

Overview

The Greater Los Angeles office market continued to improve in the second quarter of 2016 as concerns over the national economy faded from the beginning of the year. The improvement was widespread, in every major L.A. County office market from downtown to the South Bay, with growing businesses expanding into larger spaces. Among the hottest markets was the Tri-Cities area of Burbank, Glendale and Pasadena, with growth there driven by several industries including entertainment and finance. Despite the so-called Brexit from the European Union, the near term impact on investment activity should be minimal as interest rates are expected to remain low.

Absorption

Net absorption for the Greater Los Angeles office market was positive 1,280,416 square feet in the second quarter 2016, compared to a positive 688,452 square feet in the first quarter 2016. The Class-A office market recorded net absorption of positive 621,031 square feet, Class-B was positive 525,154 square feet, and Class-C was positive 134,231 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	368	4,122,384	553,904	13.4%	-682	0	\$1.74
Burbank/Glendale/Pasadena	3,078	55,892,444	4,693,077	8.4%	251,679	231,440	\$2.55
Downtown Los Angeles	708	69,872,747	8,325,322	11.9%	538,949	1,126,141	\$3.00
Mid-Cities	1,049	10,533,762	705,647	6.7%	8,366	0	\$2.01
Mid-Wilshire	1,615	40,452,220	5,084,939	12.6%	399,663	741,801	\$2.99
San Fernando Valley	1,482	35,802,462	3,605,734	10.1%	445,070	122,978	\$2.24
San Gabriel Valley	2,019	30,521,893	2,557,871	8.4%	162,986	74,487	\$2.04
Santa Clarita Valley	215	4,824,621	499,410	10.4%	58,660	0	\$2.46
South Bay	2,511	64,545,418	8,149,300	12.6%	335,830	190,842	\$2.27
Southeast Los Angeles	617	8,664,184	582,548	6.7%	-51,781	77,250	\$1.83
Ventura North	820	8,277,782	988,787	11.9%	-27,650	0	\$1.75
Ventura South	1,004	21,830,110	2,718,510	12.5%	-168,682	73,732	\$2.23
West Los Angeles	2,527	75,694,534	7,369,911	9.7%	16,460	698,492	\$4.07
Totals	18,013	431,034,561	45,834,960	10.6%	1,968,868	3,337,163	\$2.69

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased slightly to 10.6% at the end of the second quarter 2016, and was down from the 11.2% rate recorded a year ago. The Antelope Valley submarket had the region's highest vacancy rate of 13.4%, followed by the South Bay and Mid-Wilshire submarkets, both at 12.6%. The Southeast Los Angeles and Mid-Cities submarkets had the lowest vacancy rate, each at 6.7%, followed by the San Gabriel Valley and the Burbank/Glendale/Pasadena submarkets, each at 8.4%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.69 per square foot at the end of the second quarter 2016 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.95 at the end of the second quarter, while Class-B rates stood at \$2.47, and Class-C rates at \$2.22. The West Los Angeles submarket had the highest asking rate of \$4.07 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.74 per square foot.

Construction

During the second quarter 2016, seven buildings totaling 163,212 square feet were completed in the Greater Los Angeles market and there were 3,337,163 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
777 S. Aviation Blvd., El Segundo	Federal Aviation Administration	155,000
865 S. Figueroa St., Downtown Los Angeles	Quinn, Emanuel, Urquhart, et. al. (renewal)	135,003
3355 W. Empire Ave., Burbank	The Walt Disney Co. (expansion)	128,267
5999 Center Drive, Culver City	Univision Television Group, Inc. (renewal)	104,448
3780 W. Martin Luther King Jr. Blvd., Culver City	Kaiser Permanente	100,000
2701 Olympic Blvd., Santa Monica	AwesomenessTV	90,000

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2016 in terms of dollar volume compared to the fourth quarter 2015. In the first quarter, 32 office transactions closed with a total volume of \$819,425,845. The 32 buildings totaled 2,487,080 square feet and the average price equated to \$329.47 per square foot. That compares to 63 transactions totaling \$1,433,476,100 in the fourth quarter 2015. Cap rates have been slightly higher in 2016, averaging 5.78% compared to the same period in 2015 when they averaged 5.75%. The largest transaction that occurred within the first quarter 2016 was the sale by Brickman Associates of the 915 Wilshire Blvd. Building, to Lincoln Property Company. The sale of this 346,581 square foot building took place on 3/18/2016 for \$128,450,000 or approximately \$329.10 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:
 Realty Advisory Group, Inc.
 28338 Constellation Road, Suite 950
 Valencia, CA 91355
 Tel: (661) 702-8880
 www.raginc.com

