



Voit

REAL ESTATE SERVICES

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R&D Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Market Highlights

- ◆ **Encouraging Numbers** - The Orange County Research & Development Market is showing trends of stabilization. This quarter, availability rose slightly, vacancy dropped, and net absorption posted positive numbers. Although demand is still weak by historical standards, the volume of lease transactions is increasing. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- ◆ **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.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 8.79%, constituting an increase over last year's rate of 7.50%. This quarter's rate of 8.79% is still lower than the 9.82% vacancy rate we saw in the second quarter of 2004.
- ◆ **Availability** - Direct/sublease space being marketed was 13.18% this quarter, up from the 11.70% we saw this same quarter last year. This is an increase of 12.65% of new space being marketed when compared to the same quarter last year.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per square foot per month in Orange County for the second quarter of 2010 was \$0.94 — a 10.48% decrease over last year's rate of \$1.05 and two cents lower than last quarter's rate. The record high rate of \$1.22 was established in the second quarter of 2007.
- ◆ **Absorption** - Net absorption for the county posted a positive 69,152 square feet for the second quarter of 2010, giving the R&D market an average of 285,000 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 1.1 million square feet. The average amount of leasing per quarter for the past five quarters was 1.1 million square feet. Sales activity posted 49,023 square feet this quarter. The average amount of sales per quarter over the past five quarters was 160,000 square feet.
- ◆ **Employment** - The unemployment rate in Orange County was 9.2% in May 2010 — down from a revised 9.5% in April 2010 and above the year ago estimate of 8.6%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County lost 14,800 payroll jobs over the last twelve months; the largest loss was 12,300 in construction. However, during that same period, Orange County gained 8,300 jobs in leisure and hospitality and another 900 jobs in education and health services.
- ◆ **Overall** - We are beginning to see a decrease in the amount of vacant space being added per quarter. Absorption was positive — a sign of recovery. With few new deliveries in the pipeline to put more upward pressure on vacancies, the market should continue 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. 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 R&D market will again turn positive.

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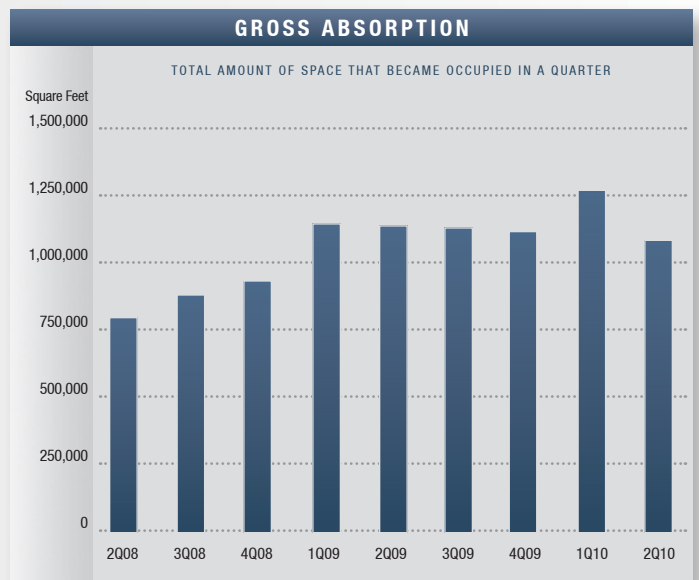
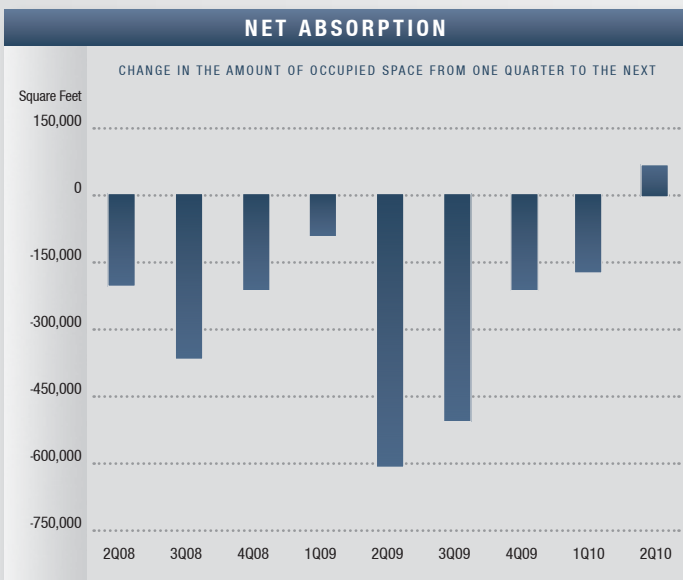
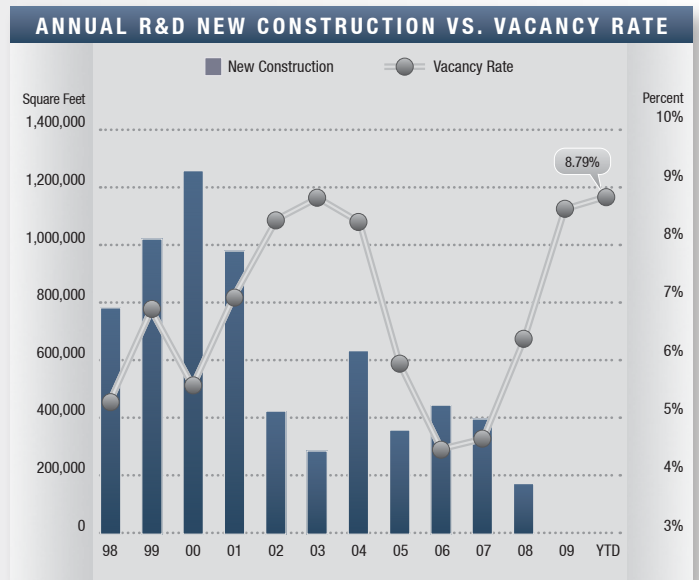
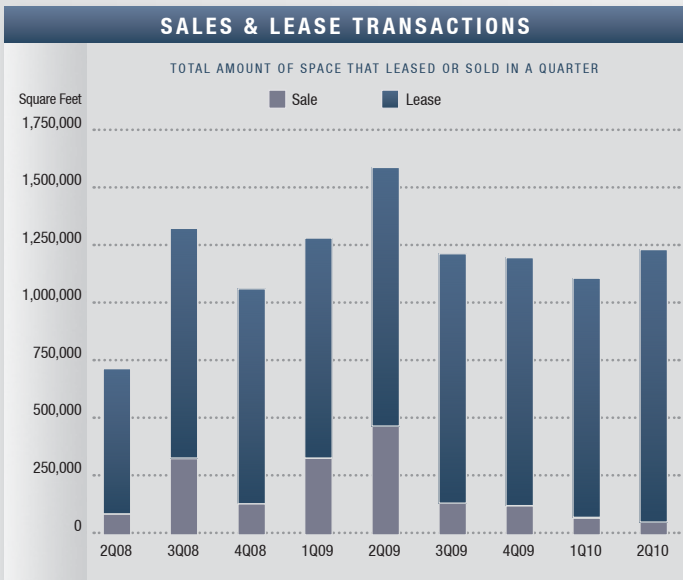
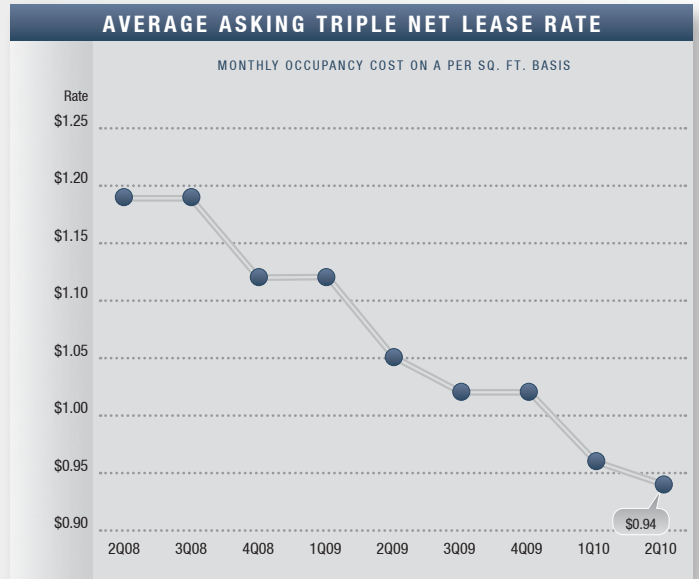
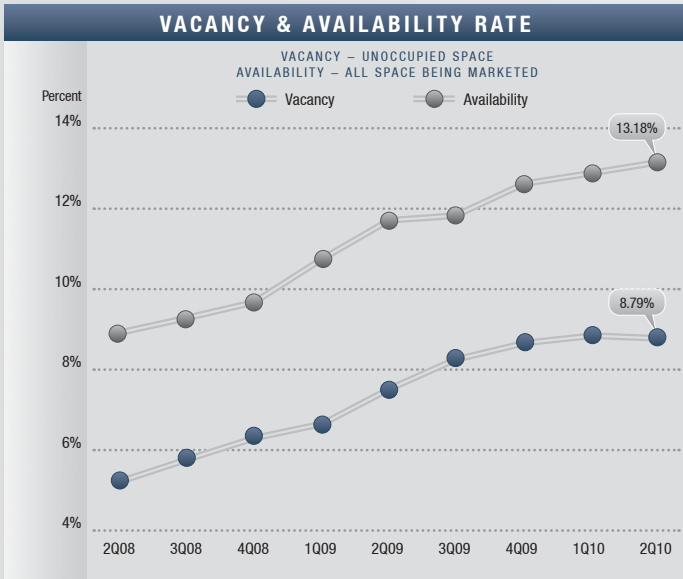
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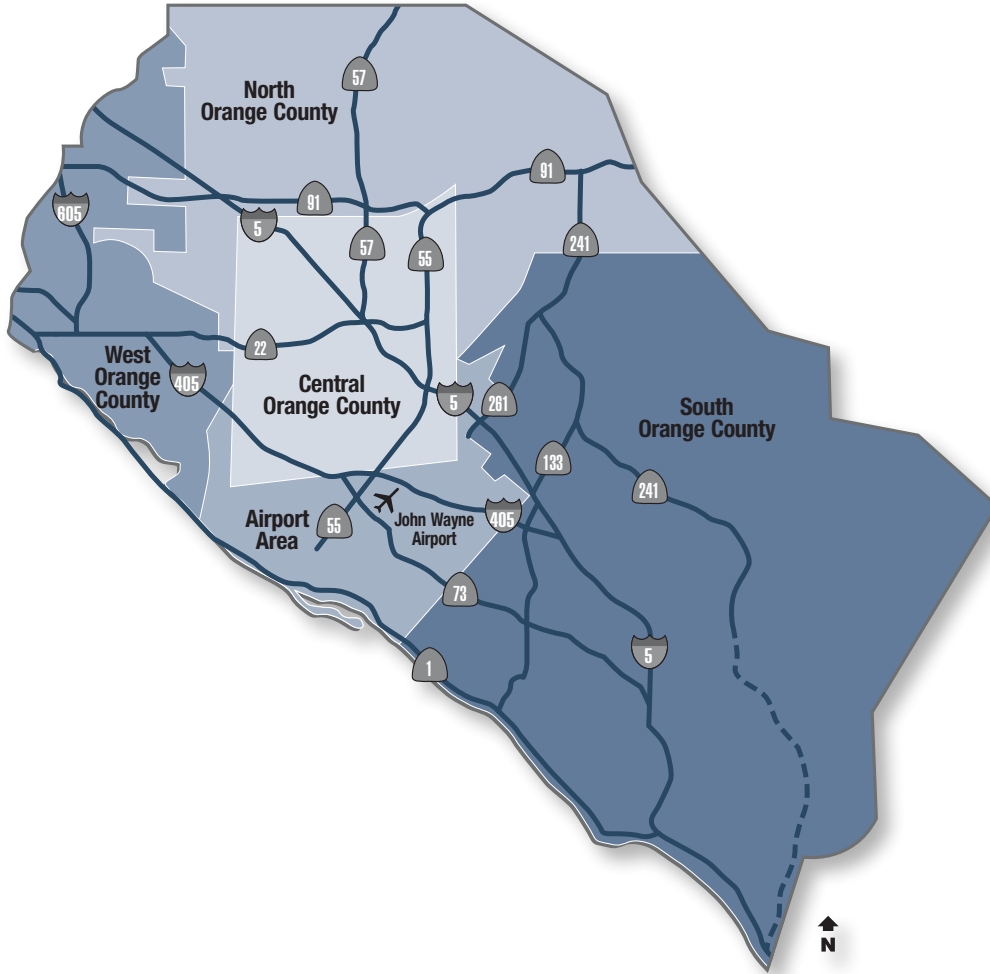
R & D MARKET OVERVIEW

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	8.79%	8.90%	7.50%	17.20%
Availability Rate	13.18%	12.89%	11.70%	12.65%
Average Asking Lease Rate	\$0.94	\$0.96	\$1.05	(10.48%)
Sale & Lease Transactions	1,235,022	1,101,795	1,588,686	(22.26%)
Gross Absorption	1,082,621	1,262,942	1,137,386	(4.81%)
Net Absorption	69,152	(168,643)	(602,864)	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 2Q2010	Square Feet Available	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
North County													
Anaheim	96	3,032,582	0	0	238,797	7.87%	322,476	10.63%	\$0.64	20,052	41,112	42,059	121,341
Brea	47	1,793,735	0	0	95,467	5.32%	117,006	6.52%	\$0.00	7,492	4,400	13,944	24,910
Buena Park	26	1,017,895	0	0	83,295	8.18%	90,795	8.92%	\$0.00	(18,518)	(26,790)	5,801	10,404
Fullerton	40	1,466,519	0	0	64,822	4.42%	95,052	6.48%	\$0.00	3,987	3,281	17,018	41,634
La Habra	7	146,680	0	0	10,472	7.14%	10,472	7.14%	\$0.00	7,565	6,565	7,565	7,565
La Palma	7	272,878	0	0	16,212	5.94%	84,367	30.92%	\$1.10	1,152	16,660	1,152	16,660
Placentia	20	564,341	0	0	18,633	3.30%	47,761	8.46%	\$0.88	(1,335)	(1,335)	5,820	5,820
Yorba Linda	50	1,338,504	0	0	88,399	6.60%	162,127	12.11%	\$1.02	6,568	18,214	34,212	57,764
North County Total	293	9,633,134	0	0	616,097	6.40%	930,056	9.65%	\$0.97	26,963	62,107	127,571	286,098
West County													
Cypress	43	2,328,536	0	0	223,186	9.58%	560,226	24.06%	\$0.95	(4,048)	6,452	3,000	14,750
Huntington Beach	128	2,584,665	0	0	224,208	8.67%	288,361	11.16%	\$0.70	(42,966)	(46,845)	49,271	97,837
Los Alamitos	35	792,762	0	0	45,253	5.71%	59,298	7.48%	\$0.00	(568)	(15,284)	4,161	7,536
West County Total	206	5,705,963	0	0	492,647	8.63%	907,885	15.91%	\$0.94	(47,582)	(55,677)	56,432	120,123
Central County													
Anaheim	71	1,655,129	0	0	76,353	4.61%	94,723	5.72%	\$0.00	14,893	925	25,381	55,127
Garden Grove	81	2,371,995	0	0	202,582	8.54%	342,181	14.43%	\$0.91	(13,179)	(13,645)	25,914	87,038
Orange	101	2,117,185	0	0	117,926	5.57%	184,237	8.70%	\$0.82	35,351	30,003	42,526	84,640
Santa Ana	60	1,516,800	0	0	106,791	7.04%	107,951	7.12%	\$0.00	(12,358)	(13,489)	37,166	56,759
Westminster	20	567,749	0	0	10,352	1.82%	16,218	2.86%	\$0.00	19,526	20,951	19,526	23,391
Central County Total	333	8,228,858	0	0	514,004	6.25%	745,310	9.06%	\$0.97	44,233	24,745	150,513	306,955
Airport Area													
Costa Mesa	182	4,365,106	0	0	510,567	11.70%	640,961	14.68%	\$0.84	10,793	(42,806)	88,995	151,011
Fountain Valley	48	1,342,131	0	0	82,226	6.13%	90,489	6.74%	\$0.87	(156)	(21,332)	15,904	25,122
Irvine	269	6,780,024	0	0	842,632	12.43%	1,180,336	17.41%	\$0.92	(51,693)	(91,155)	84,901	215,214
Newport Beach	22	812,714	0	0	33,057	4.07%	53,115	6.54%	\$1.16	(4,324)	(12,106)	6,907	11,032
Santa Ana	129	3,944,913	0	0	365,483	9.26%	458,674	11.63%	\$0.85	(15,220)	(39,779)	48,578	145,610
Tustin	96	3,410,831	0	0	324,645	9.52%	469,143	13.75%	\$0.91	(2,635)	2,435	43,176	103,249
Airport Area Total	746	20,655,719	0	0	2,158,610	10.45%	2,892,718	14.00%	\$0.91	(63,235)	(204,743)	288,461	651,238
South County													
Aliso Viejo	36	870,084	0	0	59,335	6.82%	92,253	10.60%	\$1.01	10,136	21,470	12,995	24,329
Foothill Ranch	7	162,906	0	0	49,415	30.33%	49,415	30.33%	\$0.00	0	0	49,415	49,415
Irvine Spectrum	269	10,140,727	0	0	1,049,114	10.35%	1,870,141	18.44%	\$1.04	93,829	76,237	265,629	650,716
Laguna Hills	62	1,401,127	0	0	125,503	8.96%	107,321	7.66%	\$1.24	14,844	(2,272)	48,290	76,504
Laguna Niguel	16	1,412,141	0	0	140,522	9.95%	140,522	9.95%	\$1.34	0	(16,571)	15,300	17,200
Lake Forest	60	1,370,209	0	0	82,857	6.05%	137,155	10.01%	\$0.93	10,875	9,300	39,886	84,626
Mission Viejo	35	940,827	0	0	65,032	6.91%	192,822	20.49%	\$1.00	(4,795)	(14,034)	9,886	15,079
Rancho Santa Margarita	42	1,477,487	0	0	49,754	3.37%	91,147	6.17%	\$0.73	1,911	1,198	4,242	10,517
San Clemente	45	1,061,382	0	0	101,183	9.53%	142,930	13.47%	\$1.10	(5,759)	7,017	14,001	42,463
San Juan Capistrano	40	587,926	0	239,012	88,525	15.06%	88,012	14.97%	\$0.82	(12,268)	(8,268)	0	10,300
South County Total	612	19,424,816	0	239,012	1,811,240	9.32%	2,911,718	14.99%	\$1.02	108,773	74,077	459,644	981,149
Orange County Total	2,190	63,648,490	0	239,012	5,592,598	8.79%	8,387,687	13.18%	\$0.96	69,152	(99,491)	1,082,621	2,345,563
North County													
10,000 to 24,999	175	2,790,991	0	0	310,427	11.12%	382,499	13.70%	\$0.87	22,916	42,524	78,899	165,764
25,000 to 49,999	82	2,776,538	0	0	248,087	8.94%	362,914	13.07%	\$0.79	10,794	31,735	48,672	120,334
50,000 to 99,999	25	1,665,490	0	0	57,583	3.46%	112,643	6.76%	\$1.10	(6,747)	(12,152)	0	0
100,000+	11	2,400,115	0	0	0	0.00%	72,000	3.00%	\$0.00	0	0	0	0
West County													
10,000 to 24,999	142	2,157,162	0	0	170,027	7.88%	204,433	9.48%	\$0.84	(25,499)	(36,342)	37,831	69,467
25,000 to 49,999	42	1,463,986	0	0	82,299	5.62%	134,075	9.16%	\$0.85	6,002	3,255	11,646	35,924
50,000 to 99,999	18	1,176,439	0	0	240,321	20.43%	362,097	30.78%	\$0.92	(28,085)	(22,590)	6,955	14,732
100,000+	4	908,376	0	0	0	0.00%	207,280	22.82%	\$1.00	0	0	0	0
Central County													
10,000 to 24,999	241	3,867,008	0	0	300,436	7.77%	329,085	8.51%	\$1.19	17,224	1,110	110,458	213,726
25,000 to 49,999	69	2,254,009	0	0	177,552	7.88%	214,497	9.52%	\$0.75	18,852	4,082	29,368	68,746
50,000 to 99,999	17	1,172,508	0	0	36,016	3.07%	201,728	17.20%	\$0.00	8,157	19,553	10,687	24,483
100,000+	6	935,333	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area													
10,000 to 24,999	500	8,051,084	0	0	885,982	11.00%	1,123,130	13.95%	\$0.99	(29,718)	(105,316)	162,539	339,099
25,000 to 49,999	168	5,637,673	0	0	921,701	16.35%	978,616	17.36%	\$0.90	(51,001)	(138,245)	100,632	198,226
50,000 to 99,999	56	3,724,984	0	0	183,193	4.92%	382,232	10.26%	\$0.92	17,484	38,818	25,290	77,587
100,000+	22	3,241,978	0	0	167,734	5.17%	408,740	12.61%	\$0.89	0	0	0	36,326
South County													
10,000 to 24,999	369	6,092,528	0	150,972	604,855	9.93%	726,696	11.93%	\$0.94	22,156	48,150	194,965	399,162
25,000 to 49,999	173	5,806,722	0	88,040	623,076	10.73%	994,014	17.12%	\$0.93	72,673	(34,320)	234,328	341,006
50,000 to 99,999	51	3,394,679	0	0	339,863	10.01%	690,291	20.33%	\$1.08	11,176	57,479	27,583	97,583
100,000+	19	4,130,887	0	0	243,446	5.89%	500,717	12.12%	\$0.00	2,768	2,768	2,768	143,398
Orange County													
10,000 to 24,999	1,427	22,958,773	0	150,972	2,271,727	9.89%	2,765,843	12.05%	\$0.93	7,079	(49,874)	584,692	1,187,218
25,000 to 49,999	534	17,938,928	0	88,040	2,052,715	11.44%	2,684,116	14.96%	\$0.90	57,320	(133,493)	424,646	764,236
50,000 to 99,999	167	11,134,100	0	0	856,976	7.70%	1,748,991	15.71%	\$1.02	1,985	81,108	70,515	214,385
100,000+	62	11,616,689	0	0	411,180	3.54%	1,188,737	10.23%	\$0.92	2,768	2,768	2,768	179,724
OC Total	2,190	63,648,490	0	239,012	5,592,598	8.79%	8,387,687	13.18%	\$0.96	69,152	(99,491)	1,082,621	2,345,563

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, 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

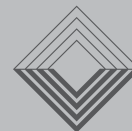
Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

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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