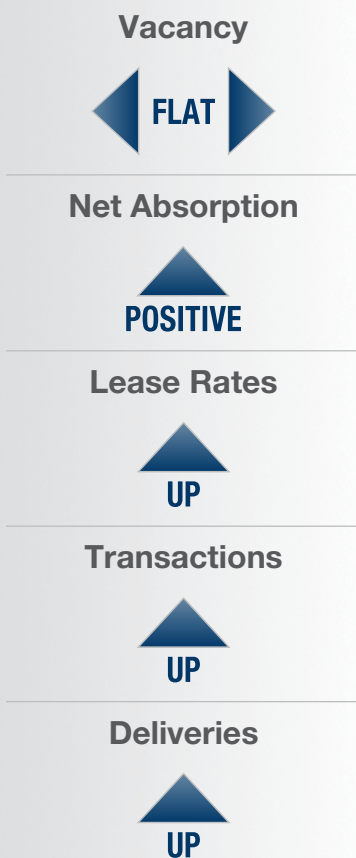


## Office Market Report

Compared to the Previous Quarter:



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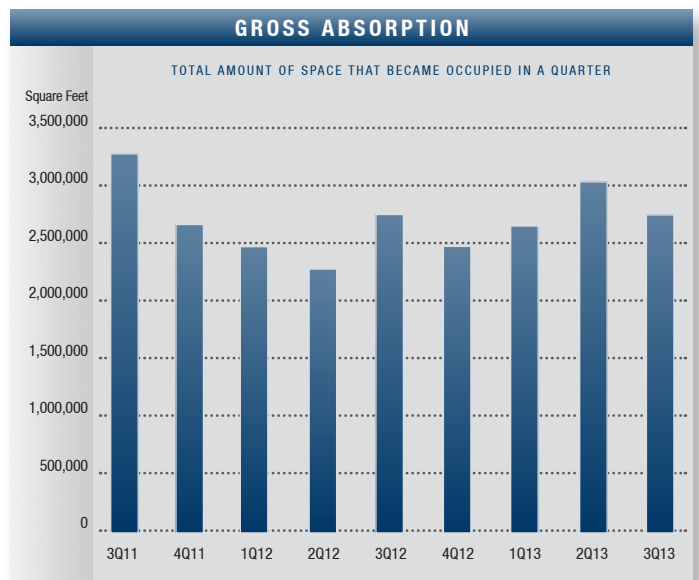
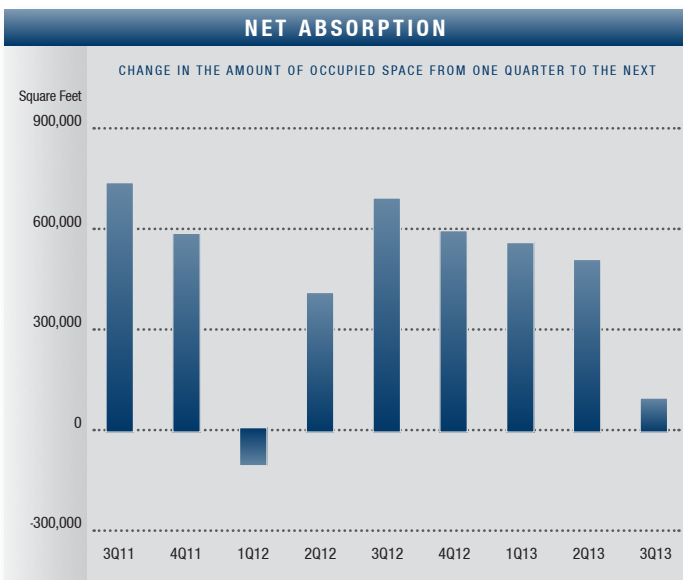
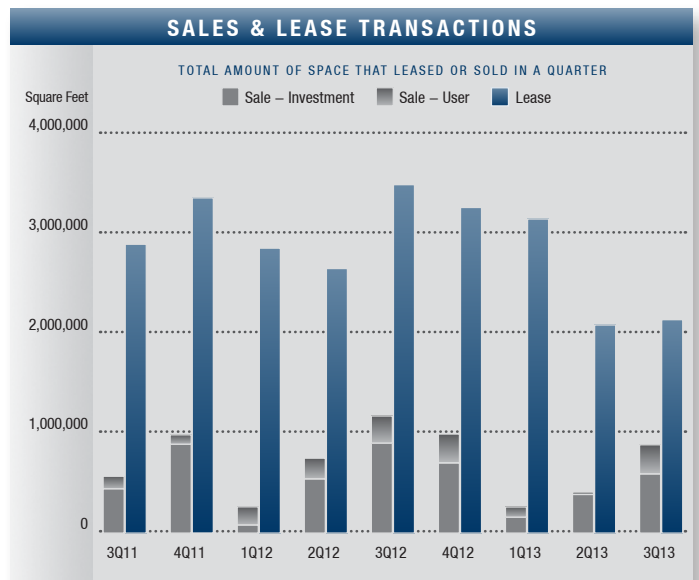
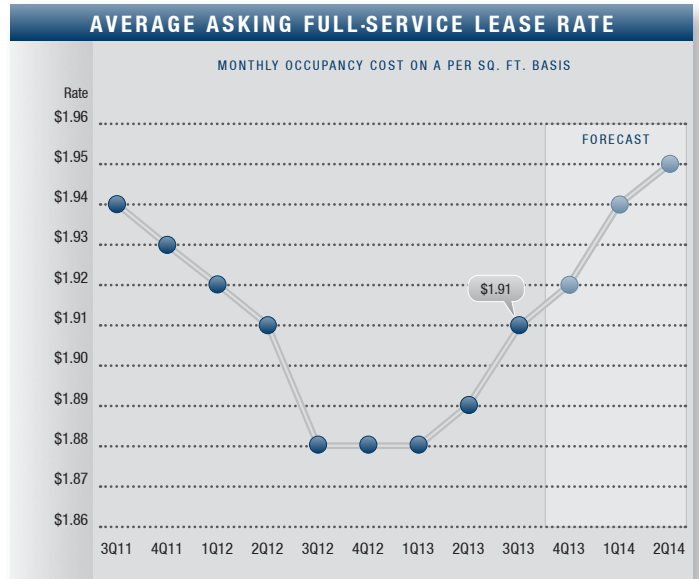
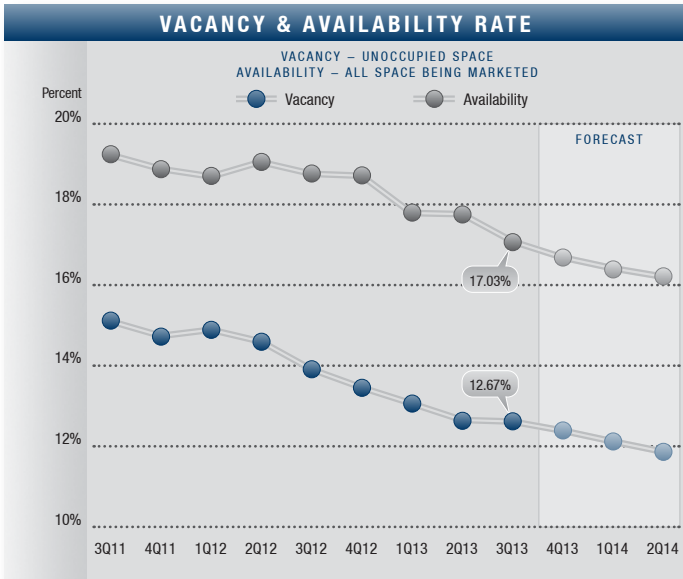
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### Market Highlights

- Steady Growth** - The Orange County office market continued to convey signs of recovery, posting almost 100,000 square feet of positive net absorption this quarter and giving the market a total of over 1.1 million square feet of positive absorption for the first three quarters of 2013. Both vacancy and availability continued their downward trends, while lease rates appeared to be finally firming up. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Absorption** - The Orange County office market posted almost 100,000 square feet of positive absorption this quarter, most of which was in class B buildings, giving the market a total of almost 6 million square feet of positive absorption since the third quarter of 2010. Look for research-oriented businesses—IT, defense, medical and alternative energy companies—to lead the charge of positive absorption over the next few years.
- Construction** - The record year for new development was 1988, when 5.7 million square feet of new space was added and vacancy rates were approximately 24%. Total space under construction came in at just over 1.3 million square feet for the third quarter of 2013; the most notable projects were two build-to-suit projects: Hyundai in Fountain Valley (469,000 square feet) and PIMCO at Fashion Island in Newport Beach (479,800 square feet).
- Transaction Activity** - Leasing activity checked in at 2.1 million square feet in the third quarter of 2013, an increase from the 2 million square feet we saw in the second quarter of 2013. Sales activity was up a bit, posting 860,000 square feet of activity in the third quarter of 2013 compared to the previous quarter's figure of 390,000 square feet. Details of the largest transactions for the quarter can be found on the back page of this report.
- Vacancy** - Vacancies continued their downward trend. Unchanged from the previous quarter, direct/sublease space (unoccupied) finished the third quarter at 12.67%, a substantial decrease from the previous year's rate of 13.93% and significantly down from both the Great-Recession peak of nearly 18% in the second quarter of 2010 and the market high of 23% recorded in 1990. We are forecasting that vacancy will continue trending downward in 2013, ending the year around 12.4%.
- Employment** - The unemployment rate in Orange County was 6.2% in August 2013—down from a revised 6.5% in July 2013 and below the previous year's estimate of 7.8%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 32,500 payroll jobs from August 2012 to August 2013. Every sector showed gains in employment; the largest gains were 7,000 in financial activities, 6,900 in construction, and 6,500 in leisure & hospitality during that same period.
- Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was at 17.03% at the end of the third quarter of 2013—a decrease of over 9% when compared to 2012's third quarter rate of 18.78% and 74 basis points lower than 2013's second quarter rate of 17.77%.
- Overall** - We are beginning to see a decrease in the amount of vacant and available space. As we progress into the last quarter of 2013, 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 an overall increase in investment activity in the coming quarters. Lease rates have begun to firm up, and we expect them to continue to increase. 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.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.91 at the end of the quarter—a 1.6% increase from the previous year's rate of \$1.88 and two cents higher than 2013's second quarter rate. The record-high rate of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county averaged \$2.10 FSG—the highest being in the South County submarket where Class A rates averaged \$2.22 FSG. We are forecasting that rates will continue to increase in the near future.

### OFFICE MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	12.67%	12.68%	13.93%	(9.05%)
Availability Rate	17.03%	17.77%	18.78%	(9.32%)
Average Asking Lease Rate	\$1.91	\$1.89	\$1.88	1.60%
Sale & Lease Transactions	2,968,088	2,453,073	4,637,930	(36.00%)
Gross Absorption	2,734,874	3,008,104	2,737,480	(0.10%)
Net Absorption	93,705	502,856	687,221	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>North County</b>													
Anaheim Hills	17	1,030,597	0	45,000	76,036	7.38%	178,875	17.36%	\$1.74	(15,644)	(16,996)	5,553	11,855
Brea	43	4,113,611	0	120,000	413,706	10.06%	743,303	18.07%	\$2.01	(21,914)	36,414	53,654	228,567
Buena Park	15	943,494	0	0	224,886	23.84%	147,726	15.66%	\$1.67	16,197	(27,141)	35,688	51,565
Fullerton	31	2,507,796	0	0	276,524	11.03%	510,898	20.37%	\$1.32	(1,528)	13,492	23,646	67,456
La Habra	4	142,069	0	0	2,156	1.52%	2,156	1.52%	\$0.00	(2,156)	(1,429)	0	727
La Palma	10	712,038	0	0	137,113	19.26%	197,031	27.67%	\$2.02	46,144	5,990	50,743	101,493
Placentia	8	267,589	0	0	52,456	19.60%	50,656	18.93%	\$1.58	(797)	1,308	0	9,295
Yorba Linda	7	423,502	0	0	43,031	10.16%	87,773	20.73%	\$1.74	(12,853)	(16,942)	4,768	6,681
<b>North County Total</b>	<b>135</b>	<b>10,140,696</b>	<b>0</b>	<b>165,000</b>	<b>1,225,908</b>	<b>12.09%</b>	<b>1,918,418</b>	<b>18.92%</b>	<b>\$1.89</b>	<b>7,449</b>	<b>(5,304)</b>	<b>174,052</b>	<b>477,639</b>
<b>West County</b>													
Cypress	30	2,096,476	0	0	326,219	15.56%	403,164	19.23%	\$1.86	6,007	101,994	16,112	126,293
Fountain Valley	31	1,478,142	469,000	0	153,422	10.38%	134,968	9.13%	\$1.64	44,808	49,164	62,668	78,822
Garden Grove	20	1,562,572	0	0	73,315	4.69%	126,823	8.12%	\$1.37	(7,043)	(15,685)	7,301	17,437
Huntington Beach	43	2,396,127	0	0	317,915	13.27%	412,700	17.22%	\$1.82	(38,765)	10,997	37,218	143,473
Los Alamitos	11	616,808	70,000	0	37,827	6.13%	41,147	6.67%	\$1.81	(154)	(8,127)	1,331	11,917
Seal Beach	7	473,787	0	0	12,614	2.66%	66,680	14.07%	\$2.75	41	(4,807)	12,840	22,073
Stanton	4	143,361	0	0	10,304	7.19%	17,277	12.05%	\$0.80	(401)	1,389	4,273	10,863
Westminster	14	554,280	0	0	54,752	9.88%	51,530	9.30%	\$1.83	10,449	8,581	10,522	20,112
<b>West County Total</b>	<b>160</b>	<b>9,321,553</b>	<b>539,000</b>	<b>0</b>	<b>986,368</b>	<b>10.58%</b>	<b>1,254,289</b>	<b>13.46%</b>	<b>\$1.78</b>	<b>14,942</b>	<b>143,506</b>	<b>152,265</b>	<b>430,990</b>
<b>Central County</b>													
Anaheim	86	6,803,557	0	175,500	928,801	13.65%	1,113,840	16.37%	\$1.75	(72,345)	(30,808)	68,166	257,765
Orange	81	7,086,120	0	200,000	981,678	13.85%	1,235,213	17.43%	\$1.95	90,771	(45,223)	261,953	532,587
Santa Ana	190	15,159,290	0	1,012,000	2,232,464	14.73%	3,012,434	19.87%	\$1.66	30,330	(230,228)	527,789	1,007,424
Tustin	40	1,978,556	0	737,000	190,020	9.60%	211,045	10.67%	\$1.66	19,519	86,428	38,791	147,495
<b>Central County Total</b>	<b>397</b>	<b>31,027,523</b>	<b>0</b>	<b>2,124,500</b>	<b>4,332,963</b>	<b>13.96%</b>	<b>5,572,532</b>	<b>17.96%</b>	<b>\$1.76</b>	<b>68,275</b>	<b>(219,831)</b>	<b>896,699</b>	<b>1,945,271</b>
<b>Airport Area</b>													
Costa Mesa	73	7,332,709	0	0	1,152,015	15.71%	1,301,286	17.75%	\$2.10	37,249	15,038	106,020	453,369
Irvine	256	23,910,371	110,000	1,568,959	3,312,994	13.86%	4,426,879	18.51%	\$2.07	30,589	458,291	678,094	2,104,479
Newport Beach	127	9,552,178	680,000	42,646	993,260	10.40%	1,340,511	14.03%	\$2.13	37,829	95,784	306,206	869,967
<b>Airport Area Total</b>	<b>456</b>	<b>40,795,258</b>	<b>790,000</b>	<b>1,611,605</b>	<b>5,458,269</b>	<b>13.38%</b>	<b>7,068,676</b>	<b>17.33%</b>	<b>\$2.07</b>	<b>105,667</b>	<b>569,113</b>	<b>1,090,320</b>	<b>3,427,815</b>
<b>South County</b>													
Aliso Viejo	42	3,088,128	0	647,000	233,821	7.57%	436,115	14.12%	\$2.15	12,935	43,759	44,316	136,360
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	799,893	0	0	141,904	17.74%	198,596	24.83%	\$1.91	0	77,484	0	77,484
Irvine Spectrum	148	9,809,693	0	150,000	817,420	8.33%	1,188,584	12.12%	\$2.28	7,816	378,496	221,586	1,161,119
Laguna Beach	5	194,434	0	0	28,461	14.64%	29,461	15.15%	\$0.00	1,418	(3,058)	1,418	2,532
Laguna Hills	34	1,812,815	0	0	303,463	16.74%	419,586	23.15%	\$1.84	(237)	15,893	41,384	119,120
Laguna Niguel	11	1,776,844	0	0	188,256	10.59%	215,540	12.13%	\$2.17	(2,724)	24,680	17,313	79,195
Lake Forest	40	2,101,103	0	0	314,744	14.98%	547,413	26.05%	\$1.66	22,788	201,616	41,758	304,871
Mission Viejo	36	1,914,306	0	0	216,009	11.28%	327,640	17.12%	\$1.89	(23,940)	(23,756)	28,749	81,848
Rancho Santa Margarita	6	249,472	0	0	45,627	18.29%	71,777	28.77%	\$1.48	6,029	17,444	8,253	28,247
San Clemente	11	474,516	0	0	42,005	8.85%	57,925	12.21%	\$1.64	(8,787)	6,960	8,170	41,497
San Juan Capistrano	17	865,688	0	0	176,819	20.43%	189,794	21.92%	\$1.96	(117,926)	(98,598)	8,591	45,464
<b>South County Total</b>	<b>363</b>	<b>23,222,188</b>	<b>0</b>	<b>832,000</b>	<b>2,508,529</b>	<b>10.80%</b>	<b>3,682,431</b>	<b>15.86%</b>	<b>\$1.94</b>	<b>(102,628)</b>	<b>640,920</b>	<b>421,538</b>	<b>2,077,737</b>
<b>Orange County Total</b>	<b>1,511</b>	<b>114,507,218</b>	<b>1,329,000</b>	<b>4,733,105</b>	<b>14,512,037</b>	<b>12.67%</b>	<b>19,496,346</b>	<b>17.03%</b>	<b>\$1.91</b>	<b>93,705</b>	<b>1,128,404</b>	<b>2,734,874</b>	<b>8,359,452</b>
<b>North County</b>													
Class A	19	2,052,410	0	0	229,793	11.20%	372,878	18.17%	\$2.19	32,157	(6,415)	78,403	178,118
Class B	105	7,711,009	0	165,000	938,253	12.17%	1,485,640	19.27%	\$1.77	(24,401)	2,332	91,683	292,164
Class C	11	377,277	0	0	57,862	15.34%	59,900	15.88%	\$1.20	(307)	(1,221)	3,966	7,357
<b>West County</b>													
Class A	23	2,462,651	0	0	320,508	13.01%	387,758	15.75%	\$2.04	7,350	51,128	53,107	135,279
Class B	115	5,953,546	539,000	0	625,390	10.50%	821,607	13.80%	\$1.65	9,727	93,080	98,703	280,626
Class C	22	905,356	0	0	40,470	4.47%	44,924	4.96%	\$1.40	(2,135)	(702)	455	15,085
<b>Central County</b>													
Class A	60	10,298,388	0	1,822,500	1,827,234	17.74%	2,404,075	23.34%	\$1.94	1,862	(77,981)	543,517	1,038,652
Class B	266	17,699,274	0	302,000	2,194,797	12.40%	2,775,744	15.68%	\$1.59	70,708	(112,171)	325,488	824,611
Class C	71	3,029,861	0	0	310,932	10.26%	392,713	12.96%	\$1.34	(4,295)	(29,679)	27,694	82,008
<b>Airport Area</b>													
Class A	115	22,409,140	790,000	1,482,000	3,393,964	15.15%	4,568,033	20.38%	\$2.19	(8,503)	517,089	563,807	2,067,155
Class B	312	16,995,481	0	129,605	1,903,047	11.20%	2,308,887	13.59%	\$1.86	110,219	100,325	506,625	1,319,320
Class C	29	1,390,637	0	0	161,258	11.60%	191,756	13.79%	\$1.78	3,951	(48,301)	19,888	41,340
<b>South County</b>													
Class A	59	6,898,795	0	647,000	549,374	7.96%	936,881	13.58%	\$2.22	3,563	152,481	116,250	683,314
Class B	294	15,867,591	0	185,000	1,957,351	12.34%	2,741,512	17.28%	\$1.78	(106,918)	476,330	303,072	1,377,607
Class C	10	455,802	0	0	1,804	0.40%	4,038	0.89%	\$1.40	727	12,109	2,216	16,816
<b>Orange County</b>													
Class A	276	44,121,384	790,000	3,951,500	6,320,873	14.33%	8,669,625	19.65%	\$2.10	36,429	636,302	1,355,084	4,102,518
Class B	1,092	64,226,901	539,000	781,605	7,618,838	11.86%	10,133,390	15.78%	\$1.73	59,335	559,896	1,325,571	4,094,328
Class C	143	6,158,933	0	0	572,326	9.29%	693,331	11.26%	\$1.48	(2,059)	(67,794)	54,219	162,606
<b>Orange County Total</b>	<b>1,511</b>	<b>114,507,218</b>	<b>1,329,000</b>	<b>4,733,105</b>	<b>14,512,037</b>	<b>12.67%</b>	<b>19,496,346</b>	<b>17.03%</b>	<b>\$1.91</b>	<b>93,705</b>	<b>1,128,404</b>	<b>2,734,874</b>	<b>8,359,452</b>

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

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
1 City Blvd. W.	Central	A	333,922	\$167.70	Walton Street Capital	Hudson Pacific Properties, Inc.
16245 Laguna Canyon Rd. – 16 Properties	South	B	322,386	\$227.99	Olen Commercial Realty Corporation	Sares-Regis Group
17390 Brookhurst St. – 3 Properties	West	B	300,215	\$223.17	MemorialCare Health System	Fountain Valley City Center, LLC
2300-2302 Von Karman Ave. – 2 Properties	Airport	A	266,939	\$143.03	Hines Global REIT, Inc.	LBA Realty
27201 Puerta Real – 2 Properties	South	A	231,065	\$236.95	Cornerstone Real Estate Advisors, Inc.	Prudential Insurance Group

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1833 Alton Pky. – Renewal	Airport	B	129,263	Jul-13	JPMorgan Chase	Oaktree Capital Management, LP
405 W. 5th St. – Renewal	Central	A	113,785	Jul-13	Regional Center of Orange	CW Capital Asset Management
1400 & 1500 S. Douglass Rd.	Central	B	90,076	Aug-13	Conifer Health Solutions	MEPT / New Tower Trust Company
3220 El Camino Real – Renewal	South	B	62,850	Sep-13	Fidelity National Title	The Irvine Company
43 Discovery	South	B	31,421	Aug-13	I-Flow	The Irvine Company

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.

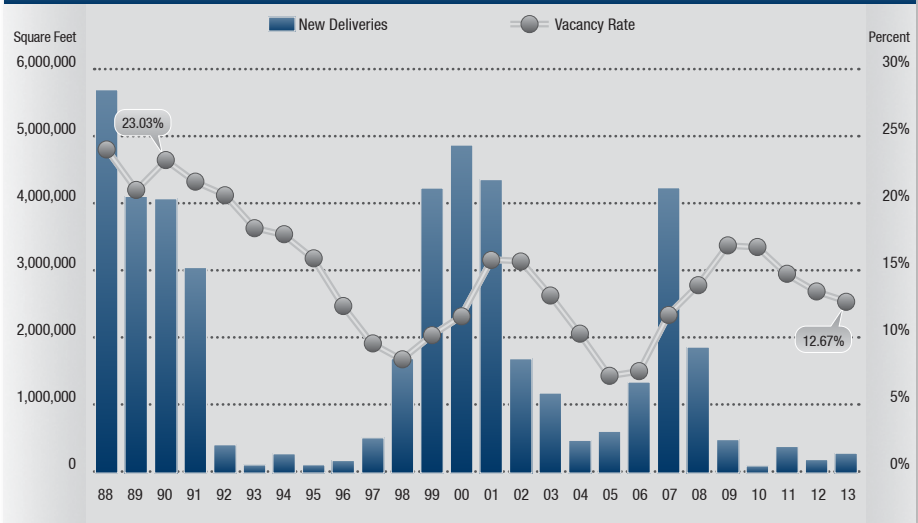
CLASS B

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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