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NEWMARK

Los Angeles Office Market Overview

Market Observations

Economy

- Local unemployment across all industries was 5.8% in November 2024, up 90 bps from 12 months ago. Office-using employment was up by 2,300 jobs, with the information sector (where tech companies are generally grouped) leading the gains.
- The Fed cut interest rates by 25 basis points this quarter, bringing the benchmark short-term rate to a range of 4.25%-4.5%, a full percentage point below the four-decade high reached in July 2023. After three rate cuts in 2024, the Fed signaled a slowdown in reductions in 2025 as inflation lingers.
- Corporate profits are up, and capital costs are progressively coming down with interest rate reductions. This could lead to more white-collar job gains (and subsequent office leasing activity), assuming the U.S. economy remains on stable ground in 2025.

Leasing Market Fundamentals

- Total vacancy (25.1%) and availability (29.0%) dropped slightly this quarter by 10 and 60 bps, respectively.
- Vacancy in trophy buildings is much lower than Class A, while trophy rents command a rent premium. Trophy product generally appeals to companies due to its prime location, luxurious amenities, high-end design, and prestige factor, essentially acting as a statement of a company's success and image. The latter is important to lure workers back to the office.
- Leasing activity was moderate in 2024 but remained subdued compared to pre-pandemic years as hybrid work conditions and higher business operating costs weigh on office tenants. Most leases are expiration driven with tenants, on average, cutting their footprints by 15-20% when their leases come due.

Major Transactions

- Los Angeles County finally closed on the Gas Company Tower in Downtown Los Angeles (555 W 5th St), purchasing the 1.5-MSF office tower for $200 million, well below the reported $632 million valuation in 2020. The county will consolidate from several nearby office locations, many of which are not up to seismic code.
- The Los Angeles Olympics Committee leased 160,000 SF at 1150 S Olive St in Downtown Los Angeles. The tenant will occupy the space through the 2028 Summer Games and replace USC’s building signage.
- The Toy Association, a trade group representing the U.S. toy industry, leased 95,704 SF at 101 Continental Blvd in El Segundo for 132 months. Newmark represented the tenant, which will relocate from temporary space at the Kilroy Airport Center. The deal follows expansions from Mattel in El Segundo throughout 2024.

Outlook

- Leasing activity will accelerate if more companies mandate a full return to the office, and, after years of reducing footprints, some realize they now have a space deficit.
- Leasing will also see gains when businesses eventually expand and office-using employment increases; this is contingent on a stable U.S. economy, decreasing capital costs and healthy and consistent corporate profits.
- Tech and media leasing will likely remain sleepy in 2025. Tech firms are being more conservative with space needs, while media requirements are declining following consolidations amidst M&A activity.
- Sales activity will increase as more private investors and owner/users take advantage of discounted pricing and lower interest rates. Quality assets in desirable market areas (e.g., Silicon Beach) will be sought after.

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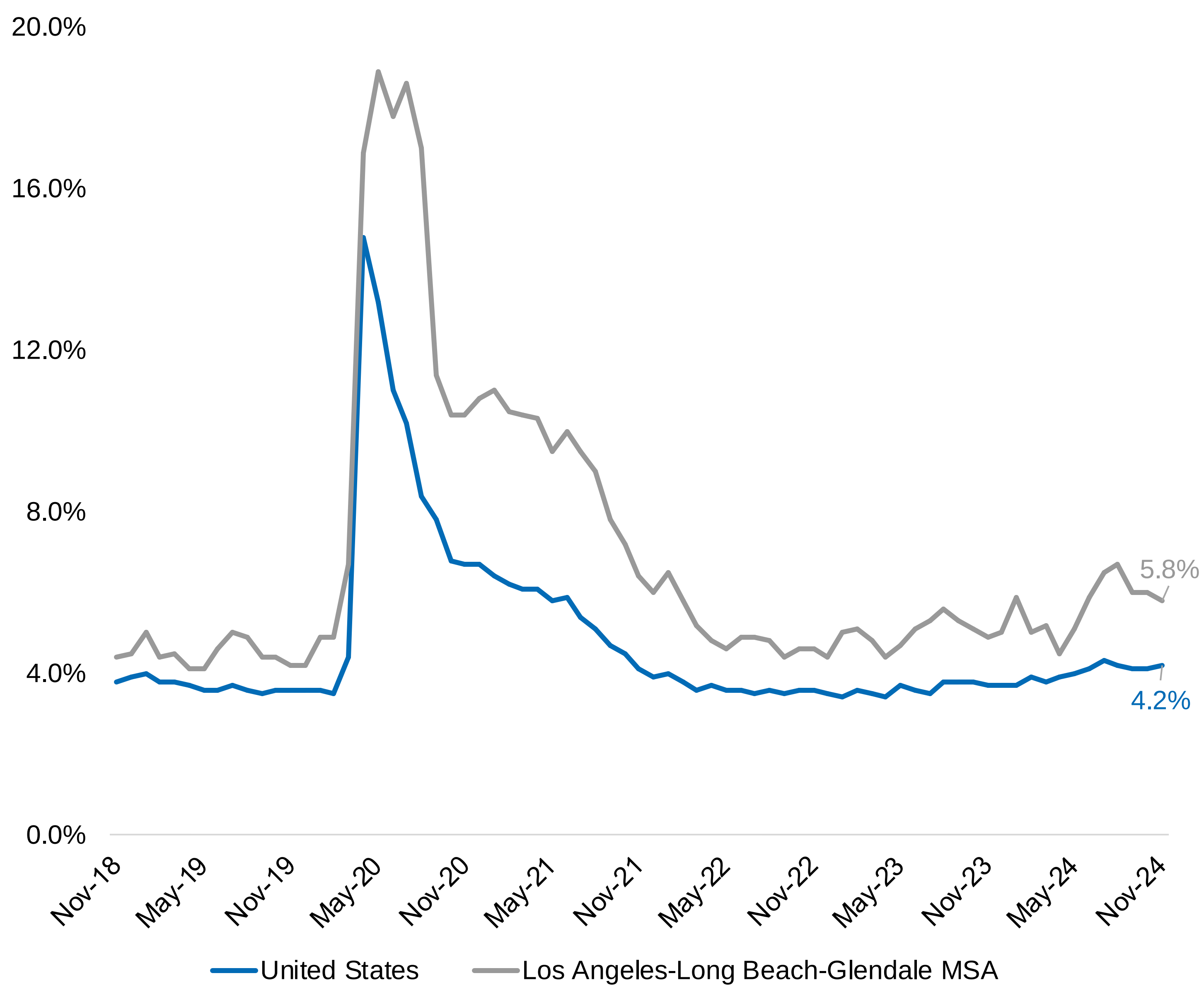
Economy

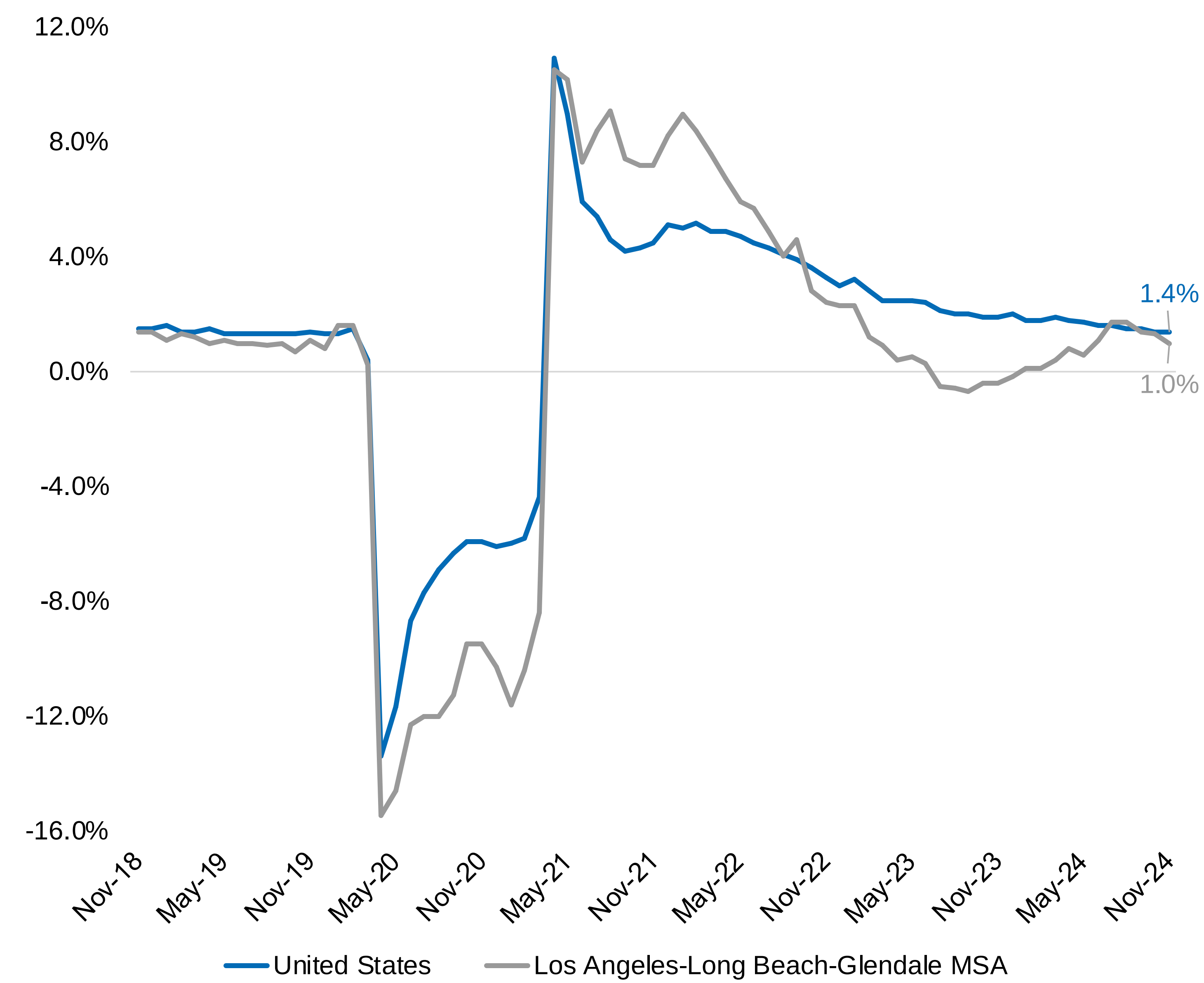
Job Growth Continued Through 2024

Local unemployment settled at 5.8% in November 2024, a 90 bps increase from a year prior. While local 12-month job growth has slowed in the last few months, it has remained positive through 2024 following a six-month period of decline in the second half of 2023. The Fed cut interest rates by 25 basis points this quarter to 4.25%-4.5%, a full percentage point below the four-decade high reached in July 2023. Lower interest rates generally make borrowing cheaper for businesses, which can encourage them to expand operations, invest in new projects and potentially hire more workers.

Unemployment Rate, Seasonally Adjusted



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

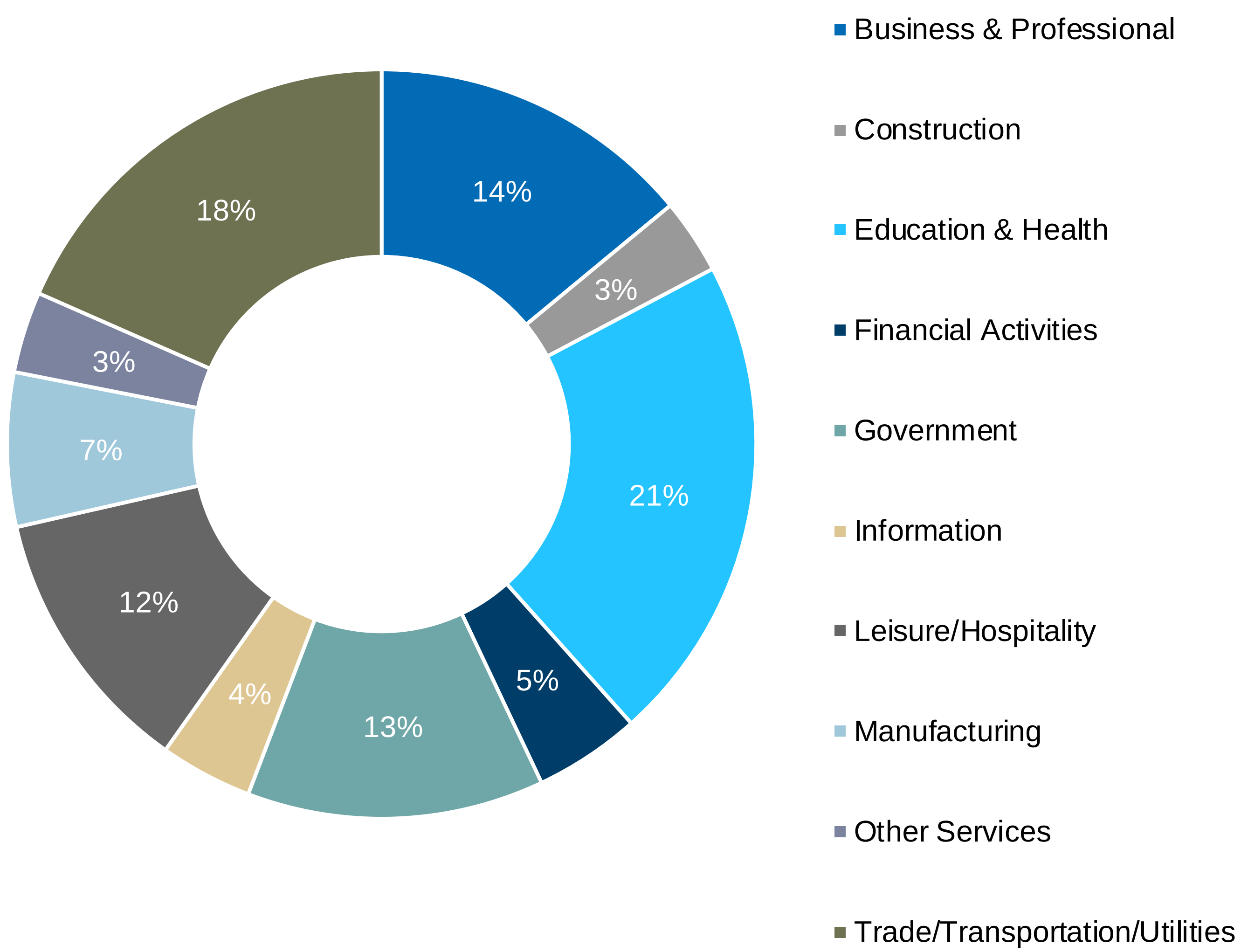


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

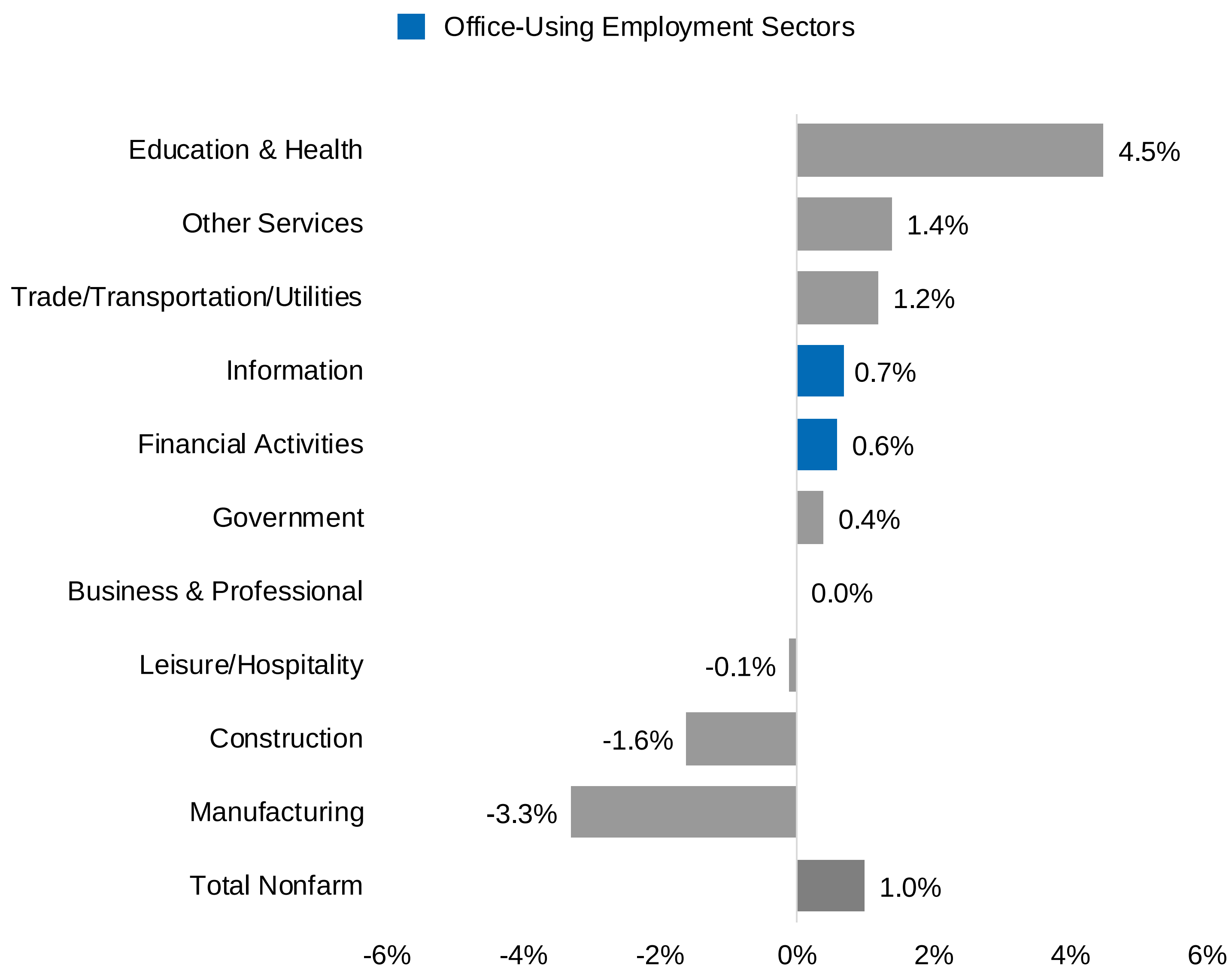
Information Sector Leads Office-Using Job Growth

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 0.7% increase. Information employment currently totals 185,200 jobs, below the 24-month average of 190,200, but above the 12-month average of 183,500.

Employment by Industry, November 2024



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

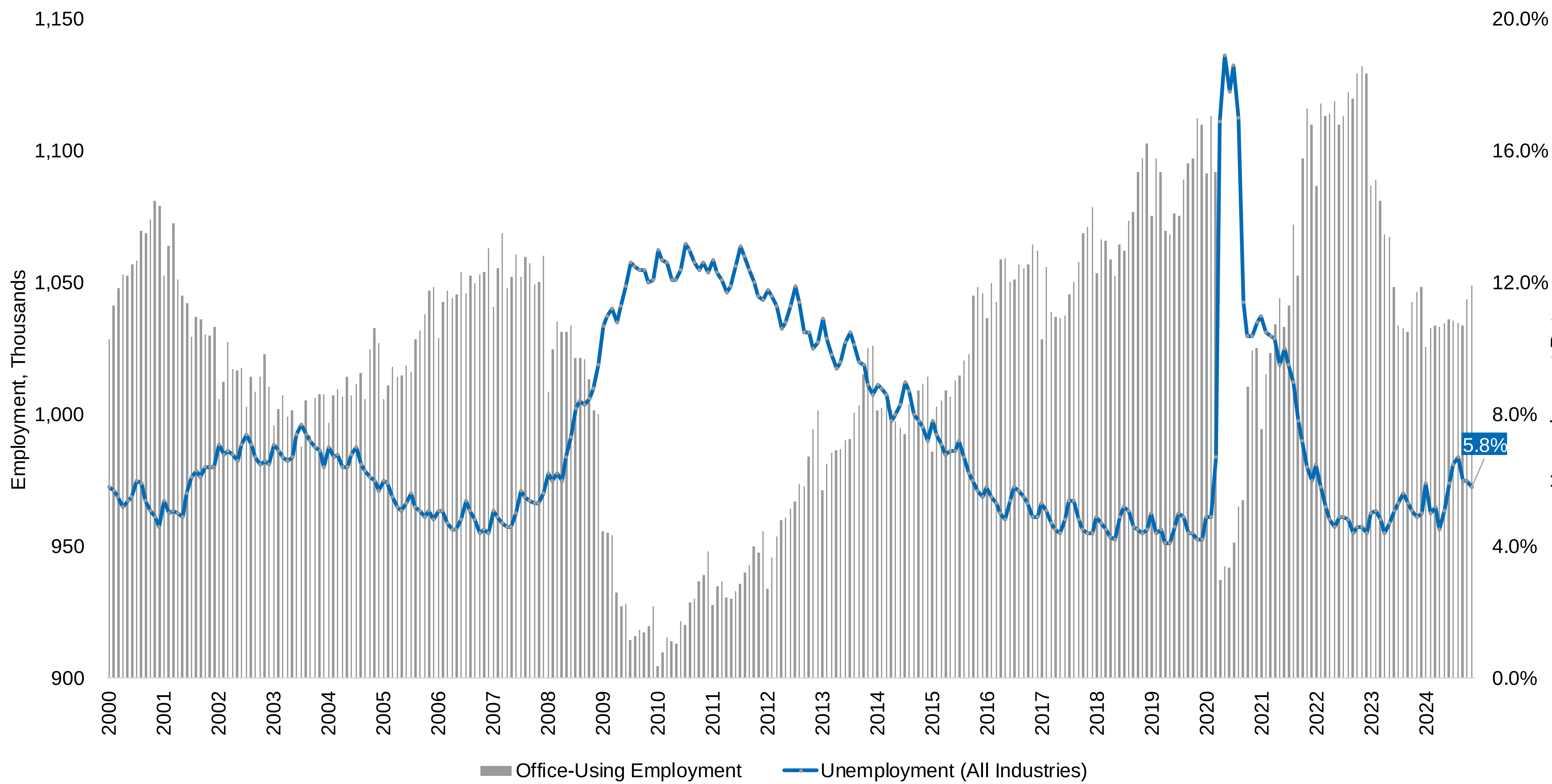


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

Overall Office-Using Employment Up Year-Over-Year

Local office-using employment in November was up by 2,300 jobs compared to the same month in 2023. Interest rate reductions, rising corporate profits and capital costs coming down could lead to more office-using job gains if the economy remains on course.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale, CA
Note: November 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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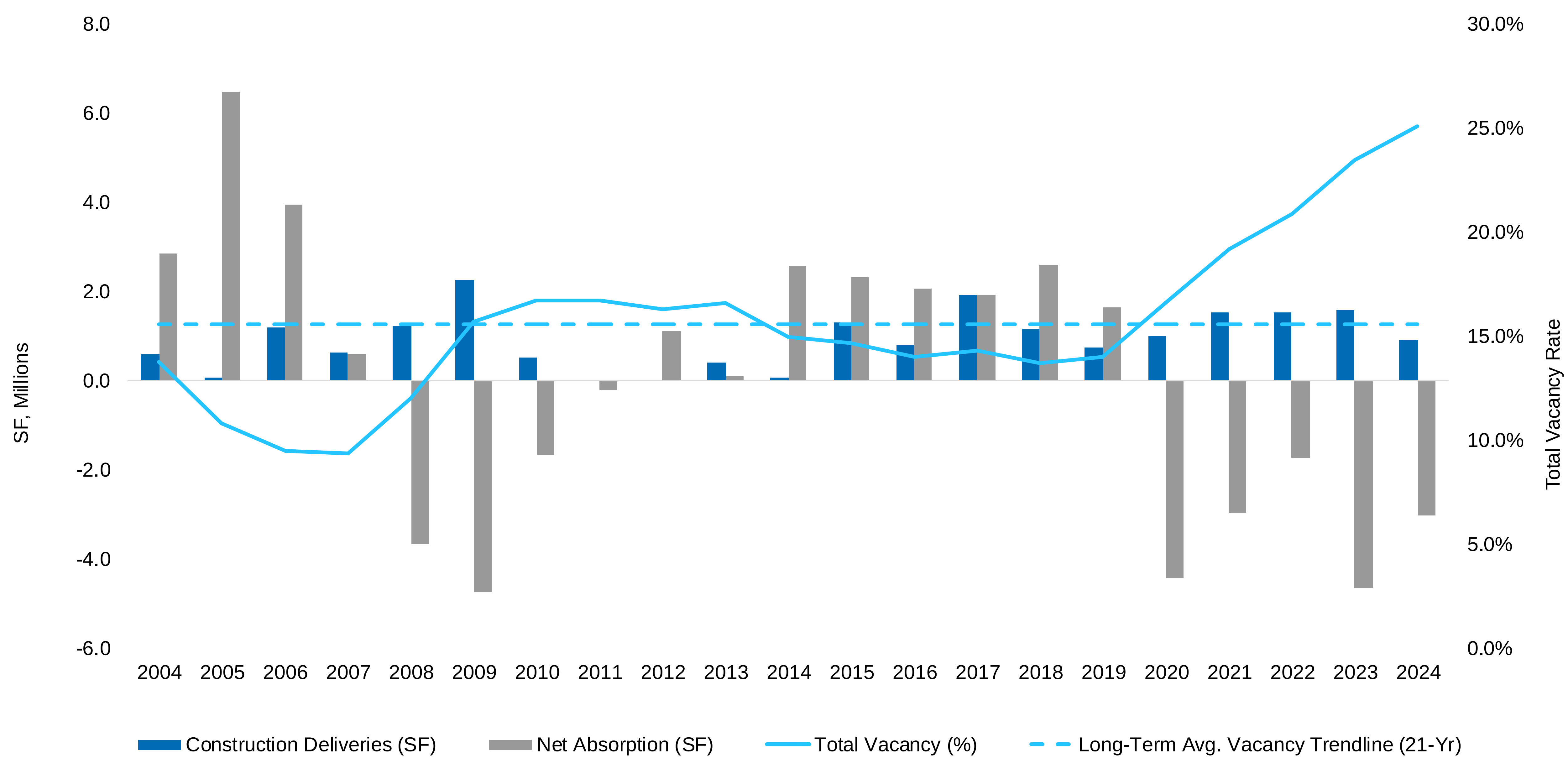
Leasing Market Fundamentals

Vacancy Still High But Improves in Fourth Quarter

After eleven quarters of increases, total vacancy saw a slight decline over the last three months to end the year at 25.1%. On a square footage basis, direct vacancy was down 243,016 SF while sublease vacancy saw a 61,181-SF increase over the same period. Net absorption was positive in the fourth quarter, but the total for 2024 remained in the red.

Historical Construction Deliveries, Net Absorption, and Vacancy

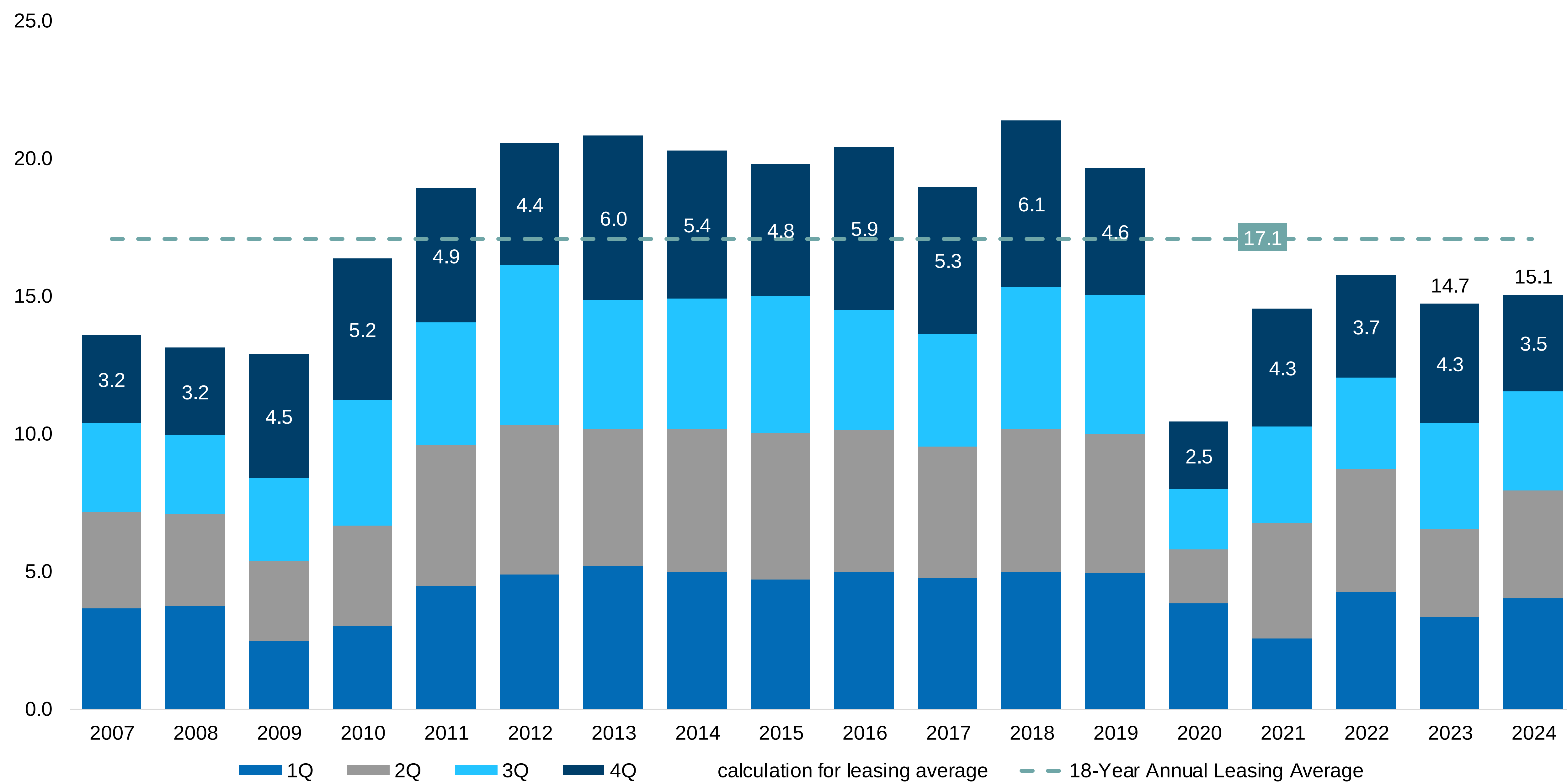


Source: Newmark Research

Leasing Activity Slightly Higher than 2023, But Still Below Pre-Pandemic Totals

A sluggish economy, still-high interest rates and hybrid work models are constraining leasing momentum. Two things need to happen for leasing activity to reach 2011-2019 levels: 1) More companies mandate full returns to the office and/or 2) Office-using employment increases, whether from business expansions or the emergence of a new industry that aggressively drives occupancy growth.

Total Leasing Activity (MSF)

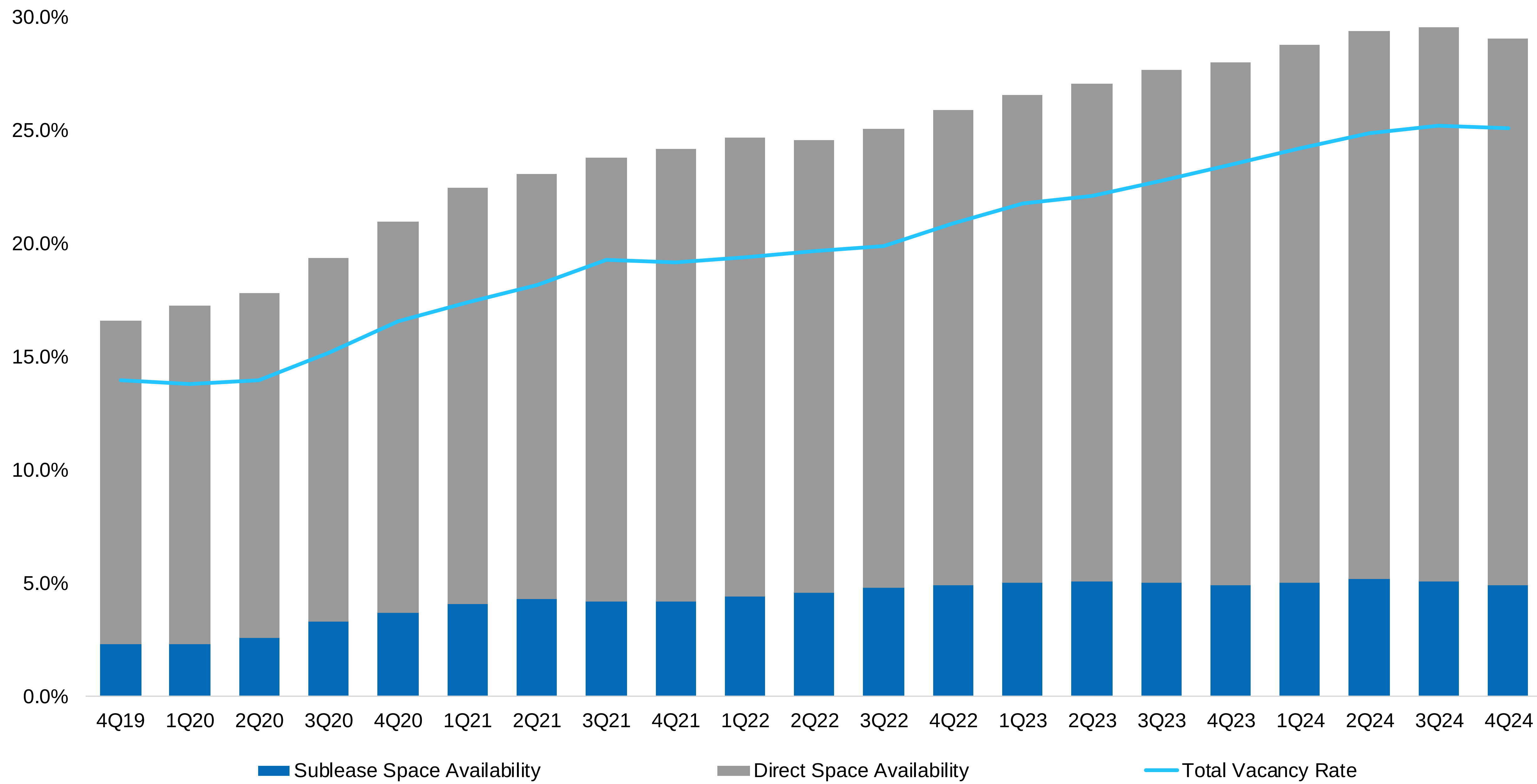


Source: Newmark Research, CoStar

Direct and Sublease Availability Fall in Fourth Quarter

After over two years of quarterly increases, total availability decreased over the course of the fourth quarter by 60 basis points to 29.0%. Direct availability declined by 723,803 SF while sublease availability fell by 511,602 SF. General economic conditions and telework, which are causing tenant downsizes and consolidations, will limit recovery.

Available Space and Tenant Demand as Percent of Overall Market

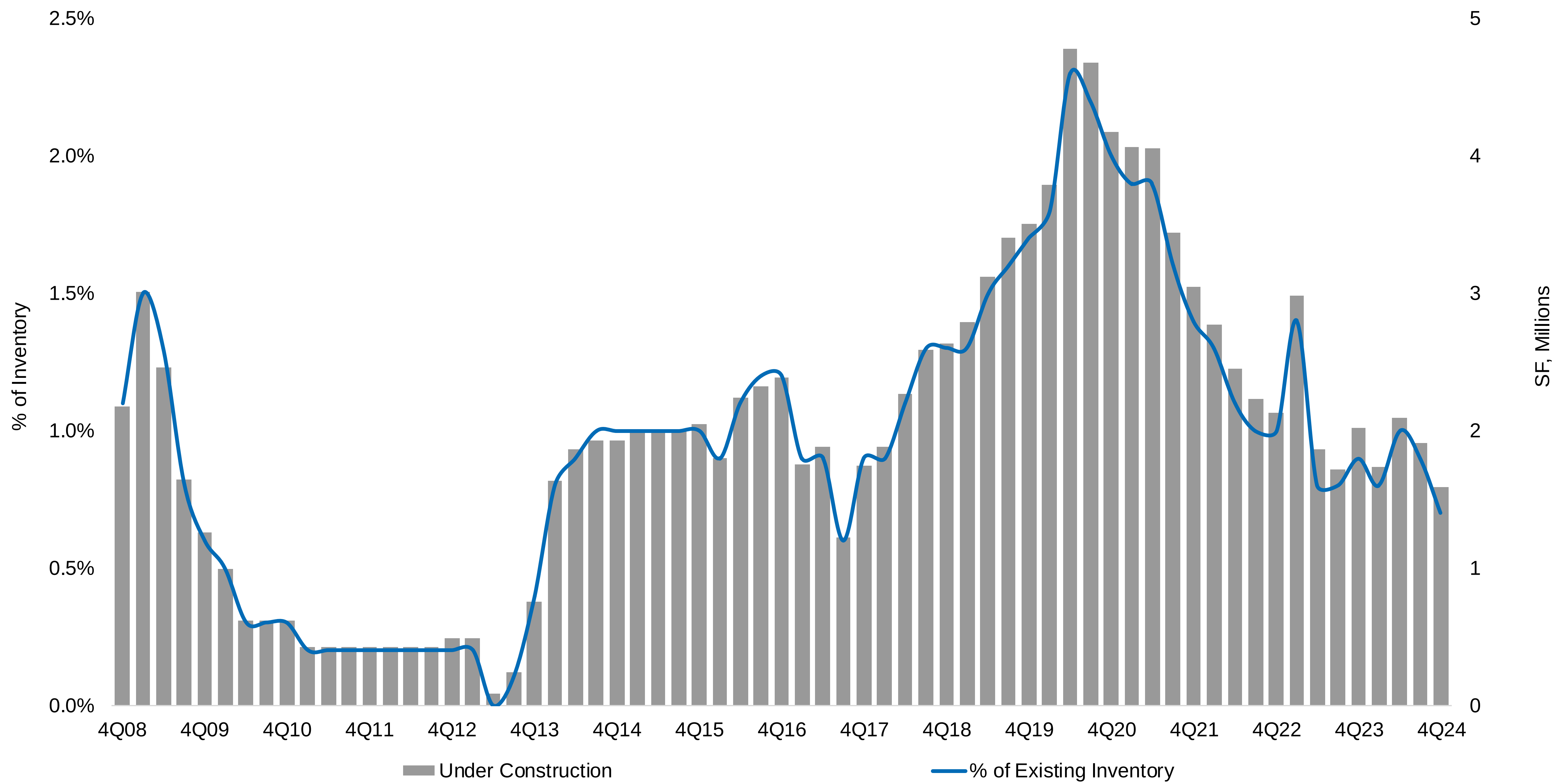


Source: Newmark Research

Construction Volume at Lowest Point Since 2017

Construction volume continued to decrease after completions in the fourth quarter that included 42XX (151,067 SF across three buildings at 4504 Glencoe Ave in Marina del Rey), Forge at Alloy (127,456 SF at 530 Mateo St in the Arts District of Downtown Los Angeles) and 1640-1644 14th St in Santa Monica (39,629 SF).

Office Under Construction and % of Existing Inventory

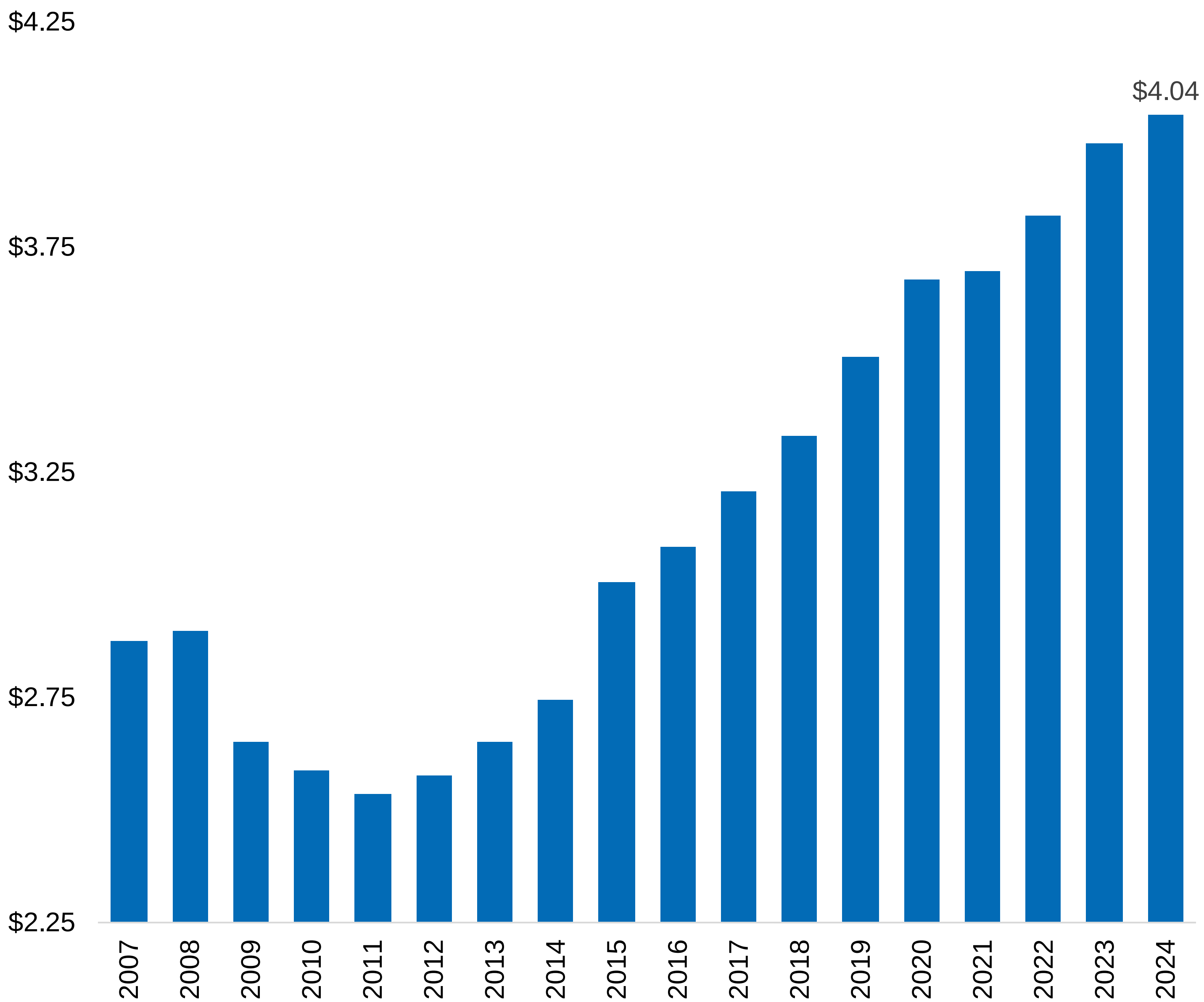


Source: Newmark Research

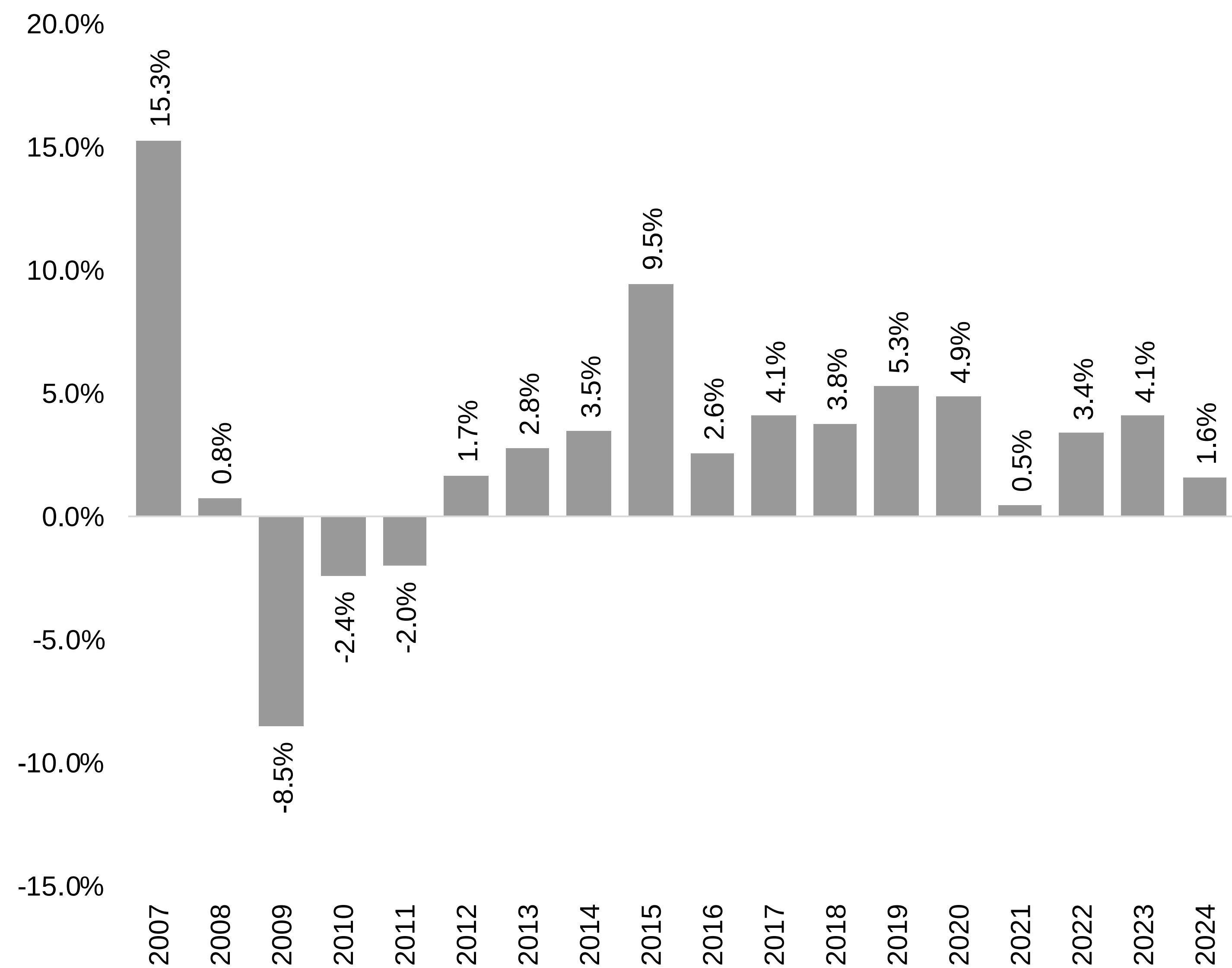
Asking Rents Still Rising

Landlords remain reluctant to devalue their buildings and are maintaining asking rents. Though, rent growth from 2021-2024 has generally underperformed the rate of inflation.

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



Year-over-Year Asking Rent Growth Rate

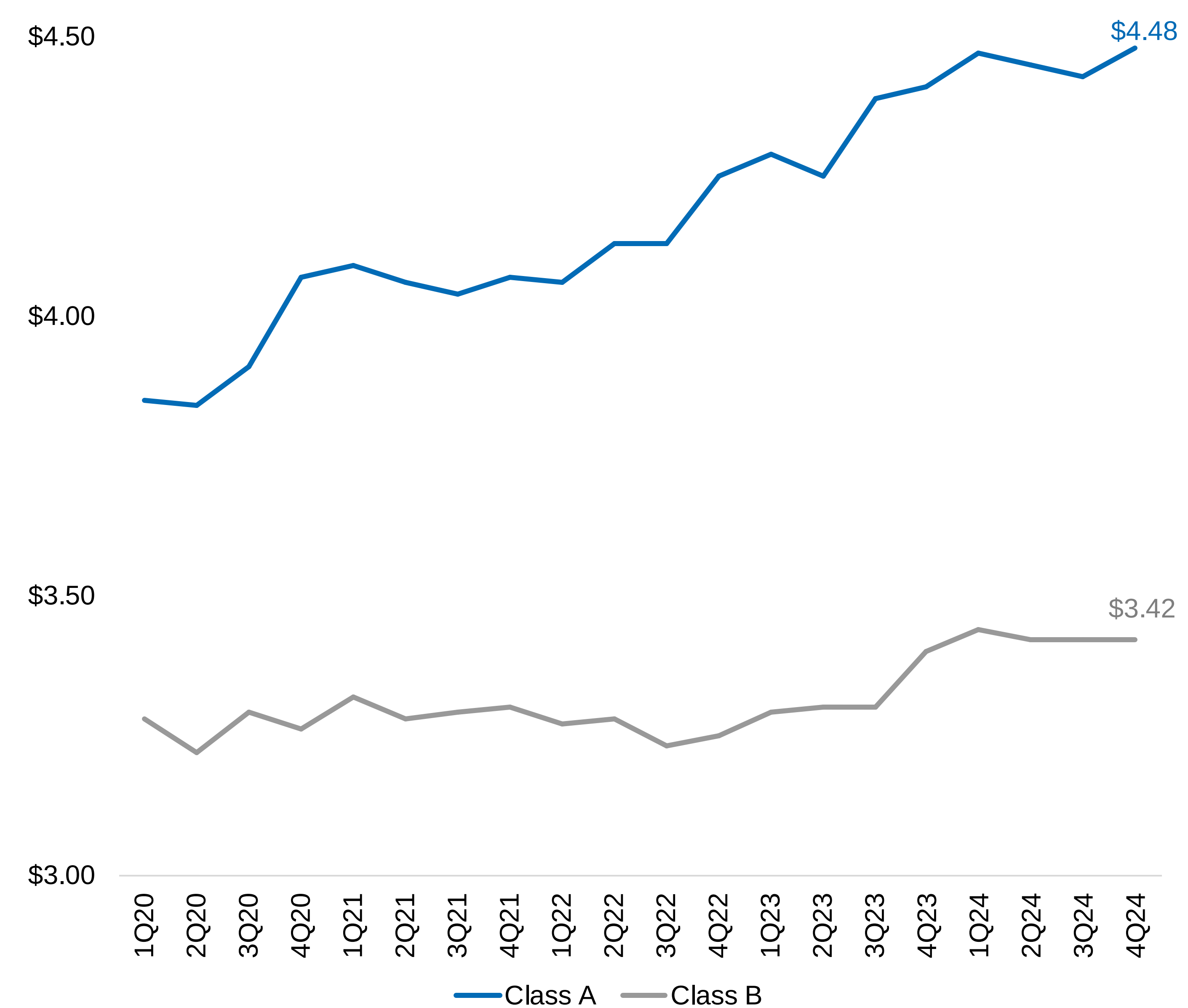


Source: Newmark Research

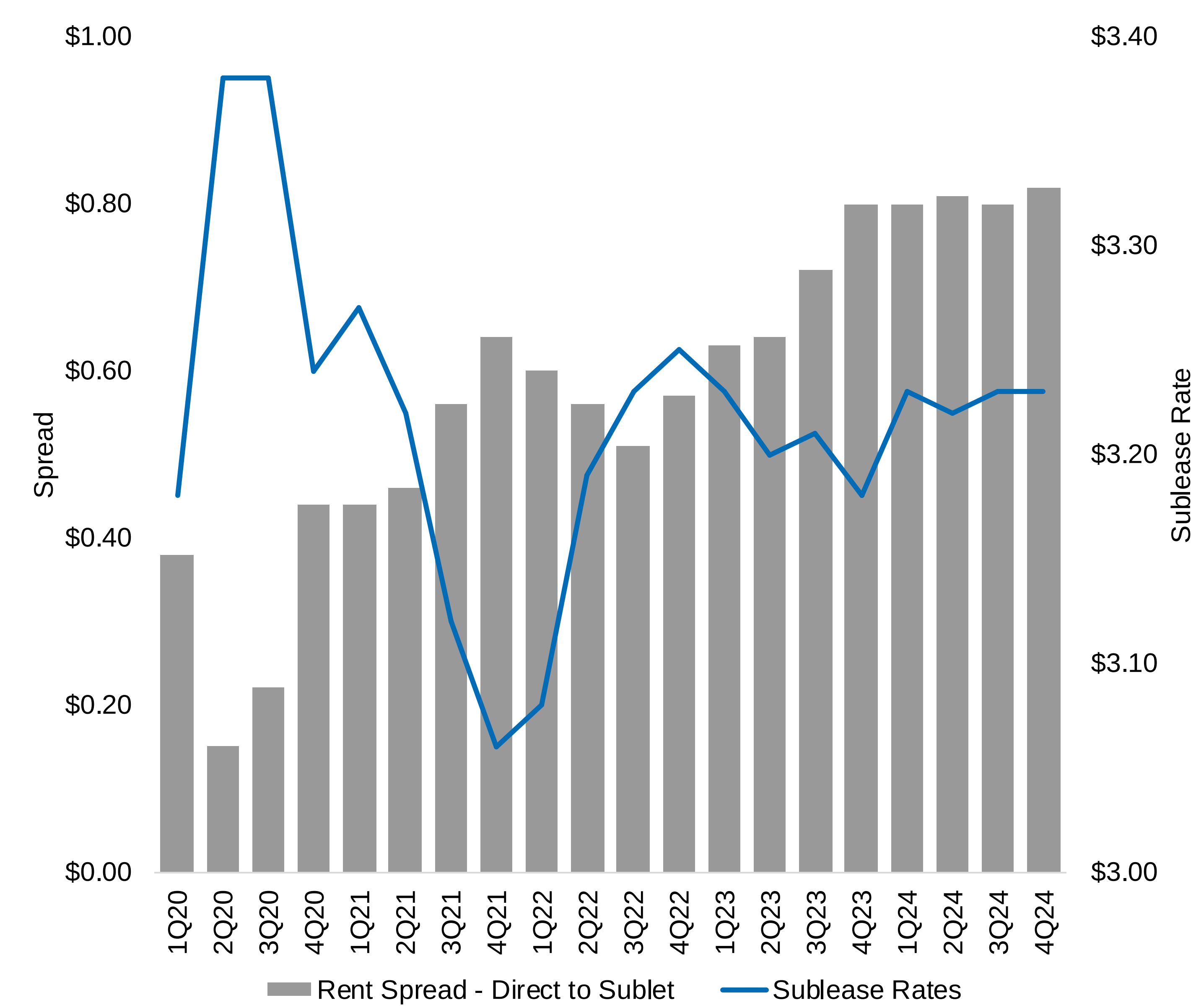
Class A Rents See Higher Annual Gains

Class A rates increased 1.5% year over year, while Class B rates saw 0.7% growth. 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

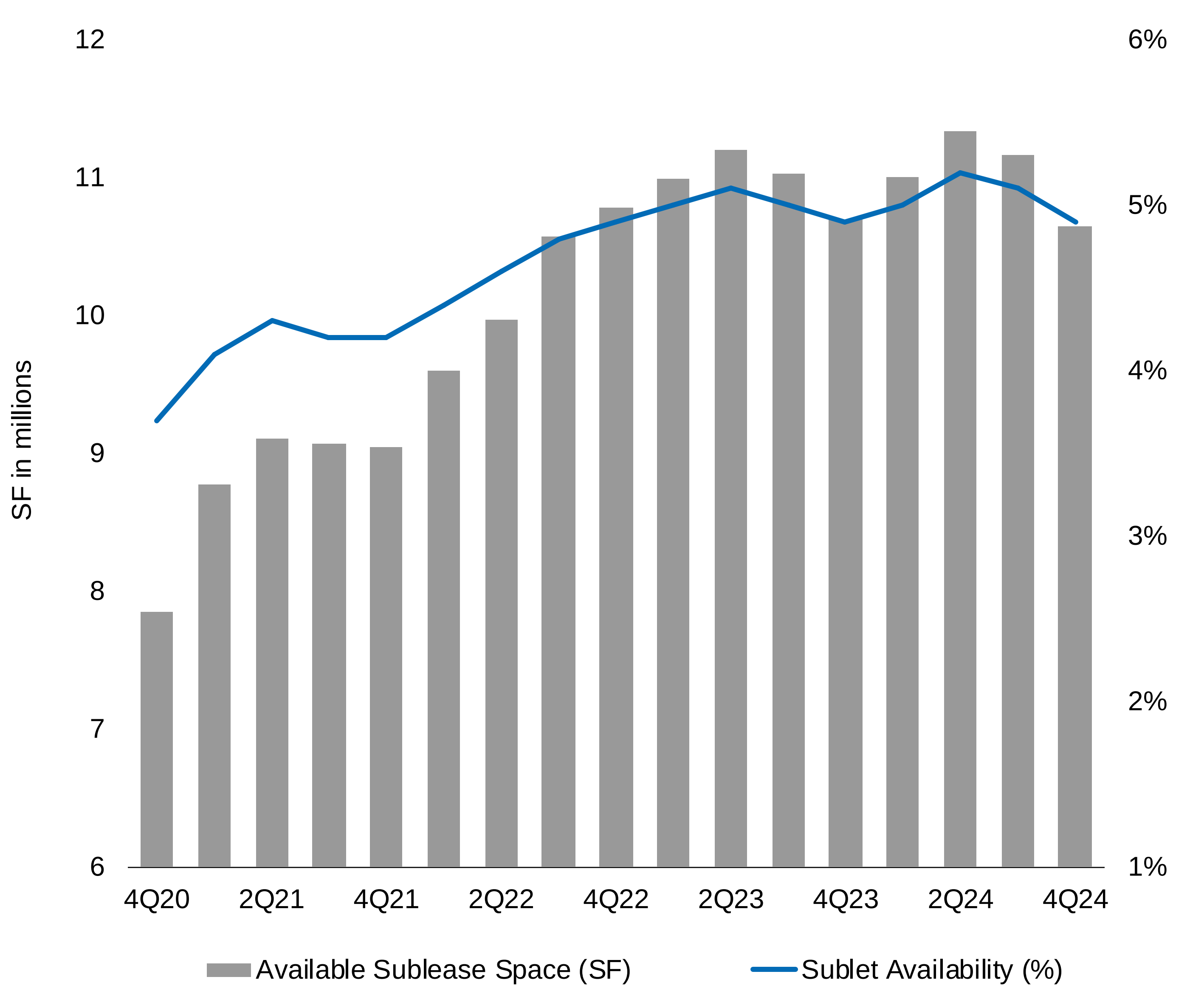


Source: Newmark Research, CoStar

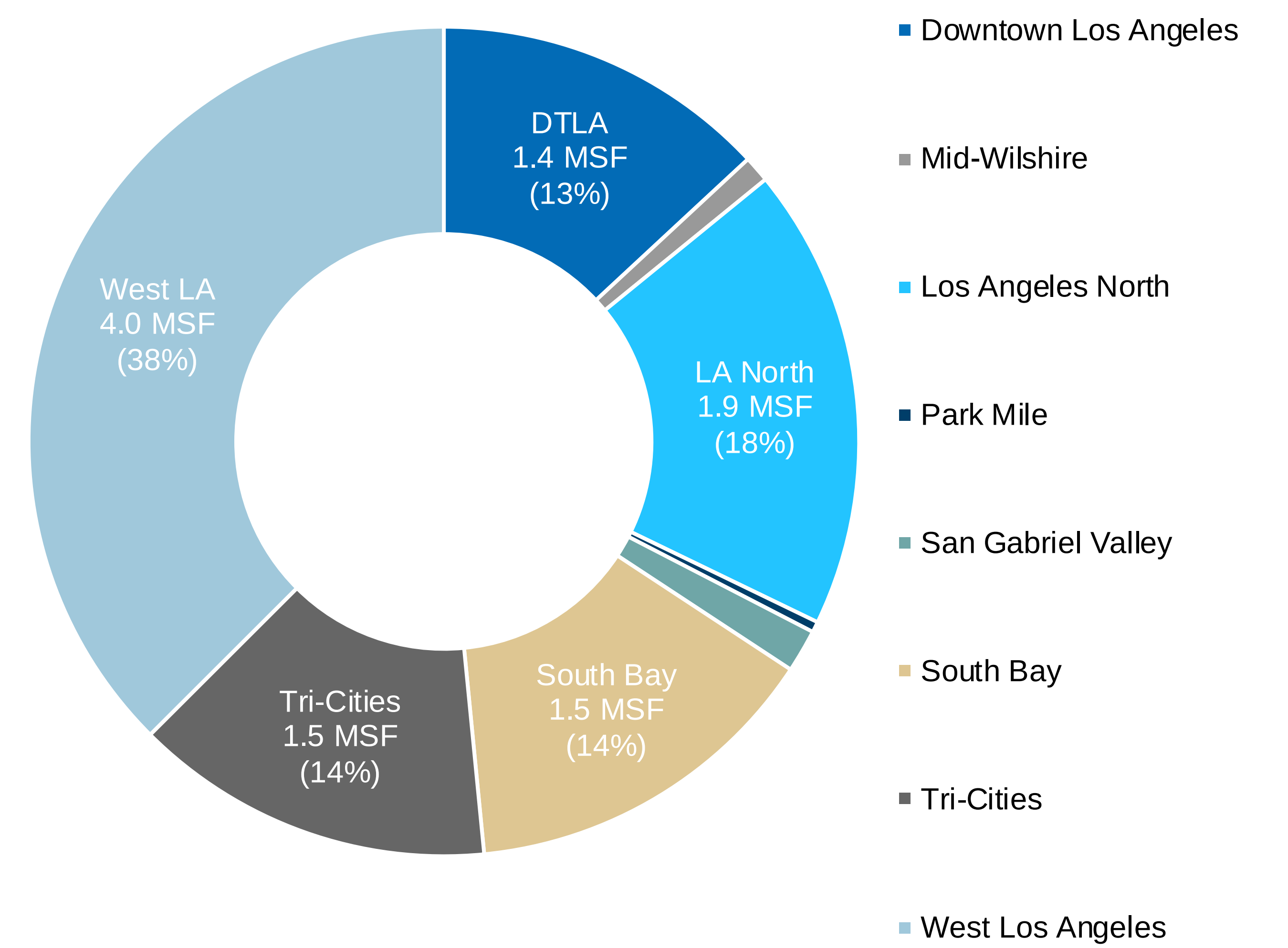
Sublease Availability Continues to Trend Down

Removals that contributed to this quarter's decline included DirecTV (75,606 SF subleased to Boeing), Wella in Conejo Valley (60,000 SF withdrawn), MotorTrend in El Segundo (59,508 SF transitioned to direct space and leased to Mattel) and All3 Media in Culver City (50,414 SF subleased to Jazwares). Generally, most of today's sublease removals are from withdrawals or space coming to term and transitioning to direct availability.

Greater Los Angeles Sublet Availability



Available Sublease Space by Submarket

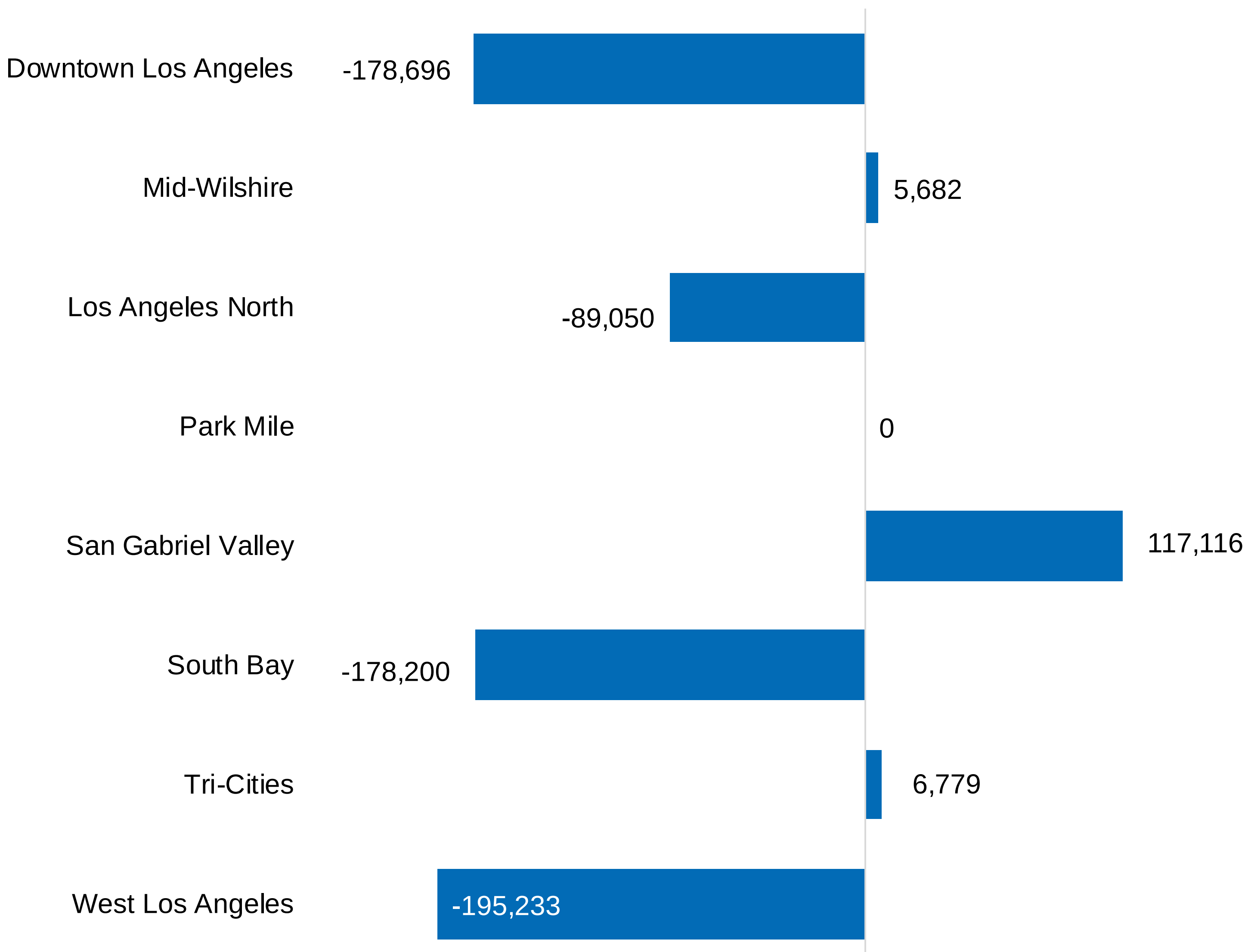


Source: Newmark Research

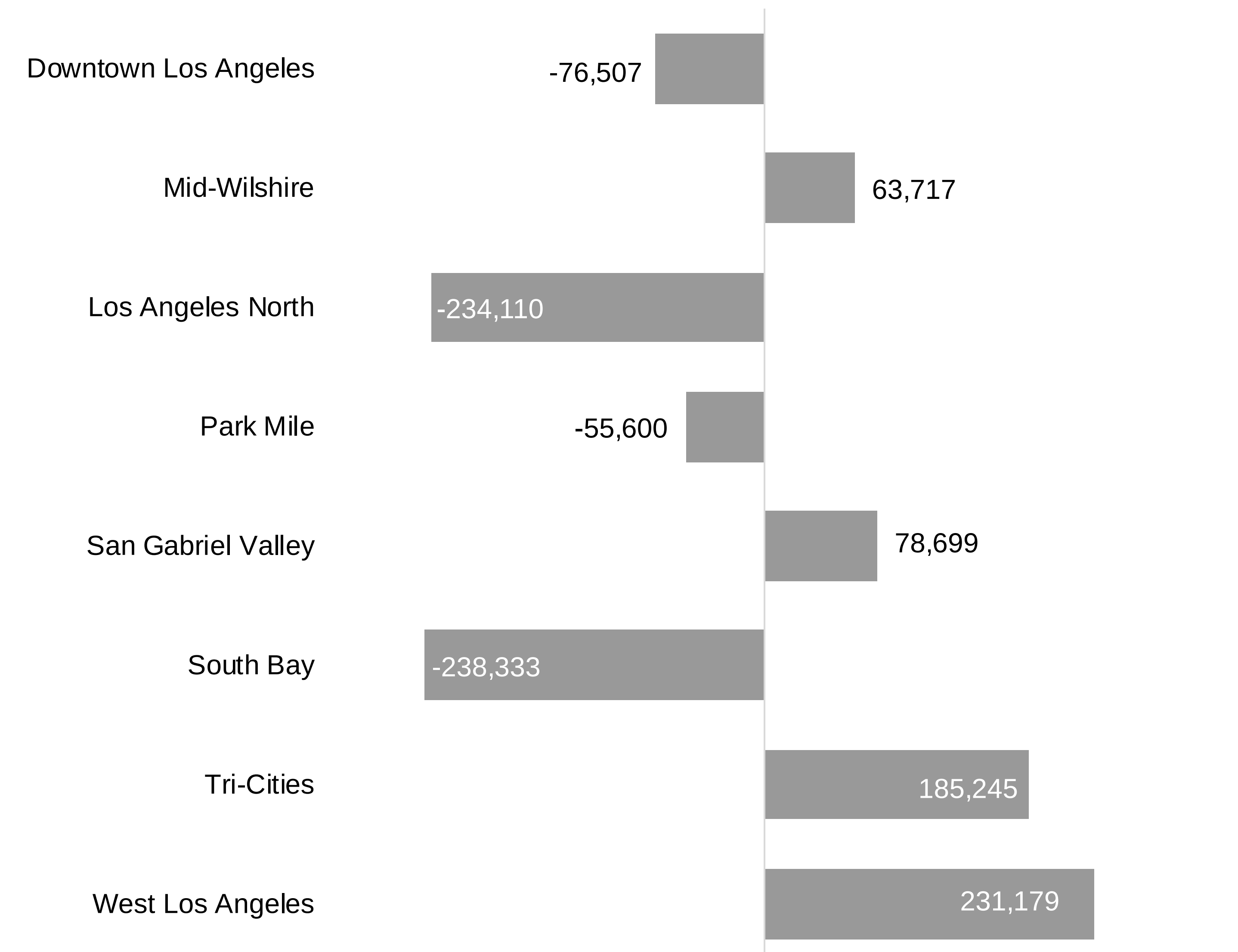
West Los Angeles Leads Annual Sublease Gains, But Saw Quarterly Decline

Although most submarkets in the Los Angeles region saw a decline in sublease availability in the fourth quarter, notable additions over the last three months included Leidos QTC Health Services (98,504 SF at 924 Overland Ct in Eastern San Gabriel Valley), Nike (93,166 SF at Water's Edge in Playa Vista) and NFL Media (53,948 SF at Inglewood's Hollywood Park in LAX/Century Blvd).

3-Month SF Change in Available Sublease Space, By Submarket



12-Month SF Change in Available Sublease Space, By Submarket



Source: Newmark Research

This Quarter’s Top Leases Were Diverse Across Industries and Locations

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Los Angeles Olympics 2028	1150 S Olive St	Downtown Los Angeles: CBD	Direct Lease	160,000
The Los Angeles Olympic Committee will replace USC signage at the building, and its lease will run through the 2028 Olympics. There will be three occupancy phases: January 2025, July 2025 and January 2026.				
Loeb & Loeb	10100 Santa Monica Blvd	West Los Angeles: Century City	Lease Renewal	130,000
The multi-service law firm renewed its Century City office space for 13 years.				
The Toy Association	101 Continental Blvd	South Bay: El Segundo/Beach Cities	Direct Lease	95,704
The trade association for the U.S. toy industry will relocate from temporary space at the Kilroy Airport Center, after signing a 132-month lease that commences in August 2025.				
Legendary Entertainment	2900 Alameda Ave	Tri-Cities: Burbank	Renewal/Downsize	89,749
The global entertainment company is keeping the top two floors (14 & 15) and half of the 12th floor at The Pointe, in what will be a downsize from 105,522 SF.				
Jones Day	555 S Flower St	Downtown Los Angeles: CBD	Renewal/Downsize	81,840
The multinational law firm renewed its lease on floors 48-50 at City National Tower, a downsize from about 110,000 SF.				

Source: Newmark Research

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Where Leasing Activity is Concentrated

Post-COVID Leasing Activity Strongest in West Los Angeles

Century City May be a Top-Performer, But Not All Buildings are on Equal Footing

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Streaming Media

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

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Filming Activity Remains Tepid

California’s Governor Seeks to Double Film and TV Incentives to $750 Million a Year

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Tech

The Stock Market and Local Venture Capital Funding

Footprints Have Declined for Some of the Region's MAANG Occupiers

Job Postings for Software Developers are Rising

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Sales Activity and Distress

Office Comprised 20.2% of Sales Volume in 2024

Office Sales Volume: Up Close

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Private, Opportunistic Buyers Remain Active

47% of the Region's Office Market is Obsolete or Unable to Service Debt

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

Opportunistic Buyers Are Taking Advantage of Discounted Pricing

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Implications of User and Developer Purchases

Office Availability at 29% While Utilization Remains in the Sub-50% Range

For-Lease Office Inventory is Decreasing Amid User and Residential/Industrial Developer Purchases

Now vs. Then Sale Price Differentials Can be Quite Staggering

Earthquakes and Consolidation: Speculation Behind the Gas Company Tower Sale

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Sublease Removals

The Chasm Between Sublet Additions and Removals Narrowed in Recent Years

Smaller Sublease Blocks Are Outperforming

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A Closer Look: What Spaces Are Subleasing?

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Submarket Snapshots

Downtown Los Angeles

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 | 4Q24

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Los Angeles Office Submarket Statistics | 4Q24 (page 1 of 3)

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Los Angeles Office Submarket Statistics | 4Q24 (page 3 of 3)

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High-Level Stats and Sublease Figures, By Submarket | 4Q24

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