

# Los Angeles, California

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

## Overview

The class A office leasing market in Los Angeles in Q2 2010 softened for the tenth consecutive quarter. With over 200,000 SF of negative net absorption, countywide vacancy climbed to 14.8%, the highest level in seven years.

The "tenant's market" is still in full-swing and has created tremendous opportunities for tenants who are in a position to take action. The volume of blend-and-extend transactions has increased as landlords trade near-term rent for long-term stability in occupancy. This is typically a sign that tenants sense the window of opportunity may soon be closing.

Quoted rental rates remained flat, but this statistic only tells part of the story. When considering negotiated rent reductions and free rent, the effective (average) rental rates remain 15% to 25% lower than quoted rents. Most well-negotiated deals also include healthy tenant improvement allowances and discounted parking rates.

The South Bay submarket once again bucked the trend, with vacancy falling to 14.7% (from 14.9% in the previous quarter) while quoted rents remained flat. Vacancy in the West Valley submarket also dropped to 17.4% (from 18.1% in the previous quarter) while quoted rents remained flat. All other submarkets experienced increased vacancy and declining quoted rents.

## Market Trends

- Vacancy should continue to rise over the next few quarters as companies right size their premises, but perhaps at a diminishing rate.
- Demand will remain weak until companies begin hiring, possibly beginning at some point in 2011.
- Effective rents will likely find (and bounce along) the bottom over the next year or two.
- Recognizing the high cost to fill vacant space, landlords will continue to negotiate very aggressively to keep existing tenants that shop the market.

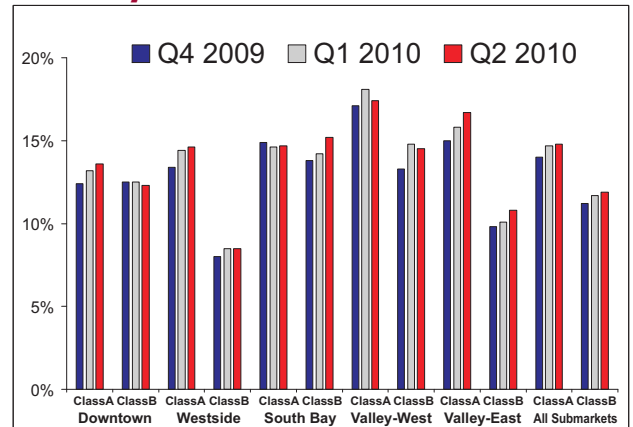
## Tenant's Perspective

Tenants clearly have a window of opportunity to lock in attractive rental economics. We should see the market bounce along the bottom for the remainder of 2010 and well into next year, but it is possible that rates will begin their ascent in 2012. Tenants with leases expiring in 2012 and 2013 in buildings that can meet their current and future space needs should evaluate the economics of an early renewal to lock in competitive terms before the market recovers.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
eHarmony	65,000	Office	Lease
Fox Interactive Media	56,000	Office	Lease
Dept of Homeland Security	44,000	Office	Lease
Kaye Scholer LLP	42,000	Office	Lease
Technicolor	42,000	Office	Lease
Punch Studios LLC	41,000	Office	Sale
Reveille Independent	30,000	Office	Lease
Doctors of USC	15,000	Office	Lease

## Vacancy Rate



## Average Rental Rates

Submarket	Class	Q4 2009	Q1 2010	Q2 2010
Downtown	Class A Office	\$32.88	\$32.16	\$31.90
	Class B Office	\$26.16	\$29.40	\$28.90
Greater Westside	Class A Office	\$37.68	\$36.84	\$36.80
	Class B Office	\$32.76	\$32.76	\$32.60
South Bay	Class A Office	\$25.08	\$25.20	\$25.30
	Class B Office	\$22.56	\$22.68	\$22.40
Valley-West	Class A Office	\$26.88	\$26.16	\$26.20
	Class B Office	\$24.00	\$24.00	\$23.60
Valley-East	Class A Office	\$33.00	\$32.64	\$32.60
	Class B Office	\$26.40	\$26.64	\$25.80
All Submarkets	Class A Office	\$32.75	\$32.40	\$32.40
	Class B Office	\$26.00	\$26.28	\$25.80

Prepared By CresaPartners  
11726 San Vicente Blvd., Suite 500, Los Angeles, CA 90049  
310.207.1700 ■ [www.cresapartners.com](http://www.cresapartners.com)