



# Downtown Los Angeles office market report

Q2 2024

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**AVISON  
YOUNG**

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# Downtown Los Angeles office market trends

## \$47.91

### Rental Rates and Concessions Show Strong Figure

Office rental rates edged higher in Q2 2024 to \$47.91 per square foot, marking an increase from \$46.00 in Q2 2023. This upward trend can be attributed partly to the escalation of operating expenses across various properties. Rising utility costs, increased maintenance expenditures, and inflation impacting the prices of goods and services have all contributed to this rise in operational costs.

Meanwhile, tenant improvement allowances in Downtown Los Angeles remained competitive, holding steady at \$120 per square foot for 10-year lease terms. Tenants negotiating leases exceeding 10 years have consistently benefited from 12 months of rent abatement. These extended abatement periods play a crucial role in incentivizing tenants to commit to new lease agreements.

## 30.50%

### Office Total Vacancy Rate

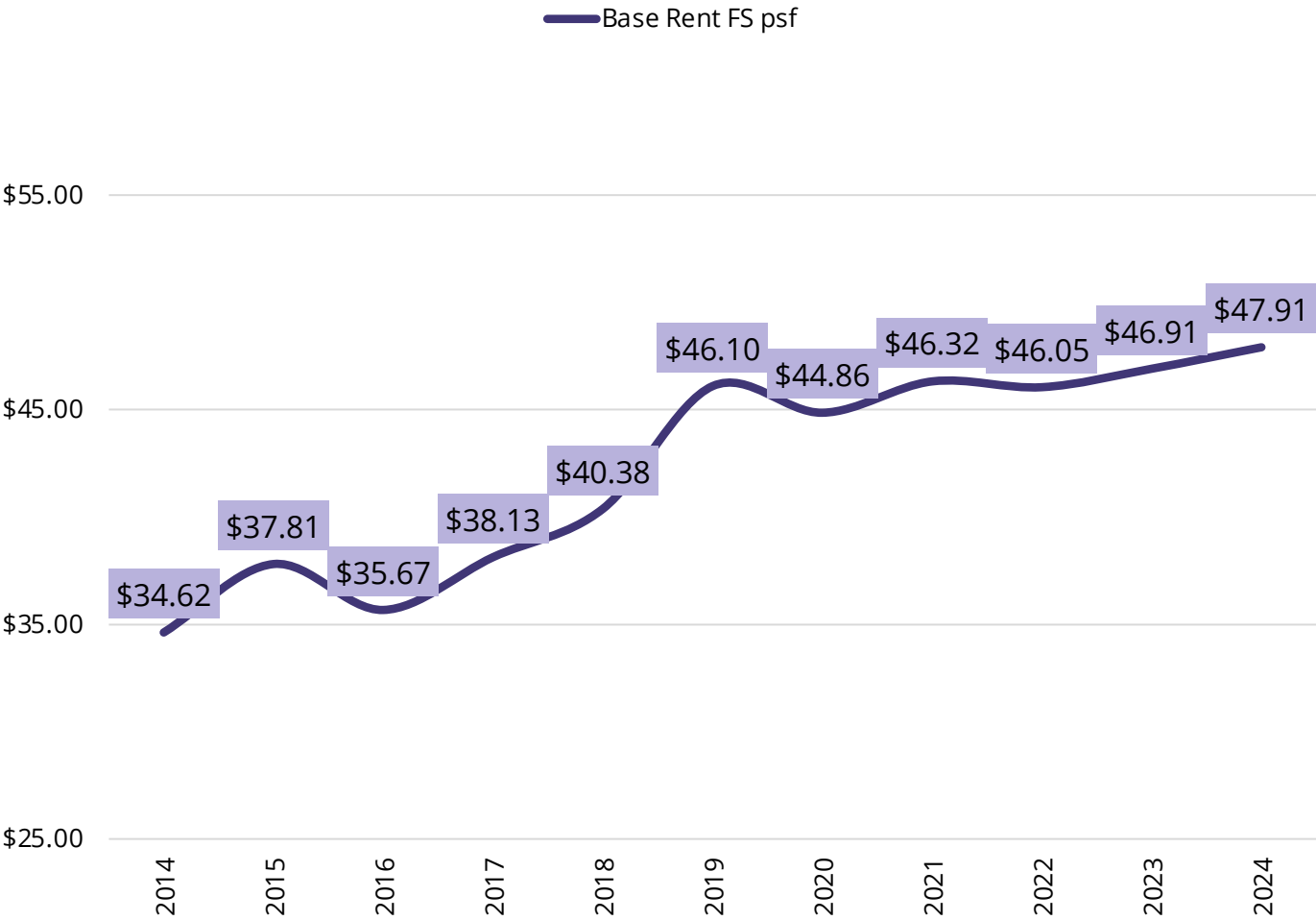
The greater Downtown Los Angeles submarket closed Q2 2024 with an overall vacancy rate of 30.5%, reflecting a decrease of 40 basis points from the previous quarter. Specifically, the Central Business District recorded a total vacancy rate of 27.8% for Trophy and Class A properties. These fluctuations underscore the dynamic nature of the commercial real estate landscape in Downtown Los Angeles, where market players navigate a landscape shaped by shifting tenant preferences and evolving economic conditions. As stakeholders assess these trends, they are increasingly focusing on adaptive strategies that balance competitive leasing incentives with long-term investment viability, aiming to capitalize on emerging opportunities within the vibrant urban core.

## 432K sf

### Leasing Activity

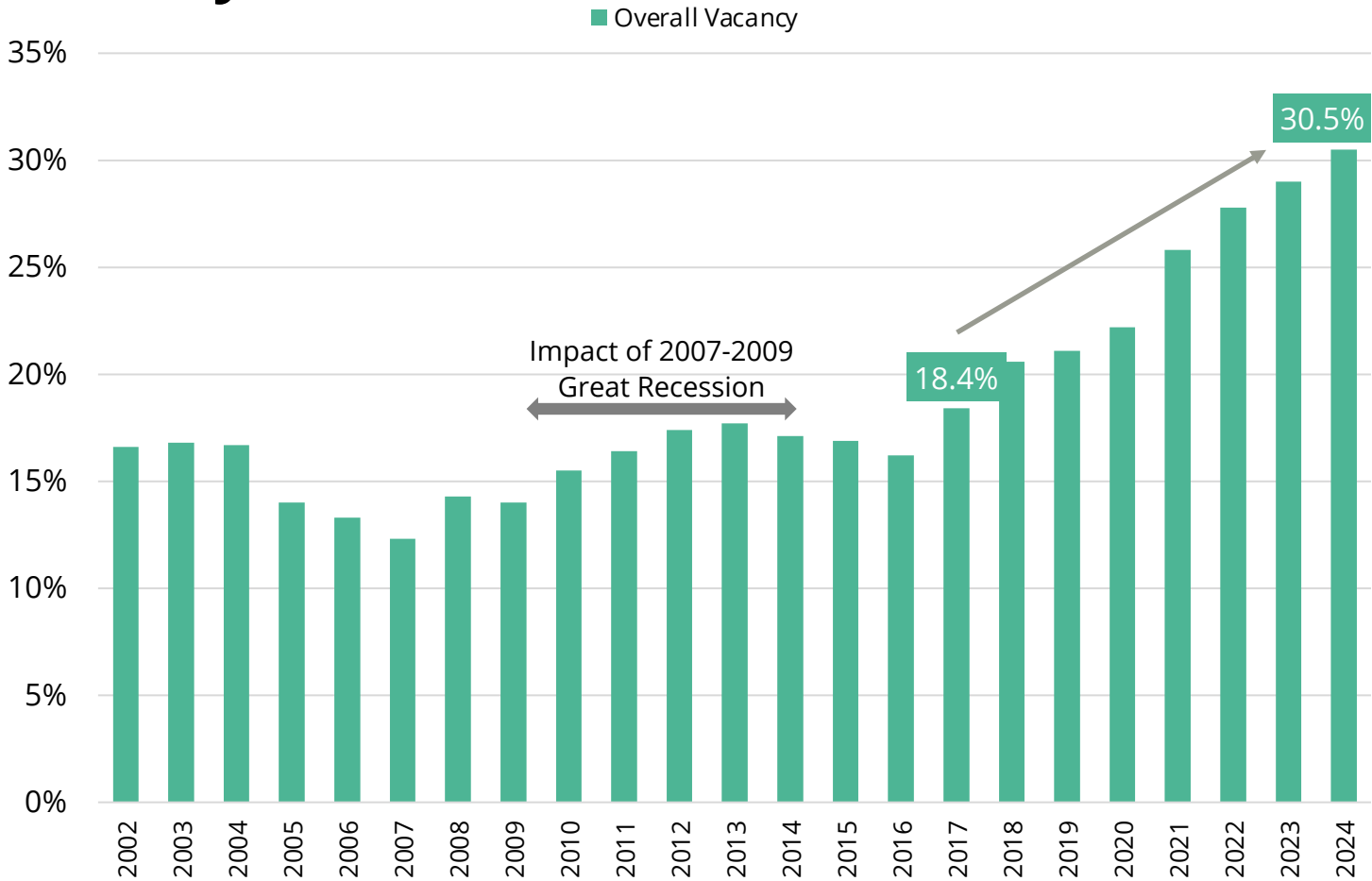
In the first half of 2024, leasing activity in Downtown Los Angeles has been robust, with transactions totaling over 700,000 square feet. Q2 2024 saw leasing activity surge to over 432,000 square feet, up significantly from 230,000 square feet in Q1 2024. Market data indicates strong tenant demand, with over 60 tenants actively seeking space, collectively seeking approximately 1.6 million square feet of leasing opportunities in the near future. This underscores a promising outlook for the leasing market in Downtown Los Angeles, driven by heightened tenant interest to return to office and expanding market activity.

# Downtown Los Angeles office rental rates



Office rental rates held steady in Q2 at \$47.91 per square foot, showing minimal change from the first quarter's figure of \$47.55. This stability in rates reflects landlords' efforts to balance rising operating expenses, which have seen a general uptick. Consequently, landlords have adjusted rental rates accordingly to maintain profitability amidst these operational cost increases.

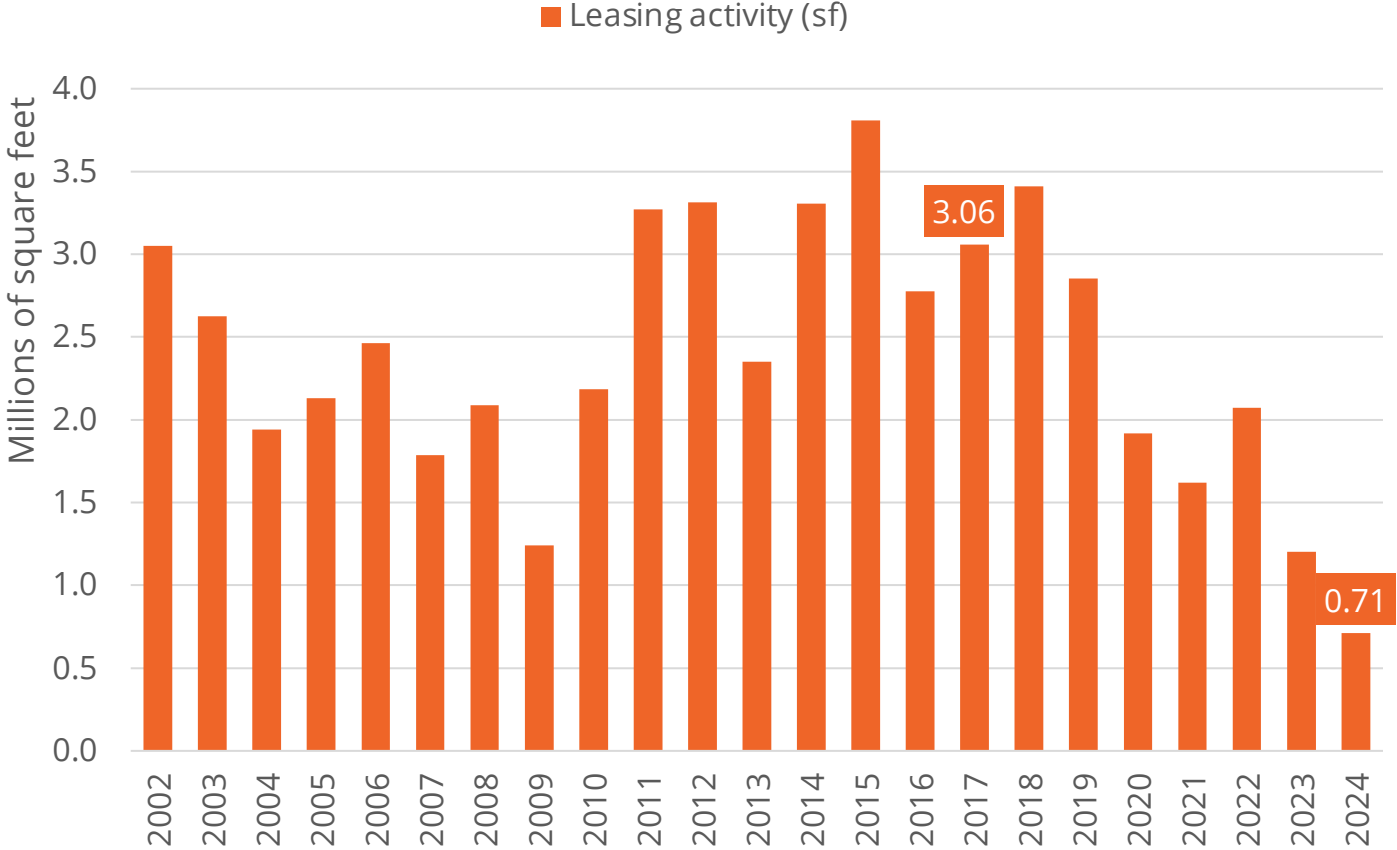
# Downtown Los Angeles office overall vacancy rate



Downtown Los Angeles total vacancy closed the second quarter at 30.5%. Vacancy has been on the rise each year since the beginning of 2017 with the previous most recent stretch of multi-year vacancy increases occurring between 2009-2013, the period following the Great Recession. The lingering effects of COVID-19, which brought on the “hybrid work schedule” to prominence, has been a contributor to the hike in vacancy and suppression of leasing activity. However, and on a positive note, vacancies have declined by 40 basis points for Trophy and Class A properties.



# Downtown Los Angeles office leasing activity



Over 700,000 SF has transacted through the first half of 2024. Leasing activity in Q2 2024 has picked up with 432,000 SF leased compared to 230,000 SF in Q1 2024. Currently, there are over 60 tenants searching for space in Downtown Los Angeles, amassing to 1.6 million square feet of potential leasing activity on the near horizon.

# Appendix

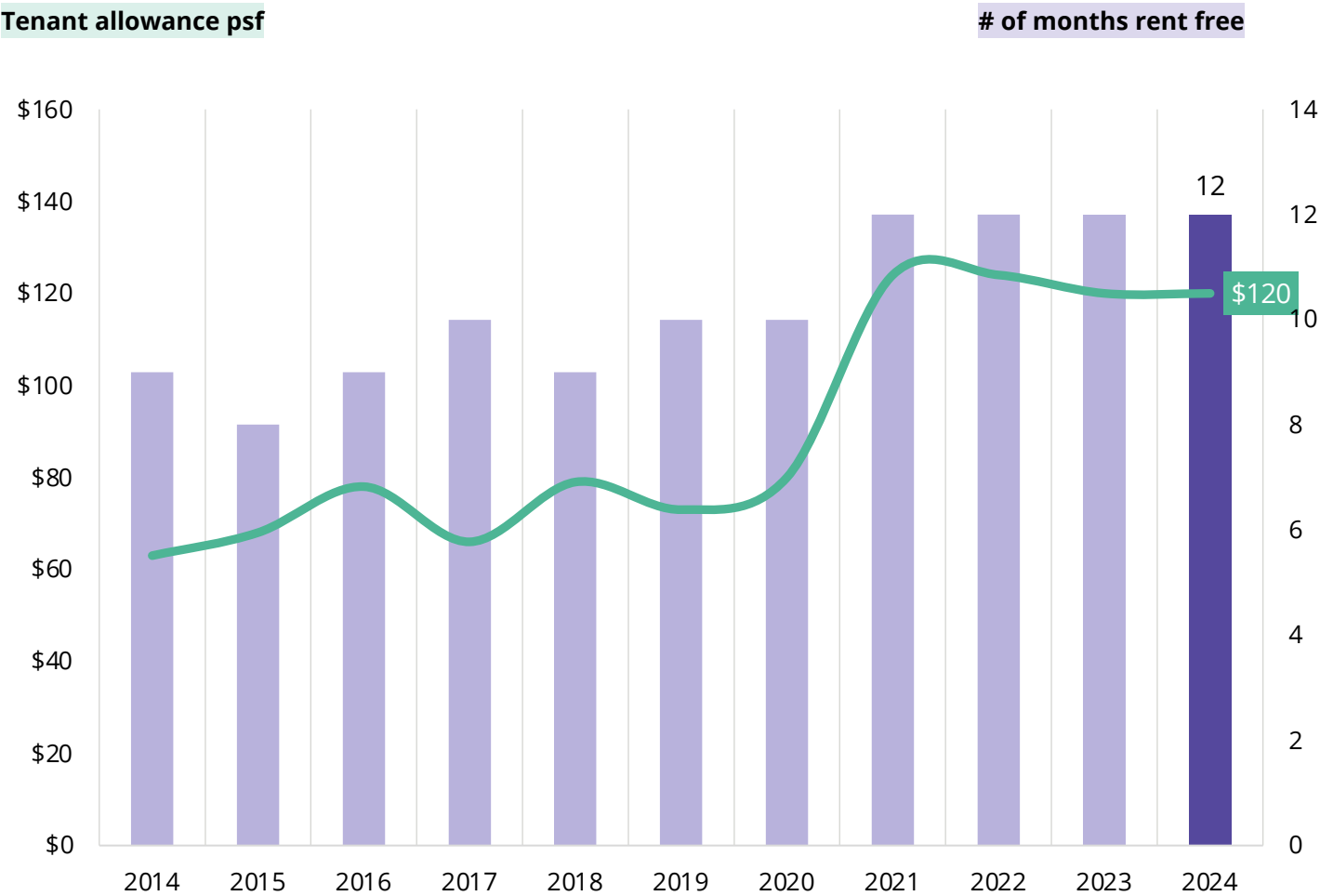


# Downtown Los Angeles annual office net absorption (All Property Classes)



As of Q2 2024, the market saw over 300,000 square feet of negative net absorption across all property classes, bringing the total to -498,000 through the first half of 2024. The Central Business District accounted for 60% of this total, with 224,000 square feet of negative net absorption. These figures highlight the challenges, brought on by the economic conditions within different segments of the market.

# Stability in Downtown tenant concessions (Trophy & Class A)



In downtown Los Angeles, tenant improvement allowances have maintained stability at \$120 per square foot for lease terms extending beyond 10 years. Additionally, tenants negotiating deals of this duration have reliably received 12 months of rent abatement. These consistent offerings reflect ongoing market conditions and leasing trends in the area.



# Downtown Los Angeles office market stats (Trophy & Class A)

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct Vacancy	Sublet Vacancy	Total Vacancy	2024 Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Bunker Hill	10,235,677	0	0	23.23%	1.75%	24.98%	667	0.01%	\$47.54
Financial District	16,685,948	0	0	26.48%	3.32%	29.80%	(178,396)	(1.21%)	\$47.81
<b>CBD</b>	<b>24,963,936</b>	<b>0</b>	<b>0</b>	<b>25.10%</b>	<b>2.70%</b>	<b>27.80%</b>	<b>(177,729)</b>	<b>(0.71%)</b>	<b>\$47.70</b>
South Park	1,725,025	0	0	27.84%	2.87%	30.71%	(69,099)	(4.01%)	\$43.01
Historic Core	489,852	0	0	37.54%	0.71%	38.25%	(8,810)	(1.80%)	\$43.16
Arts District	1,137,250	0	137,000	45.53%	2.54%	48.07%	25,310	2.23%	\$67.19
Little Tokyo	140,000	0	0	19.60%	7.25%	26.85%	8,779	6.27%	\$46.33
Chinatown	251,308	0	0	49.62%	0.00%	49.62%	18,312	7.29%	\$42.00
Fashion District	1,809,786	0	0	55.84%	0.00%	55.84%	0	0.00%	\$48.00
Central City West	450,000	0	0	15.60%	0.00%	15.60%	(23,570)	(5.24%)	\$37.79
<b>Non-CBD</b>	<b>6,003,219</b>	<b>0</b>	<b>0</b>	<b>40.20%</b>	<b>1.50%</b>	<b>41.70%</b>	<b>(49,078)</b>	<b>(0.82%)</b>	<b>\$48.75</b>
<b>Overall DTLA</b>	<b>30,924,844</b>	<b>0</b>	<b>137,000</b>	<b>28.10%</b>	<b>2.40%</b>	<b>30.50%</b>	<b>(226,807)</b>	<b>(0.73%)</b>	<b>\$ 47.91</b>

# Downtown Los Angeles office market stats (All Property Classes)

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct Vacancy	Sublet Vacancy	Total Vacancy	2024 Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Bunker Hill	10,238,630	0	0	23.30%	1.80%	25.10%	667	(0.52%)	\$44.05
Financial District	19,174,439	0	0	36.40%	2.50%	38.90%	(163,984)	(0.89%)	\$44.77
<b>CBD</b>	<b>29,413,069</b>	<b>0</b>	<b>0</b>	<b>31.80%</b>	<b>2.30%</b>	<b>34.10%</b>	<b>(163,317)</b>	<b>(0.76%)</b>	<b>\$44.52</b>
South Park	3,287,251	0	0	30.40%	1.70%	32.10%	(243,932)	(3.04%)	\$39.97
Historic Core	6,266,611	0	0	23.60%	0.10%	23.70%	(90,523)	(1.64%)	\$36.73
Arts District	2,506,295	0	137,000	34.10%	6.90%	41.00%	(26,486)	(1.30%)	\$61.55
Little Tokyo	415,435	0	0	11.90%	2.40%	14.30%	(3,907)	3.50%	\$51.00
Chinatown	342,721	0	0	40.20%	0.00%	40.20%	30,427	6.77%	\$41.69
Fashion District	3,641,533	0	0	37.00%	0.00%	37.00%	35,928	0.45%	\$23.36
Central City West	1,743,763	0	0	33.30%	5.60%	38.90%	(36,985)	(1.47%)	\$36.84
<b>Non-CBD</b>	<b>18,203,609</b>	<b>0</b>	<b>137,000</b>	<b>29.90%</b>	<b>1.90%</b>	<b>31.80%</b>	<b>(335,478)</b>	<b>(1.05%)</b>	<b>\$41.71</b>
<b>Overall DTLA</b>	<b>47,616,678</b>	<b>0</b>	<b>137,000</b>	<b>31.10%</b>	<b>2.10%</b>	<b>33.20%</b>	<b>(498,795)</b>	<b>(1.39%)</b>	<b>\$43.45</b>

# Downtown Los Angeles office market activity

## Recent leasing activity

Tenant	Address	Submarket	Type	Size (sf)
U.S. Bank	633 W 5 <sup>th</sup> Street	Bunker Hill	Renewal	105,000
Reed Smith	515 S Flower Street	Financial District	New Lease	41,129
Cultural Office of Kuwait	801 S Figueroa Street	Financial District	Renewal	20,886
Hanson Bridget	601 W 5 <sup>th</sup> Street	Financial District	New Lease	16,994

## Recent leasing activity

Address	Size (sf)	Submarket	Seller	Buyer	Sale price psf	Status
617 W 7 <sup>th</sup> Street	215,469	Financial District	The Swig Company	Shomof Group	\$94.99	Sold
777 S Figueroa Street	1,109,120	Financial District	Wells Fargo/Brookfield Properties	TBD	N/A	In Escrow
801 S Figueroa Street	465,222	Financial District	New York Life/Barings	TBD	N/A	On Market
660 S Figueroa Street	282,765	Financial District	Jade Enterprises	TBD	N/A	On Market

# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales



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**Chris Cooper**

Principal, Regional Managing Director  
+1 213 935 7435  
CA DRE #01260886  
chris.cooper@avisonyoung.com

**Erick Parulan**

Senior Analyst, Market Intelligence  
+ 1 949 757 1283  
erick.parulan@avisonyoung.com

**Jonathan Larsen**

Principal, Managing Director - DTLA  
+1 213 471 1069  
CA DRE #01008099  
jonathan.larsen@avisonyoung.com

**Taylor Stokes**

Analyst, Market Intelligence  
+ 1 310 339 2976  
CA DRE #01987676  
taylor.stokes@avisonyoung.com

**John Eichler**

Principal, DTLA  
+1 323 603 5093  
CA DRE #00868881  
John.eichler@avisonyoung.com

**Sebastian Bernt**

Analyst, Market Intelligence  
+ 1 818 584 9500  
sebastian.bernt@avisonyoung.com