

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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Market Highlights

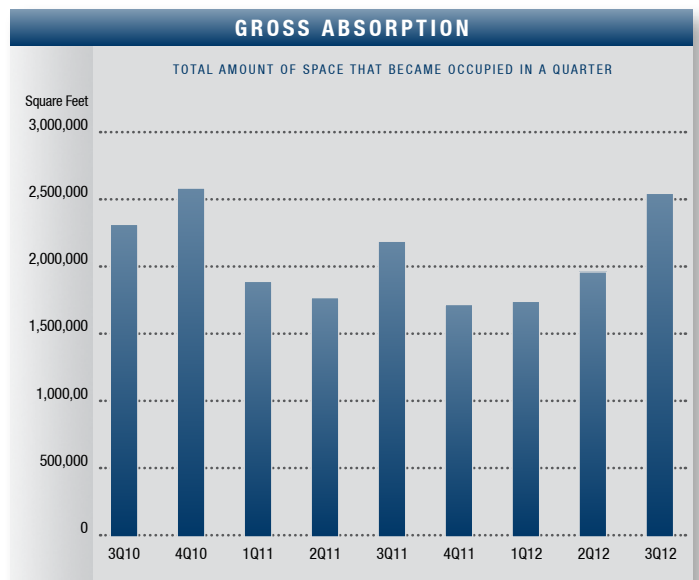
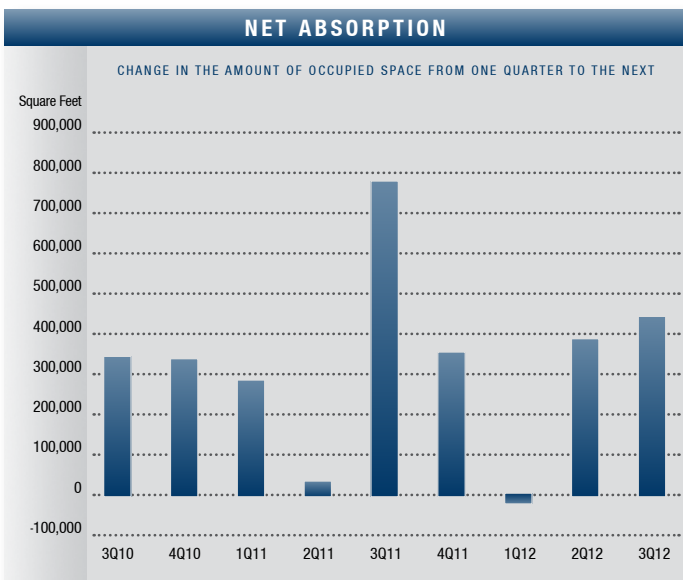
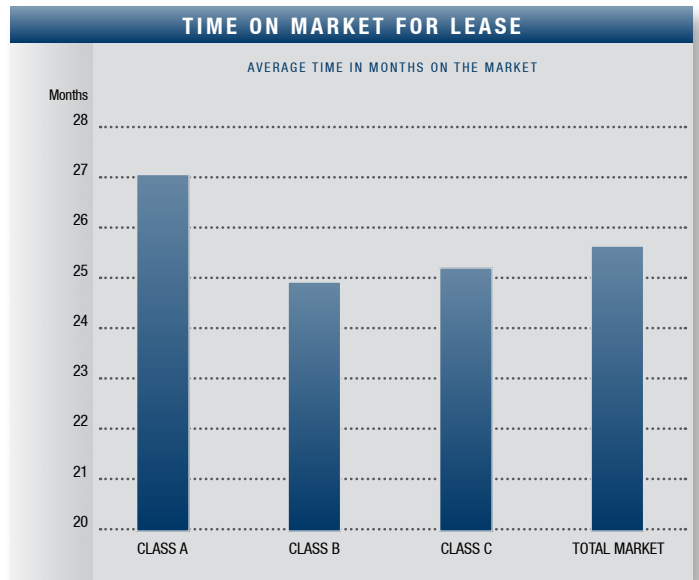
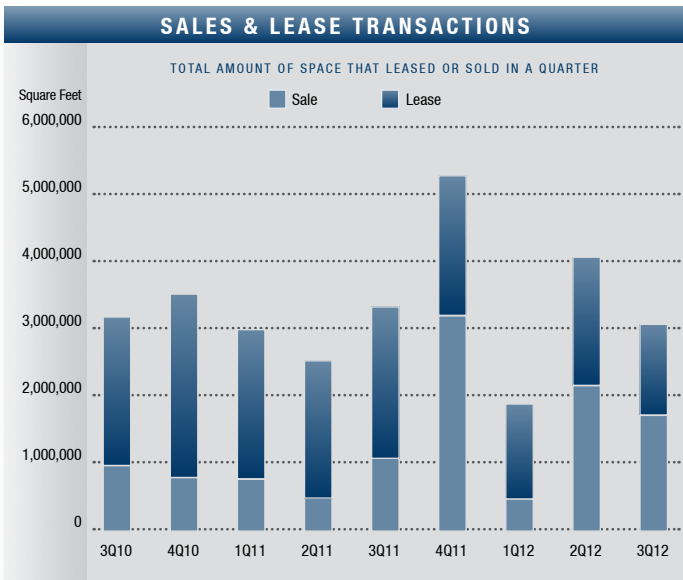
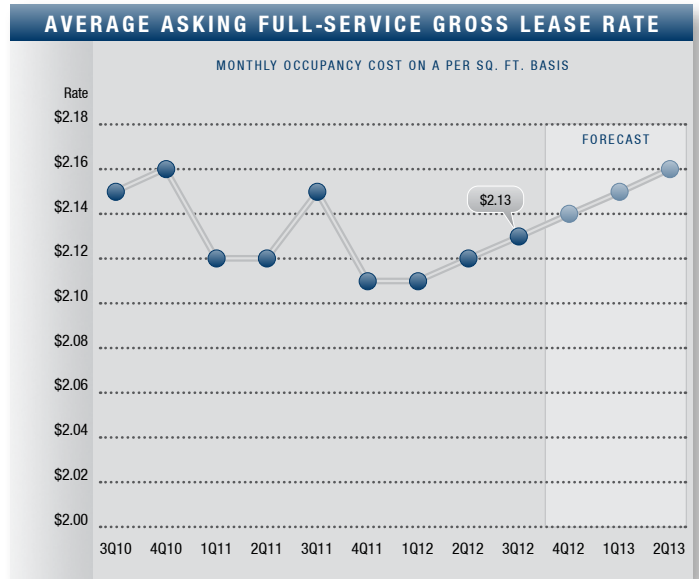
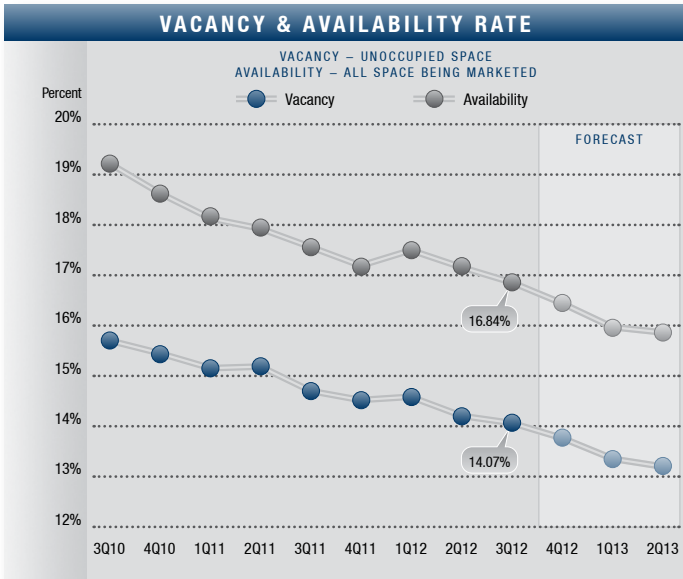
- Recovering** - The third quarter saw an increase in lease rates, positive absorption, and a decrease in the vacancy rate. These indicators have been generally moving in this direction since the beginning of 2010, with a couple bumps along the way. This sustained improvement points to an office market making strides towards recovery.
- Construction** - Over the past five years over 7.2 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 1.45 million square feet in the third quarter of 2012.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 14.07%, a decrease from the previous quarter's figure of 14.20%. After peaking at 16.1% vacancy in the first quarter of 2010 the vacancy rate in the office market is approximately a quarter of the way back to the 8.6% rate of 2005. That point marked the lowest point the office vacancy rate reached in the previous period of economic expansion.
- Availability** - Direct/sublease space being marketed was 16.84% at the end of the third quarter, a decrease of 4% when compared to the 17.55% availability rate of the third quarter last year.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.13 for the quarter, up one cent 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 County Coastal area, where the average asking lease rate was \$2.89 FSG. Class A rates for the county averaged \$2.51 FSG.
- Absorption** - The San Diego office market posted 442,444 square feet of positive net absorption this quarter, marking the greatest amount of positive net absorption in a

quarter in 5 years. 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 3 million square feet in the third quarter. Local tech giant Qualcomm, Inc. continues to exhibit a voracious appetite for office space. 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 9.0% in August 2012, down from a revised 9.3% in July 2012 and below the year-ago estimate of 10.3%. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 30,300 payroll jobs from August 2011 to August 2012 — 6,300 in professional and business services, and 5,200 from education and health services. Manufacturing posted the greatest year-over-year decline — a loss of 700 jobs.
- Overall** - The economic recovery has not been overwhelming to this point, but overall, the office market has been steadily improving over the last two years. With few new deliveries in the pipeline to apply upward pressure on vacancy, and the market is stabilizing. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease concessions have been easing, and overall lease rates are starting to come off the bottom. We should also 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

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	14.07%	14.20%	14.70%	(4.29%)
Availability Rate	16.84%	17.17%	17.55%	(4.05%)
Average Asking Lease Rate	\$2.13	\$2.12	\$2.15	(0.93%)
Sale & Lease Transactions	3,034,237	4,075,659	3,282,334	(7.56%)
Gross Absorption	2,542,798	1,960,249	2,193,110	15.94%
Net Absorption	442,444	385,143	775,967	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Central													
Downtown	142	13,001,873	0	0	2,264,657	17.42%	3,033,618	23.33%	\$2.14	(25,844)	22,467	173,945	502,482
Central Total	142	13,001,873	0	0	2,264,657	17.42%	3,033,618	23.33%	\$2.14	(25,844)	22,467	173,945	502,482
Central Suburban													
City Heights/University	28	1,024,375	0	0	71,440	6.97%	96,025	9.37%	\$1.69	(4,051)	43,629	4,840	78,002
Coronado	6	124,741	0	0	3,100	2.49%	3,100	2.49%	\$0.00	4,261	322	5,636	6,677
Kearny Mesa	239	10,632,861	0	193,000	1,056,703	9.94%	1,386,297	13.04%	\$1.70	369,404	449,782	534,839	857,398
Mission Gorge	26	603,823	0	0	48,853	8.09%	50,593	8.38%	\$1.16	4,442	6,437	4,442	8,179
Mission Valley	126	6,943,472	0	298,745	900,087	12.96%	1,080,281	15.56%	\$1.98	28,709	(2,722)	245,419	601,977
Old Town/Point Loma	86	2,593,214	0	0	280,830	10.83%	318,613	12.29%	\$1.55	(10,730)	1,702	34,810	80,345
Park East	9	175,805	0	0	11,063	6.29%	15,423	8.77%	\$2.10	0	(2,411)	0	3,742
Rose Canyon/Morena	57	1,287,584	0	11,160	129,807	10.08%	159,633	12.40%	\$1.80	(813)	(1,310)	8,187	61,030
Uptown/Hillcrest	106	2,640,467	66,365	72,514	210,143	7.96%	241,783	9.16%	\$2.13	3,295	(15,937)	19,164	44,225
Central Suburban Total	683	26,026,342	66,365	575,419	2,712,026	10.42%	3,351,748	12.88%	\$1.80	394,517	479,492	857,337	1,741,575
Highway 78 Corridor													
Oceanside	56	1,212,291	57,476	347,414	195,124	16.10%	192,740	15.90%	\$0.00	44,002	42,574	59,064	84,072
San Marcos	37	1,278,270	71,200	818,000	234,975	18.38%	249,258	19.50%	\$0.00	12,612	(1,190)	14,680	47,958
Vista	49	1,156,987	0	215,350	194,640	16.82%	229,940	19.87%	\$1.45	(18,966)	(24,346)	6,904	18,898
Highway 78 Corridor Total	142	3,647,548	128,676	1,380,764	624,739	17.13%	671,938	18.42%	\$1.45	37,648	17,038	80,648	150,928
I-15 Corridor													
Escondido	90	1,900,500	9,600	43,107	323,752	17.04%	356,563	18.76%	\$1.63	(10,133)	(9,788)	22,661	74,434
Poway	27	1,315,857	0	790,570	70,507	5.36%	71,881	5.46%	\$0.00	14,439	25,092	22,013	46,013
Rancho Bernardo	103	6,416,429	40,398	1,136,675	750,030	11.69%	713,997	11.13%	\$2.13	(3,021)	17,075	86,767	327,807
Scripps Ranch	50	2,709,982	0	377,000	698,958	25.79%	729,130	26.91%	\$2.15	161,414	252,376	249,191	390,568
I-15 Corridor Total	270	12,342,768	49,998	2,347,352	1,843,247	14.93%	1,871,571	15.16%	\$1.93	162,699	284,755	380,632	838,822
North City													
Governor Park	19	867,993	0	0	95,734	11.03%	161,257	18.58%	\$2.15	(22,406)	(18,506)	23,683	87,994
La Jolla	57	1,715,720	0	0	174,087	10.15%	289,444	16.87%	\$2.42	(3,352)	(6,576)	29,441	98,677
Miramar	38	1,635,185	0	0	282,047	17.25%	305,949	18.71%	\$1.58	(6,891)	(26,464)	8,982	54,759
Sorrento Mesa	116	8,904,435	600,882	1,390,712	988,746	11.10%	1,111,797	12.49%	\$2.93	80,198	50,560	205,273	360,282
Sorrento Valley	26	794,894	0	0	92,629	11.65%	127,130	15.99%	\$1.53	(9,045)	(14,230)	8,540	35,896
Torrey Pines	48	3,395,301	0	0	422,925	12.46%	557,707	16.43%	\$3.75	(174,408)	(150,627)	7,524	66,308
UTC Center	83	7,575,244	538,004	175,000	997,732	13.17%	1,437,800	18.98%	\$2.84	36,750	294,517	335,992	929,077
North City Total	387	24,888,772	1,138,886	1,565,712	3,053,900	12.27%	3,991,084	16.04%	\$2.78	(99,154)	128,674	619,435	1,632,993
North County													
Carlsbad	151	5,761,240	0	492,000	1,403,630	24.36%	1,457,795	25.30%	\$2.11	(24,601)	(38,832)	187,887	520,611
Del Mar Heights/Carmel Valley	67	4,399,992	0	682,136	870,128	19.78%	1,073,440	24.40%	\$3.16	(53,691)	(81,301)	71,076	412,850
North Beach Cities	112	2,488,015	63,941	48,708	207,818	8.35%	264,175	10.62%	\$2.38	12,978	(11,737)	54,532	147,761
North County Total	330	12,649,247	63,941	1,222,844	2,481,576	19.62%	2,795,410	22.10%	\$2.89	(65,314)	(131,870)	313,495	1,081,222
South/Southeast Corridor													
Chula Vista	91	2,802,852	0	273,122	464,463	16.57%	489,150	17.45%	\$1.50	37,177	(11,206)	67,320	140,330
East County	159	3,834,021	0	552,200	313,660	8.18%	320,961	8.37%	\$1.28	21,630	34,573	45,364	116,097
National City	15	541,398	0	20,000	237,342	43.84%	251,369	46.43%	\$0.00	(11,750)	(7,099)	680	22,138
Otay Mesa	13	328,316	0	0	36,396	11.09%	33,298	10.14%	\$0.00	(3,586)	(4,466)	1,742	13,802
Southeast San Diego	10	426,932	0	0	108,159	25.33%	108,159	25.33%	\$0.00	(5,579)	(5,579)	2,200	2,200
South/Southeast Total	288	7,933,519	0	845,322	1,160,020	14.62%	1,202,937	15.16%	\$1.33	37,892	6,223	117,306	294,567
Class A	251	31,584,725	1,007,361	5,270,639	4,100,154	12.98%	5,073,032	16.06%	\$2.51	198,690	728,555	780,727	2,315,417
Class B	1,216	51,890,509	440,505	2,666,774	8,198,767	15.80%	9,716,228	18.72%	\$1.87	261,031	138,961	1,585,478	3,360,842
Class C	775	17,014,835	0	0	1,841,244	10.82%	2,129,046	12.51%	\$1.51	(17,277)	(60,737)	176,593	566,330
San Diego County Total	2,242	100,490,069	1,447,866	7,937,413	14,140,165	14.07%	16,918,306	16.84%	\$2.13	442,444	806,779	2,542,798	6,242,589

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
3111 Camino Del Rio N.	Mission Valley	A	202,913	\$256.27	The Irvine Company	TIAA-CREF
10578-10628 Science Center Dr.	Torrey Pines	A	306,577	\$167.17	Legacy Partners Commercial I Walton Street Capital, LLC	Pfizer, Inc.
11494-11772 Sorrento Valley Rd.	Sorrento Valley	B	74,894	\$328.46	Griffin-American Healthcare REIT II	Grasela Investments, LLC
16835-16875 W. Bernardo Dr.	Rancho Bernardo	B	173,748	\$124.03	Brookwood Financial Partners, LP	TA Associates Realty
2530 Campbell Pl.	Carlsbad	B	41,000	\$345.12	Corsair Management, LP	Lichter Venture Group

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9685-9725 Scranton Rd.	Sorrento Mesa	B	76,404	Jul-12	Qualcomm	Beacon Capital Partners, LLC
12670 High Bluff Dr.	Del Mar Heights	B	69,836	Aug-12	Lantham & Watkins	TIAA-CREF Investment Management
2200 Faraday Ave.	Carlsbad	B	58,452	Jul-12	Legend Films, Inc.	(Sublease)
5505 Morehouse Dr.	Sorrento Mesa	B	47,969	Aug-12	Qualcomm	Grosvenor Fund
2121 San Diego Ave.	Old Town	B	45,123	Aug-12	The Aspire Center	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.

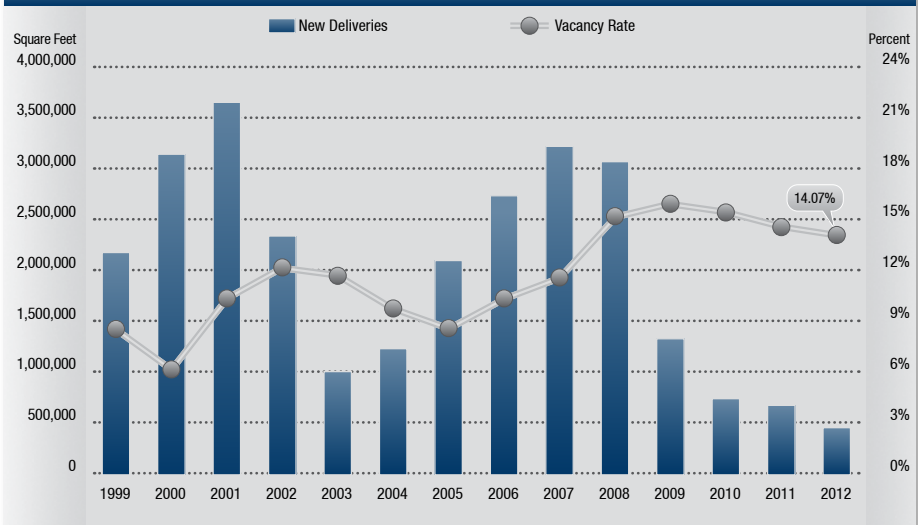
CLASS B

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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Irvine, CA
949.851.5100

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702.734.4500

Newport Beach, CA
949.644.8648

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602.952.8648

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