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Real Estate Services

# R&D Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



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## Market Highlights

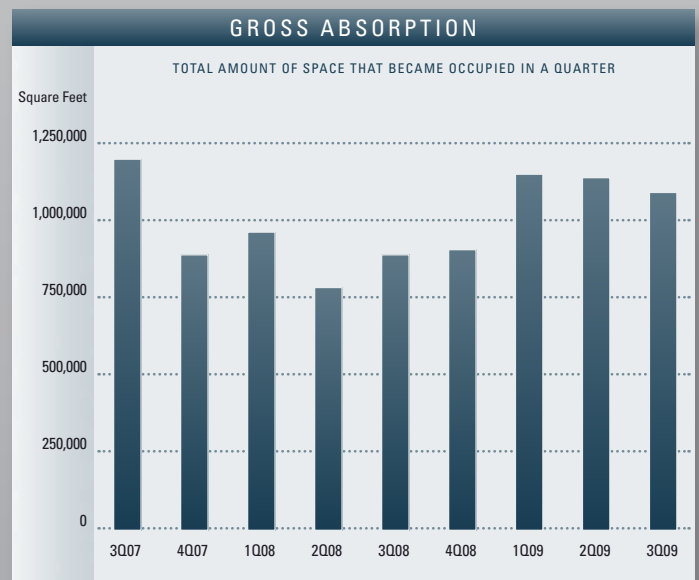
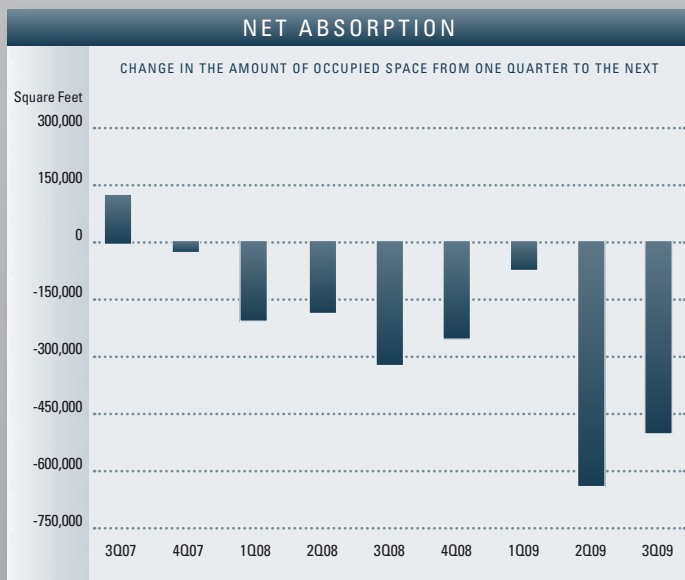
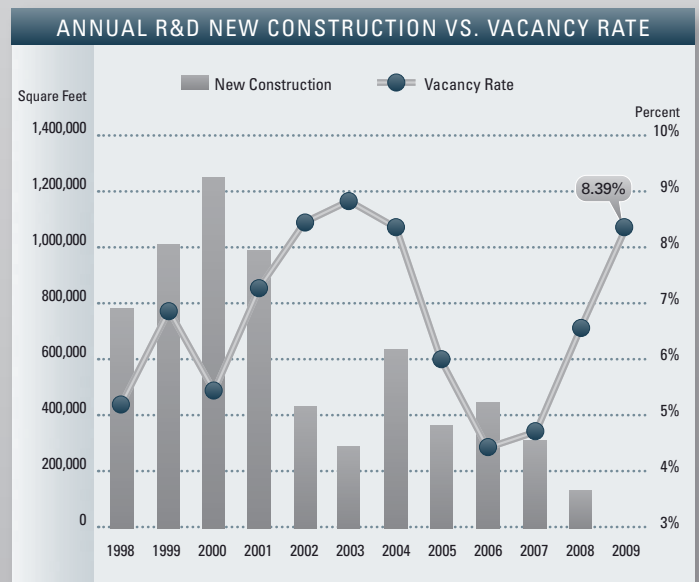
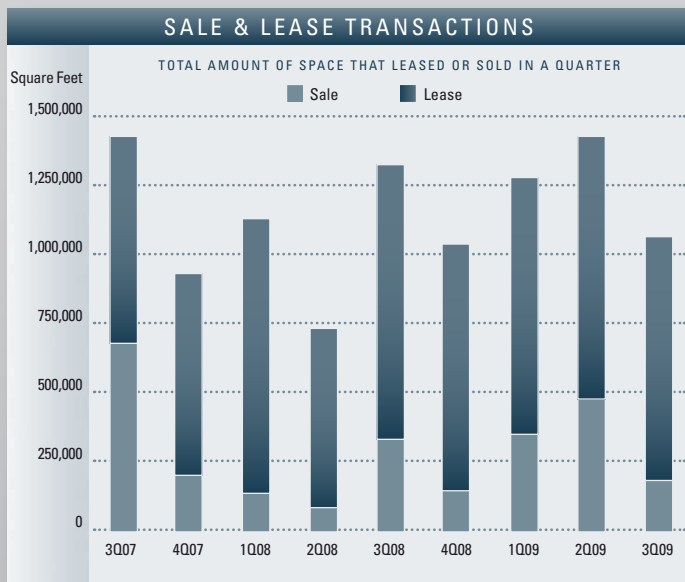
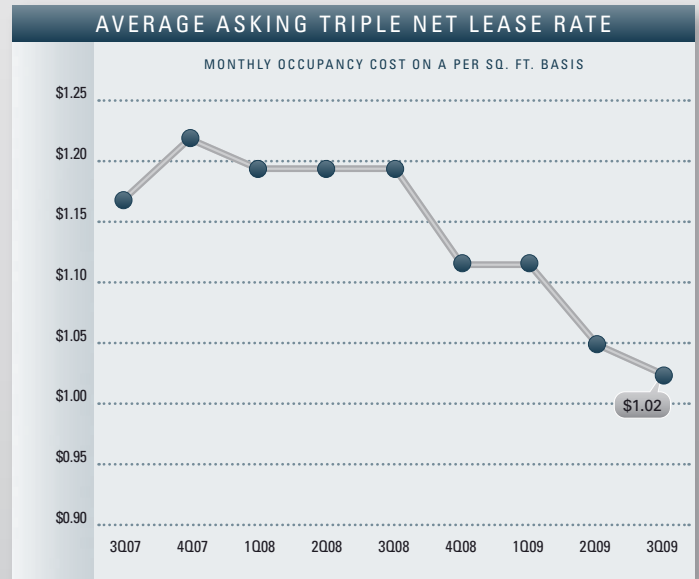
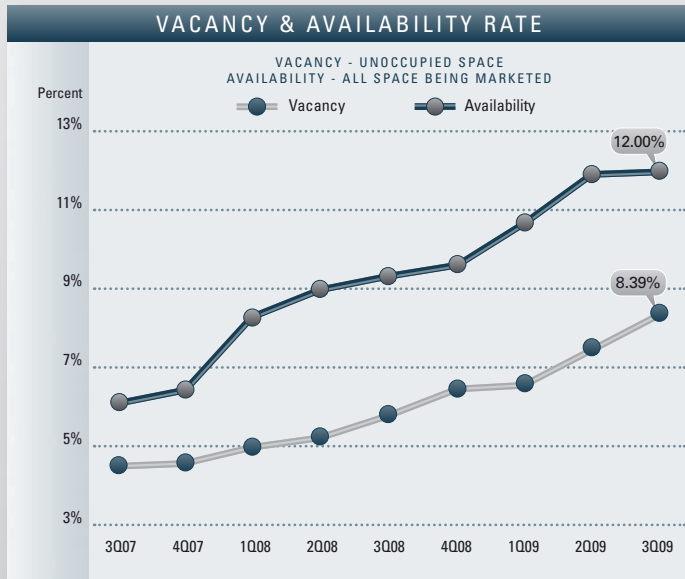
- ◆ **Market Challenges** - The Orange County Research & Development market is facing challenges as the national recession continues. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the past two quarters. Another challenge for the R&D market 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. This has led to many tenants to request rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- ◆ **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 8.39%, constituting an increase over last year’s third quarter rate of 5.81%. This 8.39% rate is less than the 9.82% vacancy rate in the second quarter of 2004.
- ◆ **Availability** – Direct/sublease space being marketed was 12% this quarter, up from the 9.25% we saw this same quarter last year. This is an increase of 29.73% of new space being marketed when compared to the same quarter last year. We are finally starting to see a decrease in the velocity of new available space being added to the market.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per month per foot in Orange County is currently \$1.02, which is a 14.29% decrease over last year’s rate of \$1.19 and three 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 negative 508,157 square feet for the third quarter of 2009, giving the R&D market a total of 1,225,759 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 900,000 square feet. The average amount of leasing per quarter over the past nine quarters was 870,000 square feet. Sales activity posted 166,000 square feet this quarter. The average amount of sales per quarter over the past nine quarters was 275,000 square feet.
- ◆ **Unemployment** – The unemployment rate in Orange County was 9.6% in August 2009, unchanged from a revised 9.6% in July 2009, and above the year ago estimate of 5.8%. This compares with an unadjusted unemployment rate of 12.1% for California and 9.6% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 63,600 payroll jobs over the last twelve months - 12,000 in construction, 10,400 in professional and business services. However, educational and health services posted a gain of 1,800 jobs.
- ◆ **Overall** – The R&D market has not reached the bottom nor has it begun to improve, but we are starting to see a slowdown in the amount of available space being added per quarter, as well as an increase in sales activity during the past two quarters. 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 leasing activity as 2009 comes to an end from pent up demand. Once financial markets correct themselves and consumer confidence stabilizes, then the R&D market will turn positive.

### R & D MARKET OVERVIEW

	3Q2009	2Q2009	3Q2008	% CHANGE VS. 3Q08
Vacancy	8.39%	7.60%	5.81%	44.41%
Availability	12.00%	11.88%	9.25%	29.73%
Average Asking Lease Rate	\$1.02	\$1.05	\$1.19	-14.29%
Sale & Lease Transactions	1,063,926	1,424,089	1,322,209	-19.53%
Net Absorption	-508,157	-646,406	-325,142	N/A
Gross Absorption	1,100,790	1,150,970	880,811	24.97%



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**INVENTORY**
**VACANCY & LEASE RATES**
**ABSORPTION**

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2009	Square Feet Available	Availability Rate 3Q2009	Average Asking Lease Rate	Net Absorption 3Q2009	Net Absorption 2009	Gross Absorption 3Q2009	Gross Absorption 2008
<b>North County</b>													
Anaheim	85	2,794,881	0	0	236,320	8.46%	260,046	9.30%	\$0.61	(34,869)	(111,860)	29,725	68,253
Brea	45	1,724,621	0	0	94,944	5.51%	106,926	6.20%	\$0.75	42,542	46,174	49,357	80,297
Buena Park	26	1,016,252	0	0	65,140	6.41%	63,322	6.23%	\$0.00	9,997	(37,921)	41,777	53,568
Fullerton	38	919,547	0	0	73,967	8.04%	86,312	9.39%	\$0.00	(15,094)	(25,172)	19,699	45,207
La Habra	5	83,589	0	0	15,909	19.03%	15,909	19.03%	\$0.00	0	(10,049)	0	1,596
La Palma	7	269,471	0	0	32,872	12.20%	45,170	16.76%	\$1.10	(16,425)	(16,425)	0	0
Placentia	19	519,904	0	0	28,995	5.58%	32,050	6.16%	\$0.87	(934)	(10,068)	14,346	33,751
Yorba Linda	49	1,327,615	0	0	101,674	7.66%	137,233	10.34%	\$1.00	(7,321)	5,241	9,622	161,954
<b>North County Total</b>	<b>274</b>	<b>8,655,880</b>	<b>0</b>	<b>0</b>	<b>649,821</b>	<b>7.51%</b>	<b>746,968</b>	<b>8.63%</b>	<b>\$0.88</b>	<b>(22,104)</b>	<b>(160,080)</b>	<b>164,526</b>	<b>444,626</b>
<b>West County</b>													
Cypress	42	2,275,242	0	0	164,055	7.21%	255,990	11.25%	\$0.94	(81,115)	(93,672)	2,918	56,843
Huntington Beach	126	2,306,030	0	0	113,241	4.91%	204,941	8.89%	\$1.04	(8,976)	(16,948)	47,022	119,593
Los Alamitos	36	810,732	0	0	33,406	4.12%	35,191	4.34%	\$0.00	(6,769)	(17,046)	9,266	22,388
<b>West County Total</b>	<b>204</b>	<b>5,392,004</b>	<b>0</b>	<b>0</b>	<b>310,702</b>	<b>5.76%</b>	<b>496,122</b>	<b>9.20%</b>	<b>\$0.94</b>	<b>(96,860)</b>	<b>(127,666)</b>	<b>59,206</b>	<b>198,824</b>
<b>Central County</b>													
Anaheim	73	1,715,195	0	0	95,021	5.54%	144,865	8.45%	\$1.35	19,636	(10,829)	41,223	99,632
Garden Grove	80	2,347,805	0	0	198,875	8.47%	295,694	12.59%	\$0.68	22,083	(22,719)	52,727	171,214
Orange	103	2,121,478	0	0	183,098	8.63%	190,197	8.97%	\$0.85	(6,042)	(59,145)	44,171	109,892
Santa Ana	61	1,525,948	0	0	68,384	4.48%	122,720	8.04%	\$0.69	(6,071)	(12,682)	30,556	83,082
Westminster	21	584,564	0	0	5,440	0.93%	10,240	1.75%	\$0.00	3,371	(674)	8,811	18,287
<b>Central County Total</b>	<b>338</b>	<b>8,294,990</b>	<b>0</b>	<b>0</b>	<b>550,818</b>	<b>6.64%</b>	<b>763,716</b>	<b>9.21%</b>	<b>\$0.97</b>	<b>32,977</b>	<b>(106,049)</b>	<b>177,488</b>	<b>482,107</b>
<b>Airport Area</b>													
Costa Mesa	180	4,299,509	0	0	418,066	9.72%	546,616	12.71%	\$0.85	(2,921)	(84,011)	53,658	264,779
Fountain Valley	49	1,357,445	0	49,186	51,022	3.76%	60,980	4.49%	\$0.90	10,279	(20,012)	27,331	58,656
Irvine	280	7,317,001	0	0	746,994	10.21%	1,127,317	15.41%	\$0.99	(136,552)	(244,361)	164,223	503,407
Newport Beach	23	793,889	0	0	17,087	2.15%	71,079	8.95%	\$1.22	4,040	(1,993)	10,860	17,175
Santa Ana	127	3,877,703	0	0	322,953	8.33%	463,905	11.96%	\$0.86	(39,539)	(97,457)	66,025	190,005
Tustin	95	3,287,019	0	0	367,011	11.17%	428,793	13.05%	\$1.13	(134,548)	(171,862)	39,069	107,548
<b>Airport Area Total</b>	<b>754</b>	<b>20,932,566</b>	<b>0</b>	<b>49,186</b>	<b>1,923,133</b>	<b>9.19%</b>	<b>2,698,690</b>	<b>12.89%</b>	<b>\$1.01</b>	<b>(299,241)</b>	<b>(619,696)</b>	<b>361,166</b>	<b>1,141,570</b>
<b>South County</b>													
Aliso Viejo	38	900,683	0	0	99,083	11.00%	112,674	12.51%	\$1.16	7,567	(20,360)	11,273	44,898
Foothill Ranch	6	152,856	0	0	0	0.00%	49,415	32.33%	\$0.00	0	5,500	0	5,500
Irvine Spectrum	272	10,336,699	0	0	1,097,935	10.62%	1,744,586	16.88%	\$1.10	(68,530)	(5,247)	210,340	706,951
Laguna Hills	64	1,452,952	0	0	137,465	9.46%	153,012	10.53%	\$1.17	(14,592)	(62,728)	45,839	90,144
Laguna Niguel	17	1,511,621	0	0	123,162	8.15%	141,462	9.36%	\$1.22	(1,750)	12,027	650	22,597
Lake Forest	60	1,388,707	0	0	105,239	7.58%	146,404	10.54%	\$0.91	(8,381)	(12,655)	32,721	124,613
Mission Viejo	35	943,856	0	0	56,753	6.01%	172,342	18.26%	\$1.03	5,080	(4,106)	10,328	23,444
Rancho Santa Margarita	44	1,506,450	0	0	71,692	4.76%	83,018	5.51%	\$0.89	(22,189)	(34,474)	7,795	27,715
San Clemente	46	1,070,119	0	0	110,392	10.32%	203,194	18.99%	\$1.09	(15,812)	(67,471)	14,084	55,738
San Juan Capistrano	43	625,270	0	0	61,454	9.83%	68,407	10.94%	\$0.95	(4,322)	(22,754)	5,374	26,778
<b>South County Total</b>	<b>625</b>	<b>19,889,213</b>	<b>0</b>	<b>0</b>	<b>1,863,175</b>	<b>9.37%</b>	<b>2,874,514</b>	<b>14.45%</b>	<b>\$1.10</b>	<b>(122,929)</b>	<b>(212,268)</b>	<b>338,404</b>	<b>1,128,378</b>
<b>Orange County Total</b>	<b>2,195</b>	<b>63,164,653</b>	<b>0</b>	<b>49,186</b>	<b>5,297,649</b>	<b>8.39%</b>	<b>7,580,010</b>	<b>12.00%</b>	<b>\$1.02</b>	<b>(508,157)</b>	<b>(1,225,759)</b>	<b>1,100,790</b>	<b>3,395,505</b>
<b>North County</b>													
10,000 to 24,999	165	2,633,447	0	0	350,625	13.31%	396,424	15.05%	\$0.88	(59,471)	(172,148)	66,071	143,283
25,000 to 49,999	75	2,536,827	0	0	251,942	9.93%	307,133	12.11%	\$0.86	19,885	(112)	77,497	176,656
50,000 to 99,999	24	1,611,397	0	0	47,254	2.93%	43,411	2.69%	\$0.00	17,482	(7,153)	20,958	105,354
100,000+	10	1,874,209	0	0	0	0.00%	0	0.00%	\$0.00	0	19,333	0	19,333
<b>West County</b>													
10,000 to 24,999	144	2,191,039	0	0	111,225	5.08%	117,351	5.36%	\$1.16	(19,396)	(22,254)	39,185	110,980
25,000 to 49,999	41	1,430,203	0	0	51,186	3.58%	136,846	9.57%	\$0.90	(1,984)	(26,486)	20,021	46,077
50,000 to 99,999	16	1,012,386	0	0	148,291	14.65%	161,645	15.97%	\$0.91	(75,480)	(78,926)	0	41,767
100,000+	3	758,376	0	0	0	0.00%	80,280	10.59%	\$0.00	0	0	0	0
<b>Central County</b>													
10,000 to 24,999	247	3,952,849	0	0	324,690	8.21%	375,583	9.50%	\$1.07	20,793	(83,165)	130,551	317,391
25,000 to 49,999	68	2,234,300	0	0	168,793	7.55%	234,671	10.50%	\$0.89	19,494	(4,699)	46,937	139,388
50,000 to 99,999	17	1,172,508	0	0	57,335	4.89%	153,462	13.09%	\$0.00	(7,310)	(18,185)	0	25,328
100,000+	6	935,333	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Airport Area</b>													
10,000 to 24,999	507	8,135,908	0	12,100	803,775	9.88%	986,611	12.13%	\$1.02	(42,773)	(176,067)	250,568	624,592
25,000 to 49,999	166	5,598,340	0	37,086	685,181	12.24%	881,135	15.74%	\$0.90	(115,889)	(292,503)	74,609	334,213
50,000 to 99,999	58	3,907,403	0	0	262,198	6.71%	381,633	9.77%	\$1.20	1,541	(16,099)	24,871	150,736
100,000+	23	3,290,915	0	0	171,979	5.23%	449,311	13.65%	\$1.00	(142,120)	(135,027)	11,118	32,029
<b>South County</b>													
10,000 to 24,999	381	6,315,251	0	0	740,542	11.73%	923,397	14.62%	\$1.09	(36,407)	(182,849)	184,948	520,193
25,000 to 49,999	170	5,730,744	0	0	560,109	9.77%	920,686	16.07%	\$1.09	(144,979)	(191,052)	82,703	360,614
50,000 to 99,999	54	3,592,208	0	0	312,365	8.70%	556,272	15.49%	\$1.11	61,558	25,388	66,813	99,525
100,000+	20	4,251,010	0	0	250,159	5.88%	474,159	11.15%	\$1.05	(3,101)	136,245	3,940	148,046
<b>Orange County</b>													
10,000 to 24,999	1,444	23,228,494	0	12,100	2,330,857	10.03%	2,799,366	12.05%	\$1.04	(137,254)	(636,483)	671,323	1,716,439
25,000 to 49,999	520	17,530,414	0	37,086	1,717,211	9.80%	2,480,471	14.15%	\$0.98	(223,473)	(514,852)	301,767	1,056,948
50,000 to 99,999	169	11,295,902	0	0	827,443	7.33%	1,296,423	11.48%	\$1.08	(2,209)	(94,975)	112,642	422,710
100,000+	62	11,109,843	0	0	422,138	3.80%	1,003,750	9.03%	\$1.00	(145,221)	20,551	15,058	199,408
<b>Orange County Total</b>	<b>2,195</b>	<b>63,164,653</b>	<b>0</b>	<b>49,186</b>	<b>5,297,649</b>	<b>8.39%</b>	<b>7,580,010</b>	<b>12.00%</b>	<b>\$1.02</b>	<b>(508,157)</b>	<b>(1,225,759)</b>	<b>1,100,790</b>	<b>3,395,505</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, 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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This survey consists of properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a triple net basis. The information contained in this report is gathered from sources that are deemed reliable but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services use only, and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.