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

· 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.

Market Highlights

- 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 guarter 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 guarter 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 guarter 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 guarter 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

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Market Research Analyst

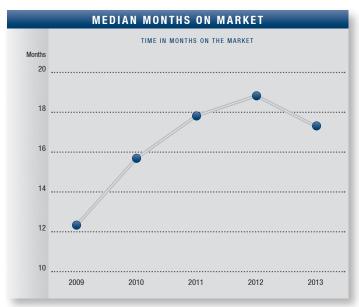
e-mail: ttran@voitco.com

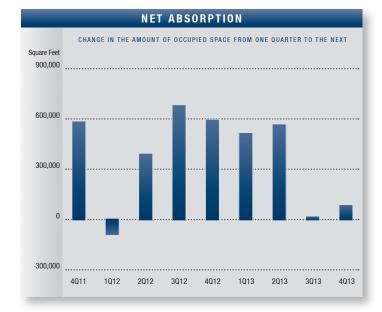
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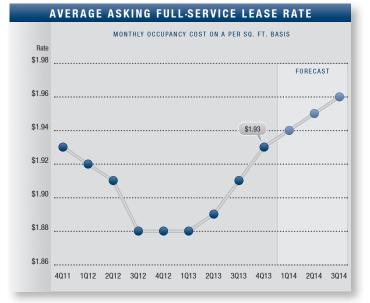
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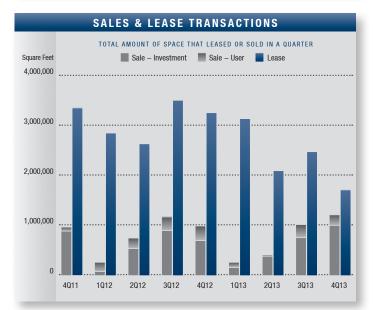
ORANGE COUNTY / OFFICE MARKET REPORT / FOURTH QUARTER 2013

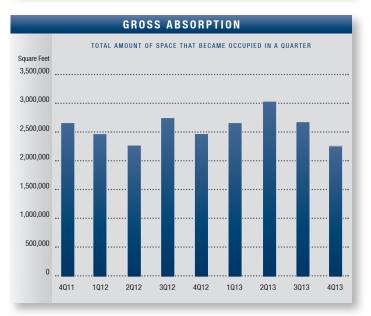












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	INVENTORY			VACANCY & LEASE RATES				ABSORPTION					
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
North County													
Anaheim Hills	17	1,030,437	0	40,000	189,870	18.43%	178,024	17.28%	\$1.77	(32,836)	(130,830)	12,174	24,029
Brea Buopo Dork	43 15	4,115,128	0	120,000 0	461,422	11.21% 12.70%	832,595	20.23%	\$2.00	(49,891)	(13,477)	31,792	260,359
Buena Park Fullerton	31	943,494 2,508,107	0	0	119,847 281,913	12.70%	99,071 543,184	10.50% 21.66%	\$1.79 \$1.56	105,039 (3,688)	77,898 8,103	126,332 4,902	177,897 72,358
La Habra	4	142,069	0	0	2,156	1.52%	2,156	1.52%	\$0.00	(3,000)	(1,429)	4,902	72,330
La Palma	10	712,038	0	0	182,430	25.62%	202,924	28.50%	\$2.08	(45,317)	(39,327)	35,640	137,133
Placentia	8	267,589	0	0	50,759	18.97%	50,680	18.94%	\$1.58	1,697	3,005	3,749	13,044
Yorba Linda	7	423,502	0	0	40,238	9.50%	79,177	18.70%	\$1.75	2,793	(14,149)	6,590	13,271
North County Total	135	10,142,364	0	160,000	1,328,635	13.10%	1,987,811	19.60%	\$1.93	(22,203)	(110,206)	221,179	698,818
West County													
Cypress	30	2,091,330	0	0	336,728	16.10%	464,599	22.22%	\$1.84	(10,509)	91,485	15,844	142,137
Fountain Valley	31	1,478,142	469,000	0	119,191	8.06%	114,551	7.75%	\$1.68	32,853	83,395	52,562	131,384
Garden Grove	20	1,562,160	0	0	67,610	4.33%	124,262	7.95%	\$1.45	5,705	(9,980)	7,659	25,096
Huntington Beach	44	2,425,525	0	0	325,984	13.44%	424,325	17.49%	\$2.05	6,884	16,597	50,949	194,395
Los Alamitos	11	616,808	70,000	0	25,149	4.08%	32,888	5.33%	\$1.83	12,678	4,551	16,165	28,082
Seal Beach Stanton	7	473,787 143,361	0	0	24,508 9,908	5.17% 6.91%	62,715 15,430	13.24% 10.76%	\$2.78 \$0.80	(11,894) 396	(16,701) 1,785	23,718 3,447	45,791 14,310
Westminster	14	554,280	0	0	43,253	7.80%	47,289	8.53%	\$0.80	11,499	20,080	13,646	33,758
West County Total	161	9.345.393	539,000	0	952,331	10.19%	1,286,059	13.76%	\$1.88	47,612	191,212	183,990	614,953
Central County		,0.0,000					.,200,000						2,000
Anaheim	85	6,776,007	0	175,500	917,761	13.54%	1,394,213	20.58%	\$1.79	12,344	(19,768)	73,565	331,330
Orange	80 80	7,074,319	0	200,000	917,761 905,865	13.54%	1,394,213	20.58%	\$1.79	6,331	30,590	104,491	637,876
Santa Ana	185	14,836,729	0	1,012,000	2,254,875	15.20%	2,787,095	18.79%	\$1.66	(166,860)	(436,609)	167,355	1,172,044
Tustin	40	1,978,556	0	737,000	167,900	8.49%	212,228	10.73%	\$1.72	18,250	108,548	45,006	193,399
Central County Total	390	30,665,611	0		4,246,401	13.85%	5,519,252	18.00%	\$1.77	(129,935)	(317,239)	390,417	2,334,649
Airport Area													
Costa Mesa	73	7,332,741	0	0	1,133,074	15.45%	1,239,375	16.90%	\$1.90	19,708	33,979	133,329	586,698
Irvine	256	23,913,845	108,696	1,018,959	3,136,668	13.12%	4,359,242	18.23%	\$2.11	193,543	668,129	566,364	2,605,309
Newport Beach	127	9,574,539	680,000	42,646	899,802	9.40%	1,220,636	12.75%	\$2.11	90,957	189,242	233,130	1,105,781
Airport Area Total	456	40,821,125	788,696	1,061,605	5,169,544	12.66%	6,819,253	16.71%	\$2.09	304,208	891,350	932,823	4,297,788
South County													
Aliso Viejo	42	3,088,038	0	647,000	243,811	7.90%	403,915	13.08%	\$2.17	(9,990)	33,769	85,116	221,476
Dana Point	2	91,876	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	799,893	0	0	146,040	18.26%	222,794	27.85%	\$1.90	(4,136)	73,348	1,367	78,851
Irvine Spectrum	149	9,874,159	0	150,000	802,477	8.13%	1,081,630	10.95%	\$2.39	4,360	382,056	240,090	1,423,224
Laguna Beach	5	194,434	0	0	28,461	14.64%	28,461	14.64%	\$0.00	0	(3,058)	1,000	3,532
Laguna Hills	34 12	1,857,781 1,814,761	0	0	364,272 200,535	19.61% 11.05%	400,366	21.55% 11.80%	\$1.80 \$2.06	(59,914)	(44,916) 17,369	35,603 26,217	154,723 108,022
Laguna Niguel Lake Forest	40	2,101,103	0	0	311,438	14.82%	214,106 472,409	22.48%	\$2.06 \$1.71	(2,491) 3,306	204,922	53,825	358,696
Mission Viejo	36	1,914,306	0	0	263,307	13.75%	306,640	16.02%	\$1.86	(47,298)	(71,054)	35,530	117,378
Rancho Santa Margarita	6	249,472	0	0	40,387	16.19%	60,076	24.08%	\$1.45	5,240	22,684	13,902	42,149
San Clemente	11	474,516	0	0	40,419	8.52%	86,425	18.21%	\$1.79	1,586	8,546	20,482	61,979
San Juan Capistrano	16	836,321	0	38,644	181,705	21.73%	189,891	22.71%	\$2.05	(4,886)	(103,484)	6,190	51,654
South County Total	363	23,296,660	0	870,644	2,622,852	11.26%	3,466,713	14.88%	\$1.97	(114,223)	520,182	519,322	2,621,684
Orange County Total	1,505	114,271,153	1,327,696	4,216,749	14,319,763	12.53%	19,079,088	16.70%	\$1.93	85,459	1,175,299	2,247,731	10,567,892
North County													
North County	10	0.050.007	0	0	040 174	11.0.40/	400 750	00.000/	0 17		(01.071)	41.042	000.001
Class A Class B	19 105	2,053,927 7,711,160	0	0 160,000	243,174 1,030,248	11.84% 13.36%	490,756 1,432,996	23.89% 18.58%	\$2.17 \$1.80	(15,556) (9,296)	(21,971) (89,663)	41,943 175,513	220,061 467,677
Class C	11	377,277	0	0	55,213	14.63%	64,059	16.98%	\$1.83	2,649	1,428	3,723	11,080
West County		511,211	0	U	55,215	14.0070	04,000	10.50 %	φ1.00	2,043	1,420	0,720	11,000
Class A	23	2,462,651	0	0	319,413	12.97%	401,934	16.32%	\$2.12	(3,843)	52,223	55,179	190,459
Class A Class B	116	5,977,386	539,000	0	592,527	9.91%	401,934 840,684	14.06%	\$2.12	(3,643) 51,376	139,612	126,212	406,810
Class C	22	905,356	0	0	40,391	4.46%	43,441	4.80%	\$1.00	79	(623)	2,599	17,684
Central County		000,000	5	Ū			.0,111		÷5		(020)	2,000	,001
Class A	60	10,326,690	0	1,822,500	1,866,114	18.07%	2,260,921	21.89%	\$1.97	(62,221)	(116,861)	171,510	1,210,162
Class B	262	17,410,275	0	302,000	2,046,926	11.76%	2,200,921	16.39%	\$1.59	(38,467)	(143,300)	192,511	1,016,083
Class C	68	2,928,646	0	0	333,361	11.38%	403,976	13.79%	\$1.36	(29,247)	(57,078)	26,396	108,404
Airport Area		,,	, i		-,		,			· (, - · ·)	(,/	.,	_,
Class A	116	22,488,824	788,696	932,000	3,352,708	14.91%	4,420,044	19.65%	\$2.22	143,737	675,529	477,789	2,544,944
Class B	311	16,941,664	100,030	129,605	1,698,380	10.02%	2,239,130	13.22%	\$1.88	115,223	221,320	405,927	1,662,397
Class C	29	1,390,637	0	0	118,456	8.52%	160,079	11.51%	\$1.84	45,248	(5,499)	49,107	90,447
South County							,					,	
Class A	59	6,898,795	0	685,644	568,933	8.25%	889,246	12.89%	\$2.25	(30,142)	121,539	126,092	831,421
Class B	293	15,877,597	0	185,000	2,048,290	12.90%	2,569,404	16.18%	\$1.80	(80,256)	390,359	390,942	1,771,159
Class C	11	520,268	0	0	5,629	1.08%	8,063	1.55%	\$1.05	(3,825)	8,284	2,288	19,104
Orange County													
Class A	277	44,230,887	788,696	3,440,144	6,350,342	14.36%	8,462,901	19.13%	\$2.13	31,975	710,459	872,513	4,997,047
						11.60%	9,936,569	15.55%	\$1.74	38,580	518,328	1,291,105	5,324,126
Class B	1,087	63,918,082	539,000	776,605	7,416,371	11.00%	9,930,309	13.3370	φ1.7 1	30,300	010,020	1,231,103	5,524,120
Class B Class C	1,087 141	63,918,082 6,122,184	539,000 0	0	553,050	9.03%	9,930,509 679,618	11.10%	\$1.51	14,904	(53,488)	84,113	246,719

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.

ORANGE COUNTY / OFFICE MARKET REPORT / FOURTH QUARTER 2013

MAJOR TRANSACTIONS OF 2013

Sales Transactions Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller	
3070 Bristol St. – 3 Properties	Airport	А	370,255	\$201.21	Equity Office	TA Associates Realty	
1 City Blvd W.	Cental	А	362,121	\$154.64	Walton Street Capital	Hudson Pacific Properties, Inc.	
2030 Main St.	Airport	А	355,360	\$320.80	The Praedium Group, LLC	State Teachers Retirement System of Ohio	
16245 Laguna Canyon Rd. – 16 Properties	South	В	322,386	\$227.99	Olen Commercial Realty Corporation	Sares-Regis Group	
17390 Brookhurst St. – 3 Properites	West	В	300,215	\$223.17	MemorialCare Health System	Fountain Valley City Center, LLC	
Lease Transactions						•	
Property Address	Submarket	Class	Square Fee	et Transaction Da	te Tenant	Owner	
1833 Alton Pky. – Renewal	Airport	В	129,263	Jul-13	JPMorgan Chase	Oaktree Capital Management, LP	
405 W. 5th St. – Renewal	Central	А	113,785	Jul-13	Regional Center of Orange	CW Capital Asset Management	
1900 S. State College Blvd.	Central	А	107,651	Jan-13	Cash Call	KW Stadium Gateway, LLC	
1400 & 1500 S. Douglass Rd.	Central	В	90,076	Aug-13	Conifer Health Solutions	MEPT/New Tower Trust Company	
2929 E. Imperial Hwy. – Expansion	North County	А	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

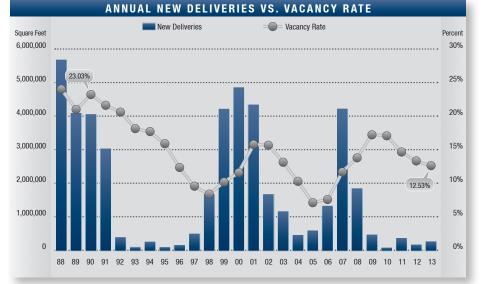
Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

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

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Irvine, CA 949.851.5100	Sacramento, CA 916.772.8648
Las Vegas, NV 702.734.4500	San Diego, CA 858.453.0505





101 Shipyard Way Newport Beach, CA 92663 949.644.8648 www.voitco.com Lic.#01333376

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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