



Voit
Real Estate Services

R&D Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Transactions



DOWN

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Market Highlights

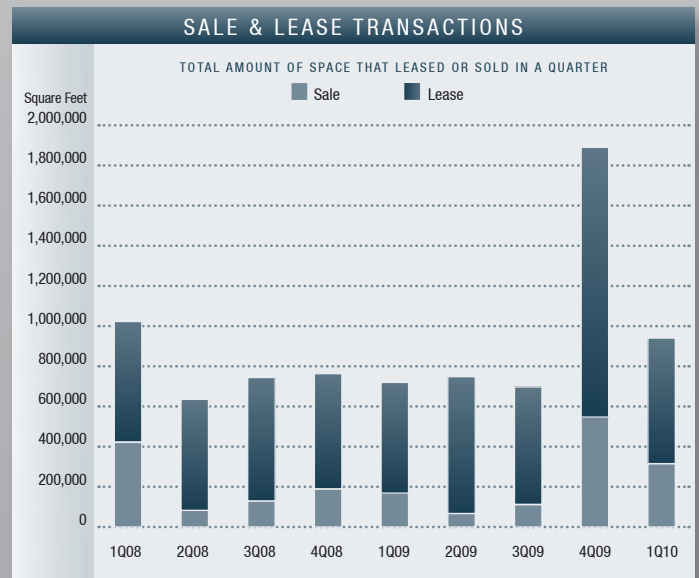
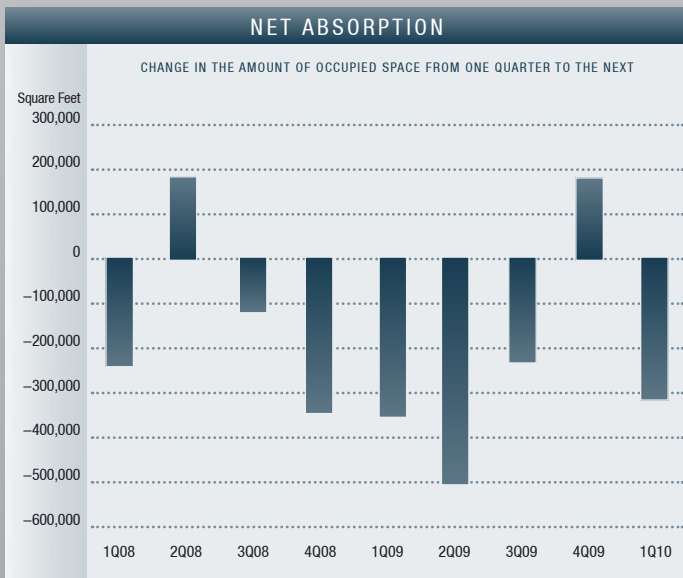
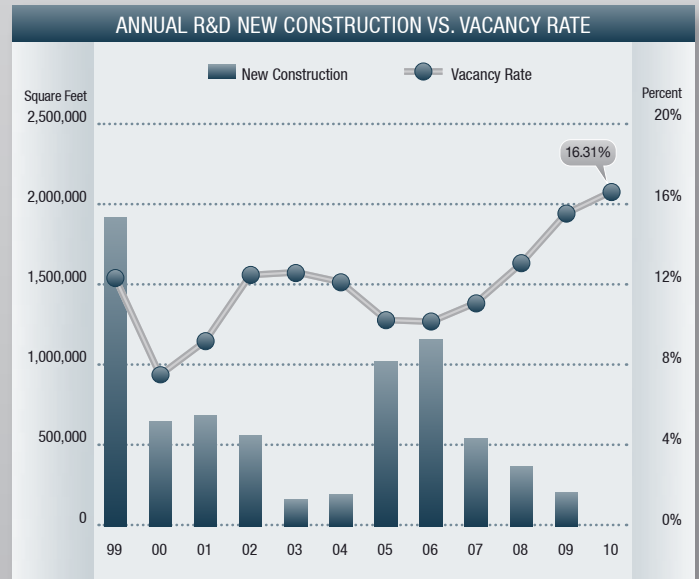
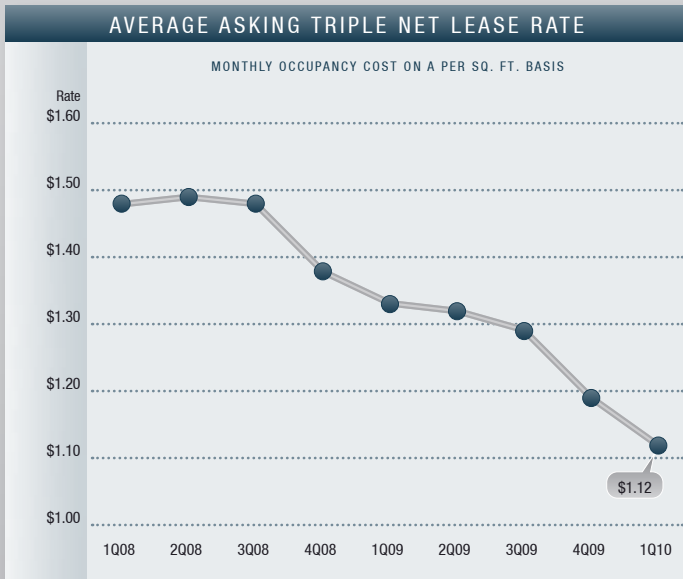
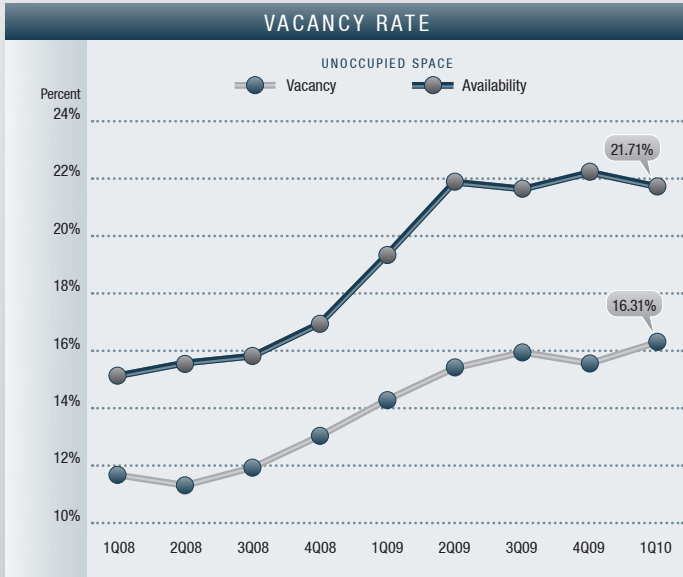
- ◆ **Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with vacancy, tenant delinquencies, economic uncertainty, and the gap between “ask” and “bid” pricing. Fortunately, that gap appears to be diminishing, as evidenced by the recent increase in sales activity. Another challenge for the Research & Development market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which in turn leading landlords to seek their own relief from lenders.
- ◆ **Construction** - Currently, there is no R&D space under construction in San Diego County. Scarce financing and low demand have essentially halted R&D development.
- ◆ **Vacancy** - Direct / sublease space (unoccupied) finished the quarter at 16.31%, an increase over last year’s rate of 14.14%. The lowest vacancy rates can be found in the East County and South Bay markets at 6.98% and 7.77%, respectively.
- ◆ **Availability** - Direct / sublease space being marketed was 21.71% this quarter, down from last quarter’s rate of 22.23%, but up from the 19.37% we saw this same quarter last year. This is an increase of 12% of new space being marketed when compared to the same quarter last year. We are finally starting to see a decrease in the velocity of new available space being added to the market.
- ◆ **Lease Rates** - The average asking triple net lease rate per square foot per month in San Diego County was \$1.12 for the first quarter of 2010. This is a 15.79% decrease over last year’s rate of \$1.33 and seven cents lower than last quarter’s rate. The record high rate of \$1.49 was established in the first and second quarters of 2008.
- ◆ **Absorption** - Net absorption for the county posted a negative 317,902 square feet for the first quarter of 2010; for the past 5 quarters the R&D market has been averaging approximately 250,000 square feet of negative absorption, which can be attributed to recent job losses.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 622,214 square feet, an increase over the same quarter last year when 544,609 square feet leased. This can be attributed to the recent trend of short-term deals coupled with lease renegotiations. Sales activity showed an increase over last year, posting 309,816 square feet of activity compared to 169,152 square feet in the first quarter of 2009. Details of the largest transactions can be found on the back page of this report.
- ◆ **Unemployment** - The unemployment rate in San Diego County was 10.6% in February 2010, down from a revised 11.1% in January 2010, and above the year ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, San Diego County lost 44,600 payroll jobs over the last twelve months — 9,200 in manufacturing and 8,100 in professional and business services. However, educational and health services added 2,000 new jobs. Between January 2010 and February 2010 San Diego County gained 900 jobs overall.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. As we begin 2010, negative absorption continues, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should begin to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to quick action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the R&D market will regain equilibrium.

R & D MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	16.31%	15.57%	14.14%	15.35%
Availability Rate	21.71%	22.23%	19.37%	12.08%
Average Asking Lease Rate	\$1.12	\$1.19	\$1.33	(15.79%)
Sale & Lease Transactions	932,030	1,873,754	713,761	30.58%
Gross Absorption	884,182	761,205	905,195	(2.32%)
Net Absorption	(317,902)	179,906	(356,124)	N/A



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	INVENTORY				VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Total Availability 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2010	Gross Absorption 1Q2010	Gross Absorption 2010
Central												
Central City	18	212,389	0	0	61,453	28.93%	57,104	\$0.00	(292)	(292)	3,880	3,880
East City	5	44,292	0	0	0	0.00%	0	\$0.00	0	0	0	0
Southeast City	23	149,683	0	0	0	0.00%	0	\$0.00	0	0	0	0
Central Total	46	406,364	0	0	61,453	15.12%	57,104	\$0.00	(292)	(292)	3,880	3,880
Central Suburban												
Airport/Sports Arena	29	317,795	0	0	20,575	6.47%	9,275	\$1.11	0	0	3,600	3,600
Kearny Mesa	204	5,035,273	0	57,691	521,323	10.35%	745,262	\$0.95	(7,556)	(7,556)	84,063	84,063
Mission Gorge	27	285,954	0	0	8,807	3.08%	25,662	\$1.00	(4,672)	(4,672)	1,545	1,545
Rose Canyon/Morena	41	706,926	0	0	55,612	7.87%	58,235	\$1.50	10,853	10,853	18,880	18,880
Central Suburban Total	301	6,345,948	0	57,691	606,317	9.55%	838,434	\$1.11	(1,375)	(1,375)	108,088	108,088
East County												
El Cajon	85	990,916	0	0	59,330	5.99%	59,604	\$0.00	3,616	3,616	5,836	5,836
La Mesa/Spring Valley	42	293,389	0	0	12,530	4.27%	22,267	\$0.00	1,053	1,053	1,053	1,053
Santee/Lakeside	55	492,750	0	590,000	52,157	10.58%	51,107	\$0.72	(6,592)	(6,592)	7,844	7,844
East County Total	182	1,777,055	0	590,000	124,017	6.98%	132,978	\$0.72	(1,923)	(1,923)	14,733	14,733
Highway 78 Corridor												
Oceanside	37	1,060,881	0	0	169,428	15.97%	164,349	\$0.00	6,746	6,746	22,260	22,260
San Marcos	54	831,516	0	0	106,939	12.86%	106,939	\$0.00	(12,292)	(12,292)	7,930	7,930
Vista/Fallbrook	59	1,571,274	0	231,842	158,231	10.07%	221,201	\$0.68	(13,055)	(13,055)	34,640	34,640
Highway 78 Corridor Total	150	3,463,671	0	231,842	434,598	12.55%	492,489	\$0.68	(18,601)	(18,601)	64,830	64,830
I-15 Corridor												
Escondido	54	609,284	0	0	84,941	13.94%	115,943	\$0.61	(19,949)	(19,949)	2,630	2,630
Poway	68	1,551,312	0	65,000	394,139	25.41%	480,657	\$1.17	31,889	31,889	47,030	47,030
Rancho Bernardo	86	4,627,334	0	0	1,126,120	24.34%	1,354,511	\$0.96	(119,211)	(119,211)	15,049	15,049
Scripps Ranch	28	714,224	0	0	135,525	18.98%	142,248	\$1.51	(92,598)	(92,598)	0	0
I-15 Corridor Total	236	7,502,154	0	65,000	1,740,725	23.20%	2,093,359	\$1.09	(199,869)	(199,869)	64,709	64,709
North City												
Miramar	199	3,986,016	0	0	568,090	14.25%	1,031,390	\$0.95	(69,453)	(69,453)	64,100	64,100
Sorrento Mesa	160	6,282,566	0	0	917,725	14.61%	1,486,729	\$1.24	(53,304)	(53,304)	209,097	209,097
Sorrento Valley	73	1,670,679	0	0	317,531	19.01%	312,135	\$1.55	(62,298)	(62,298)	17,429	17,429
Torrey Pines	49	2,682,340	0	0	520,020	19.39%	513,528	\$1.65	21,818	21,818	23,465	23,465
UTC Center	22	1,188,401	0	102,967	228,413	19.22%	311,534	\$1.95	19,462	19,462	19,462	19,462
North City Total	503	15,810,002	0	102,967	2,551,779	16.14%	3,655,316	\$1.19	(143,775)	(143,775)	333,553	333,553
North County												
Carlsbad	231	5,068,793	0	0	1,323,431	26.11%	1,559,743	\$1.13	1,558	1,558	222,082	222,082
North Beach Cities	18	371,394	0	0	8,555	2.30%	12,053	\$0.00	12,573	12,573	16,973	16,973
North County Total	249	5,440,187	0	0	1,331,986	24.48%	1,571,796	\$1.13	14,131	14,131	239,055	239,055
Outlying Areas												
Outlying SD County North	17	138,832	0	0	4,395	3.17%	4,395	\$0.00	2,457	2,457	5,172	5,172
Outlying SD County South	20	75,094	0	0	10,029	13.36%	10,029	\$0.00	0	0	0	0
Outlying Areas Total	37	213,926	0	0	14,424	6.74%	14,424	\$0.60	2,457	2,457	5,172	5,172
South Bay												
Chula Vista	79	1,541,787	0	0	117,434	7.62%	349,619	\$0.00	28,521	28,521	43,132	43,132
National City	33	328,965	0	0	44,141	13.42%	44,141	\$0.00	2,824	2,824	7,030	7,030
Otay Mesa/San Ysidro	11	296,313	0	0	6,823	2.30%	113,823	\$0.78	0	0	0	0
South Bay Total	123	2,167,065	0	0	168,398	7.77%	507,583	\$0.78	31,345	31,345	50,162	50,162
San Diego County Total	1,827	43,126,372	0	1,047,500	7,033,697	16.31%	9,363,483	\$1.12	(317,902)	(317,902)	884,182	884,182

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
5966 La Place Ct. – 3 Properties	Carlsbad	157,886	\$10,925,000	Newport National Corporation	Prudential Real Estate Investors
2131 Faraday Ave.	Carlsbad	43,448	\$7,600,000	Genoptix, Inc.	RM–Use, LLC
2280 Faraday Ave.	Carlsbad	30,000	\$2,220,000	Faraday Partners, LLC	Electro Surface Technologies, Inc.
2123 Garnet Ave.	Pacific Beach	5,296	\$1,500,000	Smith Family Trust	2123 Garnet, LLC
2713 W Loker Ave.	Carlsbad	9,416	\$1,206,000	Torrey Pines Scientific, Inc.	Salon Training International

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1600 Faraday	Carlsbad	59,860	January–10	Outsource Manufacturing, Inc.	Hamann Companies
10151 Barnes Canyon Rd. – Renewal	Sorrento Mesa	48,880	March–10	Phamatech, Inc.	Moxie Pacific Palomar, LLC
11107 Roselle St.	Sorrento Valley	37,775	February–10	N/A	Batthey Barbara A Trust
5820 Nancy Ridge Dr.	Miramar	24,299	March–10	Cellula, Inc.	Alexandria Real Estate Equities, Inc.
10237 Flanders Ct.	Sorrento Mesa	19,647	March–10	Space Micro	Chang Family Trust



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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