



OFFICE MARKET UPDATE LOS ANGELES NORTH

THIRD QUARTER 2009

Overview

Tenants clearly remained in the drivers seat when it came to negotiating leases in the Los Angeles North office market in the third quarter 2009. The rate of space givebacks continued to slow for the second consecutive quarter giving hope that there may be some light at the end of the tunnel. However, even as the nation's financial outlook continues to improve, real estate rentals are a lagging indicator of the economy and we may be well into next year before we see the real job growth necessary to prop up the office market. Most tenants continued to focus on short term renewals and reducing their office space requirements until it becomes more clear what the future outlook is for them and their business plans.

Absorption

Net absorption for the Los Angeles North office market was a negative (184,544) square feet in the third quarter 2009, down from a negative (439,533) square feet in the second quarter. Year to date the Santa Clarita and the North Hollywood submarkets were the only ones to have shown positive absorption. Woodland Hills/Warner Center was the worst performing market with negative (367,940) square feet, followed by Calabasas/Westlake Village submarket and the Thousand Oaks/SE County submarkets with negative (213,935) square feet and negative (171,490) square feet respectively.

Los Angeles North Office Market Snapshot

Submarket	# Buildings	Total RBA SF	Total Vacancy SF	Vacancy Rate	YTD Net Absorption	Under Construction	Quoted Rates
Burbank	549	14,076,801	1,647,596	11.70%	-41,561	82,000	\$2.59
Calabasas/Westlake Village	205	7,557,769	1,347,106	17.82%	-213,395	0	\$2.17
Eastern SFV	583	8,951,072	697,253	7.79%	-85,584	0	\$1.87
Encino	83	4,756,810	530,691	11.16%	-90,427	0	\$2.46
Glendale	677	12,370,486	1,654,872	13.38%	-130,998	31,760	\$2.49
North Hollywood	307	3,352,086	209,640	6.25%	79,910	187,400	\$2.27
Santa Clarita Valley	203	4,702,804	751,378	15.98%	127,691	203,517	\$2.55
Sherman Oaks	130	3,814,638	465,744	12.21%	-131,550	0	\$2.48
Studio/Universal Cities	284	4,735,361	269,176	5.68%	-59,794	0	\$2.54
Tarzana	78	1,648,496	158,090	9.59%	-16,423	0	\$2.10
Thousand Oaks/SE County	305	6,978,100	1,126,503	16.14%	-171,490	0	\$2.24
Western SFV	379	7,179,728	1,258,942	17.53%	-161,044	0	\$2.02
Woodland Hills/Warner	223	10,634,225	1,858,911	17.48%	-367,940	0	\$2.26
Totals	4,006	90,758,376	11,975,902	13.20%	-1,262,605	504,677	\$2.31

Vacancy

The overall office vacancy rate in the Los Angeles North market area increased to 13.20% at the end of the third quarter 2009, compared to 12.28% the previous quarter. The Calabasas/Westlake Village market had the region's highest vacancy rate of 17.82%, followed by the Western San Fernando Valley market with 17.53%, and the Woodland Hills/Warner Center market at 17.48%. Studio/Universal Cities had the region's lowest vacancy rate of 5.68%, followed by North Hollywood at 6.25% and the Eastern San Fernando Valley at 7.79%.

Rental Rates

The average quoted asking rental rate for available office space, all classes, dropped to \$2.31 per square foot at the end of the third quarter 2009 in the Los Angeles North market. The average quoted rate within the Class A sector was \$2.46 per square foot, with Class B rates at \$2.18 per square foot, and Class C rates at \$2.05 per square foot. Burbank had the highest average asking rate of \$2.59 per square foot, while the Eastern San Fernando Valley had the lowest rate at \$1.87 per square foot.

Construction

There were 504,677 square feet of office space under construction at the end of the third quarter 2009. New major developments include the NoHo Commons at 5250 Lankershim Blvd. in North Hollywood containing 180,000 square feet which is 32.7% pre-leased, LNR Entrada Gateway Center at 27770 N. Entertainment Drive in Santa Clarita containing 100,000 square feet, and the Santa Clarita Professional Center at 17901 Soledad Canyon Road containing 100,217 square feet, both of which are 0% pre-leased.

Los Angeles North Top Office Leases

Address	Tenant	SF
6300 Canoga Ave., Woodland Hills	Blue Shield (renewal)	115,000
2350 Empire Ave., Burbank	Deluxe Digital Studios (renewal)	65,235
One Baxter Way, Thousand Oaks	State Farm Mutual Automobile Insurance	58,751
2777 N. Ontario Street, Burbank	Preferred Media	46,934
30699 Russell Ranch Road, Westlake Village	ValueClick	36,500
30721 Russell Ranch Road, Westlake Village	iPayment	31,665

Sales Activity

Total office building sales activity in the second quarter 2009 fell dramatically compared to the first quarter 2009 in terms of dollar volume, and 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 in the second quarter 2009 was the sale by Arden Realty Inc. of the 26010 Mureau Road Building in Calabasas to Kasower Properties LLC on April 27, 2009. This 36,660 square foot office building sold for \$7,000,000 or \$190.94 per square foot.



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