



Office Market Update Greater Los Angeles

THIRD QUARTER 2009

Overview

The vacancy rate increased again in the third quarter 2009 throughout the Greater Los Angeles market however the rate of negative net absorption continues to decline, indicating that the market is close to reaching bottom and layoffs may finally be subsiding. Leasing activity remained weak as tenants looked for ways to lower their occupancy costs and maintain flexibility while putting off medium to long-term business decisions until there are stronger signs of economic recovery. Building owners continued to focus on tenant retention, offering more free rent and other concessions, while eroding market rents caused additional declines in their operating incomes. Capital market activity remained soft with few assets trading during the second quarter.

Absorption

Net absorption for the Greater Los Angeles office market was negative (897,395) square feet in the third quarter 2009, compared to a negative (1,331,893) in the second quarter 2009. The Class-A office market recorded net absorption of negative (653,273) square feet, Class-B was negative (171,700) square feet, and Class-C was negative (72,422) 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	313	3,605,031	390,180	10.8%	54,133	78,000	\$2.24
Burbank/Glendale/Pasadena	2,883	56,593,614	5,816,554	10.3%	-305,307	340,037	\$2.51
Downtown Los Angeles	654	69,359,704	7,022,105	10.1%	-100,254	0	\$2.51
Mid-Cities	794	9,352,225	699,708	7.5%	54,531	1,500	\$1.91
Mid-Wilshire	1,581	41,436,643	3,792,908	9.2%	-846,706	414,994	\$2.69
San Fernando Valley	1,476	36,984,969	4,969,631	13.4%	-852,968	0	\$2.17
San Gabriel Valley	1,682	28,032,740	2,829,566	10.1%	-311,466	0	\$1.97
Santa Clarita Valley	203	4,702,804	751,378	16.0%	127,691	203,517	\$2.55
South Bay	2,168	61,207,529	8,069,686	13.2%	-657,451	26,246	\$1.99
Southeast Los Angeles	460	7,864,168	631,795	8.0%	-47,812	0	\$1.94
Ventura North	826	7,283,796	894,338	12.3%	-38,801	0	\$1.94
Ventura South	1,007	21,317,147	3,554,062	16.7%	-410,877	116,912	\$2.13
West Los Angeles	2,415	74,646,779	8,707,294	11.7%	-1,690,660	967,874	\$3.35
Totals	16,462	422,387,149	48,129,205	11.4%	-5,025,947	2,149,080	\$2.46

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 11.4% at the end of the third quarter 2009, compared to 10.9% at the end of the second quarter 2009 and 9.1% a year ago. Ventura South had the region's highest vacancy rate of 16.7%, followed by the Santa Clarita Valley at 16.0%, and the South Bay at 13.2%. The Mid-Cities market had the lowest vacancy rate of 7.5% followed by Southeast Los Angeles with 8.0% and the Mid-Wilshire market with 9.2%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped to \$2.46 per square foot at the end of the third quarter 2009 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.74 at the end of the third quarter, while Class-B rates stood at \$2.17, and Class-C rates at \$2.07. West Los Angeles had the highest asking rate of \$3.35 per square foot, while the Mid-Cities market had the lowest asking rate at \$1.91 per square foot.

Construction

During the third quarter 2009, 15 buildings totaling 1,652,140 square feet were completed in the Greater Los Angeles market and there were 2,149,080 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
1815 E. University Dr./18701 Wilmington, Mid-Cities	Northrop Grumman (renewal)	224,000
1760, 1762 & 1800 E. Glenn Curtis St., Mid-Cities	Northrop Grumman (renewal)	187,000
2700 Colorado Ave., Santa Monica	Lionsgate	127,000
6300 Canoga Ave., Woodland Hills	Blue Shield (renewal)	115,000
Skyview Center II, LAX	Los Angeles World Airport	94,234
606 South Olive, Greater Downtown LA	Exec. Offices of Immigration Review (ren. & expan.)	72,210

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the second quarter 2009 in terms of dollar volume compared to the first quarter 2009. In the second quarter, 12 office transactions closed with a total volume of \$211,635,000. The 12 buildings totaled 1,115,107 square feet and the average price equated to \$189.79 per square foot. That compares to 10 transactions totaling \$355,316,000 in the first quarter 2009. Cap rates have been higher in 2009, averaging 6.97% compared to the same period in 2008 when they averaged 5.88%. The largest transaction that occurred within the second quarter 2009 was the sale by Gramercy Capital Corp. of the 101 S. Marengo Avenue Building in Pasadena to RBZ LLP. The building containing 345,945 square feet was sold on 4/29/09 for \$55,500,000 or \$160.43 per square foot.



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