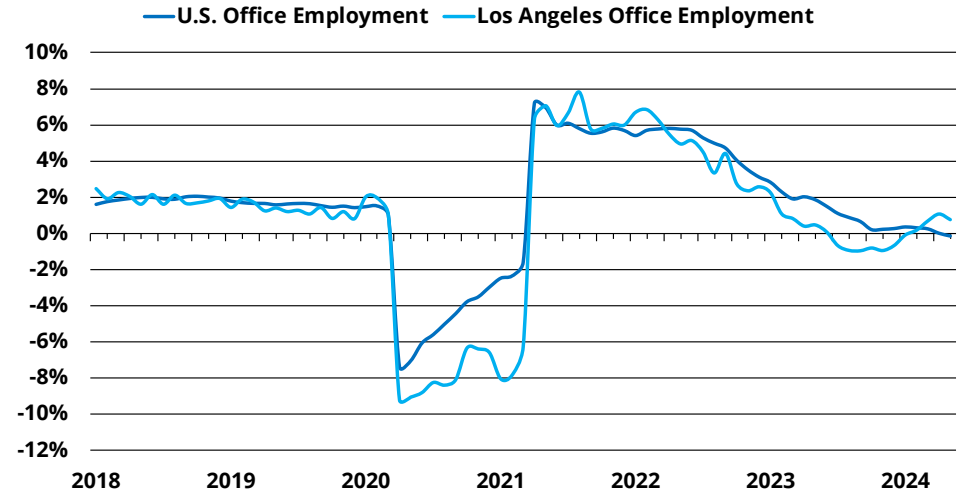
Consumer Price Index



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y Change in Office Jobs

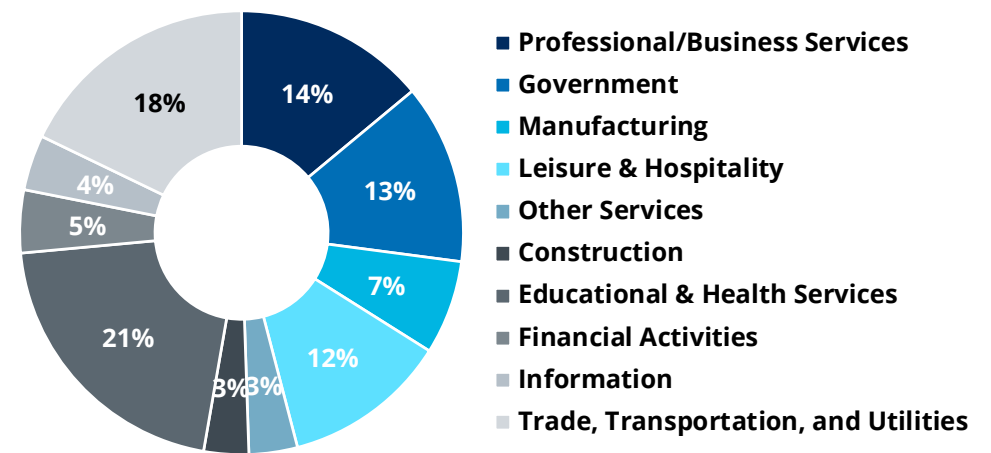
Los Angeles MSA | May 2024



Source: Bureau of Labor Statistics, Transwestern

Share of Employees By Industry

Los Angeles MSA | May 2024



Source: Bureau of Labor Statistics, Transwestern



MARKET FUNDAMENTALS

Net Absorption, Occupancy, & Leasing

Expiration Driven Leasing Activity in Q2 2024

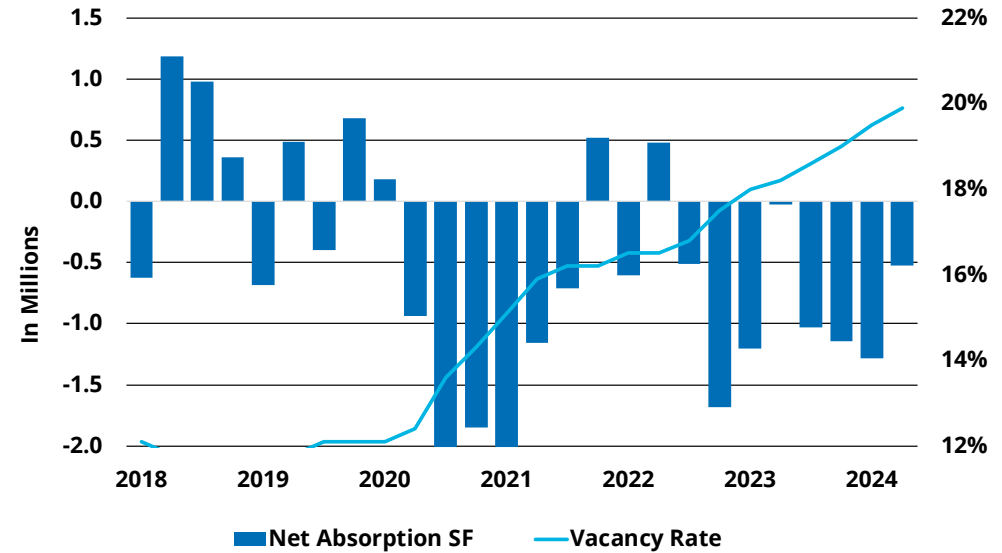
- Net absorption regressed for the eighth consecutive quarter, at negative 525,952 SF. West LA and South Bay had the most negative net absorption.
- U.S. Bank’s renewal at 633 W 5th St. in Downtown Los Angeles was the largest deal of Q2 2024. Other large occupiers were FPM Development, signing a new deal for 94,081 SF at 3101 W Exposition Blvd in Crenshaw, and Latham & Watkins, renewing for 81,600 SF in Century City.
- Vacancy is at an all-time high, at 19.9% or 62.6 million SF.
- Los Angeles occupancy decreased 1.6% over the past year to 80.2%, well below the national average of 85.8%.
- Entertainment and tech firms, key tenancies of the office market, have seen job losses over the past year. Leasing will be driven by financial services, law, and real estate sectors.
- When tenants sign new leases, they frequently reduce their space. Conversely, when companies expand, they tend to show increased interest in top-tier buildings and prime locations.
- Los Angeles leasing activity will remain slow due to high interest rates and the resulting slower overall economic activity. Occupiers will continue to downsize and seek high-quality space in the latter half of 2024.

Notable Leases

Tenant	Address	Submarket	Type	SF Leased
U.S. Bank	633 W 5th St	Downtown LA	Renewal	105,000
FPM Development	3101 W Exposition Blvd	Hollywood/Wilshire Corridor	New	94,081
Latham & Watkins	10250 Constellation Blvd	West Los Angeles	Renewal/Expansion	81,600
Spectrum Enterprise	17777 Center Court Dr	Mid Cities/Eastern LA	Renewal	52,507
Skechers	1240 Rosecrans Ave	South Bay	Renewal	47,498
Tokio Marine	269-283 S Lake Ave	Tri-Cities	New	33,464

Net Absorption & Vacancy

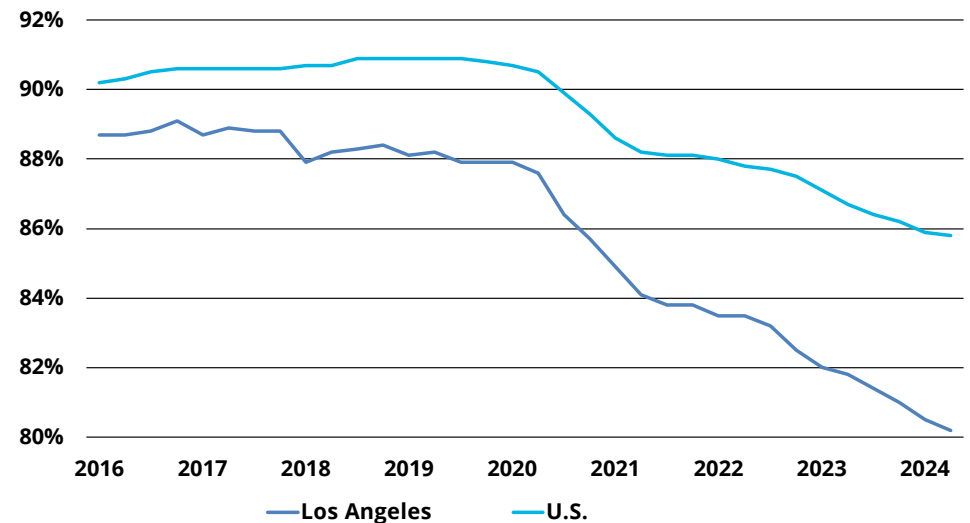
Los Angeles | Millions SF



Source: CoStar, Transwestern

Los Angeles Occupancy Rate & U.S. Occupancy Rate

Los Angeles



Source: CoStar, Transwestern.



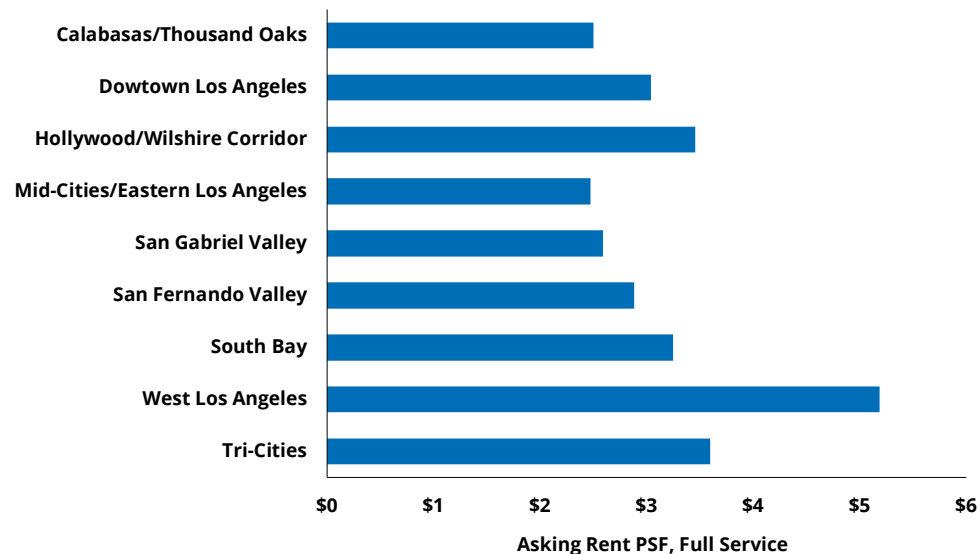
RENTS

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 \$3.78 per SF, up 1% from a year ago.
 - Asking rents in Class B properties increased to \$3.27 per SF, up 0.5% from a year ago.
- Century City is asking an average of \$6.14 per SF, up 5.2% from a year ago, and 7.3% from early 2020. Century City is emerging as Los Angeles' preferred CBD.
- Downtown Los Angeles is asking an average of \$3.42 per SF, up 2.9% from a year ago, and 9.2% 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 6.6% 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

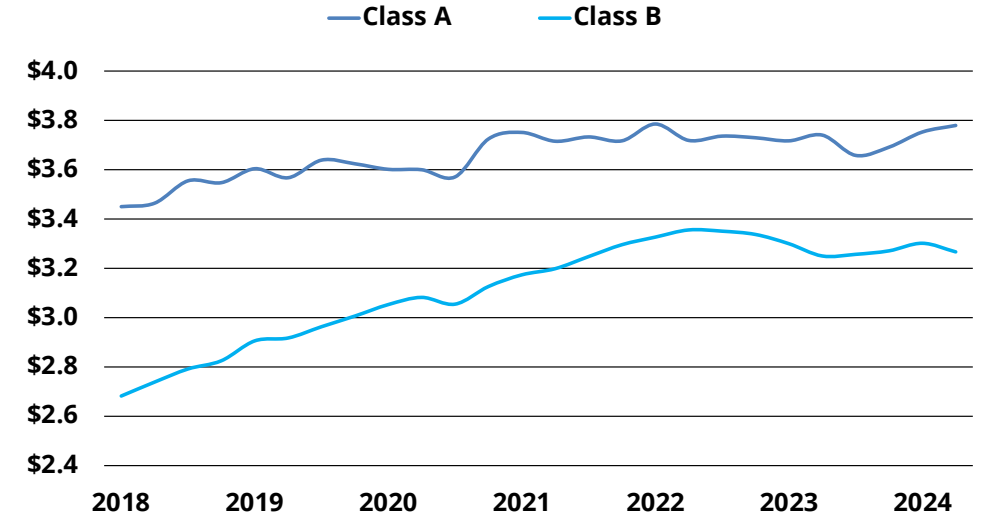
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents by Class

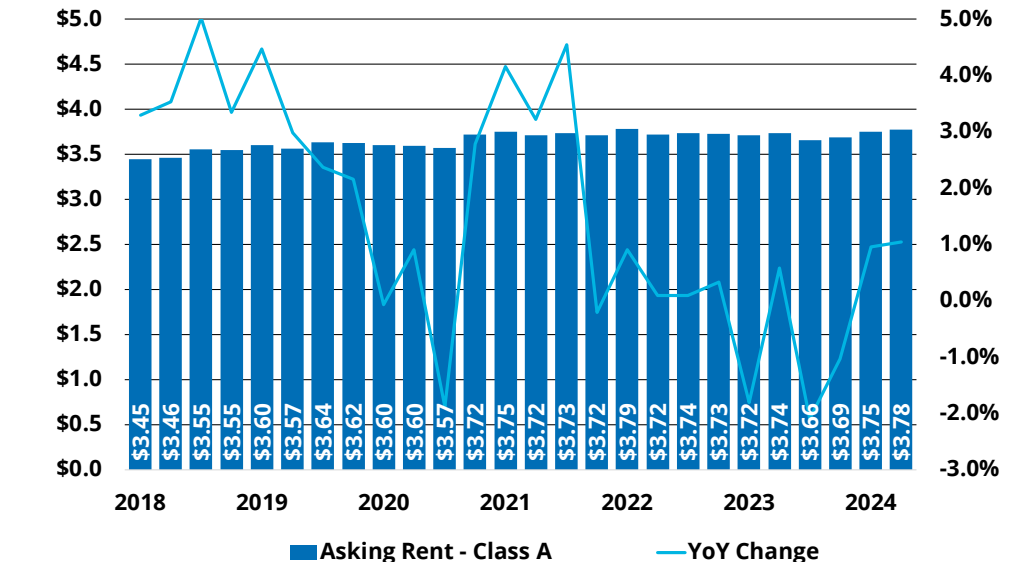
Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents - Class A

Los Angeles | \$/SF, Asking Rents



Source: CoStar, Transwestern



CAPITAL MARKETS

Q2 2024 Sales Volume Halts; Though, Private Capital is Ready to be Deployed On Distress

- Q2 2024 saw \$223 million of sales volume, a 9.8% increase from Q1 2024 but 77% 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 Q2 2024 was at 5340 Alla Road – The Annex, located in Playa Vista. It sold for \$50.25 million, or \$381 per SF to Westside Neighborhood School. The building last traded in 2017 for about \$777 per SF.

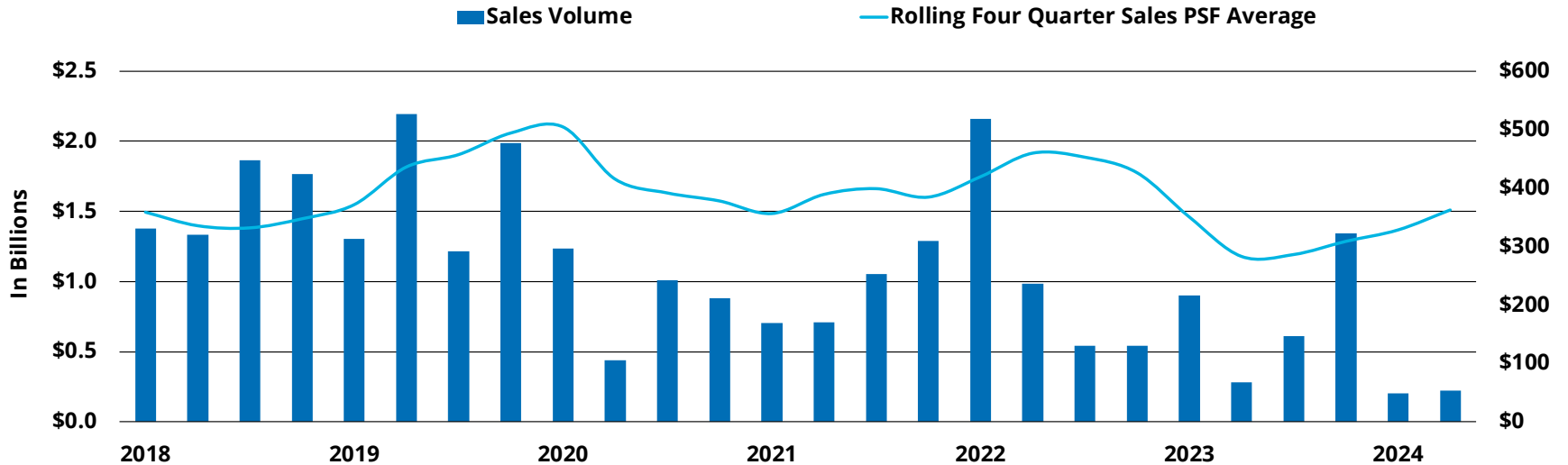
- 7083 Hollywood Blvd sold due to cash flow struggles and a delinquent \$21.7 million loan. The property, entirely vacant and previously anchored by WeWork, sold for \$25.5 million, or \$294 per SF to the Church of Scientology.
- Most prominently, distressed sales at low valuations are taking place in Downtown Los Angeles, where buildings have traded for 50% of their previous value.
- Sales activity in the metro is driven by owner/users and private buyers. Historically accounting for less than 10% of all dollar activity, owner/user buyers have comprised around 45% of transaction volumes in the past 12 months. The current market conditions provide these buyers with leverage and opportunities to acquire quality properties at attractive prices.

Notable Sales

Address	Submarket	Sales Price	Building SF	Price PSF	Buyer	Seller
5340 Alla Rd	West Los Angeles	\$50,250,000	131,942	\$381	Westside Neighborhood School	LaSalle Investment Management
7083 Hollywood Blvd	Hollywood/Wilshire Corridor	\$25,500,000	86,606	\$294	Church of Scientology	Vanbarton Group
12901 W Jefferson Blvd	West Los Angeles	\$23,321,500	48,412	\$482	A2 Investors LLC	LaSalle Investment Management
301 Arizona Ave	West Los Angeles	\$21,080,000	43,087	\$489	XYZ.rent	Federal Realty Investment Trust
617 W 7th St	Downtown Los Angeles	\$20,470,000	215,469	\$95	Shomof Group	The Swig Company
8941 Valley Blvd	San Gabriel Valley	\$10,990,000	41,716	\$263	Pasadena City College	Amenities Development Co

Sales Volume

Los Angeles Market





UNDER CONSTRUCTION

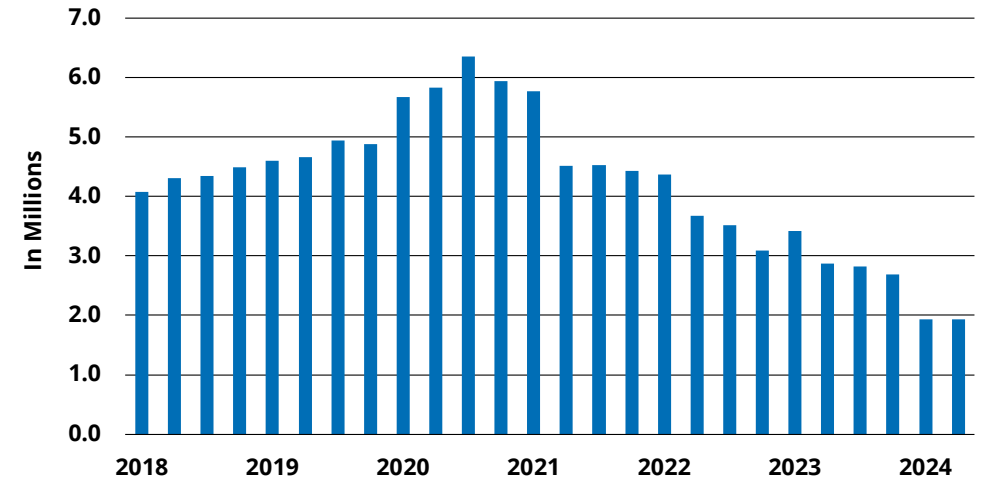
Developers are Building Class A Product

- New construction continues to decline from its peak in Q3 2020 of 6.3 million SF. There is currently 1.9 million SF under construction, 90.2% or 1.7 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—860,000 SF and South Bay—324,000 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.
- Buildings in Los Angeles built in 2010 or later are the only properties that have experienced positive net absorption since early 2020.
- 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.

Source: Source: CoStar, Real Capital Analytics, Transwestern

Total Under Construction

Los Angeles Market



Source: CoStar, Transwestern

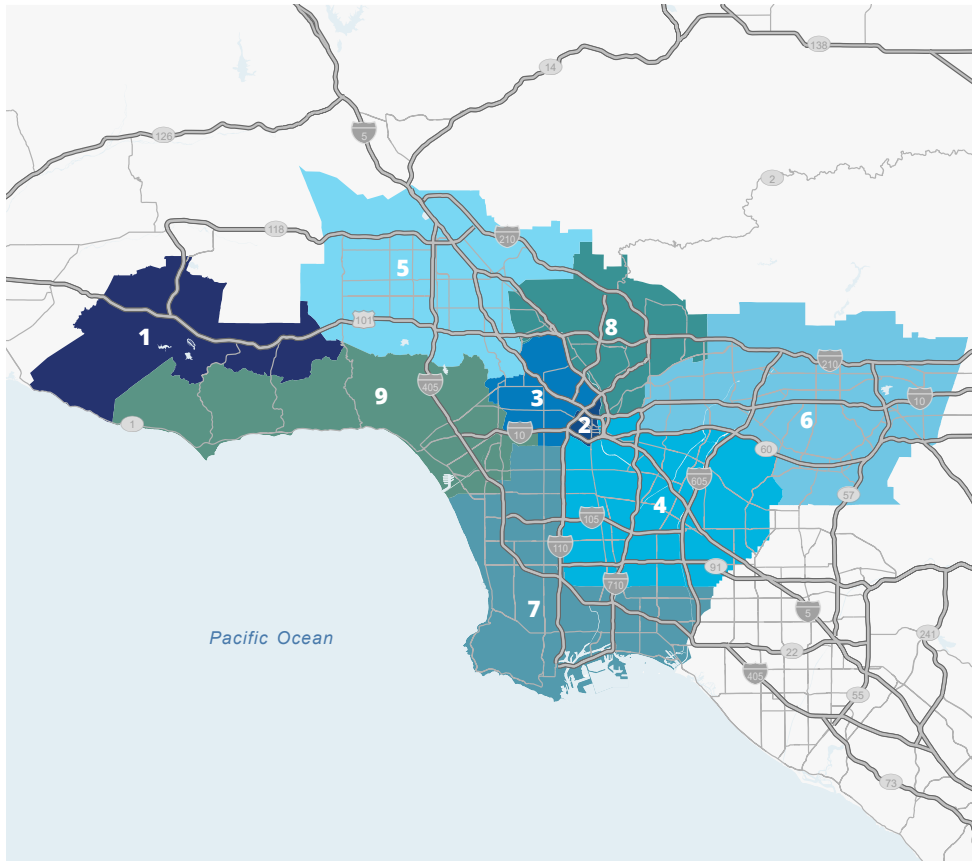
Market Indicators

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	35,698,814	6,170,303	17.3%	20.7%	145,674	(65,244)	\$3.79
West Los Angeles	67,214,608	13,346,724	19.9%	24.0%	859,751	(187,015)	\$5.16
South Bay	47,883,207	8,380,094	17.5%	19.9%	324,000	(165,285)	\$3.36
San Fernando Valley	32,324,393	4,629,141	14.3%	16.6%	331,000	(26,369)	\$3.00
San Gabriel Valley	21,874,124	1,665,789	7.6%	9.9%	0	(25,067)	\$2.73
Mid-Cities/Eastern Los Angeles	11,992,630	734,201	6.1%	11.9%	0	(359)	\$2.53
Hollywood/Wilshire Corridor	35,198,705	6,758,968	19.2%	22.7%	128,241	(5,200)	\$3.64
Downtown Los Angeles	83,177,695	14,995,029	18.0%	20.4%	137,281	(41,050)	\$3.23
Calabasas/Thousand Oaks	11,658,068	1,751,865	15.0%	22.5%	0	(10,363)	\$2.69
TOTAL	347,022,244	58,432,114	15.0%	19.9%	1,925,947	(525,952)	\$3.55

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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