

Los Angeles Office Market Report

Vacancy and Sublet Availability Reach New Peaks

- Vacancy and availability increased to record highs of 20.0% and 25.2%, respectively.
- Available sublease space climbed to a new high of 10.7 million square feet, representing 4.9% of current inventory.
- Notable sublease additions include Honey with 131,688 square feet in Downtown Los Angeles, Netflix listing an additional 121,164 square feet in Burbank and Herbalife offering 92,245 square feet in Downtown Los Angeles.
- As pre-COVID projects deliver, under-construction and renovation totals continue to trend down to 2.3 million square feet and 2.6 million square feet, respectively.
- Measured office demand due to economic headwinds and remote work policies, combined with rising costs of construction and capital, will limit new construction.
- Quarterly leasing activity in West Los Angeles was down by 39.6% on a square footage basis compared with the same period last year. Tech is the submarket's dominant industry.

Tech Sector Takes a Hit

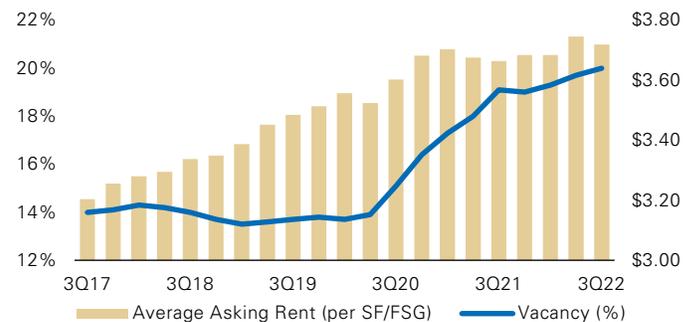
Most tech company valuations have suffered notable losses in recent months. This is leading to cost-cutting measures, notably among firms that aggressively staffed up in recent years and exponentially grew their real estate footprints.

Hiring freezes, slowdowns and layoffs are on the rise, with Snap being the latest tech player to experience a significant reduction in staff after disappointing financial results. The company laid off 20.0% of its global workforce in late August, leading to 401 jobs shed in Santa Monica. Snap has yet to reduce its real estate footprint in the city.

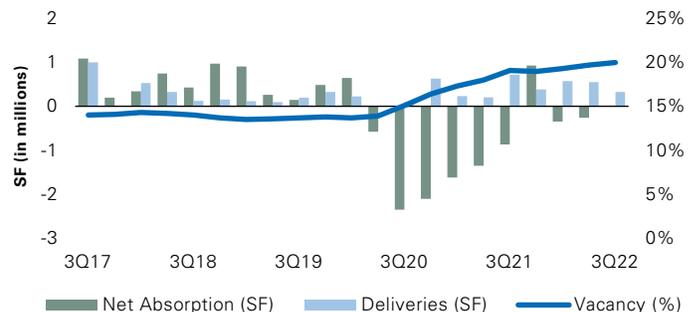
Job losses at other companies have led to shed office space. Netflix, for example, followed layoffs in June by listing the previously mentioned space in Burbank this quarter. Netflix now lists a total of 187,794 square feet in the city.

Market Analysis

ASKING RENT AND VACANCY



NET ABSORPTION, CONSTRUCTION DELIVERIES AND VACANCY



Market Summary

	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	219M	218M	214M	↑
Total Vacancy Rate	20.0%	19.7%	19.1%	↑
Quarterly Net Absorption (SF)	-2K	-261K	-869K	→
Average Asking Rent/SF/Month	\$3.72 FSG	\$3.75 FSG	\$3.66 FSG	→
Deliveries (SF)*	331K	555K	718K	→
Under Construction (SF)	2.3M	2.5M	3.5M	↓

* includes ground-up construction and excludes renovation projects

Sublease Space

Sublease availability has more than doubled from pre-pandemic levels and finding a tenant to backfill the average sublet offering is difficult amid a crowded market. To mitigate against this, some tenants are opting to terminate leases and return spaces to the landlord to list directly. Alternative solutions are also being explored, such as landlord J.P. Morgan Chase allowing the Westfield Group to terminate its lease on two floors the company had listed for sublease at 2049 Century Park E. in Century City to sign a direct long-term deal with Kirkland Ellis this quarter for 57,040 square feet.

Sublease availability is expected to increase in the quarters ahead as more companies reduce overhead. While this will further crowd the market, it is worth noting that trophy sublease offerings are in demand. High-end plug-and-play space is desirable in an environment where tenant improvement construction timelines are protracted and both material and labor costs are rich.

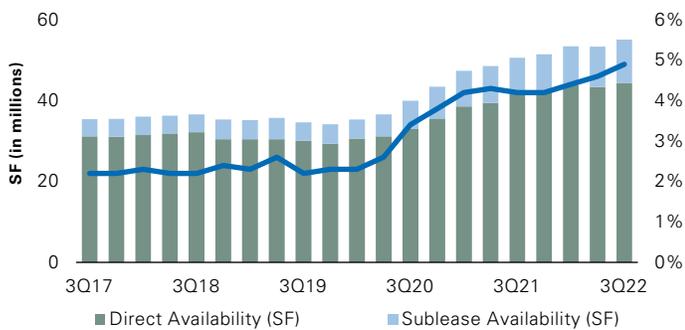
Outlook

COVID-related health concerns and restrictions on business are over. The office market has now entered a new stage where economic concerns are at the forefront of occupiers' minds as aggressive interest rate hikes run the risk of pushing the U.S. into a recession. For now, local unemployment is low at 4.9% and educated and experienced employees have a great deal of leverage, but leverage is shifting as companies use more direct language to have workers return to the office.

Return-to-the-office mandates are on the rise as companies look to reestablish culture and normalcy, but many are not advertising plans as they have in the past, looking to avoid employee backlash in the public sphere. Although challenges exist, office utilization averages are expected to rise over the coming months. Policies are trending for three days in the office, which will help sustain footprint requirements. However, companies looking to cut costs with staff or real estate will continue to downsize.

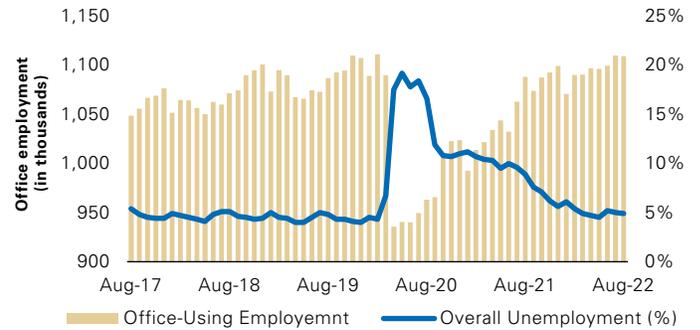
Sublease vs. Direct Availability (SF)

AND SUBLEASE AS A% OF OVERALL AVAILABLE SF



Office-Using Employment

LOS ANGELES-LONG BEACH-GLENDALE



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
Quest Diagnostics	Corporate Pointe at West Hills	West Valley	Renewal	199,535
Raytheon	2222 E Imperial Highway	El Segundo/Beach Cities	Renewal	144,709
Wells Fargo	333 S Grand Avenue	Downtown Los Angeles	Renewal/Downsize	125,850

Sale Transactions

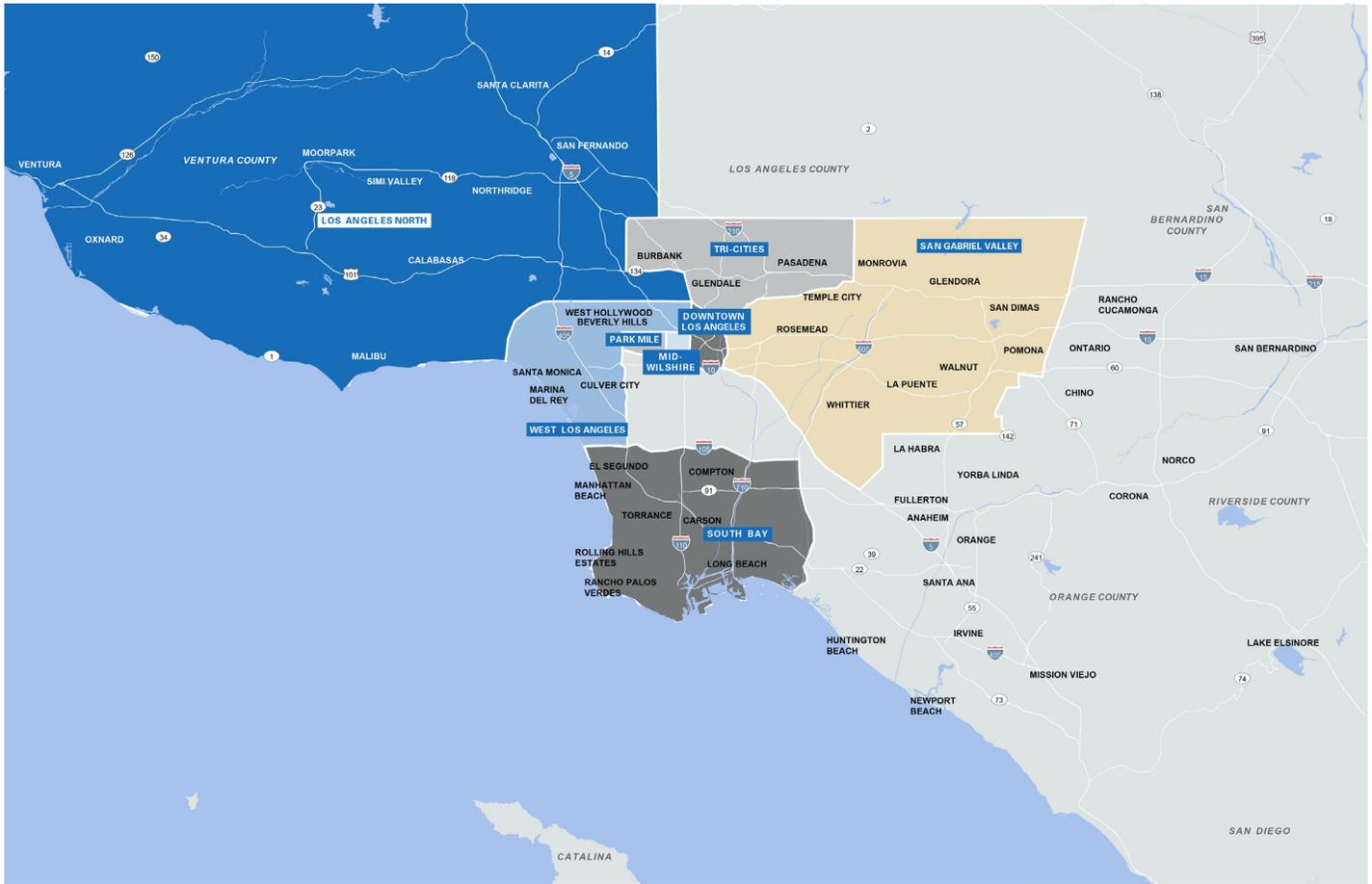
Buyer	Building(s)	Market Area	Sale Price (PSF)	Square Feet
Waterbridge Capital, LLC	445 S Figueroa Street	Downtown Los Angeles	\$155,000,000 (\$221/SF)	701,888
AWG Partners	26701-26709 W Agoura Road	Conejo Valley	\$35,000,000 (\$383/SF)	91,339
The Swig Company	3130 Wilshire Boulevard	Santa Monica	\$33,679,500 (\$351/SF)	96,085

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	39,024,719	232,000	22.6%	-85,207	-422,343	\$3.72	\$3.35	\$3.47
Mid-Wilshire	6,877,124	0	30.6%	-76,796	-97,993	\$2.46	\$2.29	\$2.34
Los Angeles North	32,909,028	0	16.0%	118,354	-234,271	\$2.89	\$2.56	\$2.74
Central Valley	8,369,327	0	16.5%	94,893	-50,386	\$2.72	\$2.69	\$2.68
Conejo Valley	8,769,575	0	17.7%	-19,496	41,118	\$2.84	\$2.65	\$2.76
East Valley	3,404,686	0	16.2%	19,093	49,982	\$3.83	\$2.62	\$3.18
Santa Clarita Valley	2,671,171	0	16.7%	11,997	-21,223	\$2.88	\$2.24	\$2.79
West Valley	9,694,269	0	13.6%	11,867	-253,762	\$2.68	\$2.45	\$2.56
Park Mile	1,450,288	0	35.8%	-233	-33,520	\$3.38	\$3.57	\$3.46
San Gabriel Valley	13,808,644	0	11.3%	3,780	-93,073	\$2.76	\$2.41	\$2.51
Eastern SGV	7,476,691	0	11.0%	9,433	-59,099	\$2.72	\$2.42	\$2.50
Western SGV	6,331,953	0	11.7%	-5,653	-33,974	\$2.81	\$2.41	\$2.52
South Bay	34,125,587	266,000	24.0%	24,566	-529,097	\$3.56	\$2.94	\$3.26
190th Street Corridor	3,830,736	0	17.4%	530	37,627	\$3.12	\$2.84	\$2.96
Carson	1,005,640	0	30.3%	-15,124	-22,604	\$2.75	\$2.43	\$2.75
El Segundo/Beach Cities	13,310,584	205,000	22.2%	111,260	-139,008	\$4.27	\$3.99	\$4.21
LAX/Century Blvd	3,801,707	0	37.1%	-8,051	-55,113	\$2.57	\$2.37	\$2.44
Long Beach Downtown	4,473,592	0	24.8%	-3,024	-99,807	\$3.16	\$2.35	\$2.70
Long Beach Suburban	4,652,008	61,000	26.5%	-32,629	-155,813	\$2.86	\$2.80	\$2.77
Torrance Central	3,051,320	0	16.2%	-28,396	-94,379	\$3.38	\$2.69	\$2.89

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	22,213,171	917,543	19.3%	-108,336	-302,255	\$3.73	\$3.39	\$3.63
Burbank	7,211,809	800,000	13.0%	-65,452	-120,604	\$4.53	\$3.74	\$4.30
Glendale	6,240,058	117,543	23.2%	-143,907	-220,749	\$3.29	\$2.82	\$3.25
Pasadena	8,761,304	0	21.6%	101,023	39,098	\$3.83	\$3.36	\$3.60
West Los Angeles	68,326,283	845,356	19.0%	121,904	1,108,067	\$5.60	\$4.55	\$5.29
Beverly Hills	6,770,763	50,148	18.1%	36,076	24,836	\$5.89	\$4.77	\$5.41
Brentwood	3,498,672	0	18.6%	-29,854	-59,632	\$5.03	-	\$5.03
Century City	10,967,003	0	12.3%	122,940	97,756	\$6.26	-	\$6.26
Culver City	8,157,839	511,408	21.5%	102,393	784,944	\$5.29	\$4.27	\$4.92
Hollywood	5,524,860	61,800	22.7%	50,628	151,941	\$5.08	\$4.71	\$4.93
Marina Del Rey/Venice	1,966,480	0	19.0%	61,101	121,847	\$5.30	\$5.64	\$5.51
Miracle Mile	5,038,674	0	23.3%	-50,908	-140,281	\$4.14	\$3.30	\$3.96
Olympic Corridor	2,396,272	200,000	10.4%	-10,342	33,868	\$4.68	\$1.99	\$3.06
Playa Vista	4,148,563	0	26.2%	-108	210,142	\$6.28	\$4.75	\$6.04
Santa Monica	9,752,570	22,000	19.4%	-131,344	-145,411	\$6.20	\$5.38	\$5.79
West Hollywood	3,027,152	0	15.7%	-10,122	46,470	\$5.29	\$4.76	\$5.08
Westside Other	3,720,618	0	20.1%	-41,452	-6,999	\$5.59	\$3.86	\$5.04
Westwood	3,356,817	0	22.7%	22,896	-11,414	\$6.09	\$3.42	\$5.10
Market	218,734,844	2,260,899	20.0%	-1,968	-604,485	\$4.14	\$3.20	\$3.72

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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