Savills Studley Research
Los Angeles

Savills Studley Report
Los Angeles office sector

Q2 2017

SUMMARY

Market Highlights

LEASING INCREASES

Quarterly deal volume rose by nearly 7.6%, jumping from 3.0 msf to 3.2 msf. Nevertheless, quarterly leasing was well below the long-term quarterly average of 4.0 msf. Tenants have leased 6.2 msf in the first six months of 2017, the weakest first half of the year since same period in 2013.

AVAILABILITY RATES INCH LOWER

The overall availability rate ticked down by 20 basis points to 17.8%, the second straight quarter-on-quarter decrease. The Class A availability rate dipped by 30 basis points from 17.8% to 17.5%.

ASKING RENT STABLE

The average Class A asking rent in Los Angeles was essentially flat compared to a year ago, ticking up from $38.92 to $38.96. Overall asking rent rose by 1.2% during the same period, from $36.10 to $36.54.

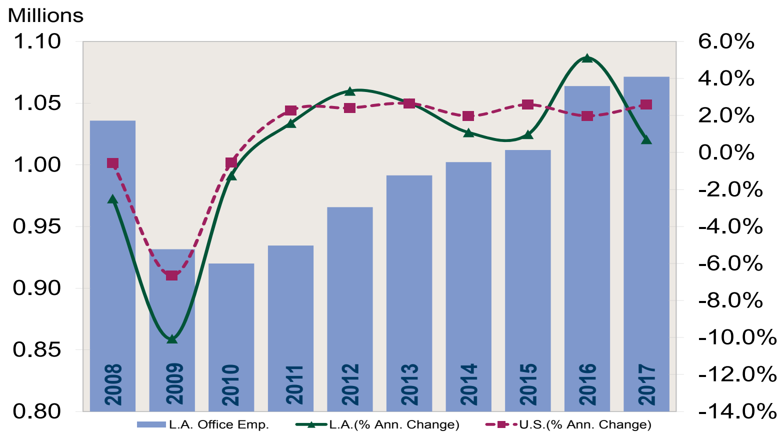
SALES FALL

Year-to-date office property sales totaled $4.1 billion – falling by 12% compared to the $4.7 billion sold during the same period in 2016.

"As leasing cools a bit, and tenants have become a bit more cautious, some landlords are increasing their tenant improvement allowances to induce tenants to relocate. Larger creditworthy firms can negotiate favorable lease terms, particularly in Downtown Los Angeles and the San Fernando Valley."

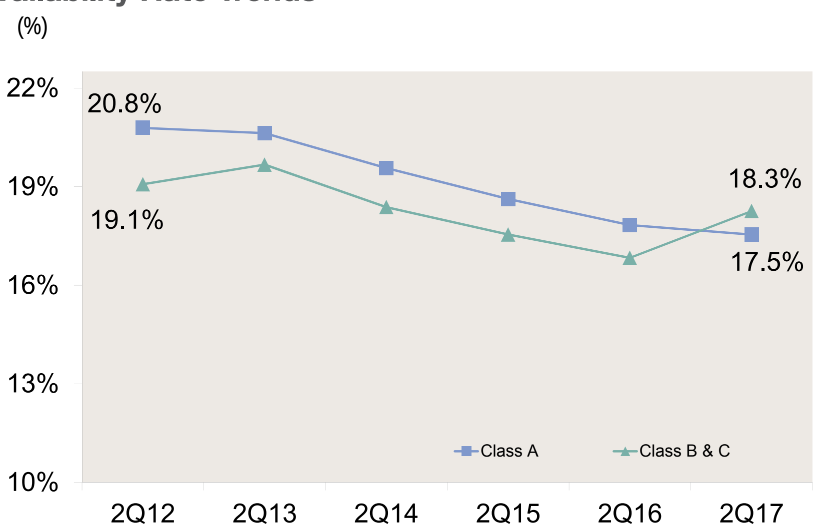
Mike Catalano,
Executive Vice President

Office-Using Employment Trends

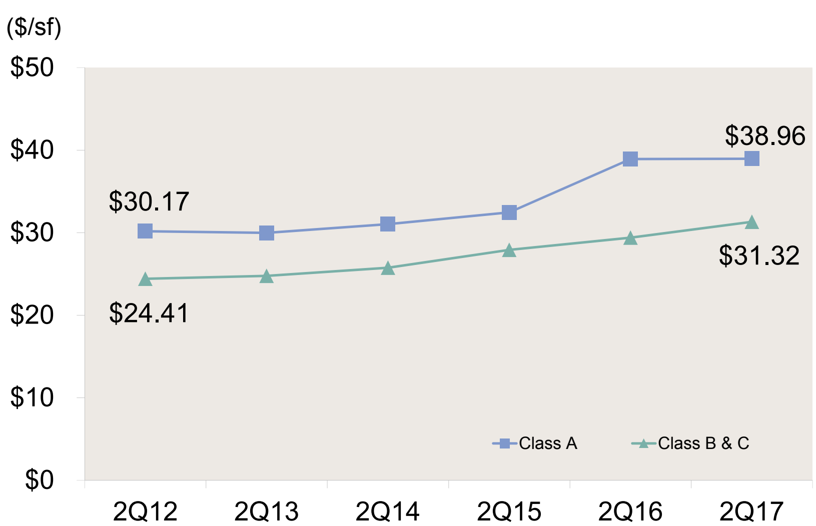


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Leasing Moderating, Concessions Inching Higher

Los Angeles' economy and office market continues to grow at a steady pace, although there are some signs that this cycle is starting to wind down. The region continues to add jobs, but hiring activity has wavered occasionally in recent months. Some sectors are dealing with a shortage of qualified employees. Following the loss of 7,000 jobs in April, Los Angeles County added approximately 20,000 jobs in May. Leisure/hospitality (+6,300) and motion picture and sound recording (+4,600) led gains.

Little Change Downtown

These job gains do not disperse evenly across the Los Angeles region, though. West Los Angeles continue to capture a disproportionate share of the jobs in entertainment and media. Downtown Los Angeles remains in a holding pattern as its core sectors – banks, law firms and general/professional business services operate cautiously. Leasing activity has been tepid with companies shifting between buildings and taking advantage of record concessions. The most cost-conscious firms are opting to renew rather than relocate, especially given the rise in construction costs for new space.

New Construction Optimizing Space Efficiency

Newly constructed buildings, such as Wilshire Grand, will make it even easier for firms to consolidate in much more efficiently configured space. Korean Airlines' 900 Wilshire Boulevard recently received its certificate of occupancy. The hotel portion is now open for business and the first office tenant signed a lease. The Southern California Association of Governments took two floors totaling about 44,000 sf. The addition of more than 300,000 sf at 900 Wilshire provides tenants within Downtown more options and leverage. It opens up highly efficient quality space options for mid-sized and larger tenants willing to pay a premium. Asking rent for the space is just over $50.00/sf, still 20% to 30% below trophy space on the Westside.

Downtown's existing building supply has ample options for companies. Even sizable tenants can choose from space in nearly every building. Among the 26 institutional Class A buildings that make up the nearly 23 msf most professional office users consider Downtown, 25 have at least one full floor available for lease. Based on current rates and landlord postures, one would assume a much tighter market in West Los Angeles. In fact, West Los Angeles actually has more Class A buildings – 52 – with at least a full floor of available space for lease. Creative office space options in Santa Monica and surrounding submarkets are more limited.

Available Sublet Space Rising

Additionally, sublet space availability has started to slowly increase. As of mid-year, the entire region had 5.0 msf of sublet space available for lease, up from 3.8 msf as of year-end 2014. To put this in perspective, sublet space available peaked at just under 8.0 msf in 2009. The jump in sublet supply suggests that some firms may have taken on more space than they truly needed. Companies may have excess space for a number of reasons – they have been unable to achieve their hiring goals on schedule; underperforming companies are scaling back. The cost of real estate remains secondary to the pursuit of talent for some firms, and perhaps some firms have lost.

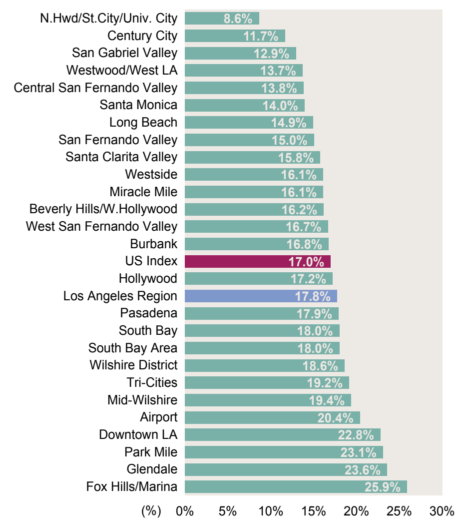
Leasing activity has moderated slightly so far in 2017, falling back to its long-term average. As leasing cools a bit, and tenants have become a bit more cautious, some landlords are increasing their tenant improvement allowances to induce tenants to relocate. Larger creditworthy tenants willing to commit to longer-term leases have secured the most generous concessions. Although more landlords are boosting tenant improvement allowances, they generally do not fully cover build-out costs, which continue to increase. This creates challenges for those firms, including some professional/business service firms that would prefer to move to more modern office space.

Divergent Leasing Patterns

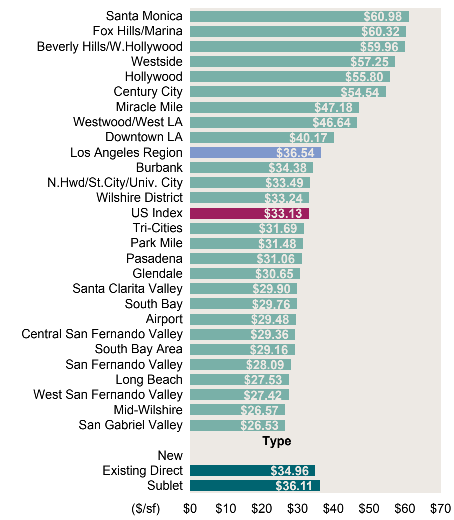
Renewal activity has been increasing as some firms see the bottom line on relocating and building out space. Out of pocket expenditures are anathema to those firms still struggling with revenues that never rebounded to pre-recession norms. Although becoming more scarce, finding highly efficient office space is one way out of this dilemma – law firms, banks and professional/business services can still reduce their overall occupancy by 15% to 20%, offsetting some of the cost associated with a higher rent and build-out costs.

The most well-heeled tech and media/entertainment firms remain focused on recruiting and retaining talent. They will spend extensively on space and build-out. A lack of mid-sized and big block options and

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Marsh	71,094	633 W 5th St	Downtown LA
Edmunds	62,558	2401 Colorado Ave	Santa Monica
Fox	48,461	2121 Avenue of the Stars	Century City
Southern California Association of Governments	43,900	900 Wilshire Blvd	Downtown LA
UCLA	40,625	10960 Wilshire Blvd	Westwood/West LA
Beauty Counter	36,812	1733 Ocean Ave	Santa Monica
Cushman & Wakefield	35,456	900 Wilshire Blvd	Downtown LA
Tokio Marine HCC	32,172	801 S Figueroa St	Downtown LA
County Of Los Angeles	31,355	1000 S Fremont Ave	San Gabriel Valley
Livenation	25,249	1800 N Highland Ave	Hollywood/Silver Lake
Sum of Top 10 Leases	**427,682**	**Sum of 2nd Quarter Leasing Activity**	**3.2 MSF**

$70.00-plus rent in Santa Monica continues to push tenants to Hollywood and Culver City, and even El Segundo. Hollywood is experiencing a renaissance and is the most active market in terms of new construction and leasing. Culver City is also registering a significant amount of activity as tenants target it as a lower-cost alternative to the high cost/low availability submarkets of Venice, Santa Monica and Playa Vista. Tenants are also attracted to its central location, with easy access to the 405 and 10 freeways, and expo line. Pricing in Hollywood is about 25.0% below Santa Monica and tenants can find space in Culver City that is about 15.0% below Hollywood.

Looking Forward

Leasing activity is expected to slowly trend downwards as more companies in the region sense that the cycle is starting to lose some of its steam. This trend will heighten uncertainty about how much longer growth can persist in the midst of the cycle's end. The recent trend of increased sublet supply will carry into the second half of the year as both professional services and tech companies add space on the market. More moderate leasing activity coupled with uncertainty should compel some landlords to boost concessions in the second half of the year.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	**Downtown LA**	34,524	3,311	7,871	1.8%	6,711	22.8%	1.1%	20.1%	$40.17	-0.7%	$40.59
	Downtown LA - Class A	21,947	2,459	4,193	-2.2%	4,111	19.1%	0.1%	18.8%	$40.87	1.1%	$42.07
2	**Wilshire District**	16,511	776	3,076	-1.9%	4,454	18.6%	-0.3%	27.0%	$33.24	0.7%	$36.36
	Wilshire District - Class A	12,359	669	2,374	-2.5%	3,732	19.2%	-0.3%	30.2%	$33.85	1.0%	$37.74
3	**Hollywood**	5,136	488	885	-10.0%	544	17.2%	-3.4%	10.7%	$55.80	6.0%	$52.38
	Hollywood - Class A	3,599	388	701	-14.2%	473	19.5%	-5.3%	13.1%	$59.31	8.8%	$54.25
4	**Westside**	55,395	4,693	8,932	-7.6%	7,530	16.1%	-1.6%	13.5%	$57.25	4.1%	$54.49
	Westside - Class A	47,153	4,035	7,966	-7.3%	6,508	16.9%	-1.8%	13.9%	$58.70	4.9%	$56.70
5	**South Bay Area**	33,999	2,410	6,134	-3.6%	6,515	18.0%	-0.2%	19.2%	$29.16	1.1%	$26.81
	South Bay Area - Class A	21,722	1,582	3,757	-4.5%	4,072	17.3%	-0.1%	18.7%	$30.55	0.2%	$28.57
6	**San Fernando Valley**	29,432	2,662	4,425	-1.6%	5,648	15.0%	-0.3%	19.2%	$28.09	0.2%	$29.50
	San Fernando Valley - Class A	19,763	1,744	2,891	-1.2%	4,201	14.6%	-0.4%	21.2%	$30.12	-0.4%	$30.94
7	**Tri-Cities**	22,819	1,722	4,371	16.9%	2,773	19.2%	2.9%	12.2%	$31.69	-2.7%	$28.28
	Tri-Cities - Class A	16,909	1,375	3,632	19.4%	2,199	21.5%	3.4%	13.1%	$32.86	-4.2%	$31.77
8	**Santa Clarita Valley**	2,601	122	411	10.3%	427	15.8%	1.5%	16.4%	$29.90	0.4%	$24.44
	Santa Clarita Valley - Class A	1,800	87	272	12.0%	190	15.1%	1.4%	10.6%	$30.82	0.3%	$23.70
9	**San Gabriel Valley**	11,404	849	1,475	-9.7%	1,482	12.9%	-2.6%	13.1%	$26.53	-0.3%	$26.59
	San Gabriel Valley - Class A	3,147	231	311	-6.9%	267	9.9%	-0.6%	8.5%	$29.43	1.7%	$30.78
1-9	**Greater Los Angeles Total**	**206,685**	**16,543**	**36,695**	**-1.2%**	**36,085**	**17.8%**	**-0.2%**	**17.5%**	**$36.54**	**-1.7%**	**$36.10**
	Greater Los Angeles Total - Class A	**144,801**	**12,183**	**25,397**	**-1.5%**	**25,753**	**17.5%**	**-0.3%**	**17.8%**	**$38.96**	**-1.9%**	**$38.92**

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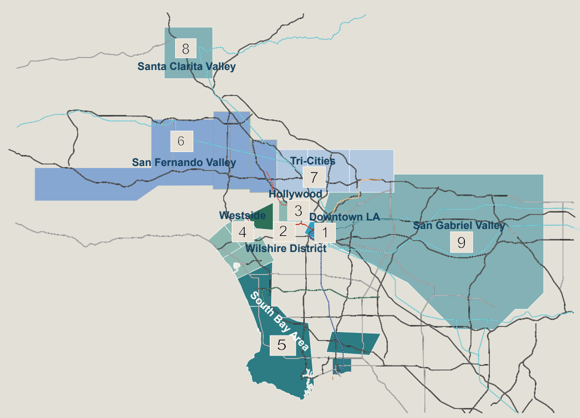

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.