

## Los Angeles Office Highlights Q3 2009

### Leasing fundamentals show little improvement despite more favorable economic indicators

Despite some recent positive economic news indicating that layoffs may finally be subsiding, the regional economy continued to struggle with record high unemployment, particularly in the manufacturing and professional services sectors. In real estate terms, this translated into less leasing activity in a market that remained saddled with excess space and weakened tenant demand.

Limited expansions and short-term renewals continued to characterize much of the Los Angeles's third quarter leasing activity as tenants sought ways of lowering occupancy costs and maintaining flexibility.

Landlords experienced additional declines in operating incomes as rents eroded further. Tenant retention was a primary goal of building owners reflected in larger concession packages, including generous amounts of free rent, which in itself did not represent an upfront cost to the landlord, but ultimately lowered net effective average rents. Since liquidity continued to be an industry-wide problem, many owners were limited in the actual number of tenant improvement dollars they could fund.

Capital markets activity remained soft during the third-quarter with only a handful of Los Angeles suburban assets trading during the quarter. One prominent Los Angeles-based REIT facing challenges meeting maturing debt obligations turned over numerous assets to the lender.

Continued gains in the economy, coupled with large tenant rolls in the next two years in the CBD and Westside submarkets, could lead to an up-tick in leasing velocity, as tenants try to lock-in favorable rates and attractive concession packages. However, tempering improvements in leasing might be the high unemployment rate in Los Angeles which, if proven to be structural, could hinder future space demand.

#### Leasing activity

##### *Downtown Los Angeles*

- McKenna, Long & Aldridge signed a 13-year lease for 62,418 square feet at 300 South Grand Avenue, in Los Angeles.
- Gerald J. Sullivan Associates executed a five-year, 24,034 square foot renewal at 800 West 6th Street, in Los Angeles.
- Protiviti signed a five-year 12,599 square foot transaction at 400 South Hope Street, in Los Angeles.

##### *West Los Angeles/Miracle Mile*

- Lionsgate inked a six-year, 127,000 square foot transaction at 2700 Colorado Avenue in Santa Monica.
- Sony Connect executed a 10-year, 50,435 square foot transaction at 6080 Center Drive in Los Angeles.
- McKinsey Corporation signed an eight-year lease for 22,000 square feet at 2000 Avenue of the Stars, in Los Angeles.

##### *South Bay*

- Expeditors International of Washington executed a five-year, 42,000 square foot renewal at 5757 West Century Boulevard in Los Angeles.
- Perkwitz and Ruth Architects signed a 38,000 square foot, headquarters renewal at 111 West Ocean Boulevard in Long Beach.
- Argosy University inked a 10-year lease for 22,319 square feet at Pacific Concourse way in El Segundo.
- Bugaboo executed a 10,000 square foot lease at 1160 East Mariposa Avenue in El Segundo.

##### *LA North/Tri-Cities*

- Advanced Bionics signed a 10-year, 146,385 square foot transaction at 28515 Westinghouse Place in Valencia.
- Blue Shield inked a five-year, 115,000 square foot renewal at 6300 Canoga Avenue in Woodland Hills.
- Deluxe Digital Studios executed a 65,235 square foot renewal at 2350 Empire Avenue in Burbank.
- iPayment of California signed a 31,665 square foot, 10-year lease at 30721 Russell Ranch Road in Westlake Village.
- Raytheon inked a 30,000 square foot, three-year transaction at 299 North Euclid Avenue in Pasadena.

## **Sales activity**

### *LA North*

- Younan Properties acquired 5959 Topanga Canyon Boulevard (62,510 square feet, Class A Suburban) in Woodland Hills for approximately \$11.9 million, or \$190 per square foot.

### *Westside*

- RP Properties bought 9300 Wilshire Boulevard ( 58,484 square feet, Class B Suburban) in Beverly Hills for approximately \$11.0 million, or \$188 per square foot.

## **Construction activity**

### *Tri-Cities*

- Maguire Properties' 207 Goode Development, Glendale (430,000 square feet, Class A Suburban), a speculative project by Maguire Properties was completed during the third-quarter.