



Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:



To view available properties,
please visit:

www.voitco.com



Prepared by:
Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com

Office Market Highlights

- ◆ The San Diego County office market is currently in the midst of a transitional phase. With vacancy rates increasing due to the completion of almost 2.8 million square feet of new office construction for the first three quarters of 2007, along with another 1.9 million scheduled to be completed next quarter, 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 \$2.71, which is a 4.23% increase over last year's third quarter rate of \$2.60, and is two cents higher than last quarter's record high rate. Class A rates for the county are averaging \$3.04 FSG, breaking the three dollar mark for the first time, and are the highest in the North City submarket at \$3.40 FSG. This upward trend should begin to ease as we approach the end of 2007, as a result of another 1.9 million square feet of construction coming to market next quarter.
- ◆ The Office vacancy rate is at 11.29%, constituting a 7.73% increase over last year's third quarter rate of 10.48%. This sub 12% level has encouraged the construction activity and put upward pressure on lease rates.
- ◆ The Office absorption checked in at a positive 1,111,467 square feet for the third quarter of 2007, giving the San Diego Office Market a total of 2,055,642 square feet of positive absorption for the first three quarters of 2007.
- ◆ Currently there is 3,355,573 square feet of Office construction underway, and total construction is lower than it was a year ago when 4,747,101 square feet was under construction. This is a decrease of almost 30% when compared to last year.
- ◆ Planned Office construction in San Diego County is down compared to last year. Currently there is 9,860,194 square feet of Office space on the slate as being planned, compared to last year's figure of 9,970,722 square feet.
- ◆ Unemployment in the third quarter of 2007 in San Diego County is 4.8%, which is 0.6% higher than it was when compared to the second quarter of 2007, and 0.7% higher than it was a year ago.
- ◆ According to the 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 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 3% to 5% continuing through 2007.

OFFICE MARKET OVERVIEW

	3Q2007	2Q2007	3Q2006	% CHANGE VS. 3Q06
Under Construction	3,355,573	4,125,679	4,747,101	-29.31%
Planned Construction	9,860,194	10,755,212	9,970,722	-1.11%
Vacancy	11.29%	11.57%	10.48%	7.73%
Availability	15.24%	14.75%	13.76%	10.76%
Pricing - Full Service Gross	\$2.71	\$2.69	\$2.60	4.23%
Net Absorption	1,111,467	576,679	-99,453	N/A

Real People. Real Solutions.

RECENT TRANSACTIONS

Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
655 W Broadway	Downtown	A	381,043	\$210,000,000	Wereldhave N.V.	Lankford & Associates, Inc.
1455 Frazee Road (2 Properties)	Mission Valley	A	433,320	\$200,100,000	GE Real Estate	Maguire Properties
401 W A Street	Downtown	A	553,715	\$181,000,000	SENTRE Partners	Paramount Group, Inc.
4365 Executive Drive	UTC	A	313,432	\$172,601,000	The Irvine Company	The Blackstone Group

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4760 Eastgate Mall	UTC	B	47,000	July-07	LPL Financial Services	The Irvine Company
701 B Street	Downtown	A	44,954	August-07	Drivers Alliant Insurance	Brookfield Properties Management
8911 Balboa Ave.	Kearny Mesa	B	36,295	August-07	DriveCam, Inc.	Arden Realty
3870 Murphy Canyon Road	Kearny Mesa	B	36,039	September-07	University Of Pheonix	Olympia Plaza, LLC

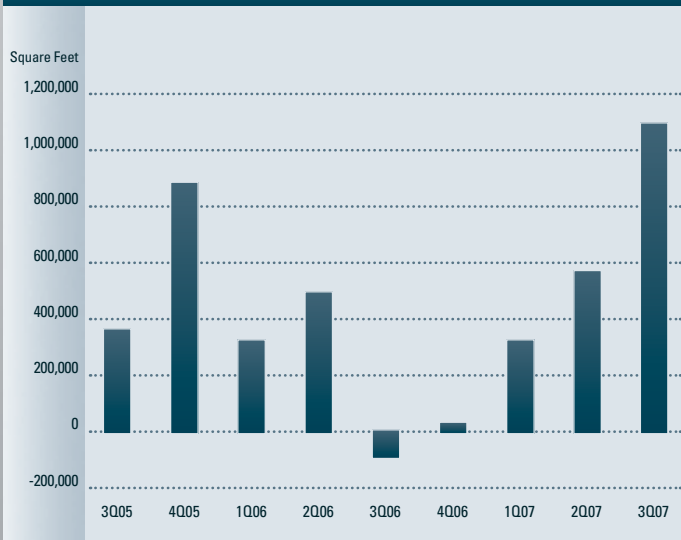
VACANCY RATE



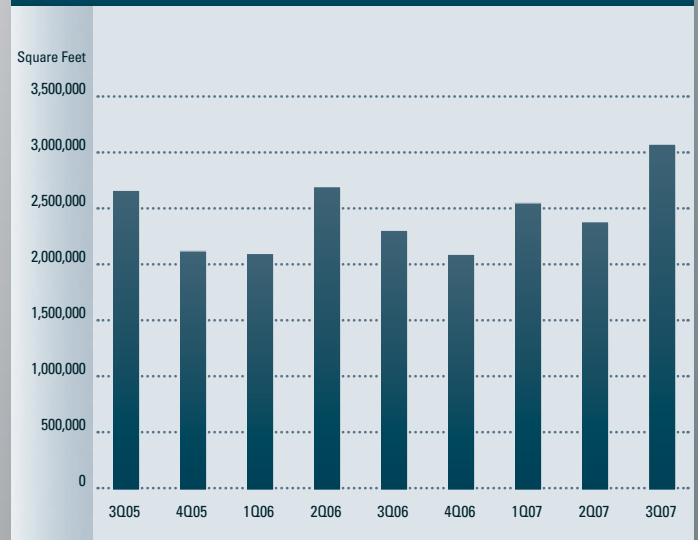
AVERAGE ASKING FULL SERVICE LEASE RATE



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 3Q2007	Total Availability 3Q2007	Average Asking Lease Rate	Net Absorption 3Q2007	Net Absorption 2007	Net Absorption 2006	Net Absorption 2005
Central												
Downtown	142	12,295,719	0	725,358	1,700,299	13.83%	2,022,630	\$2.79	(26,135)	89,736	59,319	181,110
Central Total	142	12,295,719	0	725,358	1,700,299	13.83%	2,022,630	\$2.79	(26,135)	89,736	59,319	181,110
Central Suburban												
City Heights/University	42	1,065,497	0	78,696	82,153	7.71%	161,368	\$2.50	(149)	30,765	(24,943)	(7,613)
Kearny Mesa	225	9,002,692	977,518	750,000	813,951	9.04%	1,166,554	\$1.94	1,452	(19,937)	197,814	255,154
Mission Gorge	56	1,404,184	0	0	172,797	12.31%	169,552	\$1.30	(14,228)	(85,001)	(18,571)	(6,460)
Mission Valley	123	6,583,580	88,795	55,000	775,699	11.78%	1,079,153	\$2.55	132,931	35,329	(70,321)	295,692
Old Town	33	789,674	0	0	44,043	5.58%	55,166	\$2.30	(4,789)	(180)	6,046	(1,187)
Point Loma	59	1,685,551	0	109,000	134,621	7.99%	174,912	\$1.68	(2,169)	25,100	36,338	83,723
Rose Canyon/Morena	53	1,138,581	14,000	0	84,164	7.39%	111,825	\$2.30	(4,932)	(13,883)	(21,149)	43,433
Uptown/Hillcrest	78	1,981,157	0	0	80,145	4.05%	118,363	\$2.89	(2,291)	23,099	(35,800)	20,037
Central Suburban Total	669	23,650,916	1,080,313	992,696	2,187,573	9.25%	3,036,893	\$2.34	105,825	(4,708)	69,414	682,779
Highway 78 Corridor												
Oceanside	33	632,576	152,325	534,000	73,644	11.64%	81,699	\$1.75	3,872	4,885	(3,171)	3,565
San Marcos/Vista	85	2,201,930	239,209	478,271	155,551	7.06%	236,735	\$1.64	(2,979)	(10,714)	198,686	(36,713)
Highway 78 Corridor Total	118	2,834,506	391,534	1,012,271	229,195	8.09%	318,434	\$1.69	893	(5,829)	195,515	(33,148)
I-15 Corridor												
Escondido	69	1,389,289	78,777	43,107	126,484	9.10%	138,829	\$2.25	16,269	44,963	(1,138)	43,015
Poway	31	1,235,164	0	324,000	212,585	17.21%	104,797	\$1.85	2,712	16,735	23,466	0
Rancho Bernardo	102	6,021,987	703,537	1,057,673	979,472	16.26%	1,488,264	\$1.85	464,345	434,689	(33,005)	19,005
Scripps Ranch	40	1,551,700	93,438	965,512	297,539	19.18%	323,239	\$2.44	10,931	76,536	(129,315)	(38,899)
I-15 Corridor Total	242	10,198,140	875,752	2,390,292	1,616,080	15.85%	2,055,129	\$2.43	494,257	572,923	(139,992)	23,121
North City												
Del Mar Heights	63	4,181,340	197,832	0	360,300	8.62%	435,732	\$0.00	101,561	196,432	(44,591)	355,198
Governor Park	19	858,780	0	0	252,982	29.46%	360,862	\$2.70	(156,789)	(155,097)	6,876	1,082
La Jolla	55	1,669,161	0	0	64,622	3.87%	128,366	\$3.29	(20,863)	21,603	61,492	22,217
Miramar	33	1,569,034	0	65,600	178,485	11.38%	278,427	\$0.00	36,793	1,618	7,252	42,816
N University City - UTC Center	88	7,180,501	347,019	482,097	740,488	10.31%	917,002	\$3.49	(72,396)	205,596	(120,770)	322,898
Sorrento Mesa	125	9,208,582	57,215	1,716,513	933,612	10.14%	1,569,907	\$2.63	447,736	695,753	530,633	169,058
Torrey Pines/Sorrento Valley	57	3,794,213	0	53,839	271,264	7.15%	298,094	\$3.71	(35,955)	(99,823)	124,506	202,840
North City Total	440	28,461,611	602,066	2,318,049	2,801,753	9.84%	3,988,390	\$3.31	300,087	866,082	565,398	1,116,109
North County												
Carlsbad	137	5,703,484	201,485	1,362,717	1,204,090	21.11%	1,425,866	\$0.00	189,195	303,074	97,859	326,836
North Beach Cities	107	2,364,472	41,459	60,811	135,097	5.71%	212,587	\$2.65	22,231	137,471	(47,163)	78,733
North County Total	244	8,067,956	242,944	1,423,528	1,339,187	16.60%	1,638,453	\$2.65	211,426	440,545	50,696	405,569
South/Southeast Corridor												
East County	112	2,433,548	93,580	655,500	107,271	4.41%	168,990	\$1.40	(6,338)	13,784	(15,555)	25,942
South San Diego	107	3,326,319	69,384	342,500	321,747	9.67%	679,349	\$2.25	31,452	83,109	85,712	101,595
South/Southeast Total	219	5,759,867	162,964	998,000	429,018	7.45%	848,339	\$1.54	25,114	96,893	70,157	127,537
Class A	215	26,633,187	2,749,196	5,897,355	4,218,527	15.84%	4,949,122	\$3.04	637,262	1,421,835	813,988	847,993
Class B	1,054	46,039,456	606,377	3,945,839	4,983,049	10.82%	7,236,670	\$2.34	394,451	601,395	12,619	1,564,592
Class C	805	18,596,072	0	17,000	1,101,529	5.92%	1,722,476	\$1.63	79,754	32,412	43,900	90,492
San Diego County Total	2,074	91,268,715	3,355,573	9,860,194	10,303,105	11.29%	13,908,268	\$2.71	1,111,467	2,055,642	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	347,019	15	April-08	Hines
8620 Spectrum Center Blvd.	Kearny Mesa	A	294,780	12	October-08	Sunroad KM Land Inc.
5893 Copley Drive	Kearny Mesa	A	205,000	6	September-08	Sudberry Properties, Inc.
13480 Evening Creek Drive North	Rancho Bernardo	A	140,915	6	December-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.
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
Torrey Santa Fe Road -Bldg 2 & 3	Rancho Bernardo	A	261,298	8	July-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.

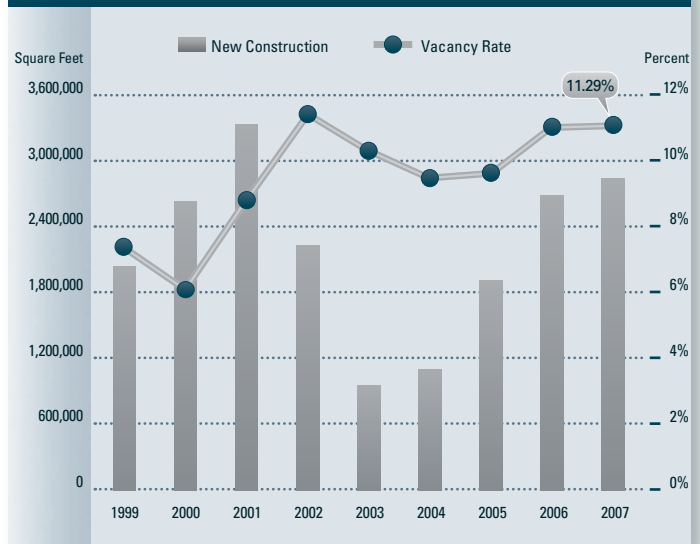
CLASS B

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



For further information, please contact:

ANAHEIM METRO OFFICE

3500 W. Orangewood Ave.
Orange, CA 92868-1642

TEL: 714.978.7880

FAX: 714.978.9431

CHULA VISTA OFFICE

660 Bay Blvd., Suite 210
Chula Vista, CA 91910

TEL: 619.498.4560

FAX: 619.498.4567

IRVINE OFFICE

2020 Main St., Suite 100
Irvine, CA 92614

TEL: 949.851.5100

FAX: 949.261.9092

LAS VEGAS OFFICE

10100 W. Charleston Blvd.,
Suite 200
Las Vegas, NV 89135

TEL: 702.734.4500

FAX: 702.733.7690

SAN DIEGO OFFICE

4370 La Jolla Village Dr.,
Suite 990
San Diego, CA 92122-1233

TEL: 858.453.0505

FAX: 858.453.1981

To view available properties, please visit:

www.voitco.com



Real People. Real Solutions.

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.