

# Office Market Update Greater Los Angeles

**FOURTH QUARTER 2015** 

## Overview

After a somewhat disappointing third quarter of 2015, the Los Angeles office market in the fourth quarter of 2015 regained the momentum lost in the prior quarter, as net absorption surged to the high levels seen back in the second quarter of 2015. The uptick in absorption certainly sets a positive tone for market sentiment heading into 2016, however, many market participants are approaching the upcoming year with guarded optimism. With rents returning to pre-recession highs and vacancy rates trending lower, there are very few storm clouds on the horizon and office employment growth should continue to drive growth in 2016.

## **Absorption**

Net absorption for the Greater Los Angeles office market was positive 1,671,978 square feet in the fourth quarter 2015, compared to a negative (230,572) square feet in the third quarter 2015. The Class-A office market recorded net absorption of positive 871,242 square feet, Class-B was positive 607,089 square feet, and Class-C was positive 193,647 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	365	3,850,381	536,322	13.9%	-63,887	0	\$1.80
Burbank/Glendale/Pasadena	3,060	55,757,650	4,954,827	8.9%	570,114	248,196	\$2.59
Downtown Los Angeles	701	69,314,775	8,481,566	12.2%	-51,066	1,280,018	\$2.86
Mid-Cities	1031	10,506,352	758,718	7.2%	-56,842	0	\$2.04
Mid-Wilshire	1,601	39,903,607	5,073,796	12.7%	84,448	889,451	\$2.91
San Fernando Valley	1,479	35,891,307	4,128,125	11.5%	200,039	122,978	\$2.15
San Gabriel Valley	2,013	30,635,097	3,013,372	9.8%	144,553	58,747	\$2.02
Santa Clarita Valley	213	4,839,926	579,740	12.0%	-9,276	0	\$2.38
South Bay	2,494	64,066,297	8,712,666	13.6%	768,488	133,742	\$2.23
Southeast Los Angeles	609	8,617,143	548,543	6.4%	20,937	0	\$1.85
Ventura North	817	7,955,796	964,350	12.1%	-262,519	325,000	\$1.79
Ventura South	1,001	21,697,506	2,398,902	11.1%	357,748	134,198	\$2.17
West Los Angeles	2,504	75,018,283	7,119,317	9.5%	929,002	627,595	\$4.00
Totals	17,888	428.054.120	47,270,244	11.0%	2,631,739	3,819,925	\$2.63

# **Vacancy**

The overall office vacancy rate in the Greater Los Angeles market area decreased slightly to 11.0% at the end of the fourth quarter 2015, and was down from the 11.5% rate recorded a year ago. The Antelope Valley submarket had the region's highest vacancy rate of 13.9%, followed by the South Bay submarket at 13.6%, and the Mid-Wilshire submarket at 12.7%. The Southeast Los Angeles submarket had the lowest vacancy rate of 6.4%, followed by the Mid-Cities submarket at 7.2%, and the Burbank/Glendale/Pasadena submarket at 8.9%.

### **Rental Rates**

The average quoted asking rental rate for available office space, all classes, was \$2.63 per square foot at the end of the fourth quarter 2015 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.86 at the end of the fourth quarter, while Class-B rates stood at \$2.42, and Class-C rates at \$2.23. The West Los Angeles submarket had the highest asking rate of \$4.00 per square foot, while the Ventura North submarket had the lowest asking rate at \$1.79 per square foot.

## Construction

During the fourth quarter 2015, 14 buildings totaling 775,496 square feet were completed in the Greater Los Angeles market and there were 3,819,925 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
350 S. Grand Ave., Downtown Los Angeles	Mungher, Tolles & Olson	152,306
1840 Century Park East, Century City	Interpublic Group of Companies	150,000
1218 S. 5th Ave., Monrovia	City of Hope	137,936
555 W. Fifth St., Downtown Los Angeles	Latham & Watkins (renewal)	87,760
15301-15303 Ventura Blvd., Sherman Oaks	Prospect Mortgage	77,694
2049 Century Park East, Century City	Venable LLP (renewal)	77,318

# **Sales Activity**

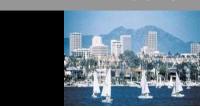
Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the third quarter 2015 in terms of dollar volume compared to the second quarter 2015. In the third quarter, 58 office transactions closed with a total volume of \$1,589,835,537. The 58 buildings totaled 6,170,756 square feet and the average price equated to \$257.64 per square foot. That compares to 51 transactions totaling \$1,114,884,790 in the second quarter 2015. Cap rates have been lower in 2015, averaging 5.96% compared to the same period in 2014 when they averaged 6.44%. The largest transaction that occurred within the third quarter 2015 was the sale by Rising Realty Partners of the PacMutual Building, located at 523 W. 6th Street in Downtown Los Angeles, to Ivanhoe Cambridge, Inc. The sale of this building, totaling 446,023 square feet, took place on 9/10/2015 for \$200,000,000 or approximately \$448.41 per square foot.



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