



Office Market Update Greater Los Angeles

FIRST QUARTER 2009

Overview

Massive job losses continued to impact the demand for office space in the first quarter 2009 throughout the Greater Los Angeles market as many tenants look to shorten their leases and shrink their square footage. Inability by tenants to project future business has delayed leasing decisions, depressing leasing volumes to new lows at the end of the first quarter. However, increased sublease space continues to expand options for tenants who are in the market, and falling rents are making it possible for tenants to get into some formerly expensive office markets. The investment market continued its decline in the first quarter as debt remains scarce, interest rates are pricey and lenders have reduced loan-to-value ratios requiring huge equity commitments for any acquisition.

Absorption

Net absorption for the Greater Los Angeles office market was negative (3,043,745) square feet in the first quarter 2009, compared to a negative (1,744,623) in the fourth quarter 2008. The Class-A office market recorded net absorption of negative (2,001,694) square feet, Class-B was negative (729,190) square feet, and Class-C was negative (312,861) square feet.

Los Angeles Office Market Snapshot

Market	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Burbank/Glendale/Pasadena	2,825	55,723,484	4,885,512	8.8%	-283,101	1,145,500	\$2.64
Downtown Los Angeles	647	68,388,655	7,105,480	10.4%	-122,748	0	\$2.56
Mid-Cities	753	9,363,492	713,047	7.6%	-2,677	112,500	\$1.94
Mid-Wilshire	1,548	40,738,287	3,330,324	8.2%	-524,735	541,682	\$2.84
San Fernando Valley	1,463	37,108,500	4,382,846	11.8%	-311,775	180,000	\$2.28
San Gabriel Valley	1,629	28,054,512	2,674,603	9.5%	-149,260	0	\$2.01
Santa Clarita Valley	198	4,674,689	891,121	19.1%	-12,052	114,895	\$2.58
South Bay	2,061	61,233,696	7,491,860	12.2%	-365,272	211,978	\$2.03
Southeast Los Angeles	435	8,095,061	645,760	8.0%	-29,867	0	\$1.97
Ventura North	810	7,102,055	833,604	11.7%	2,278	21,676	\$2.01
Ventura South	1017	21,468,206	3,395,664	15.8%	-257,236	141,572	\$2.23
West Los Angeles	2,351	73,455,128	7,674,734	10.4%	-987,300	1,629,415	\$3.52
Totals	15,737	415,405,765	44,024,555	10.6%	-3,043,745	4,099,218	\$2.62

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area was up again and stood at 10.6% at the end of the first quarter 2009, compared to 9.7% at the end of the fourth quarter 2008 and 7.8% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 19.1%, followed by Ventura South at 15.8%, and the South Bay at 12.2%. The Mid-Cities market had the lowest vacancy rate of 7.6% followed by Southeast Los Angeles with 8.0% and the Mid-Wilshire market with 8.2%.

Rental Rates

The average quoted asking rental rate for available office space, all classes remained the same at \$2.62 per square foot at the end of the first quarter 2009 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.56 at the end of the first quarter, while Class-B rates stood at \$2.29, and Class-C rates at \$2.11. West Los Angeles had the highest asking rate of \$3.52 per square foot, while the Mid-Cities market had the lowest asking rate at \$1.94 per square foot.

Construction

During the first quarter 2009, 37 buildings totaling 603,608 square feet were completed in the Greater Los Angeles market area and there were 4,099,218 square feet of office space under construction. The largest projects underway were The Point – Phase I, a 473,672-square-foot building in Burbank with 0% of its space pre-leased, and the Horizon at Playa Vista – Bldg. 1, a 234,389-square-foot building that is 80% pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
333 S. Hope St., Greater Downtown	Kirkland & Ellis LLP	101,000
800 N. Brand Blvd., Glendale	Nestle USA (renewal)	76,607
1900 Avenue of the Stars, Century City	Greenberg, Glusker, Fields, et al (renewal)	61,806
Bank of America Plaza, Greater Downtown	Seyfarth Shaw LLP	55,218
Wilshire Courtyard East, Miracle Mile	Oprah Winfrey Network	51,735
3562-3582 Eastham Drive, Culver City	Bidz.com (renewal)	50,000

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the fourth quarter 2008 in terms of dollar volume compared to the third quarter 2008. In the fourth quarter, 23 office transactions closed with a total volume of \$227,903,760. The 23 buildings totaled 1,409,986 square feet and the average price equated to \$215.46 per square foot. That compares to 32 transactions totaling \$743,272,762 in the third quarter 2008. Cap rates have been higher in 2008, averaging 6.15% compared to the same period in 2007 when they averaged 5.73%. The largest transaction that occurred within the fourth quarter 2008 was the sale by ING Clarion Partners of the 500 N. Brand Blvd. Building in Glendale to CB Richard Ellis Investors. The building containing 417,848 square feet was sold on 12/31/08 for \$80,000,000 or \$191.46 per square foot.



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