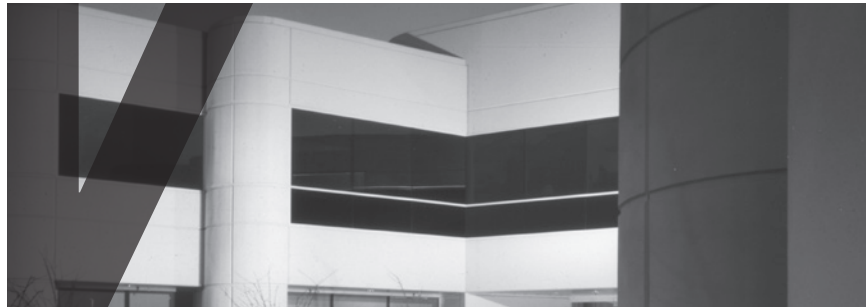




REAL ESTATE SERVICES

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Office Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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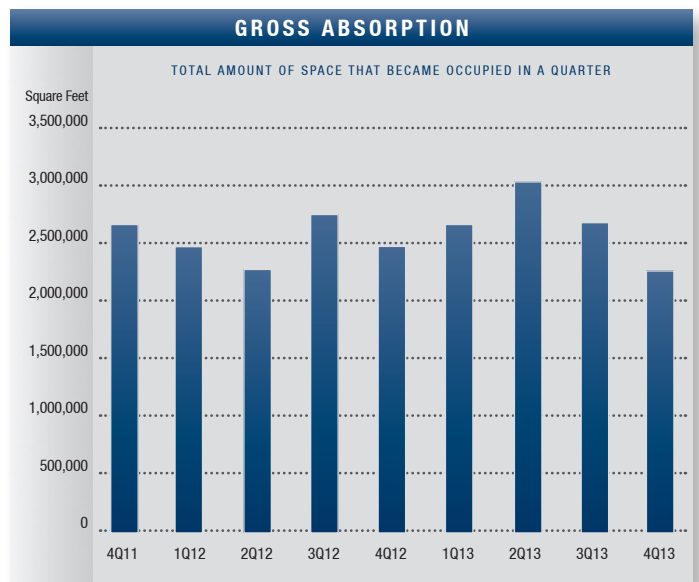
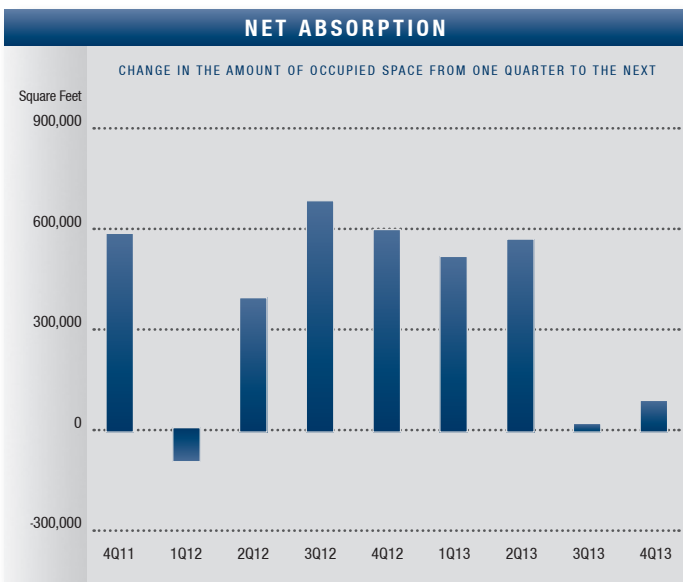
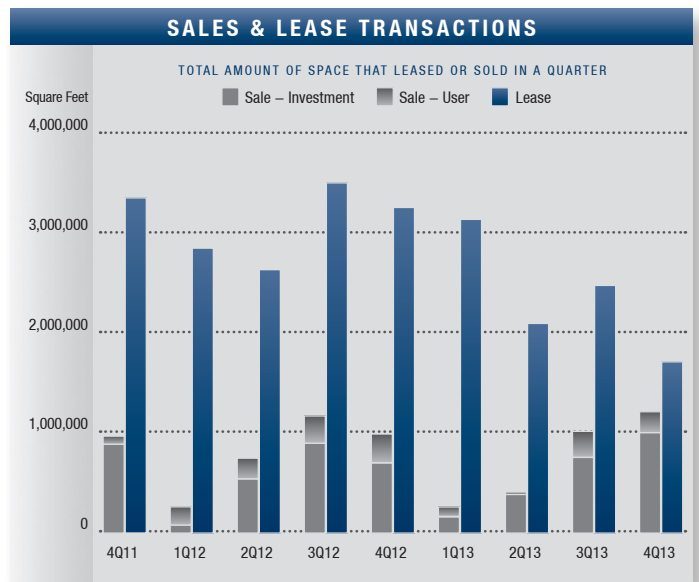
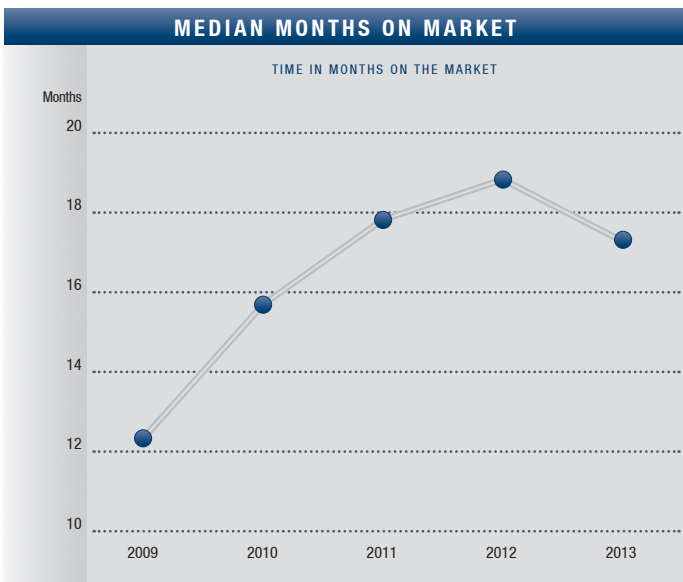
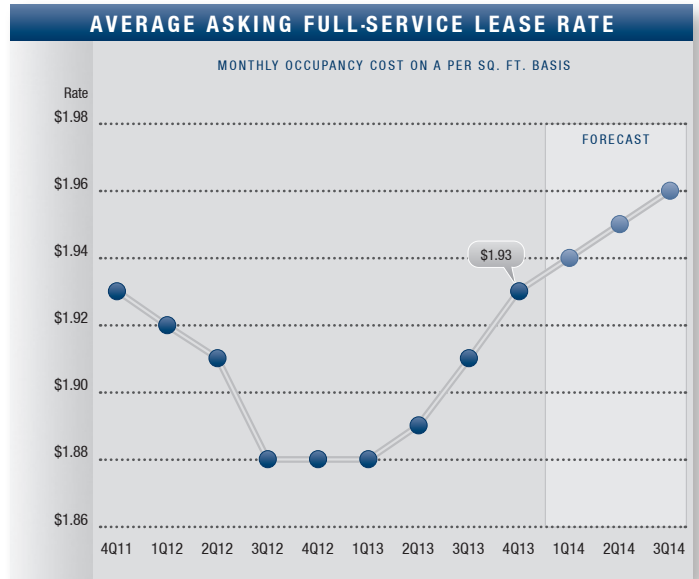
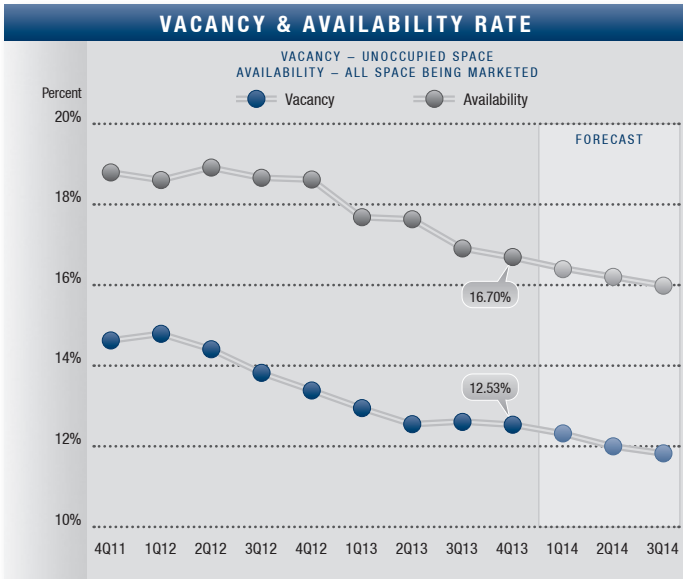


Market Highlights

- Steady Growth** - The Orange County office market continued to convey signs of recovery, posting nearly 90,000 square feet of positive net absorption in the fourth quarter, giving the market a total of almost 1.2 million square feet of positive absorption for 2013. During the year, both vacancy and availability continued their downward trends, while lease rates finally began increasing. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- 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 fourth 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).
- Vacancy** - Vacancies continued their downward trend. Down slightly from the previous quarter (8 basis points), direct/sublease space (unoccupied) finished the fourth quarter at 12.53%, a decrease from the previous year's rate of 13.36% 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.
- Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was at 16.70% at the end of the fourth quarter of 2013 — a decrease of over 10% when compared to 2012's fourth quarter rate of 18.60% and 19 basis points lower than 2013's third quarter rate of 16.89%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.93 at the end of the quarter — a 2.66% increase from the previous year's rate of \$1.88 and two cents higher than 2013's third 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 \$2.13 FSG — the highest being in the South County submarket where Class A rates averaged \$2.25 FSG. We are forecasting that rates will continue to increase in the near future.
- Absorption** - The Orange County office market posted just over 85,000 square feet of positive absorption in the last quarter of the year, 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.
- Transaction Activity** - Leasing activity checked in at 1.7 million square feet in the fourth quarter, producing a total of 9.4 million square feet leased in 2013 compared to 12 million square feet leased in 2012. Sales activity was up a bit from the previous quarter, posting 1.2 million square feet of activity in the fourth quarter compared to the third quarter's figure of 997,000 square feet. Details of the largest transactions for the quarter can be found on the back page of this report.
- Employment** - The unemployment rate in Orange County was 5.6% in November 2013 — down from a revised 5.8% in October 2013 and below the previous year's estimate of 6.9%. 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, Orange County saw a net increase of 30,600 payroll jobs from November 2012 to November 2013. Most sectors showed gains in employment; the largest gains were 8,300 in construction and 6,200 in leisure & hospitality during that same period. Government posted the largest year-over loss, dropping by 4,400 jobs.
- Overall** - We are beginning to see a decrease in the amount of vacant and available space. As we progress into 2014, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue to improve. We foresee an overall increase in investment activity in the coming quarters. Lease rates have begun to increase, and we expect them to continue to increase, at a rate of 4 to 5%, in 2014. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.

OFFICE MARKET OVERVIEW

| | 2013 | 2012 | 2011 | % of Change vs. 2012 |
|---------------------------|------------|------------|------------|----------------------|
| Total Vacancy Rate | 12.53% | 13.36% | 14.61% | (6.21%) |
| Availability Rate | 16.70% | 18.60% | 18.78% | (10.22%) |
| Average Asking Lease Rate | \$1.93 | \$1.88 | \$1.93 | 2.66% |
| Sale & Lease Transactions | 12,193,386 | 15,267,757 | 15,823,792 | (20.14%) |
| Gross Absorption | 10,567,892 | 9,949,221 | 11,293,557 | 6.22% |
| Net Absorption | 1,175,299 | 1,578,219 | 2,476,323 | N/A |



MAJOR TRANSACTIONS OF 2013

Sales Transactions

| Property Address | Submarket | Class | Square Feet | Sale Price Per SF | Buyer | Seller |
|---|-----------|-------|-------------|-------------------|------------------------------------|--|
| 3070 Bristol St. – 3 Properties | Airport | A | 370,255 | \$201.21 | Equity Office | TA Associates Realty |
| 1 City Blvd W. | Central | A | 362,121 | \$154.64 | Walton Street Capital | Hudson Pacific Properties, Inc. |
| 2030 Main St. | Airport | A | 355,360 | \$320.80 | The Praedium Group, LLC | State Teachers Retirement System of Ohio |
| 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 |

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 |
| 1900 S. State College Blvd. | Central | A | 107,651 | Jan-13 | Cash Call | KW Stadium Gateway, LLC |
| 1400 & 1500 S. Douglass Rd. | Central | B | 90,076 | Aug-13 | Conifer Health Solutions | MEPT / New Tower Trust Company |
| 2929 E. Imperial Hwy. – Expansion | North County | A | 81,077 | May-13 | IMS Inc. | KWR Saturn, 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.

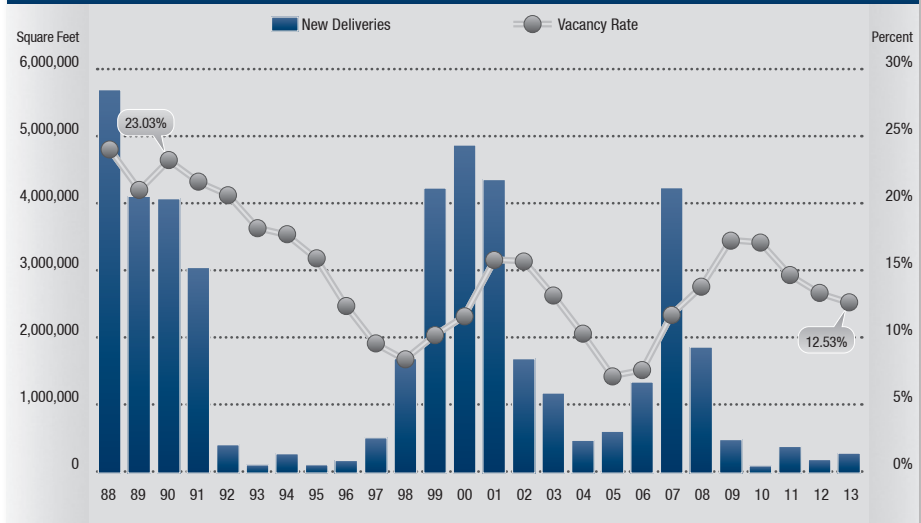
CLASS B

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



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