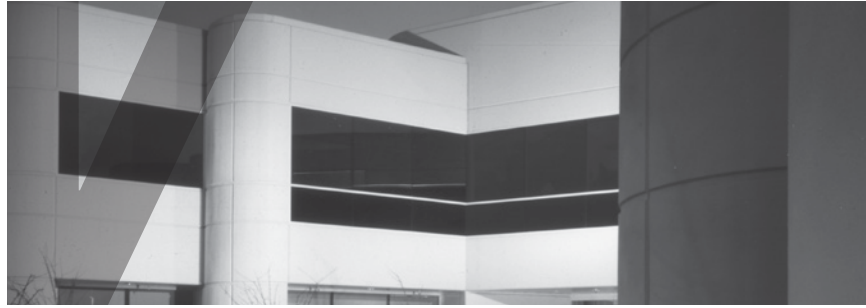




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Office Market Report

Compared to last quarter:

Vacancy

DOWN

Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Market Highlights

- ◆ **Encouraging Numbers** - The numbers this quarter appear to be encouraging — a sign that recovery could be on the horizon. Availability showed signs of stabilization, vacancy dropped, and net absorption posted positive numbers. With regards to sales transactions, the ask-bid gap seems to be narrowing, evident from the drop in asking prices. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- ◆ **Construction** - Over the past four years, over 10 million square feet of new construction has been 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 438,414 square feet this quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.11%, a decrease over last year's rate of 16.35% and lower than last quarter's figure of 16.42%. The Central Suburban market posted the lowest rate in the county, coming in at 11.20%.
- ◆ **Availability** - Direct/sublease space being marketed was at 19.77% this quarter, an increase of only 0.5% when compared to the 19.87% availability rate of the second quarter of last year.
- ◆ **Lease Rates** - The average asking Full-Service Gross (FSG) lease rate per square foot per month in San Diego County was \$2.19 — a decrease of 11.34% over last year's rate of \$2.47 and six cents lower than last quarter's rate. The record high rate of \$2.76 was established in the first and second quarters of 2008. Class A rates for the county are averaging \$2.48 FSG, with North City noting the highest rates averaging \$2.49 FSG.
- ◆ **Absorption** - Net absorption for the county posted a positive 320,836 square feet for the second quarter of 2010, giving

the office market a total of 265,275 square feet of positive absorption for the first half of 2010.

- ◆ **Transaction Activity** - Leasing activity checked in at 1.5 million square feet this quarter. Sales activity showed a year-over-year decrease, posting 534,372 square feet of activity compared to 829,623 square feet in the second quarter of 2009. Details of the largest transactions can be found on the back page of this report.

- ◆ **Employment** - The unemployment rate in San Diego County was 10% in May 2010, down from a revised 10.4% in April 2010 and above the year ago estimate of 9.3%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County lost 11,900 payroll jobs over the last twelve months — 4,400 in trade, transportation and utilities and 4,200 in manufacturing. However, San Diego County gained 8,400 between April 2010 and May 2010 — 3,600 of those in educational and health services.

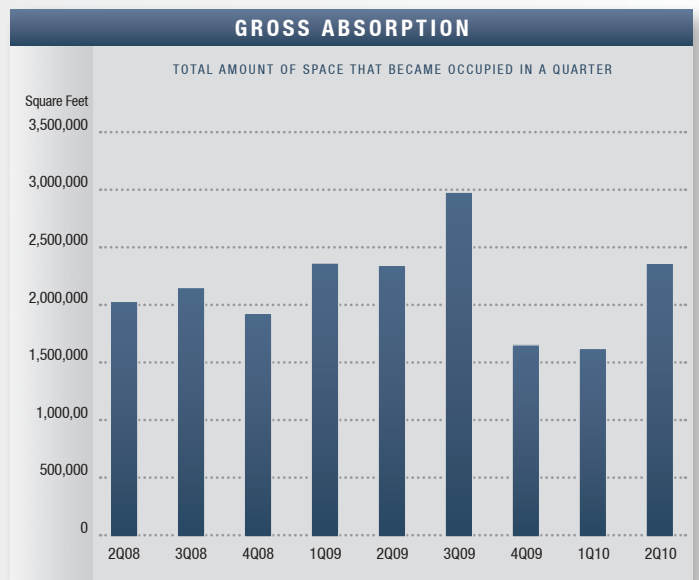
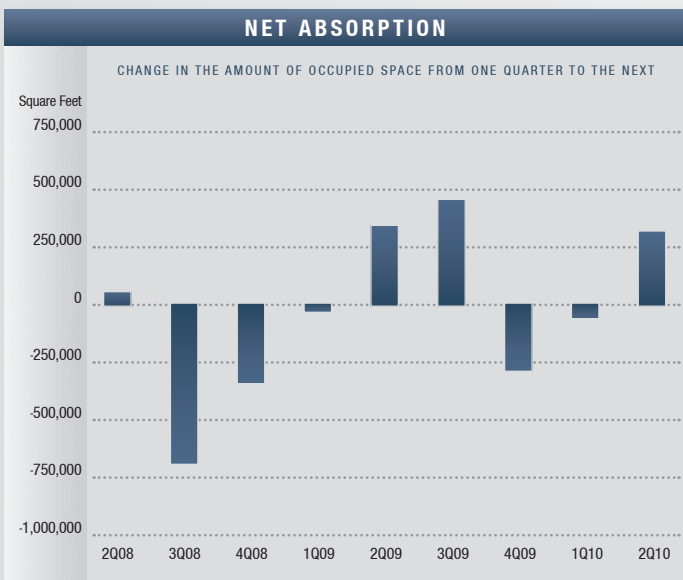
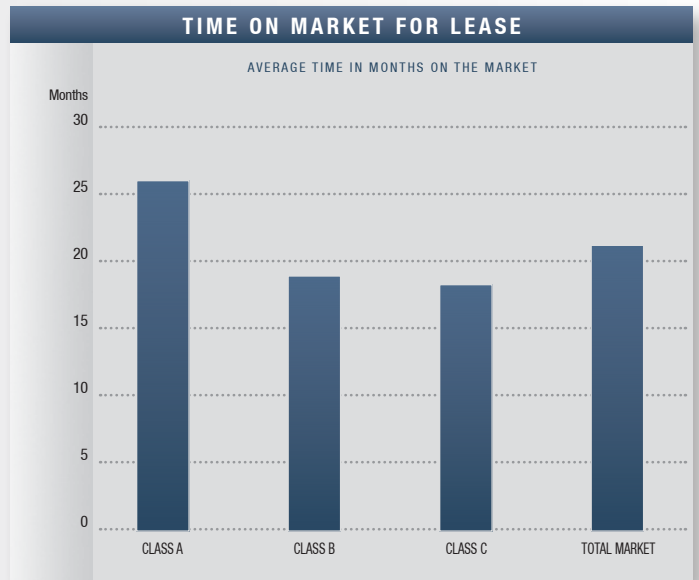
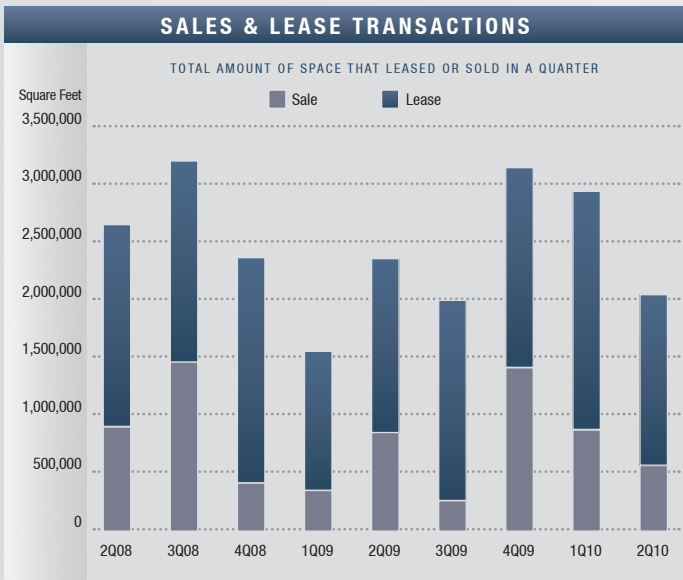
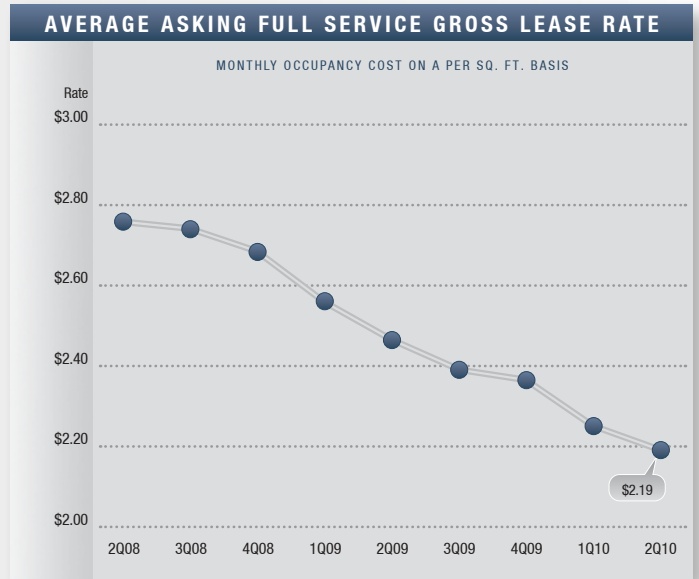
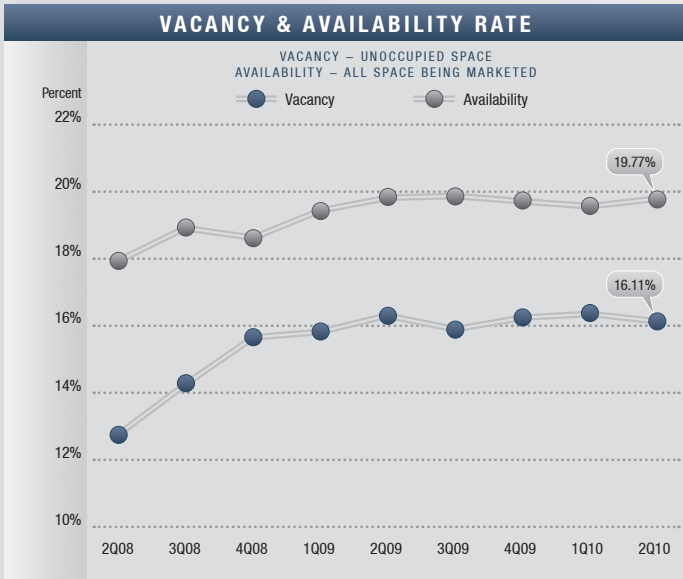
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Positive absorption is the big story, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market should continue to stabilize. We foresee an increase in 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, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. 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 office market will regain equilibrium.

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| OFFICE MARKET OVERVIEW | | | | |
|---------------------------|-----------|-----------|-----------|---------------------|
| | 2Q2010 | 1Q2010 | 2Q2009 | % CHANGE vs. 2Q2009 |
| Vacancy Rate | 16.11% | 16.42% | 16.35% | (1.47%) |
| Availability Rate | 19.77% | 19.55% | 19.87% | (0.50%) |
| Average Asking Lease Rate | \$2.19 | \$2.25 | \$2.47 | (11.34%) |
| Sale & Lease Transactions | 2,046,210 | 2,920,864 | 2,334,092 | (12.33%) |
| Gross Absorption | 2,363,338 | 1,615,243 | 2,369,138 | (0.24%) |
| Net Absorption | 320,836 | -55,561 | 392,285 | 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 2Q2010 | Total Availability 2Q2010 | Availability Rate 2Q2010 | Average Asking Lease Rate | Net Absorption 2Q2010 | Net Absorption 2010 | Gross Absorption 2Q2010 | Gross Absorption 2010 |
| Central | | | | | | | | | | | | | |
| Downtown | 137 | 12,563,369 | 0 | 40,000 | 2,033,664 | 16.19% | 2,577,210 | 20.51% | \$2.28 | 56,015 | (86,554) | 264,640 | 378,313 |
| Central Total | 137 | 12,563,369 | 0 | 40,000 | 2,033,664 | 16.19% | 2,577,210 | 20.51% | \$2.28 | 56,015 | (86,554) | 264,640 | 378,313 |
| Central Suburban | | | | | | | | | | | | | |
| City Heights/University | 28 | 920,588 | 0 | 0 | 33,783 | 3.67% | 73,522 | 7.99% | \$0.00 | 7,304 | 19,035 | 12,091 | 23,822 |
| Coronado | 6 | 124,741 | 0 | 0 | 6,339 | 5.08% | 6,339 | 5.08% | \$0.00 | 0 | 540 | 0 | 540 |
| Kearny Mesa | 235 | 10,054,494 | 300,000 | 854,000 | 1,112,953 | 11.07% | 1,378,243 | 13.71% | \$1.77 | 195,771 | 196,196 | 312,315 | 462,670 |
| Mission Gorge | 26 | 629,191 | 0 | 0 | 62,312 | 9.90% | 60,318 | 9.59% | \$1.30 | (711) | 7,074 | 2,541 | 13,828 |
| Mission Valley | 124 | 6,943,742 | 0 | 55,000 | 1,201,748 | 17.31% | 1,573,348 | 22.66% | \$1.91 | (34,177) | (58,958) | 134,612 | 254,143 |
| Old Town/Point Loma | 77 | 2,424,481 | 15,176 | 0 | 95,794 | 3.95% | 302,974 | 12.50% | \$1.51 | 10,443 | 34,394 | 32,922 | 64,385 |
| Park East | 9 | 167,568 | 0 | 0 | 979 | 0.58% | 9,260 | 5.53% | \$2.10 | 0 | 645 | 1,250 | 7,400 |
| Rose Canyon/Morena | 59 | 1,243,081 | 0 | 22,557 | 105,580 | 8.49% | 154,106 | 12.40% | \$2.10 | 6,798 | 15,128 | 18,592 | 35,571 |
| Uptown/Hillcrest | 112 | 2,758,082 | 0 | 0 | 209,191 | 7.58% | 374,723 | 13.59% | \$2.28 | 1,942 | (43,586) | 38,052 | 60,079 |
| Central Suburban Total | 676 | 25,265,968 | 315,176 | 931,557 | 2,828,679 | 11.20% | 3,932,833 | 15.57% | \$1.83 | 187,370 | 170,468 | 552,375 | 922,438 |
| Highway 78 Corridor | | | | | | | | | | | | | |
| Oceanside | 55 | 1,125,094 | 0 | 455,789 | 224,879 | 19.99% | 223,734 | 19.89% | \$0.89 | 31,776 | 32,499 | 41,046 | 53,248 |
| San Marcos | 37 | 1,248,216 | 0 | 158,000 | 305,838 | 24.50% | 318,468 | 25.51% | \$1.57 | (541) | 4,690 | 22,399 | 29,031 |
| Vista | 47 | 1,090,043 | 0 | 188,350 | 183,121 | 16.80% | 190,556 | 17.48% | \$1.55 | (19,635) | (24,964) | 9,485 | 25,095 |
| Highway 78 Corridor Total | 139 | 3,463,353 | 0 | 802,139 | 713,838 | 20.61% | 732,758 | 21.16% | \$1.47 | 11,600 | 12,225 | 72,930 | 107,374 |
| I-15 Corridor | | | | | | | | | | | | | |
| Escondido | 73 | 1,520,759 | 44,000 | 331,107 | 303,799 | 19.98% | 362,129 | 23.81% | \$1.65 | (37,629) | (57,057) | 8,560 | 19,674 |
| Poway | 31 | 1,385,049 | 0 | 340,570 | 77,003 | 5.56% | 87,862 | 6.34% | \$2.80 | (2,951) | (8,192) | 3,828 | 4,578 |
| Rancho Bernardo | 102 | 6,441,327 | 0 | 1,176,827 | 1,145,217 | 17.78% | 1,245,159 | 19.33% | \$1.91 | 189,736 | 271,826 | 258,474 | 483,286 |
| Scripps Ranch | 51 | 2,721,957 | 0 | 240,000 | 625,197 | 22.97% | 1,127,242 | 41.41% | \$2.17 | (31,678) | 67,372 | 108,041 | 285,106 |
| I-15 Corridor Total | 257 | 12,069,092 | 44,000 | 2,088,504 | 2,151,216 | 17.82% | 2,822,392 | 23.39% | \$1.95 | 117,478 | 273,949 | 378,903 | 792,644 |
| North City | | | | | | | | | | | | | |
| Governor Park | 18 | 839,834 | 0 | 0 | 356,651 | 42.47% | 227,216 | 27.05% | \$2.15 | (9,742) | (3,837) | 18,673 | 48,856 |
| La Jolla | 61 | 1,786,610 | 0 | 0 | 161,294 | 9.03% | 254,164 | 14.23% | \$2.85 | 7,711 | (33,459) | 46,334 | 65,835 |
| Miramar | 34 | 1,574,472 | 0 | 0 | 203,333 | 12.91% | 240,222 | 15.26% | \$1.98 | 38,104 | 41,456 | 49,409 | 64,793 |
| Sorrento Mesa | 115 | 8,204,412 | 0 | 1,490,649 | 1,550,697 | 18.90% | 1,721,253 | 20.98% | \$2.25 | (74,644) | (112,448) | 222,294 | 303,763 |
| Sorrento Valley | 23 | 658,852 | 0 | 0 | 93,052 | 14.12% | 101,966 | 15.48% | \$1.50 | 3,786 | 448 | 13,682 | 19,102 |
| Torrey Pines | 50 | 3,672,920 | 0 | 0 | 233,592 | 6.36% | 430,298 | 11.72% | \$3.47 | (39,044) | (45,957) | 48,275 | 48,275 |
| UTC Center | 89 | 8,119,145 | 0 | 594,097 | 1,807,949 | 22.27% | 2,242,284 | 27.62% | \$3.05 | (152,381) | (174,667) | 142,019 | 252,627 |
| North City Total | 390 | 24,856,245 | 0 | 2,084,746 | 4,406,568 | 17.73% | 5,217,403 | 20.99% | \$2.49 | (226,210) | (328,464) | 540,686 | 803,251 |
| North County | | | | | | | | | | | | | |
| Carlsbad | 153 | 6,065,153 | 79,238 | 792,200 | 1,436,627 | 23.69% | 1,634,433 | 26.95% | \$2.27 | 4,184 | (31,423) | 173,500 | 297,680 |
| Del Mar Heights/Carmel Valley | 68 | 4,462,213 | 0 | 91,256 | 947,474 | 21.23% | 1,021,077 | 22.88% | \$3.90 | 109,283 | 150,482 | 212,446 | 329,204 |
| North Beach Cities | 120 | 2,648,829 | 0 | 76,120 | 257,948 | 9.74% | 349,943 | 13.21% | \$2.16 | 3,241 | 31,560 | 45,670 | 112,009 |
| North County Total | 341 | 13,176,195 | 79,238 | 959,576 | 2,642,049 | 20.05% | 3,005,453 | 22.81% | \$2.75 | 116,708 | 150,619 | 431,616 | 738,893 |
| South/Southeast Corridor | | | | | | | | | | | | | |
| Chula Vista | 84 | 2,492,291 | 0 | 322,953 | 439,073 | 17.62% | 438,130 | 17.58% | \$1.24 | 26,331 | 27,653 | 51,576 | 115,658 |
| East County | 159 | 3,512,954 | 0 | 661,700 | 296,442 | 8.44% | 366,086 | 10.42% | \$1.29 | 16,707 | 39,162 | 46,739 | 94,423 |
| National City | 11 | 395,617 | 0 | 0 | 209,668 | 53.00% | 228,939 | 57.87% | \$0.00 | 2,965 | 2,965 | 5,973 | 5,973 |
| Otay Mesa | 14 | 339,461 | 0 | 0 | 46,753 | 13.77% | 56,404 | 16.62% | \$0.00 | (678) | (8,598) | 0 | 1,714 |
| Southeast San Diego | 11 | 427,967 | 0 | 0 | 111,182 | 25.98% | 111,682 | 26.10% | \$1.25 | 12,550 | 11,850 | 17,900 | 17,900 |
| South/Southeast Total | 279 | 7,168,290 | 0 | 984,653 | 1,103,118 | 15.39% | 1,201,241 | 16.76% | \$1.25 | 57,875 | 73,032 | 122,188 | 235,668 |
| Class A | 257 | 31,354,401 | 379,238 | 4,699,530 | 6,076,047 | 19.38% | 6,564,100 | 20.94% | \$2.48 | 372,437 | 372,592 | 1,009,166 | 1,558,906 |
| Class B | 1,177 | 49,248,718 | 59,176 | 3,191,645 | 8,224,814 | 16.70% | 10,691,077 | 21.71% | \$1.94 | (48,713) | (43,234) | 1,121,336 | 2,026,443 |
| Class C | 785 | 17,959,393 | 0 | 0 | 1,578,271 | 8.79% | 2,234,113 | 12.44% | \$1.61 | (2,888) | (64,083) | 232,836 | 393,232 |
| San Diego County Total | 2,219 | 98,562,512 | 438,414 | 7,891,175 | 15,879,132 | 16.11% | 19,489,290 | 19.77% | \$2.19 | 320,836 | 265,275 | 2,363,338 | 3,978,581 |

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 | Sale Price | Buyer | Seller |
|---------------------------------|----------------|-------|-------------|--------------|-------------|--------------------------------|---------------------------|
| 3605 Vista Wy. | Oceanside | B | 28,600 | \$231.99 | \$6,635,000 | Rady Children's Hospital | McMahon Development Group |
| Grenesee Corners – 6 Properties | PB/Rose Canyon | C | 119,364 | \$42.20 | \$5,037,272 | Elliot A Scott Trust | Meyer C Weiner & Company |
| 180 Otay Lakes Rd. | Chula Vista | B | 45,507 | \$109.87 | \$5,000,000 | Bonita Professional Plaza, LLC | CW Capital, LLC |
| 465 La Tortuga – Condo | Vista | B | 25,330 | \$196.41 | \$4,975,000 | Vista Community Clinic | The Marker Company |

Lease Transactions

| Property Address | Submarket | Class | Square Feet | Transaction Date | Tenant | Owner |
|---------------------|-----------------|-------|-------------|------------------|-------------------------|-------------------------------------|
| 16981 Via Tazon | Rancho Bernardo | C | 82,997 | May-10 | Millennium Laboratories | Pain in San Diego, LLC |
| 450 B St. | Downtown | B | 43,203 | June-10 | N/A | One San Diego Association |
| 5898 Copley Dr. | Kearny Mesa | A | 51,700 | June-10 | Guild Mortgage Company | North Island Financial Credit Union |
| 5855 Copley Dr. | Kearny Mesa | B | 40,480 | June-10 | N/A | Colony Realty Partners, REIT |
| 10101 Old Grove Rd. | Scripps Ranch | B | 38,209 | May-10 | LG Electronics | Cipher Data Products, Inc. |

Product Type

CLASS A

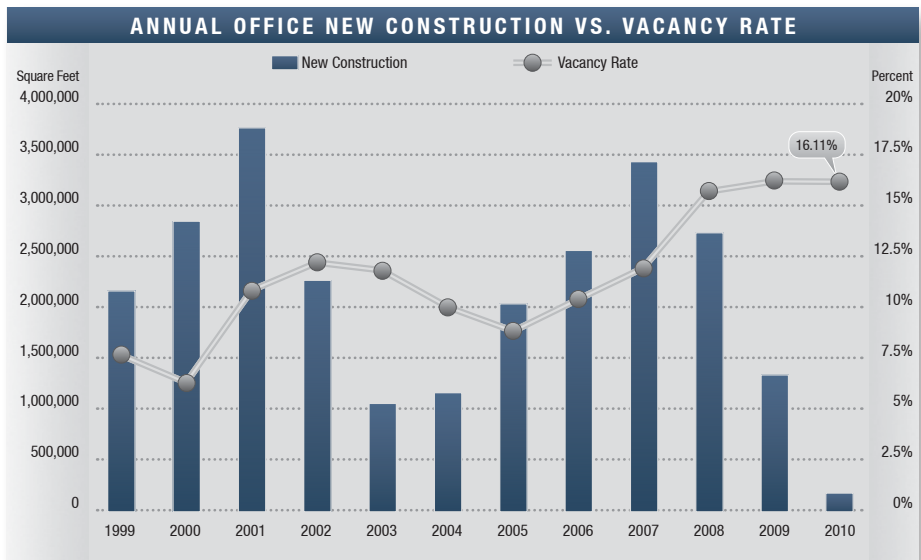
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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.



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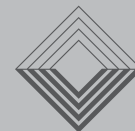
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