

Los Angeles County

Office Market Outlook Q4 2022

MARKET OVERVIEW

Los Angeles County's office market remained on a slow path to recovery, as companies worked to bring employees back to the office while others cut back on office space. Elevated vacancy, uncertain demand, and added construction haven't led to a general cut in asking rent to boost occupancy. While completed construction added over 2 million square feet, mostly vacant, to the inventory in 2022, the market was faced with more sublease office space coming online. The vacancy rate rose 100 basis points from last year to 15.1 percent, increasing each quarter since the pandemic shutdown.

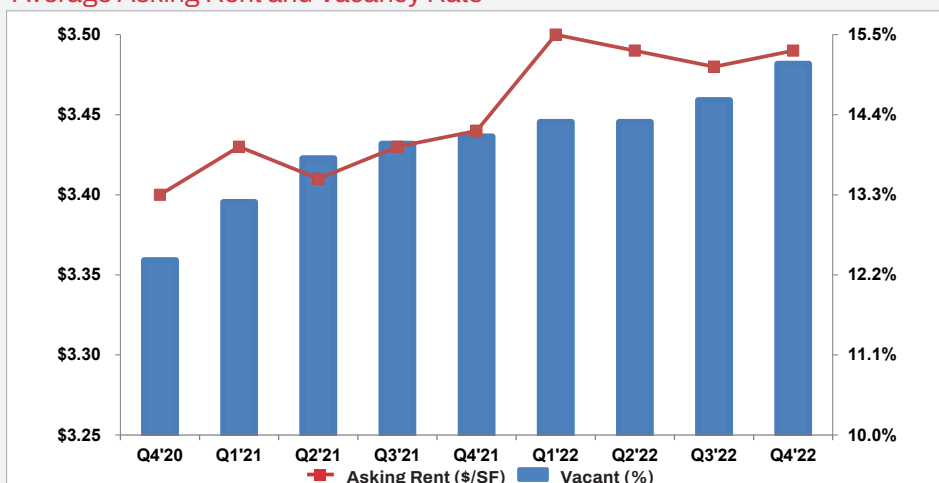
Vacant office space on the market piled up while space utilization strategies and work from home played out. Since the fourth quarter of last year close to 4.5 million square feet of available space was added to the market. With half of that figure offered for sublease, the total amount of office space on the market was pushed to an all-time high of 72 million square feet as of Q4 2022. Available sublease space jumped 24.7 percent from Q4 2021 to 10.9 million square feet – 47.2 percent higher than the peak of the Great Recession. While available space continued to be added to the market, the average asking rent remained flat, up 1.5 percent from last year at \$3.49 per square foot full service gross. Despite leasing volume in 2022 falling 5 percent below last year, there hasn't been a necessary downward movement on asking rent.

TRENDS TO WATCH

Adaptation to new hybrid and remote workplace strategies will slow the office market as it faces a sizeable post-pandemic transformation and risk of a recession. An uncertain economy means downsizing for some businesses, expansion for others, and shutting down for many. Much of the sublease space coming on the market came from big tech downsizing with job cuts also in the financial sector. Tenants will be more selective about their office space needs and to maintain flexibility pursue signing short-term leases. Landlords will be much more receptive to tenant needs, take this time to position their buildings for the office of the future to improve occupancy, and strive to maximize revenue.

Year-end figures showed the search for a bottom in the office market, with vacancy and asking rent at an all-time high. Rent negotiations and lease restructuring will continue in 2023, as a lingering symptom of the pandemic's economic impact and defense from recession. With more quality space available for tenants to choose from, landlords will be more motivated to lower rental rates and make a deal. But lower cash flow from reduced rent or reduced occupancy will make it challenging for building owners to meet their mortgage requirements, especially with the rise in interest rates. The distress both on the landlord and tenant side could make for a longer recovery period impacting real estate values.

Average Asking Rent and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



J.C. Casillas

Managing Director, Research
jcasillas@naicapital.com
Direct: 818.933.2433

NAI Capital Commercial Research
www.naicapital.com

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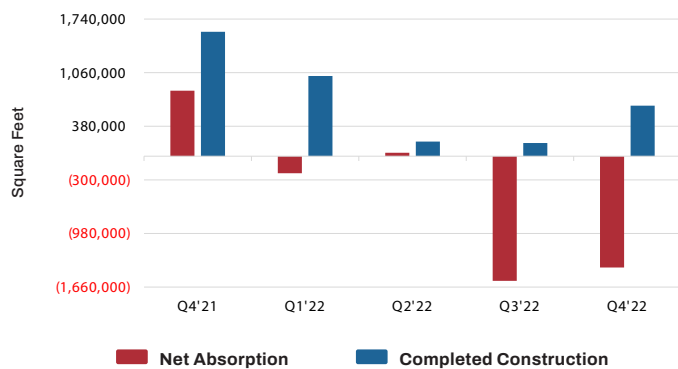
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Market Statistics*

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	65,547,269	293,100	19.6%	16.3%	259,851	1,895,519	242,176	461,092	\$3.26	\$537
Mid-Wilshire	17,030,509	0	21.3%	19.5%	156,474	384,696	9,992	283,233	\$2.47	\$500
LA North	61,041,382	464,391	18.3%	14.3%	612,316	3,000,520	460,403	2,356,314	\$2.79	\$310
San Gabriel Valley	35,016,373	46,000	9.1%	7.0%	153,423	963,760	134,365	845,833	\$2.56	\$308
South Bay	65,423,203	175,000	17.8%	16.2%	592,348	2,817,177	100,281	2,007,165	\$3.60	\$455
Tri-Cities	43,132,431	904,172	16.6%	13.0%	354,778	1,607,316	161,476	793,621	\$3.60	\$597
LA West	103,654,662	1,142,881	21.5%	16.9%	1,271,285	7,046,272	309,661	2,297,140	\$4.98	\$481
Los Angeles County	390,845,829	3,025,544	18.4%	15.1%	3,400,475	17,715,260	1,418,354	9,044,398	\$3.49	\$429

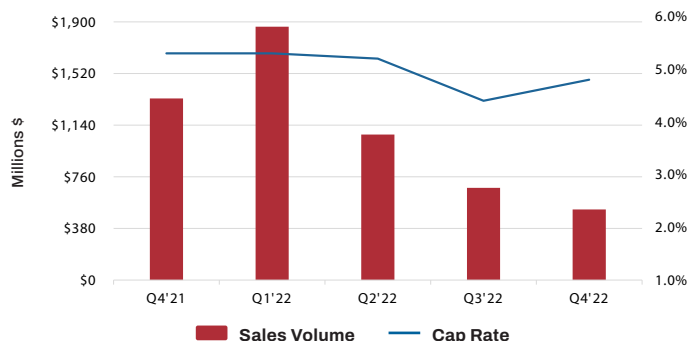
Net Absorption, Completed Construction Trends

Office market net absorption depicted downward momentum from Q4 2021. As the market added completed construction, the office market under performed with 3,162,804 square feet of negative net absorption in 2022. Over the past five quarters 3.6 million square feet of office space was completed.



Sales and Cap Rate Trends

Sales volume decreased this quarter, down 23.5 percent from the third quarter of 2022 to \$519,159,359, as the market reacted to the uncertainty of increased vacancy and rising interest rates. The average cap rate increased 40 basis points from the previous quarter to 4.2 percent.



Select Lease Transactions

TENANT	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Musick, Peeler & Garrett LLP	333 S Hope St	Los Angeles	Central LA	52,966
DaVita Kidney Care*	601 Hawaii St	El Segundo	South Bay	50,823
Hartbeat	1041 N Formosa Ave	West Hollywood	LA West	38,687
Los Angeles County Dept. of Mental Health	5860 Uplander Way	Culver City	LA West	25,199
lululemon Athletica, Inc.**	1733 Ocean Ave	Santa Monica	LA West	24,488

*Renewal
**Sublease

Select Sales Transactions

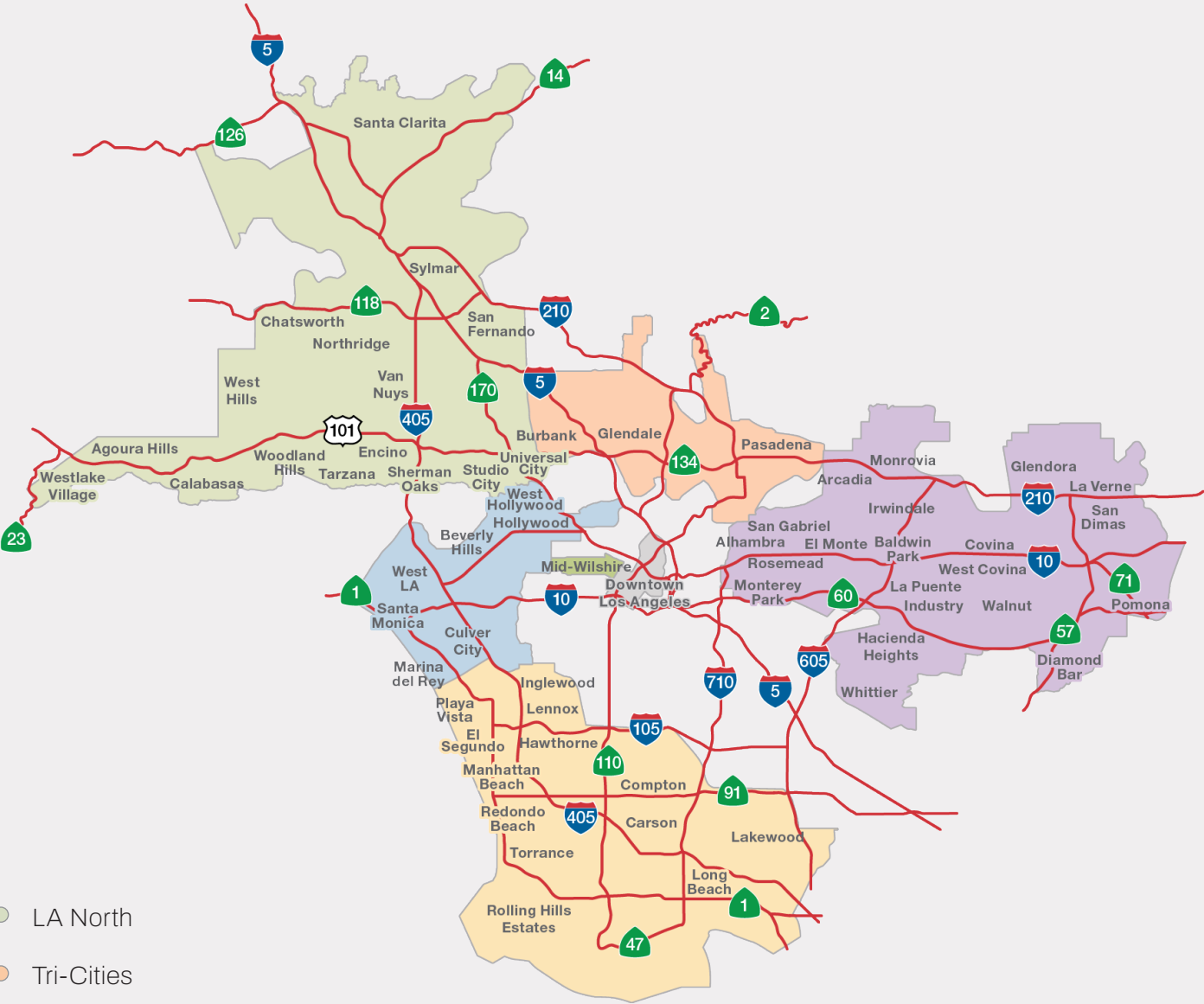
BUYER	ADDRESS	CITY	SUBMARKET	SQUARE FEET
Verizon	800 S Hope St	Los Angeles	Central LA	242,176
Harbor Associates	6922 Hollywood Blvd	Los Angeles	LA West	210,312
Harbor Associates	25124 and 25152 Springfield Ct,	Valencia	LA North	164,242
Private Investor	815 Colorado Blvd	Los Angeles	Tri-Cities	84,789
The Brooklyn Companies	40 E Verdugo Ave	Burbank	Tri-Cities	24,475

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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 Q4 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. 204
Palm Desert, CA 92211
760.346.1566