

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

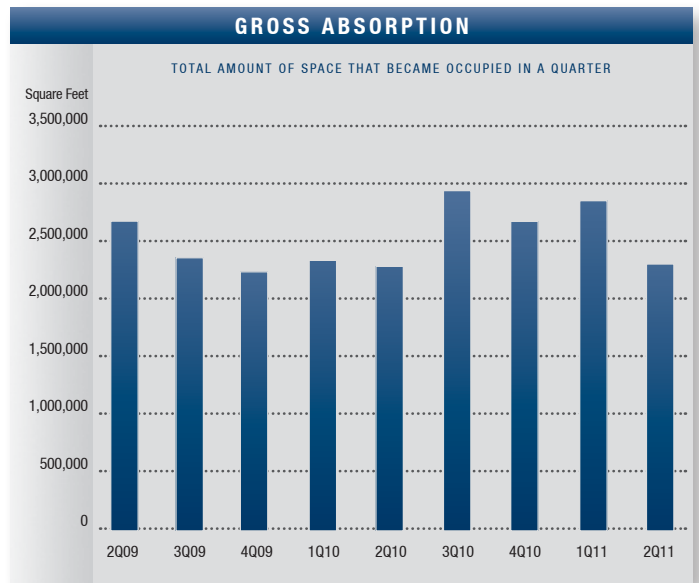
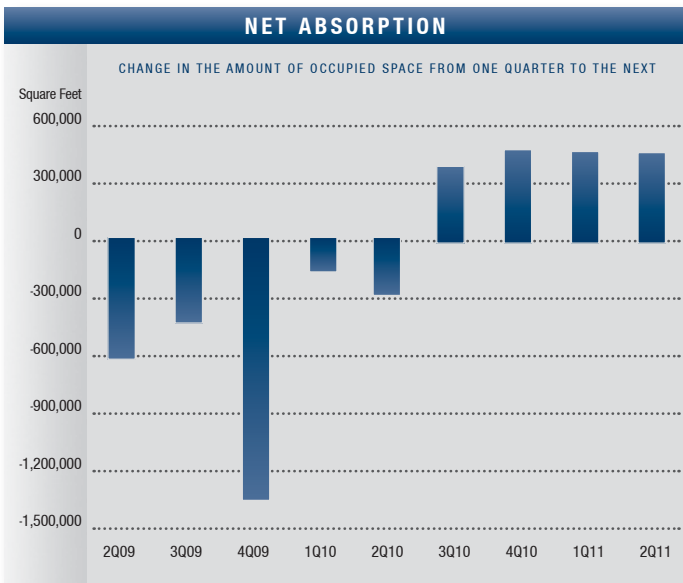
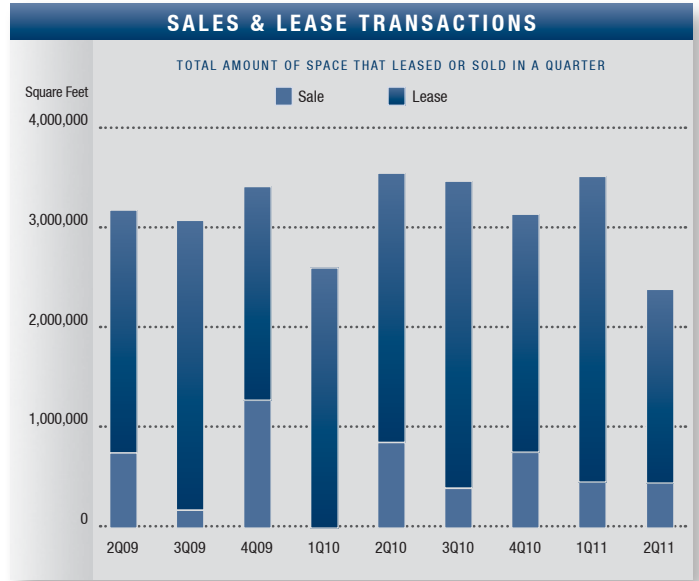
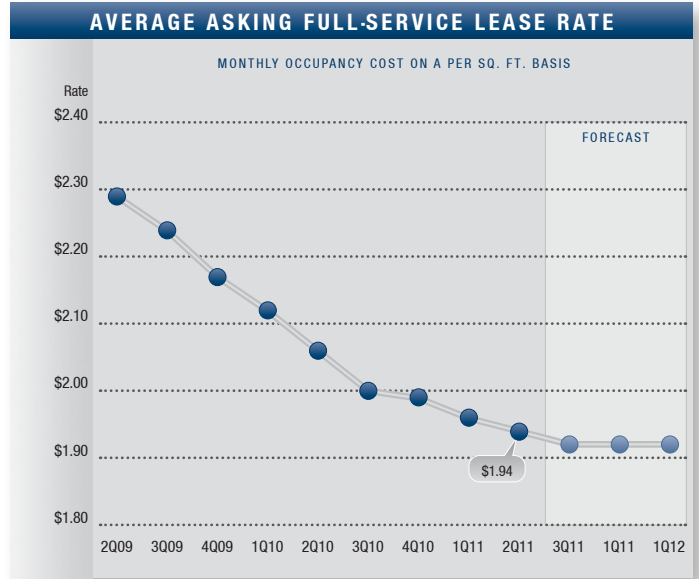
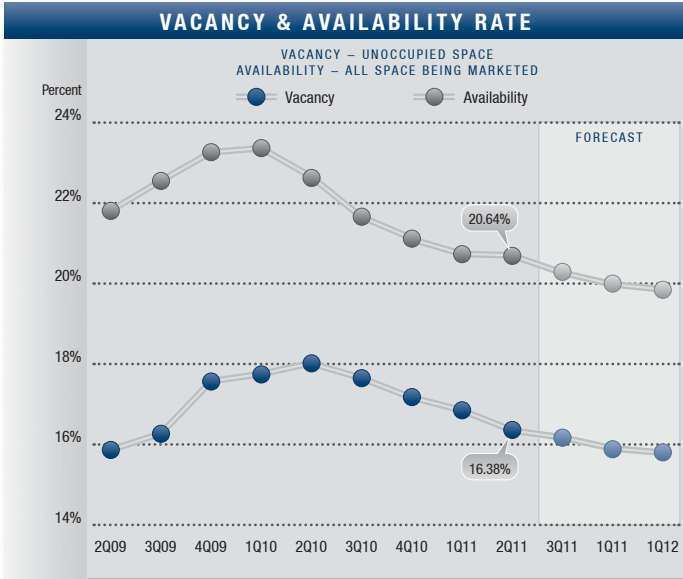
- Steady Growth** - The Orange County office market continued to convey signs of recovery in the second quarter of 2011. Both vacancy and availability decreased from the previous quarter, and net absorption displayed a positive number for the fourth consecutive quarter, giving the market a total of over 1.8 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 second 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 16.38%, a decrease from first quarter rate of 16.83% and significantly down from both the Great-Recession peak of 18% in the second quarter of 2010 and the market high of 23% recorded in 1990.
- Availability** - Direct/sublease space being marketed was at 20.64% in the second quarter of 2011—a noticeable decrease of over 8.5% when compared to 2010's second quarter rate of 22.59% and slightly lower than the previous quarter's rate of 20.72%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.94 in the second quarter of 2011—a 5.83% decrease from the year-ago rate of \$2.06 and two cents lower than 2011's first 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 \$2.07 FSG.
- Absorption** - The Orange County office market posted a positive 456,928 square feet of net absorption in the second quarter of 2011, producing a total of 1.8 million

square feet of positive absorption over the past four 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 1.97 million square feet in the second quarter, a decrease from the previous year's total of 3 million square feet. Sales activity showed an increase, posting just over 400,000 square feet of activity compared to 2010's second quarter, when we saw 811,000 square feet of sales 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 8.5% in May 2011—down from a revised 8.6% in April 2011 and below the year-ago estimate of 9.2%. 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 1,900 payroll jobs from May 2010 to May 2011. The largest gross were 9,700 in leisure and hospitality and 2,900 in educational & health services; however, Orange County lost 5,600 government jobs during that same period. Chapman University is forecasting that 20,000 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 finish up the first half of 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 have begun to normalize. 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

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	16.38%	16.83%	18.00%	(9.00%)
Availability Rate	20.64%	20.72%	22.59%	(8.63%)
Average Asking Lease Rate	\$1.94	\$1.96	\$2.06	(5.83%)
Sale & Lease Transactions	2,381,664	3,500,161	3,528,228	(32.50%)
Gross Absorption	2,298,067	2,840,315	2,276,803	0.93%
Net Absorption	456,928	467,077	(286,128)	N/A



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price per SF	Buyer	Seller
3330 & 3370 E. Miraloma Ave. – 2 Properties	North	B	392,298	\$50.98	3370 Miraloma Avenue, LLC	La Palma/Miller Owner, LLC
2600 Michelson Dr.	Airport	A	309,742	\$226.16	Ocean West Capital Partners	MPG Office Trust
4 Hutton Centre Dr.	Airport	A	210,041	\$176.16	Lakeside Partners, LLC	Legacy Partners II Santa Ana Hutton, LLC
27071 Aliso Creek Rd. – 3 Properties	South	B	124,710	\$141.93	Menlo Equities Associates, LLC	Arden Realty, LP
1063 McGaw Ave.	Airport	B	56,741	\$128.21	1063 McGaw, LLC	LW McGaw, LP
2212 Dupont Dr.	Airport	B	20,505	\$175.00	James R. Glidwell Family Trust	Snyder 1975 Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1 Enterprise	South	A	109,948	Jun-11	Microsemi Corporation	RREEF America, LLC
535 Anton Blvd.	Airport	A	87,000	Jun-11	Experian	RREEF America, LLC
1800 E. Imperial Hwy.	North	A	77,828	Apr-11	VPI Pet Insurance	Cigna Investments, LLC
210 Commerce Dr.	Airport	B	44,705	Apr-11	Hyundai Capital	The Irvine Company
18500 Von Karman Ave.	Airport	A	32,663	May-11	Samsung Information System	The Irvine Company
770 the City Dr.	Central	A	31,060	May-11	Access Insurance Holding, Inc.	SPS05 OC Square, 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.

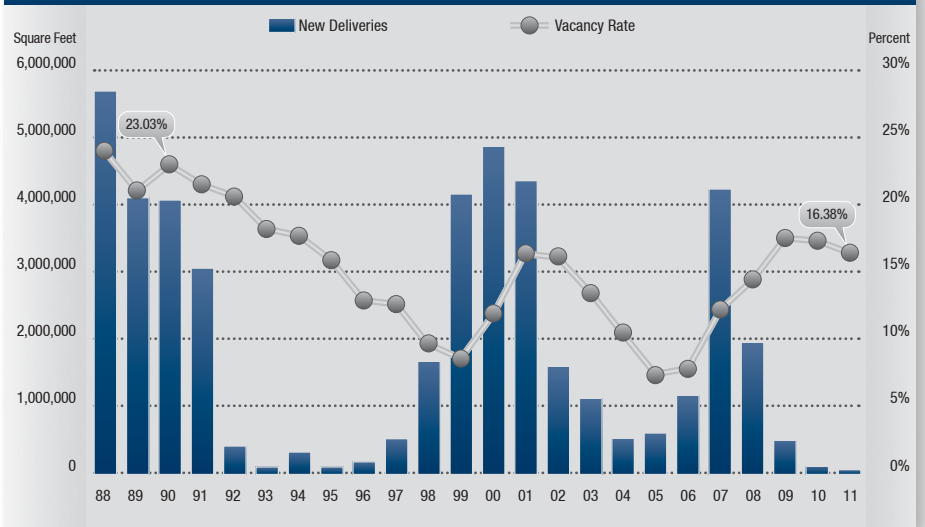
CLASS B

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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