

MARKET CHANGE

Compared to Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries



UP

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HIGHLIGHTS

- **Steady Growth** - The Los Angeles County office market displayed a number of encouraging indicators in the third 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 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 3.79 million square feet for the third 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 12.52%, a 3.62% decrease from the same quarter last year.
- **Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.50% at the end of the third quarter, down 5 basis points from the previous quarter and 0.18% higher than 2014's third quarter rate of 16.47%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.63 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 \$2.80 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$4.11 FSG.
- **Absorption** - The Los Angeles office market posted 83,465 square feet of negative net absorption for the quarter, giving the Los Angeles office market a total of 6.7 million square feet of absorption for the past nine 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 5.8 million square feet for the quarter, producing a total of over 50 million square feet leased during the past two and half years. Combined, sales and lease transactions for the quarter came in at 9.88 million square feet, which is a decrease from the previous quarter's combined transactional sum of 11.5 million square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher on the next report.
- **Employment** - The unemployment rate in Los Angeles County remained unchanged at 6.9% in August 2015, down from a revised 7.2% in July 2015 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 6.1% for California and 5.1% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 76,300 payroll jobs from August 2014 to August 2015. Most sectors showed gains in employment; the largest gains were 22,500 in educational and health services and 17,100 in trade, transportation, and utilities during that same period. Los Angeles County's manufacturing sector suffered the biggest losses over the year — down 4,700 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

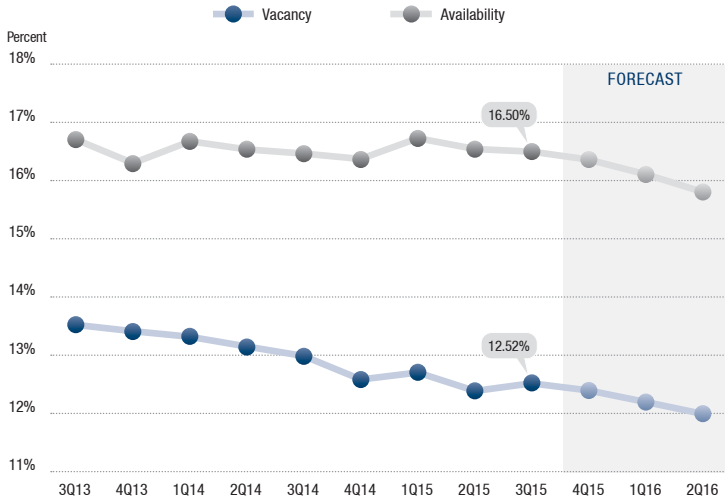
- **Construction** - While we foresee more development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** - We anticipate job growth of around 1.9%, or 79,500 jobs, in the Los Angeles area over the 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 50 basis points, to around 12%, by the second quarter of 2016.

OVERVIEW

	3Q15	2Q15	3Q14	% of Change vs. 3Q14
Total Vacancy Rate	12.52%	12.39%	12.99%	(3.62%)
Availability Rate	16.50%	16.55%	16.47%	0.18%
Average Asking Lease Rate	\$2.63	\$2.59	\$2.53	3.95%
Sale & Lease Transactions	9,884,222	11,522,860	10,412,217	(5.07%)
Gross Absorption	5,605,635	5,264,821	4,715,520	18.88%
Net Absorption	(83,465)	1,620,603	637,493	N/A

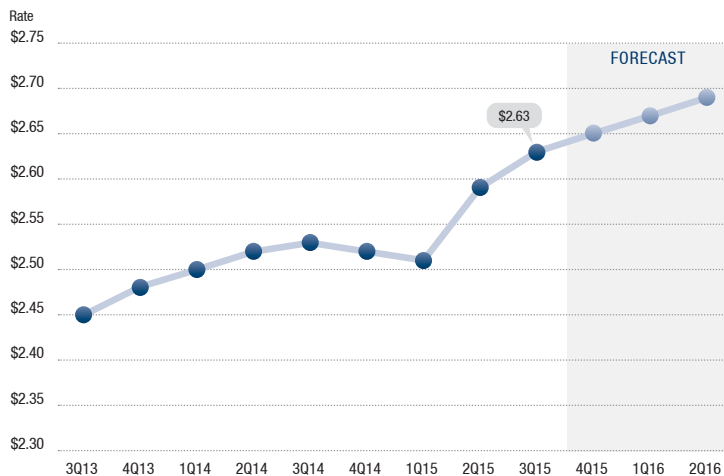
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



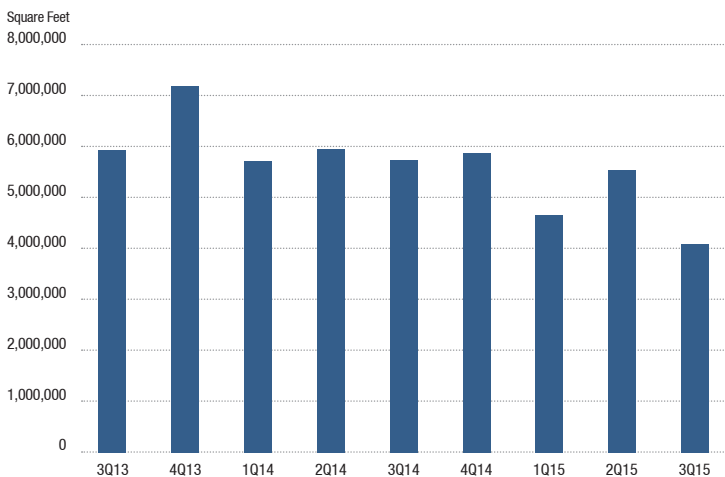
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



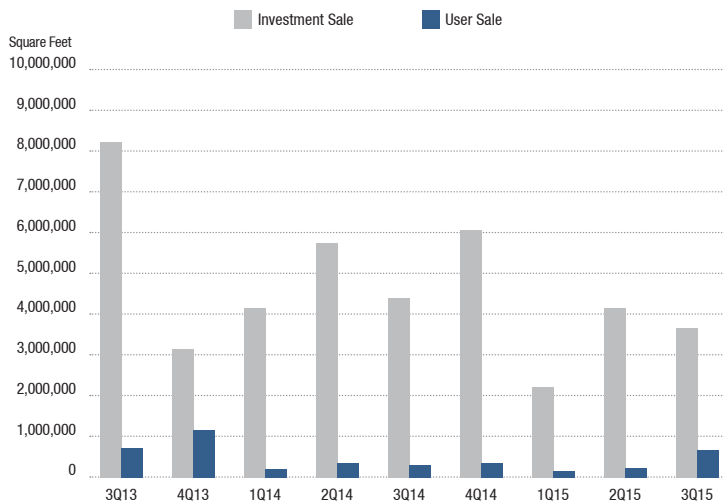
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



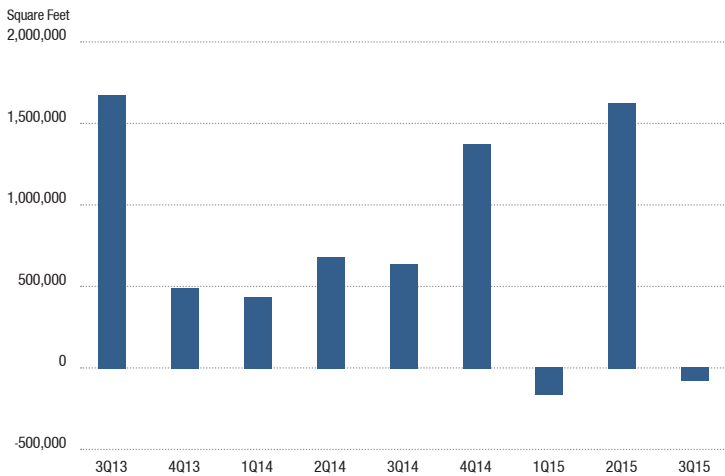
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



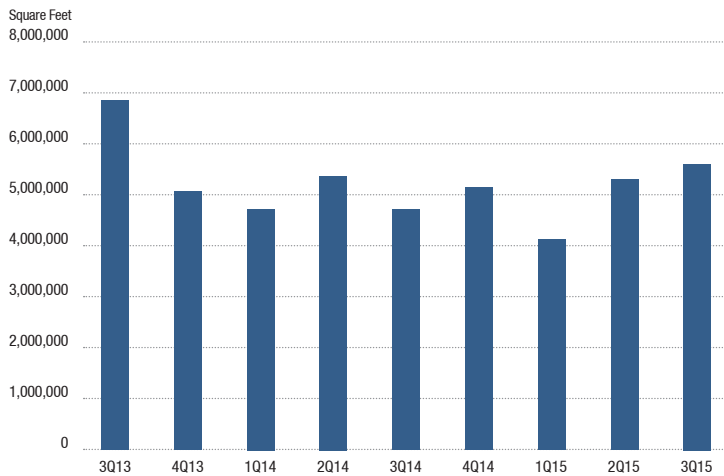
NET ABSORPTION

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



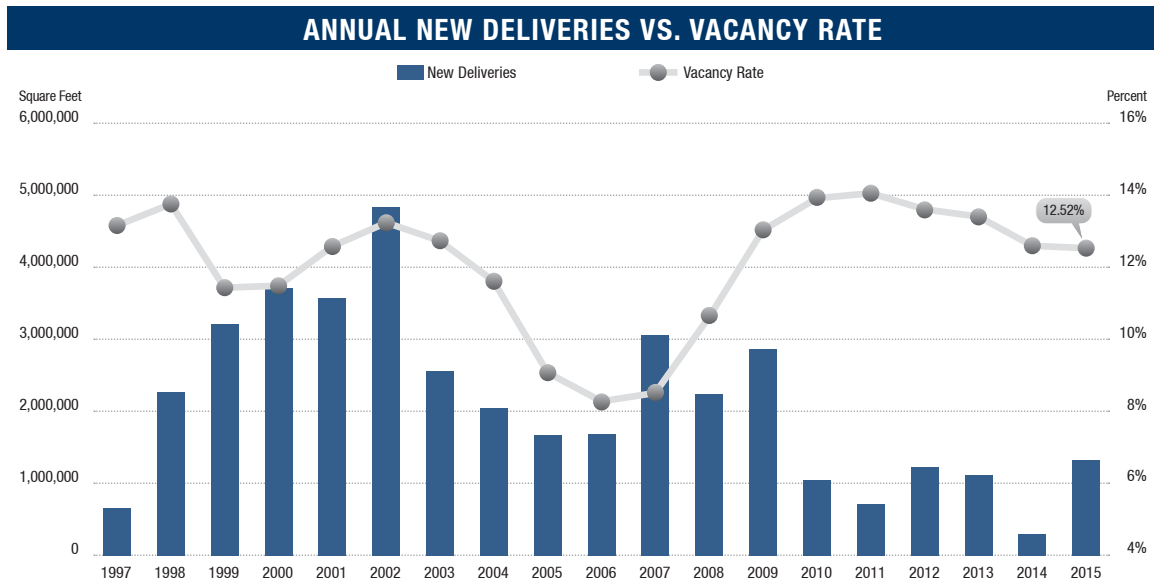
GROSS ABSORPTION

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 3Q2015	Square Feet Available	Availability Rate 3Q2015	Average Asking Lease Rate	Net Absorption 3Q2015	Net Absorption 2015	Gross Absorption 3Q2015	Gross Absorption 2015
Los Angeles Market Total													
Antelope Valley	31	1,483,653	0	180,000	172,753	11.64%	295,368	19.91%	\$0.00	(23,919)	(42,106)	285	5,631
Burbank / Glendale / Pasadena	426	39,233,151	188,760	2,030,736	4,225,957	10.77%	6,031,958	15.37%	\$2.72	328,814	445,673	839,560	1,791,998
Downtown	306	64,936,390	1,381,018	2,455,792	7,302,021	11.24%	9,785,569	15.07%	\$2.88	119,038	305,236	813,514	1,883,441
Mid-Cities	77	4,815,135	0	0	496,988	10.32%	658,627	13.68%	\$2.26	(12,238)	(102,544)	188,657	303,277
Mid-Wilshire	299	30,006,284	1,251,607	761,000	4,323,910	14.41%	5,549,879	18.50%	\$2.67	(85,215)	61,922	274,566	956,291
San Fernando Valley	345	27,467,295	117,978	746,935	3,944,651	14.36%	4,849,819	17.66%	\$2.19	6,155	110,036	747,673	1,840,503
San Gabriel Valley	299	19,285,563	47,178	604,100	2,337,302	12.12%	2,837,592	14.71%	\$2.15	(215,549)	6,037	200,191	771,867
Santa Clarita Valley	58	3,594,974	0	1,391,929	488,977	13.60%	561,544	15.62%	\$2.18	1,824	(9,439)	32,164	110,522
South Bay	506	50,366,189	96,000	88,380	7,864,835	15.62%	9,874,575	19.61%	\$2.14	188,010	290,376	642,785	1,815,623
Southeast LA	87	5,489,413	0	77,250	443,067	8.07%	679,446	12.38%	\$2.01	(16,380)	(20,555)	35,399	110,367
Ventura North	68	3,993,818	0	147,034	579,570	14.51%	1,102,886	27.61%	\$1.71	76,218	(138,697)	90,450	189,811
Ventura South	247	15,924,287	120,933	477,152	2,028,669	12.74%	2,982,367	18.73%	\$2.37	4,649	187,307	308,359	791,006
West LA	568	60,426,753	588,224	2,166,757	6,740,455	11.15%	8,733,258	14.45%	\$4.11	(454,872)	280,531	1,432,032	4,443,005
Los Angeles Market Total	3,317	327,022,905	3,791,698	11,127,065	40,949,155	12.52%	53,942,888	16.50%	\$2.63	(83,465)	1,373,777	5,605,635	15,013,342
Los Angeles Market Total													
Class A	976	180,029,567	2,653,740	8,779,419	25,531,538	14.18%	33,311,016	18.50%	\$2.80	(480,314)	767,395	3,199,816	9,332,991
Class B	1,873	120,576,013	1,137,958	2,347,646	13,752,839	11.41%	18,304,603	15.18%	\$2.20	311,505	617,792	2,127,982	5,186,969
Class C	468	26,417,325	0	0	1,664,778	6.30%	2,327,269	8.81%	\$1.81	85,344	(11,410)	277,837	493,382
Los Angeles Market Total	3,317	327,022,905	3,791,698	11,127,065	40,949,155	12.52%	53,942,888	16.50%	\$2.63	(83,465)	1,373,777	5,605,635	15,013,342

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
523 W. 6th St.	Downtown LA	A	446,023	\$448.41	Ivanhoe Cambridge, Inc.	Rising Realty Partners
100 N. Crescent Dr.	West LA	A	118,444	\$1,097.57	Cain Holy Enterprises	Clarion Partners
1 World Trade Ctr.	South Bay	A	574,981	\$184.09	Greenlaw Partners	Steelwave, Inc.
1240 Rosecrans Ave. (2 Properties)	South Bay	A	309,705	\$310.21	Onni Group	CW Capital Asset Management, LLC
2400 Empire Ave. (2 Properties)	Burbank / Glendale / Pasadena	A	229,946	\$349.43	UBS Realty Investors, LLC	CBRE Global Investors, LTD

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5808 W. Sunset Blvd.	Burbank / Glendale / Pasadena	A	200,052	Aug-2015	Netflix	Hudson Pacific Properties, Inc.
100 N. Sepulveda Blvd.	South Bay	A	90,000	Jul-2015	Guthy-Renker	Pacific Corporate Towers, LLC
12130 Millennium	West LA	A	82,249	Jul-2015	Honest Company	CV Latitude 34, LLC
12911 183rd St. – Renewal	Mid-Cities	B	69,441	Aug-2015	ATT&T	Beacon Capital Partners
1017 N. Las Palmas Ave.	Mid–Wilshire	B	65,685	Sep-2015	SIM Group	GEM Realty Capital, 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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