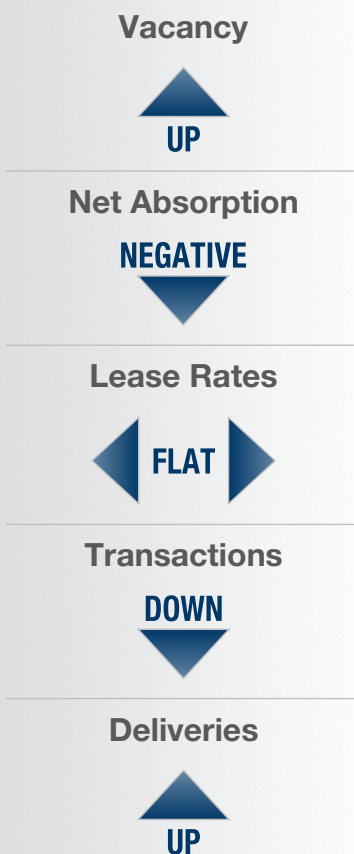


Office Market Report

Compared to the Previous Quarter:



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Market Highlights

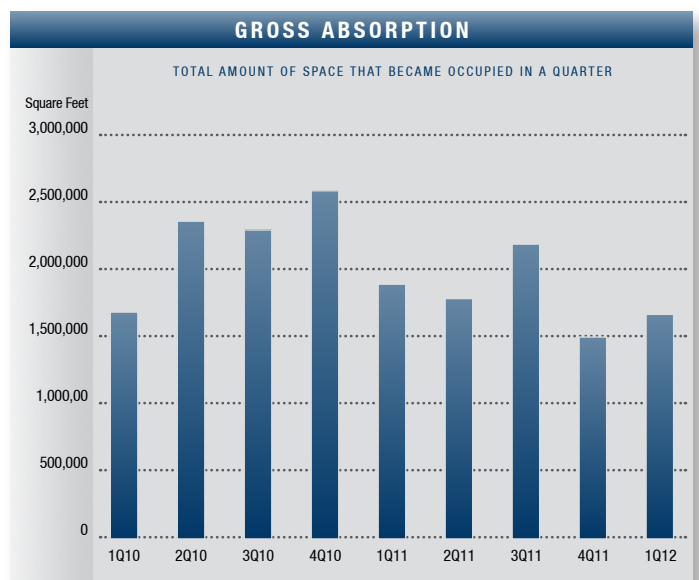
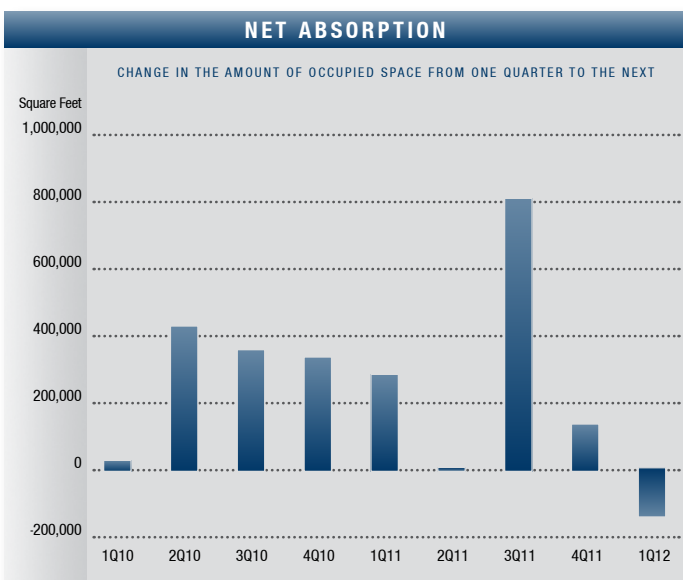
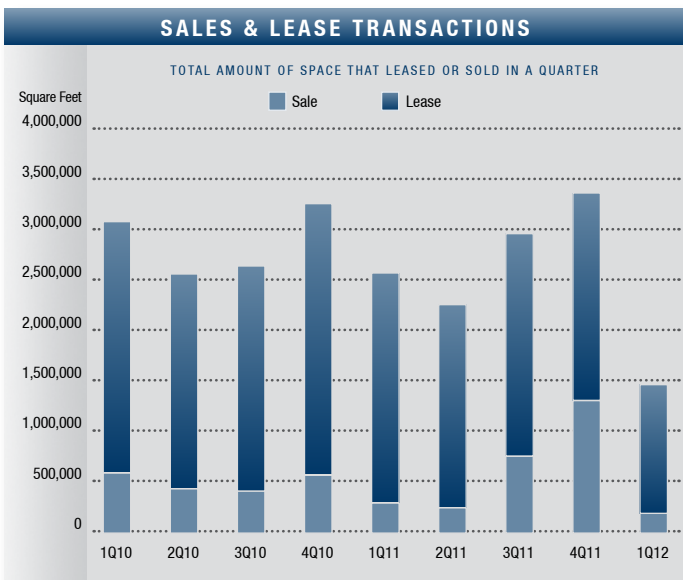
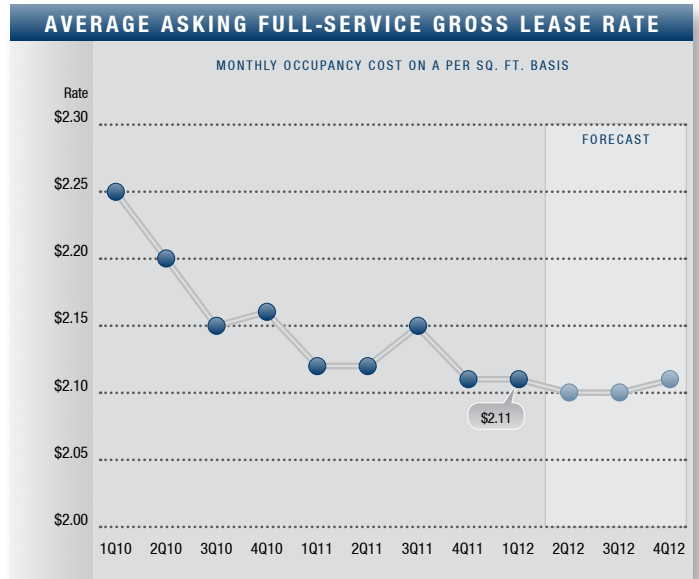
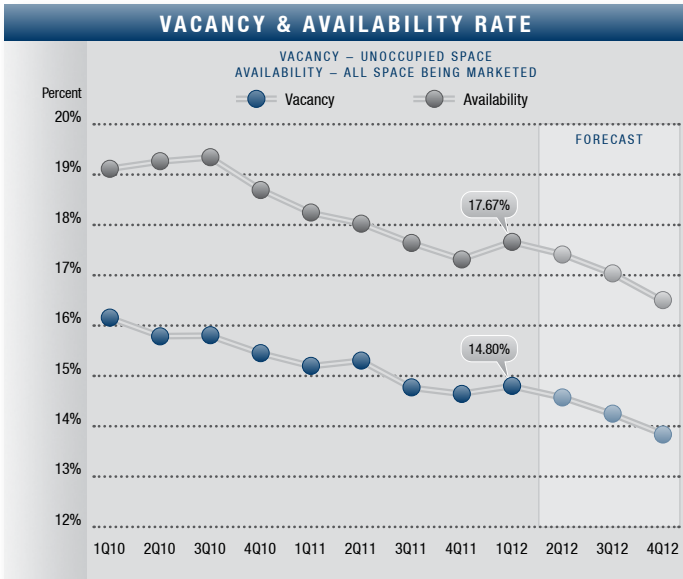
- **Slow Start to the Year** - We saw a slight step back for the San Diego office market in the first quarter of 2012, with a slight rise in vacancy, some negative net absorption, and a drop in transaction volume. The average asking rate for office space was flat compared to the previous quarter, an indication that lease rates may be stabilizing. While net absorption was slightly negative in the first quarter, over the past nine quarters, the market accumulated approximately 2.2 million square feet of positive absorption. While some of these are positive indications, stability will need to be sustained in coming quarters to be considered recovery.
- **Construction** - Over the past five years over 8.1 million square feet of new construction was completed in San Diego County. The record year for new development was 2001, when 3.7 million square feet of new space was added. Total space under construction checked in at 1,392,044 square feet in the first quarter of 2012.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.8%, edging up slightly from the previous quarter's figure of 14.63% which was the lowest rate seen since mid-2008. The Central Suburban market posted the lowest rate in the county, at 11.28%.
- **Availability** - Direct/sublease space being marketed was 17.67% at the end of the first quarter, an increase of 2.0% when compared to the 17.30% availability rate of fourth quarter 2011.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.11 for the quarter, unchanged from the previous quarter. The record high rate of \$2.76 was established in the first and second quarters of 2008. The highest rates for the county were in the north city area, where the average asking lease rate was \$2.64 FSG. Class A rates for the county averaged \$2.47 FSG.
- **Absorption** - The San Diego office market posted 144,975 square feet of negative net absorption this quarter, the

first quarter of negative net absorption since the fourth quarter of 2010, giving the office market a total of 2.2 million square feet of positive absorption over the last nine quarters. Look for professional and business services, leisure and hospitality, defense, medical and alternative energy companies to lead the charge of positive absorption over the next few years.

- **Transaction Activity** - Sale and lease transactions totaled 1.4 million square feet in the first quarter, a decrease from 2.5 million square feet in the first quarter of 2011. 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 9.3% in February 2012, unchanged from a revised 9.3% in January 2012 and below the year-ago estimate of 10.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 9,000 payroll jobs from February 2011 to February 2012 — 6,200 in professional and business services and 1,600 in professional, scientific, and technical services. Government posted the greatest year-over-year decline- a loss of 2,200 jobs.
- **Overall** - The recovery has not been overwhelming to this point, but overall the office market has been steadily improving over the last two years. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to firm up in the middle of 2012, with the possibility of increasing in the later portion of 2012. We should also see an increase in leasing activity as many short-term deals come up for renewal. Unemployment rates have continued to drop since the peak in July 2010. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.

OFFICE MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	14.80%	14.63%	15.22%	(2.76%)
Availability Rate	17.67%	17.30%	18.25%	(3.18%)
Average Asking Lease Rate	\$2.11	\$2.11	\$2.12	(0.47%)
Sale & Lease Transactions	1,431,401	3,344,349	2,543,171	(43.72%)
Gross Absorption	1,651,713	1,499,527	1,895,628	(12.87%)
Net Absorption	(144,975)	135,390	278,448	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
Central													
Downtown	142	12,969,109	0	0	2,245,774	17.32%	2,813,211	21.69%	\$2.13	23,246	23,246	191,879	191,879
Central Total	142	12,969,109	0	0	2,245,774	17.32%	2,813,211	21.69%	\$2.15	23,246	23,246	191,879	191,879
Central Suburban													
City Heights/University	27	901,599	0	0	68,183	7.56%	103,626	11.49%	\$1.17	18,110	18,110	31,441	31,441
Coronado	6	124,741	0	0	4,463	3.58%	10,099	8.10%	\$0.00	(1,041)	(1,041)	0	0
Kearny Mesa	237	10,336,799	573,353	193,000	1,180,488	11.42%	1,283,726	12.42%	\$1.65	(15,597)	(15,597)	139,396	139,396
Mission Gorge	26	603,823	0	0	55,290	9.16%	58,772	9.73%	\$1.15	0	0	0	0
Mission Valley	125	7,004,471	0	55,000	993,101	14.18%	1,296,874	18.51%	\$2.10	(91,685)	(91,685)	152,277	152,277
Old Town/Point Loma	81	2,489,916	0	0	185,885	7.47%	241,701	9.71%	\$1.56	11,144	11,144	27,240	27,240
Park East	8	162,981	0	0	13,554	8.32%	31,391	19.26%	\$2.10	(1,161)	(1,161)	964	964
Rose Canyon/Morena	59	1,284,579	0	11,160	129,750	10.10%	140,036	10.90%	\$1.86	2,347	2,347	32,356	32,356
Uptown/Hillcrest	107	2,670,739	66,365	72,514	255,613	9.57%	288,145	10.79%	\$2.52	(1,888)	(1,888)	10,420	10,420
Central Suburban Total	676	25,579,648	639,718	331,674	2,886,327	11.28%	3,454,370	13.50%	\$1.84	(79,771)	(79,771)	394,094	394,094
Highway 78 Corridor													
Oceanside	56	1,211,003	57,476	309,832	252,907	20.88%	223,098	18.42%	\$1.85	(15,209)	(15,209)	6,877	6,877
San Marcos	37	1,278,270	71,200	818,000	232,552	18.19%	270,956	21.20%	\$2.40	1,233	1,233	23,092	23,092
Vista	49	1,156,987	0	188,350	175,903	15.20%	212,752	18.39%	\$1.41	(5,609)	(5,609)	5,388	5,388
Highway 78 Corridor Total	142	3,646,260	128,676	1,316,182	661,362	18.14%	706,806	19.38%	\$1.49	(19,585)	(19,585)	35,357	35,357
I-15 Corridor													
Escondido	90	1,894,472	0	43,107	311,028	16.42%	338,118	17.85%	\$1.64	7,538	7,538	24,611	24,611
Poway	28	1,333,648	0	790,570	90,972	6.82%	97,074	7.28%	\$0.00	4,627	4,627	17,974	17,974
Rancho Bernardo	104	6,421,050	40,398	1,136,675	752,544	11.72%	848,865	13.22%	\$1.92	20,248	20,248	110,625	110,625
Scripps Ranch	51	2,720,608	0	377,000	933,981	34.33%	804,100	29.56%	\$2.15	37,390	37,390	58,645	58,645
I-15 Corridor Total	273	12,369,778	40,398	2,347,352	2,088,525	16.88%	2,088,157	16.88%	\$1.93	69,803	69,803	211,855	211,855
North City													
Governor Park	19	866,467	0	0	66,460	7.67%	179,401	20.70%	\$2.10	10,762	10,762	27,245	27,245
La Jolla	56	1,701,542	0	0	174,653	10.26%	281,910	16.57%	\$2.58	(7,142)	(7,142)	26,557	26,557
Miramar	37	1,606,962	0	0	263,169	16.38%	298,291	18.56%	\$1.61	(26,366)	(26,366)	4,994	4,994
Sorrento Mesa	116	8,555,934	350,882	1,480,712	1,052,879	12.31%	1,235,543	14.44%	\$2.02	(8,559)	(8,559)	88,653	88,653
Sorrento Valley	25	792,350	0	0	81,493	10.28%	108,284	13.67%	\$1.53	(4,322)	(4,322)	7,108	7,108
Torrey Pines	46	3,091,894	0	0	254,164	8.22%	473,188	15.30%	\$3.75	18,134	18,134	41,113	41,113
UTC Center	83	7,575,244	123,429	589,575	1,340,400	17.69%	1,672,776	22.08%	\$2.69	6,772	6,772	265,330	265,330
North City Total	382	24,190,393	474,311	2,070,287	3,233,218	13.37%	4,249,393	17.57%	\$2.64	(10,721)	(10,721)	461,000	461,000
North County													
Carlsbad	153	5,972,626	0	557,628	1,401,590	23.47%	1,692,326	28.33%	\$2.11	(31,750)	(31,750)	163,978	163,978
Del Mar Heights/Carmel Valley	67	4,398,419	0	146,136	834,821	18.98%	1,062,357	24.15%	\$3.11	(40,847)	(40,847)	89,281	89,281
North Beach Cities	112	2,456,232	63,941	39,900	224,159	9.13%	287,768	11.72%	\$2.62	(28,078)	(28,078)	32,310	32,310
North County Total	332	12,827,277	63,941	743,664	2,460,570	19.18%	3,042,451	23.72%	\$2.47	(100,675)	(100,675)	285,569	285,569
South/Southeast Corridor													
Chula Vista	91	2,780,177	45,000	265,002	415,270	14.94%	437,798	15.75%	\$1.81	(17,780)	(17,780)	29,644	29,644
East County	161	3,858,613	0	546,200	346,978	8.99%	406,242	10.53%	\$1.46	(145)	(145)	34,009	34,009
National City	15	522,251	0	20,000	240,284	46.01%	238,873	45.74%	\$0.00	(10,041)	(10,041)	6,020	6,020
Otay Mesa	13	328,316	0	0	40,469	12.33%	43,275	13.18%	\$0.00	694	694	2,286	2,286
Southeast San Diego	10	426,932	0	0	102,580	24.03%	102,580	24.03%	\$0.00	0	0	0	0
South/Southeast Total	290	7,916,289	45,000	831,202	1,145,581	14.47%	1,228,768	15.52%	\$1.52	(27,272)	(27,272)	71,959	71,959
Class A	252	31,547,838	592,786	4,971,097	4,703,270	14.91%	5,313,101	16.84%	\$2.47	181,071	181,071	653,901	653,901
Class B	1,200	50,741,062	799,258	2,669,264	8,234,073	16.23%	10,185,702	20.07%	\$1.89	(257,564)	(257,564)	826,806	826,806
Class C	785	17,209,854	0	0	1,784,014	10.37%	2,084,353	12.11%	\$1.50	(68,482)	(68,482)	171,006	171,006
San Diego County Total	2,237	99,498,754	1,392,044	7,640,361	14,721,357	14.80%	17,583,156	17.67%	\$2.11	(144,975)	(144,975)	1,651,713	1,651,713

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Price Per SF	Buyer	Seller
15004 Innovation Dr. & 10243 Genetic Center Dr.	Rancho Bernardo & Sorrento Mesa	A & B	253,676	\$575.93	LaSalle Investment Management	Kilroy Realty Corporation
12520 & 12526 High Bluff Dr.	Del Mar Heights	B	117,560	\$289.21	Cruzan I Monroe	Janez Properties, Inc.
2067 W. Vista Way	Vista	B	45,717	\$328.11	AmeriCare Medical Properties	Greene Properties, Inc.
4318 Mission Ave.	Oceanside	A	34,171	\$186.39	Scripps Health	Sea Breeze Properties
4747 Viewridge Ave.	Kearny Mesa	B	24,317	\$238.52	Paragon Company	Rancho Viewridge Executive Center, LLC
4010 Morena Blvd.	Morena	C	25,324	\$118.98	Ellis Contracting, Inc.	Paul Rubens

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4810 Eastgate Mall	UTC	A	94,543	Feb-12	Service Now, Inc.	The Irvine Company
12220 El Camino Real	Del Mar Heights	A	20,834	Feb-12	Torrey Pines Bank	Prudential Real Estate Investors
350 10th Ave.	Downtown	A	17,725	Jan-12	Regus	Wereldhave USA, Inc.
10089 Willow Creek Rd.	Scripps Ranch	B	17,692	Mar-12	Black & Veach	LBA Realty
1450 Frazee Rd.	Mission Valley	B	17,586	Mar-12	UCSD	Mission Valley Office Partners, LLC
4225 Executive Square	UTC	A	17,387	Feb-12	InVentiv Health	The Irvine Company

Product Type

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

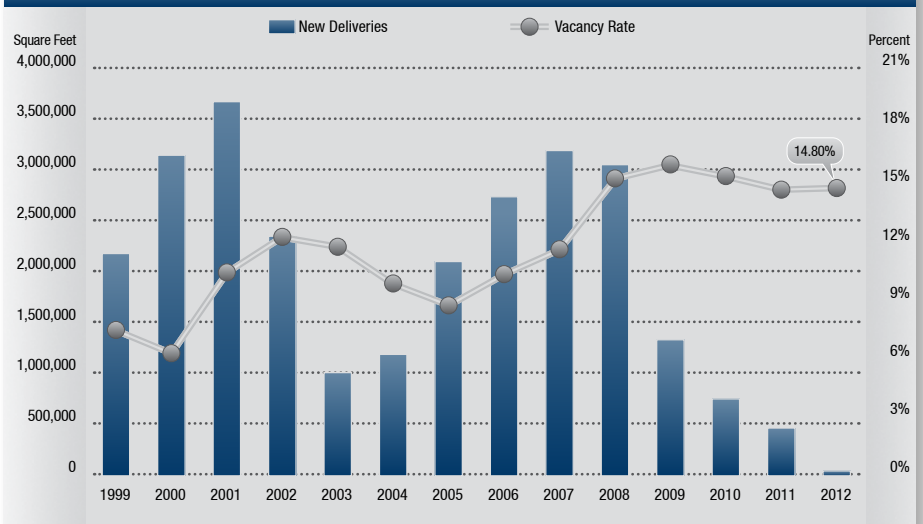
CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL OFFICE NEW DELIVERIES VS. VACANCY RATE



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