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Established 1995

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# Office Market Update Greater Los Angeles

SECOND QUARTER 2017

## Overview

The Greater Los Angeles office market rebounded in the second quarter of 2017 after posting some pretty negative results in the first quarter, when many businesses took a wait-and-see approach. Employment among Los Angeles-area companies was again in a growth mode in the second quarter, prompting expansions that absorbed empty office space and pushed rents up a bit. Entertainment related firms, including the online media and technology sectors, continued to be the driving force behind most of the expansions.

## Absorption

Net absorption for the Greater Los Angeles office market was positive 571,782 square feet in the second quarter 2017, compared to a negative (1,176,434) square feet in the first quarter 2017. The Class-A office market recorded net absorption of positive 440,840 square feet, Class-B was positive 272,643 square feet, and Class-C was negative (141,701) square feet.

## Los Angeles Office Market Snapshot

| Market                    | # Buildings   | Total RBA<br>SF    | Total<br>Vacancy SF | Vacancy<br>Rate | YTD Net<br>Absorption | Under<br>Construction | Quoted<br>Rates |
|---------------------------|---------------|--------------------|---------------------|-----------------|-----------------------|-----------------------|-----------------|
| Antelope Valley           | 373           | 4,150,102          | 501,128             | 12.1%           | 14,201                | 0                     | \$1.73          |
| Burbank/Glendale/Pasadena | 3,098         | 56,033,908         | 4,425,674           | 7.9%            | -22,621               | 251,680               | \$2.61          |
| Downtown Los Angeles      | 711           | 70,754,664         | 9,157,927           | 12.9%           | -151,658              | 2,261,737             | \$3.09          |
| Mid-Cities                | 1,057         | 10,676,096         | 1,175,439           | 11.0%           | -28,694               | 0                     | \$2.13          |
| Mid-Wilshire              | 1,626         | 40,947,003         | 4,916,545           | 12.0%           | -27,468               | 500,874               | \$3.11          |
| San Fernando Valley       | 1,491         | 36,134,183         | 3,502,155           | 9.7%            | 142,229               | 0                     | \$2.33          |
| San Gabriel Valley        | 2,036         | 30,517,492         | 2,614,203           | 8.6%            | -33,984               | 82,599                | \$2.05          |
| Santa Clarita Valley      | 215           | 4,769,708          | 507,102             | 10.6%           | -8,910                | 140,014               | \$2.48          |
| South Bay                 | 2,550         | 65,050,205         | 7,643,510           | 11.8%           | 180,395               | 1,030,027             | \$2.39          |
| Southeast Los Angeles     | 628           | 8,703,101          | 506,938             | 5.8%            | 55,207                | 88,590                | \$1.83          |
| Ventura North             | 826           | 8,319,759          | 1,041,882           | 12.5%           | -105,107              | 0                     | \$1.81          |
| Ventura South             | 798           | 14,564,182         | 1,788,976           | 12.3%           | -71,478               | 0                     | \$2.11          |
| West Los Angeles          | 2,794         | 83,929,281         | 9,209,698           | 11.0%           | -546,764              | 1,518,799             | \$4.12          |
| <b>Totals</b>             | <b>18,203</b> | <b>434,549,684</b> | <b>46,991,177</b>   | <b>10.8%</b>    | <b>-604,652</b>       | <b>5,874,320</b>      | <b>\$2.85</b>   |

## Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased to 10.8% at the end of the second quarter 2017, and was up slightly from the 10.6% rate recorded a year ago. The Downtown Los Angeles submarket had the region's highest vacancy rate of 12.9%, followed by the Ventura North submarket at 12.5% and the Ventura South submarket at 12.3%. The Southeast Los Angeles submarket had the lowest vacancy rate at 5.8%, followed by the Burbank/Glendale/Pasadena submarket at 7.9% and the San Gabriel Valley submarket at 8.6%.

## Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.85 per square foot at the end of the second quarter 2017 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.16 at the end of the second quarter, while Class-B rates stood at \$2.55, and Class-C rates at \$2.40. The West Los Angeles submarket had the highest asking rate of \$4.12 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.73 per square foot.

## Construction

During the second quarter 2017, eight buildings totaling 370,879 square feet were completed in the Greater Los Angeles market and there were 5,874,320 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      |
|--|----------------------------|---------|
| 8777 Washington Blvd., Culver City       | HBO                        | 128,000 |
| 12200 W. Olympic Blvd., West Los Angeles | Riot Games (expansion)     | 79,000  |
| 633 W. 5th Street, Greater Downtown LA   | Marsh & McLennon Companies | 71,094  |
| 1601 N. Vine Street, Hollywood           | WeWork                     | 64,782  |
| 2401 Colorado Ave., Santa Monica         | Edmonds.com (expansion)    | 62,558  |
| 3000 Alameda Ave., Burbank               | Blizzard Entertainment     | 54,010  |

## Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2017 in terms of dollar volume compared to the fourth quarter 2016. In the first quarter, 53 office transactions closed with a total volume of \$1,299,686,000. The 53 buildings totaled 4,741,224 square feet and the average price equated to \$274.12 per square foot. That compares to 47 transactions totaling \$2,582,476,655 in the fourth quarter 2016. Cap rates have been higher in 2017, averaging 5.96% compared to the same period in 2016 when they averaged 5.74%. The largest transaction that occurred within the first quarter 2017 was the sale by PGIM Real Estate, of the Glendale Plaza Building at 655 N. Central Ave. in Glendale, to DivcoWest. The sale of this building containing 547,302 square feet took place on 3/1/2017 for \$179,000,000 or approximately \$327.06 per square foot.



PROVIDING OFFICE TENANTS WITH EXPERT SOLUTIONS



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