

OFFICE MARKET REPORT

FOURTH
QUARTER
2006

Compared to
last quarter:

VACANCY



ABSORPTION



LEASE RATES



CONSTRUCTION



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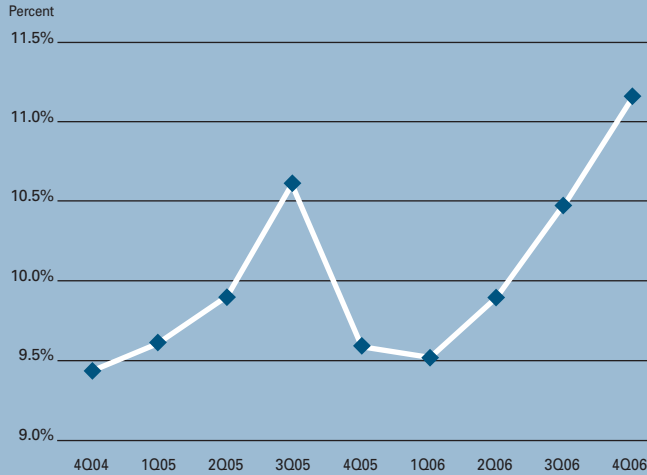
MARKET HIGHLIGHTS

- ◆ Unemployment in the fourth quarter of 2006 in San Diego County is 3.9%, which is 0.2% lower than it was when compared to the third quarter of 2006, and is 0.2% lower than it was at the end of last year.
- ◆ According to Los Angeles County Economic Development Corporation it is estimated that San Diego County added 21,900 new non-farm jobs in 2006, and they are forecasting 19,500 new jobs in 2007. They are also forecasting a 6.0% increase in total personal income for 2006.
- ◆ Currently there is 4,610,649 square feet of Office construction underway, and total construction is higher than the 4,034,118 square feet that was under construction at this same time last year. This is an increase of almost 15% when compared to last year.
- ◆ Planned Office construction in San Diego County is slightly up compared to last year. Currently there is 9,351,993 square feet of Office space on the slate as being planned, compared to last year's figure of 9,248,471 square feet.
- ◆ The Office vacancy rate is at 11.18%, which is higher than the 9.61% we saw a year ago.
- ◆ The average asking full service lease rate checked in at \$2.61 a square foot per month this quarter. This is 3.57% higher than what was reported in the fourth quarter of 2005.
- ◆ The Office absorption checked in at positive 32,503 square feet for the fourth quarter of 2006, giving the San Diego Office Market a total of 870,507 square feet of positive absorption for 2006.
- ◆ 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 3% to 5% in 2007.

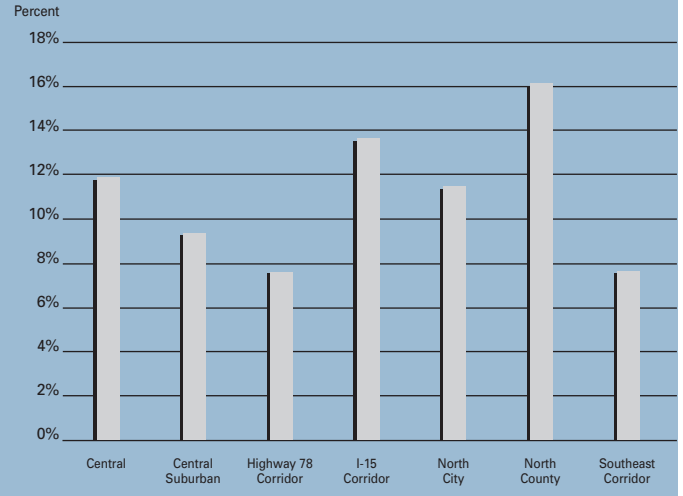
OFFICE MARKET STATISTICS

	2006	2005	2004	% CHANGE VS. 2005
Inventory Added	2,665,915	1,895,210	1,098,314	40.67%
Under Construction	4,610,649	4,034,118	3,187,299	14.29%
Vacancy	11.18%	9.61%	9.45%	16.34%
Availability	14.45%	11.97%	12.66%	20.72%
Pricing	\$2.61	\$2.52	\$2.38	3.57%
Net Absorption	870,507	2,503,077	2,194,717	-65.22%
Gross Activity	9,153,365	10,277,560	9,675,818	-10.94%

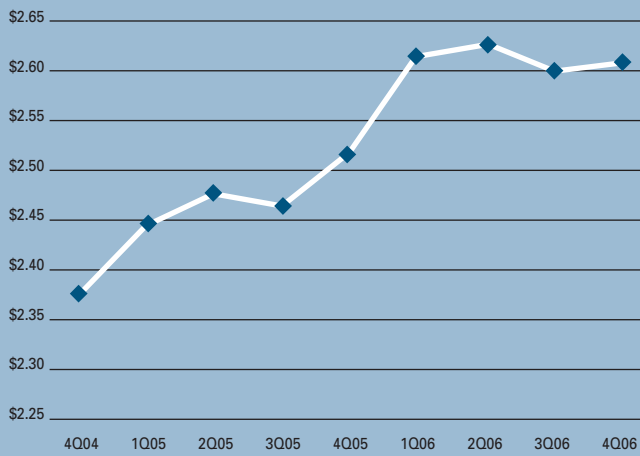
VACANCY RATE



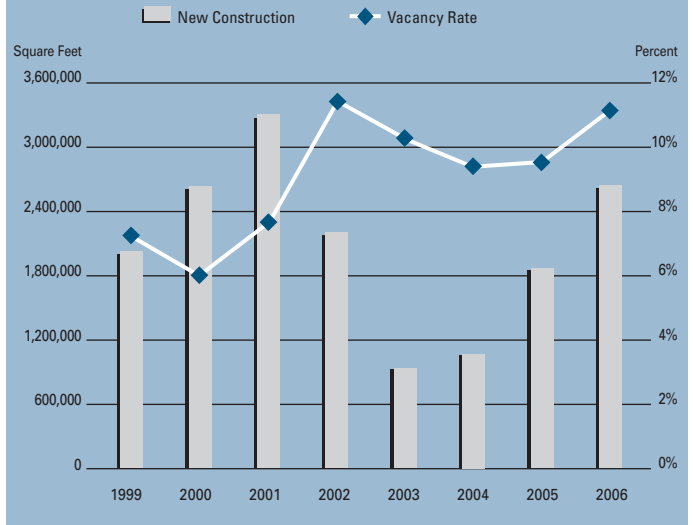
VACANCY RATE BY SUBMARKET



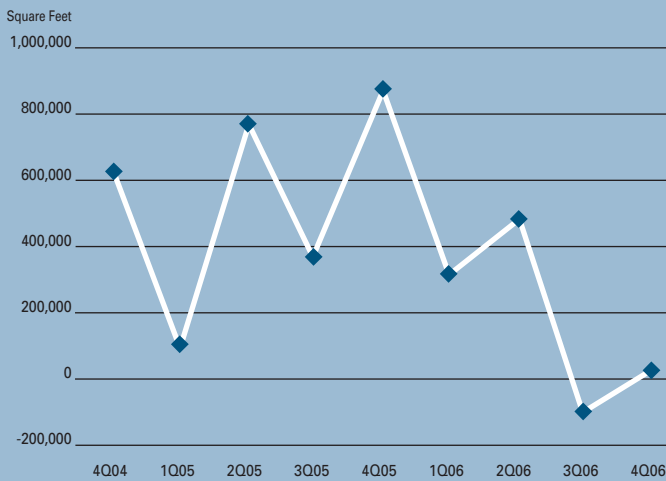
AVERAGE ASKING FULL SERVICE LEASE RATE



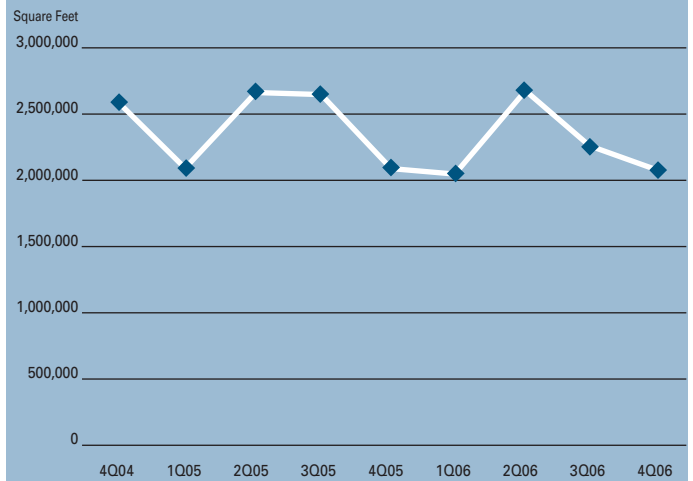
ANNUAL NEW CONSTRUCTION VS. VACANCY RATE



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 4Q2006	Total Availability 4Q2006	Average Asking Lease Rate	Net Absorption 4Q2006	Net Absorption 2006
Central										
Downtown	137	11,809,385	386,750	0	1,405,983	11.91%	1,749,787	\$2.73	(1,051)	59,319
Central Total	137	11,809,385	386,750	0	1,405,983	11.91%	1,749,787	\$2.73	(1,051)	59,319
Central Suburban										
City Heights/University	42	1,015,512	0	78,696	109,118	10.75%	109,118	\$2.12	303	(24,943)
Kearny Mesa	219	8,735,400	494,158	1,178,000	753,492	8.63%	916,298	\$1.91	10,747	197,814
Mission Gorge	51	1,296,469	0	0	87,096	6.72%	159,396	\$1.42	(14,445)	(18,571)
Mission Valley	129	6,746,241	90,000	115,000	819,542	12.15%	1,026,455	\$2.47	15,026	(70,321)
Old Town	29	698,723	0	0	41,011	5.87%	42,442	\$1.62	(1,287)	6,046
Point Loma	55	1,562,639	0	109,000	165,755	10.61%	174,315	\$1.67	(50,523)	36,338
Rose Canyon/Morena	46	1,026,065	0	0	72,623	7.08%	92,158	\$2.00	4,590	(21,149)
Uptown/Hillcrest	79	2,014,500	0	0	103,544	5.14%	110,914	\$1.90	3,008	(35,800)
Central Suburban Total	650	23,095,549	584,158	1,480,696	2,152,181	9.32%	2,631,096	\$2.28	(32,581)	69,414
Highway 78 Corridor										
Oceanside	30	569,569	129,723	346,610	63,068	11.07%	78,323	\$1.75	12,220	(3,171)
San Marcos/Vista	79	2,094,199	55,042	912,629	144,274	6.89%	139,268	\$2.26	53,185	198,686
Highway 78 Corridor Total	109	2,663,768	184,765	1,259,239	207,342	7.78%	217,591	\$2.05	65,405	195,515
I-15 Corridor										
Escondido	58	1,174,028	165,898	52,105	86,920	7.40%	83,679	\$2.25	(9,572)	(1,138)
Poway	29	1,225,013	25,612	324,000	203,479	16.61%	241,547	\$0.00	5,371	23,466
Rancho Bernardo	81	4,481,339	1,433,155	837,673	488,751	10.91%	650,475	\$2.50	41,103	(33,005)
Scripps Ranch	40	1,555,207	0	794,000	374,085	24.05%	372,261	\$2.36	(94,086)	(129,315)
I-15 Corridor Total	208	8,435,587	1,624,665	2,007,778	1,153,235	13.67%	1,347,962	\$2.37	(57,184)	(139,992)
North City										
Del Mar Heights	63	4,164,163	197,575	375,000	581,284	13.96%	628,853	\$0.00	(3,913)	(44,591)
Governor Park	19	858,354	0	0	97,885	11.40%	115,248	\$2.60	(3,995)	6,876
La Jolla	48	1,610,145	0	0	78,225	4.86%	102,324	\$2.50	18,303	61,492
Miramar	33	1,155,404	0	65,600	180,321	15.61%	211,056	\$0.00	(16,344)	7,252
N University City - UTC Center	87	7,110,349	347,019	482,097	952,693	13.40%	1,281,099	\$3.08	(44,622)	(120,770)
Sorrento Mesa	122	8,098,191	318,000	1,975,513	861,014	10.63%	1,611,051	\$2.51	70,119	530,633
Torrey Pines/Sorrento Valley	55	3,374,362	0	53,839	233,111	6.91%	374,767	\$3.56	97,180	124,506
North City Total	427	26,370,968	862,594	2,952,049	2,984,533	11.32%	4,324,398	\$2.88	116,728	565,398
North County										
Carlsbad	129	5,161,378	659,238	1,280,031	976,251	18.91%	1,124,560	\$2.50	(45,427)	97,859
North Beach Cities	102	2,163,922	90,359	35,200	210,797	9.74%	348,102	\$2.67	34,492	(47,163)
North County Total	231	7,325,300	749,597	1,315,231	1,187,048	16.20%	1,472,662	\$2.62	(10,935)	50,696
South/Southeast Corridor										
East County	94	2,010,271	93,580	0	104,355	5.19%	117,271	\$1.49	(9,164)	(15,555)
South San Diego	95	2,996,922	124,540	337,000	279,398	9.32%	380,821	\$2.24	(38,715)	85,712
South/Southeast Total	189	5,007,193	218,120	337,000	383,753	7.66%	498,092	\$1.49	(47,879)	70,157
Class A	212	24,999,951	3,252,809	7,149,287	3,986,328	15.95%	4,911,979	\$2.85	112,361	813,988
Class B	1,001	42,911,793	1,357,840	2,202,706	4,380,391	10.21%	5,925,355	\$2.30	(103,649)	12,619
Class C	738	16,796,006	0	0	1,107,356	6.59%	1,404,254	\$1.68	23,791	43,900
San Diego County Total	1,951	84,707,750	4,610,649	9,351,993	9,474,075	11.18%	12,241,588	\$2.61	32,503	870,507

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

OFFICE MARKET REPORT

FOURTH 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

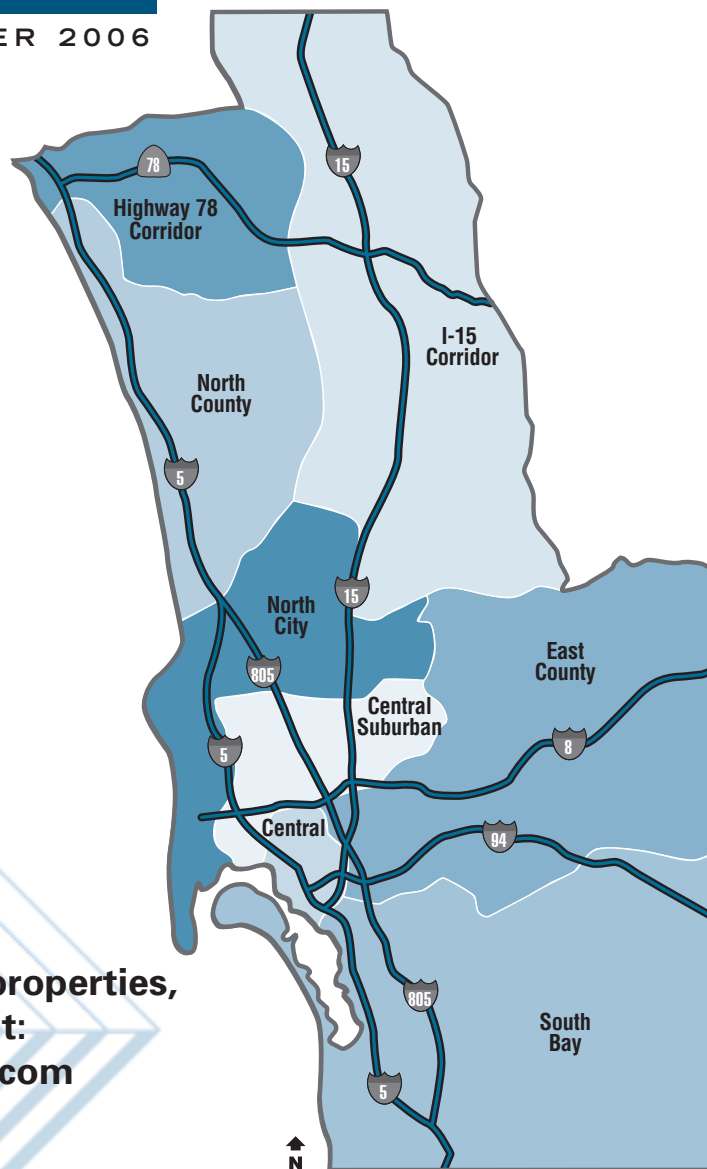
Del Mar Heights
Governor Park
La Jolla
Miramar
N University City - UTC Center
Sorrento Mesa
Torrey Pines/Sorrento Valley

NORTH COUNTY

Carlsbad
North Beach Cities

SOUTH/SOUTHEAST CORRIDOR

East County
South San Diego



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