



## R&D Market Report

Compared to 2011:

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



FLAT

Transactions



UP

Deliveries



FLAT

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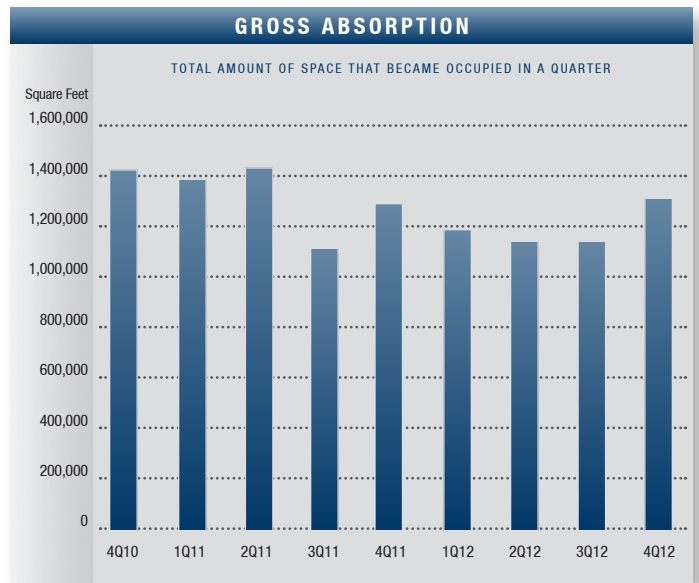
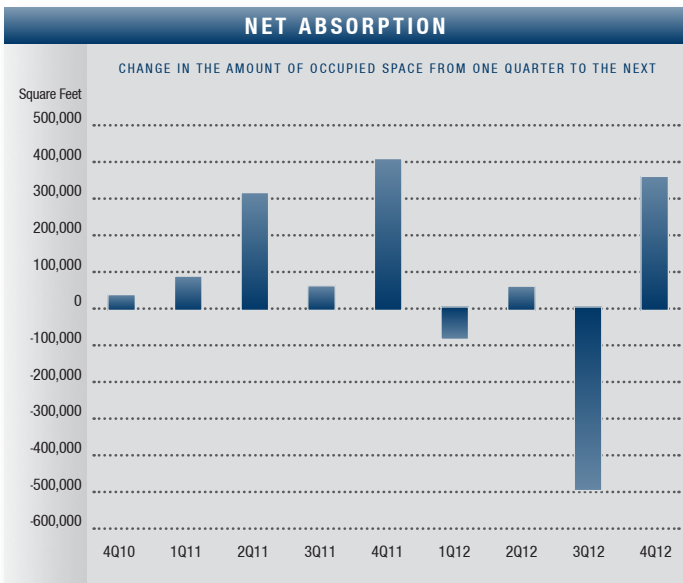
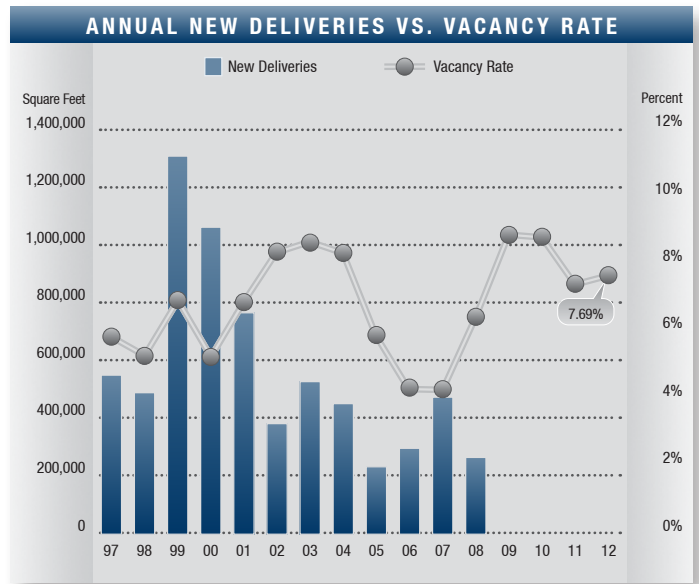
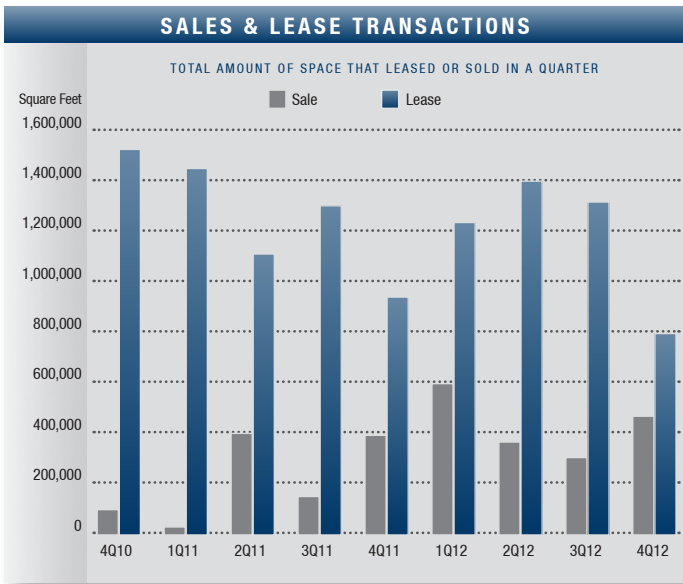
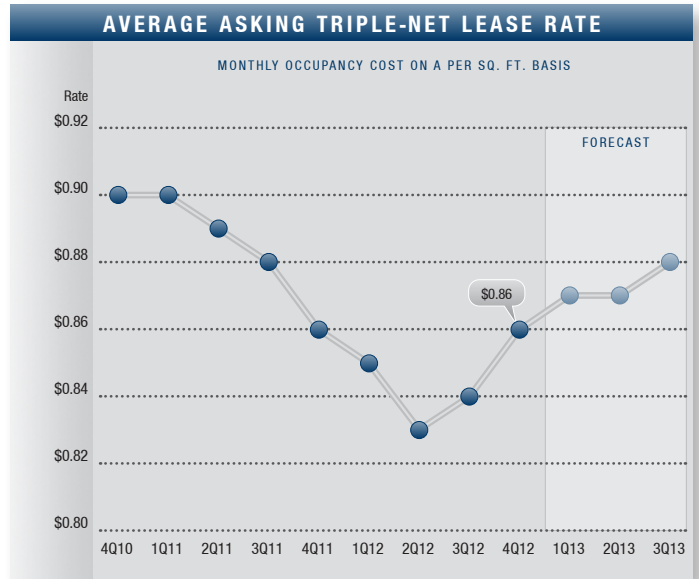
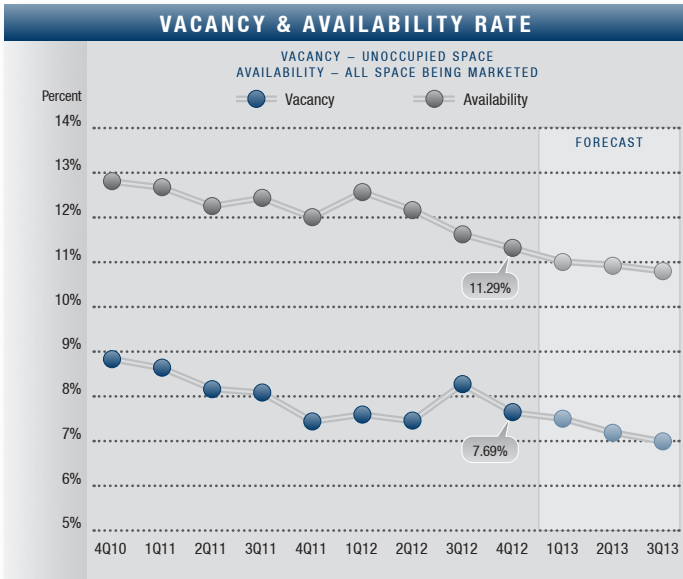


### Market Highlights

- Encouraging Numbers** - The Orange County research and development market conveyed more promise of stabilization this quarter. Although, the market posted negative net absorption for 2012, availability displayed a decrease from the previous year, and asking lease rates increased from the previous quarter. While these are overall positive indicators, stability will need to be sustained in coming quarters to be considered recovery.
- Construction** - At the end of the quarter, there was only one project in the Irvine Spectrum under construction, which totaled 21,930 square feet. The slowdown in construction has eased and will continue to ease the upward pressure on vacancy and the downward pressure on lease rates. 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 7.69%, a decrease from the prior quarter's 8.26% rate but an increase over 2011's fourth quarter rate of 7.45%. We are forecasting that vacancy will trend downward in 2013.
- Availability** - Direct/sublease space being marketed was 11.29% in the fourth quarter, down from the 11.66% we saw at the end of the previous quarter and a decrease of 5.92% 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 \$0.86 in the fourth quarter — two cents higher than the previous quarter's rate and the same as 2011's fourth quarter rate. The record high rate of \$1.22 was established in the second quarter of 2007. We are forecasting that average asking lease rates will continue to increase in 2013.
- Absorption** - The Orange County R&D market posted just over 360,000 square feet of positive net absorption in fourth quarter of 2012 — giving the R&D market a total of just over 150,000 square feet of negative absorption for 2012.
- Transaction Activity** - Leasing activity checked in at just over 4.7 million square feet in 2012, matching 2011. The Orange County R&D market averaged nearly 1.2 million square feet of leasing activity per quarter over the last eight quarters. Sales activity posted 1.7 million square feet in 2012, an increase over 2011's total of 950,000 square feet. The Orange County research and development market averaged over 425,000 square feet of sales activity per quarter over the last four quarters.
- Employment** - The unemployment rate in Orange County was 7% in November 2012 — down from a revised 7.2% in October 2012 and below the previous year's estimate of 8.1%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, Orange County saw a net increase of 16,700 payroll jobs from November 2011 to November 2012. The largest gains were 7,100 in leisure & hospitality and 6,100 in professional & business services; however, Orange County lost 8,700 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 for 2012, net absorption is displaying signs of improvement, having posted over 360,000 square feet of positive absorption in last quarter of 2012. 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. Lease rates are firming up, and we expect continued increases in 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

	2012	2011	2010	% of Change vs. 2011
Total Vacancy Rate	7.69%	7.45%	8.82%	3.22%
Availability Rate	11.29%	12.00%	12.80%	(5.92%)
Average Asking Lease Rate	\$0.86	\$0.86	\$0.90	0.00%
Sale & Lease Transactions	6,436,532	5,708,834	5,701,140	12.75%
Gross Absorption	4,673,527	5,208,095	4,965,549	(10.26%)
Net Absorption	(153,326)	866,539	25,111	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012	
<b>Airport Area</b>														
Costa Mesa	167	4,053,190	0	0	233,389	5.76%	458,685	11.32%	\$0.73	16,233	110,333	59,060	366,892	
Fountain Valley	50	1,464,813	0	0	38,370	2.62%	57,472	3.92%	\$0.74	2,804	5,535	15,891	83,471	
Irvine	261	6,795,650	0	0	720,255	10.60%	986,317	14.51%	\$0.88	60,504	(138,158)	187,629	598,776	
Newport Beach	20	488,366	0	0	28,869	5.91%	31,369	6.42%	\$0.00	1,762	20,688	5,912	32,845	
Santa Ana	184	4,683,539	0	0	405,377	8.66%	406,287	8.67%	\$1.15	58,622	(35,088)	95,187	294,908	
Tustin	97	3,345,371	0	0	185,053	5.53%	326,627	9.76%	\$1.03	(20,143)	39,029	30,897	186,557	
<b>Airport Area Total</b>	<b>779</b>	<b>20,830,929</b>	<b>0</b>	<b>0</b>	<b>1,611,313</b>	<b>7.74%</b>	<b>2,266,757</b>	<b>10.88%</b>	<b>\$0.91</b>	<b>119,782</b>	<b>2,339</b>	<b>394,576</b>	<b>1,563,449</b>	
<b>North County</b>														
Anaheim	193	5,366,466	0	0	303,235	5.65%	480,485	8.95%	\$0.83	2,225	67,591	54,919	351,973	
Brea	47	1,172,795	0	0	29,676	2.53%	50,918	4.34%	\$1.13	21,379	25,427	27,317	139,153	
Buena Park	33	1,135,807	0	0	82,167	7.23%	123,470	10.87%	\$0.56	(18,889)	(45,541)	1,004	21,509	
Fullerton	44	1,594,224	0	0	49,058	3.08%	68,410	4.29%	\$0.00	6,978	45,672	17,623	97,656	
La Habra	7	150,624	0	0	6,732	4.47%	6,732	4.47%	\$0.00	(2,224)	(2,224)	0	0	
Orange	102	2,268,530	0	0	97,510	4.30%	117,461	5.18%	\$1.00	75,705	15,995	94,112	245,939	
Placentia	24	612,708	0	0	18,403	3.00%	21,092	3.44%	\$0.79	20,345	17,737	35,220	65,461	
Yorba Linda	52	1,387,048	0	0	104,503	7.53%	224,790	16.21%	\$0.96	4,504	(5,055)	63,886	153,423	
<b>North County Total</b>	<b>502</b>	<b>13,688,202</b>	<b>0</b>	<b>0</b>	<b>691,284</b>	<b>5.05%</b>	<b>1,093,358</b>	<b>7.99%</b>	<b>\$0.87</b>	<b>110,023</b>	<b>119,602</b>	<b>294,081</b>	<b>1,075,114</b>	
<b>South County</b>														
Aliso Viejo	44	1,090,987	0	0	102,044	9.35%	131,854	12.09%	\$0.84	(44,784)	(46,392)	7,027	46,705	
Foothill Ranch	7	162,906	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0	
Irvine Spectrum	303	10,706,048	21,930	68,124	862,250	8.05%	1,269,678	11.86%	\$0.97	92,080	37,821	254,825	874,933	
Laguna Hills	57	1,355,556	0	0	95,707	7.06%	148,753	10.97%	\$0.78	(2,253)	(1,931)	13,431	90,724	
Laguna Niguel	22	512,024	0	0	33,928	6.63%	34,436	6.73%	\$0.00	(13,692)	(56)	15,048	41,512	
Lake Forest	60	1,367,441	0	0	127,181	9.30%	136,554	9.99%	\$0.63	24,293	1,583	71,696	181,788	
Mission Viejo	34	879,801	0	0	31,145	3.54%	379,020	43.08%	\$1.10	(742)	7,896	6,759	43,855	
Rancho Santa Margarita	45	1,562,813	0	0	121,530	7.78%	142,483	9.12%	\$0.78	17,766	(67,036)	43,360	67,469	
San Clemente	51	1,326,914	0	0	187,046	14.10%	228,925	17.25%	\$0.98	(18,364)	(40,235)	3,686	128,699	
San Juan Capistrano	45	907,753	0	239,012	40,592	4.47%	46,342	5.11%	\$0.00	36,680	34,816	45,849	84,140	
<b>South County Total</b>	<b>668</b>	<b>19,872,243</b>	<b>21,930</b>	<b>307,136</b>	<b>1,601,423</b>	<b>8.06%</b>	<b>2,518,045</b>	<b>12.67%</b>	<b>\$0.92</b>	<b>90,984</b>	<b>(73,534)</b>	<b>461,681</b>	<b>1,475,685</b>	
<b>West County</b>														
Cypress	57	2,889,222	0	0	494,131	17.10%	604,650	20.93%	\$0.87	24,350	(173,823)	30,102	155,752	
Garden Grove	67	1,680,355	0	0	96,952	5.77%	292,198	17.39%	\$0.52	11,283	12,296	58,064	126,221	
Huntington Beach	127	2,950,576	0	0	277,869	9.42%	272,889	9.25%	\$0.68	1,867	(16,786)	41,923	180,476	
La Palma	1	85,000	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0	
Los Alamitos	39	860,297	0	0	84,563	9.83%	73,501	8.54%	\$0.00	3,580	(29,904)	17,613	56,883	
Stanton	5	122,025	0	0	3,540	2.90%	3,540	2.90%	\$0.00	(600)	1,300	1,500	3,400	
Westminster	19	478,935	0	0	18,910	3.95%	37,218	7.77%	\$0.00	428	5,184	3,168	36,547	
<b>West County Total</b>	<b>315</b>	<b>9,066,410</b>	<b>0</b>	<b>0</b>	<b>975,965</b>	<b>10.76%</b>	<b>1,283,996</b>	<b>14.16%</b>	<b>\$0.72</b>	<b>40,908</b>	<b>(201,733)</b>	<b>152,370</b>	<b>559,279</b>	
<b>Orange County Total</b>	<b>2,264</b>	<b>63,457,784</b>	<b>21,930</b>	<b>307,136</b>	<b>4,879,985</b>	<b>7.69%</b>	<b>7,162,156</b>	<b>11.29%</b>	<b>\$0.86</b>	<b>361,697</b>	<b>(153,326)</b>	<b>1,302,708</b>	<b>4,673,527</b>	
<b>Airport Area</b>														
10,000-24,999	522	8,456,984	0	0	631,453	7.47%	890,847	10.53%	\$0.87	44,708	186,678	203,185	814,453	
25,000-49,999	183	6,184,888	0	0	476,400	7.70%	536,903	8.68%	\$0.82	74,621	193,351	157,082	636,313	
50,000-99,999	56	3,658,281	0	0	95,162	2.60%	454,190	12.42%	\$1.00	(2,685)	(12,332)	31,171	109,545	
100,000 Plus	18	2,530,776	0	0	408,298	16.13%	384,817	15.21%	\$0.79	3,138	(365,358)	3,138	3,138	
<b>North County</b>														
10,000-24,999	328	5,221,438	0	0	358,674	6.87%	473,262	9.06%	\$1.02	68,430	165,365	152,895	689,526	
25,000-49,999	129	4,281,350	0	0	278,243	6.50%	374,350	8.74%	\$0.88	5,766	(30,175)	86,705	276,833	
50,000-99,999	33	2,146,175	0	0	54,367	2.53%	142,746	6.65%	\$0.56	35,827	(15,588)	54,481	108,755	
100,000 Plus	12	2,039,239	0	0	0	0.00%	103,000	5.05%	\$0.00	0	0	0	0	
<b>South County</b>														
10,000-24,999	401	6,640,786	21,930	169,096	428,342	6.45%	696,065	10.48%	\$0.81	100,143	108,548	260,791	625,870	
25,000-49,999	194	6,537,159	0	88,040	533,171	8.16%	639,027	9.78%	\$0.84	(3,171)	53,398	123,595	601,941	
50,000-99,999	58	3,878,851	0	50,000	639,910	16.50%	875,829	22.58%	\$1.03	(5,988)	(238,248)	77,295	232,676	
100,000 Plus	15	2,815,447	0	0	0	0.00%	307,124	10.91%	\$0.00	0	2,768	0	15,198	
<b>West County</b>														
10,000-24,999	214	3,367,993	0	0	281,189	8.35%	339,957	10.09%	\$0.88	19,663	(5,545)	89,464	315,650	
25,000-49,999	65	2,214,908	0	0	177,631	8.02%	174,255	7.87%	\$0.76	21,245	(47,430)	62,906	129,328	
50,000-99,999	29	1,991,133	0	0	307,601	15.45%	560,240	28.14%	\$0.71	0	25,630	0	102,481	
100,000 Plus	7	1,492,376	0	0	209,544	14.04%	209,544	14.04%	\$0.00	0	(174,388)	0	11,820	
<b>Orange County</b>														
10,000-24,999	1,465	23,687,201	21,930	169,096	1,699,658	7.18%	2,400,131	10.13%	\$0.85	232,944	455,046	706,335	2,445,499	
25,000-49,999	571	19,218,305	0	88,040	1,465,445	7.63%	1,724,535	8.97%	\$0.83	98,461	169,144	430,288	1,644,415	
50,000-99,999	176	11,674,440	0	50,000	1,097,040	9.40%	2,033,005	17.41%	\$0.88	27,154	(240,538)	162,947	553,457	
100,000 Plus	52	8,877,838	0	0	617,842	6.96%	1,004,485	11.31%	\$0.00	3,138	(536,978)	3,138	30,156	
<b>Orange County Total</b>	<b>2,264</b>	<b>63,457,784</b>	<b>21,930</b>	<b>307,136</b>	<b>4,879,985</b>	<b>7.69%</b>	<b>7,162,156</b>	<b>11.29%</b>	<b>\$0.86</b>	<b>361,697</b>	<b>(153,326)</b>	<b>1,302,708</b>	<b>4,673,527</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, Orange, Placentia and Yorba Linda

**WEST**

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Seal Beach, Stanton and Westminster

**AIRPORT**

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana and 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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