

Los Angeles County

Office Market Outlook Q3 2022

MARKET OVERVIEW

Los Angeles County's office market remains on a slow path to recovery, as more and more companies try to bring their people back to the office after the pandemic shutdown. Elevated vacancy, undefined demand, and added construction haven't led to a wholesale cut in asking rent to accelerate occupancy. While completed construction added close 3.3 million square feet, mostly vacant, to the inventory since Q3 2021, the market is grappling with more sublease office space coming online. Increasing each quarter since the shutdown, vacancy is up 50 bps from last year to 14.6 percent.

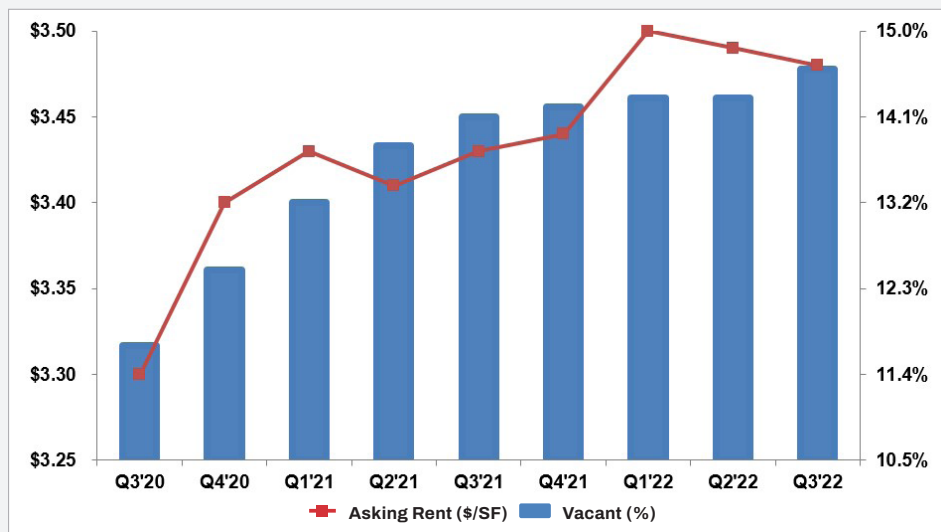
While work from home and space utilization strategies continue to play out, vacant office space on the market is piling up, albeit at a lower rate. Since the third quarter of last year close to 2.6 million square feet of available space was added to the market, pushing the total this quarter to an all-time high of 70.8 million square feet. Available sublease space jumped 17.8 percent from Q3 2021 to 10.7 million square feet – much higher than the Great Recession. While available sublease space continued at a record high, the rent dipped 1-cent from the previous quarter, up 1.5 percent from last year to \$3.48 per square foot full service gross. The average rent hasn't seen significant movement, helped by higher year to date leasing volume, up 3.8 percent compared to last year at this time.

TRENDS TO WATCH

Tenants seeking value will look to lease where available space has increased, creating opportunity. Companies as an example, like Beautycounter, which signed a lease for office space in 2018 through 2024, have placed their excess space on the market for sublease. Lululemon stepped in to sublease that space from Beautycounter, representing 36,659 square feet in Santa Monica, fully furnished -at well below published direct rents. The LA West submarket, which holds more than 21.9 million square feet of available office space, 18.5 percent of which is sublease space, the most in the region, witnessed a mere 1-cent year over year decrease in the published average asking rent. While LA West captured the most leasing volume year to date in the third quarter of 2022, lease volume amounted to an 18 percent drop from the prior quarter. More than 4 million square feet of sublease space sits available in the LA West office market.

Months of free rent, tenant improvement allowances, and easing rent will remain valuable concessions for landlords looking to lure tenants into their projects, especially in markets where available sublease space, vacancy, and construction has risen.

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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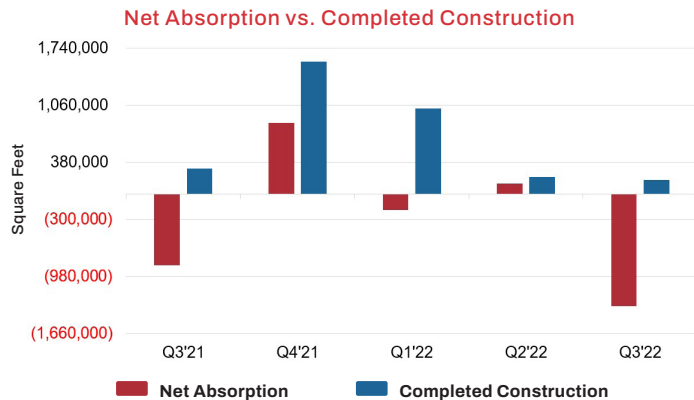
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Market Statistics*

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	65,589,057	295,100	18.7%	15.6%	509,544	1,608,678	97,077	218,916	\$3.27	\$460
Mid-Wilshire	16,921,408	0	21.8%	19.4%	81,599	228,363	77,805	126,304	\$2.49	\$389
LA North	61,132,985	362,391	17.7%	13.8%	714,890	2,368,794	500,029	1,746,241	\$2.79	\$309
San Gabriel Valley	34,930,329	82,290	8.7%	6.5%	200,118	808,238	135,071	711,468	\$2.57	\$361
South Bay	65,589,658	180,750	18.5%	16.2%	685,613	2,140,370	449,244	1,917,384	\$3.19	\$349
Tri-Cities	42,846,753	802,222	16.2%	12.3%	416,812	1,234,841	159,682	584,615	\$3.53	\$341
LA West	103,122,113	1,726,813	21.3%	16.3%	1,426,932	5,788,935	274,269	1,991,590	\$4.99	\$607
Los Angeles County	390,132,303	3,449,566	18.2%	14.6%	4,035,508	14,178,219	1,693,177	7,296,518	\$3.48	\$384

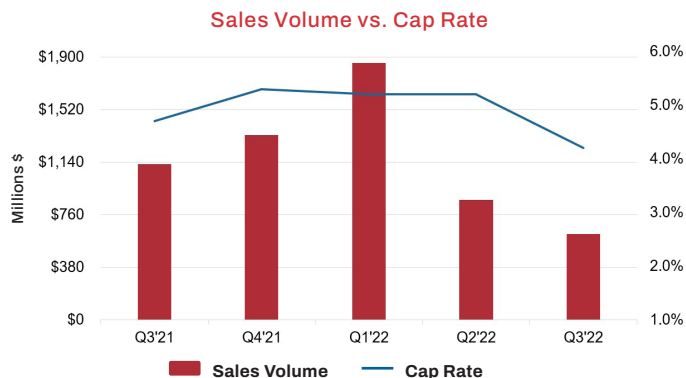
Net Absorption, Completed Construction Trends

Office market net absorption depicted up and down momentum from Q3 2021. As the market added completed construction, the office market under performed with approximately 1.3 million square feet of negative net absorption in Q3 2022. Over the past five quarters more than 3.2 million square feet of office space was completed.



Sales and Cap Rate Trends

Sales volume decreased this quarter, down 28.3 percent from the second quarter of 2022 to \$622,074,456, as users and investors sought to re-price the market considering the uncertainty of increased vacancy. The average cap rate dropped 100 bps from the previous quarter and 50 bps from the third quarter of 2021 to 4.2 percent.



Select Lease Transactions

TENANT	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Raytheon Technologies Corp.*	2222 E Imperial Hwy	El Segundo	South Bay	144,709
Trophy Automotive Dealer Group LLC	2100 S Figueroa St	Los Angeles	Central LA	135,000
Google	12181 Bluff Creek Dr	Playa Vista	LA West	97,984
SDI Media	2901 W Alameda Ave	Burbank	Tri-Cities	52,217
Alston & Bird LLP	350 S Grand Ave	Los Angeles	Central LA	47,567

*Renewal

Select Sales Transactions

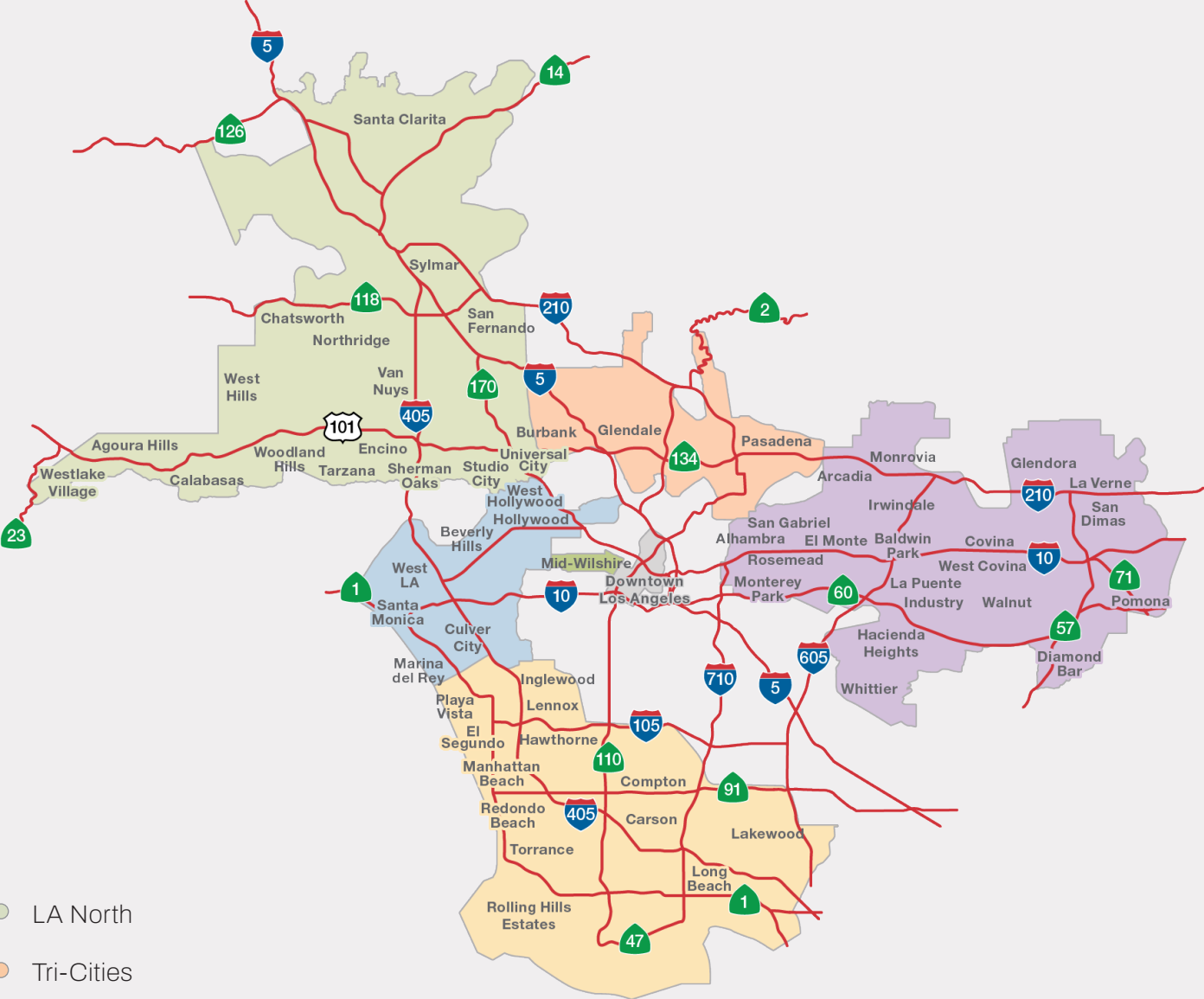
BUYER	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Harbor Associates	30601 Agoura Rd	Agoura Hills	LA North	118,906
Premier Place LLC	425 E Colorado St	Glendale	Tri-Cities	117,868
The Swig Company	3130 Wilshire Blvd	Santa Monica	LA West	96,085
AVG Partners	26701& 26707-26709 W Agoura Rd	Calabasas	LA North	91,339
BLT Enterprises	621 Hawaii St	El Segundo	South Bay	49,307

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COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE



- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

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Office Market Outlook Q3 2022



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