3Q23

Los Angeles Office Market Overview

Market Observations

Economy

- Unemployment across all industries was 5.8% in August, up 140 bps from December 2022. While total nonfarm employment is strong, job gains are slowing.
- Local office-using employment in August was down by 34,700 jobs compared with year- end 2022, a 3.0% decline. Most losses came from the information sector where tech companies are generally grouped.
- Herbalife, Roku, Company3 and ImmunityBio announced layoffs this quarter.
- Office utilization has hovered in the upper 40% range since September 2022.
- The labor market is generally healthy, and most companies are not strictly enforcing work-from-office expectations. Some tech and media companies – with notable layoffs in recent months – are less lenient.

Leasing Market Fundamentals

- Total vacancy and availability continued to climb to new highs, reaching 22.2% and 27.6% respectively.
- Sublet availability was generally flat this quarter at 5.2%.
- Although MAANG firms have enacted cost-cutting measures, they have generally retained their local footprints thus far, aside from a few sublease offerings.
- Occupiers continue to "trade up, while paring down": Pursue trophy-grade space as they reduce their footprints. Vacancy for commodity office space will increase.
- 44% of Greater Los Angeles' office inventory consists of buildings with sub-80% occupancy. Buildings with lower occupancy thresholds tend to struggle to generate positive NOI, which, in turn, makes it difficult to support debt (assuming debt is present on a given building).

Major Transactions

- Clearlake Capital signed this quarter's largest lease for 151,104 SF at Century City Center (CCC) and will relocate-expand from Santa Monica when the 731,250-SF building delivers in 2026. Creative Artists Agency already has 400,000 SF at CCC.
- The City of Los Angeles was reportedly on the cusp of leasing 297,500 SF at The Gas Company Tower in Downtown LA, but the deal was placed on hold after CMBS bondholders rejected terms of the lease. The property went into receivership in April, following Brookfield's default.
- JPMorgan acquired the Pen Factory at 2701 Olympic Blvd in Santa Monica from CalSTRS for $165.5M ($745/SF). The 220,000-SF property, built in 2017, was fully leased at the time of sale to tenants that include Activision Blizzard and GoodRx.

Outlook

- City of Los Angeles officials propose expanding and modifying a pre-existing adaptive reuse ordinance that expedites the approval process when converting older commercial buildings to housing or hotels. While this will help to encourage the conversion of select, underperforming office assets, developers want more incentives.
- Leasing brokers will closely evaluate the debt situation of a given building before touring a client. This is especially true for properties with low occupancy averages and a CMBS loan coming due; a CMBS loan default usually triggers immediate transfer to a special servicer. It is harder to transact (e.g., get T.I. dollars) in such instances.
- The Writer's Guild of America ended its strike after a deal was reached at the end of September. After a summer of disruption, production and studio activity is expected to pick up immediately.

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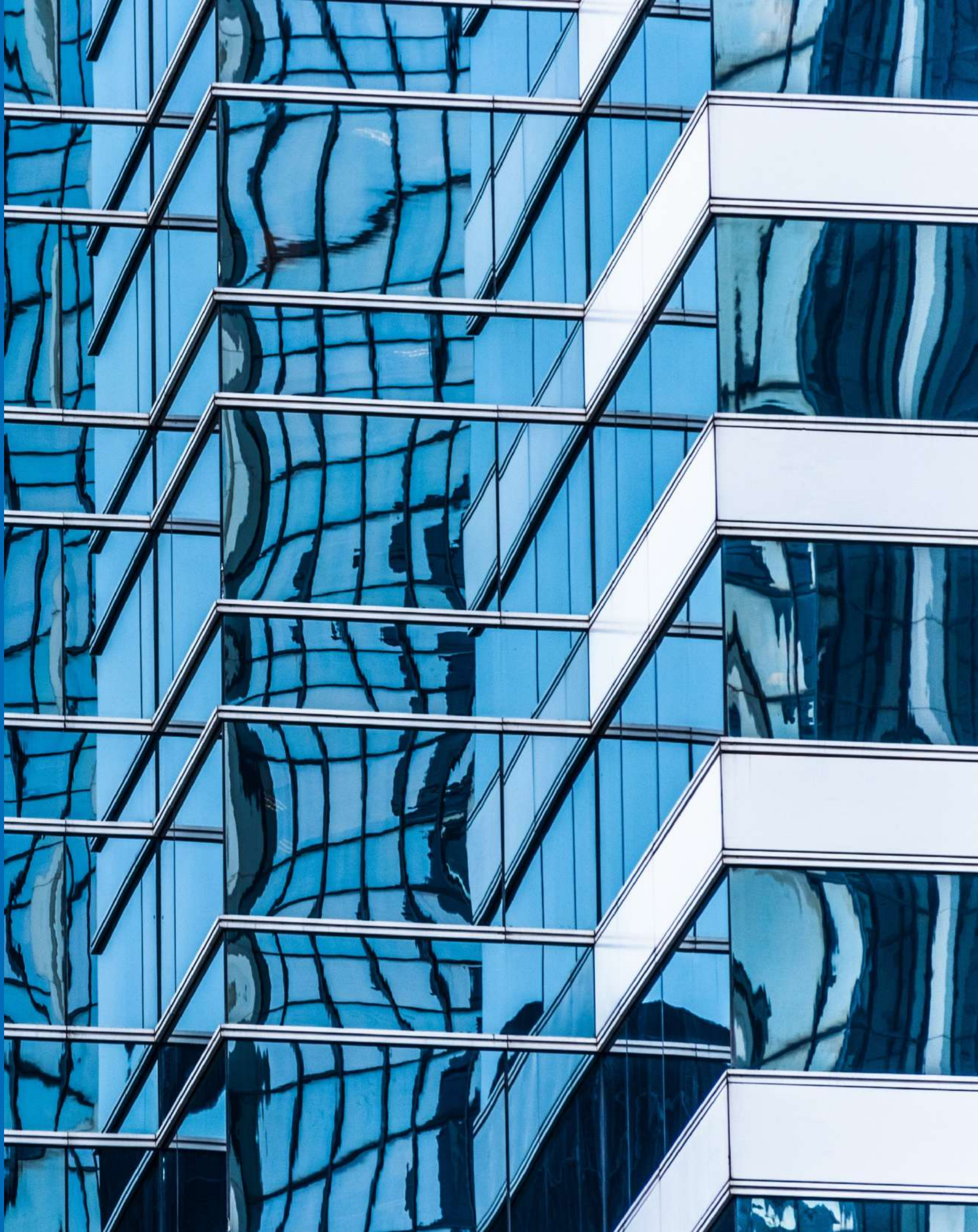
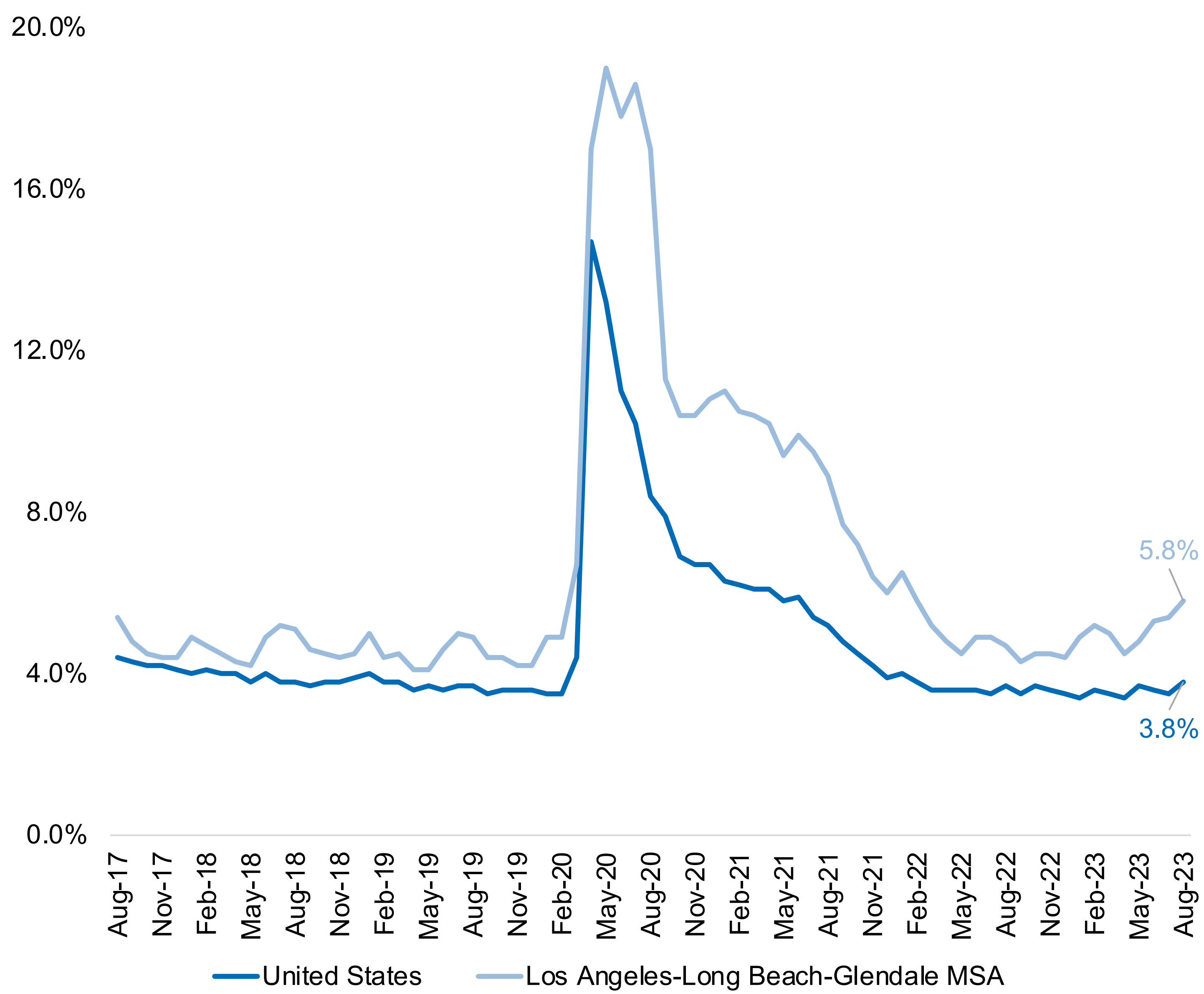
Economy



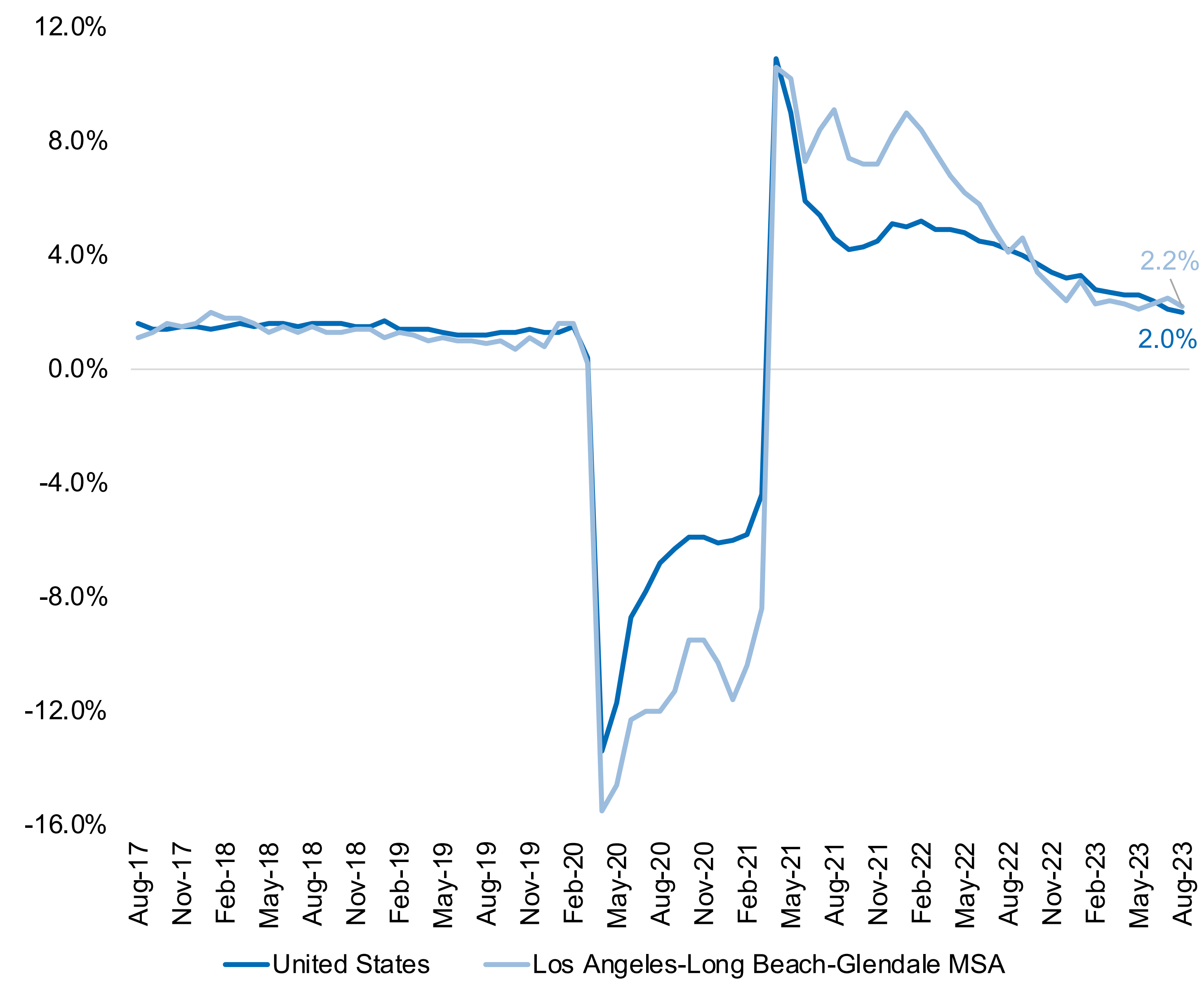
"Noticeably Slowing" Best Describes the Local Labor Market

Local unemployment is up, while 12-month job growth has been decelerating since late 2022. The Fed's target policy interest rate is currently 5.25% to 5.5%, the highest it's been in 22 years. Elevated interest rates affect companies' bottom lines and will likely lead to job cuts, especially in higher-paying industries.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

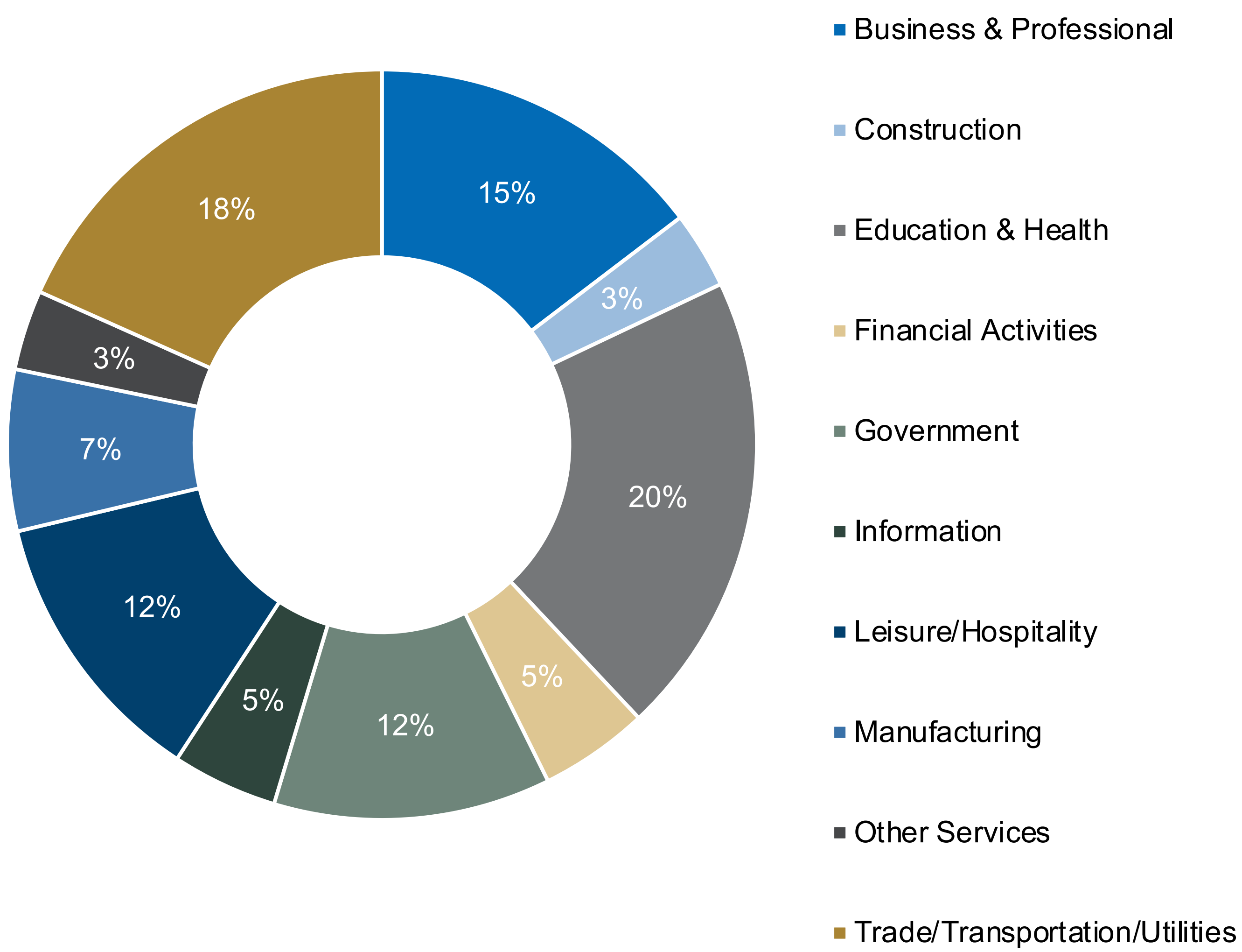


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

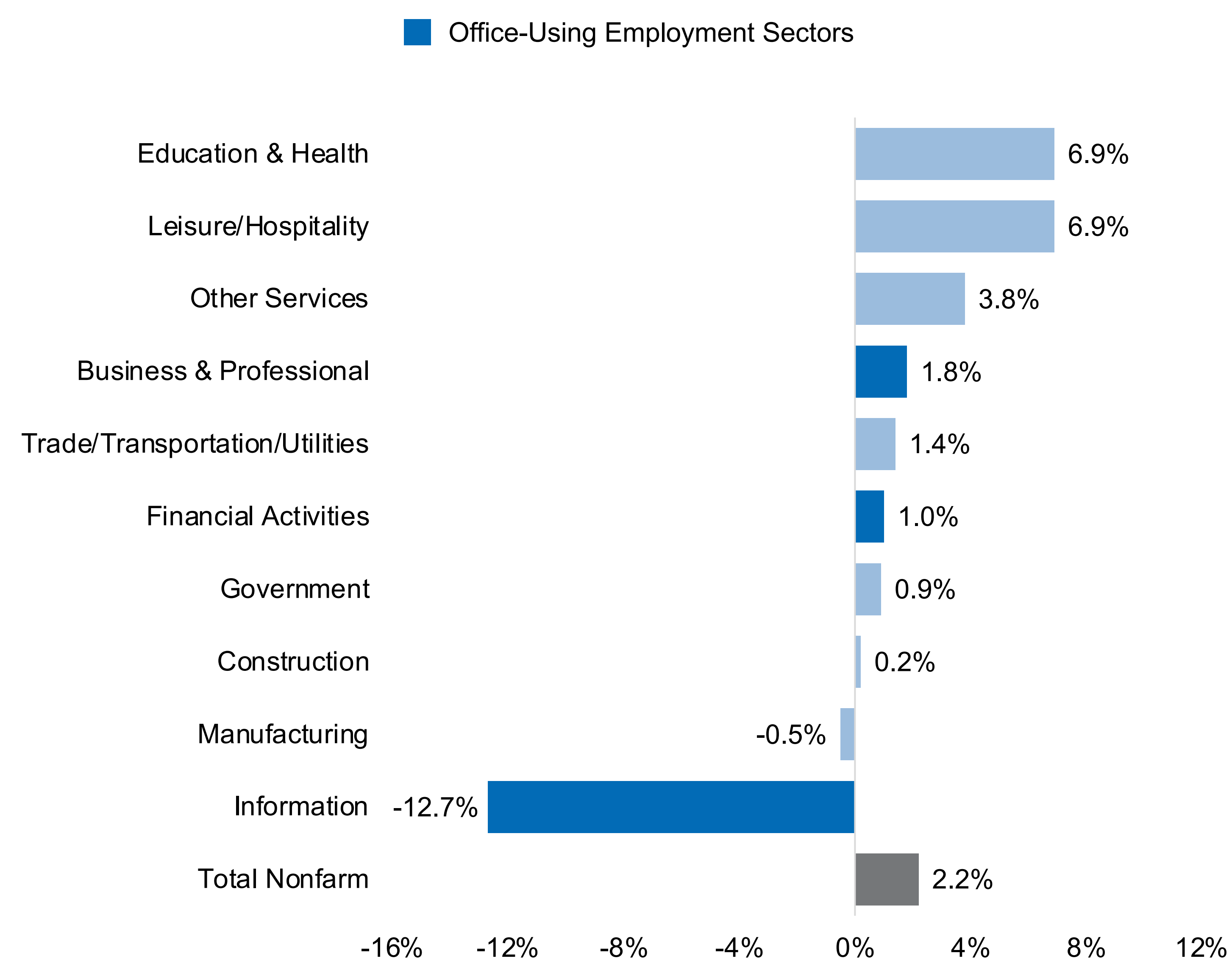
Tech Companies Drive Employment Losses in Office-Using Sectors

The information sector, where technology companies are generally grouped, led employment losses in the region with a 12.7% decline over the last 12 months. Meta, Hulu, Netflix, Roku and Spotify are a sampling of companies with layoffs in recent months..

Employment by Industry, Aug-23



Employment Growth by Industry, 12-Month % Change, Aug-23

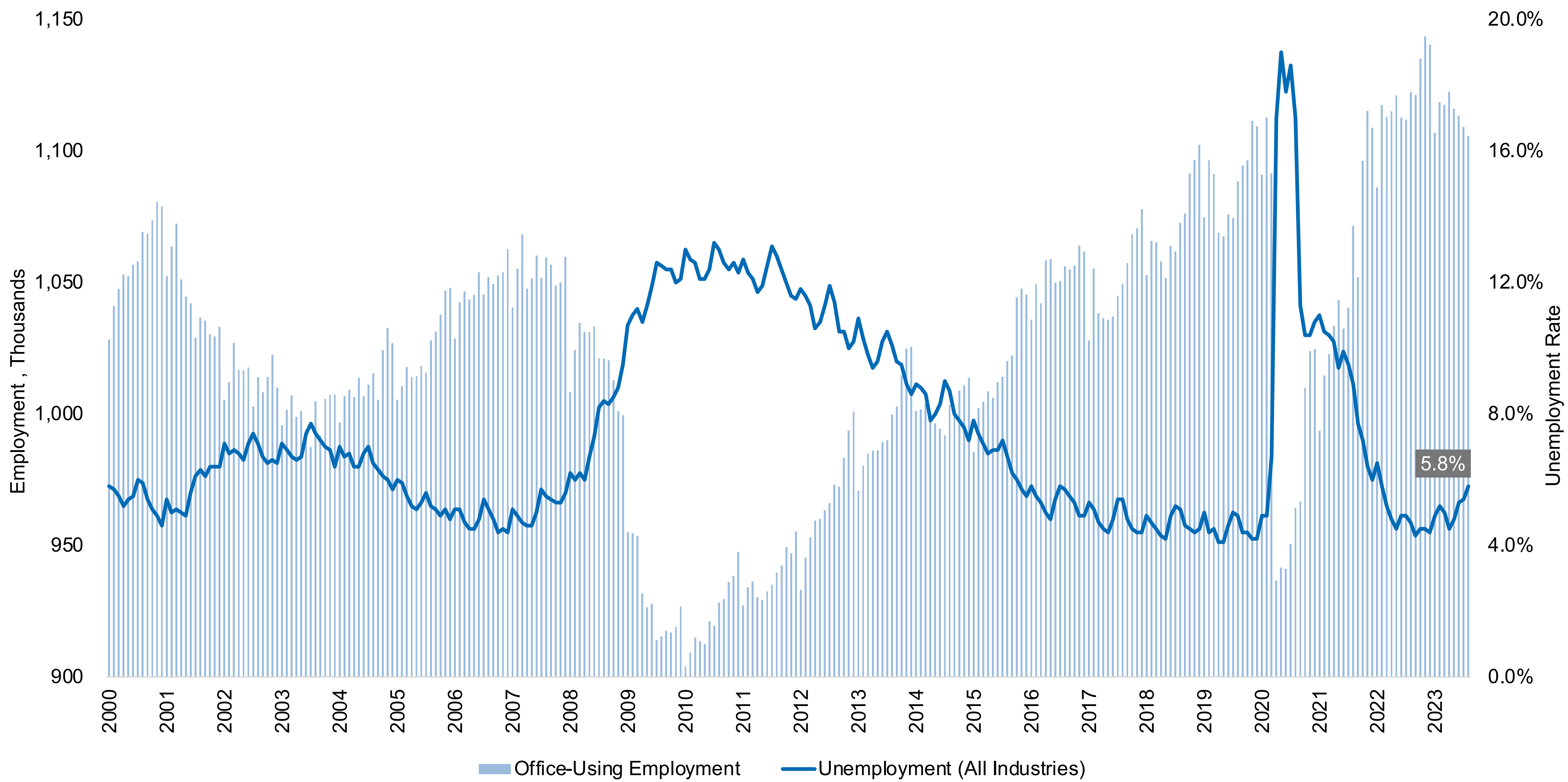


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale MSA

Overall Office-Using Employment Softens

Office-using jobs are down 34,700 positions from year-end 2022, primarily from job losses in the tech sector. Current office-using employment is also 7,100 jobs fewer than the pre-pandemic (February 2020) level.

Office-Using Employment* and Unemployment Across All Industries

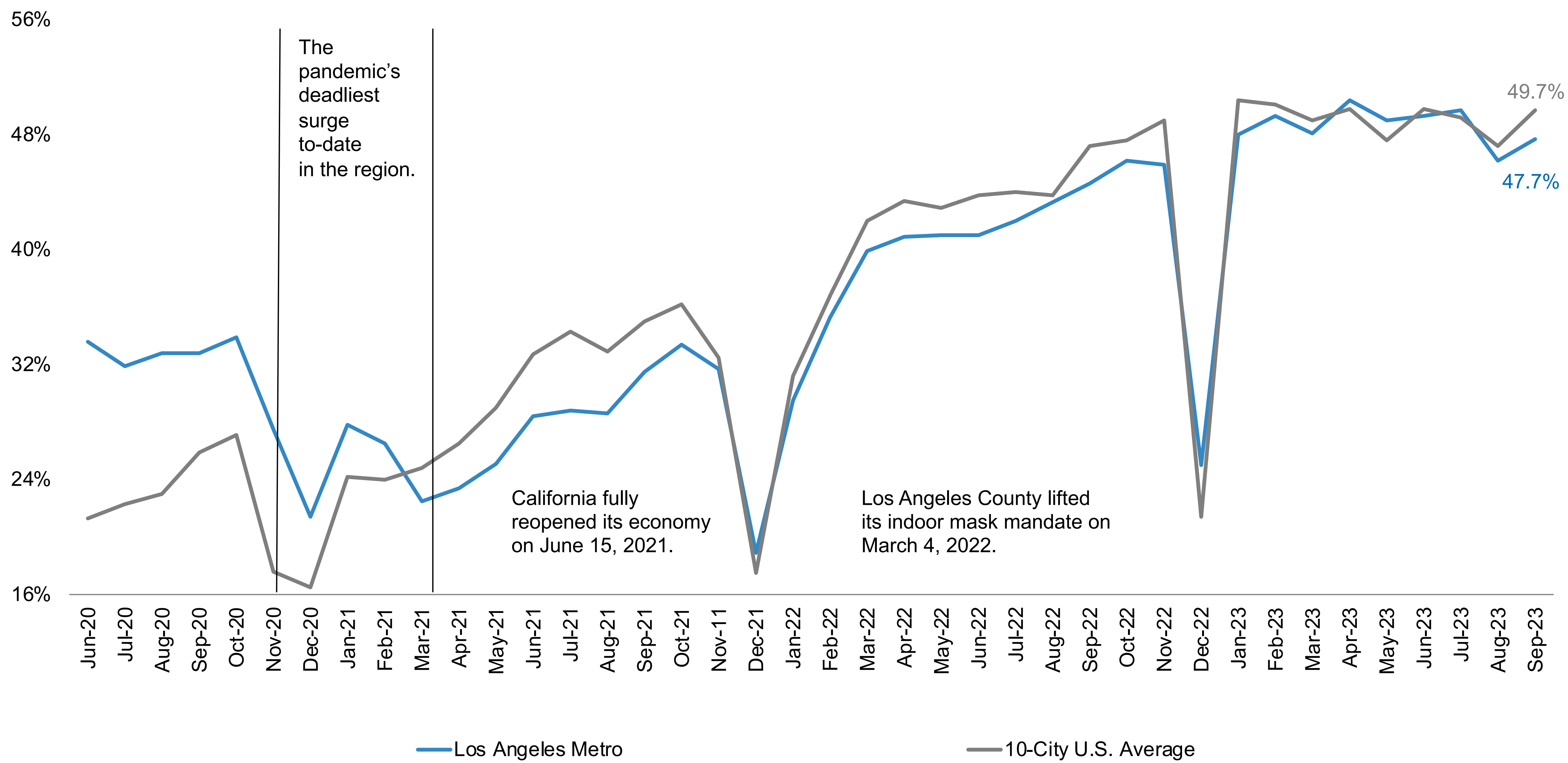


Source: U.S. Bureau of Labor Statistics, Los Angeles-Long Beach-Glendale, CA
Note: May 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Local Office Utilization is Up since 2020, but Remains Sub-50%

The winter holidays aside, local utilization has generally hovered in the upper 40s since September 2022 as most companies continue to rely on hybrid work schedules. Anecdotally, office lunch traffic in Downtown Los Angeles is noticeably less than West Los Angeles market areas, such as Century City. Downtown's safety concerns are a primary factor.

Los Angeles Metro Office Utilization Rates | Kastle Systems Return to Work Data Based on Key FOB Swipes



Source: Newmark Research, Kastle Systems (Each month's percentage reflects the average of its final week.

Three Days in the Office, Two from Home is the Most Common Work Model

However, not all companies are strictly enforcing their return-to-work mandates due to still-low unemployment and concerns over staff retention. A noticeable rise in unemployment (if it happens) is expected to shift leverage from employees to employers. Tech has led other industries in layoffs and companies such as Apple and Meta now have firmer work mandates.

Select Return to Office Policies

Google updated its hybrid work policy in June 2023 by requiring most employees to physically come to the company's offices at least 3 days a week.

amazon Corporate employees required to spend at least 3 days a week in the office starting May 1, 2023.

Apple Employees returned 3 days a week post-Labor Day 2022. Apple has reportedly escalated enforcement of this policy.

BANK OF AMERICA Employees returned to the office in early June 2022; a 4 day per week minimum.

Disney Any Disney staff member working "in a hybrid fashion" will need to return to Disney's offices four days a week.

COMCAST Office-based employees have been expected to come in on Tuesdays, Wednesdays, and Thursdays since September. The new policy requires four days in.

Meta employees are back in the office 3 days a week as part of new mandate that went into effect post-Labor Day 2023.

Microsoft In April 2022. made 50% attendance at the office mandatory for all employees that don't have an exception from their managers.

Morgan Stanley Encouraging employees to return full-time. Limits most of its sales force to 90 days of remote work per year.

NETFLIX Most teams are working onsite Tuesday, Wednesday and Thursday, with remote work allowed on Monday and Friday.

WARNER BROS. DISCOVERY Employees returned 3 days a week in early June 2022.

WELLS FARGO Returned to the office in mid-March 2022 in a hybrid capacity, 3 days per week.

Source: Newmark Research

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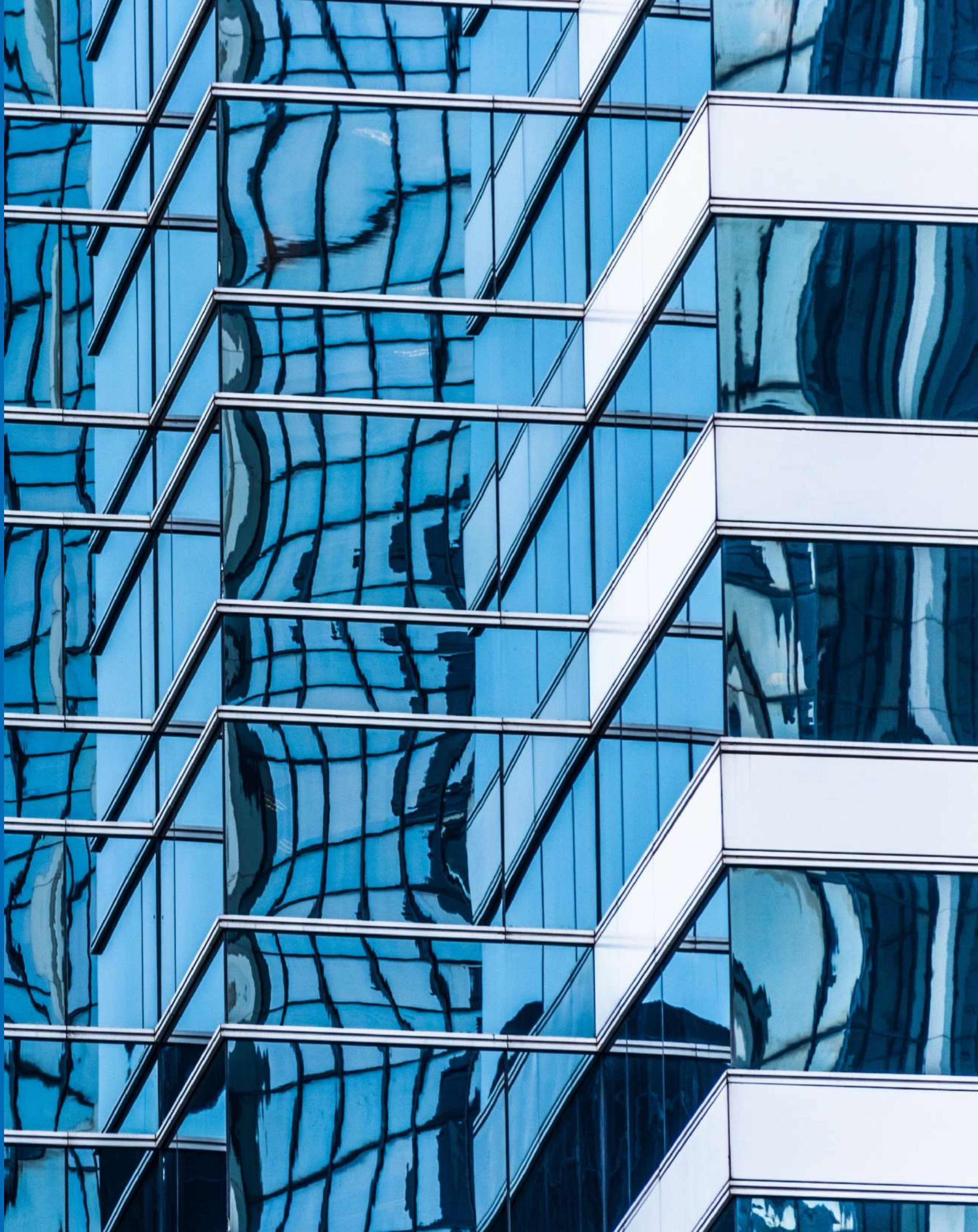
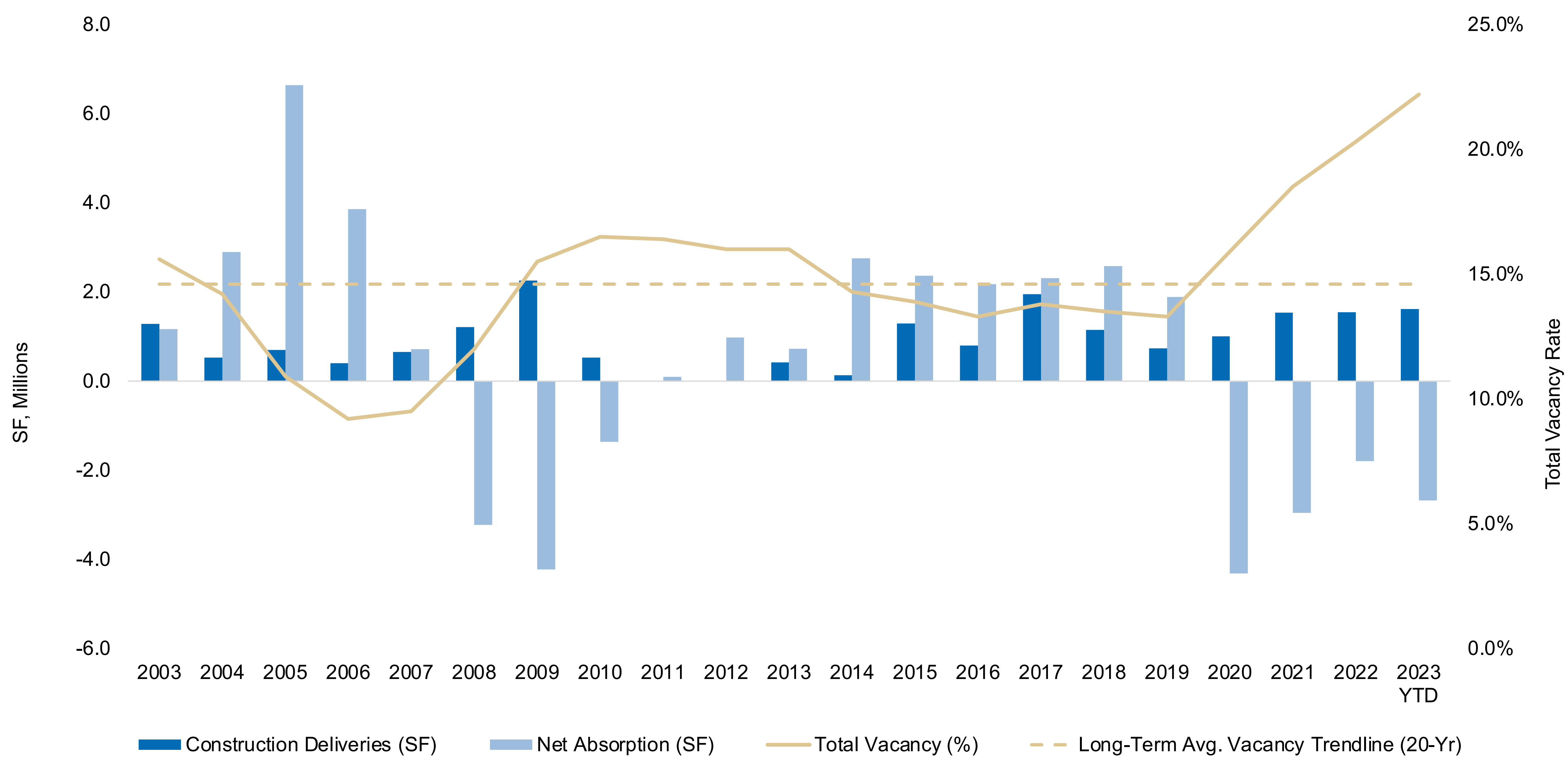
Leasing Market Fundamentals



Vacancy Ticks Up Again This Quarter

Total vacancy increased to a new high of 22.2%, a 70-bps increase from the second quarter of 2023. Direct vacancy increased by almost 1.7 MSF, while sublease vacancy saw a minimal decrease over this three-month period. This is evidence of sublease listings coming to term or being given back to the landlord through termination; sublease space is transitioning to direct.

Historical Construction Deliveries, Net Absorption, and Vacancy

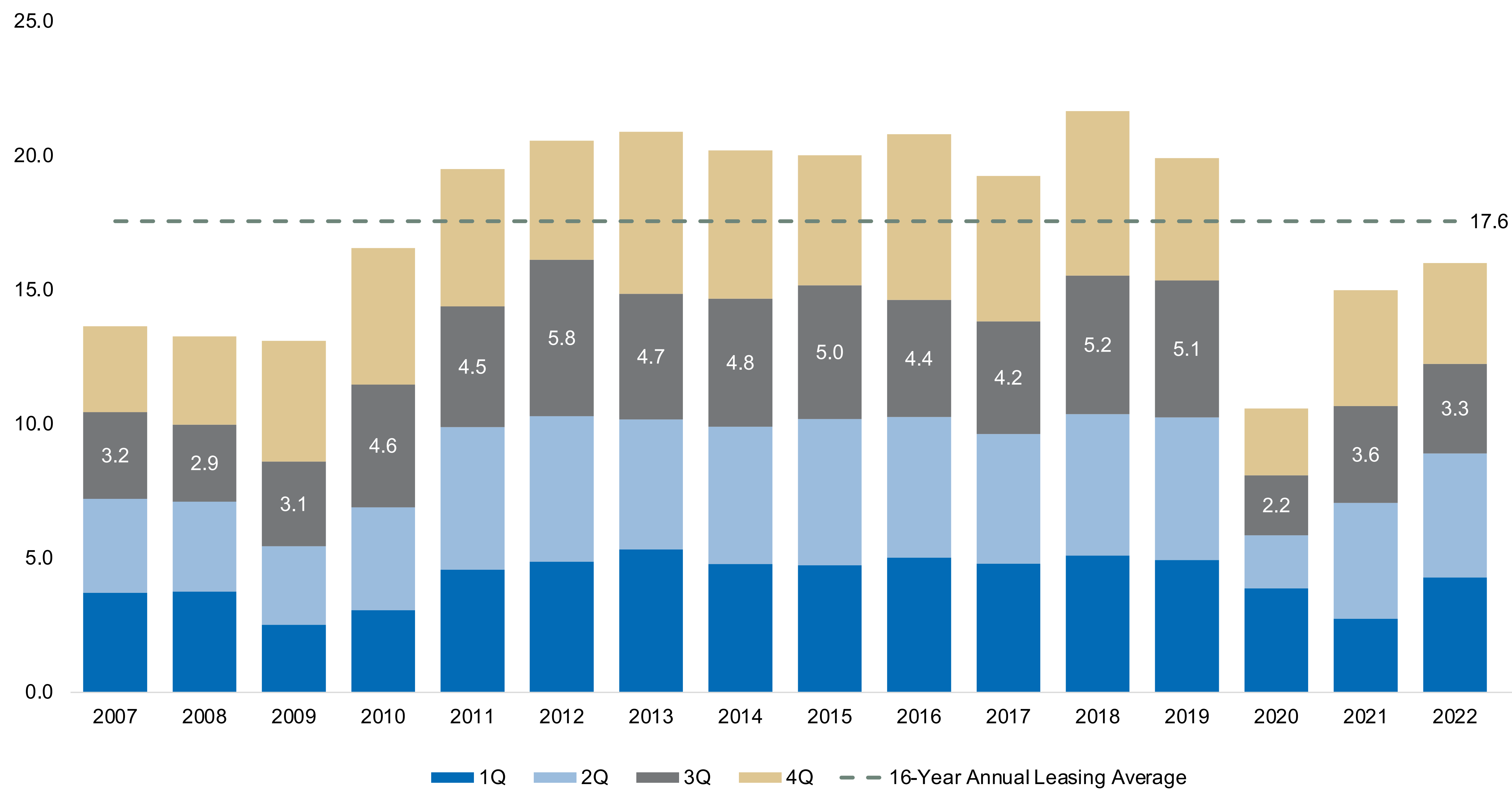


Source: Newmark Research

3Q23 Leasing Activity Decelerates

An uncertain economic outlook, rising interest rates and hybrid work models are reducing office space requirements. Most tenants continue to pursue trophy-grade Class A space as they scale down their footprints. From a historical perspective, this quarter's leasing activity of 2.6 MSF can be categorized as lackluster at best.

Total Leasing Activity (MSF)

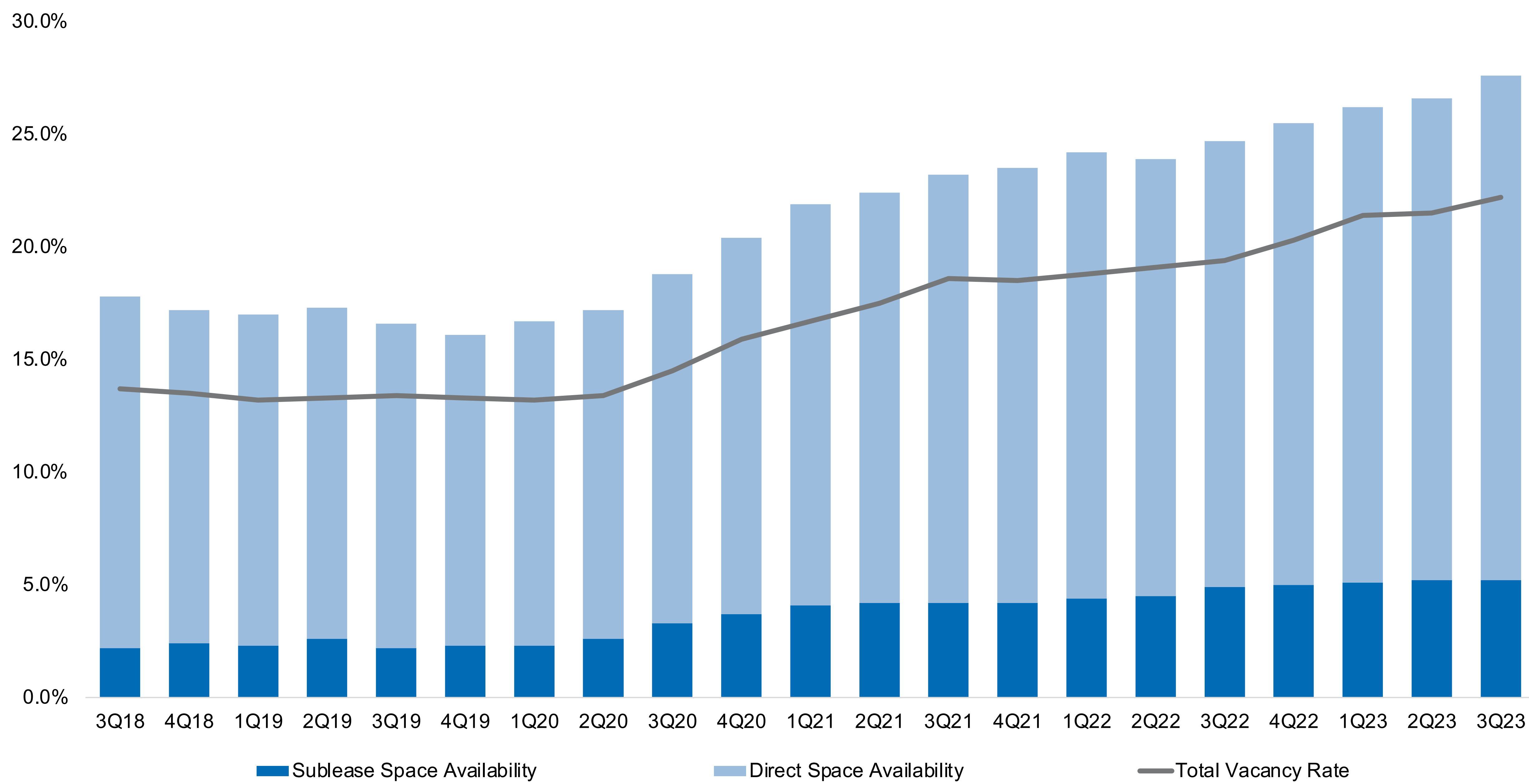


Source: Newmark Research, CoStar

Direct Availability Increases While Sublease Availability Flat

Total availability passed 60 MSF during the third quarter of 2023, a new record high for the market. While sublease availability was generally flat over the quarter, direct availability saw the largest gains in over two years with almost 2.3 MSF coming online over the last three months. General economic conditions and telework, which are causing tenant downsizes and consolidations, along with sublease availability shifting to direct space, are contributing to the gains.

Available Space and Tenant Demand as Percent of Overall Market

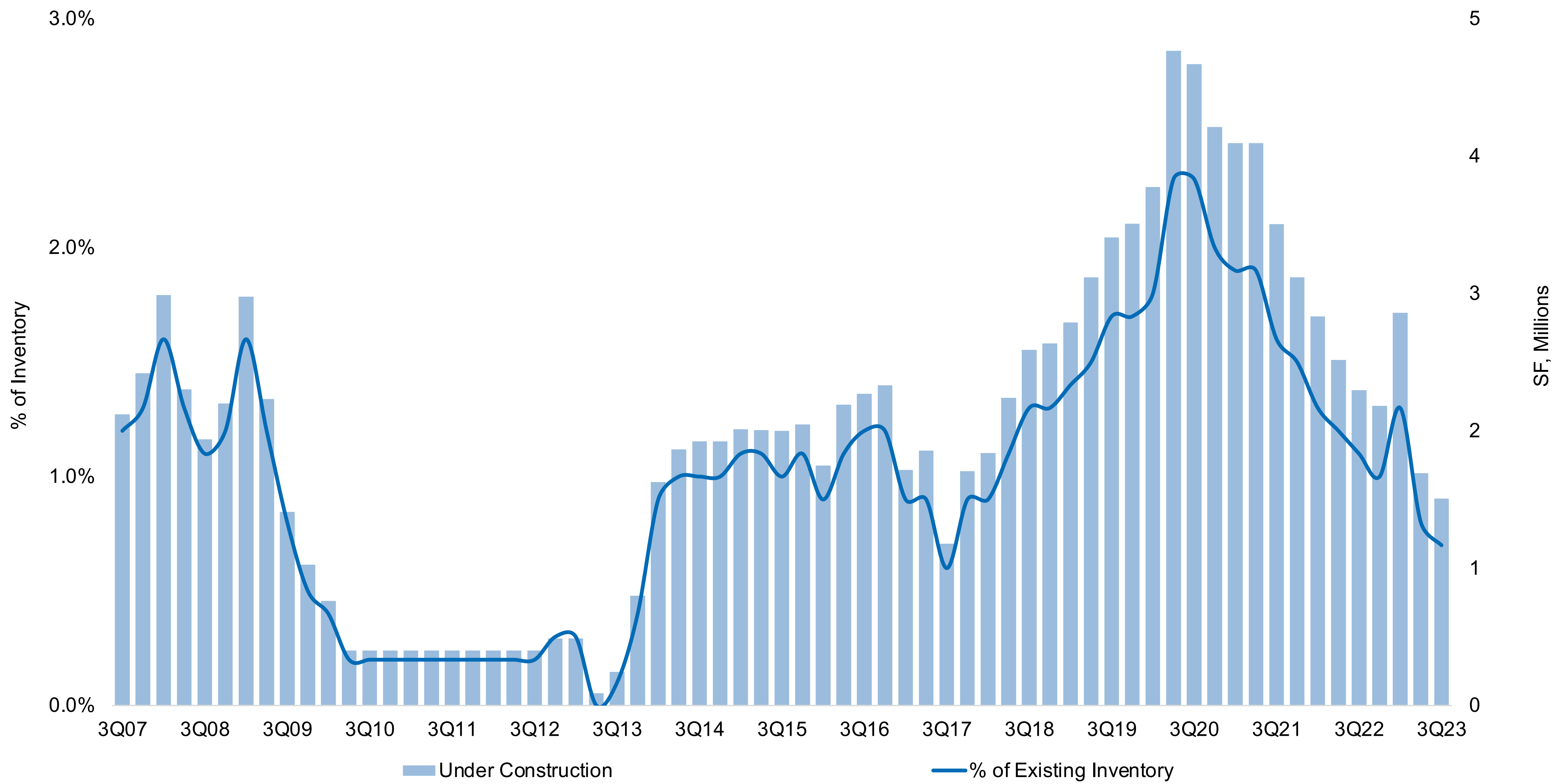


Source: Newmark Research

Construction Volume Continues to Trend Down

Following record deliveries last quarter, under-construction activity trended down to 1.5 MSF, the lowest level since 2017. While certain market areas with strong fundamentals (e.g., Century City) are seeing new construction starts, current demand for new office supply is low. Part of this is due to a lingering glut of available space, a portion of which is comprised of trophy-space offered at discounted rental rates.

Office Under Construction and % of Existing Inventory

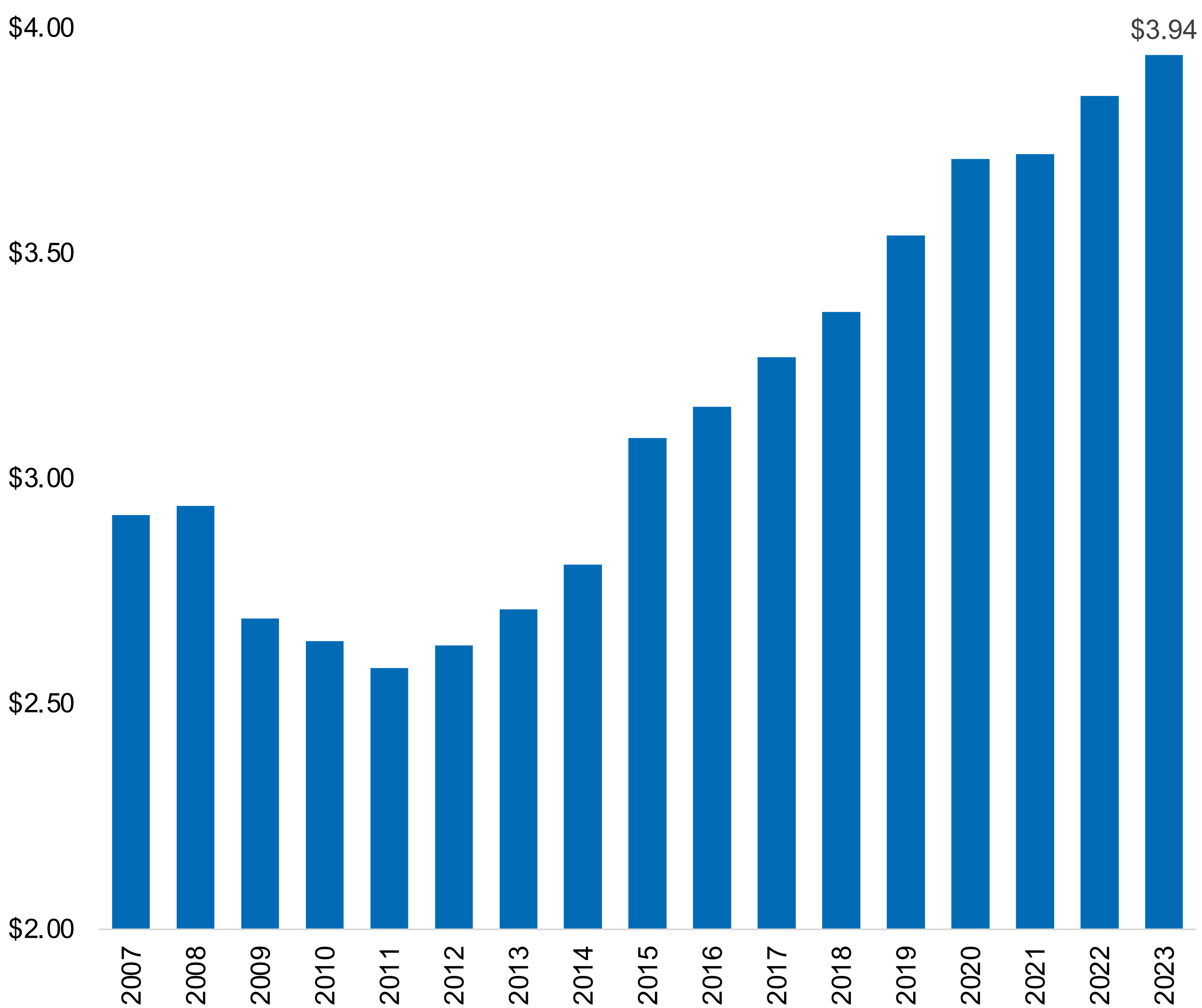


Source: Newmark Research

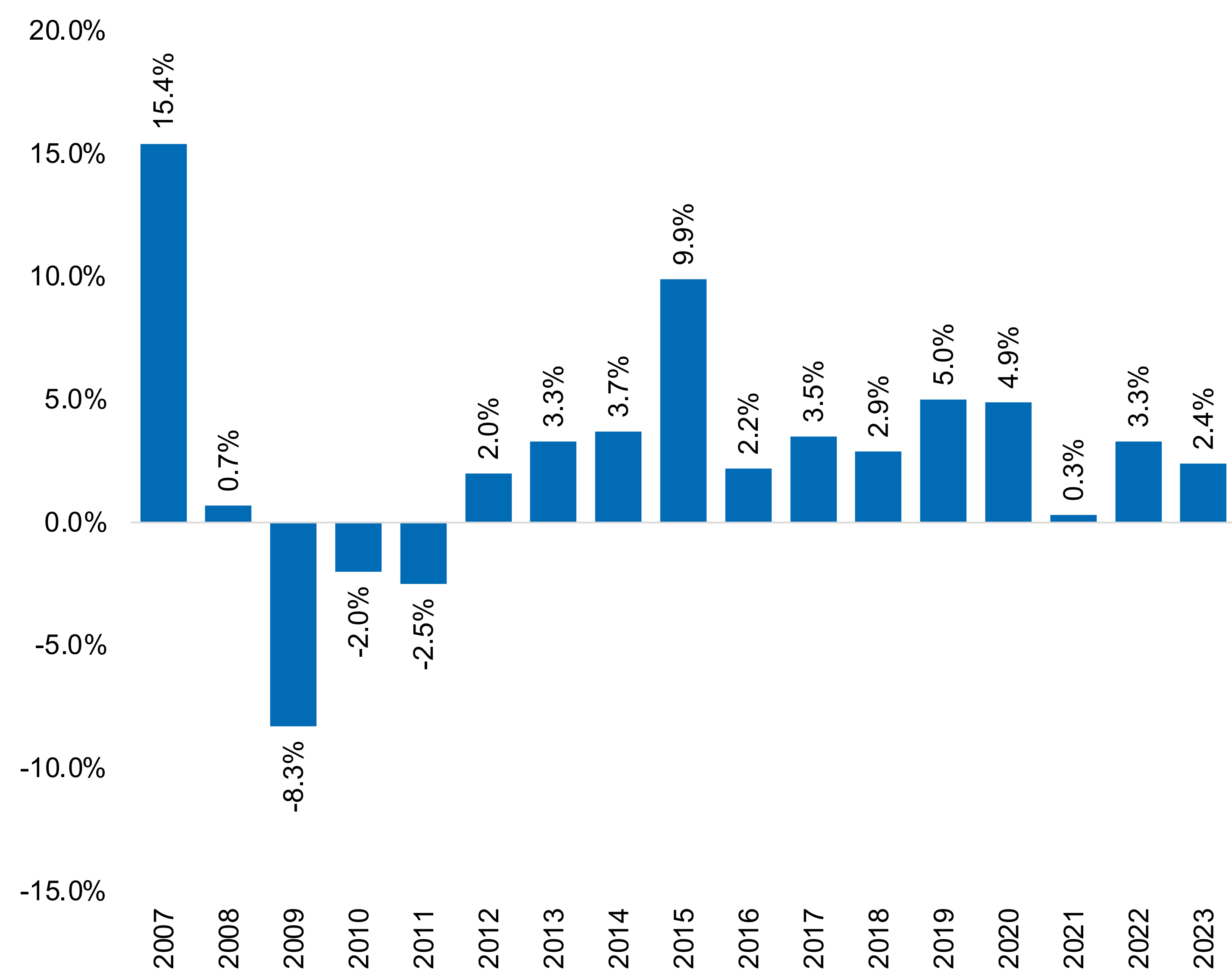
Landlords Hold Firm on Rents

Leasing activity may be subdued relative to recent quarters, but this has yet to impact average asking rents. Much of this can be traced to Class A listings presently on the market in addition to inflation, which is keeping tenant improvement allowances elevated.

Office Average Asking Rent, $/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

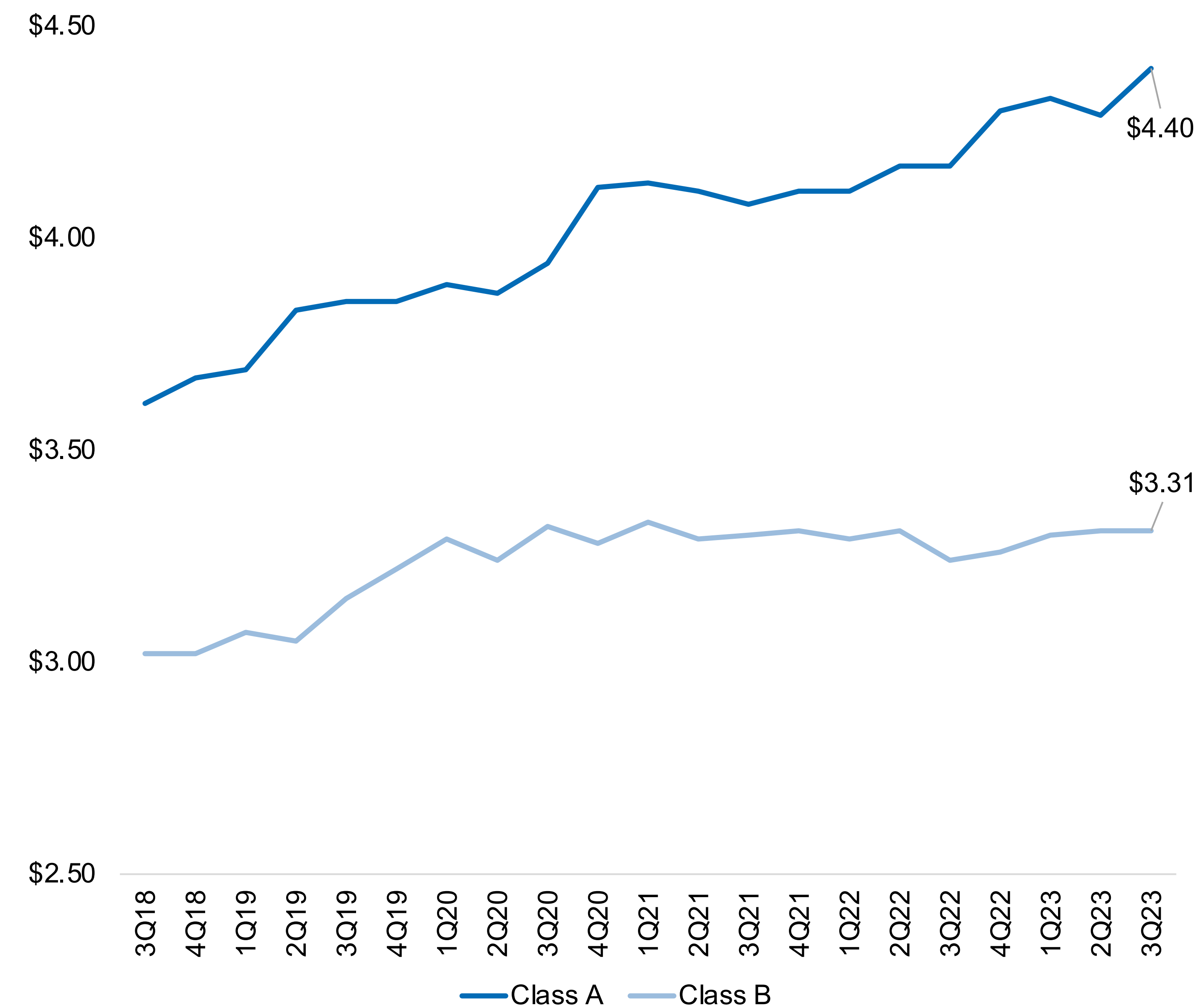


Source: Newmark Research

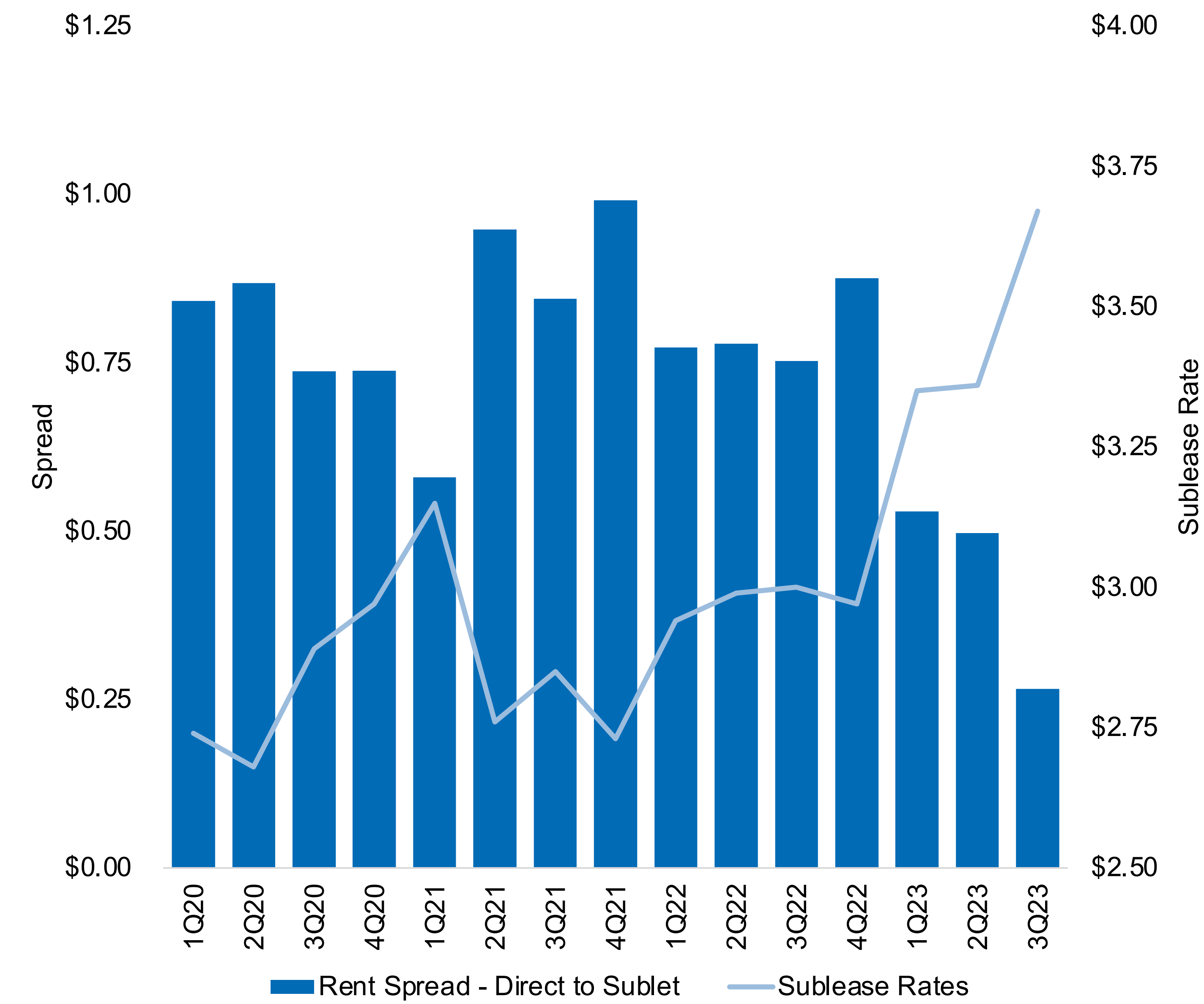
Class A Office Rents Remain Elevated

The flight-to-quality trend has supported the rental rates of trophy Class A assets over lower-quality building stock. Companies want to entice their employees back to the office, and quality space in a safe neighborhood with a rich amenity base is in high demand. Sublease asking rents, meanwhile, remain elevated. This is from tech companies that leased excess trophy space prior to the pandemic and now have overcapacity to shed.

Class A and Class B Asking Rents, $/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research, CoStar

Sublease Availability Plateaus

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Large Removals Halt Sublease Growth

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The Stock Market and Local Venture Capital Funding

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A Tech Tenant Up Close: Netflix

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West Los Angeles Drives New Leasing Activity

Ten of the largest new leases (non-renewals/extensions) signed this quarter in Greater Los Angeles were based in the submarket. Activity was spread out across industry segments.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Clearlake Capital	1950 Avenue of the Stars	West Los Angeles: Century City	Pre-lease	151,104
The private equity firm pre-leased the top seven floors of the under-construction Century City Center for its new headquarters. Clearlake will move/expand from Santa Monica when the building delivers in 2026.				
Penske Media Corporation	11355 West Olympic Boulevard	West Los Angeles: Olympic Corridor	Direct Lease	125,000
The media agency leased space at the newly built Lumen West LA and will expand-relocate from 11175 Santa Monica Blvd (the "Variety Building") in Westwood.				
Skims	1601 Vine Street	West Los Angeles: Hollywood	Direct Lease	116,000
Kim Kardashian's shapewear and clothing brand Skims leased all the office space at 1601 Vine, which was formerly occupied by WeWork. The lease helped building owner J.H. Snyder avoid a loan default.				
TikTok (ByteDance)	900 Corporate Point	West Los Angeles: Culver City	Sublease	90,049
The social media giant expanded its footprint in Culver City after subleasing space formerly occupied by NortonLifeLock (Symantec). The company also signed an expansion for 53,202 SF at C3 this quarter.				
Blackline Systems	21300 Victory Boulevard	Los Angeles North: West Valley	Lease Renewal	88,926
The software company renewed its lease for the top four floors at the Douglas-Emmett-owned Warner Corporate Center in Woodland Hills.				

Source: Newmark Research

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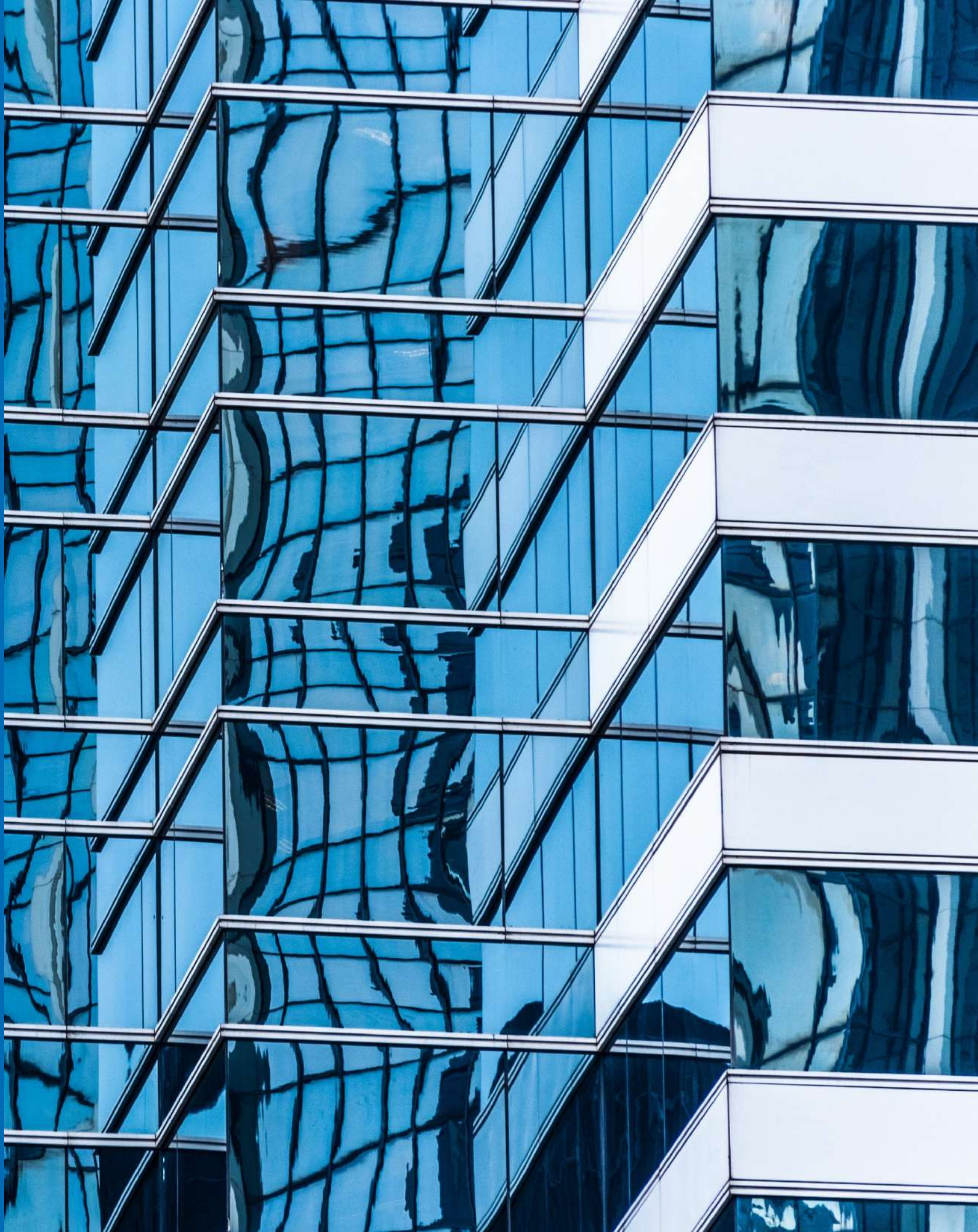
Office-to-Residential Conversion and Distress



Home Ownership is Out of Reach for 85% of Buyers: Good News for the Rental Market

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44% of the Office Market Obsolete or Unable to Service Debt

Downtown LA’s Adaptive Reuse Ordinance Could Be Modified and Expanded Citywide

Buildings with 15 Stories or Less Comprise the Bulk of Prior Residential Conversions

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Planned Office-to-Residential Conversions Are Becoming More Widespread in the Region

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Office Loan Defaults are Growing; So are the Number of Vulnerable Properties

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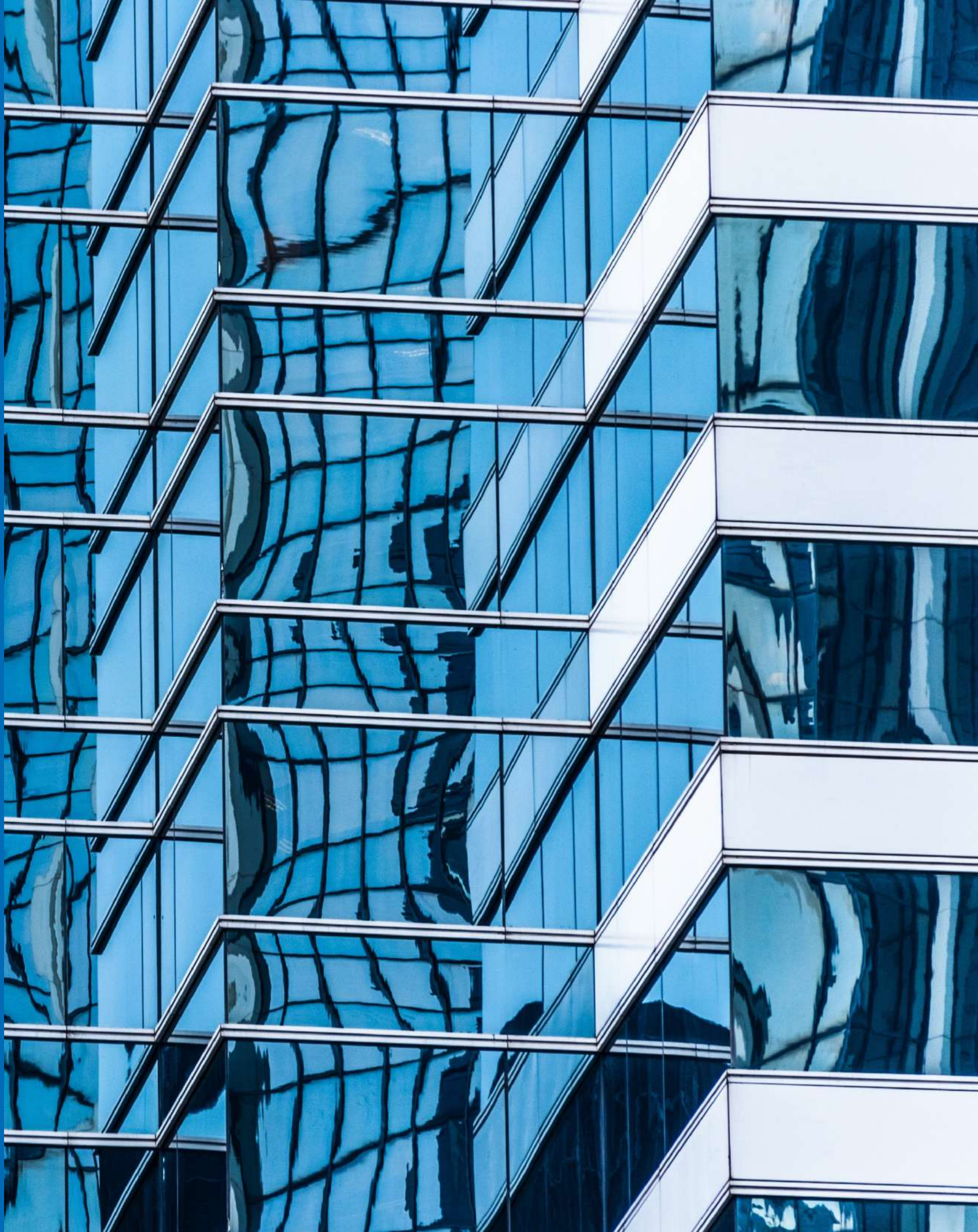
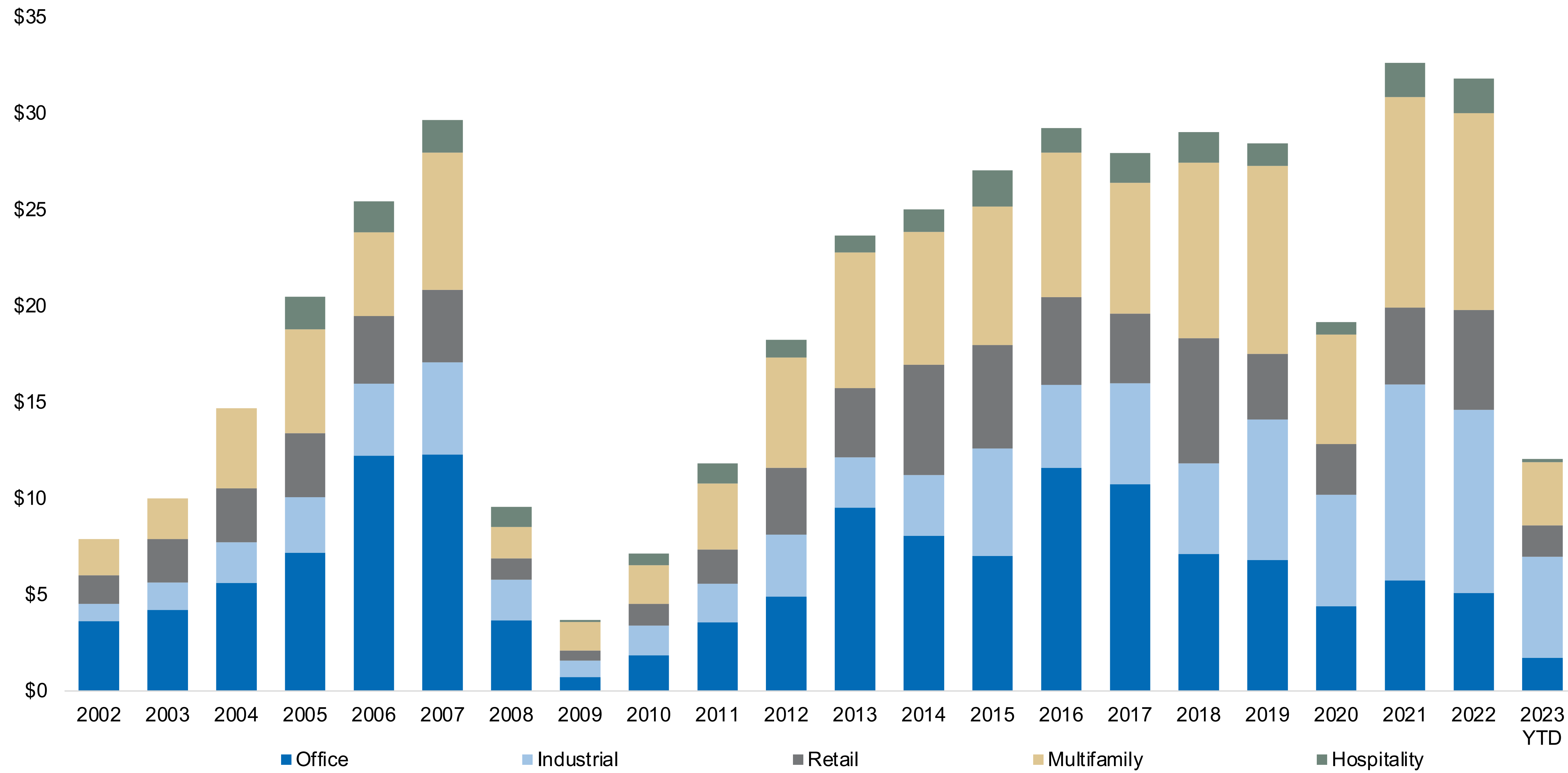
Sales Activity



Office Comprised 16.0% of Total Sales Volume in 2022

This is a steep decline from the 39.6% average in 2016. Structural shifts in leasing dynamics since the onset of COVID-19 remains an ongoing challenge for the property segment. This is in contrast to other asset classes, such as industrial and multifamily, which have experienced heated rent growth amid high demand in recent years.

Los Angeles: Sales Volume Across Commercial Property Segments ($ in Billions)

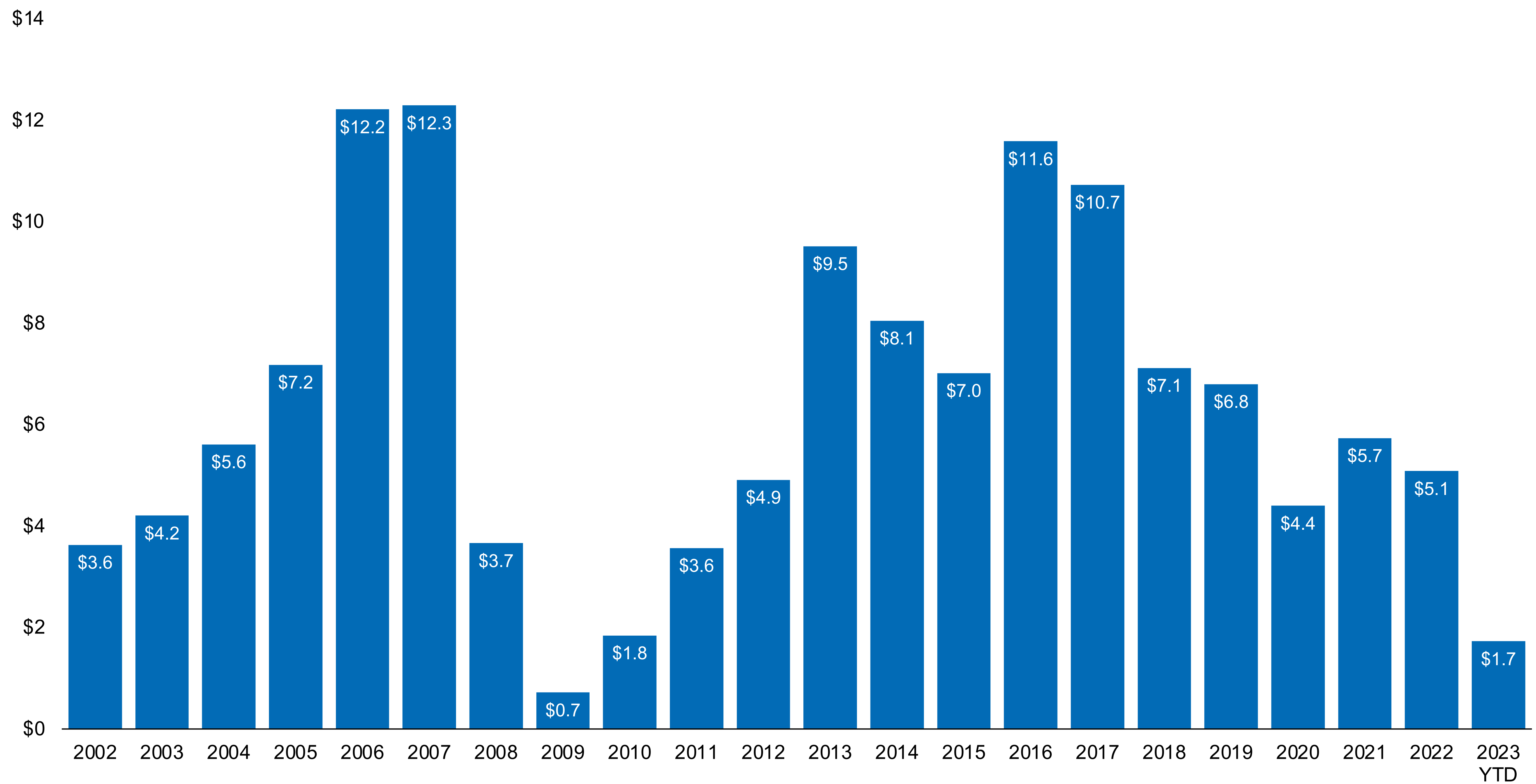


Source: MSCI Real Capital Analytics, Newmark Research
Note: Preliminary data is cited for the third quarter of 2023

Office Sales Volume: Up Close

Office sales volume totaled just $1.7 billion through the first nine months of 2023. Economic headwinds, concern regarding long-term adoption of hybrid work models, rising vacancy, looming debt maturities, new transfer tax initiatives and a higher interest rate environment have most investors taking a “wait-and-see” approach to the asset class.

Los Angeles: Office Sales Volume ($ in Billions)



Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the third quarter of 2023

Pricing Decreases, While Cap Rates Increase

Opportunistic Buyers Are Taking Advantage of Discounted Pricing

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Private, Opportunistic Buyers Are Active; Institutions Less So

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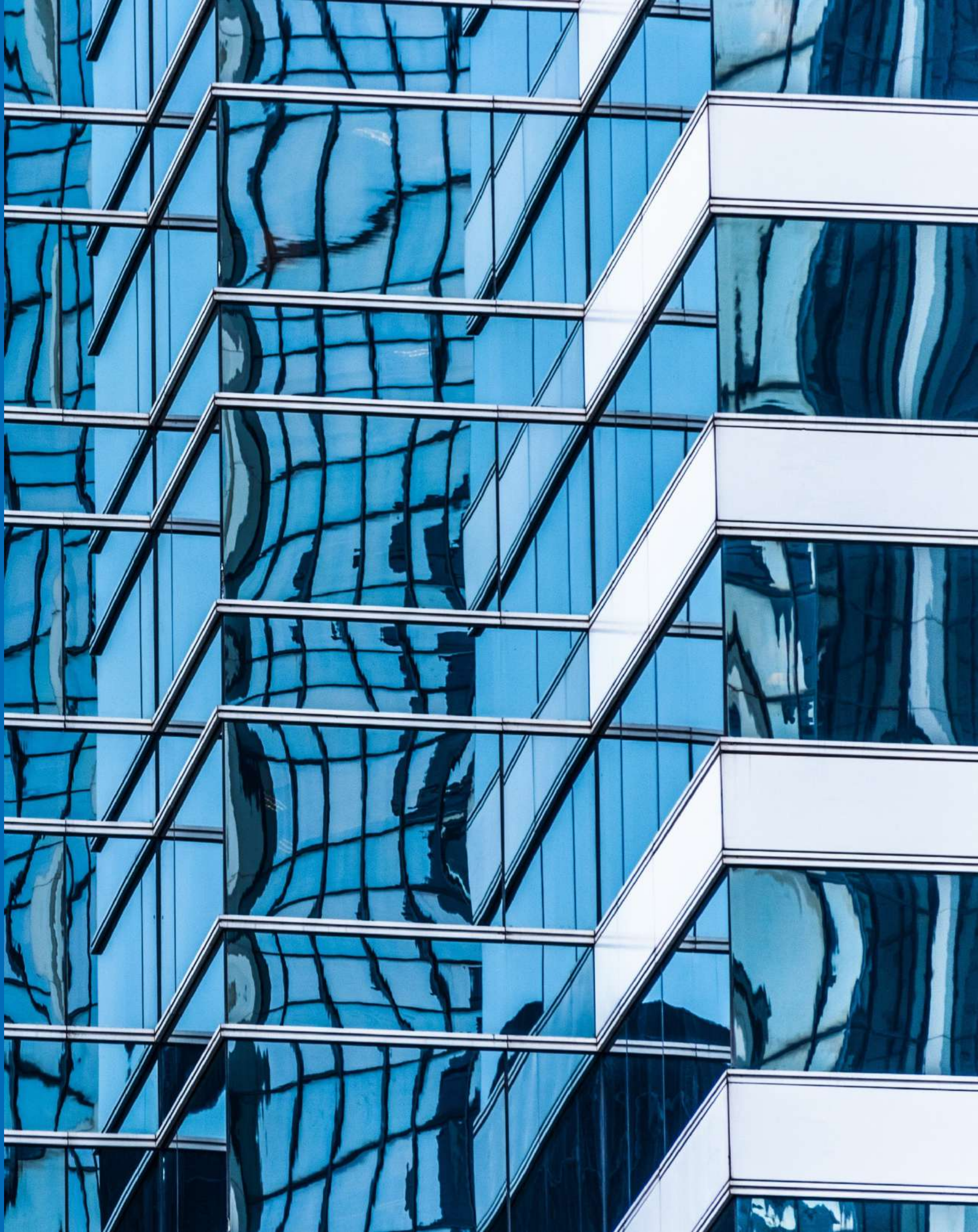
Submarket Snapshots



Downtown Los Angeles

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Los Angeles North

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South Bay

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Tri-Cities

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West Los Angeles

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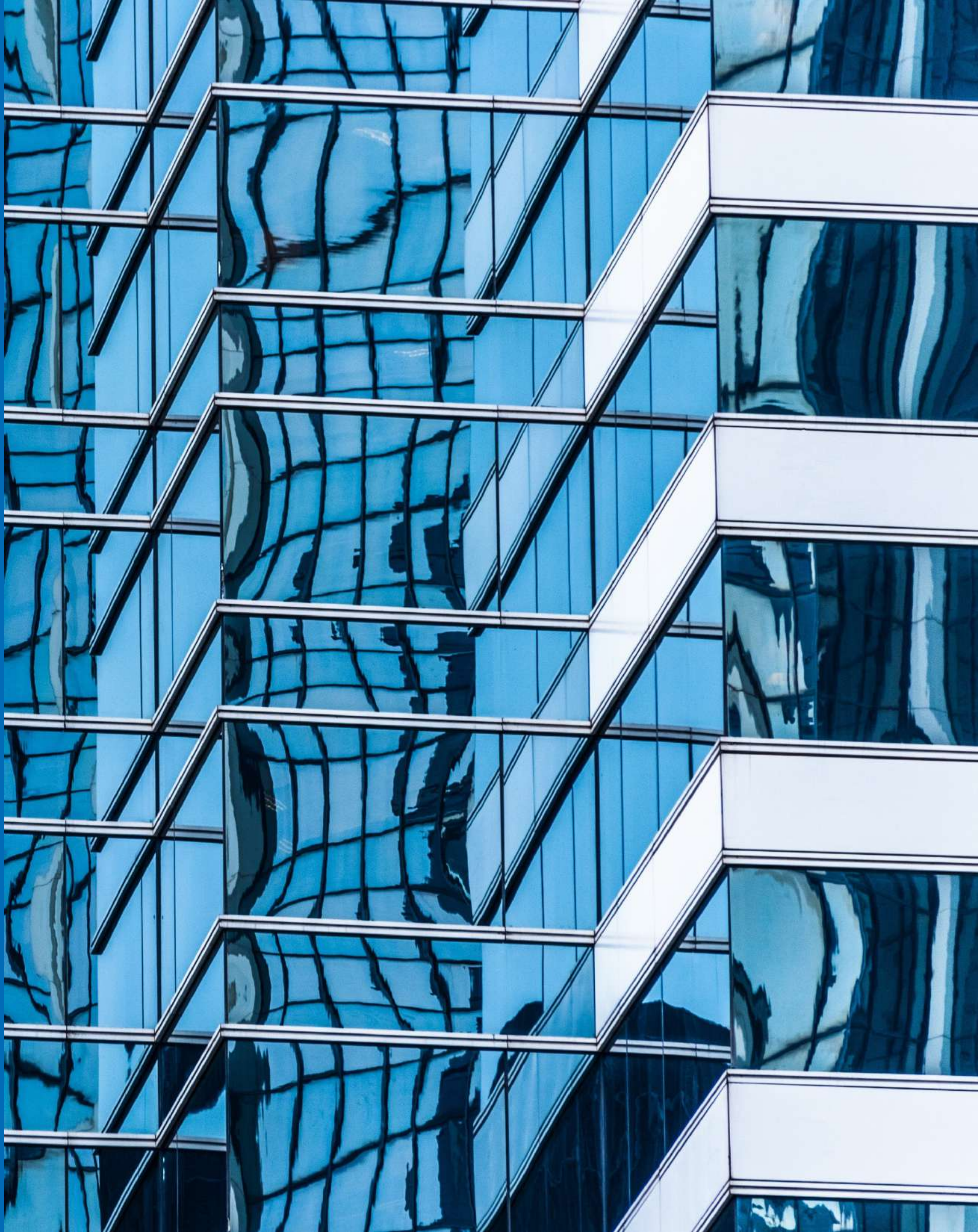
Appendix



Los Angeles Office Submarket Map and High-level Statistics | 3Q23

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High-Level Stats and Sublease Figures, By Submarket | 3Q23

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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