

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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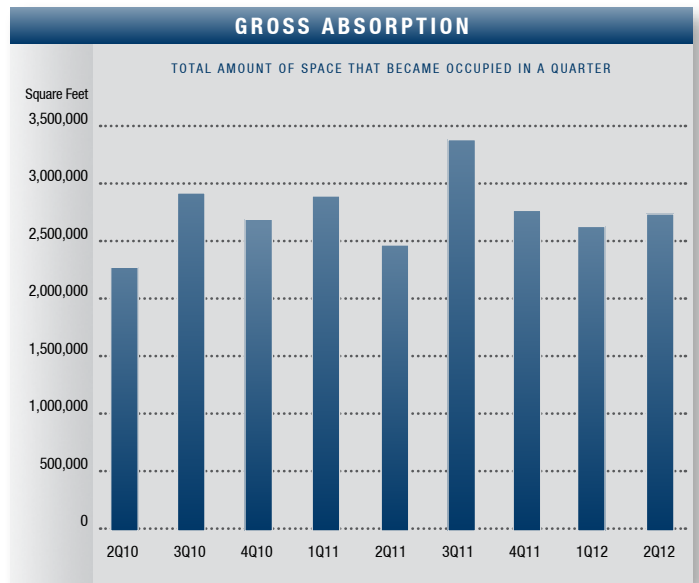
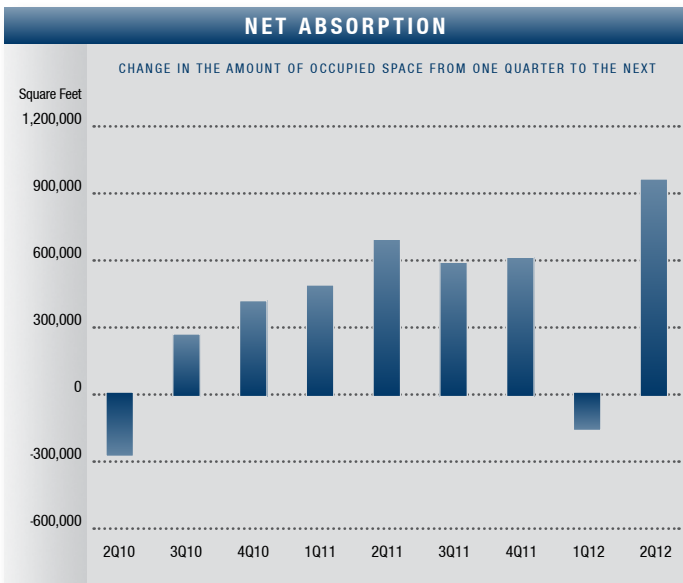
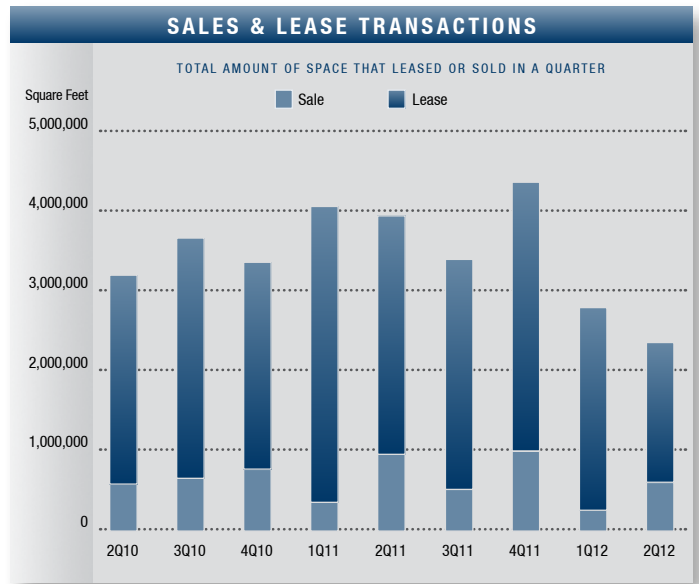
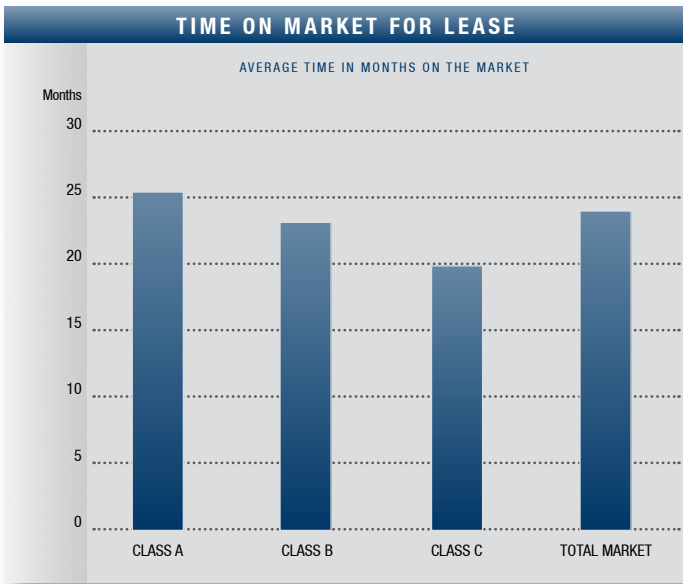
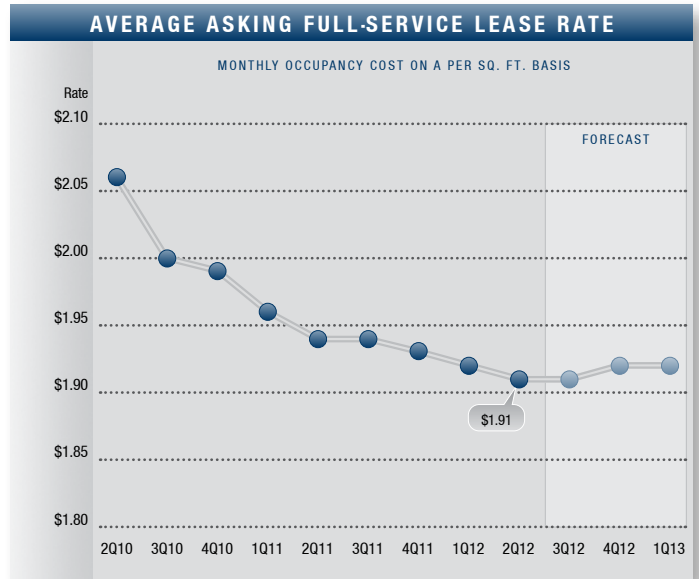
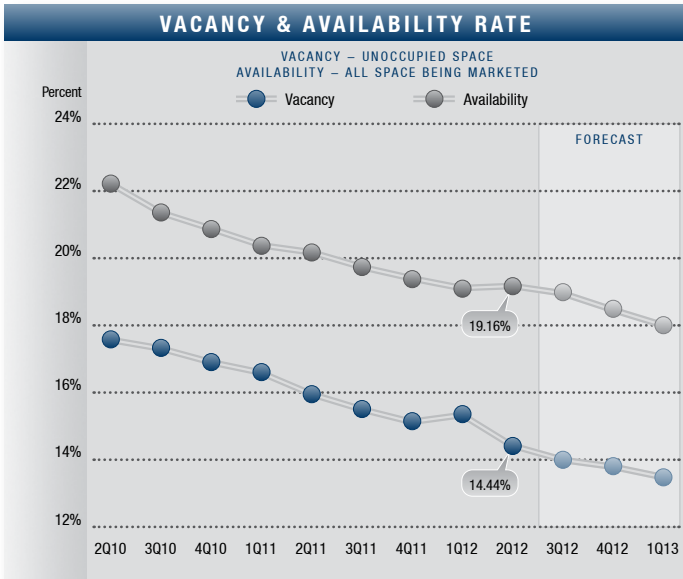


### Market Highlights

- Steady Growth** - The Orange County office market continued to convey signs of recovery as we enter the second half of 2012, posting almost one million square feet of growth in the second quarter. Both vacancy and availability continued their downward trend, displaying healthy percentage drops compared to the second quarter of 2011 and compared to the record-high rates of late 2009 and early 2010. Net absorption posted 955,000 square feet of positive absorption this quarter, giving the market a total of 3.9 million square feet of positive absorption since the third quarter of 2010. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Absorption** - The Orange County office market posted almost a million square feet of positive absorption this quarter, coming in at 955,283 square feet, the most positive absorption seen in a single quarter since the third quarter of 2005! This gives Orange County a total of 802,316 of positive absorption for the year. Going forward 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 some positive absorption next quarter. Look for research-oriented businesses (IT, defense, medical and alternative energy companies) to lead the charge of positive absorption over the next few years.
- 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 380,000 square feet for the second quarter of 2012, consisting of one build-to-suit project for PIMCO at Fashion Island in Newport Beach. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- Transaction Activity** - Leasing activity checked in at 1.7 million square feet in the second quarter, a decrease from the 3 million square feet we saw in the second quarter of 2011. Sales activity was down as well, posting 588,970 square feet of activity compared to 2011's second quarter figure of 921,909 square feet. Details of the largest transactions for the quarter can be found on the back page of this report.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.44%, a substantial decrease from the previous quarter's rate of 15.33% and 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 13.8%.
- Employment** - The unemployment rate in Orange County was 7.5% in May 2012 — up from a revised 7.4% in April 2012 and below the previous year's estimate of 8.5%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 25,800 payroll jobs from May 2011 to May 2012. The largest gains were 12,300 in professional & business services and 7,300 in leisure & hospitality; however, Orange County lost 3,600 construction jobs during that same period.
- Availability** - Direct/sublease space being marketed was at 19.16% at the end of the second quarter of 2012 — a decrease of almost 5% when compared to 2011's second quarter rate of 20.14% but slightly higher than the 2012's first quarter rate of 19.04%.
- Overall** - We are beginning to see a decrease in the amount of vacant space being added per quarter. As we enter the second half of 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 an overall increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to firm up 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.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.91 at the end of the quarter — a 1.55% decrease from the previous year's rate of \$1.94 but only one cent lower than 2012's first 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 \$2.12 FSG — the highest being in the Airport market where Class A rates averaged \$2.24 FSG. We are forecasting that rates will begin to increase in the second half of 2012.

### OFFICE MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	14.44%	15.33%	15.99%	(9.69%)
Availability Rate	19.16%	19.04%	20.14%	(4.87%)
Average Asking Lease Rate	\$1.91	\$1.92	\$1.94	(1.55%)
Sale & Lease Transactions	2,320,289	2,773,865	3,915,482	(40.74%)
Gross Absorption	2,729,097	2,610,904	2,475,685	10.24%
Net Absorption	955,283	(155,306)	693,687	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
<b>North County</b>													
Anaheim Hills	9	452,548	0	0	36,771	8.13%	55,498	12.26%	\$1.68	(8,218)	2,266	2,607	15,055
Brea	43	4,107,434	0	120,000	476,072	11.59%	831,541	20.24%	\$1.93	98,187	86,832	111,220	151,176
Buena Park	12	703,810	0	0	101,897	14.48%	116,209	16.51%	\$1.70	8,680	(11,034)	24,516	27,513
Fullerton	28	2,052,496	0	0	284,575	13.86%	437,353	21.31%	\$1.71	(13,162)	(13,716)	12,999	22,125
La Habra	6	674,559	0	0	20,174	2.99%	22,818	3.38%	\$1.03	(1,808)	(3,374)	1,186	4,898
La Palma	10	712,038	0	0	140,285	19.70%	262,883	36.92%	\$2.04	(5,176)	(5,847)	1,974	10,792
Placentia	8	267,589	0	0	53,882	20.14%	56,247	21.02%	\$1.52	(3,316)	824	6,180	10,320
Yorba Linda	7	423,502	0	0	26,496	6.26%	70,845	16.73%	\$1.82	275	42,843	983	44,489
<b>North County Total</b>	<b>123</b>	<b>9,393,976</b>	<b>0</b>	<b>120,000</b>	<b>1,140,152</b>	<b>12.14%</b>	<b>1,853,394</b>	<b>19.73%</b>	<b>\$1.84</b>	<b>75,462</b>	<b>98,794</b>	<b>161,665</b>	<b>286,368</b>
<b>West County</b>													
Cypress	28	1,931,761	0	0	337,457	17.47%	407,555	21.10%	\$1.82	(64,878)	(100,019)	7,359	22,696
Fountain Valley	33	1,686,041	0	469,000	203,212	12.05%	228,781	13.57%	\$1.73	127,036	93,767	132,878	136,787
Garden Grove	19	1,468,925	0	0	43,280	2.95%	118,804	8.09%	\$1.28	3,672	4,704	10,274	15,030
Huntington Beach	43	2,385,417	0	0	381,001	15.97%	387,720	16.25%	\$2.06	26,437	40,552	111,952	166,752
Los Alamitos	11	616,808	0	60,000	32,246	5.23%	32,495	5.27%	\$1.94	4,156	2,102	8,112	10,733
Seal Beach	7	477,159	0	0	5,069	1.06%	9,309	1.95%	\$2.34	10,673	12,762	13,623	22,089
Stanton	5	179,317	0	0	18,432	10.28%	35,533	19.82%	\$0.85	1,200	3,942	1,267	4,956
Westminster	15	582,531	0	0	61,219	10.51%	63,705	10.94%	\$1.77	(1,000)	(11,500)	0	0
<b>West County Total</b>	<b>161</b>	<b>9,327,959</b>	<b>0</b>	<b>529,000</b>	<b>1,081,916</b>	<b>11.60%</b>	<b>1,283,902</b>	<b>13.76%</b>	<b>\$1.82</b>	<b>107,296</b>	<b>46,310</b>	<b>285,465</b>	<b>379,043</b>
<b>Central County</b>													
Anaheim	97	7,910,258	0	220,500	1,436,433	18.16%	1,620,622	20.49%	\$1.71	46,536	316,835	109,051	448,657
Orange	82	7,287,551	0	200,000	1,042,487	14.31%	1,476,386	20.26%	\$1.95	93,756	63,795	219,311	408,085
Santa Ana	184	14,717,483	0	922,000	2,087,138	14.18%	2,619,241	17.80%	\$1.62	38,686	(87,472)	176,721	376,567
Tustin	42	1,789,632	0	737,000	286,995	16.04%	334,732	18.70%	\$1.61	60,246	65,593	85,701	100,070
<b>Central County Total</b>	<b>405</b>	<b>31,704,924</b>	<b>0</b>	<b>2,079,500</b>	<b>4,853,053</b>	<b>15.31%</b>	<b>6,050,981</b>	<b>19.09%</b>	<b>\$1.73</b>	<b>239,224</b>	<b>358,751</b>	<b>590,784</b>	<b>1,333,379</b>
<b>Airport Area</b>													
Costa Mesa	74	7,317,094	0	0	1,045,619	14.29%	1,397,885	19.10%	\$1.87	47,650	70,292	154,494	306,018
Irvine	289	25,888,607	0	1,036,959	4,150,868	16.03%	5,483,097	21.18%	\$2.00	388,100	222,495	936,298	1,710,203
Newport Beach	127	9,407,485	380,000	242,646	1,124,675	11.96%	1,901,731	20.22%	\$2.38	17,895	11,387	193,103	378,246
<b>Airport Area Total</b>	<b>490</b>	<b>42,613,186</b>	<b>380,000</b>	<b>1,279,605</b>	<b>6,321,162</b>	<b>14.83%</b>	<b>8,782,713</b>	<b>20.61%</b>	<b>\$2.09</b>	<b>453,645</b>	<b>304,174</b>	<b>1,283,895</b>	<b>2,394,467</b>
<b>South County</b>													
Aliso Viejo	42	3,095,534	0	647,000	413,789	13.37%	478,578	15.46%	\$2.05	(1,428)	24,661	29,090	77,573
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	9	739,893	0	0	187,423	25.33%	244,309	33.02%	\$1.96	(18,963)	(2,797)	0	42,182
Irvine Spectrum	120	8,296,690	0	0	1,113,829	13.42%	1,563,616	18.85%	\$2.12	83,640	(5,729)	207,408	406,866
Laguna Beach	5	194,434	0	0	25,403	13.07%	28,594	14.71%	\$0.00	0	0	893	4,387
Laguna Hills	33	1,784,943	0	39,000	336,005	18.82%	382,619	21.44%	\$1.78	(5,550)	(45,021)	17,893	48,872
Laguna Niguel	11	734,972	0	0	55,074	7.49%	106,176	14.45%	\$2.16	1,896	(8,645)	27,114	43,744
Lake Forest	40	2,110,755	0	0	476,399	22.57%	443,548	21.01%	\$1.70	(32,993)	(66,174)	41,196	145,788
Mission Viejo	36	1,896,089	0	0	191,894	10.12%	299,883	15.82%	\$1.83	38,108	74,897	48,627	107,593
Rancho Santa Margarita	6	249,472	0	0	56,580	22.68%	70,762	28.36%	\$1.59	8,152	4,842	8,152	15,899
San Clemente	10	388,309	0	0	49,720	12.80%	61,774	15.91%	\$1.72	3,295	18,555	12,709	33,445
San Juan Capistrano	17	866,336	0	0	94,077	10.86%	99,627	11.50%	\$1.95	3,499	(302)	14,206	20,395
<b>South County Total</b>	<b>332</b>	<b>20,492,723</b>	<b>0</b>	<b>721,000</b>	<b>3,000,193</b>	<b>14.64%</b>	<b>3,779,486</b>	<b>18.44%</b>	<b>\$1.91</b>	<b>79,656</b>	<b>(5,713)</b>	<b>407,288</b>	<b>946,744</b>
<b>Orange County Total</b>	<b>1,511</b>	<b>113,532,768</b>	<b>380,000</b>	<b>4,729,105</b>	<b>16,396,476</b>	<b>14.44%</b>	<b>21,750,476</b>	<b>19.16%</b>	<b>\$1.91</b>	<b>955,283</b>	<b>802,316</b>	<b>2,729,097</b>	<b>5,340,001</b>
<b>North County</b>													
Class A	18	1,917,586	0	120,000	217,384	11.34%	514,296	26.82%	\$2.20	(8,535)	(13,756)	8,512	28,025
Class B	94	6,670,851	0	0	878,641	13.17%	1,292,199	19.37%	\$1.71	79,013	105,846	148,169	247,449
Class C	11	805,539	0	0	44,127	5.48%	46,899	5.82%	\$1.60	4,984	6,704	4,984	10,894
<b>West County</b>													
Class A	23	2,466,023	0	0	350,013	14.19%	394,346	15.99%	\$2.07	12,935	(12,492)	35,686	81,131
Class B	115	5,920,624	0	529,000	682,122	11.52%	835,341	14.11%	\$1.66	59,135	26,091	191,402	237,446
Class C	23	941,312	0	0	49,781	5.29%	54,215	5.76%	\$1.40	35,226	32,711	58,377	60,466
<b>Central County</b>													
Class A	62	10,466,619	0	1,622,500	1,924,749	18.39%	2,504,035	23.92%	\$1.96	126,857	35,248	271,311	455,799
Class B	272	18,253,080	0	457,000	2,616,610	14.34%	3,154,969	17.28%	\$1.49	80,768	331,113	269,198	801,178
Class C	71	2,985,225	0	0	311,694	10.44%	391,977	13.13%	\$1.35	31,599	(7,610)	50,275	76,402
<b>Airport Area</b>													
Class A	115	22,417,690	380,000	1,000,000	4,193,859	18.71%	5,491,661	24.50%	\$2.24	200,941	209,630	645,938	1,368,964
Class B	341	18,563,310	0	279,605	1,987,466	10.71%	3,059,345	16.48%	\$1.80	249,654	95,211	618,630	983,147
Class C	34	1,632,186	0	0	139,837	8.57%	231,707	14.20%	\$1.61	3,050	(667)	19,327	42,356
<b>South County</b>													
Class A	59	6,657,023	0	647,000	984,969	14.80%	1,068,870	16.06%	\$2.08	35,313	(70,312)	129,913	294,128
Class B	263	13,280,708	0	74,000	1,999,920	15.06%	2,695,069	20.29%	\$1.76	43,843	65,286	276,305	647,316
Class C	10	554,992	0	0	15,304	2.76%	15,547	2.80%	\$1.26	500	(687)	1,070	5,300
<b>Orange County</b>													
Class A	277	43,924,941	380,000	3,389,500	7,670,974	17.46%	9,973,208	22.71%	\$2.12	367,511	148,318	1,091,360	2,228,047
Class B	1,085	62,688,573	0	1,339,605	8,164,759	13.02%	11,036,923	17.61%	\$1.66	512,413	623,547	1,503,704	2,916,536
Class C	149	6,919,254	0	0	560,743	8.10%	740,345	10.70%	\$1.44	75,359	30,451	134,033	195,418
<b>Orange County Total</b>	<b>1,511</b>	<b>113,532,768</b>	<b>380,000</b>	<b>4,729,105</b>	<b>16,396,476</b>	<b>14.44%</b>	<b>21,750,476</b>	<b>19.16%</b>	<b>\$1.91</b>	<b>955,283</b>	<b>802,316</b>	<b>2,729,097</b>	<b>5,340,001</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	Buyer	Seller
26200 Enterprise Way	South	B	144,906	\$194.95	Teacher Retirement System of IL	Piedmont Office Realty Trust, Inc.
15641 Red Hill Ave. – 3 Properties	Airport	B	139,558	\$96.73	Centurion Plaza, LLC	US Bancorp
15101 Red Hill Ave.	Airport	B	48,772	\$184.53	15101 Red Hill Partners, LLC	Lone Oak Red Hill, LLC
2424 SE Bristol St.	Airport	B	50,073	\$111.00	2424 Bristol Partners, LLC	Alliance Bank
17601 E. 17th St. – 3 Properties	Central	B	41,653	\$75.02	Pi Properties 6, LLC	Sa California Group, Inc.
1800 E. Lambert Rd.	North	B	32,830	\$115.95	Global Pacific Lambert, LLC	Gccfc 2007-gg11 Lambert Rd., LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4000 MacArthur Blvd. – Renewal	Airport	A	88,160	Apr-12	Mindspeed	E O MacArthur, LLC
7755 Center Ave. – Renewal	West	A	55,832	Apr-12	BJ's Restaurants, Inc.	Lincoln Property Company
5900 Katella Ave.	West	B	48,971	May-12	Mitsubishi Electric	Warland Investment, Ltd.
25 Enterprise	South	A	47,011	May-12	Metagenics	Summit Office Partners Holding Co.
18500 Von Karman Ave.	Airport	A	41,382	Jun-12	PacTrust Bank	The Irvine Company
201 E. Sandpointe Ave.	Airport	A	36,185	May-12	Universal Electronics	TA Associates 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.

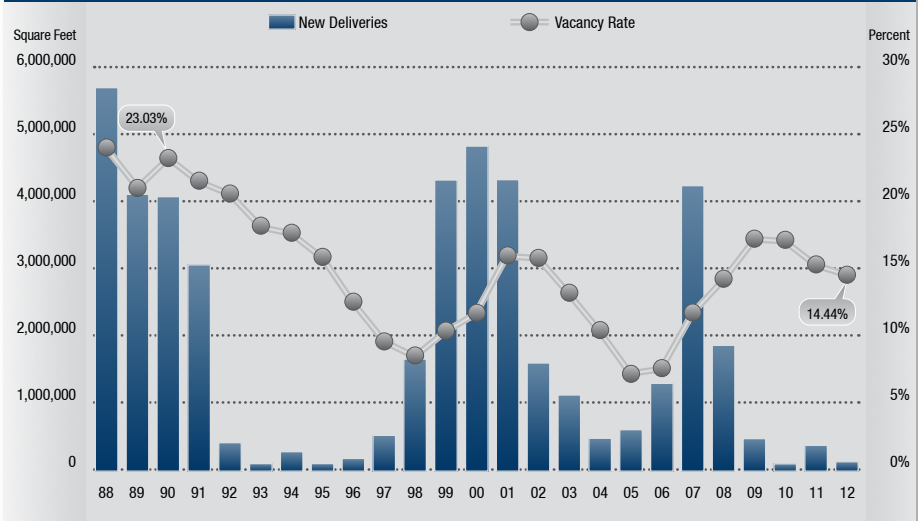
CLASS B

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



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