

STRONG MOMENTUM. The Los Angeles office market looks to have sturdy momentum to carry through 2016. A stretch of decent job growth, by Los Angeles standards, has translated into good leasing momentum and a reduction in vacancies. The Westside in particular has thrived, especially for properties catering to the media, tech, and creative industries. Supply in the form of conversions and redevelopments is ramping up in response, but supply growth is not yet pervasive enough to threaten the recovery. This includes the San Fernando Valley and the South Bay. For best long-term performance; however, align your strategy with entertainment and technology, the things that LA does best.

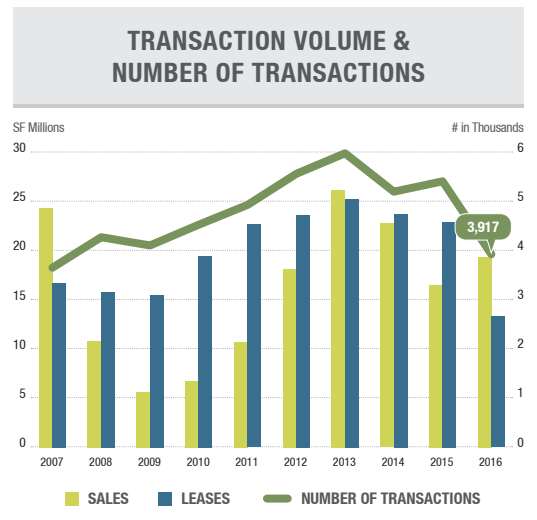
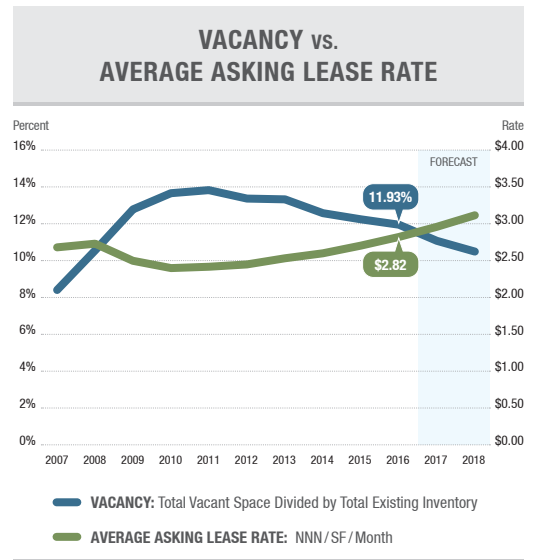
VACANCY. Companies downsized and consolidated, leaving a number of unoccupied spaces in their wake. The vacancy rate remained flat during the quarter and is down 50 basis points from one year earlier. The current rate is considered low for Los Angeles, as the average rate for 2010 to 2015 was 13%.

LEASE RATES. Properties with buildouts that appeal to tenants have been able to push rents more aggressively. Rental rates continue to rise across the Los Angeles office market. The average asking rent, at \$2.82 per square foot, is up 2.17% from the prior quarter, and 6.42% from a year earlier. Annual rent bumps continue to average between 3% and 4%.

TRANSACTION ACTIVITY. In the third quarter, 1,189 office leases covering 3.7 million square feet, combined sales and lease transactions for the quarter hit 5.9 million square feet. Among the major transactions for the third quarter were investment firm ARES leasing 97,046 square feet at 800 Corporate Pointe in Culver City and Oracle America, relocating and expanding, to a 92,350-square-foot office space located on 1620 26th Street, The Water Garden complex in Santa Monica.

EMPLOYMENT. Through the first nine months of 2016, Los Angeles has seen notable job gains and an extremely low unemployment rate. The seasonally adjusted unemployment rate in Los Angeles County increased over the month to 4.9% in August 2016 from a revised 4.8% in July 2016 and was below the rate of 6.4% one year ago. Civilian employment increased by 20,000 to 4,829,000 in August 2016, while unemployment increased by 3,000 to 248,000 over the month.

OVERALL. The Los Angeles office market continued to record positive market metrics through the nine months. Rents continues to make the same gains they did in the first two quarter, to maintain the market's sense of momentum. Downtown is active, there are plenty of buildings in the pipeline, and rents show no sign of losing ground. Between now and year-end 2016 asking rents are expected to climb 1.5% to a level of \$2.86.



Market Statistics

	Change Over Last Quarter	3Q 2016	2Q 2016	3Q 2015	% Change Over Last Year
Vacancy Rate	■ FLAT	11.93%	11.93%	12.43%	-4.02%
Availability Rate	▼ DOWN	15.97%	16.21%	16.36%	-2.38%
Average Asking Lease Rate	▲ UP	\$2.82	\$2.76	\$2.65	6.42%
Sale & Lease Transactions	▼ DOWN	5,927,723	14,402,744	11,754,829	-49.57%
Gross Absorption	▼ DOWN	5,041,951	5,387,239	5,392,719	-6.50%
Net Absorption	▲ POSITIVE	401,971	787,781	(526,826)	N/A

CONSTRUCTION. Several large and exciting mixed use developments are underway and proposed in downtown Los Angeles, including the following projects: Office Plaza at Wilshire Grand, Ratkovich Company’s Hercules Campus in Playa Vista, and Fourth & Traction, the 1915 Coca-Cola plant now redesigned for creative minds. In the heart of the booming Downtown Arts District, Fourth & Traction combines vintage industrial space with cutting-edge style and technology. We continue to see the strongest space demand in locations driven by technology, media and entertainment.

EMPLOYMENT. Office employment growth during 2017 and 2018 is anticipated to average 1.8% annually, enough to facilitate an absorption rate averaging 1.4 million square feet per year. Economic sectors that will outperform are those like show business and tech that LA exports to the world. Industries that are inward looking, which in LA’s case include education and health services, financial activities, government, and most industrial sectors, will have little or no growth.

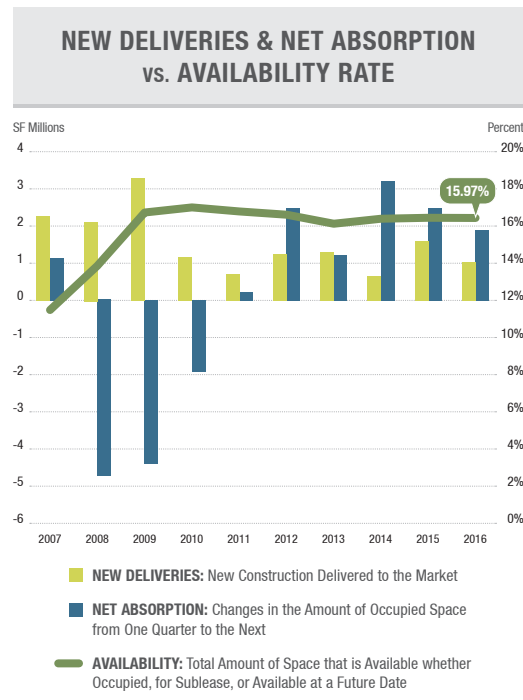
LEASE RATES. Rent growth has returned to Los Angeles — expect average asking lease rates to increase by another 3% to 5% over the next four quarters.

VACANCY. We anticipate vacancy rates continuing to tighten in coming quarters, dropping by 80 basis points, to below 12%, by the end of 2017.

CONSTRUCTION. New supply in the third quarter totaled 3.9 million square feet. Most development in the Los Angeles office market is large build-to-suit, redevelopment, and mixed used product. The high-rise office tower, under construction by Hudson Pacific Properties on Sunset Boulevard, is a build-to-suit for Netflix who will occupy the entire building. Wilshire Grand, the 73-story tower on the northwest corner of Seventh and Figueroa, will have 900 hotel rooms atop 400,000 square feet of office space, along with retail and restaurant space.

AVAILABILITY. Direct / sublease space being marketed in the Los Angeles office market was 15.97% at the end of the third quarter, down 24 basis points from the previous quarter and lower than 2015’s third quarter rate of 16.36%.

ABSORPTION. Net absorption posted 401,971 square feet in the third quarter of 2016, a continuation of the first two quarters’ 1.3 million square feet. Net absorption totaled negative 8.3 million from 2008 to 2012 and positive 6.87 million from 2013 to 2015. The majority of the third quarter demand was for Class A space, at 214,379 square feet of net absorption, while Class B/C posted 187,592 square feet.



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2016	Square Feet Available	Availability Rate 3Q2016	Average Asking Lease Rate	Net Absorption 3Q2016	Net Absorption 2016	Gross Absorption 3Q2016	Gross Absorption 2016
Los Angeles Market Total													
Antelope Valley	32	1,689,614	0	120,000	303,739	17.98%	304,303	18.01%	\$1.45	2,182	(13,956)	12,898	54,819
Burbank / Glendale / Pasadena	425	39,322,010	75,000	2,173,378	4,148,417	10.55%	5,542,232	14.09%	\$2.85	(19,106)	158,804	487,928	1,748,642
Downtown	310	65,869,059	2,171,272	1,253,057	7,568,745	11.49%	9,988,503	15.16%	\$3.14	(95,121)	581,315	703,271	2,627,721
Mid-Cities	76	4,762,561	0	92,755	468,228	9.83%	947,616	19.90%	\$2.31	(70,321)	(83,257)	59,993	153,913
Mid-Wilshire	308	30,766,231	806,643	792,500	4,471,533	14.53%	5,557,516	18.06%	\$2.95	195,431	538,754	531,728	1,489,272
San Fernando Valley	343	27,302,629	0	744,831	3,295,151	12.07%	3,987,841	14.61%	\$2.33	160,287	505,298	678,139	1,950,399
San Gabriel Valley	297	19,037,407	61,760	945,922	1,851,392	9.73%	2,735,203	14.37%	\$2.17	102,143	98,160	190,487	488,560
Santa Clarita Valley	58	3,587,193	0	1,310,764	431,303	12.02%	512,945	14.30%	\$2.39	3,873	38,552	62,324	147,644
South Bay	508	50,549,220	135,700	202,683	6,528,129	12.91%	8,710,707	17.23%	\$2.24	200,758	484,911	690,132	2,283,015
Southeast LA	87	5,497,067	77,250	300,000	457,499	8.32%	545,370	9.92%	\$1.95	(6,774)	(66,264)	54,716	148,559
Ventura North	69	4,280,559	0	147,034	793,254	18.53%	1,393,215	32.55%	\$1.78	19,774	(31,422)	47,441	109,791
Ventura South	248	16,009,754	0	177,152	2,268,141	14.17%	2,793,203	17.45%	\$2.47	52,407	(203,851)	296,981	785,221
West LA	577	61,162,721	625,832	2,054,851	6,753,345	11.04%	9,650,768	15.78%	\$4.35	(143,562)	(157,720)	1,225,913	3,601,678
Los Angeles Market Total	3,338	329,836,025	3,953,457	10,314,927	39,338,876	11.93%	52,669,422	15.97%	\$2.82	401,971	1,849,324	5,041,951	15,589,234
Los Angeles Market Total													
Class A	984	181,306,170	2,622,569	7,298,688	24,335,743	13.42%	32,214,333	17.77%	\$3.02	214,379	1,065,223	3,294,625	9,998,741
Class B	1,891	121,935,221	1,330,888	3,016,239	13,667,229	11.21%	18,434,465	15.12%	\$2.41	159,111	811,706	1,584,617	5,137,355
Class C	463	26,594,634	0	0	1,335,904	5.02%	2,020,624	7.60%	\$1.89	28,481	(27,605)	162,709	453,138
Los Angeles Market Total	3,338	329,836,025	3,953,457	10,314,927	39,338,876	11.93%	52,669,422	15.97%	\$2.82	401,971	1,849,324	5,041,951	15,589,234

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.

Significant Transactions

Sales

Property Address	City	Class	Square Feet	Sale Price	Buyer	Seller
12100 Wilshire Blvd.	Los Angeles	A	365,000	\$225,000,000	Douglass Emmett, Inc.	Hines VAF II 12100 Wilshire, LP
12777 W. Jefferson Blvd. – 3 Buildings	Los Angeles	A	139,045	\$165,000,000	Rockwood Capital, LLC	Vantage Property Investors, LLC
3415 S. Sepulveda Blvd.	Los Angeles	A	179,334	\$68,200,000	The Swig Company	KBS Realty Advisors
14724 Ventura Blvd.	Sherman Oaks	A	167,726	\$56,700,000	Sandstone Properties	Douglas Emmett, Inc.
31303 Agoura Rd. – 6 Properties	Westlake Village	B	253,720	\$47,389,012	Strategic Office Partners	Gramercy Property Trust

Leases

Property Address	City	Class	Square Feet	Transaction Date	Tenant	Owner
800 Corporate Pointe	Culver City	A	97,046	Jul-2016	Ares	Vornado Realty Trust
1620 26th St.	Santa Monica	A	92,350	Jul-2016	Oracle America, Inc.	JP Morgan Chase & Co.
5795 Lindero Canyon Rd. – Renewal	Westlake Village	B	69,060	Jul-2016	Guitar Center	5795 Lindero Canyon, LP
2772-2828 Donald Douglas Loop N.	Santa Monica	B	66,601	Sep-2016	Snapchat	Santa Monica City
1240 Rosecrans Ave.	Manhattan Beach	A	56,295	Aug-2016	WeWork	Onni Group



Market Update

by **Stefan Rogers**

SENIOR VICE PRESIDENT, IRVINE

The Orange County economy and office market showed continued strength in Q3 2016 with more than 850,000 square feet of net absorption (an increase of more than 100,000 compared with Q3 2015) and a 0.41% increase in asking office rents. Over 1.3 million square feet of absorption and 2.95% of rental growth has been recorded in 2016 and office rents are now at or above record highs in core submarkets.

Typically, this data would indicate signs of an anticipated correction or softening in the office market, however strong economic and demographic fundamentals suggest the contrary. While some uncertainty exists over the timing of an interest rate increase and the results of the upcoming general election, we expect the impact to be fairly minimal in Orange County given the diversity of our local economy.

This trend is attributed primarily to continued job growth in the automotive, technology, financial services, medical, and construction sectors. Developers are responding with exciting new projects including 400 Spectrum Center, The Press (the former LA Times site) in Costa Mesa, and The Boardwalk in Irvine. Orange County is increasingly viewed as a highly desirable place to do business due to the educated workforce, attractive Southern California lifestyle and relative affordability of office space compared with many other suburban markets (Los Angeles & San Francisco).

The current landscape presents opportunities for developers/investors, landlords, tenants, buyers and sellers alike. Developers have a unique window to focus on tenant demand and workplace trends while continuing to seek viable, value-add and adaptive reuse opportunities. Landlords have an opportunity to push rents and improve tenant retention by enhancing onsite amenities and services, while consulting closely with tenants to deliver more functional, customized workplaces to help their customers boost their bottom line. Tenants are now looking at longer leases, allowing them to extract maximum economic concessions and control their overall occupancy costs. They are focused on efficiency and intelligent workspace design to maximize recruitment, retention and productivity. Flexibility to expand and contract over time is a key driver for tenants right now as they leverage technology to minimize their real estate footprint.

Buyers, both investors and users, have been taking advantage of the low cost of capital to acquire stabilized long-term investments and we anticipate this trend to continue. Although the capital markets are showing some signs of a correction, sellers are continuing to take advantage of the tremendous flow of capital targeting commercial real estate. Foreign investors, trade buyers and institutional investors continue to compete for a very limited number of quality buildings. While a temporary gap exists in the "bid versus ask" figures on product listed for sale, we expect pricing to hold based on the overall supply/demand imbalance and the strength shown by corporate occupiers as well as local, entrepreneurial firms.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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.

Submarkets

LOS ANGELES

Antelope Valley, Burbank/Glendale/Pasadena, Downtown, Mid-Cities, Mid-Wilshire, San Fernando Valley, San Gabriel Valley, Santa Clarita Valley, South Bay, Southeast LA, Ventura North, Ventura South, West LA