

Office Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Prepared by:

Jerry J. Holdner, Jr. — Lic.#01145748
Vice President of Market Research
e-mail: jholdner@voitco.com

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com

VOIT Real Estate Services — Lic.#01333376

Market Highlights

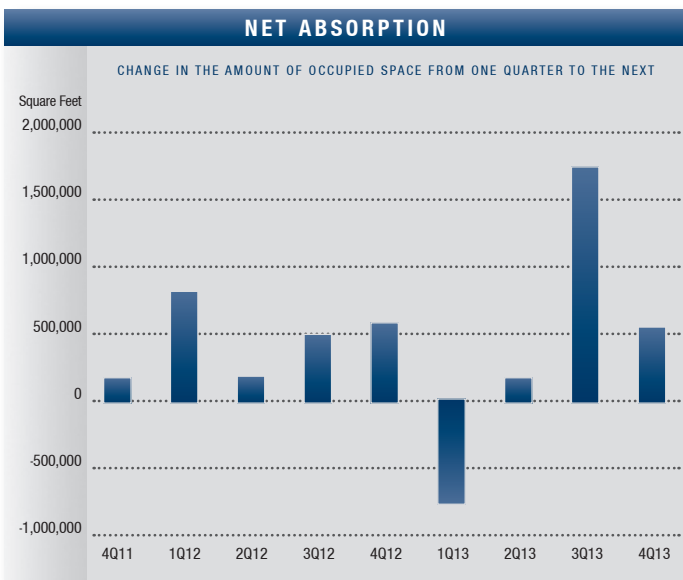
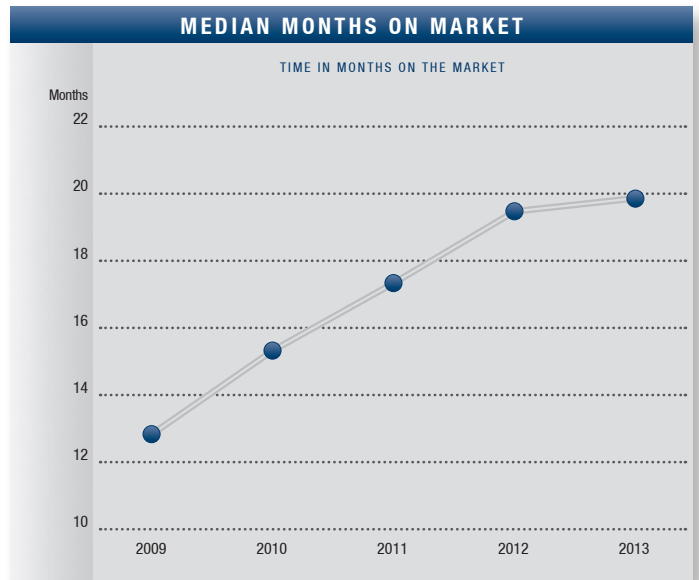
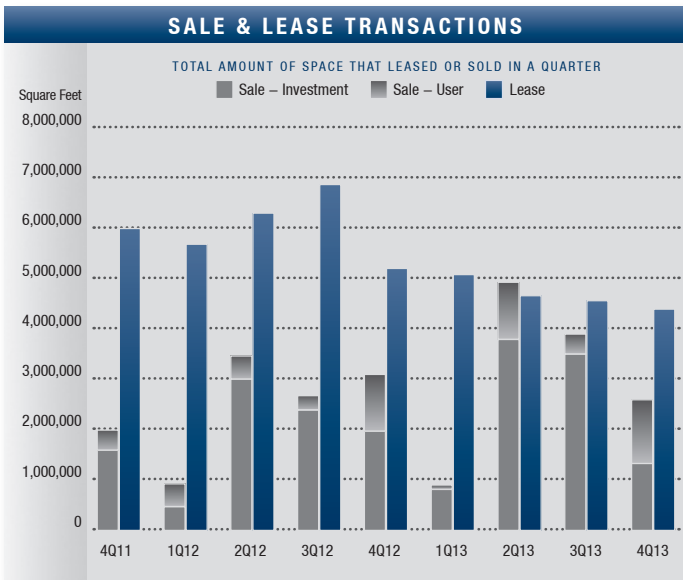
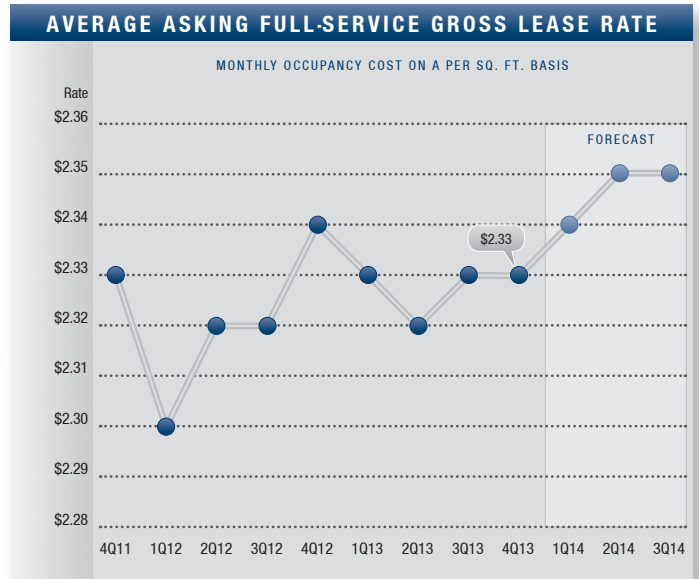
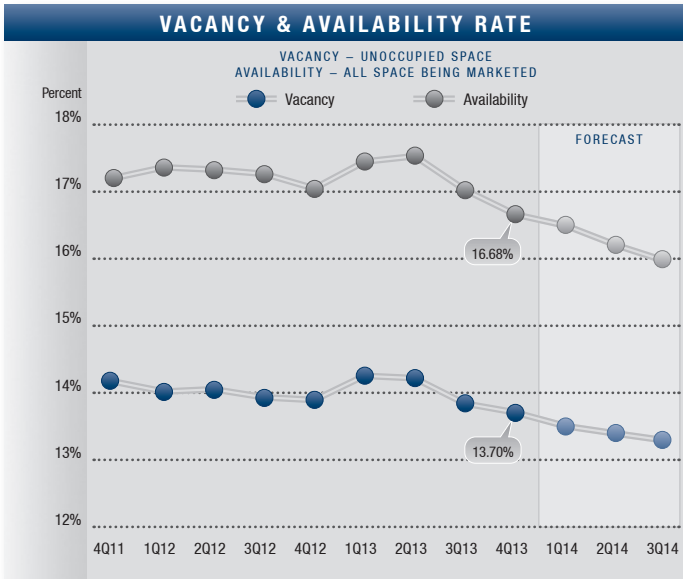
- Encouraging Numbers** - The Los Angeles office market continued on its gradual path to recovery in the fourth quarter of 2013. Vacancy and availability continued to descend, displaying small decreases compared to the previous year, while net absorption posted a positive 1.7 million square feet. While these are indications that the Los Angeles office market is heading in a good direction, employment and overall economic stability will need to be sustained in coming quarters for the market to fully regain equilibrium.
- Construction** - Total space under construction in the Los Angeles office market came in at just over 475,000 square feet for the final quarter of 2013, pretty evenly distributed between class A and class B space. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 13.70%, a drop of 14 basis points from the previous quarter and a 1.37% decrease from the end of 2012. We are forecasting that vacancy will continue its overall gradual descent in coming quarters.
- Availability** - Direct/sublease space being marketed in the Los Angeles office market was at 16.68% at the end of the fourth quarter, down from the previous quarter and a 2.23% decrease when compared to 2012's rate of 17.06%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Los Angeles office market was \$2.33 at the end of the quarter — flat from the previous quarter but a drop of one cent compared to 2012, an indication that lease rates are stabilizing. The record high rate of \$2.74 was established in the third quarter of 2008. Class A asking rates for the county averaged \$2.48 FSG, while the highest rate in all submarkets was found in the West Los Angeles submarket, where rates averaged \$3.46 FSG. We are forecasting that rates will continue to gain traction and increase going forward.
- Absorption** - The Los Angeles office market posted a positive 535,000 square feet of net absorption for the

quarter, giving the Los Angeles office market a total of over 1.67 million square feet for the year. 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 under 4.4 million square feet for the fourth quarter, producing a total of 18.6 million square feet leased for 2013 compared to 23.9 million in 2012. Sales activity came in at 2.6 million square feet for the quarter, giving the Los Angeles office market a total of 11.8 million square feet of sales activity in 2013 compared to 10 million in 2012. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in Los Angeles County was 9.5% in November 2013 — down from a revised 9.7% in October 2013 and below the previous year's estimate of 10.4%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, Los Angeles County saw a net increase of 23,000 payroll jobs from November 2012 to November 2013. The largest gains were 6,100 in educational and health services and 5,700 in trade, transportation, and utilities; Los Angeles County's largest loss was 2,000 manufacturing jobs during that same period.
- Overall** - The Los Angeles office market is still finding its footing, with private-sector, class-A-office-using industries putting up the respectable gains this year. We are seeing the amount of vacant and available space continue to slowly decrease. Positive absorption should continue into 2014, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. Lease rates should continue to increase in some of the submarkets and stabilize in others. 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 should restore to its pre-recession position.

OFFICE MARKET OVERVIEW

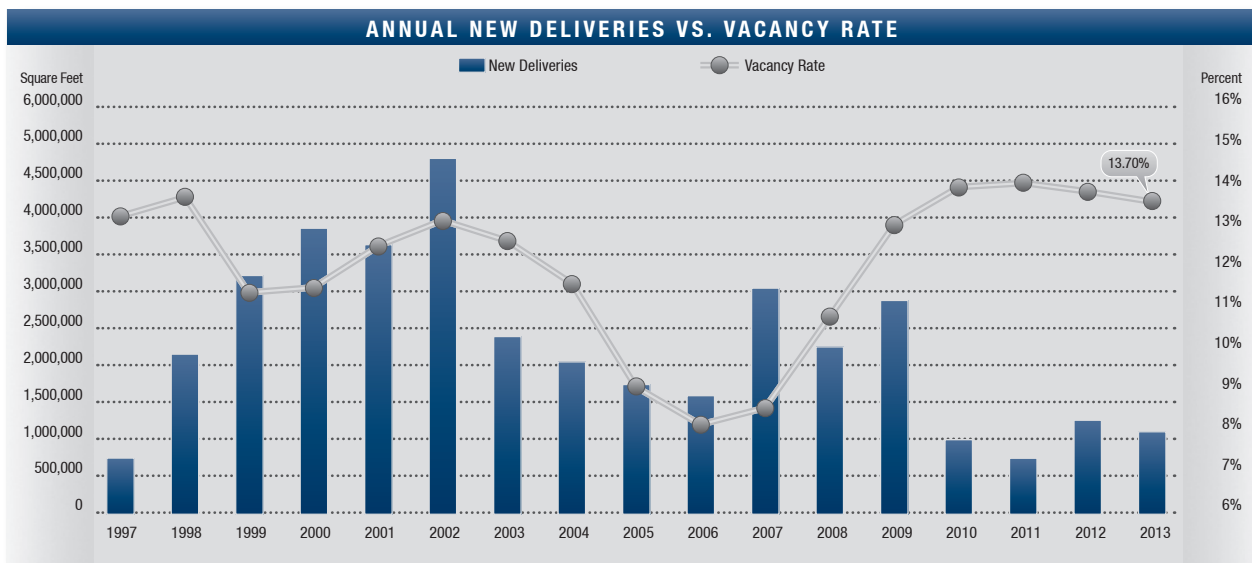
	2013	2012	2011	% of Change vs. 2012
Total Vacancy Rate	13.70%	13.89%	14.19%	(1.37%)
Availability Rate	16.68%	17.06%	17.20%	(2.23%)
Average Asking Lease Rate	\$2.33	\$2.34	\$2.33	(0.43%)
Sale & Lease Transactions	30,339,688	33,897,253	28,939,716	(10.50%)
Gross Absorption	22,884,861	20,820,736	19,560,399	9.91%
Net Absorption	1,665,576	2,067,605	122,493	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Los Angeles Market Total													
Antelope Valley	32	1,498,851	0	180,000	165,549	11.05%	190,550	12.71%	\$0.00	(1,454)	50,896	8,429	75,317
Burbank / Glendale / Pasadena	423	38,456,672	0	906,766	5,050,108	13.13%	6,029,935	15.68%	\$2.59	499,272	(232,977)	841,295	2,745,086
Downtown	314	65,302,719	30,000	616,431	8,617,438	13.20%	10,630,729	16.28%	\$2.20	(174,585)	(69,363)	497,164	2,839,069
Mid-Cities	74	4,726,196	0	27,000	351,261	7.43%	571,412	12.09%	\$2.03	65,929	123,465	100,580	359,721
Mid-Wilshire	297	30,150,853	95,002	1,372,068	4,510,052	14.96%	5,677,584	18.83%	\$2.13	62,540	(62,144)	518,962	2,133,987
San Fernando Valley	344	27,054,447	0	609,098	3,463,380	12.80%	4,377,216	16.18%	\$2.10	25,635	413,798	488,211	2,461,218
San Gabriel Valley	295	19,047,190	73,834	1,586,069	1,981,829	10.40%	2,506,647	13.16%	\$1.96	(2,286)	(23,109)	138,240	755,258
Santa Clarita Valley	58	3,505,008	102,113	333,650	409,038	11.67%	511,944	14.61%	\$2.28	3,412	116,167	65,470	336,582
South Bay	498	50,397,306	175,348	2,178,865	8,540,236	16.95%	9,791,371	19.43%	\$1.98	(67,289)	671,794	790,902	3,534,837
Southeast LA	88	5,545,931	0	60,000	474,900	8.56%	714,967	12.89%	\$1.77	(41,782)	46,957	36,390	302,386
Ventura North	66	3,632,131	0	147,034	320,807	8.83%	692,156	19.06%	\$1.78	78,741	27,811	103,701	257,839
Ventura South	244	15,642,430	0	1,095,012	2,509,749	16.04%	3,324,369	21.25%	\$2.09	31,738	235,039	288,588	1,301,362
West LA	563	60,985,039	0	1,544,886	8,268,149	13.56%	9,360,471	15.35%	\$3.46	55,023	367,242	1,343,644	5,782,199
Los Angeles Market Total	3,296	325,944,773	476,297	10,656,879	44,662,496	13.70%	54,379,351	16.68%	\$2.33	534,894	1,665,576	5,221,576	22,884,861

Class A	991	182,649,038	227,115	848,694	28,859,722	15.80%	33,923,429	18.57%	\$2.48	270,130	968,593	3,490,463	14,891,824
Class B	1,829	116,371,912	249,182	2,169,937	14,370,678	12.35%	17,976,002	15.45%	\$1.99	329,696	681,904	1,598,745	7,148,503
Class C	476	26,923,823	0	0	1,432,096	5.32%	2,479,920	9.21%	\$1.79	(64,932)	15,079	132,368	844,534
Los Angeles Market Total	3,296	325,944,773	476,297	10,656,879	44,662,496	13.70%	54,379,351	16.68%	\$2.33	534,894	1,665,576	5,221,576	22,884,861

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.



MAJOR TRANSACTIONS OF 2013

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
515 S. Flower St. – 4 Properties	Downtown LA	A	2,853,726	\$300.66	FSP-South Flower Street Associates, LLC	CalSTRS
633 W. 5th St. – 2 Properties	Downtown LA	A	1,780,799	\$206.37	Overseas Union Enterprise Limited	MPG Office Trust, Inc.
700 S. Flower St. – 3 Properties	Downtown LA	A	1,478,500	\$163.00	The Ratkovich Company	Jamson Services, Inc.
300 S. Grand Ave.	Downtown LA	A	1,034,134	\$285.26	Madison International Realty	Beacon Capital Partners
8401 Fallbrook Ave. – 10 Properties	San Fernando Valley	A	988,688	\$92.34	Brookfield Office Properties, Inc.	MEPT West Hills, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
800 N. Brand Blvd. – Renewal	Burbank/Glendale/Pasadena	A	378,452	Oct-13	Nestle USA	Wells REIT Glendale CA, LLC
10 Universal City Plz.	Burbank/Glendale/Pasadena	A	238,218	Oct-13	NBC Universal	Comcast Corporation
200 Oceangate – Renewal	South Bay	A	167,350	Jun-13	Molina Healthcare, Inc.	Angelo, Gordon & Company
1620 26th St.	West LA	A	86,085	Nov-13	Amazon	Water Garden Company
13031 W. Jefferson Blvd.	West LA	A	80,049	Jul-13	Sony Playstation	Shorenstein Properties, LLC

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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714.978.7880

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949.851.5100

Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.771.9955

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

Voit

REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
www.voitco.com
Lic.#01333376

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