Market Review & Outlook

Review: Continued Rental Rate Growth

Conditions remained tight in West Los Angeles even as more companies pursued space in alternative locations such as South Bay and Downtown Los Angeles. Class A leasing volume was sustained in 2015, rising by 12.1% year-on-year to 6.1 msf. Rents rose quite significantly as quality space options were limited.

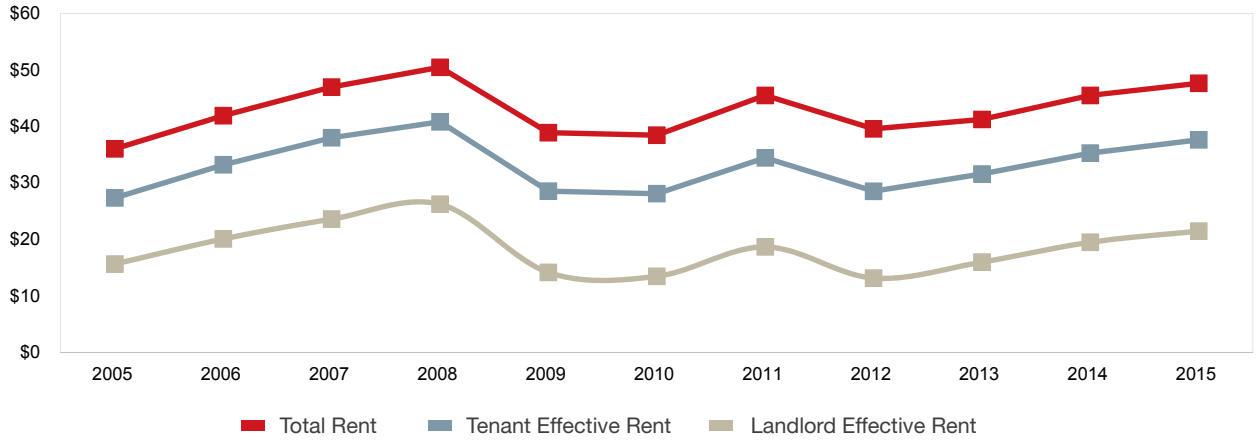
	2015	% Change
Net Rent	$30.60	5.5
Operating Expenses	9.90	1.5
Real Estate Taxes	4.25	3.7
Tenant Electricity	2.85	9.6
Total Rent	47.60	4.7
Amortized Concessions	-10.01	-2.0
Tenant Effective Rent	**37.59**	**6.7**
Landlord Effective Rent	**21.43**	**10.1**

Outlook: Moderate Jump in 2016

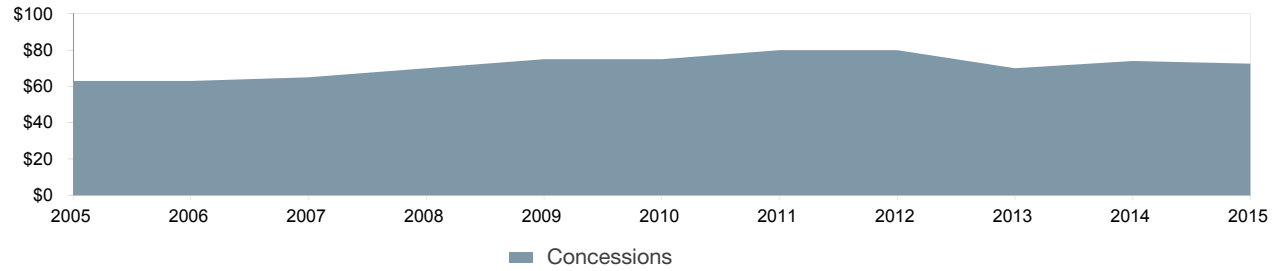
Deal volume could fall again as businesses continue to tap into the wider array of options outside West Los Angeles. Effective rent may still increase by 5.0% to 10.0%, pushing tenant effective rent above its pre-recession peak in 2008.

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Rent Trends



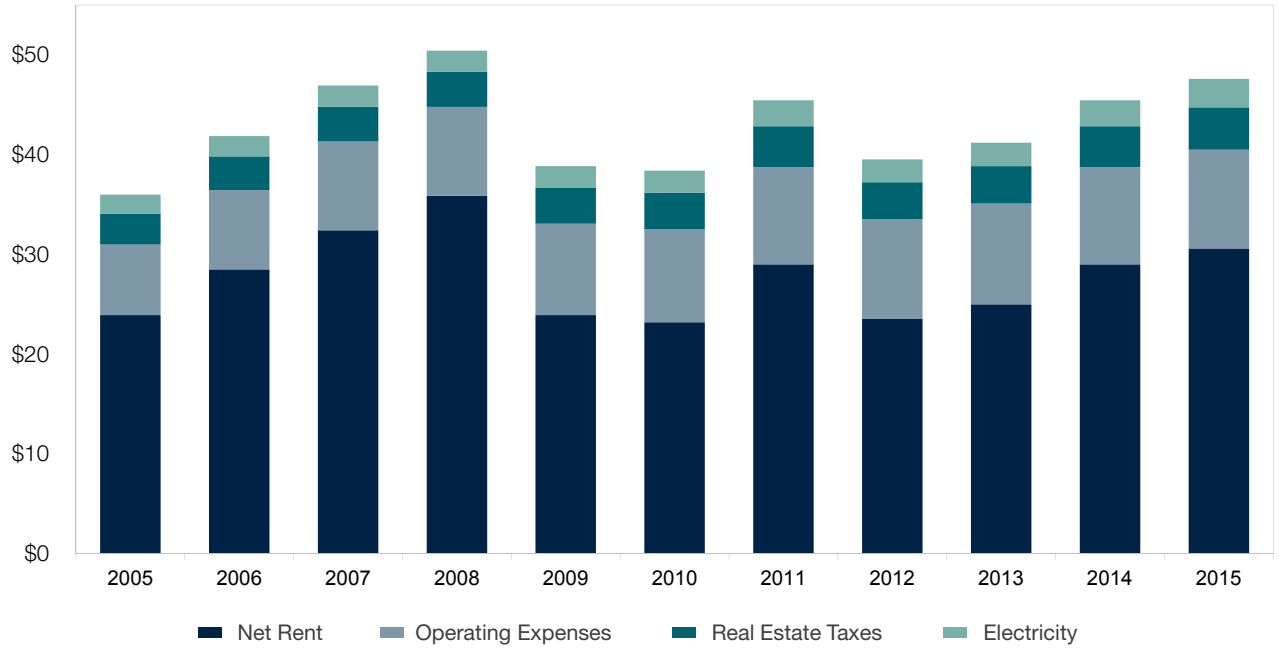
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$36.00	$41.86	$46.93	$50.43	$38.85	$38.40	$45.45	$39.53	$41.20	$45.45	$47.60	4.7%	4.4%	2.8%
Tenant Effective Rent	$27.31	$33.17	$37.96	$40.77	$28.50	$28.05	$34.41	$28.49	$31.54	$35.24	$37.59	6.7%	6.0%	3.2%
Landlord Effective Rent	$15.60	$20.04	$23.55	$26.19	$14.11	$13.43	$18.63	$13.12	$15.94	$19.46	$21.43	10.1%	9.8%	3.2%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$63.00	$63.00	$65.00	$70.00	$75.00	$75.00	$80.00	$80.00	$70.00	$74.00	$72.52	-2.0%	-0.7%	1.4%
Concessions/Rent Ratio*	24.1%	20.8%	19.1%	19.2%	26.6%	27.0%	24.3%	27.9%	23.4%	22.5%	21.0	-1.5		

* Equals amortized concessions as a percentage of total rent.

Total rent grew for the third consecutive year but more moderately than in 2014, increasing by 4.7% from $45.45 to $47.60. Net rent increased by 5.5% from $29.00 to $30.60. Real estate taxes (+1.5%) and operating expenses (+3.7%) registered moderate gains but tenant electric spiked by 9.6% to $2.85. Landlords pulled back slightly on the value of concession packages. Tenant effective rent jumped by 6.7% from $35.24 to $37.59. Landlord effective rent rose by 10.1% from $19.46 to $21.43.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$23.92	$28.50	$32.42	$35.89	$23.92	$23.20	$29.00	$23.53	$25.00	$29.00	$30.60	5.5%	5.7%	2.5%
Operating Expenses	$7.07	$7.95	$8.90	$8.90	$9.16	$9.34	$9.75	$10.00	$10.10	$9.75	$9.90	1.5%	1.2%	3.4%
Real Estate Taxes	$3.10	$3.38	$3.49	$3.51	$3.58	$3.65	$4.10	$3.70	$3.75	$4.10	$4.25	3.7%	3.1%	3.2%
Electricity	$1.91	$2.03	$2.12	$2.13	$2.19	$2.21	$2.60	$2.30	$2.35	$2.60	$2.85	9.6%	5.2%	4.1%
Total Rent	**$36.00**	**$41.86**	**$46.93**	**$50.43**	**$38.85**	**$38.40**	**$45.45**	**$39.53**	**$41.20**	**$45.45**	**$47.60**	**4.7%**	**4.4%**	**2.8%**

Lease Terms/Concessions

Review: Concessions Down Slightly

Landlords pulled back a bit on lease terms in 2015, reducing free rent periods and improvement allowances. Strong demand for conversion/rehab projects in Hollywood boosted landlord optimism.

Leases Under 50,000 sf	
Average Term:	3-7 years
Free Rent:	4-7 months
Tenant Improvements:	$5.00-$6.00/sf/yr
Parking:	None
Moving Allowance:	$2.00/sf

Leases Over 50,000 sf	
Average Term:	10 years
Free Rent:	10 months
Tenant Improvements:	$55.00-$65.00/sf
Parking:	None
Moving Allowance:	$2.00/sf

Outlook: Stable Concessions Expected

As more tenants consider space outside West Los Angeles – in El Segundo and Downtown Los Angeles, for example – the Westside's status as a must-have location for creative sector tenants will slip a bit further in 2016.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
West LA	$36.00	$41.86	$46.93	$50.43	$38.85	$38.40	$45.45	$39.53	$41.20	$45.45	$47.60
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S. Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

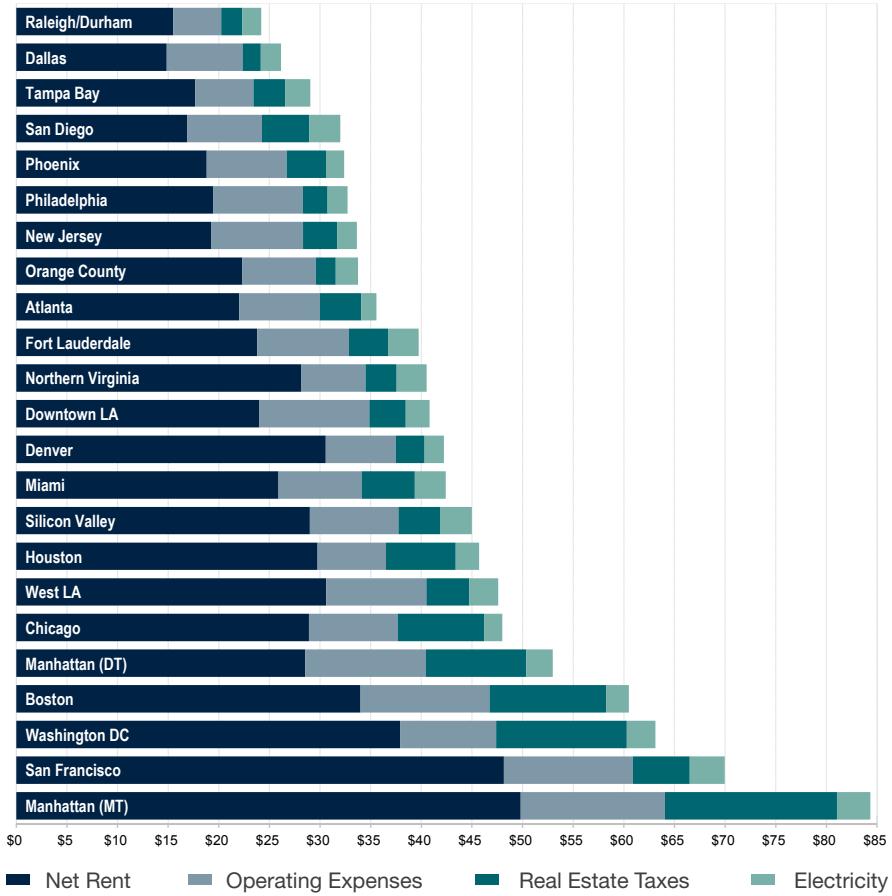
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
West LA	$27.31	$33.17	$37.96	$40.77	$28.50	$28.05	$34.41	$28.49	$31.54	$35.24	$37.59
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S. Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
West LA	$15.60	$20.04	$23.55	$26.19	$14.11	$13.43	$18.63	$13.12	$15.94	$19.46	$21.43
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S. Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. This report includes long-term direct leases signed in Class A buildings in West Los Angeles during 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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