



San Diego, California

Tenant's Guide ▪ North American Markets ▪ First Quarter 2012

Overview

The sluggish growth forecasted last quarter for San Diego is right on target at just under 2%. San Diego is expected to lag behind the projected (and on target) national growth of 2.2%. From a commercial real estate perspective, the effective lease rates did not increase in the first quarter of the year, but the vacancy rates in the central markets dropped, to even as low as 4% for class A office space in Sorrento Mesa, an indication of a move to a landlord's market. With a lack of any new development both past and present and increased demand driven by attractive lease rates in these popular markets, we anticipate that rents will begin to trend upward. We don't expect rents to increase in submarkets extended to the north or south of central San Diego. Concessions, including rental abatement, increased tenant improvement allowances, and limits on future tenant expenses, are still prevalent.

Market Trends

- Asking rents for class A office space are rising to meet rising demand, leading the way to anticipated local economic recovery.
- San Diego's job growth, 2.6% for 2011 as compared to 1.6% nationwide for the same time period, remains paramount to local economic health.
- As the Health Care, High Tech, and Life Science industries continue to add jobs and lease office and industrial space, vacancy is expected to drop in the suburbs, yet remain flat downtown for the next few quarters.

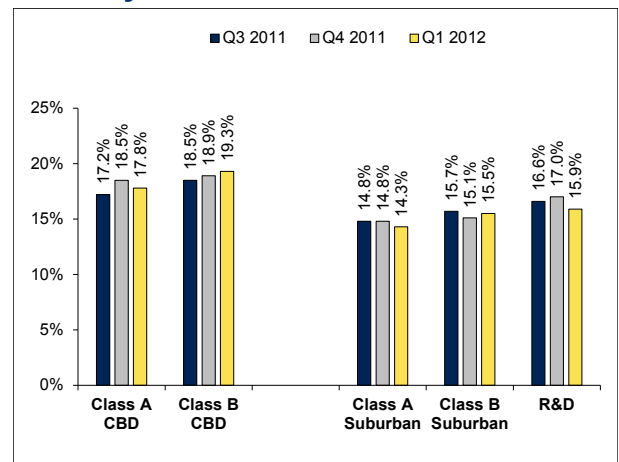
Tenant's Perspective

Foreclosures and short sales are expected to continue, so it is imperative that tenants seek adequate non-disturbance language as part of their lease. Tenants should also be aware of their landlord's financial situation to understand their leverage. If a landlord needs to refinance in the near future, it would behoove the landlord to negotiate a long-term commitment from their tenants. Thus, aware tenants have the opportunity to negotiate below-market terms, sometimes months or even years in advance of their lease expiration.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Servicenow.com	94,500	Office	Lease
La Cantina Doors	66,780	Office	Lease
Pods	65,000	Industrial	Lease
Qualcomm	48,700	Industrial	Lease
Callaway Golf	47,000	Industrial	Lease
United Health Care	47,000	Office	Lease
In Character	47,000	Industrial	Lease
TriTech Software	40,000	Office	Lease
AP Wireless Partners	27,000	Office	Lease
Packaging Corporation	25,000	Office	Lease

Vacancy Rate



Average Rental Rates

CBD	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$27.96	\$28.08	\$27.84
Class B Office	\$25.44	\$23.52	\$23.40
Suburban	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$30.96	\$30.84	\$30.96
Class B Office	\$24.36	\$24.12	\$24.48
R&D	\$12.84	\$12.84	\$12.84

