

Los Angeles

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Office market braces for more property distress in 2023 as underlying fundamentals remain soft

In Q1 2023, the Los Angeles office market continued to see a lower level of leasing activity with 2.9 million square feet (msf) leased. This was flat from last quarter, as well as down 19% from 3.6 msf reported a year ago. This was also below the 5-year quarterly leasing average of 3.3 msf. With continued economic uncertainty spilling over from late-2022, expect leasing activity to remain low in 2023 as most discretionary lease deals are now on the sidelines.

Total availability rate ticks up to 26.2%

Office availability increased 20 basis points (bps) from 26.0% reported at year-end 2022 to 26.2% in Q1 2023. This is now the highest availability ever reported in the Los Angeles office market as demand continues to be below pre-pandemic levels. In addition, available sublease space has increased to 10.4 msf, up from 10.3 msf reported last quarter, as well as up from 9.1 msf reported a year ago. The overall average asking rental rate decreased yet again from \$3.85 per square foot (psf) per month reported last quarter to \$3.83 psf per month. The Class A average asking rental rate also decreased from \$4.05 psf per month reported last quarter to \$4.01 psf per month as downward pressure on average asking and effective rental rates continues.

Expect more office property distress this year as interest rates rise

As mentioned above, most discretionary lease deals remain on the sidelines as many occupiers who do not have near-term lease expirations take a wait-and-see approach. In addition, it is important to note that with rising interest rates, worsening property fundamentals, and decreasing building valuations, there will be more office property loan distress around Los Angeles in 2023 as many owners find themselves underwater on their properties. With the exception of only a few submarkets such as Century City, the overall Los Angeles office market is forecasted to see more distress and tenant-favorable fundamentals as office owners aggressively compete for occupancy in an uncertain economic environment.

Key Statistics

	Q1 2022	Q1 2023	Y-0-Y
Inventory	220.2 msf	221.1 msf	+0.9 msf
Availability Rate	25.3%	26.2%	+90 bps
Asking Rental Rate	\$3.88	\$3.83	-1.3%
Class A Asking Rental Rate	\$4.09	\$4.01	-2.0%
Quarterly Leasing Activity	3.5 msf	2.9 msf	-0.6 msf
Available Sublease Space	9.1 msf	10.4 msf	+1.3 msf

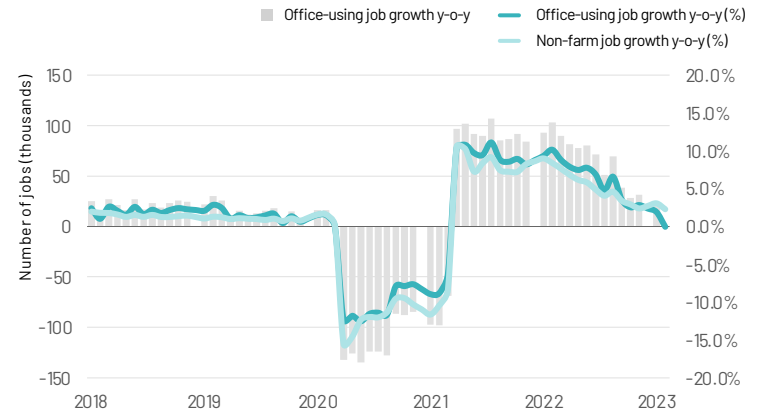
Outlook

01 Due to continued economic uncertainty, expect some tenants without near-term lease expirations to take a “wait-and-see” approach before transacting

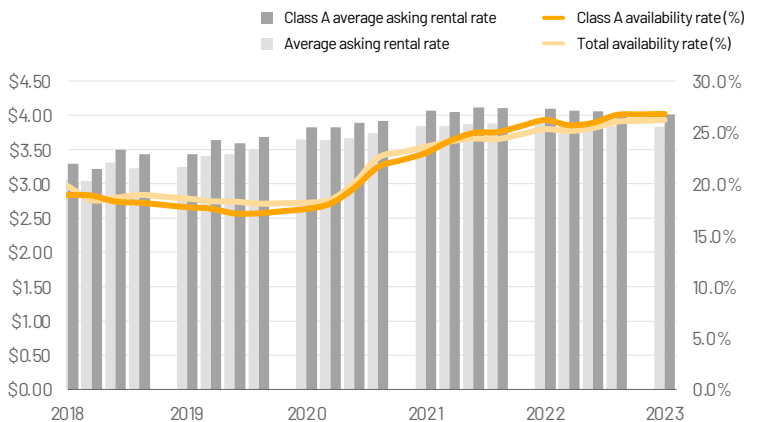
02 Leasing activity will remain lower than pre-pandemic levels due to increasing economic uncertainty and occupier focus on controlling costs

03 With rising interest rates, more office property distress is expected in 2023 as many owners find themselves underwater on their properties

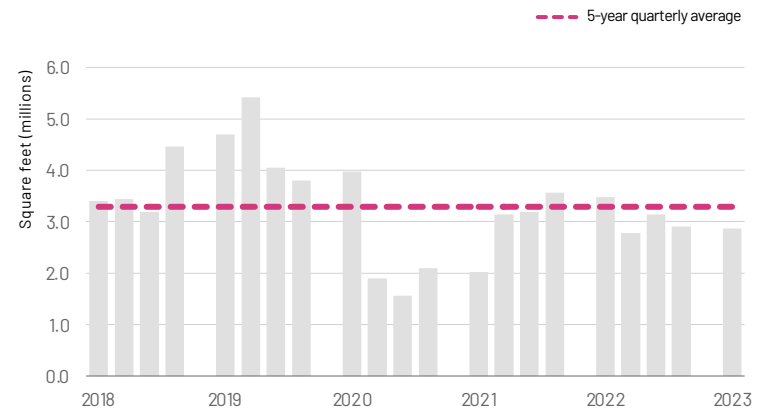
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

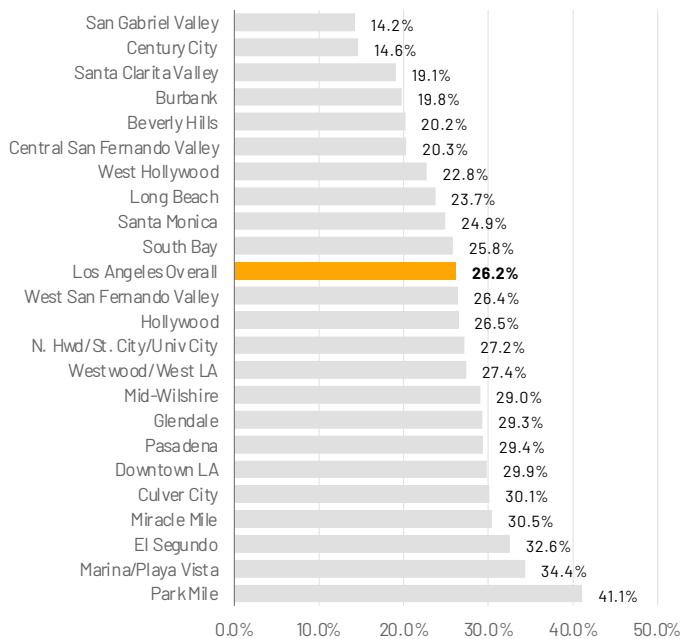
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Sony Pictures Animation	TAMI	Miracle Mile	5750 Wilshire Boulevard	225,239	Relocation
County of Los Angeles	Government	Glendale	611 N Brand Boulevard	82,723	New Location
20th Century Studios	TAMI	Burbank	3333 W Empire Avenue	76,641	Renewal
Fifth Season	TAMI	Westwood/West LA	11355-11377 W Olympic Boulevard*	65,000	Relocation
Skadden, Arps, Slate, Meagher & Flom LLP	Legal Services	Century City	2000 Avenue of the Stars*	57,877	Relocation
VERVE Talent & Literary Agency	Professional Services	Hollywood	6555 Barton Avenue	53,647	Relocation
John Deere	Manufacturing	South Bay	20770-20810 Madrona Avenue	53,401	Renewal
Irell & Manella	Legal Services	Century City	1800 Avenue of the Stars	51,180	Lease Restructure
Unilab	Pharmaceuticals	West San Fernando Valley	8407 Fallbrook Avenue	49,140	New Location
IPG Mediabrands	TAMI	Century City	1840 Century Park East	36,781	Expansion

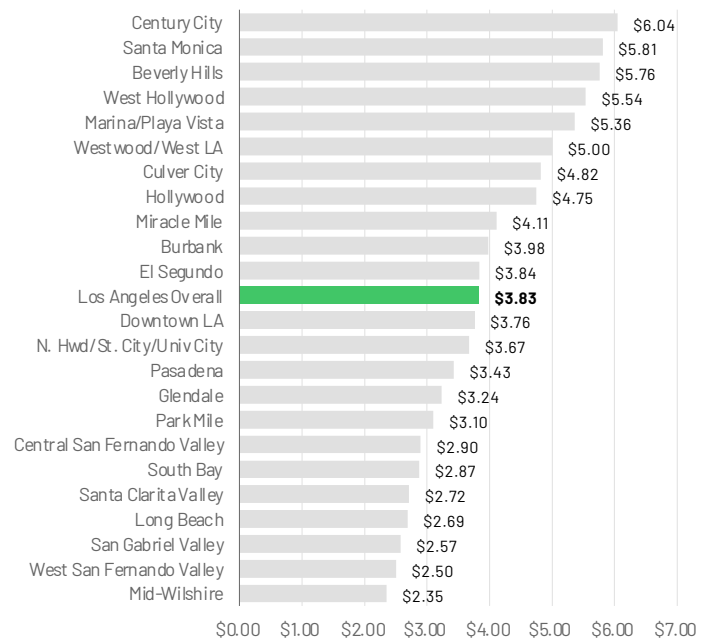
Availability Rate Comparison (%)

LOS ANGELES SUBMARKETS



Rental Rate Comparison (\$/sf)

LOS ANGELES SUBMARKETS



Los Angeles Q1 2023 - Office

Note: Rents quoted are monthly

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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