

3Q24

NEWMARK

Los Angeles Office Market Overview



Market Observations



Economy

- Local unemployment across all industries was 6.7% in August 2024, up 70 bps from 12 months ago. Office-using employment was down by 2,600 jobs.
- The Fed slashed its benchmark interest rate by 50 bps on September 18, the first reduction in more than four years. More cuts are expected.
- Paramount Global will shed 2,000 jobs and close one of its television studios as its merger with Skydance continues; this recently included 302 layoffs in Hollywood. Optum, Warner Bros. Discovery, Activision Blizzard and Fisker Automotive also had notable layoffs this quarter.
- Amazon told its employees to return to the office (RTO) five days a week, starting in 2025. There is increasing sentiment among global CEOs that the days of hybrid work may be numbered. For now, local office utilization remains flat at sub-50%.



Major Transactions

- Southern California Gas Company leased 198,533 SF in Downtown LA at 2Cal, in a downsize-relocation move from 360,000 SF in their namesake tower at 555 W 5th St. SoCalGas will take eight floors formerly occupied by City National in Spring 2026.
- Herbalife sold its 188,545-SF office building in the 190th Street Corridor to Rexford Industrial for \$41.2 million. Herbalife leased back the building at 950 W 190th St in Torrance for two years with two six-month options to extend. Plans for the 9.11-acre site call for conversion to a 195,000-SF industrial facility.
- Following completion in early 2022 and a dearth of leasing activity, The Entrada at 6181 Centinela Ave in Culver City saw a wave of deals this quarter. Leases included The Trade Desk (74,502 SF), Jazwares (51,5186 SF) and Impact LA (13,477 SF).



Leasing Market Fundamentals

- Remote work has led to companies shrinking their footprints, while lenders are more hesitant to make loans on underperforming office buildings.
- Leasing activity is mostly expiration-driven. Tenants, on average, are reducing their footprints by 15-20% when their leases come due.
- Total vacancy and availability climbed to new highs of 25.1% and 29.6%, respectively.
- Most active requirements are for traditional industries, such as law firms, state and local government agencies and professional services. Tech and media demand remains muted as whole.
- Top-tier, 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.



Outlook

- Cost-cutting measures amid a pricier debt environment and hybrid work will continue to shape demand. Leasing activity will rebound however if RTO mandates increase.
- For now: Vacancy will not return to pre-pandemic averages until surplus buildings are removed from the competitive inventory set. Conversions, covered land plays and user sales will decrease inventory, and in turn, vacancy and availability averages.
- Third-quarter recorded several user purchases as tenants fixed their long-term occupancy costs by taking advantage of discounted pricing. Los Angeles County's pending acquisition of the Gas Company Tower will advance this trend.
- Sales activity will increase amid low prices and decreasing interest rates. Quality assets in desirable market areas (e.g., Silicon Beach) will be sought after.

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1. Economy
 2. Leasing Market Fundamentals
 3. Downtown LA vs. Century City
 4. Streaming Media
 5. Tech
 6. Sales Activity and Distress
 7. Implications of User and Developer Purchases
 8. Submarket Snapshots
 9. Appendix

3Q24

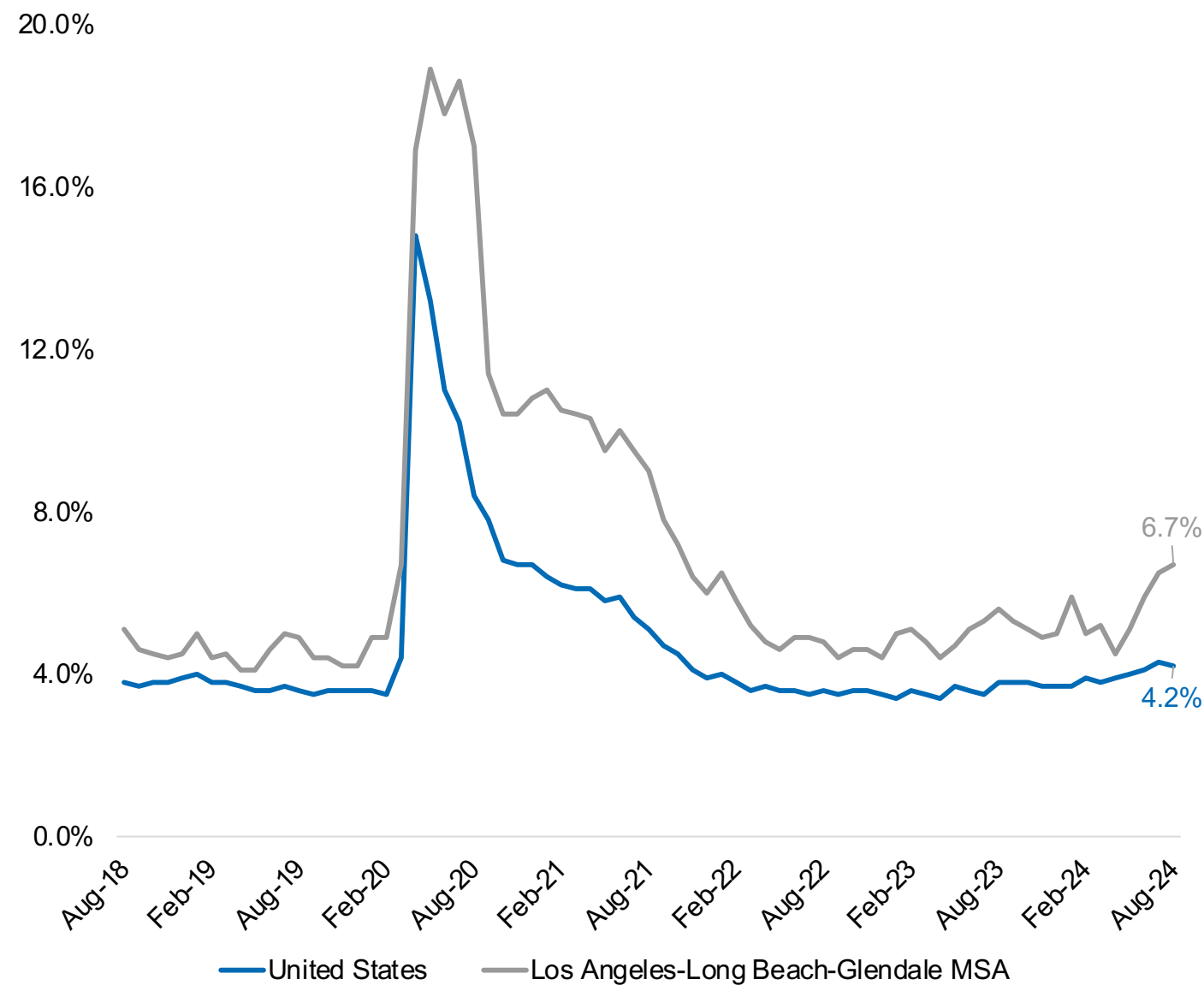
Economy



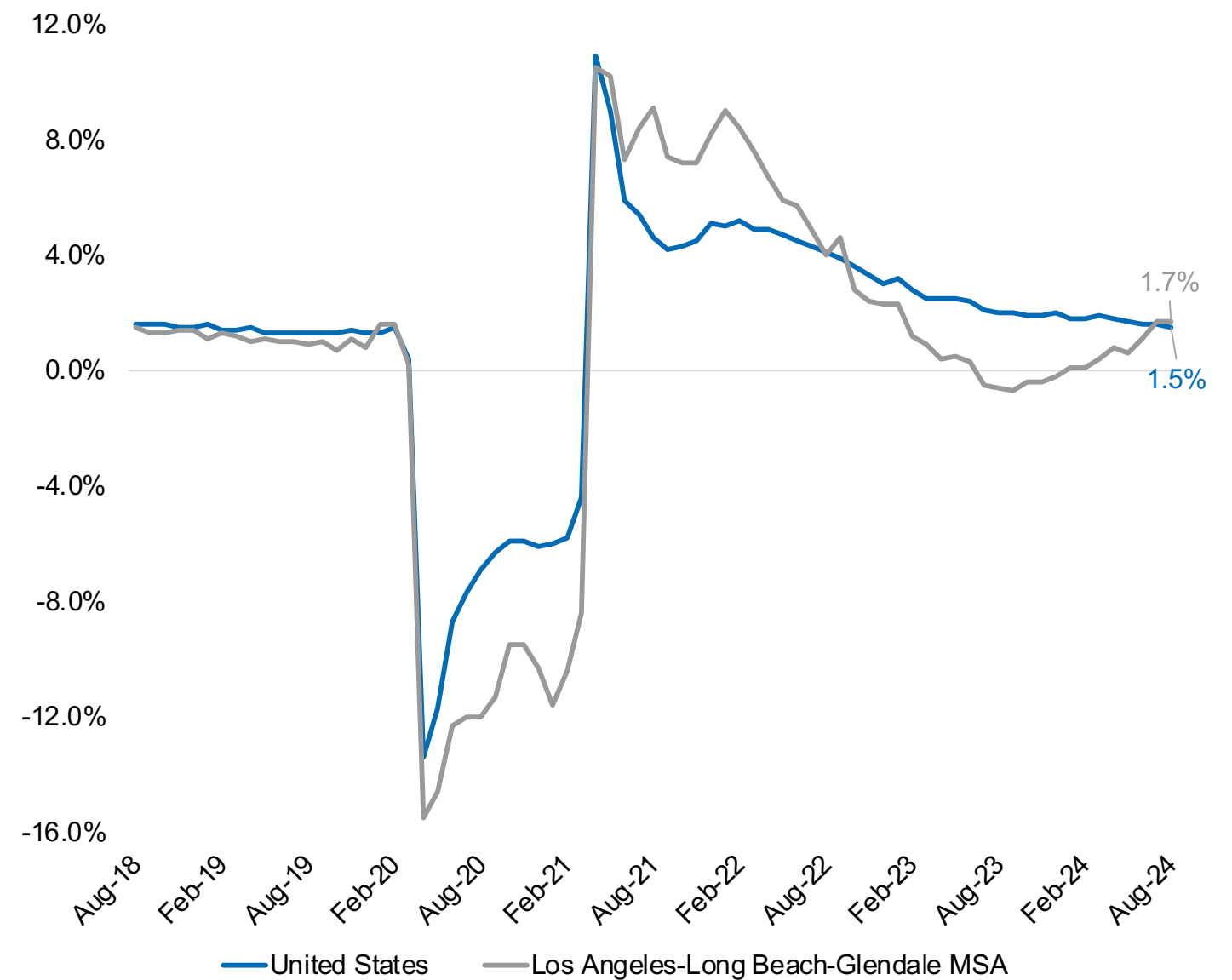
Unemployment Increases to Highest Point Since 2021

Local unemployment settled at 6.7% in August 2024, a 70 bps increase from a year prior. Local 12-month job growth picked up during the first nine months of 2024 following a six-month period in the second half of 2023. The Fed cut its benchmark interest rate by 50 bps on September 18, 2024, the first reduction in more than four years. This will lower the federal funds rate to a range between 4.75% and 5%, with plans for further cuts. A lower rate is intended to encourage demand and boost hiring.

Unemployment Rate, Seasonally Adjusted



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

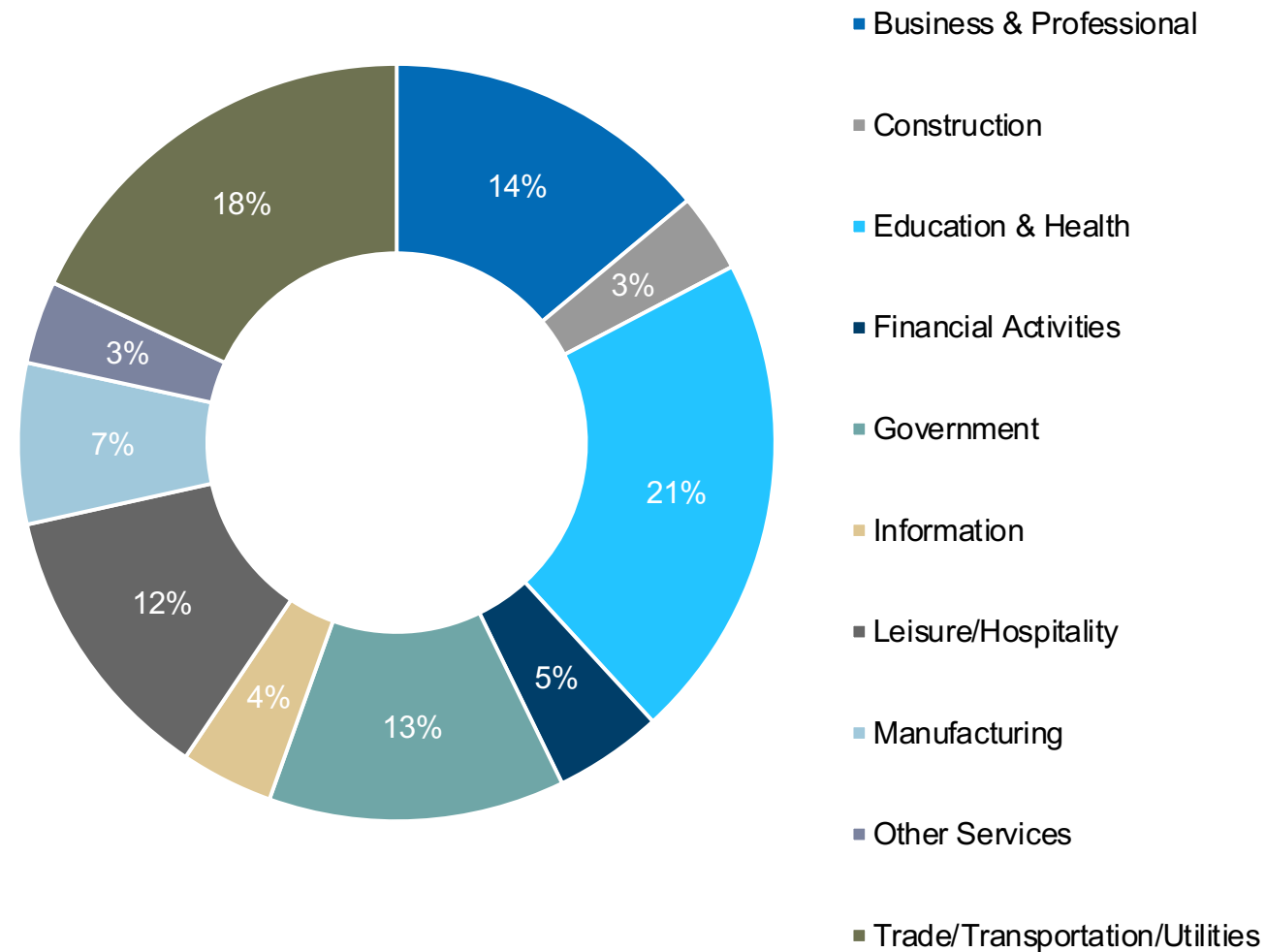


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

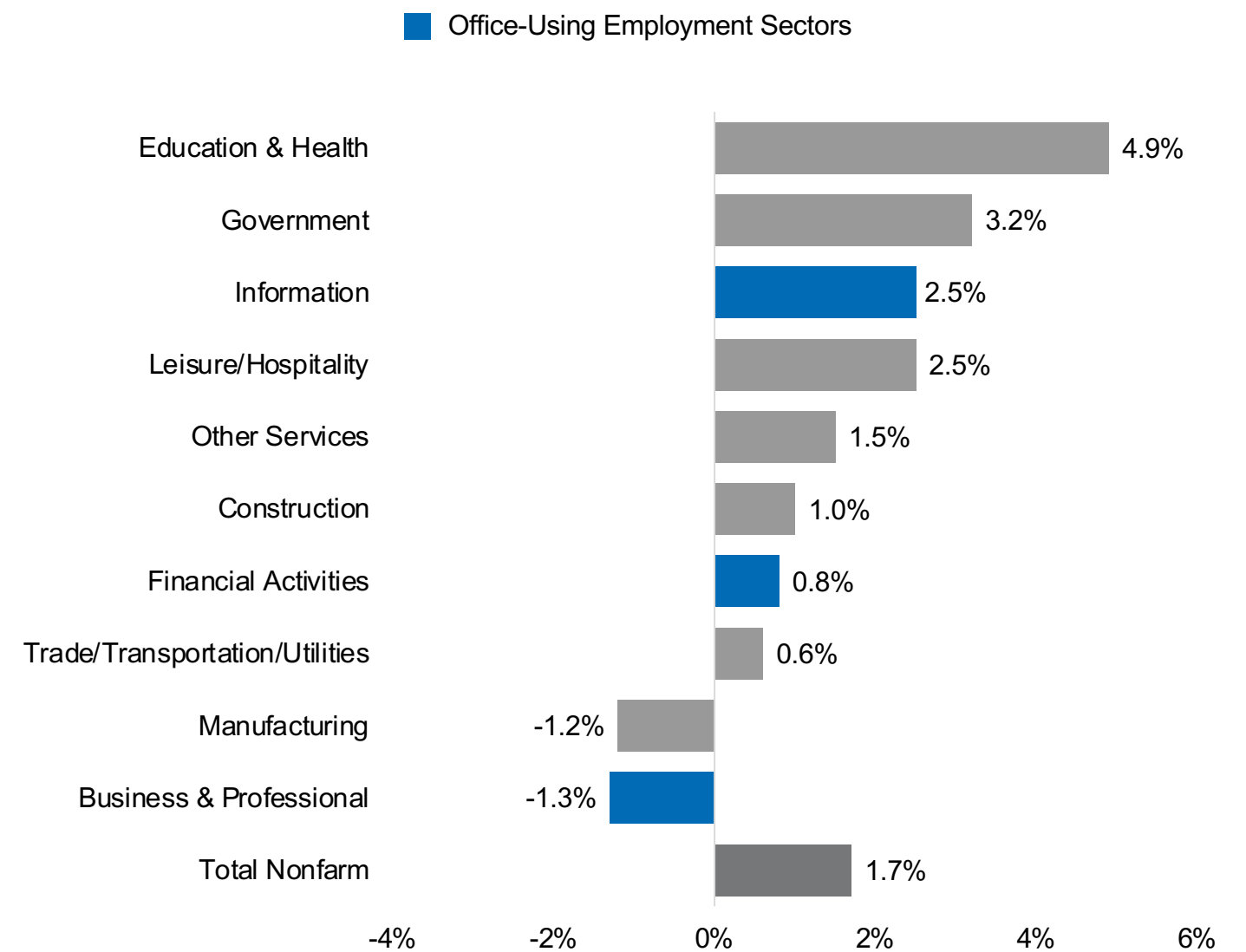
Information Sector Leads Office-Using Job Growth

Following reductions over the course of 2023, the information sector (where technology companies are generally grouped) led office-using employment in annual gains with a 2.5% gain. However, Information nonfarm employment currently totals 180,900 jobs, below the 12- and 24-month averages of 182,200 and 196,500, respectively.

Employment by Industry, August 2024



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

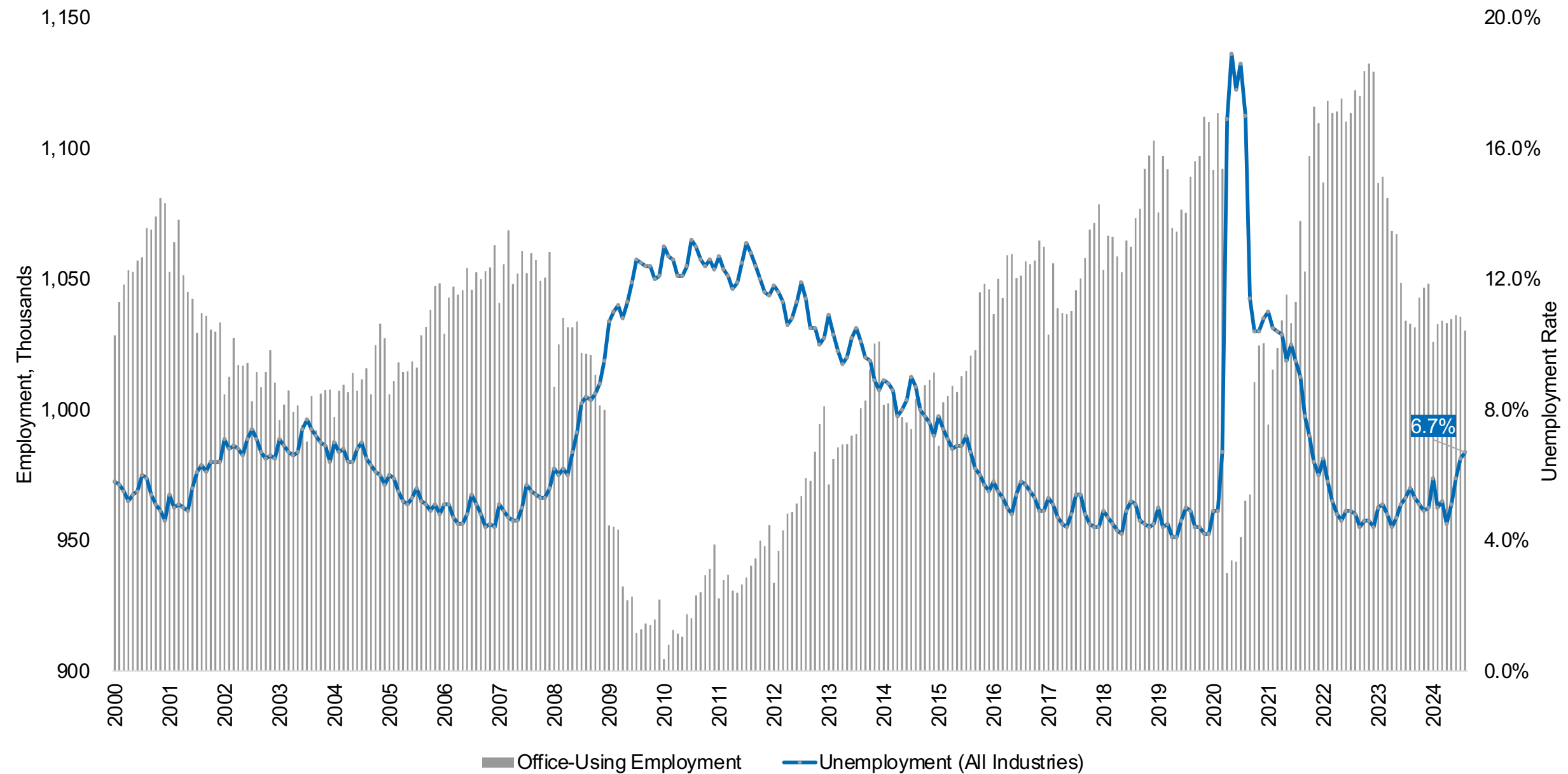


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

Overall Office-Using Employment Down Year-Over-Year

Local office-using employment in August was down by 2,600 jobs compared to the same month in 2023. Higher capital costs continue to weigh on most businesses and the region saw layoff announcements, notably from tech- and media-focused companies.

Office-Using Employment* and Unemployment Across All Industries



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

Note: August 2024 data is preliminary.

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

Return-to-Office Outlooks are Improving; Leasing Activity Stands to Benefit



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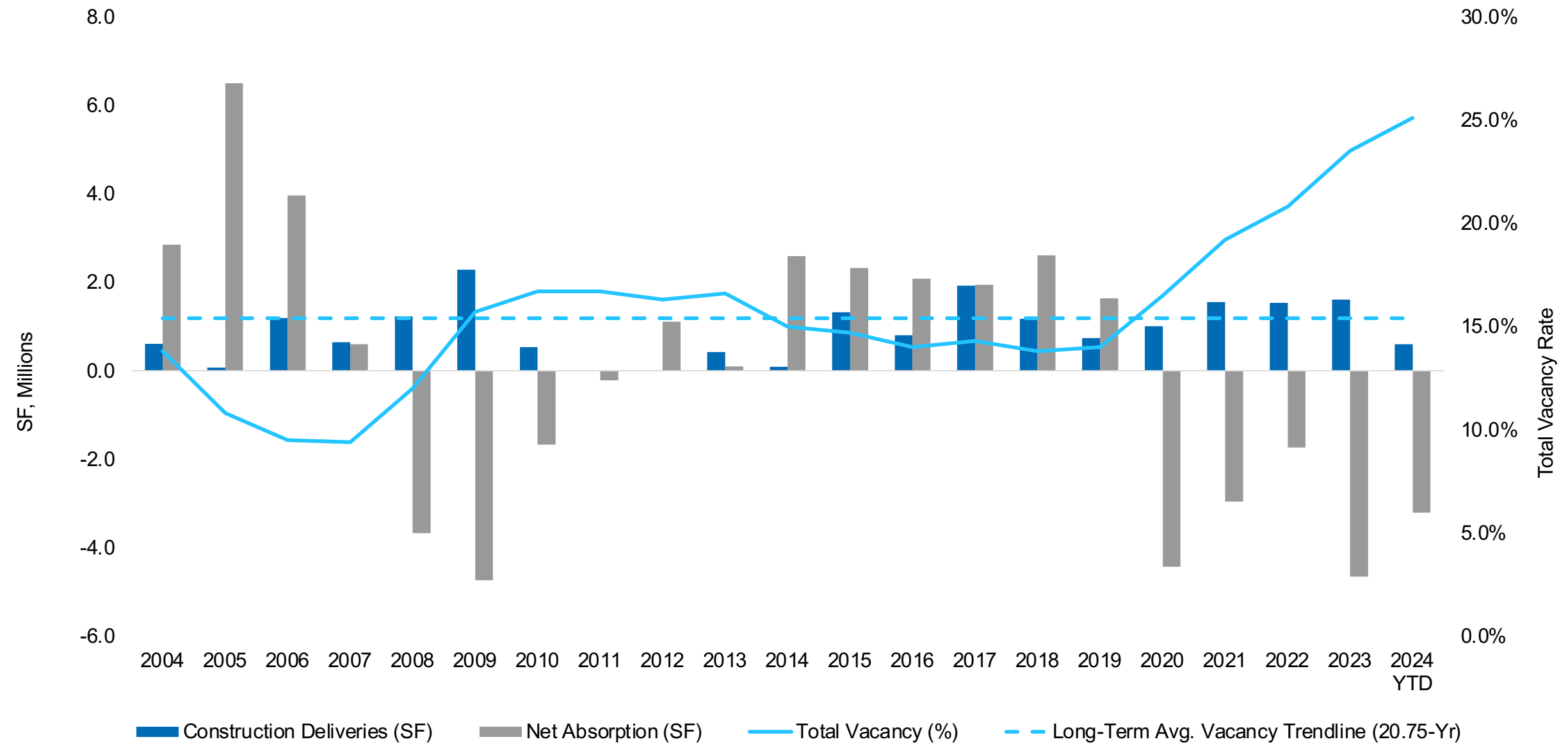
Leasing Market Fundamentals



Vacancy Hits New Peak

Total vacancy saw nominal gains and increased to a new high of 25.1%, a 30-bps increase over the course of the quarter. On a square footage basis, direct vacancy was up 765,114 SF while sublease vacancy saw a 25,465-SF increase over the same period. Net absorption was negative, a trend that will persist throughout 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

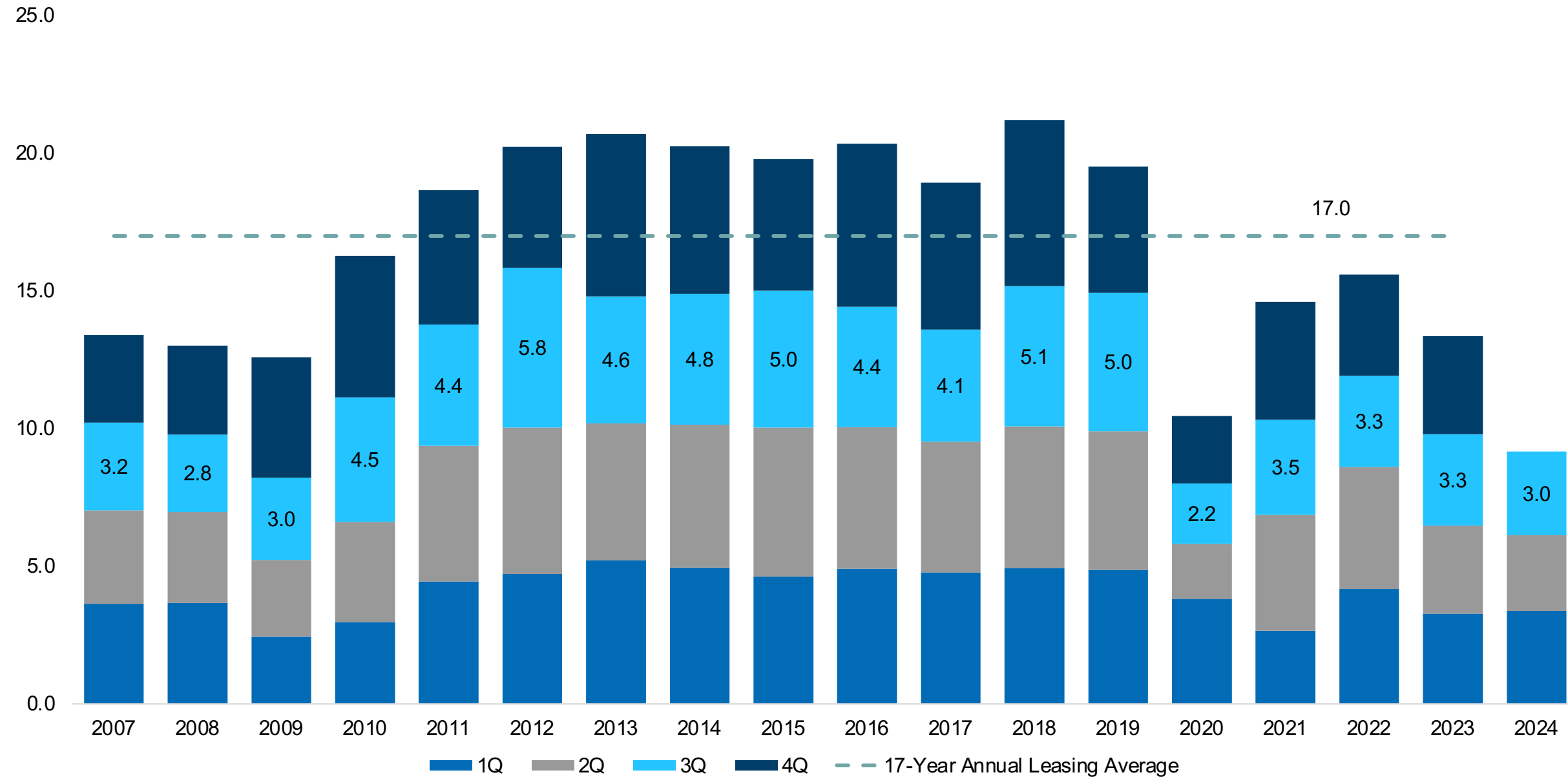


Source: Newmark Research

Leasing Activity Down Year Over Year

A sluggish economy, still-high interest rates and hybrid work models are constraining leasing momentum. Most corporate tenants continue to pursue well-capitalized, trophy-grade space as they scale down their footprints to reduce costs and maximize efficiencies. There might be sporadic jumps in future leasing activity as tenants with larger leases coming due execute (e.g., this quarter's Southern California Gas lease) and requirements become actual deals (e.g., The City of Los Angeles wants 350,000 SF in Downtown to consolidate).

Total Leasing Activity (MSF)

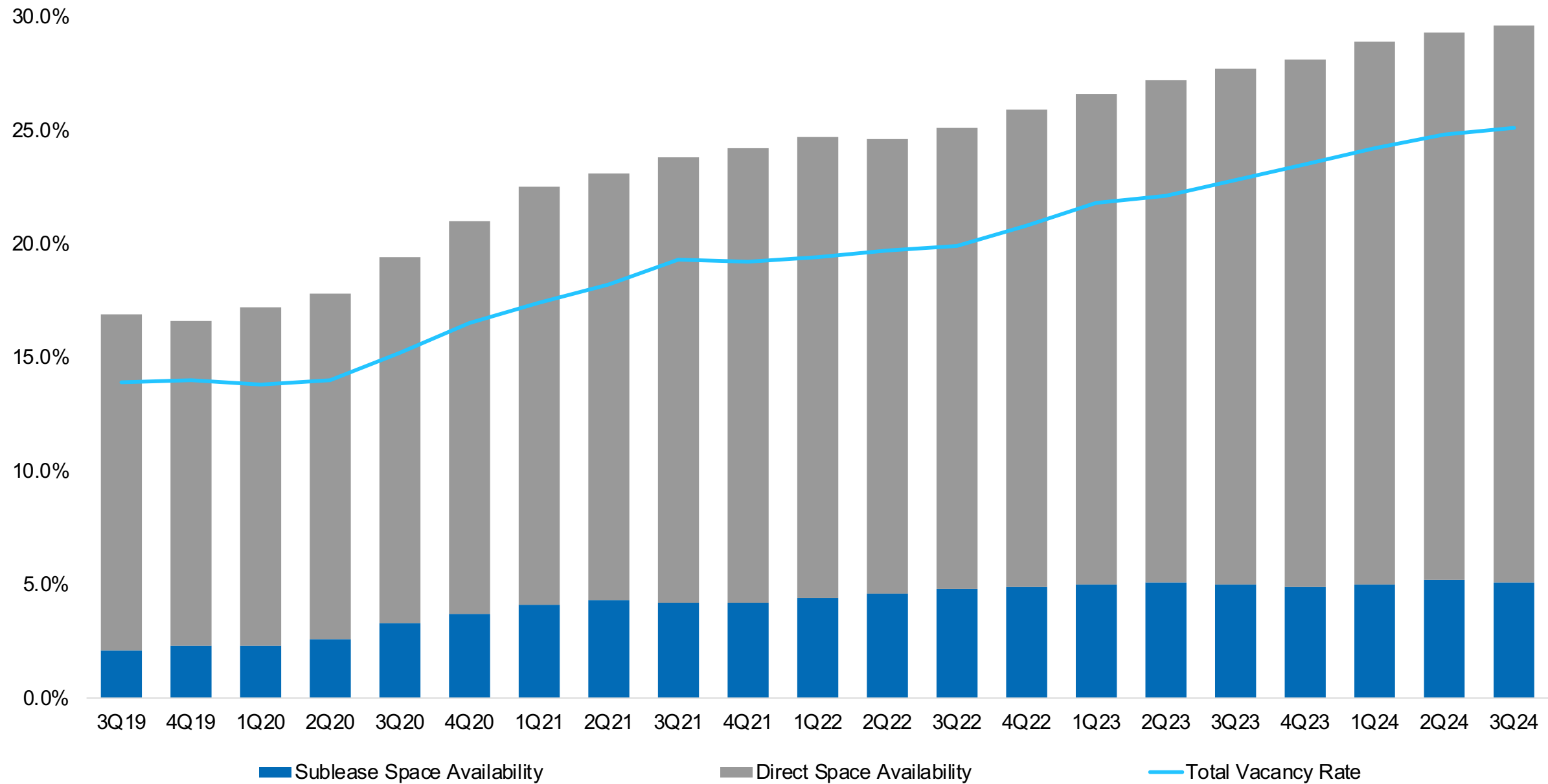


Source: Newmark Research, CoStar

Direct and Sublease Availability Continue to Rise in 2024

Total availability passed 64.7 MSF during the third quarter of 2024, a record high for the market. Direct availability drove the gains with over 850,000 SF over the last three months, while sublease availability saw a decline by over 155,945 SF over the same period as sublease availabilities are withdrawn and go direct. General economic conditions and telework, which are causing tenant downsizes and consolidations, are contributing to the overall gains.

Available Space and Tenant Demand as Percent of Overall Market

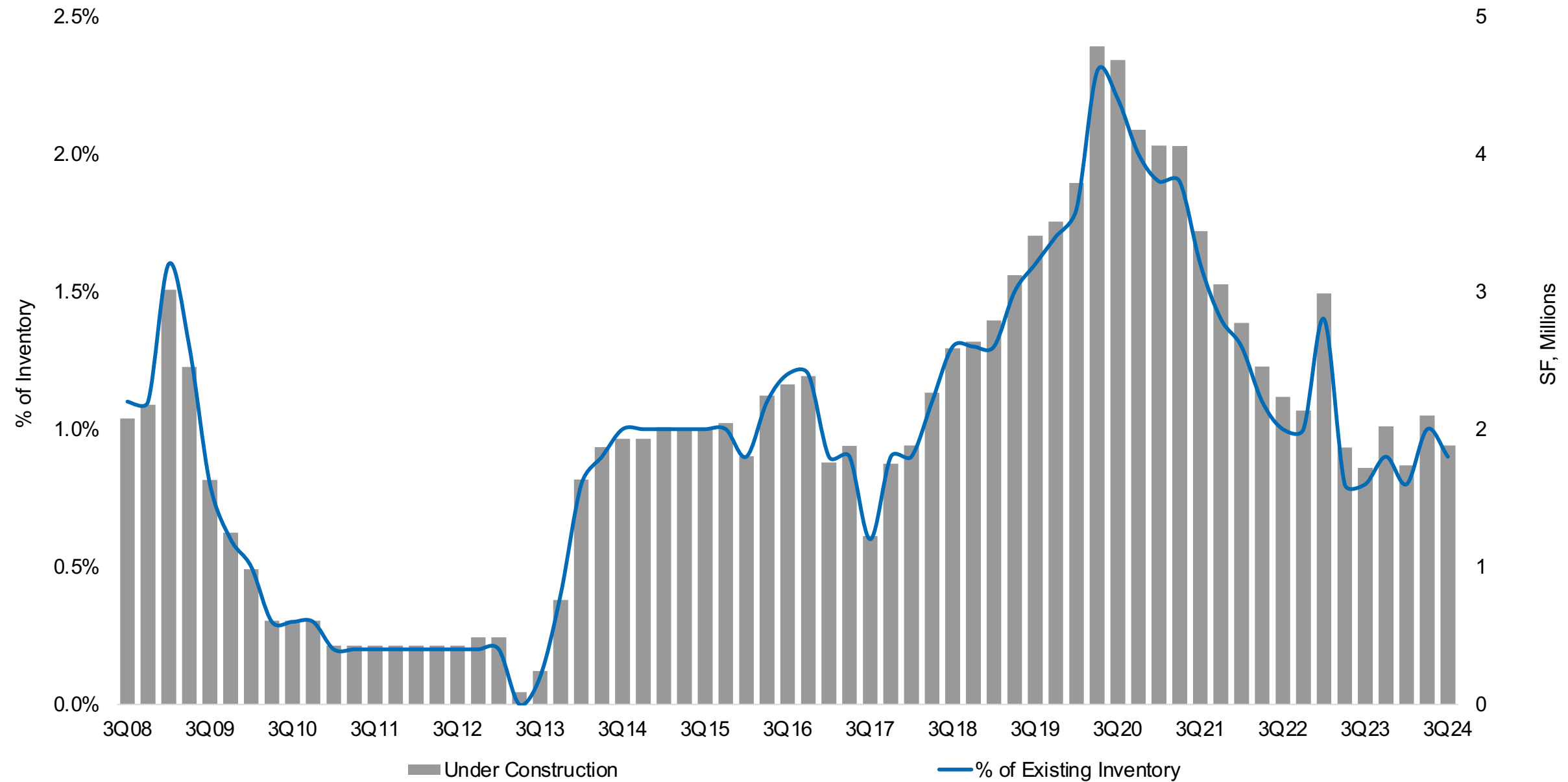


Source: Newmark Research

Construction Volume Remains Measured

Construction volume of 1.9 MSF remains well below the market's five-year average of 3.0 MSF. It decreased this quarter after the Chargers HQ & Training Facility (145,000 SF in El Segundo) and "Reframe" (145,676 SF at 4561 Colorado Blvd in Glendale) delivered.

Office Under Construction and % of Existing Inventory

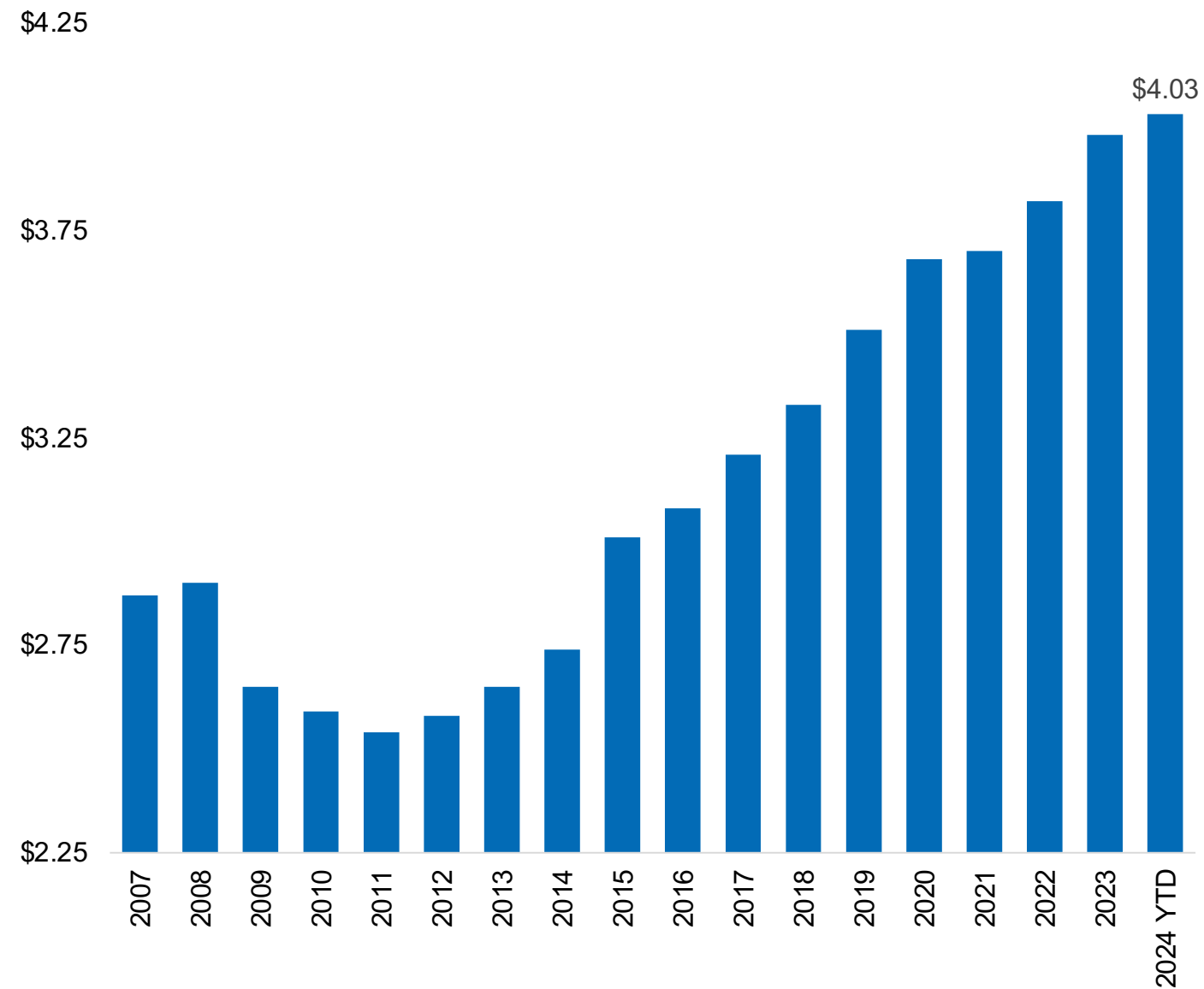


Source: Newmark Research

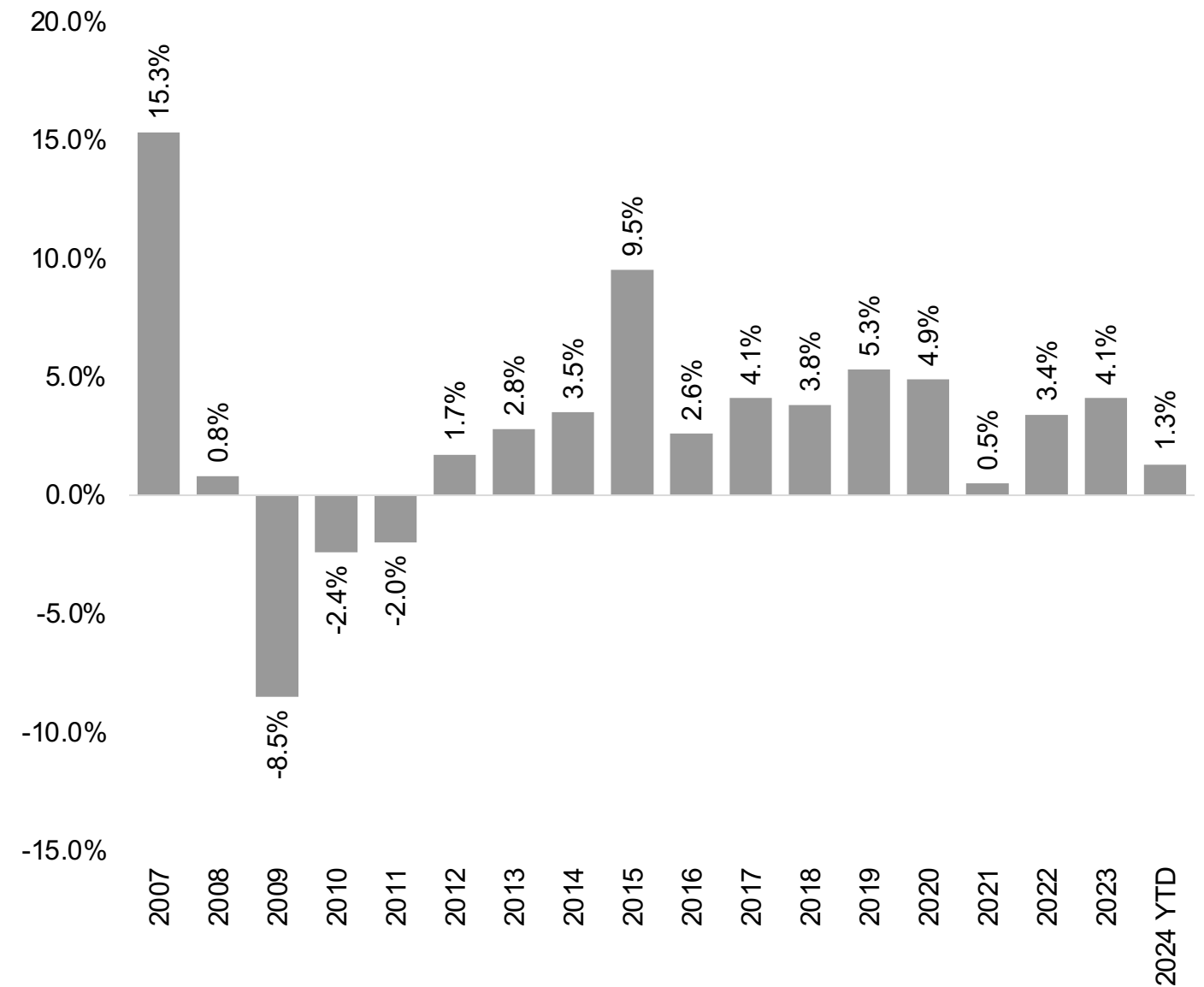
Asking Rents Stay Steady

Landlords remain reluctant to devalue their buildings and are maintaining asking rents. Though, rent growth from 2021-2023 has generally underperformed the rate of inflation.

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



Year-over-Year Asking Rent Growth Rate

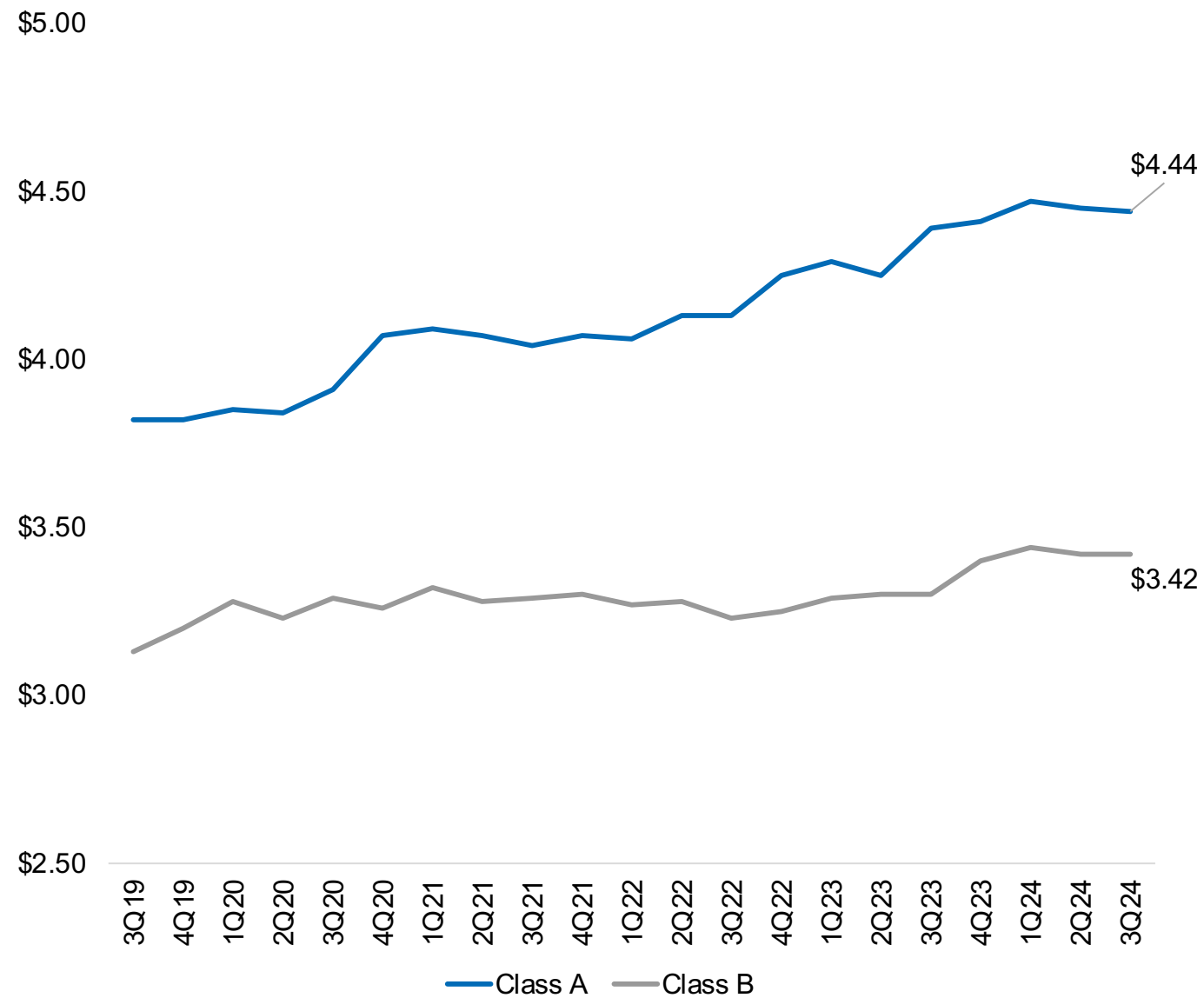


Source: Newmark Research

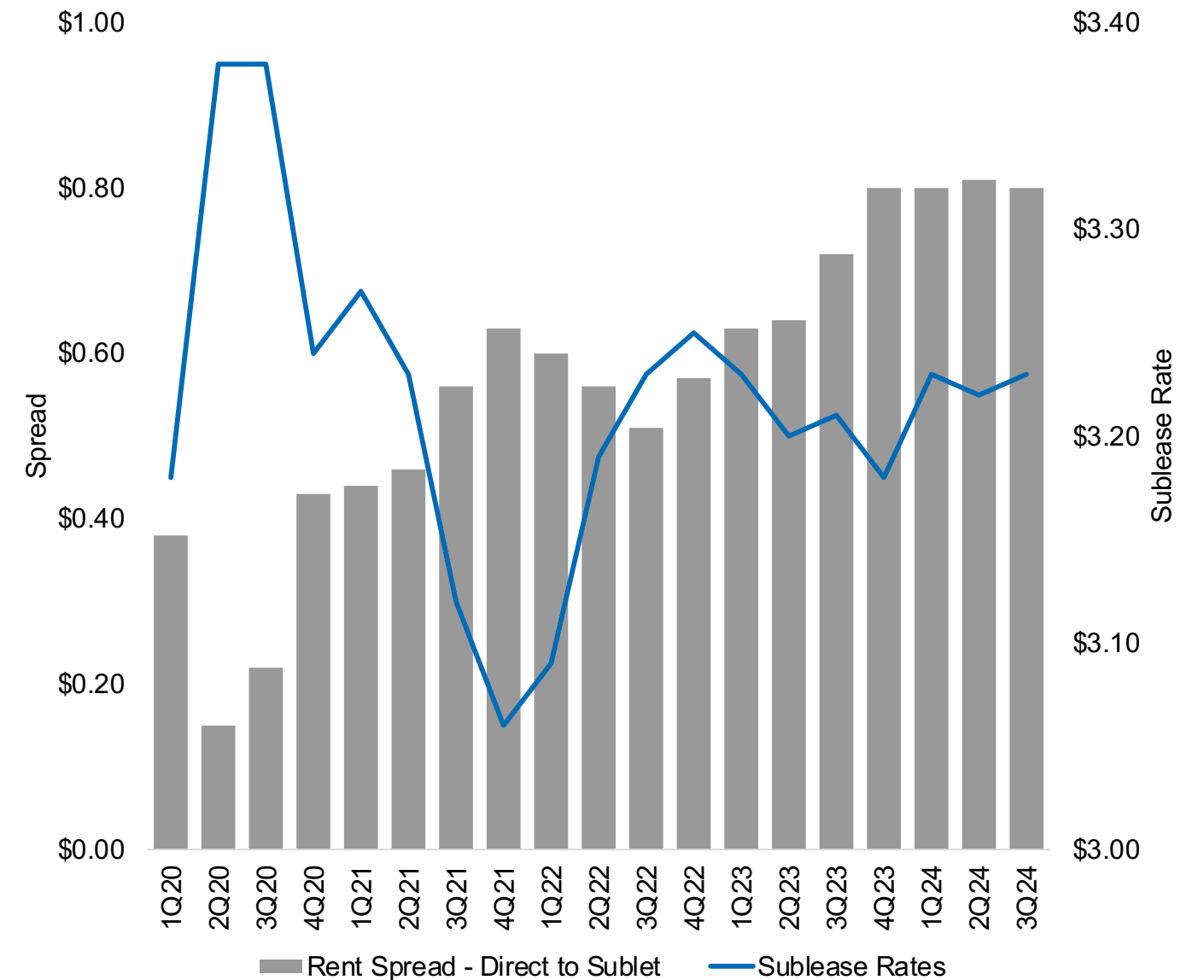
Class A and B Asking Rents Settle

Class A and B rental rates remained generally flat, with minimal changes during the third quarter. Sublease asking rents, meanwhile, remain elevated. This is from tech and entertainment 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

Available Sublease Space Drops This Quarter by 155,945 SF

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West Los Angeles Dominates Sublease Additions This Quarter



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Leasing Activity Diverse Among Industry and Location

Note the absence of tech and media companies in this quarter's top five leases.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Southern California Gas Co.	350 S Grand Ave	Downtown Los Angeles: CBD	Direct Lease	198,553
<i>SoCalGas is downsizing from approximately 360,000 SF at their namesake tower at 555 W 5th St in Downtown Los Angeles into 198,553 SF on 8 floors at 2Cal.</i>				
Herbalife	950 W 190 th St	South Bay: 190 th Street Corridor	Sale-leaseback	188,545
<i>Herbalife sold their Torrance office building to Rexford Industrial in a potential conversion play, signing a two-year deal with two six-month options to occupy.</i>				
City of Hope	4920 Rivergrade Rd	San Gabriel Valley: Eastern SGV	Lease Renewal	170,514
<i>The Los Angeles-based non-profit clinical research center renewed their lease for their entire 170,514-SF building at The Campus at San Gabriel Valley.</i>				
JP Morgan	2029 Century Park E	West Los Angeles: Century City	Renewal/Expansion	162,713
<i>The financial company signed a 120-month renewal and approximately 60,000-SF expansion at Century Plaza Towers North and will occupy floors 34 and 37 through 41.</i>				
Westside Regional Center	777 S Aviation Blvd	South Bay: El Segundo/Beach Cities	Direct Lease	79,000
<i>The social services organization will be relocating from Culver City to 79,000 SF at 777 Aviation in the City of El Segundo.</i>				

Source: Newmark Research

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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 Remains Tepid



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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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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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Job Postings for Software Developers are Below 2019 Levels



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Sales Activity and Distress



Office Comprised 16.9% of Preliminary Sales Volume in The First Nine Months of 2024



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Office Sales Volume: Up Close



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Private, Opportunistic Buyers Remain Active



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Pricing Down and Cap Rates Up Compared to 2022



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47% 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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Implications of User and Developer Purchases



Office Availability Nears 30%, While Utilization Remains in the Sub-50% Range



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For-Lease Office Inventory is Decreasing as User and Developer Purchases Increase



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Now vs. Then Sale Price Differentials Can be Quite Staggering



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Earthquakes and Consolidation: Speculation Behind the Pending Gas Company Tower Sale



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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 | 3Q24



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High-Level Stats and Sublease Figures, By Submarket | 3Q24



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