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THE ECONOMY

The Los Angeles County (Los Angeles Metropolitan Division) economy may be in a double-dip recession, according to the latest employment data. According to Current Employment Survey (CES) data from the U.S. Bureau of Labor Statistics (BLS), total non-farm employment was 10,000 jobs (0.3%) lower in May 2011 than it had been in May 2010. A big loss in Government employment, of 26,700 jobs (4.4%) could be partially explained by the loss of 2010 federal census jobs, while private sector employment is up by 16,700 jobs (0.5%) year-over-year. But a look at the data for individual sectors shows a very limited turnaround, with the entertainment and tourism industries doing well, and just about everything else continuing to lose jobs. The Motion Picture and Sound Recording industry was up by 18,100 jobs (15.6%) year-over-year in May, and Leisure and Hospitality was up by 6,900 (1.8%). The only other sector with significant employment gains was the substantially government-funded Education and Health Services sector, at plus 8,700 jobs (1.6%).

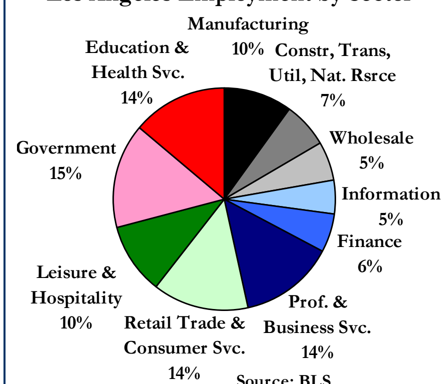
Employment in office-based sectors continues to be weak, with the Financial Activities sector down by 2,900 jobs (1.4%) year-over-year in May according to CES data, and Professional and Business Services up by just 1,300 jobs (0.2%). That gain is almost entirely explained by an increase of 1,100 jobs (1.4%) in the Employment Services industry, which includes temporary workers. While strong gains in this sector often preceded a shift to growing permanent employment, weak gains are not a good sign. And in fact, as noted by the previous *Observer*, year-over-year job gains in Professional and Business Services and Employment Services were much stronger in the year to February 2011.

The same may be said of the industrial sectors, now set in the employment loss category year-over-year. CES data show Manufacturing employment down by 1,100 (0.3%) in the year to May, Wholesale Trade down by 2,300 (1.1%), and Transportation and Warehousing down by 3,700 jobs (2.7%). This was despite a slight increase in the Air Transportation industry. The Construction sector lost another 5,800 jobs (5.5%) during the period. The consumer-based sectors, with the exception of Leisure and Hospitality, also remain weak. The Retail Trade sector lost 1,100 jobs (0.3%) in the year to May, despite a gain of 1,500 jobs (1.7%) in the Food and Beverage Store industry. And Other Services, which includes industries such as Dry Cleaners, Beauty Parlors and repair shops lost 1,800 jobs (1.3%).

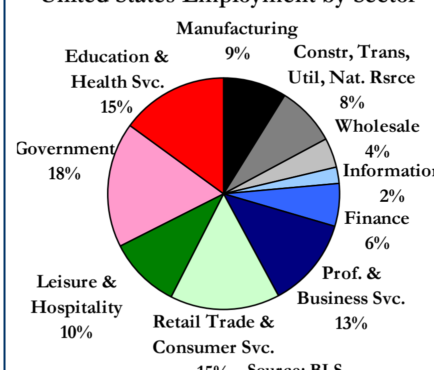
Employment:

- *BLS reports a seasonally unadjusted unemployment rate of 11.8% in May for the Los Angeles Metropolitan Division, down from 12.2% one year earlier.*
- *Total non-farm employment in Los Angeles was down 0.3% year-over-year in May, according the BLS.*
- *Moody's Economy.com reports a second quarter 2011 average household income of $131,104 for Los Angeles. Average household incomes of $122,167 and $125,445 are reported for the top metros in the nation and West region, respectively.*

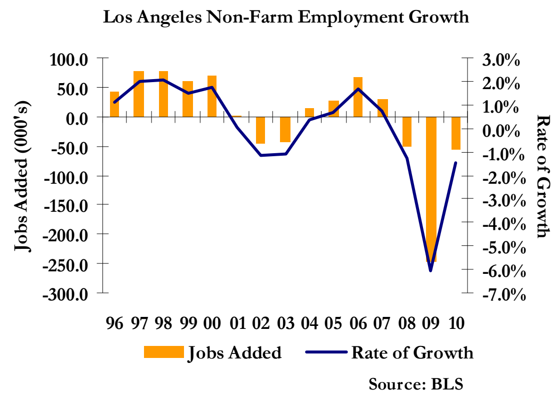
Los Angeles Employment by Sector



United States Employment by Sector

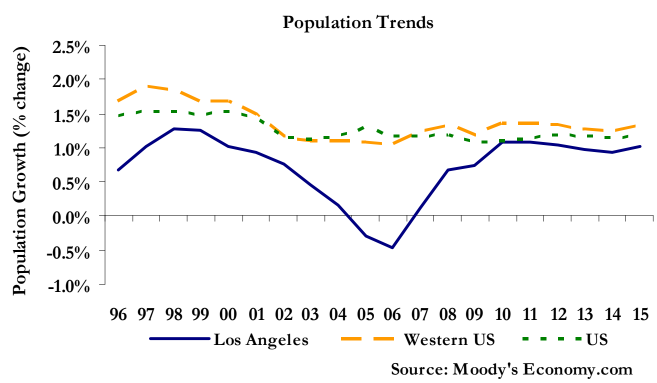


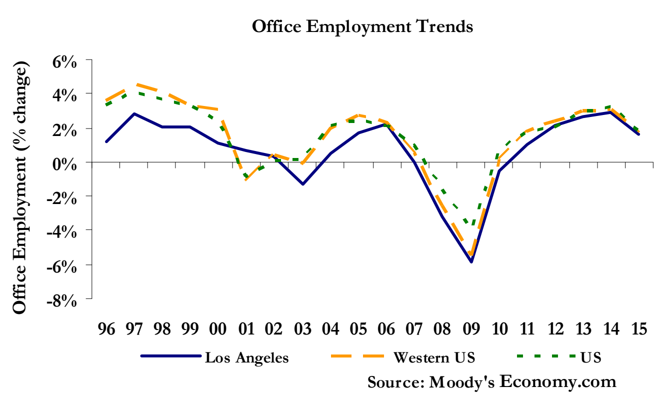
The best news was recorded by household-based data from the BLS. During the mid-2000s boom, many of the employment gains in Los Angeles did not show up in CES payroll employment data, because much of the additional work was going to "freelancers" and "independent contractors" who were being hired to avoid employer taxes and non-wage benefits. Household-based data on the number of employed residents of the county (whether employees or self-employed) showed greater gains than the establishment-based CES. During the bust, the household-based data showed greater losses, and a large number of self-employed workers lost their sources of employment. Now there has been another turnaround, with the number of employed residents of Los Angeles County up by 23,300 (0.5%) in the year to May 2011. It remains down by 321,900 (6.9%) since May 2007.



OUTLOOK

Despite the recent wobble, Moody's Economy.com forecasts an increase of 38,500 jobs (1.0%) in Los Angeles County for 2011, down from the previous quarter's forecast but still significantly positive. Strong gains of around 100,000 (2.5%) are expected in some of the latter years of the forecast period as the economy finds its footing, and population growth is expected at or just below the U.S. average after having been far below that average during the 2000s.



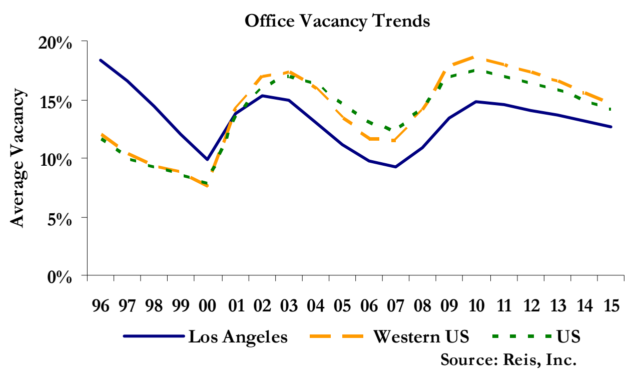


THE REAL ESTATE MARKET

The Los Angeles office market improved in the second quarter of 2011, according to Reis data, although the opinions of other market watchers were mixed. For multi-tenant general use space, which Reis counts at 195 million square feet locally, Los Angeles had the ninth lowest vacancy rate among the firm's top markets during the quarter, slightly ahead of San Francisco, and rents increased slightly after a long series of quarterly decreases.

OCCUPANCY

Reis reports a second quarter 2011 vacancy rate of 14.6%, down 10 basis points from the previous quarter and unchanged from a year earlier. The cyclical peak may have been 15.0% in the third quarter of 2010; the prior year-end cyclical low had been 9.2% in 2007. The Class A rate was down 20 basis points from a year earlier at 13.9%, while the Class B/C rate was unchanged at 15.6%. The former is down 20 basis points year-over-year, the latter up 30 basis points in a possible flight to quality.



Grubb & Ellis, which includes owner-occupied and single-tenant space in its analysis, reports a 40-basis-point vacancy rate decrease for second quarter, to 16.5%. Strength on the Westside and the San Fernando Valley offset ongoing weakness elsewhere according to this source. Cushman & Wakefield and Colliers, however, report ongoing occupancy losses in Los Angeles County in contrast with improvements in nearby Orange County and the Inland Empire. Colliers cites year-over-year job losses in the county as driving negative net absorption in the second quarter, pushing the vacancy rate up 30 basis points to 18.3%. "Tenants continued to contract, returning an average of 15% of original space when they renewed their leases" according to C&W. Reis, however, predicts the vacancy rate will continue to edge down slowly, reaching 14.5% at year-end 2011 and 14.1% at year-end 2012, with further decreases to follow.

Special Real Estate Factors:

- *Grubb & Ellis reports good news on occupancy, but it is almost entirely driven by the entertainment industry in the Westside and San Fernando Valley submarket where they concentrate. "West Los Angeles had a number of move-ins across the region highlighted by Fox Sports Interactive Media and USC moving into 57,647 and 30,000 square feet in Marina/Culver City, and Riot Games and GK Films moving into 47,302 and 28,354 square feet in Santa Monica. In the West San Fernando Valley of the L.A. North region Universal Music Group moved into 158,638 square feet in Woodland Hills." Another deal cited by this source was investment bank Houlihan Lokey's relocation from 56,271-square-foot single tenant building in Century City building to a Class A high-rise trophy building across the street. "Houlihan's move to 80,808 square feet of former MGM space is a welcome sign of the improving confidence in the market place that is prodding tenants to capitalize on opportunities."*

- *Cushman & Wakefield sees non-office-based industries leading the halting economic recovery in Los Angeles. "Los Angeles will recover, but when and how fast all depends on job growth. To reduce the current overall vacancy to equilibrium (10%), approximately 87,000 office-using jobs need to be added. The industrial market and technology sectors are leading the*

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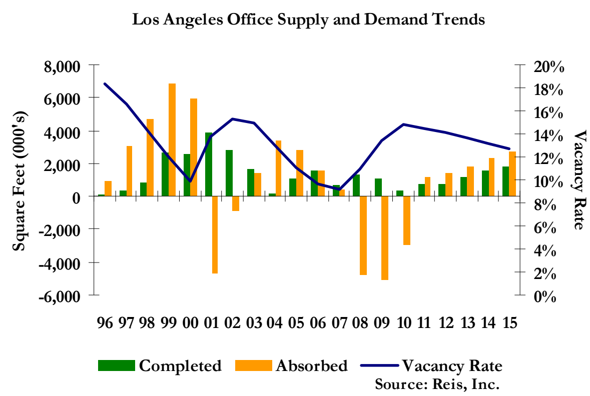
SUPPLY AND DEMAND



The vacancy rate moves slowly because the amount of supply and demand, both net absorption and development, are currently small relative to the large inventory. The 358,000 square feet of positive net absorption reported by Reis for second quarter brought the half-year total to 430,000 square feet. The only new supply of the first half was a single 193,000-square-foot completion. Net absorption in the Class A segment totaled plus 379,000 square feet for second quarter and 533,000 for the half-year, compared with minus 21,000 square feet and minus 102,000 square feet for Class B/C. The Class B/C inventory, moreover, has stopped shrinking after a 2003-to-2010 conversion trend that removed millions of square feet of space.

Longer term, moreover, both supply and demand have been quieter than they had been in the rapid growth period of Greater Los Angeles, which ended with the early 1990s recession. Low construction totals and conversions pushed the office inventory down by nearly 6 million square feet from 2003 to 2010, limiting the damage from the stunning 12.8 million square feet of negative net absorption from 2008 to 2010, by far the worst period for demand in the history of the Reis database here.

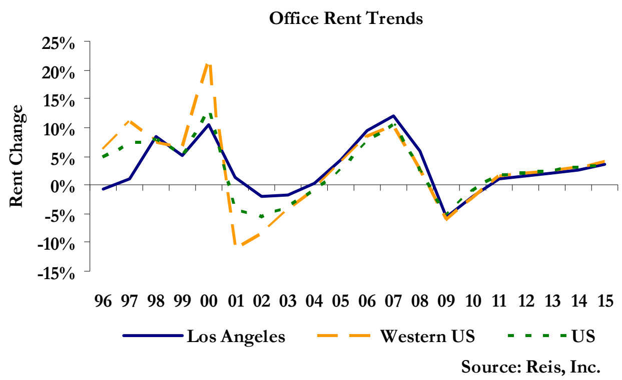
"With recent news that the national economy added fewer jobs than expected, it appears that the entire Los Angeles Basin office market will continue to see uneven fundamentals overall for at least the next 12 months," according to Colliers. Reis predicts that net absorption will remain slightly positive in the second half of the year, leading to a 2011 total of just under 1.2 million square feet with just slightly more demand forecast for 2012. At this pace of activity, it would take a long time to recovery from the 2008 to 2010 recession. And according to the Reis forecast, net absorption for the entire period from 2011 to 2015 will total just 9.4 million square feet, less than the occupancy lost during the recession. Fortunately, new supply is expected to be limited. The latest forecast is for just over 700,000 square feet of new supply, both in 2011 and in 2012.

Special Real Estate Factors:
Continued

way to recovery, but it will take time for this to affect the office market." "Los Angeles is benefiting from companies headquartered elsewhere, notably Northern California" according to Western Real Estate Business. "Google recently leased 100,000 square feet of space in Venice, while Facebook leased significant space in nearby Playa Vista."

- *The stalled economy has "hamstrung new development in the greater Los Angeles office market" according to Western Real Estate Business. "No one is aggressively making loans for new office development today unless there are pre-commitments. Additionally, there is a surplus on the inventory side, so there's no justification for new construction." There is some reconstruction and rehabilitation activity, however, with the "hot" submarkets apparently identified by the characteristics of those living nearby. "Hotter submarkets have historically been the ones with higher income demographics. In greater Los Angeles, this means areas such as Santa Monica, Beverly Hills and Pasadena. Investors continue to be attracted to properties in these communities, typically for redevelopment of older properties. Additionally, certain ethnic neighborhoods are primed for new development and investment. In Los Angeles, this typically means Asian enclaves such as Koreatown. There's a significant linkage between monies coming from abroad to Los Angeles, which is perceived as a strong area for investment."*

RENTS



Despite ongoing occupancy challenges, the second quarter saw the average asking rent rise 0.3% to $31.88 psf, while the average effective rent increased 0.4% to $25.80 psf. The increase cut the year-over-year declines to 1.1% asking and 0.8% effective according to Reis. Despite weaker occupancy, Class B/C rents have been stronger with a 0.4% second quarter increase in the asking average to $25.51 psf. The Class A asking average edged up 0.2% to $37.03 psf, following a 0.5% first quarter decrease.

Class B asking rents have stabilized at $25.80 psf according to Grubb & Ellis, while Class A rents fell 1.0% during the quarter to $35.04 psf. "Rents will stabilize but remain repressed through year-end 2011," this source predicts. Overall weighted average asking lease rates fell during the quarter, according to Colliers, to $30.24 psf. "Overall asking rents dropped 5.0% year-over-year to $29.40 psf, but have essentially leveled off," according to Cushman & Wakefield. "Taking rents vary by submarket and ranged from 5.0% to 30.0% below asking rents," with the level of concessions more depending on the funding and financial stability of the landlord than the landlord's willingness to make a deal.

As with vacancy, Reis predicts a slow, grinding recovery will follow sharp losses in rents during the recession, starting in 2011. The asking and effective averages fell 7.5% and 12.1%, respectively, for 2009 and 2010 combined, while the forecast increases for all of this year are barely over 1.0%. Subsequent increases are forecast to improve year-by-year, eventually reaching a high of 4.6% in 2015 for the effective average, but not until that year is the effective average forecast to exceed its level of 2008. Asking rent increases in Los Angeles, moreover, are forecast to trail the U.S. and West Region averages through 2014 despite a below average vacancy rate locally, as weak demand and the overhang of more than 25 million square feet of empty space are enough to keep rents down.

Special Real Estate Factors:
Continued

- *"What we are observing today in Southern California office markets is the churn that exists before the overall market begins to turn" according to UCLA's Anderson Forecast. "From the perspective of our panel of experts, who in spite of the underwhelming employment numbers are seeing the recovery take hold, current and scheduled new supply is insufficient to hold down rental and occupancy rates into 2013 and 2014." "The optimism about 2014 in the Survey, which first appeared last June 2010, and which cannot be found in the data on current market conditions, is an important indicator of both the probability of new additions to stock being started over the next two years and of opportunities for new investment in office and industrial space" this source continues. "After eighteen months of pessimism we have now seen one year of optimism."*

- *Much of the development news during second quarter centered on a major infrastructure investment to link Downtown and other parts of Los Angeles County to the affluent Westside. "Very good news today for the Westside Subway Extension: a $640.8-million loan neared final approval for the project by the U.S. Department of Transportation" according to transportation news source The Source. "The loan will be paid back with funds from Measure R, the sales tax increase approved by L.A. County voters in 2008. The trick with Measure R funds is that they flow in slowly over time and have to be split among the many Measure*

SUBMARKETS

Los Angeles is one of the nation's largest office markets, with estimates of office stock ranging from 190 to 250 million square feet depending on what types of buildings are included. It is also one of the most decentralized markets in the US, with less than 20% of its office stock in Downtown. Other main submarkets of Los Angeles include the Westside, the San Fernando Valley, and the Tri-Cities (Burbank/Glendale/Pasadena).

Westside

Based on their high average asking rents, the Westside submarkets, strung out along Wilshire Boulevard, are Los Angeles County's premier office markets. They add up to 52 million square feet of space, according to Reis.

- The 10.4-million-square-foot Century City submarket has a 13.4% second quarter 2011 vacancy rate, Reis reports. The average asking rent is $47.63 psf, the highest among 21 submarkets in Los Angeles County.

- The vacancy rate rose 20 basis points during the quarter and is up 40 from a year earlier. Both the average asking rent and the average effective rent edged up 0.1% during the quarter, the latter to $41.98 psf. The asking and effective averages are unchanged and up 0.5%, respectively, year-over-year.

- In the 11.5-million-square-foot West Los Angeles submarket, Reis reports a second quarter vacancy rate of 13.6%, and an average asking rent of $39.78 psf.

- The vacancy rate fell 40 basis points but remains 190 basis points higher than a year earlier, despite an absence of new supply. The average asking rent increased 0.2%, and the average effective rent rose 0.4% to $32.08 psf. The year-over-year losses are 5.6% and 5.7%, respectively.

- Santa Monica Pavilion, a 35,000-square-foot building on Santa Monica Boulevard, is expected to complete construction in August 2011.

Special Real Estate Factors:
Continued

R projects. A loan, on the other hand, is money that can be spent now on the subway project, which carries a hefty pricetag of about $5.3 billion if built in the next decade." A commuter rail extension, also to Santa Monica, is also under consideration. According to CurbedLA "it is likely that early utility relocation work and removal of paleontological resources (fossils) below Wilshire Boulevard in the vicinity of the La Brea Tar Pits could start sometime in 2012."

- *Building the subway would destroy an otherwise thriving and pleasant Los Angeles according to Joel Kotkin's Wall Street Journal article. "The greatness of Los Angeles stemmed from its willingness to be different. Unlike Chicago or Denver or New York, the Los Angeles metro area was designed not around a central core but on a series of centers, connected first by railcars and later by the freeways. The result was a dispersed metropolis where most people occupied single-family houses in middle-class neighborhoods." This pattern of public investment had the salutary affect of weakening central places. "L.A.'s downtown employs a mere 2.5% of the region's work force; New York's central business districts, by contrast, employ roughly 20%." Recent downtown investments "ignore the historical, cultural, economic [and] social forces that have shaped the larger geography of this metropolitan area."*

- "Westside City Councilman Bill Rosendahl released a statement … saying the contentious Bundy Village mixed-use project, planned for Bundy and Olympic, is heaving for air," *CurbedLA* reported. "The former Bundy Village proposal, which large numbers of my constituents and I oppose, is dead and no longer a threat of being approved in its current form. The developer decided to go back to the drawing board, and at some future time, bring forward a new proposal." Opponents of the proposal were financed by a rival developer, Kilroy Realty.

- According to Reis, the 7.7-million-square-foot Santa Monica submarket has a vacancy rate of 11.5%, and an average asking rent of $45.80 psf, second highest among the submarkets.

- Santa Monica's vacancy rate fell 50 basis points in the second quarter on 38,000 square feet of positive net absorption, and it is down 180 basis points year-over-year. The average asking rent rose 0.4% while the average effective rent increased of 0.5% to $36.88 psf during the quarter. The year-over-year declines are 3.0% and 2.5%, respectively.

- The 7.1-million-square-foot Beverly Hills submarket has the lowest vacancy rate at 8.6%, and the third highest asking rent at $45.21 psf.

- The 192,500-square-foot Metro Goldwin Mayer building completed construction in April, but the vacancy rate rose just 20 basis points due to 163,000 square feet of net absorption. The building was built for ad firm William Morris, which voided its lease in a dispute with the landlord, but Metro Goldwin Mayer swooped in and moved its headquarters there. William Morris renewed its lease elsewhere in Beverly Hills.

- The average asking rent increased 0.5%, and the average effective rent rose 0.7% to $37.34 psf, cutting the year-over-year losses to 1.5% and 0.9%, respectively.

- The 14.8-million-square-foot Mid-Wilshire/Miracle Mile/Park Mile submarket has a vacancy rate of 14.6%, and an average asking rent of $27.43 psf, according to Reis.

- The vacancy rate fell 40 basis points during the quarter and is unchanged from a year earlier, right at the countywide average. The average asking rent increased 0.6% to $27.43 psf while the average effective rent rose 0.8% to $22.34 psf. The year-over-year losses are just 0.6% asking and 0.1% effective.

- The 400,000-square-foot Red Pacific Design Center, the largest project under construction, is forecast to deliver in August 2011, according to Reis. The vacancy rate for the end of that year is forecast at 15.4%.

- Colliers reports flat rents for the Westside as a whole at $38.88 psf, with a 16.6% vacancy rate that fell for the first time in nearly four years. "New leasing activity also increased to 892,200 square feet as many tenants primarily in the entertainment, media, and technology sectors are in growth mode," according to this source. The overall West LA office market appears to be in recovery but certain West LA submarkets are recovering much faster than others."

- "Los Angeles West is leading the way to recovery in Los Angeles County with Santa Monica at the forefront," according to Cushman & Wakefield. "There are a few large blocks, of space, totaling 400,000 square feet, due to come to market in the next six months, which could push vacancy back up to 17.4%, but the increase in demand could help keep vacancy levels from reaching that. New leases in second quarter included Hollywood Reporter's ten-year, 27,040-square-foot lease, Bug Music's six-year, 20,173-square-foot lease, and Google's eleven-year, 13,465-square-foot lease."

Downtown

- For the 36-million-square-foot Downtown submarket, Reis reports a 13.5% vacancy rate and an average asking rent of $30.91 psf.

- The vacancy rate decreased 30 basis points from the prior quarter as net absorption was positive at 108,000 square feet, bringing the total for the past two quarters to plus 252,000 square feet. The average asking rent increased 0.4%, while the average effective rent rose 0.5% to $24.24 psf. The asking average is up 0.7% from a year earlier, with the effective average up 1.0%.

- Colliers, however, reaches the opposite findings. "Net absorption in Q2 was [negative] 470,000 square feet (in Central Los Angeles) with Downtown alone accounting for minus 384,100 square feet of net absorption due to large space givebacks from Howrey Simon LLP and Bank of America." This source puts the vacancy rate for Downtown, Mid-Wilshire and Hollywood combined up 100 basis points at 18.6% with the asking rent flat at $29.76 psf.

- "CBD (Central Business District) overall vacancy climbed to 19.0% up from 16.9% in second quarter 2010 with the sudden dissolution of Howrey & Simon, which left 106,000 square feet vacant at 550 S. Hope St.," according to Cushman & Wakefield. "Another 224,000 square feet are still expected to come back to market by year-end due to the relocation of LA Care and downsizing of Southern California Gas Company, which will push up overall vacancy to 20.0%."

- Significant new deals, according to C&W, "included Zurich Insurance at 777 S. Figueroa St. for 49,702 square feet for ten years; Parsons Brinkerhoff at 444 S. Flower for 31,594 square feet for ten years; California Community Foundation at Figueroa Courtyard for 26,336 square feet for ten years; Sulzmeyer, Kupetz, Baumann & Rothman at 333 S. Hope St, for 25,833 square feet for eight years; Grant Thornton at 515 S. Flower St. for 24,979 square feet for ten years." The largest deal overall was a Bank of America renewal.

"Tri-Cities" (Glendale/Burbank/Pasadena)

The Tri-Cities submarkets, home to a concentration of entertainment industry businesses, are collectively home to 21.3 million square feet of multi-tenant office space, according to Reis data.

- In the 6.5-million-square-foot Glendale submarket, Reis reports the vacancy rate at 18.9%, second highest among the submarkets, and the average asking rent at $30.37 psf.

- The vacancy rate rose 10 basis points during second quarter, the average asking rent increased 0.2%, and the average effective rent rose 0.3% to $24.32 psf. The market has not gotten much worse in Glendale recently, but it has not gotten much better either.

- The 338,000-square-foot second phase of the Grand Central Creative Campus is under construction for completion in late 2012.

- The 7-million-square-foot Burbank submarket has a second quarter vacancy rate of 15.2%, and an average asking rent of $33.28 psf according to Reis.

- The vacancy rate rose 30 basis points from the prior quarter and rents were essentially flat, with the effective average at $27.89 psf. The vacancy rate is down 10 basis points from a year earlier, with rents down about 1.5%.

- For the 8.2-million-square-foot Pasadena submarket, Reis reports a vacancy rate of 14.6%, and an average asking rent of $33.30 psf.

- The vacancy rate slipped 10 basis points, but the average asking and effective rents increased 0.9% and 1.2% (to $25.96 psf), respectively. The asking average is up 2.2% from a year earlier, while the effective average is down slightly more.

- "Total vacancy in the Tri-Cities office market decreased for the third consecutive quarter to 17.7% as entertainment, media, and technology companies continue to lease and occupy vacant space," according to Colliers. Direct asking rents were "flat" at $32.28 psf "which effectively ended twelve consecutive quarters of decreasing rental rates. It appears that average asking rental rates are finally flattening out as landlords have realized dropping their rents may not immediately translate to higher activity."

- "A surge in leasing activity boosted Tri Cities' market fundamentals in second quarter," according to Cushman & Wakefield, but "activity among the higher-priced spaces left lower-priced spaces behind, which dragged down the weighted average rent." Most notable new deals, according to this source, "included Disney's five-year, 70,675-square-foot sublease, Fireman's Fund Insurance's six-year, 60,000-square-foot sublease, KCET's 55,000-square-foot lease, Vulcan Material's ten-year, 40,809-square-foot lease, and Warner Brothers' ten-year, 34,203-square-foot lease."

San Fernando Valley

The San Fernando Valley submarkets sum to 27.5 million square feet of multi-tenant space, according to the Reis database.

- The 14.7-million-square-foot San Fernando Valley West submarket has a second quarter vacancy rate of 15.7%, and an average asking rent of $26.42 psf, Reis reports.

- The vacancy rate edged up 10 basis points in the second quarter, and the asking and effective rent averages edged down 0.1%, the latter to $20.57 psf. The vacancy rate is down 110 basis points year-over-year, but the asking and effective averages are down 3.4% and 3.1%, respectively.

- Two small buildings in Agoura Hills totaling 71,900 square feet are under construction for completion in late 2011 and early 2012.

- In the 9.4-million-square-foot San Fernando Valley Central submarket, the vacancy rate is 13.0%, and the average asking rent is $27.99 psf, according to Reis.

- The vacancy rate increased 30 basis points during the quarter, while the asking and effective averages rose 0.2% with the effective average at $22.04 psf.

- For the 3.3-million-square-foot San Fernando Valley East submarket, Reis reports a vacancy rate of 11.4%, third lowest among the submarkets, and an average asking rent of $30.76 psf.

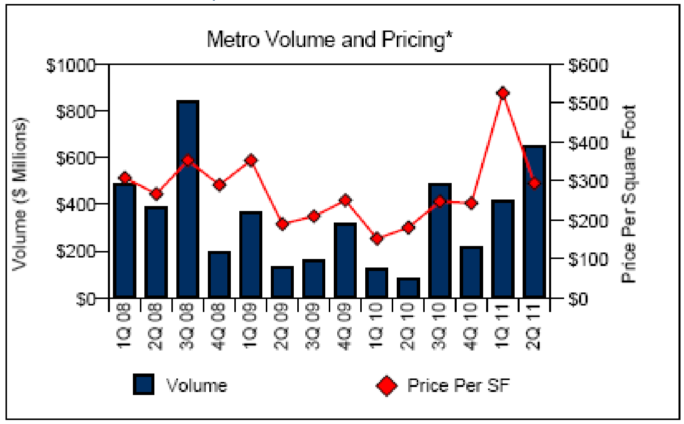
- The vacancy rate increased 90 basis points during second quarter, as both the average asking rent and the average effective rent fell 0.4%, the latter to $27.25 psf.

- "The San Fernando Valley & Ventura County office market appears to be bouncing along the bottom as the small professional services firms who make up most of the tenant base in the area remains cautious due to continued uncertainty in the economic recovery," according to Colliers. This source puts the vacancy rate at 20.5% and the asking rent at $26.16 psf.

- "This submarket is coasting along the bottom and may be one of the last Los Angeles submarkets to enter the recovery," according to Cushman & Wakefield, also due to weakness in business services. "Direct absorption reached negative 442,272 square feet due to a large number of sublease expirations this quarter. New leases included Ideal Living Management's six-year, 18,476-square-foot lease."

TRANSACTION ANALYTICS

Metro Volume and Pricing



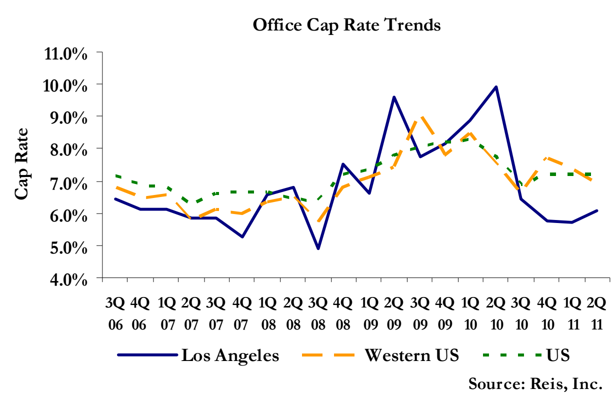
Single property office investment sales were strong in Los Angeles in the second quarter, with eight deals for $651 million, the highest dollar value traded since the third quarter of 2008.* The mean price was $294 psf. In the largest sale of the quarter and the past 12 months, Parsons Corporation sold its 950,000-square-foot headquarters in Pasadena to Morgan Stanley Real Estate Investors and Lincoln Property Company for $320 million ($337 psf). The three-building property was built in 1974. In what Cushman & Wakefield describes as a distress sale, MPG Property sold 550 Hope Street to LBA Realty for $157 million ($277 psf), with the lender agreeing to a short sale on a $200 million mortgage. The building last sold in April 2007.

Top Submarkets

Submarket Name	Square Feet Sold	Trans Volume ($ millions)	Price Per SF
LAX/El Segundo	928,101	$415	$447
Downtown	1,199,204	$367	$306
Pasadena	1,055,794	$349	$330
West LA	463,009	$184	$397
Mid-Cities	644,891	$129	$200
Beverly Hills	184,253	$74	$402
Marina/Culver City	207,061	$64	$308

The first quarter sale of the first phase of Horizon Playa Vista left the LAX/El Segundo submarket in top place among the submarkets in total dollar value and average price for sales over the past 12 months, with respective values of $415 million, and $447 psf. Downtown was second in square footage and dollar value sold, at 1.2 million square feet for $367 million, while Beverly Hills was second in mean price at $402 psf, among submarkets with substantial sales.

Cap Rate Comparisons and Forecasts



The mean cap rate for second quarter sales in Los Angeles was 6.1%, extending a streak of quarters in which Los Angeles's mean cap rate was far below the U.S. and West Region averages. The rolling 12 month cap rate is 6.2%, down 190 basis points from a year earlier. Slightly lower cap rates are forecast going forward.

*Reis Transaction Analytics includes single sale transactions, and excludes portfolio sales where pricing of individual buildings cannot be confirmed.

OUTLOOK

'For the balance of 2011, one should see the owners' perspective being marked by further stabilization of rates and concessions and less 'blood letting,'' according to *Western Real Estate Business*. "Tenants will still enjoy low rental rates for the balance of the year, so they should be well served by locking up lease rates. The expectation is that rental rates will begin increasing later this year."

Reis expects a slow recovery will follow a rapid decline, but given that the Reis model uses the relatively optimistic predictions (in recent quarters compared with other analysts) of Moody's Economy.com, there are worse scenarios. Global economic uncertainty could derail the office market recovery that is just beginning to pick up steam in Los Angeles.