TRANSWESTERN

Los Angeles Office Report

Q3 2024

Trendlines

	Q3 2024	ONE YEAR AGO	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	6.7%	5.6%	↑	7.3%	↓
Net Absorption (Thousands SF)	(245.8)	(850.9)	↑	(814.1)	↔
Overall Vacancy Rate	18.6%	17.3%	↑	14.8%	↑
Overall Vacant SF (MSF)	68.7	63.7	↑	53.9	↑
Under Construction (MSF)	2.8	3.0	↓	4.5	↓
Asking Rent, Full Service (PSF)	$3.51	$3.43	↑	$3.41	↔
Sales Volume (Millions)	$460.1	$429	↑	$968.4	↑

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

Los Angeles Office Overview

Market conditions continue to deteriorate the Los Angeles office market. Vacancy at 18.6%, is the highest level in decades, and up around 7.3% since early 2020. The Los Angeles office market has struggled due to several factors: slower post-pandemic economic recovery, with one of the highest unemployment rates in the country at 6.7%. Key sectors like entertainment and tech, major drivers of office occupancy, have suffered job losses, compounded by many companies continuing remote work models. Also, the average square footage of leases signed in 2024 is about 30% less than the leases signed in 2019. Downsizing has resulted in a record 11.9 million square feet of available sublease space. Although, while net absorption was negative 245,835 SF in Q3 2024, this is a 74% improvement from the quarterly average over the past two years.

Office asking rents in Los Angeles, at $3.51/SF, have grown 2.1% year-over-year despite challenging market conditions. Landlords prefer to maintain higher rents while offering attractive concessions to lure tenants, with some packages equating to several years' worth of total rent over a 10-year lease. '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.

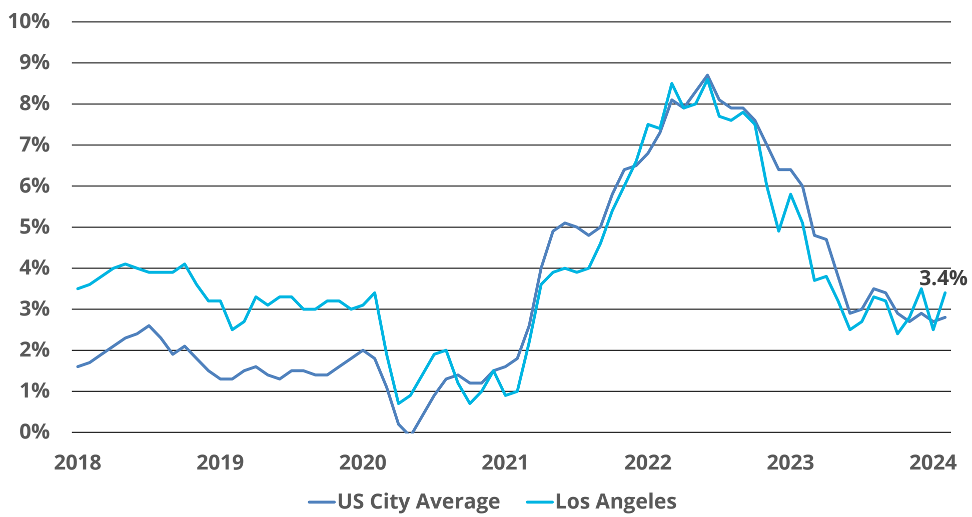
Q3 2024 totaled $460 million of office transactions, a 54% decline from the 2021 and 2022 quarterly average, and significantly below pre-pandemic levels. Institutional investors have retreated from office acquisitions and shifted to industrial and multifamily properties. Now, owner/users and private buyers dominate the office market, capitalizing on lower property values. These private buyers often opt to make purchases with all-cash transactions or through private money lenders. The most notable deal of Q3 2024 was Fashion Nova CEO Richard Saghian purchasing a 175,000 SF office building at 407 N. Maple Drive, Beverly Hills, for $118 million or $675/SF from Tishman Speyer. The property will serve as Fashion Nova's headquarters, illustrating an owner/user acquisition.

ECONOMY

Los Angeles Employment Declines; Federal Reserve Rate Cut

- Los Angeles nonfarm employment decreased by 16,600 jobs or 0.4% over the past three months.
- Los Angeles nonfarm job growth over the past year totals 78,100 jobs, or 1.7%. Job gains were driven by a 4% year-over-year increase in education & health services.
- Los Angeles office-using employment decreased by 30,400 over the past three months. Los Angeles office-using employment is at 2.7 million jobs, or 0.5% below the pre-pandemic peak.
- As of September 2024, the Los Angeles unemployment rate is 6.7%, and the national unemployment rate is 4.2%.
- Los Angeles office-using employment has decreased by 0.5% since early 2020, while national office-using employment has increased by 6.1%.
- At the September 18th meeting, the Federal Reserve lowered interest rates by a half percentage point to 4.75%-5%—the first cut since 2020—aiming to prevent a labor market slowdown as inflation and job growth soften, with further 50 basis point cuts anticipated by year-end and additional reductions through 2025.

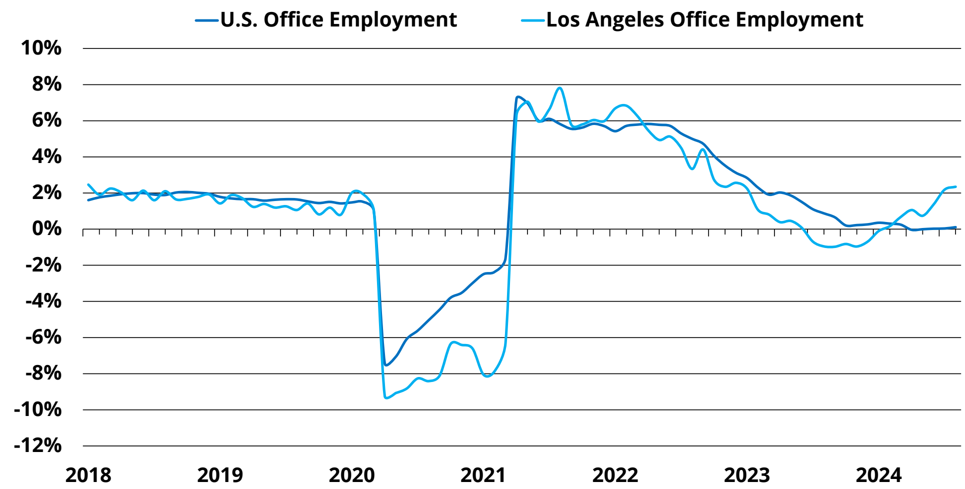
Consumer Price Index



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y Change in Office Jobs

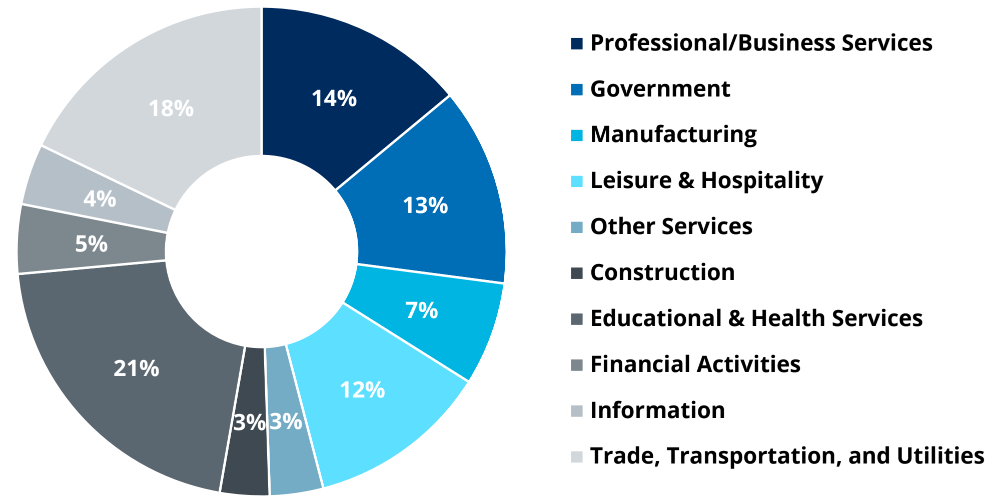
Los Angeles MSA | AUG 2024



Source: Bureau of Labor Statistics, Transwestern

Share of Employees By Industry

Los Angeles MSA | AUG 2024



Source: Bureau of Labor Statistics, Transwestern

MARKET FUNDAMENTALS

Net Absorption, Occupancy, & Leasing

Key Leases Signed Amidst Declining Demand and Space Reductions

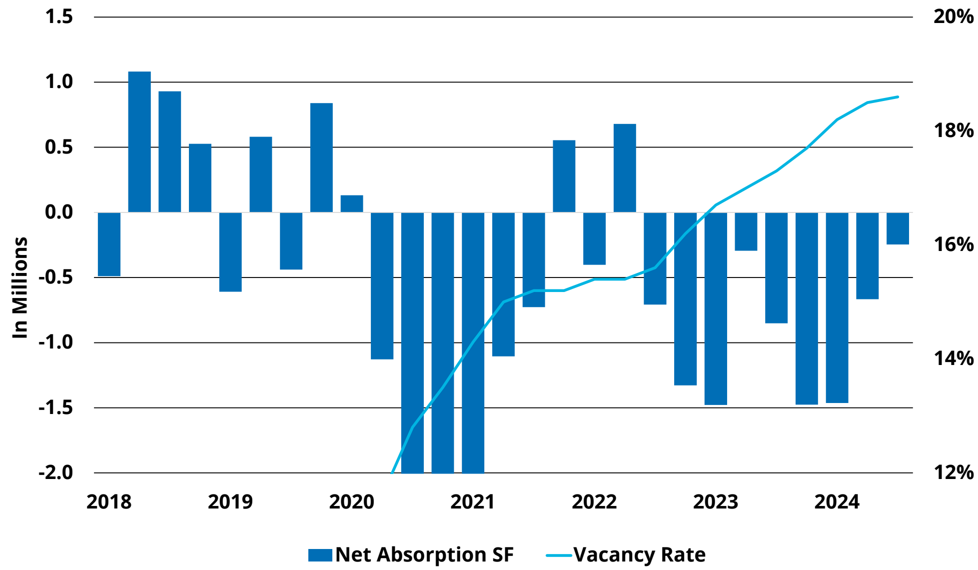
- Net absorption regressed for the ninth consecutive quarter, at negative 245,835 SF. Downtown Los Angeles had the most negative net absorption.
- Seven out of the nine submarkets experienced positive net absorption in Q3 2024. Downtown Los Angeles' negative 758,085 SF turned the total negative.
- Southern California Gas Company signing for 198,553 SF at 350 S Grand Ave in Downtown Los Angeles was the largest deal of Q3 2024. Other large occupiers were Herbalife Nutrition, leasing 188,544 SF at 950 W 190th St in Torrance and City of Hope, leasing 170,512 SF at 4920 Rivergrade Rd in Baldwin Park.
- Vacancy is at an all-time high, at 18.6% or 68.6 million SF. Vacancy has increased 1.3% year-over-year and 7.3% since early 2020.
- 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.

Notable Leases

Tenant	Address	Submarket	Type	SF Leased
SoCal Gas Co.	350 S Grand Ave	DTLA	Direct	198,553
Herbalife Nutrition	950 W 190th St	South Bay	Direct	188,544
City of Hope	4920 Rivergrade Rd	San Gabriel Valley	Direct	170,512
JPMorgan Chase	2029 Century Park E	West Los Angeles	Renewal/ Expansion	162,713
County of LA	725 S Grand Ave	San Gabriel Valley	Renewal	109,018
Amazon Studios	9300 Culver Blvd	West Los Angeles	Direct	75,178

Net Absorption & Vacancy

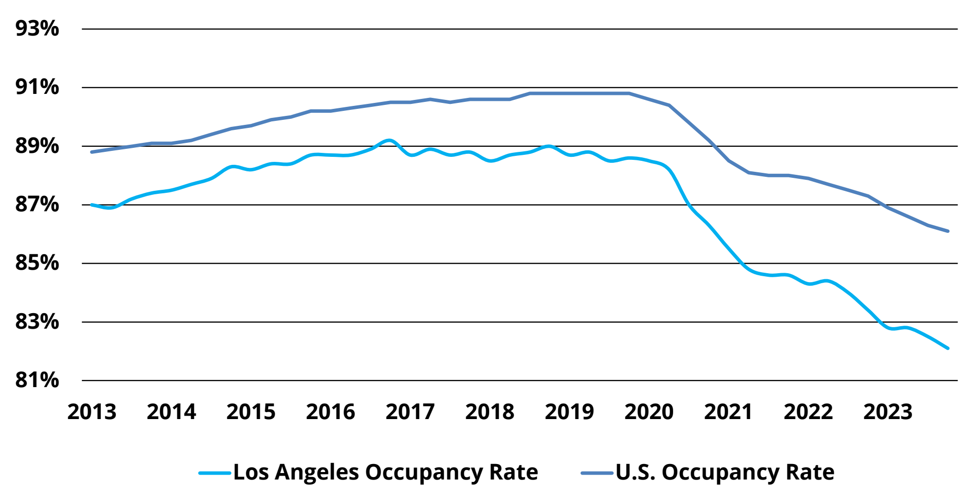
Los Angeles | Millions SF



Source: CoStar, Transwestern

Los Angeles Occupancy Rate & U.S. Occupancy Rate

Los Angeles



Source: CoStar, Transwestern.

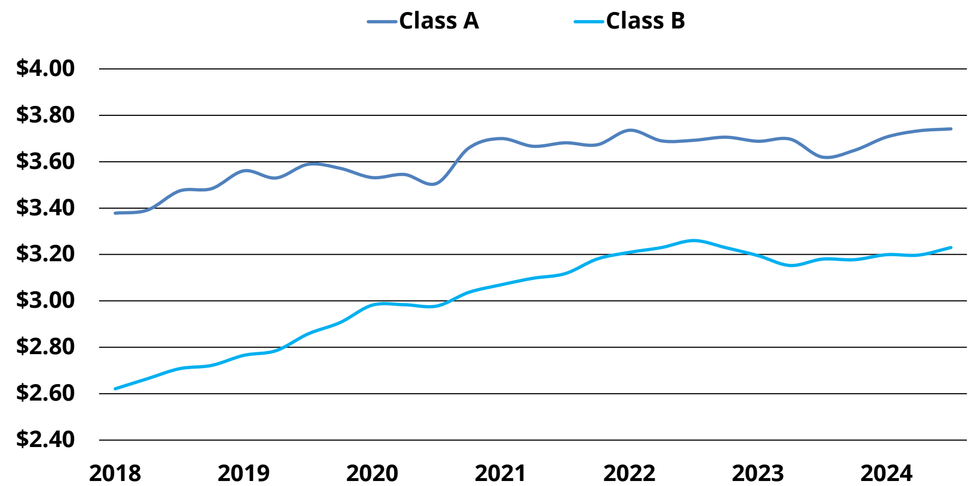
RENTS

Rent Growth Holds Steady as Landlords Seek to Increase Occupancies.

- Office rents have held steady, with landlords offering higher concessions rather than lowering rates.
- Asking rents in Class A properties increased to an average of $3.74 per SF, up 3.36% from a year ago.
- Asking rents in Class B properties increased to an average of $3.24 per SF, up 0.59% from a year ago.
- Century City is asking an average of $6.85 per SF, up 4.4% from a year ago and 8.6% from early 2020. Century City is emerging as Los Angeles' preferred CBD.
- Sublease spaces are often discounted by 25-33% compared to direct space. For example, the Pacific Corporate Towers in El Segundo offers direct space at $4.15/SF per month, while sublease space is available for $2.75-$3.20/SF.

Asking Rents by Class

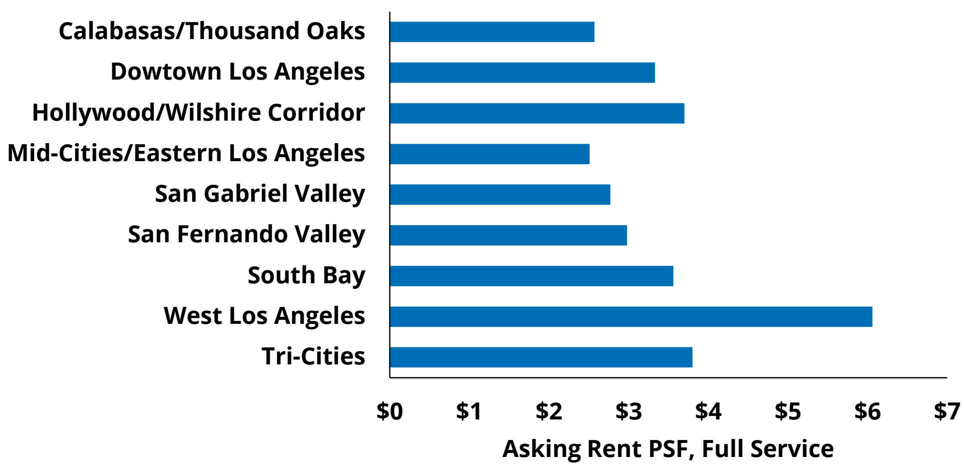
Los Angeles | $/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rates by Submarket

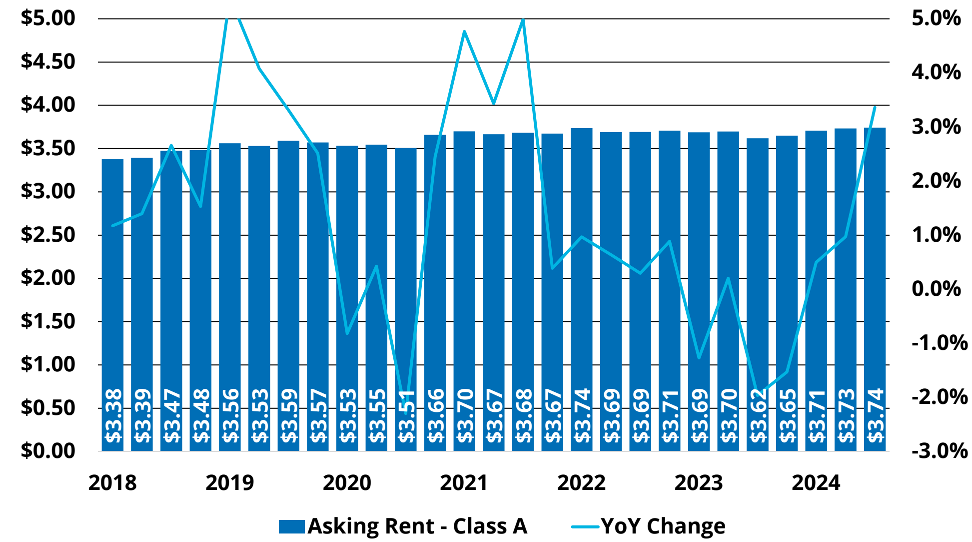
Los Angeles | $/SF, Asking Rents



Source: CoStar, Transwestern

Asking Rents - Class A

Los Angeles | $/SF, Asking Rents



Source: CoStar, Transwestern

CAPITAL MARKETS

$460M in Sales Volume Driven by Owner/Users, with Significant Discounts on Distressed Assets

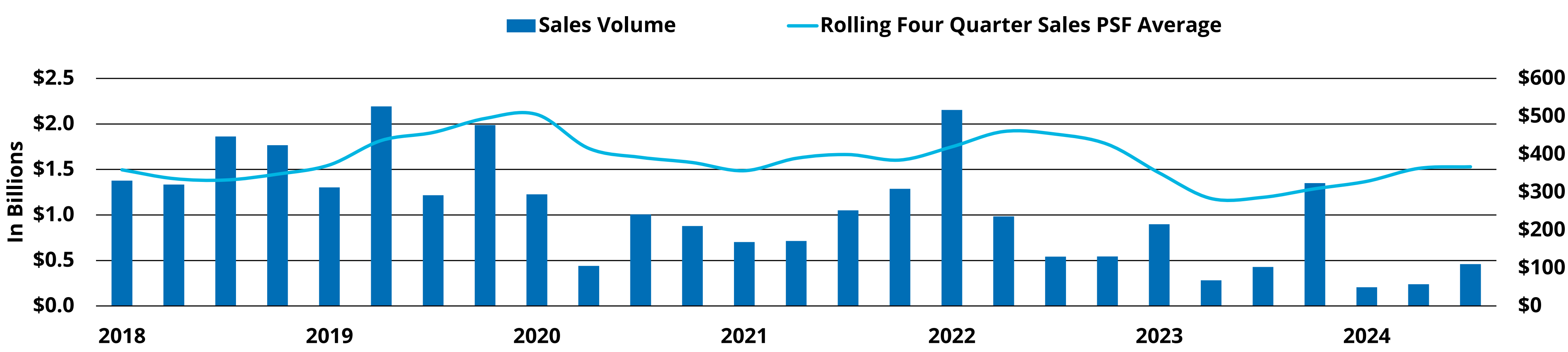
- Q3 2024 marked $460 million of sales volume, a 93% increase from Q2 2024 but 54% below the 2021 and 2022 quarterly average. Interest rates, market weakness, and questions around the future trajectory for office space have slowed investor demand.
- The most notable deal of Q3 2024 was Fashion Nova CEO Richard Saghian purchasing a 175,000 SF office building at 407 N. Maple Drive, Beverly Hills, for $118 million or $675/SF from Tishman Speyer. The property will serve as Fashion Nova's headquarters, illustrating an owner/user acquisition.
- Recent purchases by private buyers have seen 35-70% discounts compared to pre-2020 prices. For example, in July, a China-based private buyer acquired the 1.1 million SF 777 Tower in Downtown Los Angeles for $120 million or $120/SF, significantly discounted from its 2013 sale price of $408 million.
- Market sales prices per SF have varied widely, with higher quality and well-located properties still attracting strong offers, while distressed assets see steep discounts.
- Office property values have likely hit rock bottom as many blue-chip companies are requiring employees to come into the office.
- Sales activity in Los Angeles is driven by owner/users and private buyers. Historically accounting for less than 10% of all dollar activity, owner/user buyers have comprised around half of transaction volumes over the past 24 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
407 N Maple Dr	West Los Angeles	$118,273,500	174,847	$676	Fashion Nova	Tishman Speyer
801 S Figueroa St	Downtown Los Angeles	$60,000,000	465,220	$129	Meiloon Investment & Development	Barings
2160 E Grand Ave	South Bay	$59,200,000	164,360	$360	Mattel	New York Life Real Estate Investors
950 W 190th St	South Bay	$41,290,000	188,545	$219	Rexford Industrial Realty	Herbalife
2325 Crenshaw Blvd	South Bay	$30,500,000	65,300	$467	Rose Equities	Optimus Properties
21680 Gateway Center Dr	San Gabriel Valley	$18,880,000	80,753	$234	Michael Tang	Buchanon Street Partners

Sales Volume

Los Angeles Market

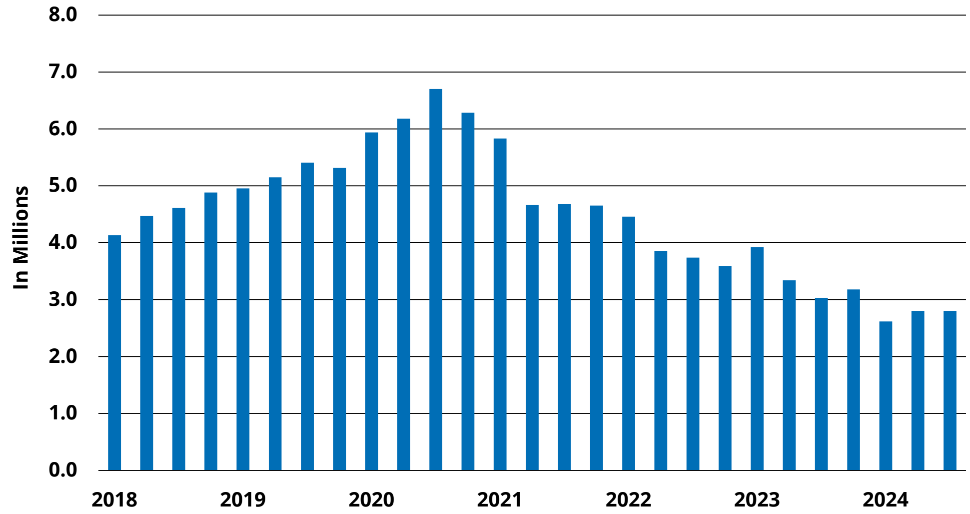


UNDER CONSTRUCTION

New Developments Focus on High-Quality Spaces, as Developers Eye Westside Demand

- New construction continues to decline from its peak in Q3 2020 of 6.7 million SF. There is currently 2.8 million SF under construction, 97.5% or 2.7 million SF being Class A product.
- Post-pandemic flight-to-quality has made Class A projects the only practical option.
- West Los Angeles—1.3 million SF and South Bay—341,581 SF, have the most office construction in Los Angeles. Developers are bullish on the westside.
- The most notable project is at 1950 Avenue of the Stars in Century City, a 731,250 SF Class A speculative high-rise tower delivering in 2026. Notable preleases include Clearlake Capital and Sidley Austin for 151,000 SF and 70,000 SF, respectively.
- Buildings in Los Angeles built in 2010 or later are the only properties that have experienced positive net absorption since early 2020.
- As many buildings suffer from occupancy challenges, there are growing discussions about transforming properties into multifamily communities. In the coming years, Los Angeles may witness the transformation of older, outdated, and obsolete properties as the market adjusts to what seems to be a fundamental decline in tenant demand.

Total Under Construction
Los Angeles Market



Source: CoStar, Transwestern

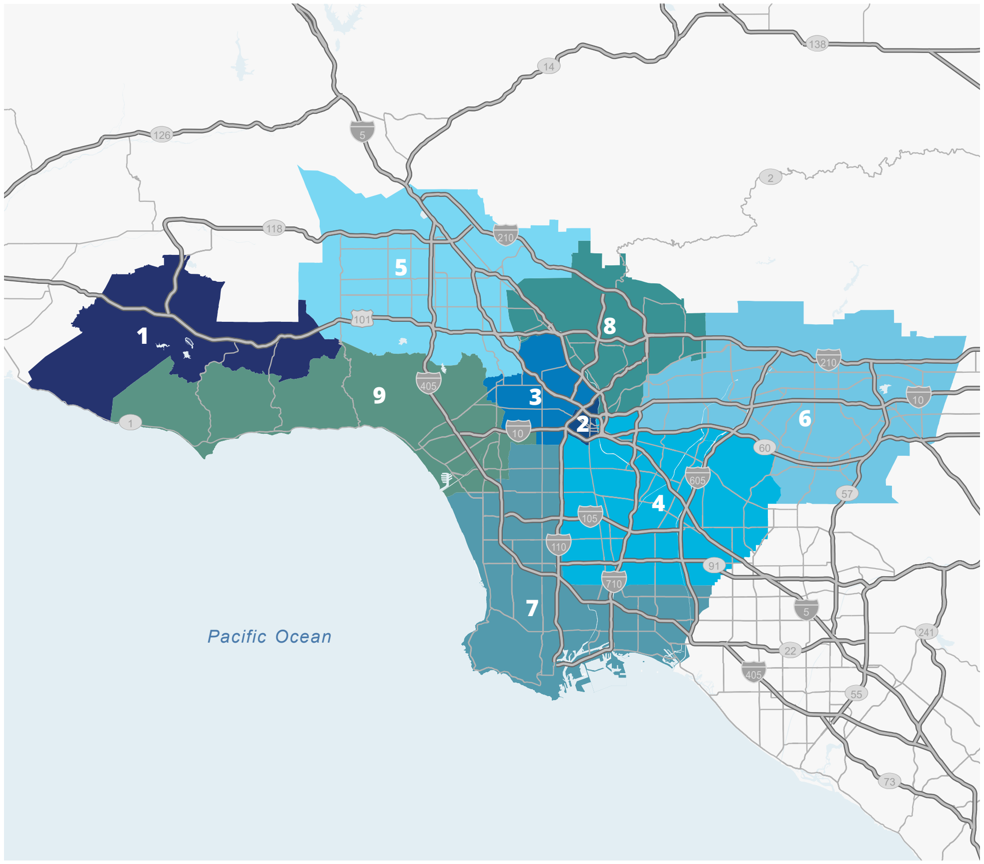
Source: Source: CoStar, Real Capital Analytics, Transwestern

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	41,332,607	7,508,766	18.2%	21.2%	100,000	47,887	$3.80
West Los Angeles	74,593,377	14,181,571	19.0%	23.2%	1,319,143	65,949	$6.06
South Bay	57,964,465	8,560,398	14.8%	17.6%	341,581	367,739	$3.56
San Fernando Valley	37,439,116	5,330,659	14.2%	17.3%	331,000	(73,380)	$2.98
San Gabriel Valley	28,613,584	1,946,750	6.8%	8.0%	0	19,127	$2.77
Mid-Cities/Eastern Los Angeles	14,696,386	974,866	6.6%	7.8%	0	27,138	$2.51
Hollywood/Wilshire Corridor	40,472,804	7,384,183	18.2%	20.4%	572,241	26,561	$3.70
Dowtown Los Angeles	60,982,633	14,541,829	23.8%	29.5%	140,000	(758,085)	$3.33
Calabasas/Thousand Oaks	14,501,903	2,005,809	13.8%	20.0%	0	31,229	$2.57
TOTAL	**370,596,875**	**62,434,831**	**15.0%**	**18.6%**	**2,803,965**	**(245,835)**	**$3.51**

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

Carter Clemmensen
Research Analyst
carter.clemmensen@transwestern.com
(213) 258-4709

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

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.