

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

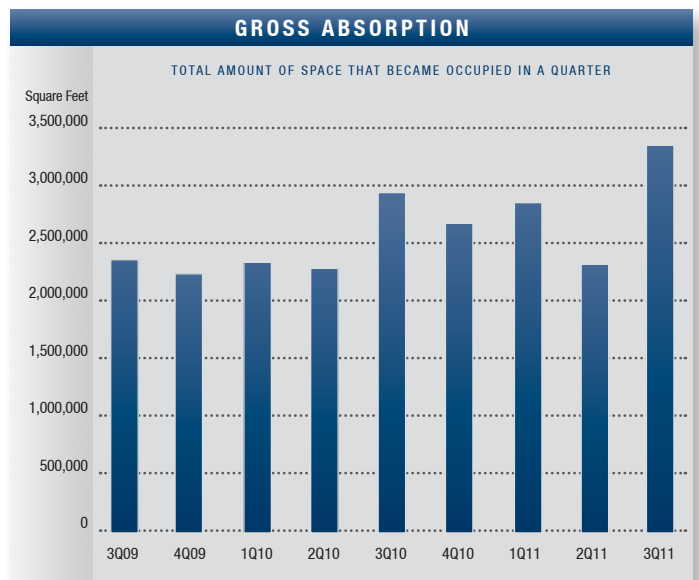
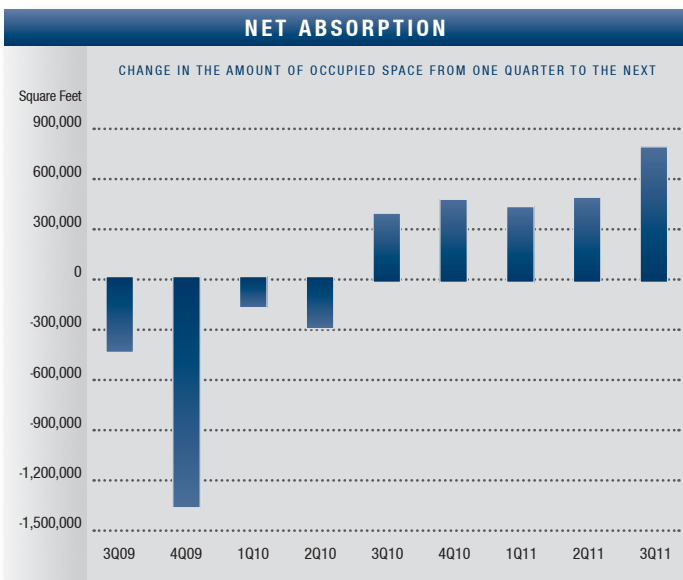
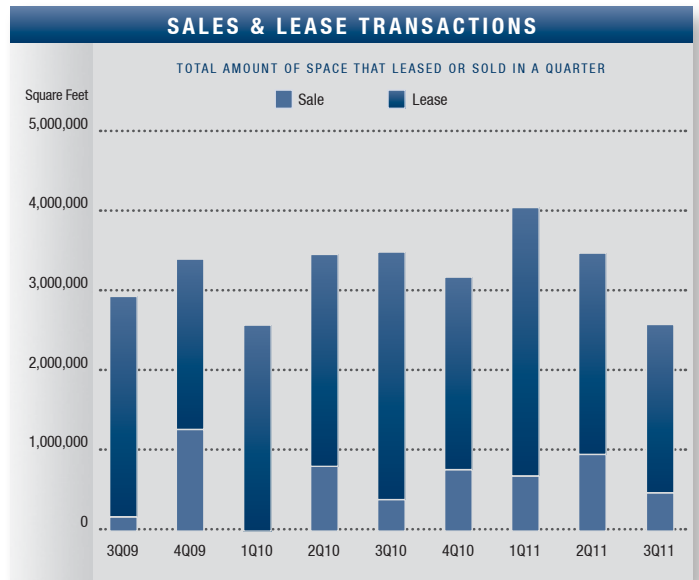
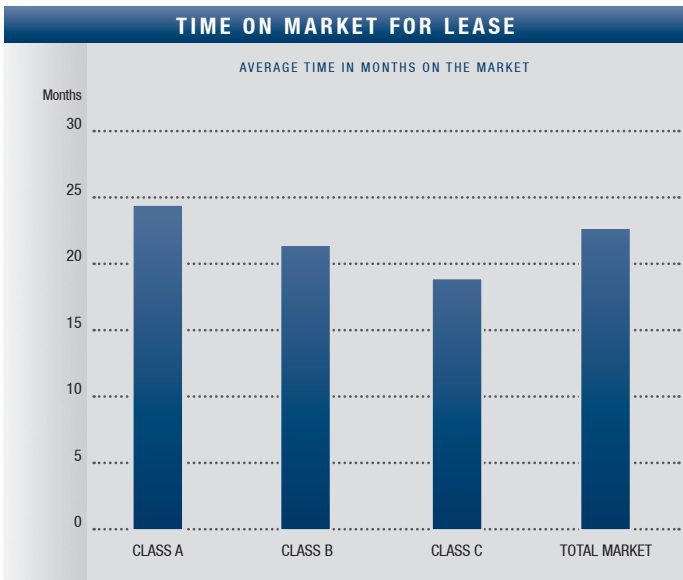
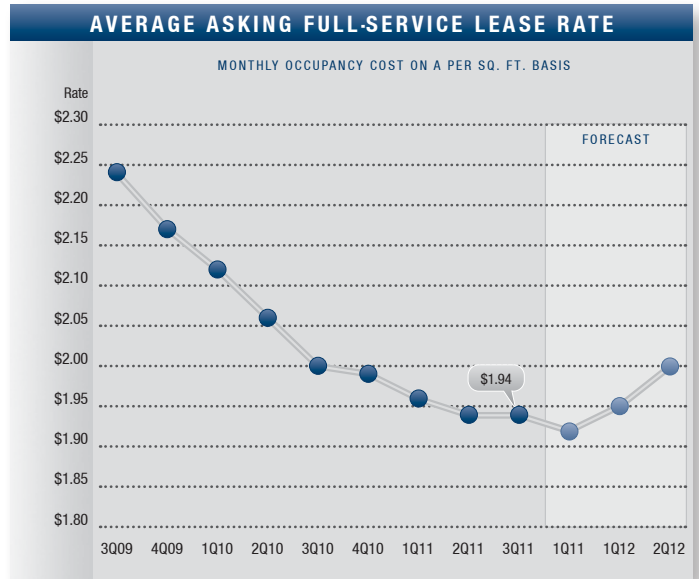
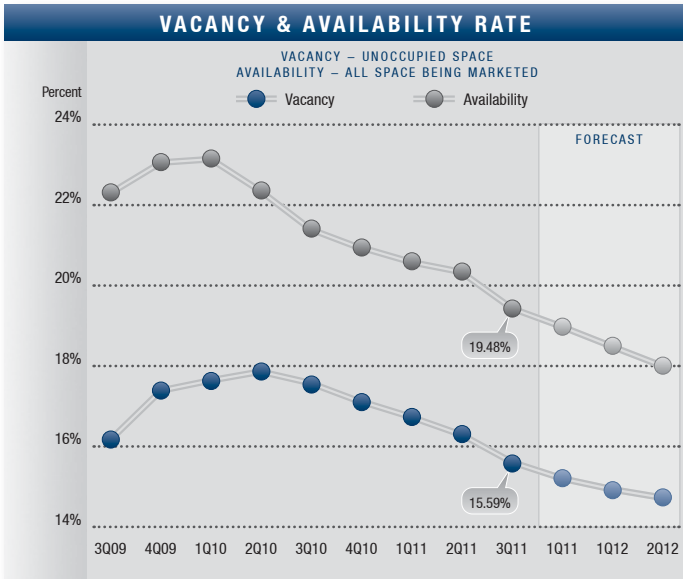
- Steady Growth** - The Orange County office market continued to convey signs of recovery in the third quarter of 2011. Both vacancy and availability decreased from the previous quarter, and net absorption displayed a positive number for the fifth consecutive quarter, giving the market a total of over 2.6 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 almost 400,000 square feet for the third 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 15.55%, a decrease from second quarter rate of 16.32% 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 19.44% in the third quarter of 2011 — a noticeable decrease when compared to 2010's third quarter rate of 21.47% and slightly lower than the previous quarter's rate of 20.33%.
- 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 third quarter of 2011 — a 3% decrease from the year-ago rate of \$2.00 and the same as last quarter's 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 they averaged \$2.09 FSG.
- Absorption** - The Orange County office market posted a positive 778,651 square feet of net absorption in the third

quarter of 2011, producing a total of 2.6 million square feet of positive absorption over the past five 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 2.1 million square feet in the third quarter, a decrease from the previous year's total of 3 million square feet. Sales activity showed an increase, posting almost 450,000 square feet of activity compared to 2010's third quarter, when we saw 380,000 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 9.0% in August 2011 — down from a revised 9.3% in July 2011 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 11,700 payroll jobs from August 2010 to August 2011. The largest gains were 5,600 in leisure and hospitality and 5,400 in educational & health services; however, Orange County lost 1,600 trade, transportation, and utilities 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 finish the third quarter 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

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	15.55%	16.32%	17.52%	(11.24%)
Availability Rate	19.44%	20.33%	21.47%	(9.46%)
Average Asking Lease Rate	\$1.94	\$1.94	\$2.00	(3.00%)
Sale & Lease Transactions	2,567,681	3,467,686	3,470,668	(26.02%)
Gross Absorption	3,345,955	2,306,906	2,949,140	13.46%
Net Absorption	778,651	479,063	391,933	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 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
North County													
Anaheim Hills	9	452,548	100,000	39,200	101,896	22.52%	109,477	24.19%	\$1.62	(24,983)	10,181	32,820	117,234
Brea	44	4,091,982	0	120,000	640,502	15.65%	814,265	19.90%	\$1.93	67,614	47,206	110,338	203,660
Buena Park	11	646,810	0	0	111,605	17.25%	105,321	16.28%	\$1.58	7,539	6,015	30,308	61,084
Fullerton	29	2,191,368	0	0	184,690	8.43%	409,769	18.70%	\$1.72	(4,504)	(46,298)	6,098	29,244
La Habra	6	674,559	0	0	14,474	2.15%	18,978	2.81%	\$1.34	70,437	46,263	74,412	83,368
La Palma	7	573,762	0	0	83,179	14.50%	100,787	17.57%	\$2.04	(14,584)	9,265	1,121	56,226
Placentia	8	267,889	0	0	48,168	17.98%	52,977	19.78%	\$1.24	(8,936)	54,046	7,464	105,341
Yorba Linda	6	335,702	0	0	30,306	9.03%	76,407	22.76%	\$1.71	2,182	2,772	3,067	16,006
North County Total	120	9,234,620	100,000	159,200	1,214,820	13.16%	1,687,981	18.28%	\$1.83	94,765	129,450	265,628	672,163
West County													
Cypress	28	2,022,272	0	0	154,629	7.65%	348,821	17.25%	\$1.82	6,025	(41,138)	30,221	43,397
Fountain Valley	33	1,690,037	0	0	318,574	18.85%	335,502	19.85%	\$1.73	(28,936)	(45,217)	18,791	36,032
Garden Grove	22	1,490,658	0	0	49,276	3.31%	245,678	16.48%	\$1.22	(282)	(7,709)	8,192	21,714
Huntington Beach	44	2,406,324	0	0	421,436	17.51%	472,748	19.65%	\$1.96	37,071	17,016	59,379	150,490
Los Alamitos	11	616,808	0	75,000	38,166	6.19%	38,166	6.19%	\$1.82	(1,161)	3,726	4,847	11,417
Seal Beach	7	477,159	0	0	24,604	5.16%	32,592	6.83%	\$2.70	(1,703)	1,169	5,322	20,101
Stanton	3	113,702	0	0	6,009	5.28%	14,875	13.08%	\$0.00	0	2,033	0	4,377
Westminster	15	582,531	0	0	46,940	8.06%	70,175	12.05%	\$1.68	0	1,322	0	2,486
West County Total	163	9,399,491	0	75,000	1,059,634	11.27%	1,558,557	16.58%	\$1.83	11,014	(68,798)	126,752	290,014
Central County													
Anaheim	94	7,753,635	194,000	220,500	1,640,464	21.16%	1,639,934	21.15%	\$1.74	(26,064)	176,043	98,718	395,102
Orange	82	7,313,117	0	200,000	1,264,574	17.29%	1,429,521	19.55%	\$1.97	103,903	59,819	220,667	419,125
Santa Ana	184	14,513,522	0	785,320	1,769,357	12.19%	2,459,295	16.94%	\$1.70	118,798	169,749	297,091	723,140
Tustin	42	1,796,944	0	212,000	351,179	19.54%	395,020	21.98%	\$1.70	(56,273)	(23,872)	22,179	94,632
Central County Total	402	31,377,218	194,000	1,417,820	5,025,574	16.02%	5,923,770	18.88%	\$1.79	140,364	381,739	638,655	1,631,999
Airport Area													
Costa Mesa	76	7,392,976	0	0	1,154,450	15.62%	1,339,968	18.12%	\$1.89	100,436	189,536	303,909	747,546
Irvine	294	25,976,427	0	1,127,975	4,938,362	19.01%	5,886,279	22.66%	\$2.03	50,069	289,437	887,314	2,350,025
Newport Beach	127	9,411,524	99,800	622,646	1,170,573	12.44%	1,555,502	16.53%	\$2.34	122,797	254,999	377,608	886,418
Airport Area Total	497	42,780,927	99,800	1,750,621	7,263,385	16.98%	8,781,749	20.53%	\$2.09	273,302	733,972	1,568,831	3,983,989
South County													
Aliso Viejo	43	3,140,720	0	672,000	415,138	13.22%	490,284	15.61%	\$2.05	122,401	53,497	240,654	393,886
Dana Point	3	135,296	0	35,000	0	0.00%	0	0.00%	\$0.00	0	1,200	0	1,200
Foothill Ranch	9	739,893	0	0	208,320	28.16%	271,547	36.70%	\$1.95	97,992	67,921	101,060	114,475
Irvine Spectrum	118	8,018,282	0	0	1,129,738	14.09%	1,445,623	18.03%	\$2.01	41,787	392,704	233,174	898,028
Laguna Beach	5	194,434	0	0	30,303	15.59%	29,712	15.28%	\$0.00	450	(3,124)	450	2,229
Laguna Hills	32	1,743,663	0	39,000	291,895	16.74%	343,115	19.68%	\$2.00	(3,880)	(37,326)	26,213	74,660
Laguna Niguel	11	728,831	0	0	57,156	7.84%	114,222	15.67%	\$2.17	(4,164)	699	23,035	51,595
Lake Forest	39	1,955,308	0	0	383,417	19.61%	789,029	40.35%	\$1.82	51	33,237	58,485	192,162
Mission Viejo	35	1,850,683	0	0	222,969	12.05%	260,219	14.06%	\$1.75	7,752	20,057	37,465	127,187
Rancho Santa Margarita	6	249,472	0	0	63,942	25.63%	62,327	24.98%	\$1.53	6,885	4,253	11,179	18,131
San Clemente	10	387,818	0	0	52,527	13.54%	53,161	13.71%	\$1.93	(2,099)	(10,825)	6,077	17,194
San Juan Capistrano	18	877,225	0	0	119,082	13.57%	118,369	13.49%	\$2.09	(7,969)	(1,738)	8,297	35,593
South County Total	329	20,021,625	0	746,000	2,974,487	14.86%	3,977,608	19.87%	\$1.96	259,206	520,555	746,089	1,926,340
Orange County Total	1,511	112,813,881	393,800	4,148,641	17,537,900	15.55%	21,929,665	19.44%	\$1.94	778,651	1,696,918	3,345,955	8,504,505

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
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North County													
Class A	19	2,066,296	0	159,200	344,578	16.68%	357,560	17.30%	\$2.16	(16,474)	24,824	21,051	186,622
Class B	89	6,334,913	100,000	0	817,314	12.90%	1,277,493	20.17%	\$1.72	35,941	91,383	165,479	401,243
Class C	12	833,411	0	0	52,928	6.35%	52,928	6.35%	\$1.00	75,298	13,243	79,098	84,298
West County													
Class A	25	2,622,388	0	0	343,997	13.12%	487,801	18.60%	\$2.02	48,573	29,856	70,600	159,995
Class B	114	5,755,210	0	75,000	642,127	11.16%	990,341	17.21%	\$1.63	(34,309)	(98,003)	53,777	117,163
Class C	24	1,021,893	0	0	73,510	7.19%	80,415	7.87%	\$1.40	(3,250)	(651)	2,375	12,856
Central County													
Class A	69	11,348,478	0	960,820	2,073,607	18.27%	2,541,330	22.39%	\$1.98	111,442	138,202	343,754	778,752
Class B	261	17,134,599	194,000	457,000	2,643,720	15.43%	2,953,121	17.23%	\$1.56	(37,470)	186,976	200,314	711,210
Class C	72	2,894,141	0	0	308,247	10.65%	429,319	14.83%	\$1.36	66,392	56,561	94,587	142,037
Airport Area													
Class A	122	22,792,822	0	1,530,000	4,865,271	21.35%	5,538,108	24.30%	\$2.23	24,128	298,810	972,790	2,346,786
Class B	340	18,309,103	99,800	220,621	2,265,579	12.37%	3,082,258	16.83%	\$1.81	221,267	406,012	549,802	1,553,445
Class C	35	1,679,002	0	0	132,535	7.89%	161,383	9.61%	\$1.35	27,907	29,150	46,239	83,758
South County													
Class A	76	7,819,721	0	647,000	1,140,435	14.58%	1,415,310	18.10%	\$2.06	182,688	151,220	399,110	735,963
Class B	243	11,646,912	0	99,000	1,820,236	15.63%	2,545,358	21.85%	\$1.81	76,999	374,567	343,424	1,178,791
Class C	10	554,992	0	0	13,816	2.49%	16,940	3.05%	\$1.26	(481)	(5,232)	3,555	11,586
Orange County													
Class A	311	46,649,705	0	3,297,020	8,767,888	18.80%	10,340,109	22.17%	\$2.12	350,357	642,912	1,807,305	4,208,118
Class B	1,047	59,180,737	393,800	851,621	8,188,976	13.84%	10,848,571	18.33%	\$1.71	262,428	960,935	1,312,796	3,961,852
Class C	153	6,983,439	0	0	581,036	8.32%	740,985	10.61%	\$1.39	165,866	93,071	225,854	334,535
Orange County Total	1,511	112,813,881	393,800	4,148,641	17,537,900	15.55%	21,929,665	19.44%	\$1.94	778,651	1,696,918	3,345,955	8,504,505

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
1900 S. State College Blvd.	Central	A	272,827	\$237.00	Beacon Capital Partners	Charter Hall
3 MacArthur Pl.	Airport	A	246,763	\$218.78	TA Realty	Highridge Partners
1901 N. Fairview St.	Airport	C	82,000	\$96.26	Orangewood Real Property, LLC	Bridgescreek Group
4440 Von Karman Ave.	Airport	B	42,904	\$279.00	Canopi, LLC	GRE Von Karman, LLC
1560 Brookhollow Dr.	Central	C	38,235	\$73.23	Shenzhen Jewelry Mart Center	Jason Chong Chong

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
40 Pacifica	South	A	169,287	11-Aug	CoreLogic	The Irvine Company
3337-3353 Michelson Dr. – Expansion	Airport	A	104,000	11-Jul	Western Digital	LBA Realty
4 Park Plaza	Airport	A	45,470	11-Aug	McDermott, Will & Emery	The Irvine Company
6591 Irvine Center Dr.	South	B	32,003	11-Jul	Career Bliss/Cybercoders	The Irvine Company
20 Executive Park	Airport	B	28,000	11-Jul	LSA Associates	The Irvine Company
101 Enterprise	South	A	24,341	11-Jul	Vertos Medical, Inc.	RREEF

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.

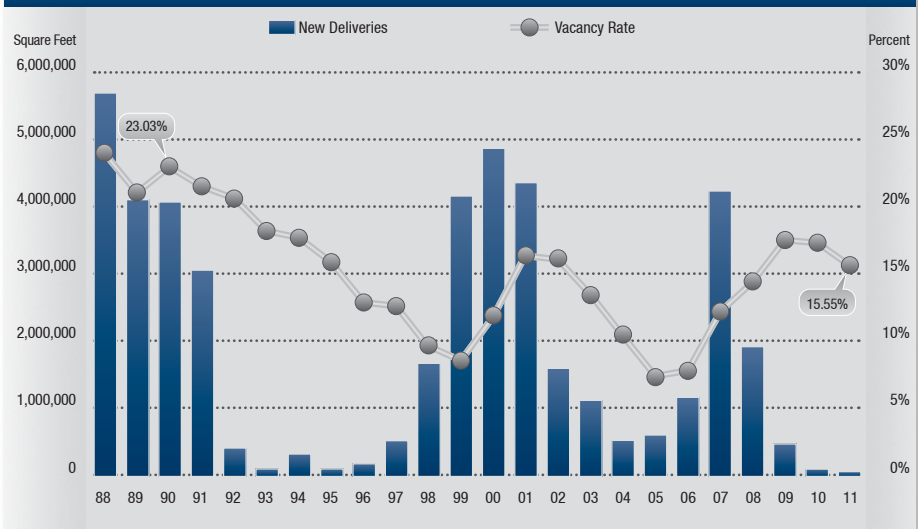
CLASS B

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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Irvine, CA
949.851.5100

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702.734.4500

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