

# SECOND QUARTER 2015 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

UP



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## HIGHLIGHTS

- **Steady Growth** - The Los Angeles County office market displayed a number of encouraging indicators in the second quarter of 2015, as both vacancy and availability rates continued their downward trends and lease rates continued to increase on an annual basis. The market has posted a total of over 6.7 million square feet of positive absorption for the last three and a half years as well.
- **Construction** - Total space under construction in the Los Angeles office market came in at 3.64 million square feet for the second quarter of 2015, mostly class A space. Construction levels have not been this high since the second quarter of 2009.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 12.58%, a decrease of 34 basis points from the previous quarter and a 5.48% decrease from the same quarter last year.
- **Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.66% at the end of the second quarter, down 14 basis points from the previous quarter and 0.18% higher than 2014's second quarter rate of 16.63%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.59 at the end of the quarter, up eight 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 second quarter of 2008. Class A asking rates for the county averaged \$2.76 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$4.03 FSG.
- **Absorption** - The Los Angeles office market posted a positive 1,567,738 square feet of net absorption for the

quarter, giving the Los Angeles office market a total of 6.5 million square feet for the past eight 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 over 4.3 million square feet for the quarter, producing a total of over 57 million square feet leased during the past two and half years. Combined, sales and lease transactions for the quarter came in at 8.27 million square feet, which is a marked increase from the previous quarter's combined transactional sum of 6.88 million square feet.
- **Employment** - The unemployment rate in Los Angeles County remained unchanged over the month at 7.6% in May 2015, from a revised 7.6% in April 2015 and below the previous year's estimate of 8.3%. This compares with an unadjusted unemployment rate of 6.4% for California and 5.5% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 100,500 payroll jobs from May 2014 to May 2015. Most sectors showed gains in employment; the largest gains were 30,100 in educational and health services and 20,800 in trade, transportation, and utilities during that same period. Los Angeles County's manufacturing sector suffered the biggest losses over the year — down 2,100 jobs.
- **Overall** - We are continuing to see a decrease in the amount of vacant and available space on the market, even with new product being delivered. As we progress into 2015, positive absorption and higher occupancy costs should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will further improve.

## FORECAST

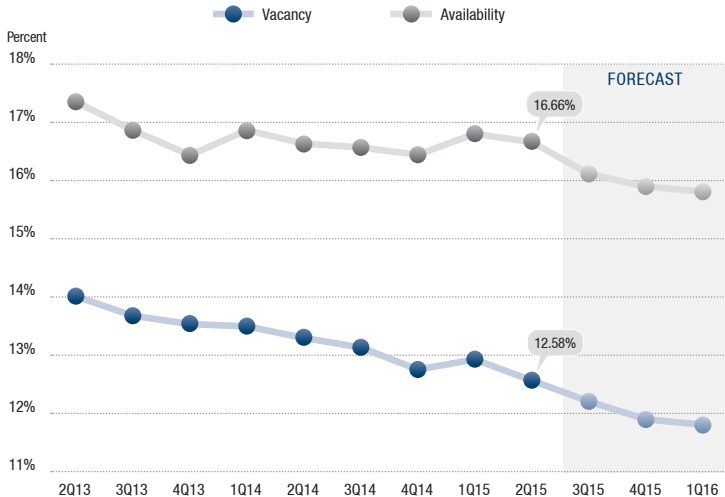
- **Construction** - While we foresee more development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** - We anticipate job growth of around 1.9%, or 79,500 jobs, in the Los Angeles area over the 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% to 4% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 80 basis points, to around 11.8%, by the first quarter of 2016.

## OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	12.58%	12.92%	13.31%	(5.48%)
Availability Rate	16.66%	16.80%	16.63%	0.18%
Average Asking Lease Rate	\$2.59	\$2.51	\$2.52	2.78%
Sale & Lease Transactions	8,278,781	6,882,474	12,037,370	(31.22%)
Gross Absorption	5,103,946	4,126,074	5,343,977	(4.49%)
Net Absorption	1,567,738	(226,808)	683,335	N/A

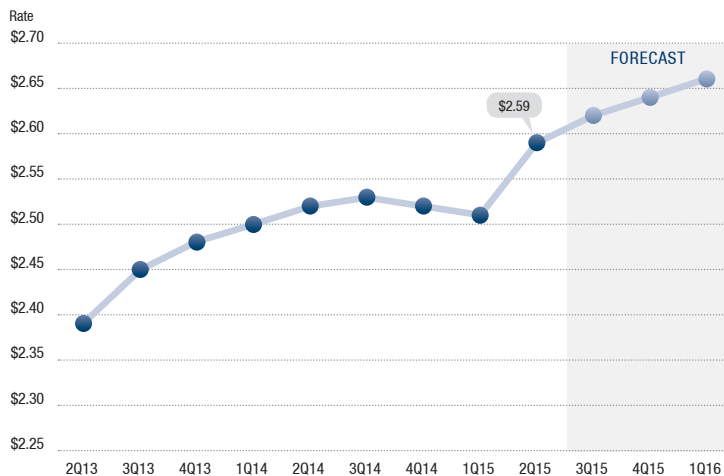
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



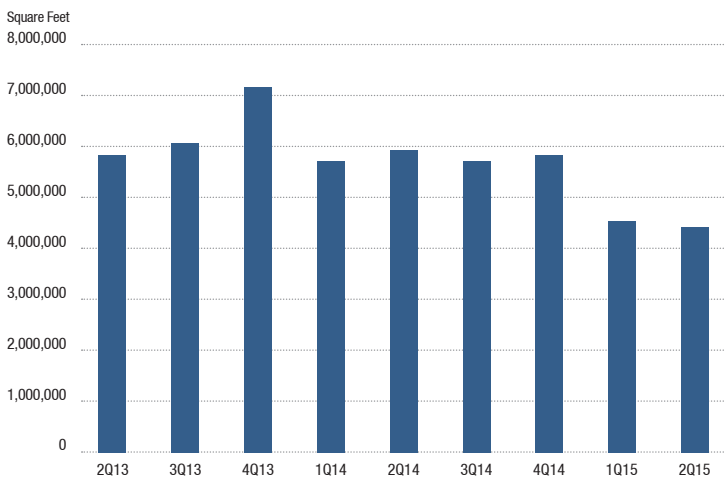
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



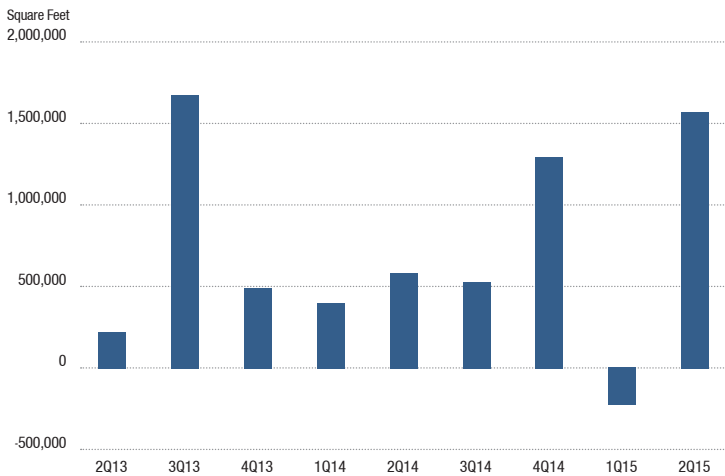
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



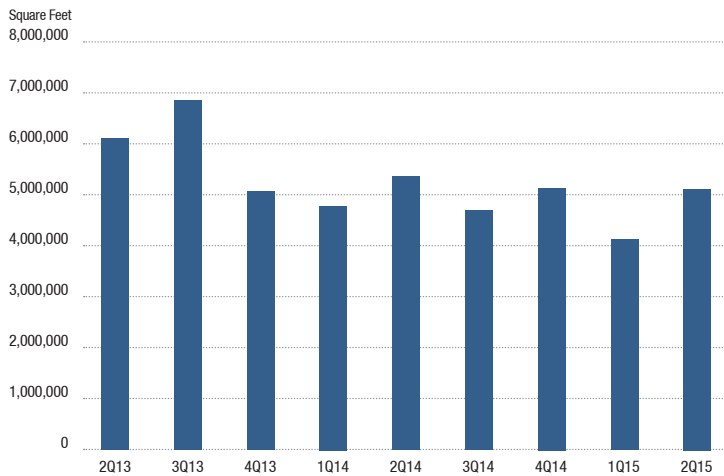
NET ABSORPTION

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



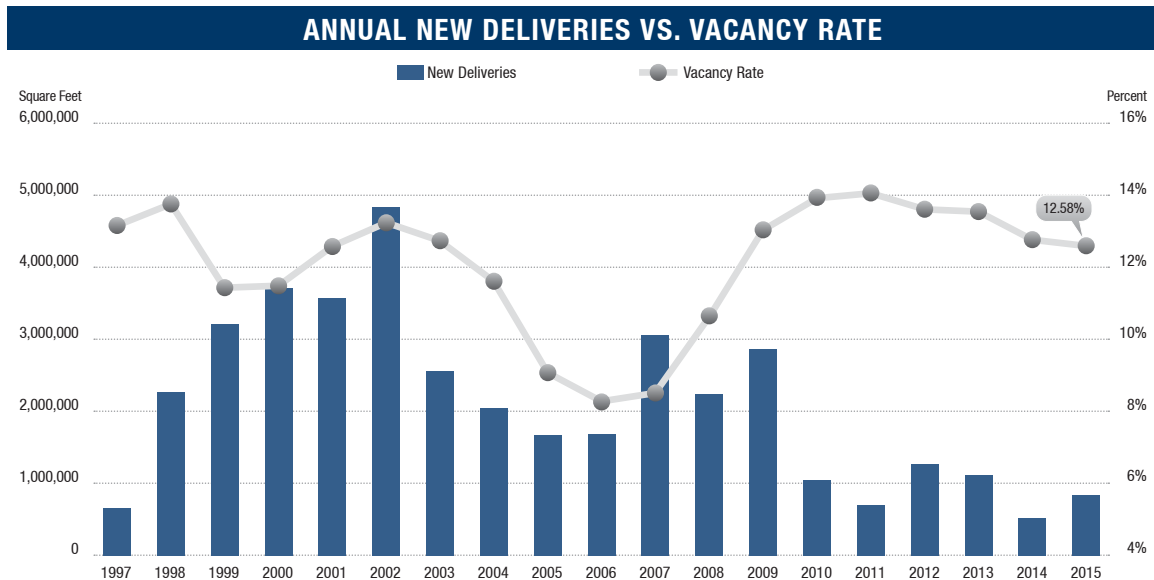
GROSS ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
<b>Los Angeles Market Total</b>													
Antelope Valley	31	1,483,653	0	180,000	148,834	10.03%	372,585	25.11%	\$0.00	(21,750)	(23,087)	1,240	5,146
Burbank / Glendale / Pasadena	424	39,091,884	75,000	1,061,946	4,524,216	11.57%	5,517,259	14.11%	\$2.62	41,298	170,066	452,592	973,197
Downtown	305	65,144,871	1,387,141	1,895,652	7,635,405	11.72%	10,360,750	15.90%	\$2.84	180,581	173,818	561,192	1,064,596
Mid-Cities	77	4,810,985	0	0	459,197	9.54%	621,524	12.92%	\$2.20	22,399	(64,753)	42,505	114,620
Mid-Wilshire	299	29,960,217	1,242,042	761,000	4,233,212	14.13%	5,677,306	18.95%	\$2.59	92,055	150,442	376,770	701,935
San Fernando Valley	344	27,177,108	402,978	491,120	3,659,190	13.46%	4,765,770	17.54%	\$2.19	187,391	110,497	527,328	1,082,376
San Gabriel Valley	298	19,256,003	74,078	604,100	2,093,959	10.87%	2,735,986	14.21%	\$2.14	207,942	222,480	406,866	572,225
Santa Clarita Valley	58	3,593,593	0	1,141,929	496,121	13.81%	551,648	15.35%	\$2.18	(13,391)	(16,583)	35,124	78,358
South Bay	501	50,147,695	165,973	88,380	8,007,432	15.97%	9,897,122	19.74%	\$2.11	294,617	98,705	702,510	1,163,328
Southeast LA	86	5,436,119	0	60,000	426,397	7.84%	675,209	12.42%	\$1.94	(21,052)	(3,885)	33,220	74,968
Ventura North	67	3,720,577	0	147,034	655,788	17.63%	1,110,812	29.86%	\$1.71	27,040	(214,915)	49,790	99,361
Ventura South	246	15,643,947	120,933	477,152	2,015,798	12.89%	2,897,498	18.52%	\$2.32	(4,940)	129,907	167,244	441,376
West LA	566	60,592,746	175,937	1,761,587	6,668,549	11.01%	9,135,172	15.08%	\$4.03	575,548	609,534	1,747,565	2,858,534
<b>Los Angeles Market Total</b>	<b>3,302</b>	<b>326,059,398</b>	<b>3,644,082</b>	<b>8,669,900</b>	<b>41,024,098</b>	<b>12.58%</b>	<b>54,318,641</b>	<b>16.66%</b>	<b>\$2.59</b>	<b>1,567,738</b>	<b>1,342,226</b>	<b>5,103,946</b>	<b>9,230,020</b>
<b>Los Angeles Market Total</b>													
Class A	978	179,957,223	2,224,595	6,659,559	25,104,979	13.95%	33,250,801	18.48%	\$2.76	1,111,356	1,376,064	3,253,097	6,165,446
Class B	1,863	119,996,768	1,419,487	2,010,341	14,073,340	11.73%	18,674,737	15.56%	\$2.17	528,528	72,922	1,722,553	2,851,861
Class C	461	26,105,407	0	0	1,845,779	7.07%	2,393,103	9.17%	\$1.87	(72,146)	(106,760)	128,296	212,713
<b>Los Angeles Market Total</b>	<b>3,302</b>	<b>326,059,398</b>	<b>3,644,082</b>	<b>8,669,900</b>	<b>41,024,098</b>	<b>12.58%</b>	<b>54,318,641</b>	<b>16.66%</b>	<b>\$2.59</b>	<b>1,567,738</b>	<b>1,342,226</b>	<b>5,103,946</b>	<b>9,230,020</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
2600–2800 Colorado Ave.	West LA	A	316,000	\$898.73	Invesco Real Estate	Centurion Real Estate Partners
303 N. Glenoaks Blvd. (3 Properties)	Burbank/Glendale/Pasadena	A	326,522	\$257.79	Angelo, Gordon & Company	Kennedy-Wilson Properties, Ltd.
21250 Hawthorne Blvd.	South Bay	A	302,628	\$226.35	Stream Realty Partners, LP	Bixby Land Company
21515 Hawthorne Blvd. (6 Properties)	South Bay	B	349,525	\$178.53	The Muller Company	Jamison Services, Inc.
963 E. 4th St.	Downtown LA	B	150,000	\$328.33	Hudson Pacific Properties, Inc.	Atlas Capital Group, LLC

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
633 W. 5th St. – Renewal	Downtown LA	A	215,230	May-2015	Lewis Brisbois Bisgaard & Smith, LLP	Beringia Central LLC
300 S. Grand Ave.	Downtown LA	A	112,525	May-2015	AECOM	Madison International Realty
2450 Broadway	West LA	A	61,673	Apr-2015	HULU	The Blackstone Group, LP
2200 E. Imperial Hwy.	South Bay	A	56,446	May-2015	DirectTV	CalPERS
465 N. Halstead St.	Burbank/Glendale/Pasadena	B	46,460	Apr-2015	GMTO Corporation	DivcoWest

**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**

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