



Q2 TRENDS AT A GLANCE

Change from prior quarter

- Absorption**
181,681 SF
- Vacancy**
-30 basis points (bps) to 9.8%
- Leasing Activity**
1,115,660 SF
- Direct Lease Rate**
+\$0.03 to \$2.49/SF
- Under Construction**
20,624 SF
- Completed Construction**
0 SF
- Office Buildings Sold**
16
- Median Sale Price**
\$329 PSF
- Unemployment Rate**
- LA County:** 4.4% (May)
- California:** 4.7% (May)
- U.S.:** 4.4% (June)

Activity Slows but Vacancy Rates Keep Falling and Asking Rates Continue to Escalate

Office leasing activity moderated in the second quarter, as it has throughout the country, but vacancy levels continued to decline and asking rates continued to increase all the same.

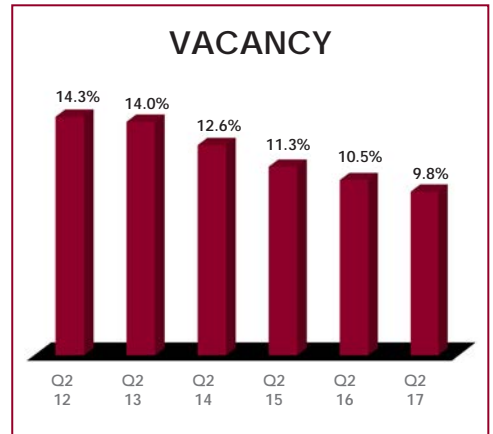
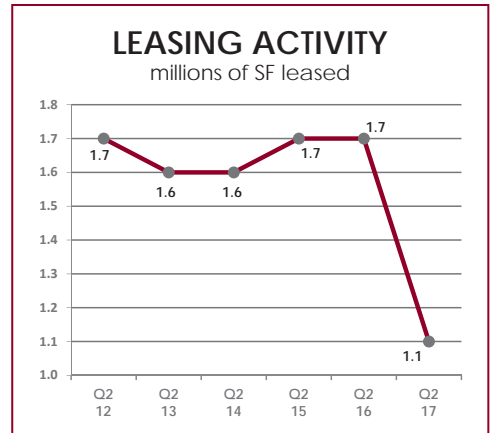
The first half of the year saw a 9.7 percent decline in leasing activity compared to the first half of 2016, and absorption followed suit with 116,518 fewer square feet leased on a net basis in the first half of 2017 compared with the first six months of 2016.

Vacancy declines continued in spite of the slower deal velocity. The office vacancy rate as of Q2 was 9.8 percent, 30 basis points (bps) below the prior quarter and a decline of 80 bps compared with the year ago period. Vacancy rates are nearly at the market low of 9.3 percent prior to the Great Recession.

Asking rates have been escalating commensurate with the vacancy declines, and in Q2 rose \$0.03 per SF to \$2.49 per SF compared to Q1. Asking rates have risen \$0.08 per SF since Q1 2016.

Rates peaked at \$2.70 per SF during the last market cycle, and while many submarkets still have not reached those levels, submarkets characterized by media and entertainment tenants have met or exceeded those rates. The average lease rate is \$3.48 per SF in Burbank Media Center, \$3.23 per SF in Universal/Studio City and \$2.60 per SF in North Hollywood.

Along with these rate increases, sales and development activity have stepped up leaving little doubt that the outlook for the region's office market is optimistic. Among the votes of confidence, Anthem Blue Cross has listed for sale a 26-acre parcel that surrounds its Warner Center headquarters and has gone un-used for decades, for sale; Adler Realty Investments has proposed a \$1 billion mixed-use redevelopment with

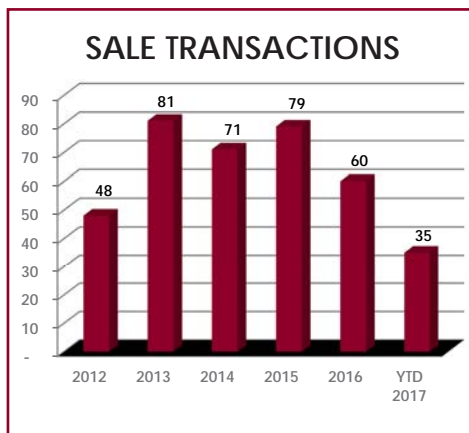
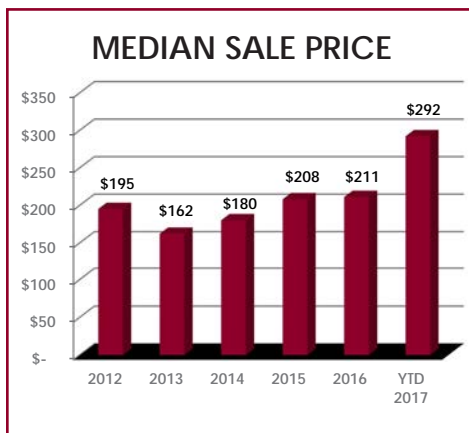
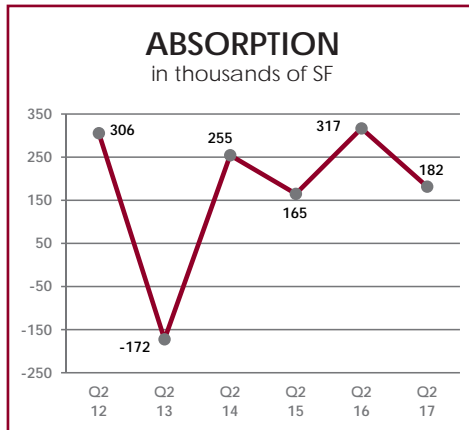
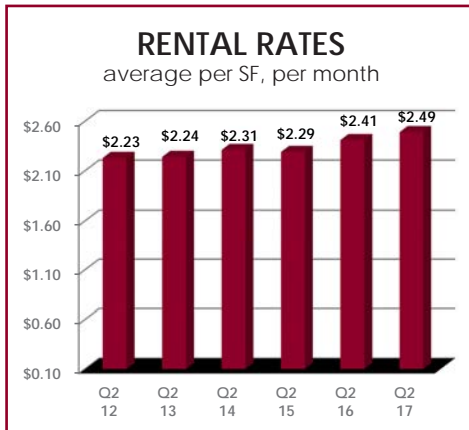


1 million SF of offices in Warner Center and institutional investors including New York Life Real Estate Investors and Credit Suisse have been actively buying up office properties.

The median price of office buildings sold in the quarter rose 19 percent to \$329 per SF compared to the prior quarter and 31 percent compared to the year ago period.

Sale prices have now risen 11.5 percent over the prior market peak in Q3 2007 when the median price of office buildings sold was \$295 per SF.





Median sale price and number of sale transactions excludes distressed sales and those where no price information was recorded.

Economy at a Glance

OFFICE: A recent *Wall Street Journal* report noted that, while tepid job growth has limited the office market recovery in past quarters, the current slowdown can be traced to uncertainty coming out of Washington, D.C. as businesses await clear direction on tax reform and infrastructure investment. Nationally, the Q2 office vacancy was 16 %, down from 17.6 % at the height of the recession.

DEVELOPMENT: Anthem Blue Cross of California has listed the 26-acre parcel of land that surrounds its regional headquarters offices in Warner Center for sale. The parcel can accommodate more than 5.5 million square feet of development according to the new guidelines of the Warner Center Specific Plan, The Real Deal reported.

WHITE HOUSE: There are 110 fewer employees on the Trump administration's White House staff than under Obama's administration at this point in their presidencies, generating a \$5.1 million payroll savings for the Trump administration versus the Obama White House, according to a report in *Forbes*. But Obama seems to have stretched his payroll dollars further, hiring 476 employees for \$40.9 million vs. Trump's \$35.8 million for 377 employees. That's an average cost per employee of \$94,960.21 for Trump versus \$85,924.37 for Obama.

WONDER WOMAN: Bets are on "Wonder Woman" to be the biggest domestic grossing film of the summer, according to *Forbes*. On its 38th day of release "Wonder Woman" had grossed \$368.786 million domestically, beating "Guardians of the Galaxy Vol 2" and "Spider-Man: Homecoming".

Q2 2017 LARGEST LEASES

Property Name/Address	Class	Square Feet	Tenant	Type
3000 W. Alameda Ave, Burbank	A	Approx. 54,000	Blizzard/Activision	New
5601 Lindero Canyon Rd, Westlake Village	A	51,802	NCR Corporation	Renewal
2350 Empire Ave, Burbank	A	33,000	Deluxe Entertainment	New
6007 Sepulveda Blvd, Van Nuys	B	26,286	IPC Healthcare, Inc.	New

Q2 2017 LARGEST SALES

Property Address	Class	Square Feet	Seller Buyer	Sale Price	PSF
Brand Boulevard Center 400, 450 N. Brand Blvd, Glendale	A	437,057 in 2 buildings	North Brand Property Owner, LLC Kennedy-Wilson	\$144,000,000	\$329.48
Burbank Empire Center 2300 W. Empire Ave, Burbank	A	351,300	Walton Empire Center V New York Life Real Estate Investors	\$133,217,000	379.21
5161 Lankershim Blvd, North Hollywood	A	197,174	Kennedy-Wilson Beacon Capital Partners	\$69,000,000	\$349.94
Alameda Media Center 2901 W. Alameda Ave, Burbank	A	119,819	Lionstone Investments Ocean West Capital Partners, Fortress Investment Group	\$40,300,000	\$336.34

Submarkets	Total Inventory	Total Vacancy		Net Absorption		Construction		Asking
		Total SF	%	Q2 2017	YTD 2017	Underway	Completed	FS Rate
Agoura Hills	2,140,323	257,283	12.0%	61,510	65,428	0	0	\$2.21
Burbank (Misc.)	2,322,370	290,271	12.5%	87,154	110,930	0	0	\$2.92
Burbank City Center	1,870,559	193,168	10.3%	(29,271)	(59,878)	20,624	0	\$2.70
Burbank Media Center	5,984,700	467,882	7.8%	69,499	93,838	0	0	\$3.48
Calabasas	2,730,640	289,993	10.6%	(35,598)	72,935	0	0	\$2.61
Central Valley	6,214,467	473,741	7.6%	(4,456)	33,255	0	0	\$2.12
Chatsworth	1,837,015	105,186	5.7%	943	2,207	0	0	\$1.96
Conejo Valley	9,386,631	1,148,172	12.2%	(94,629)	(193,213)	0	0	\$2.42
East Valley	296,763	6,921	2.3%	3,809	14,796	0	0	\$1.27
Encino	4,823,757	436,191	9.0%	(20,373)	(62,131)	0	0	\$2.73
Glendale	10,627,981	866,483	8.2%	(54,536)	(129,533)	0	0	\$2.66
North Hollywood	2,692,472	189,883	7.1%	19,040	37,803	0	0	\$2.60
Northridge / Reseda	2,236,578	304,195	13.6%	(42,013)	(24,572)	0	0	\$2.55
Santa Clarita Valley	305,667	33,586	11.0%	2,560	12,157	0	0	\$2.15
Sherman Oaks	4,019,048	463,543	11.5%	6,116	(119,661)	0	0	\$2.52
Tarzana / Woodland Hills	3,175,563	272,932	8.6%	18,861	42,769	0	0	\$2.34
Universal / Studio City	1,988,844	32,144	1.6%	(5,790)	(5,327)	0	0	\$3.23
West Valley	2,254,561	479,603	21.3%	116,363	136,311	0	0	\$2.20
Warner Center	7,935,167	844,141	10.6%	102,600	143,081	0	0	\$2.42
Total	72,843,106	7,155,318	9.8%	181,681	145,865	20,624	0	\$2.49

Source: CoStar and Lee & Associates

MARKET DEFINITIONS

RENTABLE AREA

Includes all Class A, B and C multi-tenant and single-tenant office buildings of 10,000 square feet and greater. Excludes buildings under construction, planned or under renovation.

DIRECT VACANCY

Space in existing buildings that is not occupied and is available for direct lease.

TOTAL VACANCY

Space in existing buildings that is not occupied and is available for direct lease and/or sub-lease.

TOTAL NET ABSORPTION

The square feet leased after deducting space vacated.

DIRECT ASKING LEASE RATE

Calculated for direct available space using NNN rents. Rents are weighted by total square feet available for direct lease.

UNDER CONSTRUCTION

Buildings in the process of construction. A building is considered complete when issued a certificate of occupancy.

MEDIAN SALE PRICE

Based on actual prices of sold buildings as reported in public records and by CoStar. Includes all industrial buildings 10,000 SF and more sold at \$500,000 or more.

ABOUT LEE & ASSOCIATES®

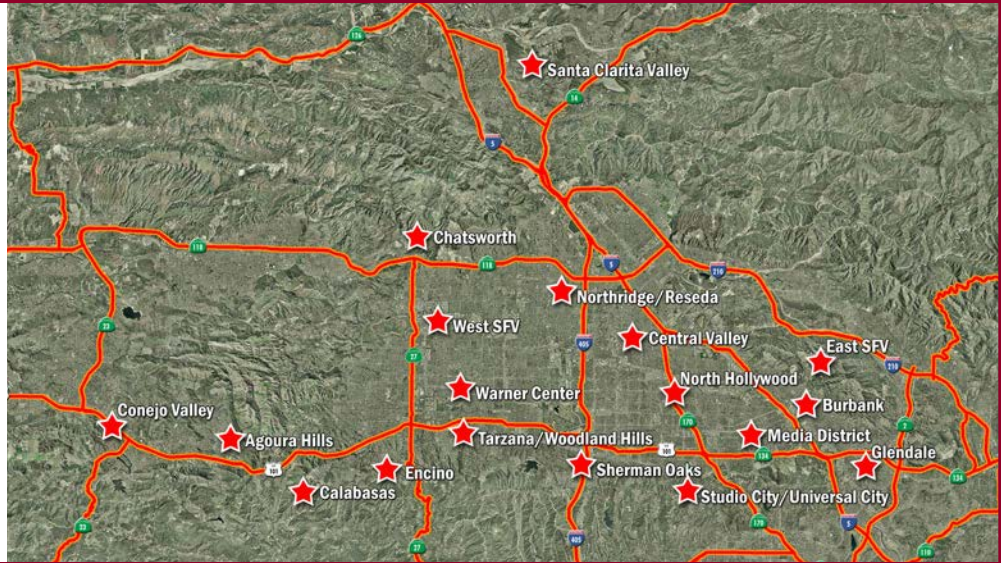
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LA NORTH OFFICE SUBMARKETS

- Agoura Hills**
Agoura Hills, Oak Park
- Burbank**
Includes Burbank Airport submarket and the area East of Buena Vista and West of I-5; North to the city border and Vanowen on the South
- City Center**
Downtown Burbank
- Media District**
Burbank Media District
- Central Valley**
Arleta, Granada Hills, Mission Hills, Pacoima, Panorama City, San Fernando, Sun Valley, Sylmar, Van Nuys
- Calabasas**
- Chatsworth**
- Conejo Valley**
Newbury Park
- Thousand Oaks**
Westlake Village
- East SFV**
La Crescenta, Montrose, Sunland, Tujunga
- Encino**
- Glendale**
- North Hollywood**
- Northridge/Reseda**
- Sherman Oaks**
- Tarzana/Woodland Hills**
- Santa Clarita Valley**
Canyon Country
Newhall
- West SFV**
Canoga Park
West Hills
Winnetka
- Warner Center**
- Universal City/Studio City**



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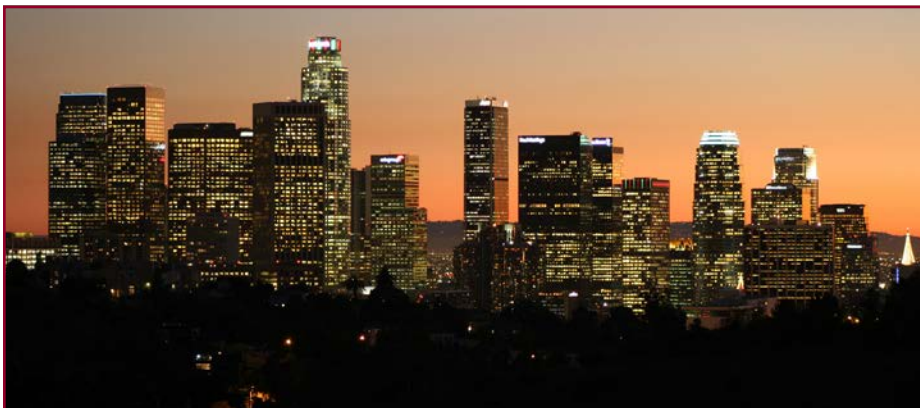
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