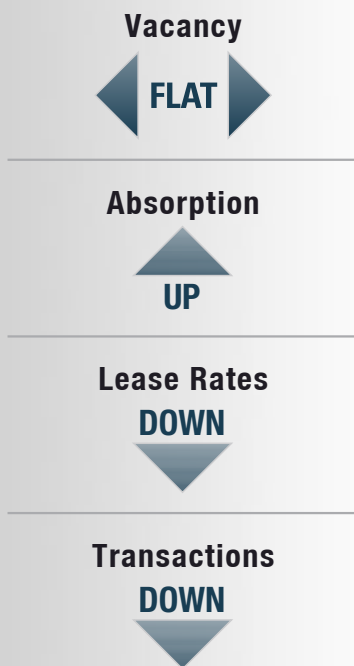




Voit
Real Estate Services

Office Market Report

Compared to last quarter:



Office Market Highlights

- Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing. Fortunately, the ask-bid gap appears to be diminishing, as evidenced by the recent increase in sales activity. Another challenge for the Office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which in turn leading landlords to seek their own relief from lenders.
- Absorption** - Net absorption for the county posted a positive 216,548 square feet for the first quarter of 2010, giving the office market a great start to the year.
- Transaction Activity** - Leasing activity checked in at 1.6 million square feet this quarter. This increase can be attributed to the recent trend of short-term deals coupled with lease renegotiations. Sales activity showed a year-over-year increase, posting 914,635 square feet of activity compared to 324,353 square feet in the first quarter of 2009. Details of the largest transactions can be found on the back page of this report.
- Unemployment** - The unemployment rate in San Diego County was 10.6% in February 2010, down from a revised 11.1% in January 2010 and above the year ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- Employment** - According to the State of California Employment Development Department, San Diego County lost 44,600 payroll jobs over the last twelve months — 9,200 in manufacturing and 8,100 in professional and business services. However, educational and health services added 2,000 new jobs. Between January 2010 and February 2010 San Diego County gained 900 jobs overall.
- Construction** - During 2009, San Diego County added a total of 1.3 million square feet. Over the past four years, over 10 million square feet of new construction has been 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 346,636 square feet this quarter, which is about half the amount that was under construction last quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct / sublease space (unoccupied) finished the quarter at 16.34%, an increase over last year’s rate of 15.89% and nearly equal to last quarter’s figure of 16.37%. The Central Suburban market posted the lowest rate in the county, coming in at 11.19%.
- Availability** - Direct / sublease space being marketed was at 19.79% this quarter, an increase of only 0.76% when compared to the 19.64% availability rate of the first quarter of last year.
- Lease Rates** - The average asking Full Service Gross (FSG) lease rate per square foot per month in San Diego County was \$2.25- a 12.45% decrease over last year’s rate of \$2.57 and twelve cents lower than last quarter’s rate. The record high rate of \$2.76 was established in the first and second quarters of 2008. Class A rates for the county are averaging \$2.51 FSG, with North City noting the highest rates averaging \$2.53 FSG.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. Positive absorption is the big story, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin 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 see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Office market will regain equilibrium.

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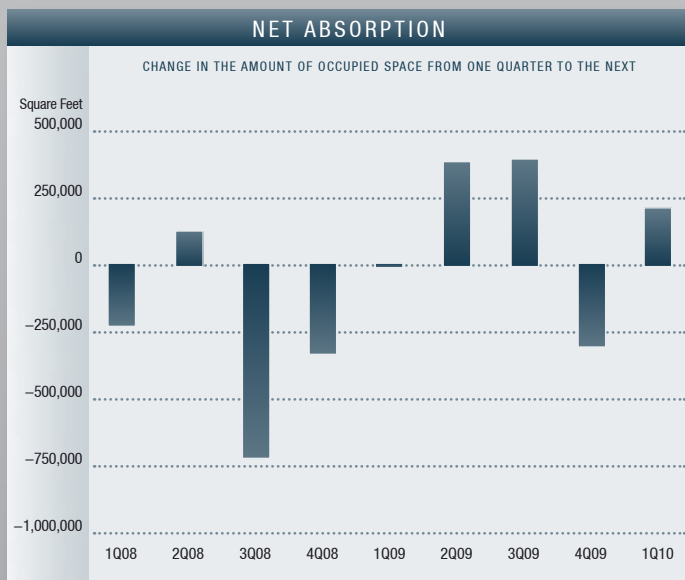
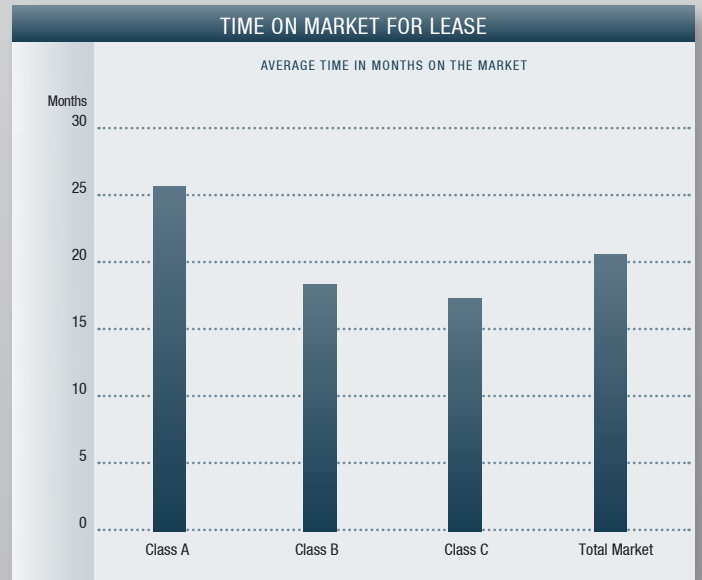
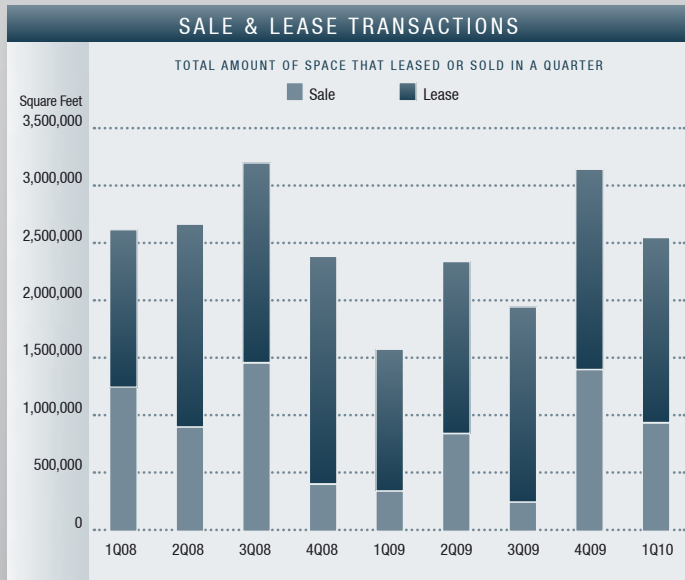
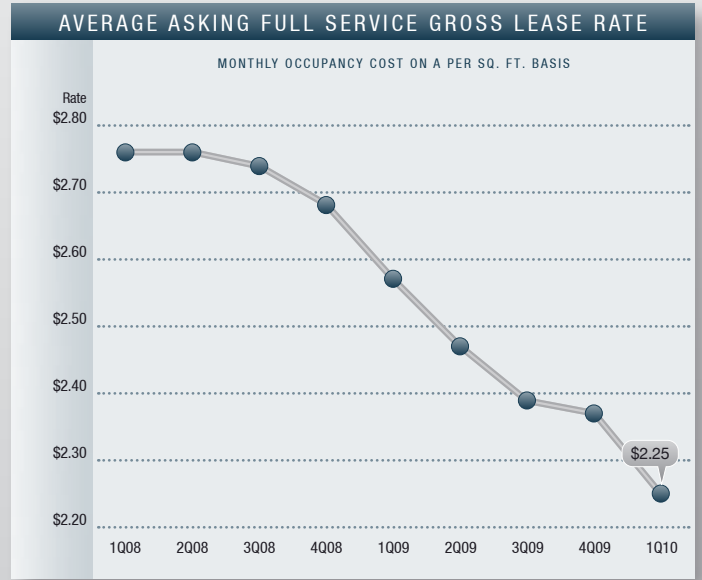
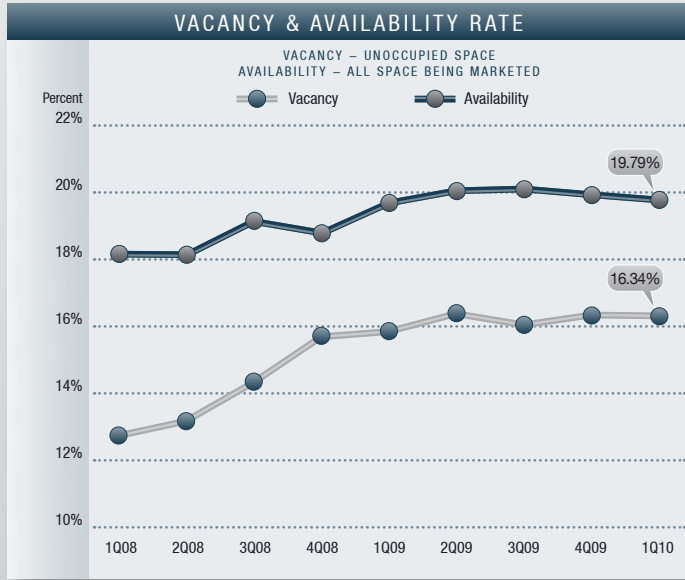
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OFFICE MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy Rate	16.34%	16.37%	15.89%	2.83%
Availability Rate	19.79%	19.92%	19.64%	0.76%
Average Asking Lease Rate	\$2.25	\$2.37	\$2.57	(12.45%)
Sale & Lease Transactions	2,527,842	3,116,039	1,562,076	61.83%
Gross Absorption	1,789,489	1,644,787	2,381,331	(24.85%)
Net Absorption	216,548	(301,209)	(5,672)	N/A

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	INVENTORY				VACANCY & LEASE RATES				ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Total Availability 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2010	Gross Absorption 1Q2010	Gross Absorption 2010
Central												
Downtown	140	12,772,112	0	40,000	2,099,572	16.44%	2,649,811	\$2.33	(167,685)	(167,685)	116,727	116,727
Central Total	140	12,772,112	0	40,000	2,099,572	16.44%	2,649,811	\$2.33	(167,685)	(167,685)	116,727	116,727
Central Suburban												
City Heights/University	27	899,744	0	0	41,087	4.57%	57,498	\$0.00	11,731	11,731	11,731	11,731
Coronado	6	124,741	0	0	6,339	5.08%	6,339	\$0.00	540	540	540	540
Kearny Mesa	232	9,984,270	320,300	854,000	1,110,576	11.12%	1,394,914	\$1.75	161,402	161,402	319,305	319,305
Mission Gorge	26	629,191	0	0	61,601	9.79%	59,910	\$1.20	7,785	7,785	11,287	11,287
Mission Valley	124	6,943,705	0	55,000	1,164,865	16.78%	1,540,297	\$0.00	(22,075)	(22,075)	119,577	119,577
Old Town/Point Loma	74	2,369,929	15,176	0	100,737	4.25%	125,139	\$0.80	23,651	23,651	31,163	31,163
Park East	9	167,568	0	0	979	0.58%	10,510	\$2.10	645	645	6,150	6,150
Rose Canyon/Morena	58	1,229,010	11,160	11,397	112,378	9.14%	142,843	\$2.10	8,330	8,330	16,829	16,829
Uptown/Hillcrest	112	2,759,955	0	0	211,133	7.65%	334,829	\$2.17	(45,528)	(45,528)	22,027	22,027
Central Suburban Total	668	25,108,113	346,636	920,397	2,809,695	11.19%	3,672,279	\$1.87	146,481	146,481	538,609	538,609
Highway 78 Corridor												
Oceanside	55	1,125,094	0	460,789	256,655	22.81%	264,499	\$0.00	723	723	12,202	12,202
San Marcos	37	1,246,937	0	158,000	305,352	24.49%	351,987	\$1.65	5,176	5,176	6,632	6,632
Vista	48	1,100,275	0	188,350	163,486	14.86%	169,821	\$1.14	(5,329)	(5,329)	15,610	15,610
Highway 78 Corridor Total	140	3,472,306	0	807,139	725,493	20.89%	786,307	\$1.57	570	570	34,444	34,444
I-15 Corridor												
Escondido	72	1,501,945	0	375,107	263,320	17.53%	332,221	\$1.57	(19,678)	(19,678)	10,764	10,764
Poway	38	1,988,785	0	340,570	168,863	8.49%	196,964	\$2.25	(7,394)	(7,394)	3,486	3,486
Rancho Bernardo	98	5,953,221	0	1,176,754	1,352,633	22.72%	1,185,685	\$1.91	117,771	117,771	215,074	215,074
Scripps Ranch	51	2,721,458	0	320,000	524,683	19.28%	1,086,079	\$2.24	167,886	167,886	177,065	177,065
I-15 Corridor Total	259	12,165,409	0	2,212,431	2,309,499	18.98%	2,800,949	\$2.01	258,585	258,585	406,389	406,389
North City												
Del Mar Heights	78	4,700,308	0	134,376	1,075,797	22.89%	1,283,018	\$3.90	28,109	28,109	118,128	118,128
Governor Park	18	839,834	0	0	346,909	41.31%	234,440	\$2.20	5,905	5,905	30,183	30,183
La Jolla	61	1,789,813	0	0	169,005	9.44%	223,310	\$3.30	(41,170)	(41,170)	19,501	19,501
Miramar	34	1,577,367	0	0	241,437	15.31%	258,851	\$1.98	3,352	3,352	15,384	15,384
Sorrento Mesa	114	8,065,231	0	1,438,649	1,476,371	18.31%	1,700,301	\$2.24	(19,993)	(19,993)	81,469	81,469
Sorrento Valley	21	580,159	0	0	89,536	15.43%	102,837	\$0.00	(3,338)	(3,338)	5,420	5,420
Torrey Pines	50	3,685,362	0	0	194,548	5.28%	299,765	\$3.75	(14,802)	(14,802)	0	0
UTC Center	89	8,095,386	0	594,097	1,660,150	20.51%	2,221,702	\$2.51	(32,283)	(32,283)	108,493	108,493
North City Total	465	29,333,460	0	2,167,122	5,253,753	17.91%	6,324,224	\$2.53	(74,220)	(74,220)	378,578	378,578
North County												
Carlsbad	153	6,109,842	0	792,200	1,519,082	24.86%	1,740,864	\$2.31	(31,214)	(31,214)	138,687	138,687
North Beach Cities	115	2,525,630	0	78,000	245,901	9.74%	305,888	\$2.43	33,460	33,460	64,635	64,635
North County Total	268	8,635,472	0	870,200	1,764,983	20.44%	2,046,752	\$2.43	2,246	2,246	203,322	203,322
South/Southeast Corridor												
Chula Vista	84	2,490,462	0	322,953	465,404	18.69%	475,715	\$1.67	38,097	38,097	64,082	64,082
East County	159	3,514,935	0	661,700	313,509	8.92%	352,069	\$1.26	20,395	20,395	45,624	45,624
National City	11	395,617	0	0	212,633	53.75%	231,904	\$0.00	0	0	0	0
South Bay	14	339,461	0	0	45,376	13.37%	55,027	\$0.00	(7,221)	(7,221)	1,714	1,714
Southeast San Diego	11	427,877	0	0	123,732	28.92%	124,232	\$0.00	(700)	(700)	0	0
South/Southeast Total	279	7,168,352	0	984,653	1,160,654	16.19%	1,238,947	\$1.39	50,571	50,571	111,420	111,420
Class A	259	31,344,618	300,000	4,779,530	6,135,047	19.57%	7,128,790	\$2.51	211,936	211,936	711,973	711,973
Class B	1,173	49,205,715	46,636	3,222,412	8,420,952	17.11%	10,300,730	\$1.98	85,991	85,991	917,190	917,190
Class C	787	18,104,891	0	0	1,567,650	8.66%	2,089,749	\$1.55	(81,379)	(81,379)	160,326	160,326
San Diego County Total	2,219	98,655,224	346,636	8,001,942	16,123,649	16.34%	19,519,269	\$2.25	216,548	216,548	1,789,489	1,789,489

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

RECENT TRANSACTIONS

Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
15611 Pomerado Rd. – Medical Office	Poway	A	160,000	\$74,000,000	Nationwide Health Prop, Inc.	Pacific Medical Bldgs.
1450 Frazee Rd.	Mission Valley	B	140,486	\$18,400,000	Mission Valley Office Partners, LLC	Core Fund Frazee Property, LLC
2385 Northside Dr.	Mission Valley	A	88,795	\$18,000,000	Kilroy Realty Corporation	Maguire Properties
11943 El Camino Real	Del Mar Hts	B	34,600	\$15,000,104	Foley Development, Inc.	The Allen Group
5962–66 La Place Ct. – 3 Properties	Carlsbad	B	157,886	\$10,925,000	Newport National Corporation	Prudential Real Estate Investors

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16620 W. Bernardo Dr.	Rancho Bernardo	A	196,734	March–10	Nokia	Jay Paul Company
6220 Greenwich Dr.	Governor Park	B	141,214	March–10	Mitchell International, Inc.	Kilroy Realty Corporation
15445 Innovation Dr.	Rancho Bernardo	B	51,700	February–10	EnXco	Kilroy Realty Corporation
3870 Murphy Canyon Rd. – Renewal	Kearny Mesa	A	49,141	January–10	University of Phoenix	Olympia Plaza, LLC
701 B St.	Downtown	A	29,940	February–10	Lewis Brisbois B & S, LLP	Brookfield Properties, LLC

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.

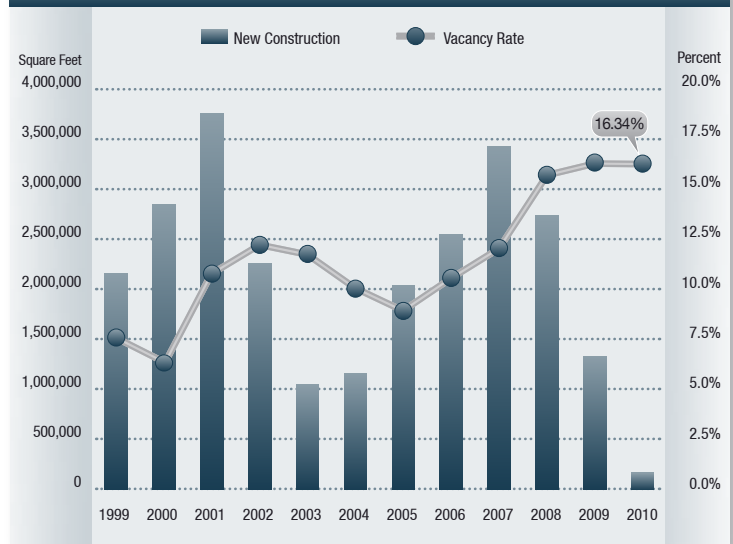
CLASS B

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, but the building cannot compete with Class A at the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

ANNUAL OFFICE NEW CONSTRUCTION VS. VACANCY RATE



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