

Quarter in review

Despite significant challenges in the Los Angeles economy, Downtown continued to fare better than neighboring markets during the third-quarter. Vacancy increased to 14.5 percent, up from 13.9 percent recorded at the beginning of the year, but remained under Los Angeles County's 16.7 percent vacancy average.

Asking rents ended the quarter at \$2.80 full service, a modest 3.3 percent year-to-date decrease. However, when factoring-in free rent and other concessions, rent declines would be closer to 15 percent, a number more indicative of the actual rental pricing erosion that has occurred in response to weakened demand.

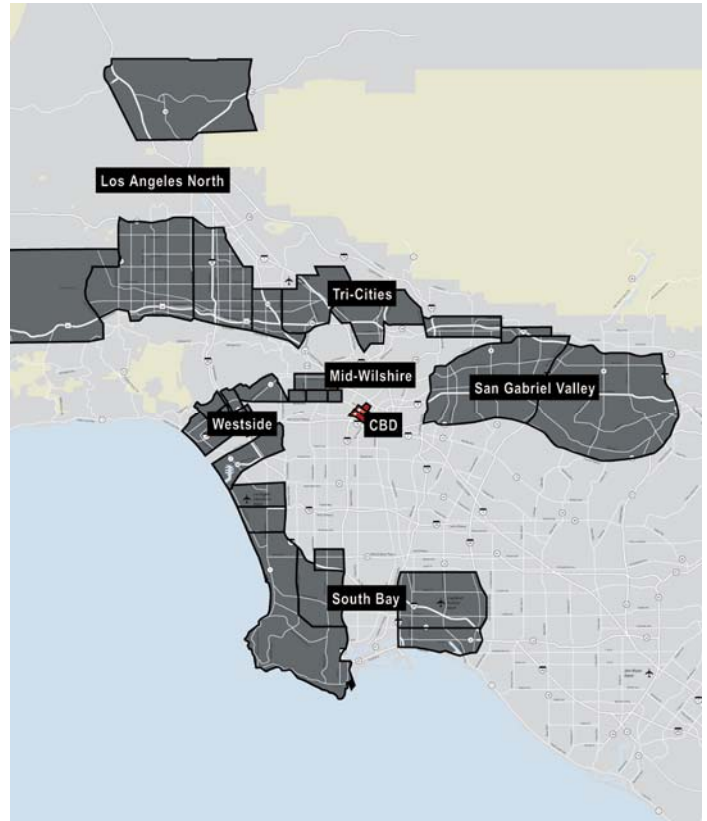
Available sublease inventory reached 852,000 square feet at the end of the quarter from 723,000 square feet recorded at the beginning of the year, affirming tenants have committed to a significant reduction in occupancy.

Downtown leasing activity remained weak with only 200,800 square feet of leases actually signed during the third quarter, down from a quarterly average 557,000 square feet transacted by tenants in 2008, highlighting the impact of the recession on tenant demand for space.

Short-term renewals continued to account for a large number of Downtown leases signed during the quarter as tenants locked in favorable rates and terms. Other Downtown occupants chose to extend their leases rather than commit to longer-term occupancies, believing that the market had not yet reached bottom. However, short-term renewals decreased slightly during the third quarter driven by some recent positive economic news.

In one of the largest third quarter transactions in Downtown, McKenna Long & Aldridge LLP executed a 13-year, 62,000 square foot lease transaction in Downtown, moving from 444 South Flower Street to 300 South Grand Avenue. The move allows the law firm to trade up it's image in a marquee asset while taking advantage of favorable rates and concessions.

Submarket boundaries map



Key market indicators

Stock	▶	31,715,604 SF
Overall net absorption	▼	-63,404 SF
Overall vacancy rate	▲	14.5%
Average asking rent	▼	\$2.80FSG
Under construction	▶	0 SF

Change from previous quarter

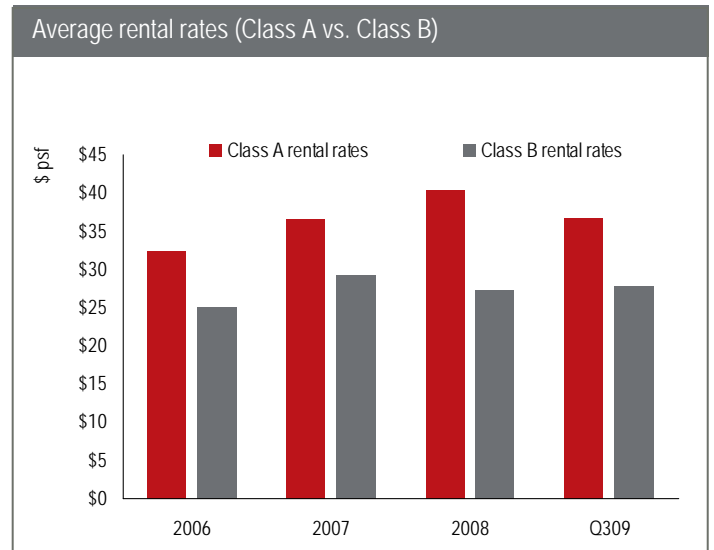
Maguire Properties relinquished six assets in Orange County, and one asset in Downtown -- 550 South Hope Street, a Class A asset the publically traded REIT acquired from EOP/Blackstone in 2007. Despite the loss of 550 South Hope, Maguire continues to control a significant share of Class A office buildings in Downtown.

Capital markets remained constrained with no sales during 2009 in Downtown. One California Plaza is the only asset currently under consideration by a prospective buyer.

Market outlook

Downtown continues to face several challenges as additional large blocks of space are expected to return to the market during the fourth-quarter at 400 South Hope and at 777 South Figueroa Street during 2010. Rental rates are likely to drop further as major landlords become aggressive in backfilling large blocks, leading other landlords to follow suit and match their rates. Significant roll-over in 2011 and 2012 are likely to foster some additional leasing activity as tenants try to lock in favorable rates and lease terms.

Significant lease transactions	
McKenna, Long & Aldridge LLP 300 South Grand Avenue	62,000 SF
Gerald J. Sullivan Associates 800 West 6th Street	24,034 SF
Protiviti 400 South Hope Street	12,599 SF



Large availabilities	
633 W 5th St	Class A 326,761 SF
601 S Figueroa	Class A 142,000 SF
777 S Figueroa St	Class A 154,800 SF
400 S Hope St	Class A 124,300 SF

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