Reis Observer

LOS ANGELES OFFICE MARKET

Published February 11, 2011

THE ECONOMY

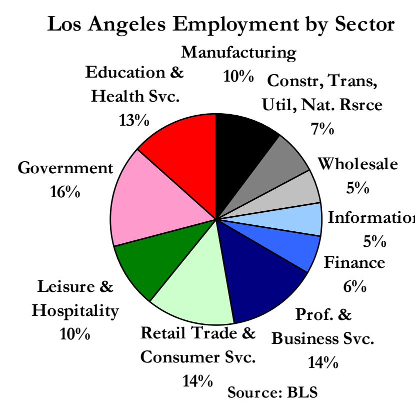
The Los Angeles County (Los Angeles Metropolitan Division) economy is still getting weaker, multiple data sources imply, with an increase in average income the only positive statistic. According to Current Employment Survey (CES) data from the Bureau of Labor Statistics (BLS), total non-farm payroll employment in the county was still 11,900 (0.3%) lower in November 2010 than it had been in November 2009, a period when employment in the U.S. as a whole rose 0.7% by this measure. According to household-based data from the BLS, the number of employed residents of the county, including the self employed, was down by more than 20,000 (0.5%) year-over-year in November, although the labor force increased by 32,600 (0.7%). With more and more people pushed into "freelance" or "independent contractor" arrangements rather than the wage and salary employees included in the CES, employment as measured by the household survey rose and fell substantially more than payroll employment in the recent cycle.

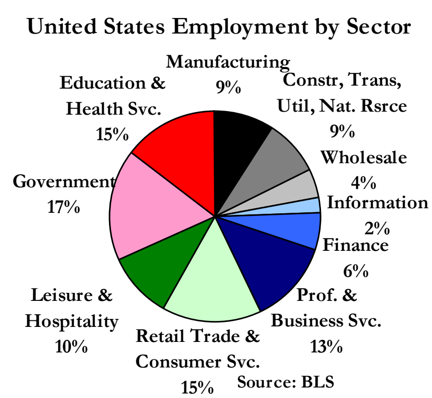
The big positive trend in Los Angeles is in average household income, according to Moody's Economy.com, indicating those who are better off are doing better still. After falling slightly in 2009, this figure increased 4.2% in 2010. The population, in addition, continues to rise at about the national average pace, by about 100,000 (1.1%) per year. Despite these figures, year-over-year employment trends in housing and consumer-related sectors are mixed as of November, according to CES data. The Construction sector lost another 8,200 jobs (7.6%) and Retail Trade lost 2,000 (0.5%), although Leisure and Hospitality gained 9,600 (2.5%). Within retail trade, the big box Grocery Store (plus 1,000 or 1.3%) and Department Store (plus 1,200 or 2.6%) industries fared better. On the housing front, "there's a growing fear the housing market may be headed for a double dip, and the December data for Los Angeles County should do little to dispel that notion," according to the *Los Angeles Business Journal*. "The median price of a house in the county fell to $345,000, off about 1 percent from both November and a year earlier," this source reported, and "annual homes sales fell 3.1% last year to 51,160 units, even though sales in the first half of the year were juiced by a federal tax credit that expired in April."

The strongest part of the economy is the Information sector, which is heavily concentrated in Los Angeles compared with the rest of the country. That sector added 17,800 jobs (8.9%) in the year to November, paced by an increase of 11,500 (8.9%) in the Motion Picture and Sound

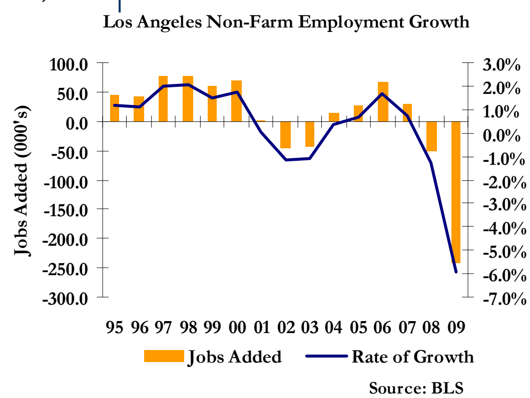
Employment:

- *BLS reports a seasonally unadjusted unemployment rate of 12.9% in November for the Los Angeles Metropolitan Division, up from 11.9% one year earlier.*
- *Total non-farm employment in Los Angeles was down 0.3% year-over-year in November, according the BLS.*
- *Moody's Economy.com reports a fourth quarter 2010 average household income of $130,716 for Los Angeles. Average household incomes of $120,040 and $123,558 are reported for the top metros in the nation and West region, respectively.*

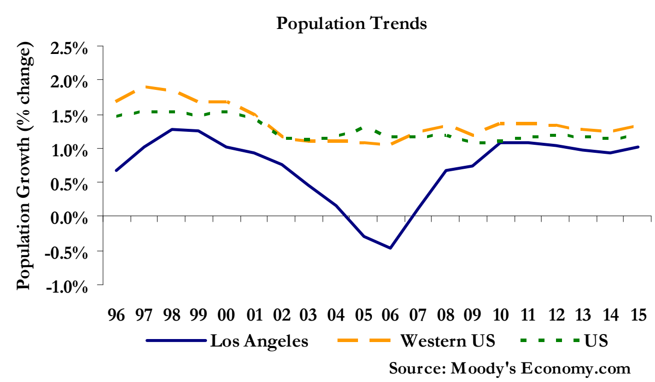




Recording industry. Job losses, meanwhile, have slowed to 400 (0.2%) in the Financial Activities sector and 2,900 (0.6%) in Professional and Business Services. Most components of those office-based sectors, moreover, are adding jobs, balanced by respective losses in Real Estate (minus 800 or 1.1%) and Management (headquarters) (4,700 or 9.1%). The bellwether Employment Services sector, which includes temporary workers, was up 1,300 jobs (1.6%) year-over-year.

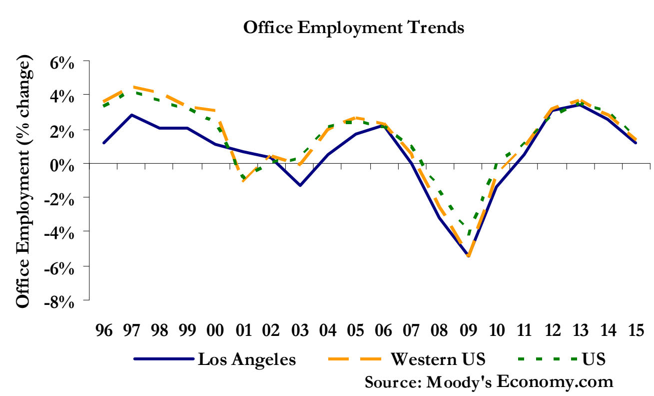


The weakest sector as measured by absolute job loss is Local Government, with a decrease of 17,300 (3.7%). In addition to their own difficulties, California's local governments have been affected by the fiscal crisis of the State of California. Proposition 13 limited local capacity to collect property taxes, and as a result a large share of local government revenues are received from the state. In addition, *CurbedLA* reported, the State is considering diverting local property tax revenues dedicated to redevelopment purposes to the state budget. "City and redevelopment officials around the state have reacted with disbelief that the governor would contemplate such an idea, saying it would deprive them of a vital tool for attracting businesses amid an economic crisis. But critics, including school and county officials, say the idea is welcome and overdue. They argue that although redevelopment has its merits, local leaders have overused it to subsidize questionable private development at the expense of basic public services," according to *Curbed.*



OUTLOOK

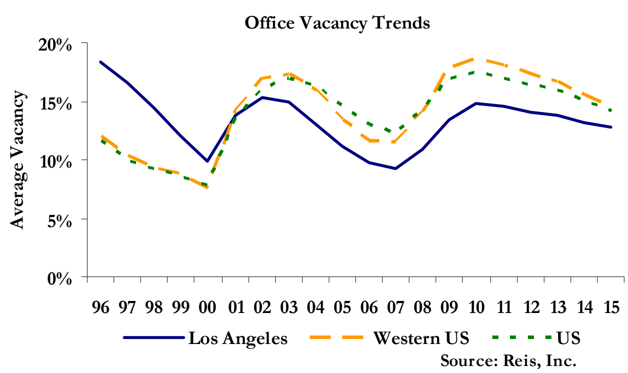
Moody's Economy.com forecasts a small increase of 30,600 (0.8%) jobs in Los Angeles County for 2011, offsetting the small loss in 2010 but leaving the huge hole created in 2008 and 2009. Not until 2015 is this area expected to regain the job levels seen in the banner years 2007 and 1989.



THE REAL ESTATE MARKET

"To the relief of brokers and landlords—and even deal-hungry tenants—the L. A. County commercial real estate market appeared finally to start its nascent recovery in the final quarter of last year," *Los Angeles Business Journal* reported. "After enduring 12 straight quarters of negative net absorption the Los Angeles office market turned the corner in the fourth quarter of 2010," according to Grubb & Ellis. For the 195-million-square-foot Los Angeles multi-tenant, general use office market tracked by Reis, however, the picture is mixed. Fourth quarter 2010 did show positive net absorption for the first time since second quarter 2007, but the asking rent decline was the second largest among the top Reis markets.

OCCUPANCY



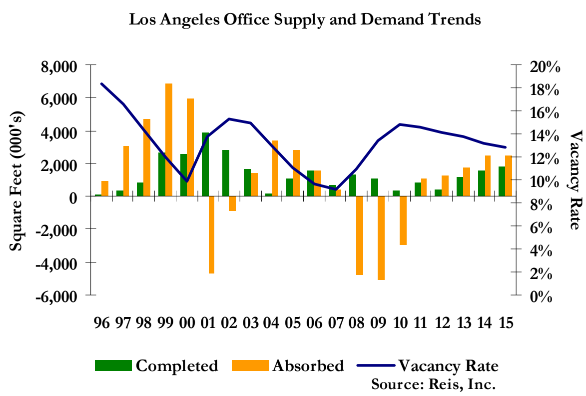
Reis reports a fourth quarter 2010 vacancy rate of 14.8%, down 20 basis points from the previous quarter but still up 140 for all of 2010. Until the recent quarter, vacancy had increased steadily from a low of 8.9% in the second quarter of 2007. The current cyclical high is 15.0% noted for third quarter 2010, compared with a year-end high of 15.3% at year-end 2002. The Class A and B/C rates of 14.2% and 15.5% are similar, and each fell in the fourth quarter.

"Overall vacancy increased slightly to 18.6%, a 1.5-percentage-point increase year over year," according to Cushman & Wakefield, which found net absorption to still be negative in its 194-million-square-foot market. For 190 million square feet, including single tenant but not owner-occupied space, Grubb & Ellis reports a vacancy rate of 17.0%. "Vacancy will stabilize as the economic recovery gains traction and fluctuate at a heightened level as job growth remains weak," this source predicted. Reis predicts a long and slow decline for Los Angeles vacancy, to 14.6% at year-end 2011 and 12.8% in 2014. The single-digit vacancy rates enjoyed briefly in 2000 and 2006 and 2007 are not on the horizon.

Special Real Estate Factors:

- *"The Los Angeles creative office market sector was certainly not immune to the timid economy," Western Real Estate Business reported, but "the creative product type — the preferred space sought by the production, post-production, advertising/marketing and even technology sectors—was also surprisingly supply constrained. Due in large part to the lack of new construction or large-scale conversion of old industrial buildings into creative office, tenants entering the marketplace with hopes of finding numerous attractive options and generous business terms in a more tenant-favored climate instead found limited product to meet their needs from a functional and/or aesthetic standpoint." One place where space is available, as a result of failed plans, is in the far western sections of Los Angeles near the airport. Companies such as Fox Interactive, Belkin and Rubin Postaer planned relocations to the area but only Belkin and USC Creative Technologies actually moved, creating uncertainty. Major buildings on the market include the 500,000-square-foot Fox Interactive space, "which has sat in limbo as it was marketed for sublet," 500,000 square feet of property owned by Lincoln Properties "with very little leasing actively lately," the lender-owned former United States Post Office planned for 400,000 square feet of creative office space, and 537,000 square feet of former Hughes Aviation buildings.*

SUPPLY AND DEMAND



The 448,000 square feet of positive net absorption recorded by Reis for fourth quarter 2010 was enough to limit the year-to-date total to negative 3 million—and the total for 2008 to 2010 to minus 12.8 million. There is no comparable period of occupancy loss in the entire Reis database going back to 1980. Even though the volume of new supply in the recent upturn was much lower than in the previous 1990s boom (let alone the 1980s), the vacancy rate rose to nearly match its previous peak. The turn toward positive net absorption affected both the Class A and B/C segments, which recorded positive totals 409,000 and plus 38,000 respectively.

The quarter's occupancy improvement was limited by the delivery of the 295,000-square-foot second phase of Horizon at Playa Vista in the LAX-Segundo submarket in November. This completion provided the majority of the 339,000 square feet added in all of 2010, the second lowest total since 1998. As of the date of this report, Reis reports 960,000 square feet of multi-tenant space under construction, with just under half forecast to complete construction in the first quarter of 2011. Most of this is in the 400,000-square-foot Red Pacific design center, the largest building under construction.

No buildings with planning approval have expected groundbreaking dates. Reis predicts 808,000 square feet will complete construction in 2011, followed by 450,000 square feet in 2012. Net absorption, meanwhile, is forecast to be modestly positive those years at 1.1 million and 1.2 million square feet. Reis forecasts that from 2013 to 2015, as net absorption improves from 1.7 million square feet the former year to 2.5 million square feet in the latter, new construction will also increase, rising from 1.2 million to 1.9 million square feet. This increase in supply is forecast to slow the decline of the vacancy rate, keeping it elevated throughout the forecast period.

Special Real Estate Factors:
Continued

- *During fourth quarter, "of all leases signed over 20,000 square feet (sf), 60.0% were new, which is a complete turnaround from the past six quarters when renewals dominated activity," according to Cushman & Wakefield. "Top leases in Los Angeles include Sony Pictures' 328,847-sf renewal, followed by DirecTV's 157,725-sf expansion and Southern California Edison's 137,936-sf sublease." The entertainment industry, as discussed in the economy section of this report, has led in job gains recently. According to Grubb & Ellis "MGM signed a lease in Beverly Hills that will lead to a relocation of their headquarters from Century City to downsize their footprint by 56,000 square feet – an all too familiar theme in this environment – and will now occupy 144,000 square feet. In Burbank, Modern VideoFilm, a post-production outfit signed a 96,000 square foot lease for its headquarters in the recently built 2300 Empire project. This is the second major lease in that building after it sat vacant for over a year."*

- *According to the Hollywood Reporter, MGM will pay a one-time fee to the landlord to break the lease on 200,000 square feet at the MGM tower, and will move to the recently completed Beverly Hills building originally intended to be the William Morris headquarters. "The firm's 2009 merger with Endeavor threw a kink into those plans. WME*

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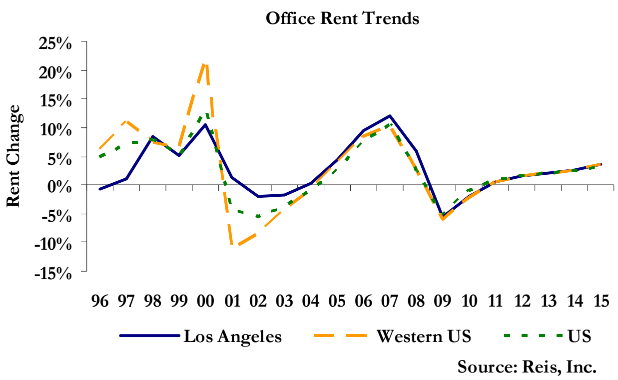
RENTS



Landlords paid for the fourth quarter occupancy improvement with lower rents. The average asking rent fell 0.9% to $31.89 psf while the average effective rent fell 0.8% to $25.75 psf. The decreases for all of 2010 are 2.0% asking and 3.3% effective, following respective decreases of 5.6% and 9.1% in 2009. The two-year loss of 12.1% for the effective average compares with a decrease of 9.5% from 2000 to 2003 and 15.4% from 1990 to 1994. The average asking rent for Class A space fell 1.1% to $37.13 psf during the quarter, while the Class B/C asking average fell 0.7% to $25.43 psf. The losses for all of 2010 by class are 2.3% and 1.7%, respectively.

"While asking rental rates continue to erode, this one-time strong market indicator remains artificially high due to a combination of higher-priced space returning to the market and landlords' reluctance to drop rents," according to Cushman & Wakefield. "Actual rents continue to range from 10% to 50% lower than asking rents, depending on the submarket." This source puts the direct weighted average gross rental rate for Class A space at $34.68 psf. "Asking rents across the county were largely unchanged with fluctuations the result of changing availability as a bottom in rents approaches in 2011," according to Grubb & Ellis. This source puts the asking average at $35.88 psf for Class A and $26.04 psf for Class B.

Reis agrees that a bottom will be reached for rents some time in 2011, with slight increases of 0.5% for the asking average and 0.6% for the effective average forecast for the year. Rent gains will improve year-by-year, with the effective average rising 70 to 110 basis points more than the asking average as concessions tighten, according to the forecast. From 2.3% in 2012, the annual effective rent gain is expected to rise to 4.7% in 2015 when the 2008 year-end peak is finally expected to be surpassed. The asking average is also forecast to return to its peak level in the final year of the forecast period.

Special Real Estate Factors:
Continued

backed out of an agreement to occupy the new building, and arbitration between WME and George Comfort remains unresolved, according to the source. WME has been headquartered nearby at 9601 Wilshire Blvd. since April 2009." MGM had been operating in bankruptcy.

- *"Gov. Arnold Schwarzenegger has signed a bill that will expand online gambling on horse races in California, and L.A.-based TVG Network is expanding its real estate accordingly," according to the Business Journal. "The horse-race wagering website and TV channel, along with landlord Equity Office, terminated the existing lease and negotiated a deal for nine and a half years at the Howard Hughes Center in Westchester. TVG will have the entire ground floor after a neighboring restaurant closed at the 6701 Center Drive office complex. The price was not disclosed, but industry sources estimated it at $10 million."*

- *In an effort to attract tenants, buildings such as downtown's Bank of America Plaza are sprucing up their lobbies according to the Business Journal. "The 24,000-square-foot project cost 'multiple millions'" according to building owner Brookfield Office Properties. "At least four other buildings downtown have recently undergone big renovations or are in the process. Brookfield completed the Bank of America Plaza lobby*

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 13.5% fourth quarter 2010 vacancy rate, Reis reports. The average asking rent is $46.46 psf, the highest among 21 submarkets in Los Angeles County.

- The vacancy rate slipped 10 basis points during the quarter, but the average asking rent fell 1.3% and the average effective rent fell 1.1% to $40.79 psf. A strong first half, however, limited the decreases to 0.5% asking and 0.8% effective for all of 2010.

- In the 11.5-million-square-foot West LA submarket, Reis reports a fourth quarter vacancy rate of 13.6%, and an average asking rent of $40.63 psf.

- Net absorption remained negative here at 150,000 square feet, and the vacancy rate increased 130 basis points in the fourth quarter. The average asking rent fell 2.2%, and the average effective rent fell 2.6%, to $32.64 psf. The 2010 losses were 6.5% and 9.5%, respectively.

- According to Reis, the 7.7-million-square-foot Santa Monica submarket has a vacancy rate of 12.5%, and an average asking rent of $46.09 psf, second highest among the submarkets.

- Santa Monica's vacancy rate fell 110 basis points in the fourth quarter on 84,000 square feet of positive net absorption. The asking and

Special Real Estate Factors:
Continued

renovation at 333 S. Hope St. about the same time as a similar project a few blocks away at the Ernst & Young Plaza at 725 S. Figueroa St. Also, lobby renovations are under way or recently completed in the Citigroup Center at 444 S. Flower St., International Tower at 888 S. Figueroa, Mellon Bank Center at 400 S. Hope. and Aon Center at 707 Wilshire Blvd.." Landlords have gained access to capital according to this source, allowing them to move forward on planned improvements. Landlords believe upgraded lobbies lead to higher office rents, and attract retail tenants as well. "Architecturally, the trend is toward lobbies with more lighting and modern aesthetics…Many modern office towers in Los Angeles were built in two phases – the first in the late 1970s to early 1980s, the second in the mid-1990s. Many, especially the older ones, need attention."

effective rent decreases of 1.6% and 1.3% (to $36.98 psf) during the quarter brought the declines for all of 2010 to 4.9% and 7.0%.

- The 7.1-million-square-foot Beverly Hills submarket has the lowest vacancy rate countywide at 9.0%, and the third highest asking rent at $45.17 psf.

- In the fourth quarter the vacancy rate fell 100 basis points, the average asking rent fell 1.5%, and the average effective rent fell 1.2% to $37.21 psf. For all of 2010, the rent losses were 5.4% and 6.3%, respectively.

- The 14.8-million-square-foot Mid-Wilshire/Miracle Mile/Park Mile submarket has a vacancy rate of 15.2%, and an average asking rent of $27.14 psf, according to Reis.

- The vacancy rate was up 20 basis points in the fourth quarter, as the average asking rent fell 1.0% and the average effective rent fell 0.8% to $22.04 psf. In this lower-rent submarket, rents fell just 2.2% and 2.9% by their respective measures in 2010.

- The 400,000-square-foot Red Pacific Design Center, the largest project under construction, is forecast to deliver in March 2011, according to Reis. The vacancy rate for the end of that year is forecast at 15.8%.

- "The Los Angeles West market stabilized in fourth quarter," according to Cushman & Wakefield. "Overall vacancy ended at 16.4%, down 0.2 of a percentage point from third quarter, while overall asking rental rates flattened ending at $3.38 psf/mo." ($40.56 psf).

- "The Westside peddled backward during the fourth quarter, putting nearly 147,000 square feet back on the market—much of that from a slipping Century City," according to the *Los Angeles Business Journal*. "That area was once again hurt by its continuing inability to retain the headquarters of large Fortune 500 companies. This time it was Northrop Grumman Corp., which put 140,000 square feet of office space in the district up for sublease as it moves its headquarters to Falls Church, Va."

Downtown

- For the 36-million-square-foot Downtown submarket, Reis reports a 14.2% vacancy rate and an average asking rent of $30.99 psf.

- The vacancy rate decreased 10 basis points from the prior quarter as net absorption was positive. Rents edged up 0.3% by both measures, with the average effective rent up to $24.25 psf.

- "The CBD hasn't quite reached the bottom of this cycle yet," according to Cushman & Wakefield. "Fourth quarter's direct vacancy of 16.0% is 1.3 percentage points higher than this time last year. The direct class A rental rate dropped 3.7% to $35.40 psf/yr."

- "Some of the biggest lease deals in the quarter occurred just outside the core downtown market, immediately west of the Harbor (110) Freeway," according to the *Business Journal*. "L.A. Care Health Plan signed a 12-year, 124,000-square-foot deal at 1055 W. Seventh St., the former Arco tower now operated by Jamison Services."

- "Service Employees International Union Local 721 leased 70,000 square feet of space at 1545 Wilshire Blvd., another Jamison property," according to this source. "SEIU has an option to buy the building…Because the building was 80.0% occupied, about a dozen tenants will be forced out of the building to accommodate the union. Those tenants will be looking for replacement space in the downtown or Mid-Wilshire markets."

- The other major leases reported by the *Business Journal* were law firms, with Nossaman LLP signing a 10-year sublease to take 44,000 square feet at 777 S. Figueroa St., Dewey & LeBoeuf LLP renewing a 26,000-square-foot lease at the KPMG Tower at 355 S. Grand Ave. in the Wells Fargo Center, and Hurrell Cantrall LLP signing a 17,000-square-foot lease at 700 S. Flower St.

- "The recent trend emerging in Downtown is the availability and a tenant preference for built-out suites, which prompted landlords to build spec suites to move older, long-vacant or shell space," according to Cushman & Wakefield.

"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 18.5%, and the average asking rent at $30.48 psf.

- The vacancy rate fell 50 basis points during fourth quarter, but the average asking rent decreased 1.7% and the average effective rent fell 1.4%, to $24.39 psf. The full-year losses were 4.3% and 4.2%, respectively.

- The 7-million-square-foot Burbank submarket has a fourth quarter vacancy rate of 15.7%, and an average asking rent of $36.30 psf according to Reis.

- The vacancy rate slipped 10 basis points from the prior quarter, but the average asking and effective rents each fell 1.4%, the latter to $28.10 psf. The losses for all of 2010, however, were modest at 1.6% and 1.7% respectively.

- "Burbank kept the Tri-Cities submarket afloat with deals such as two at Burbank Empire Center, where media company Modern VideoFilm and entertainment industry payroll firm Cast & Crew Entertainment leased 96,300 square feet and 51,000 square feet, respectively," according to the *Business Journal*. "The building, developed by Walton Street Capital, came on line without a tenant and had been empty for 18 months."

- For the 8.2-million-square-foot Pasadena submarket, Reis reports a vacancy rate of 15.0%, and an average asking rent of $33.06 psf.

- Here the vacancy rate rose and rents fell, the former by 20 basis points, the latter by 0.4% asking and 0.5% effective (to $25.69 psf).

- The 153,000-square-foot Playhouse Plaza is under construction here with an uncertain completion date.

- "The Tri Cities continued to struggle in fourth quarter," according to Cushman & Wakefield. "Overall vacancy rose another 0.4 of a percentage point to 22.0% from third quarter 2010 and 3.9 percentage points since year-end 2009." This source put the direct weighted Class A net rental rate at $36.72 psf.

San Fernando Valley

The San Fernando Valley submarkets total 27 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 fourth quarter vacancy rate of 15.8%, and an average asking rent of $26.64 psf, Reis reports.
- Net absorption turned strongly positive at plus 207,000 square feet, pushing the vacancy rate down 140 basis points during the quarter. But rents continued to fall, with the average asking rent down 1.6%, and the average effective rent down 1.3% to $20.71 psf. The decreases for all of 2010 were 3.1% and 4.3%, respectively.
- Two small buildings in Agoura Hills totaling 71,900 square feet are under construction for completion in 2011.
- In the 9.4-million-square-foot San Fernando Valley Central submarket, the vacancy rate is 12.5% and the average asking rent is $27.95 psf, according to Reis.
- The vacancy rate decreased 50 basis points during the quarter on 50,000 square feet of positive net absorption, but both the average asking rent and the average effective rent fell 0.5%, the latter to $22.00 psf. Over the entire year, the losses were 3.2% asking and 4.8% effective.
- For the 3.3-million-square-foot San Fernando Valley East submarket, Reis reports a vacancy rate of 10.7%, second lowest among the submarkets, and an average asking rent of $30.96 psf.
- The vacancy rate fell 250 basis points on 83,000 square feet of positive net absorption, a second consecutive near-equal reversal of the prior quarter's results. Rents turned positive, with the average asking rent up 1.4% and the average effective rent up 1.6%, to $27.41 psf. Rents increased for all of 2010 as well, by 1.4% and 1.0% respectively.

- "San Fernando and Santa Clarita Valley market fundamentals continued to weaken through fourth quarter," according to Cushman & Wakefield. "Direct vacancy climbed 2.5 percentage points year over year to 18.1%, while direct asking rental rates eroded 7.5% to $2.23 psf/mo ($26.76 psf) compared to year-end 2009."

- "When Farmers Insurance moves its 1,200 employees from its current Simi Valley location to Woodland Hills, it will leave vacant a 240,000-sf building in a submarket with the second highest overall vacancy in all of southern California at 38.0%," according to this source.

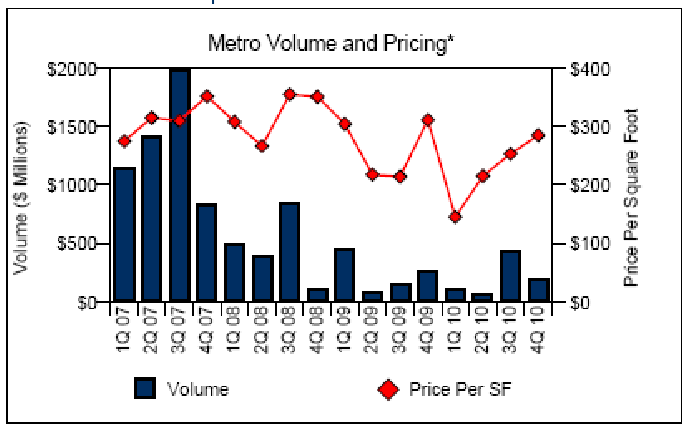
- "Aetna renewed for 27,000 square feet of office space at 6303 Owensmouth Ave. in Woodland Hills from landlord JP Morgan," according to the *Business Journal*. "Financial terms of the five-year lease were not disclosed. Software firm Intuit Inc. renewed for 24 months at 5601 Lindero Canyon Road in Westlake Village. The company had previously occupied 60,391 square feet, but will add 11,363 square feet. Arden Realty is the landlord."

- Bank of America, according to this source, is filling vacant Calabasas offices which came with its acquisition of Countrywide.

TRANSACTION ANALYTICS

Metro Volume and Pricing

The pace of office investment sales continues to be modest when compared with the boom years. In the fourth quarter of 2010 five properties changed hands for $185 million at a mean price of $285 psf.* The mean price is the highest in a year. The quarter's largest sale, which accounted for more than half the quarterly dollar volume, was the 284,724-square-foot Wilshire Bundy Plaza in the West LA submarket. Douglas Emmett Inc. purchased it from Namco Capital for $111 million ($390 psf) in October. It was the highest mean price among the top ten sales of 2010. The sales volume for the year was 45 sales for $776.9 million at an average of $234 psf, down from $279 psf in 2009 and $321 psf in 2008.



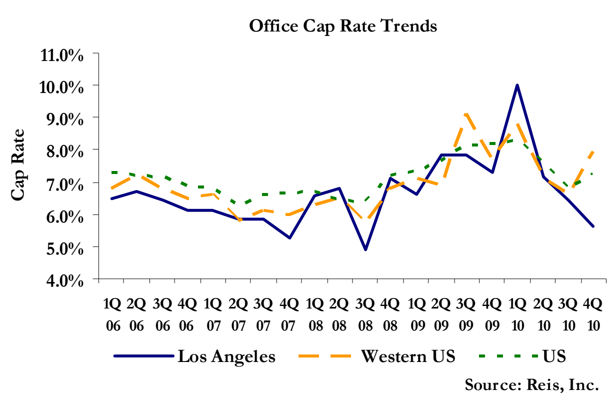
Top Submarkets

Submarket Name	Square Feet Sold	Trans Volume ($ millions)	Price Per SF
Downtown	625,838	$208	$332
West LA	372,220	$129	$348
LAX/El Segundo	572,383	$118	$206
Marina/Culver City	207,903	$59	$284
W San Gabriel Vly	379,269	$54	$144
Mid-Cities	320,408	$53	$164
South Bay	257,462	$39	$150

Downtown led all submarkets in square footage and dollar value sold in 2010, at 625,800 square feet for $208 million. The mean price of $332 psf Downtown trailed only West LA's $348 psf among submarkets with substantial sales volumes. West LA was second in dollar value sold; LAX/E Segundo was second in square footage.

Cap Rate Comparisons and Forecasts

The quarterly mean office property cap rate in Los Angeles is 5.6% in the fourth quarter, below the U.S. and West Region averages and the lowest here since the third quarter of 2008. The rolling 12-month cap rate was pulled down 30 basis points to 7.5% in the fourth quarter, which is still up 40 from the end of 2009. Reis predicts the vacancy rate will gradually rise from 7.5% to 8.0% over the course of the five-year forecast period.



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

OUTLOOK

"We have a market again," a brokerage executive told the *Los Angeles Business Journal*. "We are seeing a significant uptick…It's nowhere near where it was at the top, but it's come off that low point." "Not everyone, however, is convinced that a recovery has started," according to another *Business Journal* article. According to another executive "any talk of recovery is premature because of lurking space that tenants have leased but do not occupy. 'I still think there's a significant amount of shadow space, so as tenants expire they will give back more space…Just because there's positive absorption doesn't mean that things have turned.'"

Although a turnaround in occupancy arrived as expected by Reis in the fourth quarter, progress is expected to be slow. Modest net absorption and weak rent gains are expected to limit improvement in 2011 and 2012, with a pick up in new supply slowing gains thereafter. Rent gains are forecast to track the U.S. and West Region averages.