

Real Estate Market Review

# Los Angeles Office

Migration from New York, Baltimore, and Miami is driving the office job sector in Los Angeles. Consequently, workers are moving to Inland Empire and Las Vegas due to cost of living. The LA talent pool is diverse, but waning. There is a disconnect between where people live and work, and this past year of office leases continues to make this difficult.

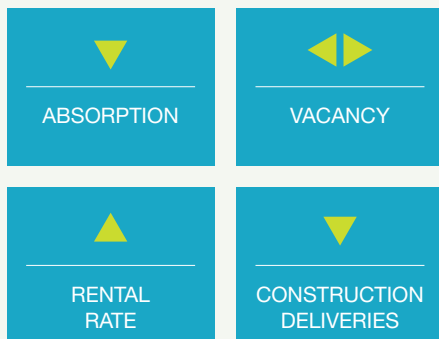
Companies that serve as the biggest drivers of the area's economy made plans to lease in neighborhoods with the most expensive quality of life. This concentration results in employees having longer commutes. While office tenants are flocking to Los Angeles to benefit from the talent pool, the talent pool is moving away, and fast. Expect to see softening demand overall as supply and demand levels begin to pan slowly in opposite directions. This shift will not disrupt the market much, nor cause major reductions. On the other hand, the peak of this cycle's development wave has arrived. Five million s.f. is expected to deliver by 2020. Supply pressure will result in vacancy rates ticking up slightly. Los Angeles can keep up with the demand, but the progress will be anxiously slow.

### Leasing Activity

Direct net absorption was negative for the quarter at 516,427 s.f. High-end Class A product experienced the biggest demand and commanded the highest average direct rents at \$3.47. Overall the average direct rental rate was \$3.19 FS. Rent growth year over year is 5.63%. Highly supplied West Los Angeles tipped the rental scale dramatically. Average direct rental rates were \$4.35 FS. Direct vacancies still sit at 10% for the market overall. A healthy normal is 10% for Los Angeles considering 368,177,716 s.f. of inventory being tracked. However, total lease transactions are down 20.38% year-over-year. Overnight, Amazon, HBO and Apple marked massive footprints in Culver City with major pre-leasing deals. Long Beach saw a healthy pre-lease period by

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### Market Forecast Trends



YEAR-TO-YEAR BASIS

### Notable 1Q 2019 Leases

- WeWork**  
112,000 s.f. for \$6.00/s.f. FS, Santa Monica  
Occupying 2Q 2019
- Lereta**  
96,365 s.f. for \$1.77/s.f. NNN, Pomona  
Occupying 3Q 2019
- Bobit Business Media**  
49,336/s.f. for \$2.25/s.f. FS  
10-year lease renewal

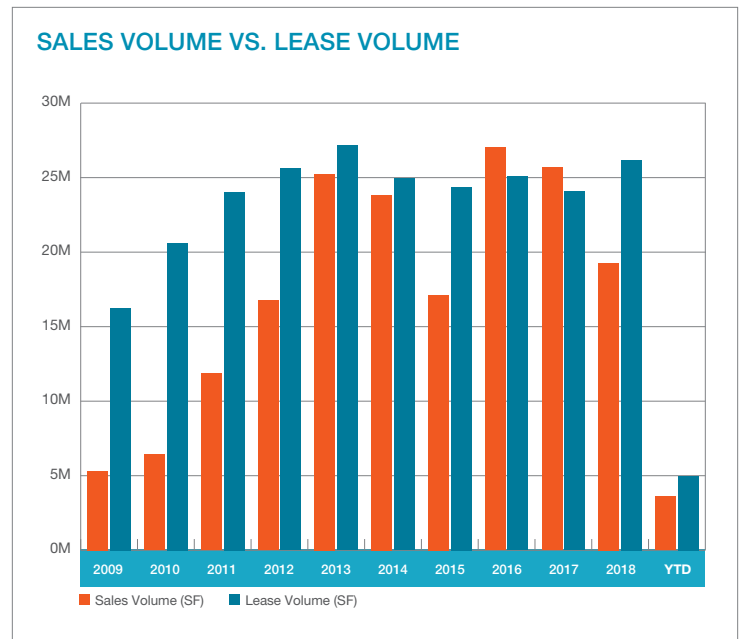
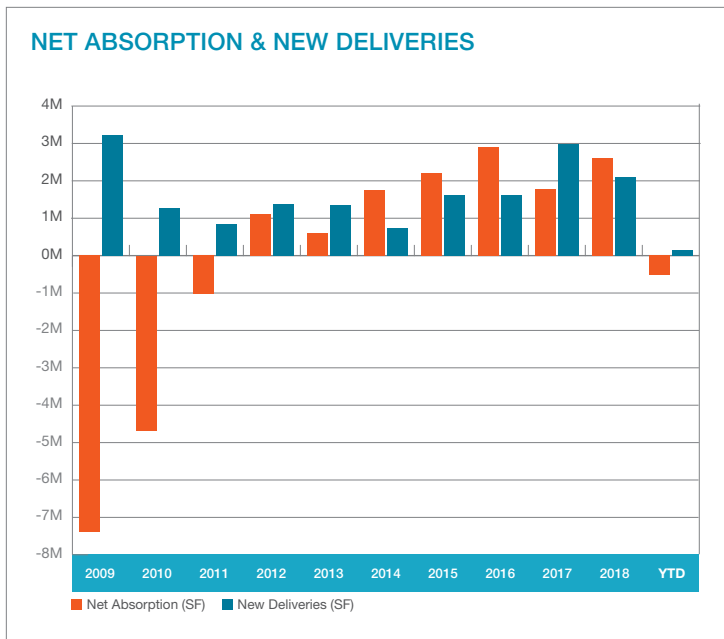
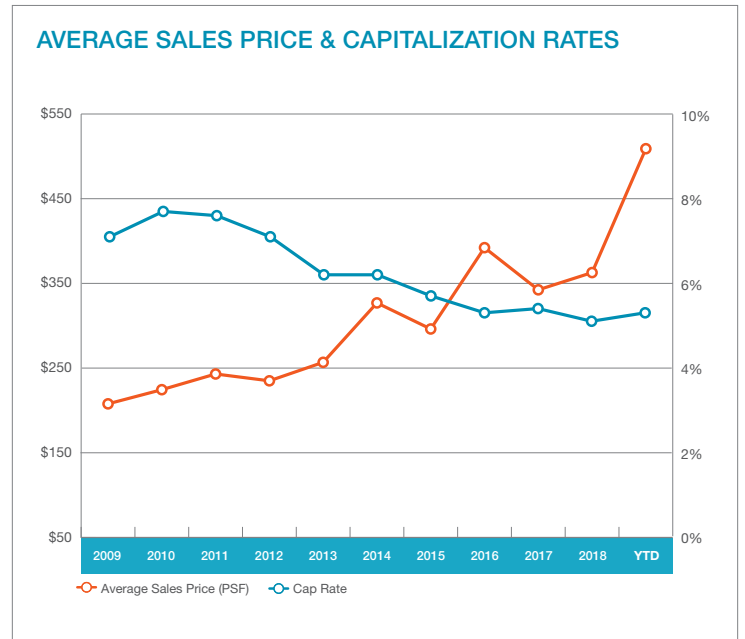
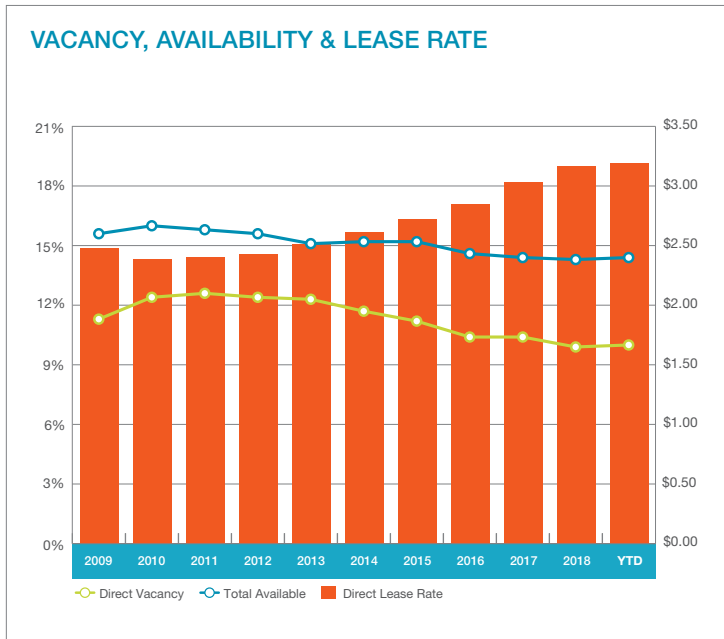
### Notable 1Q 2019 Sales

- Lantana Entertainment Media**  
2900 & 3000 W Olympic Boulevard,  
Santa Monica  
278,687 s.f. | \$321.0M or \$1,152/s.f.
- Hackman Capital Partners**  
CBS Studios, Television City  
515,532 s.f. | \$575.4M or \$1,116/s.f.
- Rockwood Capital, LLC**  
The Clock Tower, Santa Monica  
56,645 s.f. | \$58.0M or \$1,024/s.f.

## Market Breakdown

	1Q 2019	4Q 2018	1Q 2018	Annual % Change
Vacancy Rate	10.0%	9.9%	10.4%	-3.85%
Availability Rate	14.2%	14.3%	14.6%	-2.74%
Asking Lease Rate	\$3.19	\$3.13	\$3.02	5.63%
Leased SF	4,985,743	7,470,607	6,261,898	-20.38%
Sold SF	3,622,636	5,208,021	3,623,221	-0.02%
Net Absorption	(516,427)	1,188,272	(210,934)	N/A

## Los Angeles Office Charts



## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q19 Direct Net Absorption	1Q19 Leasing Activity	Average Direct Rental Rate
Burbank	12,903,385	6.9%	0.4%	7.3%	12.3%	15,301	183,410	\$3.35
Glendale	11,133,500	10.6%	0.6%	11.2%	12.2%	38,308	302,689	\$3.04
North Hollywood	2,387,306	12.5%	0.3%	12.8%	18.3%	(104,313)	40,371	\$3.11
Pasadena / Arcadia / Morovia	19,121,916	8.2%	0.4%	8.7%	12.2%	(36,756)	335,979	\$2.84
Studio/Universal Cities	3,167,958	5.0%	0.0%	5.0%	7.8%	18,629	44,554	\$3.22
<b>Tri-Cities</b>	<b>48,714,065</b>	<b>8.4%</b>	<b>0.4%</b>	<b>8.9%</b>	<b>12.3%</b>	<b>(68,831)</b>	<b>907,003</b>	<b>\$3.05</b>
<b>Downtown Los Angeles</b>	<b>62,520,703</b>	<b>14.2%</b>	<b>0.3%</b>	<b>14.5%</b>	<b>19.6%</b>	<b>(49,531)</b>	<b>520,694</b>	<b>\$3.26</b>
<b>Mid-Cities</b>	<b>9,589,756</b>	<b>9.0%</b>	<b>0.4%</b>	<b>9.3%</b>	<b>13.3%</b>	<b>11,945</b>	<b>45,137</b>	<b>\$2.30</b>
Hollywood / Silver Lake	10,829,638	6.0%	1.4%	7.4%	12.6%	(47,934)	94,613	\$4.20
Mid-Wilshire	15,278,319	13.7%	0.2%	13.9%	14.2%	(54,952)	203,446	\$2.33
Miracle Mile	5,600,120	15.3%	1.3%	16.5%	20.4%	(6,371)	25,983	\$4.17
Park Mile	1,818,647	14.7%	0.5%	15.3%	17.8%	(12,833)	0	\$3.29
West Hollywood	6,348,660	4.5%	1.1%	5.6%	8.2%	140,377	85,646	\$4.33
<b>Mid-Wilshire</b>	<b>39,875,384</b>	<b>10.4%</b>	<b>0.8%</b>	<b>11.2%</b>	<b>13.8%</b>	<b>18,287</b>	<b>409,688</b>	<b>\$3.19</b>
Eastern SFV	6,956,332	6.2%	0.6%	6.8%	9.3%	(37,213)	43,196	\$2.46
Encino	4,762,485	9.1%	0.3%	9.4%	13.5%	56,926	73,977	\$2.70
Sherman Oaks	3,564,731	8.4%	0.1%	8.6%	11.9%	(33,266)	54,896	\$2.60
Tarzana	1,590,006	6.4%	0.5%	6.9%	9.1%	(1,185)	4,405	\$2.82
Western SFV	5,922,294	9.2%	0.1%	9.3%	11.5%	(42,256)	27,608	\$2.25
Woodland Hills / Warner City	9,701,488	9.0%	0.3%	9.2%	11.8%	(11,110)	145,503	\$2.75
<b>San Fernando Valley</b>	<b>32,497,336</b>	<b>8.3%</b>	<b>0.3%</b>	<b>8.6%</b>	<b>11.3%</b>	<b>(68,104)</b>	<b>349,585</b>	<b>\$2.59</b>
<b>San Gabriel Valley</b>	<b>25,121,954</b>	<b>7.1%</b>	<b>0.2%</b>	<b>7.4%</b>	<b>8.8%</b>	<b>115,070</b>	<b>276,964</b>	<b>\$2.21</b>
<b>Santa Clarita Valley</b>	<b>4,306,287</b>	<b>10.2%</b>	<b>0.8%</b>	<b>11.0%</b>	<b>16.6%</b>	<b>(43,041)</b>	<b>56,170</b>	<b>\$2.50</b>
190th Street Corridor	5,222,483	17.4%	0.1%	17.5%	31.7%	22,557	37,730	\$2.28
Beach Cities / Palos Verdes	4,461,029	4.9%	2.7%	7.6%	11.3%	9,534	27,452	\$2.94
El Segundo	17,326,388	8.7%	1.3%	10.1%	16.3%	(29,741)	158,007	\$3.82
Hawthorne / Gardena	2,596,980	5.4%	0.0%	5.4%	5.4%	35,227	17,010	\$2.01
LAX	5,379,546	24.8%	0.2%	25.0%	27.5%	(8,923)	75,555	\$2.12
Downtown Long Beach	7,051,627	12.8%	0.4%	13.2%	14.7%	(40,928)	70,234	\$2.44
Suburban Long Beach	8,529,916	6.3%	0.1%	6.3%	12.1%	(57,487)	143,914	\$2.29
Torrance	8,124,266	8.4%	0.1%	8.5%	11.0%	(61,047)	169,536	\$2.70
<b>South Bay</b>	<b>58,692,235</b>	<b>10.6%</b>	<b>0.7%</b>	<b>11.3%</b>	<b>16.4%</b>	<b>(130,808)</b>	<b>699,438</b>	<b>\$2.84</b>
<b>Southeast Los Angeles</b>	<b>7,691,474</b>	<b>5.8%</b>	<b>0.3%</b>	<b>6.1%</b>	<b>7.4%</b>	<b>(31,055)</b>	<b>43,327</b>	<b>\$2.07</b>
<b>West Los Angeles</b>	<b>79,168,522</b>	<b>9.2%</b>	<b>1.1%</b>	<b>10.3%</b>	<b>13.4%</b>	<b>(270,359)</b>	<b>1,677,737</b>	<b>\$4.35</b>
<b>Los Angeles Total</b>	<b>368,177,716</b>	<b>10.0%</b>	<b>0.6%</b>	<b>10.6%</b>	<b>14.4%</b>	<b>(516,427)</b>	<b>4,985,743</b>	<b>\$3.19</b>
Class A	173,862,499	12.3%	0.9%	13.2%	17.3%	(324,216)	2,892,200	\$3.47
Class B	147,658,547	9.0%	0.5%	9.5%	12.8%	(141,509)	1,836,375	\$2.91
Class C	46,656,670	5.3%	0.2%	5.4%	7.8%	(50,702)	257,168	\$2.60
<b>Class Total</b>	<b>368,177,716</b>	<b>10.0%</b>	<b>0.6%</b>	<b>10.6%</b>	<b>14.4%</b>	<b>(516,427)</b>	<b>4,985,743</b>	<b>\$3.19</b>

The Port Authority and City Hall. Netflix continues to dominate Hollywood with over 1,000,000 s.f. of studio and campus space. Google is expanding footprints in Santa Monica at Westside Pavilion. HBO is relocating to a sprawling development known as Ivy Station. The company signed a 15-year deal for 240,000 s.f. from developers Lowe and Partners. This also marks an expansion from their current 128,000 s.f. space. In addition, this puts Apple, Amazon Studio, and HBO in each other's back yards. HBO will move into the building 2021.

South Bay is fundamentally driving massive growth. El Segundo remains number one in rent growth (\$3.81/s.f. FS) The allure of Silicon Beach is undeniable. The aerospace industries have plenty of options near LAX (24.7% direct vacancy). R/D and light flex buildings are some of the most attractive product in the South Bay. With low prices and abundant supply, the South Bay submarket has a strong foundation.

In addition, top production space dealmakers say things will get a little more crowded. This quarter highlights the expanding business model of original programming. Apple, Amazon, and Disney are following Netflix's lead, and this could be the beginning of a never before seen, production space frenzy. Typically, films were produced in old warehouses. However, there is hardly any industrial space for use, so other types of buildings are being used for temporary studio needs. Union guidelines

also mandate staying within a 30-mile radius of the city. This makes the search for soundstages more difficult.

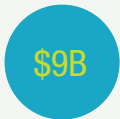
### High-Priced Transactions

Some of the most notable deals include Skydance Media's whopping \$321 million (\$1,255/s.f.) purchase of Lantana Center which they intend to occupy. Ford Factory transacted for \$195 million in March. Warner Music is the first major lease in the building, and their space is occupancy ready. In fact, the buyer is a New York firm that is a parent company of Warner. Prices this quarter are at skyrocket premiums. Santa Monica, Beverly Hills, Marina del Rey, Century City, and even Downtown all have recorded sales exceeding \$1,000/s.f. this cycle. Rates, especially for production, tech, and media space are selling and renting at incredible rates. Furthermore, some companies are building out their own space. Lin Pictures (It, The Lego Movie) is developing a 1.7-acre lot in Westlake. Amazon Studios is working with developer Hackman Capital to customize large portions of their floor plans. It is speculated that Mar Ventures and Continental Development Corp may pour cement on a 300K s.f project later this year in El Segundo. Expect this duo to emerge as leaders in the coming years. Based in El Segundo, the firms are responding to the anticipation that El Segundo will see a profitable spike in demand in the years to come.

Source: CoStar, LA Times

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#### COMMERCIAL BROKERAGE



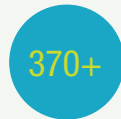
ANNUAL TRANSACTION VOLUME



ANNUAL LEASING SF



ANNUAL SALES SF



# BROKERS

#### PROPERTY MANAGEMENT

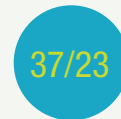


MANAGEMENT PORTFOLIO

#### VALUATION ADVISORY



ASSIGNMENTS ANNUALLY



TOTAL # APPRAISERS/MAI'S

#### Contact

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