



SAN DIEGO COUNTY OFFICE

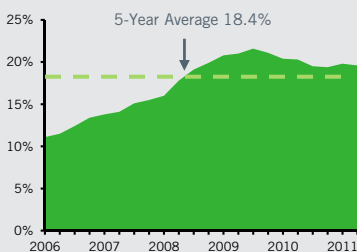
Economic Indicators

	Q3 11	Q3 10
San Diego Labor Force	1.409M	1.393M
San Diego Unemployment	10.2%	10.5%
U.S. Unemployment	9.1%	9.6%
U.S. CCI	49.93	50.94

Net Absorption – All Classes, excl. Sublease



Total Vacancy – All Classes, incl. Sublease



Market Tracker

*Arrows = Current Qtr Trend

Vacancy	▼	19.1%	Net Absorption	▲	292,301 SF	Deliveries	◀	0 SF	Asking Rent	▼	\$2.21 FS
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Measured Progress: Improved Leasing and Occupancy

During the third quarter of 2011, the San Diego office market continued to make strides in the right direction. Countywide total vacancy for all classes, including sublease space, was 19.1 percent compared to 19.6 percent last quarter and 19.5 percent a year ago. The current vacancy of 19.1 percent is 3.6 percentage points higher than the 15.5 percent recorded at the start of the last recession (4Q07); however, it is 2.1 percentage points lower than the peak rate of 21.6 percent recorded at the end of the recession (3Q09). Vacancy is expected to continue to tighten gradually over the next year assuming the economy continues to grow at the current rate without any unpredicted shocks to the economy or to the financial markets.

Flight-to-quality and renewals within a 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 third quarter of 2011, Class A recorded 201,751 square feet of positive net absorption countywide marking the ninth consecutive quarter of positive Class A absorption. Over the last two years (3Q09 – 3Q11), tenants have absorbed a total of 1.9 million square feet of Class A space countywide which translates into an average quarterly net absorption of 209,000 square feet. As a result of tenants taking advantage of favorable rates and concessions, the Class A direct vacancy rate countywide has decreased from the peak rate of 19.4 percent recorded two years ago (2Q09) to 14.3 percent in the third quarter of 2011.

Class B recorded 124,613 square feet of positive net absorption countywide, a welcome change from the previous two quarters 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 between 2006 and 2009. After returning space for 15 consecutive quarters (2Q06 - 4Q09), Class B leasing turned positive in the first quarter of 2010, and has been bouncing between red and black since then. Total Class B direct vacancy peaked in the second quarter of 2011 at 19.9 percent yet decreased in the third quarter of 2011 to 19.7 percent. As Class A supply continues to tighten, demand for Class B space is bound to increase. Tenants currently in the market are looking for more than two million square feet of office space over the next 24 months. While not all of these tenants will transact, leasing activity will strengthen over the next year.

Forecast

- Ongoing, albeit modest, recovery in parallel with the national economy is expected in the San Diego office market. Overall office market performance will remain mixed as it will be well into 2012 before the recovery is felt in all submarkets across the county.
- Although rents have stabilized over the last year, major increases are not expected in the near-term. Tenant demand for spaces not considered the “crème de la crème” remains spotty and not enough to support rent increases. While concessions have peaked in most submarkets, tenants still have an opportunity to take advantage of concessions, with the exception of Del Mar Heights and surrounding prime submarkets where concessions have been reduced. In the prime submarkets, the window of opportunity for tenants to secure the best deals in the best buildings is beginning to close, a trend that is expected to continue. For other submarkets, dynamic change will come to the market when small companies feel more confident about making real estate decisions as more than 70 percent of San Diego’s tenants are businesses consisting of 10 employees or less.
- Conditions for landlords of the best buildings including green buildings in prime submarkets will be much more favorable than conditions for owners of older office buildings located in secondary submarkets. Landlords of prime assets are starting to think about raising rents, which was out of the question just a year ago.
- A lack of new construction countywide has played an important role in the current office market recovery by enabling the office market to regain its footing. Further improvement will depend on businesses hiring employees in sectors such as professional and business services, insurance, finance, and to some degree, the government, educational and health sectors. According to the Moody’s Analytics employment forecast for San Diego County released in August 2011, employment is forecasted to grow in all office-occupying employment sectors, except the government sector, in 2012. Total employment countywide is forecasted to increase 1.0 percent or 12,300 jobs in 2012 and 2.5 percent or 31,200 jobs in 2013. In the near-term, expect to see more of the same, slow but steady employment growth building on previous monthly gains resulting in slow and steady quarterly improvements in leasing activity.

Cassidy Turley BRE Commercial Office Market Snapshot
San Diego County • Third 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	133,037	2,113,301	25.1%	61,907	221,104	13,487	\$2.21	\$2.44
Central County	769	47,059,218	1,385,089	7,041,955	17.9%	174,605	191,791	63,941	\$2.24	\$2.77
South County	350	16,883,562	234,229	3,051,980	19.5%	55,789	(152,019)	0	\$2.16	\$2.39
TOTAL	1,429	72,891,032	1,752,355	12,207,236	19.1%	292,301	260,876	77,428	\$2.21	\$2.59
Class A	348	30,076,277	721,212	4,289,339	16.7%	201,751	555,254	63,941	\$2.59	
Class B	643	32,009,315	969,682	6,313,063	22.8%	124,613	(252,350)	13,487	\$2.12	
Class C	438	10,805,440	61,461	1,604,834	15.4%	(34,063)	(42,028)	0	\$1.55	
TOTAL	1,429	72,891,032	1,752,355	12,207,236	19.1%	292,301	260,876	77,428	\$2.21	

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

Key Lease Transactions Q3 11

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
The Campus at Sorrento Gateway	111,318	TD Ameritrade	New	Sorrento Mesa
Towne Center Technology Park	105,358	LPL, Inc.	Renew	Eastgate
Nautilus	59,199	Verinium	New	Torrey Pines
Nautilus	44,681	GNF Novartis	New	Torrey Pines
Pacific Center II	34,307	Accenture LLP	Renew	Mission Valley

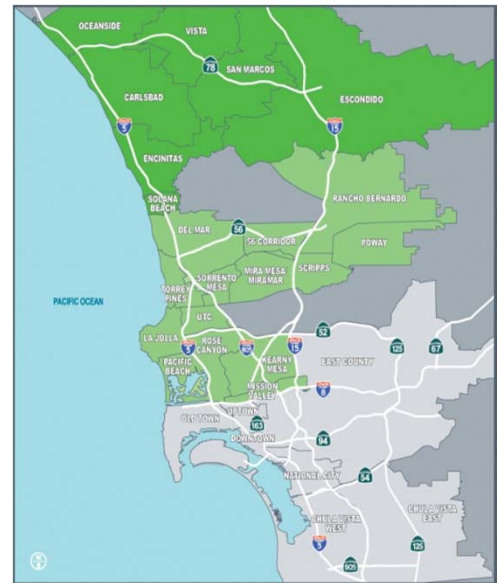
Key Sale Transactions YTD

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
110 Plaza	325,997	Cornerstone RE Advisors / Forester Properties, Inc.	\$80,000,000	Downtown
Wateridge Plaza	268,957	Nomura / Beacon (C-3)	\$50,500,000	Sorrento Mesa
Scripps Northridge	190,837	Miller Family Companies / Dart Development Group	\$41,000,000	Scripps
University Science Center East	93,000	Nexus / HCP	\$34,200,000	Eastgate
Scripps Wateridge	176,983	Met Life RE Investments / Kilroy Realty Corp.	\$32,918,838	Sorrento Mesa

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Office Submarkets
San Diego County



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