

GREATER DOWNTOWN LOS ANGELES

Economic Indicators

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

*Q2 data represents May

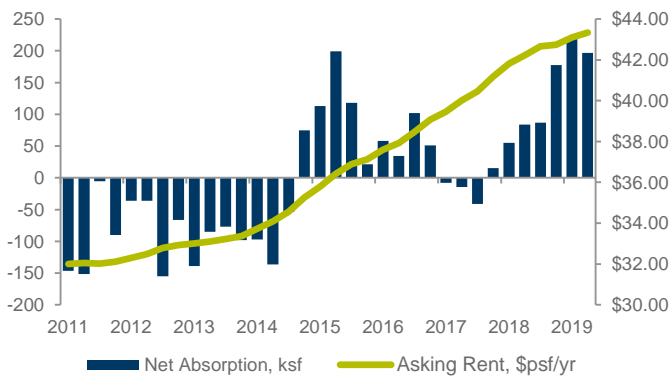
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	21.2%	19.0%	▼
Net Absorption (sf)	162k	157k	▲
Under Construction (sf)	145k	142k	▲
Average Asking Rent*	\$42.36	\$43.30	▲

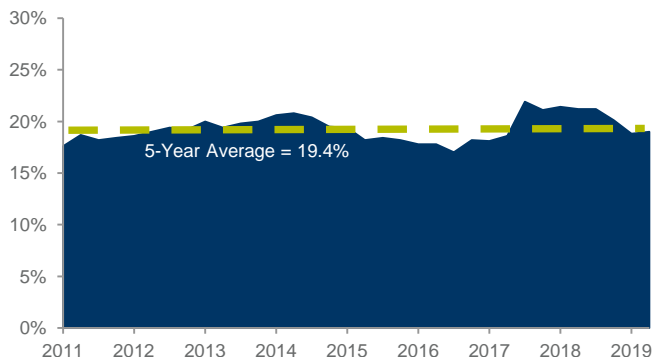
*Rental rates reflect gross asking \$psf/mo

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

The Downtown Los Angeles (DTLA) market, which is made up of the CBD and the Non-CBD, currently contains 36.8 million square feet (msf) of office inventory.

The second quarter produced a slight decline in overall asking rents but was met with a surge in leasing activity. Although overall average asking rents dropped 1.8% from the first quarter of 2019 to \$43.30 per square foot per year (psf/yr), it's still up 2.2% from the previous year. Leasing activity jumped 26.8% from the previous quarter ending at 784,540 sf, its highest total since the second quarter of 2015, taking the year-to-date total to 1.4 msf. The Non-CBD accounted for 65.4% or 513,605 sf of this new leasing activity. This is higher than in 2018 indicating demand has shifted to the Non-CBD submarkets, primarily the Arts District. Despite strong leasing, overall vacancy rose by 20 basis points (bps) to 19.0% in part to slight vacancy increases in Bunker Hill and Central City West. With nearly 850,000 sf of new product expected to deliver in the third quarter of 2019, vacancy could continue to tick upward with the addition of new inventory. However, any spikes in vacancy will be mitigated by the strong leasing activity and the eventual occupancy of large block tenants.

Central Business District (CBD)

The overall vacancy rate in the CBD dropped 30 bps in the first half 2019 to 18.3% a substantial decrease of 200 bps year-over-year. Overall vacancy in the Financial District decreased 60 bps over the same time period to 19.3% while the overall vacancy rate in Bunker Hill rose 10 bps to 16.7%. Slower occupancy growth contributed to marginal changes in vacancy in the CBD with a year-to-date absorption total of 71,193 sf for the market.

CBD (continued)

Overall absorption in Bunker Hill recorded a mere 7,643 sf, representing an 86.5% drop over the quarter and an even greater decline of 89.0% from the second quarter of 2018. The Financial District has been the driver of the CBD in 2019 accounting for 137,783 sf or 94.7% of the overall absorption this quarter. The move-ins of Worldwide Facilities (28,466 sf), White & Case (25,531 sf), Industrious (22,275 sf), Cultural Office of Kuwait (20,886 sf), and Clark & Trevithick (15,546 sf) point to sustained desirability amongst financial/business services, legal, government, and coworking tenants even as overall demand has waned.

The Financial District elevated second quarter 2019 leasing activity, amounting to 253,921 sf, or 93.6% of all activity, a 67.2% uptick over the quarter. The three largest deals in the CBD this quarter were signed in the Financial District and contributed to nearly half of all activity in the submarket and over 45.0% of activity in the CBD. The largest deal was locked in by J2 Global, a digital media company, agreed to 47,902 sf at 700 S. Flower Street. CommonGrounds, a coworking company, looked to increase their downtown footprint committing to two floors at 915 Wilshire Blvd totaling 45,978 sf, while Worldwide Facilities signed for 28,466 sf of space at 725 South Figueroa Street.

Overall average asking rental rates of \$43.92 psf/yr for the second quarter of 2019 marks a growth of 4.0% year over year. Asking rental rates in the Financial District jumped 3.3% from the previous quarter to \$42.98 psf/yr, making a higher impact on the overall average rent for the CBD. Despite a slow downturn in 2019 one can expect the CBD to remain resilient as top submarket in DTLA and retain the value of its average asking rents.

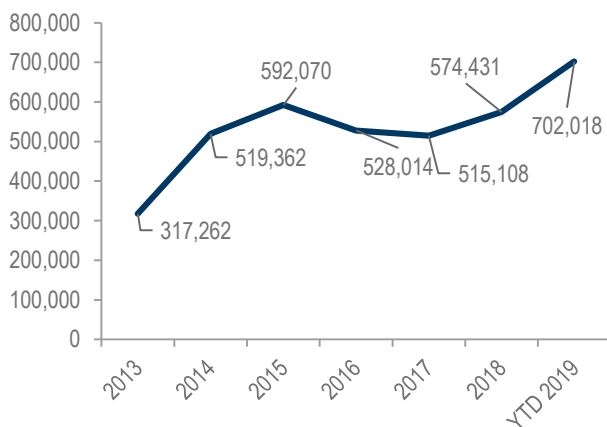
Downtown Non-CBD

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. Despite the post-recession resurgence in DTLA, this quarter was uncharacteristically slow in most respects. Overall asking rents and overall absorption all fell in conjunction with a rise in overall vacancy.

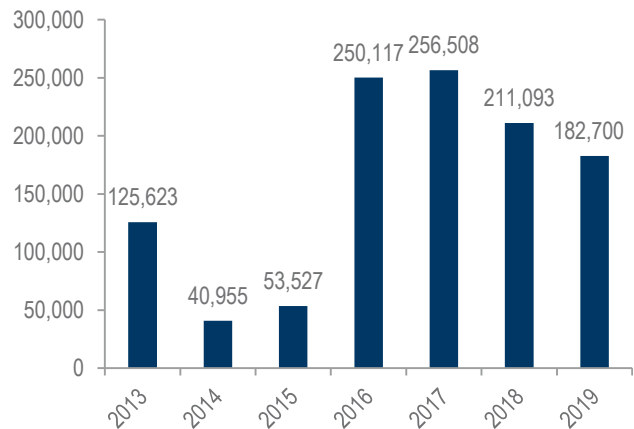
Overall vacancy in the Non-CBD rose 90 bps from the first quarter of 2019 ending at 21.0% due to a large off-market space being preleased in Central City West. Overall asking rental rates were adversely affected as they fell to \$41.13 psf/yr, a 7.4% decline quarter-over-quarter. The Non-CBD, similarly to the CBD, has one prominent submarket driving much of the activity in the second quarter. Overall asking rents in the Arts District ended at \$63.83 psf/yr, an 8.1% increase from the first quarter of 2019. This rental rate outperforms the next highest Non-CBD rate by nearly \$22.00 psf/yr or 52.2%. Leasing activity posted 513,605 sf in the second quarter of 2019, up 56.7% from the previous quarter and up 89.3% year-over-year. The Arts District added 131,924 sf of leasing activity which is on par with previous quarters, but Central City West led activity with 238,323 sf. The two largest deals of the quarter were Ghost Management Group, the operator of Weedmaps, leasing 115,000 sf at 767 S. Alameda Street in the Arts District and LA Care Health Plan leasing 225,793 sf at 1200 W. 7th Street in Central City West.

Mid-year leasing activity of 841,240 sf accounts for 59.9% of the total activity in DTLA. During the same period the Non-CBD only recorded 362,598 sf of occupancy gains which were likely delayed by tenant improvements and other construction. The Arts District has been driving demand, becoming an example of how new development and revitalization correlates to tenant demand and migration. The second half of 2019 is set to deliver numerous projects in the Non-CBD, providing more options for tenants, causing a rebound from a slow second quarter.

Leasing Activity
QUARTERLY AVERAGE



Sublease Space Available



MARKETBEAT

Downtown Los Angeles

Office Q2 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	96,198	1,736,541	16.7%	7,643	30,753	135,823	0	\$45.50	\$45.50
Financial District	16,611,596	65,076	3,147,688	19.3%	137,783	40,440	426,973	0	\$44.59	\$42.98
Central Business District	27,574,918	161,274	4,884,229	18.3%	145,426	71,193	562,796	0	\$44.98	\$43.92
South Park	1,912,944	0	331,486	17.3%	(21,784)	9,339	191,546	0	\$39.78	\$37.82
Central City West	3,726,291	3,908	460,853	12.5%	(2,520)	12,012	291,269	0	\$26.00	\$28.51
Historic District	1,495,631	1,542	415,068	27.9%	17,739	52,275	64,492	0	N/A	\$34.27
Little Tokyo/Chinatown	610,753	0	111,657	18.3%	15,400	(4,741)	37,800	0	\$40.31	\$41.93
Fashion District	109,914	2,823	31,276	31.0%	0	6,997	13,210	0	N/A	\$33.32
Arts District	1,416,976	13,153	572,084	41.3%	3,000	286,716	242,923	141,715	\$64.24	\$63.83
Downtown Non-CBD	9,272,509	21,426	1,922,424	21.0%	11,836	362,598	841,240	141,715	\$44.74	\$41.13
DOWNTOWN LOS ANGELES	36,847,427	182,700	6,806,653	19.0%	157,262	433,791	1,404,036	141,715	\$44.94	\$43.30

*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	26,746,966	171,692	5,291,752	20.4%	135,009	380,414	1,057,837	0	\$45.25	\$44.94
Class B	8,910,247	9,466	1,365,647	15.4%	15,364	27,978	315,858	141,715	\$37.74	\$37.68
Class C	1,190,214	1,542	149,254	12.7%	6,889	25,399	33,341	0	\$30.16	\$30.16

Key Lease Transactions Q2 2019

PROPERTY	OFFICE SF	TENANT	TRANSACTION TYPE	SUBMARKET
1200 West 7 th Street / West 7 Center	225,793	LA Care Health Plan	Expansion	Central City West
767 South Alameda Street / ROW DTLA	115,000	Ghost Management Group	New Lease	Arts District
1150 South Olive Street / USC Tower	59,222	WeWork	New Lease	South Park
700 South Flower Street / The Bloc	47,902	J2 Global	New Lease	Financial District
915 Wilshire Boulevard / NineFifteen	45,978	CommonGrounds	New Lease	Financial District
725 South Figueroa Street / Ernst & Young Plaza	28,466	Worldwide Facilities	New Lease	Financial District
304 South Broadway / Bradbury Building	23,000	Neuehouse	New Lease	Historic District
633 West 5 th Street / US Bank Tower	17,472	Capture Studios	New Lease	Bunker Hill

*Renewals not included in leasing statistics

Key Sales Transactions Q2 2019

PROPERTY	OFFICE SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
777 South Santa Fe Avenue / Ford Factory	257,028	Shorenstein Properties LLC / Access Industries Inc	\$195,000,000 / \$759	Arts District

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