

MARKETBEAT LOS ANGELES



Office Q1 2024

	YoY Chg	12-Mo. Forecast
24.1% Vacancy Rate	▲	▲
-1.6M Net Absorption, SF	▼	▲
\$3.44 Asking Rent, PSF	▼	▼

Overall, All Property Classes

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
4.6M Los Angeles County Employment	▲	▲
5.4% Los Angeles County Unemployment Rate	▲	▼
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

Total nonfarm employment in Los Angeles (LA) County grew by 9,400 jobs or +0.2% year-over-year (YOY) between February 2023 and February 2024. During this time, the LA monthly unemployment rate decreased from 5.1% last year to 5.0% and is currently 40 basis points (bps) below the quarterly average rate of 5.4%.¹ The private education and health care services were the most active industry, adding 45,100 jobs (+5.0% YOY). Most of the gains were driven by health care and social assistance fields, which grew by 32,600 jobs (+4.3% YOY). Other industries that grew over the last 12 months included government with 11,000 jobs (+1.9% YOY), leisure and hospitality with 9,000 jobs (+1.7% YOY) and other services at 5,700 jobs (+3.7% YOY). The multiple film industry strikes throughout 2023 resulted in the information sector contracting the most, shedding 36,000 jobs (-16.3% YOY). Professional and business services and financial activities were also down by 16,000 (-2.4% YOY) and 2,500 jobs (-1.2% YOY), respectively.

On a positive note, the recovery from the 784,100 nonfarm job losses experienced at the onset of the pandemic between March and April 2020 has been completed. Since May 2020, a total of 712,700 jobs have been added. All employment sectors are projected to grow at a combined rate of 1.4% in 2024 and 1.2% in 2025 compared to the 5-year historical average of 0.1%.²

SUPPLY AND DEMAND

Four years after the COVID-19 pandemic, the LA office market faces a constant tug-and-pull of factors that continue to shape its trajectory in 2024 and beyond. Tenant rightsizing, spurred on by the pandemic and shifting occupier interest away from the region's urban core, has fueled the rise in excess vacant space across LA region. As a result, overall vacancy increased by 80 bps quarter-over-quarter (QOQ) and 260 bps YOY to 24.1% in Q1 2024.

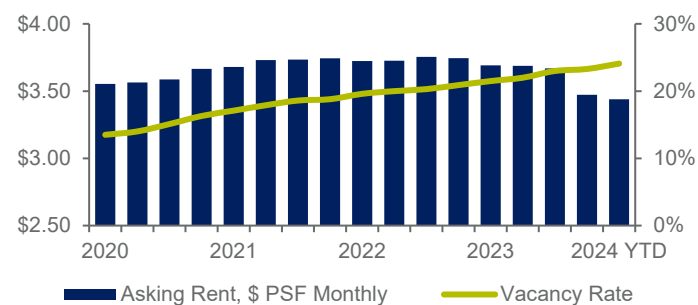
Occupiers subletting unused blocks of space was once again the prime culprit for the uptick in vacancy, with 884,232 square feet (sf) of vacant sublease space added to the market in Q1 2024, an increase of 16.0% QOQ and up 52.3% YOY. As a result, overall net absorption was negative 1.6 million square feet (msf) in Q1 2024, marking the seventh consecutive quarter of occupancy losses. Since Q1 2020, over 23.6 msf of vacant space has been added to the market, an 85.6% increase in overall vacant space inventory.

The opening months of 2024 proved to be sluggish in terms of new leasing velocity. Overall leasing activity totaled a little over 2.0 msf in Q1 2024, a decrease of 21.2% QOQ and 30.5% compared to the same period the year prior. Conversely, renewal activity was notably higher than last quarter and the previous year (up 17.8% and 20.8%, respectively), signaling some improved confidence among regional office occupiers.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



The largest deal to be signed in the first quarter was from William Morris Endeavor Entertainment in Beverly Hills. The Hollywood industry talent agency recommitted their sizeable 247,768 sf lease at 9601 Wilshire Blvd. for an undisclosed time. Other notable recommittals included fellow LA West mainstay Riot Games who extended their 78,900-sf lease at the Westside Media Center. Even sublease space has managed to attract some fresh faces to the market. Sound recording and post-production company Fab Factory agreed to sublease 68,834 sf at the Netflix Media Center in Hollywood, a space formerly occupied by the building's namesake until the streaming giant reassessed their space needs post-pandemic.

LA has long been a bustling hub for the legal services sector, and this has been reflected time and again in the size and quantity these firms regularly lease. Q1 2024 proved to be no exception; the legal sector was once again the most active tenant sector across the region, with notable examples of new deals signed by Davis Wright Tremaine (39,657 sf), JAMS (27,300 sf), Arent Fox Schiff (27,280 sf) and Sanders Roberts, LLP (25,537 sf). The latter three examples are worthy of extra attention as they were signed in Downtown LA's CBD, a submarket that has perpetually struggled to retain occupiers post-pandemic but remains popular among specific office-using industries. Additionally, as of late March 2024, the City of Los Angeles was in-leases at the Gas Company Tower in Downtown LA, a deal that could net the city's urban core more than 300,000 sf of occupancy gains sometime later this year.

Two new projects completed construction in Long Beach in Q1 2024, totaling 60,801 sf of new office inventory for the LA region. An additional 2.6 msf of office space was under construction as of quarter close, with most of the deliveries expected over the next two years and beyond.

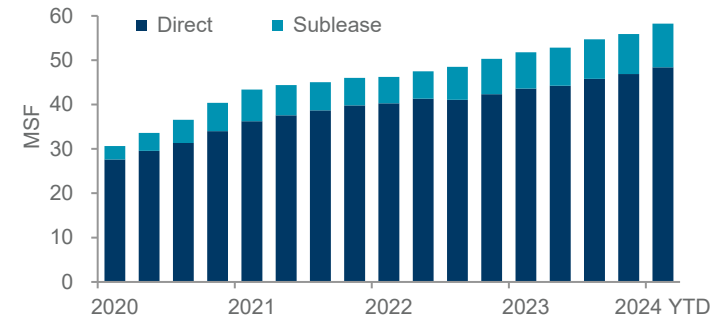
PRICING

Asking lease rent growth was abnormally high during the height and waning tail of the pandemic. With a glut of new vacant inventory entering the market at lower rates to entice new move-ins, overall average asking rate dropped 0.9% QOQ and 6.8% YOY to \$3.44 per square foot (psf) on a monthly full-service basis. Average asking rent for Class A space suffered a near-equal loss, falling by 1.0% QOQ and 7.0% YOY. Compared to pre-pandemic levels, average asking rent has slipped a further 3.2% from Q1 2020. Los Angeles West continues to lead with the highest asking rent in the region, averaging \$4.63 psf and climbing as high as \$6.45 psf in Century City submarket.

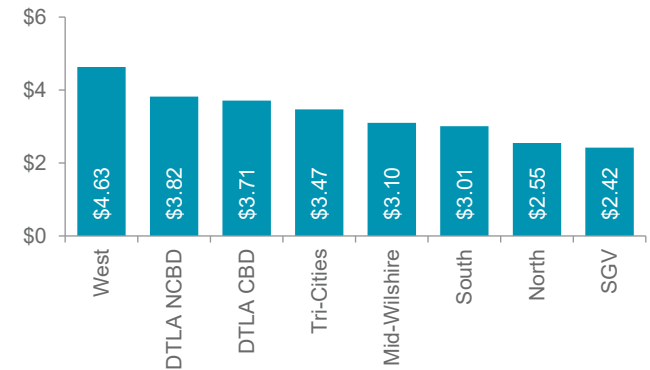
OUTLOOK

- More Lifelines For Distressed Office:** Some offices in Downtown LA have faced considerable financial strain in the wake of tenants vacating during and after the pandemic. Last quarter, the Aon Center sold for \$147.8 million, considerably less than what is sold for in 2014. Another distressed Downtown building, the 1.0 msf 777 Figueroa was on the cusp of selling for \$145 million at the end of Q1 2024. More sales are likely to crop up throughout the year, but it will be a struggle with office valuations falling to a four-year low.
- Continued Occupancy Losses Through 2024:** The amount of vacant space on the market is expected to climb throughout the new year, with an overall vacancy forecasted to climb to 25.5% or higher. The average asking lease rate is also expected to drop 6.3% or more throughout the new year.

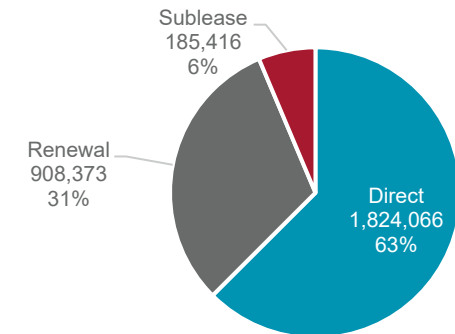
DIRECT AVAILABLE VS. SUBLEASE SPACE AVAILABLE



AVERAGE ASKING RENT \$PSF MONTHLY FULL SERVICE



LEASING VELOCITY 2024 YTD



Office Q1 2024

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CONSTRUCTION (SF)	OVERALL ASKING RENT (ALL CLASSES)*	OVERALL ASKING RENT (CLASS A)*
Downtown CBD	27,797,027	607,380	7,016,334	27.4%	-388,074	-388,074	278,248	0	\$3.71	\$3.86
Downtown Non-CBD	12,685,006	343,319	3,890,021	33.4%	-65,214	-65,214	84,408	168,100	\$3.82	\$4.85
Mid-Wilshire	12,759,241	373,427	3,624,815	31.3%	-122,880	-122,880	137,918	0	\$3.10	\$3.10
LA West	57,447,391	1,988,075	12,346,991	25.0%	-321,403	-321,403	526,704	1,153,371	\$4.63	\$4.87
LA North	30,671,397	1,209,488	5,257,602	21.1%	-353,981	-353,981	494,067	646,000	\$2.55	\$2.60
LA South	32,046,022	801,347	6,387,233	22.4%	89,931	89,931	149,052	145,000	\$3.01	\$3.28
Tri-Cities	26,315,946	1,025,524	5,084,950	23.2%	-389,719	-389,719	237,204	509,295	\$3.47	\$3.55
San Gabriel Valley	12,139,519	52,133	1,079,833	9.3%	-5,965	-5,965	101,881	0	\$2.42	\$2.62
GLA GRAND TOTAL	211,861,549	6,400,693	44,687,779	24.1%	-1,557,305	-1,557,305	2,009,482	2,621,766	\$3.44	\$3.64

*Rental rates reflect full service asking, psf/mo. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
9601 Wilshire Blvd.	Beverly Hills	William Morris Endeavor Entertainment	247,768	Renewal**
12312 Olympic Blvd.	West Los Angeles	Riot Games	78,900	Renewal**
1350 N. Western Ave.	Hollywood	Fab Factory Entertainment	68,834	New
555 S. Flower St.	Financial District	MUFG	62,000	New
9451 Corbin Ave.	Northridge/Reseda	County of Los Angeles	57,799	Renewal**

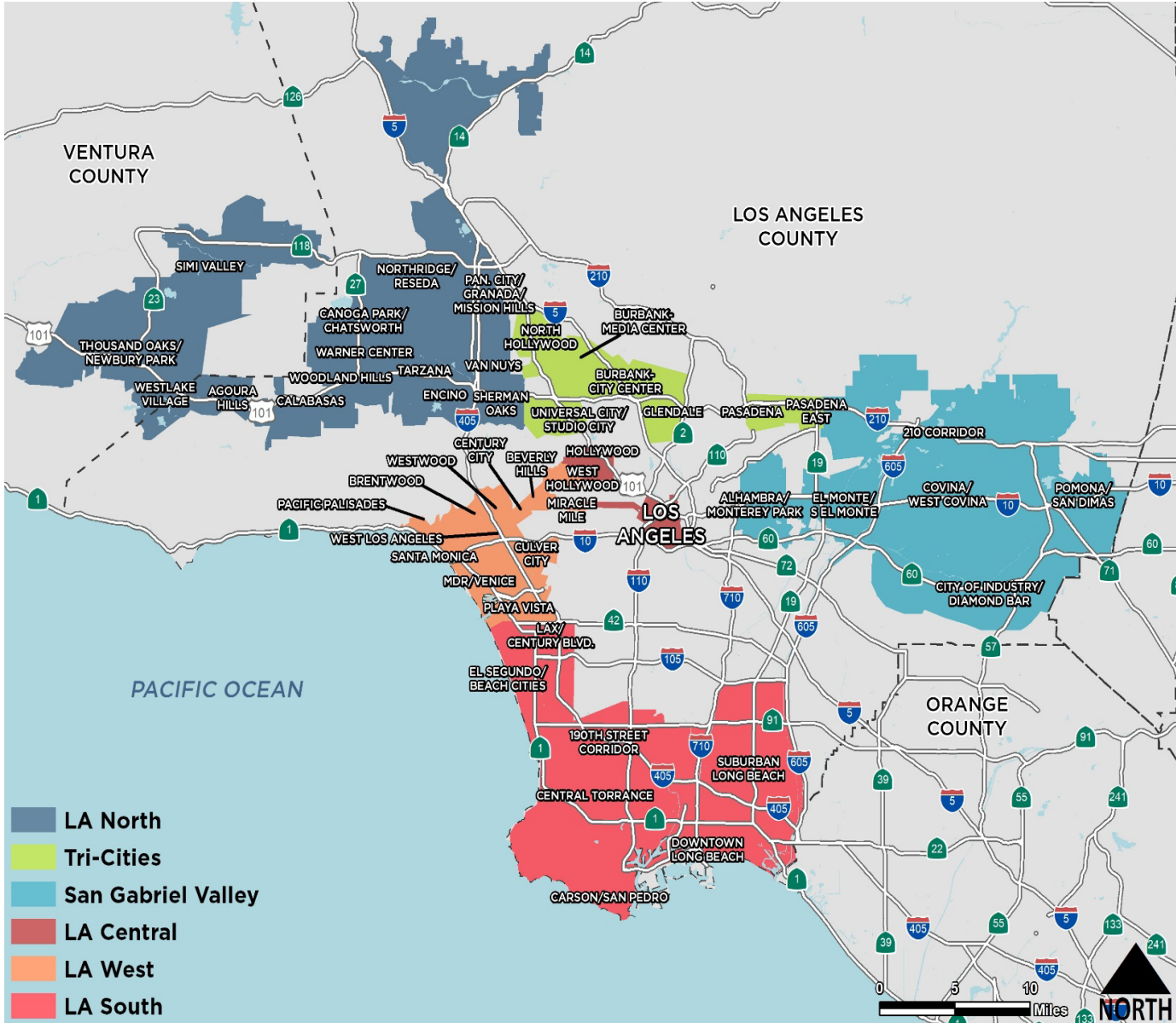
KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER BUYER	SF	PRICE / \$ PSF
1940 E. Mariposa Ave.	El Segundo/Beach Cities	Montana Avenue Capital NantBio, LLC	83,411	\$25.0M / \$306
150 N. Santa Anita Ave.	210 Corridor	PI Properties Crow Holdings	81,368	\$19.5M / \$240
6340 Variel Ave.	Warner Center	Brasa Capital Management Tzvika Driver	33,243	\$12.1M / \$363
6330 Variel Ave.	Warner Center	Brasa Real Estate Tzvika Driver	26,450	\$7.9M / \$300

KEY CONSTRUCTION COMPLETIONS 2024 YTD

PROPERTY	SUBMARKET	MAJOR TENANTS	SF	OWNER DEVELOPER
3810 Stineman Ct.	Suburban Long Beach	N/A	33,341	Airway Office Park, LLC N/A
3816 Stineman Ct.	Suburban Long Beach	N/A	27,460	Airway Office Park, LLC N/A

OFFICE SUBMARKETS



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