MARKET REPORT

Office

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

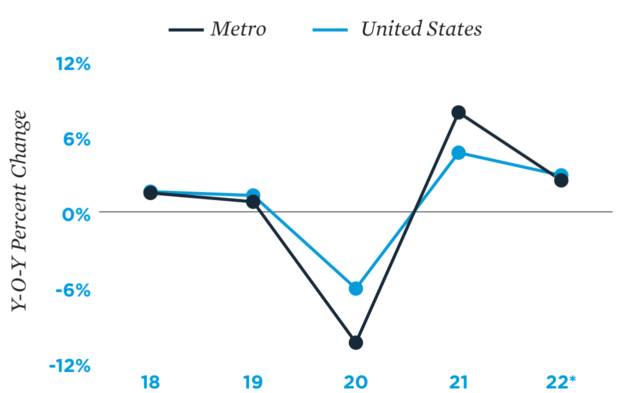
4Q/22

Positive Absorption Signals Recovery Underway, While Record Vacancy Suggests Hurdles Remain

Local tech hub backs leasing improvement. Los Angeles County entered the second half of this year with vacancy at an all-time high and 70 million square feet of office space unaccounted for. Still, a silver lining exists. The pace of vacancy increase slowed noticeably during the 12-month period ending in June, rising 30 basis points after swelling by 330 basis points during the prior yearlong span. A significant increase in lease executions over 25,000 square feet is to credit for this shift, as these commitments supported positive net absorption over the past four quarters. Approximately one-fourth of these agreements were inked in West Los Angeles, allowing vacancy in the metro's largest submarket by stock to decline 20 basis points. The extent to which office demand has recovered in Silicon Beach will be further tested in the near term, as the area is slated to add almost 1.7 million square feet of space during the second half.

Low- and mid-tier vacancy well below metrowide mean. Office users intent on reducing their operating costs are lifting demand for Class B/C floorplans across most of the metro. Recent leasing data reflects this, as companies absorbed more than 1 million square feet of this space on a net basis over the past year, lowering segment vacancy 10 basis points to 14.4 percent. Furthermore, of the county's 11 submarkets, eight registered declines in Class B/C availability during the past 12 months. Mid-Cities and Southeast Los Angeles — home to some of the metro's lowest asking rents — highlighted this performance, as both noted compression of at least 300 basis points.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

110,000 JOBS *will be created*

EMPLOYMENT:

Hiring by firms that traditionally utilize office space accounted for one-fourth of the 95,500 positions created in the first eight months of this year. These additions have the office-using sector on pace to expand by 2 percent.

2,900,000 SQ. FT. *will be completed*

CONSTRUCTION:

Annual delivery volume surpasses the prior five-year average by more than 550,000 square feet, growing stock by 0.8 percent. One Westside, a mall-to-creative office conversion, highlights the list of 2022 completions.

50 BASIS POINT *increase in vacancy*

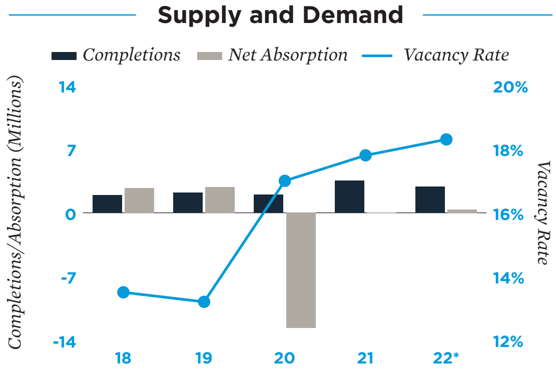
VACANCY:

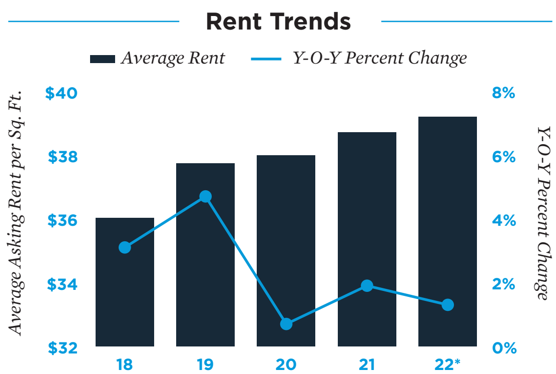
Los Angeles records positive office absorption for the first time in three years. Nevertheless, supply additions exceed demand, lifting vacancy to 18.3 percent, an all-time high and the ninth highest rate among major U.S. markets.

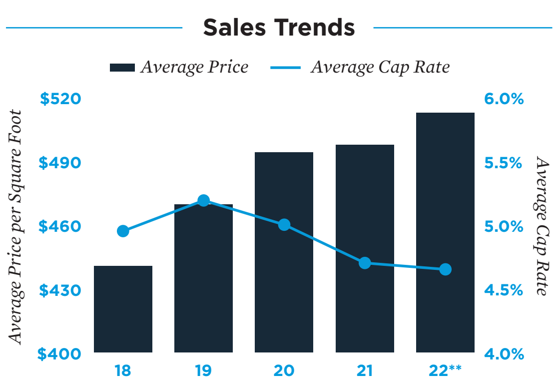
1.3% INCREASE *in asking rent*

RENT:

Positive net absorption allows for a third consecutive year of moderate asking rent growth. At $39.20 per square foot in December, the metro's mean marketed rate will rank as the fifth highest nationally.







** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

Los Angeles County Offices:
Jim Markel *First Vice President, Regional Manager*
Tel: (818) 212-2700 | jim.markel@marcusmillichap.com
Tony Solomon *Senior Vice President, District Manager*
Tel: (213) 943-1800 | (310) 909-5500
tony.solomon@marcusmillichap.com
Dawson Rinder *Regional Manager*
Tel: (424) 405-3900 | dawson.rinder@marcusmillichap.com

For information on national office trends, contact:
John Chang
Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | jchang@ipausa.com

2Q 2022 - 12-Month Period

CONSTRUCTION

2,725,000 sq. ft. completed

- Driven by supply additions in West Los Angeles and Mid-Wilshire, metro inventory swelled by 0.7 percent over the past four quarters ended in June.
- As of August, Los Angeles' active pipeline comprised nearly 4.5 million square feet, 60 percent of which was unaccounted for. The volume of space in the proposal stage is significant, at more than 16.5 million square feet.

VACANCY

30 basis point increase in vacancy Y-O-Y

- Office users absorbed a net of nearly 1.2 million square feet over the past year, a significant portion of which was Class B/C space. Still, metro vacancy climbed to 18.1 percent in June.
- Availability in Downtown Los Angeles rose 10 basis points to 21.3 percent, a rate nearly 300 basis points above the year-end 2019 mark.

RENT

1.2% increase in the average asking rent Y-O-Y

- Moderate rent growth across property classes placed the county's average marketed rate at $38.91 per square foot in June.
- The average asking rent has hovered in the $35 per square foot range for 12 consecutive quarters in Downtown Los Angeles, having declined 0.6 percent during the recent yearlong stretch.

Investment Highlights

- Class B and C office buildings in the $1 million to $10 million price tranche accounted for nearly 80 percent of Los Angeles County's deal flow over the past year ended in June. The increase in trading within this segment lifted overall sales activity by 34 percent, with the metro again accounting for the most transactions among all U.S. markets. Heightened competition for listings raised the average price point 3 percent to $513 per square foot, growth that lowered the mean cap rate to 4.7 percent.
- Creative office spaces of various scale are trading with increased frequency in West Los Angeles, due to the area's concentration of tech firms. Upside-focused buyers are pursuing buildings with notable vacancies that may require significant property upgrades to secure new tenants. Overall, cap rates for these creative spaces typically range from low-4 to low-5 percent, with mean pricing in Silicon Beach exceeding $900 per square foot.
- Strong suburban housing demand is elevating the need for local health services. In response, buyers are acquiring medical office buildings in the San Fernando and San Gabriel Valleys. Here, and in South Bay, sub-$500 per square foot pricing remains frequent.