

# **Office Market Report**

Compared to last quarter:



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#### Prepared by:

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### **Market Highlights**

- Market Challenges The Office market is facing challenges as the national recession continues. The primary concerns are as follows: increasing vacancy, tenant delinguencies, scarce financing, economic uncertainty and volatility, and the gap between "ask" and "bid" pricing between buyers and sellers. However, that gap appears to be diminishing, which is evident from some recent large sales that occurred in the last two quarters. Another challenge for the office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn has put upward pressure on vacancy and availability rates. This has led many tenants to request rent relief from landlords, and owners renegotiating loan terms with lenders.
- Construction During the first three guarters of 2009, Orange County has added a total of 171,863 square feet of new Office space. Over the past three and a half years, over 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 166,455 square feet at the end of the third quarter, which is less than half the amount that was under construction this same time last year. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy Direct/sublease space (unoccupied) finished the quarter at 16.6%, constituting an increase over last year's third quarter rate of 14.77%. This 16.6% rate is less than the 17.28% vacancy rate in the first quarter of 2002, which was the last time a large amount of new construction was added to the market.
- Availability Direct/sublease space being marketed was 23.1% this quarter, up from the 20.98% we saw this same quarter last year. This is an increase of 10.1% of new space being marketed when compared to the same quarter last year. We are finally starting to see a decrease in the velocity of new available space being added to the market.
- Lease Rates The average asking Full Service Gross (FSG) lease rate per month per foot in Orange County is currently \$2.24, which is a 16.73% decrease over last year's rate of \$2.69 and five cents lower than last quarter's rate. The record high rate of \$2.77 was

established in the fourth guarter of 2008. Class A rates for the county are averaging \$2.42 FSG and are the highest in the Airport market, where class A rates are averaging \$2.60 FSG

- Absorption Net absorption for the county posted a negative 438,803 square feet for the third quarter of 2009, giving the office market a total of 1.92 million square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- Transaction Activity Leasing activity checked in this quarter at 2.06 million square feet. The average amount of leasing per quarter over the past nine quarters was 2 million square feet. Sales activity showed a drop over last guarter, posting 442,602 square feet of activity compared to last quarter's 2 million square feet. Details of the largest transactions can be found on the back page of this report.
- **Unemployment** The unemployment rate in Orange County was 9.6% in August 2009, unchanged from a revised 9.6% in July 2009, and above the year ago estimate of 5.8%. This compares with an unadjusted unemployment rate of 12.1% for California and 9.6% for the nation during the same period.
- Employment According to the State of California Employment Development Department, Orange County lost 63,600 payroll jobs over the last twelve months - 12,000 in construction, 10,400 in professional and business services. However, educational and health services posted a gain of 1,800 jobs.
- $\ensuremath{\textbf{Overall}}$  We are starting to see a decrease in the amount of available space being added per quarter as well as an increase in investment sales activity during the past two quarters. With negative absorption slowing and no new deliveries in the pipeline to increase vacancies, the market seems to be finding its trough. We foresee an increase in investment activity in the coming quarters. Lease rates are expected to remain soft for the near future, and concessions should continue to increase in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances to incentivize tenants to act now. We should see an increase in leasing activity as 2009 comes to an end from pent up demand. Once financial markets correct themselves and consumer confidence stabilizes, then the Office market will turn positive.

### OFFICE MARKET OVERVIEW

	302009	202009	302008	% CHANGE VS. 3008
Vacancy	16.60%	16.33%	14.77%	12.39%
Availability	23.10%	22.44%	20.98%	10.10%
Pricing	\$2.24	\$2.29	\$2.69	-16.73%
Sale & Lease Transactions	2,505,675	4,319,985	3,369,375	-25.63%
Net Absorption	-438,803	-676,467	-317,298	N/A
Gross Absorption	2,323,863	2,573,998	2,138,945	8.65%

### **Real People. Real Solutions.**



### ORANGE COUNTY / OFFICE MARKET REPORT / THIRD QUARTER 2009



AVERAGE ASKING FULL SERVICE LEASE RATE MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS \$3.00 \$2.75 \$2.50 \$2.50 \$2.25 \$2.20 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.25 \$2.20 \$2.24 \$2.00 \$2.25 \$2.25 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.26 \$2.20 \$2.20 \$2.20 \$2.20 \$2.00 2001 2002 2003 2004 2005 2006 2007 2008 2009





SALES & LEASE TRANSACTIONS





Woit Real Estate Services



		INVEN	T O R Y		_\	/ACANC	Y & LEAS	E RAT <u>es</u>	;	ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 302009	Square Feet Available	Availability Rate 302009	Average Asking Lease Rate	Net Absorption 302009	Net Absorption 2009	Gross Absorption 302009	Gross Absorption 2009
North County													
Anaheim Hills	9	450,484	0	0	78,227	17.37%	137,062	30.43%	\$2.24	(2,734)	20,037	3.962	52.347
Brea	42	3,381,360	0	120,000	794,047	23.48%	865,509	25.60%	\$2.25	(75,257)	(186,859)	40,604	220,858
Buena Park	11	649,061	0	0	89,672	13.82%	125,325	19.31%	\$1.81	8,697	(11,576)	18,054	41,262
Fullerton	30	2,252,566	0	0	95,919	4.26%	269,889	11.98%	\$1.97	(1,385)	22,921	26,485	93,952
La Habra	7	376,859	0	0	11,192	2.97%	17,676	4.69%	\$1.59	2,239	398	3,344	8,164
La Palma	7	567,187	0	0	69,361	12.23%	123,827	21.83%	\$2.07	11,996	(12,900)	18,270	23,014
Placentia	7	223,859	0	40,000	33,267	14.86%	33,267	14.86%	\$1.53	(4,510)	8,563	4,401	21,507
Yorba Linda	5	233,684	0	0	40,707	17.42%	35,844	15.34%	\$1.83	(1,837)	437	0	10,807
North County Total	118	8,135,060	0	160,000	1,212,392	14.90%	1,608,399	19.77%	\$2.06	(62,791)	(158,979)	115,120	471,911
West County													
Cypress	27	1,993,912	0	0	132,601	6.65%	196,584	9.86%	\$1.94	15,988	51,923	16,544	85,311
Fountain Valley	33	1,664,294	0	0	202,524	12.17%	225,580	13.55%	\$1.92	(2,636)	(7,904)	16,277	34,171
Garden Grove	21	1,007,938	0	0	59,675	5.92%	209,222	20.76%	\$1.51	2,567	22,661	4,755	42,229
Huntington Beach	45	2,456,048	0	0	389,872	15.87%	511,088	20.81%	\$2.23	(41,160)	(105,335)	36,731	93,513
Los Alamitos	13	583,154	0	0	10,268	1.76%	14,149	2.43%	\$2.05	12,741	873	12,741	16,469
Seal Beach	7	482,838	0	0	47,271	9.79%	72,715	15.06%	\$2.31	977	(7,253)	3,542	7,297
Stanton	3	113,702	0	0	13,439	11.82%	20,490	18.02%	\$1.08	2,742	2,566	2,742	9,397
Westminster	16	700,121	0	0	48,227	6.89%	84,870	12.12%	\$1.91	(1,403)	(1,321)	5,250	6,198
West County Total	165	9,002,007	0	0	903,877	10.04%	1,334,698	14.83%	\$2.06	(10,184)	(43,790)	98,582	294,585
Central County													
Anaheim	96	7,373,659	0	794,364	902,665	12.24%	2,048,094	27.78%	\$2.06	(6,937)	41,404	81,605	602,896
Orange	78	7,070,380	84,413	0	1,338,339	18.93%	1,742,011	24.64%	\$2.14	8,444	(4,557)	142,570	457,035
Santa Ana	176	12,891,321	82,042	785,320	2,090,192	16.21%	2,364,475	18.34%	\$1.86	(62,871)	(284,232)	221,848	577,401
Tustin	43	1,890,773	0	212,000	243,363	12.87%	328,829	17.39%	\$1.77	915	22,925	53,260	153,013
Central County Total	393	29,226,133	166,455	1,791,684	4,574,559	15.65%	6,483,409	22.18%	\$2.00	(60,449)	(224,460)	499,283	1,790,345
Airport Area													
Costa Mesa	70	6,489,351	0	531,510	1,204,967	18.57%	1,642,557	25.31%	\$2.15	(69,110)	(309,722)	78,743	270,099
Irvine	288	25,642,562	0	1,377,975	5,610,861	21.88%	7,239,542	28.23%	\$2.38	(273,194)	(875,956)	665,466	1,877,703
Newport Beach	134	9,812,122	0	0	1,185,163	12.08%	1,873,107	19.09%	\$2.85	21,343	(136,868)	231,280	594,682
Airport Area Total	492	41,944,035	0	1,909,485	8,000,991	19.08%	10,755,206	25.64%	\$2.45	(320,961)	(1,322,546)	975,489	2,742,484
South County													
Aliso Viejo	45	3,344,790	0	647,000	459,920	13.75%	743,608	22.23%	\$2.08	28,953	(104,016)	56,992	201,056
Dana Point	4	169,091	0	31,000	2,358	1.39%	2,358	1.39%	\$2.50	(1,200)	0	0	1,200
Foothill Ranch	10	788,129	Ő	01,000	327,514	41.56%	351,378	44.58%	\$2.13	54	(27,508)	48,188	172,888
Irvine Spectrum	117	7,605,671	Ű	Ŭ	1,484,796	19.52%	2,337,953	30.74%	\$2.57	(51,632)	88,975	316,657	1,238,509
Laguna Beach	5	194,434	Ű	Ŭ	28,709	14.77%	28,709	14.77%	\$2.25	(22.080)	(23,563)	3,323	3.323
Laguna Hills	32	1,734,869	Ű	Ŭ	233,913	13.48%	297,937	17.17%	\$2.05	476	(19,696)	34,762	115,444
Laguna Niguel	10	496,887	0	0	36,309	7.31%	66,270	13.34%	\$2.35	16,109	15,886	18,226	38,824
Lake Forest	38	1,911,496	Ő	0	239,635	12.54%	428,617	22.42%	\$1.93	48,758	(5,995)	69,863	146,562
Mission Viejo	37	1,957,860	Ŭ Ŭ	0	258,792	13.22%	313,264	16.00%	\$2.08	4,123	(56,004)	54,647	121,436
Rancho Santa Margarita	6	251,030	Ő	Ŭ	68,551	27.31%	76,654	30.54%	\$1.89	1,290	3,693	5,989	20,283
San Clemente	10	387,818	0	0	50,511	13.02%	60,431	15.58%	\$1.83	377	(37,512)	18,388	23,499
San Juan Capistrano	17	867,278	0	0	46,740	5.39%	67,586	7.79%	\$2.24	(9,646)	770	8,354	58,697
South County Total	331	19,709,353	0	678,000	3,237,748	16.43%	4,774,765	24.23%	\$2.24	15,582	(164,970)	635,389	2,141,721
Orange County Total	1.499	108.016.588	166.455	4.539.169	17,929,567	16.60%	24,956,477	23.10%	\$2.24	(438,803)	(1,914,745)		7,441,046

	INVENTORY					VACANC	Y & LEASE	RATES	_	ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 302009	Square Feet Available	Availability Rate 302009	Average Asking Lease Rate	Net Absorption 302009	Net Absorption 2009	Gross Absorption 302009	Gross Absorption 2009
North County													
Class A	22	2,321,447	0	120.000	463.715	19.98%	614.621	26.48%	\$2.32	(19,731)	27,512	46.752	169,029
Class B	86	5,485,786	Ő	40,000	728,765	13.28%	972,293	17.72%	\$1.89	(39,867)	(177,213)	68,018	296,083
Class C	10	327.827	0	0	19,912	6.07%	21,485	6.55%	\$1.98	(3,193)	(9,278)	350	6,799
West County		027,027	Ŭ	Ŭ	10/012	0.07 /0	21,100	0.0070	<b>\$1100</b>	(0):00)	(0)210)	000	0,700
Class A	29	2,870,245	0	0	230,308	8.02%	391,560	13.64%	\$2.28	12,620	36,119	33,662	121,449
Class B	109	5,063,552	0	0	595.033	11.75%	853,225	16.85%	\$1.82	12,878	(40.829)	51,573	145,702
Class C	27	1,068,210	0	0	78,536	7.35%	89,913	8.42%	\$1.50	(35,682)	(39,080)	13,347	27,434
Central County		.,,	-		,		,			(,,	(,,		
Class A	72	11.535.252	82.042	1.549.684	2,170,788	18.82%	2.801.844	24.29%	\$2.17	129,445	(64,152)	294,403	745,158
Class B	246	14,642,247	84,413	30,000	2,202,766	15.04%	3,384,787	23.12%	\$1.80	(164,785)	(204,715)	167,928	863,942
Class C	75	3,048,634	0	0	201,005	6.59%	296,778	9.73%	\$1.54	(25,109)	44,407	36,952	181,245
Airport Area		-,,	-	-						(==),	.,	,	,
Class A	135	23,637,492	0	1.226.510	4.968.864	21.02%	6.697.980	28.34%	\$2.60	(47,838)	(679.227)	556,003	1,559,291
Class B	324	16.933.892	0	894,975	2,969,542	17.54%	3.946.872	23.31%	\$2.14	(282,048)	(615,066)	374,490	1,114,214
Class C	33	1,372,651	0	0	62,585	4.56%	110,354	8.04%	\$1.68	8,925	(28,253)	44,996	68,979
South County					, , , , , , , , , , , , , , , , , , , ,		.,				,	,	
Class A	92	8.609.658	0	647.000	1.799.224	20.90%	2.367.503	27.50%	\$2.35	105.784	(25.030)	310,871	1.034.563
Class B	229	10,756,669	0	31,000	1,432,023	13.31%	2.398.174	22.29%	\$2.02	(92,845)	(142,728)	320,820	1,099,362
Class C	10	343.026	0	0	6,501	1.90%	9,088	2.65%	\$1.65	2,643	2.788	3,698	7,796
Orange County					.,		.,				,	.,	,
Class A	350	48,974,094	82,042	3,543,194	9,632,899	19.67%	12,873,508	26.29%	\$2.42	180,280	(704,778)	1,241,691	3,629,490
Class B	994	52,882,146	84,413	995,975	7,928,129	14.99%	11,555,351	21.85%	\$1.97	(566,667)	(1,180,551)	982,829	3,519,303
Class C	155	6,160,348	0	0	368,539	5.98%	527,618	8.56%	\$1.60	(52,416)	(29,416)	99,343	292,253
Orange County Total	1,499	108,016,588	166,455	4,539,169	17,929,567	16.60%	24,956,477	23.10%	\$2.24	(438,803)	(1,914,745)	2,323,863	7,441,046

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.

### ORANGE COUNTY / OFFICE MARKET REPORT / THIRD QUARTER 2009

### RECENT TRANSACTIONS

Sales Transactions Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
3333-3355 Michelson Dr 8 Properties	Airport	А	1,576,286	Not Disclosed	LBA Realty	Maguire Properties
1901 E 1st St Cabrillo Park	Central	В	167,000	\$11,500,000	1901 Santa Ana Land LLC	Chicago Title Company
901 Civic Center Drive	Central	В	105,199	\$11,250,000	Civic Center Professional Bldg, Inc.	Grubb & Ellis Realty Investors, LLC
9800 Muirlands Blvd.	South	В	56,647	Not Disclosed	9800 LLC	American Sterling Insurance
4100 Mac Arthur Blvd.	Airport	В	45,890	Not Disclosed	Craig Realty Group-Macarthur LLC	Makar VDV LLC

### Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
15505 Sand Canyon Ave Renewal	Airport	А	469,998	July-09	Verizon Wireless	The Irvine Company
Park Place - Michelson Drive	Airport	А	365,000	September-09	Western Digital	LBA Realty
1600 Douglas Road	Central	А	127,750	August-09	Cash Call	Kennedy Associates
2441 W. La Palma Ave	Central	В	49,000	July-09	N/A	Living Stream Ministry
27051 Town Centre	South	А	38,500	August-09	Ossur	MetLife

### 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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## Real People. Real Solutions.

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