



Office Market Report

VOIT COMMERCIAL BROKERAGE

Compared to last quarter:

Vacancy



UP

Absorption

DOWN

Lease Rates

DOWN

Construction

DOWN

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Market Highlights

- ◆ The Orange County office market is undergoing changes due to reaction to the mortgage/housing industry, the completion of new supply and the general slow down of the US economic environment. 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 half of 2008, Orange County has added just over 1.4 million square feet of new office development, most of which was in the Airport and South County submarkets. The record year for new development was 1988, when 5.7 million square feet of new space was added to Orange County, and vacancy rates were approximately 24%. We are a long way from those records.
- ◆ Total space under construction checked in at 325,276 square feet at the end of the second quarter, which is 90% lower than the amount that was under construction this same time last year. It is estimated that a total of 1.7 million square feet of new construction will be completed this year, most of which has already been delivered. This will put less pressure on the recent rise in the vacancy rate.
- ◆ The office vacancy rate (for direct and sublease space) finished the quarter at 14.46%, constituting an increase over last year's second quarter low rate of 8.95%. This increase is a result of the new construction coupled with a slowing economy, as financial markets correct. This 14.46% 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 19.76% this quarter, up from the 13.20% we saw this same quarter last year.
- ◆ The average asking Full Service Gross (FSG) lease rate per month per foot in Orange County is currently \$2.69, which is a 3.80% decrease over last year's second quarter rate of \$2.76. This is 4 cents lower than last quarter's rate. Class A rates for the county are averaging \$2.93 FSG and are the highest in the Airport market, where class A rates are averaging \$3.12 FSG. The upward trend has already begun to ease as we enter the second half of 2008.
- ◆ Net absorption for the county posted a negative 295,436 square feet for the second quarter of 2008, giving the office market a total of 1.1 million square feet of negative absorption for the first half of this year. Last year Orange County had a total of 947,370 square feet of negative absorption. This negative absorption can be attributed to the credit crunch and finance companies consolidating.
- ◆ Gross absorption or activity for the second quarter of 2008 was about the same as last quarter, checking in at just over 2.3 million square feet, compared to an average quarterly gross activity level in 2007 of 3.2 million and of 2.8 million in 2006. 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 2008, continuing into 2009 from pent up demand.
- ◆ According to the State of California Employment Development Department, Orange County lost 21,000 payroll jobs over the last twelve months, most of which were in financial services. However, between April 2008 and May 2008 Orange County gained 3,300 jobs, mostly in the government, leisure and hospitality sectors. Going forward, Chapman University is forecasting 18,000 payroll jobs will be lost in 2008, with a gain of 14,000 jobs in 2009.
- ◆ The unemployment rate in Orange County was 4.8% in May 2008, up from a revised 4.4% percent in April 2008, but above the year ago estimate of 3.5%. This compares with an unadjusted unemployment rate of 6.5 percent for California and 5.2 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

	2Q2008	1Q2008	2Q2007	% CHANGE VS. 2Q07
Under Construction	325,276	865,363	3,530,169	-90.79%
Planned Construction	9,887,771	10,008,304	4,229,652	133.77%
Vacancy	14.46%	13.82%	8.95%	61.56%
Availability	19.76%	18.69%	13.20%	49.70%
Pricing	\$2.69	\$2.73	\$2.76	-2.54%
Absorption	-295,436	-801,955	-118,862	N/A
Activity	2,368,448	2,301,551	3,491,099	-32.16%

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RECENT TRANSACTIONS

Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
Dupont Center, Irvine - 2 Properties	Airport	A	249,258	\$80,100,000	KBS Realty Advisors	MS Crescent Two SPV, LLC
Plaza Pacificare, Cypress	West	A	104,000	\$25,700,000	G&E Healthcare REIT	TA Associates Realty
The Landmark Bldg, Irvine	Airport	A	89,041	\$24,977,000	M2 2100 LP (TIC)	West Bay Irvine Properties
901 Civic Center Bldg, Santa Ana	Central	B	99,000	N/A	NNN VF 901 Civic LLC	N/A

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
17360 Brookhurst St, Fountain Valley	West	B	98,850	February-08	Memorial Care	FV City Center, LLC
15101 Red Hill Ave., Tustin	Central	B	48,000	June-08	Medical Capital Corp.	15101 Holdings LLC
3161 Michelson Drive, Irvine	Airport	A	48,000	January-08	Bryan Cave, LLP	Maguire Properties
2677 N Main Street, Santa Ana	Central	A	44,024	March-08	N/A	Mullrock 4 LLC

VACANCY RATE



AVERAGE ASKING FULL SERVICE LEASE RATE



NET ABSORPTION



GROSS ABSORPTION



INVENTORY					VACANCY & LEASE RATES				ABSORPTION				
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2008	Square Feet Available	Availability Rate 2Q2008	Average Asking Lease Rate	Net Absorption 2Q2008	Net Absorption 2008	Net Absorption 2007	Net Absorption 2006
North County													
Anaheim Hills	11	703,755	75,000	0	53,703	7.63%	214,859	30.53%	\$2.03	(2,269)	(41,115)	8,994	3,541
Brea	43	3,410,675	0	120,000	819,710	24.03%	819,498	24.03%	\$2.45	(19,078)	(239,644)	(292,999)	128,295
Buena Park	11	649,061	0	0	65,408	10.08%	94,422	14.55%	\$1.96	(6,136)	3,923	(4,563)	(2,753)
Fullerton	30	2,191,316	0	0	213,972	9.76%	251,585	11.48%	\$1.98	(43,820)	(67,235)	(17,486)	(30,143)
La Habra	7	376,859	0	0	12,895	3.42%	12,895	3.42%	\$1.60	(994)	(9,844)	3,440	4,489
La Palma	8	599,687	0	0	52,245	8.71%	53,529	8.93%	\$2.37	(17,794)	(8,792)	(20,649)	6,815
Placentia	6	198,859	28,000	0	21,232	10.68%	21,232	10.68%	\$1.96	(9,668)	(4,832)	(5,576)	4,732
Yorba Linda	5	233,684	0	0	22,496	9.63%	41,027	17.56%	\$2.11	(6,248)	(8,711)	(5,522)	4,068
North County Total	121	8,363,896	103,000	120,000	1,261,661	15.08%	1,509,047	18.04%	\$2.32	(106,007)	(376,250)	(334,361)	119,044
West County													
Cypress	28	2,091,847	0	0	217,613	10.40%	244,015	11.67%	\$2.07	(11,870)	(31,849)	(63,730)	66,946
Fountain Valley	34	1,694,508	0	0	189,625	11.19%	199,334	11.76%	\$2.12	24,358	19,506	(29,669)	(76,147)
Garden Grove	20	899,580	0	0	94,923	10.55%	97,771	10.87%	\$1.71	915	44,365	(13,543)	(10,187)
Huntington Beach	43	2,373,912	0	0	272,605	11.48%	341,527	14.39%	\$2.42	(46,882)	(46,101)	(49,407)	(8,858)
Los Alamitos	13	562,154	0	0	12,291	2.19%	14,680	2.61%	\$1.99	700	1,400	3,855	(17,546)
Seal Beach	7	482,838	0	0	55,018	11.39%	69,379	14.37%	\$2.77	(7,762)	(19,807)	(27,132)	5,276
Stanton	2	85,917	0	0	4,087	4.76%	5,161	6.01%	\$0.00	2,184	583	483	(1,552)
Westminster	16	688,772	0	0	55,883	8.11%	72,055	10.46%	\$2.20	(22,408)	(30,422)	26,857	(27,640)
West County Total	163	8,879,528	0	0	902,045	10.16%	1,043,922	11.76%	\$2.29	(60,765)	(62,325)	(152,286)	(69,708)
Central County													
Anaheim	89	5,963,989	0	1,052,075	510,949	8.57%	870,988	14.60%	\$2.41	(59,693)	(40,147)	122,207	(231,219)
Orange	74	6,808,285	0	66,000	1,277,824	18.77%	1,474,747	21.66%	\$2.67	(201,354)	(360,423)	(508,046)	6,986
Santa Ana	176	12,890,908	127,276	785,320	1,680,333	13.04%	2,294,832	17.80%	\$2.17	(17,064)	(148,747)	(580,311)	89,187
Tustin	43	1,883,445	0	5,211,000	213,440	11.33%	336,381	17.86%	\$2.05	40,242	5,325	212,182	(63,502)
Central County Total	382	27,546,627	127,276	7,114,395	3,682,546	13.37%	4,976,948	18.07%	\$2.39	(237,869)	(543,992)	(753,968)	(198,548)
Airport Area													
Costa Mesa	69	6,419,613	0	678,660	869,234	13.54%	1,445,767	22.52%	\$2.77	(43,288)	(103,223)	(110,121)	85,038
Irvine	285	25,590,681	0	1,127,016	4,696,830	18.35%	6,478,944	25.32%	\$2.96	354,179	108,954	613,269	(14,547)
Newport Beach	129	9,603,697	40,000	0	781,656	8.14%	1,176,863	12.25%	\$3.30	(114,036)	(129,709)	(163,339)	383,273
Airport Area Total	483	41,613,991	40,000	1,805,676	6,347,720	15.25%	9,101,574	21.87%	\$2.99	196,855	(123,978)	339,809	453,764
South County													
Aliso Viejo	48	3,576,244	0	722,000	368,708	10.31%	607,936	17.00%	\$3.09	20,056	265,432	93,394	(27,873)
Dana Point	3	135,296	0	0	3,600	2.66%	3,600	2.66%	\$0.00	0	(2,400)	(1,200)	0
Foothill Ranch	10	785,960	0	0	332,599	42.32%	515,341	65.57%	\$2.58	(63,624)	(127,907)	(90,212)	(59,085)
Irvine Spectrum	116	7,818,559	0	125,700	1,677,120	21.45%	2,112,863	27.02%	\$2.85	74,809	62,440	(210,144)	121,532
Laguna Beach	5	193,268	0	0	983	0.51%	983	0.51%	\$0.00	0	(983)	3,012	5,141
Laguna Hills	32	1,730,510	0	0	212,571	12.28%	263,765	15.24%	\$2.36	(20,004)	(50,149)	(74,574)	16,641
Laguna Niguel	10	666,607	0	0	70,468	10.57%	106,158	15.93%	\$2.46	(16,125)	(24,027)	(2,724)	(8,318)
Lake Forest	44	2,233,028	0	0	279,783	12.53%	431,602	19.33%	\$2.09	(45,713)	(77,627)	5,325	(19)
Mission Viejo	39	2,053,752	55,000	0	201,573	9.81%	324,849	15.82%	\$2.47	(16,927)	(23,635)	149,584	18,618
Rancho Santa Margarita	7	276,030	0	0	61,482	22.27%	70,483	25.53%	\$2.23	(1,224)	(12,488)	14,885	9,713
San Clemente	10	387,756	0	0	17,615	4.54%	26,289	6.78%	\$2.40	(806)	(5,047)	3,671	14,773
San Juan Capistrano	17	834,743	0	0	65,412	7.84%	67,037	8.03%	\$2.24	(18,092)	(741)	62,419	162,854
South County Total	341	20,691,753	55,000	847,700	3,291,914	15.91%	4,530,906	21.90%	\$2.65	(87,650)	2,868	(46,564)	253,977
Orange County Total	1,490	107,095,795	325,276	9,887,771	15,485,886	14.46%	21,162,397	19.76%	\$2.69	(295,436)	(1,103,677)	(947,370)	558,529

INVENTORY					VACANCY & LEASE RATES				ABSORPTION				
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2008	Square Feet Available	Availability Rate 2Q2008	Average Asking Lease Rate	Net Absorption 2Q2008	Net Absorption 2008	Net Absorption 2007	Net Absorption 2004
North County													
Class A	22	2,349,087	75,000	120,000	450,451	19.18%	497,734	21.19%	\$2.65	(7,803)	(267,213)	(142,091)	204,718
Class B	88	5,616,982	28,000	0	799,889	14.24%	994,071	17.70%	\$2.11	(95,974)	(103,630)	(197,812)	(78,797)
Class C	11	397,827	0	0	11,321	2.85%	17,242	4.33%	\$2.04	(2,230)	(5,407)	5,542	(6,877)
West County													
Class A	30	2,922,921	0	0	322,308	11.03%	381,423	13.05%	\$2.60	(59,351)	(97,793)	8,429	(5,968)
Class B	107	4,863,628	0	0	549,722	11.30%	610,250	12.55%	\$1.92	10,433	(9,854)	(135,678)	48,517
Class C	26	1,092,979	0	0	30,015	2.75%	52,249	4.78%	\$1.35	(11,847)	45,322	(25,037)	(112,257)
Central County													
Class A	71	11,380,879	80,533	1,807,395	1,996,032	17.54%	2,634,837	23.15%	\$3.12	(304,376)	(614,706)	(470,196)	(273,846)
Class B	237	13,218,059	46,743	5,307,000	1,483,358	11.22%	2,056,177	15.56%	\$2.62	49,127	74,300	(239,803)	81,279
Class C	74	2,947,689	0	0	203,156	6.89%	285,934	9.70%	\$1.90	17,380	(3,586)	(43,969)	(5,981)
Airport Area													
Class A	136	23,480,340	0	1,315,660	4,037,264	17.19%	5,565,533	23.70%	\$3.12	41,365	(203,692)	281,622	(196,326)
Class B	315	16,814,503	40,000	490,016	2,228,098	13.25%	3,416,233	20.32%	\$2.63	148,179	31,996	72,154	651,062
Class C	32	1,319,148	0	0	82,358	6.24%	119,808	9.08%	\$1.77	7,311	47,718	(13,967)	(972)
South County													
Class A	100	9,259,714	0	722,000	1,862,489	20.11%	2,507,778	27.08%	\$2.78	11,435	235,975	(196,045)	10,105
Class B	231	11,089,308	55,000	125,700	1,416,287	12.77%	2,006,063	18.09%	\$2.39	(97,241)	(231,588)	153,533	238,757
Class C	10	342,731	0	0	13,138	3.83%	17,065	4.98%	\$1.80	(1,844)	(15,519)	(4,052)	5,115
Orange County													
Class A	359	49,392,941	155,533	3,965,055	8,668,544	17.55%	11,587,305	23.46%	\$2.93	(318,730)	(947,429)	(518,281)	(261,317)
Class B	978	51,602,480	169,743	5,922,716	6,477,354	12.55%	9,082,794	17.60%	\$2.29	14,524	(238,776)	(347,606)	940,818
Class C	153	6,100,374	0	0	339,988	5.57%	492,298	8.07%	\$1.88	8,770	82,528	(81,483)	(120,972)
Orange County Total	1,490	107,095,795	325,276	9,887,771	15,485,886	14.46%	21,162,397	19.76%	\$2.69	(295,436)	(1,103,677)	(947,370)	558,529

This survey consists of properties 25,000 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.

CONSTRUCTION UPDATE

Under Construction

Property Address	Submarket	Class	Square Feet	# of Floors	Estimate Delivery	Recorded Owner
1525 N Tustin Ave	Central	A	80,533	4	August-08	The Muller Company
160 N Riverview Drive	North	A	75,000	3	August-08	Silver Oak Development Inc.
555 Corporate Way	South	B	55,000	2	October-08	Rancho Mission Viejo
1935-1975 E 17th Street	Central	B	46,743	1	July-08	HPSC III LLC

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
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
17885 Von Karman Ave., Irvine	Airport	B	151,370	5	February-08	Maguire Properties
20 Enterprise Dr., Aliso Viejo	South	A	118,000	4	January-08	Parker / RREEF

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.

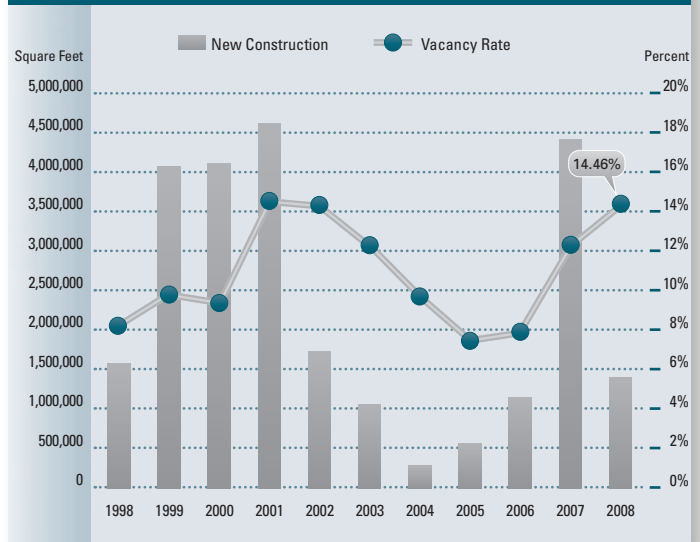
CLASS B

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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This survey consists of properties 25,000 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.