



Voit
Real Estate Services

Flex Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Market Highlights

- ◆ **Market Challenges** - Let's just say it's nice to have 2009 behind us as the Flex market continues to struggle going into 2010. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing (except SBA owner user), 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 last quarter of 2009. 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 many tenants to request rent relief from landlords and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Construction** - During 2009, Orange County has added a total of 69,363 square feet of Flex space. Total space under construction checked in at 42,500 square feet at the end of 2009, which is a decrease from the same quarter last year when 51,863 square feet was under construction.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 19.22%, constituting an increase over last year's fourth quarter rate of 14.03%. This 19.22% 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 26.15% this quarter, up from the 23.82% we saw this same quarter last year. This is an increase of 9.78% 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 \$1.93, which is an 18.22% decrease over last year's rate of \$2.36 and sixteen 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 600,213 square feet for the fourth quarter of 2009, giving the Flex market a total of 858,049 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 190,015 square feet. The average amount of leasing per quarter over the past ten quarters was 380,000 square feet. Sales activity posted 205,677 square feet this quarter, compared to the third quarter's 235,532 square feet.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.4% in November 2009, down from a revised 9.7% in October 2009 and above the year ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 12.2% for California and 9.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 53,000 payroll jobs over the last twelve months; the largest losses were 12,600 in retail trade, transportation & utilities and 11,700 in construction.
- ◆ **Overall** - We are starting to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity during the last quarter of 2009. In 2010, negative absorption should begin to slow, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near 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 many short term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Flex market will turn positive.

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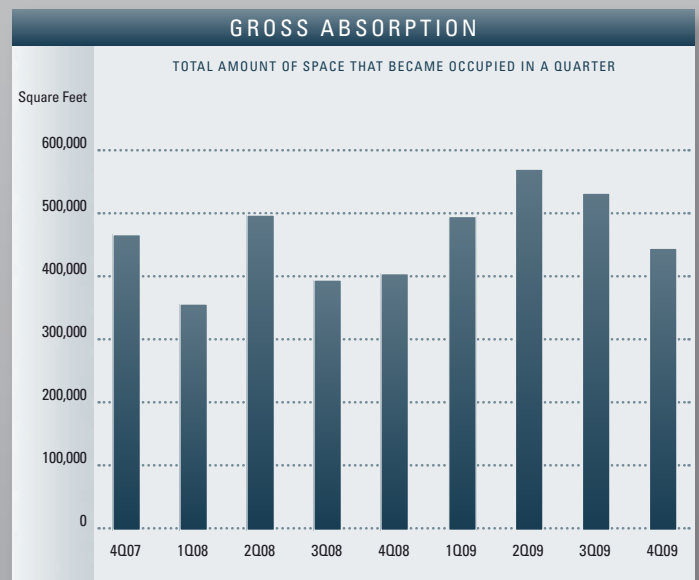
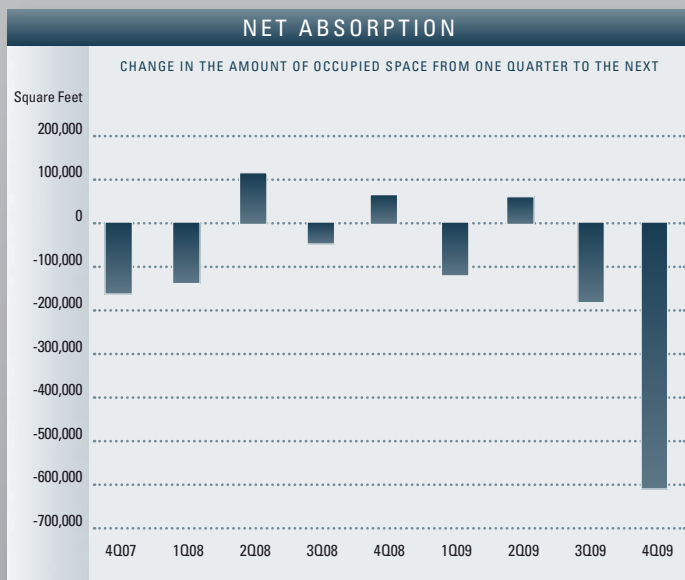
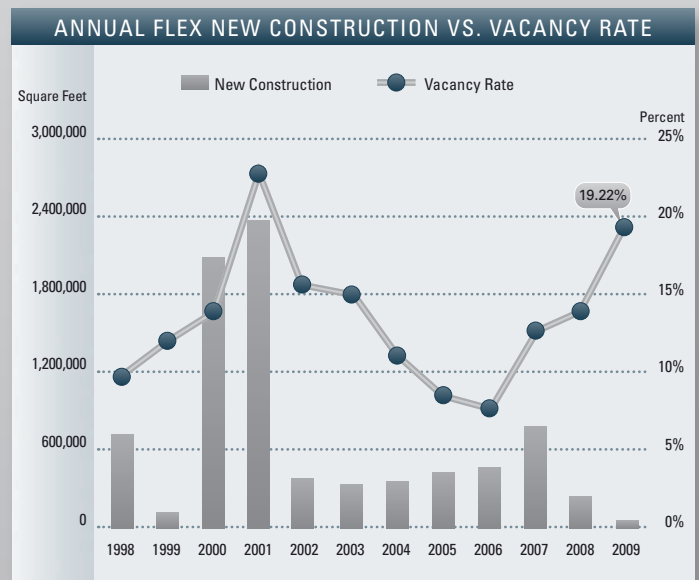
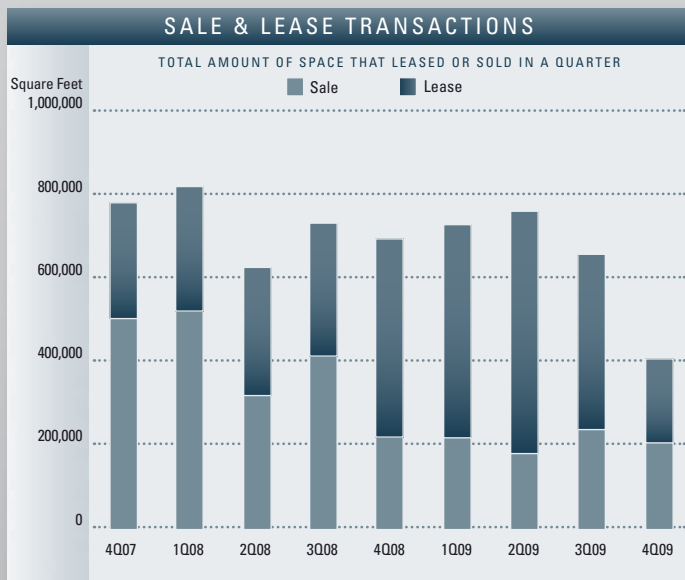
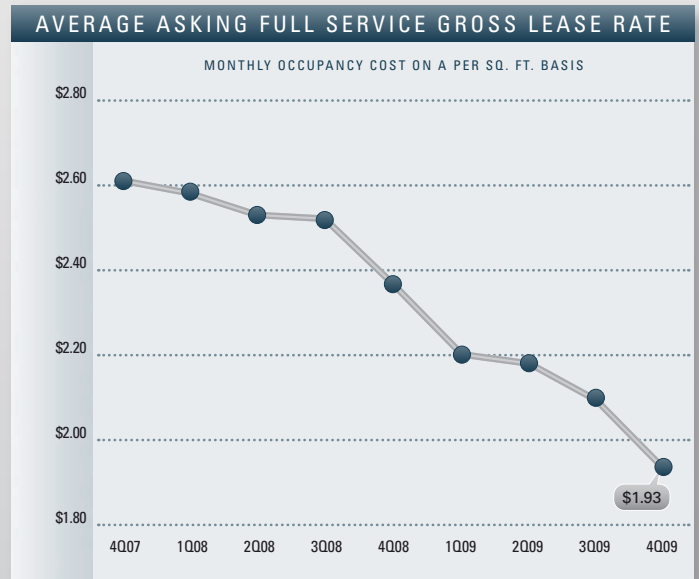
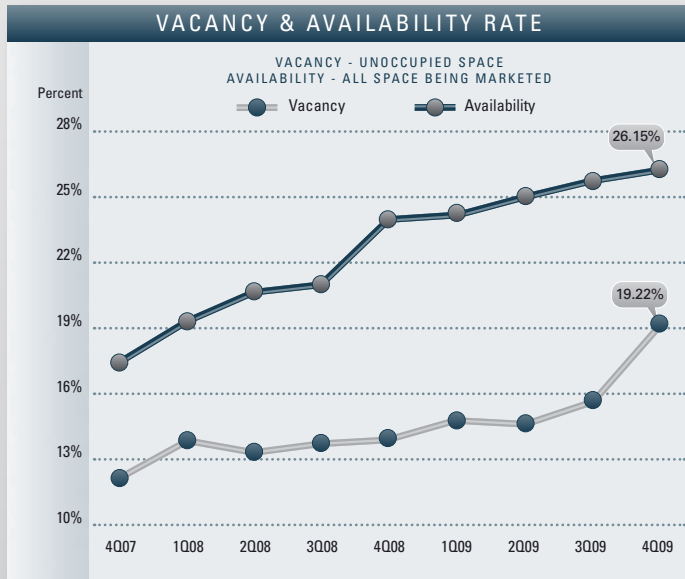
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FLEX MARKET OVERVIEW

	2009	2008	2007	% CHANGE VS. 2008
Inventory Added	69,363	366,278	815,288	-81.06%
Under Construction	42,500	51,863	286,722	-18.05%
Vacancy Rate	19.22%	14.03%	12.13%	36.99%
Availability Rate	26.15%	23.82%	17.43%	9.78%
Average Asking Lease Rate	\$1.93	\$2.36	\$2.61	-18.22%
Net Absorption	(858,049)	(8,139)	(10,438)	N/A
Gross Absorption	2,030,538	1,650,824	2,479,980	23.00%

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	INVENTORY					VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2009	Square Feet Available	Availability Rate 4Q2009	Average Asking Lease Rate	Net Absorption 4Q2009	Net Absorption 2009	Gross Absorption 4Q2009	Gross Absorption 2009
North County													
Anaheim	27	562,748	0	34,000	120,858	21.48%	136,584	24.27%	\$2.25	(54,909)	(39,550)	8,965	68,825
Brea	12	370,580	0	0	20,721	5.59%	58,734	15.85%	\$2.14	720	1,559	720	9,140
Fullerton	8	133,711	0	16,400	7,534	0.00%	25,114	18.78%	\$3.10	(5,265)	(6,249)	0	0
Placentia	3	61,675	40,000	0	13,484	21.86%	13,484	21.86%	\$1.34	(8,957)	(10,041)	1,683	4,644
Yorba Linda	1	10,000	0	13,200	10,000	100.00%	10,000	100.00%	\$0.00	0	(5,047)	0	561
North County Total	51	1,138,714	40,000	63,600	172,597	15.16%	243,916	21.42%	\$1.77	(68,411)	(59,328)	11,368	83,170
West County													
Cypress	11	393,068	0	0	31,072	7.90%	35,559	9.05%	\$2.10	(9,694)	(14,681)	22,502	41,634
Huntington Beach	3	48,796	0	4,500	1,173	2.40%	3,061	6.27%	\$1.57	0	2,992	0	5,983
Seal Beach	5	72,882	0	0	2,350	3.22%	2,350	3.22%	\$0.00	(1,750)	(2,350)	0	0
West County Total	19	514,746	0	4,500	34,595	6.72%	40,970	7.96%	\$2.02	(11,444)	(14,039)	22,502	47,617
Central County													
Anaheim	12	312,436	0	9,000	27,347	8.75%	27,347	8.75%	\$1.45	7,789	239	9,368	23,070
Garden Grove	2	27,400	0	0	16,610	60.62%	16,610	60.62%	\$0.00	0	(11,910)	0	0
Orange	6	113,542	0	0	4,027	3.55%	8,617	7.59%	\$2.05	(3,357)	(1,332)	0	2,695
Santa Ana	11	227,881	0	4,642	66,285	29.09%	66,285	29.09%	\$1.55	1,200	152	1,200	19,170
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	131,007	17.11%	140,894	18.40%	\$1.67	5,632	(29,589)	10,568	44,935
Airport Area													
Costa Mesa	6	70,102	0	11,000	1,345	1.92%	13,492	19.25%	\$0.00	3,350	1,966	3,350	7,272
Irvine	121	3,668,105	0	150,000	796,384	21.71%	1,043,821	28.46%	\$2.98	(26,890)	(229,168)	93,727	312,791
Newport Beach	28	615,926	0	0	79,278	12.87%	126,652	20.56%	\$2.80	(9,011)	(32,312)	10,272	43,235
Santa Ana	9	401,230	0	0	76,712	19.12%	94,286	23.50%	\$1.76	18,298	36,485	27,754	101,186
Tustin	4	164,775	0	50,400	60,941	36.98%	74,838	45.42%	\$1.50	(48,772)	(48,814)	0	3,700
Airport Area Total	168	4,920,138	0	211,400	1,014,660	20.62%	1,353,089	27.50%	\$2.48	(63,025)	(271,843)	135,103	468,184
South County													
Aliso Viejo	43	1,302,816	0	20,000	169,335	13.00%	231,106	17.74%	\$1.45	(38,313)	(108,305)	16,404	46,985
Dana Point	6	77,940	0	35,000	7,910	10.15%	7,910	10.15%	\$1.74	(4,610)	(7,910)	0	0
Foothill Ranch	4	91,977	0	0	20,824	22.64%	25,642	27.88%	\$0.00	(3,251)	13,721	0	19,976
Irvine Spectrum	227	5,256,632	0	0	1,408,636	26.80%	1,937,776	36.86%	\$1.77	(384,692)	(347,579)	205,489	943,081
Laguna Beach	5	73,016	2,500	8,100	9,640	13.20%	10,774	14.76%	\$1.42	(6,334)	(3,153)	0	4,062
Laguna Hills	15	462,098	0	0	78,700	17.03%	100,329	21.71%	\$1.77	(15,527)	(6,663)	4,154	74,731
Laguna Niguel	3	53,170	0	0	1,159	2.18%	1,159	2.18%	\$0.00	0	3,305	0	5,269
Lake Forest	39	1,472,526	0	0	155,958	10.59%	276,806	18.80%	\$2.14	(1,181)	(7,189)	4,543	116,173
Mission Viejo	27	353,876	0	0	42,851	12.11%	68,557	19.37%	\$1.79	(4,064)	7,744	3,417	35,422
Rancho Santa Margarita	11	300,307	0	0	50,167	16.71%	50,819	16.92%	\$1.86	(1,589)	(7,884)	7,940	43,518
San Clemente	10	190,082	0	0	24,435	12.85%	31,011	16.31%	\$1.21	(394)	(2,095)	7,147	33,875
San Juan Capistrano	24	538,415	0	53,274	44,035	8.18%	58,741	10.91%	\$2.10	(3,010)	(17,242)	13,552	63,540
South County Total	414	10,172,855	2,500	116,374	2,013,650	19.79%	2,800,630	27.53%	\$1.72	(462,965)	(483,250)	262,646	1,386,632
Orange County Total	687	17,512,026	42,500	409,516	3,366,509	19.22%	4,579,499	26.15%	\$1.93	(600,213)	(858,049)	442,187	2,030,538

	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	693,402	0	29,600	102,586	14.79%	135,892	19.60%	\$1.34	(22,772)	(9,498)	10,468	66,140
30,000 to 49,999	8	322,312	40,000	34,000	65,985	20.47%	70,997	22.03%	\$2.14	(45,639)	(52,784)	900	10,050
50,000+	2	123,000	0	0	4,026	3.27%	37,027	30.10%	\$0.00	0	2,954	0	6,980
West County													
0 to 29,999	12	145,978	0	4,500	18,023	12.35%	24,398	16.71%	\$1.57	2,737	(13,858)	4,487	10,470
30,000 to 49,999	3	118,562	0	0	16,572	13.98%	16,572	13.98%	\$2.10	(14,181)	(14,181)	0	5,132
50,000+	4	250,206	0	0	0	0.00%	0	0.00%	\$0.00	0	14,000	18,015	32,015
Central County													
0 to 29,999	27	357,805	0	13,642	28,876	8.07%	34,173	9.55%	\$1.45	7,789	(2,027)	9,368	26,070
30,000 to 49,999	2	73,363	0	0	15,081	20.56%	15,081	20.56%	\$0.00	0	(6,644)	0	0
50,000+	6	334,405	0	0	87,050	26.03%	91,640	27.40%	\$1.72	(2,157)	(20,918)	1,200	18,865
Airport Area													
0 to 29,999	90	1,025,305	0	11,000	223,990	21.85%	305,726	29.82%	\$2.90	(19,946)	(6,917)	9,264	108,627
30,000 to 49,999	39	1,594,951	0	0	323,211	20.26%	449,620	28.19%	\$2.28	(46,773)	(118,885)	49,287	163,280
50,000+	39	2,299,882	0	200,400	467,459	20.33%	597,743	25.99%	\$2.21	3,694	(146,041)	76,552	196,277
South County													
0 to 29,999	271	3,516,223	2,500	81,374	569,046	16.18%	871,020	24.77%	\$1.75	(46,525)	57,263	88,373	511,296
30,000 to 49,999	89	3,502,738	0	35,000	602,707	17.21%	883,379	25.22%	\$1.83	(15,044)	(64,767)	118,770	533,902
50,000+	54	3,153,894	0	0	841,897	26.69%	1,046,231	33.17%	\$1.54	(401,396)	(475,746)	55,503	341,434
Orange County Total													
0 to 29,999	441	5,738,713	2,500	140,116	942,521	16.42%	1,371,209	23.89%	\$2.03	(78,717)	24,963	121,960	722,603
30,000 to 49,999	141	5,611,926	40,000	69,000	1,023,556	18.24%	1,435,649	25.58%	\$1.98	(121,637)	(257,261)	168,957	712,364
50,000+	105	6,161,387	0	200,400	1,400,432	22.73%	1,772,641	28.77%	\$1.74	(399,859)	(625,751)	151,270	595,571
Orange County Total	687	17,512,026	42,500	409,516	3,366,509	19.22%	4,579,499	26.15%	\$1.93	(600,213)	(858,049)	442,187	2,030,538

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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