

R & D MARKET REPORT

THIRD QUARTER 2006

Compared to last quarter:

VACANCY



UP

ABSORPTION



DOWN

LEASE RATES



UP

CONSTRUCTION



DOWN

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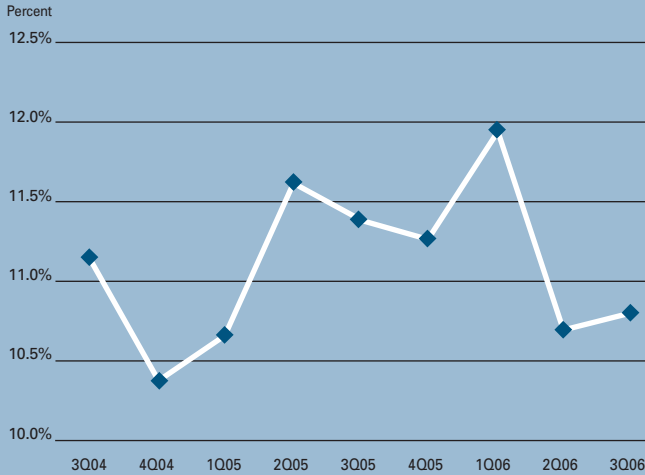
MARKET HIGHLIGHTS

- ◆ 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 544,680 square feet of Research & Development construction underway, this figure is down 23.68% when compared to last year's third quarter number of 713,641 square feet. Although, 733,310 square feet of new R&D development was delivered during the first three quarters of 2006.
- ◆ Planned Research & Development construction in San Diego County is down when compared to last year. Currently, there is 954,674 square feet of Research & Development space on the slate as being planned, compared to last year's figure of 1,950,487 square feet.
- ◆ The Research & Development vacancy rate is 10.82%, which is higher than it was during the second quarter of 2006 when it was 10.71% and is lower than last years figure of 11.41%.
- ◆ The average asking Triple Net lease rate per month per foot in San Diego County is currently \$1.47, which is a 14.84% increase over last year's third quarter rate of \$1.28. Rental rates are expected to increase 5 to 7% in 2006 as the economy continues to improve.
- ◆ The Research & Development absorption checked in at 30,893 square feet of negative net absorption during the third quarter of 2006, giving the San Diego Research & Development Market a total of 2.7 million square feet of positive absorption for the last eight quarters.

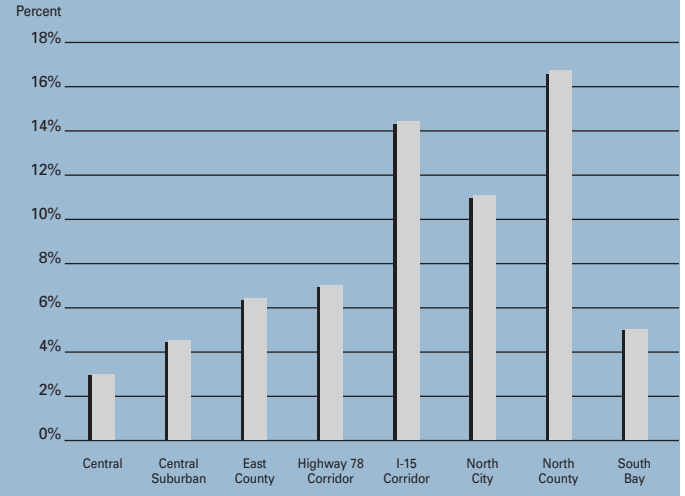
R&D MARKET STATISTICS

	3Q2006	2Q2006	3Q2005	% CHANGE VS. 3Q05
Under Construction	544,680	572,960	713,641	-23.68%
Planned Construction	954,674	975,975	1,950,487	-51.05%
Vacancy	10.82%	10.71%	11.41%	-5.17%
Availability	14.54%	14.87%	14.17%	2.61%
Pricing	\$1.47	\$1.37	\$1.28	14.84%
Net Absorption	-30,893	738,638	285,432	N/A

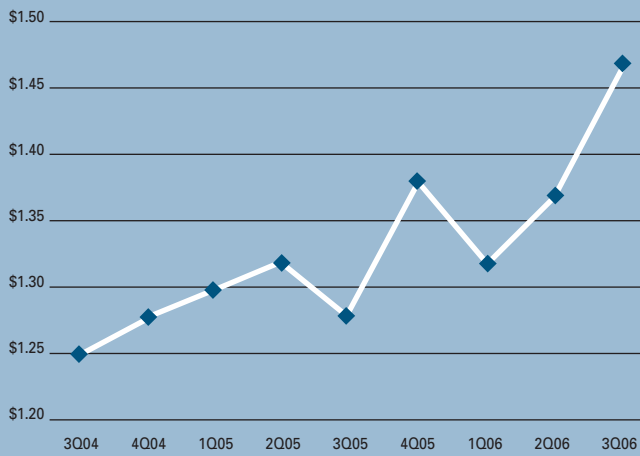
VACANCY RATE



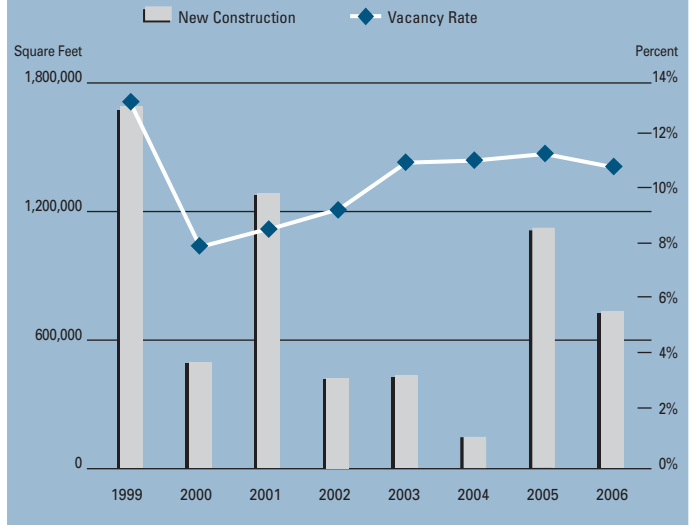
VACANCY RATE BY SUBMARKET



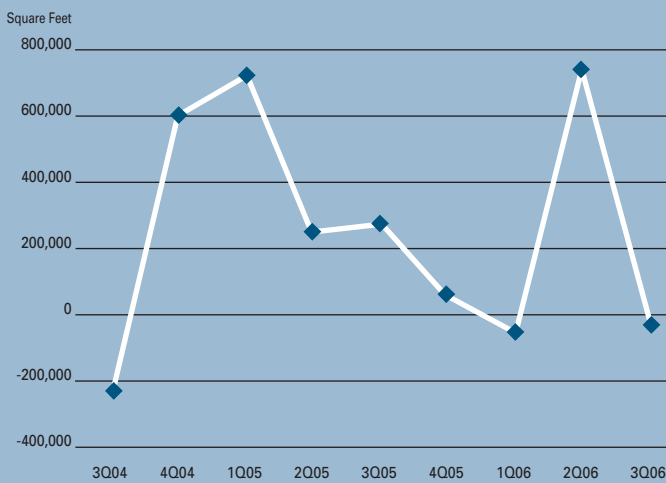
AVERAGE ASKING TRIPLE NET LEASE RATE



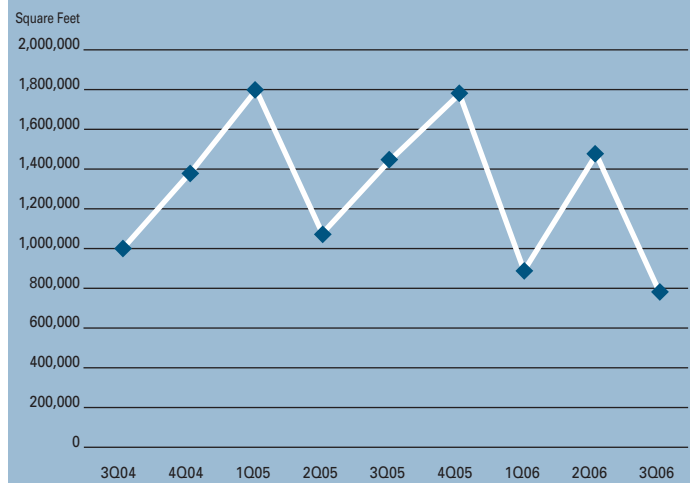
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



SAN DIEGO COUNTY

Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 30% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

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	14	443,773	0	0	12,617	2.84%	15,937	\$0.00	23,335	1,811
East City	1	30,000	0	0	1,260	4.20%	1,260	\$0.00	(1,260)	(870)
Central Total	15	473,773	0	0	13,877	2.93%	17,197	\$0.00	22,075	941
Central Suburban										
Airport/Sports Arena	10	213,338	0	0	2,500	1.17%	2,500	\$0.00	(2,500)	(2,500)
Kearny Mesa	145	4,174,543	0	57,691	207,294	4.97%	331,410	\$1.17	(34,512)	1,848
Mission Gorge	6	105,054	0	0	9,087	8.65%	6,151	\$1.15	(3,215)	(6,151)
Rose Canyon/Morena	29	521,527	0	0	15,674	3.01%	15,674	\$1.15	(8,317)	(1,526)
Central Suburban Total	190	5,014,462	0	57,691	234,555	4.68%	355,735	\$1.16	(48,544)	(8,329)
East County										
El Cajon	41	1,059,630	0	0	79,121	7.47%	42,376	\$0.75	(7,931)	(34,440)
La Mesa/Spring Valley	4	61,235	0	0	0	0.00%	0	\$0.00	5,000	5,000
Santee/Lakeside	14	191,423	0	0	3,850	2.01%	3,850	\$0.00	(3,850)	(3,850)
East County Total	59	1,312,288	0	0	82,971	6.32%	46,226	\$0.75	(6,781)	(33,290)
Highway 78 Corridor										
Oceanside	14	856,361	59,920	48,162	59,052	6.90%	59,052	\$0.00	(6,712)	15,371
San Marcos	17	444,627	22,892	0	59,687	13.42%	61,242	\$0.00	(35,700)	(23,238)
Vista/Fallbrook	43	1,393,139	0	52,736	68,927	4.95%	173,448	\$0.92	2,305	(5,509)
Highway 78 Corridor Total	74	2,694,127	82,812	100,898	187,666	6.97%	293,742	\$0.92	(40,107)	(13,376)
I-15 Corridor										
Escondido	14	273,972	0	0	0	0.00%	0	\$1.24	63,994	95,082
Poway	35	1,465,069	0	65,000	457,397	31.22%	604,041	\$0.00	(23,328)	(41,564)
Rancho Bernardo	73	4,915,751	77,015	0	596,812	12.14%	936,000	\$1.87	(56,023)	63,155
Scripps Ranch	14	566,574	0	80,000	0	0.00%	0	\$0.00	44,033	43,560
I-15 Corridor Total	136	7,221,366	77,015	145,000	1,054,209	14.60%	1,540,041	\$1.63	28,676	160,233
North City										
La Jolla	34	2,498,151	0	0	315,316	12.62%	397,816	\$2.68	(47,312)	(102,512)
Miramar	116	3,417,051	0	0	437,762	12.81%	502,844	\$1.26	124,029	84,398
Sorrento Mesa	128	5,754,092	0	0	572,586	9.95%	877,470	\$1.35	(110,314)	400,773
Sorrento Valley	66	1,596,526	0	0	103,435	6.48%	242,708	\$1.97	21,836	121,363
UTC Center	10	620,556	64,000	239,157	133,731	21.55%	13,948	\$2.85	0	0
North City Total	354	13,886,376	64,000	239,157	1,562,830	11.25%	2,034,786	\$1.54	(11,761)	504,022
North County										
Carlsbad	119	4,539,971	320,853	411,928	781,420	17.21%	979,525	\$1.26	(7,462)	13,247
North Beach Cities	6	109,450	0	0	1,760	1.61%	1,760	\$0.00	(1,760)	2,889
North County Total	125	4,649,421	320,853	411,928	783,180	16.84%	981,285	\$1.26	(9,222)	16,136
South Bay										
Chula Vista	36	1,105,702	0	0	65,867	5.96%	67,261	\$1.43	43,456	156,575
National City	15	254,668	0	0	16,885	6.63%	16,885	\$0.00	(8,685)	7,944
Otay Mesa	4	246,717	0	0	8,482	3.44%	35,270	\$0.00	0	26,788
San Ysidro	5	198,251	0	0	0	0.00%	0	\$0.00	0	0
South Bay Total	60	1,805,338	0	0	91,234	5.05%	119,416	\$1.43	34,771	191,307
San Diego County Total	1,013	37,057,151	544,680	954,674	4,010,522	10.82%	5,388,428	\$1.47	(30,893)	817,644

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple net basis.

R & D MARKET
REPORT

THIRD QUARTER 2006

SUBMARKETS

CENTRAL

Downtown
East City

CENTRAL SUBURBAN

Airport/Sports Arena
Kearny Mesa
Mission Gorge
Rose Canyon/Morena

EAST COUNTY

El Cajon
La Mesa/Spring Valley
Santee/Lakeside

HIGHWAY 78 CORRIDOR

Oceanside
San Marcos
Vista/Fallbrook

I-15 CORRIDOR

Escondido
Poway
Rancho Bernardo
Scripps Ranch

NORTH CITY

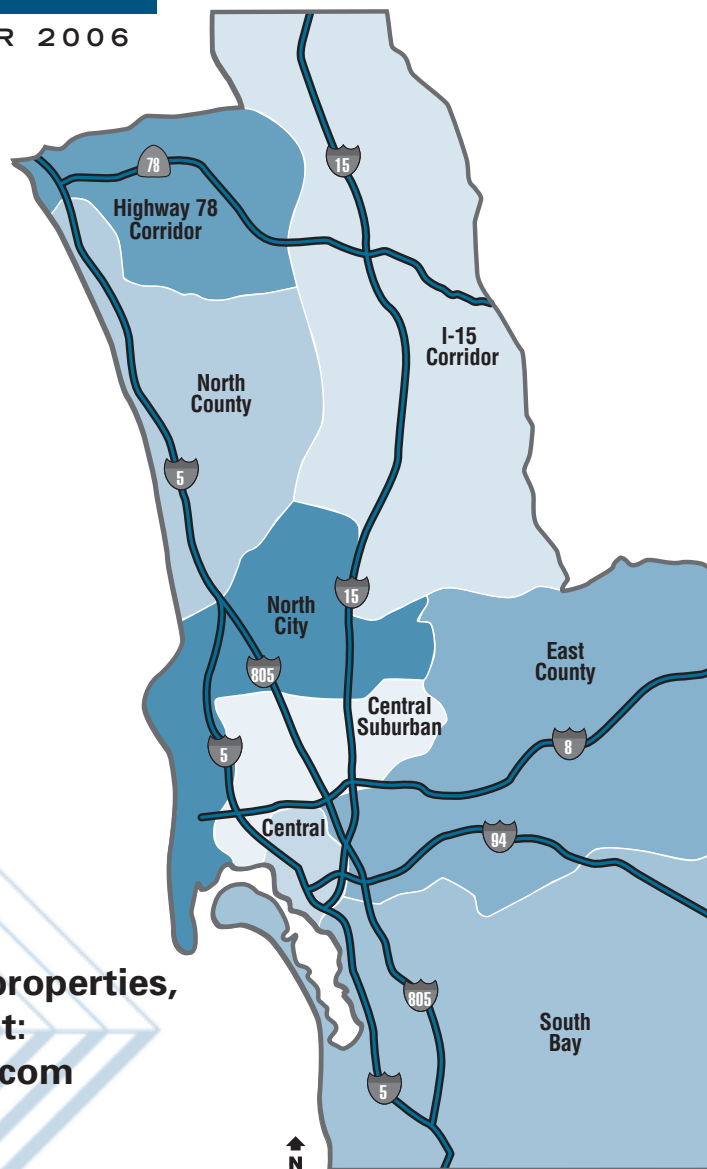
La Jolla
Miramar
Sorrento Mesa
Sorrento Valley
UTC Center

NORTH COUNTY

Carlsbad
North Beach Cities

SOUTH BAY

Chula Vista
National City
Otay Mesa
San Ysidro



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