

COMMERCIAL REAL ESTATE

Southern California

Santa Clarita Valley

San Fernando Valley



COMMERCIAL REAL ESTATE

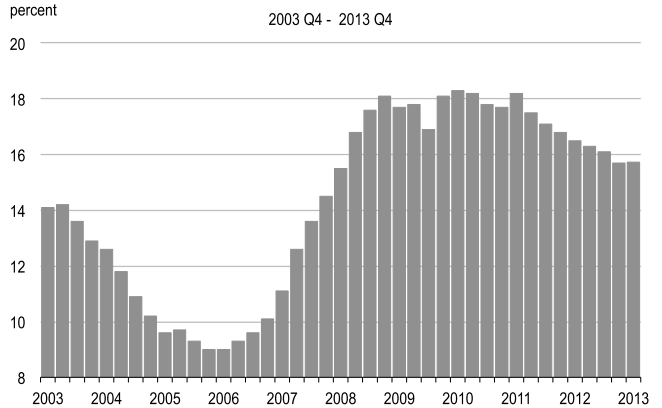
Southern California

During 2013, commercial markets improved across Southern California. By the fourth quarter, the industrial vacancy rate for the greater Los Angeles County area had declined to 1.8 percent, the lowest level since 2008. In most regions of Southern California, rates are below four percent.

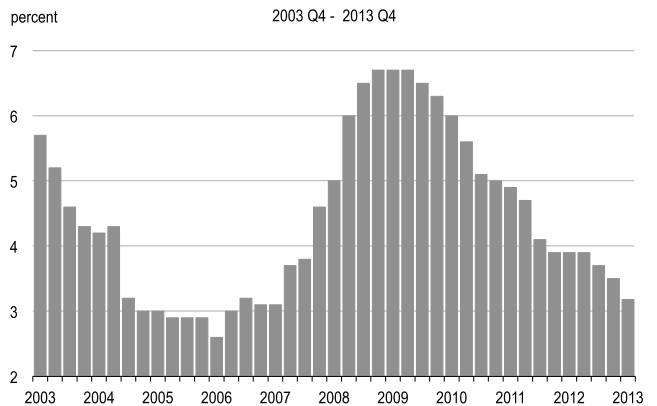
The market is currently characterized by intensifying demand for warehouse space and little to no new product being developed, especially in the land constrained regions of Los Angeles and Orange Counties.

Improvements in the office market have progressed more slowly, as vacancy rates remain elevated. In the fourth quarter of 2013, the vacancy rate for Southern California was clocked at 15.7 percent. This compares favorably to the 16.5 percent that prevailed in the fourth quarter of 2012, but is substantially higher than the much lower vacancy rates that characterized the office market in 2006.

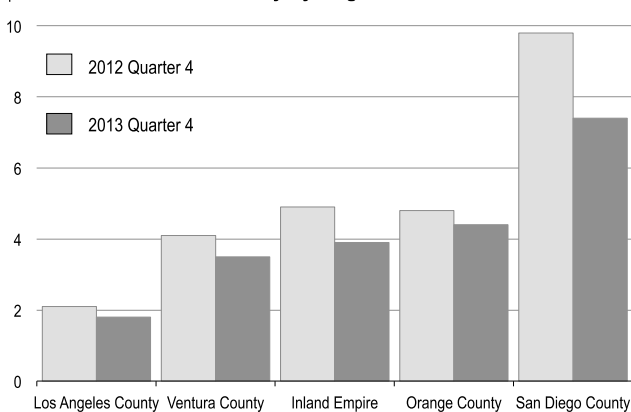
Office Vacancy Rate / Southern California



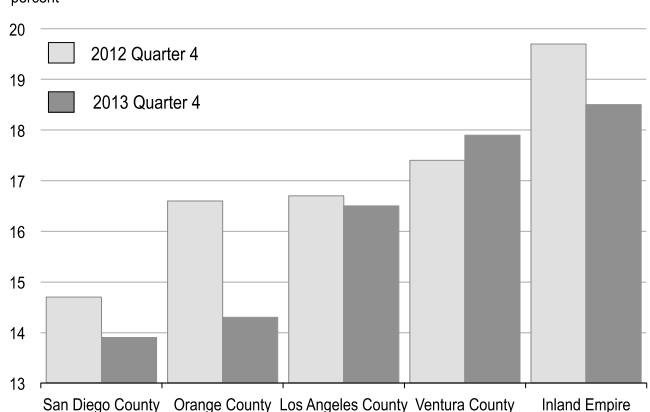
Industrial Vacancy Rate / Southern California



Industrial Vacancy by Region / Southern California



Office Vacancy by Region / Southern California

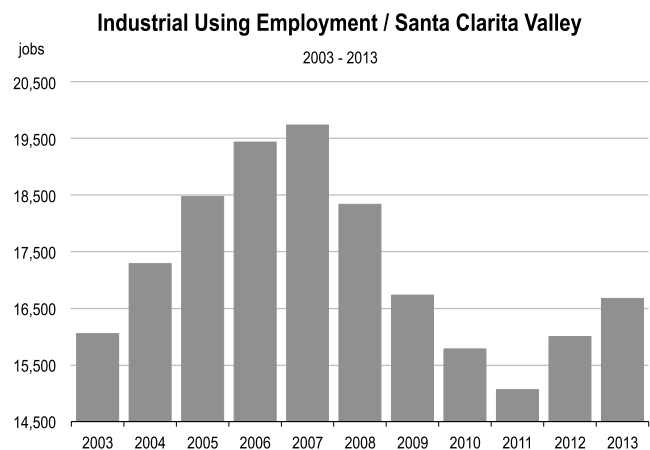
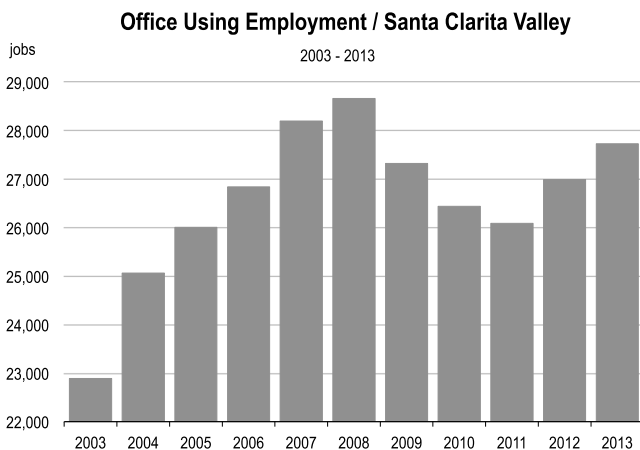


Santa Clarita Valley

Employment

The Santa Clarita Valley created 740 new office-using jobs in 2013. This was largely the result of increases in professional and technical services, as well as administrative support. However, despite employment gains, the vacancy rate remained relatively constant over the past four quarters.

Industrial using employment increased by 670 jobs over the course of the year, representing a growth rate of 4.2 percent. The manufacturing sector continues to rebound, as do the wholesale trade and warehousing industries. Despite the fact that industrial vacancy was already low, rates continued to improve, falling to 2.0 percent by year's end.



The Office Market

*By Ryan House, Vice President
Jones Lang LaSalle*

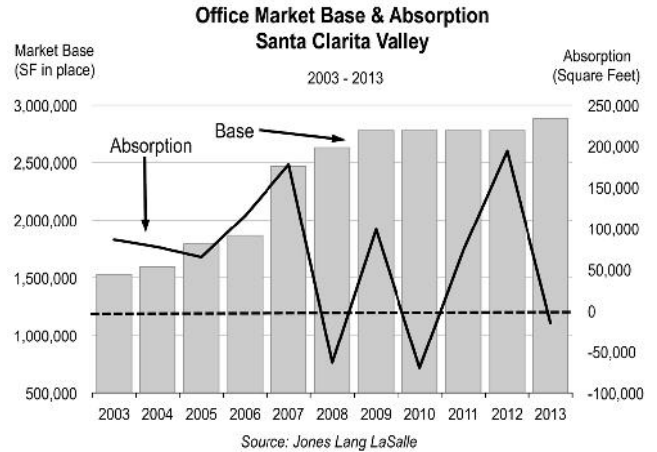
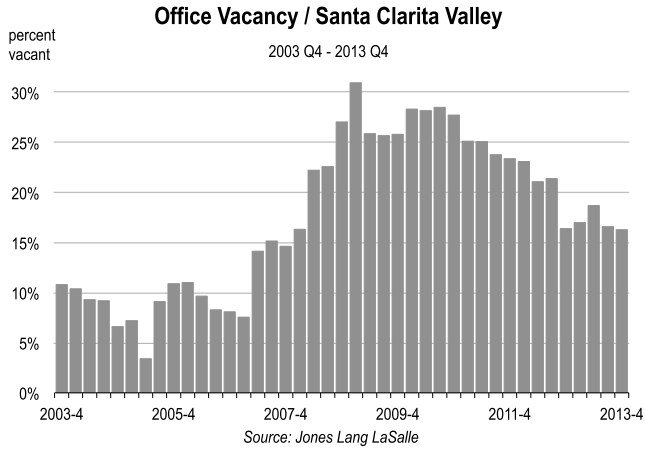
- The Santa Clarita Office Market's vacancy rate has improved significantly over the last 18 months and now resides at 16.3 percent. Within Valencia that rate is even lower at 12.9 percent.
- Vacancy has declined by approximately 7 percent since the first quarter of 2012 and at 16.3 percent, it is the lowest that we have seen since early 2008.
- The office market base remained constant over the past four years at just under 3.0 million square feet. There is no new office space currently under construction within the Santa Clarita Valley.
- There is currently only one existing building in Valencia that can accommodate a Tenant that is 25,000 square feet and there are no buildings to accommodate a Tenant that is 50,000 square feet or larger.

Further recovery of the Santa Clarita office market will be dependent on the recovery of the Los Angeles County labor market, as well as the recovery of the Santa Clarita residential real estate market. Recovery to the office market has been slow, however there has been a significant amount of office space absorbed compared to recent years.

The Santa Clarita office market saw a number of office buildings sales take place in 2012 and that trend continued into 2013, with the sale of the 144,000 square foot Advanced Bionics headquarters building, the 96,000 square foot LNR Entrada building at 27770 Entertainment Drive, the 20,000 square foot Tourney Place building at 27451 Tourney Road, and the 42,000 square foot Bank of America building at 23929 Valencia Boulevard. Sales activity within the market has far surpassed the office leasing activity that has taken place over the last 12 months, and over 500,000 square feet of office space has traded within the last 18 months.

The Santa Clarita office market stabilized in 2012 and continued to improve in 2013, and the trend should continue into 2014 and 2015. The vacancy rate is poised to decline further and the total inventory is expected to remain unchanged, which will most definitely have an upward effect on rental rates over the next 24 months.

Additionally, we will begin to see landlords reduce rent concessions, such as free rent and tenant improvements. That said, Tenant's who have leases that expire within the next 12-18 months should, if at all possible, be proactive and begin lease renewal negotiations sooner, rather than later.



Office Market	Santa Clarita Valley and Adjacent Regions					2013 Q4		
Region	Total Base	Space Vacant	Percent Vacant	Net Absorption		Under Construction	Asking Rates	
				Q4	TYD		Class A	Class B
	----- square feet -----			----- square feet -----			- dollars per sf -	
Central Valley	9,497,145	1,051,333	11.1	7,941	139,340	0	2.42	1.99
Conejo Valley	12,673,611	1,981,899	15.6	-23,065	264,632	0	2.23	2.09
East Valley	2,913,032	618,038	21.2	-22,733	-176,634	0	3.06	2.01
Santa Clarita Valley	2,878,410	470,227	16.3	8,523	-14,853	0	2.37	2.10
West Valley	13,185,678	2,002,162	15.2	32,711	504,686	0	2.31	2.08
Total	41,147,876	6,123,659	14.9	3,377	717,171	0	2.43	2.06

source: Jones Lang LaSalle, February 2014

The Industrial Market

By Nigel Stout, Vice President
Jones Lang LaSalle

2013 in Retrospect

The forecast for the Santa Clarita Industrial Market last year included two fundamental issues facing the market:

- (1) the lack of supply, and
- (2) the uncertainty of demand due to general economic conditions

Because of the lack of supply, we expected overall activity to be 33 percent less than 2012 and net absorption to continue to be relatively small. Also, we expected both sale and lease pricing to continue to increase in 2013 and that new construction would finally take place.

Well, how did we do? Gross Absorption (activity) was down by 20.8 percent from 1.77 million to 1.40 million square feet and Net Absorption increased from a negative 245,741 square feet to a positive 220,902 square feet.

The vacancy rate at the end of 2013 fell to a paltry 2.05 percent from 3.01 percent at the start of 2013. On the supply side, we did not see any new construction in 2013 that we predicted would happen. With no new construction and the vacancy down, it is no surprise that Net Absorption for 2013 was minimal.

The tightening in the supply of larger buildings was entirely evident in 2013 with no non-renewal lease transactions over 80,000 square feet. There are no existing Class A buildings currently on the market over 80,000 square feet. The market in 2013 was similar to 2012 with limited supply in the larger building sizes that put a damper on any absorption in the larger building size range.

Market activity in 2013 was mostly mid to smaller size buildings being leased or sold. Smaller product under 10,000 square feet was the subject of significant activity during the first half of 2013. With the jump in sales pricing that occurred in 2012, a leveling off of sales prices was due in 2013.

Overall lease rates have increased 5 to 10 percent over 2012 rates. However, flex/tech type space still continues to struggle. Historically, lease rates would increase as the square footage of the building would decrease. Because of the lack of supply in the larger size range and tepid demand in the smaller size ranges, there is no difference in pricing between a 100,000 SF building and a 10,000 SF building. On the investment side, we still see investor interest in quality leased industrial space but the lack of supply of Class A leased investments will continue to make it difficult for investors to place money.

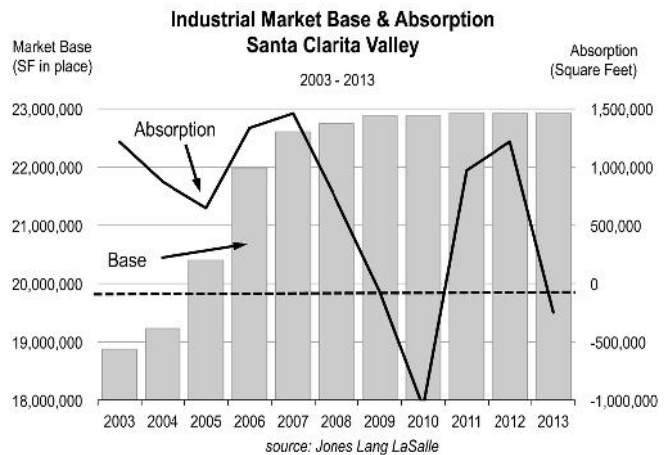
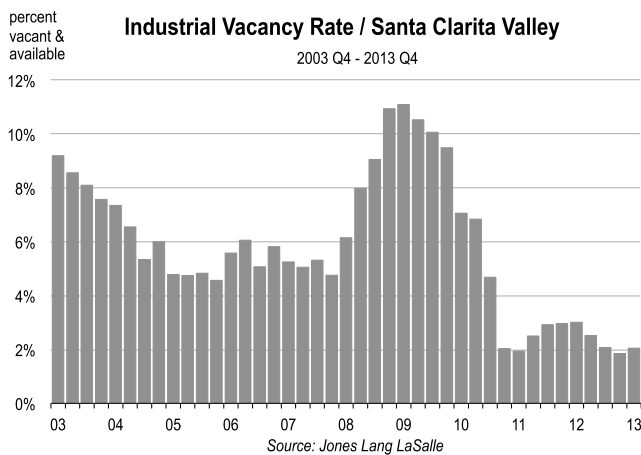
The Outlook for 2014

The forecast for 2014 critically depends on new supply of industrial product. Demand seems to have already increased in the first part of 2014 compared to the previous two quarters in 2013. With no existing buildings available over 80,000 SF, we forecast Gross Absorption in 2014 to be off another 20 percent from 2013 levels. And we forecast Net Absorption to be close to zero assuming demand remains constant.

It's very likely that 2014 will be similar to the year 1997 when the vacancy rate dipped below 1 percent with limited supply of new product. However, this time there is a very limited supply of industrial land to build new product. Starwood Capital Group (formerly LNR) should break ground this year on 509,417 square feet in four buildings in Valencia Gateway V. In addition, the Sterling

Gateway project is coming closer to producing much needed product. If this happens, positive and significant Net Absorption will occur during 2014. Fewer quality existing buildings will limit the choices for area businesses and will improve activity on the few functionally challenged buildings in the Santa Clarita Valley and the San Fernando Valley submarkets.

With supply shrinking and a relatively stable demand, we expect lease rates to continue to rise in 2014 for Class A warehouse buildings. Speculative construction and build-to-suits will come closer to reality in 2014. However, impact fees, land costs, and hard costs will still make new construction a more expensive option. Landlords will continue to see pricing power when tenant's leases come up for renewal in 2014 as there will be fewer relocation options for tenants.



Industrial Market	Santa Clarita Valley			2013
Region	Net Leasable Area (SF)	Vacant Space (SF)	Vacancy Rate (%)	Net Absorption (%)
Valencia Gateway	19,360,018	449,144	2.3	108,883
Santa Clarita Valley	22,919,326	469,633	2.0	220,902

source: CBRE and Jones Lang LaSalle

San Fernando Valley

Office vacancy rates remain high in the San Fernando Valley, but noticeable improvement is underway. By the fourth quarter of 2013, rates had fallen to 14.4 percent, the lowest level in several years.

Like the Santa Clarita Valley, industrial building utilization is very tight in the San Fernando Valley. After rising in 2012, vacancy rates tightened during each quarter of 2013. Industrial sub-markets of Los Angeles County all appear to be in similar condition with strengthening demand and limited supply.

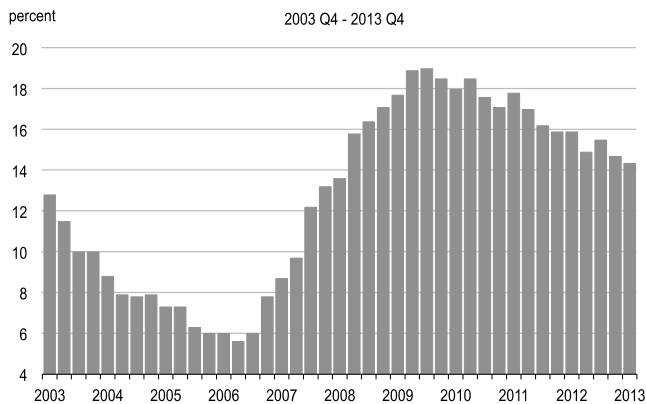
Editor's note: Special thanks to Ryan House and Nigel Stout of Jones Lang LaSalle for their insights into the commercial real estate markets of the Santa Clarita Valley.



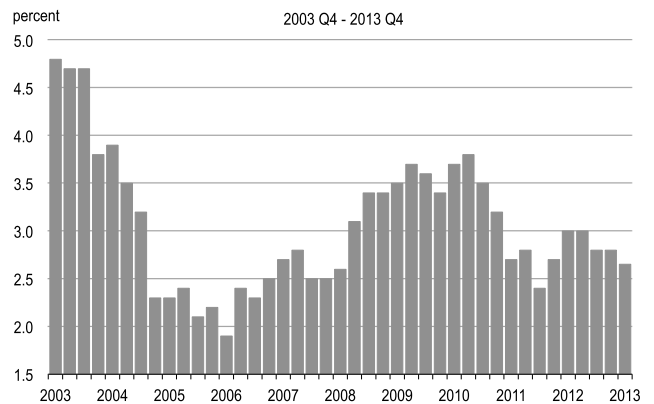
Gateway V, from an active marketing brochure by CBRE

This large industrial project is being developed by Starwood Capital Group. Groundbreaking will occur this year on four buildings totaling just over 500,000 square feet. Additional supply should help to alleviate a very tight industrial market in the Santa Clarita Valley.

Office Vacancy Rate / San Fernando Valley



Industrial Vacancy Rate / San Fernando Valley



Data sources for the charts in this chapter include CBRE, Jones Lang LaSalle, and Grubb & Ellis for vacancy rates, absorption, and market base; and the California Employment Development Department for employment.