



# Los Angeles office market report

Q2 2024

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**AVISON  
YOUNG**

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# Los Angeles office market trends

## \$9.05B

### CMBS debt set to mature in the next 3 years

Landlords in Los Angeles are currently grappling with pivotal decisions, as more than \$9 billion in CMBS debt is set to mature within the next 36 months. This impending milestone is expected to catalyze heightened investment activity across the region, as property owners weigh the strategic options of refinancing existing loans or considering property sales.

The approaching maturity of these CMBS loans underscores a significant juncture for commercial real estate stakeholders in Los Angeles. As landlords evaluate their portfolios amidst evolving market conditions, considerations extend beyond mere financial implications to encompass strategic positioning and capital deployment strategies. This dynamic landscape is likely to influence market dynamics, potentially shaping transaction volumes and investment patterns in the coming years.

## \$44.14

### Rental rates remain stable

During the second quarter, the Los Angeles office market showed promising signs of recovery, with net absorption improving marginally to -0.03% relative to total inventory. This modest improvement suggests a gradual stabilization amidst ongoing adjustments in tenant demands, leading to strategic closures and downsizing of office spaces by companies reassessing their operational needs.

Concurrently, average asking rents inched up to \$44.14 per square foot in the initial quarter, reflecting a cautious optimism among property owners. To bolster leasing momentum amid competitive pressures, many landlords are opting to enhance incentive packages rather than resorting to direct reductions in rental rates. These incentives aim to attract and retain tenants by offering flexible lease terms, improved amenities, and operational support, thus reinforcing the market's responsiveness to evolving tenant preferences and economic conditions.

## 896 deals

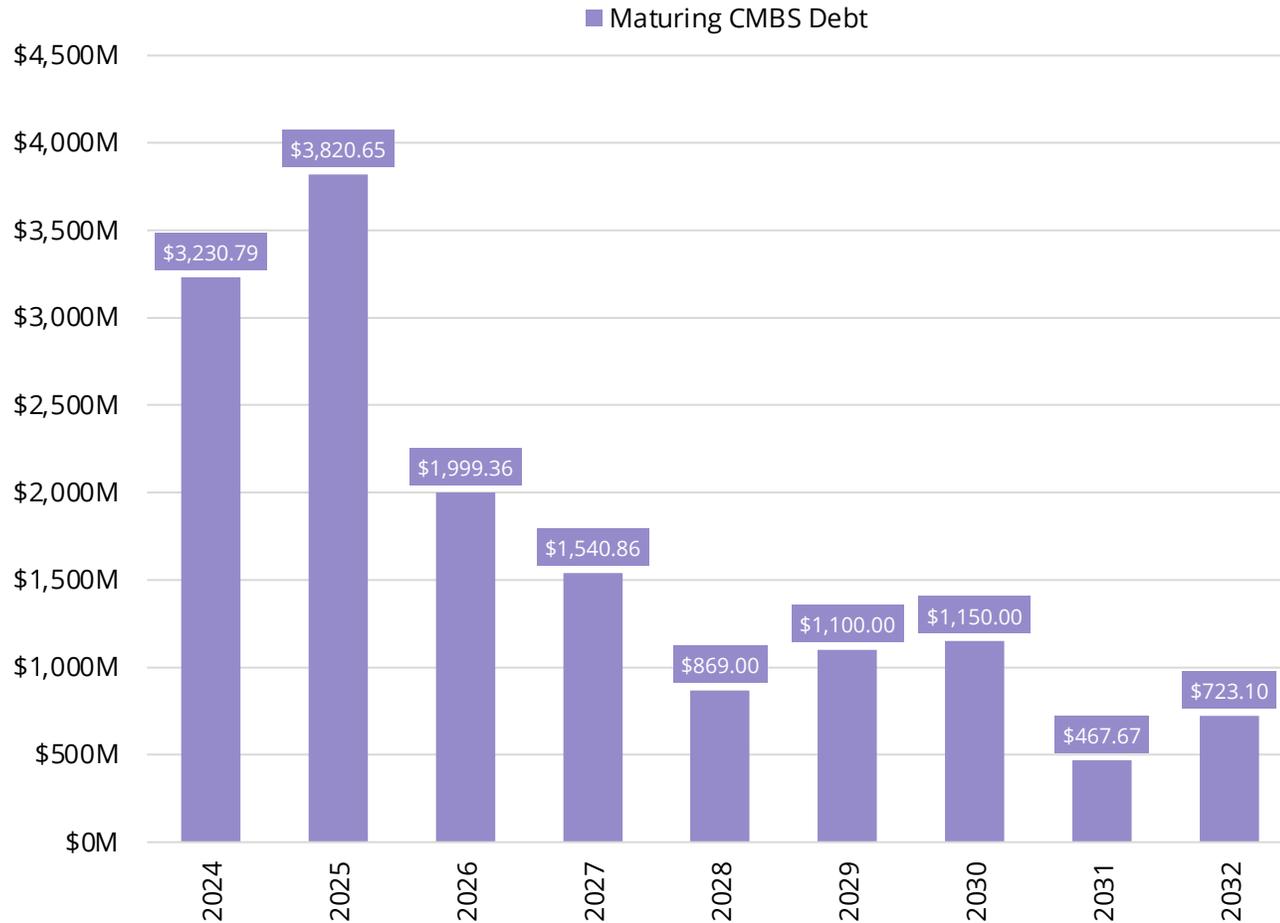
### Leasing activities continue to decline

During the second quarter, the downtown Los Angeles office market witnessed a total of 896 transactions amounting to 2.85 million square feet leased. This represented a 9.59% decrease compared to the previous quarter, which recorded 991 transactions.

Highlighting specific market activity, U.S. Bank finalized a notable lease agreement for 105,000 square feet at 633 W 5th St in the Bunker Hill submarket of downtown Los Angeles. This transaction underscores ongoing corporate interest in prime office spaces within key submarkets, reflecting strategic expansions or relocations within the city's dynamic commercial landscape.

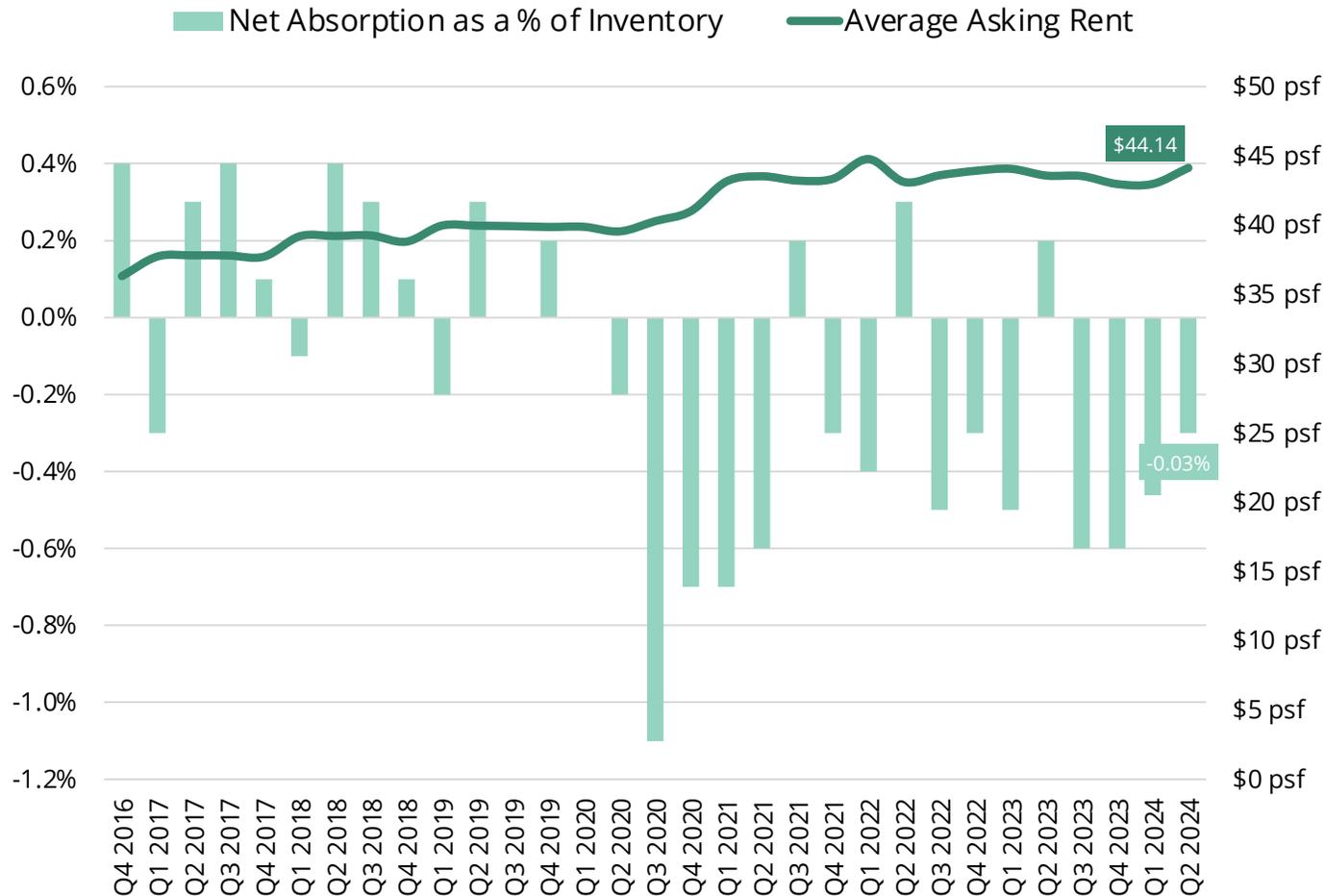
The reduction in transaction volume from the first quarter indicates a measured adjustment in leasing activity, potentially influenced by factors such as evolving economic conditions, tenant preferences, and strategic decision-making among businesses and property owners in downtown Los Angeles.

# Maturing CMBS Debt



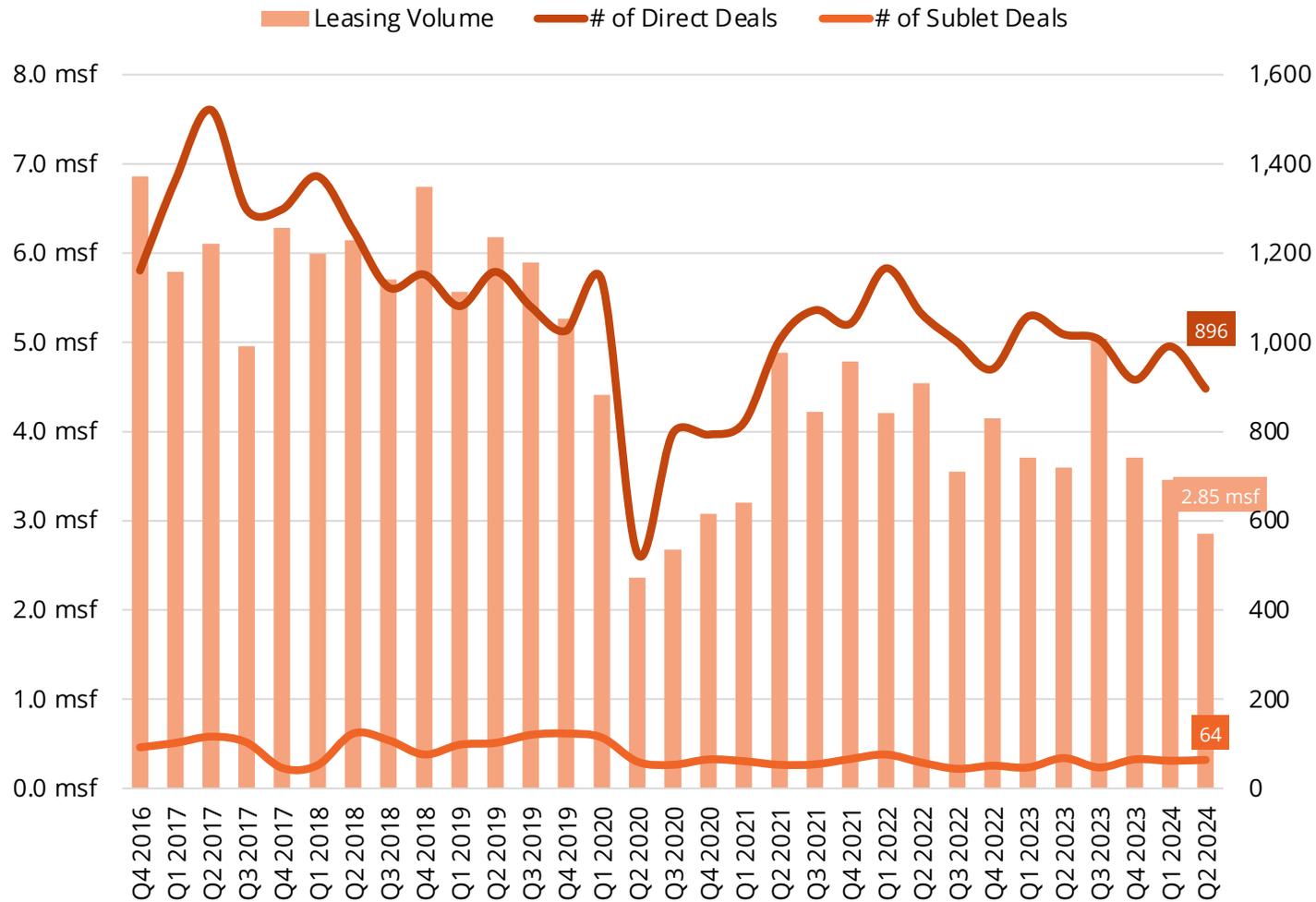
Over the next three years, over \$9.0 billion worth of loans are set to mature, presenting property owners with pressing decisions regarding the fate of their investments. These critical choices will require careful consideration of options such as refinancing existing loans or pursuing property sales, decisions that will be shaped by prevailing market dynamics and strategic financial planning.

# Absorption



Landlords are strategically choosing to offer attractive concessions to tenants instead of reducing rental rates outright. This approach aims to maintain market competitiveness while preserving perceived property values. The slight uptick in average asking rates to \$44.14 per square foot during the second quarter reflects landlords' cautious optimism amidst evolving market conditions.

# Leasing activities



During the second quarter, Los Angeles witnessed a notable downturn in leasing activity, marking a decrease of 9.6% compared to the previous quarter. This shift translated to approximately 2.85 million square feet of office space being leased, which represents a slight drop from the 3.4 million square feet leased in the first quarter. The market's current trajectory highlights ongoing adjustments in tenant needs and landlord strategies, influenced by economic dynamics and changing workplace trends.

# Appendix



# Los Angeles office development pipeline

**23 properties**

under construction

**2.14 msf**

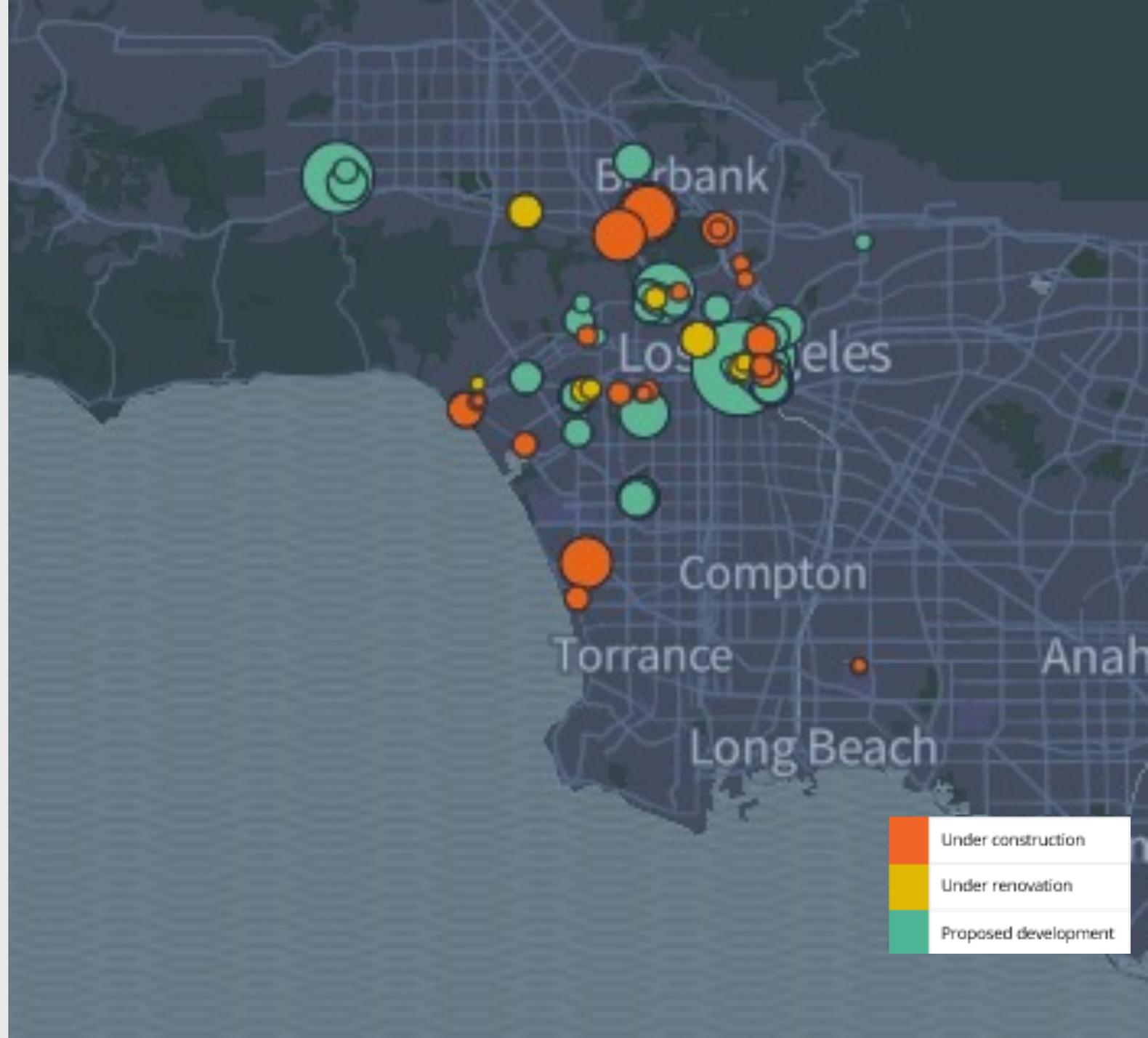
under construction

**0.07%**

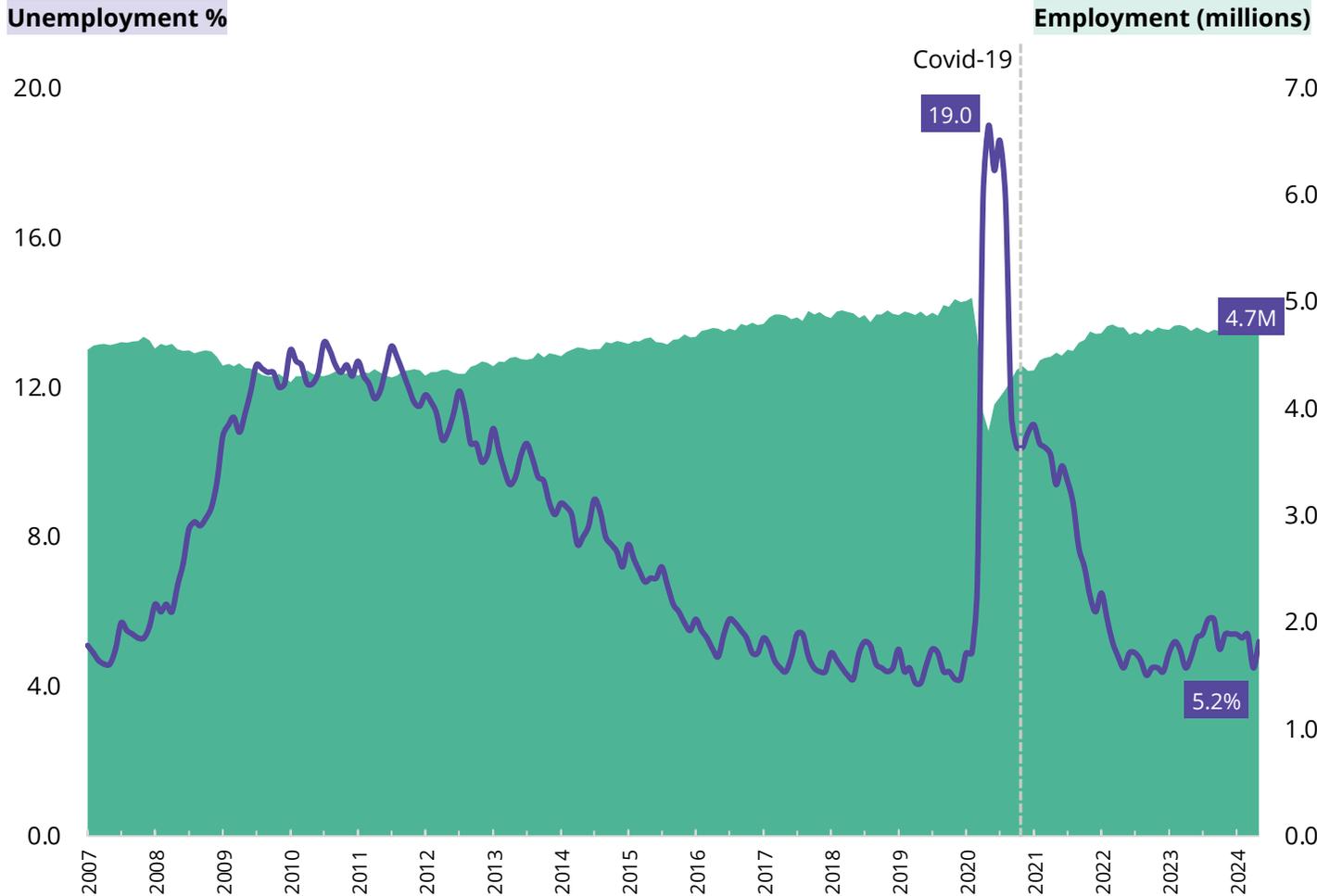
share of office inventory

**October 2024**

average delivery date of buildings currently under construction



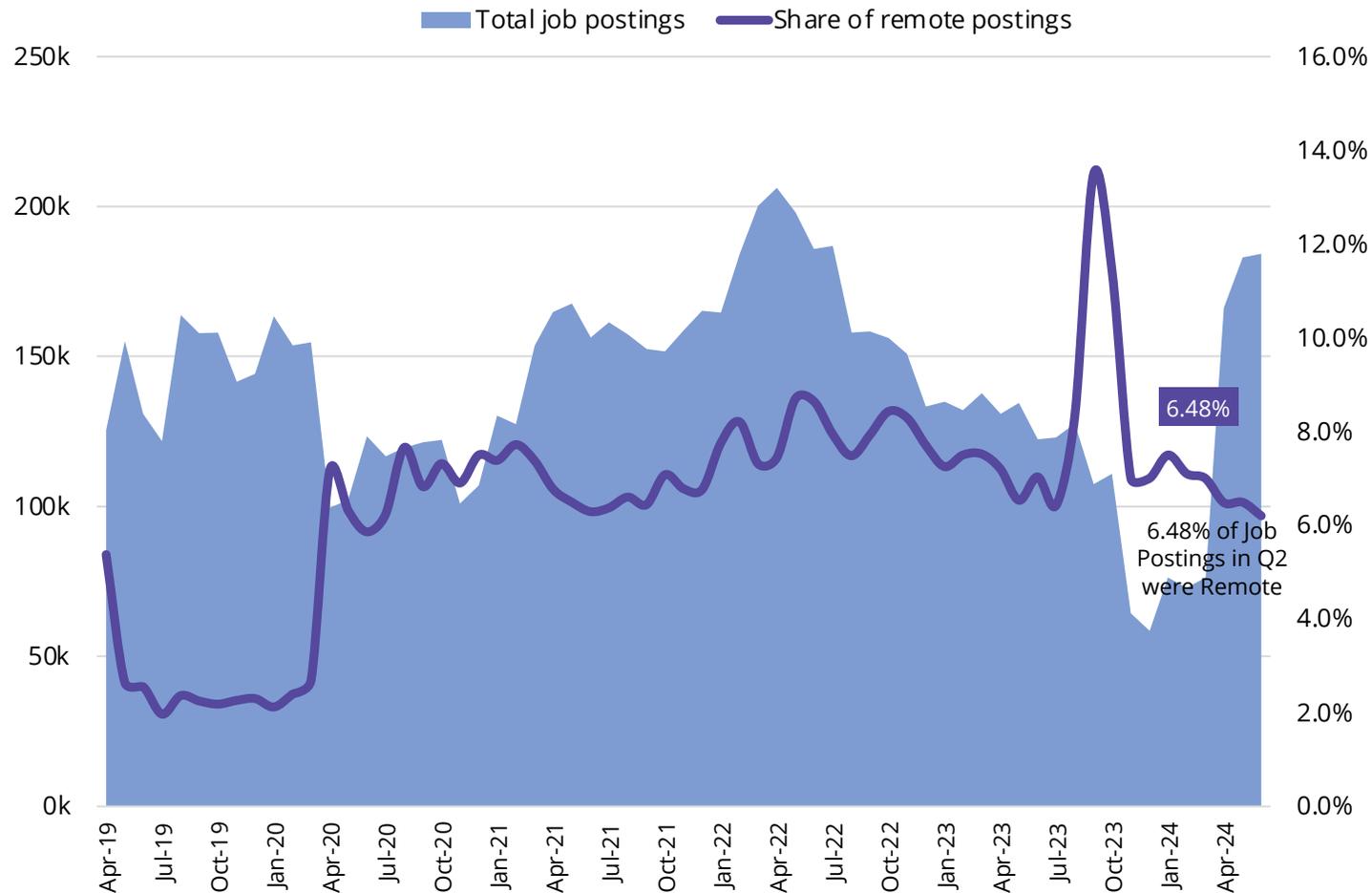
# Unemployment rate and employment



Los Angeles' current unemployment rate stands at 5.2%, indicating a modest increase of 20 basis points from the previous quarter. This trend suggests a potential easing of certain economic pressures and a gradual movement toward favorable conditions.

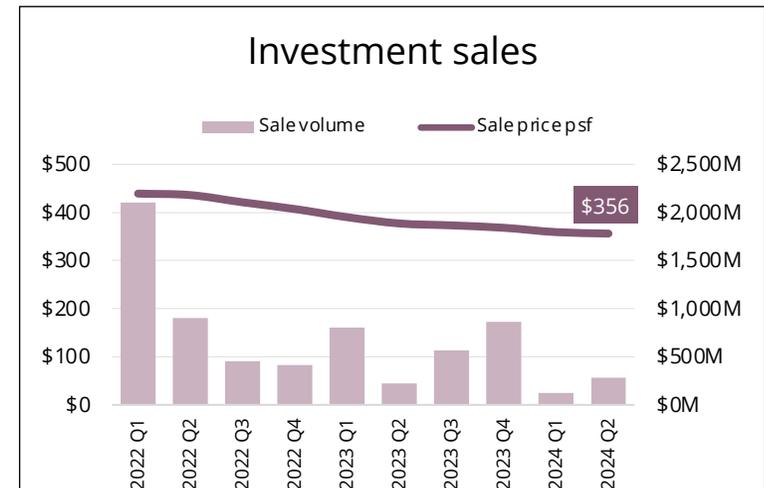
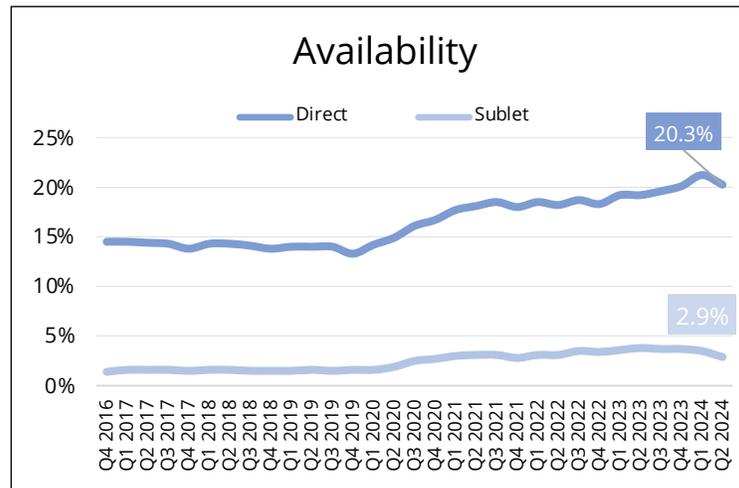
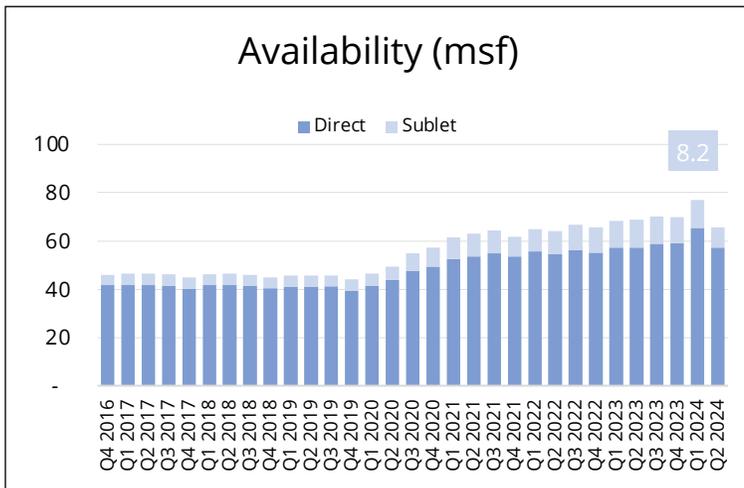
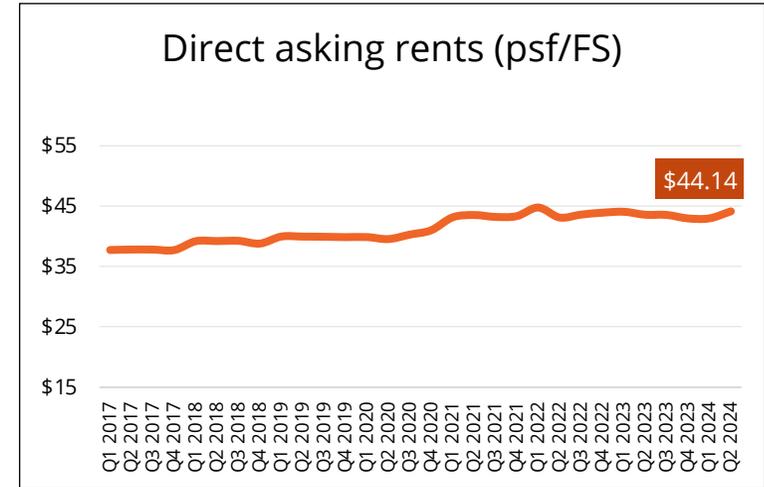
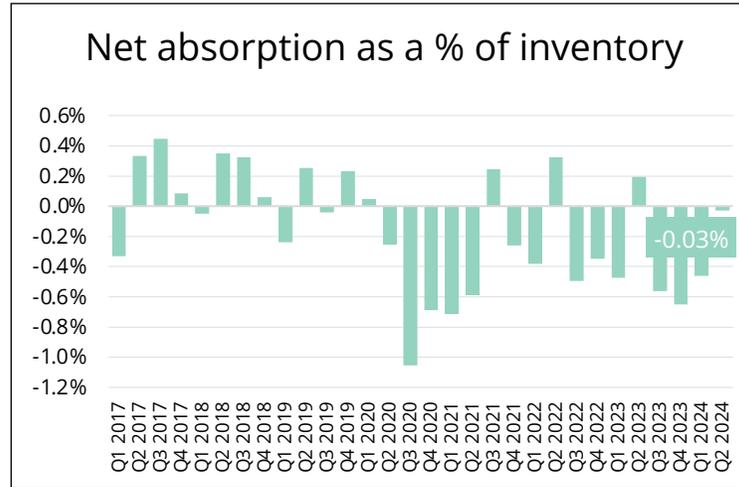
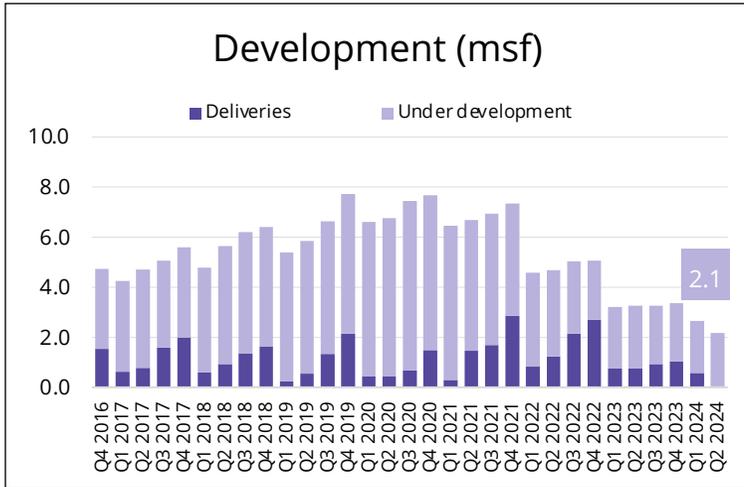
This slight uptick in unemployment could signal a stabilization phase, where labor market dynamics are adjusting in response to broader economic shifts. As businesses navigate evolving consumer behaviors and operational challenges, the trajectory of the unemployment rate provides a barometer for economic resilience and recovery efforts in the Los Angeles metropolitan area.

# Office Job Postings



The decrease in job postings for office-using roles indicates that many positions have either been filled or eliminated as part of cost-saving measures or adjustments in workforce sizes. Currently, over 6% of job listings are exclusively for remote positions, contrasting with just 3% in July 2023. Job postings showed significant growth in Q2, more than doubling from the previous decline observed in Q3 2023. This surge suggests a notable shift in hiring trends amidst evolving workplace dynamics.

# Los Angeles office market indicators



# Los Angeles office market activity

## Recent leasing activity

| Tenant         | Address                  | Submarket          | Sign date  | Size (sf) | Transaction type | Lease type |
|----------------|--------------------------|--------------------|------------|-----------|------------------|------------|
| U.S. Bank      | 633 W 5 <sup>th</sup> St | Bunker Hill        | April 2024 | 105,000   | New Lease        | Direct     |
| Industrious    | 444 S Flower St          | Financial District | May 2024   | 44,536    | New Lease        | Direct     |
| Reed Smith LLP | 515 S Flower St          | Financial District | June 2024  | 41,129    | New Lease        | Direct     |

## Recent sales activity

| Buyer                        | Address                  | Sale date  | Building size (sf) | Sale price   | Sale price psf | Seller              |
|------------------------------|--------------------------|------------|--------------------|--------------|----------------|---------------------|
| Shomof Group                 | 617 W 7 <sup>th</sup> St | April 2024 | 215,469            | \$20,467,000 | \$94.99        | The Swig Company    |
| Westside Neighborhood School | 5340 Alla Rd             | May 2024   | 131,942            | \$50,250,000 | \$380.85       | La Salle Investment |
| TBA                          | 7083 Hollywood Blvd      | June 2024  | 86,606             | \$20,500,000 | \$294.44       | Vanbarton Group     |

## Top projects under development

| Address                  | Submarket                 | Delivery date | Building size sf | % Preleased | Developer               |
|--------------------------|---------------------------|---------------|------------------|-------------|-------------------------|
| 1950 Avenue of the Stars | Century City              | Jan 2026      | 731,250          | 31%         | JMB Realty              |
| 5601 Santa Monica Blvd   | East Hollywood/Silverlake | April 2026    | 350,000          | 0%          | Bardas Investment Group |

# Los Angeles office market stats

|                     | Existing inventory sf | Deliveries sf (QTD) | Under development sf | Direct Availability | Sublet Availability | Total Availability | Net absorption % of inventory (QTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|---------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------------------|-------------------------------------|----------------------------------|
| Downtown            | 45,036,798            | 0                   | 137,000              | 27.9%               | 2.2%                | 30.2%              | (0.86%)                             | (1.39%)                             | \$48.52                          |
| East LA             | 4,126,684             | 0                   | 40,000               | 6.4%                | 0.2%                | 6.6%               | 2.03%                               | 0.65%                               | \$30.50                          |
| San Fernando Valley | 32,511,181            | 0                   | 331,000              | 16.4%               | 2.7%                | 19.1%              | 0.41%                               | 0.03%                               | \$34.20                          |
| Mid-Cities          | 6,181,434             | 0                   | 0                    | 9.4%                | 0.4%                | 9.8%               | (0.68%)                             | 0.78%                               | 30.47%                           |
| Mid-Wilshire        | 34,786,186            | 0                   | 0                    | 19.5%               | 1.8%                | 21.3%              | 1.41%                               | (1.91%)                             | \$42.78                          |
| San Gabriel Valley  | 17,770,799            | 0                   | 0                    | 7.7%                | 0.2%                | 7.9%               | 0.28%                               | 0.54%                               | \$31.25                          |
| South Bay           | 39,850,101            | 0                   | 0                    | 19%                 | 2.9%                | 21.9%              | (0.08%)                             | 1.27%                               | \$37.93                          |
| Tri Cities          | 30,237,612            | 0                   | 286,308              | 20.6%               | 2.8%                | 23.4%              | (1.70%)                             | (2.69%)                             | \$44.17                          |
| West LA             | 76,046,401            | 47,834              | 1,332,480            | 22.8%               | 4.9%                | 27.7%              | 0.18%                               | (0.43%)                             | \$56.96                          |
| <b>Market total</b> | <b>286,547,196</b>    | <b>47,834</b>       | <b>2,126,728</b>     | <b>20.25%</b>       | <b>2.89%</b>        | <b>23.13%</b>      | <b>(0.03%)</b>                      | <b>(0.61%)</b>                      | <b>\$44.14</b>                   |

# Los Angeles office market stats by class

|                     | Existing inventory sf | Deliveries sf (QTD) | Under development sf | Direct Availability | Sublet Availability | Total Availability | Net absorption % of inventory (QTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|---------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------------------|-------------------------------------|----------------------------------|
| Class A             | 160,781,894           | 0                   | 1,869,120            | 22.4%               | 3.75%               | 26.15%             | (0.41%)                             | (1.51%)                             | \$48.20                          |
| Class B             | 107,546,552           | 47,384              | 217,668              | 18.0%               | 1.88%               | 19.88%             | 0.38%                               | 0.59%                               | \$39.28                          |
| Class C             | 18,218,750            | 0                   | 39,940               | 14.50%              | 1.20%               | 15.70%             | 0.88%                               | 0.20%                               | \$37.00                          |
| <b>Market total</b> | <b>286,547,196</b>    | <b>47,384</b>       | <b>2,126,728</b>     | <b>20.25%</b>       | <b>2.89%</b>        | <b>23.13%</b>      | <b>(0.03%)</b>                      | <b>(0.61%)</b>                      | <b>\$44.14</b>                   |



# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and  
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