



Flex / R&D Market Report

Compared to 2010:

Vacancy



Net Absorption

NEGATIVE



Lease Rates



Transactions

DOWN



Deliveries



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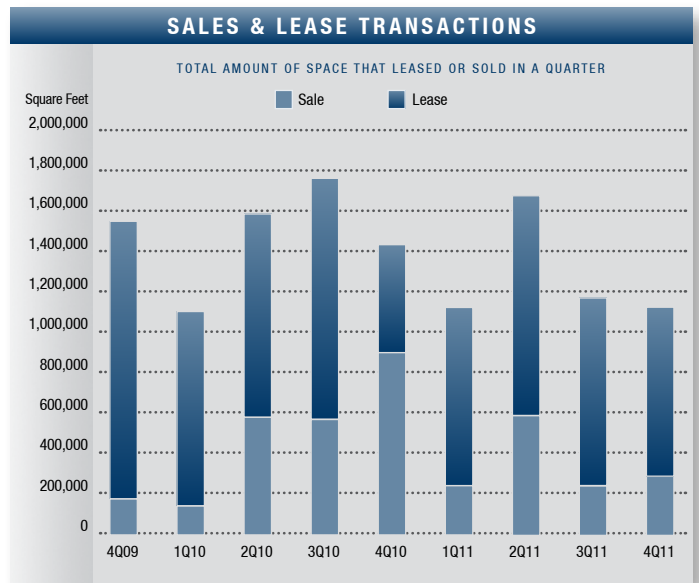
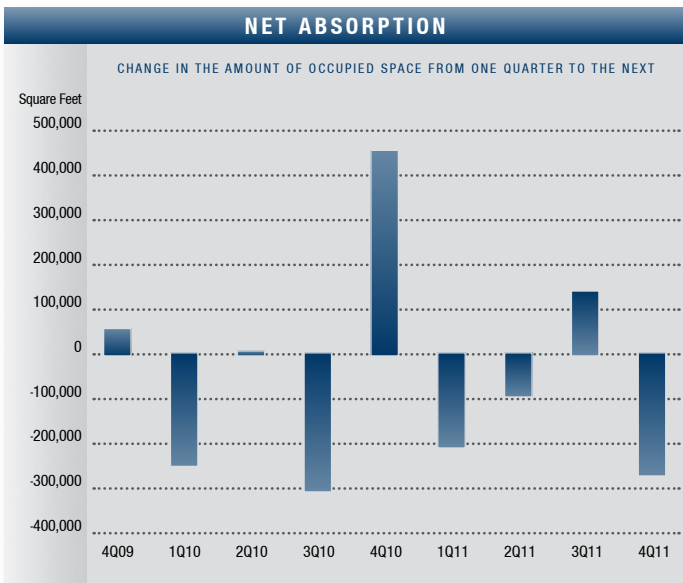
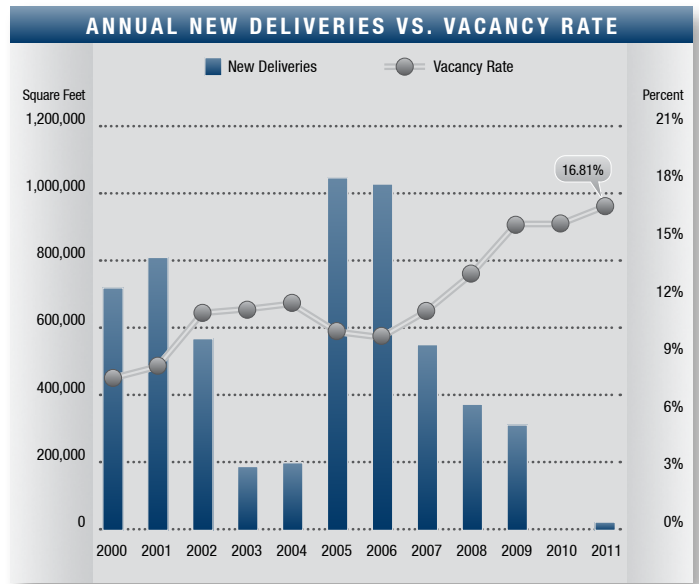
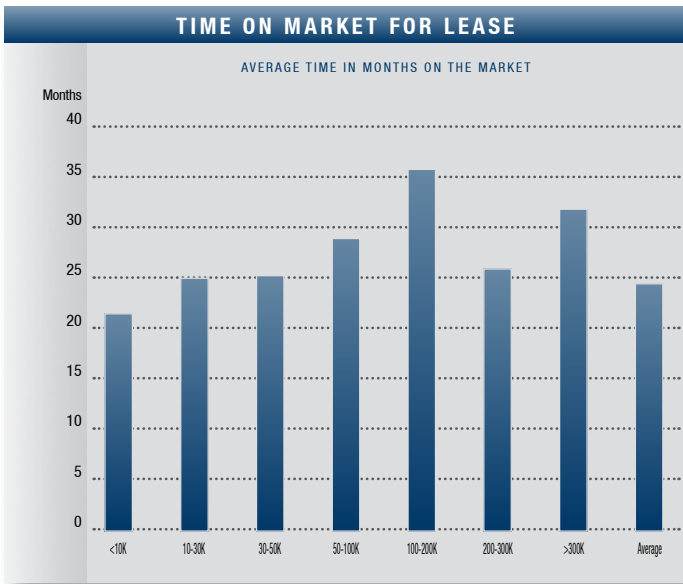
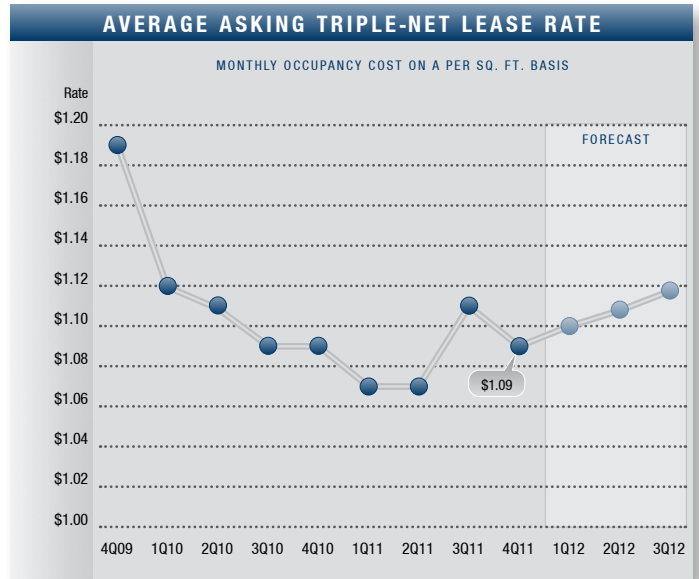
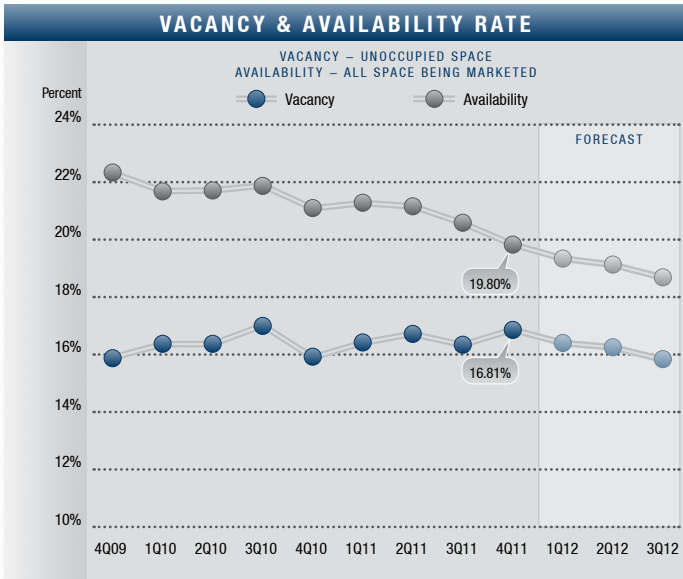
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Market Highlights

- Lagging Sector** - The San Diego R&D market's numbers were volatile in 2011, if not dramatically so. While other property types in San Diego have shown fundamental improvements, the R&D market continued bumping along the bottom. Vacancy rose slightly, and net absorption posted a negative figure for the year. Overall demand was down in 2011 but still much better than 2009. The bright spot was that 2011 had the highest volume of square feet leased seen since 2006. Stability and job growth will need to continue in coming quarters for the market to recover.
- Absorption** - The San Diego R&D market posted 434,113 square feet of negative net absorption in 2011, following negative net absorption of 93,082 square feet in 2010.
- Transaction Activity** - Leasing activity checked in at 3,750,000 square feet in 2011, the highest yearly total since 2006's 3,890,000 square feet. Sales activity showed a decrease from 2010, posting 1,300,000 square feet of activity in 2011 compared to 2,200,000 square feet in 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the San Diego County was 9.2 percent in November 2011, down from a revised 9.7 percent in October 2011, and below the year-ago estimate of 10.6 percent. This compares with an unadjusted unemployment rate of 10.9 percent for California and 8.2 percent for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,600 payroll jobs from November 2010 to November 2011 — 9,100 in education and health care services, and 7,900 in professional and business services. However, construction posted the greatest year-over-year decline—a loss of 1,900 jobs.
- Overall** - We are continuing to see an increase in the amount of available space on the market, coupled with an overall increase in leasing activity, as tenants continue to take advantage of lower rates. With very little currently under construction to apply upward pressure on vacancy, the market should begin 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 R&D market will recover.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 16.81%, an increase from the 2010 rate of 15.99%. The lowest vacancy rates can be found in the areas with the least amount of product, namely the Central and East County markets, at 1.38% and 7.49%, respectively.
- Construction** - There was very little construction during 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Availability** - Direct/sublease space being marketed was 19.80% at the end of the year, a drop from the previous year's rate of 21.07%. The narrowing of the gap between availability and vacancy suggests rising confidence in the R&D market.
- 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 2011, the same as the 2010's average asking rate. Asking lease rates went up and down during the year, before finishing at \$1.09, pointing to some of the volatility in the R&D market. The record high rate of \$1.49 was established in the first and second quarters of 2008.

FLEX / R&D MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	16.81%	15.99%	15.83%	5.13%
Availability Rate	19.80%	21.07%	22.36%	(6.03%)
Average Asking Lease Rate	\$1.09	\$1.09	\$1.19	0.00%
Sale & Lease Transactions	5,067,875	5,860,151	3,530,176	(13.52%)
Gross Absorption	3,802,301	4,424,424	3,380,327	(14.06%)
Net Absorption	(434,113)	(93,082)	(962,577)	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
Central													
Central City	17	207,418	0	0	6,344	3.06%	2,044	0.99%	\$0.00	1,248	22,406	1,248	27,185
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	6,344	1.38%	2,044	0.44%	\$0.00	1,248	24,806	1,248	29,685
Central Suburban													
Airport/Sports Arena	32	421,515	0	0	11,775	2.79%	100,895	23.94%	\$0.67	0	2,306	0	4,071
Kearny Mesa	211	5,335,934	0	57,691	673,364	12.62%	978,004	18.33%	\$1.01	(124,111)	(160,582)	63,736	526,554
Mission Gorge	22	168,344	0	0	28,504	16.93%	26,433	15.70%	\$0.00	(1,307)	(19,690)	0	1,770
Rose Canyon/Morena	40	686,563	0	0	78,787	11.48%	84,562	12.32%	\$0.87	7,506	4,060	16,312	87,587
Central Suburban Total	305	6,612,356	0	57,691	792,430	11.98%	1,189,894	18.00%	\$0.95	(117,912)	(173,906)	80,048	619,982
East County													
El Cajon	80	918,455	0	0	91,940	10.01%	116,198	12.65%	\$0.00	(10,279)	(19,105)	8,002	38,571
La Mesa/Spring Valley	43	321,471	0	0	13,823	4.30%	20,201	6.28%	\$0.00	(1,430)	1,427	1,795	24,179
Santee/Lakeside	50	456,717	0	590,000	21,302	4.66%	55,594	12.17%	\$0.66	5,909	10,746	8,399	31,415
East County Total	173	1,696,643	0	590,000	127,065	7.49%	191,993	11.32%	\$0.66	(5,800)	(6,932)	18,196	94,165
Highway 78 Corridor													
Oceanside	32	1,057,470	0	0	83,144	7.86%	82,167	7.77%	\$0.00	1,637	28,737	4,396	36,973
San Marcos	55	869,812	0	0	89,339	10.27%	101,656	11.69%	\$0.00	14,907	42,573	20,432	84,502
Vista/Fallbrook	59	1,654,249	0	231,842	207,423	12.54%	233,260	14.10%	\$0.72	19,276	9,498	28,828	112,079
Highway 78 Corridor Total	146	3,581,531	0	231,842	379,906	10.61%	417,083	11.65%	\$0.72	35,820	80,808	53,656	233,554
I-15 Corridor													
Escondido	52	631,626	0	0	59,149	9.36%	91,251	14.45%	\$0.55	1,539	6,479	7,131	56,136
Poway	65	1,378,822	0	65,000	136,127	9.87%	172,549	12.51%	\$0.88	17,089	(21,062)	32,025	180,612
Rancho Bernardo	91	5,147,751	0	0	1,334,502	25.92%	1,424,084	27.66%	\$1.07	6,168	7,487	104,687	208,482
Scripps Ranch	30	755,298	0	0	144,031	19.07%	218,421	28.92%	\$1.16	(16,372)	(10,212)	0	62,326
I-15 Corridor Total	238	7,913,497	0	65,000	1,673,809	21.15%	1,906,305	24.09%	\$1.05	8,424	(17,308)	143,843	507,556
North City													
Miramar	207	4,253,402	0	0	841,263	19.78%	1,018,251	23.94%	\$1.02	(35,042)	(97,448)	65,773	371,364
Sorrento Mesa	164	6,541,128	0	0	847,893	12.96%	1,242,333	18.99%	\$1.14	10,010	65,090	166,215	551,359
Sorrento Valley	101	2,386,747	0	0	349,727	14.65%	411,798	17.25%	\$1.42	10,249	7,495	37,548	221,388
Torrey Pines	38	2,617,377	31,246	0	602,290	23.01%	506,438	19.35%	\$0.00	(25,387)	(22,390)	5,256	70,310
UTC Center	19	1,550,901	0	102,967	699,256	45.09%	418,792	27.00%	\$2.80	(67,361)	(178,906)	16,505	134,672
North City Total	529	17,349,555	31,246	102,967	3,340,429	19.25%	3,597,612	20.74%	\$1.19	(107,531)	(226,159)	291,297	1,349,093
North County													
Carlsbad	235	5,608,485	0	100,000	1,135,265	20.24%	1,324,277	23.61%	\$1.07	(88,187)	(117,655)	121,938	785,963
North Beach Cities	17	159,536	0	0	15,151	9.50%	15,151	9.50%	\$0.00	(13,150)	(9,562)	0	8,583
North County Total	252	5,768,021	0	100,000	1,150,416	19.94%	1,339,428	23.22%	\$1.07	(101,337)	(127,217)	121,938	794,546
Outlying Areas													
Outlying SD County North	16	191,979	0	0	11,821	6.16%	11,821	6.16%	\$0.00	(2,000)	9,994	0	24,752
Outlying SD County South	20	76,270	0	0	10,367	13.59%	10,367	13.59%	\$0.00	0	(1,750)	1,924	9,741
Outlying Areas Total	36	268,249	0	0	22,188	8.27%	22,188	8.27%	\$0.00	(2,000)	8,244	1,924	34,493
South Bay													
Chula Vista	78	1,441,275	0	0	94,335	6.55%	288,402	20.01%	\$0.00	25,944	40,649	31,674	113,231
National City	30	290,559	0	0	42,189	14.52%	42,189	14.52%	\$0.00	(6,550)	(6,527)	1,400	17,307
Otay Mesa	11	296,313	0	0	47,535	16.04%	47,535	16.04%	\$0.80	0	(30,571)	0	8,689
South Bay Total	119	2,028,147	0	0	184,059	9.08%	378,126	18.64%	\$0.80	19,394	3,551	33,074	139,227
San Diego County Total	1,839	45,678,513	31,246	1,147,500	7,676,646	16.81%	9,044,673	19.80%	\$1.09	(269,694)	(434,113)	745,224	3,802,301

Lease rates are on a triple-net basis.

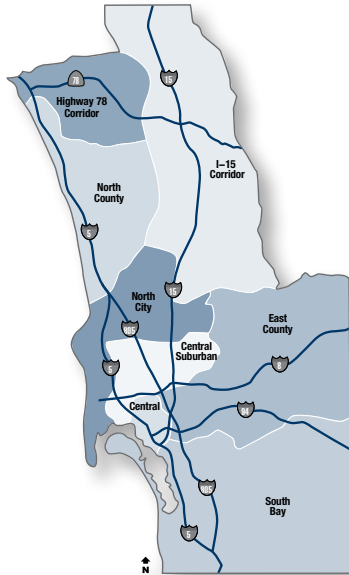
LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
5781 Van Allen Way	Carlsbad	328,700	\$170.37	The GC Net Lease REIT, Inc.	Griffin Capital Corp.
10420-10520 Wateridge Cir.	Sorrento Mesa	106,490	\$436.66	BioMed Realty Trust, Inc.	Multitech Properties, Inc.
10770 Wateridge Cir.	Sorrento Mesa	176,983	\$184.76	Kilroy Realty Corporation	MetLife, Inc.
16550 Via Esprillo	Rancho Bernardo	165,600	\$160.02	Soitec Solar Industries, LLC	Sony Corporation
10120 Pacific Heights Blvd.	Sorrento Mesa	90,558	\$265.02	USE Credit Union	Kilroy Realty Corporation
1959 Palomar Oaks Way	Carlsbad	172,553	\$91.57	Bixby Land Company	Arden Realty, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10300 Campus Point Dr.	UTC	192,832	Dec-11	Celgene	Alexandria Real Estate Equities
2885 Loker Avenue E.	Carlsbad	88,329	Apr-11	BREG, Inc.	Propco, LP
2271 Cosmos Ct. – Renewal	Carlsbad	85,165	Feb-11	Philips Healthcare	Koch Trust
3550 John Hopkins Ct.	Torrey Pines	59,199	Jun-11	Verenum	Alexandria Real Estate Equities
2765 Loker Avenue W.	Carlsbad	55,531	Jun-11	Aptera	TA Associates Realty
10420 Wateridge Cir.	Sorrento Mesa	46,142	Mar-11	Dart Neuroscience, LLC	BioMed Realty Trust, Inc.



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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