

Los Angeles

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Office space demand down again at mid-year 2024 as larger deals consist of mostly renewals

With 2.7 million square feet (msf) of leasing activity reported in Q2 2024, office space demand was down 18% from the 3.2 msf of leasing activity reported in Q1 2024. While this was still an increase from the 2.4 msf of leasing activity reported a year ago, this remains below pre-pandemic levels when leasing activity was regularly over 4.0 msf on a quarterly basis. Amidst the decrease in new office space demand from the TAMI sector, leasing activity continues to be mostly expiration-driven as occupiers remain highly focused on controlling costs.

Availability rate ticks down to 27.4% as supply pipeline now low
 Availability decreased 20 basis points (bps) from 27.6% reported last quarter to 27.4% in Q2 2024. However, this is still up 120 basis points from the availability rate of 26.6% reported a year ago. The overall average asking rental rate decreased from \$3.94 per square foot (psf) per month reported last quarter to \$3.90 psf. This was still up 1.6% from \$3.84 psf reported a year ago. As mentioned in previous reports, the Los Angeles office market remains bifurcated with some submarkets such as Century City seeing historically high asking and effective rental rates while in softer submarkets such as Downtown L.A., effective rental rates have been decreasing due to higher landlord concessions.

Office building distress expected to accelerate through year-end
 Due to softer office market fundamentals, as well as interest rates that are now expected to be higher for longer, more office landlords are projected to default on their loans, as well as to give their properties back to their lenders in deeds in lieu of foreclosure between now and year-end. As a result, expect leasing activity to continue to see an overall flight to quality, as well as a flight to capital by occupiers attracted to the most desirable office properties with no debt issues. This bifurcation in the office market will most likely result in more owners deciding that their existing properties are no longer competitive, resulting in more conversions and redevelopment in the months and years ahead.

Key Statistics

	Q2 2023	Q2 2024	Y-0-Y
Inventory	221.0 msf	219.9 msf	-1.1 msf
Availability Rate	26.6%	27.4%	+80 bps
Asking Rental Rate	\$3.84	\$3.90	+1.7%
Class A Asking Rental Rate	\$4.03	\$4.10	+1.8%
Quarterly Leasing Activity	2.4 msf	2.8 msf	+0.4 msf
Available Sublease Space	10.8 msf	10.8 msf	+0.0 msf

Note: Rents quoted are monthly

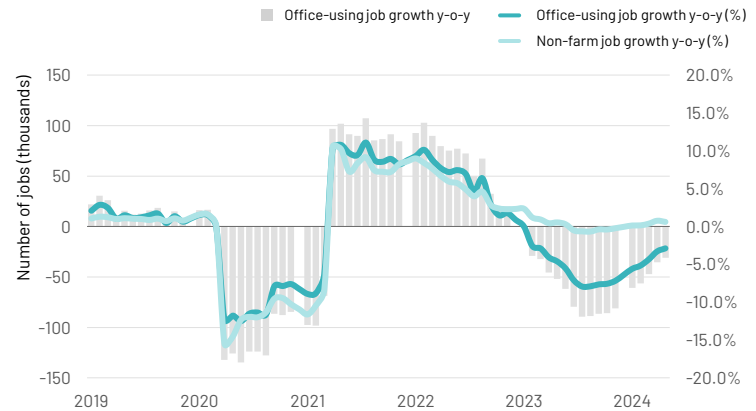
Outlook

01 With new office space demand from the TAMI sector down significantly, expect leasing activity to be largely expiration-driven from finance, professional services, and law firms

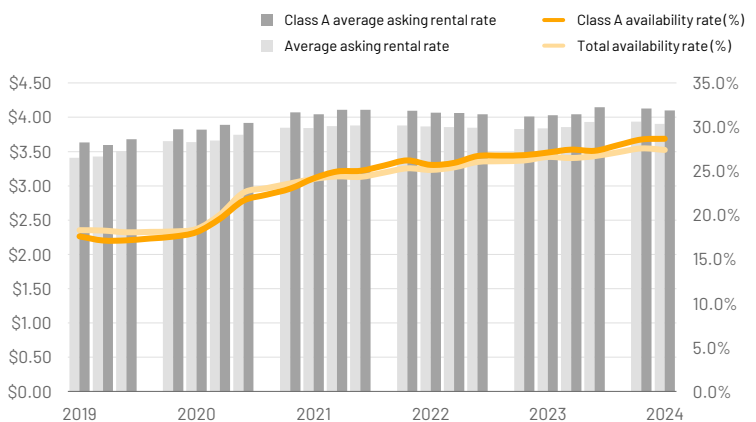
02 Expect average rents outside of the top of the market to decrease as distressed office buildings trade at a lower cost basis thereby resetting the overall leasing market

03 Office property distress is expected to remain a major issue moving forward as interest rates are now forecasted to be higher for longer, leading to more flight to capital by occupiers

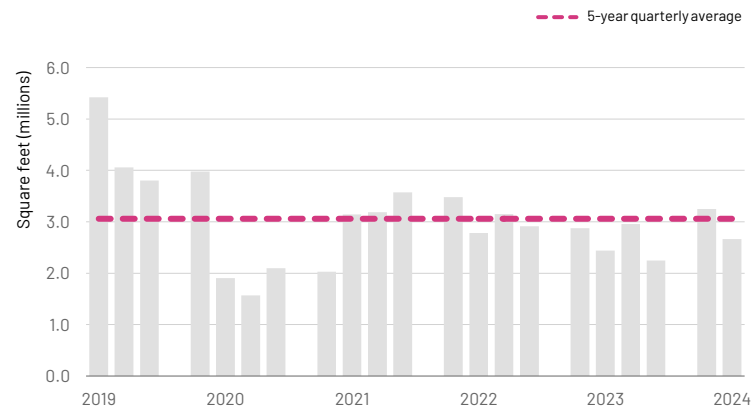
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

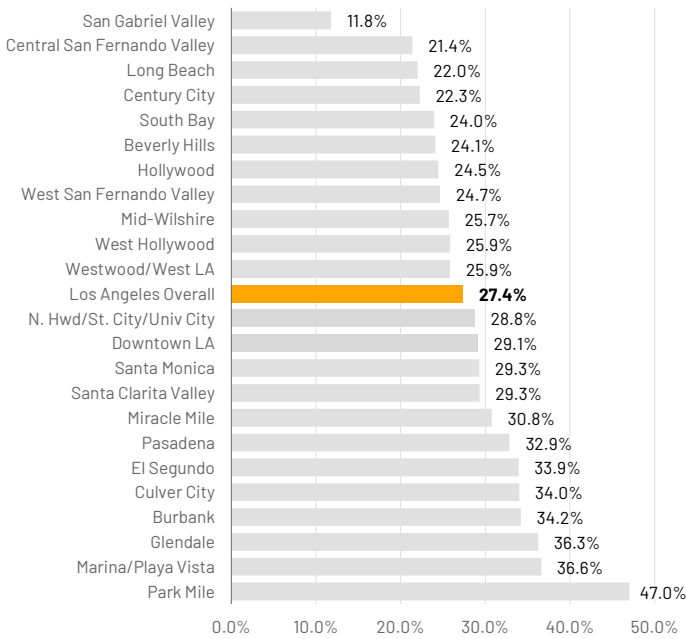
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Universal Music Group	TAMI	Santa Monica	2220 Colorado Avenue	225,773	Renewal
Latham & Watkins	Legal Services	Century City	10250 Constellation Boulevard*	98,761	Renewal and Expansion
FPM Development	Manufacturing	Culver City	3101 W Exposition Boulevard	94,081	New Location**
Sheppard Mullin	Legal Services	Century City	1901 Avenue of the Stars	76,374	Renewal
Paul Hastings	Legal Services	Century City	1999 Avenue of the Stars*	66,183	Renewal and Expansion
Union Bank	Financial Services and Insurance	Glendale	800 N Brand Boulevard	51,706	Renewal
Paul Weiss	Legal Services	Century City	2029 Century Park East*	49,404	Renewal and Expansion
Skechers	Retail	El Segundo	1240 Rosecrans Avenue	47,498	Renewal
Reed Smith	Legal Services	Downtown LA	515 S Flower Street*	41,129	Relocation
Tokio Marine America	Financial Services and Insurance	Pasadena	269-283 S Lake Avenue	33,464	Relocation

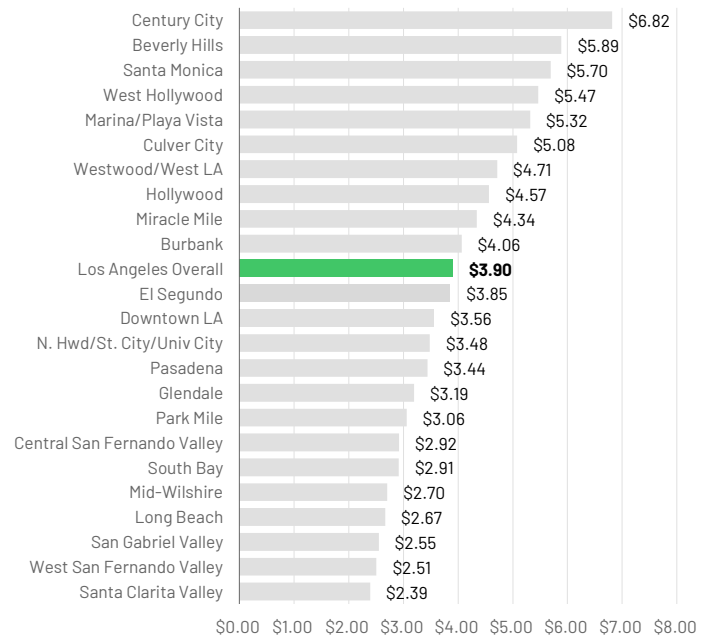
Availability Rate Comparison (%)

LOS ANGELES SUBMARKETS



Rental Rate Comparison (\$/sf)

LOS ANGELES SUBMARKETS



Los Angeles Q2 2024 - 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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