

Los Angeles Office Market Report

Leasing Activity Picks Up as Vacancy Increases

- Vacancy reached a new high, adding 1.3 million square feet during the second quarter, to reach 18.2%.
- Net absorption posted 936,039 square feet in losses this quarter, bringing the year-to-date total to negative 2.6 million square feet.
- Sublet availability continued to climb to record highs, topping 9.3 million square feet, or 4.5% of inventory.
- The average asking rent decreased 3.0% from last quarter.
- Development activity remains high, with 4.0 million square feet of speculative construction underway and 6.8 million square feet under renovation.
- 8.8 million square feet in new supply will deliver over the next 12 months; 30.1% is pre-leased.

Leasing to Offset Absorption Losses in West LA

Ongoing absorption losses in West Los Angeles caused the submarket's vacancy to rise to 18.0%, a new high. Playa Vista, one of the most expensive micro-markets in the metro, recorded the biggest net absorption loss with 336,260 square feet after space givebacks from Fox Sports and WeWork.

Despite this, West Los Angeles led the region in quarterly leasing activity, with large deals signed by Hulu (351,000 square feet in Santa Monica), CAA (291,530 square feet in Century City), Snap (145,060 square feet in Santa Monica) and Sony PlayStation (107,751 square feet in Playa Vista).

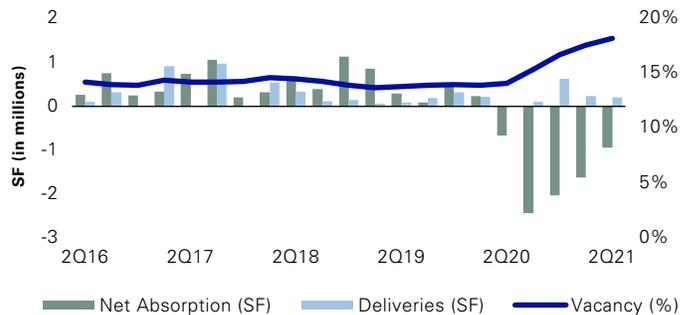
West Los Angeles leads the market in sublet availability with almost four million square feet but, for the first time since the onset of the pandemic, saw a decrease in sublet availability this quarter. Lionsgate pulled their 192,584-square-foot space from the market, and tenants are in active negotiations for other large sublet blocks.

Market Analysis

VACANCY AND ASKING RENT



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	208M	208M	203M	↑
Total Vacancy Rate	18.2%	17.6%	14.1%	↓
Quarterly Net Absorption (SF)	-936K	-1.6M	-665K	↑
Average Asking Rent/SF/Month	\$3.66 FSG	\$3.70 FSG	\$3.52 FSG	↓
Deliveries (SF)	207,847	235,517	0	↑
Under Construction (SF)	4.0M	4.1M	4.8M	↓

Increased leasing activity, decreasing sublet availability and in-place commitments for new construction from companies such as Amazon and HBO, all suggest a speedy recovery for the submarket.

Will Asking Rents Trend Further Down?

Asking rents may be down this quarter, but does this suggest a short-term adjustment or the start of a longer trend? While rent remains above its pre-pandemic average, increased vacancy and sublet availability will exert downward pressure on it. Then again, COVID-19 is a disruptor rather than an industry-driven recession, suggesting a progressive return to form will happen sooner than later.

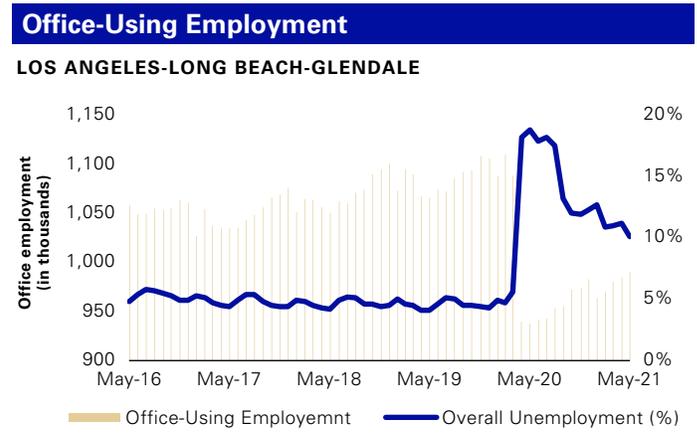
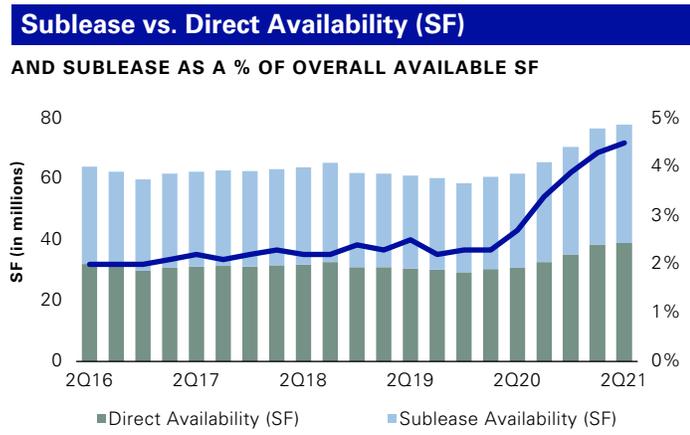
Economists are forecasting a strong recovery later this year into next, and tenants in decision-making mode are asking if now is the time to strike a deal at favorable terms. For those pursuing a lease, many landlords remain reluctant to devalue their buildings through lower rents and use free rent and tenant allowances instead to compete for business.

Outlook

With a recovery on the horizon and a sense of normalcy returning, occupiers are progressively returning to the office. While questions remain on the long-term future of work – five days in the office versus three-in, two-from-home – bringing people back is an encouraging sign of a waning pandemic.

For now, a hybrid mix of in-the-office and work-from home will grant many occupiers the time to assess and execute their go-forward space needs; especially those that downsized. Many employers are also trying to entice their employees back to the office through welcome packages, culture-building events, free parking and, in a few instances, clothing and dry cleaning allowances. The labor market is improving and balancing a company’s needs with its employees’ wants is not easy.

Property owners, meanwhile, will contemplate strategy changes to make their properties stand out in the current environment. Building safety measures and protocols are often the first thought in tenants’ minds.



Source: U.S. Bureau of Labor Statistics (Preliminary data, not seasonally adjusted). Includes information, financial activities and professional and business services jobs.

Lease Transactions

Tenant	Building	Market Area	Lease Type	Square Feet
Hulu	2450 Broadway	Santa Monica	Renewal/Expansion	351,000
CAA	2000 Avenue of the Stars	Century City	Renewal	291,530
Snap	3100 Ocean Park Boulevard	Santa Monica	Expansion	145,060

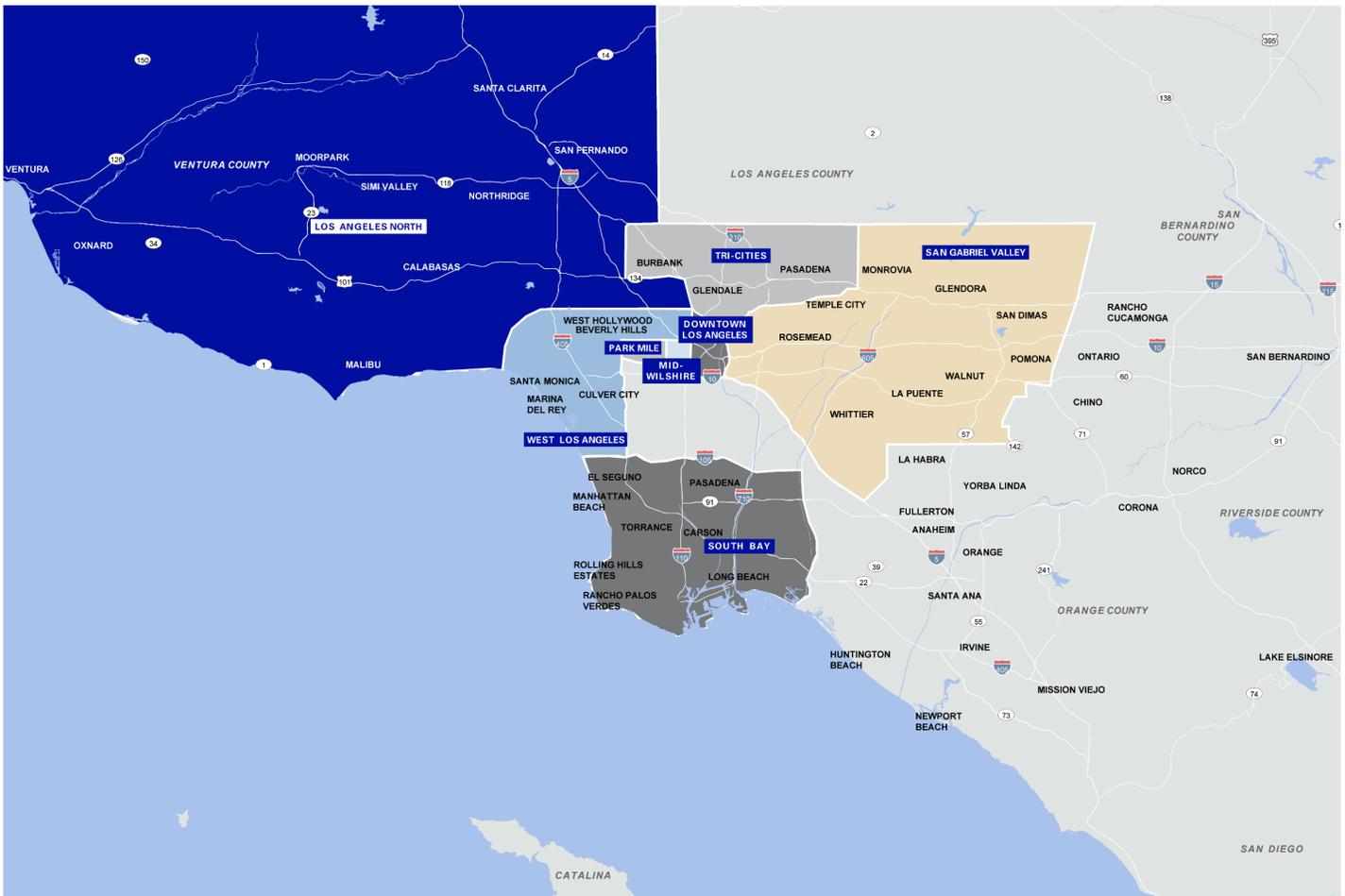
Sale Transactions

Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
SteelWave, Inc.	The Switchyard	Downtown Los Angeles	\$80,000,000 (\$509/SF)	157,247
Gemdale USA Corporation	The Pak Calabasas	Conejo Valley	\$79,000,000 (\$355/SF)	222,524
Pendulum Property Partners	The Link	Burbank	\$61,500,000 (\$493/SF)	124,785

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown Los Angeles	37,001,774	470,200	20.8%	21,662	-193,541	\$3.75	\$3.32	\$3.48
Mid-Wilshire	7,053,531	0	28.2%	-64,537	-100,400	\$2.44	\$2.29	\$2.33
Los Angeles North	32,601,135	0	15.6%	-286,042	-611,421	\$2.84	\$2.57	\$2.70
Central Valley	8,342,328	0	17.0%	-66,831	-124,218	\$2.70	\$2.68	\$2.69
Conejo Valley	8,677,267	0	16.4%	-26,008	-215,504	\$2.84	\$2.68	\$2.74
East Valley	3,357,456	0	21.2%	-76,058	-122,870	\$3.60	\$2.70	\$2.99
Santa Clarita Valley	2,769,293	0	14.1%	-44,062	-48,825	\$2.74	\$2.33	\$2.67
West Valley	9,454,791	0	12.2%	-73,083	-100,004	\$2.72	\$2.39	\$2.52
Park Mile	1,718,951	0	27.6%	-37,469	-58,706	\$3.29	\$3.86	\$3.63
San Gabriel Valley	13,628,486	32,064	10.9%	-3,418	43,110	\$2.66	\$2.44	\$2.49
Eastern SGV	7,452,805	32,064	10.5%	10,687	48,994	\$2.64	\$2.44	\$2.49
Western SGV	6,175,681	0	11.4%	-14,105	-5,884	\$2.69	\$2.44	\$2.49
South Bay	32,207,979	450,872	21.2%	-354,727	-932,656	\$3.35	\$2.98	\$3.10
190th Street Corridor	3,786,459	0	17.5%	-25,676	-15,926	\$2.96	\$2.56	\$2.72
Carson	1,004,949	0	29.7%	-833	-640	\$2.49	\$1.66	\$2.45
El Segundo/Beach Cities	11,888,232	0	17.8%	-183,267	-422,865	\$4.24	\$3.89	\$4.09
LAX/Century Blvd	3,352,631	450,872	36.5%	-51,719	-106,293	\$2.51	\$2.26	\$2.38
Long Beach Downtown	4,474,175	0	22.2%	20,161	-30,726	\$3.03	\$2.24	\$2.51
Long Beach Suburban	4,650,045	0	23.9%	-106,536	-221,146	\$2.85	\$2.77	\$2.70
Torrance Central	3,051,488	0	13.5%	-6,857	-135,060	\$3.44	\$2.56	\$2.79

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Tri-Cities	21,186,227	1,161,250	14.8%	37,095	-62,198	\$3.50	\$3.05	\$3.37
Burbank	6,863,122	942,250	9.4%	43,711	14,462	\$4.04	\$3.27	\$3.86
Glendale	6,259,817	0	19.0%	-12,465	-78,868	\$3.27	\$2.70	\$3.17
Pasadena	8,063,288	219,000	16.0%	5,849	2,208	\$3.52	\$3.18	\$3.38
West Los Angeles	63,010,391	1,892,369	18.0%	-248,603	-644,550	\$5.65	\$4.80	\$5.35
Beverly Hills	6,690,788	50,510	17.5%	-122,649	-157,122	\$6.13	\$5.30	\$5.67
Brentwood	3,433,629	0	16.5%	-32,184	-92,094	\$4.33	\$3.80	\$4.25
Century City	10,668,807	0	9.8%	-39,855	-274,432	\$6.36	\$5.63	\$6.35
Culver City	5,915,250	1,557,853	18.8%	65,882	-26,729	\$4.36	\$4.50	\$4.44
Hollywood	4,933,205	0	26.7%	383,531	665,640	\$5.18	\$4.99	\$5.07
Marina Del Rey/Venice	1,770,130	0	35.7%	-5,858	-93,867	\$5.10	\$5.59	\$5.42
Miracle Mile	4,683,304	0	22.7%	-3,015	12,554	\$4.41	\$3.28	\$4.20
Olympic Corridor	2,395,926	200,000	11.4%	9,046	54,802	\$5.22	\$3.51	\$4.74
Playa Vista	3,828,120	0	24.3%	-393,127	-336,260	\$6.48	\$4.43	\$6.06
Santa Monica	9,283,261	36,736	18.3%	-55,228	-274,214	\$6.29	\$5.11	\$5.75
West Hollywood	2,740,349	0	15.9%	33,542	32,367	\$5.18	\$4.07	\$4.90
Westside Other	3,395,217	0	13.4%	-54,447	-95,490	\$4.46	\$3.82	\$4.19
Westwood	3,272,405	47,270	19.4%	-34,241	-59,705	\$4.85	\$3.37	\$4.14
Market	208,408,474	4,006,755	18.2%	-936,039	-2,560,362	\$4.08	\$3.25	\$3.66

Under construction totals include ground-up construction only; under renovation and/or converted product is excluded. The same applies to construction deliveries. Net absorption is the change in physically occupied space. A hypothetical vacant and available space could lease this quarter with the tenant set to take occupancy six months later; positive absorption is not recorded until this physical move-in occurs. The space will remain vacant, but not available, until occupancy.



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