



SECOND QUARTER 2014 GREATER LOS ANGELES OFFICE

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Encouraging Numbers** - The Los Angeles office market continued on its gradual path to recovery in the second quarter of 2014. Vacancy and availability continued to descend, displaying small decreases compared to the previous quarter, while net absorption posted a positive 145,000 square feet. While these are indications that the Los Angeles office market is heading in a good direction, employment and overall economic stability will need to be sustained in coming quarters for the market to fully regain equilibrium.
- **Construction** - Total space under construction in the Los Angeles office market came in at over 1.8 million square feet for the second quarter of 2014, mostly class A space. Construction levels have not been this high since the first quarter of 2012.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 13.33%, a drop of five basis points from the previous quarter and a 4.72% decrease from the same quarter last year.
- **Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.91% at the end of the second quarter, down three basis points from the previous quarter and a 2.93% decrease when compared to 2013's rate of 17.42%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.39 at the end of the quarter, up two cents from the previous quarter and seven cents higher than the same quarter last year. This is an indication that lease rates are on the rise again. The record high rate of \$2.74 was established in the third quarter of 2008. Class A asking rates for the county averaged \$2.55 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$3.68 FSG.
- **Absorption** - The Los Angeles office market posted a positive 144,610 square feet of net absorption for the quarter, giving the Los Angeles office market a total of over 2.9 million square feet for the past four quarters. Look for high-tech, education, entertainment, and alternative-energy companies to lead the increase of positive absorption over the next few years.
- **Transaction Activity** - Leasing activity checked in at just over 4 million square feet for the second quarter, producing a total of 26.5 million square feet leased during the past five quarters. Sales activity increased in the second quarter, coming in at 2.8 million square feet and giving the Los Angeles office market a total of 31.6 million square feet of sales activity since the second quarter of 2013. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in Los Angeles County was 8.2% in May 2014, down from a revised 8.3% in April 2014 and below the previous year's estimate of 10.0%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 89,300 payroll jobs from May 2013 to May 2014. The largest gains were 36,400 in educational and health services and 32,900 in health care and social assistance. Los Angeles County's largest loss was 1,100 wholesale trade jobs during that same period.
- **Overall** - We are seeing the amount of vacant and available space continue to slowly decrease. Positive absorption should continue in 2014, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize.

FORECAST

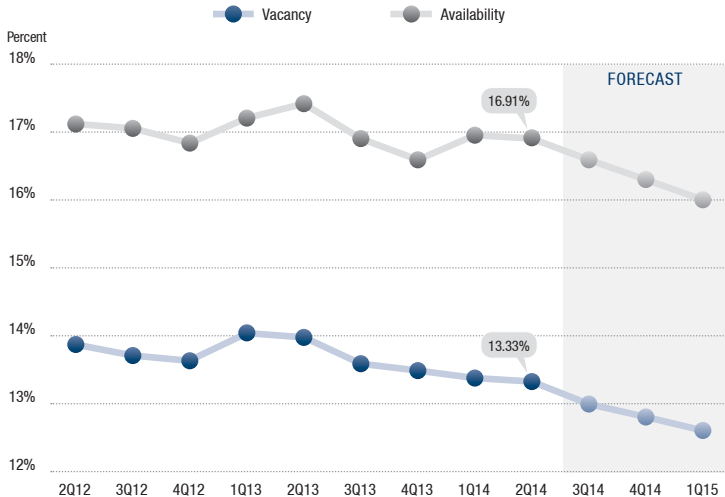
- **Construction** - While we foresee more development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** - We anticipate job growth of around 1.3%, or 58,900 jobs, in the Los Angeles area over the year. Look for industries like technology and entertainment to outperform sectors that are dependent upon population gains in coming years.
- **Lease Rates** - Expect average asking lease rates to increase by another 2%–4% by 2015.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 70 basis points, to around 12.6%, by the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	13.33%	13.38%	13.99%	(4.72%)
Availability Rate	16.91%	16.94%	17.42%	(2.93%)
Average Asking Lease Rate	\$2.39	\$2.37	\$2.32	3.02%
Sale & Lease Transactions	6,873,190	9,951,453	15,389,632	(55.34%)
Gross Absorption	5,295,012	4,704,401	6,144,340	(13.82%)
Net Absorption	144,610	514,559	273,358	N/A

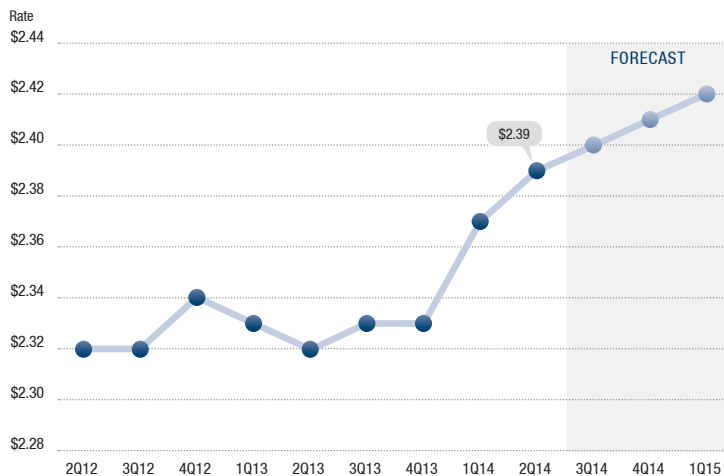
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



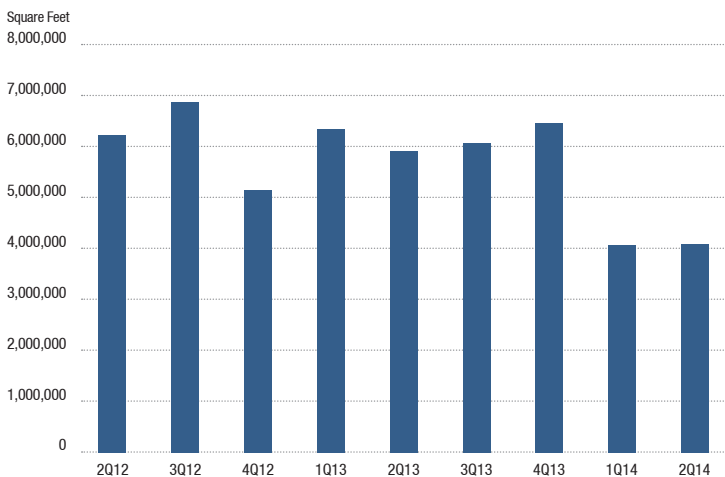
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



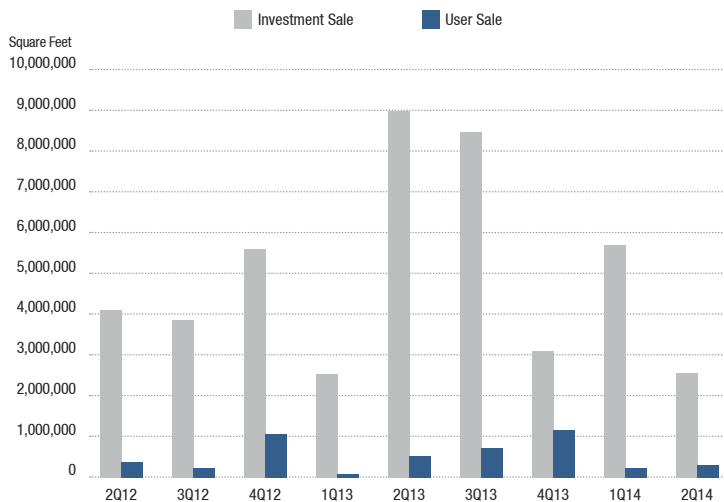
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



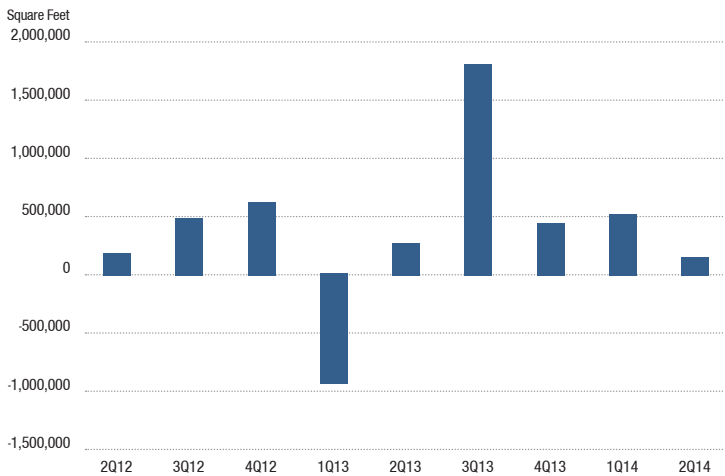
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



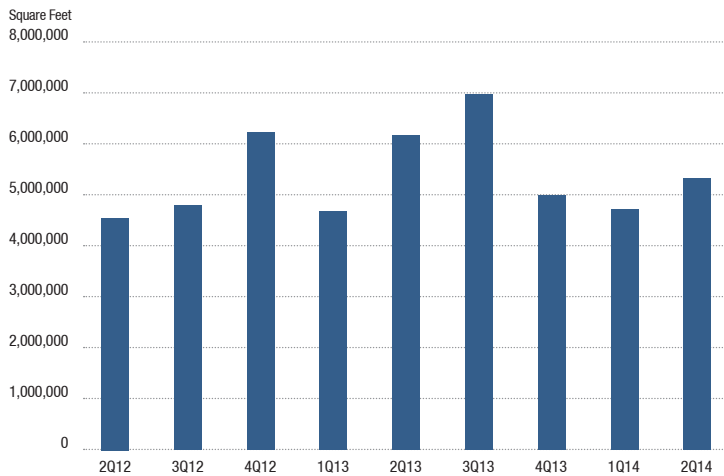
NET ABSORPTION

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



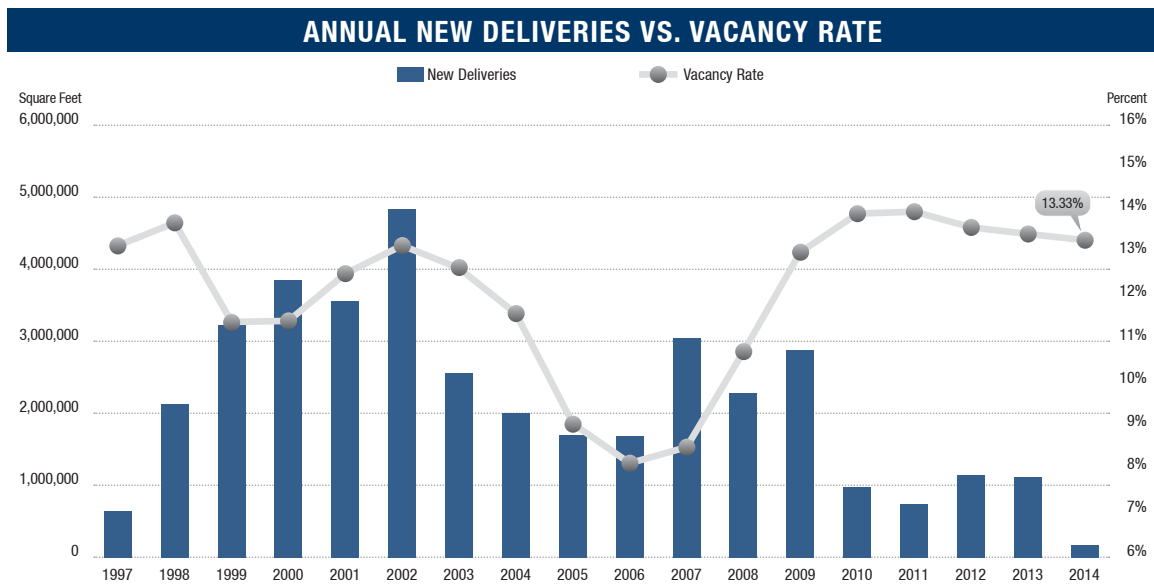
GROSS ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Los Angeles Market Total													
Antelope Valley	32	1,511,836	0	180,000	170,161	11.26%	391,312	25.88%	\$2.59	110	(4,612)	13,007	21,877
Burbank / Glendale / Pasadena	423	38,555,885	229,376	617,390	5,097,928	13.22%	5,891,328	15.28%	\$2.60	86,219	(91,478)	754,860	1,334,289
Downtown	315	65,754,899	386,140	1,052,091	8,459,055	12.86%	11,294,664	17.18%	\$2.45	(40,612)	33,196	570,299	1,176,160
Mid-Cities	74	4,735,888	0	28,400	371,992	7.85%	640,031	13.51%	\$1.96	(10,304)	(15,753)	54,995	75,724
Mid-Wilshire	300	30,162,897	532,410	1,083,624	4,376,803	14.51%	5,244,995	17.39%	\$2.09	1,320	88,135	509,169	873,301
San Fernando Valley	345	27,120,859	0	894,098	3,719,760	13.72%	4,632,774	17.08%	\$2.14	(208,950)	(234,005)	525,070	912,631
San Gabriel Valley	295	18,987,639	166,408	1,419,661	2,113,985	11.13%	2,305,707	12.14%	\$2.00	(1,532)	(68,968)	273,331	405,697
Santa Clarita Valley	56	3,422,892	100,000	342,929	404,343	11.81%	537,368	15.70%	\$2.25	(3,834)	4,143	59,145	99,532
South Bay	496	50,103,332	266,138	2,109,422	8,483,372	16.93%	9,768,938	19.50%	\$2.03	(171,432)	(112,208)	606,587	1,349,746
Southeast LA	88	5,512,669	0	60,000	440,501	7.99%	699,538	12.69%	\$1.92	22,373	21,106	56,670	74,291
Ventura North	67	3,723,824	0	147,034	372,180	9.99%	1,035,202	27.80%	\$1.74	9,138	14,849	26,286	36,681
Ventura South	242	15,532,293	162,715	932,619	2,210,996	14.23%	3,211,298	20.67%	\$2.10	86,131	142,176	274,629	561,024
West LA	564	61,432,906	32,450	1,731,191	7,302,649	11.89%	9,573,092	15.58%	\$3.68	375,983	882,588	1,570,964	3,078,460
Los Angeles Market Total	3,297	326,557,819	1,875,637	10,598,459	43,523,725	13.33%	55,226,247	16.91%	\$2.39	144,610	659,169	5,295,012	9,999,413
Los Angeles Market Total													
Class A	987	182,398,475	1,435,123	8,371,463	27,731,361	15.20%	34,313,548	18.81%	\$2.55	233,909	1,124,882	3,289,430	6,676,093
Class B	1,837	117,567,714	440,514	2,226,996	14,060,159	11.96%	18,410,981	15.66%	\$2.00	47,027	(44,465)	1,801,827	3,035,366
Class C	473	26,591,630	0	0	1,732,205	6.51%	2,501,718	9.41%	\$1.85	(136,326)	(421,248)	203,755	287,954
Los Angeles Market Total	3,297	326,557,819	1,875,637	10,598,459	43,523,725	13.33%	55,226,247	16.91%	\$2.39	144,610	659,169	5,295,012	9,999,413

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
400 Continental Blvd. – 2 Properties	South Bay	A	486,822	\$273.20	DivcoWest	Tishman Speyer
523 W. 6th St.	Downtown	A	424,598	\$303.82	Rising Realty Partners	Mount Kellett Capital Management, LP
301 E. Ocean Blvd.	South Bay	A	396,927	\$256.22	Parallel Capital Partners, Inc.	Bantry Holdings
660 S. Figueroa St.	Downtown	A	283,000	\$282.69	JADE Enterprises	C-III Asset Management
360-374 E. 2nd St.	Downtown	B	152,000	\$217.11	Arenda Capital, Inc.	Jamison Services, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2130 Burbank Blvd.	San Fernando Valley	A	146,636	May-14	Universal Music Group	Hines
555 W. 5th St.	Downtown	A	112,028	Jun-14	Deloitte	Brookfield Office Properties, Inc.
633 W. 5th St. – Renewal	Downtown	A	105,000	Apr-14	U.S. Bank	Overseas Union Enterprise Limited
12312 W. Olympic Blvd.	West LA	B	77,000	Apr-14	Riot Games	Kilroy Realty Corporation
3200 Wilshire Blvd. – Renewal	Mid-Wilshire	A	49,767	Apr-14	Wilshire State Bank	Jamison Services, Inc.

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.

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