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** - The Orange County Flex market is facing challenges as the national recession continues. 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 past two quarters. 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 has put upward pressure on vacancy and availability rates. This has led to many tenants to request rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- **Construction** - During the first three quarters of 2009, Orange County has added a total of 76.953 square feet of flex space. Total space under construction checked in at 30,728 square feet at the end of the third quarter, which is a decrease from the same quarter last year when 186,642 square feet was under construction.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 15.87%, constituting an increase over last year's third quarter rate of 13.89%. This 15.87% rate is less than the record high rate of 26.95% vacancy rate that was recorded in the second quarter of 2002.
- **Availability** – Direct/sublease space being marketed was 25.58% this quarter, up from the 21.12% we saw this same quarter last year. This is an increase of 21.12% of new space being marketed when compared to the same quarter last year. We are finally starting to see a decrease 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 \$2.09, which is a 16.73% decrease over last year's rate of \$2.51 and nine 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 193,690 square feet for the third quarter of 2009, giving the flex market a total of 267,772 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 177,785 square feet. The average amount of leasing per quarter over the past nine quarters was 392,000 square feet. Sales activity posted 328,097 square feet this quarter, compared to the second quarter's 525,096 square feet.
- **Unemployment** – The unemployment rate in Orange County was 9.6% in August 2009, unchanged from a revised 9.6% in July 2009, and above the year ago estimate of 5.8%. This compares with an unadjusted unemployment rate of 12.1% for California and 9.6% for the nation during the same period.
- **Employment** - According to the State of California Employment Development Department, Orange County lost 63,600 payroll jobs over the last twelve months - 12,000 in construction, 10,400 in professional and business services. However, educational and health services posted a gain of 1,800 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. 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 leasing activity as 2009 comes to an end from pent up demand. Once financial markets correct themselves and consumer confidence stabilizes, then the Flex market will turn positive.

FLEX MARKET OVERVIEW

	3Q2009	2Q2009	3Q2008	% CHANGE VS. 3Q08
Vacancy	15.87%	14.76%	13.89%	14.25%
Availability	25.58%	25.00%	21.12%	21.12%
Average Asking Lease Rate	\$2.09	\$2.18	\$2.51	-16.73%
Sale & Lease Transactions	505,882	703,318	725,320	-30.25%
Net Absorption	-193,690	61,197	-46,586	N/A
Gross Absorption	507,844	566,980	393,444	29.08%

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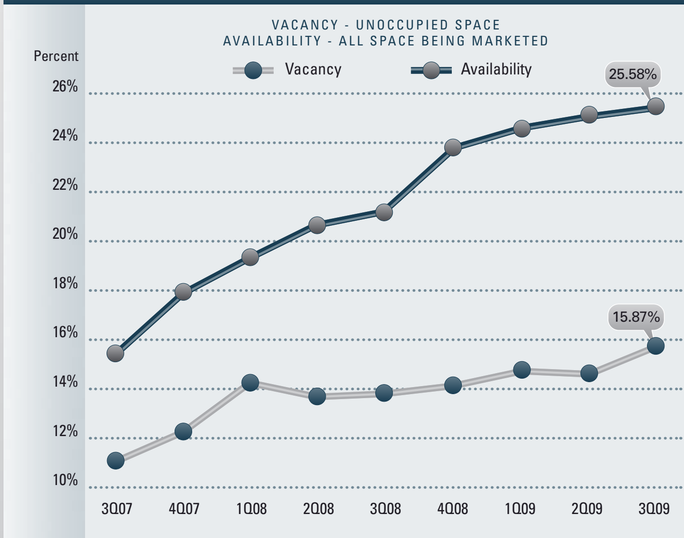
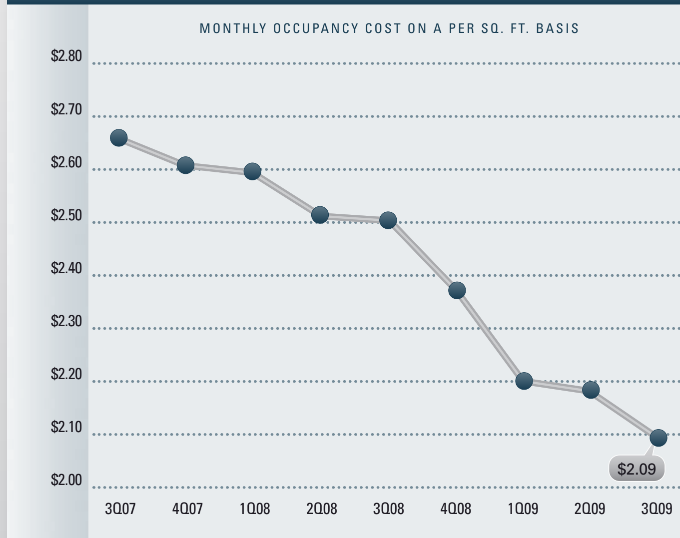
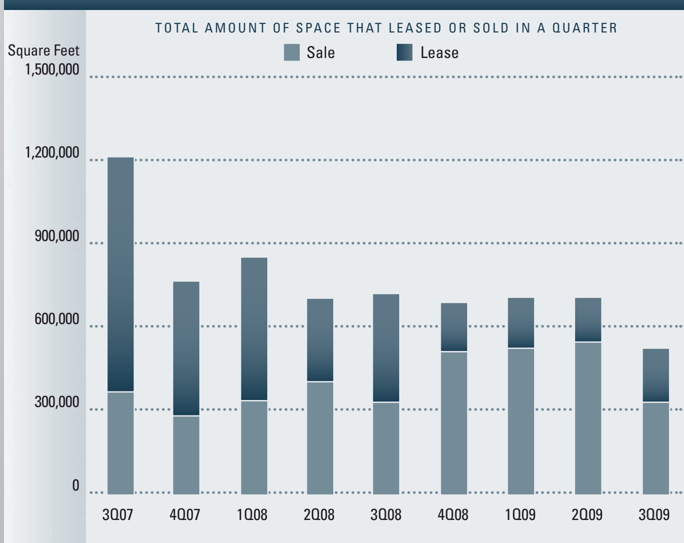
VACANCY & AVAILABILITY RATE



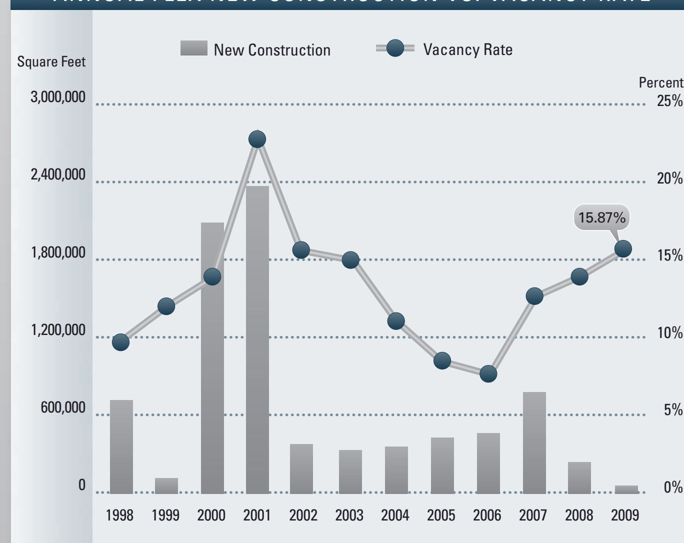
AVERAGE ASKING FULL SERVICE GROSS LEASE RATE



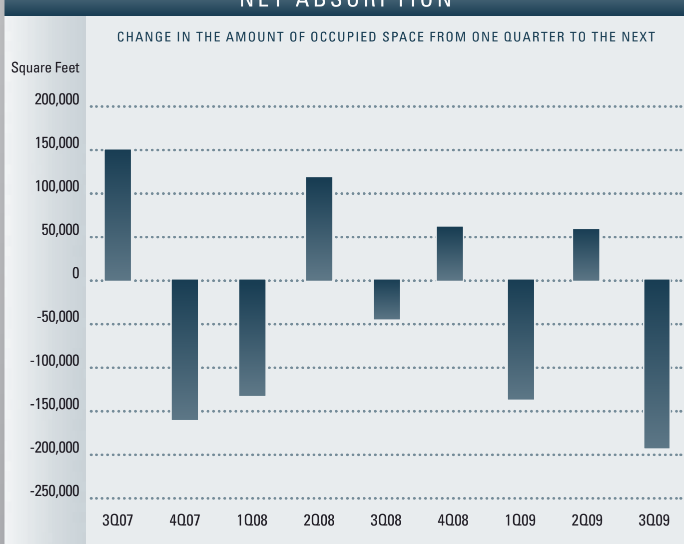
SALE & LEASE TRANSACTIONS



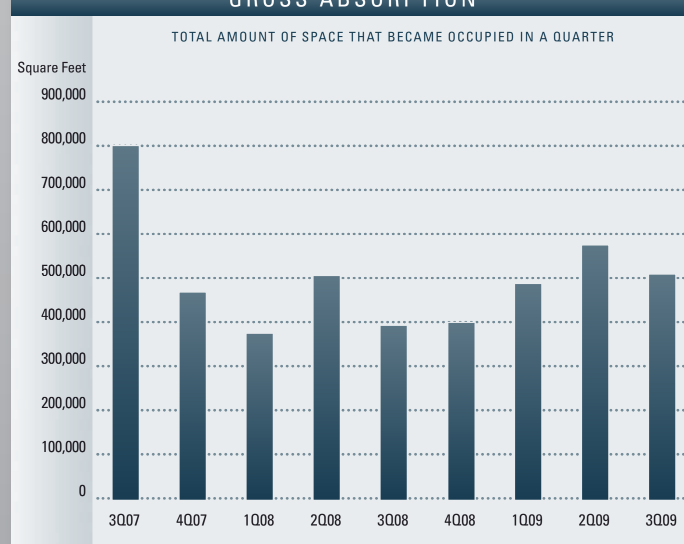
ANNUAL FLEX NEW CONSTRUCTION VS. VACANCY RATE



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 3Q2009	Square Feet Available	Availability Rate 3Q2009	Average Asking Lease Rate	Net Absorption 3Q2009	Net Absorption 2009	Gross Absorption 3Q2009	Gross Absorption 2009
North County													
Anaheim	22	438,748	0	0	44,315	10.10%	61,322	13.98%	$2.25	(5,593)	3,257	5,357	23,522
Brea	15	458,580	0	0	40,195	8.77%	108,456	23.65%	$2.14	(456)	13,661	5,928	44,758
Fullerton	10	133,711	0	0	5,149	0.00%	27,994	20.94%	$3.10	(1,704)	(1,704)	0	0
Placentia	3	61,675	0	40,000	4,527	7.34%	4,527	7.34%	$1.41	(1,084)	(1,084)	1,760	2,961
Yorba Linda	1	10,000	0	0	10,000	100.00%	10,000	100.00%	$0.00	(1)	(5,047)	0	561
North County Total	51	1,102,714	0	40,000	104,186	9.45%	212,299	19.25%	$2.00	(8,838)	9,083	13,045	71,802
West County													
Cypress	10	378,568	0	0	6,878	1.82%	40,074	10.59%	$2.10	5,132	9,513	5,132	19,132
Huntington Beach	3	48,796	0	0	1,173	2.40%	2,346	4.81%	$1.55	3,254	2,992	5,072	5,983
Seal Beach	6	87,382	0	0	15,100	17.28%	15,100	17.28%	$0.00	(15,100)	(15,100)	0	0
West County Total	19	514,746	0	0	23,151	4.50%	57,520	11.17%	$2.03	(6,714)	(2,595)	10,204	25,115
Central County													
Anaheim	11	279,366	0	9,000	35,136	12.58%	35,136	12.58%	$1.45	3,555	(7,550)	8,918	13,702
Garden Grove	2	27,400	0	0	13,610	49.67%	13,610	49.67%	$0.00	(8,910)	(8,910)	0	0
Orange	7	146,612	0	0	670	0.46%	4,027	2.75%	$2.05	0	2,025	0	2,695
Santa Ana	11	227,881	0	4,642	75,007	32.91%	67,485	29.61%	$1.55	(13,605)	(8,570)	12,096	17,970
Tustin	4	84,314	0	0	16,738	19.85%	22,035	26.13%	$0.00	0	(16,738)	0	0
Central County Total	35	765,573	0	13,642	141,161	18.44%	142,293	18.59%	$1.60	(18,960)	(39,743)	21,014	34,367
Airport Area													
Costa Mesa	6	70,102	0	0	4,695	6.70%	25,688	36.64%	$0.00	0	(1,384)	0	3,922
Irvine	117	3,521,780	0	100,000	760,386	21.59%	1,007,176	28.60%	$3.14	(157,241)	(199,401)	63,844	219,824
Newport Beach	28	616,088	0	0	70,267	11.41%	117,684	19.10%	$2.80	3,393	(23,301)	22,243	32,963
Santa Ana	11	470,091	0	4,642	104,118	22.15%	103,036	21.92%	$1.83	(16,217)	16,070	11,808	73,432
Tustin	7	252,919	0	50,400	12,169	4.81%	48,645	19.23%	$1.50	0	(42)	0	3,700
Airport Area Total	169	4,930,980	0	155,042	951,635	19.30%	1,302,229	26.41%	$2.66	(170,065)	(208,058)	97,895	333,841
South County													
Aliso Viejo	42	1,289,155	0	20,000	126,701	9.83%	234,192	18.17%	$1.94	(8,075)	(65,671)	15,223	30,581
Dana Point	4	58,840	0	31,000	3,300	5.61%	3,300	5.61%	$0.00	(3,300)	(3,300)	0	0
Foothill Ranch	4	91,977	0	0	17,573	19.11%	22,391	24.34%	$0.00	0	16,972	0	19,976
Irvine Spectrum	224	5,132,883	0	0	998,676	19.46%	1,861,863	36.27%	$1.77	(30,710)	11,262	205,037	716,163
Laguna Beach	5	73,016	2,500	0	3,306	4.53%	3,306	4.53%	$0.00	1,738	3,181	1,738	4,062
Laguna Hills	20	599,873	0	0	117,911	19.66%	152,216	25.37%	$1.96	(10,829)	14,781	9,156	75,629
Laguna Niguel	4	98,481	0	0	3,116	3.16%	6,720	6.82%	$0.00	6,083	3,221	6,083	8,183
Lake Forest	38	1,453,770	0	0	154,777	10.65%	287,559	19.78%	$2.16	39,079	(3,008)	48,122	111,630
Mission Viejo	27	344,571	17,500	0	21,287	6.18%	43,694	12.68%	$1.87	10,524	11,808	18,111	32,005
Rancho Santa Margarita	10	282,195	10,728	0	38,043	13.48%	46,510	16.48%	$1.87	(1,207)	(1,967)	11,219	25,432
San Clemente	10	208,252	0	0	25,794	12.39%	45,067	21.64%	$2.05	13,686	2,065	25,787	34,210
San Juan Capistrano	23	495,034	0	260,687	37,027	7.48%	40,544	8.19%	$2.19	(6,102)	(15,753)	25,210	36,238
South County Total	411	10,128,047	30,728	311,687	1,547,511	15.28%	2,747,362	27.13%	$1.92	10,887	(26,409)	365,686	1,094,109
Orange County Total	**685**	**17,442,060**	**30,728**	**520,371**	**2,767,644**	**15.87%**	**4,461,703**	**25.58%**	**$2.09**	**(193,690)**	**(267,722)**	**507,844**	**1,559,234**

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2009	Square Feet Available	Availability Rate 3Q2009	Average Asking Lease Rate	Net Absorption 3Q2009	Net Absorption 2009	Gross Absorption 3Q2009	Gross Absorption 2009
North County													
0 to 29,999	41	657,402	0	0	79,814	12.14%	122,436	18.62%	$1.41	(3,688)	13,274	11,145	55,672
30,000 to 49,999	8	322,312	0	40,000	20,346	6.31%	69,358	21.52%	$2.14	(5,150)	(7,145)	1,900	9,150
50,000+	2	123,000	0	0	4,026	3.27%	20,505	16.67%	$1.95	0	2,954	0	6,980
West County													
0 to 29,999	12	145,978	0	0	20,760	14.22%	21,933	15.02%	$1.55	(11,846)	(16,595)	5,072	5,983
30,000 to 49,999	3	118,562	0	0	2,391	2.02%	17,572	14.82%	$2.10	5,132	0	5,132	5,132
50,000+	4	250,206	0	0	0	0.00%	18,015	7.20%	$0.00	0	14,000	0	14,000
Central County													
0 to 29,999	27	357,805	0	13,642	33,665	9.41%	38,962	10.89%	$1.45	8	(6,816)	8,918	16,702
30,000 to 49,999	2	73,363	0	0	15,081	20.56%	15,081	20.56%	$0.00	(5,363)	(6,644)	0	0
50,000+	6	334,405	0	0	92,415	27.64%	88,250	26.39%	$1.64	(13,605)	(26,283)	12,096	17,665
Airport Area													
0 to 29,999	91	1,036,147	0	4,642	204,044	19.69%	318,057	30.70%	$2.91	(27,889)	13,789	19,239	100,123
30,000 to 49,999	39	1,594,951	0	0	276,438	17.33%	402,337	25.23%	$2.63	(23,512)	(72,112)	45,727	110,993
50,000+	39	2,299,882	0	150,400	471,153	20.49%	581,835	25.30%	$2.36	(118,664)	(149,735)	32,929	122,725
South County													
0 to 29,999	267	3,423,842	30,728	192,647	507,860	14.83%	849,752	24.82%	$1.82	42,896	104,323	132,119	396,469
30,000 to 49,999	90	3,545,991	0	119,040	597,283	16.84%	919,796	25.94%	$1.95	(37,430)	(57,515)	159,957	411,709
50,000+	54	3,158,214	0	0	442,368	14.01%	977,814	30.96%	$2.04	5,421	(73,217)	73,610	285,931
Orange County													
0 to 29,999	438	5,621,174	30,728	210,931	846,143	15.05%	1,351,140	24.04%	$2.12	(519)	107,975	176,493	574,949
30,000 to 49,999	142	5,655,179	0	159,040	911,539	16.12%	1,424,144	25.18%	$2.08	(66,323)	(143,416)	212,716	536,984
50,000+	105	6,165,707	0	150,400	1,009,962	16.38%	1,686,419	27.35%	$2.09	(126,848)	(232,281)	118,635	447,301
Orange County Total	**685**	**17,442,060**	**30,728**	**520,371**	**2,767,644**	**15.87%**	**4,461,703**	**25.58%**	**$2.09**	**(193,690)**	**(267,722)**	**507,844**	**1,559,234**

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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