



Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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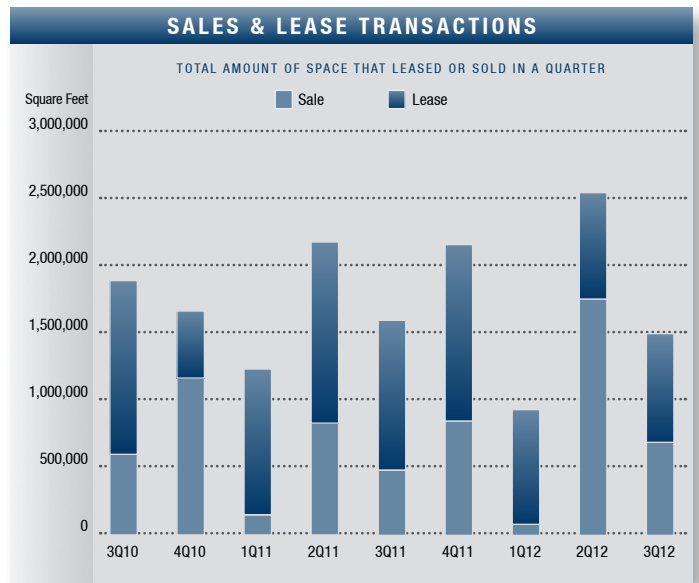
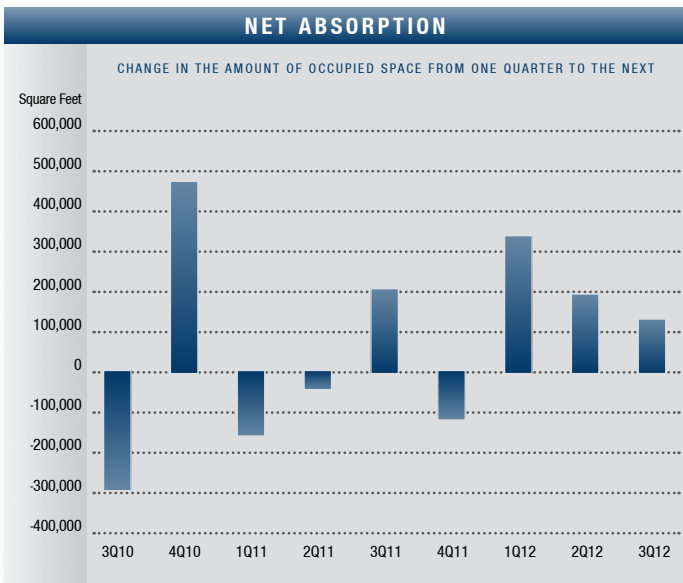
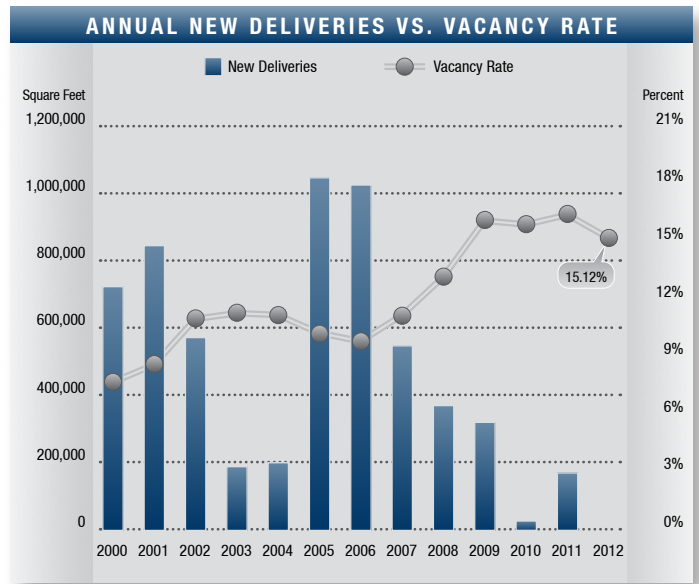
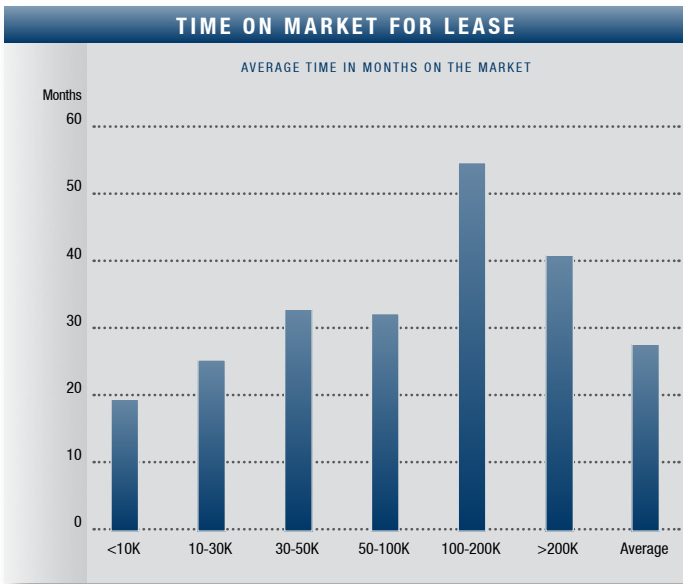
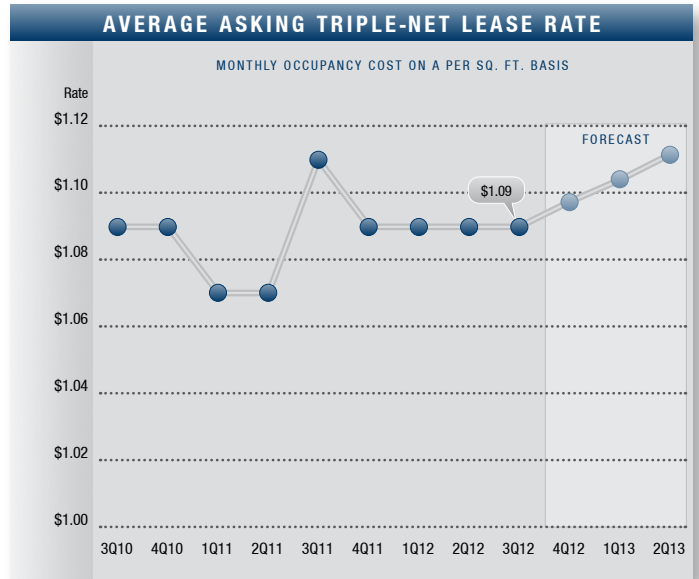
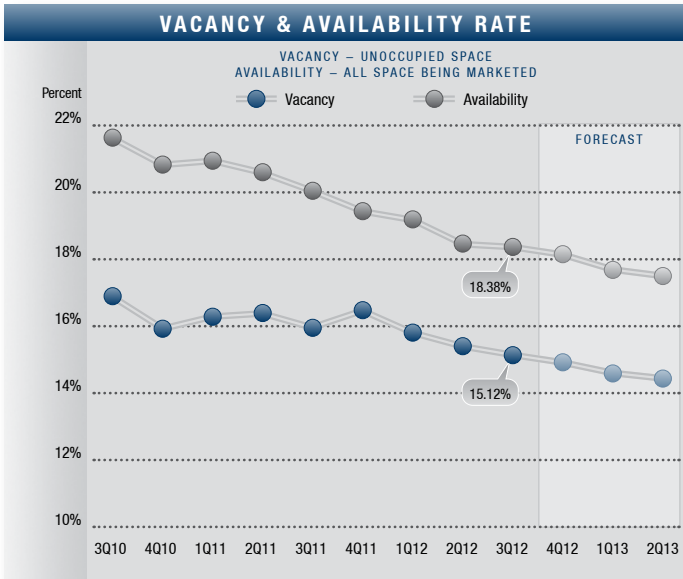


Market Highlights

- Moving Forward** - The San Diego R&D market displayed more signs of recovery in the third quarter of 2012, with positive net absorption, steady transaction volume, 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 three quarters, stabilization and improvement in indicators such as asking lease rates, net absorption, and the vacancy rate have been steady.
- Construction** - There was very little construction over the past year, with no deliveries in the third quarter. 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 15.12%, a decrease from the first quarter rate of 15.39% and the lowest vacancy rate seen since the second quarter of 2009.
- Availability** - Direct/sublease space being marketed was 18.38% at the end of the quarter, a slight drop from the previous quarter's rate of 18.48% and the lowest availability rate in the San Diego R&D market since the first quarter of 2009.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.09 at the end of the third quarter of 2012, unchanged from the previous quarter. Average asking lease rates have risen two cents per square foot 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.
- Absorption** - The San Diego R&D market posted 128,964 square feet of positive net absorption in the third quarter, following 191,786 square feet and 331,677 square feet of positive net absorption in the previous two quarters. This marks the first three consecutive quarters of positive net absorption in six years. Much of 2012's first quarter's positive net absorption was a result of 2011's strong leasing activity.
- Transaction Activity** - The combined square feet sold and leased in the third quarter totaled 1,491,018 square feet. Much of the Flex R&D property being sold is Collins selling off their portfolio. 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 9.0% in August 2012, down from a revised 9.3% in July 2012 and below the year-ago estimate of 10.3%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 30,300 payroll jobs from August 2011 to August 2012 — 6,300 in professional and business services, and 5,200 from education and health services. Manufacturing posted the greatest year-over-year decline — a loss of 700 jobs.
- Overall** - The R&D market has shown signs of strong demand, exhibited in last year's leasing activity, and this year's sales volume, but availability and vacancy have remained somewhat high. With little currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. Institutional investors continue to show an appetite for R&D product. 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.

FLEX / R & D MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	15.12%	15.39%	15.97%	(5.32%)
Availability Rate	18.38%	18.48%	20.06%	(8.37%)
Average Asking Lease Rate	\$1.09	\$1.09	\$1.11	(1.80%)
Sale & Lease Transactions	1,491,018	2,525,183	1,581,132	(5.70%)
Gross Absorption	983,078	1,103,289	1,150,487	(14.55%)
Net Absorption	128,964	191,786	201,372	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Central													
Central	18	229,501	0	0	4,804	2.09%	4,804	2.09%	\$0.00	0	1,540	0	7,763
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Diego	19	208,804	0	0	0	0.00%	5,000	2.39%	\$0.00	0	0	0	0
Central Total	42	482,597	0	0	4,804	1.00%	9,804	2.03%	\$0.00	0	1,540	0	7,763
Central Suburban													
Sports Arena/Airport	33	420,764	0	0	13,375	3.18%	96,125	22.85%	\$0.91	(1,000)	(1,600)	0	0
Kearny Mesa	211	5,760,299	0	57,691	503,440	8.74%	911,312	15.82%	\$1.05	141,257	172,942	248,600	432,047
Mission Gorge	24	172,813	0	0	12,108	7.01%	16,535	9.57%	\$0.00	8,286	10,808	8,316	21,348
Rose Canyon/Morena	40	639,924	0	0	96,637	15.10%	92,521	14.46%	\$0.73	16,504	(24,969)	17,604	52,108
Central Suburban Total	308	6,993,800	0	57,691	625,560	8.94%	1,116,493	15.96%	\$0.98	165,047	157,181	274,520	505,503
East County													
El Cajon	82	936,910	0	0	98,342	10.50%	125,094	13.35%	\$0.00	13,451	15,072	16,551	58,884
La Mesa/Spring Valley	43	326,823	0	0	16,616	5.08%	27,158	8.31%	\$0.00	11,489	(2,793)	15,789	15,789
Santee/Lakeside	53	539,076	0	590,000	45,526	8.45%	31,864	5.91%	\$0.60	(4,238)	(20,482)	4,454	14,570
East County Total	178	1,802,809	0	590,000	160,484	8.90%	184,116	10.21%	\$0.60	20,702	(8,203)	36,794	89,243
Highway 78 Corridor													
Oceanside	32	1,046,879	0	0	92,220	8.81%	94,737	9.05%	\$0.89	4,968	(624)	4,968	24,027
San Marcos	56	889,537	0	0	82,053	9.22%	63,529	7.14%	\$0.88	18,262	7,286	25,750	70,731
Vista	59	1,654,249	0	241,342	182,188	11.01%	187,088	11.31%	\$0.74	27,985	25,235	44,761	59,632
Highway 78 Corridor Total	147	3,590,665	0	241,342	356,461	9.93%	345,354	9.62%	\$0.78	51,215	31,897	75,479	154,390
I-15 Corridor													
Escondido	82	789,625	0	9,500	82,032	10.39%	120,377	15.24%	\$0.52	(2,084)	(11,960)	14,926	37,775
Poway	64	1,353,905	0	0	95,983	7.09%	89,285	6.59%	\$0.70	(2,654)	13,144	30,451	84,007
Rancho Bernardo	94	5,496,294	0	0	1,431,377	26.04%	1,565,016	28.47%	\$1.04	9,622	115,528	90,595	367,781
Scripps Ranch	30	755,298	0	0	244,646	32.39%	241,212	31.94%	\$0.90	(12,333)	(100,615)	0	0
I-15 Corridor Total	270	8,395,122	0	9,500	1,854,038	22.08%	2,015,890	24.01%	\$1.02	(7,449)	16,097	135,972	489,563
North City													
Miramar	206	4,380,954	0	0	702,941	16.05%	943,899	21.55%	\$0.98	61,353	126,802	136,507	369,223
Sorrento Mesa	166	6,600,732	0	0	895,752	13.57%	1,233,883	18.69%	\$1.25	(11,902)	14,233	118,373	361,228
Sorrento Valley	107	2,516,631	0	0	254,395	10.11%	411,928	16.37%	\$1.37	43,703	82,984	64,727	170,640
Torrey Pines	39	2,969,927	31,246	105,091	389,408	13.11%	323,890	10.91%	\$0.00	(15,679)	143,390	5,158	322,119
UTC	19	1,550,901	0	102,967	617,980	39.85%	435,355	28.07%	\$2.18	(71,510)	74,289	0	158,816
North City Total	537	18,019,145	31,246	208,058	2,860,476	15.87%	3,348,955	18.59%	\$1.40	5,965	441,698	324,765	1,382,026
North County													
Carlsbad	239	5,996,422	0	100,000	1,157,897	19.31%	1,373,986	22.91%	\$0.98	(67,750)	17,254	101,227	390,886
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	6,054	15,151	7,868	19,365
North County Total	255	6,144,615	0	100,000	1,157,897	18.84%	1,373,986	22.36%	\$0.98	(61,696)	32,405	109,095	410,251
Outlying Areas													
Outlying SD County North	16	192,816	0	0	12,692	6.58%	12,692	6.58%	\$0.00	(2,871)	(871)	2,000	4,000
Outlying SD County South	20	78,080	0	0	10,367	13.28%	10,367	13.28%	\$0.00	0	0	0	0
Outlying Areas Total	36	270,896	0	0	23,059	8.51%	23,059	8.51%	\$0.00	(2,871)	(871)	2,000	4,000
South Bay													
Chula Vista	78	1,457,750	0	0	120,014	8.23%	297,247	20.39%	\$0.75	(43,964)	(25,679)	16,323	59,452
National City	30	299,500	0	0	35,827	11.96%	37,792	12.62%	\$0.00	2,015	6,362	8,130	19,486
Otay Mesa/San Ysidro	10	235,361	0	0	12,019	5.11%	12,019	5.11%	\$0.80	0	0	0	0
South Bay Total	118	1,992,611	0	0	167,860	8.42%	347,058	17.42%	\$0.78	(41,949)	(19,317)	24,453	78,938
San Diego County Total	1,891	47,692,260	31,246	1,206,591	7,210,639	15.12%	8,764,715	18.38%	\$1.09	128,964	652,427	983,078	3,121,677

Lease rates are on a triple-net basis.

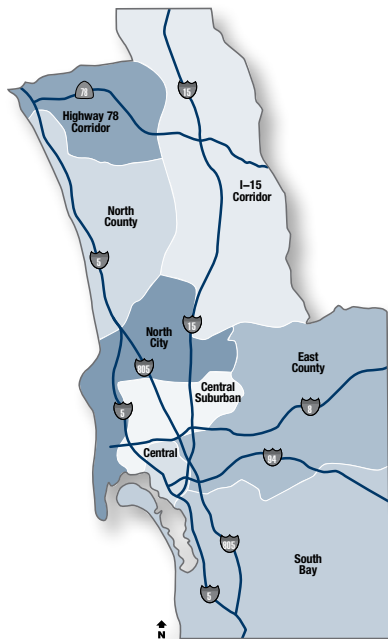
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
11494-11772 Sorrento Valley Rd.	Sorrento Valley	380,920	\$106.98	Angelo, Gordon & Company Parallel Capital Partners	Collins Asset Management Group
10905-10949 Technology Pl.	Rancho Bernardo	151,248	\$109.89	Angelo, Gordon & Company Parallel Capital Partners	Collins Asset Management Group
2210 Faraday Ave.	Carlsbad	119,561	\$112.29	Paragon Company	Canyon Capital Realty Advisors, LLC
6565 & 6555 Nancy Ridge Dr.	Miramar	46,124	\$95.40	Applied Clinical Research	Embarcadero Capital Partners
11494 Sorrento Valley Rd.	Sorrento Valley	31,067	\$105.19	AGP Sorrento Centre, LP	Collins Asset Management Group

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11010 Torreyana Rd. – Renewal	Torrey Pines	81,204	Jul-12	Vertex Pharmaceuticals	BioMed Realty Trust
6659 Top Gun Way – Renewal	Sorrento Mesa	45,550	Sept-12	Genzyme Corporation	NMSBPCSLDHB
11085 N. Torrey Pines Rd.	Torrey Pines	44,377	Jul-12	Santa Barbara Tax Products Group	HCP Life Science Estates
16990 Goldentop Rd.	Rancho Bernardo	35,167	Aug-12	D&K Engineering	TA Associates Realty
7747 Opportunity Rd. – Renewal	Kearny Mesa	25,000	Sept-12	U.S. Army	The Roundy Family, LP



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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