CONNECTING REAL ESTATE IN THE WEST
WESTERN REAL ESTATE BUSINESS

MARKET HIGHLIGHT,

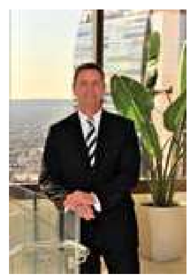
LOS ANGELES

By Greg Tuszynski, Kyle Miller, David Fults, Brian McLoughlin and Paul Daneshrad

Los Angeles is always a popular market, but the question is, just who is it popular with? The city is always a beacon for tourists and the entertainment industry, but luckily investors are once again turning toward the City of Angels as well. A few key industries are keeping the city's office market buoyed, while the industrial sector continues to profit from the area's port-adjacent location. Like most of the nation, multifamily properties in Los Angeles are trading at a healthy level, while retail activity is slowly returning.

OFFICE

The Greater Los Angeles region contains more than 18 million people. Unlike most major cities where there is only one central business district (CBD) surrounded by suburbs, the Los Angeles office market's urban sprawl has multiple business districts totaling 205.2 million square feet of office space. This makes the Los Angeles office market the fourth largest in the U.S., behind New York City, Washington, D.C., and Chicago, respectively.



Tuszynski

Downtown Los Angeles has 33.4 million square feet of office space, but this is only 16 percent of the overall LA office market total. The remaining 84 percent is spread out over 4,700 square miles. It encompasses submarkets like West Los Angeles, which includes Century City, Beverly Hills, Brentwood, Westwood and Santa Monica; Tri-Cities, which includes Burbank, Glendale and Pasadena; the San Fernando Valley/Ventura County, which includes Warner Center, Sherman Oaks and Encino; the South Bay, which includes El Segundo, Torrance and Long Beach; and the San Gabriel Valley.

These submarkets have their own geography and personality, which is leading to a bifurcation of the market. For instance, Westside market fundamentals are strong and landlords are running out of space. However, the rest of the Los Angeles market is limping along due to a slow economic recovery.

There's no doubt that West Los Angeles is the standout. It is the strongest submarket because it is the central hub for the entertainment, media and technology industries. Tech has been the dominant sector of the U.S. economy for the past 18 months. Santa Monica and the lower Westside, in particular, benefit every time successful companies like Google expand.

More than 500,000 square feet of space was absorbed in the past 18 months in Santa Monica alone. As a result, rents have increased and vacancy is now below 10 percent.

Outside of West LA, Downtown and the other markets have generally been flat – and the 2012 forecast calls for more of the same. These areas reflect the general lackluster performance of the economy primarily because these markets are generally composed of financial, professional and legal service providers.

In addition, the overall vacancy rate may not be telling the market's whole story due to the amount of shadow inventory. After the 2008 recession and the mass layoffs that followed, shadow space rose exponentially. As the economy slowly improves, growing companies will first make use of this space, bringing it back into use, rather than leasing new space.

Search Property Listings

Requirements for News Sections

Market Highlights and Snapshots

Editorial Calendar

REBUSINESS ONLINE
Today's Real Estate News

On the other hand, companies that are not expanding will give back their shadow space and reduce their real estate footprints when their leases expire in order to right-size and increase space efficiency.

We predict the vacancy rate will remain stubbornly flat as shadow space is expected to continue to absorb many office space requirements for the market.

— Greg Tuszynski, vice president, Colliers' Downtown Los Angeles office