

Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

DOWN



To view available properties or electronic versions of current or past market reports, please visit:

www.voitco.com

Prepared by:

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

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com

VOIT Real Estate Services — Lic.#01333376



Market Highlights

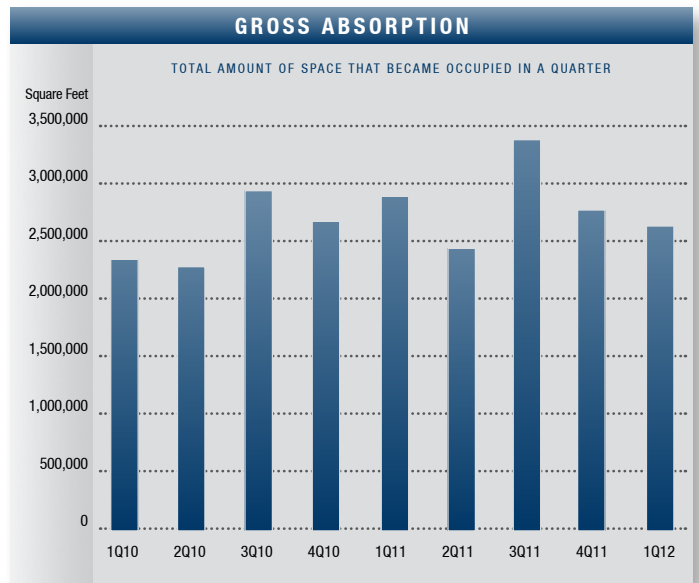
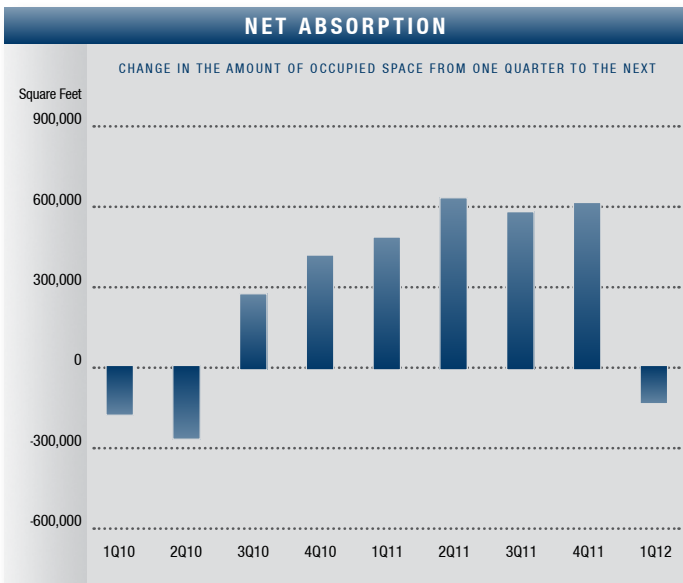
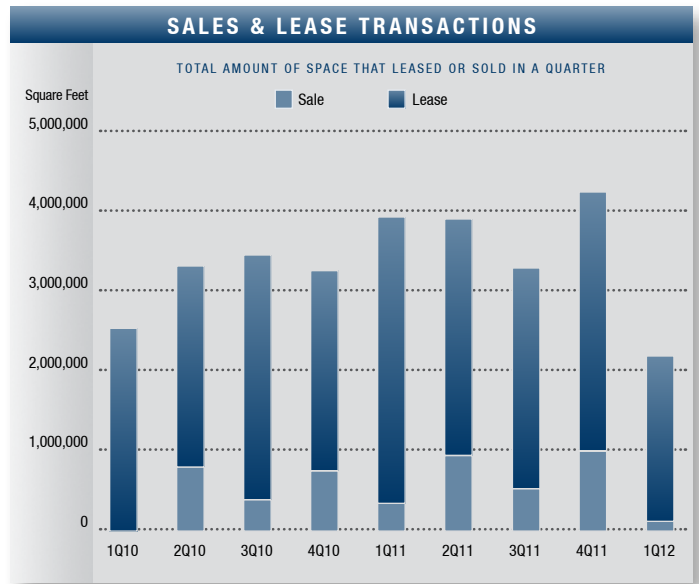
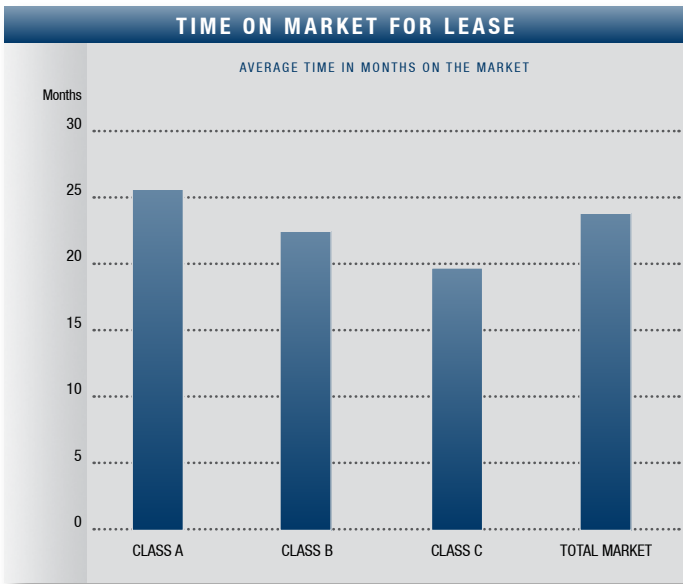
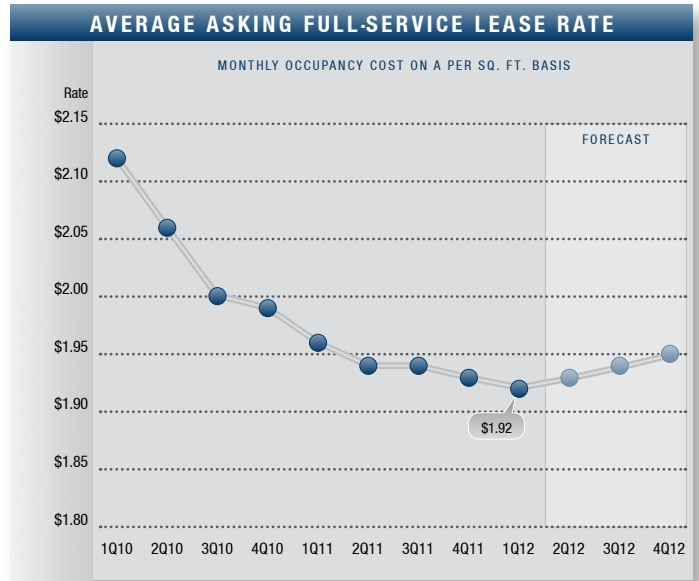
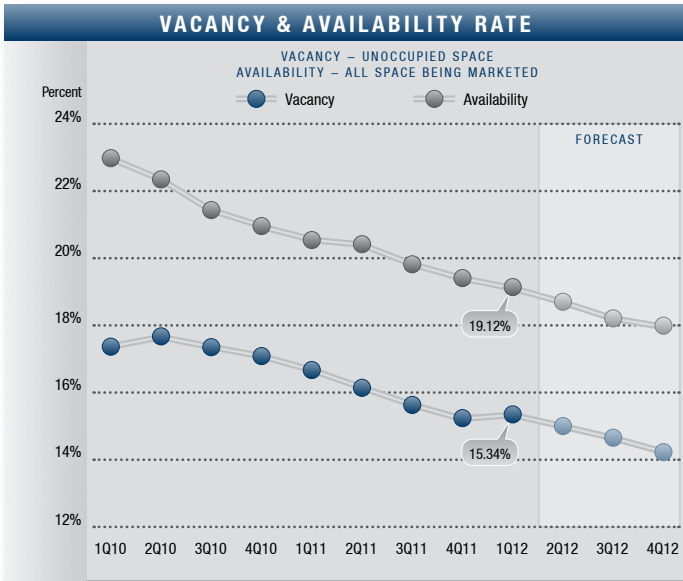
- **Steady Growth** - The Orange County office market continued to convey signs of recovery in the first quarter of 2012, displaying just a slight dip. While vacancy increased minutely from the previous quarter, availability continued to decrease from the record-high rates of late 2009 and early 2010. Net absorption posted a small negative number, giving the market a total of 2.9 million square of positive absorption since the third quarter of 2010. While these are generally 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 almost 480,000 square feet for the first quarter of 2012, consisting of two build-to-suit projects. 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 15.34%, a slight increase from the fourth quarter rate of 15.21% but 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. We are forecasting that vacancy will continue its downward trend in 2012, ending the year at around 14.2%.
- **Availability** - Direct/sublease space being marketed was at 19.12% at the end of the first quarter of 2012 — a decrease when compared to 2011's first quarter rate of 20.51% as well as slightly lower than 2011's fourth quarter rate of 19.48%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.92 at the end of the quarter — a 0.52% decrease from the previous year's rate of \$1.96 but only one cent lower than 2011's fourth quarter rate, hopefully, indicating a bottom in the downward trend of asking lease rates. The record high rate of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county averaged \$2.11 FSG — the highest being in the Airport market where Class A rates averaged \$2.23 FSG. We are forecasting that rates will begin to increase in the second half of 2012.
- **Absorption** - The Orange County office market posted a negative 134,589 square feet of net absorption in the

first quarter of 2012, largely due to the FDIC moving out of 107,000 square feet in the Irvine Spectrum. However, CoreLogic has already committed to occupying 170,000 square feet in the Spectrum in August of 2012, and A to Z Development, which occupies 23,000 square feet in the same building, will be expanding to 82,000 square feet — both of which will create substantial positive absorption. 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 just over 2 million square feet in the first quarter, a decrease from the 3.9 million square feet we saw in the first quarter of 2011. Sales activity was down as well, posting 83,759 square feet of activity compared to 2011's first quarter figure of 316,129 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 8.0% in February 2012 — unchanged from a revised 8.0% in January 2012 and below the previous year's estimate of 8.9%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 18,200 payroll jobs from February 2011 to February 2012. The largest gains were 5,600 in leisure and hospitality and 5,300 in trade, transportation and utilities; however, Orange County lost 2,100 government jobs during that same period.
- **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 2012, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue 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 firm up in the early part of this year with the possibility of increasing in the second half of 2012. 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

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	15.34%	15.21%	16.63%	0.85%
Availability Rate	19.12%	19.48%	20.51%	(1.85%)
Average Asking Lease Rate	\$1.92	\$1.93	\$1.96	(0.52%)
Sale & Lease Transactions	2,180,505	4,230,354	3,911,445	(48.46%)
Gross Absorption	2,620,662	2,769,055	2,895,012	(5.36%)
Net Absorption	(134,589)	608,114	489,615	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
North County													
Anaheim Hills	9	452,548	0	120,000	30,130	6.66%	63,182	13.96%	\$1.73	8,907	8,907	10,871	10,871
Brea	43	4,106,347	0	0	607,510	14.79%	734,175	17.88%	\$1.91	(18,341)	(18,341)	39,956	39,956
Buena Park	11	646,810	0	0	98,349	15.21%	123,455	19.09%	\$1.67	(7,486)	(7,486)	2,997	2,997
Fullerton	29	2,086,335	0	0	269,691	12.93%	403,693	19.35%	\$1.81	1,838	1,838	9,796	9,796
La Habra	6	674,559	0	0	18,366	2.72%	20,478	3.04%	\$1.03	(1,566)	(1,566)	3,712	3,712
La Palma	10	712,038	0	0	135,109	18.97%	260,477	36.58%	\$2.04	(671)	(671)	8,818	8,818
Placentia	8	267,889	0	0	50,566	18.88%	54,715	20.42%	\$1.50	4,140	4,140	4,140	4,140
Yorba Linda	8	565,298	0	0	26,771	4.74%	72,634	12.85%	\$1.72	3,568	3,568	4,506	4,506
North County Total	124	9,511,824	0	120,000	1,236,492	13.00%	1,732,809	18.22%	\$1.84	(9,611)	(9,611)	84,796	84,796
West County													
Cypress	26	1,878,059	0	0	315,480	16.80%	447,962	23.85%	\$1.81	(81,312)	(81,312)	15,337	15,337
Fountain Valley	33	1,687,722	0	469,000	356,333	21.11%	383,979	22.75%	\$1.74	(59,354)	(59,354)	3,909	3,909
Garden Grove	19	1,391,658	0	0	49,952	3.59%	109,386	7.86%	\$1.23	1,032	1,032	4,756	4,756
Huntington Beach	43	2,379,857	0	0	411,496	17.29%	417,915	17.56%	\$2.08	10,057	10,057	54,800	54,800
Los Alamitos	11	616,808	0	60,000	36,402	5.90%	38,082	6.17%	\$1.84	(2,054)	(2,054)	2,621	2,621
Seal Beach	7	477,159	0	0	15,742	3.30%	16,461	3.45%	\$2.47	2,089	2,089	8,466	8,466
Stanton	5	179,317	0	0	21,232	11.84%	34,463	19.22%	\$0.00	1,142	1,142	3,689	3,689
Westminster	15	582,531	0	0	60,219	10.34%	63,170	10.84%	\$1.69	(10,500)	(10,500)	0	0
West County Total	159	9,193,111	0	529,000	1,266,856	13.78%	1,511,418	16.44%	\$1.85	(138,900)	(138,900)	93,578	93,578
Central County													
Anaheim	96	7,883,480	0	220,500	1,482,969	18.81%	1,634,041	20.73%	\$1.73	270,299	270,299	339,606	339,606
Orange	82	7,306,322	0	200,000	1,132,990	15.51%	1,388,991	19.01%	\$1.96	(35,540)	(35,540)	179,858	179,858
Santa Ana	183	14,561,228	0	922,836	2,125,674	14.60%	2,615,100	17.96%	\$1.63	(126,008)	(126,008)	198,931	198,931
Tustin	42	1,797,312	0	737,000	282,267	15.70%	337,687	18.79%	\$1.63	70,321	70,321	79,343	79,343
Central County Total	403	31,548,342	0	2,080,336	5,023,900	15.92%	5,975,819	18.94%	\$1.74	179,072	179,072	797,738	797,738
Airport Area													
Costa Mesa	75	7,347,616	0	0	1,082,188	14.73%	1,410,791	19.20%	\$1.82	41,551	41,551	166,454	166,454
Irvine	289	25,750,703	0	1,036,959	4,518,472	17.55%	5,544,198	21.53%	\$2.01	(73,488)	(73,488)	705,866	705,866
Newport Beach	127	9,409,322	479,800	242,646	1,143,914	12.16%	1,711,826	18.19%	\$2.35	(7,852)	(7,852)	185,143	185,143
Airport Area Total	491	42,507,641	479,800	1,279,605	6,744,574	15.87%	8,666,815	20.39%	\$2.08	(39,789)	(39,789)	1,057,463	1,057,463
South County													
Aliso Viejo	42	3,095,534	0	647,000	414,911	13.40%	535,014	17.28%	\$2.02	23,539	23,539	48,483	48,483
Dana Point	2	91,876	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	9	739,893	0	0	168,460	22.77%	242,531	32.78%	\$1.96	16,166	16,166	42,182	42,182
Irvine Spectrum	120	8,296,553	0	0	1,279,153	15.42%	1,555,320	18.75%	\$2.07	(171,053)	(171,053)	199,458	199,458
Laguna Beach	6	237,854	0	0	25,403	10.68%	26,296	11.06%	\$0.00	0	0	3,494	3,494
Laguna Hills	32	1,743,663	0	39,000	332,024	19.04%	373,354	21.41%	\$1.80	(41,040)	(41,040)	31,042	31,042
Laguna Niguel	12	776,563	0	0	57,990	7.47%	110,511	14.23%	\$2.15	(11,561)	(11,561)	15,610	15,610
Lake Forest	39	1,967,547	0	0	353,077	17.95%	391,166	19.88%	\$1.72	21,869	21,869	159,642	159,642
Mission Viejo	36	1,896,089	0	0	237,630	12.53%	264,247	13.94%	\$1.75	29,161	29,161	53,164	53,164
Rancho Santa Margarita	6	249,472	0	0	64,732	25.95%	78,794	31.58%	\$1.59	(3,310)	(3,310)	7,747	7,747
San Clemente	10	387,818	0	0	53,606	13.82%	64,032	16.51%	\$1.70	14,669	14,669	20,076	20,076
San Juan Capistrano	17	866,336	0	0	97,576	11.26%	101,926	11.77%	\$1.95	(3,801)	(3,801)	6,189	6,189
South County Total	331	20,349,198	0	721,000	3,084,562	15.16%	3,743,191	18.39%	\$1.90	(125,361)	(125,361)	587,087	587,087
Orange County Total	1,508	113,110,116	479,800	4,729,941	17,356,384	15.34%	21,630,052	19.12%	\$1.92	(134,589)	(134,589)	2,620,662	2,620,662
North County													
Class A	20	2,204,576	0	120,000	235,114	10.66%	429,659	19.49%	\$2.19	(5,221)	(5,221)	19,513	19,513
Class B	92	6,467,870	0	0	953,989	14.75%	1,254,711	19.40%	\$1.71	(8,502)	(8,502)	58,703	58,703
Class C	12	839,378	0	0	47,389	5.65%	48,439	5.77%	\$1.60	4,112	4,112	6,580	6,580
West County													
Class A	25	2,631,698	0	0	371,445	14.11%	469,897	17.86%	\$2.05	(19,789)	(19,789)	55,141	55,141
Class B	111	5,620,531	0	529,000	810,674	14.42%	990,225	17.62%	\$1.66	(116,596)	(116,596)	36,348	36,348
Class C	23	940,882	0	0	84,737	9.01%	51,296	5.45%	\$1.40	(2,515)	(2,515)	2,089	2,089
Central County													
Class A	68	11,326,629	0	1,366,336	2,051,690	18.11%	2,425,354	21.41%	\$1.96	(91,693)	(91,693)	184,404	184,404
Class B	265	17,395,358	0	714,000	2,629,067	15.11%	3,151,902	18.12%	\$1.50	309,824	309,824	588,122	588,122
Class C	70	2,826,355	0	0	343,143	12.14%	398,563	14.10%	\$1.36	(39,059)	(39,059)	25,212	25,212
Airport Area													
Class A	122	22,723,767	380,000	1,150,000	4,389,760	19.32%	5,499,808	24.20%	\$2.23	83,316	83,316	645,848	645,848
Class B	335	18,141,891	99,800	129,605	2,211,927	12.19%	2,940,922	16.21%	\$1.78	(119,388)	(119,388)	388,586	388,586
Class C	34	1,641,983	0	0	142,887	8.70%	226,085	13.77%	\$1.62	(3,717)	(3,717)	23,029	23,029
South County													
Class A	78	7,896,409	0	647,000	1,281,002	16.22%	1,314,808	16.65%	\$2.01	(170,027)	(170,027)	203,502	203,502
Class B	243	11,897,797	0	74,000	1,787,236	15.02%	2,410,163	20.26%	\$1.77	46,373	46,373	379,875	379,875
Class C	10	554,992	0	0	16,324	2.94%	18,220	3.28%	\$1.21	(1,707)	(1,707)	3,710	3,710
Orange County													
Class A	313	46,783,079	380,000	3,283,336	8,329,011	17.80%	10,139,526	21.67%	\$2.11	(203,414)	(203,414)	1,108,408	1,108,408
Class B	1,046	59,523,447	99,800	1,446,605	8,392,893	14.10%	10,747,923	18.06%	\$1.67	111,711	111,711	1,451,634	1,451,634
Class C	149	6,803,590	0	0	634,480	9.33%	742,603	10.91%	\$1.44	(42,886)	(42,886)	60,620	60,620
Orange County Total	1,508	113,110,116	479,800	4,729,941	17,356,384	15.34%	21,630,052	19.12%	\$1.92	(134,589)	(134,589)	2,620,662	2,620,662

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	Buyer	Seller
13280 Chapman Ave.	Central	B	136,968	36,478,614	Orange Catholic Diocese	Crystal Cathedral Ministries
895 Dove St.	Airport	A	107,473	\$32,900,000	Blackstone	Morgan Stanley
10833 Valley View Ave. – Transfer	West	A	106,433	\$15,500,000	LNR Partners	Saunders Property Company
100 S. Anaheim Ave.	North	B	49,753	\$2,181,500	Lincoln Property Company	John R. Saunders Trust
2429 W. Coast Hwy.	Airport	B	36,178	\$25,000,000	Mark Moshayed	Murrel Company

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
20411-20521 Lake Forest Dr. – 3 Bldgs	South	B	184,482	Feb-12	Alcon Research, Ltd.	The Realty Associates Fund VI
2727 E. Imperial Hwy.	North	B	104,662	Mar-12	Goodrich Corporation	AEW LT Brea Imperial Centre
3161 Michelson Dr.	South	A	91,023	Jan-12	LA Fitness International, LLC	Emmes Group of Companies
40 Pacifica – Expansion	South	A	81,684	Feb-12	A2Z Development	The Irvine Company
2600 Michelson Dr. – Sublease	Airport	A	80,000	Jan-12	Allergan	LA Fitness International, LLC
17900 Von Karman Ave.	Airport	B	49,349	Jan-12	United Healthcare	LBA Realty

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.

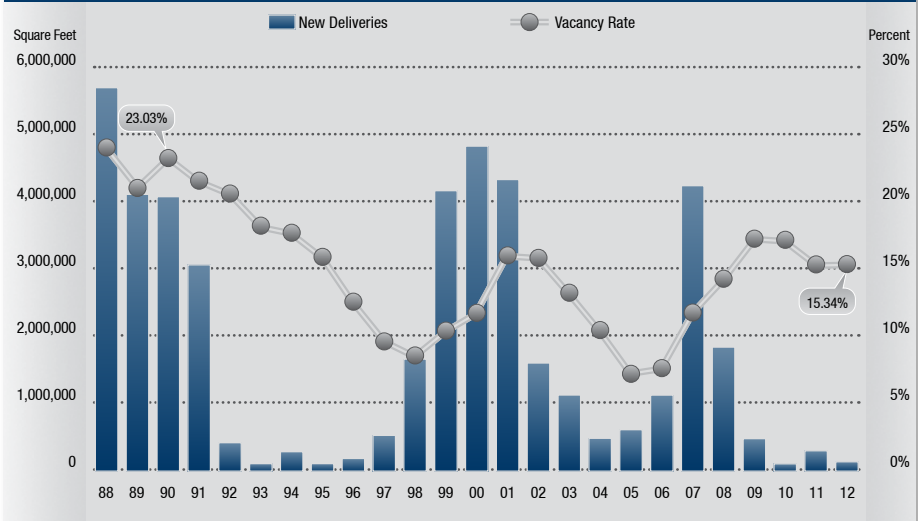
CLASS B

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



Please Contact Us for Further Information

Anaheim, CA
714.978.7880

Commerce, CA
714.935.2311

Inland Empire, CA
909.545.8000

Irvine, CA
949.851.5100

Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

Phoenix, AZ
602.952.8648

Reno, NV
775.309.0782

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505



REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
www.voitco.com
Lic.#01333376

Represented in 150 Markets
Nationally & Internationally.



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.