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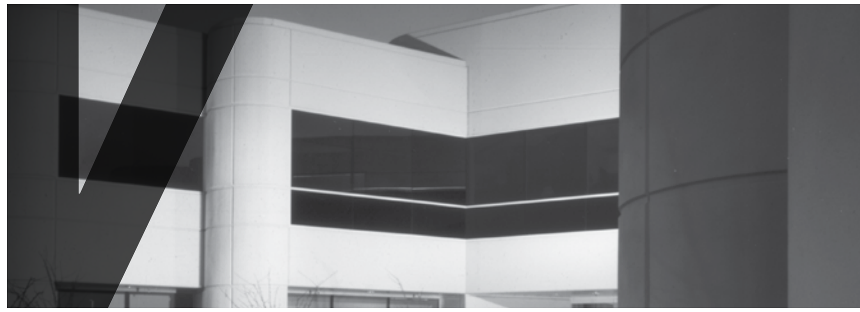
Orange County | Third Quarter 2012



Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

FLAT

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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

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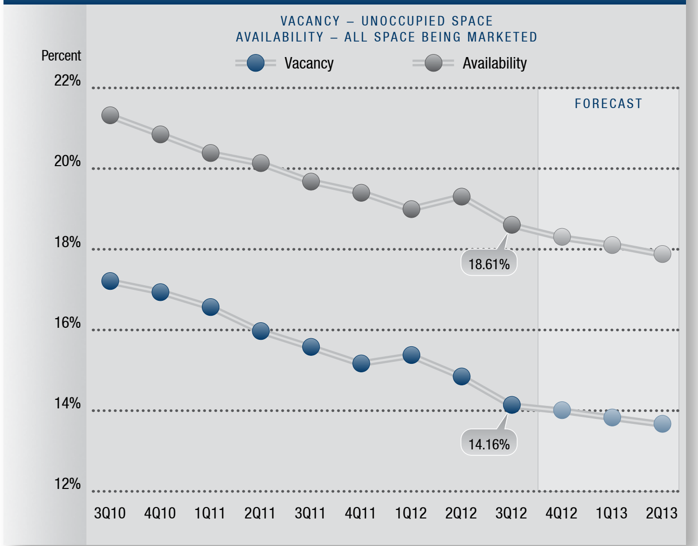
Market Highlights

- **Steady Growth -** The Orange County office market continued to convey signs of recovery, posting over 650,000 square feet of positive net absorption in the third quarter of 2012, to give the market a total of over 4 million square feet of positive absorption over 8 quarters. Both vacancy and availability continued their downward trend, displaying healthy percentage drops compared to the third quarter of 2011 and compared to the record-high rates of late 2009 and early 2010. 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 950,000 square feet for the third quarter of 2012; the most notable project is a 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.
- **Vacancy -** Direct/sublease space (unoccupied) finished the quarter at 14.16%, a substantial decrease from the previous quarter's rate of 14.82% 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 14%.
- **Availability -** Direct/sublease space being marketed was at 18.61% at the end of the third quarter of 2012 — a dramatic decrease of almost 5.5% when compared to 2011's third quarter rate of 19.69% and lower than the 2012's second quarter rate of 19.3%.
- **Lease Rates -** The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was $1.88 at the end of the quarter — a 3.09% decrease from the previous year's rate of $1.94 and three cents lower that 2012's second 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 $2.09 FSG — the highest being in the Airport market where Class A rates averaged $2.21 FSG. We are forecasting that rates will begin to increase in the near future.
- **Absorption -** The Orange County office market posted over 650,000 square feet of positive absorption this quarter, giving the market a total of 1.16 million square feet of positive absorption for the year. CoreLogic is now occupying 170,000 square feet in the Spectrum, and A to Z Development is occupying 23,000 square feet in the same building. 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 2.2 million square feet in the third quarter, a decrease from the 2.9 million square feet we saw in the third quarter of 2011. Sales activity was up, posting 930,000 square feet of activity compared to 2011's third quarter figure of 540,000 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 7.7% in August 2012 — down from a revised 7.9% in July 2012 and below the previous year's estimate of 9.0%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 29,000 payroll jobs from August 2011 to August 2012. The largest gains were 10,600 in professional & business services and 9,100 in leisure & hospitality; however, Orange County lost 1,900 government jobs during that same period.
- **Overall -** We are beginning to see a decrease in the amount of vacant space being added per quarter. As we enter into the last quarter 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 going into 2013. 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.

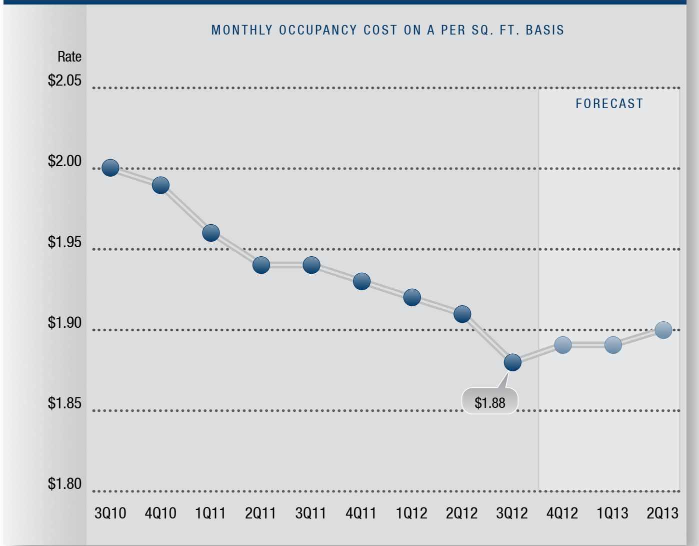
OFFICE MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	14.16%	14.82%	15.54%	(8.88%)
Availability Rate	18.61%	19.30%	19.69%	(5.49%)
Average Asking Lease Rate	$1.88	$1.91	$1.94	(3.09%)
Sale & Lease Transactions	3,121,534	2,858,544	3,424,837	(8.86%)
Gross Absorption	2,743,001	2,310,658	3,260,949	(15.88%)
Net Absorption	658,650	613,493	556,197	N/A

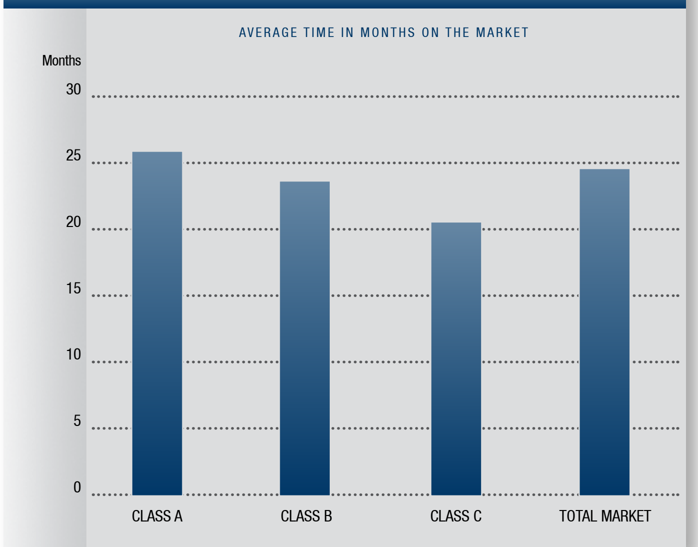
VACANCY & AVAILABILITY RATE



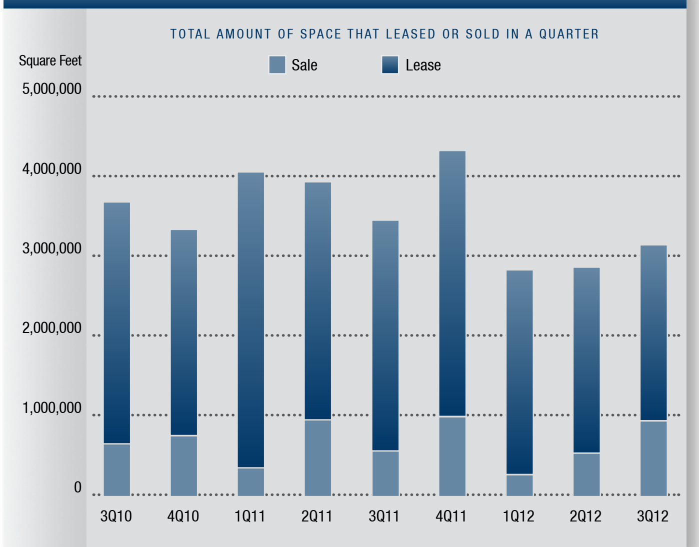
AVERAGE ASKING FULL-SERVICE LEASE RATE



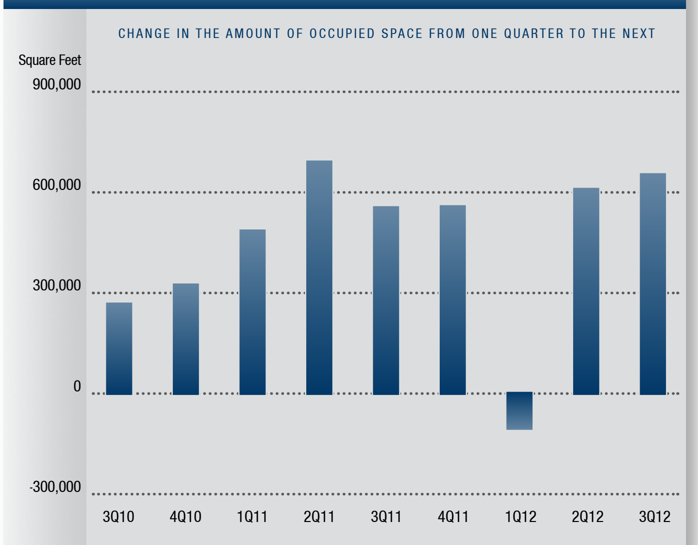
TIME ON MARKET FOR LEASE



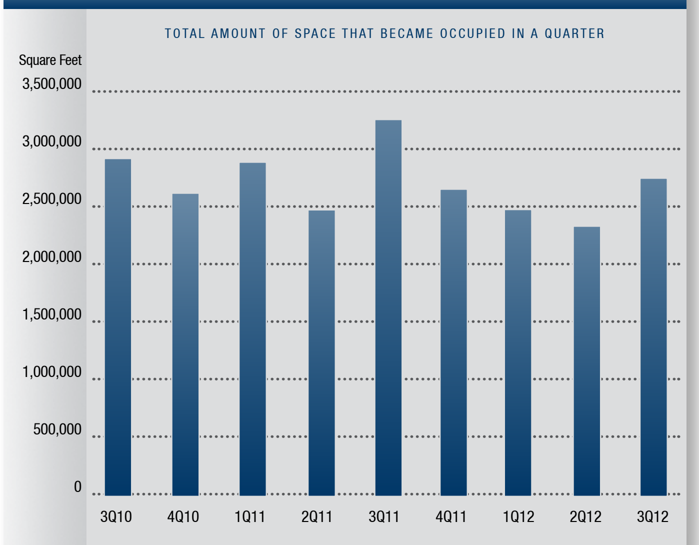
SALES & LEASE TRANSACTIONS



NET ABSORPTION



GROSS ABSORPTION



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
North County													
Anaheim Hills	9	452,548	0	0	26,491	5.85%	41,889	9.26%	$1.81	12,620	12,546	17,914	32,969
Brea	43	4,107,157	0	120,000	472,325	11.50%	916,431	22.31%	$1.94	107,696	90,579	123,591	170,818
Buena Park	14	841,049	0	0	92,262	10.97%	158,967	18.90%	$1.67	10,718	(1,399)	13,855	40,285
Fullerton	29	2,110,504	0	0	307,171	14.55%	494,795	23.44%	$1.71	(21,364)	(36,312)	4,732	26,857
La Habra	4	142,069	0	0	10,641	7.49%	7,919	5.57%	$1.12	9,533	6,159	9,533	14,431
La Palma	10	712,038	0	0	143,013	20.09%	305,977	42.97%	$2.08	(2,728)	(8,575)	0	10,792
Placentia	8	267,589	0	0	53,072	19.83%	55,437	20.72%	$1.52	810	1,634	10,000	20,320
Yorba Linda	7	423,502	0	0	24,982	5.90%	70,845	16.73%	$1.82	1,514	44,357	4,051	48,540
North County Total	124	9,056,456	0	120,000	1,129,957	12.48%	2,052,260	22.66%	$1.88	118,799	108,989	183,676	365,012
West County													
Cypress	28	1,931,761	0	0	335,835	17.38%	396,255	20.51%	$1.82	1,622	(98,397)	58,629	81,325
Fountain Valley	32	1,564,666	469,000	0	218,294	13.95%	230,484	14.73%	$1.72	(14,874)	(42,690)	11,967	27,836
Garden Grove	19	1,467,671	0	0	43,898	2.99%	116,580	7.94%	$1.26	(618)	4,086	4,550	19,580
Huntington Beach	43	2,385,417	0	0	319,450	13.39%	374,093	15.68%	$2.05	54,606	98,023	86,753	253,505
Los Alamitos	11	616,808	0	70,000	27,607	4.48%	30,111	4.88%	$1.90	8,853	6,740	14,297	20,815
Seal Beach	7	477,159	0	0	6,225	1.30%	14,823	3.11%	$2.35	(1,156)	11,606	1,627	23,716
Stanton	5	179,317	0	0	15,787	8.80%	29,279	16.33%	$0.85	2,645	6,587	6,175	11,131
Westminster	14	557,157	0	0	66,113	11.87%	69,064	12.40%	$1.78	(950)	(16,394)	6,050	6,050
West County Total	159	9,179,956	469,000	70,000	1,033,209	11.26%	1,260,689	13.73%	$1.82	50,128	(30,439)	190,048	443,958
Central County													
Anaheim	97	7,912,251	0	220,500	1,379,993	17.44%	1,636,927	20.69%	$1.72	89,776	373,275	226,515	635,425
Orange	81	7,215,323	0	200,000	977,067	13.54%	1,513,414	20.98%	$1.97	145,596	176,100	192,291	488,934
Santa Ana	182	14,624,387	0	922,000	1,979,231	13.53%	2,634,439	18.01%	$1.62	121,674	20,435	243,631	619,152
Tustin	41	1,759,068	0	737,000	276,204	15.70%	278,928	15.86%	$1.64	11,996	76,384	42,261	142,331
Central County Total	401	31,511,029	0	2,079,500	4,612,495	14.64%	6,063,708	19.24%	$1.73	369,042	646,194	704,698	1,885,842
Airport Area													
Costa Mesa	73	7,256,648	0	0	1,041,100	14.35%	1,322,924	18.23%	$1.86	(1,569)	74,811	113,939	425,840
Irvine	286	25,706,213	0	1,036,959	4,144,061	16.12%	4,874,098	18.96%	$2.01	102,944	228,760	841,360	2,317,439
Newport Beach	127	9,408,372	479,800	342,646	1,089,508	11.58%	1,769,514	18.81%	$2.32	37,067	46,554	193,329	568,450
Airport Area Total	486	42,371,233	479,800	1,379,605	6,274,669	14.81%	7,966,536	18.80%	$2.08	138,442	350,125	1,148,628	3,311,729
South County													
Aliso Viejo	42	3,095,534	0	647,000	393,065	12.70%	433,251	14.00%	$2.03	14,752	39,413	93,239	173,896
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	188,788	25.52%	222,212	30.03%	$1.93	(1,367)	(4,162)	5,821	48,005
Irvine Spectrum	120	8,482,728	0	0	1,072,291	12.64%	1,435,385	16.92%	$2.09	19,467	24,196	297,610	692,046
Laguna Beach	5	194,434	0	0	25,403	13.07%	27,664	14.23%	$0.00	0	0	980	5,367
Laguna Hills	33	1,784,943	0	39,000	350,063	19.61%	374,170	20.96%	$1.78	(14,058)	(59,079)	19,030	67,902
Laguna Niguel	11	1,776,732	0	0	213,205	12.00%	272,935	15.36%	$2.13	15,679	6,514	19,795	63,019
Lake Forest	40	2,107,355	0	0	430,250	20.42%	571,164	27.10%	$1.59	(45,192)	(20,025)	30,862	231,700
Mission Viejo	36	1,906,841	0	0	200,199	10.50%	287,766	15.09%	$1.89	(8,305)	66,592	31,583	139,176
Rancho Santa Margarita	6	249,472	0	0	61,283	24.57%	70,900	28.42%	$1.59	(4,703)	139	3,327	19,226
San Clemente	10	388,309	0	0	48,846	12.58%	61,627	15.87%	$1.72	(3,012)	19,429	1,198	34,643
San Juan Capistrano	17	865,688	0	0	85,099	9.83%	85,256	9.85%	$2.03	8,978	8,676	12,506	32,901
South County Total	332	21,727,225	0	721,000	3,068,492	14.12%	3,842,330	17.68%	$1.87	(17,761)	81,693	515,951	1,507,881
Orange County Total	**1,502**	**113,845,899**	**948,800**	**4,370,105**	**16,118,822**	**14.16%**	**21,185,523**	**18.61%**	**$1.88**	**658,650**	**1,156,562**	**2,743,001**	**7,514,422**
North County													
Class A	18	1,917,309	0	120,000	211,009	11.01%	537,888	28.05%	$2.19	6,375	(7,381)	14,894	42,919
Class B	96	6,802,708	0	0	873,211	12.84%	1,466,563	21.56%	$1.74	114,747	111,276	168,082	309,786
Class C	10	336,439	0	0	45,737	13.59%	47,809	14.21%	$1.60	(2,323)	5,094	700	12,307
West County													
Class A	23	2,466,023	469,000	0	366,436	14.86%	387,516	15.71%	$2.07	(16,423)	(28,915)	64,724	145,855
Class B	113	5,772,621	0	70,000	623,888	10.81%	821,623	14.23%	$1.65	64,616	(41,131)	118,381	230,694
Class C	23	941,312	0	0	42,885	4.56%	51,550	5.48%	$1.40	1,935	39,607	6,943	67,409
Central County													
Class A	61	10,422,736	0	1,622,500	1,816,812	17.43%	2,585,589	24.81%	$1.97	126,410	143,185	230,941	618,875
Class B	269	18,103,604	0	457,000	2,481,688	13.71%	3,078,057	17.00%	$1.48	244,933	512,920	437,062	1,153,870
Class C	71	2,984,689	0	0	313,995	10.52%	400,062	13.40%	$1.35	(2,301)	(9,911)	36,695	113,097
Airport Area													
Class A	115	22,430,202	380,000	1,100,000	4,169,402	18.59%	4,917,858	21.93%	$2.21	71,834	233,545	629,243	1,818,367
Class B	338	18,333,609	99,800	279,605	1,971,928	10.76%	2,855,144	15.57%	$1.79	59,709	110,749	485,841	1,417,462
Class C	33	1,607,422	0	0	133,339	8.30%	193,534	12.04%	$1.62	6,899	5,831	33,544	75,900
South County													
Class A	55	6,652,982	0	647,000	720,373	10.83%	835,831	12.56%	$2.15	189,107	116,745	323,666	597,083
Class B	268	14,544,551	0	74,000	2,333,663	16.04%	2,991,277	20.57%	$1.72	(206,526)	(33,503)	187,331	901,064
Class C	9	529,692	0		14,456	2.73%	15,222	2.87%	$1.30	(342)	(1,549)	4,954	9,734
Orange County													
Class A	272	43,889,252	849,000	3,489,500	7,284,032	16.60%	9,264,682	21.11%	$2.09	377,303	457,179	1,263,468	3,223,099
Class B	1,084	63,557,093	99,800	880,605	8,284,378	13.03%	11,212,664	17.64%	$1.65	277,479	660,311	1,396,697	4,012,876
Class C	146	6,399,554	0	0	550,412	8.60%	708,177	11.07%	$1.40	3,868	39,072	82,836	278,447
Orange County Total	**1,502**	**113,845,899**	**948,800**	**4,370,105**	**16,118,822**	**14.16%**	**21,185,523**	**18.61%**	**$1.88**	**658,650**	**1,156,562**	**2,743,001**	**7,514,422**

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
3161 Michelson Dr.	Airport Area	A	536,307	$516.50	Manulife Financial Company	Oakland–Lexington, LLC
25520 Commercentre Dr. – 5 Properties	South County	B	322,262	$183.08	CREF Pacific Vista, LLC	MEPT Pacific Vista Business, LLC
1900 S. State College Blvd.	Central County	A	272,826	$205.26	KW Stadium Gateway, LLC	Maguire Properties Stadium
26160 Enterprise Way – 3 Properties	South County	B	145,440	$165.02	Enterprise Income Partners Holding	Bixby Land Company
16802 Aston St. – 2 Properties	Airport Area	B	114,051	$98.11	Btc Acquisitions Partners, LLC	Arden Realty, LP
24012 Calle de la Plata	South County	B	72,923	$167.30	TNHYIF Reiv Oscar, LLC	HFP GLB Saddleback II, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5701 Katella Ave. – Renewal	West County	A	210,000	Jul-12	United Health Care	Inland American Cypress Katella, LLC
3345 Michelson Dr.	Airport Area	A	194,180	Jul-12	St. Joseph Health	LBA Realty
5 & 6 Hutton Centre Dr. – Renewal	Airport Area	A	164,000	Aug-12	Corinthian College	Angelo, Gordon & Company
1 City Blvd. W.	Central County	A	125,200	Aug-12	Cash Call	Hudson Pacific Properties, Inc.
5480 E. La Palma Ave. – Renewal	North County	B	80,998	Sep-12	AT&T Advertising Solution	Asset Management Consultants, Inc.
15101 Red Hill Ave.	Airport Area	B	48,673	Sep-12	Mophie	Fortland, Inc.

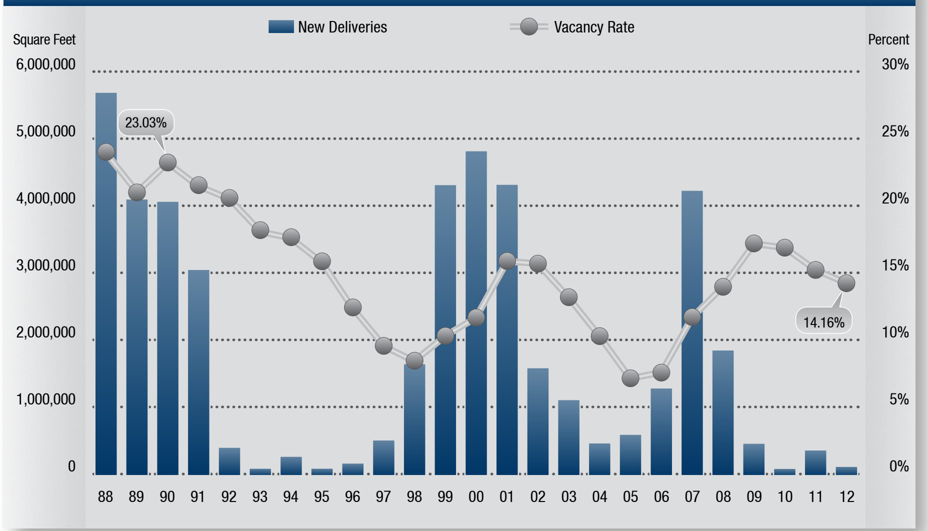
Product Type

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

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101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
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