

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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### Market Highlights

- Encouraging Numbers** - The Los Angeles office market continued on the slow path to recovery in the third quarter of 2013. Vacancy and availability decreased and net absorption posted a positive figure of over 1.5 million square feet. 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 390,000 square feet for the third quarter of 2013, mostly Class A space. The slowdown in construction has eased and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- Vacancy** - Direct / sublease space (unoccupied) finished the quarter at 13.91%, a slight 0.22% increase over the previous year's rate but a decrease of 34 basis points from 2013's second quarter. We are forecasting that vacancy will continue its gradual descent in 2013, ending the year at around 13.75%.
- Availability** - Direct / sublease space being marketed was at 17.09% at the end of the third quarter of 2013 — 1.04% decrease when compared to 2012's third quarter rate of 17.27% and an even greater decrease compared to 2013's second quarter rate of 17.56%.
- 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 higher than both the previous quarter and the third quarter of 2012. 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, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$3.35 FSG. We are forecasting that rates will continue to increase going forward.
- Absorption** - The Los Angeles office market posted a positive 1.56 million square feet of net absorption for the quarter, giving the market a total of over 3.1 million square feet of positive absorption over the last ten 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 3.75 million square feet for the third quarter of 2013, a decrease from both the previous quarter's 4.6 million square feet and the 6.8 million square feet seen in the same quarter of 2012. Sales activity posted 2.8 million square feet for third quarter of 2013, a decrease compared to 5.1 million square feet sold in the previous quarter but an increase from the 2.6 million square feet sold in the third 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 10.1% in August 2013- up from a revised 9.9% in July 2013 and below the previous year's estimate of 10.9%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 52,000 payroll jobs from August 2012 to August 2013. The largest gains were 21,000 in leisure and hospitality and 16,500 in professional & business services; Los Angeles County's largest loss was 6,300 government jobs during that same period.
- Overall** - The Los Angeles office market is still finding its footing, with private-sector, class-A-office-using industries putting up the respectable gains this year. We are seeing the amount of vacant and available space decrease. As we continue into the last quarter of 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 increase in most of the submarkets and stabilize in others. 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.

Prepared by:

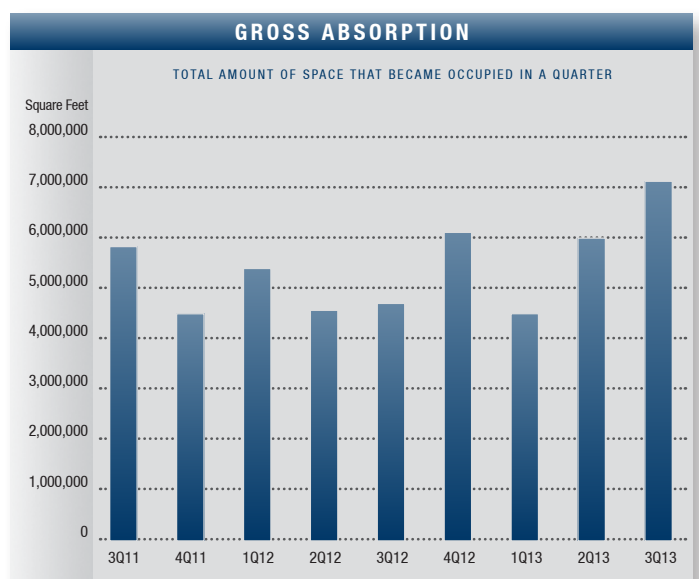
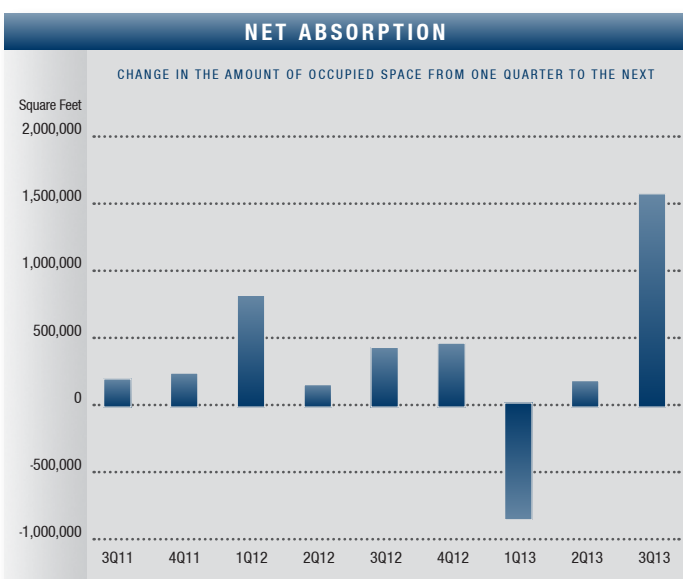
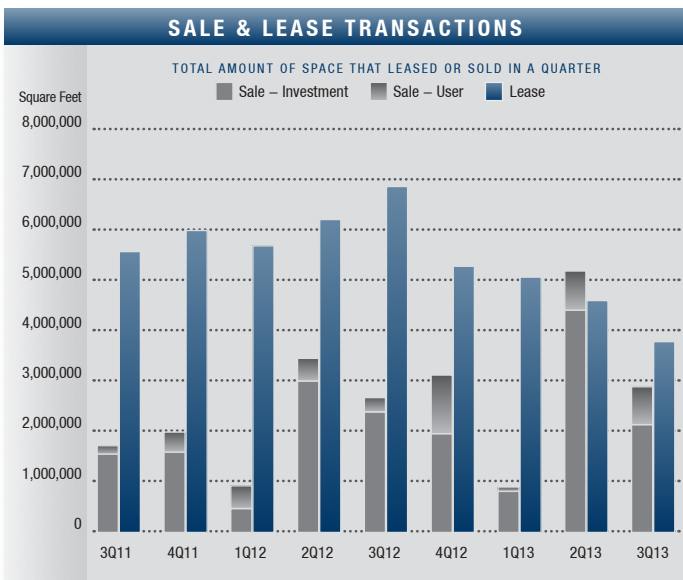
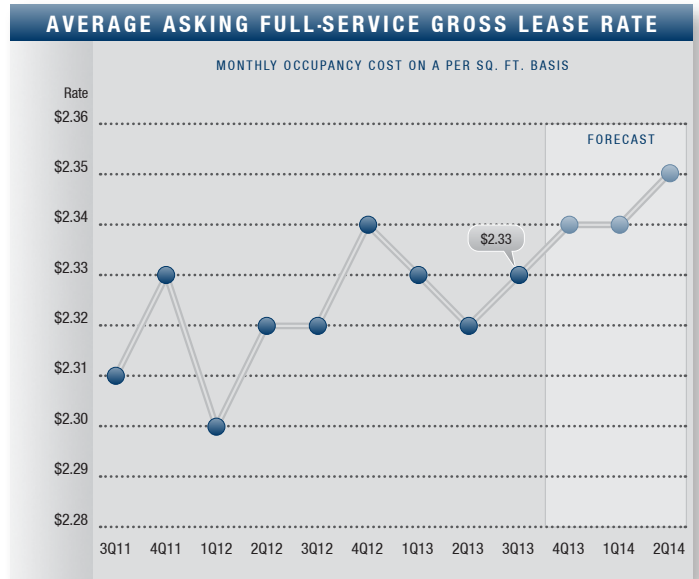
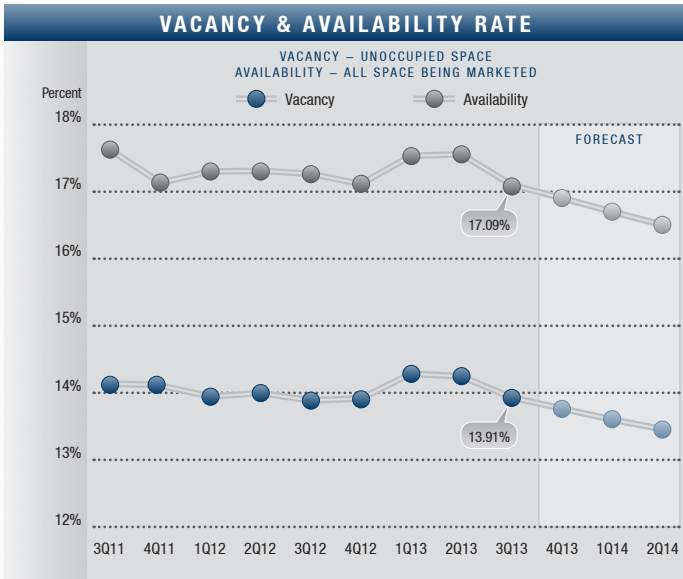
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### OFFICE MARKET OVERVIEW

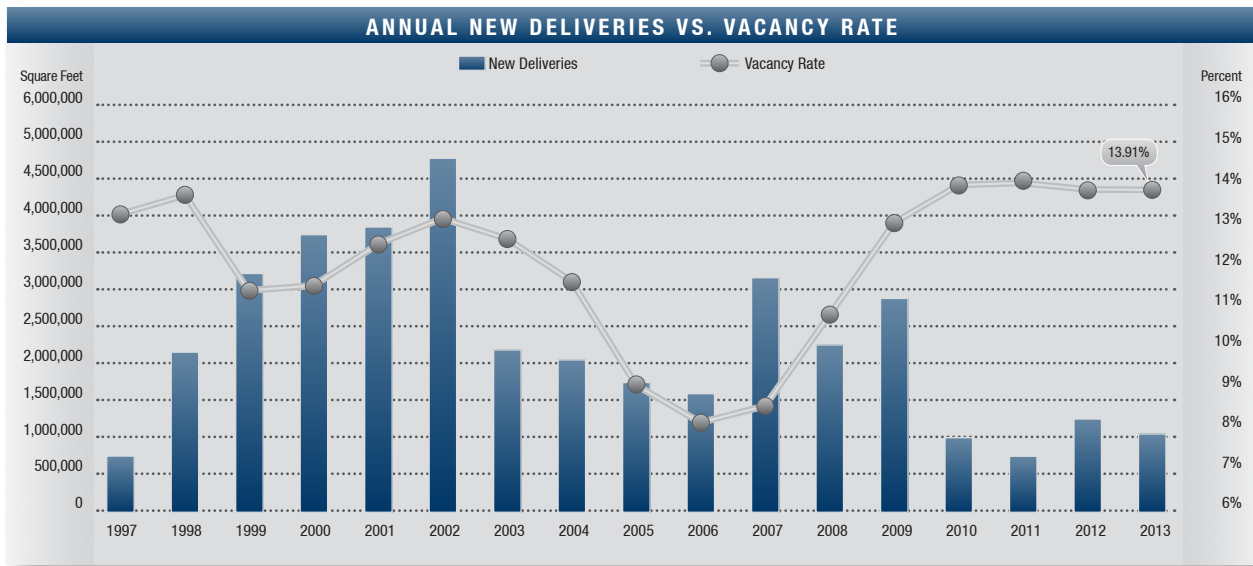
	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	13.91%	14.25%	13.88%	0.22%
Availability Rate	17.09%	17.56%	17.27%	(1.04%)
Average Asking Lease Rate	\$2.33	\$2.32	\$2.32	0.43%
Sale & Lease Transactions	6,592,461	9,749,878	9,475,654	(30.43%)
Gross Absorption	7,104,256	5,949,677	4,667,908	52.19%
Net Absorption	1,561,821	177,033	418,683	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>Los Angeles Market Total</b>	<b>3,295</b>	<b>325,449,058</b>	<b>390,765</b>	<b>10,278,415</b>	<b>45,285,901</b>	<b>13.91%</b>	<b>55,627,029</b>	<b>17.09%</b>	<b>\$2.33</b>	<b>1,561,821</b>	<b>886,012</b>	<b>7,104,256</b>	<b>17,534,205</b>
Antelope Valley	32	1,496,227	0	180,000	164,095	10.97%	190,581	12.74%	\$0.00	1,650	52,350	14,720	66,888
Burbank / Glendale / Pasadena	424	38,455,647	41,200	921,876	5,527,976	14.37%	6,317,613	16.43%	\$2.69	(32,379)	(752,045)	706,968	1,901,006
Downtown	311	65,048,963	0	592,910	8,528,364	13.11%	11,013,894	16.93%	\$2.15	98,269	70,390	924,861	2,213,325
Mid-Cities	74	4,727,316	0	27,000	364,245	7.71%	609,922	12.90%	\$2.04	(32,534)	33,485	64,629	259,141
Mid-Wilshire	298	30,064,699	95,002	1,372,068	4,612,171	15.34%	5,933,912	19.74%	\$2.12	(56,078)	(161,112)	679,962	1,619,743
San Fernando Valley	344	27,008,305	0	609,098	3,477,369	12.88%	4,385,445	16.24%	\$2.09	267,097	319,486	670,995	1,847,256
San Gabriel Valley	295	19,040,683	0	1,205,968	1,979,543	10.40%	2,540,641	13.34%	\$1.97	(141,949)	(20,823)	199,787	702,318
Santa Clarita Valley	59	3,533,228	102,113	333,650	412,450	11.67%	570,420	16.14%	\$2.38	102,804	112,755	145,130	271,112
South Bay	498	50,389,207	120,000	2,078,865	8,472,643	16.81%	9,851,749	19.55%	\$1.98	939,670	739,387	1,599,639	2,792,923
Southeast LA	88	5,545,931	0	160,000	433,118	7.81%	668,935	12.06%	\$1.76	90,976	88,739	132,864	265,996
Ventura North	66	3,639,336	0	147,034	411,871	11.32%	767,974	21.10%	\$1.79	(68,639)	(63,253)	39,559	142,061
Ventura South	244	15,653,200	0	1,095,012	2,548,002	16.28%	3,260,815	20.83%	\$2.09	118,023	239,046	439,998	1,011,811
West LA	562	60,846,316	32,450	1,554,934	8,354,054	13.73%	9,515,128	15.64%	\$3.35	274,911	227,607	1,485,144	4,440,625

Class A	995	182,770,585	229,565	809,2146	29,177,501	15.96%	34,722,898	19.00%	\$2.48	1,223,823	549,218	4,788,704	11,418,247
Class B	1,821	115,718,508	161,200	2,186,269	14,704,102	12.71%	18,336,954	15.85%	\$1.98	253,382	275,675	2,038,613	5,385,470
Class C	479	26,959,965	0	0	1,404,298	5.21%	2,567,177	9.52%	\$1.86	84,616	61,119	276,939	730,488
<b>Los Angeles Market Total</b>	<b>3,295</b>	<b>325,449,058</b>	<b>390,765</b>	<b>10,278,415</b>	<b>45,285,901</b>	<b>13.91%</b>	<b>55,627,029</b>	<b>17.09%</b>	<b>\$2.33</b>	<b>1,561,821</b>	<b>886,012</b>	<b>7,104,256</b>	<b>17,534,205</b>

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
624 S. Grand Ave.	Downtown	A	663,000	\$659.88	GI Partners	Hines REIT, Inc.
3000 W. Olympic Blvd. – 4 Properties	West LA	A	474,505	\$653.31	Jamestown	The Lionstone Group
111 W. Ocean Blvd.	South Bay	A	460,206	\$294.43	John Hancock	Brookfield Office Properties
879 W. 190th St.	South Bay	A	257,476	\$167.00	Omninet Capital	Transwestern Investment
2355 Crenshaw Blvd. – 2 Properties	South Bay	A	205,714	\$168.00	TA Realty	TPG Capital

## Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
13031 W. Jefferson Blvd.	West LA	A	80,049	Jul-13	Sony Playstation	Shorenstein Properties, LLC
13031 W. Jefferson Blvd.	West LA	A	64,019	Jul-13	TMZ	Shorenstein Properties, LLC
207 Goode Ave.	Burbank / Glendale / Pasadena	A	54,488	Aug-13	Avery Dennison	MS-207 Goode, LLC
1200 W. 7th St.	Downtown	A	43,242	Aug-13	LACare	Charter Holdings, Inc.
11755 Wilshire Blvd.	West LA	A	35,920	Jul-13	Crystal Cruises	Travers Realty Corporation

## Product Type

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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.

**CLASS C**

Buildings competing for tenants requiring functional space at rents below the area average.

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