



4Q 2011 LABORATORY REPORT

▶ 2011 YEAR END LAB MARKET UPDATE

2011 marked one of the most active leasing years in recent history for laboratory, primarily due to some unusually large lease transactions. Following the historical high for lab building acquisitions, as dominated by the "Big 3" lab REITs (Alexandria, Biomed, and HCP), a fervor of leasing activity quickly followed. In total, we recorded 1,142,949 SF of leasing activity, ending the year with an overall vacancy rate of 9.3 percent. As we enter 2012, the inventory is seemingly limited and major transaction activity is looking slim compared to 2011.

RANK	COMPANY	SIZE	SUBMARKET
1	Celgene	172,000 SF	UTC
2	Verenium	59,000 SF	Torrey Pines
3	Halozyme	58,000 SF	Sorrento Valley
4	Synthetic Genomics	54,000 SF	Torrey Pines
5	Cibus Global	53,000 SF	Sorrento Mesa
6	Biocept	48,000 SF	Sorrento Mesa
7	Dart Neurosciences	46,000 SF	Sorrento Mesa
8	Optimer	45,000 SF	UTC
9	Novartis	44,600 SF	Torrey Pines
10	Sequenom	43,600 SF	Torrey Pines

■ C&W Completed Deals □ Other Companies

▶ 4Q11 NOTABLE NEWS

- Celgene more than doubled in size, leasing 172,000 SF at Alexandria's Campus Pointe project in UTC. Celgene will be vacating their current 78,000 SF lab building (available in 2013). Campus Pointe is now fully leased.
- Optimer signed a 42,000 SF lease at Alexandria's "Pavilion" project La Jolla Commons, UTC. This Class "A" laboratory facility is designed to achieve LEED certification at a Platinum level.
- Illumina is subleasing their former 190,000 SF campus at the end of Towne Centre Drive, following their phased occupancy into the 470,000 SF lease they signed with Alexandria for the former Biogen Idec campus. The sublease represents a rare and attractive opportunity for 50,000+ users.
- Sequenom signed a 43,600 SF lease in Torrey Pines at Alexandria's 3565 John Hopkins Court, as a nearby expansion for its existing 85,000 SF facility.
- Biocept renewed and expanded for 48,218 SF in Sorrento Mesa at Alexandria's Nancy Ridge project.
- Applied Proteomics, new to San Diego from Glendale, CA signed an 8,028 SF lease at Biomed's John Hopkins project in Torrey Pines.
- Cibus Global, expanded into 53,423 SF at HCP's "Soledad" project in Sorrento Mesa, now occupying the entire campus.
- Ambrx renewed at their 36,172 SF space at Alexandria's North Torrey Pines building.

- Pfizer has put 300,000 SF of their 797,619 SF La Jolla Campus up for sale. As we are writing this, prospective buyers are reviewing their appetite for 300,000 SF of vacant, specialized lab buildings. We hope these buildings will see dramatic repositioning, given their current functionality.
- VC, corporate, and debt funding, slowed in the 2nd half of the year, both scale and number. Despite this, we are seeing an increase in overall outlook and investment by local life science leaders. We are cautiously optimistic for a slow and consistent recovery of our sector.

▶ DOLLARS AND DEALS

As a sector, the life sciences industry, amidst its constant struggles, achieved many successes in 2011. The FDA approved 30 new drugs in 2011, compared with 21 in 2010. U.S. life science IPO's raised \$1.4 billion in 16 companies. Public financings, while slightly lower than 2010's \$6.9B, came in at \$5.7B. As usual, debt financing dominated the funding, activity, and is showing marked improvement over previous years.

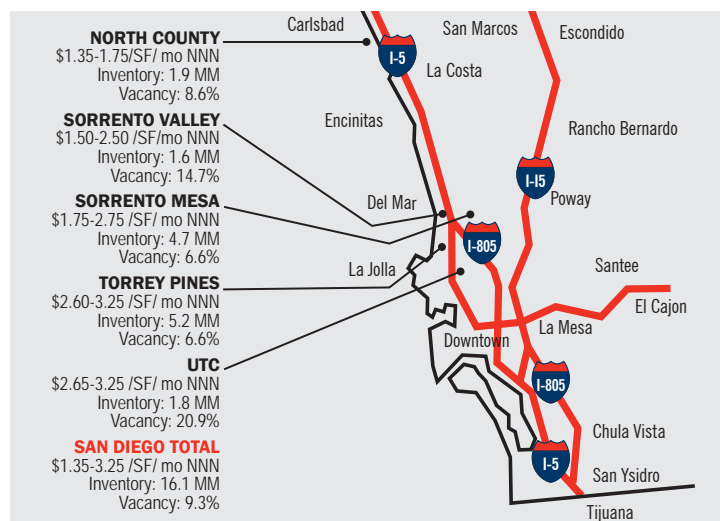
VC Funding: San Diego, as a region, ranked 3rd in VC funding, at \$705M, which is down from 2010's \$914M. The Bay Area led with \$1.9B, followed closely by Boston's \$1.7B. Notable San Diego funding events included:

- Rempex: \$76.0M
- Sangart: \$50.0
- Tandem Diabetes: \$12.0M
- Genomatica: \$45.0M

2011 San Diego Largest M&A Activity:

- Genzyme \$20.1B in April by Sanofi
- Advanced Biohealing \$750M in May by Shire
- Genoptix \$470M in January by Novartis
- eBioscience \$330M in November by Affymetrix
- Amira Pharmaceuticals \$325M (up to \$475M) in July by Bristol-Myers
- Intellikine \$310M in December by Takeda

LAB SUBMARKET STATS





► FINANCING TRENDS

While there has been quite a bit of buzz about single asset emphasis and extraordinary value placed on disruptive technologies, Amira Pharmaceuticals, one of our long time clients and hometown heroes, demonstrated this concept in one of the largest and most notable transactions of 2011. This young company, with a talented team of drug developers, validated its success by Bristol Myers' purchase of its lead compound for \$325M upfront and milestone payments offering a potential value of up to \$475M (for one drug!). While not the largest deal of the year, it's certainly the strongest for its weight. At 6 years old and \$28M in funding, this company knocked the cover off the ball.

The Amira deal was clear example of something the VC community and life science veterans have been indicating for a few years now, which is focusing on one or two valuable assets rather than developing a large pipeline of candidates. In addition to a narrow focus, there is a growing trend of funding via partnering and collaborations with Big Pharma and large biotech, amidst a seemingly dry and risk averse VC environment.

With the "Exit" being the primary driver for shareholder returns, life science companies essentially have two options: an IPO or M&A. With the murky condition of the IPO market and unresolved global market conditions, the M&A route has been the most active area. As such, savvy biotech companies are targeting the likely acquirers early on, offering the de-risking of R&D at a fraction of the cost when executing within Big Pharma. Sitting on piles of cash and pending patent expirations, Big Pharma is on the hunt and has more or less stated that they would rather outsource biotech R&D than try to replicate it in-house. As such, typical partnering deals will include upfront payment, on-going and milestone based R&D funding, and first right to buy the asset. The latter is not a given, and the outsiders will often validate the true market value of the asset.

► MARKET SUMMARY

San Diego County is the 3rd largest "Biotech Hub" in the Country, in order behind Boston/Cambridge and the San Francisco Bay Area. The San Diego laboratory market currently consists of 16,152,799 SF of inventory, and the continued growth of the life sciences industry has prompted the lab inventory to grow steadily over time. The vacancy rate for laboratory space currently stands at 9.3 percent.

We saw increased tenant demand and leasing activity throughout 2011, most of which was satisfied by the end of 2011, and we have seen a corresponding reduction in availabilities. Given the current schedule of future deliveries, 2012 will be limited in new product, with a number of exciting new projects coming to market in UTC and Torrey Pines in 2013-2015. As such, the Pfizer disposition is the only major (potential) new availability currently on deck for 2012. That said, we continue to advocate to our clients that careful planning and a long-term strategic approach be employed 18-24 months ahead of anticipated needs.

As we have been reporting throughout the year, the biggest news in the lab real estate arena was the rapid consolidation of the market by three of the largest lab landlords in the Country, all of which are Real Estate Investment Trusts, or "REITs". In the last 18 months, Alexandria, Biomed, and HCP (aka the "Big 3"), have completed 1.8 million SF of acquisitions, securing over 10% of the entire lab inventory. As it stands right now, over 1/3 of the total lab inventory, and over half of all available space is owned by the Big 3. As such, their actions and motivations are significant drivers in our market. They have tremendous amounts of capital available for the right users and improvements, and traditional lab landlords will have a very hard time competing.

Generally speaking, the following summarizes the tendencies for these owners:

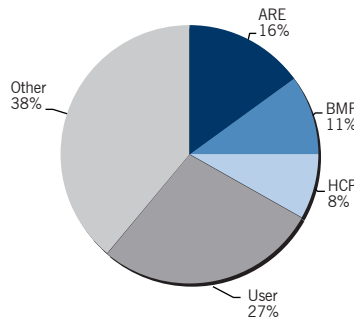
- Emphasis on quality laboratory space, or Class A lab space
- Commitment to upgrading suites and overall buildings
- Improvement of energy efficiency and maintenance
- Re-investment or redevelopment of older and/or obsolete buildings
- Emphasis on enhancing tenant relationships and tenant retention

What does this mean for the end user?

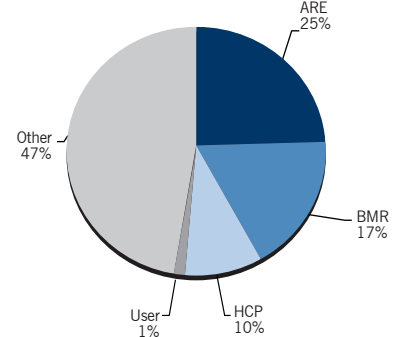
- Higher rents and lower repair & maintenance (possibly an even trade)
- Higher quality lab space, in both appearance and efficiency
- Increased Class A "spec lab" opportunities
- More opportunity for lease restructuring and/or inter-portfolio transfer
- More long-term relationship oriented (friendlier) landlords

MAJOR LABORATORY OWNERS

Inventory by Landlord - 4Q 2011



Availability by Landlord - 4Q 2011



► LEASING ACTIVITY TRENDS

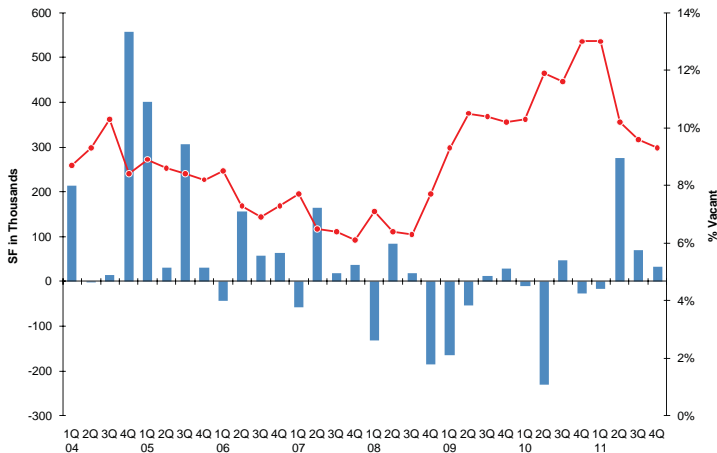
Based on transaction activity, 2011 was an extraordinary year for leasing, with over 1,142,949 SF of signed leases, slightly above our prediction for 1,000,000 SF. Following the collapse of Wall Street in 2008, leasing activity from 2008-2009 dropped to a below normal level. For the prior 5 years, 2003-2008, leasing activity averaged 705,000 SF, and 2010 amounted to just slightly over 1,000,000 SF of signed leases, primarily due to the large 470k Illumina lease. For 2011, we saw a total of 56 transactions with an average size of 20,409 SF and an average weighted starting rental rate of \$2.51/SF/mo NNN.

As for the scoreboard for the Big 3 REIT's, Alexandria came in first, representing 52% of the activity, with HCP at 14% and Biomed at 8%. Together, these 3 landlords represented 75% of all leasing activity for 2011.

As predicted in 1st Quarter 2011, the increase in demand picked away at a rather static inventory, and large users took advantage of a rare opportunity to secure built-to-suits at discounted prices. Further, we had predicted a gradual decrease in vacancy toward the end of 2011 and into 2012. The vacancy decreased to 10.3% in the 2nd quarter and then further decreased to 9.6% the 3rd quarter, and ended the year at 9.3%. Based on current demand and inventory, we expect that the vacancy rate will increase slightly by mid-year of 2012, then continue a downward trend, assuming conditions remain the same.

QUARTERLY LAB AVAILABILITY & NET ABSORPTION

2004 - 2011



TRANSACTION TRENDS

As for transactions, we are seeing lease terms of two to three years for early-stage and flexible strategies, and Class A, 7-10 year leases will be the emphasis for those seeking more permanent occupancy. Opportunities will continue to be available (on a case-by-case basis) to restructure existing leases mid- to late term, provided a compelling case can be made for some landlord benefit. Having a respected and influential relationship with San Diego's "Big 3" landlords (Alexandria Real Estate Equities, Biomed Realty, and HCP) will play a key role in securing the best overall transaction.

Things to keep in mind:

- Lab space is not a commodity, as office and industrial space is, and each user's experience will vary by size, type, and timing. Could be good or bad for you. Don't be complacent- test the market against your specific needs.
- Construction costs are on the rise, plan for 10-20% higher than we have seen in the last 18-24 months. Don't end up with a TI shortfall.
- New lab developments are underway and mid-2012 will hold some excellent quality "spec lab" and build-to-suit opportunities. Longer lease terms (7+ yr) will be required to secure these options.
- For requirements over 30,000 SF, tenants should be reviewing the market 18-24 months ahead of anticipated need. The best opportunities require early planning.
- Time the market for optimal leverage - don't pull the trigger too early (24+ mos) or too late (under 12 mos). Be strategic and organized.

Emphasis should be on maximizing efficiency as well as taking advantage of bargains to upgrade in quality. Early-stage companies should consider the opportunity to move into higher quality product, as often the marginal savings on face rent can be outweighed by inefficiencies (both layout and function) and recruitment/retention issues.

ANALYSIS OF INDIVIDUAL SUBMARKETS

TORREY PINES is by far the largest life sciences submarket in San Diego, with 5,141,768 SF of inventory and growing, and posted a 6.6% overall vacancy rate for the 4th quarter. This submarket is significant due to its size and because it has more Class "A" inventory than the next largest submarket has total inventory. Torrey Pines is considered "ground zero" for biotechnology innovation in San Diego, and is home to some of the world's leading research institutes, including the four majors: UCSD, The

Sanford-Burnham Medical Research Institute (SBMRI), The Salk Institute, the Scripps Research Institute (TSRI), and, most recently, The J. Craig Venter Institute (JCVI).

Speaking to lab statistics, the overall Torrey Pines vacancy rate in the 4th quarter stands at 6.6%. Leases that have been signed recently in Torrey Pines are on either side of the historical \$3.00/ SF/mo NNN rental rates, and we are now seeing Class A lab space, priced in the high \$2's/SF/mo NNN.

There were considerable new leases signed in this submarket in 2011:

- Verenum – 60,000 SF
- Synthetic Genomics – 55,000 SF
- Novartis – 50,000 SF
- Sequenom - 44,000 SF
- Ligand – 17,000 SF

The Sanford Consortium for Regenerative Medicine 150,000 SF center, which will house approximately 335 people, is now open. Scientists from Sanford-Burnham Medical Research, University of California San Diego, and the La Jolla Institute for Allergy and Immunology will combine forces at the new \$127 million center in La Jolla.

Johnson & Johnson, now Janssen Labs, in San Diego has announced a 30,000 SF incubator at the company's La Jolla-based West Coast Research Center. The facility will offer an exciting new option for companies under 3,000 SF to get their science up and going without the management headaches of typical incubators.

As mentioned earlier, Pfizer has put CB5, CB6, and CB7, approximately 300,000 SF of their 797,619 SF La Jolla Campus, up for sale for the third time, which will be delivered vacant and available for lease. Since this is the 3rd time to market, we have to regard this availability with some question. Until a buyer closes on the buildings, this remains an uncertain opportunity.

UNIVERSITY TOWN CENTER (UTC) is a relatively small Class A submarket with 2.0 million square feet of inventory, and ended 2011 with a 20.9% overall vacancy rate. This submarket has experienced the most dramatic growth in new inventory in the last few years, and dominated the leasing activity for 2011. UTC, due to its newer, larger product and abundant amenities has been the location of choice for Class A lab users without specific ties to Torrey Pines.

Notable Leases for 2011:

- Celgene - 172,000 SF
- Optimizer - 45,000 SF
- Polaris Pharmaceuticals - 11,000 SF
- Optimum Therapeutics - 7,000 SF

4Q 2011 NOTABLE TRANSACTION

CELGENE 172,000 SF

Landlord: Alexandria Real Estate Equities



Alexandria's "Campus Pointe" is now fully leased as the remaining portion of the building has been leased by Celgene, who will join tenants Lilly, UCSD, and Covance.



Celgene was the largest lease of the year for 172,000 SF at Campus Pointe, which is home to Lilly, UCSD, and Covance. This 460,000 SF Alexandria project is now fully leased.

Notable development news for UTC includes ARE's purchase of the La Jolla Commons Pavilion (4755 Nexus Centre), along with the former "Helen Smith" site at ~4780 Executive, with the intent to provide a new 150,000+ of new laboratory project. UTC will be the next wave of large scale activity, especially as Torrey Pines continues to tighten.

SORRENTO MESA is the second largest life sciences submarket in San Diego, with 4,674,672 SF of inventory that is distributed fairly evenly between Class A, B, and C space, ending 2011 with a vacancy rate of 6.6%. Sorrento Mesa is regarded as the submarket where developing life sciences companies mature. As they attract further funding, they may or may not relocate to a higher profile market such as UTC or Torrey Pines.

Notable leases for 2011:

- Cibus Global - 53,000 SF
- Biocept - 48,000 SF
- Dart Neurosciences - 46,000 SF
- Inception Sciences - 29,000 SF
- Amira Pharmaceuticals - 28,000 SF

Sorrento Mesa performed the lowest as compared to other submarkets in leasing activity for 2010, but saw healthy activity in 2011, with significant activity on Nancy Ridge Drive. Additionally, Biomed Realty purchased the 106,000 SF Wateridge Circle project, which is home to Genomatica, Kalypsys, Nereus, and Traversa.

SORRENTO VALLEY With a total of 1,649,789 SF of total inventory, Sorrento Valley laboratory space is dominated by low-end product, but is also a submarket that serves an important purpose for fledgling life sciences companies seeking low overhead in order to stretch every research dollar. In the past couple of years, Sorrento Valley has seen most of its quality inventory leased up, ending 2011 with a vacancy rate of 14.7%.

Notable 2011 leases:

- Halozyme - 58,000 SF
- MPEX / Axcn - 13,000 SF
- Lpath - 12,000 SF
- Sherpa Clinical Packaging - 9,000 SF
- Genalyte - 8,000 SF

Notable opportunities in Sorrento Valley include the former Genzyme project, comprised of 3 lab, office, and cGMP manufacturing buildings, as offered for sale by Genzyme. Additionally, the entire 1.8 million square foot Collins Asset Management portfolio is quietly being market for sale, of which 288,000 SF is deemed life science product. We are expecting this to trade in the 1st Quarter 2012.

NORTH COUNTY is comprised of Carlsbad and Oceanside, and this submarket at present has 1,918,871 SF of inventory that is distributed evenly between Class A, B, and C space. As expected, vacancy increased sharply in the 4th quarter to 8.6% as the former Isis buildings were officially vacated, leaving over 100,000 SF of lab and office space. The 176,000 SF build-to-suit transaction between Isis and Biomed Realty Trust was completed and occupied at the end of 3rd quarter 2011.

C&W GLOBAL LIFE SCIENCES GROUP

The Cushman & Wakefield Global Life Sciences Practice Group (formerly the Burnham Life Sciences Group) is San Diego County's oldest and most experienced real estate team specializing exclusively in meeting the unique facility needs of the area's life science, pharmaceutical and clean tech companies. The group regularly negotiates more than 65 percent of all local life sciences transactions, totaling more than \$1 billion and 5 million SF of space. Beginning with Hybritech in 1981, the Cushman & Wakefield Global Life Sciences Practice Group has been integral to the growth of the San Diego pharmaceutical industry.

- Over 2/3 of all brokered laboratory transactions in San Diego
- Oldest, most experienced laboratory specialists
- Oldest, most established brokerage company in San Diego (since 1891)
- Industry commitment and cofounders of Biocom
- Specialize EXCLUSIVELY in laboratory transactions

Our ideology continues to embrace "giving back" to the community, and we are particularly proud to be co-founders and a board member of Biocom. We work closely with BIOCUM, CONNECT, SDEE, and the San Diego Venture Group to advance the growth of the life sciences industry in San Diego, and dedicate our time and resources to that end.

As a firm, Cushman & Wakefield has worked with twenty-three of the world's top twenty-five life science companies. As a team, the Global Life Sciences Practice represents the firm's elite life sciences specialists, providing real estate strategy, transaction structuring, and financial services geared to the specific operational and business requirements of companies in this dynamic industry. Life Sciences professionals – drawn from the Cushman & Wakefield's brokerage, business consulting, and capital markets divisions – bring decades of relevant experience to the table, be it with pharmaceutical, biopharmaceutical, biotechnology, or biomedical companies; regional or global. We are effective because we correlate the metrics of real estate with those of the core business – that is the value we deliver.

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Group left to right: Greg Bisconti, Allison Gibson, Brent Jacobs, Ted Jacobs.