MARKETBEAT

DOWNTOWN LOS ANGELES

Office Q4 2019

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
20.5% Vacancy Rate	▲	▲
290K YTD Net Absorption, SF	▼	▲
$44.17 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
4.6M Los Angeles County Employment	▲	▲
4.4% Los Angeles County Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY: Strong Job Growth Continues

The unemployment rate in Los Angeles County remained stable at 4.4% and below the rate of 4.7% one year ago. Total employment increased to over 4.6 million, representing an annual increase of 1.8%. Over the year, job creation was strongest in the educational and health services sector which increased payrolls by 35,700 jobs. Much of these additions were concentrated in health care and social assistance, which accounted for 89.0% of these new jobs. Although annual wage growth slowed at the end of 2019, wages should increase in 2020 as the minimum wage in California jumps again at the beginning of the year. The technology, entertainment & media sectors that have boosted markets on the Westside of Los Angeles haven't had a strong affect in the Downtown market.

DOWNTOWN LOS ANGELES: Migration from Suburbs Offset by Right-Sizing in Legal & Financial Sectors

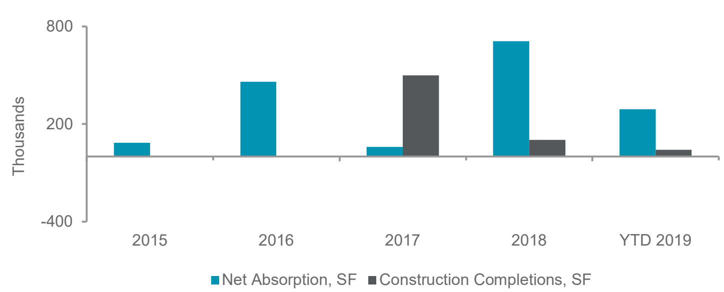
Downtown Los Angeles (DTLA) market is comprised of the CBD and the Non-CBD, currently contains 37.5 million square feet (msf) of office inventory.

Overall vacancy grew in the fourth quarter of 2019 taking the year-end rate to 20.5%, a 70 basis point (bps) increase year-over-year (YOY). The jump in vacancy is in part due to the delivery of new product in the Non-CBD and a statistically down year in the CBD for total absorption weighing down the yearly totals. DTLA posted meek absorption of negative 151,515 sf in the fourth quarter lowering year-end occupancy gains to just 290,585 sf, only slightly above the five-year average of 271,647 sf. The stabilized inventory in the CBD typically provides constancy to the market and acts as a balancing weight of sorts for the Non-CBD. The surge in development in the Non-CBD has caused fluctuations in activity, rents, and absorption. Leasing activity finished strongly in the fourth quarter 2019 with 592,405 sf bringing year-end totals to 2.7 msf, 17.6% above the five-year average and 15.6% above this time last year.

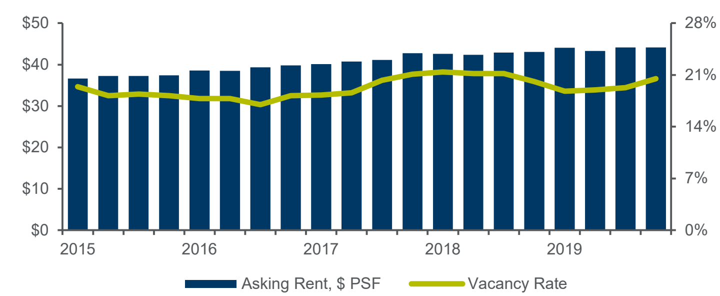
CBD: First Year-End Occupancy Loss Since 2013

New leasing activity of 418,867 sf the fourth quarter 2019 brought the year-end total to 1.4 msf, falling short of the activity in 2018 by 8.1%. Net absorption of negative 193,144 sf in the fourth quarter 2019 contributed to the negative 268,639 sf at year-end, causing overall vacancy to increase by 100 bps over the year to 19.2%. Negative net absorption in the CBD is directly attributable to the trend of right-sizing, mainly amongst legal and financial service tenants.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



CBD: Continued

For the first time since 2013 the CBD had negative net absorption at year-end. The market's five-year annual average net absorption has been positive at 332,000 sf, eluding that the 2019 year-end negative absorption is a representation of anomaly, rather than a concern for the CBD. Gibson, Dunn, & Crutcher, Parker Stanbury, and Richards, Watson, & Gershon have all shrank their footprints in recent quarters contributing to the negative absorption. Despite negative absorption and an uptick in vacancy in the CBD, overall asking rents increased 3.9% YOY to $44.24 price per square foot per year (psf/yr). The CBD asking rents resiliency is in part due to continuing increases in operating expenses and Class A and Class B landlords incrementally increasing asking rental rates. If absorption remains negative, concessions could increase or asking rents might reflect lower in select assets to entice tenants.

NON-CBD: Marginal Increase in Vacancy a Result of New Construction Deliveries

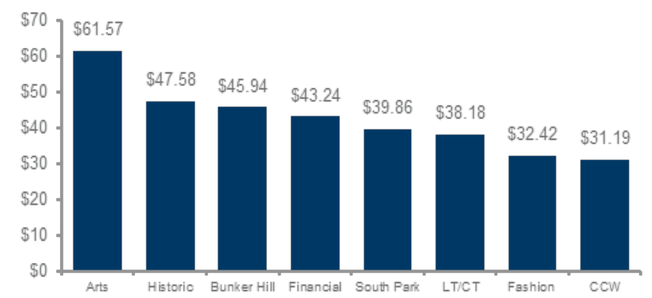
The delivery of The Western Pacific in the fourth quarter 2019 added another 240,000 sf of office space and brought total renovation completions for the year to 621,474 sf. Unlike projects in other submarkets around Los Angeles, the deliveries in the Non-CBD haven't realized robust preleasing activity resulting in high vacancy in South Park (24.0%), the Historic District (38.7%), and Arts District (37.6%). Occupancy gains were solid with 559,224 sf of overall net absorption in 2019 and is well above the five-year average of 273,308 sf for the Non-CBD and is a good indication of the health of the overall market.

Strong leasing activity at projects like ROW DTLA and At Mateo greatly reduced the amount of high-end space available on the market in 2019, resulting in overall average asking rents dipping 2.1% YOY to $43.92 psf/mo. The Non-CBD has been a driving force the new leasing and occupancy gains in DTLA moving off the back of its strong development pipeline. Despite just 173,538 sf of new leasing at year-end, the 2019 new leasing total of nearly 1.3 msf was up 37.5% from the previous year. The growth of creative office through industrial conversions and office renovations have been a key differentiator in generating demand. With expanding office options, the Non-CBD could see a vacancy hike as projects deliver followed by slow decreases as tenants expand or migrate into the renewed inventory.

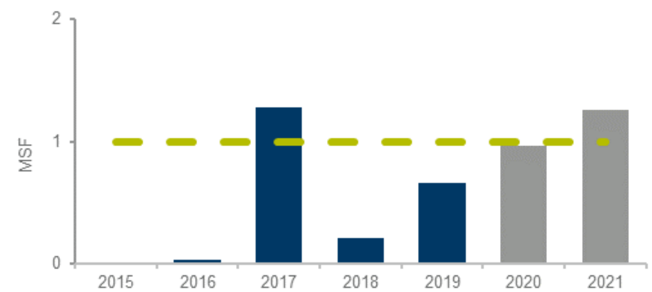
Outlook

- DTLA is poised to outperform other markets over the next couple of years. The continued development of the live/work/play environment in DTLA will accelerate firms migrating into the market. The Westside of Los Angeles will continue to be a feeder to DTLA for tenants seeking comparable quality office space at a lower price.
- The CBD's amenities could be a distinguishing factor in demand moving forward with its locale being a transit hub, the high concentration of hotels, and numerous residential and restaurant options. With absorption expected to rebound positively, rents are expected to hold near their current levels.
- The Non-CBD is expected to deliver between 1.8 - 2.4 msf of new product in the next couple of years, the amount of leasing that follows will be a signal as to whether the surge in development has been an over correction to the early success seen in the Arts District and meeting the demands for creative office.

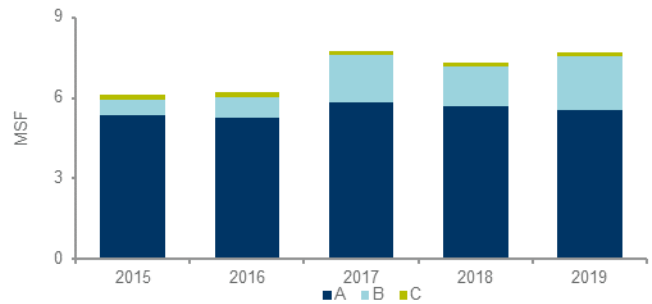
SUBMARKET ASKING RENTS



NEW SUPPLY



DTLA VACANT SPACE BY CLASS



MARKETBEAT

DOWNTOWN LOS ANGELES

Office Q4 2019

MARKET

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Bunker Hill	10,963,322	70,219	1,862,199	17.6%	-151,993	-129,074	399,224	0	$45.94	$45.94
Financial District	16,611,596	103,189	3,231,071	20.2%	-41,151	-139,565	979,674	0	$43.24	$44.98
CBD TOTALS	27,574,918	173,408	5,093,270	19.2%	-193,144	-268,639	1,378,898	0	$44.24	$45.39
South Park	2,181,744	769	523,118	24.0%	-3,198	55,980	245,054	0	$39.86	$39.54
Little Tokyo/Chinatown	610,753	1,452	120,388	19.9%	-18,662	-14,924	61,677	0	$38.18	$37.21
Central City West	3,726,291	9,713	422,861	11.6%	41,842	40,990	442,061	0	$31.19	N/A
Historic District	1,815,904	650	701,804	38.7%	12,730	76,135	150,925	0	$47.58	N/A
Fashion District	109,914	2,823	28,838	28.8%	299	9,435	18,940	0	$32.42	N/A
Arts District	1,551,428	15,220	568,041	37.6%	8,618	391,608	357,711	100,000	$61.57	$55.23
Non-CBD TOTALS	9,996,034	30,627	2,365,050	24.0%	41,629	559,224	1,276,368	100,000	$43.92	$45.83
DTLA TOTALS	37,570,952	225,147	7,458,320	20.5%	-151,515	290,585	2,655,266	100,000	$44.17	$45.41

Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
707 Wilshire Boulevard/ AON Center	CBD	LAHSA	55,355	New Lease
350 South Grand Avenue/ 2Cal	CBD	Andersen Tax LLC	45,748	New Lease
523 West 6th Street/ PacMutual	CBD	Magnopus LLC	37,314	Expansion
333 South Hope Street	CBD	Analysis Group	26,483	Expansion
700 South Flower Street	CBD	Green, Hasson, & Janks	24,958	New Lease

Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
977 North Broadway	Non-CBD	Pacshore Partners / LA City Employees' Retirement System	64,308	$33.75 M/$524

KEY DEVELOPMENT COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	TYPE	OWNER / DEVELOPER
433 South Spring Street/ The Trust	Non-CBD	KTGY Architecture & Planning	320,273	Renovation	Lionstone Investments
1031 South Broadway/ Western Pacific	Non-CBD	WeWork/ ModCloth	240,000	Renovation	Onni Group
1019 East 4th Place/ Maxwell	Non-CBD	WeWork	61,201	Renovation	Hudson Pacific Properties
1004 East 4th Place/ Maxwell	Non-CBD	WeWork	41,715	Construction	Hudson Pacific Properties

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