

# 360 CRE Market View

360 Commercial Partners  
2011 Year-End Market Intelligence Report



360 Commercial Partners is pleased to provide you with 360 CRE Market View, a high-level executive report delivering actionable commercial real estate market intelligence covering 2011 – and providing a look ahead at 2012.

The **360 CRE Market View** report is collaboratively authored by 360 Commercial Partners Managing Partner Louis Tomaselli, Office Sales/Investment Advisory Director Steve Economos, Office Leasing Advisory Director Andy White and Industrial Advisory Director Zach Niles. While this report provides a powerful top-line perspective on the market, we would be pleased to provide you with additional, drilled-down data and reporting. Please contact us at 949.296.3626 to request further information.



**Commercial Partners**

## ***The Next Boom is Coming...Slowly***

*In 2012, Take Advantage of the Commercial Real Estate Market as a Slow Economic Recovery Begins*



**Louis J. Tomaselli**  
Managing Partner  
360 Commercial Partners

If this headline sounds familiar, it should. The recovery - and, more specifically, rents - that we thought would gain significant traction last year is just now beginning to take hold. As I write this in mid-January, the data in the Orange County and Southern California commercial real estate markets - in both the industrial and office sectors - indicates that we are no longer at the bottom, but continuing steadily along the upward arc of growth, albeit slowly.

As we reported last year, the industrial sector outlook is clearer than the office segment, as industrial shows relatively low vacancy, little overbuilding (excepting the extreme in the East Inland Empire), and impressive tenant demand over the past few quarters.

*A quick look at the numbers:*

- The OC industrial market recorded 1.7 million square feet of net absorption, a five percent vacancy, no new construction, and one-to-two percent growth in ask rents as of the Q4 2011 - all pointing to rental growth and, potentially, to rent spikes.
- Similarly, the OC office market recorded 2.3 million square feet of net absorption, a 14 percent vacancy, no new construction, and lease rates at \$1.88 FSG PSF/month - arguably the bottom of the market, and roughly equivalent to 1999-2000 rents.

On the commercial real estate time continuum, today's market echoes that of the early 2000s, considering today's cost basis and lease rates. While the last commercial real estate market boom encompassed five years of growth (2002-2007), today's recovery is slower in coming - and could perhaps take twice as long - due, primarily, to weak job growth.

Simply re-stated (referencing last year's prognostication), we are likely in store for a 10-year-plus recovery. Meaning growth, a peak, then a correction curve taking 10 years in total - versus the five-year-span of the previous cycle.

As much as we'd all like a quicker recovery, the important thing to remember is that the economy, the commercial real estate market and rental rates are, indeed, recovering.

As in other areas of commerce that drive our nation's economy, the leaders in commercial real estate need to believe in the inevitability of this recovery. In fact, those who want to succeed in today's brave new world of commercial real estate - and continue to lead the field in the future - need to make bold moves now.

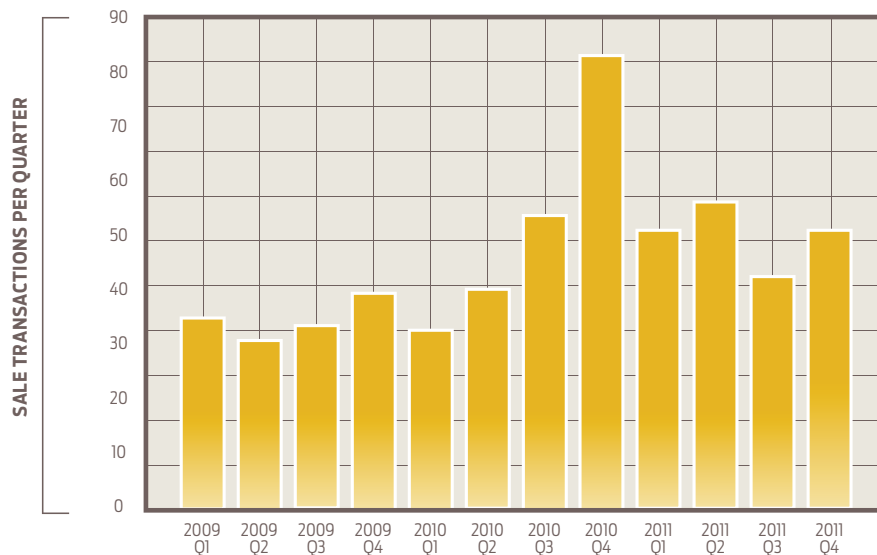
Those perceived as today's commercial real estate "risk takers" will be tomorrow's winners. And, unfortunately, those on the sidelines waiting for "just the right time" to get back into the game will still be there - on the bench - when the play clock on the next commercial real estate boom expires.

## The 2011 Orange County Office Market

During 2011, OC office building sales volume barely increased from 2010:

- » Orange County office building sales increased 0.004 percent (207 vs. 206 sales)
- » Inland Empire office building sales increased 19.5 percent (202 vs. 169 sales)
- » Los Angeles office building sales increased 23 percent (405 vs. 329 sales)

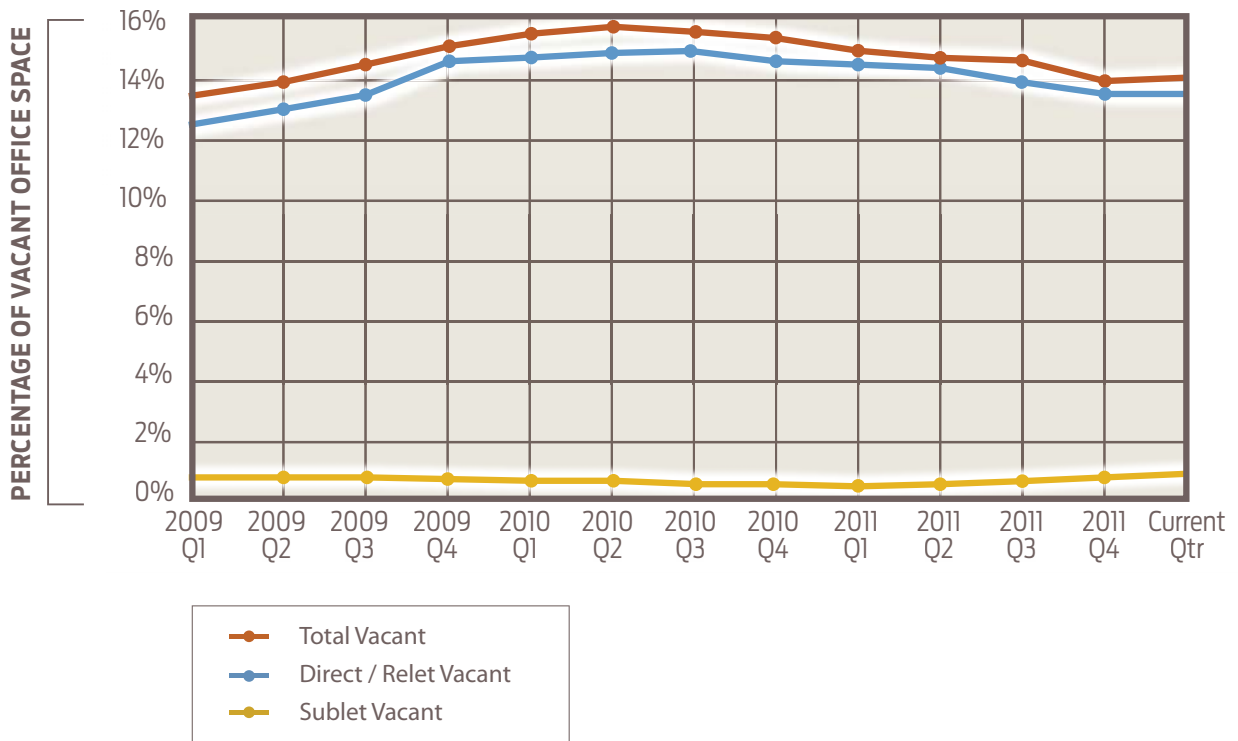
Note: all of the above calculations were based on information provided by CoStar Group



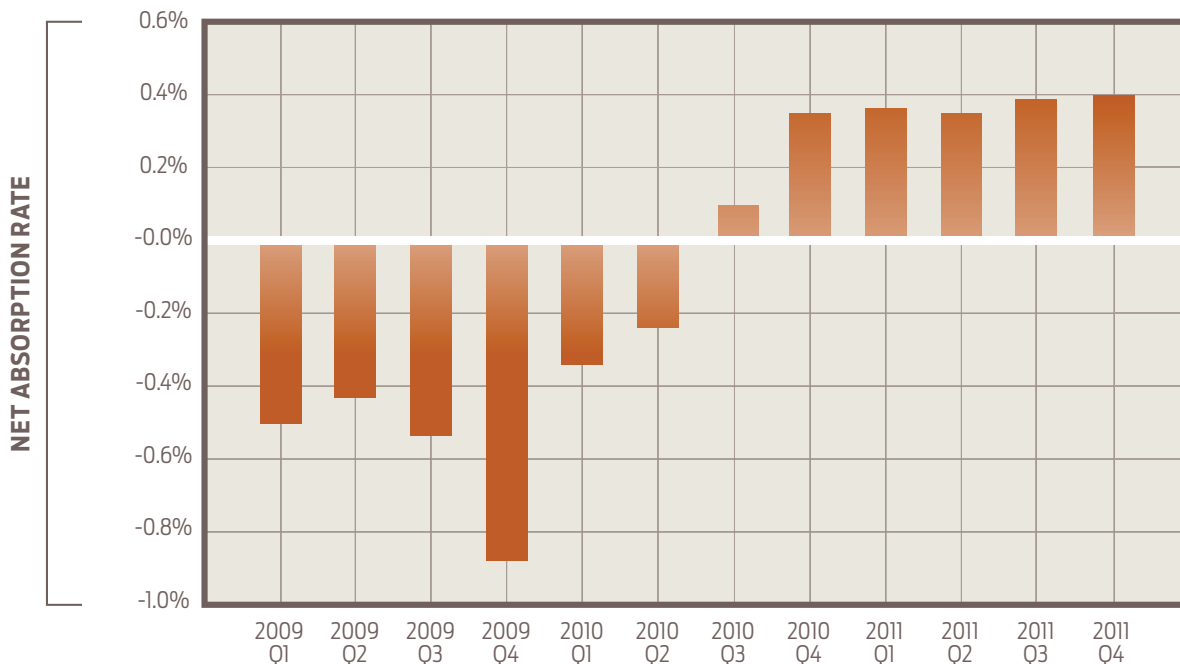
Below are **ORANGE COUNTY OFFICE LEASING STATISTICS** through the fourth quarter of 2011.

Market	Existing # Bldgs	Inventory Total RBA	Direct SF	Vacancy Total SF	Vac %	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
<b>Airport Area</b>	1,671	62,323,621	9,171,888	9,492,491	15.2%	1,377,542	4,499	479,800	\$1.93
<b>Central County</b>	1,854	35,217,686	4,089,315	4,192,887	11.9%	31,530	238,271	0	\$1.75
<b>North County</b>	655	15,324,504	2,492,205	2,563,035	16.7%	239,387	50,426	113,200	\$1.84
<b>South County</b>	1,312	29,021,477	3,963,200	4,028,978	13.9%	756,724	47,732	0	\$1.91
<b>West County</b>	437	8,642,701	952,454	953,134	11.0%	(146,930)	11,500	0	\$1.89
<b>Totals</b>	5,929	150,532,989	952,454	21,230,525	14.1%	2,258,253	352,428	593,000	\$1.88

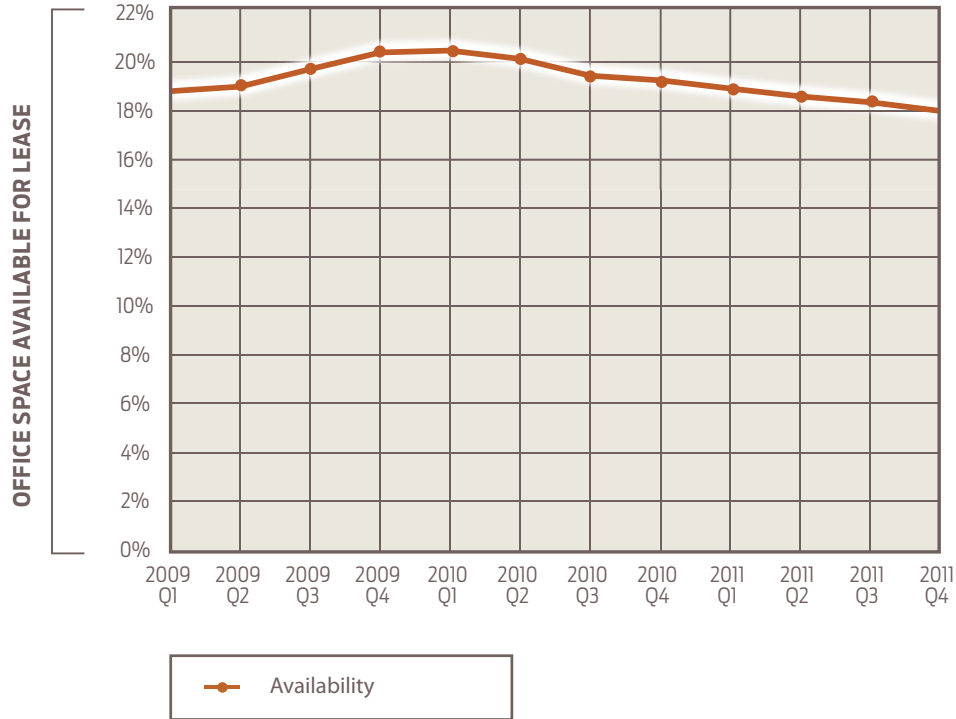
At the end of the fourth quarter of 2011, the **ORANGE COUNTY OFFICE VACANCY RATE** decreased to 14 percent.



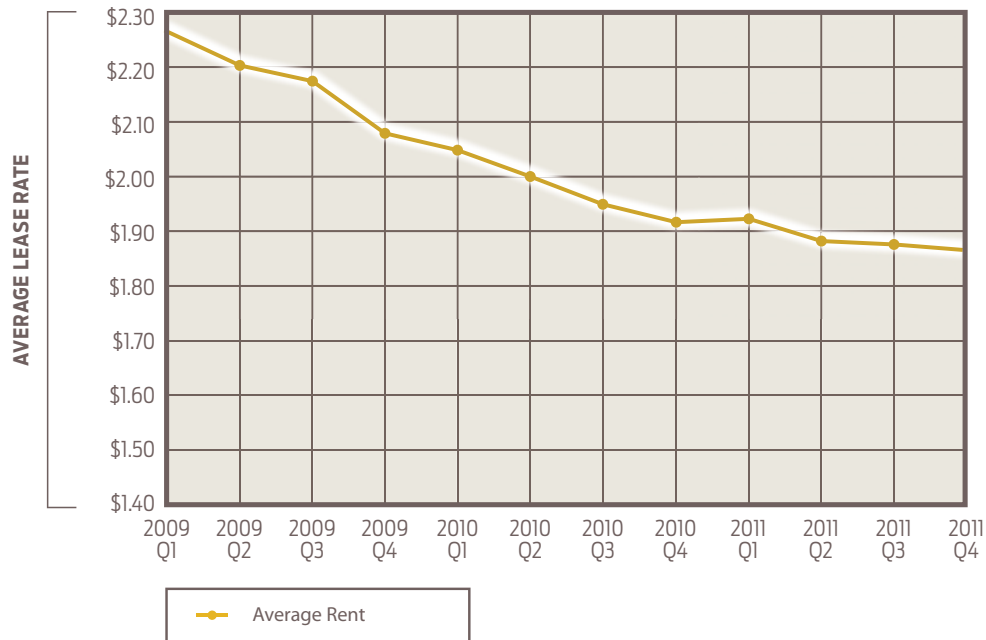
The **ORANGE COUNTY OFFICE NET ABSORPTION** has remained positive since the third quarter of 2010.



Since the first quarter of 2010, the **ORANGE COUNTY OFFICE AVAILABILITY RATE** fell to 18 percent.



The **AVERAGE ASKING LEASE RATE FOR ORANGE COUNTY OFFICE SPACE** ended the fourth quarter of 2011 at \$1.88 per square foot.

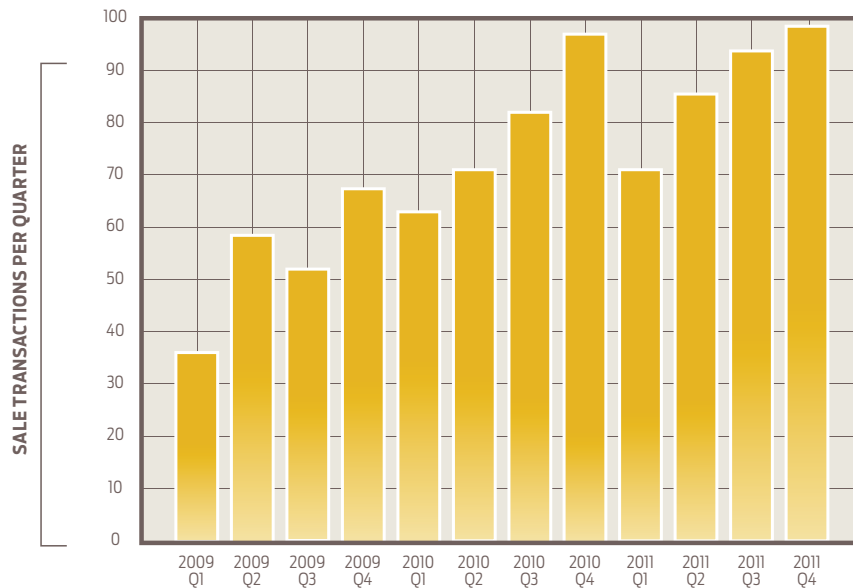


## The 2011 Orange County Industrial Market

During 2011, OC industrial and flex building sales volume increased over 2010:

- » Orange County industrial and flex building sales increased 11 percent (348 vs. 313 sales)
- » Inland Empire industrial and flex building sales increased 7 percent (418 vs. 391)
- » Los Angeles industrial and flex building sales increased 11 percent (787 vs. 709 sales)

Note: all of the above calculations were based on information provided by CoStar Group

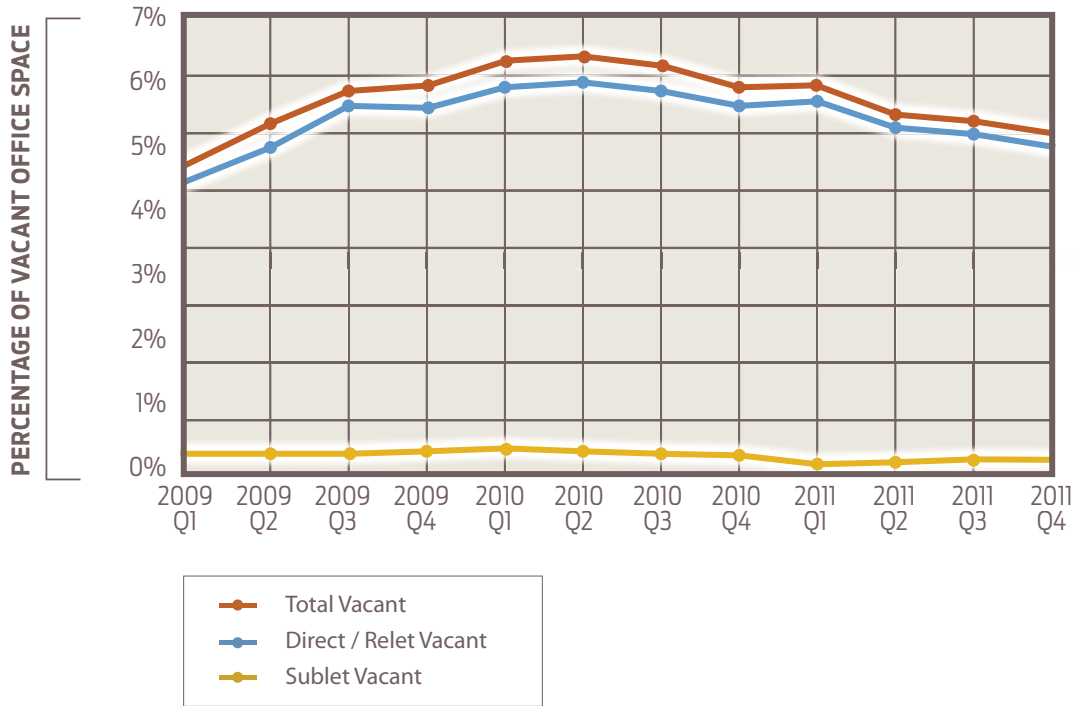


\* Sales of industrial and flex buildings

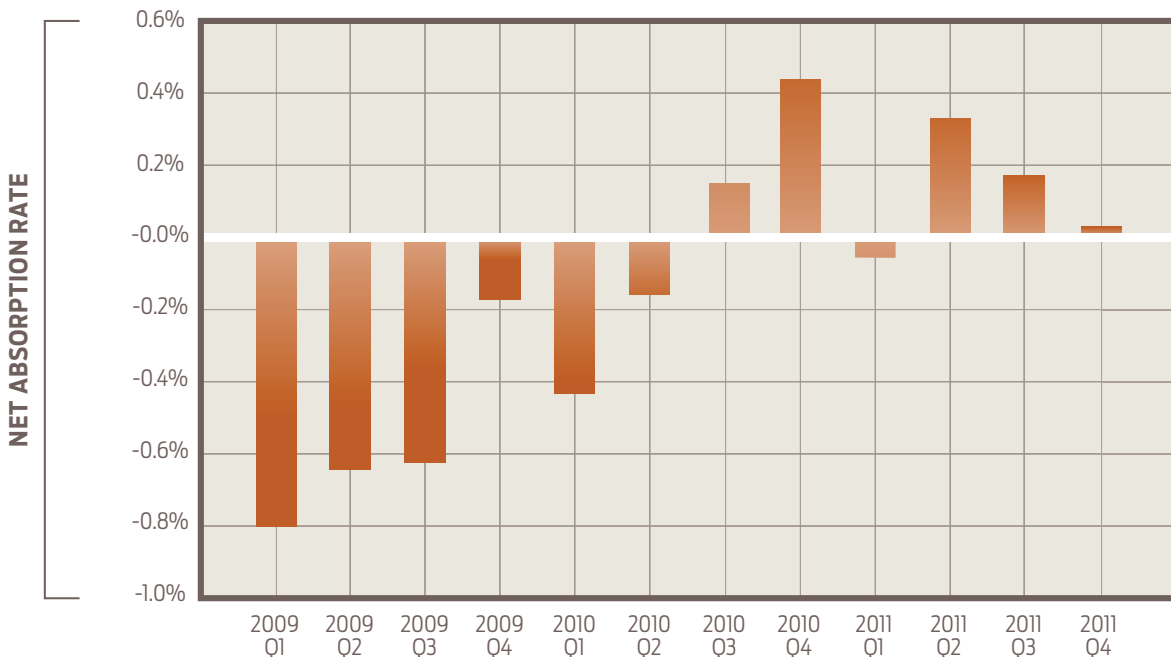
Below are **ORANGE COUNTY INDUSTRIAL LEASING STATISTICS** through the fourth quarter of 2011.

Market	Existing Inventory # Bldgs	Total RBA	Direct SF	Vacancy Total SF	Vac %	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
<b>Airport Area</b>	2,158	54,963,223	2,944,221	3,033,187	5.5%	440,274	0	0	\$7.22
<b>Central County</b>	2,874	60,361,225	2,645,697	2,784,809	4.6%	379,440	0	0	\$6.92
<b>North County</b>	2,543	77,803,521	4,134,055	4,194,675	5.4%	1,045,056	00	0	\$6.54
<b>South County</b>	974	24,277,097	1,595,727	1,645,156	6.8%	(20,775)	0	26,000	\$8.49
<b>West County</b>	849	20,101,330	739,163	893,294	6.8%	(136,795)	0	0	\$7.19
<b>Totals</b>	9,398	237,506,396	12,058,863	12,551,121	5.3%	1,707,200	0	26,000	\$7.14

The **ORANGE COUNTY INDUSTRIAL VACANCY RATE** ended the fourth quarter of 2011 at approximately 5 percent.  
 \* For industrial buildings of 5,000 SF or greater



As of the end of the fourth quarter of 2011, the **ORANGE COUNTY INDUSTRIAL NET ABSORPTION** was positive for three of the last four quarters.



## 360 Commercial Partners Sector Experts Look Ahead at Commercial Real Estate in 2012

**Louis Tomaselli**, *Managing Partner*, believes the following factors will drive commercial real estate next year:

- Continued strong tenant demand in the industrial sector, as well as stabilized rates and concessions. Look for growth in lease rates beginning early 2012 and potential spike in 2013.
- Look for sustained solid tenant demand in the office sector, with tenants migrating to Class-A space at Class B-C pricing. Stabilized rates and concessions will continue, and we anticipate continued significant net absorption in 2011.
- Investor demand will continue across all property types throughout Southern California due to the new lower cost basis and inevitable future growth in rents, which are sure to return to pre-recession levels in this historically top-performing commercial real estate region.
- The “new normal” for commercial real estate will include slower growth over a longer recovery period of 10 years, versus previous five-year cycles. Although business will continue to pick up, companies will be cautious when it comes to commercial real estate expansion, content to do more with less – meaning fewer employees and reduced square footage.

**Steve Economos**, *Director of the Office Sales and Investment Advisory*, notes:

- Orange County office sale velocity remained well below the boom period from 2003 to 2007. In that five-year span, Orange County averaged 118 per sales per year (in the \$2,000,000 to \$30,000,000 range). After the transition year of 2008 (when there were 71 sales), velocity bottomed in 2009 at just 35 sales. In 2010 and 2011, there were about 45 sales per year.
- Based on these statistics - and on our constant conversations with buyers and sellers - we continue to believe there is significant pent up “transaction” demand from both parties. Both are looking for signals and reasons to transact.
- One signal is the price-per-foot stabilization we’ve seen in Class-A trophy assets. These assets typically lead a recovery and they are already selling at 2007-era prices. Notable is the November 2011 sale of 2050 Main, Irvine for \$346/sf. This represents a 94% increase in pricing over its most-recent sale just two years earlier.

**Andy White**, *Director of the Office Leasing Advisory*, predicts:

- Activity for tenants of all sizes remains steady
- Large national and international companies will continue to target Orange County for their regional headquarters
- Medical-related support industries (technology and device companies) and general technology companies will continue to expand in Orange County
- Orange County will need to provide employers with a well-educated workforce with strengths in engineering and computer sciences
- Large contiguous spaces will be increasingly scarce

**Zach Niles**, *Director of the Industrial Advisory*, sees the following trends taking shape for 2011:

- Continued stabilization, and possible rent growth in the second half of 2012, in the “big box” industrial sector (100,000+ SF) as vacancy dips below 5%.
- Buildings for sale from 20,000 – 60,000 SF will remain hot due to limited inventory and attractive financing. Buildings below 20,000 SF will lag due to elevated inventory and the relative financial health of occupiers in that size class.
- Distressed note/property investment opportunities will continue to be limited and “one-off” as banks and the SBA opt to work with borrowers via work-out or short-sale. In large part, distressed acquisition opportunities have passed and, for that matter, never really materialized in scale.
- Interest rates remain at absolute historic lows. Owner-occupied financing is available at 80-90 percent Loan-To-Value ratios. Investor financing is available at 50-60 percent Loan-To-Value ratios. Considering 2012 is an election year, we don’t expect much change in rates.
- Industrial development is back. Several large projects totaling approximately 1,000,000 SF are currently planned and will break ground in 2012.