

Savills Studley Report Los Angeles office sector

Q1 2018



SUMMARY

Market Highlights

LEASING INCREASES

Following a slower quarter of activity, with 2.7 million square feet (msf) leased – quarterly activity increased to 3.4 msf during the first quarter. Tenants have leased 12.6 msf in the four most recent quarters, 18.8% lower than the long-term market average.

CLASS A AVAILABILITY FALLS

While the market's overall availability rate increased by 10 basis points from 19.5% to 19.6%, the Class A availability rate fell by 40 basis points to 18.3%.

STABLE ASKING RENT

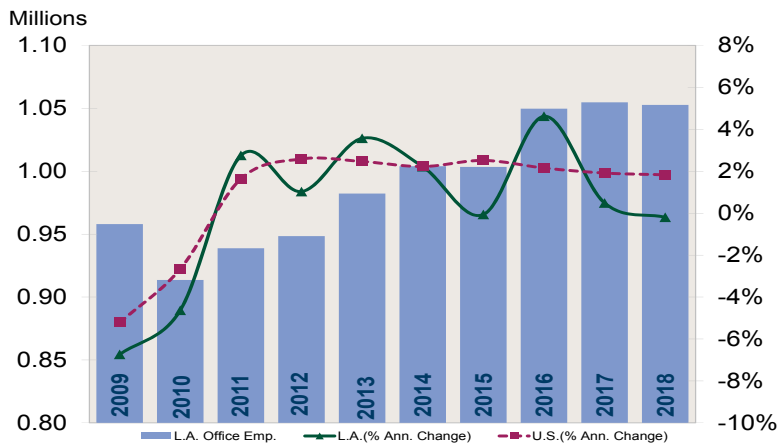
Asking rent across the Los Angeles market was essentially flat, ticking down by 0.2% to \$36.18 during the first quarter. The average Class A asking for the region also inched down by 0.2% to \$38.53.

SALES UP

Office property sales during the last six months (through February 2018) totaled \$6.4 billion, a 45% increase compared to the previous six-month total of \$4.1 billion.

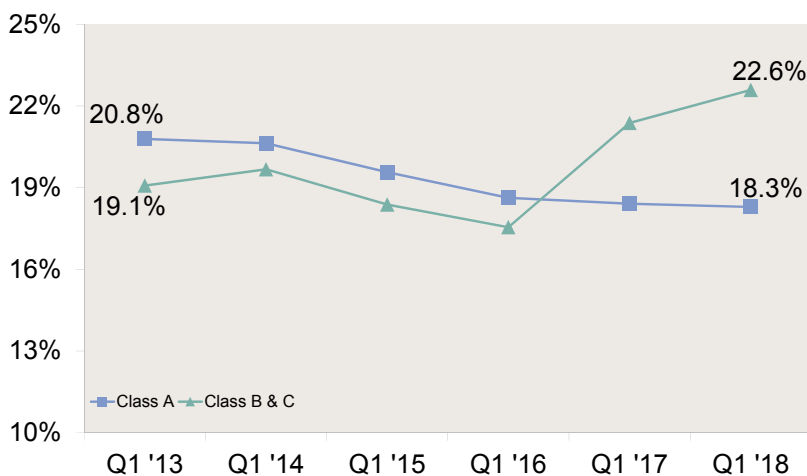
"Several larger leases among top tech firms has kept deal volume relatively steady in West Los Angeles. Demand for production space in Culver City has been particularly brisk. In contrast, activity Downtown remains subdued."

Office-Using Employment Trends

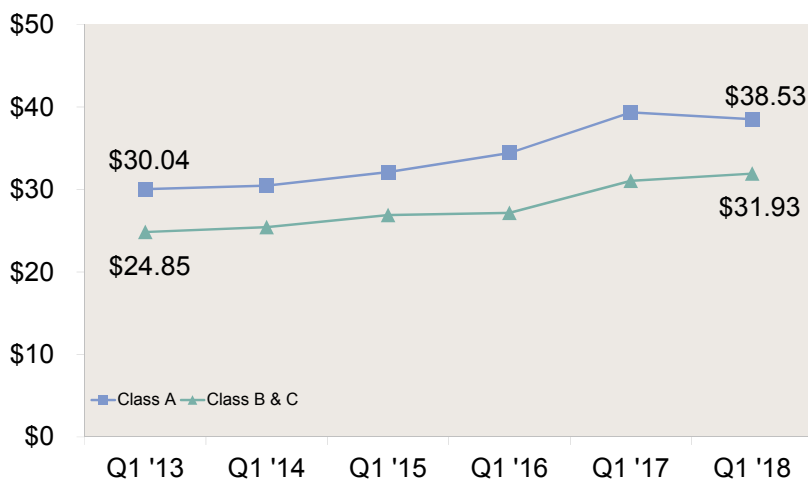


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Top Tech Firms Driving Demand in Westside

During 2015 and 2016, the Los Angeles economy hit its stride. Surging independent television and film production boosted the entertainment sector. Strengthening real estate and finance sectors added to employment, keeping job growth relatively consistent, although far from stellar.

Job growth and leasing activity have remained relatively steady in 2017 and the early stages of 2018. Overall job growth rose by 1% during the last 12 months, creating 10,368 new jobs in all industries — a 13.4% increase in job growth. This is a prominent 13.4% new more jobs compared to the prior 12 months.

Tenants leased 12.6 msf during the last four quarters, well below the market's long-term historical average of 15.6 msf. The number of larger leases completed has declined. Most of the bigger relocations occurring have been signed on the Westside. In contrast, those larger deals signed Downtown have mostly been renewals.

The region's overall availability rate (19.6%) has barely budged in the last 12 months and ended the first quarter up by only 30 basis points year-on-year. New construction has remained controlled, keeping availability rates from rising. Here too, though, availability rates are headed in opposite directions. The Class A rate in the Westside has fallen by 200 basis points year-on-year to 16.8%. Conversely, it has jumped in Downtown Los Angeles by 150 basis points to 20.8%.

Larger Firms Dominating Leasing on the Westside.

Class A availability on the Westside decreased by two full percentage points in the last four quarters, falling to 16.8%. Demand from a few top entertainment and social media firms, as well as some professional business services companies, continues to keep competition for space brisk. The West Los Angeles office market and Culver City in particular are benefitting from a late-cycle burst in commercial real estate development.

Hayden Tract is the latest focus of leasing, particularly for production and studio space. Amazon has significantly increased its presence in Culver City, acquiring 280,000 sf late last year and then adding 75,000 sf early in the year. Amazon took the entirety of the office component at The Culver Steps, Hackman Capital Partners' mixed-used

development at 9300 Culver Boulevard. The project, slated to deliver in early 2019, will include 45,000 sf of curated retail space, and an expansive public plaza featuring nearly one acre of green space. Additionally, NFL Network leased 65,424 sf at 10950 Washington Boulevard in Culver City.

Creative sector firms continue to pursue distinctive space options in other submarkets as well, including many smaller 5,000 to 20,000-sf flex buildings that are being repurposed as creative office space. In Burbank, post-production service company Formosa Group leased 8,834 sf at the Hanhai Civic Plaza. The Buchwald Talent Agency leased the entire penthouse floor at 5900 Wilshire Boulevard. The talent agency will more than double its space in a move from 6500 Wilshire Boulevard.

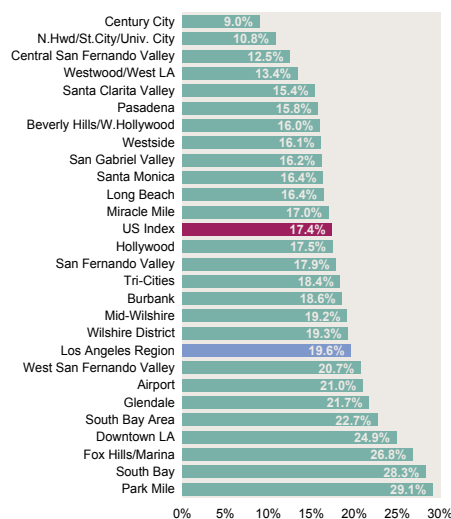
Frenetic activity among co-working space providers added to the competition for space. There is seemingly no end to WeWork's demand for space. The co-working firm now has more than 200 centers globally and added a 15th in Los Angeles in early 2018, leasing 60,000 sf at One Culver (10000 W Washington). Co-working centers are also providing Downtown Los Angeles with some additional demand. Convene opened two downtown locations in the first quarter, one in the 777 Figueroa building and another at Wells Fargo Center in the 333 S Grand Ave Building.

Downtown Tenants Stay Efficient

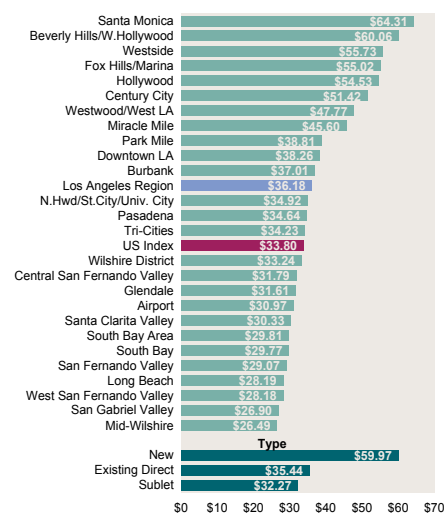
The availability rate fell slightly in most submarkets during the first quarter, but rose by 70 basis points in Downtown Los Angeles. Most tenants in Downtown Los Angeles remain focused on space efficiency as tenants continue to figure out ways to use less space. Bank of America expanded by 54,000 sf at 333 S. Hope Street. The bank will move its local Merrill Lynch and U.S. Trust offices from 350 S. Grand Street. Some banks in West Los Angeles are displaying similar cost-consciousness. Dreyfus Brokerage Services, for example, is also consolidating locations from Museum Square and Beverly Hill. They signed a seven-year, 40,000-sf lease at 6500 Wilshire Boulevard.

A few smaller expansions, generally involving the addition of a floor or two at most, have been completed. Law firms accounted for many of these deals during the first quarter. Seyfarth Shaw signed a 58,000 sf lease at 601 S. Figueroa Street, a slight increase from its current lease at Banc of America Plaza. In other Downtown transactions, DLA Piper inked a 10-year,

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Countrywide Financial	179,357	1757 Tapo Canyon Rd	West San Fernando Valley
Apple	128,000	8777 Washington Blvd	Fox Hills/Marina
Doheny Eye Institute	110,456	150 N Orange Grove Blvd	Pasadena
Amazon	75,000	9300 Culver Blvd	Fox Hills/Marina
NFL Network	65,424	10950 Washington Blvd	Fox Hills/Marina
WeWork	60,000	10000 W Washington Blvd	Fox Hills/Marina
Seyfarth Shaw	58,000	601 S Figueroa St	Downtown LA
Proskauer Rose	54,615	2029 Century Park E	Century City
HealthCare Partners	48,869	19191 S Vermont Ave	South Bay
Quest Nutrition	45,000	777 S Aviation Blvd	South Bay
Sum of Top 10 Leases	824,721	Sum of 1st Quarter Leasing Activity	3.4 MSF

33,491-sf lease at the KPMG Center. They currently occupy approximately 49,000 sf. Additionally, KPFF leased 24,000 sf in an expansion at The Bloc. The engineering firm added the 20th floor and will consolidate from the 30,000 sf it currently occupies in Pasadena and West Los Angeles. Engineering firms are drawn to the extensive multi-family development activity taking place Downtown.

Some smaller and mid-sized firms priced out of Santa Monica are moving to Downtown Los Angeles as they find more space options and a difference in rent of more than \$20 to \$25/sf. TubeScience leased nearly 20,000 sf at 601 W 5th Street. The building is one of the more expensive buildings for tenants Downtown (asking rent of \$48/sf) but remains a bargain relative to Santa Monica. Firms in need of bigger blocks of space will soon have a bit more to consider in Venice. Snapchat is expected to put a block of more than 160,000 sf of space on the market, as

the company continues to streamline. The mobile phone app maker recently announced plans to lay off 120 employees.

Looking Forward

The greater Los Angeles economy seems to be losing some momentum and may have already pushed past its peak. While the Westside did see a flurry of demand in Culver City this quarter, leasing volume has been running about 15% below its long-term average since midyear 2017. In the last several quarters a few more area employers and residents relocated to lower-cost markets. There is little to indicate that hiring and demand for space will spike in the short-term, this should keep rent growth in check.

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	40,148	2,098	9,999	2.8%	8,920	24.9%	0.7%	22.2%	\$38.26	-4.2%	\$39.58
	Downtown LA - Class A	23,201	1,411	4,819	1.7%	4,466	20.8%	0.3%	19.3%	\$40.02	-1.4%	\$40.33
2	Wilshire District	16,024	763	3,089	3.0%	3,149	19.3%	0.6%	19.6%	\$33.24	-1.5%	\$32.76
	Wilshire District - Class A	12,203	658	2,265	-1.9%	2,434	18.6%	-0.4%	19.9%	\$32.81	-4.7%	\$33.33
3	Hollywood	4,880	423	852	-6.8%	1,009	17.5%	-1.3%	20.7%	\$54.53	0.5%	\$52.43
	Hollywood - Class A	3,682	329	717	-6.6%	842	19.5%	-1.4%	22.9%	\$57.76	-0.2%	\$54.16
4	Westside	53,727	4,173	8,676	-6.3%	9,883	16.1%	-1.1%	18.4%	\$55.73	0.7%	\$54.75
	Westside - Class A	46,033	3,695	7,738	-5.4%	8,665	16.8%	-1.0%	18.8%	\$56.82	1.1%	\$55.90
5	South Bay Area	32,874	1,697	7,478	14.6%	6,568	22.7%	2.9%	20.0%	\$29.81	3.7%	\$28.87
	South Bay Area - Class A	21,264	1,238	4,178	1.8%	4,100	19.6%	0.4%	19.3%	\$31.17	2.5%	\$30.60
6	San Fernando Valley	29,352	2,151	5,247	-7.1%	5,445	17.9%	-1.4%	18.5%	\$29.07	5.4%	\$26.61
	San Fernando Valley - Class A	19,197	1,317	3,149	-4.2%	3,068	16.4%	-0.7%	16.0%	\$31.62	3.0%	\$29.99
7	Tri-Cities	21,949	1,062	4,031	-5.9%	3,797	18.4%	-1.2%	17.3%	\$34.23	0.0%	\$33.54
	Tri-Cities - Class A	16,605	704	3,468	-3.3%	3,099	20.9%	-0.7%	18.7%	\$35.14	0.9%	\$34.22
8	Santa Clarita Valley	2,572	151	397	-5.4%	372	15.4%	-0.9%	14.5%	\$30.33	1.4%	\$29.75
	Santa Clarita Valley - Class A	1,779	112	300	-3.7%	243	16.9%	-0.6%	13.6%	\$30.66	0.4%	\$30.73
9	San Gabriel Valley	10,449	532	1,695	6.7%	1,878	16.2%	1.0%	18.0%	\$26.90	2.2%	\$26.45
	San Gabriel Valley - Class A	3,173	157	318	17.2%	334	10.0%	1.5%	10.5%	\$29.43	-0.1%	\$28.94
1-9	Greater Los Angeles Total	207,096	12,627	40,610	0.4%	40,010	19.6%	0.1%	19.3%	\$36.18	-0.2%	\$36.55
	Greater Los Angeles Total - Class A	143,455	9,291	26,236	-2.0%	26,408	18.3%	-0.4%	18.4%	\$38.53	-0.2%	\$39.35

Please contact us for further information

Savills Studley

Downtown Los Angeles
777 S. Figueroa Street
30th Floor
Los Angeles, CA 90017
(213) 553-3800

Director & Regional Manager

Mark T. Sullivan - Vice Chairman
msullivan@savills-studley.com
License 00975518

Branch Manager

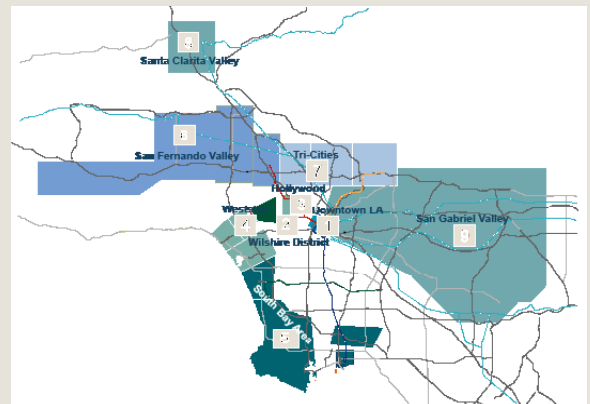
Joshua D. Gorin - EVP
jgorin@savills-studley.com
License 01789664

Savills Studley

West Los Angeles
1100 Glendon Avenue
Suite 1800
Los Angeles, CA 90024
(310) 444-1000

Branch Manager

Mike Catalano - Vice Chairman
mcatalano@savills-studley.com
License 01759030



(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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