

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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### Market Highlights

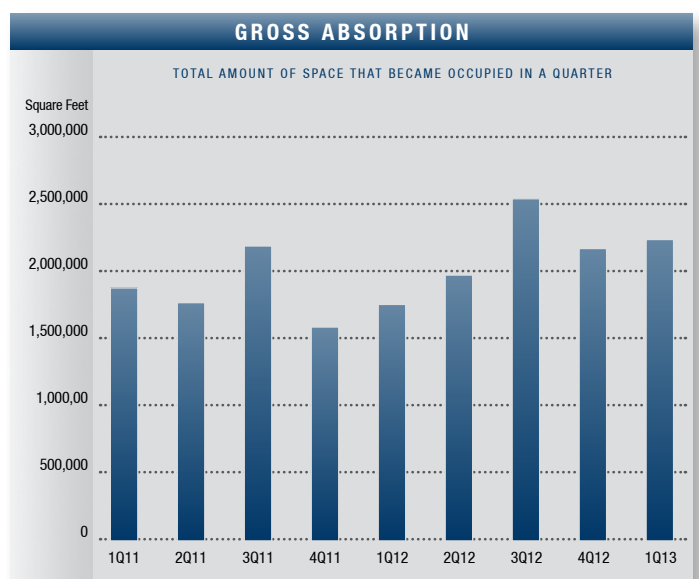
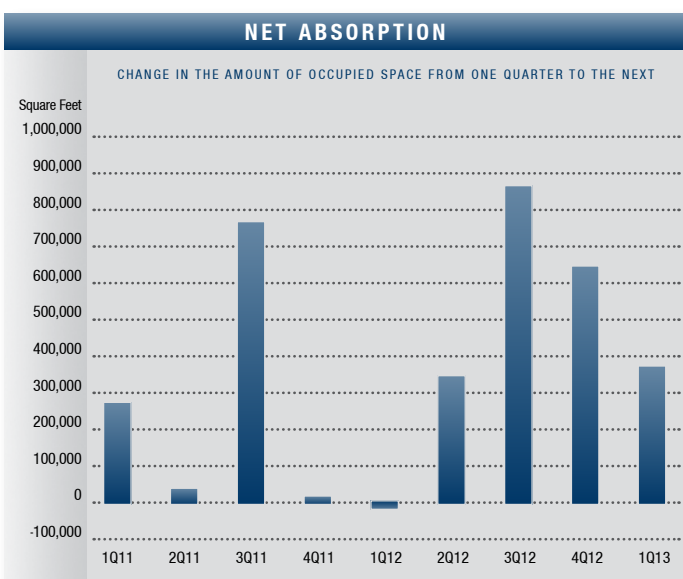
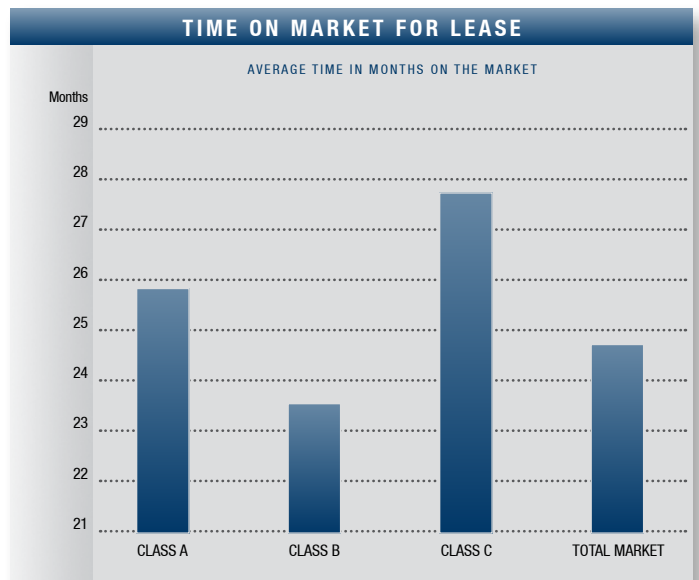
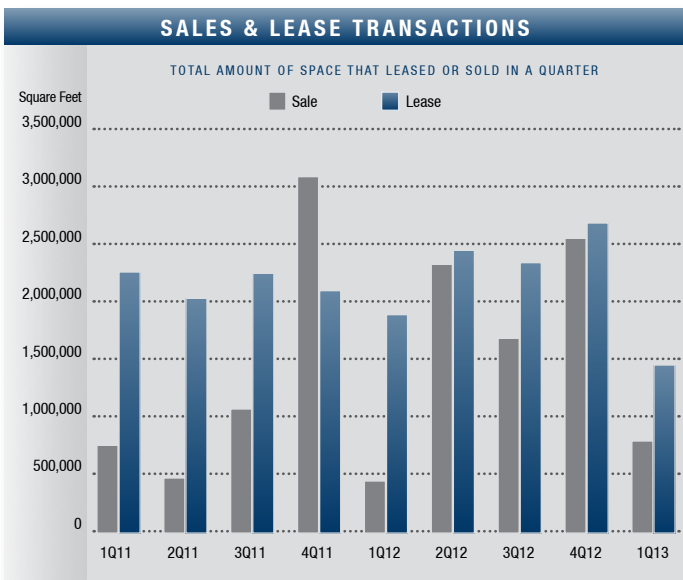
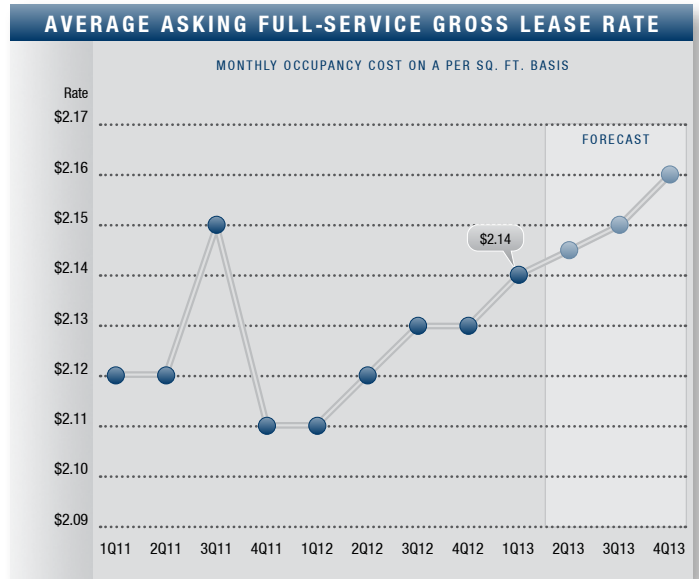
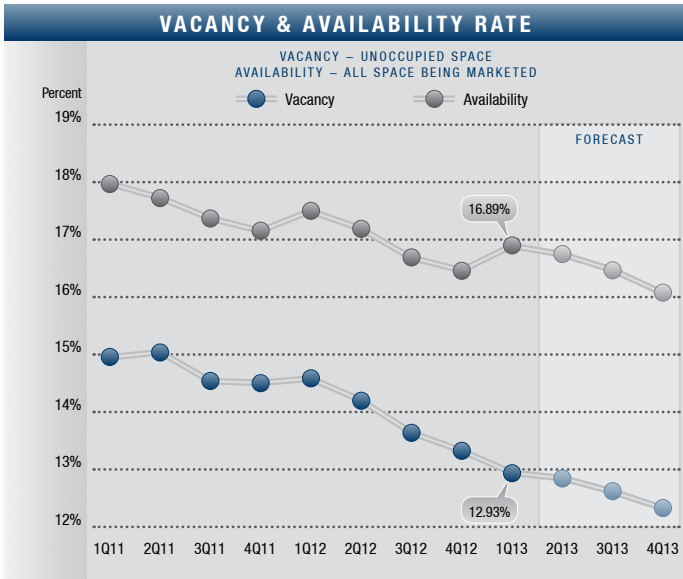
- Recovering** - The first quarter continued the trends of increasing lease rates, positive absorption, and a decreasing vacancy rate for the San Diego office market. These indicators have been generally moving in this direction since the beginning of 2010, despite a couple bumps along the way. This sustained improvement points to a market making strides towards recovery.
- Construction** - Office deliveries have consistently been around 700,000 square feet a year over the past three years. This rate of construction is below the historical average and has helped to push vacancy down. The bulk of the current inventory under construction is in the North City area, with over 1 million square feet of office under construction in the Sorrento Mesa and UTC submarkets.
- Vacancy** - Direct/sublease space (unoccupied) finished the first quarter at 12.93%, a decrease from the previous quarter's figure of 13.3% and marking the first drop in office vacancy below 13% since mid-2008.
- Availability** - Direct/sublease space being marketed was 16.89% at the end of the first quarter, a small increase over the 16.45% availability rate of the previous quarter.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.14 for the quarter, up one cent from the fourth quarter. The record high rate of \$2.76 was established in the first and second quarters of 2008. Class A rates for the county averaged \$2.52 FSG.
- Absorption** - The San Diego office market posted 370,173 square feet of positive net absorption in the first quarter- the fourth consecutive quarter of positive net absorption. The North County Coastal areas contributed

almost half of the positive net absorption with 172,584 square feet in the first quarter.

- Transaction Activity** - Sale and lease transactions totaled 2.2 million square feet in the first quarter, down from the end of 2012 but in line with the 2.3 million square feet transacted in the first quarter of 2012. Greenlaw Partners & Walton Street Capital have been very active as of late. 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 8.0% in February 2013, down from a revised 8.6% in January 2013 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,400 payroll jobs from February 2012 to February 2013—including 10,900 in professional and business services and 6,000 from leisure and hospitality. None of the local employment sectors reported any net year-over-year job losses.
- Overall** - The economic recovery has not been overwhelming to this point, but overall, the office market has been steadily improving over the last three years. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market is stabilizing. Lease rates have begun rising for Class A property in some central areas. We should see an increase in leasing activity as many short-term deals come up for renewal. Unemployment rates have continued to trend downward since the peak in January 2010. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.

### OFFICE MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	12.93%	13.30%	14.57%	(11.26%)
Availability Rate	16.89%	16.45%	17.50%	(3.49%)
Average Asking Lease Rate	\$2.14	\$2.13	\$2.11	1.42%
Sale & Lease Transactions	2,223,091	5,217,355	2,315,190	(3.98%)
Gross Absorption	2,226,836	2,161,147	1,747,059	27.46%
Net Absorption	370,173	645,023	(19,214)	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
<b>Central</b>													
Downtown	142	13,024,379	0	0	2,125,561	16.32%	2,840,753	21.81%	\$2.16	55,988	115,373	229,931	752,704
<b>Central Total</b>	<b>142</b>	<b>13,024,379</b>	<b>0</b>	<b>0</b>	<b>2,125,561</b>	<b>16.32%</b>	<b>2,840,753</b>	<b>21.81%</b>	<b>\$2.16</b>	<b>55,988</b>	<b>115,373</b>	<b>229,931</b>	<b>752,704</b>
<b>Central Suburban</b>													
City Heights/University	28	1,024,375	0	0	110,577	10.79%	167,835	16.38%	\$1.69	(1,581)	6,073	7,554	88,914
Coronado	6	124,741	0	0	0	0.00%	5,636	4.52%	\$0.00	3,100	322	3,100	6,677
Kearny Mesa	237	10,603,477	0	193,000	1,101,965	10.39%	1,656,266	15.62%	\$1.66	(55,523)	449,424	156,383	1,023,147
Mission Gorge	26	603,823	0	0	51,064	8.46%	58,292	9.65%	\$1.11	4,478	(252)	6,945	12,864
Mission Valley	126	6,956,346	0	285,830	874,738	12.57%	1,035,136	14.88%	\$2.10	13,038	5,962	169,992	763,974
Old Town/Point Loma	77	2,456,744	0	0	178,212	7.25%	317,044	12.91%	\$1.55	7,361	13,707	39,636	88,141
Park East	9	176,637	0	0	12,758	7.22%	11,161	6.32%	\$0.00	6,260	(10,366)	6,260	5,228
Rose Canyon/Morena	58	1,297,939	0	11,160	89,957	6.93%	99,337	7.65%	\$1.81	38,542	(2)	43,370	81,970
Uptown/Hillcrest	105	2,708,720	0	72,514	202,590	7.48%	242,446	8.95%	\$2.13	(9,679)	71,047	17,731	143,825
<b>Central Suburban Total</b>	<b>672</b>	<b>25,952,802</b>	<b>0</b>	<b>562,504</b>	<b>2,621,861</b>	<b>10.10%</b>	<b>3,593,153</b>	<b>13.84%</b>	<b>\$1.81</b>	<b>5,996</b>	<b>535,915</b>	<b>450,971</b>	<b>2,214,740</b>
<b>Highway 78 Corridor</b>													
Oceanside	56	1,213,964	57,476	347,414	216,616	17.84%	235,191	19.37%	\$1.75	(5,639)	26,721	17,726	97,154
San Marcos	38	1,349,470	55,000	1,432,970	239,021	17.71%	233,457	17.30%	\$2.01	(9,520)	75,484	20,072	137,695
Vista	49	1,172,165	0	215,350	189,933	16.20%	242,788	20.71%	\$1.44	6,688	(26,327)	10,520	26,889
<b>Highway 78 Corridor Total</b>	<b>143</b>	<b>3,735,599</b>	<b>112,476</b>	<b>1,995,734</b>	<b>645,570</b>	<b>17.28%</b>	<b>711,436</b>	<b>19.04%</b>	<b>\$1.44</b>	<b>(8,471)</b>	<b>75,878</b>	<b>48,318</b>	<b>261,738</b>
<b>I-15 Corridor</b>													
Escondido	90	1,903,126	0	48,907	323,780	17.01%	319,579	16.79%	\$1.67	(87)	(9,729)	25,315	90,736
Poway	28	1,256,659	0	650,570	87,859	6.99%	86,504	6.88%	\$1.42	2,921	6,819	17,272	49,462
Rancho Bernardo	108	6,571,084	0	1,136,675	691,704	10.53%	747,288	11.37%	\$1.99	16,423	116,327	132,859	456,111
Scripps Ranch	50	2,704,982	0	377,000	685,159	25.33%	792,805	29.31%	\$2.15	10,555	270,657	26,144	389,960
<b>I-15 Corridor Total</b>	<b>276</b>	<b>12,435,851</b>	<b>0</b>	<b>2,213,152</b>	<b>1,788,502</b>	<b>14.38%</b>	<b>1,946,176</b>	<b>15.65%</b>	<b>\$1.92</b>	<b>29,812</b>	<b>384,074</b>	<b>201,590</b>	<b>986,269</b>
<b>North City</b>													
Governor Park	19	867,993	0	0	128,805	14.84%	133,839	15.42%	\$2.25	(48,447)	(3,130)	32,320	113,435
La Jolla	57	1,734,931	0	0	230,332	13.28%	239,018	13.78%	\$2.79	(7,233)	(55,588)	50,099	136,474
Miramar	38	1,635,185	0	0	323,478	19.78%	358,325	21.91%	\$1.59	(48,263)	(19,632)	40,236	87,725
Sorrento Mesa	118	9,037,739	498,882	1,690,165	694,834	7.69%	1,101,644	12.19%	\$2.74	149,062	240,581	252,123	646,404
Sorrento Valley	26	798,274	0	0	118,185	14.81%	151,489	18.98%	\$2.00	(39,662)	(124)	23,385	48,837
Torrey Pines	47	3,188,209	0	0	430,565	13.50%	646,052	20.26%	\$3.75	23,219	353	61,451	68,317
UTC Center	82	7,555,126	538,004	175,000	880,137	11.65%	1,859,252	24.61%	\$2.75	(51,673)	463,785	140,408	1,120,503
<b>North City Total</b>	<b>387</b>	<b>24,817,457</b>	<b>1,036,886</b>	<b>1,865,165</b>	<b>2,806,336</b>	<b>11.31%</b>	<b>4,489,619</b>	<b>18.09%</b>	<b>\$2.84</b>	<b>(22,997)</b>	<b>626,245</b>	<b>600,022</b>	<b>2,221,695</b>
<b>North County</b>													
Carlsbad	152	5,929,271	0	492,000	1,133,133	19.11%	1,289,821	21.75%	\$1.42	111,893	81,952	248,869	761,810
Del Mar Heights/Carmel Valley	65	4,288,045	70,000	598,611	670,295	15.63%	826,598	19.28%	\$3.55	57,850	(86,580)	193,871	522,269
North Beach Cities	112	2,488,015	34,000	31,928	201,967	8.12%	268,128	10.78%	\$2.43	2,841	(8,727)	48,636	208,194
<b>North County Total</b>	<b>329</b>	<b>12,705,331</b>	<b>104,000</b>	<b>1,122,539</b>	<b>2,005,395</b>	<b>15.78%</b>	<b>2,384,547</b>	<b>18.77%</b>	<b>\$3.04</b>	<b>172,584</b>	<b>(13,355)</b>	<b>491,376</b>	<b>1,492,273</b>
<b>South/Southeast Corridor</b>													
Chula Vista	90	2,797,254	0	265,002	387,497	13.85%	410,761	14.68%	\$2.04	51,995	5,965	67,528	189,297
East County	158	3,827,810	0	552,200	314,310	8.21%	298,127	7.79%	\$1.58	23,434	10,489	74,221	129,238
National City	15	541,398	0	0	180,912	33.42%	180,912	33.42%	\$0.00	56,430	(7,099)	56,430	36,165
Otay Mesa	14	338,316	0	0	29,602	8.75%	30,502	9.02%	\$2.04	2,402	(74)	3,449	18,194
Southeast San Diego	10	426,932	0	0	103,779	24.31%	105,779	24.78%	\$0.00	3,000	(4,199)	3,000	3,580
<b>South/Southeast Total</b>	<b>287</b>	<b>7,931,710</b>	<b>0</b>	<b>817,202</b>	<b>1,016,100</b>	<b>12.81%</b>	<b>1,026,081</b>	<b>12.94%</b>	<b>\$1.84</b>	<b>137,261</b>	<b>5,082</b>	<b>204,628</b>	<b>376,474</b>
Class A	255	31,739,613	1,038,457	5,985,674	3,934,082	12.39%	5,190,664	16.35%	\$2.52	20,974	1,340,346	563,557	3,191,210
Class B	1,209	51,789,760	214,905	2,590,622	7,332,764	14.16%	9,802,598	18.93%	\$1.92	262,214	468,173	1,380,056	4,345,465
Class C	772	17,073,756	0	0	1,742,479	10.21%	1,998,503	11.71%	\$1.53	86,985	(79,307)	283,223	769,218
<b>San Diego County Total</b>	<b>2,236</b>	<b>100,603,129</b>	<b>1,253,362</b>	<b>8,576,296</b>	<b>13,009,325</b>	<b>12.93%</b>	<b>16,991,765</b>	<b>16.89%</b>	<b>\$2.14</b>	<b>370,173</b>	<b>1,729,212</b>	<b>2,226,836</b>	<b>8,305,893</b>

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
11943 El Camino Real	Del Mar Heights	A	34,600	\$520.23	Carmel Valley Office Building, LLC	Foley Development, Inc.
4242 Campus Point Ct.	UTC	B	126,662	\$139.35	Greenlaw Partners Walton Street Capital, LLC	SAIC, Inc.
9665 Chesapeake Dr.	Kearny Mesa	A	93,282	\$155.44	Peregrin Realty Partners	CWCapital Asset Management, LLC
678 3rd Ave.	Chula Vista	B	45,497	\$265.62	Centro De Salud De La Comunidad	STBX Partners, LLC
10210 Campus Point	UTC	B	65,612	\$121.93	Greenlaw Partners Walton Street Capital, LLC	SAIC, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
12225 El Camino Real	Del Mar Heights	B	44,121	Jan-13	XIFIN, Inc.	(Sublease)
7676 Hazard Center Dr.	Mission Valley	A	43,266	FEB-13	Stewart Title of California	Principal Financial Group
8765 Fletcher Pkwy.	La Mesa	B	32,044	Jan-13	County of San Diego HHSA	Automobile Club of Southern California
10065 Barnes Canyon Rd.	Sorrento Mesa	B	16,310	FEB-13	Qualcomm	Beacon Capital Partners
1545 Hotel Circle S.	Mission Valley	B	15,391	Jan-13	Deaf Community Services of San Diego	Radius Investments, LLC

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.

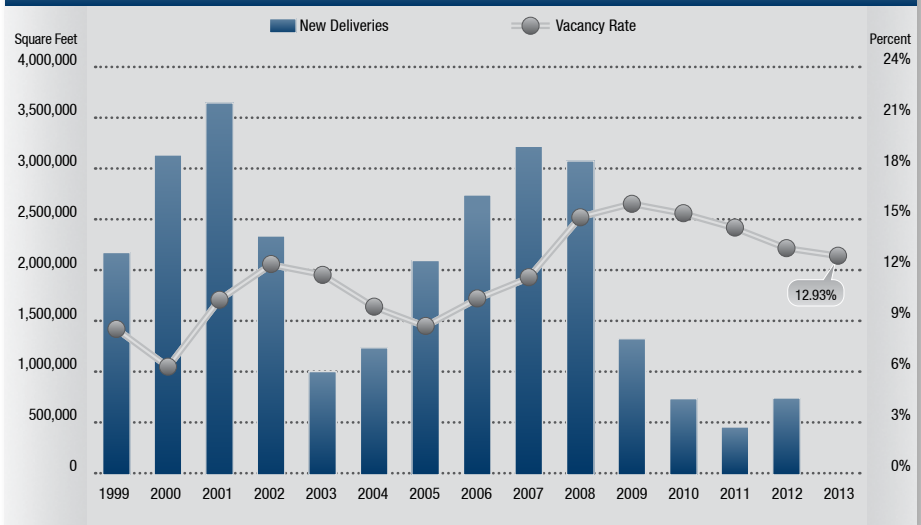
CLASS B

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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