

Los Angeles County

Office Market Outlook Q3 2023

MARKET OVERVIEW

The pandemic shutdown continues to shape the slow path to recovery for Los Angeles County's office market, as more companies strive to bring their employees back to the office. Elevated vacancy rates, weak demand, and vacant new construction have compelled a reduction in asking rents to spur occupancy. Since Q1 2023, completed office construction has added nearly 1.3 million square feet, mostly vacant, to the inventory, but the market grapples with an influx of sublease office spaces. This year, the increasing vacancy rates each quarter have pushed the overall vacancy rate up by 150 basis points compared to the previous year, reaching 16 percent.

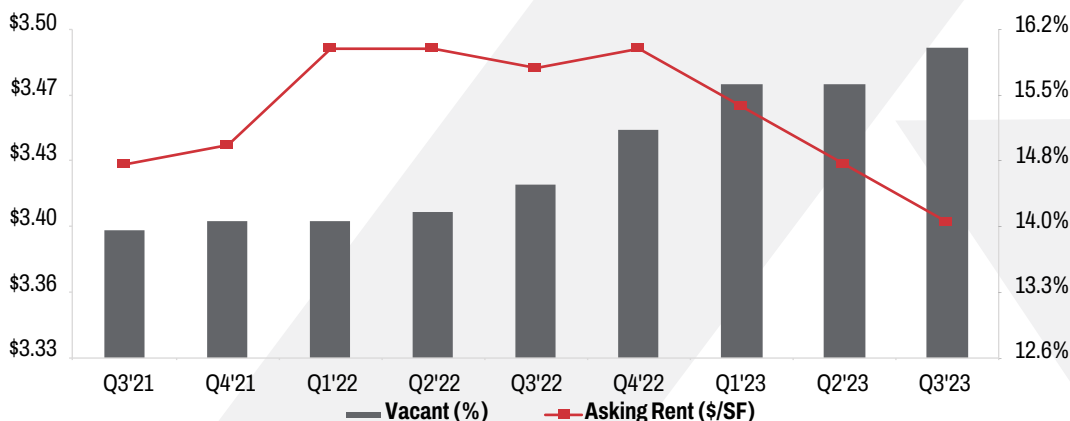
Vacant office spaces are accumulating in the market, quickening their pace in Q3, as remote work and space utilization strategies continue to evolve. Since the third quarter of the previous year, almost 4.2 million square feet of available space has been added to the market, culminating in a record high this quarter of 74.8 million square feet. Available sublease space has surged by 6.7 percent from Q3 2022, reaching 11.4 million square feet – surpassing levels seen during the Great Recession. With record sublease space coming onto the market, asking rent has dropped by 3 cents from the previous quarter, down 2.3 percent from the previous year to \$3.40 per square foot on a full-service gross basis. The average asking rent is beginning to experience downward pressure due to lower year-to-date leasing volume, which is down 17 percent compared to the same period last year.

TRENDS TO WATCH

Value-seeking tenants will find opportunities in areas where available space has increased. For instance, in LA West, 217,817 square feet were subleased in the third quarter, totaling 628,127 square feet year-to-date. The sublease spaces sat vacant on the market for an average of 7.8 months with an average asking rent of \$3.59 per square foot on a full-service gross basis, which is 25.8 percent below the average for direct space. The LA West submarket, burdened by more than 23.5 million square feet of available office space, with 15.9 percent designated as sublease space (the most in the Los Angeles County), experienced a 14-cent year-over-year decrease in the published average asking rent. While LA West retained its position with the highest rent in the region, a decline in rents played a role in a 16.2 percent increase in leasing volume from the previous quarter. Nevertheless, year-to-date leasing volume in LA West for the third quarter of 2023 still lagged behind last year's figures by 18.4 percent. Currently, the LA West office market has more than 3.7 million square feet of sublease space available. Traditionally when the LA West office market heats up demand migrates to the South Bay. Now that demand has ebbed, available sublease space has increased 10.7 percent year over year in the South Bay totaling 2.3 million square feet.

Concessions such as months of free rent, tenant improvement allowances, and rent reductions will continue to be valuable tools for landlords aiming to attract tenants to their projects. This is especially true in the LA West and South Bay submarkets, where available sublease space and vacancy rates have increased. Landlords are expected to maintain concession packages as a crucial part of their strategy to remain competitive with sublessors.

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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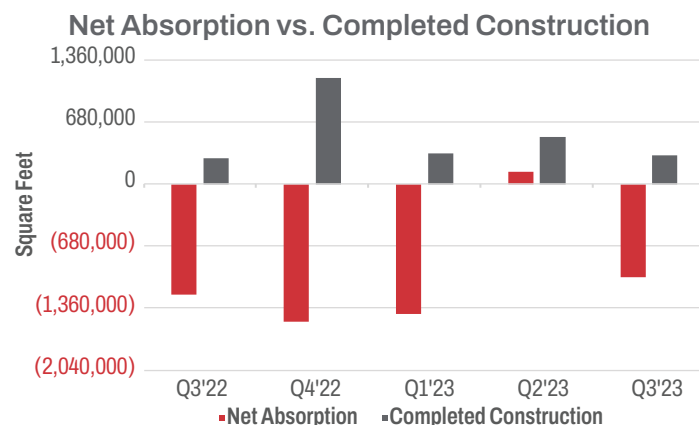
MARKET STATISTICS*

| 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 | 65,870,284 | 208,556 | 19.2% | 17.8% | 260,882 | 994,344 | 0 | 1,477,777 | \$3.05 | \$198 |
| Mid-Wilshire | 17,101,523 | 0 | 17.3% | 19.9% | 132,796 | 332,224 | 64,690 | 1,354,781 | \$2.46 | \$445 |
| LA North | 61,161,338 | 331,000 | 18.9% | 15.1% | 701,232 | 2,421,349 | 613,869 | 930,549 | \$2.78 | \$129 |
| San Gabriel Valley | 35,039,895 | 0 | 8.3% | 7.0% | 136,814 | 734,085 | 130,107 | 1,177,221 | \$2.59 | \$431 |
| South Bay | 66,706,691 | 459,513 | 19.5% | 17.1% | 611,739 | 1,666,432 | 130,107 | 1,177,221 | \$3.17 | \$431 |
| Tri-Cities | 44,071,518 | 455,000 | 18.4% | 13.8% | 332,215 | 1,258,366 | 648,510 | 859,576 | \$3.56 | \$415 |
| LA West | 104,359,397 | 1,292,444 | 22.5% | 18.0% | 1,521,349 | 4,670,188 | 452,315 | 1,294,829 | \$4.84 | \$722 |
| Los Angeles County | 394,310,646 | 2,746,513 | 19.0% | 16.0% | 3,697,027 | 12,076,988 | 2,039,598 | 8,271,954 | \$3.40 | \$390 |

*RBA includes industrial buildings of all sizes. Rents reflect buildings of at least 10,000 square feet.

LEASING TRENDS

The office market in 2023 recorded a mostly downward momentum, as depicted by the negative net absorption. The office market underperformed, adding completed construction and resulting in approximately 1 million square feet of negative net absorption. Over the past five quarters, the completion of more than 2.6 million square feet of office space occurred.



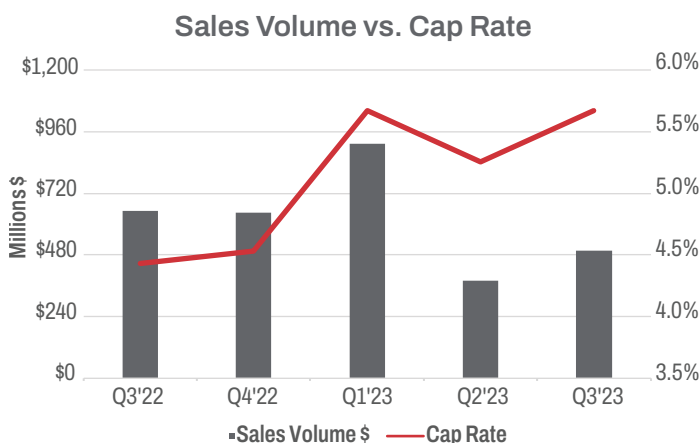
Select Lease Transactions

| Tenant | Address | City | Submarket | Square Feet |
|--------------------------|---------------------------|--------------|-----------|-------------|
| Clearlake Capital | 1950 Avenue of the Stars | Century City | LA West | 151,104 |
| Penske Media Corporation | 11355-1137 W Olympic Blvd | Los Angeles | LA West | 113,198 |
| Symantec SoCal Campus | 900 Corporate Pointe | Los Angeles | LA West | 92,049* |
| Tik Tok | 5800 Bristol Pky | Culver City | LA West | 53,202 |
| Insight Global | 6080 Center Dr | Los Angeles | LA West | 27,232 |

*Sublease

SALES TRENDS

In Q3 2023, quarter over quarter, sales volume increased by 30.9 percent to \$497,161,908 as users and investors sought to price the market amidst the uncertainty of increased vacancy and interest rates. The average cap rate increased by 120 bps from the previous year and 40 bps from the second quarter of 2023, reaching 5.6 percent.



Select Sales Transactions

| Tenant | Address | City | Submarket | Square Feet |
|-------------------------------|-------------------------|--------------|--------------------|-------------|
| Warner Bros Entertainment Inc | 3000 W Alameda Ave | Burbank | Tri-Cities | 1,425,475 |
| J.P. Morgan Wealth Mgmt | 2701 Olympic Blvd | Santa Monica | LA West | 219,571 |
| IHL Capital Fund LLC | 222 E Huntington Dr | Monrovia | San Gabriel Valley | 122,000 |
| Newegg Inc. | 21688 Gateway Center Dr | Diamond Bar | San Gabriel Valley | 81,796 |
| United XYZ LLC | 3401 Exposition Blvd | Santa Monica | LA West | 63,376 |