



# Office Market Report

VOIT COMMERCIAL BROKERAGE

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## Market Highlights

- ◆ The Orange County office market is currently in a transitional phase. With vacancy rates increasing due to slowing demand and the completion of a lot of new office construction in 2007, along with the mortgage industry and credit conflicts, some challenges exist. 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.
- ◆ Portfolio sales of office buildings were big news in 2007. In the first quarter of 2007, Equity Office sold its entire portfolio of office buildings, at the time the largest portfolio in the United States, to The Blackstone Group. During the second quarter, The Blackstone Group resold a small portion, 41 properties - 39 in Orange County and 2 in Los Angeles, to Maguire Properties for \$2.875 billion dollars (\$340.53 PSF).
- ◆ During 2007, Orange County has added just over 4.4 million square feet of new 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%.
- ◆ Total space under construction checked in at 1.36 million square feet at the end of 2007, which is 72% lower than the amount that was under construction this same time last year. It is estimated that another 1.5 to 2 million square feet of new construction will be completed in 2008.
- ◆ The office vacancy rate was recorded at 12.43% this quarter, constituting a 57% increase over last year's fourth quarter near record low rate of 7.91%. This increase is a result of the new construction coupled with the mortgage industry problems. This 12.43% rate is far 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 17.07% this quarter, up from 11.50% at the end of 2006.
- ◆ The average asking Full Service Gross lease rate per month per foot in Orange County is currently \$2.77, which is a 9.92% increase over last year's fourth quarter rate of \$2.52. This matches last quarter's rate, which represented a new record high. Class A rates for the county are averaging \$3.02 FSG and are the highest in the Airport market, where class A rates are averaging \$3.21 FSG. This upward trend has already begun to ease in 2008.
- ◆ Net absorption for the county posted a negative number of 1,210,755 square feet for the fourth quarter of 2007, giving Orange County a total of 947,370 square feet of negative absorption for 2007. This can be attributed to mortgage companies consolidating.
- ◆ Gross absorption or activity for the fourth quarter of 2007 was down, though activity was higher for the year 2007 by almost 16% when compared to 2006. The recent lack of activity can be tied to the credit crunch, which means we could see an increase in activity in the second half of 2008.
- ◆ According to Chapman University, it is estimated that Orange County added 7,115 new payroll jobs in 2007. Furthermore, they are forecasting 2,361 payroll jobs will be lost to the county in 2008. UCLA is forecasting zero job creation, the LAEDC is forecasting 15,300 new jobs, and California State University of Fullerton is predicting 32,250 new jobs in 2008.
- ◆ Unemployment for the fourth quarter of 2007 in Orange County is 4.2%, which is the same as it was when compared to last quarter, and is 0.8% higher than it was a year ago.
- ◆ Lease rates are expected to remain at current levels for the short run, and concessions should begin 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

	2007	2006	2005	% CHANGE VS. 2006
Inventory Added	4,410,708	1,184,554	570,910	272.35%
Under Construction	1,361,185	4,926,803	1,231,696	-72.37%
Planned Construction	4,983,858	3,207,255	6,316,240	55.39%
Vacancy	12.43%	7.91%	7.39%	57.14%
Availability	17.07%	11.50%	9.94%	48.43%
Pricing	\$2.77	\$2.52	\$2.28	9.92%
Absorption	-947,370	861,148	3,692,091	N/A
Activity	12,919,446	11,151,258	12,434,495	15.86%

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RECENT TRANSACTIONS

Sales Activity

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
Portfolio of 41 Properties	OC	A	8,512,412	\$2,875,000,000	Maguire Properties	The Blackstone Group
Portfolio of 11 Properties + 3.5ac Land	OC	A	810,997	\$344,800,000	Bixby Land Company	Maguire Properties
Portfolio of 3 Properties	OC	A	830,786	\$310,000,000	Rockwood Capital, LLC	Maguire Properties
Orange City Square	Central	A	373,616	\$130,000,000	GE Investment Corp.	Cornerstone RE Advisors

Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
16215 Alton Parkway, Irvine Spectrum	South	B	91,371	March-07	Blizzard Entertainment	The Irvine Company
2767 E Imperial Hwy, Brea	North	B	89,650	April-07	St. Jude's	AEW Capital Management
16225 Alton Parkway, Irvine Spectrum	South	B	78,779	March-07	Blizzard Entertainment	The Irvine Company
140 S State College Blvd, Brea	North	A	72,023	February-07	Capital Group	Equity Office

VACANCY RATE



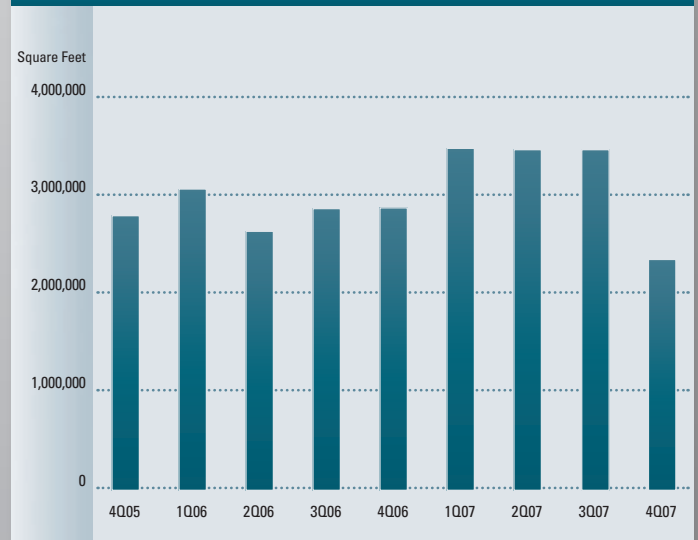
AVERAGE ASKING FULL SERVICE LEASE RATE



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 4Q2007	Square Feet Available	Availability Rate 4Q2007	Average Asking Lease Rate	Net Absorption 4Q2007	Net Absorption 2007	Net Absorption 2006	Net Absorption 2005
<b>North County</b>													
Anaheim Hills	12	739,491	75,000	0	12,588	1.70%	59,675	8.07%	\$1.93	24,080	8,994	3,541	(4,960)
Brea	42	3,322,447	42,372	120,000	498,381	15.00%	817,016	24.59%	\$2.65	(215,860)	(292,999)	128,295	55,533
Buena Park	10	619,061	0	0	69,331	11.20%	53,869	8.70%	\$1.98	(4,659)	(4,563)	(2,753)	60,223
Fullerton	30	2,190,527	0	0	147,237	6.72%	238,710	10.90%	\$2.09	(16,484)	(17,486)	(30,143)	7,653
La Habra	7	376,859	0	0	3,051	0.81%	3,051	0.81%	\$0.00	7,523	3,440	4,489	21,392
La Palma	8	599,687	0	0	40,961	6.83%	47,166	7.87%	\$2.35	(20,837)	(20,649)	6,815	7,937
Placentia	6	198,859	0	0	16,400	8.25%	18,700	9.40%	\$1.96	(2,575)	(5,576)	4,732	(10,228)
Yorba Linda	5	233,684	0	0	13,785	5.90%	35,241	15.08%	\$2.14	(7,515)	(5,522)	4,068	(2,908)
<b>North County Total</b>	<b>120</b>	<b>8,280,615</b>	<b>117,372</b>	<b>120,000</b>	<b>801,734</b>	<b>9.68%</b>	<b>1,273,428</b>	<b>15.38%</b>	<b>\$2.48</b>	<b>(236,327)</b>	<b>(334,361)</b>	<b>119,044</b>	<b>134,642</b>
<b>West County</b>													
Cypress	28	2,060,352	0	0	185,818	9.02%	224,297	10.89%	\$2.34	27,348	(63,730)	66,946	176,874
Fountain Valley	34	1,694,508	0	0	209,131	12.34%	244,492	14.43%	\$2.27	(42,792)	(29,669)	(76,147)	83,818
Garden Grove	19	874,018	39,000	45,000	55,288	6.33%	59,230	6.78%	\$1.78	(13,738)	(13,543)	(10,187)	63,100
Huntington Beach	44	2,407,335	0	0	226,504	9.41%	273,475	11.36%	\$2.49	(29,040)	(49,407)	(8,858)	105,552
Los Alamitos	12	599,348	0	0	13,691	2.28%	13,691	2.28%	\$1.89	(1,269)	3,855	(17,546)	19,217
Seal Beach	7	482,838	0	0	35,211	7.29%	40,165	8.32%	\$3.10	(11,826)	(27,132)	5,276	24,082
Stanton	2	85,917	0	0	4,670	5.44%	5,146	5.99%	\$0.00	957	483	(1,552)	14,852
Westminster	16	688,772	0	0	25,461	3.70%	72,119	10.47%	\$2.13	(1,885)	26,857	(27,640)	(10,926)
<b>West County Total</b>	<b>162</b>	<b>8,893,088</b>	<b>39,000</b>	<b>45,000</b>	<b>755,774</b>	<b>8.50%</b>	<b>932,615</b>	<b>10.49%</b>	<b>\$2.36</b>	<b>(72,245)</b>	<b>(152,286)</b>	<b>(69,708)</b>	<b>476,569</b>
<b>Central County</b>													
Anaheim	89	6,204,538	0	1,052,075	479,181	7.72%	907,938	14.63%	\$2.51	(1,737)	122,207	(231,219)	116,941
Orange	76	6,687,707	0	66,000	864,578	12.93%	1,366,406	20.43%	\$2.77	(29,593)	(508,046)	6,986	191,690
Santa Ana	178	12,993,414	46,743	865,407	1,540,034	11.85%	2,065,289	15.89%	\$2.35	(338,168)	(580,311)	89,187	565,439
Tustin	43	1,883,445	0	212,000	218,765	11.62%	347,443	18.45%	\$2.22	15,586	212,182	(63,502)	(38,960)
<b>Central County Total</b>	<b>386</b>	<b>27,769,104</b>	<b>46,743</b>	<b>2,195,482</b>	<b>3,102,558</b>	<b>11.17%</b>	<b>4,687,076</b>	<b>16.88%</b>	<b>\$2.52</b>	<b>(353,912)</b>	<b>(753,968)</b>	<b>(198,548)</b>	<b>835,110</b>
<b>Airport Area</b>													
Costa Mesa	71	6,488,873	0	678,660	771,516	11.89%	1,321,596	20.37%	\$2.87	(147,036)	(110,121)	85,038	362,251
Irvine	281	25,168,946	392,837	1,097,016	4,571,987	18.17%	5,457,928	21.69%	\$3.05	(497,284)	613,269	(14,547)	953,637
Newport Beach	132	9,743,606	0	0	742,815	7.62%	983,896	10.10%	\$3.26	(227,408)	(163,339)	383,273	76,855
<b>Airport Area Total</b>	<b>484</b>	<b>41,401,425</b>	<b>392,837</b>	<b>1,775,676</b>	<b>6,086,318</b>	<b>14.70%</b>	<b>7,763,420</b>	<b>18.75%</b>	<b>\$3.06</b>	<b>(871,728)</b>	<b>339,809</b>	<b>453,764</b>	<b>1,392,743</b>
<b>South County</b>													
Aliso Viejo	46	3,211,698	363,000	722,000	269,540	8.39%	468,847	14.60%	\$3.04	13,838	93,394	(27,873)	113,223
Dana Point	3	135,296	0	0	1,200	0.89%	1,200	0.89%	\$2.80	0	(1,200)	0	(5,000)
Foothill Ranch	11	809,970	0	0	198,726	24.53%	451,728	55.77%	\$2.72	41,090	(90,212)	(59,085)	108,744
Irvine Spectrum	110	7,267,051	362,233	125,700	1,261,601	17.36%	1,617,364	22.26%	\$2.55	302,286	(210,144)	121,532	192,028
Laguna Beach	5	193,268	0	0	0	0.00%	0	0.00%	\$0.00	660	3,012	5,141	(8,153)
Laguna Hills	34	1,793,645	0	0	162,622	9.07%	213,435	11.90%	\$2.56	(48,548)	(74,574)	16,641	90,742
Laguna Niguel	10	666,607	0	0	46,441	6.97%	57,063	8.56%	\$2.81	(3,791)	(2,724)	(8,318)	9,021
Lake Forest	45	2,254,497	0	0	207,683	9.21%	293,964	13.04%	\$2.24	(20,745)	5,325	(19)	200,861
Mission Viejo	39	2,050,172	40,000	0	177,938	8.68%	236,914	11.56%	\$2.51	(4,965)	149,584	18,618	60,592
Rancho Santa Margarita	7	276,030	0	0	48,994	17.75%	50,735	18.38%	\$2.50	25,405	14,885	9,713	28,229
San Clemente	10	388,843	0	0	12,568	3.23%	17,018	4.38%	\$2.55	(286)	3,671	14,773	9,919
San Juan Capistrano	16	804,446	0	0	63,771	7.93%	63,771	7.93%	\$2.30	18,513	62,419	162,854	40,621
<b>South County Total</b>	<b>336</b>	<b>19,851,523</b>	<b>765,233</b>	<b>847,700</b>	<b>2,451,084</b>	<b>12.35%</b>	<b>3,472,039</b>	<b>17.49%</b>	<b>\$2.66</b>	<b>323,457</b>	<b>(46,564)</b>	<b>253,977</b>	<b>840,827</b>
<b>Orange County Total</b>	<b>1,488</b>	<b>106,195,755</b>	<b>1,361,185</b>	<b>4,983,858</b>	<b>13,197,468</b>	<b>12.43%</b>	<b>18,128,578</b>	<b>17.07%</b>	<b>\$2.77</b>	<b>(1,210,755)</b>	<b>(947,370)</b>	<b>558,529</b>	<b>3,679,891</b>

INVENTORY					VACANCY & LEASE RATES					ABSORPTION			
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2007	Square Feet Available	Availability Rate 4Q2007	Average Asking Lease Rate	Net Absorption 4Q2007	Net Absorption 2007	Net Absorption 2006	Net Absorption 2005
<b>North County</b>													
Class A	22	2,341,963	75,000	120,000	180,746	7.72%	454,355	19.40%	\$2.91	(126,163)	(142,091)	204,718	148,340
Class B	88	5,570,825	42,372	0	615,074	11.04%	808,966	14.52%	\$2.25	(109,357)	(197,812)	(78,797)	(13,381)
Class C	10	367,827	0	0	5,914	1.61%	10,107	2.75%	\$2.04	(807)	5,542	(6,877)	(317)
<b>West County</b>													
Class A	28	2,813,482	0	45,000	179,515	6.38%	331,456	11.78%	\$2.61	(32,811)	8,429	(5,968)	291,803
Class B	108	4,909,345	39,000	0	539,922	11.00%	565,922	11.53%	\$2.02	(32,242)	(135,678)	48,517	166,949
Class C	26	1,170,261	0	0	36,337	3.11%	35,237	3.01%	\$1.42	(7,192)	(25,037)	(112,257)	17,817
<b>Central County</b>													
Class A	71	11,307,866	0	1,887,482	1,402,605	12.40%	2,470,471	21.85%	\$2.79	(137,562)	(470,196)	(273,846)	653,691
Class B	238	13,253,453	46,743	308,000	1,497,508	11.30%	1,926,420	14.54%	\$2.09	(181,361)	(239,803)	81,279	145,258
Class C	77	3,207,785	0	0	202,445	6.31%	290,185	9.05%	\$1.95	(34,989)	(43,969)	(5,981)	36,161
<b>Airport Area</b>													
Class A	136	23,196,024	147,000	1,331,660	3,781,004	16.30%	4,994,219	21.53%	\$3.21	(471,799)	281,622	(196,326)	641,125
Class B	315	16,849,063	245,837	444,016	2,175,238	12.91%	2,658,846	15.78%	\$2.67	(399,253)	72,154	651,062	718,678
Class C	33	1,356,338	0	0	130,076	9.59%	110,355	8.14%	\$1.87	(676)	(13,967)	(972)	32,940
<b>South County</b>													
Class A	96	8,515,479	725,233	722,000	1,327,139	15.59%	1,896,665	22.27%	\$2.86	2,571	(196,045)	10,105	553,016
Class B	230	10,993,610	40,000	125,700	1,113,026	10.12%	1,561,525	14.20%	\$2.33	323,069	153,533	238,757	287,482
Class C	10	342,434	0	0	10,919	3.19%	13,849	4.04%	\$1.81	(2,183)	(4,052)	5,115	329
<b>Orange County</b>													
Class A	353	48,174,814	947,233	4,106,142	6,871,009	14.26%	10,147,166	21.06%	\$3.02	(765,764)	(518,281)	(261,317)	2,287,975
Class B	979	51,576,296	413,952	877,716	5,940,768	11.52%	7,521,679	14.58%	\$2.33	(399,144)	(347,606)	940,818	1,304,986
Class C	156	6,444,645	0	0	385,691	5.98%	459,733	7.13%	\$1.89	(45,847)	(81,483)	(120,972)	86,930
<b>Orange County Total</b>	<b>1,488</b>	<b>106,195,755</b>	<b>1,361,185</b>	<b>4,983,858</b>	<b>13,197,468</b>	<b>12.43%</b>	<b>18,128,578</b>	<b>17.07%</b>	<b>\$2.77</b>	<b>(1,210,755)</b>	<b>(947,370)</b>	<b>558,529</b>	<b>3,679,891</b>

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
40 Pacifica, Irvine Spectrum	South	A	312,187	14	February-08	The Irvine Company
45 Enterprise, Aliso Viejo	South	A	245,000	8	April-08	Pacific Life
20 Enterprise, Aliso Viejo	South	A	118,000	4	January-08	Parker / RREEF
19520 Jamboree Road, Irvine	Airport	A	108,000	5	May-08	Scholle Center LLC

Recent Deliveries

Property Address	Submarket	Class	Square Feet	# of Floors	Date Delivered	Recorded Owner
3161 Michelson Drive, Irvine	Airport	A	530,380	20	August-07	Maguire Properties
2050 Main Street, Irvine	Airport	A	314,074	13	November-07	Opus / SPI Holdings Corp.
20 Pacifica, Irvine Spectrum	South	A	312,184	14	October-07	The Irvine Company
2211 Michelson Ave, Irvine	Airport	A	266,603	12	May-07	Hines / Crescent RE Equities

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.

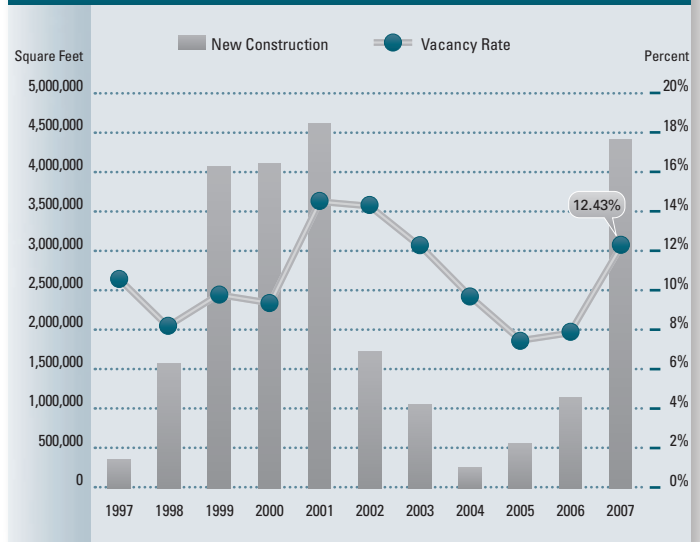
CLASS B

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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Chula Vista, CA 91910

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FAX: 619.498.4567

IRVINE OFFICE

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Irvine, CA 92614

TEL: 949.851.5100

FAX: 949.261.9092

LAS VEGAS OFFICE

10100 W. Charleston Blvd.,  
Suite 200  
Las Vegas, NV 89135

TEL: 702.734.4500

FAX: 702.733.7690

SAN DIEGO OFFICE

4370 La Jolla Village Dr.,  
Suite 990  
San Diego, CA 92122-1233

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FAX: 858.453.1981

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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.