MARKET OVERVIEW

In the second quarter of 2017 the Los Angeles office market continued to remain strong, as average direct asking rents made year over year gains. The average asking rent increased 6.3% over last year to $3.02/SF this quarter, while the vacancy rate increased 10 basis points to 11.4% following the delivery of 705,454 square feet of office space. The largest project delivered was Wilshire Grand Center, which delivered 372,775 square feet of new class A office space in the heart of Downtown Los Angeles. Another project, 4th & Traction, delivered 130,000 square feet of creative office space in Downtown LA’s Arts District. Despite the new product delivered this quarter, occupancy rates have continued to remain steady as the strengthening jobs market contributed demand for office space. Total nonfarm employment in Los Angeles County increased by 1.3% this quarter, representing a net gain of 55,700 jobs from May 2016 to May 2017. Employment in office occupying sectors grew by 1.9%, representing a net gain of 34,500 new jobs, while the unemployment rate fell from 4.8% to 4.0% over the same period.

TRENDS TO WATCH

With the unemployment rate falling to historic lows and construction activity at the highest level since 2008, the Los Angeles office market is poised for continued growth throughout 2017. Construction continues in West LA at The Hercules Campus in Playa Vista, which is fully leased to Google. This project is expected to deliver in September, along with the C3 project in Culver City, which signed Dentsu Aegis Network and Henkel this quarter. In addition, the 80,000 square foot Ascend-Utah Campus in El Segundo is anticipated to be delivered in December. Outside of Downtown and West LA, several projects are expected to break ground in the LA North submarket, including MGA Entertainment’s redevelopment of the old Los Angeles Times Printing Facility in Chatsworth, and Vista Canyon, a new 810,000 square foot mixed-use development in Santa Clarita.

Average Asking Rent and Vacancy Rate

Source: NAI Capital Research, CoStar
### Market Statistics

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>EXISTING TOTAL RBA (SF)</th>
<th>UNDER CONSTRUCTION (SF)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL VACANCY (%)</th>
<th>2Q17 LEASING VOLUME (SF)</th>
<th>2Q17 SALES VOLUME (SF)</th>
<th>AVERAGE ASKING RENT $/PSF GROSS</th>
<th>AVERAGE SALE PRICE $/PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>63,034,112</td>
<td>1,328,831</td>
<td>19.9%</td>
<td>13.6%</td>
<td>1,132,739</td>
<td>1,966,641</td>
<td>$3.25</td>
<td>$323</td>
</tr>
<tr>
<td>Mid-Wilshire</td>
<td>15,773,760</td>
<td>36,122</td>
<td>17.4%</td>
<td>14.5%</td>
<td>165,348</td>
<td>294,655</td>
<td>$2.27</td>
<td>$311</td>
</tr>
<tr>
<td>LA North</td>
<td>58,563,250</td>
<td>366,814</td>
<td>13.1%</td>
<td>9.9%</td>
<td>979,746</td>
<td>2,101,138</td>
<td>$2.43</td>
<td>$270</td>
</tr>
<tr>
<td>San Gabriel Valley</td>
<td>34,406,176</td>
<td>159,849</td>
<td>10.8%</td>
<td>8.8%</td>
<td>326,037</td>
<td>774,759</td>
<td>$2.13</td>
<td>$171</td>
</tr>
<tr>
<td>South Bay</td>
<td>64,164,570</td>
<td>1,022,527</td>
<td>16.1%</td>
<td>12.7%</td>
<td>619,836</td>
<td>1,343,509</td>
<td>$2.46</td>
<td>$174</td>
</tr>
<tr>
<td>Tri-Cities</td>
<td>39,935,337</td>
<td>36,680</td>
<td>14.4%</td>
<td>8.8%</td>
<td>409,564</td>
<td>913,964</td>
<td>$2.82</td>
<td>$360</td>
</tr>
<tr>
<td>LA West</td>
<td>104,752,124</td>
<td>1,668,181</td>
<td>15.2%</td>
<td>11.5%</td>
<td>1,987,428</td>
<td>3,978,214</td>
<td>$4.03</td>
<td>$1,076</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>380,629,329</strong></td>
<td><strong>4,619,004</strong></td>
<td><strong>15.4%</strong></td>
<td><strong>11.4%</strong></td>
<td><strong>5,620,698</strong></td>
<td><strong>11,372,880</strong></td>
<td><strong>$3.02</strong></td>
<td><strong>$518</strong></td>
</tr>
</tbody>
</table>

RBA includes office buildings of all sizes and classes. Rents reflect buildings of at least 20,000 square feet.

### Leasing

Over the past year, the Los Angeles office market has added over 1.1 million square feet of new occupancy. While the average asking rent for LA remained steady over the quarter, it is up 6.3% over last year. West LA saw the most significant gains over last year. The average asking rent in West LA grew 7.8% over the year from $3.74/SF to $4.03/SF. Wilshire Grand Center signed its first two tenants, Cushman Wakefield and the Southern California Association of Governments. The renaissance that is currently taking place in Downtown will continue to attract tenants with its rich amenities including the Expo Line to Santa Monica. In one of the largest lease transactions this quarter, Marsh & McLennan Companies, a global professional services company, leased 71,094 square feet across three floors in Downtown’s U.S. Bank Tower for $3.67/SF.

### Sales

Sales activity has continued to remain strong this quarter, with total sales volume totaling over 5.7 million square feet. The average sale price increased 31% over last year to $518/SF, as investors have demanded high quality space. Investor activity has continued to remain strongest in West LA, where two significant transactions occurred. The Blackstone LP sold two major properties, the first, the 825,200 square foot SunAmerica Center in Century city to JMB Financial Advisors LLC for $1,042/SF, and the second, a 205,713 square foot building at 1299 Ocean Ave to a portfolio managed by Douglas Emmett, Inc. for the Qatar Investment Authority. This represents the fund’s latest acquisition in West LA, and the buyer has indicated that it is planning to invest an additional $35 billion in North America over the next five years.

### Select Lease Transactions:

<table>
<thead>
<tr>
<th>TENANT</th>
<th>BUILDING ADDRESS</th>
<th>SUBMARKET</th>
<th>ASKING RATE/ SF</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marsh &amp; McLennan Companies</td>
<td>633 W 5th St</td>
<td>Central</td>
<td>$3.67</td>
<td>71,094</td>
</tr>
<tr>
<td>Dentsu Aegis Network</td>
<td>5800 Bristol Pkwy</td>
<td>West LA</td>
<td>N/A</td>
<td>48,504</td>
</tr>
<tr>
<td>Henkel</td>
<td>5800 Bristol Pkwy</td>
<td>West LA</td>
<td>N/A</td>
<td>48,504</td>
</tr>
<tr>
<td>Southern California Association of Governments</td>
<td>900 Wilshire Blvd</td>
<td>Central</td>
<td>$4.25</td>
<td>43,900</td>
</tr>
<tr>
<td>Levine Leichtman</td>
<td>335-345 N Maple Dr</td>
<td>West LA</td>
<td>$5.40</td>
<td>24,124</td>
</tr>
</tbody>
</table>

*All rents are FSG unless otherwise noted*

### Select Sales Transactions:

<table>
<thead>
<tr>
<th>BUYER</th>
<th>ADDRESS</th>
<th>SUBMARKET</th>
<th>SALE PRICE $/PSF</th>
<th>SQUARE FEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>JMB Financial Advisors LLC</td>
<td>1999 Avenue of the Stars</td>
<td>West LA</td>
<td>$1,042</td>
<td>825,200</td>
</tr>
<tr>
<td>Kennedy-Wilson Properties, Ltd.</td>
<td>400-450 N Brand Blvd</td>
<td>Tri-Cities</td>
<td>$329</td>
<td>437,057</td>
</tr>
<tr>
<td>New York Life Real Estate Investors</td>
<td>2300 W Empire Ave</td>
<td>Tri-Cities</td>
<td>$379</td>
<td>351,300</td>
</tr>
<tr>
<td>Qatar Investment Authority</td>
<td>1299 Ocean Ave</td>
<td>West LA</td>
<td>$1,385</td>
<td>205,713</td>
</tr>
<tr>
<td>Beacon Capital Partners</td>
<td>5161 Lankershim Blvd</td>
<td>LA North</td>
<td>$350</td>
<td>197,174</td>
</tr>
</tbody>
</table>
# Los Angeles Office Market Outlook 2Q 2017

## NAI Capital Research

**J.C. Casillas**  
Vice President  
Research, Marketing and Communications  
jcasillas@naicapital.com

**Jillian Olivas**  
Research and Communications Assistant  
jolivas@naicapital.com

**Kevin de Bree**  
Research Analyst  
kdebree@naicapital.com

## NAI Capital Southern California Office Locations

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Los Angeles County</th>
<th>Ventura County</th>
<th>Inland Empire</th>
</tr>
</thead>
</table>
| 16001 Ventura Blvd., Ste. 200  
Los Angeles, CA 91436  
818.905.2400 | **Downtown LA**  
601 S. Figueroa St., Ste 3825  
Los Angeles, CA 90017  
213.632.7700 | **Oxnard**  
300 Esplanade Dr., Ste. 1660  
Oxnard, CA 93036  
805.278.1400 | **Ontario**  
800 N. Haven Dr., Ste. 400  
Ontario, CA 91764  
909.945.2339 |
| **Property Management**  
12022 South El Camino Real, Ste. 210  
San Clemente, CA 92674  
949.874.0415 | **West Los Angeles**  
11835 Olympic Blvd., Ste. 700E  
Los Angeles, CA 90064  
310.440.8500 | **Westlake Village**  
2555 Townsgate Rd., Ste. 320  
Westlake Village, CA 91361  
805.446.2400 | **Temecula**  
27720 Jefferson Ave., Ste. 330  
Temecula, CA 92590  
951.491.7590 |
|  | **Torrance**  
970 W. 190th St. Dr., Ste. 100  
Torrance, CA 90502  
310.532.9080 | **Simi Valley**  
2655 First St., Ste. 250  
Simi Valley, CA 93065  
805.522.7132 | **Victorville**  
13911 Park Avenue, Ste. 206  
Victorville, CA 92392  
760.780.4200 |
|  | **Pasadena**  
225 S. Lake Ave., Ste. 1170  
Pasadena, CA 91101  
626.564.4800 |  | **Coachella Valley**  
|  | **Valencia**  
27451 Tourney Rd., Ste. 200  
Valencia, CA 91355  
661.705.3550 |  | **Palm Desert**  
75-410 Gerald Ford Dr., Ste. 200  
Palm Desert, CA 92211  
760.346.1566 |
|  | **Diamond Bar**  
21660 E. Copley Dr., Ste. 320  
Diamond Bar, CA 91765  
909.348.0600 |  |  |

No warranty, express or implied, is made as to the accuracy of the information contained herein. This information is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and is subject to any special listing conditions imposed by our principals, cooperating brokers, buyers, tenants and other parties who receive this document should not rely on it, but should use it as a starting point of analysis, and should independently confirm the accuracy of the information contained herein through a due diligence review of the books, records, files and documents that constitute reliable sources of the information described herein.

NAI Capital CA BRE #01990696