



Office Market Update Greater Los Angeles

SECOND QUARTER 2010

Overview

Southern California's economy is beginning to show some improvement according to a recent report from the Kyser Center for Economic Research. Tourism is increasing, the entertainment industry is thriving and trade projections have jumped since February. Even so, regional employers remain skittish about rehiring as credit remains tight, putting a crimp in consumer and business spending. With positive job growth continuing to be elusive, demand for office space in the Greater Los Angeles market remained extremely weak in the 2nd quarter of 2010 with leasing activity characterized by renewals and downsizing with few tenants expanding. The recession did so much harm in the Southland that the recovery has a ways to go before the damage is repaired.

Absorption

Net absorption for the Greater Los Angeles office market was negative (579,579) square feet in the second quarter 2010, compared to a negative (1,375,295) in the first quarter 2010. The Class-A office market recorded net absorption of negative (372,385) square feet, Class-B was negative (117,692) square feet, and Class-C was Negative (89,502) square feet.

Los Angeles Office Market Snapshot

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Antelope Valley	324	3,492,759	347,597	10.0%	33,074	78,000	\$2.14
Burbank/Glendale/Pasadena	2,904	56,181,639	6,467,436	11.5%	-413,734	10,400	\$2.47
Downtown Los Angeles	688	69,821,136	7,735,395	11.1%	-572,550	0	\$2.41
Mid-Cities	813	9,330,797	707,786	7.6%	-10,757	0	\$1.91
Mid-Wilshire	1,621	41,325,495	4,379,323	10.6%	-398,995	414,994	\$2.46
San Fernando Valley	1,464	36,038,087	5,425,233	15.1%	-443,860	9,000	\$2.04
San Gabriel Valley	1,766	28,344,163	2,530,727	8.9%	171,956	12,456	\$1.90
Santa Clarita Valley	214	4,911,508	966,763	19.7%	5,425	99,719	\$2.42
South Bay	2,236	60,751,394	8,085,521	13.3%	-164,062	38,966	\$1.98
Southeast Los Angeles	479	8,080,289	607,342	7.5%	11,991	0	\$1.78
Ventura North	833	7,309,812	841,197	11.5%	-17,986	0	\$1.99
Ventura South	1,002	21,093,712	3,447,260	16.3%	34,883	144,912	\$2.08
West Los Angeles	2,413	74,329,176	9,347,468	12.6%	-190,259	549,989	\$3.19
Totals	16,757	421,009,967	50,889,048	12.1%	-1,954,874	1,358,436	\$2.37

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 12.1% at the end of the second quarter 2010, compared to 11.9% at the end of the first quarter 2010 and 10.9% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 19.7%, followed by Ventura South at 16.3%, and the San Fernando Valley at 15.1%. The Southeast Los Angeles market had the lowest vacancy rate of 7.5% followed by the Mid-Cities market with 7.6% and the San Gabriel Valley market with 8.9%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped to \$2.37 per square foot at the end of the second quarter 2010 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.63 at the end of the second quarter, while Class-B rates stood at \$2.10, and Class-C rates at \$1.97. West Los Angeles had the highest asking rate of \$3.19 per square foot, while the Southeast Los Angeles market had the lowest asking rate at \$1.78 per square foot.

Construction

During the second quarter 2010, five buildings totaling 170,845 square feet were completed in the Greater Los Angeles market and there were 1,358,436 square feet of office space under construction. The largest projects underway were the Red Bldg. - West, a 211,426-square-foot building in West Hollywood with 0% of its space pre-leased, and the Red Bldg. - East, a 203,568-square-foot building that is also 0% pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
555 W. Fifth Street, Greater Downtown	The Gas Company (renewal)	350,000
1933 S. Broadway, Greater Downtown	County of Los Angeles	142,360
2500 Broadway, Santa Monica	HBO (renewal)	128,000
5767 W. Century Blvd., LAX	UCLA (renewal)	81,195
Yahoo Center-Bldg. A, Santa Monica	eHarmony	80,000
5767 W. Century Blvd., LAX	GSA - Transportation & Security Admin. (renewal)	61,000

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the first quarter 2010 in terms of dollar volume compared to the fourth quarter 2009. In the first quarter, 10 office transactions closed with a total volume of \$142,140,000. The 10 buildings totaled 598,861 square feet and the average price equated to \$237.35 per square foot. That compares to 19 transactions totaling \$120,573,050 in the fourth quarter 2009. Cap rates have been higher in 2010, averaging 8.68% compared to the same period in 2009 when they averaged 6.49%. The largest transaction that occurred within the first quarter 2010 was the sale by Pacific Medical Buildings of the Huntington Pavilion at 625 S. Fair Oaks Ave. in Pasadena to Nationwide Health Properties, Inc. This 183,540 square foot medical building was part of a \$211,400,000 portfolio sale and it sold on 3/01/2010 for \$73,000,000 or approximately \$397.73 per square foot.



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