Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

LOS ANGELES

CBRE RESEARCH
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Office Market Outlook

01

Flight-to-quality upgrades are driving increased leasing volume.

Leasing activity in H1 2026 increased by 26% year-over-year to 9.6 million sq. ft. Renewals and relocations dominated the largest transactions, while subleasing surged by 62% year-over-year. While the flight-to-quality trend remains prevalent, tenants are rightsizing rather than expanding. The entertainment industry's share of leasing has declined alongside film production. California's expanded Film & TV Tax Credit Program aims to draw scripted production back to Los Angeles.

02

Diminishing development pipeline will support vacancy stabilization.

Office space under construction fell to 1.8 million sq. ft. in early 2026, with no new construction starts since 2024. The diminishing development pipeline should stabilize the overall vacancy rate. Among the six properties currently under construction, 1 million sq. ft. or 54% is preleased. CBRE Econometric Advisors forecasts that vacancy will stabilize in H2 2026, with a likelihood of occupancy gains in 2027.

03

Rents are bifurcating sharply by quality tier.

The overall Los Angeles market saw modest rent growth in H1 2026, though the pace lags the U.S. average. The flight-to-quality trend remains prevalent, with slight increases in prime and Class A asking rents and a slight decrease in Class B rents. Prime office space commands an average monthly rent of $5.37 per sq. ft., 30% higher than the overall market average of $4.12. This spread is expected to widen through year-end as demand is concentrated in the prime segment. CBRE Econometric Advisors forecasts that overall asking rent will contract slightly in the second half of this year.

Key Takeaways

For Tenants

- Conditions will remain tenant-favorable through year-end 2026. The abundance of sublease space gives price-conscious tenants options across West LA, South Bay and Downtown.
- Tenants that executed short-term renewals but have long-term needs should start their search for space now.
- The gap between today's concession environment and a tighter prime market beginning in 2027 may be significant.
- Greater competition is expected in Downtown Los Angeles as new owners establish aggressive leasing strategies.

For Owners & Investors

- Owners of Class B and commodity assets should plan for extended lease-up timelines and remain realistic on net-effective rents.
- Well-capitalized owners who can offer attractive tenant improvement allowances are attracting creditworthy tenants. Owner-users accounted for roughly 19% of LA County office sales in 2025, well above pre-pandemic averages.

Industrial Market Outlook

01

Aerospace and defense industry occupiers, led by advanced manufacturers, are dominating demand for industrial space.

Los Angeles is seeing a boom in leasing for aerospace and defense (A&D) uses. A&D leasing volume in H1 2026 has outstripped the total for all of 2025. A new generation of venture-capital-backed A&D manufacturers, including autonomous systems, space technology and energy storage, has been accelerating demand in 2026. Advanced manufacturers accounted for four of the 10 largest industrial leasing transactions in H1 2026. With Los Angeles County as a leading recipient of Department of Defense new prime-contract awards, A&D leasing activity is expected to remain strong into 2027.

02

A sharply lower construction pipeline should help stabilize the vacancy rate.

The industrial availability rate remained close to 8% in Q2 2026, although the market had its first quarter of positive net absorption since 2022. This pickup in demand was driven by advanced manufacturing and logistics leasing. Strong A&D leasing activity in South Bay resulted in positive net absorption in Q2 2026, with vacancy falling to 5.5%. A 35% year-over-year decrease in the market-wide development pipeline in Q2 is helping to stabilize the overall vacancy rate. With fewer projects breaking ground, the overall availability rate should drop significantly through H2 2026 and into 2027, especially as A&D demand continues.

03

Asking rents are expected to remain flat through 2027.

After falling to $1.21 per sq. ft. in early 2026, average monthly triple-net asking rents are expected to stabilize through the first half of 2027 at the metro level. Concessions remain elevated, and owners with near-term lease expirations face a challenging renewal environment. Strong leasing activity could push rents higher in certain submarkets even as the market's overall rent stays nearly flat through year-end.

Key Takeaways

For Tenants

- With rents down and concessions increasingly available, the market remains tenant-favorable overall.
- High-quality space with robust power infrastructure—the key amenity for advanced manufacturers—is scarce. Occupiers with specific requirements for power, parking and location should secure available options soon.

For Owners & Investors

- Rents are still falling and availability is drifting upward, so owners with near-term lease expirations should price competitively. There are exceptions in specific submarkets, such as El Segundo in the South Bay, where owners may see rental upside amid falling availability and robust demand.

Multifamily Market Outlook

01

Homeownership affordability gap supports multifamily demand.

Multifamily fundamentals are near equilibrium, with a renter base largely unable to afford homeownership. Demand is concentrated in dense, transit-served corridors such as South Los Angeles, Mid-Wilshire and the San Fernando Valley. Certain jurisdictions outside the city of Los Angeles are seen as more desirable due to Measure ULA's transfer tax and rent stabilization ordinances deterring investors from the city. The overall vacancy rate should hold near 4.7% through year-end 2026, slightly above CBRE's 4.4% full-year projection, supported by decelerating supply growth and relatively high mortgage rates.

02

Construction deliveries are decelerating sharply.

Supply is the most consequential factor shaping the Los Angeles multifamily outlook. Construction deliveries fell sharply in early 2026, concentrated in South Los Angeles, Mid-Wilshire and the San Fernando Valley. Construction costs, elevated by tight labor and wildfire recovery pressure, are roughly 0.2% above the 3.8% national average, contributing to fewer new starts, a trend that is expected to continue in 2027. California's recent override of local parking and zoning limits near transit stations and its exemption of environmental reviews for most urban infill housing projects mark the state's most significant pro-development shift in years.

03

Owners are benefiting from modest rent growth, stable occupancy rates and little new construction.

Rents are projected to remain relatively stable through the end of the year. Rent growth is capped as new deliveries work through lease-up, but this will reverse as the construction pipeline contracts through H2 2026 and into 2027.

04

Investors remain cautious amid local policy concerns.

Investment sales cooled in early 2026, running well below year-to-date 2025 levels, with buyers concentrating on non-rent-controlled suburban and value-add product to avoid Measure ULA transfer tax exposure. As broader capital markets stabilize, investment volume is expected to improve through H2 2026, with non-rent-controlled suburban assets drawing the most competitive bidding.

Key Takeaways

For Owners & Investors

— The contracting construction pipeline is the strongest near-term tailwind for occupancy and income stability.

— Non-rent-controlled suburban and value-add assets are attracting the most buyer interest; owners of rent-controlled properties in the city face a limited buyer pool and should price accordingly.

— Owners of transit-adjacent assets may face increased competitive supply over a three-to-five-year horizon, but near-term fundamentals remain attractive.

— Owners of stabilized assets in supply-constrained corridors are best positioned to capture occupancy and rent gains as construction starts are delayed due to wildfire recovery costs.

Retail Market Outlook

01

Service, experiential and healthcare providers are driving demand for retail space.

Steady retail leasing activity is being driven by service, experiential and healthcare providers that have proven resilient to e-commerce displacement. High-income neighborhoods continue to outperform: the Westside and Hollywood/Wilshire command rents well above the metro average. LA's hosting of the 2028 Summer Olympics represents a near-term demand catalyst. Los Angeles has secured more than $2 billion in retail sponsorships associated with its promotion of the summer games. Each requires a physical presence: brand activations, pop-up retail, hospitality suites and flagship positioning in high-visibility corridors. With Olympic venues distributed across the metro area, retail demand will be particularly strong in Downtown LA, Inglewood (SoFi Stadium and Intuit Dome), the Westside and Hollywood. Sponsorship-driven leasing is expected to accelerate through 2027, making this one of LA's most active near-term demand periods for high-visibility retail in years.

02

Little new supply will enhance the attractiveness of well-located retail assets.

Retail is LA's most supply-constrained commercial real estate sector. The market's total retail supply is projected to grow by just 0.1% through 2027. The overall availability rate has remained flat this year at 6.2%, with no significant deliveries on the horizon. Available space is scarcest in prime high-street corridors like the Westside and Beverly Hills, Hollywood/Wilshire and Century City. Strip and power centers in weaker trade areas face gradual occupancy erosion as tenants consolidate to stronger locations. The gap between high-performing and commodity retail fundamentals will widen through the end of the decade.

03

Rents are essentially flat at the metro level, but prime and high-street corridors are demonstrating pricing power.

CBRE Econometric Advisors reports that average monthly triple-net retail asking rents grew by 2% in H1 2026 to $2.94 per sq. ft., with another 1.2% rise expected in H2 2026. Prime and high-street locations in the Westside and Hollywood/Wilshire command rents well above the metro average, and landlord pricing power is growing as available space becomes scarce. Positive net absorption in the highest-income corridors so far this year is expected to strengthen through H2 2026 as Olympics-related demand competes for a finite pool of high-visibility space. Concession levels are low in prime locations and landlord leverage is rising.

Key Takeaways

For Tenants

- Availability of prime and high-street locations is becoming scarce. Occupiers targeting top corridors—the Westside, Hollywood/Wilshire and Century City—should act decisively when space becomes available, as landlord leverage is growing.
- Brands with Olympics sponsorships or activation plans should be securing space now: The available supply of high-visibility storefronts in Olympic-venue-adjacent corridors will tighten as 2028 approaches.

For Owners & Investors

- Limited new supply is the primary advantage for existing retail owners. With supply growth of just 0.1% through 2027, well-located assets face minimal competition and retain pricing power.
- Owners of strip and power-centers in weaker trade areas need a clear re-anchoring or redevelopment plan as the gap between high-performing and commodity retail fundamentals is widening.

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