MARKETBEAT

Downtown Los Angeles

Office Q2 2018

GREATER DOWNTOWN LOS ANGELES

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
LA County Employment	4,426k	4,478k	▬
LA County Unemployment	4.8%	4.4%	▼
U.S. Unemployment	4.3%	3.9%	▼

*Average of first two months of Q2 2018

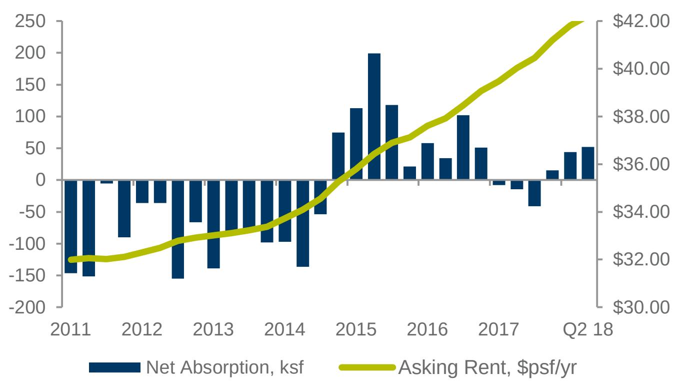
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	18.6%	21.2%	▼
Net Absorption (sf)	132k	163k	▲
Under Construction (sf)	575k	145k	▼
Average Asking Rent*	$40.72	$42.36	▲

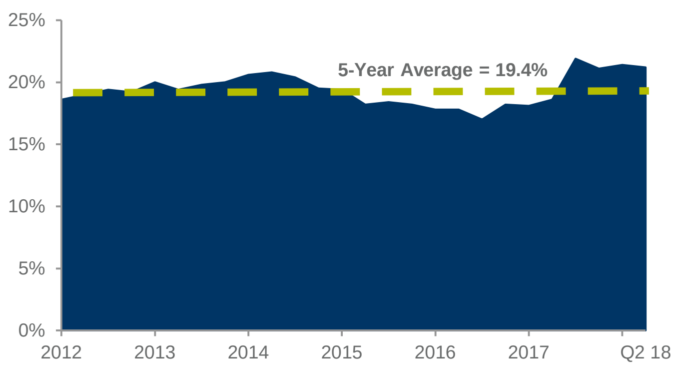
*Rental rates reflect gross asking $psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. job growth accelerated in May with the addition of 223,000 jobs and the unemployment rate dropped to an 18-year low of 3.8%, a level last seen in April 2000. Locally, Los Angeles County's unemployment rate was 4.4 % in May, down from 4.8% one year ago. Over the last 12 months, the county added 63,900 jobs for a 1.4% annual growth. The professional and business services sector increased by 17,300 jobs while the educational and health services sector added 16,200 jobs. The unemployment rate is expected to decline slowly over the next two years, reaching 4.1% in 2019 as the county, similar to the state, starts to tick above full employment. Job growth will begin to level off throughout the remainder of the year, with only 47,800 jobs expected to be added in 2018 and 34,300 in 2019, according to a recent forecast by the LAEDC.

Market Overview

In the midst of a development renaissance, the Downtown Los Angeles market—made up of 36.3 million square feet (msf) of office inventory—is proving to be a viable alternative to the coveted Westside. Greater Downtown, including Bunker Hill and the Financial District in the Central Business District (CBD) along with the Non-CBD, has seen its first decrease in overall vacancy in over a year. Dropping 20-basis-points (bps) from last quarter the overall vacancy rate for the second quarter 2018 stands at 21.2%. The decrease in vacancy is accompanied by overall positive net absorption of 162,790 sf for the second quarter 2018. Up 4% from this time last year, average asking rental rates have stabilized at $42.36 per square foot per year (psf/yr). In the coming months, Downtown Los Angeles will no longer be home to The Los Angeles Times, a historic tenant, but continued activity from out-of-market tenants will drive vacancy rates down creating a tighter and more competitive market for tenants seeking office space later this year.

Central Business District (CBD)

Leasing activity was slower than last quarter although still healthy with a total of 42 leases signed for 352,687 sf. Despite the slowed activity, noteworthy tenants executed leases affirming the strength of the market. ARUP signed the largest lease in the Central Business District, set to occupy 66,460 sf by the end of the year at Wilshire Grand Center. In addition to the size of the lease, ARUP will join a growing group of migrating tenants as they will be leaving their current headquarters in Playa Vista. More than half of the office space available at Wilshire Grand Center has been leased since completion less than a year ago.

CBD (continued)

The overall vacancy rate is down almost a full percent from last quarter finishing second quarter 2018 at 20.3%. Overall positive net absorption of 191,666 sf in the second quarter 2018 has helped push 2018 year-to-date absorption to 367,663 sf. Already significantly out-pacing 2017 year-end absorption of 176,730 sf. Move-ins from Spaces at Paul Hastings Tower for 50,970 sf, MetroLink at Wilshire Grand Center for 29,717 sf, and Convene at 777 Tower for 21,272 sf helped achieve this increase in positive net absorption. City National also started occupying their space at what was formerly known as Two Cal Plaza, causing the building's name to change to City National 2Cal. However, this wasn't the only building to have name rights change hands this quarter. Citigroup signed a new lease this quarter at One California Plaza for 25,499 sf, and will be vacating the Citigroup Center at the end of the year, putting the naming rights up-for-grabs.

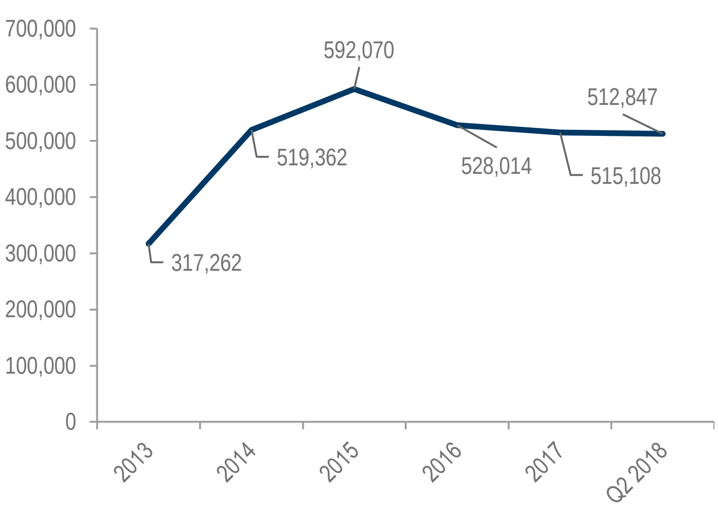
Halfway through 2018, the CBD has seen most of its activity from existing tenants in the form of renewals or inner-market relocations, which has kept leasing activity and rental rates at bay. However, the lease signed by ARUP this quarter proves that the CBD can compete with its counterpart, the Non-CBD, for out of market tenants who had previously been lured to downtown.

Downtown Non-CBD

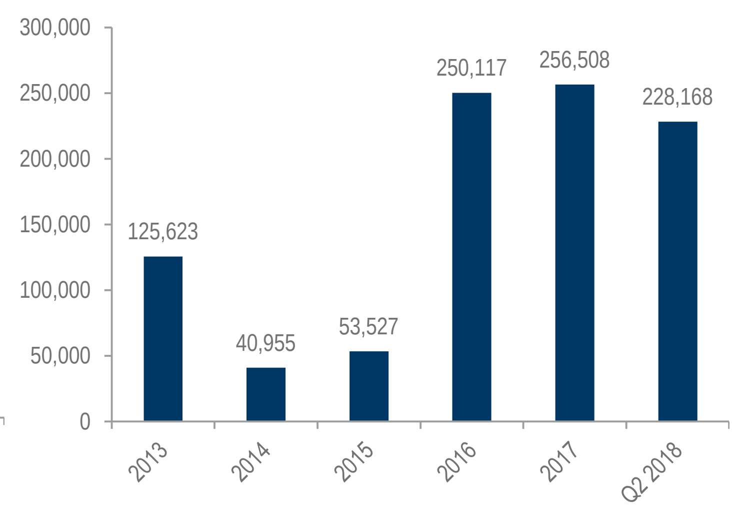
Recent construction and renovation completions in the Non-CBD and the 3.1 msf in the development pipeline, have and will continue to establish a more non-traditional set of office inventory in the Downtown Los Angeles market. Interest in this new product has continued to push rental rates causing a year-over-year increase of 17.6% in overall asking rents ending the second quarter 2018 at $42.72 psf/yr. Leasing activity remains steady from previous quarters with 2018 year-to-date leasing activity of 370,639 sf set to out-pace 2017 activity of 545,837 sf. The Row DTLA and At Mateo in the Arts District have garnered a lot of attention in the first half of 2018 with both places nearing capacity, in part due to the onsite retail component, unlike other areas of downtown.

This quarter Williams Corsi & Associates (WC+A), an advertising company, signed for approximately 13,000 sf at 767 South Alameda (Row DTLA). With the largest lease in all of Greater Los Angeles, Spotify, currently in office space in West Hollywood, completed a deal for 109,706 sf at At Mateo, another example that Westside tenants are migrating to Downtown Los Angeles. A large move-out from Transamerica at 1150 South Olive Street in South Park for about 150,000 sf brought overall net absorption for the quarter to negative 28,876 sf. However, the Arts District alone recorded 58,168 sf of positive net absorption in the second quarter of 2018, and with tenants like Adidas, USC, and Spotify set to occupy by year-end it will continue to counteract any space coming online in the growing and changing Non-CBD.

Leasing Activity
QUARTERLY AVERAGE



Sublease Space Available



MARKETBEAT

Downtown Los Angeles

Office Q2 2018

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 (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Bunker Hill	10,963,322	117,579	2,105,915	20.3%	177,348	425,737	328,019	0	$43.57	$43.57
Financial District	16,611,596	95,547	3,287,670	20.4%	14,318	-58,074	510,898	0	$41.38	$42.97
Central Business District	**27,574,918**	**213,126**	**5,393,585**	**20.3%**	**191,666**	**367,663**	**838,917**	**0**	**$42.25**	**$43.24**
South Park	1,912,944	5,735	383,625	20.4%	-150,695	-169,672	17,554	0	$35.72	$35.53
Central City West	3,274,738	0	233,428	7.1%	14,639	1,563	43,082	0	$29.23	N/A
Historic District	1,509,108	9,307	461,587	31.2%	42,608	48,005	87,199	0	$35.36	N/A
Little Tokyo/Chinatown	610,213	0	104,937	17.2%	6,404	1,840	38,882	0	$41.42	$37.20
Arts District	1,276,677	0	832,881	65.2%	58,168	96,460	183,922	145,311	$53.60	$53.60
Fashion District	109,914	0	44,484	40.5%	0	0	0	0	$31.17	N/A
Downtown Non-CBD	**8,693,594**	**15,042**	**2,060,942**	**23.9%**	**-28,876**	**-21,804**	**370,639**	**145,311**	**$42.72**	**$49.22**
DOWNTOWN LOS ANGELES	**36,268,512**	**228,168**	**7,454,527**	**21.2%**	**162,790**	**345,859**	**1,209,556**	**145,311**	**$42.36**	**$44.20**

*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	26,233,170	209,807	5,884,719	23.2%	152,494	309,347	916,703	0	$44.75	$44.20
Class B	8,835,428	17,254	1,449,883	16.6%	-31,878	-8,942	259,558	145,311	$34.28	$34.22
Class C	1,199,914	1,107	119,925	10.1%	42,174	45,454	33,295	0	$30.28	$30.28

Key Lease Transactions Q2 2018

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
555-581 Mateo Street / At Mateo	109,706	Spotify	New Lease	Arts District
900 Wilshire Boulevard / Wilshire Grand Center	66,460	ARUP	New Lease	Financial District
601 S. Figueroa Street / Figueroa at Wilshire	59,927	Denton US LLP	Renewal*	Financial District
555 S. Flower Street / City National Bank Tower	46,560	Norton Rose Fulbright	Renewal*	Financial District
601 S. Figueroa Street / Figueroa at Wilshire	37,502	Preferred Bank	Renewal* / Expansion	Financial District
555 S. Flower Street / City National Bank Tower	36,856	Foley Lardner	Renewal*	Financial District
601 S. Figueroa Street / Figueroa at Wilshire	35,139	CBRE Global Investors	New Lease	Financial District
555 S. Flower Street / City National Bank Tower	31,606	Squire Sanders & Dempsey	Renewal*	Financial District
300 S. Grand Avenue / One California Plaza	25,499	Citigroup	New Lease	Bunker Hill
818 W. 7th Street / 818 Building	24,719	Los Angeles Football Club	New Lease	Financial District

*Renewals not included in leasing statistics

Cushman & Wakefield
900 Wilshire Blvd, 24th Floor
Los Angeles, CA 90017
cushmanwakefield.com

For more information, contact:
Eric Kenas, Market Director, Research
Tel: +1 213 955 6446
eric.kenas@cushwake.com

Sarah Lucenti, Research Analyst
Tel: +1 213 955 6469
sarah.lucenti@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of $6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.