

Los Angeles County

Office Market Outlook 2Q 2019

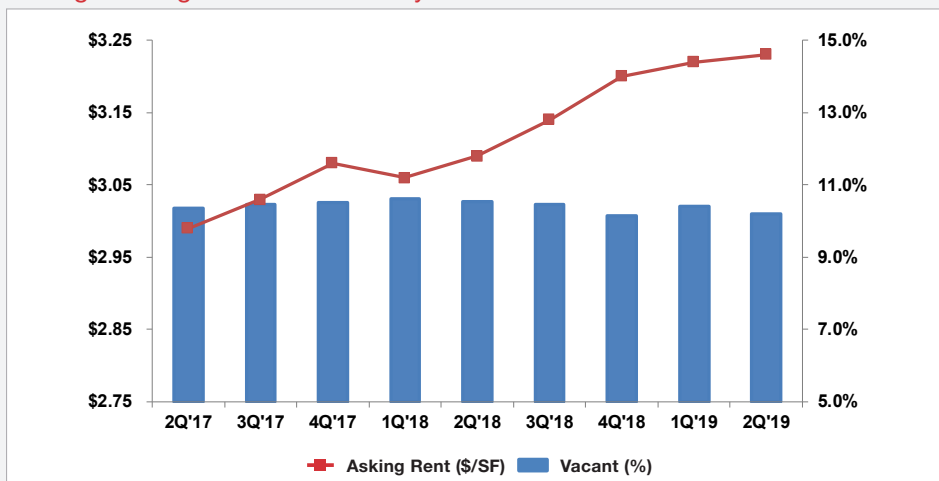
MARKET OVERVIEW

The Los Angeles office market has continued to set new records with a construction boom, a decline in vacancy and high asking rents. Construction is at a level not seen since the early 1990s, with over 7.0M SF under construction. Since last year at this time, 1.6M SF of new construction has been added to the inventory, averaging 319,082 SF per quarter. This quarter the vacancy rate fell by 20 basis points over the prior quarter to 10.2%, down 30 basis points over 2Q 2018, while the average asking rent ticked up again to the highest level on record. At \$3.23/SF FSG the average asking rent is up 4.5% over 2Q 2018 – surpassing the prior peak reached in 2008 by 15.7%. However, record high asking rents are having an impact on leasing velocity. On a year-over-year basis, leasing activity has seen a decline each of the past two quarters. This quarter leasing activity totaled 5.3M SF, down 20.8% over 2Q 2018. Last quarter was down 14.9% from Q1 2018. Nevertheless, large lease transactions continue to get done in the marketplace and landlords, who are bullish due to strong market fundamentals, are continuing to raise rents.

TRENDS TO WATCH

The occupancy rate is a mere 300 basis points below the peak of 92.8% reached in 3Q 2007. Surpassing that milestone may not come quickly in today's market. Tenants are simply utilizing less space more efficiently with an eye on cost and location. According to CoreNet Global, North American offices now average 151 SF per worker, down from 176 SF in 2012 and 225 SF in 2010. Tenants seek higher-density offices with communal areas, open space, and fewer private offices. These factors are contributing to a slower growth in occupancy as tenants move into new space. Location is also an important factor. The outlook for amenity-rich office projects in markets such as Silicon Beach, LA Downtown, and Hollywood remains positive. To remain competitive in today's marketplace, landlords are taking their cue from tenants who want creative office space that goes beyond the traditional four walls and are willing to build it. Tenants are coming into these projects and, so far, are willing to pay the lease rate.

Average Asking Rent* and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



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Market Statistics*

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	2Q19 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	2Q19 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT (\$/SF FSG)	AVERAGE SALE PRICE (\$/SF)
Central	63,672,201	924,848	18.2%	13.6%	832,855	1,447,399	87,157	87,157	\$3.03	\$274
Mid-Wilshire	15,940,254	468,000	15.9%	14.1%	68,842	194,115	110,903	125,135	\$2.59	\$516
LA North	60,549,502	994,213	13.1%	9.1%	1,154,152	1,925,438	758,975	2,322,395	\$2.66	\$368
San Gabriel Valley	34,500,753	94,637	8.1%	6.8%	292,284	608,417	294,609	635,241	\$2.27	\$264
South Bay	64,810,248	1,757,899	15.7%	11.3%	747,857	1,632,744	962,994	1,190,181	\$2.94	\$423
Tri-Cities	41,284,212	121,067	12.5%	8.8%	680,896	1,521,986	462,877	548,036	\$3.20	\$607
LA West	97,311,741	2,663,641	13.1%	9.1%	1,572,361	3,404,606	1,791,968	2,425,876	\$4.86	\$727
Los Angeles County	378,068,911	7,024,305	14.0%	10.2%	5,349,247	10,734,705	4,469,483	7,334,021	\$3.23	\$561

Leasing

Leasing activity was low this quarter, totaling just over 5.3M SF, down 0.7% over the prior quarter and 20.8% year over year. This is a result of rising asking rents and a lack of available space - the vacancy rate dropped in nearly every market. This quarter saw nearly a third of all leasing activity, over 1.5M SF, take place in the LA West market, with subleases representing 22.5% of all transactions. The high occupancy cost in LA West has pushed up the availability of sublease space. Tenants look to sublease space to lower their occupancy cost. The discount in the average asking rent between sublease and direct space was \$1.01/SF FSG this quarter, up 51% over 2Q 2018. In one example, Netflix subleased nearly 70,000 SF in Hollywood for \$3.95/SF, \$0.91/SF lower than the asking rent in LA West.

Sales

This quarter saw the transaction dollar volume total over \$2.0B, representing an increase of 35.4% over the prior year, with over 40% of these transactions occurring in LA West. With sale prices in LA West averaging \$727/SF, this pushed up the average 67.5% over 2Q 2018 to \$561/SF. Due to higher prices, this quarter saw 4.5M SF of office space trade hands, a decline of 22.6% in SF volume over 2Q 2018. The average cap rate fell 50 basis points over the prior quarter and prior year to 4.7%. This is the result of low interest rates. In one of the largest transactions this quarter, the Omni Group purchased Wilshire Courtyard, a 1,002,766 SF office complex in Miracle Mile, from Tishman Speyer for \$628/SF. This property last sold in 2012 for \$421/SF, representing a 49.2% appreciation.

Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
L.A. Care Health Plan	1200 W 7th St	Central	\$2.75	212,335
NFL Communications	1050 S Prairie Ave	South Bay	Withheld	200,000
Warner Brothers*	3400 W Olive Ave	Tri-Cities	\$2.25	123,998
TubeScience	655 S Santa Fe Ave	Central	\$1.65 MG	103,796
WeWork	2221 Park Pl	South Bay	\$3.40 MG	89,091

+ sublease

Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Omni Group	5700-5750 Wilshire Blvd	LA West	\$628	1,002,766
TA Realty	101 Continental Blvd	South Bay	\$400	346,168
OceanWest Management, Inc.	777 S Aviation Blvd	South Bay	\$534	318,182
Morgan Stanley Real Estate Investing (MSREI)	5800 Bristol Pky	LA West	\$836	310,985
New York Life Real Estate Investors	5161 Lankershim Blvd	LA North	\$499	205,286

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