



R&D Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

FLAT

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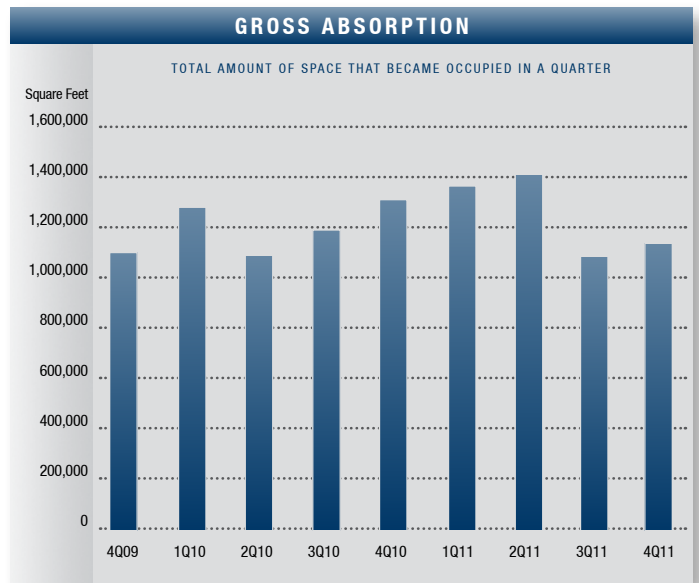
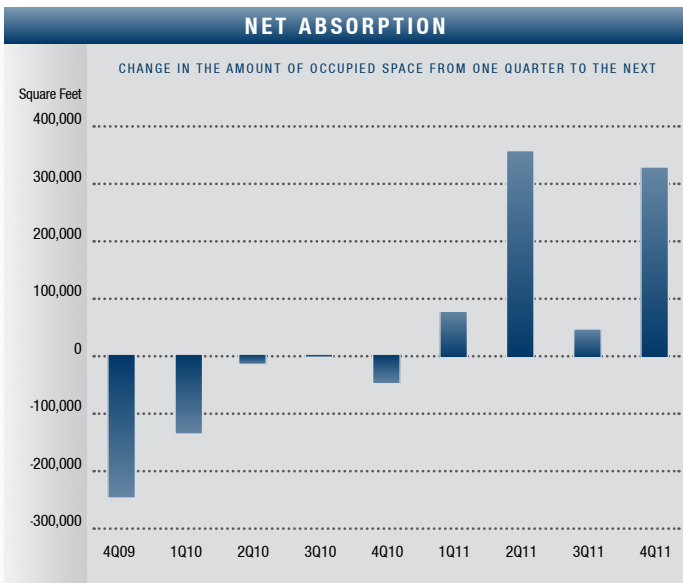
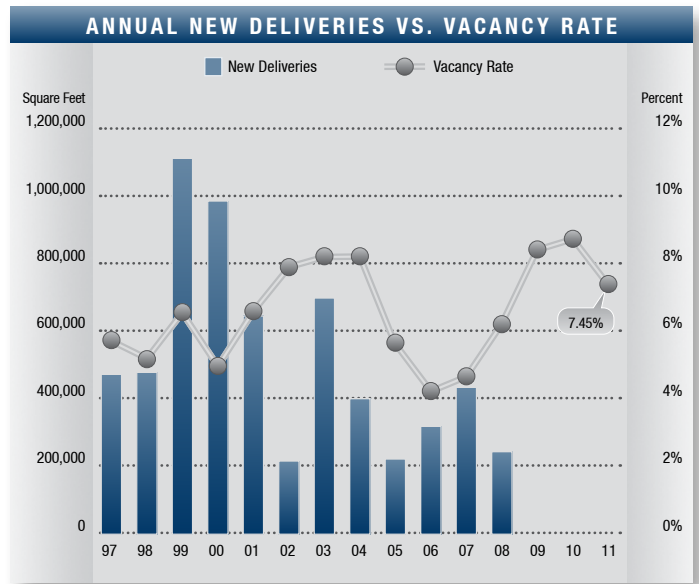
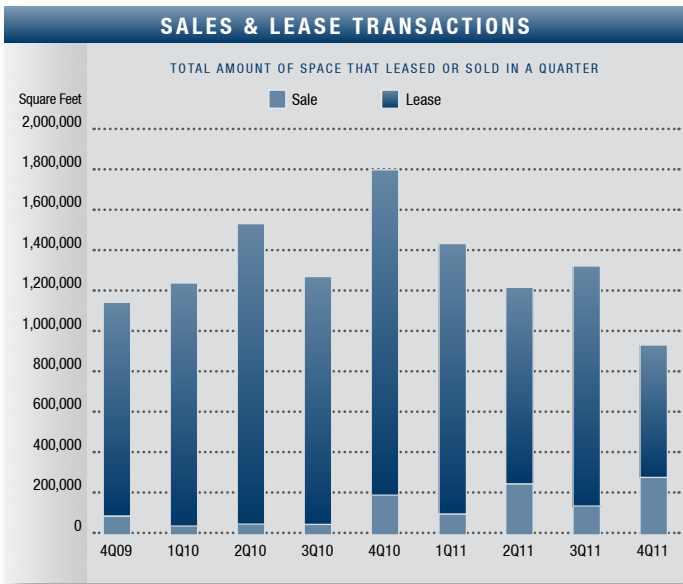
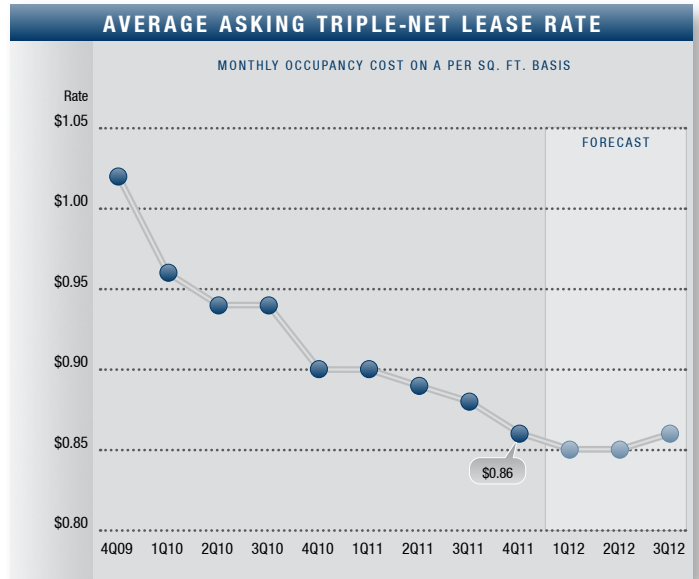
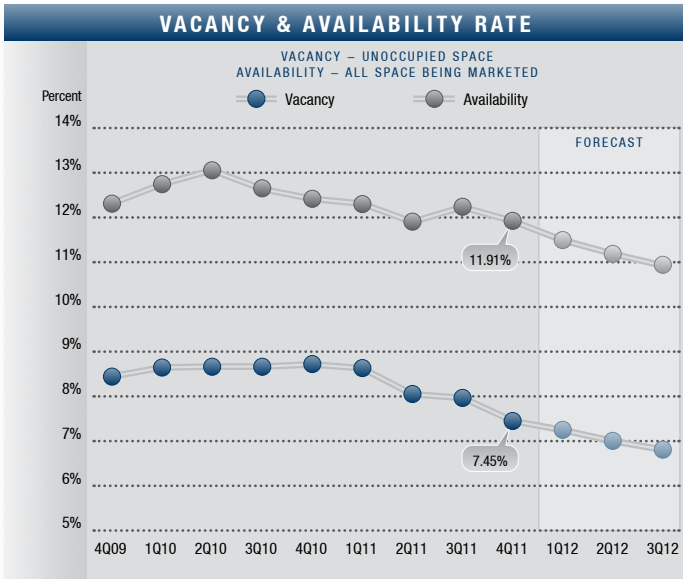
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Market Highlights

- Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization in 2011. Availability and vacancy continued on a downward trend, decreasing from both the prior quarter and the previous year. The market posted positive net absorption each quarter of 2011, the first positive figures in the Orange County R&D market since 2007. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- Transaction Activity** - Leasing activity checked in at just over 4.1 million square feet for 2011. The Orange County R&D market averaged just over one million square feet of leasing activity per quarter over in 2011. Sales activity posted 730,000 square feet in 2011, a huge increase over 2010's figure of 310,000 square feet. The Orange County research and development market averaged 182,000 square feet of sales activity per quarter in 2011.
- Employment** - The unemployment rate in Orange County was 8.1% in November 2011 — down from a revised 8.5% in October 2011 and below the previous year's estimate of 9.4%. This compares with an unadjusted unemployment rate of 10.9% 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 13,000 payroll jobs from November 2010 to November 2011. The largest gains were 7,200 in leisure and hospitality and 6,200 in professional and business services; however, Orange County lost 1,600 government jobs, 1,200 financial activities jobs and 1,100 construction jobs during that same period.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Net absorption is displaying signs of improvement, posting over 800,000 square feet of absorption in 2011. 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 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. Although, we should see rates firm up in 2012 with some possible increases in the second half of year. 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.
- Construction** - There was no R&D space under construction in Orange County in the fourth 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 year at 7.45%, a decrease from the prior quarter's 7.97% rate and a 14.66% decrease from 2010's fourth quarter rate of 8.73%. We are forecasting that vacancy will continue its downward trend in 2012.
- Availability** - Direct/sublease space being marketed was 11.91% in the fourth quarter, down from the 12.25% we saw at the end of the third quarter and a decrease of 4.11% when compared to the same quarter of 2010.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in Orange County's R&D market was \$0.86 in the fourth quarter — two cents lower than the previous quarter's rate and a 4.44% decrease from 2010's fourth quarter rate of \$0.90. 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 firm up with the possibility of an increase in the second half of 2012.
- Absorption** - The Orange County R&D market posted 325,000 square feet of positive net absorption in the fourth quarter of 2011 — giving the R&D market a total of just over 800,000 square feet of positive absorption for 2011, the largest streak of positive absorption seen since 2006.

R & D MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	7.45%	8.73%	8.41%	(14.66%)
Availability Rate	11.91%	12.42%	12.28%	(4.11%)
Average Asking Lease Rate	\$0.86	\$0.90	\$1.02	(4.44%)
Sale & Lease Transactions	4,871,680	5,824,182	4,391,846	(16.35%)
Gross Absorption	4,972,192	4,841,517	4,429,472	2.70%
Net Absorption	804,673	(199,221)	(1,404,709)	N/A



	INVENTORY			VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Vacant	Vacancy Rate 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
North County											
Anaheim Hills	101	3,193,523	200,451	6.28%	266,969	8.36%	\$0.75	(24,909)	49,069	22,823	229,410
Brea	45	1,134,843	41,001	3.61%	93,416	8.23%	\$0.00	14,176	24,233	24,943	86,849
Buena Park	32	1,145,401	36,626	3.20%	69,676	6.08%	\$0.00	3,047	32,578	6,874	60,355
Fullerton	38	1,434,401	85,734	5.98%	103,015	7.18%	\$0.75	20,052	(4,881)	24,572	62,716
La Habra	7	150,624	4,508	2.99%	4,508	2.99%	\$0.00	(3,644)	3,836	864	8,344
La Palma	6	251,907	51,204	20.33%	51,204	20.33%	\$1.21	(3,950)	5,347	0	29,579
Placentia	23	597,108	36,140	6.05%	81,659	13.68%	\$0.85	0	(26,000)	1,250	11,870
Yorba Linda	51	1,357,440	90,068	6.64%	161,375	11.89%	\$0.63	(32,865)	(10,746)	12,690	79,530
North County Total	303	9,265,247	545,732	5.89%	831,822	8.98%	\$0.68	(28,093)	73,436	94,016	568,653
West County											
Cypress	42	2,392,962	268,193	11.21%	483,635	20.21%	\$0.86	(27,435)	(35,255)	1,250	81,880
Huntington Beach	126	2,872,972	266,489	9.28%	308,029	10.72%	\$0.68	(49,105)	(66,911)	42,889	136,382
Los Alamitos	39	881,500	54,659	6.20%	71,345	8.09%	\$0.00	(3,529)	7,810	0	37,642
West County Total	207	6,147,434	589,341	9.59%	863,009	14.04%	\$0.83	(80,069)	(94,356)	44,139	255,904
Central County											
Anaheim	81	1,904,368	177,208	9.31%	153,128	8.04%	\$0.59	2,531	(76,610)	27,813	130,925
Garden Grove	69	1,821,069	109,248	6.00%	251,750	13.82%	\$0.84	754	96,608	40,383	225,197
Orange	100	2,142,960	113,505	5.30%	186,930	8.72%	\$0.71	(3,404)	(25,516)	14,358	95,851
Santa Ana	57	1,262,191	176,557	13.99%	169,045	13.39%	\$1.15	(223)	2,265	21,387	120,630
Westminster	38	1,050,390	85,915	8.18%	105,999	10.09%	\$0.89	3,729	36,325	26,488	87,811
Central County Total	345	8,180,978	662,433	8.10%	866,852	10.60%	\$0.78	3,387	33,072	130,429	660,414
Airport Area											
Costa Mesa	174	4,219,485	339,636	8.05%	462,061	10.95%	\$0.71	65,255	82,628	99,024	440,570
Fountain Valley	49	1,376,375	43,905	3.19%	66,885	4.86%	\$0.79	9,257	32,474	17,673	87,506
Irvine	265	6,771,595	521,691	7.70%	905,502	13.37%	\$0.96	28,050	187,787	124,803	759,142
Newport Beach	23	542,796	60,402	11.13%	66,314	12.22%	\$1.00	(2,500)	(15,860)	0	34,858
Santa Ana	125	3,793,780	226,756	5.98%	282,939	7.46%	\$0.85	(15,843)	(7,321)	28,303	180,701
Tustin	96	3,365,989	216,589	6.43%	532,406	15.82%	\$0.78	137,673	145,963	163,559	289,943
Airport Area Total	732	20,070,020	1,408,979	7.02%	2,316,107	11.54%	\$0.87	221,892	425,671	433,362	1,792,720
South County											
Aliso Viejo	37	869,507	38,889	4.47%	35,496	4.08%	\$0.87	27,456	39,602	29,203	92,118
Foothill Ranch	7	162,906	0	0.00%	17,789	10.92%	\$0.00	0	49,415	0	49,415
Irvine Spectrum	265	9,857,762	724,963	7.35%	1,371,384	13.91%	\$0.96	157,032	239,574	243,401	1,007,635
Laguna Hills	59	1,362,834	89,415	6.56%	117,611	8.63%	\$1.18	8,950	26,089	19,329	109,327
Laguna Niguel	22	1,554,605	207,162	13.33%	206,362	13.27%	\$0.80	14,827	14,405	19,507	44,403
Lake Forest	58	1,348,079	132,220	9.81%	187,186	13.89%	\$0.66	3,802	9,870	44,340	121,252
Mission Viejo	33	868,831	42,389	4.88%	351,881	40.50%	\$1.10	14,062	2,395	26,196	51,342
Rancho Santa Margarita	40	1,442,172	32,686	2.27%	112,532	7.80%	\$0.67	10,764	40,487	15,104	81,882
San Clemente	44	1,037,229	148,123	14.28%	146,705	14.14%	\$0.97	(33,503)	(54,431)	21,392	101,428
San Juan Capistrano	38	741,817	62,840	8.47%	66,427	8.95%	\$0.95	6,011	(556)	12,011	35,699
South County Total	603	19,245,742	1,478,687	7.68%	2,613,373	13.58%	\$0.91	209,401	366,850	430,483	1,694,501
Orange County Total	2,190	62,909,421	4,685,172	7.45%	7,491,163	11.91%	\$0.86	326,518	804,673	1,132,429	4,972,192
North County											
10,000-24,999	182	2,893,353	305,742	10.57%	418,325	14.46%	\$0.75	(33,470)	(16,887)	52,901	285,580
25,000-49,999	84	2,831,177	180,774	6.39%	319,947	11.30%	\$0.64	5,377	60,740	41,115	230,957
50,000-99,999	27	1,778,105	59,216	3.33%	93,550	5.26%	\$0.00	0	29,583	0	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	140	2,140,457	170,731	7.98%	194,912	9.11%	\$0.75	15,692	(2,136)	39,685	124,824
25,000-49,999	41	1,424,868	69,084	4.85%	166,324	11.67%	\$0.89	(8,912)	6,449	4,265	67,711
50,000-99,999	21	1,393,733	337,706	24.23%	409,673	29.39%	\$0.82	(86,849)	(86,849)	189	189
100,000 Plus	5	1,209,368	11,820	0.98%	92,100	7.62%	\$0.00	0	(11,820)	0	63,180
Central County											
10,000-24,999	247	3,990,694	379,195	9.50%	436,416	10.94%	\$1.20	(5,924)	(13,486)	77,237	305,400
25,000-49,999	78	2,531,133	242,465	9.58%	239,441	9.46%	\$0.00	9,311	3,292	53,192	283,556
50,000-99,999	15	983,901	17,437	1.77%	167,659	17.04%	\$0.59	0	43,266	0	71,458
100,000 Plus	5	675,250	23,336	3.46%	23,336	3.46%	\$1.10	0	0	0	0
Airport Area											
10,000-24,999	491	7,881,295	777,964	9.87%	865,917	10.99%	\$0.83	14,629	18,031	155,910	753,503
25,000-49,999	165	5,552,066	424,725	7.65%	593,810	10.70%	\$0.68	52,034	198,890	115,678	641,776
50,000-99,999	54	3,560,474	144,645	4.06%	394,270	11.07%	\$0.84	6,236	102,661	12,781	222,927
100,000 Plus	22	3,055,193	61,645	2.02%	462,110	15.13%	\$1.25	148,993	106,089	148,993	174,514
South County											
10,000-24,999	366	6,054,669	448,641	7.41%	631,533	10.43%	\$0.84	80,212	120,712	182,922	633,364
25,000-49,999	168	5,659,419	498,273	8.80%	852,851	15.07%	\$0.80	72,494	123,756	170,492	700,243
50,000-99,999	51	3,388,679	354,005	10.45%	647,681	19.11%	\$1.02	59,463	115,454	77,069	241,198
100,000 Plus	18	4,142,975	177,768	4.29%	481,308	11.62%	\$1.00	(2,768)	6,928	0	119,696
Orange County											
10,000-24,999	1,426	22,960,468	2,082,273	9.07%	2,547,103	11.09%	\$0.89	71,139	106,234	508,655	2,102,671
25,000-49,999	536	17,998,663	1,415,321	7.86%	2,172,373	12.07%	\$0.67	130,304	393,127	384,742	1,924,243
50,000-99,999	168	11,104,892	913,009	8.22%	1,712,833	15.42%	\$0.87	(21,150)	204,115	90,039	587,888
100,000 Plus	60	10,845,398	274,569	2.53%	1,058,854	9.76%	\$1.25	146,225	101,197	148,993	357,390
Orange County Total	2,190	62,909,421	4,685,172	7.45%	7,491,163	11.91%	\$0.86	326,518	804,673	1,132,429	4,972,192

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

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