



## R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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### Market Highlights

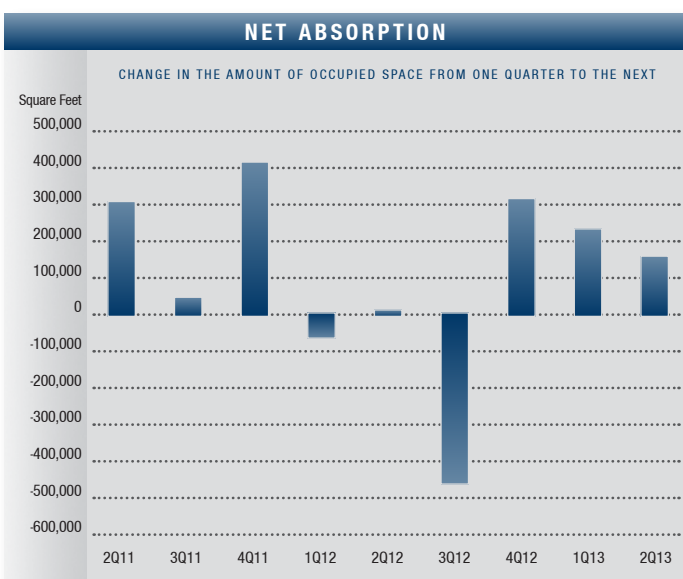
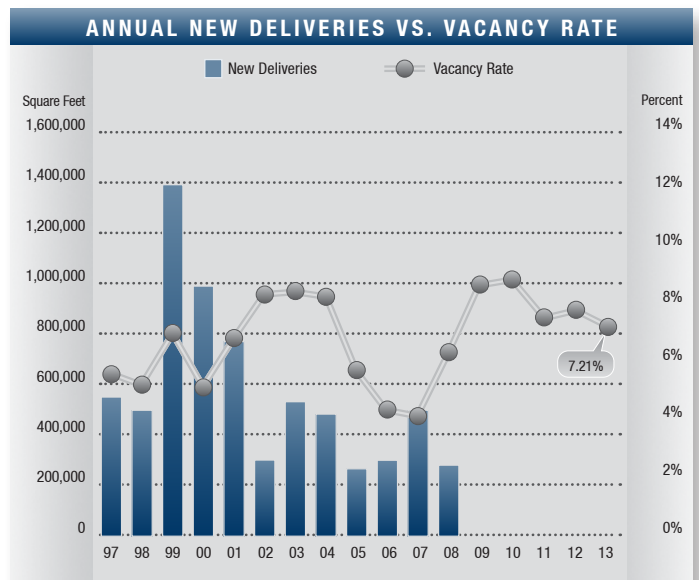
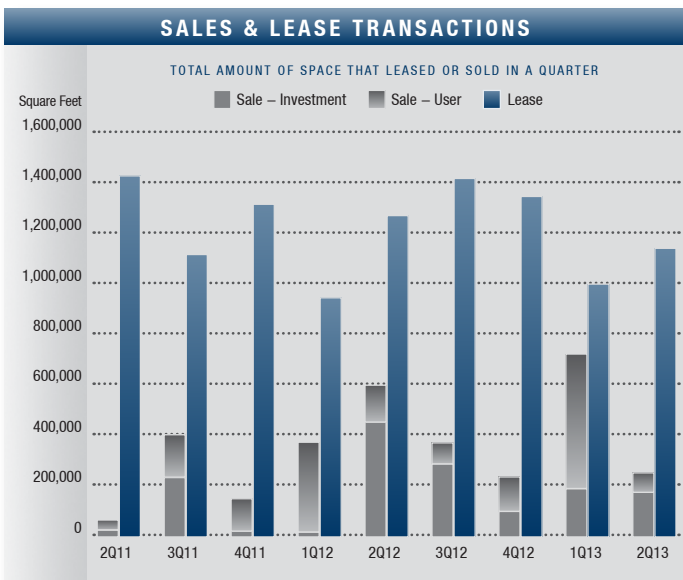
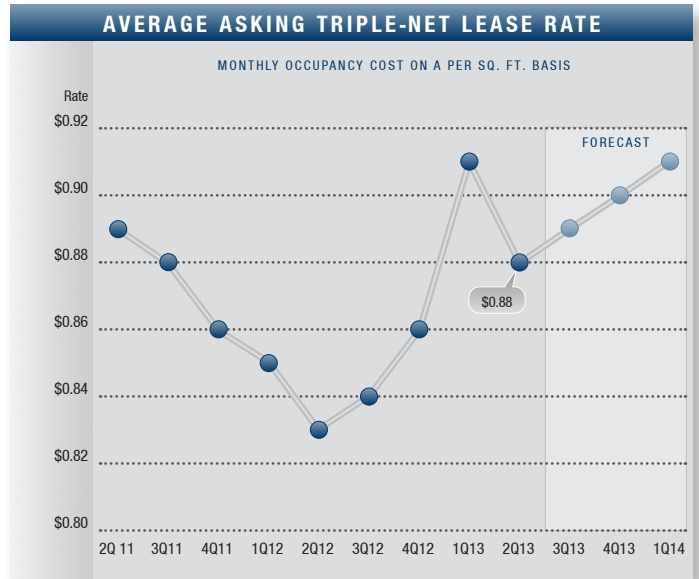
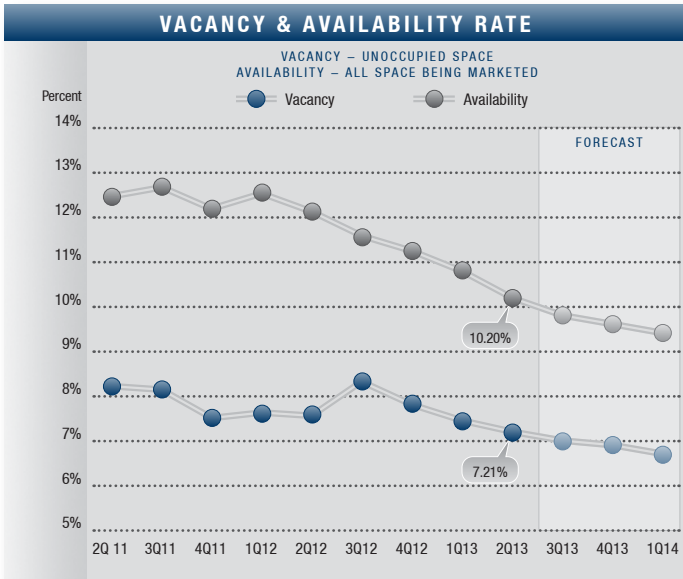
- Encouraging Numbers** - The Orange County research and development market conveyed more signs of stabilization at the end of the second quarter of 2013. Both vacancy and availability decreased compared to the prior quarter's rate and 2012's second quarter rate, and the market posted over 380,000 square feet of positive net absorption for the first half 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 quarter at 7.21%, a decrease from the prior quarter's 7.46% and 2012's second quarter rate of 7.59%. We are forecasting that vacancy will continue to trend downward in the second half of 2013.
- Availability** - Direct/sublease space being marketed was 10.20% in the second quarter, down from the 10.79% we saw at the end of the previous quarter and a decrease of 15.91% 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 \$0.88 in the second quarter- three cents lower than the previous quarter's rate but five cents higher than 2012's second 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 the second half of 2013.
- Absorption** - The Orange County R&D market posted 154,448 square feet of positive net absorption in second quarter of 2013 — giving the R&D market a total of over

1 million square feet of positive absorption for the last ten quarters.

- Transaction Activity** - Leasing activity checked in at just over 1 million square feet in the second quarter of 2013, lower than the 1.7 million 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 332,000 square feet in the second quarter of 2013, a slight decrease from 2012's second quarter total of 358,000 square feet. The Orange County research and development market averaged over 442,000 square feet of sales activity per quarter over the last five quarters.
- Employment** - The unemployment rate in Orange County was 5.5% in May 2013 — down from a revised 5.7% in April 2013 and below the previous year's estimate of 7.5%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 24,500 payroll jobs from May 2012 to May 2013. The largest gains were 6,500 in financial activities and 6,400 in construction; however, Orange County lost 1,200 jobs in the trade, transportation and utilities sector 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 the second half of 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

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	7.21%	7.46%	7.59%	(5.01%)
Availability Rate	10.20%	10.79%	12.13%	(15.91%)
Average Asking Lease Rate	\$0.88	\$0.91	\$0.83	6.02%
Sale & Lease Transactions	1,372,424	1,975,386	1,760,863	(22.06%)
Gross Absorption	1,232,255	1,391,508	1,117,157	10.30%
Net Absorption	154,448	227,632	9,430	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
<b>Airport Area</b>													
Costa Mesa	167	4,060,106	0	0	294,921	7.26%	379,154	9.34%	\$0.91	(54,387)	(61,532)	60,158	137,360
Fountain Valley	50	1,464,813	0	0	52,815	3.61%	46,395	3.17%	\$0.76	19,877	(14,445)	46,568	63,654
Irvine	259	6,762,971	0	0	544,785	8.06%	920,875	13.62%	\$0.99	(5,034)	175,470	119,953	399,148
Newport Beach	20	488,366	0	0	34,249	7.01%	34,249	7.01%	\$0.00	(5,575)	(5,380)	5,000	9,670
Santa Ana	190	4,701,159	0	0	353,779	7.53%	413,565	8.80%	\$0.92	46,013	32,145	113,498	190,518
Tustin	96	3,378,930	0	0	324,571	9.61%	435,092	12.88%	\$0.94	21,596	(30,486)	80,825	108,948
<b>Airport Area Total</b>	<b>782</b>	<b>20,856,345</b>	<b>0</b>	<b>0</b>	<b>1,605,120</b>	<b>7.70%</b>	<b>2,229,330</b>	<b>10.69%</b>	<b>\$0.95</b>	<b>22,490</b>	<b>95,772</b>	<b>426,002</b>	<b>909,298</b>
<b>North County</b>													
Anaheim	186	5,230,885	0	0	236,915	4.53%	450,190	8.61%	\$0.77	(9,136)	39,588	71,290	198,812
Brea	48	1,187,794	0	0	51,999	4.38%	147,374	12.41%	\$0.90	(10,185)	(22,323)	14,631	21,824
Buena Park	32	1,082,698	0	0	72,527	6.70%	109,845	10.15%	\$0.56	(1,196)	9,640	11,663	26,819
Fullerton	44	1,623,909	0	0	50,925	3.14%	84,437	5.20%	\$0.00	754	(1,867)	10,000	27,696
La Habra	7	150,624	0	0	6,732	4.47%	6,732	4.47%	\$0.00	0	0	0	0
Orange	102	2,263,373	0	0	97,854	4.32%	104,324	4.61%	\$0.00	(3,715)	(1,869)	41,747	72,688
Placentia	24	612,708	0	0	9,099	1.49%	9,160	1.50%	\$0.79	8,695	9,304	12,157	20,118
Yorba Linda	52	1,387,049	0	0	121,550	8.76%	224,520	16.19%	\$1.10	(13,968)	(17,047)	56,499	75,821
<b>North County Total</b>	<b>495</b>	<b>13,539,040</b>	<b>0</b>	<b>0</b>	<b>647,601</b>	<b>4.78%</b>	<b>1,136,582</b>	<b>8.39%</b>	<b>\$0.89</b>	<b>(28,751)</b>	<b>15,426</b>	<b>217,987</b>	<b>443,778</b>
<b>South County</b>													
Aliso Viejo	44	1,090,987	0	0	99,843	9.15%	135,388	12.41%	\$0.79	2,031	2,201	3,686	27,847
Foothill Ranch	7	175,631	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	303	10,699,588	21,930	18,124	947,795	8.86%	1,277,314	11.94%	\$0.97	(50,988)	(45,970)	141,599	396,932
Laguna Hills	57	1,354,799	0	0	78,586	5.80%	78,588	5.80%	\$1.10	28,031	6,121	63,842	86,489
Laguna Niguel	22	512,024	0	0	39,715	7.76%	49,715	9.71%	\$0.00	(5,200)	(5,787)	2,786	2,786
Lake Forest	58	1,335,605	0	0	96,960	7.26%	102,825	7.70%	\$0.61	23,849	27,021	55,175	88,295
Mission Viejo	34	879,801	0	0	42,799	4.86%	410,189	46.62%	\$0.00	(10,295)	(11,654)	12,861	23,414
Rancho Santa Margarita	44	1,564,745	0	0	88,326	5.64%	99,080	6.33%	\$0.87	17,536	18,745	21,196	32,040
San Clemente	50	1,236,649	0	0	80,081	6.48%	121,803	9.85%	\$0.97	(13,667)	98,146	41,209	185,157
San Juan Capistrano	45	917,038	0	187,639	78,747	8.59%	75,191	8.20%	\$0.00	11,409	(38,155)	27,748	39,957
<b>South County Total</b>	<b>664</b>	<b>19,766,867</b>	<b>21,930</b>	<b>205,763</b>	<b>1,552,852</b>	<b>7.86%</b>	<b>2,350,093</b>	<b>11.89%</b>	<b>\$0.91</b>	<b>2,706</b>	<b>50,668</b>	<b>370,102</b>	<b>882,917</b>
<b>West County</b>													
Cypress	56	2,821,407	0	0	424,969	15.06%	284,500	10.08%	\$0.89	65,247	69,162	66,936	93,335
Garden Grove	67	1,708,195	0	0	79,328	4.64%	196,939	11.53%	\$0.57	8,142	16,585	30,334	82,119
Huntington Beach	127	2,950,576	0	0	193,176	6.55%	201,560	6.83%	\$0.68	41,922	84,693	70,610	130,050
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	34,106	3.96%	26,006	3.02%	\$0.00	39,157	50,457	42,644	63,086
Stanton	5	122,025	0	0	4,980	4.08%	4,980	4.08%	\$0.00	(1,440)	(1,440)	0	0
Westminster	20	498,935	0	0	18,153	3.64%	18,153	3.64%	\$1.00	4,975	757	7,640	19,180
<b>West County Total</b>	<b>315</b>	<b>9,046,435</b>	<b>0</b>	<b>0</b>	<b>754,712</b>	<b>8.34%</b>	<b>732,138</b>	<b>8.09%</b>	<b>\$0.77</b>	<b>158,003</b>	<b>220,214</b>	<b>218,164</b>	<b>387,770</b>
<b>Orange County Total</b>	<b>2,256</b>	<b>63,208,687</b>	<b>21,930</b>	<b>205,763</b>	<b>4,560,285</b>	<b>7.21%</b>	<b>6,448,143</b>	<b>10.20%</b>	<b>\$0.88</b>	<b>154,448</b>	<b>382,080</b>	<b>1,232,255</b>	<b>2,623,763</b>
<b>Airport Area</b>													
10,000-24,999	525	8,463,131	0	0	693,040	8.19%	809,065	9.56%	\$0.89	23,858	(56,858)	222,922	389,823
25,000-49,999	183	6,170,983	0	0	455,479	7.38%	541,508	8.78%	\$0.94	42,433	26,195	161,127	252,847
50,000-99,999	56	3,708,077	0	0	206,402	5.57%	431,149	11.63%	\$1.09	(43,801)	(60,306)	41,953	79,887
100,000 Plus	18	2,514,154	0	0	250,199	9.95%	447,608	17.80%	\$0.91	0	186,741	0	186,741
<b>North County</b>													
10,000-24,999	324	5,161,683	0	0	286,467	5.55%	383,799	7.44%	\$0.97	(2,318)	42,928	121,971	254,346
25,000-49,999	126	4,194,844	0	0	285,354	6.80%	393,675	9.38%	\$0.93	(15,510)	(14,191)	71,279	143,116
50,000-99,999	33	2,143,273	0	0	47,915	2.24%	208,910	9.75%	\$0.56	16,942	14,554	24,737	46,316
100,000 Plus	12	2,039,240	0	0	27,865	1.37%	150,198	7.37%	\$0.00	(27,865)	(27,865)	0	0
<b>South County</b>													
10,000-24,999	400	6,651,581	21,930	147,671	458,698	6.90%	688,343	10.35%	\$0.90	31,064	(13,622)	223,621	415,943
25,000-49,999	192	6,487,279	0	58,092	460,516	7.10%	654,292	10.09%	\$0.89	(29,688)	71,878	109,654	309,854
50,000-99,999	57	3,814,353	0	0	626,406	16.42%	568,016	14.89%	\$0.96	1,330	(356)	36,827	157,120
100,000 Plus	15	2,813,654	0	0	7,232	0.26%	439,442	15.62%	\$0.00	0	(7,232)	0	0
<b>West County</b>													
10,000-24,999	214	3,375,048	0	0	178,026	5.27%	203,706	6.04%	\$0.95	70,411	102,124	115,217	213,582
25,000-49,999	66	2,255,693	0	0	121,165	5.37%	151,160	6.70%	\$0.87	29,920	56,466	38,500	101,921
50,000-99,999	28	1,922,318	0	0	245,977	12.80%	341,718	17.78%	\$0.73	57,672	61,624	64,447	72,267
100,000 Plus	7	1,493,376	0	0	209,544	14.03%	35,554	2.38%	\$0.00	0	0	0	0
<b>Orange County</b>													
10,000-24,999	1,463	23,651,443	21,930	147,671	1,616,231	6.83%	2,084,913	8.82%	\$0.90	123,015	74,572	683,731	1,273,694
25,000-49,999	567	19,108,799	0	58,092	1,322,514	6.92%	1,740,635	9.11%	\$0.91	27,155	140,348	380,560	807,738
50,000-99,999	174	11,588,021	0	0	1,126,700	9.72%	1,549,793	13.37%	\$0.85	32,143	15,516	167,964	355,590
100,000 Plus	52	8,860,424	0	0	494,840	5.58%	1,072,802	12.11%	\$0.91	(27,865)	151,644	0	186,741
<b>Orange County Total</b>	<b>2,256</b>	<b>63,208,687</b>	<b>21,930</b>	<b>205,763</b>	<b>4,560,285</b>	<b>7.21%</b>	<b>6,448,143</b>	<b>10.20%</b>	<b>\$0.88</b>	<b>154,448</b>	<b>382,080</b>	<b>1,232,255</b>	<b>2,623,763</b>

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**

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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