

Overview

The Greater Los Angeles office market slowed substantially in the first quarter of 2018 with a significant increase in negative net absorption, as more space came on the market than was leased. New job creation continued to slow amid a tight unemployment rate and fewer new white-collar jobs suggests a continued reduction in new requirements for office space. The outlook for the coming year suggests a continuation of slow to moderate growth for the Greater Los Angeles office market.

Absorption

Net absorption for the Greater Los Angeles office market was negative (1,072,566) square feet in the first quarter 2018, compared to a positive 731,735 square feet in the fourth quarter 2017. The Class-A office market recorded net absorption of negative (511,039) square feet, Class-B was negative (443,286) square feet, and Class-C was negative (118,241) square feet.

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Antelope Valley	375	4,188,586	514,143	12.3%	-49,452	0	\$1.68
Burbank/Glendale/Pasadena	3,123	56,368,249	4,880,080	8.7%	-211,693	224,720	\$2.76
Downtown Los Angeles	733	72,266,548	9,478,139	13.1%	-266,080	1,618,424	\$3.10
Mid-Cities	1,083	10,972,203	826,544	7.5%	46,098	2,580	\$2.14
Mid-Wilshire	1,644	41,222,910	4,748,956	11.5%	-115,866	487,418	\$3.19
San Fernando Valley	1,506	36,154,677	3,421,265	9.5%	-92,220	358,963	\$2.39
San Gabriel Valley	2,046	30,502,595	2,768,553	9.1%	-47,913	87,200	\$2.14
Santa Clarita Valley	223	4,918,189	512,060	10.4%	85,970	37,000	\$2.52
South Bay	2,613	66,124,700	7,868,588	11.9%	-491,232	828,532	\$2.48
Southeast Los Angeles	641	8,793,807	481,999	5.5%	58,276	77,250	\$1.95
Ventura North	821	8,347,354	842,975	10.1%	-6,522	0	\$1.85
Ventura South	802	14,904,447	1,803,637	12.1%	-177,186	25,000	\$2.16
West Los Angeles	2,871	85,079,463	9,032,348	10.6%	195,411	1,619,034	\$4.23
Totals	18,481	439,843,728	47,179,287	10.7%	-1,072,409	5,366,121	\$2.93

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 10.7% at the end of the first quarter 2018, and was down slightly from the 11.0% rate recorded a year ago. The Downtown Los Angeles submarket had the region's highest vacancy rate of 13.1%, followed by the Antelope Valley submarket at 12.3% and the Ventura South submarket at 12.1%. The Southeast Los Angeles submarket had the lowest vacancy rate at 5.5%, followed by the Mid-Cities submarket at 7.5% and the Burbank/Glendale/Pasadena submarket at 8.7%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.93 per square foot at the end of the first quarter 2018 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.20 at the end of the first quarter, while Class-B rates stood at \$2.67, and Class-C rates at \$2.52. The West Los Angeles submarket had the highest asking rate of \$4.23 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.68 per square foot.

Construction

During the first quarter 2018, eleven buildings totaling 700,850 square feet were completed in the Greater Los Angeles market and there were 5,366,121 square feet of office space under construction. The largest projects underway were 801 Broadway, a 955,561-square-foot building with 0% of its space pre-leased, and ROW DTLA/757 S. Alameda Building III, a 425,131-square foot building with 100% of its space pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
2310 E. El Segundo Blvd., El Segundo	The Aerospace Corporation (renewal)	219,300
1050 S. Prairie Street, Hollywood Park	NFL Media HQ	200,000
990 W. 190th Street, Torrance	Herbalife International of America (renewal)	139,746
8777 Washington Blvd., Culver City	Apple	130,000
6922 Hollywood Blvd., Hollywood	Trailer Park (renewal/expansion)	103,000
924 Overland Ct., San Dimas	QTC Management, Inc.	98,505

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the fourth quarter 2017 in terms of dollar volume compared to the third quarter 2017. In the fourth quarter, 53 office transactions closed with a total volume of \$2,067,675,000. The 53 buildings totaled 5,750,384 square feet and the average price equated to \$359.57 per square foot. That compares to 46 transactions totaling \$1,369,640,500 in the third quarter 2017. Cap rates have been higher in 2017, averaging 5.67% compared to the same period in 2016 when they averaged 5.47%. The largest transaction that occurred within the fourth quarter 2017 was the portfolio sale by General Motors Pension Trust, of three buildings located at 100, 200 and 222 N. Sepulveda Blvd. in El Segundo, to Starwood Capital Group. The sale of these buildings containing 1,588,089 square feet took place on 10/4/2017 for \$605,454,000, or approximately \$381.25 per square foot.



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