



Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

Vacancy



UP

Absorption

DOWN



Lease Rates



UP

RECORD HIGH

Construction

DOWN



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 in a transitional phase. With vacancy rates increasing due to the completion of just over 3.8 million square feet of new office construction in 2007, along with another 4 to 5 million scheduled to be completed in 2008, 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.
- ◆ Portfolio sales of office buildings became a trend in 2007. In the first quarter of 2007 Equity Office sold its entire portfolio of office buildings, at the time the largest portfolio in the United States, to The Blackstone Group. In the second quarter of 2007, The Blackstone Group sold a small portion of them, 17 office properties in San Diego, to The Irvine Company. The total transaction to The Irvine Company was valued at over \$1 billion and included 2.1 million square feet.
- ◆ The average asking full service gross lease rate per month per foot is currently \$2.75, which is a 5.36% increase over last year's fourth quarter rate of \$2.61, and is four cents higher than last quarter's record high rate. Class A rates for the county are averaging \$3.07 FSG, and are the highest in the North City submarket at \$3.29 FSG.
- ◆ The Office vacancy rate is at 12.12%, constituting an 8.41% increase over last year's fourth quarter rate of 9.61%.
- ◆ The Office absorption checked in at a positive 1,741,792 square feet for 2007. This is double the amount of absorption experienced in 2006.
- ◆ Currently there is 2,898,592 square feet of Office construction underway, and total construction is lower than it was a year ago when 4,034,118 square feet was under construction. This is a decrease of almost 40% when compared to last year.
- ◆ Planned Office construction in San Diego County is up compared to last year. Currently there is 10,354,758 square feet of Office space on the slate as being planned, compared to last year's figure of 9,351,993 square feet.
- ◆ Unemployment in the fourth quarter of 2007 in San Diego County is 4.8%, which is the same as it was when compared to the third quarter of 2007, and 0.8% 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 7,900 new non-farm jobs in 2007, and they are forecasting 16,900 new non-farm jobs in 2008 with another 22,600 new jobs in 2009. They are also forecasting a 4.1% gain in total personal income with inflation increasing by 2.9% 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 2008.

OFFICE MARKET OVERVIEW

	2007	2006	2005	% CHANGE VS. 2006
Inventory Added	3,823,688	2,665,915	1,895,210	43.43%
Under Construction	2,898,592	4,610,649	4,034,118	-37.13%
Vacancy	12.12%	11.18%	9.61%	8.41%
Availability	18.95%	14.45%	11.97%	31.14%
Pricing	\$2.75	\$2.61	\$2.52	5.36%
Net Absorption	1,741,792	870,507	2,503,077	100.09%
Gross Activity	10,377,127	9,153,365	10,277,560	13.37%

Real People. Real Solutions.

RECENT TRANSACTIONS

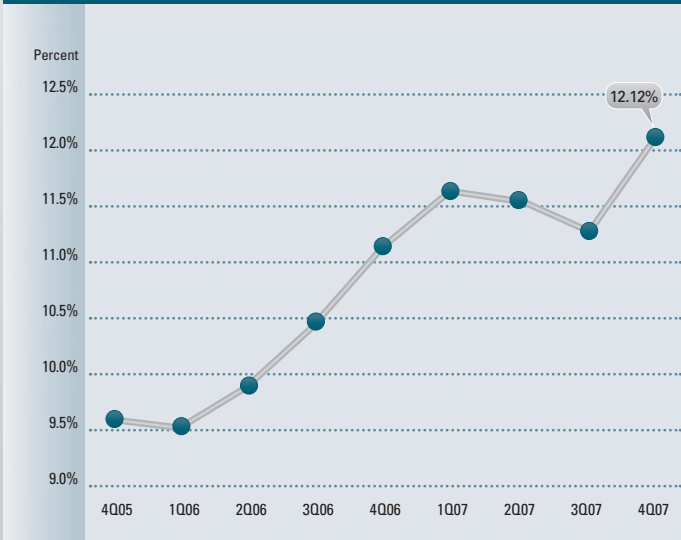
Sales Activity

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.
Pacific Center - 2 Properties	Mission Valley	A	433,320	\$200,100,000	SENTRE Partners	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
10300 Campus Point Drive	Sorrento Mesa	B	177,135	December-07	Kyocera Wireless Corp.	Veralliance Properties, Inc.
10160 Pacific Mesa Blvd.	Sorrento Mesa	A	125,000	May-07	Qualcomm	RREEF
3611 Valley Centre Drive	Del Mar Hts	A	117,948	March-07	Nextwave Broadband, Inc.	Kilroy Realty Corporation
4830 Eastgate Mall	UTC	A	93,744	March-07	Amylin Pharmaceuticals, Inc.	The Irvine Company

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 4Q2007	Total Availability 4Q2007	Average Asking Lease Rate	Net Absorption 4Q2007	Net Absorption 2007	Net Absorption 2006	Net Absorption 2005
Central												
Downtown	141	12,321,769	0	725,358	1,682,616	13.66%	2,180,745	\$2.80	20,653	111,439	59,319	181,110
Central Total	141	12,321,769	0	725,358	1,682,616	13.66%	2,180,745	\$2.80	20,653	111,439	59,319	181,110
Central Suburban												
City Heights/University	45	1,116,011	0	78,696	105,907	9.49%	200,542	\$2.50	(21,454)	9,311	(24,943)	(7,613)
Kearny Mesa	225	9,027,139	845,857	750,000	865,464	9.59%	1,881,898	\$1.90	(31,013)	6,284	197,814	255,154
Mission Gorge	58	1,500,604	0	0	100,387	6.69%	106,755	\$1.30	72,410	(10,891)	(18,571)	(6,460)
Mission Valley	123	6,647,868	0	55,000	938,908	14.12%	1,157,181	\$2.58	(101,988)	(66,659)	(70,321)	295,692
Old Town	34	857,610	0	0	45,741	5.33%	48,005	\$2.22	1,260	1,670	6,046	(1,187)
Point Loma	60	1,695,682	109,000	0	140,360	8.28%	168,150	\$1.66	(15,991)	19,361	36,338	83,723
Rose Canyon/Morena	53	1,142,002	14,000	0	76,713	6.72%	145,365	\$2.10	7,451	(6,432)	(21,149)	43,433
Uptown/Hillcrest	77	1,913,221	0	0	89,636	4.69%	119,411	\$2.89	(12,449)	10,060	(35,800)	20,037
Central Suburban Total	675	23,900,137	968,857	883,696	2,363,116	9.89%	3,827,307	\$2.36	(101,774)	(37,296)	69,414	682,779
Highway 78 Corridor												
Oceanside	36	677,349	135,110	534,000	122,467	18.08%	245,801	\$1.75	(4,050)	430	(3,171)	3,565
San Marcos/Vista	81	2,148,800	263,212	1,082,271	148,464	6.91%	470,923	\$1.66	(24,163)	(31,972)	198,686	(36,713)
Highway 78 Corridor Total	117	2,826,149	398,322	1,616,271	270,931	9.59%	716,724	\$1.69	(28,213)	(31,542)	195,515	(33,148)
I-15 Corridor												
Escondido	69	1,389,289	78,777	43,107	144,957	10.43%	208,859	\$2.47	(18,473)	26,490	(1,138)	43,015
Poway	31	1,235,164	0	324,000	57,828	4.68%	79,976	\$2.00	154,757	171,492	23,466	0
Rancho Bernardo	103	6,203,721	342,602	1,511,214	1,222,169	19.70%	2,102,558	\$2.15	(49,075)	385,614	(33,005)	19,005
Scripps Ranch	40	1,549,064	251,322	807,628	296,067	19.11%	585,324	\$2.50	1,472	78,008	(129,315)	(38,899)
I-15 Corridor Total	243	10,377,238	672,701	2,685,949	1,721,021	16.58%	2,976,717	\$2.49	88,681	661,604	(139,992)	23,121
North City												
Del Mar Heights	64	4,281,992	97,826	0	442,099	10.32%	706,537	\$0.00	18,207	214,639	(44,591)	355,198
Governor Park	19	859,736	0	0	281,448	32.74%	438,793	\$2.70	(28,493)	(183,563)	6,876	1,082
La Jolla	55	1,666,648	0	0	89,829	5.39%	102,123	\$3.91	(25,207)	(3,604)	61,492	22,217
Miramar	33	1,591,811	0	65,600	179,350	11.27%	322,771	\$0.00	(865)	(23,973)	7,252	42,816
N University City - UTC Center	92	7,509,816	300,664	494,097	584,134	7.78%	1,278,569	\$3.48	173,254	382,550	(120,770)	322,898
Sorrento Mesa	127	9,284,256	54,000	1,663,649	1,269,236	13.67%	1,764,022	\$2.59	(280,845)	417,344	530,633	169,058
Torrey Pines/Sorrento Valley	56	3,763,877	0	53,839	478,824	12.72%	485,945	\$3.72	(207,560)	(324,574)	124,506	202,840
North City Total	446	28,958,136	452,490	2,277,185	3,324,920	11.48%	5,098,760	\$3.29	(351,509)	478,819	565,398	1,116,109
North County												
Carlsbad	141	5,776,713	177,133	1,201,056	1,220,485	21.13%	1,534,900	\$0.00	38,832	304,200	97,859	326,836
North Beach Cities	109	2,412,930	0	60,811	184,387	7.64%	258,914	\$3.08	(16,631)	128,260	(47,163)	78,733
North County Total	250	8,189,643	177,133	1,261,867	1,404,872	17.15%	1,793,814	\$3.08	22,201	432,460	50,696	405,569
South/Southeast Corridor												
East County	121	2,651,223	0	681,932	136,008	5.13%	241,373	\$1.34	15,593	31,877	(15,555)	25,942
South San Diego	109	3,348,619	229,089	222,500	319,975	9.56%	708,472	\$2.25	5,495	94,431	85,712	101,595
South/Southeast Total	230	5,999,842	229,089	904,432	455,983	7.60%	949,845	\$1.48	21,088	126,308	70,157	127,537
Class A	217	26,724,302	2,269,939	6,761,896	4,247,664	15.89%	7,240,917	\$3.07	346,871	1,834,229	813,988	847,993
Class B	1,073	47,142,008	628,653	3,592,862	5,852,548	12.41%	8,375,750	\$2.40	(641,550)	(45,474)	12,619	1,564,592
Class C	812	18,706,604	0	0	1,123,247	6.00%	1,927,245	\$1.69	(34,194)	(46,963)	43,900	90,492
San Diego County Total	2,102	92,572,914	2,898,592	10,354,758	11,223,459	12.12%	17,543,912	\$2.75	-328,873	1,741,792	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	300,664	13	April-08	Hines
8620 Spectrum Center Blvd.	Kearny Mesa	A	294,780	12	February-08	Sunroad KM Land, Inc.
5893 Copley Drive	Kearny Mesa	A	205,000	6	September-08	Sudberry Properties, Inc.
Summit Rancho Bernardo	Rancho Bernardo	A	196,602	5	December-08	Jay Paul Company

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
13480 Evening Creek Drive North	Rancho Bernardo	A	140,915	6	December-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.

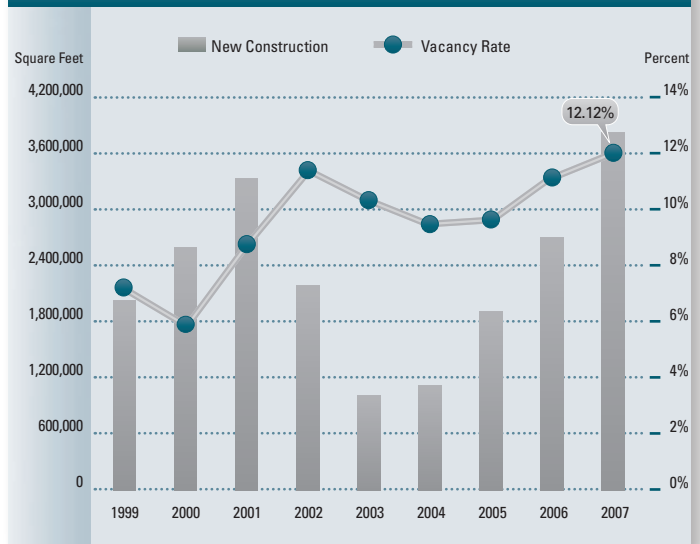
CLASS B

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.