



Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

Vacancy



UP

Absorption



DOWN

Lease Rates



UP

RECORD HIGH

Construction



UP

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Office Market Highlights

- ◆ The San Diego County office market is undergoing changes due to reaction to the mortgage/housing industry, the completion of new supply and the general slow down of the US economic environment. With vacancy rates increasing due to the completion of just over 500,000 square feet of new office construction in the first quarter of 2008, along with another 2.5 to 3 million scheduled to be completed in the next three quarters, some challenges exist. However, the region's strong local economy and high quality of life continue to make it a desirable location for business. The growing influence of industries such as biotechnology, high technology and healthcare should continue to diversify the local economy and help to support further growth in the office market. These industries will increase employment opportunities and help to ease vacancy rate concerns in the coming quarters.
- ◆ The average asking full service gross lease rate per month per foot is currently \$2.76, which is a 2.6% increase over last year's first quarter rate of \$2.69, and is one cent higher than last quarter's record high rate. Class A rates for the county are averaging \$3.11 FSG, and are the highest in the North County submarket at \$4.17 FSG.
- ◆ The office vacancy rate (for direct and sublease space) finished the quarter at 12.81% this quarter, constituting a 9.77% increase over last year's first quarter rate of 11.67%. This increase is a result of the new construction coupled with a slowing economy, as financial markets correct.
- ◆ Net absorption for the county posted a negative number of 217,416 square feet for the first quarter of 2008. Last year San Diego County had a total of 1,741,792 square feet of positive absorption. This negative absorption can be attributed to the credit crunch and finance companies consolidating.
- ◆ Currently there is 3.2 million square feet of Office construction underway, and total construction is lower than it was a year ago when 4.6 million square feet was under construction. This is a decrease of over 32% when compared to last year, a positive sign.
- ◆ Planned Office construction in San Diego County is up compared to last year. Currently there is 10.3 million square feet of Office space on the slate as being planned, compared to last year's figure of 10 million square feet.
- ◆ According to the State of California Employment Development Department, San Diego County added 300 payroll jobs over the last twelve months. Between January 2008 and February 2008 San Diego County gained 3,500 jobs, mostly in the government, leisure and hospitality sectors.
- ◆ According to Los Angeles County Economic Development Corporation, it is estimated that San Diego County will gain 12,700 non-farm jobs with a 4.1% increase in total personal income in 2008, and they are forecasting 19,800 new jobs for 2009.
- ◆ The unemployment rate in San Diego County was 5.0% in February 2008, down from the revised 5.2% percent in January 2008, but above the year ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 6.1 percent for California and 5.2 percent for the nation during the same period.
- ◆ Rental rates are expected to continue to increase at moderate levels in the immediate future. Concessions should begin to increase in the short run in the forms of limited free rent, reduced parking fees, relocation funds and tenant improvement allowances, as new inventory becomes available from construction deliveries. We should see annual lease rate growth of at least 1% to 3% continuing through 2008.

OFFICE MARKET OVERVIEW

	1Q2008	4Q2007	1Q2007	% CHANGE VS. 1Q07
Under Construction	3,153,697	2,898,592	4,648,947	-32.16%
Planned Construction	10,314,000	10,354,758	10,016,960	2.97%
Vacancy	12.81%	12.12%	11.67%	9.77%
Availability	16.85%	18.95%	14.45%	16.61%
Pricing - Full Service Gross	\$2.76	\$2.75	\$2.69	2.60%
Net Absorption	-217,416	-328,873	276,619	N/A

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RECENT TRANSACTIONS

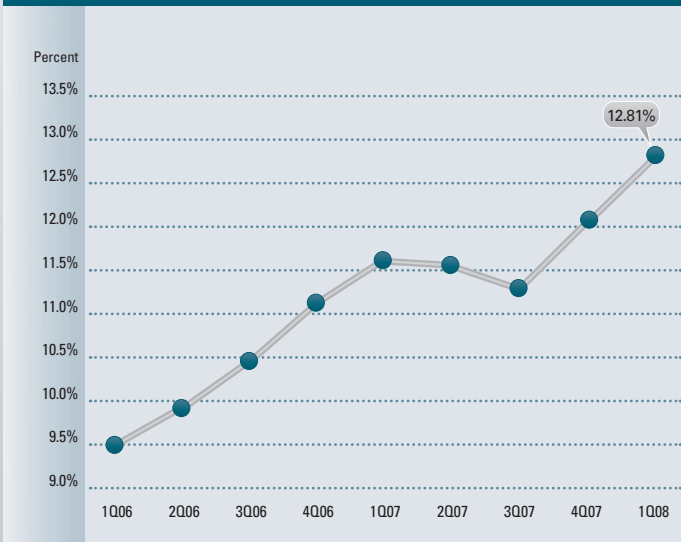
Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
8899 University Center Lane	UTC	A	96,490	\$42,000,000	Falcon Real Estate	Alecta Real Estate Investment LLC
9246 Lightwave Ave. - 2 Properties	Kearny Mesa	A	130,000	\$30,500,000	San Diego Spectrum Office LP	FPA
11099 N Torrey Pines Road - Building 7	Torrey Pines	B	86,000	\$28,000,000	Angelo, Gordon West, LLC	Alexandria Real Estate Equities Inc.
3110 Camino Del Rio S - 2 Properties	Mission Valley	C	72,060	\$15,900,000	Robert Frontiera	Hampshire Investments LLC

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Kilroy Sabre Springs	Rancho Bernardo	A	103,441	February-08	Bridgepoint Education	Kilroy Realty Corporation
Carmel Point Office Park	Rancho Bernardo	B	31,159	March-08	Audatex	Arden Realty, Inc.
Linear-Palomar Airport Business Park	Carlsbad	C	30,929	February-08	N/A	Steve C. Filsinger
7675 Mission Valley Road	Mission Valley	B	25,635	February-08	The Art Institute of San Diego	H.G. Fenton Company

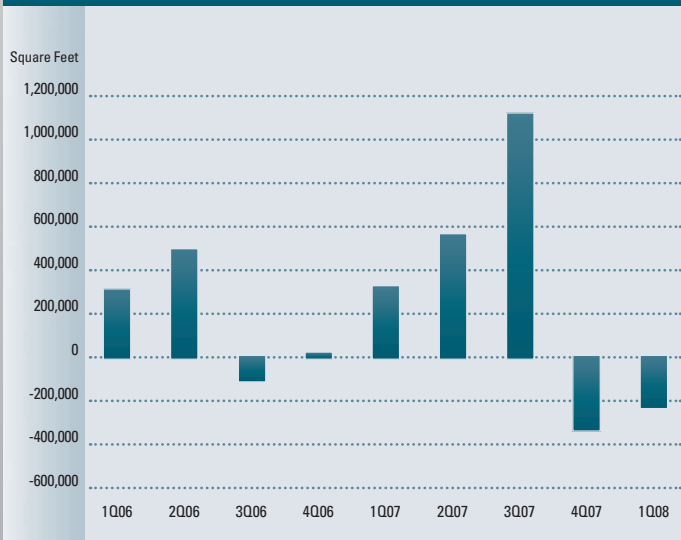
VACANCY RATE



AVERAGE ASKING FULL SERVICE LEASE RATE



NET ABSORPTION



GROSS ABSORPTION



	INVENTORY			VACANCY & LEASE RATES					ABSORPTION			
	Number Of Buildings	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2008	Total Availability 1Q2008	Average Asking Lease Rate	Net Absorption 1Q2008	Net Absorption 2007	Net Absorption 2006	Net Absorption 2005
Central												
Downtown	141	12,285,652	0	725,358	1,639,500	13.34%	2,254,104	\$2.78	44,383	111,439	59,319	181,110
Central Total	141	12,285,652	0	725,358	1,639,500	13.34%	2,254,104	\$2.78	44,383	111,439	59,319	181,110
Central Suburban												
City Heights/University	45	1,153,171	78,696	0	127,613	11.07%	149,142	\$2.35	(22,139)	9,311	(24,943)	(7,613)
Kearny Mesa	227	9,121,725	802,254	750,000	943,693	10.35%	1,055,154	\$1.93	15,375	6,284	197,814	255,154
Mission Gorge	58	1,500,604	0	0	110,614	7.37%	128,438	\$1.43	(10,227)	(10,891)	(18,571)	(6,460)
Mission Valley	123	6,652,608	0	55,000	1,043,310	15.68%	1,287,600	\$2.57	(102,709)	(66,659)	(70,321)	295,692
Old Town	34	857,610	0	0	45,642	5.32%	49,032	\$2.22	99	1,670	6,046	(1,187)
Point Loma	59	1,685,682	0	109,000	137,254	8.14%	130,363	\$1.72	(24,788)	19,361	36,338	83,723
Rose Canyon/Morena	53	1,142,002	14,000	0	63,304	5.54%	119,915	\$1.90	13,409	(6,432)	(21,149)	43,433
Uptown/Hillcrest	77	1,905,906	0	0	122,030	6.40%	161,129	\$2.32	(32,394)	10,060	(35,800)	20,037
Central Suburban Total	676	24,019,308	894,950	914,000	2,593,460	10.80%	3,080,773	\$2.37	(163,374)	(37,296)	69,414	682,779
Highway 78 Corridor												
Oceanside	40	764,016	95,110	534,000	137,970	18.06%	162,535	\$1.72	24,497	430	(3,171)	3,565
San Marcos/Vista	83	2,226,540	204,222	1,102,271	213,255	9.58%	320,746	\$1.72	14,304	(31,972)	198,686	(36,713)
Highway 78 Corridor Total	123	2,990,556	299,332	1,636,271	351,225	11.74%	483,281	\$1.72	38,801	(31,542)	195,515	(33,148)
I-15 Corridor												
Escondido	73	1,447,765	78,777	43,107	167,436	11.57%	160,837	\$2.28	(6,442)	26,490	(1,138)	43,015
Poway	31	1,235,164	0	324,000	46,052	3.73%	64,626	\$2.00	11,776	171,492	23,466	0
Rancho Bernardo	105	7,210,877	792,734	1,061,214	1,200,279	16.65%	1,633,936	\$2.61	185,507	385,614	(33,005)	19,005
Scripps Ranch	40	1,549,617	264,869	794,000	288,486	18.62%	339,130	\$2.46	7,581	78,008	(129,315)	(38,899)
I-15 Corridor Total	249	11,443,423	1,136,380	2,222,321	1,702,253	14.88%	2,198,529	\$2.44	198,422	661,604	(139,992)	23,121
North City												
Del Mar Heights	66	4,417,425	0	93,332	546,794	12.38%	897,140	\$0.00	6,912	214,639	(44,591)	355,198
Governor Park	19	859,736	0	0	298,989	34.78%	456,953	\$2.70	(17,541)	(183,563)	6,876	1,082
La Jolla	55	1,647,441	0	0	62,100	3.77%	77,339	\$3.62	24,272	(3,604)	61,492	22,217
Miramar	34	1,609,220	0	40,000	159,958	9.94%	248,035	\$0.00	23,965	(23,973)	7,252	42,816
N University City - UTC Center	126	9,263,368	54,000	2,018,649	1,309,663	13.67%	1,686,353	\$2.56	(67,222)	417,344	530,633	169,058
Sorrento Mesa	58	3,814,962	0	53,839	496,504	12.72%	494,349	\$3.72	(32,680)	(324,574)	124,506	202,840
Torrey Pines/Sorrento Valley	89	7,313,077	300,664	689,097	570,031	7.79%	1,089,335	\$3.48	14,103	382,550	(120,770)	322,898
North City Total	447	28,925,229	354,664	2,894,917	3,444,039	11.91%	4,949,504	\$3.34	(48,191)	478,819	565,398	1,116,109
North County												
Carlsbad	141	5,811,744	378,242	1,015,133	1,438,773	24.76%	1,562,927	\$4.37	(118,155)	304,200	97,859	326,836
North Beach Cities	107	2,353,044	0	33,000	161,402	6.86%	227,179	\$4.00	9,204	128,260	(47,163)	78,733
North County Total	248	8,164,788	378,242	1,048,133	1,600,175	19.60%	1,790,106	\$4.17	(108,951)	432,460	50,696	405,569
South/Southeast Corridor												
East County	124	2,567,496	26,432	650,500	206,932	8.06%	238,007	\$1.29	(19,774)	31,877	(15,555)	25,942
South San Diego	119	3,613,232	63,697	222,500	507,575	14.05%	849,699	\$2.07	(158,732)	94,431	85,712	101,595
South/Southeast Total	243	6,180,728	90,129	873,000	714,507	11.56%	1,087,706	\$1.55	(178,506)	126,308	70,157	127,537
Class A	227	28,306,844	2,227,977	6,761,728	4,897,402	17.30%	6,079,504	\$3.11	(5,469)	1,834,229	813,988	847,993
Class B	1,086	47,047,335	925,720	3,552,272	5,944,786	12.64%	7,957,811	\$2.44	(89,384)	(45,474)	12,619	1,564,592
Class C	814	18,655,505	0	0	1,202,971	6.45%	1,806,688	\$1.76	(122,563)	(46,963)	43,900	90,492
San Diego County Total	2,127	94,009,684	3,153,697	10,314,000	12,045,159	12.81%	15,844,003	\$2.76	(217,416)	1,741,792	870,507	2,503,077

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

CONSTRUCTION UPDATE

Under Construction

Property Address	Submarket	Class	Square Feet	# of Floors	Estimate Delivery	Recorded Owner
4747 Executive Drive	UTC	A	300,664	13	April-08	Hines
8620 Spectrum Center Blvd.	Kearny Mesa	A	294,780	12	February-08	Sunroad KM Land, Inc.
5893 Copley Drive	Kearny Mesa	A	205,000	6	September-08	Sudberry Properties, Inc.
Summit Rancho Bernardo	Rancho Bernardo	A	196,602	5	December-08	Jay Paul Company

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
5791 Morehouse Drive	Sorrento Mesa	A	450,000	10	January-07	Qualcomm, Inc.
Pacific Mesa Blvd - Cardinal Health	Sorrento Mesa	B	318,000	3	August-07	Kilroy Realty Corporation
350 10th Ave	Downtown	A	306,750	14	March-07	Cisterra Partners
13480 Evening Creek Drive North	Rancho Bernardo	A	140,915	6	December-07	Kilroy Realty Corporation

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.

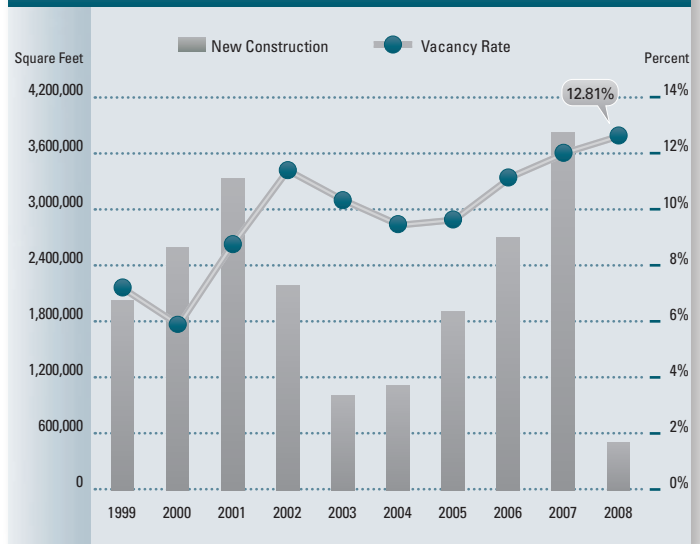
CLASS B

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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This survey consists of properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full service gross basis. The information contained in this report is gathered from sources that are deemed reliable but no guarantees are made as to its accuracy. This information is for Voit Commercial Brokerage use only, and cannot legally be reproduced without prior written consent from the management of Voit Commercial Brokerage.