

SECOND 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

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Steady Growth** - The Los Angeles Office sector continues to show improvement as job growth is relatively positive. During the last 12 months, LA County added 101,000 jobs, reducing the unemployment rate over 210 basis points, from 7.0% to 4.9%. Los Angeles has job gains in many sectors but is predominantly led by the healthcare, leisure, hospitality and professional services. Existing high rent areas of Los Angeles continue to show strong demand resulting in low vacancy rates and proportionately higher rental rates. Entertainment and technology companies continue to be the driving force behind keeping these office buildings occupied. The creative office space appetite continues and conversions are still popular satisfying much of demand from occupiers.
- **Construction** - One of the recent trends is the increase in mixed use developments, often rising from what were formerly large surface parking lots. Instead of separate office buildings, residential, retail, and hospitality, today's developments combine these options to offer workers, visitors and residents more amenities than ever before. There are more than 10,000 residential units and 3.08 million square feet of office space under construction. The Office Plaza at Wilshire Grand will be the tallest structure west of the Mississippi, the project will include 400,000 square feet of office space, restaurants, attractive nightlife offerings, and 900 hotel rooms.
- **Vacancy** - Interestingly, there is still plenty of high quality space that is still sitting on the sidelines unoccupied. The vacancy rate rose 16 basis points during the quarter and is down 30 basis points from one year earlier. Vacancies have decreased only marginally from their level at the peak of the recession, 2011's fourth quarter, remaining at 12.11%.
- **Availability** - Direct / sublease space being marketed in the Los Angeles office market was 16.43% at the end of the second quarter, down 6 basis points from the previous quarter and lower than 2015's second quarter rate of 16.64%.
- **Lease Rates** - Rental rate continues to rise across the Los Angeles office market. The average asking rent, at \$2.78 per

square foot, is up 1.83% from the prior quarter, and 7.34% from a year earlier. Annual rent bumps continue to average between 3% and 4%.

- **Absorption** - Since the beginning of the second quarter 2006, the average growth rate for office-using employment in Los Angeles has been 0.1% per year, representing the average annual addition of 1,200 jobs. The Los Angeles office market posted 597,164 square feet of positive net absorption for the second quarter of 2016, giving the Los Angeles office market a total of over 1.27 million square feet of absorption year to date.
- **Transaction Activity** - In the second quarter, 1,027 office leases covering 3.6 million square feet, combined sales and lease transactions for the quarter hit 10.6 million square feet. Among the major transactions for the second quarter were media firm Univision Group renewing 104,448 square feet at 3999 Center Drive in Los Angeles and Hasbro relocating and expanding its West Coast presence, moving from its 45,000-square-foot N. Hollywood Way office in Burbank, CA, to a new 80,000-square-foot office space located on 3333 W. Empire Avenue in Burbank's Media Studios North office park.
- **Employment** - The seasonally adjusted unemployment rate in Los Angeles County declined over the month to 4.9% in May 2016 from a revised 5.2% in April 2016 and was below the rate of 7% one year ago. Civilian employment increased by 12,000 to 4,777,000 in May 2016, while unemployment declined by 15,000 to 244,000 over the month. The civilian labor force decreased by 3,000 over the month to 5,021,000 in May 2016.
- **Overall** - As mentioned, office properties in the market have a very healthy 87.89% occupancy rate, and trending in the right direction. The market is getting closer to historical numbers. Office employment growth at the metro level during 2017 and 2018 is projected to average 2.1% annually, enough to facilitate an absorption rate of approximately 1.6 million square feet per year. Between now and year-end 2016 asking rents are expected to climb 1.5% to a level of \$2.82.

FORECAST

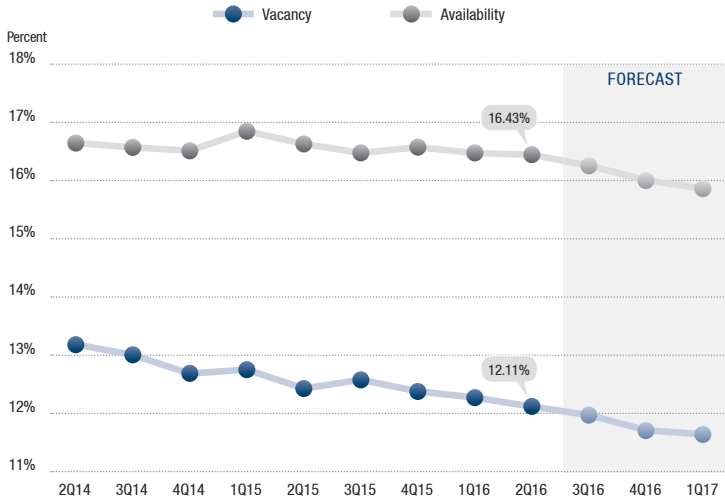
- **Construction** - Current and upcoming projects include Continental's Elevation in El Segundo and Ratkovich Company's Hercules Campus in Playa Vista (a former Hughes Aircraft facility). We continue to see the strongest space demand in locations driven by technology, media and entertainment.
- **Employment** - Los Angeles is starting the year with strong gains, primarily because Professional and Business Services, with 605,700 employed, gained 12,700 new jobs (2.1%), and Education and Health Services, which employs 772,300, gained a remarkable 36,200 new jobs (4.9%). These gains are a positive sign through the first half of the year in Los Angeles and bodes well for the balance of 2016.
- **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 tighten in coming quarters, dropping by 46 basis points, to below 12%, by the first quarter of 2017.

OVERVIEW

	2Q16	1Q16	2Q15	% of Change vs. 2Q15
Total Vacancy Rate	12.11%	12.27%	12.41%	(2.42%)
Availability Rate	16.43%	16.49%	16.64%	(1.26%)
Average Asking Lease Rate	\$2.78	\$2.73	\$2.59	7.34%
Sale & Lease Transactions	10,601,564	12,048,844	10,313,385	2.79%
Gross Absorption	5,283,502	5,144,759	5,302,949	(0.37%)
Net Absorption	597,164	678,661	1,663,881	N/A

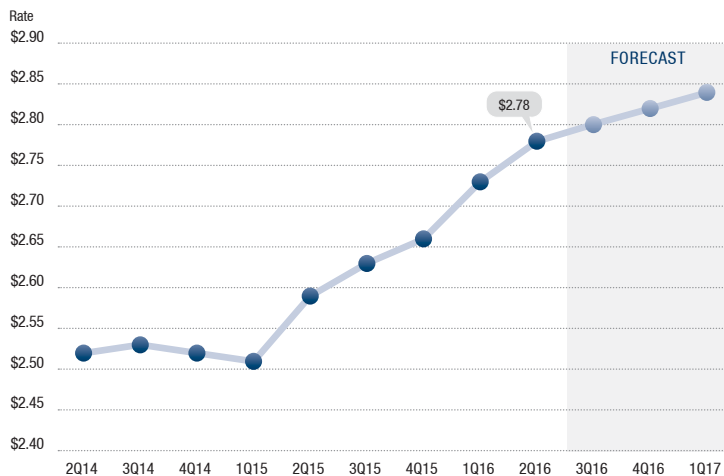
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



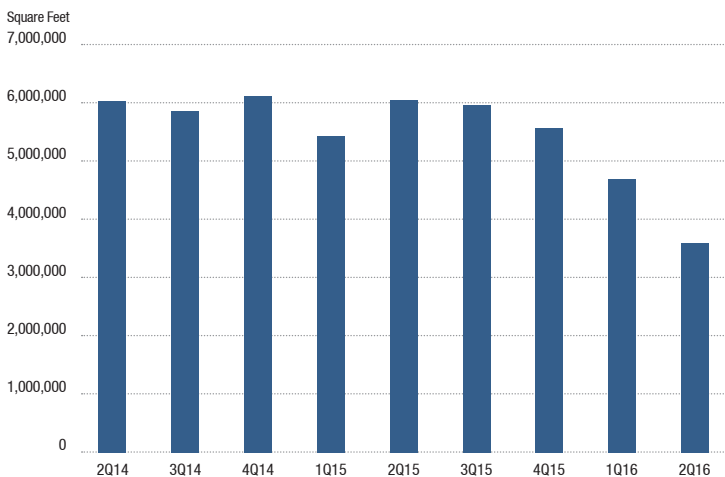
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY BASE RENT ON A PER SQ. FT. BASIS



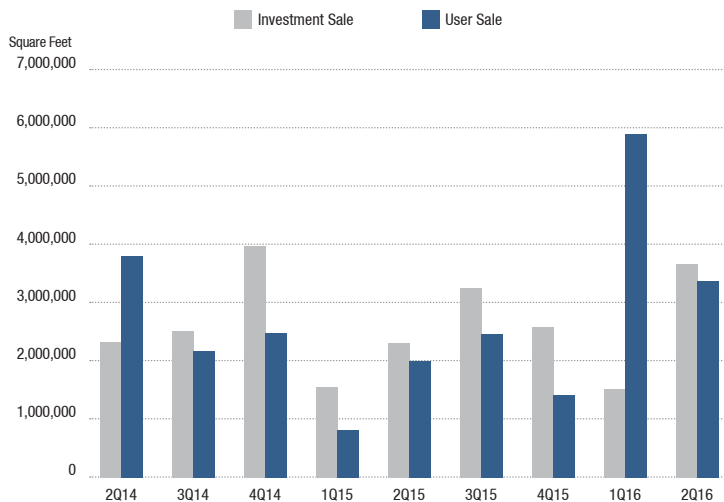
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



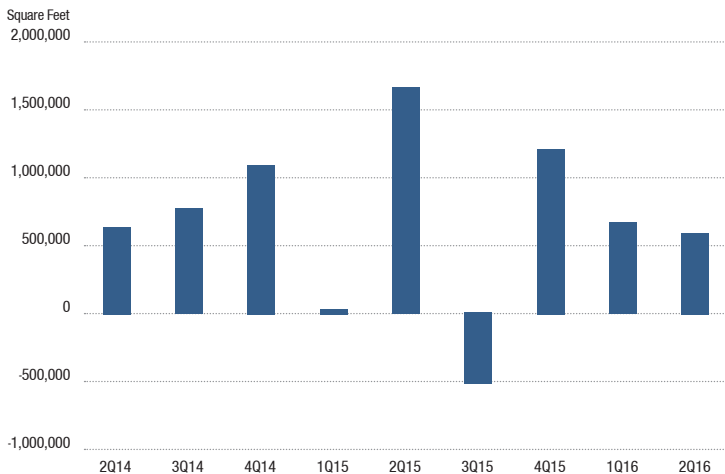
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



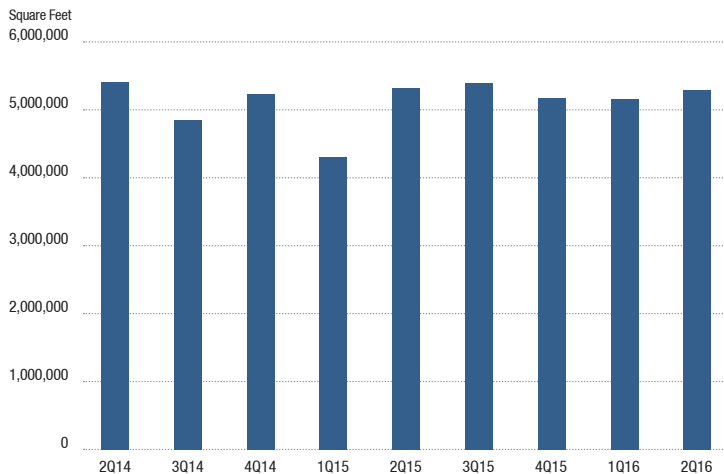
NET ABSORPTION

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



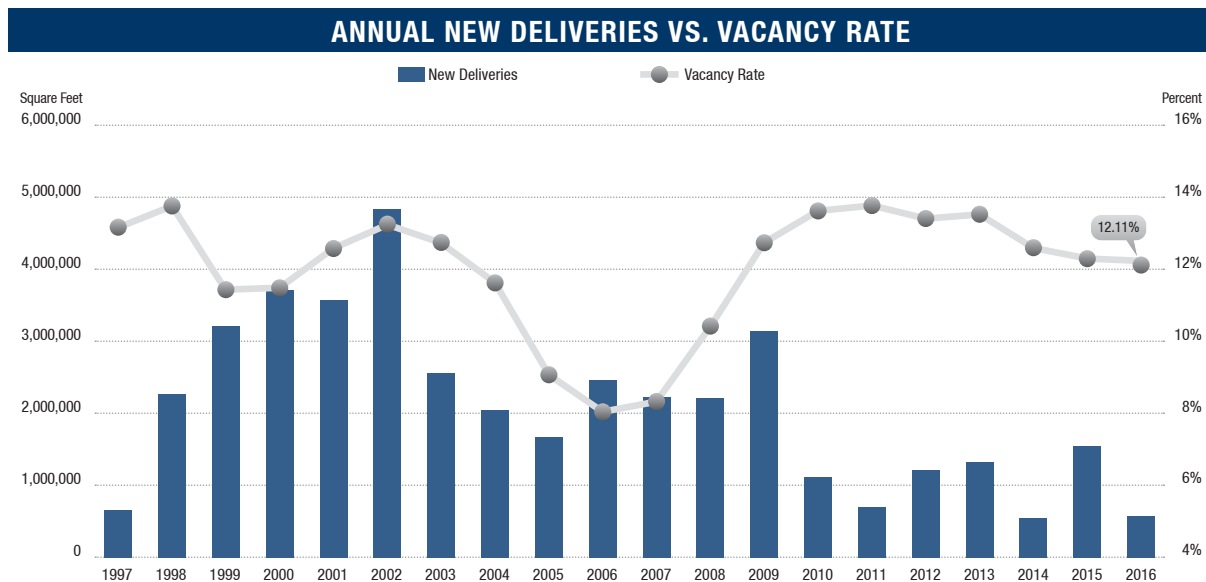
GROSS ABSORPTION

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 2Q2016	Square Feet Available	Availability Rate 2Q2016	Average Asking Lease Rate	Net Absorption 2Q2016	Net Absorption 2016	Gross Absorption 2Q2016	Gross Absorption 2016
Los Angeles Market Total													
Antelope Valley	31	1,580,394	0	120,000	300,921	19.04%	318,212	20.13%	\$1.45	(25,581)	(21,938)	9,962	30,221
Burbank / Glendale / Pasadena	425	39,214,158	188,760	2,148,940	3,993,462	10.18%	5,544,730	14.14%	\$2.80	40,235	196,275	631,679	1,227,875
Downtown	305	65,233,602	1,178,018	2,304,288	7,350,814	11.27%	9,919,579	15.21%	\$3.15	370,142	599,114	1,048,133	1,896,200
Mid-Cities	76	4,743,716	0	92,755	408,392	8.61%	991,975	20.91%	\$2.29	(9,070)	(23,421)	41,602	83,435
Mid-Wilshire	306	30,700,919	724,601	953,008	4,617,064	15.04%	5,719,672	18.63%	\$3.00	173,379	355,056	415,986	914,049
San Fernando Valley	341	27,081,819	117,978	744,831	3,220,562	11.89%	4,160,592	15.36%	\$2.29	140,385	337,613	543,949	1,281,972
San Gabriel Valley	299	19,295,964	61,760	945,922	2,141,636	11.10%	2,979,735	15.44%	\$2.16	10,684	35,083	152,244	291,930
Santa Clarita Valley	57	3,559,193	0	1,396,819	436,677	12.27%	526,753	14.80%	\$2.43	24,849	29,378	43,916	83,920
South Bay	508	50,739,705	96,671	202,287	7,101,636	14.00%	9,369,750	18.47%	\$2.20	127,232	330,062	804,856	1,665,058
Southeast LA	87	5,497,067	0	77,250	451,640	8.22%	575,836	10.48%	\$2.05	(59,552)	(60,405)	22,400	91,259
Ventura North	69	4,268,763	0	147,034	813,992	19.07%	1,348,446	31.59%	\$1.76	27,331	(52,160)	44,345	62,350
Ventura South	247	15,954,289	60,467	177,152	2,268,545	14.22%	2,895,638	18.15%	\$2.43	67,184	(264,722)	321,751	488,249
West LA	577	61,301,088	651,832	2,220,331	6,747,376	11.01%	9,733,953	15.88%	\$2.50	(290,054)	(184,110)	1,202,679	2,311,743
Los Angeles Market Total	3,328	329,170,677	3,080,087	11,530,617	39,852,717	12.11%	54,084,871	16.43%	\$2.78	597,164	1,275,825	5,283,502	10,428,261
Los Angeles Market Total													
Class A	984	181,603,401	1,881,896	8,441,466	24,884,393	13.70%	33,444,555	18.42%	\$2.96	345,428	587,565	3,493,967	6,556,248
Class B	1,884	121,418,009	1,198,191	3,089,151	13,604,190	11.20%	18,612,979	15.33%	\$2.41	281,779	777,187	1,644,428	3,614,574
Class C	460	26,149,267	0	0	1,364,134	5.22%	2,027,337	7.75%	\$1.85	(30,043)	(88,927)	145,107	257,439
Los Angeles Market Total	3,328	329,170,677	3,080,087	11,530,617	39,852,717	12.11%	54,084,871	16.43%	\$2.78	597,164	1,275,825	5,283,502	10,428,261

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	Buyer	Seller
2150-2175 E. Park Pl. – 5 Properties	El Segundo	A	767,041	\$327,250,000	Intercontinental Real Estate Corporation	Second Street Ventures
400 S. Hope St.	Los Angeles	A	701,535	\$313,636,000	The PNC Financial Services Group, Inc.	CBRE Global Investors, Ltd.
5900-5950 Wilshire Blvd. – 3 Properties	Los Angeles	A	481,587	\$245,000,000	AXA Investment Managers, Inc.	PGIM Real Estate
5999 Center Dr.	Los Angeles	A	174,084	\$102,000,000	CBREGlobal Investors, Ltd.	Univision Communications, Inc.
350 N. Brand Blvd.	Glendale	A	304,503	\$79,725,000	Granite Properties, Inc.	Clarion Partners

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5999 Center Dr. – Renewal	Los Angeles	A	104,448	Apr-2016	Univision Television Group, Inc.	CBRE Global Investors, Ltd.
3333 W. Empire Ave.	Burbank	A	79,695	Apr-2016	Hasbro, Inc.	Worthe Real Estate Group
5750 Wilshire Blvd.	Los Angeles	A	40,496	May-2016	Equinox	Tishman Speyer
101 N. Sepulveda Blvd.	El Segundo	B	39,626	May-2016	DTI Services	AEW Capital Management
1255 Corporate Center Dr.	Los Angeles	A	37,132	May-2016	Los Angeles County	Los Angeles Corporate Center, LLC

PRODUCT TYPE**CLASS A**

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CLASS B

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