



Office Market Update Greater Los Angeles

FIRST QUARTER 2014

Overview

In the first quarter 2014 the office market in the Greater Los Angeles area continued its sluggish recovery pace, compared to other major markets, as job creation remained stuck in low gear. The county's unemployment rate decreased to 8.9 percent in January from a revised 9.2 percent in December, 2013. Hindering a full recovery in Los Angeles is that businesses continued to flee the area for tax incentives, lower business costs, ease of doing business in other cities, or a higher quality of life for their employees. Leasing velocity, while consistent, was not at the level witnessed at the close of the fourth quarter of last year.

Absorption

Net absorption for the Greater Los Angeles office market was positive 538,463 square feet in the first quarter 2014, compared to a positive 811,852 square feet in the fourth quarter 2013. The Class-A office market recorded net absorption of positive 871,192 square feet, Class-B was negative (37,140) square feet, and Class-C was negative (295,589) square feet.

Los Angeles Office Market Snapshot

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Antelope Valley	352	3,826,530	409,221	10.7%	-8,286	24,264	\$1.78
Burbank/Glendale/Pasadena	3,050	55,028,036	6,138,270	11.2%	-194,935	194,436	\$2.45
Downtown Los Angeles	692	68,635,617	8,780,720	12.8%	56,752	30,000	\$2.75
Mid-Cities	996	10,269,389	776,430	7.6%	-36,242	0	\$1.79
Mid-Wilshire	1,588	39,933,866	4,901,518	12.3%	98,669	397,545	\$2.44
San Fernando Valley	1,479	35,884,272	4,201,147	11.7%	38,506	0	\$2.02
San Gabriel Valley	1,980	30,449,929	2,898,852	9.5%	-75,298	188,589	\$1.89
Santa Clarita Valley	209	4,771,321	580,773	12.2%	12,662	0	\$2.46
South Bay	2,402	63,314,734	9,832,271	15.5%	53,262	259,189	\$2.05
Southeast Los Angeles	584	8,575,763	659,530	7.7%	-3,967	0	\$1.66
Ventura North	817	7,639,479	701,704	9.2%	-5,527	0	\$1.77
Ventura South	997	21,461,984	2,946,111	13.7%	62,164	114,334	\$1.96
West Los Angeles	2,461	75,586,089	8,832,823	11.7%	540,703	142,355	\$3.60
Totals	17,607	425,377,009	51,659,370	12.1%	538,463	1,350,712	\$2.44

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased to 12.1% at the end of the first quarter 2014, and was down from the 12.6% rate recorded a year ago. The South Bay submarket had the region's highest vacancy rate of 15.5%, followed by the Ventura South submarket at 13.7%, and the Downtown Los Angeles submarket at 12.8%. The Mid-Cities submarket had the lowest vacancy rate of 7.6%, followed by the Southeast Los Angeles submarket at 7.7%, and the Ventura North submarket at 9.2%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, increased to \$2.44 per square foot at the end of the first quarter 2014 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.70 at the end of the first quarter, while Class-B rates stood at \$2.17, and Class-C rates at \$2.05. The West Los Angeles submarket had the highest asking rate of \$3.60 per square foot, while the Southeast Los Angeles submarket had the lowest asking rate at \$1.66 per square foot.

Construction

During the first quarter 2014, three buildings totaling 173,980 square feet were completed in the Greater Los Angeles market and there were 1,360,712 square feet of office space under construction. The largest projects underway were the Columbia Square, Gower/Selma in Hollywood, a 248,879-square-foot building with 0% of its space pre-leased, and Playhouse Plaza, at 680 E. Colorado Blvd. in Pasadena, a 155,000-square foot facility that is 0% pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
2700 Colorado Ave., Santa Monica	Lionsgate Entertainment (renewal & expansion)	178,000
2300 Imperial Highway, El Segundo	DirecTV	157,211
28515 Westinghouse Blvd., Valencia	Advanced Bionics (renewal)	146,000
800 Apollo Street, El Segundo	JustFab	97,000
465 N. Halstead Street, Pasadena	Community Bank	83,083
3059 Townsgate Road, Westlake Village	Dole Food Company	75,000

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the fourth quarter 2013 in terms of dollar volume compared to the third quarter 2013. In the fourth quarter, 41 office transactions closed with a total volume of \$3,031,616,285. The 41 buildings totaled 8,211,009 square feet and the average price equated to \$369.21 per square foot. That compares to 50 transactions totaling \$1,820,407,941 in the third quarter 2013. Cap rates have been lower in 2013, averaging 6.17% compared to the same period in 2012 when they averaged 7.25%. The largest transaction that occurred within the fourth quarter 2013 was the sale by MPG Office Trust, Inc. of four office buildings located at 777 S. Figueroa St., 555 W 5th St., 355 S. Grand Ave. and 333 S. Grand Ave., located in downtown Los Angeles, to Brookfield Office Properties, Inc. The sale of this 4,879,991 square foot building portfolio took place on 10/15/2013 for \$2,139,859,285 or approximately \$438.50 per square foot.



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Local Offices

Santa Clarita Valley
28338 Constellation Road
Suite 950
Valencia, CA 91355
(661) 702-8880

Los Angeles
545 S. Figueroa Street
12th Floor
Los Angeles, CA 90071
(213) 627-3338

Orange County
4041 MacArthur Boulevard
Suite 120
Newport Beach, CA 92660
(949) 650-5899

Duane Cody – Senior Director
Southern California Operations
(661) 702-8880
dcody@raginc.com

Prepared by:

Binswanger / Realty Advisory Group
28338 Constellation Road, Suite 950
Valencia, CA 91355
Tel: (661) 702-8880
www.binswanger.com

