

Overview

In the second quarter of 2015, the Greater Los Angeles office market had a dramatic improvement in leasing activity, as tenants leased up more office space than they had since before the recession. Net absorption soared to 1,685,780 square feet driven by continued strength in the West Los Angeles and South Bay submarkets. This strong performance can be attributed to a greatly improved local economy, driven primarily by growth in the information and business services sectors. Los Angeles County's unemployment rate in May 2015 dropped to 7.6% compared to 8.0% one year earlier.

Absorption

Net absorption for the Greater Los Angeles office market was positive 1,685,780 square feet in the second quarter 2015, compared to a negative (309,262) square feet in the first quarter 2015. The Class-A office market recorded net absorption of positive 1,067,603 square feet, Class-B was positive 546,685 square feet, and Class-C was positive 71,492 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	362	3,852,734	413,963	10.7%	-52,913	9,120	\$1.76
Burbank/Glendale/Pasadena	3,054	55,671,858	5,370,120	9.6%	212,926	133,457	\$2.49
Downtown Los Angeles	695	68,858,998	8,203,583	11.9%	186,593	1,237,141	\$2.78
Mid-Cities	1011	10,411,449	827,588	7.9%	-108,173	9,200	\$1.94
Mid-Wilshire	1,597	39,577,442	4,621,238	11.7%	97,292	1,260,585	\$2.83
San Fernando Valley	1,474	35,893,659	4,267,991	11.9%	186,873	122,978	\$2.12
San Gabriel Valley	2,003	30,640,046	2,908,570	9.5%	202,114	74,078	\$1.96
Santa Clarita Valley	211	4,832,971	590,512	12.2%	-20,548	0	\$2.33
South Bay	2,447	63,321,154	9,088,070	14.4%	132,985	400,343	\$2.16
Southeast Los Angeles	600	8,551,058	572,648	6.7%	-4,968	0	\$1.76
Ventura North	817	7,684,275	878,316	11.4%	-182,385	0	\$1.77
Ventura South	1,005	21,507,408	2,584,088	12.0%	78,215	120,933	\$2.15
West Los Angeles	2,492	74,829,088	7,440,517	9.9%	648,507	183,500	\$3.90
Totals	17,768	425,632,140	47,767,204	11.2%	1,376,518	3,551,335	\$2.56

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased slightly to 11.2% at the end of the second quarter 2015, and was down from the 11.9% rate recorded a year ago. The South Bay submarket had the region's highest vacancy rate of 14.4%, followed by the Santa Clarita Valley submarket at 12.2%, and the Ventura South submarket at 12.0%. The Southeast Los Angeles submarket had the lowest vacancy rate of 6.7%, followed by the Mid-Cities submarket at 7.9%, and the San Gabriel Valley submarket at 9.5%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, increased to \$2.56 per square foot at the end of the second quarter 2015 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.83 at the end of the second quarter, while Class-B rates stood at \$2.29, and Class-C rates at \$2.20. The West Los Angeles submarket had the highest asking rate of \$3.90 per square foot, while the Southeast Los Angeles submarket and the Antelope Valley submarket were tied for the lowest asking rate at \$1.76 per square foot.

Construction

During the second quarter 2015, seven buildings totaling 349,763 square feet were completed in the Greater Los Angeles market and there were 3,836,335 square feet of office space under construction. The largest projects underway were the Los Angeles Federal Courthouse, a 528,000-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
633 W. 5th Street, Greater LA Downtown	Lewis Brisbois Bisgaard & Smith LLP (renewal)	215,230
2175 E. Park Place, El Segundo	DaVita Healthcare Partners, Inc.	185,000
300 S. Grand Ave., Greater LA Downtown	Aecom Technology Corp.	121,330
2411 W. Olive Ave., Burbank	Walt Disney Co. (renewal)	110,000
2450 Broadway, Santa Monica	Hulu	61,673
3043 Townsgate Road, Thousand Oaks	PennyMac	60,466

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2015 in terms of dollar volume compared to the fourth quarter 2014. In the first quarter, 36 office transactions closed with a total volume of \$1,145,048,636. The 36 buildings totaled 3,001,408 square feet and the average price equated to \$381.50 per square foot. That compares to 47 transactions totaling \$1,534,969,500 in the fourth quarter 2014. Cap rates have been lower in 2015, averaging 5.66% compared to the same period in 2014 when they averaged 6.50%. The largest transaction that occurred within the first quarter 2015 was the sale by Shorenstein Properties LLC and Worthe Real Estate, of the Reserve, located at 13031 W. Jefferson Blvd. in Playa Del Rey, to Invesco Real Estate. The sale of this building, totaling 399,373 square feet, took place on 1/29/2015 for \$316,000,000 or approximately \$791.24 per square foot.



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