

# Los Angeles County

## Office Market Outlook Q2 2024

### MARKET OVERVIEW

The L.A. County office market's recovery is hindered by weak demand, unoccupied new construction, and continuous rise in vacant space. Landlords, wary of adjusting asking rents despite elevated vacancy rates, face challenges in spurring occupancy. In Q2, 30.2% of completed office construction added to the inventory since 2020 remains vacant. 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 the overall vacancy rate was up by 150 bps compared to the previous year, reaching 16.9%. Since January 2024, the market has added close to 2.4M square feet of vacant space, with 30% of that being offered for sublease. Remarkably, vacancy has consecutively increased each quarter since Q2 2020 at the start of the pandemic, rising 62%. The amount of vacant space on the market remains well above the peak reached during the Great Recession. Vacant sublease space has accumulated, experiencing the addition of approximately 300,000 square feet on average each quarter over the past two years, reaching 7.6M square feet this quarter—surpassing levels not seen since the Dot-Com Bust.

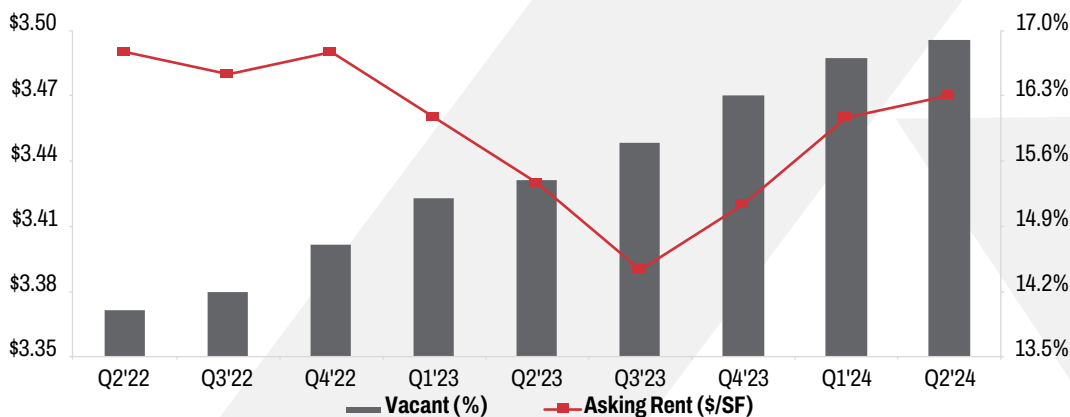
Despite the record level of space coming onto the market year over year, asking rents on a direct basis remain stubbornly elevated. Leasing volume for the first half of this year is down compared to the first half of 2023, possibly approaching a trough. The pressure remains on landlords to offer concessions, such as lower rents, free rent, and flexible term commitments.

### TRENDS TO WATCH

While the surge in available office space is driven by the evolving landscape of remote work and space utilization strategies, office demand will require lower rents to drive occupancy. Tenants continue to have leverage in negotiating favorable deals. The abundance of office space will compel landlords and sublessors to meet tenant demands. With available sublease space at an all-time high, sublessors are beginning to drop rents. The average asking rent for sublease spaces has started a noticeable descent, with the average rent in Q2 dropping by 5.8% from the previous year to \$2.95/SF full-service gross, down 2.6% from Q1 2024. The rate at which sublease space has come on the market, increasing by 5.6% quarter-over-quarter, has outpaced direct space, which only increased by 0.5% over the prior quarter.

In the Central submarket the average sublease rent in Q2 dropped by 13.6% from the previous year to \$2.99/SF full-service gross, down 3.4% from Q1 2024. In the West submarket the average sublease rent in Q2 dropped by 3.3% from the previous quarter to \$4.36/SF full-service gross. This is a surprising 1.4% increase from last year due to more expensive sublease space coming on the market over the last year, pushing up the average. Sublessors actively seeking to fill their excess office space will offer significant rent concessions, competing with landlords for a shrinking pool of active tenants in the market. Currently, in this market, tenants pursuing office space hold the advantage, while landlords actively strive to uphold property values. 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**



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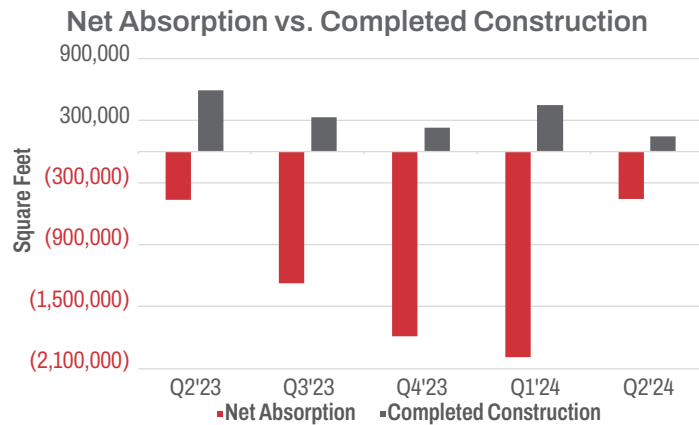
### MARKET STATISTICS\*

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	66,170,602	137,281	19.5%	19.4%	466,708	779,125	215,469	226,149	\$3.06	\$95
Mid-Wilshire	17,076,187	0	19.0%	21.1%	87,217	160,901	0	73,400	\$2.75	\$625
LA North	61,573,640	386,000	18.2%	15.6%	643,035	1,411,698	194,887	351,482	\$2.74	\$361
San Gabriel Valley	35,399,269	32,172	8.7%	6.5%	209,466	465,286	105,910	169,235	\$2.57	\$223
South Bay	66,904,625	346,882	19.4%	16.3%	524,619	1,120,009	32,108	295,100	\$3.20	\$524
Tri-Cities	44,147,556	100,000	21.9%	17.1%	432,114	755,304	102,040	187,585	\$3.68	\$494
LA West	104,018,225	1,472,840	24.0%	19.2%	1,137,205	3,104,920	324,953	466,114	\$4.85	\$398
<b>Los Angeles County</b>	<b>395,290,104</b>	<b>2,475,175</b>	<b>19.7%</b>	<b>16.9%</b>	<b>3,500,364</b>	<b>7,797,243</b>	<b>975,367</b>	<b>1,769,065</b>	<b>\$3.47</b>	<b>\$298</b>

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

### LEASING TRENDS

Throughout the first half of 2024, the office market continued its downward trend, recording negative net absorption of approximately 6 million square feet over the last five quarters. During the same period, the market added 1.8 million square feet of new space.



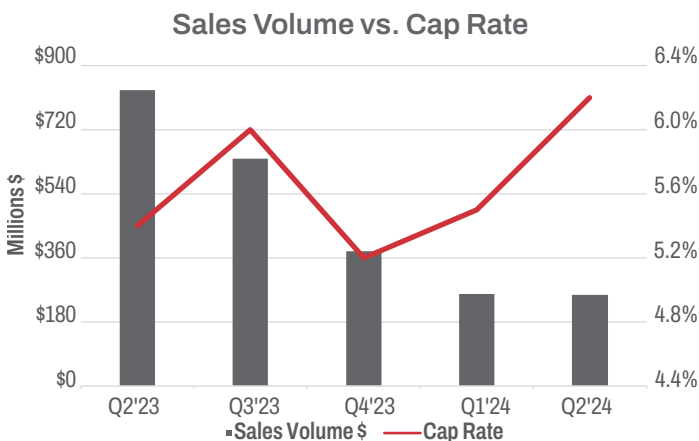
### Select Lease Transactions

Tenant	Address	City	Submarket	SF
Universal Music Group*	2220 Colorado Ave	Santa Monica	West	201,006
U.S. Bank*	633 W 5th St	Los Angeles	Central	105,000
Intuit*	21650 Oxnard St	Woodland Hills	North	53,414
Paul Weiss	2029 Century Park E	Los Angeles	LA West	48,404
Executive Office for Immigration Review	5245 Pacific Concourse Dr	Los Angeles	South Bay	68,232

\*Renewal

### SALES TRENDS

Investors recoiled amidst the uncertainty, leading to a drop in sales volume, which totaled nearly \$514M for the first half of the year. In Q2 2024, sales volume fell to levels not seen since the Great Recession. This decrease in transaction volume contributed to a rise in the average cap rate, which increased by 100 basis points from this time last year, reaching 6.2%.



### Select Sales Transactions

Tenant	Address	City	Submarket	SF
Worthe Real Estate Group	Burbank Studio Portfolio	Burbank	Tri-Cities	1,108,340
Grand Pacific 617, LLC	617 W 7th St	Los Angeles	Central	215,469
Westside Neighborhood School	5340 Alla Rd	Los Angeles	West	131,942
Church of Scientology	7083 Hollywood Blvd	Los Angeles	West	86,606
Pv Jefferson Owner LLC	12901 W Jefferson Blvd	Los Angeles	West	48,412