



Office Market Update Greater Los Angeles

SECOND QUARTER 2014

Overview

In the second quarter 2014 the office market in the Greater Los Angeles area began to rebound, as the office vacancy rate declined, asking rental rates rose and construction increased. The rebounding economy and improving employment numbers have breathed a new sense of optimism into the outlook for the Greater Los Angeles market. A growing number of businesses are feeling confident enough to take the plunge and relocate to new offices when their leases expire, even though substantial moving costs may be involved. New leases edged out renewals in the second quarter 2014, with significant activity in the burgeoning technology and new media industries.

Absorption

Net absorption for the Greater Los Angeles office market was positive 910,782 square feet in the second quarter 2014, compared to a positive 411,375 square feet in the first quarter 2014. The Class-A office market recorded net absorption of positive 229,300 square feet, Class-B was positive 448,430 square feet, and Class-C was positive 233,052 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	355	3,847,432	395,615	10.3%	5,820	24,264	\$1.74
Burbank/Glendale/Pasadena	3,054	55,280,587	5,998,782	10.9%	68,451	194,436	\$2.46
Downtown Los Angeles	695	68,905,224	8,777,587	12.7%	70,190	386,140	\$2.77
Mid-Cities	998	10,280,128	711,265	6.9%	2,694	9,200	\$1.79
Mid-Wilshire	1,595	39,936,535	4,813,615	12.1%	189,429	670,581	\$2.51
San Fernando Valley	1,480	35,851,687	4,410,029	12.3%	-6,076	42,000	\$2.07
San Gabriel Valley	1,981	30,230,798	2,921,640	9.7%	-30,359	190,788	\$1.93
Santa Clarita Valley	210	4,675,322	501,832	10.7%	-7,897	100,000	\$2.41
South Bay	2,420	63,325,608	9,799,822	15.5%	-189	447,737	\$2.10
Southeast Los Angeles	589	8,570,402	615,201	7.2%	26,985	0	\$1.71
Ventura North	817	7,683,969	652,637	8.5%	43,540	0	\$1.76
Ventura South	997	21,379,256	2,758,047	12.9%	162,664	174,715	\$2.06
West Los Angeles	2,468	75,859,328	8,482,277	11.2%	796,905	68,229	\$3.51
Totals	17,659	425,826,276	50,838,349	11.9%	1,322,157	2,308,090	\$2.47

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased to 11.9% at the end of the second quarter 2014, and was down from the 12.7% 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 12.9%, and the Downtown Los Angeles submarket at 12.7%. The Mid-Cities submarket had the lowest vacancy rate of 6.9%, followed by the Southeast Los Angeles submarket at 7.2%, and the Ventura North submarket at 8.5%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, increased to \$2.47 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 \$2.71 at the end of the first quarter, while Class-B rates stood at \$2.20, and Class-C rates at \$2.09. The West Los Angeles submarket had the highest asking rate of \$3.51 per square foot, while the Southeast Los Angeles submarket had the lowest asking rate at \$1.71 per square foot.

Construction

During the second quarter 2014, five buildings totaling 130,971 square feet were completed in the Greater Los Angeles market and there were 2,308,090 square feet of office space under construction. The largest projects underway were the Office Plaza at Wilshire Grand, a 356,140-square-foot building with 0% of its space pre-leased, and Columbia Square, Gower/Selma in Hollywood, a 248,879-square-foot building with 0% of its space pre-leased.

Los Angeles Top Office Leases

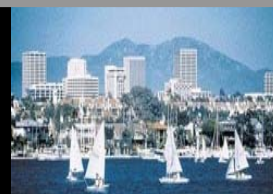
Address	Tenant	SF
2220 Colorado Ave., Santa Monica	Universal Music Group (renewal)	201,000
21301 Burbank Blvd., Woodland Hills	Universal Music Group	146,600
555 W. 5th Street, Greater Downtown	Deloite	113,000
633 W. 5th Street, Greater Downtown	U.S. Bank (renewal)	105,000
6300 Canoga Ave., Woodland Hills	Blue Shield (renewal)	98,000
465 N. Halstead Street, Pasadena	Community Bank	82,993

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2014 in terms of dollar volume compared to the fourth quarter 2013. In the first quarter, 42 office transactions closed with a total volume of \$817,150,500. The 42 buildings totaled 3,383,460 square feet and the average price equated to \$241.51 per square foot. That compares to 43 transactions totaling \$2,806,024,285 in the fourth quarter 2013. Cap rates have been lower in 2014, averaging 6.44% compared to the same period in 2013 when they averaged 6.54%. The largest transaction that occurred within the first quarter 2014 was the sale by Amstar Advisers LLC of the Westlake Park Place building located in Westlake Village to Invesco Real Estate. The sale of this 238,943 square foot building took place on 1/14/2014 for \$98,025,000 or approximately \$410.24 per square foot.



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