



Voit
Real Estate Services

R&D Market Report

Compared to last quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Market Highlights

- ◆ **Market Challenges** - Let's just say it's nice to have 2009 behind us as the Research & Development market continues to struggle going into 2010. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing (except SBA owner user), 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 three quarters as sellers lowered their expectations. 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 many tenants to request rent relief from landlords and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Absorption** - Net absorption for the county posted a negative 155,638 square feet for the fourth quarter of 2009, giving the R&D market a total of almost 1.5 million 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 915,000 square feet. The average amount of leasing per quarter over the past nine quarters was 875,000 square feet. Sales activity posted 112,000 square feet this quarter. The average amount of sales per quarter over the past nine quarters was 255,000 square feet.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.4% in November 2009, down from a revised 9.7% in October 2009 and above the year ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 12.2% for California and 9.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 53,000 payroll jobs over the last twelve months; the largest losses were 12,600 in retail trade, transportation & utilities and 11,700 in construction.
- ◆ **Overall** - We are starting to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity during the last half of 2009. In 2010, negative absorption will continue to slow, and with no new deliveries in the pipeline to put more upward pressure on vacancies, the market should stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. As 2009 came to a close, there was an increase in price-induced transactions, which will carry over into 2010. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in leasing activity as many short term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the R&D market will turn positive.
- ◆ **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 8.79%, constituting an increase over last year's rate of 6.48%. This 8.79% rate is less than the 9.82% vacancy rate in the second quarter of 2004.
- ◆ **Availability** - Direct/sublease space being marketed was 12.74% this quarter, up from the 9.65% we saw this same quarter last year. This is an increase of 32.02% 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 8.93% decrease over last year's rate of \$1.12 and the same as last quarter's rate. The record high rate of \$1.22 was established in the second quarter of 2007.

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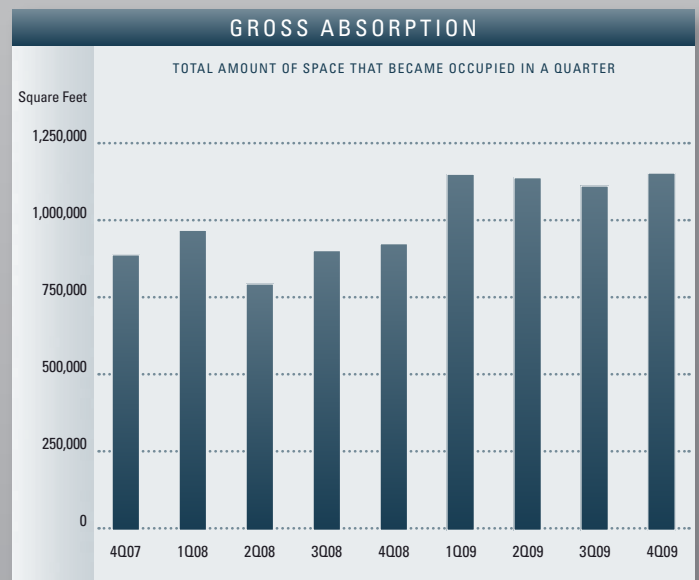
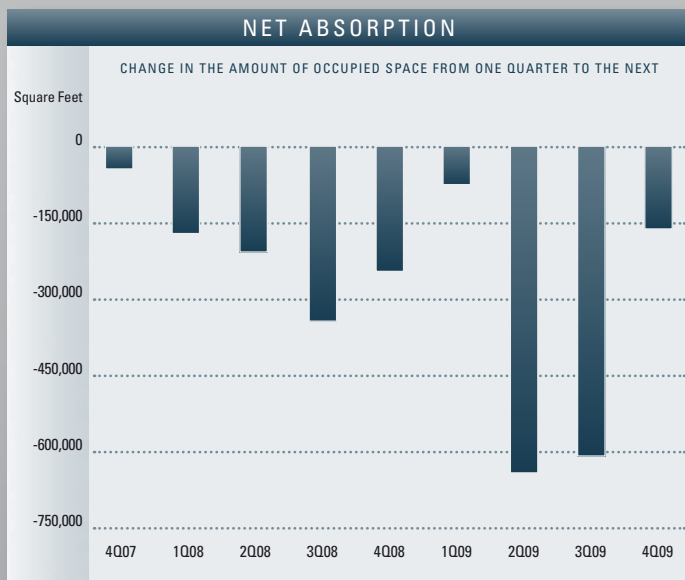
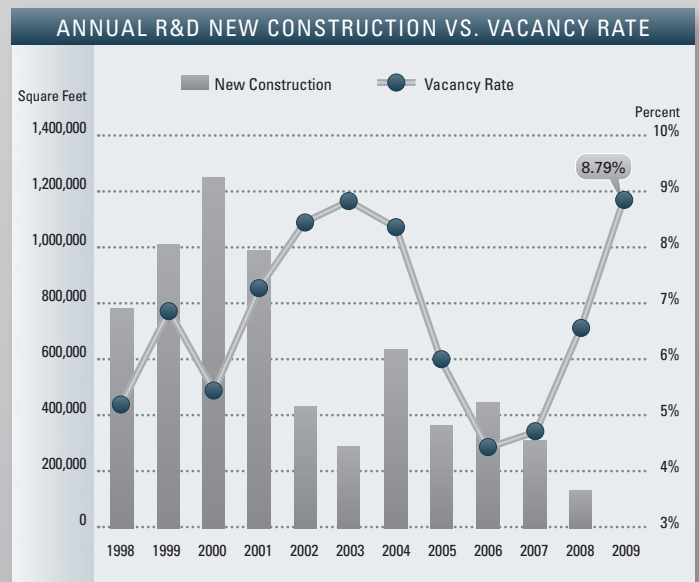
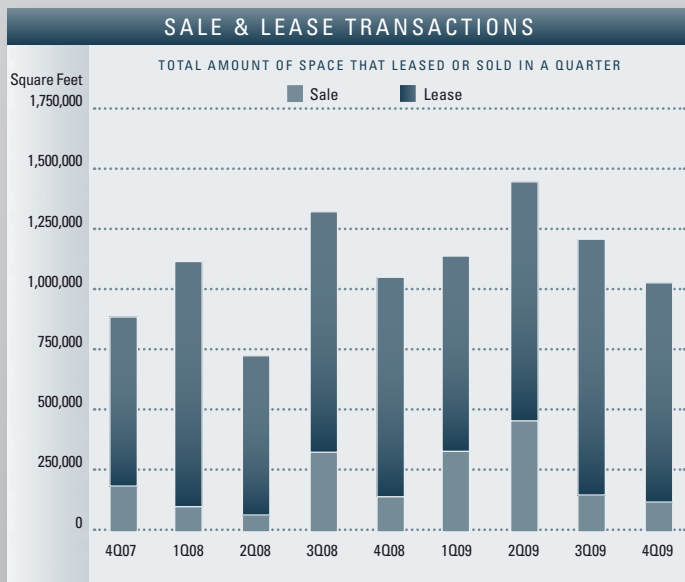
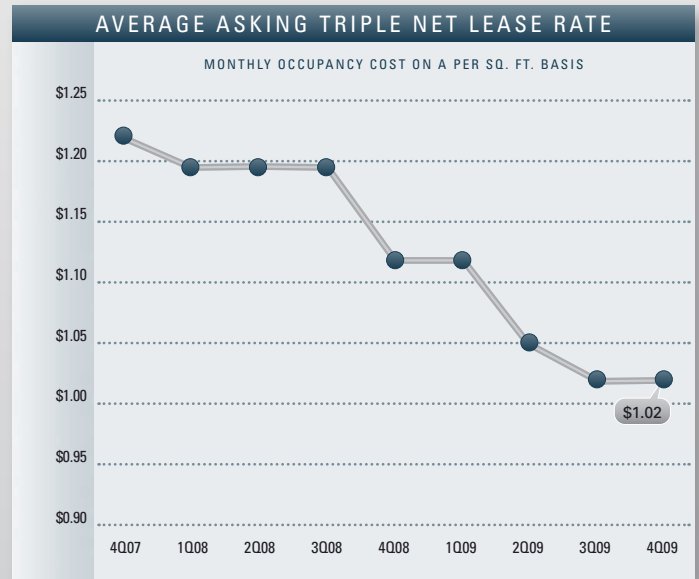
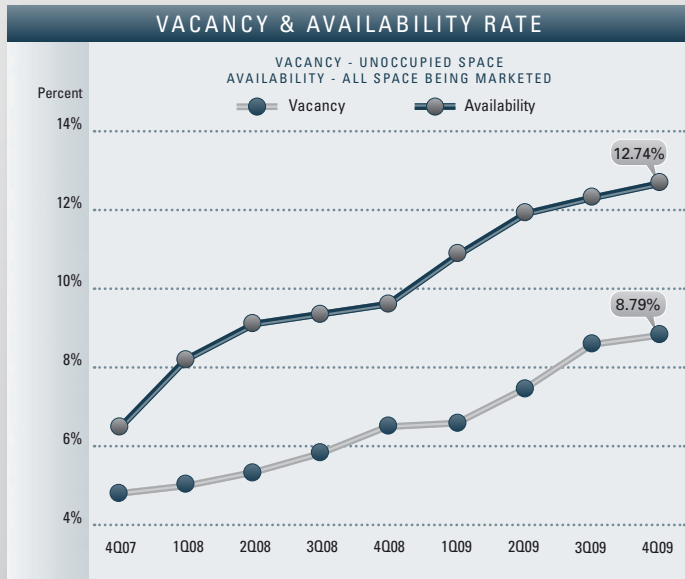
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R & D MARKET OVERVIEW

	2009	2008	2007	% CHANGE VS. 2008
Inventory Added	0	167,994	391,610	-100.00%
Under Construction	0	0	167,994	0.00%
Vacancy Rate	8.79%	6.48%	4.73%	35.65%
Availability Rate	12.74%	9.65%	6.48%	32.02%
Average Asking Lease Rate	\$1.02	\$1.12	\$1.22	-8.93%
Net Absorption	(1,473,236)	(952,249)	225,809	N/A
Gross Absorption	4,570,083	3,572,338	4,273,246	27.93%

Real People. Real Solutions.



INVENTORY
VACANCY & LEASE RATES
ABSORPTION

	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2009	Square Feet Available	Availability Rate 4Q2009	Average Asking Lease Rate	Net Absorption 4Q2009	Net Absorption 2009	Gross Absorption 4Q2009	Gross Absorption 2009
North County													
Anaheim	89	2,883,564	0	0	241,455	8.37%	233,900	8.11%	\$0.61	2,995	(100,426)	43,816	125,996
Brea	47	1,801,061	0	0	99,867	5.54%	108,250	6.01%	\$0.75	(7,723)	41,251	12,611	92,908
Buena Park	26	1,017,895	0	0	56,505	5.55%	64,005	6.29%	\$0.00	8,635	(29,286)	21,699	75,267
Fullerton	40	1,464,682	0	0	77,703	5.31%	95,686	6.53%	\$0.00	64,364	34,492	95,372	147,879
La Habra	7	146,680	0	0	17,037	11.62%	17,037	11.62%	\$0.00	(804)	(11,177)	2,460	4,056
La Palma	7	269,471	0	0	32,872	12.20%	29,662	11.01%	\$1.10	0	(16,425)	0	0
Placentia	19	519,904	0	0	17,298	3.33%	17,298	3.33%	\$0.87	11,697	1,629	20,652	54,403
Yorba Linda	50	1,345,804	0	0	106,613	7.92%	159,635	11.86%	\$1.00	(189)	302	19,769	181,723
North County Total	285	9,449,061	0	0	649,350	6.87%	725,473	7.68%	\$0.87	78,975	(79,640)	216,379	682,232
West County													
Cypress	43	2,295,468	0	0	229,638	10.00%	555,303	24.19%	\$0.95	(65,583)	(159,255)	12,493	69,336
Huntington Beach	127	2,401,584	0	0	171,363	7.14%	309,961	12.91%	\$0.78	(54,522)	(70,170)	38,969	160,562
Los Alamitos	35	792,762	0	0	29,969	3.78%	39,246	4.95%	\$0.00	3,437	(13,609)	6,431	28,819
West County Total	205	5,489,814	0	0	430,970	7.85%	904,510	16.48%	\$0.95	(116,668)	(243,034)	57,893	258,717
Central County													
Anaheim	72	1,692,822	0	0	77,278	4.57%	152,486	9.01%	\$1.35	17,743	6,914	32,667	132,299
Garden Grove	81	2,363,585	0	0	188,937	7.99%	293,627	12.42%	\$0.68	11,538	(12,781)	32,213	203,427
Orange	103	2,156,225	0	0	155,713	7.22%	164,758	7.64%	\$0.85	43,555	(31,760)	71,511	181,403
Santa Ana	61	1,530,800	0	0	93,302	6.09%	123,422	8.06%	\$0.00	(21,718)	(34,400)	18,843	118,325
Westminster	20	567,749	0	0	31,303	5.51%	37,169	6.55%	\$0.00	(25,863)	(26,537)	1,000	19,287
Central County Total	337	8,311,181	0	0	546,533	6.58%	771,462	9.28%	\$1.08	25,255	(98,564)	156,234	654,741
Airport Area													
Costa Mesa	186	4,513,382	0	0	543,158	12.03%	683,647	15.15%	\$0.92	(24,612)	(81,567)	39,306	333,325
Fountain Valley	49	1,357,445	0	0	60,894	4.49%	64,004	4.72%	\$0.92	(9,872)	(29,884)	12,112	70,768
Irvine	272	6,870,569	0	0	743,841	10.83%	1,110,344	16.16%	\$0.92	10,824	(242,895)	166,659	669,136
Newport Beach	22	783,744	0	0	20,951	2.67%	74,943	9.56%	\$1.14	(6,119)	(5,857)	2,025	19,200
Santa Ana	125	3,758,428	0	0	254,885	6.78%	384,056	10.22%	\$0.86	(2,751)	(125,389)	42,856	207,321
Tustin	95	3,293,533	0	0	330,434	10.03%	410,891	12.48%	\$0.90	37,266	(135,285)	89,214	196,762
Airport Area Total	749	20,577,101	0	0	1,954,163	9.50%	2,727,885	13.26%	\$0.91	4,736	(620,877)	352,172	1,496,512
South County													
Aliso Viejo	37	919,041	0	0	102,078	11.11%	142,114	15.46%	\$1.16	(3,404)	(23,355)	5,165	50,063
Foothill Ranch	6	152,856	0	0	49,415	32.33%	49,415	32.33%	\$0.00	(49,415)	(43,915)	0	5,500
Irvine Spectrum	274	10,435,325	0	0	1,225,354	11.74%	1,873,381	17.95%	\$1.04	(84,933)	(167,942)	224,843	947,212
Laguna Hills	63	1,418,009	0	0	127,991	9.03%	146,190	10.31%	\$1.19	(3,353)	(57,238)	22,602	106,409
Laguna Niguel	16	1,412,141	0	0	123,951	8.78%	142,251	10.07%	\$1.34	(3,221)	(10,031)	11,620	15,380
Lake Forest	59	1,370,889	0	0	92,157	6.72%	132,650	9.68%	\$0.97	10,920	427	53,041	177,654
Mission Viejo	35	940,827	0	0	50,998	5.42%	166,587	17.71%	\$1.25	5,755	1,649	15,522	38,966
Rancho Santa Margarita	43	1,488,338	0	0	50,952	3.42%	62,470	4.20%	\$0.89	287	(23,880)	9,559	27,128
San Clemente	44	1,039,331	0	0	108,200	10.41%	171,915	16.54%	\$1.03	(1,769)	(65,279)	19,003	74,741
San Juan Capistrano	42	613,229	0	239,012	80,257	13.09%	89,232	14.55%	\$0.82	(18,803)	(41,557)	8,050	34,828
South County Total	619	19,789,986	0	239,012	2,011,353	10.16%	2,976,205	15.04%	\$1.05	(147,936)	(431,121)	369,405	1,477,881
Orange County Total	2,195	63,617,143	0	239,012	5,592,369	8.79%	8,105,535	12.74%	\$1.02	(155,638)	(1,473,236)	1,152,083	4,570,083
North County													
10,000 to 24,999	171	2,745,634	0	0	356,731	12.99%	399,692	14.56%	\$0.88	(1,190)	(169,029)	75,701	225,567
25,000 to 49,999	78	2,646,104	0	0	247,188	9.34%	280,350	10.59%	\$0.86	10,242	11,986	68,735	252,735
50,000 to 99,999	25	1,663,578	0	0	45,431	2.73%	45,431	2.73%	\$0.00	1,823	(5,330)	3,843	109,197
100,000+	11	2,393,745	0	0	0	0.00%	0	0.00%	\$0.00	68,100	82,733	0	19,333
West County													
10,000 to 24,999	144	2,184,369	0	0	133,685	6.12%	167,781	7.68%	\$0.78	(22,460)	(44,714)	47,379	158,359
25,000 to 49,999	41	1,430,121	0	0	79,554	5.56%	170,894	11.95%	\$0.90	(28,368)	(54,854)	4,794	50,871
50,000 to 99,999	17	1,116,948	0	0	217,731	19.49%	358,555	32.10%	\$0.90	(65,840)	(143,466)	5,720	49,487
100,000+	3	758,376	0	0	0	0.00%	207,280	27.33%	\$0.00	0	0	0	0
Central County													
10,000 to 24,999	244	3,904,406	0	0	304,146	7.79%	381,441	9.77%	\$1.24	27,547	(69,910)	116,091	440,296
25,000 to 49,999	70	2,298,934	0	0	186,818	8.13%	233,325	10.15%	\$0.97	(4,058)	(12,235)	33,113	182,087
50,000 to 99,999	17	1,172,508	0	0	55,569	4.74%	156,696	13.36%	\$0.00	1,766	(16,419)	7,030	32,358
100,000+	6	935,333	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Airport Area													
10,000 to 24,999	507	8,141,657	0	0	808,364	9.93%	982,200	12.06%	\$0.96	3,942	(184,467)	281,127	928,387
25,000 to 49,999	164	5,514,122	0	0	752,700	13.65%	919,988	16.68%	\$0.90	(37,899)	(326,362)	71,377	408,050
50,000 to 99,999	56	3,708,081	0	0	225,365	6.08%	380,631	10.26%	\$0.90	38,693	20,734	59,186	209,922
100,000+	22	3,213,241	0	0	167,734	5.22%	445,066	13.85%	\$1.00	0	(130,782)	11,118	32,029
South County													
10,000 to 24,999	372	6,165,495	0	150,972	683,729	11.09%	882,336	14.31%	\$1.04	16,347	(141,545)	164,826	680,488
25,000 to 49,999	174	5,841,993	0	88,040	672,143	11.51%	1,013,976	17.36%	\$1.04	(67,188)	(312,024)	141,845	487,088
50,000 to 99,999	53	3,531,488	0	0	397,342	11.25%	602,514	17.06%	\$1.09	(89,205)	(105,817)	56,258	155,783
100,000+	20	4,251,010	0	0	258,139	6.07%	477,379	11.23%	\$1.05	(7,890)	128,265	3,940	148,046
Orange County													
10,000 to 24,999	1,438	23,141,561	0	150,972	2,286,655	9.88%	2,813,450	12.16%	\$1.01	24,186	(609,665)	685,124	2,433,097
25,000 to 49,999	527	17,731,274	0	88,040	1,938,403	10.93%	2,618,533	14.77%	\$0.97	(127,271)	(693,489)	319,864	1,380,831
50,000 to 99,999	168	11,192,603	0	0	941,438	8.41%	1,543,827	13.79%	\$1.02	(112,763)	(250,298)	132,037	556,747
100,000+	62	11,551,705	0	0	425,873	3.69%	1,129,725	9.78%	\$1.00	60,210	80,216	15,058	199,408
Orange County Total	2,195	63,617,143	0	239,012	5,592,369	8.79%	8,105,535	12.74%	\$1.02	(155,638)	(1,473,236)	1,152,083	4,570,083

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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