



R&D Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



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Market Highlights

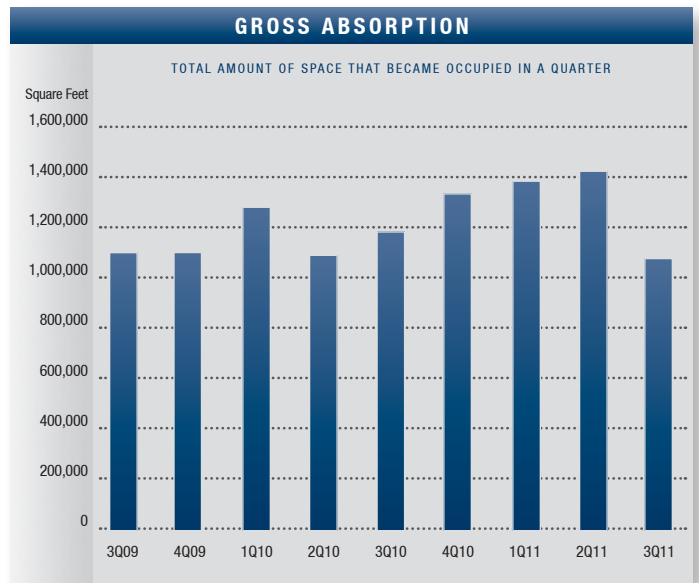
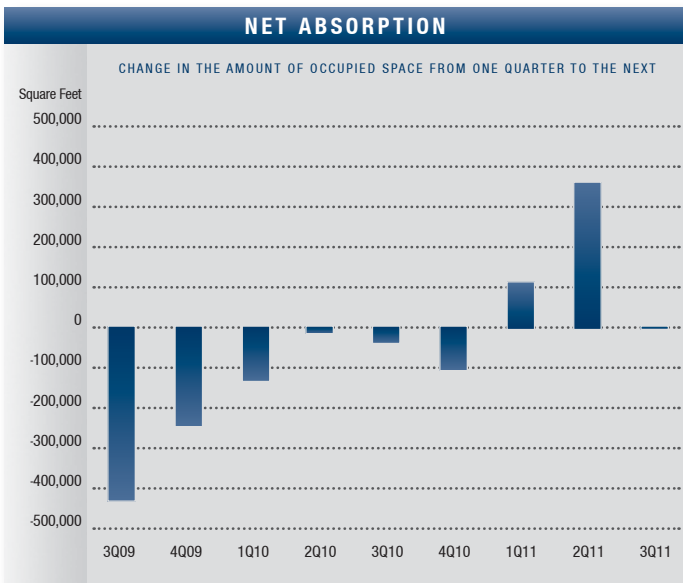
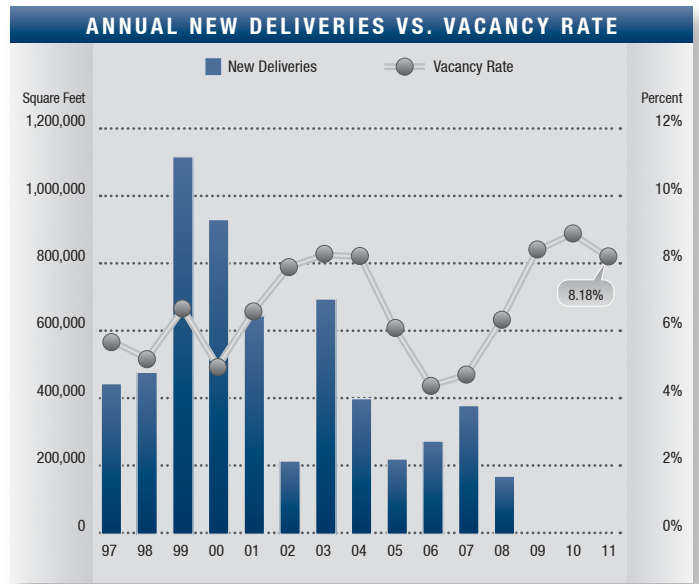
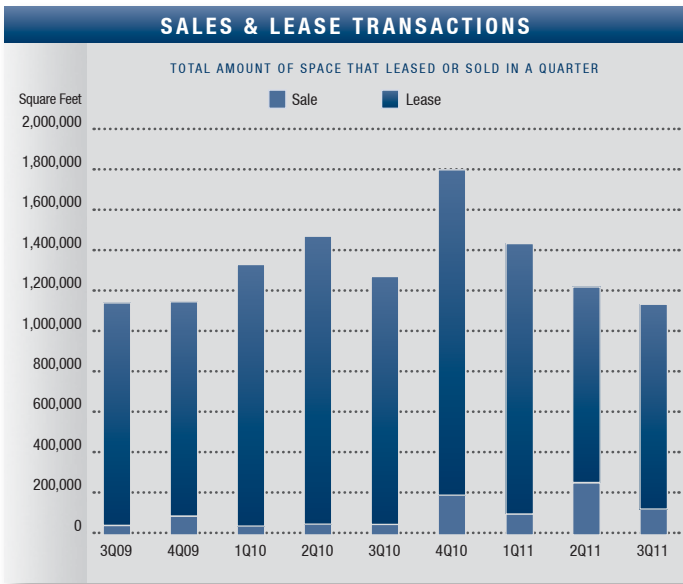
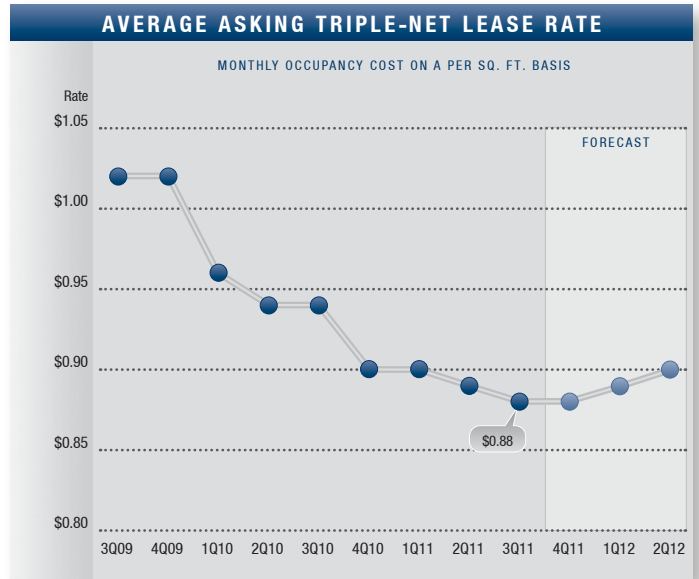
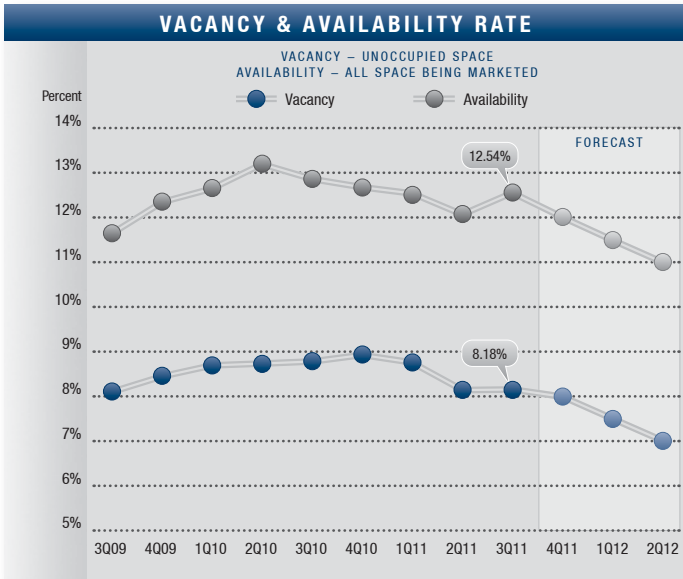
- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization in the third quarter of 2011. Availability and vacancy declined when compared to the previous year, and net absorption posted positive absorption overall for 2011, thus far. Although demand 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 third 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 third quarter at 8.18%, the same as the previous quarter but a 6.73% decrease from 2010's third quarter rate of 8.77%.
- **Availability** - Direct / sublease space being marketed was 12.54% in the third quarter, up from the 12.09% we saw at the end of the second quarter and a decrease of 2.41% 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 R&D market was \$0.88 in the third quarter — one cent lower than the previous quarter's rate and a 6.38% decrease from 2010's third 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 3,075 square feet of negative net absorption in the third quarter of 2011 — giving the R&D market a total of almost 500,000 square feet of positive absorption for the first three quarters of 2011, the most positive absorption seen since 2006.
- **Transaction Activity** - Leasing activity checked in at just over one million square feet in the third quarter of 2011. The Orange County R&D market averaged 1.23 million

square feet of leasing activity per quarter over the past five quarters. Sales activity posted 127,000 square feet in the third quarter, an increase over 2010's figure of 47,000 square feet. The Orange County research and development market averaged 140,000 square feet of sales activity per quarter over the past five quarters.

- **Employment** - The unemployment rate in Orange County was 9.0% in August 2011 — down from a revised 9.3% in July 2011 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 11,700 payroll jobs from August 2010 to August 2011. The largest gains were 5,600 in leisure and hospitality and 5,400 in educational & health services; however, Orange County lost 1,600 trade, transportation, and utilities jobs during that same period.
- **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 only a slightly negative number in the third quarter preceded by two quarters of strong positive absorption. 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

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	8.18%	8.18%	8.77%	(6.73%)
Availability Rate	12.54%	12.09%	12.85%	(2.41%)
Average Asking Lease Rate	\$0.88	\$0.89	\$0.94	(6.38%)
Sale & Lease Transactions	1,138,093	1,203,045	1,269,811	(10.37%)
Gross Absorption	1,074,127	141,578	1,179,346	(8.92%)
Net Absorption	(3,075)	360,804	(34,615)	N/A



	INVENTORY			VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Vacant	Vacancy Rate 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
North County											
Anaheim Hills	99	3,162,179	170,922	5.41%	264,222	8.36%	\$0.69	21,373	78,598	75,275	206,587
Brea	45	1,134,843	56,345	4.97%	110,654	9.75%	\$0.00	8,577	8,889	19,343	58,778
Buena Park	32	1,145,401	39,673	3.46%	73,947	6.46%	\$0.00	8,626	29,531	10,501	53,481
Fullerton	38	1,434,401	109,286	7.62%	124,372	8.67%	\$0.00	(2,788)	(28,433)	18,199	38,144
La Habra	8	160,624	864	0.54%	0	0.00%	\$0.00	5,528	9,608	5,528	9,608
La Palma	6	251,907	47,254	18.76%	51,204	20.33%	\$0.00	8,336	9,297	8,336	29,579
Placentia	21	575,108	36,140	6.28%	81,659	14.20%	\$0.85	(2,140)	(26,000)	2,300	10,620
Yorba Linda	50	1,338,504	57,203	4.27%	135,356	10.11%	\$0.35	17,418	22,119	26,847	66,840
North County Total	299	9,202,967	517,687	5.63%	841,414	9.14%	\$0.52	64,930	103,609	166,329	473,637
West County											
Cypress	41	2,264,097	240,758	10.63%	586,247	25.89%	\$0.81	1,604	(7,820)	13,402	80,630
Huntington Beach	126	2,604,172	222,904	8.56%	302,423	11.61%	\$0.68	(5,635)	(23,326)	18,742	89,605
Los Alamitos	39	881,500	51,130	5.80%	60,166	6.83%	\$0.00	(2,804)	11,339	6,734	37,642
West County Total	206	5,749,769	514,792	8.95%	948,836	16.50%	\$0.80	(6,835)	(19,807)	38,878	207,877
Central County											
Anaheim	81	1,904,844	185,815	9.75%	191,459	10.05%	\$0.59	28,238	(75,217)	58,515	107,512
Garden Grove	87	2,650,760	166,472	6.28%	210,873	7.96%	\$0.55	4,560	131,586	52,049	229,120
Orange	102	2,183,742	125,664	5.75%	200,989	9.20%	\$0.71	31,098	(16,318)	39,738	78,493
Santa Ana	55	1,203,114	163,771	13.61%	158,279	13.16%	\$1.15	(18,507)	(6,306)	33,906	99,243
Westminster	19	478,935	24,974	5.21%	38,237	7.98%	\$0.00	4,326	(6,566)	5,751	17,017
Central County Total	344	8,421,395	666,696	7.92%	799,837	9.50%	\$0.82	49,715	27,179	189,959	531,385
Airport Area											
Costa Mesa	177	4,257,970	413,320	9.71%	531,940	12.49%	\$0.73	11,367	13,944	103,482	349,281
Fountain Valley	49	1,376,375	53,162	3.86%	79,949	5.81%	\$0.79	7,029	23,217	29,452	69,833
Irvine	267	6,900,259	549,741	7.97%	991,115	14.36%	\$0.94	16,082	159,737	154,176	634,339
Newport Beach	23	545,224	55,402	10.16%	55,402	10.16%	\$1.00	24,973	(15,860)	29,958	34,858
Santa Ana	125	3,829,127	210,913	5.51%	267,681	6.99%	\$0.85	(27,302)	8,522	14,810	152,398
Tustin	97	3,387,427	352,662	10.41%	618,215	18.25%	\$0.87	23,446	9,890	64,654	126,384
Airport Area Total	738	20,296,382	1,635,200	8.06%	2,544,302	12.54%	\$0.87	55,595	199,450	396,532	1,367,093
South County											
Aliso Viejo	37	869,507	76,479	8.80%	73,025	8.40%	\$0.93	(8,000)	2,012	13,498	62,915
Foothill Ranch	7	162,906	0	0.00%	17,789	10.92%	\$0.00	0	49,415	0	49,415
Irvine Spectrum	267	10,046,583	1,001,242	9.97%	1,482,844	14.76%	\$0.98	(147,559)	74,873	148,380	758,731
Laguna Hills	58	1,342,690	97,565	7.27%	129,816	9.67%	\$1.18	1,169	17,939	30,586	89,998
Laguna Niguel	23	1,567,321	222,789	14.21%	213,064	13.59%	\$0.80	3,968	(1,222)	5,168	24,896
Lake Forest	60	1,380,173	137,622	9.97%	185,053	13.41%	\$0.63	(11,950)	4,468	14,950	76,912
Mission Viejo	35	937,473	78,355	8.36%	373,792	39.87%	\$1.00	(239)	(170)	14,331	45,260
Rancho Santa Margarita	40	1,451,565	43,450	2.99%	100,234	6.91%	\$0.71	2,883	37,636	14,377	74,691
San Clemente	43	1,027,152	110,195	10.73%	142,827	13.91%	\$0.97	(5,807)	(16,503)	35,284	80,036
San Juan Capistrano	38	741,817	68,851	9.28%	73,238	9.87%	\$0.00	(945)	(6,567)	5,855	23,688
South County Total	608	19,527,187	1,836,548	9.41%	2,791,682	14.30%	\$0.93	(166,480)	161,881	282,429	1,286,542
Orange County Total	2,195	63,197,700	5,170,923	8.18%	7,926,071	12.54%	\$0.88	(3,075)	472,312	1,074,127	3,866,534
North County											
10,000-24,999	177	2,801,579	273,812	9.77%	386,522	13.80%	\$0.75	(1,438)	17,171	73,375	234,807
25,000-49,999	85	2,857,991	184,659	6.46%	321,153	11.24%	\$0.52	37,415	56,855	64,001	186,714
50,000-99,999	27	1,780,785	59,216	3.33%	133,739	7.51%	\$0.00	28,953	29,583	28,953	52,116
100,000 Plus	10	1,762,612	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West County											
10,000-24,999	142	2,169,574	188,055	8.67%	181,840	8.38%	\$0.85	(4,654)	(19,460)	16,304	85,139
25,000-49,999	41	1,424,868	64,060	4.50%	153,650	10.78%	\$0.89	(2,181)	11,473	22,574	59,558
50,000-99,999	19	1,246,951	250,857	20.12%	521,246	41.80%	\$0.78	0	0	0	0
100,000 Plus	4	908,376	11,820	1.30%	92,100	10.14%	\$0.00	0	(11,820)	0	63,180
Central County											
10,000-24,999	246	3,977,058	365,117	9.18%	466,980	11.74%	\$0.97	9,480	(11,038)	78,682	225,163
25,000-49,999	77	2,505,186	260,806	10.41%	237,603	9.48%	\$0.55	27,080	(5,049)	98,122	234,764
50,000-99,999	15	983,901	17,437	1.77%	71,918	7.31%	\$0.66	13,155	43,266	13,155	71,458
100,000 Plus	6	955,250	23,336	2.44%	23,336	2.44%	\$0.00	0	0	0	0
Airport Area											
10,000-24,999	495	7,973,305	793,493	9.95%	973,196	12.21%	\$0.77	(17,852)	2,502	200,310	605,328
25,000-49,999	166	5,578,013	476,759	8.55%	630,966	11.31%	\$0.72	82,977	146,856	160,594	526,098
50,000-99,999	54	3,582,139	154,310	4.31%	329,037	9.19%	\$0.86	9,175	92,996	35,628	210,146
100,000 Plus	23	3,162,925	210,638	6.66%	611,103	19.32%	\$1.02	(18,705)	(42,904)	0	25,521
South County											
10,000-24,999	368	6,093,530	547,908	8.99%	661,999	10.86%	\$0.84	(12,166)	28,149	123,262	449,768
25,000-49,999	169	5,695,401	588,594	10.33%	869,493	15.27%	\$0.85	(123,677)	16,132	132,320	501,036
50,000-99,999	52	3,466,611	484,522	13.98%	692,943	19.99%	\$1.03	(40,333)	107,904	17,151	216,042
100,000 Plus	19	4,271,645	215,524	5.05%	567,247	13.28%	\$0.84	9,696	9,696	9,696	119,696
Orange County											
10,000-24,999	1,428	23,015,046	2,168,385	9.42%	2,670,537	11.60%	\$0.85	(26,630)	17,324	491,933	1,600,205
25,000-49,999	538	18,061,459	1,574,878	8.72%	2,212,865	12.25%	\$0.79	21,614	226,267	477,611	1,508,170
50,000-99,999	167	11,060,387	966,342	8.74%	1,748,883	15.81%	\$0.90	10,950	273,749	94,887	549,762
100,000 Plus	62	11,060,808	461,318	4.17%	1,293,786	11.70%	\$1.01	(9,009)	(45,028)	9,696	208,397
Orange County Total	2,195	63,197,700	5,170,923	8.18%	7,926,071	12.54%	\$0.88	(3,075)	472,312	1,074,127	3,866,534

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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