

# Los Angeles

## Office Market Outlook 1Q 2018

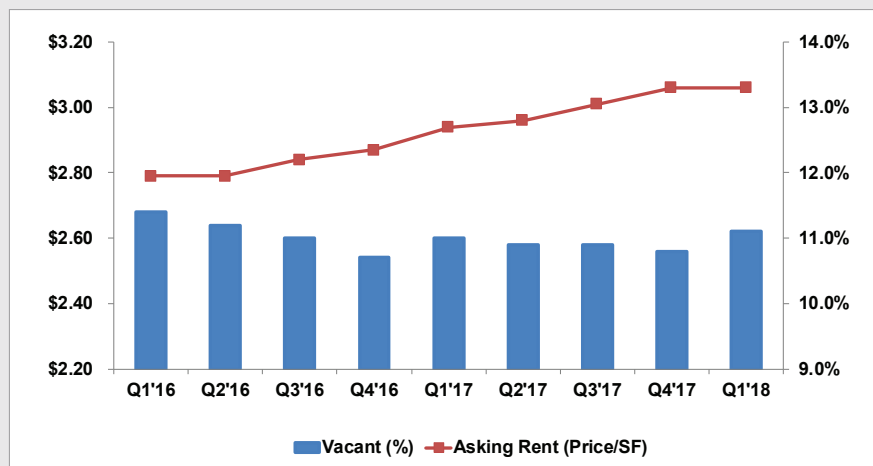
### MARKET OVERVIEW

The Los Angeles office market started 2018 with a significant uptick in the vacancy rate, which jumped 50 basis points over the quarter and 30 basis points over the year to 11.3%. Net occupancy fell by 935,951 SF, as several major tenants, including Molina Healthcare and Nestlé, vacated their spaces. Additionally, of the 615,850 SF delivered this quarter, just 20.6% were pre-leased or occupied upon completion. Both factors contributed significantly to the largest quarterly increase in the vacancy rate seen since the recession. Despite this, the average asking rent held steady at \$3.06/SF over the prior quarter and increased 4.1% over 1Q 2017. Market demand for premium creative office space coupled with economic optimism drove rents to the highest level on record. The overall unemployment rate in Los Angeles County fell from 5.0% to 4.5% from Feb. 2017 to Feb. 2018. In the office occupying sectors, employment grew by 1.1% over the same time, with 19,700 new jobs added. The Health & Education Services sector drove growth by adding 21,600 jobs while the Information sector lost 15,700 jobs over the same time due to downsizes in the Motion Picture Industry.

### TRENDS TO WATCH

The vacancy rate is expected to continue rising in 2018 due to new inventory added to the market. Throughout the past several quarters, new construction deliveries outpaced occupancy growth in the Los Angeles office market. This is partly due to Los Angeles County reaching full employment in 2017, which tempered demand for new office space. Additionally, the market saw a rise in availability rates in both direct leases and subleases, indicating that some tenants are looking to downsize their footprints and place more space back on the market. This trend is expected to continue throughout 2018 and may be exacerbated by the more than 2.4 million SF that are scheduled to be delivered to the Los Angeles office market over the next year. As of the end of 1Q 2018, only about 39.4% of that space had been pre-leased.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar  
Rents reflect buildings of 20,000+ SF

### MARKET OUTLOOK

#### Asking Rental Rates



#### Sale Prices



#### Availability/Vacancy Rates



#### Landlord Concessions



#### Sales/Leasing Volume



#### New Construction



NAI Capital Research  
[www.naicapital.com](http://www.naicapital.com)

# Los Angeles

## Office Market Outlook 1Q 2018

### Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF GROSS	AVERAGE SALE PRICE \$/PSF
Central	64,012,265	1,057,276	20.5%	13.5%	427,406	427,406	655,608	655,608	\$3.22	\$372
Mid-Wilshire	16,531,715	0	17.1%	14.1%	76,618	76,618	4,464	4,464	\$2.29	-
LA North	59,035,642	627,040	13.3%	9.9%	947,457	947,457	1,560,053	1,560,053	\$2.48	\$201
San Gabriel Valley	34,255,721	164,450	10.4%	9.4%	464,774	464,774	330,169	330,169	\$2.20	\$199
South Bay	65,211,471	828,532	16.2%	12.1%	635,341	635,341	500,156	500,156	\$2.52	\$261
Tri-Cities	40,517,490	6,453	12.4%	9.7%	553,613	553,613	883,970	883,970	\$3.00	\$388
LA West	105,722,276	1,987,257	14.7%	11.1%	669,572	669,572	1,828,594	1,828,594	\$4.13	\$691
<b>Total</b>	<b>385,286,580</b>	<b>4,671,008</b>	<b>15.2%</b>	<b>11.3%</b>	<b>3,774,781</b>	<b>3,774,781</b>	<b>5,763,014</b>	<b>5,763,014</b>	<b>\$3.06</b>	<b>\$355</b>

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

### Leasing

Leasing activity totaled 3.7 million SF this quarter, representing a 36.5% decline over 4Q 2017 and 39.8% below 1Q 2017. Several major move outs compounded this issue. Molina Healthcare announced that it would not be taking down its 100,000 SF lease in San Pedro due to corporate restructuring. Nestlé also relocated from Glendale to Virginia. Even though Children's Hospital Los Angeles agreed to take down a portion of Nestle's 379,000 SF space early last year, the international food and drink company's departure left a major vacancy in the Tri-Cities submarket. Other significant move outs included Frontier Communications, which struggled with its debt load since buying out Verizon's telephone line rights two years ago, and Health Net, which downsized its footprint. Medical office tenants obtained the two largest leases this quarter. In the largest transaction, was Doheny Eye Institute leased 110,456 SF at 150 N Orange Grove Boulevard in Pasadena.

### Sales

Sales activity remained strong as volume totaled more than 5.7 million SF in 1Q 2018. This represented a decline of 12.0% from 4Q 2017 but is up 6.0% from 1Q 2017. Over the year, the average sale price increased 39.2% to \$355/SF while cap rates averaged 5.34%. Sales activity increased significantly in the West LA submarket this quarter. While most large sales transactions have occurred in Downtown Los Angeles or the Tri-Cities recently, investors shifted to high quality office space on the Westside that attracts tech sector tenants. Cerberus Capital Management, LP purchased the 476,491 SF Wedbush Center in Downtown Los Angeles for \$411/SF in this quarter's largest transaction. Rockwood Capital, LLC's purchased 258,993 SF at the Water's Edge campus in Playa Vista for \$667/SF in another major transaction.

### Select Lease Transactions:

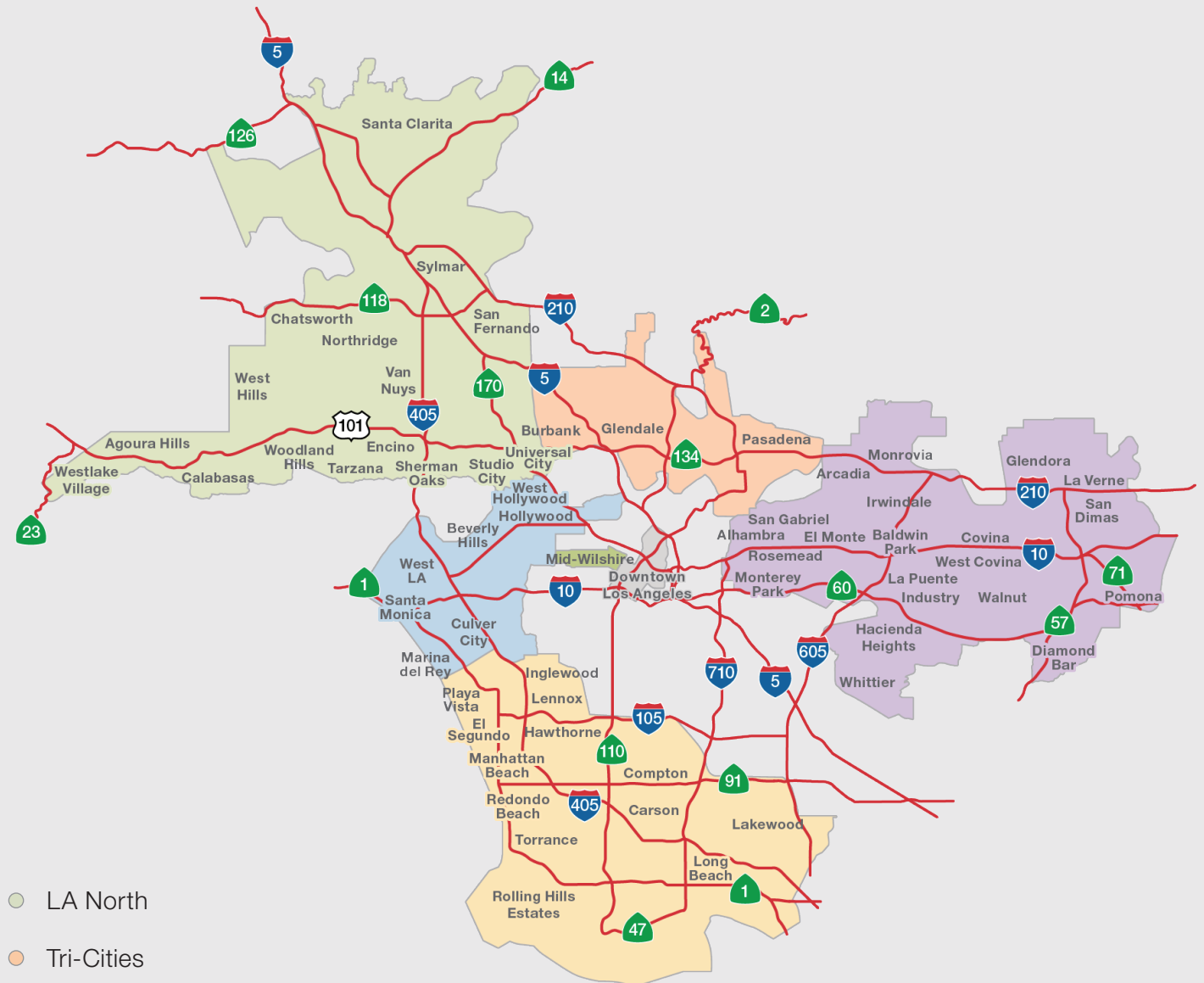
TENANT	BUILDING ADDRESS	SUBMARKET	ASKING RATE/ SF	SQUARE FEET
Doheny Eye Institute	150 N Orange Grove Blvd	Tri-Cities	Withheld	110,456
QTC Management	924 Overland Ct	San Gabriel Valley	\$1.55 NNN	98,505
NFL Networks	10912 Washington Blvd	LA West	Withheld	71,819
HealthCare Partners	19191 S Vermont Ave	South Bay	\$1.25	48,869
Vitu	29901 Agoura Rd	LA North	Withheld	37,758

\*All rents are FSG unless otherwise noted

### Select Sales Transactions:

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
Cerberus Capital Management, LP	1000 Wilshire Blvd	Downtown	\$411	476,491
Intercontinental Real Estate Corporation	303-333 N Glenoaks Blvd	Tri-Cities	\$370	333,507
Rockwood Capital LLC	5510-5570 Lincoln Blvd	West LA	\$667	258,993
ACCO Engineered Systems, Inc.	888 E Walnut St	Tri-Cities	\$477	234,876
TIAA-CREF Investment Management, LLC	30700 Russell Ranch Rd	LA North	\$240	138,762

# Office Market Outlook 1Q 2018



- LA North
- Tri-Cities
- San Gabriel Valley
- LA West
- Central
- Mid-Wilshire
- South Bay

# Los Angeles

## Office Market Outlook 1Q 2018

### The Wehrmann Group



#### Walt Wehrmann

##### Vice President

D 949.468.2326 • C 760.508.9253  
wwehrmann@naicapital.com  
CA BRE Lic #01168981

#### Janette Wehrmann

##### Vice President

D 949.468.2339 • C 949.836.6459  
jwehrmann@naicapital.com  
CA BRE Lic #01213603

### NAI Capital Research

#### J.C. Casillas

##### Vice President

Research, Marketing and Communications  
jcasillas@naicapital.com

#### Jillian Olivas

##### Research and Communications Assistant

jolivas@naicapital.com

#### Kevin de Bree

##### Research Analyst

kdebree@naicapital.com

#### Katherine Tattersfield

##### Marketing Research Writer

ktattersfield@naicapital.com

### NAI Capital Southern California Office Locations

#### Headquarters

16001 Ventura Blvd., Ste. 200  
Los Angeles, CA 91436  
818.905.2400

#### Property Management

120<sup>1/2</sup> South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415

#### Los Angeles County

##### Downtown LA

601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700

##### West Los Angeles

11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500

##### Torrance

970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080

##### Pasadena

225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800

##### Valencia

27451 Tournay Rd., Ste. 200  
Valencia, CA 91355  
661.705.3550

##### Diamond Bar

21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600

#### Ventura County

##### Oxnard

300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400

##### Westlake Village

2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400

##### Simi Valley

2655 First St., Ste. 250  
Simi Valley, CA 93065  
805.522.7132

#### Orange County

##### Irvine

1920 Main St., Ste. 100  
Irvine, CA 92614  
949.854.6600

#### Inland Empire

##### Ontario

800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339

##### Temecula

27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590

##### Victorville

13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200

#### Coachella Valley

##### Palm Desert

75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566