Intelligent Investment

2026
U.S. Real Estate Market Outlook

REPORT

GREATER
LOS ANGELES

CBRE RESEARCH
JANUARY 2026

Office Market Outlook

01

MARKET REMAINS TENANT-FAVORABLE, BUT TOP-QUALITY OPTIONS BEGIN TO TIGHTEN

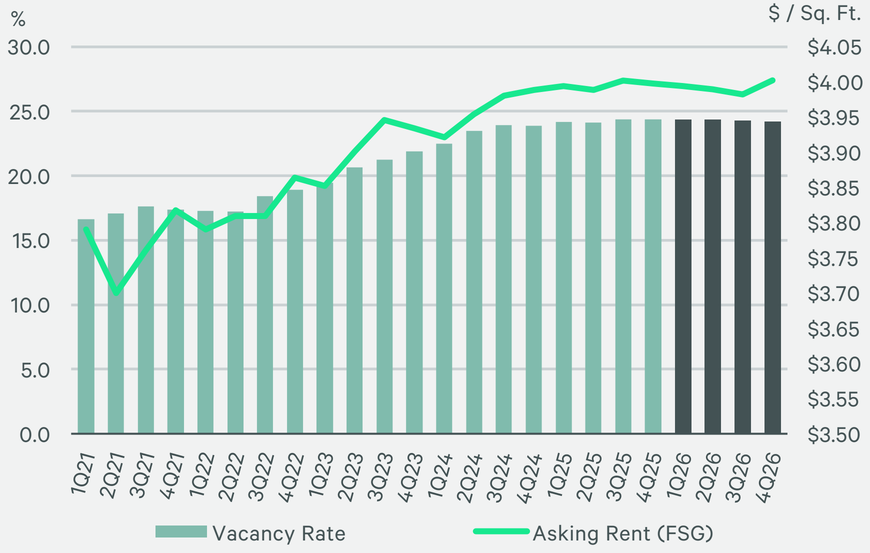
– There is cautious optimism that the Greater Los Angeles office market will find its post-pandemic bottom in 2026.
– Well-capitalized landlords will continue to offer generous concession packages to attract high-profile tenants. Concessions include early access, free rent, and tenant improvement allowances to offset build-out costs.
– Leasing activity will continue to increase, though it's anticipated that new requirements will be offset by ongoing tenant right-sizing. Government, finance, legal, media, and technology sectors are the most active in the leasing market.
– Tenants will continue to migrate to Class A assets in prime locations, particularly in Century City. The flight-to-quality trend emphasizes tenants' preference for properties owned by well-capitalized landlords, as they provide better improvement allowances at locations with desirable amenities.
– As vacancy tightens in trophy assets in select submarkets, demand may spill over to next-tier assets and adjacent districts.
– With only 2.3 million sq. ft. of new space expected in 2026, the limited pipeline of new deliveries should not disrupt the current supply-demand dynamics. Notable construction projects include 1950 Avenue of the Stars (89% preleased) in Century City and 411 N Hollywood Way (100% preleased) in Burbank. Only select build-to-suit developments are expected to break ground in 2026.

02

STRONG DEMAND AND REDUCED SUPPLY WILL DRIVE VACANCY DECLINES

– Distressed properties have become targets for opportunistic private investors, reshaping the ownership landscape. Investment sale volume increased by just over 33% to $4.2 billion in 2025. Pricing dynamics will remain challenging, with significant dislocation in bid-ask spreads.
– Owners will deploy bifurcated strategies to increase occupancy, including aggressive face-rent reductions and concessions and strategically investing in capital improvements to reposition assets for the long term.
– Institutional capital remains largely sidelined but is expected to return in 2026.
– While the average office cap rate remained stable in 2025, the average bid/ask spread widened, reflecting uncertainty in future office pricing.
– Due to ongoing constraints within the debt market and prevailing market sentiment, opportunistic owner-users will continue to identify new opportunities to acquire buildings in a softening office market.
– Total owner-user sales volume exceeded $780 million in 2025, including Riot Games acquiring Element LA in the Olympic Corridor for $231 million, Omega Law Group acquiring 8800 W Sunset Blvd in West Hollywood for $35.5 million and Alo acquiring 8942 Wilshire Blvd in Beverly Hills for $90 million.

VACANCY AND RENTAL RATE FORECAST



KEY TAKEAWAYS

— Tenants who executed short-term renewals but still have long-term space requirements are expected to drive leasing activity in 2026.
— Owners that can offer competitive tenant improvement packages will continue to see demand from credit tenants who seek to minimize the financial impact of relocation.
— With tenant-favorable conditions continuing in the overall market, tenants can secure long-term leases in strategic markets at historically low net effective rates.
— Owner-user acquisitions will continue, allowing companies to lock in occupancy costs and gain long-term control.

Industrial Market Outlook

01

DEMAND FOR INDUSTRIAL SPACE EXPECTED TO IMPROVE

- Following an increase in the overall vacancy rate amid a flight to quality last year, demand is expected to improve in 2026 with limited new supply.
- While well-capitalized, new-to-market occupiers like advanced manufacturers and expanding logistics firms are seeking higher-quality assets, occupiers are increasingly price conscious. Asking rates are expected to drop by 7.4% this year and lease concessions will be increasingly commonplace.
- California's expanded entertainment and film industry tax credit program is expected to stimulate film production in Los Angeles, retaining more projects within the region and driving demand for industrial space dedicated to sound stages, storage, and other production-related services.

02

KEY ADVANCED MANUFACTURING VERTICAL IS ACCELERATING

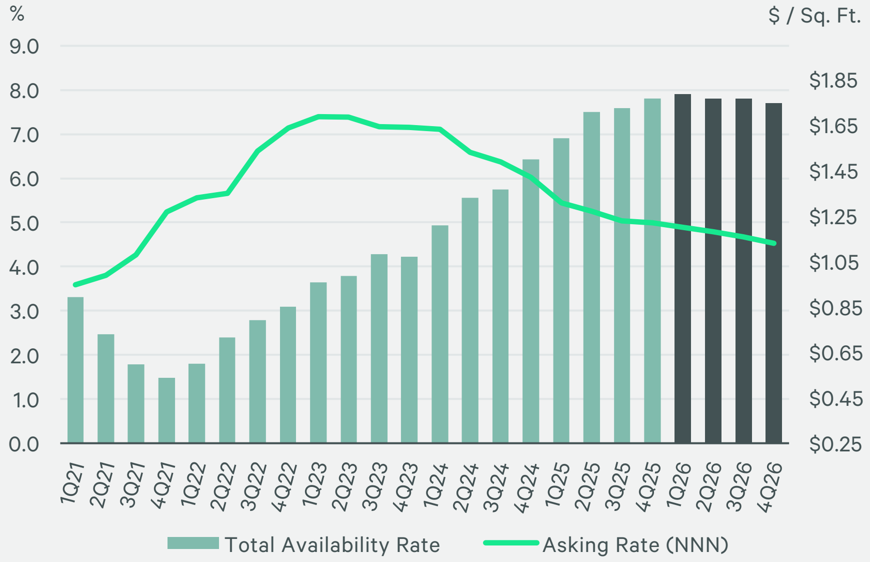
- The market's advanced manufacturing footprint will continue to increase this year, particularly in aerospace and defense. Proximity to strategic sites, occupier composition and a world-class university ecosystem will continue to make the market appealing despite relatively high operating costs.
- Lower interest rates and increasing defense spending will continue to drive investments in the aerospace and defense industry. Greater Los Angeles will continue to be a world industry leader in space tech and drones.
- Aerospace and defense occupiers will continue to compete for newer space in the 20,000-to–140,000-sq.-ft. range. Rollbacks to state environmental regulations should allow for increased advanced manufacturing development.

03

PORT ACTIVITY STABILIZED

- As the San Pedro Bay Complex is the largest seaport in North America in volume, the region is particularly susceptible to international trade conflict and uncertainty, which introduces both potential opportunities and risks to industrial leasing volume in 2026.
- Port officials expect less volume early this year after a dramatic rise last year to avert tariffs.
- As a result of evolving tariffs, businesses may focus on regionalizing supply chains, driving logistical demand.

AVAILABILITY AND RENTAL RATE FORECAST



KEY TAKEAWAYS

- Rental rates are expected to gradually decrease as landlords compete for tenants.
- Advanced manufacturers will continue to be drawn to the region, capitalizing on the growing aerospace industry and access to talent.
- Reduced shipping volume and geopolitical supply chain impacts remain the most significant downside risks in 2026.

Multifamily Outlook

01

CONSTRUCTION COSTS WILL INCREASE FROM WILDFIRE RECOVERY EFFORTS AND A TIGHT LABOR MARKET

- The January 2025 wildfires destroyed approximately 16,000 structures across Greater Los Angeles. The region will continue to face headwinds, including an escalation in construction bid costs since 2024 (5% compared to the national average of 3.2%) and a tight construction labor market exacerbated by immigration enforcement.
- The overall multifamily vacancy rate is forecast to fall to 4.4% this year, with a 0.8% increase in average rent.
- The market is expected to absorb nearly 13,000 units this year.
- Population decline is projected to continue in the region as housing affordability continues to be a top issue.

02

CALIFORNIA STATE LAWMAKERS PUSH FOR MORE DEVELOPMENT

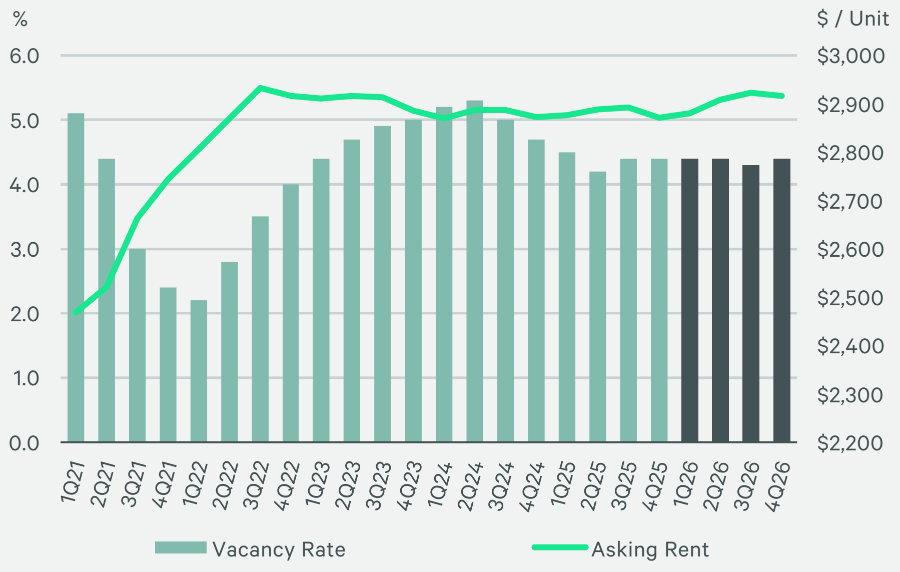
- Recently passed state and local legislation aims to streamline the approvals process and reduce regulatory barriers, providing a long-term boost to multifamily developers, with a particular focus on transit-oriented areas. These initiatives should attract investors and developers to the region, despite construction headwinds.
- Los Angeles' Affordable Housing Streamlining Ordinance will accelerate approvals for 100% affordable projects, allowing for faster construction of affordable housing units.
- California Senate Bill 79 overrides certain local zoning laws, like parking requirements, to allow for multistory, high-density housing in transit-dense areas, effective July 2026. This will reduce red tape and encourage developers to build near transit.
- Assembly Bill 130 and 131 exempt most urban infill multifamily housing projects from environmental review (CEQA), accelerating approvals and reducing development costs in transit-dense areas.

03

CAPITAL MARKETS ACTIVITY EXPECTED TO INCREASE IN PROFITABLE LOCATIONS

- Multifamily is expected to remain the most targeted asset class by investors in 2026.
- Provisions in the One Big Beautiful Bill Act will draw attention from high-net-worth individuals who are able to offset income via cost segregation strategies on real estate acquisitions.
- Investors will prioritize non-rent-controlled jurisdictions outside the city of Los Angeles to bypass the 4.0%–5.5% transfer tax imposed by Measure ULA, further stressing the already constrained market.

VACANCY AND RENTAL RATE FORECAST



KEY TAKEAWAYS

- Upcoming regulatory shifts will unlock new opportunities for fast-acting developers.
- Submarkets with a higher population density and immediate access to public transportation will have the largest growth in supply.
- A drop in construction deliveries may limit rental growth.
- Tenants' sensitivity to rent increases, along with the direction of long-term interest rates, will be the biggest variables impacting the vacancy rate.

Retail Outlook

01

LIMITED SUPPLY IS EXPECTED TO CONTINUE SUPPORTING STRONG MARKET OCCUPANCY

- Rental rates are forecast to increase by 2.2% this year, driven by resilient consumer spending.
- Investors will prioritize second-generation space and upscale redevelopment over new construction. Construction costs for new centers will rise due to competing residential construction demand.
- Storefront demand remains robust in high-income enclaves, where consumer spending is more insulated from economic headwinds.
- Consolidations among big-box retailers have resulted in increased vacancies, particularly in older inventory. Increasing material and labor costs will present headwinds for operator expansion in 2026.
- Supply chain constraints and increasing operational costs remain downside risks for consumer spending activity.

02

GROCERY, RESTAURANT AND EXPERIENTIAL RETAIL WILL CONTINUE TO DRIVE DEMAND

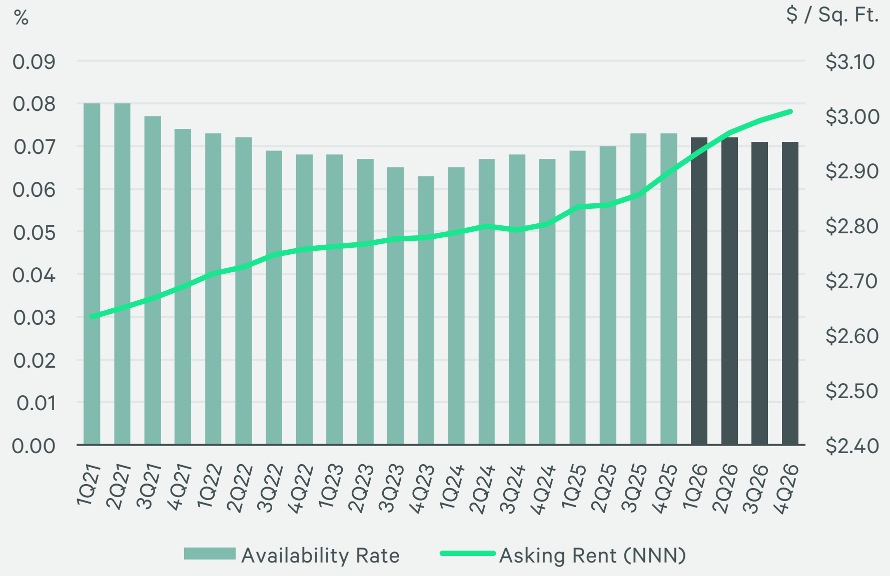
- Grocers, restaurants, and experience-based retailers are consistently generating consumer traffic.
- Health care operators will continue to flourish in retail spaces. Ambulatory health care service employment in LA County grew by 7.8% last year.
- Expanding grocers like Sprouts, T&T and Erewhon will be sought as anchors.
- Employment will remain stable in 2026.

03

INVESTMENT SALES VOLUME INCREASES

- Interest in high-street retail and grocery anchored centers is expected to drive investment in 2026. Overall sales volume increased by 9.5% last year to $4.18 billion.
- Private buyers and sellers will remain the most active investors, accounting for 76% of acquisitions and 63% of dispositions in 2025.

AVAILABILITY AND RENTAL RATE FORECAST



KEY TAKEAWAYS

- New supply will remain limited as high construction costs drive retailers to second-generation space.
- Big-box retail pullback from older spaces will present ongoing challenges for center owners.
- Experiential retail, especially operators that can curate a social media presence, will be increasingly important consumer traffic generators.

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