



R&D Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

NEGATIVE

Lease Rates

DOWN

Transactions

UP

Market Highlights

- **Encouraging Numbers** - The Orange County research and development market showed trends of stabilization in the fourth quarter of 2010. Availability and vacancy showed signs of stabilizing, and net absorption posted only a small negative number. Although demand was still weak by historical standards, the volume of sale and lease transactions increased. While these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - There was no R&D space under construction in Orange County in the fourth quarter of 2010, 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 year at 8.77%, constituting a slight increase over 2009's rate of 8.55%. The fourth quarter's rate of 8.77% is still lower than the 8.92% vacancy rate we saw in the second quarter of 2010.
- **Availability** - Direct/sublease space being marketed was 12.62% this quarter, up slightly from the 12.43% we saw at the end of 2009. This is an increase of 1.53% of new space being marketed when compared to the same quarter of the previous year.
- **Lease Rates** - The average asking Triple Net lease rate per square foot per month in Orange County for the fourth quarter of 2010 was \$0.90 — and four cents lower than third quarter's rate and a 11.76% decrease over 2009's rate of \$1.02. The record high rate of \$1.22 was established in the second quarter of 2007.
- **Absorption** - Net absorption for the county posted a negative 139,345 square feet for 2010, although the last quarter of 2010 produced 88,224 square feet of positive absorption. The R&D market averaged 35,000 square feet of negative absorption in 2010. This negative absorption can be attributed to the recent job losses.
- **Transaction Activity** - Leasing activity checked in at 4.6 million square feet for 2010. The average amount of leasing

per quarter for the past five quarters was 1.1 million square feet. Sales activity posted 329,145 square feet for 2010, which is an increase over 2009's total of 183,362 square feet. The Orange County research and development market averaged 74,000 square feet of sales transactions per quarter for five consecutive quarters.

- **Employment** - The unemployment rate in Orange County was 9.3% in November 2010 — up from a revised 9.1% in October 2010 and below the 2009 estimate of 9.6%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County increased by 19,100 payroll jobs from November 2009 to November 2010; the largest gains were 10,100 in professional & business services and 8,400 in leisure and hospitality. However, during that same period, Orange County lost 4,900 jobs in construction. Chapman University is forecasting that 23,000 jobs will be added in Orange County in 2011.
- **Overall** - We are beginning to see a decrease in the amount of vacant space being added per quarter. Absorption is displaying signs of improvement, posting a positive number in the fourth quarter of 2010. 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 continue 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.

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Prepared by:

Jerry J. Holdner, Jr. — Lic.#01145748

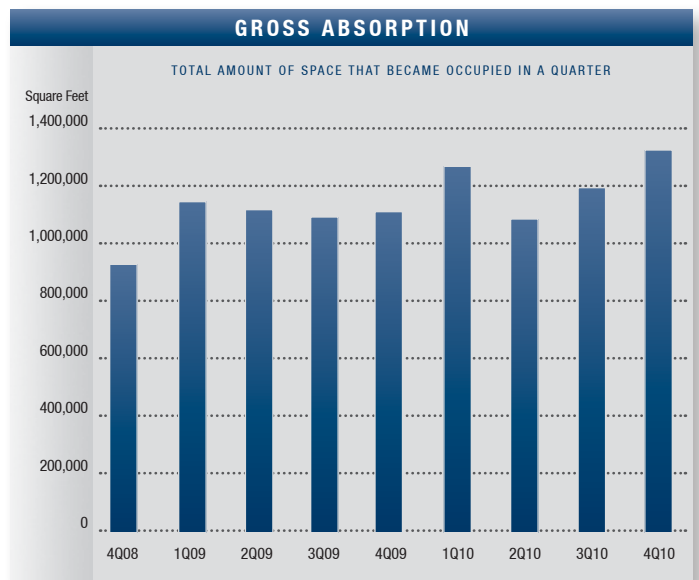
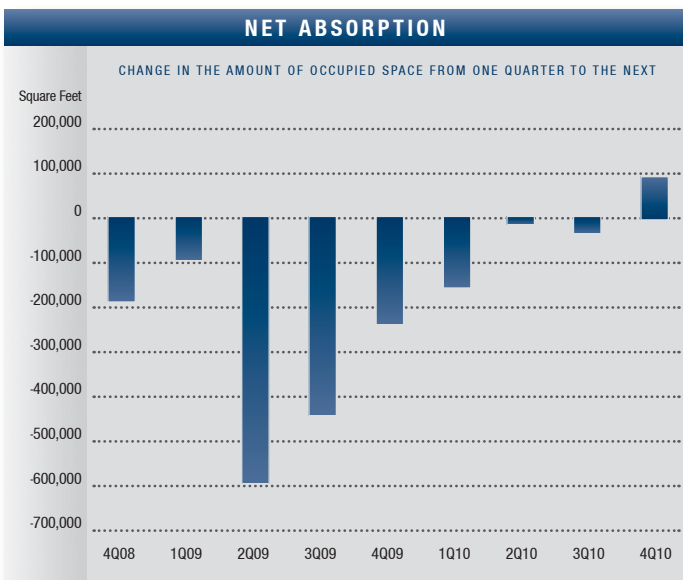
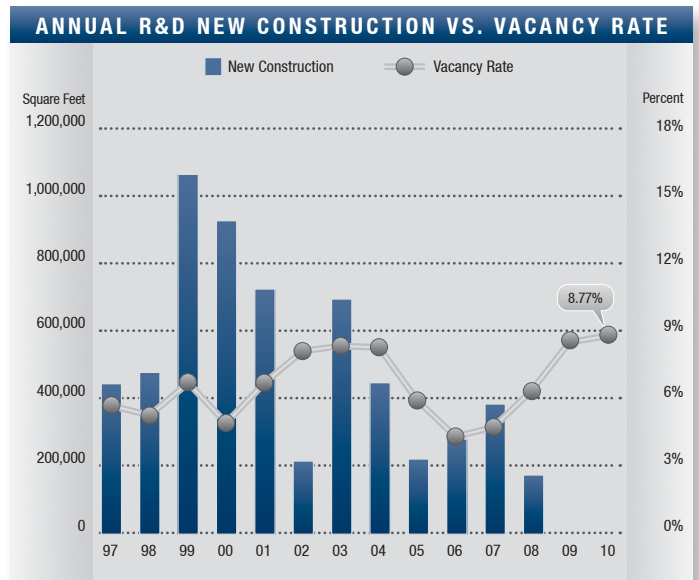
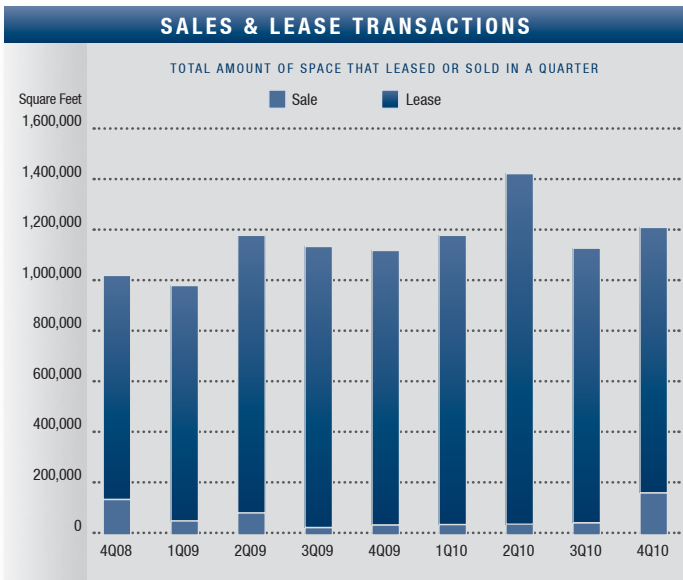
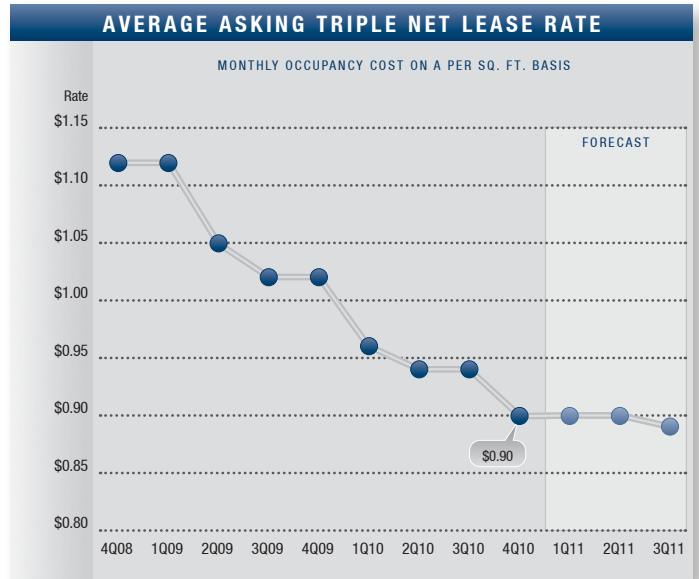
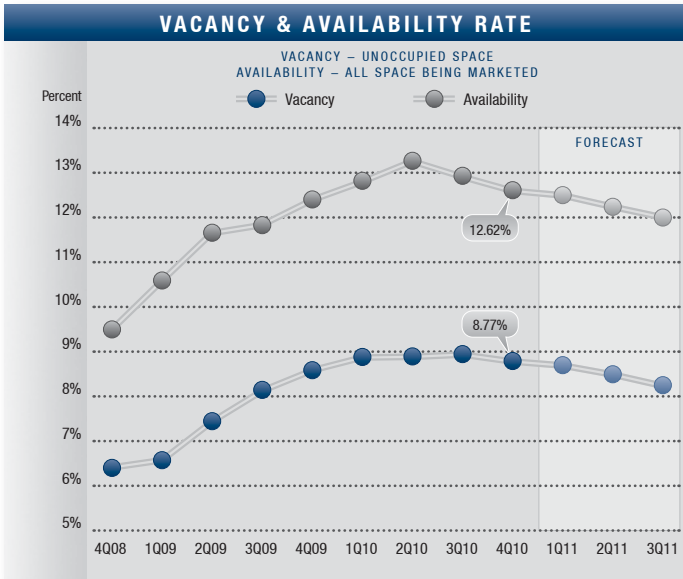
Vice President of Market Research

VOIT Real Estate Services — Lic.#01333376

e-mail: jholdner@voitco.com

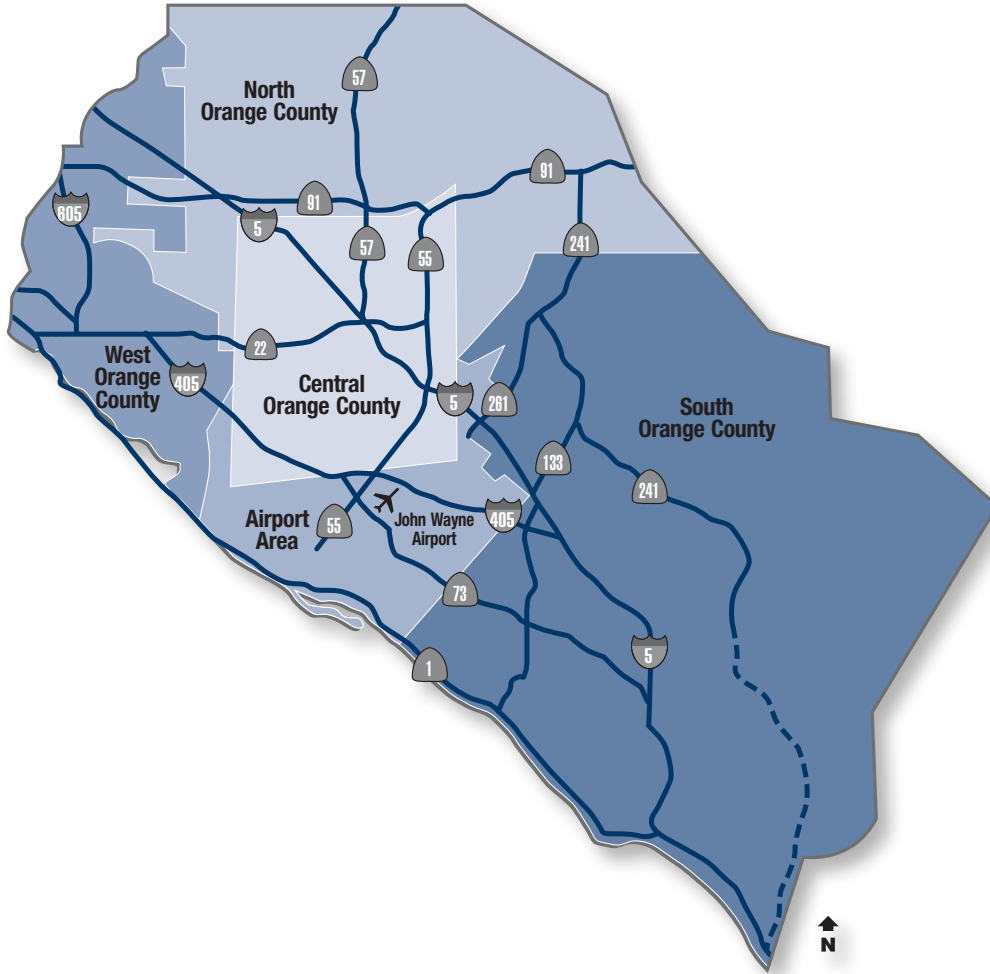
R & D MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	8.77%	8.55%	6.37%	2.57%
Availability Rate	12.62%	12.43%	9.50%	1.53%
Average Asking Lease Rate	\$0.90	\$1.02	\$1.12	(11.76%)
Sale & Lease Transactions	4,922,363	4,414,096	3,792,020	11.51%
Gross Absorption	4,862,999	4,460,583	3,446,384	9.02%
Net Absorption	(139,345)	(1,378,164)	(885,526)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
North County													
Anaheim	99	3,107,200	0	0	249,520	8.03%	369,682	11.90%	\$0.60	9,395	41,589	52,107	220,613
Brea	46	1,785,161	0	0	77,734	4.35%	88,783	4.97%	\$0.47	75,115	22,133	84,217	129,909
Buena Park	31	1,120,486	0	0	69,204	6.18%	72,214	6.44%	\$0.00	28,069	1	28,069	63,931
Fullerton	40	1,484,540	0	0	85,738	5.78%	108,849	7.33%	\$0.00	(26,017)	(17,635)	9,830	63,145
La Habra	7	146,680	0	0	10,472	7.14%	10,472	7.14%	\$0.00	0	6,565	0	7,565
La Palma	7	272,878	0	0	72,763	26.67%	63,124	23.13%	\$1.10	0	(39,891)	0	16,660
Placentia	20	565,108	0	0	7,840	1.39%	35,795	6.33%	\$0.80	9,170	9,458	12,360	26,258
Yorba Linda	50	1,338,504	0	0	79,322	5.93%	166,779	12.46%	\$0.85	20,628	27,291	34,138	120,337
North County Total	300	9,820,557	0	0	652,593	6.65%	915,698	9.32%	\$0.80	116,360	49,511	220,721	648,418
West County													
Cypress	43	2,331,192	0	0	232,938	9.99%	437,387	18.76%	\$0.91	(22,286)	(3,300)	0	223,724
Huntington Beach	126	2,554,277	0	0	208,286	8.15%	248,310	9.72%	\$0.84	5,037	(32,052)	37,081	173,711
Los Alamitos	36	809,324	0	0	60,769	7.51%	74,814	9.24%	\$0.00	(8,034)	(30,800)	1,700	13,790
West County Total	205	5,694,793	0	0	501,993	8.81%	760,511	13.35%	\$0.90	(25,283)	(66,152)	38,781	411,225
Central County													
Anaheim	72	1,692,063	0	0	102,998	6.09%	166,143	9.82%	\$0.59	(15,117)	(25,720)	23,828	100,846
Garden Grove	81	2,374,715	0	0	282,708	11.90%	244,329	10.29%	\$0.84	(78,343)	(93,771)	18,085	148,747
Orange	101	2,117,697	0	0	90,200	4.26%	164,916	7.79%	\$0.98	11,017	57,729	60,195	168,476
Santa Ana	60	1,502,318	0	0	153,052	10.19%	243,495	16.21%	\$0.00	(45,024)	(59,750)	7,342	72,601
Westminster	21	582,962	0	0	18,408	3.16%	108,503	18.61%	\$0.00	(680)	14,195	4,392	30,703
Central County Total	335	8,269,755	0	0	647,366	7.83%	927,386	11.21%	\$0.86	(128,147)	(107,317)	113,842	521,373
Airport Area													
Costa Mesa	177	4,270,746	0	0	441,502	10.34%	549,895	12.88%	\$0.93	(24,420)	(24,437)	115,000	389,013
Fountain Valley	49	1,359,698	0	0	76,379	5.62%	85,558	6.29%	\$0.85	3,242	(15,485)	23,629	77,717
Irvine	266	6,728,648	0	0	708,278	10.53%	1,004,858	14.93%	\$0.82	79,416	(665)	191,738	556,347
Newport Beach	23	555,089	0	0	39,542	7.12%	41,712	7.51%	\$1.10	8,222	(18,591)	8,222	34,605
Santa Ana	127	3,892,565	0	0	254,726	6.54%	370,331	9.51%	\$0.99	82,025	62,292	104,788	291,606
Tustin	97	3,422,751	0	0	362,552	10.59%	604,911	17.67%	\$0.91	(28,955)	(33,431)	35,624	181,708
Airport Area Total	739	20,229,497	0	0	1,882,979	9.31%	2,657,265	13.14%	\$0.87	119,530	(30,317)	479,001	1,530,996
South County													
Aliso Viejo	35	848,477	0	0	89,567	10.56%	105,807	12.47%	\$1.01	(14,285)	(8,762)	8,123	64,461
Foothill Ranch	7	162,906	0	0	49,415	30.33%	49,415	30.33%	\$0.00	0	0	0	49,415
Irvine Spectrum	265	9,914,901	0	0	953,886	9.62%	1,612,423	16.26%	\$1.01	101,715	168,825	332,845	1,098,622
Laguna Hills	60	1,357,574	0	0	115,504	8.51%	106,859	7.87%	\$1.52	(4,092)	(5,241)	37,185	136,200
Laguna Niguel	16	1,412,141	0	0	213,089	15.09%	224,134	15.87%	\$1.00	3,833	(89,138)	4,300	25,300
Lake Forest	60	1,368,968	0	0	145,734	10.65%	168,832	12.33%	\$0.62	(38,769)	(44,043)	26,605	151,016
Mission Viejo	35	940,827	0	0	78,185	8.31%	78,334	8.33%	\$1.00	(17,710)	(27,187)	10,551	50,787
Rancho Santa Margarita	40	1,446,696	0	0	29,173	2.02%	137,809	9.53%	\$0.69	11,364	15,970	13,956	29,566
San Clemente	44	1,044,034	0	0	93,692	8.97%	147,935	14.17%	\$1.10	(26,555)	2,908	18,302	95,011
San Juan Capistrano	37	553,119	0	239,012	78,659	14.22%	63,384	11.46%	\$0.55	(9,737)	1,598	16,375	50,609
South County Total	599	19,049,643	0	239,012	1,846,904	9.70%	2,694,932	14.15%	\$0.95	5,764	14,930	468,242	1,750,987
Orange County Total	2,178	63,064,245	0	239,012	5,531,835	8.77%	7,955,792	12.62%	\$0.90	88,224	(139,345)	1,320,587	4,862,999
North County													
10,000 to 24,999	178	2,855,948	0	0	311,923	10.92%	377,339	13.21%	\$0.88	21,539	57,828	76,027	330,160
25,000 to 49,999	85	2,845,904	0	0	243,731	8.56%	364,468	12.81%	\$0.85	30,635	43,191	75,931	234,361
50,000 to 99,999	26	1,718,590	0	0	96,939	5.64%	99,578	5.79%	\$1.10	64,186	(51,508)	68,763	83,897
100,000+	11	2,400,115	0	0	0	0.00%	74,313	3.10%	\$0.00	0	0	0	0
West County													
10,000 to 24,999	141	2,149,111	0	0	172,616	8.03%	186,617	8.68%	\$0.75	(3,027)	(40,060)	33,617	130,680
25,000 to 49,999	42	1,451,403	0	0	78,520	5.41%	128,626	8.86%	\$0.85	(11,720)	7,034	5,164	69,373
50,000 to 99,999	18	1,185,903	0	0	250,857	21.15%	364,988	30.78%	\$0.86	(10,536)	(33,126)	0	84,172
100,000+	4	908,376	0	0	0	0.00%	80,280	8.84%	\$0.00	0	0	0	127,000
Central County													
10,000 to 24,999	243	3,910,983	0	0	354,470	9.06%	426,007	10.89%	\$0.97	(48,782)	(51,624)	60,885	335,585
25,000 to 49,999	69	2,250,931	0	0	200,063	8.89%	271,105	12.04%	\$0.75	(14,668)	(18,429)	38,217	136,415
50,000 to 99,999	17	1,172,508	0	0	84,039	7.17%	161,974	13.81%	\$0.61	(55,903)	(28,470)	14,740	49,373
100,000+	6	935,333	0	0	8,794	0.94%	68,300	7.30%	\$0.00	(8,794)	(8,794)	0	0
Airport Area													
10,000 to 24,999	494	7,951,660	0	0	806,106	10.14%	1,005,248	12.64%	\$0.87	(12,900)	(57,414)	199,776	748,529
25,000 to 49,999	168	5,649,003	0	0	653,892	11.58%	812,773	14.39%	\$0.87	172,193	78,793	241,758	606,316
50,000 to 99,999	55	3,648,738	0	0	255,247	7.00%	494,651	13.56%	\$0.72	(39,763)	(51,696)	37,467	139,825
100,000+	22	2,979,916	0	0	167,734	5.63%	344,593	11.56%	\$1.02	0	0	0	36,326
South County													
10,000 to 24,999	360	5,945,230	0	150,972	596,941	10.04%	692,582	11.65%	\$0.83	(77,414)	24,748	166,745	724,259
25,000 to 49,999	170	5,693,149	0	88,040	614,497	10.79%	890,591	15.64%	\$0.86	(3,999)	(17,908)	104,201	547,409
50,000 to 99,999	51	3,395,557	0	0	410,246	12.08%	604,627	17.81%	\$0.94	(6,049)	(12,904)	104,070	237,615
100,000+	18	4,015,887	0	0	225,220	5.61%	507,132	12.63%	\$0.84	93,226	20,994	93,226	241,704
Orange County													
10,000 to 24,999	1,416	22,812,932	0	150,972	2,242,056	9.83%	2,687,793	11.78%	\$0.87	(120,584)	(66,522)	537,050	2,269,213
25,000 to 49,999	534	17,890,390	0	88,040	1,790,703	10.01%	2,467,563	13.79%	\$0.85	172,441	92,681	465,271	1,593,874
50,000 to 99,999	167	11,121,296	0	0	1,097,328	9.87%	1,725,818	15.52%	\$0.84	(48,065)	(177,704)	225,040	594,882
100,000+	61	11,239,627	0	0	401,748	3.57%	1,074,618	9.56%	\$1.01	84,432	12,200	93,226	405,030
OC Total	2,178	63,064,245	0	239,012	5,531,835	8.77%	7,955,792	12.62%	\$0.90	88,224	(139,345)	1,320,587	4,862,999

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.

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