



# R&D Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

**Vacancy**



**UP**

**Absorption**

**DOWN**

**Lease Rates**

**DOWN**

**Construction**



**UP**

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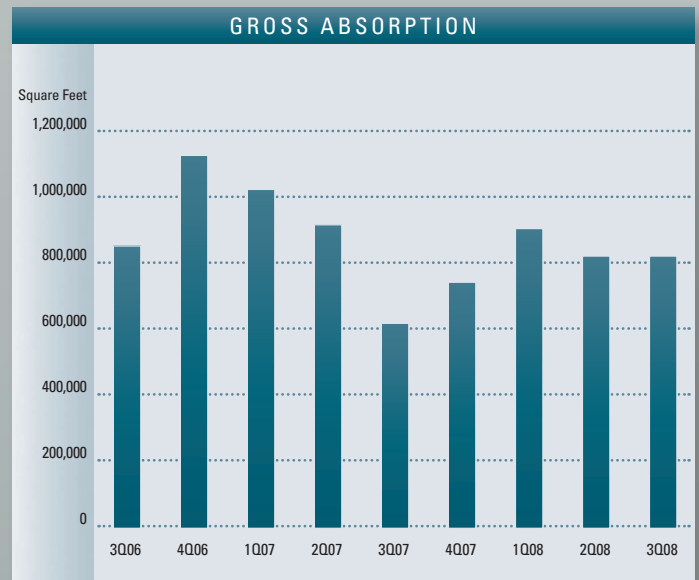
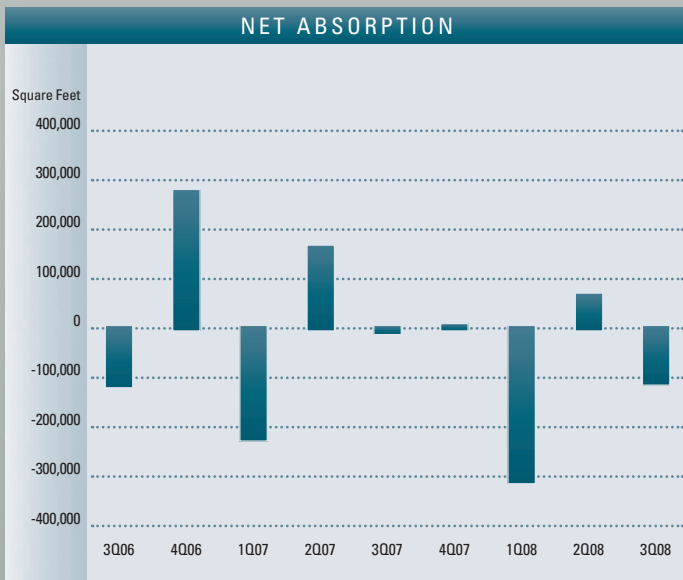
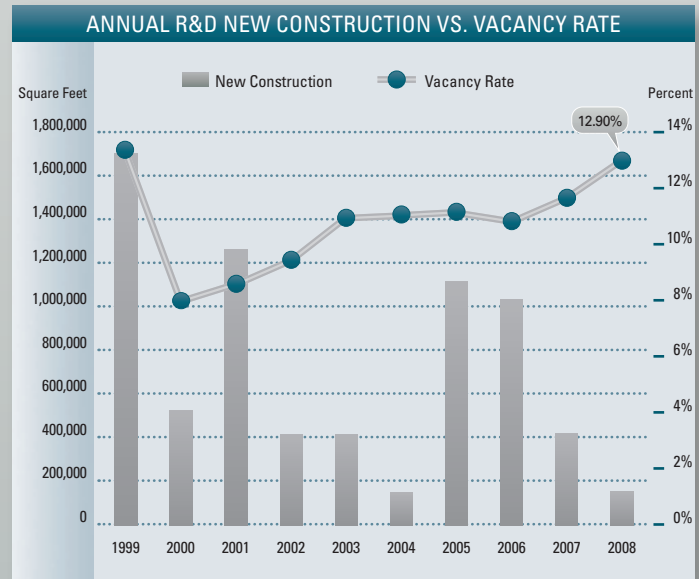
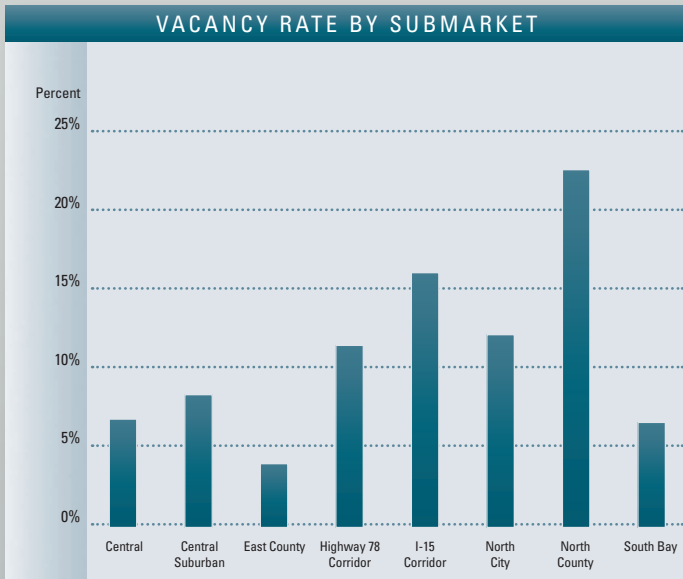
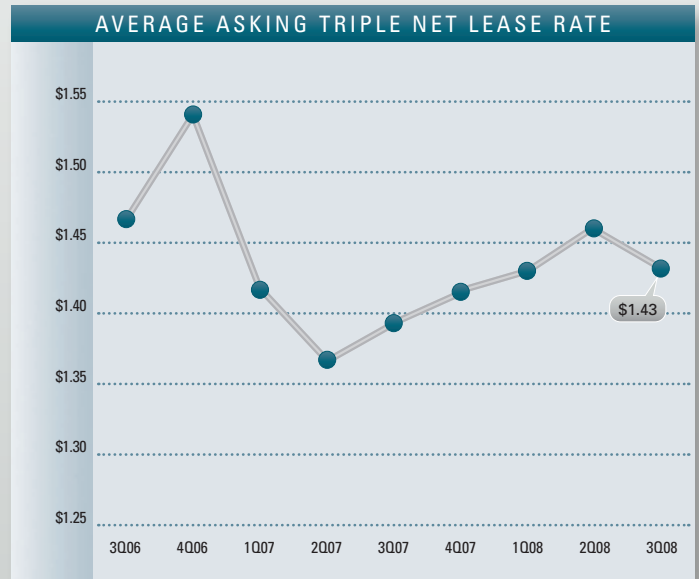
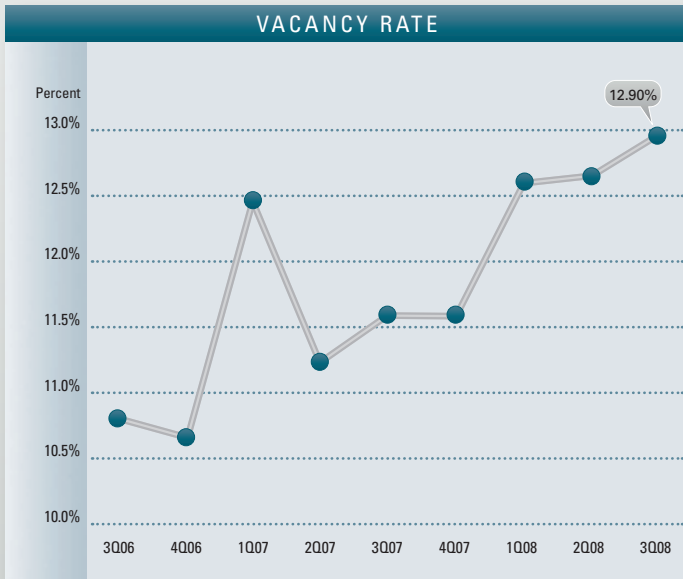
## Market Highlights

- ◆ The San Diego County Research & Development market is undergoing changes due to reaction to the credit crunch. The three primary concerns are as follows: expensive and scarce financing, economic uncertainty and volatility, and an increasing gap between “ask” and “bid” pricing between buyers and sellers. However, the region’s strong local economy and high quality of life continue to make it a desirable location for business. The growing influence of new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to rejuvenate the Research & Development market. These industries will increase employment opportunities and help to ease vacancy rate concerns in the coming quarters.
- ◆ The Research & Development vacancy rate is 12.90% this quarter, which is higher than last quarter when it was 12.66%, and is higher than last year’s figure of 11.62%. One of the lowest vacancy rates in the county can be found in the East County submarket, coming in at 3.81%.
- ◆ The average asking Triple Net lease rate per month per foot in San Diego County is currently \$1.43, which is higher than last year’s third quarter rate of \$1.39. The highest rates in the county can be found in the North City submarket, where the average asking Triple Net lease rate is \$1.58 per square foot. Lease rates are expected to remain at current levels for the short run, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances.
- ◆ Research & Development absorption checked in at a negative 113,639 square feet during the third quarter of 2008, giving a total of 351,942 square feet of negative absorption for 2008. Most of the negative absorption occurred in the North City and Central Suburban submarkets: 132,367 and 55,712 square feet respectively.
- ◆ According to the State of California Employment Development Department, San Diego County lost 5,700 payroll jobs over the last twelve months. Between July 2008 and August 2008 San Diego County gained 500 jobs, mostly in the leisure & hospitality and educational & health services sectors.
- ◆ The unemployment rate in San Diego County was 6.4% in August 2008, down from a revised 6.5% percent in July 2008, but above the year ago estimate of 4.8%. This compares with an unadjusted unemployment rate of 7.6 percent for California and 6.1 percent for the nation during the same period.
- ◆ Currently there is 267,781 square feet of Research & Development construction underway, and total construction is up just over 39% when compared to a year ago.
- ◆ Planned Research & Development construction in San Diego County is down when compared to last year. Currently, there is 1.1 million square feet of Research & Development space on the slate as being planned, compared to last year’s figure of 1.6 million square feet.

### R & D MARKET OVERVIEW

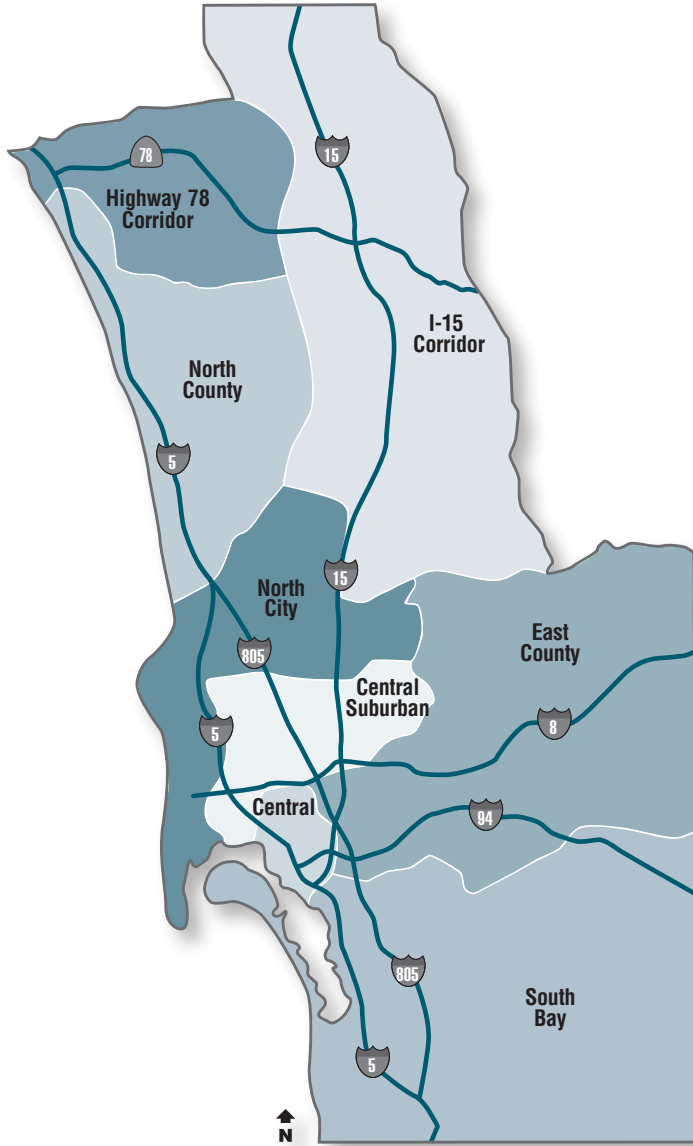
	3Q2008	2Q2008	3Q2007	% CHANGE VS. 3Q07
Under Construction	267,781	187,610	192,169	39.35%
Planned Construction	1,131,430	1,324,211	1,591,515	-28.91%
Vacancy	12.90%	12.66%	11.62%	11.02%
Availability	15.92%	16.56%	14.39%	10.63%
Pricing	\$1.43	\$1.46	\$1.39	2.88%
Activity	815,227	816,038	615,475	32.45%
Net Absorption	-113,639	67,149	-12,020	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number Of Buildings	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2008	Total Availability 3Q2008	Average Asking Lease Rate	Net Absorption 3Q2008	Net Absorption 2008	Net Absorption 2007	Net Absorption 2006
<b>Central</b>												
Downtown	11	262,458	0	0	19,218	7.32%	41,218	\$0.00	0	0	(7,183)	(2,387)
East City	1	30,000	0	0	1,830	6.10%	1,830	\$0.00	(1,830)	(1,830)	0	390
Central Total	12	292,458	0	0	21,048	7.20%	43,048	\$0.00	(1,830)	(1,830)	(7,183)	(1,997)
<b>Central Suburban</b>												
Airport/Sports Arena	13	248,201	0	0	18,420	7.42%	18,420	\$1.25	(4,975)	(3,655)	2,135	(13,400)
Kearny Mesa	161	4,577,905	0	57,691	434,984	9.50%	436,850	\$1.39	(57,789)	(245,892)	(15,815)	66,336
Mission Gorge	9	138,061	0	0	1,152	0.83%	1,152	\$0.00	1,958	2,128	2,581	0
Rose Canyon/Morena	34	625,720	0	0	5,171	0.83%	5,073	\$1.45	5,094	28,739	(13,756)	(806)
Central Suburban Total	217	5,589,887	0	57,691	459,727	8.22%	461,495	\$1.38	(55,712)	(218,680)	(24,855)	52,130
<b>East County</b>												
El Cajon	45	903,792	0	0	45,445	5.03%	49,432	\$0.91	6,766	(14,135)	7,975	(17,656)
La Mesa/Spring Valley	10	179,432	0	0	7,908	4.41%	6,228	\$0.00	(958)	(4,320)	(871)	5,000
Santee/Lakeside	25	347,582	0	590,000	1,100	0.32%	0	\$0.00	0	1,338	2,352	(8,150)
East County Total	80	1,430,806	0	590,000	54,453	3.81%	55,660	\$0.91	5,808	(17,117)	9,456	(20,806)
<b>Highway 78 Corridor</b>												
Oceanside	24	1,000,733	0	0	143,854	14.37%	147,617	\$0.00	(8,825)	12,407	28,638	15,613
San Marcos	22	445,110	0	0	48,735	10.95%	52,190	\$0.00	6,445	533	7,490	(26,643)
Vista/Fallbrook	44	1,397,429	98,109	41,842	137,817	9.86%	223,318	\$0.91	(7,166)	(25,965)	17,739	(21,881)
Highway 78 Corridor Total	90	2,843,272	98,109	41,842	330,406	11.62%	423,125	\$0.91	(9,546)	(13,025)	53,867	(32,911)
<b>I-15 Corridor</b>												
Escondido	25	466,137	0	0	2,790	0.60%	12,790	\$0.00	6,072	9,787	(9,174)	101,082
Poway	55	1,345,611	0	65,000	231,166	17.18%	384,518	\$1.48	23,721	141,460	(101,976)	(96,467)
Rancho Bernardo	76	4,475,846	0	0	861,407	19.25%	973,438	\$1.51	58,893	(82,958)	(63,347)	131,795
Scripps Ranch	23	742,207	0	0	64,325	8.67%	65,541	\$1.15	(6,475)	(29,451)	(8,549)	30,223
I-15 Corridor Total	179	7,029,801	0	65,000	1,159,688	16.50%	1,436,287	\$1.46	82,211	38,838	(183,046)	166,633
<b>North City</b>												
La Jolla	34	2,450,662	0	0	466,303	19.03%	432,517	\$3.12	(97,369)	15,561	(41,488)	(120,772)
Miramar	121	3,508,634	0	83,930	434,700	12.39%	609,256	\$1.25	(79,455)	(81,485)	72,537	91,746
Sorrento Mesa	148	6,776,108	0	0	803,908	11.86%	982,030	\$1.42	(16,114)	(147,576)	(53,655)	419,089
Sorrento Valley	71	1,780,250	0	0	174,752	9.82%	242,383	\$2.02	(23,395)	15,312	(118,676)	115,241
UTC Center	13	852,160	58,904	102,967	14,297	1.68%	48,022	\$2.95	83,966	86,421	(15,158)	133,731
North City Total	387	15,367,814	58,904	186,897	1,893,960	12.32%	2,314,208	\$1.58	(132,367)	(111,767)	(156,440)	639,035
<b>North County</b>												
Carlsbad	141	4,160,876	110,768	190,000	954,047	22.93%	1,122,412	\$1.25	22,940	20,981	110,256	(11,906)
North Beach Cities	9	145,272	0	0	6,973	4.80%	6,973	\$1.70	(2,400)	(2,400)	(2,313)	2,889
North County Total	150	4,306,148	110,768	190,000	961,020	22.32%	1,129,385	\$1.25	20,540	18,581	107,943	(9,017)
<b>South Bay</b>												
Chula Vista	55	1,443,580	0	0	102,334	7.09%	232,327	\$1.11	(24,059)	(28,608)	13,646	166,692
National City	20	330,428	0	0	11,920	3.61%	11,920	\$0.00	1,316	482	18,985	(2,593)
Otay Mesa	2	102,452	0	0	1,132	1.10%	1,132	\$0.00	0	0	34,138	0
San Ysidro	4	147,014	0	0	18,816	12.80%	80,318	\$0.65	0	(18,816)	0	0
South Bay Total	81	2,023,474	0	0	134,202	6.63%	325,697	\$0.77	(22,743)	(46,942)	66,769	164,099
<b>San Diego County Total</b>	<b>1,196</b>	<b>38,883,660</b>	<b>267,781</b>	<b>1,131,430</b>	<b>5,014,504</b>	<b>12.90%</b>	<b>6,188,905</b>	<b>\$1.43</b>	<b>(113,639)</b>	<b>(351,942)</b>	<b>(133,489)</b>	<b>957,166</b>

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.

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