



Overview

The Greater Los Angeles office market improved substantially in the second quarter of 2018 with a significant increase in positive net absorption, as most office markets have stabilized. New job creation accelerated during the second quarter and the unemployment rate in May dropped to 4.4% in Los Angeles County. The investment market in the Greater Los Angeles area was meager compared to recent historical standards. Few large buildings were available, but smaller deals still closed. The availability of abundant debt capital should buoy the market outlook going forward.

Absorption

Net absorption for the Greater Los Angeles office market was positive 540,140 square feet in the second quarter 2018, compared to a negative (722,348) square feet in the first quarter 2018. The Class-A office market recorded net absorption of positive 299,590 square feet, Class-B was positive 249,319 square feet, and Class-C was negative (8,769) square feet.

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Antelope Valley	376	4,194,198	388,090	9.3%	76,601	0	\$1.66
Burbank/Glendale/Pasadena	3,136	56,130,008	4,802,933	8.6%	-187,512	338,787	\$2.78
Downtown Los Angeles	740	72,482,011	9,287,923	12.8%	-64,150	1,656,385	\$3.14
Mid-Cities	1,087	10,942,657	793,036	7.2%	68,061	0	\$2.09
Mid-Wilshire	1,640	41,231,816	4,896,267	11.9%	-232,862	972,120	\$3.22
San Fernando Valley	1,507	36,149,115	3,229,740	8.9%	-92,220	344,973	\$2.40
San Gabriel Valley	2,042	30,425,202	2,533,710	8.3%	143,108	87,200	\$2.13
Santa Clarita Valley	228	4,980,596	647,710	13.0%	469	263,000	\$2.51
South Bay	2,619	65,838,341	7,595,379	11.5%	-345,437	931,582	\$2.60
Southeast Los Angeles	643	8,824,268	526,201	6.0%	89,144	0	\$1.94
Ventura North	822	8,333,690	784,665	9.4%	52,288	0	\$1.87
Ventura South	802	14,918,854	1,868,483	12.5%	-242,032	25,000	\$2.17
West Los Angeles	2,884	85,608,681	8,956,225	10.5%	427,630	1,237,185	\$4.26
Totals	18,526	440,059,437	46,310,362	10.5%	-306,912	5,856,232	\$2.96

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area dropped slightly to 10.5% at the end of the second quarter 2018, and was down slightly from the 10.8% rate recorded a year ago. The Santa Clarita Valley submarket had the region's highest vacancy rate of 13.0%, followed by the Downtown Los Angeles submarket at 12.8% and the Ventura South submarket at 12.5%. The Southeast Los Angeles submarket had the lowest vacancy rate at 6.0%, followed by the Mid-Cities submarket at 7.2% and the San Gabriel Valley submarket at 8.3%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.96 per square foot at the end of the second quarter 2018 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.27 at the end of the first quarter, while Class-B rates stood at \$2.67, and Class-C rates at \$2.53. The West Los Angeles submarket had the highest asking rate of \$4.26 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.66 per square foot.

Construction

During the second quarter 2018, eleven buildings totaling 539,343 square feet were completed in the Greater Los Angeles market and there were 5,856,232 square feet of office space under construction. The largest projects underway were 801 Broadway, a 955,561-square-foot building with 2% 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
3400 W. Riverside Drive, Burbank	Warner Brothers Studios (renewal)	415,949
One Wilshire Bldg., Downtown Los Angeles	CoreSite Realty Corp.	176,685
27918 Franklin Pky., Santa Clarita	Logix Federal Credit Union	169,998
6100 Center Drive W., Culver City	Pepperdine University (renewal)	116,278
555 Mateo Street, Downtown Los Angeles	Spotify	109,706
1 Baxter Way, Westlake Village	Amerihome Mortgage	80,671

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2018 in terms of dollar volume compared to the fourth quarter 2017. In the first quarter, 41 office transactions closed with a total volume of \$1,148,787,500. The 41 buildings totaled 3,485,789 square feet and the average price equated to \$329.56 per square foot. That compares to 53 transactions totaling \$2,081,325,000 in the fourth quarter 2017. Cap rates have been lower in 2018, averaging 5.42% compared to the same period in 2017 when they averaged 5.96%. The largest transaction that occurred within the first quarter 2018 was the sale by Lincoln Property Company of the Wedbush Center Building located at 1000 Wilshire Blvd. in Downtown Los Angeles, to Cerberus Capital Management LP. The sale of this building containing 476,491 square feet took place on 2/27/2018 for \$196,000,000, or approximately \$411.34 per square foot.



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Local Offices

Santa Clarita Valley
28338 Constellation Road
Suite 950
Valencia, CA 91355
(661) 702-8880

Los Angeles
545 S. Figueroa Street
12th Floor
Los Angeles, CA 90071
(213) 627-3338

Orange County
4041 MacArthur Boulevard
Suite 120
Newport Beach, CA 92660
(949) 650-5899

Duane Cody – Senior Director
Southern California Operations
(661) 702-8880
dcody@raginc.com

Prepared by:
Realty Advisory Group, Inc.
28338 Constellation Road, Suite 950
Valencia, CA 91355
Tel: (661) 702-8880
www.raginc.com



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