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R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

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Market Highlights

- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization in the first quarter of 2011. Availability and vacancy showed signs of steadying, and net absorption posted a positive number. Although demand was still weak by historical standards, the volume of sale and lease transactions increased. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was no R&D space under construction in Orange County in the first quarter of 2011, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs have led to few projects being developed.
- **Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 8.69%, constituting a very slight increase over 2010's first quarter rate of 8.68%, but still lower than the record-high vacancy rate of 8.92% seen in the second quarter of 2010.
- **Availability** - Direct/sublease space being marketed was 12.61% in the first quarter, down slightly from the 12.53% we saw at the end of 2010 and a decrease of 0.32% when compared to the same quarter of the previous year.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in Orange County's flex market was \$0.90 in the first quarter – the same as the previous quarter's rate and a 6.25% decrease from 2010's first quarter rate of \$.96. The record high rate of \$1.22 was established in the second quarter of 2007.
- **Absorption** - The Orange County R&D market posted 90,722 square feet of positive net absorption in the first quarter of 2011 – the first quarter of positive absorption seen since the third quarter of 2007.
- **Transaction Activity** - Leasing activity checked in at 1.5 million square feet in the first quarter of 2011. The Orange County R&D market averaged 1.4 million square feet of leasing activity per quarter over the past five quarters.

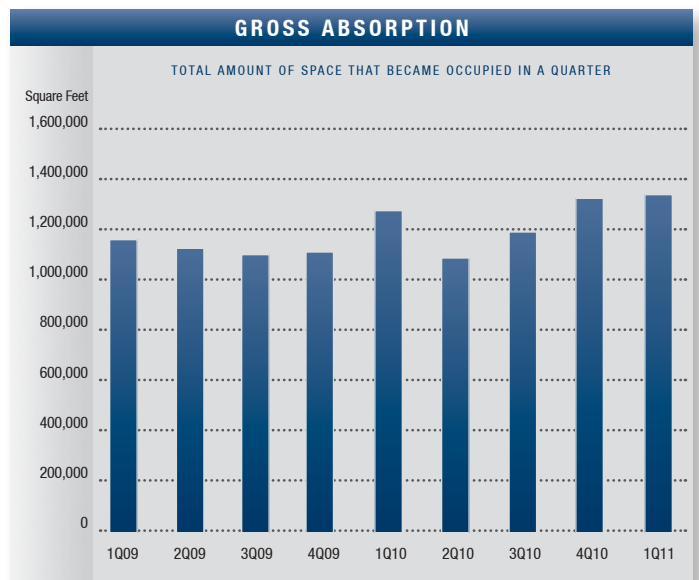
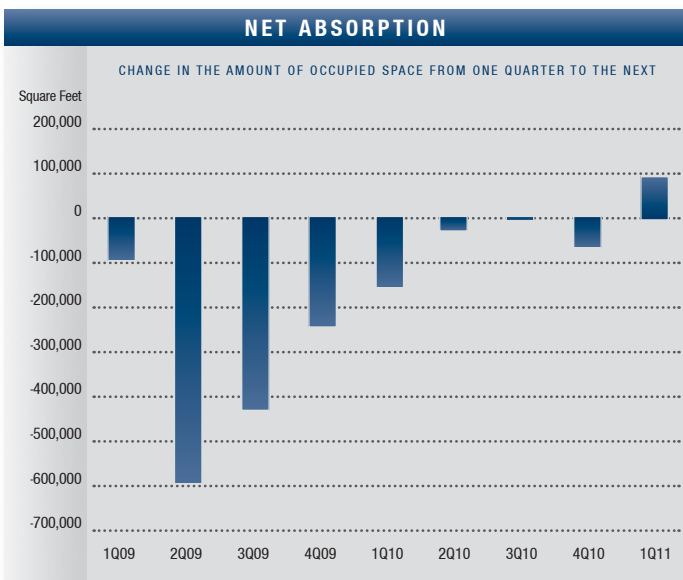
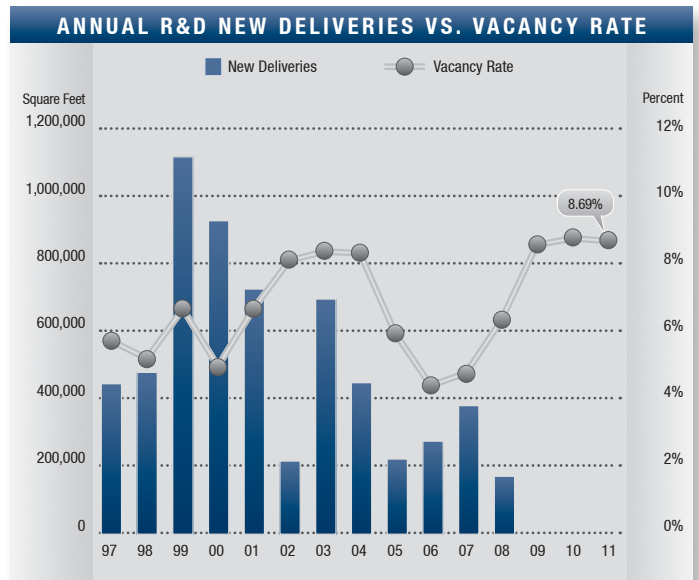
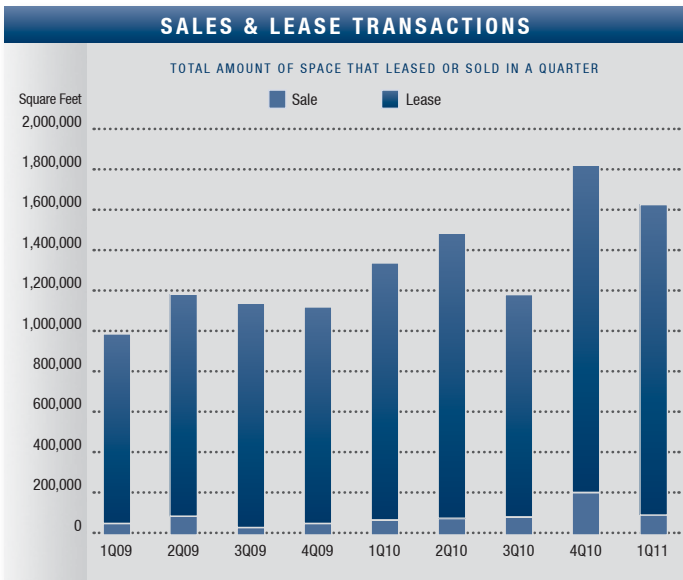
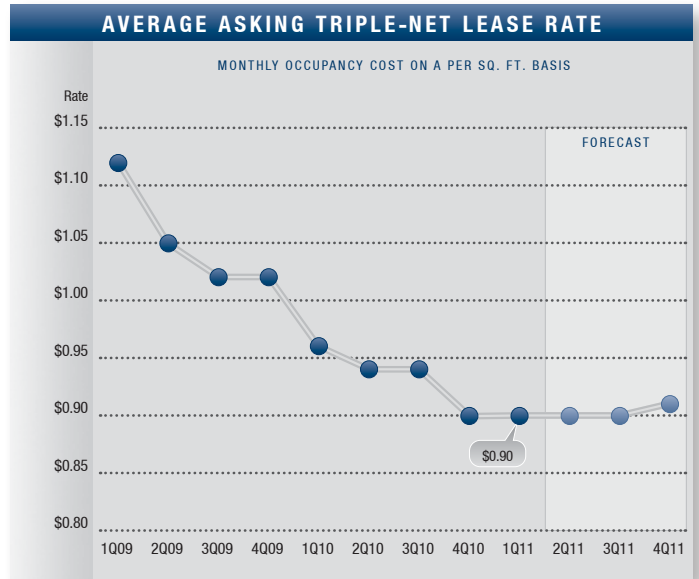
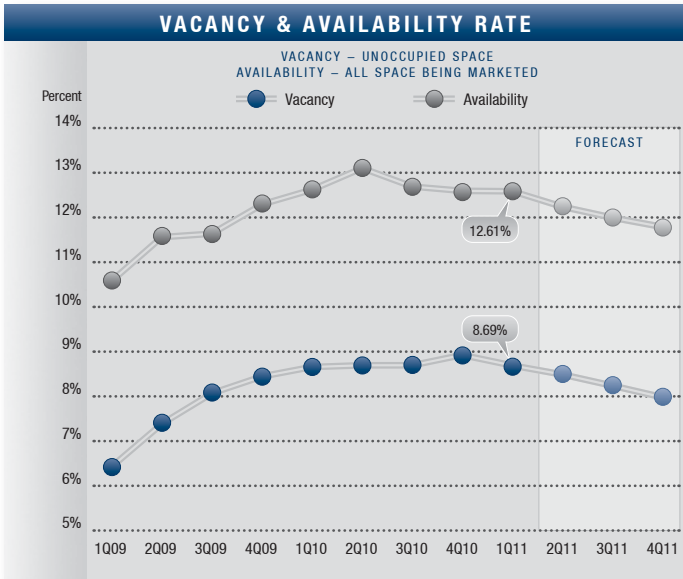
Sales activity posted 83,925 square feet in the first quarter, an increase over 2010's figure of 52,693 square feet. The Orange County research and development market averaged 92,000 square feet of sales activity per quarter for over the past five quarters.

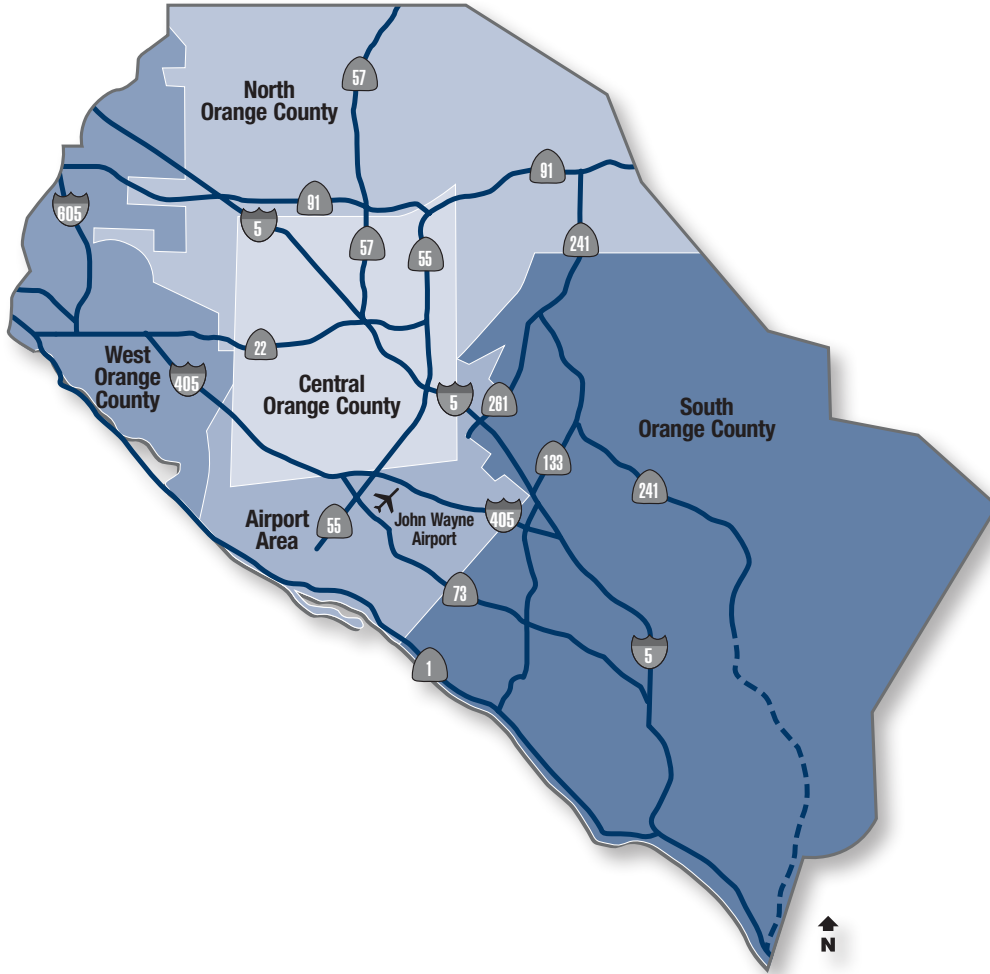
- **Employment** - The unemployment rate in Orange County was 8.9% in February 2011 – down from a revised 9.2% in January 2011 and below the year-ago estimate of 9.7%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County increased overall by 16,300 payroll jobs from February 2010 to February 2011; the largest gains were 6,500 in leisure and hospitality and 5,400 in professional & business services. However, during that same period, Orange County lost 2,000 jobs in trade, transportation, and utilities. 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 vacant space being added per quarter. Net absorption is displaying signs of improvement, posting a positive number for the first time in twelve quarters. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue 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, relocation funds and tenant improvement allowances should continue in order to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the R&D market will recover.

R & D MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	8.69%	8.83%	8.68%	0.12%
Availability Rate	12.61%	12.53%	12.65%	(0.32%)
Average Asking Lease Rate	\$0.90	\$0.90	\$0.96	(6.25%)
Sale & Lease Transactions	1,614,381	1,809,590	1,337,940	20.66%
Gross Absorption	1,338,829	1,318,167	1,263,605	5.95%
Net Absorption	90,722	(67,245)	(151,395)	N/A







SUBMARKETS

NORTH

Anaheim, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia, Yorba Linda

WEST

Cypress, Huntington Beach, Los Alamitos

CENTRAL COUNTY

Anaheim, Garden Grove, Orange, Santa Ana, Westminster

AIRPORT

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

SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

PRODUCT TYPE

R&D OR MID-TECH

30% to 74.9% improved with drop ceiling, minimum parking ratio of 3 to 1, minimum 50% of exterior glassline, dock and/or ground level loading.

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