

## GREATER DOWNTOWN LOS ANGELES

### Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
LA County Employment	4.50M	4.53M	▲
LA County Unemployment	4.7%	4.7%	▼
U.S. Unemployment	4.1%	3.8%	▼

\*Q1 data represents February

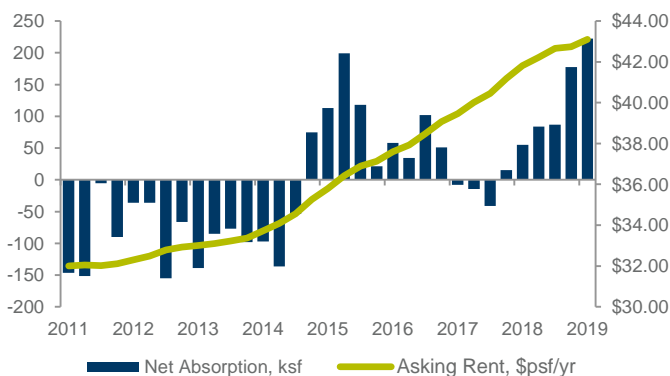
### Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	21.4%	18.8%	▼
Net Absorption (sf)	65k	288k	▲
Under Construction (sf)	104k	42k	▲
Average Asking Rent*	\$42.63	\$44.09	▲

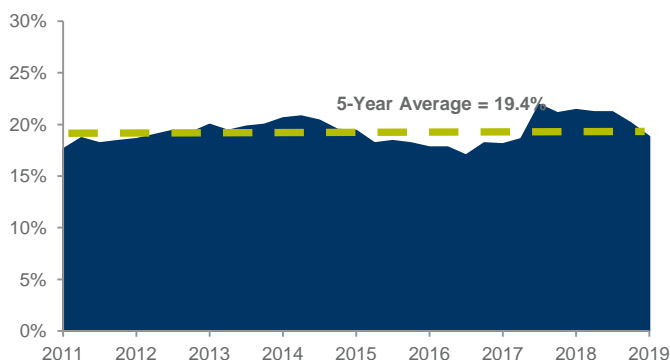
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

U.S. job growth came to a near halt in February with nonfarm payrolls increasing by just 20,000 even as the unemployment rate fell to 3.8%. It was the worst month for job creation since September 2017; however, the three-month trend in job gains remains solid and data suggest no letup in demand for workers by employers. Locally, Los Angeles County's unemployment rate decreased to 4.6% in February from 4.7% one year ago, with nonfarm employment increasing by 31,500 or 0.7% over the last year. Educational and health services saw the highest level of job creation, with an addition of 16,400 jobs while employment in professional and business services expanded by 16,000. On the downside, the information sector experienced a 7.0% year-over job reduction and lost 16,000 jobs.

## Market Overview

The Downtown Los Angeles (DTLA) market, which is made up of the CBD and the Non-CBD, currently contains 36.4 million square feet (msf) of office inventory.

The first quarter produced solid results for the DTLA market as the decline in overall vacancy and solid leasing activity were met with modest rent growth. Overall average asking rents increased 2.1% from the fourth quarter 2018 and 3.2% year-over-year to \$44.09 per square foot per year (psf/yr). Asking rents in the Non-CBD of \$44.41 psf/yr have now surpassed that of the CBD at \$44.04 psf/yr, while direct Class A rates show a further gap with the Non-CBD posting 17.7% higher at \$53.40 psf/yr. First quarter leasing activity of 561,084 sf in DTLA responded strongly to the 361,203 sf recorded last quarter, up 55.3% and on track with the 574,431 sf quarterly average in 2018. Steady demand caused overall vacancy to drop 130 basis points (bps) from last quarter and 260 bps year-over-year to 18.8%. Demand is expected to remain strong as over 1.9 msf of newly renovated inventory is set to deliver in DTLA in 2019. Owners are repositioning assets to compete with the high-tier buildings and other similar creative office concepts that tenants demand across DTLA and six of the nine properties currently under renovation are either Class B or Class C product. With the lowest vacancy since the second quarter of 2017 and new ample new inventory in development, DTLA should continue attracting out-of-market tenants keeping the market tight and competitive.

## Central Business District (CBD)

Leasing activity slowed in the CBD, with 259,140 sf in new deals signed in first quarter 2019. This is 22.0% less than the amount of activity recorded in the previous quarter which was bolstered by several large leases.

## CBD (continued)

The largest lease of the quarter was Towers Watson's renewal and expansion for 30,615 sf at OneCal Plaza in Bunker Hill. The next two top leases were both sublease deals in Bunker Hill as Pierce, Bainbridge, Beck, Price & Hecht signed and occupied 27,108 sf at 355 South Grand Avenue and Spotify signed a short-term option at 300 South Grand and occupied 24,676 sf this quarter. New deals of 50,000 sf or more eluded the CBD in the first quarter compared to last quarter where two the top ten deals done across Greater Los Angeles transpired with one in Bunker Hill and one in the Financial District.

The only project slated to deliver (in the CBD) is the 103,000 sf renovation development at 712 South Olive Street which will offer additional creative space options for tenants in the CBD. However, leasing activity could be challenged as new inventory hits surrounding markets siphoning off tenants and increasing appeal to venture away from the CBD. Despite lower levels of development and the inner-market shuffling of several large tenants this quarter, substantial occupancy gains over the past year led overall vacancy to fall 280 bps year-over-year to 18.4%, while direct vacancy dropped 250 bps to 18.0%. Overall net absorption of -26,701 sf stemmed from the downsizing or relocation of Citigroup (44,000 sf), City National Bank (50,000 sf), Union Bank (15,829 sf), Foley & Lardner (15,900 sf), and CBRE Global Investors (53,000 sf) moving from 515 South Flower Street to their new location at 601 South Figueroa Street.

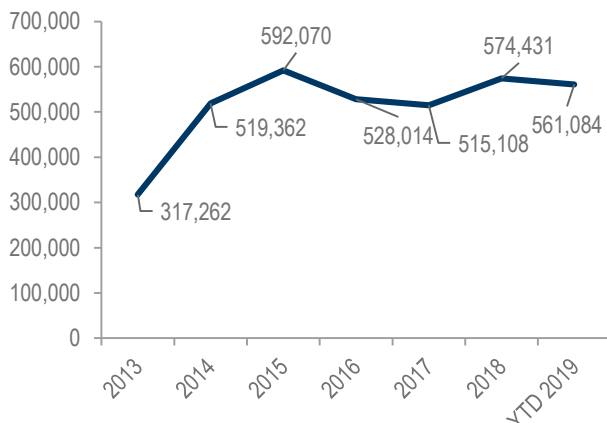
Overall asking rental rates of \$44.00 psf/yr for first quarter 2019 marks a 4.2% increase year-over-year and 3.6% increase quarter-over-quarter. Bunker Hill experienced the highest increase in asking rental rates to \$45.84 psf/yr, a 5.8% increase from a year ago. The steady decline in vacancy and uptick in rents bode well for the CBD and demonstrates its value retention and reputation as a desirable location for business.

## Downtown Non-CBD

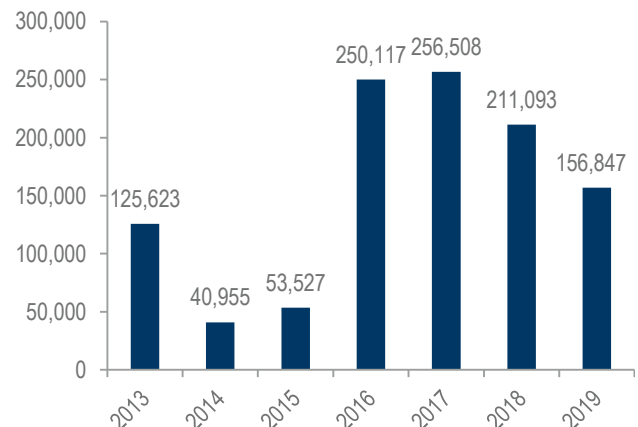
Non-CBD overall vacancy rate ended at 20.1% for the first quarter of 2019, declining 480 bps from the previous quarter and 190 bps from one year ago. Leasing activity amounted to 301,944 sf in first quarter 2019, nearly nine times the amount of activity recorded in the fourth quarter 2018 (44% year-over-year). Coworking/flexible space providers continue to populate the downtown market as the largest deals of the quarter involved WeWork, who committed to over 400,000 sf of space in Los Angeles this year. WeWork signed for 102,916 sf at The Maxwell, a two-building transaction with 61,201 sf at 405 Mateo Street and 41,715 sf at 1003 E. 4th Place in the Arts District and 80k sf at the 1031 South Broadway in South Park. With the amount of development in the Non-CBD, coworking tenants are expected to continue leasing large blocks of space as new inventory hits the market.

The Historic District, South Park, and the Arts District have all seen significant development in recent quarters. However, the Arts District significantly outpaces all submarkets in the Non-CBD with over 528,047 sf of inventory set to deliver this year and another six projects proposed to complete construction by 2022. The significant development in the market has led to increased demand as illustrated in the average asking rental rates in the Non-CBD ending higher than the CBD for the sixth consecutive quarter. Non-CBD overall asking rents posted \$44.41 sf/yr increasing less than one percent from last quarter and year-over-year. Overall net absorption for the Non-CBD ended the quarter at 314,865 sf. Warner Music Group occupied the Ford Factory at 777 South Santa Fe Avenue, accounting for over 91.0% of the 278,633 sf of overall net absorption in the Arts District. The Arts District could be the buoy that raises the profile of the Non-CBD with rents continuing to rise as the Non-CBD evolves to meet the demand for office, retail, and housing, as it becomes the sought-after location to do business.

Leasing Activity  
QUARTERLY AVERAGE



Sublease Space Available



# MARKETBEAT

# Downtown Los Angeles

Office Q1 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	64,251	1,722,099	16.3%	56,643	56,643	107,251	0	\$45.79	\$45.79
Financial District	16,611,596	60,204	3,238,290	19.5%	(83,344)	(83,344)	151,889	0	\$42.96	\$41.59
<b>Central Business District</b>	<b>27,574,918</b>	<b>124,455</b>	<b>4,960,389</b>	<b>18.4%</b>	<b>(26,701)</b>	<b>(26,701)</b>	<b>259,140</b>	<b>0</b>	<b>\$45.13</b>	<b>\$44.00</b>
South Park	1,912,944	0	309,702	16.2%	31,123	31,123	127,629	0	\$36.00	\$36.00
Central City West	3,274,738	3,908	232,540	7.2%	14,532	14,532	47,488	0	N/A	\$31.29
Historic District	1,495,631	9,518	450,832	30.8%	9,535	9,535	11,301	0	N/A	\$36.27
Little Tokyo/Chinatown	610,753	5,813	127,057	20.8%	(25,954)	(25,954)	3,162	0	\$42.45	\$40.63
Fashion District	109,914	0	34,100	31.0%	6,996	6,996	9,448	0	N/A	\$33.83
Arts District	1,416,976	13,153	589,061	42.5%	278,633	278,633	102,916	41,715	\$60.68	\$59.03
<b>Downtown Non-CBD</b>	<b>8,820,956</b>	<b>32,392</b>	<b>1,743,292</b>	<b>20.1%</b>	<b>314,865</b>	<b>314,865</b>	<b>301,944</b>	<b>41,715</b>	<b>\$53.44</b>	<b>\$44.41</b>
<b>DOWNTOWN LOS ANGELES</b>	<b>36,395,874</b>	<b>156,847</b>	<b>6,703,681</b>	<b>18.8%</b>	<b>288,164</b>	<b>288,164</b>	<b>561,084</b>	<b>41,715</b>	<b>\$46.15</b>	<b>\$44.09</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	26,295,413	126,745	19,660	20.1%	291,018	291,018	347,607	0	\$46.40	\$46.15
Class B	8,910,247	20,584	1,520	15.8%	(6,345)	(6,345)	205,516	41,715	\$37.15	\$37.09
Class C	1,190,214	9,518	1,000	13.7%	3,491	3,491	7,961	0	\$30.37	\$30.35

## Key Lease Transactions Q1 2019

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
1031 South Broadway / The Western Pacific	80,000	WeWork	New Lease	South Park
405 Mateo Street / The Maxwell	61,201	WeWork	New Lease	Arts District
1031 East 4 <sup>th</sup> Place / The Maxwell	41,715	WeWork	New Lease	Arts District
300 South Grand Avenue / One California Plaza	30,615	Towers Watson	Renewal/Expansion	Bunker Hill
1149 South Hill Street / AT&T Center	27,950	University of Southern California	New Lease	South Park
355 South Grand Avenue / Wells Fargo Center – South	27,108	Pierce, Bainbridge, Beck, Price, & Hecht LLP	Sublease	Bunker Hill
300 South Grand Avenue / One California Plaza	24,676	Spotify	Sublease	Bunker Hill
801 South Figueroa Street / 801 Tower	20,886	Cultural Office of Kuwait: Los Angeles	New Lease	Financial District
1055 West 7 <sup>th</sup> Street	20,411	Tyson & Mendes	New Lease	Central City West
601 South Figueroa Street / Figueroa at Wilshire	19,531	Acumen Services Group	New Lease	Financial District

\*Renewals not included in leasing statistics

Cushman & Wakefield  
900 Wilshire Blvd, 24<sup>th</sup> Floor  
Los Angeles, CA 90017  
[cushmanwakefield.com](http://cushmanwakefield.com)

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

Davis Drear, Market Analyst, Research  
Tel: +1 213 995 6451  
[davis.drear@cushwake.com](mailto:davis.drear@cushwake.com)

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