

# Los Angeles County

## Office Market Outlook 3Q 2018

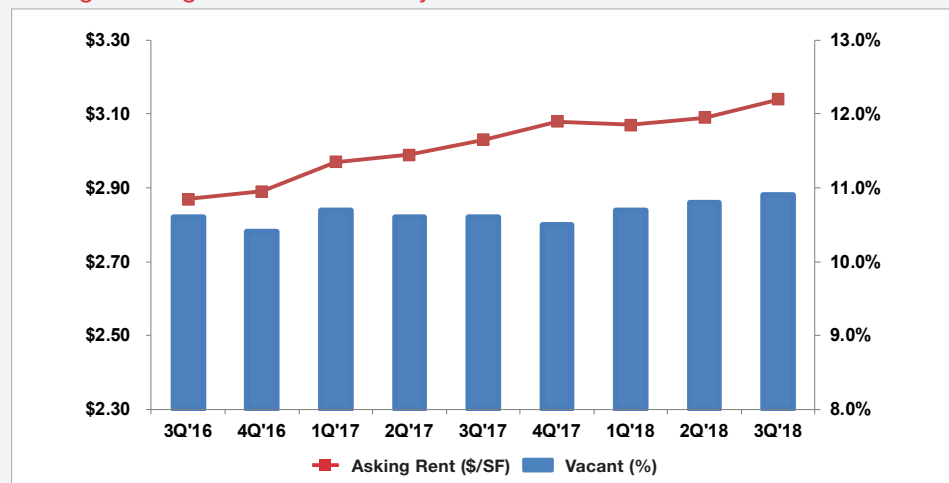
### MARKET OVERVIEW

The Los Angeles office market finished 3Q 2018 on a solid footing, as the vacancy rate remains low and asking rents continued to rise. This quarter, the vacancy rate inched up 30 basis points over 3Q 2017 to 10.9% due to new construction added to the inventory, which has been slow to lease. Since 1Q 2018, over 1.4M SF of new office space was delivered to the market across 31 projects. However, only 47.2% has been occupied. Despite this, the vacancy rate has remained below 11% since 2Q 2016 and remains at one of the lowest rates seen since 2009. The average asking rent grew by 1.6% over the prior quarter and 3.63% over 3Q 2017 to \$3.14/SF—the highest on record. The strong economy, which is currently at full employment, has continued to drive demand for office space and has helped maintain high occupancy levels in the market. From August 2017 to August 2018, the office-occupying sectors in Los Angeles County added 43,000 new jobs, representing a growth of 2.5%. This high demand is expected to continue pushing asking rents upwards, albeit at a slower pace. Record rents are beginning to place pressure on tenants, who are weary of increased occupancy costs, and are beginning to see more choices in the marketplace with new construction and available sublease space. Sublease space has now peaked at over 5M SF, the highest level since 2011, with nearly 2M SF in the high-priced LA West market.

### TRENDS TO WATCH

Heading into the fourth quarter, the Los Angeles office market is expected to gain occupancy. With the economy nearing full employment, employment growth is expected to continue, but at a lower rate. Many companies are competing for top talent while also facing increased occupancy costs. This has forced many to reevaluate their current space needs, which may include expansion, relocation, or subleasing. Tenants in submarkets with new construction will have more choices as new office space delivers in the coming quarters. While this may increase the vacancy rate, it will also give tenants room to consider additional space options in addition to the surplus of sublease space on the market.

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 (%)	3Q18 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	3Q18 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/SF FSG	AVERAGE SALE PRICE \$/SF
Central	64,234,508	1,095,192	19.5%	13.2%	876,891	2,368,315	36,430	1,467,046	\$3.23	\$388
Mid-Wilshire	15,983,577	0	16.4%	14.4%	109,648	334,643	59,084	78,247	\$2.45	\$314
LA North	59,419,141	827,796	13.1%	9.5%	1,100,165	3,364,014	698,606	2,277,320	\$2.58	\$265
San Gabriel Valley	34,188,864	72,000	10.3%	9.2%	270,121	1,233,923	584,933	1,278,955	\$2.24	\$156
South Bay	64,143,915	696,014	15.4%	10.4%	844,656	2,370,131	795,790	3,072,008	\$2.76	\$247
Tri-Cities	40,490,862	121,067	12.6%	9.6%	271,498	1,631,160	581,257	2,523,242	\$3.09	\$295
LA West	106,145,157	2,214,640	15.0%	11.1%	1,491,896	5,645,915	1,906,080	3,366,203	\$4.18	\$605
<b>Los Angeles County</b>	<b>384,606,024</b>	<b>5,026,709</b>	<b>14.9%</b>	<b>10.9%</b>	<b>4,964,875</b>	<b>16,948,101</b>	<b>4,662,180</b>	<b>14,063,021</b>	<b>\$3.14</b>	<b>\$417</b>

### Leasing

Leasing activity totaled 4.9M SF this quarter, which represented a 6.8% growth from 2Q 2017, but remained 20.3% below last quarter. Leasing activity remained strongest in LA West, which saw activity grow 17.6% over last year to over 1.4M square feet, despite a 2.7% increase in average asking rents to \$4.18/SF. While LA West has seen solid occupancy growth despite record asking rents, this has come at the cost of rising available sublease space, as some tenants are looking to offload expensive space and place it back on the market. This quarter saw a number of notable lease transactions in Downtown Los Angeles, including Spotify, which leased 109,706 SF, Arizona State University, which leased 85,118 SF for its new Film and Media Studies satellite campus, and the Honey Science Corporation, which leased 73,033 SF.

### Sales

Sales activity totaled 4.6M SF this quarter. While this was steady over 2Q 2017, and was 8.4% below the prior quarter in terms of square feet, the dollar volume represented a 13% jump over the prior quarter to \$1.5B. This quarter saw sales activity in LA West rebound by over 100% over 3Q 2017. This was the result of a major purchase of the 1.1M SF Santa Monica Business Park by Boston Properties from Blackstone Real Estate Income Trust, Inc. for \$528/SF. This is notable, as The Blackstone Group LP has been selling nearly \$2.4B of its considerable Los Angeles office portfolio since January 2017. The Blackstone Group LP had acquired many of these properties at much lower sale prices during the Recession.

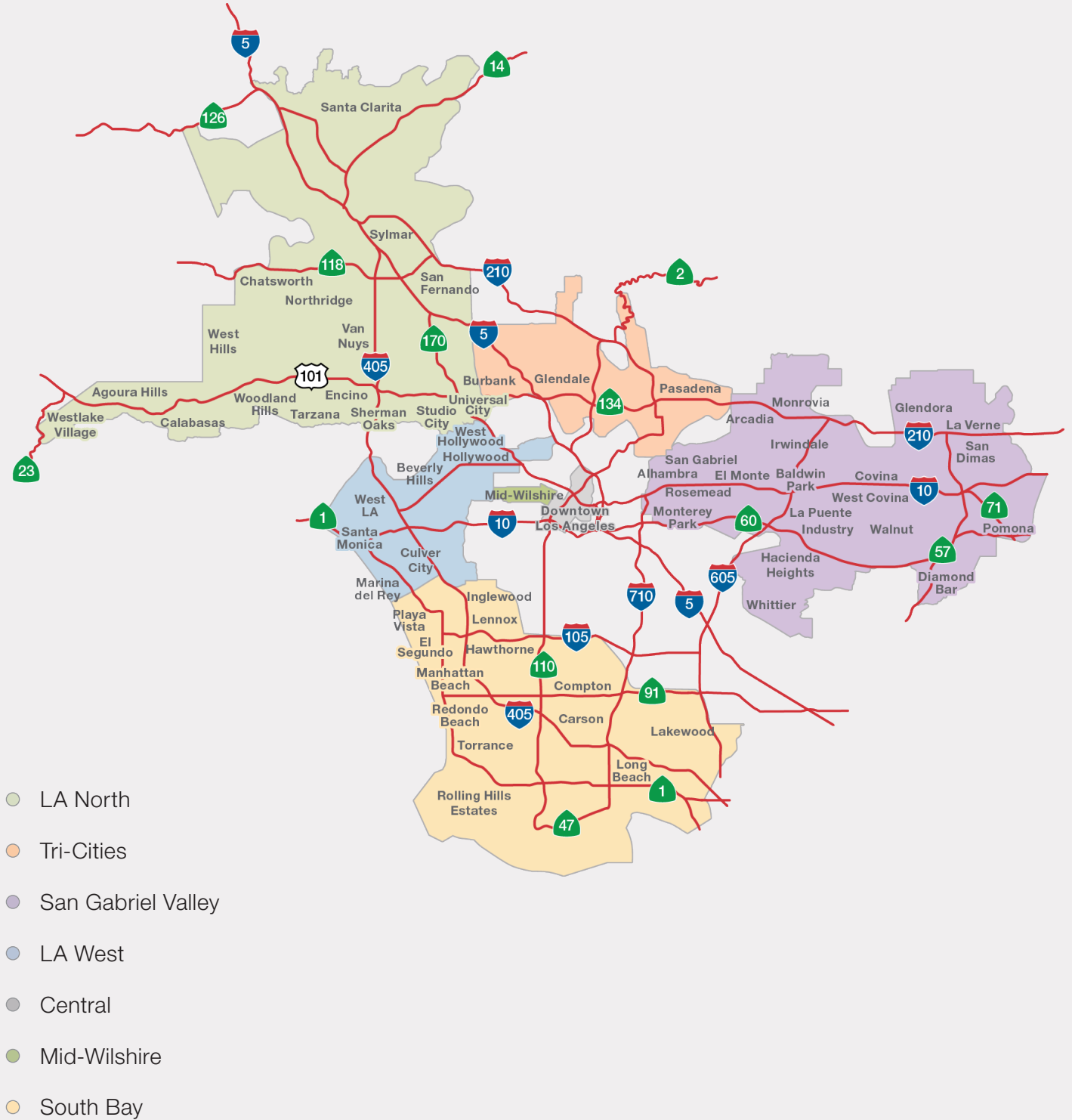
### Select Lease Transactions

TENANT	ADDRESS	SUBMARKET	ASKING RENT \$/SF**	SQUARE FEET
Anthem Blue Cross	21215 Burbank Blvd	LA North	\$2.90	167,420
Spotify	555-581 Mateo St	Central	\$5.00 NNN	109,706
Arizona State University	1111 S Broadway	Central	Withheld	85,118
Honey Science Corporation	963 E 4th St	Central	Withheld	76,033
Spaces	5999 Center Dr	LA West	Withheld	67,688

### Select Sales Transactions

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/SF	SQUARE FEET
Boston Properties, Inc.	Santa Monica Business Park	LA West	\$528	1,188,577
Cruzan/ Goldman Sachs	505 N Brand Blvd	Tri-Cities	\$292	319,865
Chang Chih International Investment, LLC	618 Michilinda Ave	San Gabriel Valley	\$140	268,545
Starpoint Capital, LLC	433 N Camden Dr	LA West	\$930	207,432
Conrad N. Hilton Foundation	1 Dole Dr	LA North	\$296	168,729

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## NAI Capital Southern California Office Locations

### Headquarters

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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

### 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

### Orange County

#### Irvine

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

### Coachella Valley

#### Palm Desert

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