

LAX submarket ponders creative office to shake high vacancy

Vacancy rate averaged 40 percent in Q2, despite success of neighboring El Segundo

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Mark Sokolowski of NGKF and the Airport Spectrum office

The micro-market around LAX and Century Boulevard has the highest office vacancy rate in South Bay, at a whopping 40 percent, according to a new report by Newmark Grubb Knight Frank.

“It’s always had a higher vacancy rate...the office product there is aged and a lot more dated,” said Mark Sokolowski, director of Global Corporate Services at NGKF. “There are passive ownerships used to collecting income and not putting money back (into buildings).”

Pair this dated inventory with the submarket's position — a few miles north of popular El Segundo, but on the wrong side of the runway — and it's a recipe for lower asking rents.

"You have to deal with traffic on Century Boulevard and with people commuting to LAX," Sokolowski said. "El Segundo is hip, but for the value-focused tenant, LAX is great alternative."

Second quarter Class A asking rents came in at \$1.81 a square foot, with Class B barely crossing the buck-fifty threshold at \$1.52. Meanwhile, neighboring El Segundo is pulling in \$3.10 a square foot for Class A space, according to NGKF data. These attractive rates nearby could be the ticket to renewed interest, as long as landlords are willing to consider retrofitting formerly "vanilla" office space into offerings with a more "creative" feel, Sokolowski said.

Creative office repositioning like the Airport Spectrum at 5757 Century Boulevard is expected to lead the charge. Last year, Sunny Hills Management Company of West Covina paid \$61.3 million for the two-building, 500,000-square-foot property near the Los Angeles International Airport entrance. The deal signaled the biggest office building transaction in the submarket in the last 10 years.

Industry experts said it was likely prompted by skyrocketing rents in El Segundo and Playa Vista, with the hopes tenant interest would overflow into LAX-area properties. An \$8 billion airport revamp also could have sweetened the deal.

"Sunny Hills...and other like-minded ownership groups are going to shift the LAX submarket with a real pride-of-ownership stance," said Sokolowski, who is representing a tenant on a lease for approximately 10,000-square-foot built-to-suit creative space under construction inside the Airport Spectrum office building.

When complete, the office will have polished concrete floors, exposed ceilings, collaborative areas, glass finishes for the private offices and "a real kind of cool vibe all-around," Sokolowski said. "If landlords want to lease space, they have to realize there is a shift in the kind of interior spaces the market demands."

Despite a negative net absorption of 6,536 square feet in the second quarter, the LAX/Century Boulevard corridor has a positive net absorption for the year of 25,900 square feet, according to NGKF data. Those leasing in the area think upcoming quarters could put absorption in the black, as long as landlords get creative.

Tags: [Century Boulevard](#), [Creative Office](#), [LAX](#)

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