

Office Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

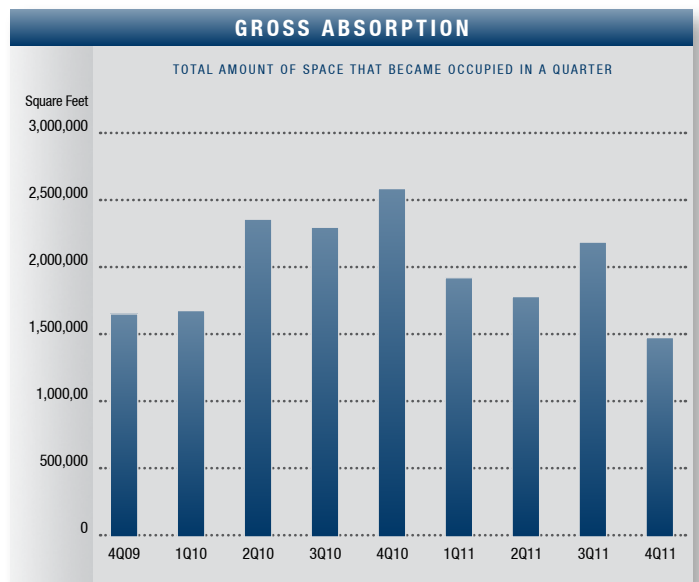
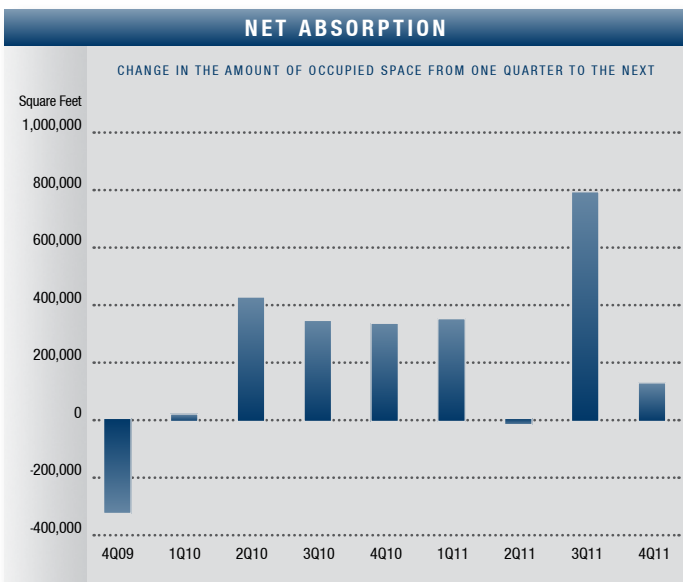
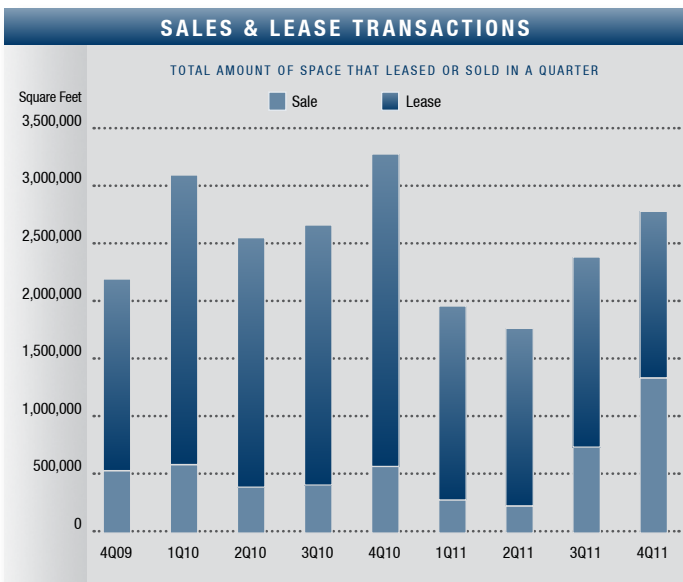
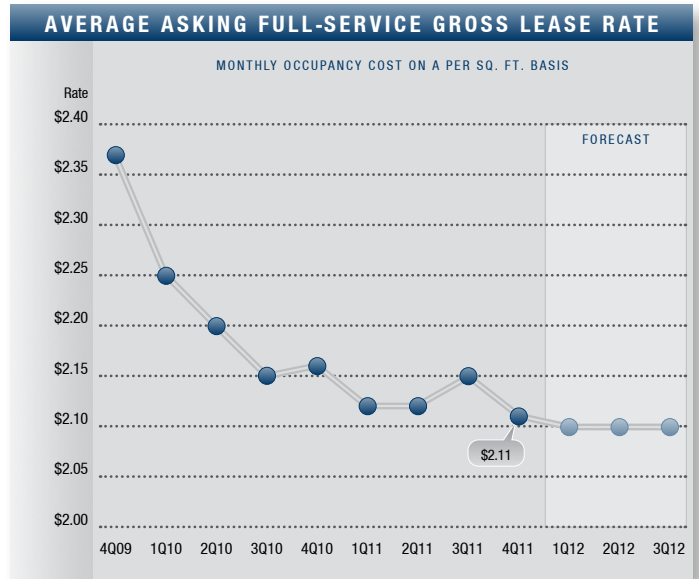
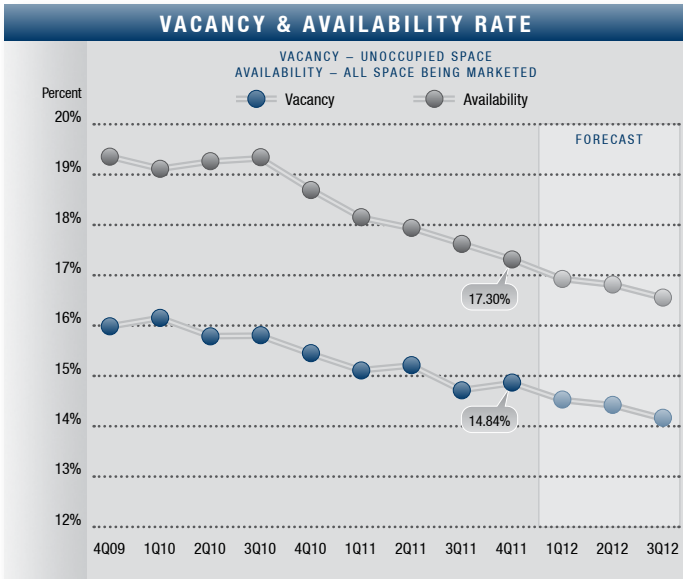
- Stabilization** - The San Diego County office market continued to convey signs of recovery in 2011. Both vacancy and availability were down from the previous year, and net absorption was positive seven out of eight consecutive quarters. Demand, although still weak by historical standards on the leasing side, increased for sales, with 2011 marking the highest volume of square feet sold since 2007. 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 1,391,133 square feet in the fourth quarter of 2011.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 14.84%, lower than the previous year's figure of 15.47% and the lowest rate seen since mid-2008. The Central Suburban market posted the lowest rate in the county, at 11.05%.
- Availability** - Direct/sublease space being marketed was 17.3% at the end of 2011, a decrease of 10.5% when compared to the 19.32% availability rate of 2009.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.11 for the year, a slight decrease from 2010'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 beach cities area, where Del Mar Heights / Carmel Valley averaged close to \$3.00 FSG. Class A rates for the county averaged \$2.44 FSG. We are forecasting that rates will begin to increase in the second half of 2012.
- Absorption** - The San Diego office market posted 1,250,361 square feet of positive net absorption in 2011,

for the highest positive net absorption in the past five years. Recent absorption has largely been a product of existing tenants expanding.

- Transaction Activity** - Leasing activity checked in at 6.4 million square feet in 2011, a decrease from the 2010's total of 9.6 million square feet. However, sales activity also showed a year-over-year increase, posting 2.5 million square feet of activity in 2011 compared to 1.9 million square feet in 2010. 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 9.2 percent in November 2011, down from a revised 9.7 percent in October 2011, and below the year-ago estimate of 10.6 percent. This compares with an unadjusted unemployment rate of 10.9 percent for California and 8.2 percent for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 26,600 payroll jobs from November 2010 to November 2011 — 9,100 in education and health care services and 7,900 in professional and business services. However, construction posted the greatest year-over-year decline- a loss of 1,900 jobs.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an overall increase in investment sales activity. As we finish 2011, positive absorption continues, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market has begun to stabilize. We foresee a continued increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to firm up in the early part of 2012 with the possibility of increasing in the second half of 2012. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.

OFFICE MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	14.84%	15.47%	16.00%	(4.07%)
Availability Rate	17.30%	18.71%	19.32%	(7.54%)
Average Asking Lease Rate	\$2.11	\$2.16	\$2.37	(2.31%)
Sale & Lease Transactions	8,908,443	11,544,647	6,693,636	(22.83%)
Gross Absorption	7,365,126	8,908,455	9,072,983	(17.32%)
Net Absorption	1,250,361	1,118,129	351,044	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 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
Central													
Downtown	142	13,037,740	0	0	2,272,474	17.43%	2,718,958	20.85%	\$2.15	(95,467)	26,270	208,457	908,625
Central Total	142	13,037,740	0	0	2,272,474	17.43%	2,718,958	20.85%	\$2.15	(95,467)	26,270	208,457	908,625
Central Suburban													
City Heights/University	26	875,599	26,000	0	60,293	6.89%	99,354	11.35%	\$1.17	7,065	(3,625)	12,930	22,418
Coronado	6	124,741	0	0	3,422	2.74%	9,058	7.26%	\$0.00	0	1,000	0	1,000
Kearny Mesa	237	10,334,353	573,353	193,000	1,199,932	11.61%	1,289,489	12.48%	\$1.67	13,798	(60,216)	204,236	546,063
Mission Gorge	26	603,823	0	0	55,290	9.16%	55,290	9.16%	\$1.15	6,866	3,813	19,977	41,561
Mission Valley	125	7,004,311	0	55,000	954,925	13.63%	1,260,217	17.99%	\$2.07	63,535	274,334	164,664	746,703
Old Town/Point Loma	82	2,515,739	0	0	201,256	8.00%	236,005	9.38%	\$1.53	2,204	(91,937)	22,547	157,848
Park East	7	145,684	0	0	12,393	8.51%	14,518	9.97%	\$2.03	558	(1,978)	558	1,063
Rose Canyon/Morena	58	1,262,579	0	11,160	130,497	10.34%	130,534	10.34%	\$1.96	14,380	15,222	23,561	86,964
Uptown/Hillcrest	106	2,645,539	66,365	72,514	200,272	7.57%	273,471	10.34%	\$2.16	(8,291)	(2,487)	9,988	107,299
Central Suburban Total	673	25,512,368	665,718	331,674	2,818,280	11.05%	3,367,936	13.20%	\$1.83	100,115	134,126	458,461	1,710,919
Highway 78 Corridor													
Oceanside	56	1,196,217	57,476	391,755	237,698	19.87%	237,122	19.82%	\$1.81	(12,326)	4,489	12,877	80,126
San Marcos	37	1,278,270	71,200	788,000	235,360	18.41%	250,245	19.58%	\$2.55	(17,846)	16,759	27,520	94,405
Vista	49	1,156,987	0	191,350	168,499	14.56%	194,100	16.78%	\$1.41	(5,892)	(793)	5,398	60,882
Highway 78 Corridor Total	142	3,631,474	128,676	1,371,105	641,557	17.67%	681,467	18.77%	\$1.49	(36,064)	20,455	45,795	235,413
I-15 Corridor													
Escondido	90	1,855,247	9,600	43,107	317,098	17.09%	338,102	18.22%	\$1.65	(14,819)	18,684	12,943	98,834
Poway	28	1,333,648	0	790,570	95,599	7.17%	91,336	6.85%	\$0.00	(3,409)	(20,369)	19,238	51,356
Rancho Bernardo	104	6,421,050	0	1,177,073	771,118	12.01%	870,079	13.55%	\$1.75	(3,832)	110,866	46,601	409,288
Scripps Ranch	51	2,720,608	0	240,000	969,500	35.64%	787,434	28.94%	\$2.12	51,080	73,831	67,441	213,007
I-15 Corridor Total	273	12,330,553	9,600	2,250,750	2,153,315	17.46%	2,086,951	16.93%	\$1.91	29,020	183,012	146,223	772,485
North City													
Governor Park	19	866,056	0	0	61,949	7.15%	172,325	19.90%	\$2.10	(3,185)	63,192	25,222	176,484
La Jolla	57	1,711,746	0	0	174,497	10.19%	242,991	14.20%	\$2.86	17,546	(23,000)	33,259	118,999
Miramar	36	1,571,406	0	0	244,660	15.57%	284,482	18.10%	\$1.61	(30,323)	(25,966)	6,919	56,407
Sorrento Mesa	116	8,555,981	350,882	1,440,712	1,088,967	12.73%	1,104,192	12.91%	\$2.08	46,160	251,552	85,628	645,508
Sorrento Valley	25	792,350	0	0	77,171	9.74%	103,018	13.00%	\$1.30	3,742	4,171	7,160	52,576
Torrey Pines	46	3,085,609	0	0	255,722	8.29%	396,700	12.86%	\$3.75	(30,626)	(18,809)	0	38,109
UTC Center	83	7,570,568	123,429	175,000	1,364,455	18.02%	1,901,842	25.12%	\$2.50	37,109	(42,804)	134,613	652,483
North City Total	382	24,153,716	474,311	1,615,712	3,267,421	13.53%	4,205,550	17.41%	\$2.48	40,423	208,336	292,801	1,740,566
North County													
Carlsbad	152	6,058,727	0	1,130,750	1,417,545	23.40%	1,634,221	26.97%	\$2.09	22,940	222,022	108,811	653,521
Del Mar Heights/Carmel Valley	67	4,396,859	0	91,256	811,907	18.47%	979,777	22.28%	\$2.98	29,199	78,145	106,383	529,754
North Beach Cities	107	2,383,076	67,828	72,900	191,720	8.05%	267,199	11.21%	\$2.56	8,527	52,767	37,319	202,057
North County Total	326	12,838,662	67,828	1,294,906	2,421,172	18.86%	2,881,197	22.44%	\$2.46	60,666	352,934	252,513	1,385,332
South/Southeast Corridor													
Chula Vista	93	2,854,207	45,000	0	438,913	15.38%	431,477	15.12%	\$1.70	(21,564)	25,025	8,851	125,161
East County	160	3,818,853	0	560,700	343,400	8.99%	419,086	10.97%	\$1.54	42,569	284,555	68,458	447,820
National City	15	529,427	0	20,000	247,446	46.74%	257,970	48.73%	\$0.00	2,000	3,085	2,000	14,149
Otay Mesa	10	241,214	0	0	41,163	17.06%	41,163	17.06%	\$0.00	3,110	4,661	5,396	16,754
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	288	7,870,633	45,000	580,700	1,173,502	14.91%	1,252,276	15.91%	\$1.55	26,115	325,228	84,705	611,786
Class Breakdown													
Class A	251	31,555,985	552,388	4,611,920	4,974,078	15.76%	5,213,234	16.52%	\$2.44	61,959	794,011	518,107	2,470,978
Class B	1,192	50,572,319	838,745	2,832,927	8,103,045	16.02%	9,969,246	19.71%	\$1.90	109,918	522,300	806,464	3,919,107
Class C	783	17,246,842	0	0	1,670,598	9.69%	2,011,855	11.67%	\$1.50	(47,069)	(65,950)	164,384	975,041
San Diego County Total	2,226	99,375,146	1,391,133	7,444,847	14,747,721	14.84%	17,194,335	17.30%	\$2.11	124,808	1,250,361	1,488,955	7,365,126

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

LARGEST TRANSACTIONS OF 2011

Sales Transactions

Property Address	Submarket	Class	Square Feet	Price Per SF	Buyer	Seller
1455 Frazee Rd., 1615 Murray Canyon Rd.	Mission Valley	A	433,320	\$267.70	CommonWealth Partners, LLC	GE Asset Management, Inc.
10184-10190 Telesis Ct.	Sorrento Mesa	A	355,904	\$306.26	Manulife Real Estate	Pacific Office Properties
110 W. A St.	Downtown	B	325,977	\$245.42	Forester Properties, Inc.	Cornerstone Real Estate Advisors, LLC
450 B St.	Downtown	B	277,000	\$217.15	BLC, Inc.	Bank of America
9333-9339 Genesee Ave.	UTC	B	159,425	\$293.55	Divco West Properties / Stockbridge Capital Group, LLC	General Electric Credit Equities, Inc.
12278 Scripps Summit Dr.	Scripps Ranch	A	190,837	\$214.84	Dart Development Group	The Miller Family Companies

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Executive Dr. – Build to Suit	UTC	A	417,000	Dec-11	LPL Financial	Hines
5010 Wateridge Vista Dr.	Sorrento Mesa	B	111,318	Aug-11	TD Ameritrade	Kilroy Realty Corporation
4401 Eastgate Mall – Renewal	UTC	A	89,309	Aug-11	Cooley Godward Kronish, LLP	Sunroad Enterprises, Inc.
3020 Callan Rd. – Renewal	Torrey Pines	B	60,118	Nov-11	Cytori Therapeutics	Health Care Property Investors, Inc.
8954 Rio San Diego Dr. – Renewal	Mission Valley	A	50,651	Jun-11	Union Bank	AEW Capital Management, LP
10180 Telesis Ct. – Renewal	Sorrento Mesa	A	49,600	Nov-11	Huawei Technologies	Manulife Real Estate

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.

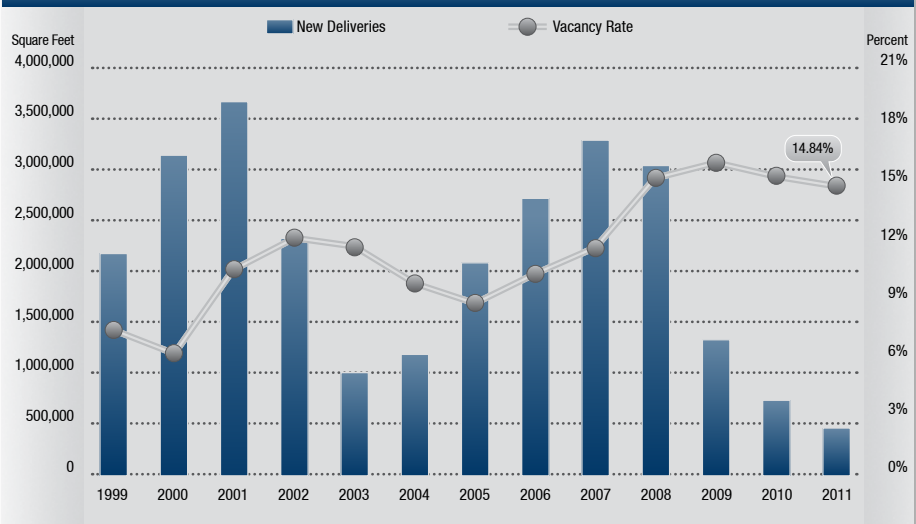
CLASS B

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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