

OFFICE MARKET REPORT

THIRD
QUARTER
2006

Compared to
last quarter:

VACANCY



UP

ABSORPTION



DOWN

LEASE RATES



DOWN

CONSTRUCTION



UP

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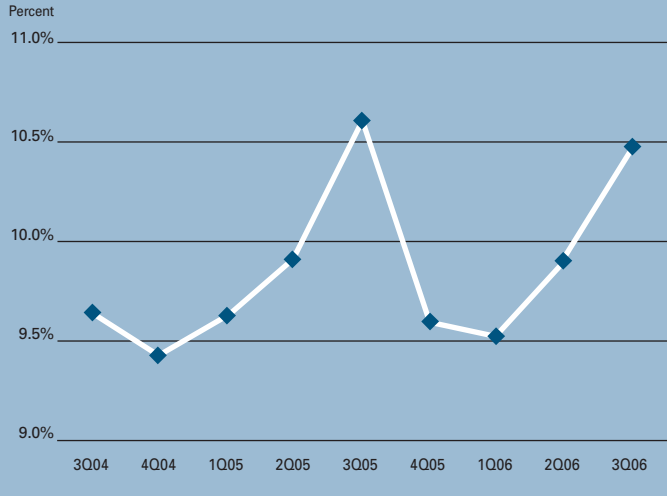
MARKET HIGHLIGHTS

- ◆ Unemployment in the third quarter of 2006 in San Diego County is 4.1%, which is an increase of 0.4% since the second quarter of 2006 and the same as what we saw a year ago.
- ◆ According to Los Angeles County Economic Development Corporation it is estimated that San Diego County added 21,500 new non-farm jobs in 2005, and they are forecasting 21,900 new jobs in 2006 as well as 19,500 in 2007. They are also forecasting a 6.0% increase in total personal income for 2006.
- ◆ Currently there is 4,747,101 square feet of Office construction underway, and total construction is higher than the 3,213,519 square feet that was under construction at this same time last year. This is an increase of almost 50% when compared to last year.
- ◆ Planned Office construction in San Diego County is slightly up compared to last year. Currently there is 9,970,722 square feet of Office space on the slate as being planned, compared to last year's figure of 9,620,095 square feet.
- ◆ The Office vacancy rate is at 10.48%, which is lower than the 10.62% we saw a year ago. This low rate is putting upward pressure on lease rates.
- ◆ The average asking full service lease rate checked in at \$2.60 a square foot per month this quarter. This is 5.26% higher than what was reported in the third quarter of 2005.
- ◆ The Office absorption checked in at negative 99,453 square feet for the third quarter of 2006, giving the San Diego Office Market a total of 7.1 million square feet of positive absorption for the last 15 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.

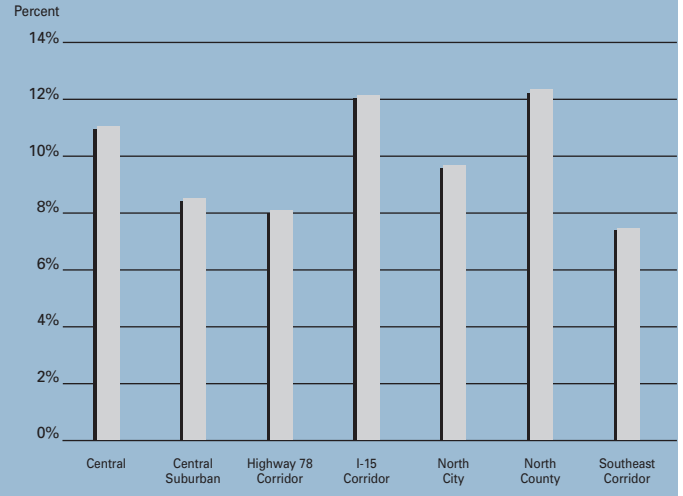
OFFICE MARKET STATISTICS

	3Q2006	2Q2006	3Q2005	% CHANGE VS. 3Q05
Under Construction	4,747,101	4,134,128	3,213,519	47.72%
Planned Construction	9,970,722	9,238,044	9,620,095	3.64%
Vacancy	10.48%	9.90%	10.62%	-1.32%
Availability	13.76%	13.53%	12.03%	14.38%
Pricing - Full Service Gross	\$2.60	\$2.63	\$2.47	5.26%
Net Absorption	-99,453	487,044	369,502	N/A

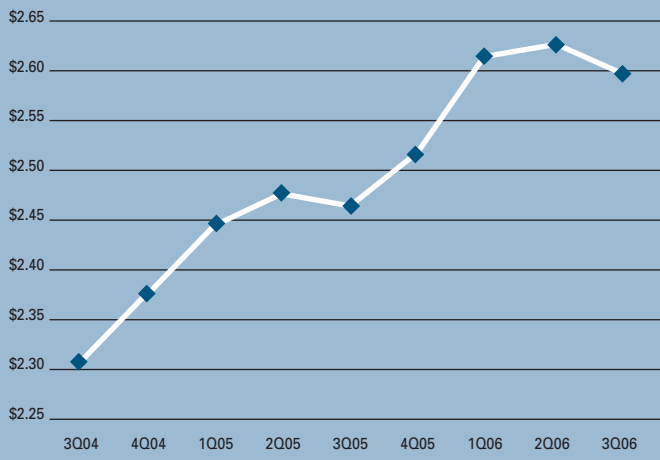
VACANCY RATE



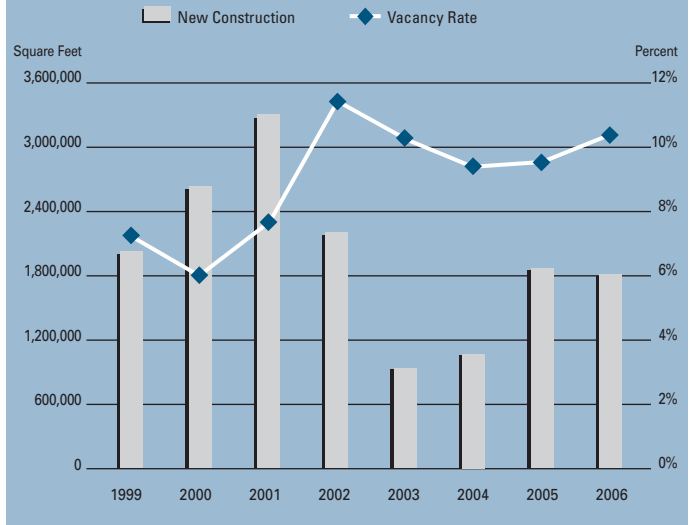
VACANCY RATE BY SUBMARKET



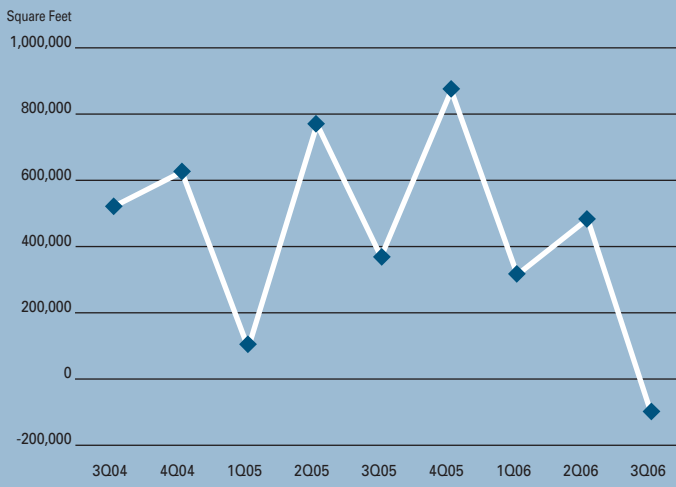
AVERAGE ASKING FULL SERVICE LEASE RATE



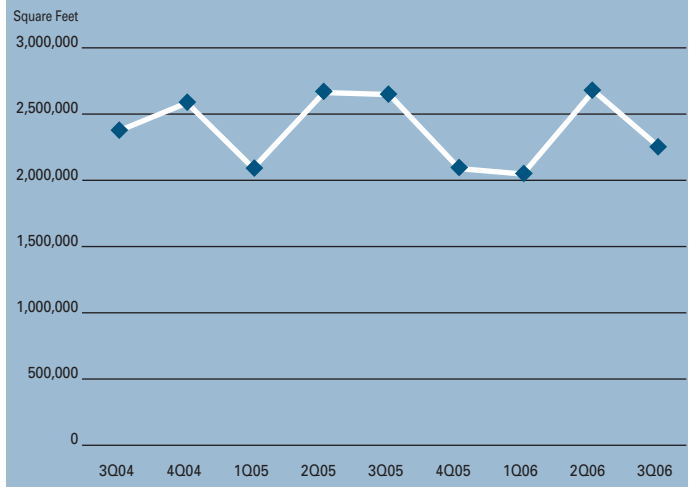
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



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 3Q2006	Total Availability 3Q2006	Average Asking Lease Rate	Net Absorption 3Q2006	Net Absorption 2006
Central										
Downtown	140	11,849,446	496,139	0	1,294,243	10.92%	1,659,593	\$2.70	24,570	59,870
Central Total	140	11,849,446	496,139	0	1,294,243	10.92%	1,659,593	\$2.70	24,570	59,870
Central Suburban										
City Heights/University	39	915,578	0	78,696	109,421	11.95%	98,659	\$1.70	(17,472)	(42,646)
Kearny Mesa	218	8,602,683	433,641	1,308,000	641,042	7.45%	874,456	\$1.97	38,926	216,138
Mission Gorge	51	1,240,069	0	0	72,651	5.86%	81,100	\$1.42	(11,770)	(4,126)
Mission Valley	128	6,731,603	90,000	115,000	824,264	12.24%	957,903	\$2.41	(44,081)	(74,008)
Old Town	29	700,132	0	0	39,724	5.67%	42,947	\$1.50	(10,042)	7,333
Point Loma	55	1,551,608	0	109,000	137,553	8.87%	143,660	\$1.67	18,777	54,240
Rose Canyon/Morena	47	1,031,621	0	0	90,413	8.76%	99,526	\$0.00	(10,341)	(38,939)
Uptown/Hillcrest	76	1,957,000	0	0	116,552	5.96%	130,051	\$0.00	2,295	(48,808)
Central Suburban Total	643	22,730,294	523,641	1,610,696	2,031,620	8.94%	2,428,302	\$2.20	(33,708)	69,184
Highway 78 Corridor										
Oceanside	30	569,569	139,538	387,039	82,249	14.44%	79,119	\$1.75	(13,833)	(22,352)
San Marcos/Vista	77	2,063,320	55,050	951,998	170,503	8.26%	169,725	\$2.21	78,092	170,457
Highway 78 Corridor Total	107	2,632,889	194,588	1,339,037	252,752	9.60%	248,844	\$2.03	64,259	148,105
I-15 Corridor										
Escondido	57	1,133,012	12,139	130,882	65,209	5.76%	85,624	\$2.16	(4,913)	8,434
Poway	29	1,215,513	0	324,000	208,850	17.18%	211,535	\$0.00	1,865	18,095
Rancho Bernardo	82	4,496,448	1,287,155	903,673	531,375	11.82%	659,905	\$2.50	(14,112)	(75,629)
Scripps Ranch	40	1,555,207	0	794,000	276,419	17.77%	403,989	\$2.36	(37,990)	(31,649)
I-15 Corridor Total	208	8,400,180	1,299,294	2,152,555	1,081,853	12.88%	1,361,053	\$2.32	(55,150)	(80,749)
North City										
Del Mar Heights	63	4,164,163	200,000	375,000	572,614	13.75%	642,068	\$0.00	25,154	(35,921)
Governor Park	19	860,676	0	0	93,890	10.91%	138,645	\$2.60	(3,276)	10,871
La Jolla	49	1,625,649	0	0	102,225	6.29%	96,722	\$2.81	20,236	37,492
Miramar	35	1,182,047	0	0	163,977	13.87%	182,925	\$0.00	24,099	26,844
N University City - UTC Center	84	6,900,693	201,560	822,097	706,511	10.24%	932,612	\$3.07	(114,662)	(76,148)
Sorrento Mesa	121	8,088,081	768,000	1,991,586	909,895	11.25%	1,771,621	\$2.57	(74,101)	481,752
Torrey Pines/Sorrento Valley	55	3,375,213	71,000	53,839	259,291	7.68%	358,080	\$3.50	117,079	27,326
North City Total	426	26,196,522	1,240,560	3,242,522	2,808,403	10.72%	4,122,673	\$2.95	(5,471)	472,216
North County										
Carlsbad	122	4,709,980	766,788	1,239,162	710,450	15.08%	836,787	\$2.50	(37,596)	29,118
North Beach Cities	101	2,167,140	90,359	0	259,553	11.98%	408,673	\$2.79	(86,779)	(95,644)
North County Total	223	6,877,120	857,147	1,239,162	970,003	14.10%	1,245,460	\$2.72	(124,375)	(66,526)
South/Southeast Corridor										
East County	95	2,040,979	43,000	49,750	96,691	4.74%	125,028	\$1.47	(7,435)	(5,891)
South San Diego	97	3,071,158	92,732	337,000	244,953	7.98%	336,829	\$0.00	37,857	125,752
South/Southeast Total	192	5,112,137	135,732	386,750	341,644	6.68%	461,857	\$1.47	30,422	119,861
Class A	202	23,910,401	3,617,115	7,617,755	3,456,665	14.46%	4,324,676	\$2.88	(245,713)	648,285
Class B	996	43,185,534	1,129,986	2,352,967	4,192,250	9.71%	5,810,026	\$2.31	25,771	67,707
Class C	741	16,702,653	0	0	1,131,603	6.77%	1,393,080	\$1.72	120,489	5,969
San Diego County Total	1,939	83,798,588	4,747,101	9,970,722	8,780,518	10.48%	11,527,782	\$2.60	-99,453	721,961

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

OFFICE MARKET REPORT

THIRD 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

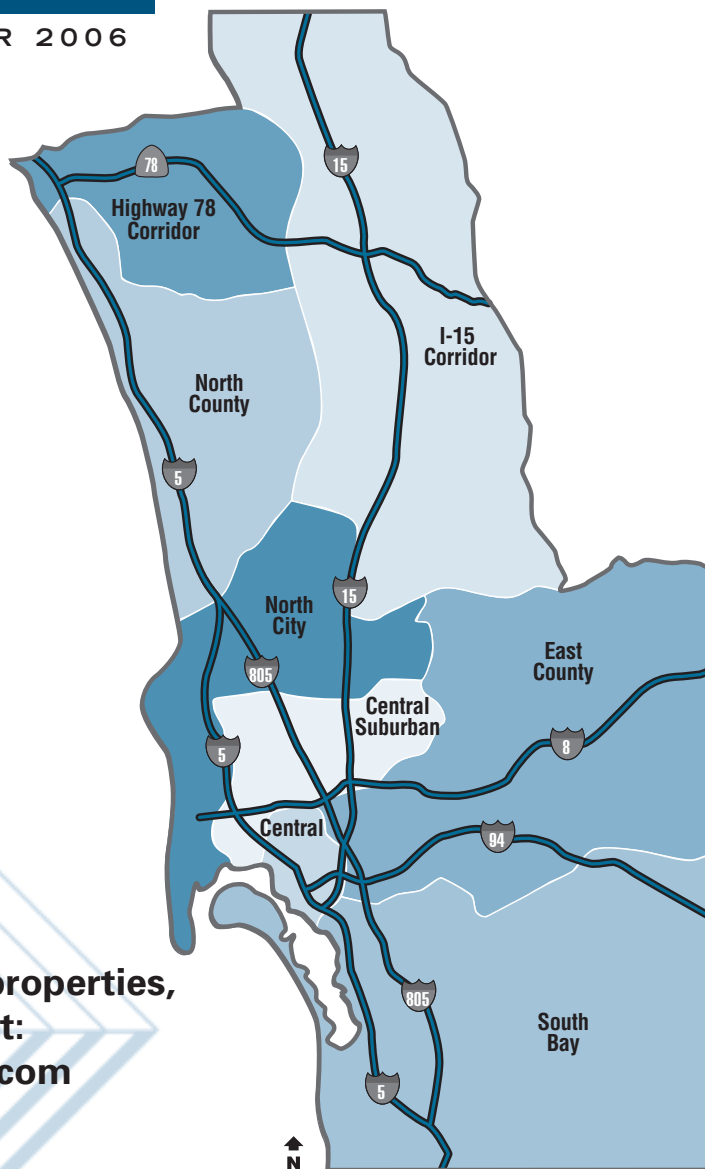
Del Mar Heights
Governor Park
La Jolla
Miramar
N University City - UTC Center
Sorrento Mesa
Torrey Pines/Sorrento Valley

NORTH COUNTY

Carlsbad
North Beach Cities

SOUTH/SOUTHEAST CORRIDOR

East County
South San Diego



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