



R&D Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

FLAT



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Market Highlights

- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization in the second quarter. Although, the market posted a small amount of negative net absorption for the second quarter of 2012, vacancy displayed a decrease 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 second 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 7.70%, an increase from the prior quarter's 7.57% rate but a decrease of 3.51% from 2011's second quarter rate of 7.98%. We are forecasting that vacancy will trend downward in the remaining quarters of 2012.
- **Availability** - Direct/sublease space being marketed was 12.30% in the second quarter, down from the 12.42% we saw at the end of last quarter but an increase of 3.02% 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 \$0.83 in the second quarter — two cents lower than the previous quarter's rate and six cents lower than 2011's second 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 firm up and possibly increase in late 2012 or early 2013.
- **Absorption** - The Orange County R&D market posted 80,000 square feet of negative net absorption in the second quarter of 2012 — giving the R&D market a total of just over 586,000 square feet of positive absorption over the last six quarters.
- **Transaction Activity** - Leasing activity checked in at almost 800,000 square feet in the second quarter of 2012.

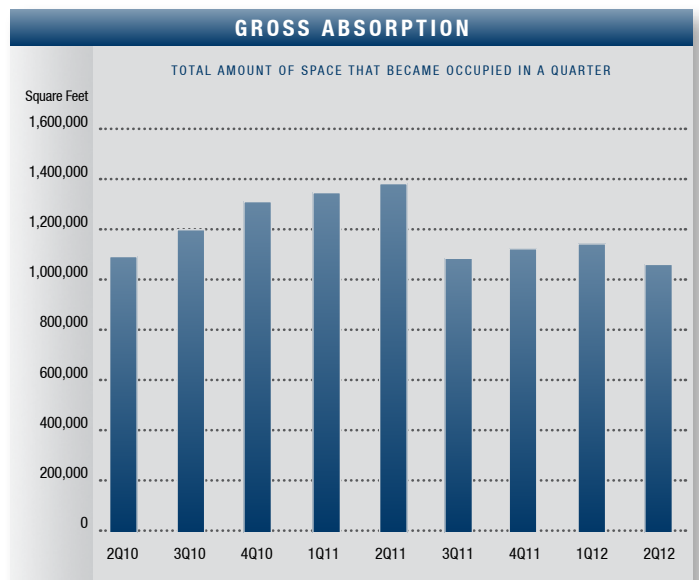
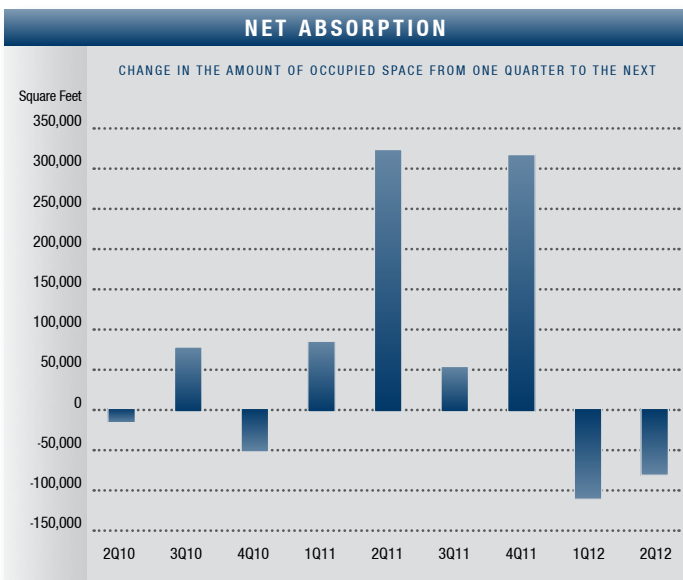
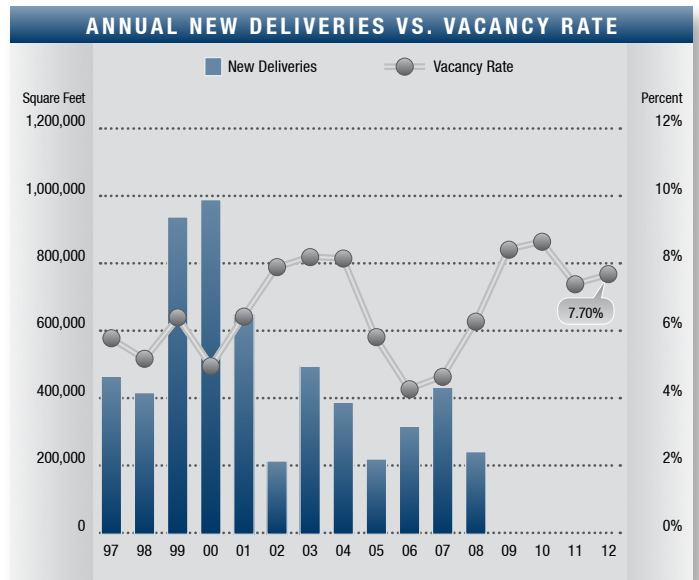
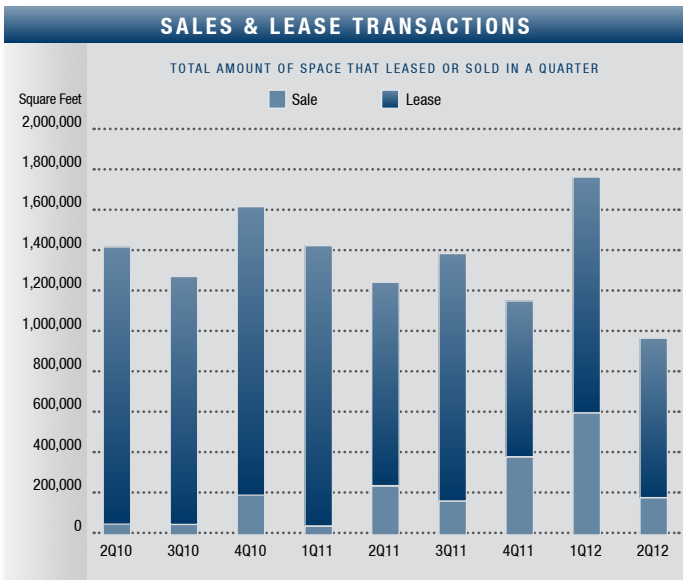
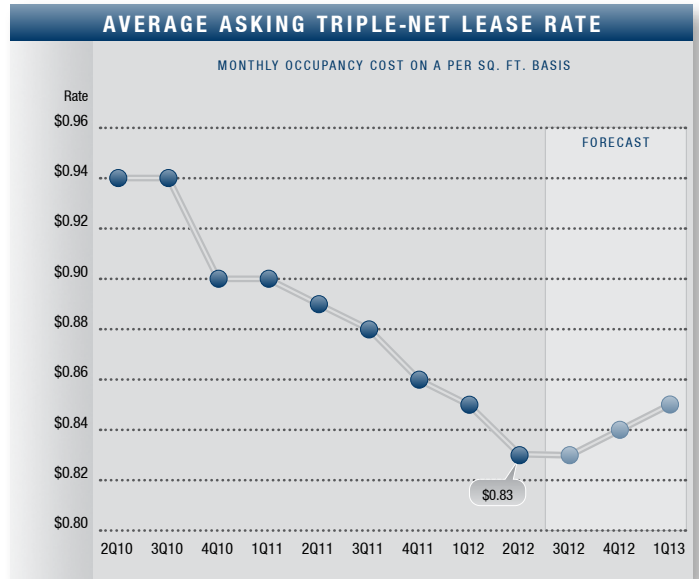
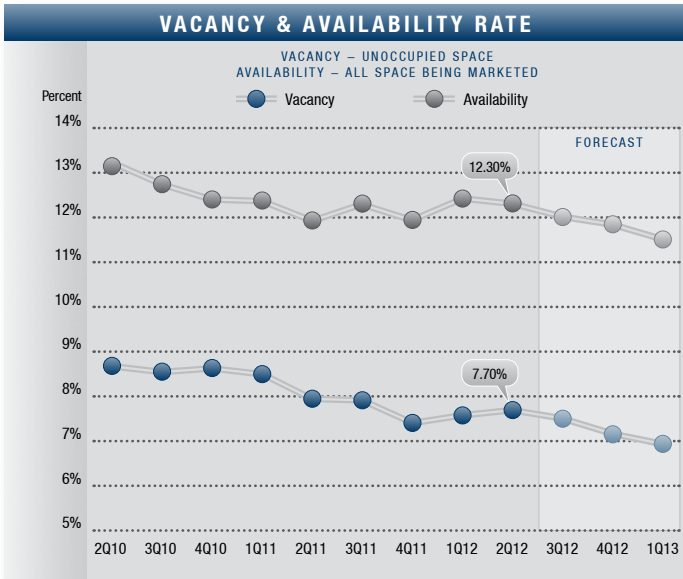
The Orange County R&D market averaged just over one million square feet of leasing activity per quarter from the last six quarters. Sales activity posted 170,000 square feet in the second quarter of 2012, a decrease over 2011's second quarter figure of 215,000 square feet. The Orange County research and development market averaged 322,000 square feet of sales activity per quarter over the last four quarters.

- **Employment** - The unemployment rate in Orange County was 7.5% in May 2012- up from a revised 7.4% in April 2012 and below the previous year's estimate of 8.5%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 25,800 payroll jobs from May 2011 to May 2012. The largest gains were 12,300 in professional & business services and 7,300 in leisure & hospitality; however, Orange County lost 3,600 construction 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 second quarter of 2012, net absorption is displaying signs of improvement, having posted over 586,000 square feet of absorption over the last six 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 firm up in the next couple of quarters with possible increases in late 2012 or early 2013. 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

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	7.70%	7.57%	7.98%	(3.51%)
Availability Rate	12.30%	12.42%	11.94%	3.02%
Average Asking Lease Rate	\$0.83	\$0.85	\$0.89	(6.74%)
Sale & Lease Transactions	952,762	1,757,505	1,234,552	(22.83%)
Gross Absorption	1,052,436	1,136,650	1,378,838	(23.67%)
Net Absorption	(80,148)	(110,916)	323,293	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
North County													
Anaheim Hills	100	3,167,571	0	0	170,141	5.37%	157,219	4.96%	N/A	16,898	4,358	36,150	72,557
Brea	43	1,092,795	0	0	42,801	3.92%	55,528	5.08%	N/A	(5,096)	(8,190)	54,339	59,487
Buena Park	32	1,130,830	0	0	40,055	3.54%	89,311	7.90%	N/A	11,909	(3,429)	11,909	15,232
Fullerton	43	1,581,187	0	0	60,979	3.86%	84,721	5.36%	\$0.63	28,597	32,351	46,271	58,305
La Habra	7	150,624	0	0	4,508	2.99%	4,508	2.99%	\$0.83	0	0	0	0
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.83	0	0	0	0
Placentia	24	612,708	0	0	41,488	6.77%	57,592	9.40%	\$0.80	(4,449)	(5,348)	19,450	23,191
Yorba Linda	51	1,357,440	0	0	82,188	6.05%	259,278	19.10%	\$0.35	8,761	7,880	29,094	43,725
North County Total	301	9,178,155	0	0	442,160	4.82%	708,157	7.72%	\$0.63	56,620	27,622	197,213	272,497
West County													
Cypress	43	2,468,994	0	0	267,815	10.85%	474,237	19.21%	\$0.86	(360)	378	3,584	107,141
Huntington Beach	126	2,692,958	0	0	281,059	10.44%	323,035	12.00%	\$0.68	32,514	(13,846)	81,075	103,634
Los Alamitos	39	858,091	0	0	96,904	11.29%	113,590	13.24%	N/A	(13,681)	(42,245)	15,268	22,688
West County Total	208	6,020,043	0	0	645,778	10.73%	910,862	15.13%	\$0.83	18,473	(55,713)	99,927	233,463
Central County													
Anaheim	81	2,060,402	0	0	129,596	6.29%	266,907	12.95%	\$0.55	(5,083)	45,540	21,653	95,895
Garden Grove	86	2,285,151	0	0	144,977	6.34%	368,386	16.12%	\$0.51	5,136	18,286	30,403	71,109
Orange	100	2,142,960	0	0	121,243	5.66%	177,446	8.28%	\$0.71	17,362	(7,738)	53,230	102,390
Santa Ana	56	1,247,191	0	0	100,319	8.04%	115,879	9.29%	\$1.16	35,842	61,238	45,366	77,562
Westminster	19	478,935	0	0	32,132	6.71%	49,620	10.36%	N/A	(11,194)	(8,038)	5,178	15,799
Central County Total	342	8,214,639	0	0	528,267	6.43%	978,238	11.91%	\$0.63	42,063	109,288	155,830	362,755
Airport Area													
Costa Mesa	175	4,269,900	0	0	293,003	6.86%	420,684	9.85%	\$0.70	49,254	50,719	97,442	189,401
Fountain Valley	51	1,744,574	0	0	30,992	1.78%	58,695	3.36%	\$0.79	7,826	12,913	19,712	30,451
Irvine	264	6,702,528	0	0	619,353	9.24%	1,182,063	17.64%	\$0.80	37,653	(39,777)	137,831	307,168
Newport Beach	22	513,222	0	0	42,000	8.18%	43,675	8.51%	\$1.00	17,072	18,402	22,204	23,534
Santa Ana	127	3,550,371	0	0	320,902	9.04%	378,591	10.66%	N/A	(65,282)	(112,451)	32,784	65,992
Tustin	95	3,343,032	0	0	288,138	8.62%	423,934	12.68%	\$1.02	(90,363)	(76,619)	35,409	94,223
Airport Area Total	734	20,123,627	0	0	1,594,388	7.92%	2,507,642	12.46%	\$0.85	(43,840)	(146,813)	345,382	710,769
South County													
Aliso Viejo	36	817,029	0	0	38,500	4.71%	68,884	8.43%	\$0.78	(9,273)	389	0	33,158
Foothill Ranch	7	162,906	0	0	0	0.00%	17,789	10.92%	N/A	0	0	0	0
Irvine Spectrum	265	9,770,707	0	18,124	888,522	9.09%	1,320,676	13.52%	\$0.94	(152,479)	(156,753)	74,916	255,940
Laguna Hills	59	1,362,834	0	0	80,437	5.90%	98,167	7.20%	\$0.85	14,216	8,978	23,928	51,265
Laguna Niguel	22	1,554,605	0	0	192,868	12.41%	199,296	12.82%	N/A	8,796	14,294	13,232	22,774
Lake Forest	56	1,186,475	0	0	122,735	10.34%	165,872	13.98%	\$0.70	14,771	8,333	47,476	85,765
Mission Viejo	33	868,831	0	0	36,083	4.15%	343,691	39.56%	\$1.10	644	2,958	14,846	24,080
Rancho Santa Margarita	39	1,443,940	0	0	110,098	7.62%	132,428	9.17%	\$0.75	(79,690)	(77,412)	4,492	11,044
San Clemente	50	1,169,462	0	0	75,133	6.42%	180,696	15.45%	\$1.02	50,014	78,929	67,067	106,234
San Juan Capistrano	37	786,413	0	239,012	68,004	8.65%	73,061	9.29%	N/A	(463)	(5,164)	8,127	19,342
South County Total	604	19,123,202	0	257,136	1,612,380	8.43%	2,600,560	13.60%	\$0.90	(153,464)	(125,448)	254,084	609,602
Orange County Total	2,189	62,659,666	0	257,136	4,822,973	7.70%	7,705,459	12.30%	\$0.83	(80,148)	(191,064)	1,052,436	2,189,086
North County													
10,000-24,999	181	2,872,175	0	0	264,016	9.19%	337,232	11.74%	N/A	53,858	44,982	126,666	173,915
25,000-49,999	85	2,856,223	0	0	139,051	4.87%	273,884	9.59%	\$0.63	2,762	9,771	70,547	98,582
50,000-99,999	25	1,687,145	0	0	39,093	2.32%	97,041	5.75%	N/A	0	(27,131)	0	0
100,000 Plus	10	1,762,612	0	0	0	0.00%	0	0.00%	N/A	0	0	0	0
West County													
10,000-24,999	140	2,122,248	0	0	213,590	10.06%	228,179	10.75%	\$0.75	29,042	(42,135)	79,811	103,485
25,000-49,999	41	1,424,654	0	0	112,952	7.93%	180,030	12.64%	\$0.89	(5,649)	(43,868)	16,532	22,837
50,000-99,999	23	1,564,765	0	0	319,236	20.40%	328,663	21.00%	\$0.82	(4,920)	18,470	3,584	95,321
100,000 Plus	4	908,376	0	0	0	0.00%	173,990	19.15%	N/A	0	11,820	0	11,820
Central County													
10,000-24,999	247	3,991,033	0	0	335,152	8.40%	431,731	10.82%	\$1.03	15,230	28,871	85,766	201,344
25,000-49,999	74	2,395,942	0	0	160,299	6.69%	192,489	8.03%	\$0.57	29,029	72,460	68,054	149,248
50,000-99,999	15	969,901	0	0	9,480	0.98%	227,682	23.47%	\$0.55	(2,196)	7,957	2,010	12,163
100,000 Plus	7	1,137,763	0	0	23,336	2.05%	126,336	11.10%	N/A	0	0	0	0
Airport Area													
10,000-24,999	490	7,895,674	0	0	647,910	8.21%	859,338	10.88%	\$0.77	80,890	107,107	223,812	429,756
25,000-49,999	169	5,694,299	0	0	464,658	8.16%	576,853	10.13%	\$0.74	36,226	44,057	99,110	225,168
50,000-99,999	55	3,612,444	0	0	147,125	4.07%	340,754	9.43%	\$1.01	14,799	(6,222)	22,460	55,845
100,000 Plus	19	2,641,210	0	0	334,695	12.67%	730,697	27.67%	N/A	(175,755)	(291,755)	0	0
South County													
10,000-24,999	367	6,110,259	0	169,096	489,330	8.01%	688,990	11.28%	\$0.84	(8,374)	(24,285)	114,412	242,081
25,000-49,999	171	5,765,455	0	88,040	458,147	7.95%	635,969	11.03%	\$0.81	3,716	35,486	117,577	316,511
50,000-99,999	50	3,353,021	0	0	489,903	14.61%	797,061	23.77%	\$0.99	(148,806)	(139,417)	22,095	48,242
100,000 Plus	16	3,894,467	0	0	175,000	4.49%	478,540	12.29%	N/A	0	2,768	0	2,768
Orange County													
10,000-24,999	1,425	22,991,389	0	169,096	1,949,998	8.48%	2,545,470	11.07%	\$0.84	170,646	114,540	630,467	1,150,581
25,000-49,999	540	18,136,573	0	88,040	1,335,107	7.36%	1,859,225	10.25%	\$0.77	66,084	117,906	371,820	812,346
50,000-99,999	168	11,187,276	0	0	1,004,837	8.98%	1,791,201	16.01%	\$0.85	(141,123)	(146,343)	50,149	211,571
100,000 Plus	56	10,344,428	0	0	533,031	5.15%	1,509,563	14.59%	N/A	(175,755)	(277,167)	0	14,588
Orange County Total	2,189	62,659,666	0	257,136	4,822,973	7.70%	7,705,459	12.30%	\$0.83	(80,148)	(191,064)	1,052,436	2,189,086

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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