



REAL ESTATE SERVICES

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R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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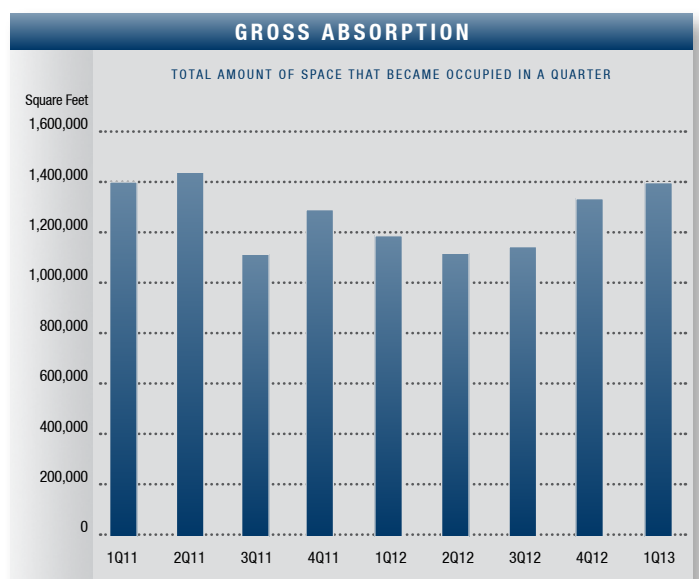
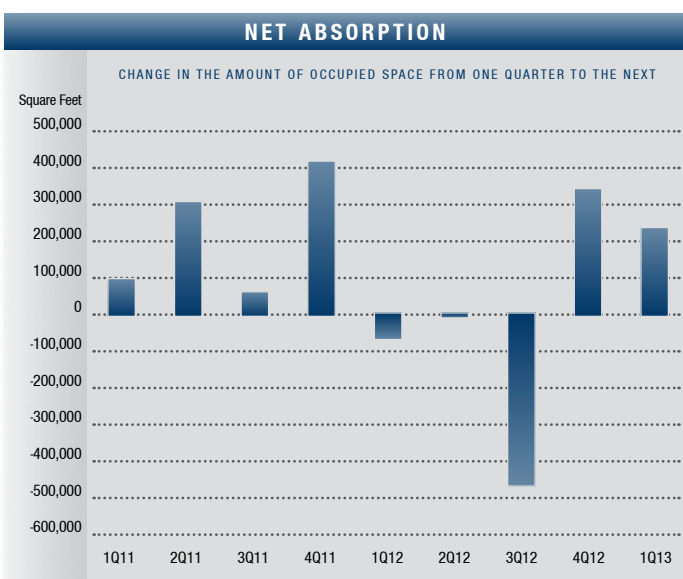
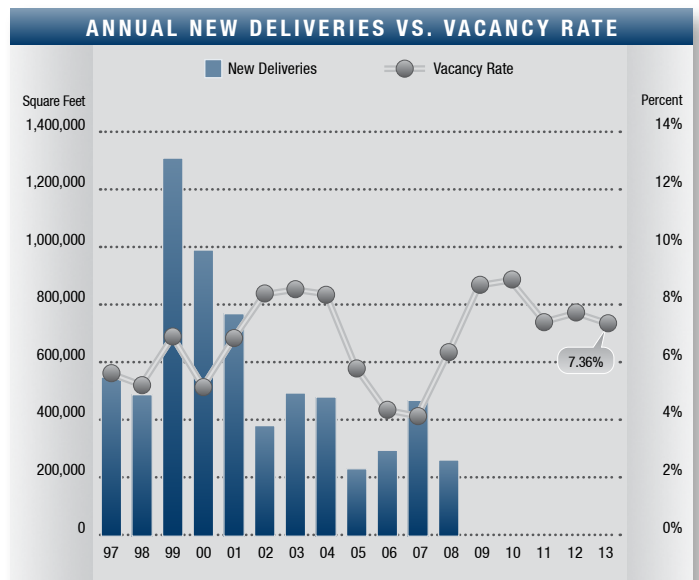
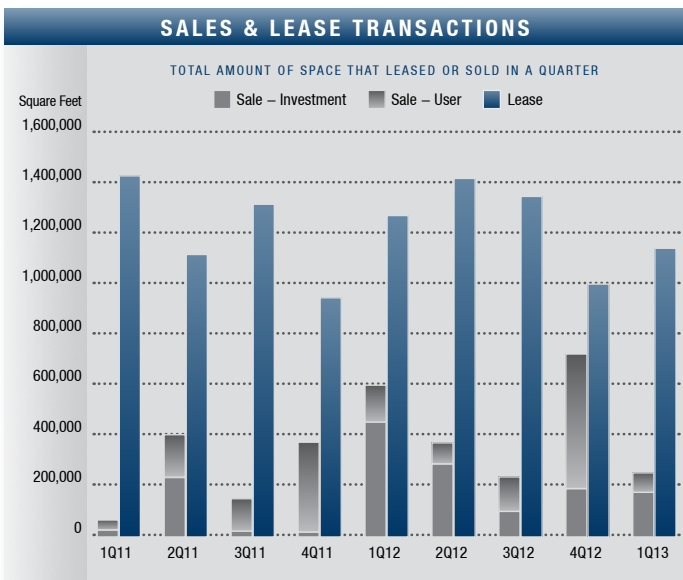
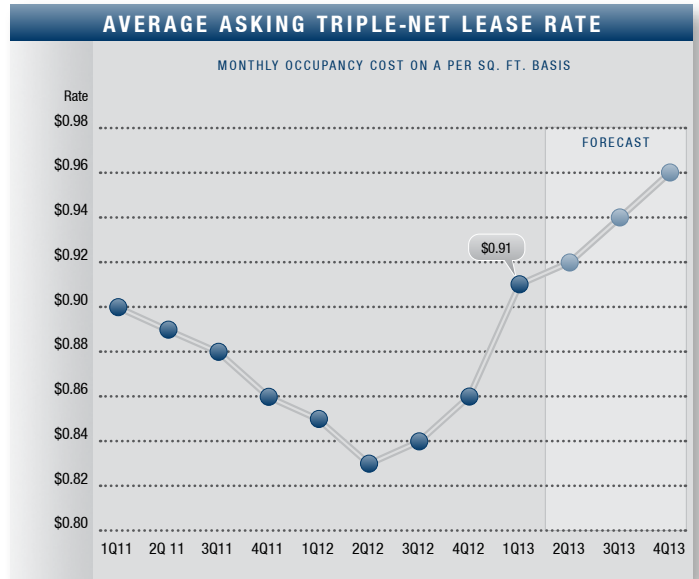
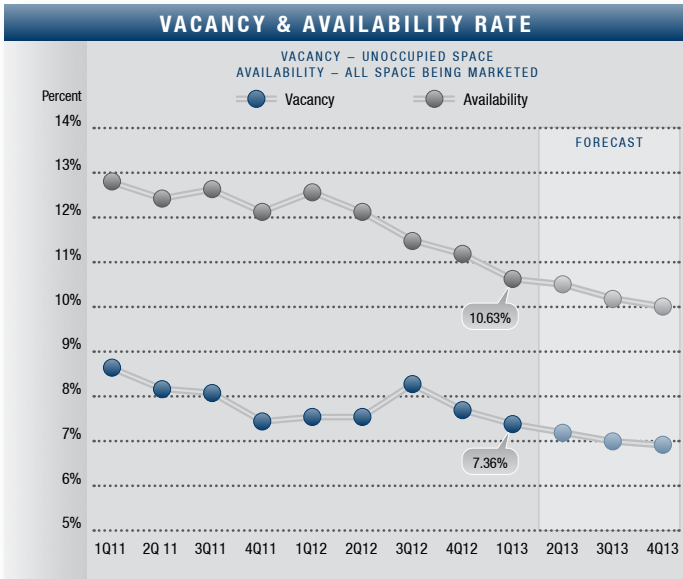
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Market Highlights

- Encouraging Numbers** - The Orange County research and development market conveyed more signs of stabilization at the end of the first quarter of 2013. Both vacancy and availability decreased compared to the prior quarter's rate and 2012's first quarter rate, and the market posted over 230,000 square feet of positive net absorption for the start of 2013. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Construction** - At the end of the quarter, there was only one project in the Irvine Spectrum under construction, which totaled 21,930 square feet. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates. 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 year at 7.36%, a decrease from the prior quarter's 7.73% and 2012's first quarter rate of 7.52%. We are forecasting that vacancy will continue to trend downward in 2013.
- Availability** - Direct/sublease space being marketed was 10.63% in the first quarter, down from the 11.19% we saw at the end of the previous quarter and a decrease of 15.23% when compared to the same quarter of 2012.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in Orange County's R&D market was \$0.91 in the first quarter — five cents higher than the previous quarter's rate and six cents higher than 2012's first quarter rate. The record high rate of \$1.22 was established in the second quarter of 2007. We are forecasting that average asking lease rates will continue rise in 2013.
- Absorption** - The Orange County R&D market posted 232,449 square feet of positive net absorption in first quarter of 2013 — giving the R&D market a total of just over 900,000 square feet of positive absorption for the last nine quarters.
- Transaction Activity** - Leasing activity checked in at 1.13 million square feet in the first quarter of 2013, higher than the 990,000 square feet we saw in the previous quarter. The Orange County R&D market averaged over 1.2 million square feet of leasing activity per quarter over the last nine quarters. Sales activity posted 242,000 square feet in the first quarter of 2013, a decrease from 2012's first quarter total of 592,000 square feet. The Orange County research and development market averaged over 427,000 square feet of sales activity per quarter over the last five quarters.
- Employment** - The unemployment rate in Orange County was 6.5% in February 2013 — down from a revised 7.1% in January 2013 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 35,200 payroll jobs from November 2011 to November 2012. The largest gains were 9,700 in professional & business services and 8,200 in leisure & hospitality; however, Orange County lost 600 government jobs during that same period.
- Overall** - We are seeing a decrease in the amount of available space in the Orange County R&D market. As we continue into 2013, absorption has been positive, and with very 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. Lease rates are firming up, and we expect continued increases in 2013. Concessions in the forms of free rent, relocation funds and tenant improvement allowances have begun to lessen. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2013. As unemployment rates drop and consumer confidence stabilizes, the R&D market will recover.

R & D MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	7.36%	7.73%	7.52%	(2.13%)
Availability Rate	10.63%	11.19%	12.54%	(15.23%)
Average Asking Lease Rate	\$0.91	\$0.86	\$0.85	7.06%
Sale & Lease Transactions	1,376,383	1,708,745	1,854,174	(25.77%)
Gross Absorption	1,392,572	1,329,193	1,179,175	18.10%
Net Absorption	232,449	339,346	(66,465)	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
Airport Area													
Costa Mesa	167	4,053,190	0	0	242,838	5.99%	371,512	9.17%	\$0.60	(9,449)	110,333	77,202	366,892
Fountain Valley	50	1,464,813	0	0	62,865	4.29%	77,407	5.28%	\$0.79	(24,495)	5,535	17,086	83,471
Irvine	257	6,715,271	0	0	542,686	8.08%	999,955	14.89%	\$0.97	173,054	(138,158)	279,195	598,776
Newport Beach	20	488,366	0	0	28,674	5.87%	28,674	5.87%	\$0.00	195	20,688	4,670	32,845
Santa Ana	189	4,600,991	0	0	332,071	7.22%	332,254	7.22%	\$0.92	(11,036)	(35,088)	77,020	294,908
Tustin	96	3,397,864	0	0	342,327	10.07%	474,874	13.98%	\$1.06	(48,242)	39,029	28,123	186,557
Airport Area Total	779	20,720,495	0	0	1,551,461	7.49%	2,284,676	11.03%	\$0.96	80,027	2,339	483,296	1,563,449
North County													
Anaheim	192	5,347,695	0	0	256,660	4.80%	456,265	8.53%	\$0.83	40,735	67,591	127,522	351,973
Brea	47	1,172,795	0	0	43,998	3.75%	61,252	5.22%	\$0.90	(14,322)	25,427	7,193	139,153
Buena Park	33	1,135,807	0	0	71,331	6.28%	115,911	10.21%	\$0.56	10,836	(45,541)	15,156	21,509
Fullerton	44	1,621,222	0	0	49,129	3.03%	93,633	5.78%	\$0.00	(71)	45,672	17,696	97,656
La Habra	7	150,624	0	0	6,732	4.47%	6,732	4.47%	\$0.00	0	(2,224)	0	0
Orange	102	2,263,373	0	0	88,571	3.91%	102,156	4.51%	\$1.15	7,414	15,995	30,941	245,939
Placentia	24	612,708	0	0	17,794	2.90%	12,052	1.97%	\$0.79	609	17,737	7,961	65,461
Yorba Linda	52	1,387,049	0	0	108,173	7.80%	254,485	18.35%	\$1.06	(3,670)	(5,055)	19,322	153,423
North County Total	501	13,691,273	0	0	642,388	4.69%	1,102,486	8.05%	\$0.91	41,531	119,602	225,791	1,075,114
South County													
Aliso Viejo	44	1,090,987	0	0	101,874	9.34%	109,623	10.05%	\$0.87	170	(46,392)	24,161	46,705
Foothill Ranch	7	178,887	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	305	10,738,715	21,930	68,124	890,506	8.29%	1,251,708	11.66%	\$1.00	4,304	37,821	256,110	874,933
Laguna Hills	57	1,354,799	0	0	102,867	7.59%	103,131	7.61%	\$1.10	(18,160)	(1,931)	22,647	90,724
Laguna Niguel	22	512,024	0	0	34,515	6.74%	34,141	6.67%	\$0.00	(587)	(56)	0	41,512
Lake Forest	61	1,379,078	0	0	129,161	9.37%	143,563	10.41%	\$0.70	(1,980)	1,583	32,368	181,788
Mission Viejo	34	879,801	0	0	29,156	3.31%	383,320	43.57%	\$1.10	1,989	7,896	10,553	43,855
Rancho Santa Margarita	44	1,544,701	0	0	105,862	6.85%	88,551	5.73%	\$0.48	1,209	(67,036)	10,844	67,469
San Clemente	51	1,323,592	0	0	66,414	5.02%	146,449	11.06%	\$0.95	111,813	(40,235)	143,948	128,699
San Juan Capistrano	45	905,947	0	239,012	90,156	9.95%	88,506	9.77%	\$0.00	(49,564)	34,816	12,209	84,140
South County Total	670	19,908,531	21,930	307,136	1,550,511	7.79%	2,348,992	11.80%	\$0.96	49,194	(73,534)	512,840	1,475,685
West County													
Cypress	56	2,820,407	0	0	490,216	17.38%	451,117	15.99%	\$0.93	3,915	(173,823)	26,399	155,752
Garden Grove	67	1,680,355	0	0	89,023	5.30%	224,169	13.34%	\$0.57	7,929	12,296	52,824	126,221
Huntington Beach	127	2,950,576	0	0	235,098	7.97%	230,240	7.80%	\$0.68	42,771	(16,786)	59,440	180,476
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Los Alamitos	39	860,297	0	0	73,263	8.52%	54,308	6.31%	\$0.00	11,300	(29,904)	20,442	56,883
Stanton	5	122,025	0	0	3,540	2.90%	3,540	2.90%	\$0.00	0	1,300	0	3,400
Westminster	20	498,935	0	0	23,128	4.64%	32,536	6.52%	\$1.00	(4,218)	5,184	11,540	36,547
West County Total	315	9,017,595	0	0	914,268	10.14%	995,910	11.04%	\$0.79	61,697	(201,733)	170,645	559,279
Orange County Total	2,265	63,337,894	21,930	307,136	4,658,628	7.36%	6,732,064	10.63%	\$0.91	232,449	(153,326)	1,392,572	4,673,527
Airport Area													
10,000-24,999	525	8,475,952	0	0	695,914	8.21%	887,235	10.47%	\$0.88	(64,247)	186,678	166,901	814,453
25,000-49,999	180	6,072,108	0	0	487,953	8.04%	531,029	8.75%	\$1.01	(20,234)	193,351	87,662	636,313
50,000-99,999	56	3,658,281	0	0	117,395	3.21%	418,804	11.45%	\$1.02	(22,233)	(12,332)	41,992	109,545
100,000 Plus	18	2,514,154	0	0	250,199	9.95%	447,608	17.80%	\$0.00	186,741	(365,358)	186,741	3,138
North County													
10,000-24,999	326	5,179,017	0	0	300,607	5.80%	419,821	8.11%	\$1.00	42,600	165,365	132,375	689,526
25,000-49,999	129	4,276,633	0	0	276,924	6.48%	384,727	9.00%	\$0.96	1,319	(30,175)	71,837	276,833
50,000-99,999	34	2,196,383	0	0	64,857	2.95%	147,740	6.73%	\$0.56	(2,388)	(15,588)	21,579	108,755
100,000 Plus	12	2,039,240	0	0	0	0.00%	150,198	7.37%	\$0.00	0	0	0	0
South County													
10,000-24,999	403	6,664,656	21,930	169,096	488,465	7.33%	672,573	10.09%	\$0.94	(47,981)	108,548	191,570	625,870
25,000-49,999	193	6,500,011	0	88,040	427,078	6.57%	651,107	10.02%	\$0.85	106,093	53,398	200,977	601,941
50,000-99,999	59	3,930,223	0	50,000	627,736	15.97%	714,540	18.18%	\$1.07	(1,686)	(238,248)	120,293	232,676
100,000 Plus	15	2,813,641	0	0	7,232	0.26%	310,772	11.05%	\$0.00	(7,232)	2,768	0	15,198
West County													
10,000-24,999	215	3,387,993	0	0	249,990	7.38%	299,889	8.85%	\$0.93	31,199	(5,545)	99,404	315,650
25,000-49,999	65	2,214,908	0	0	151,085	6.82%	145,784	6.58%	\$0.85	26,546	(47,430)	63,421	129,328
50,000-99,999	28	1,922,318	0	0	303,649	15.80%	340,693	17.72%	\$0.77	3,952	25,630	7,620	102,481
100,000 Plus	7	1,492,376	0	0	209,544	14.04%	209,544	14.04%	\$0.00	0	(174,388)	200	11,820
Orange County													
10,000-24,999	1,469	23,707,618	21,930	169,096	1,734,976	7.32%	2,279,518	9.62%	\$0.89	(38,429)	455,046	590,250	2,445,499
25,000-49,999	567	19,063,660	0	88,040	1,343,040	7.05%	1,712,647	8.98%	\$0.84	113,724	169,144	423,897	1,644,415
50,000-99,999	177	11,707,205	0	50,000	1,113,637	9.51%	1,621,777	13.85%	\$0.92	(22,355)	(240,538)	191,484	553,457
100,000 Plus	52	8,859,411	0	0	466,975	5.27%	1,118,122	12.62%	\$0.00	179,509	(536,978)	186,941	30,156
Orange County Total	2,265	63,337,894	21,930	307,136	4,658,628	7.36%	6,732,064	10.63%	\$0.91	232,449	(153,326)	1,392,572	4,673,527

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



SUBMARKETS

NORTH

Anaheim, Brea, Buena Park, Fullerton, La Habra, Orange, Placentia and Yorba Linda

WEST

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Seal Beach, Stanton and Westminster

AIRPORT

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

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