



ANNUAL JOB GROWTH

Los Angeles created 89,300 jobs in the 12 months ending May 2014, resulting in a 2.2% expansion. The Educational & Health Services and Professional & Business Services sector accounted for the largest job gains with 36,400 and 23,500, respectively.



12-MO DIRECT NET ABSORPTION

The Westside continued to drive LA's office market recovery with 934k sf of the occupancy gains over the past 12 months, due to its ability to attract growing technology companies. Tri-Cities also contributed to the annual gains with 330k sf absorbed.



DIRECT VACANCY RATE

Office direct vacancy has declined 50 basis points to 15.4% over the year, but still remains 700 basis points higher than its cyclical low of 8.5% late in 2007.



OVERALL RENTS

Overall asking rents have stabilized and begun to climb in the most desired submarkets but there's a large deficit to overcome in order to restore rents to their pre-recessionary peak established in 2008.



UNDER CONSTRUCTION

Since 2010, the speculative construction pipeline has remained relatively dormant due to land constraints and elevated vacancy levels but may soon return as leasing activity improves.



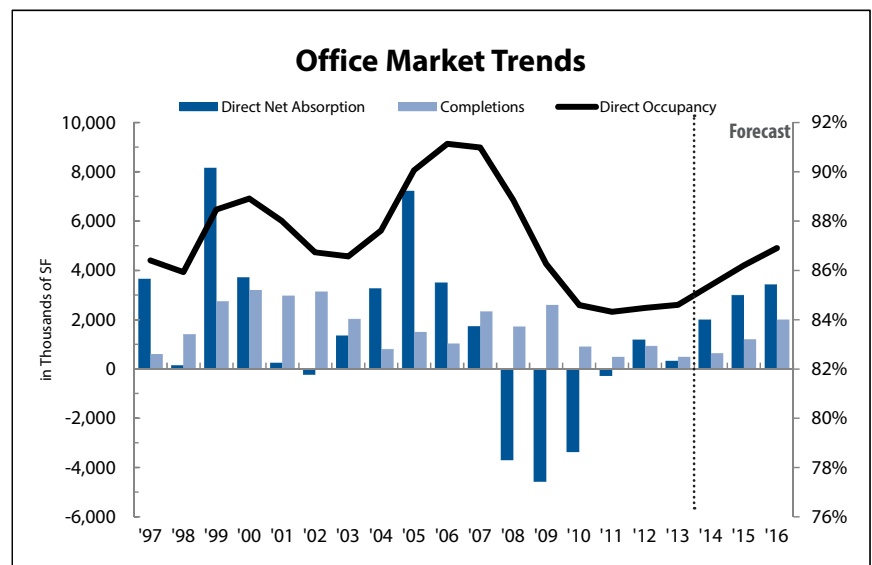
**Arrows represent change from previous 12 months*

LA'S OFFICE MARKET RECOVERY SLOW BUT STEADY

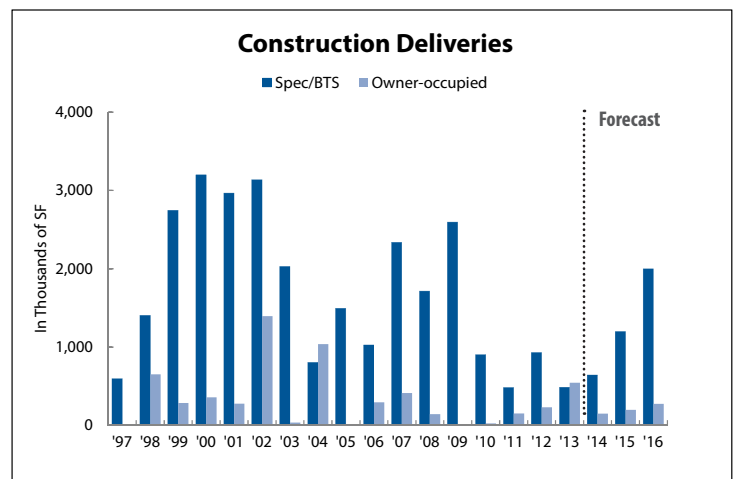
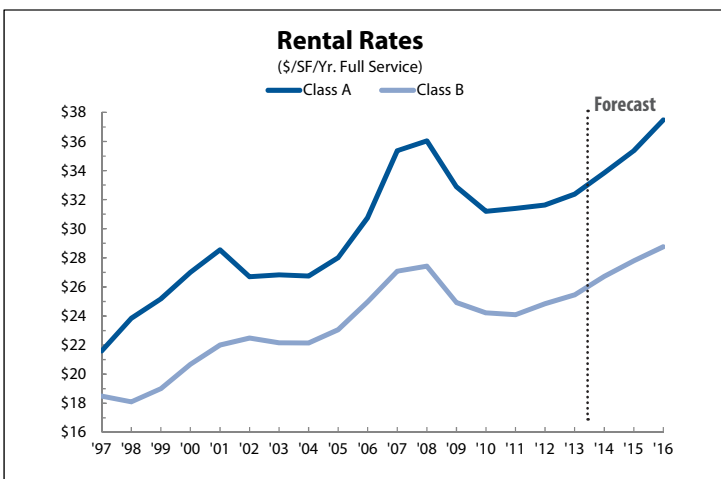
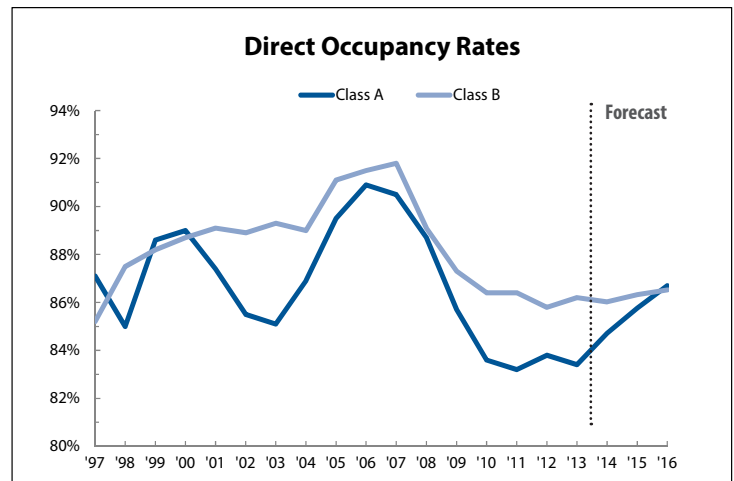
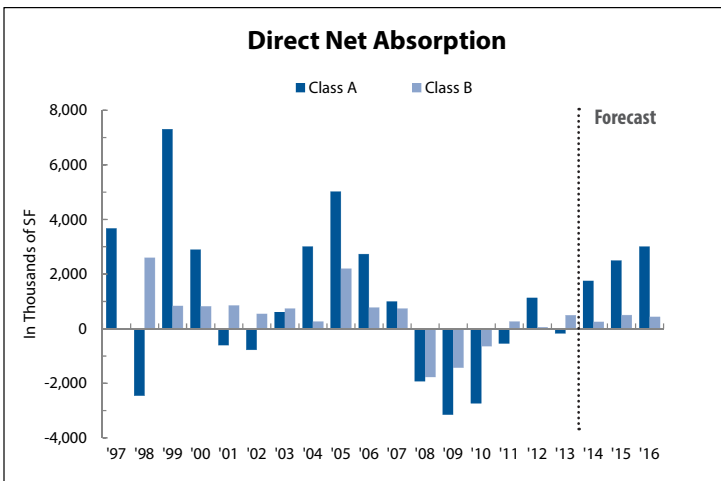
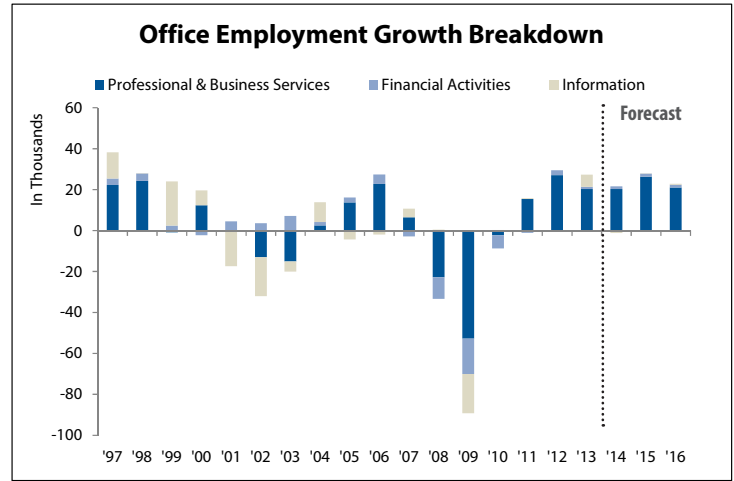
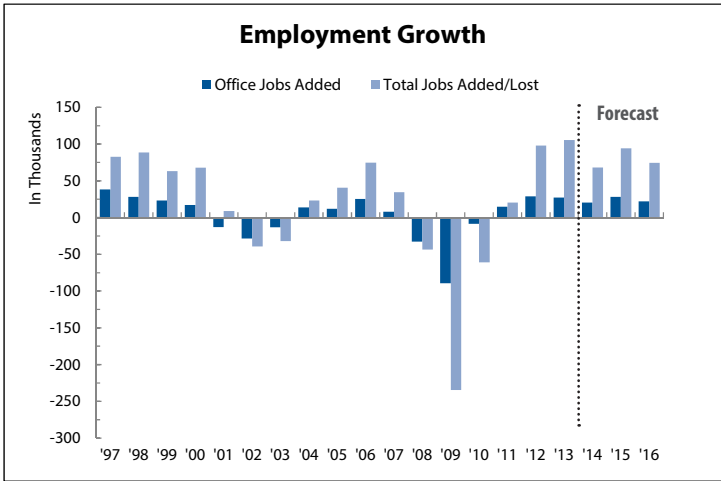
The Los Angeles metropolitan area's economic recovery exhibited signs of accelerating after a slow start in 2014, with a reviving construction, entertainment and technology sector. Office-using employment growth continued to steadily improve and accounted for nearly 37% of the annual gains, which has translated into healthy occupancy growth in key submarkets. As a result of the steady job growth, the metro area's unemployment rate has dropped by 170 basis points to 8.0% within the past year to a six-year low. Los Angeles has created 350,900 jobs since its trough in 2010, but still remains approximately 94,200 jobs below its pre-recessionary peak recorded at year-end 2007. Based on the current pace of job growth, Los Angeles is expected to fully recover all jobs lost during the downturn by mid-year 2016.

The Los Angeles office market continued on its gradual path to recovery with 55,290 sq. ft. of occupancy gains during the second quarter, bringing the trailing 12-month direct net absorption total to nearly 1.6 million sq. ft. The Class A property sector recorded modest occupancy losses totaling 8,074 sq. ft. during the second quarter, causing direct vacancy rates to remain unchanged at 16.2%. Meanwhile, Class B properties accounted for the majority of the quarterly gains with 63,864 sq. ft. of direct absorption, but vacancy rates remained flat at 14.0% during the quarter. With the economic recovery beginning to spur tenant demand, Class A full-service gross asking rents have increased by 3.9% to \$2.72 while Class B rents appreciated by 5.6% to \$2.18 per sq. ft. within the past 12 months.

In the year ahead, the office market fundamentals will continue to see measured improvement with positive absorption outpacing limited construction deliveries but will still experience some headwinds with some office users shrinking their square foot per employee ratio. However, leasing velocity will continue to gradually improve as high-tech, entertainment, education, and alternative energy companies will account for the majority of the growth and help offset contraction still taking place within the financial services sector. While there are a few office development projects that could break ground in key submarkets in the coming quarters, land constraints and elevated vacancy rates in most submarkets will keep construction deliveries well below demand growth expected over the next few years.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Greater Downtown	48,702,298	9,898,247	498,824	16.0%	0.3%	61,257	(135,913)	\$33.78	\$2.81	5.33%
Class A	33,445,648	6,911,107	417,817	17.2%	0.7%	54,172	(220,044)	\$35.21	\$2.93	3.74%
Class B	15,256,650	2,987,140	81,007	13.4%	-0.6%	7,085	84,131	\$25.28	\$2.11	9.63%
Mid-Wilshire	24,128,658	4,634,250	171,400	17.2%	0.0%	39,819	77,714	\$29.22	\$2.43	12.30%
Class A	17,183,327	3,662,575	120,527	18.7%	-0.2%	114,115	116,144	\$29.93	\$2.49	13.33%
Class B	6,945,331	971,675	50,873	13.6%	0.6%	(74,296)	(38,430)	\$26.45	\$2.20	7.13%
Mid-Cities	7,308,167	1,037,004	20,800	9.8%	-0.7%	16,068	50,124	\$22.88	\$1.91	4.05%
Class A	2,758,342	533,016	10,720	12.3%	-1.1%	14,301	29,817	\$24.08	\$2.01	1.95%
Class B	4,549,825	503,988	10,080	8.2%	-0.4%	1,767	20,307	\$21.55	\$1.80	4.82%
San Fernando Valley	24,422,828	3,780,559	345,555	13.5%	-0.8%	(87,193)	211,131	\$26.25	\$2.19	5.51%
Class A	15,935,924	2,419,627	322,405	14.4%	-0.9%	(36,745)	139,473	\$27.51	\$2.29	3.65%
Class B	8,486,904	1,360,932	23,150	11.9%	-0.6%	(50,448)	71,658	\$24.18	\$2.02	6.43%
San Gabriel Valley	13,049,430	2,043,111	37,154	15.5%	-0.8%	16,134	(103,957)	\$24.33	\$2.03	6.43%
Class A	2,983,562	366,126	13,117	12.4%	-0.8%	18,228	(40,417)	\$26.28	\$2.19	-1.09%
Class B	10,065,868	1,676,985	24,037	16.4%	-0.7%	(2,094)	(63,540)	\$23.80	\$1.98	8.13%
Santa Clarita Valley	2,850,580	469,478	40,905	13.2%	-0.8%	(5,790)	21,765	\$29.97	\$2.50	0.00%
Class A	1,919,817	309,210	38,719	13.7%	-0.8%	(19,456)	15,393	\$28.52	\$2.38	-1.01%
Class B	930,763	160,268	2,186	12.2%	-0.7%	13,666	6,372	\$32.18	\$2.68	8.24%
South Bay	37,078,429	8,250,754	406,306	20.0%	-0.4%	(159,066)	147,334	\$24.54	\$2.05	3.90%
Class A	22,382,523	5,128,103	295,221	20.2%	-0.1%	(170,864)	11,586	\$25.17	\$2.10	2.53%
Class B	14,695,906	3,122,651	111,085	19.6%	-0.9%	11,798	135,748	\$23.31	\$1.94	6.05%
Tri-Cities	30,078,080	5,071,605	459,781	15.5%	-1.0%	105,188	329,918	\$30.55	\$2.55	-0.20%
Class A	19,460,363	3,521,864	360,515	17.5%	-1.8%	110,147	348,531	\$32.62	\$2.72	0.37%
Class B	10,617,717	1,549,741	99,266	11.7%	0.5%	(4,959)	(18,613)	\$26.79	\$2.23	0.90%
Conejo Valley	9,259,658	2,023,005	88,116	17.0%	-1.1%	11,508	106,169	\$25.07	\$2.09	3.34%
Class A	2,836,699	538,833	17,857	18.2%	-2.0%	(31,755)	58,081	\$28.59	\$2.38	10.64%
Class B	6,422,959	1,484,172	70,259	16.4%	-0.7%	43,263	48,088	\$23.19	\$1.93	-1.11%
Simi Valley	1,676,314	502,372	240,000	10.9%	3.8%	(5,525)	(64,202)	\$22.04	\$1.84	-0.85%
Class A	435,458	17,228	240,000	4.3%	-3.3%	1,485	14,233	\$27.59	\$2.30	-12.80%
Class B	1,240,856	485,144	0	13.2%	6.3%	(7,010)	(78,435)	\$21.50	\$1.79	4.98%
Westside	53,508,280	8,062,728	1,061,305	12.4%	-1.7%	62,890	934,339	\$43.69	\$3.64	8.74%
Class A	42,466,383	6,803,399	986,035	13.0%	-1.8%	(61,702)	746,315	\$44.73	\$3.73	8.33%
Class B	11,041,897	1,259,329	75,270	10.2%	-1.7%	124,592	188,024	\$40.30	\$3.36	10.26%

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Los Angeles Totals										
Class A	161,808,046	30,211,088	2,822,933	16.2%	-0.7%	-8,074	1,219,112	\$32.67	\$2.72	3.95%
Class B	90,254,676	15,562,025	547,213	14.0%	-0.2%	63,364	355,310	\$26.14	\$2.18	5.62%
Overall	252,062,722	45,773,113	3,370,146	15.4%	-0.5%	55,290	1,574,422	\$30.59	\$2.55	4.76%

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 25,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space Available: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space Available: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Vacancy Rate: Direct space physically vacant divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.

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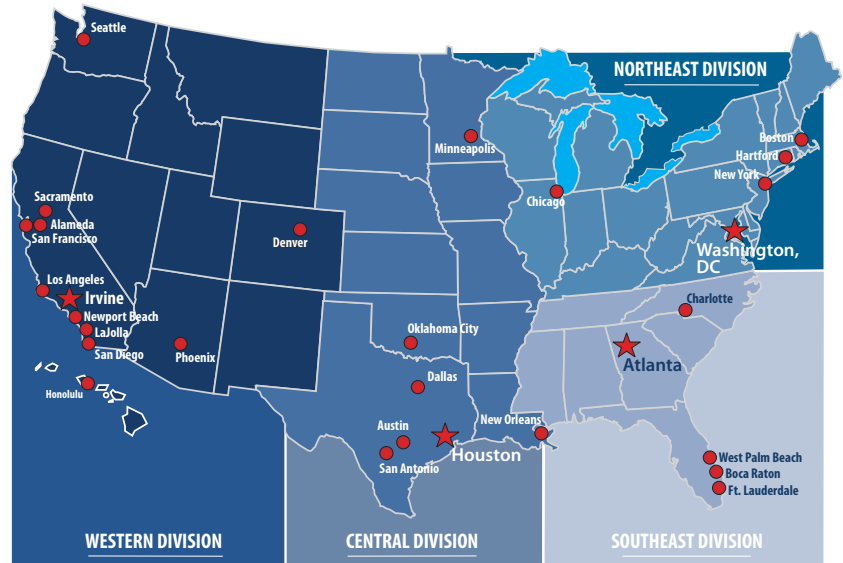
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