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 facing challenges due to the national recession and 2008's tumultuous financial events. 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 $2.68, which is a 2.5% decrease over last year's fourth quarter rate of $2.75, and six cents lower than last quarter. Class A rates for the county are averaging $2.99 FSG, and are the highest in the North City submarket at $3.21 FSG.
- The office vacancy rate (for direct and sublease space) finished the quarter at 15.96%, constituting a 32% increase over last year's fourth quarter rate of 12.07%. This increase is a result of the new construction, 2.5 million square feet during 2008, coupled with a slowing economy, as financial markets correct.
- Net absorption for the county posted a negative number of 730,580 square feet for the fourth quarter of 2008. In 2008 San Diego County had a total of 1,598,860 square feet of negative absorption. The slowdown in absorption can be attributed to the credit crunch and finance companies consolidating.
- The level of activity registered at 1.7 million square feet for the fourth quarter of 2008. This is down from the 2.4 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. The recent lack of activity can be tied to the credit crunch as well, which means we could see an increase in activity in the second half of 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome, though, hinges on how bad the recession gets and how quickly credit eases up.
- Currently there is 1.4 million square feet of Office construction underway, and total construction is lower than it was a year ago when 2.9 million square feet was under construction. This is a decrease of over 50% 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 10.4 million square feet.
- According to the State of California Employment Development Department, San Diego County lost 15,300 payroll jobs over the last twelve months. Between October 2008 and November 2008 San Diego County lost 2,200 jobs, mostly in the leisure & hospitality and construction sectors.
- The unemployment rate in San Diego County was 6.9% in November 2008, unchanged from a revised 6.9% percent in October 2008, but above the year ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 8.3 percent for California and 6.5 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

	2008	2007	2006	% CHANGE VS. 2007
Inventory Added	2,485,878	3,196,787	2,669,945	-22.24%
Under Construction	1,398,115	2,898,592	4,610,649	-51.77%
Vacancy	15.96%	12.07%	10.60%	32.23%
Availability	18.51%	18.95%	14.45%	-2.32%
Pricing	$2.68	$2.75	$2.61	-2.55%
Net Absorption	-1,598,860	1,481,237	937,700	N/A
Gross Activity	8,245,598	10,380,199	9,178,785	-20.56%

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RECENT TRANSACTIONS

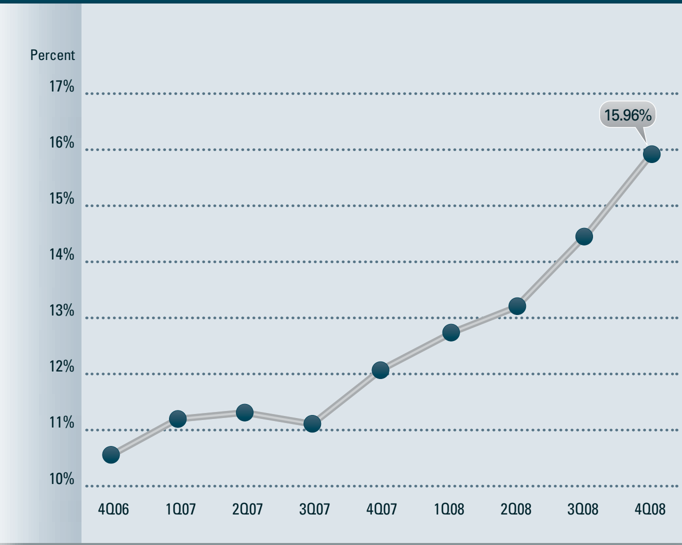
Sales Activity

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

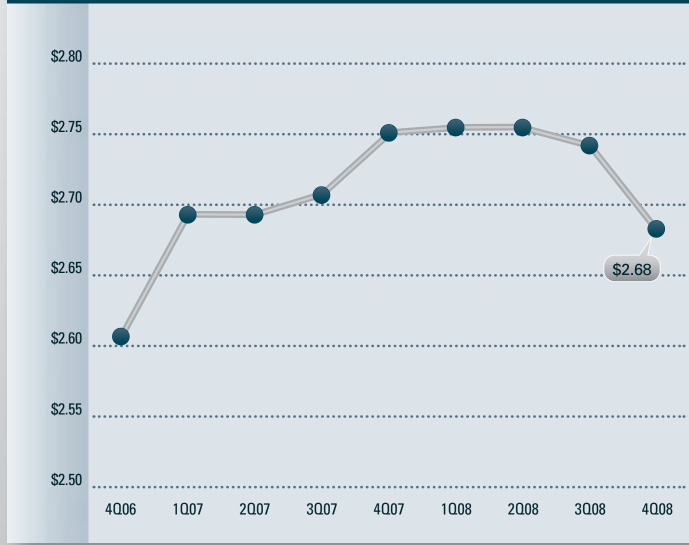
Lease Activity

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
8620 Spectrum Center Blvd.	Kearny Mesa	A	248,009	October-08	Bridgepoint Education	Sunroad KM Land, Inc.
5893 Copley Drive	Kearny Mesa	A	205,506	December-08	Cricket Communications, Inc.	Sudberry Properties, Inc.
14170 Kirkham Way, Bldg A	Poway	A	156,130	January-08	General Atomics	HCP Life Science Estates

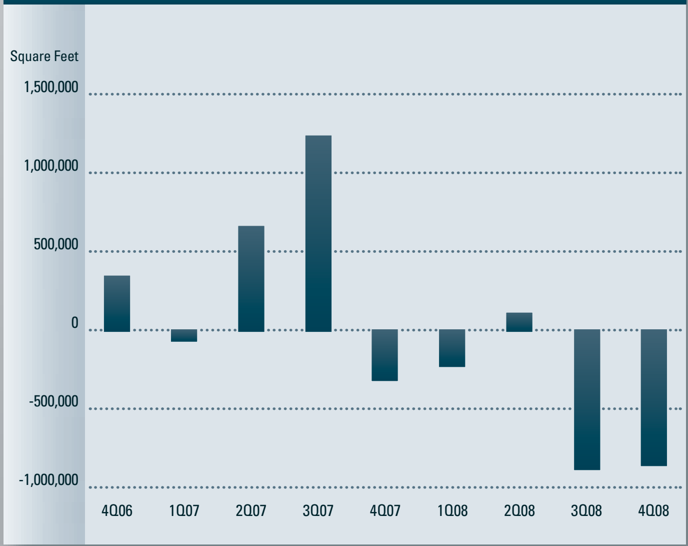
VACANCY RATE



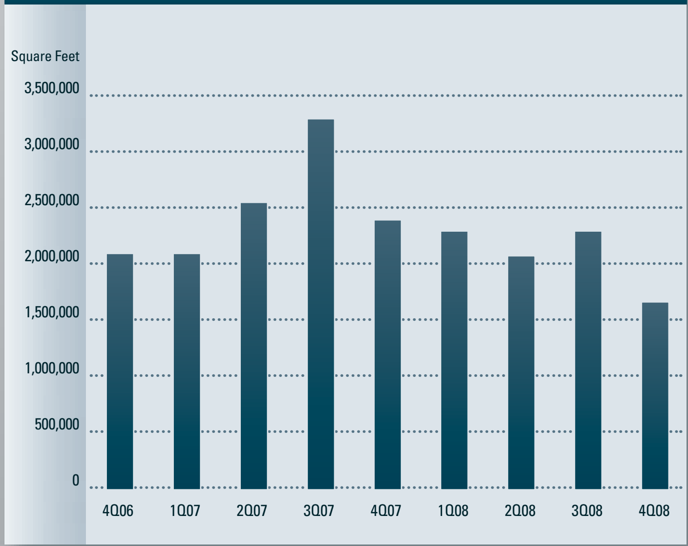
AVERAGE ASKING FULL SERVICE LEASE RATE



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 4Q2008	Total Availability 4Q2008	Average Asking Lease Rate	Net Absorption 4Q2008	Net Absorption 2008	Gross Absorption 4Q2008	Gross Absorption 2008
Central												
Downtown	129	12,387,994	40,000	0	1,753,869	14.16%	2,382,928	$2.69	(56,000)	(73,113)	160,193	930,947
Central Total	129	12,387,994	40,000	0	1,753,869	14.16%	2,382,928	$2.69	(56,000)	(73,113)	160,193	930,947
Central Suburban												
City Heights/University	49	1,218,047	0	78,696	101,627	8.34%	129,177	$2.22	46,500	26,373	59,724	128,217
Kearny Mesa	232	9,975,401	20,300	750,000	1,690,083	16.94%	1,478,224	$2.14	(97,996)	55,399	138,410	814,219
Mission Gorge	60	1,579,374	0	0	138,594	8.78%	135,295	$1.43	(33,978)	(36,607)	5,818	77,532
Mission Valley	123	6,663,663	0	55,000	1,170,892	17.57%	1,263,506	$2.55	22,990	(230,291)	158,346	557,944
Old Town	37	981,754	0	0	72,761	7.41%	123,610	$2.00	(7,110)	(24,220)	16,648	50,254
Point Loma	59	1,690,763	104,397	0	100,005	5.91%	105,410	$0.00	(306)	12,461	8,319	71,067
Rose Canyon/Morena	54	1,183,214	25,160	0	102,741	8.68%	146,660	$1.86	(21,695)	(26,187)	7,718	80,025
Uptown/Hillcrest	77	1,910,437	0	0	144,858	7.58%	196,085	$1.55	(10,649)	(54,522)	5,559	80,429
Central Suburban Total	691	25,202,653	149,857	883,696	3,521,561	13.97%	3,577,967	$2.33	(102,244)	(277,594)	400,542	1,859,687
Highway 78 Corridor												
Oceanside	43	843,164	12,000	431,832	190,835	22.63%	195,629	$1.42	(5,108)	67,141	33,904	180,121
San Marcos/Vista	93	2,468,960	92,695	1,161,228	427,199	17.30%	497,507	$1.63	(3,272)	(24,662)	27,053	199,295
Highway 78 Corridor Total	136	3,312,124	104,695	1,593,060	618,034	18.66%	693,136	$1.62	(8,380)	42,479	60,957	379,416
I-15 Corridor												
Escondido	73	1,510,819	0	43,107	210,336	13.92%	236,102	$2.10	9,052	29,435	16,349	(1,138)
Poway	33	1,404,672	0	364,570	71,295	5.08%	63,535	$2.25	(2,615)	22,133	4,766	63,789
Rancho Bernardo	111	6,858,716	646,734	857,673	1,278,302	18.64%	1,545,979	$2.45	14,789	353,974	195,267	1,081,835
Scripps Ranch	42	1,660,006	157,884	822,000	446,618	26.90%	510,714	$2.39	298	(43,485)	22,066	105,663
I-15 Corridor Total	259	11,434,213	804,618	2,087,350	2,006,551	17.55%	2,356,330	$2.35	21,524	362,057	238,448	1,250,149
North City												
Del Mar Heights	68	4,484,674	0	91,761	917,774	20.46%	1,132,568	$4.25	(131,583)	(304,881)	99,669	464,597
Governor Park	19	859,736	0	0	363,586	42.29%	492,254	$2.69	(47,775)	(82,138)	22,878	107,735
La Jolla	56	1,659,464	0	0	65,904	3.97%	102,830	$3.34	7,182	16,606	22,199	111,833
Miramar	34	1,559,994	0	0	225,358	14.45%	265,158	$0.00	(8,872)	(47,203)	19,993	171,001
N University City - UTC Center	125	8,979,103	50,925	1,748,649	1,553,408	13.67%	1,784,961	$2.32	(63,583)	(243,073)	85,439	770,653
Sorrento Mesa	60	3,841,674	0	0	300,284	12.72%	305,613	$3.70	31,410	28,053	34,808	110,510
Torrey Pines/Sorrento Valley	93	7,657,777	0	689,097	1,334,199	17.42%	1,586,934	$3.31	(156,524)	(447,816)	159,194	545,180
North City Total	455	29,042,422	50,925	2,529,507	4,760,513	16.39%	5,670,318	$3.21	(369,745)	(1,080,452)	444,180	2,281,509
North County												
Carlsbad	147	5,899,138	140,891	1,131,427	1,424,836	24.15%	1,599,639	$2.30	9,265	(137,067)	255,755	895,687
North Beach Cities	112	2,470,473	33,000	20,000	265,731	10.76%	333,381	$2.72	(53,673)	(84,055)	26,292	172,440
North County Total	259	8,369,611	173,891	1,151,427	1,690,567	20.20%	1,933,020	$2.55	(44,408)	(221,122)	282,047	1,068,127
South/Southeast Corridor												
East County	126	2,584,976	26,432	665,500	225,872	8.74%	245,364	$1.34	(7,736)	(38,714)	27,374	119,814
South San Diego	123	3,603,989	47,697	292,500	733,344	20.35%	900,153	$1.82	(163,591)	(312,401)	54,975	212,930
South/Southeast Total	249	6,188,965	74,129	958,000	959,216	15.50%	1,145,517	$1.65	(171,327)	(351,115)	82,349	332,744
Class A	254	29,894,046	857,985	5,882,978	6,672,206	22.32%	6,912,656	$2.99	(128,004)	(199,610)	630,948	3,347,186
Class B	1,130	47,781,666	540,130	3,320,062	7,192,466	15.05%	8,893,669	$2.34	(534,096)	(987,657)	810,253	3,724,872
Class C	794	18,262,270	0	0	1,445,639	7.92%	1,952,891	$1.81	(68,480)	(411,593)	227,515	1,030,521
San Diego County Total	**2,178**	**95,937,982**	**1,398,115**	**9,203,040**	**15,310,311**	**15.96%**	**17,759,216**	**$2.68**	**(730,580)**	**(1,598,860)**	**1,668,716**	**8,102,579**

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.
Summit Rancho Bernardo	Rancho Bernardo	A	196,734	5	February-09	Bernardo Summit LLC
Liberty Station	Point Loma	A	104,397	3	June-09	McMillin Companies, Inc.
ECR Corporate Center	Carlsbad	B	81,115	2	January-09	Carltas Company

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
4747 Executive Drive	UTC	A	300,664	13	October-08	Hines/TIAA-CREF
Sunroad Centrum I	Kearny Mesa	A	273,764	11	April-08	Sunroad KM Land, Inc.
5893 Copley Drive	Kearny Mesa	A	205,506	6	December-08	Sudberry Properties, Inc.
5887 Copley Drive	Kearny Mesa	A	175,000	6	December-08	Sudberry Properties, Inc.

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.

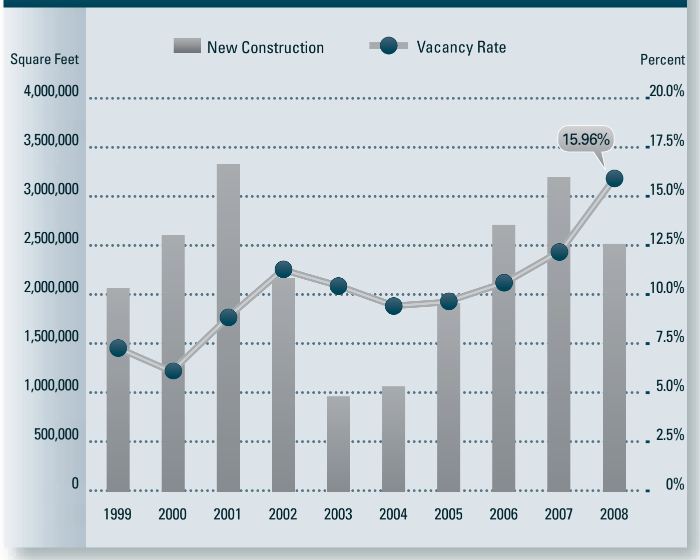
CLASS B

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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