Savills Studley Report
Los Angeles office sector

Q4 2016

SUMMARY

Market Highlights

LEASING DECLINES

Following two consecutive quarters of more than 5.0 msf of leasing, activity backed off a bit in the final quarter, falling to 4.5 msf. Despite the moderation in this quarter's activity, tenants leased 20.4 msf in 2016, exceeding the long-term average of 15.5 msf.

AVAILABILITY RATES DECLINE

The Class A availability rate fell by 80 basis points declining to 17.8%. Compared to year-end 2015, the overall and Class A availability rates are both down by more than 100 basis points.

ASKING RENTS FLAT

Average Class A asking rent in the Los Angeles region was essentially unchanged, inching 0.9% lower in the quarter to $40.10. Class A rents rose by 19.2% in the recent quarter as compared to same time last year.

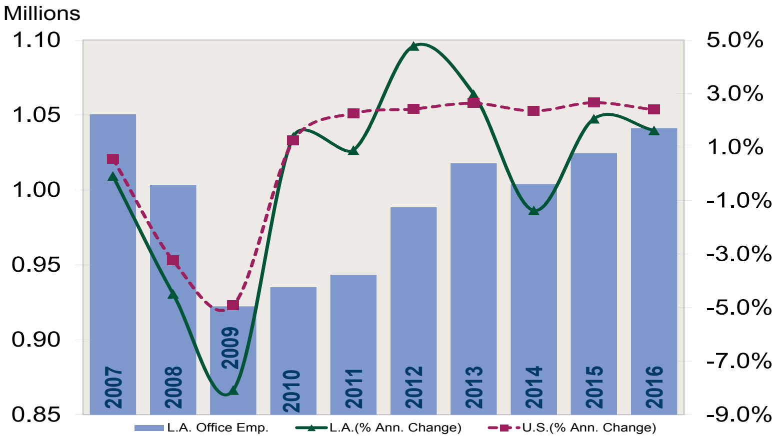
SALES UP SHARPLY FROM A YEAR AGO

Sales this year have surged compared to 2015, as of November year-to-date office sales totaled $10.7 billion, a 74.7% spike from the $6.1 billion in the first 11 months of 2015.

"Despite tight conditions in much of the market, particularly on the Westside, tenants can still negotiate favorable lease terms in this market. Availability remains elevated in Downtown Los Angeles, the Tri-Cities and San Fernando Valley. The value of creditworthy tenants in stabilizing cash flow will become apparent as this recovery starts to wind down."

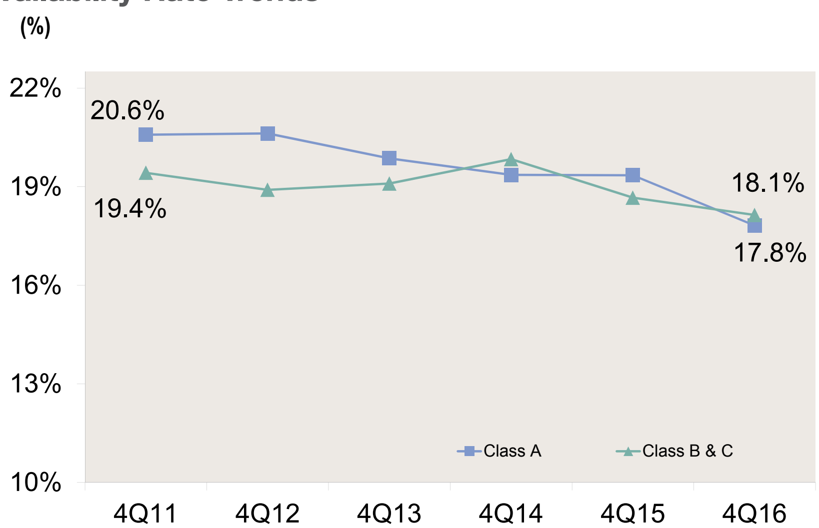
Mark Sullivan, Executive Vice President

Office-Using Employment Trends

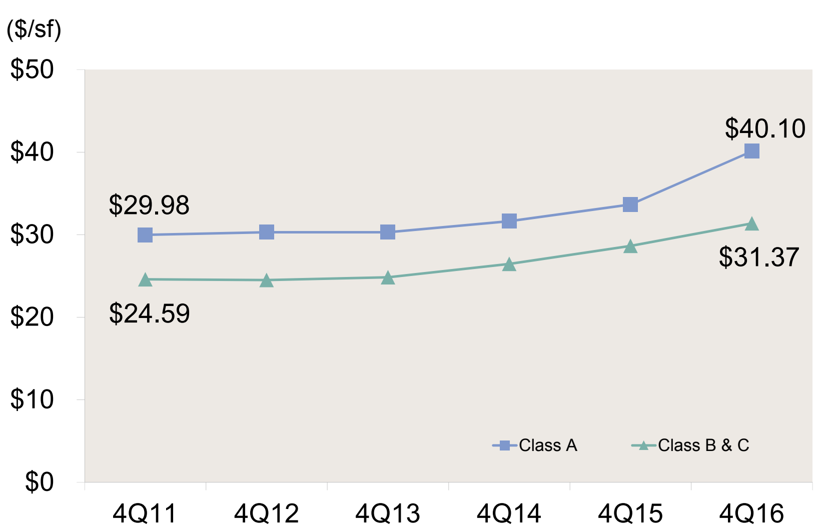


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Recovery Losing Some Steam Heading into 2017

It took some time for the recovery to take hold in Los Angeles, but it has certainly stuck around longer than many people expected. Tenants have leased 39.5 msf in Los Angeles in the last two years; the 20.4 msf leased in 2016 was the strongest year since 2001. As strong as last year's tally was, leasing has remained quite uneven in the region. Entertainment, software and social media firms have provided the strongest impetus for demand in Los Angeles and these firms continue to dominate the activity in new development and conversions, and are leading the way for build-out trends in the region.

In contrast, traditional space occupiers – law firms, banks and general professional business services – continue to proceed cautiously. Although conditions have improved in the legal and financial sector, revenues are still not back to their 2006 and 2007 heyday. This dichotomy continues to show up as a split between the Westside where conditions are still very tight, and the balance of the market (Downtown, Tri-Cities and the San Fernando Valley) where tenants have more leverage.

Hypertrophied Leasing Dissipating

Heading into 2017, the region is seeing a slight moderation in demand with less hyper-growth in the tech sector. The competition for talent and aggressive payroll expansion by these firms has lost a bit of steam. Office-using employment in the Los Angeles metro area increased by 1.6% in the last 12 months, a decline from the 2.1% jump in the prior 12 months and well below the 2.6% growth nationally. The moderation in hiring is starting to impact leasing. The number of requirements has fallen and more tenants are taking their time before they commit to a lease.

Deal volume totaled 4.5 msf in the fourth quarter, a decline of 20.3% from the prior quarter. It will take another quarter of two to see if the recent deceleration is just a pause or if a more protracted contraction is beginning. Leases are also taking longer to complete – often another sign that demand is cooling. Of note, the largest lease this quarter, City National Bank's two-building lease at 555 S Flower Street and 350 S Grand, included a major space reduction as the bank gave back five floors at 555 S Flower.

Continued consolidation among banks, law firms and other professional/business services is likely to become more prominent as tech and creative sectors companies lease space more cautiously. The pullback in IPO markets earlier this year took the wind out of the sails of some area startups. Private investors are scrutinizing the financials of larger companies as well as smaller firms in this environment. The valuation of these companies has come back down to earth, forcing some to delay major expansion plans. Building owners, much like venture capital investors, are being a bit more realistic about the durability of this recovery and sustainability of recent rent growth. As the tech sector experiences volatility more landlords have a renewed appreciation for the familiarity and stability of corporate business services firms.

Westside Will Remain Challenging

Tenants will once again face the most challenging conditions on the Westside in 2017, with little change in the tough stance adopted by most of landlords. Owners in Santa Monica, Hollywood and the Beverly Hills Triangle have achieved rent levels that are well above their peaks in 2007. Tenants seeking quality space in the Westside will have to start their search early and should consider options in other submarkets. Creative office buildings in emerging locations such as Playa Vista and Downtown's Arts District are capturing rents – in the $50.00/sf range - that seemed unthinkable for these areas a couple of years ago. That said, tenants requiring creative office space have options in a wider geography than they did a couple of years ago. Conversion projects and a handful of newly constructed boutique buildings continue to pop up in emerging locations such as Downtown's Arts District.

More Opportunities Downtown and in Tri-Cities

While landlords on the Westside have reined in concessions, most owners Downtown, as well as in the Tri-Cities and the San Fernando Valley are not in the position to be as inflexible. Downtown ended 2016 with an availability rate of 21.7%, an increase of nearly a full percentage point from year-end 2015. Availability rates in the Airport submarket and South Bay are also hovering around 20.0%. Landlords in these areas have had to extend elevated tenant improvement allowances and make major improvements to the amenities and space layouts in their properties. If not, they face the loss of tenants. Landlords of some of the older c 1980 and 1990 buildings Downtown, and the San Fernando Valley, are dependent on luring new anchor tenants to fund the major enhancements needed to make their buildings competitive.

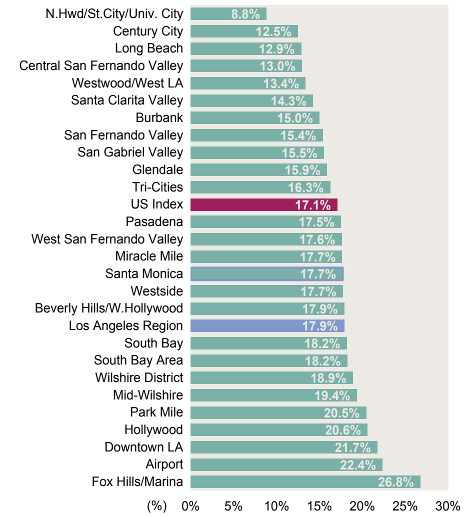
Sales Well Ahead of Last Year

Investors remained very active in Los Angeles during 2016. As of November, office sales totaled $10.7 billion a 75.0% spike from the same period during 2015. No other major metro posted as large a jump in sales during the year. These prices rival what investors are paying for trophy assets in Manhattan. Assets in Santa Monica continue to command very high pricing, including two complexes that changed hands in November. Brightstone Capital Partners paid $403.0 million ($835.45/sf) for the Lantana Media Campus. The four-building, 482,377-sf complex was 83% leased at time of sale. Also in Santa Monica, Oracle acquired 2600-2800 Colorado Avenue for $367.6 million ($1,165/sf). Pricing above $500/sf and sub-5.0% cap rates will put even more pressure on landlords to achieve aggressive pro forma rent projections.

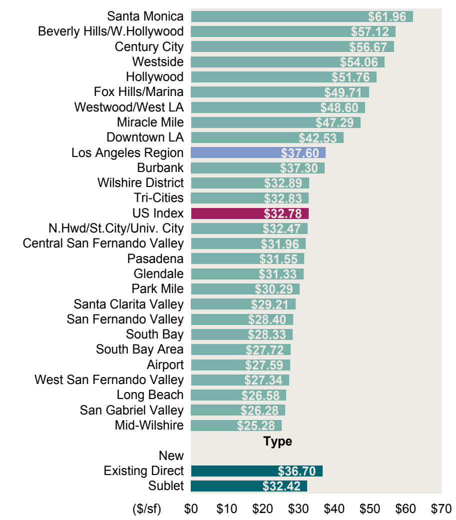
Looking Forward

Tenants should be able to find opportunities – even in the tightest submarkets – during 2017. The 10,000 sf to 25,000-sf user, will obviously have an easier path than larger tenants who must commence their search early. Leasing will wind down during 2017 to a pace that is on par with long-term trends. As landlords feel the pullback in demand they will become more concerned about locking in long-term leases. Some owners will be more proactive than others as they make an effort to get ahead of the market. This includes landlords subject to significant lease rollovers or exposure to debt mandates in the short term. The value of larger established corporate tenants will appreciate in the coming quarters, particularly in uncertain market conditions.

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
City National Bank	275,000	555 S Flower St	Downtown LA
City National Bank	250,000	350 S Grand Ave	Downtown LA
Kite Pharma	159,310	2400 Broadway	Santa Monica
Entertainment Partners	150,000	2950 Hollywood Way	Burbank
Cast & Crew	90,273	2300 W Empire Ave	Burbank
WeWork	74,740	3900 W Alameda Ave	Burbank
FAA	73,000	701 S Aviation Blvd	South Bay
WeWork	64,000	10250 Constellation Blvd	Century City
Critical Content	50,562	2300 Empire Ave	Burbank
Cedars-Sinai	46,151	8687 Melrose Ave	Beverly Hills/West Hollywood
Sum of Top 10 Leases	**1,233,036**	**Sum of 4th Quarter Leasing Activity**	**4.5 MSF**

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**	34,487	3,670	7,500	6.2%	7,054	21.7%	0.6%	20.9%	$42.53	-0.7%	$36.01
	Downtown LA - Class A	21,903	2,722	4,166	-2.4%	4,324	19.0%	-0.5%	19.6%	$43.63	0.0%	$36.48
2	**Wilshire District**	16,520	907	3,121	-10.5%	3,467	18.9%	-2.2%	20.7%	$32.89	0.3%	$30.99
	Wilshire District - Class A	12,359	770	2,415	-12.6%	2,776	19.5%	-2.8%	22.0%	$33.30	-0.2%	$32.12
3	**Hollywood**	5,220	771	1,076	5.7%	1,336	20.6%	0.6%	19.2%	$51.76	-0.6%	$43.91
	Hollywood - Class A	3,607	575	895	-1.8%	1,141	24.8%	-0.4%	24.3%	$53.74	-0.8%	$44.85
4	**Westside**	56,116	6,675	9,951	-0.5%	9,827	17.7%	-0.2%	17.3%	$54.06	-1.0%	$50.97
	Westside - Class A	47,118	5,030	8,830	-1.4%	8,561	18.7%	-0.3%	18.3%	$54.86	-1.5%	$50.82
5	**South Bay Area**	34,005	2,824	6,202	-1.1%	7,733	18.2%	-0.2%	22.2%	$27.72	2.5%	$26.73
	South Bay Area - Class A	21,722	1,802	3,779	-3.8%	4,796	17.4%	-0.7%	21.7%	$29.11	3.1%	$26.14
6	**San Fernando Valley**	29,470	2,730	4,532	-3.0%	5,447	15.4%	-0.5%	17.7%	$28.40	1.2%	$26.64
	San Fernando Valley - Class A	19,775	1,925	2,969	-5.7%	3,875	15.0%	-0.9%	18.4%	$30.23	1.3%	$27.58
7	**Tri-Cities**	22,735	2,361	3,698	-13.1%	4,201	16.3%	-2.5%	18.3%	$32.83	0.8%	$32.09
	Tri-Cities - Class A	16,822	1,886	3,037	-9.9%	3,463	18.1%	-2.0%	20.2%	$34.51	-0.3%	$34.14
8	**Santa Clarita Valley**	2,601	133	371	16.0%	359	14.3%	2.0%	14.4%	$29.21	-1.2%	$26.08
	Santa Clarita Valley - Class A	1,800	109	247	14.1%	227	13.7%	1.7%	13.5%	$29.92	-1.3%	$26.89
9	**San Gabriel Valley**	11,449	1,109	1,777	11.1%	2,024	15.5%	1.4%	18.0%	$26.28	0.6%	$25.87
	San Gabriel Valley - Class A	3,137	336	328	30.3%	333	10.5%	2.4%	11.4%	$28.85	-1.2%	$26.99
1-9	**Greater Los Angeles Total**	**207,383**	**20,409**	**37,152**	**-1.4%**	**40,112**	**17.9%**	**-0.4%**	**19.1%**	**$37.60**	**-0.8%**	**$32.56**
	Greater Los Angeles Total - Class A	**144,636**	**14,580**	**25,772**	**-4.2%**	**28,355**	**17.8%**	**-0.8%**	**19.3%**	**$40.10**	**-0.9%**	**$33.65**

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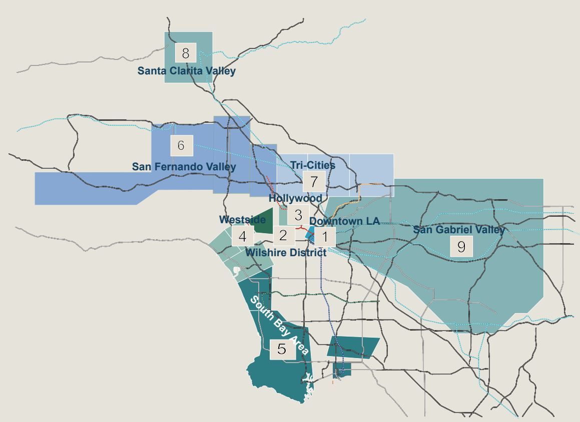

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

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.