



## Flex Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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Prepared by:

**Jerry J. Holdner, Jr.** — Lic.#01145748  
Vice President of Market Research  
e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)

**Tony Tran**  
Market Research Analyst  
e-mail: [ttran@voitco.com](mailto:ttran@voitco.com)

VOIT Real Estate Services — Lic.#01333376

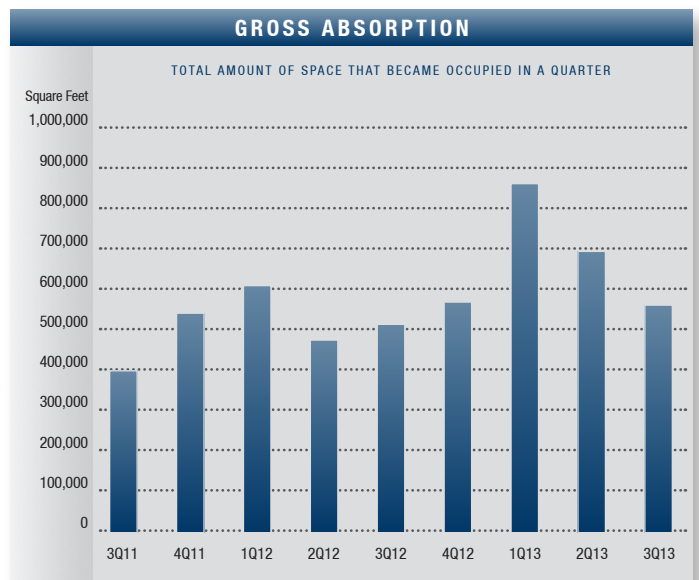
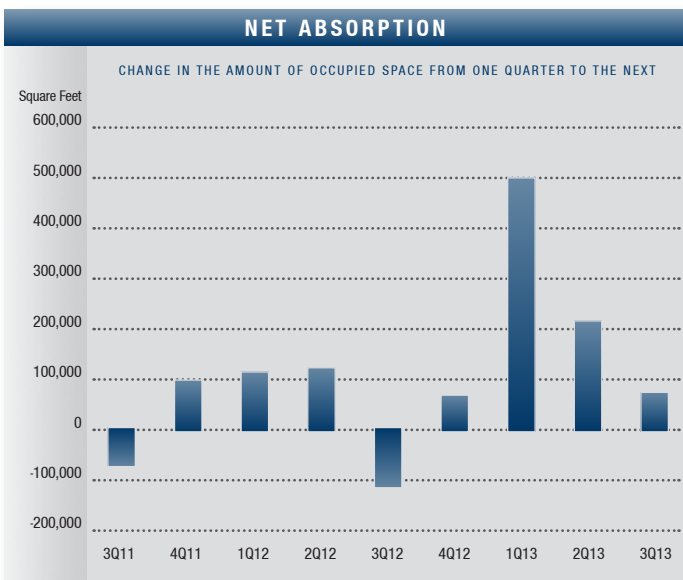
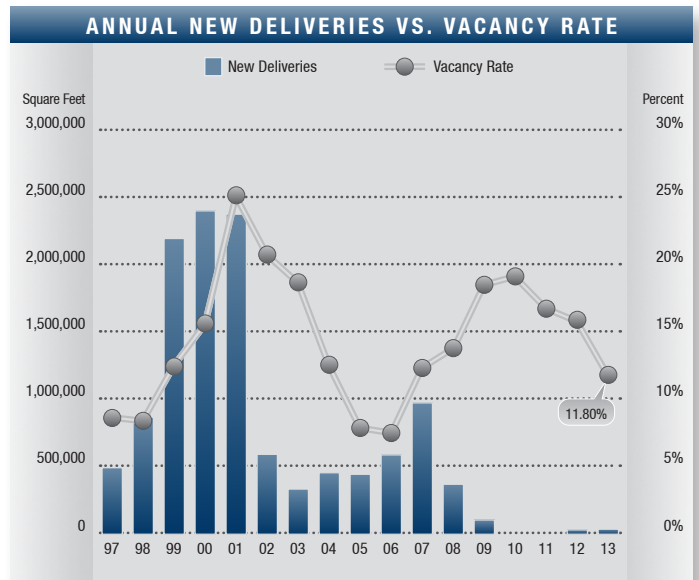
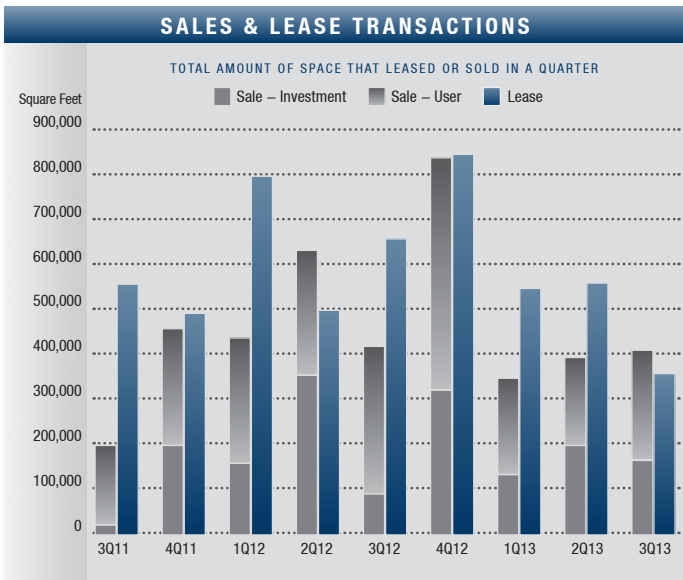
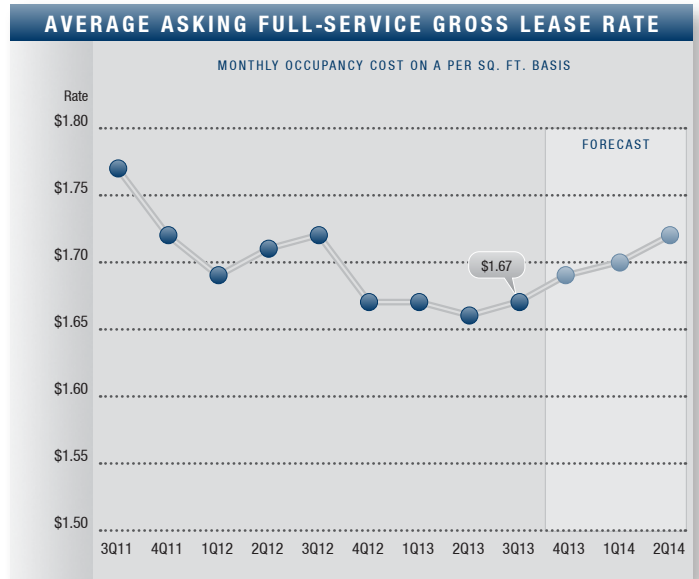
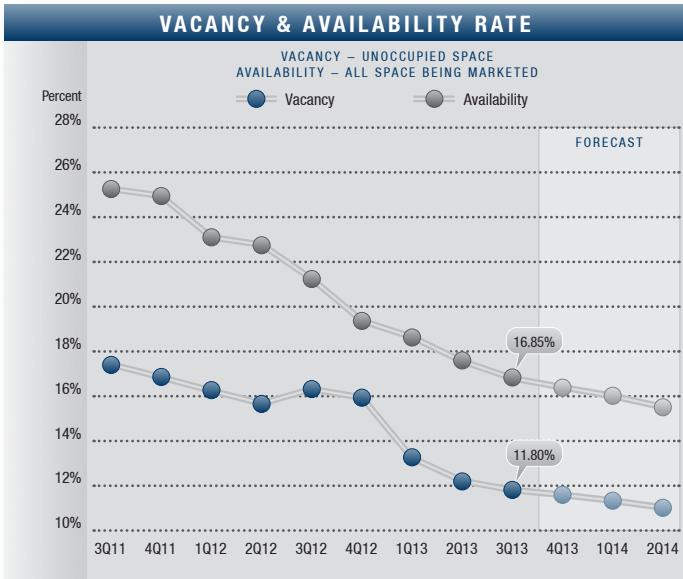
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### Market Highlights

- Steady Growth** - The Orange County flex market conveyed more signs of stabilization at the end of the third quarter of 2013. Both vacancy and availability decreased compared to the prior quarter's rates and displayed over 20% drops compared to 2012's rates. The market posted almost 800,000 square feet of positive net absorption for the first three quarters of 2013, the most positive absorption in one year since 2005 — with one quarter still to come. While these are positive indications, stability will need to be sustained in coming quarters for recovery to continue.
- Absorption** - The Orange County flex market posted 73,681 square feet of positive absorption in the third quarter of 2013, giving the market a total of 788,141 square feet of positive absorption for 2013. This positive absorption can be attributed to the recent employment gains.
- Transaction Activity** - Leasing activity checked in at just over 350,000 square feet in the third quarter of 2013, a decrease from the 556,000 square feet seen in the previous quarter. Sales activity for the third quarter of 2013 showed an increase, posting just over 405,000 square feet of activity for the quarter compared to the second quarter's 390,000 square feet of sales transactions.
- Employment** - The unemployment rate in Orange County was 6.2% in August 2013 — down from a revised 6.5% in July 2013 and below the previous year's estimate of 7.8%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 32,500 payroll jobs from August 2012 to August 2013. Every sector showed gains in employment; the largest gains were 7,000 in financial activities, 6,900 in construction, and 6,500 in leisure & hospitality during that same period.
- Overall** - We are seeing substantial decrease in the amount of available space. As we progress into the last quarter of 2013, absorption has been positive, and with very few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. Lease rates are expected to continue to stabilize and increase in the coming quarters. As job creation continues and consumer confidence stabilizes, the flex market will recover.
- Vacancy** - Vacancies continued their downward trend. Direct/sublease space (unoccupied) finished the quarter at 11.80%, a decrease of 27.65% compared to 2012's third quarter rate of 16.31% and significantly down from the record high rate of 25.85% recorded in the second quarter of 2002.
- Availability** - High-end space captured recent gains in occupancy. Direct/sublease space being marketed was 16.85% at the end of the third quarter of 2013, a huge decrease of 20.59% compared to the 21.22% seen in the third quarter of 2012.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in Orange County's flex market was \$1.67 in the third quarter of 2013 — one cent higher than the previous quarter but still lower than 2012's third quarter rate of \$1.72. The record high rate of \$2.66 was established in the third quarter of 2007.

### FLEX MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	11.80%	12.20%	16.31%	(27.65%)
Availability Rate	16.85%	17.58%	21.22%	(20.59%)
Average Asking Lease Rate	\$1.67	\$1.66	\$1.72	(2.91%)
Sale & Lease Transactions	759,587	944,104	1,070,866	(29.07%)
Gross Absorption	555,754	688,176	509,355	9.11%
Net Absorption	73,681	215,006	(114,315)	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>North County</b>													
Anaheim	31	630,501	0	0	50,749	8.05%	74,334	11.79%	\$1.32	7,189	(2,041)	19,215	47,044
Brea	13	402,455	0	0	63,961	15.89%	150,823	37.48%	\$1.44	6,293	(13,702)	14,299	57,002
Buena Park	5	109,122	0	0	8,641	7.92%	8,641	7.92%	\$1.35	0	0	0	0
Fullerton	8	97,926	0	24,000	11,769	0.00%	23,384	23.88%	\$0.00	(3,544)	(3,544)	0	0
Placentia	4	74,875	0	0	9,316	12.44%	9,316	12.44%	\$1.65	0	127	0	885
<b>North County Total</b>	<b>61</b>	<b>1,314,879</b>	<b>0</b>	<b>24,000</b>	<b>144,436</b>	<b>10.98%</b>	<b>266,498</b>	<b>20.27%</b>	<b>\$1.42</b>	<b>9,938</b>	<b>(19,160)</b>	<b>33,514</b>	<b>104,931</b>
<b>West County</b>													
Cypress	9	360,542	0	0	112,066	31.08%	117,610	32.62%	\$1.85	(1,950)	(1,950)	14,500	14,500
Huntington Beach	3	49,145	0	0	1,172	2.38%	0	0.00%	\$0.00	0	(1,172)	0	0
Seal Beach	6	84,500	0	0	11,851	14.02%	16,434	19.45%	\$2.15	0	(6,508)	0	0
<b>West County Total</b>	<b>18</b>	<b>494,187</b>	<b>0</b>	<b>0</b>	<b>125,089</b>	<b>25.31%</b>	<b>134,044</b>	<b>27.12%</b>	<b>\$2.07</b>	<b>(1,950)</b>	<b>(9,630)</b>	<b>14,500</b>	<b>14,500</b>
<b>Central County</b>													
Garden Grove	4	57,082	0	0	5,210	9.13%	6,410	11.23%	\$0.00	0	1,800	0	3,000
Orange	9	177,529	0	0	9,951	5.61%	22,858	12.88%	\$1.83	6,006	7,707	7,666	17,029
Santa Ana	21	605,916	0	0	75,646	12.48%	115,539	19.07%	\$1.59	4,756	(9,066)	4,756	41,846
Tustin	7	210,982	0	0	3,000	1.42%	3,000	1.42%	\$0.00	3,448	47,469	3,448	54,219
<b>Central County Total</b>	<b>41</b>	<b>1,051,509</b>	<b>0</b>	<b>0</b>	<b>93,807</b>	<b>8.92%</b>	<b>147,807</b>	<b>14.06%</b>	<b>\$1.62</b>	<b>14,210</b>	<b>47,910</b>	<b>15,870</b>	<b>116,094</b>
<b>Airport Area</b>													
Costa Mesa	9	151,175	0	0	14,155	9.36%	15,299	10.12%	\$1.55	(7,343)	(5,767)	7,049	8,625
Irvine	1	15,000	0	0	0	0.00%	1,827	12.18%	\$0.00	0	0	0	0
Fountain Valley	114	3,466,993	0	0	353,404	10.19%	487,391	14.06%	\$1.88	(19,027)	29,956	114,579	382,105
Newport Beach	30	643,267	21,000	0	25,303	3.93%	45,752	7.11%	\$1.86	(11,205)	6,854	3,270	28,456
Santa Ana	2	58,895	0	0	0	0.00%	0	0.00%	\$0.00	0	32,000	0	32,000
Tustin	2	81,116	0	0	4,838	5.96%	0	0.00%	\$0.00	4,612	12	4,649	4,649
<b>Airport Area Total</b>	<b>158</b>	<b>4,416,446</b>	<b>21,000</b>	<b>0</b>	<b>397,700</b>	<b>9.00%</b>	<b>550,269</b>	<b>12.46%</b>	<b>\$1.83</b>	<b>(32,963)</b>	<b>63,055</b>	<b>129,547</b>	<b>455,835</b>
<b>South County</b>													
Aliso Viejo	47	1,423,839	0	0	182,510	12.82%	238,910	16.78%	\$1.77	12,382	13,842	20,250	58,701
Dana Point	6	77,940	0	0	2,364	3.03%	5,411	6.94%	\$0.00	(1,300)	1,747	0	3,047
Foothill Ranch	4	85,397	0	0	13,564	15.88%	18,546	21.72%	\$0.00	0	7,367	0	7,367
Irvine Spectrum	239	5,697,107	0	0	754,654	13.25%	896,695	15.74%	\$1.77	57,645	384,278	255,938	856,569
Ladera Ranch	8	227,862	0	0	50,824	22.30%	50,824	22.30%	\$1.25	495	21,528	1,495	31,920
Laguna Beach	5	74,016	0	0	3,758	5.08%	4,905	6.63%	\$0.00	1,418	1,194	1,418	6,784
Laguna Hills	15	495,270	0	0	67,278	13.58%	117,546	23.73%	\$1.67	(5,722)	(11,824)	12,396	31,415
Laguna Niguel	3	53,282	0	0	3,414	6.41%	3,414	6.41%	\$0.00	0	(3,414)	0	0
Lake Forest	43	1,516,845	0	0	157,137	10.36%	417,001	27.49%	\$1.71	37,442	279,165	44,179	293,558
Mission Viejo	29	407,235	0	0	45,202	11.10%	68,493	16.82%	\$1.69	(416)	(8,586)	7,553	9,391
Rancho Santa Margarita	10	288,900	0	0	18,889	6.54%	63,264	21.90%	\$1.37	0	25,341	820	30,788
San Clemente	12	255,768	0	0	49,478	19.34%	50,424	19.71%	\$1.36	(17,855)	3,402	6,431	38,533
San Juan Capistrano	31	622,488	0	0	73,482	11.80%	84,147	13.52%	\$2.06	357	(8,074)	11,843	43,932
<b>South County Total</b>	<b>452</b>	<b>11,225,949</b>	<b>0</b>	<b>0</b>	<b>1,422,554</b>	<b>12.67%</b>	<b>2,019,580</b>	<b>17.99%</b>	<b>\$1.68</b>	<b>84,446</b>	<b>705,966</b>	<b>362,323</b>	<b>1,412,005</b>
<b>Orange County Total</b>	<b>730</b>	<b>18,502,970</b>	<b>21,000</b>	<b>24,000</b>	<b>2,183,586</b>	<b>11.80%</b>	<b>3,118,198</b>	<b>16.85%</b>	<b>\$1.67</b>	<b>73,681</b>	<b>788,141</b>	<b>555,754</b>	<b>2,103,365</b>
<b>North County</b>													
0-29,999	50	812,179	0	24,000	90,274	11.12%	126,269	15.55%	\$1.31	11,464	4,032	29,221	76,719
30,000-49,999	8	305,791	0	0	30,716	10.04%	84,325	27.58%	\$1.44	650	(21,016)	650	650
50,000 Plus	3	196,909	0	0	23,446	11.91%	55,904	28.39%	\$1.89	(2,176)	(2,176)	3,643	27,562
<b>West County</b>													
0-29,999	11	126,123	0	0	9,953	7.89%	8,781	6.96%	\$0.00	0	(6,453)	14,500	14,500
30,000-49,999	4	167,585	0	0	10,286	6.14%	20,413	12.18%	\$2.07	(1,950)	(3,177)	0	0
50,000 Plus	3	200,479	0	0	104,850	52.30%	104,850	52.30%	\$0.00	0	0	0	0
<b>Central County</b>													
0-29,999	26	340,201	0	0	18,065	5.31%	49,610	14.58%	\$1.34	9,161	18,377	10,821	30,387
30,000-49,999	7	265,400	0	0	22,512	8.48%	22,512	8.48%	\$1.36	3,256	36,662	3,256	58,961
50,000 Plus	8	445,908	0	0	53,230	11.94%	75,685	16.97%	\$1.74	1,793	(7,129)	1,793	26,746
<b>Airport Area</b>													
0-29,999	91	1,041,946	21,000	0	88,977	8.54%	140,725	13.51%	\$1.78	(14,050)	(5,338)	24,341	74,616
30,000-49,999	30	1,219,872	0	0	53,622	4.40%	109,844	9.00%	\$2.09	(1,144)	49,448	8,112	89,945
50,000 Plus	37	2,154,628	0	0	255,101	11.84%	299,700	13.91%	\$1.75	(17,769)	18,945	97,094	291,274
<b>South County</b>													
0-29,999	294	3,868,846	0	0	378,136	9.77%	634,611	16.40%	\$1.65	41,810	148,518	161,113	433,370
30,000-49,999	104	4,163,294	0	0	506,213	12.16%	786,372	18.89%	\$1.73	(19,864)	52,984	63,187	293,942
50,000 Plus	54	3,193,809	0	0	538,205	16.85%	598,597	18.74%	\$1.69	62,500	504,464	138,023	684,693
<b>Orange County</b>													
0-29,999	472	6,189,295	21,000	24,000	585,405	9.46%	959,996	15.51%	\$1.63	48,385	159,136	239,996	629,592
30,000-49,999	153	6,121,942	0	0	623,349	10.18%	1,023,466	16.72%	\$1.67	(19,052)	114,901	75,205	443,498
50,000 Plus	105	6,191,733	0	0	974,832	15.74%	1,134,736	18.33%	\$1.72	44,348	514,104	240,553	1,030,275
<b>Orange County Total</b>	<b>730</b>	<b>18,502,970</b>	<b>21,000</b>	<b>24,000</b>	<b>2,183,586</b>	<b>11.80%</b>	<b>3,118,198</b>	<b>16.85%</b>	<b>\$1.67</b>	<b>73,681</b>	<b>788,141</b>	<b>555,754</b>	<b>2,103,365</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, Orange, Placentia, Yorba Linda

**WEST**

Cypress, Huntington Beach, Seal Beach

**CENTRAL**

Anaheim, Garden Grove, Orange, Santa Ana, Tustin

**AIRPORT**

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana, Tustin

**SOUTH**

Aliso Viejo, Dana Point, Irvine Spectrum, Ladera Ranch, 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**

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