

## Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



DOWN

Transactions



DOWN

Deliveries



DOWN

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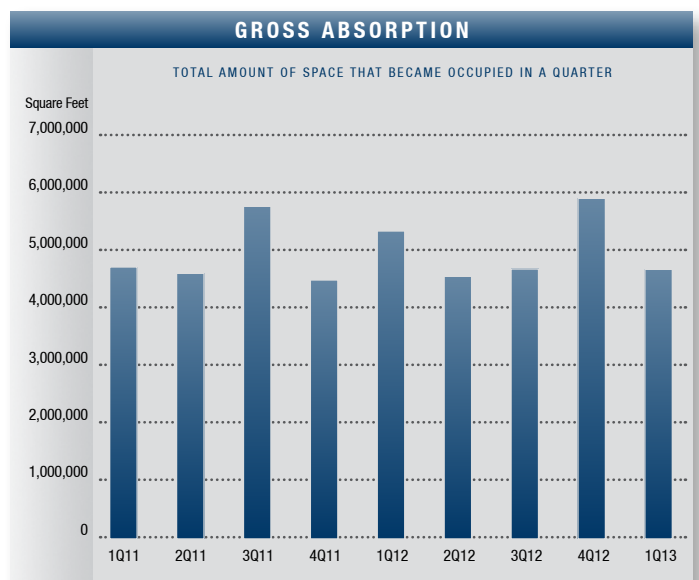
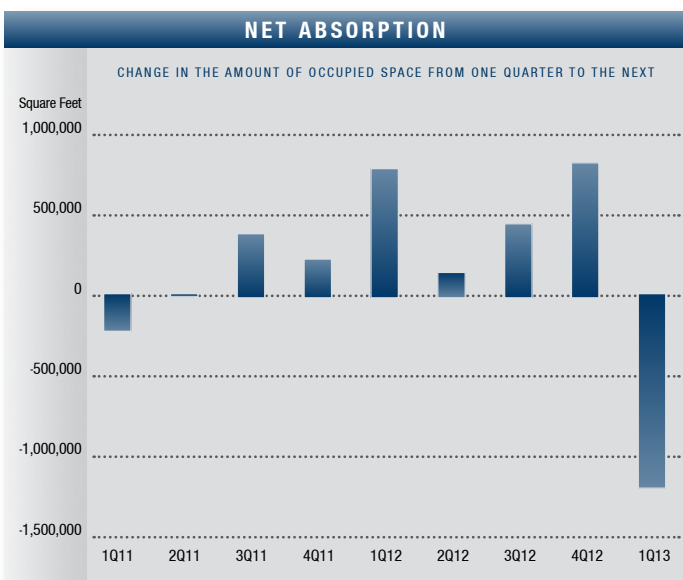
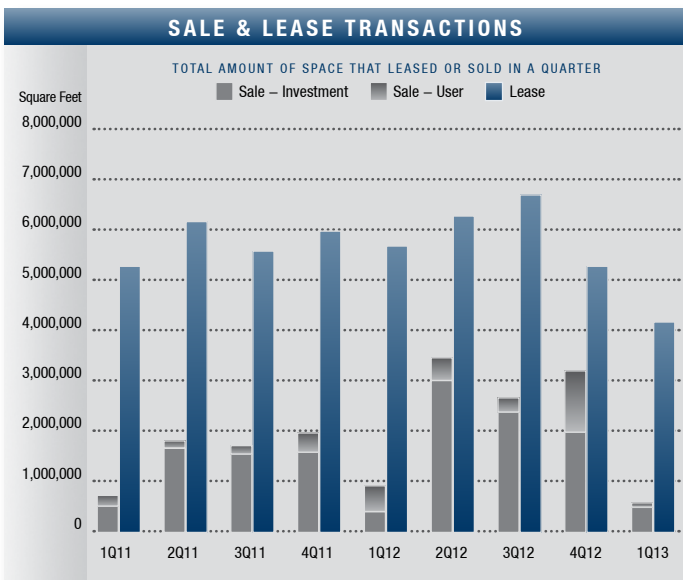
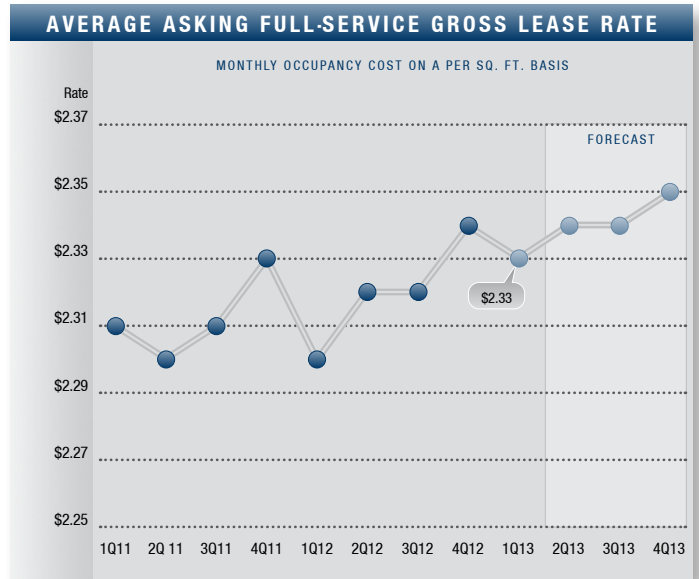
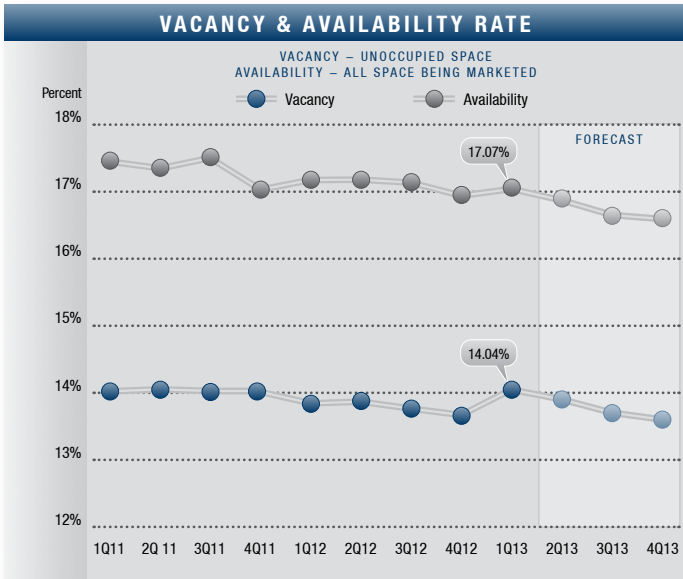
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### Market Highlights

- Mixed Signals** - The Los Angeles office market showed mixed signals in the first quarter of 2013. Vacancy and availability increased in the first quarter, and lease rates drop by one cent compared to the previous quarter but rose three cents from last year. Net absorption posted a negative figure of approximately 1.2 million square feet for the start of 2013. While these are generally negative indications, they can be considered just a bump on the road to recovery.
- Construction** - Total space under construction came in at just under 1.6 million square feet for the first quarter of 2013, mostly Class A space. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.04%, a slight 1.52% increase from 2012's first quarter. We are forecasting that vacancy will continue its overall gradual descent in 2013, ending the year at around 13.60%.
- Availability** - Direct/sublease space being marketed was at 17.07% at the end of the first quarter of 2013 — 0.70% decrease when compared to 2012's first quarter rate of 17.19% but slightly higher than 2012's fourth quarter rate of 16.95%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.33 at the end of the quarter — one cent lower than the previous quarter but three cents higher than the same quarter last year. The record high rate of \$2.74 was established in the third quarter of 2008. Class A asking rates for the county averaged \$2.48 FSG — the highest being in the West Los Angeles submarket, where rates averaged \$3.31 FSG. We are forecasting that rates will continue to stabilize and increase in 2013.
- Absorption** - The Los Angeles office market posted a negative 1.2 million square feet of net absorption to start 2013, giving the Los Angeles office market a total of over 1.6 million square feet of positive absorption over the last seven quarters. Look for high-tech, education, entertainment, and alternative-energy companies to lead the increase of positive absorption over the next few years.
- Transaction Activity** - Leasing activity checked in at just over 4.1 million square feet for the first quarter of 2013, a decrease from the 5.6 million square feet seen in the same quarter of 2012. Sales activity showed a decrease as well, posting 550,000 square feet for first quarter of 2013 compared to the 880,000 square feet transacted in the first quarter of 2012. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in Los Angeles County was 10.3% in February 2013 — down from a revised 10.4% in January 2013 and below the previous year's estimate of 11.4%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw the largest year-over-year growth in more than ten years, a net increase of 89,400 payroll jobs from February 2012 to February 2013. The largest gains were 25,300 in professional & business services and 21,000 in leisure & hospitality trade; Los Angeles County's only loss was 9,600 government jobs during that same period.
- Overall** - The Los Angeles office market is still finding its footing. Overall, we are beginning to see the amount of available space being added per quarter level off and decrease. As we continue into 2013, positive absorption should begin again, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee a continued increase in investment activity in the coming quarters. Lease rates should continue to firm up with the possibilities of increasing in the later half of 2013. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the office market should gain traction and recover.

### OFFICE MARKET OVERVIEW

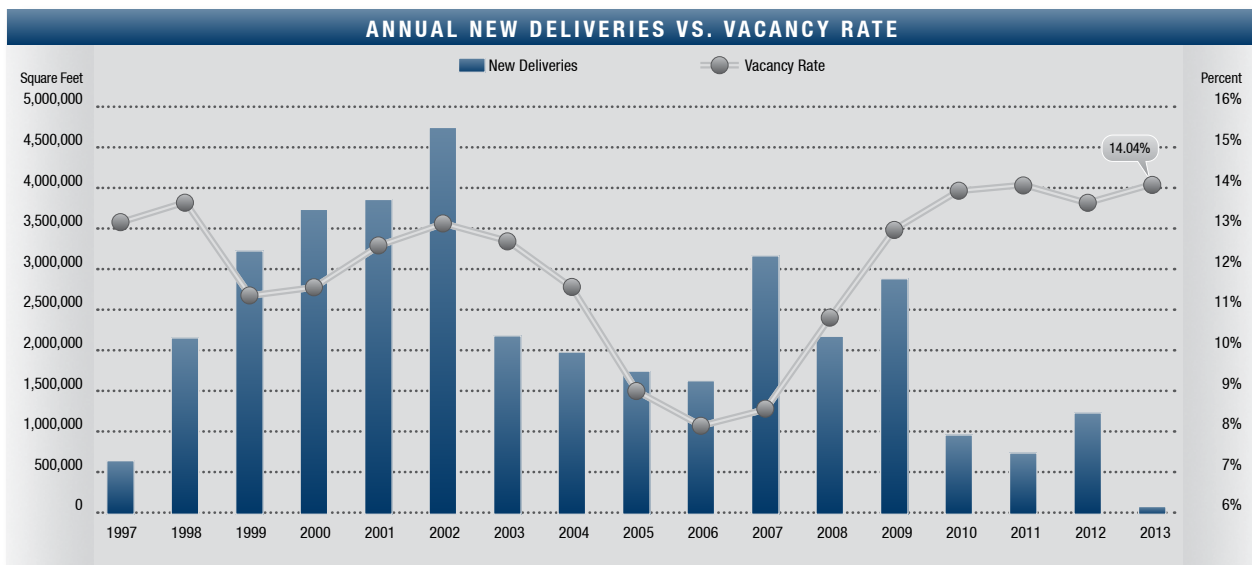
	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	14.04%	13.66%	13.83%	1.52%
Availability Rate	17.07%	16.95%	17.19%	(0.70%)
Average Asking Lease Rate	\$2.33	\$2.34	\$2.30	1.30%
Sale & Lease Transactions	4,671,993	8,403,724	6,522,129	(28.37%)
Gross Absorption	4,617,479	5,870,548	5,338,276	(13.50%)
Net Absorption	(1,196,238)	810,247	793,031	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
<b>Los Angeles Market Total</b>													
Antelope Valley	31	1,414,177	0	180,000	215,729	15.25%	193,798	13.70%	\$2.59	(10,098)	(4,706)	6,675	29,324
Burbank/Glendale/Pasadena	434	39,063,803	41,200	865,500	5,332,301	13.65%	6,520,797	16.69%	\$2.68	(519,714)	899,855	593,644	2,973,337
Downtown	313	65,208,371	0	1,755,921	8,535,384	13.09%	10,991,233	16.86%	\$2.15	(24,791)	(556,002)	647,069	2,202,756
Mid-Cities	73	4,524,641	0	340,652	368,092	8.14%	471,454	10.42%	\$1.91	34,426	84,748	94,340	330,618
Mid-Wilshire	307	30,332,571	513,619	777,601	4,343,326	14.32%	5,421,046	17.87%	\$2.02	(145,158)	(21,247)	407,700	1,655,183
San Fernando Valley	345	27,005,843	0	609,098	3,744,712	13.87%	4,365,895	16.17%	\$2.11	97,017	503,370	610,176	2,041,091
San Gabriel Valley	295	18,953,320	0	1,253,146	1,857,689	9.80%	2,413,248	12.73%	\$1.98	65,999	65,165	231,973	927,039
Santa Clarita Valley	58	3,484,184	102,113	346,814	515,376	14.79%	637,678	18.30%	\$2.39	829	213,066	70,206	374,592
South Bay	496	49,974,269	936,560	2,107,415	8,838,956	17.69%	9,724,085	19.46%	\$2.01	(636,528)	64,719	508,886	2,831,928
Southeast LA	87	5,328,144	0	170,000	499,994	9.38%	743,513	13.95%	\$1.84	(9,627)	(49,475)	23,299	120,477
Ventura North	66	3,680,178	0	103,234	326,138	8.86%	719,155	19.54%	\$1.86	14,180	129,504	46,852	436,299
Ventura South	248	15,606,138	0	820,012	2,700,704	17.31%	3,204,430	20.53%	\$2.06	71,416	179,608	231,124	1,140,389
West LA	565	61,129,192	0	1,646,472	8,445,342	13.82%	10,180,100	16.65%	\$3.31	(134,189)	707,219	1,145,535	4,806,994
<b>Los Angeles Market Total</b>	<b>3,318</b>	<b>325,704,831</b>	<b>1,593,492</b>	<b>10,975,865</b>	<b>45,723,743</b>	<b>14.04%</b>	<b>55,586,432</b>	<b>17.07%</b>	<b>\$2.33</b>	<b>(1,196,238)</b>	<b>2,215,824</b>	<b>4,617,479</b>	<b>19,870,027</b>

Class A	995	181,375,071	1,160,732	892,134	28,824,957	15.89%	34,473,481	19.01%	\$2.48	(850,826)	1,839,348	2,920,518	12,395,479
Class B	1,840	117,238,603	432,760	205,452	15,334,717	13.08%	19,023,753	16.23%	\$1.97	(254,004)	480,610	1,511,278	6,813,422
Class C	483	27,091,157	0	0	1,564,069	5.77%	2,089,198	7.71%	\$1.83	(91,408)	(104,134)	185,683	661,126
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This survey consists of properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



## RECENT TRANSACTIONS

## Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
8401-8511 Fallbrook Ave. – 10 Properties	San Fernando Valley	B	987,428	\$92.46	Brookfield Office Properties, Inc.	MEPT West Hills, LLC
11355-11377 W. Olympic Blvd. – 2 Properties	West Los Angeles	A	336,285	\$455.15	Northwood Acquisitions, LLC	MCC/I&G Trident Center
9107-9111 Wilshire Blvd. - 2 Properties	West Los Angeles	A	118,477	\$116.06	Charles Company	Gibraltar Asset Management
9440 Santa Monica Blvd.	West Los Angeles	A	87,596	\$279.69	Maxxam Enterprises	Real Estate Capital Partners
2832 E. Foothill Blvd. - 6 Properties	Burbank/Glendale/Pasadena	B	55,120	\$157.84	950 N Highland, LLC	Wohl Property Group

## Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9350 Flair Dr. - Renewal	San Gabriel Valley	A	73,800	Mar-13	Internal Revenue Services	Multi-Investment Associates GP
3300 W. Riverside Dr.	Burbank/Glendale/Pasadena	B	55,550	Mar-13	New York Film Academy	Centurion Real Estate Partners
2711-2717 Winona Ave. - Renewal	Burbank/Glendale/Pasadena	B	48,000	Mar-13	BRC Imagination Arts	Louis Obradovich Heirs' Trust
12181 Bluff Creek Dr.	West LA	A	46,643	Jan-13	the Rubicon Project	Horizon PH 1 Office Holdings, LLC
5700 Wilshire Blvd.	Mid-Wilshire	A	45,000	Jan-13	Katz Media	Tishman Speyer

## Product Type

## CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

## CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

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