



R&D Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



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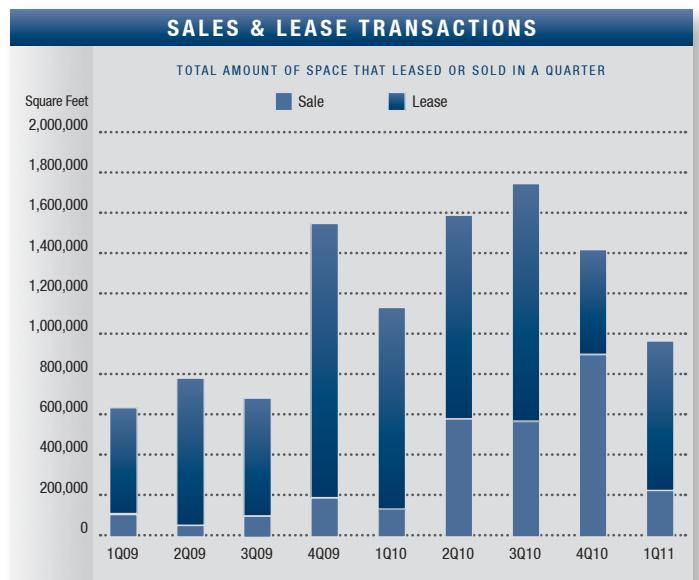
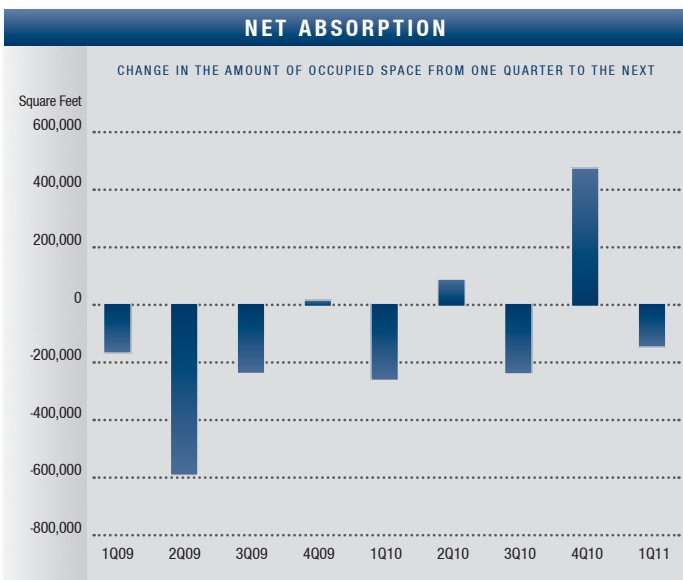
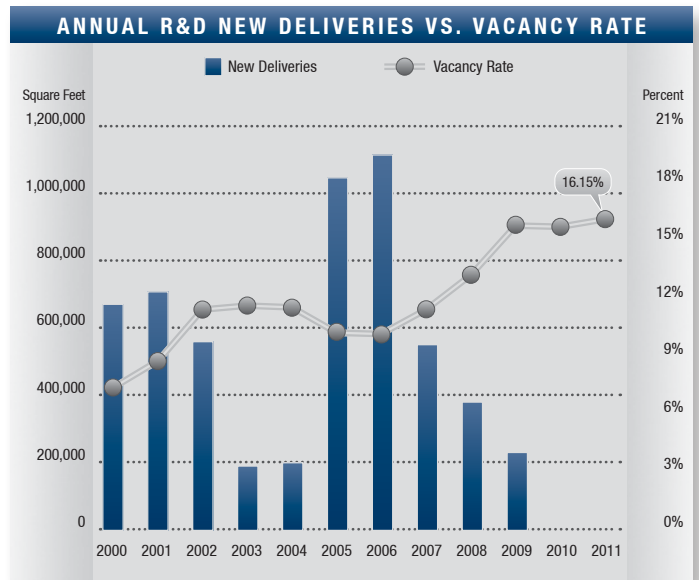
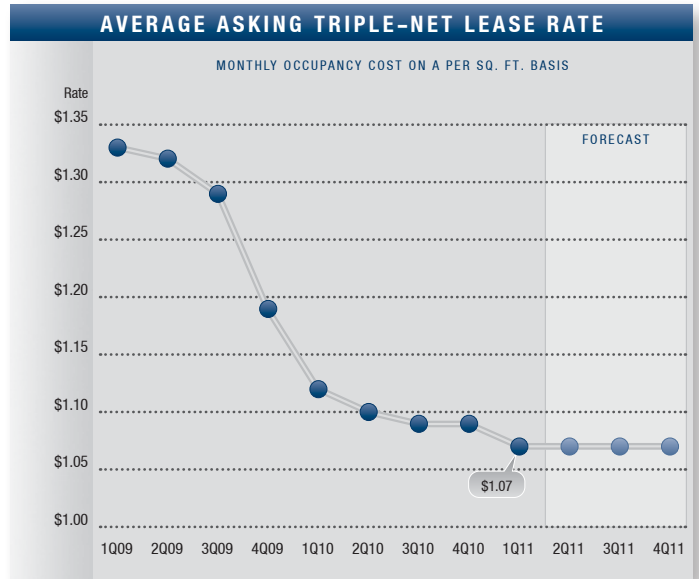
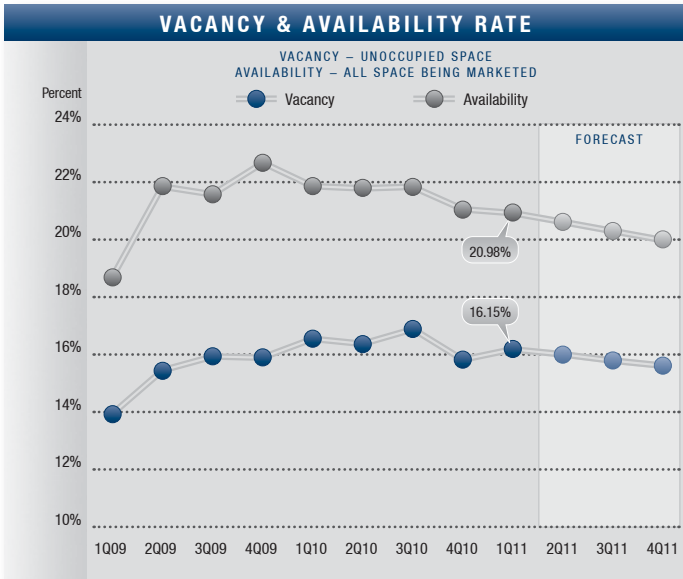
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Market Highlights

- Encouraging Numbers** - 2011's first quarter numbers appeared encouraging – a sign that recovery could be on the horizon. Availability trended downward, vacancy showed signs of stabilization, and net absorption posted only a small negative number. Demand picked up in 2010, with the second quarter marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- Transaction Activity** - Leasing activity checked in at 735,569 square feet in the first quarter of 2011, an increase over the previous quarter's figure of 508,589 square feet. Sales activity showed a significant increase over the first quarter of 2010, posting 215,579 square feet of activity compared to 126,126 square feet in the first quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Construction** - Two small buildings in Escondido, totaling 26,340 square feet, broke ground in the first quarter, marking the first construction in the San Diego R&D market since 2009. Scarce financing and a weak economy have essentially halted R&D development.
- Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 16.15%, a decrease from 2010's first quarter rate of 16.54% but higher than 2010's fourth quarter rate of 15.82%. The lowest vacancy rates can be found in the Central and East County markets at 6.52% and 7.20%, respectively.
- Availability** - Direct/sublease space being marketed was 20.98% in the first quarter, a full percentage-point drop from the 2010's first quarter rate of 21.97% and a slight decrease from 2010's fourth quarter rate of 21.04%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.07 at the end of the first quarter of 2011. This is two cents lower than the previous quarter's rate and a 4.46% decrease compared to 2010's rate of \$1.12. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- Absorption** - The San Diego R&D market posted 147,195 square feet of negative net absorption in the first quarter of 2011, giving the market an average of approximately 43,000 square feet of positive absorption per quarter over the past four quarters.
- Employment** - The unemployment rate in San Diego County was 10.1% in February 2011, down from a revised 10.4% in January 2011 and below the year-ago estimate of 10.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 19,100 payroll jobs from February 2010 to February 2011 – 10,700 in professional and business services and 3,800 in education and health services. However, construction posted the greatest year-over-year decline – a loss of 1,600 jobs. Between January 2011 and February 2011 San Diego County employment increased by 4,700 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- Overall** - We are beginning to see a decrease in the amount of available space on the market, as well as an overall increase in sales activity, as investors have begun actively seeking prudent investments. With very little currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. We expect to see an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs. As unemployment rates drop and consumer confidence stabilizes, the R&D market will recover.

R & D MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	16.15%	15.82%	16.54%	(2.36%)
Availability Rate	20.98%	21.04%	21.97%	(4.51%)
Average Asking Lease Rate	\$1.07	\$1.09	\$1.12	(4.46%)
Sale & Lease Transactions	951,148	1,404,454	1,127,751	(15.66%)
Gross Absorption	1,015,565	1,265,385	915,635	10.91%
Net Absorption	(147,195)	474,297	(257,111)	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 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
Central													
Central City	17	207,418	0	0	23,044	11.11%	18,419	8.88%	\$0.00	5,706	5,706	5,706	5,706
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	20	216,834	0	0	7,500	3.46%	7,500	3.46%	\$0.00	(100)	(100)	0	0
Central Total	42	468,544	0	0	30,544	6.52%	25,919	5.53%	\$0.00	5,606	5,606	5,706	5,706
Central Suburban													
Airport/Sports Arena	30	408,475	0	0	7,281	1.78%	97,961	23.98%	\$0.00	0	0	0	0
Kearny Mesa	211	5,305,416	0	57,691	459,514	8.66%	858,325	16.18%	\$1.02	66,045	66,045	243,405	243,405
Mission Gorge	23	179,140	0	0	15,836	8.84%	15,836	8.84%	\$1.10	(4,322)	(4,322)	1,770	1,770
Rose Canyon/Morena	40	686,938	0	0	83,790	12.20%	74,063	10.78%	\$0.77	(9,923)	(9,923)	23,287	23,287
Central Suburban Total	304	6,579,969	0	57,691	566,421	8.61%	1,046,185	15.90%	\$1.02	51,800	51,800	268,462	268,462
East County													
El Cajon	81	932,823	0	0	60,384	6.47%	81,781	8.77%	\$0.00	9,751	9,751	10,771	10,771
La Mesa/Spring Valley	40	295,699	0	0	26,323	8.90%	28,401	9.60%	\$0.00	(12,073)	(12,073)	2,020	2,020
Santee/Lakeside	51	450,979	0	590,000	34,240	7.59%	39,620	8.79%	\$0.75	(2,392)	(2,392)	7,379	7,379
East County Total	172	1,679,501	0	590,000	120,947	7.20%	149,802	8.92%	\$0.75	(4,714)	(4,714)	20,170	20,170
Highway 78 Corridor													
Oceanside	31	987,470	0	0	106,855	10.82%	114,518	11.60%	\$0.00	5,026	5,026	6,107	6,107
San Marcos	55	855,067	0	0	125,458	14.67%	140,321	16.41%	\$0.97	13,584	13,584	25,543	25,543
Vista/Fallbrook	59	1,652,505	0	231,842	218,984	13.25%	289,288	17.51%	\$0.72	(339)	(339)	43,623	43,623
Highway 78 Corridor Total	145	3,495,042	0	231,842	451,297	12.91%	544,127	15.57%	\$0.76	18,271	18,271	75,273	75,273
I-15 Corridor													
Escondido	51	601,251	26,340	0	57,731	9.60%	80,920	13.46%	\$0.56	(5,694)	(5,694)	11,667	11,667
Poway	65	1,374,422	0	65,000	139,390	10.14%	235,808	17.16%	\$0.88	(24,325)	(24,325)	21,161	21,161
Rancho Bernardo	90	4,983,764	0	0	1,331,384	26.71%	1,561,150	31.32%	\$0.96	24,283	24,283	30,943	30,943
Scripps Ranch	30	755,298	0	0	155,818	20.63%	159,212	21.08%	\$0.97	(21,999)	(21,999)	882	882
I-15 Corridor Total	236	7,714,735	26,340	65,000	1,684,323	21.83%	2,037,090	26.41%	\$0.95	(27,735)	(27,735)	64,653	64,653
North City													
Miramar	205	4,307,301	0	0	776,338	18.02%	1,166,547	27.08%	\$0.99	(49,793)	(49,793)	75,246	75,246
Sorrento Mesa	160	6,335,630	0	0	870,268	13.74%	1,343,641	21.21%	\$1.19	(31,079)	(31,079)	62,569	62,569
Sorrento Valley	99	2,381,523	0	0	328,273	13.78%	328,640	13.80%	\$1.53	18,679	18,679	54,373	54,373
Torrey Pines	36	2,489,742	0	0	482,424	19.38%	483,350	19.41%	\$0.00	(937)	(937)	4,800	4,800
UTC Center	18	1,506,759	0	102,967	534,946	35.50%	463,608	30.77%	\$1.50	(75,938)	(75,938)	88,294	88,294
North City Total	518	17,020,955	0	102,967	2,992,249	17.58%	3,785,786	22.24%	\$1.14	(139,068)	(139,068)	285,282	285,282
North County													
Carlsbad	234	5,157,209	0	0	1,105,777	21.44%	1,364,109	26.45%	\$1.07	(12,549)	(12,549)	254,790	254,790
North Beach Cities	16	156,894	0	0	3,359	2.14%	3,359	2.14%	\$0.00	2,230	2,230	2,230	2,230
North County Total	250	5,314,103	0	0	1,109,136	20.87%	1,367,468	25.73%	\$1.07	(10,319)	(10,319)	257,020	257,020
Outlying Areas													
Outlying SD County North	15	126,521	0	0	12,396	9.80%	12,396	9.80%	\$0.00	(1,296)	(1,296)	0	0
Outlying SD County South	20	76,270	0	0	8,617	11.30%	14,241	18.67%	\$0.00	0	0	4,117	4,117
Outlying Areas Total	35	202,791	0	0	21,013	10.36%	26,637	13.14%	\$0.00	(1,296)	(1,296)	4,117	4,117
South Bay													
Chula Vista	79	1,532,423	0	0	139,493	9.10%	296,072	19.32%	\$0.00	(4,509)	(4,509)	25,887	25,887
National City	31	299,827	0	0	37,691	12.57%	37,691	12.57%	\$0.00	(2,029)	(2,029)	8,995	8,995
Otay Mesa	11	296,313	0	0	50,166	16.93%	41,058	13.86%	\$0.00	(33,202)	(33,202)	0	0
South Bay Total	121	2,128,563	0	0	227,350	10.68%	374,821	17.61%	\$0.00	(39,740)	(39,740)	34,882	34,882
San Diego County Total	1,823	44,604,203	26,340	1,047,500	7,203,280	16.15%	9,357,835	20.98%	\$1.07	(147,195)	(147,195)	1,015,565	1,015,565

Lease rates are on a triple-net basis.

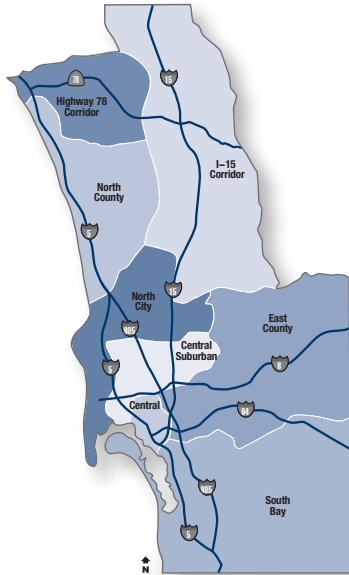
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
9381 Judicial Drive	UTC	80,934	\$100.80	HCP, Inc.	Nexus Properties, Inc.
2555 Birch Street	Vista	27,241	\$100.41	Barlett Family Trust	Maynard Trust
9212 Mira Este Court	Miramar	15,950	\$94.04	HWA-In America	Marianne Schaffer
11189 Sorrento Valley Road – Units 101 & 102	Sorrento Valley	6,204	\$218.00	Del Mar Union School District	PacVentures, Inc.
5775 Chesapeake Court	Kearny Mesa	7,863	\$171.25	Veterinary Specialty Hospital of SD	Rico Hand Knits
12169 Kirkham Road	Poway	11,768	\$108.34	Vitrex Corporation	Direct Capital Resources, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2271 Cosmos Court – Renewal	Carlsbad	85,165	Feb-11	Phillips Healthcare	Koch Trust
10420 Waterridge Circle	Sorrento Mesa	46,142	Mar-11	N/A	Multitech Properties, Inc.
2251 Rutherford Road	Carlsbad	33,424	Feb-11	The Upper Deck Company, LLC	Pacific Realty Advisors
6359 Paseo Del Lago	Carlsbad	29,824	Jan-11	Sound-Eklin	Arden Realty, Inc.
5871 Oberlin Drive	Sorrento Mesa	29,244	Mar-11	Next Therapeutics	Alexandria Real Estate Equities, Inc.



Product Type

Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 30% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

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