



R&D Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions



DOWN

Deliveries



FLAT

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Market Highlights

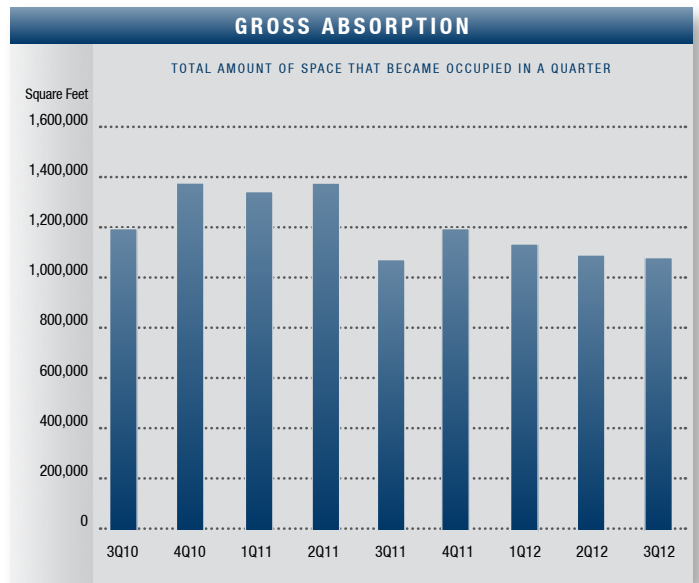
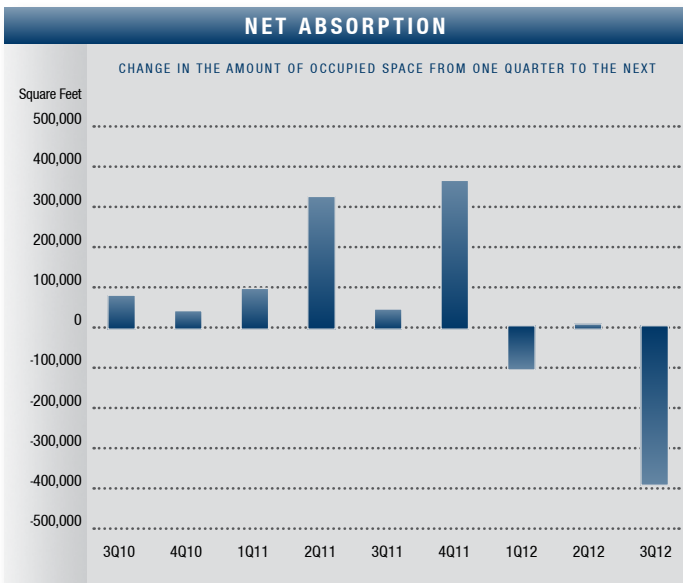
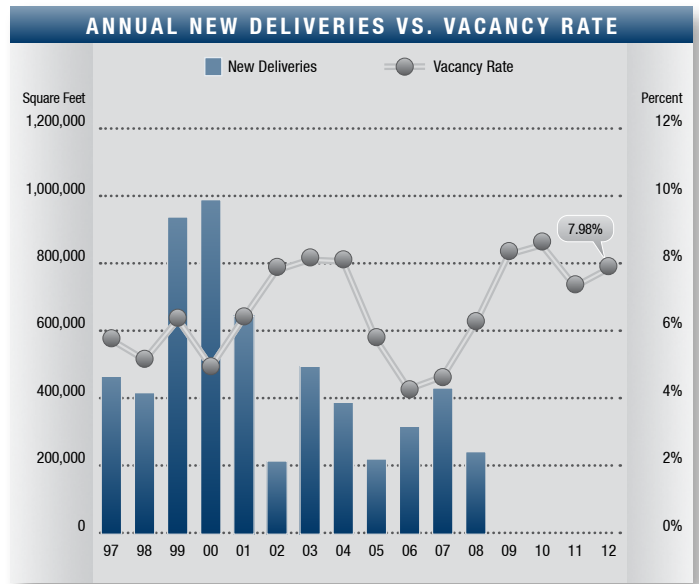
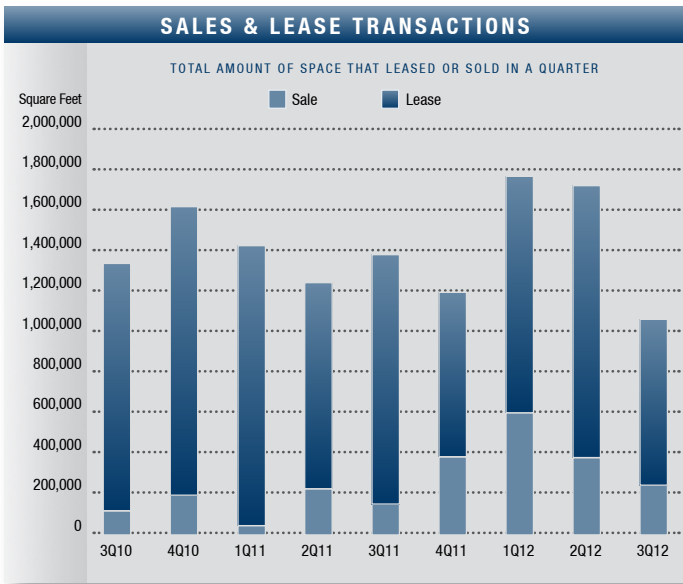
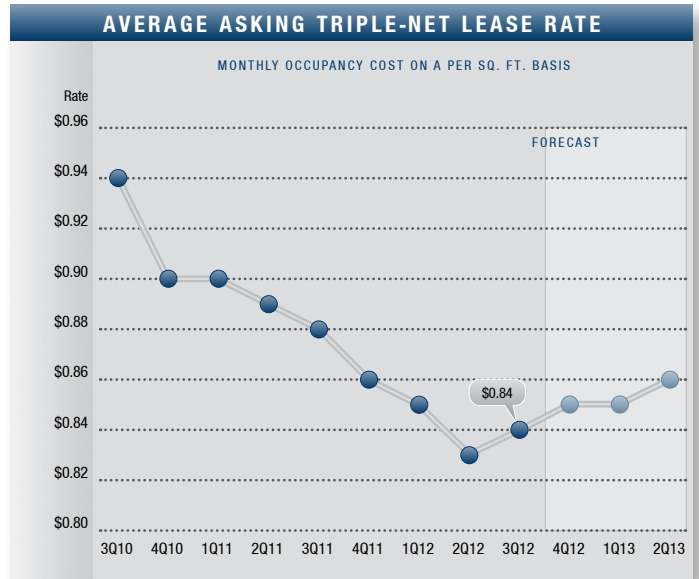
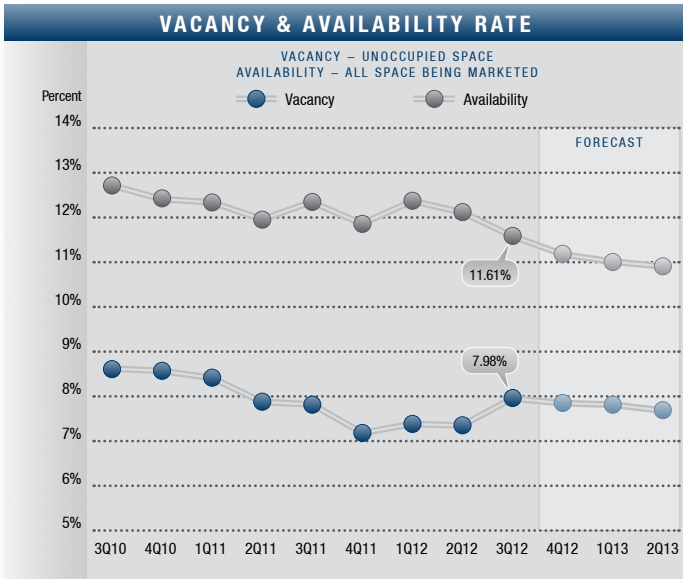
- **Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization this quarter. Although, the market posted negative net absorption for the third quarter of 2012, availability displayed a decrease from the previous year and asking lease rates increased from the previous quarter. While some of 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 third 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 7.98%, an increase from the prior quarter's 7.34% rate and from 2011's third quarter rate of 7.78%. We are forecasting that vacancy will trend downward going into 2013.
- **Availability** - Direct / sublease space being marketed was 11.60% in the third quarter, down from the 12.14% we saw at the end of last quarter and a decrease of 6.0% 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 \$0.84 in the third quarter — one cent higher than the previous quarter's rate and four cents lower than 2011's third quarter rate — marking the first increase in asking lease rates in the Orange County R&D market in years. 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 continue to increase going into 2013.
- **Absorption** - The Orange County R&D market posted almost 400,000 square feet of negative net absorption in the third quarter of 2012 — giving the R&D market a total of just over 342,000 square feet of positive absorption over the last seven quarters.
- **Transaction Activity** - Leasing activity checked in at just over 800,000 square feet in the third quarter of 2012.

The Orange County R&D market averaged just over one million square feet of leasing activity per quarter over the last six quarters. Sales activity posted 236,000 square feet in the third quarter of 2012, an increase over 2011's third quarter figure of 140,000 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 7.7% in August 2012 — down from a revised 7.9% in July 2012 and below the previous year's estimate of 9.0%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 29,000 payroll jobs from August 2011 to August 2012. The largest gains were 10,600 in professional & business services and 9,100 in leisure & hospitality; however, Orange County lost 1,900 government 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 third quarter of 2012, net absorption is displaying signs of improvement, having posted over 342,000 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 going into 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

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	7.98%	7.34%	7.78%	2.57%
Availability Rate	11.60%	12.14%	12.34%	(6.00%)
Average Asking Lease Rate	\$0.84	\$0.83	\$0.88	(4.55%)
Sale & Lease Transactions	1,050,925	1,716,354	1,376,194	(23.64%)
Gross Absorption	1,072,372	1,083,695	1,062,282	0.95%
Net Absorption	(394,276)	9,575	44,124	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
North County													
Anaheim Hills	100	3,066,859	0	0	132,743	4.33%	155,228	5.06%	\$0.00	37,398	41,756	80,951	153,508
Brea	43	1,092,795	0	0	43,332	3.97%	60,059	5.50%	\$0.75	(8,863)	(8,721)	28,431	87,918
Buena Park	32	1,091,807	0	0	48,912	4.48%	59,402	5.44%	\$0.00	(8,857)	(12,286)	2,223	17,455
Fullerton	44	1,594,224	0	0	51,974	3.26%	78,784	4.94%	\$0.00	12,205	42,756	18,499	80,033
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%	\$0.00	0	0	0	0
Placentia	24	612,708	0	0	41,622	6.79%	41,471	6.77%	\$0.80	(134)	(5,482)	7,050	30,241
Yorba Linda	51	1,331,745	0	0	86,734	6.51%	180,060	13.52%	\$0.35	(4,546)	3,334	42,232	85,957
North County Total	302	9,025,762	0	0	409,825	4.54%	579,512	6.42%	\$0.71	27,203	61,357	179,386	455,112
West County													
Cypress	44	2,486,312	0	0	445,763	17.93%	558,981	22.48%	\$0.87	(177,948)	(177,570)	0	107,141
Huntington Beach	126	2,693,416	0	0	280,459	10.41%	288,627	10.72%	\$0.68	(9,392)	(13,246)	35,179	142,973
Los Alamitos	39	858,341	0	0	93,742	10.92%	98,510	11.48%	\$0.00	3,162	(39,083)	16,801	39,489
West County Total	209	6,038,069	0	0	819,964	13.58%	946,118	15.67%	\$0.83	(184,178)	(229,899)	51,980	289,603
Central County													
Anaheim	77	1,979,366	0	0	125,589	6.34%	264,458	13.36%	\$0.55	(16,036)	37,547	33,701	129,596
Garden Grove	87	2,564,436	0	0	150,433	5.87%	383,344	14.95%	\$0.52	(4,824)	12,830	16,457	85,666
Orange	101	2,235,460	0	0	190,065	8.50%	113,585	5.08%	\$1.22	(53,959)	(76,560)	41,649	143,287
Santa Ana	56	1,247,191	0	0	119,397	9.57%	129,813	10.41%	\$1.15	(18,856)	41,560	13,026	94,024
Westminster	19	478,935	0	0	18,558	3.87%	36,046	7.53%	\$0.00	13,574	5,536	16,760	34,459
Central County Total	340	8,505,388	0	0	604,042	7.10%	927,246	10.90%	\$0.62	(80,101)	20,913	121,593	487,032
Airport Area													
Costa Mesa	173	4,232,323	0	0	258,547	6.11%	431,176	10.19%	\$0.75	34,456	85,175	102,907	292,308
Fountain Valley	50	1,464,574	0	0	43,310	2.96%	55,262	3.77%	\$0.74	(3,236)	595	37,129	67,580
Irvine	263	6,756,082	0	0	809,318	11.98%	1,054,664	15.61%	\$0.77	(165,663)	(229,742)	138,817	445,985
Newport Beach	20	488,366	0	0	30,631	6.27%	35,631	7.30%	\$0.00	524	18,926	3,399	26,933
Santa Ana	127	3,550,371	0	0	303,968	8.56%	359,140	10.12%	\$0.00	20,451	(95,517)	43,300	109,292
Tustin	94	3,233,032	0	0	162,511	5.03%	327,301	10.12%	\$1.01	21,652	49,008	44,974	146,697
Airport Area Total	727	19,724,748	0	0	1,608,285	8.15%	2,263,174	11.47%	\$0.84	(91,816)	(171,555)	370,526	1,088,795
South County													
Aliso Viejo	36	817,029	0	0	37,373	4.57%	86,281	10.56%	\$0.75	1,127	1,516	3,345	36,503
Foothill Ranch	7	162,906	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	265	9,751,356	0	18,124	800,525	8.21%	1,311,583	13.45%	\$0.95	50,414	(87,797)	252,709	521,709
Laguna Hills	57	1,337,381	0	0	71,579	5.35%	85,713	6.41%	\$0.85	7,533	16,631	21,932	73,317
Laguna Niguel	22	512,845	0	0	20,906	4.08%	28,906	5.64%	\$0.00	(3,420)	12,966	2,500	25,794
Lake Forest	56	1,186,475	0	0	165,651	13.96%	140,606	11.85%	\$0.75	(41,586)	(34,583)	29,013	114,778
Mission Viejo	33	863,492	0	0	33,251	3.85%	359,980	41.69%	\$1.10	192	5,790	13,016	37,096
Rancho Santa Margarita	40	1,458,920	0	0	111,007	7.61%	152,641	10.46%	\$0.78	(909)	(78,321)	6,346	17,390
San Clemente	51	1,255,669	0	0	154,957	12.34%	191,828	15.28%	\$1.01	(81,403)	(895)	14,438	120,672
San Juan Capistrano	37	786,413	0	239,012	65,336	8.31%	51,448	6.54%	\$0.00	2,668	(2,496)	5,588	24,930
South County Total	604	18,132,486	0	257,136	1,460,585	8.06%	2,408,986	13.29%	\$0.92	(65,384)	(167,189)	348,887	972,189
Orange County Total	2,182	61,426,453	0	257,136	4,902,701	7.98%	7,125,036	11.60%	\$0.84	(394,276)	(486,373)	1,072,372	3,292,731
North County													
10,000-24,999	183	2,909,012	0	0	221,930	7.63%	275,635	9.48%	\$0.75	40,246	88,468	105,431	280,746
25,000-49,999	84	2,827,223	0	0	168,386	5.96%	238,055	8.42%	\$0.71	(32,627)	(19,564)	44,904	145,315
50,000-99,999	26	1,694,427	0	0	19,509	1.15%	65,822	3.88%	\$0.00	19,584	(7,547)	29,051	29,051
100,000 Plus	9	1,595,100	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West County													
10,000-24,999	141	2,140,526	0	0	209,029	9.77%	219,197	10.24%	\$0.89	401	(37,574)	28,815	136,460
25,000-49,999	42	1,474,465	0	0	129,344	8.77%	132,112	8.96%	\$0.92	(17,749)	(55,785)	16,005	38,842
50,000-99,999	22	1,514,702	0	0	307,601	20.31%	420,819	27.78%	\$0.82	7,160	25,630	7,160	102,481
100,000 Plus	4	908,376	0	0	173,990	19.15%	173,990	19.15%	\$0.00	(173,990)	(162,170)	0	11,820
Central County													
10,000-24,999	244	3,945,282	0	0	341,841	8.66%	425,570	10.79%	\$1.02	(1,985)	22,182	86,329	290,357
25,000-49,999	73	2,359,942	0	0	180,084	7.63%	194,405	8.24%	\$0.56	(28,215)	40,675	25,784	175,032
50,000-99,999	16	1,062,401	0	0	59,381	5.59%	180,935	17.03%	\$0.51	(49,901)	(41,944)	9,480	21,643
100,000 Plus	7	1,137,763	0	0	23,336	2.05%	126,336	11.10%	\$1.10	0	0	0	0
Airport Area													
10,000-24,999	485	7,830,087	0	0	619,837	7.92%	824,057	10.52%	\$0.78	20,977	124,335	135,864	573,120
25,000-49,999	168	5,662,848	0	0	419,805	7.41%	522,507	9.23%	\$0.69	79,734	88,910	212,153	437,321
50,000-99,999	56	3,700,603	0	0	157,207	4.25%	481,898	13.02%	\$0.99	(5,786)	(16,304)	22,509	78,354
100,000 Plus	18	2,531,210	0	0	411,436	16.25%	433,956	17.14%	\$0.00	(186,741)	(368,496)	0	0
South County													
10,000-24,999	367	6,123,858	0	169,096	481,593	7.86%	650,710	10.63%	\$0.86	(16,225)	(26,728)	124,114	367,793
25,000-49,999	171	5,753,953	0	0	407,846	7.09%	606,117	10.53%	\$0.81	34,143	76,831	118,572	433,817
50,000-99,999	51	3,439,228	0	88,040	570,546	16.59%	849,375	24.70%	\$1.00	(83,302)	(220,060)	106,201	155,381
100,000 Plus	15	2,815,447	0	0	0	0.00%	303,540	10.78%	\$0.00	0	2,768	0	15,198
Orange County													
10,000-24,999	1,420	22,948,765	0	169,096	1,874,230	8.17%	2,395,169	10.44%	\$0.85	43,414	170,683	480,553	1,648,476
25,000-49,999	538	18,078,431	0	0	1,305,465	7.22%	1,693,196	9.37%	\$0.75	35,286	131,067	417,418	1,230,327
50,000-99,999	171	11,411,361	0	88,040	1,114,244	9.76%	1,998,849	17.52%	\$0.87	(112,245)	(260,225)	174,401	386,910
100,000 Plus	53	8,987,896	0	0	608,762	6.77%	1,037,822	11.55%	\$0.00	(360,731)	(527,898)	0	27,018
Orange County Total	2,182	61,426,453	0	257,136	4,902,701	7.98%	7,125,036	11.60%	\$0.84	(394,276)	(486,373)	1,072,372	3,292,731

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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