

Market Analysis

Second Quarter 2017

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City of Angels Continues to Soar



Los Angeles has long been known as the capital of the entertainment industry, but a burgeoning market for tech, engineering and financial firms has driven robust demand for office space. As one of the largest markets in the country, Los Angeles includes nearly 254 million square feet of office inventory, split relatively evenly between Class A and Class B space.

70,800 jobs were added in the 12 months ending in March. Employment in the metro increased 1.4% year-over-year, slightly below the 1.6% national growth rate. Leading employment gains were the education and health services sector—which added 31,300 jobs year-over-year, an increase of 4.1%—and the leisure and hospitality sector, which added 13,100 jobs.

Leasing activity and lease rate growth are strong, especially in the entertainment-centric submarkets of **Beverly Hills, Century City and West Hollywood**. Elsewhere, Santa Monica boasts high lease rates, while **25% of all available space** lies in the **central business district (CBD)**.

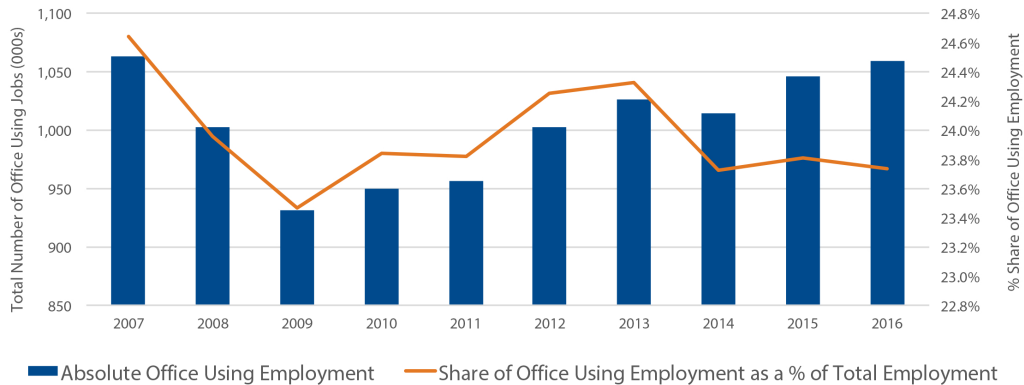
Development activity is robust, as roughly **9 million square feet is currently under construction**. A reinvigorated CBD as well as adaptive reuse projects in the north and east submarkets are driving development activity in many different areas of Los Angeles.

Transactions neared \$7 billion in the 12 months ending in April, with both foreign and domestic investors active. More affordable space helped propel transactions in the Jefferson Corridor, the San Fernando Valley and Glendale.

Economic Snapshot

- Los Angeles counted **1.1 million office-using jobs** at the end of December 2016, equal to 23.7% of the metro's total payrolls. Compared to the national average of 21.7%, the Los Angeles job market is more heavily concentrated in office-using employment. Job growth in office-using employment, however, lags the national average, increasing 1.3% in 2016 compared to 2.3% around the country.

Office-Using Employment



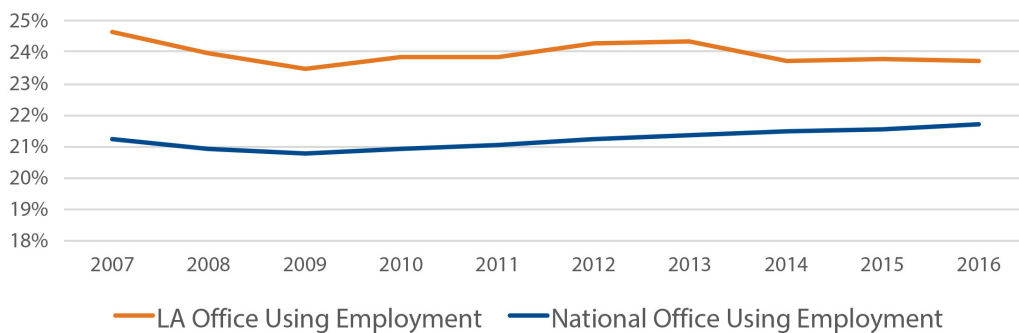
Source: Bureau of Labor Statistics

Los Angeles Employment Growth by Sector (Year-over-Year) as of March 2017

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	793	17.9%	31,300	4.1%
70	Leisure and Hospitality	509	11.5%	13,100	2.6%
90	Government	587	13.3%	8,700	1.5%
60	Professional and Business Services	610	13.8%	9,000	1.5%
50	Information	229	5.2%	-1,600	-0.7%
55	Financial Activities	221	5.0%	2,800	1.3%
40	Trade, Transportation and Utilities	826	19.0%	8,700	1.1%
80	Other Services	158	3.6%	6,600	4.4%
30	Manufacturing	356	8.0%	-8,700	-2.4%
15	Mining, Logging and Construction	136	3.1%	900	0.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Office-Using Employment as a % of Total Employment

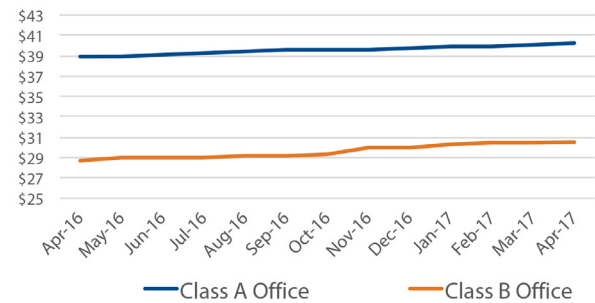


Source: Bureau of Labor Statistics

Leasing Trends

- Average leases in **Class A** office buildings **gained 3.3%** year-over-year in April, reaching **\$40.25 per square foot**. Following a similar upward trend, **Class B** office rents in the metro averaged **\$30.51 per square foot, up 6.0%** in the 12 months ending in April.
- The emergence of tech and startup firms has made Santa Monica one of the metro's most active submarkets, and it boasts among the highest leases, with an average of \$57.79 per square foot.
- Average space in the **Los Angeles CBD** leased for a comparatively modest **\$37.90 per square foot**.
- The CBD also led all submarkets with 3.2 million square feet leased, followed by El Segundo (2.3 million), the Wilshire Corridor (1.7 million) and Westlake Village/Conejo Valley (1.6 million).

Lease Rate Growth



Source: Yardi Matrix

Lease Rates by Submarket

Submarket	Avg. Lease Rate as of April 2017
Pacific Palisades/Malibu	\$77.93
Santa Monica	\$57.95
Beverly Hills	\$56.27
Century City	\$55.72
West Hollywood	\$55.42
Westwood	\$50.97
West Los Angeles	\$49.61
Hollywood	\$47.31
Jefferson Corridor	\$46.54
Marina Del Rey	\$44.27
Oxnard	\$40.07
Culver City	\$39.80
Westlake	\$38.25
Burbank	\$38.21
Los Angeles CBD	\$37.85
South Los Angeles	\$35.84
Pasadena	\$34.38
Long Beach	\$32.65

Submarket	Avg. Lease Rate as of April 2017
Santa Clarita	\$32.35
East Los Angeles	\$32.23
El Segundo	\$31.09
South Bay	\$31.09
Glendale	\$29.75
West San Fernando Valley	\$29.27
Central San Fernando Valley	\$29.17
Wilshire Corridor	\$28.89
Long Beach - Downtown	\$28.63
Gateway Cities	\$26.66
Carson	\$25.88
San Gabriel Valley	\$25.79
North Hollywood	\$24.10
LAX	\$23.52
190th Street Corridor	\$22.30
Antelope Valley	\$19.78
Westlake Village/ Conejo Valley	\$19.62

Source: Yardi Matrix

Listing and Vacancy

- Roughly 24 million square feet of office space was listed as of April 1, 2017, at an average asking price of \$39.80 per square foot for Class A and \$28.40 per square foot for Class B.
- Overall office vacancy in the metro was 12.5% in January, as strong demand allowed absorption of the new office inventory that came online in the past year to be absorbed.
- Properties located in Los Angeles' primary CBD were 15.8% vacant, while the secondary CBD was significantly tighter at 9.2%.
- Office buildings located in the metro's primary urban and suburban areas remain in demand, with vacancy rates of 10.5% and 11.6%, respectively. Meanwhile, overall vacancy rates were 14.2% in secondary urban areas and 19.3% in secondary suburban areas.
- East Los Angeles posted the metro's lowest vacancy rate at 4.1% in January. Low vacancy rates are attracting developers to East L.A. The submarkets of North Hollywood and Carson remained in high demand, with vacancy rates reaching 5.5% and 6.0%.
- As the entertainment industry continues to intertwine with corporate influence, West Hollywood and Beverly Hills remain healthy submarkets, although vacancies are slightly higher, at 9.5% and 9.7%, respectively.

Available Properties as of April 1, 2017

Top 10 Submarkets	Sq. Ft. Available	Properties Available
Los Angeles CBD	4,634,138	53
Wilshire Corridor	2,022,908	40
Westlake Village/Conejo Valley	1,990,759	56
San Gabriel Valley	1,770,245	43
West San Fernando Valley	1,267,222	53
Pasadena	924,367	39
190th Street Corridor	796,878	18
El Segundo	772,917	25
Central San Fernando Valley	758,581	45
Beverly Hills	657,665	30
Total Market	24,391,144	734

Source: Yardi Matrix

Vacancy Rate by Location Class

Location Class	Vacancy Rate
CBD - Primary	15.8%
CBD - Secondary	9.2%
Urban - Primary	10.5%
Urban - Secondary	14.2%
Suburban - Primary	11.6%
Suburban - Secondary	19.3%

Source: Yardi Matrix

Lowest Vacancy

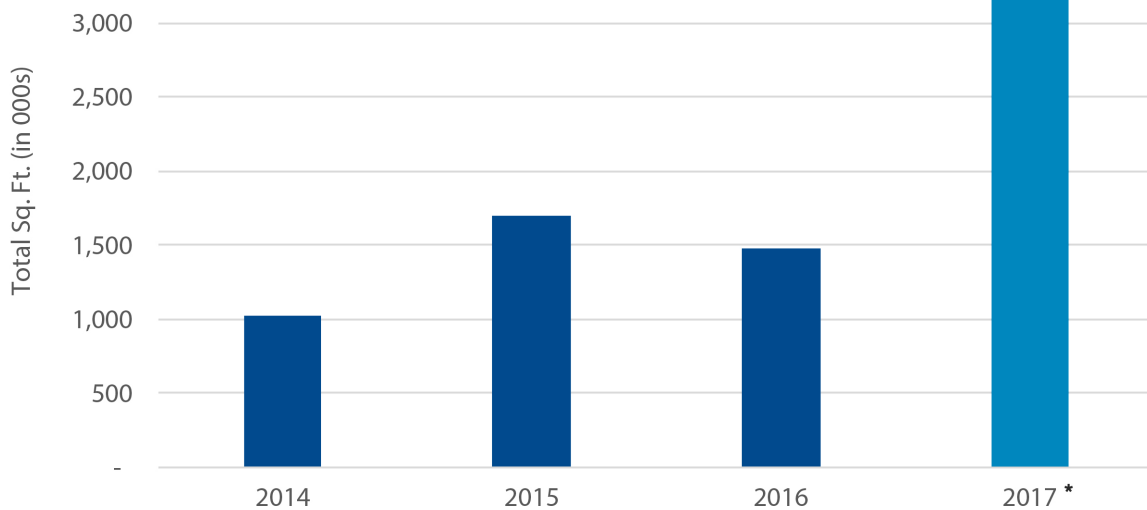
Top 10 Submarkets	Vacancy Rate
East Los Angeles	4.1%
North Hollywood	5.5%
Carson	6.0%
West Los Angeles	6.7%
Century City	6.8%
Santa Monica	8.5%
West Hollywood	8.2%
Beverly Hills	9.7%
South Bay	8.8%
Long Beach	9.5%

Source: Yardi Matrix

Supply

- New properties came online at a steady pace over the past four years, bolstered by solid growth in the office-using employment sector. Since 2014, the market has added between 1 million and 2 million square feet per year. We estimate a significant boost in deliveries by the end of **2017**, however, as roughly **3.1 million square feet of space is expected to come online**.
- The office **pipeline** consists of more than **27 million square feet** under various phases of development across the metro. Properties that were under construction as of March account for about a third of the pipeline, on par with planned and prospective projects.
- Developers are focusing on **Los Angeles' CBD and East Los Angeles**, where construction totals 2.3 million square feet in each submarket. While there is only one office project underway in North Hollywood, the mixed use development, Noho West, will add 1.6 million square feet of office space, as well as a number of apartments and retail locations.

Office Completions (Sq. Ft.)



Source: Yardi Matrix

* 2017 forecasted completions

Construction Activity (Total Sq. Ft.)

Top Five Submarkets	Sq. Ft. Under Construction
Los Angeles CBD	2,333,019
East Los Angeles	2,296,000
North Hollywood	1,616,200
Jefferson Corridor	580,213
Long Beach - Downtown	507,000
Total Market	9,758,972

Source: Yardi Matrix

Construction Activity (% of Inventory)

Top Five Submarkets	Sq. Ft. Under Construction
North Hollywood	55.7%
East Los Angeles	10.1%
Jefferson Corridor	10.0%
Long Beach - Downtown	9.3%
Los Angeles CBD	5.9%
Total Market	3.9%

Source: Yardi Matrix

Transactions

- Los Angeles remains one of the most sought-after investment markets for both domestic and international capital. Total transaction volume in the metro reached **\$6.7 billion** in the 12 months ending in April.
- The metro's most transacted submarket was Santa Monica**, where seven properties (978,405 square feet) sold for a combined \$910 million. Sales volume reached \$753 million in the Jefferson Corridor, another up-and-coming submarket. Five buildings with more than 1.8 million square feet of space were sold for a combined \$721 million in Los Angeles' CBD.
- Office properties built during the 1980s were by far the most traded over the past four quarters, with transaction volume nearing \$11.5 billion. Meanwhile, transaction volume for 1970s and 1990s vintage assets remained below the \$4 billion mark.
- Edward J. Minskoff Equities was the metro's top buyer, with transaction volume of \$413 million year-over-year. The New York firm acquired the Bluffs at Playa Vista, two properties totaling 480,000 square feet of space. Brightstone Capital Partners spent \$403 million, acquiring Lantana Entertainment Media Campus in Santa Monica, a four-building, 494,000-square-foot campus.

Average Price per Sq. Ft.

Top 10 Submarkets	Avg. Price per Sq. Ft.
West Hollywood	\$1,177
Santa Monica	\$1,024
Jefferson Corridor	\$825
Wilshire Corridor	\$646
West Los Angeles	\$631
East Los Angeles	\$411
Century City	\$456
El Segundo	\$418
Los Angeles CBD	\$392
Burbank	\$349

Source: Yardi Matrix

Transaction Volume

Top 10 Submarkets	Total Transaction Sq. Ft.	Total Transaction Volume (000s)
Santa Monica	987,405	\$910,148
Jefferson Corridor	2,542,260	\$753,000
Los Angeles CBD	1,885,778	\$721,286
West Los Angeles	851,316	\$536,000
Glendale	1,933,394	\$516,927
West San Fernando Valley	1,938,282	\$516,271
El Segundo	1,533,382	\$483,212
Wilshire Corridor	456,679	\$295,000
Culver City	976,722	\$272,127
Pasadena	768,229	\$229,500
Total Market	5,396,124	6,722,497

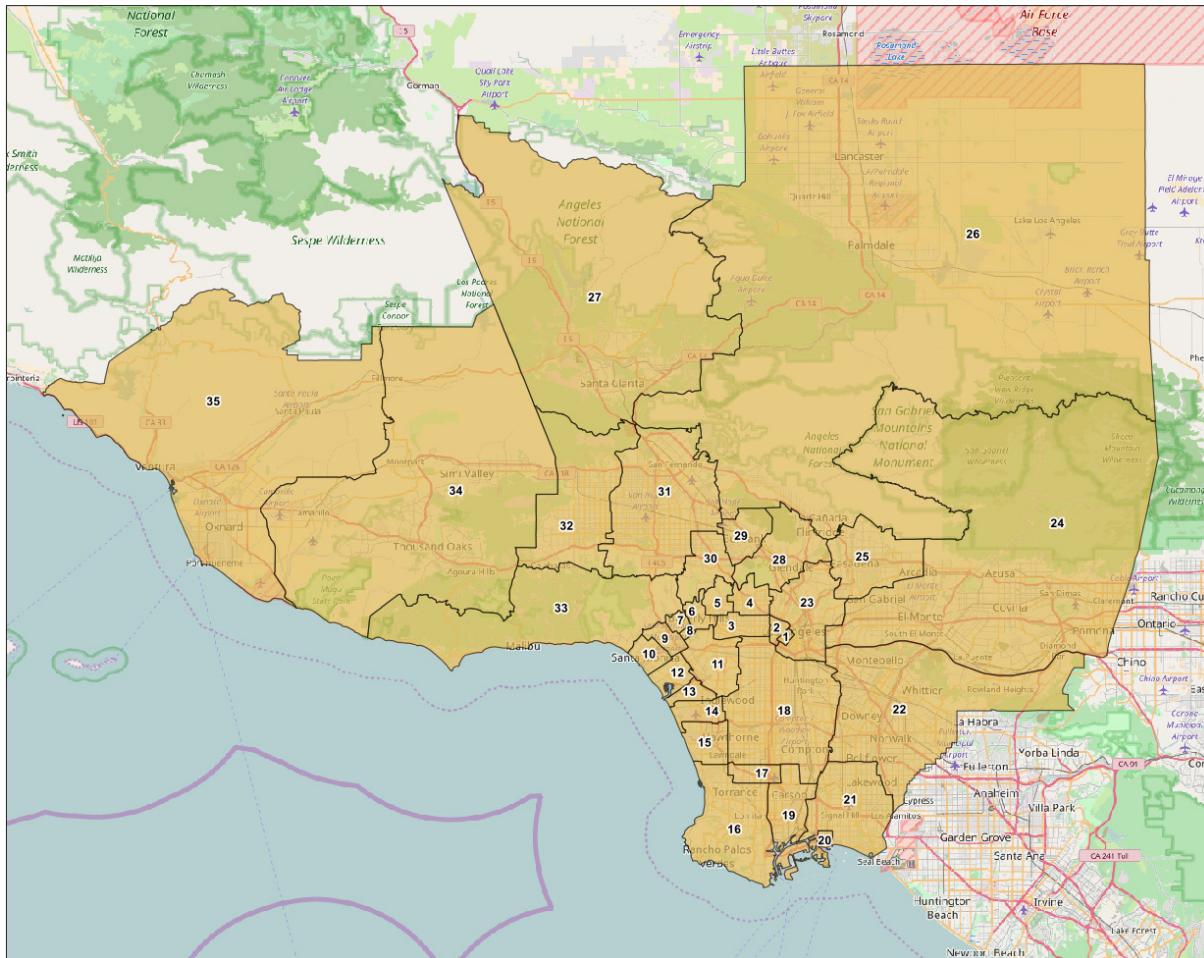
Source: Yardi Matrix

Transaction Volume

Top 20 Buyers	Total Transaction Sq. Ft.	Total Transaction Volume (000s)
Edward J. Minskoff Equities	482,879	\$413,000
Brightstone Capital Partners	494,000	\$403,001
Oracle	313,366	\$367,648
Douglas Emmett	479,776	\$364,500
Coretrust Capital Partners	891,056	\$336,000
Intercontinental Real Estate	541,000	\$328,000
GLL Real Estate Partners	709,122	\$313,636
Hudson Pacific Properties	500,475	\$311,000
Cedars-Sinai	456,679	\$295,000
Oaktree Capital Management	813,100	\$235,500
Rising Realty Partners	733,000	\$210,000
DivcoWest	591,958	\$179,000
Angelo Gordon & Co.	509,408	\$147,000
Lincoln Property Co.	978,776	\$144,565
Beacon Capital Partners	408,034	\$128,250
Onni Group	1,258,969	\$116,428
AllianceBernstein	257,894	\$82,000
Granite Properties	302,119	\$79,725
Sandstone Properties	220,573	\$66,797
EverWest Real Estate Partners	243,634	\$66,500

Source: Yardi Matrix

Yardi Matrix Office Submarkets - Metropolitan Los Angeles



Area #	Submarket
1	Los Angeles CBD
2	Westlake
3	Wilshire Corridor
4	Hollywood
5	West Hollywood
6	Beverly Hills
7	Westwood
8	Century City
9	West Los Angeles
10	Santa Monica
11	Culver City
12	Marina Del Rey

Area #	Submarket
13	Jefferson Corridor
14	LAX
15	El Segundo
16	South Bay
17	190th Street Corridor
18	South Los Angeles
19	Carson
20	Long Beach - Downtown
21	Long Beach
22	Gateway Cities
23	East Los Angeles
24	San Gabriel Valley

Area #	Submarket
25	Pasadena
26	Antelope Valley
27	Santa Clarita
28	Glendale
29	Burbank
30	North Hollywood
31	Central San Fernando Valley
32	West San Fernando Valley
33	Pacific Palisades/Malibu
34	Westlake Village/Conejo Valley
35	Oxnard

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