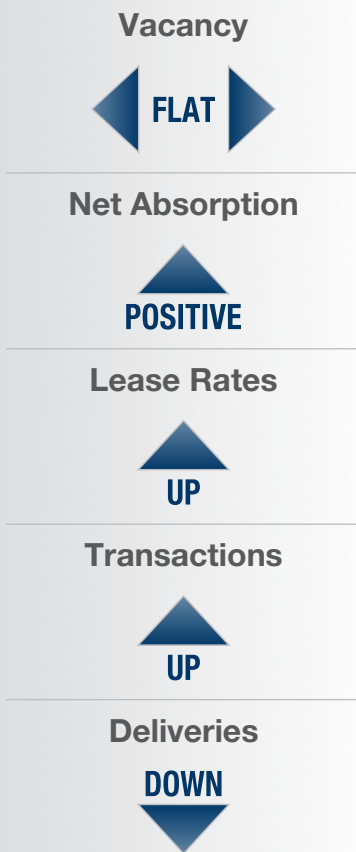


Office Market Report

Compared to the Previous Quarter:



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Market Highlights

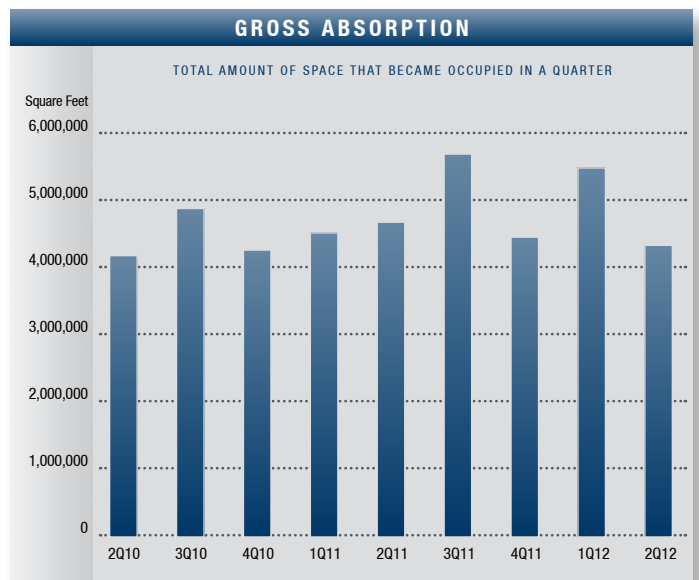
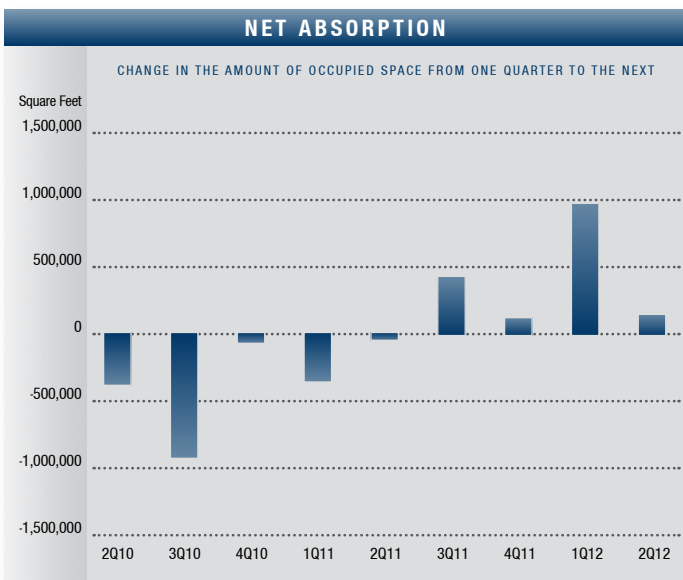
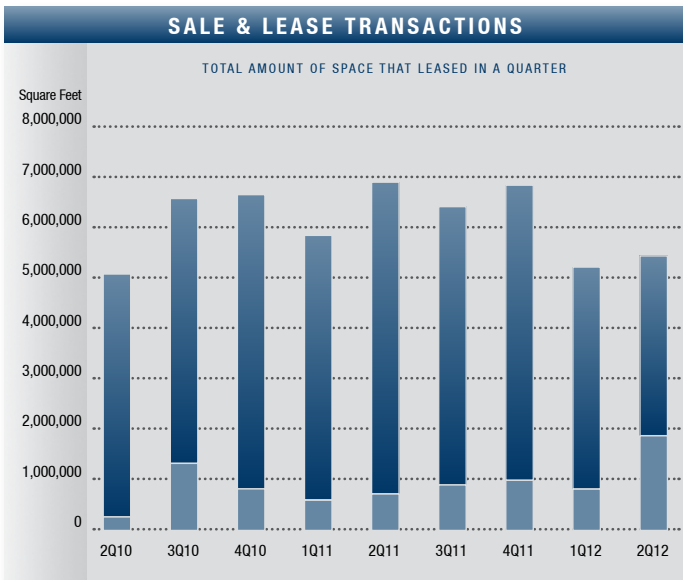
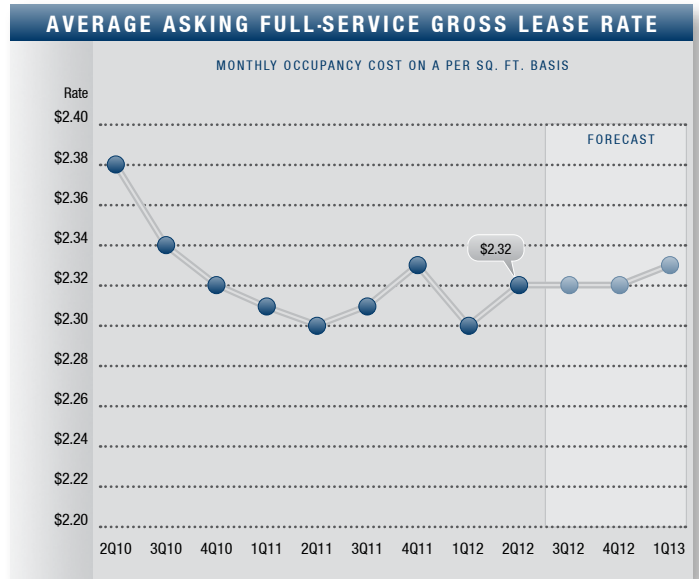
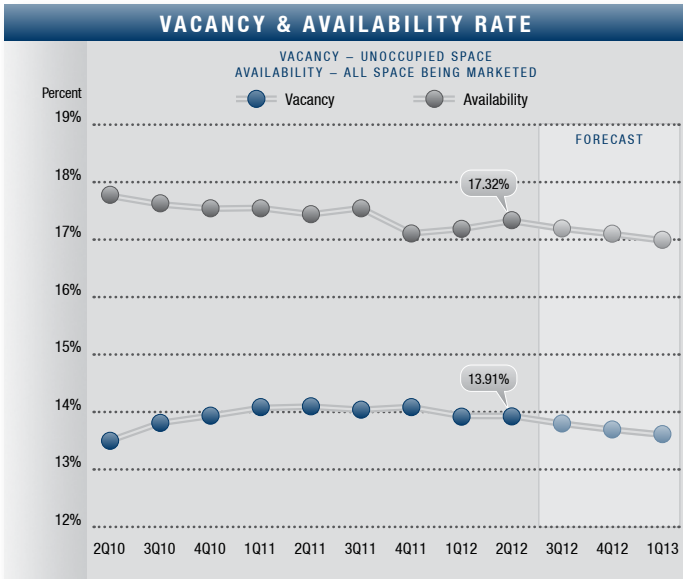
- **Steady Growth** - The Los Angeles office showed continued signs of stabilization and growth in the second quarter of 2012. Vacancy and availability remained essentially flat compared to the first quarter of 2012, while average lease rates displayed a two-cent increase. Net absorption posted a smaller, though still positive figure of approximately 166,000 square feet, marking the fourth consecutive quarter of positive absorption for the Los Angeles office market. While these are generally positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - Total space under construction came in at just over 1.79 million square feet for the second quarter of 2012, mostly Class A space. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 13.91%, a 1.28% decrease from 2011's second quarter and essential flat compared to the first quarter of 2012. We are forecasting that vacancy will continue its gradual descent in 2012, ending the year at around 13.7%.
- **Availability** - Direct/sublease space being marketed was at 17.32% at the end of the second quarter of 2012 — a tenth percent decrease when compared to 2011's second quarter rate of 17.42% but slightly higher than 2012's first quarter rate.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.32 at the end of the quarter — two cents higher than both the previous quarter and the previous year. The record high rate of \$2.74 was established in the third quarter of 2008. Class A rates for the county averaged \$2.49 FSG; of the submarkets, the West Los Angeles submarket posted the highest rate, at \$3.31 FSG. We are forecasting that rates will continue to stabilize and possibly increase in the later part of 2012 or early 2013.
- **Absorption** - The Los Angeles office market posted a positive 165,568 square feet of net absorption in the second quarter of 2012, marking the fourth consecutive

quarter of positive absorption for the Los Angeles office market. Look for high-tech, education, entertainment, and alternative-energy companies to lead the increase of positive absorption over the next few years.

- **Transaction Activity** - Leasing activity checked in at just over 3.5 million square feet for the second quarter, a decrease from the 6.1 million square feet seen in the second quarter of 2011. Sales activity was over double that of the previous quarter, posting 1.8 million square feet, the most square feet sold in a single quarter since the third quarter of 2008. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in Los Angeles County was 11.4% in May 2012 — down from a revised 11.6% in April 2012 and below the previous year's estimate of 12.3%. This compares with an unadjusted unemployment rate of 10.8% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 38,000 payroll jobs from May 2011 to May 2012. The largest gains were 16,000 in professional & business services and 11,300 in leisure & hospitality trade; however, Los Angeles County lost 10,300 government jobs during that same period.
- **Overall** - We are beginning to see the amount of available space being added per quarter level off, as well as an overall increase in investment sales activity. As we continue into the second half of 2012, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue to stabilize. We foresee a continued increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to continue to firm up, with the possibility of additional increases in the later part of 2012. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.

OFFICE MARKET OVERVIEW

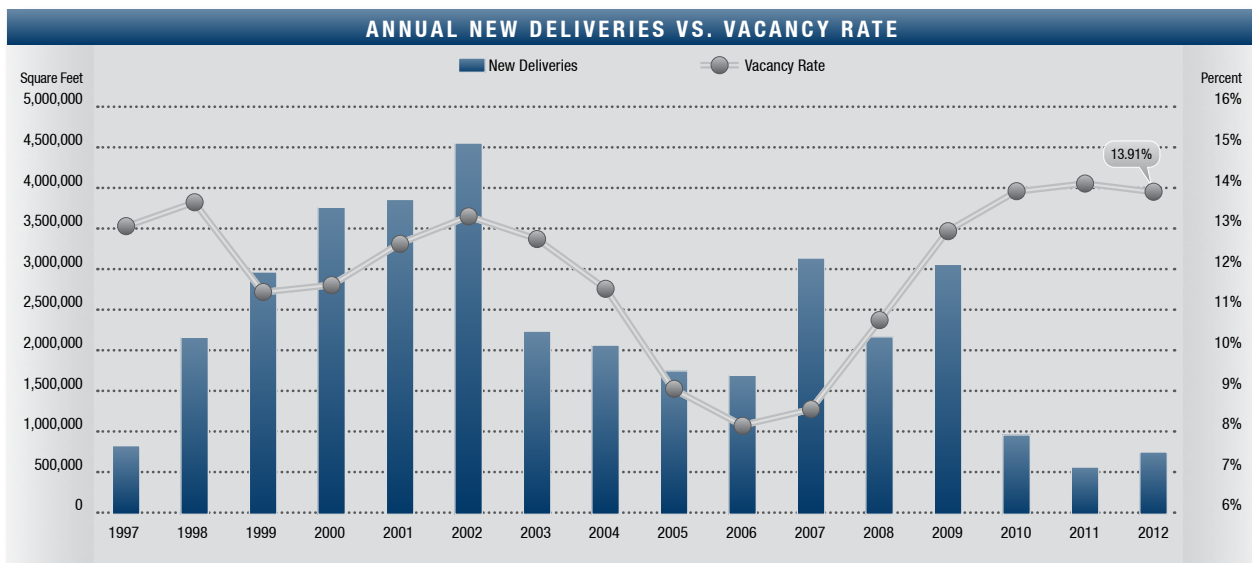
	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	13.91%	13.90%	14.09%	(1.28%)
Availability Rate	17.32%	17.21%	17.42%	(0.57%)
Average Asking Lease Rate	\$2.32	\$2.30	\$2.30	0.87%
Sale & Lease Transactions	5,368,088	5,217,487	6,873,549	(21.90%)
Gross Absorption	4,312,852	5,472,744	4,645,898	(7.17%)
Net Absorption	165,568	975,565	(35,672)	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Los Angeles Market Total													
Antelope Valley	31	1,414,177	0	180,000	211,256	14.94%	210,245	14.87%	\$2.55	(13,463)	(10,331)	8,920	14,169
Burbank/Glendale/Pasadena	438	38,951,836	0	849,590	5,171,376	13.28%	6,546,446	16.81%	\$2.60	135,517	245,270	540,370	1,268,058
Downtown	315	65,008,863	0	1,431,000	7,851,998	12.08%	10,003,129	15.39%	\$2.12	(340,759)	(63,316)	467,175	1,379,495
Mid-Cities	71	4,303,720	0	313,652	456,152	10.60%	529,039	12.29%	\$1.91	(4,069)	60,014	54,076	180,247
Mid-Wilshire	307	30,200,717	452,894	1,202,601	4,016,432	13.30%	5,468,170	18.11%	\$2.03	13,525	81,057	368,294	813,090
San Fernando Valley	346	26,956,975	0	547,623	4,200,903	15.58%	4,852,534	18.00%	\$2.07	133,847	265,422	497,518	1,104,123
San Gabriel Valley	294	18,665,884	130,000	1,308,739	1,722,067	9.23%	2,328,581	12.48%	\$1.89	(74,027)	28,608	116,568	435,219
Santa Clarita Valley	58	3,485,003	102,113	238,814	658,072	18.88%	791,841	22.72%	\$2.39	8,155	66,499	59,767	152,652
South Bay	486	49,353,052	866,450	2,205,466	8,402,178	17.02%	9,763,654	19.78%	\$2.04	(52,216)	(24,395)	587,132	1,379,846
Southeast LA	86	5,270,376	0	200,000	484,932	9.20%	804,095	15.26%	\$1.91	(42,786)	(44,040)	28,359	75,561
Ventura North	65	3,663,963	0	155,200	333,404	9.10%	758,312	20.70%	\$1.89	122,918	136,418	184,120	228,309
Ventura South	247	15,528,030	236,912	781,044	2,803,697	18.06%	3,537,236	22.78%	\$2.07	87,683	159,001	251,116	516,346
West LA	562	60,932,200	0	2,374,956	8,725,758	14.32%	10,469,924	17.18%	\$3.31	191,243	240,926	1,149,437	2,238,481
Los Angeles Market Total	3,306	323,734,796	1,788,369	11,788,685	45,038,225	13.91%	56,063,206	17.32%	\$2.32	165,568	1,141,133	4,312,852	9,785,596

Class A	995	180,986,226	1,429,019	982,0819	28,811,939	15.92%	34,766,007	19.21%	\$2.49	54,248	781,166	2,553,519	5,909,330
Class B	1,829	115,462,316	359,350	1,967,866	14,871,929	12.88%	19,165,653	16.60%	\$1.95	95,720	384,871	1,558,699	3,565,133
Class C	482	27,286,254	0	0	1,354,357	4.96%	2,131,546	7.81%	\$1.89	15,600	(24,904)	200,634	311,133
Los Angeles Market Total	3,306	323,734,796	1,788,369	11,788,685	45,038,225	13.91%	56,063,206	17.32%	\$2.32	165,568	1,141,133	4,312,852	9,785,596

This survey consists of properties 25,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
824 E. Carson St.	South Bay	C	26,792	\$447.89	Continental Development Corp.	Torrance Health Association
1000 Wilshire Blvd.	Downtown	A	476,450	\$277.05	Lincoln Property Company	Lehman Brothers Holdings, Inc. & Broadway Partners Fund Mgr., LLC
811 W. 7th St.	Downtown	B	107,015	\$266.32	Sorgente Group	Mark & Brians Fine Arts Building, LLC
3300 W. Riverside Dr.	Burbank/Glendale/Pasadena	B	53,845	\$241.44	Centurion Real Estate Partners	Warner Bros Records, Inc.
14005 Live Oak Ave.	San Gabriel Valley	B	56,510	\$194.66	HN & Frances C. Berger Fndn.	3261-3281 Sawtelle, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2400 Empire Ave. – Renewal	Burbank/Glendale/Pasadena	A	130,302	May-12	Deluxe Digital Studios	Burbank Empire Investment Group, Inc.
2300 W. Empire Ave.	Burbank/Glendale/Pasadena	A	102,000	May-12	Playboy Plus	Walton Street Capital, LLC
707 Wilshire Blvd.	Downtown	A	77,300	May-12	Morrison & Foerster, LLP	Beacon Capital Partners, LLC
604 Arizona Ave.	West Los Angeles	B	45,760	Apr-12	Real Office Centers	Hudson Pacific Properties, Inc.
9536-9560 Wilshire Blvd.	West Los Angeles	A	34,046	May-12	N/A	TIA-CREF

Product Type

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

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