



## Flex Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

FLAT

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### Market Highlights

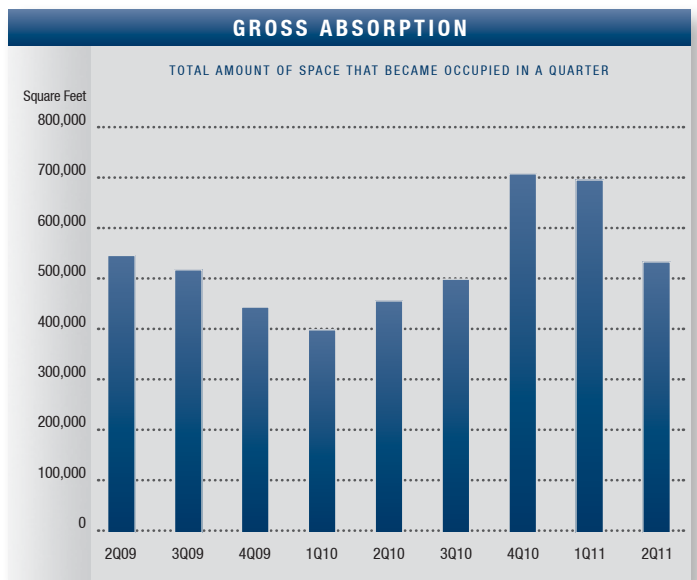
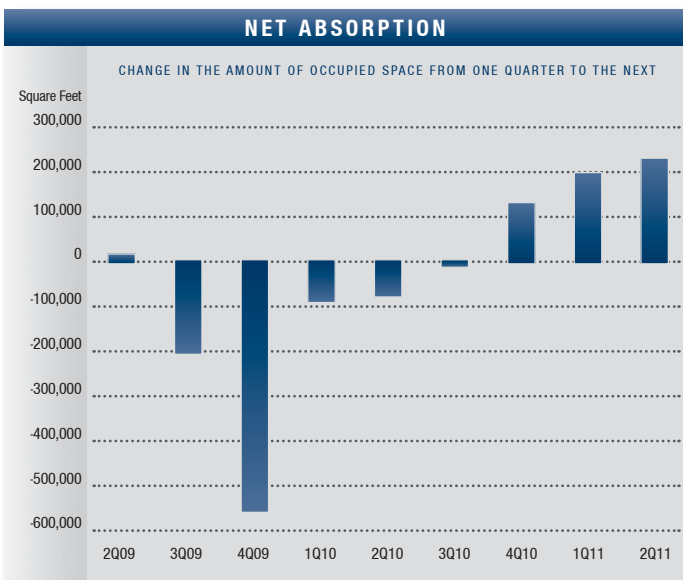
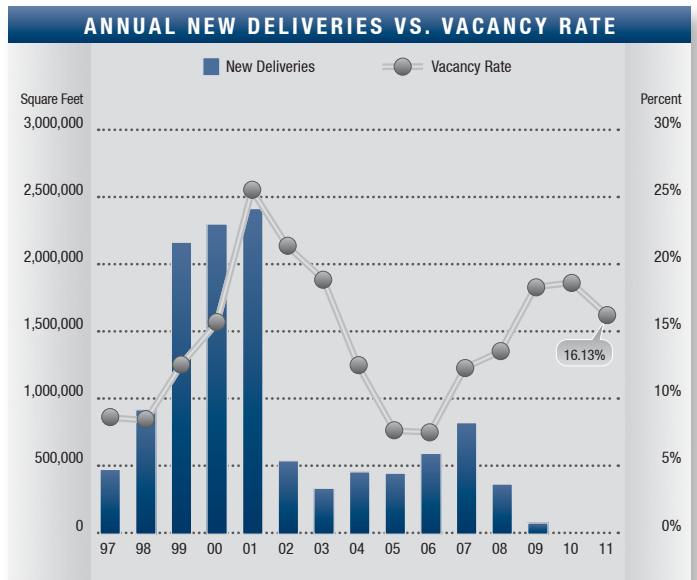
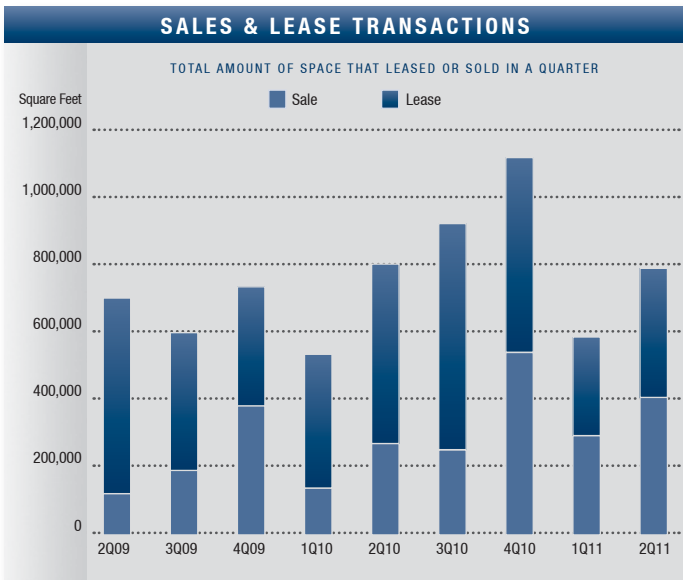
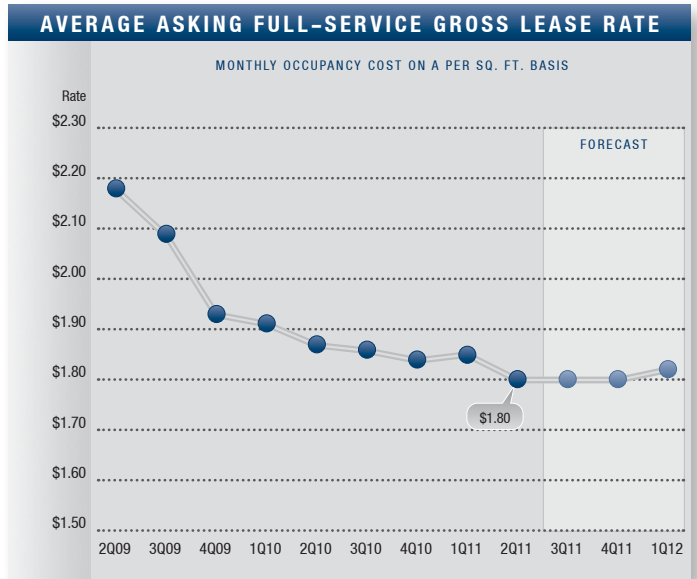
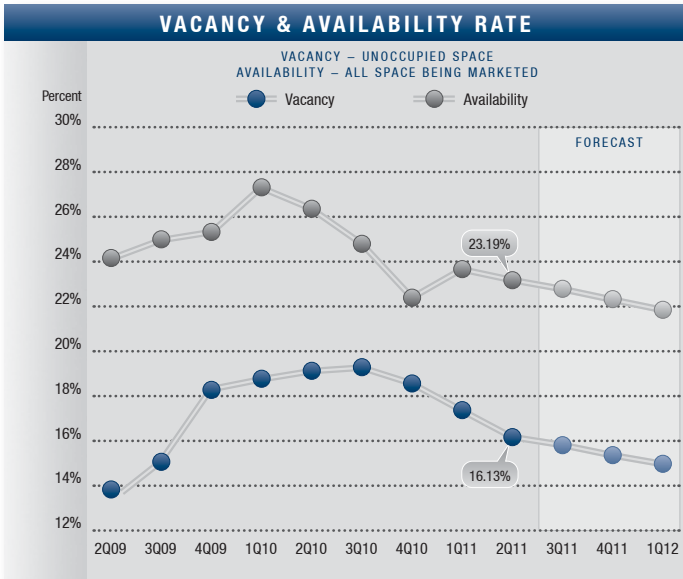
- Steady Growth** - The Orange County flex market conveyed more signs of stabilization in the second quarter of 2011. Vacancy posted the lowest rate seen in over a year, availability decreased from the previous quarter, and net absorption was positive for the third consecutive quarter. Demand, although still weak by historical standards, picked up, with 2010 marking the beginning of a renewed interest in sales transactions. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Construction** - There was only 37,000 square feet under construction in the Orange County flex market in the second quarter of 2011, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.13%, a decrease compared to both the year-ago rate of 19.19% and 2011's first quarter rate of 17.42%, as well as the record high rate of 26.95% recorded in the second quarter of 2002.
- Availability** - Direct/sublease space being marketed was 23.19% at the end of the second quarter, a decrease of 12.23% compared to the 26.42% seen in the same quarter last year.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's office market was \$1.80 in the second quarter of 2011— five cent lower than the previous quarter's rate and a 2.7% decrease from 2010's second quarter rate of \$1.87. The record high rate of \$2.66 was established in the third quarter of 2007.
- Absorption** - The Orange County flex market posted 228,922 square feet of positive absorption in the second quarter of 2011, the highest figure seen since the market peak in the fourth quarter of 2006, giving the market an average of 185,000 square feet of positive absorption per

quarter over the last three quarters. This positive absorption can be attributed to the recent employment gains.

- Transaction Activity** - Leasing activity came in at 385,000 square feet in the second quarter of 2011. The average amount of leasing activity per quarter over the past five quarters was 350,000 square feet. Sales activity picked up, posting 400,000 square feet in second quarter, compared to the 300,000 square feet seen in the first quarter of 2011.
- Employment** - The unemployment rate in Orange County was 8.5% in May 2011 — down from a revised 8.6% in April 2011 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 1,900 payroll jobs from May 2010 to May 2011. The largest gross were 9,700 in leisure and hospitality and 2,900 in educational & health services; however, Orange County lost 5,600 government jobs during that same period. Chapman University is forecasting that 20,000 jobs will be added in Orange County in 2011.
- Overall** - We are beginning to see a decrease in the amount of available space, as well as an increase in investment sales activity. As we continue into the second half of 2011, absorption has turned positive, and with few new deliveries in the pipeline to apply upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances have begun to normalize. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the flex market will recover.

### FLEX MARKET OVERVIEW

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	16.13%	17.42%	19.19%	(15.95%)
Availability Rate	23.19%	23.66%	26.42%	(12.23%)
Average Asking Lease Rate	\$1.80	\$1.85	\$1.87	(3.74%)
Sale & Lease Transactions	788,005	583,094	798,880	(1.36%)
Gross Absorption	530,204	693,068	452,153	17.26%
Net Absorption	228,922	198,606	(75,269)	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 202011	Square Feet Available	Availability Rate 202011	Average Asking Lease Rate	Net Absorption 202011	Net Absorption 2011	Gross Absorption 202011	Gross Absorption 2011
<b>North County</b>													
Anaheim	22	438,748	0	0	40,395	9.21%	142,335	32.44%	\$2.14	458	(1,753)	19,695	30,253
Brea	13	397,522	0	0	83,480	21.00%	188,943	47.53%	\$1.73	(7,705)	(10,507)	7,388	12,320
Buena Park	3	70,000	0	0	1,440	2.06%	1,440	2.06%	\$0.00	0	0	0	0
Fullerton	8	97,826	0	24,000	5,360	0.00%	8,455	8.64%	\$0.00	0	0	0	0
Placentia	3	61,675	0	0	10,007	16.23%	10,007	16.23%	\$1.50	1,308	1,034	1,308	1,308
<b>North County Total</b>	<b>49</b>	<b>1,065,771</b>	<b>0</b>	<b>24,000</b>	<b>140,682</b>	<b>13.20%</b>	<b>351,180</b>	<b>32.95%</b>	<b>\$1.87</b>	<b>(5,939)</b>	<b>(11,226)</b>	<b>28,391</b>	<b>43,881</b>
<b>West County</b>													
Cypress	11	393,332	0	0	47,477	12.07%	114,967	29.23%	\$1.95	(33,296)	(33,296)	0	0
Huntington Beach	3	49,145	12,000	0	3,199	6.51%	3,199	6.51%	\$1.47	43	(182)	1,429	5,273
Seal Beach	5	72,877	0	0	1,843	2.53%	1,843	2.53%	\$2.00	2,304	3,470	2,604	3,770
<b>West County Total</b>	<b>19</b>	<b>515,354</b>	<b>12,000</b>	<b>0</b>	<b>52,519</b>	<b>10.19%</b>	<b>120,009</b>	<b>23.29%</b>	<b>\$1.88</b>	<b>(30,949)</b>	<b>(30,008)</b>	<b>4,033</b>	<b>9,043</b>
<b>Central County</b>													
Anaheim	11	279,366	0	0	13,434	4.81%	13,434	4.81%	\$0.00	0	9,299	0	12,607
Garden Grove	2	27,400	0	0	9,510	34.71%	9,510	34.71%	\$0.00	2,670	2,670	2,670	2,670
Orange	8	158,938	0	0	9,375	5.90%	17,695	11.13%	\$1.95	2,003	6,143	6,788	10,928
Santa Ana	11	227,881	0	0	47,816	20.98%	67,088	29.44%	\$0.99	12,650	9,891	12,650	13,450
Tustin	5	88,617	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Central County Total</b>	<b>37</b>	<b>782,202</b>	<b>0</b>	<b>0</b>	<b>80,135</b>	<b>10.24%</b>	<b>107,727</b>	<b>13.77%</b>	<b>\$1.27</b>	<b>17,323</b>	<b>28,003</b>	<b>22,108</b>	<b>39,655</b>
<b>Airport Area</b>													
Costa Mesa	7	102,486	0	0	2,363	2.31%	11,209	10.94%	\$0.99	(407)	(2,363)	0	0
Irvine	116	3,505,697	0	0	569,865	16.26%	711,689	20.30%	\$1.61	87,588	144,798	132,708	334,041
Newport Beach	28	619,551	0	0	54,242	8.76%	86,889	14.02%	\$2.68	(4,647)	3,885	19,471	28,003
Santa Ana	11	438,968	0	0	85,423	19.46%	95,298	21.71%	\$1.69	8,732	16,605	8,732	16,605
Tustin	6	214,605	0	0	57,900	26.98%	57,900	26.98%	\$0.00	0	0	0	0
<b>Airport Area Total</b>	<b>168</b>	<b>4,881,307</b>	<b>0</b>	<b>0</b>	<b>769,793</b>	<b>15.77%</b>	<b>962,985</b>	<b>19.73%</b>	<b>\$2.12</b>	<b>91,266</b>	<b>162,925</b>	<b>160,911</b>	<b>378,649</b>
<b>South County</b>													
Aliso Viejo	45	1,390,679	25,000	0	251,175	18.06%	218,942	15.74%	\$1.80	(24,533)	(18,721)	14,353	55,405
Dana Point	6	77,940	0	0	4,467	5.73%	4,467	5.73%	\$0.00	2,110	(1,317)	2,110	2,110
Foothill Ranch	5	105,397	0	0	13,067	12.40%	16,829	15.97%	\$1.25	(1,368)	(1,368)	0	0
Irvine Spectrum	227	5,323,151	0	0	902,267	16.95%	1,408,154	26.45%	\$1.78	159,022	304,096	220,719	523,114
Laguna Beach	5	74,016	0	0	12,168	16.44%	10,780	14.56%	\$0.00	(2,388)	(9,662)	900	1,779
Laguna Hills	14	451,331	0	0	63,967	14.17%	79,395	17.59%	\$1.65	7,353	11,983	22,841	32,084
Laguna Niguel	3	53,170	0	0	1,855	3.49%	1,855	3.49%	\$0.00	1,541	2,791	2,923	6,028
Lake Forest	40	1,486,251	0	0	299,237	20.13%	524,689	35.30%	\$1.81	22,634	17,687	34,018	73,951
Mission Viejo	28	389,546	0	0	41,914	10.76%	41,616	10.68%	\$1.64	663	(2,793)	7,528	12,607
Rancho Santa Margarita	12	309,025	0	0	65,013	21.04%	70,040	22.66%	\$1.54	(7,939)	(6,515)	2,398	10,346
San Clemente	11	234,169	0	0	71,219	30.41%	96,658	41.28%	\$1.57	676	(21,365)	1,651	4,822
San Juan Capistrano	27	573,875	0	0	87,134	15.18%	92,789	16.17%	\$1.98	(550)	3,018	5,320	29,798
<b>South County Total</b>	<b>423</b>	<b>10,468,550</b>	<b>25,000</b>	<b>0</b>	<b>1,813,483</b>	<b>17.32%</b>	<b>2,566,214</b>	<b>24.51%</b>	<b>\$1.73</b>	<b>157,221</b>	<b>277,834</b>	<b>314,761</b>	<b>752,044</b>
<b>Orange County Total</b>	<b>696</b>	<b>17,713,184</b>	<b>37,000</b>	<b>24,000</b>	<b>2,856,612</b>	<b>16.13%</b>	<b>4,108,115</b>	<b>23.19%</b>	<b>\$1.80</b>	<b>228,922</b>	<b>427,528</b>	<b>530,204</b>	<b>1,223,272</b>

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202011	Square Feet Available	Availability Rate 202011	Average Asking Lease Rate	Net Absorption 202011	Net Absorption 2011	Gross Absorption 202011	Gross Absorption 2011
<b>North County</b>													
0-29,999	39	622,254	0	24,000	86,294	13.87%	120,352	19.34%	\$1.51	(4,660)	(12,741)	21,235	33,931
30,000-49,999	8	320,517	0	0	16,647	5.19%	171,149	53.40%	\$1.70	(1,279)	1,515	7,156	9,950
50,000 Plus	2	123,000	0	0	37,741	30.68%	59,679	48.52%	\$1.65	0	0	0	0
<b>West County</b>													
0-29,999	12	146,327	12,000	0	3,199	2.19%	7,454	5.09%	\$1.47	43	660	1,429	6,115
30,000-49,999	3	118,557	0	0	16,024	13.52%	16,024	13.52%	\$1.96	2,304	2,628	2,604	2,928
50,000 Plus	4	250,470	0	0	33,296	13.29%	96,531	38.54%	\$0.00	(33,296)	(33,296)	0	0
<b>Central County</b>													
0-29,999	29	374,434	0	0	20,483	5.47%	33,075	8.83%	\$0.00	2,120	7,652	4,920	12,164
30,000-49,999	2	73,363	0	0	5,261	7.17%	5,261	7.17%	\$0.00	6,788	10,555	6,788	12,151
50,000 Plus	6	334,405	0	0	54,391	16.27%	69,391	20.75%	\$1.27	8,415	9,796	10,400	15,340
<b>Airport Area</b>													
0-29,999	90	1,038,882	0	0	168,090	16.18%	197,101	18.97%	\$1.51	7,091	33,032	42,027	75,164
30,000-49,999	41	1,668,215	0	0	323,608	19.40%	367,380	22.02%	\$2.33	14,730	105,389	47,042	151,145
50,000 Plus	37	2,174,210	0	0	278,095	12.79%	398,504	18.33%	\$2.20	69,445	24,504	71,842	152,340
<b>South County</b>													
0-29,999	275	3,593,380	25,000	0	605,890	16.86%	894,092	24.88%	\$1.68	52,193	(29,653)	125,518	211,779
30,000-49,999	94	3,711,845	0	0	597,215	16.09%	720,428	19.41%	\$2.00	(31,688)	29,048	22,722	224,127
50,000 Plus	54	3,163,325	0	0	610,378	19.30%	951,694	30.09%	\$1.86	136,716	278,439	166,521	316,138
<b>Orange County</b>													
0-29,999	445	5,775,277	37,000	24,000	883,956	15.31%	1,252,074	21.68%	\$1.65	56,787	(1,050)	195,129	339,153
30,000-49,999	148	5,892,497	0	0	958,755	16.27%	1,280,242	21.73%	\$1.93	(9,145)	149,135	86,312	400,301
50,000 Plus	103	6,045,410	0	0	1,013,901	16.77%	1,575,799	26.07%	\$1.81	181,280	279,443	248,763	483,818
<b>Orange County Total</b>	<b>696</b>	<b>17,713,184</b>	<b>37,000</b>	<b>24,000</b>	<b>2,856,612</b>	<b>16.13%</b>	<b>4,108,115</b>	<b>23.19%</b>	<b>\$1.80</b>	<b>228,922</b>	<b>427,528</b>	<b>530,204</b>	<b>1,223,272</b>

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, 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**

**FLEX-TECH OR CORPORATE HEADQUARTERS**

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

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