



Voit
Real Estate Services

R&D Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Transactions



DOWN

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Prepared by:
Jerry J. Holdner, Jr. — Lic.#01145748
Vice President of Market Research
VOIT Real Estate Services — Lic.#01333376
e-mail: jholdner@voitco.com

Market Highlights

- ◆ **Market Challenges** - Many users/investors have concerns with increasing vacancy, tenant delinquencies, economic volatility, and the gap between “ask” and “bid” pricing. However, the ask-bid gap appears to be diminishing, apparent from the increase in sales activity at the end of 2009. Another challenge for the Research & Development market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn are putting an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- ◆ **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 9.12%, constituting an increase over last year’s rate of 6.51%. This quarter’s rate of 9.12% is still lower than the 9.82% vacancy rate we saw in the second quarter of 2004.
- ◆ **Availability** - Direct/sublease space being marketed was 13.15% this quarter, up from the 10.76% we saw this same quarter last year. This is an increase of 22.21% of new space being marketed when compared to the same quarter last year.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per square foot per month in Orange County for the first quarter of 2010 was \$0.96- a 14.29% decrease over last year’s rate of \$1.12 and six cents lower than last quarter’s rate. The record high rate of \$1.22 was established in the second quarter of 2007.
- ◆ **Absorption** - Net absorption for the county posted a negative 293,968 square feet for the first quarter of 2010, giving the industrial market an average of 350,000 square feet of negative absorption for last five quarters. This negative

absorption can be attributed to the recent job losses.

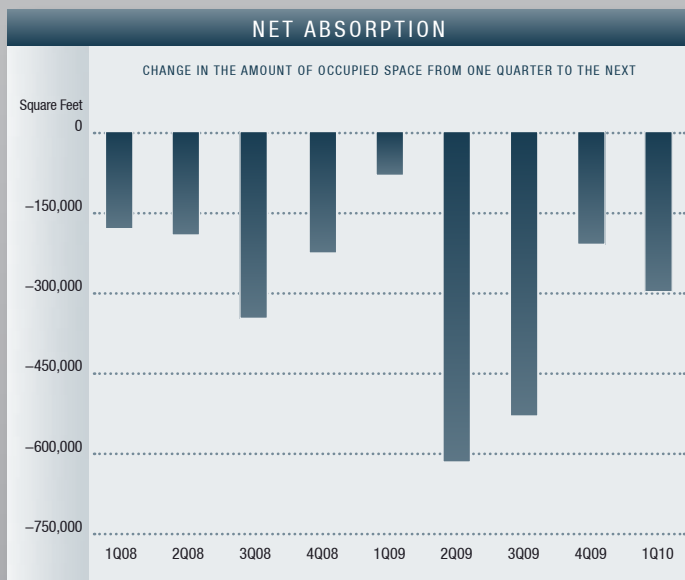
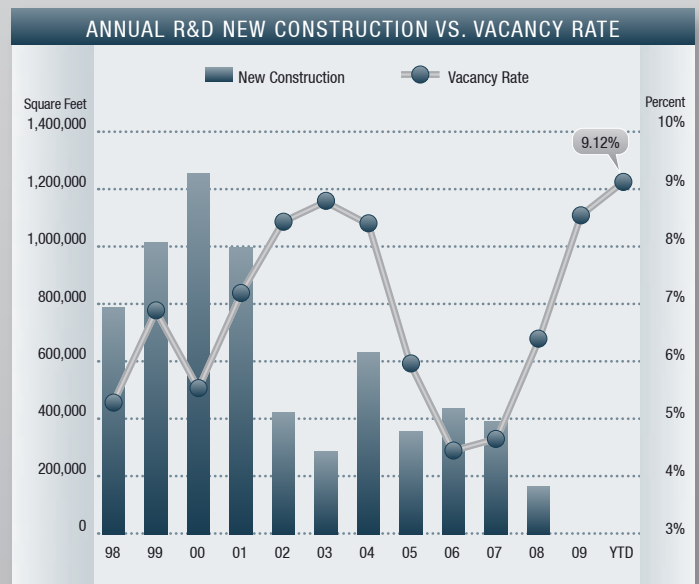
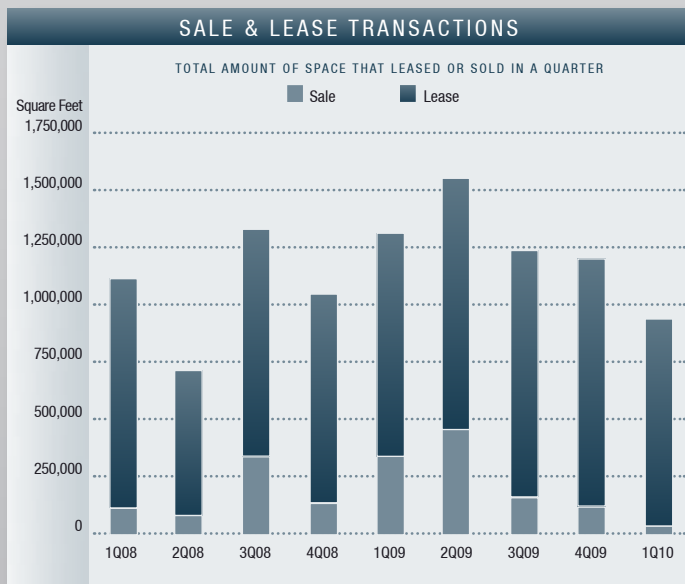
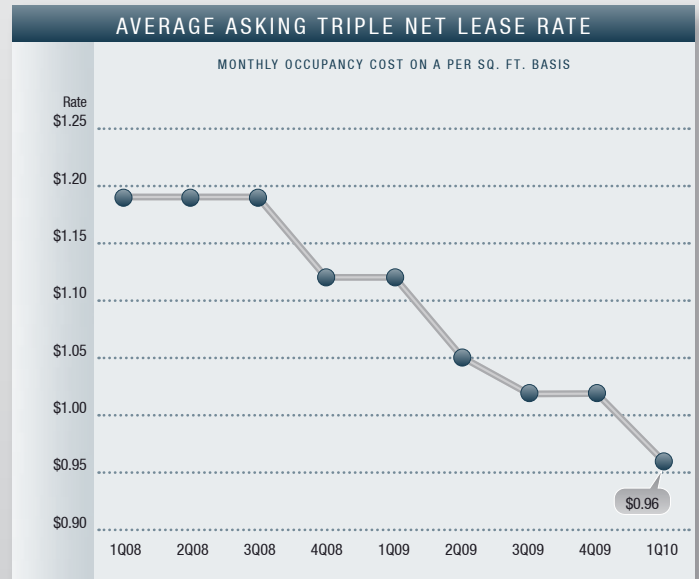
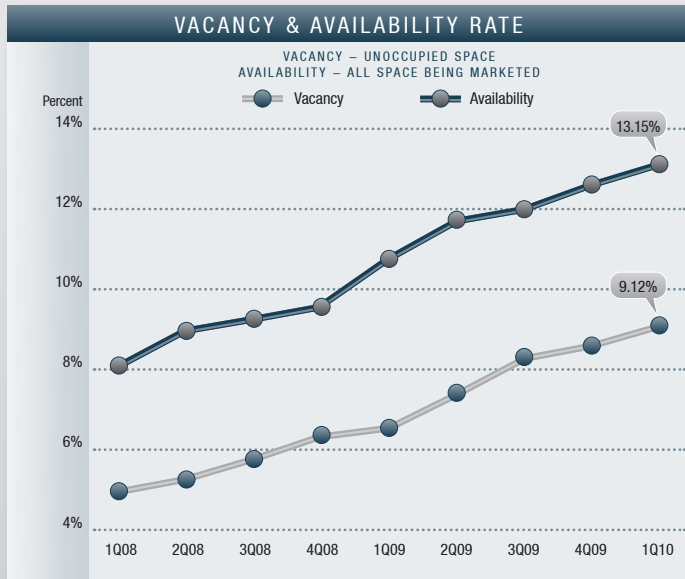
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 905,000 square feet. The average amount of leasing per quarter for the past five quarters was 1.03 million square feet. Sales activity posted 27,525 square feet this quarter. The average amount of sales per quarter over the past five quarters was 220,000 square feet.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.7% in February 2010, down from a revised 10.2% in January 2010 and above the year ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% 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 14,400 in construction, 11,000 in manufacturing and 4,200 in leisure & hospitality. However, between January 2010 and February 2010, Orange County gained 10,300 jobs.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Though negative absorption continues, with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to 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 to increase to incentivize tenants to act immediately. 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 again turn positive.

R & D MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	9.12%	8.66%	6.51%	40.09%
Availability Rate	13.15%	12.63%	10.76%	22.21%
Average Asking Lease Rate	\$0.96	\$1.02	\$1.12	(14.29%)
Sale & Lease Transactions	932,910	1,191,034	1,305,465	(28.54%)
Gross Absorption	1,266,302	1,114,001	1,141,610	10.92%
Net Absorption	(293,968)	(214,137)	(78,900)	N/A



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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:

ANAHEIM METRO OFFICE
3500 W. Orangewood Ave.
Orange, CA 92868-1642
TEL: 714.978.7880
FAX: 714.978.9431

IRVINE OFFICE
2020 Main St.
Suite 100
Irvine, CA 92614
TEL: 949.851.5100
FAX: 949.261.9092

LAS VEGAS OFFICE
10100 W. Charleston Blvd.
Suite 200
Las Vegas, NV 89135
TEL: 702.734.4500
FAX: 702.733.7690

NEWPORT BEACH OFFICE
101 Shipyard Way
Suite M
Newport Beach, CA 92663
TEL: 949.644.8648
FAX: 949.644.8695

SAN DIEGO OFFICE
4370 La Jolla Village Dr.
Suite 990
San Diego, CA 92122-1233
TEL: 858.453.0505
FAX: 858.453.1981

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