

MARKETBEAT

Greater Los Angeles Office Q2 2019



LOS ANGELES OFFICE

Economic Indicators*

	Q2 18	Q2 19	12-Month Forecast
Los Angeles Employment	4.50M	4.55M	▲
Los Angeles Unemployment	4.6%	4.6%	▼
U.S. Unemployment	3.9%	3.6%	▼

*As of May 2019

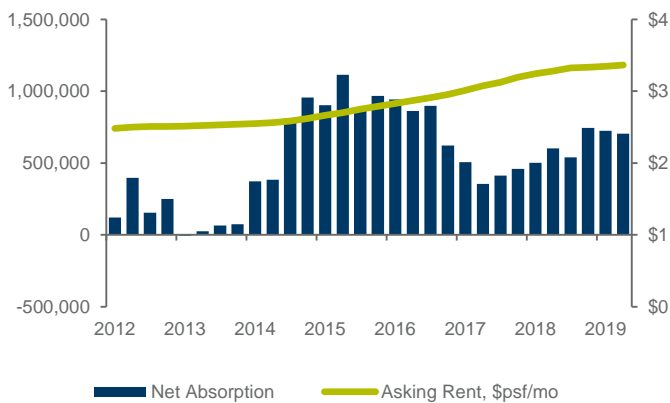
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	15.4%	14.4%	▲
YTD Net Absorption (sf)	991k	830k	▲
Under Construction (sf)	2.0M	3.9M	▼
Average Asking Rent*	\$3.32	\$3.40	▲

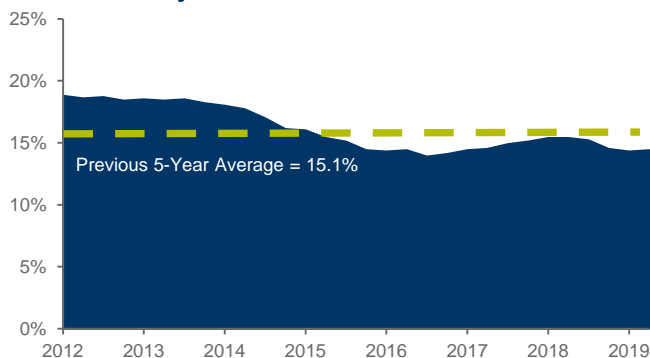
*Rental rates reflect gross asking \$psf/mo

Overall Net Absorption / Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. unemployment is currently at a 49-year low of 3.6% and U.S. labor markets continue to perform well, averaging 164,000 net new jobs per month so far in 2019 (through May). While down from last year's 229,000 figure over the same timeframe, this is still solid and anticipated since job growth will moderate given the tightness of the market. As of May, Los Angeles County increased its nonfarm employment by 58,900 or 1.3% over the last year. Educational and health services saw the highest level of job creation, with an addition of 18,600 jobs while employment in professional and business services expanded by 13,600. The financial activities sector saw the largest loss of employment, down 3,400 jobs.

Market Overview

Greater Los Angeles's (GLA) office inventory continues to grow, increasing by more than 30.0% since 2011, reaching 201.8 million square feet (msf). Second quarter 2019 introduced the first construction deliveries of the year as 117,517 sf of new office product came online. There are nearly 8.0 msf of projects in the development pipeline including new office construction and renovations, an increase of 28% since the start of 2019. Overall vacancy increased 10 bps to 14.4% from the previous quarter, but is still 100 basis points (bps) below the rate from a year ago. Net absorption has remained positive for nine consecutive quarters, with 767,417 sf taken off the market in second quarter. Year-to-date positive net absorption has reached 829,834 sf, the DTLA Non-CBD contributing 362,598 sf, Santa Monica closely behind at 341,519 sf and the Westside with 302,707 sf. Uncharacteristically, the LA South market offset the mid-year absorption totals with negative 344,786 sf.

While year-over-year rent growth has softened, the second quarter 2019 saw a bump of 2.4%, with the average rate finishing at \$3.40 price per square foot per month (psf/mo). Direct Class A rates increased by 1.1% to \$3.68 psf/mo over the same period. LA West continues to command the highest overall asking rental rates at \$4.71 psf/mo. Direct Class A asking rental rates in Beverly Hills surpassed the \$6.00 psf/mo mark closing mid-year at \$6.09 psf/mo. The Arts District in DTLA posted one of the highest Class A direct asking rates at \$5.40 psf/mo, mirroring prime Westside submarkets like Santa Monica and Playa Vista. The Arts District additionally recorded the most significant growth in year-over-year overall asking rental rate growth, with an increase of 19.0% to \$5.32 psf/mo. The LAX/EI Segundo overall asking rates additionally jumped 14.5% to \$3.48 psf/mo, while Glendale increased 14.3% at mid-year to \$3.12 psf/mo.

New leasing activity of 8.2 msf at mid-year 2019 exceeded the highest mid-year total over the past 10 years. Deals that attributed to a large majority of leasing volume were signed by tech, media, legal and coworking companies across all the major office markets in GLA. LA West accounted for 33.0% of the total leasing activity with 2.8 msf, however LA Central and LA North surpassed the 1.5 msf mark, 1.7 msf and 1.5 msf respectively. With no slowdown in demand from major flexible space providers leasing activity accounted for over 430,000 sf or 10.5% of the total 4.1 msf of leasing activity in the second quarter.

Over 3.2 msf of office sales transacted in second quarter, far surpassing the 1.1 msf recorded in the previous quarter, the most activity logged over the last five quarters. The majority of buildings traded in the LA West submarkets of Miracle Mile and Culver City, with LA South's El Segundo/Beach Cities submarket contributing 21.7% of the total sales volume.

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Greater Los Angeles

Office Q2 2019



Los Angeles Downtown (CBD)

The overall vacancy rate in the CBD continued to drop at the close of the second quarter 2019 to 18.3% and realized a substantial decrease of 200 bps year-over-year. The Financial District led the CBD accounting for 137,783 sf or 94.7% of the overall absorption. Contributing to occupancy gains, Industrious took 22,275 sf at 444 S Flower Street in Bunker Hill and in the Financial District the Cultural Office of Kuwait occupied 20,886 sf at 801 S Figueroa Street and Cross Campus moved into 10,363 sf at 800 Wilshire Boulevard. Overall absorption in Bunker Hill fell short of the modest totals of previous quarters ending at a mere 7,643 sf. Leasing activity at mid-year posted 563k sf, a 36.0% decrease from a year ago. J2 Global signed for 47,902 sf at 700 South Flower Street and CommonGrounds expanded their footprint in Los Angeles with 45,978 sf at 915 Wilshire Boulevard in the Financial District. Asking rents in the CBD increased by 4.0% to \$3.66 psf/mo from a year ago. Despite a slow downturn and lopsided nature of activity in 2019 one can expect the CBD to remain resilient as a top submarket.

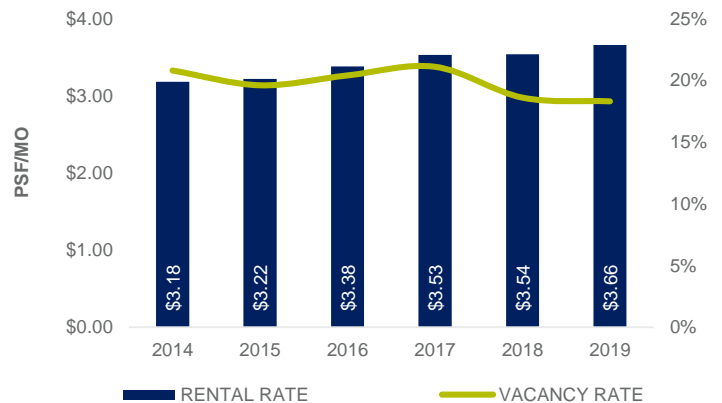
Los Angeles Downtown (Non-CBD)

The Non-CBD currently has 3.2 msf in the development pipeline with 2.0 msf projected to deliver in 2019, further establishing a non-traditional set of office inventory in the DTLA market. Overall vacancy is down 290 bps from a year ago to 21.0% due to 362,598 sf of positive net absorption year-to-date in 2019. Overall vacancy rose 90 bps from the previous quarter largely due to re-classification of a few office assets with larger spaces available. Mid-year leasing activity of 841,240 sf accounts for 59.9% of the total activity in DTLA. The Arts District had 131,924 sf of leasing activity which is on par with previous quarters, but Central City West led with 238,323 sf. The two largest deals of the quarter were Ghost Management Group leasing 115,000 sf at 767 S. Alameda St. in the Arts District and LA Care Health Plan leasing 225,793 sf at 1200 W. 7th St. in Central City West. With large blocks of space off the market, this high-end product associated with higher asking rates has adjusted the overall asking rental rates down from previous quarters to \$3.43 psf/mo or 3.7% from a year ago. The Arts District still commands the highest asking rental rate of \$5.32 psf/mo in DTLA.

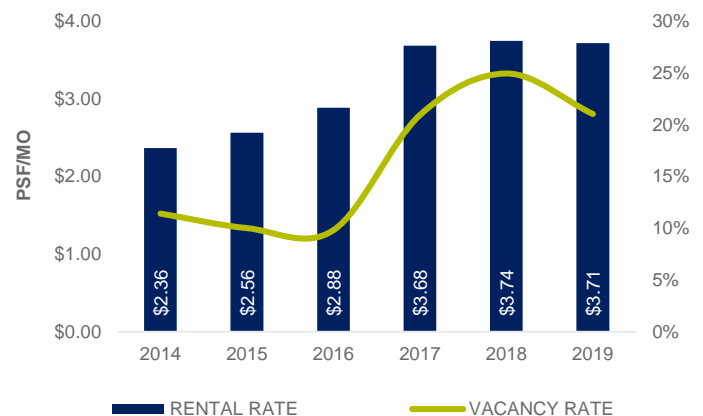
Mid-Wilshire

The Mid-Wilshire office market is composed of Hollywood, Mid-Wilshire and Park Mile for a total of 11.8 msf. Hollywood has transformed into a prominent office destination with 1.0 msf of office inventory anticipated to deliver by 2020. Netflix has been the biggest player in the market leasing nearly 820,000 sf in Hollywood alone since the fourth quarter 2018. The Netflix leases at Vine Studios (817-827 Vine Street) and the Hollywood Creative (1350 N Western Avenue) accounted for 163,772 sf or 78.1% of all leasing activity in the Mid-Wilshire market this quarter. Despite strong leasing activity the market posted negative overall net absorption of negative 150,365 sf year-to-date. Indicating waves of future occupancy gains from preleasing activity for projects under development. Overall asking rents in Mid-Wilshire are stable at \$2.68 psf/mo, while Hollywood rose 9.2% from a year ago to \$4.75 psf/mo. Overall vacancy mid-year ended at 7.9%, an increase of 290 bps from last quarter largely due to vacated sublease space by ZestFinance. Overall vacancy in Mid-Wilshire is up 30 bps to 15.5% year-to-date.

Overall Rental vs. Vacancy Rate CENTRAL BUSINESS DISTRICT



Overall Rental vs. Vacancy Rate NON-CENTRAL BUSINESS DISTRICT



*Rental and vacancy rates reflect Arts District & Fashion District added to stats in 2017.

Overall Rental vs. Vacancy Rate MID-WILSHIRE



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Los Angeles West

Overall net absorption of 504,984 sf marks the ninth consecutive quarter of occupancy growth in LA West. An increase in office inventory due to several conversions offset a larger drop in overall vacancy, which decreased by 60 bps to 11.1% over the quarter. This is the lowest overall vacancy since 2016 and has continued to put an upward pressure on asking rental rates. Class A remains in strong demand as it makes up 95% of new leasing activity this year with average asking rents reaching \$4.87 psf/mo, exceeding the prerecession peak by 11.7%. There are 2.0 msf of new office projects under way in LA West, accounting for 51.9% of the projects under construction across GLA. The Lower Westside, which contains Culver City and Playa Vista, currently has the most projects under construction with over 1.2 msf in the pipeline. Large entertainment and tech tenants continue to secure and prelease space in the thriving submarket of Culver City. HBO leased the entire 240,000-sf Ivy Station as its new corporate headquarters and Scopely secured 60,000 sf at Platform. Scopely is an interactive mobile games company and has expanded multiple times over the past few years. This fast-paced leasing in LA West is a result of office-using employment growth and is expected to continue.

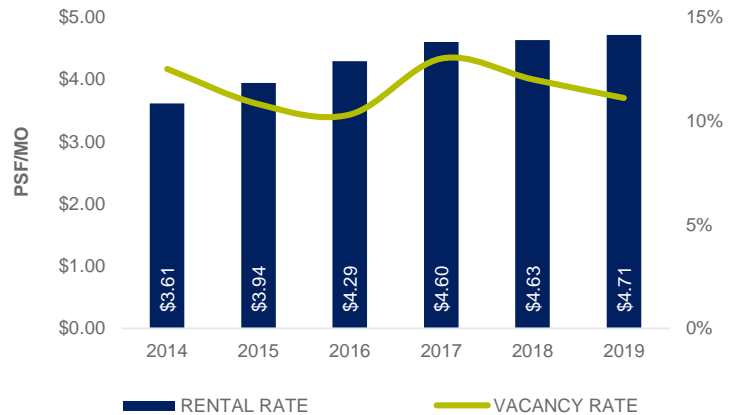
Tri-Cities

Leasing activity sustained momentum with 393,459 sf of new deals, 22.6% higher than the quarterly average in 2018. This in addition to first quarter activity of 576,279 sf brought mid-year totals just shy of the 1.0 msf mark at 969,738 sf. Flexible space providers continued expanding with WeWork signing the largest deal in Tri-Cities of the quarter at 611 North Brand Blvd in Glendale for 72,663 sf. Warner Brothers inked a renewal for 69,009 sf at 3500 West Olive Ave and CBS Interactive expanded and renewed their space at 2900 W Alameda Blvd to 66,953 sf in Burbank. Overall net absorption in the second quarter 2019 posted positive 63,973 sf. A few key move-ins kept absorption positive as flexible space providers WeWork and Industrious occupied their new space at 5161 Lankershim Blvd (43,667 sf) and 500 N Brand Blvd (25,050 sf) respectively. Warner Music Group's phased move-out at 3400 W Olive Avenue and Aercont Vision giveback of 60,000 sf contributed to occupancy losses. Overall vacancy rates declined 120 bps to 13.0% from a year ago. Solid leasing fundamentals have continued to push overall asking rental rates in Tri-Cities, increasing by 6.7% over the year to \$3.21 psf/mo.

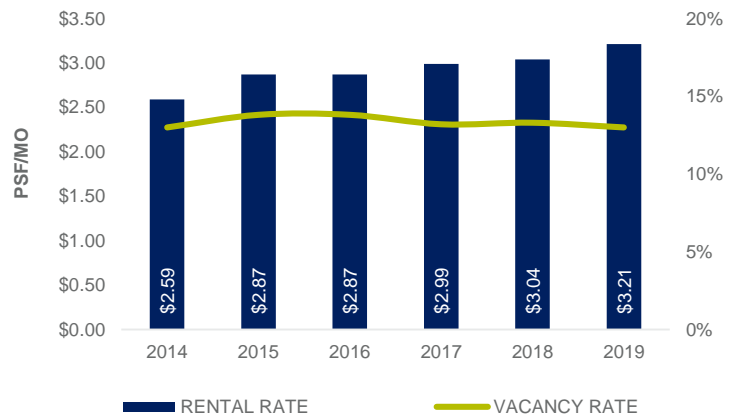
San Gabriel Valley

San Gabriel Valley (SGV) recorded a slowdown in leasing activity in second quarter 2019 totaling 87,538 sf, less than half that of the previous quarter. Overall vacancy displayed substantial improvements, declining 80 bps since the previous quarter and more significantly 220 bps year-over-year to 12.2%. The declining vacancy trend is attributed to a number of large-footprint occupancies over the first half of 2019, with the most notable being Leidos-QTC Management occupying their 98,505-sf space at 924 Overland Court in San Dimas. Despite the absence of large-scale move-ins this quarter, overall net absorption remained strong at 168,083 sf year-to-date, nearly three times the figures recorded during the first half of 2018. While overall average asking rents remained nearly flat over the previous quarter, more significant rent growth of \$0.10 psf/mo, or 4.6%, was posted year-over-year to \$2.31 psf/mo. The 210 Corridor recorded the most significant rent growth over this period, increasing \$0.23 psf or 10.7% to \$2.38 psf/mo.

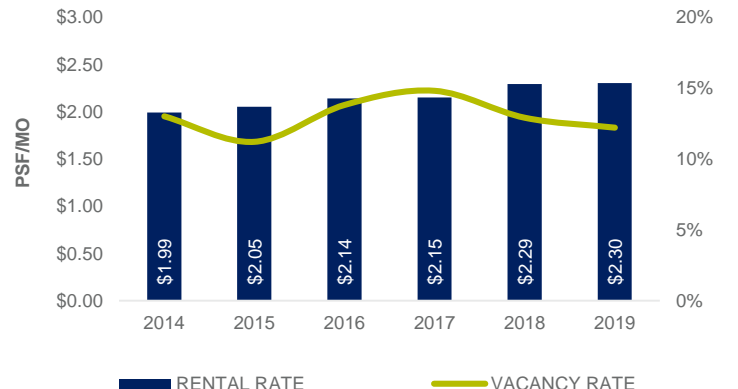
Overall Rental vs. Vacancy Rate
LOS ANGELES WEST



Overall Rental vs. Vacancy Rate
TRI-CITIES



Overall Rental vs. Vacancy Rate
SAN GABRIEL VALLEY



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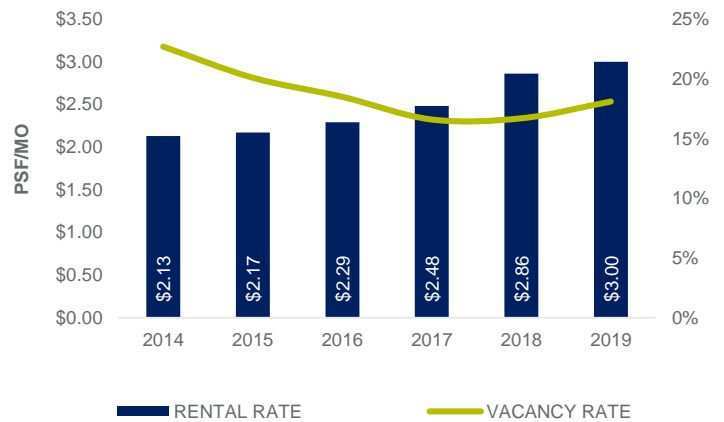
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Los Angeles South

At mid-year 2019, the South Bay office market posted net occupancy losses of 344,786 sf, resulting in a 110-bp year-over-year increase in vacancy. However, second quarter's 18.1% vacancy was still 220 bps below the 10-year historical average of 20.3%. In the second quarter, Northrop Grumman vacated Continental Tower in El Segundo, putting over 300,000 sf of space on the market. TA Realty acquired the building for \$138.5 million with plans for a comprehensive building renovation. Although vacancy has increased since fourth quarter 2017, this has not slowed rental growth and rents in the South Bay continue to climb. The South Bay market posted a 10.7% annual rent growth and a whopping 26.1% increase in the last two years. South Bay's overall vacancy will continue to trend up, especially in Suburban Long Beach, with large move-outs by the Port of Long Beach, Molina Healthcare and Epsilon. Leasing activity remained relatively stable with 1.1 msf leased in the first six months of the year, only 10.3% below 2018's mid-year total while the number of transactions decreased by only 3.5%. Continued job growth in office-using sectors is anticipated to keep demand steady.

Overall Rental vs. Vacancy Rate
LOS ANGELES SOUTH



Los Angeles North

Strong leasing activity in LA North brought 2019 mid-year totals to 1.5 msf, exceeding that of the second quarter 2018 by 18.8%. Harbor Freight signed the largest lease of the quarter, taking 206,874 sf at four of the seven buildings of Calabasas Corporate Center. While overall vacancy remained flat over the previous quarter at 12.2%, improvements of 110 bps were recorded since second quarter 2018. Declining vacancy rates in the market are attributed to several significant move-ins, both this quarter and last, with the most significant occupancies being Sage Publishing's 50,000 sf move-in at Conejo Spectrum Center in Thousand Oaks and Williams Lea Tag occupying their 32,265-sf space at Lakeview Corporate Center in Westlake Village. While the large-scale move-ins over the first half of the year were offset by numerous mid-sized moveouts, LA North's overall net absorption saw slim positive figures of 27,149 sf. Although substantial space was put back onto the market, absorption posted significant year-over-year improvements from the negative 228,472 sf recorded during the same period of 2018, indicating re-emerging demand in the market. Overall average asking rents increased to \$2.54 psf/mo, recording incremental rent growth of \$0.05 psf, or 2.0% year-over-year. Warner Center posted the most significant rent increases, with an uptick of 6.0% to \$2.65 psf/mo. Through the near term, larger tenants moving into their spaces signed over the last two quarters should counterbalance the occupancy losses experienced over the start of the year.

Overall Rental vs. Vacancy Rate
LOS ANGELES NORTH



Outlook

Across Greater Los Angeles there are nearly 8.0 msf of projects in the development pipeline, including new office constructions (3.9 msf) and renovations (4.0 msf). Since the beginning of 2019 there is approximately 28.0% more projects underway and is a historical high. An anticipated 3.5 msf of developments will complete before yearend. New deliveries can expect strong demand as occupiers relocate from lower quality product and seek space that aligns with business needs and cultural identity. Vacancy is expected to remain mostly steady; albeit slightly higher as the new supply comes online. We expect demand to remain solid, especially from key industries including technology (TAMI), coworking/flexible space, legal or financial services companies.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Los Angeles Downtown CBD	27,574,918	124,455	4,884,229	18.3%	145,426	71,193	562,796	0	\$3.66	\$3.75
Los Angeles Downtown (Non-CBD)	9,272,509	21,426	1,922,424	21.0%	11,836	362,598	841,240	141,715	\$3.43	\$3.73
Mid-Wilshire	11,782,877	146,214	1,682,092	15.5%	-49,637	-150,365	279,035	979,503	\$2.68	\$2.70
Los Angeles West	53,669,027	564,607	5,417,166	11.1%	504,984	637,184	2,750,311	2,022,105	\$4.82	\$4.77
Los Angeles North	31,605,021	128,405	3,734,910	12.2%	236,801	27,149	1,341,598	321,708	\$2.54	\$2.61
Los Angeles South	30,733,172	279,043	5,288,015	18.1%	-196,106	-344,786	1,070,244	0	\$3.00	\$3.31
Tri-Cities	24,557,586	230,631	2,961,188	13.0%	63,973	58,778	969,738	433,767	\$3.21	\$3.32
San Gabriel Valley	12,640,882	47,199	1,500,926	12.2%	50,140	168,083	270,385	0	\$2.30	\$2.49
GREATER LOS ANGELES TOTALS	201,835,992	1,578,799	27,390,950	14.4%	767,417	829,834	8,247,912	3,898,798	\$3.40	\$3.65

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CONSTRUCTION (SF)	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	134,400,435	1,305,396	19,371,668	15.4%	1,213,926	1,371,336	6,339,587	3,827,710	\$3.65	\$3.68
Class B	60,527,856	255,865	7,193,907	12.3%	-423,090	-494,506	1,793,197	71,088	\$2.85	\$2.85
Class C	6,907,701	17,538	825,375	12.2%	-23,419	-46,996	115,128	0	\$2.26	\$2.26

*Rental rates reflect gross asking \$psf/mo **Leasing Activity does not include Renewals

Key Lease Transactions Q2 2019

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	MARKET / SUBMARKET
8830 National Boulevard / Ivy Station	240,000	HBO	New Lease	LA West / Culver City
1200 West 7th Street / West 7 Center	225,793	LA Care Health Plan	New Lease	LA Central / Central City West
26601, 26677-26679 & 26707-26709 Agoura Road	206,874	Harbor Freight	New Lease	LA North / Calabasas
2049 Century Park East / Century Plaza – South Tower	116,366	Manatt, Phelps & Phillips	New Lease	LA West / Century City
767 South Alameda Street / ROW DTLA	115,000	Ghost Management Group (Weedmaps)	New Lease	LA Central / Arts District
5700 Canoga Avenue / LNR Warner Center, Bldg. G	112,427	Viking River Cruises, Inc.	Renewal*	LA North / Warner Center
10000 Washington Boulevard / One Culver	110,000	Apple	New Lease	LA West / Culver City
2221 Park Place / Park Place	90,000	WeWork	New Lease	LA South / El Segundo/Beach Cities
2049 Century Park East / Century Plaza – South Tower	83,000	Greenberg Glusker	New Lease	LA West / Century City
611 North Brand Boulevard	72,663	WeWork	New Lease	LA Tri-Cities / Glendale

*Renewals not included in leasing statistics

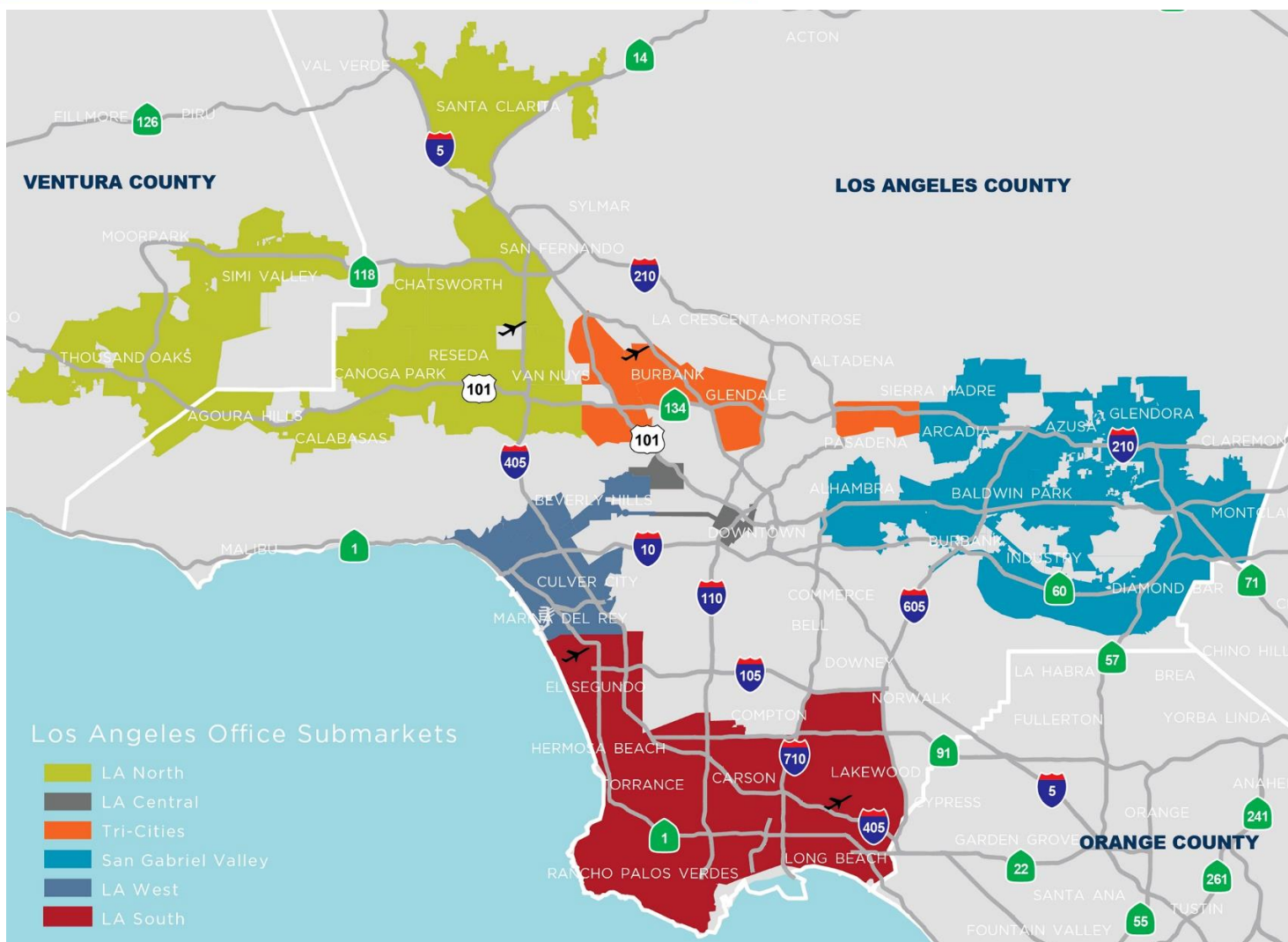
Key Sales Transactions Q2 2019

PROPERTY	OFFICE SF	SELLER / BUYER	PRICE / \$PSF	MARKET / SUBMARKET
5700 & 5750 Wilshire Boulevard / Wilshire Courtyard	1,032,243	Tishman Speyer / Onni Group	\$630,000,000 / \$610	LA West / Miracle Mile
101 North Continental Boulevard / Continental Tower	333,019	VEREIT Inc. / TA Realty	\$138,500,000 / \$416	LA South / El Segundo/Beach Cities
777 South Aviation Boulevard	318,182	Embarcadero Capital Partners LLC / OceanWest Management & Lionstone Partners	\$170,000,000 / \$534	LA South / El Segundo/Beach Cities
5800 Bristol Parkway / C3	278,247	IDS Real Estate Group / Morgan Stanley	\$260,000,000 / \$934	LA West / Culver City
777 South Santa Fe Avenue / Ford Factory	257,028	Shorenstein Properties LLC / Access Industries	\$195,000,000 / \$759	LA Central / Arts District
2380 & 2400 Conejo Spectrum Drive / Conejo Spectrum	196,034	Harbor Associates, Bascom Group, Blue Vista Capital / Strategic Office Partners	\$41,350,000 / \$211	LA North / Thousand Oaks/Newbury Park
5161 Lankershim Boulevard	178,317	Beacon Capital Partners / New York Life Insurance Company	\$102,470,000 / \$575	LA Tri-Cities / North Hollywood
4525 & 8942 Wilshire Boulevard / Fremont Plaza & La Peer Building	155,118	Ocean West Capital Partners / Breevast US	\$153,500,000 / \$990	LA Central & West / Park Mile & Beverly Hills
11611 San Vicente Boulevard / Vintage Capital Building	103,500	Vintage Real Estate LLC / Fortress Investment Group	\$58,000,000 / \$560	LA West / Brentwood

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Greater Los Angeles

Office Q2 2019



Explanation of Terms

Total Inventory: The total amount of office space (in buildings of a predetermined size by market) that can be rented by a third party.

Overall Vacancy Rate: The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

Direct Vacancy Rate: The amount of unoccupied space available directly through the landlord (excludes sublease space).

Absorption: The net change in occupied space between two points in time. (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis.)

Leasing Activity: The sum of all leases over a period of time. This includes pre-leasing activity as well as expansions. It does not include renewals.

Under Construction: Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be complete by the last day of the reporting quarter.

Under Renovation: Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

Overall Weighted Asking Rents: Gross average asking rents weighted by the amount of available direct and sublease space in Class A, B and C properties.

Class A Asking Rents: Gross average asking rents weighted by the amount of available Class A direct and sublease space.

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