

Office Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

FLAT



Deliveries

DOWN



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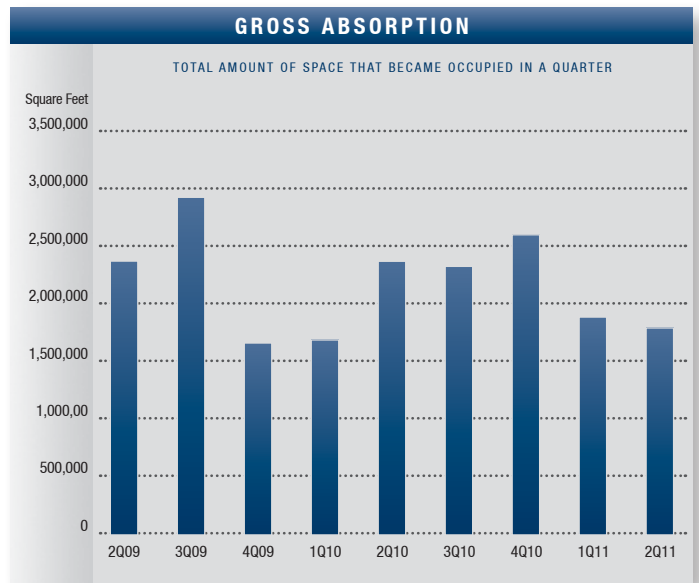
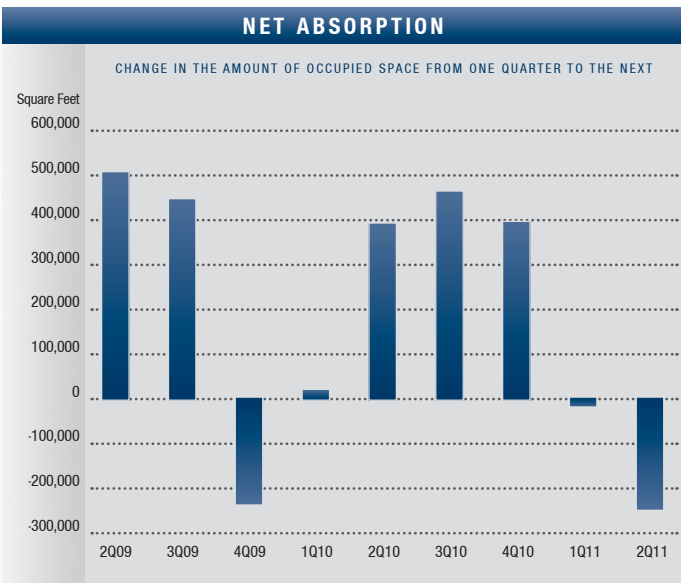
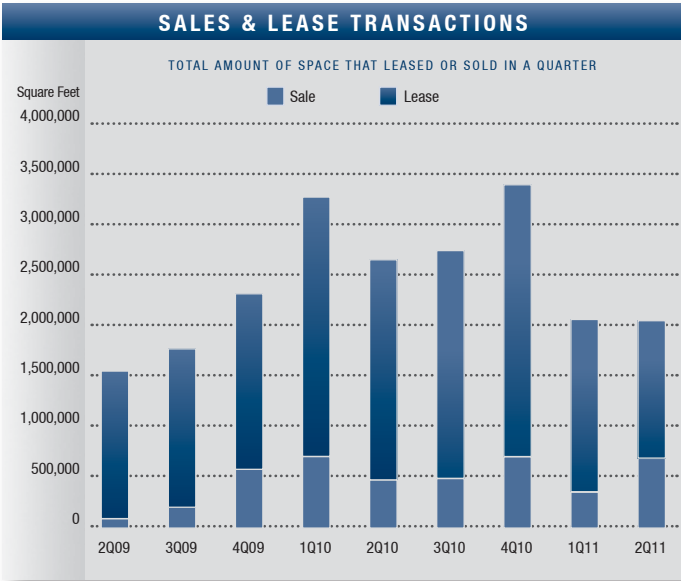
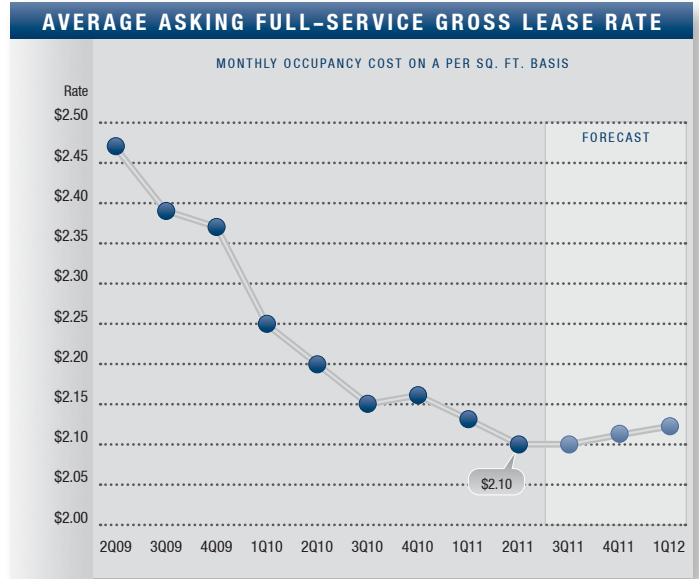
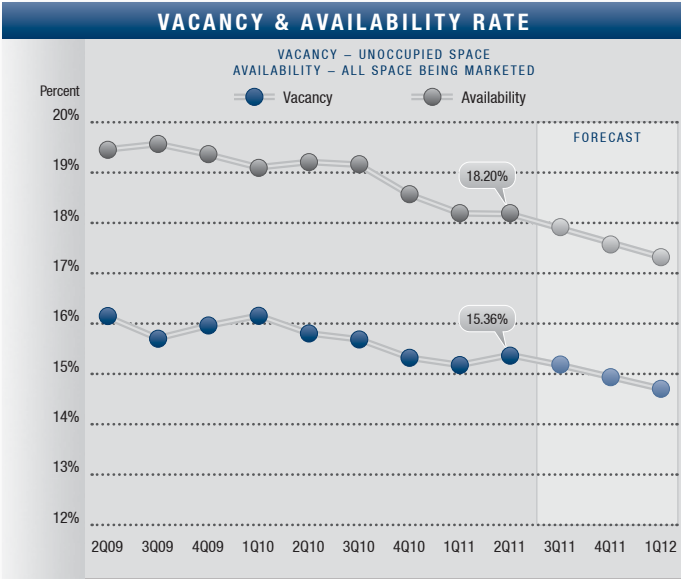
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Market Highlights

- Are we there yet?** - The San Diego County office market conveyed more promise of stabilization in the first half of 2011. Availability stabilized, and net absorption, while displaying a negative number in the second quarter, posted positive figures for the previous five consecutive quarters. Demand, although still weak by historical standards, picked up, with 2010 marking the beginning of a renewed interest in sales transactions. While 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 million square feet of new construction was completed in the San Diego office market. 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 280,000 square feet in the second quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 15.36%, higher than the previous quarter's figure of 15.18% but lower than 2010's first quarter rate of 15.78%. The Central Suburban market posted the lowest rate in the county, at 11.67%.
- Availability** - Direct/sublease space being marketed was 18.20% in the second quarter of 2011, a decrease of 5.41% when compared to the 19.24% availability rate of the second quarter of 2010.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.10 in the second quarter — a decrease of 4.55% from 2010's second quarter rate of \$2.20 and three cents lower than 2011's first quarter rate. 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 submarket, where they averaged \$2.66 FSG. Class A rates for the county averaged \$2.41 FSG.
- Absorption** - The San Diego office market posted 247,642 square feet of negative net absorption in the second quarter of 2011, giving the market a total of 80,261 square feet of negative absorption for 2011.
- Transaction Activity** - Leasing activity checked in at 1.35 million square feet in 2011's second quarter, a decrease from the 2010's second quarter total of 2.2 million square feet. Sales activity showed a year-over-year increase, posting 675,000 square feet of activity in the second quarter of 2011 compared to 450,000 square feet in the second quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in San Diego County was 9.6% in May 2011, down from a revised 9.8% in April 2011 and below the year-ago estimate of 10.1%. 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 11,200 payroll jobs from May 2010 to May 2011 — 6,300 in professional and business services and 4,200 in education and health services. However, the government sector posted the greatest year-over-year decline — a loss of 4,300 jobs. Between April 2011 and May 2011 San Diego County employment increased by 7,300 jobs overall. The LAEDC is forecasting that 5,700 jobs will be added in San Diego County in 2011.
- Overall** - Availability appears to be leveling, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue 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 in order to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs in 2011. As unemployment rates drop and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

| | 2Q2011 | 1Q2011 | 2Q2010 | % Change vs. 2Q2010 |
|---------------------------|-----------|-----------|-----------|---------------------|
| Total Vacancy Rate | 15.36% | 15.18% | 15.78% | (2.66%) |
| Availability Rate | 18.20% | 18.20% | 19.24% | (5.41%) |
| Average Asking Lease Rate | \$2.10 | \$2.13 | \$2.20 | (4.55%) |
| Sale & Lease Transactions | 2,022,887 | 2,035,552 | 2,637,754 | (23.31%) |
| Gross Absorption | 1,781,957 | 1,877,874 | 2,373,502 | (24.92%) |
| Net Absorption | (247,642) | (21,938) | 393,036 | 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 2Q2011 | Square Feet Available | Availability Rate 2Q2011 | Average Asking Lease Rate | Net Absorption 2Q2011 | Net Absorption 2011 | Gross Absorption 2Q2011 | Gross Absorption 2011 |
| Central | | | | | | | | | | | | | |
| Downtown | 142 | 12,891,188 | 0 | 0 | 2,312,285 | 17.94% | 2,802,288 | 21.74% | \$2.16 | (22,122) | (63,384) | 207,376 | 428,937 |
| Central Total | 142 | 12,891,188 | 0 | 0 | 2,312,285 | 17.94% | 2,802,288 | 21.74% | \$2.16 | (22,122) | (63,384) | 207,376 | 428,937 |
| Central Suburban | | | | | | | | | | | | | |
| City Heights/University | 28 | 939,719 | 54,776 | 0 | 65,383 | 6.96% | 92,830 | 9.88% | \$2.01 | (3,633) | (8,715) | 4,593 | 7,925 |
| Coronado | 6 | 124,741 | 0 | 0 | 3,422 | 2.74% | 9,058 | 7.26% | \$0.00 | 0 | 1,000 | 0 | 0 |
| Kearny Mesa | 236 | 10,244,029 | 0 | 193,000 | 1,179,337 | 11.51% | 1,321,345 | 12.90% | \$1.72 | (103,378) | (77,720) | 76,280 | 226,836 |
| Mission Gorge | 25 | 597,627 | 0 | 0 | 66,185 | 11.07% | 54,076 | 9.05% | \$1.20 | (7,162) | (19,366) | 1,078 | 2,458 |
| Mission Valley | 125 | 6,973,181 | 0 | 55,000 | 935,082 | 13.41% | 1,323,417 | 18.98% | \$2.02 | 156,698 | 217,343 | 273,105 | 443,440 |
| Old Town/Point Loma | 83 | 2,670,678 | 0 | 0 | 392,427 | 14.69% | 440,906 | 16.51% | \$1.59 | (287,227) | (279,017) | 32,724 | 81,069 |
| Park East | 9 | 167,584 | 0 | 0 | 12,951 | 7.73% | 15,076 | 9.00% | \$2.04 | (1,014) | (2,536) | 505 | 505 |
| Rose Canyon/Morena | 57 | 1,238,862 | 0 | 11,160 | 134,812 | 10.88% | 151,778 | 12.25% | \$1.84 | 6,943 | 1,949 | 30,720 | 42,917 |
| Uptown/Hillcrest | 108 | 2,706,981 | 0 | 72,514 | 204,239 | 7.54% | 281,356 | 10.39% | \$2.12 | (9,680) | 3,296 | 16,675 | 60,393 |
| Central Suburban Total | 677 | 25,663,402 | 54,776 | 331,674 | 2,993,838 | 11.67% | 3,689,842 | 14.38% | \$1.85 | (248,453) | (163,766) | 435,680 | 865,543 |
| Highway 78 Corridor | | | | | | | | | | | | | |
| Oceanside | 54 | 1,164,669 | 0 | 491,755 | 210,497 | 18.07% | 222,631 | 19.12% | \$1.52 | 32,794 | 28,790 | 47,589 | 55,734 |
| San Marcos | 35 | 1,326,309 | 0 | 158,000 | 307,403 | 23.18% | 347,725 | 26.22% | \$2.55 | 4,567 | (15,601) | 12,568 | 50,603 |
| Vista | 48 | 1,144,927 | 0 | 191,350 | 163,990 | 14.32% | 184,333 | 16.10% | \$1.38 | (3,530) | 16,111 | 15,659 | 49,129 |
| Highway 78 Corridor Total | 137 | 3,635,905 | 0 | 841,105 | 681,890 | 18.75% | 754,689 | 20.76% | \$1.46 | 33,831 | 29,300 | 75,816 | 155,466 |
| I-15 Corridor | | | | | | | | | | | | | |
| Escondido | 91 | 1,901,561 | 9,600 | 43,107 | 336,228 | 17.68% | 366,839 | 19.29% | \$1.65 | (6,905) | 24,328 | 15,332 | 65,793 |
| Poway | 28 | 1,333,648 | 0 | 790,570 | 107,443 | 8.06% | 143,488 | 10.76% | \$1.86 | (17,471) | (32,213) | 6,883 | 12,199 |
| Rancho Bernardo | 104 | 6,420,969 | 0 | 1,177,073 | 809,770 | 12.61% | 933,684 | 14.54% | \$1.75 | 23,344 | 63,007 | 132,242 | 282,977 |
| Scripps Ranch | 51 | 2,721,603 | 0 | 240,000 | 1,073,848 | 39.46% | 1,004,590 | 36.91% | \$2.12 | (48,536) | (27,837) | 23,405 | 60,419 |
| I-15 Corridor Total | 274 | 12,377,781 | 9,600 | 2,250,750 | 2,327,289 | 18.80% | 2,448,601 | 19.78% | \$1.88 | (49,568) | 27,285 | 177,862 | 421,388 |
| North City | | | | | | | | | | | | | |
| Governor Park | 19 | 856,351 | 0 | 0 | 139,420 | 16.28% | 157,793 | 18.43% | \$2.00 | 56,206 | 54,775 | 73,046 | 92,257 |
| La Jolla | 59 | 1,733,335 | 0 | 0 | 166,490 | 9.61% | 239,687 | 13.83% | \$2.85 | 9,557 | (21,979) | 38,296 | 59,345 |
| Miramar | 36 | 1,645,472 | 0 | 0 | 174,753 | 10.62% | 225,651 | 13.71% | \$1.96 | 7,575 | 5,531 | 14,042 | 35,994 |
| Sorrento Mesa | 116 | 8,305,179 | 102,000 | 1,694,531 | 1,093,645 | 13.17% | 1,263,860 | 15.22% | \$2.14 | 8,259 | 26,963 | 129,202 | 429,503 |
| Sorrento Valley | 25 | 778,804 | 0 | 0 | 88,488 | 11.36% | 90,859 | 11.67% | \$1.20 | (8,946) | (7,146) | 15,009 | 25,768 |
| Torrey Pines | 49 | 3,653,667 | 0 | 0 | 207,971 | 5.69% | 490,111 | 13.41% | \$3.75 | (1,032) | 13,068 | 526 | 35,060 |
| UTC Center | 82 | 7,461,733 | 0 | 298,400 | 1,503,388 | 20.15% | 1,732,495 | 23.22% | \$2.37 | (117,981) | (225,848) | 168,503 | 278,498 |
| North City Total | 386 | 24,434,541 | 102,000 | 1,992,931 | 3,374,155 | 13.81% | 4,200,456 | 17.19% | \$2.37 | (46,362) | (154,636) | 438,624 | 956,425 |
| North County | | | | | | | | | | | | | |
| Carlsbad | 152 | 6,043,523 | 0 | 792,200 | 1,416,518 | 23.44% | 1,610,688 | 26.65% | \$2.61 | 107,243 | 175,344 | 231,679 | 407,121 |
| Del Mar Heights/Carmel Valley | 67 | 4,397,218 | 0 | 91,256 | 773,292 | 17.59% | 1,039,920 | 23.65% | \$3.20 | 24,242 | 106,224 | 130,874 | 303,086 |
| North Beach Cities | 106 | 2,339,042 | 67,828 | 117,900 | 220,626 | 9.43% | 314,107 | 13.43% | \$2.39 | (6,812) | (375) | 29,716 | 83,384 |
| North County Total | 325 | 12,779,783 | 67,828 | 1,001,356 | 2,410,436 | 18.86% | 2,964,715 | 23.20% | \$2.66 | 124,673 | 281,193 | 392,269 | 793,591 |
| South/Southeast Corridor | | | | | | | | | | | | | |
| Chula Vista | 88 | 2,647,165 | 45,000 | 312,955 | 406,919 | 15.37% | 437,887 | 16.54% | \$1.50 | 2,004 | 2,942 | 24,641 | 69,247 |
| East County | 159 | 3,541,344 | 0 | 552,200 | 356,606 | 10.07% | 366,526 | 10.35% | \$2.25 | (50,200) | (53,168) | 19,476 | 48,168 |
| National City | 15 | 516,722 | 0 | 0 | 221,602 | 42.89% | 232,672 | 45.03% | \$2.01 | 779 | 6,197 | 2,437 | 8,905 |
| Otay Mesa | 10 | 241,214 | 0 | 0 | 40,048 | 16.60% | 40,048 | 16.60% | \$0.00 | 5,776 | 5,776 | 5,776 | 6,133 |
| Southeast San Diego | 9 | 386,762 | 0 | 0 | 102,580 | 26.52% | 102,580 | 26.52% | \$1.25 | 2,000 | 2,000 | 2,000 | 7,902 |
| South/Southeast Total | 281 | 7,333,207 | 45,000 | 865,155 | 1,127,755 | 15.38% | 1,179,713 | 16.09% | \$1.48 | (39,641) | (36,253) | 54,330 | 140,355 |
| Class A | 255 | 31,481,209 | 165,941 | 4,166,174 | 4,584,769 | 14.56% | 5,622,239 | 17.86% | \$2.12 | 413,253 | 578,571 | 794,182 | 1,443,226 |
| Class B | 1,178 | 49,771,466 | 113,263 | 3,116,797 | 8,880,424 | 17.84% | 10,320,536 | 20.74% | \$1.85 | (529,488) | (527,425) | 749,212 | 1,796,939 |
| Class C | 789 | 17,863,132 | 0 | 0 | 1,762,455 | 9.87% | 2,097,529 | 11.74% | \$1.52 | (131,407) | (131,407) | 238,563 | 238,563 |
| San Diego County Total | 2,222 | 99,115,807 | 279,204 | 7,282,971 | 15,227,648 | 15.36% | 18,040,304 | 18.20% | \$2.10 | (247,642) | (80,261) | 1,781,957 | 3,761,705 |

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 |
|--|----------------|-------|-------------|--------------|--------------------------------------|---------------------------|
| 1000 Aviara Pkwy | Carlsbad | A | 75,177 | \$182.24 | Wasatch Commercial Management | The Allen Group |
| 1500-1520 State St. | Downtown | C | 26,621 | \$131.48 | John Valkus | John Zagara |
| 445 W. Ash St. - 2 Buildings + Parking | Downtown | C | 15,700 | \$193.55 | Cool Valley Commercial Property Mgt. | City National Bank |
| 7701 Herschel Ave. | La Jolla | B | 10,236 | \$293.08 | Travel Dynamics Group, Inc. | Platinum Equity New York |
| 6863 Friars Rd. | Mission Valley | C | 19,796 | \$142.12 | Subway Development Corporation | Robert Metzner |
| 3601 Vista Way | Oceanside | B | 5,727 | \$354.29 | Cal-Sorrento, Ltd. | McMahon Development Group |

Lease Transactions

| Property Address | Submarket | Class | Square Feet | Transaction Date | Tenant | Owner |
|---------------------------|-------------------------|-------|-------------|------------------|-------------------------|-------------------------|
| 6602-6694 Convoy Ct. | Kearny Mesa | B | 40,431 | Jun-11 | AutoAnything | Chesnut Properties, LLC |
| 9305 Lightwave Ave. | Kearny Mesa | B | 30,448 | May-11 | SDG&E | LBA Realty |
| 3131 Camino Del Rio N. | Mission Valley | A | 24,533 | Jun-11 | Magellan Health | The Irvine Company |
| 10620 Treena St. | Scripps Ranch | A | 23,386 | May-11 | Barnhart Balfour Beatty | Cush Enterprises, Inc. |
| 5910 Pacific Center Blvd. | Sorrento Mesa | B | 22,870 | Apr-11 | Charlotte Russe | TA Associates Realty |
| 2120 San Diego Ave. | Uptown West / Park West | C | 20,194 | Jun-11 | Old Town Academy | PacVentures, 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.

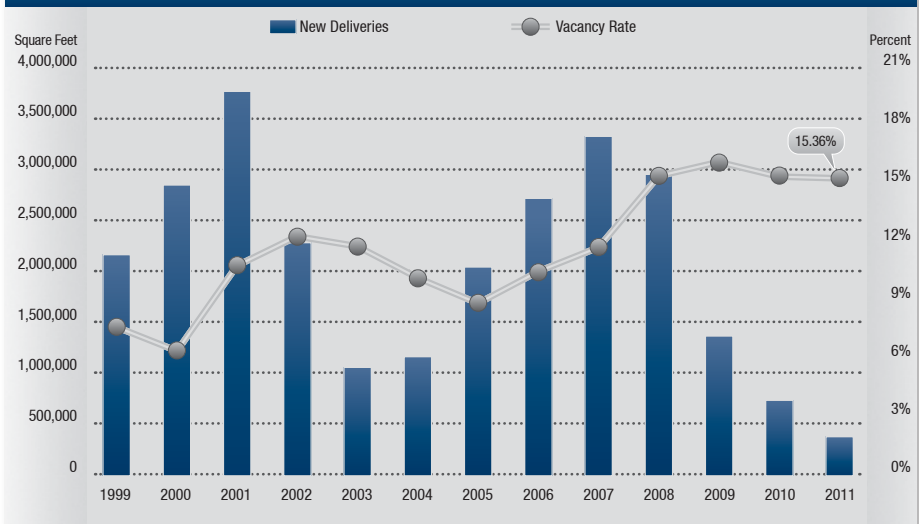
CLASS B

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.

ANNUAL OFFICE NEW DELIVERIES VS. VACANCY RATE



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