

Office Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

FLAT

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Market Highlights

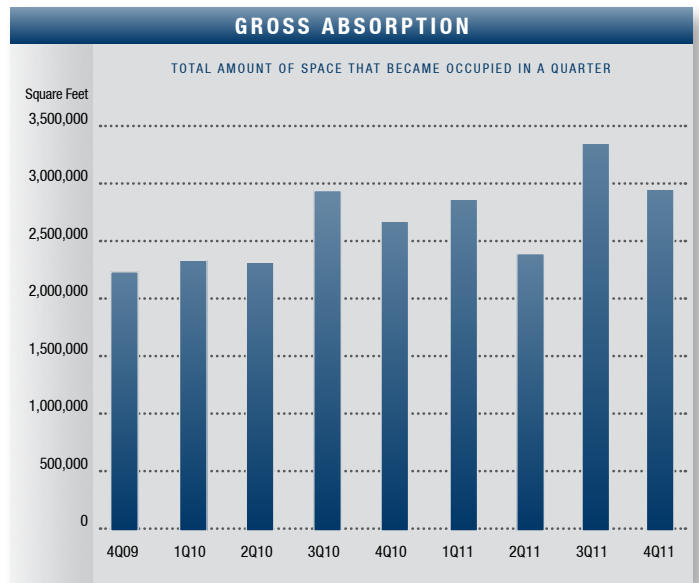
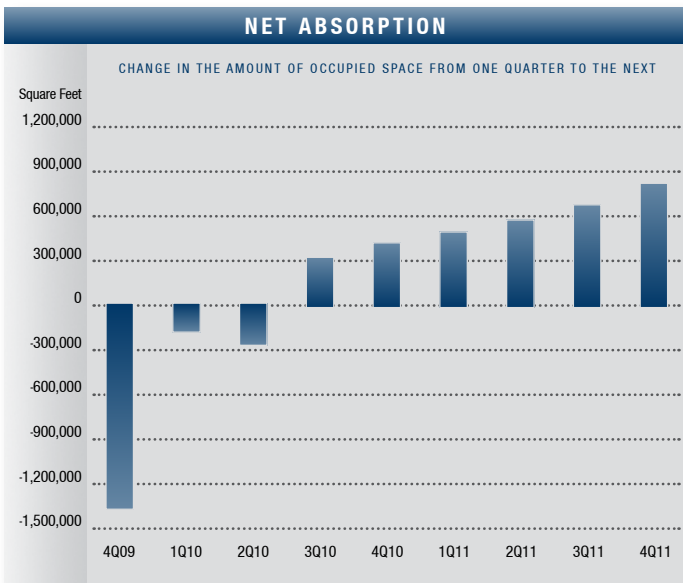
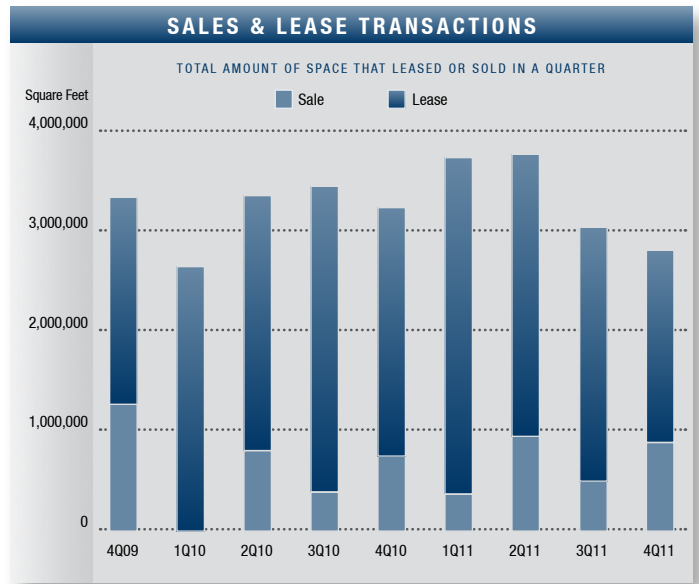
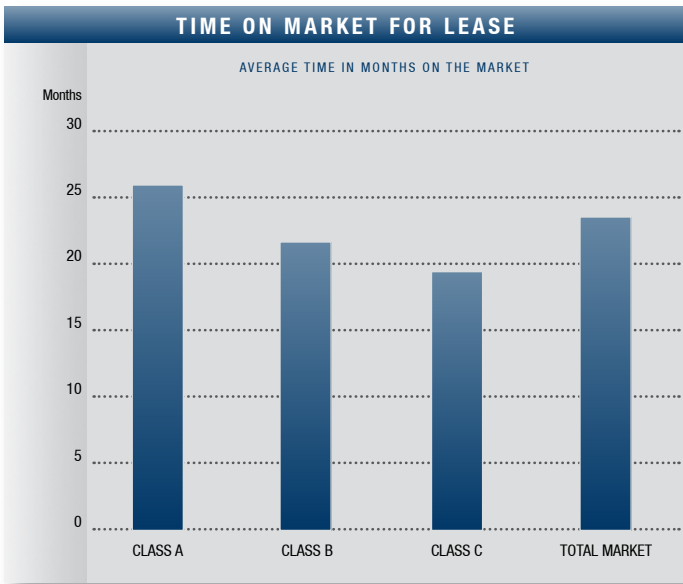
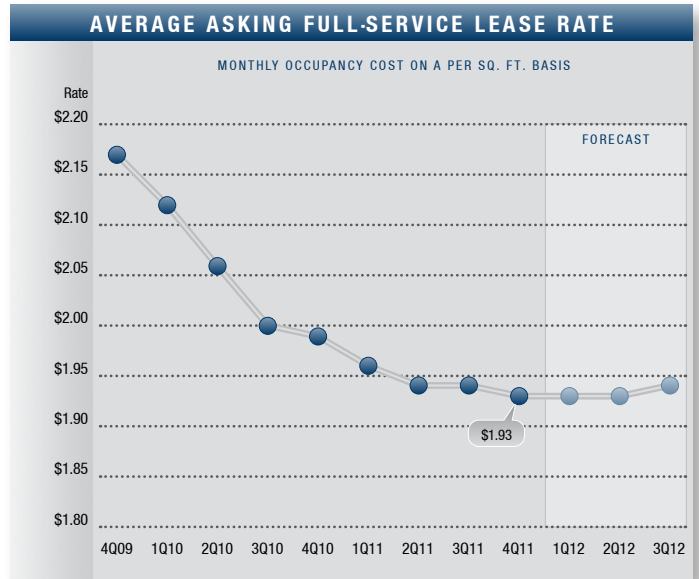
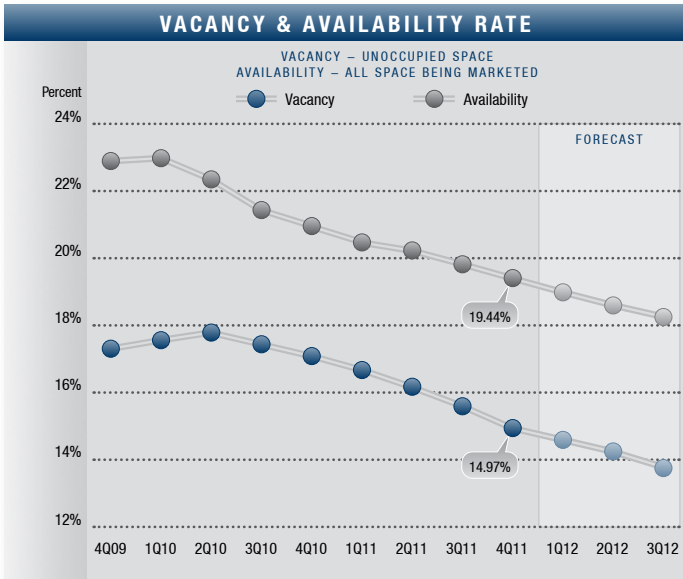
- Steady Growth** - The Orange County office market continued to convey signs of recovery at the end of 2011. Both vacancy and availability decreased from the previous quarter, and net absorption displayed a positive number for the sixth consecutive quarter, giving the market a total of over 3.3 million square feet of positive absorption since the third quarter of 2010. Demand continued to impress with total lease and sale activity volume reaching its highest level since 2006. 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 580,000 square feet for the fourth quarter of 2011, consisting of two build-to-suit projects. 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 year at 14.97%, a decrease from the third quarter rate of 15.6% 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 13.25%.
- Availability** - Direct/sublease space being marketed was at 19.44% at the end of 2011 — a decrease when compared to 2010's fourth quarter rate of 21% and slightly lower than the previous quarter's rate of 19.82%.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per month per square foot in the Orange County office market was \$1.93 at the end of 2011—a 3% decrease from the previous year's rate of \$1.99 but only one cent lower than 2011'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 \$2.12 FSG—the highest being in the Airport market where they averaged \$2.09 FSG. We are forecasting that rates will begin to increase in the second half of 2012.
- Absorption** - The Orange County office market posted a positive 819,510 square feet of net absorption in the fourth

quarter of 2011, producing a total of 2.55 million square feet of positive absorption for all of 2011, making this the longest trend of positive absorption seen since 2006 and the largest amount of positive absorption in one quarter since the first quarter of 2007. The perpetuation of this streak will be dependent upon continued job creation. Look for research-oriented businesses—IT, defense, medical and alternative energy companies—to lead the charge over the next few years.

- Transaction Activity** - Leasing activity checked in at 10.7 million square feet for 2011, a slight increase over what we saw in 2010. Sales activity for 2011 showed an increase, posting 2.6 million square feet of activity compared to 2010's 1.9 million 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 8.1% in November 2011 — down from a revised 8.5% in October 2011 and below the previous year's estimate of 9.4%. This compares with an unadjusted unemployment rate of 10.9% 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 13,000 payroll jobs from November 2010 to November 2011. The largest gains were 7,200 in leisure and hospitality and 6,200 in professional and business services; however, Orange County lost 1,600 government jobs, 1,200 financial activities jobs and 1,100 construction 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 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 firm up in the early part of 2012 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.

OFFICE MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	14.97%	17.11%	17.30%	(12.51%)
Availability Rate	19.44%	20.99%	22.94%	(7.38%)
Average Asking Lease Rate	\$1.93	\$1.99	\$2.17	(3.02%)
Sale & Lease Transactions	13,288,863	12,601,575	11,899,207	5.45%
Gross Absorption	11,568,651	10,257,138	9,694,062	12.79%
Net Absorption	2,549,631	292,016	(3,061,520)	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
North County													
Anaheim Hills	9	452,548	100,000	0	52,288	11.55%	64,530	14.26%	\$1.43	49,608	59,789	52,747	169,981
Brea	44	4,091,982	0	120,000	589,169	14.40%	804,956	19.67%	\$1.94	51,333	98,539	137,483	341,143
Buena Park	11	646,810	0	0	90,863	14.05%	97,380	15.06%	\$1.66	26,970	26,757	49,053	110,137
Fullerton	29	2,197,335	0	0	271,529	12.36%	405,235	18.44%	\$1.76	(83,577)	(133,137)	15,944	45,188
La Habra	6	674,559	0	0	16,800	2.49%	19,831	2.94%	\$1.11	(214)	(3,163)	286	83,154
La Palma	7	576,213	0	0	82,684	14.35%	99,787	17.32%	\$2.06	495	9,760	2,281	58,507
Placentia	8	267,889	0	0	54,706	20.42%	58,165	21.71%	\$1.21	(6,538)	47,508	1,690	107,031
Yorba Linda	7	477,498	0	0	30,339	6.35%	76,202	15.96%	\$1.72	7,267	10,639	7,890	26,196
North County Total	121	9,384,834	100,000	120,000	1,188,378	12.66%	1,626,086	17.33%	\$1.82	45,344	116,692	267,374	941,337
West County													
Cypress	26	1,875,547	0	0	234,168	12.49%	440,092	23.46%	\$1.83	(66,756)	(120,677)	33,449	76,846
Fountain Valley	33	1,687,722	0	0	296,979	17.60%	341,770	20.25%	\$1.75	(4,490)	(23,622)	17,603	53,635
Garden Grove	19	1,391,658	0	0	50,984	3.66%	247,386	17.78%	\$1.22	(1,708)	(9,417)	0	21,714
Huntington Beach	43	2,377,366	0	0	421,553	17.73%	453,539	19.08%	\$2.10	4,384	16,899	22,772	173,262
Los Alamitos	11	616,808	0	75,000	34,348	5.57%	31,727	5.14%	\$1.81	3,818	7,544	3,818	15,235
Seal Beach	7	477,159	0	0	19,996	4.19%	15,921	3.34%	\$2.70	4,608	5,777	10,310	30,411
Stanton	3	113,702	0	0	12,668	11.14%	23,431	20.61%	\$0.00	(6,659)	(4,626)	598	4,975
Westminster	15	582,531	0	0	49,719	8.53%	70,059	12.03%	\$1.67	(2,779)	(1,457)	0	2,486
West County Total	157	9,122,493	0	75,000	1,120,415	12.28%	1,623,925	17.80%	\$1.87	(69,582)	(129,579)	88,550	378,564
Central County													
Anaheim	94	7,755,837	0	220,500	1,418,099	18.28%	1,616,582	20.84%	\$1.73	224,566	343,610	286,715	669,117
Orange	83	7,342,347	0	200,000	1,100,510	14.99%	1,402,053	19.10%	\$1.97	81,442	237,211	282,338	810,055
Santa Ana	184	14,530,790	0	785,320	2,033,793	14.00%	2,628,230	18.09%	\$1.69	(89,995)	(94,687)	97,345	112,690
Tustin	42	1,797,312	0	212,000	352,588	19.62%	402,441	22.39%	\$1.63	(1,409)	(25,281)	27,958	122,590
Central County Total	403	31,426,286	0	1,417,820	4,904,990	15.61%	6,049,306	19.25%	\$1.78	214,604	460,853	694,356	2,414,452
Airport Area													
Costa Mesa	76	7,396,662	0	0	1,092,791	14.77%	1,338,707	18.10%	\$1.88	58,146	251,195	252,885	997,912
Irvine	292	25,770,318	0	1,127,975	4,465,358	17.33%	5,672,055	22.01%	\$2.00	469,595	819,571	866,025	3,216,050
Newport Beach	127	9,416,848	479,800	242,646	1,141,245	12.12%	1,561,931	16.59%	\$2.35	26,622	284,327	240,790	1,128,857
Airport Area Total	495	42,583,828	479,800	1,370,621	6,699,394	15.73%	8,572,693	20.13%	\$2.09	554,363	1,355,093	1,359,700	5,342,819
South County													
Aliso Viejo	43	3,140,720	0	672,000	438,450	13.96%	460,042	14.65%	\$2.04	(22,889)	140,133	109,886	503,772
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	184,626	24.95%	242,034	32.71%	\$1.97	23,694	91,615	32,894	147,369
Irvine Spectrum	120	8,302,992	0	0	1,126,315	13.57%	1,582,183	19.06%	\$2.06	113,980	507,705	250,276	1,148,268
Laguna Beach	5	194,434	0	0	25,403	13.07%	29,112	14.97%	\$0.00	4,900	1,776	5,578	7,807
Laguna Hills	32	1,743,663	0	39,000	290,984	16.69%	365,235	20.95%	\$1.83	911	(36,415)	32,198	106,858
Laguna Niguel	12	776,563	0	0	46,429	5.98%	106,727	13.74%	\$2.17	10,727	11,426	17,706	69,301
Lake Forest	39	1,967,527	0	0	374,946	19.06%	738,504	37.53%	\$1.73	(33,619)	41,708	23,753	223,311
Mission Viejo	36	1,887,573	0	0	266,791	14.13%	309,093	16.38%	\$1.78	(28,579)	2,932	22,846	165,262
Rancho Santa Margarita	6	249,472	0	0	61,422	24.62%	71,999	28.86%	\$1.55	2,520	6,773	5,113	23,244
San Clemente	10	387,818	0	0	70,608	18.21%	63,888	16.47%	\$1.61	(12,731)	(28,906)	22,788	39,982
San Juan Capistrano	18	891,897	0	0	110,719	12.41%	115,436	12.94%	\$1.97	15,867	6,625	19,512	55,105
South County Total	333	20,417,848	0	746,000	2,996,693	14.68%	4,084,253	20.00%	\$1.92	74,781	746,572	542,550	2,491,479
Orange County Total	1,509	112,935,289	579,800	3,729,441	16,909,870	14.97%	21,956,263	19.44%	\$1.93	819,510	2,549,631	2,952,530	11,568,651

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North County													
Class A	20	2,208,092	0	120,000	229,893	10.41%	346,089	15.67%	\$2.18	123,597	147,409	137,529	326,451
Class B	89	6,337,364	100,000	0	906,984	14.31%	1,229,890	19.41%	\$1.71	(82,942)	1,713	124,486	525,729
Class C	12	839,378	0	0	51,501	6.14%	50,107	5.97%	\$1.00	4,689	(32,430)	5,359	89,157
West County													
Class A	25	2,629,430	0	0	353,821	13.46%	507,462	19.30%	\$2.06	(9,844)	20,032	35,002	194,997
Class B	110	5,588,137	0	75,000	687,312	12.30%	1,070,625	19.16%	\$1.68	(53,966)	(143,188)	52,063	169,226
Class C	22	904,926	0	0	79,282	8.76%	45,838	5.07%	\$1.40	(5,772)	(6,423)	1,485	14,341
Central County													
Class A	69	11,366,482	0	960,820	1,951,840	17.17%	2,427,620	21.36%	\$1.99	32,295	202,969	260,328	1,130,778
Class B	262	17,165,663	0	457,000	2,649,066	15.43%	3,202,398	18.66%	\$1.55	178,500	197,160	411,414	1,119,023
Class C	72	2,894,141	0	0	304,084	10.51%	419,288	14.49%	\$1.35	3,809	60,724	22,614	164,651
Airport Area													
Class A	122	22,730,738	380,000	1,150,000	4,446,034	19.56%	5,423,117	23.86%	\$2.24	401,499	776,047	843,186	3,188,231
Class B	339	18,207,959	99,800	220,621	2,114,190	11.61%	2,994,521	16.45%	\$1.78	163,206	557,401	501,575	2,055,891
Class C	34	1,645,131	0	0	139,170	8.46%	155,055	9.43%	\$1.72	(10,342)	21,645	14,939	98,697
South County													
Class A	78	7,893,079	0	647,000	1,113,216	14.10%	1,356,798	17.19%	\$2.02	61,415	322,136	252,122	995,979
Class B	245	11,969,777	0	99,000	1,868,860	15.61%	2,710,022	22.64%	\$1.77	14,167	430,469	288,501	1,481,987
Class C	10	554,992	0	0	14,617	2.63%	17,433	3.14%	\$1.22	(801)	(6,033)	1,927	13,513
Orange County													
Class A	314	46,827,821	380,000	2,877,820	8,094,804	17.29%	10,061,086	21.49%	\$2.12	608,962	1,468,593	1,528,167	5,836,436
Class B	1,045	59,269,900	199,800	851,621	8,226,412	13.88%	11,207,456	18.91%	\$1.69	218,965	1,043,555	1,378,039	5,351,856
Class C	150	6,838,568	0	0	588,654	8.61%	687,721	10.06%	\$1.42	(8,417)	37,483	46,324	380,359
Orange County Total	1,509	112,935,289	579,800	3,729,441	16,909,870	14.97%	21,956,263	19.44%	\$1.93	819,510	2,549,631	2,952,530	11,568,651

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.

LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price per SF	Buyer	Seller
7711 Center Ave.	West	A	428,244	\$177.00	GEM Realty Capital, Inc.	DJM Capital Partners
3370 E. Miraloma Ave. – 2 Properties	North	A	392,298	\$50.98	3370 Miraloma Avenue, LLC	La Palma / Miller Owner, LLC
1801 E. Saint Andrews Pl.	Airport	A	367,045	\$135.00	Angelo Gordon	Powerwave Technologies
2050 Main St.	Airport	A	314,074	\$345.46	AEW Capital Management	WW OCI3 Owner, LLC
2600 Michelson Dr.	Airport	A	307,662	\$228.01	Dune Capital Management	MPG Office Trust
15 Enterprise	South	A	300,000	\$192.00	Menlo Equities	Allianz Life Insurance

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
275 Valencia Ave. – Renewal	North	B	637,503	11-Feb	Bank of America	Lexington Realty Trust
3337-3353 Michelson Dr. – Expansion	Airport	A	467,125	11-Jul	Western Digital	LBA Realty
650 Newport Center Dr.	Airport	A	380,000	11-Jan	Pimco	The Irvine Company
1761 E. Saint Andrew Pl.	Airport	B	257,268	11-Oct	Powerwave Technologies	AG Net Lease Acquisition Corp.
40 Pacifica	South	A	169,287	11-Aug	CoreLogic	The Irvine Company
3200 Park Center Dr.	Airport	A	147,712	11-Jan	Hyundai Motors America	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.

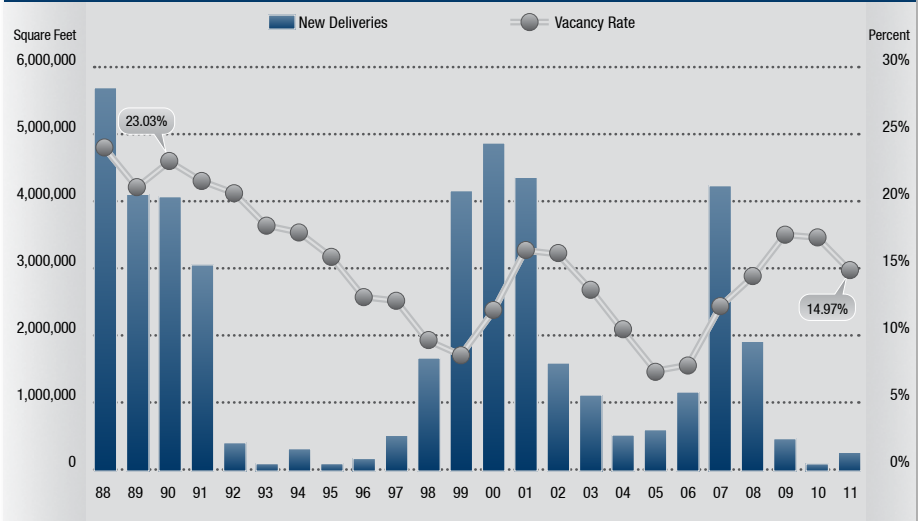
CLASS B

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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602.952.8648

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775.309.0782

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