

Los Angeles County

Office Market Outlook Q2 2023

MARKET OVERVIEW

During 2Q 2023, the office market in L.A. County saw a deceleration in the rate of vacancies, as vacant space increased by just 0.5% quarter-over-quarter, in contrast to a higher 10.6% year-over-year rise. The total vacant space reached 61.6 million square feet, a significant figure influenced by the ongoing balance between remote work and the return to the office.

Similarly, the growth rate of available sublease space also slowed down, with a 2.6% quarter-over-quarter increase compared to a 19.9% year-over-year rise, resulting in a total of 11.6 million square feet. This figure was notably higher than the peak during the Great Recession. Overall, L.A. County had a substantial 74.7 million square feet of available office space during Q2. Encouraging workers to return to the office following the pandemic posed a challenge for office building owners, leading to rising vacancy rates. However, the rate of increase seemed to be decelerating, although the same couldn't be said for rents.

Despite the accumulating vacant space suggesting a need for reduced rents, the average rent only experienced a slight decrease of 3 cents compared to the previous quarter. On a year-over-year basis, there was a negligible dip of 1.7%, resulting in an average rent of \$2.43/SF. Not surprisingly, the low demand for office space combined with lackluster growth in rent has slowed the completion of projects under construction. What's more, as of Q2, construction activity indicated a significant drop of 13.3% in year-over-year, with 3.5 million square feet still under construction.

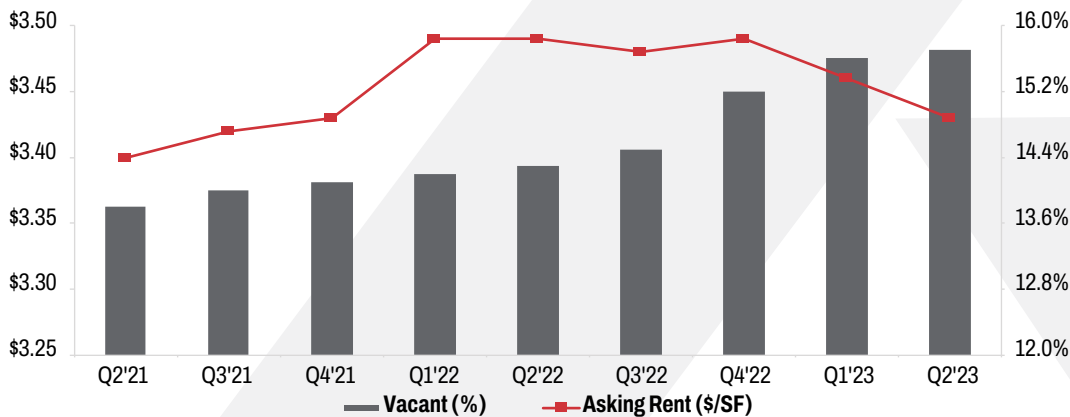
TRENDS TO WATCH

In Q2, newly constructed office buildings in L.A. County, built since the pandemic shutdown in 2020, witnessed a notable decrease in their vacancy rate. The vacancy rate for these buildings dropped by over 7.1% quarter over quarter, reaching 32.1%. Although the vacant space in these new office buildings remains more than double compared to a year ago, there is a gradual improvement in occupancy due to a preference for low-rise quality space. Most of these new buildings are under 6 stories, with an average of 3 stories. Developers showed motivation to occupy these new office spaces, as shown by the decline in the average asking rent, which decreased by 6.4% quarter over quarter, reaching \$3.94 per square foot.

When comparing the vacancy rate for office buildings under 6 stories, they experienced a marginal increase of 10 basis points. In contrast, buildings 7 stories or higher, the vacancy rate remained flat from the previous quarter. The vacancy rate in buildings under 6 stories stood at 13.7%, representing 31.5 million square feet. On the other hand, buildings 7 stories or higher had a higher vacancy rate of 19.7%, with 29.4 million square feet. Notably, buildings under 6 stories contain 57.2% of all the available sublease space in L.A. County.

Work-from-home trends and preference for a building's profile will continue to influence the demand for office space. The office market is displaying signs of stabilization compared to the previous rapid increase in vacancy rates. Nevertheless, landlords and tenants will face difficulties, resulting in a challenging recovery period that will impact real estate values.

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 Q2 2023

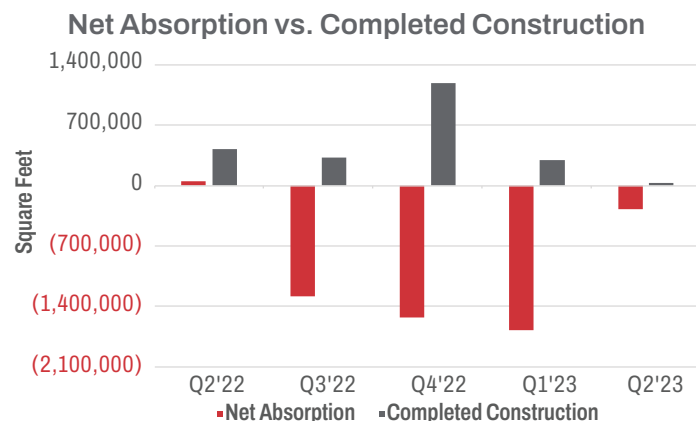
MARKET STATISTICS*

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 NNN	Average Sale Price \$/SF
Central	65,537,403	293,100	20.5%	17.4%	329,696	629,384	295,400	1,232,585	\$3.09	\$198
Mid-Wilshire	17,071,567	0	17.8%	20.2%	132,502	185,986	0	349,277	\$2.47	\$402
LA North	61,198,283	433,000	18.9%	14.7%	770,698	1,688,906	273,373	1,294,758	\$2.77	\$259
San Gabriel Valley	35,003,812	46,000	8.7%	7.1%	315,790	584,442	138,324	314,755	\$2.57	\$398
South Bay	66,163,647	634,513	20.2%	17.1%	550,930	1,078,483	440,989	896,689	\$3.22	\$285
Tri-Cities	43,529,996	900,000	17.1%	13.4%	459,879	919,182	51,119	211,066	\$3.55	\$533
LA West	103,846,418	1,193,872	22.0%	17.6%	1,169,183	2,947,491	48,879	857,057	\$4.97	\$818
Los Angeles County	392,351,126	3,500,485	19.0%	15.7%	3,728,678	8,033,874	1,248,084	5,156,187	\$3.43	\$330

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

LEASING TRENDS

The market's supply and demand shift is highlighted by the last five quarters, with completed construction adding a total of 2,266,054 square feet to the market. However, the net absorption during the same period has been well under that, totaling a negative 4,716,891 square feet as of Q2 2023. This indicates a significant disparity between the demand and supply of newly constructed office.



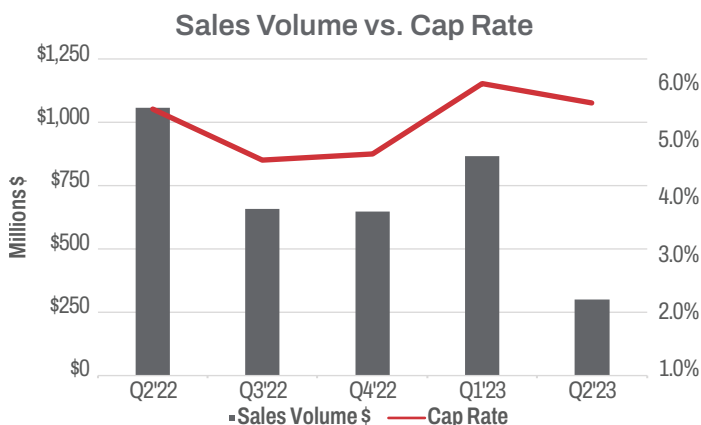
Select Lease Transactions

Tenant	Address	City	Submarket	Square Feet
The Switch	1840 Victory	Glendale	Tri-Cities	67,712*
Lumen Technologies	818 W 7th St	Los Angeles	Downtown	67,632
Sidley Austin LLP	350 S Grand Ave	Los Angeles	Downtown	57,148
Senior Care Center	655 S Santa Fe Ave	Los Angeles	Downtown	51,898*
VERVE Talent & Literary Agency	6555 Barton Ave	Los Angeles	LA West	50,112

*Sublease

SALES TRENDS

The last five quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 59.9% below Q2 2022, amounting to approximately \$1.2 billion year to date. Additionally, the average cap rate on investment sales increased by 10 basis points from the second quarter of 2022, reaching 5.3 percent.



Select Sales Transactions

Tenant	Address	City	Submarket	Square Feet
The Regents of the University of California	433 S Spring St	Los Angeles	DTLA	285,394
TriStar Realty Group, LLC	16633 Ventura Blvd	Encino	LA North	183,402
400 OceanGate Llc	400 OceanGate	Long Beach	South Bay	157,683
Torsobay Llc	20285 S Western Ave	Torrance	South Bay	78,839
Uninational Corporation	701 E 28th St	Long Beach	South Bay	68,845