

Q2 2010 Market Analysis

Leasing activity jumps; pushes absorption into positive territory

The Los Angeles North office market registered positive absorption in the quarter for the first time since Q2 2007 thanks to a dramatic rise in leasing activity.

On a direct basis, 905,676 square feet of office space was leased in the quarter, and 107,017 square feet of subleases were transacted. In all, a little over 1 million square feet of office space was leased in a total of 303 transactions.

Absorption levels rose to 12,300 square feet, stemming 11 quarters of increases in vacancies and keeping levels flat with Q1 at 16.6 percent.

The most active markets in the quarter included Woodland Hills, where 181,601 square feet of office space was leased on a direct basis; Encino with 131,247 square feet, Calabasas with 110,201 square feet and Conejo Valley with 100,935 square feet.

Burbank, which has seen a lion's share of leasing activity in past quarters, registered just 87,093 square feet of office space leased on a direct basis for all three of its submarkets combined.


While the brisk advance in activity was welcome news, it should be noted that much of the leasing took place at dramatically discounted levels. Direct asking lease rates fell another \$0.02 to \$2.34 per square foot, the eighth straight quarter of declines, and effective rents are considerably lower.

Free rent offers are ranging anywhere from one month to six months, and tenant improvement allowances are in the range of \$10 per square foot to \$35 per square foot depending on the tenant and the length of the lease. In addition, we are seeing landlords offer free parking and moving expense allowances in a number of cases.

The amount of vacant space available continues to drive the aggressive pricing we are seeing. As of the second quarter, the amount of vacant office space available was 10.5 million square feet, just slightly less than the prior quarter with 10.59 million square feet of vacant space.

We did see some pickup in sales activity in the quarter as asset pricing continued to fall. As of the second quarter the median price of buildings sold has fallen 34 percent from its high of \$318.16 per square foot in 2007 to \$208.42 per square foot, a decline that is more moderate than the national average where property pricing has fallen an average of 40—45 percent.

Sales activity continues to be concentrated in owner-user properties, however we are beginning to see some investors return to the market. Investors and investment funds have built up considerable sums of cash and are now looking to deploy these funds.



Economy at a Glance

Service Sector: The pace of growth in the service sector of the economy slowed in June. The Institute for Supply Management reported that its nonmanufacturing index fell to 53.8 percent after holding at 55.4 percent for the previous three months. An index of 50 percent or more indicates expansion.

Filming: Los Angeles County generated 11,134 production days in the second quarter, up 16 percent from the same period last year, according to FilmL.A. Inc. However, California has lost more than 36,000 jobs and \$2.4 billion in film industry wages over the last decade, according to a just-released report by the Milken Institute.

Hiring: A second quarter survey by The Business Roundtable found that 39 percent of large company CEOs expect to increase hiring in the next six months, the highest levels for hiring plans since the second quarter of 2007.

Foreclosures: Home foreclosures across the country reached a record high in the second quarter, according to research by RealtyTrac reported in the Los Angeles Times. Bank repossessions rose 38 percent compared to the year-ago period.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



ASKING
RENTS
\$2.34



DIRECT
VACANCY
16.6 %



NET
ABSORPTION
12,300 SF

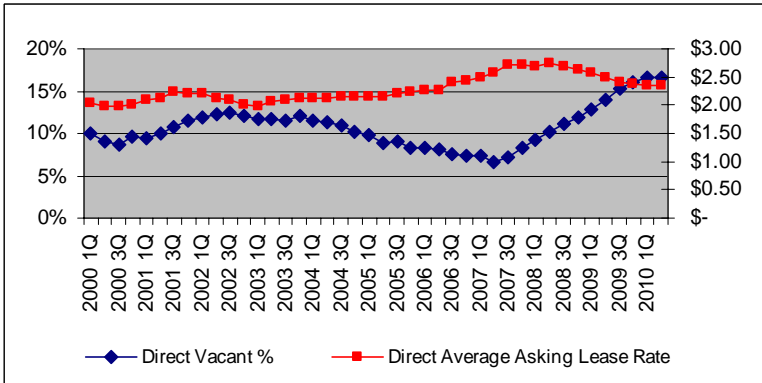


CONSTRUCTION
Ø SF

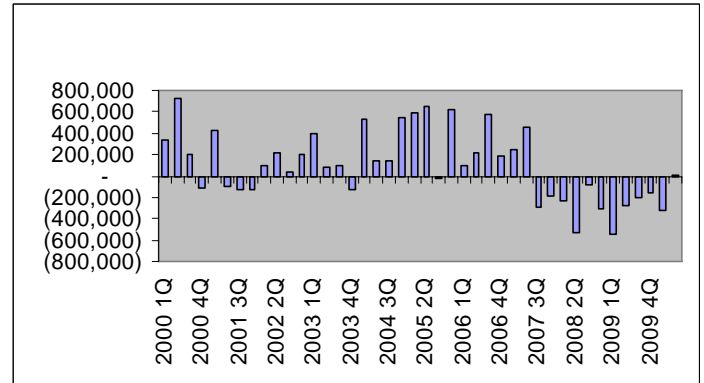
Los Angeles North Office Trends: Period ending June 30, 2010

Submarket	# Buildings	RSF	Direct Vacancy	Total Vacancy	Direct Net Absorption	Direct Asking Lease Rate	Sublease Asking Lease Rate	Under Construction	Completed Construction
Agoura Hills	47	1,810,500	26.4%	26.6%	13,900	\$2.03	\$1.43	-	0
Burbank (Misc.)	40	2,829,800	16.1%	16.1%	4,900	\$3.28	\$2.21	-	0
Burbank City Center	32	1,354,500	14.6%	14.9%	(20,300)	\$2.18	\$1.83	-	0
Burbank Media Center	48	4,214,300	15.9%	17.8%	(7,700)	\$2.98	\$2.47	-	0
Calabasas	52	2,110,400	20.2%	20.7%	7,000	\$2.22	\$1.90	-	0
Central Valley	80	3,120,900	13.9%	15.2%	(33,100)	\$1.81	\$1.80	-	0
Chatsworth	30	1,455,600	30.2%	33.4%	83,900	\$1.94	\$1.44	-	0
Conejo Valley	128	6,263,100	13.7%	17.4%	36,200	\$2.20	\$1.91	-	0
East Valley	11	557,300	1.9%	1.9%	(1,200)	\$1.89	\$0.00	-	0
Encino	36	3,643,700	15.3%	15.9%	(39,400)	\$2.31	\$2.08	-	0
Glendale	125	8,009,300	18.6%	19.3%	(84,500)	\$2.55	\$1.45	-	0
North Hollywood	38	1,740,600	14.9%	14.9%	53,900	\$2.44	\$0.00	-	0
Northridge / Reseda	32	1,233,500	21.2%	21.7%	(28,100)	\$1.92	\$1.40	-	0
Santa Clarita Valley	66	3,213,600	17.3%	18.7%	6,000	\$2.44	\$1.50	-	0
Sherman Oaks	51	3,233,100	14.6%	17.9%	(39,700)	\$2.26	\$2.17	-	0
Tarzana	24	805,300	11.1%	11.9%	1,800	\$1.86	\$1.75	-	0
Universal / Studio City	40	2,521,800	6.5%	8.0%	(100)	\$2.52	\$2.28	-	0
West Valley	29	1,505,200	21.0%	21.3%	4,200	\$2.20	\$1.67	-	0
Woodland Hills	81	8,203,700	17.6%	20.5%	54,600	\$2.18	\$1.76	-	0
Total	990	57,826,200	16.6%	18.2%	12,300	\$2.34	\$1.88	0	0

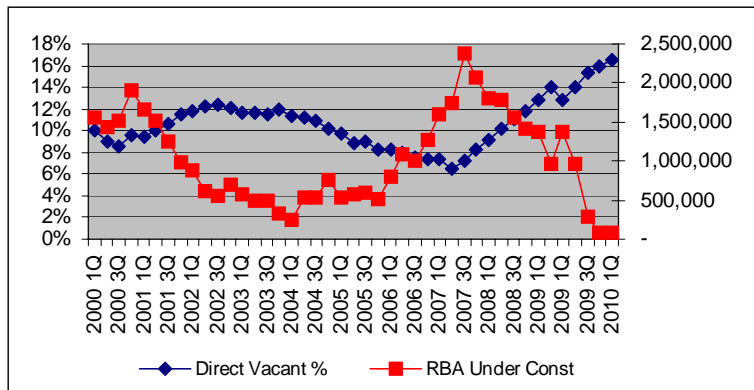
VACANCY VS ASKING LEASE RATE



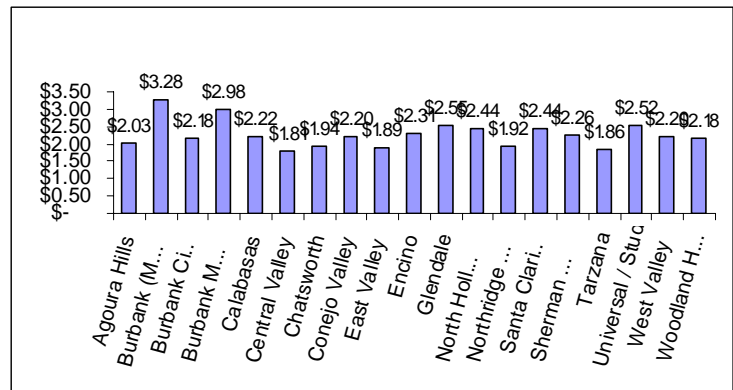
ABSORPTION-HISTORICAL



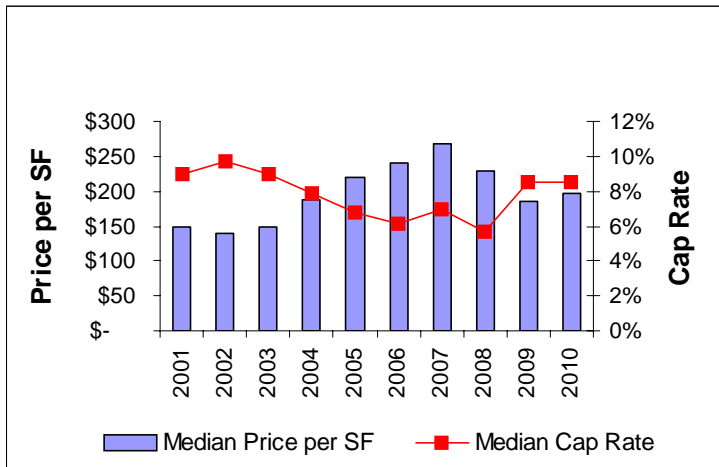
VACANCY VS CONSTRUCTION



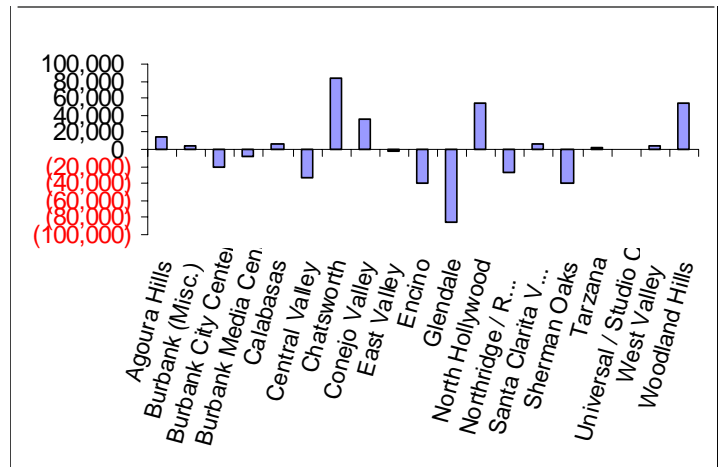
ASKING LEASE RATES BY SUBMARKET








PRICE PSF VS. CAP RATE



ABSORPTION BY SUBMARKET



SIGNIFICANT SALES & LEASE TRANSACTIONS

	<i>Address</i> Encino West Center <i>City</i> 18075 Ventura Blvd. Encino	<i>Price/SF</i> \$436.59 <i>Sq Ft</i> 10,857 <i>Type</i> Sale	Class C office property sold at public auction for \$2,650,000 after 395 days on the market. The buyer, Selvin Properties, was not the foreclosing beneficiary.
	<i>Address</i> 15445 Ventura Blvd. <i>City</i> Sherman Oaks	<i>Price/SF</i> \$260.82 <i>Sq Ft</i> 11,694 <i>Type</i> Sale	Class C office building with ground floor retail was sold in an off market, all-cash deal for \$3,050,000. Property was fully leased. Buyer: SpringStream Exchange Co LLC; Seller: Gadwa Living Trust Fund A; Gadwa Living Trust Fund B.
	<i>Address</i> 135 W. Magnolia Blvd. <i>City</i> Burbank	<i>Price/SF</i> \$255.48 <i>Sq Ft</i> 23,485 <i>Type</i> Sale	Clumek Stern Schenkelberg & Getzoff acquired this Class B office building for \$6 million from Olive Properties LLC. The four-story building was built in 1959 and renovated in 2005.
	<i>Address</i> 11631, 11633 Victory Blvd. <i>City</i> North Hollywood	<i>Price/SF</i> \$113.91 <i>Sq Ft</i> 44,774 <i>Type</i> Sale	Transaction includes a 22,774 SF Class B office building that is fully leased and a 22,000 SF retail building currently undergoing renovation that will be delivered 12/11. Properties sold for \$5.1 million after 780 days on market.
	<i>Address</i> 26541 Agoura Road <i>City</i> Calabasas	<i>Sq Ft</i> 90,156 <i>Type</i> Lease	Tenant leased predominant portion of this 91,327 SF Class A office building from Kilroy Realty.
	<i>Address</i> 26520 Agoura Road <i>City</i> Calabasas	<i>Sq Ft</i> 13,465 <i>Type</i> Lease	Electronic security startup ID Scan leased this building in the Calabasas Tech Center from Hines Interests for a 5-year term. Building is one of 7 properties on campus. It was constructed in 1990.
	<i>Address</i> Laurel Media Center <i>City</i> 5352 Laurel Canyon Blvd. Studio City	<i>Sq. Ft</i> 7,980 <i>Type</i> Lease	MGM Business Management leased this low-rise Class B office space on an "as-is" basis for \$1.15 PSF MG with 2 months free rent. Lease term: 60 months.
	<i>Address</i> Studio Plaza <i>City</i> 10969 Ventura Blvd. Studio City	<i>Sq Ft</i> 5,561 <i>Type</i> Lease	National Holistic Institute executed a direct lease at \$2.20 PSF MG. Space is upper level office space in retail center. Lease term: 64 mos.

LA North/Ventura, Inc.

Corporate ID # 01191898
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		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 38 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
- 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

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