

Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

FLAT

Deliveries

UP

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Market Highlights

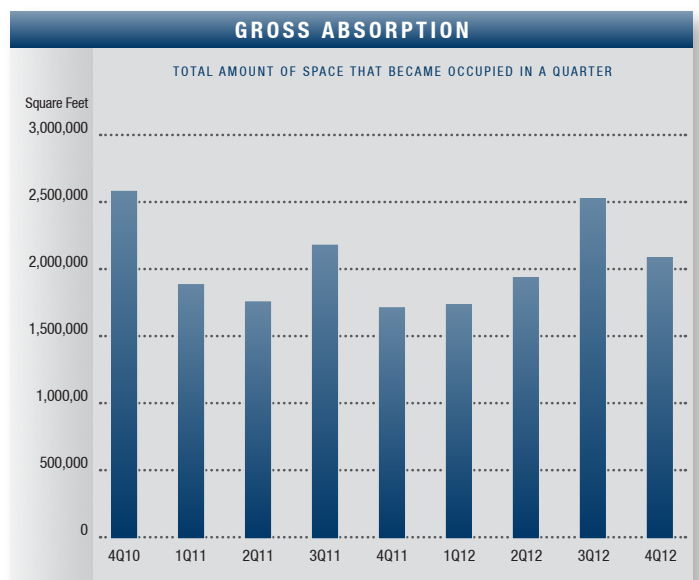
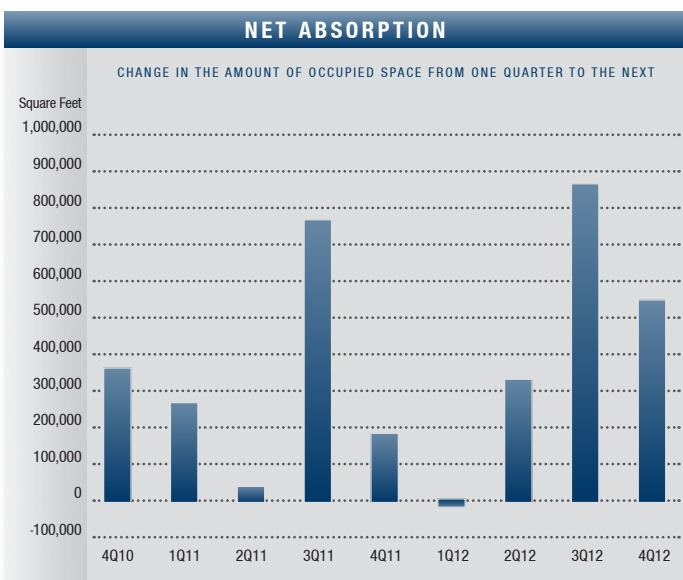
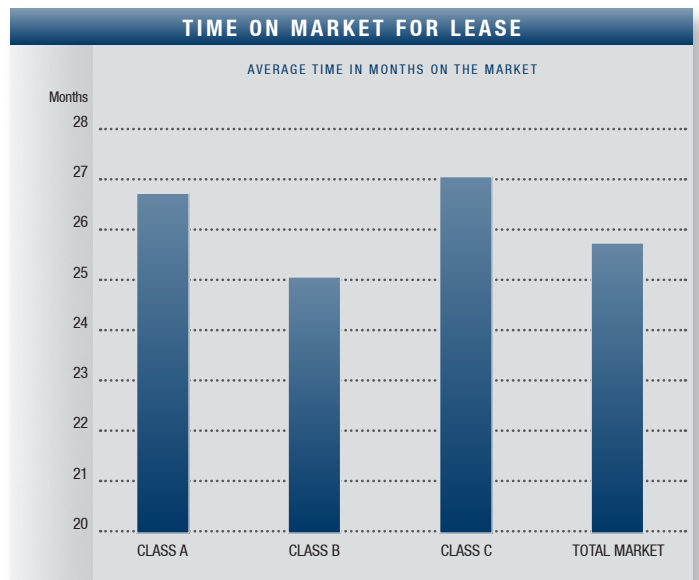
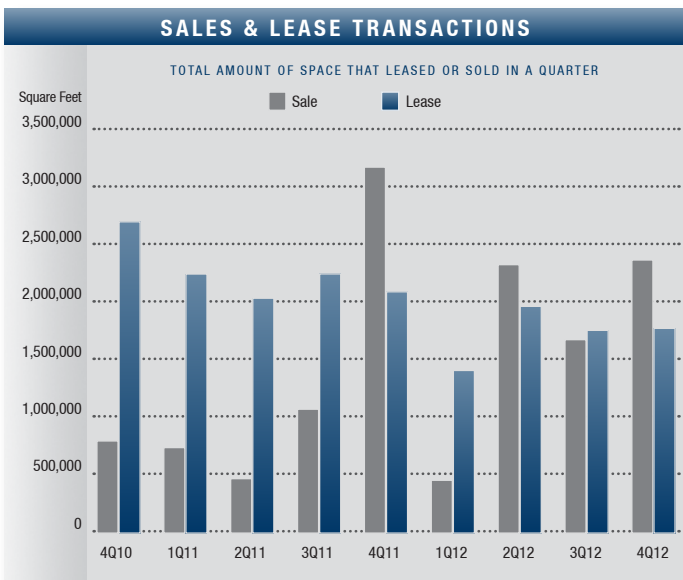
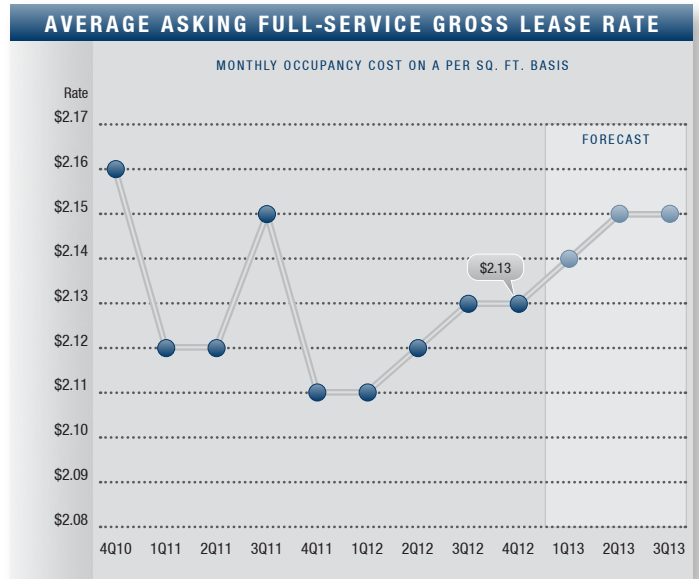
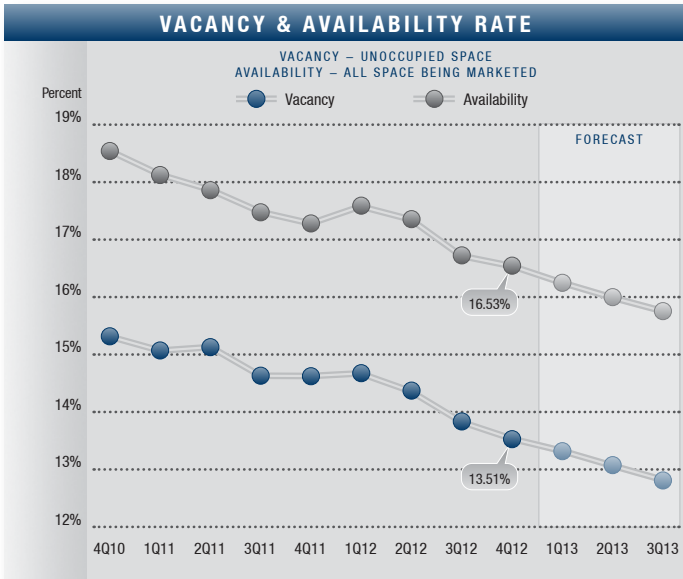
- Recovering** - The past year saw an increase in lease rates, positive absorption, and a decrease in the vacancy rate for the San Diego office market. These indicators have been generally moving in this direction since the beginning of 2010, with a couple bumps along the way. This sustained improvement points to a market making strides towards recovery.
- Construction** - Office deliveries have consistently been around 700,000 square feet a year over the past three years. This rate of construction is below the historical average, and has helped to push vacancy down.
- Vacancy** - Direct/sublease space (unoccupied) finished the year at 13.51%, a decrease from the previous year's figure of 14.62%. The office vacancy rate has dropped over 250 basis points since peaking in the first quarter of 2010.
- Availability** - Direct/sublease space being marketed was 16.53% at the end of 2012, a decrease of over 4% when compared to the 17.27% availability rate of 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 year, up two cents from 2011's fourth 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 \$2.91 FSG. Class A rates for the county averaged \$2.57 FSG.
- Absorption** - The San Diego office market posted 1,729,212 square feet of positive net absorption this year, marking the greatest amount of positive net absorption in the past 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 13.6 million square feet in the 2012. Local tech giant Qualcomm, Inc. was one of the more active players in the market in 2012. 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 8.3% in November 2012, down from a revised 8.6% in October 2012 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 24,600 payroll jobs from November 2011 to November 2012 — including 8,600 in professional and business services, and 5,300 from leisure and hospitality. Manufacturing was the only sector with year-over-year decline- a loss of 2,000 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 plus 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 of 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

	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	13.51%	14.62%	15.31%	(7.59%)
Availability Rate	16.53%	17.27%	18.53%	(4.28%)
Average Asking Lease Rate	\$2.13	\$2.11	\$2.16	0.95%
Sale & Lease Transactions	13,608,427	13,941,295	12,922,551	(2.39%)
Gross Absorption	8,305,893	7,545,643	8,929,133	10.08%
Net Absorption	1,729,212	1,247,343	1,152,943	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
Central													
Downtown	141	12,996,605	0	0	2,190,751	16.86%	2,863,805	22.04%	\$2.11	84,437	115,373	231,286	752,704
Central Total	141	12,996,605	0	0	2,190,751	16.86%	2,863,805	22.04%	\$2.11	84,437	115,373	231,286	752,704
Central Suburban													
City Heights/University	28	1,024,375	0	0	108,996	10.64%	167,531	16.35%	\$1.69	(37,556)	6,073	10,912	88,914
Coronado	6	124,741	0	0	3,100	2.49%	3,100	2.49%	\$0.00	0	322	0	6,677
Kearny Mesa	237	10,607,561	0	193,000	1,046,442	9.87%	1,419,786	13.38%	\$1.65	51,610	449,424	201,712	1,023,147
Mission Gorge	26	603,823	0	0	55,542	9.20%	57,282	9.49%	\$1.10	(6,689)	(252)	4,685	12,864
Mission Valley	126	6,952,933	0	285,830	891,403	12.82%	1,066,879	15.34%	\$2.06	8,164	5,962	161,997	763,974
Old Town/Point Loma	79	2,493,028	0	0	234,083	9.39%	242,909	9.74%	\$1.55	3,261	13,707	13,571	88,141
Park East	9	175,805	0	0	19,018	10.82%	14,436	8.21%	\$2.10	(7,955)	(10,366)	1,486	5,228
Rose Canyon/Morena	58	1,297,939	0	11,160	128,499	9.90%	146,527	11.29%	\$1.99	1,308	(2)	20,940	81,970
Uptown/Hillcrest	106	2,696,162	0	72,514	189,524	7.03%	230,167	8.54%	\$2.11	86,920	71,047	98,662	143,825
Central Suburban Total	675	25,976,367	0	562,504	2,676,607	10.30%	3,348,617	12.89%	\$1.80	99,063	535,915	513,965	2,214,740
Highway 78 Corridor													
Oceanside	56	1,212,525	57,476	309,832	210,977	17.40%	227,545	18.77%	\$0.00	(15,853)	26,721	13,082	97,154
San Marcos	38	1,349,470	0	929,970	229,501	17.01%	237,496	17.60%	\$1.05	76,674	75,484	89,737	137,695
Vista	49	1,166,851	0	212,350	196,621	16.85%	227,527	19.50%	\$1.44	(4,047)	(26,327)	6,528	26,889
Highway 78 Corridor Total	143	3,728,846	57,476	1,452,152	637,099	17.09%	692,568	18.57%	\$1.44	56,774	75,878	109,347	261,738
I-15 Corridor													
Escondido	90	1,900,500	0	43,107	323,693	17.03%	307,918	16.20%	\$1.64	59	(9,729)	16,302	90,736
Poway	27	1,315,857	0	650,570	88,780	6.75%	76,298	5.80%	\$1.42	(18,273)	6,819	3,449	49,462
Rancho Bernardo	104	6,456,827	0	1,136,675	702,952	10.89%	729,962	11.31%	\$1.99	83,122	116,327	125,331	456,111
Scripps Ranch	50	2,704,982	0	377,000	695,714	25.72%	791,508	29.26%	\$2.15	(1,756)	270,657	19,429	389,960
I-15 Corridor Total	271	12,378,166	0	2,207,352	1,811,139	14.63%	1,905,686	15.40%	\$1.95	63,152	384,074	164,511	986,269
North City													
Governor Park	19	867,993	0	0	80,358	9.26%	146,972	16.93%	\$2.15	15,376	(3,130)	25,441	113,435
La Jolla	57	1,732,418	0	0	223,099	12.88%	272,386	15.72%	\$2.58	(49,012)	(55,588)	37,797	136,474
Miramar	38	1,635,185	0	0	275,215	16.83%	312,439	19.11%	\$1.66	6,832	(19,632)	32,966	87,725
Sorrento Mesa	119	9,093,342	498,882	1,261,712	907,496	9.98%	1,134,325	12.47%	\$2.65	164,733	240,581	280,954	646,404
Sorrento Valley	26	798,274	0	0	78,523	9.84%	174,949	21.92%	\$1.52	3,124	(124)	12,280	48,837
Torrey Pines	48	3,388,169	0	0	453,784	13.39%	520,692	15.37%	\$3.75	(30,859)	353	2,009	68,317
UTC Center	82	7,572,852	538,004	175,000	828,464	10.94%	1,636,611	21.61%	\$3.01	(7,484)	463,785	191,426	1,120,503
North City Total	389	25,088,233	1,036,886	1,436,712	2,846,939	11.35%	4,198,374	16.73%	\$2.80	102,710	626,245	582,873	2,221,695
North County													
Carlsbad	149	5,687,294	0	492,000	1,219,296	21.44%	1,217,249	21.40%	\$1.48	157,295	81,952	249,149	761,810
Del Mar Heights/Carmel Valley	67	4,408,992	0	653,491	858,064	19.46%	939,623	21.31%	\$3.33	(13,807)	(86,580)	108,858	522,269
North Beach Cities	112	2,488,015	33,000	23,120	204,808	8.23%	305,210	12.27%	\$2.43	(920)	(8,727)	56,503	208,194
North County Total	328	12,584,301	33,000	1,168,611	2,282,168	18.14%	2,462,082	19.56%	\$2.91	142,568	(13,355)	414,510	1,492,273
South/Southeast Corridor													
Chula Vista	90	2,787,602	0	265,002	447,292	16.05%	450,003	16.14%	\$1.48	16,315	5,965	48,111	189,297
East County	159	3,834,021	0	546,200	337,744	8.81%	335,027	8.74%	\$1.54	(24,084)	10,489	13,140	129,238
National City	15	541,398	0	20,000	237,342	43.84%	230,355	42.55%	\$1.94	0	(7,099)	14,027	36,165
Otay Mesa	14	338,316	0	0	32,004	9.46%	40,828	12.07%	\$1.64	4,392	(74)	4,392	18,194
Southeast San Diego	10	426,932	0	0	106,779	25.01%	110,779	25.95%	\$1.25	1,380	(4,199)	1,380	3,580
South/Southeast Total	288	7,928,269	0	831,202	1,161,161	14.65%	1,166,992	14.72%	\$1.30	(1,997)	5,082	81,050	376,474
Class A	255	31,893,849	913,457	5,152,049	3,939,598	12.35%	4,778,271	14.98%	\$2.57	451,464	1,340,346	875,793	3,191,210
Class B	1,209	51,824,969	213,905	2,506,484	7,821,013	15.09%	9,826,999	18.96%	\$1.88	104,743	468,173	1,022,608	4,345,465
Class C	771	16,961,969	0	0	1,845,253	10.88%	2,032,854	11.98%	\$1.49	(9,500)	(79,307)	199,141	769,218
San Diego County Total	2,235	100,680,787	1,127,362	7,658,533	13,605,864	13.51%	16,638,124	16.53%	\$2.13	546,707	1,729,212	2,097,542	8,305,893

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
9605-9875 Scranton Rd.	Sorrento Mesa	A	641,693	\$237.65	Beacon Capital Partners	MPG Office Trust Charter Hall Office REIT
15004 Innovation Dr. 10243 Genetic Center Dr.	Rancho Bernardo Sorrento Mesa	A	253,676	\$575.93	LaSalle Investment Management	Kilroy Realty
401 W. A St.	Downtown	A	553,715	\$243.81	Broadway Lexington, LLC	GE Investment Corporation
350 10th Ave.	Downtown	A	305,255	\$396.39	CIGNA / CruzaniMonroe	Wereldhave
9305 Lightwave Ave.	Kearny Mesa	B	166,892	\$314.57	GI Partners	LBA Realty

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5770 Armada Dr.	Carlsbad	B	81,712	Apr-12	SkinMedica	LBA Realty
9685 Scranton Rd.	Sorrento Mesa	B	76,404	Jul-12	Qualcomm	Beacon Capital Partners
6965 Lusk Blvd.	Sorrento Mesa	B	74,558	Jun-12	Qualcomm	Colony Realty Partners
12670 High Bluff Dr.	Del Mar Heights	B	69,836	Aug-12	Lantham & Watkins	TIAA-CREF
10240 Sorrento Valley Rd.	Sorrento Valley	B	64,117	Nov-12	WebSense, Inc.	Creekside Property Holdings

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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