



OFFICE MARKET UPDATE LOS ANGELES NORTH

THIRD QUARTER 2008

Overview

Los Angeles North office market weathered the financial crisis in the third quarter 2008 relatively well, all things considered, since three major institutional victims of the financial meltdown occupy significant amounts of office space across the area. Insurance giant AIG leases about 500,000 square feet, mainly in Warner Center, while Washington Mutual, now a part of JPMorgan Chase, has about 600,000 square feet, mostly in Chatsworth. The largest amount of space, several million square feet, is currently occupied by Countrywide, now part of Bank of America, and is spread out from the northwest San Fernando Valley to Calabasas and Thousand Oaks. So far, in a very nervous market, year to date negative net absorption climbed only a fraction, rents held relatively steady and the vacancy rate inched up only slightly.

Absorption

Net absorption for the Los Angeles North office market was a negative (7,261) square feet in the third quarter 2008, down from a negative (598,100) square feet in the second quarter. Year to date, none of the submarkets have shown positive absorption, however, in the overall market, there was a dramatic decrease in negative absorption from the second quarter.

Los Angeles North Office Market Snapshot

Submarket	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Burbank	508	12,487,822	581,789	4.66%	-31,136	899,400	\$2.79
Conejo Valley	471	14,011,568	1,855,369	13.24%	-468,803	277,625	\$2.54
Eastern SFV	551	9,004,783	567,182	6.30%	-50,149	0	\$1.98
Encino	78	4,721,223	367,741	7.79%	-59,739	0	\$2.76
Glendale	655	12,216,109	1,240,625	10.16%	-208,422	221,068	\$2.80
North Hollywood	189	2,771,973	308,691	11.14%	-65,729	0	\$2.53
Santa Clarita Valley	181	4,507,281	815,386	18.09%	-102,483	178,300	\$2.68
Sherman Oaks	125	3,778,314	345,702	9.15%	-149,289	0	\$2.78
Studio/Universal Cities	226	4,489,343	147,069	3.28%	-9,901	140,000	\$2.79
Tarzana	72	1,726,761	113,571	6.58%	-11,984	0	\$2.18
Western SFV	372	7,441,467	839,582	11.28%	-103,560	0	\$2.11
Woodland Hills / Warner Ctr	224	10,476,951	1,406,042	13.42%	-93,114	0	\$2.47
Totals	3,652	87,633,595	8,588,749	9.80%	-1,354,309	1,716,393	\$2.53

Vacancy

The overall office vacancy rate in the Los Angeles North market area increased to 9.8% at the end of the third quarter 2008, compared to 9.32% the previous quarter. The Santa Clarita Valley market had the region's highest vacancy rate of 18.09%, followed by the Woodland Hills/Warner Center market with 13.42%, and the Conejo Valley market at 13.24%. Studio/Universal Cities had the region's lowest vacancy rate of 3.28%, followed by Burbank at 4.66% and the Eastern San Fernando Valley at 6.3%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped slightly to \$2.53 per square foot at the end of the third quarter 2008 in the Los Angeles North market. The average quoted rate within the Class A sector was \$2.73 per square foot, with Class B rates at \$2.37 per square foot, and Class C rates at \$2.15 per square foot. Glendale had the highest average asking rate of \$2.80 per square foot, while the Eastern San Fernando Valley had the lowest rate at \$1.98 per square foot.

Construction

There were 1,716,393 square feet of office space under construction at the end of the third quarter 2008. New major developments include 2900 W. Alameda Avenue in Burbank containing 473,672 square feet, 2300 W. Empire Avenue also in Burbank containing 343,728 square feet and 207 Goode Avenue in Glendale containing 186,628 square feet. All three new buildings are 0% pre-leased.

Los Angeles North Top Office Leases

Address	Tenant	SF
21215 Burbank Blvd., Woodland Hills	Intuit, Inc.	167,430
10 Universal City Plaza, Universal City	Vivendi Universal Entertainment	107,696
NoHo Commons, North Hollywood	Art Institute of California	60,000
3900 W. Alameda Ave., Burbank	Walt Disney Pictures (expansion)	37,005
15490 Ventura Blvd., Sherman Oaks	Chimera Design LLC	16,000
27451 Tourney Road, Santa Clarita	Multi-State Insurance Services	10,000

Sales Activity

Total office building sales activity in the second quarter 2008 fell compared to the first quarter 2008 in terms of dollar volume, and cap rates have been slightly higher in 2008, averaging 5.9% compared to the same period in 2007 when they averaged 5.8%. The largest transaction that occurred in the second quarter 2008 was the portfolio sale of 3 class A buildings in Burbank by Arden Realty, Inc. to Kennedy-Wilson Properties on March 27, 2008. This 326,522 square foot office portfolio sold for \$95,100,000 or \$291.25 per square foot.



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