

Office Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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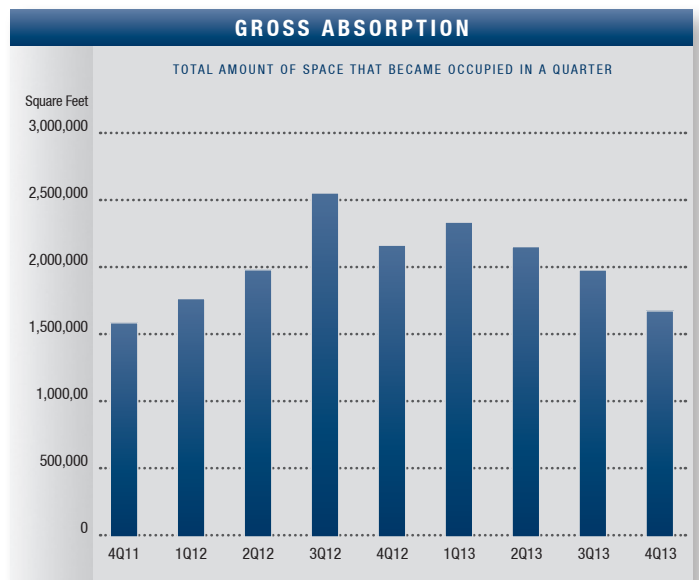
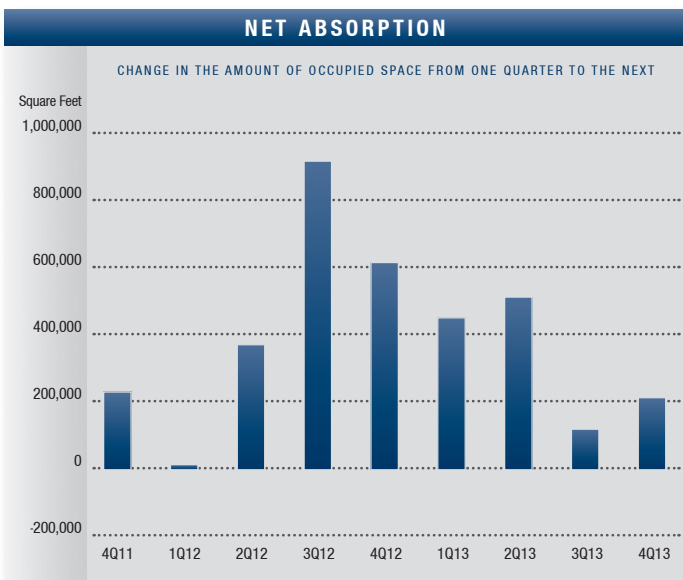
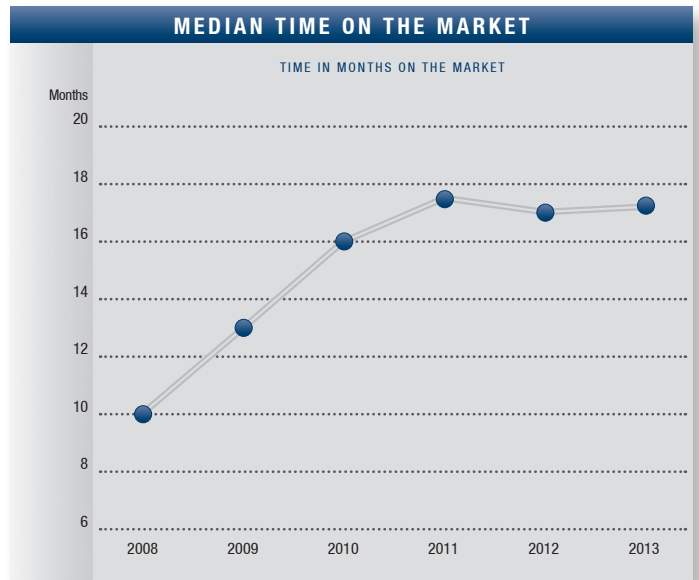
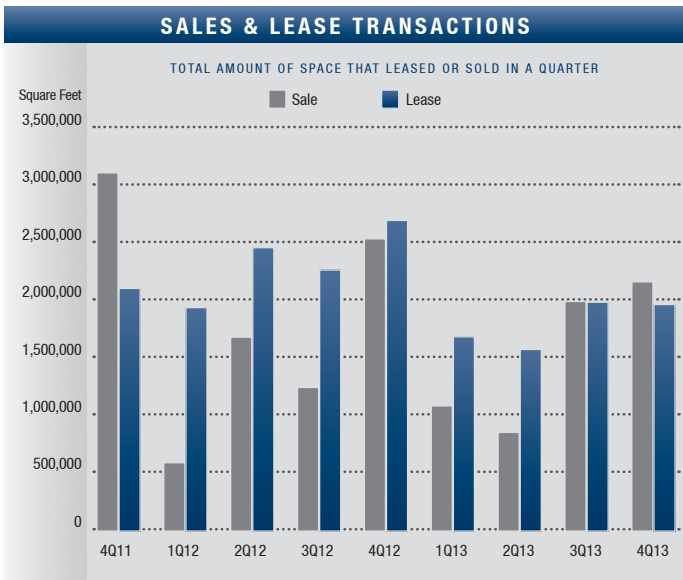
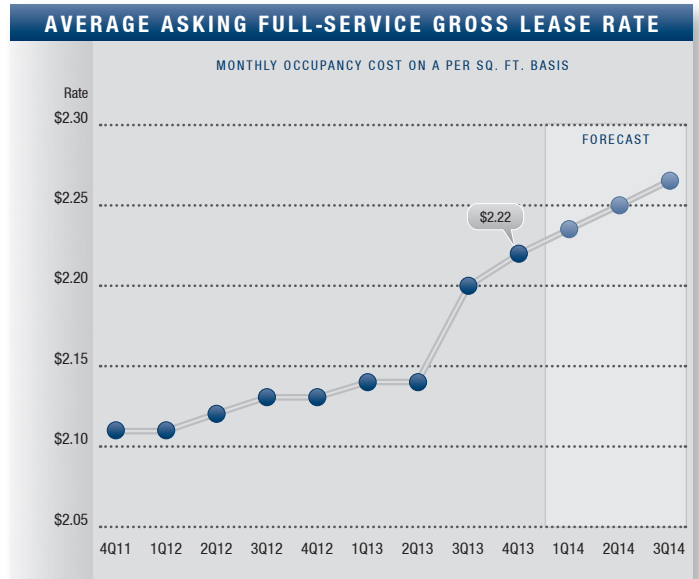
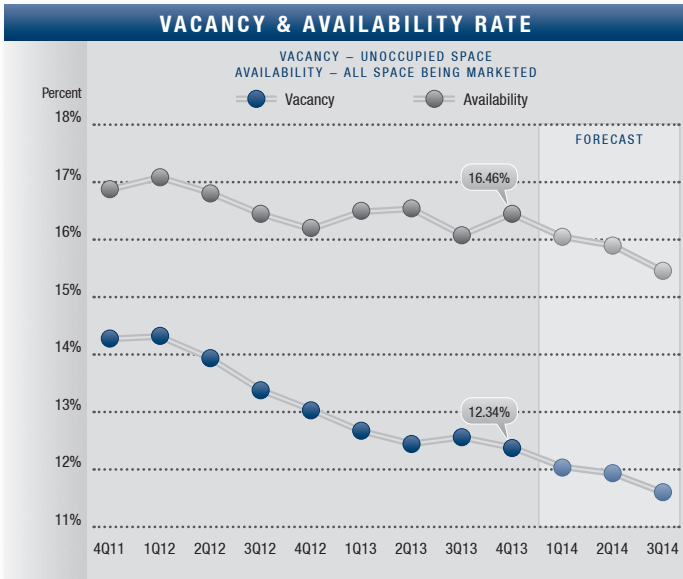
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Market Highlights

- Fourth Straight Year of Forward Progress** - 2013 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. 2013's big stride forward was in the average asking lease rate, which rose significantly while vacancy continued to trend downward.
- Absorption** - The San Diego office market posted 1,273,030 square feet of positive net absorption in the 2013, the fifth consecutive year of positive net absorption.
- Transaction Activity** - Sale and lease transactions totaled 13.2 million square feet in the 2013, a decrease from the 15.3 million square feet transacted in the 2012. Details of the largest transactions can be found on the back page of this report.
- Construction** - Office deliveries have consistently been around 400,000-700,000 square feet a year over the past four years. This rate of construction is below the historical average and has helped to push vacancy down. Build-to-suit product has been sustaining San Diego office development and current projects under way include a 415,000 square foot build-to-suit for LPL Financial in UTC, and a 300,000 square foot build-to-suit for Sempra Energy in Downtown. 2013 also saw The Irvine Company announce the first significant new speculative office construction project in San Diego since the downturn.
- Employment** - The unemployment rate in the San Diego County was 6.8% in November 2013, down from a revised 7.1% in October 2013 and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 8.3% for California and 6.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 23,000 payroll jobs from November 2012 to November 2013 — including 6,100 in educational and health services, 5,700 from trade, transportation and utilities, 5,600 from leisure and hospitality, and 5,300 from construction. Manufacturing recorded the greatest number of job losses, down 2,000 year over year.
- Vacancy** - Direct / sublease space (unoccupied) finished the year at 12.34%, a decrease from the previous year's figure of 13.01%. 2013 saw the first drop in office vacancy below 13% since mid-2008, and vacancy in 2013 was down more than 5% compared to 2012.
- Availability** - Direct/sublease space being marketed was 16.46% at the end of the year, an increase from the 16.21% availability rate of the previous 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.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in San Diego County was \$2.22 at the end of 2013, a large increase from 2012's rate of \$2.11. The record high rate of \$2.76 was established in the first and second quarters of 2008.

OFFICE MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	12.34%	13.01%	14.26%	(5.15%)
Availability Rate	16.46%	16.21%	16.87%	1.54%
Average Asking Lease Rate	\$2.22	\$2.13	\$2.11	4.23%
Sale & Lease Transactions	13,175,101	15,263,756	15,258,755	(13.68%)
Gross Absorption	8,110,574	8,429,137	7,410,438	(3.78%)
Net Absorption	1,273,030	1,881,179	1,282,890	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Central													
Downtown	138	12,850,915	0	1,293,896	2,060,092	16.03%	2,577,615	20.06%	\$2.20	(11,597)	79,118	276,547	925,863
Central Total	138	12,850,915	0	1,293,896	2,060,092	16.03%	2,577,615	20.06%	\$2.20	(11,597)	79,118	276,547	925,863
Central Suburban													
City Heights/University	28	1,024,202	0	0	131,900	12.88%	141,721	13.84%	\$1.72	(11,869)	(22,904)	10,206	71,346
Coronado	6	124,741	0	0	0	0.00%	5,636	4.52%	\$0.00	0	3,100	0	3,100
Kearny Mesa	236	10,623,164	0	193,000	1,295,594	12.20%	1,653,477	15.56%	\$1.75	(35,588)	(251,153)	175,193	594,476
Mission Gorge	25	582,823	0	0	49,754	8.54%	56,791	9.74%	\$1.15	552	5,788	9,426	26,153
Mission Valley	125	6,955,476	0	285,830	646,808	9.30%	923,727	13.28%	\$2.14	17,886	208,861	132,755	775,083
Old Town/Point Loma	78	2,483,200	0	0	204,977	8.25%	365,550	14.72%	\$2.12	16,488	(16,017)	23,970	123,667
Park East	9	176,637	0	0	2,147	1.22%	2,147	1.22%	\$2.25	0	16,871	0	16,883
Rose Canyon/Morena	54	1,232,759	0	0	68,124	5.53%	68,719	5.57%	\$1.83	(2,808)	23,475	11,349	83,966
Uptown/Hillcrest	105	2,657,720	0	0	209,478	7.88%	248,828	9.36%	\$2.08	1,610	(18,454)	24,014	82,654
Central Suburban Total	666	25,860,722	0	478,830	2,608,782	10.09%	3,466,596	13.40%	\$1.87	(13,729)	(50,433)	386,913	1,777,328
Highway 78 Corridor													
Oceanside	57	1,271,793	0	59,832	199,161	15.66%	236,069	18.56%	\$0.00	3,027	69,292	7,832	127,237
San Marcos	38	1,367,150	0	1,487,970	208,577	15.26%	241,305	17.65%	\$1.05	8,743	21,256	20,257	75,416
Vista	49	1,167,954	0	212,350	213,023	18.24%	237,298	20.32%	\$1.60	(36,097)	(29,716)	11,062	53,660
Highway 78 Corridor Total	144	3,806,897	0	1,760,152	620,761	16.31%	714,672	18.77%	\$1.59	(24,327)	60,832	39,151	256,313
I-15 Corridor													
Escondido	92	1,933,440	0	43,107	277,008	14.33%	299,937	15.51%	\$1.81	1,979	50,815	19,035	163,464
Poway	29	1,295,562	0	650,570	82,069	6.33%	83,765	6.47%	\$0.00	(2,123)	8,711	8,606	51,688
Rancho Bernardo	108	6,572,266	0	1,136,675	587,954	8.95%	798,876	12.16%	\$2.29	11,682	120,173	46,269	356,717
Scripps Ranch	50	2,703,212	0	502,000	550,043	20.35%	686,006	25.38%	\$2.15	26,033	145,671	71,250	271,438
I-15 Corridor Total	279	12,504,480	0	2,332,352	1,497,074	11.97%	1,868,584	14.94%	\$2.07	37,571	325,370	145,160	843,307
North City													
Governor Park	19	870,138	0	0	120,761	13.88%	150,705	17.32%	\$2.26	1,287	(40,403)	11,224	69,041
La Jolla	53	1,603,777	0	0	203,102	12.66%	231,176	14.41%	\$3.21	6,445	13,018	33,723	154,883
Miramar	38	1,778,142	0	0	317,222	17.84%	366,728	20.62%	\$1.17	15,700	(42,007)	31,577	120,989
Sorrento Mesa	123	9,652,368	97,828	1,574,474	802,825	8.32%	1,408,448	14.59%	\$2.83	58,537	570,616	130,789	1,205,201
Sorrento Valley	27	808,606	0	815,770	115,306	14.26%	131,111	16.21%	\$0.00	(6,522)	(36,783)	9,444	84,285
Torrey Pines	43	2,703,818	0	0	122,792	4.54%	251,525	9.30%	\$3.75	18,700	(8,453)	19,930	66,414
UTC	85	7,757,139	414,575	0	1,122,610	14.47%	2,041,811	26.32%	\$3.15	(77,763)	(161,444)	202,608	773,896
North City Total	388	25,173,988	512,403	2,390,244	2,804,618	11.14%	4,581,504	18.20%	\$3.06	16,384	294,544	439,295	2,474,709
North County													
Carlsbad	152	5,933,260	0	492,000	1,048,555	17.67%	1,157,932	19.52%	\$2.09	61,727	198,912	114,139	634,998
Del Mar Heights/Carmel Valley	66	4,350,126	70,000	598,611	717,111	16.48%	1,041,544	23.94%	\$3.69	62,643	62,828	97,134	460,310
North Beach Cities	108	2,435,009	33,917	77,120	162,289	6.66%	220,479	9.05%	\$2.91	6,837	32,300	48,737	227,289
North County Total	326	12,718,395	103,917	1,167,731	1,927,955	15.16%	2,419,955	19.03%	\$3.05	131,207	294,040	260,010	1,322,597
Southern & Eastern Areas													
Chula Vista	90	2,781,064	0	765,002	341,899	12.29%	358,751	12.90%	\$1.56	32,421	127,890	44,492	217,976
East County	156	3,741,439	0	194,200	276,503	7.39%	314,446	8.40%	\$1.04	10,126	61,241	42,965	191,179
National City	15	541,398	0	0	156,429	28.89%	147,954	27.33%	\$0.00	20,051	76,693	20,051	81,788
Otay Mesa	14	338,316	0	187,080	27,089	8.01%	27,089	8.01%	\$1.33	5,544	4,915	8,601	16,514
Southeast San Diego	10	426,932	0	0	107,959	25.29%	107,959	25.29%	\$0.00	0	(1,180)	0	3,000
Southern & Eastern Areas Total	285	7,829,149	0	1,146,282	909,879	11.62%	956,199	12.21%	\$1.30	68,142	269,559	116,109	510,457
Classifications													
Class A	254	31,999,928	484,575	7,948,013	3,423,106	10.70%	5,151,628	16.10%	\$2.58	309,931	769,373	602,192	2,695,225
Class B	1,212	52,102,129	131,745	2,621,474	7,462,554	14.32%	9,482,877	18.20%	\$2.01	(109,828)	306,955	890,240	4,467,957
Class C	760	16,642,489	0	0	1,543,501	9.27%	1,950,620	11.72%	\$1.56	3,548	196,702	170,753	947,392
San Diego County Total	2,226	100,744,546	616,320	10,569,487	12,429,161	12.34%	16,585,125	16.46%	\$2.22	203,651	1,273,030	1,663,185	8,110,574

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
7337 Trade St.	Miramar	A	499,402	\$269.32	Carter Validus Mission Critical REIT	AT&T
450 B St.	Downtown	B	283,786	\$257.24	Sumitomo Corporation of America	Westbrook Partners BBL, Inc.
8954 Rio San Diego Dr.	Mission Valley	A	189,490	\$300.02	Prudential Real Estate Investors	AEW Capital Management
11975-11995 El Camino Real	Del Mar Heights	A	112,440	\$403.77	Realty Income Corporation	Equity Office

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
7337 Trade St. – Sale Leaseback	Miramar	A	499,402	Dec-13	AT&T	Carter Validus Mission Critical REIT
6350 Sequence Dr.	Sorrento Mesa	B	132,600	Oct-13	Entropic Communications	Kilroy Realty Corporation
525 B St.	Downtown	A	90,778	July-13	City of San Diego	Hines
9970 Carroll Canyon Rd.	Scripps Ranch	B	81,881	May-13	PETCO	(Sublease)
5855 Copley Dr.	Kearny Mesa	B	80,281	Sept-13	Rady Children’s Hospital	Colony Realty Partners

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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