

Overview

The Greater Los Angeles office market showed continued strength in the fourth quarter of 2017 despite a significant drop in net absorption, as more space came on the market than was leased. New job creation is slowing amid a tight unemployment rate and fewer new white-collar jobs suggests a reduction in new requirements for office space. Moderate, albeit slower, growth for the Greater Los Angeles office market is expected in the coming year as several big move-ins are being offset by several large move-outs.

Absorption

Net absorption for the Greater Los Angeles office market was positive 317,157 square feet in the fourth quarter 2017, compared to a positive 973,125 square feet in the third quarter 2017. The Class-A office market recorded net absorption of negative (41,314) square feet, Class-B was positive 349,372 square feet, and Class-C was positive 9,099 square feet.

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Antelope Valley	373	4,188,877	464,613	11.1%	39,387	0	\$1.75
Burbank/Glendale/Pasadena	3,114	56,355,322	4,701,408	8.3%	-202,620	229,467	\$2.75
Downtown Los Angeles	724	71,869,411	9,260,451	12.9%	310,254	1,784,448	\$3.11
Mid-Cities	1,073	10,840,043	859,491	7.9%	-1,396	0	\$2.18
Mid-Wilshire	1,637	41,101,878	4,727,742	11.5%	245,685	493,231	\$3.14
San Fernando Valley	1,502	36,262,269	3,419,635	9.4%	268,953	358,963	\$2.37
San Gabriel Valley	2,042	30,481,958	2,534,167	8.3%	33,746	87,000	\$2.11
Santa Clarita Valley	216	4,762,040	488,900	10.3%	19,591	133,115	\$2.51
South Bay	2,594	65,480,142	7,270,567	11.1%	630,187	894,695	\$2.43
Southeast Los Angeles	637	8,768,524	545,285	6.2%	21,410	77,250	\$1.88
Ventura North	827	8,389,998	1,030,661	12.3%	-91,886	0	\$1.79
Ventura South	800	14,658,363	1,720,106	11.7%	-24,073	25,000	\$2.14
West Los Angeles	2,824	84,271,674	8,943,987	10.6%	25,455	1,793,241	\$4.27
Totals	18,363	437,430,499	45,967,013	10.5%	1,274,693	5,876,410	\$2.92

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased to 10.5% at the end of the fourth quarter 2017, and was up slightly from the 10.3% 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 12.3% and the Ventura South submarket at 11.7%. The Southeast Los Angeles submarket had the lowest vacancy rate at 6.2%, followed by the Mid-Cities submarket at 7.9% and the Burbank/Glendale/Pasadena and the San Gabriel Valley submarkets, both at 8.3%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.92 per square foot at the end of the fourth quarter 2017 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.22 at the end of the fourth quarter, while Class-B rates stood at \$2.64, and Class-C rates at \$2.48. The West Los Angeles submarket had the highest asking rate of \$4.27 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.75 per square foot.

Construction

During the fourth quarter 2017, ten buildings totaling 162,074 square feet were completed in the Greater Los Angeles market and there were 5,876,410 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
9336 Washington Blvd., Culver City	Amazon	280,000
333 S. Hope Street, Downtown Los Angeles	Bank of America (renewal & expansion)	218,000
4729 Alla Road, Marina Del Rey	Tesla	131,071
725 S. Figueroa Street, Downtown Los Angeles	Ernst & Young (renewal)	120,800
20770 Madrona Ave., Torrance	American Honda Finance Corp. (renewal)	102,300
8531 Fallbrook Ave., West Hills	Pharmavite	98,400

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the third quarter 2017 in terms of dollar volume compared to the second quarter 2017. In the third quarter, 46 office transactions closed with a total volume of \$1,363,340,500. The 46 buildings totaled 3,891,931 square feet and the average price equated to \$350.30 per square foot. That compares to 51 transactions totaling \$2,588,212,273 in the second quarter 2017. Cap rates have been higher in 2017, averaging 5.73% compared to the same period in 2016 when they averaged 5.57%. The largest transaction that occurred within the third quarter 2017 was the sale by The Blackstone Group LP, of the building located at 9665 Wilshire Blvd. in Beverly Hills, to Douglas Emmett Inc.. The sale of this building containing 171,114 square feet took place on 7/21/2017 for \$177,000,000, or approximately \$1,034.40 per square foot.



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