



Office Market Update Greater Los Angeles

SECOND QUARTER 2009

Overview

Numerous lay-offs continued in the second quarter 2009 throughout the Greater Los Angeles market and an economic forecast just released by the Los Angeles Economic Development Corp. projects that Los Angeles County will lose 168,000 jobs to the recession this year. Much of the second quarter's leasing activities consisted of short-term renewals, virtually no expansion and very few new leases being signed. With tenant improvement allowances remaining difficult to fund, many landlords are offering more free rent, which in turn causes net effective rents to decline further. Capital markets activity remained weak as lenders continued to exercise caution, maintaining strict lending standards with lower loan-to-value ratios still being the norm.

Absorption

Net absorption for the Greater Los Angeles office market was negative (1,351,725) square feet in the second quarter 2009, compared to a negative (2,847,034) in the first quarter 2009. The Class-A office market recorded net absorption of negative (802,055) square feet, Class-B was negative (257,952) square feet, and Class-C was negative (291,718) 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	311	3,585,484	421,614	11.8%	22,683	78,000	\$2.25
Burbank/Glendale/Pasadena	2,846	55,607,013	5,000,764	9.0%	-356,892	1,157,485	\$2.58
Downtown Los Angeles	649	68,804,202	6,970,677	10.1%	-16,586	0	\$2.51
Mid-Cities	778	9,338,925	610,506	6.5%	35,733	105,500	\$1.97
Mid-Wilshire	1,555	41,240,698	3,567,289	8.6%	-726,845	529,952	\$2.77
San Fernando Valley	1,468	37,108,534	4,693,479	12.6%	-594,237	0	\$2.20
San Gabriel Valley	1,661	28,054,177	2,833,836	10.1%	-334,144	21,000	\$1.96
Santa Clarita Valley	201	4,680,896	893,791	19.1%	-14,722	303,517	\$2.61
South Bay	2,131	61,103,225	7,947,983	13.0%	-576,456	44,562	\$2.00
Southeast Los Angeles	456	7,883,610	591,943	7.5%	23,040	0	\$1.97
Ventura North	826	7,301,915	819,043	11.2%	35,515	0	\$1.97
Ventura South	1,026	21,615,682	3,457,794	16.0%	-313,694	135,180	\$2.18
West Los Angeles	2,402	73,634,494	8,007,724	10.9%	-1,382,154	1,433,112	\$3.43
Totals	16,310	419,958,855	45,816,443	10.9%	-4,198,759	3,808,308	\$2.51

Vacancy

The overall office vacancy rate in the Greater Los Angeles market area increased to 10.9% at the end of the second quarter 2009, compared to 10.5% at the end of the first quarter 2009 and 8.7% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 19.1%, followed by Ventura South at 16.0%, and the South Bay at 13.0%. The Mid-Cities market had the lowest vacancy rate of 6.5% followed by Southeast Los Angeles with 7.5% and the Mid-Wilshire market with 8.6%.

Rental Rates

The average quoted asking rental rate for available office space, all classes dropped to \$2.51 per square foot at the end of the second quarter 2009 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.80 at the end of the first quarter, while Class-B rates stood at \$2.22, and Class-C rates at \$2.03. West Los Angeles had the highest asking rate of \$3.43 per square foot, while the San Gabriel Valley market had the lowest asking rate at \$1.96 per square foot.

Construction

During the second quarter 2009, 20 buildings totaling 640,932 square feet were completed in the Greater Los Angeles market and there were 3,808,308 square feet of office space under construction. The largest projects underway were The Point – Phase I, a 479,084-square-foot building in Burbank with 0% of its space pre-leased, and the Horizon at Playa Vista – Bldgs. 1 & 2, containing 459,917 square feet, that were 80% pre-leased to Fox Interactive Media, however Fox has recently decided not to occupy the new buildings.

Los Angeles Top Office Leases

Address	Tenant	SF
8500 Balboa Blvd., Northridge	Harman International (renewal)	243,000
25129 Rye Canyon Loop, Santa Clarita	Boston Scientific Corporation	160,270
28515 Westinghouse Place, Santa Clarita	Advanced Bionics LLC	146,385
5757 Wilshire Blvd., Miracle Mile	Screen Actors Guild	96,000
450 N. Brand Blvd., Glendale	Dine Equity (renewal)	69,068
2233 N. Ontario Street, Burbank	Macrovision	61,732

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures rose during the first quarter 2009 in terms of dollar volume compared to the fourth quarter 2008. In the first quarter, 10 office transactions closed with a total volume of \$355,316,000. The 10 buildings totaled 1,042,011 square feet and the average price equated to \$340.99 per square foot. That compares to 16 transactions totaling \$226,653,760 in the fourth quarter 2008. Cap rates have stabilized in 2009, averaging 5.99% compared to the same period in 2008 when they averaged 6.0%. The largest transaction that occurred within the first quarter 2009 was the sale by Greenwich Capital Financial Products of the 10 Universal City Plaza Building in Universal City to Normandy Real Estate Partners. The building containing 774,240 square feet was sold on 3/31/09 for \$304,800,000 or \$393.68 per square foot.



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