

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

DOWN

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Market Highlights

- Encouraging Numbers** - The Los Angeles office market continued on the slow path to recovery in the second quarter of 2013. Vacancy and availability slightly decreased in the second quarter, and net absorption posted a positive figure of over 430,000 square feet for the second quarter of 2013. While these are positive indications, employment and overall economic stability will need to be sustained in coming quarters for the Los Angeles office market to continue to regain equilibrium.
- Construction** - Total space under construction came in at just over 1.2 million square feet for the second 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 14.12%, a slight 1.15% increase the previous year's rate but a decrease of 11 basis points from 2013'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 17.15% at the end of the second quarter of 2013 — 0.58% decrease when compared to 2012's second quarter rate of 17.25% and an even greater decrease compared to 2013's first quarter rate of 17.38%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.32 at the end of the quarter — one cent lower than the previous quarter and the same as the second quarter of last year, demonstrating slight fluctuation on the road to stability. 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 \$3.32 FSG. We are forecasting that rates will continue to stabilize and increase in 2013.
- Absorption** - The Los Angeles office market posted a positive 431,536 square feet of net absorption for the quarter, giving the Los Angeles office market a total of over 1.85 million square feet of positive absorption over the last eight 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 3.6 million square feet for the second quarter of 2013, a decrease from both the previous quarter's 4.9 million square feet and the 6.2 million square feet seen in the same quarter of 2012. Sales activity showed an increase, posting 5.3 million square feet for second quarter of 2013 compared to 760,000 square feet sold in the previous quarter and 3.4 million square feet sold in the second 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 9.6% in May 2013 — down from a revised 9.9% in April 2013 and below the previous year's estimate of 11.1%. This compares with an unadjusted unemployment rate of 8.6% for California and 7.5% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 44,100 payroll jobs from May 2012 to May 2013. The largest gains were 21,800 in professional & business services and 16,000 in educational & health services; Los Angeles County's largest loss was 7,500 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 vacant and available space. As we continue into 2013, positive absorption should continue, 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.

Prepared by:

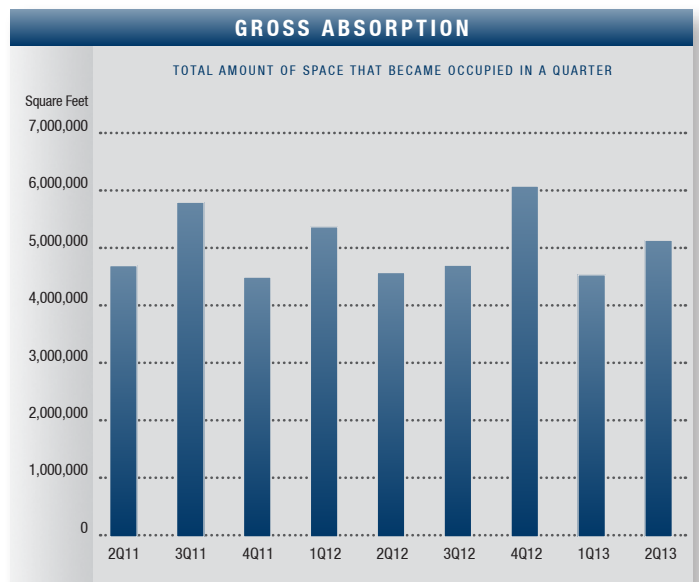
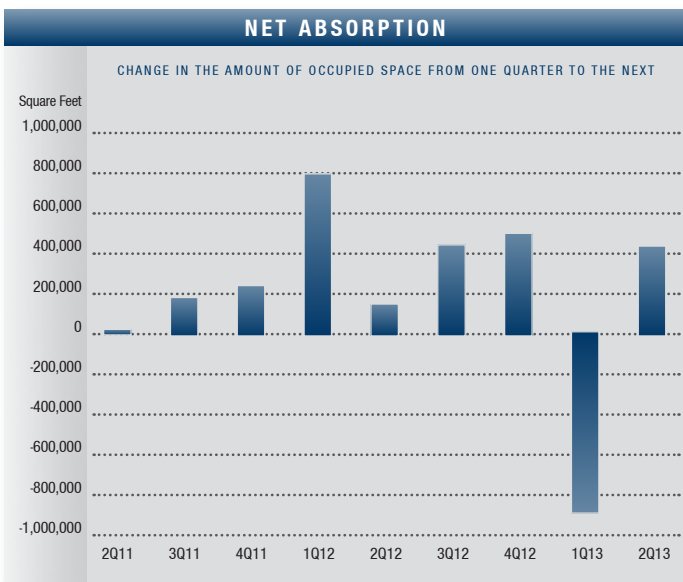
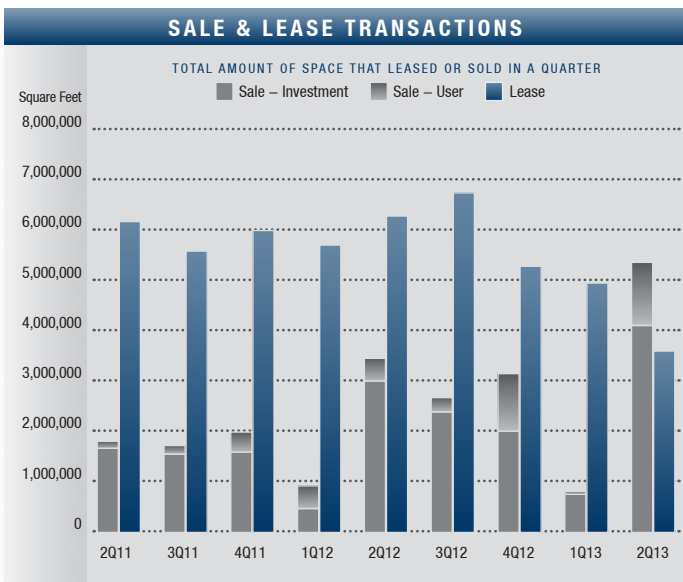
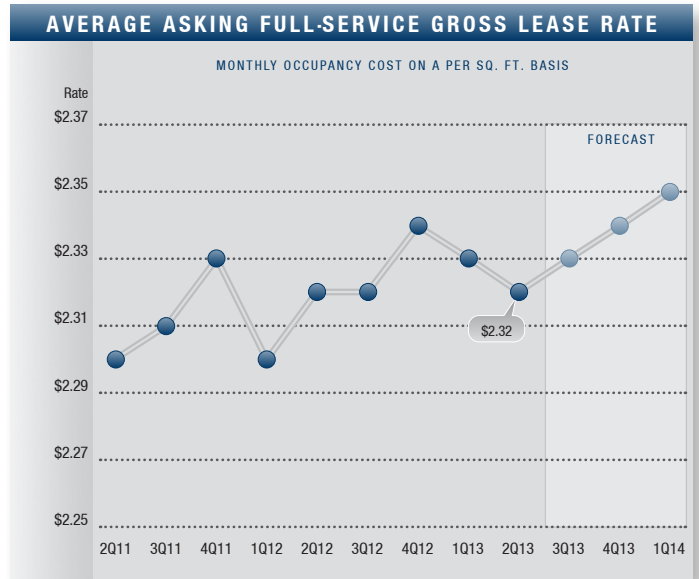
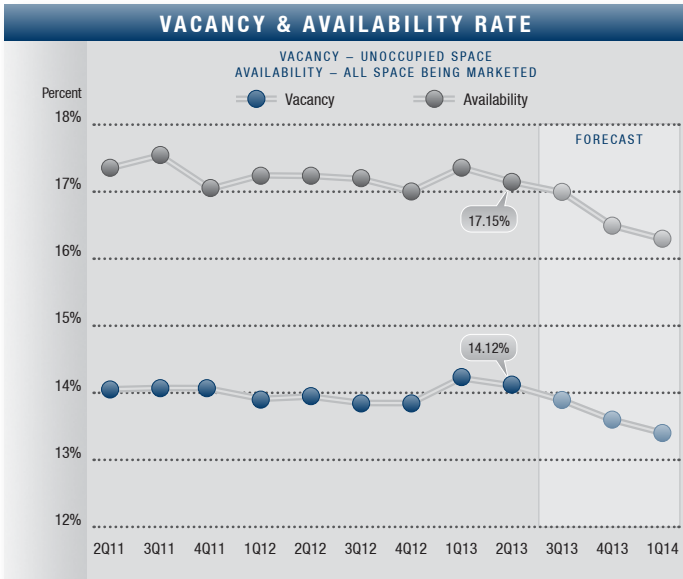
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OFFICE MARKET OVERVIEW

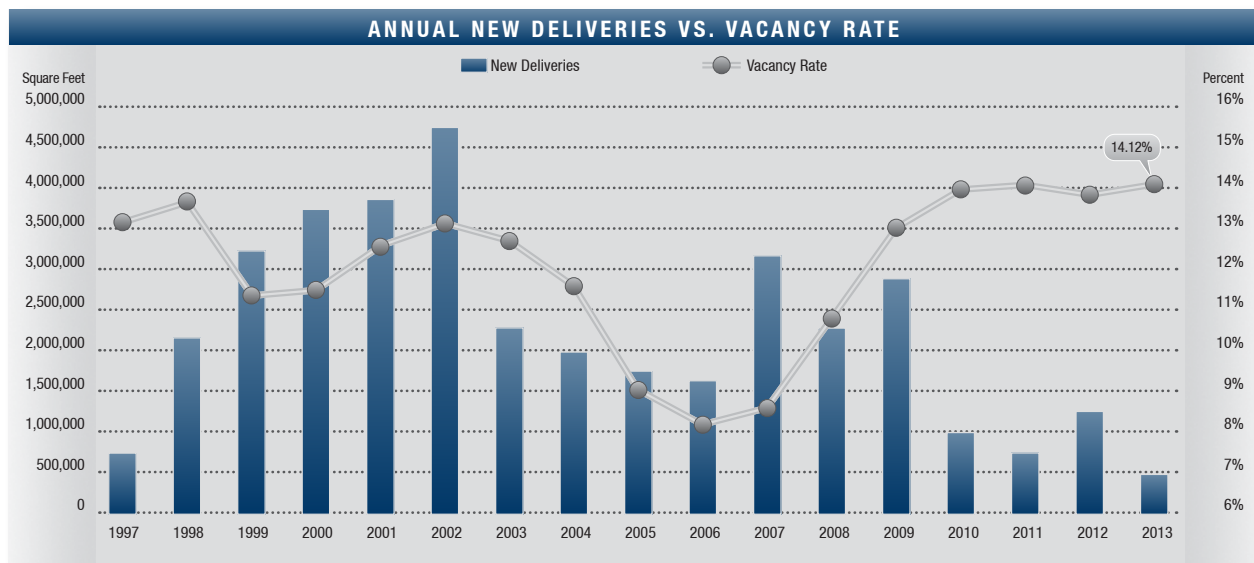
	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	14.12%	14.23%	13.96%	1.15%
Availability Rate	17.15%	17.38%	17.25%	(0.58%)
Average Asking Lease Rate	\$2.32	\$2.33	\$2.32	0.00%
Sale & Lease Transactions	8,906,053	5,701,151	9,640,218	(7.62%)
Gross Absorption	5,113,537	4,512,104	4,582,232	11.59%
Net Absorption	431,536	(887,106)	149,268	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Los Angeles Market Total													
Antelope Valley	32	1,496,227	0	180,000	168,420	11.26%	203,992	13.63%	\$0.00	40,982	48,025	42,318	49,493
Burbank/Glendale/Pasadena	433	38,983,794	41,200	865,500	5,484,502	14.07%	6,623,800	16.99%	\$2.68	(146,531)	(701,596)	490,219	1,057,584
Downtown	305	64,414,151	95,002	1,755,921	8,547,132	13.27%	10,421,657	16.18%	\$2.15	20,644	(61,376)	673,325	1,277,841
Mid-Cities	73	4,684,136	0	27,000	329,892	7.04%	483,567	10.32%	\$1.97	28,838	61,538	80,827	172,567
Mid-Wilshire	309	30,771,783	0	777,601	4,776,752	15.52%	5,899,139	19.17%	\$2.10	7,542	(193,593)	502,155	926,462
San Fernando Valley	345	27,059,396	0	609,098	3,719,624	13.75%	4,328,749	16.00%	\$2.09	24,189	77,231	453,811	1,021,935
San Gabriel Valley	296	19,005,847	0	1,205,968	1,819,309	9.57%	2,366,802	12.45%	\$1.98	39,209	116,740	232,825	472,294
Santa Clarita Valley	58	3,484,184	102,113	246,814	513,450	14.74%	630,431	18.09%	\$2.41	(4,785)	2,755	21,880	92,086
South Bay	500	50,253,652	986,450	1,987,415	8,881,374	17.67%	10,092,796	20.08%	\$1.98	31,879	(212,939)	639,814	1,114,247
Southeast LA	89	5,583,840	0	170,000	493,609	8.84%	647,219	11.59%	\$1.82	38,675	28,248	125,514	149,013
Ventura North	66	3,676,963	0	103,234	338,286	9.20%	786,477	21.39%	\$1.88	(12,148)	6,232	18,790	69,842
Ventura South	248	15,861,608	0	820,012	2,564,420	16.17%	3,107,922	19.59%	\$2.06	142,787	210,797	340,975	574,790
West LA	563	61,199,387	0	1,697,554	8,450,949	13.81%	10,413,254	17.02%	\$3.32	220,255	162,368	1,491,084	2,647,487
Los Angeles Market Total	3,317	326,474,968	1,224,765	10,446,117	46,087,719	14.12%	56,005,805	17.15%	\$2.32	431,536	(455,570)	5,113,537	9,625,641

Class A	992	182,060,207	742,115	861,6274	29,621,996	16.27%	34,804,891	19.12%	\$2.48	(21,912)	(650,999)	3,200,341	5,990,919
Class B	1,844	117,502,107	482,650	182,9843	15,095,496	12.85%	18,824,612	16.02%	\$1.98	327,309	146,354	1,658,008	3,202,284
Class C	481	26,912,654	0	0	1,370,227	5.09%	2,376,302	8.83%	\$1.85	126,139	49,075	255,188	432,438
Los Angeles Market Total	3,317	326,474,968	1,224,765	10,446,117	46,087,719	14.12%	56,005,805	17.15%	\$2.32	431,536	(455,570)	5,113,537	9,625,641

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
633 W. 5th St.	Downtown	A	1,432,539	\$256.54	Overseas Union Enterprise Limited	MPG Office Trust, Inc.
700 S. Flower St.	Downtown	A	678,000	\$194.44	NREA-TRC 700, LLC	700 South Flower Plaza, LLC
201 N. Douglas St.	South Bay	A	335,000	\$137.84	Wiseburn School District	CDC Mar Douglas, LLC
200 Oceangate – 3 Properties	South Bay	A	230,632	\$290.93	Angelo, Gordon & Company	Molina Healthcare, Inc.
8485 Wilshire Blvd.	West Los Angeles	A	227,438	\$392.32	Douglass Emmett, Inc.	SEL-WIL Development, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2900 W. Alameda Ave.	Burbank/Glendale/Pasadena	A	70,615	May-13	Fremantle Media	Catalina Media Development, LLC
3179 Temple Ave.	San Gabriel Valley	B	50,564	Jun-13	County of LA Children Services	TA Associates Realty
2121 Park Place	South Bay	B	45,000	May-13	Murad	Continental Development Company
1520 Bridge Gate Dr.	San Gabriel Valley	B	35,500	Jun-13	Blue Cross of California	Cycle Link USA, Inc.
335-345 N. Maple Dr.	West Los Angeles	A	32,306	Apr-13	Netflix	US Office Holdings, LP

Product Type

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