



Flex Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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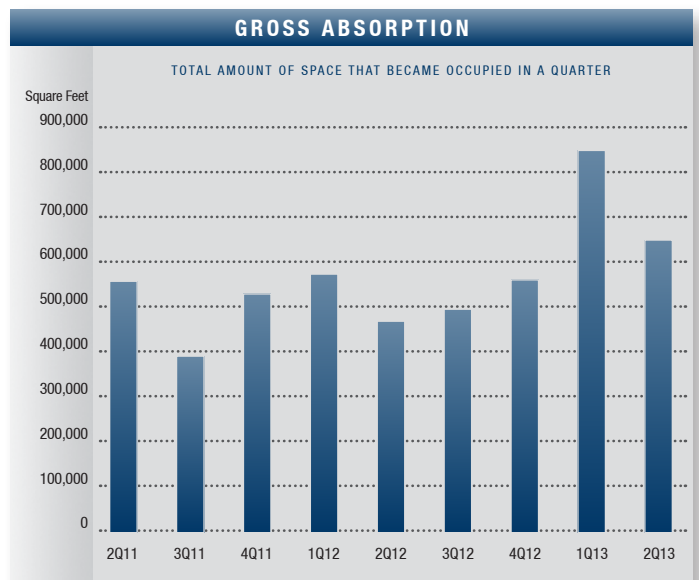
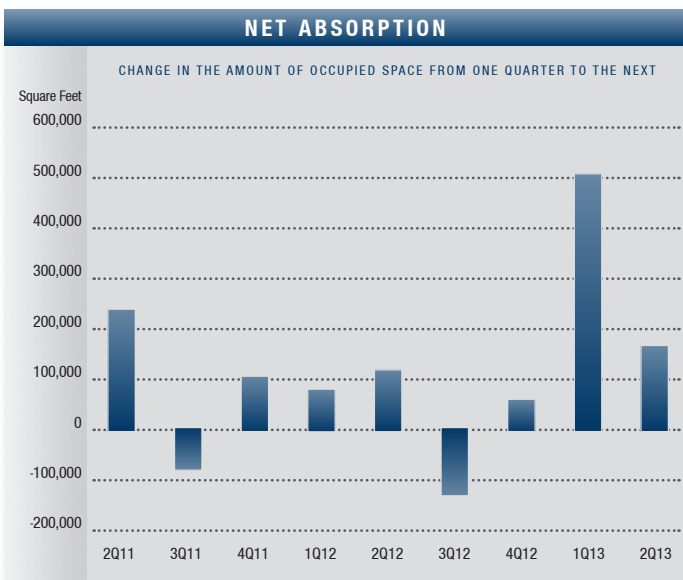
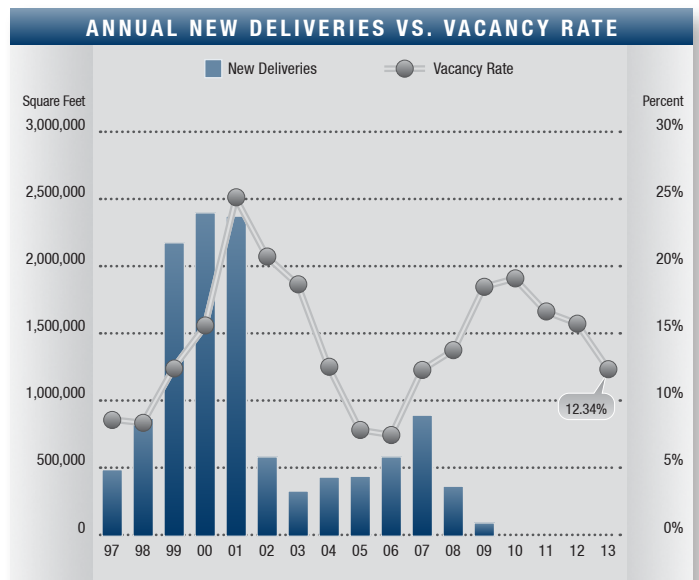
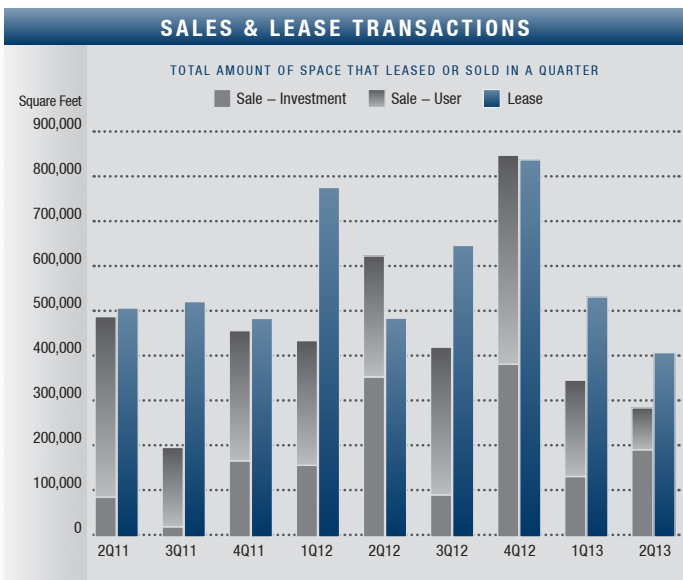
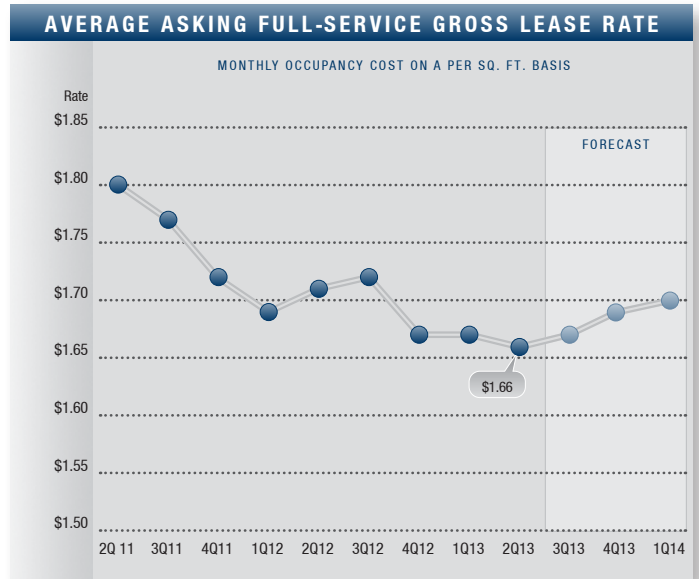
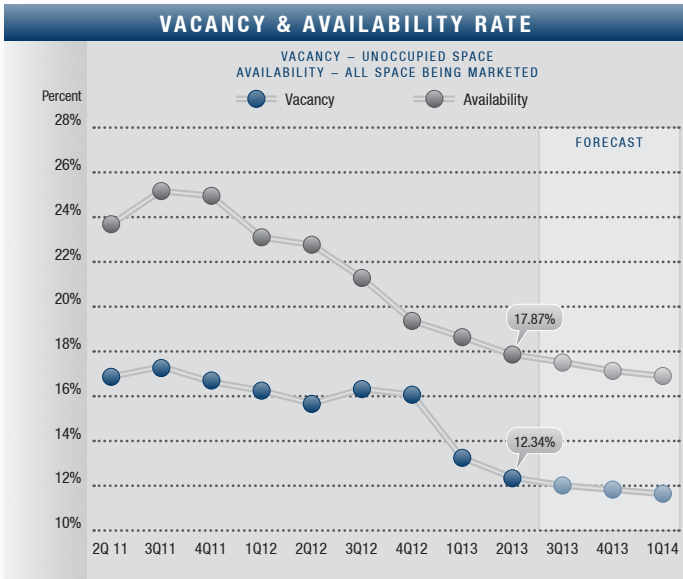
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Market Highlights

- Steady Growth** - The Orange County flex market conveyed more signs of stabilization at the end of the second quarter of 2013. Both vacancy and availability decreased compared to the prior quarter's rate and 2012's second quarter rate, and the market posted almost 670,000 square feet of positive net absorption for the first half 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 167,000 square feet of positive absorption in the second quarter of 2013, giving the market a total of 669,316 square feet of positive absorption for the first half of 2013. This positive absorption can be attributed to the recent employment gains.
- Transaction Activity** - Leasing activity checked in at just over 400,000 square feet in the second quarter of 2013, a decrease from the 480,000 square feet seen in the second quarter of 2012. Sales activity for the second quarter of 2013 showed a decrease as well, posting just over 282,000 activity for the quarter compared to 2012's second quarter of 622,000 square feet of sales transactions.
- Construction** - At the end of the quarter, there was nothing under construction in Orange County's flex market. 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.
- Employment** - The unemployment rate in Orange County was 5.5% in May 2013 — down from a revised 5.7% in April 2013 and below the previous year's estimate of 7.5%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 24,500 payroll jobs from May 2012 to May 2013. The largest gains were 6,500 in financial activities and 6,400 in construction; however, Orange County lost 1,200 jobs in the trade, transportation and utilities sector during that same period.
- Vacancy** - Vacancies continued their downward trend. Direct/sublease space (unoccupied) finished the quarter at 12.34%, a decrease of 21.05% compared to 2012's second quarter rate of 15.63% 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 17.87% at the end of the second quarter of 2013, a huge decrease of 21.52% compared to the 22.77% seen in the second 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 \$1.66 in the second quarter of 2013 — one cent lower than the previous quarter and a decrease from 2012's second quarter rate of \$1.71. 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.
- Overall** - We are seeing substantial decrease in the amount of available space. As we progress into the second half of 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 continue to stabilize and begin to increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.

FLEX MARKET OVERVIEW

| | 2Q13 | 1Q13 | 2Q12 | % of Change vs. 2Q12 |
|---------------------------|---------|---------|-----------|----------------------|
| Total Vacancy Rate | 12.34% | 13.26% | 15.63% | (21.05%) |
| Availability Rate | 17.87% | 18.66% | 22.77% | (21.52%) |
| Average Asking Lease Rate | \$1.66 | \$1.67 | \$1.71 | (2.92%) |
| Sale & Lease Transactions | 684,286 | 871,740 | 1,102,971 | (37.96%) |
| Gross Absorption | 648,231 | 855,435 | 466,450 | 38.97% |
| Net Absorption | 166,989 | 502,327 | 116,178 | 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 2Q2013 | Square Feet Available | Availability Rate 2Q2013 | Average Asking Lease Rate | Net Absorption 2Q2013 | Net Absorption 2013 | Gross Absorption 2Q2013 | Gross Absorption 2013 |
| North County | | | | | | | | | | | | | |
| Anaheim | 31 | 630,501 | 0 | 0 | 57,938 | 9.19% | 75,110 | 11.91% | \$2.60 | (4,956) | (9,230) | 14,503 | 27,829 |
| Brea | 13 | 402,455 | 0 | 0 | 74,792 | 18.58% | 161,746 | 40.19% | \$1.46 | (80) | (24,533) | 34,553 | 42,703 |
| 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% | 19,840 | 15.16% | \$0.00 | 0 | 0 | 0 | 0 |
| Placentia | 3 | 61,675 | 0 | 0 | 9,316 | 15.10% | 9,316 | 15.10% | \$1.65 | 127 | 127 | 885 | 885 |
| North County Total | 59 | 1,295,527 | 0 | 24,000 | 153,171 | 11.82% | 268,912 | 20.76% | \$1.45 | (4,909) | (33,636) | 49,941 | 71,417 |
| West County | | | | | | | | | | | | | |
| Cypress | 9 | 360,542 | 0 | 0 | 110,116 | 30.54% | 120,926 | 33.54% | \$1.65 | 0 | 0 | 0 | 0 |
| Huntington Beach | 3 | 49,145 | 0 | 0 | 1,172 | 2.38% | 1,172 | 2.38% | \$1.25 | (1,172) | (1,172) | 0 | 0 |
| Seal Beach | 6 | 87,377 | 0 | 0 | 11,851 | 13.56% | 18,277 | 20.92% | \$2.15 | 0 | (6,508) | 0 | 0 |
| West County Total | 18 | 497,064 | 0 | 0 | 123,139 | 24.77% | 140,375 | 28.24% | \$1.88 | (1,172) | (7,680) | 0 | 0 |
| Central County | | | | | | | | | | | | | |
| Garden Grove | 3 | 54,082 | 0 | 0 | 5,210 | 9.63% | 6,410 | 11.85% | \$0.00 | (1,200) | (1,200) | 0 | 0 |
| Orange | 7 | 130,507 | 0 | 0 | 10,086 | 7.73% | 22,320 | 17.10% | \$1.95 | (2,406) | 1,701 | 3,856 | 9,363 |
| Santa Ana | 20 | 601,220 | 0 | 0 | 82,993 | 13.80% | 118,154 | 19.65% | \$1.51 | (28,588) | (17,630) | 15,892 | 37,090 |
| Tustin | 7 | 210,982 | 0 | 0 | 6,448 | 3.06% | 6,448 | 3.06% | \$0.00 | (4,150) | 44,021 | 1,050 | 50,771 |
| Central County Total | 37 | 996,791 | 0 | 0 | 104,737 | 10.51% | 153,332 | 15.38% | \$1.56 | (36,344) | 26,892 | 20,798 | 97,224 |
| Airport Area | | | | | | | | | | | | | |
| Costa Mesa | 8 | 130,175 | 0 | 0 | 6,812 | 5.23% | 15,299 | 11.75% | \$1.55 | 0 | 1,576 | 0 | 1,576 |
| Irvine | 113 | 3,462,924 | 0 | 0 | 347,591 | 10.04% | 451,037 | 13.02% | \$1.85 | (51,916) | 35,769 | 138,750 | 267,526 |
| Newport Beach | 28 | 620,960 | 0 | 21,000 | 4,070 | 0.66% | 29,872 | 4.81% | \$1.81 | 6,029 | 18,059 | 12,776 | 25,186 |
| Santa Ana | 2 | 58,895 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 32,000 | 32,000 | 32,000 | 32,000 |
| Tustin | 2 | 81,116 | 0 | 0 | 9,450 | 11.65% | 0 | 0.00% | \$0.00 | 0 | (4,600) | 0 | 0 |
| Airport Area Total | 153 | 4,354,070 | 0 | 21,000 | 367,923 | 8.45% | 496,208 | 11.40% | \$1.80 | (13,887) | 82,804 | 183,526 | 326,288 |
| South County | | | | | | | | | | | | | |
| Aliso Viejo | 44 | 1,364,694 | 0 | 0 | 178,875 | 13.11% | 228,398 | 16.74% | \$1.74 | 5,420 | (5,023) | 14,633 | 31,968 |
| Dana Point | 6 | 77,940 | 0 | 0 | 1,064 | 1.37% | 1,064 | 1.37% | \$0.00 | 3,047 | 3,047 | 3,047 | 3,047 |
| Foothill Ranch | 4 | 85,397 | 0 | 0 | 13,564 | 15.88% | 21,305 | 24.95% | \$0.00 | 7,287 | 7,367 | 7,287 | 7,367 |
| Irvine Spectrum | 244 | 5,823,498 | 0 | 150,000 | 876,992 | 15.06% | 1,211,772 | 20.81% | \$1.73 | 119,106 | 334,292 | 240,640 | 605,094 |
| Laguna Beach | 5 | 74,016 | 0 | 0 | 5,176 | 6.99% | 6,323 | 8.54% | \$0.00 | (1,540) | (224) | 2,952 | 5,366 |
| Laguna Hills | 15 | 495,270 | 0 | 0 | 61,556 | 12.43% | 118,547 | 23.94% | \$1.63 | 2,115 | (6,102) | 12,242 | 19,019 |
| Laguna Niguel | 3 | 53,282 | 0 | 0 | 3,414 | 6.41% | 3,414 | 6.41% | \$0.00 | 0 | (3,414) | 0 | 0 |
| Lake Forest | 40 | 1,495,975 | 0 | 0 | 186,641 | 12.48% | 384,129 | 25.68% | \$1.81 | 40,408 | 239,796 | 41,491 | 240,879 |
| Mission Viejo | 29 | 407,235 | 0 | 0 | 44,786 | 11.00% | 67,176 | 16.50% | \$1.74 | (614) | (8,170) | 1,614 | 1,838 |
| Rancho Santa Margarita | 10 | 288,900 | 0 | 0 | 18,889 | 6.54% | 26,224 | 9.08% | \$1.43 | 13,960 | 25,341 | 18,587 | 29,968 |
| San Clemente | 12 | 255,078 | 0 | 0 | 30,423 | 11.93% | 42,953 | 16.84% | \$1.33 | 32,102 | 22,457 | 32,102 | 32,102 |
| San Juan Capistrano | 31 | 622,488 | 0 | 0 | 73,839 | 11.86% | 80,824 | 12.98% | \$2.03 | 2,010 | (8,431) | 19,371 | 32,089 |
| South County Total | 443 | 11,043,773 | 0 | 150,000 | 1,495,219 | 13.54% | 2,192,129 | 19.85% | \$1.69 | 223,301 | 600,936 | 393,966 | 1,008,737 |
| Orange County Total | 710 | 18,187,225 | 0 | 195,000 | 2,244,189 | 12.34% | 3,250,956 | 17.87% | \$1.66 | 166,989 | 669,316 | 648,231 | 1,503,666 |
| North County | | | | | | | | | | | | | |
| 0-29,999 | 47 | 759,757 | 0 | 24,000 | 100,535 | 13.23% | 130,209 | 17.14% | \$1.43 | (694) | (11,970) | 26,022 | 47,498 |
| 30,000-49,999 | 8 | 305,791 | 0 | 0 | 31,366 | 10.26% | 84,975 | 27.79% | \$1.44 | (4,215) | (2,166) | 0 | 0 |
| 50,000 Plus | 4 | 229,979 | 0 | 0 | 21,270 | 9.25% | 53,728 | 23.36% | \$1.65 | 0 | (19,500) | 23,919 | 23,919 |
| West County | | | | | | | | | | | | | |
| 0-29,999 | 11 | 129,009 | 0 | 0 | 9,953 | 7.71% | 9,953 | 7.71% | \$1.25 | (1,172) | (6,453) | 0 | 0 |
| 30,000-49,999 | 4 | 167,585 | 0 | 0 | 8,336 | 4.97% | 25,572 | 15.26% | \$1.94 | 0 | (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 | 23 | 318,553 | 0 | 0 | 20,138 | 6.32% | 48,683 | 15.28% | \$1.35 | (1,616) | 6,216 | 5,784 | 16,566 |
| 30,000-49,999 | 7 | 265,400 | 0 | 0 | 29,576 | 11.14% | 25,768 | 9.71% | \$1.31 | (22,299) | (29,598) | 3,808 | 55,705 |
| 50,000 Plus | 7 | 412,838 | 0 | 0 | 55,023 | 13.33% | 78,881 | 19.11% | \$1.67 | (12,429) | 50,274 | 11,206 | 24,953 |
| Airport Area | | | | | | | | | | | | | |
| 0-29,999 | 86 | 979,570 | 0 | 21,000 | 64,899 | 6.63% | 118,365 | 12.08% | \$1.71 | 10,820 | 8,712 | 26,900 | 50,275 |
| 30,000-49,999 | 30 | 1,219,872 | 0 | 0 | 65,692 | 5.39% | 110,984 | 9.10% | \$2.23 | 39,687 | 37,378 | 63,554 | 81,833 |
| 50,000 Plus | 37 | 2,154,628 | 0 | 0 | 237,332 | 11.01% | 266,859 | 12.39% | \$1.75 | (64,394) | 36,714 | 93,072 | 194,180 |
| South County | | | | | | | | | | | | | |
| 0-29,999 | 286 | 3,736,456 | 0 | 0 | 418,297 | 11.20% | 586,722 | 15.70% | \$1.70 | 64,790 | 68,755 | 115,860 | 233,104 |
| 30,000-49,999 | 104 | 4,167,348 | 0 | 0 | 483,090 | 11.59% | 792,004 | 19.00% | \$1.70 | 81,620 | 83,344 | 120,838 | 232,251 |
| 50,000 Plus | 53 | 3,139,969 | 0 | 150,000 | 593,832 | 18.91% | 813,403 | 25.90% | \$1.65 | 76,891 | 448,837 | 157,268 | 543,382 |
| Orange County | | | | | | | | | | | | | |
| 0-29,999 | 453 | 5,923,345 | 0 | 45,000 | 613,822 | 10.36% | 893,932 | 15.09% | \$1.66 | 72,128 | 65,260 | 174,566 | 347,443 |
| 30,000-49,999 | 153 | 6,125,996 | 0 | 0 | 618,060 | 10.09% | 1,039,303 | 16.97% | \$1.63 | 94,793 | 87,731 | 188,200 | 369,789 |
| 50,000 Plus | 104 | 6,137,884 | 0 | 150,000 | 1,012,307 | 16.49% | 1,317,721 | 21.47% | \$1.68 | 68 | 516,325 | 285,465 | 786,434 |
| Orange County Total | 710 | 18,187,225 | 0 | 195,000 | 2,244,189 | 12.34% | 3,250,956 | 17.87% | \$1.66 | 166,989 | 669,316 | 648,231 | 1,503,666 |

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

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