



Flex Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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Market Highlights

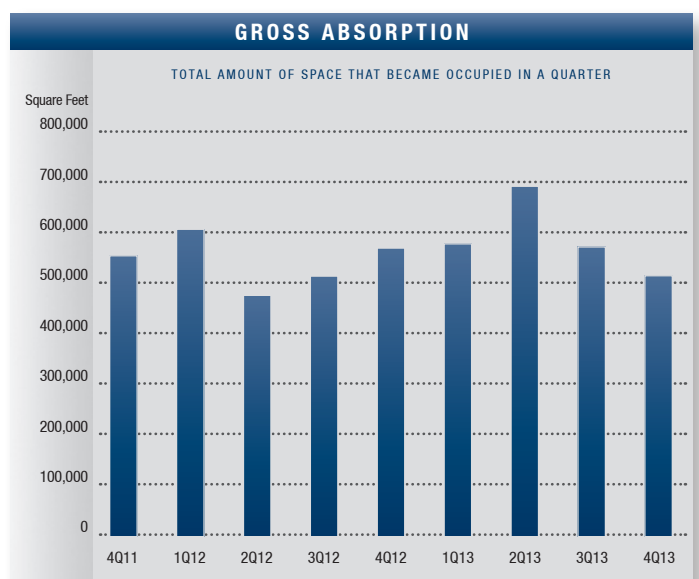
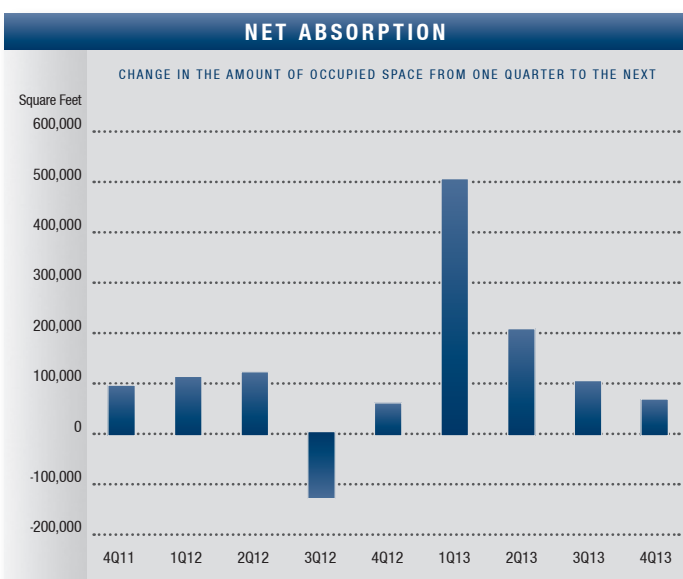
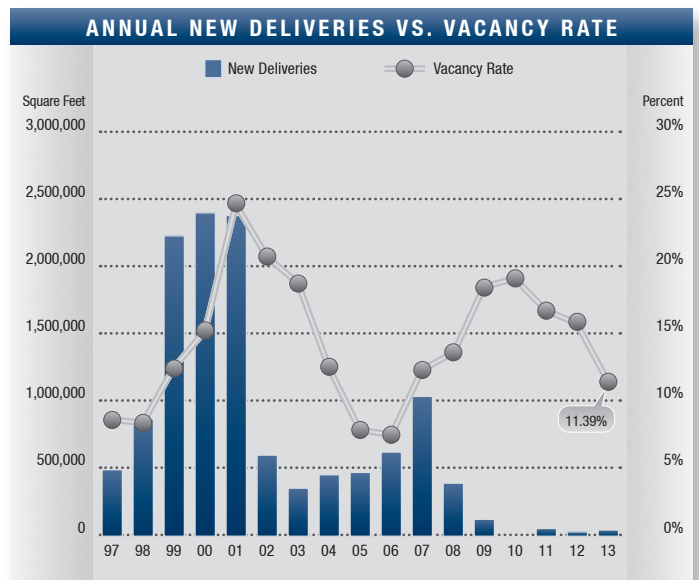
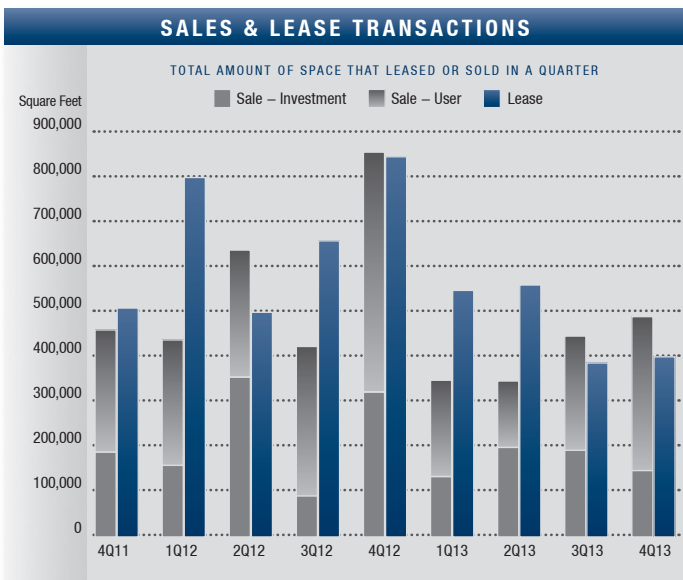
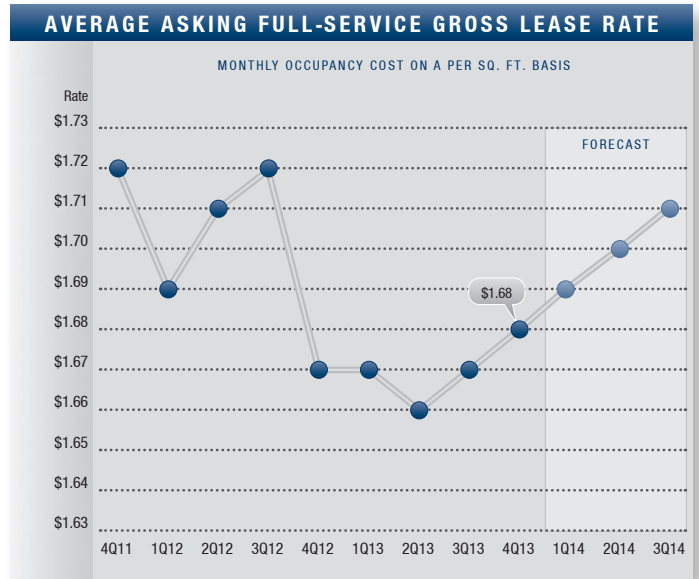
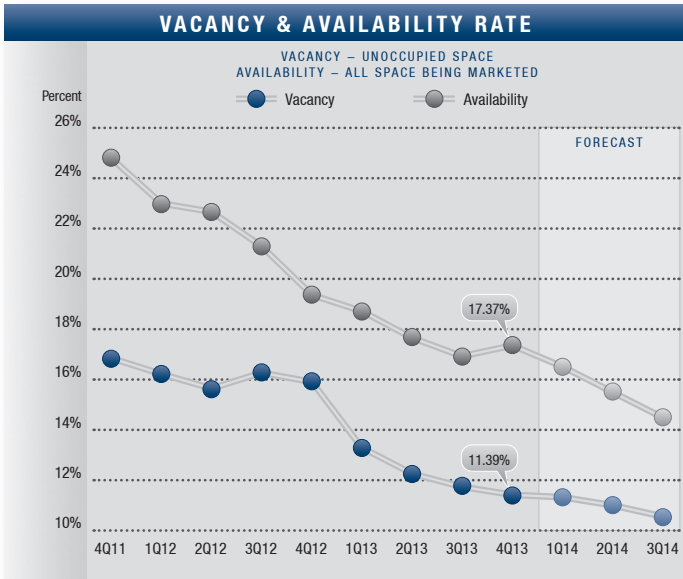
- **Steady Growth** - 2013 was a year of significant stabilization for the Orange County flex market. Net absorption posted four quarters of positive numbers, while lease rates finally ceased their descent and began climbing back up. Despite a slight uptick in availability in the fourth quarter, both vacancy and availability dropped dramatically from 2011 and 2012. While these are positive indications, stability will need to be sustained in the coming year for the market to flourish again.
- **Construction** - At the end of the quarter, there was nothing under construction in Orange County's flex market and only 174,000 square feet planned. 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 in the fourth quarter. Direct/sublease space (unoccupied) finished the year at 11.39%, a decrease of close to 30% compared to 2012's third quarter rate of 15.97% 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 17.37% at the end of the last quarter of 2013, a slight uptick from the previous quarter but a decrease of 10.46% compared to the 19.40% seen at the end 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 \$1.87 in the fourth quarter — one cent higher than both the previous quarter's rate and 2012's fourth quarter rate. The record high rate of \$2.66 was established in the third quarter of 2007.
- **Absorption** - The Orange County flex market posted nearly 69,000 square feet of positive absorption in the fourth

quarter, giving the market a total of 877,342 square feet of positive absorption for 2013, the most positive absorption seen in a year since 2005. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity** - Leasing activity checked in at just under 400,000 square feet at the end of the year, creating a total of 1.9 million square feet leased in 2013 compared to 2.8 million in 2012. Sales activity came in at 485,404 for the quarter and 1.6 million square feet for the year, compared to 2012's 2.3 million square feet of sales transactions.
- **Employment** - The unemployment rate in Orange County was 5.6% in November 2013 — down from a revised 5.8% in October 2013 and below the previous year's estimate of 6.9%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 30,600 payroll jobs from November 2012 to November 2013. Most sectors showed gains in employment; the largest gains were 8,300 in construction and 6,200 in leisure & hospitality during that same period. Government posted the largest year-over loss, dropping by 4,400 jobs.
- **Overall** - We are continuing to see substantial decreases in the amount of vacant space in the Orange County flex market, aided by the lack of construction. 2013 has brought the most positive absorption seen in the market in eight years, and with few new deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2014 being another year of stabilization and growth. Lease rates are expected to continue to increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will again thrive.

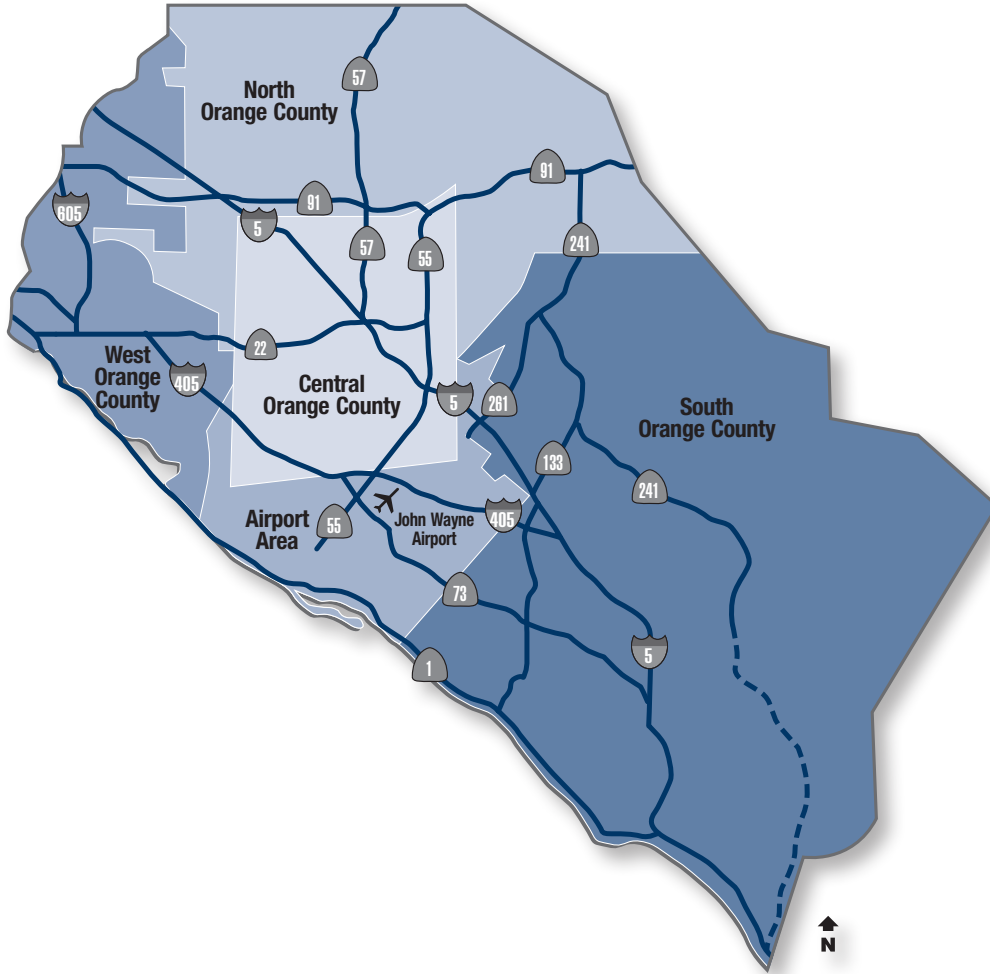
FLEX MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Total Vacancy Rate	11.39%	15.97%	16.80%	(28.68%)
Availability Rate	17.37%	19.40%	24.80%	(10.46%)
Average Asking Lease Rate	\$1.68	\$1.67	\$1.72	0.60%
Sale & Lease Transactions	3,495,250	5,129,503	3,263,728	(31.86%)
Gross Absorption	2,627,685	2,150,830	2,272,351	22.17%
Net Absorption	877,342	168,859	451,294	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
North County													
Anaheim	30	621,583	0	0	54,249	8.73%	66,816	10.75%	\$1.32	(3,500)	(5,541)	857	47,901
Brea	14	414,115	0	0	52,577	12.70%	145,101	35.04%	\$1.44	9,656	(2,318)	9,656	66,658
Buena Park	6	112,122	0	0	10,163	9.06%	8,700	7.76%	\$1.35	1,478	1,478	1,478	1,478
Fullerton	9	105,926	0	24,000	9,819	0.00%	21,434	20.23%	\$0.00	1,950	(1,594)	1,950	1,950
Placentia	7	158,589	0	0	18,246	11.51%	18,246	11.51%	\$1.65	1,070	1,197	1,070	1,955
North County Total	66	1,412,335	0	24,000	145,054	10.27%	260,297	18.43%	\$1.42	10,654	(6,778)	15,011	119,942
West County													
Cypress	10	375,042	0	0	106,800	28.48%	149,498	39.86%	\$1.85	5,266	3,316	5,266	19,766
Huntington Beach	4	76,145	0	0	10,868	14.27%	9,395	12.34%	\$1.38	(4,415)	(10,868)	1,172	1,172
Seal Beach	4	43,000	0	0	4,727	10.99%	7,740	18.00%	\$2.15	1,843	616	1,843	1,843
West County Total	18	494,187	0	0	122,395	24.77%	166,633	33.72%	\$1.74	2,694	(6,936)	8,281	22,781
Central County													
Garden Grove	5	74,082	0	0	16,460	22.22%	17,660	23.84%	\$0.00	(550)	2,050	0	3,800
Orange	10	190,129	0	0	15,711	8.26%	14,935	7.86%	\$1.84	(2,907)	4,800	1,120	18,149
Santa Ana	21	605,916	0	0	97,275	16.05%	109,886	18.14%	\$1.58	(21,629)	(30,695)	2,076	43,922
Tustin	8	239,182	0	0	3,000	1.25%	5,074	2.12%	\$0.00	0	47,469	0	54,219
Central County Total	44	1,109,309	0	0	132,446	11.94%	147,555	13.30%	\$1.60	(25,086)	23,624	3,196	120,090
Airport Area													
Costa Mesa	9	151,175	0	0	14,155	9.36%	15,299	10.12%	\$1.55	0	(5,767)	0	8,625
Irvine	1	15,000	0	0	0	0.00%	1,827	12.18%	\$0.00	0	0	0	0
Fountain Valley	114	3,471,462	0	0	319,419	9.20%	618,041	17.80%	\$1.91	20,264	63,941	104,630	486,779
Newport Beach	32	663,893	0	0	31,490	4.74%	48,625	7.32%	\$1.81	(5,005)	667	3,955	32,411
Santa Ana	2	58,895	0	0	0	0.00%	0	0.00%	\$0.00	0	32,000	0	32,000
Tustin	2	81,116	0	0	0	0.00%	0	0.00%	\$0.00	4,838	4,850	4,838	9,487
Airport Area Total	160	4,441,541	0	0	365,064	8.22%	683,792	15.40%	\$1.84	20,097	95,691	113,423	569,302
South County													
Aliso Viejo	47	1,423,749	0	0	204,887	14.39%	278,831	19.58%	\$1.79	(18,055)	(8,535)	6,357	65,058
Dana Point	6	77,940	0	0	6,667	8.55%	9,714	12.46%	\$0.00	(4,303)	(2,556)	0	3,047
Foothill Ranch	5	105,447	0	0	28,501	27.03%	27,094	25.69%	\$0.00	(3,522)	6,564	1,367	20,870
Irvine Spectrum	240	5,718,107	0	150,000	654,382	11.44%	827,263	14.47%	\$1.91	80,275	484,550	290,668	1,147,247
Ladera Ranch	8	227,862	0	0	48,501	21.29%	46,608	20.45%	\$1.25	4,420	23,851	4,420	36,340
Laguna Beach	5	74,016	0	0	3,758	5.08%	4,905	6.63%	\$0.00	0	1,194	0	6,784
Laguna Hills	15	495,270	0	0	70,886	14.31%	119,959	24.22%	\$1.66	(29)	(15,432)	10,296	41,711
Laguna Niguel	3	53,282	0	0	2,220	4.17%	2,220	4.17%	\$0.00	1,194	(2,220)	1,194	1,194
Lake Forest	44	1,529,361	0	0	170,655	11.16%	420,680	27.51%	\$1.71	(13,518)	265,647	10,325	303,883
Mission Viejo	29	407,235	0	0	48,920	12.01%	66,533	16.34%	\$1.65	(3,718)	(12,304)	5,329	14,720
Rancho Santa Margarita	11	303,880	0	0	22,875	7.53%	70,497	23.20%	\$1.42	3,534	21,355	4,779	35,567
San Clemente	12	255,768	0	0	35,323	13.81%	36,916	14.43%	\$1.33	14,155	17,557	26,351	64,884
San Juan Capistrano	31	622,488	0	0	73,338	11.78%	87,737	14.09%	\$2.08	144	(7,930)	10,333	54,265
South County Total	456	11,294,405	0	150,000	1,370,913	12.14%	1,998,957	17.70%	\$2.19	60,577	771,741	371,419	1,795,570
Orange County Total	744	18,751,777	0	174,000	2,135,872	11.39%	3,257,234	17.37%	\$1.68	68,936	877,342	511,330	2,627,685
North County													
0-29,999	54	866,935	0	24,000	87,302	10.07%	113,793	13.13%	\$1.30	4,244	10,004	7,744	84,463
30,000-49,999	8	315,421	0	0	34,306	10.88%	89,315	28.32%	\$1.44	6,410	(14,606)	6,410	7,060
50,000 Plus	4	229,979	0	0	23,446	10.19%	57,189	24.87%	\$1.89	0	(2,176)	857	28,419
West County													
0-29,999	11	126,132	0	0	14,368	11.39%	12,895	10.22%	\$1.38	(4,415)	(10,868)	1,172	15,672
30,000-49,999	4	167,585	0	0	3,177	1.90%	17,000	10.14%	\$2.06	7,109	3,932	7,109	7,109
50,000 Plus	3	200,470	0	0	104,850	52.30%	136,738	68.21%	\$0.00	0	0	0	0
Central County													
0-29,999	29	398,001	0	0	33,500	8.42%	47,940	12.05%	\$1.34	(1,882)	17,295	0	31,187
30,000-49,999	8	298,470	0	0	22,512	7.54%	22,512	7.54%	\$1.36	0	36,662	0	58,961
50,000 Plus	7	412,838	0	0	76,434	18.51%	77,103	18.68%	\$1.69	(23,204)	(30,333)	3,196	29,942
Airport Area													
0-29,999	93	1,062,572	0	0	102,096	9.61%	158,691	14.93%	\$1.80	(11,937)	(18,457)	17,340	91,956
30,000-49,999	30	1,224,341	0	0	75,442	6.16%	118,514	9.68%	\$2.14	(21,820)	27,628	31,040	120,985
50,000 Plus	37	2,154,628	0	0	187,526	8.70%	406,587	18.87%	\$1.75	53,854	86,520	65,043	356,361
South County													
0-29,999	298	3,937,302	0	0	395,995	10.06%	697,624	17.72%	\$1.66	(20,699)	144,793	73,808	519,324
30,000-49,999	104	4,163,294	0	0	561,165	13.48%	701,360	16.85%	\$1.75	(43,176)	(1,968)	94,111	388,053
50,000 Plus	54	3,193,809	0	150,000	413,753	12.95%	599,973	18.79%	\$1.77	124,452	628,916	203,500	888,193
Orange County													
0-29,999	485	6,390,942	0	24,000	633,261	9.91%	1,030,943	16.13%	\$1.64	(34,689)	142,767	100,064	742,602
30,000-49,999	154	6,169,111	0	0	696,602	11.29%	948,701	15.38%	\$1.68	(51,477)	51,648	138,670	582,168
50,000 Plus	105	6,191,724	0	150,000	806,009	13.02%	1,277,590	20.63%	\$1.73	155,102	682,927	272,596	1,302,915
Orange County Total	744	18,751,777	0	174,000	2,135,872	11.39%	3,257,234	17.37%	\$1.68	68,936	877,342	511,330	2,627,685

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, Fountain Valley, Irvine, Newport Beach, Santa Ana, Tustin

SOUTH

Aliso Viejo, Dana Point, Irvine Spectrum, Ladera Ranch, 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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