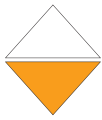


# Orange County OFFICE MARKET REPORT

Second Quarter 2011

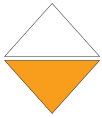
## MARKET OVERVIEW (Change from last quarter)

20.38% - Availability



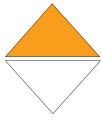
Down from 21.10% last quarter

16.46% - Vacancy



Down from 17.21% last quarter

879,994 Sq. Ft. - Absorption



Up from 390,423 SF last quarter

Average Lease Rate  
\$1.95 FSG



Down from \$1.97 last quarter

\*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

The Orange County Office Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Anaheim offices.

## Positive Office Leasing Trend Gets Strong 2Q Boost

Demand for Orange County office space surged in the second quarter.

The office market posted its best three-month period in more than four years and its strongest first half since 2005 as companies leased a net 489,571 sq. ft. of office space, driving down the countywide vacancy rate to 16.5%.

Lee & Associates' latest quarterly survey of office buildings larger than 30,000 sq. ft., also shows four straight quarters of positive net absorption for the first time since 2006.

The net absorption trend currently is robust. Year to date, about 880,000 sq. ft. have been leased and more than 1.62 million sq. ft. have come off the market in the last four quarters. This turnaround is in sharp contrast to the massive contraction of 5.9 million sq. ft. of space over 12 of the previous 13 quarters from Q1 2007 to Q2 2010. Average asking rents, however, continued their steady decline countywide.

The four largest of the county's five submarkets showed positive absorption in Q2.

The Airport submarket, which contains nearly half the county's total of about 106 million sq. ft. of office space, led the way with 351,061 sq. ft. of net absorption. The Airport area's vacancy rate dropped to 17.6%, off 0.6 basis points from Q1. Landlords reduced average rents to \$2.05 per sq. ft., which have plunged 31% from the Q3 2007 peak of \$2.95.

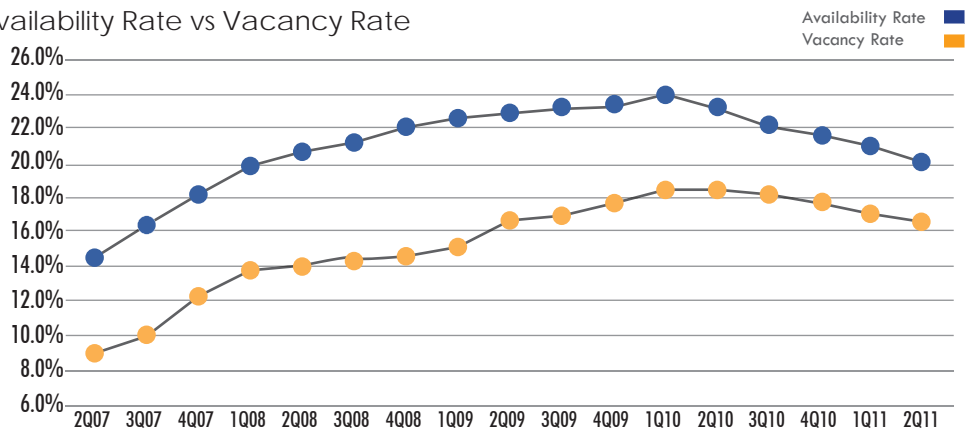
The Central County submarket, the second largest with about 22 million sq. ft., posted a modest 8,954 sq. ft. of net absorption. It was enough to trim the vacancy rate slightly to 13.1%.

It was the sixth straight quarter of positive net absorption for the South County submarket. With 19,142,209 sq. ft. of space that includes The Irvine Spectrum, tenants leased 131,659 sq. ft. of space in Q2, which reduced the vacancy rate to 16.6%.

In North County, which has an inventory of about 10.5 million sq. ft., net absorption in Q2 totaled 10,166 sq. ft., causing the vacancy rate to fall 3.0 basis points to 20.2%. It also was the second straight quarter in which space came off the market and the first consecutive two-quarter space reduction since Q3 2007 when the vacancy rate was 5.7%.

The only submarket to add to its available inventory was West County, the county's smallest submarket with about 5.4 million sq. ft. West County's negative net absorption of 12,269 sq. ft., pushed its vacancy rate up 0.5 basis points to 12.1%.

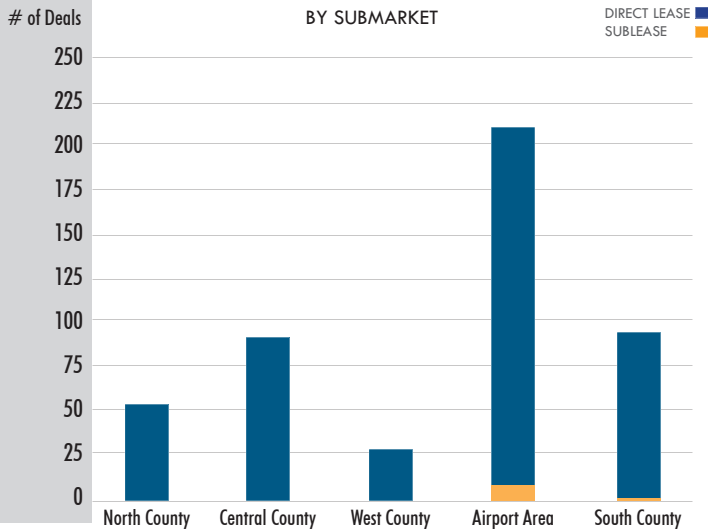
Availability Rate vs Vacancy Rate



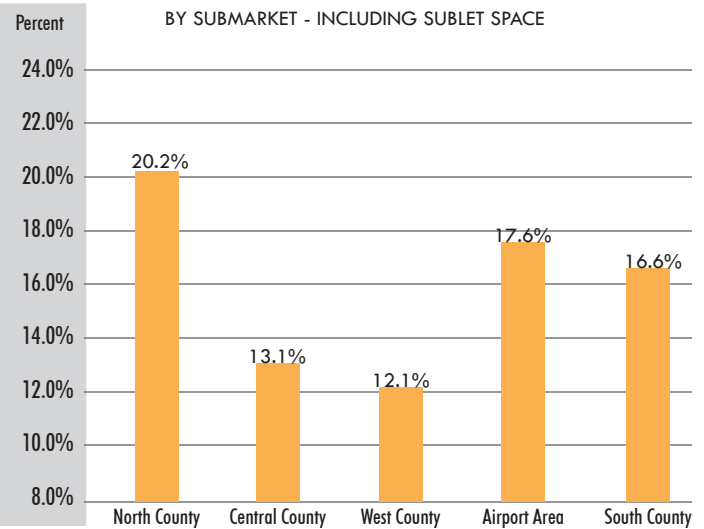
# QUARTER IN REVIEW

Second Quarter 2011

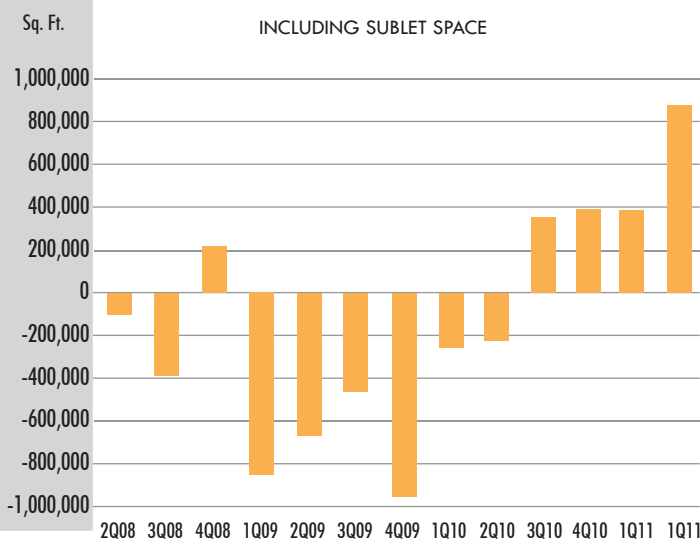
## NUMBER OF LEASES EXECUTED FOR THE QUARTER



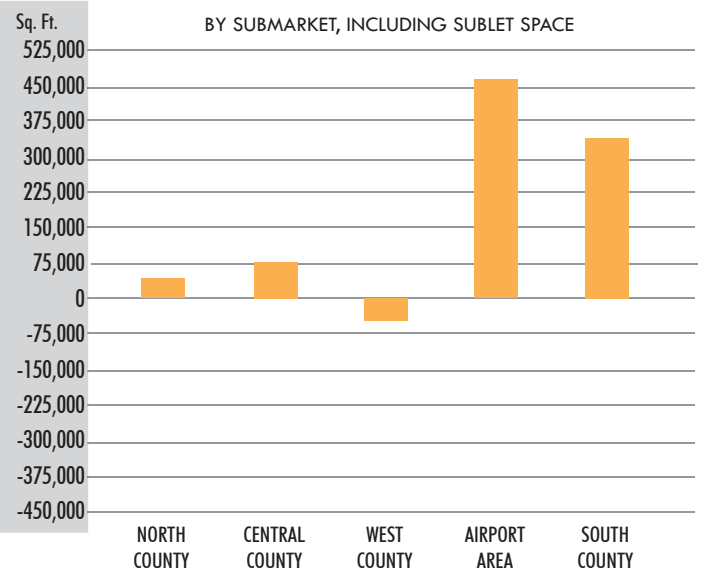
## VACANCY RATE



## COUNTY WIDE NET ABSORPTION



## YTD NET ABSORPTION



Submarkets:

**NORTH**

Anaheim, Brea, Fullerton, La Habra, Orange, Placentia, and Yorba Linda

**WEST**

Cypress, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton and Westminster

**CENTRAL**

Fountain Valley, Santa Ana and Tustin

**AIRPORT**

Costa Mesa, Irvine, and Newport Beach

**SOUTH**

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

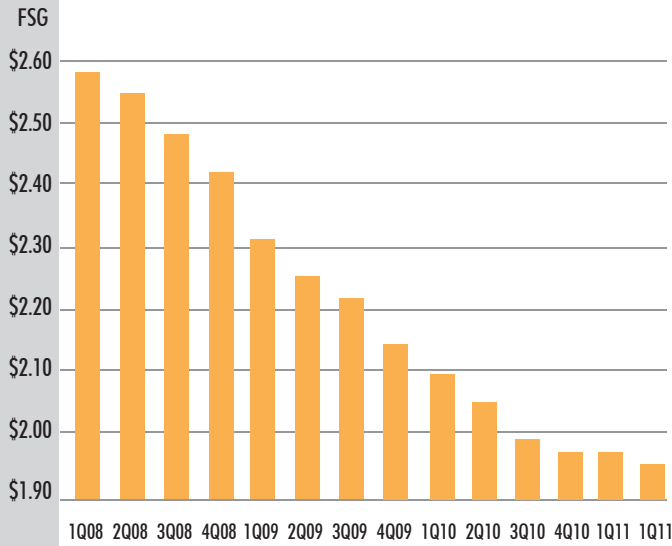
### Forecast:

In a recent survey by UCI's Merage School of Business and law firm Allen Matkins, et. al., 63.6% of Orange County executives from a cross section of industries felt the local economy would improve in the next year – an increase of 25% from the 2010 survey. About 48% said they plan to add to their workforce this year with 7.5% saying they expected to cut jobs.

# QUARTER IN REVIEW

Second Quarter 2011

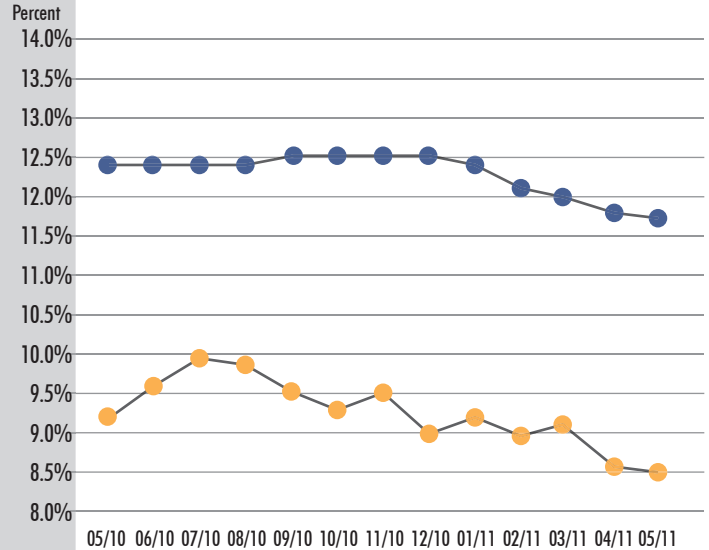
## AVERAGE FSG LEASE RATES BY QUARTER



## UNEMPLOYMENT RATE

Source: EDD

California   
Orange County 



## Recent Transactions

**SOLD • 54,239 Sq. Ft.**

1063 McGaw Ave. | Irvine



John Collins represented both the seller, WL McGaw, and the buyer, SGI.

**SOLD • 54,239 Sq. Ft.**

1063 McGaw | Irvine



Arthur Holland represented the buyer, Spectrum Group International.

**SOLD • 35,618 Sq. Ft.**

100,110,120 E. La Habra Blvd. | La Habra



Andrew Robben and Brian Garbutt represented the seller, CRP Properties, Inc.

**LEASED • 31,750 Sq. Ft.**

2801 McGaw Ave. | Irvine



Bob Griffin and Sean Ahern represented the tenant, Trimark.

**SOLD • 23,895 Sq. Ft.**

14262 Franklin | Tustin



Brian Garbutt, Matthew Durkin and Philip Cohen represented the seller, H&H Properties.

**LEASED • 18,295 Sq. Ft.**

65 Enterprise Suite 200 | Aliso Viejo



Gary McCardell represented the tenant, Gaikai, Inc.

**SOLD • 13,952 Sq. Ft.**

1036 W. Taft. | Orange



Pat Delaney, John Fabiano and Frank Mejia represented the seller.

**SOLD • 9,658 Sq. Ft.**

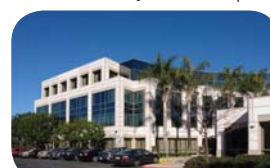
1611 E. 17th St. | Santa Ana



Phil Fridd and Allen Buchanan represented the seller.

**LEASED • 7,412 Sq. Ft.**

15635 Alton Pkwy., Suite 400. | Irvine



David Newton represented the lessee.

# QUARTER IN REVIEW

Second Quarter 2011

## Office Members of the Lee & Associates Group of Companies-Orange County

LEE & ASSOCIATES - ORANGE  
1004 West Taft Avenue, Suite 150  
Orange, California 92865  
(714) 647-9100

CRAIG DEMIRANDA	GEORGE THOMSON
SONYA DOPP-GRECH	MARSHAL VOGT
JONMARK FABIANO	
PHIL FRIDD	
DOUG GARRETT	
JOHN HATZIS	
JAMES HAWKINS	
DAN MUDGE	
DAVID NEWTON	
BOB SATTLER	
CHRIS SHEA	
JOHN SON	
JEFF STEPHENS	
ERIK THOMPSON	

LEE & ASSOCIATES - IRVINE  
111 Pacifica, Suite 310  
Irvine, California 92618  
(949) 727-1200

ALLEN BASSO	BRAD RAWLINS
ANDREW BERMEDEZ	ROB RADER
KURT BRUGGEMAN	ANDREW ROBBERN
PHIL COHEN	DAVE SMITH
CRAIG FITTNER	JUSTIN SMITH
MATT FRYER	RYAN SWANSON
BRIAN GARBUTT	ADAM WICKER
DYLAN GORMLY	KAYE-T WING
RYAN HARMAN	
MARK JERUE	
RANDY MASON	

LEE & ASSOCIATES - NEWPORT  
3991 MacArthur Blvd., Suite 100  
Newport Beach, California 92660  
(949) 724-1000

SEAN AHERN  
KIMBERLY AHLBERG  
TIM ARGUELLO  
SCOTT BELLIZZI  
JOHN COLLINS  
GARY MCARDELL  
KATHE MORGAN  
M. WYATT PRICHARD  
BOB RIEDEN  
DAVID ROMERO  
DICK SILVA  
DAVID WHITNEY

## About Lee & Associates

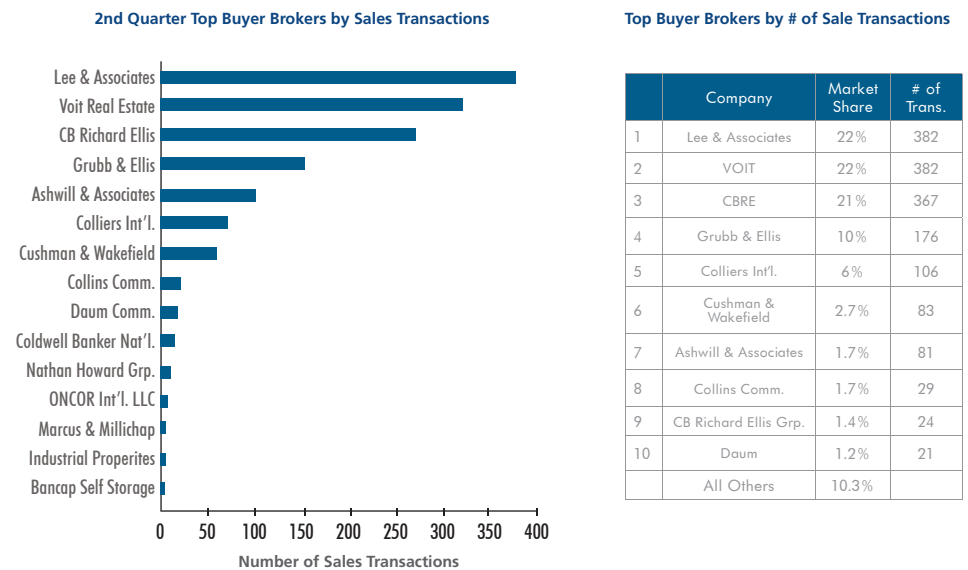
As a group of independently owned and operated companies, Lee & Associates currently has more than 44 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois, Indiana, Georgia, Kansas, South Carolina and Wisconsin.

With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$5 billion last year, alone.

### Office Services

The firm's office brokers negotiate various transactions, including mid- and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the client's needs. Our comprehensive service line includes owner and tenant leasing, acquisition and sales, along with marketing and consulting capabilities. We focus on strategic counseling, rather than merely the transaction, in order to execute the best possible real estate strategies for our clients. This includes building strong relationships within the brokerage community overall. As a result, our clients are assured of the broadest exposure possible.

## Lee & Associates' Brokerage Market Share in Orange County



Source: CoStar Landlord Rep and Sales Rep Companies for Orange County Industrial Buildings.

### TERMS:

**Average Asking Lease Rate:** The rate determined by multiplying the lease rate for each building in the summary by its associated available space, summing the products then dividing by the sum of the available spaces with gross lease rates for all buildings in the summary. Direct leases only; excludes sublease space and parking charges.

**Full Service Gross (FSG):** Lease type whereby the landlord assumes responsibility for all the operating expenses and taxes for the property.

**Inventory:** Office inventory includes all multi-tenant and single-tenant buildings containing at least 30,000 square feet of rentable space. Owner-occupied, government, medical buildings are not included.

**Occupied Square Feet:** NRA not considered vacant.

**Vacancy Rate:** The percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

**Gross Absorption:** The total amount of space leased or sold in a specified period of time.

**Net Absorption:** The change in total occupied square foot from one period to the next. Positive absorption is reflected when a lease is signed, which may not coincide with the date of occupancy.

**Net Rentable Area (NRA):** The gross building square footage minus the elevator core, pipe shafts, vertical ducts, balconies and stairwell areas.

**Vacancy Rate:** Vacant square feet divided by the NRA.