Voit Real Estate Services

Flex Market Report

Compared to last quarter:

Vacancy UP

Net Absorption DOWN

Lease Rates DOWN

Transactions DOWN

Market Highlights

- **Market Challenges** - Many users/investors have concerns with increasing vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between "ask" and "bid" pricing. However, the ask-bid gap appears to be diminishing, apparent from the increase in sales activity at the end of 2009. Another challenge for the Flex market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn are putting an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- **Construction** - During 2009, Orange County added a total of 69,363 square feet of Flex space. Total space under construction checked in at 42,500 square feet at the end of the first quarter, which is a decrease from the 51,863 square feet that was under construction the same quarter last year.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 20.54%, an increase over last year's first quarter rate of 14.66%. This 20.54% rate is still less than the record high vacancy rate of 26.95% that was recorded in the second quarter of 2002.
- **Availability** - Direct/sublease space being marketed was 28.43% this quarter, up from the 24.03% we saw this same quarter last year. This is a year-to-year increase of 18.31%.
- **Lease Rates** - The average asking Full Service Gross (FSG) lease rate per square foot per month in Orange County is currently $1.91, which is an 13.18% decrease over last year's rate of $2.20 and two cents lower than last quarter's rate. The record high rate of $2.66 was established in the third quarter of 2007.
- **Absorption** - Net absorption for the county posted a negative 220,765 square feet for the first quarter of 2010, giving the industrial market an average of 222,000 square feet of negative absorption for last five quarters. This negative absorption can be attributed to the recent job losses.
- **Transaction Activity** - Leasing activity checked in this quarter at 299,741 square feet. The average amount of leasing per quarter over the past five quarters was 440,000 square feet. Sales activity posted 92,509 square feet this quarter, compared to the fourth quarter's 341,873 square feet.
- **Unemployment** - The unemployment rate in Orange County was 9.7% in February 2010, down from a revised 10.2% in January 2010 and above the year ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- **Employment**-According to the State of California Employment Development Department, Orange County lost 53,000 payroll jobs over the last twelve months; the largest losses were 14,400 in construction, 11,000 in manufacturing and 4,200 in leisure & hospitality. However, between January 2010 and February 2010, Orange County gained 10,300 jobs.
- **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Though negative absorption continues, with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Flex market will again turn positive.

FLEX MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	20.54%	19.29%	14.66%	40.11%
Availablity Rate	28.43%	26.13%	24.03%	18.31%
Average Asking Lease Rate	$1.91	$1.93	$2.20	(13.18%)
Sale & Lease Transactions	392,250	654,770	796,764	(50.77%)
Gross Absorption	406,764	441,790	503,150	(19.16%)
Net Absorption	(220,765)	(601,244)	(129,220)	N/A

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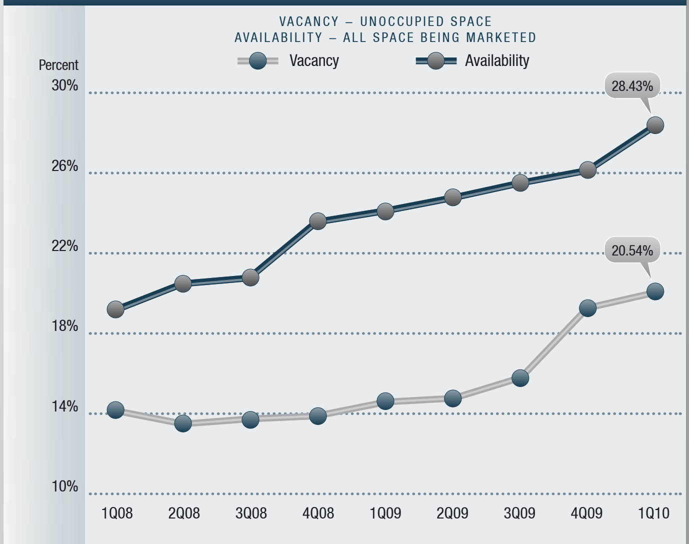
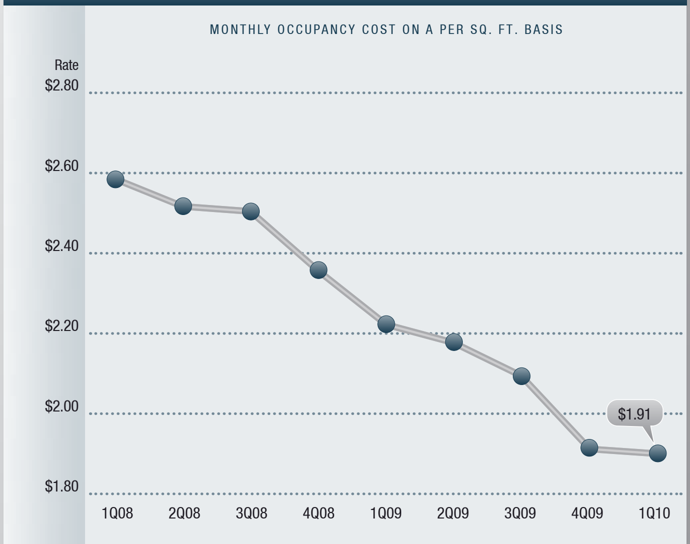
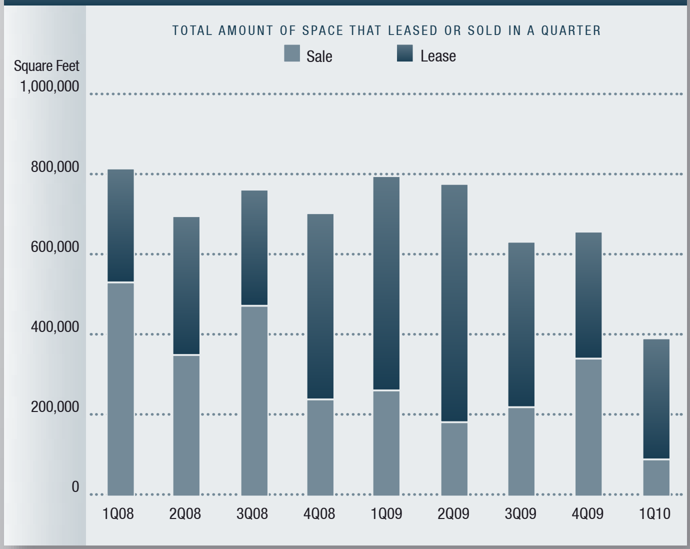
VACANCY & AVAILABILITY RATE



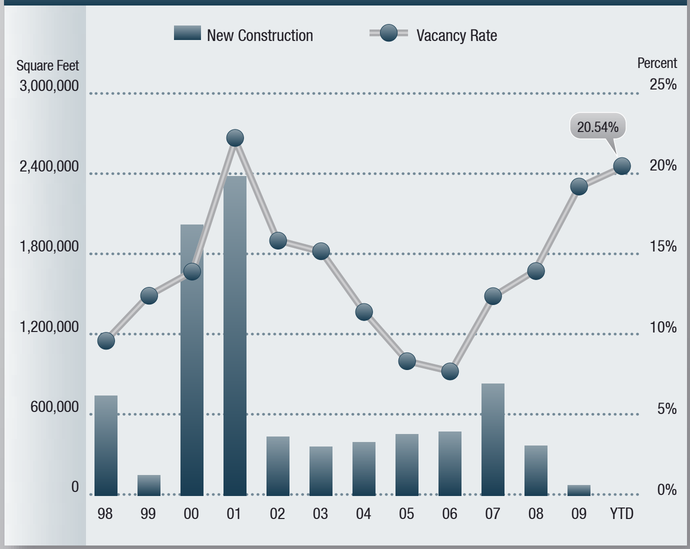
AVERAGE ASKING FULL SERVICE GROSS LEASE RATE



SALE & LEASE TRANSACTIONS

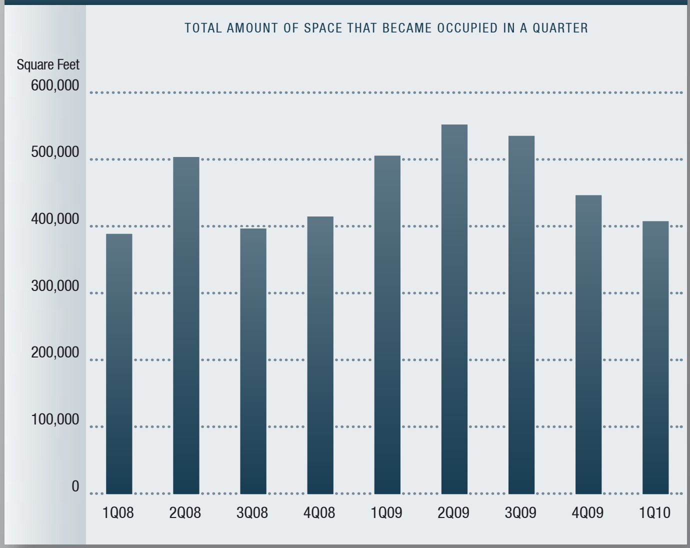


ANNUAL FLEX NEW CONSTRUCTION VS. VACANCY RATE



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 1Q2010	Square Feet Available	Availability Rate 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2009	Gross Absorption 1Q2010	Gross Absorption 2009
North County													
Anaheim	22	438,748	0	34,000	97,776	22.29%	107,666	24.54%	$1.60	(2,414)	(39,550)	13,528	68,825
Brea	14	414,580	0	0	74,392	17.94%	78,793	19.01%	$1.83	(30,335)	1,559	12,552	9,140
Buena Park	3	70,000			1,440		1,440		$0.00	720		1,440	
Fullerton	8	114,697	0	16,400	2,269	0.00%	25,114	21.90%	$0.00	5,265	(6,249)	5,265	0
Placentia	3	61,675	40,000	0	11,858	19.23%	11,858	19.23%	$1.75	1,626	(10,041)	1,626	4,644
Yorba Linda	1	10,000	0	13,200	10,000	100.00%	10,000	100.00%	$0.00	0	(5,047)	0	561
North County Total	51	1,109,700	40,000	63,600	197,735	17.82%	234,871	21.17%	$1.82	(25,138)	(59,328)	34,411	83,170
West County													
Cypress	11	393,068	0	0	33,813	8.60%	38,300	9.74%	$2.10	(2,741)	(14,681)	2,391	41,634
Huntington Beach	3	48,796	0	4,500	715	1.47%	1,430	2.93%	$1.65	458	2,992	1,173	5,983
Seal Beach	5	72,882	0	0	1,750	2.40%	1,750	2.40%	$2.25	600	(2,350)	600	0
West County Total	19	514,746	0	4,500	36,278	7.05%	41,480	8.06%	$2.06	(1,683)	(14,039)	4,164	47,617
Central County													
Anaheim	11	279,366	0	9,000	37,145	13.30%	34,871	12.48%	$1.45	(9,798)	239	0	23,070
Garden Grove	2	27,400	0	0	15,990	58.36%	14,990	54.71%	$0.00	620	(11,910)	6,100	0
Orange	8	158,938	0	0	5,661	3.56%	18,571	11.68%	$1.95	(1,634)	(1,332)	466	2,695
Santa Ana	11	227,881	0	4,642	59,629	26.17%	59,629	26.17%	$1.55	6,656	152	6,656	19,170
Tustin	4	84,313	0	0	22,034	26.13%	22,034	26.13%	$0.00	(5,296)	(16,738)	0	0
Central County Total	36	777,898	0	13,642	140,459	18.06%	150,095	19.29%	$1.66	(9,452)	(29,589)	13,222	44,935
Airport Area													
Costa Mesa	6	70,102	0	11,000	1,345	1.92%	13,492	19.25%	$1.50	0	1,966	0	7,272
Irvine	116	3,512,417	0	150,000	732,661	20.86%	1,084,579	30.88%	$2.07	25,864	(229,168)	93,080	312,791
Newport Beach	28	618,421	0	0	76,876	12.43%	97,392	15.75%	$2.85	2,402	(32,312)	15,360	43,235
Santa Ana	13	552,945	0	0	108,947	19.70%	119,248	21.57%	$1.00	(954)	36,485	19,430	101,186
Tustin	7	252,919	0	50,400	66,327	26.22%	80,224	31.72%	$1.50	3,742	(48,814)	3,742	3,700
Airport Area Total	170	5,006,804	0	211,400	986,156	19.70%	1,394,935	27.86%	$2.13	31,054	(271,843)	131,612	468,184
South County													
Aliso Viejo	44	1,350,165	0	20,000	208,673	15.46%	237,638	17.60%	$1.77	(18,065)	(108,305)	10,602	46,985
Dana Point	6	77,940	0	35,000	7,910	10.15%	7,910	10.15%	$0.00	0	(7,910)	0	0
Foothill Ranch	5	105,397	0	0	23,624	22.41%	28,442	26.99%	$1.50	(2,800)	13,721	0	19,976
Irvine Spectrum	225	5,250,599	0	0	1,532,880	29.19%	2,042,570	38.90%	$1.80	(139,043)	(347,579)	130,467	943,081
Laguna Beach	5	73,016	2,500	8,100	6,966	9.54%	9,686	13.27%	$0.00	2,674	(3,153)	4,076	4,062
Laguna Hills	15	462,098	0	0	77,127	16.69%	101,198	21.90%	$1.76	1,573	(6,663)	15,004	74,731
Laguna Niguel	3	53,170	0	0	1,159	2.18%	1,382	2.60%	$0.00	0	3,305	0	5,269
Lake Forest	40	1,488,337	0	0	216,806	14.57%	531,280	35.70%	$2.05	(54,590)	(7,189)	24,038	116,173
Mission Viejo	27	353,878	0	0	51,446	14.54%	65,058	18.38%	$1.92	(8,595)	7,744	1,880	35,422
Rancho Santa Margarita	11	300,307	0	0	47,736	15.90%	49,729	16.56%	$1.78	2,431	(7,884)	10,917	43,518
San Clemente	10	190,082	0	0	26,287	13.83%	36,220	19.05%	$1.28	(1,852)	(2,095)	1,360	33,875
San Juan Capistrano	27	586,605	0	53,274	74,424	12.69%	99,486	16.96%	$2.08	2,721	(17,242)	25,011	63,540
South County Total	418	10,291,594	2,500	116,374	2,275,038	22.11%	3,210,599	31.20%	$1.83	(215,546)	(483,250)	223,355	1,386,632
Orange County Total	**694**	**17,700,742**	**42,500**	**409,516**	**3,635,666**	**20.54%**	**5,031,980**	**28.43%**	**$1.91**	**(220,765)**	**(858,049)**	**406,764**	**2,030,538**

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Square Feet Available	Availability Rate 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2009	Gross Absorption 1Q2010	Gross Absorption 2009
North County													
0 to 29,999	41	664,388	0	29,600	87,823	13.22%	123,517	18.59%	$1.76	14,763	(9,498)	32,361	66,140
30,000 to 49,999	8	322,312	40,000	34,000	72,885	22.61%	74,327	23.06%	$2.15	(6,900)	(52,784)	2,050	10,050
50,000+	2	123,000	0	0	37,027	30.10%	37,027	30.10%	$1.75	(33,001)	2,954	0	6,980
West County													
0 to 29,999	12	145,978	0	4,500	16,965	11.62%	22,167	15.19%	$1.65	1,058	(13,858)	1,773	10,470
30,000 to 49,999	3	118,562	0	0	19,313	16.29%	19,313	16.29%	$2.10	(2,741)	(14,181)	2,391	5,132
50,000+	4	250,206	0	0	0	0.00%	0	0.00%	$0.00	0	14,000	0	32,015
Central County													
0 to 29,999	28	370,130	0	13,642	35,652	9.63%	42,972	11.61%	$1.45	(6,776)	(2,027)	6,100	26,070
30,000 to 49,999	2	73,363	0	0	24,879	33.91%	22,605	30.81%	$0.00	(9,798)	(6,644)	0	0
50,000+	6	334,405	0	0	79,928	23.90%	84,518	25.27%	$1.72	7,122	(20,918)	7,122	18,865
Airport Area													
0 to 29,999	90	1,027,800	0	11,000	213,426	20.77%	283,470	27.58%	$1.90	(9,356)	(6,917)	17,460	108,627
30,000 to 49,999	41	1,679,122	0	0	367,281	21.87%	461,786	27.50%	$2.14	(21,600)	(118,885)	29,516	163,280
50,000+	39	2,299,882	0	200,400	405,449	17.63%	649,679	28.25%	$2.24	62,010	(146,041)	84,636	196,277
South County													
0 to 29,999	273	3,547,976	2,500	81,374	618,960	17.45%	890,891	25.11%	$1.75	(21,864)	57,263	150,615	511,296
30,000 to 49,999	91	3,586,087	0	35,000	729,983	20.36%	921,276	25.69%	$1.86	(106,003)	(64,767)	45,012	533,902
50,000+	54	3,157,531	0	0	926,095	29.33%	1,398,432	44.29%	$1.89	(87,679)	(475,746)	27,728	341,434
Orange County													
0 to 29,999	444	5,756,272	2,500	140,116	972,826	16.90%	1,363,017	23.68%	$1.77	(22,175)	24,963	208,309	722,603
30,000 to 49,999	145	5,779,446	40,000	69,000	1,214,341	21.01%	1,499,307	25.94%	$1.97	(147,042)	(257,261)	78,969	712,364
50,000+	105	6,165,024	0	200,400	1,448,499	23.50%	2,169,656	35.19%	$1.74	(51,548)	(625,751)	119,486	595,571
Orange County Total	**694**	**17,700,742**	**42,500**	**409,516**	**3,635,666**	**20.54%**	**5,031,980**	**28.43%**	**$1.91**	**(220,765)**	**(858,049)**	**406,764**	**2,030,538**

This survey consists of buildings up to 74,999 square feet. 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, San Juan Capistrano

PRODUCT TYPE

FLEX–TECH OR CORPORATE HEADQUARTERS

Minimum 75% improved with drop ceiling, minimum parking ratio of 3.5 to 1, minimum of 3 elevations with full glassline, with ground level loading possible.

For further information, please contact:

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