



LOS ANGELES OFFICE  
MARKET REPORT  
THIRD QUARTER 2015

PMRG | PM Realty Group







#### ANNUAL JOB GROWTH

Los Angeles created 76,300 jobs in the 12 months ending August 2015. The Education & Health Services and Trade, Transportation & Utilities sectors accounted for the largest job gains with 22,500 and 17,100 jobs.



#### 12-MO DIRECT NET ABSORPTION

Greater Downtown and the Westside accounted for a combined 1.24 million sq. ft. of direct net absorption over the prior 12 months, accounting for 45.5% of the overall absorption – largely attributable to new leases by technology companies and law firms.



#### DIRECT VACANCY RATE

Office direct vacancy has declined 80 basis points to 14.2% over the year, but still remains 580 basis points higher than its cyclical low of 8.5% recorded in late 2007.



#### OVERALL RENTS

Overall asking rents have edged up 3.8% over the year to \$2.68 per sq. ft. per month. Rents continue to rise as leasing demand grows with companies seeking new space to accommodate future growth.



#### UNDER CONSTRUCTION

Speculative construction picked up during the quarter as vacancy rates continued trending downward. LA currently has roughly 1.3 million sq. ft. of office space slated to deliver during the remainder of 2015 (excluding owner-occupied buildings) in addition to the 1.0 million sq. ft. of new office space completed year-to-date, which will be the most completions since 2009.



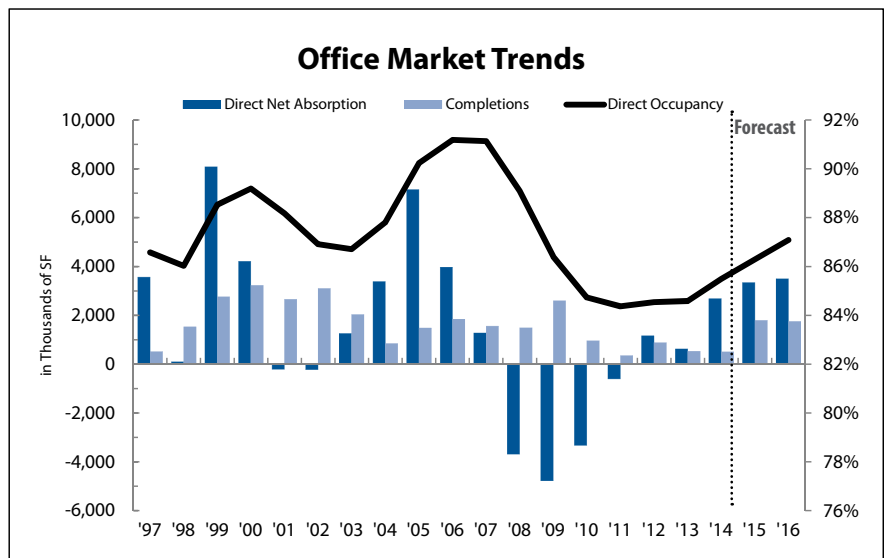
*\*Arrows represent change from previous 12 months*

## LA CONSTRUCTION PIPELINE LARGEST SINCE 2008

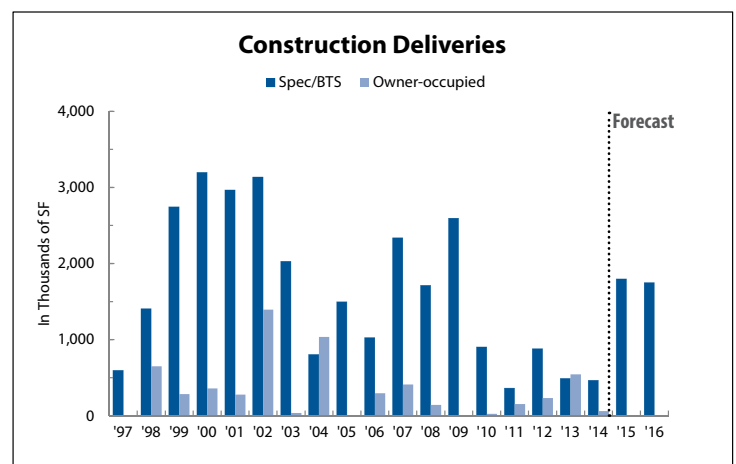
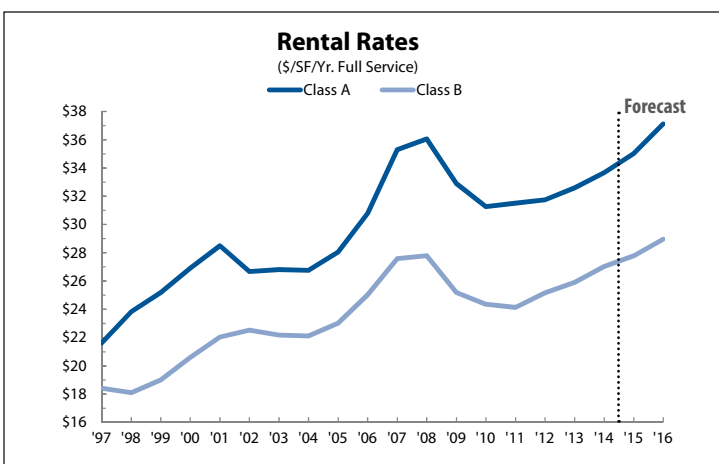
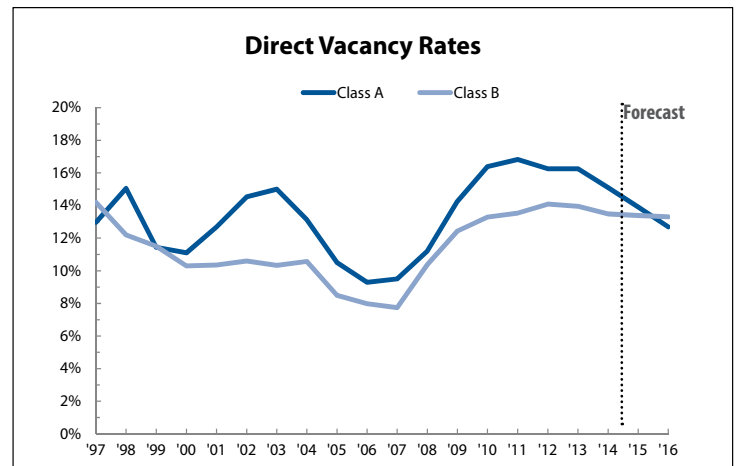
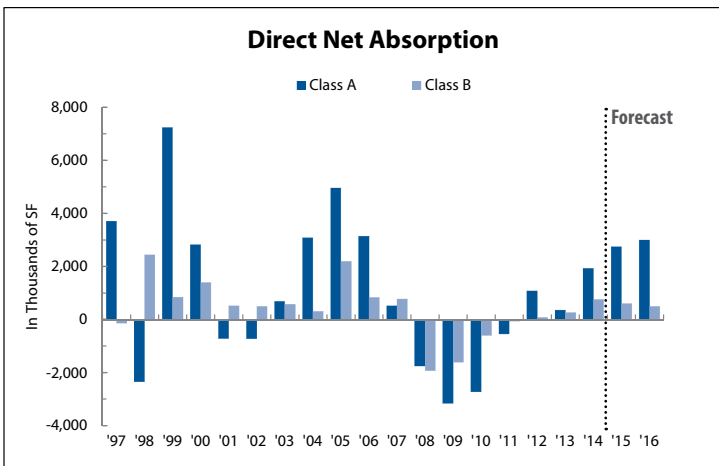
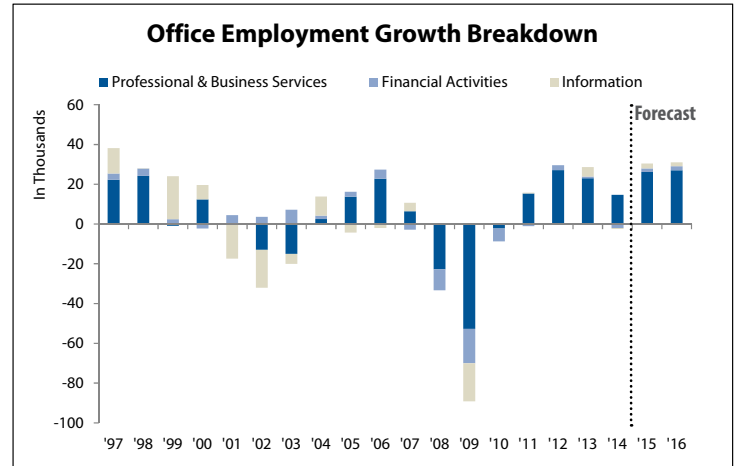
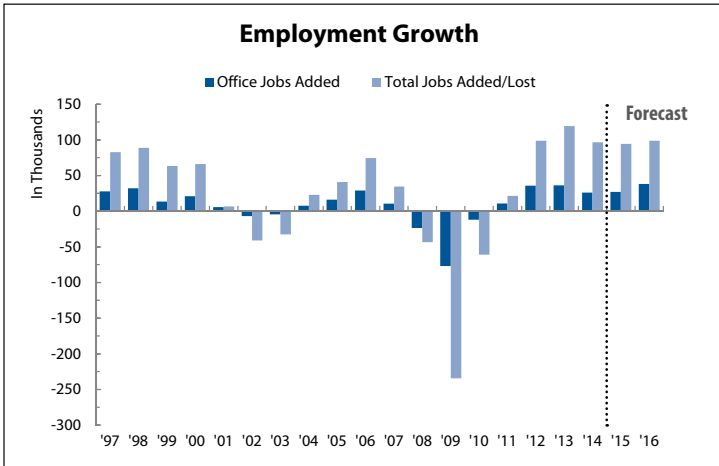
The economic expansion of the Los Angeles metropolitan area continued into the third quarter with the Leisure & Hospitality and the Education & Health Services sectors leading in job growth by posting 3.5% and 3.0% increases, respectively, over the prior 12 months. Office-using employment growth has steadily improved and translated into healthy occupancy gains in key submarkets. As a result of the robust job growth, the metro area's unemployment rate has dropped by 160 basis points to 7.0% within the past year. Los Angeles has created an astonishing 445,200 jobs since its trough in 2010 and is hovering around its 2007 pre-recession peak of 4.3M jobs. Los Angeles' economic outlook remains positive with 94,400 new jobs forecasted in 2015, followed by a strong addition of 98,800 jobs in 2016, according to Moody's Analytics.

The Los Angeles office market experienced a modest quarterly net absorption gain of 51,721 sq. ft., after posting its largest gain in nearly ten years during the prior quarter. Despite the muted quarterly absorption levels, the office market has recorded more than 2.7 million sq. ft. of direct net absorption within the past 12 months, causing the overall direct vacancy rate to slide 80 basis points over the past year to 14.2% as demand outpaced supply. The Class A sector recorded a net loss of 301,608 sq. ft. during the third quarter, increasing its vacancy rate to 14.9%, while Class B properties compensated for that loss with 353,329 sq. ft. of net absorption gains as the sector's vacancy rate declined to 13%. The improvement in the economy in combination with overall vacancy levels sliding to their lowest point in five years has placed upwards pressure on Class A full-service gross monthly asking rents, which have increased 3.9% to \$2.87 per sq. ft. over the prior 12 months. Class B monthly rents have also appreciated by 3.9% to \$2.33 per sq. ft. within the past 12 months. Rental rates are trending towards cyclical highs, and are likely to breach their pre-recession peak recorded late-2008, in the next 12 to 18 months.

Los Angeles saw several significant office leases signed during the quarter, which included Netflix's 200,052 sq. ft. pre-lease commitment at Icon - Sunset Bronson Studios, Guthy-Renker's 90,000 sq. ft. direct lease at 100 N Sepulveda Blvd, and Honest Company's new deal for 82,249 sq. ft. at 12130 Millennium. As the economy continues to grow, companies seeking larger and better quality office space will have an important impact on the leasing market. The recent surge in construction will offer some relief to the lack of high quality blocks of office space and will add upwards pressure on the average rental rates.



## HISTORICAL TRENDS & FORECAST





## SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
<b>Greater Downtown</b>	46,624,956	8,551,170	538,683	14.6%	-1.3%	74,278	602,439	\$34.66	\$2.89	0.93%
Class A	31,222,005	5,933,022	443,961	16.8%	-1.9%	63,061	595,997	\$36.46	\$3.04	0.08%
Class B	15,402,951	2,618,148	94,722	10.3%	0.0%	11,217	6,442	\$28.11	\$2.34	8.20%
<b>Mid-Wilshire</b>	24,006,720	5,008,260	120,638	16.7%	-0.5%	7,976	129,412	\$33.60	\$2.80	14.25%
Class A	16,899,737	3,928,382	94,990	17.4%	-1.0%	29,954	162,948	\$34.52	\$2.88	14.76%
Class B	7,106,983	1,079,878	25,648	15.1%	0.8%	(21,978)	(33,536)	\$30.34	\$2.53	12.62%
<b>Mid-Cities</b>	7,445,776	957,009	51,102	9.9%	1.5%	(56,136)	(83,910)	\$24.55	\$2.05	4.33%
Class A	2,802,945	485,417	28,997	11.9%	2.9%	(35,082)	(80,733)	\$27.31	\$2.28	9.15%
Class B	4,642,831	471,592	22,105	8.7%	0.7%	(21,054)	(3,177)	\$22.31	\$1.86	-0.04%
<b>San Fernando Valley</b>	24,595,558	4,093,162	317,422	13.3%	0.6%	(123,301)	(88,757)	\$26.24	\$2.19	-0.57%
Class A	16,231,274	2,742,303	269,687	13.9%	0.8%	(171,257)	(144,676)	\$27.40	\$2.28	-0.51%
Class B	8,364,284	1,350,859	47,735	11.9%	-0.1%	47,956	55,919	\$24.22	\$2.02	-1.90%
<b>San Gabriel Valley</b>	13,287,253	2,227,533	83,880	14.7%	3.4%	(17,066)	438,156	\$25.06	\$2.09	2.58%
Class A	3,272,294	378,900	13,072	10.3%	-0.8%	24,041	174,284	\$28.33	\$2.36	3.28%
Class B	10,014,959	1,848,633	70,808	16.1%	11.1%	(41,107)	263,872	\$24.35	\$2.03	3.31%
<b>Santa Clarita Valley</b>	3,022,662	535,793	4,317	15.5%	3.4%	(5,540)	(12,480)	\$29.86	\$2.49	-2.03%
Class A	1,960,377	276,590	0	12.1%	-0.8%	4,462	16,000	\$27.93	\$2.33	-4.61%
Class B	1,062,285	259,203	4,317	21.7%	11.1%	(10,002)	(28,480)	\$31.88	\$2.66	0.47%
<b>South Bay</b>	37,537,927	8,178,620	629,577	18.2%	-1.3%	139,586	569,532	\$26.43	\$2.20	3.53%
Class A	22,032,554	5,122,559	447,232	18.8%	-0.2%	(56,046)	46,228	\$26.64	\$2.22	3.82%
Class B	15,505,373	3,056,061	182,345	17.4%	-2.8%	195,632	523,304	\$26.02	\$2.17	2.81%
<b>Tri-Cities</b>	30,845,690	5,369,035	471,151	12.8%	-1.3%	284,312	535,643	\$32.08	\$2.67	3.72%
Class A	19,749,633	3,937,333	294,151	15.0%	-1.3%	221,452	398,307	\$33.79	\$2.82	3.62%
Class B	11,096,057	1,431,702	177,000	8.9%	-1.2%	62,860	137,336	\$28.03	\$2.34	0.36%
<b>Conejo Valley</b>	9,243,291	1,744,520	165,265	13.5%	-2.0%	92,259	272,232	\$27.36	\$2.28	10.10%
Class A	2,557,660	480,833	29,083	14.7%	-3.6%	(49,535)	176,048	\$28.60	\$2.38	3.81%
Class B	6,685,631	1,263,687	136,182	13.0%	-1.5%	141,794	96,184	\$26.87	\$2.24	12.38%
<b>Simi Valley</b>	1,673,067	622,332	248,114	26.5%	16.3%	10,934	(272,270)	\$21.00	\$1.75	-4.15%
Class A	435,458	15,645	248,114	3.4%	-0.6%	-	2,590	\$27.00	\$2.25	-2.14%
Class B	1,237,609	606,687	0	34.6%	22.2%	10,934	(274,860)	\$20.61	\$1.72	-3.33%
<b>Westside</b>	52,787,199	6,975,863	1,453,816	11.4%	-0.7%	(355,581)	639,373	\$48.85	\$4.07	8.63%
Class A	41,718,010	5,613,722	1,273,928	11.7%	-0.6%	(332,658)	344,329	\$49.88	\$4.16	9.55%
Class B	11,069,189	1,362,141	179,888	10.3%	-1.2%	(22,923)	295,044	\$45.52	\$3.79	6.06%

Los Angeles Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Class A	158,881,947	28,914,706	3,143,215	14.9%	-0.8%	(301,608)	1,691,322	\$34.45	\$2.87	3.92%
Class B	92,188,152	15,348,591	940,750	13.0%	-0.7%	353,329	1,038,048	\$27.99	\$2.33	3.86%
Overall	251,070,099	44,263,297	4,083,965	14.2%	-0.8%	51,721	2,729,370	\$32.17	\$2.68	3.84%

## METHODOLOGY

**Total Inventory:** The total inventory includes all single and multi-tenant leased office buildings with at least 25,000 square feet of gross rentable square footage.

**Total Space Available:** Available space currently being marketed which is either physically vacant or occupied.

**Direct Space Available:** Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

**Sublease Space Available:** Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

**Direct Vacancy Rate:** Direct space physically vacant divided by the total rentable inventory.

**Direct Net Absorption:** The net change in occupied direct space over a given period of time.

**Under Construction:** Office buildings which have commenced construction as evidenced by site excavation or foundation work.

**Direct Asking Rents:** The quoted full-service asking rent for available space expressed in dollars per sq. ft.

## ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit [www.pmr.com](http://www.pmr.com).

## SERVICES

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- Golf Course and Land Sales
- Management Services
- Property Management
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- National Market Research









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