



SAN DIEGO COUNTY OFFICE

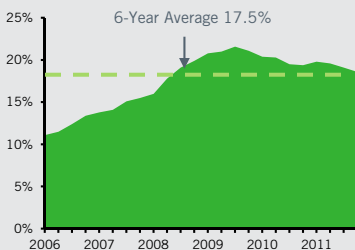
Economic Indicators

	Q4 11	Q4 10
San Diego Labor Force	1.435M	1.395M
San Diego Unemployment	9.2%	10.6%
U.S. Unemployment	8.6%	9.6%
U.S. CCI	53.53	57.05

Net Absorption – All Classes, excl. Sublease



Total Vacancy – All Classes, incl. Sublease



Market Tracker

*Arrows = Current Qtr Trend

▼	Vacancy 18.6%	▲	Net Absorption 425,274 SF	◀▶	Deliveries 0 SF	▲	Asking Rent \$2.22 FS
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Leasing Activity Is Gaining Momentum

During the fourth quarter of 2011, the San Diego office market continued to improve. Countywide total vacancy for all classes, including sublease space, was 18.6 percent compared to 19.1 percent last quarter and 19.4 percent a year ago. The current vacancy of 18.6 percent is 3.1 percentage points higher than the 15.5 percent recorded at the start of the last recession (4Q07); however, it is 3.0 percentage points lower than the peak rate of 21.6 percent recorded at the end of the recession (3Q09). Vacancy is expected to decrease approximately one percentage point per year over the next two to five years.

Countywide net absorption was 425,274 square feet in the fourth quarter bringing year-to-date net absorption to positive 686,150 square feet. All classes recorded positive net absorption in the fourth quarter. In 2011, Class A absorbed 772,074 square feet, Class B returned 110,617 square feet to the market and Class C absorbed 24,693 square feet countywide. Flight-to-quality and renewals within the 5,000- to 20,000-square-foot range continue to be the main drivers of leasing activity, with Class A leading the way.

In the fourth quarter of 2011, Class A recorded 216,820 square feet of positive net absorption countywide marking the 10th consecutive quarter of positive Class A absorption. Over the last two years (3Q09 – 4Q11), tenants have absorbed a total of 2.1 million square feet of Class A space countywide which translates into an average quarterly net absorption of 209,643 square feet. As a result of tenants taking advantage of favorable rates and concessions, the Class A total vacancy rate countywide has decreased 7.4 percentage points from the peak rate of 23.0 percent recorded two years ago (2Q09) to 15.6 percent in the fourth quarter of 2011. Among submarkets that recorded the lowest Class A total vacancy rate ranging between 3.8 and 6.7 percent in the fourth quarter were Sorrento Mesa, Rancho Bernardo, Kearny Mesa and Eastgate. Among submarkets larger than 1.5 million square feet, Sorrento Mesa, Kearny Mesa and Rancho Bernardo recorded the lowest Class A direct vacancy at 2.3 percent, 3.7 percent and 4.0 percent, respectively.

Class B recorded 141,733 square feet of positive net absorption countywide in the fourth quarter, the best quarterly activity recorded in 2011. In the third quarter, tenants absorbed 124,613 square feet of Class B space countywide which was a welcome change from the first two quarters of 2011 when it returned a combined 376,963 square feet to the market. Evaluating historical leasing activity, Class B leasing activity entered the red long before the recession started in 2007 and returned a total of 2.5 million square feet to the market for 15 consecutive quarters (2Q06 – 4Q09). Total Class B vacancy peaked at 23.1 percent in the third quarter of 2009, ranged between 21.2 to and 22.1 percent in 2010 and ended the year at 22.7 percent.

As Class A supply continues to tighten, demand for Class B space is bound to increase. Tenant activity has increased considerably compared to the previous two years. Tenants currently in the market are looking for more than 4.2 million square feet over the next 24 months. Mirroring 2011, the most active tenants in 2012 will be from the education, technology, health care, and life sciences sectors. There are few larger tenants, including Kaiser Permanente, New School of Architecture, BP Biofuels, Qualcomm, Websense, Bridgepoint Education and Advanced BioHealing Inc., currently in the market that would positively affect absorption if leases are signed. While not all of these current tenants in the market will transact in 2012, leasing activity will strengthen over the next year.

The overall countywide monthly average asking rent for all classes was \$2.22 per month per square foot full service in the fourth quarter, a 20 percent decrease from the peak rate of \$2.77 (1Q08) and 2.2 percent decrease from \$2.27 a year ago, indicating that rents are stabilizing. While concessions have peaked in most submarkets, tenants still have an opportunity to take advantage of reduced concessions, with the exception of Del Mar Heights and surrounding prime submarkets where concessions have been reduced.

Further improvements in the San Diego office market will depend on businesses hiring employees in sectors occupying office space and the forecast is promising. In 2012, all sectors except government and other services are forecasted to add jobs, with education and health services, professional and business services, the leisure and hospitality sector and financial activities leading the way, according to Moody's Analytics.

Cassidy Turley BRE Commercial Office Market Snapshot
San Diego County • Fourth Quarter 2011

	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT ABSORPTION	YTD ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT (ALL Classes)	AVERAGE ASKING RENT (CLASS A)
Submarket										
North County	310	8,948,252	134,839	1,982,387	23.7%	130,914	352,018	13,487	\$2.19	\$2.43
Central County	769	47,059,218	1,443,112	6,763,529	17.4%	272,750	464,541	436,252	\$2.26	\$2.75
South County	351	16,930,485	218,146	3,030,370	19.2%	21,610	(130,409)	0	\$2.14	\$2.31
TOTAL	1,430	72,937,955	1,796,097	11,776,286	18.6%	425,274	686,150	449,739	\$2.22	
Class A	348	30,076,277	636,244	4,066,843	15.6%	216,820	772,074	436,252	\$2.57	
Class B	643	32,009,315	1,104,993	6,171,330	22.7%	141,733	(110,617)	13,487	\$2.14	
Class C	439	10,852,363	54,860	1,538,113	14.7%	66,721	24,693	0	\$1.55	
TOTAL	1,430	72,937,955	1,796,097	11,776,286	18.6%	425,274	686,150	449,739	\$2.22	

*Office asking rates converted to Full Service. Vacancy rate includes direct and sublease.

Key Lease Transactions Q4 11

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
La Jolla Commons II	417,000	LPL Financial	New	UTC
The Campus at Sorrento Gateway	111,318	TD Ameritrade	New	Sorrento Mesa
The Plaza – Smith Barney Tower	39,823	Bank of Internet	New	UTC
6602 Convoy Ct.	39,381	California College	New	Kearny Mesa
Bonita Professional Plaza	18,287	Child Development Associates	New	Chula Vista – East

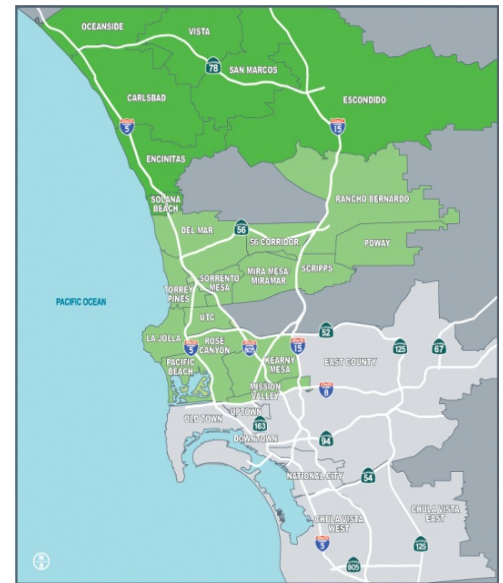
Key Sale Transactions in Q4 11

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
Pacific Center I & II	433,320	GE Asset Management Inc. / Commonwealth Partners LLC	\$116,000,000	Mission Valley
Seaview Corporate Center	356,504	Seaview Corporate, L.P/John Hancock Life Ins. Company	\$109,000,000	Sorrento Mesa
Bank of America Tower	277,351	Bank of America / BCL Inc.	\$60,150,000	Downtown
VA San Diego Oceanside Clinic	65,465	Arch Capital Advisors / Core Real Estate Investments	\$54,500,000	Oceanside
Genesee Plaza	161,173	General Electric Capital Corp. / Divco West Properties	\$46,800,000	Miramar

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Office Submarkets
San Diego County



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