



Office Market Update Greater Los Angeles

FOURTH QUARTER 2008

Overview

The economy continued its downward spiral in the fourth quarter 2008 and companies throughout the Greater Los Angeles market reacted by cutting costs, and reducing their number of employees. Thus the demand for office space fell off dramatically causing an increase in vacancy, negative net absorption, and a drop in rents. Companies are sitting on the sidelines as uncertainty regarding the economy is dissuading them from making major decisions. The investment market slowed further in the fourth quarter as uncertainty, lack of affordable capital and high prices kept numerous investors out of the market, with an expectation that prices will continue to drop anywhere from 10% to 40%.

Absorption

Net absorption for the Greater Los Angeles office market was negative (1,744,623) square feet in the fourth quarter 2008, compared to a negative (1,225,983) in the third quarter 2008. The Class-A office market recorded net absorption of negative (654,344) square feet, Class-B was negative (816,302) square feet, and Class-C was negative (273,977) 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	2,744	54,864,763	4,099,167	7.5%	-746,828	1,320,816	\$2.70
Downtown Los Angeles	643	68,463,890	6,978,450	10.2%	-510,298	0	\$2.58
Mid-Cities	742	9,214,726	699,842	7.6%	-74,194	126,497	\$2.01
Mid-Wilshire	1,546	40,901,742	2,840,632	6.9%	-757,159	533,526	\$2.88
San Fernando Valley	1,472	37,142,966	3,918,214	10.5%	-788,879	0	\$2.32
San Gabriel Valley	1,482	27,340,587	2,031,521	7.4%	-537,999	69,788	\$2.04
Santa Clarita Valley	193	4,619,958	842,789	18.2%	-57,490	139,797	\$2.63
South Bay	2,044	61,456,148	7,354,391	12.0%	-993,353	194,032	\$2.04
Southeast Los Angeles	431	8,097,618	619,048	7.6%	-99,998	0	\$1.99
Ventura North	729	6,843,094	747,511	10.9%	-222,544	153,552	\$2.08
Ventura South	981	21,507,786	3,068,659	14.3%	-486,053	136,376	\$2.33
West Los Angeles	2,328	73,139,815	6,737,581	9.2%	-672,630	404,037	\$3.71
Totals	15,335	413,593,093	39,937,805	9.7%	-5,947,425	3,078,421	\$2.62

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area was up and stood at 9.7% at the end of the fourth quarter 2008, compared to 9.1% at the end of the third quarter 2008 and 7.9% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 18.2%, followed by Ventura South at 14.3%, and the South Bay at 12.0%. The Mid-Wilshire market had the lowest vacancy rate of 6.9% followed by the San Gabriel Valley with 7.4% and the Burbank/Glendale/Pasadena market with 7.5%.

Rental Rates

The average quoted asking rental rate for available office space, all classes dropped slightly to \$2.62 per square foot at the end of the fourth quarter 2008 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.92 at the end of the fourth quarter 2008, while Class-B rates stood at \$2.29, and Class-C rates at \$2.18. West Los Angeles had the highest asking rate of \$3.71 per square foot, while Southeast Los Angeles market had the lowest asking rate at \$1.99 per square foot.

Construction

During the fourth quarter 2008, 29 buildings totaling 1,107,230 square feet were completed in the Greater Los Angeles market area and there were 3,078,421 square feet of office space under construction. The largest projects underway, both in the Burbank market, were The Point – Phase I, a 473,672-square-foot building with 0% of its space pre-leased, and 2300 W. Empire Ave., a 343,728-square-foot building that is 0% pre-leased.

Los Angeles Top Office Leases

Address	Tenant	SF
Union Bank Plaza, Greater Downtown	Union Bank of California (renewal)	344,256
1500 Hughes Way, Greater Downtown	Fluor	86,610
1500 Hughes Way, Greater Downtown	Jacobs Engineering	83,823
Campus at Playa Vista, Bldg1 - Phase 1	Belkin	82,457
400 N. Brand Blvd., Glendale	Cigna Healthcare (renewal)	80,957
555 S. Figueroa Street, Greater Downtown	Chubb Group of Insurance Companies	80,000

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the third quarter 2008 in terms of dollar volume compared to the second quarter 2008. In the third quarter, 21 office transactions closed with a total volume of \$615,424,580. The 21 buildings totaled 1,810,036 square feet and the average price equated to \$340.01 per square foot. That compares to 25 transactions totaling \$620,947,303 in the second quarter 2008. Cap rates have been slightly higher in 2008, averaging 5.9% compared to the same period in 2007 when they averaged 5.7%. The largest transaction that occurred within the third quarter 2008 was the sale by Broadway Partners of the Citibank Center, located at 444 S. Flower Street in Greater Downtown, to Hines. The building containing 891,056 square feet was sold on 9/18/08 for \$275,000,000 or \$308.62 per square foot.



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