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REAL ESTATE SERVICES

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Orange County | First Quarter 2012

Flex Market Report

Compared to the Previous Quarter:

Vacancy
DOWN

Net Absorption
POSITIVE

Lease Rates
DOWN

Transactions
UP

Deliveries
FLAT

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Market Highlights

- **Steady Growth -** The Orange County flex market conveyed more signs of stabilization in the first quarter of 2012. Vacancy decreased compared to both the prior quarter's rate and 2011's first quarter rate, and the market posted over 600,000 square feet of positive net absorption over six consecutive quarters. Demand, although still weak by historical standards, continued to pick up, with 2010 marking the beginning of a renewed interest in sales transactions. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.

- **Construction -** There has been nothing under construction in the Orange County flex market since 2009, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.

- **Vacancy -** Direct/sublease space (unoccupied) finished the quarter at 15.81%, a decrease compared to 2011's first quarter rate of 17.47% as well as to the record-high rate of 25.85% recorded in the second quarter of 2002.

- **Availability -** Direct/sublease space being marketed was 22.63% at the end of the first quarter, a decrease of 4.39% compared to the 23.67% seen in the first quarter of 2011.

- **Lease Rates -** The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was $1.69 in the first quarter of 2012 — three cents lower than the previous quarter's rate and a 8.65% decrease from 2011's first quarter rate of $1.85. The record-high rate of $2.66 was established in the third quarter of 2007.

- **Absorption -** The Orange County flex market posted 83,450 square feet of positive absorption in the first quarter of 2012, giving the market a total of 607,215 square feet of positive absorption for the last six quarters. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity -** Leasing activity checked in at 575,335 square feet this quarter, an increase from the 299,738 square feet we saw in the first quarter of 2011. Sales activity for the first quarter of 2012 showed a slight decrease, posting 294,284 square feet compared to the first quarter of 2011's 298,500 square feet of sales transactions. Details of the largest transactions for the year can be found on the back page of this report.

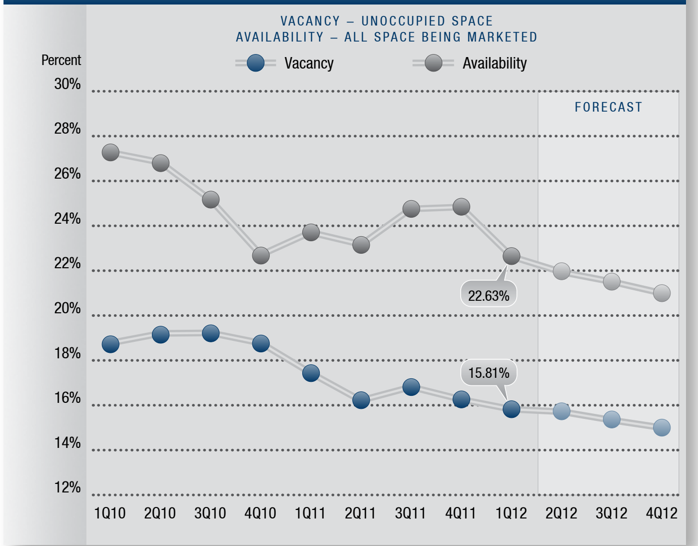
- **Employment -** The unemployment rate in Orange County was 8.0% in February 2012 — unchanged from a revised 8.0% in January 2012 and below the previous year's estimate of 8.9%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 18,200 payroll jobs from February 2011 to February 2012. The largest gains were 5,600 in leisure and hospitality and 5,300 in trade, transportation and utilities; however, Orange County lost 2,100 government jobs during that same period.

- **Overall -** We are beginning to see a decrease in the amount of vacant space, as well as an increase in investment sales activity. As we continue into 2012, absorption has turned positive, and with no new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to gradually dispose of distressed assets, eliminating a fear of fire-sale pricing. Lease rates are expected to remain soft for the near future, and concessions have begun to normalize. 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 flex market will recover.

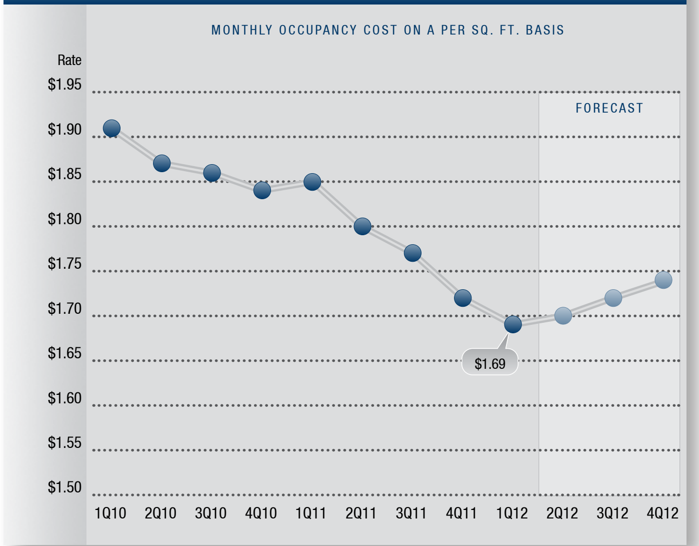
FLEX MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	15.81%	16.27%	17.47%	(9.50%)
Availablity Rate	22.63%	24.78%	23.67%	(4.39%)
Average Asking Lease Rate	$1.69	$1.72	$1.85	(8.65%)
Sale & Lease Transactions	869,619	860,857	598,238	45.36%
Gross Absorption	606,198	523,139	706,119	(14.15%)
Net Absorption	83,450	94,380	226,359	N/A

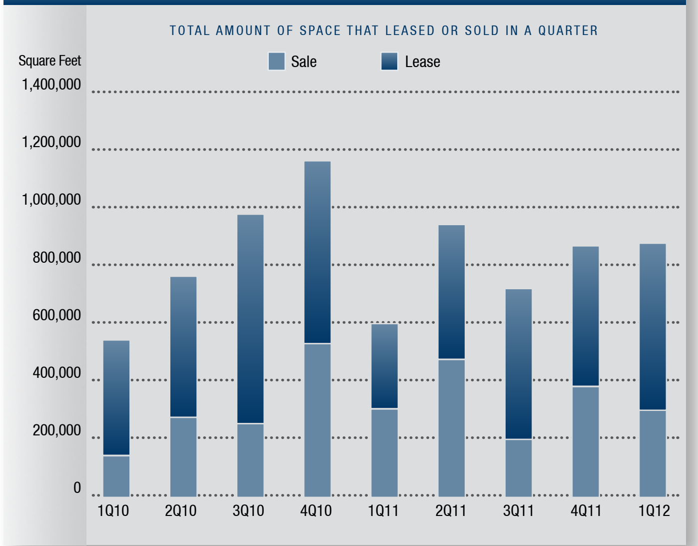
VACANCY & AVAILABILITY RATE



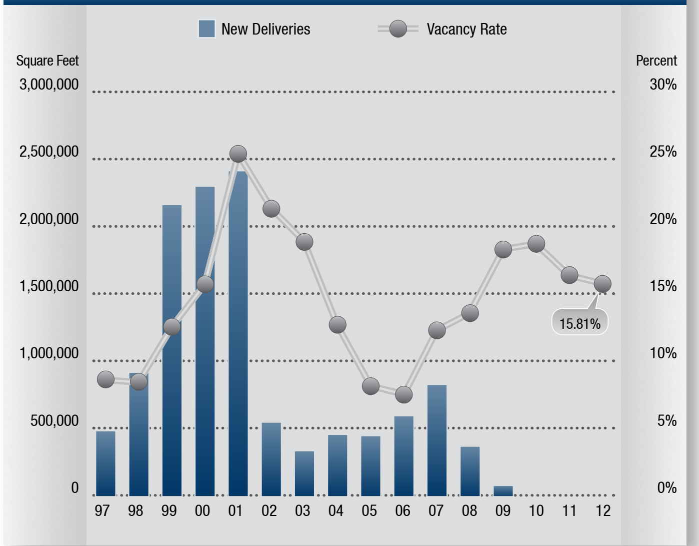
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE



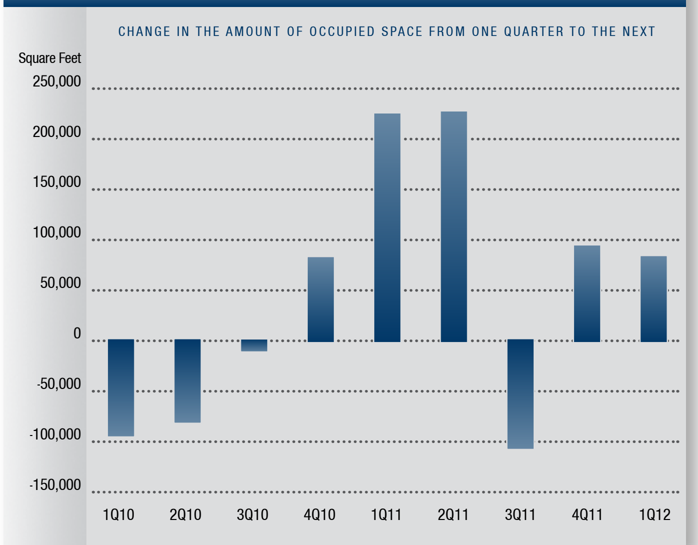
SALES & LEASE TRANSACTIONS



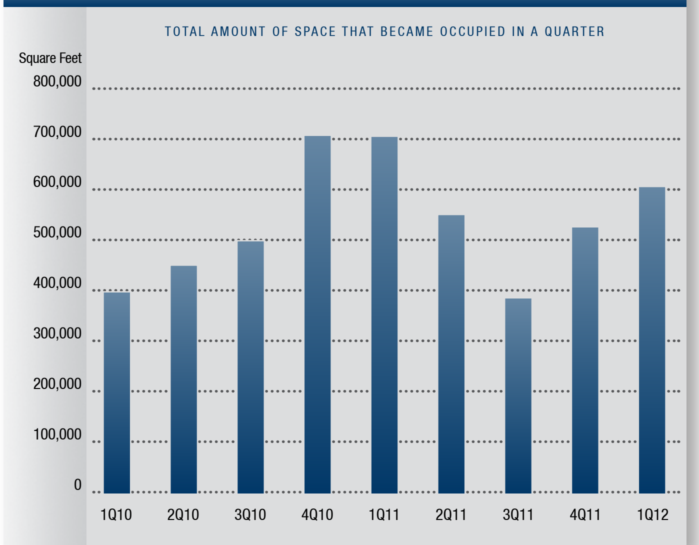
ANNUAL NEW DELIVERIES VS. VACANCY RATE



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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
North County													
Anaheim	21	399,748	0	0	31,296	7.83%	55,262	13.82%	$1.75	2,950	2,950	7,113	7,113
Brea	13	396,271	0	0	90,331	22.80%	218,120	55.04%	$1.66	3,103	3,103	5,933	5,933
Buena Park	3	70,000	0	0	2,900	4.14%	2,900	4.14%	$0.00	20	20	20	20
Fullerton	8	97,826	0	24,000	8,455	0.00%	14,318	14.64%	$0.00	0	0	0	0
Placentia	3	61,675	0	0	8,317	13.49%	8,317	13.49%	$1.50	0	0	0	0
North County Total	48	1,025,520	0	24,000	141,299	13.78%	298,917	29.15%	$1.64	6,073	6,073	13,066	13,066
West County													
Cypress	10	377,860	0	0	144,075	38.13%	198,794	52.61%	$1.69	(39,275)	(39,275)	9,696	9,696
Huntington Beach	3	49,145	0	0	3,223	6.56%	3,223	6.56%	$1.40	0	0	0	0
Seal Beach	6	87,377	0	0	1,843	2.11%	6,083	6.96%	$2.15	(1,843)	(1,843)	0	0
West County Total	19	514,382	0	0	149,141	28.99%	208,100	40.46%	$1.81	(41,118)	(41,118)	9,696	9,696
Central County													
Anaheim	10	229,366	0	0	10,662	4.65%	10,662	4.65%	$0.00	10	10	10	10
Garden Grove	2	27,400	0	0	5,110	18.65%	5,110	18.65%	$0.00	0	0	0	0
Orange	8	163,577	0	0	16,864	10.31%	37,333	22.82%	$1.95	(6,739)	(6,739)	2,655	2,655
Santa Ana	11	227,881	0	0	48,806	21.42%	112,757	49.48%	$1.46	23,400	23,400	23,400	23,400
Tustin	6	108,807	0	0	3,882	3.57%	6,778	6.23%	$1.00	(1,482)	(1,482)	0	0
Central County Total	37	757,031	0	0	85,324	11.27%	172,640	22.80%	$1.56	15,189	15,189	26,065	26,065
Airport Area													
Costa Mesa	8	130,175	0	0	10,319	7.93%	33,354	25.62%	$1.47	570	570	570	570
Irvine	117	3,536,109	0	100,000	464,540	13.14%	663,082	18.75%	$1.66	44,381	44,381	113,783	113,783
Newport Beach	27	609,127	0	0	44,041	7.23%	58,738	9.64%	$2.38	12,641	12,641	16,841	16,841
Santa Ana	11	440,199	0	0	68,914	15.66%	101,133	22.97%	$1.48	(6,250)	(6,250)	14,701	14,701
Tustin	6	214,605	0	0	57,900	26.98%	57,900	26.98%	$1.26	0	0	0	0
Airport Area Total	169	4,930,215	0	100,000	645,714	13.10%	914,207	18.54%	$1.74	51,342	51,342	145,895	145,895
South County													
Aliso Viejo	44	1,364,694	21,000	0	176,171	12.91%	205,840	15.08%	$1.62	14,385	14,385	35,488	35,488
Dana Point	6	77,940	0	0	3,964	5.09%	3,964	5.09%	$0.00	0	0	0	0
Foothill Ranch	5	105,397	0	0	21,165	20.08%	23,937	22.71%	$1.25	0	0	0	0
Irvine Spectrum	233	5,447,872	0	0	1,007,439	18.49%	1,546,777	28.39%	$1.73	16,025	16,025	159,905	159,905
Laguna Beach	5	74,016	0	0	3,182	4.30%	4,075	5.51%	$0.00	0	0	678	678
Laguna Hills	14	468,729	0	0	57,617	12.29%	91,563	19.53%	$1.70	(733)	(733)	15,998	15,998
Laguna Niguel	3	53,170	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Lake Forest	40	1,496,892	0	0	288,863	19.30%	286,448	19.14%	$1.84	15,918	15,918	150,051	150,051
Mission Viejo	29	406,246	0	0	49,735	12.24%	54,607	13.44%	$1.83	(19,883)	(19,883)	965	965
Rancho Santa Margarita	12	315,820	0	0	53,646	16.99%	63,405	20.08%	$1.48	7,218	7,218	12,623	12,623
San Clemente	11	234,169	0	0	62,189	26.56%	82,579	35.26%	$1.43	10,556	10,556	12,077	12,077
San Juan Capistrano	27	576,603	0	0	75,652	13.12%	82,556	14.32%	$1.96	8,478	8,478	23,691	23,691
South County Total	429	10,621,548	21,000	0	1,799,623	16.94%	2,445,751	23.03%	$1.70	51,964	51,964	411,476	411,476
Orange County Total	**702**	**17,848,696**	**21,000**	**124,000**	**2,821,101**	**15.81%**	**4,039,615**	**22.63%**	**$1.69**	**83,450**	**83,450**	**606,198**	**606,198**

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
North County													
0-29,999	39	622,254	0	24,000	80,425	12.92%	111,458	17.91%	$1.60	3,728	3,728	10,721	10,721
30,000-49,999	7	280,266	0	0	9,532	3.40%	127,780	45.59%	$1.65	2,345	2,345	2,345	2,345
50,000 Plus	2	123,000	0	0	51,342	41.74%	59,679	48.52%	$1.65	0	0	0	0
West County													
0-29,999	12	146,327	0	0	3,223	2.20%	3,223	2.20%	$1.40	0	0	0	0
30,000-49,999	4	167,585	0	0	59,083	35.26%	100,027	59.69%	$1.88	(50,814)	(50,814)	0	0
50,000 Plus	3	200,470	0	0	86,835	43.32%	104,850	52.30%	$0.00	9,696	9,696	9,696	9,696
Central County													
0-29,999	30	396,304	0	0	26,673	6.73%	50,329	12.70%	$1.26	(1,482)	(1,482)	0	0
30,000-49,999	2	73,363	0	0	4,837	6.59%	4,837	6.59%	$0.00	0	0	10	10
50,000 Plus	5	287,364	0	0	53,814	18.73%	117,474	40.88%	$1.63	16,671	16,671	26,055	26,055
Airport Area													
0-29,999	91	1,085,337	0	0	159,569	14.70%	194,682	17.94%	$1.58	22,195	22,195	35,830	35,830
30,000-49,999	41	1,671,437	0	0	207,201	12.40%	244,677	14.64%	$1.88	56,596	56,596	97,554	97,554
50,000 Plus	37	2,173,441	0	100,000	278,944	12.83%	474,848	21.85%	$1.79	(27,449)	(27,449)	12,511	12,511
South County													
0-29,999	279	3,634,455	21,000	0	568,638	15.65%	772,960	21.27%	$1.62	30,557	30,557	120,622	120,622
30,000-49,999	96	3,802,186	0	0	635,870	16.72%	761,372	20.02%	$1.78	(11,117)	(11,117)	174,708	174,708
50,000 Plus	54	3,184,907	0	0	595,115	18.69%	911,419	28.62%	$1.77	32,524	32,524	116,146	116,146
Orange County													
0-29,999	451	5,884,677	21,000	24,000	838,528	14.25%	1,132,652	19.25%	$1.60	54,998	54,998	167,173	167,173
30,000-49,999	150	5,994,837	0	0	916,523	15.29%	1,238,693	20.66%	$1.76	(2,990)	(2,990)	274,617	274,617
50,000 Plus	101	5,969,182	0	100,000	1,066,050	17.86%	1,668,270	27.95%	$1.73	31,442	31,442	164,408	164,408
Orange County Total	**702**	**17,848,696**	**21,000**	**124,000**	**2,821,101**	**15.81%**	**4,039,615**	**22.63%**	**$1.69**	**83,450**	**83,450**	**606,198**	**606,198**

This survey consists of buildings up to 74,999 square feet. The lease rates are based on a full-service gross basis.

SUBMARKETS

NORTH
Anaheim, Brea, Fullerton, Placentia, Yorba Linda

WEST
Cypress, Huntington Beach, Seal Beach

CENTRAL
Anaheim, Garden Grove, Orange, Santa Ana, Tustin

AIRPORT
Costa Mesa, Irvine, Newport Beach, Santa Ana, Tustin

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

PRODUCT TYPE

FLEX–TECH OR CORPORATE HEADQUARTERS
Minimum 75% improved with drop ceiling, minimum parking ratio of 3.5 to 1, minimum of 3 elevators with full glassline, with ground level loading possible.

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