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Office Market Update Greater Los Angeles

FIRST QUARTER 2017

Overview

The Greater Los Angeles office market started the year off with what, at first glance, was some eye-popping negative net absorption in the first quarter of 2017. However, two key factors that contributed greatly to the negative start were, (i) the delivery of a large volume of square footage in newly constructed buildings that hit the market, and (ii) a few key move-outs by some large tenants. Large tenants are expected to continue to drive the office market dynamics, so the expectation is that quarter to quarter volatility may be the norm for the foreseeable future.

Absorption

Net absorption for the Greater Los Angeles office market was negative (1,397,481) square feet in the first quarter 2017, compared to a positive 588,895 square feet in the fourth quarter 2016. The Class-A office market recorded net absorption of negative (942,553) square feet, Class-B was negative (205,254) square feet, and Class-C was negative (249,674) 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	370	4,125,597	502,840	12.2%	6,602	0	\$1.67
Burbank/Glendale/Pasadena	3,090	55,987,438	4,645,739	8.3%	-239,394	57,880	\$2.64
Downtown Los Angeles	709	70,886,887	8,987,226	12.7%	-53,092	2,208,177	\$3.09
Mid-Cities	1,057	10,714,822	1,182,193	11.0%	-28,818	0	\$2.13
Mid-Wilshire	1,624	40,763,707	4,940,112	12.1%	-173,563	576,991	\$3.13
San Fernando Valley	1,490	36,076,580	3,654,289	10.1%	-12,744	0	\$2.28
San Gabriel Valley	2,034	30,536,110	2,693,412	8.8%	-116,888	89,996	\$2.08
Santa Clarita Valley	215	4,764,984	493,603	10.4%	4,589	96,115	\$2.48
South Bay	2,529	64,487,447	7,644,181	11.9%	46,446	774,957	\$2.34
Southeast Los Angeles	623	8,666,260	557,581	6.4%	663	146,682	\$1.85
Ventura North	823	8,304,945	988,884	11.9%	-48,919	0	\$1.76
Ventura South	1,006	21,908,420	2,569,453	11.7%	7,104	26,800	\$2.20
West Los Angeles	2,567	76,376,644	8,625,315	11.3%	-789,467	1,176,715	\$4.43
Totals	18,137	433,599,841	47,484,828	11.0%	-1,397,481	5,154,313	\$2.85

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 11.0% at the end of the first quarter 2017, and was up slightly from the 10.9% rate recorded a year ago. The Downtown Los Angeles submarket had the region's highest vacancy rate of 12.7%, followed by the Antelope Valley submarket at 12.2% and the Mid-Wilshire submarket at 12.1%. The Southeast Los Angeles submarket had the lowest vacancy rate at 6.4%, followed by the Burbank/Glendale/Pasadena submarket at 8.3% and the San Gabriel Valley submarket at 8.8%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.85 per square foot at the end of the first quarter 2017 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.16 at the end of the first quarter, while Class-B rates stood at \$2.58, and Class-C rates at \$2.32. The West Los Angeles submarket had the highest asking rate of \$4.43 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.67 per square foot.

Construction

During the first quarter 2017, eight buildings totaling 1,271,399 square feet were completed in the Greater Los Angeles market and there were 5,154,313 square feet of office space under construction. The largest projects underway were 801 Broadway, a 955,561-square-foot building with 0% of its space pre-leased, and ROW DTLA/757 S. Alameda Building III, a 425,131-square foot building with 100% of its space pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
25129 & 25155 Rye Cyn. Loop, Santa Clarita	Boston Scientific Corp. (renewal)	242,000
3100 Thornton Ave., Burbank	Kaiser Foundation Health Plan (renewal)	194,145
1055 W. 7th Street, Downtown Los Angeles	LA Care Health Plan (renewal)	141,363
222 W. 6th Street, South Bay	Molina Healthcare	99,343
5808 W. Sunset Blvd., Hollywood	Netflix	91,953
2012 Abalone Ave., Torrance	Alpine Electronics of America, Inc. (renewal)	69,700

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the fourth quarter 2016 in terms of dollar volume compared to the third quarter 2016. In the fourth quarter, 47 office transactions closed with a total volume of \$2,582,476,655. The 47 buildings totaled 5,155,104 square feet and the average price equated to \$500.96 per square foot. That compares to 40 transactions totaling \$1,231,152,500 in the third quarter 2016. Cap rates have been lower in 2016, averaging 5.49% compared to the same period in 2015 when they averaged 5.82%. The largest transaction that occurred within the fourth quarter 2016 was the sale by Comingled Pension Trust Fund/JP Morgan Chase of the Bluff Creek Buildings at 12121 & 12181 Bluff Creek Dr. in Playa Vista, to Edward J. Minskoff Equities, Inc. The sale of these two buildings containing 500,943 square feet took place on 10/14/2016 for \$413,000,000 or approximately \$824.45 per square foot.



PROVIDING OFFICE TENANTS WITH EXPERT SOLUTIONS



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