

MARKET TRENDS | **LOS ANGELES**

OFFICE

3RD QUARTER
2019

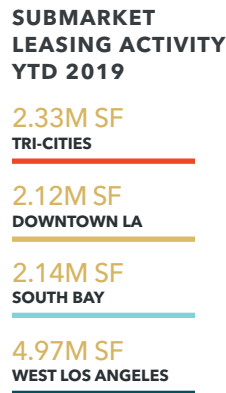
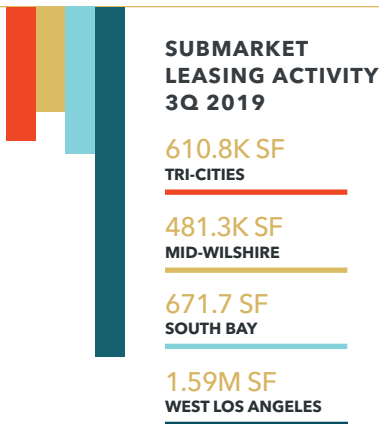
▼ **ABSORPTION** | ▼ **VACANCY** | ▲ **RENTAL RATE** | ▲ **CONSTRUCTION DELIVERIES**

Los Angeles is quickly transforming into a model live-work-play city. Most of the components are in place for many submarkets. Increasing apartment development, restaurants on every corner, crafty workplace aesthetics, and tech companies in popular districts are bustling.

In addition, vacancy continues to remain historically low at 10.4%. Sale prices are trending up and assets are trading at record highs in West Hollywood and Santa Monica. Culver City continues to attract new and innovative tenants as projected earlier this year. Absorption was favorable and paced positively alongside new deliveries. Culver City and Downtown LA lead the submarkets with robust construction activity. Owners and developers are actively making structural adjustments to attract popular brands and tenants. With the growing amount of businesses and residents in Los Angeles, the office market looks secure for many years to come.

The Arts District arts district is constantly growing and is a popular destination for creative companies. For example, Warner Music has committed to over 250,000 s.f. and is where Honey.com, TubeScience and Ghost Management have each committed to spaces over 100,000 s.f. Many believe the Downtown Los Angeles office submarket to be on the brink of a tipping point for expansive growth. For example, DTLA is a bargain for living and working when compared to Westside, Hollywood or The Beach Cities.

The average market sale price continues to move up and is currently \$429 per s.f. Office assets are trading with an average 5.3% cap. Some of the most notable deals include Healthcare Trust of America's acquisition of 2100 West 3rd St in Mid-Wilshire for \$85 million. The asset is a 147,000 s.f. medical office building, 90% occupied. Tenants include UCLA Health, Children's Hospital LA, House Ear Institute and others. In addition, 606 Venice Blvd in Venice (51,474 s.f.) traded for \$51.8 million or \$1,005 per s.f. The subject property was fully leased to Snapchat on a triple net basis with more than seven years remaining on their lease at the time of sale. Aviation Center, two buildings located at 14500 and 14550 Aviation Blvd was sold for \$34 million. The buyer Konami Digital Entertainment plans to use it for their business. 1201 North Broadway St traded for \$14.5 million or \$562 per s.f. The sale was a recapitalization. A creative office space known as Studio 1520 in Santa Monica was sold to HQ Entertainment Services. The property is fully leased (NNN) to a single tenant, General Assembly. The sales volume in Beverly Hills, West



3Q 2019 MARKET HIGHLIGHTS

CONSTRUCTION activity continues to increase with 1.3M s.f. completed YTD

VACANCY is trending down at 10.4%

SALES volume continues to increase at \$6.8B YTD

Hollywood and Santa Monica submarkets is unmatched by any other submarkets this quarter. Sales pricing has eclipsed \$700 per s.f. in those areas. On the other hand, Southeast Los Angeles and Mid Cities submarkets have tremendous room for growth as sales pricing is below \$280 per s.f. Although volume is higher than other submarkets, Santa Monica's sale volume reached \$601 million and fell short of its \$1 billion-dollar trend for the past three years. Sales volume is lower in the following submarkets where industrial activity is strong. Hawthorne and Gardena, West Los Angeles Inglewood, South LA, Beach Cities, Tarzana, Woodland Hills saw less than \$29 million in volume. In addition, Miracle Mile is picking up the pace as \$664 million transacted quarter to date which is the most volume the submarket has ever seen in over 15 years. West Hollywood (\$601M), Downtown LA (\$456M), Marina Del Ray (\$425M), El Segundo (\$389M) and Long Beach (\$350M) had the highest volume this quarter.

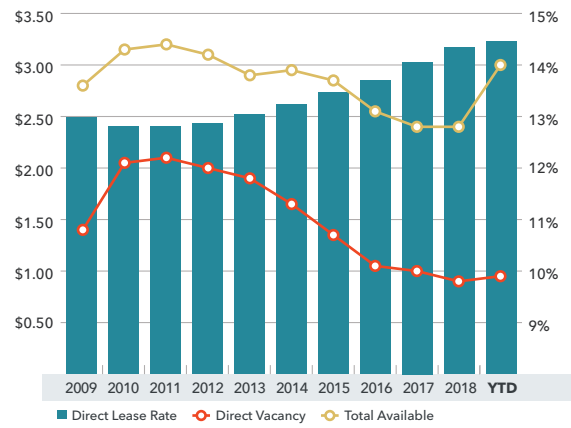
Moving on to lease transactions, Universal Music Group adds to the growing list of entertainment companies that are relocating. Universal leased 31,000 s.f. at 2041 Colorado Blvd in Santa Monica. Universal will move in during the first quarter of 2020. Spotify is moving into the arts district. The music streaming company has leased over 43,000 s.f. at 555 Mateo St. WeWork signed two additional leases. The first space (52,000 s.f.) is located at 21255 Burbank Blvd in Woodland Hills and the other space (67,583 s.f.) at 10585 Santa Monica Blvd in Westwood, where Onni Group is the landlord. In Pasadena, the L.A. Business Journal reports that coworking chain Industrious has announced plans to work with ShopCore Properties to create a new location at One Colorado. Industrious, which earlier this year signed a lease for a location in Downtown Los Angeles, expects to open its 27,000 s.f. Pasadena space in the third quarter of 2020. Credit Karma breaks into Culver City with 18,500 s.f. leased for seven years. This is a move out of a small office in Venice. As mentioned last quarter, the newer tech companies are opting for locations that provide room for expansion and are more creative than traditional office buildings. The Journal also reports that Home Box Office Inc. (HBO) has leased the entire 240,000 s.f. office building at Ivy Station, a large-scale mixed-use development.

Vacancies remain at historically healthy levels of 10.4% this quarter. Absorption trails positive at 883,468 s.f. This is an upward pace compared to 1,382,745 s.f. in deliveries. However, this positive trend is expected to slow over the next five years. Rents are pacing upwards and spaces were on market for an average of 8 months. This represents a two-month positive decline since second quarter's (2019) average of 10 months. In fact, this is the lowest months on market in the past 10 years. The average asking lease rate was \$3.23 per s.f. on a full-service gross basis per month, a 4.19% increase from a year prior when rates averaged \$3.10 per s.f. Class A office space averaged \$3.54 s.f. while Class B and C averaged \$2.91 and \$2.58, respectively

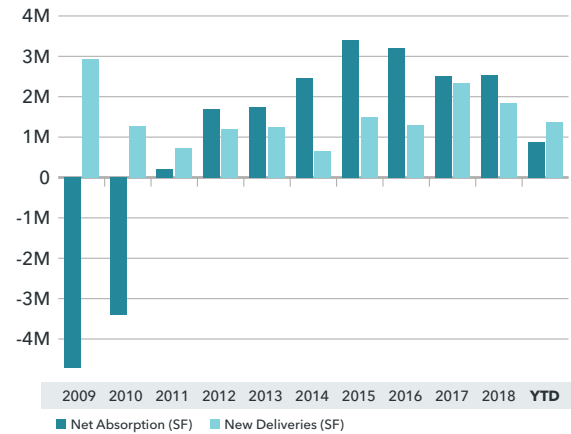
Construction activity in the office market continues to increase with 1.3 million s.f. completed year to date. To note, this summer saw several large projects complete in Long Beach. The Long Beach Civic Center and new Port of Long Beach office headquarters delivered, adding over 500,000 s.f. of new space to the submarket. Additionally, the Culver Steps project by Hackman Capital Partners in Downtown Culver City finished this August. Amazon Studios moved into the entire 70,000- s.f. office portion. The largest speculative project underway in Los Angeles is the Broadway Trade Center conversion. The former May & Company Department Store in DTLA is a 1.1-million-SF project is expected to complete early 2020.

Sources: AHCA, NESMH, Costar, Urbanize LA, California Department of Labor, GlobeSt.com, Allwork.space, LA Business Journal

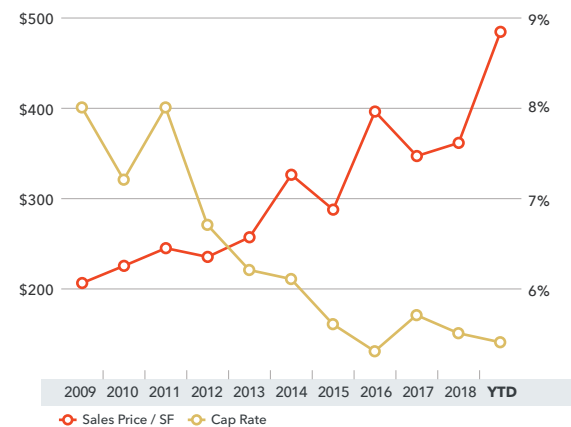
LEASE RATE, VACANCY & AVAILABILITY



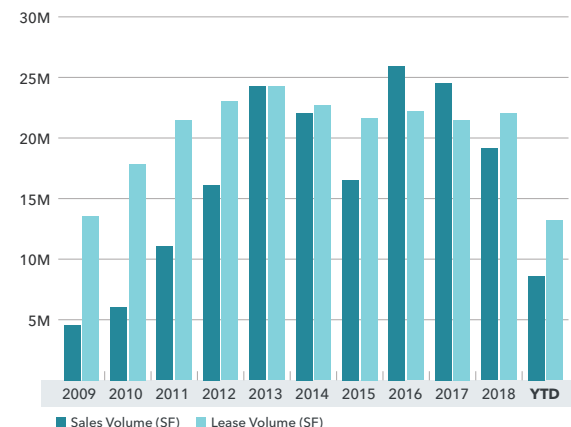
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES



SALES VOLUME VS. LEASE VOLUME

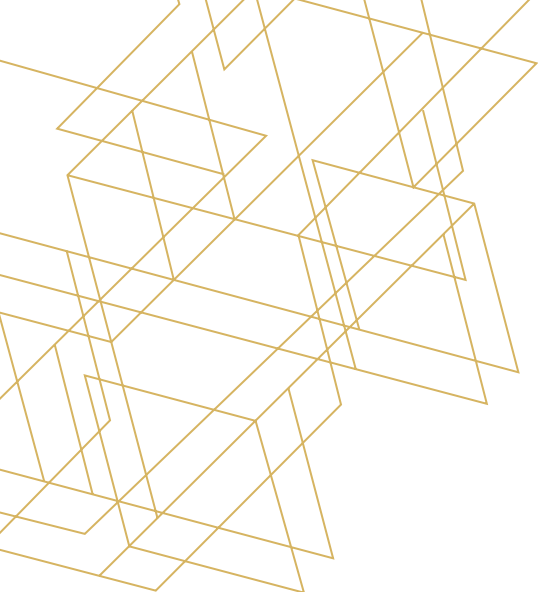


LOS ANGELES SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	3Q Leasing Activity	YTD Leasing Activity	Rental Rate
Burbank	12,863,945	5.5%	1.2%	6.7%	10.0%	26,579	189,517	266,141	816,229	\$3.37
Glendale	11,040,652	9.6%	0.7%	10.3%	13.8%	130,127	91,851	138,742	558,037	\$3.10
North Hollywood	2,311,455	9.3%	0.1%	9.5%	18.3%	6,202	(50,187)	20,314	85,016	\$3.35
Pasadena/Arcadia/Morovia	16,200,184	10.6%	0.3%	10.8%	16.1%	(364,424)	(403,945)	158,154	713,388	\$2.98
Studio/Universal Cities	3,444,958	5.3%	0.0%	5.3%	7.0%	29,814	71,560	27,487	154,354	\$3.12
Tri-Cities	45,861,194	8.8%	0.6%	9.4%	13.0%	(171,702)	(101,204)	610,838	2,327,024	\$3.18
Downtown Los Angeles	63,452,260	13.5%	0.3%	13.8%	18.0%	(213,229)	194,394	447,313	2,116,141	\$3.13
Mid-Cities	9,667,639	8.5%	0.4%	8.9%	12.3%	33,554	19,209	57,090	206,342	\$2.37
Hollywood/Silver Lake	2,732,966	4.2%	0.3%	4.5%	9.3%	105,364	78,781	14,193	117,209	\$2.93
Mid-Wilshire	15,244,339	13.0%	0.4%	13.5%	14.4%	85,536	41,580	35,882	237,785	\$2.41
Miracle Mile	5,600,224	15.4%	1.3%	16.7%	15.7%	5,796	(14,349)	381,682	497,940	\$4.19
Park Mile	1,807,822	18.9%	0.8%	19.7%	26.7%	12,142	(86,108)	3,063	24,380	\$3.38
West Hollywood	6,874,923	5.3%	0.6%	5.9%	8.7%	(62,809)	110,724	46,456	241,399	\$4.56
Mid-Wilshire	32,260,274	11.4%	0.6%	12.0%	13.7%	146,029	130,628	481,276	1,118,713	\$3.09
Eastern SFV	5,340,228	6.0%	0.1%	6.0%	7.8%	(6,500)	(76,251)	13,952	118,622	\$2.46
Encino	4,771,569	7.9%	0.3%	8.2%	14.5%	75,077	113,074	76,754	282,735	\$2.73
Sherman Oaks	3,538,681	9.2%	0.2%	9.4%	13.7%	(16,187)	(56,367)	42,340	179,509	\$2.76
Tarzana	1,559,480	8.3%	0.1%	8.4%	15.5%	6,103	(29,671)	38,170	63,946	\$3.12
Western SFV	7,416,630	9.8%	0.1%	9.9%	11.7%	(30,596)	(103,061)	79,340	144,193	\$2.36
Woodland Hills/Warner Cit	9,725,197	9.7%	0.2%	9.9%	11.0%	(71,484)	(81,885)	181,038	469,131	\$2.41
San Fernando Valley	32,351,785	8.4%	0.2%	8.6%	11.7%	(43,587)	(234,161)	431,594	1,258,136	\$2.33
San Gabriel Valley	28,392,480	7.3%	0.1%	7.4%	8.9%	(31,424)	80,735	112,555	676,346	\$2.33
190th Street Corridor	5,224,144	17.4%	0.4%	17.7%	30.3%	25,061	51,018	116,190	286,017	\$2.36
Beach Cities/Palos Verdes	4,423,770	5.6%	2.7%	8.3%	12.5%	(17,234)	(18,943)	17,285	67,750	\$3.16
El Segundo	17,484,896	10.8%	1.0%	11.7%	15.4%	(19,612)	(298,562)	285,313	803,786	\$4.02
Hawthorne/Gardena	2,094,779	7.9%	0.0%	7.9%	8.5%	(12,239)	(6,611)	1,720	14,713	\$1.89
LAX	3,999,169	29.1%	0.0%	29.1%	22.7%	(24,647)	(41,551)	17,372	164,294	\$2.26
Downtown Long Beach	7,570,003	10.2%	0.3%	10.5%	14.6%	569,508	538,342	52,446	200,245	\$2.40
Suburban Long Beach	8,520,288	7.6%	0.0%	7.6%	14.9%	(162,890)	(179,199)	102,722	299,630	\$2.39
Torrance	8,134,814	8.0%	0.1%	8.1%	11.5%	(55,315)	(28,307)	78,709	305,885	\$2.76
South Bay	57,451,863	11.2%	0.6%	11.8%	16.1%	302,632	16,187	1,233,199	1,233,199	\$1.05
Southeast Los Angeles	7,742,019	6.3%	0.3%	6.6%	7.5%	(38,724)	(100,746)	59,372	141,934	\$2.10
West Los Angeles	78,331,710	8.0%	1.1%	9.2%	13.2%	483,841	878,426	1,595,486	4,965,763	\$3.49
Class A	171,186,100	11.5%	0.9%	12.4%	16.4%	1,101,408	1,816,651	2,924,724	9,044,890	\$3.54
Class B	140,367,177	9.2%	0.3%	9.5%	13.0%	(456,115)	(570,225)	1,353,268	5,146,496	\$2.91
Class C	43,957,947	5.5%	0.2%	5.7%	7.3%	(177,903)	(362,958)	189,289	761,333	\$2.58
Los Angeles Total	355,511,224	9.9%	0.6%	10.4%	14.0%	467,390	883,468	4,467,281	14,952,719	\$3.23

Market Breakdown

	3Q 2019	2Q 2019	3Q 2018	Annual % Change
Vacancy Rate	9.9%	9.7%	10.0%	-1.00%
Availability Rate	14.0%	14.0%	14.4%	-2.78%
Asking Lease Rate	\$3.23	\$3.20	\$3.10	4.19%
Leased SF	4,467,281	4,609,335	5,132,342	-12.96%
Sold SF	1,874,859	3,706,821	5,182,987	-63.83%
Net Absorption	883,468	894,259	742,312	N/A



Notable Sale Transactions

HEALTHCARE TRUST OF AMERICA 2100 W 3rd St, Mid-Wilshire
147,078 s.f. | \$85M or \$577.92/s.f.

REM FINANCE 606-654 Venice Blvd, Venice
51,474 s.f. | \$51.75M or \$1,005.36/s.f.

BWAY 1201 N Broadway St, Downtown Los Angeles
25,700 s.f. | \$14.45M or \$562.26/s.f.

Notable Lease Transactions

KITE PHARMA 2701 Olympic Blvd, Santa Monica
87,000 s.f.

SAATCHI AND SAATCHI 555 S Aviation Blvd, El Segundo
80,000 s.f.

WEWORK 10585 Santa Monica Blvd, Los Angeles
67,583 s.f.



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The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	36/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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