

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

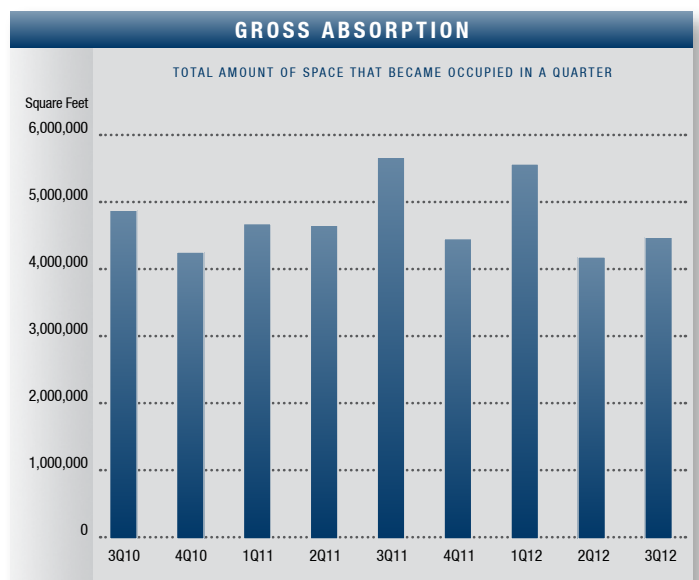
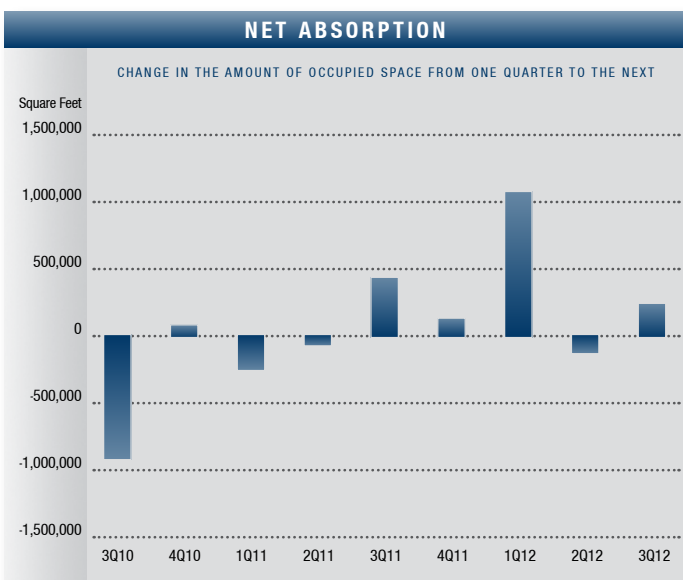
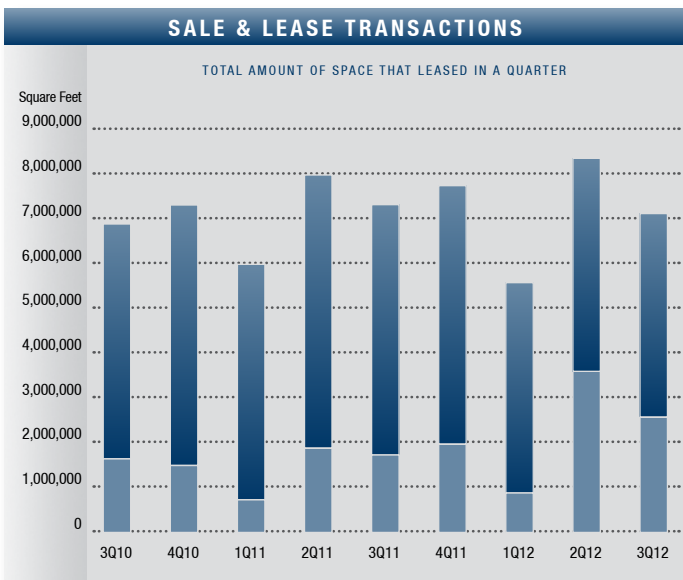
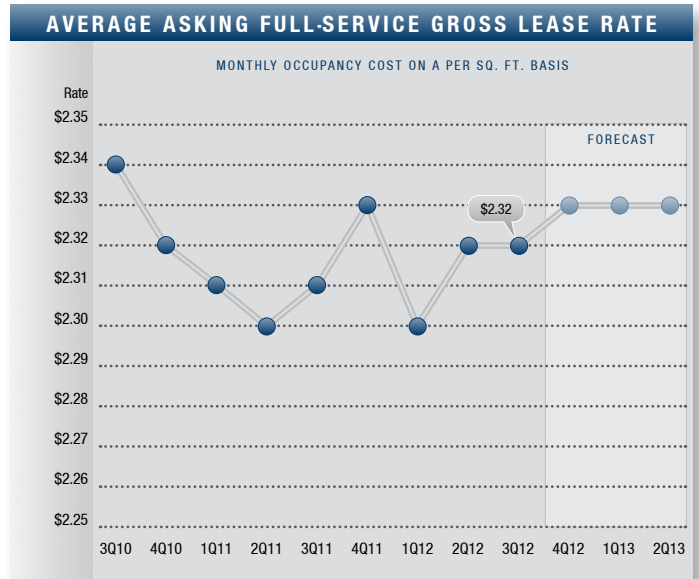
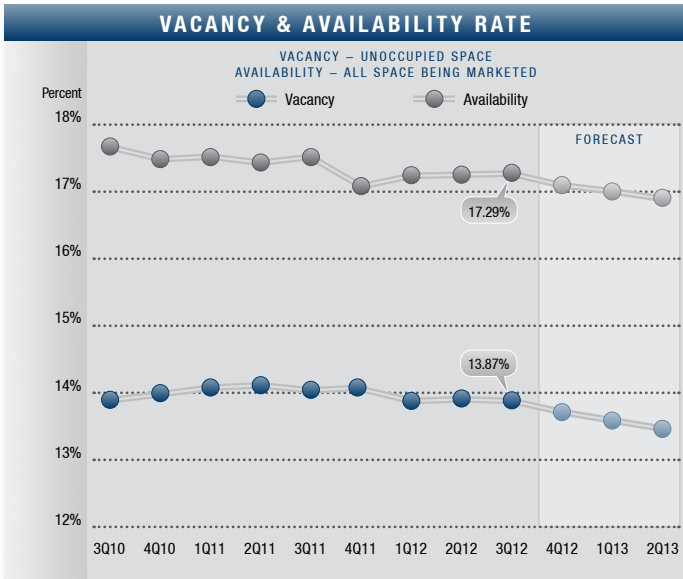
- **Steady Growth** - The Los Angeles office showed continued signs of stabilization and growth in the third quarter of 2012. Vacancy, availability and lease rates remained essentially flat compared to the second quarter of 2012. Net absorption posted a smaller, though still positive figure of approximately 235,000 square feet, giving the Los Angeles office market a total of 1.74 million square feet of positive absorption for the for the last five quarters. While these are generally positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - Total space under construction came in at just over 1.9 million square feet for the third quarter of 2012, 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 13.87%, a 1.21% decrease from 2011's third quarter and essential flat compared to the second quarter of 2012. We are forecasting that vacancy will continue its gradual descent in 2012, ending the year at around 13.7%.
- **Availability** - Direct / sublease space being marketed was at 17.29% at the end of the third quarter of 2012 — 1.31% decrease when compared to 2011's third quarter rate of 17.52% but slightly higher than 2012's second quarter rate.
- **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- the same as the previous quarter and one cent higher than the previous 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 \$3.29 FSG. We are forecasting that rates will continue to stabilize and possibly increase in the last quarter of 2012 or early 2013.
- **Absorption** - The Los Angeles office market posted a positive 235,254 square feet of net absorption in the third quarter of 2012, marking the fifth consecutive quarter of positive absorption for the Los Angeles office

market, totaling 1.74 million square feet. 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 4.6 million square feet for the third quarter, a decrease from the 5.55 million square feet seen in the third quarter of 2011. Sales activity showed a year-over-year increase, posting 2.5 million square feet compared to the 1.7 million square feet transacted in the third quarter of 2011. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in Los Angeles County was 11.0% in August 2012 — down from a revised 11.2% in July 2012 and below the previous year's estimate of 12.5%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% 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 74,000 payroll jobs from August 2011 to August 2012. The largest gains were 23,600 in professional & business services and 18,300 in leisure & hospitality trade; Los Angeles County's only loss was 5,100 manufacturing jobs during that same period.
- **Overall** - We are beginning to see the amount of available space being added per quarter level off and investment sales increase overall. As we continue into the last quarter of 2012, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue to stabilize. We foresee a continued increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to continue to firm up, with the possibility of additional increases in early 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 will continue to recover.

OFFICE MARKET OVERVIEW

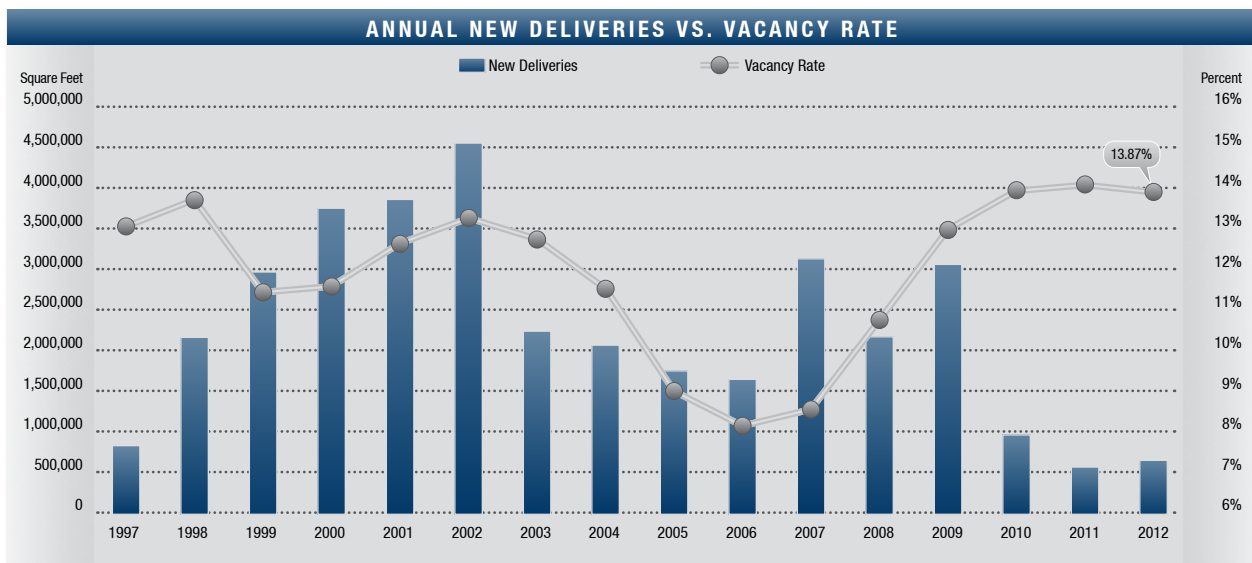
	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	13.87%	13.92%	14.04%	(1.21%)
Availability Rate	17.29%	17.24%	17.52%	(1.31%)
Average Asking Lease Rate	\$2.32	\$2.32	\$2.31	0.43%
Sale & Lease Transactions	7,070,065	8,300,022	7,253,582	(2.53%)
Gross Absorption	4,458,241	4,185,822	5,629,600	(20.81%)
Net Absorption	235,254	(129,074)	430,354	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Los Angeles Market Total													
Antelope Valley	31	1,414,177	0	180,000	213,909	15.13%	221,945	15.69%	\$2.55	(2,653)	(12,984)	6,877	21,046
Burbank/Glendale/Pasadena	434	38,769,010	0	1,004,590	4,992,758	12.88%	6,429,092	16.58%	\$2.60	195,549	352,140	660,066	1,865,531
Downtown	313	65,347,839	0	1,622,621	8,095,806	12.39%	10,207,243	15.62%	\$2.22	(154,980)	(125,157)	448,924	1,831,471
Mid-Cities	72	4,485,531	0	313,652	452,555	10.09%	540,503	12.05%	\$1.88	7,098	67,111	89,446	270,693
Mid-Wilshire	305	30,121,441	551,517	777,601	4,205,366	13.96%	5,454,983	18.11%	\$1.99	(209,784)	(118,413)	349,315	1,158,798
San Fernando Valley	345	26,835,234	125,000	519,098	4,127,398	15.38%	4,651,065	17.33%	\$2.07	101,489	221,436	424,354	1,406,199
San Gabriel Valley	290	18,501,333	130,000	1,349,366	1,759,568	9.51%	2,410,835	13.03%	\$1.89	(43,575)	(10,193)	97,086	531,710
Santa Clarita Valley	58	3,560,906	0	238,814	749,627	21.05%	906,851	25.47%	\$2.38	32,609	77,057	75,950	209,498
South Bay	490	49,663,729	866,450	2,248,366	8,196,288	16.50%	9,880,786	19.90%	\$2.03	175,907	136,357	769,050	2,172,336
Southeast LA	86	5,272,870	0	200,000	489,708	9.29%	855,609	16.23%	\$1.92	(4,776)	(48,816)	23,951	99,512
Ventura North	65	3,653,332	0	111,400	361,286	9.89%	728,917	19.95%	\$1.88	(27,882)	108,536	31,555	401,841
Ventura South	245	15,476,075	236,912	781,044	2,787,438	18.01%	3,313,167	21.41%	\$2.06	19,510	175,260	265,017	778,770
West LA	561	60,869,593	0	2,294,385	8,500,714	13.97%	10,411,369	17.10%	\$3.29	146,742	361,973	1,216,650	3,469,445
Los Angeles Market Total	3,295	323,971,070	1,909,879	11,640,937	44,932,421	13.87%	56,012,365	17.29%	\$2.32	235,254	1,184,307	4,458,241	14,216,850

Class A	991	180,761,434	1,550,529	952,2630	28,491,642	15.76%	34,663,682	19.18%	\$2.48	340,322	917,005	2,926,759	8,755,022
Class B	1,827	116,330,731	359,350	2,118,307	15,034,083	12.92%	19,297,138	16.59%	\$1.99	(91,921)	305,578	1,353,438	4,970,737
Class C	477	26,878,905	0	0	1,406,696	5.23%	2,051,545	7.63%	\$1.84	(13,147)	(38,276)	178,044	491,091
Los Angeles Market Total	3,295	323,971,070	1,909,879	11,640,937	44,932,421	13.87%	56,012,365	17.29%	\$2.32	235,254	1,184,307	4,458,241	14,216,850

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 PSF	Buyer	Seller
400 S. Hope St.	Downtown	A	701,294	\$339.37	SPUSS 400 South Hope, LP	400 S. Hope Street Associates
801 N. Brand Blvd. – 2 Properties	Burbank/Glendale/Pasadena	A	418,951	\$174.16	BRE Band Central Holdings, LLC	Gsms 2005–gg4 Glendale Office
6255 W. Sunset Blvd.	Mid-Wilshire	A	320,905	\$236.83	KR 6255 Sunset, LLC	USA Sunset Media, LLC
21250 Hawthorne Blvd.	South Bay	A	291,711	\$178.26	Bixby Land Company	TA/Western, LLC
385 E. Colorado Blvd.	Burbank/Glendale/Pasadena	A	256,703	\$562.91	The Irvine Company, LLC	WAP Partners, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
333 S. Grand Ave. – Renewal	Downtown	A	328,829	Sep–12	Wells Fargo Bank	MPG Office Trust, Inc.
725 S. Figueroa St. – Renewal	Downtown	A	94,100	Jul–12	United States Secret Service	Brookfield Office Properties, Inc.
1055 E. Colorado Blvd.	Burbank/Glendale/Pasadena	A	86,790	Jul–12	Guidance Software, Inc.	Wells Reit Pasadena Ca
20221 Hamilton Ave. – Renewal	South Bay	B	66,824	Aug–12	LAC Child Support Services Dept.	Hamilton Venture, LP
725 S. Figueroa St. – Renewal	Downtown	A	54,000	Jul–12	Jackson Lewis, LLP	Brookfield Office Properties, Inc.

Product Type

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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

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CLASS C

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