



Los Angeles office market report

Q2 2024

**AVISON
YOUNG**

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

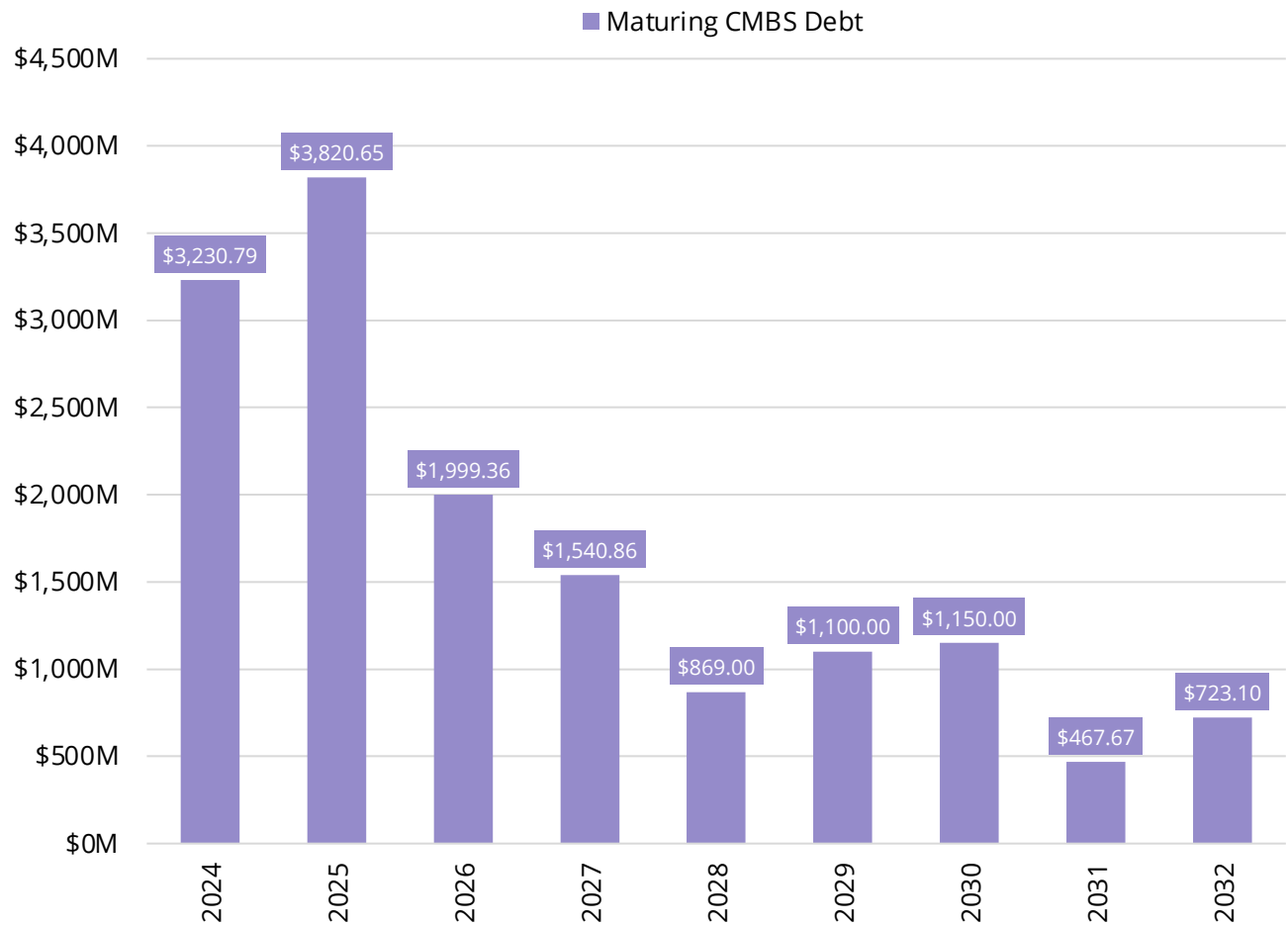
Leasing activities continue to decline

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.

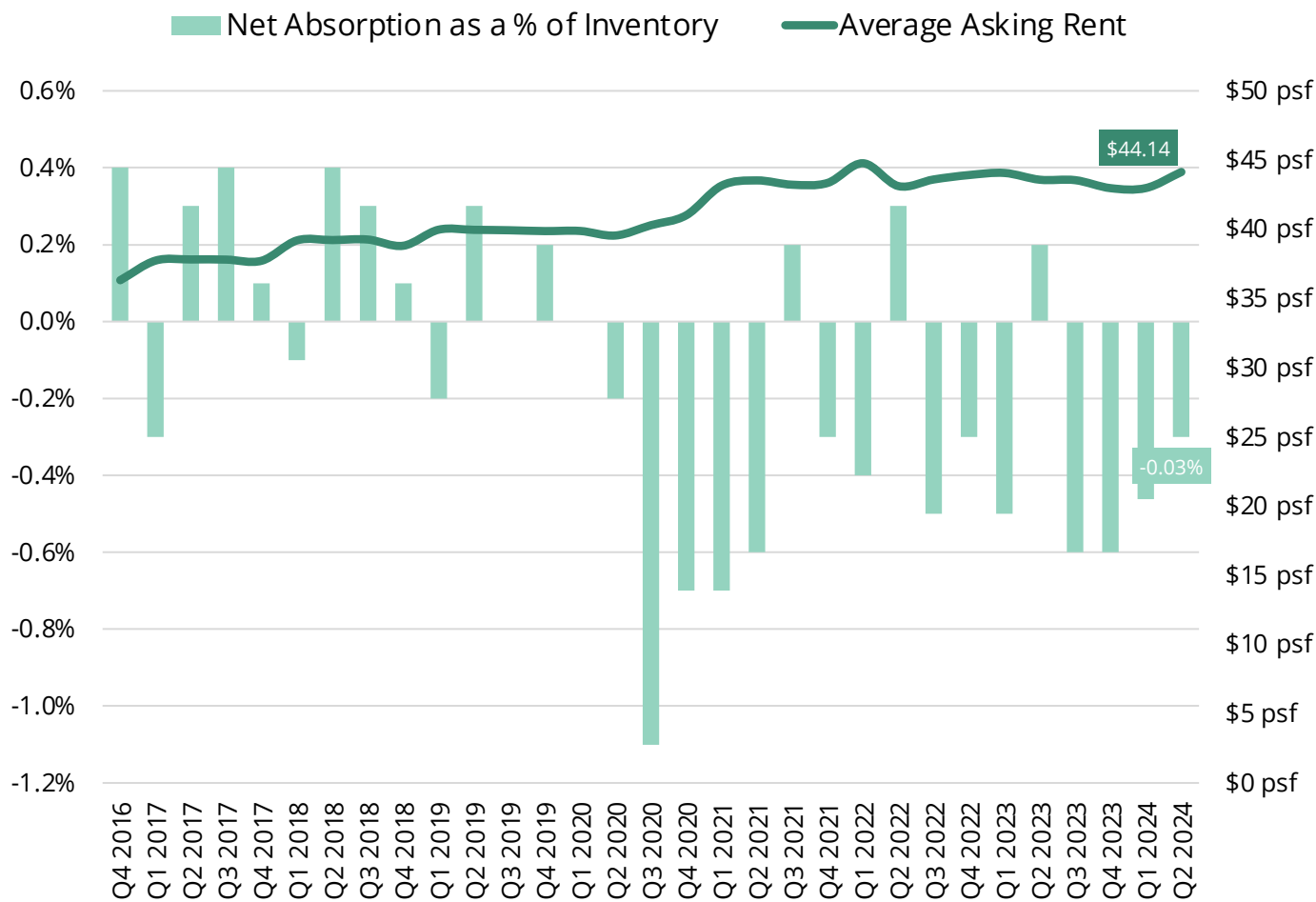
The reduction in transaction volume from the first quarter indicates a measured adjustment in leasing activity, potentially influenced by factors such as evolving economic conditions, tenant preferences, and strategic decision-making among businesses and property owners in downtown Los Angeles.

Maturing CMBS Debt



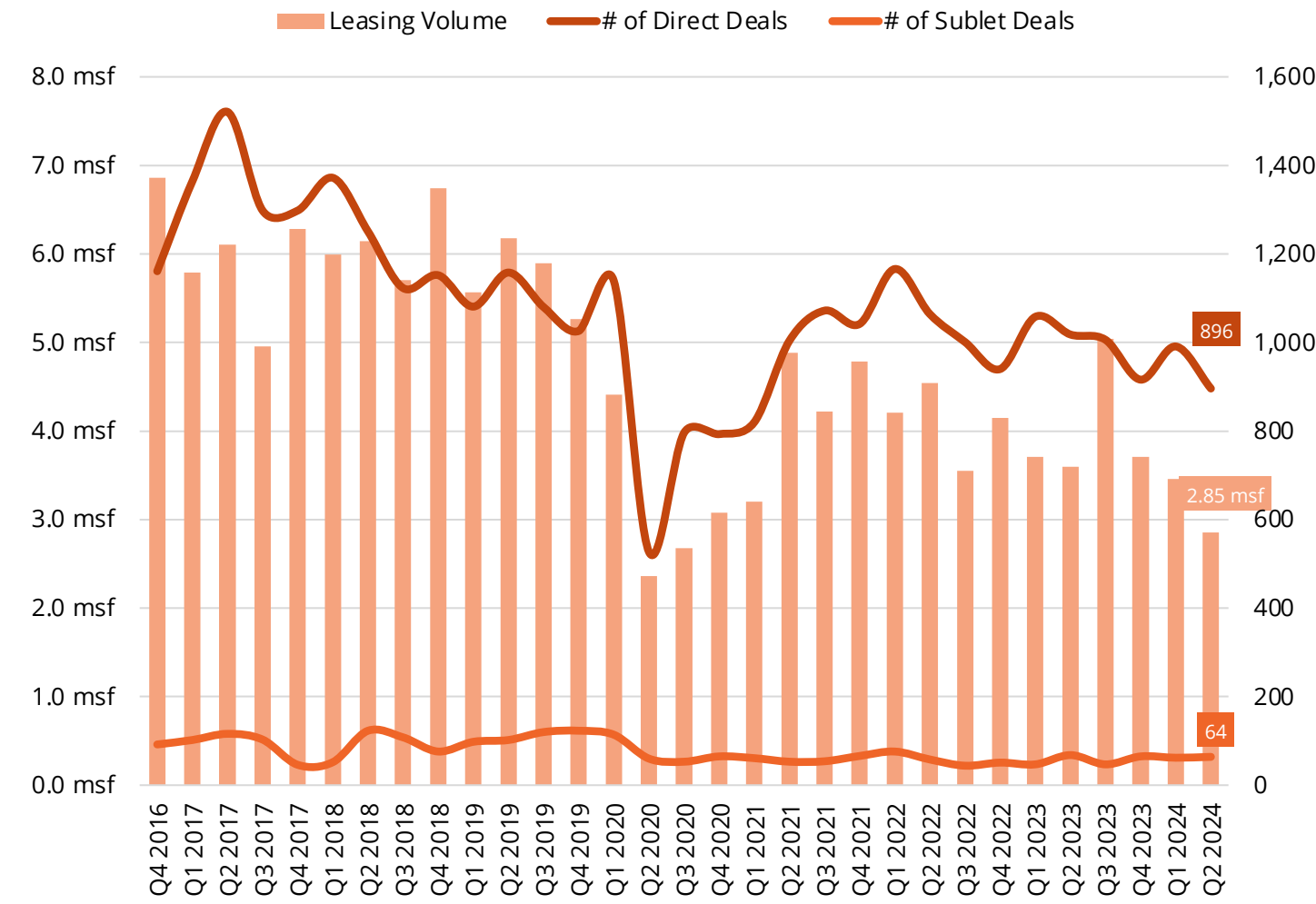
Over the next three years, over \$9.0 billion worth of loans are set to mature, presenting property owners with pressing decisions regarding the fate of their investments. These critical choices will require careful consideration of options such as refinancing existing loans or pursuing property sales,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

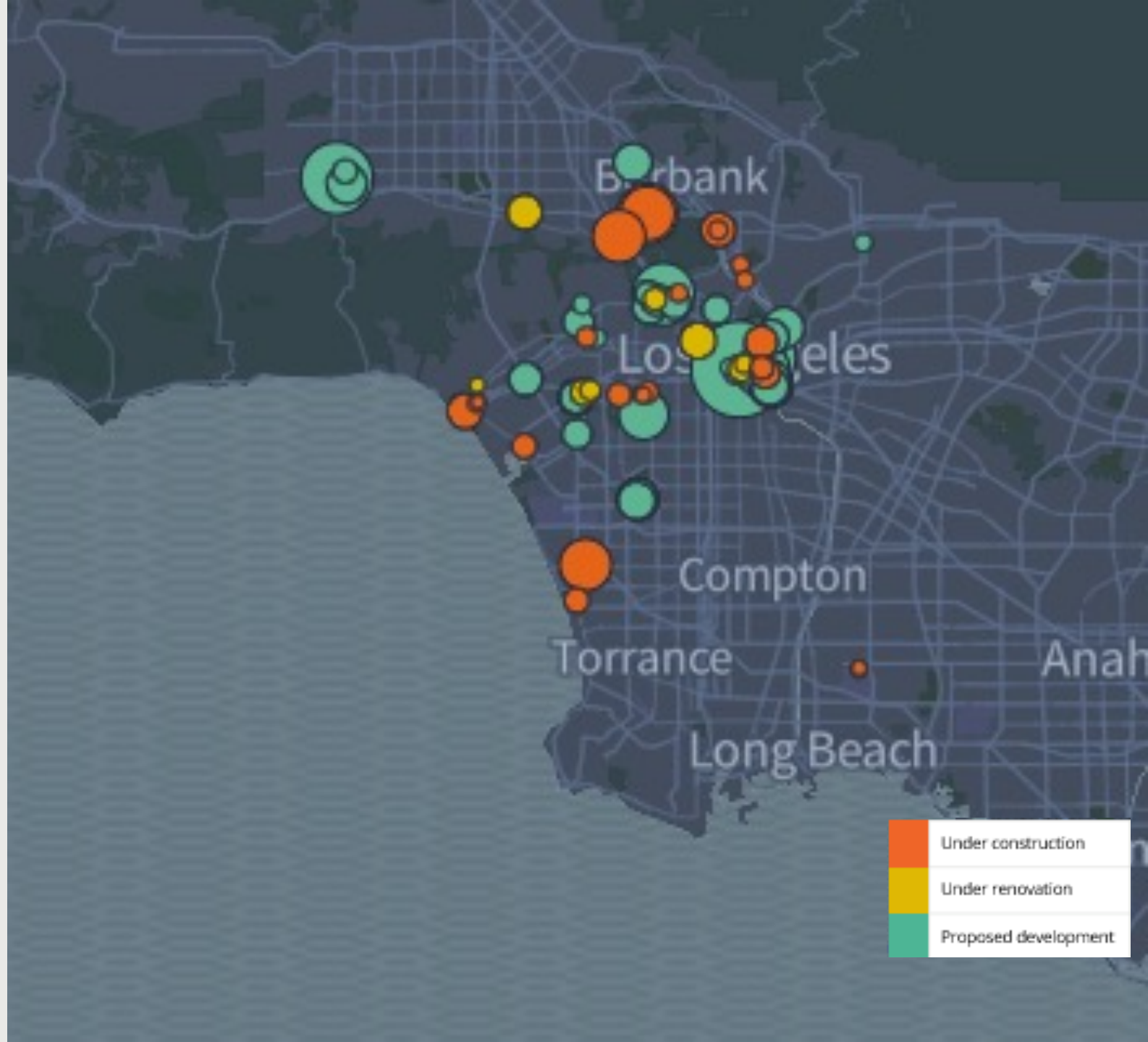
under construction

0.07%

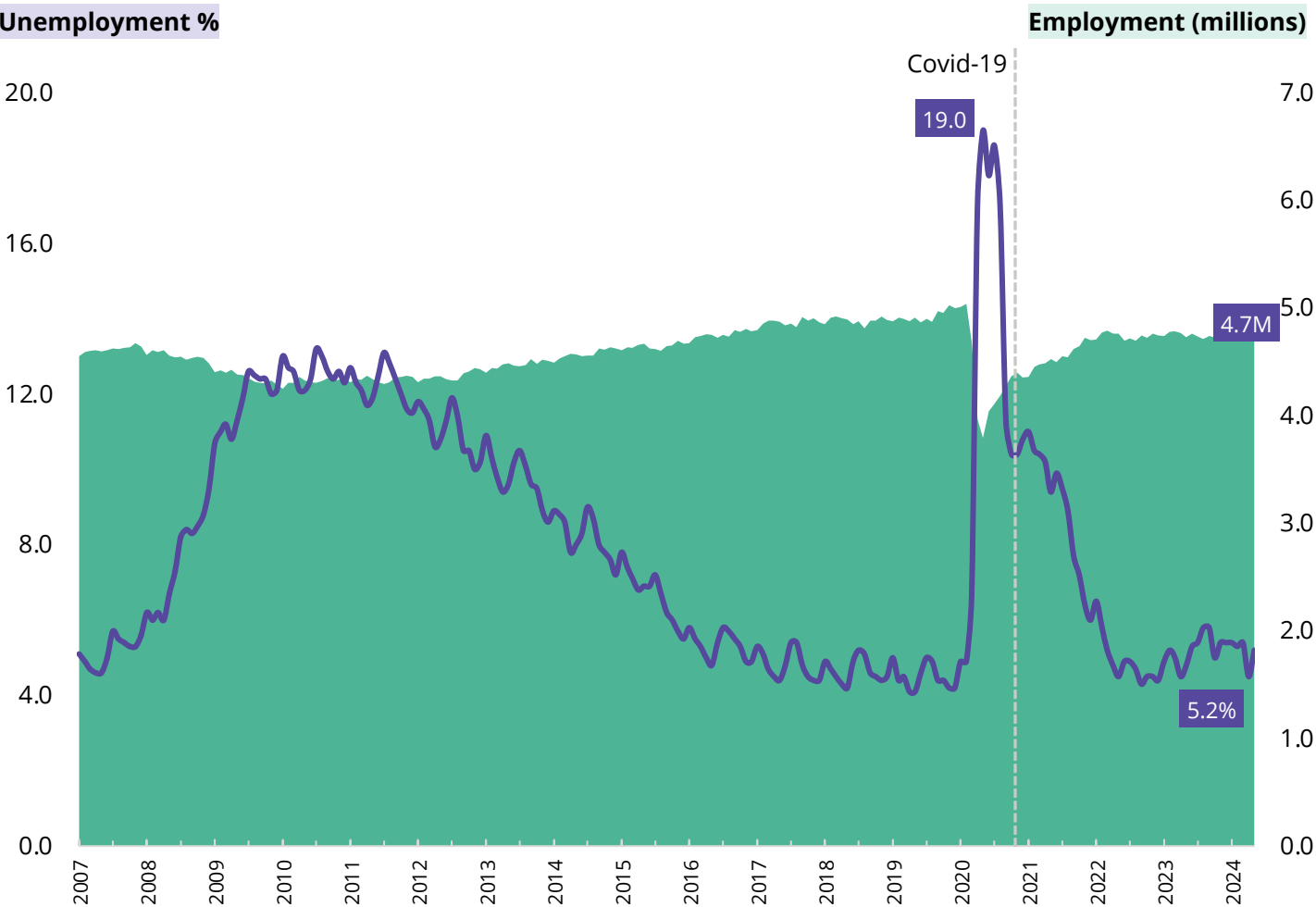
share of office inventory

October 2024

average delivery date of buildings currently under construction



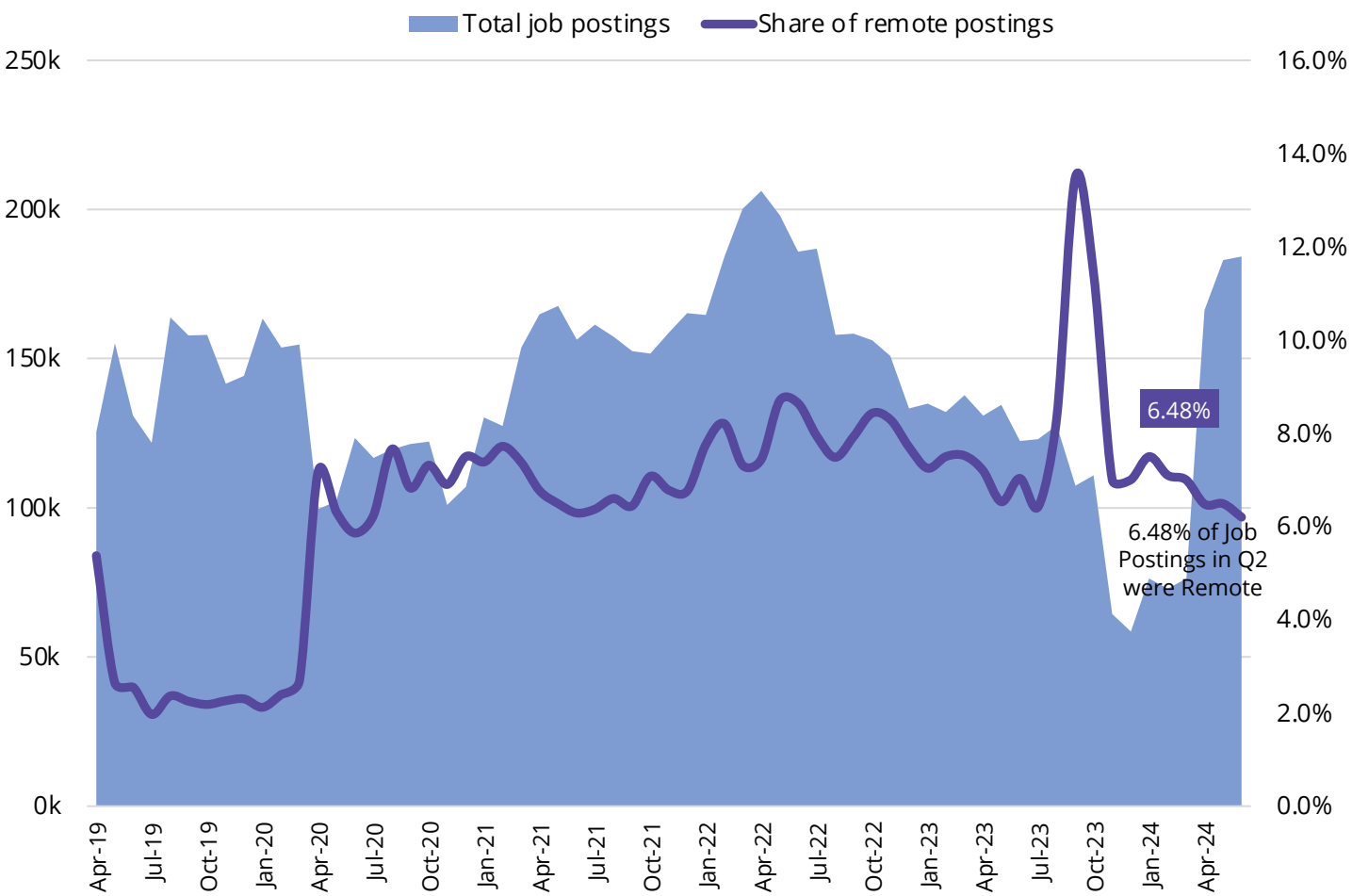
Unemployment rate and employment



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.

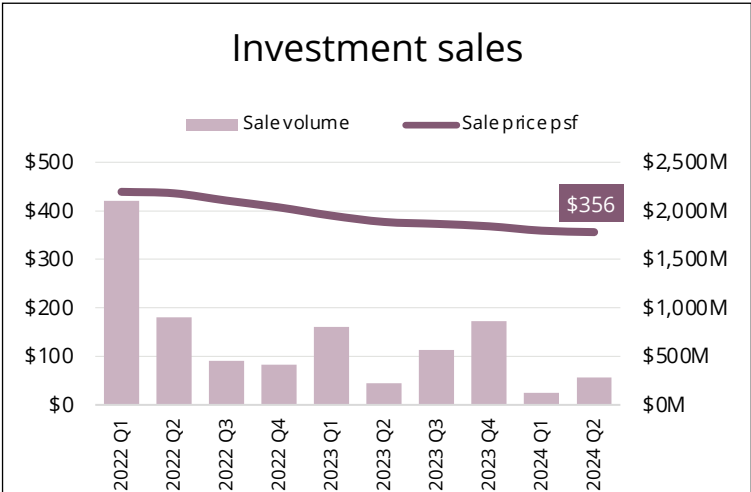
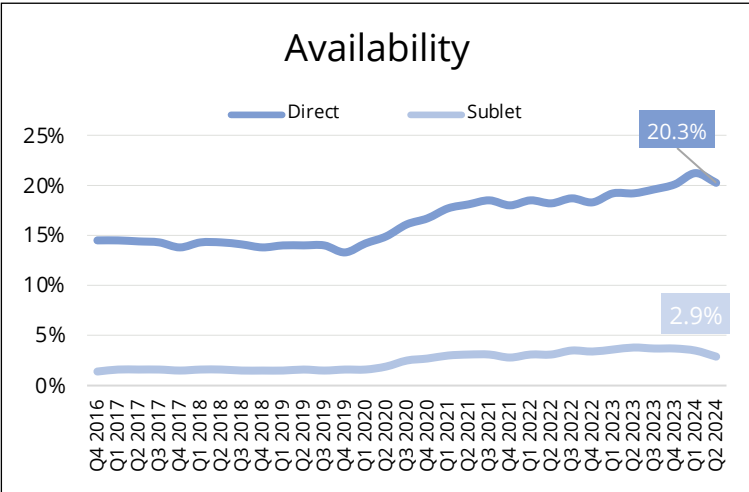
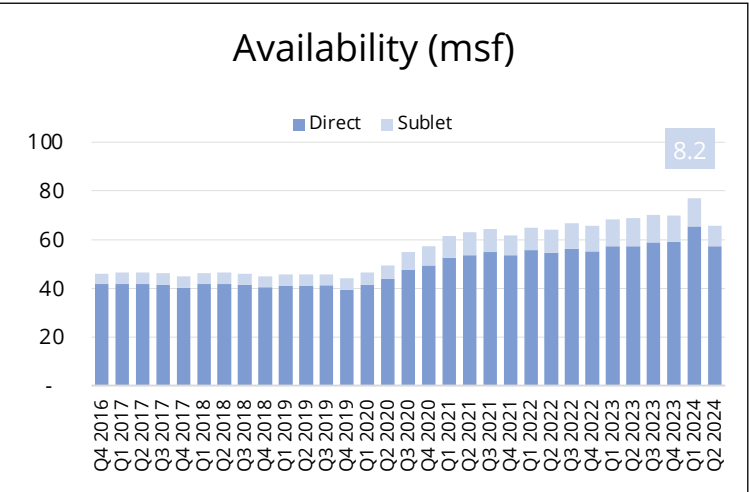
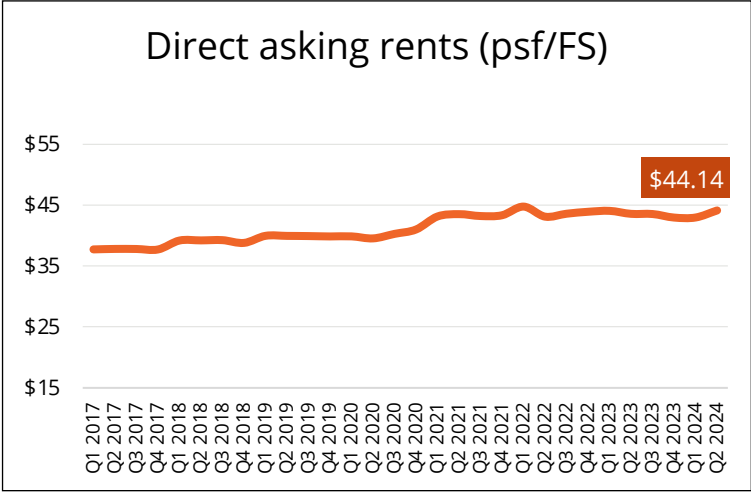
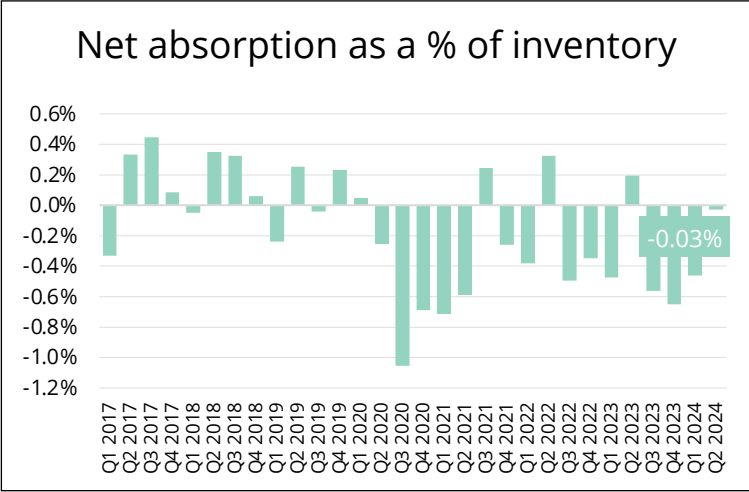
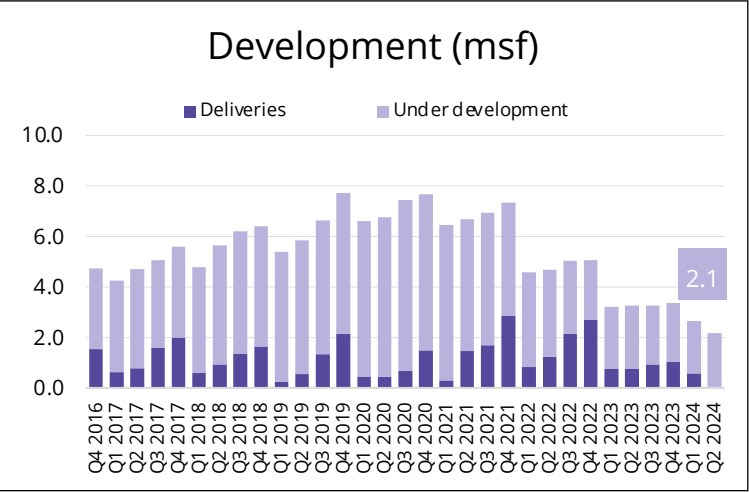
Office Job Postings



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.

Note: Total job postings includes remote and non-remote jobs
Source: AVANT by Avison Young, Lightcast
Note: remote postings defined as fully remote

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 th 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 th 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
Market total	286,547,196	47,834	2,126,728	20.25%	2.89%	23.13%	(0.03%)	(0.61%)	\$44.14

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
Market total	286,547,196	47,384	2,126,728	20.25%	2.89%	23.13%	(0.03%)	(0.61%)	\$44.14



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
information visit **avisonyoung.com**

Chris Cooper

Principal, Regional Managing Director
+1 213 935 7435
CA DRE #01260886
chris.cooper@avisonyoung.com

Jonathan Larsen

Principal, Managing Director - DTLA
+1 213 471 1069
CA DRE #01008099
jonathan.larsen@avisonyoung.com

Christopher Bonbright

Principal, Managing Director – LA North & West
LA +1 323 603 5093
CA DRE #00823957
christopher.bonbright@avisonyoung.com

Erick Parulan

Senior Analyst, Market Intelligence
+ 1 949 757 1283
erick.parulan@avisonyoung.com

Taylor Stokes

Analyst, Market Intelligence
+ 1 310 339 2976
CA DRE #01987676
taylor.stokes@avisonyoung.com

Sebastian Bernt

Analyst, Market Intelligence
+ 1 818 584 9500
sebastian.bernt@avisonyoung.com