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REAL ESTATE SERVICES

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Orange County | Fourth Quarter 2012

Flex Market Report

Compared to 2011:

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 at the end of 2012. Both vacancy and availability decreased compared to the prior quarter's rate and 2011's fourth quarter rate, and the market posted over 200,000 square feet of positive net absorption in 2012. 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 only one project in Aliso Viejo under construction, which totaled 21,000 square feet. 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 year at 15.23%, a decrease of 7.13% compared to 2011's fourth quarter rate of 16.40% 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 19.08% at the end of 2012, a huge decrease of 22.69% compared to the 24.68% seen in the fourth 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 $1.67 in the fourth quarter of 2012 — five cents lower than the previous quarter's rate and a decrease from 2011's fourth quarter rate of $1.72. 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.

- **Absorption -** The Orange County flex market posted 61,961 square feet of positive absorption in the fourth quarter of 2012, giving the market a total of 211,520 square feet of positive absorption for 2012. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity -** Leasing activity checked in at just over 2.3 million square in 2012, an increase from the 1.8 million square feet seen in 2011. Sales activity for 2012 showed an increase, posting almost 2 million square feet of activity for 2012 compared to 2011's 1.36 million square feet of sales transactions.

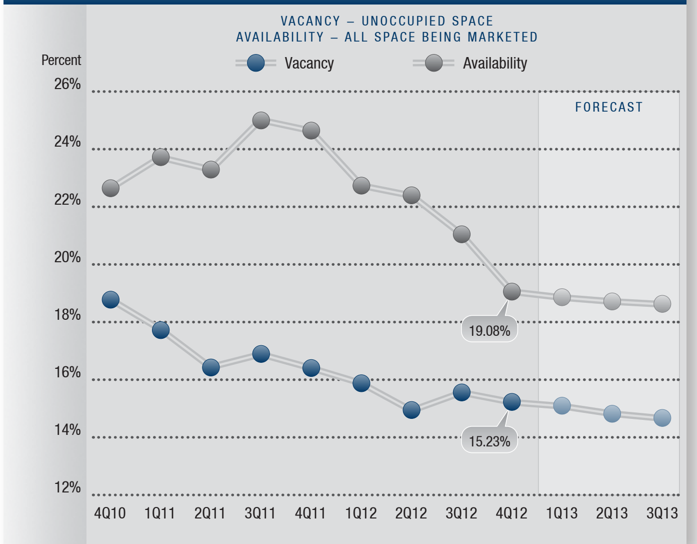
- **Employment -** The unemployment rate in Orange County was 7% in November 2012 — down from a revised 7.2% n October 2012 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 16,700 payroll jobs from November 2011 to November 2012. The largest gains were 7,100 in leisure & hospitality and 6,100 in professional & business services; however, Orange County lost 8,700 government jobs during that same period.

- **Overall -** We are beginning to see a substantial decrease in the amount of available space. As we continue 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 continue to stabilize and possibly increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.

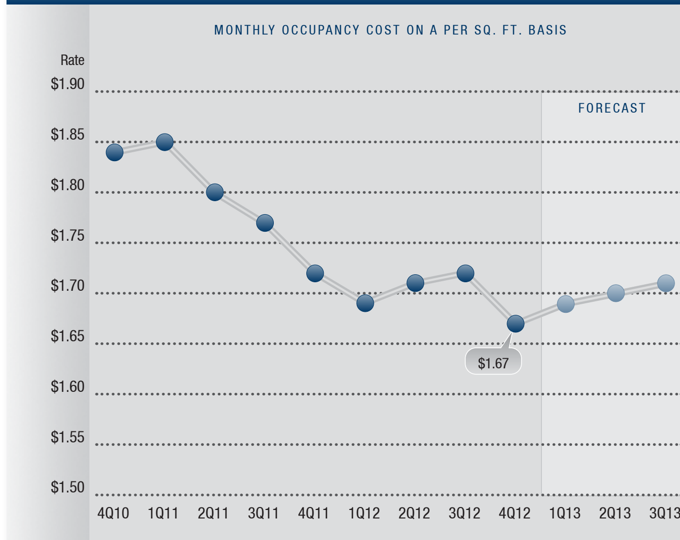
FLEX MARKET OVERVIEW

	2012	2011	2010	% of Change vs. 2011
Total Vacancy Rate	15.23%	16.40%	18.77%	(7.13%)
Availability Rate	19.08%	24.68%	22.66%	(22.69%)
Average Asking Lease Rate	$1.67	$1.72	$1.84	(2.91%)
Sale & Lease Transactions	4,292,275	3,148,426	3,477,635	36.33%
Gross Absorption	2,127,351	2,181,769	2,044,303	(2.49%)
Net Absorption	211,520	426,699	(89,811)	N/A

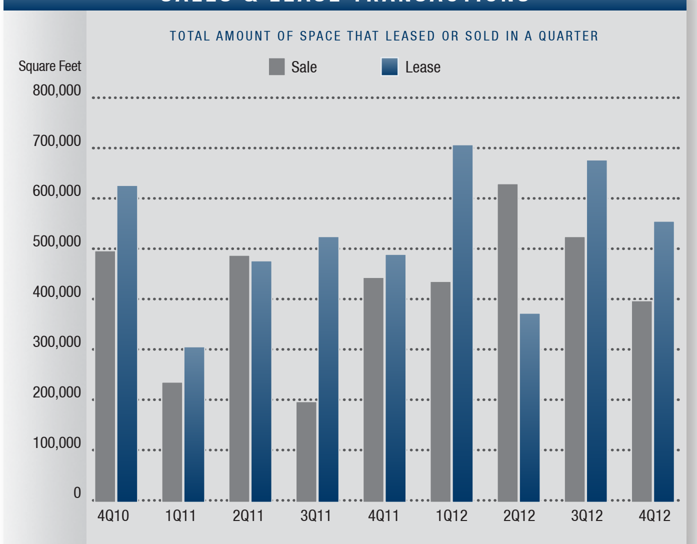
VACANCY & AVAILABILITY RATE



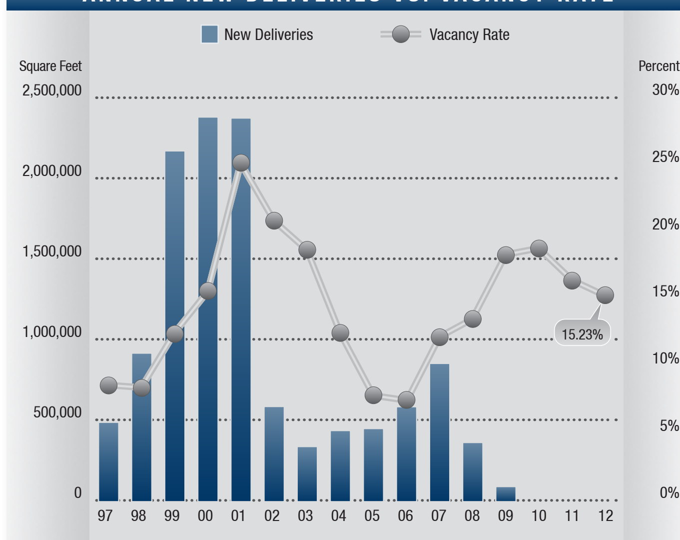
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE



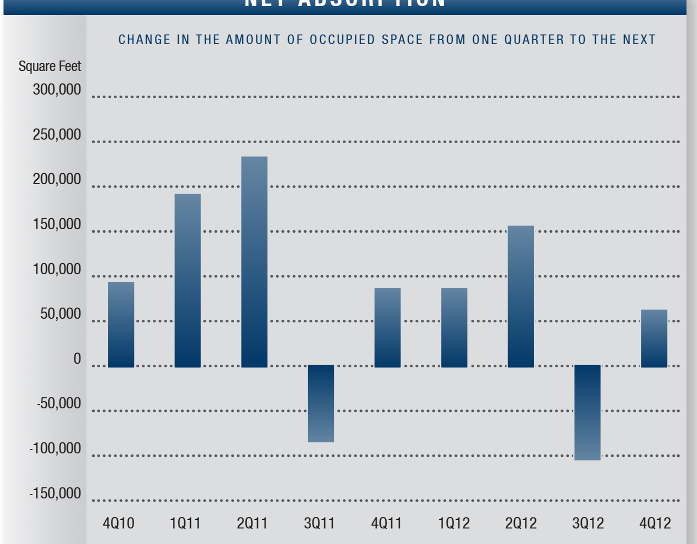
SALES & LEASE TRANSACTIONS



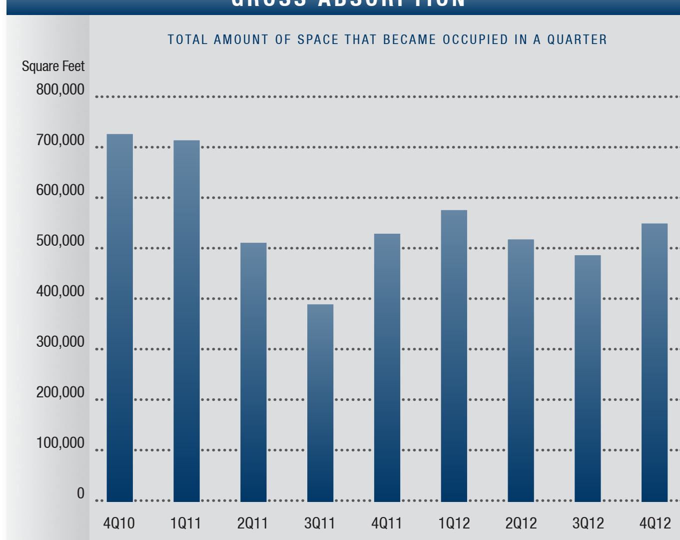
ANNUAL NEW DELIVERIES VS. VACANCY RATE



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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
North County													
Anaheim	17	316,721	0	0	34,110	10.77%	58,551	18.49%	$0.00	(1,717)	1,981	2,919	15,682
Brea	13	397,051	0	0	50,259	12.66%	225,472	56.79%	$1.65	30,923	43,175	66,976	94,089
Buena Park	3	70,000	0	0	2,900	4.14%	2,900	4.14%	$0.00	0	20	0	20
Fullerton	8	97,826	0	24,000	8,225	0.00%	12,358	12.63%	$0.00	(1,500)	230	0	1,730
Orange	2	65,070	0	0	32,000	0.00%	0	0.00%	$0.00	0	(32,000)	0	0
Placentia	3	61,575	0	0	9,443	15.34%	9,443	15.34%	$1.54	0	(1,126)	0	0
North County Total	46	1,008,243	0	24,000	136,937	13.58%	308,724	30.62%	$1.63	27,706	12,280	69,895	111,521
West County													
Cypress	9	360,542	0	0	110,116	30.54%	146,820	40.72%	$1.65	1,656	(5,316)	1,656	63,326
Huntington Beach	5	93,522	0	0	0	0.00%	0	0.00%	$0.00	5,427	3,223	5,427	6,133
Seal Beach	4	43,000	0	0	5,343	12.43%	12,996	30.22%	$2.35	0	(5,343)		0
West County Total	18	497,064	0	0	115,459	23.23%	159,816	32.15%	$2.06	7,083	(7,436)	7,083	69,459
Central County													
Anaheim	16	342,060	0	0	20,423	5.97%	23,573	6.89%	$1.64	2,514	(1,332)	3,029	6,333
Garden Grove	3	54,082	0	0	4,010	7.41%	5,210	9.63%	$0.00	0	1,100	0	3,910
Orange	7	130,507	0	0	11,787	9.03%	30,582	23.43%	$1.95	6,462	(1,662)	6,462	14,689
Santa Ana	20	601,220	0	0	65,363	10.87%	84,224	14.01%	$1.51	(2,652)	14,707	5,082	51,535
Tustin	9	229,582	0	0	50,469	21.98%	1,796	0.78%	$1.50	(1,796)	703	0	3,981
Central County Total	55	1,357,451	0	0	152,052	11.20%	145,385	10.71%	$1.58	4,528	13,516	14,573	80,448
Airport Area													
Costa Mesa	8	130,175	0	0	8,388	6.44%	24,249	18.63%	$1.57	(432)	2,501	0	23,071
Irvine	110	3,295,341	0	100,000	346,632	10.52%	466,050	14.14%	$1.74	104,357	127,583	144,106	476,511
Newport Beach	28	620,880	0	0	22,129	3.56%	33,129	5.34%	$1.65	20,316	34,553	21,202	75,613
Santa Ana	1	26,895	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Tustin	1	71,616	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Airport Area Total	148	4,144,907	0	100,000	377,149	9.10%	523,428	12.63%	$1.71	124,241	164,637	165,308	575,195
South County													
Aliso Viejo	44	1,364,694	21,000	0	173,852	12.74%	265,435	19.45%	$1.72	(8,536)	10,732	43,674	122,279
Dana Point	46	1,081,179	0	0	4,111	0.38%	4,111	0.38%	$0.00	0	(147)	0	0
Foothill Ranch	4	85,397	0	0	20,931	24.51%	26,570	31.11%	$1.25	(2,024)	234	0	3,625
Irvine Spectrum	205	4,805,157	0	0	1,125,332	23.42%	1,206,029	25.10%	$1.77	(89,273)	(28,459)	187,321	749,233
Laguna Beach	5	74,016	0	0	4,952	6.69%	7,974	10.77%	$0.00	(700)	(1,770)	386	3,888
Laguna Hills	14	467,524	0	0	53,585	11.46%	113,216	24.22%	$1.66	8,127	3,299	16,608	43,526
Laguna Niguel	3	53,282	0	0	0	0.00%	1,194	2.24%	$0.00	0	0	0	0
Lake Forest	40	1,495,975	0	0	383,150	25.61%	440,705	29.46%	$1.69	(38,205)	(8,823)	2,357	207,576
Mission Viejo	29	407,235	0	0	36,616	8.99%	55,241	13.56%	$1.76	15,158	(6,764)	15,158	22,607
Rancho Santa Margarita	11	307,012	0	0	58,689	19.12%	55,746	18.16%	$1.51	(717)	2,175	1,253	20,892
San Clemente	11	234,169	0	0	31,936	13.64%	45,879	19.59%	$1.60	3,699	40,809	4,560	46,617
San Juan Capistrano	31	622,488	0	0	66,893	10.75%	76,697	12.32%	$2.10	10,874	17,237	21,454	70,485
South County Total	443	10,998,128	21,000	0	1,960,047	17.82%	2,298,797	20.90%	$1.69	(101,597)	28,523	292,771	1,290,728
Orange County Total	**710**	**18,005,793**	**21,000**	**124,000**	**2,741,644**	**15.23%**	**3,436,150**	**19.08%**	**$1.67**	**61,961**	**211,520**	**549,630**	**2,127,351**
North County													
0-29,999	37	639,673	0	24,000	74,364	11.63%	110,175	17.22%	$1.55	4,470	15,658	12,790	44,503
30,000-49,999	7	274,150	0	0	38,410	14.01%	121,669	44.38%	$1.65	0	(27,655)	0	7,095
50,000 Plus	2	94,420	0	0	24,163	25.59%	76,880	81.42%	$1.65	23,236	24,277	57,105	59,923
West County													
0-29,999	11	129,009	0	0	10,583	8.20%	13,207	10.24%	$1.43	0	(7,360)	0	2,506
30,000-49,999	4	167,585	0	0	7,109	4.24%	51,466	30.71%	$2.06	0	1,160	0	51,974
50,000 Plus	3	200,470	0	0	97,767	48.77%	95,143	47.46%	$0.00	7,083	(1,236)	7,083	14,979
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	19,587
30,000-49,999	10	376,879	0	0	62,464	16.57%	14,941	3.96%	$1.26	7,751	28,385	7,761	37,688
50,000 Plus	14	572,020	0	0	56,691	9.91%	78,613	13.74%	$1.64	3,627	(11,558)	5,712	23,173
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	162,174
30,000-49,999	29	1,187,872	0	0	71,070	5.98%	119,384	10.05%	$1.59	22,429	77,149	59,053	232,699
50,000 Plus	29	1,882,356	0	100,000	200,016	10.63%	271,143	14.40%	$0.00	82,774	20,915	47,123	180,322
South County													
0-29,999	285	3,696,475	21,000	0	493,667	13.36%	738,351	19.97%	$1.72	12,799	115,762	91,818	539,264
30,000-49,999	105	4,203,168	0	0	547,007	13.01%	716,874	17.06%	$1.73	142,832	130,941	184,854	578,026
50,000 Plus	53	3,098,485	0	0	919,373	29.67%	843,572	27.23%	$1.68	(257,228)	(218,180)	16,099	173,438
Orange County													
0-29,999	454	5,948,388	21,000	24,000	717,574	12.06%	1,046,465	17.59%	$1.68	29,457	187,322	164,840	768,034
30,000-49,999	155	6,209,654	0	0	726,060	11.69%	1,024,334	16.50%	$1.68	173,012	209,980	251,668	907,482
50,000 Plus	101	5,847,751	0	100,000	1,298,010	22.20%	1,365,351	23.35%	$1.67	(140,508)	(185,782)	133,122	451,835
Orange County Total	**710**	**18,005,793**	**21,000**	**124,000**	**2,741,644**	**15.23%**	**3,436,150**	**19.08%**	**$1.67**	**61,961**	**211,520**	**549,630**	**2,127,351**

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

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