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Orange County | Third Quarter 2010



R&D Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions DOWN

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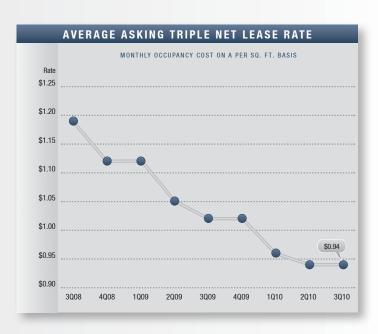
Market Highlights

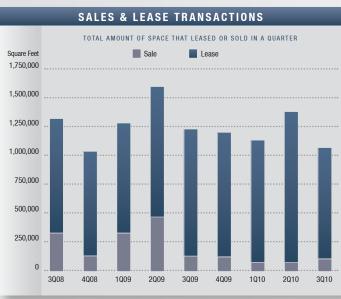
- Encouraging Numbers The Orange County Research & Development Market is showing trends of stabilization.
 This quarter, availability dropped from last quarter, vacancy rose slightly, and net absorption posted only a small negative number. Although demand is still weak by historical standards, the volume 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, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs has led to few projects being developed.
- Vacancy Direct/sublease space (unoccupied) finished the quarter at 8.83%, constituting an increase over last year's rate of 8.27% but a decrease over last quarter's figure of 13.15%. This quarter's rate of 8.83% is still lower than the 9.82% vacancy rate we saw in the second quarter of 2004.
- Availability Direct/sublease space being marketed was 12.98% this quarter, up from the 11.88% we saw this same quarter last year. This is an increase of 9.26% 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 third
 quarter of 2010 was \$0.94 a 7.84% decrease over
 last year's rate of \$1.02 and the same as 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 51,030 square feet for the third quarter of 2010, giving the R&D market an average of 88,000 square feet of negative absorption for last five quarters. This negative absorption can be attributed to the recent job losses.

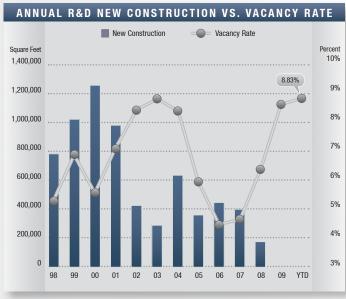
- Transaction Activity Leasing activity checked in this quarter at 966,000 square feet. The average amount of leasing per quarter for the past five quarters was 1.1 million square feet. Sales activity posted 100,000 square feet this quarter. The average amount of sales per quarter over the past five quarters was 94,000 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 only slightly negative — 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 immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the R&D market will stabilize.

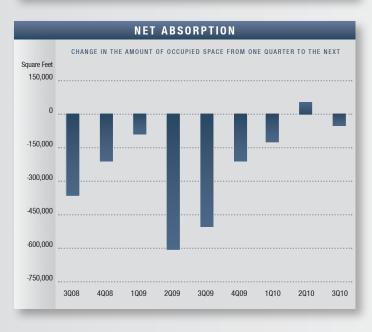
R&D MARKET OVERVIEW											
	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009							
Vacancy Rate	8.83%	8.74%	8.27%	6.77%							
Availablity Rate	12.98%	13.15%	11.88%	9.26%							
Average Asking Lease Rate	\$0.94	\$0.94	\$1.02	(7.84%)							
Sale & Lease Transactions	1,065,950	1,379,610	1,225,330	(13.01%)							
Gross Absorption	1,268,382	1,081,928	1,121,433	13.10%							
Net Absorption	(51,030)	55,742	(475,782)	N/A							

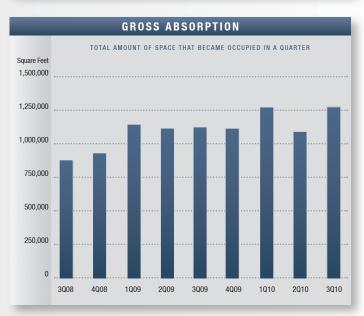






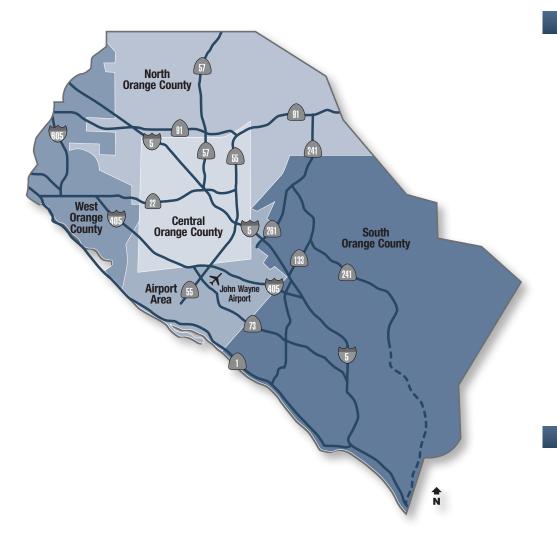






	INVENTORY				1	ACANCY	& LEAS	E RATES			ABSOR	PTION	
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2010	Square Feet Available	Availability Rate 302010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorptio 2010
lorth County	•												
Anaheim	99	3,102,628	0	0	249,683	8.05%	337,410	10.87%	\$0.60	(86)	41,426	46,765	168,50
Brea	47	1,793,735	0	0	155,349	8.66%	172,953	9.64%	\$0.47	(59,882)	(55,482)	20,782	45,6
Buena Park	26	1,017,895	0	0	77,873	7.65%	82,797	8.13%	\$0.00	5,422	(21,368)	24,358	34,70
Fullerton	40	1,466,519	0	0	59,721	4.07%	98,854	6.74%	\$0.00	5,101	8,382	11,681	53,3
La Habra	7	146,680	0	0	10,472	7.14%	10,472	7.14%	\$0.00	(50.554)	6,565	0	7,5
La Palma	7	272,878	0	0	72,763	26.67%	84,367	30.92%	\$1.10	(56,551)	(39,891)	0 070	16,6
Placentia Yorba Linda	20 50	565,108 1,338,504	0	0	17,010 100,934	3.01% 7.54%	42,250 149,773	7.48% 11.19%	\$0.80 \$0.85	1,623 (12,535)	288 5,679	8,078 28,435	13,8 86,1
North County Total	296	9,703,947	0	0	743,805	7.66%	978,876	10.09%	\$0.80	(12,333)	(54,401)	140,099	426,5
•	230	9,703,947	U	U	743,003	7.0070	370,070	10.0970	ψ0.00	(110,900)	(34,401)	140,033	420,5
Vest County													
Cypress	44	2,334,728	0	0	210,652	9.02%	380,000	16.28%	\$0.91	12,534	18,986	208,974	223,7
Huntington Beach	128	2,573,019	0	0	214,452	8.33%	299,898	11.66%	\$0.84	9,756	(37,089)	38,793	136,6
Los Alamitos	36	809,324	0	0	52,735	6.52%	66,780	8.25%	\$0.00	(7,482)	(22,766)	4,554	12,0
West County Total	208	5,717,071	0	0	477,839	8.36%	746,678	13.06%	\$0.90	14,808	(40,869)	252,321	372,4
Central County													
Anaheim	72	1,691,129	0	0	87,881	5.20%	142,278	8.41%	\$0.59	(11,528)	(10,603)	21,891	77,0
Garden Grove	81	2,374,715	0	0	204,365	8.61%	351,771	14.81%	\$0.84	(263)	(15,428)	43,624	130,6
Orange	101	2,117,697	0	0	101,217	4.78%	192,769	9.10%	\$0.98	16,709	46,712	23,641	108,2
Santa Ana	60	1,499,722	0	0	106,708	7.12%	137,880	9.19%	\$0.00	83	(13,406)	8,500	65,2
Westminster	21	582,962	0	0	14,528	2.49%	29,076	4.99%	\$0.00	(2,976)	18,075	4,020	27,5
Central County Total	335	8,266,225	0	0	514,699	6.23%	853,774	10.33%	\$0.86	2,025	25,350	101,676	408,7
Airport Area													
Costa Mesa	179	4,316,724	0	0	448,087	10.38%	646,337	14.97%	\$0.93	53,760	8,296	109,694	260,3
Fountain Valley	49	1,359,698	0	0	79,621	5.86%	96,645	7.11%	\$0.85	2,605	(18,727)	28,966	54,0
Irvine	269	6,802,203	0	0	846,606	12.45%	1,261,613	18.55%	\$0.82	526	(91,029)	163,015	378,2
Newport Beach	23	817,151	0	0	47,764	5.85%	42,764	5.23%	\$1.10	(12,207)	(26,813)	15,351	26,3
Santa Ana	127	3,868,389	0	0	330,847	8.55%	366,146	9.47%	\$0.99	21,720	(20,140)	44,931	188,4
Tustin	97	3,421,831	0	0	333,597	9.75%	508,694	14.87%	\$0.91	(8,952)	(4,476)	40,794	146,0
Airport Area Total	744	20,585,996	0	0	2,086,522	10.14%	2,922,199	14.20%	\$0.87	57,452	(152,889)	402,751	1,053,6
South County													
Aliso Viejo	35	848,477	0	0	54,674	6.44%	87,337	10.29%	\$1.01	4,661	26,131	32,009	56,3
Foothill Ranch	7	162,906	0	0	49,415	30.33%	49,415	30.33%	\$0.00	4,001	20,131	02,009	49,4
Irvine Spectrum	267	9,973,860	0	0	999,302	10.02%	1,785,278	17.90%	\$1.01	6,439	123,409	165,306	820,4
Laguna Hills	63	1,415,734	0	0	118,388	8.36%	114,708	8.10%	\$1.52	7,115	4,843	30,963	108,9
Laguna Niguel	16	1,412,141	0	0	216,922	15.36%	216,922	15.36%	\$1.00	(76,400)	(92,971)	3,800	21,0
Lake Forest	60	1,365,472	0	0	91,050	6.67%	135,399	9.92%	\$0.62	(6,732)	1,107	36,563	119,4
Mission Viejo	35	940,827	0	0	60,475	6.43%	64,368	6.84%	\$1.00	4,557	(9,477)	25,157	40,2
Rancho Santa Margarita	41	1,458,699	0	0	40,537	2.78%	74,771	5.13%	\$0.69	3,408	4,606	5,093	15,6
San Clemente	44	1,048,400	0	0	80,379	7.67%	125,730	11.99%	\$1.10	28,934	27,821	48,710	91,1
San Juan Capistrano	38	589,119	0	239,012	68,922	11.70%	82,829	14.06%	\$0.55	19,611	11,335	23,934	34,2
South County Total	606	19,215,635	0	239,012	1,780,064	9.26%	2,736,757	14.24%	\$0.95	(8,407)	96,804	371,535	1,356,9
Orange County Total	2,189	63,488,874	0	239,012	5,602,929	8.83%	8,238,284	12.98%	\$0.94	(51,030)	(126,005)	1,268,382	3,618,3
lorth County													
10,000 to 24,999	177	2,834,223	0	0	327,362	11.55%	378,335	13.35%	\$0.87	(6,135)	36,789	87,469	253,6
25,000 to 49,999	83	2,804,119	0	0	255,318	9.11%	341,221	12.17%	\$0.84	(7,231)	24,504	37,496	157,8
50.000 to 99.999	25	1,665,490	0	0	161,125	9.67%	185,007	11.11%	\$0.76	(103,542)	(115,694)	15,134	15,1
100,000+	11	2,400,115	0	0	0	0.00%	74,313	3.10%	\$0.00	0	0	0	, .
West County		, ,					,						
10,000 to 24,999	144	2,180,853	0	0	170,718	7.83%	205,942	9.44%	\$0.84	(691)	(37,033)	27,596	97,0
25,000 to 49,999	42	1,451,403	0	0	66,800	4.60%	167,799	11.56%	\$0.85	15,499	18,754	28,285	64,2
50,000 to 99,999	18	1,176,439	0	0	240,321	20.43%	292,657	24.88%	\$0.92	0,433	(22,590)	69,440	84,1
100,000+	4	908,376	0	0	0	0.00%	80,280	8.84%	\$1.00	0	0	127,000	127,0
Central County	·	,0.0	Ü		J		,200		,	· ·		,	, 0
10,000 to 24,999	243	3,907,453	0	0	302,488	7.74%	387,653	9.92%	\$0.92	668	358	62,074	275,9
25,000 to 49,999	69	2,250,931	0	0	184,075	8.18%	264,623	11.76%	\$0.92	(6,523)	(2,441)	29,452	98,1
50,000 to 99,999	17	1,172,508	0	0	28,136	2.40%	201,498	17.19%	\$0.73	7,880	27,433	10,150	34,6
100,000+	6	935,333	0	0	20,130	0.00%	201,430	0.00%	\$0.00	0 0	0	0	34,0
Airport Area	Ü	555,555	Ū			5.5570	J	0.0070	\$0.00		J		
10,000 to 24,999	498	8,017,096	0	0	817,506	10.20%	1,050,629	13.10%	\$0.89	63,760	(46,714)	218,066	556,8
25,000 to 49,999	169	5,678,184	0	0	885,798	15.60%	1,006,929	17.73%	\$0.89 \$0.89	44,403	(94,242)	159,874	358,1
50,000 to 99,999	55	3,648,738	0	0	215,484	5.91%	455,901	12.49%	\$0.89	(50,711)	(11,933)	24,811	102,3
100,000+	22	3,241,978	0	0	167,734	5.17%	408,740	12.49%	\$0.89	(50,711)	(11,933)	0	36,3
South County	LL	5,211,570	Ū	U	101,104	3.1170	100,170	. 2.0170	40.00		J	U	50,0
10,000 to 24,999	205	6 04E 170	0	1E0 070	E22 070	0.000/	710 110	11 700/	¢0.07	66,000	111 570	174 007	E77.7
	365 172	6,045,176	0	150,972	532,978	8.82%	712,112	11.78%	\$0.87 \$0.07	66,068	111,578	174,297	577,7
25,000 to 49,999	172 51	5,759,893	0	88,040 0	580,742	10.08%	965,419	16.76% 17.60%	\$0.97 \$1.01	430 95	8,014	98,474	439,4
50,000 to 99,999 100,000+	18	3,394,679 4,015,887	0	0	347,898 318,446	10.25% 7.93%	597,509 461,717	17.60% 11.50%	\$1.01 \$0.00		49,444 (72,232)	93,684 5,080	191,2 148,4
	10	4,013,007	U	U	310,440	1.9370	461,717	11.50%	φυ.υυ	(75,000)	(72,232)	5,000	140,4
Orange County		00.004.55		450.00	0.151		0 70 1	4	40.00			F00	4 =0 :
10,000 to 24,999	1,427	22,984,801	0	150,972	2,151,052	9.36%	2,734,671	11.90%	\$0.88	123,670	64,978	569,502	1,761,1
25,000 to 49,999	535	17,944,530	0	88,040	1,972,733	10.99%	2,745,991	15.30%	\$0.92	46,578	(45,411)	353,581	1,117,8
50,000 to 99,999	166	11,057,854	0	0	992,964	8.98%	1,732,572	15.67%	\$0.91	(146,278)	(73,340)	213,219	427,5
100,000+	61	11,501,689	0	0	486,180	4.23%	1,025,050	8.91%	\$0.89	(75,000)	(72,232)	132,080	311,8

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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