4Q24

Orange County & Los Angeles Office Market Overviews

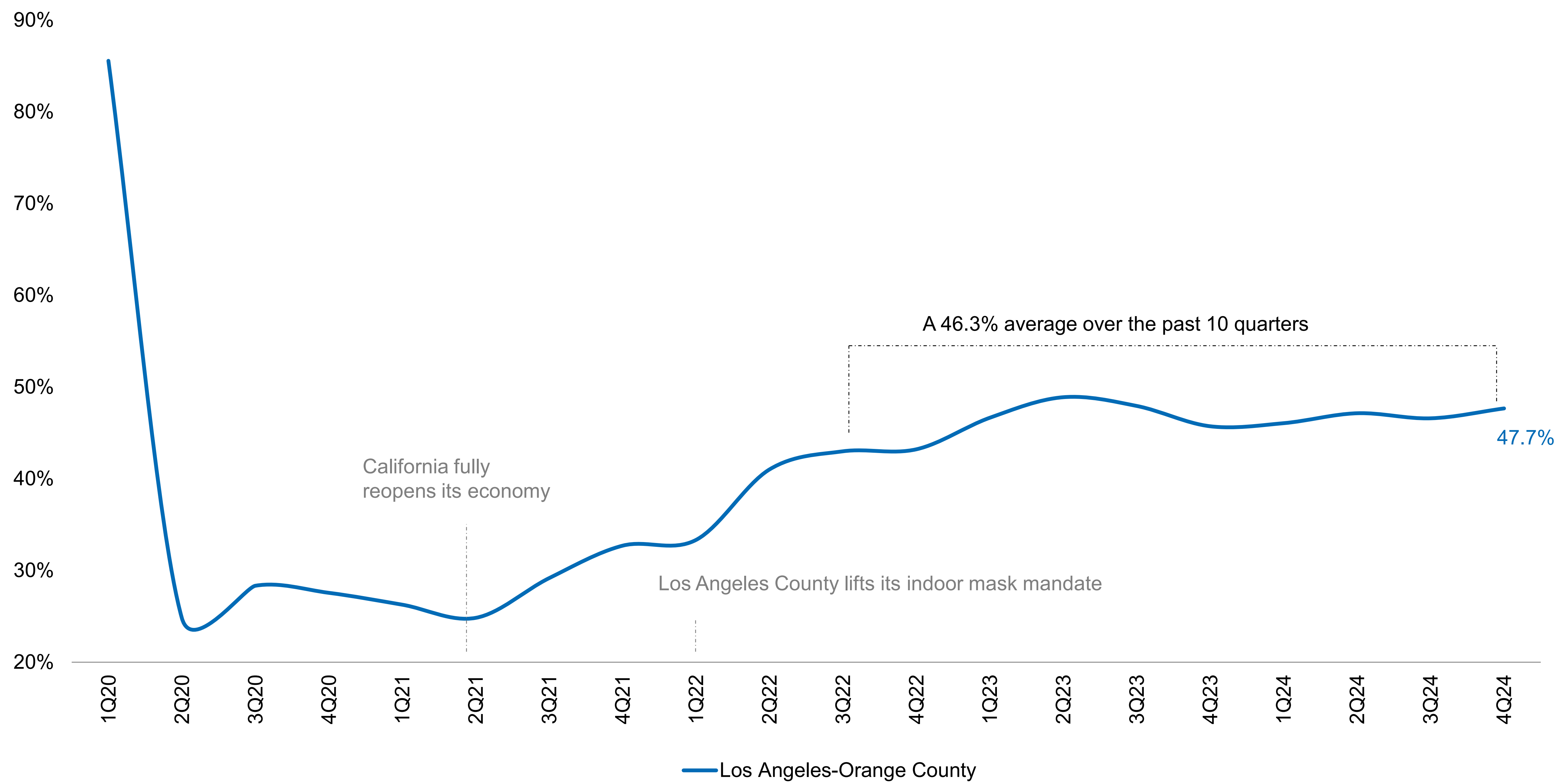
4Q24

General Conditions

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

Hybrid work, which has led to a structural shift in how office space is utilized for the time being, along with cost-cutting measures amid a pricier debt environment, continue to shape local and national office markets.

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

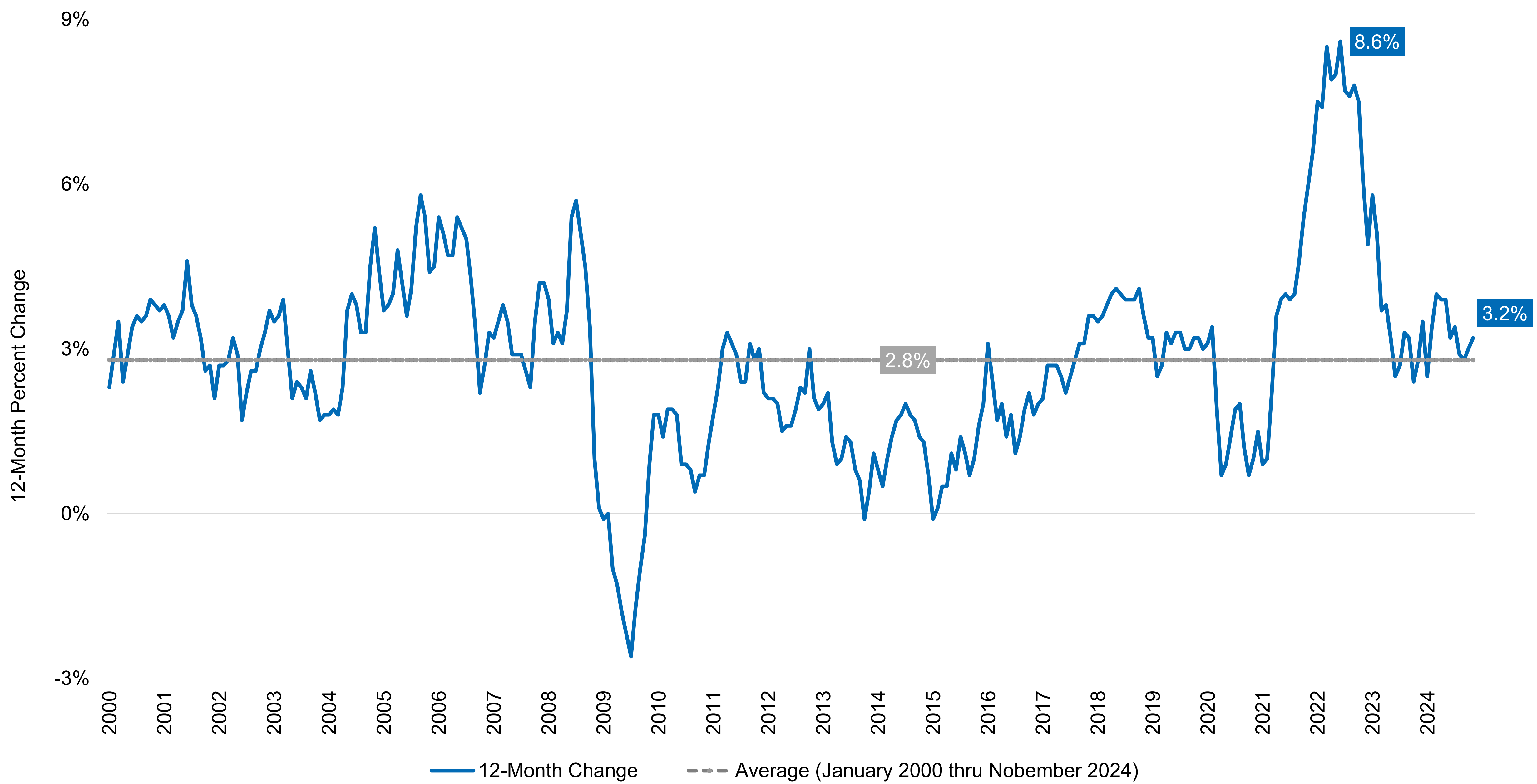


Source: Newmark Research, Kastle Systems

Inflation Has Cooled Considerably Relative to Mid-2022

Regional inflation came in at 3.2% in November 2024, below June 2022's 8.6%. Companies tend to delay their expansion plans and focus on cost reductions when inflation/the cost of capital is high, which, in turn, limits leasing activity.

CPI for All Urban Consumers, Los Angeles-Long Beach-Anaheim, CA, Not Seasonally Adjusted

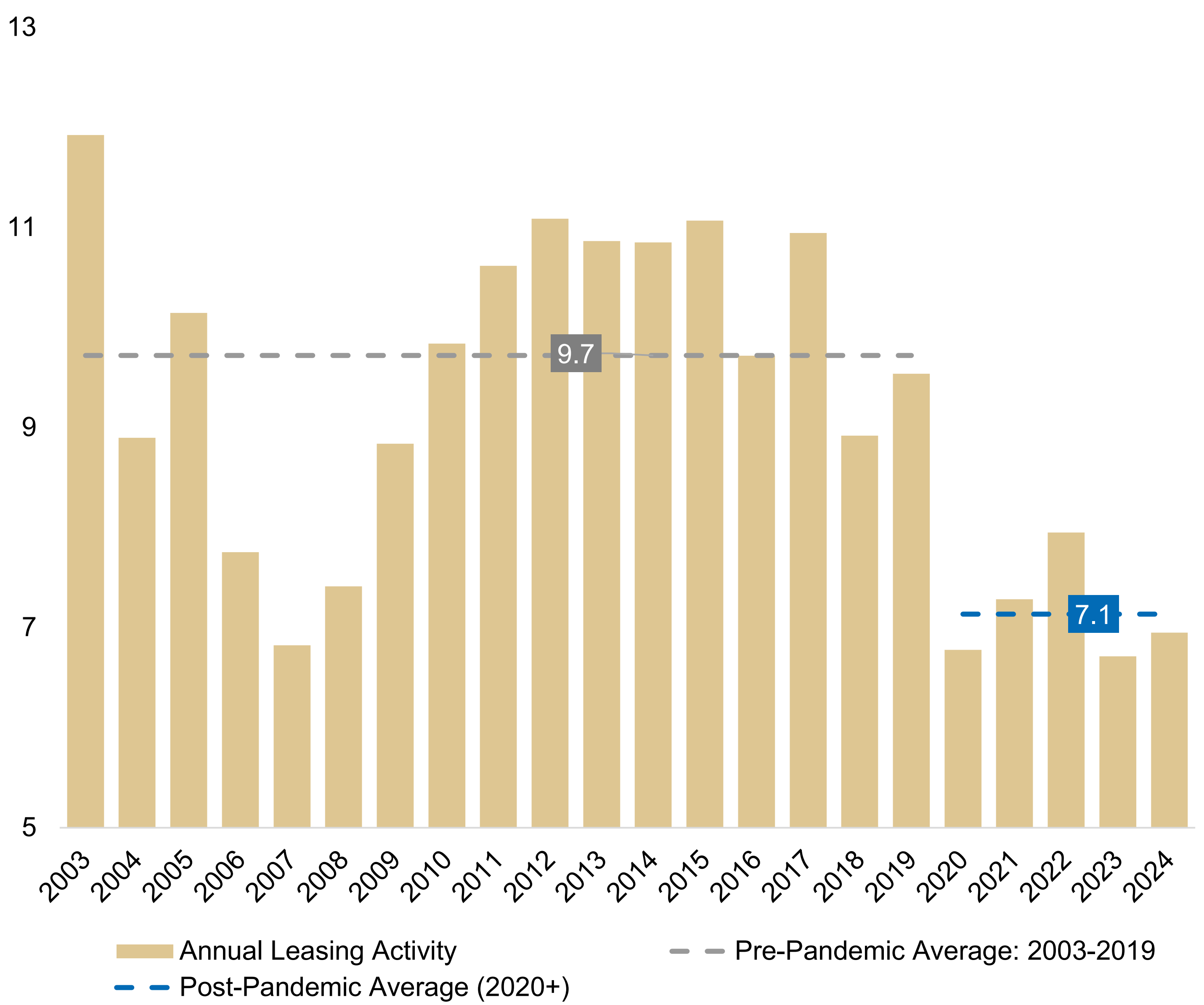


Source: Newmark Research, U.S. Bureau of Labor Statistics.

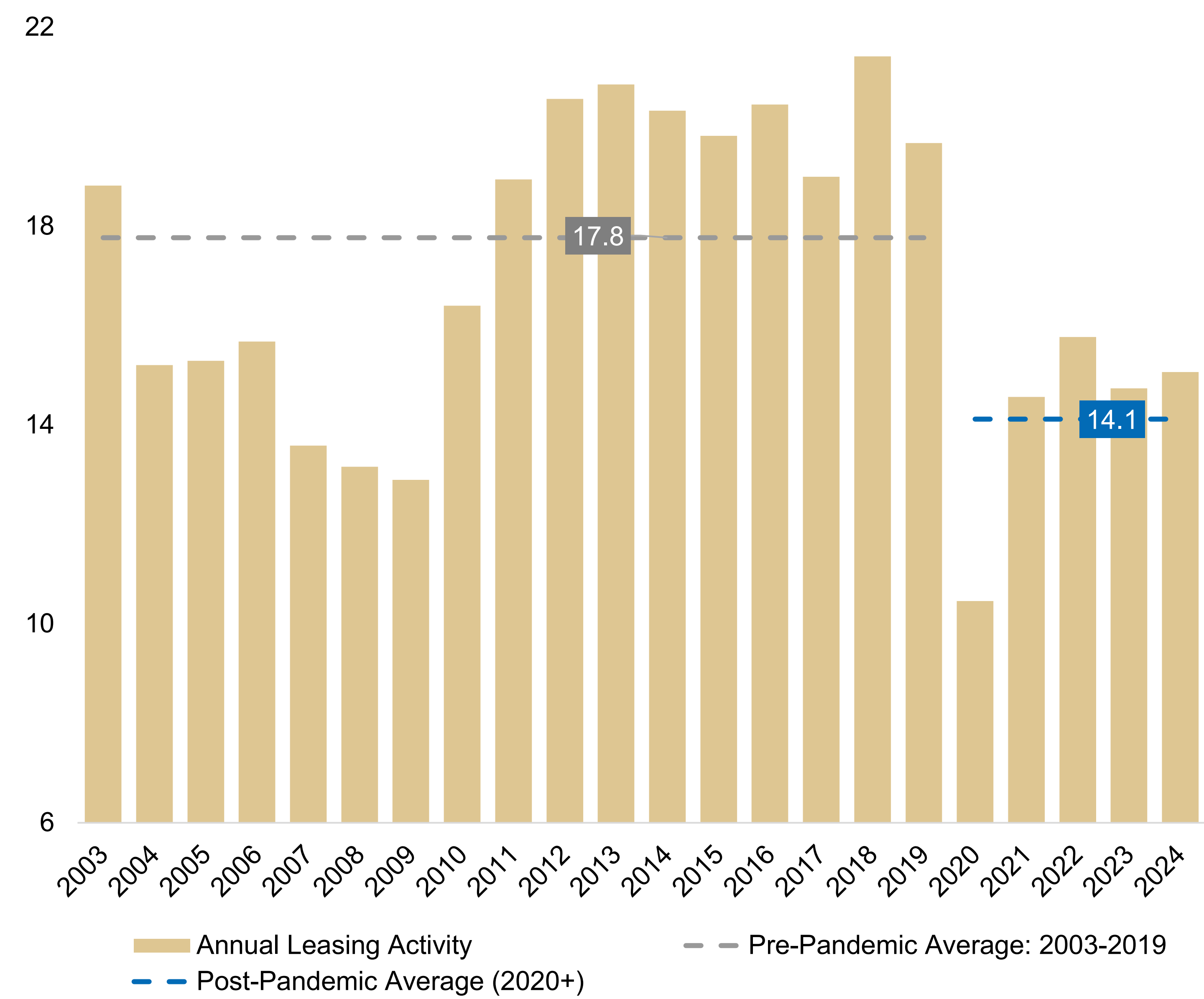
Hybrid Work and Still-High Inflation Are Affecting Office Leasing Activity

Most of today's leasing activity is expiration driven, with tenants cutting their footprints by 15-20% when their leases come due. Current activity (up slightly from 2023) remains subdued relative to prior years. Two things need to happen for activity to rebound: 1) More companies mandate full returns to the office and 2) Borrowing costs come down amid the backdrop of a healthy, expanding economy. Ongoing rate cuts by the Fed will help with the latter.

Orange County: Total Leasing Activity (MSF)



Los Angeles: Total Leasing Activity (MSF)

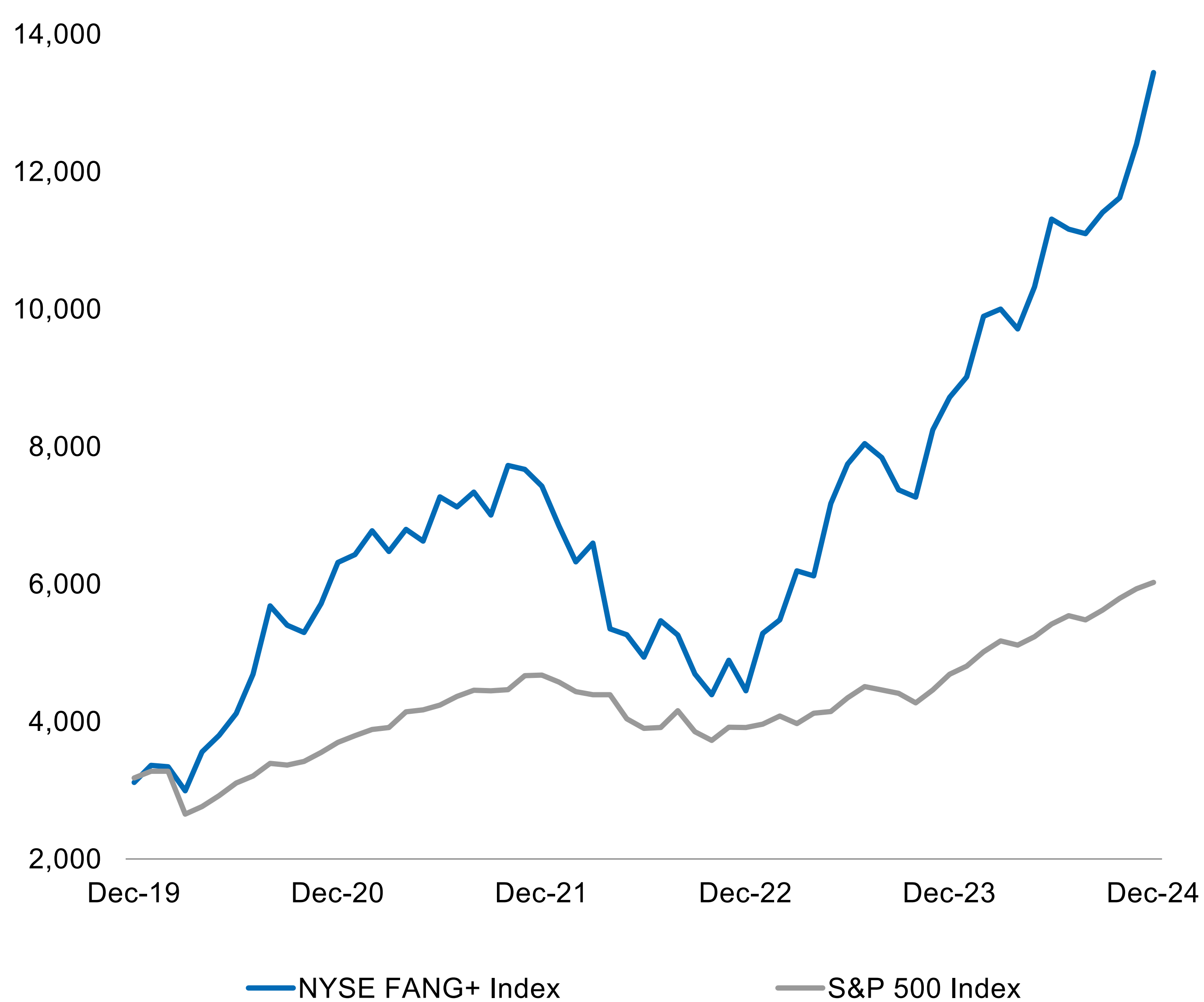


Source: Newmark Research., CoStar

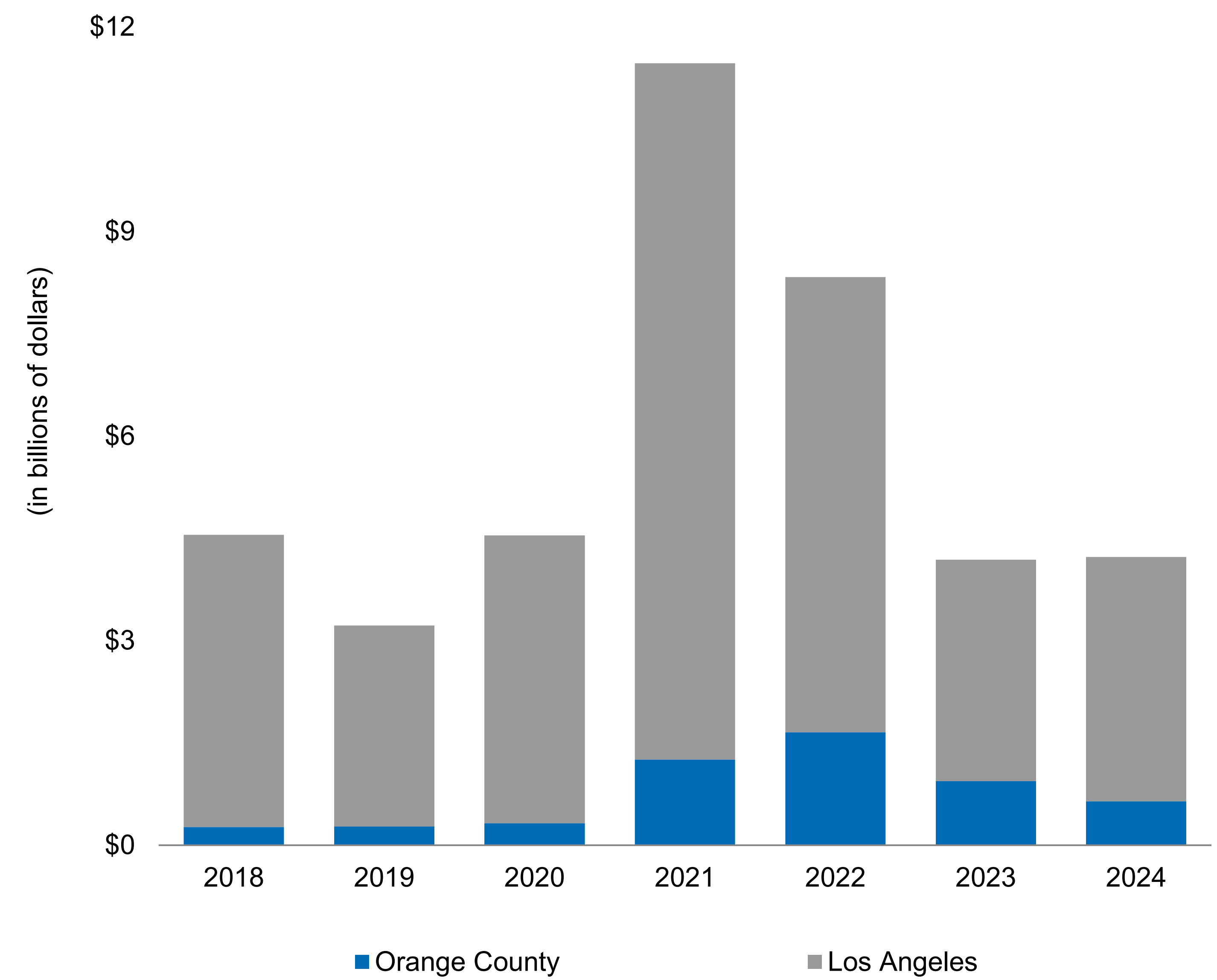
Tech, Which Drove Footprint Expansion Before the Pandemic, is Dormant (For Now)

The NYSE FANG+ index may have rebounded and continues to reach new highs, but big tech footprints are decreasing. Local VC funding, which noticeably slowed beginning in the second quarter of 2022, due to the higher-cost of debt associated with rising interest rates, remains subdued. More funding is historically linked to startup growth in the region.

NYSE FANG+ Index Rebounds



Orange County and Los Angeles Venture Capital Funding Flat in 2024

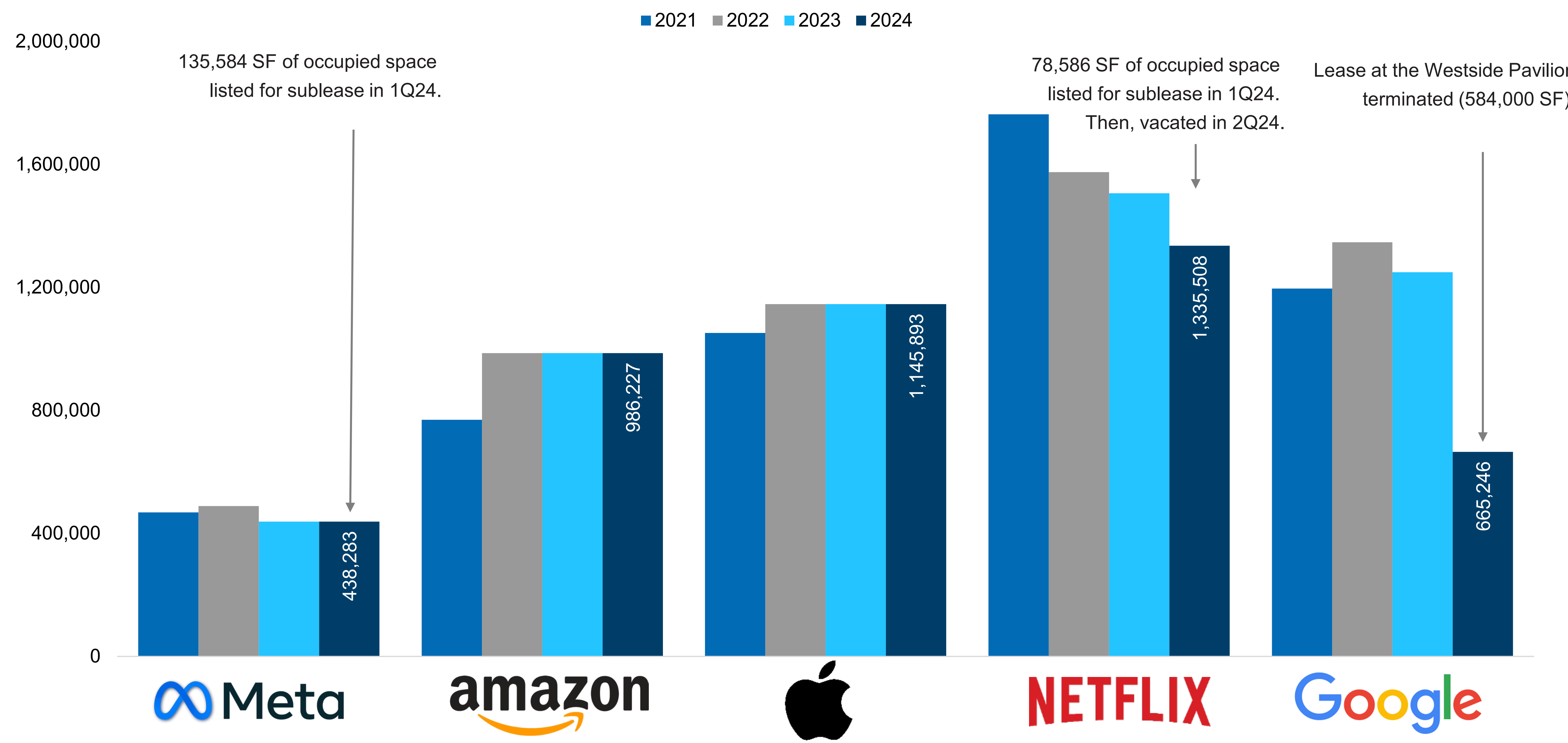


Source: Newmark Research, Crunchbase, Investing.com, S&P Dow Jones Indices LLC
Note: The VC Funding data set includes Angel, Pre-Seed, Seed and Series A-C funding rounds; $250,000+ in funding per round.

Footprints Have Declined for Some of Los Angeles' MAANG Occupiers

If presently occupied sublease offerings theoretically became vacant, then collective occupancy would total 4.5 MSF across the five companies, down 18.3% from 2022. Whether more space givebacks will occur is open for debate, following Amazon's mandate for all office employees to be in the office five days. The company is now short of space in a handful of U.S. markets, which will eventually lead to footprint expansion.

Los Angeles Office Footprint Commitments | By Year

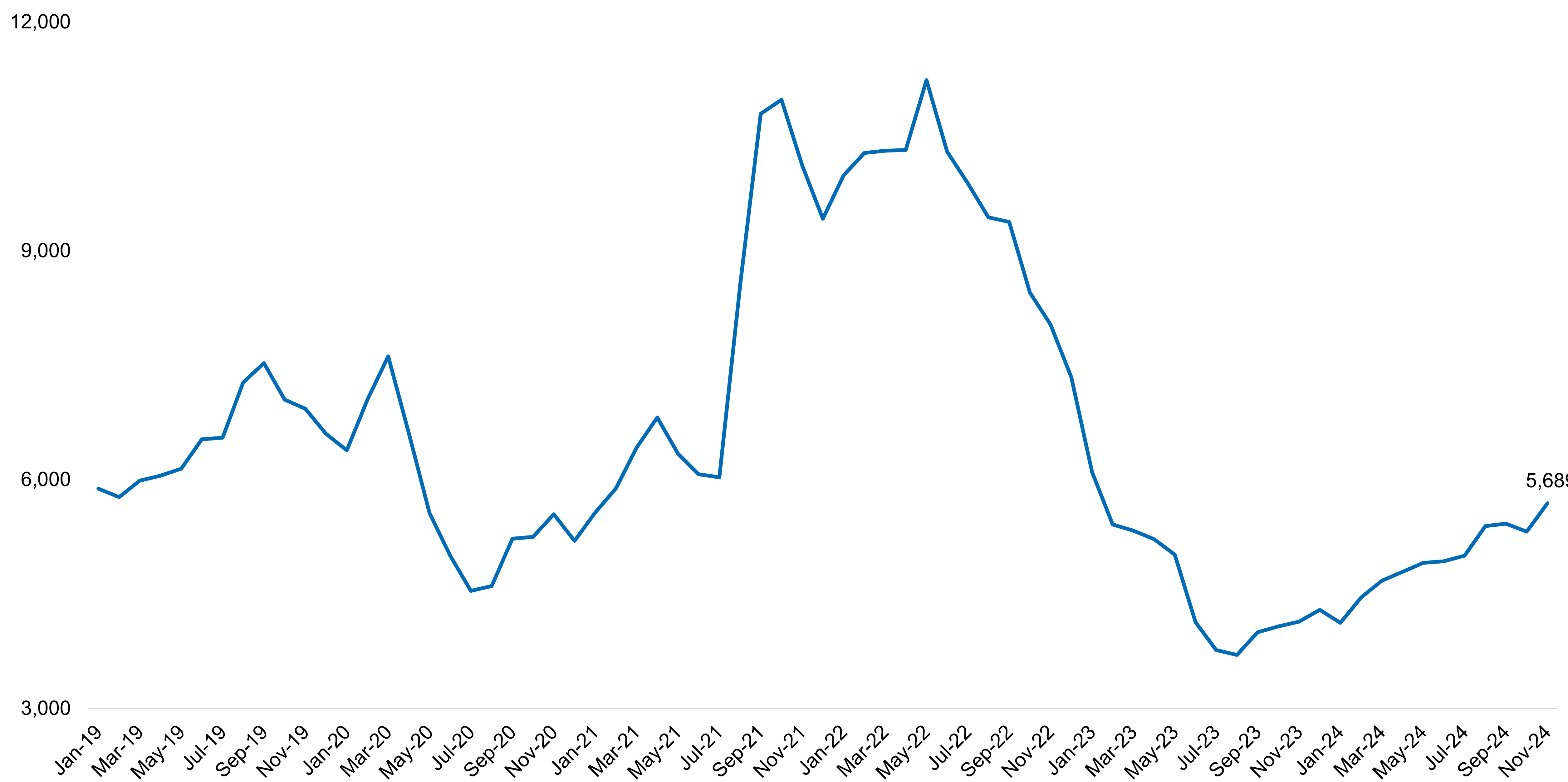


Source: Company Data

Job Postings for Software Developers are Rising, Though

Software developers are the backbone of the region's tech segment, an industry that fueled office footprint expansions prior to COVID-19. Job postings have steadily increased since September 2023, and, assuming this trend persists, leasing activity could see an uptick in 2025 if more postings becomes more hires.

Active Job Postings for Software Developers by Month | Los Angeles-Long Beach-Glendale, CA MSA

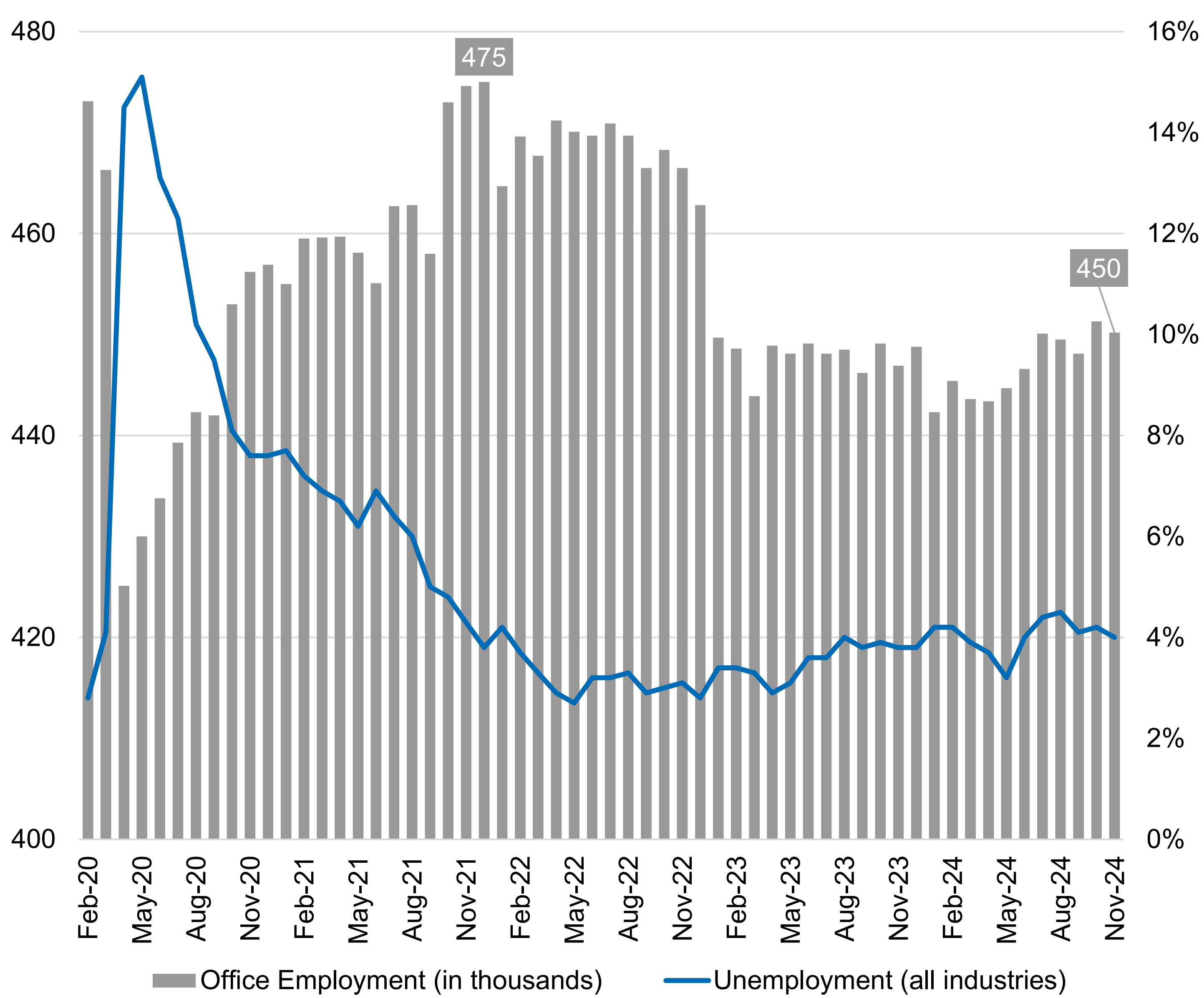


Source: Newmark Research, JobsEQ

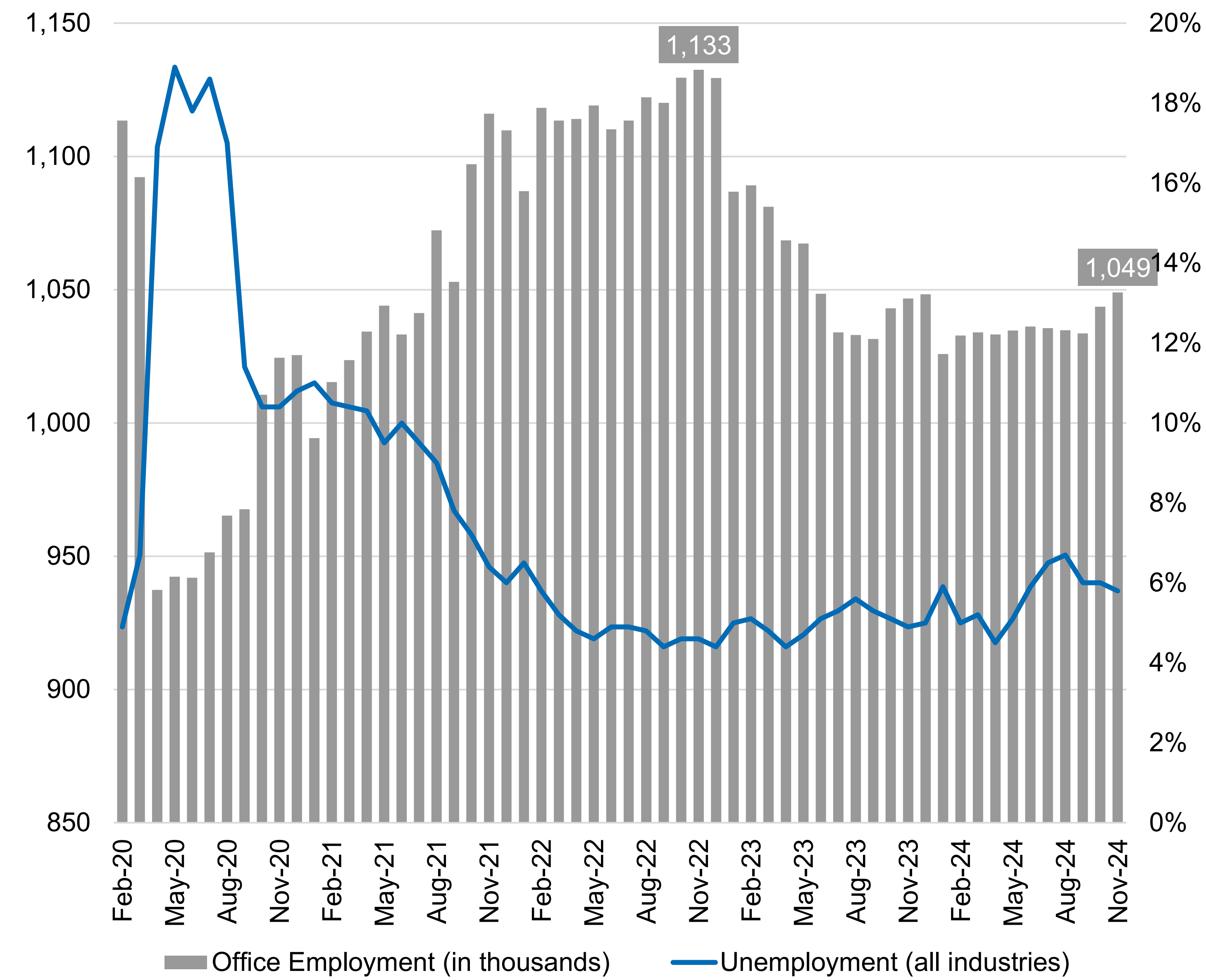
Office-Using Employment Down Relative to Prior Peaks

Interest rate reductions, rising corporate profits and lower capital costs could lead to more office-using job gains if the economy remains on its current trajectory.

Orange County



Los Angeles

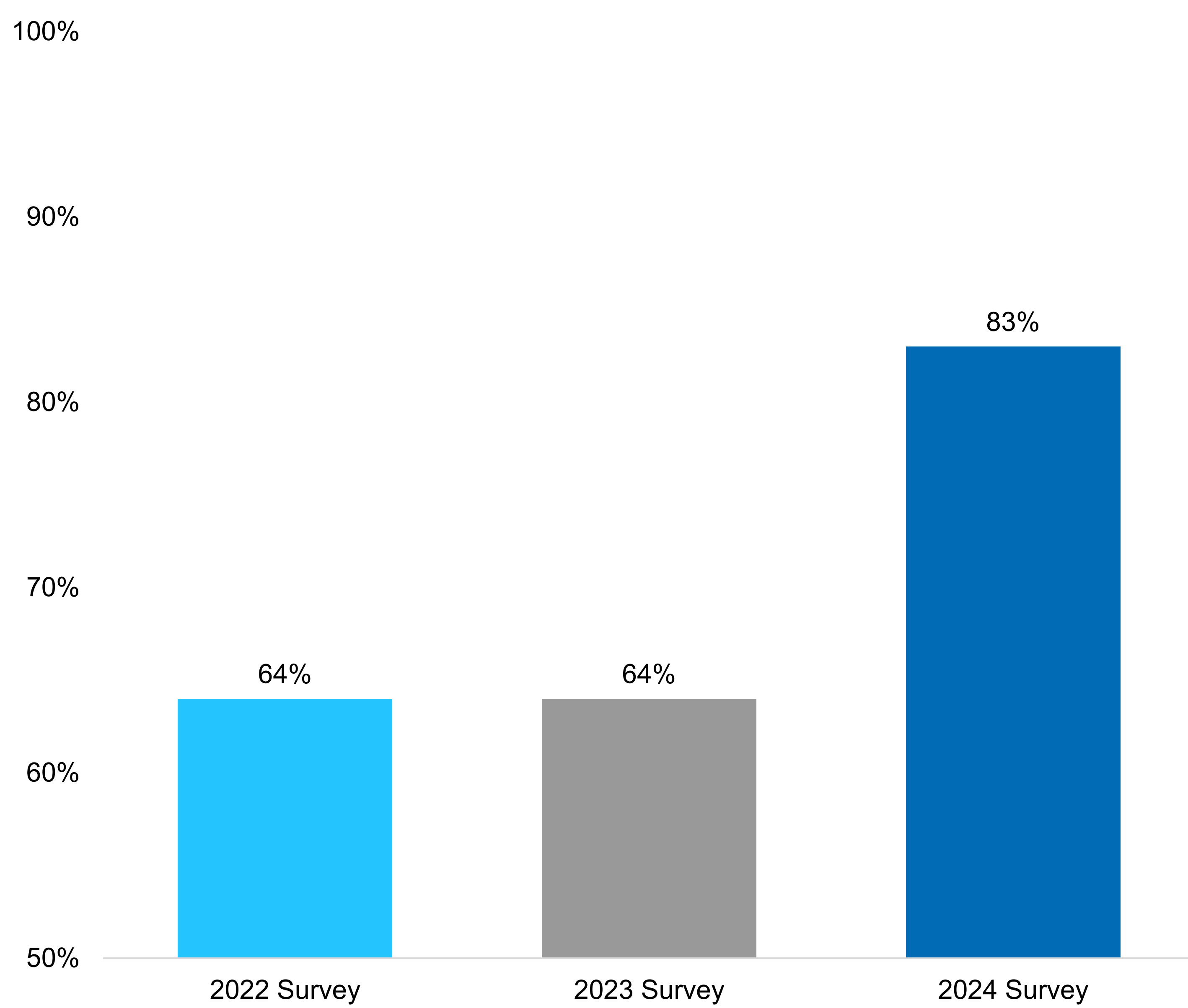


Office-using employment includes professional and business services, financial activities and information sectors
Source: Newmark Research, U.S. Bureau of Labor Statistics (based on the most current data available)

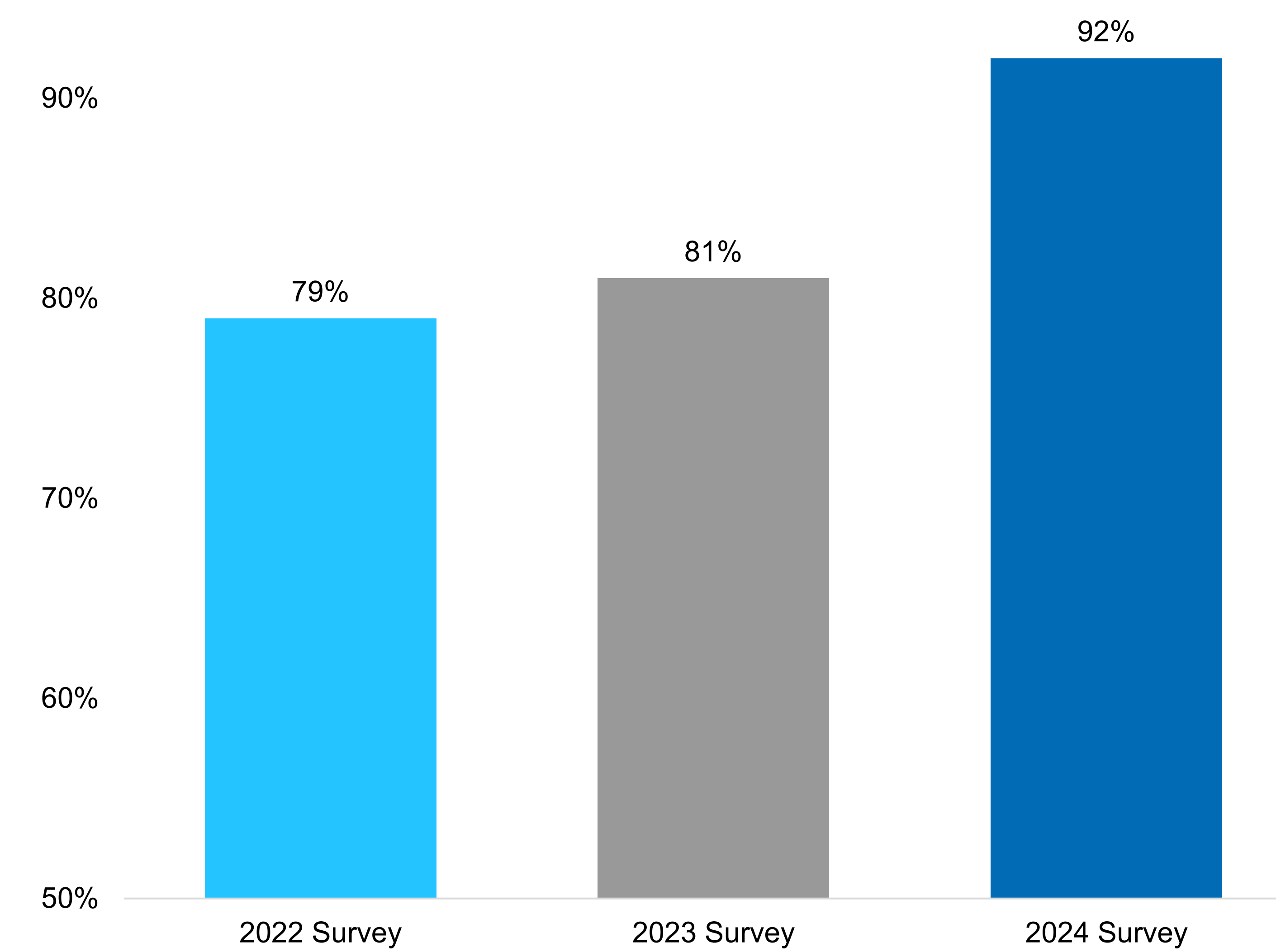
Return-to-Office Outlooks are Improving; Leasing Activity Stands to Benefit

KPMG recently surveyed 1,300 global CEOs and 83% expect their companies to mandate full returns to the office over the next three years. Moreover, 92% anticipate headcount growth over the same period. Both figures are noticeably higher than prior survey years, and office leasing dynamics will vastly improve if plans become reality.

Percentage of CEOs Anticipating a Full Return to the Office in Next Three Years



Percentage of CEOs' Expecting Headcount Growth Over the Next Three Years

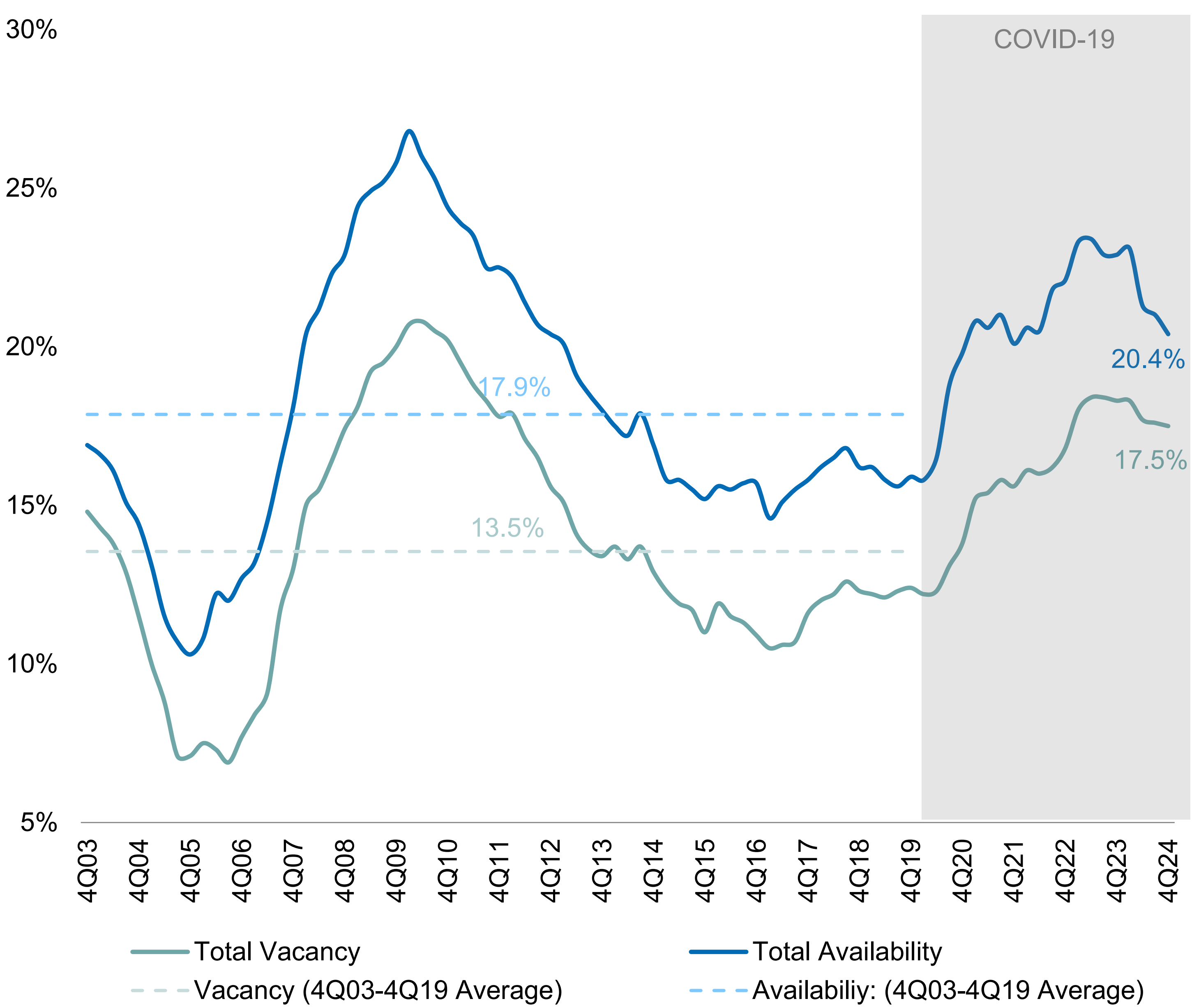


Source: KPMG 2024 CEO Outlook (September 2024)

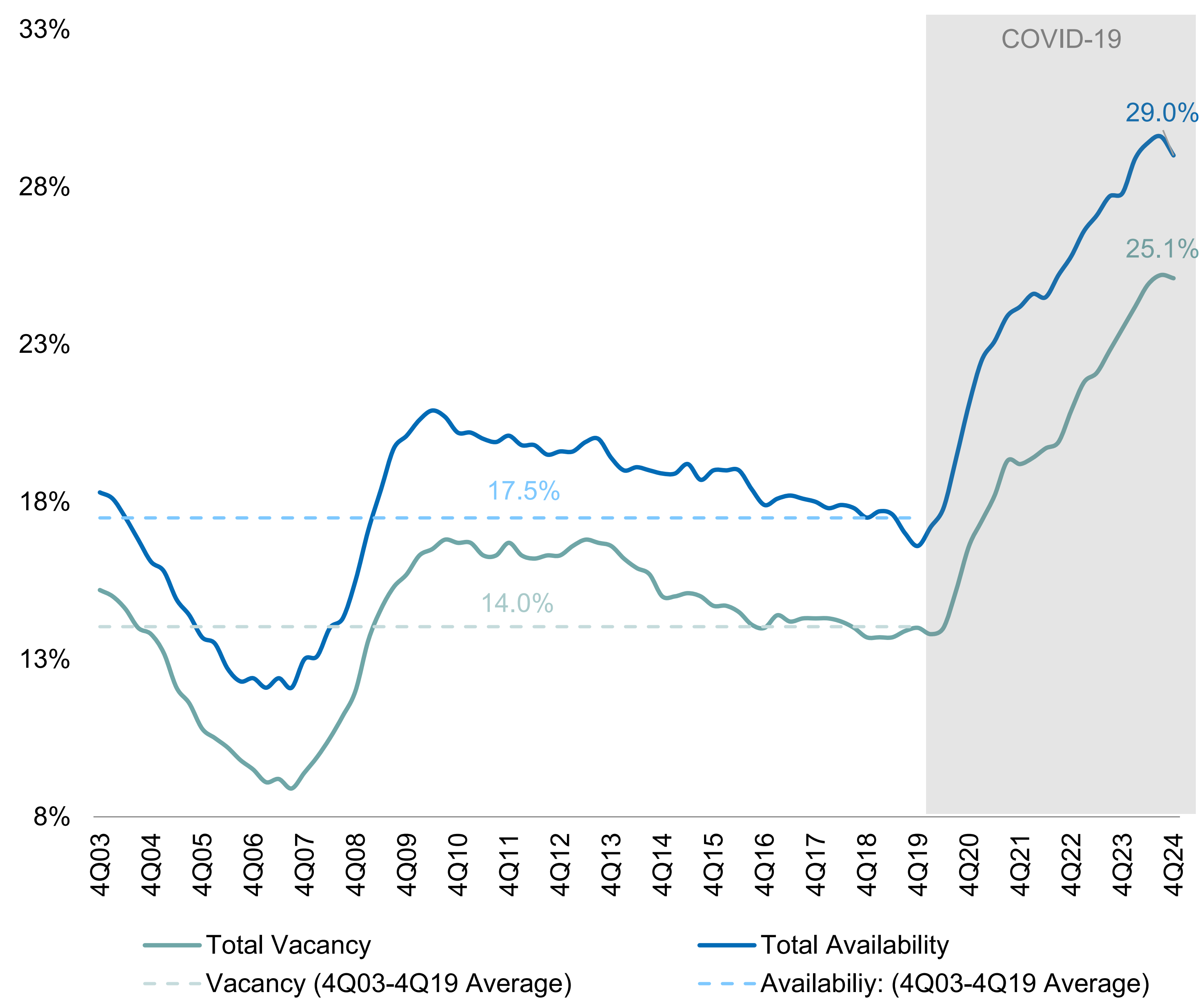
Local Markets are on Different Footing

Orange County's vacancy and availability rates trended down for the third consecutive quarter, while both averages for Los Angeles decreased for the first time since the onset of the pandemic. Los Angeles is lagging due to its larger inventory set (if the average tenant is narrowing its footprint, then the scale is amplified in a bigger market); industry stagnation among its larger occupiers (e.g., media and tech) and safety concerns in select corridors (e.g., Downtown Los Angeles). Orange County's office base is also shrinking as high-vacancy properties are repurposed for other uses (e.g., apartment development).

Orange County: Total Vacancy and Availability | By Quarter



Los Angeles: Total Vacancy and Availability | By Quarter



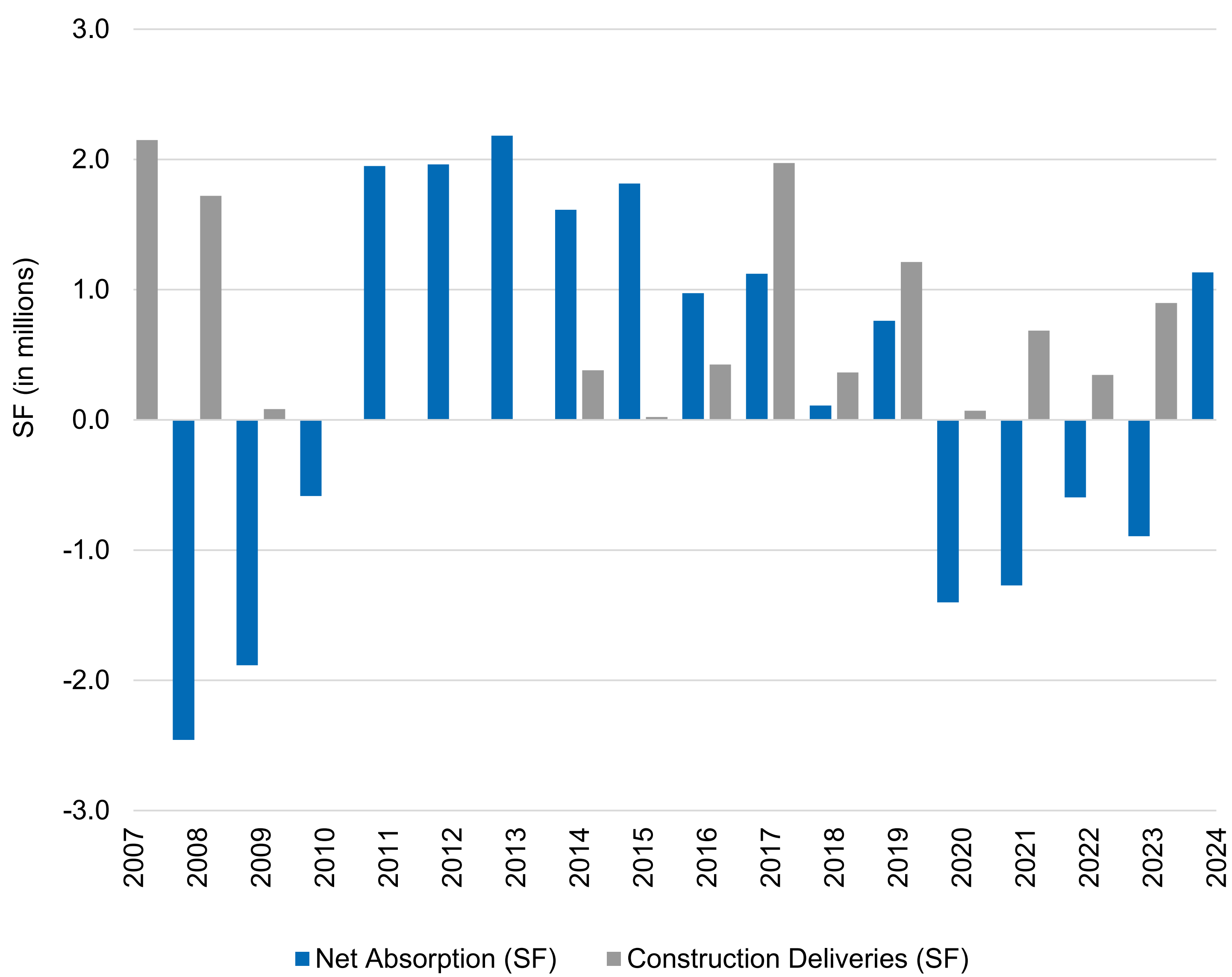
Source: Newmark Research.

Absorption: Orange County Turned a Corner in 2024

The absence of new construction in the market will help to temper vacancy going forward. Los Angeles is a contrasting story as large tenants scale down their footprints. During the fourth quarter, for instance, Skadden Arps gave back 100,000 SF in Downtown LA after consolidating in its already-existing Century City office.

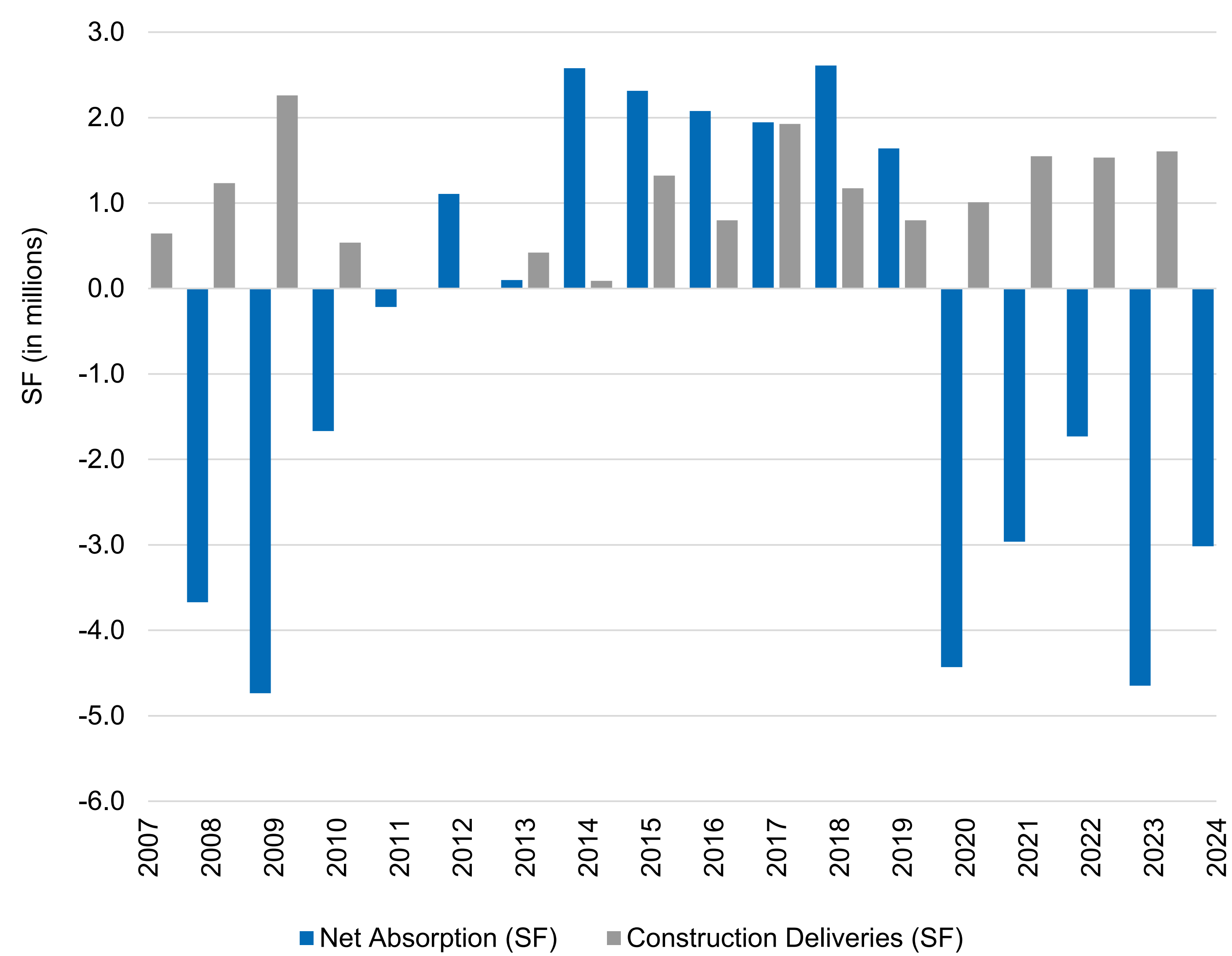
Orange County: Net Absorption vs. Construction Deliveries

Following the delivery of The Press in the third quarter of 2023, under-construction volume is zero for the first time since 2010.



Los Angeles: Net Absorption vs. Construction Deliveries

Construction volume remains measured, with 1.6 MSF currently underway well below the market's five-year average of 2.9 MSF

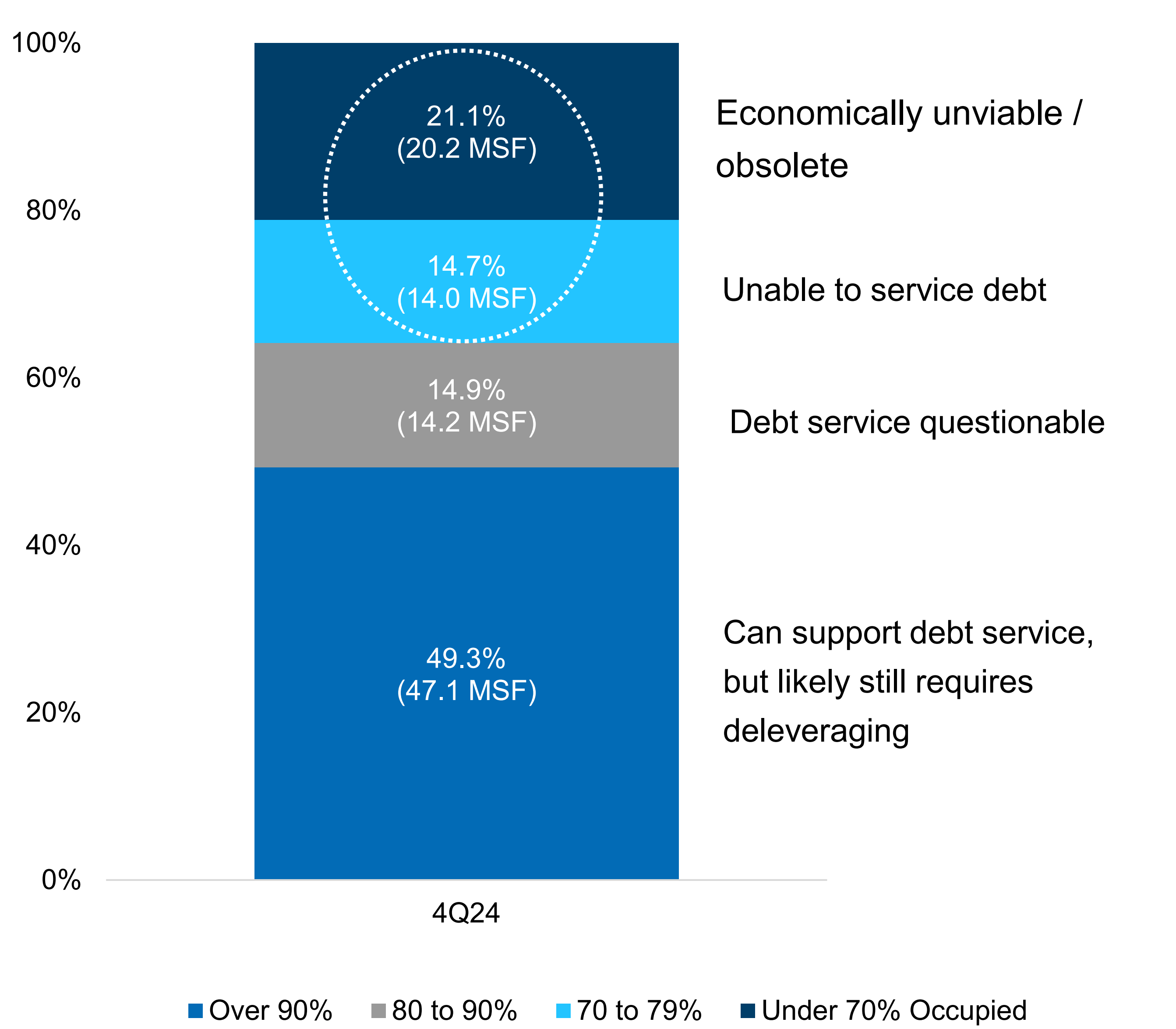


Source: Newmark Research

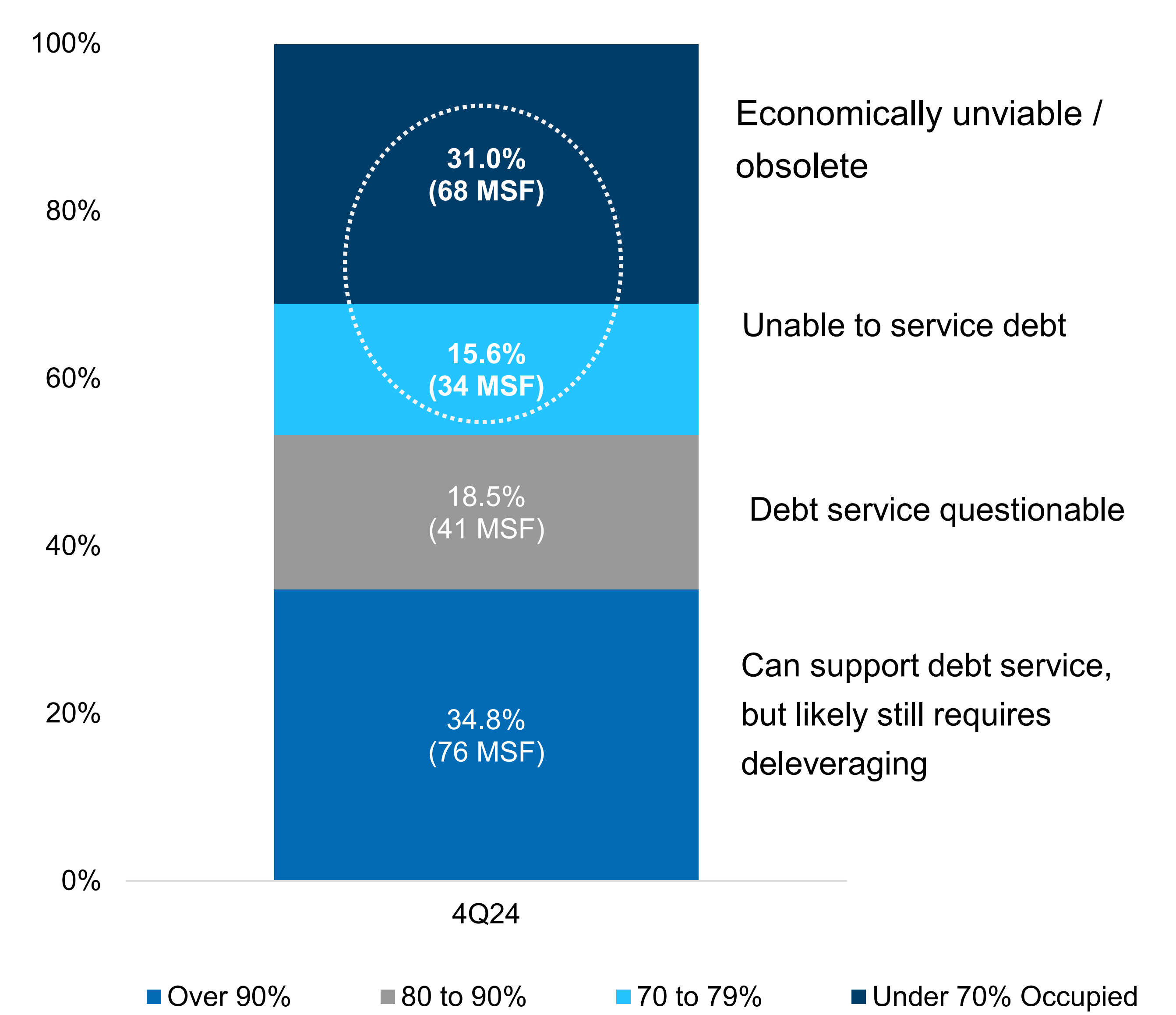
36% of OC's Offices are Obsolete or Unable to Service Debt Compared to 47% in LA

This totals 34 MSF of inventory in Orange County and nearly 102 MSF in Los Angeles. Debt issues will accelerate the demise of these low occupancy buildings. Tenants in the market generally fall into one of two camps: 1) those wishing to retain an office presence for the lowest possible rent and 2) those seeking trophy-grade space in amenity-rich areas, as they reduce footprints and use top-shelf space to lure workers back to the office. Middle ground, commodity-grade space is the most vulnerable.

Orange County: Distribution of Office Occupancy



Los Angeles: Distribution of Office Occupancy

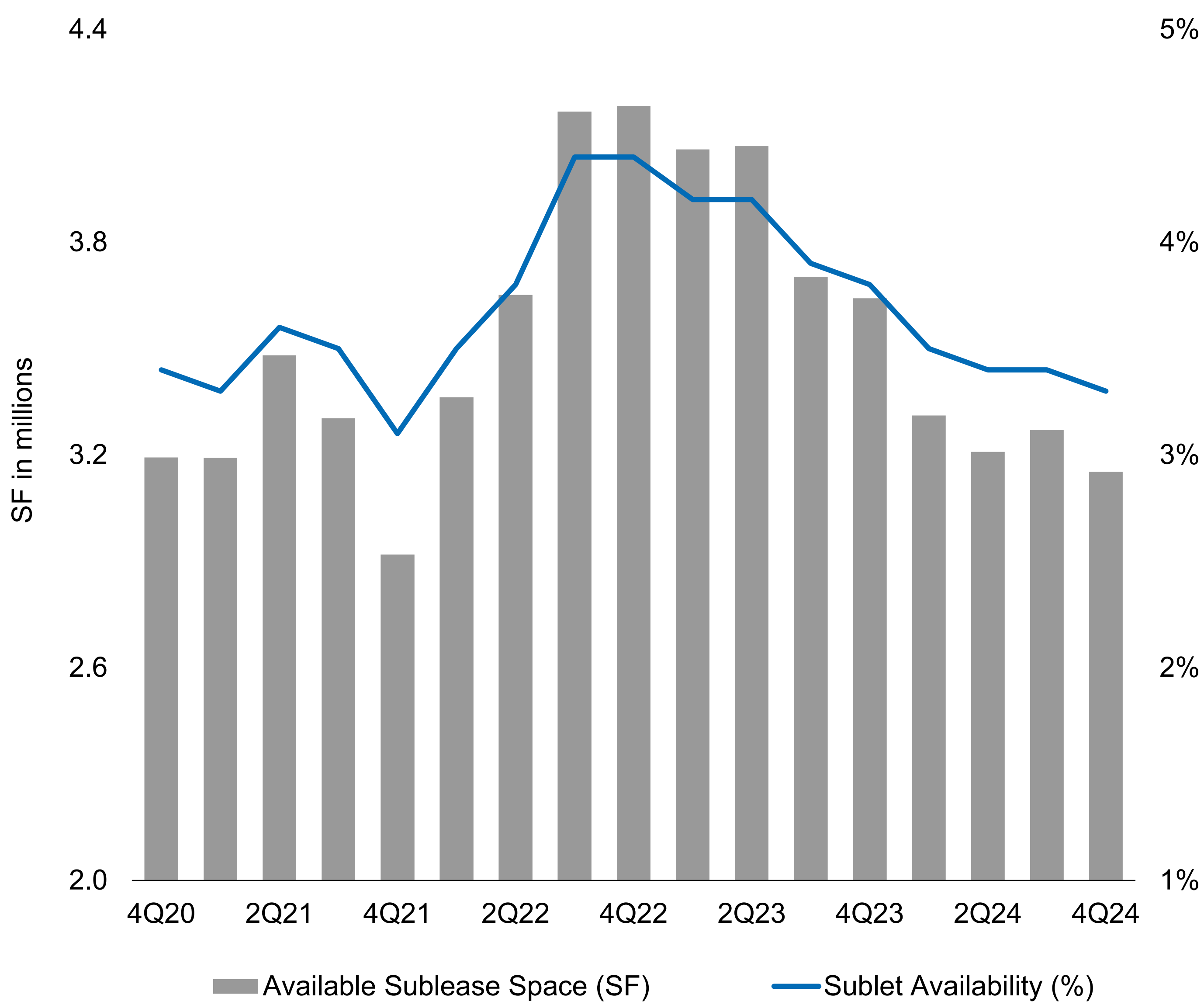


Source: Newmark Research
Note: Buildings with lower occupancy thresholds tend to struggle to generate positive NOI, which, in turn, makes it difficult to support debt (assuming debt is present on a given building).

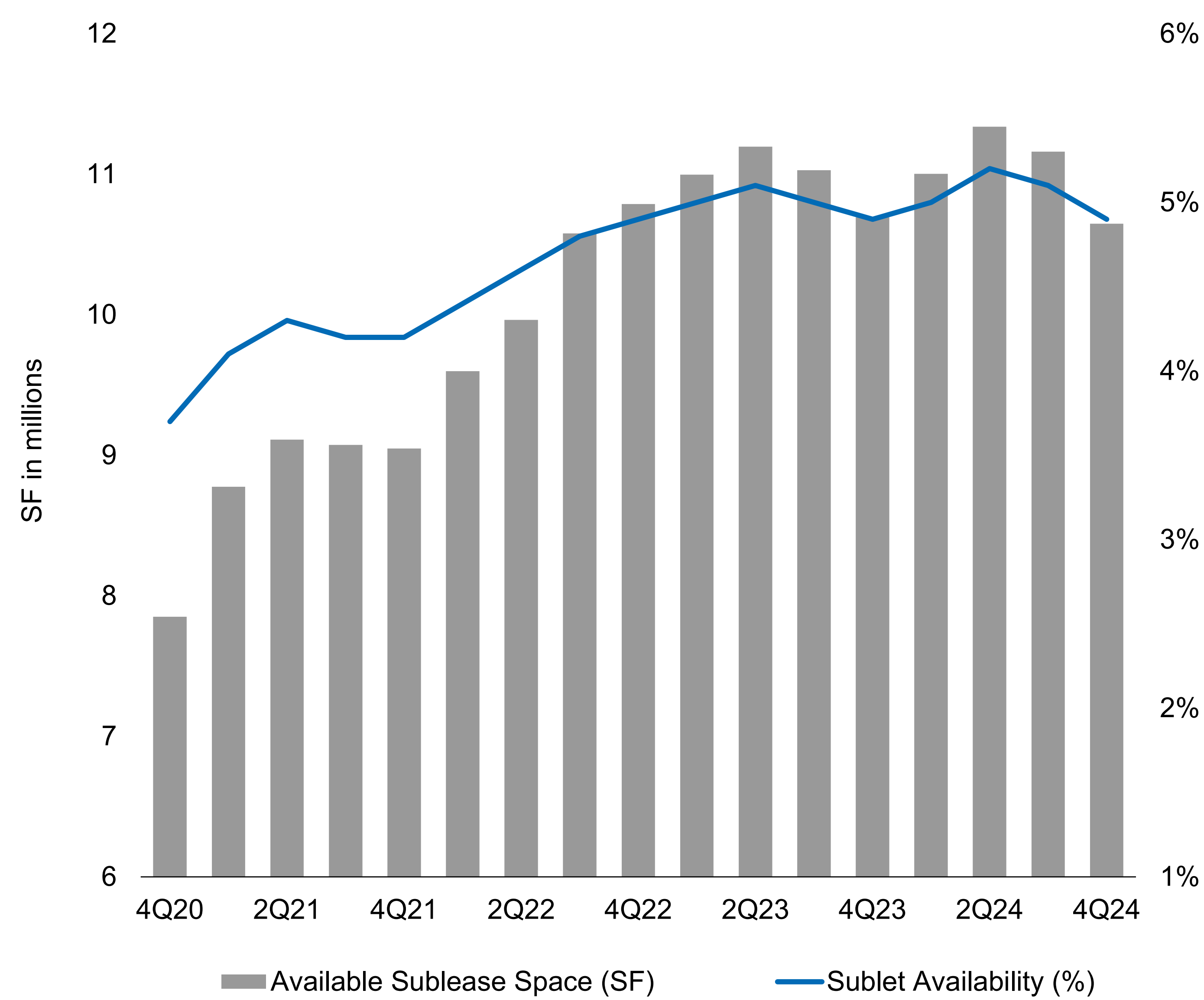
Sublease Availability Continues to Trend Down

For Orange County: Since hitting an all-time high in the fourth quarter of 2022, sublet availability has dropped by 1.0 MSF and has been gradually declining. The removal of obsolete product from inventory and sublease space going direct are contributing factors. For Los Angeles: The modest decrease is primarily from space removals (e.g., companies delisting space for their own use or changing listing brokers) and from sublease space coming to term and transitioning to direct availability.

Orange County Sublet Availability



Los Angeles Sublet Availability

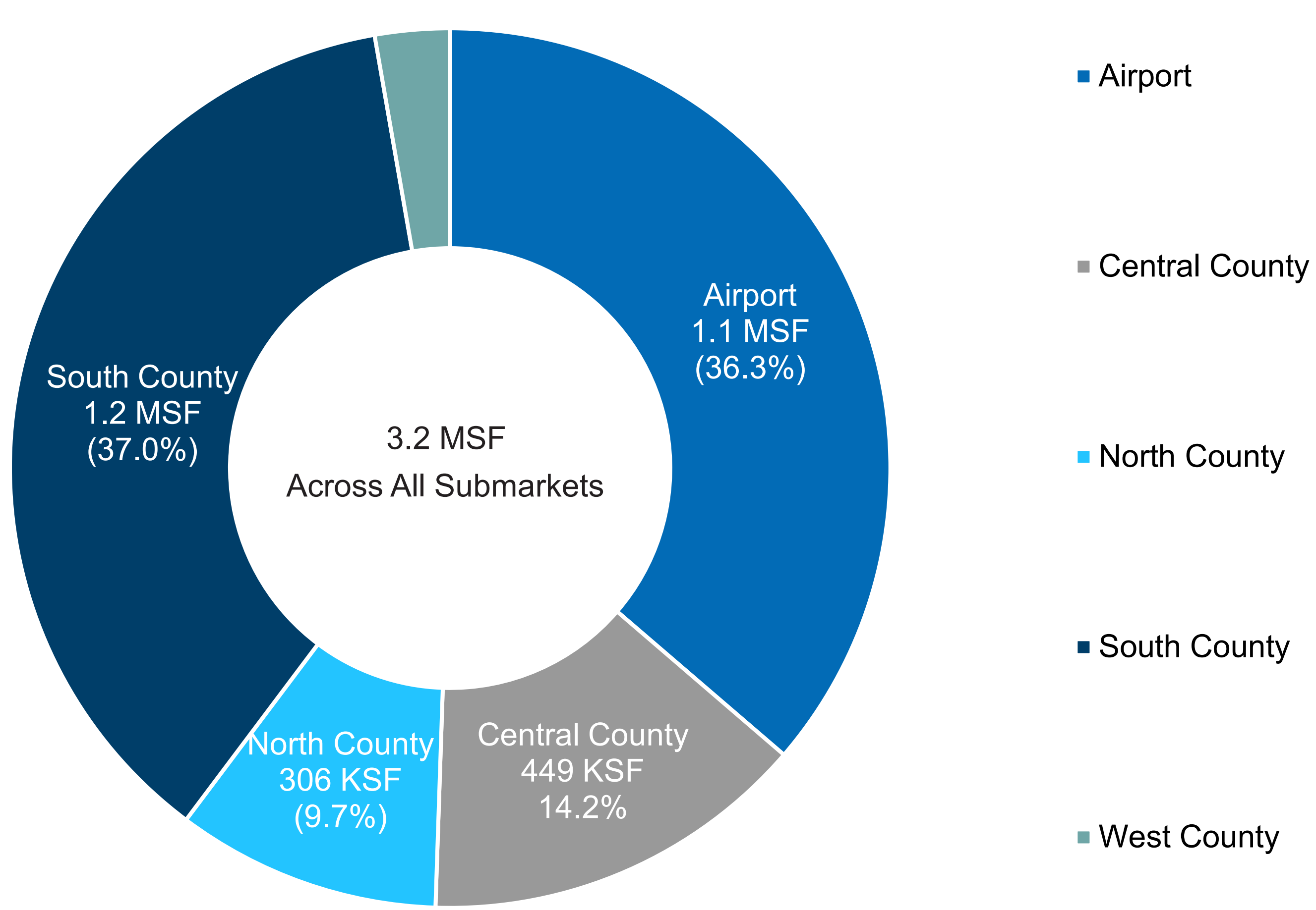


Source: Newmark Research

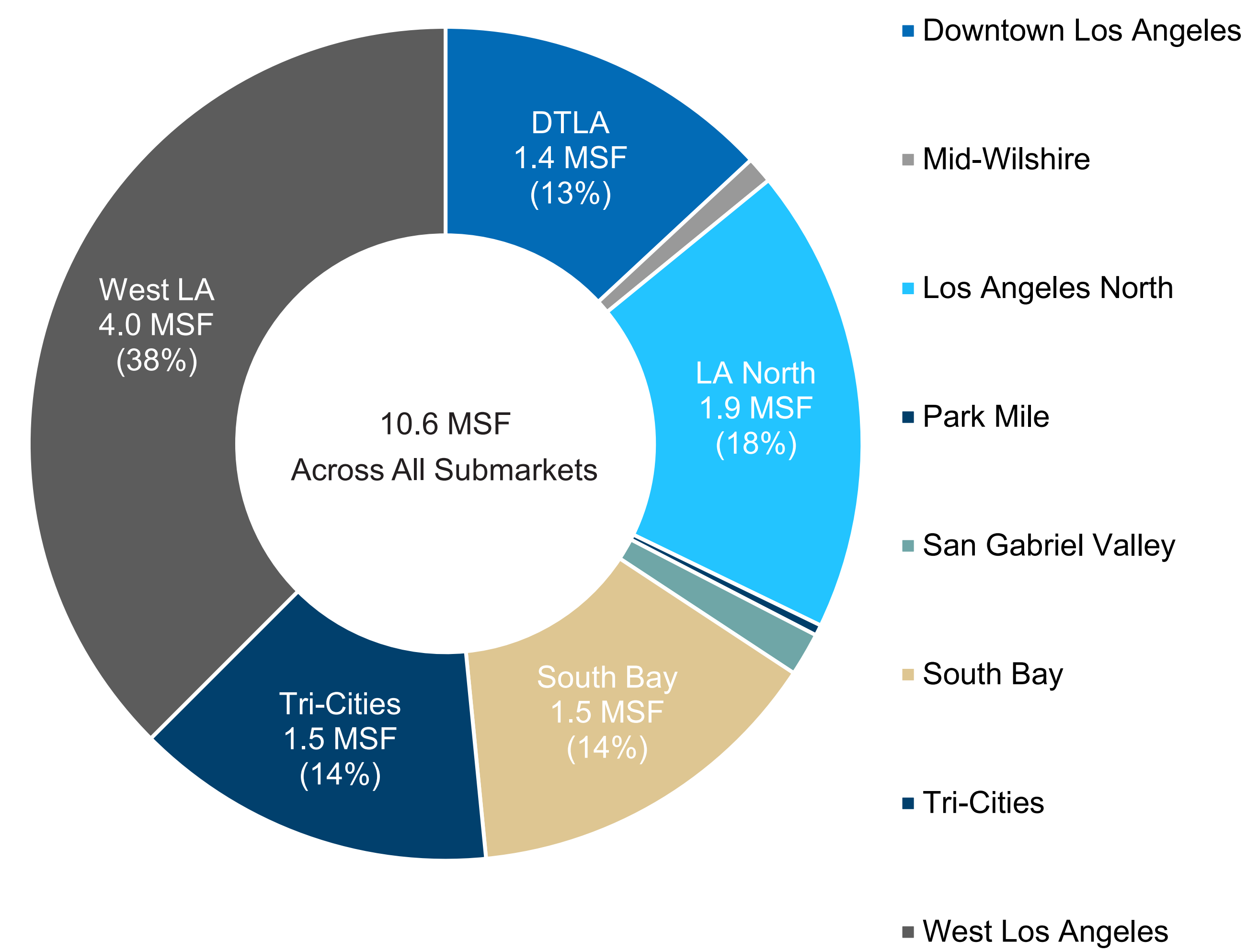
Concentration of Today’s Sublease Space at the Submarket-Level

Tech offerings are elevating the sublet pool in Orange County’s South County and West Los Angeles. Orange County’s Airport is also notable, influenced by its large presence of financial services and tech companies that continue to shed space to reduce overhead.

Orange County: Available Sublease Space by Submarket



Los Angeles: Available Sublease Space by Submarket



Source: Newmark Research

Current Sublet Availability by Submarket; Tech Leads Other Industries in Listings in LA

Many tech companies leased trophy spaces, which were very hard to come by prior to COVID-19 and have excess space to give back. This accounts for the higher concentration of sublease space in West Los Angeles relative to LA's other submarkets. West LA's sublet pool (4.0 MSF) exceeds Orange County's overall total (3.2 MSF).

Orange County: Sublet Availability

Submarket	Sublet Available (SF)	Sublet Available % of Total Market	3-Month Change In Sublet Available (SF)	12-Month Change In Sublet Available (SF)
Airport	1,144,586	2.7%	-203,183	-439,515
Central County	448,661	2.8%	-7,988	-88,376
North County	306,147	4.3%	-7,808	-79,240
South County	1,166,789	5.0%	+100,334	+114,338
West County	86,712	1.4%	+679	+3,773
Orange County	**3,152,895**	**3.3%**	**-117,966**	**-489,020**

Los Angeles: Sublet Availability

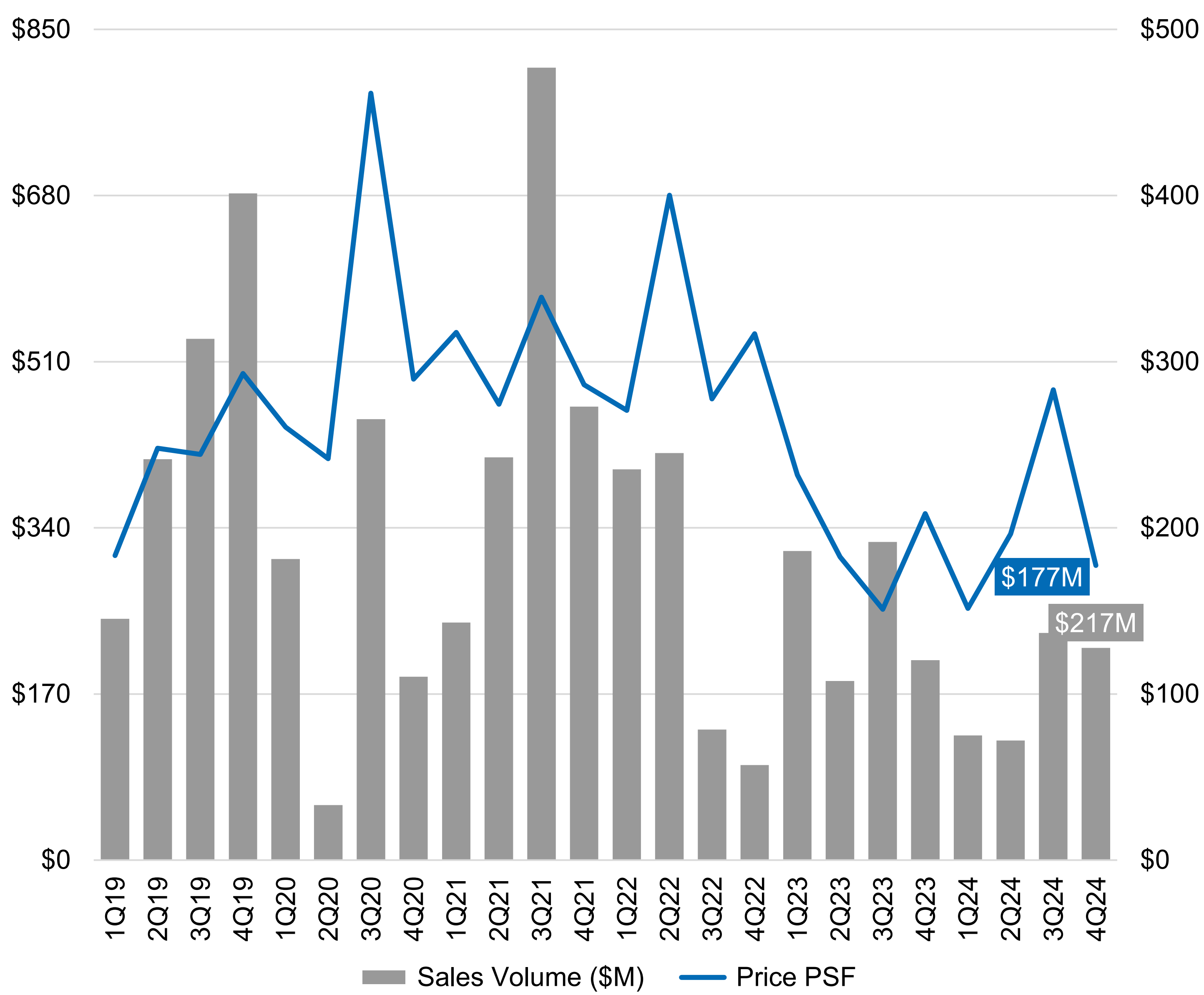
Submarket	Sublet Available (SF)	Sublet Available % of Total Market	3-Month Change In Sublet Available (SF)	12-Month Change In Sublet Available (SF)
Downtown LA	1,392,970	3.6%	-178,696	-76,507
Mid-Wilshire	109,308	1.8%	+5,682	+63,717
Los Angeles North	1,924,016	5.9%	-89,050	-234,110
Park Mile	44,198	3.1%	0	-55,600
San Gabriel Valley	178,470	1.4%	+117,116	+78,699
South Bay	1,510,127	4.4%	-178,200	-238,333
Tri-Cities	1,496,568	6.3%	+6,779	+185,245
West Los Angeles	3,992,684	5.7%	-195,233	+231,179
Los Angeles	**10,648,341**	**4.9%**	**-511,602**	**-45,710**

Source: Newmark Research

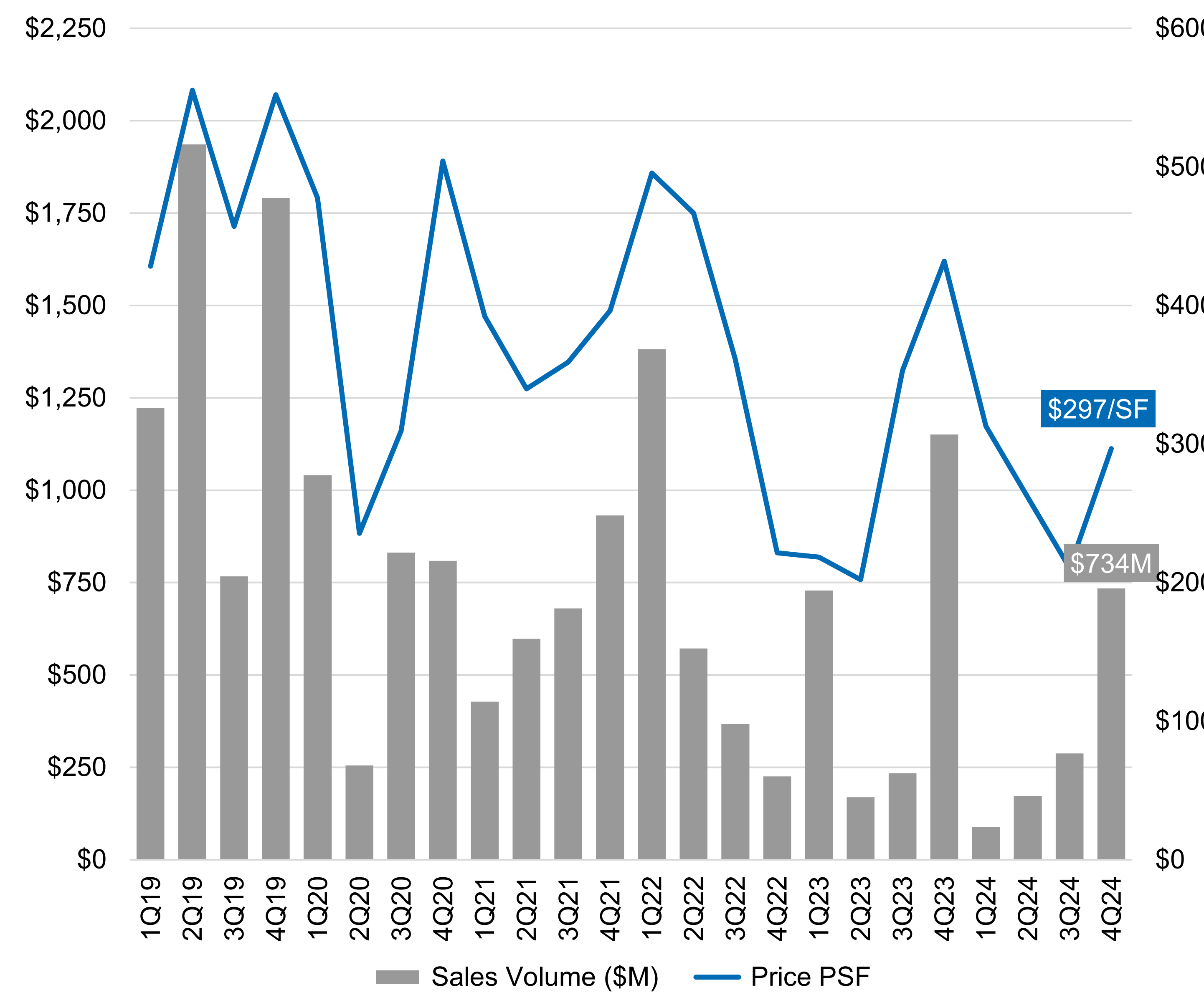
Sales Volume and Pricing Noticeably Down from Pre-COVID Averages

Structural shifts in leasing dynamics, high vacancy, looming debt maturities and a still-high interest rate environment have most investors taking a "wait-and-see" approach. Most of today's active buyers are targeting desirable, overleveraged buildings to acquire at significantly reduced prices. Others are purchasing with redevelopment as the end goal.

Orange County: Sales Volume and Price/SF



Los Angeles: Sales Volume and Price/SF



Source: Newmark Research, CoStar
Note: Office buildings with 15,000+ SF RBAs. Excludes medical office and telecommunications facilities

Sales Analysis by Building Size

Based on Office Building Sales in 2024

	Orange County				Los Angeles			
Building Size	#	RBA	$ Volume	Price/SF	#	RBA	$ Volume	Price/SF
15-49 KSF	28	781,469	$201.8M	$242	35	920,896	$259.8M	$303
50-249 KSF	15	2,134,593	$402.4M	$190	24	3,011,111	$807.4M	$125
250K-499 KSF	2	582,031	$95.7M	$164	4	1,443,791	$136.3M	$138
>500 KSF	0	-	-	-	1	701,888	$80.0M	$114

Source: Newmark Research, CoStar

Predictions for the Next 12 Months

- Ongoing downsizes for most tenants. Traditional occupiers (e.g., financial and legal service firms) will remain active. Most companies know how they plan to work and their space needs (or lack thereof). Time to execute as leases roll.
- Tech occupiers are still course-correcting but could be more active from a leasing standpoint in the second half of 2025 if software developer job postings (and eventual hirings) continue to grow.
- Sublet availability will decrease further as offerings come to term/transition to direct.
- Capital markets: Cash-rich private buyers will continue to dominate sales activity. There will be more distress office sales.
- Private buyers will progressively alter the landlord landscape, and this will likely shape where corporate tenants land. Institutional owners are generally perceived as more sophisticated and experienced with deeper capital reserves compared to private groups. Private owners generally have the stigma of giving tenants the bare minimum to limit costs and maximize returns (e.g., fewer concessions than institutional owners, fewer broker bonuses, etc.). Perception is not necessarily reality, though, when considering the cost basis advantage today's private buyers have to compete for tenants in the market.
- Premier and low-rent office space will outperform. Middle-of-the-road, commodity-grade office space will remain challenged.
- Absorption will be volatile, especially in Los Angeles due to planned downsizes and space givebacks. An example: Southern California Gas will downsize from 362,483 SF to 200,000 SF in Downtown LA; the lease was signed in Fall 2024, but the move occurs in Spring 2026.
- Leasing activity will accelerate if more companies mandate a full return to the office, and, after years of reducing footprints, some realize they now have a space deficit. Leasing will also see gains when businesses eventually expand and office-using employment increases; this is contingent on a stable U.S. economy, decreasing capital costs and healthy and consistent corporate profits.

Source: Newmark Research

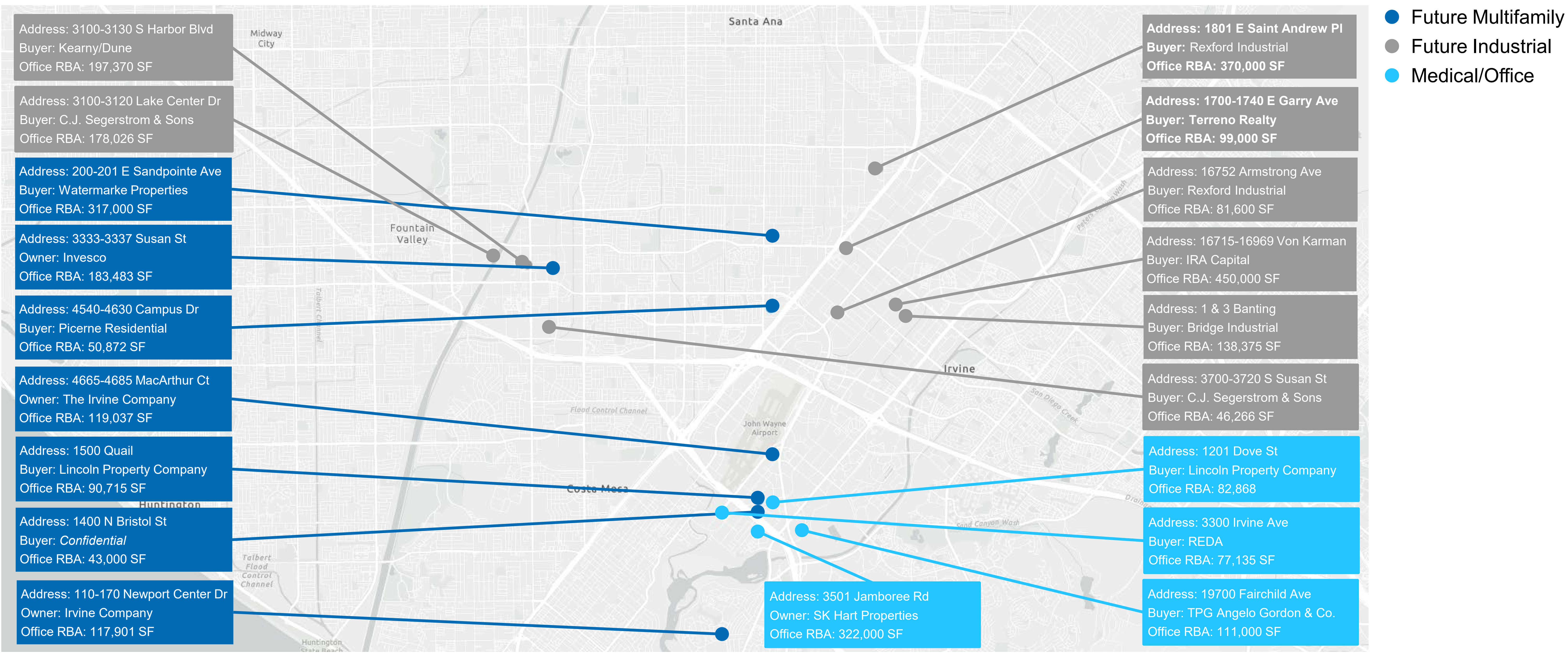
4Q24

Orange County Trend Spotlight: Unwanted Office Buildings Get a Second Life

Some Underperforming Office Properties Slated for Conversion

Finding the highest and best use for a commercial asset is the principal goal of any developer. A handful of underperforming office properties will eventually find a new life as multifamily, industrial or medical developments, a list that will continue to grow.

Office Redevelopment Project Announcements

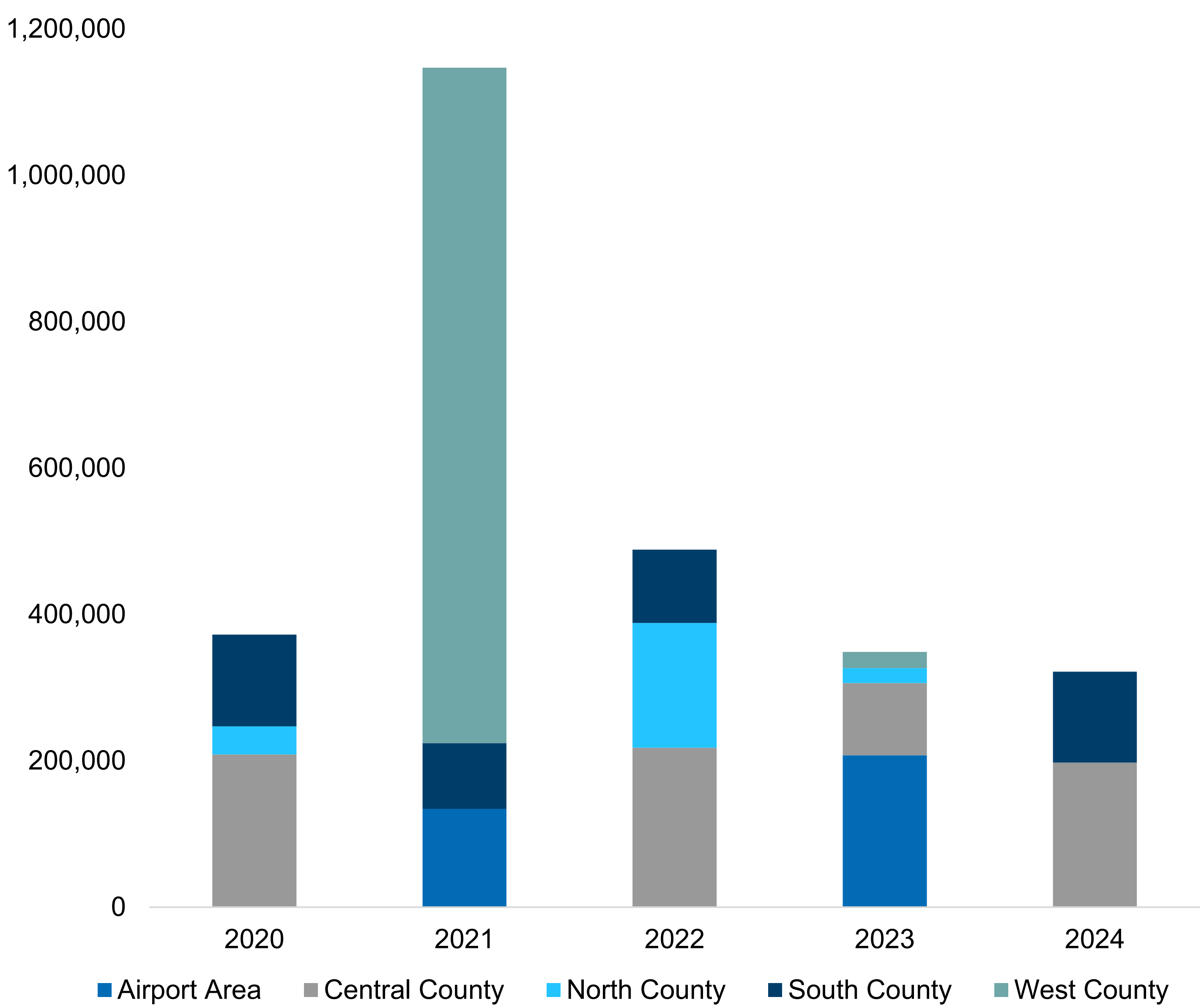


Source: Newmark Research

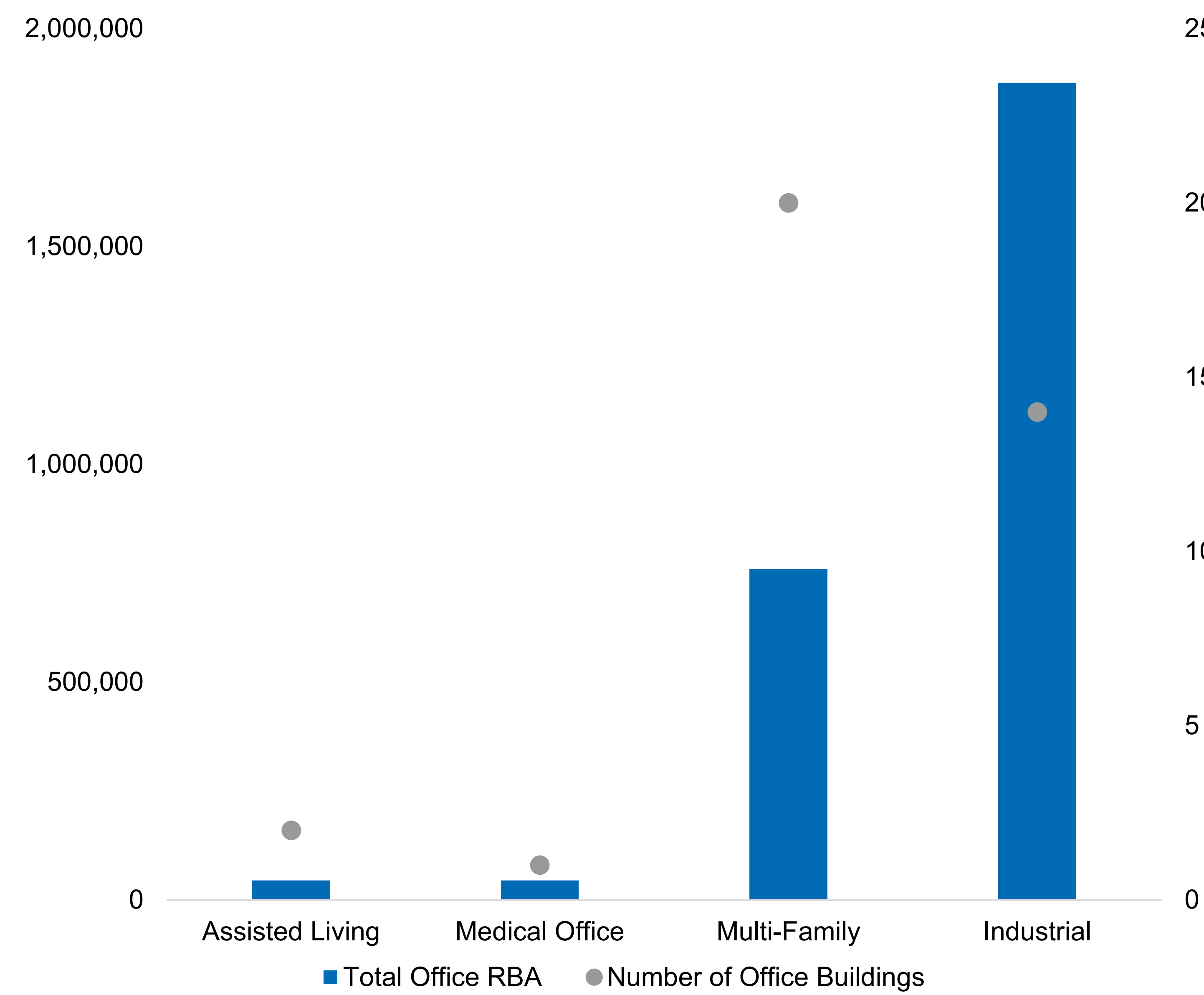
Obsolete Office Properties Dropped From Total Inventory

Aging and under-performing office properties in Orange County are being targeted by developers for covered land plays. Since 2020, a total of 39 office buildings totaling 3.0 MSF have been demolished across the greater market, with an additional 3.5 MSF slated to be removed from inventory for future conversions. While the number of multi-family conversions exceeds that of industrial, total office RBA being converted to industrial is the highest due to the Huntington Gateway development that was once a 923,000 SF office building.

Demolished Office RBA, By Year and Submarket (SF)



Demolished Office RBA and Building Count, By Converted Property Type

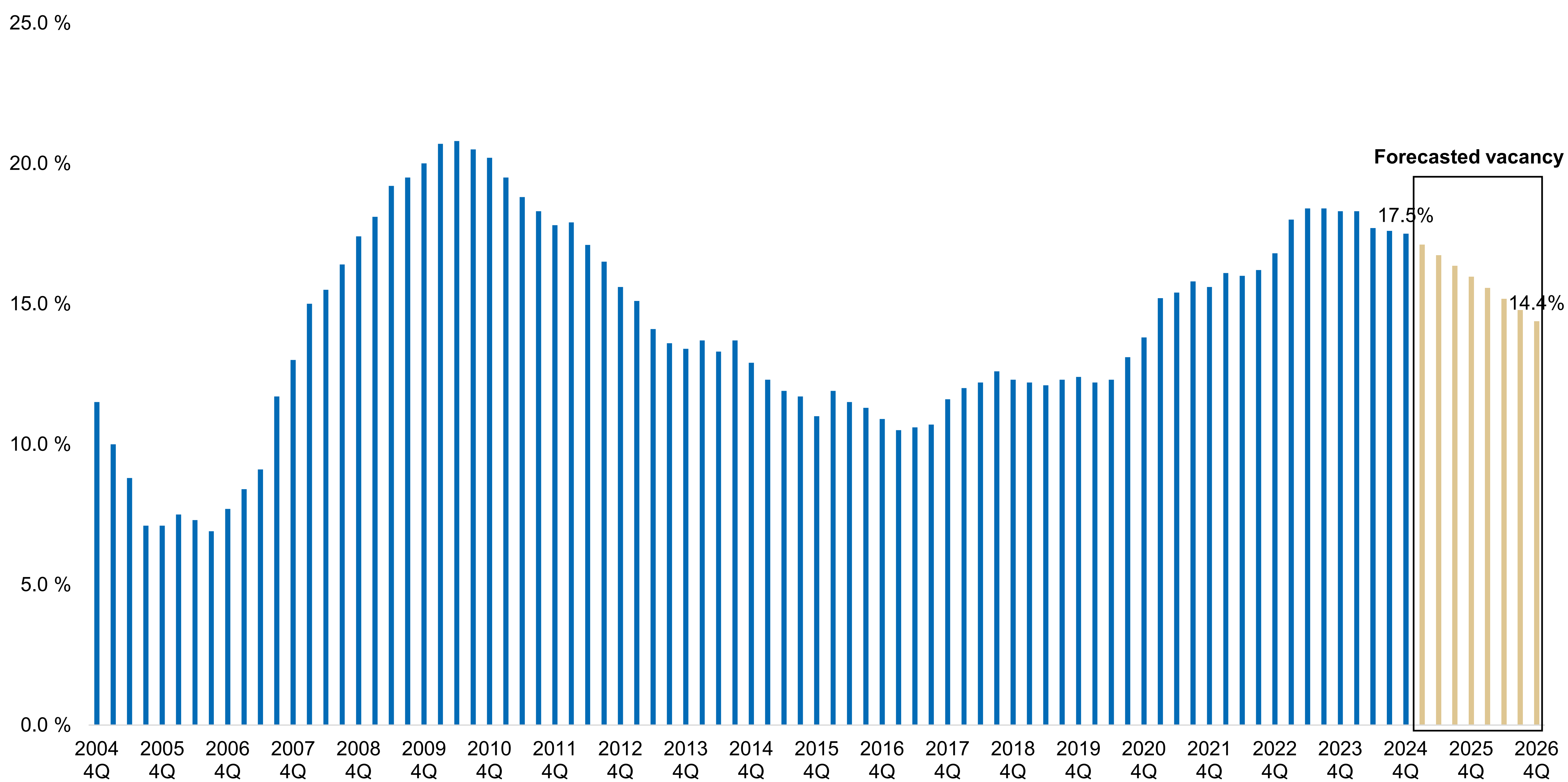


Source: Newmark Research

Removal Of Undesirable Product From Inventory Will Recalibrate Vacancy

Tenants are generally falling into one of two categories: those seeking cream-of-the-crop, Class A product and those opting for the cheapest-possible find. Some of the in-between, unsought product is finding new life as industrial, multi-family and medical properties, which will ultimately improve vacancy levels in the quarters ahead.

Historical and Forecasted Office Vacancy (%)



Source: Newmark Research

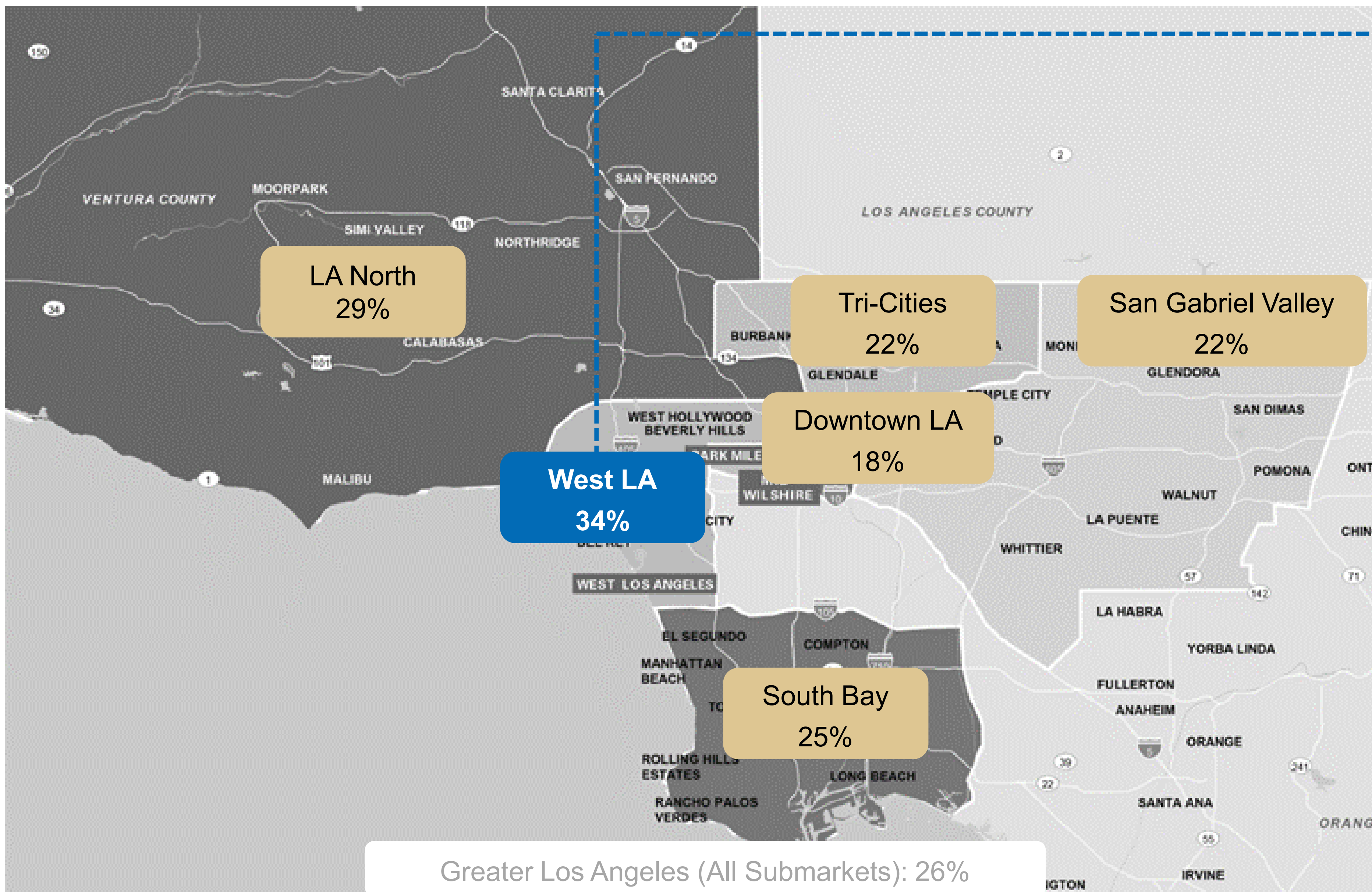
4Q24

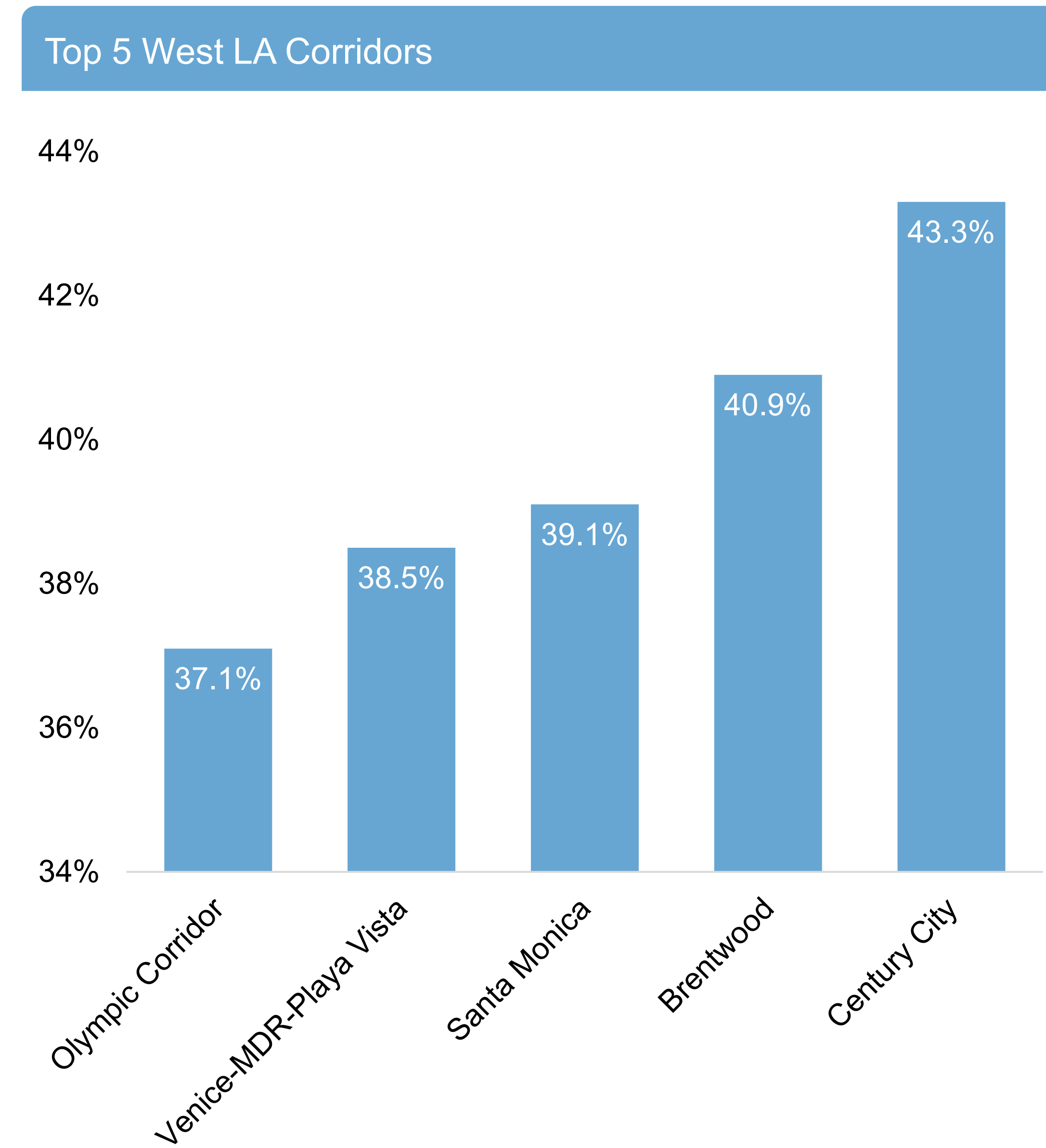
Los Angeles Trend Spotlight: Where Leasing Activity is Concentrated

Post-COVID Leasing Activity Strongest in West Los Angeles

Abundant amenities, a large population, affluent communities, general safety and a dense concentration of businesses with ties to the entertainment industry favor the submarket. Century City, which continues to solidify its position as the region's premier CBD, stands out as the top-performing corridor, partly due to its central location. Brentwood (home to multiple financial and legal service firms, which did not lean into hybrid work as much as other industries) is second.

Office Leasing Activity Since 2020 2Q as a Percentage of Current Inventory | By Submarket*



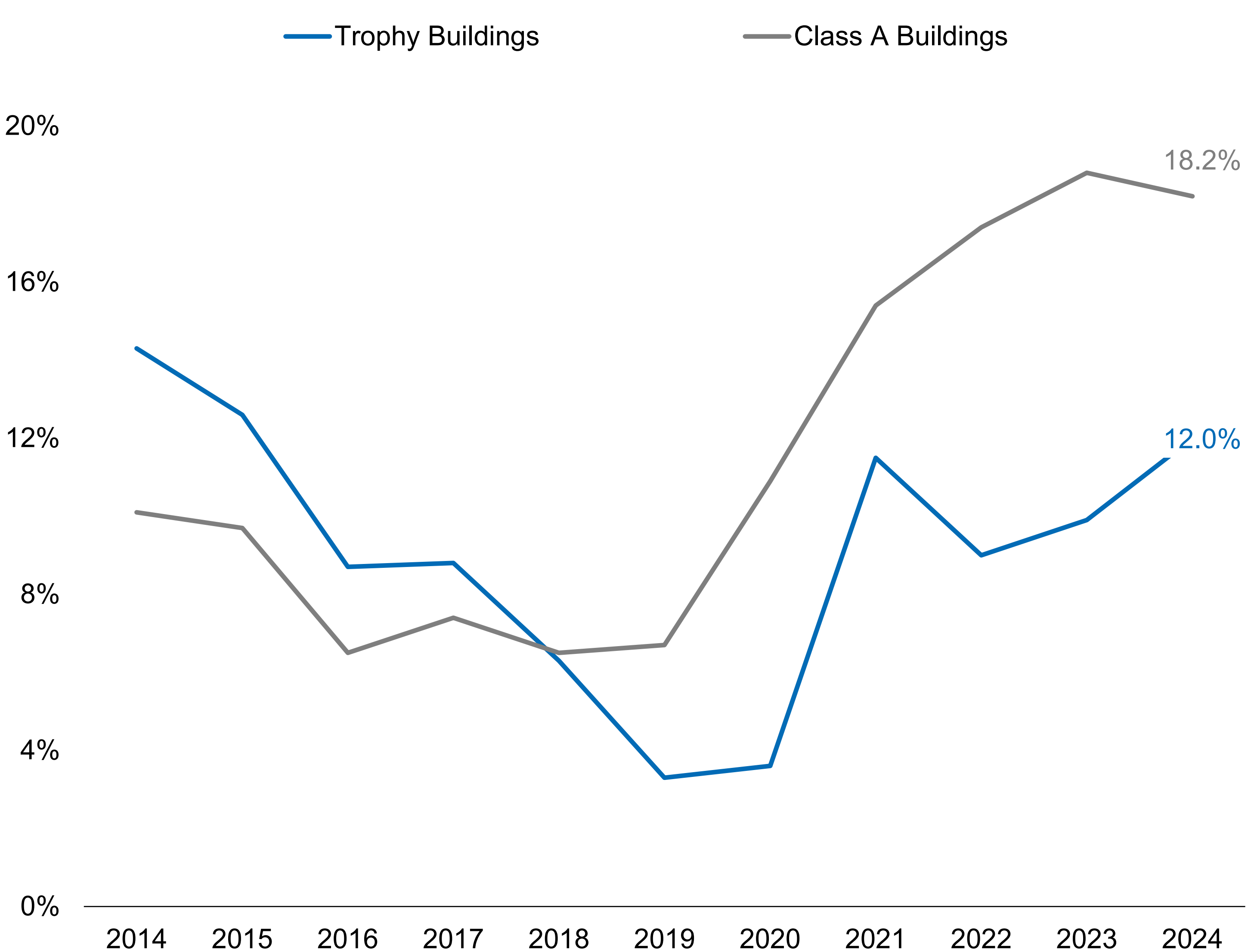


Source: Newmark Research, CoStar
Notes: The submarket percentages are the sum of total leasing activity from 2020 2Q through 2024 4Q divided into current (2024 4Q) inventory.

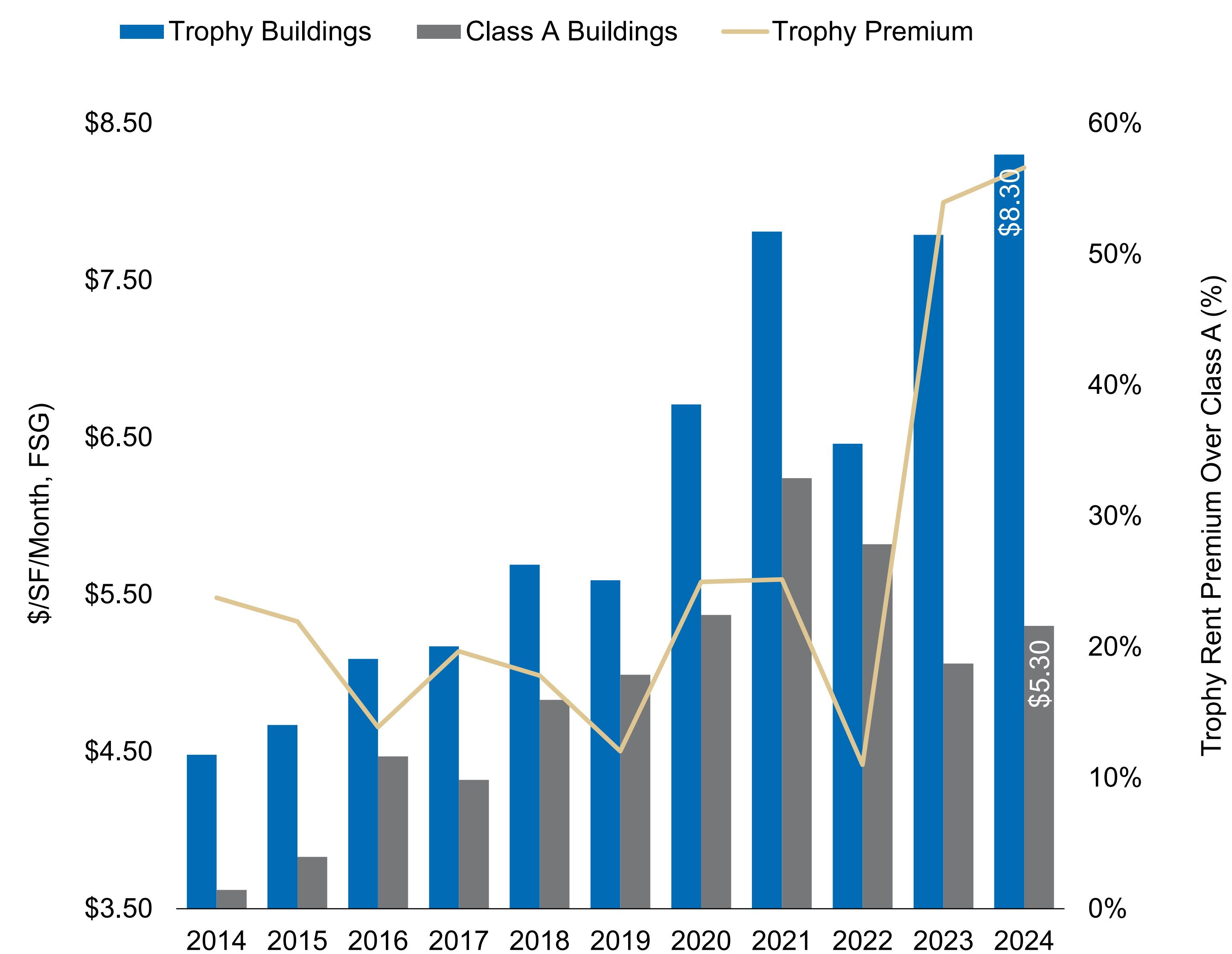
Century City May be a Top-Performer, But Not All Buildings are on Equal Footing

Vacancy in trophy buildings is much lower than Class A, while trophy rents command a rent premium. Trophy product generally appeals to companies due to its prime location, luxurious amenities, high-end design, and prestige factor, essentially acting as a statement of a company's success and image. The latter is important to lure workers back to the office.

Century City: Total Vacancy Comparison | By Year



Century City: Average Weighed Contract Rent Comparison | By Year



Source: Newmark Research,

For more information:

Andrew Robben
Managing Director
Orange County
Andrew.robben@nmrk.com

Dain Fedora
Head of Research
Southwest
dain.fedora@nmrk.com

Fahima Dawd
Senior Research Analyst
Orange County
fahima.dawd@nmrk.com

Orange County
18401 Von Karman Ave., Suite 150
Irvine, CA 92612
t 949-608-2000

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

NEWMARK