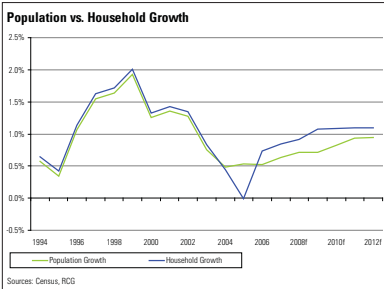
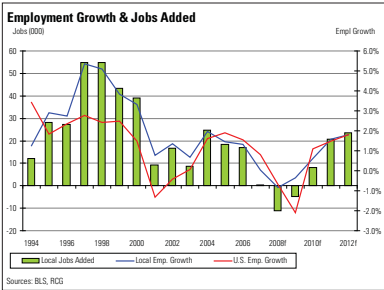


Economic Risk Assessment
2008-2009: Medium-High
2010-2012: Medium

Average Employment Growth
2003-2007: 1.1%
2008-2012(f): 0.6%

Employment Base (000)
Sept. 2008: 1,302
U.S. Size Rank 2007: 20 of 353

Population (000)
2007e: 2,985
U.S. Size Rank 2004: 15 of 353



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Outlook: Economy & Demographics

San Diego continued to shed jobs and the recession deepened through the first three quarters of 2008. By September, year-over-year employment contracted by 0.6% or 7,200 jobs. Housing-related employment continued to be at the forefront of layoffs. The construction sector shed 4,000 jobs through September, while financial activities lost approximately 2,500 jobs during the same period. We expect the construction sector to contract further into 2009 as residential and commercial building activity fall to record lows. With consumers unwilling to spend amidst the uncertain market, we expect job losses to continue in retail trade and spread to the leisure and hospitality industry. As employment falters further in 2009, we expect the unemployment rate to approach 8% by the end of the year.

Economic Drivers

- Construction employment continued to fall, but the pace of job losses slowed in recent months. Between June and September, and after adjusting for seasonality, only 400 jobs were lost. With residential permitting activity at record lows in 2008 and little improvement in 2009, the construction sector is expected to continue shedding jobs. Many contractors and subcontractors are submitting bids under budget, and sacrificing profit margins, in order to secure work.
- The state's budget woes are endangering construction jobs and infrastructure projects. Contractors are not as optimistic even with prospects for a large Obama administration infrastructure spending package growing each day.
- Existing property owners, responding to falling values, requested more than 40,000 property tax reassessments in fiscal year 2008, which ended in June 2008. Including carryover requests from fiscal year 2007, nearly 68,000 applications were approved, a county record. This equates to slightly more than 8% of the county's parcels and highlights the tax revenue problem state and municipal governments face.
- Several local biotech firms have sought bankruptcy protection and others are shedding staff. Venture capital is vital to many life sciences firms in the region. Through the first three quarters of 2008, only \$993.8 million were placed in 100 deals. This was down from nearly \$1.58 billion of venture capital in 127 deals in the same period one year ago. With access to capital limited and prospects for successful IPOs dim, venture capital investment is likely to remain muted.

Most Concentrated Leisure & Hospitality Centers, Sep-08

Metro Area	% of Jobs	Metro Area	% of Jobs
Las Vegas, NV	29.5%	Orange County, CA	11.5%
Orlando, FL	17.8%	Memphis, TN	11.3%
Salinas, CA	16.2%	Norfolk, VA	11.1%
Honolulu, HI	13.6%	Santa Rosa, CA	10.9%
Santa Barbara, CA	13.0%	Vallejo, CA	10.8%
San Francisco, CA	12.7%	Ventura, CA	10.8%
West Palm Beach, FL	12.6%	Nashville, TN	10.8%
San Diego, CA	12.5%	Inland Empire, CA	10.6%
Colorado Springs, CO	12.1%	Austin, TX	10.6%
San Antonio, TX	11.7%	Fort Lauderdale, FL	10.5%
U.S.	9.9%		

Sources: BLS, RCG

- The military is one of the main drivers of the San Diego economy and the region is home to one of the largest concentrations of military facilities in the world. Department of Defense expenditures and research funding are increasing and should continue to do so into the next year, according to the National Defense Industrial Association. In 2008, military spending supported 375,000 jobs and had an economic impact of \$24.6 billion, according to the San Diego Military Advisory Council.

Market Risks/Opportunities

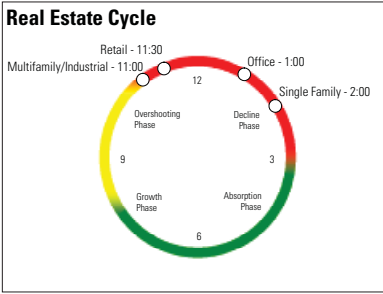
- The recession continues to be the most significant risk to the local economy. The region is not only dependent upon residents' spending, but also tourism dollars. In 2008, tourism activity was lower than expected in spite of many Southern California residents choosing "staycations" in San Diego rather than flying or driving to further destinations. Should tourist spending fall further, hospitality and retail jobs will be highly at risk.
- The large military presence and Department of Defense spending should help minimize the depth of the local recession. Military personnel, retirees and Defense Department employees account for more than 10% of the population in San Diego.

Economic Indicators

Statistic	Units	2003	2004	2005	2006	2007	Sep07	Jun08	Sep08	2008f	2009f	2010f	2011f	2012f
Total Employment	(000)	1,246.8	1,271.5	1,289.9	1,306.8	1,307.2	1,308.8	1,302.8	1,301.6	1,296.2	1,291.4	1,299.4	1,320.0	1,343.7
% Change		0.7%	2.0%	1.4%	1.3%	0.0%	0.2%	-0.5%	-0.6%	-0.8%	-0.4%	0.6%	1.6%	1.8%
Construction	(000)	83.3	90.1	92.7	91.2	82.9	85.4	79.3	78.9	76.2	73.6	74.0	74.9	76.1
% Change		6.8%	8.2%	3.0%	-1.7%	-9.1%	-7.3%	-10.1%	-7.6%	-8.1%	-3.3%	0.5%	1.2%	1.6%
Manufacturing	(000)	104.7	104.8	103.7	103.3	102.2	101.7	101.8	101.7	101.6	101.3	101.4	101.7	102.2
% Change		-3.6%	0.1%	-1.0%	-0.3%	-1.1%	-2.2%	0.1%	0.0%	-0.6%	-0.3%	0.1%	0.3%	0.5%
Trade	(000)	184.3	188.7	193.0	193.6	192.7	194.4	193.1	192.1	190.6	188.9	189.6	192.8	196.5
% Change		1.6%	2.4%	2.2%	0.3%	-0.5%	0.6%	-0.6%	-1.2%	-1.1%	-0.9%	0.4%	1.7%	1.9%
Transportation & Utilities	(000)	27.9	28.7	28.3	29.3	29.5	29.0	29.1	28.8	28.6	28.3	28.6	29.2	29.9
% Change		2.9%	2.8%	-1.4%	3.6%	0.5%	0.3%	1.5%	-0.4%	-2.9%	-1.1%	0.9%	2.1%	2.5%
Information Services	(000)	36.1	37.1	37.2	37.6	38.7	38.3	38.4	38.7	38.5	38.2	38.6	39.2	40.1
% Change		-4.8%	2.8%	0.1%	1.1%	3.1%	2.4%	1.7%	1.1%	-0.6%	-0.7%	0.9%	1.7%	2.1%
Financial Activities	(000)	80.3	82.8	84.2	82.5	77.8	79.6	75.6	75.3	75.1	76.2	76.5	77.1	78.0
% Change		3.6%	3.1%	1.7%	-2.0%	-5.7%	-4.3%	-6.7%	-5.4%	-3.5%	1.5%	0.3%	0.9%	1.1%
Professional & Business Svcs.	(000)	202.1	207.4	211.2	213.1	217.3	217.1	216.7	217.9	217.7	217.0	218.1	221.6	225.8
% Change		-0.5%	2.7%	1.8%	0.9%	1.9%	0.6%	0.2%	0.4%	0.2%	-0.3%	0.5%	1.6%	1.9%
Educational & Health Svcs.	(000)	122.9	121.9	123.4	126.5	130.4	130.0	131.5	132.5	133.1	135.2	138.2	142.4	146.9
% Change		2.2%	-0.9%	1.2%	2.5%	3.1%	3.1%	2.4%	2.0%	2.1%	1.6%	2.2%	3.0%	3.2%
Leisure & Hospitality	(000)	143.9	146.6	152.1	159.7	162.4	161.3	164.8	163.3	162.6	161.1	160.1	162.2	166.4
% Change		4.3%	1.9%	3.7%	5.0%	1.7%	1.9%	1.9%	1.3%	0.1%	-0.9%	-0.6%	1.9%	2.0%
Other Services	(000)	46.8	48.5	48.7	48.7	49.2	49.0	48.6	48.6	48.6	47.5	48.2	49.0	50.0
% Change		1.3%	3.6%	0.4%	-0.1%	1.1%	0.9%	-0.2%	-0.7%	-1.4%	-2.1%	1.3%	1.8%	1.9%
Government	(000)	214.0	214.4	215.1	220.8	223.7	222.7	223.5	223.3	223.3	223.5	225.7	228.4	231.4
% Change		-2.6%	0.2%	0.3%	2.7%	1.3%	1.9%	0.6%	0.3%	-0.2%	0.1%	1.0%	1.2%	1.3%
Unemployment Rate	(%)	5.0%	4.5%	4.1%	4.1%	5.4%	4.8%	5.8%	6.4%	7.2%	7.9%	6.9%	6.0%	4.6%
Personal Income	(\$Bill)	104.1	111.4	118.0	123.8	131.2				138.9	147.8	157.3	167.4	178.3
% Change		3.4%	7.1%	5.9%	4.9%	6.0%				5.9%	6.4%	6.4%	6.5%	6.5%
Household Income	(\$000)	99.3	105.9	112.2	116.8	122.7				128.8	135.5	142.7	150.3	158.2
% Change		2.5%	6.6%	5.9%	4.1%	5.1%				4.9%	5.3%	5.3%	5.3%	5.3%
CPI	Avg. 82 -	206.7	214.3	222.9	229.6	234.8	234.8	243.1	245.1	248.0	253.4	261.7	270.1	279.6
% Change	84	3.3%	3.7%	4.0%	3.0%	2.3%	2.3%	4.9%	4.4%	5.6%	2.2%	3.3%	3.2%	3.5%

Demographic Indicators

Statistic	Units	2000	2001	2002	2003	2004	2005	2006	2007e	2008f	2009f	2010f	2011f	2012f
Total Population	(000)	2,824.6	2,862.8	2,899.2	2,921.1	2,935.2	2,950.7	2,966.1	2,984.9	3,006.2	3,027.6	3,052.6	3,081.1	3,110.4
% Change		1.3%	1.4%	1.3%	0.8%	0.5%	0.5%	0.5%	0.6%	0.7%	0.7%	0.8%	0.9%	0.9%
15 - 24 Years	(000)	433.2	428.3	434.3	433.5	427.9	401.9	380.1	362.5	348.7	338.0	329.6	323.3	326.3
25 - 34 Years	(000)	442.7	447.9	454.0	453.8	450.6	464.0	472.5	478.1	481.5	483.7	484.6	484.6	489.2
35 - 44 Years	(000)	457.1	458.8	457.6	453.7	449.7	451.6	454.8	459.2	464.4	470.2	476.0	481.4	486.0
45 - 64 Years	(000)	560.6	584.0	607.1	626.5	643.9	661.5	678.7	696.0	713.4	731.7	749.8	767.5	774.8
65 & Over	(000)	314.9	318.1	319.7	322.5	325.4	329.6	334.2	339.5	345.4	352.1	359.1	366.3	369.8
Births	(000)	42.9	43.7	43.4	44.2	44.8	44.3	43.6	43.1	42.8	42.6	42.4	42.3	42.7
Deaths	(000)	19.1	19.6	19.4	19.3	19.8	20.0	20.0	20.2	20.4	20.6	20.8	21.0	21.2
Natural Increase	(000)	23.8	24.1	24.0	24.9	25.0	24.3	23.5	22.9	22.4	22.0	21.7	21.4	21.5
Net Migration	(000)	11.2	14.1	12.4	-3.0	-10.9	-8.7	-8.2	-4.1	-1.2	-0.6	3.3	7.2	7.7
Total Households	(000)	1,010.9	1,025.3	1,039.1	1,047.8	1,052.4	1,052.3	1,060.1	1,069.0	1,078.7	1,090.3	1,102.2	1,114.3	1,126.5
% Change		1.3%	1.4%	1.3%	0.8%	0.4%	0.0%	0.7%	0.8%	0.9%	1.1%	1.1%	1.1%	1.1%
By Age of Householder														
15 - 24	(000)	58.5	57.7	58.3	58.1	57.2	52.9	49.7	47.1	45.1	43.5	42.3	41.3	41.8
25 - 34	(000)	193.6	195.1	197.2	196.8	194.8	197.7	199.9	201.1	201.5	201.5	201.1	200.4	202.6
35 - 44	(000)	243.0	243.1	241.7	239.2	236.5	234.0	234.1	235.0	236.4	238.3	240.2	242.2	244.8
45 - 64	(000)	321.5	333.8	345.9	356.3	365.2	369.6	376.7	384.1	391.6	399.9	408.2	416.4	421.0
65+	(000)	194.3	195.6	196.0	197.3	198.6	198.1	199.6	201.6	204.0	207.0	210.3	213.8	216.2
By Type														
Married	(000)	512.1	517.2	521.9	523.9	524.0	521.7	523.2	525.3	527.7	531.0	534.4	537.8	543.7
Total Other Family	(000)	161.9	165.5	169.1	171.9	174.0	175.3	178.0	180.9	183.9	187.3	190.8	194.3	196.4
Other Male	(000)	45.0	46.1	47.1	47.8	48.4	48.8	49.5	50.3	51.2	52.1	53.1	54.1	54.7
Other Female	(000)	116.8	119.5	122.0	124.0	125.6	126.5	128.5	130.5	132.7	135.2	137.7	140.2	141.8
Non-Family	(000)	336.9	342.6	348.1	352.0	354.4	355.3	358.9	362.8	367.1	372.0	377.0	382.1	386.3
Male	(000)	165.6	168.4	171.1	173.0	174.2	174.6	176.4	178.3	180.4	182.8	185.3	187.8	189.9
Female	(000)	171.3	174.2	177.0	179.0	180.2	180.7	182.5	184.5	186.7	189.2	191.7	194.3	196.4



Outlook: Single Family Housing Market

The single family market continued downward into the second half of 2008. In the third quarter, the median sales price fell to \$377,300, a 36% decline year-over-year. The median price is being pushed downward not only by the lack of buyer interest and ability to obtain a mortgage, but also due to the ever-growing number of REO sales that are closing at a discounted price. By the fourth quarter of 2009, we expect the median price to fall to nearly \$330,000, a 7.1% decline on the year. Economic stimulus as well as record-low homebuilding activity in the near term should lead to elevated price increases by 2011. In 2011 and 2012, we expect the median price to increase at a 5.8% annual average rate. In spite of this increase, we expect household affordability to remain in the mid-40% range through the forecast horizon.

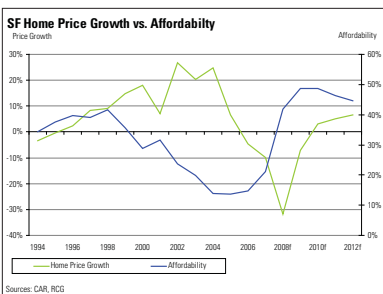
Single Family Risk Assessment

2008-2009: High
2010-2012: Medium-High

Current Statistics

Stock (Units, 000): 707
Permits (Units, 000): 1.8
Median Price: \$377,300

Homebuilding continued to slow and is at near-record lows. Through September, slightly more than 1,800 single family units were permitted, a 36.9% decline from 2007 and a 53.7% drop from the same period in 2006. By the end of 2008, we expect pulled permits will only reach approximately 2,200 – the lowest annual total on record. We expect little improvement in 2009, with only 2,900 single family permits issued in the county. Moving forward, permitting activity should increase to approximately 5,200 per year between 2010 and 2012, nearly 25% lower than the five-year average from 2002 through 2007.



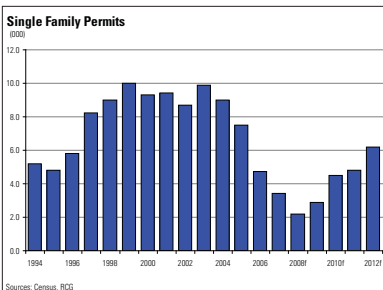
Demand/Supply Drivers

- In 2008, there were more than 69,600 foreclosure filings in San Diego County, more than double the approximately 33,000 filings in 2007. Although some lenders are modifying loans and a state law to delay the foreclosure process was enacted in 2008, more than 20,500 homes became bank-owned. As many of these properties are then sold at a discount due to deferred maintenance or in order to remove them quickly from books, REO sales are pushing the median sales price lower and overstating price declines.
- The depressed prices are leading to opportunities for some. Sales volume was 85.4% higher in November than in the previous year. However, the drop in prices produced nearly \$2.4 billion less in revenue from sales year-to-date through November, according to the San Diego Association of Realtors.

- Although sales volume is higher, REO properties represent a significant share of sales. In the face of further price declines, many homeowners are unwilling to list their properties. The months of supply reached 5.1 in November, down from 14.6 months in November 2007.

Market Risks/Opportunities

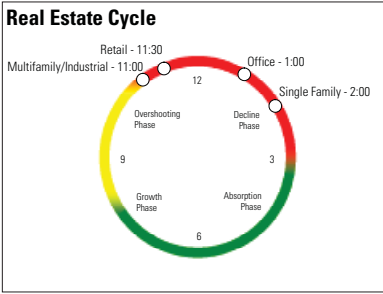
- In recent years, buyers in San Diego utilized exotic mortgages at one of the highest rates in the nation. With payment resets upcoming, particularly in the Alt-A segment, and job losses adding to the foreclosure mix, we expect that many more homeowners will fall into distress. Without significant policy action in this arena, foreclosures should continue to increase in San Diego in the short term.



Single Family Housing Statistics⁽¹⁾

	2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock (Units, 000)	689.1	696.6	701.3	704.8	706.6	707.0	709.9	714.4	719.2	725.4
Building Permits (Units, 000)	9.0	7.5	4.7	3.4	1.8	2.2	2.9	4.5	4.8	6.2
Existing Median Price	\$569,900	\$607,400	\$579,800	\$522,900	\$377,300	\$356,635	\$331,314	\$341,806	\$359,238	\$382,588
%Change	24.8%	6.6%	-4.5%	-9.8%	-36.0%	-31.8%	-7.1%	3.2%	5.1%	6.5%
FHLMC Price Index	410.4	453.8	450.0	413.3	340.7	321.6	309.4	321.4	338.5	359.9
%Change	27.8%	10.6%	-0.8%	-8.1%	-19.8%	-22.2%	-3.8%	3.9%	5.3%	6.3%
Monthly Mortgage Payment	\$2,687.48	\$2,871.55	\$2,904.64	\$2,600.89	\$1,871.59	\$1,728.95	\$1,572.12	\$1,657.06	\$1,854.47	\$2,036.30
Households Able to Afford a Median Priced Home	13.9%	13.7%	14.8%	21.1%	.	41.8%	48.6%	48.7%	46.4%	44.7%

(1) Data on permits are year to date. All growth rates are year-ago rates.

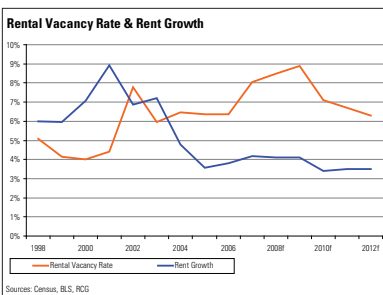
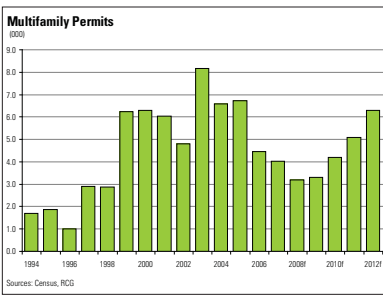


Multifamily Risk Assessment

2008-2009: Medium-High
2010-2012: Medium

Current Statistics

Stock (Units, 000): 433
Permits (Units, 000): 2.8
Vacancy Rate: 8.8%



Outlook: Multifamily Housing Market

The multifamily rental market is weakening in line with the economy. In the third quarter, the Census rental vacancy rate increased to 8.8%, up from 6.5% one year ago. In 2009, we expect the rental vacancy rate to increase to nearly 9% as job losses weaken demand for rental units. Additionally, the increase in the number of condos and single family homes offered for rent is contributing to an increase in the vacancy rate. With economic expansion expected to be under way in 2011 and 2012, the rental vacancy rate should fall into the mid-6% range.

The CPI rental component increased 3.2% year-over-year in the third quarter, slowing from the 4.8% growth at mid-year. From 2009 through 2012, we expect the rental component to grow at an annual average rate of 3.6%. In the short term, the weak economic conditions are likely to be offset by a return of many households to the rental market. In the medium term, we expect government stimulus programs to emphasize homeownership once again, shifting demand away from rental apartments as the economy expands.

Demand/Supply Drivers

- The institutional-grade apartment market remained stable in the third quarter. The vacancy rate was 4.2%, according to RealFacts, on par with the second quarter, and has remained in the 4% to 5% band since early 2007.
- Despite greater affordability levels, the tight mortgage market and buyer sentiment are keeping some households in rental units. This captured demand is expected to remain in the short term until public policy initiatives have an impact on for-sale housing.
- The large number of apartments converted to condos since the early part of the decade and little construction activity in the ensuing years has produced a somewhat undersupplied market. Although the rental market has weakened as the economy moves deeper into recession, the reduced supply of apartments has prevented a much greater increase in the vacancy rate.

only \$767.3 million of multifamily properties were sold, a 68.9% decline in sales volume. Per-unit pricing also continued to fall, reaching approximately \$141,300 in November, down from more than \$210,000 in 2006 when converters were active in the market.

Market Risks/Opportunities

- As job losses continue, more households are likely to double up or return to their parents' homes. Additionally, first-time apartment renters such as recent graduates will likely delay moving into apartments until economic conditions improve. Should the recession be prolonged or more severe than expected, occupancy and average rent levels could decline more significantly.
- Negative publicity regarding renters evicted with little warning due to foreclosures has swayed some households to focus solely on professionally-managed rental properties. However, should foreclosures continue to increase and median home prices continue to fall, investors will be able to cover mortgage payments even with lower rents.

Investment Climate

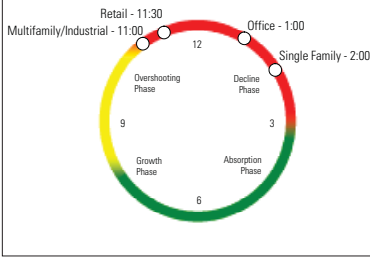
- Investment activity continued to plummet in spite of investors' access to GSE-backed capital. In the 12 months ending in November,

Multifamily Housing Statistics⁽²⁾

	2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock (Units, 000)	413.2	419.8	426.0	430.3	433.3	434.1	437.4	440.9	445.3	450.7
Building Permits (Units, 000)	6.6	6.7	4.4	4.0	2.8	3.2	3.3	4.2	5.1	6.3
Units Delivered (000)	7.8	6.6	6.2	4.3	3.0	3.8	3.2	3.5	4.4	5.4
Net Absorption (Units, 000)	5.2	6.7	5.8	(3.2)	.	1.6	1.2	11.1	5.9	6.8
Occupied Units (000)	386.4	393.1	398.9	395.7	.	397.2	398.4	409.6	415.5	422.3
Rental Vacancy Rate	6.5%	6.4%	6.4%	8.1%	8.8%	8.5%	8.9%	7.1%	6.7%	6.3%
CPI Rental Component	253.1	262.1	272.1	283.5	291.1	295.1	307.2	317.6	328.8	340.3
%Change	4.8%	3.6%	3.8%	4.2%	3.2%	4.1%	4.1%	3.4%	3.5%	3.5%

(2) Data on permits and units delivered are year to date. All growth rates are year-ago rates.

Real Estate Cycle



Outlook: Office Market

Layoffs and branch closings weakened the San Diego office market further into the third quarter. The vacancy rate increased to 18.7%, 110 basis points higher than in the second quarter and the fourth consecutive quarterly increase of more than 100 basis points. As the local economy remains in recession, and formerly strong industries such as biotech slow further, we expect the office market to worsen. By the end of 2008, we estimate that the vacancy rate increased to 20%. We expect the vacancy rate to increase further into 2009, reaching nearly 22% by the end of the year. The lack of construction activity will help to prevent the vacancy rate from increasing beyond this level. However, even with robust employment growth expected late in the forecast period, we expect that oversupply will continue and the vacancy rate will not fall below the high teens.

The average asking rent increased 2.1% year-to-date through the third quarter; however much of this increase is attributable to new construction deliveries available at top-of-the-market rents. To underscore this analysis, the asking rent in the CBD, which offered no new construction in 2008, fell 0.7% by the third quarter. In the suburbs, where new construction deliveries were nearly 1.1 million square feet in the first three quarters, the average asking rent increased 2.8% in spite of a 5.4 percentage-point increase in the vacancy rate. As construction deliveries taper off, we expect this effect to diminish. In 2009, we expect asking rents to stabilize though effective rents are likely to decrease as the size of concession packages increase.

Overall Office Risk Assessment

2008-2009: High
2010-2012: Medium-High

CBD Office Market

Total Stock (SF, 000): 9,582
Vacancy Rate: 15.0%
Rent/Sq. Ft.: \$32.04

Avg. New Construction (SF, 000)

2003-2007: 144
2008-2012(f): 0

Avg. Net Absorption (SF, 000)

2003-2007: 73
2008-2012(f): 30

Vacancy Rate

2007: 13.4%
2012(f): 11.8%

Suburban Office Market

Total Stock (SF, 000): 45,326
Vacancy Rate: 19.5%
Rent/Sq. Ft.: \$29.15

Avg. New Construction (SF, 000)

2003-2007: 1,275
2008-2012(f): 531

Avg. Net Absorption (SF, 000)

2003-2007: 925
2008-2012(f): -109

Vacancy Rate

2007: 14.1%
2012(f): 20.2%

CBD Demand/Supply Drivers

- The vacancy rate increased to 15%, 70 basis points higher than in the second quarter and 160 basis points higher than the fourth quarter of 2007. In 2009, we expect the vacancy rate to increase to 16% by the end of the year.
- The CBD is set to produce negative absorption in 2008 as a result of tenants downsizing or closing offices. Additionally, some smaller tenants are downgrading space or relocating to suburban submarkets in order to decrease lease expenses. We expect continued weakness in the finance and legal industries to further reduce tenant demand.

Investment Climate

- In the second half of the year, investment activity contracted further. In the 12 months ending in November, property transactions totaled just \$1.25 billion, a decrease of more than 78.5% from the same period in 2007. The average price per square foot also fell to \$333 in November, down from \$362 in 2007.
- Investment activity in the CBD was limited throughout 2008. With market fundamentals weak and leverage virtually nonexistent, we expect transaction activity to remain muted at best.

Suburban Demand/Supply Drivers

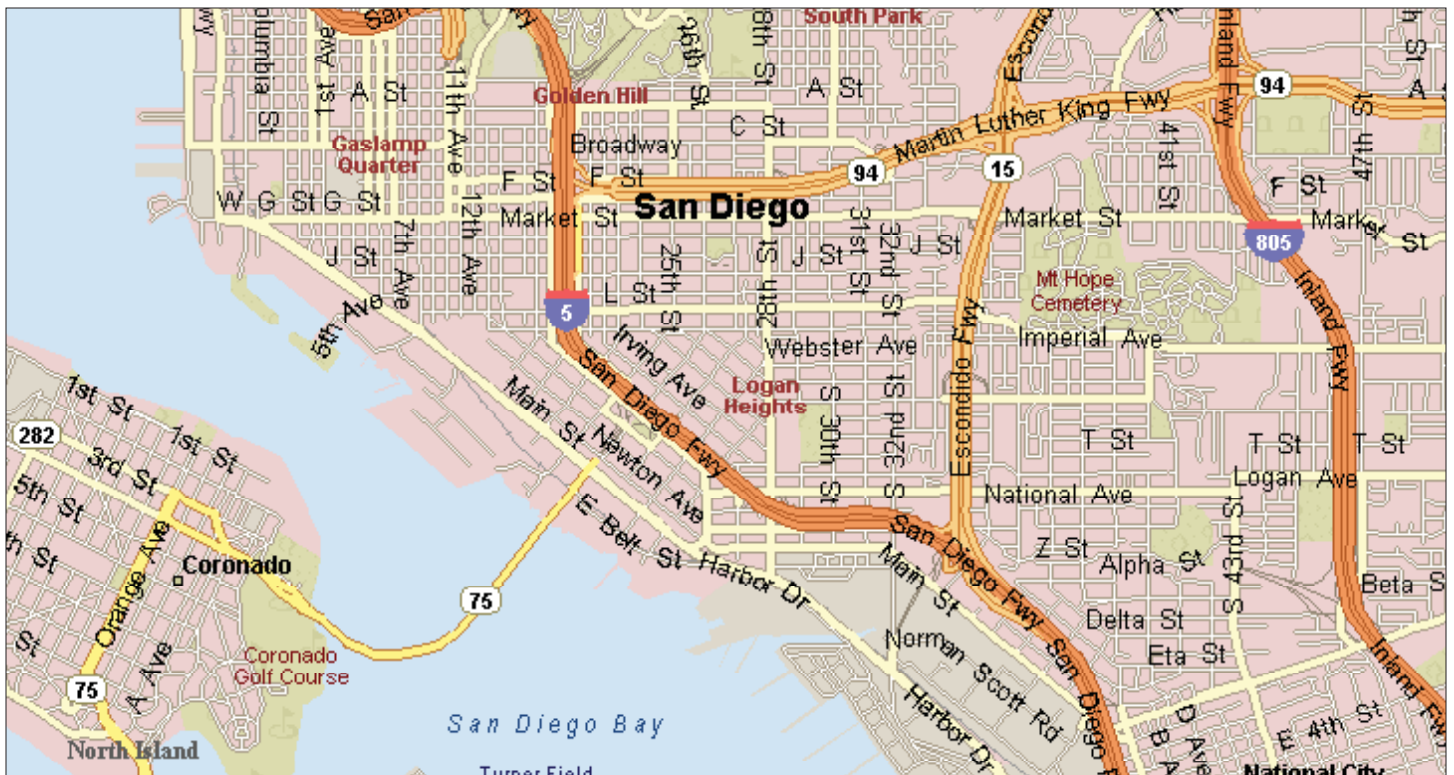
- The vacancy rate increased to 19.5% in the third quarter, 120 basis points higher than the previous quarter and 540 basis points higher than at the end of 2007. Defense and health-related firms have signed many of the largest leases in the last year. While many of these leases were expansions, several were relocations. As these tenants move into their new space, it remains to be seen whether the market will be able to absorb these large blocks of space.
- The suburban market remains oversupplied. By the end of 2008, we expect new construction activity to exceed 1.5 million square feet. Combined with activity during the past three years, when there were more than 5.1 million square feet of deliveries, this would equate to an increase in inventory of nearly 17%.

Market Risks/Opportunities

- Thus far, San Diego's growth industries of defense, biotech and tech have produced much of the positive aspects of the market. Several firms in these sectors are displaying weak earnings or have announced layoffs, which could lead to a more significant weakening of the local office market.
- In the suburban markets, the gross oversupply could be made worse by a longer or deeper recession than expected. Should this occur, a suburban vacancy rate in the mid- to high-20% range would not be an unlikely scenario.

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Overall Office Market Statistics⁽¹⁾

		2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock	(SF,000)	47,999	49,439	51,057	53,819	54,908	55,347	55,597	55,722	55,972	56,472
New Construction	(SF,000)	539	1,440	1,618	2,762	1,088	1,528	250	125	250	500
Net Absorption	(SF,000)	1,351	1,686	610	642	(1,635)	(2,160)	(725)	420	900	1,170
Occupied Stock	(SF,000)	43,347	45,033	45,643	46,285	44,650	44,125	43,400	43,820	44,720	45,890
Vacancy Rate		9.7%	8.9%	10.6%	14.0%	18.7%	20.3%	21.9%	21.4%	20.1%	18.7%
Rent	(\$/SF)	\$23.43	\$26.44	\$27.98	\$29.06	\$29.65	\$29.39	\$29.55	\$30.32	\$31.41	\$33.03
Rent Growth		8.4%	12.8%	5.8%	3.9%	2.1%	1.1%	0.6%	2.6%	3.6%	5.2%

CBD Office Market Statistics⁽¹⁾

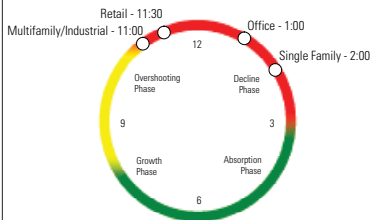
		2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock	(SF,000)	8,864	9,237	9,346	9,582	9,582	9,582	9,582	9,582	9,582	9,582
New Construction	(SF,000)	-	373	109	236	-	-	-	-	-	-
Net Absorption	(SF,000)	186	202	(52)	46	(153)	(175)	(75)	45	175	180
Occupied Stock	(SF,000)	8,101	8,304	8,252	8,298	8,145	8,123	8,048	8,093	8,268	8,448
Vacancy Rate		8.6%	10.1%	11.7%	13.4%	15.0%	15.2%	16.0%	15.5%	13.7%	11.8%
Rent	(\$/SF)	\$27.12	\$30.72	\$30.84	\$32.28	\$32.04	\$31.47	\$31.60	\$32.39	\$33.72	\$35.57
Rent Growth		8.1%	13.3%	0.4%	4.7%	-0.7%	-2.5%	0.4%	2.5%	4.1%	5.5%

Suburban Office Market Statistics⁽¹⁾

		2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock	(SF,000)	39,136	40,203	41,712	44,238	45,326	45,765	46,015	46,140	46,390	46,890
New Construction	(SF,000)	539	1,067	1,509	2,526	1,088	1,528	250	125	250	500
Net Absorption	(SF,000)	1,165	1,484	661	596	(1,481)	(1,985)	(650)	375	725	990
Occupied Stock	(SF,000)	35,246	36,729	37,391	37,987	36,505	36,002	35,352	35,727	36,452	37,442
Vacancy Rate		9.9%	8.6%	10.4%	14.1%	19.5%	21.3%	23.2%	22.6%	21.4%	20.2%
Rent	(\$/SF)	\$22.60	\$25.46	\$27.34	\$28.36	\$29.15	\$28.96	\$29.13	\$29.89	\$30.93	\$32.51
Rent Growth		8.5%	12.7%	7.4%	3.7%	2.8%	2.1%	0.6%	2.6%	3.5%	5.1%

(1) Construction, net absorption and rent growth are year-to-date values.

Real Estate Cycle



Industrial Risk Assessment

2008-2009: Medium-High
2010-2012: Medium

Current Statistics

Total Stock (SF, 000): 184,449
Vacancy Rate: 8.3%
Rent/Sq. Ft.: \$12.96

Avg. New Construction (SF, 000)

2003-2007: 3,457
2008-2012(f): 1,958

Avg. Net Absorption (SF, 000)

2003-2007: 3,173
2008-2012(f): 1,285

Vacancy Rate

2007: 7.2%
2012(f): 8.6%

Highest Overall Industrial Rents, 3Q 2008

Metro Area	Rent
San Francisco, CA	\$18.07
Honolulu, HI	\$17.76
San Jose, CA	\$15.86
San Diego, CA	\$12.96
Nassau-Suffolk, NY	\$12.40
Orange County, CA	\$10.40
Ventura, CA	\$9.60
West Palm Beach, FL	\$9.19
Fort Lauderdale, FL	\$8.59
Seattle, WA	\$8.45

Sources: Cushman & Wakefield, Various Local Brokers

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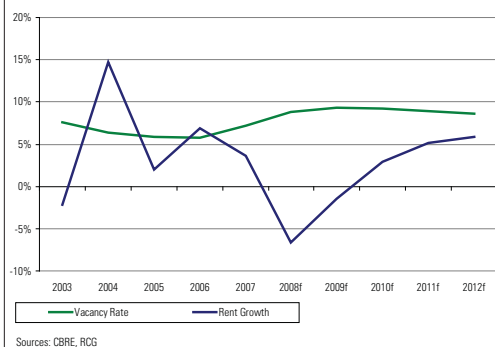
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Outlook: Industrial Market

The industrial market weakened considerably in the third quarter, with the vacancy rate increasing to 8.3%. In comparison, the vacancy rate was 7.2% just six months prior. As the recession progresses, and retailers wary of high inventory levels and consumers continuing to decrease spending, we expect tenant demand will fall further. We expect the vacancy rate to increase to more than 9% in 2009, and stabilize at this level through 2010. In 2011 and 2012, the vacancy rate should improve slightly, though occupancy gains are likely to be offset by increased construction activity.

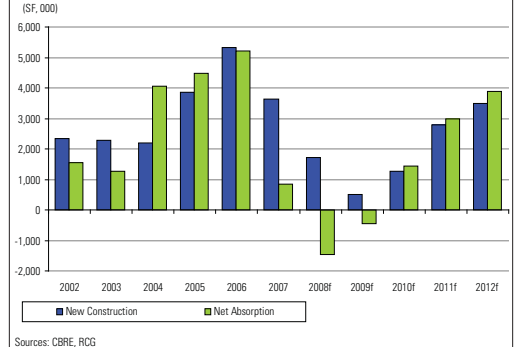
As the amount of available space rapidly increased, a significant amount of downward pressure was placed on asking rents. By the third quarter, the average asking rent contracted by 4.4%, falling to levels prior to 2006. We expect additional decreases in asking rents through 2009, with more significant decreases in effective rents due to increased usage of concession packages. Late in the forecast period, we expect that the expanding economy will lead to sharp increases in the asking rent, averaging nearly 5.6% per year.

Industrial Vacancy Rate & Rent Growth



Sources: CBRE, RCG

Industrial Construction & Absorption



Sources: CBRE, RCG

Demand/Supply Drivers

- Developers are responding, or in some cases forced to respond due to lack of viable construction financing, to the slackened tenant demand. Construction activity slowed considerably in 2008, with an expected 1.7 million square feet of new product delivered. In contrast, more than 3.6 million square feet were delivered in 2007 and more than 5.3 million square feet were built in 2006.
- Life sciences firms, an important component of the local industrial market, are exhibiting signs of weakness. Some companies have laid off employees, while others are facing cash flow problems due to a drop off in venture capital and other sources of financing. In the third quarter, the R&D vacancy rate increased to more than 15%.

Investment Climate

- Industrial investment activity plummeted further through the end of 2008. In November, 12-month sales volume totaled \$462.8 million, a decrease of 75.5% from the same period in 2007. The 12-month average price per square

foot increased slightly to \$174 from a low of \$147 in August. San Diego industrial properties continue to command a premium to the national average.

Market Risks/Opportunities

- The length and depth of the recession poses the largest risk to the industrial market. Many firms sought to reign in costs far in advance of the rest of the country as the local economy weakened in 2006 and 2007. Incoming products from Mexico are likely to fall further as distribution locally or to other parts of the nation slows due to declining consumer and corporate demand.
- Although weakening in recent months, the life sciences cluster centered in La Jolla should provide a stable source of demand. Despite our diminished near-term expectations for this industry in San Diego, the infrastructure and human capital in these submarkets should ensure demand for high-priced R&D space.

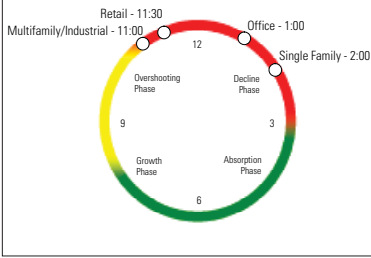


Overall Industrial Market Statistics⁽¹⁾

		2004	2005	2006	2007	2008Q3	2008f	2009f	2010f	2011f	2012f
Stock	(SF,000)	170,427	174,288	179,626	183,246	184,449	184,963	185,463	186,738	189,538	193,038
New Construction	(SF,000)	2,185	3,861	5,338	3,621	1,203	1,717	500	1,275	2,800	3,500
Net Absorption	(SF,000)	4,064	4,485	5,203	845	(913)	(1,475)	(450)	1,450	3,000	3,900
Occupied Stock	(SF,000)	159,519	164,005	169,207	170,052	169,140	168,577	168,127	169,577	172,577	176,477
Vacancy Rate		6.4%	5.9%	5.8%	7.2%	8.3%	8.9%	9.3%	9.2%	8.9%	8.6%
Rent	(\$/SF)	\$12.00	\$12.24	\$13.08	\$13.56	\$12.96	\$12.67	\$12.48	\$12.84	\$13.50	\$14.30
Rent Growth		14.7%	2.0%	6.9%	3.7%	-4.4%	-6.6%	-1.5%	2.9%	5.2%	5.9%

(1) Construction, net absorption and rent growth are year-to-date values.

Real Estate Cycle



Overall Retail Risk Assessment

2008-2009: Medium
2010-2012: Low

Current Statistics

Total Stock (SF, 000): 54,665
Vacancy Rate: 3.0%
Rent/Sq. Ft.: \$28.32

Avg. New Construction (SF, 000)

2003-2007: 1,318
2008-2012(f): 797

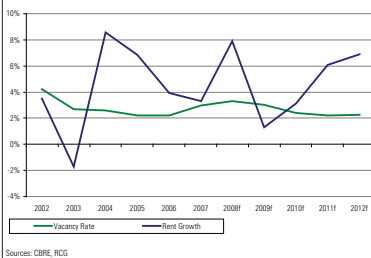
Avg. Net Absorption (SF, 000)

2003-2007: 1,393
2008-2012(f): 859

Vacancy Rate

2007: 3.0%
2012(f): 2.3%

Retail Vacancy Rate & Rent Growth



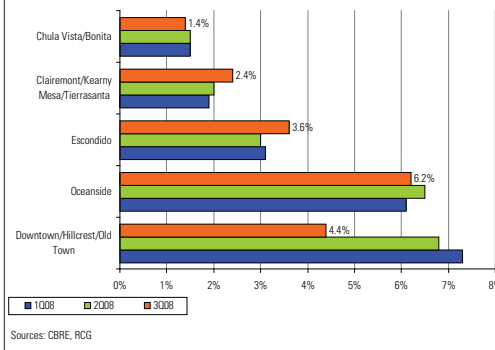
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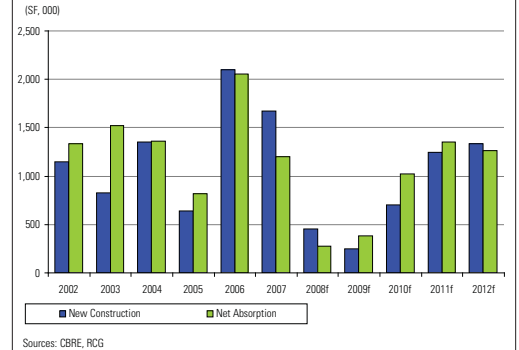
Outlook: Retail Market

The effects of the recession, including layoffs and decreased consumer spending, are weakening the retail market. The vacancy rate remained stable at 3% in the third quarter and has moved little in the last year. Although we do not expect much increase in the vacancy rate through 2009, tenant demand will be weakened, particularly with the closure of large national chain stores. As the mid- and large-format stores such as Circuit City, Mervyns and Shoe Pavilion become vacant, it will be interesting to note whether the market can absorb this space. In some neighborhoods, these sites will provide opportunities to stores such as Kohl's, which is seeking to gain a foothold in the market. Once the economy returns to an expansion mode, we expect the vacancy rate to decrease to the low-2% range in 2010 through 2012.

Retail Submarket Vacancy Rates



Retail Construction & Absorption



Demand/Supply Drivers

- With households unable to tap into home equity, should any actually exist after the median home price declines, spending will be further curtailed. Additionally, not only are some consumers unwilling to spend in light of the economic environment, but many credit cards have had their limits lowered. Although this is preventing consumers from going further into debt, this is also reducing retail sales.
- Tourists typically provide a welcome boost to local retail sales. Year-to-date through November 2008, the number of total visitors fell 1.4% to slightly more than 28.8 million. From September through November, visitor spending totaled only \$1.6 billion, down 7.4% from the same months in 2007. Additionally, convention attendance was down 2.7% from the previous year, while delegate spending was down 3.9% from the same period in 2007.

Investment Climate

- The weak retail market and lack of affordable financing options continued to suppress investment activity. In the 12 months ending in November, nearly \$232.4 million of retail properties were sold, a decrease of 75.3% from the same period one year ago. The average price per square foot rebounded slightly in

November and reached \$262, up from a low of \$237 in August.

- The average cap rate continues to fluctuate around the 6% level. With little sales activity occurring, the cap rate figure is somewhat misleading. We expect that average cap rate will rise throughout 2009.

Market Risks/Opportunities

- Consumer confidence remains at historic lows and additional job losses are expected in the coming year, following the weak holiday retail season. The next year is expected to be difficult at best for area retailers. However, a significant economic stimulus plan and a solution to the housing crisis could produce a quick turnaround in consumer expenditures, benefiting the local retail market.
- As retailers and their customers become accustomed to reduced inventories and less shelf product, a movement to reduce the size of stores may follow suit. Should this trend materialize, more tenants will fit into existing centers and it may become more difficult to fill large blocks of space.



Overall Retail Market Statistics⁽¹⁾

		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008Q3</u>	<u>2008f</u>	<u>2009f</u>	<u>2010f</u>	<u>2011f</u>	<u>2012f</u>
Stock	(SF,000)	49,873	50,510	52,613	54,284	54,665	54,736	54,986	55,686	56,936	58,271
New Construction	(SF,000)	1,350	637	2,103	1,671	381	452	250	700	1,250	1,335
Net Absorption	(SF,000)	1,363	822	2,057	1,200	370	275	385	1,025	1,350	1,260
Occupied Stock	(SF,000)	48,576	49,398	51,455	52,655	53,025	52,930	53,315	54,340	55,690	56,950
Vacancy Rate		2.6%	2.2%	2.2%	3.0%	3.0%	3.3%	3.0%	2.4%	2.2%	2.3%
Rent	(\$/SF)	\$22.80	\$24.36	\$25.32	\$26.16	\$28.32	\$28.23	\$28.59	\$29.48	\$31.28	\$33.44
Rent Growth		8.6%	6.8%	3.9%	3.3%	8.3%	7.9%	1.3%	3.1%	6.1%	6.9%

(1) Construction, net absorption and rent growth are year-to-date values.

San Diego, CA

Explanatory Notes for Data Tables

Economic Indicators	Comments	Source*
Employment	Quarterly columns are percent change between indicated monthly level. Annual data are year-end.	Bureau of Labor Statistics
Unemployment	Quarterly columns reflect seasonally adjusted rate for the indicated month. Annual data are year-end.	Bureau of Labor Statistics
Income	All income concepts are annual averages.	Bureau of Economic Analysis
Demographic Indicators		
Population	Data through 2000 are from the Census Bureau intercensal data calculated by RCG until new MSA intercensal estimates are released by the Census Bureau.	Bureau of the Census
Net Migration	Calculated by RCG by netting out natural increase (births less deaths) from population growth.	Bureau of the Census
Households	All intercensal data are calculated by RCG.	Bureau of the Census
Household Market Activity		
Existing Median Price	Quarterly columns are percent change between indicated quarter and year-ago levels. Annual data are averages.	California Assoc. of Realtors
FHLMC Paired Sales Price Index	Quarterly columns are percent change between quarter and year-ago levels. Annual data are averages.	Federal Home Loan Mtg. Corp.
Affordability	Based on FHLMC 30-year, fixed interest rate mortgage, 80% LTV, HH income, and median existing home price.	RCG
Housing Stock	Stock increased by permits in intercensal years.	Bureau of the Census, RCG
Housing Permits	Quarterly numbers are year-to-date.	Bureau of the Census
Rental Vacancy Rate	Small sample of all units.	Bureau of the Census
Rental CPI	Rent of primary residence component of CPI.	Bureau of Labor Statistics
Commercial Real Estate Markets		
Office Market Data:	All competitive office buildings 10,000 square feet and greater in size, excluding government, medical and single-tenant, owner-occupied buildings.	CB Richard Ellis
Industrial Market Data:	All competitive industrial buildings 1,000 square feet and greater in size.	CB Richard Ellis
Retail Market Data:	All competitive retail centers 50,000 square feet and greater in size, excluding regional malls and centers.	CB Richard Ellis
All Variables:	New construction and net absorption reflect year-to-date totals. Vacancy and rents are as of the end of the current quarter. Rents are weighted by the amount of available space.	

* All 2008 to 2012 data are forecasts by RCG.