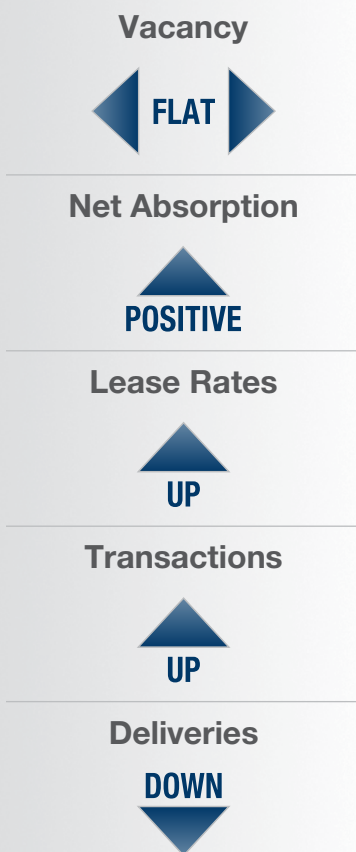


## Office Market Report

Compared to the Previous Quarter:



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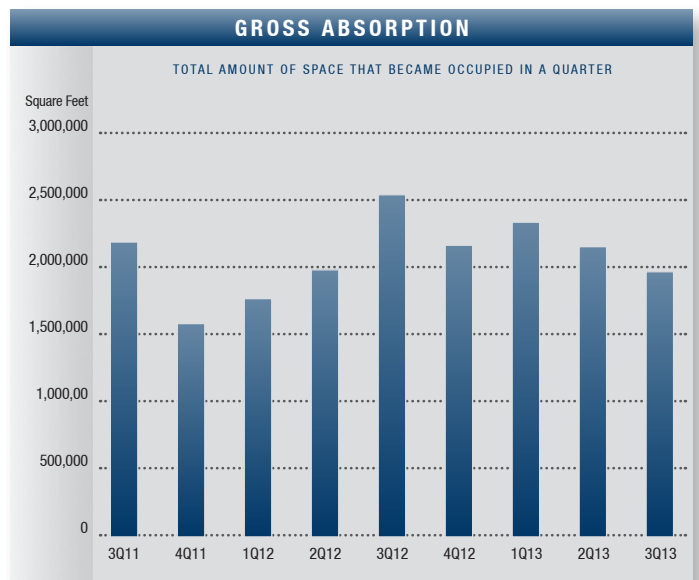
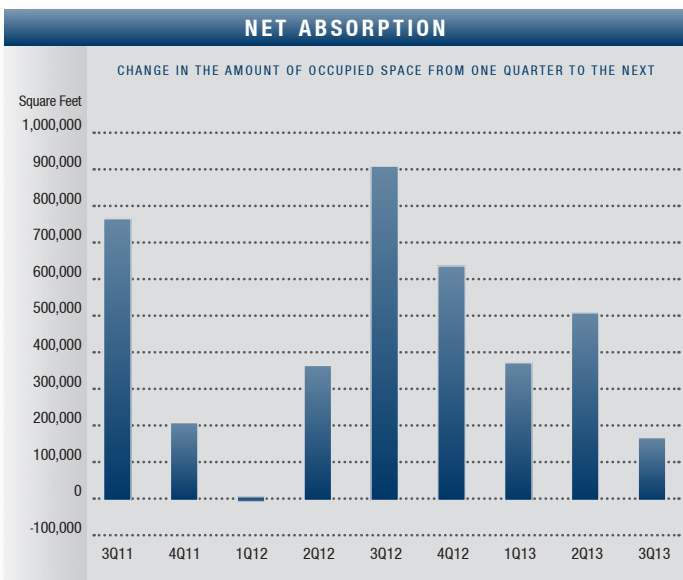
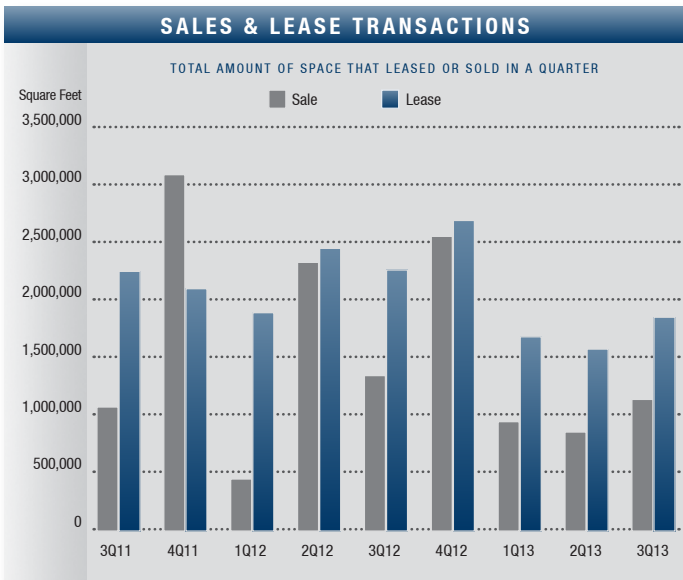
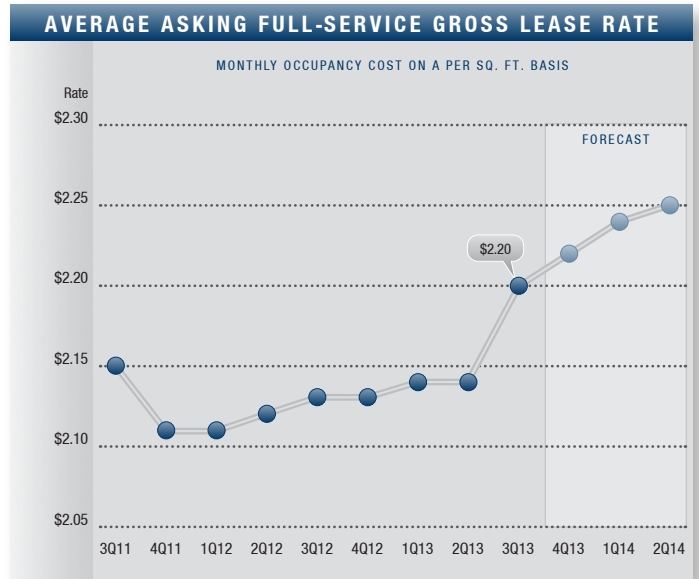
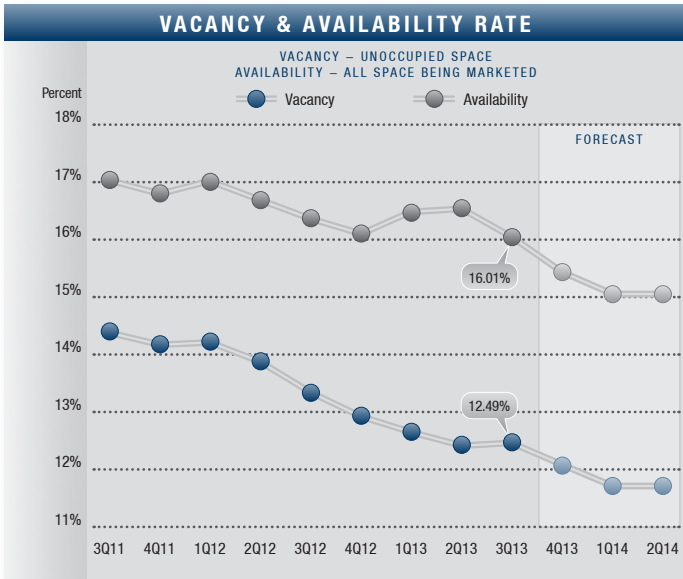
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### Market Highlights

- Downturn in the Rearview** - The third quarter continued the trend of steady improvement in fundamentals for the San Diego office market. The market indicators have been generally moving in this direction since the beginning of 2010, despite a couple bumps along the way. The third quarter's big stride forward was in the asking lease rates, which rose significantly while vacancy remained flat with effectively no change.
- Absorption** - The San Diego office market posted 166,062 square feet of positive net absorption in the third quarter — the sixth consecutive quarter of positive net absorption. 2013 has already reached 1 million square feet of positive net absorption, a level of positive net absorption now reached for four consecutive years.
- Transaction Activity** - Sale and lease transactions totaled 2.96 million square feet in the third quarter, an increase over the 2.40 million square feet transacted in the second quarter. 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 7.4% in August 2013, down from a revised 7.8% in July 2013 and below the year-ago estimate of 9.2%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 14,800 payroll jobs from August 2012 to August 2013 — including 5,300 in educational and health services, 4,700 from leisure and hospitality, and 4,400 from professional and business services. Manufacturing recorded the greatest number of job losses, down 2,800, year over year.
- Overall** - While the current economic recovery has been decidedly slower than other recent recoveries, the office market has been steadily improving over the last four straight years. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market is stabilizing. Lease rates have risen, especially among Class A offices in prime submarkets. 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.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 12.49%, effectively unchanged from the previous quarter's figure of 12.44%. 2013 saw the first drop in office vacancy below 13% since mid-2008, and vacancy in the third quarter was down 6% compared to the same quarter of 2012.
- Availability** - Direct/sublease space being marketed was 16.01% at the end of the first quarter, a decrease from the 16.46% 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 \$2.20 for the third quarter, a large increase from the second quarter's rate of \$2.14. The record high rate of \$2.76 was established in the first and second quarters of 2008. Class A rates drove the asking rate increases, rising seven cents from the second quarter to \$2.59 FSG.

### OFFICE MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	12.49%	12.44%	13.30%	(6.09%)
Availability Rate	16.01%	16.46%	16.37%	(2.20%)
Average Asking Lease Rate	\$2.20	\$2.14	\$2.13	3.29%
Sale & Lease Transactions	2,956,888	2,400,416	3,581,079	(17.43%)
Gross Absorption	1,966,992	2,144,520	2,537,201	(22.47%)
Net Absorption	166,062	502,496	904,087	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>Central</b>													
Downtown	136	12,821,023	0	1,273,896	2,055,220	16.03%	2,607,031	20.33%	\$2.20	(69,948)	82,224	199,301	645,321
<b>Central Total</b>	<b>136</b>	<b>12,821,023</b>	<b>0</b>	<b>1,273,896</b>	<b>2,055,220</b>	<b>16.03%</b>	<b>2,607,031</b>	<b>20.33%</b>	<b>\$2.20</b>	<b>(69,948)</b>	<b>82,224</b>	<b>199,301</b>	<b>645,321</b>
<b>Central Suburban</b>													
City Heights/University	28	1,024,202	0	0	120,031	11.72%	152,427	14.88%	\$1.70	(11,959)	(11,035)	22,439	61,140
Coronado	6	124,741	0	0	0	0.00%	5,636	4.52%	\$0.00	0	3,100	0	3,100
Kearny Mesa	237	10,641,583	0	193,000	1,260,828	11.85%	1,603,078	15.06%	\$1.74	(75,118)	(216,387)	78,663	416,869
Mission Gorge	25	582,823	0	0	50,306	8.63%	47,193	8.10%	\$1.13	3,320	5,236	5,395	16,727
Mission Valley	125	6,939,835	0	285,830	669,883	9.65%	849,941	12.25%	\$2.21	153,445	185,786	279,409	642,328
Old Town/Point Loma	78	2,483,200	0	0	221,465	8.92%	359,007	14.46%	\$1.60	(12,271)	(32,505)	34,837	90,297
Park East	9	176,637	0	0	2,147	1.22%	2,147	1.22%	\$2.25	5,415	16,871	5,427	16,883
Rose Canyon/Morena	56	1,272,659	0	11,160	90,399	7.10%	103,062	8.10%	\$1.76	(4,431)	26,100	6,678	79,508
Uptown/Hillcrest	106	2,693,720	0	72,514	211,088	7.84%	236,333	8.77%	\$2.10	462	(20,064)	22,414	58,640
<b>Central Suburban Total</b>	<b>670</b>	<b>25,939,400</b>	<b>0</b>	<b>562,504</b>	<b>2,626,147</b>	<b>10.12%</b>	<b>3,358,824</b>	<b>12.95%</b>	<b>\$1.85</b>	<b>58,863</b>	<b>(42,898)</b>	<b>455,262</b>	<b>1,385,492</b>
<b>Highway 78 Corridor</b>													
Oceanside	57	1,271,116	0	309,832	202,188	15.91%	236,631	18.62%	\$1.70	471	66,265	19,391	119,405
San Marcos	39	1,382,781	0	1,487,970	217,320	15.72%	221,990	16.05%	\$1.05	10,286	13,481	17,477	56,127
Vista	48	1,147,954	0	212,350	174,292	15.18%	251,233	21.89%	\$1.47	1,105	6,381	23,077	42,598
<b>Highway 78 Corridor Total</b>	<b>144</b>	<b>3,801,851</b>	<b>0</b>	<b>2,010,152</b>	<b>593,800</b>	<b>15.62%</b>	<b>709,854</b>	<b>18.67%</b>	<b>\$1.46</b>	<b>11,862</b>	<b>86,127</b>	<b>59,945</b>	<b>218,130</b>
<b>I-15 Corridor</b>													
Escondido	92	1,933,440	0	43,107	278,987	14.43%	300,050	15.52%	\$1.86	60,700	48,836	69,970	144,429
Poway	29	1,295,562	0	650,570	80,160	6.19%	84,653	6.53%	\$1.42	6,264	10,620	14,782	42,268
Rancho Bernardo	108	6,576,067	0	1,136,675	599,636	9.12%	792,935	12.06%	\$2.09	46,409	108,491	105,895	310,448
Scripps Ranch	50	2,704,833	0	502,000	576,076	21.30%	721,713	26.68%	\$2.15	6,611	119,638	16,675	200,188
<b>I-15 Corridor Total</b>	<b>279</b>	<b>12,509,902</b>	<b>0</b>	<b>2,332,352</b>	<b>1,534,859</b>	<b>12.27%</b>	<b>1,899,351</b>	<b>15.18%</b>	<b>\$2.04</b>	<b>119,984</b>	<b>287,585</b>	<b>207,322</b>	<b>697,333</b>
<b>North City</b>													
Governor Park	19	870,078	0	0	122,048	14.03%	148,930	17.12%	\$2.26	(9,610)	(41,690)	8,115	57,817
La Jolla	56	1,717,132	0	0	214,852	12.51%	256,027	14.91%	\$2.74	2,660	6,597	45,852	122,238
Miramar	38	1,777,942	0	0	332,922	18.73%	352,037	19.80%	\$1.16	(20,124)	(57,707)	33,401	89,412
Sorrento Mesa	122	9,680,968	0	1,672,302	829,718	8.57%	1,207,776	12.48%	\$2.21	226,592	515,177	460,617	1,073,094
Sorrento Valley	26	798,299	0	0	117,621	14.73%	122,799	15.38%	\$2.17	4,927	(39,098)	20,975	74,841
Torrey Pines	43	2,703,818	0	0	141,492	5.23%	172,203	6.37%	\$3.75	6,854	(27,153)	6,891	46,484
UTC	83	7,679,280	414,575	379,770	1,040,596	13.55%	2,027,437	26.40%	\$3.10	(105,837)	(84,759)	191,983	570,210
<b>North City Total</b>	<b>387</b>	<b>25,227,517</b>	<b>414,575</b>	<b>2,052,072</b>	<b>2,799,249</b>	<b>11.10%</b>	<b>4,287,209</b>	<b>16.99%</b>	<b>\$2.98</b>	<b>105,462</b>	<b>271,367</b>	<b>767,834</b>	<b>2,034,096</b>
<b>North County</b>													
Carlsbad	152	5,928,263	0	492,000	1,117,206	18.85%	1,228,412	20.72%	\$2.09	22,653	127,820	128,635	520,788
Del Mar Heights/Carmel Valley	65	4,288,045	70,000	598,611	728,652	16.99%	812,581	18.95%	\$3.69	(97,560)	(507)	55,929	363,176
North Beach Cities	110	2,456,605	33,917	77,120	167,678	6.83%	227,306	9.25%	\$1.85	11,955	27,411	57,545	178,552
<b>North County Total</b>	<b>327</b>	<b>12,672,913</b>	<b>103,917</b>	<b>1,167,731</b>	<b>2,013,536</b>	<b>15.89%</b>	<b>2,268,299</b>	<b>17.90%</b>	<b>\$2.53</b>	<b>(62,952)</b>	<b>154,724</b>	<b>242,109</b>	<b>1,062,516</b>
<b>Southern &amp; Eastern Areas</b>													
Chula Vista	90	2,781,517	0	765,002	376,039	13.52%	387,996	13.95%	\$1.92	(4,813)	93,750	7,475	171,765
East County	157	3,811,207	0	194,200	286,629	7.52%	342,242	8.98%	\$1.06	6,093	51,115	22,193	148,214
National City	15	541,398	0	0	176,480	32.60%	147,954	27.33%	\$0.00	212	56,642	1,087	61,737
Otay Mesa	14	338,316	0	1,256,000	32,633	9.65%	32,633	9.65%	\$1.34	1,299	(629)	4,464	7,913
Southeast San Diego	10	426,932	0	0	107,959	25.29%	107,959	25.29%	\$0.00	0	(1,180)	0	3,000
<b>Southern &amp; Eastern Areas Total</b>	<b>286</b>	<b>7,899,370</b>	<b>0</b>	<b>2,215,202</b>	<b>979,740</b>	<b>12.40%</b>	<b>1,018,784</b>	<b>12.90%</b>	<b>\$1.36</b>	<b>2,791</b>	<b>199,698</b>	<b>35,219</b>	<b>392,629</b>
Class A	253	31,941,830	484,575	7,694,527	3,697,465	11.58%	4,812,031	15.06%	\$2.59	155,269	443,220	792,675	2,091,314
Class B	1,216	52,215,175	33,917	3,919,382	7,359,707	14.09%	9,432,926	18.07%	\$1.94	(28,532)	404,022	957,438	3,579,909
Class C	760	16,714,971	0	0	1,545,379	9.25%	1,904,395	11.39%	\$1.56	39,325	191,585	216,879	764,294
<b>San Diego County Total</b>	<b>2,229</b>	<b>100,871,976</b>	<b>518,492</b>	<b>11,613,909</b>	<b>12,602,551</b>	<b>12.49%</b>	<b>16,149,352</b>	<b>16.01%</b>	<b>\$2.20</b>	<b>166,062</b>	<b>1,038,827</b>	<b>1,966,992</b>	<b>6,435,517</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
9276-9330 Scranton Rd. & 5355-5375 Mira Sorrento Pl. – Portion of Portfolio Sale	Sorrento Mesa	A	559,141	\$397.04	Prudential Real Estate Investors	The Blackstone Group
11975 El Camino Real	Del Mar Heights	A	112,440	\$403.77	Realty Income Corporation	Equity Office
1230 Columbia St.	Downtown	B	143,574	\$243.78	Emmes Group of Companies	LaeRoc Partners, Inc.
303 H St.	Chula Vista	A	100,320	\$236.74	MountainWest Real Estate	Gateway Chula Vista, LLC
5759 Fleet St.	Carlsbad	B	80,862	\$275.78	Drawbridge Realty Trust	TA Associates Realty

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
525 B St.	Downtown	A	90,778	Jul-13	City of San Diego	Hines
1615 Murray Canyon Rd.	Kearny Mesa	A	80,281	Sept-13	Undisclosed	Colony Realty Partners
4545 Towne Centre Ct. – Renewal	UTC	B	62,472	Sept-13	Nuvasive, Inc.	Arden Realty, Inc.
10421 Wateridge Cir. – Renewal	Sorrento Mesa	A	61,249	Aug-13	Wells Fargo	Legacy Partners Commercial, Inc.
701 B St. – Renewal	Downtown	A	54,442	Jul-13	Alliant Insurance Services	The Blackstone Group

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.

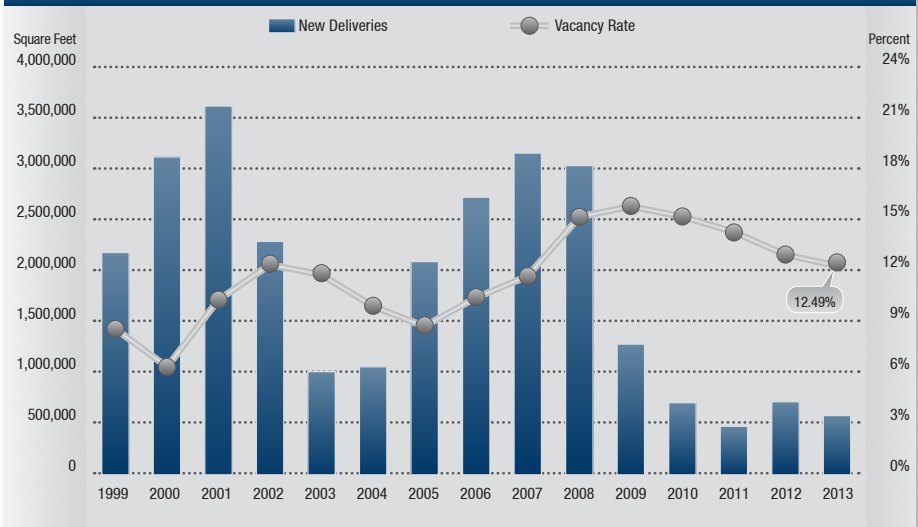
CLASS B

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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