



# R&D Market Report

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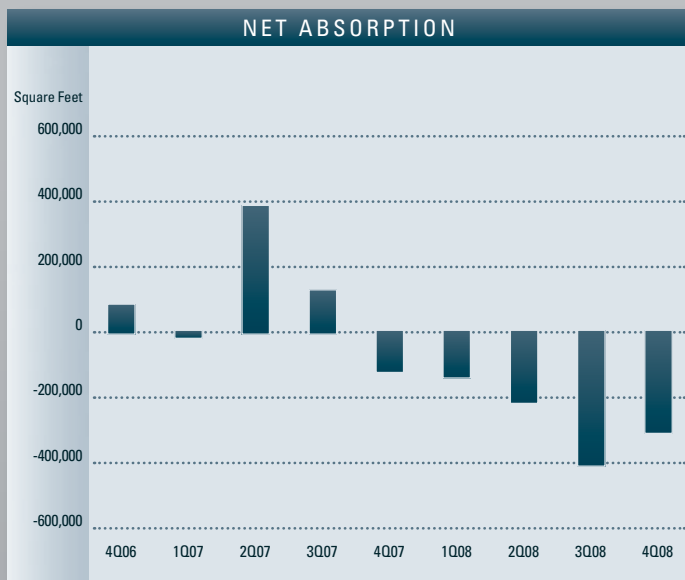
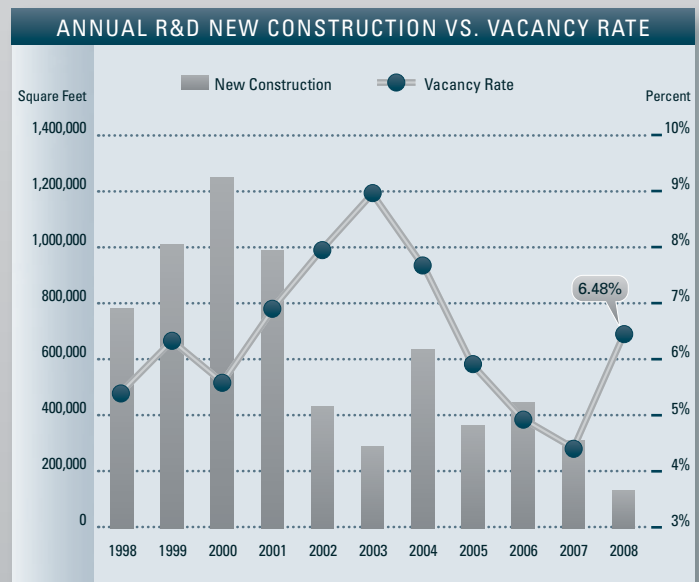
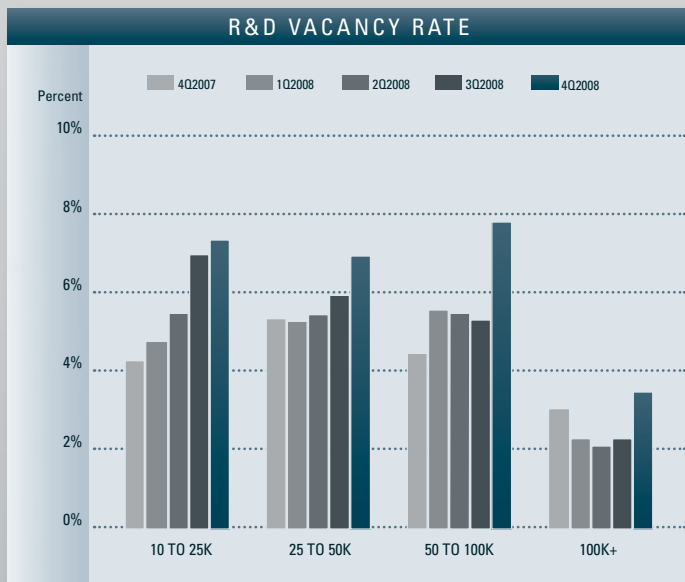
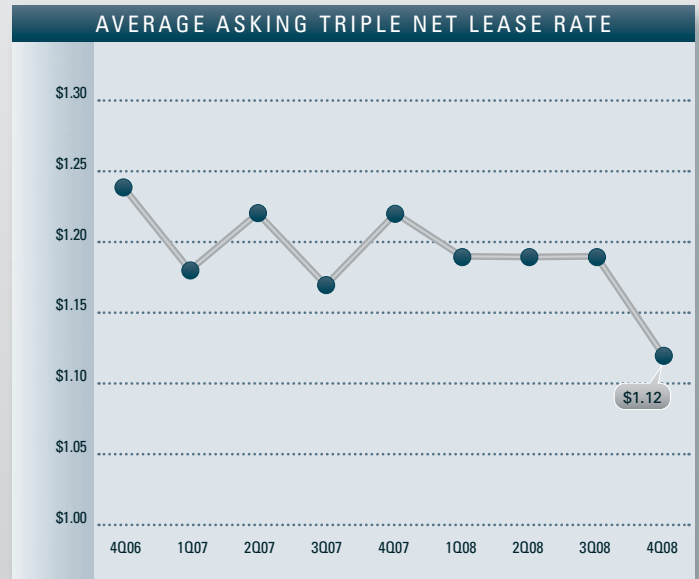
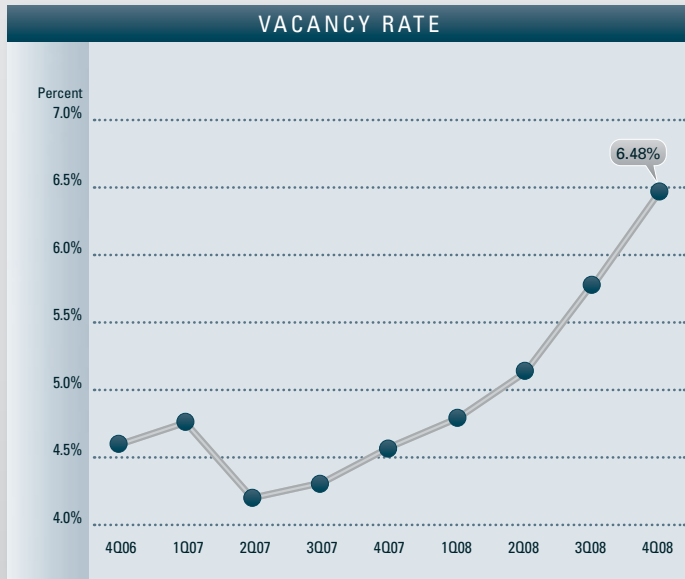
## Market Highlights

- ◆ The Orange County Research and Development market is facing challenges due to the national recession and 2008's tumultuous financial events. The three primary concerns are as follows: expensive and scarce financing, economic uncertainty and volatility, and an increasing gap between "ask" and "bid" pricing between buyers and sellers. However, the region's strong local economy and high quality of life continue to make it a desirable location for business. The growing influence of new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to rejuvenate the R&D market. These industries will increase employment opportunities and help to ease vacancy rate concerns in the coming quarters.
- ◆ The R&D vacancy rate checked in at 6.48%, which is higher than it was a year ago when it was 4.57%. This increase is a result of the slowing economy, as financial markets correct.
- ◆ The total amount of R&D space available in Orange County, which includes both direct and sublease space, is higher than it was a year ago, 9.96% this quarter as compared to 6.57% this quarter last year.
- ◆ The average asking Triple Net lease rate per month per foot in Orange County is currently \$1.12, which is twelve cents lower than it was this time last year.
- ◆ Net absorption for the R&D market this quarter posted at negative 306,529 square feet, giving the R&D Market in Orange County a total of approximately 1.1 million square feet of negative absorption for 2008.
- ◆ The level of activity registered at just above 930,000 square feet for the fourth quarter of 2008. This is up from 880,000 square feet when compared to the same quarter last year. The recent lack of activity can be tied to the credit crunch as well, which means we could see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome, though, hinges on how bad the recession gets and how quickly credit eases up.
- ◆ There is currently 37,240 square feet of space under construction this quarter. The shrinking availability of land is only allowing for the development of primarily small, for-sale buildings. This lack of available land, coupled with the high land prices and rising construction costs, has led to few centers being developed in this infill market.
- ◆ According to the State of California Employment Development Department, Orange County lost 38,400 payroll jobs over the last twelve months - 18,000 in financial, professional & business services. Between October 2008 and November 2008 Orange County lost 2,100 jobs, mostly in the leisure and hospitality sectors.
- ◆ The unemployment rate in Orange County was 6.1% in November 2008, unchanged from a revised 6.1% percent in October 2008, but above the year ago estimate of 4.2%. This compares with an unadjusted unemployment rate of 8.3 percent for California and 6.5 percent for the nation during the same period.
- ◆ Asking lease rates are expected to remain at current levels for the short run, and concessions should continue to increase in the forms of free rent and increasing tenant improvement allowances to incentivize tenants to act now.
- ◆ As we head into 2009, the R&D market will exhibit many similar characteristics of 2008. Limited opportunities for new development will open with land and sales prices remaining high. Multi-tenant, manufacturing and distribution buildings will not undergo development, as no large land parcels will become available. R&D buildings both for sale and lease will remain viable options for those looking to enter the Orange County R&D market.

## R & D MARKET OVERVIEW

	2008	2007	2006	% CHANGE VS. 2007
Inventory Added	308,814	308,814	443,928	0.00%
Under Construction	37,240	0	140,414	N/A
Vacancy Rate	6.48%	4.57%	4.61%	41.79%
Availability Rate	9.96%	6.57%	5.87%	51.60%
Average Asking Lease Rate	\$1.12	\$1.22	\$1.24	-8.20%
Net Absorption	(1,077,380)	376,343	1,080,640	N/A
Gross Absorption	3,563,748	4,632,129	5,357,336	-23.06%

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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 4Q2008	Square Feet Available	Availability Rate 4Q2008	Average Asking Lease Rate	Net Absorption 4Q2008	Net Absorption 2008	Gross Absorption 4Q2008	Gross Absorption 2008
<b>North County</b>													
Anaheim	83	2,734,388	0	0	130,991	4.79%	234,524	8.58%	\$0.70	(32,802)	(97,536)	8,687	65,298
Brea	45	1,801,366	0	0	106,828	5.93%	123,975	6.88%	\$0.00	4,228	71,458	9,680	135,473
Buena Park	25	920,003	0	0	25,419	2.76%	32,917	3.58%	\$0.00	7,576	43,777	10,065	66,195
Fullerton	38	1,010,941	0	0	64,283	6.36%	62,208	6.15%	\$0.00	1,317	(38,900)	17,130	68,571
La Habra	5	83,589	0	0	5,860	7.01%	5,860	7.01%	\$0.00	(3,724)	(3,592)	0	1,728
La Palma	7	269,054	0	0	16,447	6.11%	36,518	13.57%	\$1.55	(16,447)	19,968	0	51,319
Placentia	16	459,904	0	0	18,927	4.12%	31,059	6.75%	\$1.20	(5,152)	(12,564)	0	4,903
Yorba Linda	51	1,342,767	0	0	191,311	14.25%	251,152	18.70%	\$0.85	(1,048)	(35,582)	24,921	115,859
<b>North County Total</b>	<b>270</b>	<b>8,622,012</b>	<b>0</b>	<b>0</b>	<b>560,066</b>	<b>6.50%</b>	<b>778,213</b>	<b>9.03%</b>	<b>\$1.04</b>	<b>(46,052)</b>	<b>(52,971)</b>	<b>70,483</b>	<b>509,346</b>
<b>West County</b>													
Cypress	42	2,256,759	0	0	70,383	3.12%	274,504	12.16%	\$1.03	24,962	(25,948)	67,962	120,001
Huntington Beach	128	2,344,093	0	0	96,293	4.11%	156,936	6.69%	\$0.90	(13,898)	(61,642)	42,179	106,581
Seal Beach	36	814,702	0	0	16,360	2.01%	21,369	2.62%	\$0.00	992	20,358	4,040	68,241
<b>West County Total</b>	<b>206</b>	<b>5,415,554</b>	<b>0</b>	<b>0</b>	<b>183,036</b>	<b>3.38%</b>	<b>452,809</b>	<b>8.36%</b>	<b>\$1.01</b>	<b>12,056</b>	<b>(67,232)</b>	<b>114,181</b>	<b>294,823</b>
<b>Central County</b>													
Anaheim	72	1,692,047	0	0	84,192	4.98%	122,074	7.21%	\$0.95	8,315	(17,896)	25,919	138,517
Garden Grove	83	2,389,515	0	0	180,044	7.53%	275,295	11.52%	\$1.10	(27,139)	(3,281)	36,019	178,967
Orange	103	2,173,616	0	0	123,153	5.67%	149,894	6.90%	\$0.97	(9,209)	(87,712)	16,729	63,728
Santa Ana	60	1,559,194	0	0	70,597	4.53%	99,892	6.41%	\$1.00	21,572	(29,146)	32,699	50,719
Tustin	21	584,564	0	0	4,766	0.82%	8,586	1.47%	\$0.00	8,541	(2,260)	21,301	38,187
<b>Central County Total</b>	<b>339</b>	<b>8,398,936</b>	<b>0</b>	<b>0</b>	<b>462,752</b>	<b>5.51%</b>	<b>655,741</b>	<b>7.81%</b>	<b>\$1.05</b>	<b>2,080</b>	<b>(140,295)</b>	<b>132,667</b>	<b>470,118</b>
<b>Airport Area</b>													
Costa Mesa	178	4,160,290	0	0	295,298	7.10%	373,157	8.97%	\$0.92	(54,375)	(188,240)	61,668	237,766
Fountain Valley	50	1,379,943	0	49,186	31,010	2.25%	47,541	3.45%	\$0.00	(8,979)	(19,048)	10,830	61,498
Irvine	286	7,682,193	0	0	513,198	6.68%	878,390	11.43%	\$1.26	(17,964)	(240,929)	92,155	371,208
Newport Beach	30	909,696	0	0	101,273	11.13%	138,979	15.28%	\$0.00	4,632	(49,878)	9,665	36,571
Santa Ana	129	3,818,094	0	0	275,416	7.21%	311,278	8.15%	\$0.49	(45,222)	(14,298)	39,210	251,988
Tustin	92	3,163,348	0	0	204,981	6.48%	478,303	15.12%	\$1.17	(27,992)	(68,454)	63,315	178,673
<b>Airport Area Total</b>	<b>765</b>	<b>21,113,564</b>	<b>0</b>	<b>49,186</b>	<b>1,421,176</b>	<b>6.73%</b>	<b>2,227,648</b>	<b>10.55%</b>	<b>\$1.10</b>	<b>(149,900)</b>	<b>(580,847)</b>	<b>276,843</b>	<b>1,137,704</b>
<b>South County</b>													
Aliso Viejo	41	989,795	0	0	68,589	6.93%	67,164	6.79%	\$1.36	(2,340)	(53,899)	37,271	83,156
Foothill Ranch	5	103,441	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Irvine Spectrum	278	10,582,110	37,240	0	998,512	9.44%	1,455,106	13.75%	\$1.17	(157,382)	(101,116)	144,718	642,806
Laguna Hills	61	1,349,252	0	0	74,737	5.54%	96,020	7.12%	\$1.12	9,319	(36,673)	22,537	85,104
Laguna Niguel	16	511,621	0	0	35,189	6.88%	35,189	6.88%	\$0.00	(5,262)	(13,194)	12,761	31,762
Lake Forest	63	1,471,207	0	0	92,584	6.29%	86,122	5.85%	\$1.08	(6,723)	(22,074)	29,699	95,253
Mission Viejo	35	968,290	0	0	52,647	5.44%	187,814	19.40%	\$1.50	(9,122)	(23,987)	7,354	28,155
Rancho Santa Margarita	45	1,651,070	0	0	38,678	2.34%	56,093	3.40%	\$1.15	(8,673)	(31,966)	2,680	16,758
San Clemente	46	1,059,232	0	0	51,597	4.87%	125,995	11.89%	\$1.24	61,181	57,345	76,281	147,746
San Juan Capistrano	42	611,020	0	239,012	31,678	5.18%	38,285	6.27%	\$0.00	(5,711)	(10,471)	3,175	21,017
<b>South County Total</b>	<b>632</b>	<b>19,297,038</b>	<b>37,240</b>	<b>239,012</b>	<b>1,444,211</b>	<b>7.48%</b>	<b>2,147,788</b>	<b>11.13%</b>	<b>\$1.20</b>	<b>(124,713)</b>	<b>(236,035)</b>	<b>336,476</b>	<b>1,151,757</b>
<b>Orange County Total</b>	<b>2,212</b>	<b>62,847,104</b>	<b>37,240</b>	<b>288,198</b>	<b>4,071,241</b>	<b>6.48%</b>	<b>6,262,199</b>	<b>9.96%</b>	<b>\$1.12</b>	<b>(306,529)</b>	<b>(1,077,380)</b>	<b>930,650</b>	<b>3,563,748</b>
<b>North County</b>													
10,000 to 24,999	162	2,566,090	0	0	178,707	6.96%	273,465	10.66%	\$1.21	(31,326)	(87,856)	39,027	199,897
25,000 to 49,999	74	2,503,641	0	0	212,041	8.47%	274,129	10.95%	\$0.73	(16,566)	(4,533)	21,391	198,407
50,000 to 99,999	23	1,546,822	0	0	124,497	8.05%	124,497	8.05%	\$0.00	1,840	66,198	10,065	108,489
100,000+	11	2,005,459	0	0	44,821	2.23%	106,122	5.29%	\$0.00	0	(26,780)	0	2,553
<b>West County</b>													
10,000 to 24,999	146	2,233,072	0	0	88,971	3.98%	113,404	5.08%	\$0.99	(4,390)	(43,839)	32,904	95,194
25,000 to 49,999	41	1,430,203	0	0	24,700	1.73%	73,430	5.13%	\$0.00	9,343	28,095	67,825	159,100
50,000 to 99,999	16	993,903	0	0	69,365	6.98%	185,695	18.68%	\$1.02	7,103	(51,488)	13,452	40,529
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	243	3,858,140	0	0	238,256	6.18%	341,168	8.84%	\$1.02	9,822	(123,949)	91,441	257,529
25,000 to 49,999	73	2,393,585	0	0	170,451	7.12%	218,414	9.12%	\$1.27	(9,904)	(59,615)	29,646	123,954
50,000 to 99,999	16	1,110,777	0	0	34,050	3.07%	74,474	6.70%	\$0.00	(977)	50,826	6,937	76,292
100,000+	7	1,036,434	0	0	19,995	1.93%	21,685	2.09%	\$0.00	3,139	(7,557)	4,643	12,343
<b>Airport Area</b>													
10,000 to 24,999	518	8,274,930	0	12,100	694,514	8.39%	879,832	10.63%	\$1.06	(15,656)	(388,869)	184,155	459,540
25,000 to 49,999	168	5,626,629	0	37,086	421,277	7.49%	585,200	10.40%	\$1.06	(70,373)	(160,570)	62,297	378,047
50,000 to 99,999	56	3,810,835	0	0	286,644	7.52%	414,690	10.88%	\$1.21	(63,871)	(119,395)	30,391	202,915
100,000+	23	3,401,170	0	0	18,741	0.55%	347,926	10.23%	\$1.15	0	87,987	0	97,202
<b>South County</b>													
10,000 to 24,999	387	6,400,400	37,240	150,972	510,773	7.98%	663,040	10.36%	\$1.23	(25,029)	(87,548)	123,916	477,780
25,000 to 49,999	170	5,718,594	0	88,040	306,310	5.36%	549,613	9.61%	\$1.21	72,729	25,445	136,782	439,279
50,000 to 99,999	53	3,545,030	0	0	349,830	9.45%	424,439	11.97%	\$1.13	(49,070)	(81,152)	70,453	173,497
100,000+	22	3,633,014	0	0	292,298	8.05%	510,696	14.06%	\$1.42	(123,343)	(92,780)	5,325	61,201
<b>Orange County Total</b>													
10,000 to 24,999	1,456	23,332,632	37,240	163,072	1,711,221	7.33%	2,270,909	9.73%	\$1.16	(66,579)	(732,061)	471,443	1,489,940
25,000 to 49,999	526	17,672,652	0	125,126	1,134,779	6.42%	1,700,786	9.62%	\$1.08	(14,771)	(171,178)	317,941	1,298,787
50,000 to 99,999	164	11,007,367	0	0	849,386	7.72%	1,223,795	11.12%	\$1.11	(104,975)	(135,011)	131,298	601,722
100,000+	66	10,834,453	0	0	375,855	3.47%	1,066,709	9.85%	\$1.16	(120,204)	(39,130)	9,968	173,299
<b>Orange County Total</b>	<b>2,212</b>	<b>62,847,104</b>	<b>37,240</b>	<b>288,198</b>	<b>4,071,241</b>	<b>6.48%</b>	<b>6,262,199</b>	<b>9.96%</b>	<b>\$1.12</b>	<b>(306,529)</b>	<b>(1,077,380)</b>	<b>930,650</b>	<b>3,563,748</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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**FAX: 619.498.4567**

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**FAX: 949.261.9092**

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**FAX: 702.733.7690**

**SAN DIEGO OFFICE**

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San Diego, CA 92122-1233

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**FAX: 858.453.1981**

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