



**Voit**  
Real Estate Services

# Flex Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Transactions



DOWN

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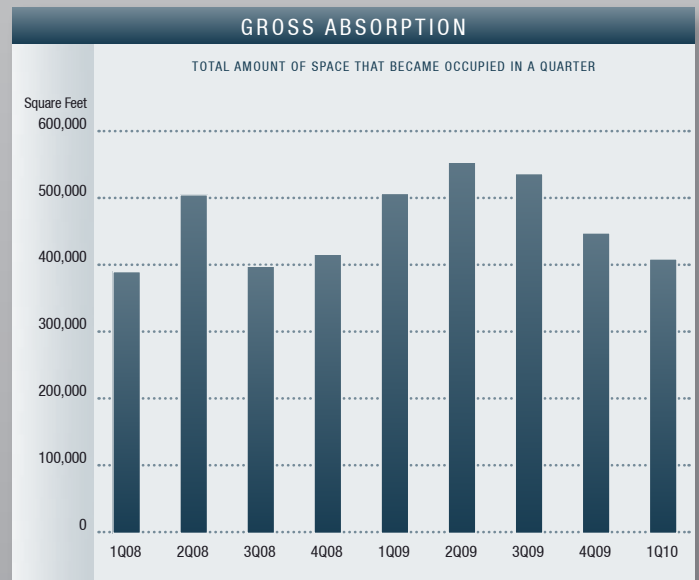
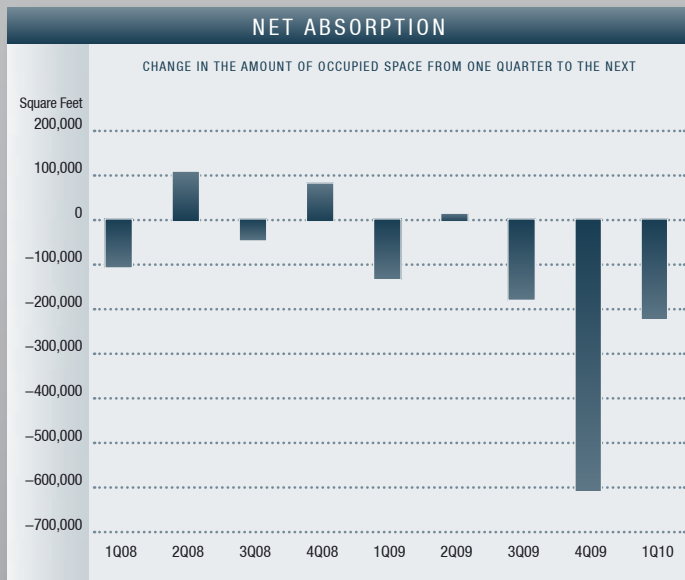
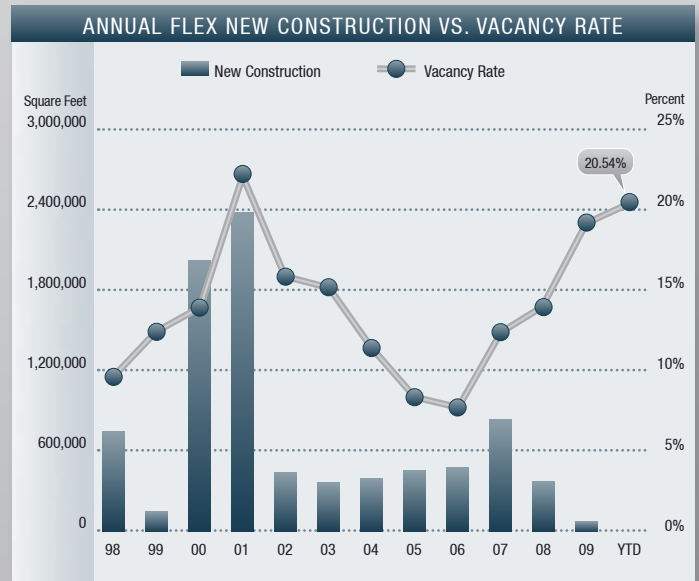
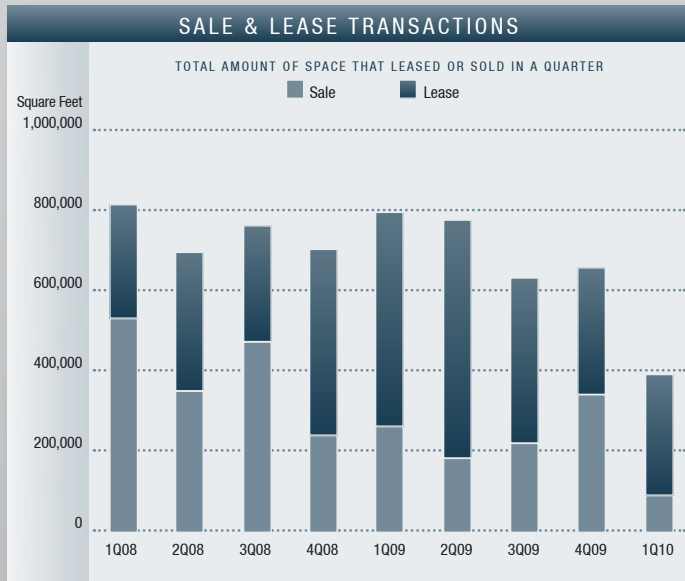
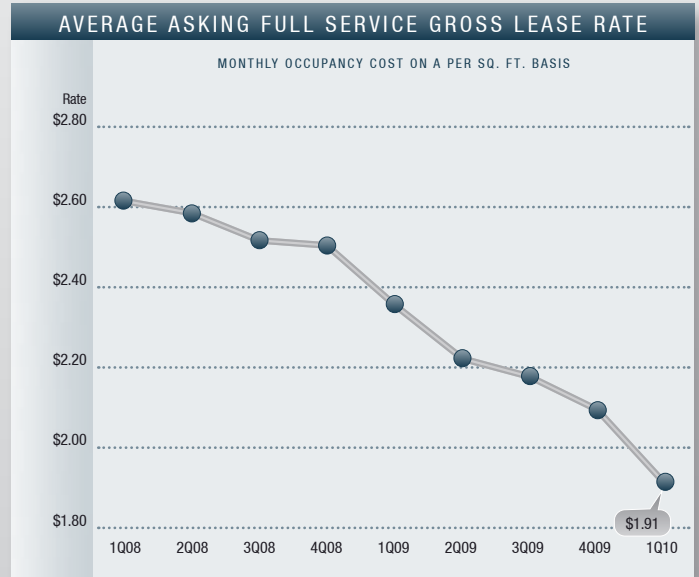
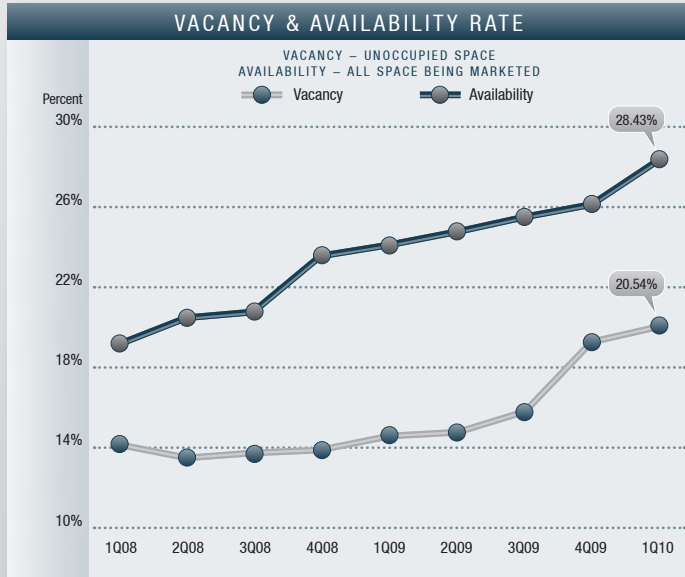
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## Market Highlights

- ◆ **Market Challenges** - Many users/investors have concerns with increasing vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing. However, the ask-bid gap appears to be diminishing, apparent from the increase in sales activity at the end 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 are putting an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- ◆ **Construction** - During 2009, Orange County 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 the first quarter, which is a decrease from the 51,863 square feet that was under construction the same quarter last year.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 20.54%, an increase over last year’s first quarter rate of 14.66%. This 20.54% rate is still less than the record high vacancy rate of 26.95% that was recorded in the second quarter of 2002.
- ◆ **Availability** - Direct/sublease space being marketed was 28.43% this quarter, up from the 24.03% we saw this same quarter last year. This is a year-to-year increase of 18.31%.
- ◆ **Lease Rates** - The average asking Full Service Gross (FSG) lease rate per square foot per month in Orange County is currently \$1.91, which is an 13.18% decrease over last year’s rate of \$2.20 and two 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 220,765 square feet for the first quarter of 2010, giving the industrial market an average of 222,000 square feet of negative absorption for last five quarters. This negative absorption can be attributed to the recent job losses.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 299,741 square feet. The average amount of leasing per quarter over the past five quarters was 440,000 square feet. Sales activity posted 92,509 square feet this quarter, compared to the fourth quarter’s 341,873 square feet.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.7% in February 2010, down from a revised 10.2% in January 2010 and above the year ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% 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 14,400 in construction, 11,000 in manufacturing and 4,200 in leisure & hospitality. However, between January 2010 and February 2010, Orange County gained 10,300 jobs.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Though negative absorption continues, with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to 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 in the forms of free rent, 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 in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Flex market will again turn positive.

## FLEX MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	20.54%	19.29%	14.66%	40.11%
Availability Rate	28.43%	26.13%	24.03%	18.31%
Average Asking Lease Rate	\$1.91	\$1.93	\$2.20	(13.18%)
Sale & Lease Transactions	392,250	654,770	796,764	(50.77%)
Gross Absorption	406,764	441,790	503,150	(19.16%)
Net Absorption	(220,765)	(601,244)	(129,220)	N/A







**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 HEADQUARTERS**

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.

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