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Office Market Update Greater Los Angeles

FIRST QUARTER 2016

Overview

The Greater Los Angeles office market continued to improve in the first quarter of 2016 despite economic weakness abroad. Steady demand continued to chip away at the vacancy rate and the market continued to see rising rental rates. Growth in technology firms and up-and-coming co-working companies contributed greatly to positive net absorption of 811,328 square feet in the first quarter of 2016. Among the hottest markets was downtown L.A., an area that is experiencing strong activity, not only in tech and creative firms, but also its traditional law and insurance industries. Despite a shaky global economy, investment activity also remained brisk in the first quarter 2016.

Absorption

Net absorption for the Greater Los Angeles office market was positive 811,328 square feet in the first quarter 2016, compared to a positive 1,821,501 square feet in the fourth quarter 2015. The Class-A office market recorded net absorption of positive 182,092 square feet, Class-B was positive 616,316 square feet, and Class-C was positive 12,920 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	366	3,956,840	536,071	13.5%	251	0	\$1.74
Burbank/Glendale/Pasadena	3,065	55,766,825	4,747,653	8.5%	219,971	229,384	\$2.56
Downtown Los Angeles	700	69,104,446	8,346,723	12.1%	110,558	1,198,018	\$2.97
Mid-Cities	1,038	10,519,850	791,352	7.5%	-13,071	0	\$2.01
Mid-Wilshire	1,609	40,312,293	5,248,921	13.0%	164,231	630,801	\$3.02
San Fernando Valley	1,486	35,908,869	3,833,848	10.7%	253,652	122,978	\$2.19
San Gabriel Valley	2,015	30,670,558	2,946,899	9.6%	70,048	74,385	\$2.04
Santa Clarita Valley	215	4,846,727	558,147	11.5%	21,593	0	\$2.39
South Bay	2,503	64,282,854	8,471,359	13.2%	207,267	193,366	\$2.26
Southeast Los Angeles	613	8,622,846	553,136	6.4%	2,192	0	\$1.83
Ventura North	817	7,931,664	1,045,508	13.2%	-81,801	0	\$1.76
Ventura South	1,002	21,723,356	2,760,000	12.7%	-294,214	134,198	\$2.20
West Los Angeles	2,515	75,150,062	7,047,804	9.4%	150,651	583,945	\$4.04
Totals	17,944	428,797,190	46,887,421	10.9%	811,328	3,167,075	\$2.67

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased slightly to 10.9% at the end of the first quarter 2016, and was down from the 11.6% rate recorded a year ago. The Antelope Valley submarket had the region's highest vacancy rate of 13.5%, followed by the South Bay and Ventura North submarkets, both at 13.2%, and the Mid-Wilshire submarket at 13.0%. The Southeast Los Angeles submarket had the lowest vacancy rate of 6.4%, followed by the Mid-Cities submarket at 7.5%, and the Burbank/Glendale/Pasadena submarket at 8.5%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.67 per square foot at the end of the first quarter 2016 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.93 at the end of the first quarter, while Class-B rates stood at \$2.46, and Class-C rates at \$2.16. The West Los Angeles submarket had the highest asking rate of \$4.04 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.74 per square foot.

Construction

During the first quarter 2016, six buildings totaling 466,075 square feet were completed in the Greater Los Angeles market and there were 3,167,075 square feet of office space under construction. The largest projects underway were the Los Angeles Federal Courthouse, a 600,000-square-foot building with 100% of its space pre-leased, and Office Plaza at Wilshire Grand, a 356,141-square-foot building with 0% of its space pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
2300 E. Imperial Hwy., El Segundo	DirecTV (renewal)	157,200
2700 Colorado Ave., Santa Monica	Lionsgate (expansion & renewal)	155,052
515 S. Flower St., Downtown Los Angeles	Paul Hastings (renewal)	140,000
5808 W. Sunset Blvd., Hollywood	Netflix (expansion)	123,221
990 W. 190th St., Los Angeles	Herbalife (renewal & expansion)	111,412
10250 Constellation Blvd., Century City	International Creative Management, Inc.	108,259

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the fourth quarter 2015 in terms of dollar volume compared to the third quarter 2015. In the fourth quarter, 63 office transactions closed with a total volume of \$1,433,476,100. The 63 buildings totaled 4,859,910 square feet and the average price equated to \$294.96 per square foot. That compares to 58 transactions totaling \$1,590,435,537 in the third quarter 2015. Cap rates have been lower in 2015, averaging 5.80% compared to the same period in 2014 when they averaged 6.44%. The largest transaction that occurred within the fourth quarter 2015 was the portfolio sale by The Blackstone Group LP of the 5-Property West LA Office Portfolio, to Jade Enterprises. The sale of these five building, totaling 346,581 square feet, took place on 12/30/2015 for \$172,500,000 or approximately \$497.72 per square foot.



PROVIDING OFFICE TENANTS WITH EXPERT SOLUTIONS



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