



R&D Market Report

Compared to last quarter:

Vacancy



Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Market Highlights

- Encouraging Numbers** – The numbers this quarter appear to be encouraging — a sign that recovery could be on the horizon. Availability showed signs of stabilization, vacancy increased, and net absorption posted positive numbers in a few submarkets. Although demand is still weak by historical standards, the volume of transactions is increasing. With regard to sales transactions, the ask-bid gap seems to be narrowing, as evidenced by the drop in asking prices and increase in buyer activity. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- Construction** – Currently, there is no R&D space under construction in San Diego County. Scarce financing and low demand have essentially halted R&D development.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 16.91%, an increase over last year's rate of 15.81%. The lowest vacancy rates can be found in the East County and Central markets at 6.21% and 7.53%, respectively.
- Availability** – Direct/sublease space being marketed was 21.83% this quarter, a slight increase from last quarter's rate of 21.59% and a 3.12% increase from the 21.17% we saw this same quarter last year.
- Lease Rates** – The average asking triple net lease rate per square foot per month in San Diego County was \$1.09 for the third quarter of 2010. This is a 15.5% decrease over last year's rate of \$1.29 and one cent lower than last quarter's rate. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- Absorption** – Net absorption for the county posted a negative 257,118 square feet for the third quarter of 2010; for the past 5 quarters the R&D market has been averaging approximately 140,000 square feet of negative absorption, which can be attributed to recent job losses.
- Transaction Activity** – Leasing activity checked in this quarter at 738,633 square feet, an increase over the same quarter last year when 680,171 square feet leased. This

can be attributed to the recent trend of short-term deals coupled with lease renegotiations. Sales activity showed an increase over last year, posting 708,031 square feet of activity compared to 89,501 square feet in the third quarter of 2009. Details of the largest transactions can be found on the back page of this report.

- Employment** – The unemployment rate in San Diego County was 10.6% in August 2010, down from a revised 10.9% in July 2010 and above the year-ago estimate of 10.3%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 9,700 payroll jobs over the last twelve months — 2,900 in manufacturing and 2,700 in leisure & hospitality. However, professional and business services added 3,600 new jobs. Between July 2010 and August 2010 San Diego County employment declined by 2,200 jobs overall.
- Overall** – We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. As we enter into the last quarter of 2010, we are beginning to see positive absorption in some of the submarkets, and with no new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the R&D market will regain equilibrium.

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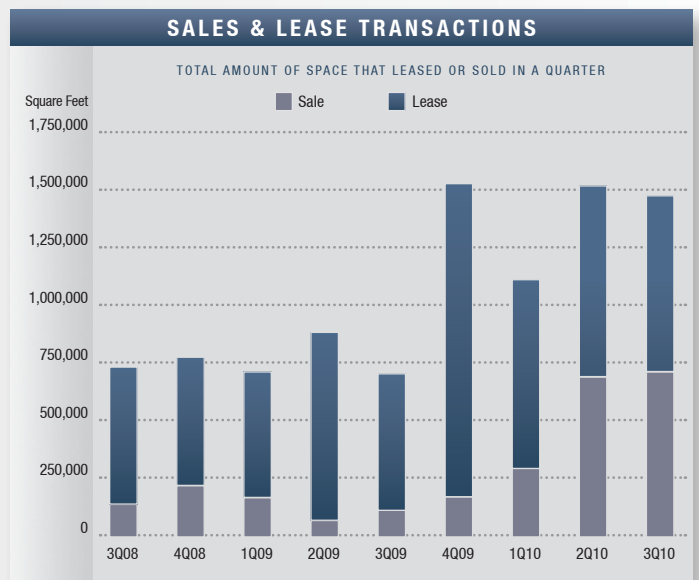
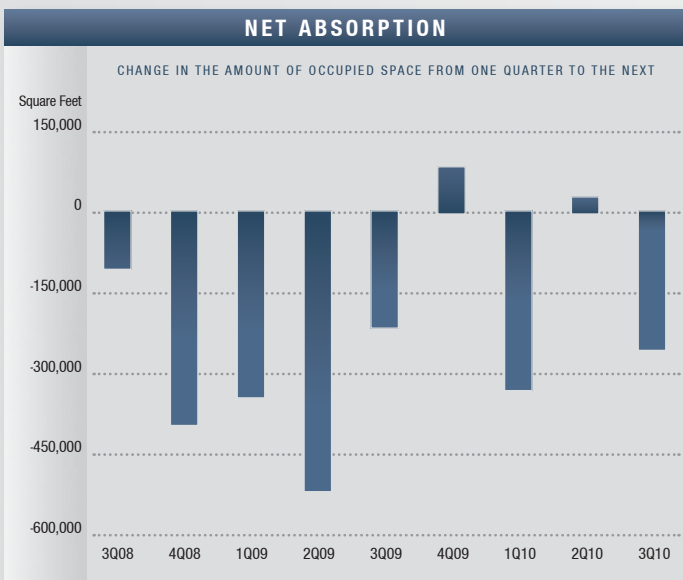
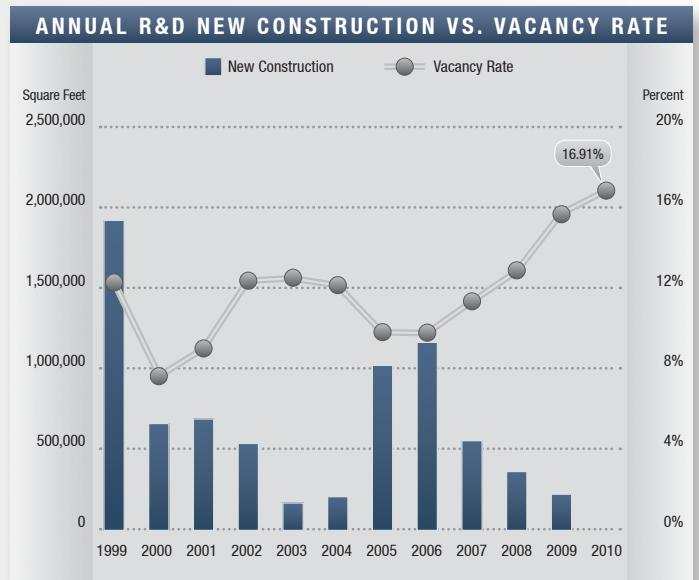
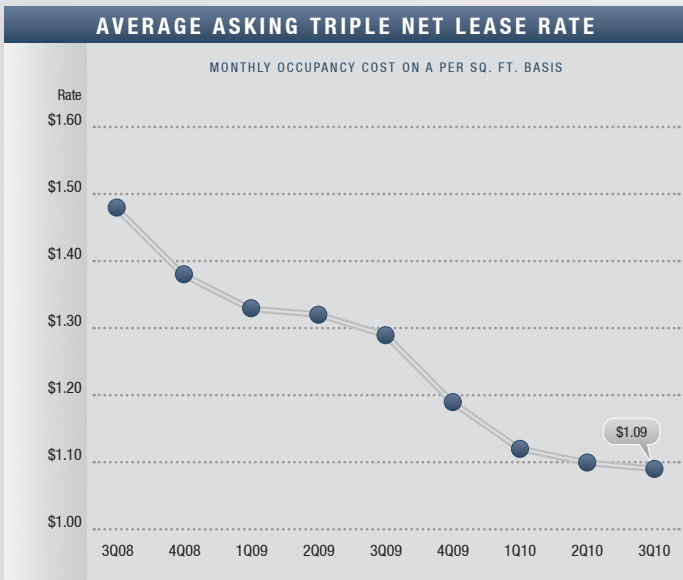
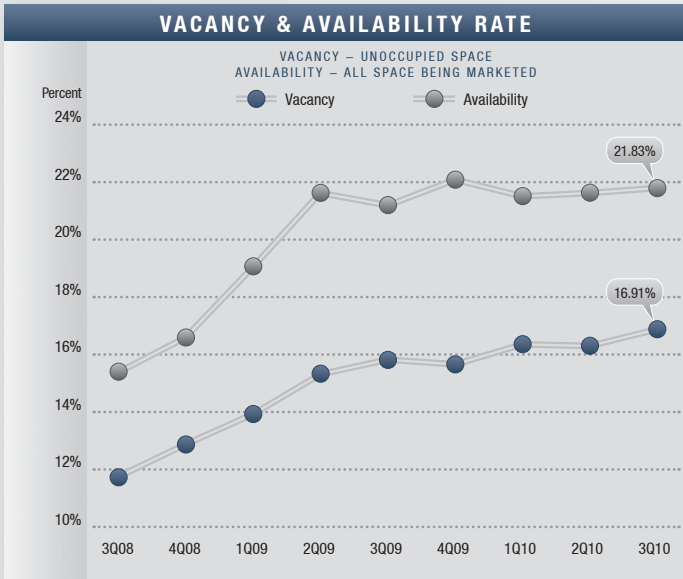
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R & D MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	16.91%	16.32%	15.81%	6.96%
Availability Rate	21.83%	21.59%	21.17%	3.12%
Average Asking Lease Rate	\$1.09	\$1.10	\$1.29	(15.50%)
Sale & Lease Transactions	1,446,664	1,514,033	680,171	112.69%
Gross Absorption	1,129,973	1,096,610	838,432	34.77%
Net Absorption	(257,118)	25,133	(219,032)	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
Central													
Central City	18	212,389	0	0	37,608	17.71%	37,608	17.71%	\$0.00	12,358	23,553	12,358	27,762
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	23	274,783	0	0	2,400	0.87%	2,400	0.87%	\$0.00	(2,400)	50,960	0	53,360
Central Total	46	531,464	0	0	40,008	7.53%	40,008	7.53%	\$0.00	9,958	74,513	12,358	81,122
Central Suburban													
Airport/Sports Arena	29	317,795	0	0	7,446	2.34%	7,446	2.34%	\$0.00	(165)	13,129	0	19,200
Kearny Mesa	204	5,141,823	0	57,691	641,959	12.49%	1,029,792	20.03%	\$1.00	(4,099)	(96,411)	104,678	292,266
Mission Gorge	27	285,954	0	0	13,474	4.71%	45,236	15.82%	\$1.05	1,747	(9,339)	8,343	9,888
Rose Canyon/Morena	40	669,172	0	0	77,481	11.58%	75,630	11.30%	\$1.00	(17,891)	(10,016)	8,446	30,205
Central Suburban Total	300	6,414,744	0	57,691	740,360	11.54%	1,158,104	18.05%	\$1.00	(20,408)	(102,637)	121,467	351,559
East County													
El Cajon	82	937,253	0	0	60,388	6.44%	82,150	8.76%	\$0.00	1,824	11,838	5,124	31,660
La Mesa/Spring Valley	40	295,699	0	0	11,984	4.05%	19,546	6.61%	\$0.00	(2,620)	936	0	5,351
Santee/Lakeside	54	481,494	0	590,000	34,046	7.07%	34,046	7.07%	\$0.74	2,311	11,519	7,346	32,290
East County Total	176	1,714,446	0	590,000	106,418	6.21%	135,742	7.92%	\$0.74	1,515	24,293	12,470	69,301
Highway 78 Corridor													
Oceanside	35	1,043,066	0	0	142,145	13.63%	137,268	13.16%	\$0.00	11,941	34,029	19,813	63,081
San Marcos	54	851,400	0	0	137,711	16.17%	157,225	18.47%	\$0.97	13,806	(43,714)	22,424	40,866
Vista/Fallbrook	58	1,637,465	0	231,842	356,561	21.78%	293,979	17.95%	\$0.63	(113,740)	(207,361)	7,489	55,244
Highway 78 Corridor Total	147	3,531,931	0	231,842	636,417	18.02%	588,472	16.66%	\$0.65	(87,993)	(217,046)	49,726	159,191
I-15 Corridor													
Escondido	50	587,591	0	0	46,449	7.90%	91,752	15.61%	\$0.75	22,838	18,543	22,838	46,651
Poway	64	1,353,238	0	65,000	296,441	21.91%	382,882	28.29%	\$0.90	81,585	112,767	100,471	272,187
Rancho Bernardo	90	4,997,645	0	0	1,393,846	27.89%	1,498,963	29.99%	\$1.12	(171,207)	(391,276)	105,451	205,343
Scripps Ranch	29	730,979	0	0	106,488	14.57%	144,403	19.75%	\$0.95	5,175	(63,561)	5,175	52,266
I-15 Corridor Total	233	7,669,453	0	65,000	1,843,224	24.03%	2,118,000	27.62%	\$1.07	(61,609)	(323,527)	233,935	576,447
North City													
Miramar	202	4,182,650	0	0	719,229	17.20%	1,121,571	26.81%	\$1.02	(120,145)	(230,336)	91,325	290,280
Sorrento Mesa	159	6,317,142	0	0	882,053	13.96%	1,319,877	20.89%	\$1.29	(86,794)	16,299	145,175	497,562
Sorrento Valley	98	2,340,450	0	0	362,920	15.51%	337,226	14.41%	\$1.35	58,869	52,430	95,998	215,479
Torrey Pines	35	2,393,419	0	0	480,264	20.07%	480,264	20.07%	\$0.00	(34)	(25,647)	85,455	121,228
UTC Center	17	1,133,237	0	102,967	224,289	19.79%	281,094	24.80%	\$1.50	15,000	26,528	36,938	51,966
North City Total	511	16,366,898	0	102,967	2,668,755	16.31%	3,540,032	21.63%	\$1.19	(133,104)	(160,726)	454,891	1,176,515
North County													
Carlsbad	231	5,098,121	0	0	1,147,047	22.50%	1,563,191	30.66%	\$1.03	71,967	130,139	117,943	466,016
North Beach Cities	16	156,894	0	0	4,136	2.64%	5,589	3.56%	\$0.00	2,965	16,992	3,845	27,498
North County Total	247	5,255,015	0	0	1,151,183	21.91%	1,568,780	29.85%	\$1.03	74,932	147,131	121,788	493,514
Outlying Areas													
Outlying SD County North	16	130,521	0	0	9,196	7.05%	13,196	10.11%	\$0.00	(3,771)	(2,344)	0	7,797
Outlying SD County South	20	76,070	0	0	0	0.00%	14,658	19.27%	\$0.75	2,412	10,029	2,412	10,029
Outlying Areas Total	36	206,591	0	0	9,196	4.45%	27,854	13.48%	\$0.75	(1,359)	7,685	2,412	17,826
South Bay													
Chula Vista	79	1,536,051	0	0	150,279	9.78%	325,459	21.19%	\$0.00	(15,838)	(4,324)	13,926	74,778
National City	33	329,787	0	0	47,715	14.47%	47,715	14.47%	\$0.00	(8,072)	(750)	0	11,528
Otay Mesa	11	296,313	0	0	21,963	7.41%	21,963	7.41%	\$0.00	(15,140)	(15,140)	107,000	107,000
South Bay Total	123	2,162,151	0	0	219,957	10.17%	395,137	18.28%	\$0.00	(39,050)	(20,214)	120,926	193,306
San Diego County Total	1,819	43,852,693	0	1,047,500	7,415,518	16.91%	9,572,129	21.83%	\$1.09	(257,118)	(570,528)	1,129,973	3,118,781

Lease rates are on a triple net basis.

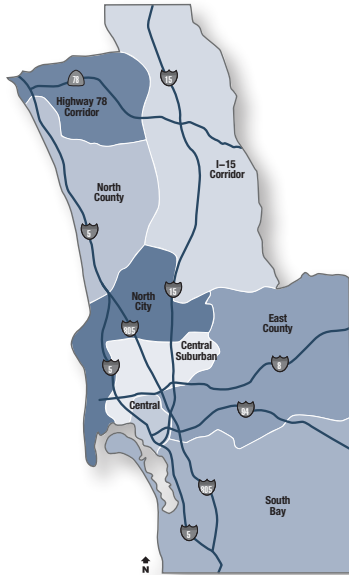
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
4570 Executive Dr.	UTC	125,219	\$507.11	BioMed Realty, LP	LMC Investment Company, LLC
4775 Executive Dr. + 4.14 AC of Land	UTC	62,896	\$432.86	BioMed Realty, LP	Nexus Science Center University
4181 Ruffin Rd.	Kearny Mesa	141,634	\$116.37	Government Properties Income Trust	HUB Acquisition Trust c/o HRPT Prop
11388 Sorrento Vally Rd.	Sorrento Valley	35,940	\$345.58	BioMed Realty, LP	Collins Asset Management Group
2733 Via Orange Way – 5 Properties	Spring Valley	94,698	\$129.36	ECP Commercial Real Estate	Mission Valley Corporation Center, Ltd.
15330 Ave. of Science	Rancho Bernardo	73,756	\$92.20	Kearny Real Estate Company	Science Building Partners, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
9112 Spectrum Center Blvd. – Renewal	Kearny Mesa	91,300	Jul–10	Overland Storage, Inc.	W.P. Carey & Co., LLC
3055 Enterprise Ct.	Vista	90,615	Jul–10	Eagle Creek, Inc.	Hamann Companies
6340 Sequence Dr. – Renewal	Sorrento Mesa	66,400	Sep–10	DexCom, Inc.	Kilroy Realty Corporation
10421 Pacific Center Ct.	Sorrento Mesa	50,333	Aug–10	Tanvex Pharmaceuticals	Kilroy Realty Corporation
1969 Kellogg Ave.	Carlsbad	32,975	Jul–10	Linear	Hamann Companies
9477 Waples St.	Sorrento Mesa	26,563	Sep–10	Petco	Pacific Tech Property, Inc.



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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