



Office Market Update Greater Los Angeles

THIRD QUARTER 2008

Overview

The financial crisis and the resulting economic slowdown has impacted the Greater Los Angeles market as vacancy rates have increased for the fourth consecutive quarter. Negative net absorption continued in the third quarter 2008, as sublease space poured onto the market from subprime lenders and other residential real estate related companies. Landlords were able to keep office rents up by offering other incentives such as generous improvement allowances and reduced parking rates but as vacancies continue to rise, rents will eventually start to come down. The investment market will continue to suffer in the months ahead as lenders exercise extreme caution on new loans.

Absorption

Net absorption for the overall Los Angeles office market was negative (1,134,004) square feet in the third quarter 2008, compared to a negative (1,834,674) in the second quarter 2008. The Class-A office market recorded net absorption of negative (327,839) square feet, Class-B was negative (443,272) square feet, and Class-C was negative (362,893) 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	2,584	52,981,048	3,745,076	7.1%	-582,803	1,370,695	\$2.75
Downtown Los Angeles	639	68,574,407	6,899,588	10.1%	-236,595	100,000	\$2.59
Mid-Cities	716	9,089,627	720,294	7.9%	-95,801	126,497	\$2.04
Mid-Wilshire	1,537	41,009,075	2,631,160	6.4%	-541,563	682,076	\$2.96
San Fernando Valley	1,422	37,149,499	3,639,820	9.8%	-467,835	0	\$2.35
San Gabriel Valley	1,394	27,053,479	1,832,313	6.8%	-465,508	187,789	\$2.08
Santa Clarita Valley	181	4,507,281	815,386	18.1%	-102,483	178,300	\$2.68
South Bay	1,998	60,888,556	7,088,366	11.6%	-532,693	16,590	\$2.02
Southeast Los Angeles	427	8,086,907	629,403	7.8%	-99,508	0	\$1.96
Ventura North	674	6,325,816	778,645	12.3%	-246,044	108,604	\$1.89
Ventura South	907	20,326,596	2,779,849	13.7%	-463,329	405,360	\$2.40
West Los Angeles	2,319	72,532,433	5,813,110	8.0%	-282,298	887,786	\$3.84
Totals	14,798	408,524,724	37,373,010	9.1%	-4,116,460	4,063,697	\$2.65

Vacancy

The overall office vacancy rate in the Los Angeles market area was up and stood at 9.1% at the end of the third quarter 2008, compared to 8.6% at the end of the second quarter 2008 and 7.5% a year ago. The Santa Clarita Valley had the region's highest vacancy rate of 18.1%, followed by Ventura South at 13.7%, and Ventura North at 12.3%. The Mid-Wilshire market had the lowest vacancy rate of 6.4% followed by the San Gabriel Valley with 6.8% and the Burbank/Glendale/Pasadena market with 7.1%.

Rental Rates

The average quoted asking rental rate for available office space, all classes rose slightly to \$2.65 per square foot at the end of the third quarter 2008 in the Greater Los Angeles area. The average quoted rate within the Class-A sector was \$2.95 at the end of the third quarter 2008, while Class-B rates stood at \$2.31, and Class-C rates at \$2.19. West Los Angeles had the highest asking rate of \$3.84 per square foot, while the Ventura North market had the lowest asking rate at \$1.89 per square foot.

Construction

During the third quarter 2008, 52 buildings totaling 1,190,583 square feet were completed in the Los Angeles market area and there were 4,063,697 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
13031 W. Jefferson Blvd., Marina/Culver City	Rubin Postaer and Associates	392,000
1200 W. Seventh Street, Greater Downtown	City of Los Angeles Dept. Of Housing (renewal)	170,000
21515 Burbank Blvd., Woodland Hills	Intuit, Inc.	167,430
2450 Colorado Blvd., Santa Monica	Foothill Capital Corporation (renewal)	132,000
10 Universal City Plaza, Universal City	Vivendi Universal Entertainment	107,696
333 S. Hope Street, Greater Downtown	Heller Ehrman LLP	77,674

Sales Activity

Tallying office building sales of 15,000 square feet or larger, Los Angeles office sales figures fell during the second quarter 2008 in terms of dollar volume compared to the first quarter 2008. In the second quarter, 24 office transactions closed with a total volume of \$722,897,000. The 24 buildings totaled 2,588,497 square feet and the average price equated to \$279.27 per square foot. That compares to 27 transactions totaling \$1,253,449,673 in the first quarter 2008. 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 within the second quarter 2008 was the sale of 2 class A buildings in Culver City by Arden Realty, Inc. to Transwestern Corporate Pointe. The two buildings containing 440,989 square feet were sold on 6/19/08 for \$121,000,000 or \$274.38 per square foot.



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