

Overview

The Greater Los Angeles office market finished the year with an impressive performance in the fourth quarter of 2016. Strong absorption, with numerous large leases being signed in the quarter, is fueling optimism that this robust leasing activity will continue well into 2017, suggesting that landlords may hold the upper hand in the months ahead. Behind the improvement was steady job growth, with entertainment companies driving the office market. In L.A. County, the unemployment rate slipped to 5% last month from 5.1% in November, as local employers expanded their payrolls by 8,100.

Absorption

Net absorption for the Greater Los Angeles office market was positive 758,608 square feet in the fourth quarter 2016, compared to a positive 1,482,519 square feet in the third quarter 2016. The Class-A office market recorded net absorption of positive 918,786 square feet, Class-B was negative (208,852) square feet, and Class-C was positive 48,674 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	369	4,100,138	509,442	12.4%	46,580	0	\$1.74
Burbank/Glendale/Pasadena	3,084	56,081,828	4,433,970	7.9%	635,470	117,680	\$2.64
Downtown Los Angeles	711	70,628,941	8,742,367	12.4%	929,707	1,665,312	\$3.04
Mid-Cities	1,057	10,773,572	1,162,632	10.8%	-427,619	0	\$2.16
Mid-Wilshire	1,620	40,436,422	4,454,796	11.0%	1,022,048	896,137	\$3.05
San Fernando Valley	1,490	36,058,484	3,626,417	10.1%	665,845	0	\$2.29
San Gabriel Valley	2,031	30,552,870	2,569,650	8.4%	157,443	84,988	\$2.08
Santa Clarita Valley	215	4,820,240	498,192	10.3%	56,337	0	\$2.48
South Bay	2,524	64,338,291	7,248,599	11.3%	1,038,539	125,110	\$2.25
Southeast Los Angeles	623	8,650,758	525,047	6.1%	-28,129	146,682	\$1.83
Ventura North	822	8,298,089	939,965	11.3%	18,883	0	\$1.75
Ventura South	1,007	21,941,077	2,576,557	11.7%	94,188	0	\$2.27
West Los Angeles	2,563	75,848,344	7,466,012	9.8%	-11,115	1,099,488	\$4.25
Totals	18,116	432,529,054	44,753,646	10.3%	4,198,177	4,135,397	\$2.79

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area decreased to 10.3% at the end of the fourth quarter 2016, and was down from the 11.0% rate recorded a year ago. The Antelope Valley and Downtown Los Angeles submarkets were tied for the region's highest vacancy rates of 12.4%, followed by the Ventura South submarket at 11.7%. The Southeast Los Angeles submarket had the lowest vacancy rate at 6.1%, followed by the Burbank/Glendale/Pasadena submarket at 7.9% and the San Gabriel Valley submarket at 8.4%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$2.79 per square foot at the end of the fourth quarter 2016 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$3.06 at the end of the fourth quarter, while Class-B rates stood at \$2.54, and Class-C rates at \$2.33. The West Los Angeles submarket had the highest asking rate of \$4.25 per square foot, while the Antelope Valley submarket had the lowest asking rate at \$1.74 per square foot.

Construction

During the fourth quarter 2016, eleven buildings totaling 189,993 square feet were completed in the Greater Los Angeles market and there were 4,135,397 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 Office Plaza at Wilshire Grand, a 370,041-square-foot building with 0% of its space pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
555 S. Flower St., Downtown Los Angeles	City National Bank (renewal)	275,000
350 S. Grand Ave., Downtown Los Angeles	City National Bank	241,639
2400 Broadway, Santa Monica	Kite Pharma	159,310
101 N. Sepulveda Blvd., El Segundo	Infineon Technologies (renewal)	134,600
Santa Monica Business Park	Snapchat	130,000
2950 N. Hollywood Way, Burbank	Entertainment Partners	125,573

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the third quarter 2016 in terms of dollar volume compared to the second quarter 2016. In the third quarter, 40 office transactions closed with a total volume of \$1,225,889,000. The 40 buildings totaled 3,934,958 square feet and the average price equated to \$311.54 per square foot. That compares to 58 transactions totaling \$2,366,242,500 in the second quarter 2016. Cap rates have been lower in 2016, averaging 5.56% compared to the same period in 2015 when they averaged 5.96%. The largest transaction that occurred within the third quarter 2016 was the sale by Hines Securities, Inc. of the 12100 Wilshire Blvd. Building in West Los Angeles, to Douglas Emmett, Inc. The sale of this 365,000 square foot building took place on 7/21/2016 for \$225,000,000 or approximately \$616.44 per square foot.



PROVIDING OFFICE TENANTS WITH EXPERT SOLUTIONS



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

