

SAN FERNANDO VALLEY & VENTURA COUNTY | OFFICE

Q3 2018

Accelerating success.

» The SFV & VC Market Continues Its Positive Stride

Key Takeaways

- > The San Fernando Valley and Ventura County office market closed the third quarter with positive movement as net absorption recorded 165,300 square feet.
- > The office market vacancy rate decreased by 60 basis points to 12.8%.
- > Rental rates increased by \$0.08 from the second quarter to \$2.48 per square foot (PSF) full service gross (FSG).
- > No new projects were delivered in the third quarter. Two projects are currently under construction totaling 274,300 square feet.
- > The Los Angeles County unemployment rate declined to 4.5%, a decrease of 10 basis points from last year. Leisure and hospitality listed the largest year-over-year employment gain by adding 21,800 jobs. Education and health services posted the second largest job growth, adding 15,300 jobs.

San Fernando Valley and Ventura County Office Market

The San Fernando Valley and Ventura County office market recorded positive movement, while net absorption recorded at 165,300 square feet as vacancy declined by 60 basis points in the second quarter. Asking rental rates recorded \$2.48 PSF FSG, a 6.9% year-over-year increase. With only two new projects under construction on the horizon, the market will remain supply-constrained and absorption is expected to remain positive. Given these market conditions, San Fernando Valley and Ventura County office market trends are expected to witness positive tenant demand.

Market Indicators | Relative to prior period

	Q3 2018	Forecast
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	→	↑
Rental Rate	↑	↑

Summary Statistics | SFV & Ventura County, Q3 2018

	Class A	Class B	All Classes
Vacancy Rate	13.3%	12.4%	12.8%
Change from Q2 '18 (Basis Points)	-50	-50	-60
Net Absorption*	100.0	76.4	165.3
Construction Completions*	0.0	0.0	0.0
Under Construction*	274.3	0.0	274.3

*SF, Thousands

Asking Rents | SFV & Ventura County, Q3 2018

	Class A	Class B	All Classes
Average Asking Rent	\$2.76	\$2.23	\$2.48
Change from Q2 '18 (\$)	\$0.15	-\$0.01	\$0.08
Y.O.Y. Change (%)	8.6%	3.7%	6.9%

Los Angeles County Labor Force, August 2018

	Total Nonfarm	Prof. & Business Services	Financial Activities
12-mo Employment Growth (%)	1.4%	2.3%	0.6%
12-mo Actual Employment Change	80,500	9,200	300

Vacancy

- > Overall vacancy for the market decreased from 13.4% to 12.8% during the third quarter. A longer historical perspective shows that the vacancy rate a year ago stood at 13.9%.
- > Total vacancy rates were highest in West Ventura County at 20.5%. The submarket with the lowest vacancy was Central San Fernando Valley at 7.2%.
- > A comparison by class illustrates that vacancy rates were highest for Class A (13.3%) and lowest for Class C (8.5%), with Class B space (12.4%) in between.
- > **FORECAST:** Heading into the end of 2018, Vacancy rates in the San Fernando Valley and Ventura County market are expected to continue to fall due to the lack of new construction.

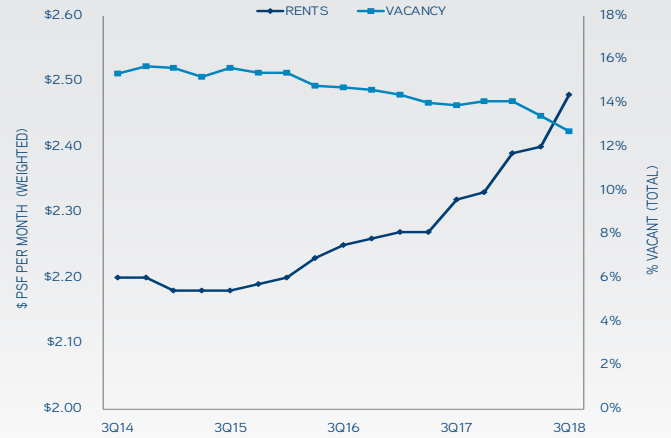
Absorption and Leasing Activity

- > Net absorption recorded positive movement at 165,300 square feet; the highest amount of absorption recorded since third quarter 2014.
- > Leasing activity totaled 899,100 square feet for the quarter, breaking above a five-year historical average of 640,000 square feet.
- > The largest lease transaction was Anthem Blue Cross signing 167,700 square feet to relocate to 21215-21255 Burbank Blvd. in Woodland Hills.
- > **FORECAST:** As vacancy continues to fall, both absorption and leasing activity are expected to remain positive through the end of 2018.

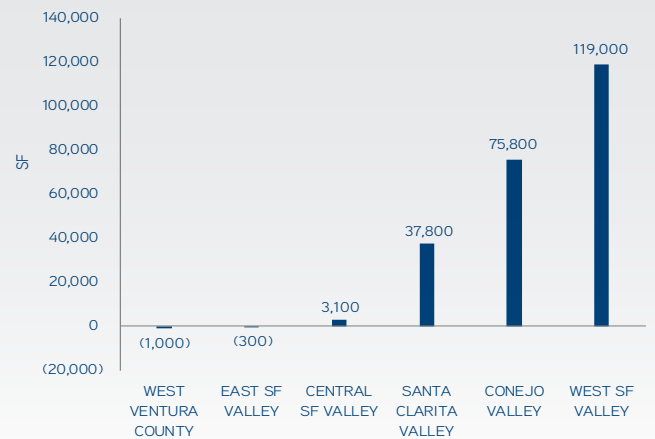
Rental Rates

- > The weighted average asking rent for direct space increased to \$2.48 PSF FSG from \$2.40 one quarter ago. This marks a high point for average asking rental rates since the mid-2010 rate of \$2.28 PSF FSG.
- > Class A asking rents recorded at \$2.76 PSF FSG compared to \$2.54 one year ago, a 8.7% year-over-year increase.
- > **FORECAST:** As available space options become more limited, asking rental rates will continue to rise.

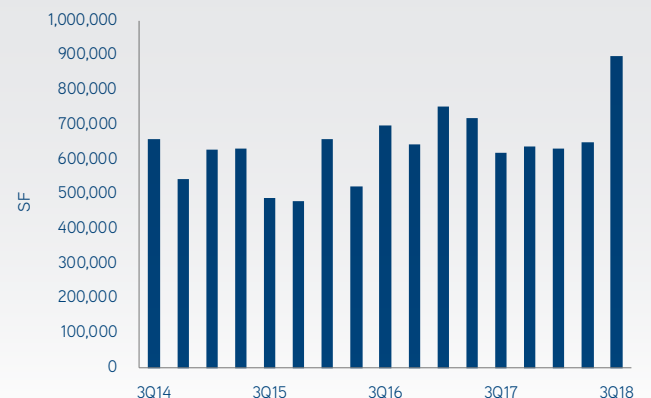
Historical Vacancy v. Rents | San Fernando Valley Office Market Q3 '14-'18



Net Absorption by Submarket | San Fernando Valley Office Market Q3 '18



Historical Leasing Activity | San Fernando Valley Office Market Q3 '14-'18



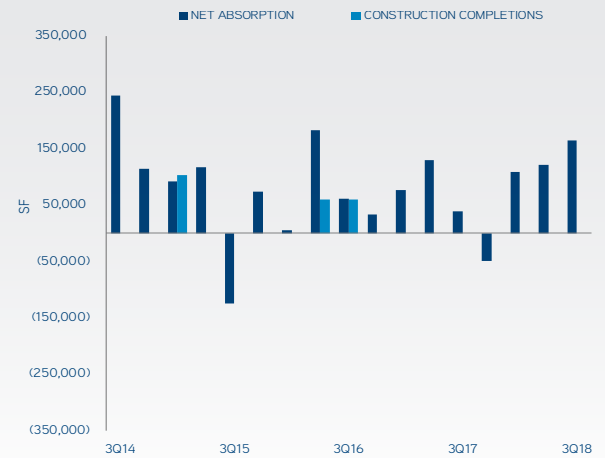
Construction

- > No new office buildings were delivered during the third quarter. There is approximately 1.7 million square feet of proposed inventory expected to deliver to the market within the next year.
- > Two projects totaling 274,300 square feet are currently under construction at 6150 Laurel Canyon Boulevard in North Hollywood and 27566 Woodfall Road in Santa Clarita. Both projects are expected to be completed within the next 3 to 6 months.
- > **FORECAST:** 27566 Woodfall Road (Phase 1) in Santa Clarita, consisting of 57,600 square feet, is expected to be completed in December of 2018.

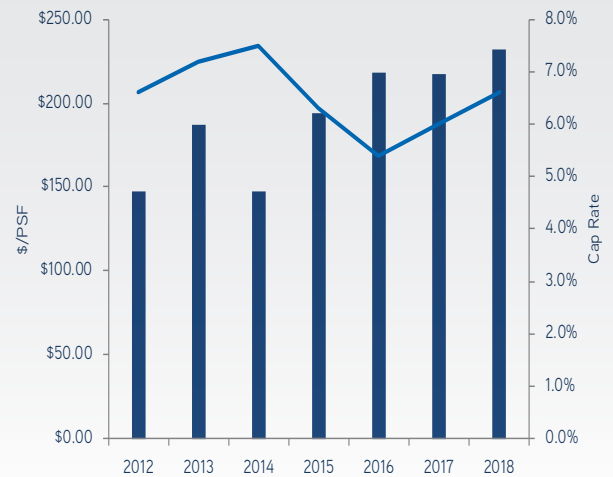
Investment Trends

- > Sales volume decreased from the second quarter for buildings over 25,000 square feet recording \$70.9 million in sales volume, down from \$118.8 million.
- > The largest transaction recorded during third quarter was Peregrine Realty Partners acquiring the Carlton Plaza at 20750 Ventura Blvd., in Woodland Hills for \$34.4 million (\$222 PSF).
- > The five-year average historical capitalization rate for the San Fernando Valley and Ventura County office market is 6.4%.
- > **FORECAST:** While interest rates continue their ascent and capitalization rates slowly inch up, the investment environment has become more prudent as of late.

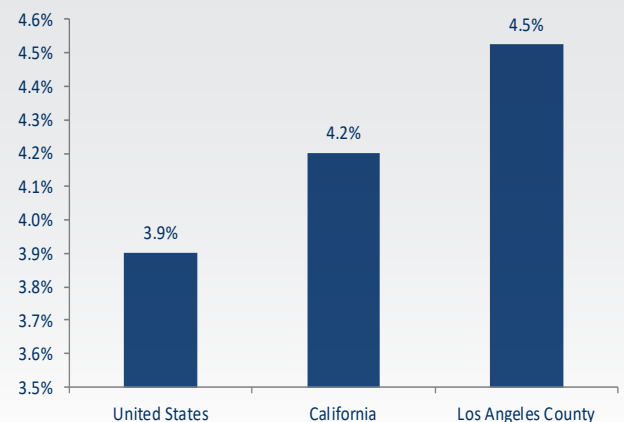
Historical Net Absorption & Construction Completions
San Fernando Valley Office Market Q3 '14-'18



Investment Trends Chart
San Fernando Valley Office Market 2012-2018



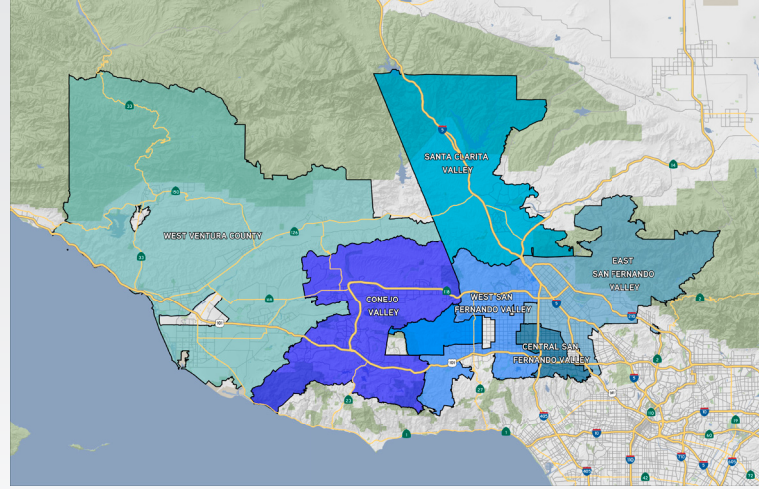
Unemployment Rate | U.S., CA & LA | August 2018



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 2018

SALES ACTIVITY

PROPERTY ADDRESS	SIZE SF	SALE PRICE	PRICE PSF	BUYER	SELLER
20750 Ventura Blvd, Woodland Hills	154,7000 SF	\$34,400,000	\$222 PSF	Peregrine Realty Partners	Bantry Holdings LLC JV Guggenheim
5955 De Soto Ave., Woodland Hills	53,100 SF	\$14,000,000	\$263 PSF	Laskey Family Trust	Majestic Asset Management, Inc.

LEASE ACTIVITY

PROPERTY ADDRESS	LEASED SF	LEASE TYPE	BLDG TYPE	LESSEE	LESSOR
21215 Burbank Blvd, Woodland Hills	167,400 SF	Relocation	A	Anthem Blue Cross	Lincoln Property Company
27200 Tourney Rd, Valencia	50,000 SF	Renewal	A	CRC Services, Inc.	Blackstone
29903 Agoura Rd, Agoura Hills	34,300 SF	Renewal/Downsize	B	Nuance Communications	Realty Bancorp Equities, LLC
26565-26575 Agoura Rd, Calabases	27,500 SF	Direct - New	B	King Kylie, LLC	Majestic Asset Management, Inc.
29229 Canwood St, Agoura Hills	16,200 SF	Direct - New	B	National Veterinary Associations	ICO Group

MAJOR DEVELOPMENTS

PROJECT	DEVELOPER	SIZE SF	SUBMARKET	STATUS	ESTIMATED COMPLETION
6150 Laurel Canyon Blvd, North Hollywood	Merlone Geier Management	218,267 SF	East SFV	Under Construction	1Q 2019
27566 Woodfall Rd, Santa Clarita	JSB Development	56,000 SF	Santa Clarita	Under Construction	4Q 2018

OFFICE OVERVIEW

San Fernando Valley & Ventura County Office Market
Q3 2018

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	145	18,786,800	12.9%	0.4%	13.3%	13.8%	724,800	1,445,800	100,000	30,100	0	274,300	\$2.76
B	261	14,258,500	12.2%	0.2%	12.4%	12.9%	170,300	739,300	76,400	352,800	0	0	\$2.23
C	22	873,400	8.5%	0.0%	8.5%	7.2%	4,100	41,300	(11,100)	12,100	0	0	\$1.96
WEST VENTURA COUNTY													
SUBTOTAL	58	3,145,200	20.4%	0.1%	20.5%	20.5%	18,100	77,000	(1,000)	127,600	0	0	\$1.92
SANTA CLARITA VALLEY													
SUBTOTAL	31	2,071,700	13.6%	1.2%	14.7%	16.5%	47,400	110,400	37,800	(33,000)	0	56,000	\$2.55
CONEJO VALLEY													
SUBTOTAL	108	6,682,600	13.8%	0.2%	14.0%	15.2%	176,400	418,100	75,800	146,700	0	0	\$2.36
WEST SAN FERNANDO VALLEY													
SUBTOTAL	140	14,943,000	12.0%	0.3%	12.3%	12.8%	450,300	1,115,100	73,500	107,000	0	0	\$2.68
CENTRAL SAN FERNANDO VALLEY													
SUBTOTAL	61	4,500,600	7.2%	0.0%	7.2%	7.3%	154,000	392,600	3,100	111,800	0	0	\$2.49
EAST SAN FERNANDO VALLEY													
SUBTOTAL	30	2,575,600	9.8%	0.5%	10.3%	10.3%	52,900	113,100	(300)	(41,500)	0	218,300	\$2.87
SAN FERNANDO VALLEY SUBTOTAL													
SUBTOTAL	231	22,019,200	10.8%	0.3%	11.0%	11.6%	657,200	1,620,800	76,300	177,300	0	218,300	\$2.51
VENTURA COUNTY SUBTOTAL													
SUBTOTAL	166	9,827,800	15.9%	0.2%	16.1%	16.9%	194,500	495,100	74,800	274,300	0	0	\$2.18
MARKET TOTAL													
TOTAL	428	33,918,700	12.5%	0.3%	12.8%	13.4%	899,100	2,226,300	165,300	395,000	0	274,300	\$2.48

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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413 offices in 69 countries on 6 continents

United States: 145	> \$2.7 billion in annual revenue
Canada: 28	> 2.0 billion square feet under management
Latin America: 23	
Asia Pacific: 79	> Over 15,400 professionals
EMEA: 131	

UNITED STATES:

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