Voit

REAL ESTATE SERVICES

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Orange County | Fourth Quarter 2010

Flex Market Report

Compared to 2009:

Vacancy

UP

Net Absorption

NEGATIVE

Lease Rates

DOWN

Transactions

UP

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CORFAC International

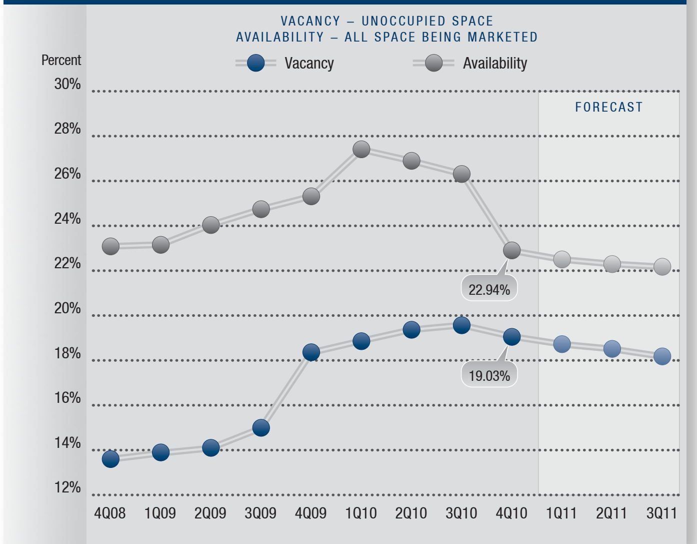
Market Highlights

- **Are we there yet? -** The Orange County flex market displayed more signs of stabilization this quarter. Both vacancy and availability decreased compared to the previous quarter, and net absorption was positive in the last quarter of 2010. Although demand was still weak by historical standards, 2010 marked 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 no flex space under construction in Orange County in the fourth quarter of 2010, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs has led to few projects being developed.
- **Vacancy -** Direct/sublease space (unoccupied) finished the year at 19.03%, an increase over 2009's rate of 18.44% but a decrease from 2010's third quarter rate of 19.71%. This 19.03% is still less than the record high rate of 26.95% that was recorded in the second quarter of 2002.
- **Availability -** Direct/sublease space being marketed was 22.94% at the end of 2010, a decrease of 10.88% compared to the 25.39% we saw at the end of 2009.
- **Lease Rates -** The average asking Full–Service Gross (FSG) lease rate per square foot per month in Orange County was $1.72 in the fourth quarter of 2010 — three cents lower than the previous quarter's rate and a 10.88% decrease over 2009's rate of $1.93. The record high rate of $2.66 was established in the third quarter of 2007.
- **Absorption -** Net absorption for the county posted a negative 106,561 square feet for 2010, giving the flex market an average of 26,640 square feet of negative absorption per quarter for 2010. This negative absorption can be attributed to the recent job losses.
- **Transaction Activity -** Leasing activity came in at 2.5 million square feet in 2010. The average amount of leasing per quarter over the past four quarters was 506,000 square feet. Sales activity posted just under one million square feet in 2010, compared to 2009's 800,000 square feet.
- **Employment -** The unemployment rate in Orange County was 9.3% in November 2010 — up from a revised 9.1% in October 2010 and below the 2009 estimate of 9.6%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County increased by 19,100 payroll jobs from November 2009 to November 2010; the largest gains were 10,100 in professional & business services and 8,400 in leisure and hospitality. However, during that same period, Orange County lost 4,900 jobs in construction. Chapman University is forecasting that 23,000 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 for the year. As we enter into 2011, absorption has turned positive, and with few new deliveries in the pipeline to put more 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 should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short–term deals come up for renewal and as job creation begins going into 2011. If job creation continues and consumer confidence stabilizes, the flex market will continue to recover.

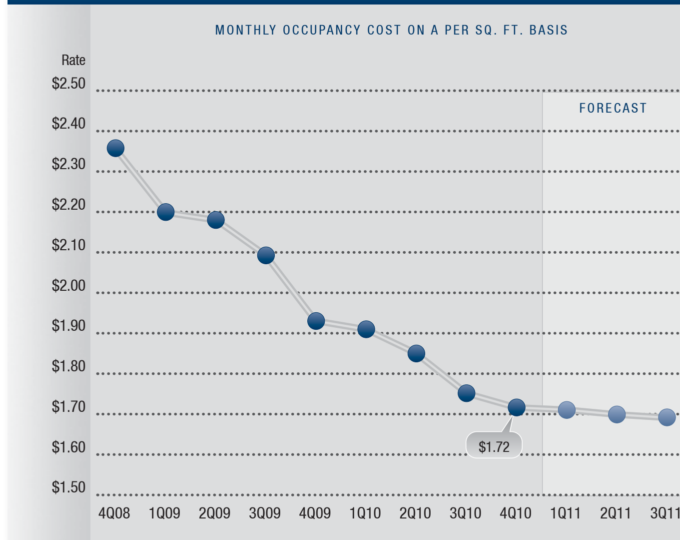
FLEX MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	19.03%	18.44%	13.57%	3.20%
Availablity Rate	22.94%	25.39%	23.09%	(9.65%)
Average Asking Lease Rate	$1.72	$1.93	$2.36	(10.88%)
Sale & Lease Transactions	2,798,898	2,774,121	2,754,076	0.89%
Gross Absorption	2,045,390	2,031,191	1,703,144	0.70%
Net Absorption	(106,561)	(807,379)	83,157	N/A

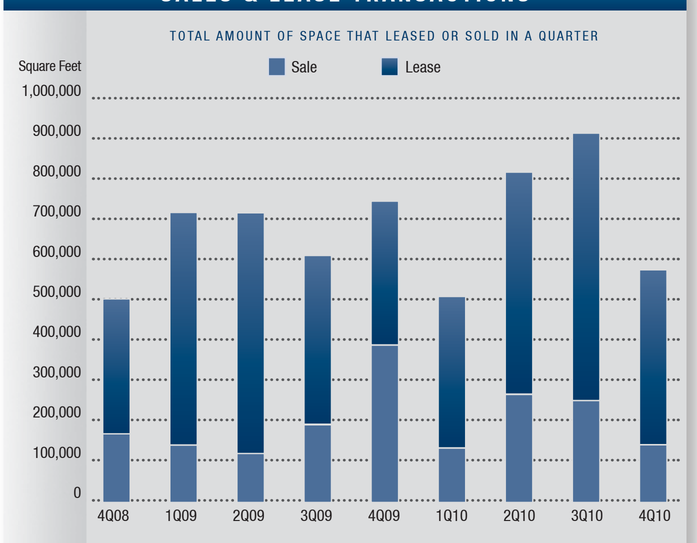
VACANCY & AVAILABILITY RATE



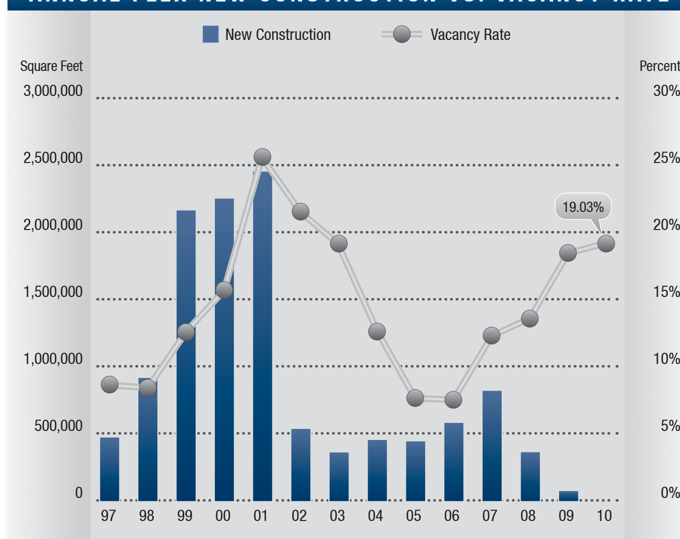
AVERAGE ASKING FULL SERVICE GROSS LEASE RATE



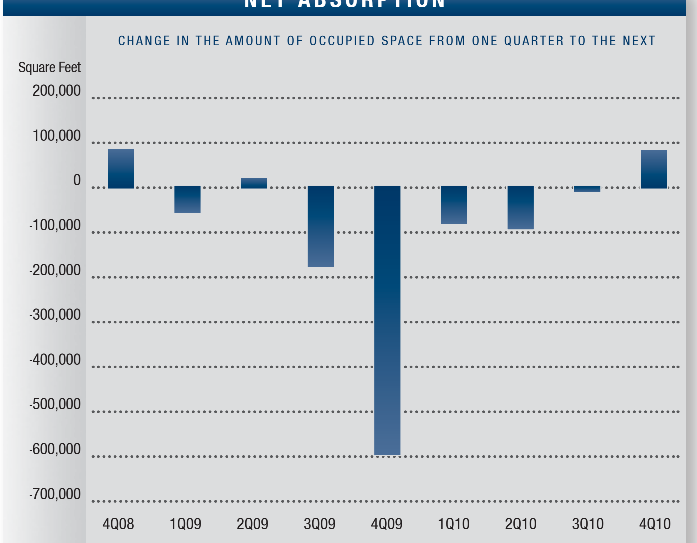
SALES & LEASE TRANSACTIONS



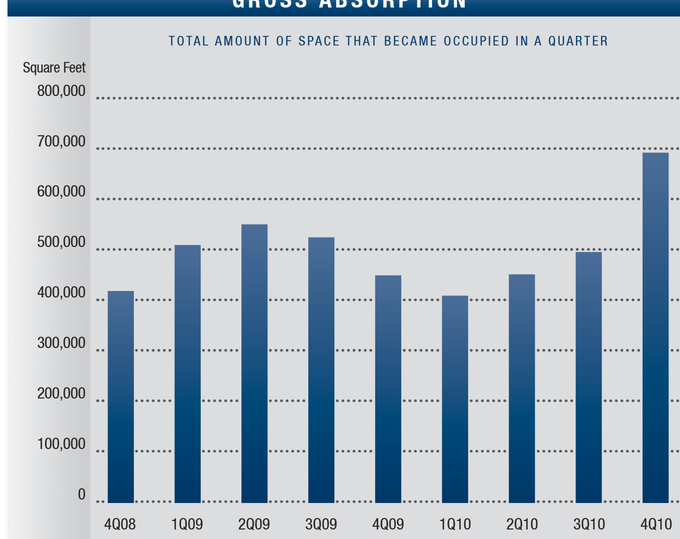
ANNUAL FLEX NEW CONSTRUCTION VS. VACANCY RATE



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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
North County													
Anaheim	22	438,748	0	52,400	38,644	8.81%	53,068	12.10%	$1.68	39,956	56,720	52,195	97,850
Brea	14	414,580	0	0	72,973	17.60%	93,867	22.64%	$1.81	(2,748)	(28,916)	1,152	36,486
Buena Park	3	70,000	0	0	1,440	2.06%	1,440	2.06%	$0.00	0	720	0	1,440
Fullerton	8	114,697	0	24,000	5,360	0.00%	20,892	18.21%	$0.00	984	2,174	984	7,534
Placentia	3	61,675	0	0	11,041	17.90%	11,041	17.90%	$1.60	(163)	2,443	722	3,328
North County Total	50	1,099,700	0	76,400	129,458	11.77%	180,308	16.40%	$1.76	38,029	33,141	55,053	146,638
West County													
Cypress	11	393,068	0	0	28,681	7.30%	28,681	7.30%	$1.95	5,132	2,391	5,132	7,523
Huntington Beach	3	49,145	0	0	3,017	6.14%	2,537	5.16%	$1.50	1,388	(1,844)	2,517	3,690
Seal Beach	5	72,877	0	0	5,313	7.29%	5,313	7.29%	$0.00	(3,563)	(2,963)	908	1,508
West County Total	19	515,090	0	0	37,011	7.19%	36,531	7.09%	$1.77	2,957	(2,416)	8,557	12,721
Central County													
Anaheim	11	279,366	0	9,000	22,733	8.14%	17,370	6.22%	$0.00	4,956	4,614	4,956	20,977
Garden Grove	2	27,400	0	0	12,180	44.45%	12,180	44.45%	$0.00	2,810	4,430	2,810	9,910
Orange	8	158,938	0	0	15,518	9.76%	23,838	15.00%	$1.85	0	(11,491)	0	2,566
Santa Ana	11	227,881	0	4,642	57,707	25.32%	70,226	30.82%	$1.55	(2,250)	8,578	0	18,668
Tustin	5	88,617	0	50,400	16,738	18.89%	16,738	18.89%	$0.00	0	0	0	5,296
Central County Total	37	782,202	0	64,042	124,876	15.96%	140,352	17.94%	$1.75	5,516	6,131	7,766	57,417
Airport Area													
Costa Mesa	7	102,815	0	0	0	0.00%	8,846	8.60%	$0.00	0	1,345	0	1,345
Irvine	116	3,504,191	0	100,000	713,095	20.35%	870,465	24.84%	$1.79	59,395	(8,477)	95,827	410,224
Newport Beach	28	623,161	0	10,000	58,127	9.33%	83,045	13.33%	$2.22	1,696	21,151	23,560	69,679
Santa Ana	12	514,084	0	0	104,558	20.34%	120,660	23.47%	$1.42	6,388	(5,376)	37,404	56,834
Tustin	6	214,605	0	0	57,900	26.98%	57,900	26.98%	$0.00	0	3,742	0	3,742
Airport Area Total	169	4,958,856	0	110,000	933,680	18.83%	1,140,916	23.01%	$1.77	67,479	12,385	156,791	541,824
South County													
Aliso Viejo	44	1,350,165	0	25,200	221,378	16.40%	247,591	18.34%	$1.73	2,580	(30,770)	8,556	89,944
Dana Point	6	77,940	0	35,000	3,150	4.04%	1,890	2.42%	$0.00	1,000	4,760	1,000	4,760
Foothill Ranch	5	105,397	0	0	11,699	11.10%	11,699	11.10%	$1.50	6,201	9,125	6,201	20,824
Irvine Spectrum	228	5,380,512	0	0	1,283,798	23.86%	1,420,363	26.40%	$1.71	176,734	91,643	398,485	819,158
Laguna Beach	5	74,016	0	0	2,506	3.39%	8,594	11.61%	$0.00	0	7,134	0	11,245
Laguna Hills	14	450,468	0	78,000	75,950	16.86%	91,729	20.36%	$1.68	6,346	2,750	10,043	64,181
Laguna Niguel	3	53,170	0	0	4,646	8.74%	4,778	8.99%	$0.00	(1,194)	(3,487)	0	1,159
Lake Forest	40	1,486,324	0	0	316,924	21.32%	498,621	33.55%	$1.81	(197,744)	(177,120)	3,053	133,714
Mission Viejo	28	389,546	0	0	39,121	10.04%	56,966	14.62%	$1.33	6,120	(1,040)	7,730	18,196
Rancho Santa Margarita	12	309,025	0	0	58,498	18.93%	62,826	20.33%	$1.57	(6,127)	(8,331)	10,797	35,844
San Clemente	11	234,169	0	0	61,894	26.43%	102,269	43.67%	$1.48	(10,897)	(33,461)	7,780	20,942
San Juan Capistrano	26	568,003	0	0	90,152	15.87%	85,639	15.08%	$1.98	(12,936)	(17,005)	5,329	66,823
South County Total	422	10,478,735	0	138,200	2,169,716	20.71%	2,592,965	24.75%	$1.69	(29,917)	(155,802)	458,974	1,286,790
Orange County Total	**697**	**17,834,583**	**0**	**388,642**	**3,394,741**	**19.03%**	**4,091,072**	**22.94%**	**$1.72**	**84,064**	**(106,561)**	**687,141**	**2,045,390**

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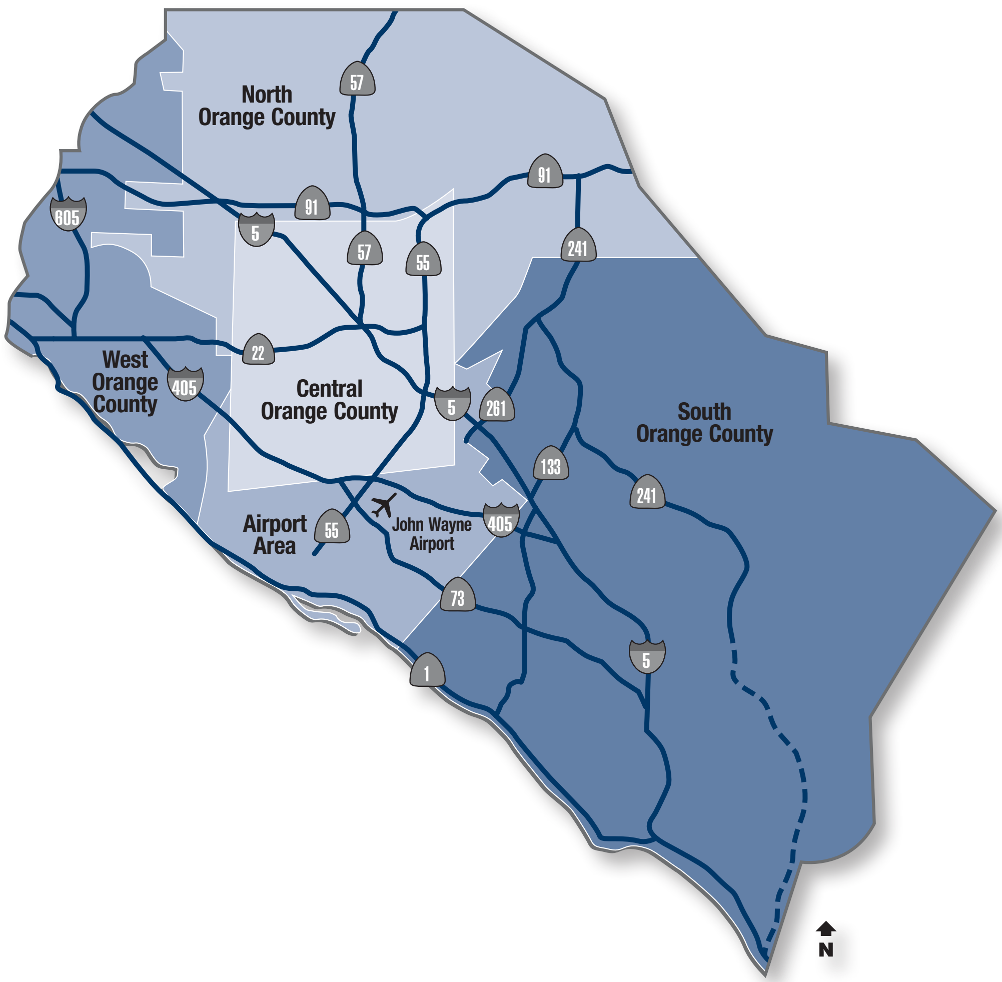
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
North County													
0 to 29,999	40	654,388	0	37,200	73,555	11.24%	105,990	16.20%	$1.61	(827)	19,033	14,697	74,685
30,000 to 49,999	8	322,312	0	39,200	18,162	5.63%	26,680	8.28%	$2.03	38,856	47,823	40,356	71,953
50,000+	2	123,000	0	0	37,741	30.68%	47,638	38.73%	$1.75	0	(33,715)	0	0
West County													
0 to 29,999	12	146,327	0	0	18,359	12.55%	17,879	12.22%	$1.50	2,296	(336)	3,425	5,198
30,000 to 49,999	3	118,557	0	0	18,652	15.73%	18,652	15.73%	$1.95	661	(2,080)	5,132	7,523
50,000+	4	250,206	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Central County													
0 to 29,999	29	374,434	0	13,642	28,135	7.51%	48,974	13.08%	$0.00	2,272	741	4,522	19,164
30,000 to 49,999	2	73,363	0	0	15,816	21.56%	10,453	14.25%	$1.55	3,244	(735)	3,244	19,119
50,000+	6	334,405	0	50,400	80,925	24.20%	80,925	24.20%	$1.75	0	6,125	0	19,134
Airport Area													
0 to 29,999	90	1,041,692	0	10,000	201,122	19.31%	259,389	24.90%	$1.53	(4,825)	2,948	17,144	74,498
30,000 to 49,999	41	1,669,104	0	0	427,429	25.61%	402,277	24.10%	$1.82	(12,204)	(99,053)	50,280	125,714
50,000+	38	2,248,060	0	100,000	305,129	13.57%	479,250	21.32%	$2.00	84,508	108,490	89,367	341,612
South County													
0 to 29,999	274	3,581,881	0	25,200	593,227	16.56%	937,677	26.18%	$1.51	80,001	(7,297)	158,235	511,019
30,000 to 49,999	93	3,662,402	0	113,000	616,618	16.84%	651,768	17.80%	$1.60	39,518	(27,050)	155,892	364,454
50,000+	55	3,234,452	0	0	959,871	29.68%	1,003,520	31.03%	$1.89	(149,436)	(121,455)	144,847	411,317
Orange County													
0 to 29,999	445	5,798,722	0	86,042	914,398	15.77%	1,369,909	23.62%	$1.52	78,917	15,089	198,023	684,564
30,000 to 49,999	147	5,845,738	0	152,200	1,096,677	18.76%	1,109,830	18.99%	$1.81	70,075	(81,095)	254,904	588,763
50,000+	105	6,190,123	0	150,400	1,383,666	22.35%	1,611,333	26.03%	$1.87	(64,928)	(40,555)	234,214	772,063
Orange County Total	**697**	**17,834,583**	**0**	**388,642**	**3,394,741**	**19.03%**	**4,091,072**	**22.94%**	**$1.72**	**84,064**	**(106,561)**	**687,141**	**2,045,390**

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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