



## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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Prepared by:

**Jerry J. Holdner, Jr.** — Lic.#01145748  
Vice President of Market Research  
e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)

**Tony Tran**  
Market Research Analyst  
e-mail: [ttran@voitco.com](mailto:ttran@voitco.com)

VOIT Real Estate Services — Lic.#01333376

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### Market Highlights

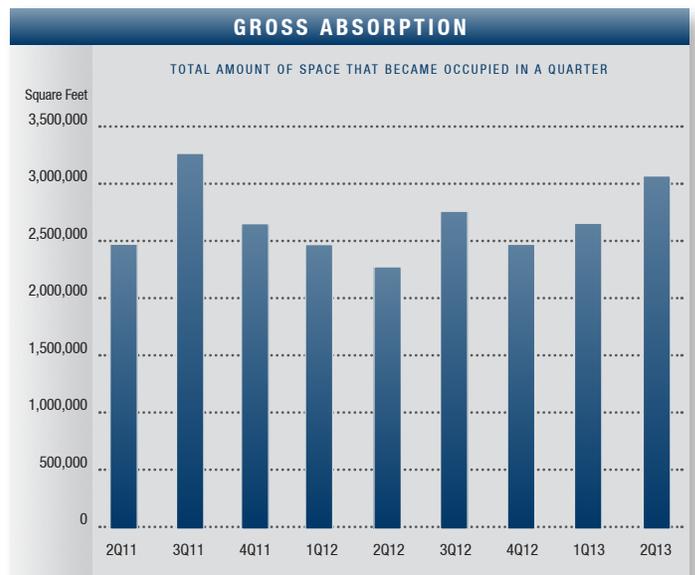
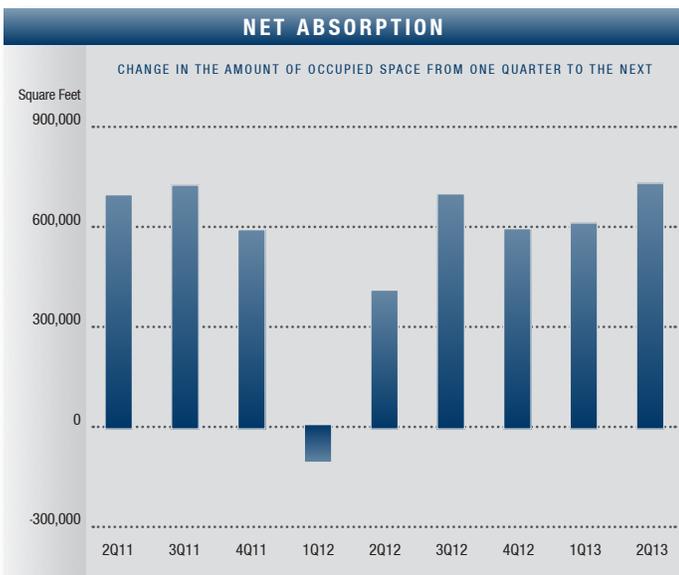
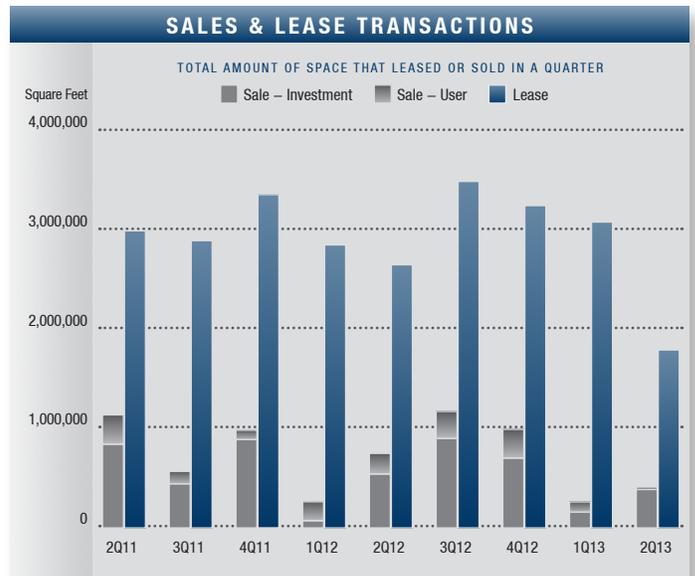
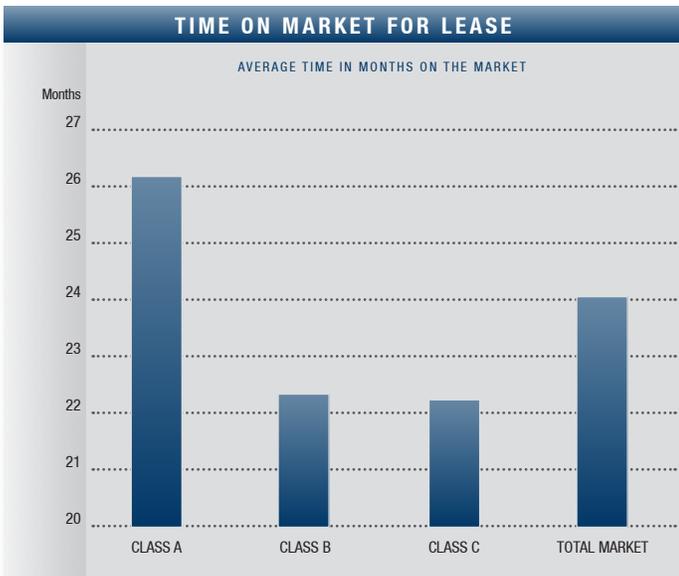
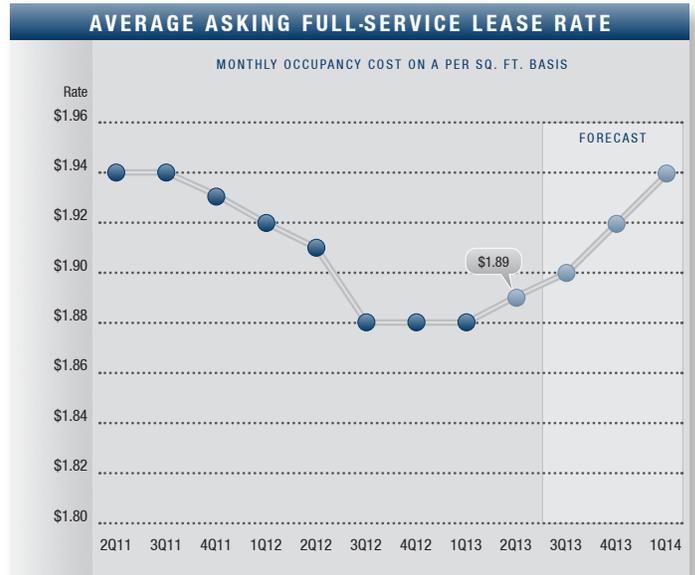
- **Steady Growth** - The Orange County office market continued to convey signs of recovery, posting over 1.3 million square feet of positive net absorption in the first half of 2013 and giving the market a total of over six million square feet of positive absorption over the last three years. Both vacancy and availability continued their downward trends, while lease rates appeared to be finally beginning an upward trend. 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 nearly 1.4 million square feet for the first quarter of 2013; the most notable projects were two build-to-suit projects: Hyundai in Fountain Valley (469,000 square feet) and PIMCO at Fashion Island in Newport Beach (479,800 square feet).
- **Vacancy** - Vacancies continued their downward trend in the second quarter. Direct/sublease space (unoccupied) finished the quarter at 12.49%, a substantial decrease from the previous year's rate of 14.53% 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 trending downward in 2013, ending the year around 11.6%.
- **Availability** - High-end Class A space captured recent gains in occupancy. Direct/sublease space being marketed was at 17.78% at the end of the second quarter of 2013 — a decrease of over 6.5% when compared to 2012's second quarter rate of 19.02% and about the same as last quarter's rate of 17.76%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.89 at the end of the quarter — a 1.05% decrease from the previous year's rate of \$1.91 but one cent higher than the previous quarter's rate of \$1.88, hopefully, indicating a bottom in the downward trend of asking lease rates. In fact, this is the first increase in the average asking lease rate since the fourth quarter of 2007, when the record-high rate of \$2.77 was established. Class A asking rates for the county averaged \$2.06 FSG — the

highest being in the North County submarket where Class A rates averaged \$2.18 FSG. We are forecasting that rates will continue to increase in 2013.

- **Absorption** - The Orange County office market posted over 730,000 square feet of positive absorption this quarter — 470,000 square feet of Class A space and 250,000 square feet of Class B space, giving the market a total of over 2.6 million square feet of positive absorption over the past four quarters. 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 1.8 million square feet in the second quarter of 2013, a decrease from the 2.6 million square feet we saw in the second quarter of 2012. Sales activity was down as well, posting 390,000 square feet of activity in the second quarter of 2013 compared to 2012's second quarter figure of 710,000 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 5.5% in May 2013 — down from a revised 5.7% in April 2013 and below the previous year's estimate of 7.5%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 24,500 payroll jobs from May 2012 to May 2013. The largest gains were 6,500 in financial activities and 6,400 in construction; however, Orange County lost 1,200 jobs in the trade, transportation and utilities sector during that same period.
- **Overall** - We are beginning to see a decrease in the amount of vacant and available space. As we progress into the second half of 2013, 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. Lease rates have begun to increase, and we expect the trend to continue in the coming quarter. 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

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	12.49%	12.98%	14.53%	(14.04%)
Availability Rate	17.78%	17.76%	19.02%	(6.52%)
Average Asking Lease Rate	\$1.89	\$1.88	\$1.91	(1.05%)
Sale & Lease Transactions	2,160,228	3,299,090	3,334,539	(35.22%)
Gross Absorption	3,061,155	2,646,303	2,270,104	34.85%
Net Absorption	730,571	603,721	405,287	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
<b>North County</b>													
Anaheim Hills	17	1,030,597	0	45,000	60,392	5.86%	154,723	15.01%	\$1.67	(172)	(1,352)	3,881	6,302
Brea	43	4,114,897	0	120,000	394,432	9.59%	708,423	17.22%	\$1.93	69,016	55,688	112,836	174,913
Buena Park	15	943,494	107,000	0	134,083	14.21%	132,223	14.01%	\$1.59	69,571	63,662	117,522	122,877
Fullerton	31	2,507,582	0	0	274,996	10.97%	508,310	20.27%	\$1.70	2,972	15,020	16,815	43,810
La Habra	4	142,069	0	0	0	0.00%	0	0.00%	\$0.00	0	727	0	727
La Palma	10	712,038	0	0	183,257	25.74%	220,373	30.95%	\$2.04	(44,914)	(40,154)	44,592	50,750
Placentia	8	267,589	0	0	51,659	19.31%	51,659	19.31%	\$1.55	(47)	2,105	5,165	9,295
Yorba Linda	7	423,502	0	0	30,178	7.13%	72,020	17.01%	\$1.72	(918)	(4,089)	695	1,913
<b>North County Total</b>	<b>135</b>	<b>10,141,768</b>	<b>107,000</b>	<b>165,000</b>	<b>1,128,997</b>	<b>11.13%</b>	<b>1,847,731</b>	<b>18.22%</b>	<b>\$1.83</b>	<b>95,508</b>	<b>91,607</b>	<b>301,506</b>	<b>410,587</b>
<b>West County</b>													
Cypress	30	2,096,476	0	0	332,226	15.85%	437,222	20.86%	\$1.83	(3,276)	95,987	4,457	110,181
Fountain Valley	31	1,478,142	469,000	0	196,923	13.32%	308,366	20.86%	\$1.69	2,367	5,663	6,844	16,154
Garden Grove	20	1,562,572	0	0	66,272	4.24%	119,391	7.64%	\$1.29	(8,403)	(8,642)	2,894	10,136
Huntington Beach	43	2,396,127	0	0	283,520	11.83%	399,718	16.68%	\$2.02	15,211	45,392	43,887	105,870
Los Alamitos	11	616,808	0	70,000	37,673	6.11%	39,158	6.35%	\$1.80	(1,663)	(7,973)	3,343	10,586
Seal Beach	7	473,787	0	0	12,655	2.67%	87,507	18.47%	\$2.76	(7,572)	(4,848)	4,730	9,233
Stanton	4	143,361	0	0	9,903	6.91%	20,824	14.53%	\$0.80	(1,600)	1,790	3,200	6,590
Westminster	14	557,157	0	0	65,201	11.70%	57,652	10.35%	\$1.77	4,717	(1,868)	8,012	9,590
<b>West County Total</b>	<b>160</b>	<b>9,324,430</b>	<b>469,000</b>	<b>70,000</b>	<b>1,004,373</b>	<b>10.77%</b>	<b>1,469,838</b>	<b>15.76%</b>	<b>\$1.84</b>	<b>(219)</b>	<b>125,501</b>	<b>77,367</b>	<b>278,340</b>
<b>Central County</b>													
Anaheim	87	6,862,095	0	175,500	856,456	12.48%	1,084,754	15.81%	\$1.76	106,785	41,537	157,975	189,599
Orange	82	7,267,974	0	200,000	1,073,011	14.76%	1,352,704	18.61%	\$1.94	(141,722)	(136,556)	104,023	269,814
Santa Ana	190	15,148,210	0	922,000	2,025,630	13.37%	3,349,995	22.11%	\$1.67	4,364	(23,394)	277,862	466,167
Tustin	41	1,759,068	0	737,000	206,909	11.76%	263,510	14.98%	\$1.64	10,821	70,889	25,518	109,171
<b>Central County Total</b>	<b>400</b>	<b>31,037,347</b>	<b>0</b>	<b>2,034,500</b>	<b>4,162,006</b>	<b>13.41%</b>	<b>6,050,963</b>	<b>19.50%</b>	<b>\$1.76</b>	<b>(19,752)</b>	<b>(47,524)</b>	<b>565,378</b>	<b>1,034,751</b>
<b>Airport Area</b>													
Costa Mesa	73	7,332,710	0	0	1,205,246	16.44%	1,273,296	17.36%	\$1.89	55,218	(38,192)	158,331	328,302
Irvine	257	23,933,832	110,000	1,586,959	3,381,510	14.13%	4,531,699	18.93%	\$2.04	129,655	389,775	731,564	1,414,284
Newport Beach	127	9,563,780	680,000	42,646	1,034,346	10.82%	1,554,946	16.26%	\$2.14	181,921	59,469	395,384	585,009
<b>Airport Area Total</b>	<b>457</b>	<b>40,830,322</b>	<b>790,000</b>	<b>1,629,605</b>	<b>5,621,102</b>	<b>13.77%</b>	<b>7,359,941</b>	<b>18.03%</b>	<b>\$2.05</b>	<b>366,794</b>	<b>411,052</b>	<b>1,285,279</b>	<b>2,327,595</b>
<b>South County</b>													
Aliso Viejo	42	3,088,128	0	647,000	246,756	7.99%	314,847	10.20%	\$2.09	13,240	30,824	28,919	92,044
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Foothill Ranch	10	799,893	0	0	141,904	17.74%	200,394	25.05%	\$1.91	15,747	77,484	15,747	77,484
Irvine Spectrum	149	9,942,692	0	150,000	821,903	8.27%	1,281,746	12.89%	\$2.19	181,509	374,013	554,452	939,533
Laguna Beach	5	194,434	0	0	29,879	15.37%	29,879	15.37%	\$0.00	(3,992)	(4,476)	500	1,114
Laguna Hills	34	1,812,815	0	39,000	303,226	16.73%	438,672	24.20%	\$1.83	30,630	16,130	46,941	77,736
Laguna Niguel	11	1,776,844	0	0	185,532	10.44%	221,762	12.48%	\$2.12	1,499	27,404	18,215	61,882
Lake Forest	40	2,111,624	0	0	336,182	15.92%	518,082	24.53%	\$1.55	3,768	180,178	54,039	263,113
Mission Viejo	36	1,904,906	0	0	204,759	10.75%	353,985	18.58%	\$1.90	(1,438)	(7,122)	43,591	53,099
Rancho Santa Margarita	6	249,472	0	0	51,656	20.71%	56,291	22.56%	\$1.55	4,197	11,415	12,776	19,994
San Clemente	11	474,516	0	0	31,962	6.74%	57,003	12.01%	\$1.60	25,375	17,003	31,743	33,313
San Juan Capistrano	17	865,688	0	0	58,893	6.80%	189,829	21.93%	\$1.99	17,705	19,328	24,702	36,873
<b>South County Total</b>	<b>364</b>	<b>23,356,308</b>	<b>0</b>	<b>871,000</b>	<b>2,412,652</b>	<b>10.33%</b>	<b>3,662,490</b>	<b>15.68%</b>	<b>\$1.88</b>	<b>288,240</b>	<b>742,181</b>	<b>831,625</b>	<b>1,656,185</b>
<b>Orange County Total</b>	<b>1,516</b>	<b>114,690,175</b>	<b>1,366,000</b>	<b>4,770,105</b>	<b>14,329,130</b>	<b>12.49%</b>	<b>20,390,963</b>	<b>17.78%</b>	<b>\$1.89</b>	<b>730,571</b>	<b>1,322,817</b>	<b>3,061,155</b>	<b>5,707,458</b>
<b>North County</b>													
Class A	19	2,052,410	0	120,000	264,590	12.89%	340,047	16.57%	\$2.18	(45,746)	(41,212)	42,813	99,715
Class B	105	7,712,081	107,000	45,000	806,852	10.46%	1,447,017	18.76%	\$1.72	141,201	133,733	257,016	307,481
Class C	11	377,277	0	0	57,555	15.26%	60,667	16.08%	\$1.21	53	(914)	1,677	3,391
<b>West County</b>													
Class A	23	2,462,651	0	0	328,243	13.33%	417,092	16.94%	\$2.14	3,664	43,393	23,247	81,787
Class B	115	5,956,423	469,000	70,000	637,795	10.71%	1,009,641	16.95%	\$1.63	(6,391)	80,675	47,347	181,923
Class C	22	905,356	0	0	38,335	4.23%	43,105	4.76%	\$1.40	2,508	1,433	6,773	14,630
<b>Central County</b>													
Class A	60	10,318,115	0	1,822,500	1,831,912	17.75%	2,748,829	26.64%	\$1.93	13,015	(82,659)	310,688	495,135
Class B	267	17,615,630	0	212,000	2,018,618	11.46%	2,918,803	16.57%	\$1.57	(24,643)	57,883	227,260	483,101
Class C	73	3,103,602	0	0	311,476	10.04%	383,331	12.35%	\$1.33	(8,124)	(22,748)	27,430	56,515
<b>Airport Area</b>													
Class A	115	22,411,919	790,000	1,500,000	3,446,830	15.38%	4,633,607	20.67%	\$2.15	374,503	464,223	770,045	1,474,883
Class B	313	17,027,766	0	129,605	2,012,802	11.82%	2,516,382	14.78%	\$1.88	(6,917)	(4,658)	506,579	831,260
Class C	29	1,390,637	0	0	161,470	11.61%	209,952	15.10%	\$1.65	(792)	(48,513)	8,655	21,452
<b>South County</b>													
Class A	59	6,898,795	0	647,000	556,032	8.06%	780,290	11.31%	\$2.17	124,111	145,823	433,021	567,064
Class B	295	16,001,711	0	224,000	1,854,089	11.59%	2,878,435	17.99%	\$1.75	153,150	584,976	386,846	1,074,521
Class C	10	455,802	0	0	2,531	0.56%	3,765	0.83%	\$1.39	10,979	11,382	11,758	14,600
<b>Orange County</b>													
Class A	276	44,143,890	790,000	4,089,500	6,427,607	14.56%	8,919,865	20.21%	\$2.06	469,547	529,568	1,579,814	2,718,584
Class B	1,095	64,313,611	576,000	680,605	7,330,156	11.40%	10,770,278	16.75%	\$1.71	256,400	852,609	1,425,048	2,878,286
Class C	145	6,232,674	0	0	571,367	9.17%	700,820	11.24%	\$1.42	4,624	(59,360)	56,293	110,588
<b>Orange County Total</b>	<b>1,516</b>	<b>114,690,175</b>	<b>1,366,000</b>	<b>4,770,105</b>	<b>14,329,130</b>	<b>12.49%</b>	<b>20,390,963</b>	<b>17.78%</b>	<b>\$1.89</b>	<b>730,571</b>	<b>1,322,817</b>	<b>3,061,155</b>	<b>5,707,458</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
27442 Portola Pkwy. – 2 Properties	South County	A	208,747	\$191.62	U.S. Core Partners	CBRE Global Investors
1700 E. Caregie Ave. – 2501 Pullman	Central County	B	128,266	\$124.74	RREF II Freeway Acquisitions, LLC	Crown Realty & Development, Inc.
741 E. Ball Rd. – 5 Properties	North County	B	117,528	\$82.96	Summit Realty Advisors	The Realty Associates Fund VI, LP
7421 Orangewood Ave.	West County	B	82,602	\$145.03	Klein Investments Family, LP	7421 Orangewood–trs, LLC
2510-2520 Red Hill Ave.	Central County	B	48,972	\$186.84	SSG 2510RH, LLC	DHIRH, LP

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2929 E. Imperial Hwy. – Expansion	North County	A	81,077	May-13	IMS, Inc.	KWR Saturn, LLC
19510 Jamboree	Airport Area	A	70,000	May-13	Google	Scholle Center, LLC
2929 E. Imperial Hwy.	North County	A	46,235	Jun-13	Systems and Software Enterprises, LLC	KWR Saturn, LLC
450 Exchange	South County	B	45,039	Apr-13	Title Resource	The Irvine Company
333 City Blvd. W.	Central County	A	41,000	Jun-13	York Insurance	MPG Office Trust, Inc.
1 City Blvd. W. – Expansion	Central County	A	38,391	Apr-13	Cash Call	Hfor City Plaza, LLC
840 Newport Center Dr.	Airport Area	A	37,974	May-13	Pacific Life/Aviation Capital	The Irvine Company

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.

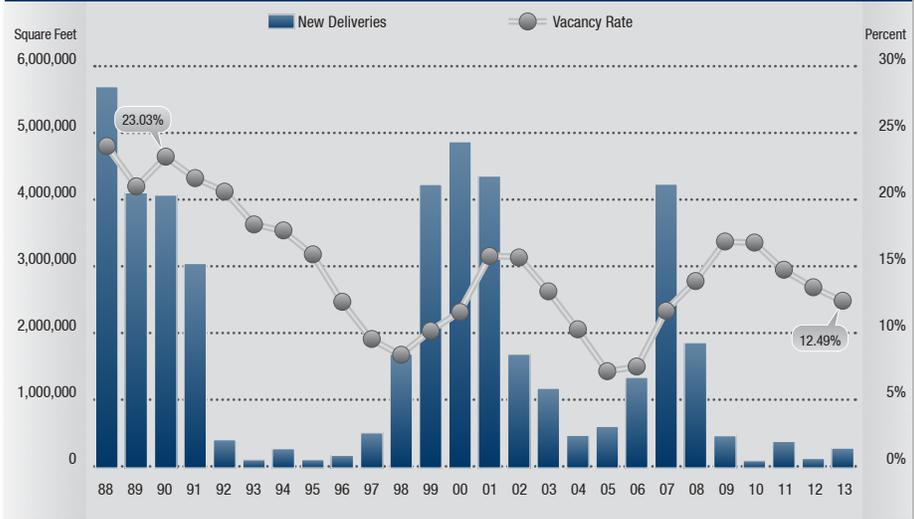
CLASS B

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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714.978.7880

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323.558.5400

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909.545.8000

Irvine, CA  
949.851.5100

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775.309.0782

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