



Flex Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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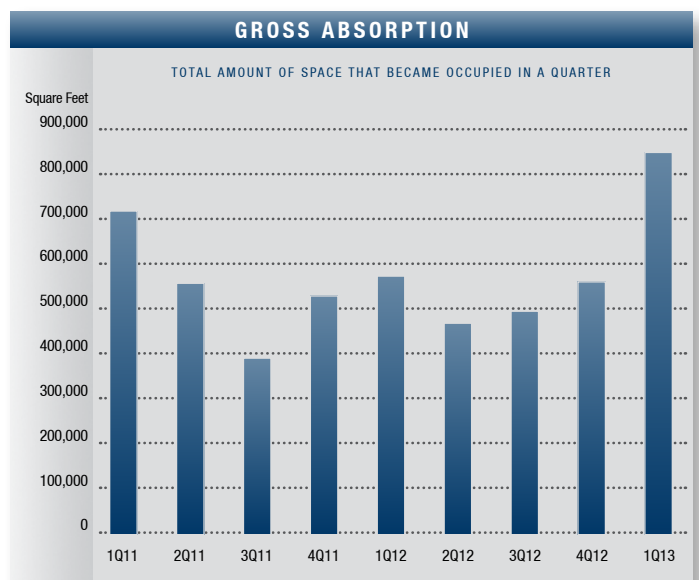
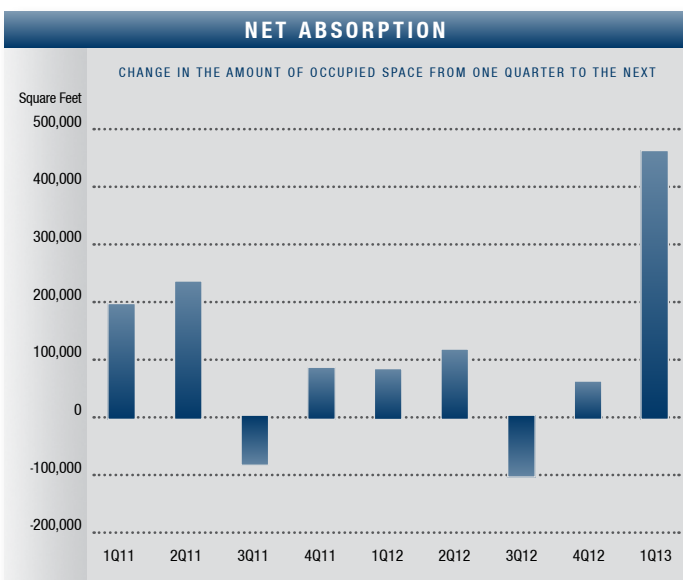
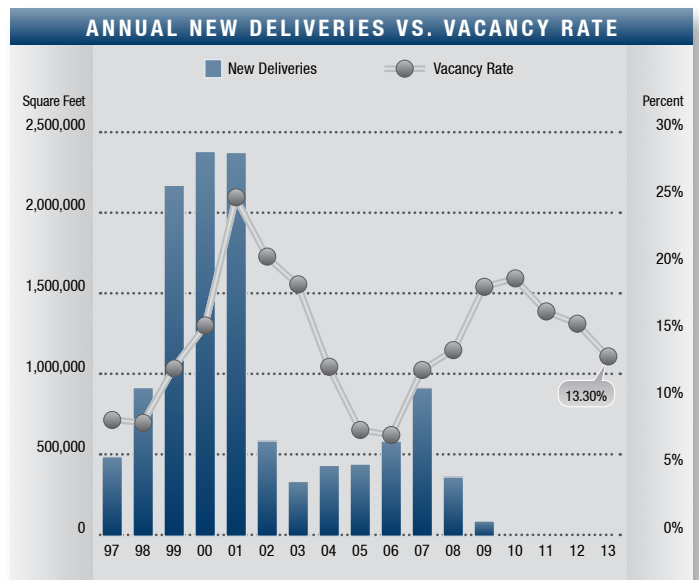
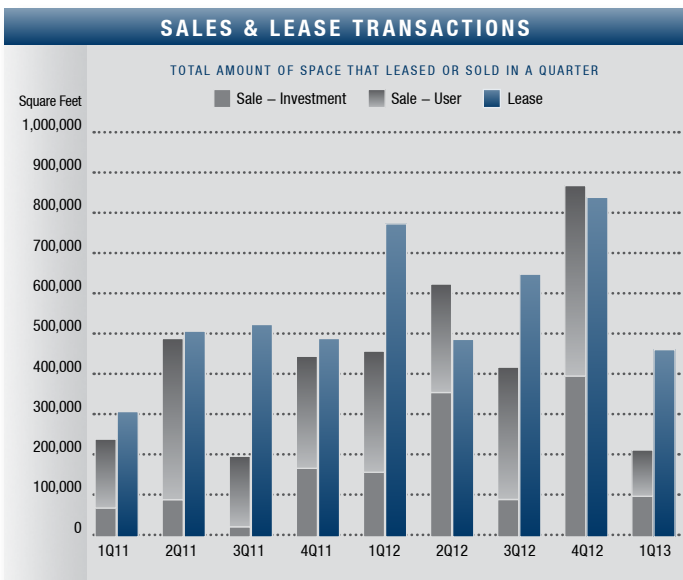
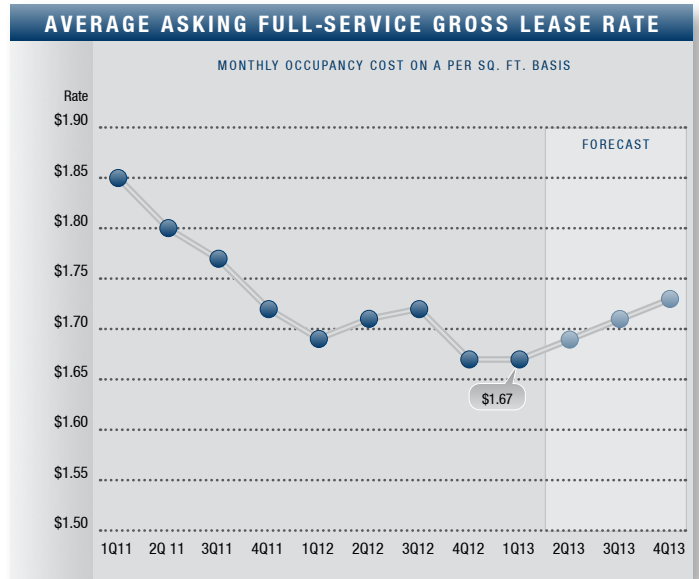
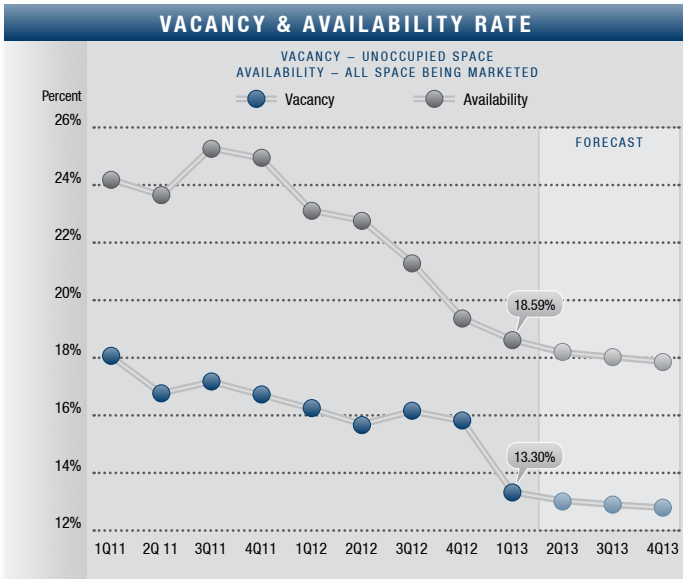
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Market Highlights

- Steady Growth** - The Orange County flex market conveyed more signs of stabilization at the end of the first quarter of 2013. Both vacancy and availability decreased compared to the prior quarter's rate and 2012's first quarter rate, and the market posted over 460,000 square feet of positive net absorption for the start of 2013. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Absorption** - The Orange County flex market posted 461,863 square feet of positive absorption in the first quarter of 2013, the most positive absorption seen in one quarter since the third quarter of 2005. This positive absorption can be attributed to the recent employment gains.
- Transaction Activity** - Leasing activity checked in at just over 450,000 square feet in the first quarter of 2013, a decrease from the 770,000 square feet seen in the first quarter of 2012. Sales activity for the first quarter of 2013 showed a decrease as well, posting just over 200,000 activity for the quarter compared to 2012's first quarter of 450,000 square feet of sales transactions.
- Employment** - The unemployment rate in Orange County was 6.5% in February 2013 — down from a revised 7.1% in January 2013 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 35,200 payroll jobs from November 2011 to November 2012. The largest gains were 9,700 in professional & business services and 8,200 in leisure & hospitality; however, Orange County lost 600 government jobs during that same period.
- Overall** - We are seeing substantial decrease in the amount of available space. As we progress into 2013, absorption has been positive, and with very few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee a continued overall increase in investment activity in the coming quarters. Lease rates are expected to increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.
- Construction** - At the end of the quarter, there was only one project under construction in Orange County's flex market: a 21,000-square-foot building in Aliso Viejo. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- Vacancy** - Vacancies continued their downward trend. Direct/sublease space (unoccupied) finished the quarter at 13.30%, a decrease of 18.20% compared to 2012's first quarter rate of 16.26% and significantly down from the record high rate of 25.85% recorded in the second quarter of 2002.
- Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was 18.59% at the end of the first quarter of 2013, a huge decrease of 19.42% compared to the 23.07% seen in the first quarter of 2012.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$1.67 in the first quarter of 2013 — the same as the previous quarter and a decrease from 2012's first quarter rate of \$1.69. This is a result of high-end space coming off the market at a faster pace than average space. The record high rate of \$2.66 was established in the third quarter of 2007.

FLEX MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	13.30%	15.84%	16.26%	(18.20%)
Availability Rate	18.59%	19.37%	23.07%	(19.42%)
Average Asking Lease Rate	\$1.67	\$1.67	\$1.69	(1.18%)
Sale & Lease Transactions	667,833	1,701,270	1,227,756	(45.61%)
Gross Absorption	847,850	556,030	570,979	48.49%
Net Absorption	461,863	60,592	82,741	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2013	Gross Absorption 1Q2013	Gross Absorption 2013
North County													
Anaheim	24	472,139	0	0	35,439	7.51%	47,652	10.09%	\$1.75	(3,624)	(3,624)	13,326	13,326
Brea	13	402,455	0	0	76,896	19.11%	161,090	40.03%	\$1.46	(26,637)	(26,637)	8,150	8,150
Buena Park	3	70,000	0	0	2,900	4.14%	2,900	4.14%	\$0.00	0	0	0	0
Fullerton	9	130,896	0	24,000	8,225	0.00%	12,358	9.44%	\$0.00	0	0	0	0
Placentia	3	61,675	0	0	9,443	15.31%	9,443	15.31%	\$1.54	0	0	0	0
North County Total	52	1,137,165	0	24,000	132,903	11.69%	233,443	20.53%	\$1.48	(30,261)	(30,261)	21,476	21,476
West County													
Cypress	10	375,042	0	0	110,116	29.36%	135,426	36.11%	\$1.65	0	0	0	0
Huntington Beach	3	49,145	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Seal Beach	5	72,877	0	0	11,851	16.26%	18,277	25.08%	\$2.15	(6,508)	(6,508)	0	0
West County Total	18	497,064	0	0	121,967	24.54%	153,703	30.92%	\$1.91	(6,508)	(6,508)	0	0
Central County													
Anaheim	8	166,362	0	0	19,951	11.99%	19,951	11.99%	\$1.43	(650)	(650)	0	0
Garden Grove	3	54,082	0	0	4,200	7.77%	5,400	9.98%	\$0.00	(190)	(190)	0	0
Orange	7	130,507	0	0	7,680	5.88%	25,602	19.62%	\$1.95	4,107	4,107	5,507	5,507
Santa Ana	20	601,220	0	0	54,405	9.05%	103,589	17.23%	\$1.47	10,958	10,958	21,198	21,198
Tustin	7	210,982	0	0	2,298	1.09%	1,248	0.59%	\$0.00	48,171	48,171	49,721	49,721
Central County Total	45	1,163,153	0	0	88,534	7.61%	155,790	13.39%	\$1.53	62,396	62,396	76,426	76,426
Airport Area													
Costa Mesa	8	130,175	0	0	6,812	5.23%	14,971	11.50%	\$1.55	1,576	1,576	1,576	1,576
Irvine	113	3,462,924	0	0	298,088	8.61%	486,959	14.06%	\$1.88	85,272	85,272	126,363	126,363
Newport Beach	28	620,880	0	0	10,099	1.63%	20,462	3.30%	\$1.66	12,030	12,030	12,410	12,410
Santa Ana	2	58,895	0	0	32,000	54.33%	0	0.00%	\$0.00	0	0	0	0
Tustin	2	81,116	0	0	9,450	11.65%	4,600	5.67%	\$0.00	(4,600)	(4,600)	0	0
Airport Area Total	153	4,353,990	0	0	356,449	8.19%	526,992	12.10%	\$1.82	94,278	94,278	140,349	140,349
South County													
Aliso Viejo	44	1,364,694	21,000	0	184,295	13.50%	208,670	15.29%	\$1.74	(10,443)	(10,443)	17,335	17,335
Dana Point	6	77,940	0	0	4,111	5.27%	1,064	1.37%	\$0.00	0	0	0	0
Foothill Ranch	4	85,397	0	0	20,851	24.42%	25,792	30.20%	\$0.00	80	80	80	80
Irvine Spectrum	245	5,824,389	0	100,000	1,004,777	17.25%	1,319,144	22.65%	\$1.79	176,361	176,361	360,767	360,767
Laguna Beach	5	74,016	0	0	3,636	4.91%	7,462	10.08%	\$0.00	1,316	1,316	2,414	2,414
Laguna Hills	15	492,767	0	0	60,523	12.28%	74,432	15.10%	\$1.66	(5,069)	(5,069)	6,777	6,777
Laguna Niguel	3	53,282	0	0	3,414	6.41%	3,414	6.41%	\$0.00	(3,414)	(3,414)	0	0
Lake Forest	40	1,495,975	0	0	238,812	15.96%	429,537	28.71%	\$1.70	199,388	199,388	199,388	199,388
Mission Viejo	29	407,235	0	0	44,172	10.85%	67,463	16.57%	\$1.74	(7,556)	(7,556)	224	224
Rancho Santa Margarita	10	288,900	0	0	32,849	11.37%	28,315	9.80%	\$1.38	11,381	11,381	11,381	11,381
San Clemente	11	234,192	0	0	41,581	17.76%	55,494	23.70%	\$1.52	(9,645)	(9,645)	0	0
San Juan Capistrano	31	622,488	0	0	77,334	12.42%	86,776	13.94%	\$2.07	(10,441)	(10,441)	11,233	11,233
South County Total	443	11,021,275	21,000	100,000	1,716,355	15.57%	2,307,563	20.94%	\$1.69	341,958	341,958	609,599	609,599
Orange County Total	711	18,172,647	21,000	124,000	2,416,208	13.30%	3,377,491	18.59%	\$1.67	461,863	461,863	847,850	847,850
North County													
0-29,999	41	641,688	0	24,000	86,650	13.50%	101,123	15.76%	\$1.58	(12,810)	(12,810)	21,476	21,476
30,000-49,999	7	265,498	0	0	24,983	9.41%	78,592	29.60%	\$1.44	(17,451)	(17,451)	0	0
50,000 Plus	4	229,979	0	0	21,270	9.25%	53,728	23.36%	\$1.65	0	0	0	0
West County													
0-29,999	11	129,009	0	0	8,781	6.81%	23,281	18.05%	\$0.00	(5,281)	(5,281)	0	0
30,000-49,999	4	167,585	0	0	8,336	4.97%	25,572	15.26%	\$0.00	(1,227)	(1,227)	0	0
50,000 Plus	3	200,470	0	0	104,850	52.30%	104,850	52.30%	\$0.00	0	0	0	0
Central County													
0-29,999	30	444,622	0	0	36,495	8.21%	63,446	14.27%	\$1.41	6,992	6,992	10,782	10,782
30,000-49,999	8	305,693	0	0	9,445	3.09%	28,744	9.40%	\$1.26	51,897	51,897	51,897	51,897
50,000 Plus	7	412,838	0	0	42,594	10.32%	63,600	15.41%	\$1.69	3,507	3,507	13,747	13,747
Airport Area													
0-29,999	86	979,490	0	0	75,719	7.73%	120,058	12.26%	\$1.78	(2,108)	(2,108)	23,375	23,375
30,000-49,999	30	1,219,872	0	0	107,792	8.84%	104,210	8.54%	\$2.21	(4,722)	(4,722)	15,866	15,866
50,000 Plus	37	2,154,628	0	0	172,938	8.03%	302,724	14.05%	\$1.75	101,108	101,108	101,108	101,108
South County													
0-29,999	286	3,716,461	21,000	0	461,470	12.42%	678,340	18.25%	\$1.65	7,113	7,113	117,244	117,244
30,000-49,999	104	4,164,845	0	0	580,160	13.93%	731,415	17.56%	\$1.75	(34,584)	(34,584)	107,726	107,726
50,000 Plus	53	3,139,969	0	100,000	674,725	21.49%	897,808	28.59%	\$1.68	369,429	369,429	384,629	384,629
Orange County													
0-29,999	454	5,911,270	21,000	24,000	669,115	11.32%	986,248	16.68%	\$1.65	(6,094)	(6,094)	172,877	172,877
30,000-49,999	153	6,123,493	0	0	730,716	11.93%	968,533	15.82%	\$1.65	(6,087)	(6,087)	175,489	175,489
50,000 Plus	104	6,137,884	0	100,000	1,016,377	16.56%	1,422,710	23.18%	\$1.70	474,044	474,044	499,484	499,484
Orange County Total	711	18,172,647	21,000	124,000	2,416,208	13.30%	3,377,491	18.59%	\$1.67	461,863	461,863	847,850	847,850

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, Orange, 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, with ground level loading possible.

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