Greater Los Angeles Office
MarketView

Q1 2013 | CBRE Global Research and Consulting

VACANCY RATE	NET ABSORPTION	CONSTRUCTION	LEASE RATE	UNEMPLOYMENT
17.4%	-389,000 SF	415,000 SF	$2.48 FSG	10.3%

*Arrows indicate change from previous quarter

TECHNOLOGY AND ENTERTAINMENT COMPANIES ARE LEADING THE WAY TOWARDS RECOVERY IN THE LOS ANGELES OFFICE MARKET

LEADING INDUSTRY SECTORS

Markets with a higher concentration of High Tech, Education and Health Care companies are experiencing stronger recovery than the overall market. Submarkets such as Marina Del Rey, Beverly Hills and Santa Monica are experiencing solid net absorption figures and declining vacancy rates.

ABSORPTION STARTS NEGATIVE

The Greater Los Angeles office market recorded 389,457 sq. ft. of negative absorption. A total of 485,841 sq. ft. of negative net absorption was mainly derived from an aerospace and defense contractor vacating the South Bay submarket.

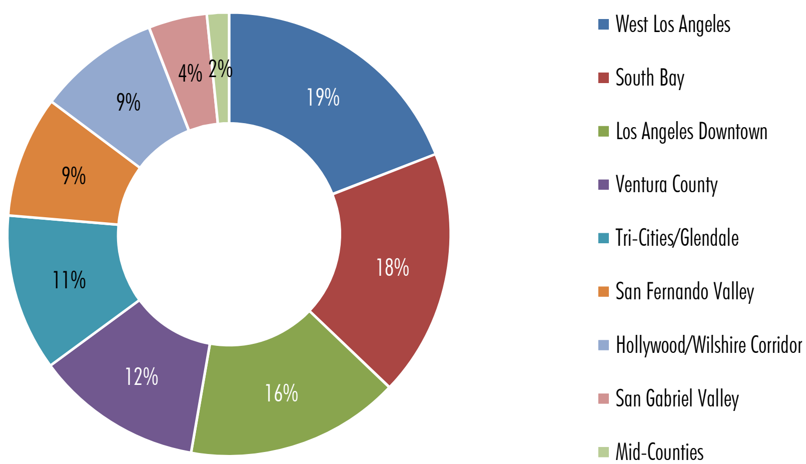
ECONOMIC OUTLOOK

The forecast for Greater Los Angeles calls for a decrease in overall unemployment levels during the next two years, but at a slow and measured pace. Total employment is expected to experience a modest 1.2% growth rate in 2013 followed by a stronger 2.3% in 2014.

ASKING LEASE RATES LEVEL

After eight consecutive quarters of rising lease rates, the Greater Los Angeles office market recorded an average asking lease rate of $2.48 FSG per sq. ft. in the first quarter of 2013, a small decline from the 2012 year-end asking lease rate of $2.49 FSG per sq. ft.

Chart 1: Vacant Space Distribution



After eight straight quarters of positive year-to-date net absorption, the Greater Los Angeles office market experienced an increase in vacancy and negative net absorption during the first quarter of 2013. While this sluggish start might be seen as a hiccup by some, it is merely part of the slow recovery process as conditions improve.

Market fundamentals, while still a bit soft, are projected to rebound as the economy continues to strengthen. During the past few months, jobless claims have decreased, consumer confidence has strengthened and overall employment has grown. The overall consensus is that the commercial real estate industry has rebounded past its low point and is growing consistently with the economy.

During the first quarter, companies with flexibility continued to analyze the market and take advantage of favorable market conditions. With the Los Angeles market still recording historically high vacancy rates, it is a great time to utilize attractive lease opportunities. However, tenant demand is expected to increase over the next two to three quarters which will result in the slow decline of vacancy rates.

Forecasts call for an increase in employment at a 1.2% growth rate in 2013 followed by a healthier 2.3% growth rate in 2014. The largest employment gains are expected to be found in Health Care, Education and Technology, historically strong industries in the Los Angeles market. Submarkets that hold strong demand from these sectors have already shown the greatest economic rebound.

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Overall asking lease rates in Greater Los Angeles flattened out in the first quarter of 2013 after slowly rising continually during the past eight quarters. The average asking lease rate was $2.48 FSG per sq. ft. at the end of the first quarter, up 100 basis points from the same time last year. This represented an annual growth rate of 4.2%. The rate has climbed approximately 5.5% from its lowest point post-recession. However, it is still considerably lower than the pre-recession high of $2.84 FSG per sq. ft., 14.0% higher than the current rate. The CBRE Econometric Advisors rent forecast calls for additional increases in 2013 and 2014, averaging between 2% and 3% per year.

First quarter net absorption levels in Greater Los Angeles, while negative, were fairly solid as the majority of the negative activity came from the South Bay region. Greater Los Angeles recorded 389,457 sq. ft. of negative absorption during the quarter, down compared to the 110,770 sq. ft. of positive net absorption recorded during the same period last year. However, first quarter net absorption was slightly better than the 987,896 sq. ft. of negative activity recorded in fourth quarter 2012, which posted its first negative figure since early 2011.

As a result, the overall vacancy rate in Greater Los Angeles was 17.4% at the end of first quarter 2013. This rate was relatively flat compared to last quarter, but has decreased by 40 basis point compared to the first quarter 2012 rate of 17.8%. The direct vacancy rate ended the first quarter at 16.6% and has hovered between 16% and 17% for the past 12 quarters. Although the market is continuing to recover at a slow and measured pace, the direct vacancy rate is still well above the pre-recession low of 8.9% in 2006/2007.

Office projects under construction total approximately 415,000 sq. ft. in Greater Los Angeles, similar to that of the 2012 year-end. This is considerably lower than 2008 when the market witnessed 4.7 million sq. ft. of development activity. All of the new construction is occurring in West Los Angeles as the only project under construction is located in West Hollywood and includes two Class A office buildings totaling 415,000 sq. ft.

The Downtown submarket, while experiencing less activity than most suburban areas, has seen moderate growth in its Class B market. The asking lease rate for Class B office space is approximately $2.41 FSG per sq. ft., an increase of roughly 12% over the past eight quarters. This demand has been driven by creative office users looking for space in historical low rise buildings that still benefit from downtown's public transportation and large amenity base. Class A office space, traditionally occupied by the financial, legal and assurance services has seen little demand.

Chart 2: Unemployment Rate (%)

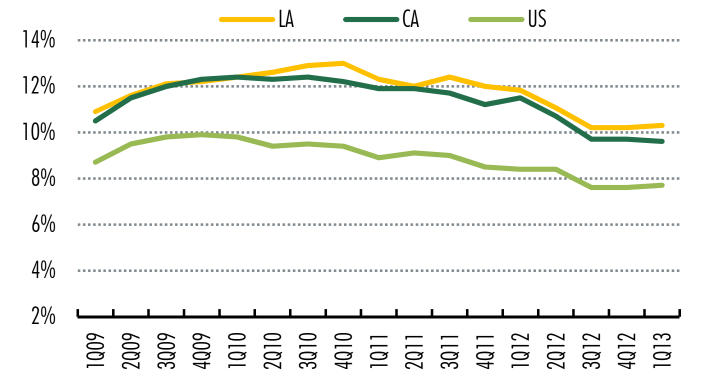

Chart 3: Year-Over-Year Job Growth (%)

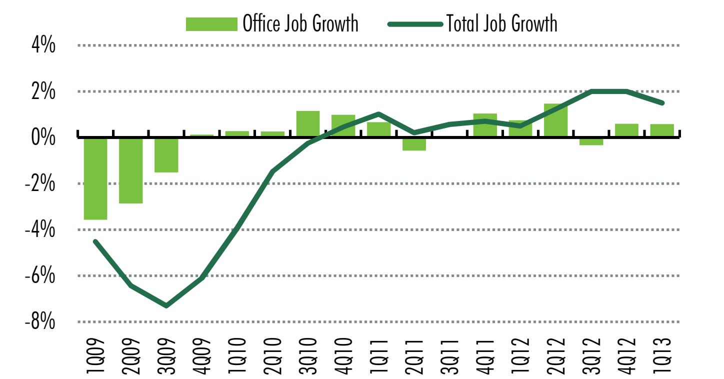

Chart 4: Asking Lease Rate ($PSF/MO/FSG)

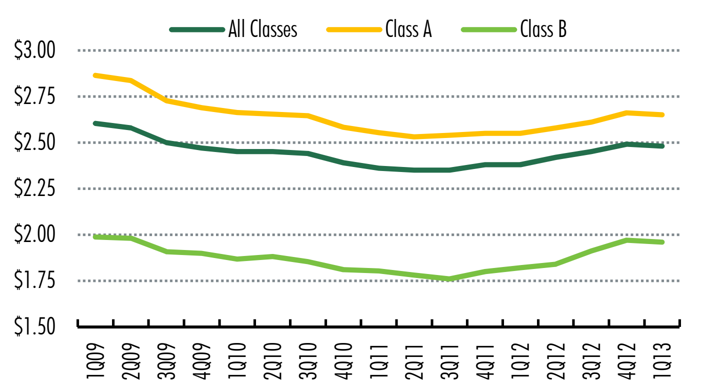

Chart 5: Year-Over-Year Rent Growth (All Classes)

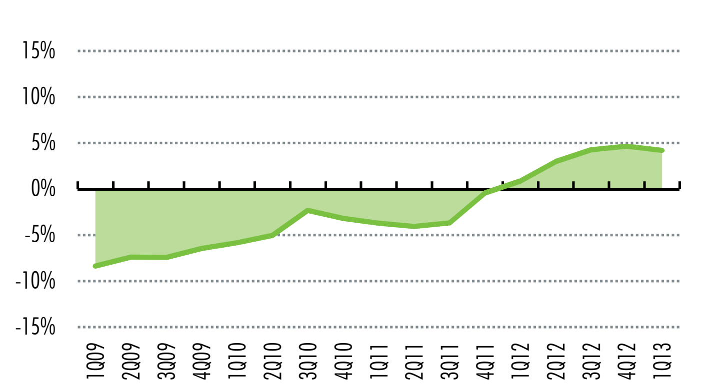

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Chart 6: Overall Vacancy Rate (%)

Chart 7: Vacancy Rate by Class

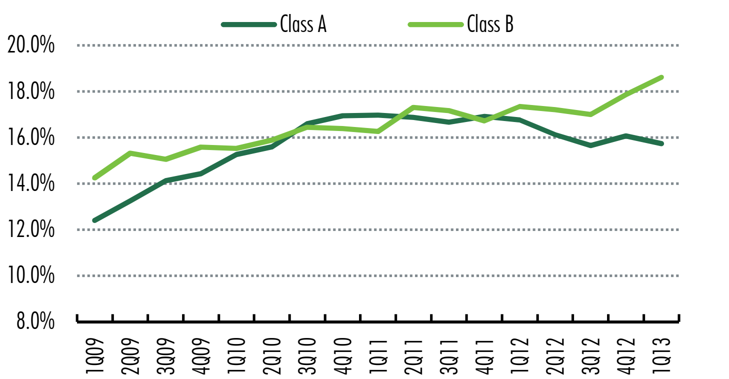


Chart 8: Net Absorption

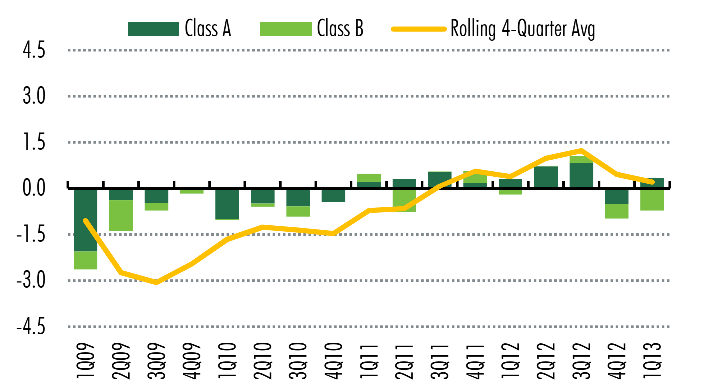
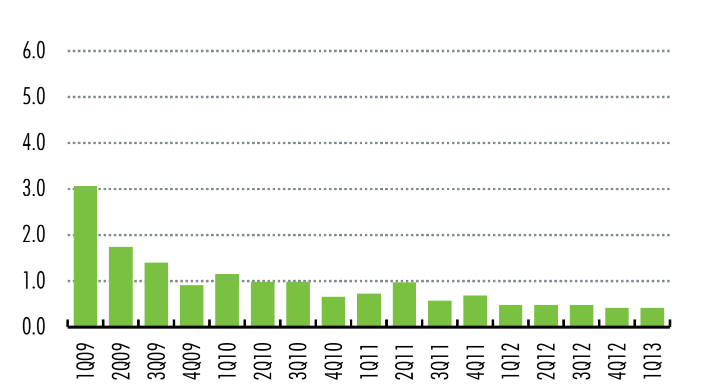


Chart 9: Under Construction (Million SF)



The Class A asking lease rate has been hovering between $2.80 and $2.90 FSG per sq. ft. for the past three years. As the market continues to develop in 2013, one potential impact on asking lease rates downtown is that MPG Office Trust, the largest owner in downtown, has listed their portfolio for sale; this could have a strong effect on lease rates if purchased by multiple entities.

The South Bay submarket, which recorded the highest negative net absorption figures of any suburban area at 485,841 sq. ft. has remained relatively consistent during the past couple years, with a vacancy rate near 20%. High vacancy figures have been primarily due to the large aerospace and defense contractors vacating the submarket. This has left a surplus of large vacancies in an area with little demand from industries that could accommodate these large blocks of space. However, this surplus has had little to no effect on smaller creative office space that has seen a recent spike in demand. The average asking lease rate is between $2.00 and $2.05 FSG per sq. ft., while smaller, more creative office buildings are achieving rents between $2.30 and $2.35 FSG per sq. ft. As we continue to see large aerospace and defense companies lessen their footprint, we suspect the South Bay submarket will continue to grow as a secondary creative office market.

In West Los Angeles, the submarket continues to capitalize on its high demand for creative office space. Recording the highest positive net absorption of any submarket at 213,405 sq. ft., West Los Angeles has logged positive net absorption for the past four quarters. Asking lease rates are $3.44 FSG per sq. ft., the highest they have been in the last 10 quarters and 38% higher than the Great Los Angeles average asking lease rate. Overall vacancy was recorded at 14.8%, a drop in 70 basis points over the past five quarters. With a proven track record of positive net absorption and decreased vacancy, landlords have begun to tighten concession packages and increase asking rental rates. If West Los Angeles continues to see a large demand from users requesting a creative office environment, rental rates are projected to continually increase in 2013 and into 2014.

In the San Fernando Valley, particularly in the Central Valley, Sherman Oaks and Encino are outperforming most other major market areas with a 12.0% and 12.5% overall vacancy rate, respectively. The rest of the major markets ended the year with an overall vacancy rate between 15% and 25%. The San Fernando Valley recorded the second highest positive net absorption of any suburban submarket at 93,374 sq. ft. In Tri-Cities, Pasadena, with its more diverse tenant base, is outperforming the rest with an 11.6% overall vacancy rate compared to Glendale at 19.2% and Burbank at 19.5%. The Tri-Cities submarket recorded negative net absorption of 23,417 sq. ft. in the first quarter of 2013 after it placed more than 680,000 sq. ft. back on the market during the fourth quarter, primarily due to Disney moving out of approximately 640,000 sq. ft. and into one of its owner-user buildings.

Chart 10: Market Statistics

Submarket	Building SF	Direct Vacancy %	Overall Vacancy %	Current Net Absorption	YTD Net Absorption	Under Construction	Construction Deliveries	Avg Asking Lease Rate
Tri-Cities/Glendale	26,609,945	15.4%	16.1%	(23,417)	(23,417)	0	0	$2.74
Los Angeles Downtown	31,125,339	18.2%	18.8%	29,847	29,847	0	0	$2.87
Hollywood/Wilshire Corridor	19,004,547	17.2%	17.6%	(31,171)	(31,171)	0	0	$2.01
San Fernando Valley	20,664,273	15.8%	16.1%	93,374	93,374	0	0	$2.18
San Gabriel Valley	13,490,628	11.6%	11.9%	(53,742)	(53,742)	0	0	$1.90
Mid-Counties	5,990,135	9.9%	10.0%	108,039	108,039	0	0	$1.82
South Bay	31,127,476	21.4%	21.7%	(485,841)	(485,841)	0	0	$2.02
West Los Angeles	48,557,715	13.2%	14.8%	213,405	213,405	415,084	0	$3.44
Los Angeles County	196,570,058	16.1%	16.8%	(149,506)	(149,506)	415,084	0	$2.58
Ventura County	18,517,523	22.7%	24.7%	(239,951)	(239,951)	0	0	$2.14
Greater Los Angeles Area	215,087,581	16.6%	17.4%	(389,457)	(389,457)	415,084	0	$2.48

Chart 11: Key Transactions

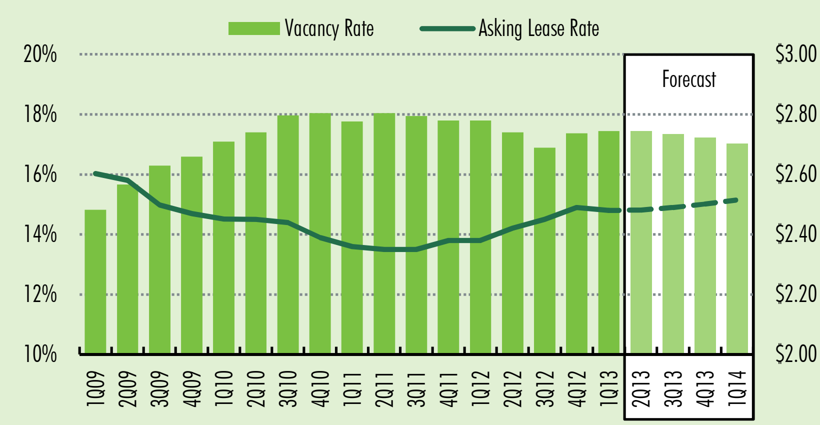
Occupier	Industry Sector	Location	SF Leased
Regal Medical*	Medical/Healthcare	San Fernando Valley	96,848
Wells Fargo Bank*	Banking/Financial	Downtown	91,853
Beats By Dre	Electronics	Culver City	66,400
AIG*	Insurance/Real Estate	Downtown	50,637
Discovery Channel*	Media	Century City	49,338

* Renewal

Chart 12: Market Outlook

Los Angeles is a dynamic market with a diverse tenant mix. The convergence of entertainment, technology and media, along with the high quality of life, will continue to make Los Angeles an attractive place for investors and companies looking to relocate. Projections call for steady growth during the next 12 months. The Los Angeles forecast is for rents to grow moderately in the region as a result of elevated vacancy and weak demand trends. However, there are selective submarkets, such as Santa Monica and Beverly Hills, that are expected to perform better than others.

12-MONTH FORECAST



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