



## MARKET CHANGE

*Compared to the Previous Quarter:*

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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VOIT Real Estate Services

## HIGHLIGHTS

- **Encouraging Numbers** - The Los Angeles office market continued on its gradual path to recovery in the third quarter of 2014. Vacancy and availability continued to descend, displaying decreases compared to the previous quarter, while net absorption posted a positive 825,000 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 third 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 13.14%, a drop of 23 basis points from the previous quarter and a 3.88% decrease from the same quarter last year.
- **Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.77% at the end of the third quarter, down 11 basis points from the previous quarter and a 0.83% decrease when compared to 2013's rate of 16.91%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.43 at the end of the quarter, up four cents from the previous quarter and ten 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 \$2.61 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$3.74 FSG.
- **Absorption** - The Los Angeles office market posted a positive 770,637 square feet of net absorption for the quarter, giving the Los Angeles office market a total of over 3.9 million square feet for the past five 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 3.8 million square feet for the third quarter, producing a total of 25.4 million square feet leased during the past five quarters. Sales activity decreased in the third quarter, coming in at 3.7 million square feet and giving the Los Angeles office market a total of 29.1 million square feet of sales activity since the third quarter of 2013. This statistic can have some lag time in being reported, so look for third 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 8.1% in August 2014, unchanged from a revised 8.1% in July 2014 and below the previous year's estimate of 9.9%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 69,100 payroll jobs from August 2013 to August 2014. The largest gains were 31,800 in professional and business services and 20,700 in educational and health services. Los Angeles County's only loss was 15,500 manufacturing 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

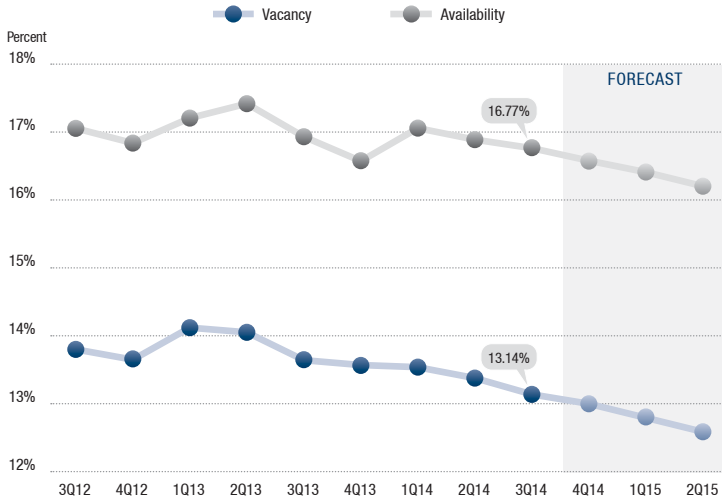
- **Construction** - While we foresee more development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** - We anticipate job growth of around 1.3%, or 58,900 jobs, in the Los Angeles area over the 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% to 4% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in coming quarters, dropping by 65 basis points, to around 12.5%, by the second quarter of 2015.

## OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	13.14%	13.37%	13.67%	(3.88%)
Availability Rate	16.77%	16.88%	16.91%	(0.83%)
Average Asking Lease Rate	\$2.43	\$2.39	\$2.33	4.29%
Sale & Lease Transactions	7,579,640	11,008,087	15,250,772	(50.30%)
Gross Absorption	4,550,428	5,204,507	6,944,454	(34.47%)
Net Absorption	770,637	613,340	1,839,330	N/A

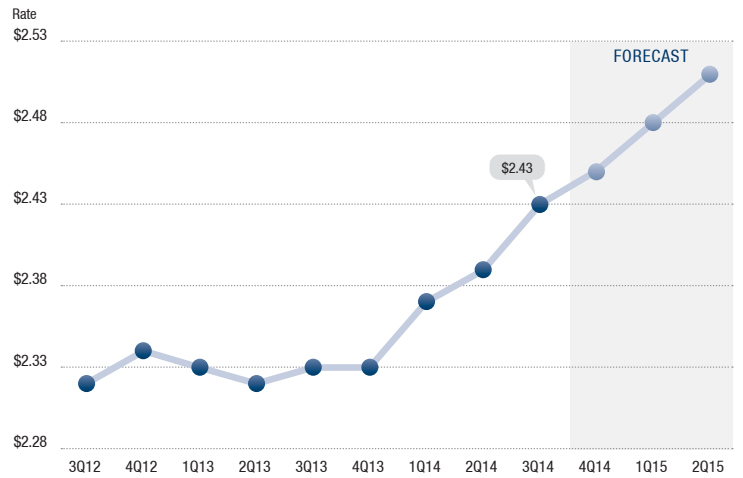
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



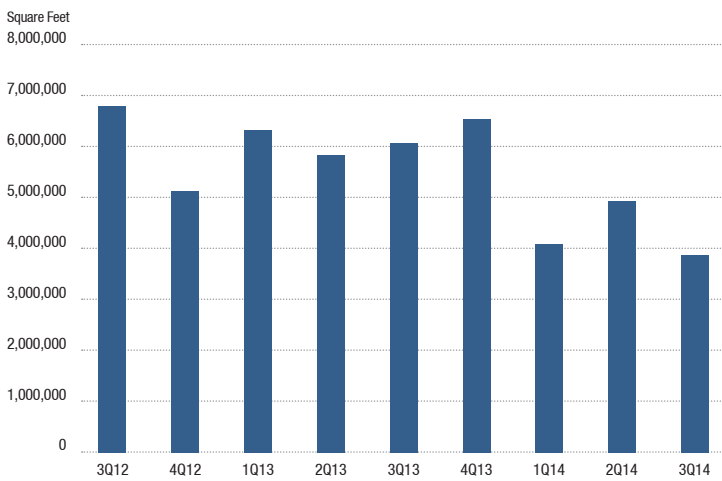
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



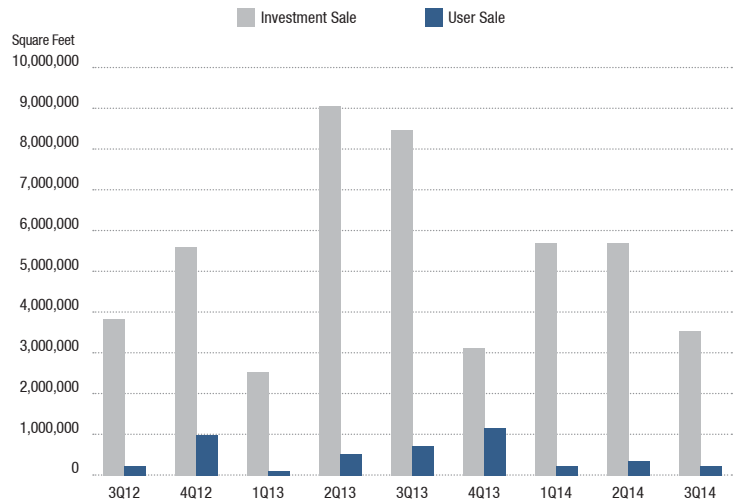
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



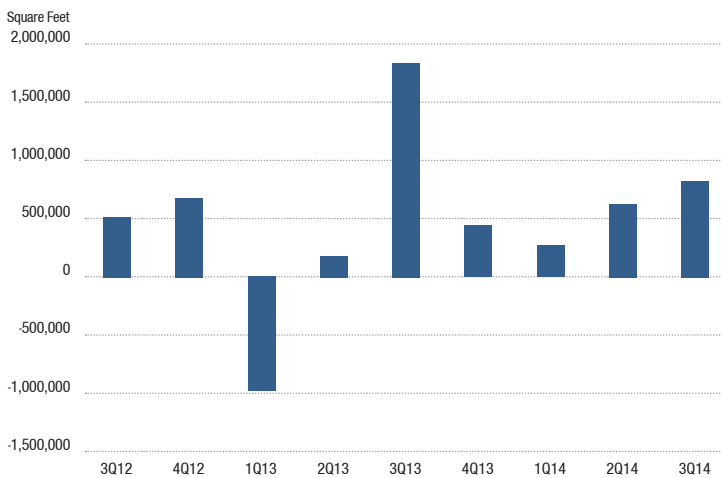
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



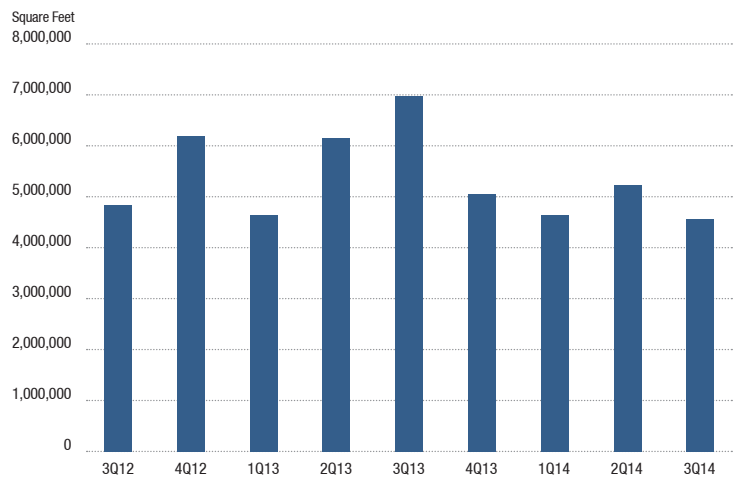
NET ABSORPTION

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



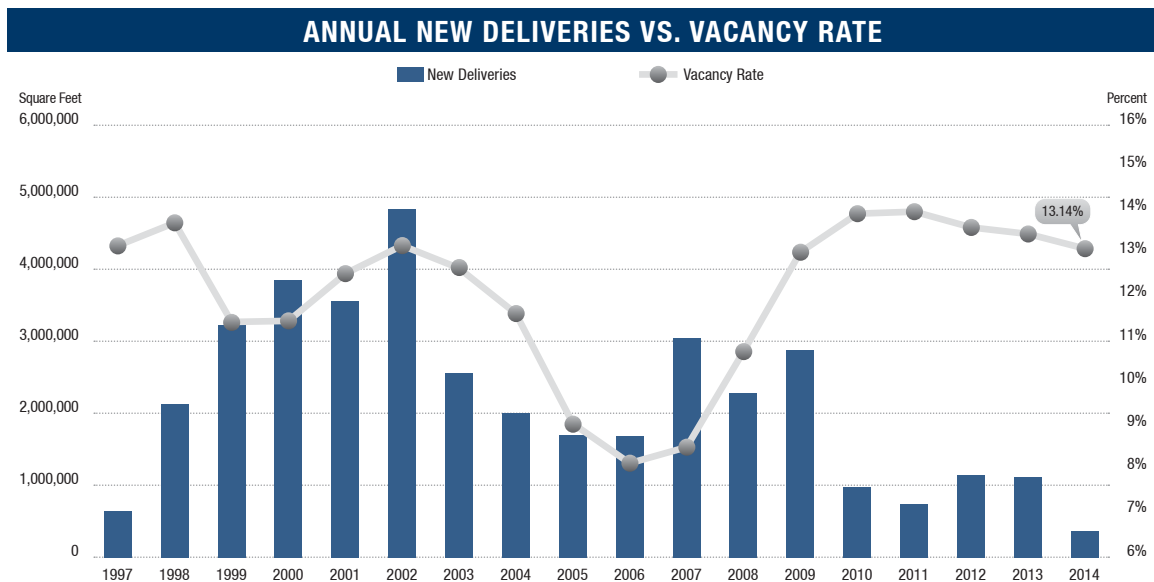
GROSS ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
<b>Los Angeles Market Total</b>													
Antelope Valley	32	1,509,853	0	180,000	157,223	10.41%	364,569	24.15%	\$2.58	12,938	(4,612)	13,007	21,877
Burbank / Glendale / Pasadena	427	38,751,983	155,000	617,390	4,843,458	12.50%	6,088,265	15.71%	\$2.61	213,651	(91,478)	754,860	1,334,289
Downtown	310	65,132,638	386,140	1,129,531	8,517,330	13.08%	11,006,352	16.90%	\$2.50	(5,792)	33,196	570,299	1,176,160
Mid-Cities	75	4,779,874	28,400	0	333,148	6.97%	749,392	15.68%	\$1.97	29,227	(15,753)	54,995	75,724
Mid-Wilshire	299	29,932,334	577,720	1,083,624	4,339,349	14.50%	5,310,573	17.74%	\$2.20	(16,105)	88,135	509,169	873,301
San Fernando Valley	344	27,150,708	0	965,098	3,552,829	13.09%	4,596,115	16.93%	\$2.15	146,534	(234,005)	525,070	912,631
San Gabriel Valley	295	18,817,136	166,408	1,419,661	2,181,501	11.59%	2,309,383	12.27%	\$2.01	72,622	(68,968)	273,331	405,697
Santa Clarita Valley	56	3,422,892	100,000	384,629	389,383	11.38%	488,843	14.28%	\$2.26	14,960	4,143	59,145	99,532
South Bay	499	50,127,760	146,138	2,109,422	8,356,843	16.67%	9,760,933	19.47%	\$2.06	76,189	(112,208)	606,587	1,349,746
Southeast LA	89	5,542,695	0	60,000	465,291	8.39%	759,243	13.70%	\$1.96	(23,752)	21,106	56,670	74,291
Ventura North	67	3,723,824	0	147,034	441,130	11.85%	1,000,464	26.87%	\$1.76	5,609	14,849	26,286	36,681
Ventura South	245	15,563,759	163,495	537,619	2,100,042	13.49%	3,020,775	19.41%	\$2.13	23,407	142,176	274,629	561,024
West LA	562	60,726,152	92,749	1,819,191	7,063,226	11.63%	9,064,623	14.93%	\$3.74	221,149	882,588	1,570,964	3,078,460
<b>Los Angeles Market Total</b>	<b>3,300</b>	<b>325,181,608</b>	<b>1,816,050</b>	<b>10,453,199</b>	<b>42,740,753</b>	<b>13.14%</b>	<b>54,519,530</b>	<b>16.77%</b>	<b>\$2.43</b>	<b>770,637</b>	<b>659,169</b>	<b>5,295,012</b>	<b>9,999,413</b>
<b>Los Angeles Market Total</b>													
Class A	980	181,367,206	1,491,302	8,416,903	27,089,000	14.94%	33,561,784	18.50%	\$2.61	455,365	1,124,882	3,289,430	6,676,093
Class B	1,849	117,453,056	324,748	2,036,296	13,898,309	11.83%	18,484,985	15.74%	\$2.03	291,661	(44,465)	1,801,827	3,035,366
Class C	471	26,361,346	0	0	1,753,444	6.65%	2,472,761	9.38%	\$1.91	23,611	(421,248)	203,755	287,954
<b>Los Angeles Market Total</b>	<b>3,300</b>	<b>325,181,608</b>	<b>1,816,050</b>	<b>10,453,199</b>	<b>42,740,753</b>	<b>13.14%</b>	<b>54,519,530</b>	<b>16.77%</b>	<b>\$2.43</b>	<b>770,637</b>	<b>659,169</b>	<b>5,295,012</b>	<b>9,999,413</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
9346 Civic Center Dr. – 3 Properties	West LA	A	234,361	\$896.05	The Rockefeller Group	Tishman Speyer
12130 Millennium – 2 Properties	West LA	A	294,491	\$450.61	Clarion Partners	ASB Capital Management, LLC
10900 Wilshire Blvd.	West LA	A	237,147	\$525.83	Tishman Speyer	Indivest, Inc.
101 Continental Blvd.	South Bay	A	332,685	\$294.57	American Realty Capital Properties, Inc.	Predential Real Estate Investors
6100 Wilshire Blvd.	Mid-Wilshire	A	213,556	\$358.22	SM Management	Kennedy-Wilson Properties, Ltd.

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2401 Colorado Ave.	West LA	A	108,422	Jul-14	Edmunds	The Blackstone Group, LP
13031 W. Jefferson Blvd.	West LA	A	83,000	Aug-14	Verizon	Shorenstein Properties, LLC
12900 Park Plaza Dr.	Mid-Cities	A	71,349	Sep-14	Caremore Health System	Beacon Capital Partners
12900 Park Plaza Dr.	Mid-Cities	A	66,696	Sep-14	AT&T	Beacon Capital Partners
955 Overland Ct. – Renewal	San Gabriel Valley	B	32,860	Jul-14	United Nurses Associations of California	Asset Management Consultants, 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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