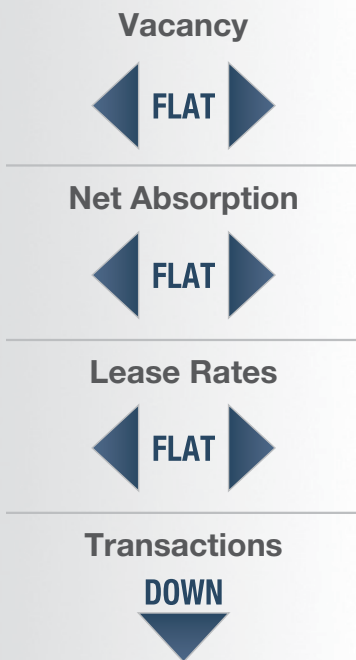




R&D Market Report

Compared to last quarter:



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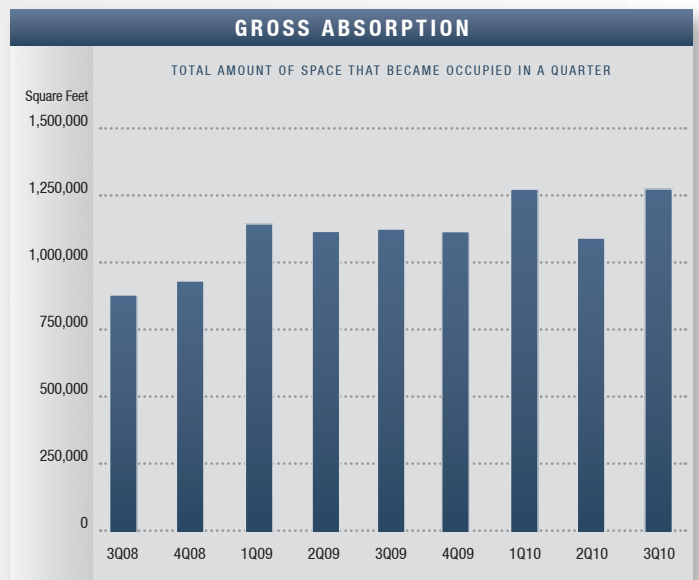
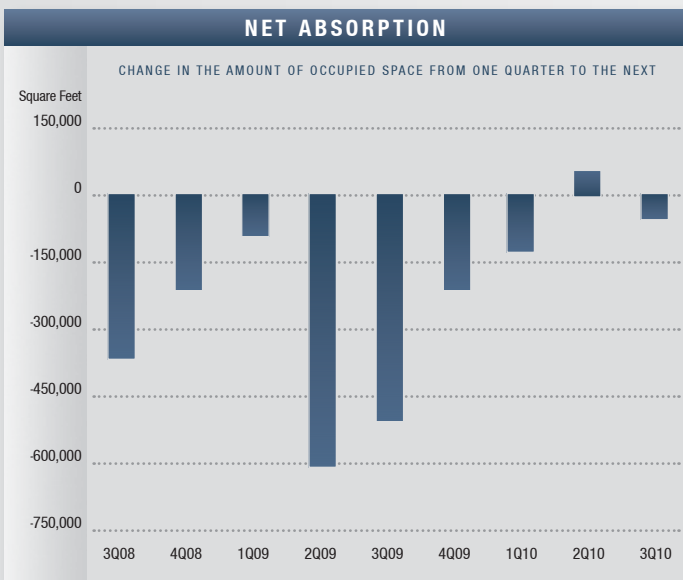
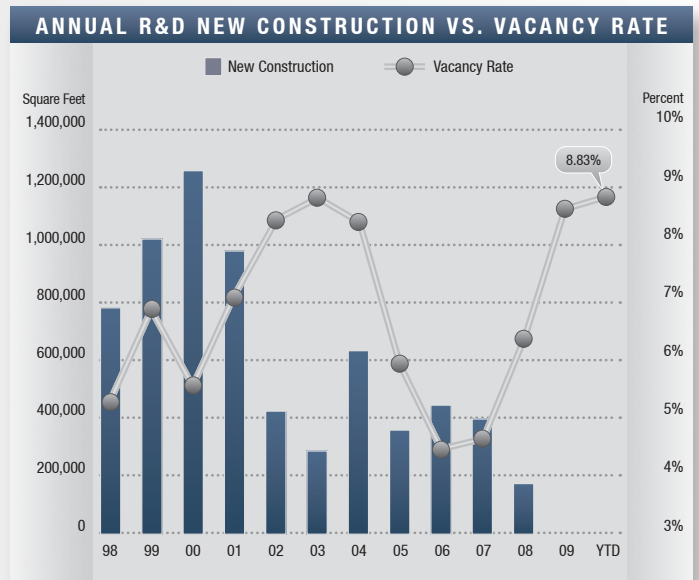
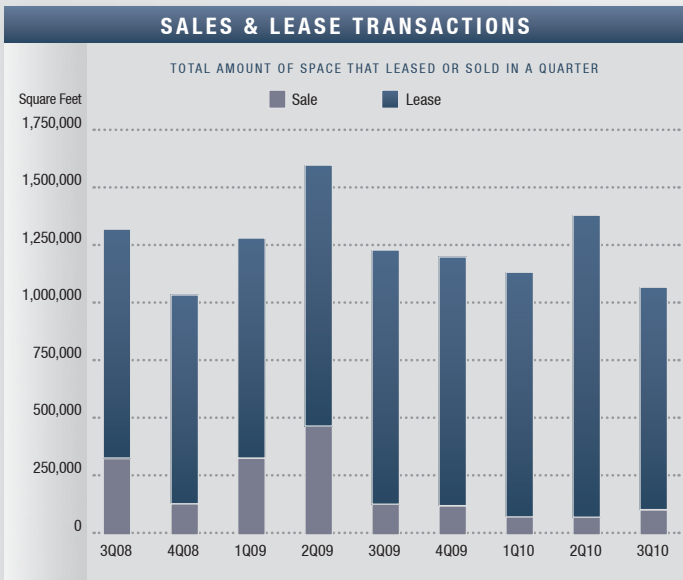
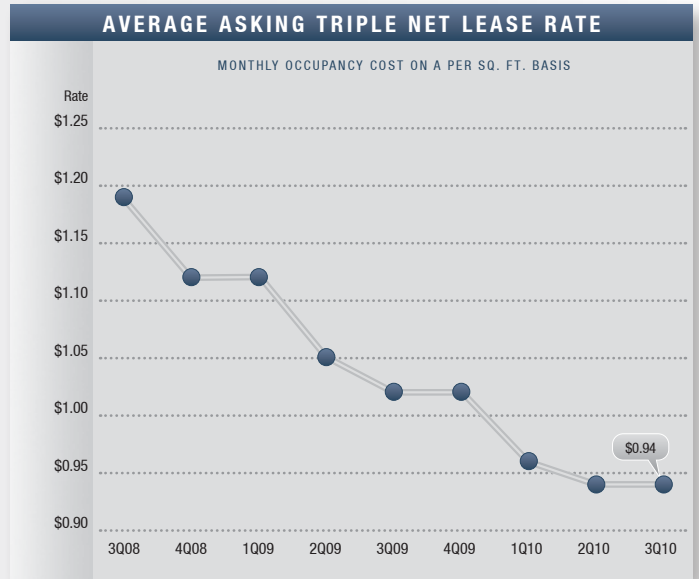
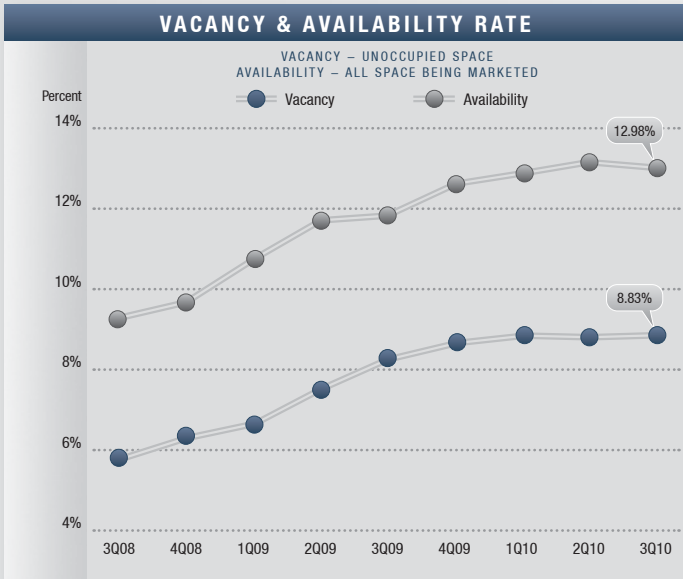
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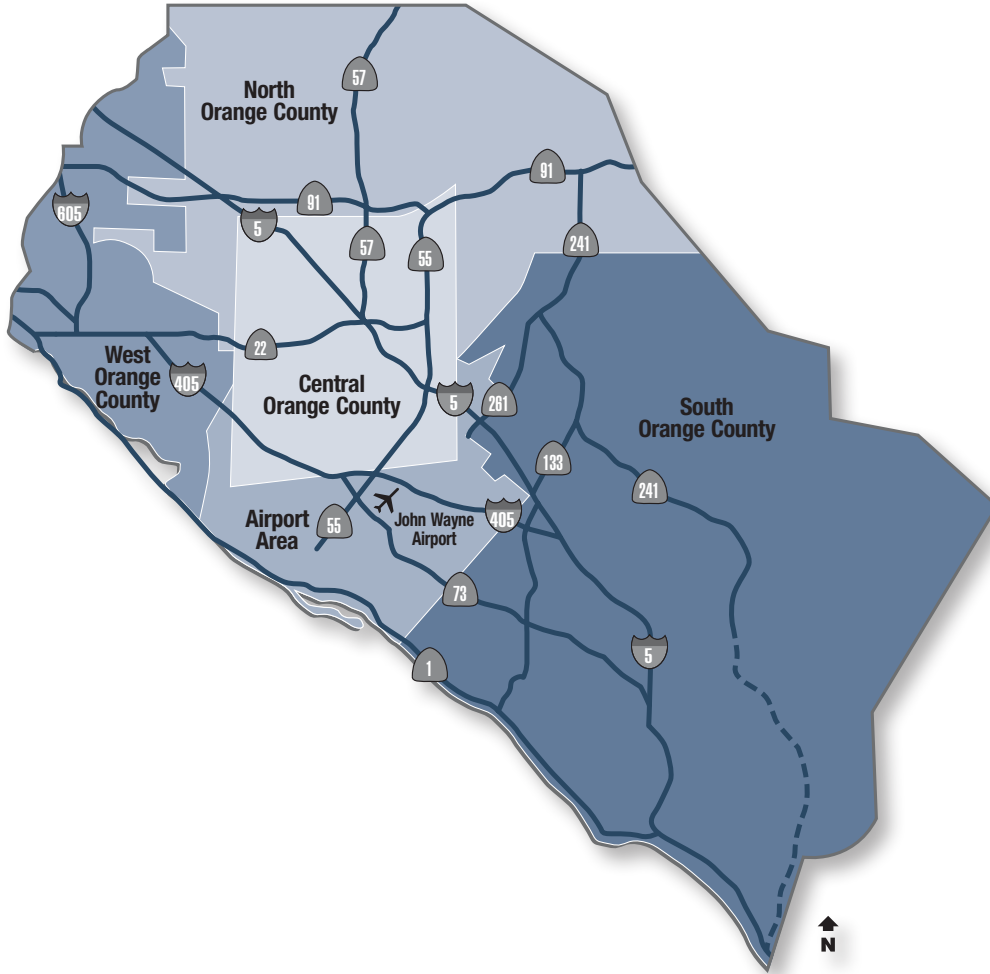
Market Highlights

- Encouraging Numbers** – The Orange County Research & Development Market is showing trends of stabilization. This quarter, availability dropped from last quarter, vacancy rose slightly, and net absorption posted only a small negative number. Although demand is still weak by historical standards, the volume of lease transactions is increasing. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- Construction** – Currently, there is no R&D space under construction in Orange County, as a result of a lack of demand. The shrinking availability of land, scarce financing and rising construction costs has led to few projects being developed.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 8.83%, constituting an increase over last year's rate of 8.27% but a decrease over last quarter's figure of 13.15%. This quarter's rate of 8.83% is still lower than the 9.82% vacancy rate we saw in the second quarter of 2004.
- Availability** – Direct/sublease space being marketed was 12.98% this quarter, up from the 11.88% we saw this same quarter last year. This is an increase of 9.26% 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 third quarter of 2010 was \$0.94 — a 7.84% decrease over last year's rate of \$1.02 and the same as 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 51,030 square feet for the third quarter of 2010, giving the R&D market an average of 88,000 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 966,000 square feet. The average amount of leasing per quarter for the past five quarters was 1.1 million square feet. Sales activity posted 100,000 square feet this quarter. The average amount of sales per quarter over the past five quarters was 94,000 square feet.
- Employment** – The unemployment rate in Orange County was 9.2% in May 2010 — down from a revised 9.5% in April 2010 and above the year-ago estimate of 8.6%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County lost 14,800 payroll jobs over the last twelve months; the largest loss was 12,300 in construction. However, during that same period, Orange County gained 8,300 jobs in leisure and hospitality and another 900 jobs in education and health services.
- Overall** – We are beginning to see a decrease in the amount of vacant space being added per quarter. Absorption was only slightly negative — a sign of recovery. With few new deliveries in the pipeline to put more upward pressure on vacancies, the market should continue 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 going into 2011. Once employment turns positive and consumer confidence stabilizes, the R&D market will stabilize.

R & D MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	8.83%	8.74%	8.27%	6.77%
Availability Rate	12.98%	13.15%	11.88%	9.26%
Average Asking Lease Rate	\$0.94	\$0.94	\$1.02	(7.84%)
Sale & Lease Transactions	1,065,950	1,379,610	1,225,330	(13.01%)
Gross Absorption	1,268,382	1,081,928	1,121,433	13.10%
Net Absorption	(51,030)	55,742	(475,782)	N/A





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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