

1Q24

NEWMARK

Los Angeles Office Market Overview



Market Observations

Economy

- Unemployment across all industries was 5.0% in February 2024, down 10 bps from February 2023. While total nonfarm employment is strong, job growth is minimal.
- Local office-using employment was down by 54,500 jobs compared to 12 months prior, a 5.0% decline. The information sector (where tech and media companies are generally grouped) had the most losses.
- Riot Games, Activision Blizzard, Paramount, Snap, Amazon and BuzzFeed had layoff announcements this quarter.
- Local office utilization has hovered in the upper 40%-range since September 2022, according to data from Kastle Systems. Hybrid work is here to stay.

Major Transactions

- Snap, Inc. signed a 467,000-SF renewal for 10 years across multiple buildings at the Santa Monica Business Park.
- William Morris Endeavor signed a 247,768-SF renewal for its Beverly Hills headquarters. The talent agency will remain at the property for another 13 years.
- Google's lease for 584,000 SF at the Westside Pavilion was terminated after UCLA acquired the building in late December 2023 for \$675 million. UCLA will use the property as a research center, elevating West LA as a potential life science hub.
- 777 S Figueroa St in Downtown LA's CBD is under contract to South Korea-based Consus Asset Management for \$145M (\$145/SF), half of the remaining outstanding debt tied to the asset. Brookfield defaulted on the building in early 2023.

Leasing Market Fundamentals

- First quarter's leasing activity was mostly expiration driven. Tenants, on average, are reducing their footprints by 15-20% when their leases come due.
- Media and technology drove new leasing activity prior to COVID-19; this is no longer the case in today's higher cost debt environment amid industry-restructuring.
- Total vacancy and availability continued to climb to new highs, reaching 23.8% and 28.9%, respectively.
- Available sublease grew by 540,720 SF over the course of the quarter to reach 11.5 MSF, yet another record high. Sublet availability will fluctuate throughout the year.
- Market conditions will be soft for the foreseeable future since all industries are in cost-cutting mode. Most tenants will reduce their footprints as they pursue trophy space.

Outlook

- Trophy-grade, well-capitalized buildings in desirable areas of the market are seeing healthy leasing activity. 'Well capitalized' is synonymous with 'more funding' for T.I.s.
- Expect more space givebacks from big tech and media companies.
- More lender-facilitated sales will occur this year. Discounted pricing will provide new owners with a major cost basis advantage to compete for tenants since they can afford to offer lower rents. This pricing reset (from a sales and eventually a leasing perspective) is what the market needs to move forward.
- Unwanted commodity office space also needs to vanish to bring vacancy down to its pre-pandemic average (13.2%). Owner-user sales, teardowns for ground-up development and conversions to other uses will help over the long run.

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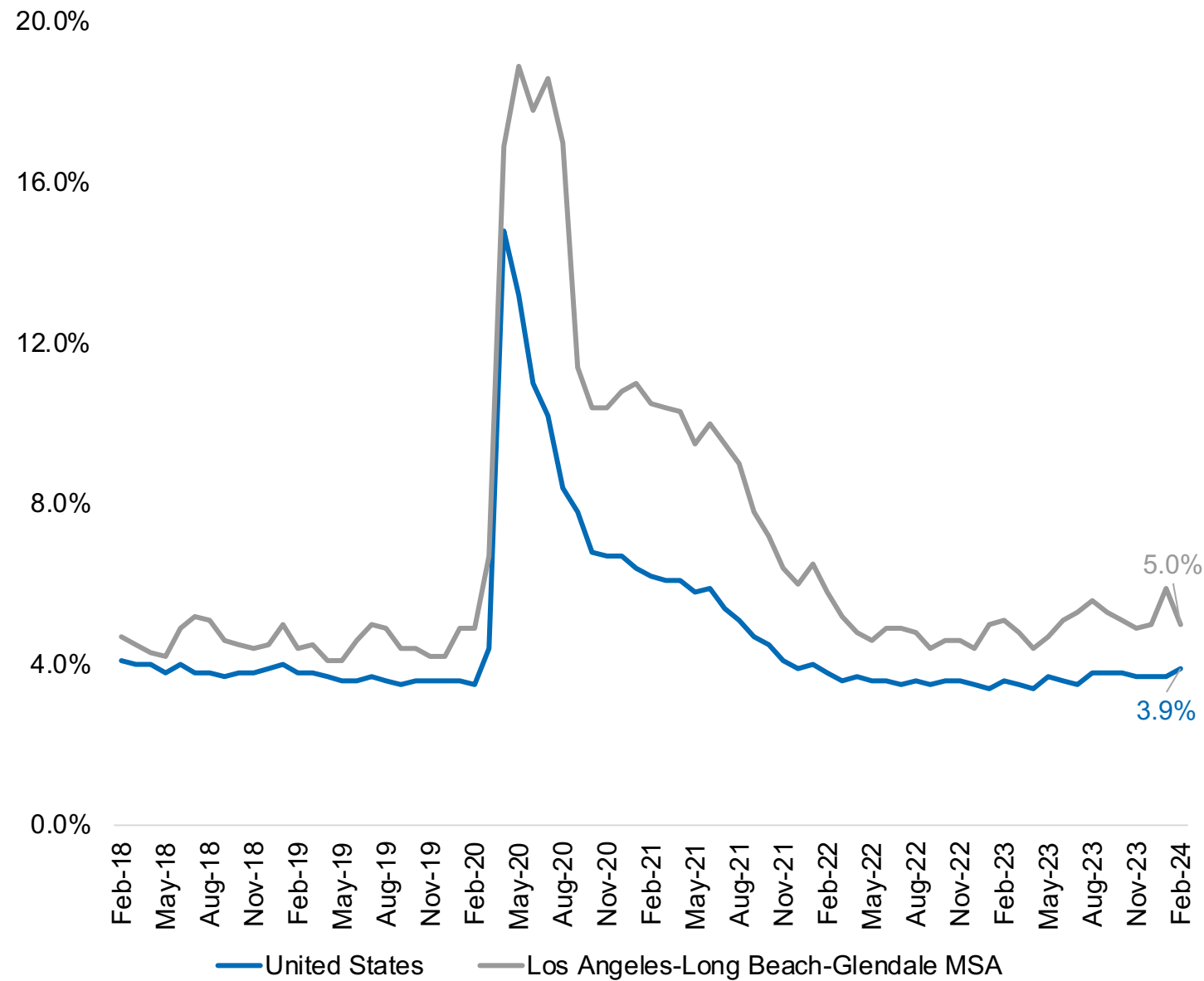
Economy



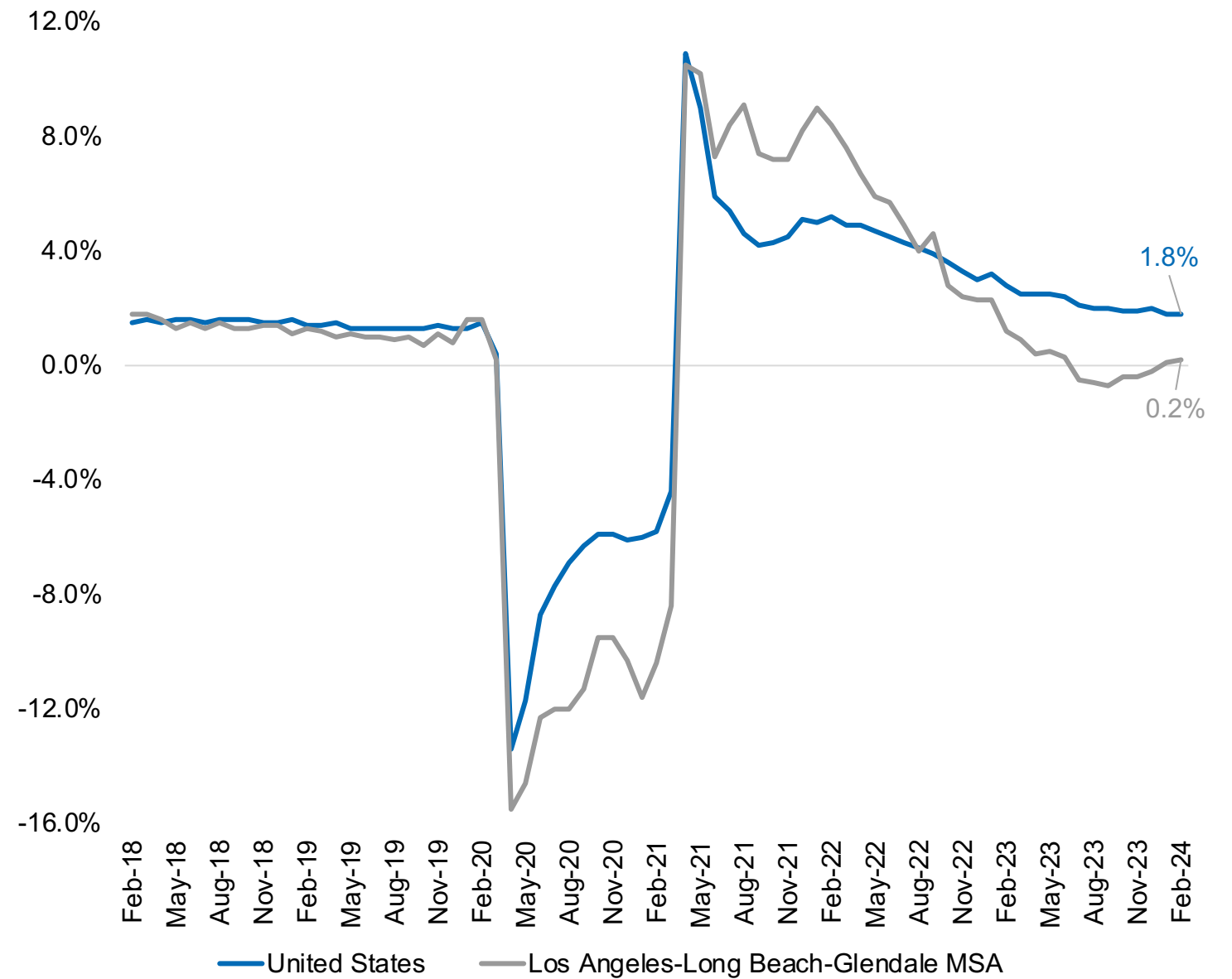
Unemployment and Job Growth Unsteady

Local unemployment settled at 5.0% in February 2024, a 10 bps decrease from a year prior. Local 12-month job growth has been decelerating since late 2022, and, after a six-month period of contraction, posted positive (albeit minimal) growth in the first two months of 2024. The Fed's target policy interest rate is at the highest level in 22 years. Elevated interest rates affect companies' bottom lines and generally lead to job reductions, especially in higher-paying industries.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month% Change

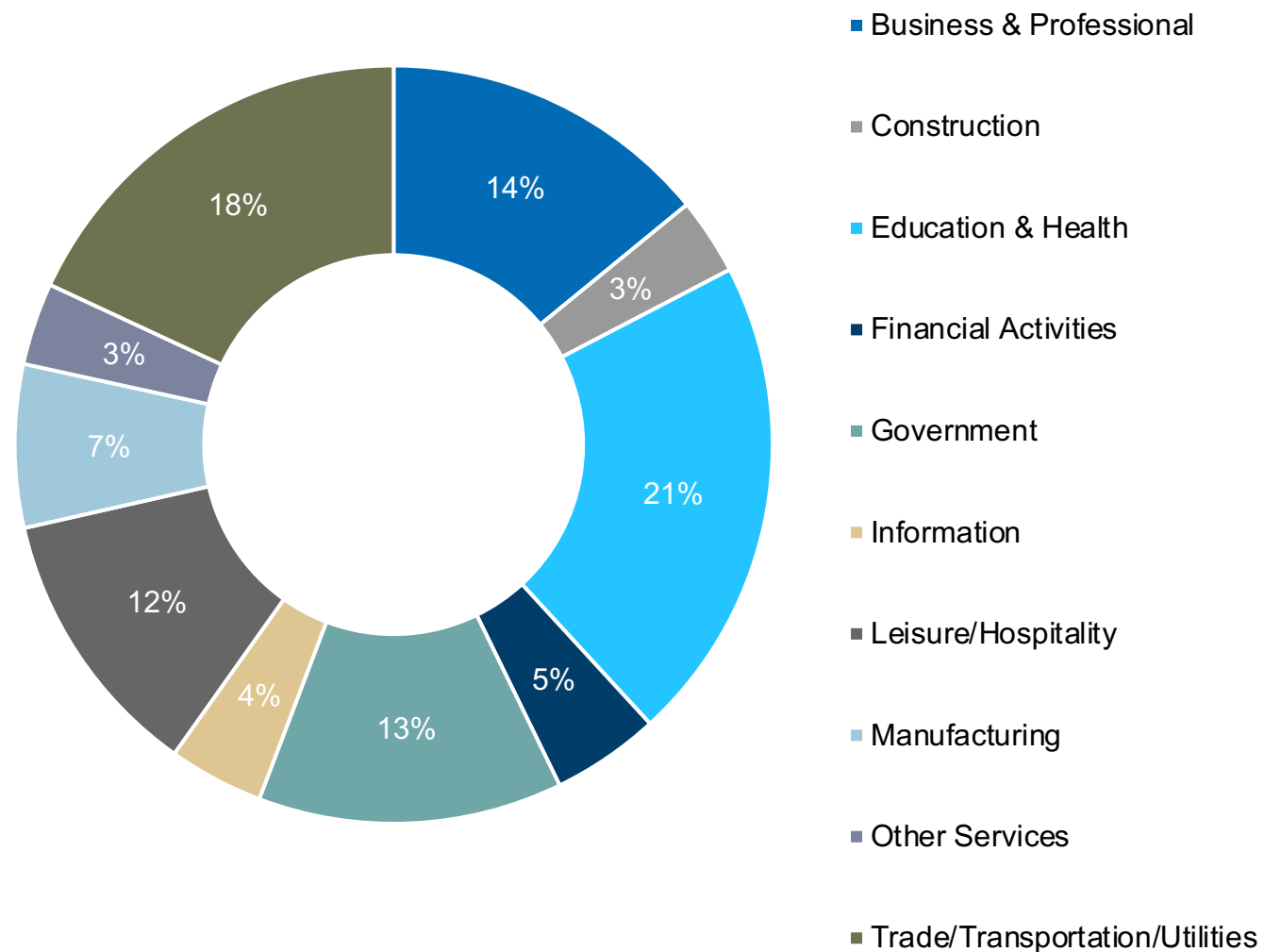


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

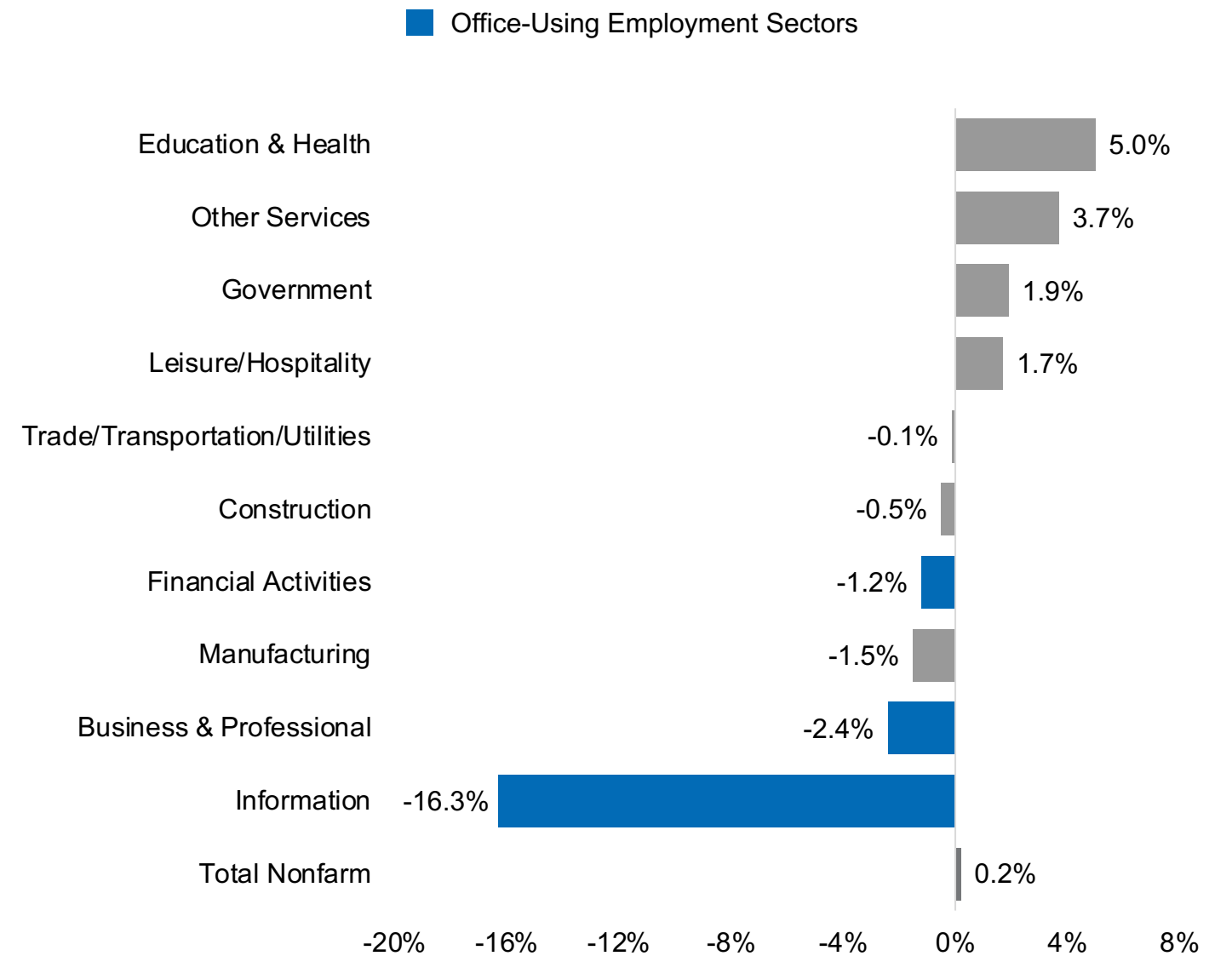
Tech Companies Drive Employment Losses in Office-Using Sectors

While all office-using sectors shed staff over the last year, the information sector (where technology companies are generally grouped) led employment losses in the region, with a 16.3% decline over the last 12 months. Riot Games, Activision Blizzard, Snap and Amazon are a sampling of companies that recently cut staff.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

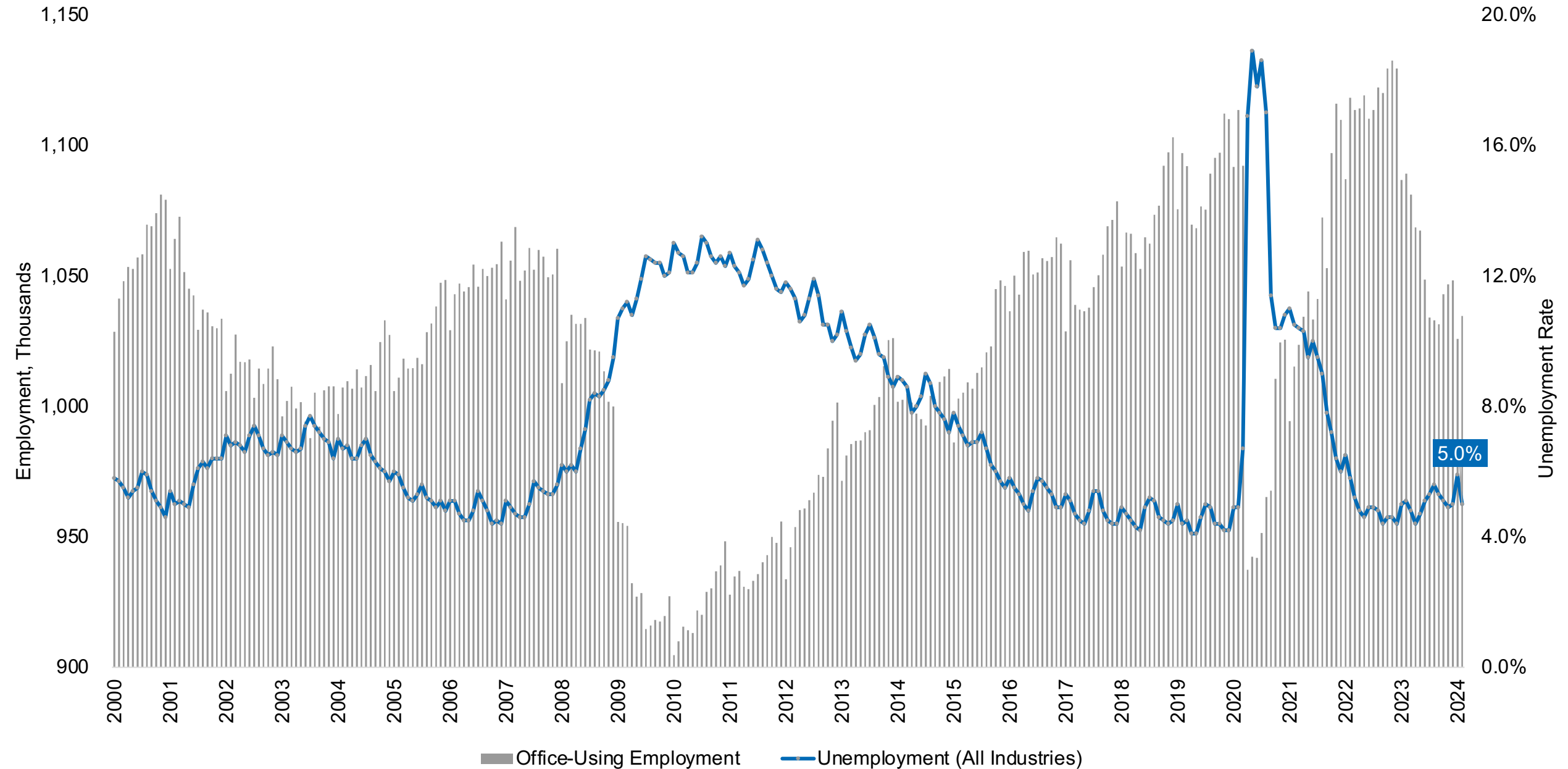


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

Overall Office-Using Employment Down Year-Over-Year

Local office-using employment in February was down by 54,500 jobs compared to the same month in 2023, a 5.0% decline that is primarily from job losses in the tech sector. All office-using sectors posted negative job growth over the last 12 months, but the information sector dominated losses with 36,000 jobs.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale, CA

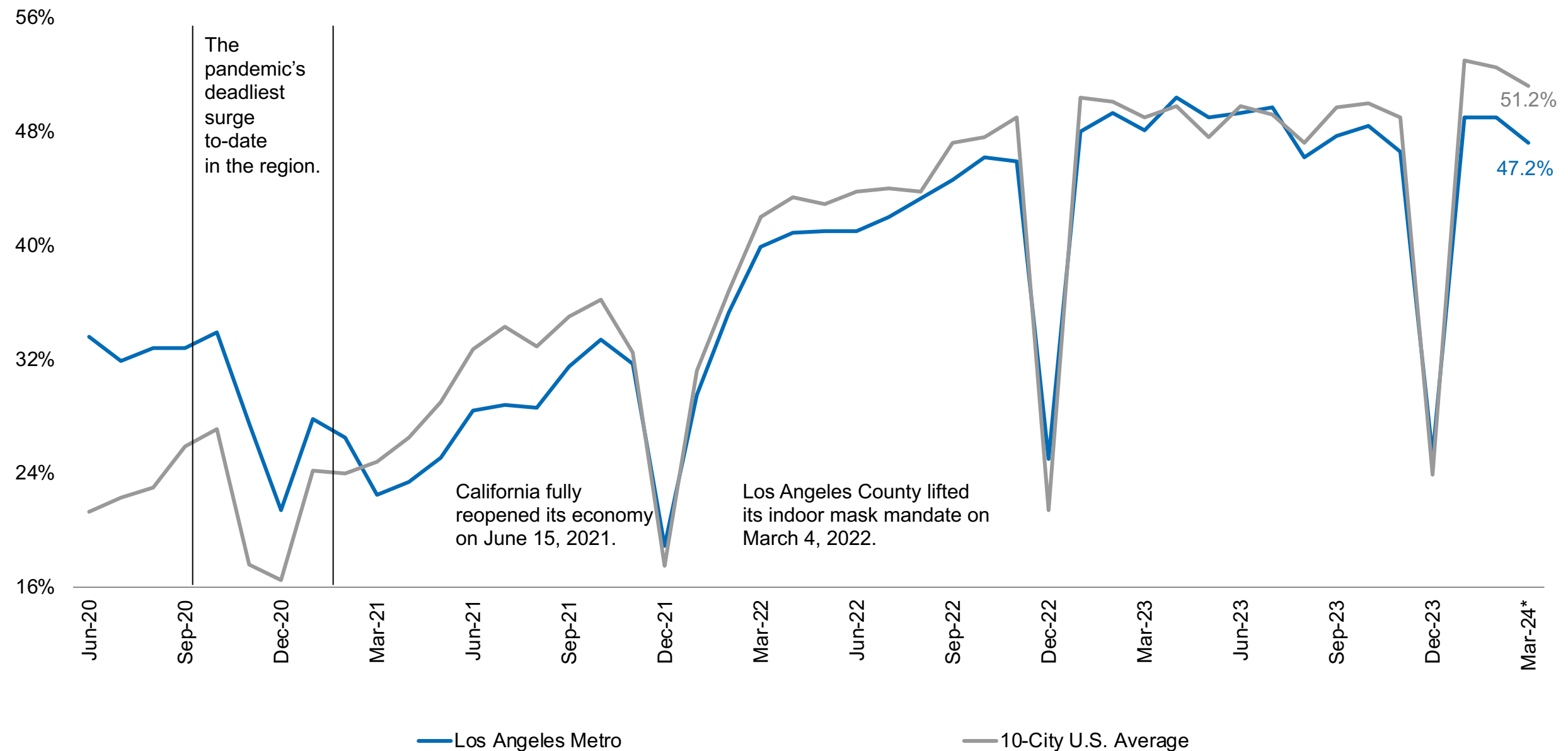
Note: February 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Local Office Utilization is Up Since 2020, but Remains Sub-50%

The winter holidays aside, local utilization has generally hovered in the upper 40s since September 2022 as most companies continue to rely on hybrid work schedules. Anecdotally, office lunch traffic in Downtown Los Angeles is noticeably less than West Los Angeles market areas, such as Century City. Downtown's safety concerns are a primary factor.

Los Angeles Metro Office Utilization Rates | Kastle Systems Return-to-Work Data Based on Key FOB Swipes



Source: Newmark Research, Kastle Systems
 Note: Each month's percentage reflects the average of its final week. March 2024's average is for the week of 3/27/24.

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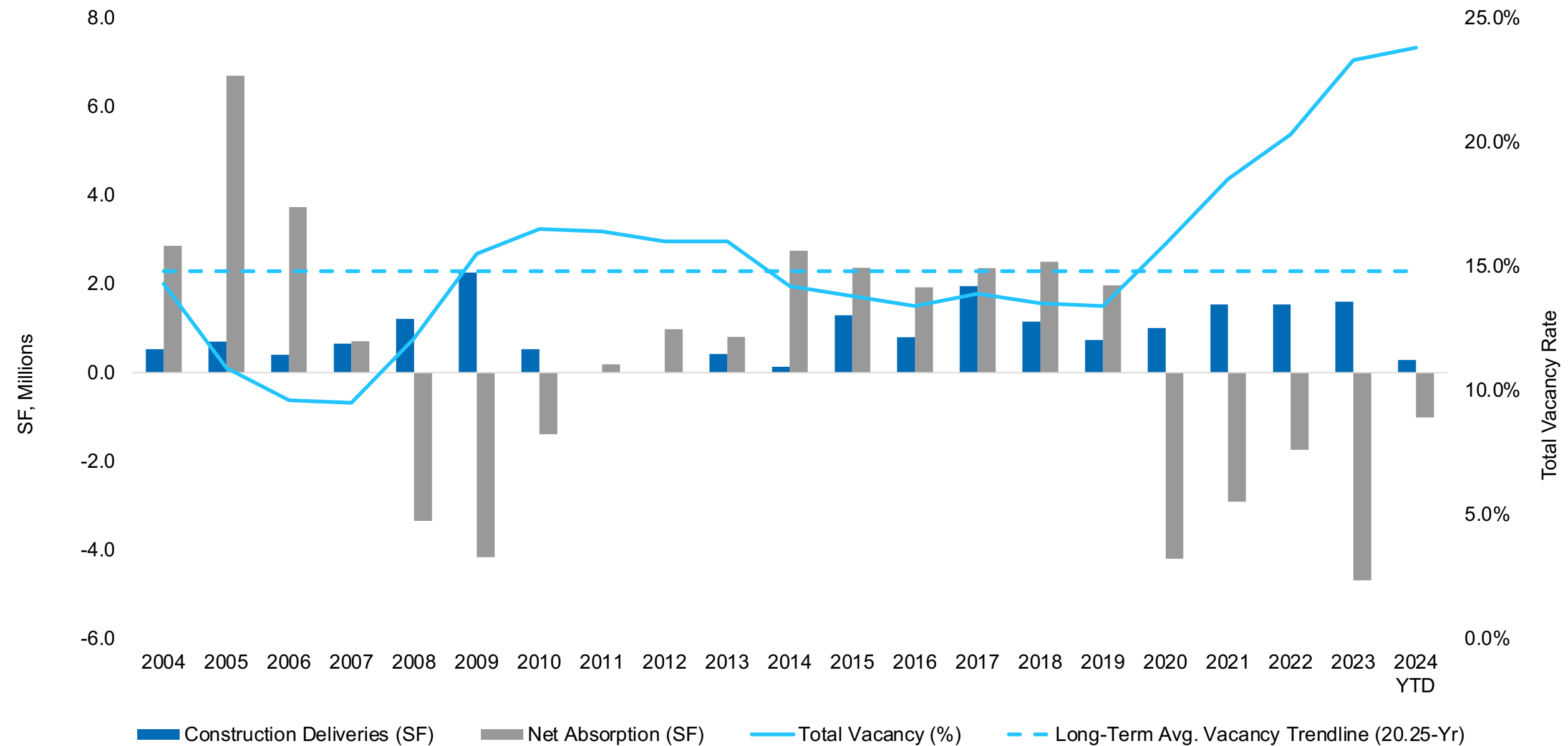
Leasing Market Fundamentals



Vacancy Rises to Historic High

Total vacancy increased to a new high of 23.8%, a 50-bps increase from year-end 2023. On a square footage basis, direct vacancy was up nearly 1.2 MSF while sublease vacancy saw a 112,464 SF increase over the same period. Net absorption was negative, a trend that will persist throughout 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

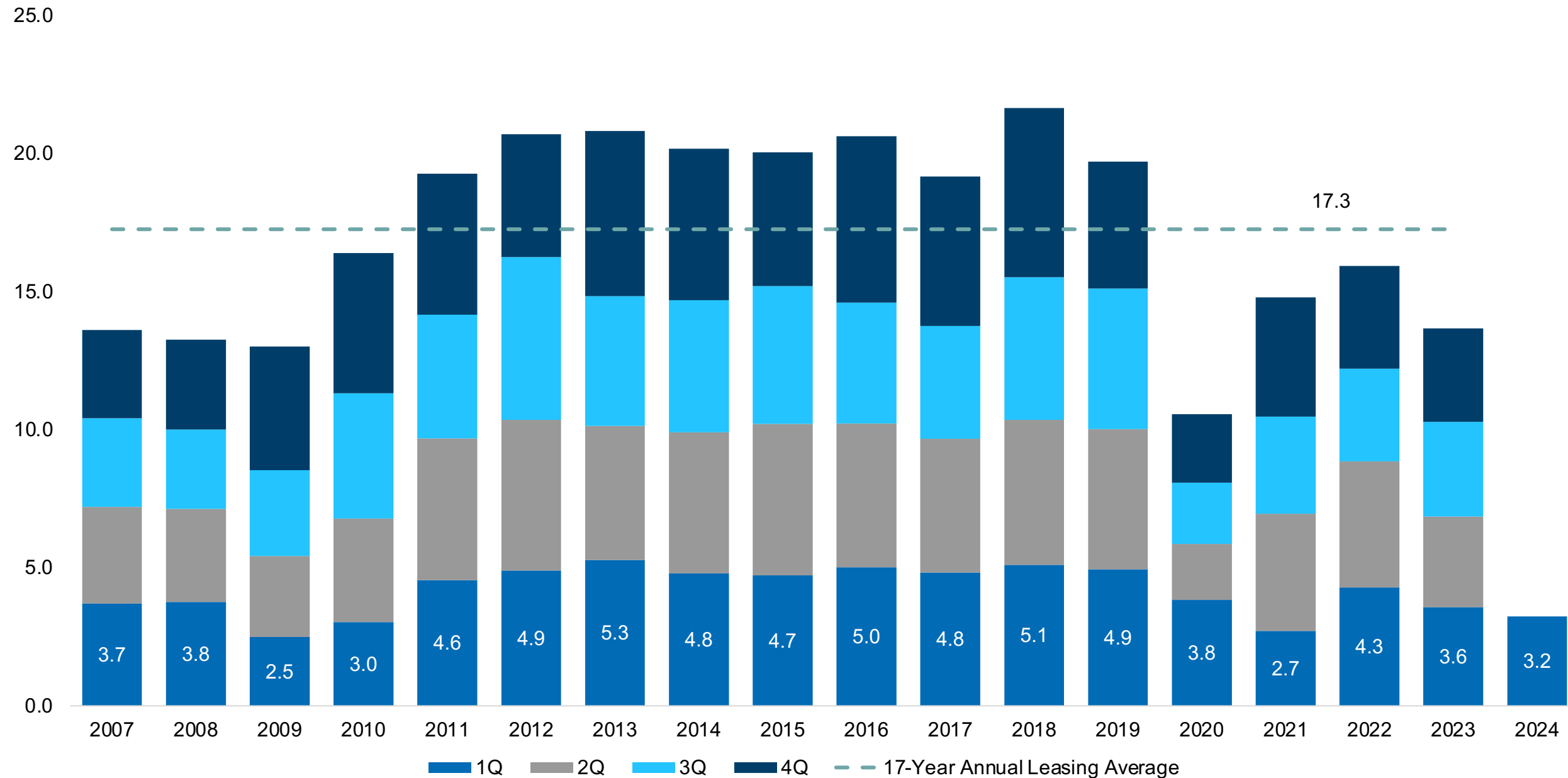


Source: Newmark Research

Leasing Activity Narrows

An uncertain economic outlook, still-high interest rates and hybrid work models are reducing office space requirements. Most tenants continue to pursue well-capitalized, trophy-grade space as they scale down their footprints to cut costs and maximize efficiencies. First quarter's leasing activity of 3.2 MSF was down 9.3% from this time last year.

Total Leasing Activity (MSF)

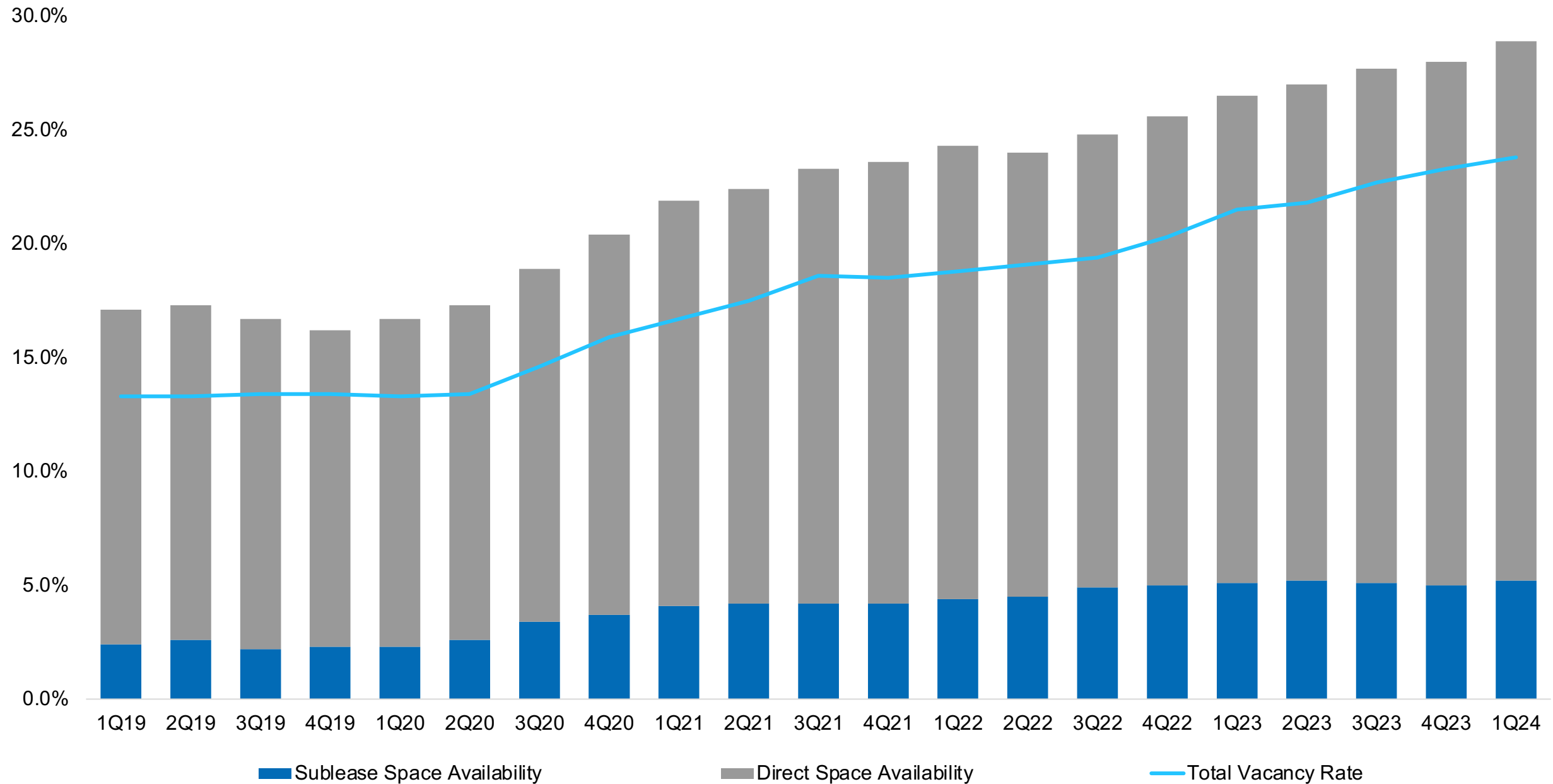


Source: Newmark Research, CoStar

Direct and Sublease Availability Rise in 2024

Total availability passed 63.5 MSF during the first quarter of 2024, a record high for the market. Over the course of three months, direct availability grew by 1.6 MSF while sublease availability rose by 540,720 SF. General economic conditions and telework, which are causing tenant downsizes and consolidations, are contributing to the gains.

Available Space and Tenant Demand as Percent of Overall Market

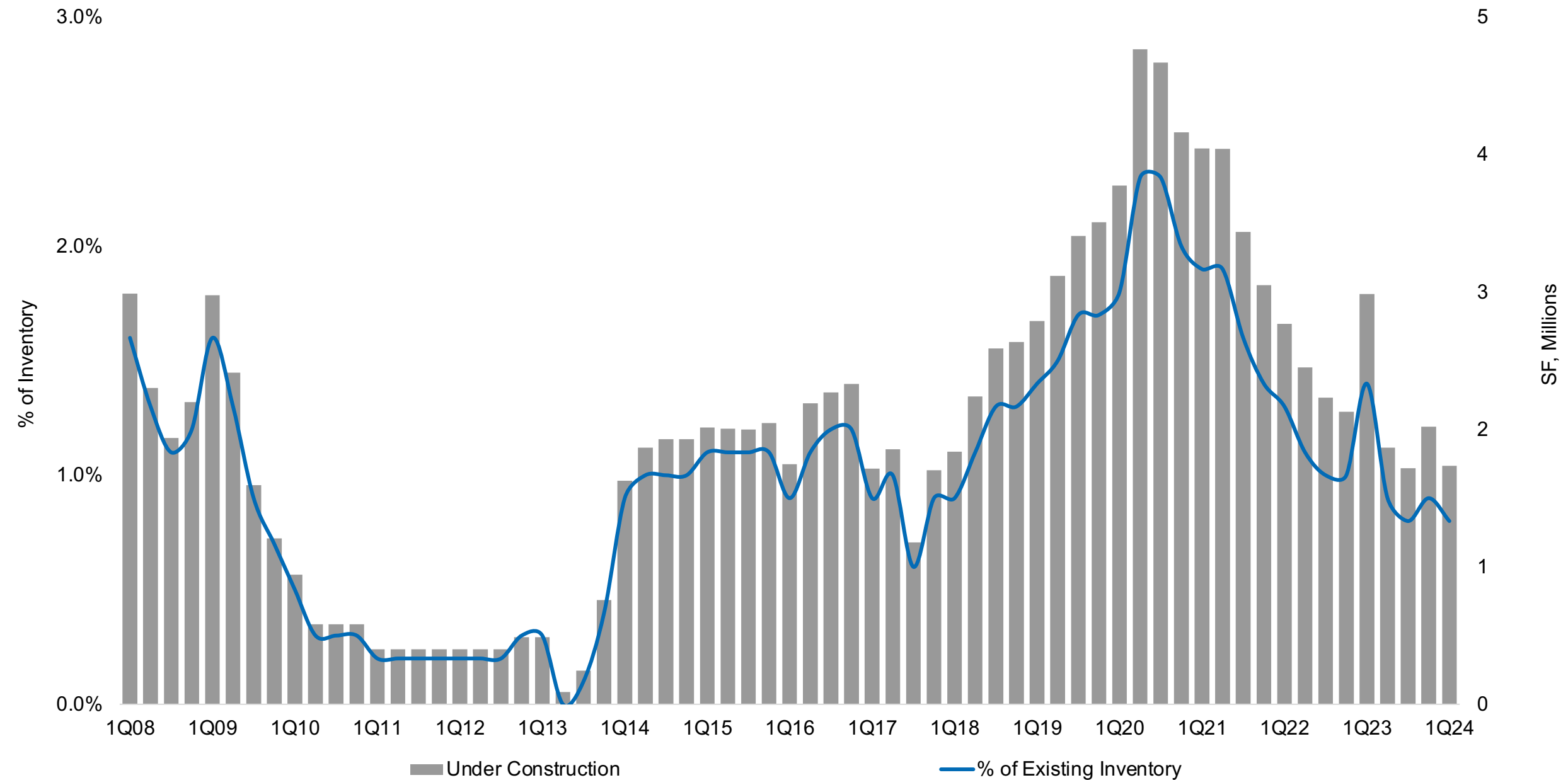


Source: Newmark Research

Construction Volume Remains Measured

Construction volume of 1.7 MSF remains well below the market's five-year average of 3.1 MSF. Five properties, totaling 285,728 SF, delivered this quarter; most of which came online as vacant and available. While certain market areas with strong fundamentals are seeing new construction starts (e.g., Century City), current demand for new office supply is low. Part of this is due to a lingering glut of sublease space, a portion of which is comprised of trophy-grade offerings at discounted rental rates.

Office Under Construction and % of Existing Inventory

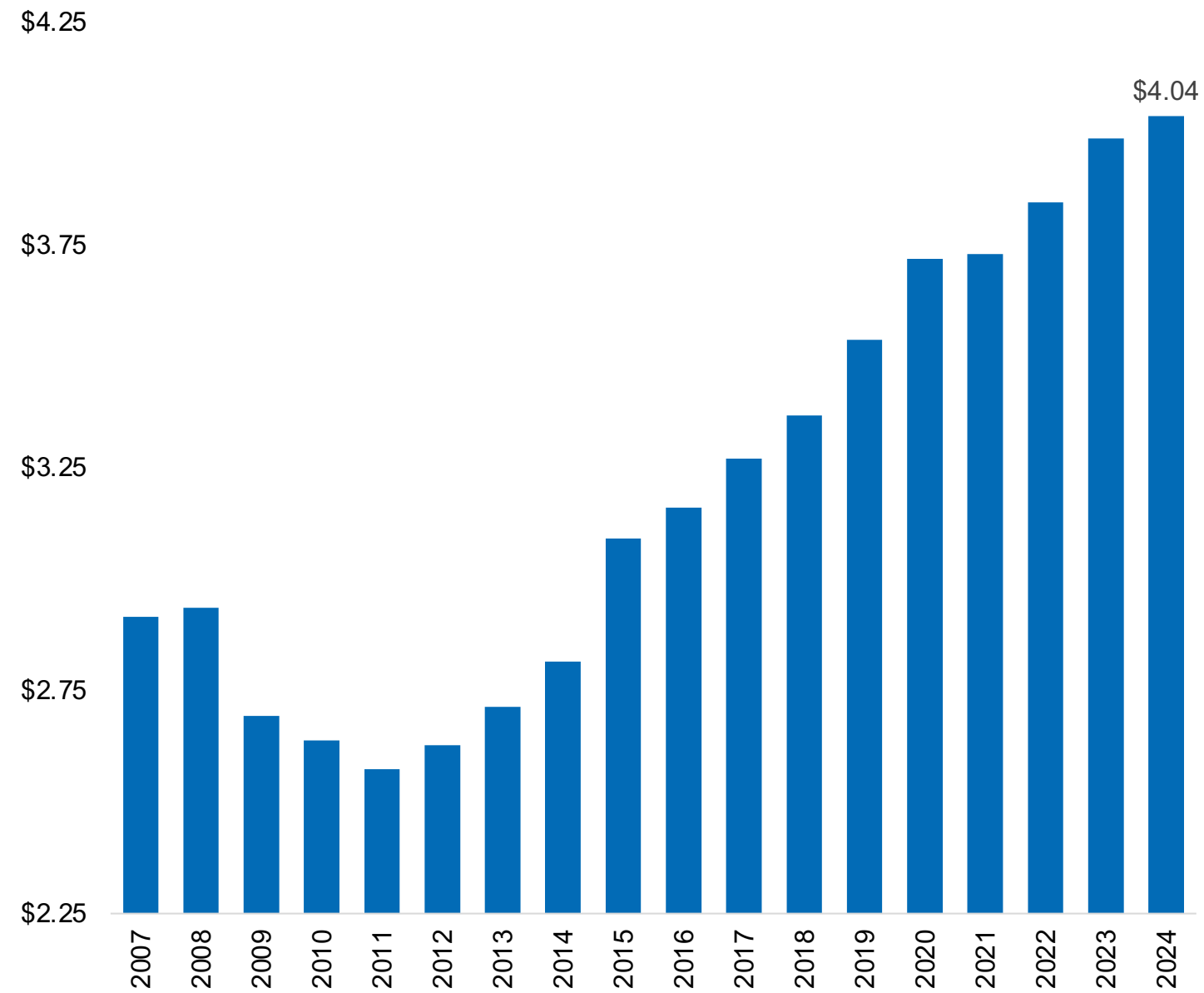


Source: Newmark Research

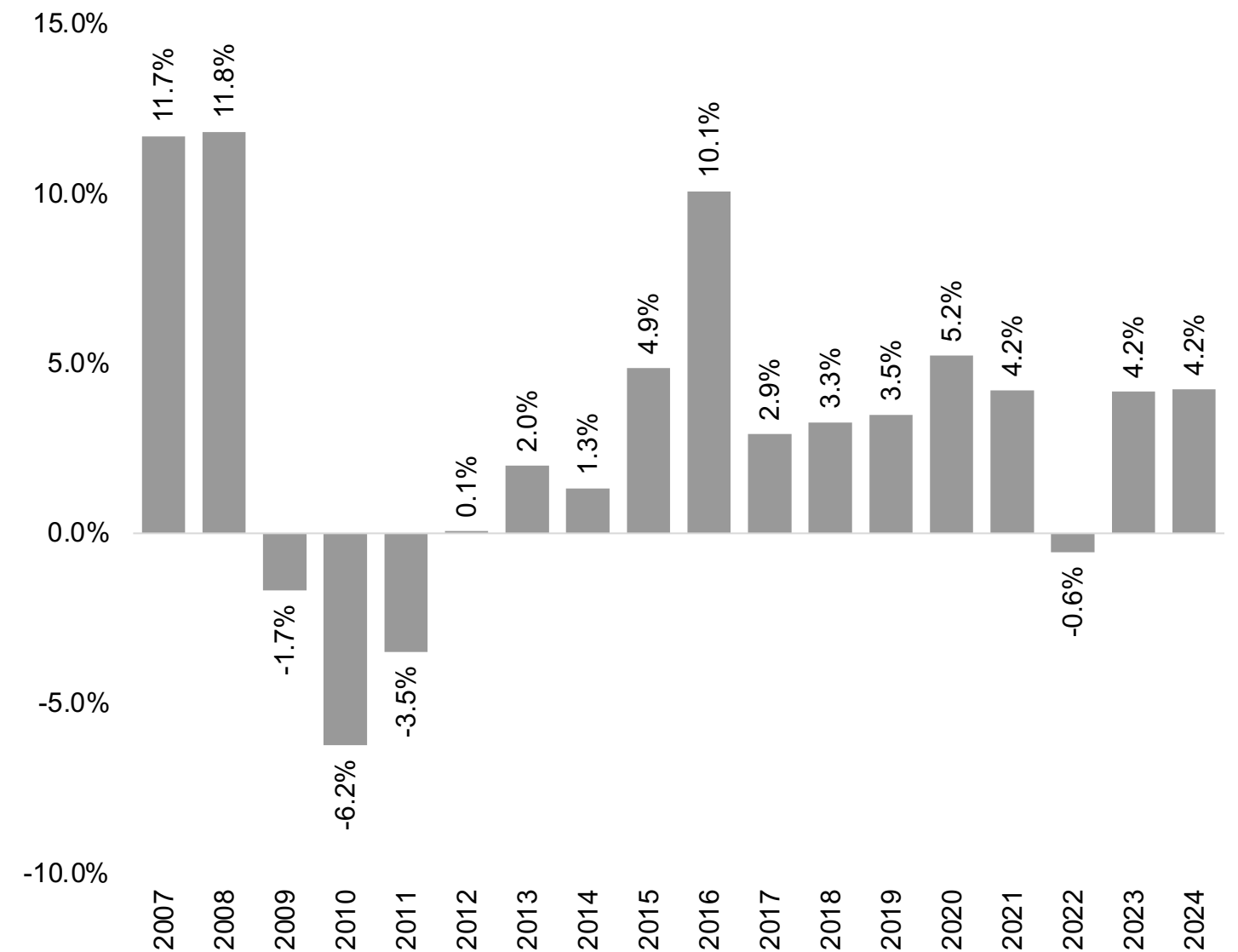
Rents Remain Elevated: But For How Long?

Landlords remain reluctant to devalue their buildings and are maintaining asking rents. Office rents will eventually tumble, after owners and lenders are forced to restructure mortgages or sell distressed properties.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

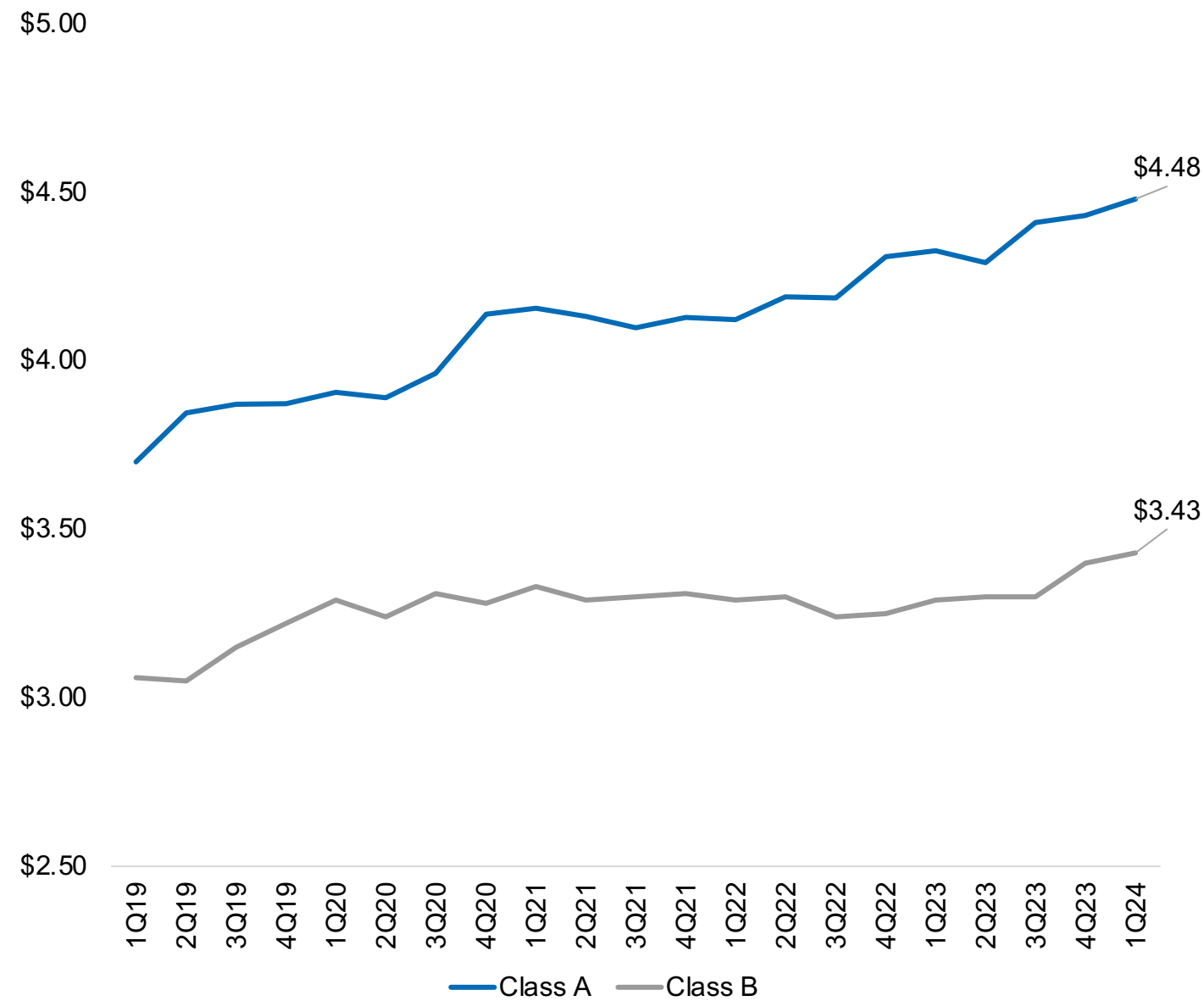


Source: Newmark Research

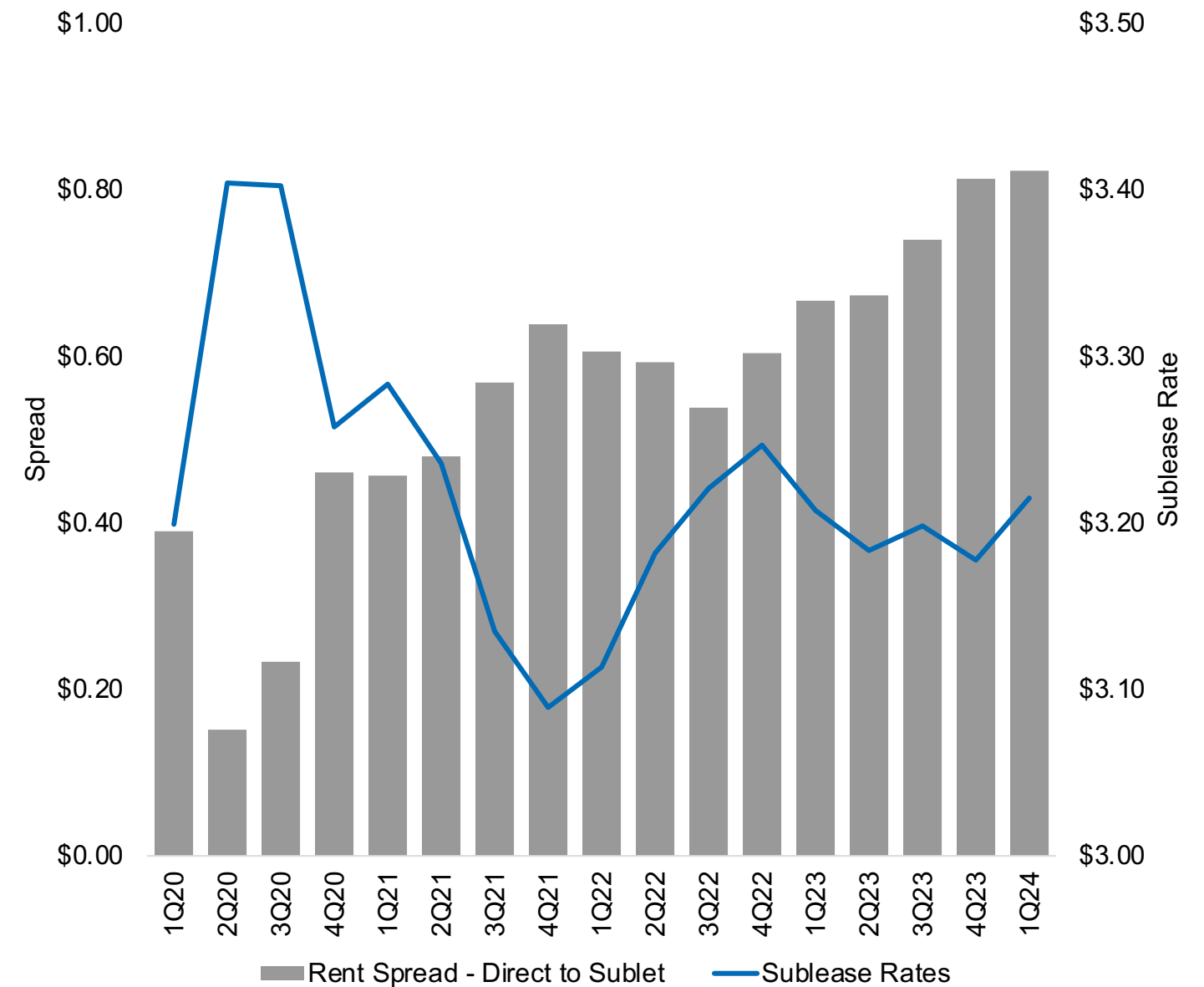
Office Asking Rents in All Classes Reach New Highs

While rents in all classes saw increases during the first quarter, Class A led the growth with a 1.1% increase. Sublease asking rents, meanwhile, remain elevated. This is from tech companies that leased excess trophy space prior to the pandemic and now have overcapacity to shed.

Class A and Class B Asking Rents, \$/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research, CoStar

Sublease Availability Climbs to Yet Another High

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Sublease Additions Surge in First Quarter

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Renewals in West Los Angeles Drove Leasing

All the top five leases signed this quarter were in West Los Angeles; most were renewals/extensions. Although there is optimism leasing activity will increase in the media sector this year, following the end of the Hollywood strikes and potential interest rate cuts, it is measured at best.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Snap, Inc.	Santa Monica Business Park	West Los Angeles: Santa Monica	Lease Renewal	467,000
<i>Snap, Inc. signed a 467,000-SF renewal for ten years across multiple buildings at the Santa Monica Business Park.</i>				
William Morris Endeavor	9601 Wilshire Blvd	West Los Angeles: Beverly Hills	Lease Renewal	247,768
<i>Talent agency William Morris Endeavor (WME) signed a renewal for their Beverly Hills headquarters at 9601 Wilshire Blvd for 13 years.</i>				
Lionsgate	2700 Colorado Ave	West Los Angeles: Santa Monica	Lease Extension	153,210
<i>Lionsgate signed a four-year extension for 153,210 SF at the Colorado Center in Santa Monica, giving back a floor in a downsize move.</i>				
Riot Games	12312 W Olympic Blvd	West Los Angeles: Olympic Corridor	Lease Renewal	78,900
<i>Riot Games renewed their lease for 78,900 SF at the Westside Media Center.</i>				
Fab Factory Entertainment	1350 N Western Ave	West Los Angeles: Hollywood	Sublease	68,864
<i>Fab Factory Entertainment subleased 68,864 SF at 1350 N Western Ave; space that formerly served as Netflix's post-production headquarters.</i>				

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Downtown Los Angeles vs. Century City



Leased SF Averages are Lower Than the Number of Leases Signed

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In Downtown LA's CBD, Crime is Prevalent South of 6th Street

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Trophy Vacancy and Rent Dynamics are Night and Day When Comparing Downtown LA to Century City

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Streaming Media



Filming Activity Will Increase in 2024

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M&A Activity Has Allowed Big Players to Quickly Grow their Film Libraries

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Most Streaming Providers are Relying on Ad-Revenue to Keep Entry-Level Subscriptions Affordable

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Ad-Tier Subscribers Will Grow Along With Ad-Based Revenue

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Tech



The Stock Market and Local Venture Capital Funding

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Footprints are Declining for Some of the Region's MAANG Occupiers

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Google is Off the Hook for a 584,000 SF Lease After the Sale of the Westside Pavilion to UCLA

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Sales Activity and Distress



Office Comprised 20.0% of Total Sales Volume in 2023

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Office Sales Volume: Up Close

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Private, Opportunistic Buyers Were Active in 2023; Institutions Less So

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Pricing Down and Cap Rates Up Compared to 2022

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45% of the Office Market Obsolete or Unable to Service Debt

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Office Loan Defaults are Growing; So are the Number of Vulnerable Properties

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Opportunistic Buyers Are Taking Advantage of Discounted Pricing

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Submarket Snapshots



Downtown Los Angeles



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Los Angeles North

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South Bay

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Tri-Cities

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West Los Angeles

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Appendix



Los Angeles Office Submarket Map and High-level Statistics | 1Q24

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High-Level Stats and Sublease Figures, By Submarket | 1Q24

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