



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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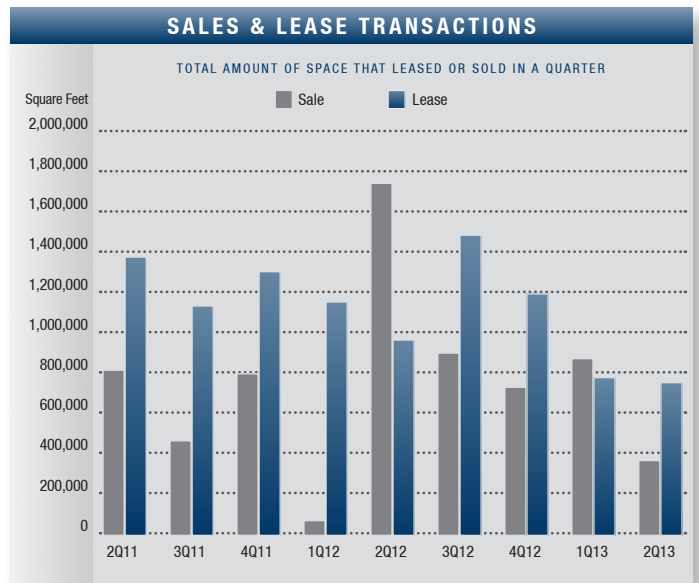
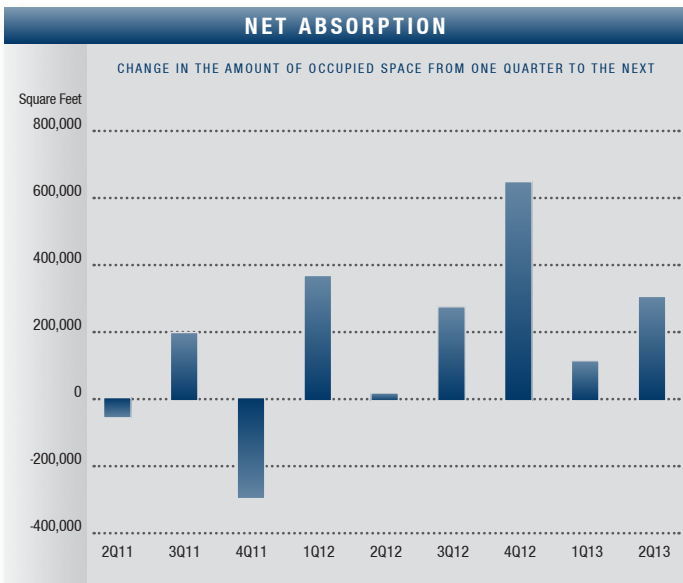
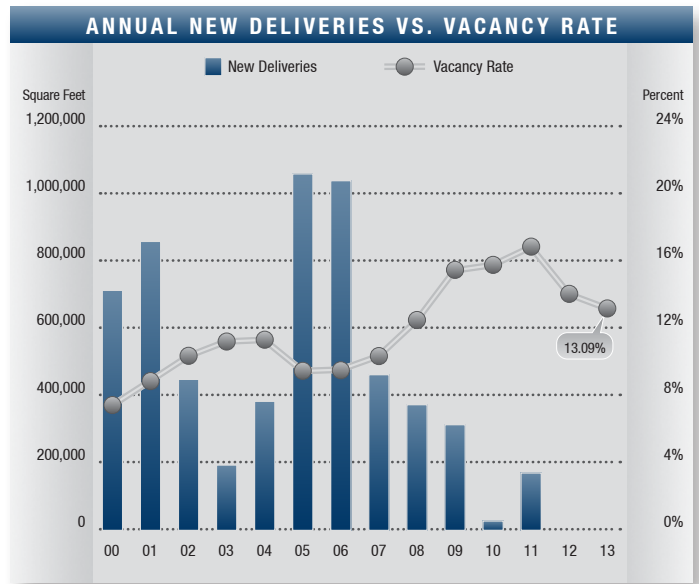
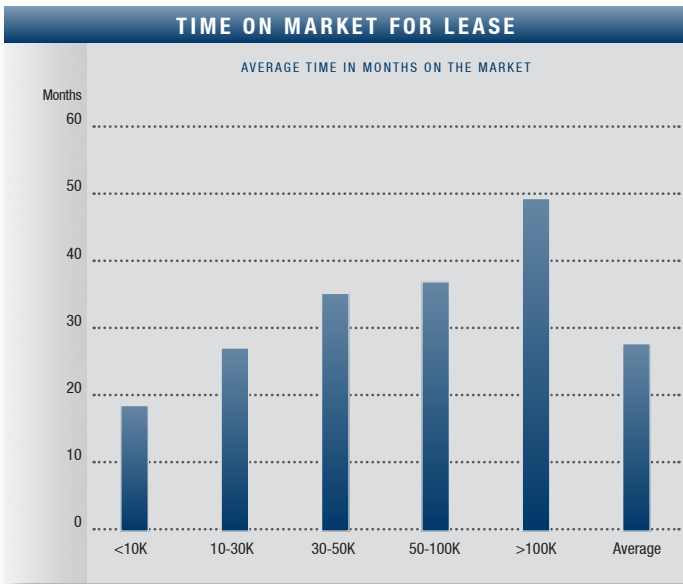
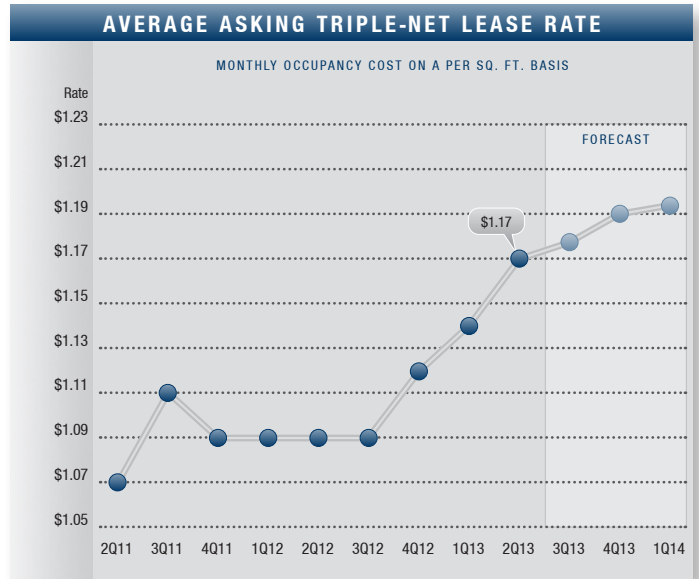
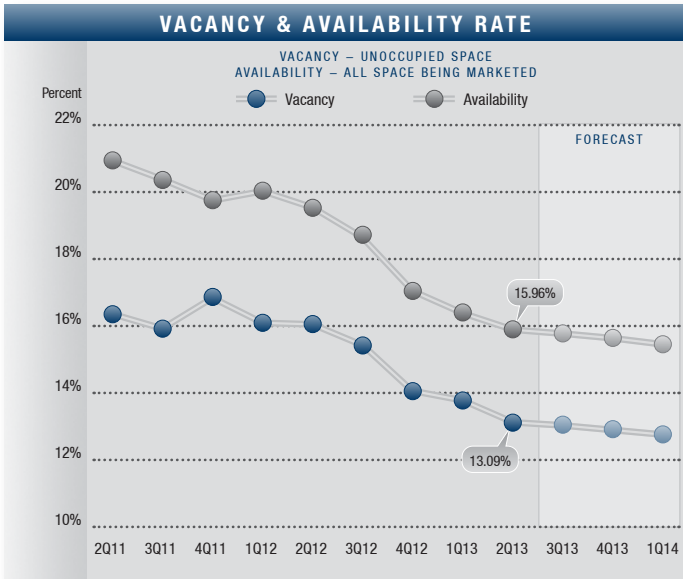
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Market Highlights

- Moving Forward** - The San Diego R&D market displayed more signs of recovery in the second 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 six 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 302,718 square feet of positive net absorption in the second quarter for consecutive quarters of positive absorption for the first two quarters of 2013 — 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 second quarter totaled 1.1 million square feet, a decrease from the first quarter's 1.6 million square feet. 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 6.7% in May 2013, down from a revised 7.0% in April 2013 and below the year-ago estimate of 8.8%. This compares with an unadjusted unemployment rate of 8.1% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 20,300 payroll jobs from May 2012 to May 2013 — including 5,600 in professional and business services and 4,800 each from educational and health services and leisure and hospitality. Construction and manufacturing were the only employment sectors to post year-over year job losses, at 400 and 100 net jobs lost, respectively.
- Overall** - The R&D market has now posted the sixth straight quarter of improvement. 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.
- 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 second quarter of 2013. The slowdown in new property deliveries has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 13.09%, a decrease from first quarter's rate of 13.76% and the lowest vacancy rate seen since the first quarter of 2009.
- Availability** - Direct/sublease space being marketed was 15.96% at the end of the second quarter, down from the previous quarter and significantly down the rate of a year ago 19.51%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.17 at the end of the first quarter, an increase from both the previous quarter's rate of \$1.14 and 2012's rate of \$1.09. Average asking lease rates have risen ten 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

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	13.09%	13.76%	16.04%	(18.39%)
Availability Rate	15.96%	16.43%	19.51%	(18.20%)
Average Asking Lease Rate	\$1.17	\$1.14	\$1.09	7.34%
Sale & Lease Transactions	1,101,128	1,630,463	2,689,394	(59.06%)
Gross Absorption	915,604	870,434	1,031,130	(11.20%)
Net Absorption	302,718	111,658	17,573	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Central													
Central	17	229,456	0	0	1,248	0.54%	28,325	12.34%	\$0.00	7,915	4,106	7,915	9,117
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Diego	19	208,988	0	0	0	0.00%	0	0.00%	\$0.00	2,475	2,475	2,475	2,475
Central Total	41	482,736	0	0	1,248	0.26%	28,325	5.87%	\$0.00	10,390	6,581	10,390	11,592
Central Suburban													
Sports Arena/Airport	207	5,642,049	0	20,000	306,755	5.44%	591,868	10.49%	\$0.98	77,894	101,184	114,798	188,410
Kearny Mesa	28	267,841	0	0	8,067	3.01%	26,054	9.73%	\$0.95	2,848	14,442	13,435	33,369
Mission Gorge	40	638,248	0	0	90,774	14.22%	78,730	12.34%	\$1.24	(18,360)	(9,108)	15,945	38,776
Rose Canyon/Morena	44	536,882	0	0	60,183	11.21%	142,933	26.62%	\$0.84	4,526	264	8,572	17,260
Central Suburban Total	319	7,085,020	0	20,000	465,779	6.57%	839,585	11.85%	\$0.94	66,908	106,782	152,750	277,815
East County													
El Cajon	83	940,955	0	0	61,273	6.51%	94,374	10.03%	\$0.00	8,520	39,968	13,530	64,120
La Mesa/Spring Valley	42	321,906	0	0	14,147	4.39%	14,437	4.48%	\$0.00	14,983	16,728	14,983	18,408
Santee/Lakeside	52	519,062	0	268,000	10,882	2.10%	32,554	6.27%	\$0.00	3,149	3,008	5,091	10,569
East County Total	177	1,781,923	0	268,000	86,302	4.84%	141,365	7.93%	\$0.00	26,652	59,704	33,604	93,097
Highway 78 Corridor													
Oceanside	31	990,032	0	0	43,227	4.37%	43,227	4.37%	\$0.00	703	4,063	8,640	13,000
San Marcos	59	947,386	0	0	95,382	10.07%	92,301	9.74%	\$0.88	(4,303)	(19,401)	9,748	25,796
Vista	59	1,427,744	0	241,342	153,951	10.78%	255,357	17.89%	\$1.17	13,212	37,634	17,630	47,630
Highway 78 Corridor Total	149	3,365,162	0	241,342	292,560	8.69%	390,885	11.62%	\$1.04	9,612	22,296	36,018	86,426
I-15 Corridor													
Escondido	86	799,389	0	9,500	87,520	10.95%	104,779	13.11%	\$0.65	(30,860)	(39,071)	10,990	19,444
Poway	58	1,221,221	0	0	60,238	4.93%	108,844	8.91%	\$0.69	9,519	(3,843)	16,248	25,220
Rancho Bernardo	87	3,932,176	0	0	1,098,174	27.93%	1,006,868	25.61%	\$1.15	(63,768)	(32,562)	24,015	82,746
Scripps Ranch	30	755,298	0	0	164,250	21.75%	157,853	20.90%	\$1.21	85,734	38,251	104,466	104,636
I-15 Corridor Total	261	6,708,084	0	9,500	1,410,182	21.02%	1,378,344	20.55%	\$1.13	625	(37,225)	155,719	232,046
North City													
Miramar	207	4,396,873	0	0	618,480	14.07%	769,374	17.50%	\$0.86	25,019	(24,121)	120,403	228,973
Sorrento Mesa	155	5,720,548	0	0	694,504	12.14%	764,457	13.36%	\$1.29	7,115	77,360	55,330	149,870
Sorrento Valley	109	2,549,149	0	0	300,713	11.80%	492,626	19.33%	\$1.47	(1,921)	(49,850)	44,209	86,141
Torrey Pines	43	3,385,410	31,246	105,091	603,523	17.83%	614,415	18.15%	\$0.00	31,162	35,898	31,213	84,087
UTC	19	1,495,600	0	300,000	338,183	22.61%	379,139	25.35%	\$2.49	19,933	28,622	83,866	92,555
North City Total	533	17,547,580	31,246	405,091	2,555,403	14.56%	3,020,011	17.21%	\$1.32	81,308	67,909	335,021	641,626
North County													
Carlsbad	240	5,838,639	0	100,000	959,406	16.43%	1,108,073	18.98%	\$0.97	90,807	166,638	170,787	384,514
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	1,200	1,200	1,200	1,200
North County Total	256	5,986,832	0	100,000	959,406	16.03%	1,108,073	18.51%	\$0.97	92,007	167,838	171,987	385,714
Outlying Areas													
Outlying SD County North	17	199,416	0	0	12,692	6.36%	19,292	9.67%	\$0.00	0	0	0	0
Outlying SD County South	20	78,080	0	0	4,000	5.12%	5,600	7.17%	\$0.00	0	4,617	0	4,617
Outlying Areas Total	37	277,496	0	0	16,692	6.02%	24,892	8.97%	\$0.00	0	4,617	0	4,617
South Bay													
Chula Vista	79	1,465,440	0	0	102,547	7.00%	231,221	15.78%	\$1.37	9,658	14,961	13,217	39,206
National City	31	363,500	0	0	30,679	8.44%	52,384	14.41%	\$0.00	5,558	913	6,898	13,899
Otay Mesa/San Ysidro	11	245,361	0	0	12,019	4.90%	14,926	6.08%	\$0.76	0	0	0	0
South Bay Total	121	2,074,301	0	0	145,245	7.00%	298,531	14.39%	\$1.34	15,216	15,874	20,115	53,105
San Diego County Total	1,894	45,309,134	31,246	1,043,933	5,932,817	13.09%	7,230,011	15.96%	\$1.17	302,718	414,376	915,604	1,786,038

Lease rates are on a triple-net basis.

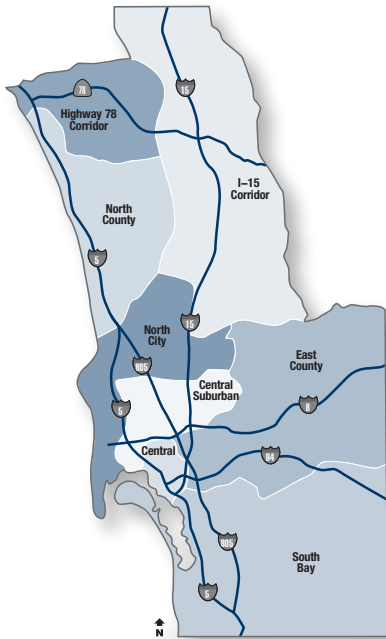
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
5751 Copley Dr.	Kearny Mesa	101,726	\$221.18	HighBrook Investment Management, LP	Thompson National Properties, LLC
5927 Geiger Ct.	Carlsbad	37,250	\$112.08	Means Family Trust	Wayne Seltzer
3725-3729 El Cajon Blvd.	Central	31,500	\$77.78	R&C Benkins, LLC	Grace Family Trust
2225 Hancock St.	Sports Arena/Airport	12,650	\$156.13	Cohn Restaurant Group	Old Town Holdings Corporation
6172 Innovation Way	Carlsbad	18,051	\$103.01	Ferrari of San Diego	Palomar Airport Road, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16550 W. Bernardo Dr.	Rancho Bernardo	156,213	June-13	Northrup Grumman	Jay Paul Company
6059 Cornerstone Ct. W.	Sorrento Mesa	50,600	June-13	N/A	Lincoln Property Company
10480 Wateridge Cir.	Sorrento Mesa	26,500	April-13	Inovio Pharmaceuticals	Biomed Realty Trust
4863 Shawline St.	Kearny Mesa	19,614	April-13	Upwind Solutions	McGrath Development, Inc.
2236 Rutherford Rd.	Carlsbad	14,951	April-13	N/A	Grosvenor Fund Management, Inc.



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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