

GREATER DOWNTOWN LOS ANGELES

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
LA County Employment	4.51M	4.57M	▲
LA County Unemployment	4.6%	4.5%	▼
U.S. Unemployment	3.8%	3.7%	▲

*Q3 data represents August

Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	21.2%	19.3%	▼
Net Absorption (sf)	23k	202k	■
Under Construction (sf)	145k	100k	▲
Average Asking Rent*	\$42.90	\$44.16	■

*Rental rates reflect gross asking \$psf/yr **Stats not reflective of U.S. MarketBeat Tables

Economy

Nonfarm employment in California expanded at a steady pace and the nonfarm jobs increased by 314,200 jobs, which is equivalent to a 1.8% increase. This matches the fastest yearly growth rate out of any month in 2019 and is a better showing than the nation's 1.4% rate. Meanwhile, Los Angeles County increased its nonfarm employment by 59,100 or 1.3% over the last year. Educational and health services saw the highest level of job creation with 25,600 jobs. The collective needs of a growing and aging population continue to drive up employment in this sector. The professional and business services sector continues to expand and added 14,200 in the last year.

Market Overview

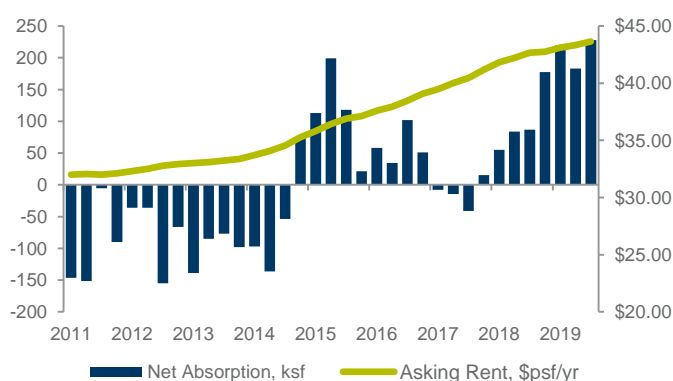
The Downtown Los Angeles (DTLA) market, which is made up of the Central Business District (CBD) and the Non-CBD, currently contains 37.3 million square feet (msf) of office inventory.

Overall asking rents in DTLA rose 1.9% from the second quarter 2019 and a larger year-over-year (YOY) growth of 2.9% ending the third quarter 2019 at \$44.16 per square foot per year (psf/yr). Direct Class A asking rents sustained a smaller increase of sub 1.0% to \$45.76 psf/yr. Overall vacancy dropped 190 basis points (bps) YOY to end at 19.3%. With this significant drop in vacancy YOY, absorption has been strong overall when compared to previous quarters closing the third quarter 2019 with 202,242 sf. The five-year quarterly average for positive net absorption is 102,217 sf and has steadily increased since the third quarter 2018. Positive net absorption year-to-date (YTD) of 580,927 sf is 53.2% higher than the 379,145 sf posted a year ago. Similarly to the previous quarter, the Non-CBD accounted for much of the overall activity in DTLA in the third quarter 2019 capturing 95.2% or 192,549 sf of occupancy gains. The Non-CBD led new leasing activity with 60.4% or 139,979 sf of the 231,547 sf total for DTLA at close of the third quarter 2019.

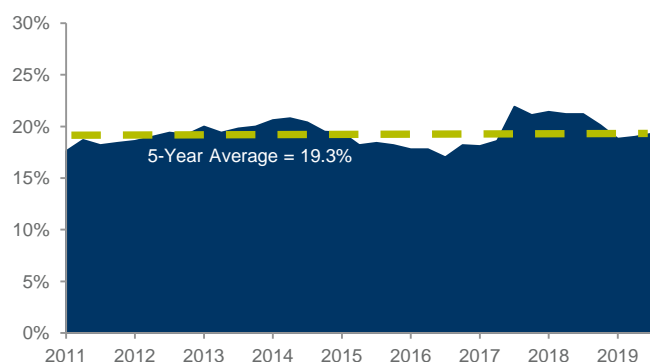
New leasing activity year-to-date posted 1.8 msf, 5.1% less than the 1.9 msf recorded YTD. Amid historically high levels of leasing and large deals over the past few quarters, the third quarter 2019 posted unusually low activity with 231,547 sf. The high levels of leasing over the past few quarters should be followed by periods of higher than average occupancy gains as seen since the third quarter 2018. The recurrent pipeline of developments in the Non-CBD is likely to cause spikes in leasing and absorption given the high demand for creative office and should stave off any jumps in vacancy or dips in rent long-term.

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Downtown Los Angeles

Office Q3 2019



Central Business District (CBD)

New leasing activity slowed in the third quarter 2019 and a softening of occupancy gains have contributed to an off quarter of activity, however the rise of the Non-CBD has only furthered the contrast of the submarkets. The CBD posted 91,568 sf of new leasing activity in the third quarter 2019, a 77.1% decline quarter-over-quarter from 400,107 sf. The YTD total of 824,778 sf is also down when compared to the YTD total of 1.2 msf posted in the third quarter 2018. However, the CBD dominated renewal leasing activity in DTLA accounting for the 224,101 sf of renewals this quarter. The largest transaction was Union Bank which renewed for 161,903 sf at 445 S. Figueroa Street, while shrinking their overall footprint in the building more than 180,000 sf. In terms of new leasing, Cannon Design became the latest architecture/design firm to settle in DTLA signing for 14,973 sf at Citigroup Center and will consolidate their Century City and Pasadena locations. Also, coworking giant WeWork expanded by 25,930 sf at the Fine Arts Building growing their footprint to over 70,000 sf.

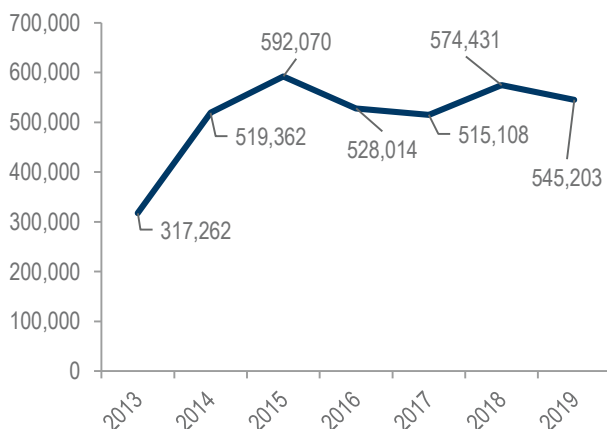
Overall vacancy in the CBD declined 190 bps YOY from 20.2% to 18.3%, while remaining flat from the second quarter 2019. Overall absorption posted meek numbers ending the quarter under 10,000 sf of net move-ins, a decline of 89.3% quarter-over-quarter and far below the 158,952 sf in the third quarter 2018. Despite a slower quarter, overall asking rents grew 4.5% YOY ending at \$44.33 psf/yr. Part of the rent growth can be attributed to a desire to cut growing construction costs by delivering speculative suites or build-to-suit units. TwoCal Plaza, KPMG Center, and Figueroa Tower have all started speculative suite programs to address the growing costs and demand from tenants looking for smaller deals. The office landscape has shifted dramatically from a few years ago in which tenants regularly accepted lower allowances and even came out-of-pocket to build-out their space. Attracting creative office tenants that have been driving demand in Los Angeles in recent quarters continues to be a focal point for the CBD.

Downtown Non-CBD

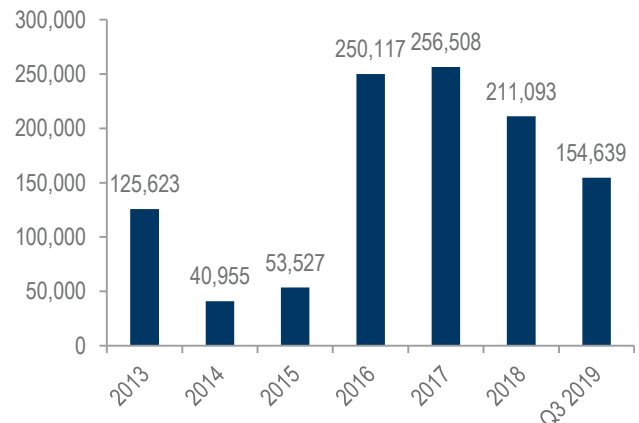
The Non-CBD continues to fuel a majority of new leasing activity, absorption, and development in the third quarter 2019 across the DTLA market. The Non-CBD remains attractive to creative office tenants on the back of the revitalization of its inventory. The delivery of The Maxwell (1003-1019 E. 4th Place) in the Arts District and renovation of the Trust Building (433 S. Spring Street) in the Historic District contributed 102,916 sf and 320,273 sf of new building inventory respectively. WeWork occupied the entirety of The Maxwell project and KTG Architecture & Planning signed for 15,730 sf at The Trust Building. Spotify (44,000 sf) and USC (10,025 sf) signed expansions at Mateo (555-581 Mateo St) and are expected to occupy in early 2020. These deals brought At Mateo to 100% occupancy, an uncommon feat for multi-tenant buildings in DTLA. Other notable movements of the quarter include, WeWork moving into 59,222 sf at 1150 S. Olive Street, USC moving into another 27,950 sf at 1149 S. Hill Street and Eclipse Advertising signing for 12,800 sf at 833 Spring Street.

Overall vacancy decreased 220 bps YOY ending the third quarter 2019 at 22.4%. Despite the drop in YOY vacancy, it rose sharply over the quarter mainly due to the delivery of the Trust Building, as seen in the 40.0% vacancy rate in the Historic District. Overall asking rents fell 3.7% YOY ending at \$43.20 psf/yr. While the Non-CBD is rising in profile and demand, the growth hasn't been realized for all the micro-markets that comprise the Non-CBD. Despite the dip in overall rents for the Non-CBD the Arts District is flourishing with redevelopment, garnering \$60.26 psf/yr asking rents, the highest in DTLA and the only micro-market in the Non-CBD above \$50 psf/yr. Leasing activity ended the third quarter 2019 at 139,979 sf a 65.6% decline YOY. Having dominated Los Angeles' leasing activity in 2019, WeWork could impact future quarters as changes to the organization play out. With 1.4 msf of renovated inventory set to deliver by the second quarter 2020, one can expect the Non-CBD to continue its growth in popularity as a creative office market.

Leasing Activity
QUARTERLY AVERAGE



Sublease Space Available



MARKETBEAT

Downtown Los Angeles

Office Q3 2019



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 CNSTR (SF)	OVERALL AVERAGE ASKING RENT (CLASS A)*	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*
Bunker Hill	10,963,322	70,219	1,652,051	15.7%	28,712	84,590	185,000	0	\$45.83	\$45.83
Financial District	16,611,596	76,920	3,236,102	19.9%	-19,019	-60,034	639,778	0	\$45.13	\$43.48
Central Business District	27,574,918	143,091	4,888,153	18.3%	9,693	24,556	824,778	0	\$45.41	\$44.33
South Park	1,912,944	769	271,544	14.2%	59,325	68,664	231,009	0	\$39.69	\$37.06
Central City West	3,726,291	3,908	444,376	12.0%	15,253	28,489	303,454	0	N/A	\$31.19
Historic District	1,815,904	0	725,633	40.0%	11,450	63,725	106,716	0	N/A	\$47.51
Little Tokyo/Chinatown	610,753	0	103,178	16.9%	8,479	3,738	47,982	0	\$44.83	\$41.61
Fashion District	109,914	2,823	27,585	27.7%	3,691	10,688	16,901	0	N/A	\$34.68
Arts District	1,536,446	0	593,802	38.6%	94,351	381,067	306,516	100,000	\$67.50	\$60.26
Downtown Non-CBD	9,712,252	7,500	2,166,118	22.4%	192,549	556,371	1,012,578	100,000	\$46.73	\$43.20
DOWNTOWN LOS ANGELES	37,287,170	154,639	7,054,271	19.3%	202,242	580,927	1,837,356	100,000	\$45.49	\$44.16

*Rental rates reflect gross asking \$psf/year **Does not include Renewals

	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 CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	26,824,721	143,091	5,234,318	20.0%	157,969	485,016	1,057,837	100,000	\$45.76	\$45.49
Class B	9,272,235	11,548	1,675,933	18.2%	37,497	63,736	315,858	0	\$41.32	\$41.24
Class C	1,190,214	0	144,020	12.1%	6,776	25,399	32,175	0	\$30.82	\$30.82

Key Lease Transactions Q3 2019

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
445 South Figueroa Street / Union Bank Plaza	161,903	Union Bank	Renewal	Financial District
555-581 Mateo Street / At Mateo	44,000	Spotify	Expansion	Arts District
811 West 7 th Street	25,930	WeWork	Expansion	Financial District
633 West 5 th Street / US Bank Tower	17,551	Fitzpatrick & Hunt	Renewal	Bunker Hill
444 South Flower / Citigroup Center	16,162	Parker Stanbury LLP	Renewal	Bunker Hill
700 South Flower Street / The Bloc	16,022	Teleport Communications	Renewal	Financial District
433 South Spring Street / The Trust Building	15,730	KTGY Architecture	New Lease	Historic District
444 South Flower Street / Citigroup Center	14,973	Cannon Design	New Lease	Bunker Hill
833 South Spring Street / Primrose Design Center	12,800	Eclipse Advertising	New Lease	Historic District

*Renewals not included in leasing statistics

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