

MARKET CHANGE

Compared 2013:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Steady Growth** - The Los Angeles County office market had a great 2014, posting over three million square feet of positive net absorption. This gives the market a total of over 7.5 million square feet of positive absorption for the last three and a half years. Vacancy continued its downward trend and lease rates continued to increase on an annual basis.
- **Construction** - Total space under construction in the Los Angeles office market came in at 2.29 million square feet for the fourth quarter of 2014, mostly class A space. Construction levels have not been this high since the third quarter of 2009.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 12.68%, a drop of 34 basis points from the previous quarter and a 5.93% decrease from the same quarter last year.
- **Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.52% at the end of the fourth quarter, down 5 basis points from the previous quarter and about the same as when compared to 2013's rate of 16.51%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.52 at the end of the quarter, down one cent from the previous quarter and four 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 \$2.71 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$3.94 FSG.
- **Absorption** - The Los Angeles office market posted a positive 1.14 million square feet of net absorption for the quarter, giving the Los Angeles office market a total of over three million square feet for the past four 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 18 million square feet for the year, producing a total of over 43 million square feet leased during the past two years. Sales activity decreased in 2014, coming in at 20 million square feet and giving the Los Angeles office market a total of 45 million square feet of sales activity for the past two years. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher in future reports. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in Los Angeles County was 8.0% in November 2014, unchanged from a revised 8.0% in October 2014 and below the previous year's estimate of 9.4%. This compares with an unadjusted unemployment rate of 7.1% 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 60,000 payroll jobs from November 2013 to November 2014. Most sectors showed gains in employment; the largest gains were 22,900 in educational and health services and 21,800 in professional and business services during that same period. Los Angeles County's manufacturing sector suffered the biggest losses over the year — down 10,500 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

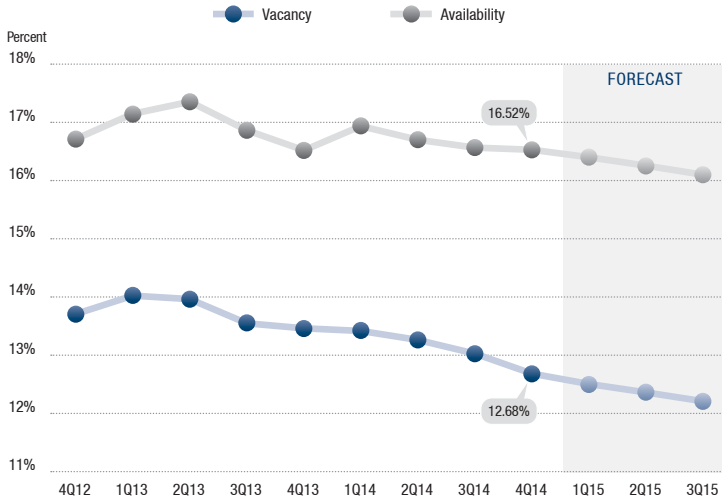
- **Construction** - While we foresee more development projects materializing in coming quarters, we expect land constraints to keep new supply well below demand growth over the next few years.
- **Employment** - We anticipate job growth of around 1.3%, or 58,900 jobs, in the Los Angeles area over the 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 50 basis points, to around 12.2%, by the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	12.68%	13.48%	13.73%	(5.93%)
Availability Rate	16.52%	16.51%	16.72%	0.06%
Average Asking Lease Rate	\$2.52	\$2.48	\$2.41	1.61%
Sale & Lease Transactions	37,940,753	50,414,488	40,765,539	(24.74%)
Gross Absorption	19,856,701	22,732,702	21,009,291	(12.65%)
Net Absorption	3,034,024	1,908,193	2,217,390	N/A

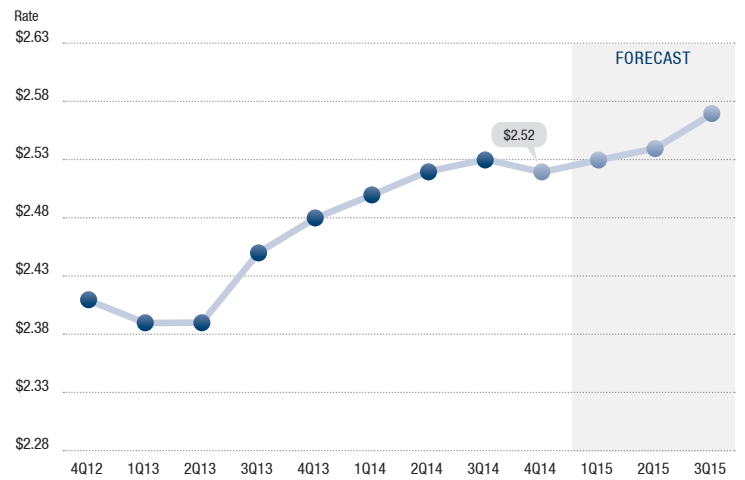
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



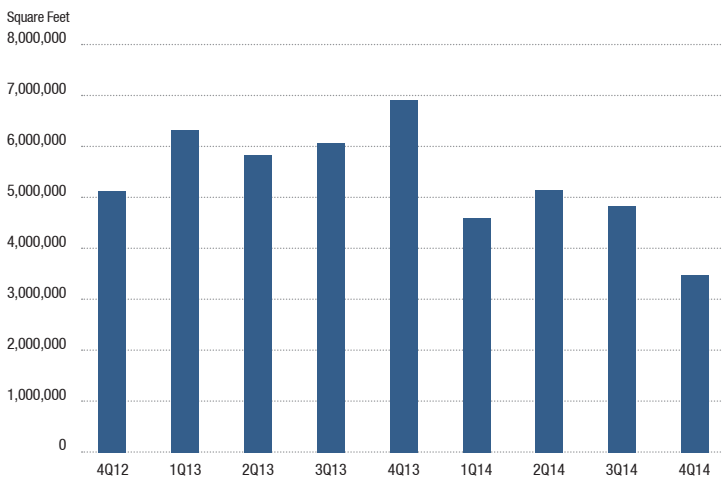
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



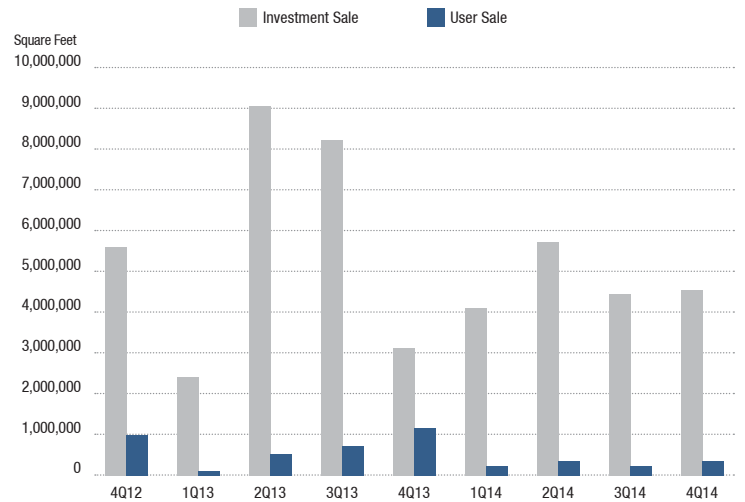
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



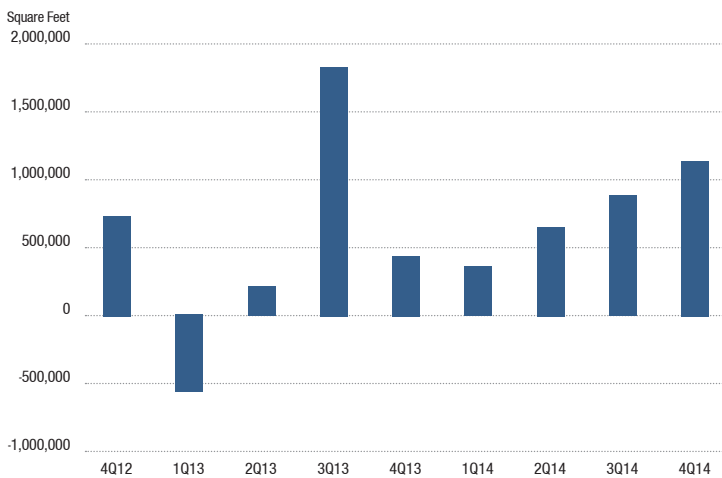
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



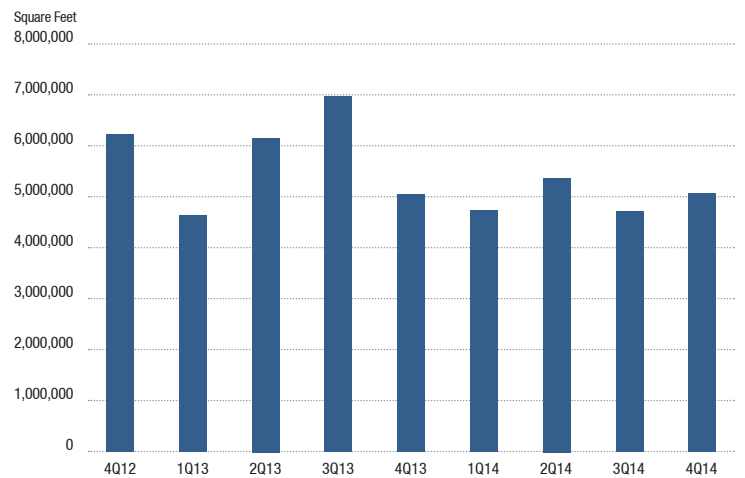
NET ABSORPTION

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



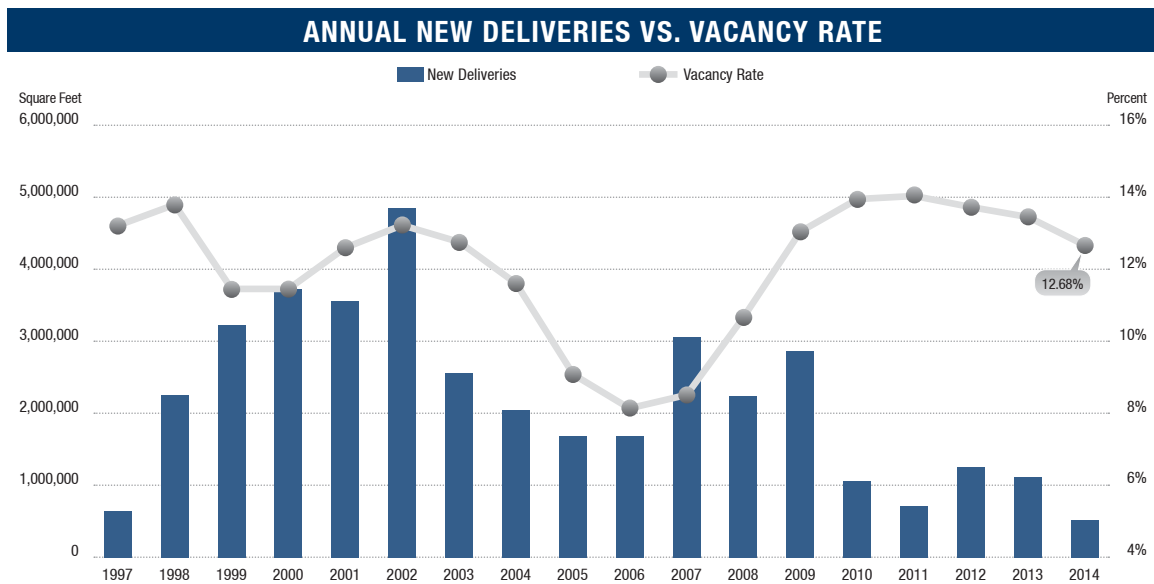
GROSS ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Los Angeles Market Total													
Antelope Valley	32	1,509,853	0	180,000	139,122	9.21%	361,041	23.91%	\$0.00	18,101	26,427	21,905	70,852
Burbank / Glendale / Pasadena	424	38,302,132	155,000	692,190	4,147,317	10.83%	5,228,047	13.65%	\$2.60	97,600	382,486	619,963	2,601,049
Downtown	311	65,119,580	386,140	2,367,331	8,352,178	12.83%	11,280,135	17.32%	\$2.79	136,489	256,410	832,765	2,573,218
Mid-Cities	75	4,740,909	28,400	0	367,344	7.75%	764,344	16.12%	\$2.04	(41,275)	(30,722)	135,741	257,040
Mid-Wilshire	300	29,972,919	579,015	1,216,116	4,339,035	14.48%	5,148,506	17.18%	\$2.18	48,556	189,852	397,477	1,629,823
San Fernando Valley	344	27,162,918	170,978	847,120	3,526,973	12.98%	4,598,451	16.93%	\$2.16	107,332	82,782	528,301	1,918,478
San Gabriel Valley	296	18,922,989	213,586	1,059,661	2,045,976	10.81%	2,354,426	12.44%	\$2.02	213,890	221,273	316,954	1,148,925
Santa Clarita Valley	56	3,424,059	100,000	384,629	380,769	11.12%	470,084	13.73%	\$2.21	4,323	27,717	20,218	192,693
South Bay	500	50,268,502	146,138	1,259,721	8,212,528	16.34%	9,729,045	19.35%	\$2.06	182,364	376,707	707,738	2,817,147
Southeast LA	88	5,499,299	0	60,000	421,337	7.66%	722,527	13.14%	\$1.97	(10,126)	(13,403)	18,206	132,513
Ventura North	67	3,720,577	0	147,034	440,873	11.85%	976,578	26.25%	\$1.77	257	19,156	12,075	86,042
Ventura South	245	15,553,726	163,580	537,619	2,012,704	12.94%	2,976,771	19.14%	\$2.16	80,179	225,525	262,098	1,210,938
West LA	561	60,748,248	349,571	1,418,187	6,809,773	11.21%	9,056,224	14.91%	\$3.94	301,207	1,269,814	1,180,741	5,217,983
Los Angeles Market Total	3,299	324,945,711	2,292,408	10,169,608	41,195,929	12.68%	53,666,179	16.52%	\$2.52	1,138,897	3,034,024	5,054,182	19,856,701
Los Angeles Market Total													
Class A	976	180,763,968	1,778,092	7,966,321	25,897,964	14.33%	32,942,358	18.22%	\$2.71	590,054	2,267,360	3,036,385	12,399,061
Class B	1,856	117,937,865	514,316	2,203,287	13,629,834	11.56%	18,372,626	15.58%	\$2.07	449,800	881,974	1,730,040	6,747,831
Class C	467	26,243,878	0	0	1,668,131	6.36%	2,351,195	8.96%	\$1.79	99,043	(115,310)	287,757	709,809
Los Angeles Market Total	3,299	324,945,711	2,292,408	10,169,608	41,195,929	12.68%	53,666,179	16.52%	\$2.52	1,138,897	3,034,024	5,054,182	19,856,701

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 OF 2014**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
2049 Century Park E. – 3 Properties	Century City	A	3,238,075	\$756.62	JP Morgan Asset Management	General Motors Pension Trust
707 Wilshire Blvd.	Greater Downtown	A	1,110,000	\$241.91	SRI Ten 707 Wilshire, LLC	707 Wilshire Fee, LLC
801 S. Figueroa St.	Greater Downtown	A	458,570	\$386.42	CFP 801 Tower, LLC	Mani Brothers 801 Tower (DE), LLC
10000 W. Washington Blvd.	Culver City	A	338,695	\$469.45	LBA RV-Company IX, LP	TCE-Filmland Holdings, LLC
400 Continental Blvd. – 2 Properties	El Segundo	A	486,822	\$273.20	DWF IV 300 Continental Blvd., LLC	Continental Grand I, LP

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
10000 W. Washington Blvd.	West LA	A	338,695	Jan-14	Sony Pictures Entertainment, Inc.	LBA RV-Company IX, LP
633 W. 5th St.	Downtown	A	215,230	Dec-14	Lewis Brisbois Bisgaard & Smith, LLP	Beringia Central, LLC
333 S. Grand Ave.	Downtown / Greater LA	A	182,088	Nov-14	Oaktree Capital Management, LP	Maguire Partners 355 S. Grand, LLC
4920 Rivergrade Rd.	San Gabriel Valley	B	167,665	Jan-14	City of Hope	Metropolitan Life Insurance Co.
21301 Burbank Blvd.	Woodland Hills/ Warner Center	A	146,636	May-14	Universal Music Group	Hines Warner Center

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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