



Downtown Los Angeles office market report

Q3 2024

**AVISON
YOUNG**

Downtown Los Angeles office market trends

\$48.94

Rental Rates and Concessions Show Strong Figure

Office rental rates edged higher in Q3 2024 to \$48.94 per square foot, marking a nearly \$0.85 increase from \$48.10 in Q2. This upward trend can be attributed partly to the escalation of operating expenses across various properties. Rising utility costs, increased maintenance expenditures, and inflation impacting the prices of goods and services have all contributed to this rise in operational costs.

Meanwhile, tenant improvement allowances in Downtown Los Angeles remained competitive, holding steady at \$120 per square foot for 10-year lease terms. Tenants negotiating leases exceeding 10 years have consistently benefited from 12 months of rent abatement. These extended abatement periods play a crucial role in incentivizing tenants to commit to new lease agreements.

30.0%

CBD Total Availability Rate

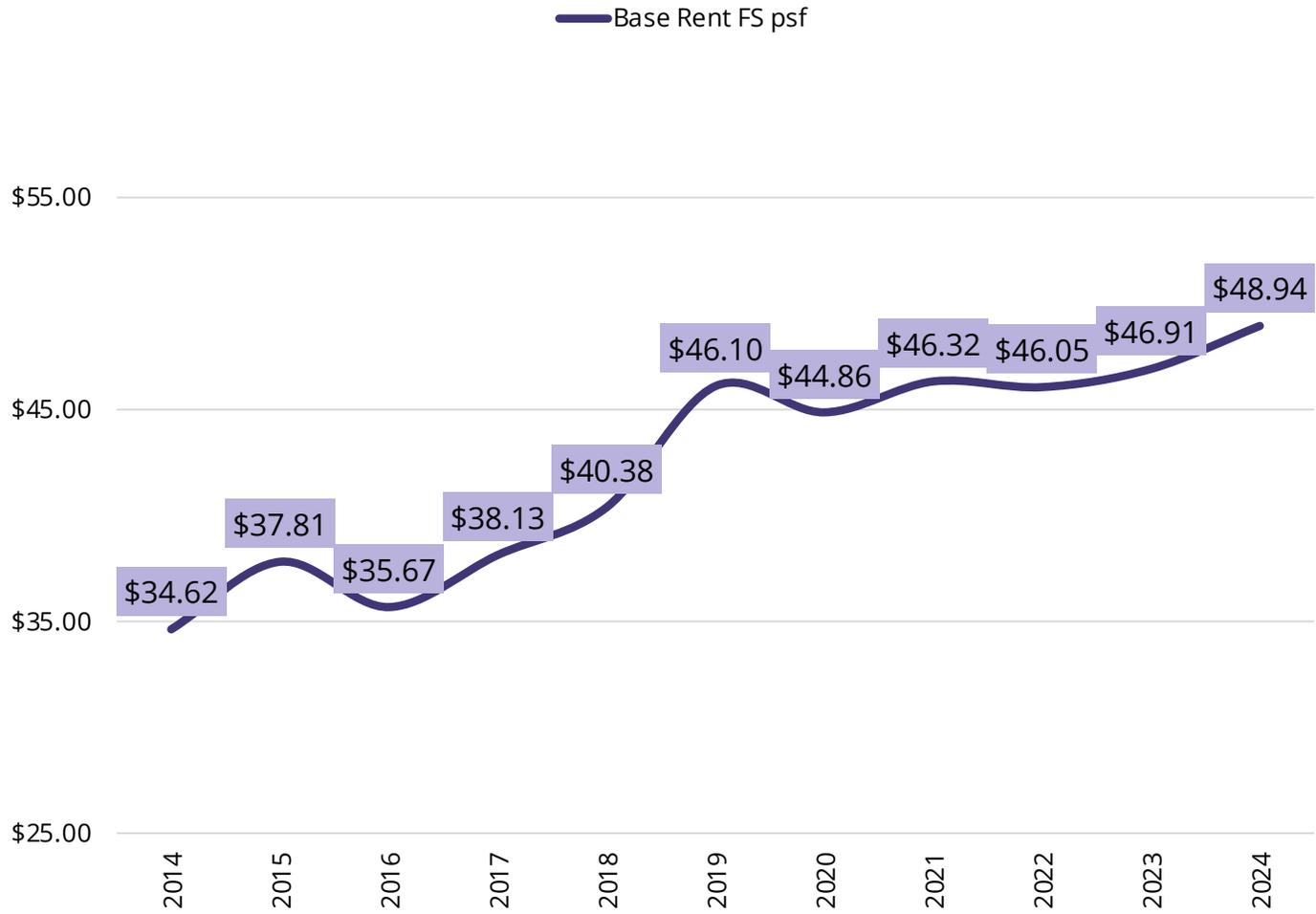
The greater Downtown Los Angeles submarket closed Q3 2024 with an overall availability rate of 33.0%, a 2.5% increase from Q2. Specifically, the Central Business District recorded a total availability rate of 30.0% for Trophy and Class A properties. As stakeholders and office owners assess these trends, they are increasingly focusing on adaptive strategies that balance competitive leasing incentives with long-term investment viability, aiming to capitalize on emerging opportunities within the vibrant urban core. After an influx of sales volume with \$250M+ this quarter, we see ownership poised with the dilemma of cashing out and selling their highly vacant assets or restructuring leasing efforts to fill available spaces.

1m sf

Leasing Activity

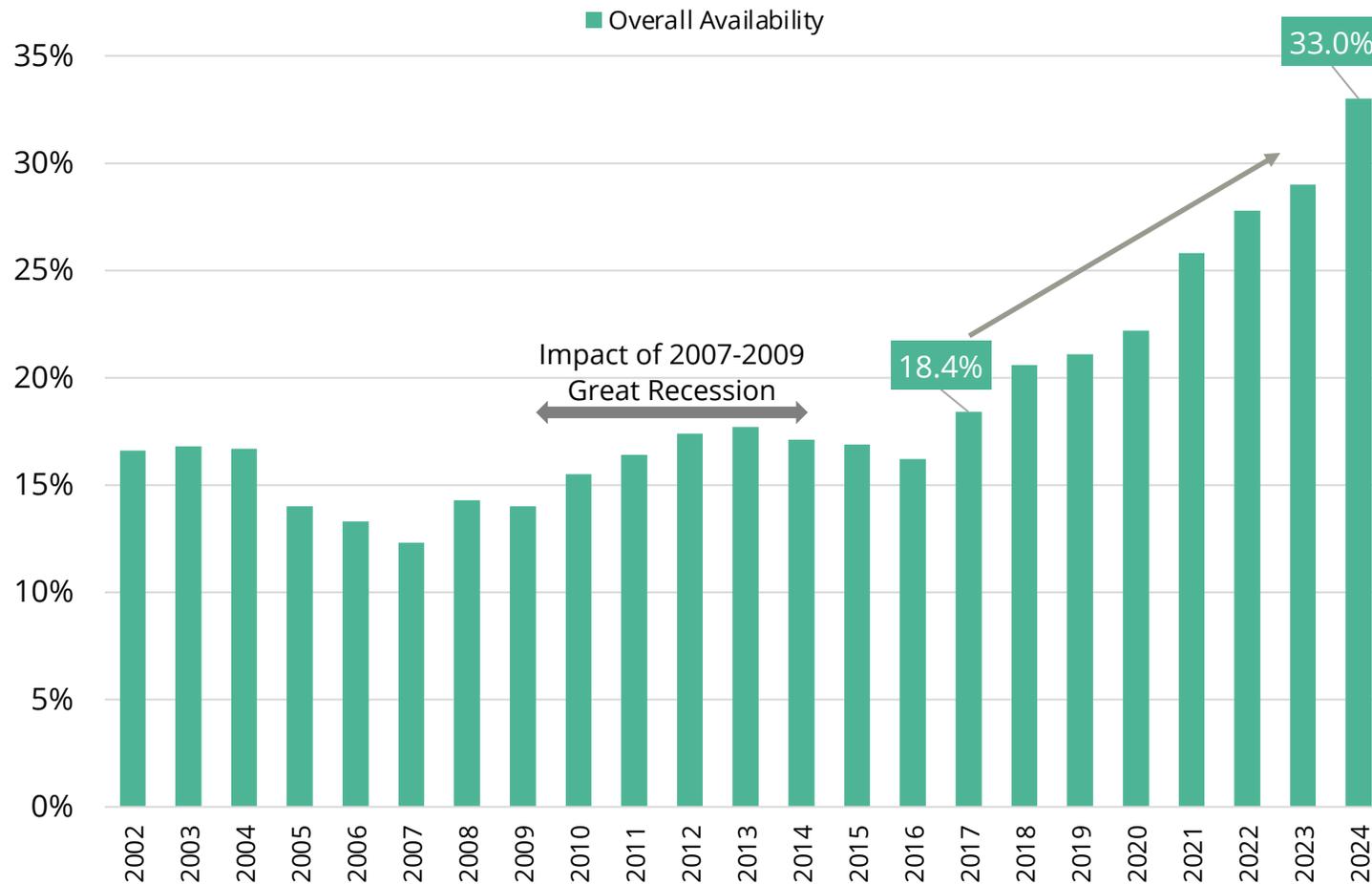
Throughout the first three quarters of 2024, leasing activity in Downtown Los Angeles has picked up, with transactions totaling over 1,000,000 square feet. Q3 2024 saw leasing activity increase to over 431,000 square feet, predominantly due to the SoCal Gas Company lease at 350 S Grand Ave for nearly 200,000 square feet. This marks a nearly 18% increase from the 356,000 square feet leased in Q2 2024. Market data indicates strong tenant demand, with over 60 tenants actively seeking space, collectively seeking approximately 1.1 million square feet of leasing opportunities in the near future. This underscores a promising outlook for the leasing market in Downtown Los Angeles, driven by heightened tenant interest to return to office and expanding market activity.

Downtown Los Angeles office rental rates (Trophy & Class A)



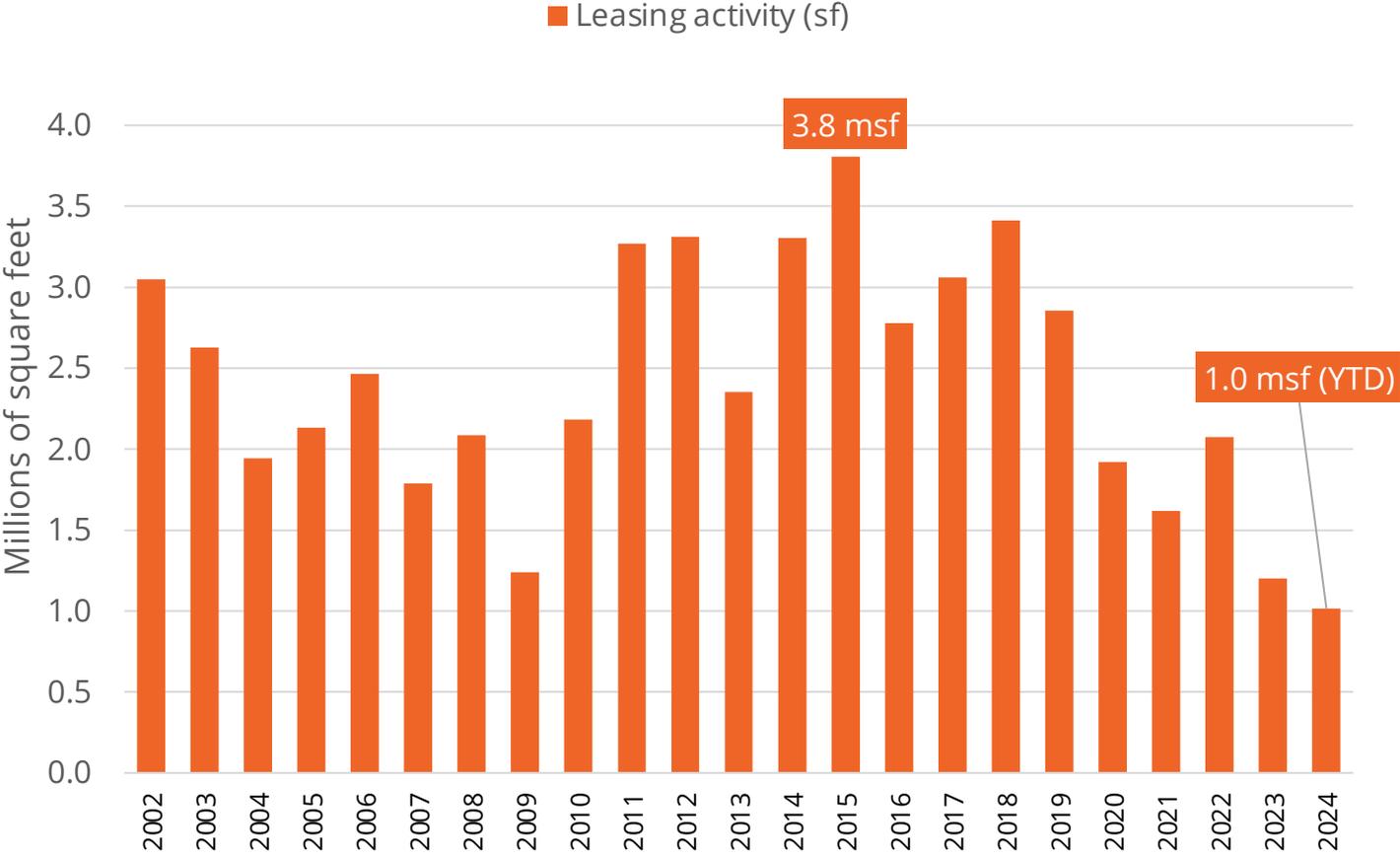
Office rental rates held steady in Q3 at \$48.94 per square foot, showing a slight increase from the second quarter's figure of \$48.10. This is the 3rd consecutive quarter of rental rates increasing, showing the demand for leasing is slowly being driven up as office occupiers are signing more Trophy and Class A leases downtown.

Downtown Los Angeles office overall availability rate (Trophy & Class A)



Downtown Los Angeles total availability closed the third quarter of 2024 at 33.0%, raising the year-to-date availability to 31.4%. Availability has been on the rise each year since the beginning of 2017 with the previous most recent stretch of multi-year vacancy increases occurring between 2009-2013, the period following the Great Recession. The lingering effects of COVID-19, which brought on the “hybrid work schedule” to prominence, has been a contributor to the hike in availability and suppression of leasing activity.

Downtown Los Angeles office leasing activity (Trophy & Class A)



A little over 1,000,000 SF has transacted through the first three quarters of 2024. Leasing activity in Q3 2024 has slightly picked up with 431,445 SF leased, compared to 356,759 SF in Q2 2024. As office occupiers continue to implement “in office” work policies, we see a slight uptick in leasing volume in the Downtown Los Angeles marketplace. In 2023 there was only 1,200,000 SF of space leased, and based on the first three quarters of 2024, we can predict around 1,500,000 SF will be signed by the end of the year, a sign of a recovering market.

Appendix



Downtown Los Angeles annual office net absorption (Trophy & Class A)

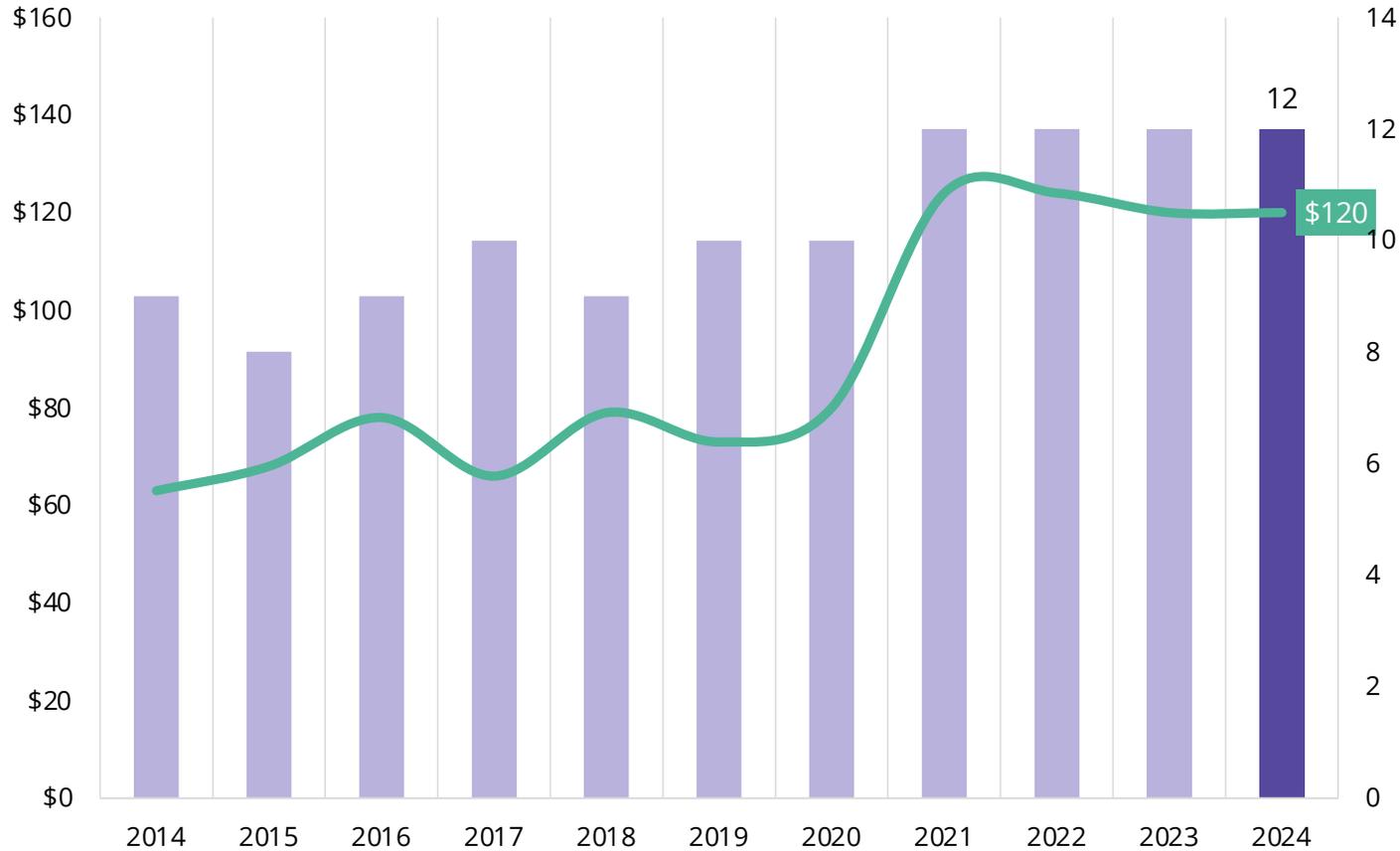


As of Q3 2024, the Downtown Los Angeles market has seen 850,810 square feet of negative net absorption across Trophy and Class A office space. The Central Business District accounted for 66% of this total, with 555,000 square feet of negative net absorption. These figures highlight the challenges, brought on by the economic conditions within different segments of the market.

Stability in Downtown tenant concessions (Trophy & Class A)

Tenant allowance psf

of months rent free



In downtown Los Angeles, tenant improvement allowances have maintained stability at \$120 per square foot for lease terms extending beyond 10 years. Additionally, tenants negotiating deals of this duration have reliably received 12 months of rent abatement. These consistent offerings reflect ongoing market conditions and leasing trends in the area.

Q3 2024 Downtown Los Angeles office market stats (Trophy & Class A)

	Existing inventory sf	Deliveries sf (QTD)	Under development sf	Direct Availability (%)	Sublet Availability (%)	Total Availability (%)	2024 Net absorption sf (Q3)	2024 Net absorption sf (YTD)	Annual direct asking rent psf FS
Financial District	16,223,803	0	0	29.4%	3.3%	32.7%	-469,775	-648,171	\$ 48.39
Bunker Hill	10,235,677	0	0	24.0%	1.8%	25.8%	-86,081	-85,414	\$ 47.59
CBD	26,459,480	0	0	27.3%	2.7%	30.0%	-555,856	-733,585	\$ 48.08
Arts District	2,776,013	0	118,307	38.3%	10.5%	48.7%	-16,215	9,095	\$ 67.51
Fashion District	1,937,247	0	0	55.1%	2.8%	57.9%	-39,205	-39,205	\$ 48.00
South Park	1,722,646	0	0	27.7%	6.0%	33.7%	-51,546	-120,645	\$ 44.96
Central City West	1,067,919	0	0	15.6%	0.0%	15.6%	0	-23,570	\$ 37.79
Historic Core	800,387	0	0	37.9%	0.4%	38.3%	-281	-9,091	\$ 41.61
Little Tokyo	264,315	0	0	18.9%	3.8%	22.7%	10,915	19,694	\$ 47.26
Chinatown	251,308	0	0	38.4%	0.0%	38.4%	28,185	46,497	\$ 42.00
Non-CBD	8,819,835	0	0	36.6%	5.2%	36.5%	-68,147	-117,225	\$ 51.54
Overall DTLA	35,279,315	0	118,307	29.6%	3.3%	33.0%	-624,003	-850,810	\$ 48.94

Downtown Los Angeles office market activity

Recent leasing activity

Tenant	Address	Submarket	Type	Size (sf)
SoCal Gas Company	350 S Grand Ave	Bunker Hill	New Lease	198,553
Hill, Farrer, & Burrill LLP	515 S Flower St	Financial District	New Lease	25,000
Cloud Kitchen	633 W 5th St	Bunker Hill	Sublease	23,092
United Way	515 S Figueroa St	Financial District	New Lease	22,115
Nelson, Mullins, Riley, & Scarborough LLP	350 S Grand Ave	Bunker Hill	New Lease	14,150

Recent sales activity

Address	Size (sf)	Submarket	Seller	Buyer	Sales Date	Sales Price	Sale price psf	Status
777 S Figueroa St	1,109,120	Financial District	Brookfield Properties/ Wells fargo	Min Xia	07/29/2024	\$120,000,000	\$108.19	Sold
445 S Figueroa St	701,888	Financial District	Waterbridge Capital	Washington Capital Management	*10/02/2024	\$80,000,000	\$113.98	Sold
801 S Figueroa St	465,220	Financial District	New York Life/Barings	Meiloon Investment and Development LLC	08/01/2024	\$60,000,000	\$128.97	Sold
660 S Figueroa St	284,505	Financial District	Jade Enterprises	Undisclosed	N/A	Undisclosed	Undisclosed	In Escrow

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**

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