



Voit
Real Estate Services

R&D Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Transactions



DOWN

Market Highlights

- Market Challenges** - The San Diego County Research & Development market is facing challenges due to the national recession. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between "ask" and "bid" pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the second quarter. Another challenge the R&D market is facing is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. These contractions have led to many tenants requesting rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- Construction** - Currently, there is no R&D space under construction in San Diego County, due to lack of demand. The shrinking availability of land, combined with the high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16%, constituting an increase over last year's second quarter rate of 11.7%. The lowest vacancy rates in the county can be found in the East County and South Bay markets coming in at 7.41% and 8.79% respectively.
- Availability** - Direct/sublease space being marketed was 22.5% this quarter, up from the 16.6% we saw this same quarter last year. This is an increase of 35% of new space being marketed when compared to the same quarter last year.
- Lease Rates** - The average asking Triple Net lease rate per month per foot in Orange County is currently \$1.28, which is a 12% decrease over last year's rate of \$1.46 and five cents lower than 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 512,282 square feet for the second quarter of 2009, giving the R&D market a total of 880,776 square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- Transaction Activity** - Leasing activity checked in this quarter at 456,736 square feet, which is an increase over last quarter when only 394,375 square feet leased. The average amount of leasing per quarter over the past nine quarters was 600,000 square feet. There were no Sales in this market last quarter.
- Unemployment** - The unemployment rate in San Diego County was 9.4% in May 2009, up from a revised 9.2% in April 2009, and above the year ago estimate of 5.4%. This compares with an unadjusted unemployment rate of 11.2% for California and 9.1% for the nation during the same period.
- Employment** - According to the State of California Employment Development Department, San Diego County lost 52,200 payroll jobs over the last twelve months - 11,500 in retail trade, transportation and utilities services and 11,100 in construction. However, between April 2009 and May 2009 San Diego County only lost 2,800 jobs.
- Overall** - Lease rates are expected to remain soft for the foreseeable future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome hinges on how the recession progresses and how quickly credit eases up.

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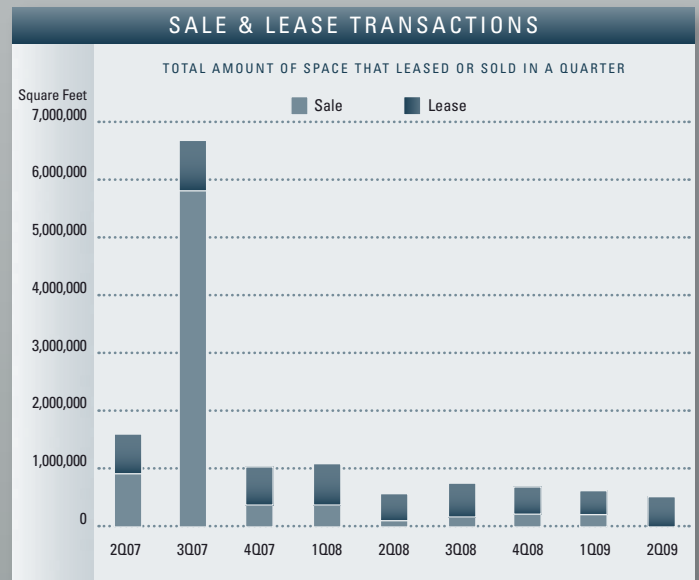
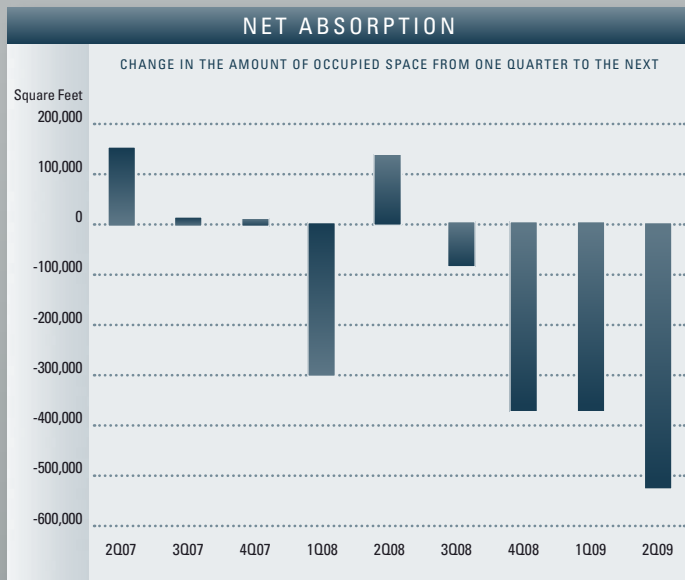
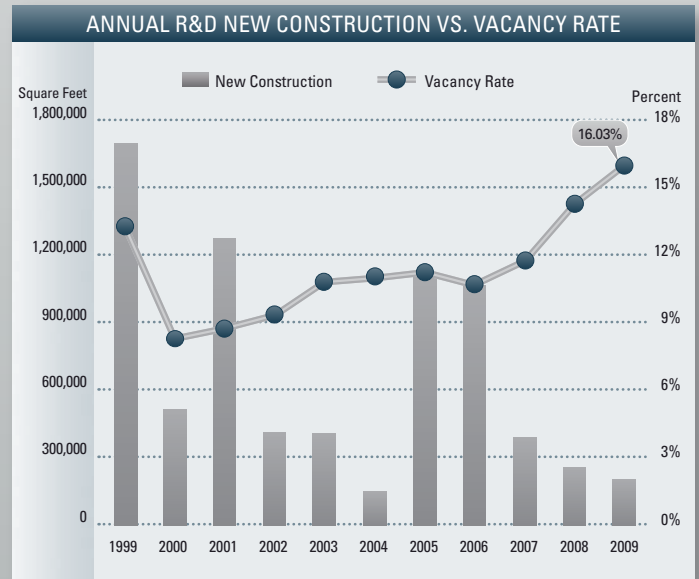
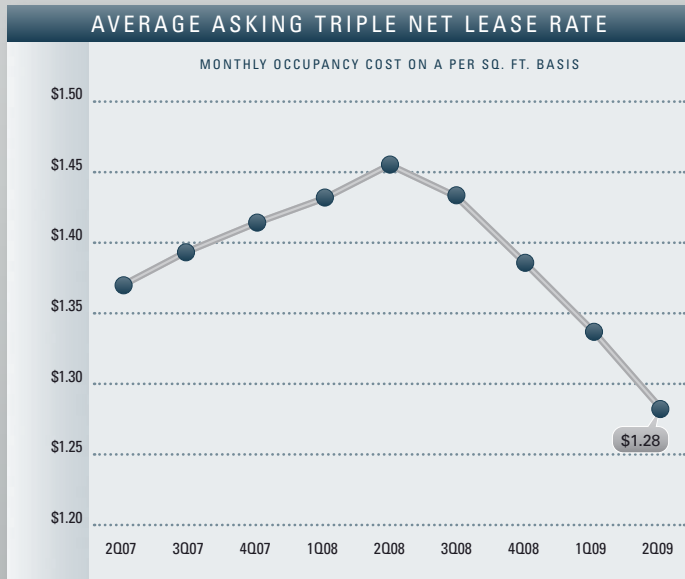
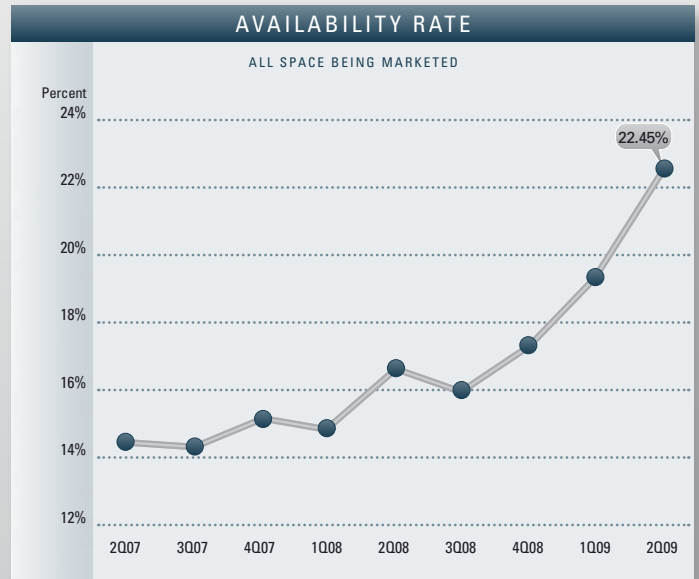
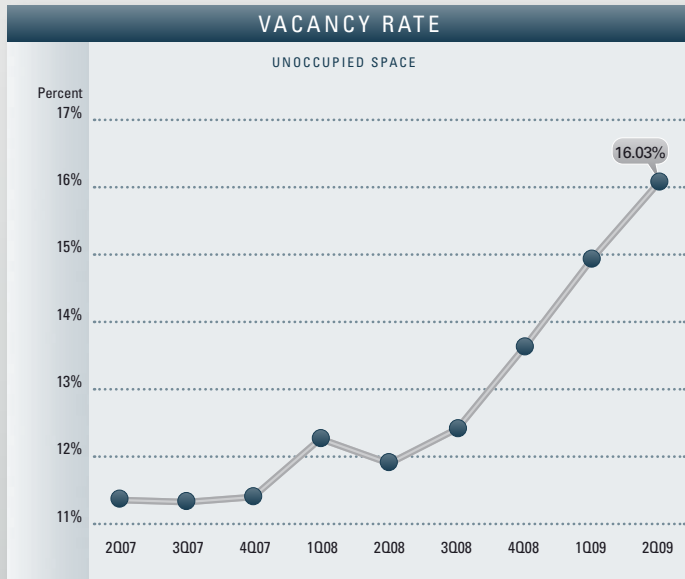
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R & D MARKET OVERVIEW

	202009	102009	202008	% CHANGE VS. 2008
Vacancy	16.03%	14.63%	11.71%	36.89%
Availability	22.45%	19.41%	16.56%	35.57%
Average Asking Lease Rate	\$1.28	\$1.33	\$1.46	-12.33%
Sale & Lease Transactions	456,736	549,954	547,955	-16.65%
Net Absorption	-512,282	-366,258	133,188	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2009	Total Availability 2Q2009	Average Asking Lease Rate	Net Absorption 2Q2009	Net Absorption 2009	Gross Absorption 2Q2009	Gross Absorption 2009
Central												
Downtown	7	209,222	0	0	56,855	27.17%	57,768	\$0.00	(23,854)	(33,467)	904	4,630
East City	1	30,000	0	0	1,830	6.10%	0	\$0.00	0	0	0	0
Central Total	8	239,222	0	0	58,685	24.53%	57,768	\$0.00	(23,854)	(33,467)	904	4,630
Central Suburban												
Airport/Sports Arena	15	294,799	0	0	23,381	7.93%	42,979	\$1.25	16,945	(2,655)	19,600	19,600
Kearny Mesa	168	4,737,083	0	57,691	585,313	12.36%	682,317	\$1.30	(20,146)	(142,469)	145,173	259,208
Mission Gorge	10	154,916	0	0	4,755	3.07%	21,610	\$1.05	841	(3,315)	841	841
Rose Canyon/Morena	37	734,803	0	0	27,247	3.71%	39,537	\$1.24	(17,672)	(14,324)	2,366	6,466
Central Suburban Total	230	5,921,601	0	57,691	640,696	10.82%	786,443	\$1.29	(20,032)	(162,763)	167,980	286,115
East County												
El Cajon	42	847,224	0	0	73,870	8.72%	84,963	\$0.86	3,642	(24,358)	18,848	23,175
La Mesa/Spring Valley	10	171,730	0	0	7,112	4.14%	7,112	\$0.00	(2,225)	(2,913)	2,082	3,704
Santee/Lakeside	25	347,582	0	590,000	20,316	5.84%	20,316	\$0.00	(16,162)	(18,262)	0	1,100
East County Total	77	1,366,536	0	590,000	101,298	7.41%	112,391	\$0.86	(14,745)	(45,533)	20,930	27,979
Highway 78 Corridor												
Oceanside	24	980,603	0	0	188,204	19.19%	183,664	\$0.00	(1,213)	(47,250)	8,393	15,216
San Marcos	34	667,063	0	0	75,382	11.30%	134,002	\$0.00	41,954	24,424	56,139	59,997
Vista/Fallbrook	47	1,584,941	0	41,842	242,332	15.29%	321,909	\$1.24	6,121	125,052	19,809	149,616
Highway 78 Corridor Total	105	3,232,607	0	41,842	505,918	15.65%	639,575	\$1.24	46,862	102,226	84,341	224,829
I-15 Corridor												
Escondido	25	456,271	0	0	31,252	6.85%	41,252	\$0.00	(8,825)	(8,962)	13,255	23,355
Poway	52	1,261,066	0	65,000	384,413	30.48%	433,940	\$1.38	(150,454)	(173,368)	5,751	11,030
Rancho Bernardo	77	4,651,567	0	0	1,036,075	22.27%	1,418,081	\$1.23	(126,257)	(212,547)	24,255	65,481
Scripps Ranch	23	742,207	0	0	43,716	5.89%	128,169	\$1.47	0	0	0	42,947
I-15 Corridor Total	177	7,111,111	0	65,000	1,495,456	21.03%	2,021,442	\$1.30	(285,536)	(394,877)	43,261	142,813
North City												
La Jolla	38	2,772,788	0	0	487,995	17.60%	549,157	\$2.98	(13,405)	46,930	7,349	68,881
Miramar	126	3,657,872	0	0	544,258	14.88%	850,496	\$1.17	69,351	(41,930)	155,713	223,983
Sorrento Mesa	146	6,507,423	0	0	825,898	12.69%	1,705,582	\$1.23	(75,858)	(33,738)	82,663	203,916
Sorrento Valley	78	1,945,546	0	0	260,361	13.38%	423,905	\$1.68	(8,904)	(58,850)	14,097	74,889
UTC Center	15	1,047,724	0	102,967	201,473	19.23%	287,523	\$2.95	(56,875)	(54,368)	0	2,507
North City Total	403	15,931,353	0	102,967	2,319,985	14.56%	3,816,663	\$1.36	(85,691)	(141,956)	259,822	574,176
North County												
Carlsbad	146	4,333,346	0	190,000	1,136,448	26.23%	1,286,140	\$1.15	(87,671)	(151,456)	45,706	195,110
North Beach Cities	8	134,187	0	0	9,773	7.28%	10,773	\$0.00	(3,380)	(4,000)	1,420	1,420
North County Total	154	4,467,533	0	190,000	1,146,221	25.66%	1,296,913	\$1.15	(91,051)	(155,456)	47,126	196,530
South Bay												
Chula Vista	53	1,338,449	0	0	129,009	9.64%	240,620	\$0.70	(25,402)	(26,751)	31,255	36,985
National City	21	345,136	0	0	33,803	9.79%	31,225	\$0.67	(13,965)	(17,695)	900	900
Otay Mesa	2	102,452	0	0	0	0.00%	2,592	\$0.00	1,132	1,132	1,132	1,132
San Ysidro	2	66,696	0	0	0	0.00%	800	\$0.00	0	0	0	0
South Bay Total	78	1,852,733	0	0	162,812	8.79%	275,237	\$0.70	(38,235)	(43,314)	33,287	39,017
San Diego County Total	1,232	40,122,696	0	1,047,500	6,431,071	16.03%	9,006,432	\$1.28	(512,282)	(875,140)	657,651	1,496,089

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple net basis.



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.

For further information, please contact:

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