

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Construction

DOWN

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### Market Highlights

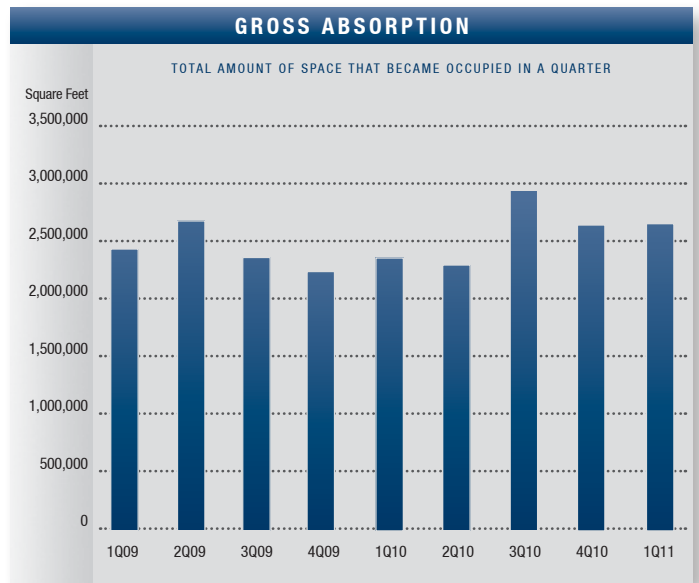
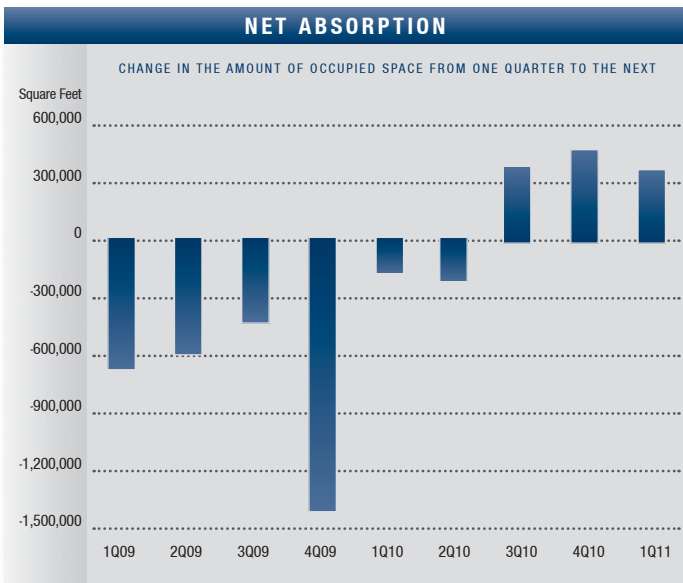
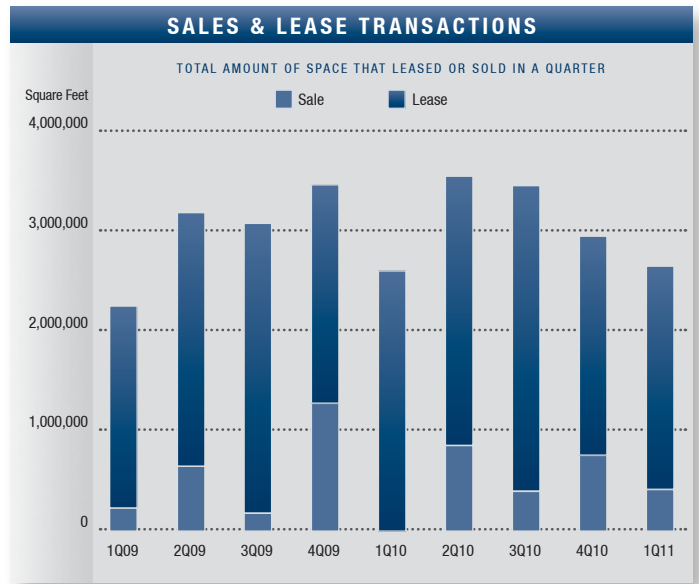
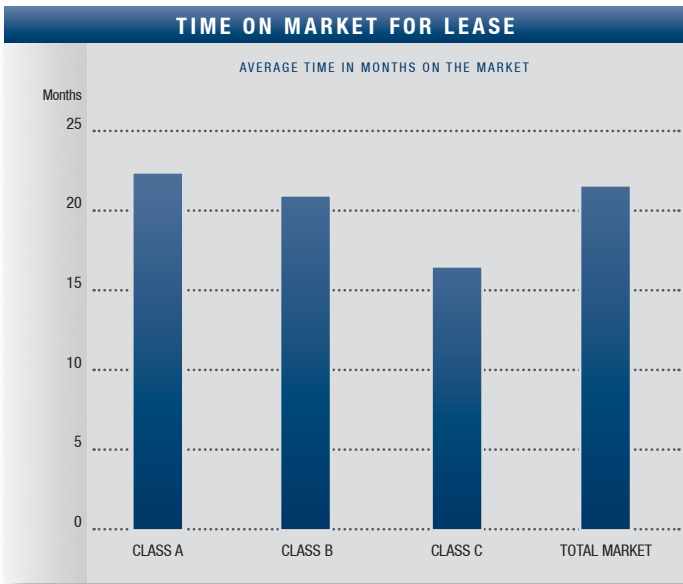
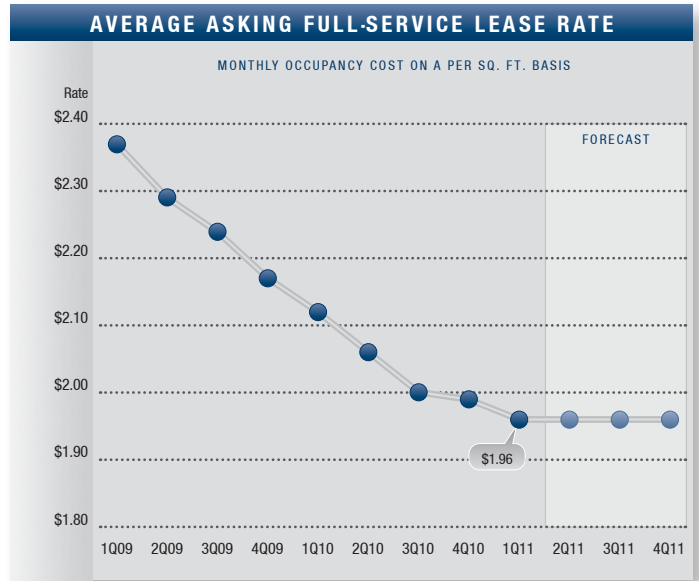
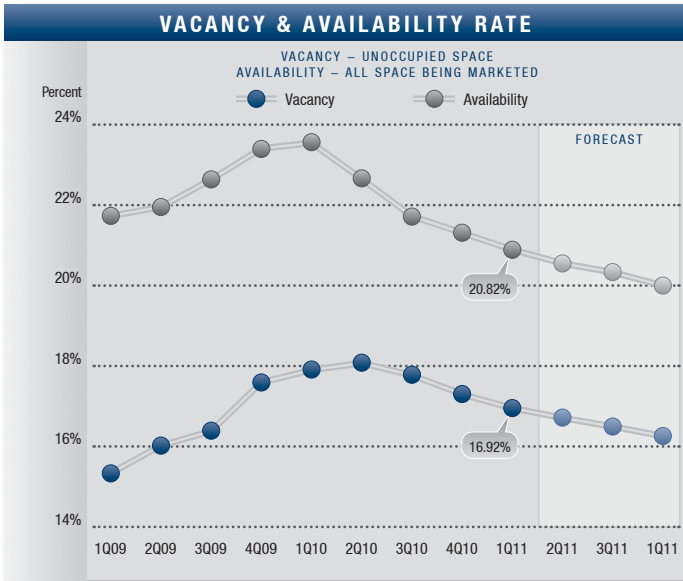
- Encouraging Numbers** - The Orange County office market continued to convey signs of recovery in the first quarter of 2011. Both vacancy and availability decreased from the previous quarter, and net absorption displayed positive numbers for three consecutive quarters, producing a total of over 1.23 million square feet of positive absorption since the third quarter of 2010. Demand, though still weak by historical standards, picked up around Labor Day of 2010, marking the beginning of a renewed interest in sales transactions. 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 319,000 square feet for the first quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.92%, a decrease from 2010's fourth quarter rate of 17.3%. This is also down from the peak of the Great Recession that was documented in the second quarter of 2010 and significantly less than the 23% vacancy rate recorded in 1990.
- Availability** - Direct/sublease space being marketed was at 20.82% in the first quarter of 2011 – a noticeable decrease of over 11.5 percent when compared to 2010's first quarter rate of 23.51% and an even more notable decrease from the previous quarter's rate of 21.32%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.96 in the first quarter of 2011 – a 5.26% decrease from the year-ago rate of \$2.12 and three cents lower than 2010's fourth 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 \$2.12 FSG – the highest being in the Airport market where they averaged \$2.24 FSG.
- Absorption** - The Orange County office market posted a positive 376,906 square feet of net absorption in the first quarter of 2011, producing a total of 1,232,109 square

feet of positive absorption over the past three quarters and making this the longest trend of positive absorption seen since 2006. The perpetuation of this streak will be dependent upon continued job creation.

- Transaction Activity** - Leasing activity checked in at over 2.2 million square feet in the first quarter of 2011, a decrease from the previous year's total of 2.6 million square feet. Sales activity showed an increase, posting nearly 400,000 square feet of activity compared to 2010's first quarter, when we had no sale transactions. 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 8.9% in February 2011 – down from a revised 9.2% in January 2011 and below the year-ago estimate of 9.7%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County increased overall by 16,300 payroll jobs from February 2010 to February 2011; the largest gains were 6,500 in leisure and hospitality and 5,400 in professional & business services. However, during that same period, Orange County lost 2,000 jobs in trade, transportation, and utilities. Chapman University is forecasting that 23,000 jobs will be added in Orange County in 2011.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an overall increase in investment sales activity. As we enter into 2011, positive absorption continues, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market has begun to stabilize. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue in order to incentivize tenants to act immediately. 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.

### OFFICE MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	16.92%	17.30%	17.90%	(5.47%)
Availability Rate	20.82%	21.32%	23.51%	(11.44%)
Average Asking Lease Rate	\$1.96	\$1.99	\$2.12	(7.55%)
Sale & Lease Transactions	2,618,304	2,916,907	2,592,790	0.98%
Gross Absorption	2,655,297	2,646,538	2,316,755	14.61%
Net Absorption	376,906	462,853	(166,410)	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 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>North County</b>													
Anaheim Hills	9	452,548	100,000	39,200	60,436	13.35%	142,091	31.40%	\$1.90	51,641	51,641	60,740	60,740
Brea	43	3,449,183	0	120,000	726,558	21.06%	841,956	24.41%	\$1.65	(38,850)	(38,850)	16,675	16,675
Buena Park	11	646,810	0	0	102,012	15.77%	151,072	23.36%	\$1.61	15,608	15,608	24,561	24,561
Fullerton	29	2,191,368	0	0	169,835	7.75%	357,755	16.33%	\$1.61	(31,443)	(31,443)	18,918	18,918
La Habra	6	237,859	0	0	14,847	6.24%	24,462	10.28%	\$1.52	(1,210)	(1,210)	281	281
La Palma	7	571,393	0	0	98,484	17.24%	121,458	21.26%	\$2.06	(6,040)	(6,040)	13,570	13,570
Placentia	8	267,570	0	0	49,130	18.36%	49,161	18.37%	\$1.40	62,662	62,662	64,224	64,224
Yorba Linda	6	337,312	0	0	32,053	9.50%	77,480	22.97%	\$1.80	1,025	1,025	1,025	1,025
<b>North County Total</b>	<b>119</b>	<b>8,154,043</b>	<b>100,000</b>	<b>159,200</b>	<b>1,253,355</b>	<b>15.37%</b>	<b>1,765,435</b>	<b>21.65%</b>	<b>\$1.87</b>	<b>53,393</b>	<b>53,393</b>	<b>199,994</b>	<b>199,994</b>
<b>West County</b>													
Cypress	28	2,023,301	0	0	117,674	5.82%	288,079	14.24%	\$1.93	(4,183)	(4,183)	1,458	1,458
Fountain Valley	34	1,730,037	0	0	288,103	16.65%	328,474	18.99%	\$1.73	(14,746)	(14,746)	2,998	2,998
Garden Grove	22	1,490,658	0	0	48,841	3.28%	205,780	13.80%	\$1.49	(7,274)	(7,274)	9,183	9,183
Huntington Beach	44	2,422,343	0	0	476,033	19.65%	503,641	20.79%	\$1.94	(42,099)	(42,099)	53,247	53,247
Los Alamitos	12	649,782	0	0	37,642	5.79%	37,642	5.79%	\$1.83	4,250	4,250	4,250	4,250
Seal Beach	7	477,159	0	0	27,839	5.83%	77,044	16.15%	\$2.29	(2,066)	(2,066)	2,718	2,718
Stanton	3	113,702	0	0	8,993	7.91%	17,373	15.28%	\$0.00	(951)	(951)	949	949
Westminster	16	689,067	0	0	48,626	7.06%	71,861	10.43%	\$1.68	(364)	(364)	800	800
<b>West County Total</b>	<b>166</b>	<b>9,596,049</b>	<b>0</b>	<b>0</b>	<b>1,053,751</b>	<b>10.98%</b>	<b>1,529,894</b>	<b>15.94%</b>	<b>\$1.90</b>	<b>(67,433)</b>	<b>(67,433)</b>	<b>75,603</b>	<b>75,603</b>
<b>Central County</b>													
Anaheim	95	7,329,596	194,000	225,454	1,743,069	23.78%	1,904,847	25.99%	\$1.68	16,438	16,438	61,226	61,226
Orange	83	7,314,776	0	0	1,332,719	18.22%	1,462,481	19.99%	\$2.00	(1,259)	(1,259)	84,313	84,313
Santa Ana	183	14,208,465	0	785,320	1,891,630	13.31%	2,223,099	15.65%	\$1.72	6,501	6,501	169,900	169,900
Tustin	42	1,797,012	0	212,000	315,839	17.58%	442,808	24.64%	\$1.70	(21,025)	(21,025)	39,077	39,077
<b>Central County Total</b>	<b>403</b>	<b>30,649,849</b>	<b>194,000</b>	<b>1,222,774</b>	<b>5,283,257</b>	<b>17.24%</b>	<b>6,033,235</b>	<b>19.68%</b>	<b>\$1.80</b>	<b>655</b>	<b>655</b>	<b>354,516</b>	<b>354,516</b>
<b>Airport Area</b>													
Costa Mesa	75	7,365,287	0	0	1,388,027	18.85%	1,526,315	20.72%	\$1.93	(45,450)	(45,450)	181,235	181,235
Irvine	293	25,790,869	0	1,127,975	4,995,065	19.37%	6,114,410	23.71%	\$2.04	224,534	224,534	886,448	886,448
Newport Beach	126	9,367,176	0	479,800	1,377,860	14.71%	1,756,224	18.75%	\$2.29	52,961	52,961	279,692	279,692
<b>Airport Area Total</b>	<b>494</b>	<b>42,523,332</b>	<b>0</b>	<b>1,607,775</b>	<b>7,760,952</b>	<b>18.25%</b>	<b>9,396,949</b>	<b>22.10%</b>	<b>\$2.09</b>	<b>232,045</b>	<b>232,045</b>	<b>1,347,375</b>	<b>1,347,375</b>
<b>South County</b>													
Aliso Viejo	43	3,140,194	25,000	647,000	502,631	16.01%	745,057	23.73%	\$2.04	9,517	9,517	110,904	110,904
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	1,200	1,200	1,200	1,200
Foothill Ranch	9	739,893	0	0	312,883	42.29%	297,574	40.22%	\$1.97	(36,642)	(36,642)	0	0
Irvine Spectrum	117	7,927,406	0	0	1,305,291	16.47%	1,779,090	22.44%	\$2.15	217,151	217,151	403,073	403,073
Laguna Beach	5	194,434	0	0	29,753	15.30%	29,753	15.30%	\$0.00	(2,574)	(2,574)	879	879
Laguna Hills	32	1,741,848	0	78,000	282,798	16.24%	336,931	19.34%	\$1.93	(28,229)	(28,229)	17,182	17,182
Laguna Niguel	10	494,835	0	0	65,815	13.30%	69,042	13.95%	\$2.16	(7,960)	(7,960)	8,073	8,073
Lake Forest	38	1,913,983	0	0	400,073	20.90%	567,738	29.66%	\$1.63	11,293	11,293	68,881	68,881
Mission Viejo	36	1,921,395	0	0	240,687	12.53%	262,281	13.65%	\$1.73	16,561	16,561	55,053	55,053
Rancho Santa Margarita	6	251,030	0	0	67,608	26.93%	67,620	26.94%	\$1.52	587	587	5,114	5,114
San Clemente	10	387,818	0	0	56,470	14.56%	62,336	16.07%	\$1.93	(14,768)	(14,768)	5,075	5,075
San Juan Capistrano	16	845,682	0	0	96,640	11.43%	91,773	10.85%	\$2.08	(7,890)	(7,890)	2,375	2,375
<b>South County Total</b>	<b>325</b>	<b>19,693,814</b>	<b>25,000</b>	<b>760,000</b>	<b>3,360,649</b>	<b>17.06%</b>	<b>4,309,195</b>	<b>21.88%</b>	<b>\$1.97</b>	<b>158,246</b>	<b>158,246</b>	<b>677,809</b>	<b>677,809</b>
<b>Orange County Total</b>	<b>1,507</b>	<b>110,617,087</b>	<b>319,000</b>	<b>3,749,749</b>	<b>18,711,964</b>	<b>16.92%</b>	<b>23,034,708</b>	<b>20.82%</b>	<b>\$1.96</b>	<b>376,906</b>	<b>376,906</b>	<b>2,655,297</b>	<b>2,655,297</b>

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
<b>North County</b>													
Class A	21	2,169,792	0	159,200	406,372	18.73%	528,004	24.33%	\$2.13	(11,750)	(11,750)	43,041	43,041
Class B	87	5,620,328	100,000	0	794,428	14.13%	1,182,953	21.05%	\$1.72	96,443	96,443	152,253	152,253
Class C	11	363,923	0	0	52,555	14.44%	54,478	14.97%	\$1.86	(31,300)	(31,300)	4,700	4,700
<b>West County</b>													
Class A	29	2,864,108	0	0	418,540	14.61%	586,085	20.46%	\$2.05	(34,006)	(34,006)	42,421	42,421
Class B	110	5,615,074	0	0	562,172	10.01%	862,835	15.37%	\$1.71	(33,247)	(33,247)	28,680	28,680
Class C	27	1,116,867	0	0	73,039	6.54%	80,974	7.25%	\$1.42	(180)	(180)	4,502	4,502
<b>Central County</b>													
Class A	74	11,665,891	0	960,820	2,252,098	19.30%	2,582,801	22.14%	\$1.96	(40,829)	(40,829)	153,323	153,323
Class B	254	16,013,050	194,000	261,954	2,732,177	17.06%	3,064,371	19.14%	\$1.60	33,701	33,701	188,484	188,484
Class C	75	2,970,908	0	0	298,982	10.06%	386,063	12.99%	\$1.40	7,783	7,783	12,709	12,709
<b>Airport Area</b>													
Class A	134	23,736,371	0	1,180,000	5,053,783	21.29%	5,956,365	25.09%	\$2.24	152,624	152,624	860,738	860,738
Class B	326	17,238,294	0	427,775	2,534,897	14.71%	3,252,383	18.87%	\$1.79	80,198	80,198	466,498	466,498
Class C	34	1,548,667	0	0	172,272	11.12%	188,201	12.15%	\$1.31	(777)	(777)	20,139	20,139
<b>South County</b>													
Class A	90	8,798,278	0	647,000	1,531,551	17.41%	2,117,552	24.07%	\$2.06	(10,267)	(10,267)	251,242	251,242
Class B	226	10,376,322	25,000	113,000	1,810,840	17.45%	2,172,932	20.94%	\$1.79	178,187	178,187	425,525	425,525
Class C	9	519,214	0	0	18,258	3.52%	18,711	3.60%	\$1.20	(9,674)	(9,674)	1,042	1,042
<b>Orange County</b>													
Class A	348	49,234,440	0	2,947,020	9,662,344	19.63%	11,770,807	23.91%	\$2.12	55,772	55,772	1,350,765	1,350,765
Class B	1,003	54,863,068	319,000	802,729	8,434,514	15.37%	10,535,474	19.20%	\$1.72	355,282	355,282	1,261,440	1,261,440
Class C	156	6,519,579	0	0	615,106	9.43%	728,427	11.17%	\$1.39	(34,148)	(34,148)	43,092	43,092
<b>Orange County Total</b>	<b>1,507</b>	<b>110,617,087</b>	<b>319,000</b>	<b>3,749,749</b>	<b>18,711,964</b>	<b>16.92%</b>	<b>23,034,708</b>	<b>20.82%</b>	<b>\$1.96</b>	<b>376,906</b>	<b>376,906</b>	<b>2,655,297</b>	<b>2,655,297</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
3010-3030 Old Ranch Pkwy. - 3 Properties	West	A	280,613	\$231.64	AIG Global Investment Corporation	BibyBIT-Bixby Office Park, LLC
505 City Pkwy.	Central	A	204,710	\$147.53	Orange County Health Authority	AB-City Parkway, LLC
17300-17330 Red Hill Ave. - 3 Properties	Airport	A	180,037	\$161.10	AIG Global Investment Corporation	BibyBIT-Bixby Office Park, LLC
1201 Dove St.	Airport	A	82,007	\$219.49	AIG Global Investment Corporation	BibyBIT-Bixby Office Park, LLC
20532 El Toro Rd.	South	A	52,091	\$125.74	JP Morgan Chase 2004-CIBC8	MECG Investor #12 - Mission Viejo, LLC
35 Tesla	South	B	36,000	\$175.00	Owen Commercial, LLC	General Elec Cap Corporation

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
3200 Park Center Dr.	Airport	A	147,712	Feb-11	Hyundai	The Irvine Company
26642-26672 Towne Centre Dr.	South	A	82,835	Mar-11	Loan Depot	Arden Realty, Inc.
18101 Von Karman Ave.	Airport	A	68,235	Feb-11	Epicor Software Corporation	Lakeshore Properties, LLC
17882 Von Karmna Ave.	Airport	A	51,009	Jan-11	The Ayco Company	17885 Vok Karman, LP
1535 Scenic Ave.	Airport	A	55,706	Jan-11	Paychex North America	CJ Segerstrom & Son
19520 Jamboree Rd.	Airport	A	50,689	Jan-11	Edward Lifesciences	Scholle Center, 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.

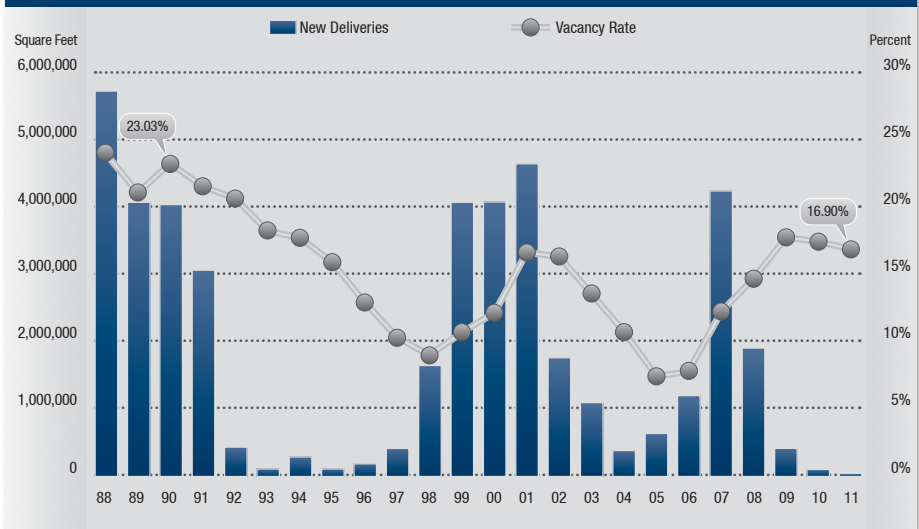
CLASS B

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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