

# Los Angeles County

## Office Market Outlook Q1 2023

### MARKET OVERVIEW

The Los Angeles County office market is experiencing a slow recovery, with companies bringing employees back to the office while others cut back on office space. Despite elevated vacancy, uncertain demand, and added construction, asking rents have not been reduced to boost occupancy. Completed construction has added over 280K square feet, mostly vacant, to the inventory in Q1 2023, but the market is dealing with an unprecedented amount of sublease office space. The vacancy rate is up 150 bps from last year at 15.7%, increasing each quarter since the pandemic shutdown.

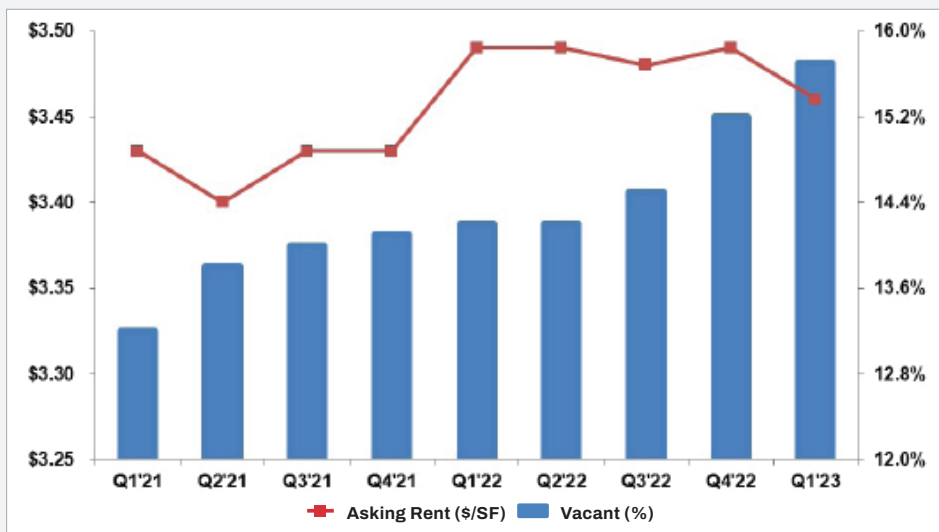
Vacant office space on the market has piled up while space utilization strategies and work from home played out. Since the fourth quarter of last year, close to 2.2M square feet of vacant space was added to the market. With three-quarters of that figure offered for sublease, the total amount of vacant office space on the market was pushed to an all-time high of 61.6M square feet as of Q1 2023. The vacant sublease space jumped 33% from Q1 2022 to 6.5M square feet – 78.8% higher than the peak of the Great Recession, reminiscent of the Dot-Com Bubble era. Leasing volume in Q1 fell 31% below last year. Despite this, there hasn't been a significant decrease in asking rent, with only a 3-cent decline from the past four quarters to \$3.46 per square foot full-service gross.

### TRENDS TO WATCH

The office market is facing a sizeable post-pandemic transformation and risk of a recession. An uncertain economy means downsizing for some businesses, expansion for others, and shutting down for many. Much of the sublease space coming on the market was from big tech downsizing with job cuts also in the financial sector. Tenants will be more selective about their office space needs and pursue short-term leases to maintain flexibility. Landlords will be much more receptive to tenant needs and position their buildings for the office of the future to improve occupancy and maximize revenue.

First quarter figures showed the office market approaching a bottom, with vacancy and asking rent at near an all-time high. Rent negotiations and lease restructuring will continue through 2023 as a lingering symptom of the pandemic's economic impact and defense from recession. With more quality space available for tenants to choose from, landlords will be more motivated to lower rental rates and make a deal. However, lower cash flow from reduced rent or reduced occupancy will make it challenging for building owners to meet their mortgage requirements, especially with the rise in interest rates. The distress on both the landlord and tenant side could make for a challenging recovery period impacting real estate values.

#### Average Asking Rent and Vacancy Rate



### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



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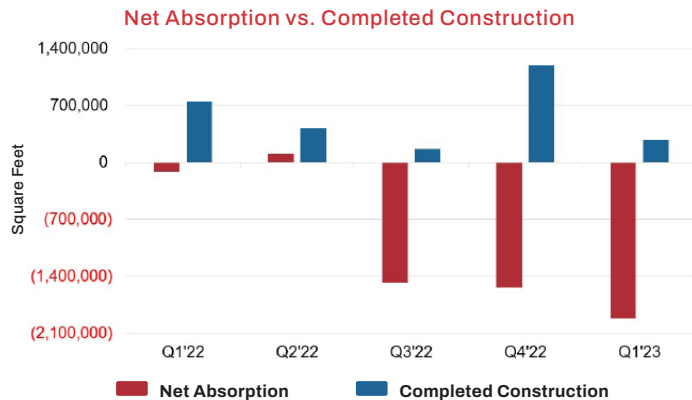
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### Market Statistics\*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Central	65,528,637	293,100	20.2%	17.2%	281,575	281,575	1,047,000	1,047,000	\$3.10	\$198
Mid-Wilshire	17,031,293	0	21.6%	20.2%	49,484	49,484	349,277	349,277	\$2.47	\$402
LA North	61,071,344	443,000	18.5%	14.5%	771,920	771,920	1,056,269	1,056,269	\$2.79	\$250
San Gabriel Valley	35,031,806	46,000	8.8%	7.1%	242,534	242,534	172,407	172,407	\$2.55	\$246
South Bay	65,698,912	235,051	19.5%	17.1%	410,811	410,811	732,211	732,211	\$3.23	\$153
Tri-Cities	43,399,110	900,000	16.9%	13.0%	401,641	401,641	157,217	157,217	\$3.61	\$328
LA West	104,071,396	1,181,065	22.0%	18.0%	1,493,563	1,493,563	808,178	808,178	\$4.95	\$470
<b>Los Angeles County</b>	<b>391,832,498</b>	<b>3,098,216</b>	<b>19.0%</b>	<b>15.7%</b>	<b>3,651,528</b>	<b>3,651,528</b>	<b>4,322,559</b>	<b>4,322,559</b>	<b>\$3.46</b>	<b>\$274</b>

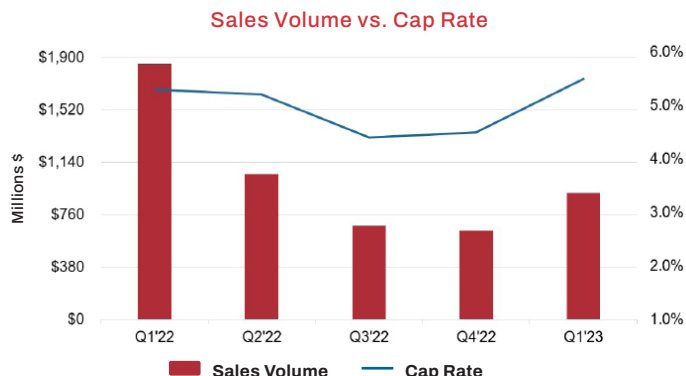
### Net Absorption, Completed Construction Trends

The office market depicted downward momentum as companies shedding excess space over the past three quarters represented 4.9M square feet of negative net absorption. Over the same period 1.6M square feet of office space was completed.



### Sales and Cap Rate Trends

Low demand in leasing office space led to a sell-off of office buildings in Q1. Sales volume jumped 42% quarter over quarter as the average sale price plummeted 51% from last year to \$274/SF. The average cap rate increased 50 bps from the previous quarter to 5.5%.



### Select Lease Transactions

TENANT	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Sony Pictures	5750 Wilshire Blvd	Los Angeles	LA West	246,642
Los Angeles County	611 N Brand Blvd	Glendale	Tri-Cities	83,051
Fifth Season	11355-11377 W Olympic Blvd	Los Angeles	LA West	61,787
Skadden	2000 Avenue of the Stars	Century City	LA West	57,887
Quest Diagnostics	8407 Fallbrook Ave	West Hills	LA North	49,140

### Select Sales Transactions

BUYER	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Waterbridge Capital, LLC	445 S Figueroa St	Los Angeles	Downtown LA	701,888
City of Long Beach	125 Elm Ave	Long Beach	South Bay	286,334
Private Investor	222 W 6th St	San Pedro	South Bay	265,808
Elat Properties, Inc	801 S Grand Ave	Los Angeles	Downtown LA	215,097
Montana Avenue Capital Partners LLC	2777 N Ontario St	Burbank	Tri-Cities	127,140



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## Office Market Outlook Q1 2023



### NAI Capital Commercial Southern California Office Locations

#### Headquarters

15821 Ventura Blvd., Ste. 320  
Los Angeles, CA 91436  
818.905.2400

#### Los Angeles County

##### Downtown LA

707 Wilshire Blvd., Ste. 5125  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

25060 Avenue Stanford., Ste. 165  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 470  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Victorville

13911 Park Ave., Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566