



**Voit**  
Real Estate Services

# R&D Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Transactions



DOWN

## Market Highlights

- ◆ **Market Challenges** - The San Diego County Research & Development market is facing challenges as the national recession continues. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing, economic uncertainty and volatility, and the gap between "ask" and "bid" pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the past two quarters. Another challenge the R&D market is facing is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. This has led many tenants to request rent relief from landlords, and owners to attempt to renegotiate loan terms with lenders.
- ◆ **Construction** - Currently, there is no R&D space under construction in San Diego County, due to lack of demand. The shrinking availability of land, combined with the high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.49%, constituting an increase over last year's third quarter rate of 11.71%. The lowest vacancy rates in the county can be found in the East County and South Bay markets coming in at 6% and 8.24% respectively.
- ◆ **Availability** - Direct/sublease space being marketed was 22.19% this quarter, up from the 16.56% we saw this same quarter last year. This is an increase of 34% of new space being marketed when compared to the same quarter last year. We are finally starting to see a slowdown in the velocity of new available space being added to the market.
- ◆ **Lease Rates** - The average asking Triple Net lease rate per month per foot in San Diego County is currently \$1.25, which is a 12.59% decrease over last year's rate of \$1.43 and three cents lower than last quarter's rate. The record high rate of \$1.22 was established in the second quarter of 2007.
- ◆ **Absorption** - Net absorption for the county posted a negative 163,631 square feet for the third quarter of 2009, giving the R&D market a total of 1 million square feet of negative

absorption for the year. This negative absorption can be attributed to the recent job losses.

- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 383,913 square feet, which is a decrease over last quarter when 562,682 square feet leased. The average amount of leasing per quarter over the past nine quarters was 600,000 square feet. Sales activity showed a decrease over last quarter, posting 112,905 square feet of activity compared to the second quarter's 240,208 square feet.
- ◆ **Unemployment** - The unemployment rate in San Diego County was 10.4% in August 2009, unchanged from a revised 10.4% in July 2009, and above the year ago estimate of 6.4%. This compares with an unadjusted unemployment rate of 12.1% for California and 9.6% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, San Diego County lost 55,600 payroll jobs over the last twelve months - 12,500 in professional and business services and 12,300 in retail trade, transportation & utilities services. However, government added 1,400 new jobs. Between July 2009 and August 2009 San Diego County only lost 1,400 jobs.
- ◆ **Overall** - We are starting to see a decrease in the amount of available space being added per quarter as well as an increase in sales activity during the past two quarters. With negative absorption slowing and no new deliveries to increase vacancies, the market seems to be finding its trough. We foresee an increase in investment activity in the coming quarters: recent sizeable investment offerings have received nearly 30 offers. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in leasing activity as 2009 comes to an end from pent up demand, once financial markets correct themselves and consumer confidence stabilizes, then the R&D market will turn positive.

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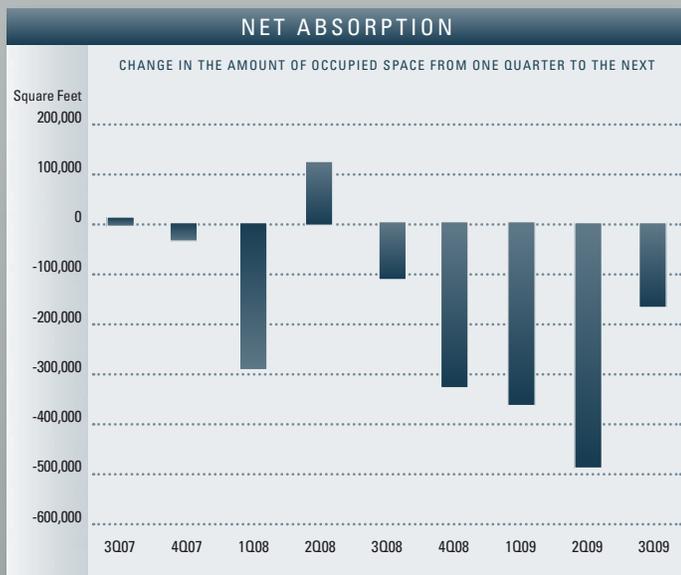
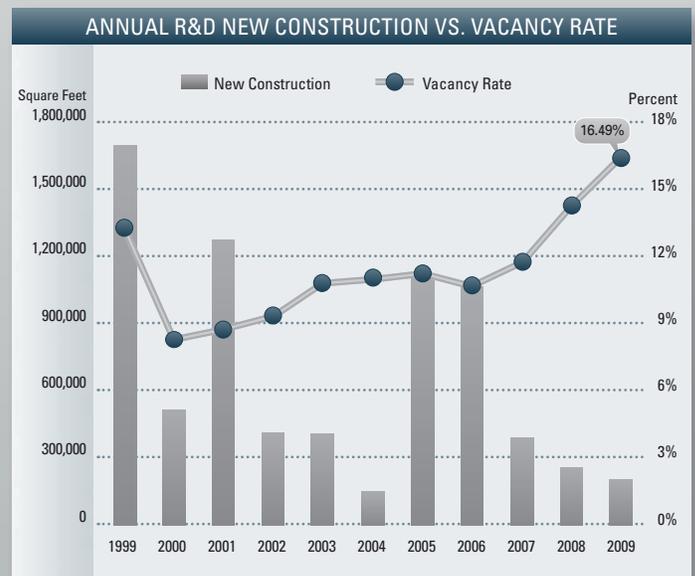
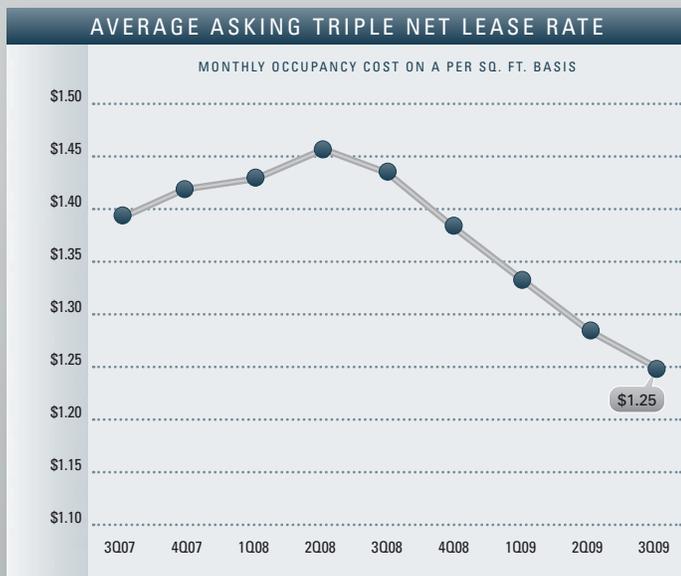
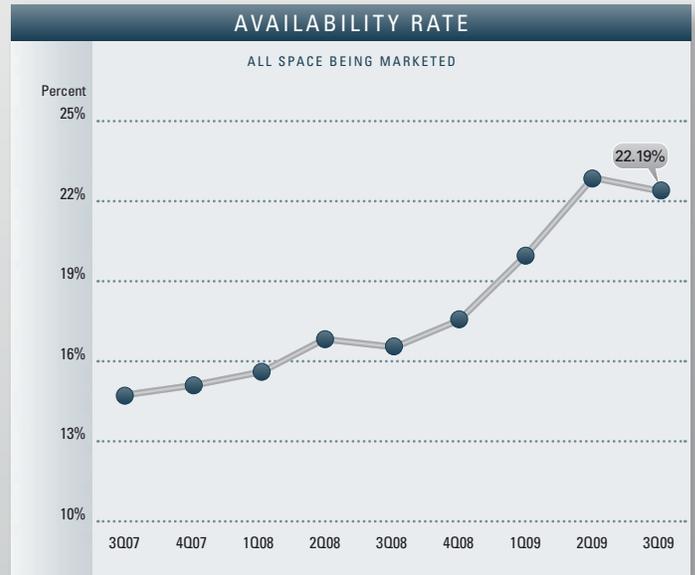
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## R & D MARKET OVERVIEW

	3Q2009	2Q2009	3Q2008	% CHANGE VS. 3Q08
Vacancy	16.49%	16.03%	11.71%	40.82%
Availability	22.19%	22.45%	16.56%	34.00%
Average Asking Lease Rate	\$1.25	\$1.28	\$1.43	-12.59%
Sale & Lease Transactions	496,818	803,890	783,848	-36.62%
Net Absorption	-163,631	-487,015	-106,010	N/A

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	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2009	Total Availability 3Q2009	Average Asking Lease Rate	Net Absorption 3Q2009	Net Absorption 2009	Gross Absorption 3Q2009	Gross Absorption 2009
<b>Central</b>												
Downtown	7	209,222	0	0	58,013	27.73%	58,013	\$0.00	(1,158)	(34,625)	1,154	5,784
East City	1	30,000	0	0	0	0.00%	0	\$0.00	1,830	1,830	1,830	1,830
Central Total	8	239,222	0	0	58,013	24.25%	58,013	\$0.00	672	(32,795)	2,984	7,614
<b>Central Suburban</b>												
Airport/Sports Arena	15	294,727	0	0	38,203	12.96%	57,801	\$0.90	(14,822)	(17,477)	2,306	21,904
Kearny Mesa	167	4,636,422	0	57,691	558,848	12.05%	632,283	\$1.11	3,977	(116,004)	84,693	343,901
Mission Gorge	8	130,016	0	0	5,575	4.29%	5,575	\$1.05	(820)	(4,135)	1,770	2,611
Rose Canyon/Morena	41	812,427	0	0	40,778	5.02%	48,752	\$1.28	(9,860)	(19,088)	32,130	47,189
Central Suburban Total	231	5,873,592	0	57,691	643,404	10.95%	744,411	\$1.11	(21,525)	(156,704)	120,899	415,605
<b>East County</b>												
El Cajon	41	835,902	0	0	58,286	6.97%	68,779	\$0.00	15,584	(6,874)	17,534	39,709
La Mesa/Spring Valley	10	171,710	0	0	5,478	3.19%	5,478	\$0.00	1,634	(1,279)	5,432	9,136
Santee/Lakeside	25	347,582	0	590,000	17,516	5.04%	13,187	\$0.78	2,800	(15,462)	2,800	3,900
East County Total	76	1,355,194	0	590,000	81,280	6.00%	87,444	\$0.78	20,018	(23,615)	25,766	52,745
<b>Highway 78 Corridor</b>												
Oceanside	24	980,603	0	0	166,030	16.93%	170,143	\$0.00	15,174	(25,076)	15,174	30,390
San Marcos	34	673,137	0	0	129,720	19.27%	134,740	\$0.00	(54,338)	(29,914)	6,872	66,869
Vista/Fallbrook	47	1,582,664	0	41,842	225,126	14.22%	311,547	\$1.21	17,799	142,258	45,007	194,623
Highway 78 Corridor Total	105	3,236,404	0	41,842	520,876	16.09%	616,430	\$1.21	(21,365)	87,268	67,053	291,882
<b>I-15 Corridor</b>												
Escondido	27	512,426	0	0	51,199	9.99%	83,741	\$0.50	(7,491)	(16,453)	3,063	26,418
Poway	53	1,288,066	0	65,000	413,211	32.08%	466,314	\$1.33	(28,798)	(202,166)	6,837	17,867
Rancho Bernardo	78	4,717,322	0	0	1,005,760	21.32%	1,380,990	\$1.20	30,315	(182,232)	105,941	171,422
Scripps Ranch	22	684,442	0	0	59,051	8.63%	162,135	\$1.46	(15,335)	(15,335)	6,353	49,300
I-15 Corridor Total	180	7,202,256	0	65,000	1,529,221	21.23%	2,093,180	\$1.27	(21,309)	(416,186)	122,194	265,007
<b>North City</b>												
La Jolla	34	2,479,141	0	0	535,083	21.58%	473,892	\$2.99	(48,812)	(1,752)	12,350	81,361
Miramar	125	3,637,022	0	0	463,734	12.75%	814,614	\$1.15	80,524	38,594	119,839	343,822
Sorrento Mesa	148	6,605,185	0	0	936,913	14.18%	1,688,448	\$1.17	(117,730)	(147,334)	137,260	341,176
Sorrento Valley	79	1,970,594	0	0	372,933	18.92%	427,053	\$1.67	(112,572)	(171,422)	9,334	84,223
UTC Center	15	1,047,724	0	102,967	189,998	18.13%	291,302	\$2.65	11,475	(42,893)	55,350	57,857
North City Total	401	15,739,666	0	102,967	2,498,661	15.87%	3,695,309	\$1.34	(187,115)	(324,807)	334,133	908,439
<b>North County</b>												
Carlsbad	147	4,347,956	0	190,000	1,094,346	25.17%	1,290,693	\$1.15	61,665	(95,499)	97,409	292,519
North Beach Cities	8	134,187	0	0	10,173	7.58%	9,573	\$0.00	(400)	(4,400)	3,355	4,775
North County Total	155	4,482,143	0	190,000	1,104,519	24.64%	1,300,266	\$1.15	61,265	(99,899)	100,764	297,294
<b>South Bay</b>												
Chula Vista	52	1,321,330	0	0	122,312	9.26%	240,099	\$0.30	4,246	(20,054)	15,789	52,774
National City	20	333,136	0	0	26,825	8.05%	26,825	\$0.67	2,578	(15,117)	2,578	3,478
Otay Mesa	2	102,452	0	0	0	0.00%	2,592	\$0.00	0	1,132	0	1,132
San Ysidro	2	66,696	0	0	1,096	1.64%	0	\$0.00	(1,096)	(1,096)	0	0
South Bay Total	76	1,823,614	0	0	150,233	8.24%	269,516	\$0.36	5,728	(35,135)	18,367	57,384
<b>San Diego County Total</b>	<b>1,232</b>	<b>39,952,091</b>	<b>0</b>	<b>1,047,500</b>	<b>6,586,207</b>	<b>16.49%</b>	<b>8,864,569</b>	<b>\$1.25</b>	<b>(163,631)</b>	<b>(1,001,873)</b>	<b>792,160</b>	<b>2,295,970</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.

*For further information, please contact:*

<p><b>ANAHEIM METRO OFFICE</b> 3500 W. Orangewood Ave. Orange, CA 92868-1642 TEL: 714.978.7880 FAX: 714.978.9431</p>	<p><b>IRVINE OFFICE</b> 2020 Main St. Suite 100 Irvine, CA 92614 TEL: 949.851.5100 FAX: 949.261.9092</p>	<p><b>LAS VEGAS OFFICE</b> 10100 W. Charleston Blvd. Suite 200 Las Vegas, NV 89135 TEL: 702.734.4500 FAX: 702.733.7690</p>	<p><b>NEWPORT BEACH OFFICE</b> 101 Shipyard Way Suite M Newport Beach, CA 92663 TEL: 949.644.8648 FAX: 949.644.8695</p>	<p><b>SAN DIEGO OFFICE</b> 4370 La Jolla Village Dr. Suite 990 San Diego, CA 92122-1233 TEL: 858.453.0505 FAX: 858.453.1981</p>
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