



Office Market Update Greater Los Angeles

FOURTH QUARTER 2009

Overview

The Greater Los Angeles market experienced overall positive absorption in the fourth quarter of 2009, fueled by tenants seeking cheaper space in Class-B and Class-C buildings, which offset the continuing negative net absorption in Class-A buildings. The vacancy rate increased slightly in the fourth quarter and, even though Los Angeles continues to shed jobs, it appears that the worst is over and we should finally see rent stabilization by the second half of 2010. Leasing activity increased slightly, driven by several large renewals, but few tenants sought to add additional space as an air of cautiousness continues to permeate the market. Lack of available capital continued to severely limit building trades during the third quarter of 2009.

Absorption

Net absorption for the Greater Los Angeles office market was positive 59,925 square feet in the fourth quarter 2009, compared to a negative (787,698) in the third quarter 2009. The Class-A office market recorded net absorption of negative (284,597) square feet, Class-B was positive 156,739 square feet, and Class-C was positive 187,783 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	320	3,644,286	367,203	10.1%	83,610	78,000	\$2.24
Burbank/Glendale/Pasadena	2,902	56,999,839	6,025,378	10.6%	-299,093	89,400	\$2.48
Downtown Los Angeles	678	70,062,983	7,059,485	10.1%	71,084	0	\$2.45
Mid-Cities	801	9,506,224	715,359	7.5%	55,326	0	\$1.89
Mid-Wilshire	1,621	41,460,341	3,947,737	9.5%	-995,035	414,994	\$2.57
San Fernando Valley	1,479	37,043,157	5,104,906	13.8%	-972,243	0	\$2.11
San Gabriel Valley	1,700	27,878,791	2,785,854	10.0%	-228,835	0	\$1.95
Santa Clarita Valley	208	4,814,926	922,068	19.2%	60,744	104,414	\$2.53
South Bay	2,184	62,449,117	8,116,627	13.0%	-500,333	6,216	\$1.97
Southeast Los Angeles	472	8,006,900	618,227	7.7%	-20,494	0	\$1.86
Ventura North	829	7,282,659	819,027	11.2%	43,160	0	\$1.99
Ventura South	1,008	21,338,056	3,450,057	16.2%	-344,292	116,912	\$2.08
West Los Angeles	2,420	74,010,595	8,982,731	12.1%	-1,733,348	743,201	\$3.22
Totals	16,622	424,497,874	48,914,659	11.5%	-4,779,749	1,553,137	\$2.40

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 11.5% at the end of the fourth quarter 2009, compared to 11.4% at the end of the third quarter 2009 and 9.7% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 19.2%, followed by Ventura South at 16.2%, and the San Fernando Valley at 13.8%. The Mid-Cities market had the lowest vacancy rate of 7.5% followed by Southeast Los Angeles with 7.7% and the Mid-Wilshire market with 9.5%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped to \$2.40 per square foot at the end of the fourth quarter 2009 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.68 at the end of the fourth quarter, while Class-B rates stood at \$2.11, and Class-C rates at \$1.98. West Los Angeles had the highest asking rate of \$3.22 per square foot, while the Southeast Los Angeles market had the lowest asking rate at \$1.86 per square foot.

Construction

During the fourth quarter 2009, nine buildings totaling 545,159 square feet were completed in the Greater Los Angeles market and there were 1,553,137 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
1 Baxter Way, Thousand Oaks	Baxter Healthcare (renewal & expansion)	230,631
865 S. Figueroa Street, Greater Downtown LA	Quinn Emanuel (renewal)	166,000
4801 Airport Plaza, Long Beach	The Boeing Company (renewal)	165,000
725 S. Figueroa Street, Greater Downtown LA	Ernst & Young (renewal)	128,694
6053 W. Century Blvd., Westchester	Los Angeles World Airports	104,155
5454 Beethoven Street, Marina Del Rey	Deutsch, Inc. (renewal)	86,940

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the third quarter 2009 in terms of dollar volume compared to the second quarter 2009. In the third quarter, 12 office transactions closed with a total volume of \$122,570,000. The 12 buildings totaled 589,213 square feet and the average price equated to \$208.02 per square foot. That compares to 12 transactions totaling \$211,635,000 in the second quarter 2009. Cap rates have been higher in 2009, averaging 7.10% compared to the same period in 2008 when they averaged 5.91%. The largest transaction that occurred within the third quarter 2009 was the sale by Grosvenor Americas of 3 buildings in Pasadena to Singpoli, the largest being the 2 N. Lake Building. The buildings containing 225,572 square feet were sold on 9/10/09 for \$52,000,000 or \$230.53 per square foot.



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