

OFFICE MARKET REPORT

SECOND QUARTER 2006

Compared to last quarter:

VACANCY



ABSORPTION



LEASE RATES

RECORD HIGH



RECORD HIGH

CONSTRUCTION



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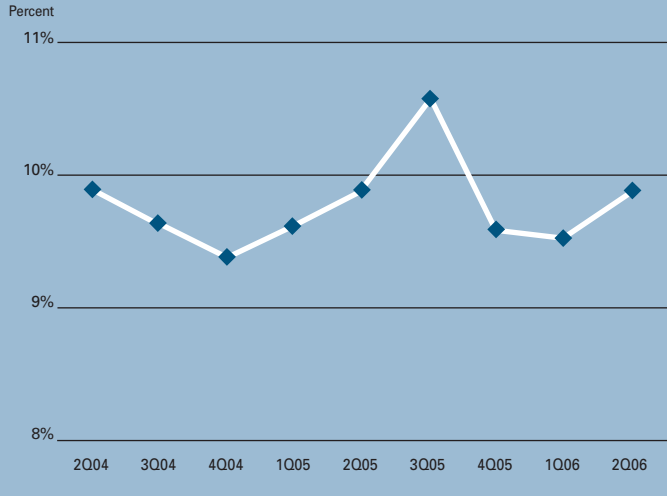
MARKET HIGHLIGHTS

- ◆ Unemployment in the second quarter of 2006 in San Diego County is 3.7%, which is a decrease of 0.4% since the first quarter of 2006 and down from the 4.1% we saw a year ago.
- ◆ According to Los Angeles County Economic Development Corporation it is estimated that San Diego County added 23,400 new non-farm jobs in 2005, and they are forecasting 35,000 new jobs in 2006. They are also forecasting a 6.2% increase in total personal income for 2006.
- ◆ Currently there is 4,134,128 square feet of Office construction underway, and total construction is higher than the 3,796,555 square feet that was under construction at this same time last year. This is an increase of 8.89% when compared to last year.
- ◆ Planned Office construction in San Diego County is slightly down compared to last year. Currently there is 9,238,044 square feet of Office space on the slate as being planned, compared to last year's figure of 9,653,292 square feet.
- ◆ The Office vacancy rate is at 9.90%, which is the same as it was during the second quarter of 2005. This low rate is putting upward pressure on lease rates.
- ◆ The average asking full service lease rate checked in at \$2.63 a square foot per month this quarter, new record high. This is one cent higher than last quarter and 6.05% higher than what was reported in the second quarter of 2005.
- ◆ The Office absorption checked in at a positive 487,044 square feet for the second quarter of 2006, giving the San Diego Office Market a total of 7.2 million square feet of positive absorption for the last 14 quarters.
- ◆ Rental rates are expected to continue to increase at moderate levels in the short run, and concessions will lessen as the economy in San Diego County continues to expand. These conditions will put upward pressure on lease rates going forward. We should see rental rate growth of 5% to 7% in 2006.

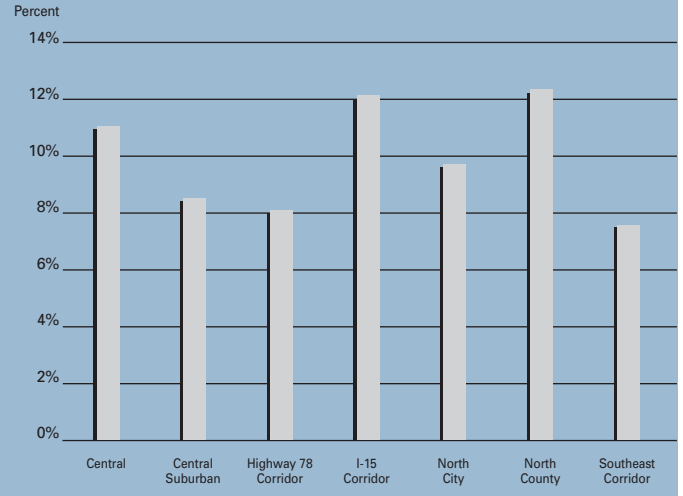
OFFICE MARKET STATISTICS

	2Q2006	1Q2006	2Q2005	% CHANGE VS. 2005
Under Construction	4,134,128	4,264,304	3,796,555	8.89%
Planned Construction	9,238,044	9,004,486	9,653,292	-4.30%
Vacancy	9.90%	9.53%	9.90%	0.00%
Availability	13.53%	12.69%	12.03%	12.47%
Pricing - Full Service Gross	\$2.63	\$2.62	\$2.48	6.05%
Net Absorption	487,044	315,398	777,411	N/A

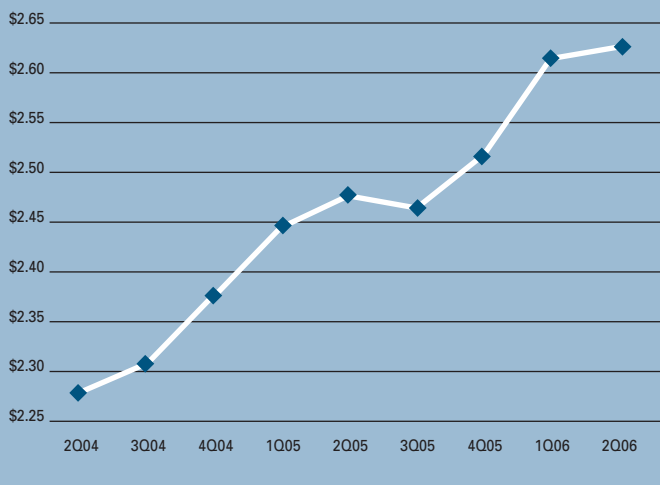
VACANCY RATE



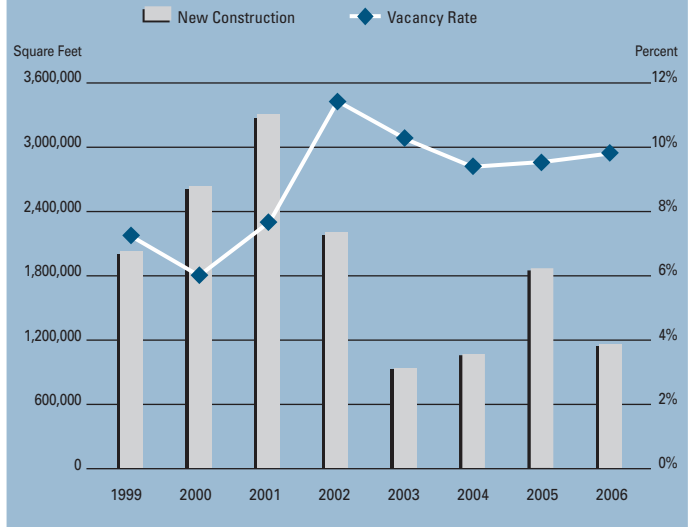
VACANCY RATE BY SUBMARKET



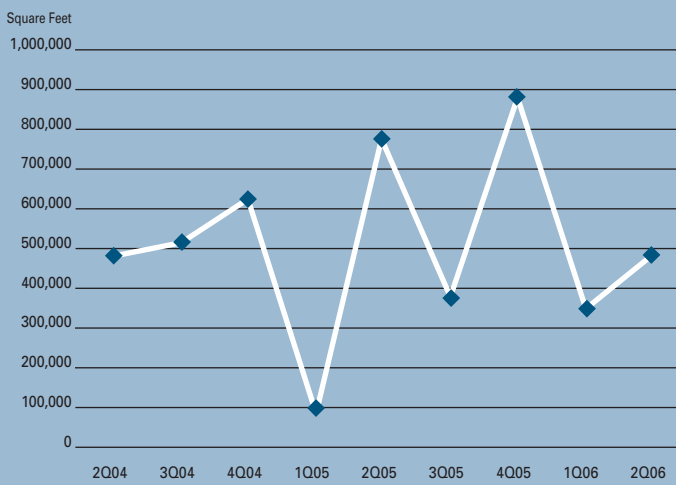
AVERAGE ASKING FULL SERVICE LEASE RATE



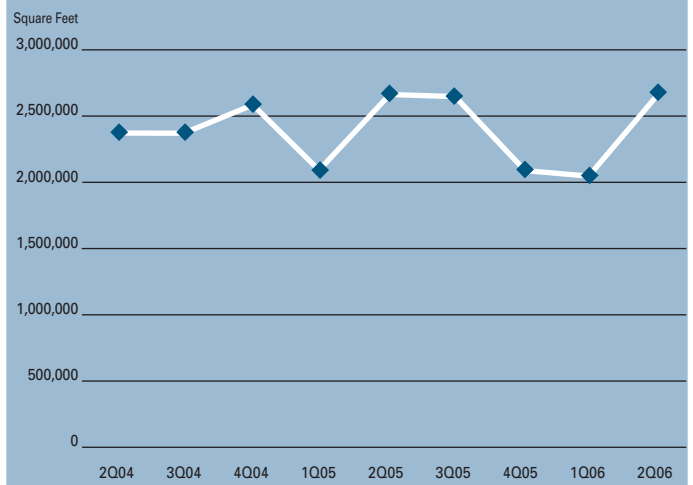
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



SECOND QUARTER 2006

SAN DIEGO COUNTY

INVENTORY

VACANCY & ABSORPTION

	Number Of Buildings	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2006	Total Availability 2Q2006	Average Asking Lease Rate	Net Absorption 2Q2006	Net Absorption 2006
Central										
Downtown	137	11,601,830	543,179	0	1,279,738	11.03%	1,741,673	\$2.72	2,569	27,100
Central Total	137	11,601,830	543,179	0	1,279,738	11.03%	1,741,673	\$2.72	2,569	27,100
Central Suburban										
City Heights/University	38	867,010	0	78,696	91,949	10.61%	92,089	\$1.71	3,954	(25,174)
Kearny Mesa	214	8,445,489	449,930	880,000	664,633	7.87%	896,640	\$1.97	114,039	177,212
Mission Gorge	49	1,202,779	0	0	59,181	4.92%	64,751	\$1.45	14,149	9,344
Mission Valley	129	6,739,551	0	205,000	789,927	11.72%	1,082,266	\$2.43	(38,379)	(35,428)
Old Town	29	700,132	0	0	29,702	4.24%	30,397	\$1.77	4,049	17,355
Point Loma	52	1,352,358	72,018	109,000	106,633	7.88%	106,633	\$1.46	(6,602)	13,142
Rose Canyon/Morena	43	955,126	0	0	62,228	6.52%	89,010	\$0.00	(23,971)	(21,280)
Uptown/Hillcrest	76	1,938,492	0	0	122,588	6.32%	164,436	\$1.54	(40,120)	(51,227)
Central Suburban Total	630	22,200,937	521,948	1,272,696	1,926,841	8.68%	2,526,222	\$2.26	27,119	83,944
Highway 78 Corridor										
Oceanside	29	559,031	130,538	350,039	66,572	11.91%	67,422	\$1.75	(1,425)	(17,213)
San Marcos/Vista	75	1,935,931	125,050	256,998	138,595	7.16%	191,428	\$1.93	73,376	92,365
Highway 78 Corridor Total	104	2,494,962	255,588	607,037	205,167	8.22%	258,850	\$1.88	71,951	75,152
I-15 Corridor										
Escondido	58	1,146,235	12,139	130,882	64,296	5.61%	76,493	\$2.15	14,110	9,347
Poway	29	1,215,513	0	324,000	210,715	17.34%	210,715	\$2.17	7,335	16,230
Rancho Bernardo	82	4,497,197	816,240	1,552,588	517,263	11.50%	642,553	\$2.50	(179)	(61,517)
Scripps Ranch	40	1,555,697	0	470,000	238,429	15.33%	364,397	\$2.51	3,213	6,341
I-15 Corridor Total	209	8,414,642	828,379	2,477,470	1,030,703	12.25%	1,294,158	\$2.38	24,479	(29,599)
North City										
Del Mar Heights	60	3,938,630	232,035	575,000	365,733	9.29%	513,267	\$0.00	(107,685)	(61,075)
Governor Park	19	858,037	0	0	90,614	10.56%	109,901	\$2.60	9,586	14,147
La Jolla	49	1,624,809	0	0	124,600	7.67%	134,506	\$2.89	(11,805)	17,256
Miramar	34	1,121,995	0	0	194,448	17.33%	293,649	\$0.00	(14,716)	1,772
N University City - UTC Center	85	6,963,007	190,884	822,097	592,745	8.51%	774,538	\$3.14	18,341	33,115
Sorrento Mesa	116	7,184,514	595,000	1,833,586	671,001	9.34%	1,409,414	\$2.56	497,489	571,825
Torrey Pines/Sorrento Valley	56	3,396,644	71,000	53,839	385,663	11.35%	410,496	\$0.00	(114,662)	(92,503)
North City Total	419	25,087,636	1,088,919	3,284,522	2,424,804	9.67%	3,645,771	\$3.01	276,548	484,537
North County										
Carlsbad	120	4,627,703	710,698	1,192,837	678,942	14.67%	770,703	\$0.00	33,395	80,734
North Beach Cities	99	2,164,274	60,400	0	172,107	7.95%	356,789	\$2.95	(10,652)	(8,865)
North County Total	219	6,791,977	771,098	1,192,837	851,049	12.53%	1,127,492	\$2.95	22,743	71,869
South/Southeast Corridor										
East County	94	2,018,702	43,000	49,750	89,256	4.42%	99,162	\$1.44	25,848	1,544
South San Diego	97	3,069,433	82,017	353,732	282,810	9.21%	358,766	\$0.00	35,787	87,895
South/Southeast Total	191	5,088,135	125,017	403,482	372,066	7.31%	457,928	\$1.44	61,635	89,439
Class A	192	22,729,560	3,173,598	6,630,920	2,818,687	12.40%	4,011,304	\$2.93	568,650	899,885
Class B	971	42,313,001	960,530	2,607,124	3,965,077	9.37%	5,523,346	\$2.27	(101,910)	57,026
Class C	746	16,637,558	0	0	1,306,604	7.85%	1,517,444	\$1.75	20,304	(154,469)
San Diego County Total	1,909	81,680,119	4,134,128	9,238,044	8,090,368	9.90%	11,052,094	\$2.63	487,044	802,442

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

OFFICE MARKET REPORT

SECOND QUARTER 2006

SUBMARKETS

CENTRAL

Downtown

CENTRAL SUBURBAN

City Heights/University
Kearny Mesa
Mission Gorge
Mission Valley
Old Town
Point Loma
Rose Canyon/Morena
Uptown/Hillcrest

HIGHWAY 78 CORRIDOR

Oceanside
San Marcos/Vista

I-15 CORRIDOR

Escondido
Poway
Rancho Bernardo
Scripps Ranch

NORTH CITY

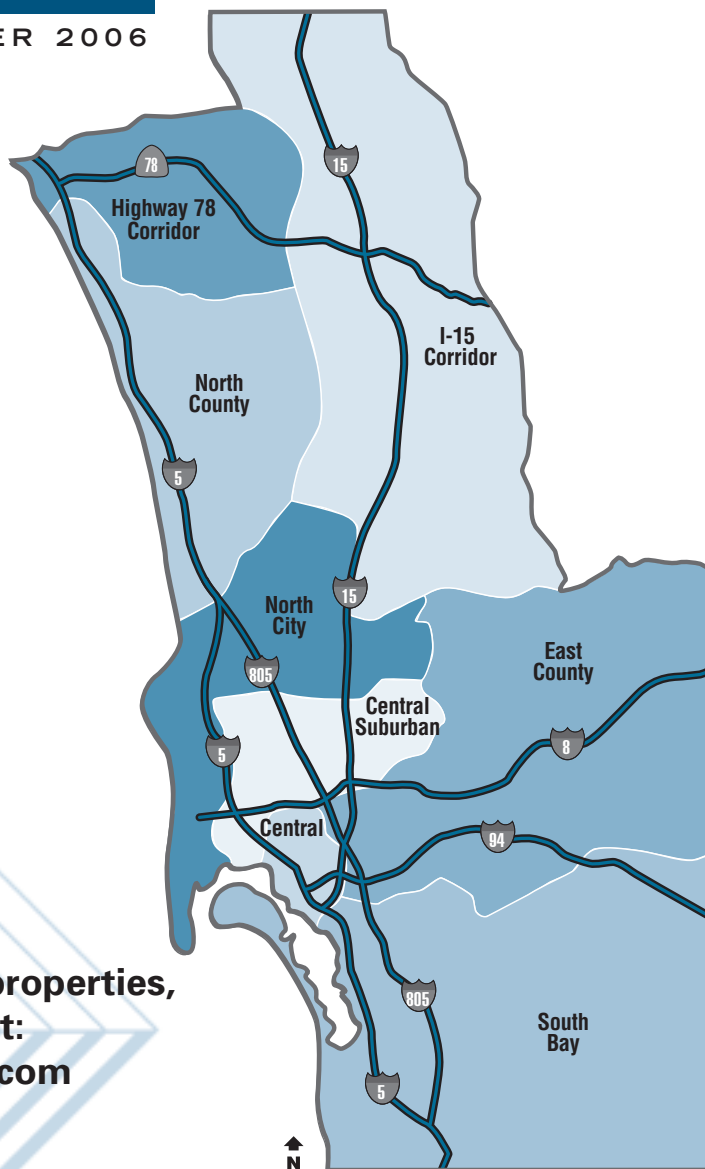
Del Mar Heights
Governor Park
La Jolla
Miramar
N University City - UTC Center
Sorrento Mesa
Torrey Pines/Sorrento Valley

NORTH COUNTY

Carlsbad
North Beach Cities

SOUTH/SOUTHEAST CORRIDOR

East County
South San Diego



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