Los Angeles West Mid-Year Office Market Report 2022

The positives of the current economic landscape include robust construction, jobs, and travel, offset by the negatives of rising gas prices, supply chain issues, and scaled back investment from overseas and venture capital. A recession seems likely, but it's too soon to predict how drastic and how long it will last. This uncertainty could hinder companies that are working to establish a clear way forward with a hybrid workplace model and prolong a wait-and-see approach to leasing new office space.

News of more companies adopting the hybrid workplace model seems to be increasing, but the commercial real estate sector was already moving toward hybrid work, albeit at a very slow pace. The pandemic compressed that timeline. The office space rightsizing in 2008, as companies evaluated space usage and how people work, was a precursor to the hybrid workplace mode

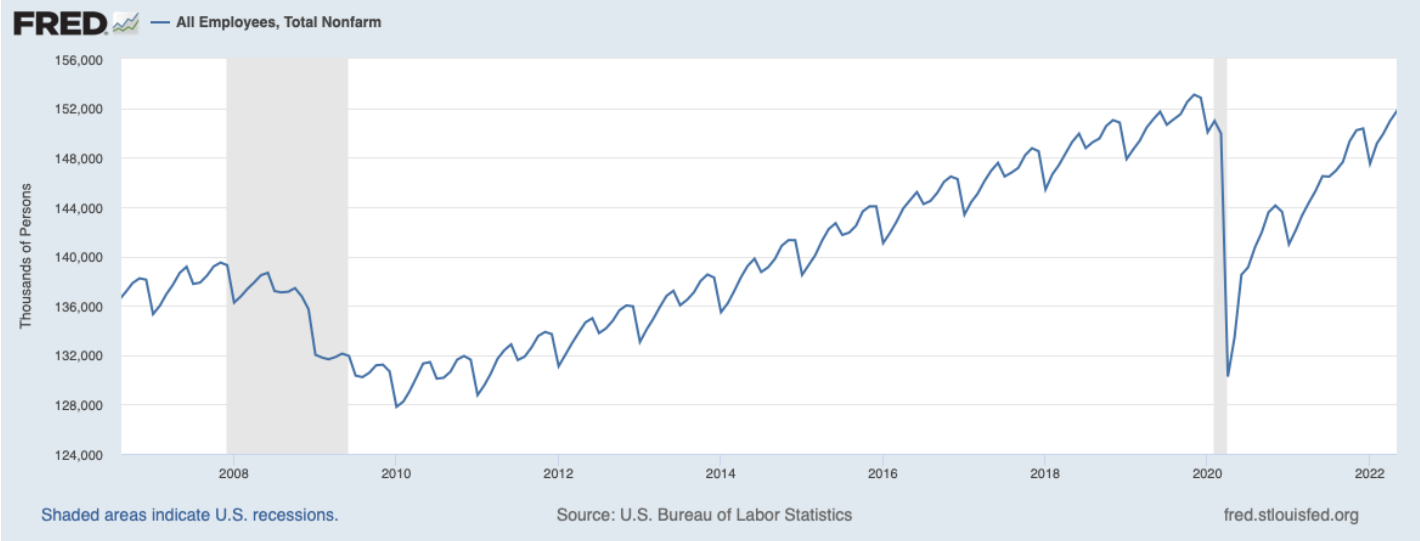
RAISE

July 2022

Petra Durnin - Head of Market Analytics
Davis Drear - Market Analyst

Employment

Additional job gains in June pushed up US employment to near pre-pandemic levels indicating hiring needs may outweigh recession concerns.



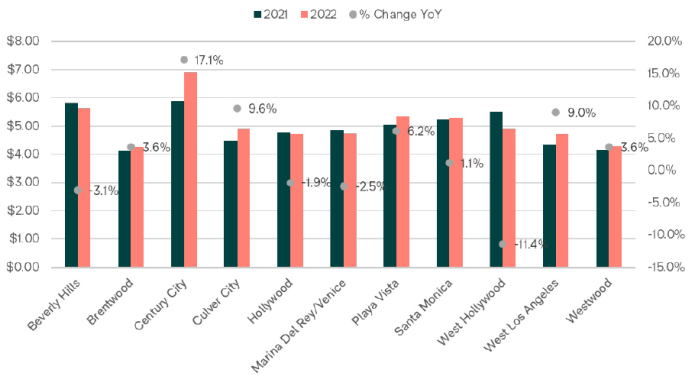
Los Angeles Metro employment lagged slightly behind the US trend but showed the same positive signs of approaching pre-pandemic levels.

Market Level

Asking rent 2021-2022

Asking rents in LA West held mostly flat unlike comparable metro markets such as San Francisco and Manhattan. Many landlords held firm on asking rates because during the height of the pandemic there wasn't demand for office space and lowering rents wasn't realistically going to generate demand. Additionally, when landlords have historically dropped asking rents it took several cycles for them to recover to the pre-downturn levels. Century City had the largest delta year-over-year increase of any neighborhood in LA West increasing 17.1% from mid-year 2021 to a near $7.00 per square foot per month (psf/mo) asking rent. New inventory under development in Century City pushed asking rates up in a market that already had premiums for the highest floors.

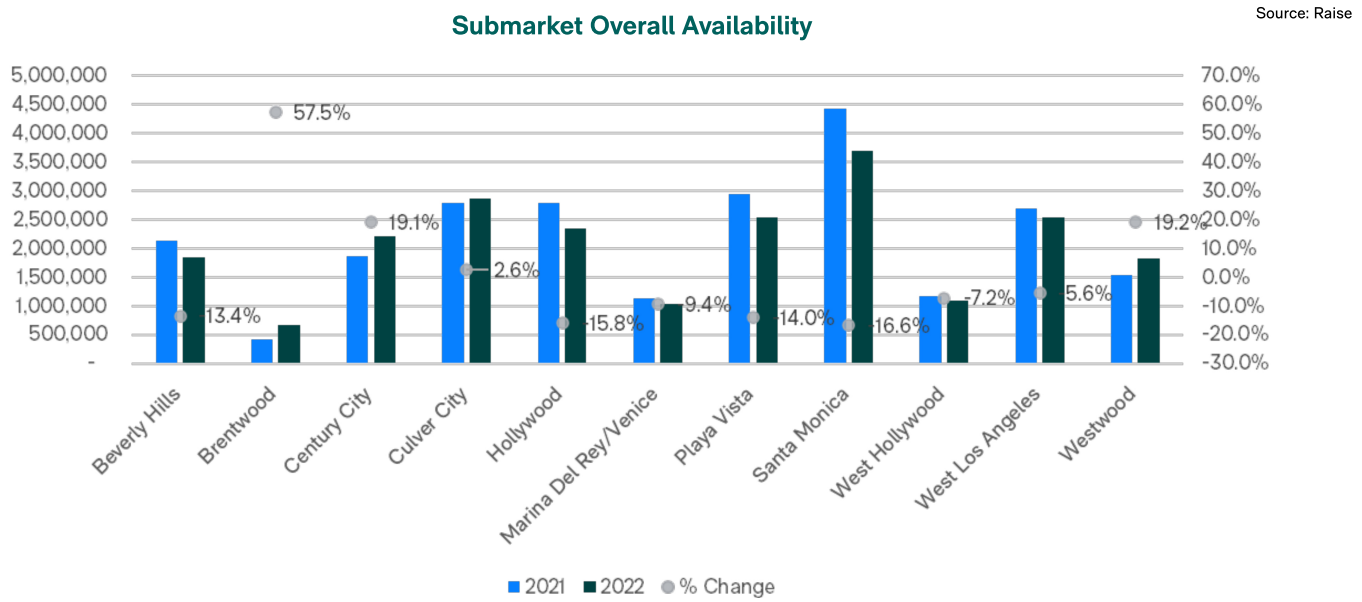
Overall FSG Asking Rents 2021 vs 2022



Source: Raise

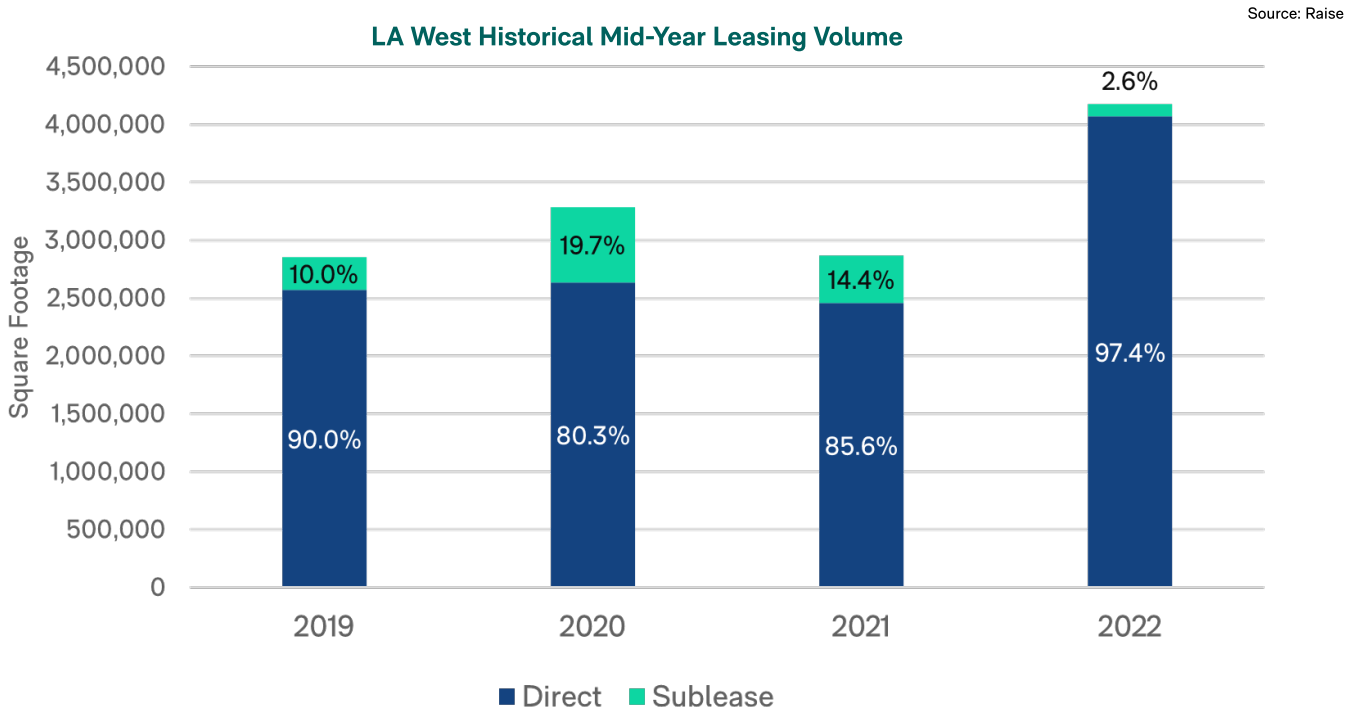
Overall Availabilities

At mid-year 2022, 22.6 msf of available square feet represents a 5.3% drop in overall availability Year over Year (YoY) and a 35.7% availability rate in LA West. Much of the decrease in overall availability YoY is attributed to a decrease of 840,000 square feet (sf) of sublease space or 18.8% reduction in sublease availability. Comparable markets like San Francisco and New York had more dire situations regarding rising sublease space and have yet to have much of a return to normalcy. The LA West market is, however, showing early signs of market stabilization with slight drops in available space YoY.



Mid-Year Leasing

So far in 2022, leasing activity totaled 4.2 million square feet (msf), up 45.5% year over year. In comparison, approximately 2.8 msf leased in the first half of 2021 and 5.5 msf leased in all of 2020; activity seems to be returning stronger than expected. Increased leasing and touring activity indicates that the office market in LA West is stabilizing. The Santa Monica submarket leasing Year To Date (YTD) ranked the highest with 930,000 sf, bolstered by large deals for Amazon (207,000 sf) and Lionsgate (193,000 sf).



Top leases first half of 2022

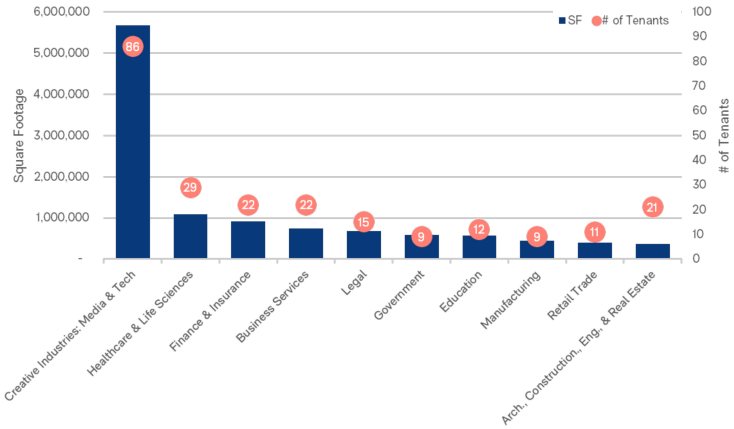
Source: Raise

Neighborhood	Tenant	Address	SqFt	Transaction Type	Lease Type
Century City	Creative Artists Agency	1950 Avenue of the Stars	394,580	New Lease	Direct
Santa Monica	Amazon	2450 Colorado Ave	207,821	Expansion	Direct
Santa Monica	Lionsgate	2600-2800 Colorado Ave	192,584	Renewal	Direct
Century City	First Republic Bank	1888 Century Park E	156,163	Renewal/ Expansion	Direct
Playa Vista	Nike	5533 EA Way	113,069	Expansion	Direct
Playa Vista	Google	12181 Bluff Creek Dr	52,782	New Lease	Direct
Hollywood	Company3	1001 Seward St	59,646	Expansion	Direct
Playa Vista	Google	12181 Bluff Creek Dr	52,782	New Lease	Direct
Culver City	Apple	8740 Washington Blvd	51,234	New Lease	Direct

Tenants in the Market

Throughout the pandemic the companies actively looking for space were Creative Industries and Healthcare & Life Sciences. Both sectors grew in response to unprecedented demand for content and healthcare services. This activity is still evident as we begin exiting the pandemic climate and prepare for an expected economic downturn. Those two industries account for almost 60% of the 11 msf tenant requirements.

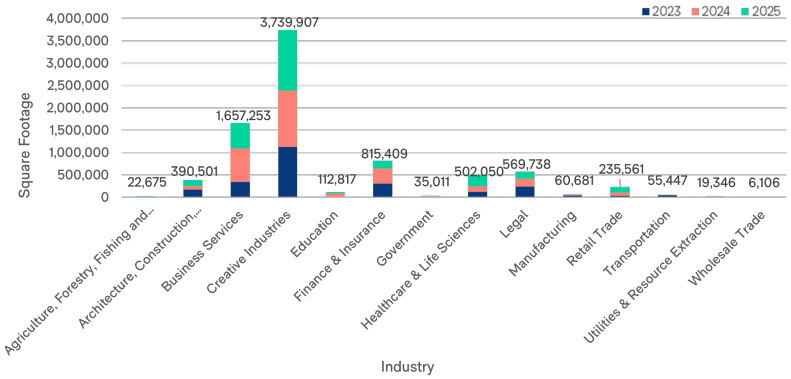
LA West Historical Mid-Year Leasing Volume



Tenant Expirations

Creative industries compose a majority of the 3.7 msf of lease expirations over the next three years. As the economy slows and companies reassess financial stability, the Creative Industries tenants are expected to enter the leasing market due to the minimal impact on the growth of this sector. During the pandemic, these were some of the first companies to take advantage of the available space and will likely do so moving forward.

Tenant Expirations 2023-25 by Industry



Source: Raise

Outlook

If companies had surveyed employees in 2018 to gauge the desire of a hybrid schedule, and on-site employees were viewed the same as off-site employees, the results would likely be the same as they are now. Employees now expect flexibility and for that reason, 81% of companies are adopting a hybrid workplace model.

The workplace is changing and employees are no longer in the office 5 days a week. Office demand is changing as well as companies seek radically different space to support hybrid workplace solutions. There is still demand for office space but the equation is shifting away from fixed square footage per employee.

Despite reduced office space demand, companies are still eager to grow and strengthen culture, foster collaboration and ideation, and bring back a sense of community. The hybrid model is here to stay and can support both flexibility and the structure employees want to access mentors to grow their careers, which will positively impact office demand in the future.

RAISE
www.raise.work

info@raise.work
Petra Durnin - Head of Market Analytics
Davis Drear - Market Analyst

San Francisco, California | Silicon Valley, California | Los Angeles, California | New York, New York | Denver, Colorado