

Los Angeles

Office Market Outlook 1Q 2017

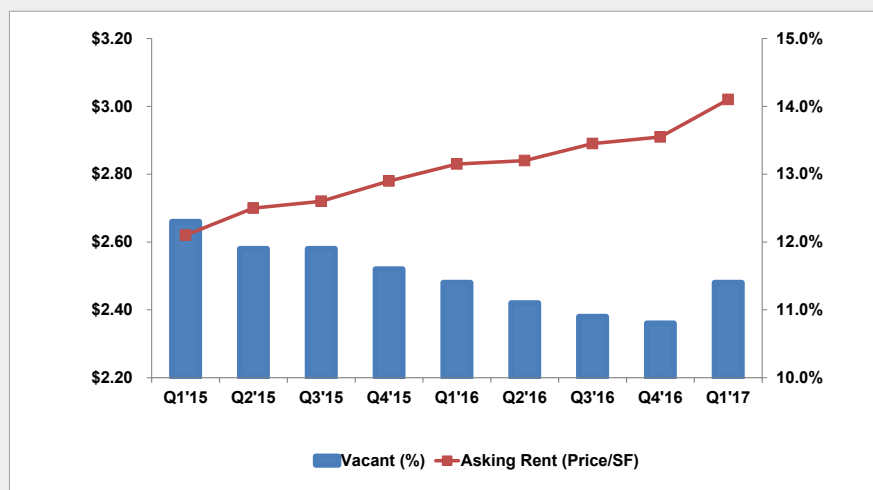
MARKET OVERVIEW

In the first quarter of 2017, the Los Angeles office market continued to witness rising rent vacancy. Average asking direct rental rates registered \$3.02/SF, up 6.7% over last year. On the heels of new construction, the vacancy ticked up 60 basis points to 11.4% this quarter as one million square feet of office space was delivered approximately 60% vacant. As new construction is being added to the market, vacancy is beginning to ascend. Office space under construction totaling some 4.1 million square feet is about 31% preleased as of the end of the quarter. The strengthening jobs market is contributing to the demand for office space. Total nonfarm employment in Los Angeles County increased by 1.9%, representing a net gain of 84,300 jobs from March 2016 to March 2017. Employment growth in office occupying sectors grew by 2.3%, representing a net gain of 41,500 new jobs, while the unemployment rate fell from 5.1% to 4.8% over the same period.

TRENDS TO WATCH

Going into 2017, growth is expected to continue as several major projects are nearing completion. Three major projects are currently scheduled for delivery include: the Hanjin Group's 400,000 square foot Wilshire Grand Center in Downtown LA, C3 in Culver City, which will deliver 281,000 square feet, and CUE at Bronson Studios in Hollywood with 91,953 square feet to be occupied by Netflix. Demand for office space is being driven by employment growth from the office occupying industry sectors. Year over year employment figures for March show Real Estate is up 3.7%, Accounting, Tax Preparation & Technical Services grew 5.1%, Legal Services is up 3.3% and Computer Systems Design & Related Services added 7.5% more jobs. Employment growth is broad based coming from a variety of industries which bodes well for building owners looking to get their newly constructed office projects occupied.

Average Asking Rent and Vacancy Rate



Source: NAI Capital Research, CoStar,

MARKET OUTLOOK

Asking Rental Rates



Sale Prices



Availability/Vacancy Rates



Landlord Concessions



Sales/Leasing Volume



New Construction



NAI Capital Research
www.naicapital.com

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Market Statistics

SUBMARKET	EXISTING TOTAL RBA (SF)	UNDER CONSTRUCTION (SF)	TOTAL AVAILABLE (%)	TOTAL VACANCY (%)	1Q17 LEASING VOLUME (SF)	YTD LEASING VOLUME (SF)	1Q17 SALES VOLUME (SF)	YTD SALES VOLUME (SF)	AVERAGE ASKING RENT \$/PSF FSG	AVERAGE SALE PRICE \$/PSF
LA North	58,528,621	122,915	12.8%	10.2%	1,064,865	1,064,865	1,487,516	1,487,516	\$2.39	\$274
Tri-Cities	39,957,204	36,680	13.3%	9.3%	528,627	528,627	1,394,066	1,394,066	\$2.82	\$294
San Gabriel Valley	34,376,929	167,246	10.9%	9.0%	419,430	419,430	1,695,428	1,695,428	\$2.17	\$168
LA West	104,460,899	1,348,547	15.4%	11.9%	1,817,958	1,817,958	511,822	511,822	\$4.07	\$345
Central	62,740,182	1,648,046	18.7%	12.8%	813,139	813,139	35,400	35,400	\$3.22	-
Mid-Wilshire	2,274,504	36,122	14.5%	16.8%	94,256	94,256	72,558	72,558	\$2.25	\$238
South Bay	63,604,508	767,457	16.0%	12.9%	616,061	616,061	1,458,499	1,458,499	\$2.43	\$136
Total	365,942,847	4,127,013	14.9%	11.4%	5,354,336	5,354,336	6,655,289	6,655,289	\$3.02	\$262

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

Leasing

The Los Angeles market added over 1.4 million square feet in new occupancy over the past year. The Hanjin Group's 73-story Wilshire Grand Center is expected to deliver 400,000 square feet of class A office space in May with Korean Airlines, also owned by the Hanjin Group, Cushman and Wakefield, and Southern California Association of Governments as the first tenants. Asking rents for office space in the Wilshire Grand Center start at \$4.25/SF compared to the \$6.09/SF asking rent for Class A space either currently under construction or completed within the last year in the West LA submarket. The Wilshire Grand is expected to attract new tenants from the Westside due to a comparatively affordable rent and its location just a block from the end of the Metro Expo line, which provides easy access to those commuting from West LA.

Sales

Sales activity increased substantially this quarter, rising 23% over last quarter to 6.5 million square feet. Investment activity shifted from Downtown Los Angeles to the nearby Tri-Cities and San Gabriel Valley submarkets. Both submarkets saw total sales volume substantially increases over last quarter. Tri-Cities submarket increased 378% to 1.7 million square feet of sold office space, while the San Gabriel Valley submarket increased 361% to 1.4 million square feet. These two submarkets had the lowest vacancy rates in the county and had comparatively lower average sale prices than Downtown Los Angeles. In one of the largest transactions this quarter, ELITE International Investment Fund acquired The Alhambra, a mixed-use portfolio that includes 923,290 square feet of office space, for \$136/SF.

Select Lease Transactions:

TENANT	BUILDING ADDRESS	SUBMARKET	ASKING RATE/ SF	SQUARE FEET
Molina Healthcare	222 W 6th St.	South Bay	\$2.45	99,343
Netflix	5800 Sunset Blvd	LA West	Withheld	91,953
Healthcare Partners, A DaVita Medical Group	1120 W Washington Blvd	Central	Withheld	60,000
Freedom Mortgage	620 W Covina Blvd	San Gabriel Valley	\$1.35 NNN	50,000
Loyola Marymount Film/TV School	12105 W Waterfront Dr	LA West	\$6.05	50,000

*All rents are FSG unless otherwise noted

Select Sales Transactions:

BUYER	ADDRESS	SUBMARKET	SALE PRICE \$/PSF	SQUARE FEET
ELITE International Investment Fund	1000 S Fremont Ave	San Gabriel Valley	\$136	923,290
Oaktree Capital Management LP	Multi-site Portfolio	LA North	\$291	808,130
DivcoWest	655 N Central Ave	Tri-Cities	\$327	547,302
Charles K Kenworthy	2300 E Imperial Hwy	South Bay	\$330	157,725
John & Wendy Iloulian	200 S Los Robles Ave	Tri-Cities	\$352	130,818

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Commercial Real Estate Services, Worldwide.

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