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R&D Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Market Highlights

- ◆ **Encouraging Numbers** - The numbers this quarter appear to be encouraging for the first time since the second quarter of 2008 — a sign that recovery could be on the horizon. Availability showed signs of stabilization, vacancy dropped, and net absorption posted positive numbers. Although demand is still weak by historical standards, the volume of transactions is increasing. With regards to sales transactions, the ask-bid gap seems to be narrowing, evident from the drop in asking prices and increase in buyer activity. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- ◆ **Construction** - Currently, there is no R&D space under construction in San Diego County. Scarce financing and low demand have essentially halted R&D development.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.36%, an increase over last year's rate of 15.80%. The lowest vacancy rates can be found in the East County and South Bay markets at 6.16% and 8.37%, respectively.
- ◆ **Availability** - Direct/sublease space being marketed was 21.65% this quarter, a slight increase from last quarter's rate of 21.56%, but a 2.61% decrease from the 22.23% we saw this same quarter last year.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per square foot per month in San Diego County was \$1.10 for the second quarter of 2010. This is a 16.67% decrease over last year's rate of \$1.32 and two cents lower than last quarter's rate. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- ◆ **Absorption** - Net absorption for the county posted a positive 49,893 square feet for the second quarter of 2010; for the past 5 quarters the R&D market has been averaging approximately 160,000 square feet of negative absorption, which can be attributed to recent job losses.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 707,475 square feet, a decrease over the same

quarter last year when 812,608 square feet leased. This can be attributed to the recent trend of short-term deals coupled with lease renegotiations. Sales activity showed an increase over last year, posting 409,663 square feet of activity compared to 58,821 square feet in the second quarter of 2009. Details of the largest transactions can be found on the back page of this report.

- ◆ **Employment** - The unemployment rate in San Diego County was 10% in May 2010, down from a revised 10.4% in April 2010 and above the year ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 11,900 payroll jobs over the last twelve months — 4,400 in trade, transportation and utilities and 4,200 in manufacturing. However, educational and health services added 3,600 new jobs. Between April 2010 and May 2010 San Diego County gained 8,400 jobs overall.

- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. As we enter into the second half of 2010, we are beginning to see positive absorption, and with no new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin 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 motivate tenants to quick action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the R&D market will regain equilibrium.

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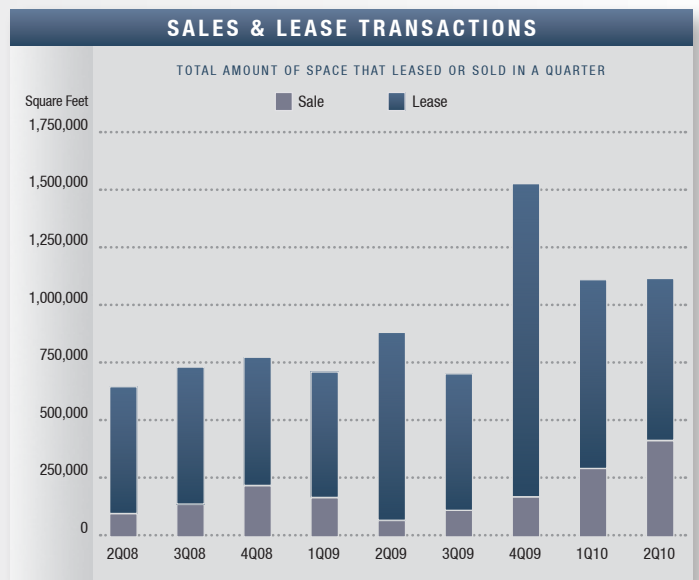
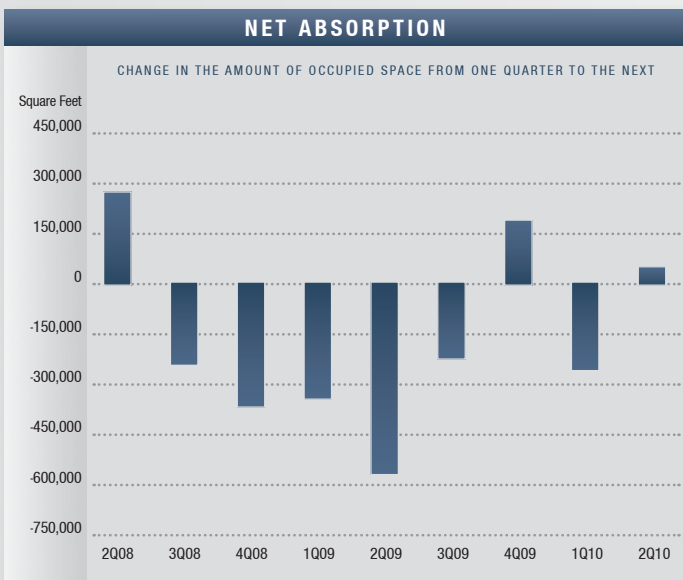
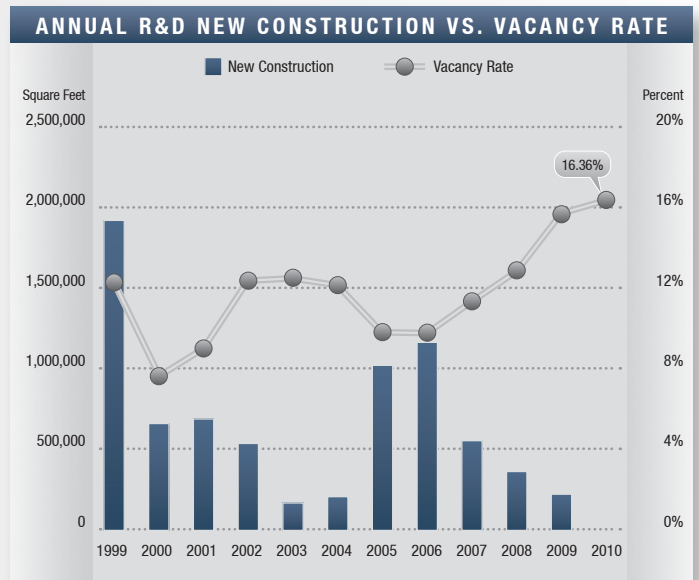
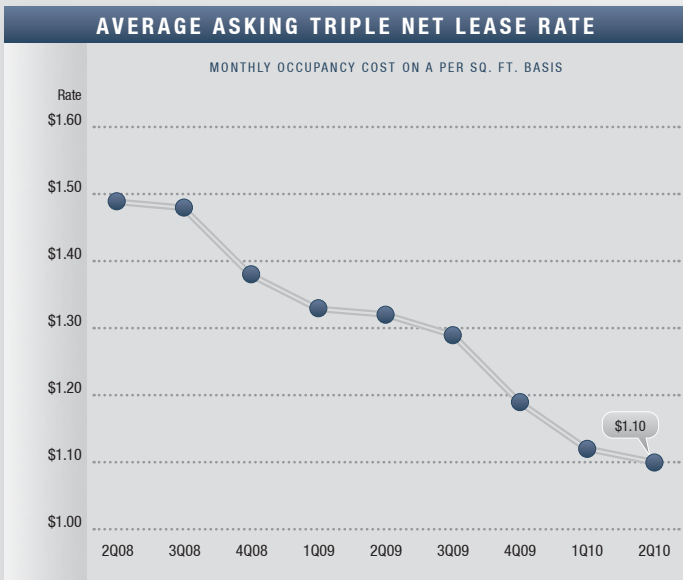
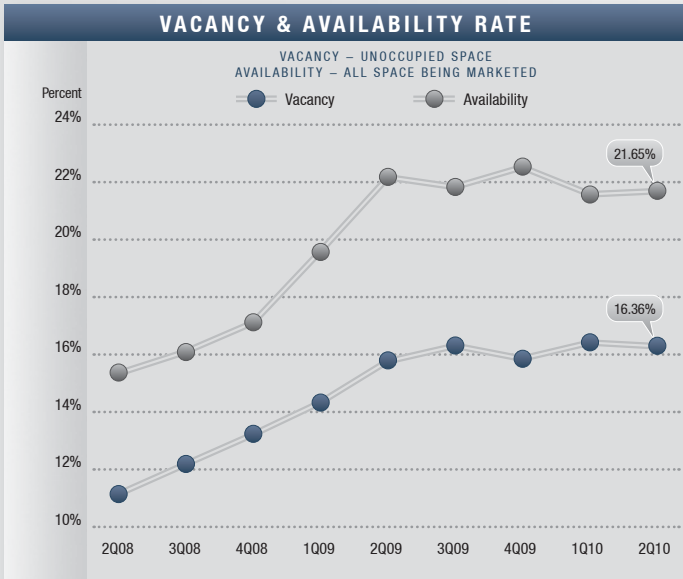
www.voitco.com

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

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	16.36%	16.48%	15.80%	3.54%
Availability Rate	21.65%	21.56%	22.23%	(2.61%)
Average Asking Lease Rate	\$1.10	\$1.12	\$1.32	(16.67%)
Sale & Lease Transactions	1,117,138	1,107,720	871,429	28.20%
Gross Absorption	1,048,069	905,548	733,468	42.89%
Net Absorption	49,893	(253,558)	(563,576)	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 2Q2010	Total Availability 2Q2010	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
Central													
Central City	18	212,389	0	0	49,966	23.53%	49,966	23.53%	\$0.00	11,487	11,195	11,524	15,404
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	23	149,683	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central Total	46	406,364	0	0	49,966	12.30%	49,966	12.30%	\$0.00	11,487	11,195	11,524	15,404
Central Suburban													
Airport/Sports Arena	29	317,795	0	0	7,281	2.29%	7,281	2.29%	\$0.00	13,294	13,294	15,600	19,200
Kearny Mesa	206	5,152,917	0	57,691	657,360	12.76%	787,297	15.28%	\$1.11	(71,498)	(100,044)	109,434	187,588
Mission Gorge	27	285,954	0	0	10,767	3.77%	34,202	11.96%	\$0.97	(1,960)	(6,632)	0	1,545
Rose Canyon/Morena	40	669,172	0	0	61,681	9.22%	64,811	9.69%	\$1.00	(8,648)	5,784	2,447	21,759
Central Suburban Total	302	6,425,838	0	57,691	737,089	11.47%	893,591	13.91%	\$1.11	(68,812)	(87,598)	127,481	230,092
East County													
El Cajon	86	969,746	0	0	62,212	6.42%	74,486	7.68%	\$0.00	6,398	10,014	20,700	26,536
La Mesa/Spring Valley	41	289,522	0	0	9,364	3.23%	16,926	5.85%	\$0.00	2,503	3,556	3,823	5,351
Santee/Lakeside	55	492,750	0	590,000	36,357	7.38%	36,357	7.38%	\$0.74	12,496	9,208	13,796	24,944
East County Total	182	1,752,018	0	590,000	107,933	6.16%	127,769	7.29%	\$0.74	21,397	22,778	38,319	56,831
Highway 78 Corridor													
Oceanside	37	1,060,881	0	0	154,086	14.52%	151,676	14.30%	\$0.00	15,703	22,088	21,008	43,268
San Marcos	54	851,400	0	0	151,517	17.80%	166,370	19.54%	\$0.97	(48,690)	(57,520)	10,512	18,442
Vista/Fallbrook	60	1,574,570	0	231,842	242,821	15.42%	305,197	19.38%	\$0.67	(80,566)	(93,621)	13,115	47,755
Highway 78 Corridor Total	151	3,486,851	0	231,842	548,424	15.73%	623,243	17.87%	\$0.68	(113,553)	(129,053)	44,635	109,465
I-15 Corridor													
Escondido	54	609,284	0	0	69,287	11.37%	93,217	15.30%	\$0.63	15,654	(4,295)	21,183	23,813
Poway	64	1,357,428	0	65,000	278,656	20.53%	366,258	26.98%	\$0.92	101,633	130,552	129,188	171,716
Rancho Bernardo	91	4,822,546	0	0	1,272,855	26.39%	1,267,973	26.29%	\$0.98	(35,804)	(152,045)	87,841	107,392
Scripps Ranch	29	732,346	0	0	111,663	15.25%	144,948	19.79%	\$0.95	23,862	(68,736)	47,311	47,311
I-15 Corridor Total	238	7,521,604	0	65,000	1,732,461	23.03%	1,872,396	24.89%	\$0.96	105,345	(94,524)	285,523	350,232
North City													
Miramar	201	4,091,131	0	0	599,838	14.66%	1,043,464	25.51%	\$1.00	(31,748)	(101,201)	134,855	198,955
Sorrento Mesa	159	6,322,922	0	0	824,454	13.04%	1,542,002	24.39%	\$1.30	76,628	76,490	145,882	354,979
Sorrento Valley	81	1,829,939	0	0	311,469	17.02%	353,596	19.32%	\$1.48	45,494	(9,811)	90,040	114,462
Torrey Pines	49	2,682,340	0	0	566,980	21.14%	595,090	22.19%	\$1.65	(46,960)	(25,142)	3,515	26,980
UTC Center	16	1,084,801	0	102,967	194,094	17.89%	235,899	21.75%	\$0.00	(941)	11,528	2,559	15,028
North City Total	506	16,011,133	0	102,967	2,496,835	15.59%	3,770,051	23.55%	\$1.21	42,473	(48,136)	376,851	710,404
North County													
Carlsbad	230	5,056,685	0	0	1,233,699	24.40%	1,651,608	32.66%	\$1.10	55,024	79,766	124,551	369,742
North Beach Cities	18	371,394	0	0	7,101	1.91%	7,834	2.11%	\$0.00	1,454	14,027	6,680	23,653
North County Total	248	5,428,079	0	0	1,240,800	22.86%	1,659,442	30.57%	\$1.10	56,478	93,793	131,231	393,395
Outlying Areas													
Outlying SD County North	17	138,832	0	0	5,425	3.91%	5,425	3.91%	\$0.00	(1,030)	1,427	2,670	7,797
Outlying SD County South	20	75,094	0	0	2,412	3.21%	7,617	10.14%	\$0.00	7,617	7,617	7,617	7,617
Outlying Areas Total	37	213,926	0	0	7,837	3.66%	13,042	6.10%	\$0.00	6,587	9,044	10,287	15,414
South Bay													
Chula Vista	79	1,536,051	0	0	134,441	8.75%	341,659	22.24%	\$0.00	(16,007)	11,514	17,720	60,852
National City	33	328,965	0	0	39,643	12.05%	39,643	12.05%	\$0.00	4,498	7,322	4,498	11,528
Otay Mesa	11	296,313	0	0	6,823	2.30%	6,823	2.30%	\$0.00	0	0	0	0
South Bay Total	123	2,161,329	0	0	180,907	8.37%	388,125	17.96%	\$0.00	(11,509)	18,836	22,218	72,380
San Diego County Total	1,833	43,407,142	0	1,047,500	7,102,252	16.36%	9,397,625	21.65%	\$1.10	49,893	(203,665)	1,048,069	1,953,617

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

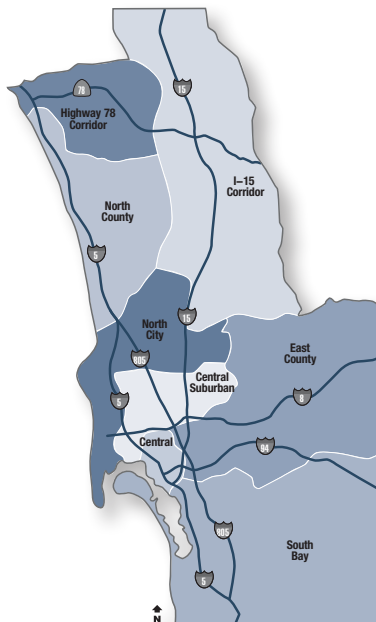
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Sale Price	Buyer	Seller
10450 Pacific Center Ct.	Sorrento Mesa	134,000	\$244.40	\$32,750,000	CB Richard Ellis Realty Trust	LBA Realty
13970 Stowe Dr.	Poway	99,370	\$137.87	\$13,700,000	General Atomics	Emri Group
2065 Thibodo Rd.	Vista	75,149	\$135.07	\$10,150,000	The Harvey J. Lobelson Trust	LBA Realty
9985 Huennekens St.	Sorrento Mesa	26,215	\$135.04	\$3,540,000	Menlo Equities	Miramar Collision, Inc.
10045 Mesa Rim Rd.	Sorrento Mesa	21,530	\$136.00	\$2,928,080	Z57, Inc.	Kroeze Concepts, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7625 Panasonic Wy.	Otay Mesa	107,000	June-10	BikeBandit.com	Auerbach Commercial Realty Corp.
15445 Innovation Dr.	Rancho Bernardo	51,200	May-10	EnXco	Kilroy Realty
15378 Avenue of Science	Rancho Bernardo	45,212	April-10	N/A	Kilroy Realty
9689 Towne Centre Dr.	UTC	43,875	April-10	Innovive, Inc.	California Instruments
15435 Innovation Dr.	Rancho Bernardo	51,200	May-10	TB Penick	Kilroy Realty



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.

Please Contact Us for Further Information

Anaheim, CA
714.978.7880

Irvine, CA
949.851.5100

Los Angeles, CA
818.593.6330

Newport Beach, CA
949.644.8648

Sacramento, CA
916.772.8648

San Diego, CA
858.453.0505

Las Vegas, NV
702.734.4500

Phoenix, AZ
602.300.3648



Voit

REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
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