OFFICE

REIS

Metro: Los Angeles

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Contents

THE ECONOMY

"Los Angeles County lagged its neighbor counties in recovery from the Great Recession over the past two years, but it finally gathered momentum in 2012," reported the Los Angeles County Economic Development Corporation (LAEDC) in its 2012-2013 Mid-Year economic forecast. "The monthly unemployment rate fell by two percentage points in less than a year from the cyclical peak of 13.2% in July 2011 to 11.2% in May 2012. The overall rate of job growth picked up slightly during the second few months of this year, while a number of industries experienced an uptick in activity and more robust job growth." Los Angeles is certainly the economic driver of California, and dominates the southern portion of the state with its huge economy as well as its sheer size. However, as the city struggles to regain its footing, the rest of the state has catching up to do. "California struggles to recover lost jobs," the *Los Angeles Business Journal* reported July 11th. Using seasonally adjusted figures, this source reports that "nine states and the District of Columbia have recovered all of the jobs they lost during the recession, but 41 other states, including the Golden State, still haven't bounced back."

The latest Current Employment Survey (CES) data from the BLS show a small gain, but a gain nonetheless, for seasonally unadjusted non-farm employment. Data from May 2011 to May 2012 show a gain of 42,400 payroll jobs (1.1%) in Los Angeles County. As noted in earlier *Reis Observer* coverage, the self-employed are a large portion of the LA workforce and CES data does not include them. According to household-based data from the BLS, which includes these non-employees, the employment gains are much smaller, with the number of employed residents of Los Angeles County rising by just 24,300 (0.6%) in the year to May 2012, implying that perhaps many of these former free lancers may have finally been taken on as employees. Not many cities can boast of an economy that runs from aerospace to motion pictures, but LA can. According to the LAEDC, "the aerospace and technology sector includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology," and these industries accounted for 4.7% of non-farm jobs in Los Angeles County in 2011.

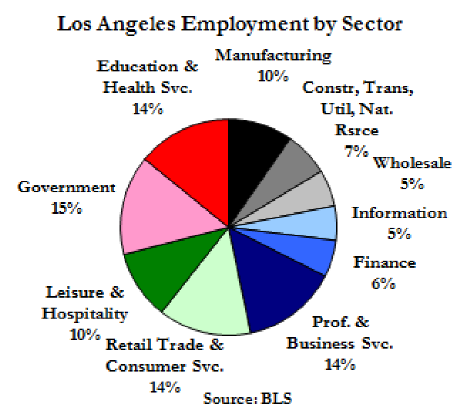
Meanwhile, "activity in the entertainment industry continues to improve," the LAEDC reports. From May 2011 to May 2012, according to CES data, payroll employment increased by 5,100 (2.7%) in the Information Sector, led by a gain of 5,200 (4.3%) in the Motion Picture and Sound Recording industry. It should be noted, however, that FilmL.A—which

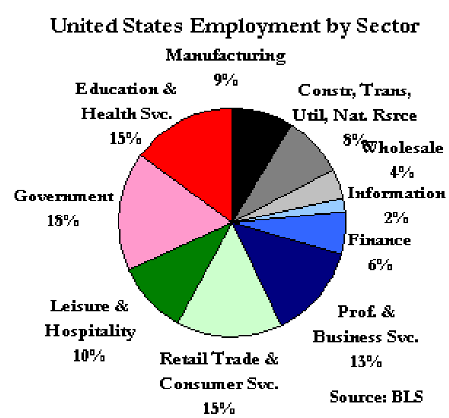
Employment:

- *The BLS reports a seasonally unadjusted unemployment rate of 11.1% in May for the Los Angeles Metropolitan Division, down from 12.0% one year earlier.*

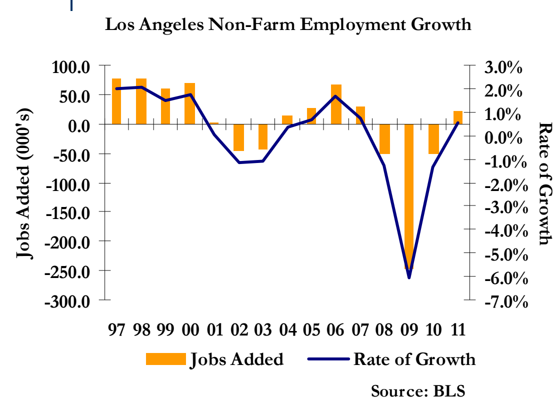
- *Total non-farm employment in Los Angeles was up 1.1% year-over-year in May, according the BLS.*

- *Moody's Economy.com reports a second quarter 2012 average household income of $134,362 for Los Angeles. Average household incomes of $124,481 and $128,541 are reported for the top metros in the nation and West region, respectively.*

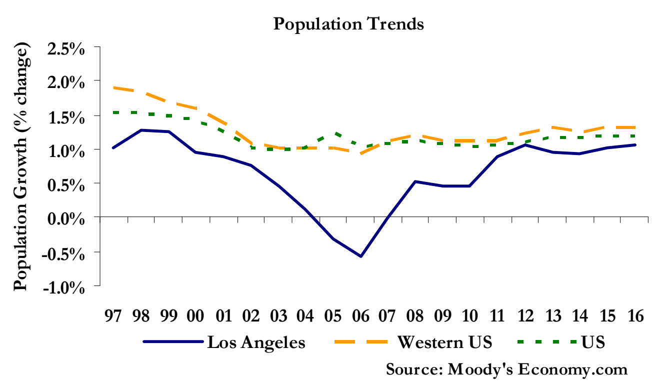




coordinates permits for filmed entertainment shot in the area, announced in early July that "overall on-location production slipped slightly last quarter compared to the same period last year." Even a blip in the entertainment industry can have serious effects in a city like LA.

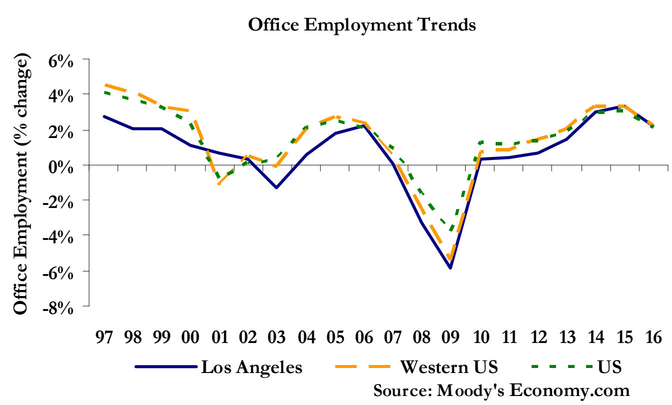


The Financial Activities sector added 4,900 jobs (2.3%) year-over-year as of May, and Professional and Business Services employment increased by 18,300 (3.4%). The latter includes an increase of 10,300 (12.3%) in the Employment Services industry, which includes temporary workers. Manufacturing continues to lose ground. This sector lost another 5,800 jobs (1.6%) and Transportation and Warehousing was barely positive with 600 (0.4) jobs gained. Wholesale Trade saw a similarly anemic performance, gaining 400 jobs (0.2%) through May 2012. There was welcome news in the Construction sector, however, as 3,100 jobs (3.0%) jobs were added year-over-year in May. Public works have been active, as *The Source* reported in April that the Los Angeles County Metropolitan Transportation Authority certified "the Final Environmental Impact Statement/Report (EIS/EIR) for the $1.37- billion Regional Connector Transit Corridor Project that will connect three light rail lines through downtown Los Angeles." According to *Curbed LA*, once completed, the Connector will allow people "to train travel across the County without transfers," one of the city's long –sought goals On the consumer front, CES data shows an increase of 10,900 jobs (2.8%) year-over-year in May in Leisure and Hospitality, and 4,600 (1.2%) in Retail Trade. Within the latter sector the Food and Beverage Store industry added 3,200 jobs (3.7%) and the big-box General Merchandise Stores industry added 2,200 jobs (3.4%). All in all, total Private Employment increased by 50,600 jobs (1.6%).



OUTLOOK

Moody's Economy.com predicts a slight increase of 31,000 jobs (0.8%) in 2012 but a better showing in 2013. The LAEDC maintains the position it held in earlier reports, noting that "it will take several years to return to the job levels that preceded the recession, but most industries are expected to add jobs this year and next, the exceptions being Government and Manufacturing."

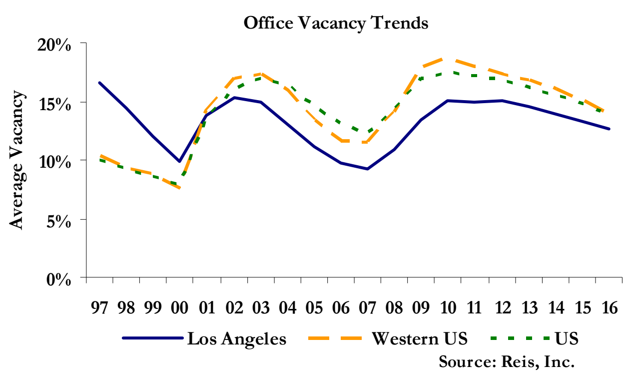


THE REAL ESTATE MARKET

After a difficult first quarter marked by negative net absorption, the 196-million-square-foot Los Angeles general purpose, multi-tenant office market bounced back with positive demand. Rent gains have been modest in both the first and second quarters. Job growth has "helped quiet the bumpy ride the Los Angeles County office market has been on for the past few quarters," according to Cushman & Wakefield.

OCCUPANCY

Reis reports a second quarter 2012 vacancy rate of 15.1%, down 20 basis points from a quarter earlier but up 20 from one year earlier. The rate has been close to 15.0% since 2010. It has not exceeded 20.0% since the early 1990s. The Class A rate of 14.3% is down 40 basis points for the quarter but up 10 basis points over 12 months; the Class B/C rate of 16.0% is up 20 basis points from a year earlier and up 10 over the quarter



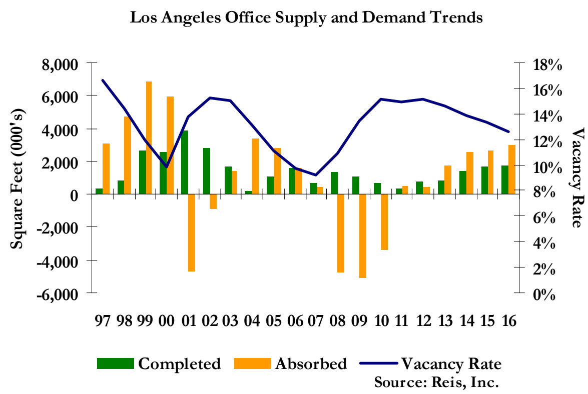
"Los Angeles County job gains will be insufficient to ignite a full-scale office recovery in 2012, but as some employers exploit discounts to expand, vacancy will fall for the second consecutive year," Marcus & Millichap notes in its national outlook report "Following a 20-basis-point improvement last year, vacancy will fall an additional 50 basis points to 14.4% in 2012," Marcus predicts. "While the Central Business District (CBD) submarket weakened, the rest of the Los Angeles office submarkets improved. Overall vacancy decreased across all submarkets, totaling a year-over-year 0.5-percentage-point (pp) drop to 18.6%. The last year-over-year decrease occurred in mid-year 2007 indicating the rough ride since the recession ended is moderating," according to Cushman & Wakefield. GVA Daum reports that "the Los Angeles County office market witnessed vacancy levels remain unchanged during the quarter, remaining at 16.6%." Reis forecasts vacancy to finish 2012 at the current rate, with gradual declines to follow.

Special Real Estate Factors:

- *"The Federal Transit Administration has granted the Los Angeles County Metropolitan Transportation Authority a record of decision for the $1.37 billion Regional Connector Transit Corridor. The move certifies that the project has now satisfied all federal environmental guidelines and is an important prerequisite for Metro to begin final design of the nearly two-mile underground light rail line downtown," according to GlobeSt.com. The MTA is also now able to seek federal funding to help build the line. "Regional Connector, partially funded with $160 million in Measure R sales-tax money approved by voters in 2008, is considered one of the region's most significant transit projects because it will connect the Metro Gold Line, Blue Line, and Expo Line through downtown L.A., enabling passengers to take a 'one-seat ride' from Montclair to Long Beach and from East Los Angeles to Santa Monica, CA." "The line will include three new light rail stations in downtown at 1st/Central, 2nd/Broadway and 2nd/Hope. The new stations are estimated to provide access to 88,200 passengers, including approximately 17,700 new transit riders," according to GlobeSt.com.*

- *GlobeSt.com reported in June that "PHR LA Mart LLC, a local investment group, has purchased the L.A. Mart for an undisclosed price, rumored to be $55 million, from Vornado Realty Trust. The one-of-a-kind design center, office*

SUPPLY AND DEMAND



The 606,000 square feet of negative net absorption recorded in the first quarter, weighted heavily towards the Class B/C sector, was only partially redeemed by the 306,000 square feet of positive demand noted in the second quarter. Again, demand was unbalanced; Reis reports 386,000 square feet of demand for Class A space, but B/C demand was negative 80,000. In fact, for a premier market, Los Angeles has struggled with negative absorption. For the decade of 2002 to 2011, the market totaled minus 3.9 million square feet of demand, while new construction added 11.5 million during that time span. However, market inventory fell by 5 million square feet as buildings were taken off the market or converted into residential use during the housing bubble. It should be noted that the absorption total for 2008 to 2010, during the recession, had been a damaging minus 13.2 million square feet.

GVA Daum reports for the second quarter that "net absorption finished with a gain of 13,000 square feet of occupied space during the quarter and has gained 633,000 square feet for the year." "Occupancy gains showed the most improvement with a second consecutive quarter, following 14 quarters of loss, of overall positive absorption totaling 838,508 square feet for the year, compared with negative 1.1 million square feet a year ago," according to Cushman & Wakefield. Marcus & Millichap notes "absorption trends for Class A space in premier hubs will surpass the market's lower-tier counterpart."

Construction data has changed little since the first quarter. Reis reports 1.4 million square feet of multi-tenant general use space under construction, of which 788,000 has a 2012 completion date. A slightly larger amount is forecast for 2013, after which completions should exceed 1 million square feet annually. Net absorption is set for a modest 399,000 square feet in 2012, after which much larger amounts, approaching 3 million square feet, are forecast.

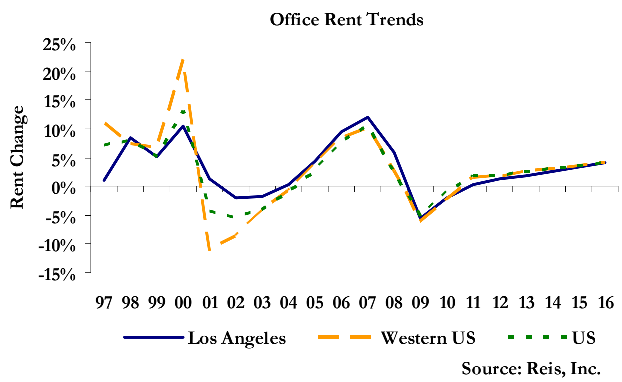
Continued

and showroom building downtown offers 784,093 square feet of rentable space on 13 levels and is a premier design, purchasing, and event destination for many of the West Coast's finest furniture designers and wholesalers. The property, which is situated on a 9.31-acre site spanning nearly two full city blocks, also has a long-term, 150,000-square-foot lease with the County of Los Angeles. The L.A. Mart was 60% occupied at the time of purchase." In 2010 the County "signed a 15-year, $48.4 million lease for the space at the L.A. Mart at 1933 S. Broadway to house offices of the county's Children and Family Services Department. The lease was one of the largest of a number of office deals that had closed at that time in downtown L.A., including two law firm leases of 19,487 square feet (Dykema Gossett) and 17,500 square feet (Fitzpatrick & Hunt, Tucker, Collier, Pagano, Aubert)."

- *"Local Market for Office Space is on the Mend, Numbers Suggest," the LA Daily News reported July 12th. "Three years after the Great Recession, the San Fernando Valley area's office real estate sector has finally hit bottom and is poised for the long slog up, market watchers say." David Hoffberg, senior vice president at Delphi Business Properties Inc. in Van Nuys, senses the train wreck that hit the market when the economy tanked is being cleared away. "A couple of boxcars are back on the tracks, but it's going to take awhile before the train is rolling along again," according to Hoffberg.*

RENTS

Rents generally perform well in the Los Angeles office market. Both the average asking rent and the average effective rent increased 0.2% in the second quarter of 2012, to $32.19 psf and $26.11 psf, respectively. The asking and effective averages are up 0.8% and 1.0% from a year earlier. The Class A asking average is $37.43 psf, up 0.2% from a quarter earlier and 0.9% from a year earlier. The Class B/C asking average is up 0.2% over three months and 0.6% over twelve at $25.70 psf.



"Average rents increased 2.1% year-over-year," according to GVA Daum, from $28.08 psf to $28.86 psf. According to Cushman & Wakefield, direct asking rents increased 2.8% year-over-year from $29.52 psf to $30.36 psf. "Direct Class A asking rental rents increased 2.9% over the past year," to $33.72 psf, according to this source. "Asking rents will rise 1.2% this year to $32.47 psf as effective rents climb 1.9% to $26.49 psf," Marcus & Millichap reports. For the Greater Los Angeles Basin market, Colliers reports a weighted average asking lease rate of $29.88 psf.

Reis predicts the asking and effective averages will increase 1.2% and 1.5% in 2012, following low gains of 0.4% and 0.9% in 2011. The recession took its toll of rents mostly in 2009 and 2010, after several years of strong gains. National and West region rents both increased 0.2% asking and 0.3% effective in the second quarter, so Los Angeles is performing more or less the same as its regional and national peers. The LA metro area had a period of over performance on the rental front that has since subsided. Following the modest 2012 increases rent gains are forecast to gradually ramp up to an increase of 4.0% asking and 4.9% effective in 2016. The effective average is expected to be at a new high by the end of 2015.

Special Real Estate Factors:

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- *The LA Daily News reports that second quarter vacancy numbers from Lee & Associates Commercial Real Estate Services in Sherman Oaks "suggest the market is starting to mend, if ever so slightly. In the April through June period, the vacancy rate in L.A. North, which consists of the Conejo, San Fernando, and Santa Clarita valleys, decreased to 17.6% from the recession era high of 18.2% a year ago. But it was up a bit from 17.3% in this year's first quarter. However, the rate is still more than double the 7% boom-market low in the second quarter of 2007. By comparison, the countywide vacancy rate was 18.6% in the second quarter, 2 percentage points lower than a year earlier. The current levels suggest the recovery will take a long time."*

- *Vacancy rates in the area ranged from a high of 26.7% in the Agoura Hills submarket to a low of 9.3% in the Universal City/Studio City submarket," according to the Daily News. Burbank's City Center and Media District also had relatively low rates of 11% and 15.4%, respectively. The City Center rate increased from 9% a year earlier, while the Media District decreased from 16.2%. Tenants are willing to pay more in this submarket even though other areas are cheaper. During the second quarter the average lease rate for the entire L.A. North market was $26.64 psf, unchanged from the first quarter but down four cents from a year ago. But in the Media District, the rate was $40.30 psf a square foot, up from*

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 to 52 million square feet of space according to Reis.

- The 10.4-million-square-foot Century City submarket has a 12.8% second quarter 2012 vacancy rate, Reis reports. The average asking rent is $48.30 psf, the highest among 21 submarkets in Los Angeles County.

- The vacancy rate fell 10 basis points during the quarter and is down 60 basis points from a year earlier. Both the average asking rent and the average effective rent were flat during the quarter. Rents are up 1.4% asking and 1.5% effective from a year earlier, however.

- In the 11.6-million-square-foot West LA submarket, Reis reports a second quarter vacancy rate of 13.3%, and an average asking rent of $40.11 psf.

- The vacancy rate rose 10 basis points during the quarter on 11,000 square feet of negative net absorption, but remains 30 basis points lower than a year earlier. The average asking rent and the average effective rent edged up 0.7% and 0.8%, respectively, the latter to $32.47 psf. The year-over-year gains are 0.8% and 1.2%, respectively.

- According to Reis, the 7.7-million-square-foot Santa Monica submarket has a vacancy rate of 9.9%, second lowest among the submarkets, and an average asking rent of $46.18 psf. Santa Monica had held the top spot in asking rent for several years until recently.

Special Real Estate Factors:
Continued

$34.80 psf a year ago and a penny higher than in the first quarter."

- *According to CurbedLA, the Metro Board voted in June to "hire LA-based Gruen Associates and UK-based Grimshaw Architects to create a master plan for Union Station and about 40 acres surrounding it (Metro bought the station and land last year). The idea is to jumpstart the area and hook it up with the surrounding neighborhoods and already-happening Downtown." According to a press release cited by Curbed "The master planning process will encompass near term passenger and other circulation improvements as well as longer term rail and joint development opportunities, including an analysis of high speed rail station alternatives. It also will create better access for pedestrians and bicyclists and clearer linkages among the transit modes on site. Finally, the master plan team is charged with exploring close linkages with Union Station's neighbors and downtown itself that will support and catalyze activities in the city around the station."*

- Santa Monica’s vacancy rate fell 40 basis points in the second quarter on 31,000 square feet of positive net absorption, and it is down 160 basis points year-over-year. The average asking rent rose 0.7% and the average effective rent increased 0.8% during the quarter, the latter to $37.29 psf. The year-over-year increases are 0.8% and 1.1%, respectively.

- The 7.4-million-square-foot Beverly Hills submarket has the lowest vacancy rate countywide at 8.0%, and an asking rent of $46.56 psf.

- The vacancy rate decreased 70 basis points in the second quarter, and is down 60 from a year earlier. Rent gains have been strong here. In the second quarter the average asking rent increased 1.0% and the average effective rent rose 1.2% to $38.74 psf. The asking and effective averages are up 3.0% and 3.7% year-over-year.

- The 14.8-million-square-foot Mid-Wilshire/Miracle Mile/Park Mile submarket has a vacancy rate of 14.5%, and an average asking rent of $27.97 psf, according to Reis.

- The vacancy rate decreased 10 basis points during the quarter on 15,000 square feet of net absorption, and is down 10 basis points from a year earlier. The average asking and effective rent increased 0.4%, the latter to $22.84 psf. The year-over-year gains are 2.0% and 2.2%, asking and effective.

- The 400,000-square-foot Red Pacific Design Center, the largest project under construction with a 2012 delivery date, is forecast to complete construction in December. Reis predicts a 15.4% vacancy rate here at year-end.

- For 56 million square feet in Los Angeles West, Colliers reports a total vacancy rate of 15.4%, down 60 basis points from the prior quarter, and an average asking rent of $39.36 psf. Net absorption was 322,100 square feet in the second quarter after a flat first quarter.

- The vacancy "is the lowest rate in West Los Angeles since the fourth quarter of 2009," according to Colliers. "New leasing activity remained strong, but decreased slightly from 955,900 square feet in the first quarter to 916,000 square feet in the second quarter. Entertainment, media, and technology firms continue to show their interest in taking space in the West LA office market," this source reports.

- "The LA West office market continues to lead the rebound in greater Los Angeles," according to Cushman & Wakefield. "Direct rental rates increased by $0.04 psf/month from the previous quarter to $3.34 psf/month. This brings asking rental rates back to 2010 levels, a direct result of the strong demand for space from entertainment, technology, and media companies." "Overall occupancy gains totaled 229,192 square feet bolstered by large tenant move-ins from United Talent Agency and Playboy in Beverly Hills," this source reports.

Downtown

- For the 36-million-square-foot Downtown submarket, Reis reports a 15.5% vacancy rate and an average asking rent of $31.12 psf.

- This has not been an active market. Second quarter vacancy and rents are essentially unchanged. Construction has likewise been quiet. There was 14,000 square feet of negative net absorption in the second quarter, actually something of an improvement of first's negative 594,000 square feet.

- The average effective rent, at $24.46 psf, is down one cent over the quarter. The asking and effective averages are up 0.7% and 0.9%, respectively, year-over-year.

- "At mid-year 2012, total vacancy in the Central Los Angeles office market increased 30 basis points over last quarter to 18.4%. The Hollywood submarket was the only market to report a decrease in vacancy rates. Continued givebacks in the Mid Wilshire and Downtown Los Angeles submarkets drove total vacancy higher." Direct weighted average asking rental rates decreased to $29.16 psf from $29.52 psf in the first quarter, Colliers reported.

- "The CBD office market continued to soften through the first half of the year," Cushman & Wakefield reported. "Vacancy rates inched up, leasing activity declined and occupancy losses rose again. Renewing tenants continued to give back at least 10% of space in an effort to be more efficient. Law firms, which make up 43% of the tenancy in the CBD, are still suffering insolvencies and in the second quarter, Dewey LeBoeuf dissolved, leaving a full floor vacant at 333 S. Grand Ave. Overall vacancy reached 20.2%."

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

The Tri-Cities submarkets, home to a concentration of entertainment industry businesses, are collectively home to 21.6 million square feet of general purpose, multi-tenant office space according to Reis data.

- In the 6.5-million-square-foot Glendale submarket, Reis reports the vacancy rate at 19.1%, and the average asking rent at $30.11 psf.
- The vacancy rate fell 120 basis points during the second quarter and is up 20 from a year earlier. Both the average asking rent and the average effective rent decreased 0.1% during the quarter, the latter to $24.09 psf. The year-over-year decrease was 0.9% by both measures.
- The 338,000-square-foot second phase of the Grand Central Creative Campus is expected to complete construction in August. Reis predicts positive net absorption here although vacancy will tick upward 40 basis points by year end.
- The 7.0-million-square-foot Burbank submarket has a second quarter vacancy rate of 13.9%, and an average asking rent of $33.43 psf according to Reis.
- The vacancy rate fell 110 basis points from the prior quarter and both the average asking rent and the average effective rent fell 0.1%, the latter to $28.11 psf. The vacancy rate is down 130 basis points from one year earlier.
- For the 8.2-million-square-foot Pasadena submarket, Reis reports a vacancy rate of 14.5%, and an average asking rent of $33.60 psf.
- The vacancy rate was down 20 basis points from the prior quarter, as the average asking and the effective rent edged up 0.2% and 0.3%, respectively, the latter to $26.23 psf. The asking average is up 0.9% year-over-year, while the effective average is up 1.0%.
- "Total vacancy in the Tri Cities office market decreased 30 basis points from 17.9% in the first quarter to 17.6% in the second quarter. Direct weighted average asking rental rates increased" to $31.92 psf, "the first increase since the second quarter of 2008. Leasing activity was driven by entertainment and media companies seeking reasonably priced and high quality office space," according to Colliers.

- “Learner’s Digest International signed a 29,245-square-foot lease at 450 N. Brand Blvd., adding to the 25 leases executed in Glendale. With vacancy rates forecasted to improve, Class A rental rates are likely to rise in the second half of the year,” according to Cushman & Wakefield

San Fernando Valley

The San Fernando Valley submarkets sum to 27.4 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 15.5%, and an average asking rent of $26.52 psf, Reis reports.

- The vacancy rate fell 10 basis points in the second quarter, and is down 20 from a year earlier. The average asking rent and the effective rent were unchanged over the quarter, the latter at $20.69 psf. The year-over-year increases are just 0.4% asking and 0.6% effective.

- In the 9.4-million-square-foot San Fernando Valley Central submarket, the vacancy rate is 12.5% and the average asking rent is $28.05 psf, according to Reis.

- The vacancy rate decreased 40 basis points during the quarter and is down 50 from a year earlier. The asking and effective averages increased 0.1% during the quarter with the effective average at $22.14 psf. The gains from a year earlier are also small.

- For the 3.3-million-square-foot San Fernando Valley East submarket, Reis reports a vacancy rate of 11.7%, and an average asking rent of $30.66 psf.

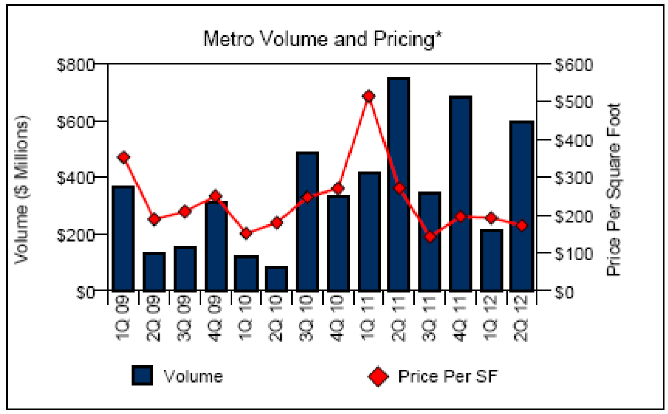
- The vacancy rate increased 60 basis points during the second quarter, as asking and effective rents fell 0.6% and 0.7%, respectively. The latter is reported at $27.15 psf. Both rental measures are down slightly from a year earlier.

- "Total vacancy in the San Fernando Valley & Ventura County office market decreased 30 basis points from 20.7% in the first quarter to 20.4%. The area office market saw +107,500 square feet of net absorption with much of the space gains for the quarter occurring in the Conejo Valley and Santa Clarita Valley," according to Colliers.

TRANSACTION ANALYTICS

Metro Volume and Pricing

Los Angeles single property office investment sales picked up notably in the second quarter of 2012. Reis reports 26 qualifying deals for $599 million at a mean price of $173 psf.* The second quarter saw the largest deal of the past 12 months. Reis reports the sale of the 472,000-square-foot Wedbush Center in Los Angeles for $132 million. The price per-square-foot was $280. April also saw the sale of the 113,000-square-foot Broadway Plaza, in Santa Monica, for $61 million ($540 psf) and the 449,881-square-foot Pacific Center Building for $60 million ($133 psf.)



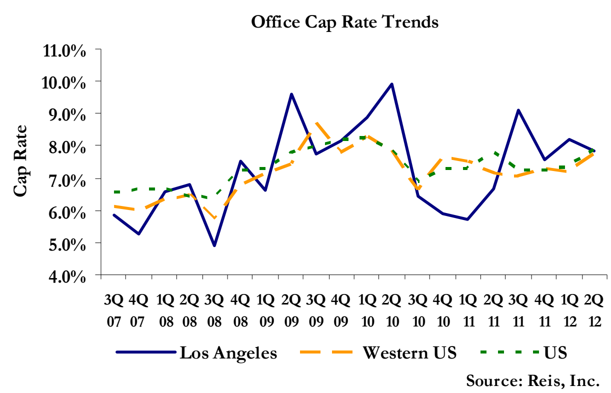
Top Submarkets

Downtown leads in square feet sold, at 2 million, and transaction volume, at $319 million. The price-per-square foot here is fairly modest at $159. The highest price by far was in the Santa Monica submarket, at $509 psf, followed by Hollywood Sunset, at $295 psf.

Submarket Name	Square Feet Sold	Trans Volume ($ millions)	Price Per SF
Downtown	2,001,457	$319	$159
Santa Monica	448,352	$228	$509
Long Beach	1,213,525	$185	$153
Hollywood/Sunset	601,754	$177	$295
Beverly Hills	524,265	$146	$278
LAX/El Segundo	755,246	$107	$142
Mid-Cities	1,144,408	$101	$88

Cap Rate Comparisons and Forecasts

The mean cap rate for second quarter sales in Los Angeles is 7.9%, petty much in line with the U.S. and West region averages. The rolling 12 month cap rate is 8.1%, still rising from the 6.4% calculated in the second quarter of 2011. Reis predicts the rolling 12 month mean will level off at about its current level for a couple of years before edging down slightly, reaching 7.7% by 2016.



OUTLOOK

"Recovery in Southern California's office market is starting to take root. Demand for office space is on the upswing, reflecting employment gains in the financial and professional business services sectors, and near record low levels of new construction," according to the Los Angeles Economic Development Corporation. "While the increase in occupied space will build on last year's improvements, the county's office sector still faces a long journey to reach the single-digit vacancy recorded prior to the recession," according to Marcus & Millichap. Reis predicts modest rent gains in 2012, as noted but more substantial increases in the following years as vacancy gradually tracks down below the 13.0% market towards the end of the forecast period.

For additional metro and submarket level information on the top 82 markets for the four principal property types, visit www.reis.com or call Reis at: (800) 366-REIS.