Voit Real Estate Services

Flex Market Report

Compared to last quarter:

Vacancy
FLAT

Net Absorption
UP

Lease Rates
DOWN

Transactions
DOWN

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CORFAC International

Market Highlights

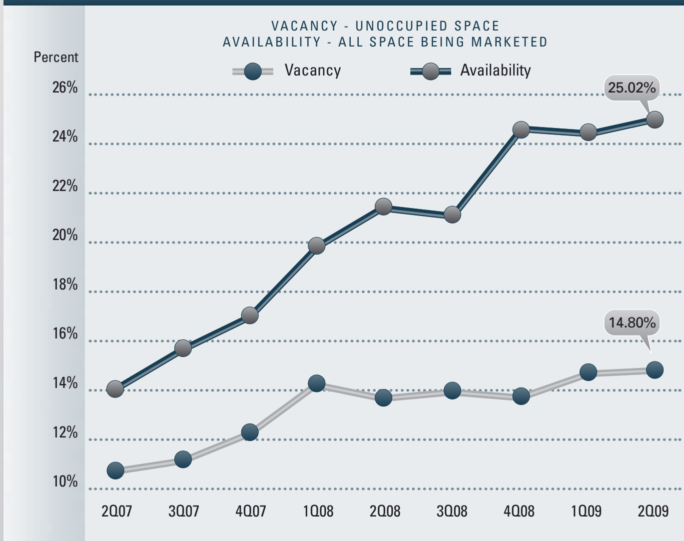
- **Market Challenges** - The Orange County Flex market is facing challenges due to the national recession. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between "ask" and "bid" pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the second quarter. Another challenge the flex market is facing is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. These contractions have lead to many tenants requesting rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- **Construction** - During the first half of 2009, Orange County has added a total of 51,863 square feet of flex space. Total space under construction checked in at 285,324 square feet at the end of the second quarter, which is an increase from the same quarter last year when only 22,000 square feet was under construction.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.80%, constituting an increase over last year's second quarter rate of 13.61%. This 14.80% rate is less than the 26.95% vacancy rate in the second quarter of 2002.
- **Availability** - Direct/sublease space being marketed was 25.02% this quarter, up from the 21.5% we saw this same quarter last year. This is an increase of 16.37% of new space being marketed when compared to the same quarter last year. We are finally starting to see a slowdown in the velocity of new available space being added to the market.
- **Lease Rates** - The average asking Full Service Gross (FSG) lease rate per month per foot in Orange County is currently $2.18, which is a 13.5% decrease over last year's rate of $2.52 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 positive 37,634 square feet for the second quarter of 2009, giving the flex market a total of 100,000 square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- **Transaction Activity** - Leasing activity checked in this quarter at 389,082 square feet. The average amount of leasing per quarter over the past nine quarters was 400,000 square feet. Sales activity posted 116,191 square feet of activity this quarter, compared to the first quarter's 223,560 square feet.
- **Unemployment** - The unemployment rate in Orange County was 8.6% in May 2009, up from a revised 8.4% in April 2009, and above the year ago estimate of 4.7%. This compares with an unadjusted unemployment rate of 11.2% for California and 9.1% for the nation during the same period.
- **Employment** - According to the State of California Employment Development Department, Orange County lost 71,100 payroll jobs over the last twelve months - 19,200 in retail trade, transportation and utilities services, 13,100 in construction & 12,700 in professional and business services. However, between April 2009 and May 2009 Orange County gained 300 jobs.
- **Overall** - The flex market has not reached the bottom nor has it begun to improve, but we are starting to see a slowdown in the amount of available space being added per quarter as well as an increase in sales activity. Lease rates are expected to remain soft for the foreseeable future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome hinges on how the recession progresses and how quickly credit eases up.

FLEX MARKET OVERVIEW

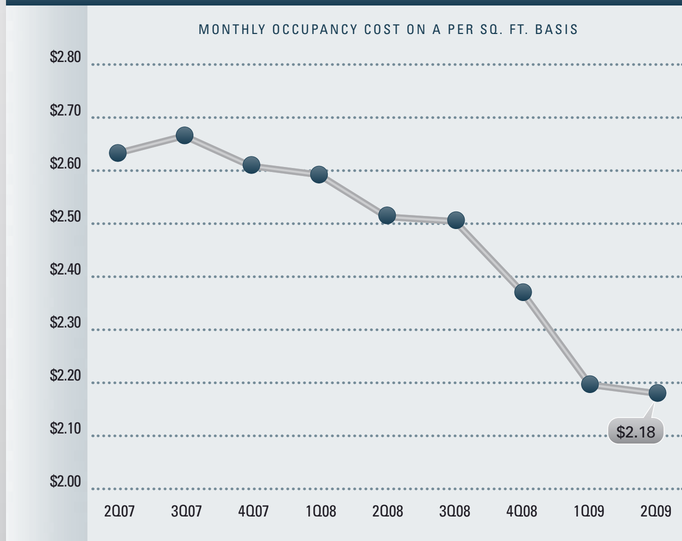
	2Q2009	1Q2009	2Q2008	% CHANGE VS. 2Q08
Vacancy	14.80%	14.67%	13.61%	8.74%
Availability	25.02%	24.35%	21.50%	16.37%
Average Asking Lease Rate	$2.18	$2.20	$2.52	-13.49%
Sale & Lease Transactions	505,273	694,351	694,594	-27.26%
Net Absorption	37,634	-137,063	131,255	N/A
Gross Absorption	566,980	472,410	505,592	12.14%

Real People. Real Solutions.

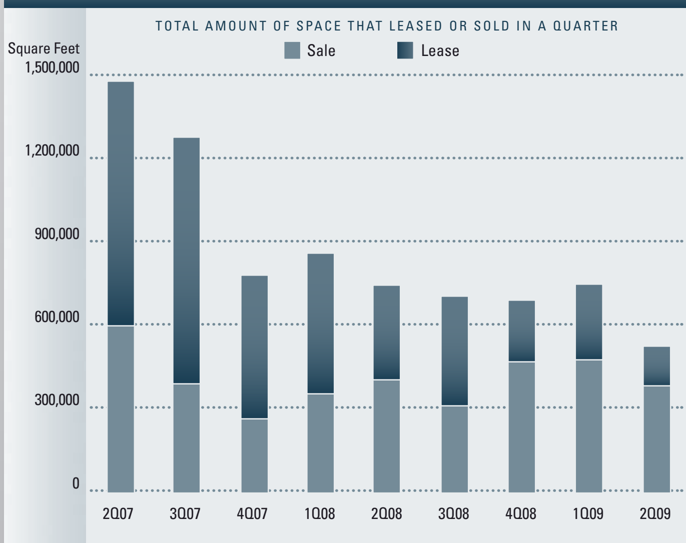
VACANCY & AVAILABILITY RATE



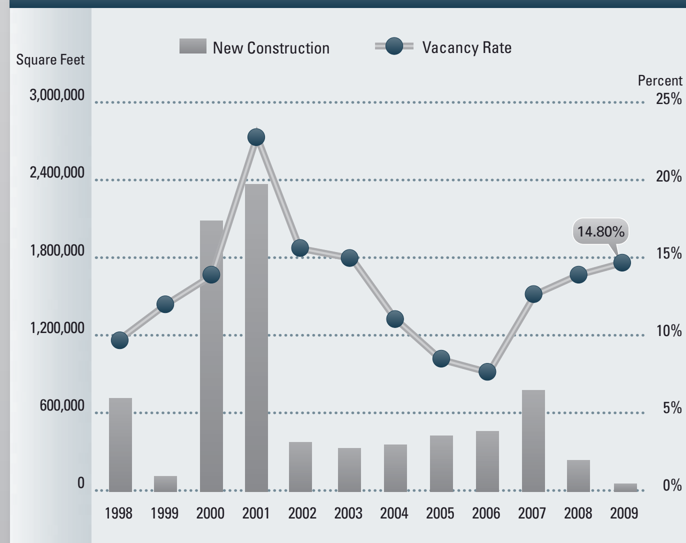
AVERAGE ASKING FULL SERVICE GROSS LEASE RATE



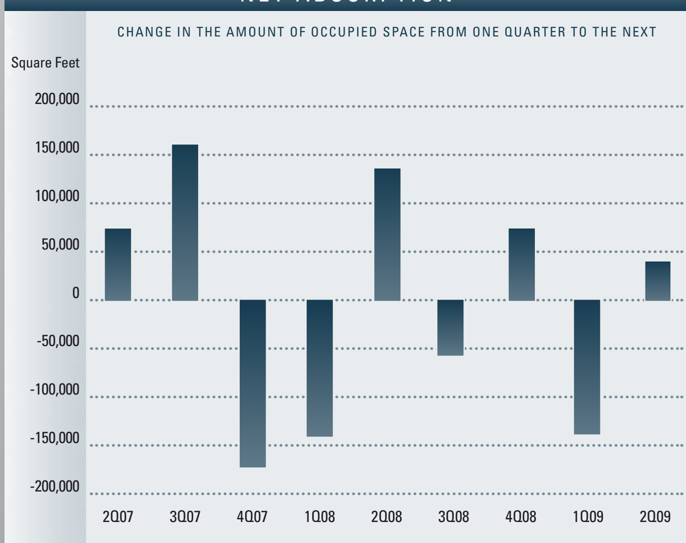
SALE & LEASE TRANSACTIONS



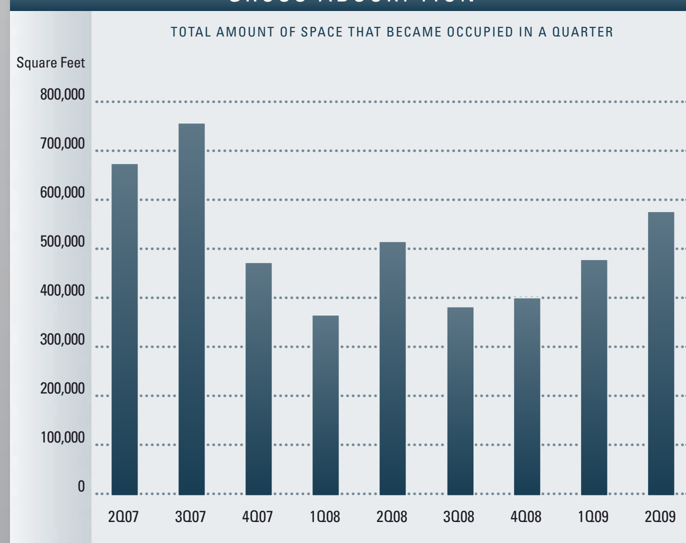
ANNUAL FLEX NEW CONSTRUCTION VS. VACANCY RATE



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 2Q2009	Square Feet Available	Availability Rate 2Q2009	Average Asking Lease Rate	Net Absorption 2Q2009	Net Absorption 2009	Gross Absorption 2Q2009	Gross Absorption 2009
North County													
Anaheim	22	425,748	0	0	38,722	9.10%	44,841	10.53%	$2.35	5,086	8,850	9,486	18,165
Brea	15	458,580	0	4,000	39,739	8.67%	106,262	23.17%	$2.14	(2,100)	14,117	16,124	38,830
Fullerton	10	110,311	0	0	3,445	0.00%	3,445	3.12%	$3.10	0	0	0	0
Placentia	3	61,675	0	40,000	3,443	5.58%	3,443	5.58%	$1.41	0	0	1,201	1,201
Yorba Linda	1	10,000	0	0	9,999	99.99%	9,999	99.99%	$0.00	561	(5,046)	561	561
North County Total	51	1,066,314	0	44,000	95,348	8.94%	167,990	15.75%	$2.05	3,547	17,921	27,372	58,757
West County													
Cypress	9	374,081	0	0	7,523	2.01%	7,523	2.01%	$2.10	0	8,868	0	14,000
Huntington Beach	3	48,796	0	0	4,427	9.07%	6,245	12.80%	$1.60	911	(262)	911	911
Seal Beach	5	72,882	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
West County Total	17	495,759	0	0	11,950	2.41%	13,768	2.78%	$1.74	911	8,606	911	14,911
Central County													
Anaheim	11	279,785	0	9,000	38,691	13.83%	29,773	10.64%	$1.45	(5,392)	(11,105)	1,579	4,784
Garden Grove	2	27,400	0	0	4,700	17.15%	4,700	17.15%	$0.00	0	0	0	0
Orange	7	146,612	0	0	670	0.46%	4,027	2.75%	$2.20	450	2,025	1,120	2,695
Santa Ana	10	167,782	0	4,642	14,659	8.74%	26,967	16.07%	$1.85	2,161	5,035	3,000	5,874
Tustin	4	84,314	0	0	16,738	19.85%	22,035	26.13%	$0.00	0	(16,738)	0	0
Central County Total	34	705,893	0	13,642	75,458	10.69%	87,502	12.40%	$1.65	(2,781)	(20,783)	5,699	13,353
Airport Area													
Costa Mesa	6	70,102	0	0	4,695	6.70%	23,732	33.85%	$0.00	1,966	(1,384)	3,922	3,922
Irvine	116	3,508,779	0	150,000	646,944	18.44%	863,942	24.62%	$3.10	(27,594)	(91,720)	88,121	143,980
Newport Beach	28	616,088	3,084	0	73,660	11.96%	123,467	20.04%	$3.01	(27,578)	(26,694)	770	10,720
Santa Ana	11	470,091	15,000	0	87,901	18.70%	99,501	21.17%	$2.05	58,445	32,287	59,799	61,624
Tustin	7	248,391	0	252,000	12,169	4.90%	50,569	20.36%	$1.50	(42)	(42)	3,700	3,700
Airport Area Total	168	4,913,451	18,084	402,000	825,369	16.80%	1,161,211	23.63%	$2.82	5,197	(87,553)	156,312	223,946
South County													
Aliso Viejo	42	1,289,155	0	20,000	118,626	9.20%	240,871	18.68%	$2.11	(14,907)	(57,596)	11,948	15,358
Dana Point	4	58,840	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Foothill Ranch	5	40,613	0	0	17,573	43.27%	22,391	55.13%	$0.00	7,598	16,972	7,598	19,976
Irvine Spectrum	222	5,095,900	0	0	932,334	18.30%	1,896,248	37.21%	$1.91	101,690	77,606	276,448	511,126
Laguna Beach	7	73,016	0	2,500	5,044	6.91%	5,044	6.91%	$0.00	1,443	1,443	4,662	12,365
Laguna Hills	21	615,173	28,228	0	107,082	17.41%	149,699	24.33%	$1.98	17,599	25,610	36,730	56,432
Laguna Niguel	4	98,481	0	0	9,199	9.34%	10,188	10.35%	$1.99	(923)	(2,862)	1,041	2,100
Lake Forest	38	1,453,770	0	0	193,856	13.33%	329,465	22.66%	$2.15	(76,656)	(42,087)	11,488	63,508
Mission Viejo	26	321,531	0	0	31,811	9.89%	59,917	18.63%	$1.84	5,514	1,284	12,014	13,894
Rancho Santa Margarita	10	282,195	0	0	36,836	13.05%	54,131	19.18%	$1.88	(2,300)	(760)	3,164	14,213
San Clemente	10	207,997	0	0	39,480	18.98%	63,165	30.37%	$2.08	(13,569)	(11,621)	3,065	8,423
San Juan Capistrano	23	495,034	239,012	21,675	46,883	9.47%	45,055	9.10%	$2.05	5,271	(25,609)	8,528	11,028
South County Total	412	10,031,705	267,240	44,175	1,538,724	15.34%	2,876,174	28.67%	$2.00	30,760	(17,620)	376,686	728,423
Orange County Total	**682**	**17,213,122**	**285,324**	**503,817**	**2,546,849**	**14.80%**	**4,306,645**	**25.02%**	**$2.18**	**37,634**	**(99,429)**	**566,980**	**1,039,390**

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	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2009	Square Feet Available	Availability Rate 2Q2009	Average Asking Lease Rate	Net Absorption 2Q2009	Net Absorption 2009	Gross Absorption 2Q2009	Gross Absorption 2009
North County													
0 to 29,999	41	644,402	0	4,000	76,126	11.81%	83,277	12.92%	$1.60	(107)	16,962	15,292	44,527
30,000 to 49,999	8	322,312	0	40,000	15,196	4.71%	64,208	19.92%	$2.14	700	(1,995)	5,100	7,250
50,000+	2	123,000	0	0	4,026	3.27%	20,505	16.67%	$0.00	2,954	2,954	6,980	6,980
West County													
0 to 29,999	10	126,991	0	0	4,427	3.49%	6,245	4.92%	$1.60	911	(262)	911	911
30,000 to 49,999	3	118,562	0	0	7,523	6.35%	7,523	6.35%	$2.10	0	(5,132)	0	0
50,000+	4	250,206	0	0	0	0.00%	0	0.00%	$0.00	0	14,000	0	14,000
Central County													
0 to 29,999	27	357,805	0	13,642	33,673	9.41%	37,786	10.56%	$1.45	(1,111)	(6,824)	4,579	7,784
30,000 to 49,999	2	73,782	0	0	9,718	13.17%	9,718	13.17%	$0.00	(1,281)	(1,281)	0	0
50,000+	5	274,306	0	0	32,067	11.69%	39,998	14.58%	$1.87	(389)	(12,678)	1,120	5,569
Airport Area													
0 to 29,999	90	1,019,619	18,084	0	176,155	17.28%	261,338	25.63%	$2.91	25,934	35,917	45,271	68,884
30,000 to 49,999	39	1,594,950	0	0	269,805	16.92%	366,314	22.97%	$2.78	(45,950)	(65,479)	54,708	65,266
50,000+	39	2,299,882	0	402,000	379,409	16.50%	533,559	23.20%	$2.36	25,213	(57,991)	56,333	89,796
South County													
0 to 29,999	267	3,433,700	179,200	44,175	566,056	16.49%	892,432	25.99%	$1.94	13,891	46,129	139,546	264,350
30,000 to 49,999	89	3,506,211	88,040	0	559,853	15.97%	918,761	26.20%	$2.04	8,567	(20,085)	126,659	251,752
50,000+	56	3,067,394	0	0	412,815	13.46%	1,064,981	34.72%	$2.02	8,302	(43,664)	110,481	212,321
Orange County													
0 to 29,999	435	5,582,517	197,284	61,817	856,437	15.34%	1,281,078	22.95%	$2.13	39,518	91,922	205,599	386,456
30,000 to 49,999	141	5,615,817	88,040	40,000	862,095	15.35%	1,366,524	24.33%	$2.19	(37,964)	(93,972)	186,467	324,268
50,000+	106	6,014,788	0	402,000	828,317	13.77%	1,659,043	27.58%	$2.14	36,080	(97,379)	174,914	328,666
Orange County Total	**682**	**17,213,122**	**285,324**	**503,817**	**2,546,849**	**14.80%**	**4,306,645**	**25.02%**	**$2.18**	**37,634**	**(99,429)**	**566,980**	**1,039,390**

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 HEADQUARTER

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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