



Voit
Real Estate Services

R&D Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Market Highlights

- ◆ **Market Challenges** - The Orange County Research & Development market is facing challenges due to the national recession. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the second quarter. Another challenge the R&D market is facing is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. These contractions have led to many tenants requesting rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Absorption** - Net absorption for the county posted a negative 523,943 square feet for the second quarter of 2009, giving the R&D market a total of 726,033 square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 763,857 square feet. The average amount of leasing per quarter over the past nine quarters was 875,000 square feet. Sales activity posted 459,425 square feet of activity this quarter, compared to the first quarter's 342,829 square feet.
- ◆ **Unemployment** - The unemployment rate in Orange County was 8.6% in May 2009, up from a revised 8.4% in April 2009, and above the year ago estimate of 4.7%. This compares with an unadjusted unemployment rate of 11.2% for California and 9.1% for the nation during the same period.
- ◆ **Construction** - Currently, there is no R&D space under construction in Orange County, due to lack of demand. The shrinking availability of land, combined with the high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 71,100 payroll jobs over the last twelve months - 19,200 in retail trade, transportation and utilities services, 13,100 in construction & 12,700 in professional and business services. However, between April 2009 and May 2009 Orange County gained 300 jobs.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 7.69%, constituting an increase over last year's second quarter rate of 5.35%. This 7.69% rate is less than the 9.82% vacancy rate in the second quarter of 2004.
- ◆ **Overall** - The R&D market has not reached the bottom nor has it begun to improve, but we are starting to see an increase in sales activity. Lease rates are expected to remain soft for the foreseeable future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome hinges on how the recession progresses and how quickly credit eases up.
- ◆ **Availability** - Direct/sublease space being marketed was 11.88% this quarter, up from the 9.68% we saw this same quarter last year. This is an increase of 22.73% of new space being marketed when compared to the same quarter last year.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per month per foot in Orange County is currently \$1.05, which is a 11.76% decrease over last year's rate of \$1.19 and seven cents lower than last quarter's rate. The record high rate of \$1.22 was established in the second quarter of 2007.

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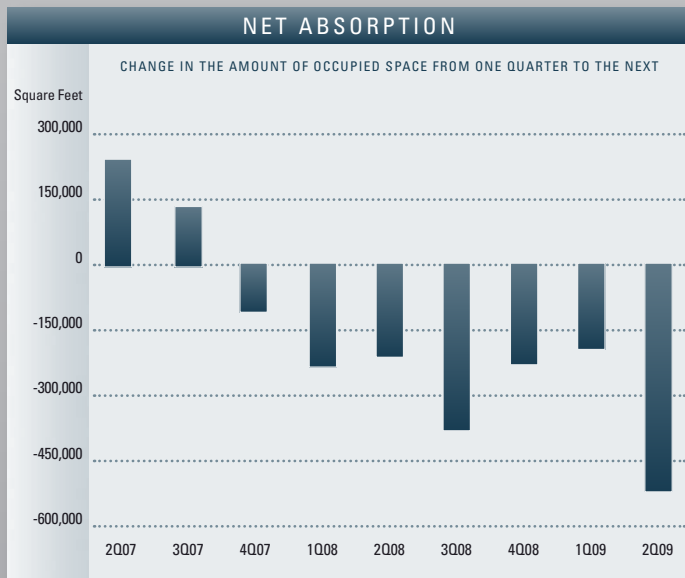
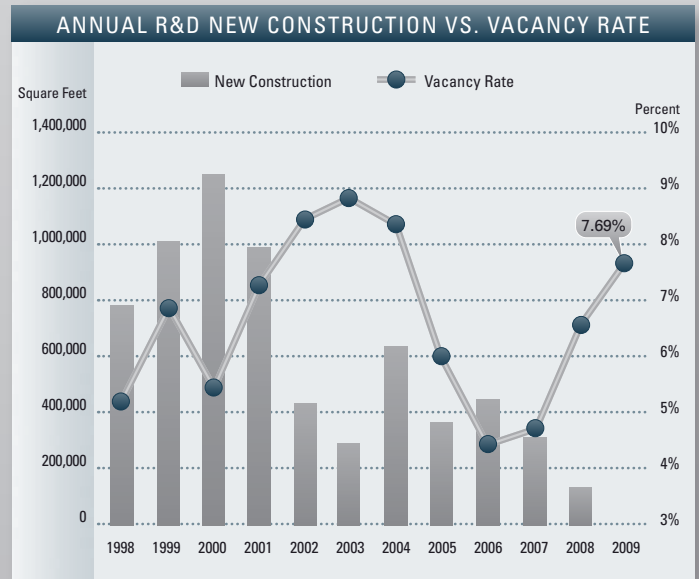
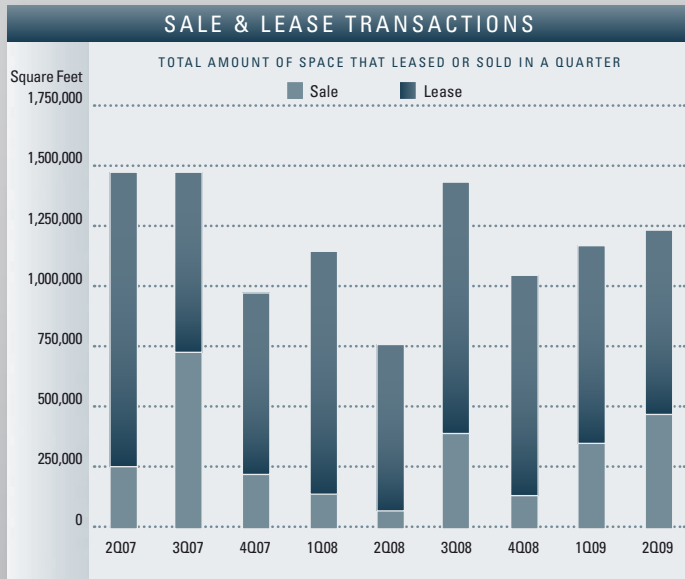
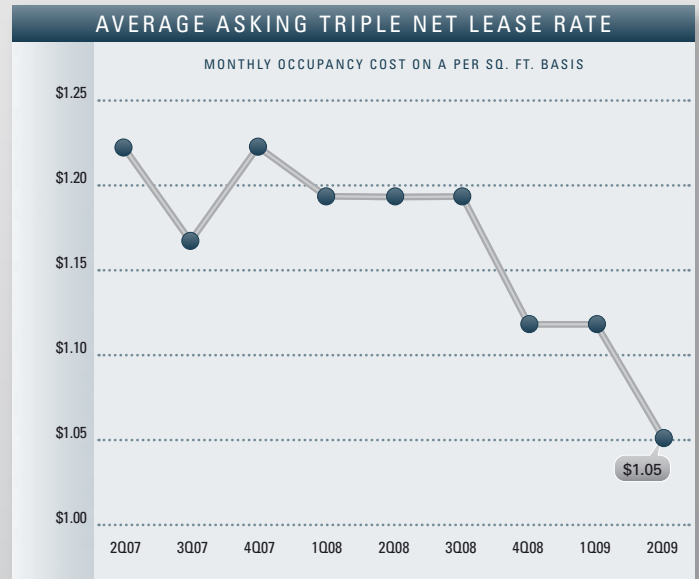
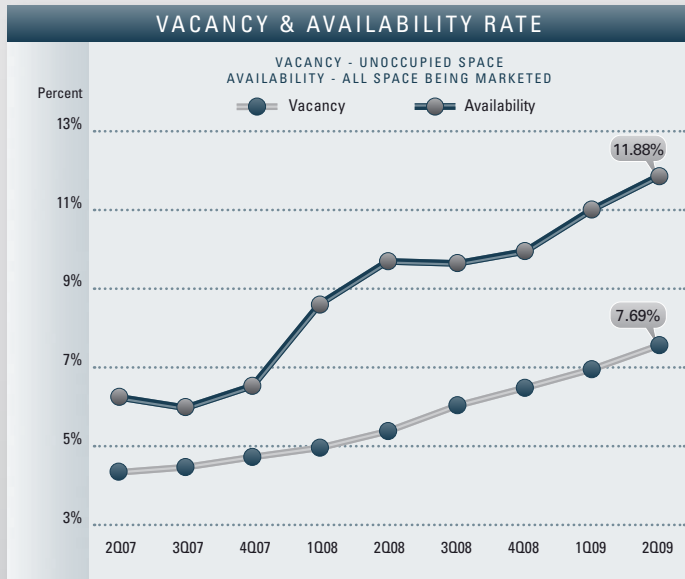
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R & D MARKET OVERVIEW

	202009	102009	202008	% CHANGE VS. 2008
Vacancy	7.69%	6.87%	5.35%	43.74%
Availability	11.88%	11.01%	9.68%	22.73%
Average Asking Lease Rate	\$1.05	\$1.12	\$1.19	-11.76%
Sale & Lease Transactions	1,223,282	1,151,956	748,971	63.33%
Net Absorption	-523,943	-202,090	-201,289	N/A
Gross Absorption	1,144,723	1,150,462	816,702	40.16%

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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.

For further information, please contact:

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