



## R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

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### Market Highlights

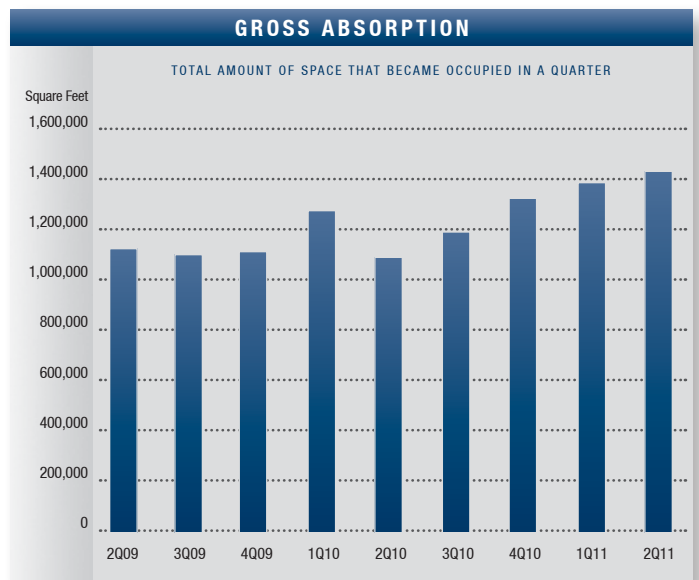
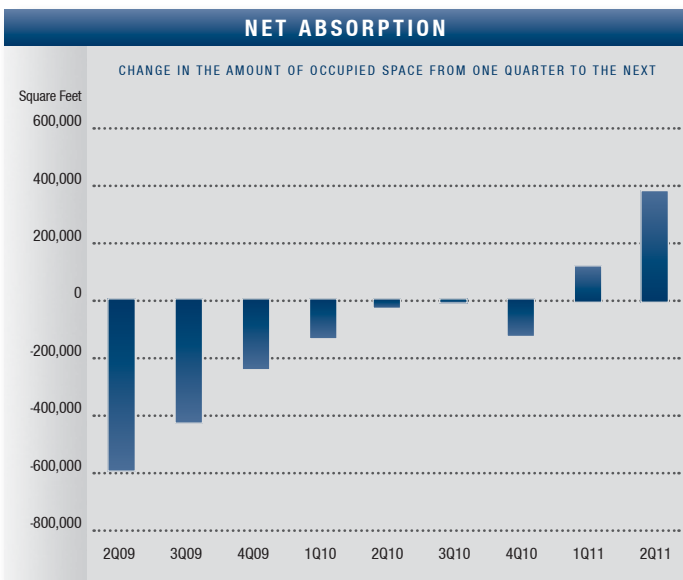
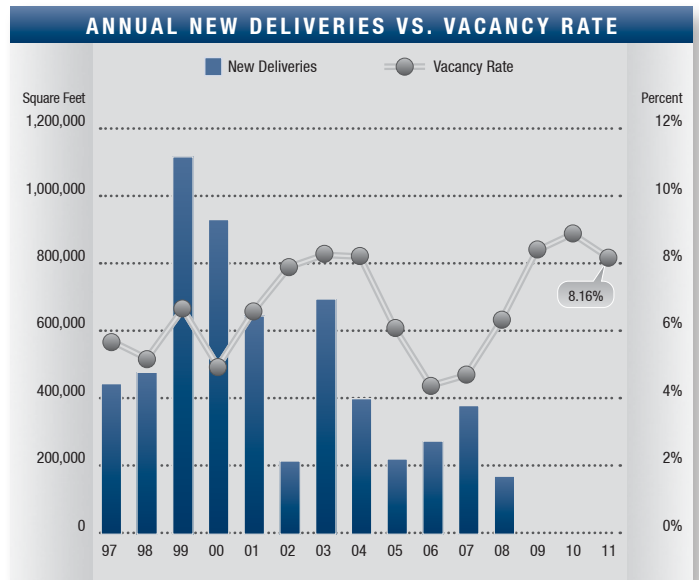
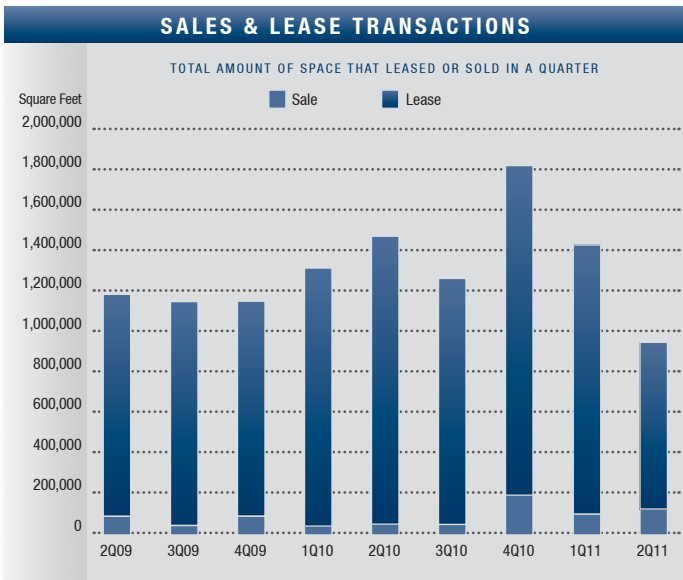
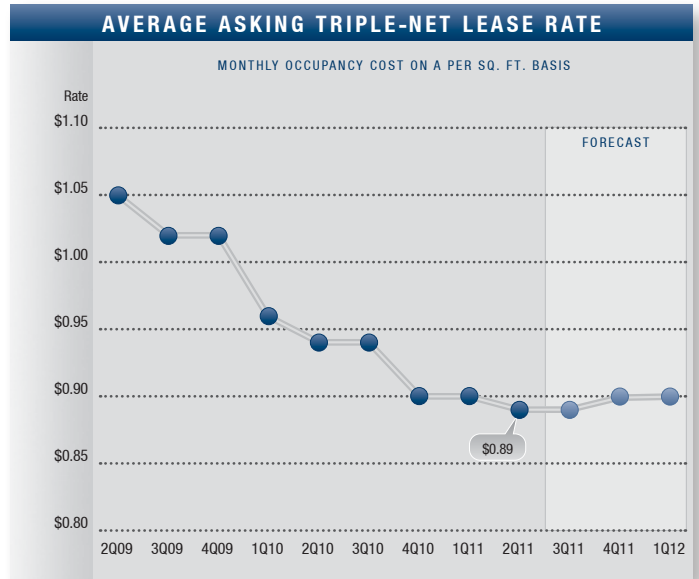
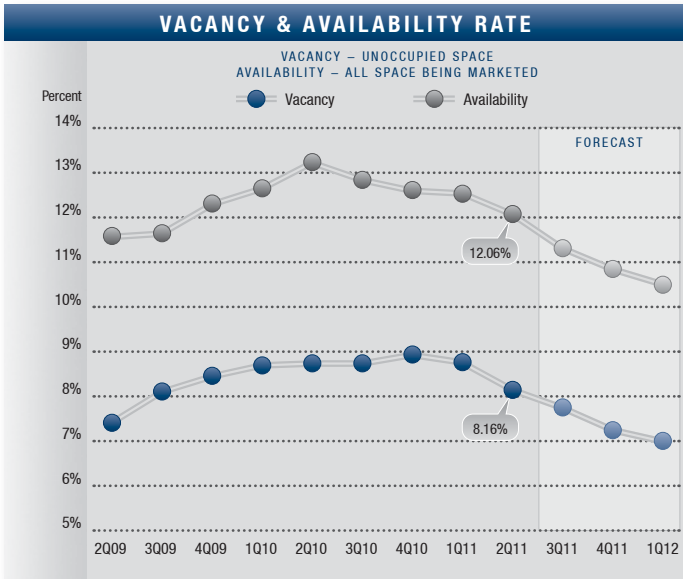
- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization in the second quarter of 2011. Availability and vacancy declined, and net absorption posted a positive number for the second consecutive quarter. Although demand was still weak by historical 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 second 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 second quarter at 8.16%, constituting a 6.74% decrease from 2010's second quarter rate of 8.75%.
- **Availability** - Direct / sublease space being marketed was 12.06% in the second quarter, down from the 12.51% we saw at the end of the first quarter and a decrease of 8.98% 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 \$0.89 in the second quarter—one cent lower than the previous quarter's rate and a 5.32% decrease from 2010's second quarter rate of \$.94. The record high rate of \$1.22 was established in the second quarter of 2007.
- **Absorption** - The Orange County R&D market posted 385,266 square feet of positive net absorption in the second quarter of 2011 — giving the R&D market almost 500,000 square feet of positive absorption for the first half of 2011, the the most positive absorption seen since the third quarter of 2007.
- **Transaction Activity** - Leasing activity checked in at 825,000 square feet in the second quarter of 2011. The

Orange County R&D market averaged 1.28 million square feet of leasing activity per quarter over the past five quarters. Sales activity posted 120,000 square feet in the second quarter, an increase over 2010's figure of 48,000 square feet. The Orange County research and development market averaged 99,000 square feet of sales activity per quarter over the past five quarters.

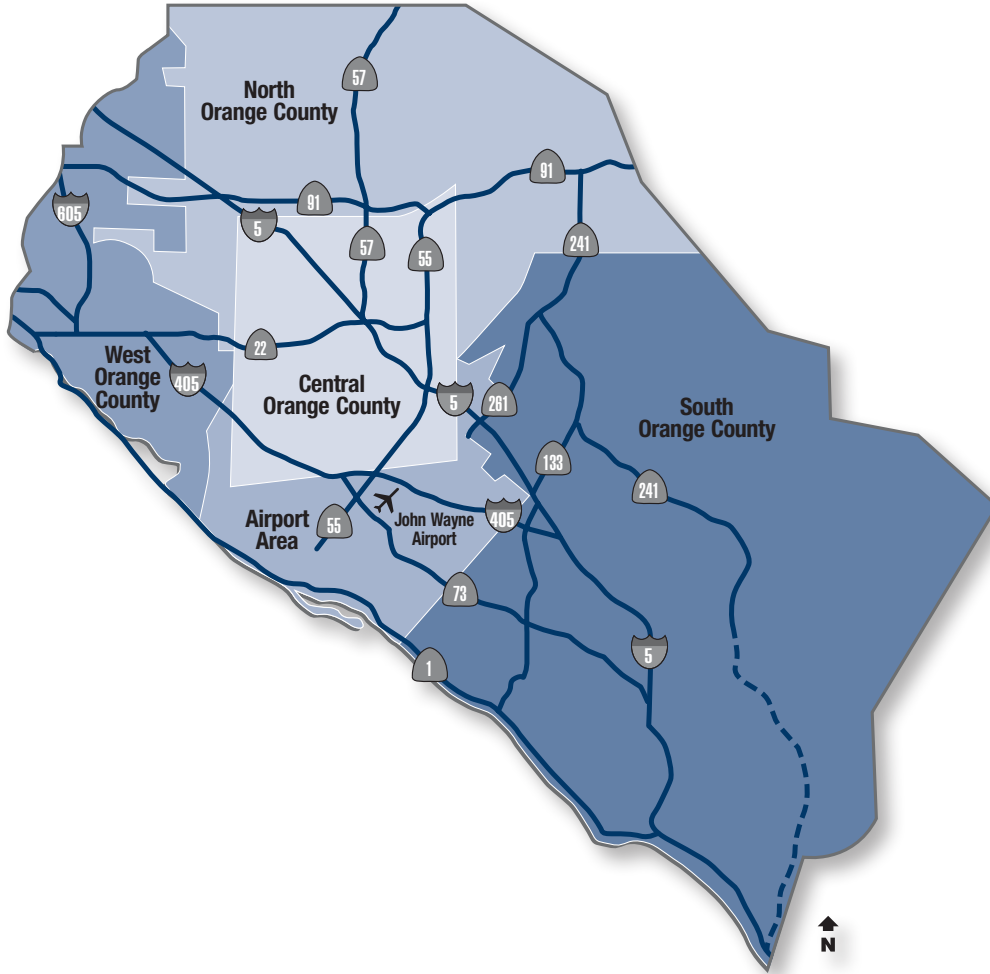
- **Employment** - The unemployment rate in Orange County was 8.5% in May 2011 — down from a revised 8.6% in April 2011 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 1,900 payroll jobs from May 2010 to May 2011. The largest gross were 9,700 in leisure and hospitality and 2,900 in educational & health services; however, Orange County lost 5,600 government jobs during that same period. Chapman University is forecasting that 20,000 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. Absorption is displaying signs of improvement, posting the highest positive figure seen in over four years. 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

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	8.16%	8.77%	8.75%	(6.74%)
Availability Rate	12.06%	12.51%	13.25%	(8.98%)
Average Asking Lease Rate	\$0.89	\$0.90	\$0.94	(5.32%)
Sale & Lease Transactions	945,539	1,420,286	1,464,745	(35.45%)
Gross Absorption	1,420,513	1,382,293	1,078,550	31.71%
Net Absorption	385,266	116,514	(23,422)	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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