



# FIRST QUARTER 2016 GREATER LOS ANGELES OFFICE

**Voit**  
REAL ESTATE SERVICES

## MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

DOWN



To view available properties or electronic versions of current or past market reports, please visit:

[www.voitco.com](http://www.voitco.com)

Prepared by:

**Tony Tran**  
Market Research Analyst  
e-mail: [ttran@voitco.com](mailto:ttran@voitco.com)  
VOIT Real Estate Services

## HIGHLIGHTS

- **Steady Growth** - Job growth in Los Angeles County over the past several years has exceeded the national average. Vacancies have decreased significantly from their level at the peak of the recession and remain at around 12%. Creative tenants are driving expansion. Conversions could amount to more than a million square feet of office space per year over each of the next several years, as they can respond more quickly to demand than ground-up construction.
- **Construction** - Generally speaking, rents remain too low to support speculative development in much of LA, but they may be high enough to support conversions. Downtown, West LA, and Hollywood are focusing on conversions. Total space under construction in the Los Angeles office market came in at 2.83 million square feet at the end of quarter, mostly class A space. Construction levels have not been this high since the second quarter of 2014.
- **Vacancy** - Direct / sublease space (unoccupied) finished the year at 12.23%, a 3.78% decrease from last year. There is significant vacant tower space in submarkets like Greater Downtown, El Segundo, and West Hollywood. These vacancy levels will limit construction in the near term in many submarkets.
- **Availability** - Direct / sublease space being marketed in the Los Angeles office market was at 16.68% at the end of the first quarter, up 13 basis points from the previous quarter and 0.54% lower than 2015's first quarter rate of 16.77%.
- **Lease Rates** - Rent growth has returned to the LA office market, bolstered primarily by West LA. The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.73 at the end of the quarter, up seven cents from the previous quarter and twenty-two cents higher than the same quarter last year. This is an indication that lease rates are on the rise again. Class A asking rates for the county averaged \$2.90 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$4.16 FSG.
- **Absorption** - The submarkets with the strongest absorption over the past year are those that cater to the entertainment, tech,

wealth management, and healthcare industries in West LA. The Los Angeles office market posted 628,164 square feet of positive net absorption for Q1 2016, giving the Los Angeles office market a total of over 2.97 million square feet of absorption for the past five quarters.

- **Transaction Activity** - The market's high cost structure and rigid labor laws have hampered its ability to compete in many office-using industries. However, entertainment is still one industry where the market reigns supreme, and the metro's skill set is high enough to justify the costs and headaches of doing business here. Leasing activity checked in at over 3.9 million square feet for the quarter, combined, sales and lease transactions for the quarter hit 10.2 million square feet, which is a increase from the previous year's combined transactional sum of 7.7 million square feet.
- **Employment** - The unemployment rate in Los Angeles County declined to 5.6% in February 2016, down from a revised 5.8% in January 2016 and below the previous year's estimate of 7.5%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.9% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 107,300 payroll jobs from February 2015 to February 2016. The second largest increase was in information services (up 13,200), primarily from motion picture and sound recording. Employment in professional and business services was up by 7,100 jobs with the bulk of the job additions in accounting, tax preparation and bookkeeping services (up 4,500).
- **Overall** - Look for strong momentum in the Los Angeles office market to carry through 2016. A stretch of decent job growth has translated into good leasing momentum and a notable reduction in vacancies. The West LA submarket in particular has benefited, especially for properties catering to the media, technology, and diverse creative industries. Supply in the form of conversions and redevelopments is ramping up in response, but supply growth is not pervasive enough to threaten the recovery.

## FORECAST

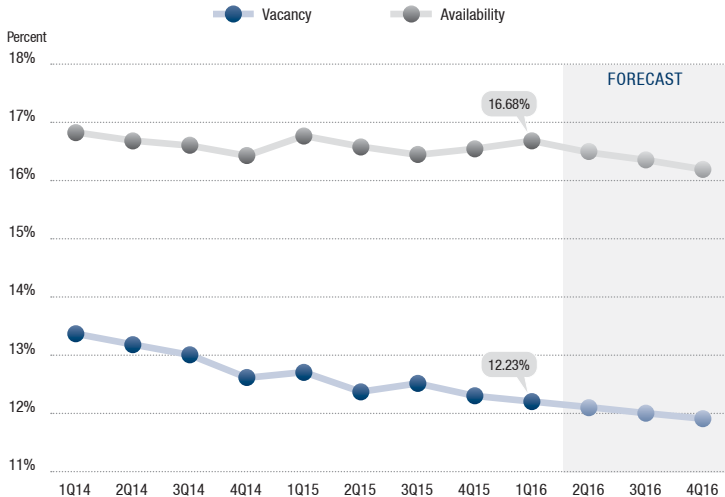
- **Construction** - Creative office is difficult to define, but it generally involves open layouts, high ceilings, unconventional amenities, and a work environment that cannot be easily duplicated in existing high-rise and mid-rise buildings. Downtown, Waterbridge Capital is transforming the Broadway Trade Center into more than 600,000 SF of office space, while Shorestein's Ford manufacturing plant conversion is scheduled to deliver 270,000 SF of offices near the Arts District in the first half of this year.
- **Employment** - Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2016 and 2017, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations.
- **Lease Rates** - Rent growth has returned to Los Angeles—expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 33 basis points, to below 12%, by the fourth quarter of 2016.

## OVERVIEW

	1Q16	4Q15	1Q15	% of Change vs. 1Q15
Total Vacancy Rate	12.23%	12.29%	12.71%	(3.78%)
Availability Rate	16.68%	16.55%	16.77%	(0.54%)
Average Asking Lease Rate	\$2.73	\$2.66	\$2.51	8.76%
Sale & Lease Transactions	10,283,451	9,455,463	7,765,491	32.42%
Gross Absorption	5,031,250	5,094,913	4,169,949	20.65%
Net Absorption	628,164	1,168,197	(92,994)	N/A

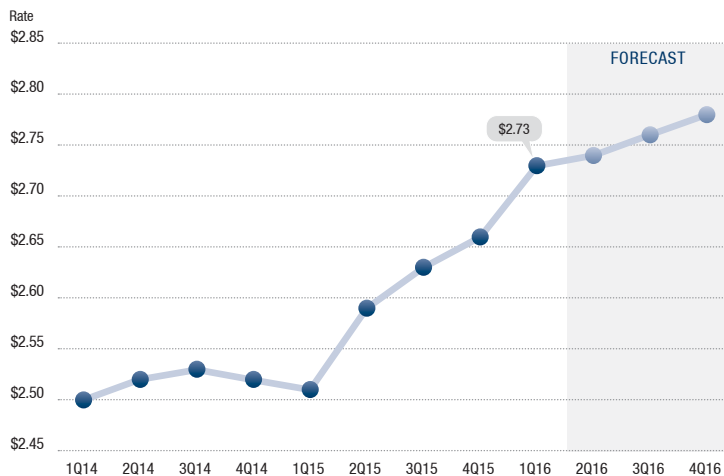
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



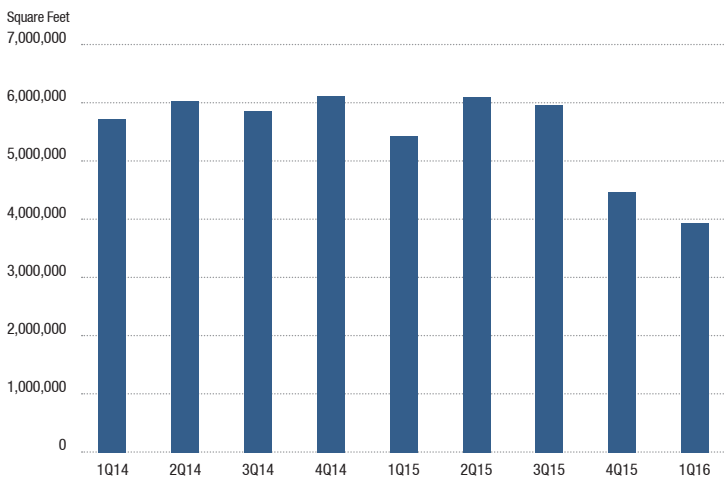
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



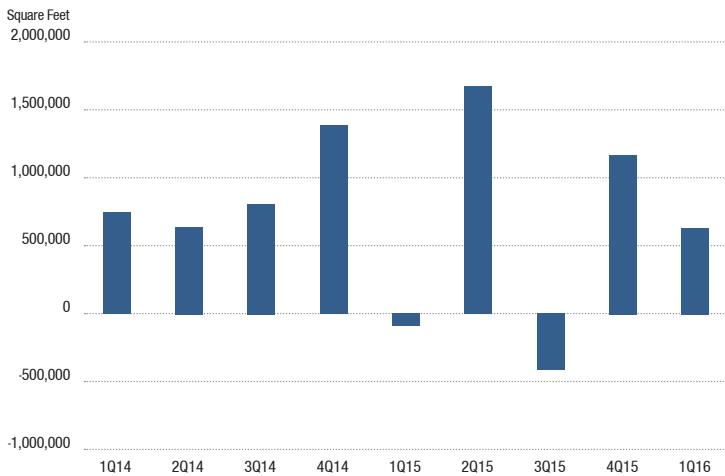
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



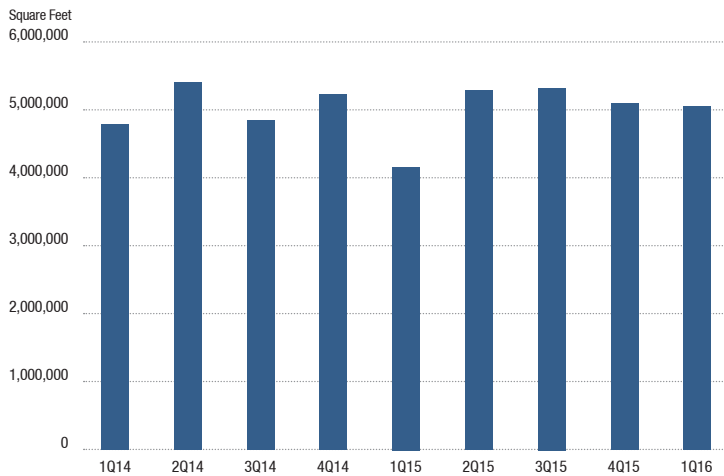
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



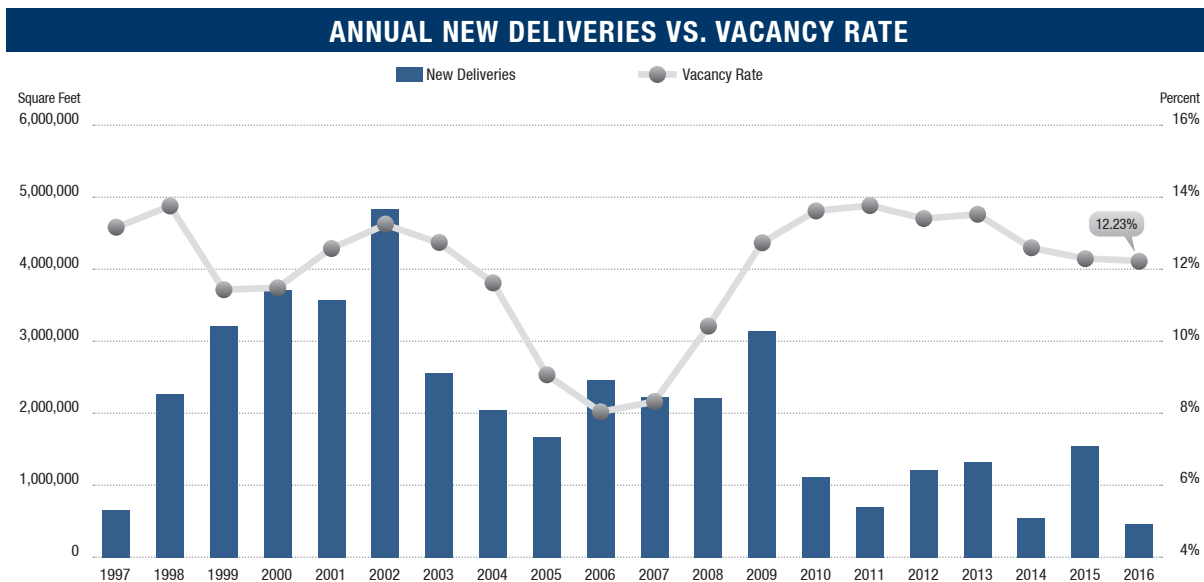
GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2016	Square Feet Available	Availability Rate 1Q2016	Average Asking Lease Rate	Net Absorption 1Q2016	Net Absorption 2015	Gross Absorption 1Q2016	Gross Absorption 2015
<b>Los Angeles Market Total</b>													
Antelope Valley	30	1,538,582	0	120,000	269,840	17.54%	306,515	19.92%	\$1.45	3,043	(40,971)	19,659	6,766
Burbank / Glendale / Pasadena	425	39,250,961	188,760	2,174,736	4,075,758	10.38%	5,710,157	14.55%	\$2.80	188,919	432,776	595,558	2,304,624
Downtown	304	64,687,702	1,178,018	2,381,728	7,115,370	11.00%	9,900,843	15.31%	\$3.05	196,777	255,577	758,221	2,612,103
Mid-Cities	77	4,807,999	0	92,755	473,176	9.84%	1,021,254	21.24%	\$2.28	(17,104)	(110,924)	41,293	367,816
Mid-Wilshire	306	30,654,158	515,897	907,204	4,783,296	15.60%	5,837,495	19.04%	\$2.96	175,624	211,831	480,718	1,468,543
San Fernando Valley	343	27,136,474	117,978	744,831	3,430,628	12.64%	4,288,298	15.80%	\$2.24	133,141	19,224	735,459	2,189,727
San Gabriel Valley	297	19,224,122	61,760	945,922	2,206,406	11.48%	3,139,876	16.33%	\$2.19	21,983	143,109	137,270	1,019,545
Santa Clarita Valley	58	3,595,054	0	1,396,819	483,696	13.45%	550,676	15.32%	\$2.29	4,529	(8,687)	40,004	139,665
South Bay	510	50,709,413	96,671	178,913	7,383,372	14.56%	9,742,540	19.21%	\$2.20	207,035	441,904	888,763	2,563,671
Southeast LA	87	5,497,124	0	77,250	417,729	7.60%	628,793	11.44%	\$2.03	467	8,601	41,898	158,512
Ventura North	67	3,935,834	0	147,034	841,323	21.38%	1,336,709	33.96%	\$1.78	(79,491)	(380,553)	18,005	213,972
Ventura South	246	15,866,841	120,933	177,152	2,256,545	14.22%	2,930,116	18.47%	\$2.41	(325,539)	375,392	171,511	1,134,431
West LA	573	60,723,506	551,832	2,307,718	6,318,542	10.41%	9,261,209	15.25%	\$4.16	118,780	709,608	1,102,891	5,651,107
<b>Los Angeles Market Total</b>	<b>3,323</b>	<b>327,627,770</b>	<b>2,831,849</b>	<b>11,652,062</b>	<b>40,055,681</b>	<b>12.23%</b>	<b>54,654,481</b>	<b>16.68%</b>	<b>\$2.73</b>	<b>628,164</b>	<b>2,056,887</b>	<b>5,031,250</b>	<b>19,830,482</b>
<b>Los Angeles Market Total</b>													
Class A	981	180,532,856	1,708,658	8,880,793	25,021,800	13.86%	33,713,270	18.67%	\$2.90	92,175	1,773,908	2,961,703	12,506,337
Class B	1,883	121,527,286	1,123,191	2,771,269	13,691,109	11.27%	19,114,083	15.73%	\$2.38	595,466	364,583	1,948,457	6,678,819
Class C	459	25,567,628	0	0	1,342,772	5.25%	1,827,128	7.15%	\$1.85	(59,477)	(81,604)	121,090	645,326
<b>Los Angeles Market Total</b>	<b>3,323</b>	<b>327,627,770</b>	<b>2,831,849</b>	<b>11,652,062</b>	<b>40,055,681</b>	<b>12.23%</b>	<b>54,654,481</b>	<b>16.68%</b>	<b>\$2.73</b>	<b>628,164</b>	<b>2,056,887</b>	<b>5,031,250</b>	<b>19,830,482</b>

This survey consists of properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



## MAJOR TRANSACTIONS

## Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
10960 Wilshire Blvd. (5 Properties)	West LA	A	2,159,238	\$620.78	Douglass Emmett, Inc.	The Blackstone Group, LP
2600–2800 Colorado Ave.	West LA	A	316,000	\$898.73	Invesco Real Estate	Centurion Real Estate Partners
825 Green St. (3 Properties)	Burbank / Glendale / Pasadena	A	815,736	\$313.83	CBRE Global Investors Ltd.	Beacon Capital Partners
523 W. 6th St.	Downtown LA	A	446,023	\$448.41	Ivanhoe Cambridge, Inc.	Rising Realty Partners
600 Corporate Pointe (2 Properties)	West LA	A	440,041	\$298.27	New York Life Investment Management	Pearlmark Real Estate Partners, LLC

## Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
10250 Constellation Blvd.	West LA	A	108,259	Jan-2016	International Creative Management, Inc.	JMB Realty Corporation
3400 W. Olive Ave. (Renewal)	Burbank / Glendale / Pasadena	A	75,214	Feb-2016	Clear Channel Communications, Inc.	Worthe Real Estate Group
3900 W. Alameda Ave.	Burbank / Glendale / Pasadena	A	56,055	Jan-2016	Vubiquity	PCCP, LLC
200 N. Sepulveda Blvd.	South Bay	A	43,108	Feb-2016	TASC, Inc.	BlackRock
12555 Jefferson Blvd.	West LA	A	33,775	Jan-2016	Providence Healthcare	Mani Brothers Real Estate Group

## PRODUCT TYPE

**CLASS A**

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

**CLASS B**

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

**CLASS C**

Buildings competing for tenants requiring functional space at rents below the area average.

## Please Contact Us for Further Information



Anaheim, CA  
714.978.7880

Inland Empire, CA  
909.545.8000

Irvine, CA  
949.851.5100

Los Angeles, CA  
424.329.7500

San Diego, CA  
858.453.0505

Lic.#01333376  
www.voitco.com