



## Flex / R&D Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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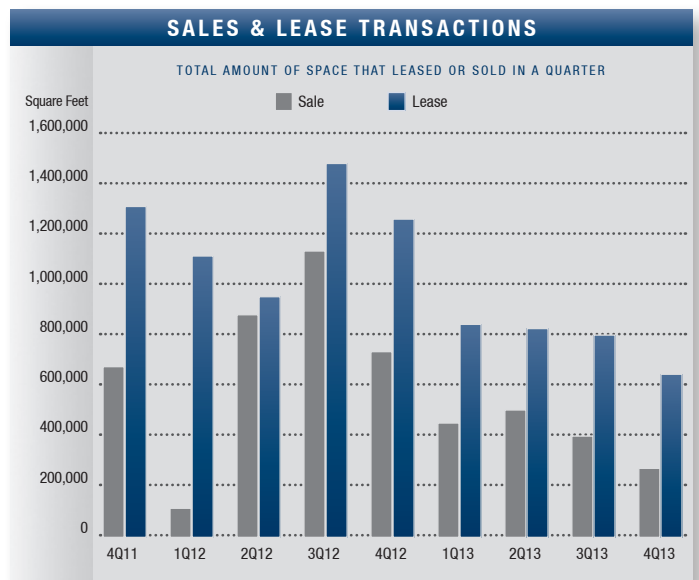
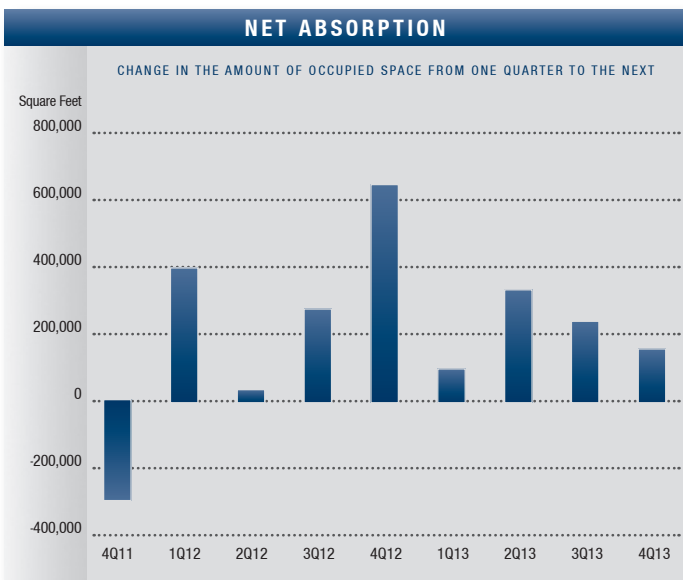
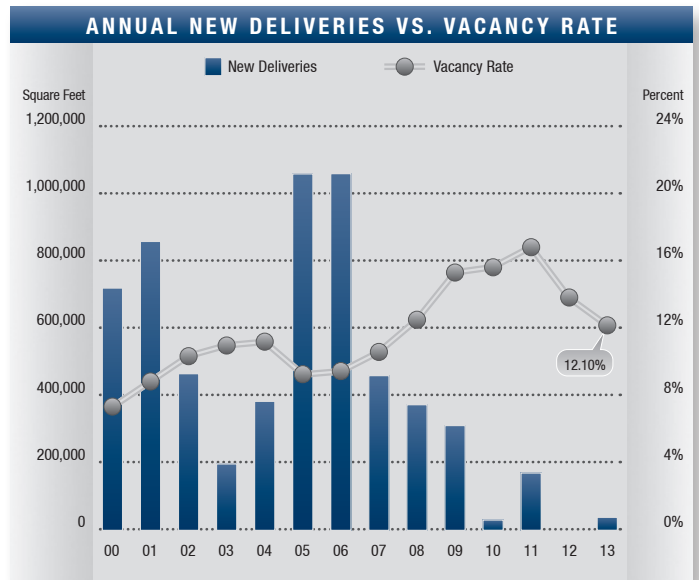
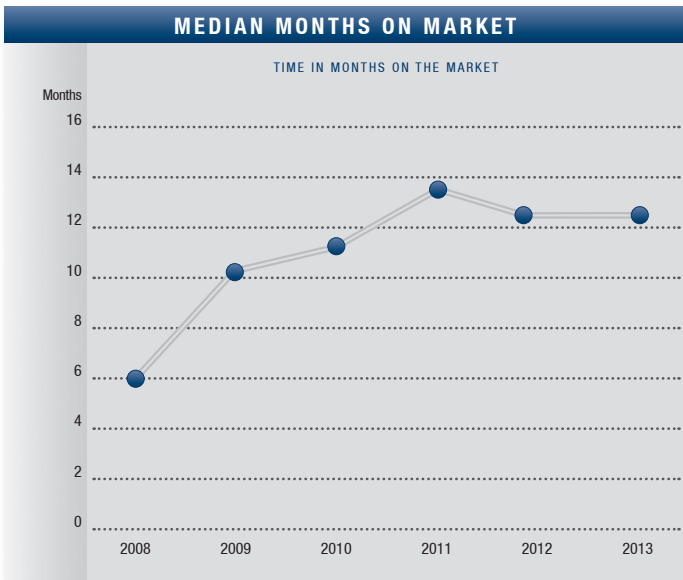
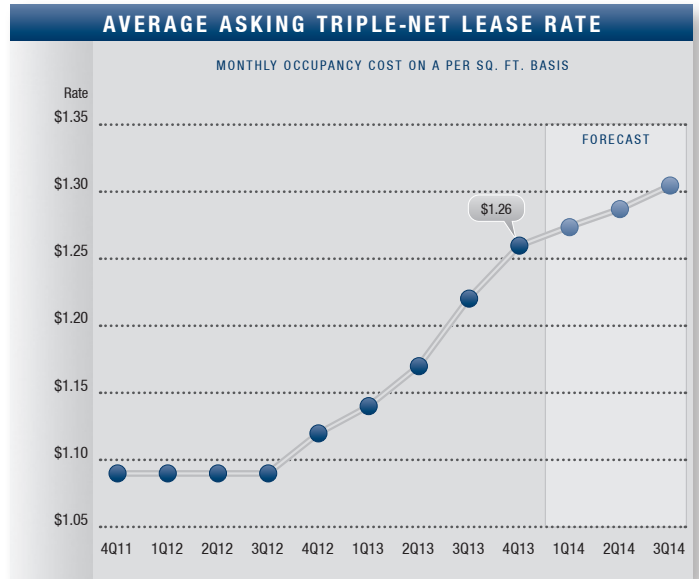
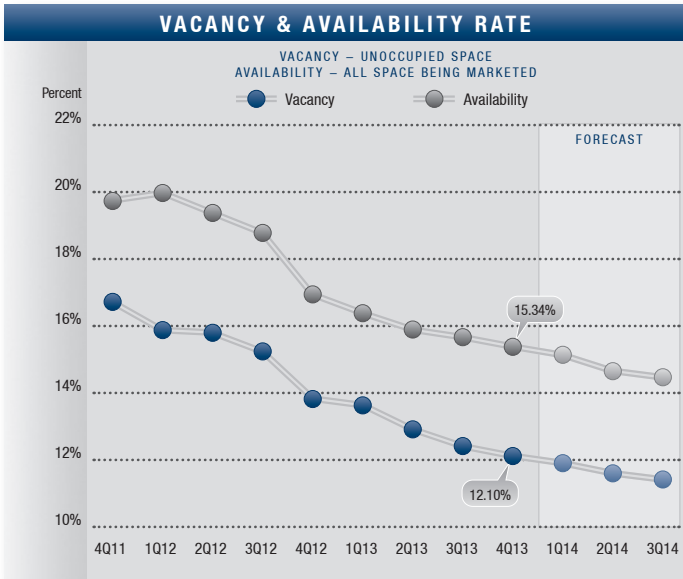
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### Market Highlights

- Making Up For Lost Time** - The San Diego Flex R&D market displayed more signs of recovery in 2013, 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 two years, stabilization and improvement in indicators such as asking lease rates, net absorption, and the vacancy rate have been significant.
- Construction** - The Flex R&D market maintained a low level of construction over the last three years and had only 31,246 square feet of new construction delivered in 2013. At the end of the fourth quarter, nothing was under construction and just over 1.05 million square feet was planned. 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 12.10%, a significant decrease from the previous year's rate of 13.80% and the lowest year-end vacancy rate seen since 2007.
- Availability** - Direct/sublease space being marketed was 15.34% at the end of the year, a drop from the previous quarter and down over 9% from 2012's rate, 16.92%.
- Lease Rates** - The average asking triple-net lease rate per square foot per month in San Diego County was \$1.26 at the end of the 2013, an increase of 12.5% from the previous year's rate of \$1.12 and up from 2011's rate of \$1.09. Average asking lease rates have risen nineteen cents since the recession lows seen in the first and second quarters of 2011.
- Absorption** - The San Diego R&D market posted 803,292 square feet of positive net absorption in 2013, for the second consecutive year of positive absorption following five calendar years of negative net absorption.
- Transaction Activity** - The combined square feet sold and leased in 2013 totaled 4.7 million square feet, a decrease from 2012's 7.7 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 6.8% in November 2013, down from a revised 7.1% in October 2013 and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 23,000 payroll jobs from November 2012 to November 2013 — including 6,100 in educational and health services, 5,700 from trade, transportation and utilities, 5,600 from leisure and hospitality, and 5,300 from construction. Manufacturing recorded the greatest number of job losses, down 2,000 year over year.
- Overall** - The Flex R&D market has now posted eight straight quarters of improvement. Vacancy is on pace to reach single-digit levels by next year, which is astounding considering that vacancy peaked at 16.7% at the end of 2011. San Diego's Flex R&D market has a relatively small inventory when compared to the office and industrial inventory, and this contributes to the ability of vacancy rates to descend at such a break-neck speed. With nothing currently under construction to apply upward pressure on vacancy, the market should continue to stabilize. The Flex R&D market has also seen significant increases in the asking rental rate over the past two years. We anticipate rental rates continuing to increase through 2014. The Flex R&D sector is occupied in a large part by biotech companies which are one of the stronger drivers of San Diego's economy.

### FLEX / R&D MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	12.10%	13.80%	16.73%	(12.32%)
Availability Rate	15.34%	16.92%	19.72%	(9.34%)
Average Asking Lease Rate	\$1.26	\$1.12	\$1.09	12.50%
Sale & Lease Transactions	4,677,131	7,651,418	6,783,917	(38.87%)
Gross Absorption	3,692,361	4,438,417	3,906,268	(16.81%)
Net Absorption	803,292	1,334,208	(377,639)	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
<b>Central</b>													
Central	17	229,456	0	0	8,106	3.53%	9,925	4.33%	\$0.00	10,835	(2,752)	21,188	31,553
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	10,000	4.78%	10,000	4.78%	\$0.00	(10,000)	7,525	0	2,475
<b>Central Total</b>	<b>41</b>	<b>482,736</b>	<b>0</b>	<b>0</b>	<b>18,106</b>	<b>3.75%</b>	<b>19,925</b>	<b>4.13%</b>	<b>\$0.00</b>	<b>835</b>	<b>(10,277)</b>	<b>21,188</b>	<b>34,028</b>
<b>Central Suburban</b>													
Kearny Mesa	207	5,624,256	0	20,000	361,022	6.42%	718,409	12.77%	\$1.11	(51,810)	46,917	71,061	360,534
Mission Gorge	29	270,741	0	0	9,337	3.45%	24,888	9.19%	\$0.99	11,849	13,172	13,119	47,988
Rose Canyon/Morena	38	616,737	0	0	77,130	12.51%	75,402	12.23%	\$1.26	(6,641)	4,536	10,820	76,730
Sports Arena/Airport	44	536,882	0	0	34,171	6.36%	34,171	6.36%	\$1.69	9,832	26,276	9,832	43,272
<b>Central Suburban Total</b>	<b>318</b>	<b>7,048,616</b>	<b>0</b>	<b>20,000</b>	<b>481,660</b>	<b>6.83%</b>	<b>852,870</b>	<b>12.10%</b>	<b>\$1.14</b>	<b>(36,770)</b>	<b>90,901</b>	<b>104,832</b>	<b>528,524</b>
<b>East County</b>													
El Cajon	81	861,140	0	0	45,837	5.32%	46,630	5.41%	\$0.00	2,528	55,404	12,868	91,547
La Mesa/Spring Valley	41	318,588	0	0	42,169	13.24%	36,431	11.44%	\$0.00	(4,095)	(11,294)	4,788	28,334
Santee/Lakeside	52	534,506	0	268,000	9,202	1.72%	53,344	9.98%	\$0.00	841	4,688	5,011	22,720
<b>East County Total</b>	<b>174</b>	<b>1,714,234</b>	<b>0</b>	<b>268,000</b>	<b>97,208</b>	<b>5.67%</b>	<b>136,405</b>	<b>7.96%</b>	<b>\$0.00</b>	<b>(726)</b>	<b>48,798</b>	<b>22,667</b>	<b>142,601</b>
<b>I-15 Corridor</b>													
Escondido	85	804,244	0	9,500	82,554	10.26%	108,364	13.47%	\$0.79	(8,610)	(34,105)	10,170	52,128
Poway	59	1,229,289	0	0	56,095	4.56%	94,022	7.65%	\$0.74	13,252	300	39,519	67,139
Rancho Bernardo	87	3,929,997	0	0	813,936	20.71%	834,487	21.23%	\$1.24	201,394	251,676	252,201	426,022
Scripps Ranch	30	755,097	0	0	146,117	19.35%	187,564	24.84%	\$1.18	2,090	56,384	2,957	130,813
<b>I-15 Corridor Total</b>	<b>261</b>	<b>6,718,627</b>	<b>0</b>	<b>9,500</b>	<b>1,098,702</b>	<b>16.35%</b>	<b>1,224,437</b>	<b>18.22%</b>	<b>\$1.21</b>	<b>208,126</b>	<b>274,255</b>	<b>304,847</b>	<b>676,102</b>
<b>North County</b>													
Carlsbad	242	5,850,752	0	100,000	950,029	16.24%	1,079,717	18.45%	\$0.96	(12,583)	176,609	97,593	541,510
North Beach Cities	16	148,193	0	0	0	0.00%	0	0.00%	\$0.00	0	1,200	1,800	3,000
<b>North County Total</b>	<b>258</b>	<b>5,998,945</b>	<b>0</b>	<b>100,000</b>	<b>950,029</b>	<b>15.84%</b>	<b>1,079,717</b>	<b>18.00%</b>	<b>\$0.96</b>	<b>(12,583)</b>	<b>177,809</b>	<b>99,393</b>	<b>544,510</b>
<b>North City</b>													
Miramar	213	4,498,049	0	0	550,350	12.24%	756,933	16.83%	\$0.88	8,948	45,109	70,685	455,599
Sorrento Mesa	156	5,855,390	0	0	668,591	11.42%	756,725	12.92%	\$1.52	(49,227)	68,707	201,094	408,712
Sorrento Valley	109	2,561,800	0	0	303,505	11.85%	424,493	16.57%	\$1.80	(33,814)	(85,655)	44,772	179,607
Torrey Pines	44	3,416,656	0	105,091	593,795	17.38%	597,392	17.48%	\$2.25	6,604	76,872	63,484	197,364
UTC	19	1,520,553	0	307,660	278,871	18.34%	449,456	29.56%	\$2.45	68,466	92,088	74,592	174,698
<b>North City Total</b>	<b>541</b>	<b>17,852,448</b>	<b>0</b>	<b>412,751</b>	<b>2,395,112</b>	<b>13.42%</b>	<b>2,984,999</b>	<b>16.72%</b>	<b>\$1.50</b>	<b>977</b>	<b>197,121</b>	<b>454,627</b>	<b>1,415,980</b>
<b>Outlying Areas</b>													
Outlying SD County North	17	201,070	0	0	12,692	6.31%	19,292	9.59%	\$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
<b>Outlying Areas Total</b>	<b>37</b>	<b>279,150</b>	<b>0</b>	<b>0</b>	<b>16,692</b>	<b>5.98%</b>	<b>24,892</b>	<b>8.92%</b>	<b>\$0.00</b>	<b>0</b>	<b>4,617</b>	<b>0</b>	<b>4,617</b>
<b>South Bay</b>													
Chula Vista	83	1,534,294	0	0	110,762	7.22%	224,154	14.61%	\$1.37	15,494	9,346	30,442	84,822
National City	30	338,500	0	0	8,893	2.63%	17,893	5.29%	\$0.00	6,658	22,699	6,658	43,430
Otay Mesa/San Ysidro	11	245,361	0	0	13,939	5.68%	16,846	6.87%	\$0.76	0	(1,920)	0	0
<b>South Bay Total</b>	<b>124</b>	<b>2,118,155</b>	<b>0</b>	<b>0</b>	<b>133,594</b>	<b>6.31%</b>	<b>258,893</b>	<b>12.22%</b>	<b>\$1.34</b>	<b>22,152</b>	<b>30,125</b>	<b>37,100</b>	<b>128,252</b>
<b>Highway 78 Corridor</b>													
Oceanside	31	990,032	0	0	26,246	2.65%	31,372	3.17%	\$0.00	15,214	21,044	27,574	51,523
San Marcos	59	951,397	0	0	83,144	8.74%	98,551	10.36%	\$0.88	5,778	(7,163)	8,938	62,966
Vista	60	1,429,127	0	241,342	215,523	15.08%	281,661	19.71%	\$0.88	(52,350)	(23,938)	7,232	103,258
<b>Highway 78 Corridor Total</b>	<b>150</b>	<b>3,370,556</b>	<b>0</b>	<b>241,342</b>	<b>324,913</b>	<b>9.64%</b>	<b>411,584</b>	<b>12.21%</b>	<b>\$0.88</b>	<b>(31,358)</b>	<b>(10,057)</b>	<b>43,744</b>	<b>217,747</b>
<b>San Diego County Total</b>	<b>1,904</b>	<b>45,583,467</b>	<b>0</b>	<b>1,051,593</b>	<b>5,516,016</b>	<b>12.10%</b>	<b>6,993,722</b>	<b>15.34%</b>	<b>\$1.26</b>	<b>150,653</b>	<b>803,292</b>	<b>1,088,398</b>	<b>3,692,361</b>

Lease rates are on a triple-net basis.

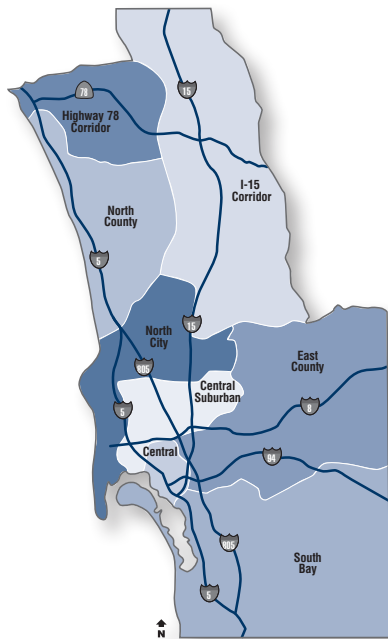
RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Price Per SF	Buyer	Seller
8650–8690 Balboa Ave.	Kearny Mesa	285,713	\$196.00	IDS Real Estate Group	NewTower Trust Compant
5751–5771 Copley Dr.	Kearny Mesa	101,726	\$221.18	HighBrook Investment Management, LP	Thompson National Properties, LLC
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
11055–11075 Roselle St.	Miramar	63,391	\$130.14	Alexandria Real Estate Equities	Genzyme Corporation

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
16550 W. Bernardo Dr.	Rancho Bernardo	156,222	Jun-13	Northrop Grumman	Jay Paul Company
8965 Towne Centre Dr.	UTC	83,866	Feb-13	Union Bank	(Sublease)
10450 Science Center Dr. –Renewal	Torrey Pines	80,390	Jan-13	Pacita Pharmaceuticals, Inc.	LASDF, LP
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	Iso Nano	First Industrial 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 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.

Please Contact Us for Further Information

- |                                   |                                   |
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