Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

Vacancy DOWN

Absorption UP

Lease Rates FLAT — RECORD HIGH

Construction DOWN

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Voit Commercial Brokerage

CORFAC International

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Office Market Highlights

- Portfolio sales of office buildings are become a trend this year. In the first quarter of this year Equity Office sold its entire portfolio of office buildings, at the time the largest portfolio in the United States, to The Blackstone Group. In the second quarter of 2007, The Blackstone Group sold a small portion of them, 17 office properties in San Diego, to The Irvine Company. The total transaction to The Irvine Company was valued at over $1 billion and included 2.1 million square feet.
- The average asking full service gross lease rate per month per foot is currently $2.69, which is a 2.28% increase over last year's second quarter rate of $2.63, and equals last quarter's record high rate. Class A rates for the county are averaging $2.99 FSG and are the highest in the North City submarket where class A rates are averaging $3.34 FSG. This upward trend should continue through 2007.
- The Office vacancy rate is at 11.57%, constituting a 16.87% increase over last year's second quarter rate of 9.90%. This sub 12% level has pushed the construction activity and put upward pressure on lease rates.
- The Office absorption checked in at positive 576,679 square feet for the second quarter of 2007, giving the San Diego Office Market a total of 903,010 square feet of positive absorption for the first half of 2007.
- Currently there is 4,125,679 square feet of Office construction underway, and total construction is about the same as it was a year ago when 4,134,128 square feet was under construction. This is a decrease of 0.20% when compared to last year.
- Planned Office construction in San Diego County is up compared to last year. Currently there is 10,755,212 square feet of Office space on the slate as being planned, compared to last year's figure of 9,238,044 square feet.
- Unemployment in the second quarter of 2007 in San Diego County is 4.2%, which is the same as it was when compared to the first quarter of 2007, and .05% higher than it was a year ago.
- According to Los Angeles County Economic Development Corporation it is estimated that San Diego County will add 11,800 new non-farm jobs in 2007, and they are forecasting 19,500 new jobs in 2008. They are also forecasting a 3.5% gain in total personal income with inflation increasing by 2.5% for 2007.
- Rental rates are expected to continue to increase at moderate levels in the short run. Concessions should begin to increase in the short run in the form of limited free rent, as new inventory becomes available from construction deliveries. These conditions will put upward pressure on lease rates going forward. We should see rental rate growth of 3% to 5% in 2007.

OFFICE MARKET OVERVIEW

	2Q2007	1Q2007	2Q2006	% CHANGE VS. 2Q06
Under Construction	4,125,679	4,648,947	4,134,128	-0.20%
Planned Construction	10,755,212	10,016,960	9,238,044	16.42%
Vacancy	11.57%	11.67%	9.90%	16.87%
Availability	14.75%	14.45%	13.53%	9.02%
Pricing - Full Service Gross	$2.69	$2.69	$2.63	2.28%
Net Absorption	576,679	326,331	487,044	N/A

Real People. Real Solutions.

RECENT TRANSACTIONS

Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
4365 Executive Drive	UTC	A	313,432	$172,601,000	The Irvine Company	The Blackstone Group
3131 Camino Del Rio North	Mission Valley	A	286,941	$149,582,000	The Irvine Company	The Blackstone Group
4225 Executive Square	UTC	A	227,570	$130,040,500	The Irvine Company	The Blackstone Group
4350 La Jolla Village Drive	UTC	A	187,999	$122,199,500	The Irvine Company	The Blackstone Group

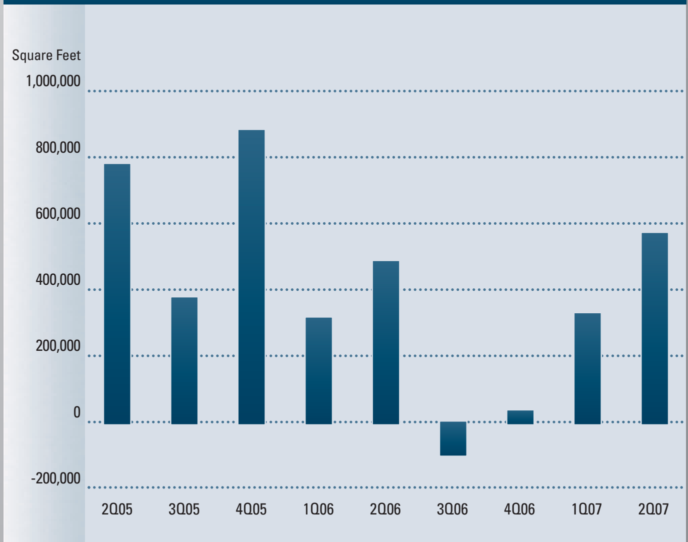
Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
350 10th Ave	Downtown	A	33,563	May-07	N/A	Cisterra Partners
2173 Salk Ave	Carlsbad	B	27,250	June-07	Euro RSCG DRTV	Rio San Diego Plaza II Master, LLC
350 10th Ave	Downtown	A	17,753	June-07	N/A	Cisterra Partners
350 10th Ave	Downtown	A	17,725	May-07	N/A	Cisterra Partners

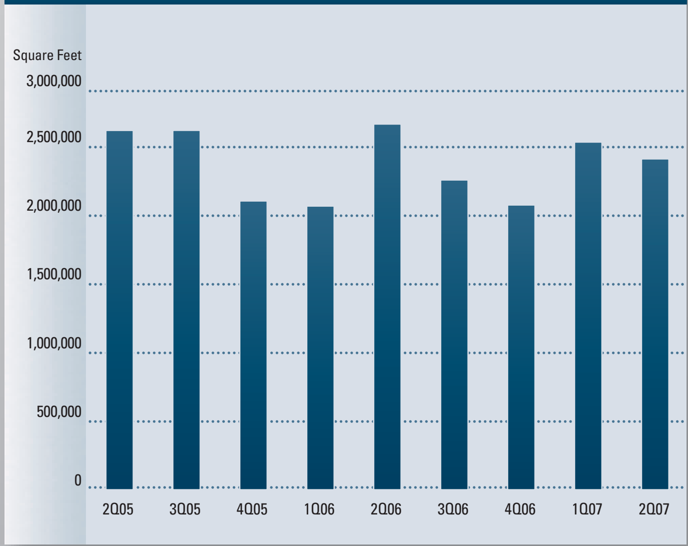
VACANCY RATE

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 2Q2007	Total Availability 2Q2007	Average Asking Lease Rate	Net Absorption 2Q2007	Net Absorption 2007
Central										
Downtown	141	12,171,307	80,000	685,358	1,595,400	13.11%	1,943,370	$2.75	233,882	124,100
Central Total	141	12,171,307	80,000	685,358	1,595,400	13.11%	1,943,370	$2.75	233,882	124,100
Central Suburban										
City Heights/University	41	1,049,095	0	78,696	81,104	7.73%	81,930	$2.25	13,964	31,114
Kearny Mesa	226	9,015,508	852,780	879,135	815,405	9.04%	1,198,059	$1.98	(11,744)	(21,391)
Mission Gorge	55	1,379,276	0	0	158,569	11.50%	154,742	$1.42	(6,714)	(70,773)
Mission Valley	123	6,577,763	91,089	105,000	917,386	13.95%	1,168,675	$2.55	(51,883)	(106,358)
Old Town	32	762,024	0	0	39,254	5.15%	45,067	$1.94	10,426	4,609
Point Loma	59	1,685,551	0	109,000	142,704	8.47%	168,350	$1.84	10,058	17,017
Rose Canyon/Morena	53	1,138,577	12,320	0	79,232	6.96%	104,268	$2.30	(17,342)	(8,951)
Uptown/Hillcrest	79	2,008,785	0	0	77,854	3.88%	96,407	$2.89	14,778	25,390
Central Suburban Total	668	23,616,579	956,189	1,171,831	2,311,508	9.79%	3,017,498	$2.36	(38,457)	(129,343)
Highway 78 Corridor										
Oceanside	32	610,700	152,325	534,000	74,616	12.22%	73,785	$1.75	579	1,513
San Marcos/Vista	85	2,201,930	190,768	1,159,989	152,572	6.93%	179,578	$1.63	952	(7,735)
Highway 78 Corridor Total	117	2,812,630	343,093	1,693,989	227,188	8.08%	253,363	$1.68	1,531	(6,222)
I-15 Corridor										
Escondido	69	1,374,064	118,777	52,105	102,753	7.48%	126,730	$2.25	3,716	28,694
Poway	30	1,218,327	0	324,000	216,997	17.81%	109,423	$0.00	(4,700)	9,823
Rancho Bernardo	98	5,549,660	1,166,599	1,057,673	972,516	17.52%	1,135,908	$1.88	(16,182)	(25,683)
Scripps Ranch	40	1,546,564	0	964,617	308,470	19.95%	316,243	$2.44	35,528	65,605
I-15 Corridor Total	237	9,688,615	1,285,376	2,398,395	1,600,736	16.52%	1,688,304	$2.43	18,362	78,439
North City										
Del Mar Heights	63	4,171,893	197,832	0	461,861	11.07%	566,436	$0.00	20,523	114,402
Governor Park	19	858,381	0	0	96,193	11.21%	282,377	$2.70	(7,958)	1,692
La Jolla	54	1,747,909	0	0	40,659	2.33%	72,300	$2.50	29,397	42,466
Miramar	34	1,603,859	0	65,600	216,798	13.52%	244,995	$0.00	(68,402)	(36,695)
N University City - UTC Center	87	7,125,851	347,019	482,097	668,092	9.38%	856,904	$3.37	155,448	277,992
Sorrento Mesa	126	8,862,515	375,215	1,923,513	1,113,855	12.57%	1,622,170	$2.53	(13,295)	211,460
Torrey Pines/Sorrento Valley	57	3,793,943	0	53,839	235,579	6.21%	310,982	$3.28	48,880	(64,138)
North City Total	440	28,164,351	920,066	2,525,049	2,833,037	10.06%	3,956,164	$3.19	164,593	547,179
North County										
Carlsbad	135	5,489,907	328,816	1,204,279	1,240,234	22.59%	1,415,773	$0.00	126,585	104,658
North Beach Cities	105	2,291,947	41,359	60,811	150,848	6.58%	198,723	$2.65	71,658	115,920
North County Total	240	7,781,854	370,175	1,265,090	1,391,082	17.88%	1,614,496	$2.65	198,243	220,578
South/Southeast Corridor										
East County	103	2,198,629	93,580	658,500	99,633	4.53%	139,829	$1.47	9,323	19,622
South San Diego	106	3,331,235	77,200	357,000	329,917	9.90%	631,619	$2.25	(10,798)	48,657
South/Southeast Total	209	5,529,864	170,780	1,015,500	429,550	7.77%	771,448	$1.59	(1,475)	68,279
Class A	209	25,955,504	2,949,640	6,915,331	4,252,280	16.38%	5,061,636	$2.99	174,298	789,074
Class B	1,040	45,154,904	1,176,039	3,797,825	4,889,821	10.83%	6,485,017	$2.40	422,588	188,833
Class C	803	18,654,792	0	42,056	1,246,400	6.68%	1,697,990	$1.72	(20,207)	(74,897)
San Diego County Total	**2,052**	**89,765,200**	**4,125,679**	**10,755,212**	**10,388,501**	**11.57%**	**13,244,643**	**$2.69**	**576,679**	**903,010**

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
Pacific Mesa Blvd - Cardinal Health	Sorrento Mesa	B	318,000	3	August-07	Kilroy Realty Corporation
8620 Spectrum Center Blvd.	Kearny Mesa	A	294,780	12	July-07	Sunroad KM Land Inc.
13480 Evening Creek Drive North	Rancho Bernardo	A	140,915	6	December-07	Kilroy Realty Corporation
Torrey Santa Fe Road	Rancho Bernardo	A	130,649	4	November-07	Kilroy Realty Corporation

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.
350 10th Ave	Downtown	A	306,750	14	March-07	Cisterra Partners
10920 Via Frontera	Rancho Bernardo	A	108,844	5	April-07	The Muller Company
3115 Melrose Drive	Carlsbad	B	103,547	2	June-07	Opus West

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.

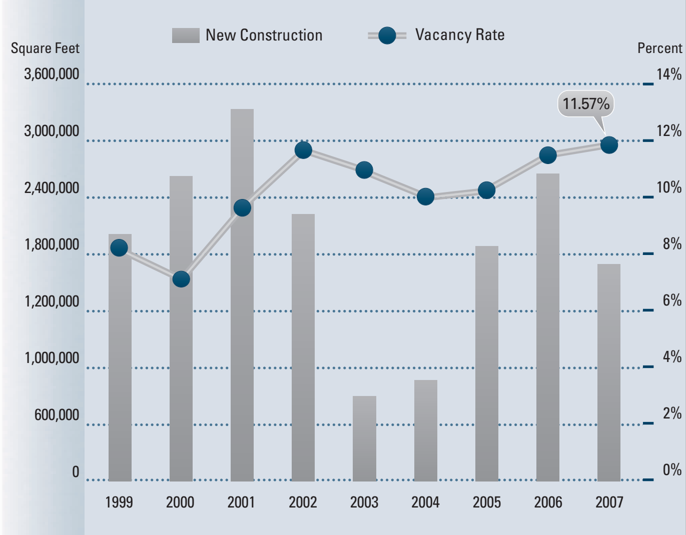
CLASS B

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 25,000 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.