



R&D Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries



FLAT

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Market Highlights

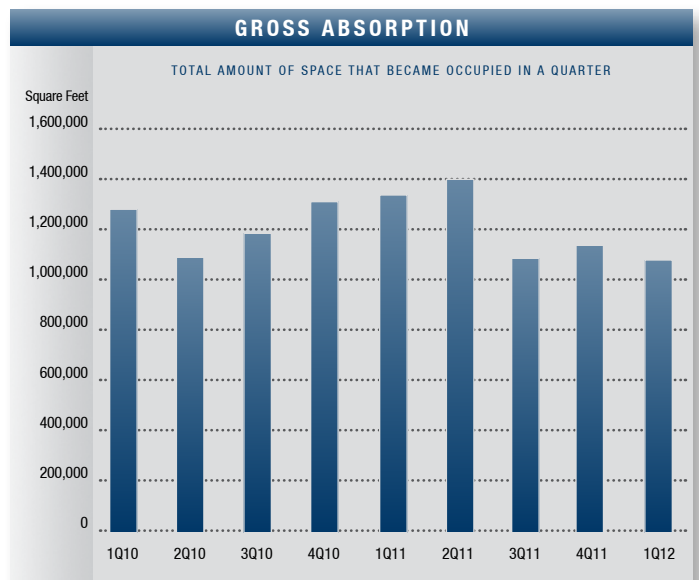
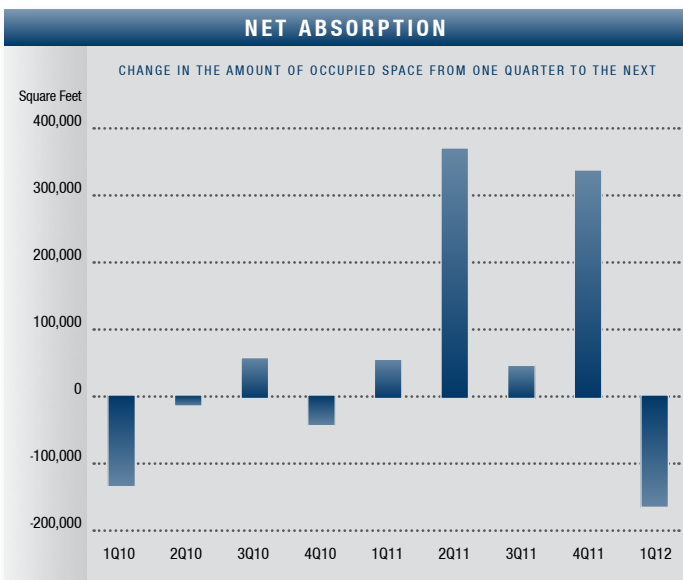
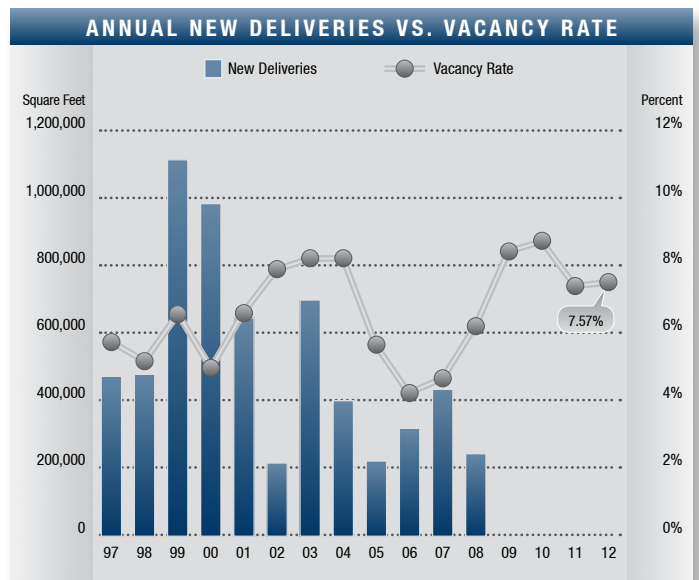
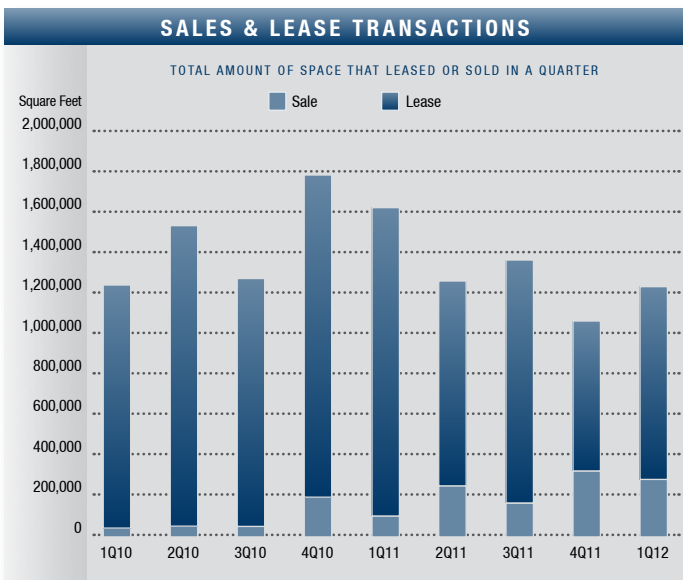
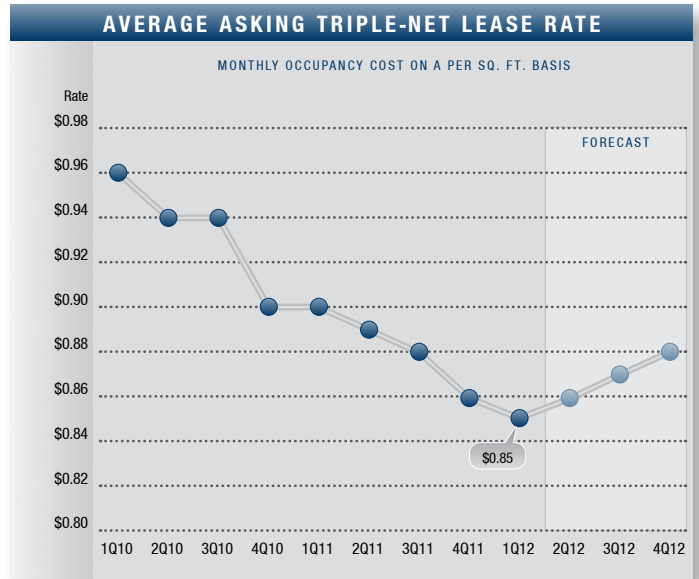
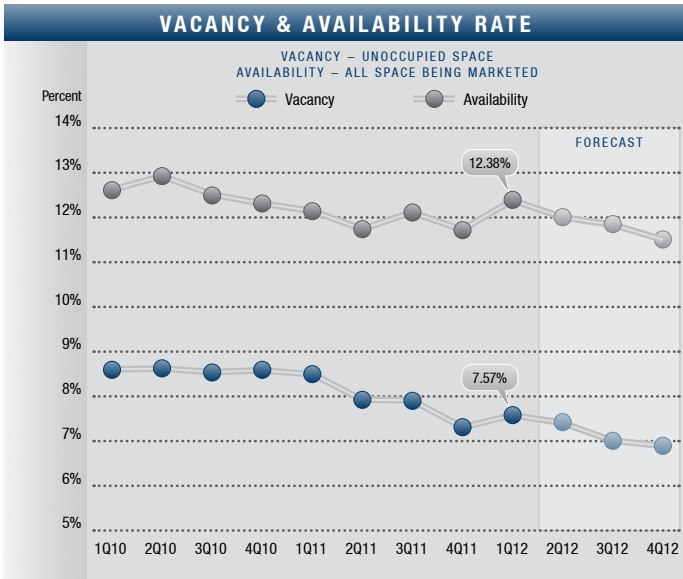
- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization this quarter. Although, the market posted negative net absorption for the first quarter of 2012, vacancy continued on a downward trend, decreasing from the previous year. While these are positive indicators, 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 2012, 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 quarter at 7.57%, an increase from the prior quarter's 7.30% rate but a decrease of 10.94% from 2011's first quarter rate of 8.50%. We are forecasting that vacancy will continue its downward trend in 2012.
- **Availability** - Direct/sublease space being marketed was 12.38% in the first quarter, up from the 11.74% we saw at the end of 2011 and an increase of 1.89% when compared to the same quarter of 2011.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in Orange County's R&D market was \$0.85 in the first quarter — one cent lower than the previous quarter's rate and five cents lower than 2011's first quarter rate. The record high rate of \$1.22 was established in the second quarter of 2007. We are forecasting that the average asking lease rate will continue to firm up with the possibility of an increase in late 2012.
- **Absorption** - The Orange County R&D market posted 168,000 square feet of negative net absorption in the beginning of 2012 — giving the R&D market a total of just nearly 637,000 square feet of positive absorption over the last five quarters.
- **Transaction Activity** - Leasing activity checked in at almost one million square feet in the first quarter of 2012. The Orange County R&D market averaged just over one million square feet of leasing activity per quarter over the

last five quarters. Sales activity posted just over 264,000 square feet in the first quarter of 2012, a huge increase over 2011's first quarter figure of 95,000 square feet. The Orange County research and development market averaged 198,768 square feet of sales activity per quarter in 2011.

- **Employment** - The unemployment rate in Orange County was 8.0% in February 2012 — unchanged from a revised 8.0% in January 2012 and below the previous year's estimate of 8.9%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 18,200 payroll jobs from February 2011 to February 2012. The largest gains were 5,600 in leisure and hospitality and 5,300 in trade, transportation and utilities; however, Orange County lost 2,100 government jobs during that same period.
- **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Despite a negative figure in the first quarter of 2012, net absorption is displaying signs of improvement, having posted nearly 637,000 square feet of absorption over the last five 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 gradually dispose of distressed assets. Lease rates are expected to remain soft for the near future; although, we should see rates firm up in 2012, with some possible increases as the year progresses. 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 2012. As unemployment rates drop and consumer confidence stabilizes, the R&D market will recover.

R & D MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	7.57%	7.30%	8.50%	(10.94%)
Availability Rate	12.38%	11.74%	12.15%	1.89%
Average Asking Lease Rate	\$0.90	\$0.86	\$0.85	(5.56%)
Sale & Lease Transactions	1,231,968	1,052,115	1,609,460	(23.45%)
Gross Absorption	1,067,176	1,136,705	1,332,095	(19.89%)
Net Absorption	(168,205)	336,728	52,215	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
North County													
Anaheim Hills	102	3,213,023	0	0	204,107	6.35%	218,139	6.79%	\$0.00	(1,456)	(1,456)	21,411	21,411
Brea	45	1,134,843	0	0	44,095	3.89%	57,907	5.10%	\$0.00	(3,094)	(3,094)	5,148	5,148
Buena Park	32	1,145,558	0	0	52,227	4.56%	61,714	5.39%	\$0.00	(15,601)	(15,601)	3,060	3,060
Fullerton	41	1,536,439	0	0	89,557	5.83%	88,415	5.75%	\$0.75	(2,623)	(2,623)	12,034	12,034
La Habra	7	150,624	0	0	4,508	2.99%	4,508	2.99%	\$0.00	0	0	0	0
La Palma	4	144,875	0	0	3,623	2.50%	3,623	2.50%	\$0.00	327	327	327	327
Placentia	24	612,708	0	0	37,039	6.05%	71,720	11.71%	\$0.82	(899)	(899)	3,741	3,741
Yorba Linda	51	1,357,440	0	0	90,369	6.66%	269,199	19.83%	\$0.35	(301)	(301)	14,631	14,631
North County Total	306	9,295,510	0	0	525,525	5.65%	775,225	8.34%	\$0.71	(23,647)	(23,647)	60,352	60,352
West County													
Cypress	42	2,392,962	0	0	264,463	11.05%	482,635	20.17%	\$0.86	3,730	3,730	103,557	103,557
Huntington Beach	127	2,652,963	0	0	305,032	11.50%	334,904	12.62%	\$0.68	(36,643)	(36,643)	24,735	24,735
Los Alamitos	39	858,091	0	0	75,783	8.83%	85,369	9.95%	\$0.00	(21,124)	(21,124)	7,420	7,420
West County Total	208	5,904,016	0	0	645,278	10.93%	902,908	15.29%	\$0.83	(54,037)	(54,037)	135,712	135,712
Central County													
Anaheim	82	2,086,881	0	0	124,618	5.97%	283,474	13.58%	\$0.62	50,518	50,518	73,262	73,262
Garden Grove	67	1,767,672	0	0	116,290	6.58%	258,287	14.61%	\$0.55	(7,042)	(7,042)	23,959	23,959
Orange	100	2,142,960	0	0	142,641	6.66%	199,729	9.32%	\$0.71	(29,136)	(29,136)	44,160	44,160
Santa Ana	56	1,247,191	0	0	136,645	10.96%	140,132	11.24%	\$1.15	24,912	24,912	30,212	30,212
Westminster	38	1,280,414	0	0	56,481	4.41%	79,251	6.19%	\$0.00	21,628	21,628	27,368	27,368
Central County Total	343	8,525,118	0	0	576,675	6.76%	960,873	11.27%	\$0.76	60,880	60,880	198,961	198,961
Airport Area													
Costa Mesa	174	4,223,885	0	0	336,717	7.97%	452,820	10.72%	\$0.71	2,919	2,919	91,959	91,959
Fountain Valley	49	1,452,195	0	0	40,138	2.76%	64,156	4.42%	\$0.79	3,767	3,767	8,099	8,099
Irvine	263	6,706,895	0	0	631,467	9.42%	1,044,384	15.57%	\$0.94	(121,176)	(121,176)	122,249	122,249
Newport Beach	23	542,796	0	0	60,402	11.13%	61,314	11.30%	\$1.00	0	0	0	0
Santa Ana	127	3,652,919	0	0	267,929	7.33%	406,525	11.13%	\$0.85	(40,773)	(40,773)	33,208	33,208
Tustin	96	3,365,989	0	0	210,916	6.27%	444,893	13.22%	\$0.81	603	603	49,814	49,814
Airport Area Total	732	19,944,679	0	0	1,547,569	7.76%	2,474,092	12.40%	\$0.88	(154,660)	(154,660)	305,329	305,329
South County													
Aliso Viejo	37	869,507	0	0	29,227	3.36%	41,293	4.75%	\$0.81	9,662	9,662	33,158	33,158
Foothill Ranch	7	162,906	0	0	0	0.00%	17,789	10.92%	\$0.00	0	0	0	0
Irvine Spectrum	266	9,874,309	0	0	729,851	7.39%	1,440,883	14.59%	\$0.94	(8,407)	(8,407)	198,690	198,690
Laguna Hills	59	1,362,834	0	0	94,774	6.95%	93,476	6.86%	\$0.85	(5,359)	(5,359)	27,337	27,337
Laguna Niguel	22	1,554,605	0	0	207,502	13.35%	203,434	13.09%	\$0.80	(340)	(340)	8,750	8,750
Lake Forest	58	1,343,043	0	0	144,389	10.75%	150,636	11.22%	\$0.64	(13,321)	(13,321)	35,284	35,284
Mission Viejo	33	868,831	0	0	38,455	4.43%	349,980	40.28%	\$1.10	586	586	9,234	9,234
Rancho Santa Margarita	40	1,452,442	0	0	37,008	2.55%	98,412	6.78%	\$0.67	(4,322)	(4,322)	6,552	6,552
San Clemente	43	1,015,597	0	0	120,203	11.84%	210,499	20.73%	\$0.97	27,920	27,920	36,602	36,602
San Juan Capistrano	38	741,817	0	239,012	66,000	8.90%	66,687	8.99%	\$0.00	(3,160)	(3,160)	11,215	11,215
South County Total	603	19,245,891	0	239,012	1,467,409	7.62%	2,673,089	13.89%	\$0.89	3,259	3,259	366,822	366,822
Orange County Total	2,192	62,915,214	0	239,012	4,762,456	7.57%	7,786,187	12.38%	\$0.85	(168,205)	(168,205)	1,067,176	1,067,176
North County													
10,000-24,999	186	2,957,576	0	0	336,015	11.36%	412,745	13.96%	\$0.80	(26,873)	(26,873)	32,317	32,317
25,000-49,999	84	2,831,177	0	0	177,548	6.27%	304,205	10.74%	\$0.68	3,226	3,226	28,035	28,035
50,000-99,999	26	1,744,145	0	0	11,962	0.69%	58,275	3.34%	\$1.05	0	0	0	0
100,000 Plus	10	1,762,612	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West County													
10,000-24,999	141	2,149,759	0	0	227,579	10.59%	211,992	9.86%	\$0.75	(54,948)	(54,948)	25,850	25,850
25,000-49,999	42	1,452,148	0	0	105,983	7.30%	190,143	13.09%	\$0.89	(36,899)	(36,899)	6,305	6,305
50,000-99,999	21	1,393,733	0	0	311,716	22.37%	326,783	23.45%	\$0.82	25,990	25,990	91,737	91,737
100,000 Plus	4	908,376	0	0	0	0.00%	173,990	19.15%	\$0.44	11,820	11,820	11,820	11,820
Central County													
10,000-24,999	246	3,981,033	0	0	356,447	8.95%	463,549	11.64%	\$1.25	7,576	7,576	107,614	107,614
25,000-49,999	75	2,422,421	0	0	189,608	7.83%	213,482	8.81%	\$0.59	43,151	43,151	81,194	81,194
50,000-99,999	15	983,901	0	0	7,284	0.74%	157,506	16.01%	\$0.59	10,153	10,153	10,153	10,153
100,000 Plus	7	1,137,763	0	0	23,336	2.05%	126,336	11.10%	\$1.10	0	0	0	0
Airport Area													
10,000-24,999	492	7,922,741	0	0	753,536	9.51%	922,400	11.64%	\$0.81	8,358	8,358	192,974	192,974
25,000-49,999	165	5,547,451	0	0	472,813	8.52%	572,865	10.33%	\$0.73	(48,088)	(48,088)	78,970	78,970
50,000-99,999	54	3,566,366	0	0	143,575	4.03%	320,941	9.00%	\$0.84	1,070	1,070	33,385	33,385
100,000 Plus	21	2,908,121	0	0	177,645	6.11%	657,886	22.62%	\$1.25	(116,000)	(116,000)	0	0
South County													
10,000-24,999	366	6,062,177	0	150,972	499,148	8.23%	668,944	11.03%	\$0.85	(47,607)	(47,607)	123,431	123,431
25,000-49,999	168	5,651,990	0	88,040	447,167	7.91%	740,127	13.09%	\$0.77	43,706	43,706	214,476	214,476
50,000-99,999	51	3,388,749	0	0	343,326	10.13%	785,478	23.18%	\$1.05	7,160	7,160	26,147	26,147
100,000 Plus	18	4,142,975	0	0	177,768	4.29%	478,540	11.55%	\$1.00	0	0	2,768	2,768
Orange County													
10,000-24,999	1,431	23,073,286	0	150,972	2,172,725	9.42%	2,679,630	11.61%	\$0.88	(113,494)	(113,494)	482,186	482,186
25,000-49,999	534	17,905,187	0	88,040	1,393,119	7.78%	2,020,822	11.29%	\$0.76	5,096	5,096	408,980	408,980
50,000-99,999	167	11,076,894	0	0	817,863	7.38%	1,648,983	14.89%	\$0.85	44,373	44,373	161,422	161,422
100,000 Plus	60	10,859,847	0	0	378,749	3.49%	1,436,752	13.23%	\$1.25	(104,180)	(104,180)	14,588	14,588
Orange County Total	2,192	62,915,214	0	239,012	4,762,456	7.57%	7,786,187	12.38%	\$0.85	(168,205)	(168,205)	1,067,176	1,067,176

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.



SUBMARKETS

NORTH

Anaheim Hills, 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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