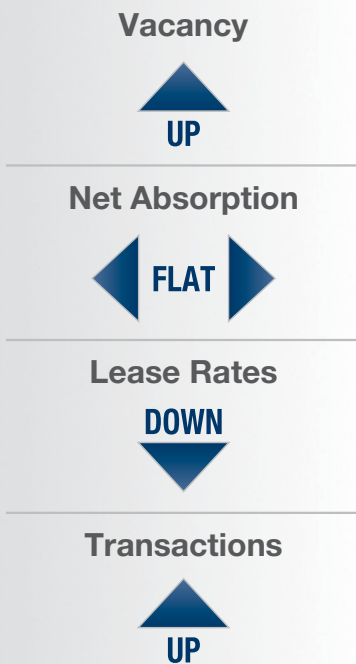




R&D Market Report

Compared to 2009:



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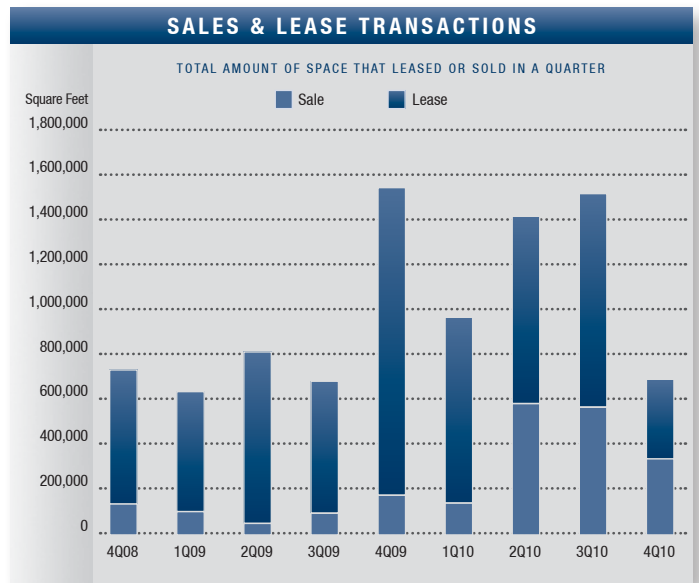
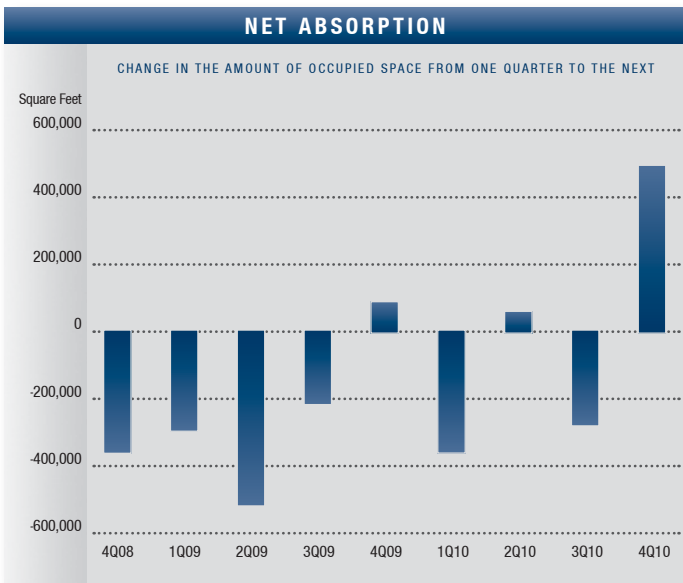
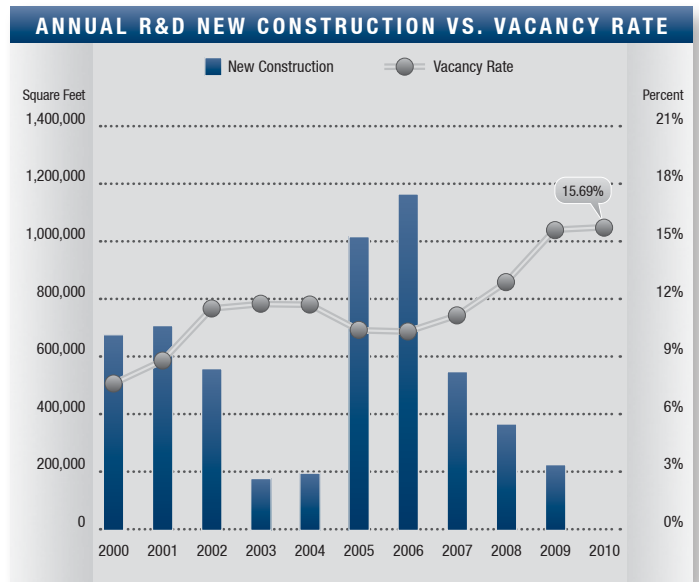
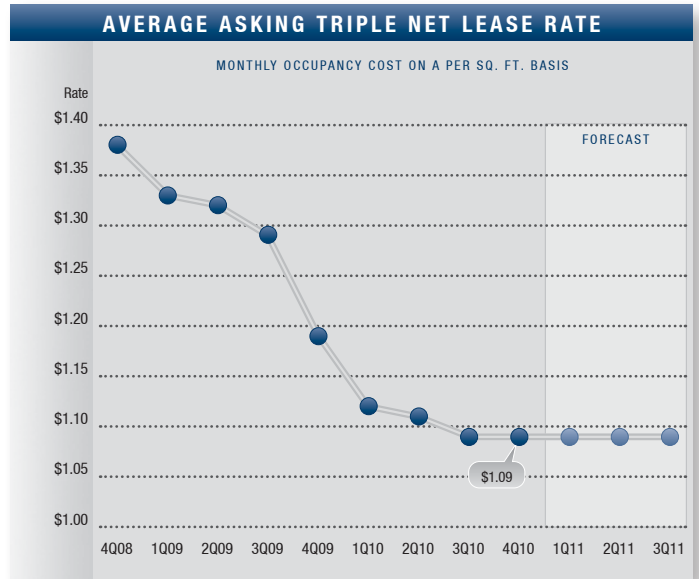
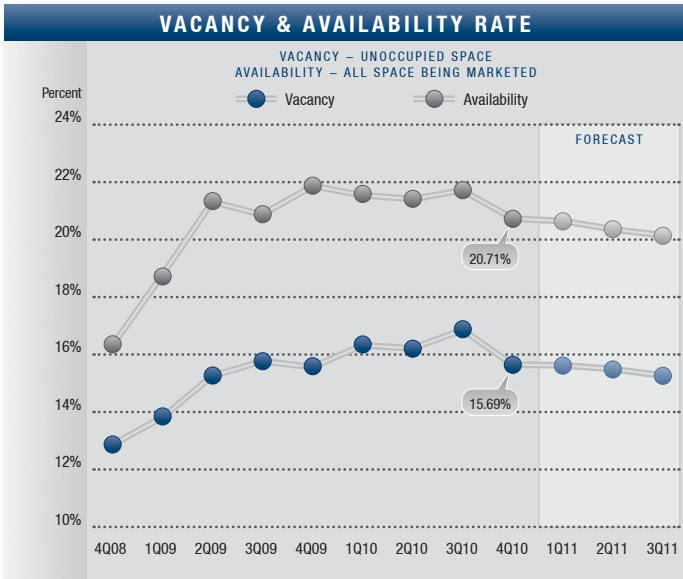
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Market Highlights

- Encouraging Numbers** - The fourth quarter numbers appear to be encouraging — a sign that recovery could be on the horizon. Availability began its downward trend, vacancy showed signs of stabilization, and net absorption posted positive numbers. Demand picked up, with Labor Day 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 no R&D space under construction in San Diego County in the fourth quarter of 2010. Scarce financing and low demand have essentially halted R&D development.
- Vacancy** - Direct / sublease space (unoccupied) finished the fourth quarter at 15.69%, a slight increase over 2009's rate of 15.55%, but lower than 2010's third quarter rate of 16.83%. The lowest vacancy rates can be found in the East County and Central markets at 6.88% and 7.64%, respectively.
- Availability** - Direct / sublease space being marketed was 20.71% at the end of 2010, a full one percentage point drop from the previous quarter's rate of 21.71% and a decrease from 2009's rate of 21.90%.
- 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 2010. This is the same as the previous quarter's rate and a 8.40% decrease over 2009's rate of \$1.19. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- Absorption** - The county posted a strong 493,564 square feet of positive absorption for the fourth quarter of 2010, erasing the most of the negative absorption from earlier in the year, giving the industrial market a total of 86,359 square feet of negative absorption for 2010.
- Transaction Activity** - Leasing activity checked in at 2.95 million square feet in 2010, a decrease over 2009's figure of 3.26 million square feet. Sales activity showed a significant increase over 2009, posting 1.6 million square feet of activity compared to 388,214 square feet in 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 10.4% in November 2010, up from a revised 10.3% in October 2010 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 100 payroll jobs from November 2009 to November 2010 — 3,500 in professional and business services and 3,100 in education and health services. However, construction posted the greatest year-over-year decline — a loss of 2,100 jobs. Between October 2010 and November 2010 San Diego County employment increased by 3,700 jobs overall. The LAEDC is forecasting that 17,000 jobs will be added in San Diego County in 2011.
- Overall** - In the fourth quarter of 2010, we saw a decrease in the amount of available space on the market, as well as an overall increase in sales activity for the year, as investors began actively seeking prudent investments. Net absorption posted a strong positive number for the quarter. With nothing currently under construction to put more upward pressure on vacancies, 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. Once unemployment rates drop and consumer confidence stabilizes, the R&D market will recover.

R & D MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	15.69%	15.55%	12.94%	0.90%
Availability Rate	20.71%	21.90%	16.31%	(5.43%)
Average Asking Lease Rate	\$1.09	\$1.19	\$1.38	(8.40%)
Sale & Lease Transactions	4,546,722	3,652,965	3,148,419	24.47%
Gross Absorption	4,244,474	3,225,959	3,497,162	31.57%
Net Absorption	(86,359)	(946,745)	(462,702)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Central													
Central City	18	212,389	0	0	28,750	13.54%	26,650	12.55%	\$0.00	8,858	32,411	10,648	38,410
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast City	20	216,734	0	0	7,400	3.41%	7,400	3.41%	\$0.00	(5,000)	45,960	0	53,360
Central Total	43	473,415	0	0	36,150	7.64%	34,050	7.19%	\$0.00	3,858	78,371	10,648	91,770
Central Suburban													
Airport/Sports Arena	29	317,795	0	0	7,281	2.29%	7,281	2.29%	\$0.00	165	13,294	165	19,365
Kearny Mesa	208	5,243,299	0	57,691	503,307	9.60%	958,551	18.28%	\$0.96	138,652	42,241	201,099	500,917
Mission Gorge	23	179,140	0	0	11,514	6.43%	11,514	6.43%	\$0.00	1,960	(7,379)	1,960	5,631
Rose Canyon/Morena	39	664,938	0	0	72,267	10.87%	74,504	11.20%	\$0.80	5,214	(4,802)	18,665	48,870
Central Suburban Total	299	6,405,172	0	57,691	594,369	9.28%	1,051,850	16.42%	\$0.96	145,991	43,354	221,889	574,783
East County													
El Cajon	82	937,253	0	0	70,135	7.48%	76,555	8.17%	\$0.00	(9,747)	2,091	4,028	35,688
La Mesa/Spring Valley	40	295,699	0	0	14,250	4.82%	14,308	4.84%	\$0.00	(2,266)	(1,330)	957	6,308
Santee/Lakeside	50	446,925	0	590,000	31,248	6.99%	27,944	6.25%	\$0.75	(3,240)	11,426	730	23,629
East County Total	172	1,679,877	0	590,000	115,633	6.88%	118,807	7.07%	\$0.75	(15,253)	12,187	5,715	65,625
Highway 78 Corridor													
Oceanside	35	1,043,066	0	0	133,505	12.80%	140,268	13.45%	\$0.00	8,640	42,669	8,640	71,721
San Marcos	54	851,400	0	0	139,042	16.33%	160,606	18.86%	\$0.97	(1,331)	(45,045)	5,502	46,368
Vista/Fallbrook	58	1,637,465	0	231,842	218,645	13.35%	286,857	17.52%	\$0.63	102,316	(69,445)	102,316	157,560
Highway 78 Corridor Total	147	3,531,931	0	231,842	491,192	13.91%	587,731	16.64%	\$0.65	109,625	(71,821)	116,458	275,649
I-15 Corridor													
Escondido	50	587,591	0	0	52,037	8.86%	82,398	14.02%	\$0.75	(5,588)	12,955	2,445	49,096
Poway	64	1,361,795	0	65,000	122,397	8.99%	219,677	16.13%	\$0.77	174,044	286,811	208,310	480,497
Rancho Bernardo	90	4,983,685	0	0	1,355,667	27.20%	1,499,270	30.08%	\$1.04	(7,618)	(402,102)	72,128	232,426
Scripps Ranch	30	755,298	0	0	133,819	17.72%	169,304	22.42%	\$0.98	(27,331)	(90,892)	4,424	56,684
I-15 Corridor Total	234	7,688,369	0	65,000	1,663,920	21.64%	1,970,649	25.63%	\$1.00	133,507	(193,228)	287,307	818,703
North City													
Miramar	201	4,219,333	0	0	727,637	17.25%	1,090,155	25.84%	\$1.05	(9,434)	(238,744)	40,882	331,162
Sorrento Mesa	158	6,228,722	0	0	886,789	14.24%	1,268,197	20.36%	\$1.33	(18,019)	7,565	73,381	570,944
Sorrento Valley	99	2,380,730	0	0	346,952	14.57%	357,990	15.04%	\$1.46	79,788	68,398	109,925	325,403
Torrey Pines	35	2,394,539	0	0	471,064	19.67%	471,064	19.67%	\$0.00	9,200	(16,447)	9,554	130,782
UTC Center	16	1,010,004	0	102,967	255,060	25.25%	255,060	25.25%	\$1.50	(78,638)	(35,704)	0	46,434
North City Total	509	16,233,328	0	102,967	2,687,502	16.56%	3,442,466	21.21%	\$1.23	(17,103)	(214,932)	233,742	1,404,725
North County													
Carlsbad	232	5,112,295	0	0	1,033,330	20.21%	1,385,356	27.10%	\$1.00	117,307	243,856	249,017	715,033
North Beach Cities	16	156,894	0	0	5,589	3.56%	4,709	3.00%	\$0.00	(1,453)	15,539	0	27,498
North County Total	248	5,269,189	0	0	1,038,919	19.72%	1,390,065	26.38%	\$1.00	115,854	259,395	249,017	742,531
Outlying Areas													
Outlying SD County North	15	126,521	0	0	11,100	8.77%	11,100	8.77%	\$0.00	(1,904)	(4,248)	2,096	9,893
Outlying SD County South	20	76,270	0	0	8,617	11.30%	18,358	24.07%	\$0.00	(8,617)	1,412	0	10,029
Outlying Areas Total	35	202,791	0	0	19,717	9.72%	29,458	14.53%	\$0.00	(10,521)	(2,836)	2,096	19,922
South Bay													
Chula Vista	82	1,580,925	0	0	144,941	9.17%	356,531	22.55%	\$0.70	21,424	12,859	40,733	121,609
National City	33	329,787	0	0	46,532	14.11%	48,284	14.64%	\$0.00	1,183	433	4,571	16,099
Otay Mesa	11	296,313	0	0	16,964	5.73%	16,964	5.73%	\$0.00	4,999	(10,141)	6,058	113,058
South Bay Total	126	2,207,025	0	0	208,437	9.44%	421,779	19.11%	\$0.70	27,606	3,151	51,362	250,766
San Diego County Total	1,813	43,691,097	0	1,047,500	6,855,839	15.69%	9,046,855	20.71%	\$1.09	493,564	(86,359)	1,178,234	4,244,474

Lease rates are on a triple net basis.

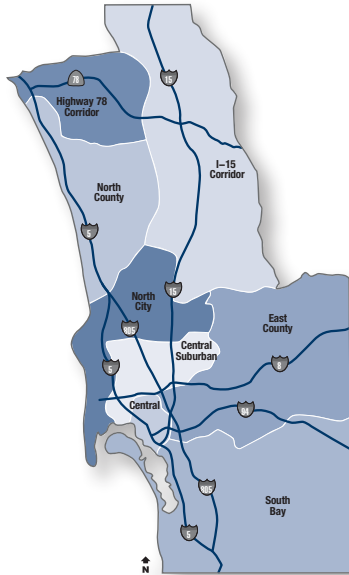
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
10450 Pacific Center Court	Sorrento Mesa	134,000	\$244.40	CB Richard Ellis Realty Trust	LBA Realty
11180 Roselle Street – 9 Properties	Sorrento Valley	163,872	\$176.97	BioMed Realty, LP	Collins Asset Management Group
4775 Executive Drive + 4.14 AC of Land	UTC	62,896	\$432.86	BioMed Realty, LP	Nexus / Windstar
3525 John Hopkins Court	Torrey Pines	48,233	\$516.24	BioMed Realty, LP	Hopkins 3525 Court, LLC
14040 Danielson Street	Poway	145,000	\$153.93	General Atomics	Emri Group
4181 Ruffin Road	Kearny Mesa	141,634	\$116.37	Government Properties Income Trust	HUB Acquisition Trust c/o HRPT Prop

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7625 Panasonic Way	Otay Mesa	107,000	June 5th	BikeBandit.com	Auerbach Commercial Realty Corporation
13970 Stowe Drive	Poway	99,370	May 14th	General Atomics	San Miguel Valley Corporation
9112 Spectrum Center Boulevard – Renewal	Kearny Mesa	91,300	July 1st	Overland Storage, Inc.	W.P. Carey & Co., LLC
3055 Enterprise Court	Vista	90,615	July 21st	Eagle Creek, Inc.	Hamann Companies
6340 Sequence Drive – Renewal	Sorrento Mesa	66,400	August 18th	DexCom, Inc.	Kilroy Realty Corporation
1600 Faraday Avenue	Carlsbad	59,860	January 6th	Outsource Manufacturing, Inc.	Hamann Companies



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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