



## Flex / R&D Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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Prepared by:

**Jerry J. Holdner, Jr.** — Lic.#01145748  
Vice President of Market Research  
e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)

**Joshua Brant**  
Market Research Analyst  
e-mail: [jbrant@voitco.com](mailto:jbrant@voitco.com)

VOIT Real Estate Services — Lic.#01333376

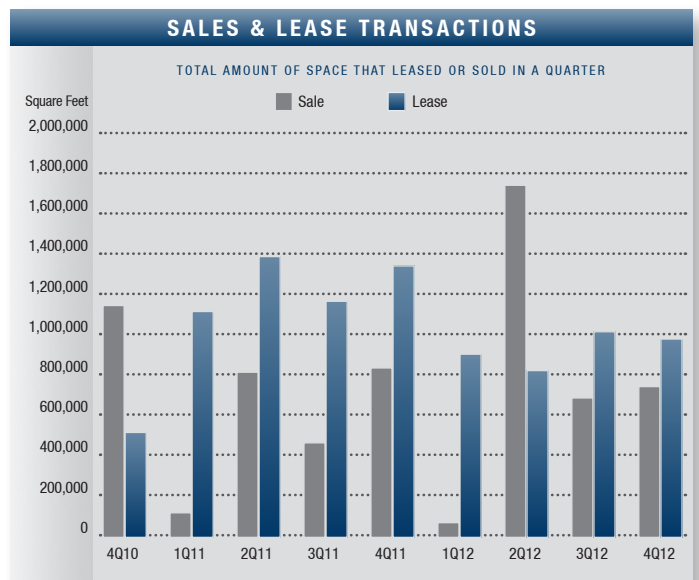
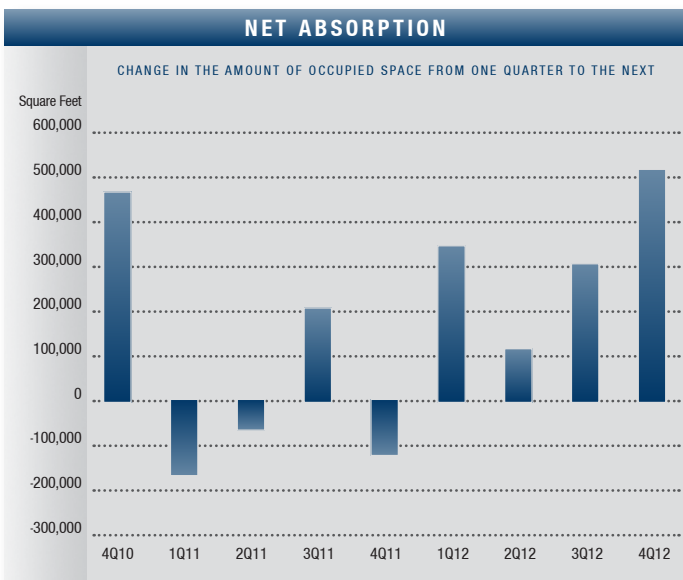
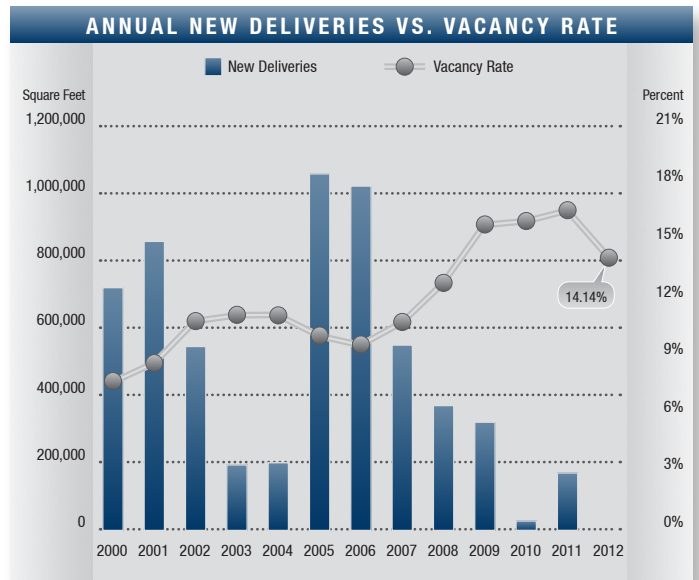
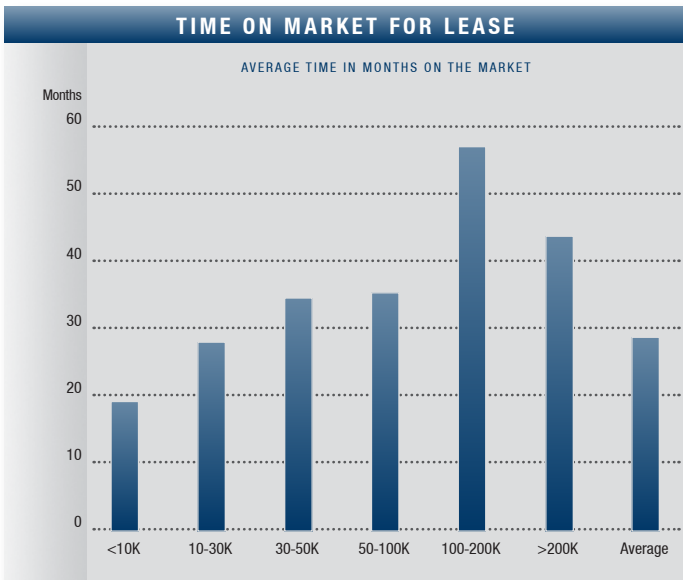
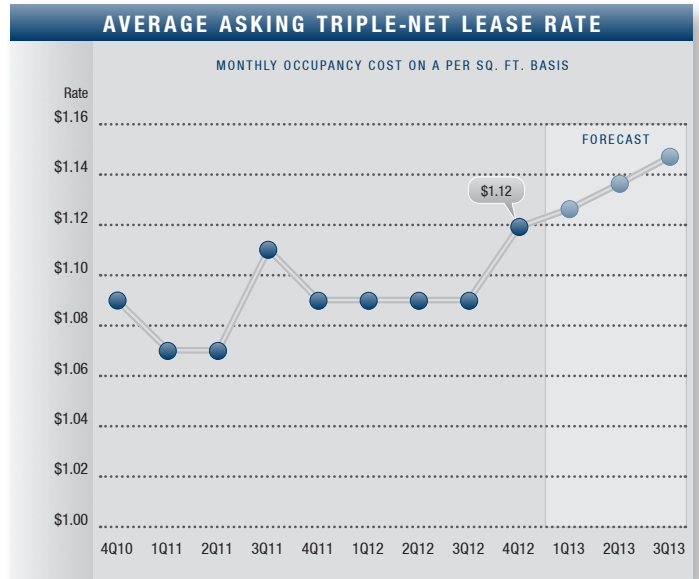
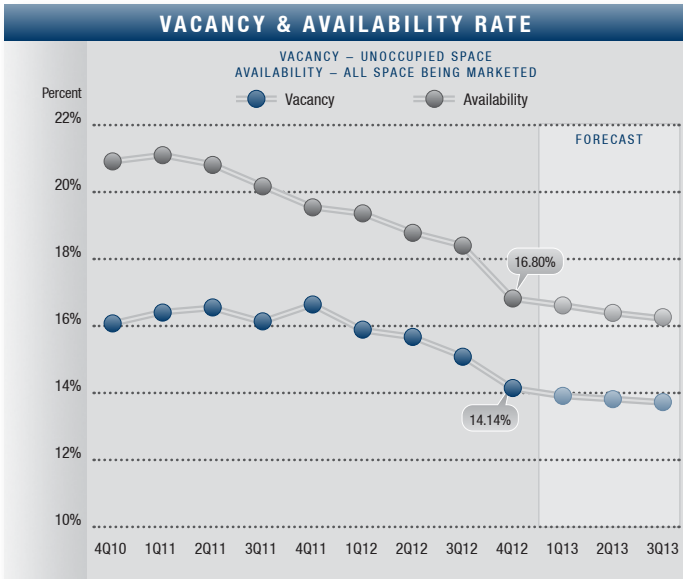


### Market Highlights

- Moving Forward** - The San Diego R&D market displayed more signs of recovery in 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** - 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 fourth quarter of 2012. The slowdown in new property deliveries has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 14.14%, a decrease from 2011's rate of 16.64% and the lowest vacancy rate seen since the first quarter of 2009.
- Availability** - Direct/sublease space being marketed was 16.8% at the end of the year, a huge drop from the previous year's rate of 19.55% 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 \$1.12 at the end of 2012, an increase from the previous year's rate of \$1.09. Average asking lease rates have risen five 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 nearly 1.3 million square feet of positive net absorption in the past year- the first year of positive net absorption in six years and the highest yearly total in seven years.
- Transaction Activity** - The combined square feet sold and leased last year totaled 6.89 million square feet, a slight decrease from the previous year's level of 7.18 million square feet. Much of the Flex R&D property sold this past year was 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 8.3% in November 2012, down from a revised 8.6% in October 2012 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 24,600 payroll jobs from November 2011 to November 2012 — including 8,600 in professional and business services, and 5,300 from leisure and hospitality. Manufacturing was the only sector with year-over-year decline — a loss of 2,000 jobs.
- Overall** - The R&D market has shown signs of strong demand, exhibited in 2011's leasing activity and 2012's sales volume, and availability and vacancy have finally started to move downward. 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

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	14.14%	16.64%	16.05%	(15.02%)
Availability Rate	16.80%	19.55%	20.92%	(14.07%)
Average Asking Lease Rate	\$1.12	\$1.09	\$1.09	2.75%
Sale & Lease Transactions	6,892,510	7,176,472	6,516,850	(3.96%)
Gross Absorption	4,523,269	4,066,431	4,526,372	11.23%
Net Absorption	1,286,273	(144,606)	(41,798)	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
<b>Central</b>													
Central	17	227,956	0	0	6,466	2.84%	8,071	3.54%	\$0.00	(550)	990	2,450	10,213
East City	5	44,292	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Southeast San Diego	19	208,779	0	0	2,475	1.19%	2,475	1.19%	\$0.00	(2,475)	(2,475)	5,000	5,000
<b>Central Total</b>	<b>41</b>	<b>481,027</b>	<b>0</b>	<b>0</b>	<b>8,941</b>	<b>1.86%</b>	<b>10,546</b>	<b>2.19%</b>	<b>\$0.00</b>	<b>(3,025)</b>	<b>(1,485)</b>	<b>7,450</b>	<b>15,213</b>
<b>Central Suburban</b>													
Sports Arena/Airport	45	552,095	0	0	60,447	10.95%	143,197	25.94%	\$0.84	20,124	15,938	24,804	38,427
Kearny Mesa	209	5,696,767	0	57,691	475,812	8.35%	819,875	14.39%	\$1.04	(3,221)	203,195	81,277	533,532
Mission Gorge	28	266,184	0	0	22,509	8.46%	43,271	16.26%	\$0.95	3,913	9,394	7,818	47,919
Rose Canyon/Morena	40	638,248	0	0	81,666	12.80%	76,187	11.94%	\$1.07	13,295	(9,998)	32,270	84,378
<b>Central Suburban Total</b>	<b>322</b>	<b>7,153,294</b>	<b>0</b>	<b>57,691</b>	<b>640,434</b>	<b>8.95%</b>	<b>1,082,530</b>	<b>15.13%</b>	<b>\$0.97</b>	<b>34,111</b>	<b>218,529</b>	<b>146,169</b>	<b>704,256</b>
<b>East County</b>													
El Cajon	83	939,097	0	0	112,440	11.97%	140,904	15.00%	\$0.00	(6,899)	8,173	2,510	61,394
La Mesa/Spring Valley	43	326,823	0	0	30,875	9.45%	34,897	10.68%	\$0.00	(14,259)	(17,052)	8,584	24,373
Santee/Lakeside	53	539,076	0	590,000	16,040	2.98%	27,352	5.07%	\$0.00	29,486	9,004	36,736	51,306
<b>East County Total</b>	<b>179</b>	<b>1,804,996</b>	<b>0</b>	<b>590,000</b>	<b>159,355</b>	<b>8.83%</b>	<b>203,153</b>	<b>11.26%</b>	<b>\$0.00</b>	<b>8,328</b>	<b>125</b>	<b>47,830</b>	<b>137,073</b>
<b>Highway 78 Corridor</b>													
Oceanside	32	1,046,879	0	0	79,007	7.55%	79,007	7.55%	\$0.00	13,213	12,589	19,187	43,214
San Marcos	56	888,541	0	0	72,936	8.21%	79,635	8.96%	\$0.88	14,514	16,403	28,124	98,855
Vista	59	1,654,249	0	241,342	237,606	14.36%	274,418	16.59%	\$0.95	(55,418)	(30,183)	12,538	72,170
<b>Highway 78 Corridor Total</b>	<b>147</b>	<b>3,589,669</b>	<b>0</b>	<b>241,342</b>	<b>389,549</b>	<b>10.85%</b>	<b>433,060</b>	<b>12.06%</b>	<b>\$0.93</b>	<b>(27,691)</b>	<b>(1,191)</b>	<b>59,849</b>	<b>214,239</b>
<b>I-15 Corridor</b>													
Escondido	82	786,118	0	9,500	48,449	6.16%	98,214	12.49%	\$0.62	23,837	15,026	28,802	66,577
Poway	64	1,353,905	0	0	63,522	4.69%	81,263	6.00%	\$0.69	40,603	45,605	62,739	146,746
Rancho Bernardo	93	5,397,566	0	0	1,384,860	25.66%	1,421,331	26.33%	\$1.12	(53,575)	61,953	37,421	405,202
Scripps Ranch	30	755,298	0	0	202,501	26.81%	160,855	21.30%	\$0.91	41,549	(58,470)	41,549	41,549
<b>I-15 Corridor Total</b>	<b>269</b>	<b>8,292,887</b>	<b>0</b>	<b>9,500</b>	<b>1,699,332</b>	<b>20.49%</b>	<b>1,761,663</b>	<b>21.24%</b>	<b>\$1.09</b>	<b>52,414</b>	<b>64,114</b>	<b>170,511</b>	<b>660,074</b>
<b>North City</b>													
Miramar	207	4,386,772	0	0	645,796	14.72%	862,925	19.67%	\$0.98	58,010	180,153	113,744	482,967
Sorrento Mesa	165	6,523,522	0	0	832,342	12.76%	1,087,666	16.67%	\$1.26	88,169	107,234	170,564	526,624
Sorrento Valley	109	2,568,576	0	0	293,356	11.42%	450,319	17.53%	\$1.35	3,532	86,516	40,407	211,047
Torrey Pines	40	3,044,354	31,246	105,091	299,976	9.85%	341,552	11.22%	\$0.00	116,668	299,985	160,509	522,555
UTC	20	1,562,643	0	102,967	433,855	27.76%	367,447	23.51%	\$2.82	184,125	258,414	184,125	342,941
<b>North City Total</b>	<b>541</b>	<b>18,085,867</b>	<b>31,246</b>	<b>208,058</b>	<b>2,505,325</b>	<b>13.85%</b>	<b>3,109,909</b>	<b>17.20%</b>	<b>\$1.25</b>	<b>450,504</b>	<b>932,302</b>	<b>669,349</b>	<b>2,086,134</b>
<b>North County</b>													
Carlsbad	241	6,050,187	0	100,000	1,197,863	19.80%	1,254,343	20.73%	\$0.97	398	52,083	173,633	579,300
North Beach Cities	16	148,193	0	0	1,200	0.81%	1,200	0.81%	\$0.00	(1,200)	13,951	0	19,365
<b>North County Total</b>	<b>257</b>	<b>6,198,380</b>	<b>0</b>	<b>100,000</b>	<b>1,199,063</b>	<b>19.34%</b>	<b>1,255,543</b>	<b>20.26%</b>	<b>\$0.97</b>	<b>(802)</b>	<b>66,034</b>	<b>173,633</b>	<b>598,665</b>
<b>Outlying Areas</b>													
Outlying SD County North	17	199,416	0	0	12,692	6.36%	19,292	9.67%	\$0.00	0	(871)	0	4,000
Outlying SD County South	20	78,080	0	0	8,617	11.04%	8,617	11.04%	\$0.00	1,750	1,750	1,750	1,750
<b>Outlying Areas Total</b>	<b>37</b>	<b>277,496</b>	<b>0</b>	<b>0</b>	<b>21,309</b>	<b>7.68%</b>	<b>27,909</b>	<b>10.06%</b>	<b>\$0.00</b>	<b>1,750</b>	<b>879</b>	<b>1,750</b>	<b>5,750</b>
<b>South Bay</b>													
Chula Vista	79	1,465,440	0	0	102,697	7.01%	107,980	7.37%	\$0.75	(2,683)	(3,631)	20,692	78,144
National City	30	299,500	0	0	31,592	10.55%	37,792	12.62%	\$0.00	4,235	10,597	4,235	23,721
Otay Mesa/San Ysidro	10	235,361	0	0	12,019	5.11%	12,019	5.11%	\$0.80	0	0	0	0
<b>South Bay Total</b>	<b>119</b>	<b>2,000,301</b>	<b>0</b>	<b>0</b>	<b>146,308</b>	<b>7.31%</b>	<b>157,791</b>	<b>7.89%</b>	<b>\$0.78</b>	<b>1,552</b>	<b>6,966</b>	<b>24,927</b>	<b>101,865</b>
<b>San Diego County Total</b>	<b>1,912</b>	<b>47,883,917</b>	<b>31,246</b>	<b>1,206,591</b>	<b>6,769,616</b>	<b>14.14%</b>	<b>8,042,104</b>	<b>16.80%</b>	<b>\$1.12</b>	<b>517,141</b>	<b>1,286,273</b>	<b>1,301,468</b>	<b>4,523,269</b>

Lease rates are on a triple-net basis.

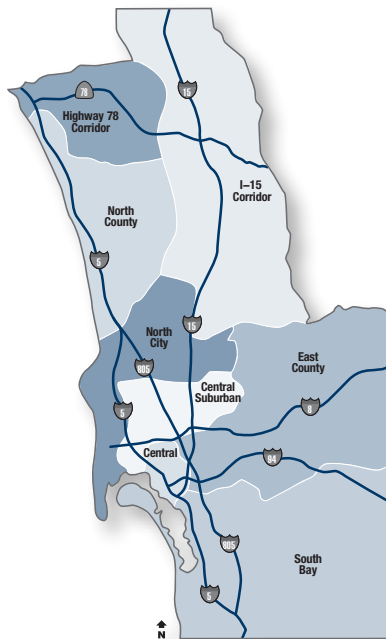
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
11494-11772 Sorrento Valley Rd.	Sorrento Valley	382,304	\$106.59	Angelo, Gordon & Company Parallel Capital Partners	Collins Asset Management Group
6122-6126 Nancy Ridge Dr.	Miramar	68,000	\$294.12	Biomed Realty, LP	Applied Clinical Research
1950 Camino Vida Roble	Carlsbad	121,541	\$138.22	Pra Carlsbad Office, LLC	Carlsbad CC, LP
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

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
10277 Scripps Ranch Blvd.	Scripps Ranch	69,900	Oct-12	CoreLogic Solutions	MHMS, Inc.
4757 Nexus Center Dr.	UTC	67,050	Nov-12	Genomatica, Inc.	Alexandria Real Estate
10309 Pacific Center Ct.	Sorrento Mesa	50,291	Oct-12	Quantum Design	The Abbey Company
10445 Pacific Center Ct.	Sorrento Mesa	48,709	Feb-12	Qualcomm	Kilroy Realty Corporation



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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Anaheim, CA  
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Las Vegas, NV  
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