



## Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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### Market Highlights

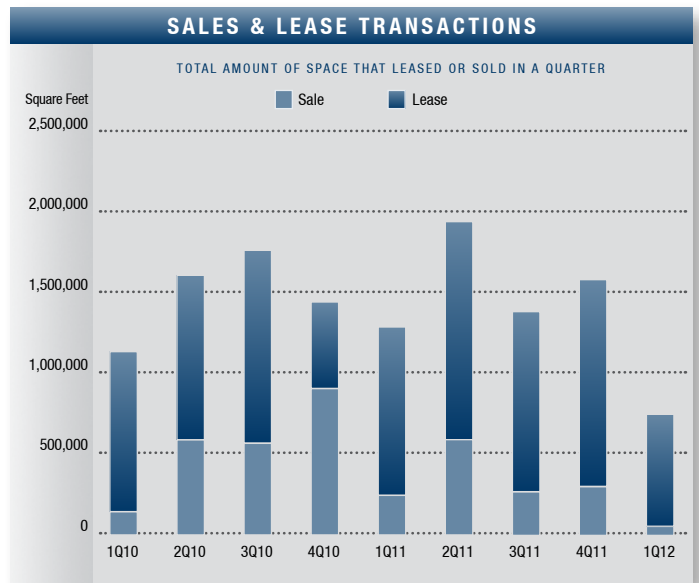
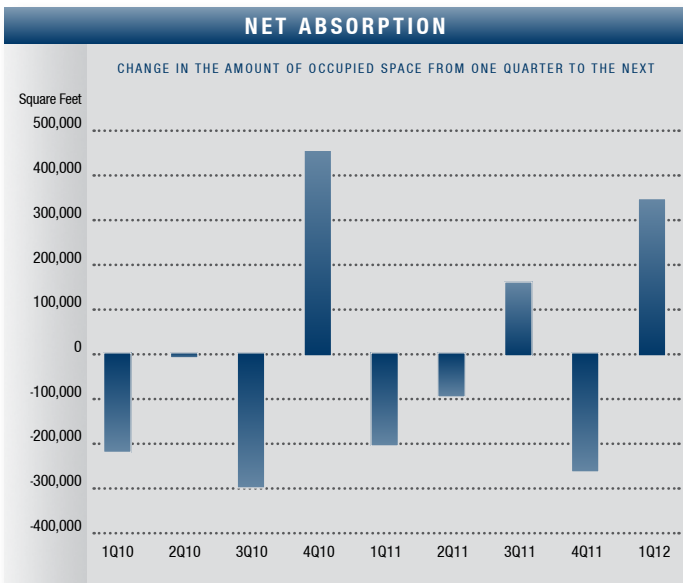
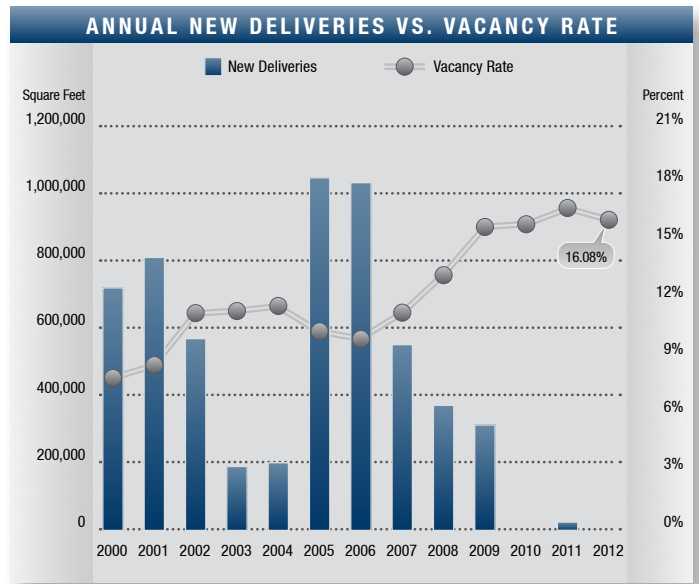
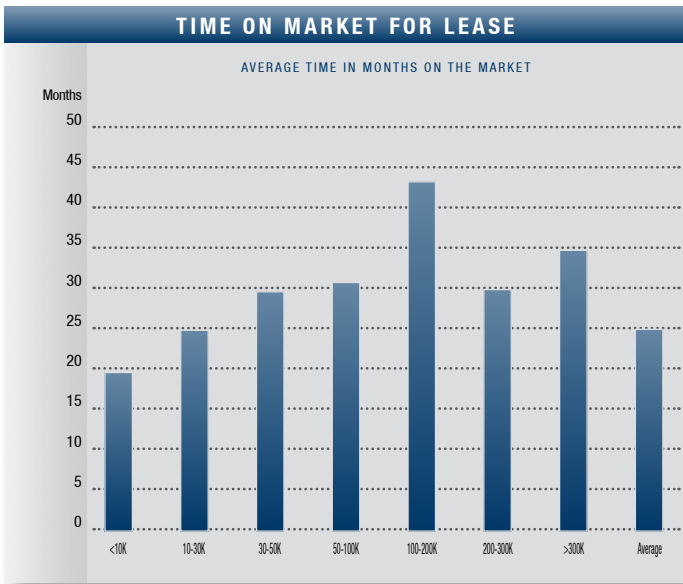
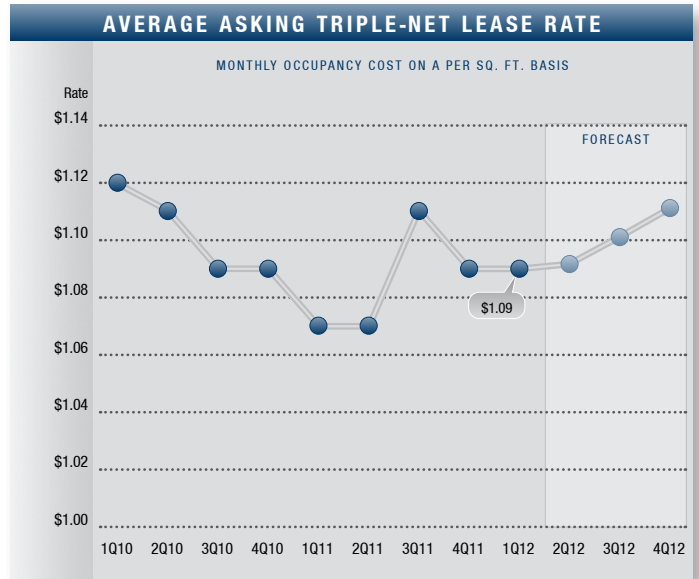
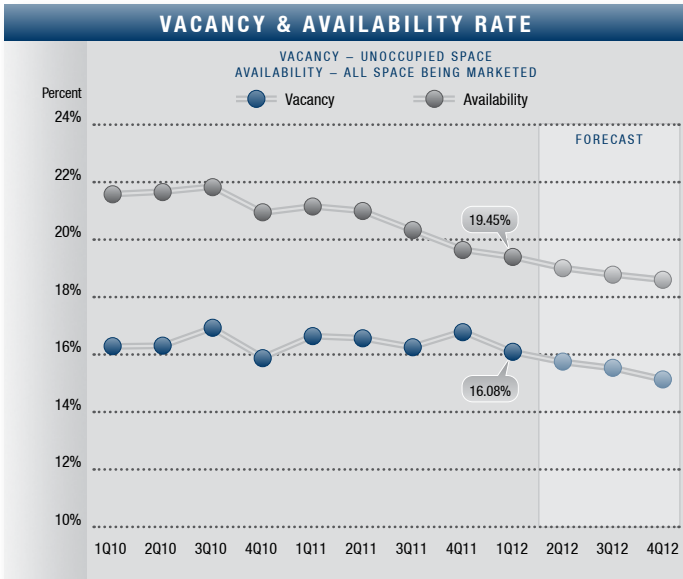
- **Volatile Sector** - The San Diego R&D market displayed good signs of recovery in the first quarter of 2012, with strong positive net absorption and slight decreases in both vacancy and availability. 2011 showed the highest volume of square feet leased seen since 2006, indicating the presence of demand for R&D space. However, stability and job growth will need to be sustained in coming quarters for the market to continue to recover.
- **Construction** - There was very little construction during over the past year, with no deliveries in the first quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.08%, a decrease from the fourth quarter rate of 16.79%, and the lowest vacancy rate seen since the fourth quarter of 2010.
- **Availability** - Direct/sublease space being marketed was 19.45% at the end of the quarter, a drop from the previous quarter's rate of 19.64% and the lowest availability rate in the San Diego R&D market since the first quarter of 2009.
- **Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.09 at the end of the first quarter of 2012, unchanged from the previous quarter. Average asking lease rates have fluctuated over the last year, dropping as low as \$1.07 and reaching as high as \$1.11. 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 345,650 square feet of positive net absorption in the first quarter, following 266,534 square feet of negative net absorption in the fourth quarter. This marks the most positive net

absorption seen in a quarter since the fourth quarter of 2010 and, prior to that, the second quarter of 2008. Much of 2012's first quarter's positive net absorption was a result of 2011's strong leasing activity.

- **Transaction Activity** - The combined square feet sold and leased in the first quarter totaled 723,944 square feet, a decrease from the 1,569,457 square feet of the fourth quarter. Details of the largest transactions can be found on the back page of this report.
- **Employment** - The unemployment rate in the San Diego County was 9.3% in February 2012, unchanged from a revised 9.3% in January 2012 and below the year-ago estimate of 10.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 9,000 payroll jobs from February 2011 to February 2012 — 6,200 in professional and business services and 1,600 in professional, scientific, and technical services. Government posted the greatest year-over-year decline - a loss of 2,200 jobs.
- **Overall** - The R&D market has shown signs of strong demand, exhibited in last year's leasing activity, but availability and vacancy has remained stubbornly high. 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.

### FLEX / R & D MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	16.08%	16.79%	16.36%	(1.71%)
Availability Rate	19.45%	19.64%	21.18%	(8.17%)
Average Asking Lease Rate	\$1.09	\$1.09	\$1.07	1.87%
Sale & Lease Transactions	723,944	1,569,457	1,285,042	(43.66%)
Gross Absorption	1,036,819	752,217	1,023,750	1.28%
Net Absorption	345,650	(266,534)	(200,618)	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
<b>Central</b>													
Central City	17	207,418	0	0	5,848	2.82%	5,845	2.82%	\$0.00	499	499	4,300	4,300
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	19	208,804	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Central Total</b>	<b>41</b>	<b>460,514</b>	<b>0</b>	<b>0</b>	<b>5,848</b>	<b>1.27%</b>	<b>5,845</b>	<b>1.27%</b>	<b>\$0.00</b>	<b>499</b>	<b>499</b>	<b>4,300</b>	<b>4,300</b>
<b>Central Suburban</b>													
Airport/Sports Arena	32	421,515	0	0	11,775	2.79%	100,895	23.94%	\$0.90	0	0	0	0
Kearny Mesa	212	5,403,548	0	37,691	610,549	11.30%	1,021,689	18.91%	\$1.03	52,476	52,476	108,389	108,389
Mission Gorge	22	168,344	0	0	26,288	15.62%	23,436	13.92%	\$0.00	2,216	2,216	4,968	4,968
Rose Canyon/Morena	39	664,563	0	0	79,827	12.01%	94,329	14.19%	\$0.92	(11,620)	(11,620)	14,793	14,793
<b>Central Suburban Total</b>	<b>305</b>	<b>6,657,970</b>	<b>0</b>	<b>37,691</b>	<b>728,439</b>	<b>10.94%</b>	<b>1,240,349</b>	<b>18.63%</b>	<b>\$1.00</b>	<b>43,072</b>	<b>43,072</b>	<b>128,150</b>	<b>128,150</b>
<b>East County</b>													
El Cajon	80	918,455	0	0	114,447	12.46%	140,747	15.32%	\$0.00	(3,343)	(3,343)	19,060	19,060
La Mesa/Spring Valley	43	321,471	0	0	17,248	5.37%	23,626	7.35%	\$0.00	(3,425)	(3,425)	0	0
Santee/Lakeside	50	456,717	0	589,999	46,684	10.22%	50,096	10.97%	\$0.64	(26,182)	(26,182)	4,720	4,720
<b>East County Total</b>	<b>173</b>	<b>1,696,643</b>	<b>0</b>	<b>589,999</b>	<b>178,379</b>	<b>10.51%</b>	<b>214,469</b>	<b>12.64%</b>	<b>\$0.64</b>	<b>(32,950)</b>	<b>(32,950)</b>	<b>23,780</b>	<b>23,780</b>
<b>Highway 78 Corridor</b>													
Oceanside	32	1,045,600	0	0	67,337	6.44%	71,100	6.80%	\$0.00	15,807	15,807	15,807	15,807
San Marcos	55	869,812	0	0	103,920	11.95%	73,702	8.47%	\$0.00	(14,581)	(14,581)	16,371	16,371
Vista/Fallbrook	59	1,654,249	0	231,842	210,095	12.70%	202,900	12.27%	\$0.72	(2,672)	(2,672)	0	0
<b>Highway 78 Corridor Total</b>	<b>146</b>	<b>3,569,661</b>	<b>0</b>	<b>231,842</b>	<b>381,352</b>	<b>10.68%</b>	<b>347,702</b>	<b>9.74%</b>	<b>\$0.72</b>	<b>(1,446)</b>	<b>(1,446)</b>	<b>32,178</b>	<b>32,178</b>
<b>I-15 Corridor</b>													
Escondido	73	751,116	0	9,500	74,442	9.91%	107,772	14.35%	\$0.54	(4,370)	(4,370)	10,206	10,206
Poway	65	1,378,822	0	65,000	138,517	10.05%	165,879	12.03%	\$0.93	(2,390)	(2,390)	35,368	35,368
Rancho Bernardo	91	5,147,980	0	0	1,250,863	24.30%	1,368,804	26.59%	\$1.03	95,824	95,824	107,985	107,985
Scripps Ranch	30	755,298	0	0	154,738	20.49%	229,128	30.34%	\$0.85	(10,707)	(10,707)	0	0
<b>I-15 Corridor Total</b>	<b>259</b>	<b>8,033,216</b>	<b>0</b>	<b>74,500</b>	<b>1,618,560</b>	<b>20.15%</b>	<b>1,871,583</b>	<b>23.30%</b>	<b>\$1.00</b>	<b>78,357</b>	<b>78,357</b>	<b>153,559</b>	<b>153,559</b>
<b>North City</b>													
Miramar	209	4,389,420	0	0	804,203	18.32%	1,065,983	24.29%	\$1.10	37,060	37,060	117,535	117,535
Sorrento Mesa	164	6,453,128	0	0	846,657	13.12%	1,052,954	16.32%	\$1.20	38,851	38,851	118,857	118,857
Sorrento Valley	105	2,474,941	0	0	373,536	15.09%	490,663	19.83%	\$1.40	(34,079)	(34,079)	48,425	48,425
Torrey Pines	38	2,631,682	31,246	105,091	586,660	22.29%	509,896	19.38%	\$0.00	(5,199)	(5,199)	74,685	74,685
UTC Center	19	1,550,901	0	102,967	588,642	37.95%	384,125	24.77%	\$2.25	103,627	103,627	112,260	112,260
<b>North City Total</b>	<b>535</b>	<b>17,500,072</b>	<b>31,246</b>	<b>208,058</b>	<b>3,199,698</b>	<b>18.28%</b>	<b>3,503,621</b>	<b>20.02%</b>	<b>\$1.26</b>	<b>140,260</b>	<b>140,260</b>	<b>471,762</b>	<b>471,762</b>
<b>North County</b>													
Carlsbad	237	5,646,948	0	100,000	1,076,779	19.07%	1,355,995	24.01%	\$1.00	104,068	104,068	198,229	198,229
North Beach Cities	16	148,193	0	0	4,854	3.28%	4,854	3.28%	\$0.00	10,297	10,297	10,297	10,297
<b>North County Total</b>	<b>253</b>	<b>5,795,141</b>	<b>0</b>	<b>100,000</b>	<b>1,081,633</b>	<b>18.66%</b>	<b>1,360,849</b>	<b>23.48%</b>	<b>\$1.00</b>	<b>114,365</b>	<b>114,365</b>	<b>208,526</b>	<b>208,526</b>
<b>Outlying Areas</b>													
Outlying SD County North	16	191,979	0	0	9,821	5.12%	9,821	5.12%	\$0.00	2,000	2,000	2,000	2,000
Outlying SD County South	20	78,080	0	0	10,367	13.28%	10,367	13.28%	\$0.00	0	0	0	0
<b>Outlying Areas Total</b>	<b>36</b>	<b>270,059</b>	<b>0</b>	<b>0</b>	<b>20,188</b>	<b>7.48%</b>	<b>20,188</b>	<b>7.48%</b>	<b>\$0.00</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>South Bay</b>													
Chula Vista	78	1,443,137	0	0	94,064	6.52%	293,315	20.32%	\$1.19	271	271	9,436	9,436
National City	30	290,559	0	0	40,967	14.10%	41,835	14.40%	\$0.00	1,222	1,222	3,128	3,128
Otay Mesa	11	296,313	0	0	47,535	16.04%	47,535	16.04%	\$0.80	0	0	0	0
<b>South Bay Total</b>	<b>119</b>	<b>2,030,009</b>	<b>0</b>	<b>0</b>	<b>182,566</b>	<b>8.99%</b>	<b>382,685</b>	<b>18.85%</b>	<b>\$0.89</b>	<b>1,493</b>	<b>1,493</b>	<b>12,564</b>	<b>12,564</b>
<b>San Diego County Total</b>	<b>1,867</b>	<b>46,013,285</b>	<b>31,246</b>	<b>1,242,090</b>	<b>7,396,663</b>	<b>16.08%</b>	<b>8,947,291</b>	<b>19.45%</b>	<b>\$1.09</b>	<b>345,650</b>	<b>345,650</b>	<b>1,036,819</b>	<b>1,036,819</b>

Lease rates are on a triple-net basis.

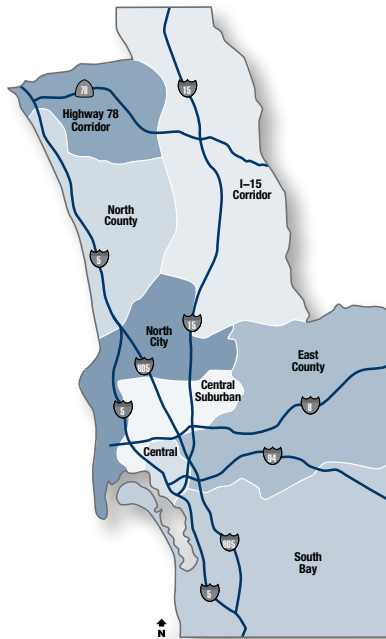
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
1722 South Coast Hwy.	Oceanside	49,542	\$75.69	San Diego Coffee Tea & Spice	Lee Enterprises
9335 Chesapeake Dr.	Kearny Mesa	14,586	\$162.83	Repp Gartner Financial, Inc.	T.R. Schonlaw Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10445 Pacific Center Ct.	Sorrento Mesa	48,709	Feb-12	Qualcomm	Kilroy Realty Corporation
9373 Towne Centre Dr.	UTC	26,762	Mar-12	AP Wireless Infrastructure Partners, LLC	Alexandria Real Estate Equities
5555 Oberlin Dr.	Sorrento Mesa	23,286	Jan-12	Enigma Diagnostics	CommonWealth REIT
5601 Oberlin Dr.	Sorrento Mesa	23,099	Jan-12	IPS Group Inc.	CommonWealth REIT
4863 Shawline St.	Kearny Mesa	22,565	Mar-12	N/A	McGrath Development, Inc.
5964 La Place Ct.	Carlsbad	22,249	Jan-12	GenMark Diagnostics, Inc.	Newport National Corporation



Product Type

Flex/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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