

The Commercial Office Market

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Broker, focusing on Orange County office space representing investors and businesses

2014 – Present: Wind Water Realty, Partner

2004 – 2014: Senior Vice President / Principal / Board Member at Lee & Associates – Irvine.

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Overview

1. Trends
2. Markets
3. Product
4. Replacement Cost
5. Comparable Sales
6. Income
7. Forecast



Trends

Web presence is more important than a physical presence.

Mobility has reshaped how office space is used and decentralized the work force.

The value is in lifestyle, employee recruitment & retention, centralization and interaction.

Millennials – 4 Generations are now in the workforce

Now 150 to 200 SF per employee vs. 250 SF

Landlords are heavily exploring modern renovations and layouts to have their property stand out.



OC & LA Office Market

Vacancy Rate is Down

Net Absorption is Positive

Lease Rates are Up

Transaction Volume is Down

Deliveries are Up

5 Submarkets in OC compared to 13 in LA



Orange County Snapshot

Over 2 million square feet of positive net absorption bringing the 3 year total over 5 million square feet.

Under 12% Vacancy Rate (Neutral Market)

Asking Rents are above \$2.00 PSF, FSG (8% higher YOY)

Technology based companies are driving the expansion

Leasing Activity was Down but Sale Activity is Up

Unemployment is below National and State Levels (5.0%)

Subleasing and Distressed Property Sales are Negligible



Los Angeles Snapshot

Over 3 Million Square Feet of Positive Absorption

Vacancy is under 13%

Construction has been focused more on Redevelopment

Lease Rates Over \$2.50 PSF, FSG / Nearing the Peak Levels of 2008

West LA is at almost \$4.00 PSF, FSG

8.0% Unemployment is lower but still above Macro Levels

Subleasing and Distressed Property Sales are Negligible

Class A Product

Investment-grade

Modern Mechanical Systems

Highly Desirable Location, Finishes and
Layouts

Command the Highest Rent or Sale Prices

“Creative” space has entered this
classification

➤ Class A Product



➤ “Creative” Space



Class B Product

More Speculative Investment

Depend on lower rents or sale prices to attract tenants or buyers

Utilitarian space

Ordinary design

Average to good maintenance

➤ Class B Product



Office Values & Assumptions

1. Replacement Cost
2. Comparable Sale Prices
3. Net Operating Income

Comparable Sale

Private Equity, Institutional, Foreign Investors and Owner / Users are Competing for the Same Property

Businesses are looking to Stabilize Occupancy Costs

Few Transactions to Compare

Features and Intangibles are Important (TI, Amenities, Furniture, Energy Savings.)



Income

Occupancy is Increasing

Reduced Leasing Cost in 2015

Competition and Captive Tenants Increase Lease Rates

Creative space is getting 30% higher rents than its previous classification

Green infrastructure can boost NOI

Rent growth expected to be 30% over next 3 years

➤ Still Below Replacement Cost

Prices are at 2005 / 2006 levels which was during the last development cycle.

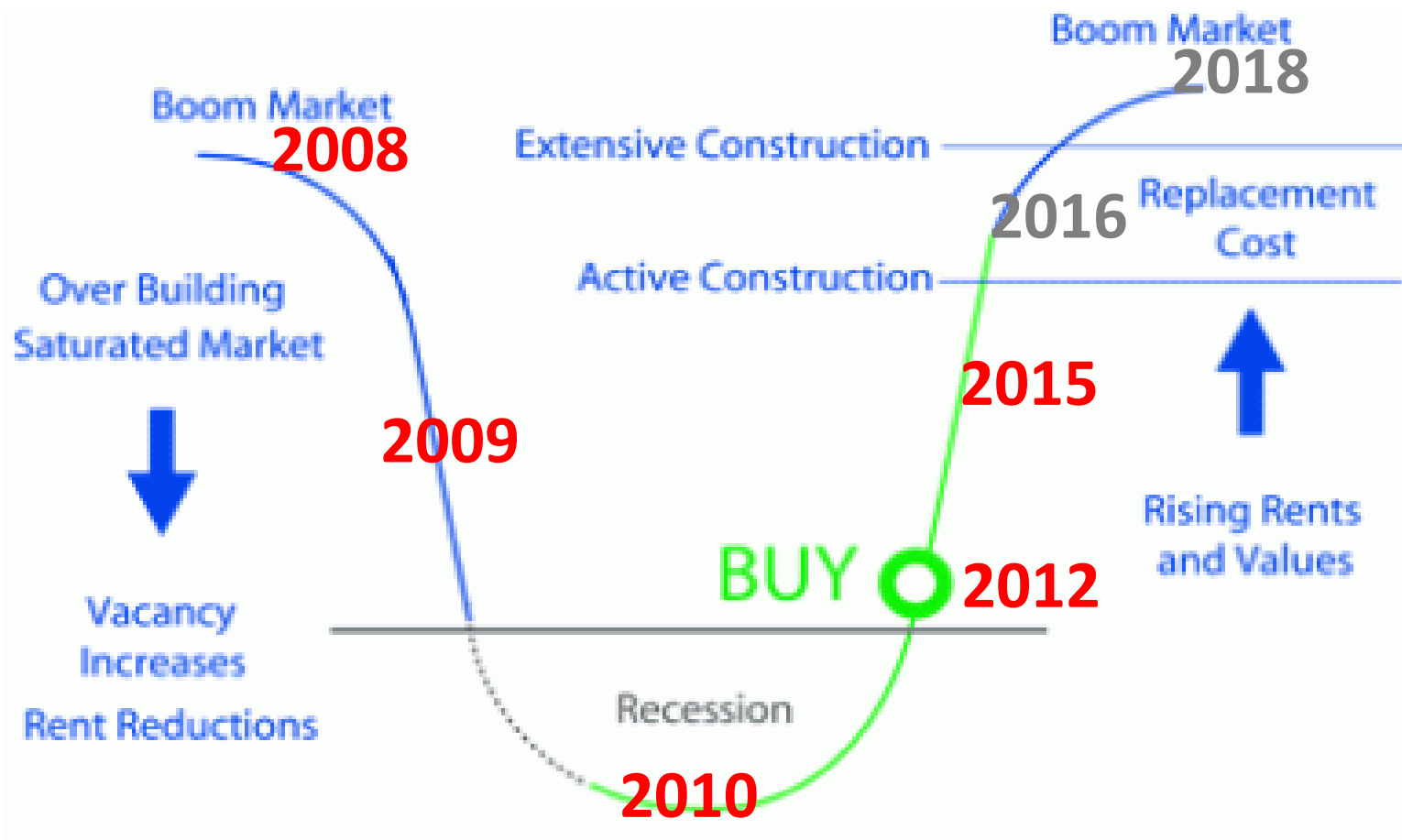
Land Cost in Urban Areas has Held its Value

Higher Finish Levels and Infrastructure is Required by Occupants

Local & State Politics are Increasing Costs

\$300 to \$400 PSF Development Cost + Profit

Office Real Estate Cycle



Forecast

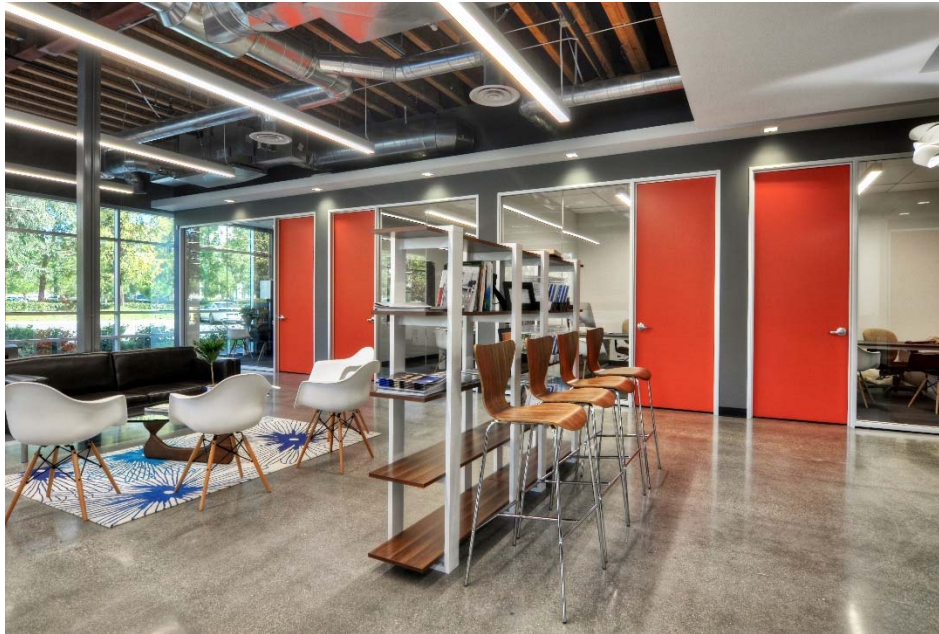
2015 will be another growth year for office

Development will remain scarce...it takes too long

More Sales as Owners Get Their Exit Price



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