

# Orange County OFFICE MARKET REPORT

Third Quarter 2011

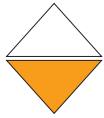
## MARKET OVERVIEW (Change from last quarter)

19.69% - Availability



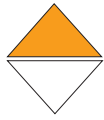
Down from 20.38% last quarter

15.85% - Vacancy



Down from 16.46% last quarter

547,918 Sq. Ft. - Absorption



Up from 489,571 SF last quarter

Average Lease Rate  
\$1.94 FSG



Down from \$1.95 last quarter

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

## OC Office Market Jumps Again In Q3

Orange County's office market posted its biggest quarterly absorption gain since early 2007. It was the fifth straight quarterly improvement since the 2008 credit crisis and subsequent contraction, according to Lee & Associates' third quarter data.

In its survey of office buildings larger than 30,000 sq. ft., Lee & Associates found that nearly 548,000 sq. ft. of space came off the market countywide in the third quarter. The vacancy rate notched downward, settling at 15.85%. The volume of occupied office space hit an all-time record of 90.6 million sq. ft.

The South County submarket, which includes the Irvine Spectrum, is the big story. With six solid quarters beginning in Q2 2010, South County has absorbed 768,340 sq. ft., just enough to completely erase its recessionary losses. Relative to its size, South County was the best performing submarket in Q3. During the recent three-month period it produced a net absorption gain of 257,809 sq. ft., the most going back to 2006. Its vacancy rate fell from 16.6% in Q2 to the current 15% on a base of about 19.5 million sq. ft. Its peak vacancy rate at the beginning of 2010 hit 19.7%.

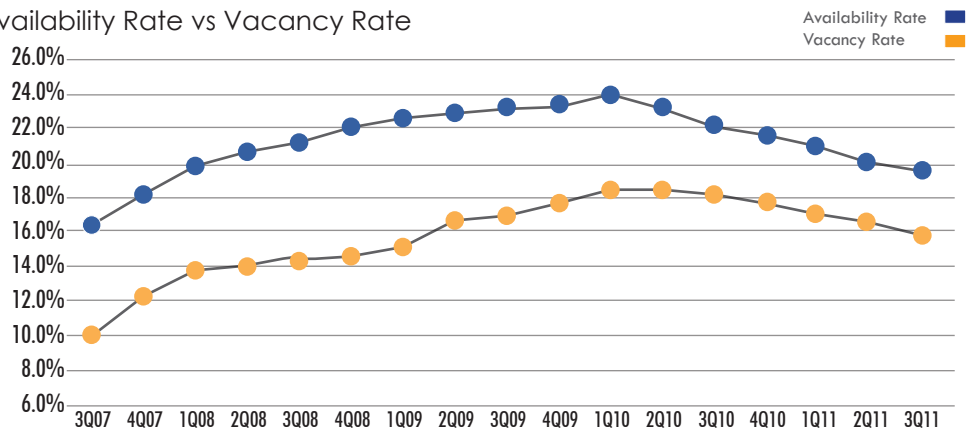
The Airport area, the largest of the county's five submarkets with about 46% of the county's 108-million-sq.-ft. base inventory, also produced a strong absorption boost with a net gain of 404,952 sq. ft. Its vacancy rate fell to 16.9%, reaching its Q1 2009 level despite the addition of about 536,000 sq. ft. to its inventory.

After posting positive absorption for six of the seven previous quarters, the Central County submarket, the county's second largest with 22.3 million sq. ft., gave back 123,167 sq. ft. in Q3, pushing its YTD absorption slightly into negative territory. Its vacancy rate, which peaked at 15.7% at the end of 2009, ended Q3 at 13.5%.

Net absorption in the North County submarket is poised to finish the year in the black for the first time since 2006, albeit barely. During the last five years tenants vacated some 1.24 million sq. ft. of space – devastating for owners in a submarket with less than 10 million sq. ft. of inventory. In the last five years, North County's vacancy rate skyrocketed from a low of 3.8% to 19.4%.

West County with only 5% of the county's total inventory was little changed in Q3. Net absorption gained 20,600 sq. ft. in the three-month period, causing the vacancy rate to fall to 11.8%. Notable about West County is the lack of available sublet space, which accounts for 0.2% of inventory, down from a peak of 1.8% three years ago.

### Availability Rate vs Vacancy Rate



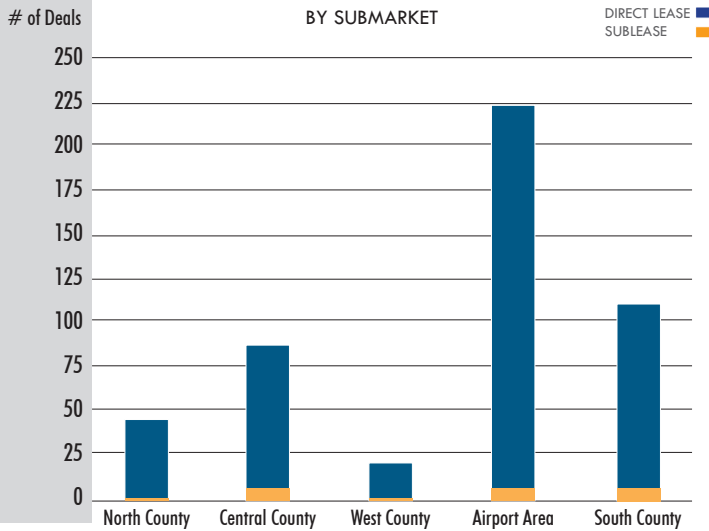
Source: CoStar

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

# QUARTER IN REVIEW

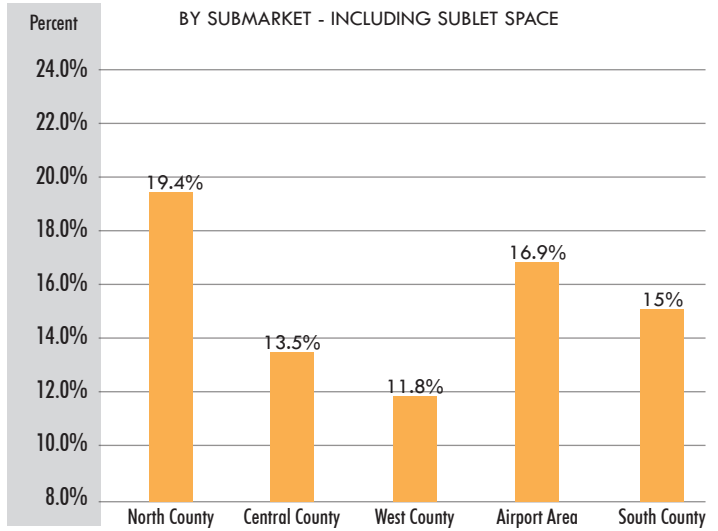
Third Quarter 2011

## NUMBER OF LEASES EXECUTED FOR THE QUARTER



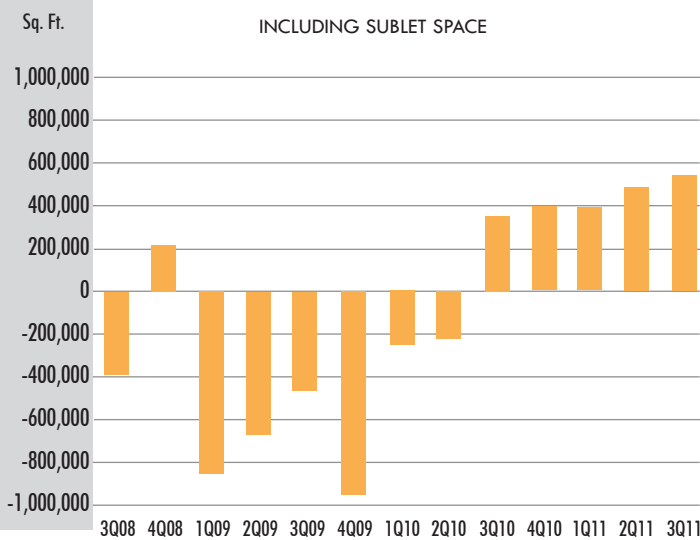
Source: CoStar

## VACANCY RATE



Source: CoStar

## COUNTY WIDE NET ABSORPTION



Source: CoStar

Submarkets:

### NORTH

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

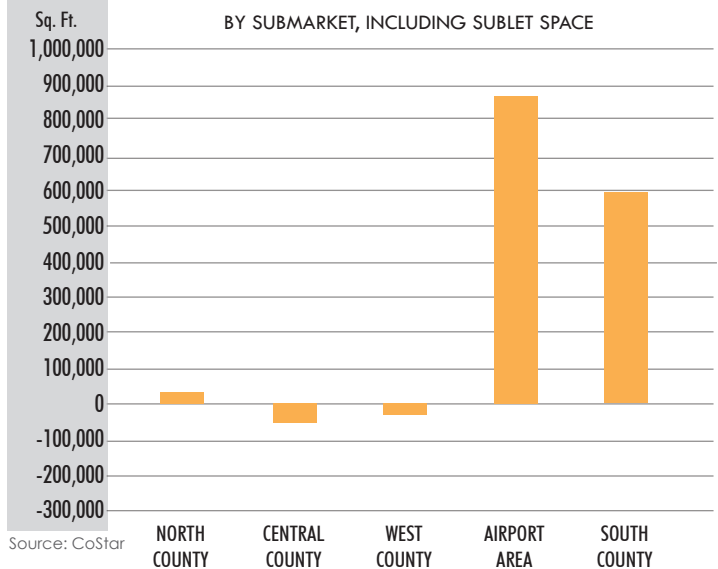
### WEST

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

### CENTRAL

Fountain Valley, Santa Ana and Tustin

## YTD NET ABSORPTION



Source: CoStar

### 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

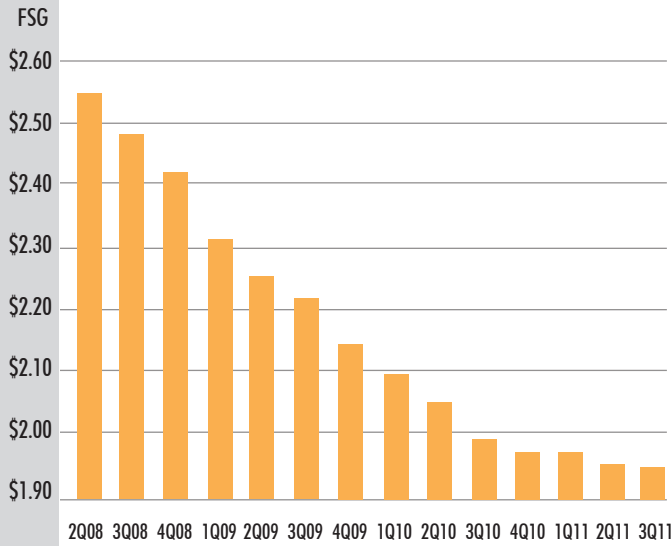
## Forecast:

The pace of rent decline has slowed dramatically in the past several quarters but overall bargaining leverage will remain with tenants, particularly for those with full-floor requirements.

# QUARTER IN REVIEW

Third Quarter 2011

## AVERAGE FSG LEASE RATES BY QUARTER

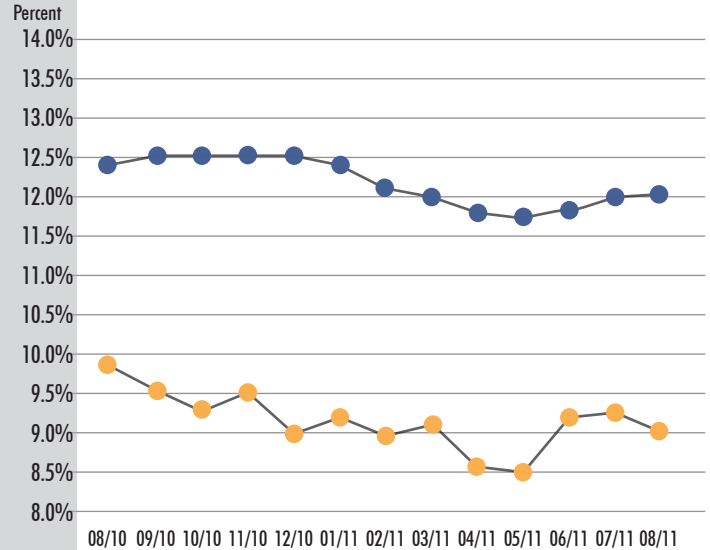


Source: CoStar

## UNEMPLOYMENT RATE

Source: EDD

California  
Orange County



Source: CoStar

## Recent Transactions

**SOLD • 205,267 Sq. Ft.**

1733 and 1833 Alton | Irvine



John Collins represented both parties.

**LEASED • 22,745 Sq. Ft.**

18101 Von Karman Ave. | Irvine



Steve Pelletier represented the Lessee - First Foundation, Inc.

**LEASED • 15,340 Sq. Ft.**

222 W. Sixth St., Ste 100 | San Pedro



Dick Silva represented the Tenant, Marymount College.

**LEASED • 12,683 Sq. Ft.**

3050 Saturn | Brea



Jonmark Fabiano and Bob Sattler represented Lessor - Brea Corporate Park.

**LEASED • 9,470 Sq. Ft.**

20411 SW Birch, Ste 330. | Newport Beach



David Whitney, Dick Silva, Jim Snyder and Kimberly Ahlberg represented the Lessor, Ferrado.

**LEASED • 7,412 Sq. Ft.**

15635 Alton Parkway | Irvine



David Newton represented Lessee, Private Management Group.

**SOLD • 7,069 Sq. Ft.**

10 Mareblu | Aliso Viejo



Allen Basso represented both parties.

**LEASED • 6,000 Sq. Ft.**

570 Glenneyre St. | Laguna Beach



Ryan Harman represented the Lessor, Snowshoe Properties.

**LEASED • 4,831 Sq. Ft.**

15785 Laguna Canyon Rd, Suite 100 | Irvine



Craig Fitterer and Mark Jerue represented the Lessee, Allergy & Asthma Associates.

# QUARTER IN REVIEW

Third 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  
SONYA DOPP-GRECH  
JONMARK FABIANO  
PHIL FRIDD  
DOUG GARRETT  
JOHN HATZIS  
JAMES HAWKINS  
DAVID NEWTON  
BOB SATTLER  
CHRIS SHEA  
JOHN SON  
ERIK THOMPSON  
GEORGE THOMSON  
MARSHAL VOGT

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

ALLEN BASSO	ANDREW ROB BEN
ANDREW BERMUDEZ	DAVE SMITH
KURT BRUGGEMAN	JUSTIN SMITH
PHIL COHEN	RYAN SWANSON
CRAIG FITTERER	ADAM WICKER
MATT FRYER	KAYE-T WING
BRIAN GAR BUTT	
DYLAN GORMLY	
RYAN HARMAN	
MARK JERUE	
DEAN KRIEGER	
RANDY MASON	
BRAD RAWLINS	
ROB RADER	

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

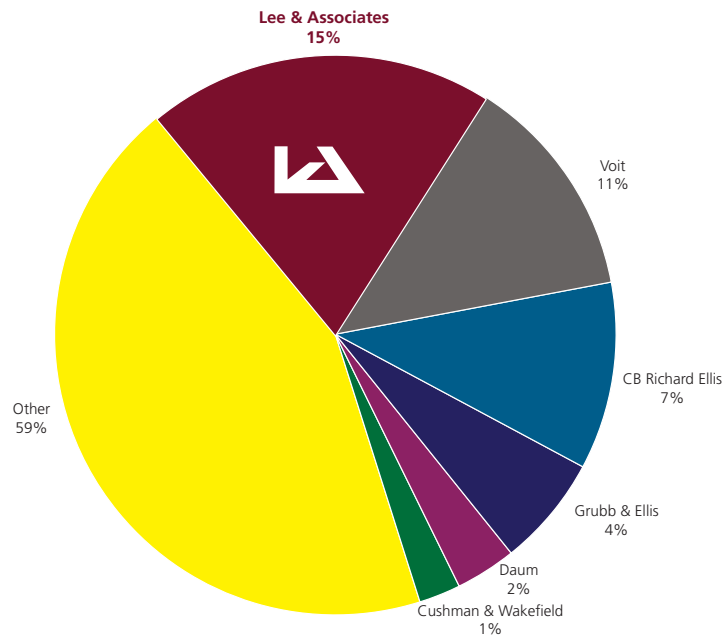
As a group of independently owned and operated companies, Lee & Associates currently has more than 44 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois, Indiana, Georgia, Kansas, South Carolina and Wisconsin.

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



### 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.

No warranty or representation is made to the accuracy of the foregoing information. Terms of sale or lease and availability are subject to change or withdrawal without notice.