Published February 13, 2012

THE ECONOMY

As the national economy struggles through the economic slowdown, the Los Angeles economy has managed to post some solid numbers. The major indicators of job growth and unemployment are generally favorable. Unemployment has fallen 140 basis points over the past 12 months, but the current rate of 11.5% is still high. Current Employment Survey (CES) data from the U.S. Bureau of Labor Statistics (BLS) show that total non-farm employment in the Los Angeles Metropolitan Division was up 18,600 jobs (0.5%) from November 2010 to November 2011. The Motion Picture and Sound Recording industry, always big in Los Angeles, picked up 5,600 jobs, an increase of 4.3% from November-to-November. According to household-based data from the BLS, the labor force, which counts the number of people working or looking for employment, has declined by 38,100. This figure includes the self-employed and those commuting out to other counties (but not those commuting in from other counties). This drop in the labor force is at least partially driving the fall in the unemployment rate. The increase (by 35,700) in the number of county residents that are employed is also partly responsible.

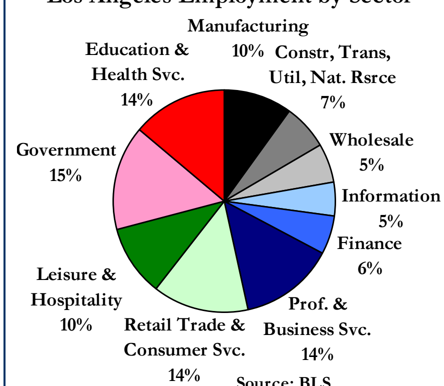
Los Angeles, however, remains an urban destination for many Americans. Moody's *Economy.com* reports the county's population increased by 109,330 from 2010 to 2011, a rise of 1.1%. From 2012 to 2016, this source predicts that population will continue to grow at about the same rate. Household average income, after falling during 2008 and 2009, has rebounded with a gain of 3.2% from fourth quarter 2010 to fourth quarter 2011, according to this source. The economy is not without its weak spots. Manufacturing continues its decline, posting a loss of 3,800 jobs (1.0%), Wholesale trade fell by 2,100 jobs (1.0%). Construction, after losing ground in 2010, saw an increase of 900 jobs (0.9%). On the white collar front, Professional and Business Services lost 1,500 jobs (0.3%), while Financial Activities lost 1,800 jobs (0.9%). Employment Services, which covers the temporary employment industry, saw a decrease of 1,800 jobs (2.1%), meaning companies could be holding off temporary hires. The Retail Trade sector posted a remarkable gain of 6,800 jobs (1.7%), while the Leisure and Hospitality sector saw a gain of 3,400 jobs (0.9%).

The substantially government-funded Educational and Health Services employment sector saw a notable increase of 10,800 jobs (2.0%), but Government employment overall was flat, while local government was up 2,200 jobs (0.5%). Los Angeles, like many other municipalities, has had to

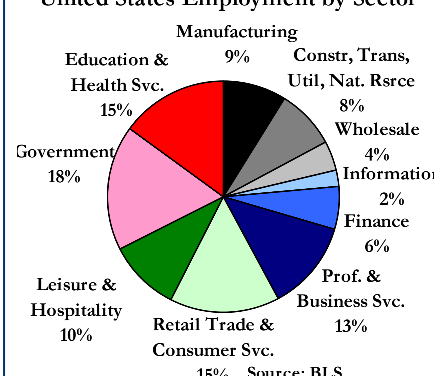
Employment:

- *The BLS reports a seasonally unadjusted unemployment rate of 11.5% in November for the Los Angeles Metropolitan Division, down from 12.9% one year earlier.*
- *Total non-farm employment in Los Angeles was up 0.5% year-over-year in November, according the BLS.*
- *Moody's Economy.com reports a fourth quarter 2011 average household income of $133,585 for Los Angeles. Average household incomes of $122,428 and $126,935 are reported for the top metros in the nation and West region, respectively.*

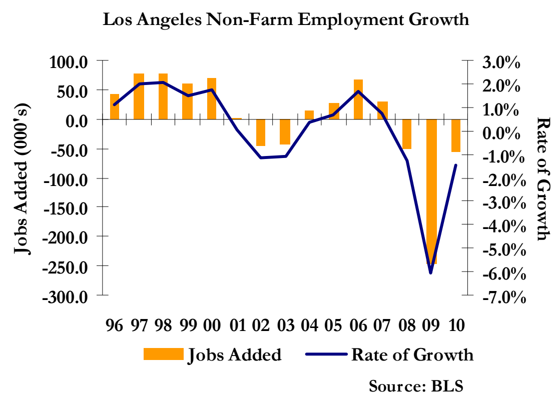
Los Angeles Employment by Sector



United States Employment by Sector



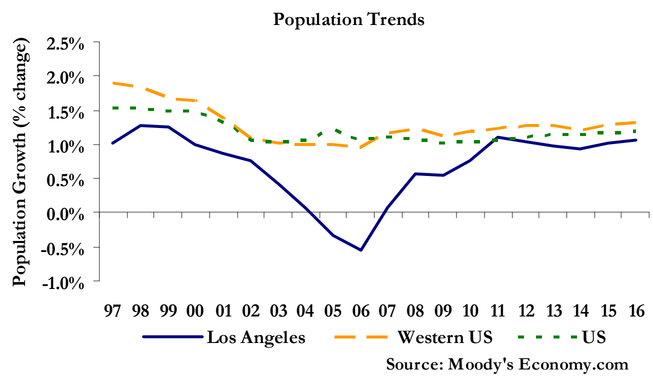
face rising public pension costs at a time when tax increases and other demands have become highly charged political issues.

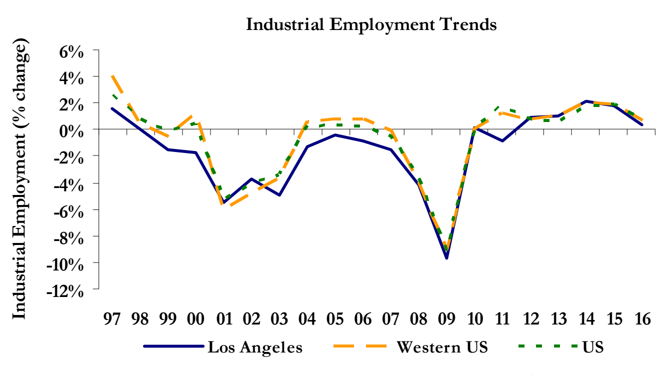


OUTLOOK

Moody's *Economy.com* reports an increase in total employment of nearly 40,000 jobs from 2010 to 2011. Anticipating 39,000 more jobs added in 2012, this source predicts gains of 75,000 in 2013 and over 100,000 in 2014. Population, as noted, will increase, if modestly, in this time span as well.

While the economy works itself out, Los Angeles has managed to still think big. Plans are afoot to revitalize the Los Angeles River's waterfront, which is now essentially a concrete channel that runs through the city. The channel was built to preserve the city from the river's seasonal floods, but has become an eyesore along certain stretches and residents want it improved. Writing in *Planning,* the magazine of the American Planning Association, Christopher Hawthorne, architecture critic of the *Los Angeles Times*, notes the city is "pushing for modest advances toward smart growth without losing sight of the fact that the city in many ways remains tied by a politically powerful sort of nostalgia to its long history as a low-rise, car-friendly, and low-density metropolis."





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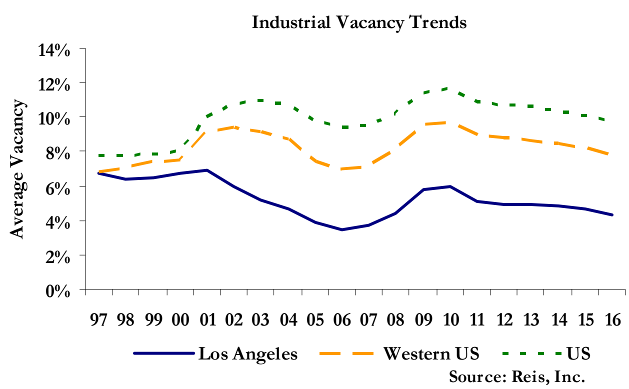
THE REAL ESTATE MARKET

Occupancy continued to improve in the Los Angeles industrial market during 2011, but overall rents finished the year poorly. Los Angeles continues to have lower vacancy rates and higher rents than the U.S. and West region averages for space in both the warehouse/distribution and Flex/R&D categories. Grubb & Ellis notes the "resilience" that Los Angeles industrial real estate has shown in the recession, which sets the stage for a better 2012.

OCCUPANCY

Reis reports a fourth quarter 2011 vacancy rate of 9.0% for 443 million square feet of warehouse/ distribution space in Los Angeles County, down 30 basis points from the prior quarter, and 130 from the fourth quarter of 2010. The national and West region averages were higher at 13.1% and 12.0%, respectively. For 38.8 million square feet of Flex/R&D space, Reis reports a vacancy rate of 6.7%, down from 7.6% one quarter earlier, and down 210 basis points over 12 months. For this property type the U.S. and West region averages are 15.1% and 14.2%, respectively.

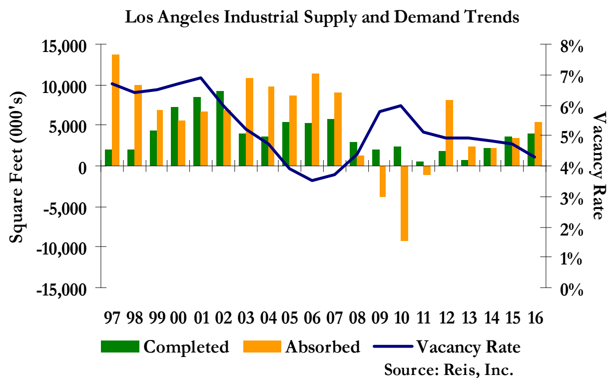


Grubb & Ellis reports a vacancy rate of just 2.9% for all types of space, with an availability rate of 7.4%. This source notes that with an "uptick" in leasing, "tenants will start to lose some of their leasing negotiation advantages with landlords. Landlords will continue to pay close attention to creditworthiness of tenants and term on leases with rental rates beginning to level off from the dip seen last year." Cushman & Wakefield puts the overall vacancy rate at 4.9% in the fourth quarter. For the Los Angeles portion of the LA Basin industrial market, Colliers reports a direct vacancy rate of 4.4%, and a total vacancy rate of 4.8%. Reis expects vacancy for warehouse/distribution space to gradually decline, reaching 8.6% in 2012, and 8.1% in 2016. For Flex/R&D space, Reis expects the rate to increase, if only slowly, reaching 7.2% by 2016.

Special Real Estate Factors:

- *"To quench the thirst of Southern California's some 20 million people, water must be imported from hundreds of miles away, across a daunting array of deserts, valleys and mountains,' Time Magazine reported. "For decades, Angelenos have muttered a doomsday refrain: our water supply isn't sustainable, and we are going to have to get smarter about managing it. Now authorities are once again saying the time has come for a change." "Southern California may no longer have a choice but to stop its lavish ways," according to this source. "Sometime in January, authorities will again limit the amount of water that the California Aqueduct transports from northern mountains and substitute it with water from reservoirs. That's been happening in the winter and spring seasons ever since environmental protections imposed limits on water that passes through the Sacramento—San Joaquin delta in a bid to protect endangered smelt." The protections are a huge point of contention for local water agencies and farmers who have lost their water supply. "Both have launched a series of legal challenges that haven't prevailed." In the meantime, to further increase local supply—which is much cheaper than imported water—authorities "are investing in water-recycling plants to capture more storm water before drains flush it into the ocean; they also plan to clean up contamination so more*

SUPPLY AND DEMAND



Warehouse/ distribution net absorption continued its strong performance in 2011, as the 1.3 million square feet recorded in the fourth quarter brought the yearly total to 5.9 million square feet. Construction picked up in the warehouse/ distribution sector, with Reis reporting nearly 632,000 square feet finishing during 2011. For 2012, a more modest completion total is forecast. Reis also reports a warehouse/distribution building completing in January 2012, according to the latest construction data, at 15,663 square feet. Only one building is reported under construction for this type of space at 272,000 square feet, in the South Bay. The completion date is June 2012. Reis expects an average completion total of 1.75 million square feet per year from 2013 to 2016, with an annual average of 2.2 million square feet of net absorption, allowing vacancy to fall slightly, as noted.

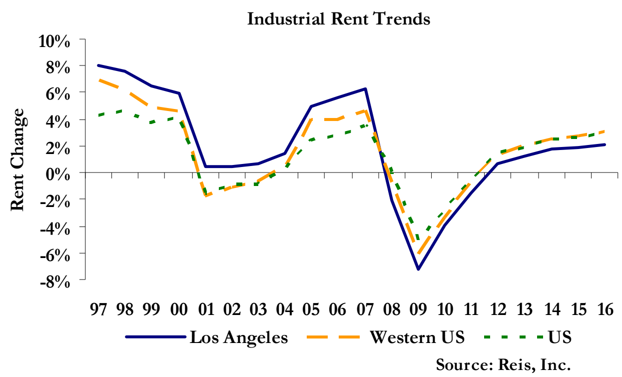
The fourth quarter saw a pickup in Flex/R&D net absorption. After a desultory 15,000 square feet was absorbed in the third quarter, the fourth quarter's 358,000 square feet brought the annual total to 899,000 square feet, quite an improvement over 2010's negative 394,000 square feet. A mere 90,000 square feet completed in 2011, and no Flex/R&D space is currently under construction. Annual totals in the 340,000-square-foot range are predicted the next few years. Reis predicts net absorption will continue to be strong, while not replicating the current performance, with an average yearly sum at just below the new construction rate, at 277,800 square feet. Reporting on all types of space in the Los Angeles portion of the LA Basin market, Colliers reports a 2011 total net absorption figure of 8 million square feet. Cushman and Wakefield reports a net absorption total of 1.8 million square feet for the year, while Grubb & Ellis reports 3.2 million square feet absorbed for all of 2011.

Special Real Estate Factors:
Continued

groundwater can be used. And they're putting more emphasis on conservation efforts, which helped water-use levels in the city of Los Angeles. hit the lowest levels since the 1970s last year, according to the Department of Water and Power. The city has implemented a mandatory water-conservation program that includes measures like restricting sprinkler watering to two days a week." Reservoirs are now full, but the issue is still a hot one, and further restrictions could be on the way.

- *The City of Santa Fe Springs "has been selected to receive an award acknowledging its work transforming a former 54-acre oil field into land suitable for residential use," the Whittier Daily News reported. "The city's redevelopment agency and developer Comstock Homes worked together to bring to residential standard the site where the Villages at Heritage Springs now sits at 12350 Telegraph Road. They will receive, during an awards ceremony next year, the California Redevelopment Association Award of Excellence in the Special Citation category for the oil field transformation." "This award shows that what used to be an unusable oil field can be reclaimed," Director of Planning and Community Development Paul Ashworth said.*

RENTS



Warehouse/distribution rents struggled in 2011, with the average asking rent increasing by 0.2% in the fourth quarter and the average effective up by 0.4%. Respectively, these rents finished the year at $5.96 psf and $5.47 psf, down 2.3% and 1.4% from 12 months earlier. The effective average for the U.S. as a whole is lower at $4.19 psf, while the West region effective average is somewhat lower at $4.94 psf. Flex/R&D rents have also lost ground. The average Los Angeles Flex/R&D asking rent is $10.93 psf and the average effective rent is $9.79 psf in the fourth quarter. These rents are down 2.6% and 1.4%, respectively, over the year, after increasing by 0.6% and 0.7% in the fourth quarter. National and West region Flex/R&D averages fell as well. The U.S. asking average was down 1.7% for the year, to $8.75 psf, with the West down 1.5% to $10.33.

Since peaking in the fourth quarter of 2007, according to Cushman & Wakefield, rents continuously declined through 2010. However, 2011 showed improvement and rents increased. This source reports a direct weighted average rent of $6.12 psf, a 2.0% increase over the year. Grubb & Ellis reports an overall asking rent of $6.12 psf, with a $5.76 psf rate for warehouse/distribution, and $8.40 psf for Flex/R&D. Colliers reports a weighted average of $5.76 psf.

Looking ahead, Reis expects rents for both industrial property categories to make only modest progress. For warehouse/distribution space, Reis forecasts gains of 1.0% and 1.5%, asking and effective, in 2012. More substantial increases are forecast going forward, but not until 2016 does Reis expect asking and effective increases for this property type to exceed 2.3%. The outlook for Flex/R&D is similarly restrained, if not more so. After finishing 2012 with no measurable gains, incremental increases are on tap for most of the forecast period. Again, gains of over 2.0% are not forecast to prevail until around 2016.

Special Real Estate Factors:
Continued

- *"The Port of Long Beach handled slightly less cargo last year than it did in 2010, a result of light holiday shipments and the loss of a cargo terminal operator to the neighboring Port of Los Angeles," according to the Los Angeles Business Journal. This source reports that cargo traffic fell 3.2% for the year. "The port saw strong growth in the first half of the year, then watched as shipments slumped and the usual pre-holiday boom didn't materialize. Port officials have blamed the weak numbers on the loss of terminal operator California United Terminals, which moved to Los Angeles in late 2010 because it expected construction in Long Beach to hamper its operations. The California United terminal accounted for about 10.0% of port cargo operations. Remaining terminal operators saw an average of 8.1% more cargo."*

- *"The Port of Long Beach and Orient Overseas Container Line (OOCL) recently signed a 40-year, $4.6 billion tentative agreement that will make the shipping line the primary tenant on a planned terminal," according to Cushman & Wakefield. "The 305-acre Middle Harbor Project will be built in phases, with the first phase scheduled for completion in 2016."*

SUBMARKETS

The South Bay area is the home of the ports of Los Angeles and Long Beach, and the key to the region's economic prosperity, although distribution centers are located throughout the county and further inland. The San Gabriel Valley contains more traditional manufacturing, along with high-tech and distribution space, while the San Fernando Valley is more tech-and-local-market oriented. Labor-intensive light manufacturing, including apparel and toys, clusters in central areas.

San Fernando Valley/Ventura County

- Reis reports a vacancy rate of 23.3%, and an average asking rent of \$8.47 psf, for 6.6 million square feet of warehouse/distribution space in the San Fernando Valley West submarket.

- The vacancy rate is down 500 basis points year-over-year. Net absorption finished the year at 326,000 square feet. Rents were flat during the fourth quarter, but finished with year-over-year increases of 4.6% and 7.1%, asking and effective. The effective rent finished the year at \$7.56 psf.

- For 22.2 million square feet of warehouse/distribution space in the San Fernando Valley East submarket, Reis reports a fourth quarter vacancy rate of 8.9%, and an average asking rent of \$7.20 psf.

- There the vacancy rate is down 20 basis points from the prior quarter, and 200 from a year earlier. The average asking rent is up 0.6% for the quarter, and 0.8% for the year. The average effective rent of \$6.62 psf is up 1.1% for the quarter, and 5.4% for the year.

- Reis reports a vacancy rate of 8.6% for 3.1 million square feet of Flex/R&D space in the San Fernando Valley West submarket.

- The vacancy rate had been rising here, but fell 40 basis points in the quarter. It is up 330 basis points over the year. Net absorption finished the year at negative 102,000 square feet. Average asking and effective rents finished the year at \$12.15 psf and \$10.94 psf, down 4.1% and 3.2% year-over-year. Rents struggled to post increases through most of 2011.

Special Real Estate Factors:
Continued

- *Industrial real estate transactions were active in the fourth quarter, Reis reports. For fourth quarter, this source reports 67 transactions totaling \$403 million for a mean sales price of \$84 psf. For the year, Reis reports 198 transactions at \$1.1 billion at an average of \$86 psf.*

- The vacancy rate for 2.1 million square feet of Flex/R&D space in the San Fernando Valley East submarket is 8.8%, according to Reis. The average asking rent is $8.64 psf.

- After showing occupancy gains in 2011, vacancy edged up as the year closed, by 10 basis points. However, the rate is down 330 basis points year-over-year. The average asking rent is up 0.5% for the quarter but down 5.0% for the year, while the average effective rent is up 0.3% and down 2.3%, respectively, to $7.67 psf.

- For a 221 million-square-foot Los Angeles North submarket that also includes the Los Angeles County portion of the Inland Empire, Cushman & Wakefield reports an overall vacancy rate of 5.0%, and a direct weighted average net rental rate of $7.08 psf for warehouse/distribution space and $10.56 psf for office/service.

San Gabriel Valley

- In the San Gabriel Valley, Reis reports a fourth quarter vacancy rate of 10.2%, and an asking rent of $6.19 psf for 16 million square feet of warehouse/distribution space.

- The vacancy rate is down 10 basis points over the quarter, and 110 year-over–year. The average asking rent fell 1.9% and the average effective rent fell 1.6% to $5.65 psf during 2011. Both asking and effective rents gained about 1.0% in the fourth quarter.

- For 2.4 million square feet of Flex/R&D space in the San Gabriel Valley, Reis reports a vacancy rate of 6.4%, and an average asking rent of $10.94 psf.

- The vacancy rate decreased 60 basis points in the fourth quarter, and it is down 200 from a year earlier. The average asking rent is up 0.7% for the quarter, but down 5.7% for the year. The average effective rent is up 1.4% for the quarter, and down 5.6% for the year to $9.84 psf.

- Cushman & Wakefield reports an overall vacancy rate of 4.7%, and a direct weighted average net rental rate of $5.52 psf for warehouse/distribution space and $15.00 psf for office/service in the San Gabriel Valley.

South Bay

- The South Bay submarket is home to the Ports of Los Angeles and Long Beach. Reis reports a fourth quarter vacancy rate of 10.2%, and an asking rent of $6.33 psf for 99.8 million square feet of warehouse/distribution space.

- The inventory here, according to Reis, is the second largest among the submarkets behind the adjacent Mid-Cities submarket.

- This submarket finished the year with over 1 million square feet of positive net absorption. The vacancy rate is down 30 basis points for the quarter, and 70 year-over-year. The average asking rent increased 0.3% in the quarter, but is down 3.7% for the year. The average effective rent rose 0.5% for the quarter, but fell 3.0% for the year to $5.81 psf.

- For 9 million square feet of Flex/R&D space in the South Bay, Reis reports a vacancy rate of 7.5%, and an average asking rent of $10.33 psf.

- The vacancy rate decreased 30 basis points in the fourth quarter, and is down 100 from a year earlier. The average asking rent is up 0.3% for the quarter but down 1.2% from a year earlier. The average effective rent is up 0.6 % and 1.4%, respectively at $9.31 psf.

- The 225,000-square-foot Watson Corporate Center is under construction for completion in February 2012 in Carson. Also in the South Bay, ProLogis is building a 272,000-square-foot facility scheduled for completion in June 2012.

- Cushman & Wakefield reports an overall vacancy rate of 5.2%, and a direct weighted average net rental rate of $6.48 psf for warehouse/distribution space and $10.08 psf for office/service for 231 million square feet in South Bay.

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- The largest lease transaction of the quarter was C.H. Robinson's six-year renewal/expansion for 242,900 square feet at Domingues Tech Center in Carson, this source reports.

- Grubb & Ellis reports that according to the Los Angeles Economic Development Corporation (LAEDC), Los Angeles has the largest manufacturing center in the United States. The ports of Los Angeles and Long Beach are the nation's largest in twenty-foot-equivalent (TEU) volume. TEU is used to describe the metal containers used in modern shipping.

- Port activity and the manufacturing industry will drive demand for space as consumer spending gradually increases and the creation of jobs benefit the economy. "The Ports will lead to expansion as trade activity continues to grow which will spur warehouse demand going forward," Grubb & Ellis notes.

Central Los Angeles

- In Central Los Angeles, for the older but intensely-used industrial submarket surrounding Downtown Los Angeles, Reis reports a vacancy rate of 7.8%, and an average asking rent of $5.80 psf, for 77.3 million square feet of warehouse/distribution space.

- The vacancy rate is down 10 basis points for the fourth quarter, and 110 from a year earlier. Most of the net absorption in 2011 occurred in the second quarter. Net absorption for the year was 833,000 square feet. The average asking rent is up 0.3% for the quarter and down 3.7% for the year. The average effective rent is up 0.6% and down 3.1%, respectively, to $5.35 psf.

- For 8.2 million square feet of Flex/R&D space, Reis reports a vacancy rate of 7.6%, and an average asking rent of $14.10 psf.

- The year finished with 337,000 square feet of net absorption. The vacancy rate is up 40 basis points for fourth quarter but down 410 over the year.

- For Central Los Angeles, Grubb & Ellis reports a vacancy rate of 2.4% and an availability rate of 5.7%. For warehouse/distribution space, this source reports a rent of $5.28 psf, and for Flex/R&D space, this source reports a rent of $14.28 psf.

Mid-Cities

- In the Mid-Cities submarket, further inland and on the border of Orange County, Reis reports on a 122-million-square-foot warehouse/distribution market with a 7.8% vacancy rate in the fourth quarter, down from 10.1% one year earlier.

- There was no new construction here, but net absorption remained solid, finishing the year at 2.8 million square feet.

- Average asking and effective rents were $5.31 psf and $4.90 psf, down 5.3% and 3.5%, respectively, over the year. Rents did, however, finish the year off with gains, posting respective increases of 0.2% and 0.8% in the fourth quarter.

- For 7.8 million square feet of Flex/R&D space, Reis reports fourth quarter vacancy at 4.7%, down from 8.9% one quarter earlier.

- Reis reports no new space completed construction here in 2011, and net absorption was active at 331,000 square feet.

- Average asking and effective rents finished the year at $9.18 psf and $8.25 psf, down 3.6% and 2.4% for the year, while up 0.8% and 1.9%, respectively, for the quarter.

- Reporting on the Mid-Cities submarket, Grubb & Ellis gives a fourth quarter vacancy rate of 4.0%, and an annual net absorption total of 147,000 square feet. Average asking rents were $5.40 psf for warehouse/distribution and $6.72 psf for Flex/R&D.

OUTLOOK

A slowdown in consumer spending could hurt the Los Angeles industrial market, Cushman and Wakefield points out. Combined with a weak housing market and economic problems in Europe, demand could remain flat for industrial product. This source foresees only modest improvements in the future. Grubb & Ellis sees a "better" 2012. "The recent improvement in market fundamentals has several submarkets establishing a solid ground indicating the market as a whole is heading toward a recovery," according to this source. Reis, as noted, sees Flex/R&D vacancy increasing, but not greatly, over the next few years. Rents will not see immediate improvement, but gradually pick up steam.

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