



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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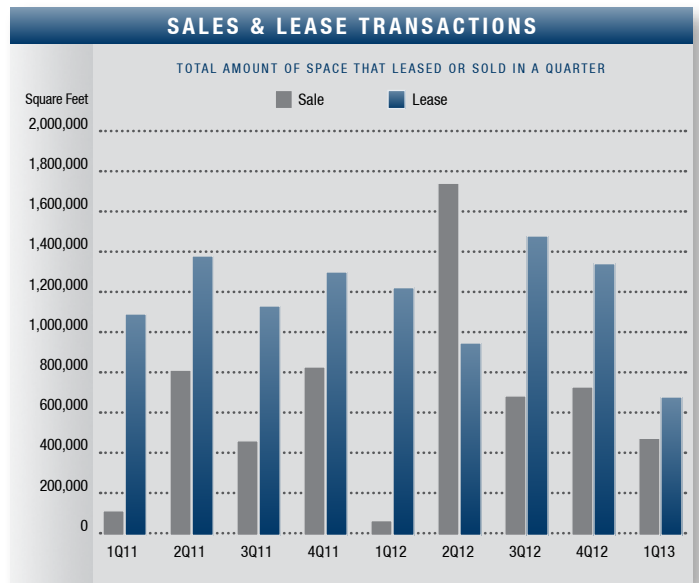
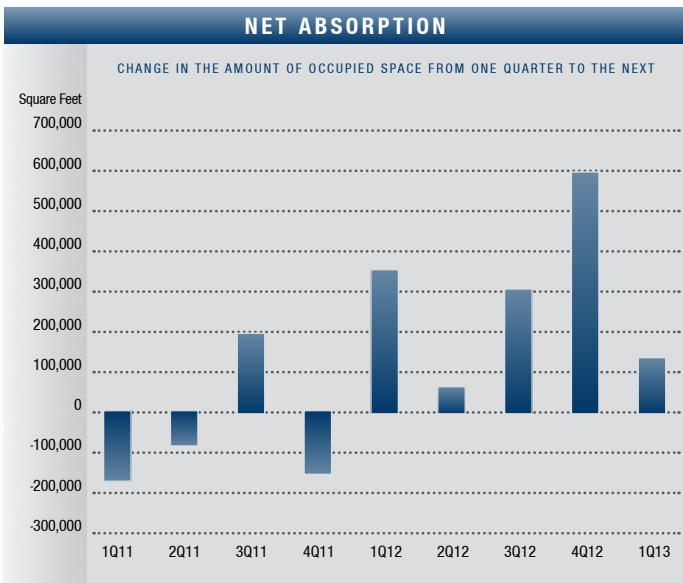
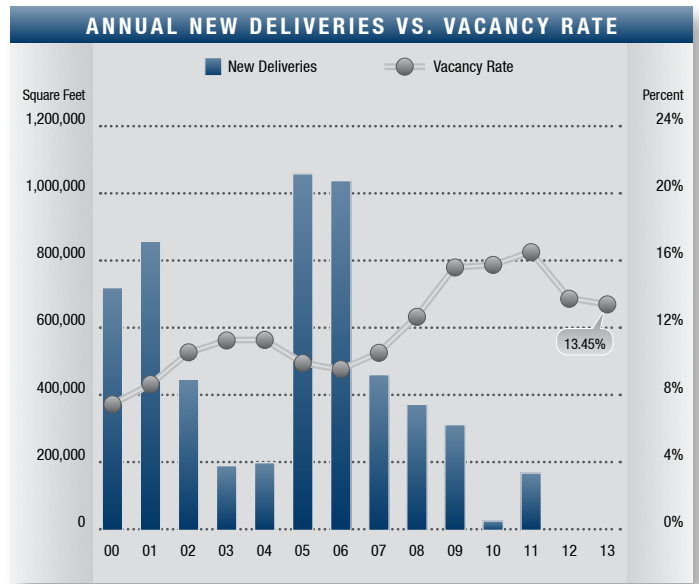
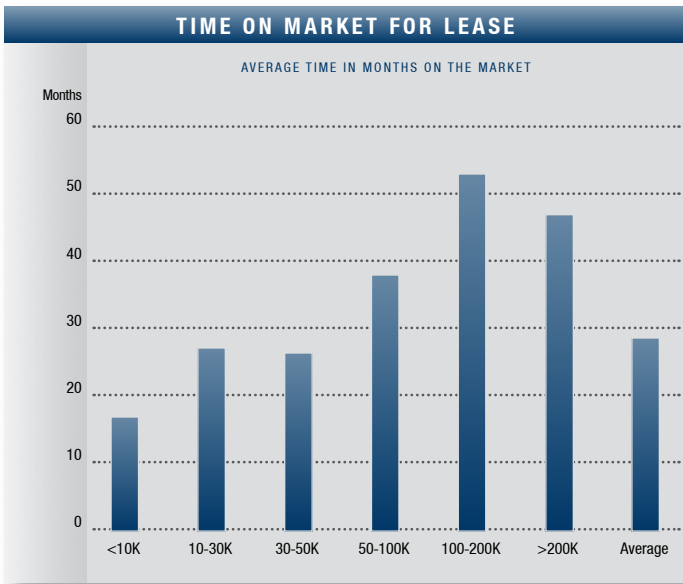
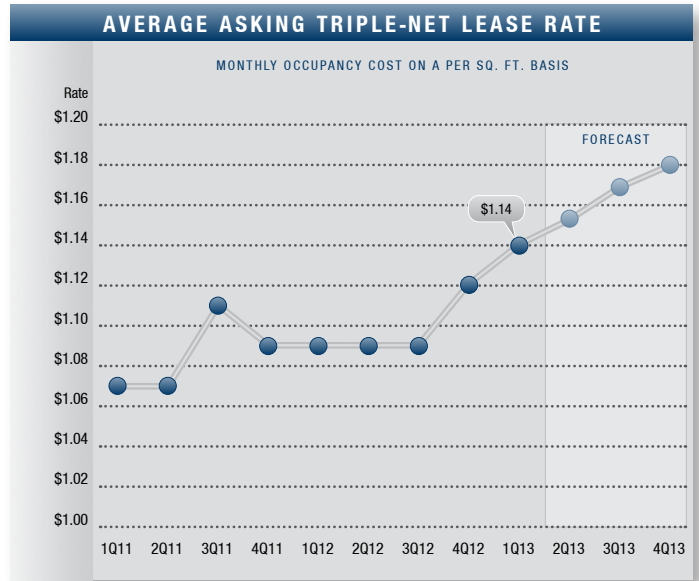
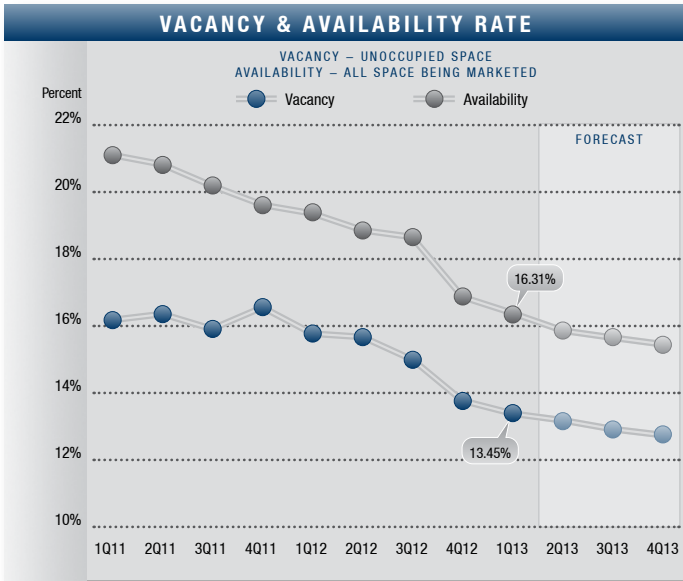
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Market Highlights

- Moving Forward** - The San Diego R&D market displayed more signs of recovery in the first quarter, with positive net absorption, an increase in asking rental rates, and decreases in both vacancy and availability. In contrast to the steady improvements in the office, retail, and industrial property types since 2010, the improvements in the R&D market were choppy at first. However, over the last five quarters, stabilization and improvement in indicators such as asking lease rates, net absorption, and the vacancy rate have been steady.
- Absorption** - The San Diego R&D market posted 133,446 square feet of positive net absorption in the first quarter on the heels of 2012, the first calendar year of positive net absorption in six years.
- Transaction Activity** - The combined square feet sold and leased in the first quarter totaled 1.13 million square feet, a decrease from the fourth quarter's year end rush level of 2.06 million square feet. Details of the largest transactions can be found on the back page of this report.
- Construction** - The market maintained a low level of construction over the last three years and had only 31,246 square feet under construction at the end of the first quarter of 2013. The slowdown in new property deliveries has and will ease the upward pressure on vacancy going forward.
- Employment** - The unemployment rate in the San Diego County was 8.0% in February 2013, down from a revised 8.6% in January 2013 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,400 payroll jobs from February 2012 to February 2013 — including 10,900 in professional and business services and 6,000 from leisure and hospitality. None of the local employment sectors reported any net year-over-year job losses.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 13.45%, a decrease from fourth quarter 2012's rate of 13.73% and the lowest vacancy rate seen since the first quarter of 2009.
- Availability** - Direct/sublease space being marketed was 16.31% at the end of the first quarter, down from the previous quarter, and significantly down the rate of a year ago 19.42%.
- Overall** - The R&D market has shown the first consistent improvement since the last downturn over the past five quarters. Availability and vacancy have finally started to significantly trend downward. With little currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs. The R&D sector is occupied in a large part by biotech companies which project nationally and locally as one of the stronger drivers of economic growth going forward.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.14 at the end of the first quarter, an increase from the previous quarter's rate of \$1.12. Average asking lease rates have risen seven cents since the recession lows seen in the first and second quarters of 2011. The record high rate of \$1.49 was established in the first and second quarters of 2008.

FLEX / R & D MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	13.45%	13.73%	15.77%	(14.71%)
Availability Rate	16.31%	16.89%	19.42%	(16.01%)
Average Asking Lease Rate	\$1.14	\$1.12	\$1.09	4.59%
Sale & Lease Transactions	1,133,395	2,055,369	1,274,975	(11.10%)
Gross Absorption	898,650	1,325,398	1,033,910	(13.08%)
Net Absorption	133,446	596,087	351,128	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
Central													
Central	17	229,456	0	0	9,163	3.99%	34,941	15.23%	\$0.00	(3,809)	990	1,202	10,213
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Diego	19	208,779	0	0	2,475	1.19%	2,475	1.19%	\$0.00	0	(2,475)	0	5,000
Central Total	41	482,527	0	0	11,638	2.41%	37,416	7.75%	\$0.00	(3,809)	(1,485)	1,202	15,213
Central Suburban													
Sports Arena/Airport	45	538,229	0	0	64,709	12.02%	142,484	26.47%	\$0.84	(4,262)	15,938	8,688	38,427
Kearny Mesa	209	5,697,160	0	57,691	438,545	7.70%	723,490	12.70%	\$1.02	23,290	203,195	73,612	533,532
Mission Gorge	28	267,841	0	0	10,915	4.08%	36,141	13.49%	\$0.95	11,594	9,394	19,934	47,919
Rose Canyon/Morena	40	638,248	0	0	72,414	11.35%	76,247	11.95%	\$0.84	9,252	(9,998)	22,831	84,378
Central Suburban Total	322	7,141,478	0	57,691	586,583	8.21%	978,362	13.70%	\$0.95	39,874	218,529	125,065	704,256
East County													
El Cajon	83	939,906	0	0	73,793	7.85%	109,236	11.62%	\$0.00	31,448	8,173	50,590	61,394
La Mesa/Spring Valley	43	326,823	0	0	29,130	8.91%	18,013	5.51%	\$0.00	1,745	(17,052)	3,425	24,373
Santee/Lakeside	53	539,326	0	590,000	16,181	3.00%	31,993	5.93%	\$0.00	(141)	9,004	5,478	51,306
East County Total	179	1,806,055	0	590,000	119,104	6.59%	159,242	8.82%	\$0.00	33,052	125	59,493	137,073
Highway 78 Corridor													
Oceanside	31	990,032	0	0	43,930	4.44%	43,930	4.44%	\$0.00	3,360	12,589	4,360	43,214
San Marcos	59	947,396	0	0	91,079	9.61%	107,191	11.31%	\$0.88	(15,098)	16,403	16,048	98,855
Vista	59	1,654,249	0	241,342	209,186	12.65%	251,592	15.21%	\$0.95	24,422	(30,183)	30,000	72,170
Highway 78 Corridor Total	149	3,591,677	0	241,342	344,195	9.58%	402,713	11.21%	\$0.93	12,684	(1,191)	50,408	214,239
I-15 Corridor													
Escondido	83	787,892	0	9,500	56,660	7.19%	95,996	12.18%	\$0.66	(8,211)	15,026	8,454	66,577
Poway	58	1,221,221	0	0	69,757	5.71%	95,434	7.81%	\$0.69	(13,362)	45,605	8,972	146,746
Rancho Bernardo	88	5,084,485	0	0	1,261,834	24.82%	1,376,060	27.06%	\$1.14	24,246	61,953	58,731	405,202
Scripps Ranch	30	755,298	0	0	249,984	33.10%	154,342	20.43%	\$1.25	(47,483)	(58,470)	170	41,549
I-15 Corridor Total	259	7,848,896	0	9,500	1,638,235	20.87%	1,721,832	21.94%	\$1.13	(44,810)	64,114	76,327	660,074
North City													
Miramar	207	4,394,771	0	0	647,714	14.74%	804,009	18.29%	\$0.88	(53,355)	180,153	108,570	482,967
Sorrento Mesa	166	6,574,199	0	0	720,661	10.96%	1,053,291	16.02%	\$1.29	120,536	107,234	144,831	526,624
Sorrento Valley	109	2,568,576	0	0	308,942	12.03%	453,208	17.64%	\$1.43	(58,079)	86,516	41,932	211,047
Torrey Pines	40	3,045,965	31,246	105,091	302,421	9.93%	328,540	10.79%	\$0.00	(2,445)	299,985	45,693	522,555
UTC	20	1,562,643	0	300,000	425,166	27.21%	281,492	18.01%	\$2.82	8,689	258,414	8,689	342,941
North City Total	542	18,146,154	31,246	405,091	2,404,904	13.25%	2,920,540	16.09%	\$1.26	15,346	932,302	349,715	2,086,134
North County													
Carlsbad	240	5,918,057	0	100,000	1,088,545	18.39%	1,186,279	20.05%	\$0.94	75,834	52,083	198,833	579,300
North Beach Cities	16	148,193	0	0	1,200	0.81%	0	0.00%	\$0.00	0	13,951	0	19,365
North County Total	256	6,066,250	0	100,000	1,089,745	17.96%	1,186,279	19.56%	\$0.94	75,834	66,034	198,833	598,665
Outlying Areas													
Outlying SD County North	17	199,416	0	0	12,692	6.36%	19,292	9.67%	\$0.00	0	(871)	0	4,000
Outlying SD County South	20	78,080	0	0	4,000	5.12%	5,600	7.17%	\$0.00	4,617	1,750	4,617	1,750
Outlying Areas Total	37	277,496	0	0	16,692	6.02%	24,892	8.97%	\$0.00	4,617	879	4,617	5,750
South Bay													
Chula Vista	79	1,465,440	0	0	112,205	7.66%	233,740	15.95%	\$1.38	5,303	(3,631)	25,989	78,144
National City	30	299,500	0	0	36,237	12.10%	46,577	15.55%	\$0.00	(4,645)	10,597	7,001	23,721
Otay Mesa/San Ysidro	10	235,361	0	0	12,019	5.11%	14,926	6.34%	\$0.76	0	0	0	0
South Bay Total	119	2,000,301	0	0	160,461	8.02%	295,243	14.76%	\$1.35	658	6,966	32,990	101,865
San Diego County Total	1,904	47,360,834	31,246	1,403,624	6,371,557	13.45%	7,726,519	16.31%	\$1.14	133,446	1,286,273	898,650	4,523,269

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
8650-8690 Balboa Ave.	Kearny Mesa	285,713	\$196.00	IDS Real Estate Group	NewTower Trust Company
9475 Chesapeake Dr.	Kearny Mesa	22,210	\$135.07	Cloud Motion, LLC	C-III Asset Mangement
2340 Meyers Ave.	Escondido	13,767	\$97.50	HMT Properties, LLC	Mulberry JV, LLC
2712 Gateway Rd.	Carlsbad	10,566	\$123.58	2712 Gateway Road, LLC	LJR, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
8965 Towne Centre Dr.	UTC	83,866	Feb-13	Union Bank	(Sublease)
10450 Science Center Dr. - Renewal	Torrey Pines	80,390	Jan-13	Pacita Pharmaceuticals, Inc.	LASDF LP
6920 Carroll Rd.	Miramar	38,294	Feb-13	N/A	The Irvine Company
8880 Rehco Rd.	Miramar	37,764	Feb-13	Pico Digital	Hazard Construction Company
1333 Keystone Way	Vista	26,300	Feb-13	N/A	Kaiser & Associates



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 50% 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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