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Flex / R&D Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

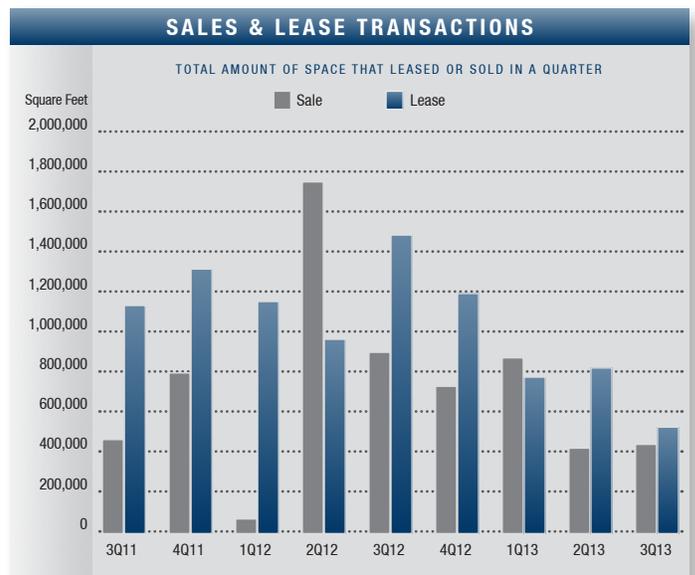
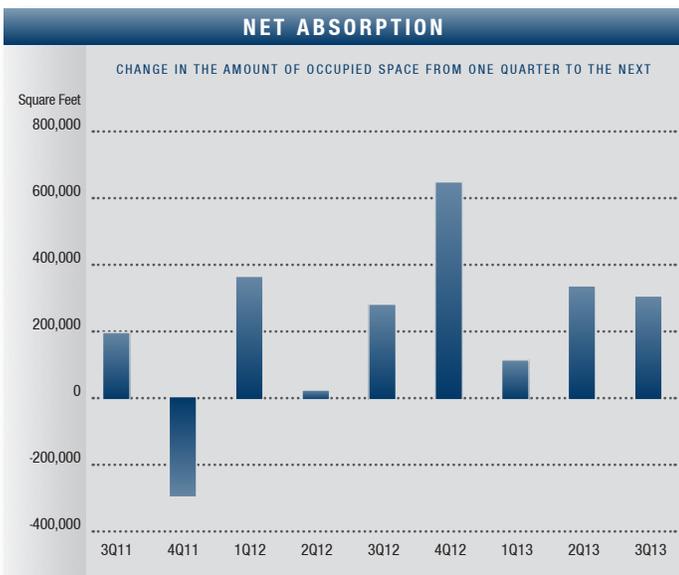
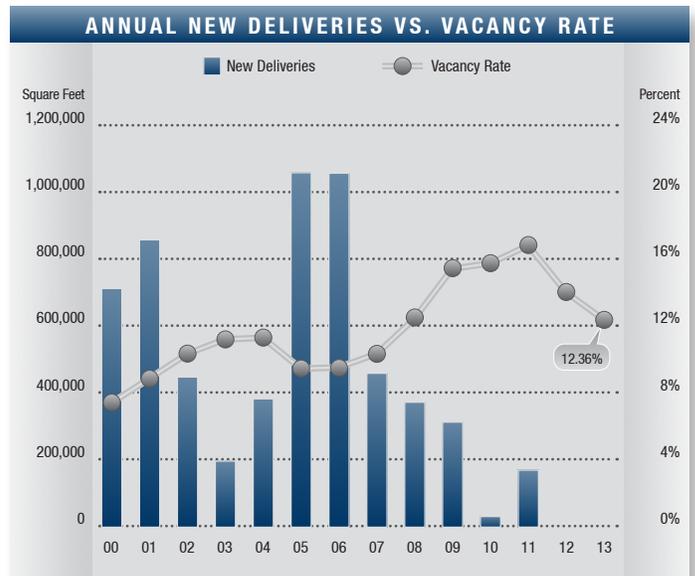
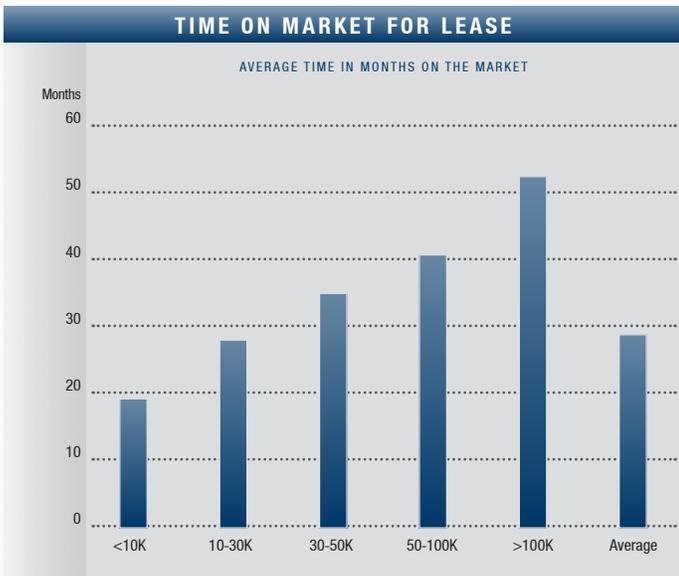
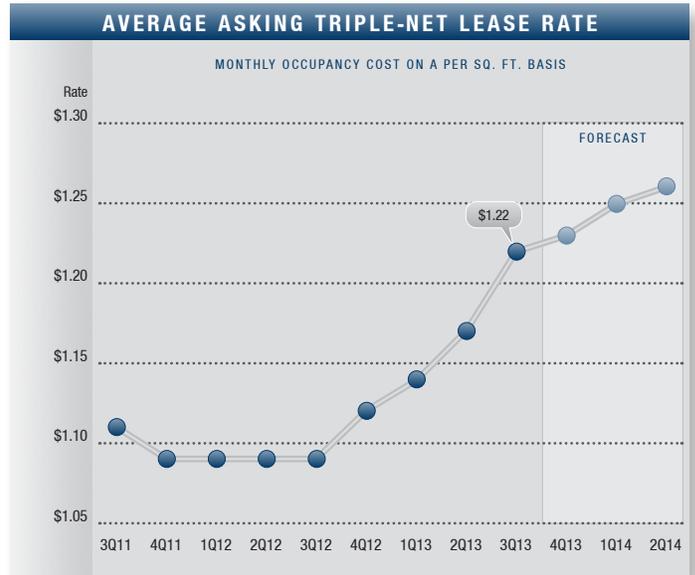
- Moving Forward** - The San Diego Flex R&D market displayed more signs of recovery in the third quarter, with positive net absorption, an increase in asking rental rates, and decreases in both vacancy and availability. In contrast to the steady improvements in the office, retail, and industrial property types since 2010, the improvements in the R&D market were choppy at first. However, over the last seven quarters, stabilization and improvement in indicators such as asking lease rates, net absorption, and the vacancy rate have been steady.
- Construction** - The market maintained a low level of construction over the last three years and had only 31,246 square feet under construction at the end of the third quarter of 2013. 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 12.36%, a decrease from second quarter's rate of 13.03% and the lowest vacancy rate seen since the first quarter of 2009.
- Availability** - Direct/sublease space being marketed was 15.36% at the end of the third quarter, down from the previous quarter and significantly down the rate of a year ago, 18.74%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.22 at the end of the third quarter, an increase from both the previous quarter's rate of \$1.17 and 2012's rate of \$1.09. Average asking lease rates have risen fifteen cents 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 307,587 square feet of positive net absorption in the third quarter

for three consecutive quarters of positive absorption in 2013 — on the heels of 2012, the first full calendar year of positive net absorption in six years.

- Transaction Activity** - The combined square feet sold and leased in the second quarter totaled 950,000 square feet, a decrease from the second quarter's 1.2 million square feet. 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 7.4% in August 2013, down from a revised 7.8% in July 2013 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,800 payroll jobs from August 2012 to August 2013 — including 5,300 in educational and health services, 4,700 from leisure and hospitality, and 4,400 from professional and business services. Manufacturing recorded the greatest number of job losses, down 2,800, year over year.
- Overall** - The Flex R&D market has now posted the seventh straight quarter of improvement. Availability and vacancy have finally started to trend significantly downward. With little currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. Year to date, the Flex R&D market has seen significant increases in the asking rental rate and significant decreases in the vacancy rate. With a relatively small amount of inventory in San Diego, improvement can happen quickly. 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

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	12.36%	13.03%	15.43%	(19.90%)
Availability Rate	15.36%	15.91%	18.74%	(18.04%)
Average Asking Lease Rate	\$1.22	\$1.17	\$1.09	11.93%
Sale & Lease Transactions	946,579	1,216,870	2,364,197	(59.96%)
Gross Absorption	857,492	922,426	1,021,260	(16.04%)
Net Absorption	307,587	331,232	276,599	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Central													
Central	17	229,456	0	0	18,127	7.90%	24,277	10.58%	\$0.00	(17,540)	(12,773)	0	9,778
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Diego	19	208,988	0	0	0	0.00%	0	0.00%	\$0.00	0	2,475	0	2,475
Central Total	41	482,736	0	0	18,127	3.76%	24,277	5.03%	\$0.00	(17,540)	(10,298)	0	12,253
Central Suburban													
Kearny Mesa	28	267,841	0	0	21,186	7.91%	20,193	7.54%	\$0.00	(13,119)	1,323	0	33,369
Mission Gorge	38	616,737	0	0	69,438	11.26%	70,438	11.42%	\$1.28	16,336	12,228	22,134	65,910
Rose Canyon/Morena	44	536,882	0	0	44,003	8.20%	126,753	23.61%	\$0.85	16,180	16,444	16,180	33,440
Sports Arena/Airport	208	5,652,508	0	20,000	293,011	5.18%	664,492	11.76%	\$1.21	13,744	114,928	120,685	309,095
Central Suburban Total	318	7,073,968	0	20,000	427,638	6.05%	881,876	12.47%	\$1.05	33,141	144,923	158,999	441,814
East County													
El Cajon	82	869,400	0	0	48,365	5.56%	75,338	8.67%	\$0.00	12,908	52,876	14,559	78,679
La Mesa/Spring Valley	41	318,588	0	0	13,009	4.08%	11,329	3.56%	\$0.00	1,138	17,866	5,138	23,546
Santee/Lakeside	52	534,506	0	268,000	10,043	1.88%	57,555	10.77%	\$0.00	839	3,847	7,140	17,709
East County Total	175	1,722,494	0	268,000	71,417	4.15%	144,222	8.37%	\$0.00	14,885	74,589	26,837	119,934
Highway 78 Corridor													
Oceanside	31	990,032	0	0	41,460	4.19%	43,681	4.41%	\$0.00	5,767	5,830	10,949	23,949
San Marcos	59	947,386	0	0	96,444	10.18%	95,718	10.10%	\$0.88	(1,062)	(20,463)	28,205	54,001
Vista	59	1,427,627	0	241,342	166,723	11.68%	267,846	18.76%	\$1.17	(12,772)	24,862	44,846	92,476
Highway 78 Corridor Total	149	3,365,045	0	241,342	304,627	9.05%	407,245	12.10%	\$1.04	(8,067)	10,229	84,000	170,426
I-15 Corridor													
Escondido	84	793,136	0	9,500	67,158	8.47%	87,629	11.05%	\$0.68	15,562	(18,709)	22,514	41,958
Poway	59	1,229,289	0	0	63,947	5.20%	124,998	10.17%	\$0.69	(3,709)	(7,552)	2,400	27,620
Rancho Bernardo	87	3,933,675	0	0	1,015,330	25.81%	861,282	21.90%	\$1.23	82,844	50,282	91,075	173,821
Scripps Ranch	30	755,097	0	0	148,207	19.63%	158,789	21.03%	\$1.17	15,528	54,294	23,220	127,856
I-15 Corridor Total	260	6,711,197	0	9,500	1,294,642	19.29%	1,232,698	18.37%	\$1.19	110,225	78,315	139,209	371,255
North City													
Miramar	209	4,439,557	0	0	533,362	12.01%	766,119	17.26%	\$0.86	85,118	60,997	155,841	384,814
Sorrento Mesa	155	5,721,916	0	0	657,028	11.48%	680,158	11.89%	\$1.36	25,901	114,836	59,066	208,936
Sorrento Valley	109	2,549,149	0	0	270,207	10.60%	461,818	18.12%	\$1.65	22,527	(19,344)	81,707	167,848
Torrey Pines	43	3,385,410	31,246	105,091	569,153	16.81%	611,617	18.07%	\$0.00	34,370	70,268	49,793	133,880
UTC	19	1,495,600	0	307,660	343,183	22.95%	370,283	24.76%	\$2.48	(5,000)	23,622	7,551	100,106
North City Total	535	17,591,632	31,246	412,751	2,372,933	13.49%	2,889,995	16.43%	\$1.38	162,916	250,379	353,958	995,584
North County													
Carlsbad	241	5,840,540	0	100,000	948,992	16.25%	1,071,865	18.35%	\$0.98	7,209	176,146	56,842	442,317
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	0	1,200	0	1,200
North County Total	257	5,988,733	0	100,000	948,992	15.85%	1,071,865	17.90%	\$0.98	7,209	177,346	56,842	443,517
Outlying Areas													
Outlying SD County North	17	184,958	0	0	12,692	6.86%	19,292	10.43%	\$0.00	0	0	0	0
Outlying SD County South	20	78,080	0	0	4,000	5.12%	5,600	7.17%	\$0.00	0	4,617	0	4,617
Outlying Areas Total	37	263,038	0	0	16,692	6.35%	24,892	9.46%	\$0.00	0	4,617	0	4,617
South Bay													
Chula Vista	82	1,521,175	0	0	113,137	7.44%	242,510	15.94%	\$1.34	(8,390)	6,971	14,774	54,380
National City	30	338,500	0	0	15,551	4.59%	23,538	6.95%	\$0.00	15,128	16,041	22,873	36,772
Otay Mesa/San Ysidro	11	245,361	0	0	13,939	5.68%	16,846	6.87%	\$0.76	(1,920)	(1,920)	0	0
South Bay Total	123	2,105,036	0	0	142,627	6.78%	282,894	13.44%	\$1.31	4,818	21,092	37,647	91,152
San Diego County Total	1,895	45,303,879	31,246	1,051,593	5,597,695	12.36%	6,959,964	15.36%	\$1.22	307,587	751,192	857,492	2,650,552

Lease rates are on a triple-net basis.

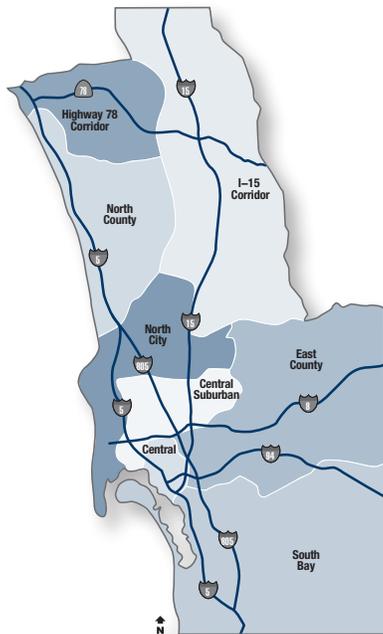
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
2251 Faraday Ave.	Carlsbad	65,840	\$192.89	Alvarez & Marshal Capital RE, LLC	IDS Real Estate Group
15330 Avenue of Science	Rancho Bernardo	73,756	\$125.00	Millenium Laboratories, Inc.	Kearny Real Estate Company
7650 Convoy Ct.	Kearny Mesa	48,611	\$167.66	Apprentice & Journeyman Training Trust Fund	Cruzan Monroe
10170 Sorrento Valley Rd.	Sorrento Valley	39,800	\$188.44	CIRE Partners	Rosestone Properties, LP
202 W. College St.	Outlying SD County N	51,000	\$93.57	Straub Construction, Inc.	Citrus Plaza, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4757 Nexus Center Dr.	UTC	67,050	Sept-13	Genomatica, Inc.	Alexandria Real Estate Equities, Inc.
16725 Technology Dr.	Rancho Bernardo	65,755	Sept-13	Undisclosed	First Industrial Realty Trust, Inc.
5810 Nancy Ridge Dr. – Renewal	Miramar	48,218	Sept-13	Biocept, Inc.	Alexandria Real Estate Equities
9940 Mesa Rim Rd.	Sorrento Mesa	47,200	Aug-13	Ameditech	Pacifica Real Estate Services, Inc.
10020 Huennekens St.	Sorrento Mesa	29,928	Sept-13	Undisclosed	TA Associates Realty



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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