

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

UP

Deliveries

DOWN

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Market Highlights

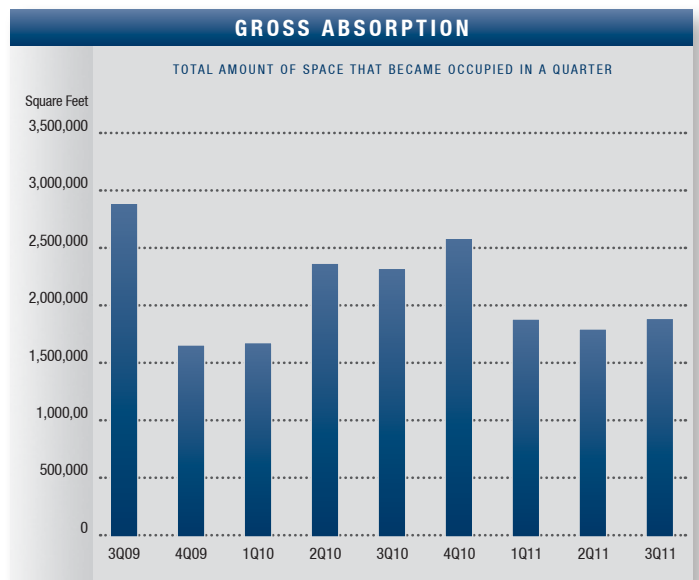
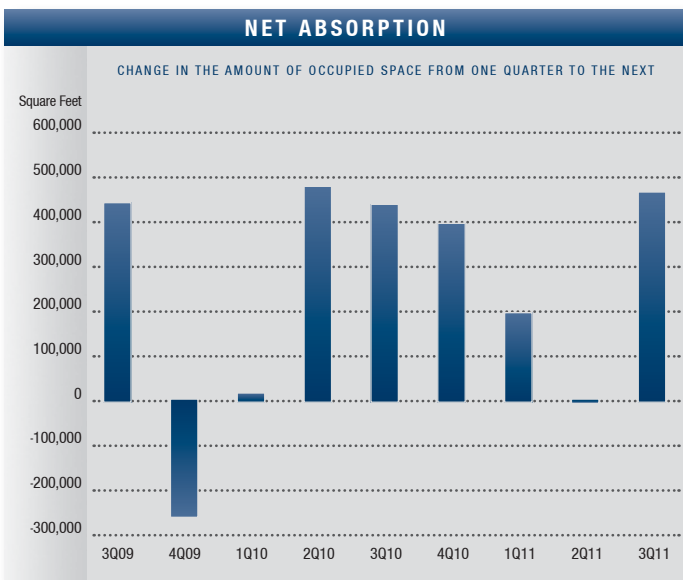
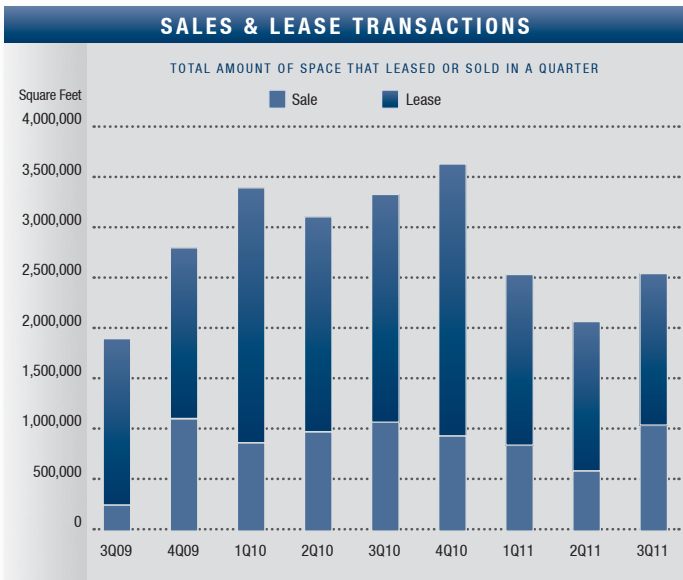
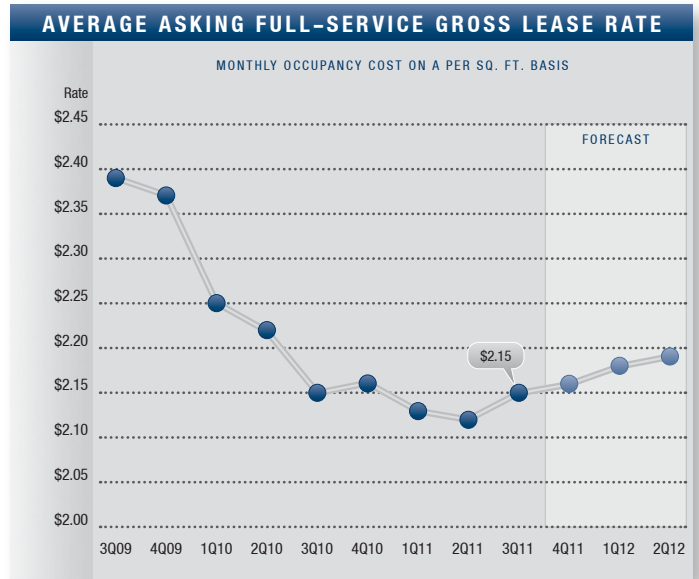
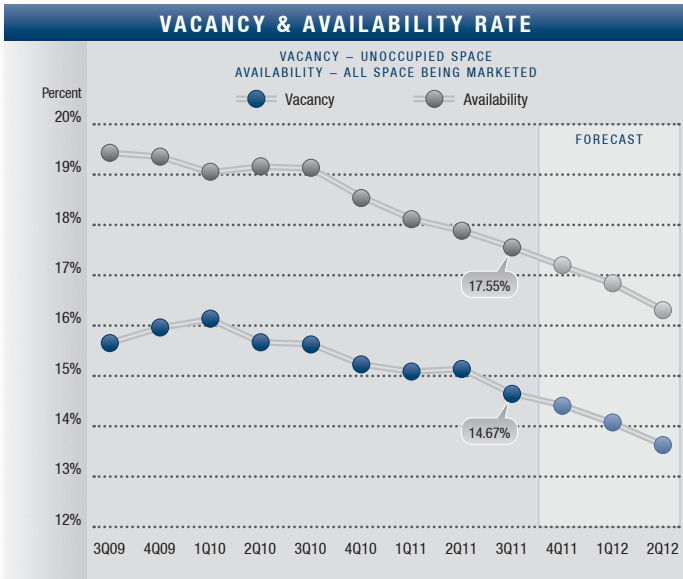
- **Are we there yet?** - The San Diego County office market continued to convey signs of recovery the third quarter of 2011. Both vacancy and availability were down from the previous quarter, and net absorption was positive again, giving the market a total almost two million square feet since the first quarter of 2010. 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 8.4 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 981,240 square feet in the third 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 14.67%, lower than the previous quarter's figure of 15.15% and lower than 2010's third quarter rate of 15.62%. The Central Suburban market posted the lowest rate in the county, at 11.13%.
- **Availability** - Direct/sublease space being marketed was 17.55% in the third quarter of 2011, a decrease of 8.26% when compared to the 19.13% availability rate of the third quarter of 2010.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.15 for the quarter, the same as 2010's third quarter rate and three cents higher than the previous quarter's 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 \$2.40 FSG. Class A rates for the county averaged \$2.52 FSG.
- **Absorption** - The San Diego office market posted 468,008 square feet of positive net absorption in the third quarter

of 2011, giving the market a total of 663,000 square feet of positive absorption for the first three quarters of 2011.

- **Transaction Activity** - Leasing activity checked in at 1.5 million square feet in 2011's third quarter, a decrease from the 2010's third quarter total of 2.2 million square feet. Sales activity also showed a slight year-over-year decrease, posting 1.02 million square feet of activity in 2011 compared to 1.05 million square feet in the third 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 10.2% in August 2011, down from a revised 10.6% in July 2011 and below the year-ago estimate of 10.7%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,500 payroll jobs from August 2010 to August 2011 — 8,600 in leisure and hospitality and 5,400 in professional and business services. However, government posted the greatest year-over-year decline — a loss of 5,600 jobs. Between July 2011 and August 2011 San Diego County employment increased by 200 jobs overall.
- **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 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. As unemployment rates drop and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	14.67%	15.15%	15.62%	(6.08%)
Availability Rate	17.55%	17.88%	19.13%	(8.26%)
Average Asking Lease Rate	\$2.15	\$2.12	\$2.15	0.00%
Sale & Lease Transactions	2,522,591	2,154,349	3,307,359	(23.73%)
Gross Absorption	1,882,136	1,795,448	2,310,916	(18.55%)
Net Absorption	468,008	(4,108)	437,174	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 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011
Central													
Downtown	142	13,028,113	0	0	2,214,989	17.00%	2,808,820	21.56%	\$2.16	27,721	31,178	223,443	665,871
Central Total	142	13,028,113	0	0	2,214,989	17.00%	2,808,820	21.56%	\$2.16	27,721	31,178	223,443	665,871
Central Suburban													
City Heights/University	27	920,939	26,000	0	67,358	7.31%	111,709	12.13%	\$1.98	(1,975)	(10,690)	1,563	9,488
Coronado	6	124,741	0	0	3,422	2.74%	9,058	7.26%	\$0.00	0	1,000	0	1,000
Kearny Mesa	236	10,246,385	541,018	193,000	1,196,189	11.67%	1,343,255	13.11%	\$1.72	4,276	(79,133)	114,991	341,827
Mission Gorge	26	603,823	0	0	52,572	8.71%	42,680	7.07%	\$1.19	16,313	(3,053)	19,126	21,584
Mission Valley	125	7,004,311	0	55,000	958,821	13.69%	1,246,674	17.80%	\$2.07	(4,120)	204,143	165,117	593,023
Old Town/Point Loma	82	2,515,739	0	0	207,551	8.25%	242,367	9.63%	\$1.57	5,991	(94,141)	54,232	135,301
Park East	7	145,684	0	0	12,951	8.89%	15,076	10.35%	\$2.04	0	(2,536)	0	505
Rose Canyon/Morena	58	1,267,083	0	11,160	144,877	11.43%	157,443	12.43%	\$2.08	(1,037)	(2,468)	14,838	63,403
Uptown/Hillcrest	106	2,644,499	66,365	72,514	191,993	7.26%	262,527	9.93%	\$2.16	2,728	5,804	36,689	97,311
Central Suburban Total	673	25,473,204	633,383	331,674	2,835,734	11.13%	3,430,789	13.47%	\$1.88	22,176	18,926	406,556	1,263,442
Highway 78 Corridor													
Oceanside	55	1,184,688	0	441,755	218,194	18.42%	228,631	19.30%	\$1.52	729	23,993	11,515	67,249
San Marcos	38	1,383,270	0	158,000	302,197	21.85%	337,802	24.42%	\$2.55	3,904	(10,395)	16,282	66,885
Vista	48	1,140,992	0	191,350	175,402	15.37%	186,957	16.39%	\$1.40	(11,412)	4,699	6,355	55,484
Highway 78 Corridor Total	141	3,708,950	0	791,105	695,793	18.76%	753,390	20.31%	\$1.47	(6,779)	18,297	34,152	189,618
I-15 Corridor													
Escondido	90	1,851,744	9,600	43,107	309,698	16.72%	328,060	17.72%	\$1.65	3,675	30,003	18,098	85,891
Poway	28	1,333,648	0	790,570	92,190	6.91%	126,305	9.47%	\$1.85	15,253	(16,960)	19,919	32,118
Rancho Bernardo	104	6,420,969	0	1,177,073	765,184	11.92%	794,916	12.38%	\$1.75	46,750	107,593	90,931	373,908
Scripps Ranch	51	2,720,608	0	240,000	1,022,451	37.58%	809,993	29.77%	\$2.12	45,774	22,751	75,520	140,400
I-15 Corridor Total	273	12,326,969	9,600	2,250,750	2,189,523	17.76%	2,059,274	16.71%	\$1.90	111,452	143,387	204,468	632,317
North City													
Governor Park	19	866,056	0	0	81,818	9.45%	93,403	10.78%	\$2.00	57,602	112,377	59,005	151,262
La Jolla	58	1,721,335	0	0	186,143	10.81%	247,271	14.37%	\$2.87	(19,653)	(41,632)	26,175	85,520
Miramar	36	1,645,472	0	0	206,480	12.55%	254,833	15.49%	\$1.96	(1,174)	4,357	13,494	49,488
Sorrento Mesa	114	8,159,513	102,000	1,687,531	1,025,637	12.57%	1,112,895	13.64%	\$2.05	165,430	205,393	248,750	569,925
Sorrento Valley	25	792,350	0	0	80,913	10.21%	105,244	13.28%	\$1.25	7,575	429	19,478	45,416
Torrey Pines	47	3,529,213	0	0	117,027	3.32%	425,756	12.06%	\$3.75	2,034	11,817	3,049	38,109
UTC Center	83	7,567,715	123,429	175,000	1,375,032	18.17%	2,029,196	26.81%	\$2.55	105,397	(100,782)	242,563	515,211
North City Total	382	24,281,654	225,429	1,862,531	3,073,050	12.66%	4,268,598	17.58%	\$2.52	317,211	191,959	612,514	1,454,931
North County													
Carlsbad	152	6,053,620	0	888,128	1,409,689	23.29%	1,641,238	27.11%	\$2.25	6,957	182,173	126,589	544,710
Del Mar Heights/Carmel Valley	67	4,396,808	0	91,256	837,836	19.06%	958,753	21.81%	\$3.63	(68,727)	41,680	120,274	423,360
North Beach Cities	106	2,336,918	67,828	117,900	194,768	8.33%	278,415	11.91%	\$2.30	25,858	25,483	61,397	144,781
North County Total	325	12,787,346	67,828	1,097,284	2,442,293	19.10%	2,878,406	22.51%	\$3.41	(35,912)	249,336	308,260	1,112,851
South/Southeast Corridor													
Chula Vista	92	2,835,842	45,000	273,122	375,926	13.26%	433,047	15.27%	\$1.53	29,793	46,589	41,700	110,947
East County	160	3,571,814	0	560,700	350,602	9.82%	399,274	11.18%	\$1.45	5,683	(46,364)	42,574	91,012
National City	15	516,722	0	20,000	226,714	43.88%	237,238	45.91%	\$0.00	888	1,085	3,244	12,149
Otay Mesa	10	241,214	0	0	44,273	18.35%	42,945	17.80%	\$0.00	(4,225)	1,551	5,225	11,358
Southeast San Diego	10	426,932	0	0	102,580	24.03%	102,580	24.03%	\$1.25	0	7,902	0	7,902
South/Southeast Total	287	7,592,524	45,000	853,822	1,100,095	14.49%	1,215,084	16.00%	\$1.46	32,139	10,763	92,743	233,368
Class A	249	31,440,548	232,306	4,230,802	4,801,552	15.27%	5,436,819	17.29%	\$2.47	2,913	606,903	535,694	1,954,529
Class B	1,187	49,880,694	748,934	2,956,364	8,019,355	16.08%	9,946,858	19.94%	\$1.94	395,882	150,106	1,031,992	2,808,640
Class C	787	17,877,518	0	0	1,730,570	9.68%	2,030,684	11.36%	\$1.55	69,213	(93,163)	314,450	789,229
San Diego County Total	2,223	99,198,760	981,240	7,187,166	14,551,477	14.67%	17,414,361	17.55%	\$2.15	468,008	663,846	1,882,136	5,552,398

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
110 W. A St.	Downtown	B	325,976	\$245.42	Forester Properties, Inc.	Cornerstone Real Estate Advisors
Multi-Property Transaction *	*	B	366,982	\$153.28	MIG Real Estate, LLC	Guggenheim Real Estate, LLC
12278 Scripps Summit Dr.	Scripps Ranch	A	190,837	\$214.84	Dart Development Group	The Miller Family Companies
5251 & 5271 Viewridge Ct.	Kearny Mesa	B	127,000	\$236.22	Kaiser Foundation Health Plan, Inc.	Arden Realty, Inc.
2252 San Diego Ave.	Old Town	B	60,490	\$180.20	Peregrine Realty Partners	Intermarket Investment Group
2888 Loker Ave. E.	Carlsbad	A	80,658	\$122.74	Global Building, LLC	Redus CA Properties, LLC

* 3750 & 3760 Convoy St./8885 Rio San Diego/9444 Waples St./6020 Cornerstone Ct. W. in the Sorrento Mesa/Kearny Mesa/Mission Valley submarkets.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4401 Eastgate Mall – Renewal	UTC	A	89,309	11-Aug	Cooley Godward Kronish, LLP	Sunroad Enterprises, Inc.
1615 Murray Canyon Rd. – Renewal	Mission Valley	A	34,036	11-Aug	Accenture	GE Real Estate
4875 Eastgate Mall	UTC	B	28,954	11-Jul	Quickplay	(Sublease)
9330 Scranton Rd. – Renewal	Sorrento Mesa	A	28,769	11-Jul	Chicken of the Sea	The Blackstone Group
1000 Aviara Pkwy.	Carlsbad	A	26,268	11-Aug	N/A	Wasatch Commercial Management
15015 Avenue of Science	Rancho Bernardo	B	25,728	11-Sep	State of California	Harsch Investment Properties

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