San Diego, California

Tenant's Guide ▪ North American Markets ▪ Second Quarter 2010

Overview

The University of San Diego's Index of Leading Economic Indicators for San Diego County rose for the thirteenth consecutive month; however, the increase was a modest 0.2%, and half the components considered actually declined, including a fall in consumer confidence. No measure of optimism has manifested itself in the commercial real estate market in 2010, and none is expected for the balance of the year. The second quarter did see an awakening of landlords with the softening of asking rents. Downtown San Diego class A office asking rents dropped 2% for a total drop of over 5% since January. This led to increased class A activity as downtown experienced a "flight to quality" and a drop in vacancy of 2.5% since March. This shift to class A adversely affected the class B product as vacancy rates have increased almost 4% since the beginning of the year. Vacancies in the suburban markets remain constant even though asking rents have dropped considerably since the beginning of the year (class A - approximately 3%, class B - approximately 7.5%, and R&D - approximately 2.5%).

Market Trends

- During the second quarter of 2010, San Diego County's unemployment rate dropped to approximately 10%, down from 11.1% in January. State wide unemployment is approximately 12.4%.
- Consumer confidence, a market driver, has decreased 2.36% since the first of the year.
- Purchase and sale activity has been driven by the owner/user community.
- Currently, there is approximately 340,000 SF of product under construction, 9% of the activity level back in the second quarter, 2007.
- Average time on market for available product now exceeds 12 months, up from 7.5 months two years ago.

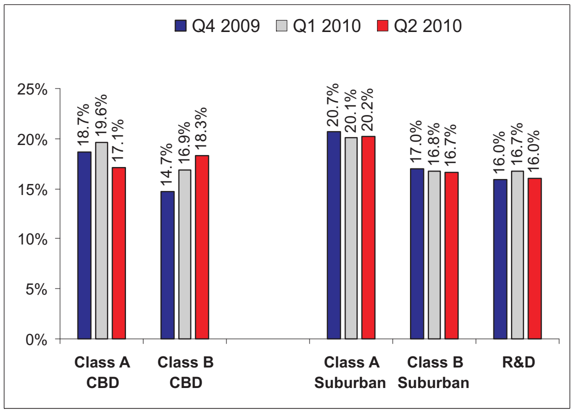
Tenant's Perspective

The tenant continues to hold the cards as landlords fight for attention. Concessions continue to increase with landlords providing rent abatements equal to one to one and a half months per year of lease term for a standard lease transaction, softened starting rents, and market tenant improvements. Tenants are able to get lateral concession credits if they occupy their premises without extensive tenant improvement costs expended by the landlord. Tenants continue to succeed in negotiating expansion, retraction, termination, and purchase rights and other advantages that were not available in lease negotiations several years ago.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
San Diego Blood Bank	131,720	Industrial	Sale
General Atomics	99,370	Flex	Sale
RW Smith & Co.	73,467	Industrial	Lease
Big Box Storage	55,200	Industrial	Lease
Covance	44,806	Flex	Lease
Innovive, Inc.	43,875	Flex	Lease
Guild Mortgage	41,750	Office	Lease
Bridgepoint	40,480	Office	Lease
LG Electronics	38,209	Office	Lease
Millennium Labs	34,661	Office	Sale

Vacancy Rate



Average Rental Rates

CBD	Q4 2009	Q1 2010	Q2 2010
Class A Office	$31.44	$30.48	$29.88
Class B Office	$26.16	$25.92	$24.36

Suburban	Q4 2009	Q1 2010	Q2 2010
Class A Office	$33.72	$33.60	$32.64
Class B Office	$25.56	$25.32	$24.96
R&D	$14.52	$14.16	$14.16

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