

# MARKET REPORT

Office  
Los Angeles Metro Area

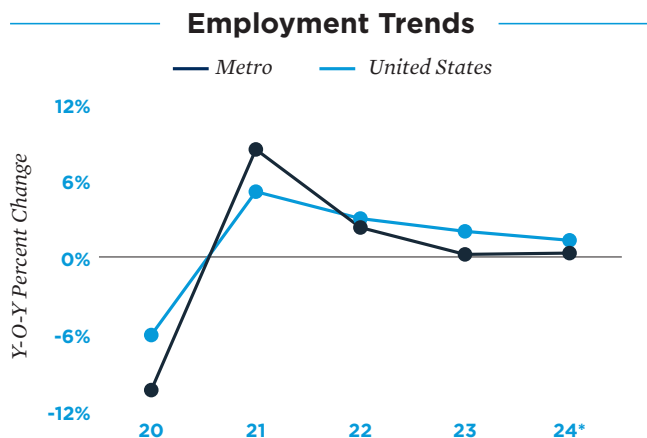
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2Q/24

## Property Tier Disparity Evident as Demand for Budget Space Holds, While Class A Vacancy Climbs

**Class B/C fundamentals on par with near-term average.** Local vacancy surpassed the 20 percent threshold for the first time on record in March; however, several segments of Los Angeles' office market are showing resilience. Class B/C vacancy was unchanged at 14.5 percent over the year ending in the first quarter, with tenants absorbing a net of 400,000 square feet of space. Demand has been fairly consistent for lower-cost options, keeping segment vacancy in the high-13 to mid-14 percent band since late 2020. Class A vacancy, meanwhile, rose 200 basis points over the past year to 26.6 percent as companies continue to reduce their upper-tier footprints. Fortunately, two-thirds of the Class A space slated for 2024 delivery was accounted for in May; although, some tenants may vacate other spaces when moving into these buildings.

**Smaller tenants value proximity to multiple labor pools.** Situated between Los Angeles proper and the western portion of the Inland Empire, the San Gabriel Valley's office sector continues to outperform. Aided by an average asking rent that is more than \$10 per square foot below the metro mean, the area's 8.3 percent vacancy was at least 1,000 basis points below all Los Angeles submarkets with inventories larger than 20 million square feet. On a national scale, the area had the lowest vacancy among submarkets of this size. With less than 30,000 square feet scheduled for delivery this year, conditions in the San Gabriel Valley are poised to remain tight.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2024 Outlook



**15,000  
JOBS**

*will be created*

### EMPLOYMENT:

The count of white-collar positions rose by 3,100 in the first quarter. Should this pace of hiring continue, traditional office-using jobs will play a greater than expected role in this year's employment growth rate.



**1,600,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Los Angeles' office stock increases by just 0.4 percent in 2024, with 13 other major U.S. markets expected to add more square footage. Creative office projects account for roughly one-fourth of the local delivery slate.



**200  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Amid Class A volatility, vacancy climbs for a fifth straight year to 21.3 percent. The inventory of available space will surpass the 80-million-square-foot mark, placing vacancy 640 basis points above the long-term, year-end mean.



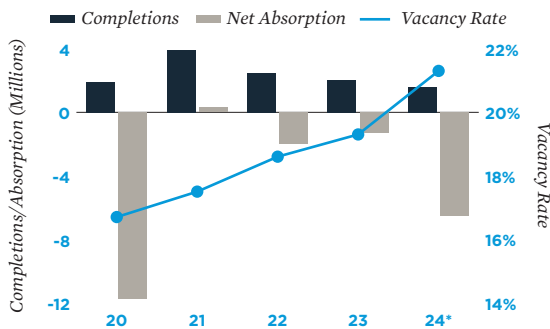
**2.2%  
DECREASE**

*in asking rent*

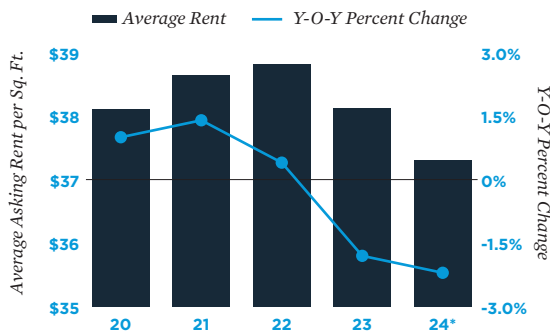
### RENT:

Record vacancy translates to a moderate rent decline, with the average asking rate of \$37.30 per square foot on par with the year-end 2019 recording. Still, the metro ranks among the highest cost U.S. markets.

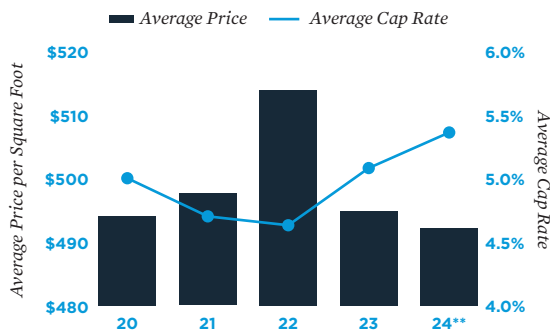
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 1Q 2024 - 12-Month Period



### CONSTRUCTION

**1,764,000 sq. ft. completed**

- The volume of space delivered over the past year ending in March represented the lowest total for a 12-month period since July 2018-June 2019.
- Completions in Burbank-Glendale-Pasadena accounted for half of the recently added space, growing local stock by 2 percent. Most of the remaining new supply came online in West Los Angeles and South Bay.



### VACANCY

**90 basis point increase in vacancy Y-O-Y**

- Los Angeles County's vacant stock grew by 3.9 million square feet over the past year, lifting vacancy to 20.1 percent.
- Contrasting the broader trend, four submarkets noted vacancy drops. This included South Bay and Mid-Wilshire, the metro's third and fifth largest areas by stock. Here, vacancy fell by 80 and 70 basis points, respectively.



### RENT

**1.4% decrease in the average asking rent Y-O-Y**

- A moderate decline was noted over the past year; however, the average asking rent held in the \$38 per square foot band for a 14th straight quarter.
- Among large submarkets, only West Los Angeles notched rent growth, albeit slight at 0.7 percent. The volume of local Class A space available for lease rose by 1.1 million square feet over the past year, driving the uptick.

## Investment Highlights

- Despite a 35 percent year-over-year drop in deal flow during the 12-month span ending in March, Los Angeles notched the most closings among U.S. markets by a relatively wide margin. Trades involving Class B assets accounted for 40 percent of sales activity, with 1980s- to early 2000s-built properties often acquired at cap rates in the 6 and 7 percent ranges.
- Sales above the \$5 and \$10 million thresholds remained less frequent in Los Angeles proper, a direct result of Measure ULA. Instead, investors targeting these commitments were most active in Long Beach, Santa Monica, Beverly Hills and El Segundo. An act that would invalidate the measure has qualified for this November's ballot; however, California officials have sued to have it removed. The state Supreme Court is now set to decide its fate prior to the June 27 deadline for ballot measure inclusion.
- Century City may appeal to more investors. While comprising just 3 percent of the metro's total stock, the area accounted for 12 percent of the 20,000-square-foot-plus leases executed countywide since April 2023. This and strong pre-leasing at a high-rise slated for 2026 delivery point to a flight-to-quality among tenants, including law and private equity firms.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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