



R&D Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

FLAT



Transactions



UP

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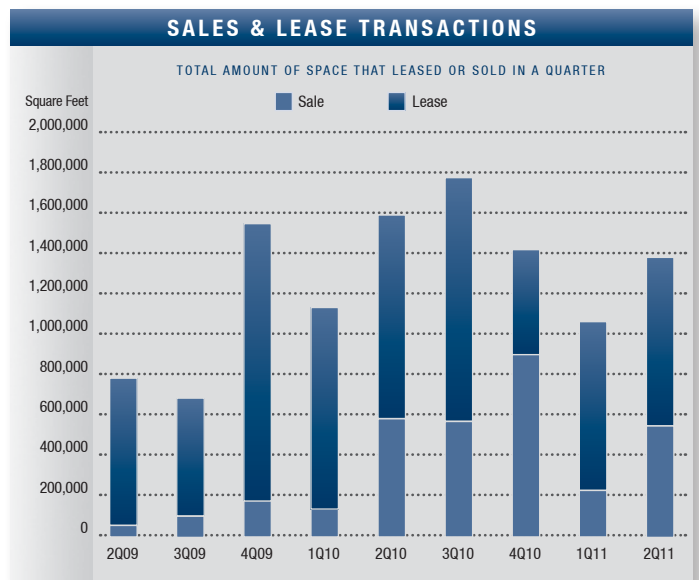
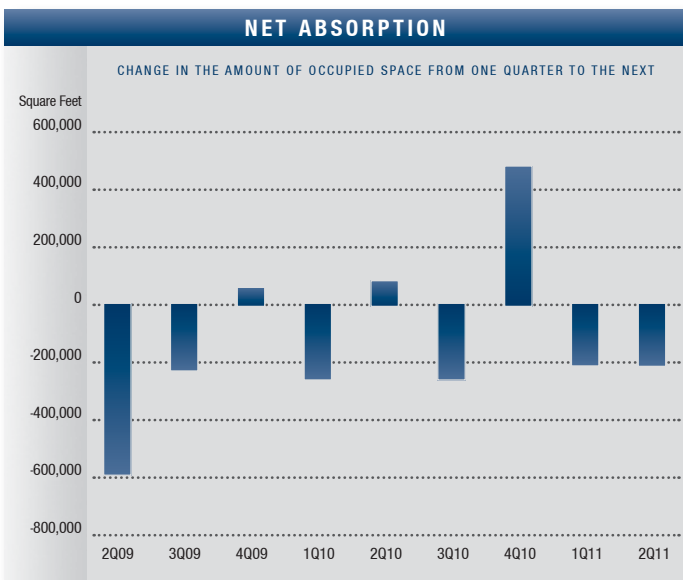
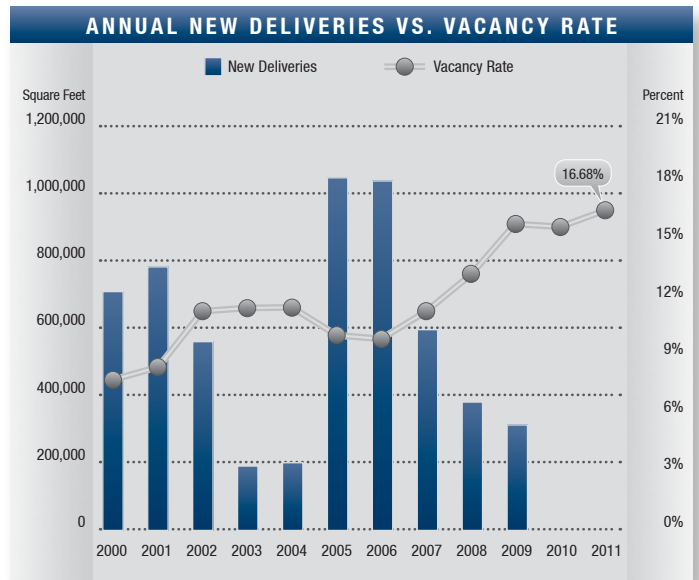
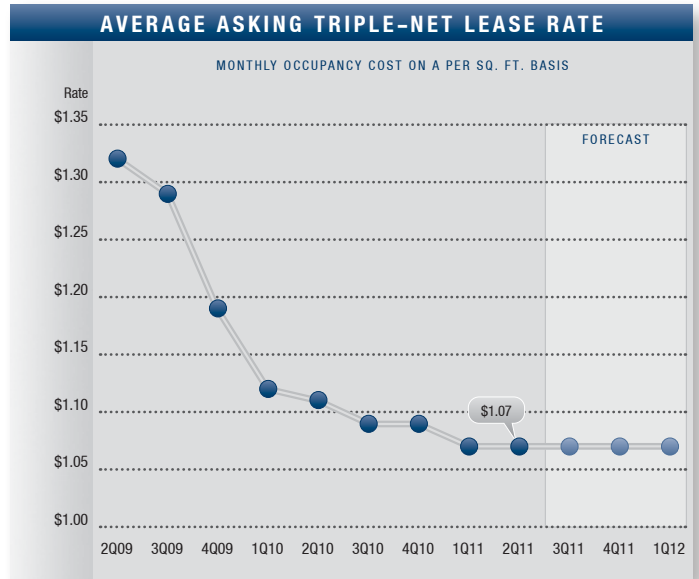
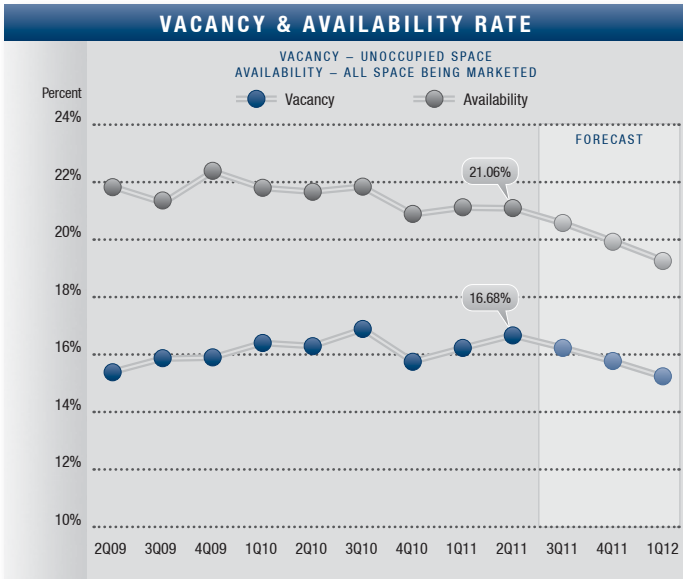
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Market Highlights

- Are we there yet?** - 2011's second quarter numbers appeared encouraging — a sign that recovery could be on the horizon. Availability trended downward an indication of stabilization. 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 811,000 square feet in the second quarter of 2011, a slight decrease from the previous quarter's figure of 840,000 square feet. Sales activity showed a significant increase over the prior quarter, posting 570,000 square feet of activity compared to 217,000 square feet in the first quarter of 2011. 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, but that may be changing.
- Employment** - The unemployment rate in San Diego County was 9.6% in May 2011, down from a revised 9.8% in April 2011 and below the year-ago estimate of 10.1%. 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 11,200 payroll jobs from May 2010 to May 2011 — 6,300 in professional and business services and 4,200 in education and health services. However, the government sector posted the greatest year-over-year decline — a loss of 4,300 jobs. Between April 2011 and May 2011 San Diego County employment increased by 7,300 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- Vacancy** - Direct/sublease space (unoccupied) finished the second quarter at 16.68%, higher than the previous quarter's rate of 16.24% and an increase from 2010's second quarter rate of 16.26%. The lowest vacancy rates can be found in the Central and East County markets at 4.62% and 6.98%, respectively.
- Availability** - Direct/sublease space being marketed was 21.06% in the second quarter, a 61 basis point drop from the 2010's second quarter rate of 21.67% and a slight decrease from last quarters of 21.11%.
- 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 second quarter of 2011 — the same as previous quarter's rate and a 2.73% decrease compared to 2010's rate of \$1.10. 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 211,430 square feet of negative net absorption in the second quarter of 2011, giving the industrial market an average of approximately 55,000 square feet of positive absorption per quarter over the past three quarters.
- 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

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	16.68%	16.24%	16.26%	2.58%
Availability Rate	21.06%	21.11%	21.67%	(2.81%)
Average Asking Lease Rate	\$1.07	\$1.07	\$1.10	(2.73%)
Sale & Lease Transactions	1,381,316	1,056,813	1,584,390	(12.82%)
Gross Absorption	794,447	1,265,385	915,635	(13.24%)
Net Absorption	(211,430)	(208,146)	75,104	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 2Q2011	Square Feet Available	Availability Rate 2Q2011	Average Asking Lease Rate	Net Absorption 2Q2011	Net Absorption 2011	Gross Absorption 2Q2011	Gross Absorption 2011
Central													
Central City	17	207,418	0	0	21,278	10.26%	17,080	8.23%	\$0.00	1,766	7,472	6,545	12,251
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	2,500	2,400	2,500	2,500
Central Total	41	460,514	0	0	21,278	4.62%	17,080	3.71%	\$0.00	4,266	9,872	9,045	14,751
Central Suburban													
Airport/Sports Arena	30	408,475	0	0	7,281	1.78%	97,961	23.98%	\$0.68	0	0	0	0
Kearny Mesa	212	5,331,020	0	57,691	565,053	10.60%	965,619	18.11%	\$1.02	(95,139)	(44,629)	108,189	351,594
Mission Gorge	23	179,140	0	0	15,836	8.84%	15,836	8.84%	\$1.10	0	(4,322)	0	1,770
Rose Canyon/Morena	40	686,938	0	0	63,870	9.30%	72,999	10.63%	\$0.78	19,920	9,997	34,821	58,108
Central Suburban Total	305	6,605,573	0	57,691	652,040	9.87%	1,152,415	17.45%	\$0.96	(75,219)	(38,954)	143,010	411,472
East County													
El Cajon	81	932,536	0	0	70,750	7.59%	91,257	9.79%	\$0.93	(10,366)	(615)	12,524	23,295
La Mesa/Spring Valley	40	295,699	0	0	14,297	4.83%	17,075	5.77%	\$0.00	12,026	(47)	15,310	17,330
Santee/Lakeside	51	454,520	0	590,000	32,440	7.14%	34,440	7.58%	\$0.69	1,800	(592)	6,904	14,283
East County Total	172	1,682,755	0	590,000	117,487	6.98%	142,772	8.48%	\$0.80	3,460	(1,254)	34,738	54,908
Highway 78 Corridor													
Oceanside	31	987,470	0	0	101,909	10.32%	96,115	9.73%	\$0.00	4,946	9,972	4,946	11,053
San Marcos	55	855,765	0	0	127,309	14.88%	122,103	14.27%	\$0.97	(1,851)	11,733	11,977	47,520
Vista/Fallbrook	59	1,653,497	0	231,842	222,395	13.45%	272,747	16.50%	\$0.72	(3,411)	(4,968)	26,919	70,542
Highway 78 Corridor Total	145	3,496,732	0	231,842	451,613	12.92%	490,965	14.04%	\$0.73	(316)	16,737	43,842	129,115
I(15 Corridor													
Escondido	52	615,181	26,340	0	47,300	7.69%	98,450	16.00%	\$0.56	10,431	4,737	10,431	22,098
Poway	65	1,378,822	0	65,000	158,017	11.46%	234,956	17.04%	\$0.96	(18,627)	(42,952)	22,296	43,457
Rancho Bernardo	90	4,983,764	0	0	1,396,382	28.02%	1,600,010	32.10%	\$10.40	(64,998)	(40,715)	12,227	43,170
Scripps Ranch	30	755,298	0	0	165,475	21.91%	156,406	20.71%	\$0.90	(9,657)	(31,656)	4,896	5,778
I(15 Corridor Total	237	7,733,065	26,340	65,000	1,767,174	22.85%	2,089,822	27.02%	\$1.02	(82,851)	(110,586)	49,850	114,503
North City													
Miramar	206	4,316,275	0	0	844,000	19.55%	1,102,306	25.54%	\$1.00	(46,612)	(100,185)	89,674	161,140
Sorrento Mesa	162	6,554,374	0	0	1,010,127	15.41%	1,393,688	21.26%	\$1.13	(83,498)	(152,463)	136,948	199,517
Sorrento Valley	99	2,381,606	0	0	314,146	13.19%	354,494	14.88%	\$1.38	14,127	32,806	44,845	99,218
Torrey Pines	36	2,484,895	0	0	444,937	17.91%	483,100	19.44%	\$0.00	32,273	31,336	37,447	42,247
UTC Center	18	1,551,789	0	102,967	597,259	38.49%	593,493	38.25%	\$1.92	(6,398)	(82,336)	15,293	103,587
North City Total	521	17,288,939	0	102,967	3,210,469	18.57%	3,927,081	22.71%	\$1.06	(90,108)	(270,842)	324,207	605,709
North County													
Carlsbad	234	5,538,449	0	0	1,086,111	19.61%	1,352,633	24.42%	\$1.11	13,440	(5,331)	150,819	405,609
North Beach Cities	16	156,894	0	0	1,146	0.73%	1,146	0.73%	\$0.00	2,213	4,443	6,353	8,583
North County Total	250	5,695,343	0	0	1,087,257	19.09%	1,353,779	23.77%	\$1.11	15,653	(888)	157,172	414,192
Outlying Areas													
Outlying SD County North	15	126,521	0	0	6,696	5.29%	6,696	5.29%	\$0.00	5,700	4,404	5,700	5,700
Outlying SD County South	20	76,270	0	0	8,617	11.30%	14,241	18.67%	\$0.00	0	0	0	4,117
Outlying Areas Total	35	202,791	0	0	15,313	7.55%	20,937	10.32%	\$0.00	5,700	4,404	5,700	9,817
South Bay													
Chula Vista	78	1,442,423	0	0	141,949	9.84%	247,540	17.16%	\$0.60	(2,456)	(6,965)	16,442	42,329
National City	31	299,827	0	0	35,939	11.99%	35,939	11.99%	\$0.00	1,752	(277)	1,752	10,747
Otay Mesa	11	296,313	0	0	41,477	14.00%	41,477	14.00%	\$0.00	8,689	(24,513)	8,689	8,689
South Bay Total	120	2,038,563	0	0	219,365	10.76%	324,956	15.94%	\$0.60	7,985	(31,755)	26,883	61,765
San Diego County Total	1,826	45,204,275	26,340	1,047,500	7,541,996	16.68%	9,519,807	21.06%	\$1.07	(211,430)	(423,266)	794,447	1,816,232

Lease rates are on a triple-net basis.

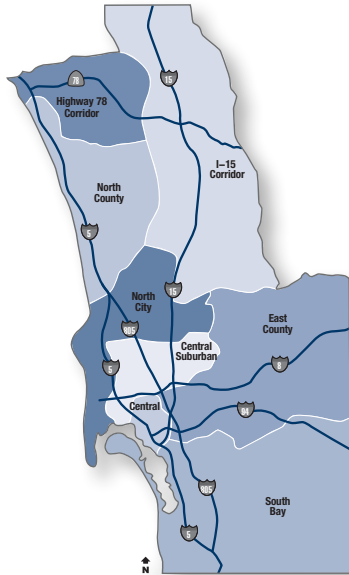
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
5781 Van Allen Way	Carlsbad	328,700	\$170.37	The GC Net Lease REIT, Inc.	Griffin Capital Corporation
10770 Wateridge Cir.	Sorrento Mesa	176,983	\$184.76	Kilroy Realty Corporation	MetLife, Inc.
8705 Mesa Point Ter. – 26 Condos	Otay Mesa	86,541	\$77.44	Hamann Companies	Otay Mesa Owner, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2885 E. Loker Ave.	Carlsbad	88,329	Apr-11	Breg, Inc.	Propco, LP
11388-11404 Sorrento Valley Rd. – Renewal	Sorrento Valley	48,635	Jun-11	Halozyme Therapeutics, Inc.	BioMed Realty Trust, Inc.
9880 Mesa Rim Rd.	Sorrento Mesa	45,540	Apr-11	Biotix, Inc.	FR/Cal Mesa Rim, LLC
7720 Kenamar Ct.	Mira Mesa/Miramar	29,244	Jun-11	GB Sales	Brentcrest Associates
10421 Pacific Center Ct.	Sorrento Mesa	25,296	Apr-11	AnaptysBio, Inc.	Kilroy Realty Corporation
6190 Corte Del Cedro	Carlsbad	20,423	Apr-11	Photo Thera	David Neblett



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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