



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

UP

Deliveries

FLAT

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Market Highlights

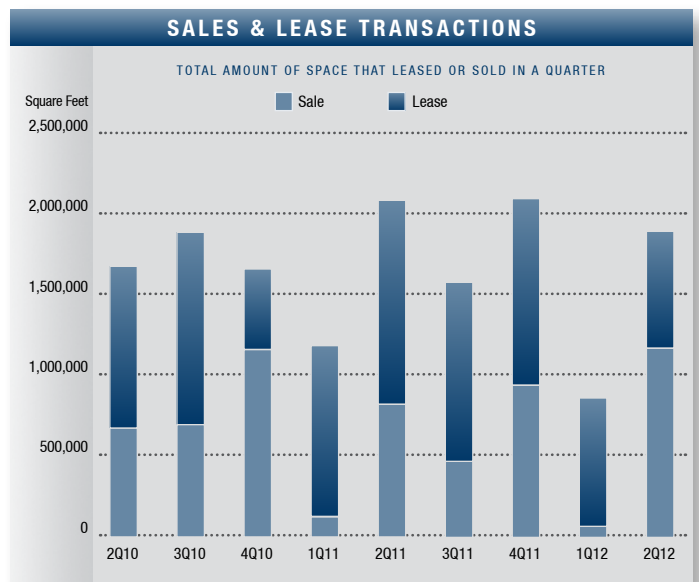
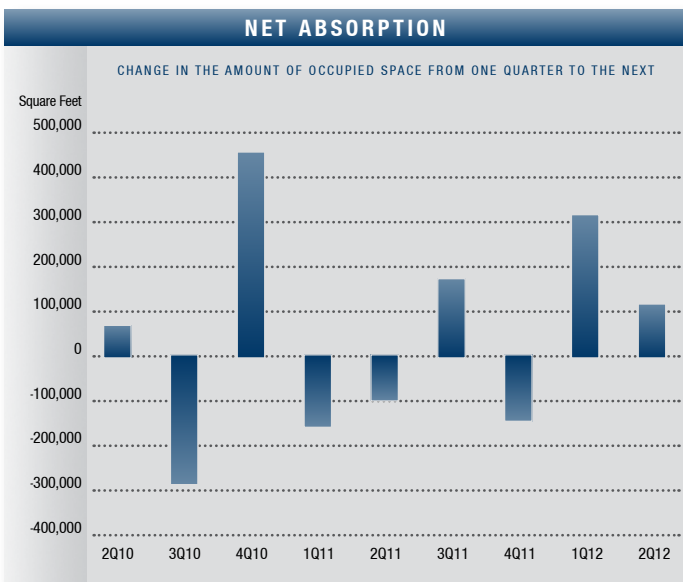
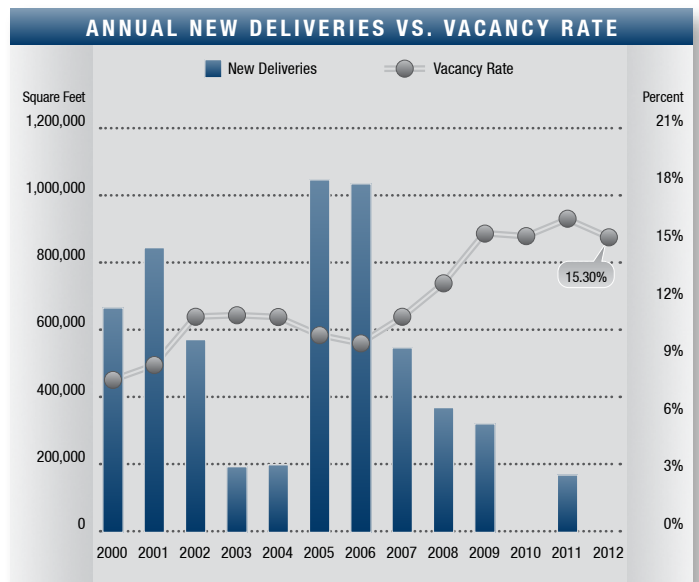
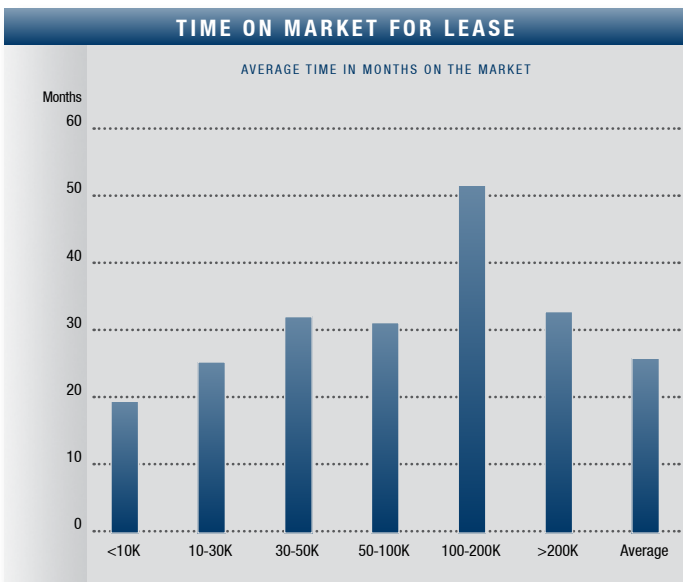
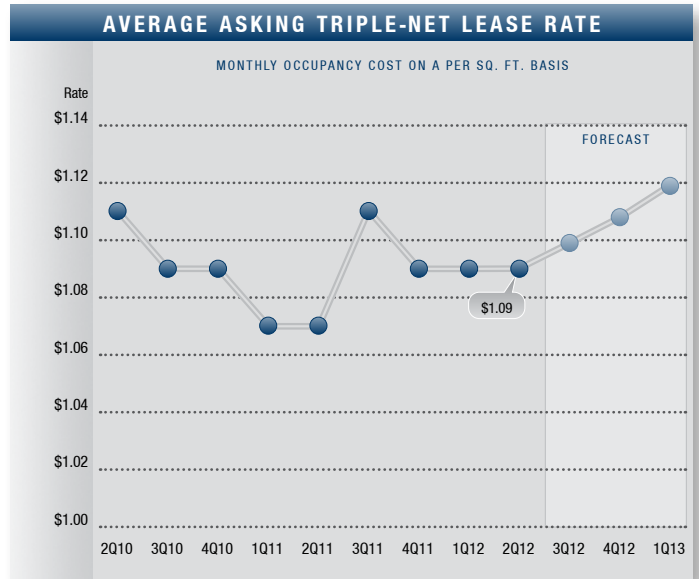
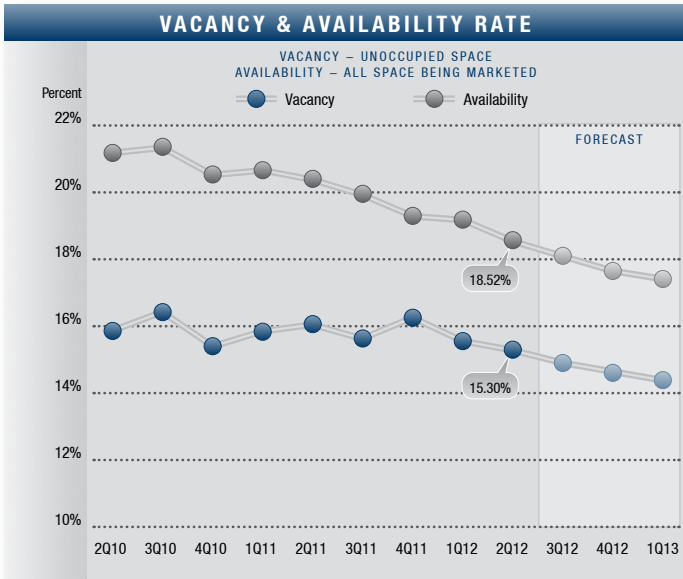
- Moving Forward** - The San Diego R&D market displayed more signs of recovery in the second quarter of 2012, with positive net absorption, increased transaction volume, and slight decreases in both vacancy and availability. The R&D market remains a bright spot in the mid and long term forecasts for our region.
- Construction** - There was very little construction during over the past year, with no deliveries in the second 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 15.3%, a decrease from the first quarter rate of 15.57% and the lowest vacancy rate seen since the second quarter of 2009.
- Availability** - Direct/sublease space being marketed was 18.52% at the end of the quarter, a drop from the previous quarter's rate of 19.17% 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 second quarter of 2012, unchanged from the previous quarter. Average asking lease rates have risen two cents per square foot 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.
- Absorption** - The San Diego R&D market posted 114,739 square feet of positive net absorption in the second quarter, following 316,685 square feet of positive net absorption in the first quarter. This marks

the first two consecutive quarters of positive net absorption in five years. 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 1,889,459 square feet, a nice bounce back after Q1's slow start to the year of 849,124 square feet sold and leased. 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 8.8% in May 2012, unchanged from a revised 8.8% in April 2012 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,400 payroll jobs from May 2011 to May 2012 — 5,400 in educational and health services and 5,300 in professional and business services. Manufacturing posted the greatest year-over-year decline- a loss of 2,300 jobs.
- Overall** - The R&D market has shown signs of strong demand, exhibited in last year's leasing activity, but availability and vacancy have remained stubbornly high. With very little currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. Institutional investors continue to show an appetite for R&D product. 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

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	15.30%	15.57%	16.02%	(4.49%)
Availability Rate	18.52%	19.17%	20.47%	(9.53%)
Average Asking Lease Rate	\$1.09	\$1.09	\$1.07	1.87%
Sale & Lease Transactions	1,889,459	849,124	2,084,730	(9.37%)
Gross Absorption	1,014,590	990,676	889,004	14.13%
Net Absorption	114,739	316,685	(98,826)	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Central													
Central	18	229,501	0	0	4,804	2.09%	4,804	2.09%	\$0.00	1,041	1,540	3,463	4,300
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Deigo	19	208,804	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Central Total	42	482,597	0	0	4,804	1.00%	4,804	1.00%	\$0.00	1,041	1,540	3,463	7,763
Central Suburban													
Sports Arena/Airport	33	420,764	0	0	95,125	22.61%	95,125	22.61%	\$0.91	(83,350)	(83,350)	0	0
Kearny Mesa	209	5,404,632	0	57,691	639,463	11.83%	836,593	15.48%	\$1.03	(31,649)	24,803	69,099	176,889
Mission Gorge	23	175,707	0	0	26,012	14.80%	22,123	12.59%	\$0.00	776	2,492	8,064	13,032
Rose Canyon/Morena	40	639,924	0	0	113,141	17.68%	107,002	16.72%	\$0.92	(33,314)	(41,473)	16,250	34,504
Central Suburban Total	305	6,641,027	0	57,691	873,741	13.16%	1,060,843	15.97%	\$0.99	(147,537)	(97,528)	93,413	224,425
East County													
El Cajon	81	922,910	0	0	111,793	12.11%	123,036	13.33%	\$0.00	2,654	(689)	20,963	40,023
La Mesa/Spring Valley	43	321,471	0	0	26,980	8.39%	25,194	7.84%	\$0.00	(9,732)	(13,157)	0	0
Santee/Lakeside	50	456,717	0	590,000	41,288	9.04%	47,550	10.41%	\$0.60	5,396	(16,244)	5,396	10,116
East County Total	174	1,701,098	0	590,000	180,061	10.58%	195,780	11.51%	\$0.60	(1,682)	(30,090)	26,359	50,139
Highway 78 Corridor													
Oceanside	32	1,046,879	0	0	97,188	9.28%	100,951	9.64%	\$0.89	(18,118)	(5,592)	3,252	19,059
San Marcos	56	889,537	0	0	100,315	11.28%	82,188	9.24%	\$0.88	(1,963)	(10,976)	28,610	44,981
Vista	59	1,654,249	0	241,342	210,173	12.71%	210,946	12.75%	\$0.80	(78)	(2,750)	14,871	14,871
Highway 78 Corridor Total	147	3,590,665	0	241,342	407,676	11.35%	394,085	10.98%	\$0.83	(20,159)	(19,318)	46,733	78,911
I-15 Corridor													
Escondido	80	781,507	0	9,500	79,948	10.23%	113,227	14.49%	\$0.64	(2,036)	(9,876)	12,643	22,849
Poway	65	1,378,822	0	0	120,329	8.73%	145,291	10.54%	\$0.68	18,188	15,798	18,188	53,556
Rancho Bernardo	91	5,147,980	0	0	1,181,076	22.94%	1,343,779	26.10%	\$1.03	60,765	101,935	165,018	223,998
Scripps Ranch	30	755,298	0	0	157,923	20.91%	232,313	30.76%	\$0.91	(3,185)	(13,892)	0	0
I-15 Corridor Total	266	8,063,607	0	9,500	1,539,276	19.09%	1,834,610	22.75%	\$0.99	73,732	93,965	195,849	300,403
North City													
Miramar	209	4,389,420	0	0	775,342	17.66%	1,011,778	23.05%	\$0.99	23,235	71,321	124,203	241,738
Sorrento Mesa	165	6,573,968	0	0	887,811	13.50%	1,094,682	16.65%	\$1.24	(16,677)	22,174	123,688	242,545
Sorrento Valley	105	2,464,664	0	0	293,018	11.89%	444,291	18.03%	\$1.39	48,193	42,189	57,020	105,445
Torrey Pines	38	2,910,728	31,246	105,091	373,729	12.84%	390,731	13.42%	\$0.00	86,569	81,370	164,477	239,162
UTC	19	1,550,901	0	102,967	546,470	35.24%	447,480	28.85%	\$2.25	42,172	145,799	46,556	158,816
North City Total	536	17,889,681	31,246	208,058	2,876,370	16.08%	3,388,962	18.94%	\$1.26	183,492	362,853	515,944	987,706
North County													
Carlsbad	236	5,637,849	0	100,000	1,060,233	18.81%	1,361,205	24.14%	\$0.99	11,743	92,103	91,031	289,434
North Beach Cities	16	148,193	0	0	6,054	4.09%	4,854	3.28%	\$0.00	(1,200)	9,097	1,200	11,497
North County Total	252	5,786,042	0	100,000	1,066,287	18.43%	1,366,059	23.61%	\$0.99	10,543	101,200	92,231	300,931
Outlying Areas													
Outlying SD County North	16	191,979	0	0	9,821	5.12%	9,821	5.12%	\$0.00	0	2,000	0	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
Outlying Areas Total	36	270,059	0	0	20,188	7.48%	20,188	7.48%	\$0.00	0	2,000	0	2,000
South Bay													
Chula Vista	78	1,446,387	0	0	81,880	5.66%	275,453	19.04%	\$0.78	12,184	12,455	32,370	41,806
National City	30	290,559	0	0	37,842	13.02%	37,842	13.02%	\$0.00	3,125	4,347	8,228	11,356
Otay Mesa/San Ysidro	10	235,361	0	0	12,019	5.11%	12,019	5.11%	\$0.80	0	0	0	0
South Bay Total	118	1,972,307	0	0	131,741	6.68%	325,314	16.49%	\$0.79	15,309	16,802	40,598	53,162
San Diego County Total	1,876	46,397,083	31,246	1,206,591	7,100,144	15.30%	8,590,645	18.52%	\$1.09	114,739	431,424	1,014,590	2,005,440

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
6122-6126 Nancy Ridge Dr.	Miramar	68,000	\$294.12	BioMed Realty Trust, Inc.	Applied Clinical Research
7720-7740 Kenamar Ct.	Miramar	152,513	\$66.45	Providence Capital Group, Inc.	Century Commercial Brokerage Company
11011 Torreyana Rd.	Torrey Pines	76,694	\$130.39	Alliance Real Estate Investment, LLC	Washington Capital
6795 Flanders Dr.	Sorrento Mesa	48,604	\$95.67	Helix Electric, Inc.	Janez Properties, Inc.
6349 Palomar Oaks Ct.	Carlsbad	27,262	\$109.68	Buffini & Company	Summit Realty Advisors

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10275 Science Center Dr.	Torrey Pines	43,159	June-12	Takeda San Diego	HCP, Inc.
15378 Avenue of Science	Rancho Bernardo	42,600	April-12	Daylight Solutions	Kilroy Realty
5795 Kearny Villa Rd.	Kearny Mesa	38,961	May-12	Scale Matrix	KV Resources, LLC
15110 Avenue of Science	Rancho Bernardo	25,584	June-12	Lifeproof	Harsch Investment Properties
9450 Carroll Park Dr.	Miramar	25,029	May-12	N/A	The Irvine Company



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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