

Los Angeles

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Leasing activity slows at mid-year 2023 as occupiers delay real estate decisions amidst uncertainty

In Q2 2023, the Los Angeles office market again reported lower leasing activity with 2.4 million square feet (msf) while average rental rates have remained stubbornly high despite eroded office valuations. Leasing activity was down 15% from 2.9 msf reported last quarter, as well as down 12% from 2.8 msf reported in Q2 2022. This was also below the 5-year quarterly leasing average of 3.2 msf. With most discretionary leasing now on the sidelines, expect leasing activity to remain lower amidst continued economic uncertainty in the short-term.

Total availability rate increases to a record high of 26.6%

Office availability increased 40 basis points (bps) from 26.2% reported last quarter to 26.6% at mid-year 2023. This is the highest availability rate ever reported in the Los Angeles office market as office space demand remains lower than pre-pandemic levels due to hybrid work utilization and slower return to office. Available sublease space increased yet again to 10.8 msf, up from 10.4 msf reported last quarter, as well as up 20% from 9.0 msf reported a year ago. The overall average asking rental rate actually ticked up to \$3.84 per square foot (psf) per month but remains lower than \$3.87 psf reported last year. The Class A average asking rental rate decreased from \$4.06 psf per month reported last quarter to \$4.04 psf per month as downward pressure on average asking and effective rental rates continues.

Expect more occupier flight to capital as property distress rises

At mid-year 2023, many occupiers continue to take a wait-and-see approach which has contributed to lower leasing activity. In addition, rising interest rates, deteriorating property fundamentals outside of the top end of the office market, and lower asset valuations, has resulted in high profile loan defaults over the past few months mostly in Downtown Los Angeles. With more office property distress expected in the second half of 2023 and into 2024, occupiers will need to continue to exercise caution and carry out the appropriate due diligence on landlords. As a result, expect tenant-favorable conditions to remain for the foreseeable future as landlords look to preserve occupancy amidst continued flight to quality and increased flight to capital.

Key Statistics

	Q2 2022	Q2 2023	Y-0-Y
Inventory	220.7 msf	221.0 msf	+0.3 msf
Availability Rate	25.1%	26.6%	+150 bps
Asking Rental Rate	\$3.87	\$3.84	-0.8%
Class A Asking Rental Rate	\$4.06	\$4.03	-0.9%
Quarterly Leasing Activity	2.8 msf	2.4 msf	-0.4 msf
Available Sublease Space	9.0 msf	10.8 msf	+1.8 msf

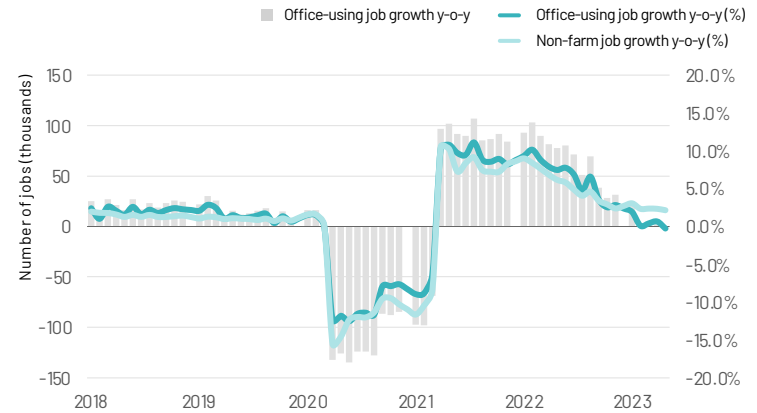
Outlook

01 Leasing activity will remain lower than pre-pandemic levels due to increasing economic uncertainty and most occupiers focused on controlling costs

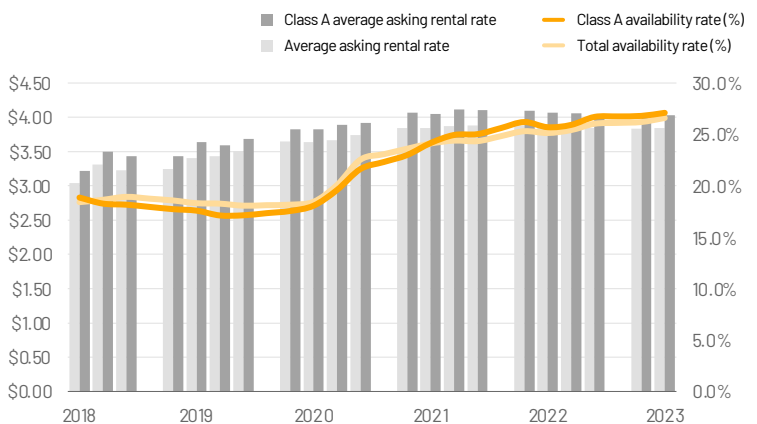
02 Available sublease space is forecasted to continue to increase as occupiers remain focused on right-sizing their existing real estate footprints

03 Expect increased occupier flight to capital as landlords in a strong financial position benefit at the expense of those landlords who have distressed assets

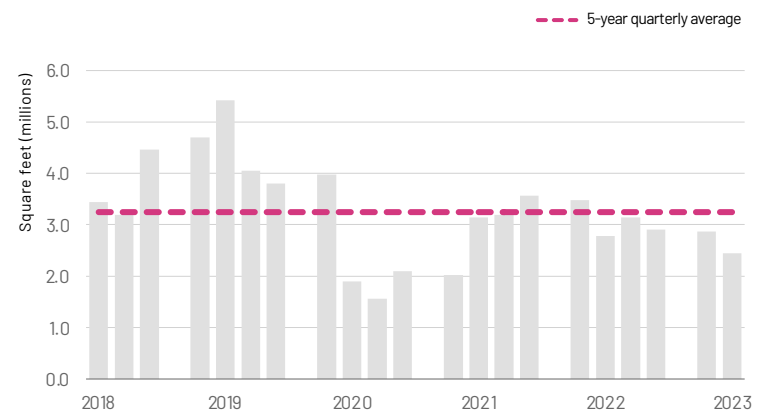
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

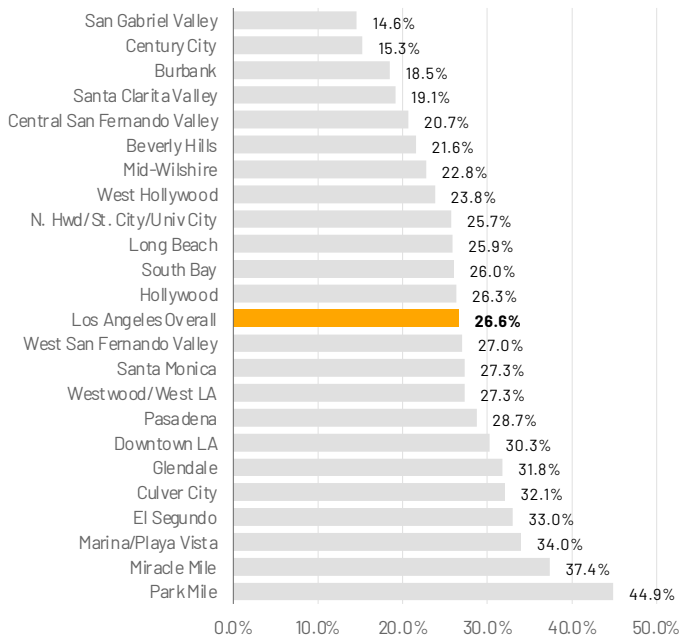
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Eastern Los Angeles Regional Center	Associations and Non-profit Organizations	San Gabriel Valley	1000 S Fremont Avenue	123,464	Extension
Team One	TAMI	Marina/Playa Vista	13031 W Jefferson Boulevard	76,230	Renewal
Lumen Technologies	TAMI	Downtown LA	818 W 7th Street	67,632	Renewal
The Switch	TAMI	Burbank	1840 Victory Boulevard	66,712	Relocation**
Atkinson, Andelson, Loya, Ruud & Romo	Legal Services	Long Beach	12800 Center Court Drive	60,438	Renewal
Sidley Austin LLP	Legal Services	Downtown LA	350 S Grand Avenue*	57,148	Relocation
Morgan Stanley	Financial Services	Downtown LA	444 S Flower Street	48,894	Renewal
County of Los Angeles	Government	San Gabriel Valley	1 Cupania Circle	42,547	Renewal
AMDA College of the Performing Arts	Education	Hollywood	1777 Vine Street	39,248	Sale-Leaseback
SEGA Corporation	TAMI	Burbank	2900 W Alameda Avenue*	36,164	Relocation**

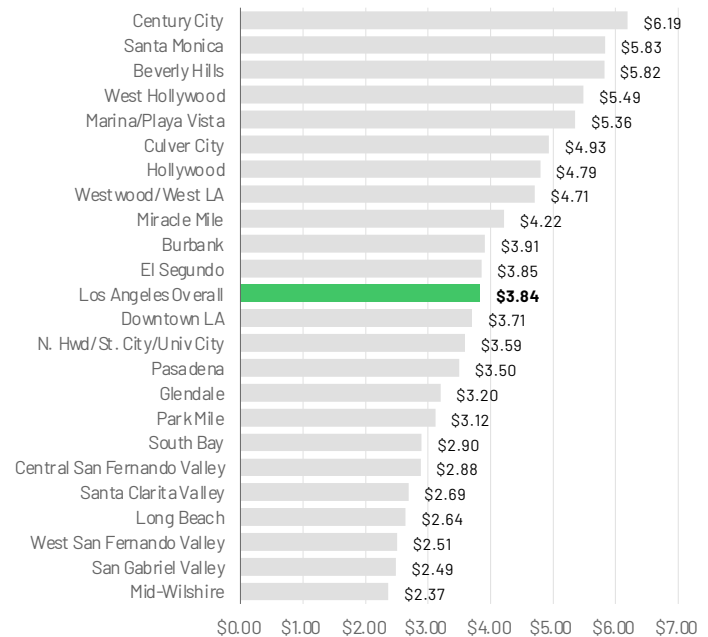
Availability Rate Comparison (%)

LOS ANGELES SUBMARKETS



Rental Rate Comparison (\$/sf)

LOS ANGELES SUBMARKETS



Los Angeles Q2 2023 - Office

Note: Rents quoted are monthly

For more information, please contact us:

[savills.us](https://www.savills.us)

Savills Los Angeles
777 S. Figueroa Street
30th Floor
Los Angeles, CA 90017
+1 213 553 3800

Savills West Los Angeles
West Los Angeles
1100 Glendon Avenue
Suite 1800
Los Angeles, CA 90024
+1 310 444 1000

Joshua D. Gorin
President,
Los Angeles Region
jgorin@savills.us

Michael Soto
Senior Director,
Head of Office Research
+1 213 553 3833
msoto@savills.us

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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