

SAN FERNANDO VALLEY & VENTURA COUNTY | OFFICE Q3 2019

Accelerating success.

» SFV & Ventura Market Activity Slows in Q3

Key Takeaways

- > The San Fernando Valley and Ventura County office market closed the third quarter with negative movement as net absorption recorded -159,600 square feet.
- > The office market vacancy rate increased by 60 basis points from last quarter to 13.0%.
- > Average asking rental rates increased by \$0.03 from the second quarter to \$2.61 per square foot (PSF) full service gross (FSG).
- > One new project totaling 57,000 square feet in Santa Clarita was delivered in the third quarter.
- > The Los Angeles County unemployment rate decreased to 4.4%, a decrease of 20 basis points from last year. Education and health services listed the largest year-over-year employment gain by adding 25,200 jobs. Professional and business services posted the second greatest growth, adding 14,100 jobs.

San Fernando Valley and Ventura County Office Market

Activity in the San Fernando Valley and Ventura County office market slowed as vacancy increased by 60 basis points while absorption recorded -159,000 square feet. Although market activity is slowing, asking rental rates are still seeing increases recording \$2.61 PSF FSG, a 5.2% increase from one year ago. With only two new projects under construction on the horizon, the market will remain supply constrained. It is expected market conditions will remain positive as businesses look for lower-cost alternatives compared to the market areas surrounding San Fernando Valley and Ventura County.

Market Indicators | Relative to Prior Period

	Q3 2019	Forecast
Vacancy	↑	→
Net Absorption	↓	→
Construction	↓	↑
Rental Rate	↑	→

Summary Statistics | SFV & Ventura County, Q3 2019

	Class A	Class B	All Classes
Vacancy Rate	12.8%	12.9%	13.0%
Change from Q2 '19 (Basis Points)	70	50	60
Net Absorption*	-88.4	-65.7	-159.6
Construction Completions*	57.6	0.0	57.6
Under Construction*	240.0	103.4	343.4

*SF, Thousands

Asking Rents | SFV & Ventura County, Q3 2019

	Class A	Class B	All Classes
Average Asking Rent	\$2.77	\$2.39	\$2.61
Change from Q2 '19 (\$)	-\$0.06	\$0.03	\$0.03
Y.O.Y. Change (%)	0.4%	7.2%	5.2%

Los Angeles County Labor Force, August 2019

	Total Nonfarm	Prof. & Business Services	Financial Activities
12-mo Employment Growth (%)	1.3%	2.3%	-0.3%
12-mo Actual Employment Change	59,100	13,600	-3,400

Vacancy

- > Overall vacancy for the market declined from last quarter to 13.0%. A longer historical perspective shows that the vacancy rate stood at 12.7% a year ago.
- > Total vacancy rates were highest in West Ventura County at 20.6%. The submarket with the lowest vacancy was Central San Fernando Valley at 10.8%.
- > A comparison by building class illustrates that vacancy rates were highest for Class C (18.0%) and lowest for Class A (12.8%), with Class B space (12.9%) in between.
- > **FORECAST:** Heading into year-end 2019, vacancy rates in the San Fernando Valley and Ventura County market are expected to flatten.

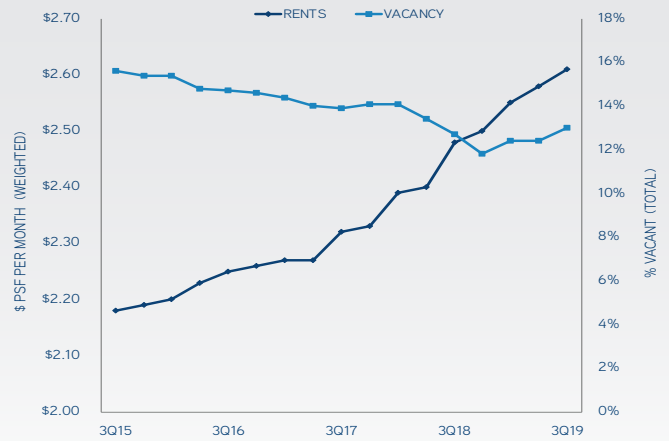
Absorption and Leasing Activity

- > Demand continues to show negative movement through 2019 as absorption recorded -159,600 square feet this quarter.
- > Leasing activity totaled 487,600 square feet for the quarter, falling below the three-year historical average of 640,000 square feet.
- > The largest lease transaction was WeWork as they continue to grow their Greater Los Angeles footprint by signing 52,800 square feet at 21255 Burbank Blvd in Woodland Hills.
- > **FORECAST:** It is expected that market conditions will remain flat to positive as businesses look for lower cost alternatives compared to the market areas surrounding the San Fernando Valley and Ventura County.

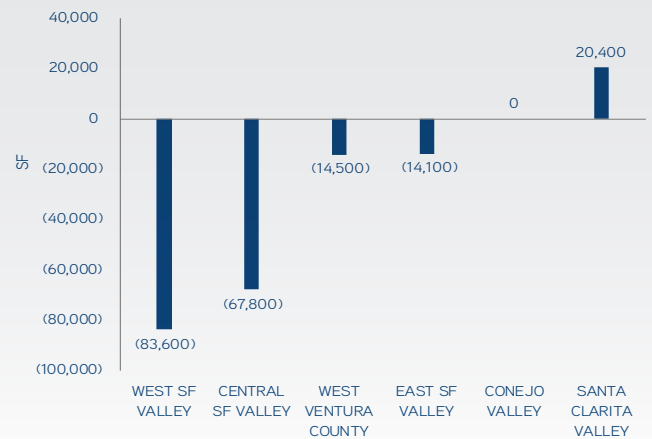
Rental Rates

- > The weighted average asking rent for direct space increased to \$2.61 PSF FSG this quarter from \$2.48 one quarter ago. This marks a high point for average asking rental rates since before the economic decline in first quarter 2008 when asking rental rates were \$2.55.
- > Class A asking rents growth has slowed as the rate recorded at \$2.77 PSF FSG compared to \$2.76 one year ago, a 0.4% year-over-year increase.
- > **FORECAST:** If market activity continues to slow into the end of 2019, asking rental rates are expected to flatten.

Historical Vacancy v. Rents | San Fernando Valley Office Market Q3 '15-'19



Net Absorption by Submarket | San Fernando Valley Office Market Q3 '19



Historical Leasing Activity | San Fernando Valley Office Market Q3 '15-'19



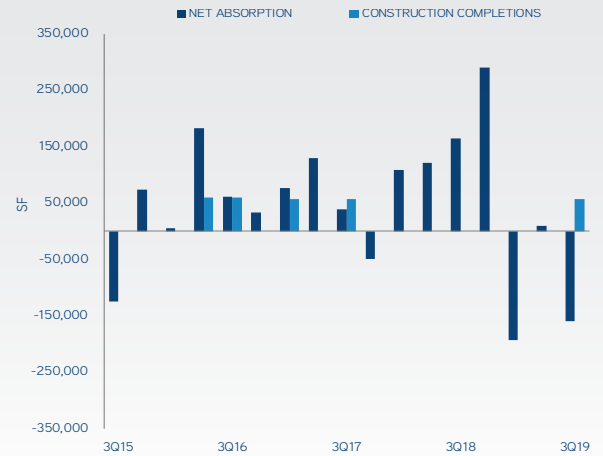
Construction

- > One new office building totaling 56,000 square feet was delivered in the market during the third quarter located at 27566 Woodfall Rd in Santa Clarita.
- > Two projects totaling 343,400 square feet are currently under construction. The project at 6150 Laurel Canyon Boulevard in North Hollywood is expected to be completed during the second half of 2019, while the project at 18422 Oxnard Street in Tarzana is expected to be completed in 2020.
- > **FORECAST:** Approximately 1.3 million square feet of proposed inventory is expected to be delivered to the market within the next year.

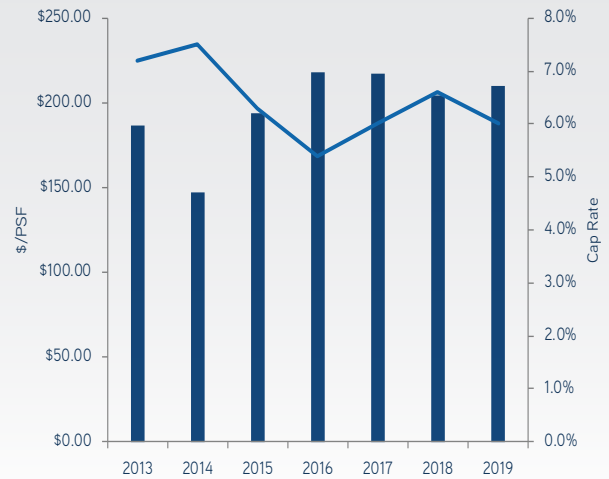
Investment Trends

- > Sales volume decreased from the second quarter for buildings greater than 25,000 square feet, recording \$120 million in sales volume, down from \$152 million.
- > The largest transaction recorded during the third quarter was Rockwood Capital LLC acquiring a three building portfolio at 5200 Lankershim Boulevard in North Hollywood, for \$91.3 million (\$270 PSF).
- > The average five-year historical capitalization rate for the San Fernando Valley and Ventura County office market is 6.2%.
- > **FORECAST:** Anticipated drops in borrowing rates will likely spur investors off the sidelines and into possible different product type assets. Real estate remains an attractive investment opportunity for long term investors.

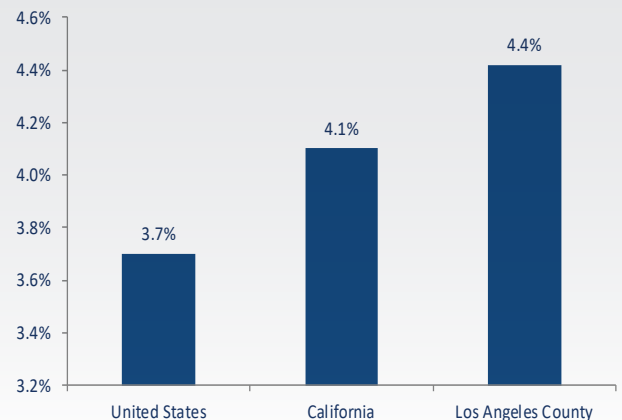
Historical Net Absorption & Construction Completions
San Fernando Valley Office Market Q3 '15-'19



Investment Trends Chart
San Fernando Valley Office Market 2013-2019



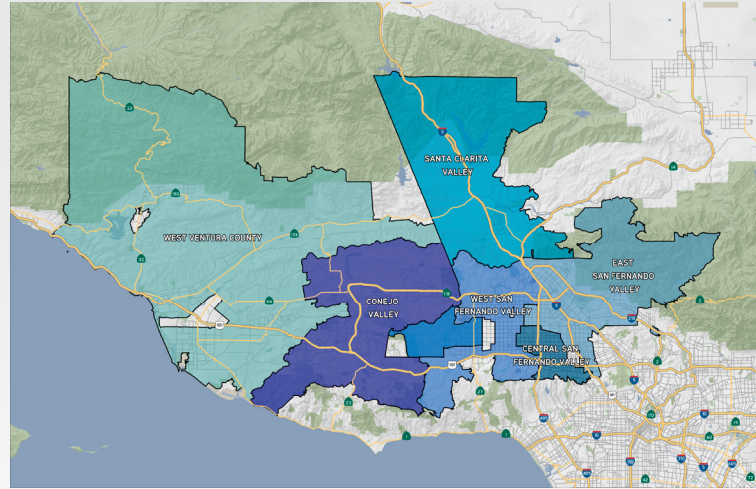
Unemployment Rate | U.S., CA & LA | August 2019



Market Description

The San Fernando Valley and Ventura County office market is a moderately sized market with 33.9 million square feet, representing 12% of office buildings 25,000 square feet and greater in the Los Angeles Basin. Leading industries in the Central and East San Fernando Valley submarkets include finance, insurance, professional services and entertainment, while the West San Fernando Valley and Conejo Valley submarkets include healthcare, high-tech and defense sectors. In the Santa Clarita Valley and West Ventura County submarkets, firms are predominantly from the professional, financial, high-tech and insurance services sectors.

Submarket Map



RECENT TRANSACTIONS & MAJOR DEVELOPMENTS

San Fernando Valley Office Market
Q3 2019

SALES ACTIVITY

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
5200 Lankershim Blvd, North Hollywood (3 Bldgs)	337,500 SF	\$91,250,000	\$270 PSF	Rockwood Capital LLC	Swift Real Estate Partners
24151 Ventura Blvd, Calabasas	76,500 SF	\$24,000,000	\$313 PSF	4M Investment Corporation	Parkway Calabasas Investors, LLC
18321 Ventura Blvd, Tarzana	84,700 SF	\$22,000,000	\$259 PSF	Optimus Properties LLC	Elat Properties Investment &
1525-1535 Rancho Conejo Blvd, Thousand Oaks	161,000 SF	\$26,200,000	\$162 PSF	Singerman Real Estate, LLC	The Bascom Group
501 & 509 Marin St, Thousand Oaks	50,200 SF	\$9,250,000	\$184 PSF	CGI Strategies	Jamison Services, Inc.

LEASE ACTIVITY

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
21255 Burbank Blvd, Woodland Hills	52,800 SF	Direct - New	A	WeWork	Lincoln Property/Angelo, Gordon & Co.
4500 Park Granada, Calabasas	50,000 SF	Direct - New	A	Republic Indemnity Co. of America	Rising Realty Partners/Mount Kellett
21650 Oxnard St, Woodland Hills	25,800 SF	Direct - New	A	Abby Furniture	Douglas Emmett
2380 Conejo Spectrum St, Thousand Oaks	25,000 SF	Direct - New	A	Atara	Strategic Office Partners
30930 Russell Ranch Rd, Westlake Village	24,000 SF	Renewal	A	General Motors Company	IDS Real Estate Group

MAJOR DEVELOPMENTS

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
6150 Laurel Canyon Blvd, North Hollywood	Merlone Geier Management	240,000 SF	East SFV	Under Construction	4Q 2019
18422 Oxnard St, Tarzana	Alvarez & Marsal Holdings, LLC	103,440 SF	West SFV	Under Construction	1Q 2020

OFFICE OVERVIEW

San Fernando Valley & Ventura County Office Market
Q3 2019

EXISTING PROPERTIES			VACANCY				ACTIVITY		ABSORPTION		CONSTRUCTION		RENTS
Submarket/ Class	Bldgs	Total Inventory SF	Direct Vacancy	Sublease Vacancy	Total Vacancy	Total Vacancy Prior Qtr	Leasing Activity Current Qtr SF	Leasing Activity YTD SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Completions Current Qtr SF	Under Construction SF	Weighted Avg Asking Lease Rate
A	146	18,844,400	12.4%	0.5%	12.8%	12.1%	260,000	888,100	(88,400)	(241,500)	57,600	240,000	\$2.77
B	261	14,258,500	12.7%	0.2%	12.9%	12.4%	225,800	570,700	(65,700)	(100,900)	0	103,400	\$2.39
C	22	873,400	18.0%	0.0%	18.0%	17.3%	1,800	125,000	(5,500)	(9,300)	0	0	\$2.15
WEST VENTURA COUNTY													
SUBTOTAL	58	3,145,200	20.6%	0.0%	20.6%	20.2%	21,900	69,400	(14,500)	(12,500)	0	0	\$2.06
SANTA CLARITA VALLEY													
SUBTOTAL	32	2,129,300	13.7%	0.0%	13.8%	12.3%	2,200	49,300	20,400	37,600	57,600	0	\$2.63
CONEJO VALLEY													
SUBTOTAL	107	6,682,600	13.6%	0.9%	14.5%	14.5%	123,900	489,300	0	(90,600)	0	0	\$2.62
WEST SAN FERNANDO VALLEY													
SUBTOTAL	140	14,943,000	11.2%	0.3%	11.5%	10.9%	253,300	599,900	(83,600)	(26,400)	0	103,400	\$2.68
CENTRAL SAN FERNANDO VALLEY													
SUBTOTAL	63	4,500,600	10.5%	0.3%	10.8%	9.3%	51,500	186,500	(67,800)	(190,000)	0	0	\$2.63
EAST SAN FERNANDO VALLEY													
SUBTOTAL	29	2,575,600	11.7%	0.1%	11.8%	11.2%	34,800	189,400	(14,100)	(69,700)	0	240,000	\$3.34
SAN FERNANDO VALLEY SUBTOTAL													
SUBTOTAL	232	22,019,200	11.1%	0.3%	11.4%	10.6%	339,600	975,800	(165,500)	(286,100)	0	343,400	\$2.75
VENTURA COUNTY SUBTOTAL													
SUBTOTAL	165	9,827,800	15.9%	0.6%	16.5%	16.3%	145,800	558,700	(14,500)	(103,100)	0	0	\$2.39
MARKET TOTAL													
TOTAL	429	33,976,300	12.6%	0.3%	13.0%	12.4%	487,600	1,583,800	(159,600)	(351,600)	57,600	343,400	\$2.61

Definitions of key terms in this report

Total Rentable Square Feet:

Office space in buildings with 25,000 square feet or more of speculative office space, including competitive space in Class A, B and C single-tenant and multi-tenant buildings. Excludes non-competitive owner-occupied buildings, buildings that include 30 percent or greater of medical or retail space, and space that is under-construction, under-renovation or off-market.

Class A Space:

Space that an image-conscious company would lease for its headquarters. Typically, this space has a very high level of finish, an excellent location, and commands the highest rents in the market.

Class B Space:

Highly functional, attractive space that is less prestigious than Class A Space and commands lower rental rates.

Class C Space:

Functional, competitive space with a lower level of finish and/or a less desirable location than Class B Space and commands lower rental rates.

Low-Rise:

Buildings with four or fewer total floors

Mid-Rise:

Buildings with five to 13 floors .

High-Rise:

Buildings with 14 or more floors.

Direct Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease, plus space that is vacant but not available for direct lease or sublease (for example, space being held for a future commitment).

Total Vacancy:

Space in existing buildings that is vacant and immediately available during the quarter for direct lease or for sublease, plus space that is vacant but not available for direct lease or sublease.

Net Absorption:

Net change in occupied square feet from one period to the next (including the impact of change in vacant space available for sublease).

Leasing Activity:

Square feet leased from all known transactions completed during the quarter, excluding lease renewals.

Weighted Average Asking Rental Rates:

Rental rates weighted by the total square feet available for direct lease. Data, reported on a monthly basis, is based on per square foot (PSF) full service gross (FSG) rents, and includes all costs associated with occupying the space, including taxes, insurance, maintenance, janitorial service and utilities.

Space Added (Net):

Total square feet added during the quarter via construction completions, including renovated space returned to market, less total square feet taken off-market due to demolitions or conversions.

Under Construction:

Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy.

Technical Note:

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

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438 offices in 68 countries on 6 continents

United States: 155	> \$3.3 billion in annual revenue
Canada: 48	> 2.0 billion square feet under management
Latin America: 20	
Asia Pacific: 44	> Over 17,000 professionals
EMEA: 119	

UNITED STATES:

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