

# MARKETBEAT

# Downtown Los Angeles

Office Q3 2018



## GREATER DOWNTOWN LOS ANGELES

### Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
LA County Employment	4.45m	4.51m	▲
LA County Unemployment	4.8%	4.5%	▼
U.S. Unemployment	4.4%	3.9%	▼

\*Average of first two months of Q3 2018

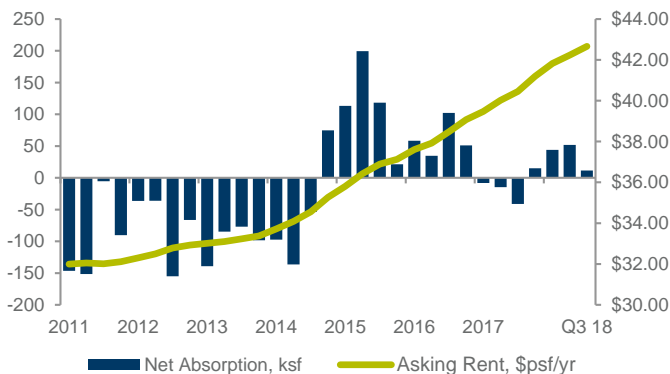
### Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	20.3%	21.2%	▼
Net Absorption (sf)	10k	-151k	▲
Under Construction (sf)	75k	145k	▼
Average Asking Rent*	\$41.17	\$42.90	▲

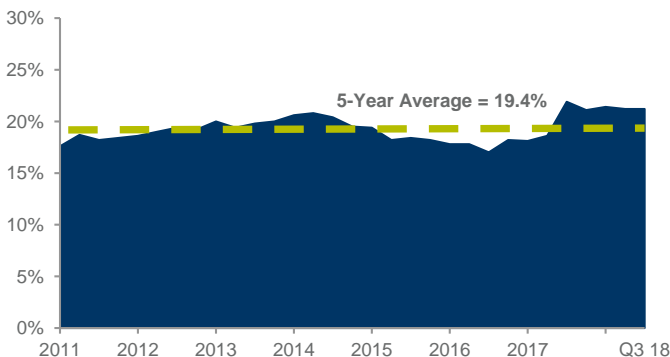
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

The U.S. unemployment rate remained at 3.9% in August, one of the lowest levels in half a century and well below estimates of full employment that range from 4.5% to 5.5%. August was the 95th straight month the U.S. economy added jobs, with an average 207,000 jobs a month so far this year, a healthy pace that indicates companies continue to grow and don't anticipate a downturn anytime soon. Locally, Los Angeles County's unemployment rate was 4.5% in August, down from 4.6% one year ago. Over the last 12 months, the county added 62,000 jobs for a 1.4% annual growth. The prolonged run in office-using job growth continues with the professional and business services sector adding 14,300 jobs, the educational and health services sector increasing by 15,300 jobs and the information sector gaining 12,100 jobs.

## Market Overview

When combined the Central Business District (CBD) and the Non-CBD together contain 36.3 million square feet of office inventory making up Downtown Los Angeles. Despite the Los Angeles Times vacating the entirety of their space at the Times Mirror Square Campus this past July, Downtown Los Angeles maintained an overall vacancy rate of 21.2%. Unchanged from last quarter, vacancy is down 20 basis points (bps) from the first quarter 2018. For the first time this year overall absorption was negative at -151,268 square feet (sf). The first half of the year helped keep year-to-date net absorption positive, with the figure now totaling 204,106 sf. Third quarter average asking rental rates of \$42.90 per square foot per year (psf/yr) are up 1.2% from last quarter and 4.2% year-over-year continuing to rise slightly. In general, market fundamentals in Downtown Los Angeles have stabilized. Tenants wanting to relocate from outside of the market have generated healthy activity setting Downtown Los Angeles up for a strong finish to the year.

## Central Business District (CBD)

The CBD proved its ability to withstand slower activity in the third quarter 2018. Leasing activity decreased 27.4% year-over-year with 37 leases signed for 276,924 sf this quarter. However, vacancy decreased, and absorption remained positive. Third quarter net absorption of 45,405 sf brings the year-to-date total to 404,190 sf.

## CBD (continued)

Third quarter leases in the CBD were a mix of renewals and inner market moves, as well as, relocations of tenants fresh to the market. In one of the most noteworthy deals of the quarter, the CBD gained a new tenant in PK Market. Agreeing to take approximately 51,000 sf at 712 South Olive, the South Korean high-end grocer plans to develop a mixed food hall / grocery store concept along with offices for their employees set to open in late 2019. In pursuit of a more centralized location, BDO USA, a global accounting firm, is relocating from Culver City to the Paul Hastings Tower for 27,280 sf. Within the market, The Chicago School of Psychology is moving from 617 West 7<sup>th</sup> Street to Aon Center where they plan to occupy 37,515 sf. Ednovate, a college preparatory public charter school launched by USC, has renewed their 38,808 sf at the Los Angeles World Trade Center.

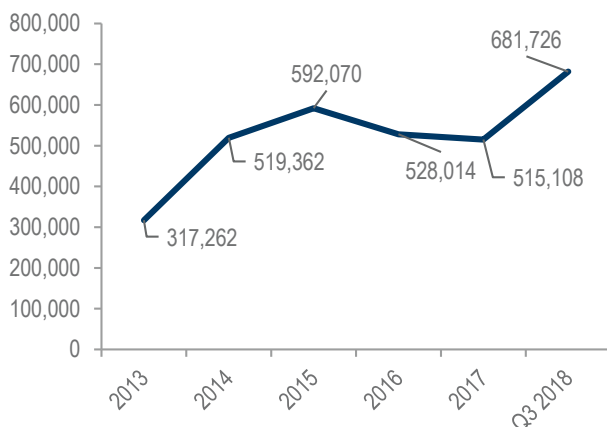
Third quarter 2018 average asking rental rates of \$42.35 psf/yr remain unchanged from last quarter. Improvements to traditional office space and an increase in surrounding amenities within the CBD are still of high priority as tenants demand more from their workspace. The outlook for the CBD is positive and landlords are eager to invest in historical renovations, keeping the market tight and competitive. With ARUP set to occupy by the end of this year and BDO USA making the move in early 2019 absorption will see even more of a positive uptick in the coming quarters. ARUP and BDO USA exemplify the trend of companies recognizing the benefits of relocating to the CBD in order to be more centrally located for their employees. The opening of mixed-use residential developments, such as Circa, will provide future employees in the CBD with a place to live and play within walking distance of their work. After years of development, the goal of revitalizing the CBD is being realized and the market is already experiencing early signs of a successful renaissance.

## Downtown Non-CBD

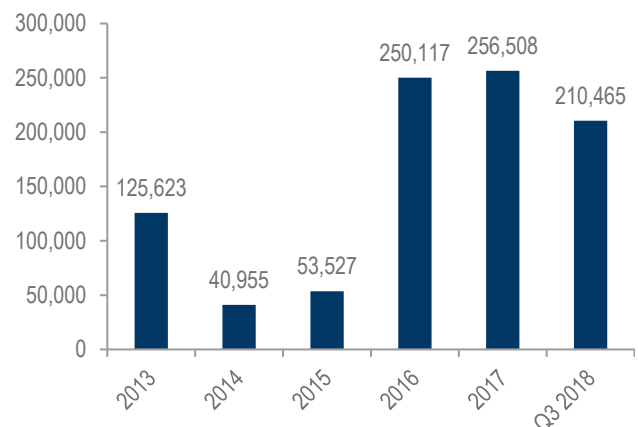
In what has been deemed Los Angeles's largest headquarter move of the year, Honey—an online couponing company—took the entirety of the newly renovated 4<sup>th</sup> & Traction building, previously occupied by the Coca-Cola Company. Signing a 10-year lease for 131,703 sf, the company plans to expand from its current office location in the CBD's Financial District. Having moved from Pasadena in 2012, Honey, like other migrating tenants, saw Downtown Los Angeles as a more central location for its employees and found that the live, work, play environment of the Arts District aligned with its culture. Soho House, the private members' club, has also decided to plant roots in the Arts District by agreeing to take over 16,000 sf at the Row DTLA. Non-CBD leasing activity of 404,802 sf in the third quarter was driven by the leases mentioned above along with several deals in South Park. Arizona State University signed for 82,200 sf at The Herald Examiner, which is currently undergoing renovations that are set to complete in 2019. Also in South Park at 1150 South Olive Street, USC and the Girl Scouts both signed leases for over 15,000 sf that has helped backfill the space vacated by Transamerica last quarter.

The Non-CBD overall vacancy rate of 24.6% in third quarter 2018 is a 70-bp increase from last quarter, primarily caused by the Los Angeles Times moving to new office space in El Segundo. Net absorption for the quarter and year-to-date net absorption are both hovering around -200,000 sf, but with multiple tenants, like Spotify and Warner Music, set to occupy in the near future positive absorption is projected. The Non-CBD has become a highly sought after submarket with average asking rental rates in third quarter 2018 reaching \$44.84 psf/yr, a near 5% increase from last quarter. Activity is expected to pick up as tenants begin to occupy their spaces, generating foot traffic and establishing a day and night time population that will give the area new life.

Leasing Activity  
QUARTERLY AVERAGE



Sublease Space Available



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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 CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Bunker Hill	10,963,322	114,279	2,098,037	20.2%	11,178	436,915	412,559	0	\$43.74	\$43.74
Financial District	16,611,596	81,144	3,263,435	20.1%	34,227	-32,725	715,346	0	\$41.42	\$43.05
<b>Central Business District</b>	<b>27,574,918</b>	<b>213,126</b>	<b>5,393,585</b>	<b>20.2%</b>	<b>45,405</b>	<b>404,190</b>	<b>1,127,905</b>	<b>0</b>	<b>\$42.35</b>	<b>\$43.36</b>
South Park	1,912,944	5,735	371,985	19.7%	11,640	-158,032	181,698	0	\$35.63	\$35.28
Central City West	3,274,738	0	241,580	7.4%	-14,803	-11,456	46,575	0	\$30.04	N/A
Historic District	1,524,408	9,307	478,759	32.0%	-206,788	-142,983	118,411	0	\$36.54	N/A
Little Tokyo/Chinatown	610,213	0	107,443	17.6%	-2,506	-666	38,808	0	\$41.24	\$37.20
Arts District	1,313,380	0	893,775	68.1%	15,784	113,053	360,921	145,311	\$56.82	\$56.82
Fashion District	109,914	0	44,484	40.5%	0	0	19,700	0	\$31.74	N/A
<b>Downtown Non-CBD</b>	<b>8,745,597</b>	<b>15,042</b>	<b>2,138,026</b>	<b>24.6%</b>	<b>-196,673</b>	<b>-200,084</b>	<b>766,113</b>	<b>145,311</b>	<b>\$44.84</b>	<b>\$52.98</b>
<b>DOWNTOWN LOS ANGELES</b>	<b>36,320,515</b>	<b>210,465</b>	<b>7,499,498</b>	<b>21.2%</b>	<b>-151,268</b>	<b>204,106</b>	<b>1,894,018</b>	<b>145,311</b>	<b>\$42.90</b>	<b>\$44.83</b>

\*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	26,294,873	190,462	5,928,746	23.3%	41,955	348,107	1,400,820	0	\$45.41	\$44.83
Class B	8,835,428	18,896	1,403,935	16.1%	-197,331	-208,863	429,891	145,311	\$34.66	\$34.54
Class C	1,190,214	1,107	166,817	14.1%	4,108	64,862	63,307	0	\$29.88	\$29.88

## Key Lease Transactions Q3 2018

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
963 E. 4 <sup>th</sup> Street / 4 <sup>th</sup> & Traction	131,703	Honey	New Lease	Arts District
1111 S. Broadway / The Herald Examiner Building	82,200	Arizona State University	New Lease	South Park
350 S. Figueroa Street / Los Angeles World Trade Center	38,808	Ehnovate	Renewal*	Financial District
707 Wilshire Boulevard / Aon Center	37,515	Chicago School of Psychology	New Lease	Financial District
712 S. Olive Street	36,000	PK Market	New Lease	Financial District
515 S. Flower Street / Paul Hastings Tower	27,280	BDO USA LLP	New Lease	Financial District

\*Renewals not included in leasing statistics

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