



# Office Market Update Greater Los Angeles

FOURTH QUARTER 2010

## Overview

The unemployment rate in Los Angeles County jumped up to 13% in December 2010 from 12.9% in November as landlords continued to face an extremely challenging office market in the fourth quarter 2010. Although lease renewals continued to be the dominating factor, the pace of leasing activity picked up as tenants moved to take advantage of comparatively low rental rates. There is a growing sense of optimism in the market, as both the US economy and commercial real estate markets are showing some signs of a recovery, even though the indicators suggest it may be a tempered one. While rents and occupancy levels fell again in the fourth quarter, most forecasters are projecting that moderate job growth should begin later in 2011 with a sustained growth going into 2012.

## Absorption

Net absorption for the Greater Los Angeles office market was positive 398,205 square feet in the fourth quarter 2010, compared to a negative (1,085,326) square feet in the third quarter 2010. The Class-A office market recorded net absorption of positive 195,429 square feet, Class-B was positive 175,438 square feet, and Class-C was positive 27,338 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	3,442,739	325,726	9.5%	58,548	78,000	\$2.20
Burbank/Glendale/Pasadena	2,942	56,618,369	6,572,564	11.6%	-410,850	2,425	\$2.50
Downtown Los Angeles	692	69,544,645	7,733,203	11.1%	-598,398	0	\$2.39
Mid-Cities	832	9,431,275	811,069	8.6%	-140,966	0	\$1.93
Mid-Wilshire	1,588	40,230,138	4,236,228	10.5%	-274,509	414,994	\$2.15
San Fernando Valley	1,484	35,777,314	5,426,032	15.2%	-437,289	9,000	\$2.05
San Gabriel Valley	1,792	28,555,581	2,460,810	8.6%	323,549	241,812	\$1.89
Santa Clarita Valley	210	4,830,288	966,076	20.0%	-5,388	99,719	\$2.42
South Bay	2,236	61,386,217	8,461,506	13.8%	-506,733	26,225	\$1.95
Southeast Los Angeles	485	8,067,742	635,309	7.9%	-10,776	80,394	\$1.80
Ventura North	808	7,272,054	849,007	11.7%	-43,674	0	\$2.00
Ventura South	986	21,035,856	3,500,131	16.6%	-15,650	154,304	\$1.99
West Los Angeles	2,384	74,094,833	10,005,357	13.5%	-387,441	177,500	\$3.08
<b>Totals</b>	<b>16,763</b>	<b>420,287,051</b>	<b>51,983,018</b>	<b>12.4%</b>	<b>-2,449,577</b>	<b>1,284,373</b>	<b>\$2.31</b>

## Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 12.4% at the end of the fourth quarter 2010, compared to 12.3% at the end of the third quarter 2010 and 11.5% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 20.0%, followed by Ventura South at 16.6%, and the San Fernando Valley at 15.2%. The Southeast Los Angeles market had the lowest vacancy rate of 7.9% followed by the Mid-Cities market and the San Gabriel Valley market, each at 8.6%.

## Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped slightly to \$2.31 per square foot at the end of the fourth quarter 2010 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.53 at the end of the third quarter, while Class-B rates stood at \$2.05, and Class-C rates at \$1.94. West Los Angeles had the highest asking rate of \$3.08 per square foot, while the Southeast Los Angeles market had the lowest asking rate at \$1.80 per square foot.

## Construction

During the fourth quarter 2010, seven buildings totaling 529,298 square feet were completed in the Greater Los Angeles market and there were 1,284,373 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
Sony Pictures Plaza, Culver City	Sony Pictures Entertainment (renewal)	328,848
2300 E. Imperial Highway, El Segundo	DirecTV (expansion & renewal)	157,211
10100 Santa Monica Blvd., Century City	Loeb & Loeb (renewal)	144,000
1055 West 7th Street, Greater Downtown	LA Care Health Plan	124,313
2300 Empire Avenue, Burbank	Modern Video Film	96,000
200 Sepulveda Blvd., El Segundo	ING (renewal)	70,000

## Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the third quarter 2010 in terms of dollar volume compared to the second quarter 2010. In the third quarter, 19 office transactions closed with a total volume of \$436,149,716. The 19 buildings totaled 1,921,325 square feet and the average price equated to \$227.00 per square foot. That compares to 13 transactions totaling \$100,448,114 in the second quarter 2010. Cap rates have been higher in 2010, averaging 8.24% compared to the same period in 2009 when they averaged 7.54%. The largest transaction that occurred within the third quarter 2010 was the sale by Hines of the Union Bank Plaza in downtown Los Angeles to KBS REIT II, Inc. This 627,334 square foot building sold on 9/16/2010 for \$208,000,000 or approximately \$331.56 per square foot.



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