



Flex Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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Prepared by:

Jerry J. Holdner, Jr. — Lic.#01145748
Vice President of Market Research
e-mail: jholdner@voitco.com

Tony Tran
Market Research Analyst
e-mail: ttran@voitco.com

VOIT Real Estate Services — Lic.#01333376



Market Highlights

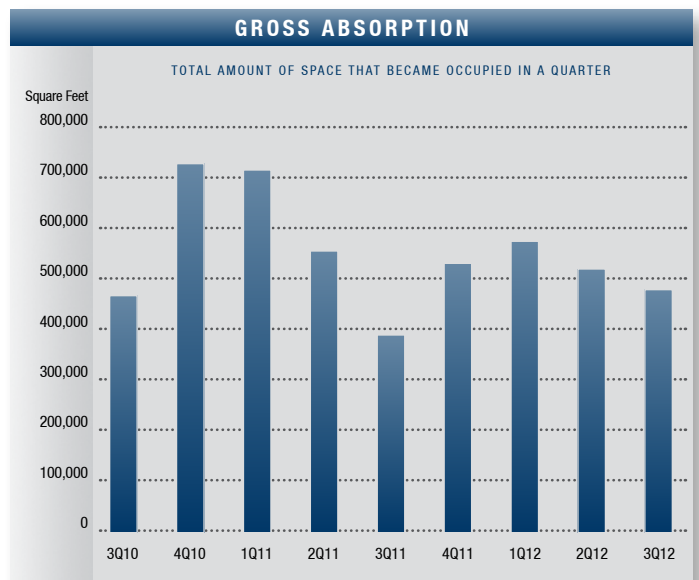
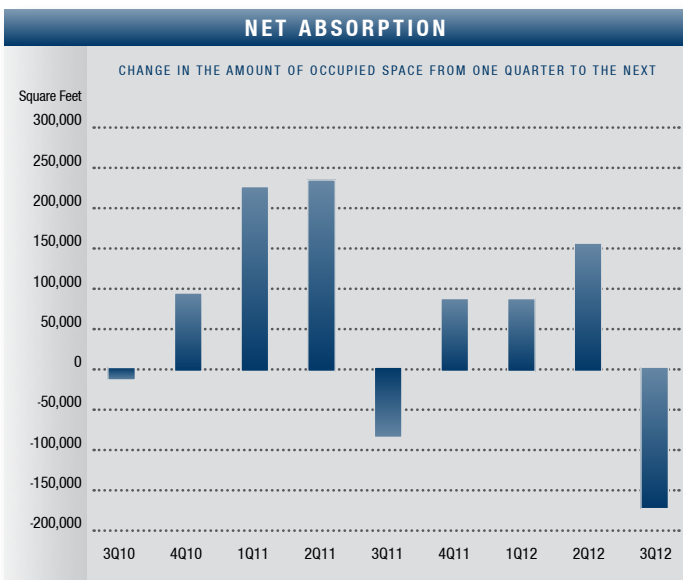
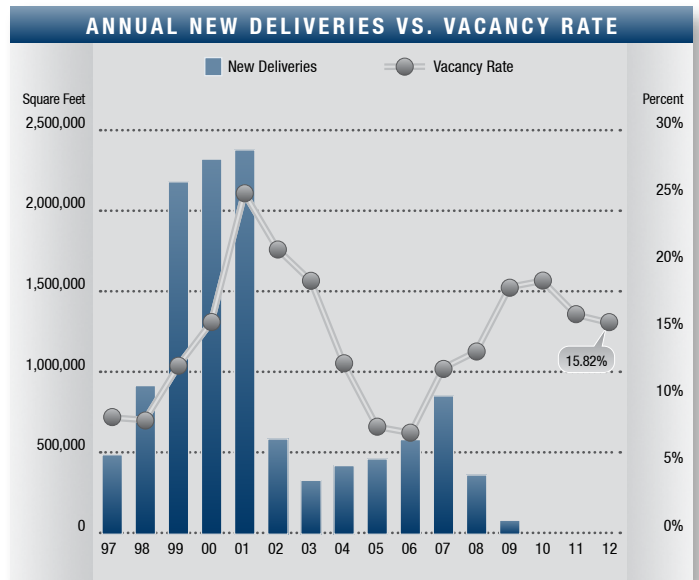
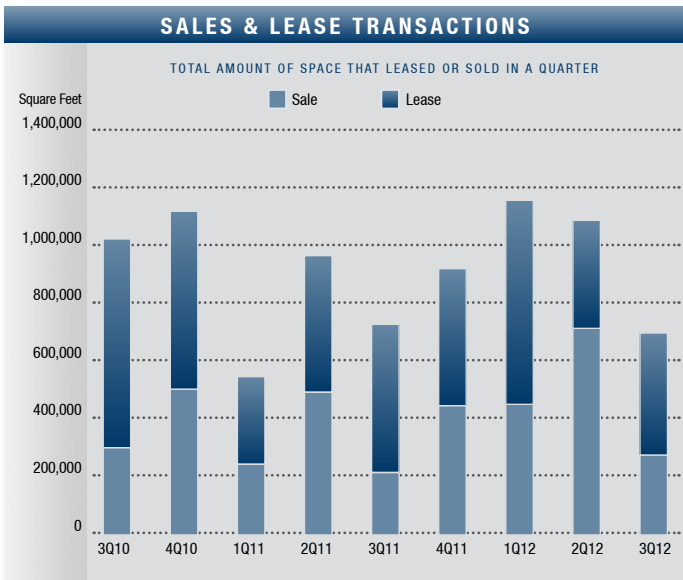
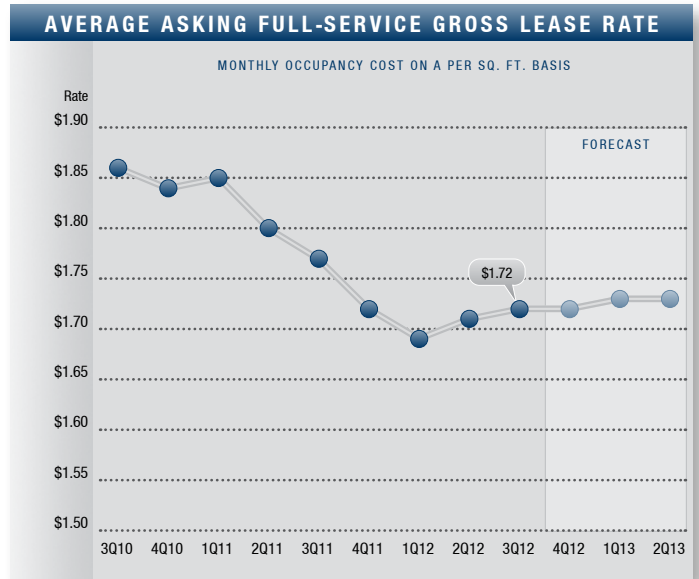
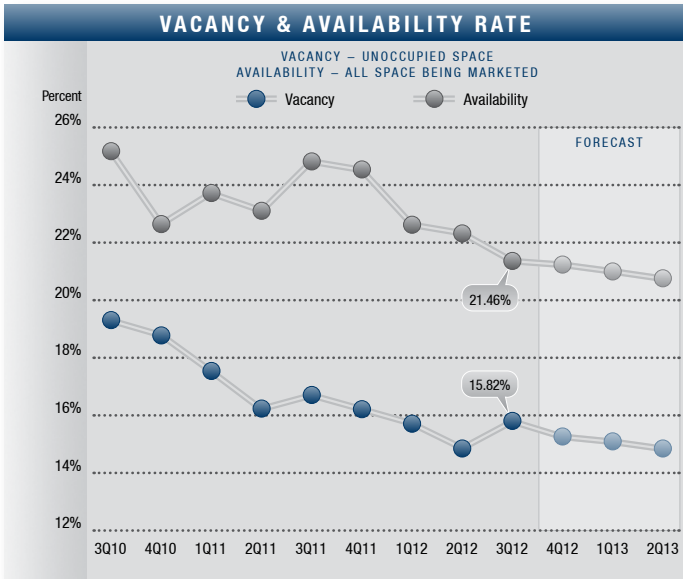
- **Steady Growth** - The Orange County flex market conveyed more signs of stabilization in the third quarter of 2012. Availability decreased compared to the prior quarter's rate and 2011's third quarter rate, and the market posted over 625,000 square feet of positive net absorption over eight quarters. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - At the end of the quarter, there was nothing under construction. 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** - Direct/sublease space (unoccupied) finished the quarter at 15.82%, a decrease of 5.33% compared to 2011's third quarter rate of 16.71% and significantly down from the record high rate of 25.85% recorded in the second quarter of 2002.
- **Availability** - Direct/sublease space being marketed was 21.46% at the end of the third quarter, a decrease of 13.57% compared to the 24.83% seen in the third 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 \$1.72 in the third quarter of 2012 — one cent higher than the previous quarter's rate but a 2.82% decrease from 2011's third quarter rate of \$1.77. The record high rate of \$2.66 was established in the third quarter of 2007.
- **Absorption** - The Orange County flex market posted 172,348 square feet of negative absorption in the third

quarter of 2012, giving the market a total of 627,198 square feet of positive absorption over the last eight quarters. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity** - Leasing activity checked in at 267,310 square feet this quarter, an increase from the 202,677 square feet seen in the third quarter of 2011. Sales activity for the third quarter of 2012 showed a decrease, posting 426,035 square feet of activity this quarter compared to the third quarter of 2011's 522,364 square feet of sales transactions.
- **Employment** - The unemployment rate in Orange County was 7.7% in August 2012 — down from a revised 7.9% in July 2012 and below the previous year's estimate of 9.0%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 29,000 payroll jobs from August 2011 to August 2012. The largest gains were 10,600 in professional & business services and 9,100 in leisure & hospitality; however, Orange County lost 1,900 government jobs during that same period.
- **Overall** - We are beginning to see a decrease in the amount of available space. As we continue into the second half of 2012, absorption for the year has been positive, and with no 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 as lenders continue to gradually dispose of distressed assets. Lease rates are expected to continue to stabilize and possibly increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.

FLEX MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	15.82%	14.86%	16.71%	(5.33%)
Availability Rate	21.46%	22.33%	24.83%	(13.57%)
Average Asking Lease Rate	\$1.72	\$1.71	\$1.77	(2.82%)
Sale & Lease Transactions	693,345	1,081,085	725,041	(4.37%)
Gross Absorption	475,789	518,767	387,947	22.64%
Net Absorption	(172,348)	156,889	(85,189)	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
North County													
Anaheim	22	417,167	0	0	34,273	8.22%	57,739	13.84%	\$1.36	(108)	5,842	4,994	16,057
Brea	13	397,051	0	0	81,182	20.45%	218,173	54.95%	\$1.66	4,578	12,252	10,746	27,113
Buena Park	3	70,000	0	0	2,900	4.14%	2,900	4.14%	\$0.00	0	0	0	20
Fullerton	8	97,826	0	24,000	6,725	0.00%	10,858	11.10%	\$0.00	0	1,730	0	1,730
Placentia	3	61,675	0	0	9,443	15.31%	9,443	15.31%	\$1.54	0	(1,126)	0	0
North County Total	49	1,043,719	0	24,000	134,523	12.89%	299,113	28.66%	\$1.63	4,470	18,718	15,740	44,920
West County													
Cypress	10	375,042	0	0	111,772	29.80%	151,100	40.29%	\$1.63	51,974	(6,972)	51,974	61,670
Huntington Beach	3	49,145	0	0	5,427	11.04%	5,427	11.04%	\$1.30	0	(2,204)	0	706
Seal Beach	5	72,877	0	0	5,343	7.33%	11,769	16.15%	\$2.35	0	(5,343)	0	0
West County Total	18	497,064	0	0	122,542	24.65%	168,296	33.86%	\$1.75	51,974	(14,519)	51,974	62,376
Central County													
Anaheim	11	241,614	0	0	21,057	8.72%	21,057	8.72%	\$1.83	(4,500)	(5,990)	0	10
Garden Grove	2	27,400	0	0	4,010	14.64%	5,210	19.01%	\$0.00	1,100	1,100	1,100	3,910
Orange	8	163,577	0	0	22,521	13.77%	22,907	14.00%	\$1.95	(3,450)	(12,396)	3,507	7,462
Santa Ana	10	167,782	0	0	5,585	3.33%	38,859	23.16%	\$1.45	0	11,821	0	11,821
Tustin	6	108,807	0	0	1,482	1.36%	1,482	1.36%	\$0.00	0	918	0	2,400
Central County Total	37	709,180	0	0	54,655	7.71%	89,515	12.62%	\$1.52	(6,850)	(4,547)	4,607	25,603
Airport Area													
Costa Mesa	8	130,175	0	0	15,130	11.62%	23,817	18.30%	\$1.55	0	(4,241)	20,138	23,071
Irvine	117	3,537,377	0	100,000	484,656	13.70%	591,410	16.72%	\$2.04	(50,831)	24,265	124,051	347,748
Newport Beach	28	620,683	0	0	45,608	7.35%	41,421	6.67%	\$2.63	(951)	11,074	21,212	54,411
Santa Ana	12	494,700	0	0	89,789	18.15%	95,907	19.39%	\$1.54	(30,774)	(27,125)	4,287	33,969
Tustin	4	192,391	0	0	48,673	25.30%	0	0.00%	\$0.00	0	99	0	99
Airport Area Total	169	4,975,326	0	100,000	683,856	13.74%	752,555	15.13%	\$1.85	(82,556)	4,072	169,688	459,298
South County													
Aliso Viejo	44	1,364,694	0	0	163,349	11.97%	281,045	20.59%	\$1.81	(6,581)	21,235	18,576	78,605
Dana Point	6	77,940	0	0	4,111	5.27%	4,111	5.27%	\$0.00	0	(147)	0	0
Foothill Ranch	5	105,397	0	0	20,880	19.81%	23,652	22.44%	\$1.25	(1,367)	285	0	1,652
Irvine Spectrum	237	5,552,618	0	0	1,048,888	18.89%	1,462,647	26.34%	\$1.74	(138,270)	13,279	155,393	542,969
Laguna Beach	5	74,016	0	0	4,252	5.74%	7,660	10.35%	\$0.00	(119)	(1,070)	1,931	3,502
Laguna Hills	14	468,729	0	0	61,712	13.17%	93,013	19.84%	\$1.66	1,338	(4,828)	6,977	26,918
Laguna Niguel	3	53,170	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Lake Forest	40	1,491,706	0	0	310,678	20.83%	404,861	27.14%	\$1.77	(3,720)	29,382	15,783	205,219
Mission Viejo	29	407,235	0	0	53,074	13.03%	62,391	15.32%	\$1.76	1,989	(23,222)	1,989	6,149
Rancho Santa Margarita	12	315,820	0	0	70,588	22.35%	68,081	21.56%	\$1.50	(4,581)	(9,724)	7,016	19,639
San Clemente	11	234,169	0	0	35,635	15.22%	55,094	23.53%	\$1.61	19,146	37,110	19,432	42,057
San Juan Capistrano	31	622,488	0	0	77,767	12.49%	81,726	13.13%	\$2.03	(7,221)	6,363	6,683	49,031
South County Total	437	10,767,982	0	0	1,850,934	17.19%	2,544,281	23.63%	\$1.73	(139,386)	68,663	233,780	975,741
Orange County Total	710	17,993,271	0	124,000	2,846,510	15.82%	3,853,760	21.46%	\$1.72	(172,348)	72,387	475,789	1,567,938
North County													
0-29,999	40	639,673	0	24,000	74,364	11.63%	110,175	17.22%	\$1.55	4,470	15,658	12,790	36,675
30,000-49,999	7	280,266	0	0	7,532	2.69%	123,941	44.22%	\$1.65	0	4,345	2,950	8,245
50,000 Plus	2	123,780	0	0	52,627	42.52%	64,997	52.51%	\$1.65	0	(1,285)	0	0
West County													
0-29,999	11	129,009	0	0	10,583	8.20%	13,207	10.24%	\$1.43	0	(7,360)	0	706
30,000-49,999	4	167,585	0	0	7,109	4.24%	50,239	29.98%	\$2.03	51,974	1,160	51,974	51,974
50,000 Plus	3	200,470	0	0	104,850	52.30%	104,850	52.30%	\$0.00	0	(8,319)	0	9,696
Central County													
0-29,999	31	408,552	0	0	32,897	8.05%	51,831	12.69%	\$1.54	(6,850)	(3,311)	1,100	10,431
30,000-49,999	2	73,363	0	0	4,837	6.59%	4,837	6.59%	\$0.00	0	10	0	10
50,000 Plus	4	227,265	0	0	16,921	7.45%	32,847	14.45%	\$1.51	0	(1,246)	3,507	15,162
Airport Area													
0-29,999	90	1,074,679	0	0	106,063	9.87%	132,901	12.37%	\$1.73	19,038	66,573	59,132	133,989
30,000-49,999	41	1,672,705	0	0	225,515	13.48%	275,578	16.47%	\$1.82	(62,282)	38,282	42,913	213,748
50,000 Plus	38	2,227,942	0	100,000	352,278	15.81%	344,076	15.44%	\$1.92	(39,312)	(100,783)	67,643	111,561
South County													
0-29,999	285	3,696,475	0	0	493,667	13.36%	738,351	19.97%	\$1.72	12,799	115,762	124,016	408,595
30,000-49,999	100	3,985,844	0	0	675,792	16.95%	738,600	18.53%	\$1.74	(38,564)	(28,542)	62,528	379,864
50,000 Plus	52	3,085,663	0	0	681,475	22.09%	1,067,330	34.59%	\$0.00	(113,621)	(18,557)	47,236	187,282
Orange County													
0-29,999	457	5,948,388	0	24,000	717,574	12.06%	1,046,465	17.59%	\$1.68	29,457	187,322	197,038	590,396
30,000-49,999	154	6,179,763	0	0	920,785	14.90%	1,193,195	19.31%	\$1.74	(48,872)	15,255	160,365	653,841
50,000 Plus	99	5,865,120	0	100,000	1,208,151	20.60%	1,614,100	27.52%	\$1.73	(152,933)	(130,190)	118,386	323,701
Orange County Total	710	17,993,271	0	124,000	2,846,510	15.82%	3,853,760	21.46%	\$1.72	(172,348)	72,387	475,789	1,567,938

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, with ground level loading possible.

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101 Shipyard Way
Newport Beach, CA 92663

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