



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 credit crunch. 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 three quarters of 2008, Orange County has added just over 1.55 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 292,139 square feet at the end of the third quarter, which is almost 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 upward pressure on the recent rise in the vacancy rate.
- ◆ The office vacancy rate (for direct and sublease space) finished the quarter at 14.85%, constituting an increase over last year’s third quarter rate of 10.53%. This increase is a result of the new construction coupled with a slowing economy, as financial markets correct. This 14.85% 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 20.95% this quarter, up from the 15.11% 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 \$2.61, which is a 5.78% decrease over last year’s third quarter record high rate of \$2.77. This is five cents lower than last quarter’s rate. Class A rates for the county are averaging \$2.84 FSG and are the highest in the Airport market, where class A rates are averaging \$3.03 FSG.
- ◆ Net absorption for the county posted a negative 361,184 square feet for the third quarter of 2008, giving the office market a total of 1.37 million square feet of negative absorption for the first three quarters 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 third quarter of 2008 was lower than last quarter, checking in at just over 2.1 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 2009 from pent up demand once financial markets correct themselves.
- ◆ According to the State of California Employment Development Department, Orange County lost 26,300 payroll jobs over the last twelve months, 11,700 in financial services. Between July 2008 and August 2008 Orange County lost 3,200 jobs, 2,000 in the government sector.
- ◆ The unemployment rate in Orange County was 5.8% in August 2008, up from a revised 5.7% percent in July 2008, but above the year ago estimate of 4.2%. This compares with an unadjusted unemployment rate of 7.6 percent for California and 6.1 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.

OFFICE MARKET OVERVIEW

| | 3Q2008 | 2Q2008 | 3Q2007 | % CHANGE VS. 3Q07 |
|----------------------|-----------|-----------|-----------|-------------------|
| Under Construction | 292,139 | 325,276 | 2,294,449 | -87.27% |
| Planned Construction | 5,696,930 | 9,887,771 | 4,572,907 | 24.58% |
| Vacancy | 14.85% | 14.46% | 10.53% | 41.03% |
| Availability | 20.95% | 19.76% | 15.11% | 38.65% |
| Pricing | \$2.61 | \$2.66 | \$2.77 | -5.78% |
| Absorption | -361,184 | -197,619 | -252,559 | N/A |
| Activity | 2,129,120 | 2,444,731 | 3,485,030 | -38.91% |

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RECENT TRANSACTIONS

Sales Activity

| Property Address | Submarket | Class | Square Feet | Sale Price | Buyer | Seller |
|--------------------------------------|-----------|-------|-------------|---------------|-------------------------|----------------------------|
| Main Plaza, Irvine - 2 Properties | Airport | A | 586,544 | \$211,000,000 | SRI Nine Main Plaza LLC | Maguire Properties |
| Dupont Center, Irvine - 2 Properties | Airport | A | 249,258 | \$80,100,000 | KBS REIT | 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 |

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 |
| 3161 Michelson Drive, Irvine | Airport | A | 96,921 | September-08 | Hyundai Moters | Maguire Properties |
| 4150 N Palm | North | B | 88,664 | September-08 | Beckman Coulter | LBA Realty |
| 6 Hutton Center Drive | Central | A | 52,781 | July-08 | CH2M Hill | Maguire Properties |

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 3Q2008 | Square Feet Available | Availability Rate 3Q2008 | Average Asking Lease Rate | Net Absorption 3Q2008 | Net Absorption 2008 | Net Absorption 2007 | Net Absorption 2006 |
| North County | | | | | | | | | | | | | |
| Anaheim Hills | 10 | 497,318 | 0 | 0 | 120,624 | 24.25% | 129,805 | 26.10% | \$2.41 | (10,170) | (28,552) | 8,994 | 3,541 |
| Brea | 42 | 3,353,590 | 0 | 120,000 | 767,200 | 22.88% | 738,505 | 22.02% | \$2.37 | (2,601) | (242,245) | (292,999) | 128,295 |
| Buena Park | 11 | 649,061 | 0 | 0 | 69,823 | 10.76% | 93,390 | 14.39% | \$1.98 | (4,415) | (492) | (4,563) | (2,753) |
| Fullerton | 30 | 2,191,316 | 0 | 0 | 210,215 | 9.59% | 158,469 | 7.23% | \$1.97 | 10,202 | (63,478) | (17,486) | (30,143) |
| La Habra | 7 | 376,859 | 0 | 0 | 9,896 | 2.63% | 9,896 | 2.63% | \$1.62 | 2,999 | (6,845) | 3,440 | 4,489 |
| La Palma | 8 | 599,687 | 0 | 0 | 53,741 | 8.96% | 55,025 | 9.18% | \$2.31 | (1,496) | (10,288) | (20,649) | 6,815 |
| Placentia | 6 | 198,859 | 28,000 | 0 | 20,494 | 10.31% | 20,494 | 10.31% | \$1.95 | 738 | (4,094) | (5,576) | 4,732 |
| Yorba Linda | 5 | 233,684 | 0 | 0 | 49,767 | 21.30% | 48,414 | 20.72% | \$2.08 | (27,271) | (35,982) | (5,522) | 4,068 |
| North County Total | 119 | 8,100,374 | 28,000 | 120,000 | 1,301,760 | 16.07% | 1,253,998 | 15.48% | \$2.27 | (32,014) | (391,976) | (334,361) | 119,044 |
| West County | | | | | | | | | | | | | |
| Cypress | 28 | 2,087,906 | 0 | 0 | 203,884 | 9.76% | 256,626 | 12.29% | \$2.19 | 13,729 | (18,120) | (63,730) | 66,946 |
| Fountain Valley | 34 | 1,695,199 | 0 | 0 | 196,718 | 11.60% | 203,962 | 12.03% | \$2.18 | (7,093) | 12,413 | (29,669) | (76,147) |
| Garden Grove | 19 | 860,400 | 30,000 | 0 | 91,234 | 10.60% | 92,799 | 10.79% | \$1.71 | 3,689 | 48,054 | (13,543) | (10,187) |
| Huntington Beach | 43 | 2,373,912 | 0 | 0 | 276,903 | 11.66% | 362,188 | 15.26% | \$2.37 | (4,298) | (50,399) | (49,407) | (8,858) |
| Los Alamitos | 13 | 562,154 | 0 | 0 | 8,391 | 1.49% | 11,419 | 2.03% | \$1.95 | 3,900 | 5,300 | 3,855 | (17,546) |
| Seal Beach | 7 | 482,838 | 0 | 0 | 41,328 | 8.56% | 60,561 | 12.54% | \$2.79 | 13,690 | (6,117) | (27,132) | 5,276 |
| Stanton | 2 | 85,917 | 0 | 0 | 15,550 | 18.10% | 19,385 | 22.56% | \$1.43 | (11,463) | (10,880) | 483 | (1,552) |
| Westminster | 16 | 688,772 | 0 | 0 | 63,008 | 9.15% | 54,385 | 7.90% | \$2.17 | (7,125) | (37,547) | 26,857 | (27,640) |
| West County Total | 162 | 8,837,098 | 30,000 | 0 | 897,016 | 10.15% | 1,061,325 | 12.01% | \$2.28 | 5,029 | (57,296) | (152,286) | (69,708) |
| Central County | | | | | | | | | | | | | |
| Anaheim | 93 | 6,960,890 | 0 | 1,052,075 | 617,372 | 8.87% | 1,992,264 | 28.62% | \$2.34 | (111,965) | (143,454) | 122,207 | (231,219) |
| Orange | 75 | 6,816,017 | 0 | 66,000 | 1,344,990 | 19.73% | 1,565,924 | 22.97% | \$2.48 | (67,166) | (427,589) | (508,046) | 6,986 |
| Santa Ana | 177 | 12,935,349 | 127,276 | 785,320 | 1,673,245 | 12.94% | 2,110,730 | 16.32% | \$2.13 | 9,384 | (141,659) | (580,311) | 89,187 |
| Tustin | 43 | 1,883,445 | 0 | 1,019,200 | 271,299 | 14.40% | 355,459 | 18.87% | \$2.00 | (57,859) | (52,534) | 212,182 | (63,502) |
| Central County Total | 388 | 28,595,701 | 127,276 | 2,922,595 | 3,906,906 | 13.66% | 6,024,377 | 21.07% | \$2.29 | (227,606) | (765,236) | (753,968) | (198,548) |
| Airport Area | | | | | | | | | | | | | |
| Costa Mesa | 71 | 6,520,078 | 0 | 678,660 | 895,048 | 13.73% | 1,484,808 | 22.77% | \$2.62 | 10,186 | (87,137) | (110,121) | 85,038 |
| Irvine | 287 | 25,707,497 | 0 | 1,127,975 | 4,829,510 | 18.79% | 6,512,200 | 25.33% | \$2.83 | (132,680) | 16,912 | 613,269 | (14,547) |
| Newport Beach | 129 | 9,634,240 | 0 | 0 | 825,706 | 8.57% | 1,352,233 | 14.04% | \$3.30 | 58,598 | (60,446) | (163,339) | 383,273 |
| Airport Area Total | 487 | 41,861,815 | 0 | 1,806,635 | 6,550,264 | 15.65% | 9,349,241 | 22.33% | \$2.88 | (63,896) | (130,671) | 339,809 | 453,764 |
| South County | | | | | | | | | | | | | |
| Aliso Viejo | 47 | 3,447,368 | 0 | 722,000 | 356,443 | 10.34% | 754,936 | 21.90% | \$3.05 | 12,265 | 277,697 | 93,394 | (27,873) |
| Dana Point | 3 | 135,296 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 3,600 | 1,200 | (1,200) | 0 |
| Foothill Ranch | 10 | 786,595 | 0 | 0 | 302,214 | 38.42% | 519,272 | 66.02% | \$2.52 | 30,385 | (97,522) | (90,212) | (59,085) |
| Irvine Spectrum | 115 | 7,783,041 | 51,863 | 125,700 | 1,738,835 | 22.34% | 2,333,677 | 29.98% | \$2.80 | (61,715) | 725 | (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 | 204,196 | 11.80% | 252,987 | 14.62% | \$2.32 | (374) | (41,774) | (74,574) | 16,641 |
| Laguna Niguel | 11 | 704,637 | 0 | 0 | 79,958 | 11.35% | 89,152 | 12.65% | \$2.48 | 4,367 | (13,374) | (2,724) | (8,318) |
| Lake Forest | 41 | 2,063,426 | 0 | 0 | 280,723 | 13.60% | 464,428 | 22.51% | \$2.10 | (940) | (78,567) | 5,325 | (19) |
| Mission Viejo | 38 | 2,000,852 | 55,000 | 0 | 238,729 | 11.93% | 279,778 | 13.98% | \$2.44 | (33,762) | (60,791) | 149,584 | 18,618 |
| Rancho Santa Margarita | 6 | 251,030 | 0 | 0 | 63,000 | 25.10% | 71,144 | 28.34% | \$2.21 | (3,818) | (14,006) | 14,885 | 9,713 |
| San Clemente | 10 | 387,756 | 0 | 0 | 10,576 | 2.73% | 17,685 | 4.56% | \$2.40 | 7,039 | 1,992 | 3,671 | 14,773 |
| San Juan Capistrano | 17 | 836,529 | 0 | 0 | 65,156 | 7.79% | 89,133 | 10.66% | \$2.35 | 256 | (485) | 62,419 | 162,854 |
| South County Total | 335 | 20,320,308 | 106,863 | 847,700 | 3,340,813 | 16.44% | 4,873,175 | 23.98% | \$2.63 | (42,697) | (25,888) | (46,564) | 253,977 |
| Orange County Total | 1,491 | 107,715,296 | 292,139 | 5,696,930 | 15,996,759 | 14.85% | 22,562,116 | 20.95% | \$2.61 | (361,184) | (1,371,067) | (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 3Q2008 | Square Feet Available | Availability Rate 3Q2008 | Average Asking Lease Rate | Net Absorption 3Q2008 | Net Absorption 2008 | Net Absorption 2007 | Net Absorption 2006 |
| North County | | | | | | | | | | | | | |
| Class A | 19 | 2,129,095 | 0 | 120,000 | 430,453 | 20.22% | 471,863 | 22.16% | \$2.57 | 8,639 | (247,215) | (142,091) | 204,718 |
| Class B | 89 | 5,573,452 | 28,000 | 0 | 861,920 | 15.46% | 766,827 | 13.76% | \$2.05 | (42,587) | (141,288) | (197,812) | (78,797) |
| Class C | 11 | 397,827 | 0 | 0 | 9,387 | 2.36% | 15,308 | 3.85% | \$2.04 | 1,934 | (3,473) | 5,542 | (6,877) |
| West County | | | | | | | | | | | | | |
| Class A | 30 | 2,918,980 | 0 | 0 | 327,898 | 11.23% | 425,413 | 14.57% | \$2.55 | (5,590) | (103,383) | 8,429 | (5,968) |
| Class B | 106 | 4,825,139 | 30,000 | 0 | 528,776 | 10.96% | 591,925 | 12.27% | \$1.92 | 20,946 | 11,092 | (135,678) | 48,517 |
| Class C | 26 | 1,092,979 | 0 | 0 | 40,342 | 3.69% | 43,987 | 4.02% | \$1.43 | (10,327) | 34,995 | (25,037) | (112,257) |
| Central County | | | | | | | | | | | | | |
| Class A | 75 | 11,701,326 | 80,533 | 1,807,395 | 2,204,296 | 18.84% | 2,746,207 | 23.47% | \$2.57 | (143,400) | (747,970) | (470,196) | (273,846) |
| Class B | 239 | 13,946,686 | 46,743 | 1,115,200 | 1,456,789 | 10.45% | 2,973,279 | 21.32% | \$2.02 | (41,541) | 28,985 | (239,803) | 81,279 |
| Class C | 74 | 2,947,689 | 0 | 0 | 245,821 | 8.34% | 304,891 | 10.34% | \$1.84 | (42,665) | (46,251) | (43,969) | (5,981) |
| Airport Area | | | | | | | | | | | | | |
| Class A | 136 | 23,677,294 | 0 | 1,315,660 | 4,232,771 | 17.88% | 5,666,903 | 23.93% | \$3.03 | (195,507) | (399,199) | 281,622 | (196,326) |
| Class B | 320 | 16,891,944 | 0 | 490,975 | 2,240,081 | 13.26% | 3,554,873 | 21.04% | \$2.48 | 126,665 | 215,864 | 72,154 | 651,062 |
| Class C | 31 | 1,292,577 | 0 | 0 | 77,412 | 5.99% | 127,465 | 9.86% | \$1.94 | 4,946 | 52,664 | (13,967) | (972) |
| South County | | | | | | | | | | | | | |
| Class A | 97 | 9,110,516 | 51,863 | 722,000 | 1,929,497 | 21.18% | 2,805,456 | 30.79% | \$2.72 | (81,955) | 146,890 | (196,045) | 10,105 |
| Class B | 228 | 10,867,061 | 55,000 | 125,700 | 1,406,151 | 12.94% | 2,060,663 | 18.96% | \$2.40 | 31,285 | (179,232) | 153,533 | 238,757 |
| Class C | 10 | 342,731 | 0 | 0 | 5,165 | 1.51% | 7,056 | 2.06% | \$1.80 | 7,973 | 6,454 | (4,052) | 5,115 |
| Orange County | | | | | | | | | | | | | |
| Class A | 357 | 49,537,211 | 132,396 | 3,965,055 | 9,124,915 | 18.42% | 12,115,842 | 24.46% | \$2.84 | (417,813) | (1,350,877) | (518,281) | (261,317) |
| Class B | 982 | 52,104,282 | 159,743 | 1,731,875 | 6,493,717 | 12.46% | 9,947,567 | 19.09% | \$2.22 | 94,768 | (64,579) | (347,606) | 940,818 |
| Class C | 152 | 6,073,803 | 0 | 0 | 378,127 | 6.23% | 498,707 | 8.21% | \$1.85 | (38,139) | 44,389 | (81,483) | (120,972) |
| Orange County Total | 1,491 | 107,715,296 | 292,139 | 5,696,930 | 15,996,759 | 14.85% | 22,562,116 | 20.95% | \$2.61 | (361,184) | (1,371,067) | (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-09 | The Muller Company |
| 555 Corporate Way | South | B | 55,000 | 2 | October-08 | Rancho Mission Viejo |
| 22 Odyssey - Odyssey Medical | South | A | 51,863 | 2 | June-09 | EDC Development |
| 1935-1975 E 17th Street | Central | B | 46,743 | 1 | October-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.

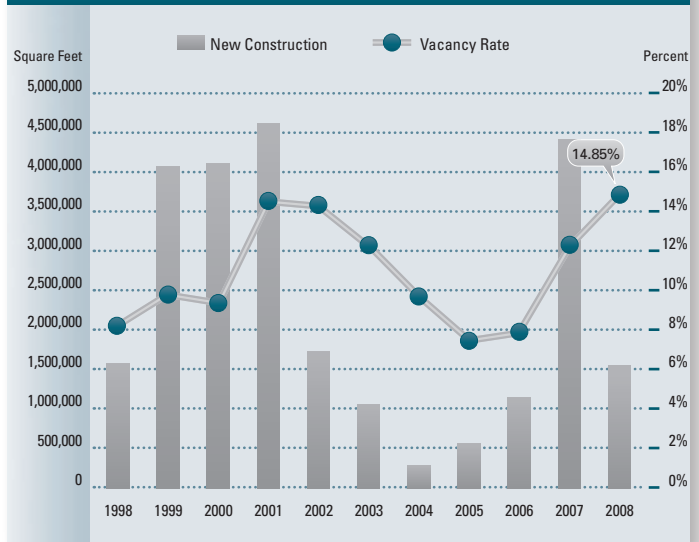
CLASS B

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



For further information, please contact:

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Chula Vista, CA 91910

TEL: 619.498.4560

FAX: 619.498.4567

IRVINE OFFICE

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Irvine, CA 92614

TEL: 949.851.5100

FAX: 949.261.9092

LAS VEGAS OFFICE

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Las Vegas, NV 89135

TEL: 702.734.4500

FAX: 702.733.7690

SAN DIEGO OFFICE

4370 La Jolla Village Dr.,
Suite 990
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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 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.