

office

Q3 2011 Market Analysis

All-around improvements show stability, but growth is still elusive

Although leasing activity declined somewhat from second quarter levels, the activity was enough to push absorption back into positive territory and to move the needle on lease rates upward.

A total of 910,704 square feet of office space was leased in 329 direct and sublease deals, compared to 1,417,000 square feet of space leased in 361 transactions in the second quarter of the year.

Although the quarter's leasing velocity was relatively unchanged from the year-ago period when 905,736 square feet of deals were transacted, the picture in the current quarter is decidedly different.

With companies still giving back large amounts of space a year ago, 900,000-plus square feet of activity was not enough to counteract ballooning negative absorption, rising vacancy rates and declining lease rates.

Today, however, space givebacks have stabilized, and the quarter's activity yielded improvements in all those indicators.

Small and mid-sized office tenants continue to drive the market.

Vacancy rates declined to 17.2 percent, from 17.5 percent in the prior quarter and 17.6 percent in the year-ago period and asking lease rates rose

to \$2.28 per square foot from \$2.23 per square foot in Q2. Asking lease rates are now off just a penny from the year ago period, though still almost 17 percent off their highs of \$2.71 per square foot in the third quarter of 2007.

Nevertheless, there remains a significant amount of vacant space in the LA North market — just over 9.3 million square feet. Some submarkets — Conejo Valley, Woodland Hills and Glendale — are still struggling with more than 1.5 million square feet of vacancies.

The lingering weakness is clearly a reflection of the region's stagnant job growth, which is expected to remain

with us for the next few years.

Year to date, median sale prices have remained virtually unchanged at \$150.18 per square foot compared with \$150.30 per square foot in Q2. However, values as of the second quarter fell by 41 percent compared to year-end 2010 and are 46 percent off the high of \$279.04 per square foot in 2006.

The inventory of Class B and Class C properties in the LA North region is likely to blame for the higher-than-average price declines as is a residual inventory of foreclosure sales. Values for Class A assets have been rising steadily for several quarters now.



Economy at a Glance

Spending: In July, consumer spending across the nation posted the largest increase in five months, according to data reported in the *New York Times* at the end of August. The report attributed the rebound to strong demand for motor vehicles.

Jobs: A report by the California Economic Forecast projected that unemployment will remain in the 9 percent range for the next 12 months. The report noted that the rate of job creation has weakened since May and is not sufficient to impact the unemployment rate.

3-D: Studios estimate that supplying glasses for viewing 3-D films may be adding as much as \$10 million to the cost of each film, and they are considering passing the cost on to filmgoers. Currently about 35 3-D movies are planned for the 2012 season, but the spotty success of these films may cause studios to rethink their plans.

Back-to-School: Back-to-school sales rose 3 percent in July and August compared with the same period in 2010, raising hopes for the holiday shopping period, according to an analysis in the *Los Angeles Times*.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



ASKING
RENTS
\$2.28



DIRECT
VACANCY
17.2%



NET
ABSORPTION
159,700 SF

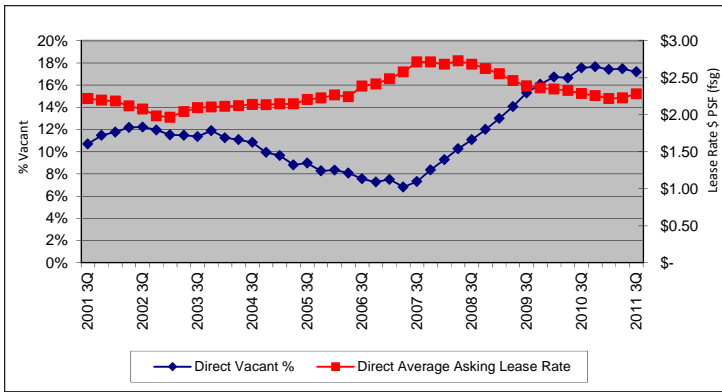


CONSTRUCTION
212,800 SF

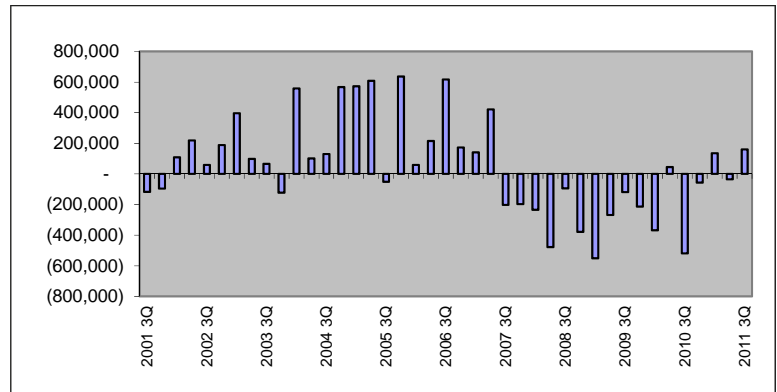
Los Angeles North Office Trends: Period ending Sept. 30, 2011

Submarket	# Buildings	RSF	Direct Vacancy %	Total Vacancy %	Direct Net Absorption	Direct Asking Lease Rate	Sublease Asking Lease Rate	Under Construction	Completed Construction
Agoura Hills	38	1,349,800	22.2%	22.9%	31,600	\$1.94	\$1.80	71,800	0
Burbank (Misc.)	41	2,548,200	12.8%	15.2%	(6,600)	\$2.73	\$3.00	-	0
Burbank City Center	31	1,279,700	10.0%	10.0%	(12,000)	\$2.31	\$1.68	-	0
Burbank Media Center	41	4,237,300	14.4%	14.4%	81,500	\$3.30	\$2.54	-	0
Calabasas	56	2,216,226	18.1%	18.3%	23,100	\$2.16	\$1.83	-	0
Central Valley	78	3,202,700	12.1%	12.1%	(10,200)	\$1.81	\$1.75	-	0
Chatsworth	31	1,629,300	25.6%	26.1%	40,000	\$1.91	\$1.50	-	0
Conejo Valley	128	6,377,400	16.3%	20.1%	29,600	\$2.00	\$1.69	-	0
East Valley	10	515,200	1.2%	1.2%	0	\$1.85	NA	24,900	0
Encino	36	3,653,000	14.6%	15.2%	6,900	\$2.18	\$1.75	-	0
Glendale	135	8,805,400	18.9%	19.7%	42,500	\$2.45	\$1.34	-	0
North Hollywood	35	1,664,700	16.4%	16.4%	(7,700)	\$2.31	\$1.60	-	0
Northridge / Reseda	29	1,189,100	21.8%	21.8%	16,400	\$1.81	NA	-	0
Santa Clarita Valley	67	3,281,500	20.5%	20.8%	30,400	\$2.34	\$1.85	116,100	0
Sherman Oaks	53	3,260,500	14.2%	14.2%	59,200	\$2.21	\$2.13	-	0
Tarzana	17	740,000	13.7%	15.5%	(600)	\$1.77	\$1.91	-	0
Universal / Studio City	39	2,065,800	14.5%	15.5%	(129,200)	\$3.12	\$2.18	-	0
West Valley	29	1,504,100	33.6%	33.6%	(47,900)	\$2.05	\$0.00	-	0
Woodland Hills	81	8,180,800	18.4%	19.2%	12,700	\$2.17	\$1.60	-	0
Total	975	57,700,726	17.2%	18.1%	159,700	\$2.28	\$1.81	212,800	0

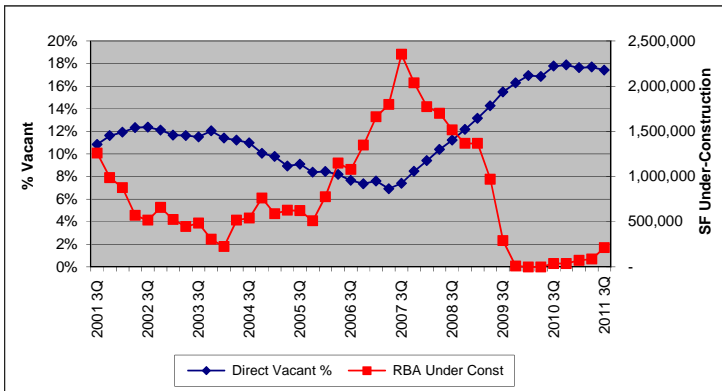
VACANCY VS ASKING LEASE RATE



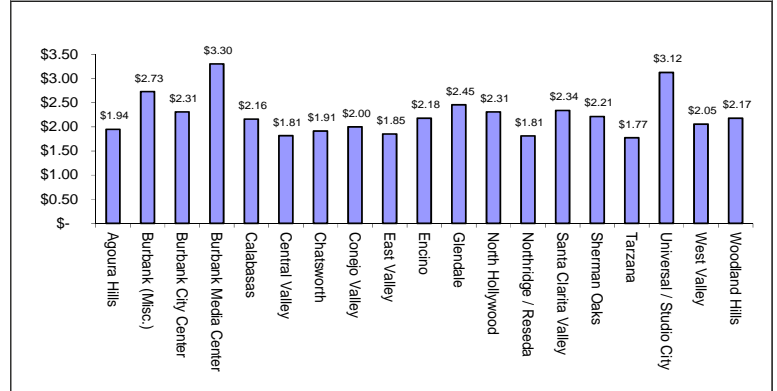
ABSORPTION-HISTORICAL



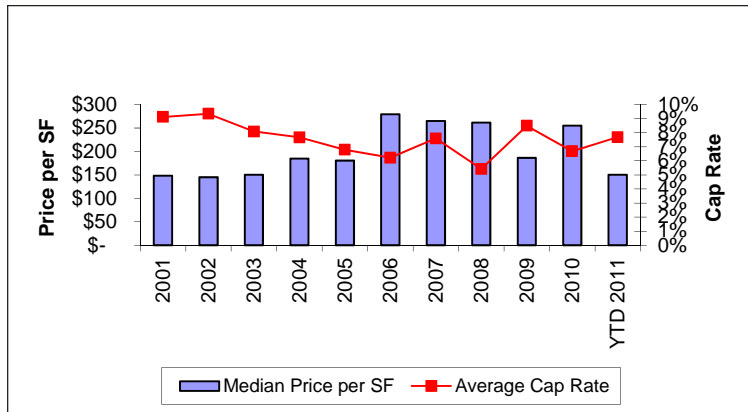
VACANCY VS CONSTRUCTION



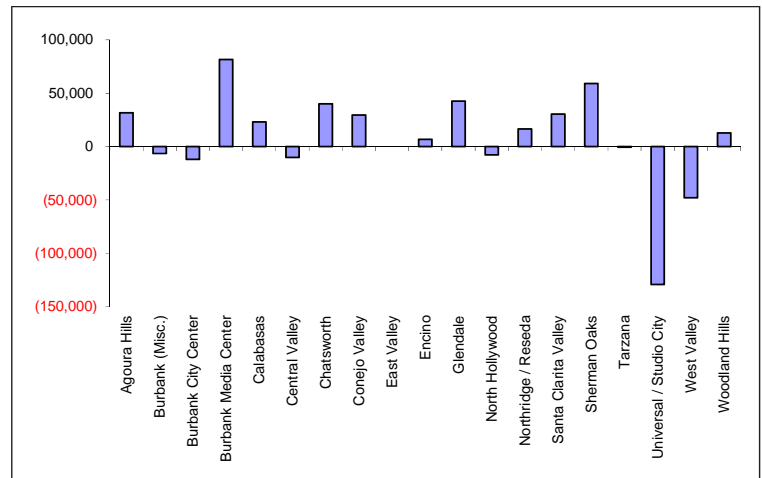
ASKING LEASE RATES BY SUBMARKET



PRICE PSF VS. CAP RATE



ABSORPTION BY SUBMARKET



SIGNIFICANT SALE & LEASE TRANSACTIONS



Address 28001 Dorothy Dr. *Price/SF* \$187.66
City Agoura Hills *Sq Ft* 15,720
Type Sale

Valley Industrial Properties acquired this Class B low rise for \$2,950,000 from Haybliss Properties LLC. The property was built in 1984.



Address 28490 Ave. Stanford *Price/SF* \$159.57
City Valencia *Sq Ft* 194,268
Type Sale

AG-POP Valencia LLC acquired this Class A low rise for \$31,000,000 from ICW Valencia Holdings LLC. The property was built in 1999.



Address 9420 Topanga Canyon Blvd. *Price/SF* \$150.00
City Chatsworth *Sq Ft* 18,969
Type Sale

This Class B low rise sold to Foundation Commercial Properties for \$2,845,350. The seller was Occidental Business Center I.



Address 10605 Balboa Blvd. *Price/SF* \$131.64
City Granada Hills *Sq Ft* 66,087
Type Sale

Class A office medical building sold to A&S Balboa Medical, LP for \$8,700,000. The building was constructed in 1989. Seller was 10605 Balboa Blvd. Holding LLC.



Address 9200 Oakdale Ave. *Price/SF* \$93.02
City Chatsworth *Sq Ft* 258,000
Type Sale

Class A high-rise office building constructed in 1992 was sold for \$24,000,000 to West Valley Office LLC.



Address 21050 Erwin St. *Price/SF* \$106.50
City 6160 Variel Ave. *Sq Ft* 26,292
Type Sale

Two buildings, 21050 Erwin with 14,304 SF, and 6160 Variel with 11,988 SF, were sold for \$2,800,000. Both are Class C low rise properties.



Address 9255 Corbin Ave *Sq Ft* 43,472
City Northridge *Type* Lease

On-Line Administrators leased this space at \$0.73 PSF G for a 24 month term in 'as is' condition. The landlord is NBP Partners II LLC.



Address Warner Center Business Park *Sq Ft* 11,607
City 5955 DeSoto Ave *Type* Lease
 Woodland Hills

Barry & Taffy Inc. leased this space for a 43 month term on an "as is" basis. The building is a low rise property with 53,363 square feet.



Address Calabasas Park Centre *Sq Ft* 7,187
City 23975 Park Sorrento #400 *Type* Lease
 Calabasas

Marcus & Millichap leased this Class A office space from Kilroy Realty for \$2.80 PSF FSG with a \$40.00 PSF TI allowance and 6 months free rent and 3 % annual increases.



LA North/Ventura, Inc.

Corporate ID # 01191898
A Member of the Lee & Associates Group of Companies
www.lee-associates.com



LEE & ASSOCIATES OFFICE SPECIALISTS Antelope Valley, Sherman Oaks & Calabasas

Trevor Belden	818-933-0333	Jay Martinez	818-933-0336
Kelly Betpolice	818-933-0323	Cory Richmond	818-444-4915
Cheri Blessing	805-626-1240	Scott Romick	818-933-0305
Darren Casamassima	818-933-0303	Jay Rubin	818-223-4385
Susan Champion	661-341-3377	Scott Silverstein	818-223-4391
Jennifer Donaldson	818-933-0347	Tom Specker	818-223-4381
Robert Erickson	818-444-4944	Marc Spellman	818-223-4392
Margie Jones	805-626-1211	Paulette Toumazos	818-933-0346
Mark Leonard	818-449-4414	Gary Wagmeister	818-444-4925

MARKET DEFINITIONS

RENTABLE AREA

Includes all Class A, B multi-tenant and single-tenant office buildings of 10,000 square feet and greater. Excludes buildings under construction, planned or under renovation.

DIRECT VACANCY

Space in existing buildings that is not occupied and is available for direct lease.

TOTAL VACANCY

Space in existing buildings that is not occupied and is available for direct lease and/or sublease.

DIRECT NET ABSORPTION

Net change in occupied square feet from one period to the next, not including the effects of occupied sublease space.

DIRECT ASKING LEASE RATE

Calculated for direct available space using full service gross rents. Rents are weighted by total square feet available for direct lease.

SUBLEASE ASKING LEASE RATE

Calculated for sublease available space using full service gross rents. Rents are weighted by total square feet available for sublease.

UNDER CONSTRUCTION

Buildings in the process of construction. A building is considered complete when issued a certificate of occupancy.

AVERAGE SALE PRICE

Based on actual prices of sold buildings as reported in public records and by CoStar. Includes all office buildings and all sizes in market.

AVERAGE CAP RATES

Based on capitalization rates in completed transactions as reported to CoStar. Includes all office buildings and all sizes in market.

About Lee & Associates

Celebrating more than 30 years of leadership excellence in commercial real estate, Lee & Associates is one of the largest national commercial real estate providers with regional expertise. Lee & Associates currently has 43 offices with more than 600 agents located in California, Arizona, Idaho, Illinois, Michigan, Missouri, Nevada, New Jersey, Texas and Wisconsin.

Lee & Associates-LA North/Ventura, Inc., a member of the Lee & Associates Group of Companies, is a full service commercial brokerage company with offices in Sherman Oaks, Calabasas, Ventura County and Antelope Valley. Additional information is available at www.lee-associates.com.

CITIES IN THE LA NORTH REGION

Agoura Hills
Agoura Hills
Oak Park

Burbank
N. of Camarillo St.; E of Buena Vista St.

City Center
Burbank City Center

Media District
Burbank Media District

Central Valley

Arleta
Granada Hills
Mission Hills
Pacoima
Panorama City
San Fernando
Sun Valley
Sylmar
Van Nuys

Calabasas

Chatsworth



Conejo Valley
Newbury Park
Thousand Oaks
Westlake Village

East Valley
La Crescenta
Montrose
Sunland
Tujunga

Encino
Glendale
North Hollywood
Northridge/Reseda
Sherman Oaks
Tarzana
Santa Clarita Valley

Canyon Country
Newhall
Valencia
West SFV
Canoga Park
West Hills
Winnetka
Woodland Hills/
Warner Center

MEMBERS OF THE LEE & ASSOCIATES LA NORTH/VENTURA INC. OFFICES

Sherman Oaks
15250 Ventura Blvd. #100
Sherman Oaks, CA 91403
818-986-9800

Warren Berzack
Christine Deschaine
Jim Fisher
Stephen Geiger

Dennis Herzig
Steve Scott
Stephanie Skrbjn

Mike Smith
Craig Stevens
Larry Twomey

John Villanueva
Brett Warner
George Yessaie
Slavic Zlatkin

Calabasas
26050 Mureau Rd. #101
Calabasas, CA 91302
818-223-4388

John Battle, SIOR
Grant Fulkerson
Joe Jusko

Randy Kobata
Scott Linklater
Jeff McGuire

Eric Nishimoto
Jack Schlaifer
Robert Shafer
Ben Williams

Mike Tingus,
President

Antelope Valley
38460 5th St. West #G
Palmdale, CA 93534
661-341-3300

Jan Chait

Ventura County
1000 Town Center Dr #125
Oxnard, CA 93036
805-626-1200

Paul Capra
Gary S. Cohen
Robert Flink

Grant Harris
David Kim
Steve Nishi
John Ochoa, SIOR