



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

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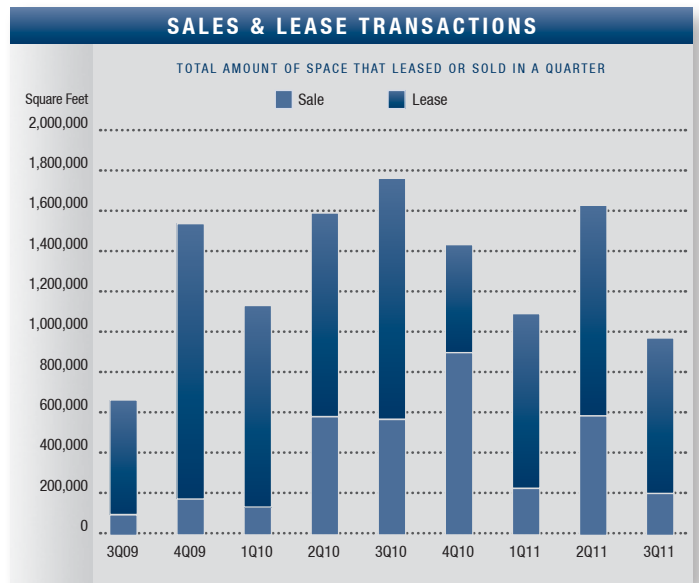
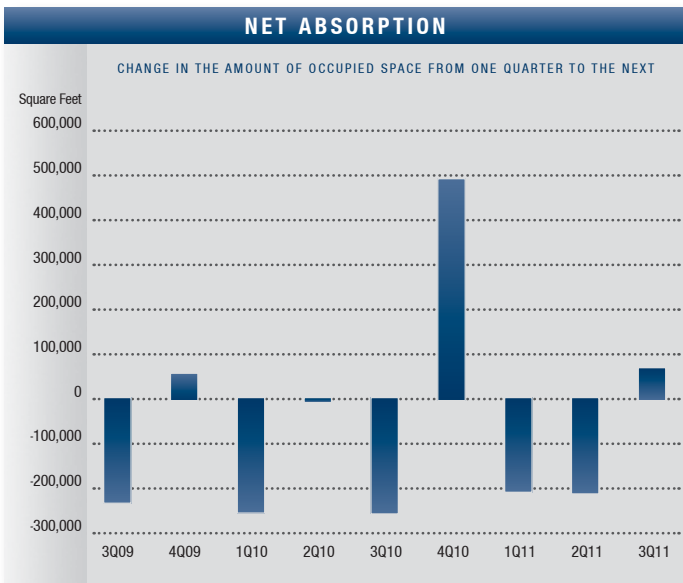
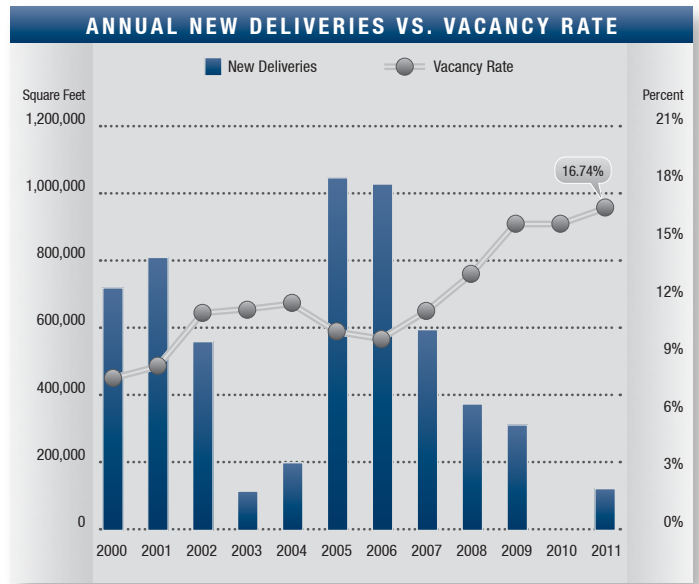
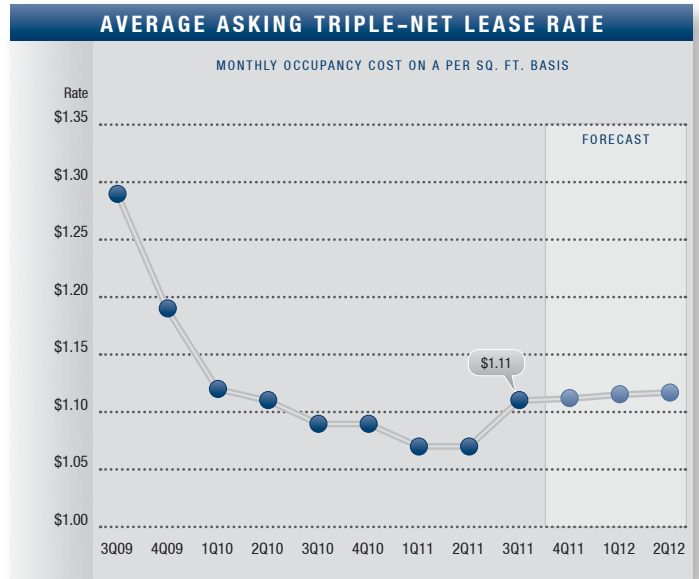
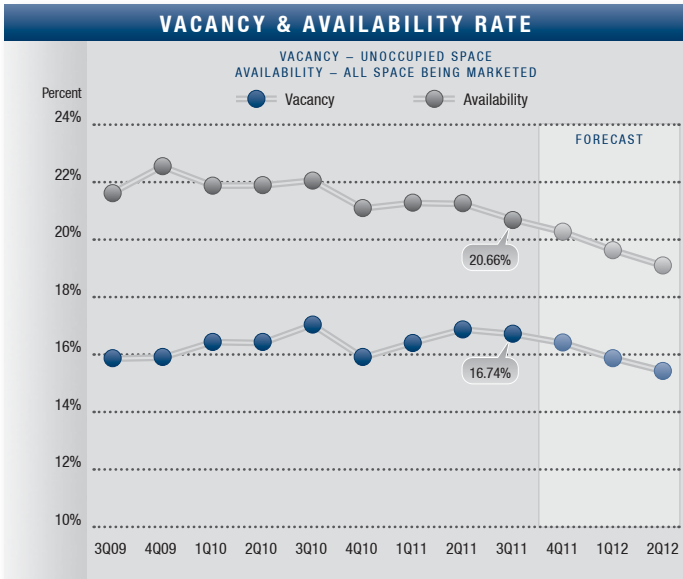
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Market Highlights

- Encouraging Numbers** - 2011's third quarter numbers appeared encouraging — a sign that recovery could be on the horizon. Vacancy and availability trended downward, and net absorption posted a small positive number. Demand picked up in 2010, with the second quarter marking the beginning of a renewed interest in sales transactions, and tenants began signing longer lease commitments. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- Construction** - There was nothing under construction during the third quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the third quarter at 16.74%, a slight decrease from the second quarter rate of 16.86% and lower than 2010's third quarter rate of 17.05%. The lowest vacancy rates can be found in the Central and East County markets at 1.65% and 7.02%, respectively.
- Availability** - Direct/sublease space being marketed was 20.66% in the third quarter, a drop from the second quarter's rate of 21.28% and a decrease from 2010's third quarter rate of 22.02%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.11 at the end of the third quarter of 2011. This is four cents higher than the previous quarter's rate and a 1.83% increase compared to 2010's rate of \$1.09. This is the first increase in asking lease rates since the first quarter of 2008. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- Absorption** - The San Diego Flex/R&D market posted 68,086 square feet of positive net absorption in the third quarter of 2011, giving the industrial market an average of approximately 37,000 square feet of positive absorption per quarter over the past four quarters.
- Transaction Activity** - Leasing activity checked in at 762,000 square feet in the third quarter of 2011, a decrease from the previous quarter's figure of one million square feet. Sales activity also slowed showed a decrease from the third quarter of 2010, posting 200,000 square feet of activity compared to 552,000 square feet in 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in San Diego County was 10.2% in August 2011, down from a revised 10.6% in July 2011 and below the year-ago estimate of 10.7%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,500 payroll jobs from August 2010 to August 2011 — 8,600 in leisure and hospitality and 5,400 in professional and business services. However, government posted the greatest year-over-year decline — a loss of 5,600 jobs. Between July 2011 and August 2011 San Diego County employment increased by 200 jobs overall.
- Overall** - We are beginning to see a decrease in the amount of available space on the market, as well as an overall increase in sales activity, as investors have begun actively seeking prudent investments. With nothing currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. We expect to see an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. 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 Flex/R&D market will recover.

FLEX / R & D MARKET OVERVIEW

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	16.74%	16.86%	17.05%	(1.82%)
Availability Rate	20.66%	21.28%	22.02%	(6.18%)
Average Asking Lease Rate	\$1.11	\$1.07	\$1.09	1.83%
Sale & Lease Transactions	961,084	1,616,475	1,753,106	(45.18%)
Gross Absorption	1,045,884	856,145	1,161,018	(9.92%)
Net Absorption	68,086	(209,627)	(258,334)	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 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
Central													
Central City	17	207,418	0	0	7,592	3.66%	7,592	3.66%	\$0.00	13,686	21,158	13,686	25,937
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	19	208,804	0	0	0	0.00%	0	0.00%	\$0.00	0	2,400	0	2,500
Central Total	41	460,514	0	0	7,592	1.65%	7,592	1.65%	\$0.00	13,686	23,558	13,686	28,437
Central Suburban													
Airport/Sports Arena	32	421,515	0	0	11,775	2.79%	100,895	23.94%	\$0.00	3,906	2,306	4,071	4,071
Kearny Mesa	212	5,330,598	0	57,691	559,928	10.50%	1,080,866	20.28%	\$1.08	(13,405)	(39,519)	90,772	462,818
Mission Gorge	22	168,344	0	0	27,197	16.16%	27,197	16.16%	\$0.00	(14,061)	(18,383)	0	1,770
Rose Canyon/Morena	40	686,938	0	0	71,380	10.39%	66,723	9.71%	\$0.76	(7,510)	2,487	13,167	71,275
Central Suburban Total	306	6,607,395	0	57,691	670,280	10.14%	1,275,681	19.31%	\$1.07	(31,070)	(53,109)	108,010	539,934
East County													
El Cajon	81	927,949	0	0	80,561	8.68%	93,794	10.11%	\$1.00	(9,811)	(10,426)	7,274	30,569
La Mesa/Spring Valley	41	308,971	0	0	12,230	3.96%	14,308	4.63%	\$0.00	2,067	2,020	3,717	21,047
Santee/Lakeside	50	460,043	0	590,000	26,391	5.74%	31,191	6.78%	\$0.66	4,107	4,857	7,391	23,016
East County Total	172	1,696,963	0	590,000	119,182	7.02%	139,293	8.21%	\$0.74	(3,637)	(3,549)	18,382	74,632
Highway 78 Corridor													
Oceanside	32	1,030,970	0	0	84,781	8.22%	92,444	8.97%	\$0.00	17,128	27,100	21,524	32,577
San Marcos	53	824,807	0	0	112,976	13.70%	124,518	15.10%	\$0.97	14,333	26,066	24,950	62,470
Vista/Fallbrook	59	1,654,249	0	231,842	221,805	13.41%	235,478	14.23%	\$0.72	590	(4,378)	13,215	83,757
Highway 78 Corridor Total	144	3,510,026	0	231,842	419,562	11.95%	452,440	12.89%	\$0.74	32,051	48,788	59,689	178,804
I-15 Corridor													
Escondido	52	620,085	0	0	60,688	9.79%	90,218	14.55%	\$0.53	203	4,940	25,717	47,815
Poway	65	1,378,822	0	65,000	153,216	11.11%	180,029	13.06%	\$0.89	2,056	(38,151)	81,385	127,587
Rancho Bernardo	90	4,982,151	0	0	1,342,632	26.95%	1,614,830	32.41%	\$1.04	54,950	13,035	62,166	105,336
Scripps Ranch	30	755,298	0	0	127,659	16.90%	127,659	16.90%	\$0.97	37,816	6,160	56,548	62,326
I(15 Corridor Total)	237	7,736,356	0	65,000	1,684,195	21.77%	2,012,736	26.02%	\$1.01	95,025	(14,016)	225,816	343,064
North City													
Miramar	207	4,245,965	0	0	834,334	19.65%	1,095,059	25.79%	\$1.04	18,382	(90,519)	93,037	254,177
Sorrento Mesa	163	6,539,092	0	0	966,354	14.78%	1,307,213	19.99%	\$1.17	28,949	(103,237)	190,710	415,957
Sorrento Valley	99	2,360,489	0	0	339,846	14.40%	409,410	17.34%	\$1.41	612	7,106	84,622	183,840
Torrey Pines	38	2,619,753	0	0	557,986	21.30%	518,268	19.78%	\$0.00	(27,983)	10,482	15,678	65,054
UTC Center	19	1,539,162	0	102,967	624,908	40.60%	621,142	40.36%	\$2.80	(29,209)	(111,545)	14,580	118,167
North City Total	526	17,304,461	0	102,967	3,323,428	19.21%	3,951,092	22.83%	\$1.20	(9,249)	(287,713)	398,627	1,037,195
North County													
Carlsbad	235	5,546,833	0	329,500	1,124,992	20.28%	1,175,897	21.20%	\$1.10	(38,881)	(44,212)	179,111	584,720
North Beach Cities	16	157,078	0	0	2,001	1.27%	6,855	4.36%	\$0.00	(855)	3,588	0	8,583
North County Total	251	5,703,911	0	329,500	1,126,993	19.76%	1,182,752	20.74%	\$1.10	(39,736)	(40,624)	179,111	593,303
Outlying Areas													
Outlying SD County North	15	126,521	0	0	5,021	3.97%	5,021	3.97%	\$0.00	1,675	6,079	2,997	8,697
Outlying SD County South	20	76,270	0	0	10,367	13.59%	10,367	13.59%	\$0.00	(1,750)	(1,750)	0	7,817
Outlying Areas Total	35	202,791	0	0	15,388	7.59%	15,388	7.59%	\$0.00	(75)	4,329	2,997	16,514
South Bay													
Chula Vista	78	1,442,423	0	0	125,100	8.67%	232,478	16.12%	\$0.60	16,849	9,884	34,406	76,735
National City	31	299,827	0	0	35,639	11.89%	35,639	11.89%	\$0.00	300	23	5,160	15,907
Otay Mesa	11	296,313	0	0	47,535	16.04%	47,535	16.04%	\$0.80	(6,058)	(30,571)	0	8,689
South Bay Total	120	2,038,563	0	0	208,274	10.22%	315,652	15.48%	\$0.72	11,091	(20,664)	39,566	101,331
San Diego County Total	1,832	45,260,980	0	1,377,000	7,574,894	16.74%	9,352,626	20.66%	\$1.11	68,086	(343,000)	1,045,884	2,913,214

Lease rates are on a triple-net basis.

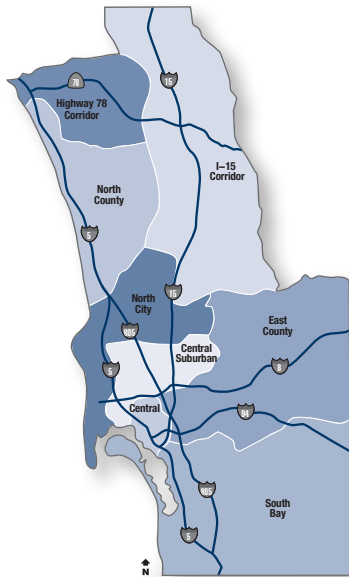
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
10120 Pacific Heights Blvd. & Barnes Canyon Rd.	Sorrento Mesa	90,558	\$265.02	USE Credit Union	Kilroy Realty Corporatio
4049 Avenida De La Plata	Oceanside	43,500	\$252.87	Gilead Sciences, Inc.	Genetech, Inc.
3209 Lionshead Ave.	Carlsbad	64,327	\$89.78	LBA Realty	Steve Willmore (Court Appointed Receiver)
2151 Las Palmas Dr.	Carlsbad	31,824	\$102.12	Peregrine Realty Partners	EFBP Associates
16798 W. Bernardo Dr.	Rancho Bernardo	24,000	\$108.33	Swinerton Real Estate, Inc.	Menlo Equities

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2765 Loker Ave. W.	Carlsbad	55,303	11-Jul	Aptera	TA Associates Realty
9727 Pacific Heights Blvd.	Sorrento Mesa	46,110	11-Aug	Biologend	The Irvine Company
3530 John Hopkins Ct.	Torrey Pines	44,680	11-Aug	Genomics Inst. of the Novartis Rsrch. Fndtn.	Alexandria Real Estate Equities
12365 First American Way – Renewal	Poway	37,627	11-Sep	Rockwell Collins, Inc.	Asset Management Consultants
10070 Barnes Canyon Rd. – Renewal	Sorrento Mesa	31,000	11-Aug	Information Systems Laboratories, Inc.	Bixby Kibbee LLC
11107 Roselle St.	Sorrento Valley	26,743	11-Aug	N/A	Barbara A Batteny Trust



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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