



# Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

**Vacancy**



**UP**

**Absorption**

**DOWN**

**Lease Rates**

**DOWN**

**Construction**

**DOWN**

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## Office Market Highlights

- ◆ The San Diego County Office market is undergoing changes due to reaction to the credit crunch. The three primary concerns are as follows: expensive and scarce financing, economic uncertainty and volatility, and an increasing gap between “ask” and “bid” pricing between buyers and sellers. 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 new industries such as high technology, biotechnology and healthcare should further diversify the local economy and help to rejuvenate 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 \$2.74, which is a 1.1% increase over last year’s third quarter rate of \$2.71, and two cents lower than last quarter. Class A rates for the county are averaging \$3.10 FSG, and are the highest in the North County submarket at \$3.44 FSG.
- ◆ The office vacancy rate (for direct and sublease space) finished the quarter at 14.46%, constituting a 28.08% increase over last year’s third quarter rate of 11.29%. This increase is a result of the new construction, 1.6 million square feet during the first three quarters of 2008, coupled with a slowing economy, as financial markets correct.
- ◆ Net absorption for the county posted a negative number of 860,343 square feet for the third quarter of 2008. Last year San Diego County had a total of 1,741,792 square feet of positive absorption. The slowdown in absorption can be attributed to the credit crunch and finance companies consolidating.
- ◆ The level of activity registered at 2.1 million square feet for the third quarter of 2008. This is down from the 3.3 million

square feet of activity when compared to the same quarter last year, and is below the historical average of 2.5 million square feet per quarter. This drop in activity is mostly a result of hesitancy in the marketplace from the continuous stream of negative news in a wide area of topics, most notably the credit crunch. These conditions could result in an increase in activity in 2009 from pent up demand.

- ◆ Currently there is 2.4 million square feet of Office construction underway, and total construction is lower than it was a year ago when 3.4 million square feet was under construction. This is a decrease of over 28% when compared to last year, a positive sign.
- ◆ Planned Office construction in San Diego County is down compared to last year. Currently there is 9.2 million square feet of Office space on the slate as being planned, compared to last year’s figure of 9.9 million square feet.
- ◆ According to the State of California Employment Development Department, San Diego County lost 5,700 payroll jobs over the last twelve months. Between July 2008 and August 2008 San Diego County gained 500 jobs, mostly in the leisure & hospitality and educational & health services sectors.
- ◆ The unemployment rate in San Diego County was 6.4% in August 2008, down from a revised 6.5% percent in July 2008, but above the year ago estimate of 4.8%. This compares with an unadjusted unemployment rate of 7.6 percent for California and 6.1 percent for the nation during the same period.
- ◆ Lease rates are expected to remain at current levels for the short run, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances, as new inventory becomes available from construction deliveries.

### OFFICE MARKET OVERVIEW

	3Q2008	2Q2008	3Q2007	% CHANGE VS. 3Q07
Under Construction	2,399,488	2,564,968	3,355,573	-28.49%
Planned Construction	9,249,092	10,396,429	9,860,194	-6.20%
Vacancy	14.46%	13.35%	11.29%	28.08%
Availability	18.05%	17.73%	15.24%	18.44%
Pricing - Full Service Gross	\$2.74	\$2.76	\$2.71	1.11%
Activity	2,105,103	2,277,760	3,273,304	-35.69%
Net Absorption	-860,343	286,922	1,223,636	N/A

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RECENT TRANSACTIONS

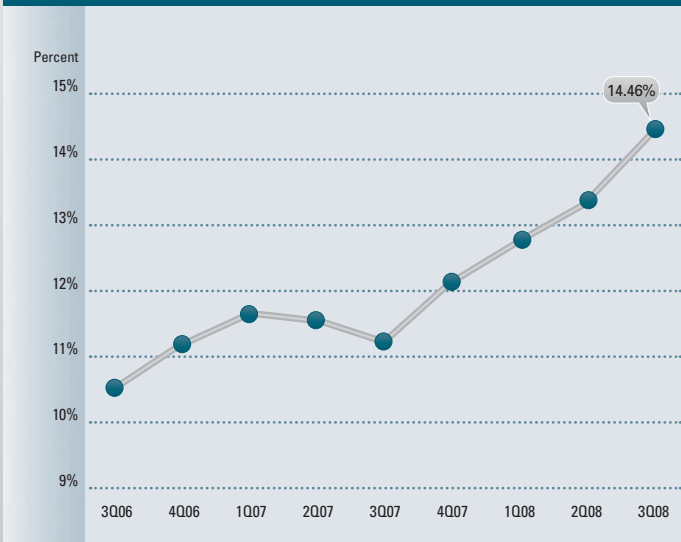
Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
350 10th Ave. - DiamondView Tower	Downtown	A	306,750	\$161,000,000	Wereldhave USA-CA Inc.	Cisterra Partners, LLC
12275 El Camino Real- 3 Properties	North Cities	A	232,035	\$147,900,000	Metzler North America Corp	KBS Realty Advisors
10145 Pacific Heights - Pacific Center I	Sorrento Mesa	A	243,388	\$121,865,000	Qualcomm Inc.	RREEF America LLC
9333 Genesee Ave. - 2 Properties	UTC	B	155,958	\$56,000,000	Janez Group	Arden Realty

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
10300 Campus Point Drive	Sorrento Mesa	B	258,969	September-08	Eli Lilly & Company	Veralliance Properties
14170 Kirkham Way, Bldg A	Poway	A	156,130	January-08	General Atomics	HCP Life Science Estates
Kilroy Sabre Springs	Rancho Bernardo	A	147,533	April-08	Bridgepoint Education	Kilroy Realty Corporation
15004 Innovation Drive, Bldg H	Rancho Bernardo	A	145,156	July-08	Scripps Health	Kilroy Realty Corporation

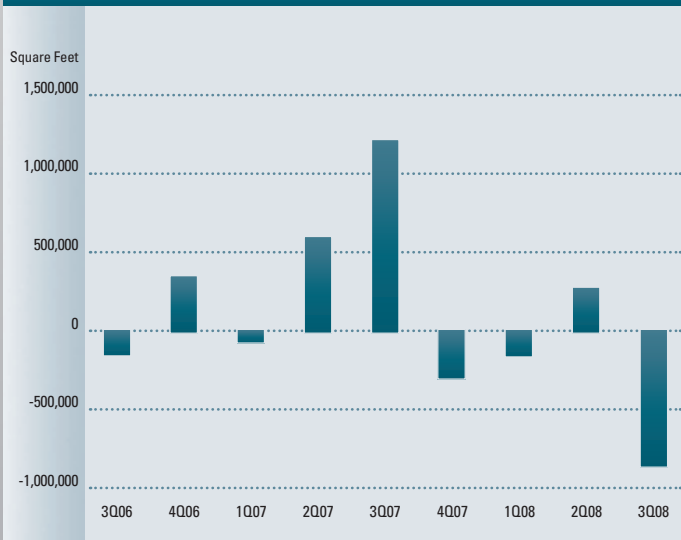
VACANCY RATE



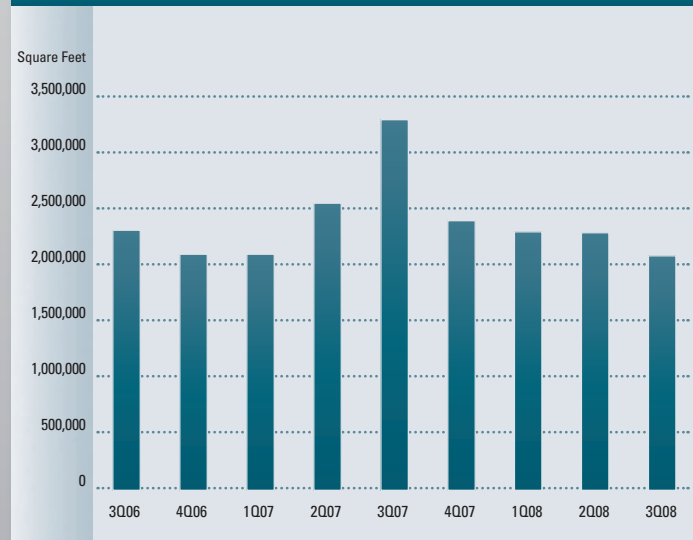
AVERAGE ASKING FULL SERVICE LEASE RATE



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 3Q2008	Total Availability 3Q2008	Average Asking Lease Rate	Net Absorption 3Q2008	Net Absorption 2008	Net Absorption 2007	Net Absorption 2006
<b>Central</b>												
Downtown	128	12,025,827	40,000	0	1,697,869	14.12%	2,313,816	\$2.73	(124,747)	(17,113)	111,439	59,319
<b>Central Total</b>	<b>128</b>	<b>12,025,827</b>	<b>40,000</b>	<b>0</b>	<b>1,697,869</b>	<b>14.12%</b>	<b>2,313,816</b>	<b>\$2.73</b>	<b>(124,747)</b>	<b>(17,113)</b>	<b>111,439</b>	<b>59,319</b>
<b>Central Suburban</b>												
City Heights/University	48	1,199,553	21,842	78,696	129,701	10.81%	152,161	\$2.27	(19,010)	(20,127)	9,311	(24,943)
Kearny Mesa	227	9,464,612	400,300	750,000	1,199,075	12.67%	1,495,898	\$2.20	63,105	159,558	6,284	197,814
Mission Gorge	59	1,512,418	0	0	101,972	6.74%	103,499	\$1.40	12,903	(1,585)	(10,891)	(18,571)
Mission Valley	123	6,658,831	0	55,000	1,214,210	18.23%	1,404,540	\$2.59	(166,096)	(273,609)	(66,659)	(70,321)
Old Town	37	981,866	0	0	65,651	6.69%	146,939	\$2.06	(14,564)	(17,110)	1,670	6,046
Point Loma	59	1,693,916	104,397	5,605	99,699	5.89%	117,556	\$2.15	7,205	12,767	19,361	36,338
Rose Canyon/Morena	53	1,162,291	14,000	11,160	83,287	7.17%	131,939	\$2.00	(48,206)	(6,574)	(6,432)	(21,149)
Uptown/Hillcrest	77	1,910,618	0	0	134,209	7.02%	201,908	\$2.49	(29,807)	(43,873)	10,060	(35,800)
<b>Central Suburban Total</b>	<b>683</b>	<b>24,584,105</b>	<b>540,539</b>	<b>900,461</b>	<b>3,027,804</b>	<b>12.32%</b>	<b>3,754,440</b>	<b>\$2.41</b>	<b>(194,470)</b>	<b>(190,553)</b>	<b>(37,296)</b>	<b>69,414</b>
<b>Highway 78 Corridor</b>												
Oceanside	43	844,870	25,655	460,284	186,992	22.13%	204,392	\$0.00	(25,542)	69,719	430	(3,171)
San Marcos/Vista	91	2,440,047	139,242	1,180,028	410,351	16.82%	470,592	\$1.62	7,828	(20,790)	(31,972)	198,686
<b>Highway 78 Corridor Total</b>	<b>134</b>	<b>3,284,917</b>	<b>164,897</b>	<b>1,640,312</b>	<b>597,343</b>	<b>18.18%</b>	<b>674,984</b>	<b>\$1.62</b>	<b>(17,714)</b>	<b>48,929</b>	<b>(31,542)</b>	<b>195,515</b>
<b>I-15 Corridor</b>												
Escondido	73	1,511,324	0	43,107	219,388	14.52%	238,651	\$2.10	28,209	20,383	26,490	(1,138)
Poway	33	1,404,672	0	364,570	68,680	4.89%	78,608	\$2.25	(25,516)	24,748	171,492	23,466
Rancho Bernardo	110	6,841,328	756,734	788,243	1,213,898	17.74%	1,410,960	\$2.67	(108,969)	363,532	385,614	(33,005)
Scripps Ranch	41	1,563,349	251,252	794,000	351,563	22.49%	400,352	\$2.44	(18,813)	(41,868)	78,008	(129,315)
<b>I-15 Corridor Total</b>	<b>257</b>	<b>11,320,673</b>	<b>1,007,986</b>	<b>1,989,920</b>	<b>1,853,529</b>	<b>16.37%</b>	<b>2,128,571</b>	<b>\$2.42</b>	<b>(125,089)</b>	<b>366,795</b>	<b>661,604</b>	<b>(139,992)</b>
<b>North City</b>												
Del Mar Heights	68	4,498,850	0	91,761	793,162	17.63%	1,032,443	\$4.25	(111,914)	(180,269)	214,639	(44,591)
Governor Park	19	859,736	0	0	315,811	36.73%	450,272	\$2.70	16,240	(34,363)	(183,563)	6,876
La Jolla	55	1,606,776	0	0	68,604	4.27%	96,477	\$3.55	(7,510)	13,768	(3,604)	61,492
Miramar	33	1,540,333	38,470	0	216,486	14.05%	236,393	\$0.00	7,612	(38,331)	(23,973)	7,252
N University City - UTC Center	124	8,798,404	50,925	1,718,649	1,332,598	13.67%	1,597,448	\$2.38	31,599	(91,156)	417,344	530,633
Sorrento Mesa	61	3,931,674	0	53,839	421,694	12.72%	425,589	\$3.71	16,054	(7,357)	(324,574)	124,506
Torrey Pines/Sorrento Valley	90	7,293,358	300,664	697,167	873,211	11.97%	1,390,746	\$3.47	(300,774)	(290,092)	382,550	(120,770)
<b>North City Total</b>	<b>450</b>	<b>28,529,131</b>	<b>390,059</b>	<b>2,561,416</b>	<b>4,021,566</b>	<b>14.10%</b>	<b>5,229,368</b>	<b>\$3.35</b>	<b>(348,693)</b>	<b>(627,800)</b>	<b>478,819</b>	<b>565,398</b>
<b>North County</b>												
Carlsbad	148	5,925,637	143,915	1,172,983	1,470,559	24.82%	1,515,428	\$5.12	10,309	(159,414)	304,200	97,859
North Beach Cities	111	2,448,549	33,000	20,000	203,498	8.31%	291,219	\$2.83	(19,597)	(30,057)	128,260	(47,163)
<b>North County Total</b>	<b>259</b>	<b>8,374,186</b>	<b>176,915</b>	<b>1,192,983</b>	<b>1,674,057</b>	<b>19.99%</b>	<b>1,806,647</b>	<b>\$3.44</b>	<b>(9,288)</b>	<b>(189,471)</b>	<b>432,460</b>	<b>50,696</b>
<b>South/Southeast Corridor</b>												
East County	124	2,561,576	26,432	671,500	218,136	8.52%	247,075	\$1.55	9,258	(30,978)	31,877	(15,555)
South San Diego	119	3,465,598	52,660	292,500	523,431	15.10%	834,693	\$1.68	(49,600)	(141,088)	94,431	85,712
<b>South/Southeast Total</b>	<b>243</b>	<b>6,027,174</b>	<b>79,092</b>	<b>964,000</b>	<b>741,567</b>	<b>12.30%</b>	<b>1,081,768</b>	<b>\$1.61</b>	<b>(40,342)</b>	<b>(172,066)</b>	<b>126,308</b>	<b>70,157</b>
Class A	243	28,689,261	1,729,562	5,670,328	5,661,381	19.73%	6,765,262	\$3.10	(241,377)	(48,415)	1,834,229	813,988
Class B	1,120	47,349,633	669,926	3,578,764	6,561,749	13.86%	8,293,449	\$2.39	(500,025)	(401,747)	(45,474)	12,619
Class C	791	18,107,119	0	0	1,390,605	7.68%	1,930,883	\$1.81	(118,941)	(331,117)	(46,963)	43,900
<b>San Diego County Total</b>	<b>2,154</b>	<b>94,146,013</b>	<b>2,399,488</b>	<b>9,249,092</b>	<b>13,613,735</b>	<b>14.46%</b>	<b>16,989,594</b>	<b>\$2.74</b>	<b>(860,343)</b>	<b>(781,279)</b>	<b>1,741,792</b>	<b>870,507</b>

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
Via Esprillo - Sony HQ Tower	Rancho Bernardo	A	450,000	11	December-09	Sony Electronics, Inc.
4747 Executive Drive	UTC	A	300,664	13	October-08	Hines
5893 Copley Drive	Kearny Mesa	A	205,000	6	November-08	Sudberry Properties, Inc.
Summit Rancho Bernardo	Rancho Bernardo	A	196,734	5	December-08	Bernardo Summit LLC

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
Sunroad Centrum I	Kearny Mesa	A	273,764	11	April-08	Sunroad KM Land, Inc.
Kilroy Sabre Springs	Rancho Bernardo	A	147,533	6	March-08	Kilroy Realty Corporation
Innovation Corporate Ctr - Medical	Rancho Bernardo	A	146,156	6	August-08	Kilroy Realty Corporation
5898 Copley Drive	Kearny Mesa	A	129,135	6	September-08	North Island Credit Union

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.

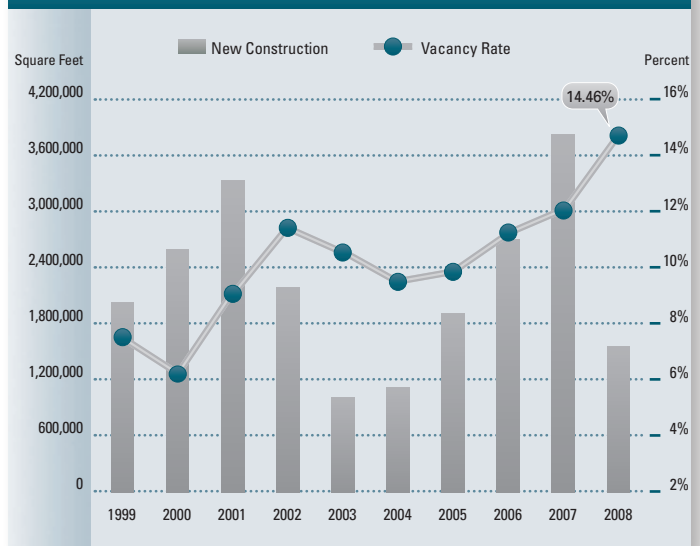
CLASS B

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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