

Los Angeles County

Office Market Outlook Q1 2024

MARKET OVERVIEW

Despite the continuous rise in vacant space, weak demand, and unoccupied new construction hinder the LA County office market's slow journey to recovery. Landlords, wary of adjusting asking rent despite elevated vacancy rates, face a challenge to spur occupancy. In Q1, completed office construction added to the inventory since 2020 remains mostly vacant, at 31.3%. Additionally, the market grapples with a significant influx of sublease office spaces.

The evolving landscape of remote work and space utilization strategies drives a constant accumulation of vacant office space. This quarter's increasing vacancy rates propelled the overall vacancy rate up by 150 bps compared to the previous year, reaching 16.8%. Since January 2023, the market has added more than 1.9M square feet of vacant space, culminating in a record high this quarter, approaching 66.3M square feet. Remarkably, vacancy has consecutively increased each quarter since 2020 at the start of the pandemic. The amount of vacant space on the market now registers 32% above the peak reached during the Great Recession.

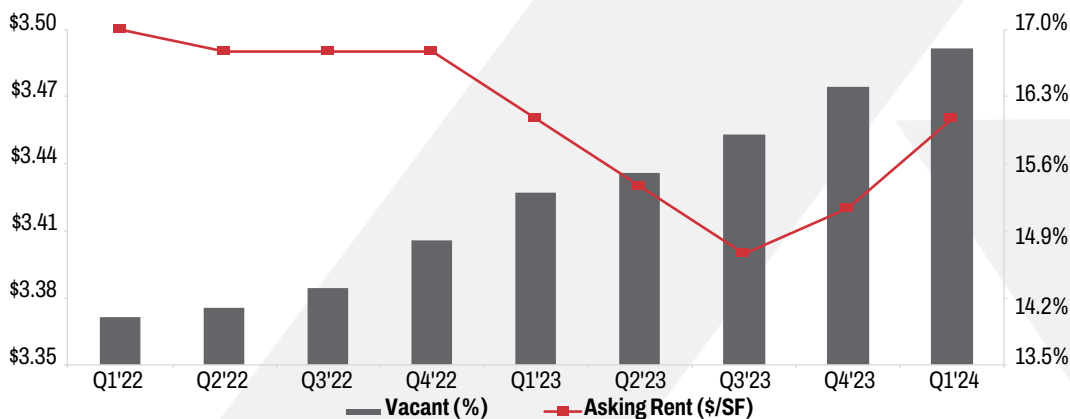
Substantially, vacant sublease space has accumulated, experiencing a 10.7% increase from 2023, reaching 7.1M square feet – surpassing levels not seen since the Dot-Com Bust. Despite the incoming level of record sublease space onto the market year over year, asking rent remains stubbornly elevated, remaining flat from last year at \$3.46/SF on a full-service gross basis. This quarter's lower leasing volume, down 22.4% compared to the end of last year, has exerted some pressure on landlord concessions, such as offering free rent depending on tenant credit and lease term commitment.

TRENDS TO WATCH

The abundance of office space concerns landlords while granting tenants leverage in negotiating favorable deals. However, the surge in available office space is driven by the evolving landscape of remote work, space utilization strategies, and employment trends. Companies actively reducing excess office space have led to a significant increase in available sublease space quarter over quarter, up by 5.8% since the end of 2023 and 2.7% higher than Q1 2023, totaling approximately 11.5 million square feet—a new all-time high. In the South Bay, available sublease space now exceeds three times that of Q1 2009 during the Great Recession. Traditionally, the South Bay office market served as an outlet for overflow demand from LA West. With office space availability in LA West at an all-time high of 23.4%, twice the amount available in Q1 2009 during the Great Recession, the market is saturated with available office space.

Unemployment in LA County is now at its highest level in nearly two years, with office-occupying sectors depicting lagging performance, according to the latest figures from the State of California Employment Development Department. The key sectors of employment that drive office space demand have seen negative growth year over year. Information, tech sector jobs, experienced the largest year-over-year reduction, down by 36,000 jobs. Losses in other industries include professional and business services and financial activities. Currently, in this market, tenants pursuing office space hold the advantage, while landlords actively strive to uphold property value. These factors drive the dynamics in the office market.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Sale
Prices**



**Availability
Vacancy Rates**



**Landlord
Concessions**



**Leasing/Sales
Volume**



**New
Construction**



J.C. Casillas
Managing Director
Research
jcasillas@naicapital.com
Direct: 818.933.2433

**NAI Capital Commercial
Research**
www.naicapital.com

Los Angeles County

Office Market Outlook Q1 2024

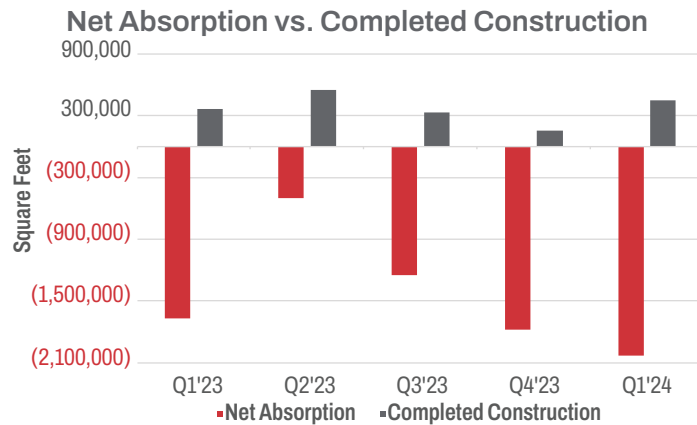
MARKET STATISTICS*

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	65,359,793	137,281	20.7%	19.1%	356,408	356,408	9,720	9,720	\$3.03	\$57
Mid-Wilshire	16,990,185	0	19.3%	21.4%	67,131	67,131	2,640	2,640	\$2.71	\$625
LA North	61,233,978	386,000	18.4%	15.7%	749,692	749,692	191,595	191,595	\$2.75	\$248
San Gabriel Valley	35,515,415	32,172	8.0%	6.8%	244,028	244,028	63,325	63,325	\$2.58	\$116
South Bay	66,698,350	329,301	18.5%	16.4%	613,587	613,587	170,183	170,183	\$3.21	\$332
Tri-Cities	44,088,036	100,000	21.7%	16.2%	314,071	314,071	74,480	74,480	\$3.58	\$579
LA West	103,737,111	1,282,724	23.6%	19.3%	1,890,832	1,890,832	154,319	154,319	\$4.89	\$739
Los Angeles County	393,622,868	2,267,478	19.7%	16.8%	4,235,749	4,235,749	666,262	666,262	\$3.46	\$383

*RBA includes office buildings of all sizes and classes. Rents reflect buildings of 20,000 square feet or greater.

LEASING TRENDS

Throughout 2023, the office market experienced an overwhelming downward momentum in net absorption, registering negative net absorption of 7,234,428 square feet over the last five quarters as it absorbed completed construction. During the same period, the office market added 1.9 million square feet.



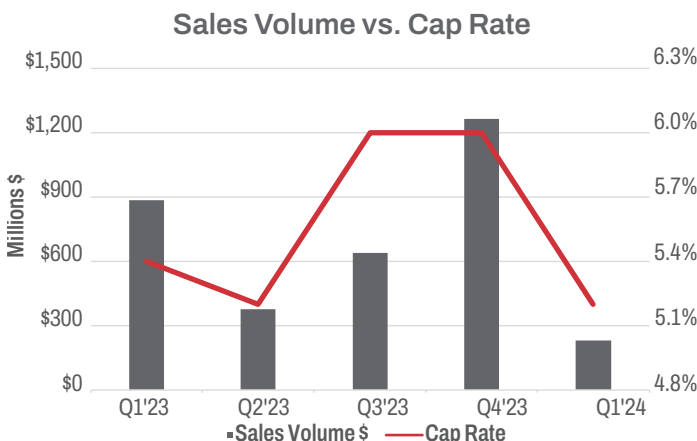
Select Lease Transactions

Tenant	Address	City	Submarket	SF
Snap Inc.*	2850 Ocean Park Blvd	Santa Monica	LA West	148,032
Snap Inc.*	3100 Ocean Park Blvd	Santa Monica	LA West	145,060
Snap Inc.*	3340 Ocean Park Blvd	Santa Monica	LA West	124,288
Riot Games Inc.*	12312 W Olympic Blvd	Los Angeles	LA West	78,900
Executive Office for Immigration Review	5245 Pacific Concourse Dr	Los Angeles	South Bay	68,232

*Renewal

SALES TRENDS

In Q4 2023, investors rallied, aiming to capitalize on market opportunities, resulting in a spike in sales volume, which closed the year at nearly \$1.3 billion. However, in Q1 2024, sales volume plummeted to levels not witnessed since the Great Recession, leading to the average building size sold shrinking to 12,000 square feet, down 80% from the end of the previous year.



Select Sales Transactions

Tenant	Address	City	Submarket	SF
NantBio, LLC	1940 E Mariposa Ave	El Segundo	South Bay	83,411
Variel Avenue LLC	6330, 6338-6340 Variel Ave	Woodland Hills	LA North	68,178
Atec 1976	3191 W Temple Ave	Pomona	San Gabriel Valley	49,604
1650 Adams Llc	501 S Beverly Dr	Beverly Hills	LA West	23,075
Bolour Associates	6363-6631 Santa Monica Blvd	Los Angeles	LA West	22,601