

Savills Studley Report Los Angeles office sector

Q2 2018



SUMMARY

Market Highlights

LEASING DOWN SLIGHTLY

Los Angeles' leasing volume held steady during the second quarter of the year, with 3.4 million square feet (msf) leased. Quarterly volume fell back below the 3.7 msf long term average. Tenants have leased 12.7 msf in the four most recent quarters, approximately 17% below the long-term market average.

LITTLE CHANGE IN AVAILABILITY RATES

The region's overall and Class A availability rates both inched up slightly, rising to 19.7% and 18.3%, respectively. The Westside's Class A availability rate fell by 50 basis

points to 16.3%, though, and has decreased by 280 basis points year-on-year.

ASKING RENT FLAT

Asking rent across the Greater Los Angeles area inched down by 0.5% to \$35.93. The average Class A asking rent dipped by 1.3% to \$38.05.

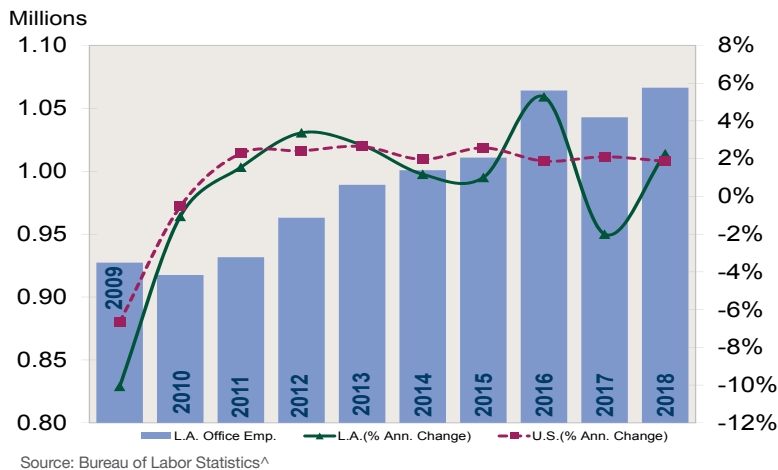
SALES DROPS

Office property sales during the last six months (through May 2018) totaled \$3.4 billion, a 37% decrease compared to the previous six-month total of \$5.5 billion.

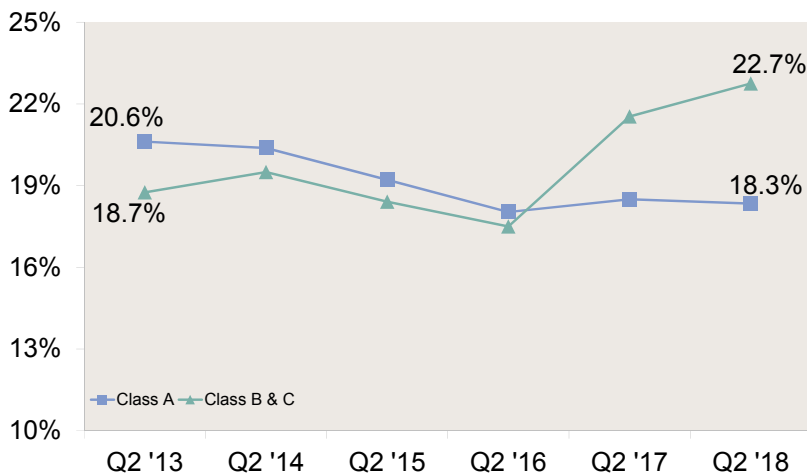
"Leasing activity continues to diverge widely from one market to the next. Traditional space occupiers in Downtown are still restraining their demand. On the Westside, tenants are pushing to new emerging micro-districts, and aggressively pursuing space."

Savills Studley Research

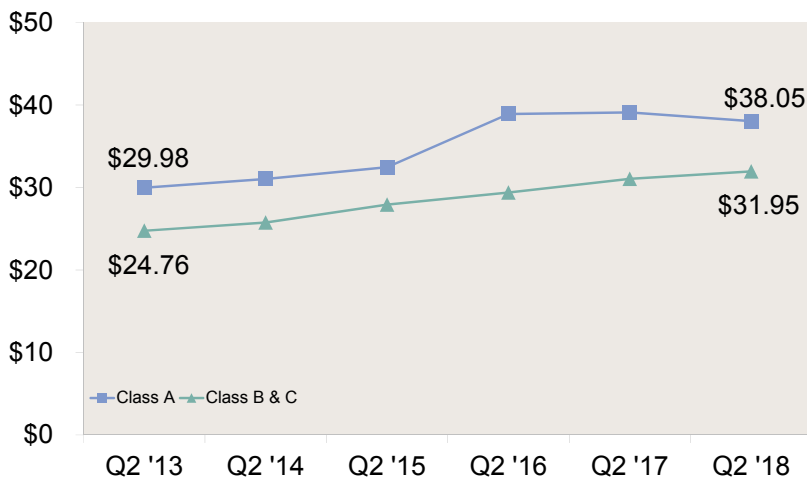
Office-Using Employment Trends



Availability Rate Trends



Asking Rent Trends (\$/sf)



Conditions Vary Widely by Area

The overall availability rate for the region was nearly unchanged in the quarter, ticking up by merely 10 basis points to 19.7%. Demand varies from one submarket to the next, though, as traditional space occupiers Downtown still restrain their consumption of space and creative office tenants on the Westside remain much more active.

Slow Going Downtown

Leasing activity Downtown has slowed over the last several quarters. Fewer large leases have been completed. Most tenants taking more than 50,000 sf of space have chosen to renew. Continued cost consciousness and caution among some space occupiers is a restraint on demand.

Properties offering amenities and layouts that cater to creative tenants are having a bit more success, underscored by a few smaller and mid-sized tenants relocating to recently renovated buildings. Architecture firm Steinberg Hart, for example, leased 12,000 sf at 818 W 7th Street in a move from nearby 523 W. 6th Street.

The recently renovated building also secured a 25,000-sf lease with the Los Angeles Football Club (LAFC). In April, LAFC's new \$350 million Banc of California soccer stadium opened at Exposition Park. A few tenants are expanding, but expansion activity Downtown is generally limited to tenants just adding a floor. Preferred Bank, for example, is adding about 15,000 sf at 601 S Figueroa in Downtown. Owner Brookfield is opening a Convene-operated conference and facility center at the tower.

Dr. Soon-Shiong's purchase of the L.A. Times sets the stage for the newspaper's relocation to El Segundo. They will move in July from their Downtown headquarters to 2300 East Imperial in El Segundo. The newspaper, which started publishing in 1881, has been located at 202 West 1st Street since 1935. The building owner, Onni Group, is reportedly considering converting the building into a mixed-use complex with office, retail and creative office space.

Stronger Demand in Micro-Districts

The L.A. Times is just the latest company to move to El Segundo, which some are now calling the "lower west side." Most of the companies that have moved to El Segundo are seeking alternatives to \$60-plus rent in Santa Monica. Taxes are also lower in El Segundo. Creative sector tenants in West Los Angeles continue to branch

out across a wider geography, not just El Segundo and Playa Vista, but also emerging micro-districts such as the Media District in Hollywood. Sirius XM leased 27,000 sf at 953 Sycamore, a 75,000-sf building currently being developed by CIM Group in the Media District. The developer noted its “walkable environment with a multitude of purveyors of art, food and fashion near desirable residential options and public transportation.”

Depleted Options in Playa Vista

Developable land sites in some of these districts, such as Playa Vista and pretty much all of West LA are nearly depleted. A joint venture led by Rockwood Capital, recently broke ground on WE3, a 190,000 sf creative office building in Playa Vista, located on one of the last big parcels. Scheduled to deliver in 2020, the \$80-million property will be the last of three buildings in Waters Edge. Tenants will enjoy unique amenities including an Olympic-sized swimming pool and volleyball courts. Tenants will have private balconies and floor to ceiling windows. Playa Vista is no longer the low-cost alternative, particularly space in new buildings, which are not achieving rent of \$5.50/sf or higher.

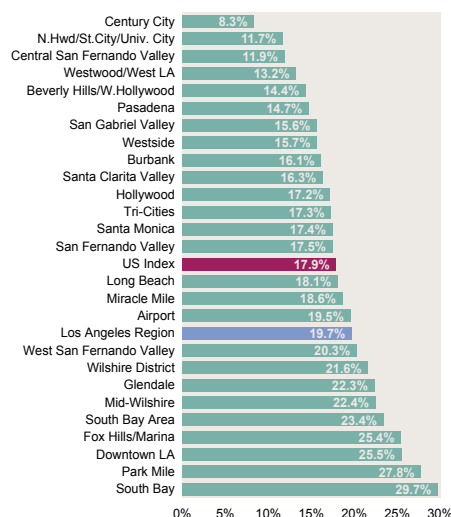
A few tenants are capitalizing on higher availability and more reasonable pricing in Miracle Mile. Edelman completed a five-year, 30,500-sf lease extension at 5900 Wilshire Boulevard in Miracle Mile. Miracle Mile still has ample availability, hovering just below 19%. The building has benefited from a flurry of recent deals including Buchwald's 15,000 sf lease in the first quarter.

Other companies are downsizing. In Westwood, Playboy is moving to a smaller pad, signing a 40,000-sf lease at 10960 Wilshire Boulevard. They currently lease 52,000 sf at UTA Plaza (9346 Civic Center Drive) in Beverly Hills. The company has been rethinking its strategy following its acquisition by private equity firm Rizvi Traverse in early 2018.

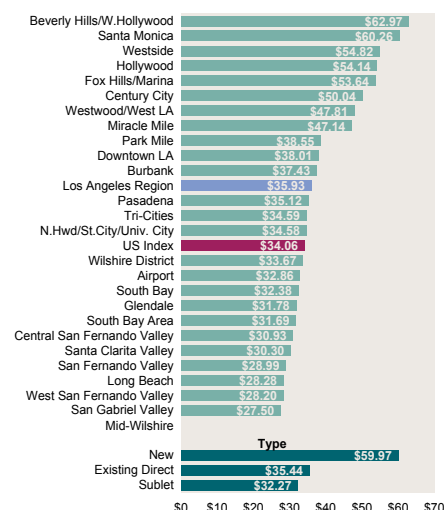
Coworking Proliferation Continues

The coworking sector continues to supplement leasing activity across the region. Wework is capturing many of the headlines, but independent coworking providers are also active. Portland-based Centrl Office leased 29,000 sf at Brunswick Square in Little Tokyo. Serendipity Labs Coworking leased 23,000 sf at CityNational2Cal taking the entire 18th floor as well as plaza level space that will house an innovation and outdoor event space.

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Niagara Bottling	132,957	1440 Bridgegate Dr	San Gabriel Valley
AAA	57,910	650 W Adams Blvd	Downtown LA
Playboy	40,000	10960 Wilshire Blvd	Westwood/West LA
Dignity Health Care	34,296	330 N Brand Blvd	Glendale
Edelman	30,500	5900 Wilshire Blvd	Miracle Mile
Centrl Office	29,000	Brunswick Square	Downtown LA
Sirius XM	27,000	953 Sycamore	Hollywood
Los Angeles Football Club	25,000	818 W 7th	Downtown LA
Stephoe & Johnson	23,710	633 W 5th St	Downtown LA
Serendipity Labs Coworking	23,000	350 S Grand Ave	Downtown LA
Sum of Top 10 Leases	423,373	Sum of 2nd Quarter Leasing Activity	3.4 MSF

Serendipity plans to open 10 facilities in Los Angeles.

For the time being, coworking is demonstrating its staying power. Coworking providers are pushing to suburban locations as well. A few owners are converting vacant or underutilized retail space into creative office or medical space. General Growth said it will convert 45,000 sf of former retail space at Northridge Fashion Center into creative office space. General growth has already converted space at the Glendale Galleria.

Sales Slowing

Sales activity soared in 2017, but has fallen back to more normal levels so far in 2018. During the last six months, investors have acquired \$3.4 billion in office properties, falling from the \$5.5 billion sold in the prior six months.

Out-of-market investors remain active. San Francisco-based Swift Real Estate paid \$167.5 million (\$305/sf) for DirecTV's three-building campus in El Segundo. The 550,000-sf campus is 100% leased to DirecTV and Raytheon. The new owner will build upon several years of repositioning undertaken by the prior owner. Swift plans to renovate the lobby and central plaza

Harbor Associates and The Bascom Group continue to add holdings in Southern California. The partnership paid \$21.7 million for 4130 Cahuenga Boulevard, the 75,462-sf building sold for \$288/sf. The new owners plan to move ahead with a multimillion dollar capital improvement program to the property constructed in 1984 and renovated in 2000. The joint venture has acquired more than \$250 million in 18 different buildings totaling 1.2 msf in Southern California and Colorado.

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	40,885	2,135	10,410	4.2%	9,215	25.5%	0.6%	23.0%	\$38.01	-0.6%	\$40.17
	Downtown LA - Class A	23,571	1,326	4,942	2.6%	4,454	21.0%	0.2%	19.2%	\$39.85	-0.4%	\$41.69
2	Wilshire District	15,886	612	3,435	11.2%	3,076	21.6%	2.3%	19.2%	\$33.67	2.9%	\$32.79
	Wilshire District - Class A	12,065	555	2,589	14.3%	2,374	21.5%	2.9%	19.5%	\$33.96	0.7%	\$33.72
3	Hollywood	4,880	434	838	-1.6%	1,092	17.2%	-0.3%	22.4%	\$54.14	-0.7%	\$55.80
	Hollywood - Class A	3,682	348	712	-0.7%	908	19.3%	-0.1%	24.7%	\$58.77	1.7%	\$59.31
4	Westside	53,730	4,186	8,416	-3.0%	8,932	15.7%	-0.5%	16.6%	\$54.82	-1.5%	\$56.33
	Westside - Class A	46,036	3,716	7,519	-2.8%	7,966	16.3%	-0.5%	17.3%	\$55.11	-2.4%	\$57.36
5	South Bay Area	33,507	1,858	7,834	4.8%	6,134	23.4%	0.6%	18.7%	\$31.69	6.2%	\$29.17
	South Bay Area - Class A	21,275	1,454	4,165	-0.3%	3,757	19.6%	-0.1%	17.7%	\$32.95	5.6%	\$30.72
6	San Fernando Valley	29,467	2,289	5,146	-1.9%	4,425	17.5%	-0.4%	15.1%	\$28.99	-0.5%	\$28.09
	San Fernando Valley - Class A	19,197	1,456	3,201	1.6%	2,891	16.7%	0.3%	15.1%	\$31.12	-1.7%	\$30.24
7	Tri-Cities	21,949	996	3,801	-5.7%	4,371	17.3%	-1.0%	19.9%	\$34.59	0.6%	\$32.23
	Tri-Cities - Class A	16,605	681	3,284	-5.3%	3,632	19.8%	-1.1%	21.9%	\$35.54	0.8%	\$33.60
8	Santa Clarita Valley	2,572	123	420	5.8%	411	16.3%	0.9%	16.0%	\$30.30	-0.1%	\$29.90
	Santa Clarita Valley - Class A	1,779	97	307	2.4%	272	17.3%	0.4%	15.3%	\$31.05	1.2%	\$30.82
9	San Gabriel Valley	10,899	516	1,705	0.6%	1,707	15.6%	-0.6%	16.3%	\$27.50	2.2%	\$26.53
	San Gabriel Valley - Class A	3,623	112	430	35.2%	311	11.9%	1.8%	9.8%	\$30.07	2.2%	\$29.43
1-9	Greater Los Angeles Total	208,896	12,715	41,167	1.7%	40,237	19.7%	0.2%	19.4%	\$35.93	-0.5%	\$36.60
	Greater Los Angeles Total - Class A	144,151	9,396	26,438	0.8%	26,532	18.3%	0.1%	18.5%	\$38.05	-1.3%	\$39.11

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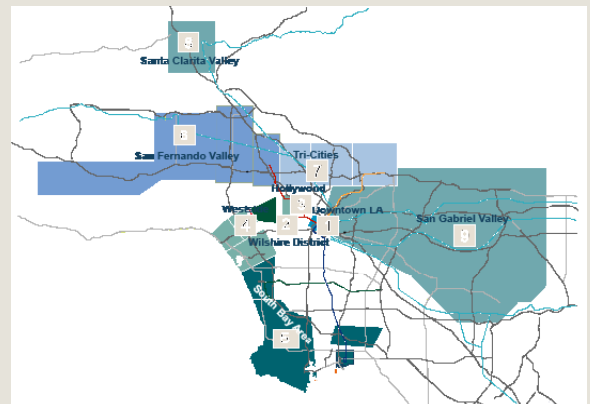
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(1) Percentage point change for availability rates.

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.

^Unless otherwise noted, source for data is Savills Studley.

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