

Office Market Report

Compared to 2009:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Construction

DOWN

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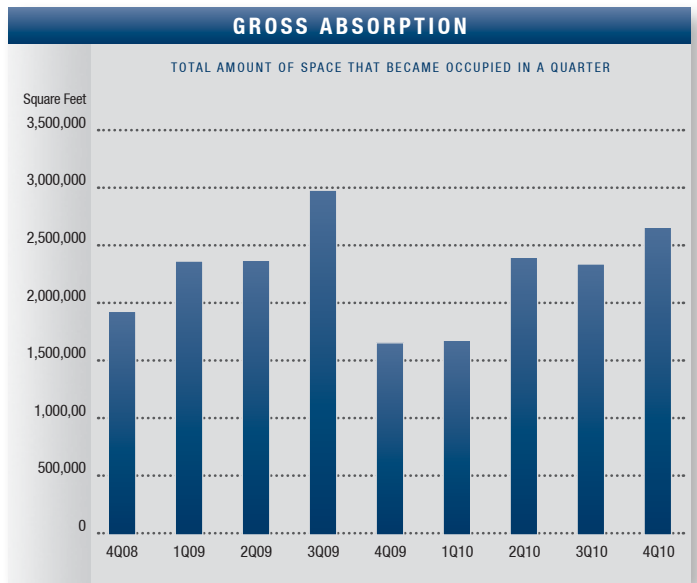
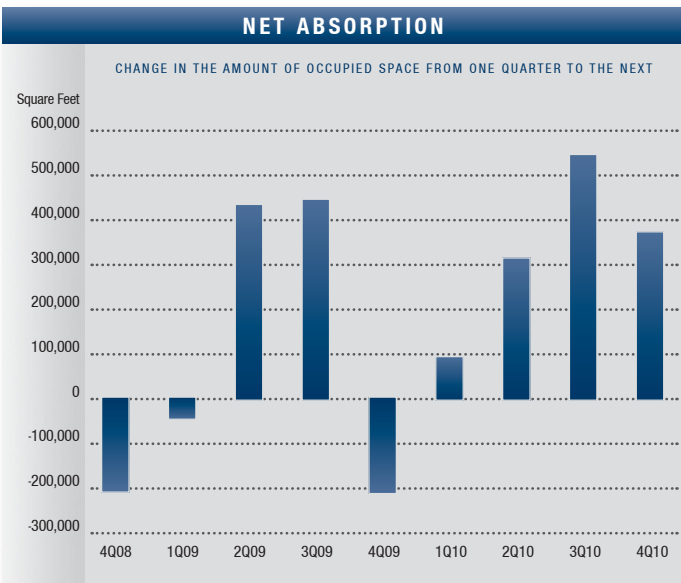
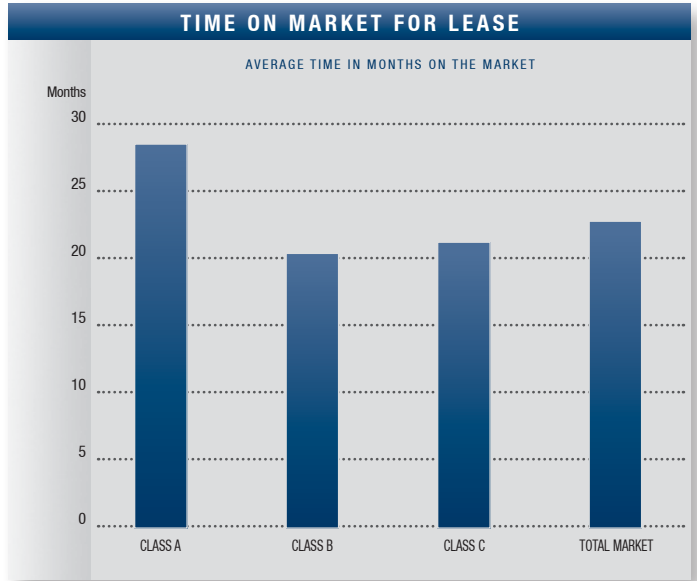
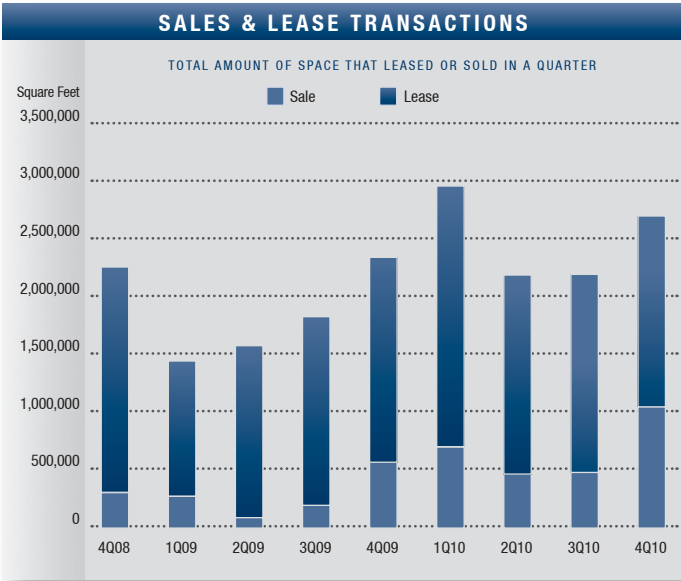
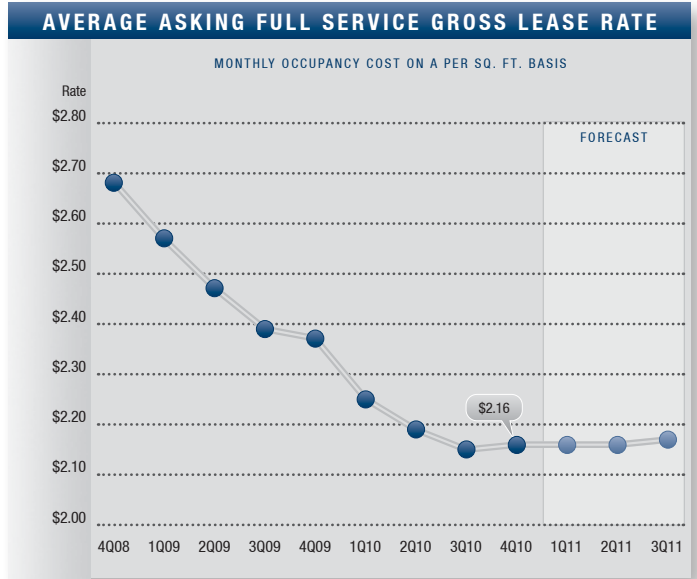
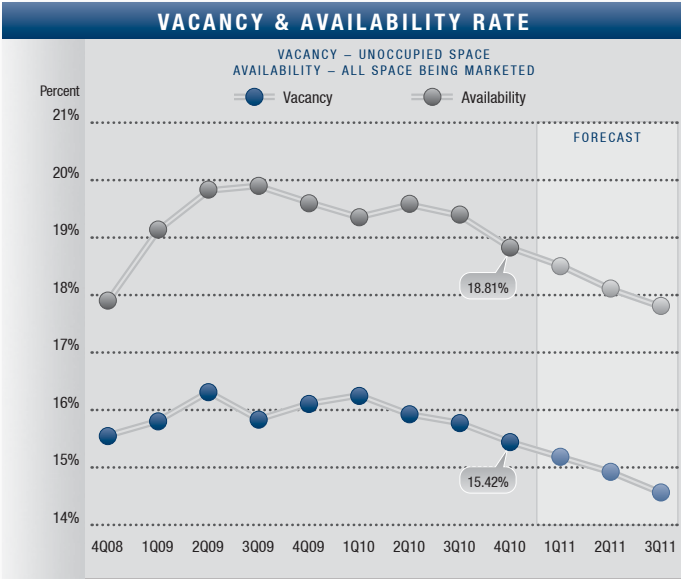
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Market Highlights

- Are we there yet?** - The San Diego County Office displayed more signs of stabilization in the fourth quarter of 2010. Both vacancy and availability were down from 2009, and net absorption was positive in each quarter of 2010. Although demand is still weak by historical standards, 2010 marked 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 four years, over 8 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 44,000 square feet for the fourth quarter of 2010. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 15.42%, lower than the third quarter's figure of 15.78% and lower than 2009's rate of 16.08%. The Central Suburban market posted the lowest rate in the county, at 11.13%.
- Availability** - Direct/sublease space being marketed was at 18.81% this quarter, a decrease of 4.18% when compared to the 19.63% availability rate of the fourth quarter of 2009.
- Lease Rates** - The average asking Full-Service Gross (FSG) lease rate per square foot per month in San Diego County was \$2.16 for the fourth quarter — a decrease of 8.86% over 2009's rate of \$2.37 but one cent higher than 2010's third 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 \$2.42 FSG. Class A rates for the county averaged \$2.43 FSG.
- Absorption** - Net absorption for the county posted a positive 372,943 square feet for the fourth quarter of 2010, giving the office market a total of 1,245,773 square feet of positive absorption for 2010.
- Transaction Activity** - Leasing activity checked in at 7.4 million square feet in 2010, an 18.92% increase over the 2009 total of 6 million square feet. Sales activity also showed a year-over-year increase, posting 2.6 million square feet of activity in 2010 compared to one million square feet in 2009. Details of the largest transactions for 2010 can be found on the back page of this report.
- Employment** - The unemployment rate in San Diego County was 10.4% in November 2010, up from a revised 10.3% in October 2010 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 100 payroll jobs from November 2009 to November 2010 — 3,500 in professional and business services and 3,100 in education and health services. However, construction posted the greatest year-over-year decline — a loss of 2,100 jobs. Between October 2010 and November 2010 San Diego County employment increased by 3,700 jobs overall. The LAEDC is forecasting that 17,000 jobs will be added in San Diego County in 2011.
- 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 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 to increase 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. Once employment turns positive and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	15.42%	16.08%	15.55%	(4.10%)
Availability Rate	18.81%	19.63%	17.92%	(4.18%)
Average Asking Lease Rate	\$2.16	\$2.37	\$2.62	(8.86%)
Sale & Lease Transactions	10,017,859	7,101,336	9,017,253	41.07%
Gross Absorption	9,058,009	9,274,238	8,431,800	(2.33%)
Net Absorption	1,245,773	619,402	(1,061,222)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Central													
Downtown	140	12,821,466	0	40,000	2,175,870	16.97%	2,675,197	20.86%	\$2.23	(135,893)	(237,454)	195,821	761,710
Central Total	140	12,821,466	0	40,000	2,175,870	16.97%	2,675,197	20.86%	\$2.23	(135,893)	(237,454)	195,821	761,710
Central Suburban													
City Heights/University	28	949,913	0	0	55,882	5.88%	76,501	8.05%	\$1.17	(3,922)	(3,064)	3,046	28,431
Coronado	6	124,741	0	0	4,422	3.54%	4,422	3.54%	\$2.75	3,917	2,457	3,917	4,707
Kearny Mesa	235	10,257,754	0	543,000	1,110,008	10.82%	1,393,485	13.58%	\$1.71	15,037	513,441	182,822	1,098,057
Mission Gorge	26	630,727	0	0	46,819	7.42%	45,439	7.20%	\$1.34	27,525	22,567	31,730	55,764
Mission Valley	125	6,954,181	0	55,000	1,154,317	16.60%	1,308,080	18.81%	\$2.09	23,659	(10,096)	294,148	720,861
Old Town/Point Loma	79	2,412,908	0	0	93,716	3.88%	306,817	12.72%	\$1.49	6,789	51,648	12,001	102,805
Park East	9	167,584	0	0	10,415	6.21%	13,456	8.03%	\$2.10	(9,436)	(8,791)	1,762	9,162
Rose Canyon/Morena	58	1,267,660	0	11,160	138,361	10.91%	150,323	11.86%	\$1.86	3,074	(19,084)	15,532	59,628
Uptown/Hillcrest	110	2,726,476	0	72,514	224,497	8.23%	314,462	11.53%	\$2.15	5,098	(39,971)	40,277	131,513
Central Suburban Total	676	25,491,944	0	681,674	2,838,437	11.13%	3,612,985	14.17%	\$1.89	71,741	509,107	585,235	2,210,928
Highway 78 Corridor													
Oceanside	54	1,158,859	0	438,789	216,062	18.64%	214,440	18.50%	\$1.52	38,102	98,016	54,627	143,456
San Marcos	36	1,228,686	0	158,000	291,802	23.75%	350,917	28.56%	\$2.55	1,507	18,726	10,891	59,181
Vista	47	1,089,871	0	188,350	181,101	16.62%	184,265	16.91%	\$1.46	(16,598)	(22,944)	9,738	76,096
Highway 78 Corridor Total	137	3,477,416	0	785,139	688,965	19.81%	749,622	21.56%	\$1.58	23,011	93,798	75,256	278,733
I-15 Corridor													
Escondido	73	1,530,508	44,000	43,107	280,978	18.36%	309,180	20.20%	\$1.67	35,633	(34,236)	40,117	72,772
Poway	30	1,376,585	0	790,570	75,330	5.47%	98,926	7.19%	\$2.22	2,240	(6,519)	8,594	25,650
Rancho Bernardo	102	6,251,621	0	1,177,073	728,410	11.65%	825,595	13.21%	\$1.75	332,171	697,953	462,560	1,093,655
Scripps Ranch	51	2,721,957	0	240,000	1,046,075	38.43%	1,120,336	41.16%	\$2.09	(434,884)	(353,506)	10,726	362,223
I-15 Corridor Total	256	11,880,671	44,000	2,250,750	2,130,793	17.93%	2,354,037	19.81%	\$1.87	(64,840)	303,692	521,997	1,554,300
North City													
Governor Park	19	852,084	0	0	194,195	22.79%	177,909	20.88%	\$2.00	149,252	158,619	164,161	231,327
La Jolla	61	1,774,156	0	0	162,748	9.17%	243,079	13.70%	\$2.65	(3,720)	(38,621)	33,348	133,390
Miramar	36	1,636,472	0	0	180,284	11.02%	229,246	14.01%	\$1.98	10,782	50,615	39,346	120,839
Sorrento Mesa	117	8,336,983	0	1,445,649	1,228,413	14.73%	1,485,023	17.81%	\$2.19	338,004	209,836	379,745	899,448
Sorrento Valley	25	778,804	0	0	81,342	10.44%	89,899	11.54%	\$1.29	(3,217)	14,812	9,456	55,487
Torrey Pines	49	3,658,534	0	0	242,607	6.63%	469,413	12.83%	\$3.75	(18,574)	(73,472)	6,177	75,013
UTC Center	88	8,181,587	0	594,097	1,531,642	18.72%	2,242,810	27.41%	\$2.44	56,823	(36,615)	293,084	883,561
North City Total	395	25,218,620	0	2,039,746	3,621,231	14.36%	4,937,379	19.58%	\$2.42	529,350	285,174	925,317	2,399,065
North County													
Carlsbad	153	6,200,653	0	792,200	1,598,634	25.78%	1,788,430	28.84%	\$2.39	(38,816)	14,585	143,885	650,278
Del Mar Heights/Carmel Valley	67	4,397,167	0	91,256	918,864	20.90%	1,024,259	23.29%	\$2.43	(40,518)	183,467	91,769	596,533
North Beach Cities	120	2,650,513	0	92,900	259,134	9.78%	360,292	13.59%	\$2.15	18,955	30,374	58,750	229,200
North County Total	340	13,248,333	0	976,356	2,776,632	20.96%	3,172,981	23.95%	\$2.39	(60,379)	228,426	294,404	1,476,011
South/Southeast Corridor													
Chula Vista	83	2,496,334	0	312,955	409,068	16.39%	443,088	17.75%	\$1.71	16,664	49,987	28,893	172,556
East County	156	3,447,710	0	546,200	292,092	8.47%	347,103	10.07%	\$1.10	4,851	36,128	22,115	150,755
National City	15	516,722	0	0	227,799	44.09%	231,855	44.87%	\$0.00	(2,195)	(4,566)	8,747	22,336
Otay Mesa	10	241,214	0	0	45,824	19.00%	54,425	22.56%	\$0.00	(3,216)	(8,669)	0	11,020
Southeast San Diego	16	577,042	0	0	121,828	21.11%	123,034	21.32%	\$1.25	(6,151)	(9,850)	700	19,595
South/Southeast Total	280	7,279,022	0	859,155	1,096,611	15.07%	1,199,505	16.48%	\$1.32	9,953	63,030	60,455	376,262
Class A	254	31,378,210	0	4,267,292	5,128,261	16.34%	5,710,784	18.20%	\$2.43	732,456	1,615,611	1,267,002	3,843,812
Class B	1,189	50,217,551	44,000	3,365,528	8,575,304	17.08%	10,911,286	21.73%	\$1.99	(397,133)	(272,338)	1,133,815	4,389,868
Class C	781	17,821,711	0	0	1,624,974	9.12%	2,079,636	11.67%	\$1.57	37,620	(97,500)	257,668	823,329
San Diego County Total	2,224	99,417,472	44,000	7,632,820	15,328,539	15.42%	18,701,706	18.81%	\$2.16	372,943	1,245,773	2,658,485	9,057,009

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
10300 Campus Point Drive	UTC	B	451,564	\$251.35	Alexandria Real Estate Equities, Inc.	Veralliance Properties, Inc.
4570 Executive Drive	UTC	A	125,219	\$507.11	Bio Med Realty Trust, Inc.	LMC Investment Company, LLC
2355-75 Northside Drive - 3 Properties	Mission Valley	A	190,634	\$275.66	Kilroy Realty Corporation	MPG Office Trust, Inc.
10301-43 Meanley Drive	Scripps Ranch	B	157,884	\$256.52	KBS REIT II, Inc.	Bank of America Corporation
11111 Rancho Bernardo Road	Rancho Bernardo	A	110,000	\$348.18	Palomar Community College District	Granum Partners
9242 & 9246 Lightwave Avenue	Kearny Mesa	A	128,500	\$249.03	Colony Realty Partners, LLC	LaSalle Investment Management

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16620 W. Bernardo Drive	Rancho Bernardo	A	196,734	March 8th	Nokia	Jay Paul Company
6220 Greenwich Drive	Governor Park	B	141,214	March 15th	Mitchell International, Inc.	Kilroy Realty Corporation
11111 Rancho Bernardo Road	Rancho Bernardo	A	110,000	June 18th	Palomar Community College District	N M S B P C S L C D H B
9868 Scranton Road	Sorrento Mesa	A	95,731	March 24th	CareFusion Corporation	LaSalle Investment Management
16765 W. Bernardo Drive	Rancho Bernardo	A	93,161	October 18th	Northrop Grumman	Prudential Real Estate Investors
10300 Campus Point Drive	UTC	B	87,632	September 8th	N/A	Veralliance Properties, Inc.

Product Type

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