Savills Studley Report
Los Angeles office sector

Q3 2017

SUMMARY

Market Highlights

SUBPAR LEASING

Tenants leased 3.3 msf during the third quarter, increasing slightly by 0.9% compared to the 3.2 msf completed during the second quarter. Leasing activity in the four most recent quarters has totaled 14.1 msf, well below the long-term average of 15.7 msf.

AVAILABILITY RATES FALL AGAIN

The overall availability rate decreased by 40 basis points from 17.9% to 17.5% but was unchanged from a year ago. The Class A rate (17.8%) was unchanged from the prior quarter as well as from the third quarter of 2016.

ASKING RENT STEADY

Asking rent across the Los Angeles market appears to be stabilizing. The average Class A asking for the region was essentially flat, inching down by 0.7% to $ 38.70.

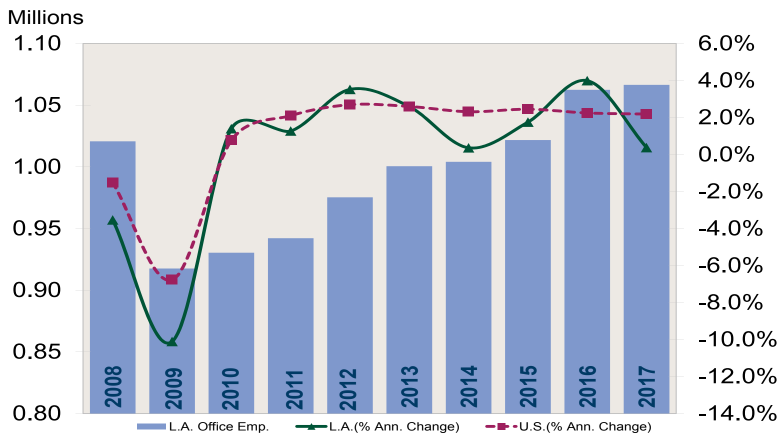
SALES FALL

Los Angeles sales in the first seven months of 2017 have fallen compared to the first half of 2016. Sales through July 2017 were $5.2 billion, a 24.4% decline from $6.9 billion sold in the first seven months of 2016.

"Leasing has normalized in West Los Angeles—particularly in areas such as Playa Vista and Hollywood that registered very heated activity in 2015 and 2016. Concessions remain very building and landlord specific. A few landlords are boosting tenant improvement allowances as they see space sit vacant for an extended period, though."

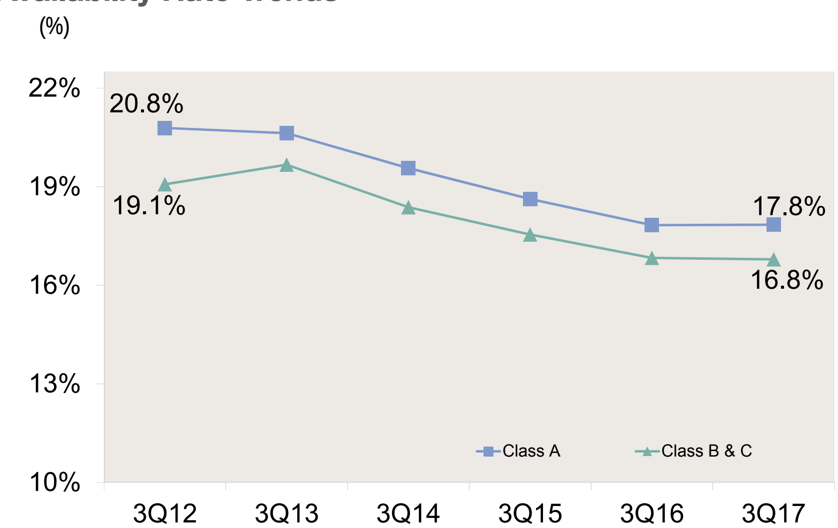
Mike Catalano,
Executive Vice President

Office-Using Employment Trends

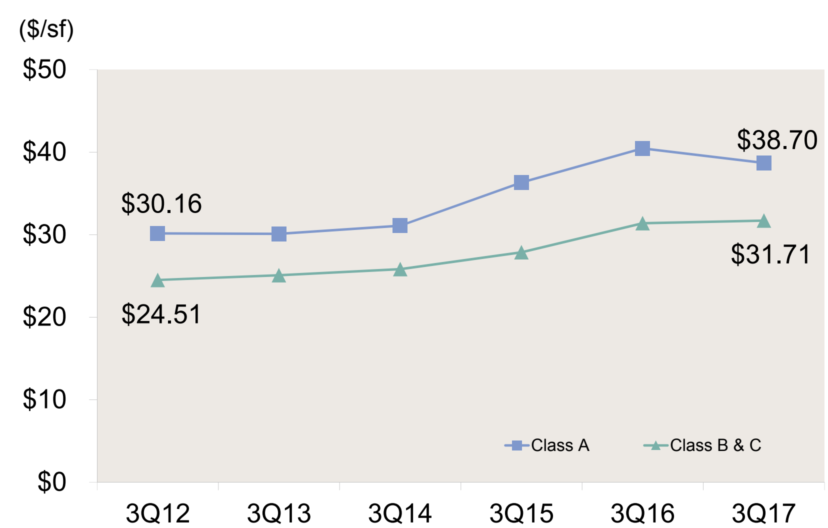


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Leasing Moderating, Concessions Inching Higher

Not a lot has changed in Downtown Los Angeles so far this year. Demand for tech and creative sector projects in the Arts District has provided a spark, but activity in the rest of the market has remained a bit flat. Most banks and law firms continue to focus on avoiding extensive out-of-pocket expenditures. Downtown Los Angeles' availability rate has increased in the last four quarters, pushing to 21.0% at the close of the third quarter. West Los Angeles remains much tighter, but demand has slowed so far this year, particularly in the areas that were most active in 2016 such as Hollywood and Playa Vista. With more limited space options and higher rent in these locations leasing volume in West Los Angeles has been averaging about 1.0 msf per quarter, running about 10% below its long-term average since the start of the year.

Playa Vista, once a cost-saving alternative to Santa Monica and Beverly Hills/Hollywood has now become nearly as tight as core sections in the Westside. As of mid-September this micro-market only had 14 buildings with a contiguous block of space of 20,000 sf or more. Pricing is still discounted a bit from Silicon Beach and Santa Monica, but the gap has shrunk as more tenants encounter elevated rent in Playa Vista. Tenants looking to pay less are turning away from Playa Vista and looking to areas such as Culver City for value. Planned transit related enhancements to Culver City such as the $300 million dollar Ivy Station has created a renewed interest in the area. Tenants continue to look for value in El Segundo, with AT&T signing one of the larger recent leases in this submarket at 93,270 sf.

Tech Tenants Driving Demand, but for how much Longer?

Landlords in Playa Vista, Hollywood and Santa Monica are banking on further expansion among heavyweights such as Yahoo and Google, as well as continued growth among newer media firms like FullScreen, Snapchat, and Netflix. For the time being their bet may pay off. There are still a fair number of firms in expansion mode willing to pay top dollar for space. This includes companies who place a premium on a location with proximity to companies in their industry or niche, as well as firms that are most focused on recruitment and retention. These companies anticipate paying top dollar and a rising cost to stay and grow in the most sought-after submarkets. Tech titans continue to value location as a recruitment tool and prioritize landing top engineering talent over the rising costs of rent in these popular areas. Of note, the explosive growth and expansion from gazelles such as Netflix and Snapchat can not be sustained indefinitely. The market will eventually reach a saturation point among these firms, making of moderating demand and rent growth inevitable.

Build-Out Costs Giving Tenants Pause

Buildouts represent a significant up-front cash outlay that can make a significant impact on a company's bottom line. Construction costs have soared on the Westside, rising by more than 5.0% in the last few quarters. Most landlords have not budged much on tenant improvement allowances. Concessions are building, landlord and tenant specific. Creditworthy tenants willing to commit to term can still generally negotiate the best terms. In general, though, tenant improvement allowances fall well short of covering the full costs associated with build-out.

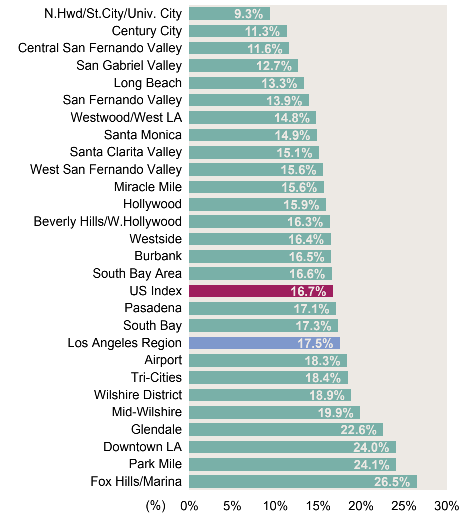
Sublet Supply Inching Higher

Businesses looking to maximize their dollars should focus on sublease prospects. The best quality built sublet spaces in West Los Angeles are generally leased relatively quickly. Securing these buildings requires patience and closely monitoring the marketplace. In West Los Angeles available sublet space has not increased by much. As of mid-September, the Westside had 1.7 msf of sublet space available for lease – a 2.3% increase from the start of the year. Downtown, sublet space has increased by 4.8% year over year in the third quarter.

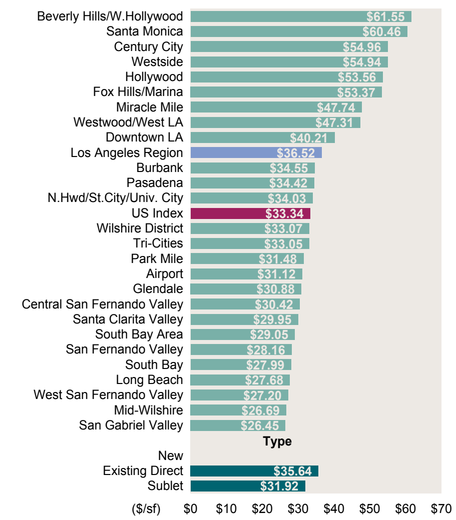
Densification Isn't Always the Answer

Space densification has been highlighted for quite some time as a way to balance the conflicting goals of limiting out-of-pocket expenditures and the desire to significantly upgrade the workplace experience for employees. There has been some backlash, though, among companies that went too far in terms of reducing space per employee without adding adequate shared amenities and breakout areas. The legal industry is a sector that is facing some very interesting space design choices. Some law firm leadership is looking at the concept of the same size offices for all. This is a more efficient use of space, but very few existing offices are built-out in this manner. Renovating an older installation is very costly and, depending on cash flow and other

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
AT&T	93,270	2200 E Imperial Hwy	South Bay
Paradigm Talent Agency	82,886	8942 Wilshire Blvd	Beverly Hills/West Hollywood
WeWork	69,534	750 San Vicente Blvd	Hollywood
Starz	60,166	2834 Colorado	Santa Monica
ZEFR, Inc.	40,695	4095-4155 Redwood Ave	Santa Monica
HemaCare	39,699	8500 Balboa Dr	West San Fernando Valley
Pond North LLP	27,108	355 S Grand Ave	Downtown LA
Red Light Production	26,382	700 Corporate Pointe	Fox Hill
Levine Leichtman Capital Partners	24,124	335-345 Maple Dr	Beverly Hills
Korean Airlines	21,721	900 Wilshire Blvd	Downtown LA
Sum of Top 10 Leases	**485,585**	**Sum of 3rd Quarter Leasing Activity**	**3.3 MSF**

factors, may not be the most efficient choice in the long term.

Tenants can also still find value within much of Downtown Los Angeles. The availability rate exceeds 20.0% and with many premier office buildings offering large concession packages, Downtown Los Angeles offers a great value to tenants. Tenants willing to push to Koreatown and Mid-Wilshire can capture even bigger discounts relative to Westside and Downtown rents. The office stock is older and less appealing to creative companies, though Enhanced public transportation in both of these markets should eventually boost their appeal.

Looking Forward

Some companies in a position to extend for another year or two are hoping to wait out this market. This recovery is certainly getting long in the tooth. There is no sign of an imminent contraction in the economy, but demand has moderated around the country.

No executive wants to make the mistake of committing long-term to space at the market's peak. Although rental rate growth should level off in the next few quarters, there is nothing to suggest that rents will fall in any substantial fashion in the short term.

Ultimately, tenants across the entire market, and in West Los Angeles in particular, will need to weigh the relative importance of multiple factors – leasing and build-out costs, future space needs, as well as more difficult to quantify objectives such as productivity, employee collaboration and satisfaction. Demand from media and entertainment companies in West Los Angeles is likely to nudge rent slightly higher, while law firms and other business service firms pursue ways to cut costs in their lease obligations.

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**	34,615	2,924	8,322	5.7%	7,065	24.0%	2.3%	20.1%	$40.21	0.1%	$42.84
	Downtown LA - Class A	21,947	2,220	4,601	9.7%	4,269	21.0%	1.9%	18.8%	$41.12	0.6%	$43.62
2	**Wilshire District**	16,857	683	3,181	3.4%	3,486	18.9%	0.0%	27.0%	$33.07	-0.5%	$32.79
	Wilshire District - Class A	12,487	594	2,464	3.8%	2,763	19.7%	0.2%	30.2%	$33.66	-0.6%	$33.38
3	**Hollywood**	5,136	375	816	-7.8%	1,018	15.9%	-4.7%	10.7%	$53.56	-4.0%	$52.05
	Hollywood - Class A	3,599	270	690	-1.5%	911	19.2%	-5.6%	13.1%	$55.71	-6.1%	$54.18
4	**Westside**	55,395	4,176	9,107	2.0%	10,006	16.4%	-1.3%	13.5%	$54.94	-4.0%	$54.63
	Westside - Class A	47,153	3,596	8,068	1.3%	8,955	17.1%	-1.6%	13.9%	$55.77	-5.0%	$55.71
5	**South Bay Area**	35,167	1,893	5,827	-5.0%	6,269	16.6%	-1.7%	19.2%	$29.05	-0.4%	$27.04
	South Bay Area - Class A	22,001	1,407	3,573	-4.9%	3,929	16.2%	-1.2%	18.7%	$30.37	-0.6%	$28.23
6	**San Fernando Valley**	31,574	2,165	4,389	-0.8%	4,671	13.9%	-1.5%	19.2%	$28.16	0.3%	$28.07
	San Fernando Valley - Class A	19,763	1,500	3,050	5.5%	3,150	15.4%	0.4%	21.2%	$30.05	-0.2%	$29.85
7	**Tri-Cities**	23,145	1,596	4,262	-2.5%	4,256	18.4%	2.1%	12.2%	$33.05	4.3%	$32.56
	Tri-Cities - Class A	16,909	1,351	3,498	-3.7%	3,370	20.7%	2.6%	13.1%	$34.25	4.3%	$34.61
8	**Santa Clarita Valley**	2,868	111	433	5.4%	320	15.1%	0.8%	16.4%	$29.95	0.2%	$29.56
	Santa Clarita Valley - Class A	1,800	80	312	14.9%	217	17.3%	3.6%	10.6%	$30.79	-0.1%	$30.31
9	**San Gabriel Valley**	11,660	577	1,480	0.3%	1,599	12.7%	-2.8%	13.1%	$26.45	-0.3%	$26.13
	San Gabriel Valley - Class A	3,147	150	298	-4.0%	252	9.5%	-1.0%	8.5%	$29.53	0.4%	$29.20
1-9	**Greater Los Angeles Total**	**211,282**	**14,124**	**37,001**	**0.8%**	**37,672**	**17.5%**	**-0.2%**	**18.3%**	**$36.52**	**-0.1%**	**$37.89**
	Greater Los Angeles Total - Class A	**145,209**	**10,898**	**25,865**	**1.8%**	**26,904**	**17.8%**	**0.3%**	**18.6%**	**$38.70**	**-0.7%**	**$40.46**

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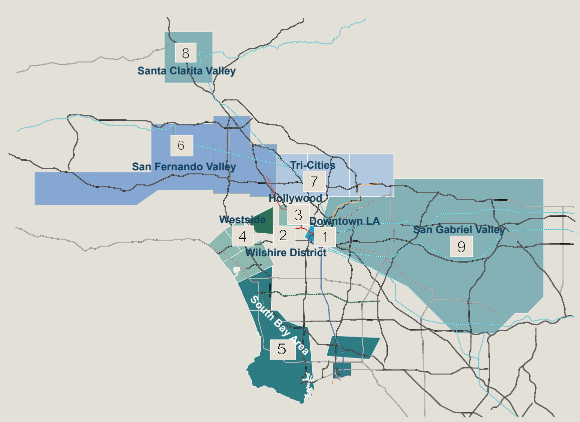

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.