

LOS ANGELES OFFICE MARKET

FOURTH QUARTER 2016

Los Angeles Office Market Ends the Year on a Strong Note

Blockbuster sales transactions dominate the market in the final three months of 2016

In the fourth quarter, the Los Angeles office market reported some of the strongest market fundamentals seen in almost a decade as the area employment rate has remained steady. Led by broad-based gains across most employment sectors, the Los Angeles regional economy continues to benefit with a recovery that is now seven years old and counting. As a result, expect 2017 to continue to see strongly positive market fundamentals despite continued political uncertainty in the first half of next year and concerns regarding weak overseas economic growth.

ECONOMY




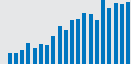


LA unemployment rate now lower than the State of California

The seasonally adjusted unemployment rate for Los Angeles County decreased to 5.1% in November. While still higher than the US unemployment rate of 4.6%, it is now lower than the 5.3% unemployment rate reported for California. Total year-over-year nonfarm employment increased by 65,300 (1.5%) while office-using employment increased by 17,700 (1.5%), respectively. Expect office space demand to remain steady into 2017 as local companies remain optimistic about their business prospects next year.

SUPPLY AND DEVELOPMENT

3.8 million square feet now under construction or major renovation at year-end

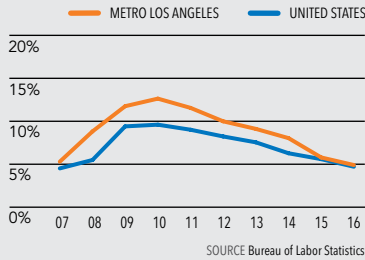
Just 101,874 square feet of office space was delivered in the fourth quarter, which brought new deliveries to 1,046,446 square feet in 2016 (down 25% from 2015). A total of 3.8 million square feet or 2% of the existing office base is currently under construction or major renovation, which is the highest level of development activity since mid-2008. In terms of pre-leasing, 31% of the total office space currently underway has been pre-leased, which could cause vacancy levels to rise if leasing activity and net absorption slow over the next 12 months. Despite this concern, developers remain bullish as tenants, especially in the region's entertainment, media and technology sectors, are increasingly seeking out newer and differentiated office product, mostly in high-barriers-to-entry submarkets.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	14.9% Vacancy rate down 40 basis points
ABSORPTION 	851,988 SF 14 straight quarters of positive absorption
RENTAL RATE 	\$3.18 PSF Rates up 5.9% year over year
UNDER CONSTRUCTION 	3,876,733 SF 31% of office space is pre-leased
CAP RATES 	5.3% Cap rates drop 20 basis points
JOB GROWTH 	65,300 jobs Growth of 1.5% year over year

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UNEMPLOYMENT RATE

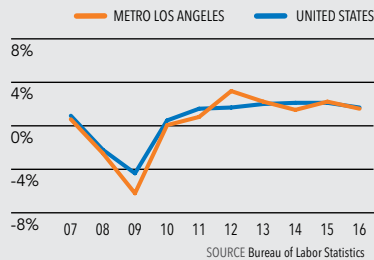


DEMAND

Net absorption positive for the fifteenth consecutive quarter

Demand for office space in the fourth quarter was strongly positive at 851,988 square feet, which brought total net absorption to 1,826,897 square feet in 2016. The strongest space gains were led by the Tri-Cities, Wilshire Corridor/Hollywood and the South Bay. Compared to 2015 net absorption of 3.5 million square feet, 2016 net absorption has decreased by 48% compared to last year. This has been due to rising average rental rates, local companies becoming more cautious about expanding and leasing space and corporate occupiers continuing to be more efficient in their space utilization strategy.

PAYROLL JOB GROWTH

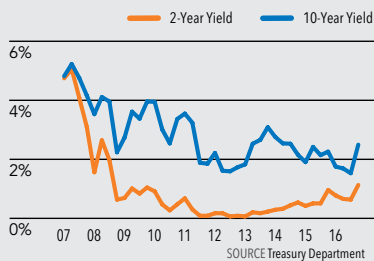


VACANCY

Total vacancy rate down 40 basis points over previous quarter to 14.9%

The total vacancy rate of 14.9% was an additional 40-basis-point decrease from 15.3% reported in the third quarter. This is the lowest total vacancy rate reported in the market since the beginning of 2009. While sublease vacancy of under 1.2 million square feet (0.6%) remains low, availability of both occupied and vacant sublease space of nearly 4.1 million square feet is now at its highest level in five years. With the large amount of spec office development underway combined with several large and long-expected move-outs in the first half of 2017, it would not be surprising to see overall vacancy levels increase over the next two quarters.

TREASURY RATES



RENTAL RATES

Direct weighted average asking rental rate up 5.9% year over year

The direct weighted average asking rental rate increased to \$3.18 per square foot per month (up 5.9% year over year), which is now a historical peak. Class A office rents ended 2016 at \$3.51 per square foot (up 5.9% year over year) while Class B office rents ended 2016 at \$2.63 per square foot (up 3.1% year over year). As mentioned in previous reports, office landlords all over the region have raised asking rents while still offering aggressive landlord concessions such as rental abatement periods and high tenant improvement allowances in order to lock in tenants at the top of the market. Outside of a macroeconomic shock, nobody is expecting office rental rates to decrease in 2017, although pressure from newly delivered space as well as increasing levels of available sublease space might cause rental rate growth to slow next year.

Metro Los Angeles Office Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Class A	123,619,633	2,525,679	1,107,850	2,650,336	13.1%	0.7%	13.8%	\$3.51
Class B	65,943,664	1,351,054	-255,862	-823,439	16.4%	0.5%	16.9%	\$2.63
LA Metro Total	189,563,297	3,876,733	851,988	1,826,897	14.2%	0.6%	14.9%	\$3.18



INVESTMENT MARKET

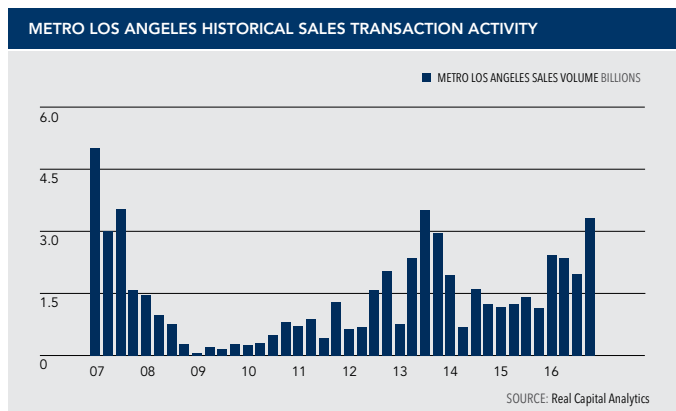
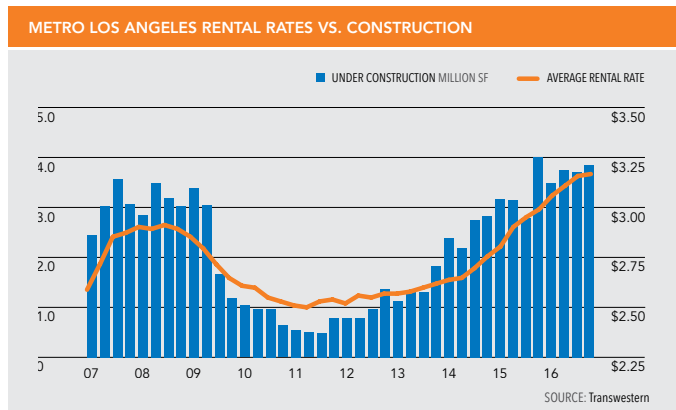
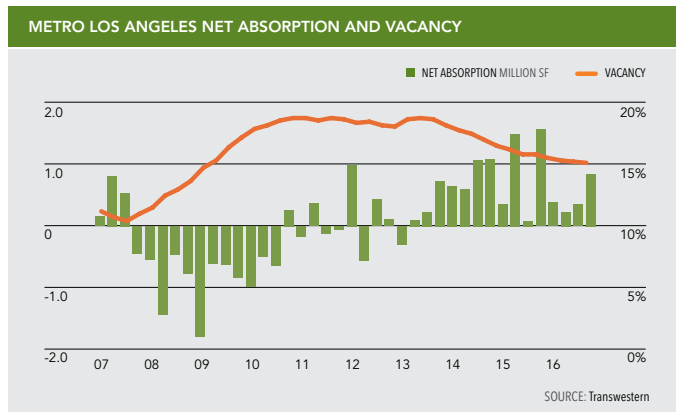
Investment sales market ends 2016 as best performing year since 2007

In the fourth quarter, a total of \$3.3 billion worth of office buildings traded hands, which brought 2016 total investment sales volume up to \$10.1 billion (up 103% compared to 2015). The fourth quarter alone saw nine transactions over \$100 million, showing that investor appetite for large deals continues unabated. As a result, 2016 has been the best performing year for the area office sales market since 2007, when \$13.2 billion in office properties traded hands. Los Angeles has remained red-hot as the general investor sentiment is that the Los Angeles regional economy might have a longer runway left in the business cycle than most other major markets. Thus, expect the first half of 2017 to continue to see several more blockbuster trades around the region at historically high pricing, although a cooling might be expected in the second half of 2017, especially if interest rates rise.

OUTLOOK

Low probability of regional economic slowdown means full speed ahead into 2017

In 2016, the Los Angeles office market continued to report healthy underlying fundamentals throughout the year, led by broad-based employment growth across several sectors. Although the region’s entertainment, media and technology sector (Silicon Beach) has garnered heavy media attention due to the rise in digital media and growing non-traditional entertainment distribution channels, Los Angeles has seen solid employment growth in much less-heralded sectors such as professional and business services as well as financial services. Due to these factors, it is no surprise that the area office market has seen in 2016 some of the largest lease and sales transactions since before the recession, especially involving local startups, corporate occupiers and institutional investors who are new to the market. While a level of caution remains, especially as it relates to the high amount of spec development underway and sublease availability which has slowly crept up over the past two years, the overall market remains in very good-to-great condition as we head into 2017. ■



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MARKET	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Downtown Los Angeles	32,136,841	1,340,776	-81,839	-29,480	18.1%	0.5%	18.6%	\$3.21
Wilshire Corridor/Hollywood	17,315,760	743,970	311,732	553,269	15.8%	0.4%	16.2%	\$3.02
West Los Angeles	50,466,349	1,396,555	328,449	364,063	10.4%	1.0%	11.4%	\$4.66
Tri-Cities	19,861,024	-	259,095	558,400	12.2%	0.2%	12.4%	\$3.24
San Fernando Valley	18,392,374	-	-72,924	86,243	14.8%	0.5%	15.2%	\$2.53
South Bay	27,783,748	318,182	235,709	546,416	16.5%	0.6%	17.1%	\$2.34
San Gabriel Valley	9,282,447	77,250	-81,725	94,085	15.1%	0.3%	15.4%	\$2.16
Conejo Valley	7,950,345	-	41,391	-229,892	16.2%	0.6%	16.8%	\$2.45
Santa Clarita Valley	1,999,139	-	7,533	21,791	10.6%	2.0%	12.6%	\$2.44
Mid-Cities/Southeast LA	4,375,270	-	-95,433	-137,998	12.1%	1.3%	13.4%	\$2.16
LA Office Market Total	189,563,297	3,876,733	851,988	1,826,897	14.2%	0.6%	14.9%	\$3.18

MAJOR LEASE ACTIVITY

PROPERTY	TENANT	SF	TYPE	MARKET	SUBMARKET
777 S Santa Fe Ave	Warner Music Group	257,028	Class A New Lease	Downtown Los Angeles	Greater Downtown (Arts District)
350 S Grand Ave	City National Bank	241,639	Class A New Lease	Downtown Los Angeles	Bunker Hill
2400 Broadway	Kite Pharma	159,310	Class A New Lease	West Los Angeles	Santa Monica
407 N Maple Dr	Fandango	97,150	Class A New Lease	West Los Angeles	Beverly Hills

MAJOR SALES ACTIVITY

PROPERTY	PRICE	PRICE PSF	BUYER	MARKET	SUBMARKET
Howard Hughes Center (5 bldgs) - allocated pricing	\$583,000,000	\$443	The Blackstone Group	West Los Angeles	Marina Del Rey/Playa Vista
12121 & 12181 Bluff Creek Dr (2 bldgs)	\$413,000,000	\$824	Edward J Minskoff Equities	West Los Angeles	Marina Del Rey/Playa Vista
Lantana Entertainment Media Campus (4 bldgs)	\$403,000,000	\$835	Artisan Realty Advisors & Brightstone Capital Partners	West Los Angeles	Santa Monica
2600-2800 Colorado Ave	\$368,000,000	\$1,165	Oracle	West Los Angeles	Santa Monica

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

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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.



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