

LOS ANGELES OFFICE MARKET

SECOND QUARTER 2016

Large office building sales dominate at mid-year 2016 \$2.3 billion in sales transactions reported as market fundamentals remain steady

In the second quarter, the Los Angeles office market again saw average rental rates and sale prices increase as market fundamentals remain steady. With several large office sales continuing the momentum reported at the beginning of the year, investor interest remains red hot, especially for stabilized assets in the best performing submarkets, while everything else sits on the market longer due to the price disconnect between buyers and sellers. For the remainder of 2016, expect several more large office trades around the market while concerns about oversupply will continue to grow louder if leasing activity slows.

ECONOMY




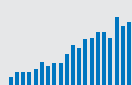


LA year-over-year employment growth remains higher than the rest of the US

The seasonally adjusted unemployment rate for Los Angeles County decreased to 4.9% in May, which is the lowest unemployment rate seen in the region since early 2007. Total year-over-year nonfarm employment increased by 101,000 (2.4%) while office-using employment increased by 26,300 (2.3%), respectively. Although local employment growth has been stronger in the first half of 2016, concerns remain over lower corporate earnings growth, forecasted weaker overseas growth especially in the wake of the UK's decision to leave the EU, and the continued high cost of housing and doing business locally.

SUPPLY AND DEVELOPMENT

Over 3.7 million square feet now underway across the region

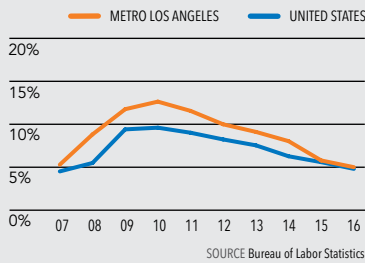
A total of 124,466 square feet was delivered in the second quarter, while the total amount of office space now under construction or major renovation stands at over 3.7 million square feet. While this constitutes a seven-year high in new office development, it still only accounts for just 2.0% of the existing office base. However, only 11% of the total office space under construction is currently pre-leased, which could cause the vacancy rate to spike over the next 24 months if projects are not leased prior to delivery. In addition, 36% of all under-construction office space is concentrated in Downtown Los Angeles, especially in the Arts District, despite a total vacancy rate forecasted to rise to over 20% in that market over the next 24 months.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	15.3% Vacancy rate down 20 basis points
ABSORPTION 	229,162 SF 13 straight quarters of positive absorption
RENTAL RATE 	\$3.12 PSF Rates up 7.2% year over year
UNDER CONSTRUCTION 	3,772,883 SF Downtown LA leads office pipeline
CAP RATES 	5.4% Cap rates tick up 30 basis points
JOB GROWTH 	101,000 jobs Solid growth of 2.4% year over year

LOS ANGELES OFFICE MARKET

SECOND QUARTER 2016

UNEMPLOYMENT RATE

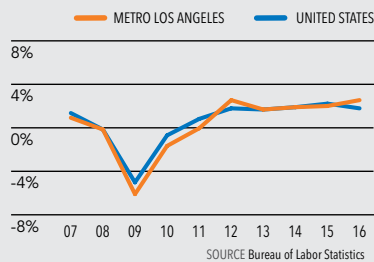


DEMAND

Net absorption positive for the thirteenth consecutive quarter

Demand for office space in the second quarter was 229,162 square feet, which brought total year-to-date net absorption in the first six months of 2016 to 617,703 square feet. Compared to the first six months of 2015 where net absorption was 1.8 million square feet, net absorption has slowed over the past 12 months due to rising average rental rates as well as tenants becoming more cautious about leasing increasingly more expensive office space at this late in the current economic expansion which is now seven years and counting.

PAYROLL JOB GROWTH

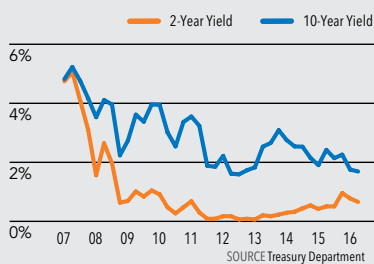


VACANCY

Total vacancy rate drops another 20 basis points to 15.3%

The total vacancy rate of 15.3% was an additional 20 basis point decrease from a total vacancy of 15.5% reported in the first quarter. While over 7.5 million square feet of vacant office space has been absorbed around the region since the beginning of 2014, overall vacancy levels have not decreased by a higher amount due to the large amount of new and renovated office buildings that have been recently delivered to the market. In addition, the long-term industry trend of many office occupiers utilizing their spaces more efficiently compared to the previous cycle continues to have an effect on vacancy levels as many tenants simply are taking less office space while keeping headcounts the same. For the remainder of 2016, expect office vacancy to continue to decrease, assuming leasing activity and net absorption remain steady.

TREASURY RATES



RENTAL RATES

Direct weighted average asking rental rate up 7.2% year over year

The direct weighted average asking rental rate increased to \$3.12 per square foot per month (up 7.2% year over year), which remains higher than when the office market last peaked at \$2.92 per square foot in the third quarter 2008. Since reaching a market-wide low of \$2.50 per square foot in the second quarter 2011, the average rental rate has increased nearly 25% and continues to increase sharply. Office landlords all over the region have raised face rents while still offering aggressive landlord concessions such as free rent and tenant improvement allowances in order to lock in tenants at the top of the market. Expect office rental rate growth to continue to grow through the end of 2016 and into the first half of 2017, assuming no slowdown in the overall economy.

Metro Los Angeles Office Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q2 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Class A	123,445,406	2,548,205	287,302	1,064,825	14.0%	0.8%	14.8%	\$3.46
Class B	65,704,531	1,224,678	-58,140	-447,122	16.0%	0.4%	16.4%	\$2.57
LA Metro Total	189,149,937	3,772,883	229,162	617,703	14.7%	0.6%	15.3%	\$3.12



INVESTMENT MARKET

Investor interest remains at all-time high

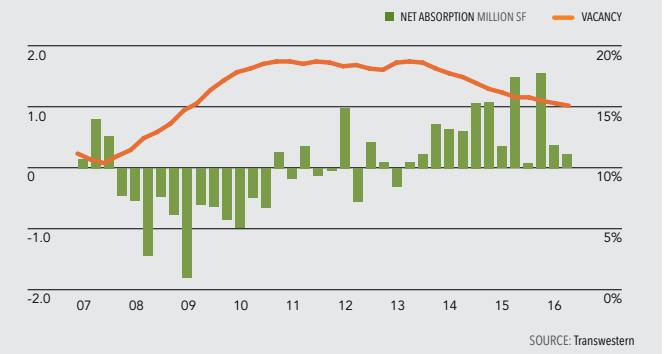
The Los Angeles office market saw an additional \$2.3 billion worth of office sales in the second quarter, bringing year-to-date total sales volume to just under \$4.8 billion in the first six months of 2016 (up 98% from a year ago). Led by Intercontinental Real Estate's \$327.2 million (\$599 per square foot) acquisition of the Apollo at Rosecrans creative office project in El Segundo from a joint venture of Invesco and SSV Properties, the office investment market in Los Angeles remains red hot as regional, national and international buyers continue to target high quality trophy assets in high-barrier-to-entry submarkets. Despite these blockbuster deals, the general market feeling is that pricing may be cooling in the months ahead as the pricing disconnect between buyers and sellers continues to leave non-core and value-add properties sitting on the market. As a result, expect core assets to continue commanding record pricing (e.g., Blackstone's 49.8% stake in Colorado Center in Santa Monica now under contract to Boston Properties for \$511.1 million or \$866 per square foot) while everything else on the market for sale begins seeing pricing corrections resulting in an end to the cap rate compression that has been seen over the past three years.

OUTLOOK

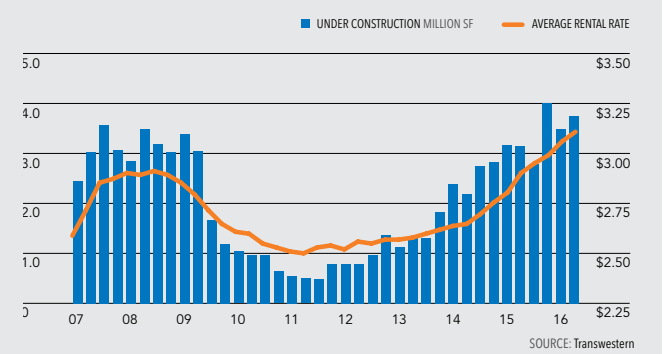
Office market remains in good shape at mid-year 2016 but for how much longer?

At mid-year 2016, the Los Angeles office market continues to report the healthy underlying fundamentals that have led to record average rental rates and valuations. Although vacancy region-wide has not decreased to the 8-12% range historically seen for sharp rises in average rental rates and speculative development, the market remains relatively healthy with area companies in expansion mode, steady leasing activity, and positive net absorption. In the past, the Los Angeles office market has peaked later in the real estate cycle relative to other major US cities such as New York, Boston, and San Francisco, and this time is certainly no exception. Thus, it is no surprise that Los Angeles has recently seen several blockbuster sales transactions, especially from buyers previously inactive in this market who have been hunting globally for yield. As result, expect steady market fundamentals to remain through 2016, but questions about oversupply will become more of an issue in certain submarkets over the next several months. ■

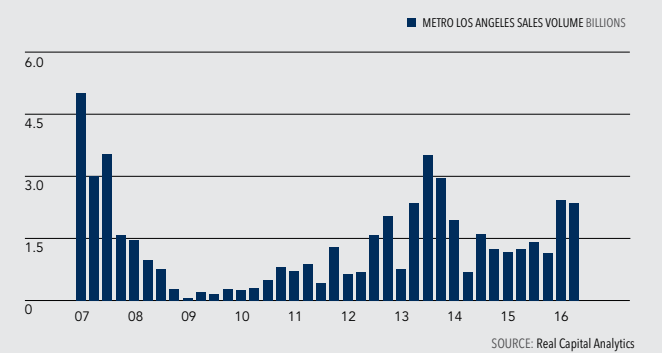
METRO LOS ANGELES NET ABSORPTION AND VACANCY



METRO LOS ANGELES RENTAL RATES VS. CONSTRUCTION



METRO LOS ANGELES HISTORICAL SALES TRANSACTION ACTIVITY



LOS ANGELES OFFICE MARKET

SECOND QUARTER 2016

Metro Los Angeles Office Market Indicators

MARKET	INVENTORY	UNDER CONSTRUCTION	Q1 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Downtown Los Angeles	32,136,841	1,350,648	-136,337	65,461	17.1%	0.8%	17.9%	\$3.13
Wilshire Corridor/Hollywood	17,315,760	622,950	29,582	196,545	18.0%	0.2%	18.2%	\$3.04
West Los Angeles	50,466,349	1,219,387	35,290	185,038	11.0%	1.0%	12.0%	\$4.63
Tri-Cities	19,747,264	113,760	133,393	241,193	13.4%	0.3%	13.7%	\$3.16
San Fernando Valley	18,255,115	-	76,143	59,080	14.5%	0.5%	14.9%	\$2.44
South Bay	27,681,874	405,671	12,007	51,092	18.1%	0.5%	18.6%	\$2.27
San Gabriel Valley	9,282,447	-	46,419	114,459	14.9%	0.3%	15.2%	\$2.10
Conejo Valley	7,889,878	60,467	11,260	-293,540	16.2%	0.7%	17.0%	\$2.46
Santa Clarita Valley	1,999,139	-	18,861	17,373	12.3%	0.6%	12.9%	\$2.51
Mid-Cities/Southeast LA	4,375,270	-	2,544	-18,998	10.0%	0.7%	10.7%	\$2.05
LA Office Market Total	189,149,937	3,772,883	229,162	617,703	14.7%	0.6%	15.3%	\$3.12

MAJOR LEASE ACTIVITY

PROPERTY	TENANT	SF	TYPE	MARKET	SUBMARKET
777 S Aviation Blvd	FAA	154,000	Class B New Lease	South Bay	El Segundo
865 S Figueroa St	Quinn Emanuel Urquhart & Sullivan LLP	135,000	Class A Renewal	Downtown Los Angeles	South Park
5999 Center Drive	Univision	104,448	Class A New Lease	West Los Angeles	Marina Del Rey/Play Vista
2701 Olympic Blvd	AwesomenessTV	89,000	Class A New Lease	West Los Angeles	Santa Monica

MAJOR SALES ACTIVITY

PROPERTY	PRICE	PRICE PSF	BUYER	MARKET	SUBMARKET
Apollo at Rosecrans (4 bldgs)	\$327,250,000	\$599	Intercontinental Real Estate	South Bay	El Segundo
400 S Hope St	\$313,636,000	\$447	PNC Realty Investors & GLL Real Estate	Downtown Los Angeles	Bunker Hill
1200 W 7th St	\$204,000,000	\$278	Rising Realty Partners	Downtown Los Angeles	City West
Valencia Town Center (4 bldgs)	\$130,000,000	\$330	Praelium Commercial & Perennial Investments	Santa Clarita Valley	Santa Clarita Valley

DEVELOPMENT ACTIVITY

PROPERTY	SF	TYPE	DEVELOPER	MARKET	SUBMARKET
Icon & CUE at Sunset Bronson Studios (2 bldgs)	419,326	Class A	Hudson Pacific Properties	Wilshire Corridor/Hollywood	Hollywood
12105 & 12126 W Waterfront Dr (2 bldgs)	415,987	Class A	Tishman Speyer	West Los Angeles	Marina Del Rey/Playa Vista
Wilshire Grand Tower (Office component)	356,141	Class A	Korean Air (Hanjin Group)	Downtown Los Angeles	Financial Core
5800 Bristol Pkwy	281,400	Class A	IDS Real Estate Group	West Los Angeles	Culver City

CONTACT

Michael Soto
 Research Manager, Southern California
 213.430.2525
 michael.soto@transwestern.com

METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Los Angeles metropolitan area. This report includes single-tenant and multi-tenant office properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.



601 S. Figueroa Street, Suite 2750
 Los Angeles, California 90017

T 213.624.5700 F 213.624.9203
 www.transwestern.com/losangeles