



**Voit**  
Real Estate Services

# R&D Market Report

Compared to last quarter:

Vacancy

DOWN



Net Absorption

UP



Lease Rates

DOWN



Transactions

UP



## Market Highlights

- Market Challenges** – Let’s just say it’s nice to have 2009 behind us as the Research & Development market continues to struggle going into 2010. The primary concerns are as follows: increasing vacancy, tenant delinquencies, scarce financing (except SBA owner user), economic uncertainty and volatility, and the gap between “ask” and “bid” pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the past three quarters as sellers lowered their expectations. Another challenge for the R&D market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. This has led many tenants to request rent relief from landlords and owners to attempt to renegotiate loan terms with lenders.
- Transaction Activity** – Leasing activity checked in this quarter at 648,970 square feet, which is an increase over last quarter when 557,047 square feet leased. This increase can be attributed to the recent trend of short term deals coupled with lease renegotiations. Sales activity showed a slight increase over last quarter, posting 108,676 square feet of activity compared to the third quarter’s 104,111 square feet.
- Unemployment** – The unemployment rate in San Diego County was 10.3% in November 2009, down from a revised 10.7% in October 2009, and above the year ago estimate of 6.9%. This compares with an unadjusted unemployment rate of 12.2% for California and 9.4% for the nation during the same period.
- Employment** – According to the State of California Employment Development Department, San Diego County lost 43,300 payroll jobs over the last twelve months – 9,800 in professional and business services. However, government added 200 new jobs. Between October 2009 and November 2009 San Diego County gained 4,500 jobs.
- Overall** – We are starting to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity during the last half of 2009. In 2010, negative absorption will continue to slow, and with no new deliveries in the pipeline to put more upward pressure on vacancies, the market should stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. As 2009 came to a close, there was an increase in price-induced transactions, which will carry over into 2010. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, relocation funds and tenant improvement allowances to incentivize tenants to act now. 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. As job creation turns positive and consumer confidence stabilizes, the R&D market will turn positive.
- Construction** – Currently, there is no R&D space under construction in San Diego County, due to lack of demand. The shrinking availability of land, combined with the high land prices, scarce financing and rising construction costs, has led to few projects being developed in this infill market.
- Vacancy** – Direct/sublease space (unoccupied) finished the year at 15.67%, constituting an increase over last year’s rate of 12.99%. The lowest vacancy rates can be found in the East County and South Bay markets coming in at 7.43% and 8.59%, respectively.
- Availability** – Direct/sublease space being marketed was 22.30% this quarter, up from the 16.94% we saw this same quarter last year. This is an increase of 32% of new space being marketed when compared to the same quarter last year. We are finally starting to see a slowdown in the velocity of new available space being added to the market.
- Lease Rates** – The average asking Triple Net lease rate per month per foot in San Diego County is currently \$1.19, which is an 18.49% decrease over last year’s rate of \$1.46 and six cents lower than last quarter’s rate. The record high rate of \$1.49 was established in the first and second quarter of 2008.
- Absorption** – Net absorption for the county posted a positive 125,493 square feet for the fourth quarter of 2009, giving the R&D market a total of almost 1 million square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.

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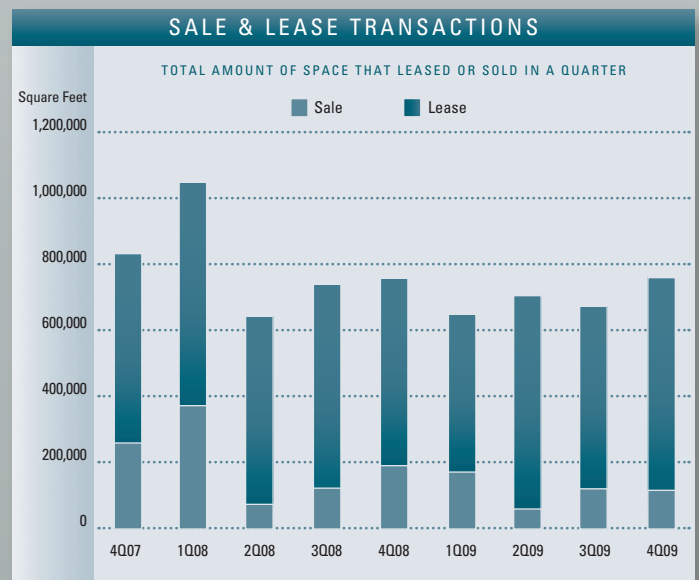
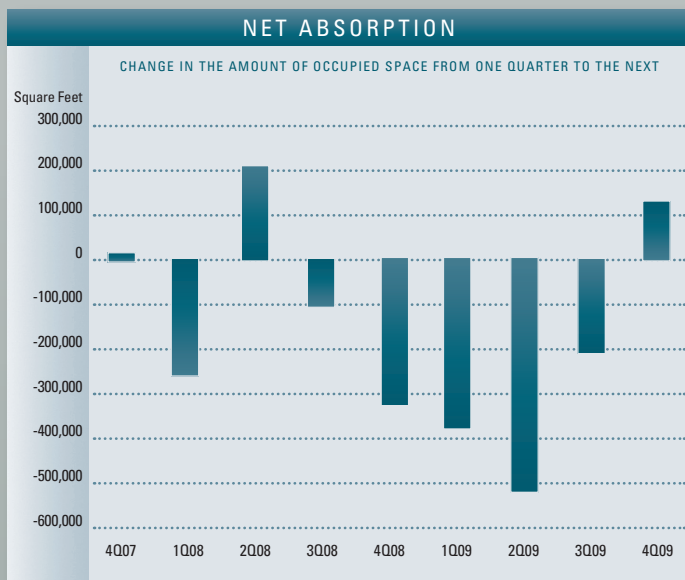
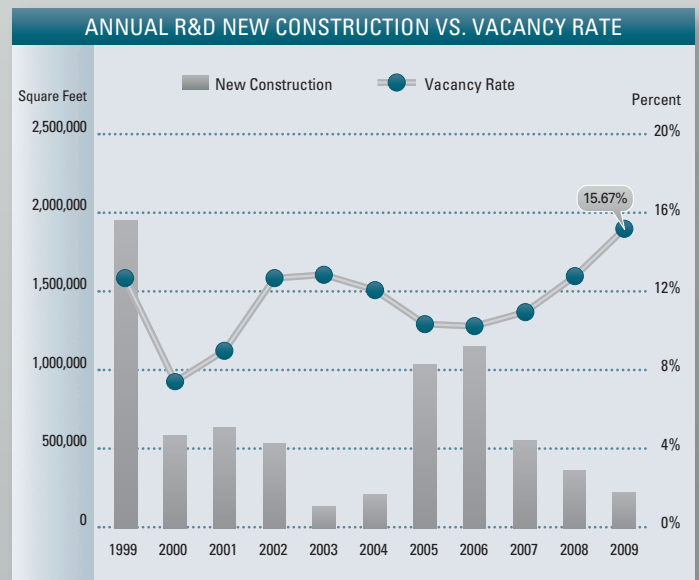
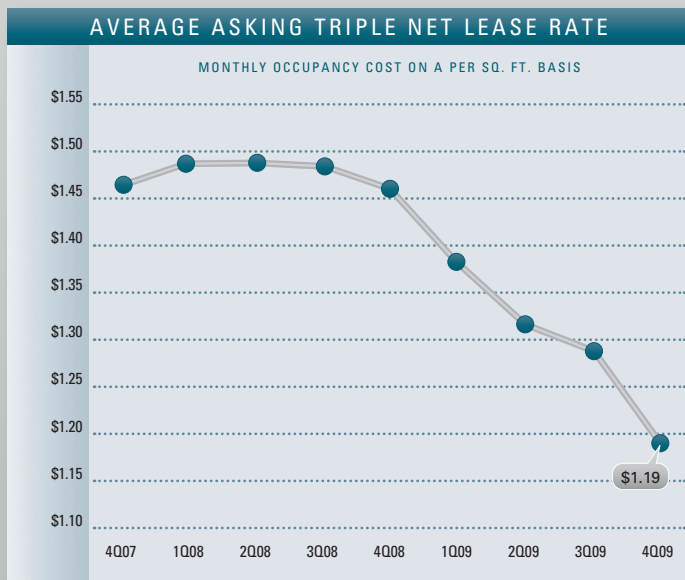
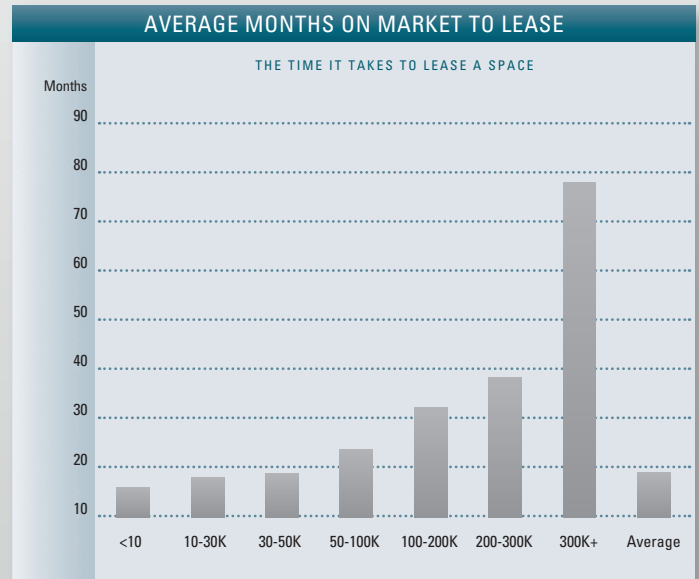
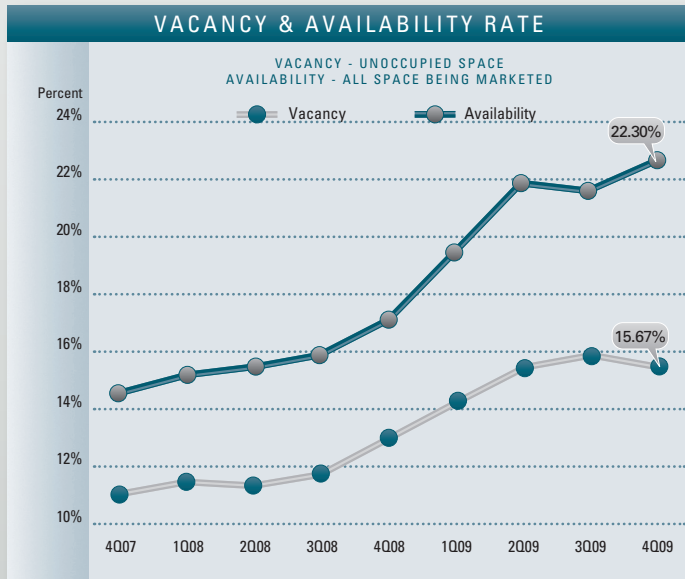
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## R & D MARKET OVERVIEW

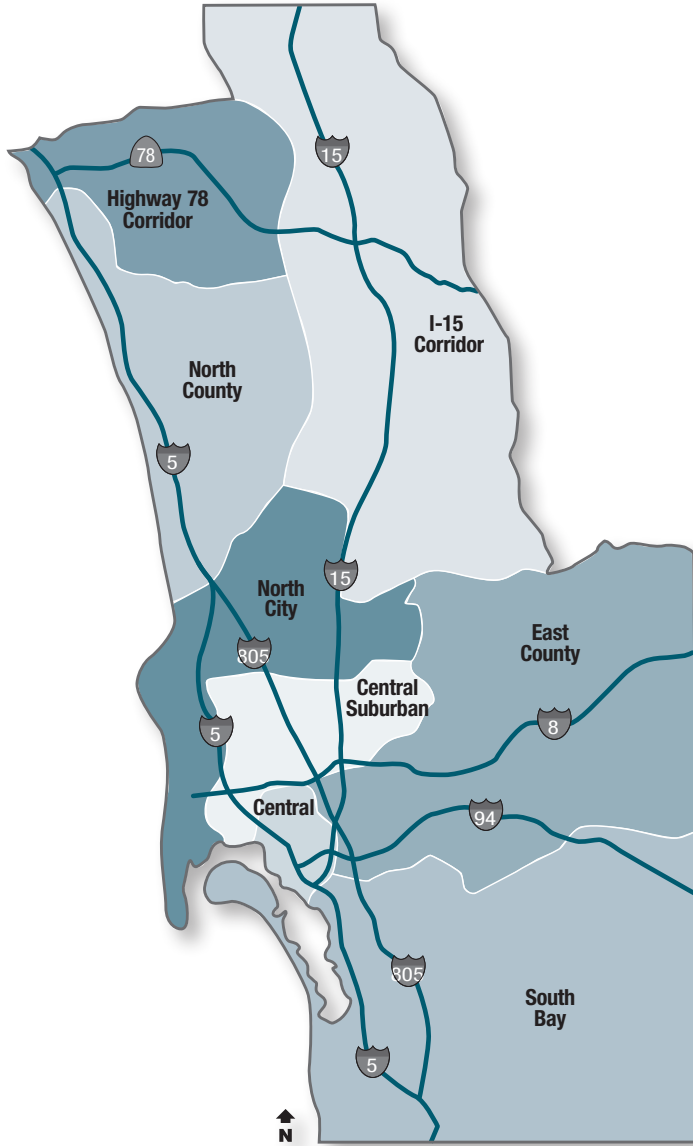
	2009	2008	2007	% CHANGE VS. 2008
Inventory Added	201,721	364,431	540,380	-44.65%
Under Construction	0	201,721	179,398	-100.00%
Vacancy Rate	15.67%	12.99%	11.09%	20.63%
Availability Rate	22.30%	16.94%	14.46%	31.64%
Average Asking Lease Rate	\$1.19	\$1.46	\$1.46	-18.49%
Net Absorption	(962,354)	(493,169)	76,745	N/A
Gross Activity	3,208,494	3,404,694	3,613,026	-5.76%

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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 4Q2009	Total Availability 4Q2009	Average Asking Lease Rate	Net Absorption 4Q2009	Net Absorption 2009	Gross Absorption 4Q2009	Gross Absorption 2009
<b>Central</b>												
Downtown	39	342,829	0	0	59,424	17.33%	59,424	\$0.00	1,001	(29,584)	1,001	13,237
East City	4	41,892	0	0	0	0.00%	0	\$0.00	0	1,830	0	1,830
<b>Central Total</b>	<b>43</b>	<b>384,721</b>	<b>0</b>	<b>0</b>	<b>59,424</b>	<b>15.45%</b>	<b>59,424</b>	<b>\$0.00</b>	<b>1,001</b>	<b>(27,754)</b>	<b>1,001</b>	<b>15,067</b>
<b>Central Suburban</b>												
Airport/Sports Arena	30	363,883	0	0	47,597	13.08%	70,795	\$1.50	(5,094)	(25,182)	0	24,604
Kearny Mesa	198	4,846,383	0	57,691	507,383	10.47%	731,388	\$1.09	(38,772)	(129,387)	71,498	428,213
Mission Gorge	31	242,126	0	0	10,455	4.32%	26,260	\$1.05	(2,250)	(9,015)	3,680	6,291
Rose Canyon/Morena	48	849,863	0	0	44,442	5.23%	43,106	\$1.36	1,186	(22,752)	12,943	60,132
<b>Central Suburban Total</b>	<b>307</b>	<b>6,302,255</b>	<b>0</b>	<b>57,691</b>	<b>609,877</b>	<b>9.68%</b>	<b>871,549</b>	<b>\$1.11</b>	<b>(44,930)</b>	<b>(186,336)</b>	<b>88,121</b>	<b>519,240</b>
<b>East County</b>												
El Cajon	56	844,875	0	0	61,546	7.28%	64,793	\$0.00	(3,260)	(10,134)	890	40,599
La Mesa/Spring Valley	43	295,509	0	0	13,583	4.60%	26,552	\$0.00	(932)	(5,328)	3,680	16,872
Santee/Lakeside	72	519,860	0	590,000	48,262	9.28%	46,112	\$0.74	(13,934)	(43,317)	5,379	9,279
<b>East County Total</b>	<b>171</b>	<b>1,660,244</b>	<b>0</b>	<b>590,000</b>	<b>123,391</b>	<b>7.43%</b>	<b>137,457</b>	<b>\$0.74</b>	<b>(18,126)</b>	<b>(58,779)</b>	<b>9,949</b>	<b>66,750</b>
<b>Highway 78 Corridor</b>												
Oceanside	43	1,094,729	0	0	176,174	16.09%	173,742	\$0.00	2,643	(31,578)	2,643	37,513
San Marcos	51	783,730	0	0	100,449	12.82%	105,169	\$0.00	37,224	(643)	52,563	120,032
Vista/Fallbrook	59	1,690,189	0	41,842	213,803	12.65%	333,197	\$0.71	11,323	153,581	15,706	210,329
East County	28	154,205	0	0	0	0.00%	6,300	\$0.00	0	0	3,800	3,800
<b>Highway 78 Corridor Total</b>	<b>181</b>	<b>3,722,853</b>	<b>0</b>	<b>41,842</b>	<b>490,426</b>	<b>13.17%</b>	<b>618,408</b>	<b>\$0.71</b>	<b>51,190</b>	<b>121,360</b>	<b>74,712</b>	<b>371,674</b>
<b>I-15 Corridor</b>												
Escondido	59	676,943	0	0	63,192	9.33%	112,864	\$0.62	2,075	(28,446)	3,350	29,768
Poway	64	1,357,428	0	65,000	406,379	29.94%	442,875	\$1.22	12,173	(189,993)	16,307	34,174
Rancho Bernardo	89	4,792,474	0	0	1,026,558	21.42%	1,447,545	\$1.20	(19,698)	(250,634)	16,265	210,659
Scripps Ranch	27	692,824	0	0	42,927	6.20%	164,642	\$1.47	22,976	1,656	22,976	73,143
<b>I-15 Corridor Total</b>	<b>239</b>	<b>7,519,669</b>	<b>0</b>	<b>65,000</b>	<b>1,539,056</b>	<b>20.47%</b>	<b>2,167,926</b>	<b>\$1.23</b>	<b>17,526</b>	<b>(467,417)</b>	<b>58,898</b>	<b>347,744</b>
<b>North City</b>												
La Jolla	37	2,487,444	0	0	465,524	18.71%	475,594	\$3.25	69,559	67,807	75,172	156,533
Miramar	205	4,070,963	0	0	527,452	12.96%	1,132,134	\$1.01	(32,129)	10,127	51,879	436,341
Sorrento Mesa	160	6,659,535	0	0	895,943	13.45%	1,553,306	\$1.18	13,737	(112,909)	109,276	453,212
Sorrento Valley	92	2,072,349	0	0	384,010	18.53%	464,900	\$1.66	29,355	(180,499)	48,039	137,592
UTC Center	15	1,047,724	0	102,967	205,622	19.63%	291,302	\$2.65	(15,624)	(58,517)	0	57,857
<b>North City Total</b>	<b>509</b>	<b>16,338,015</b>	<b>0</b>	<b>102,967</b>	<b>2,478,551</b>	<b>15.17%</b>	<b>3,917,236</b>	<b>\$1.26</b>	<b>64,898</b>	<b>(273,991)</b>	<b>284,366</b>	<b>1,241,535</b>
<b>North County</b>												
Carlsbad	224	4,785,900	0	190,000	1,230,498	25.71%	1,484,897	\$1.13	58,073	(16,153)	211,764	545,239
North Beach Cities	17	178,894	0	0	21,128	11.81%	16,507	\$0.00	(3,681)	(15,355)	600	5,375
<b>North County Total</b>	<b>241</b>	<b>4,964,794</b>	<b>0</b>	<b>190,000</b>	<b>1,251,626</b>	<b>25.21%</b>	<b>1,501,404</b>	<b>\$1.13</b>	<b>54,392</b>	<b>(31,508)</b>	<b>212,364</b>	<b>550,614</b>
<b>South Bay</b>												
Chula Vista	73	1,451,161	0	0	134,596	9.28%	259,609	\$0.60	2,699	(20,671)	13,884	72,350
National City	37	393,809	0	0	33,001	8.38%	33,001	\$0.00	(3,488)	(17,625)	14,146	21,292
Otay Mesa	7	118,957	0	0	6,823	5.74%	6,823	\$0.00	(765)	367	0	1,132
San Ysidro	2	66,696	0	0	0	0.00%	0	\$0.00	1,096	0	1,096	1,096
<b>South Bay Total</b>	<b>119</b>	<b>2,030,623</b>	<b>0</b>	<b>0</b>	<b>174,420</b>	<b>8.59%</b>	<b>299,433</b>	<b>\$0.60</b>	<b>(458)</b>	<b>(37,929)</b>	<b>29,126</b>	<b>95,870</b>
<b>San Diego County Total</b>	<b>1,810</b>	<b>42,923,174</b>	<b>0</b>	<b>1,047,500</b>	<b>6,726,771</b>	<b>15.67%</b>	<b>9,572,837</b>	<b>\$1.19</b>	<b>125,493</b>	<b>(962,354)</b>	<b>758,537</b>	<b>3,208,494</b>

Lease rates are on a triple net basis.



**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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