THE ORION INSIGHT

DEFINING THE OC: A UNIQUE NEW VALUE OPPORTUNITY

AUGUST 2015

If you look at rent per-square-foot for any Class A, Tier One office building in the most sought after sub-markets of Los Angeles, the Bay Area and San Diego, Orange County's office rents still rank among the lowest.

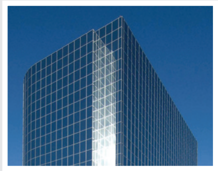
The overall average asking lease rate in Orange County increased 10.4% year-over-year and 8.8% since the start of 2015. Even though the Orange County office market is now 92% leased, rents are only averaging $2.24 per square foot, compared to, for example, the $4.34 commanded right now in Santa Monica. Orange County has a large runway of rent growth. Be prepared. Office rents are going up and will start to match other major cities.

Santa Monica - $4.34
San Francisco - $4.26
West LA - $4.04
San Jose - $3.38
Seattle - $3.19
San Diego - $3.09
Downtown LA - $3.02
Houston - $2.89
Orange County - $2.24

Orange County is more diversified today than it was during the recession.

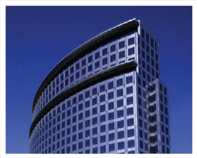
Across my 35 years in the Orange County office sector, I've found that owners and investors who are not based here find this market to be challenging to define. In most other markets the answer is easy. If I were operating in San Diego, the response would be Biotech and serial entrepreneurs. If I were in Los Angeles, simple: Entertainment. Silicon Valley: Technology. Seattle: Technology and Aerospace. Orange County: not so simple to pinpoint.

We are uniquely diversified – full of nationally-recognized business leaders and entrepreneurs who have transitioned from a pre recession economy weighted in mortgage companies to a post-recession market that crosses professional services, automotive, and technology. We are engineers, technology leaders, financial forerunners, surf wear fashion designers, gaming and yes, in the financial arena, we have retained our mortgage groups but we also have global leaders such as PIMCO. So the quick elevator speech is "OC has a very diversified and healthy employment base."



And this strong economic diversification has helped OC to grow across the board, at a faster rate than any other office market in the country.

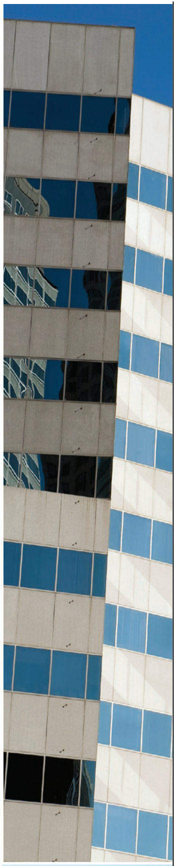
According to Transwestern's Second Quarter Office Market Report, local year-over-year job growth in OC is trending higher than the national average. The unemployment rate for Orange County dropped to just 4.2% in May of this year, as total non farm employment increased by 3.4 % year over year. Compared to overall US year-over-year employment growth of 2.2% in May, Orange County's rate of employment growth has been out pacing the rest of the nation by a full percentage point, led by the area's strong and diverse technology, healthcare, and business services clusters.



And so, our diversification helps to make this market – and the Tier One Class A office product in which ORION specializes – healthier than most competing metropolitan areas on the West Coast.

So where is the rent growth?

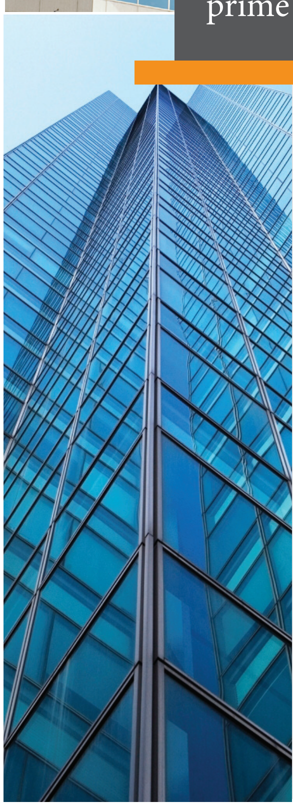
While our diversification has made it difficult for those outside this market to grab onto any one industry trend and understand OC's evolution, there are other factors that have also historically impacted our rent growth potential.



- Orange County has been and still is able to add new product. There is a mass of former industrial and manufacturing buildings, particularly in the Irvine Business Complex, that are perfect targets for conversion to office and technology space. Much of our past new office and flex product has been conservative rather than "creative." A majority of Irvine Company's 8 million square feet of Campus Office was designed to support residential growth and met the baby boomer needs for security, consistency, and quality education.

- There is also a very real perception issue about us. OC was historically perceived as an LA bedroom community. We have lacked the kind of unique lifestyle choices that are found in markets such as West LA, now even downtown LA, San Francisco's South of Market, etc. This has impacted the "desirability" for the best and brightest to be here. There is a sameness in our massive apartment complexes that are surrounded by national restaurants that offer no unique eclectic experiences.

- Finally, OC's previous office sector job growth was over saturated with sub-prime and prime mortgage origination and this business segment was too volatile.



Where are we today?

- **The barrier to entry for new development is now limited. There is a more constrained supply potential and development is more expensive than ever.**

- **We enjoy a much more diversified business base where average salary and educational background does encourage the best and brightest to seek jobs in OC.**

- **There are finally emerging "hip" food, housing and lifestyle entertainment alternatives in cities such as Santa Ana, Costa Mesa, Tustin, Orange, and Fullerton.**

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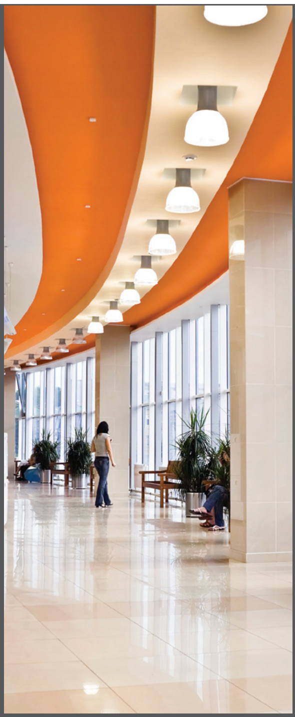

Considering these leading-edge trends and our undeniably strong economy, we believe that the rent pricing spreads within OC's Class A Tier One office market are going to significantly widen.

Rent appreciation is going to occur in the best new buildings built and in those buildings where the owner has reinvested in the asset to ensure it is highly desirable to the best and brightest who are looking for a place to work and live! Bottom line we're telling owners that if they do not update their buildings they may achieve rent growth, but they will lose the best tenants and their rents will lag the rest of the Tier One office product.

The time has come for OC to finally gain its rightful "value" among the peer cities in this region. And our opinion is that the owners that understand these new market dynamics will ultimately succeed.