

Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

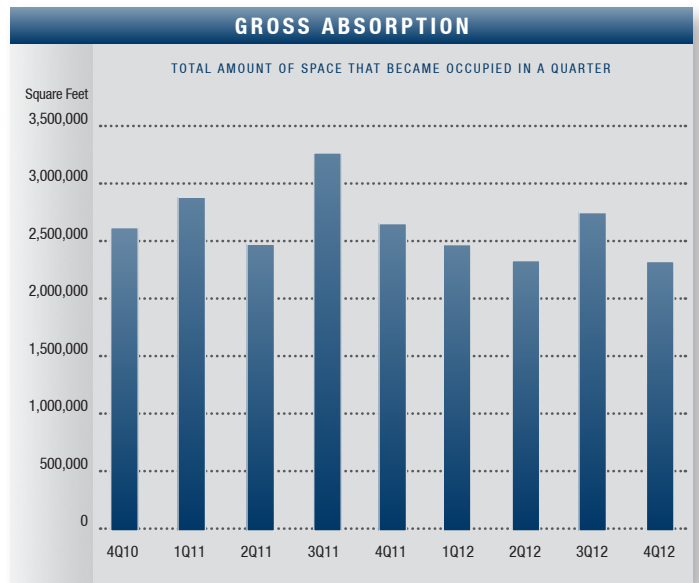
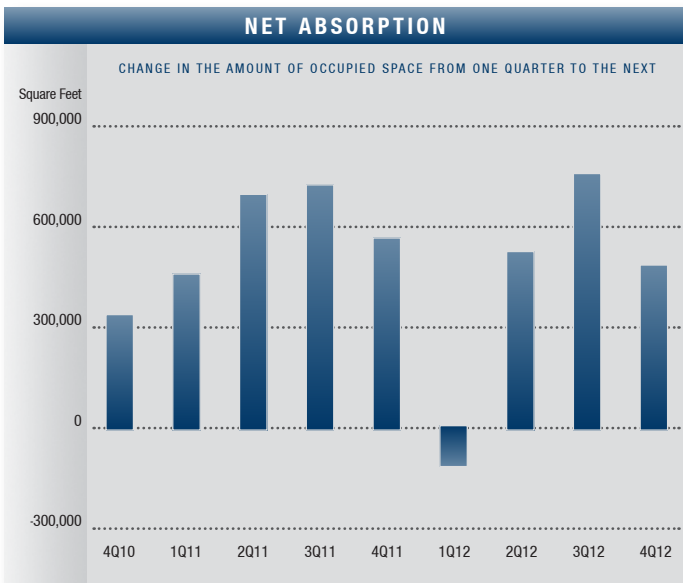
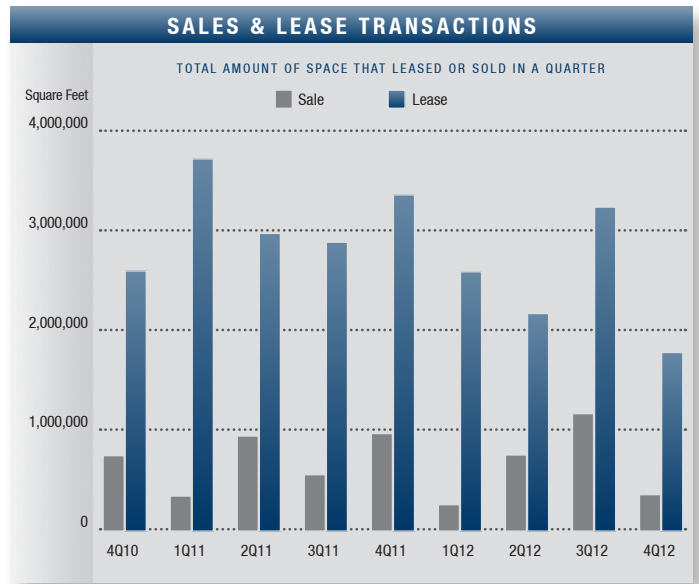
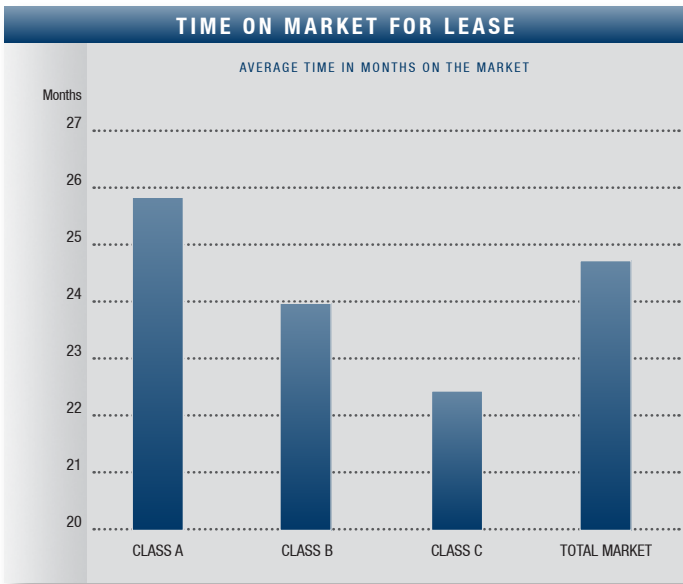
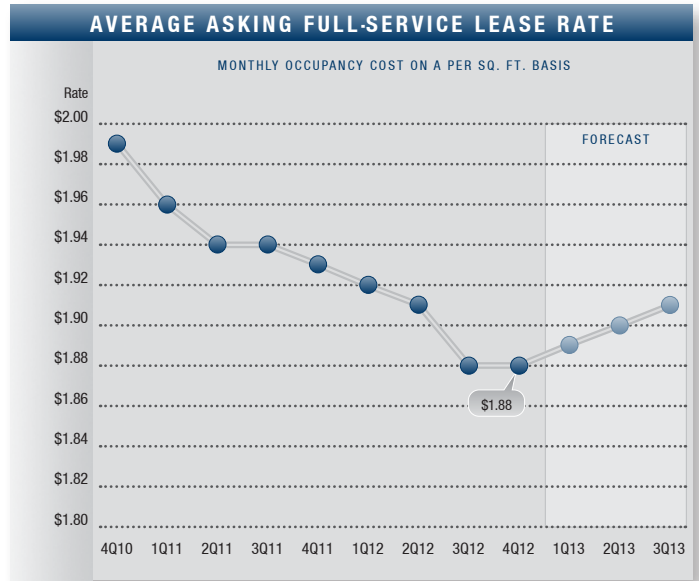
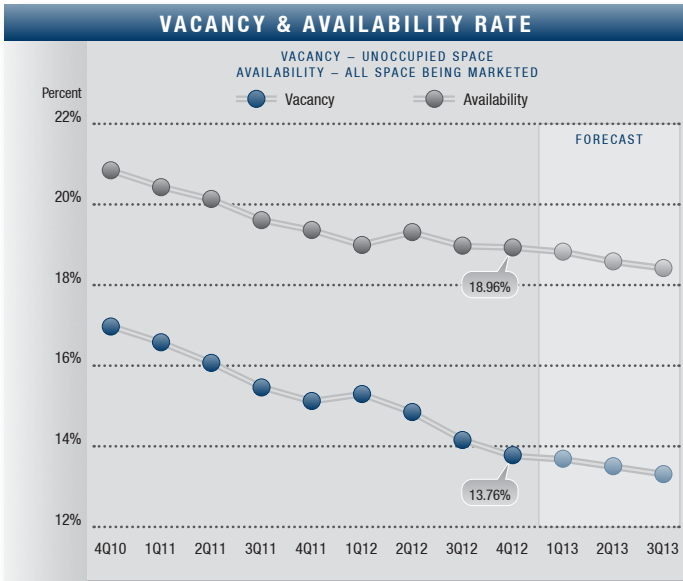
- Steady Growth** - The Orange County office market continued to convey signs of recovery, posting over 1.5 million square feet of positive net absorption for 2012, giving the market a total of over 4.6 million square feet of positive absorption over 10 quarters. Both vacancy and availability continued their downward trends, while lease rates appeared to be finally firming up. 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 fourth quarter of 2012; the most notable projects are 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). Other companies rumored to be looking for build-to-suit opportunities are Blizzard Entertainment, Broadcom, and Google.
- Vacancy** - Vacancies continued their downward trend in the fourth quarter. Direct/sublease space (unoccupied) finished the year at 13.76%, a substantial decrease from the previous year's rate of 15.13% 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 2013, ending the year below 13%.
- Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was at 18.96% at the end of the fourth quarter of 2012 — a decrease of almost 2% when compared to 2011's fourth quarter rate of 19.33% and about the same as 2012's third quarter rate of 18.99%.
- 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 2.59% decrease from the previous year's rate of \$1.93 and the same as 2012's third 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 North

County market where Class A rates averaged \$2.18 FSG. We are forecasting that rates will begin to increase in 2013.

- Absorption** - The Orange County office market posted almost 500,000 square feet of positive absorption this quarter, giving the market a total of over 1.5 million square feet of positive absorption for the year. Class A space had the greatest amount of positive absorption in 2012, coming in at over 850,000 square feet. Allergan, CoreLogic, Western Digital, LA Fitness, Greenlight Financial, and Gateway One all expanded in 2012. 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 9.7 million square feet in 2012, a decrease from the 12.9 million square feet we saw in 2011. Sales activity was down a bit as well, posting 2.5 million square feet of activity in 2012 compared to 2011's figure of 2.7 million 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% in November 2012 — down from a revised 7.2% in October 2012 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 16,700 payroll jobs from November 2011 to November 2012. The largest gains were 7,100 in leisure & hospitality and 6,100 in professional & business services; however, Orange County lost 8,700 government jobs during that same period.
- Overall** - We are beginning to see a decrease in the amount of vacant and available space. As we enter into 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 firm up, and we expect them to increase in 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

	2012	2011	2010	% of Change vs. 2011
Total Vacancy Rate	13.76%	15.13%	16.99%	(9.05%)
Availability Rate	18.96%	19.33%	20.85%	(1.91%)
Average Asking Lease Rate	\$1.88	\$1.93	\$1.99	(2.59%)
Sale & Lease Transactions	12,213,961	15,668,272	12,576,572	(22.05%)
Gross Absorption	9,825,354	11,264,681	9,972,901	(12.78%)
Net Absorption	1,588,905	2,433,149	(115,815)	N/A



RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	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
23807-23811 Aliso Creek Rd.	South County	B	233,996	\$49.69	PTL LC	Colton Family Trust
13280 Chapman Ave. – 2 Properties	Central County	B	215,898	\$266.33	Crystal Cathedral Ministries	OC Diocese of the Roman Catholic Church
1200 N. Main St.	Central County	B	152,703	\$43.71	PI Properties No 5, LLC	MSCI 2007-hq12 Main Office, LP

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
20411-20521 Lake Forest Dr. – 3 Bldgs	South County	B	184,482	Feb-12	Alcon Research, Ltd.	The Realty Associates Fund VI
5 & 6 Hutton Centre Dr. – Renewal	Airport Area	A	164,000	Aug-12	Corinthian College	Angelo, Gordon & Company
40 Pointe Dr. – Renewal	North County	A	129,000	May-12	Ventura Foods (Kraft)	Olen Properties
1 City Blvd. W.	Central County	A	125,200	Aug-12	Cash Call	Hudson Pacific Properties, 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.

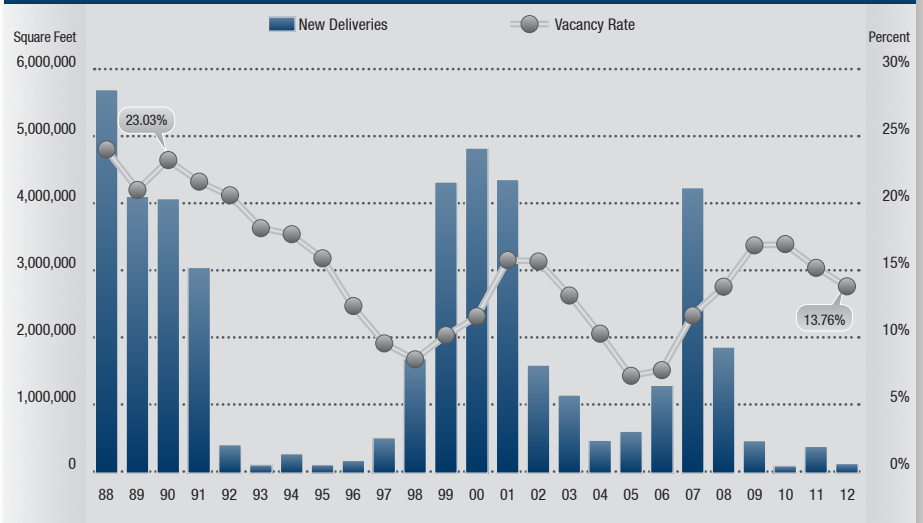
CLASS B

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

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Commerce, CA
714.935.2311

Inland Empire, CA
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Irvine, CA
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Las Vegas, NV
702.734.4500

Newport Beach, CA
949.644.8648

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602.952.8648

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