



## Flex Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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### Market Highlights

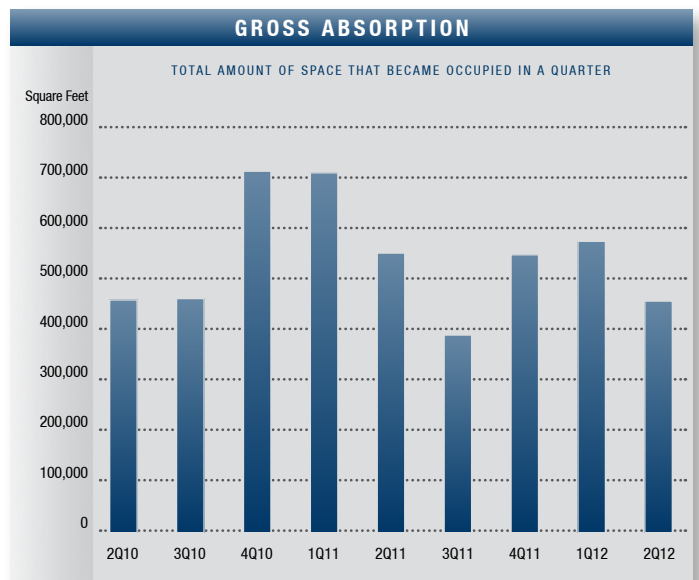
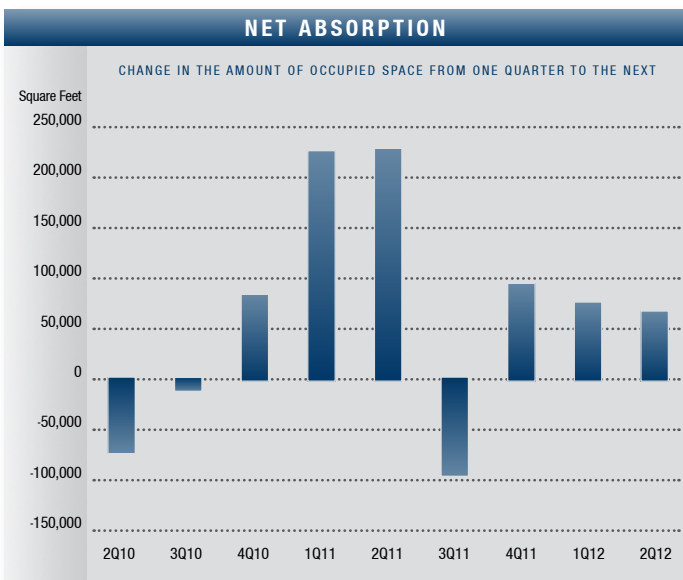
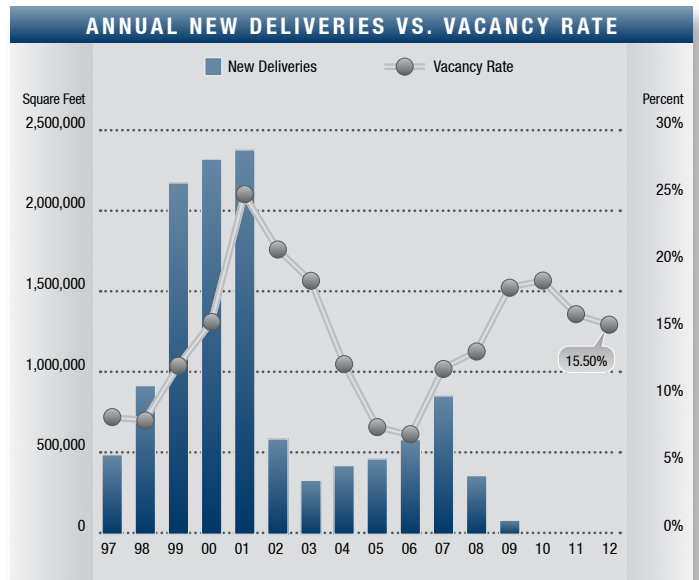
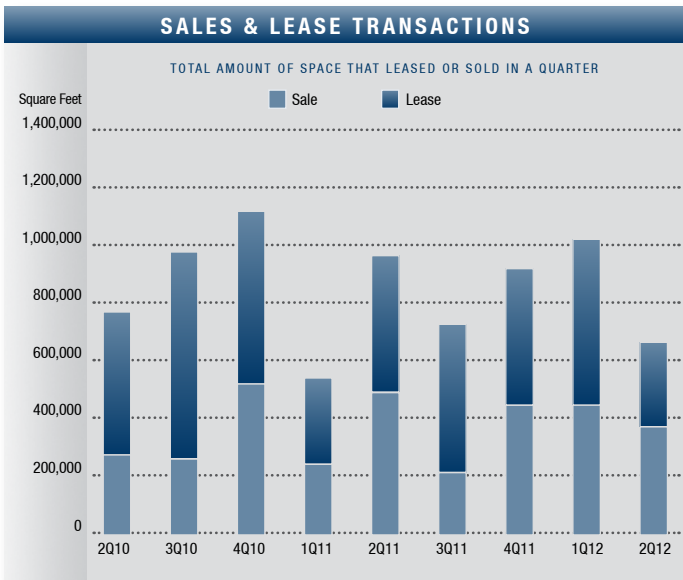
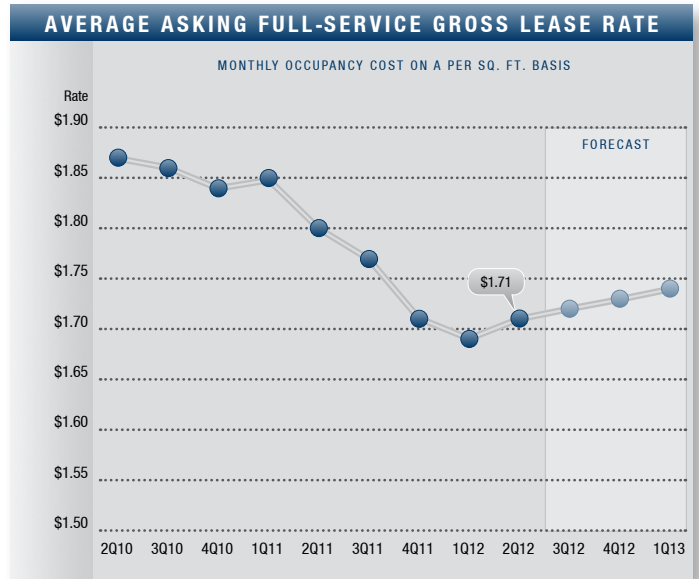
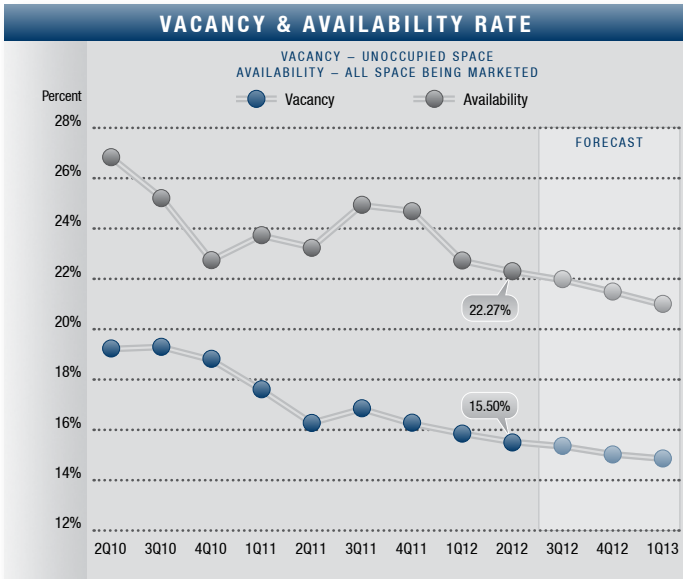
- **Steady Growth** - The Orange County flex market conveyed more signs of stabilization in the second quarter of 2012. Vacancy and availability decreased compared to both the prior quarter's rate and 2011's second quarter rate, and net absorption posted over 675,000 square feet over seven consecutive quarters. Demand, although still weak by historical standards, continued to pick 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** - At the end of the quarter, total space under construction checked in at 100,000 square feet. The slowdown in construction has and will 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** - Direct/sublease space (unoccupied) finished the quarter at 15.5%, a decrease of 4.79% compared to 2011's second quarter rate of 16.28% and significantly down from the record high rate of 25.85% recorded in the second quarter of 2002.
- **Availability** - Direct/sublease space being marketed was 22.27% at the end of the second quarter, a decrease of 4.05% compared to the 23.21% seen in the second quarter of 2011.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$1.71 in the second quarter of 2012 — two cents higher than the previous quarter's rate and a 5% decrease from 2011's second quarter rate of \$1.80. The record high rate of \$2.66 was established in the third quarter of 2007.
- **Absorption** - The Orange County flex market posted 67,278 square feet of positive absorption in the second quarter of 2012, giving the market a total of 678,742

square feet of positive absorption over the last seven quarters. This positive absorption can be attributed to the recent employment gains.

- **Transaction Activity** - Leasing activity checked in at 292,947 square feet this quarter, a decrease from the 475,111 square feet seen in the second quarter of 2011. Sales activity for the second quarter of 2012 showed a decrease as well, posting 361,220 square feet of activity this quarter compared to the second quarter of 2011's 481,334 square feet of sales transactions. Details of the largest transactions for the year can be found on the back page of this report.
- **Employment** - The unemployment rate in Orange County was 7.5% in May 2012 — up from a revised 7.4% in April 2012 and below the previous year's estimate of 8.5%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 25,800 payroll jobs from May 2011 to May 2012. The largest gains were 12,300 in professional & business services and 7,300 in leisure & hospitality; however, Orange County lost 3,600 construction jobs during that same period.
- **Overall** - We are beginning to see a decrease in the amount of vacant space. As we continue into the second half of 2012, absorption has been positive, and with no new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee a continued overall increase in investment activity in the coming quarters as lenders continue to gradually dispose of distressed assets. Lease rates are expected to continue to stabilize and possibly increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.

### FLEX MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	15.50%	15.87%	16.28%	(4.79%)
Availability Rate	22.27%	22.74%	23.21%	(4.05%)
Average Asking Lease Rate	\$1.71	\$1.69	\$1.80	(5.00%)
Sale & Lease Transactions	654,167	1,143,991	956,445	(31.60%)
Gross Absorption	453,186	571,566	549,723	(17.56%)
Net Absorption	67,278	75,598	228,778	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 202012	Square Feet Available	Availability Rate 202012	Average Asking Lease Rate	Net Absorption 202012	Net Absorption 2012	Gross Absorption 202012	Gross Absorption 2012
<b>North County</b>													
Anaheim	21	399,748	0	0	28,296	7.08%	50,062	12.52%	\$1.75	3,000	5,950	3,950	11,063
Brea	13	397,051	0	0	86,792	21.86%	216,886	54.62%	\$1.66	3,539	6,642	10,434	16,367
Buena Park	3	70,000	0	0	2,900	4.14%	2,900	4.14%	\$0.00	0	20	0	20
Fullerton	8	97,826	0	24,000	6,725	0.00%	10,858	11.10%	\$0.00	1,730	1,730	1,730	1,730
Placentia	3	61,675	0	0	9,443	15.31%	9,443	15.31%	\$1.54	(1,126)	(1,126)	0	0
<b>North County Total</b>	<b>48</b>	<b>1,026,300</b>	<b>0</b>	<b>24,000</b>	<b>134,156</b>	<b>13.07%</b>	<b>290,149</b>	<b>28.27%</b>	<b>\$1.64</b>	<b>7,143</b>	<b>13,216</b>	<b>16,114</b>	<b>29,180</b>
<b>West County</b>													
Cypress	10	377,860	0	0	163,746	43.34%	154,103	40.78%	\$1.66	(68,642)	(58,946)	0	9,696
Huntington Beach	4	63,645	0	0	5,427	8.53%	5,427	8.53%	\$1.26	(2,204)	(2,204)	706	706
Seal Beach	5	72,877	0	0	5,343	7.33%	9,583	13.15%	\$2.25	(3,500)	(5,343)	0	0
<b>West County Total</b>	<b>19</b>	<b>514,382</b>	<b>0</b>	<b>0</b>	<b>174,516</b>	<b>33.93%</b>	<b>169,113</b>	<b>32.88%</b>	<b>\$1.72</b>	<b>(74,346)</b>	<b>(66,493)</b>	<b>706</b>	<b>10,402</b>
<b>Central County</b>													
Anaheim	10	227,814	0	0	12,162	5.34%	12,162	5.34%	\$0.00	(1,500)	(1,490)	0	10
Garden Grove	2	27,400	0	0	5,110	18.65%	5,110	18.65%	\$0.00	0	0	2,810	2,810
Orange	8	163,577	0	0	19,071	11.66%	30,191	18.46%	\$1.95	(2,207)	(8,946)	1,300	3,955
Santa Ana	10	167,782	0	0	5,585	3.33%	38,859	23.16%	\$1.50	2,821	11,821	2,821	11,821
Tustin	6	108,807	0	0	1,482	1.36%	1,482	1.36%	\$0.00	2,400	918	2,400	2,400
<b>Central County Total</b>	<b>36</b>	<b>695,380</b>	<b>0</b>	<b>0</b>	<b>43,410</b>	<b>6.24%</b>	<b>87,804</b>	<b>12.63%</b>	<b>\$1.58</b>	<b>1,514</b>	<b>2,303</b>	<b>9,331</b>	<b>20,996</b>
<b>Airport Area</b>													
Costa Mesa	8	130,175	0	0	15,130	11.62%	30,991	23.81%	\$1.55	(4,811)	(4,241)	2,363	2,933
Irvine	117	3,536,109	0	100,000	428,865	12.13%	677,582	19.16%	\$1.82	33,137	80,056	84,150	228,657
Newport Beach	28	620,683	0	0	44,657	7.19%	62,015	9.99%	\$2.48	1,272	12,025	16,358	33,199
Santa Ana	11	440,199	0	0	59,015	13.41%	99,015	22.49%	\$1.54	9,899	3,649	14,981	16,682
Tustin	6	214,605	0	0	57,801	26.93%	57,801	26.93%	\$0.00	99	99	99	99
<b>Airport Area Total</b>	<b>170</b>	<b>4,941,771</b>	<b>0</b>	<b>100,000</b>	<b>605,468</b>	<b>12.25%</b>	<b>927,404</b>	<b>18.77%</b>	<b>\$1.82</b>	<b>39,596</b>	<b>91,588</b>	<b>117,951</b>	<b>281,570</b>
<b>South County</b>													
Aliso Viejo	44	1,364,694	100,000	0	161,540	11.84%	213,961	15.68%	\$1.78	11,917	29,016	22,313	56,945
Dana Point	6	77,940	0	0	4,111	5.27%	4,111	5.27%	\$0.00	(147)	(147)	0	0
Foothill Ranch	5	105,397	0	0	19,515	18.52%	22,287	21.15%	\$1.25	1,650	1,650	1,650	1,650
Irvine Spectrum	235	5,499,141	0	0	911,517	16.58%	1,519,750	27.64%	\$1.74	121,709	143,312	218,850	383,705
Laguna Beach	5	74,016	0	0	4,133	5.58%	8,471	11.44%	\$0.00	0	(951)	893	1,571
Laguna Hills	14	468,729	0	0	63,050	13.45%	98,546	21.02%	\$1.66	(8,823)	(6,166)	3,943	19,941
Laguna Niguel	3	53,170	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Lake Forest	40	1,495,214	0	0	408,649	27.33%	357,649	23.92%	\$1.77	(37,103)	(68,589)	29,035	124,036
Mission Viejo	29	407,235	0	0	55,063	13.52%	68,141	16.73%	\$1.85	(2,874)	(25,211)	3,195	4,160
Rancho Santa Margarita	12	315,820	0	0	63,064	19.97%	63,884	20.23%	\$1.50	(10,468)	(2,200)	0	12,623
San Clemente	11	234,169	0	0	54,781	23.39%	75,530	32.25%	\$1.54	7,408	17,964	10,548	22,625
San Juan Capistrano	31	622,488	0	0	70,546	11.33%	78,747	12.65%	\$1.96	10,102	13,584	18,657	42,348
<b>South County Total</b>	<b>435</b>	<b>10,718,013</b>	<b>100,000</b>	<b>0</b>	<b>1,815,969</b>	<b>16.94%</b>	<b>2,511,077</b>	<b>23.43%</b>	<b>\$1.72</b>	<b>93,371</b>	<b>102,262</b>	<b>309,084</b>	<b>669,604</b>
<b>Orange County Total</b>	<b>708</b>	<b>17,895,846</b>	<b>100,000</b>	<b>124,000</b>	<b>2,773,519</b>	<b>15.50%</b>	<b>3,985,547</b>	<b>22.27%</b>	<b>\$1.71</b>	<b>67,278</b>	<b>142,876</b>	<b>453,186</b>	<b>1,011,752</b>
<b>North County</b>													
0-29,999	39	622,254	0	24,000	73,997	11.89%	99,372	15.97%	\$1.62	6,428	10,156	13,164	23,885
30,000-49,999	7	280,266	0	0	7,532	2.69%	125,780	44.88%	\$1.65	2,000	4,345	2,950	5,295
50,000 Plus	2	123,780	0	0	52,627	42.52%	64,997	52.51%	\$1.65	(1,285)	(1,285)	0	0
<b>West County</b>													
0-29,999	12	146,327	0	0	10,583	7.23%	13,207	9.03%	\$1.41	(7,360)	(7,360)	706	706
30,000-49,999	4	167,585	0	0	59,083	35.26%	51,056	30.47%	\$1.93	(48,971)	(50,814)	0	0
50,000 Plus	3	200,470	0	0	104,850	52.30%	104,850	52.30%	\$0.00	(18,015)	(8,319)	0	9,696
<b>Central County</b>													
0-29,999	30	394,752	0	0	21,652	5.48%	39,386	9.98%	\$1.44	5,021	3,539	9,331	9,331
30,000-49,999	2	73,363	0	0	4,837	6.59%	4,837	6.59%	\$0.00	0	10	0	10
50,000 Plus	4	227,265	0	0	16,921	7.45%	43,581	19.18%	\$1.63	(3,507)	(1,246)	0	11,655
<b>Airport Area</b>													
0-29,999	92	1,096,893	0	0	129,269	11.79%	161,061	14.68%	\$1.67	20,018	52,495	39,027	79,817
30,000-49,999	41	1,671,437	0	0	163,233	9.77%	258,834	15.49%	\$1.83	22,175	100,564	47,517	170,835
50,000 Plus	37	2,173,441	0	100,000	312,966	14.40%	507,509	23.35%	\$1.90	(2,597)	(61,471)	31,407	30,918
<b>South County</b>													
0-29,999	284	3,686,318	0	0	512,136	13.89%	789,058	21.41%	\$1.69	65,558	87,058	148,747	274,319
30,000-49,999	97	3,848,476	0	0	638,983	16.60%	128,851	3.35%	\$1.72	19,851	17,136	109,919	283,771
50,000 Plus	54	3,183,219	100,000	0	664,850	20.89%	1,593,168	50.05%	\$1.77	7,962	(1,932)	50,418	111,514
<b>Orange County</b>													
0-29,999	457	5,946,544	0	24,000	747,637	12.57%	1,102,084	18.53%	\$1.66	89,665	145,888	210,975	388,058
30,000-49,999	151	6,041,127	0	0	873,668	14.46%	569,358	9.42%	\$1.72	(4,945)	71,241	160,386	459,911
50,000 Plus	100	5,908,175	100,000	100,000	1,152,214	19.50%	2,314,105	39.17%	\$1.77	(17,442)	(74,253)	81,825	163,783
<b>Orange County Total</b>	<b>708</b>	<b>17,895,846</b>	<b>100,000</b>	<b>124,000</b>	<b>2,773,519</b>	<b>15.50%</b>	<b>3,985,547</b>	<b>22.27%</b>	<b>\$1.71</b>	<b>67,278</b>	<b>142,876</b>	<b>453,186</b>	<b>1,011,752</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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