



Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

Vacancy



UP

Net Absorption

DOWN



Lease Rates

DOWN



Construction

DOWN



Transactions

DOWN



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Market Highlights

- ◆ The Orange 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.
- ◆ During the first quarter of 2009, Orange County has added two office buildings totaling 120,000 square feet, which is a good sign. Over the past three years, seven million square feet of new construction has been completed in Orange County. The record year for new development was 1988, when 5.7 million square feet of new space was added, and vacancy rates were approximately 24%.
- ◆ Total space under construction checked in at 173,209 square feet at the end of the first quarter, which is almost 80% lower than the amount that was under construction this same time last year. The slowdown in construction will ease the upward pressure on vacancy going forward.
- ◆ The office vacancy rate (for direct and sublease space) finished the year at 15.58%, constituting an increase over last year's rate of 13.28%. This increase is a result of the new construction coupled with a slowing economy. This 15.58% rate is noticeably less than the 17.2% vacancy rate in the first quarter of 2002, which was the last time a large amount of new construction was added to the market.
- ◆ The total amount of office space available in Orange County, including both direct and sublease space, was 22.41% this quarter, up from the 18.69% we saw this same quarter last year. This is an increase of almost 20% of new space being marketed in Orange County when compared to the same quarter last year.
- ◆ The average asking Full Service Gross (FSG) lease rate per month per foot in Orange County is currently \$2.37, which is a 13.19% decrease over last year's rate of \$2.73. The record high rate of \$2.77 was established in the fourth quarter of 2008. This is ten cents lower than last quarter's rate. Class A rates for the county are averaging \$2.55 FSG and are the highest in the Airport market, where class A rates are averaging \$2.77 FSG.
- ◆ Net absorption for the county posted a negative 691,274 square feet for the first quarter of 2009, giving the office market a total of 3.4 million square feet of negative absorption over the last eight quarters. This negative absorption can be attributed to the recent job losses as finance companies continue to consolidate.
- ◆ Activity for the first quarter of 2009 checked in at just over 2 million square feet, compared to an average quarterly activity level in 2008 which was 2.9 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 hinges on how the recession progresses and how quickly credit eases up.
- ◆ According to the State of California Employment Development Department, Orange County lost 72,300 payroll jobs over the last twelve months - 19,000 in retail trade, transportation and utilities services. Between January 2009 and February 2009 Orange County lost 1,800 jobs. 6,500 jobs were lost in construction and retail trade. However, we saw employment rise in the government sector by 4,000 jobs as well as in educational and health services, in which there were 1,700 new jobs.
- ◆ The unemployment rate in Orange County was 7.8% in February 2009, up from a revised 7.6% in January 2009, and above the year ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 10.9% for California and 8.9% for the nation during the same period.
- ◆ Lease rates are expected to remain soft 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.

OFFICE MARKET OVERVIEW

	1Q2009	4Q2008	1Q2008	% CHANGE VS. 1Q08
Under Construction	173,209	247,965	865,363	-79.98%
Planned Construction	5,516,757	5,551,757	10,008,304	-44.88%
Vacancy	15.58%	14.88%	13.78%	13.06%
Availability	22.37%	21.85%	18.69%	19.69%
Avg. Ask Lease Rate	\$2.37	\$2.47	\$2.73	-13.19%
Sale & Lease Transactions	2,056,760	3,211,815	2,487,601	-17.32%
Net Absorption	-687,011	-57,013	-760,105	N/A
Gross Absorption	2,553,121	2,678,884	2,321,587	9.97%

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RECENT TRANSACTIONS

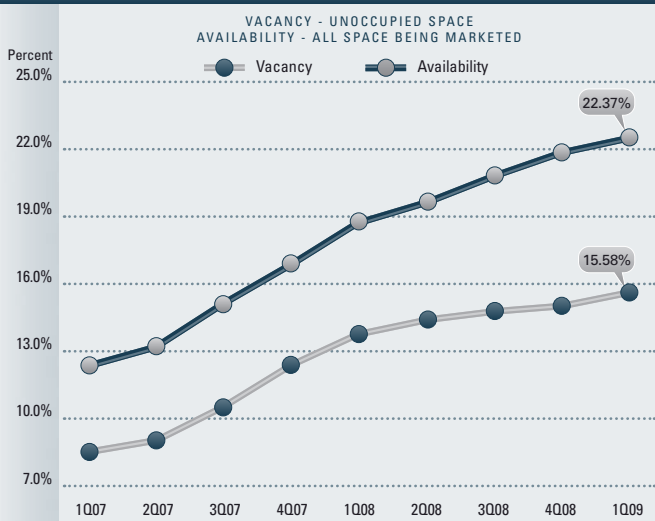
Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
18581 Teller Ave., Irvine	Airport	B	86,785	\$21,800,000	Allergan, Inc.	Maguire Properties
16355 Laguna Canyon Road, Irvine	South	A	115,020	\$20,000,000	University College of Chapman	Prudential Ins of America
255 W Central Ave., Brea	North	B	11,800	\$2,615,000	JDO Professional Plaza LLC	Cacciapaglia Family Trust
16441 Scientific Way - Bldg 25, Irvine	South	B	9,900	\$2,475,000	SW Management LLC	Bacchus Commercial LLC

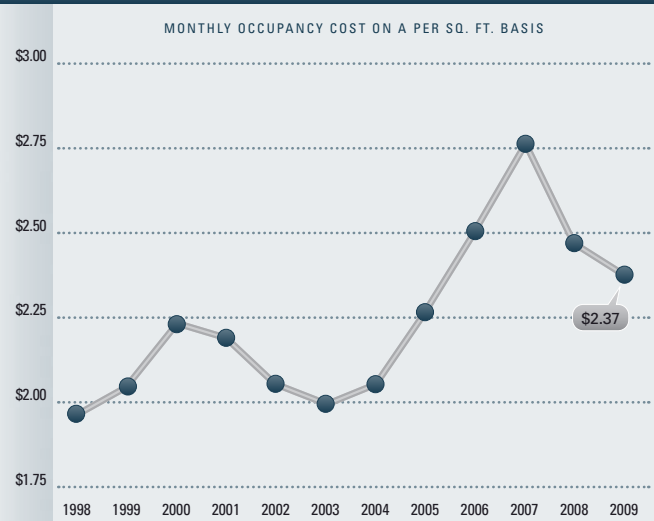
Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16355 Laguna Canyon Road, Irvine	South	A	115,020	February-09	Chapman University	UC Chapman
6501 Irvine Center Drive, Irvine	South	B	64,006	February-09	AHMSI	The Irvine Company
7535 Irvine Center Drive, Irvine	South	B	53,794	February-09	N/A	The Irvine Company
20 Pacifica, Irvine	South	A	43,277	January-09	KPMG	The Irvine Company

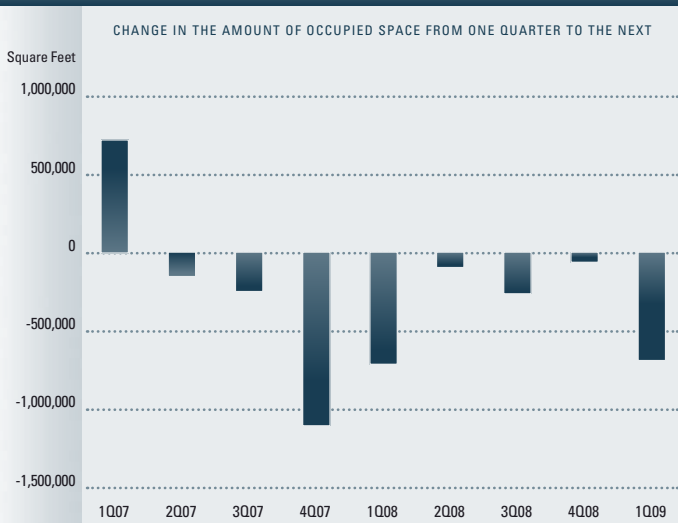
VACANCY & AVAILABILITY RATE



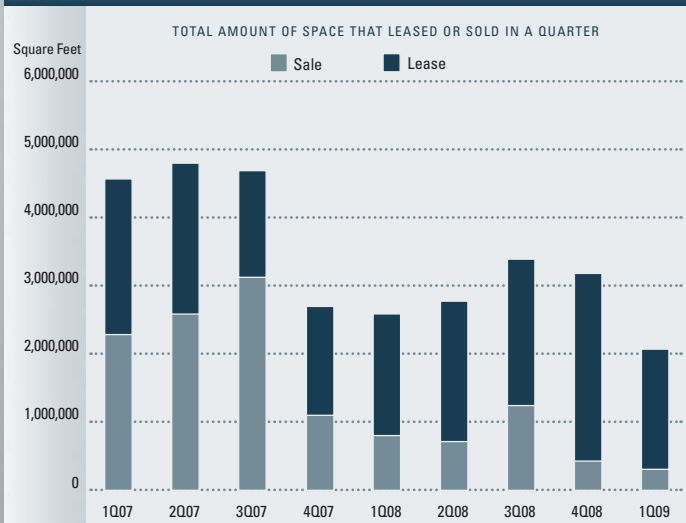
AVERAGE ASKING FULL SERVICE LEASE RATE



NET ABSORPTION



SALES & LEASE TRANSACTIONS



CONSTRUCTION UPDATE

Under Construction

Property Address	Submarket	Class	Square Feet	# of Floors	Estimate Delivery	Recorded Owner
1525 N Tustin Ave	Central	A	81,646	4	August-09	The Muller Company
22 Odyssey - Odyssey Medical	South	A	51,863	2	June-09	EDC Development
1375 Dove Street	Airport	B	21,700	3	April-09	Palm Springs Village-309 LLC
2825 Laguna Canyon Road	South	B	9,500	1	May-09	Molto Bello Properties LLC

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
1325 N Anaheim Blvd., Anaheim	Central	A	90,000	3	January-09	Karcher Partners
9191 Westminster, Garden Grove	West	B	30,000	3	January-09	Anmi Group LLC
40 Pacifica, Irvine Spectrum	South	A	312,187	14	April-08	The Irvine Company
45 Enterprise, Aliso Viejo	South	A	246,600	8	April-08	Pacific Life

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.

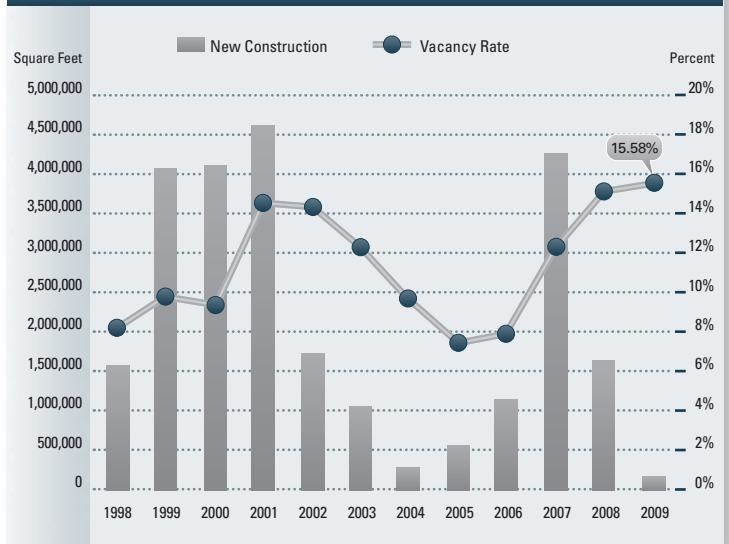
CLASS B

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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