



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 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 2008, Orange County has added just over 1.65 million square feet of new office development, most of which was in the Airport and South County submarkets. 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 to Orange County, and vacancy rates were approximately 24%. We are a long way from those records.
- ◆ Total space under construction checked in at 247,965 square feet at the end of 2008, which is almost 82% lower than the amount that was under construction this same time last year. The slowdown in construction will put less upward pressure on the recent rise in the vacancy rate going forward.
- ◆ The office vacancy rate (for direct and sublease space) finished the year at 15.18%, constituting an increase over last year's rate of 12.27%. This increase is a result of the new construction coupled with a slowing economy, as financial markets correct. This 15.18% 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 21.83% this quarter, up from the 17.07% 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 \$2.47, which is a 10.83% decrease over last year's record high rate of \$2.77. This is fourteen cents lower than last quarter's rate. Class A rates for the county are averaging \$2.68 FSG and are the highest in the Airport market, where class A rates are averaging \$2.92 FSG.
- ◆ Net absorption for the county posted a negative 302,174 square feet for the fourth quarter of 2008, giving the office market a total of 1.6 million square feet of negative absorption for the year. Last year Orange County had a total of 785,000 square feet of negative absorption. This negative absorption can be attributed to the recent job losses as finance companies continue to consolidate.
- ◆ Gross absorption or activity for the fourth quarter of 2008 was higher than last quarter, checking in at just over 2.5 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 2009 from pent up demand, once financial markets correct themselves and as consumer confidence increases. The final outcome, though, hinges on how bad the recession gets and how quickly credit eases up.
- ◆ According to the State of California Employment Development Department, Orange County lost 38,400 payroll jobs over the last twelve months—18,000 in financial, professional & business services. Between October 2008 and November 2008 Orange County lost 2,100 jobs, mostly in the leisure and hospitality sectors.
- ◆ The unemployment rate in Orange County was 6.1% in November 2008, unchanged from a revised 6.1% percent in October 2008, but above the year ago estimate of 4.2%. This compares with an unadjusted unemployment rate of 8.3 percent for California and 6.5 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

	2008	2007	2006	% CHANGE VS. 2007
Inventory Added	1,650,348	4,253,720	1,183,874	-61.20%
Under Construction	247,965	1,361,185	4,926,803	-81.78%
Planned Construction	5,551,757	4,983,858	3,207,255	11.39%
Vacancy	15.19%	12.27%	7.84%	23.72%
Availability	21.83%	17.07%	11.50%	27.89%
Pricing	\$2.47	\$2.77	\$2.52	-10.83%
Absorption	-1,606,387	-784,424	724,193	N/A
Activity	9,422,019	12,891,555	11,140,009	-26.91%

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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

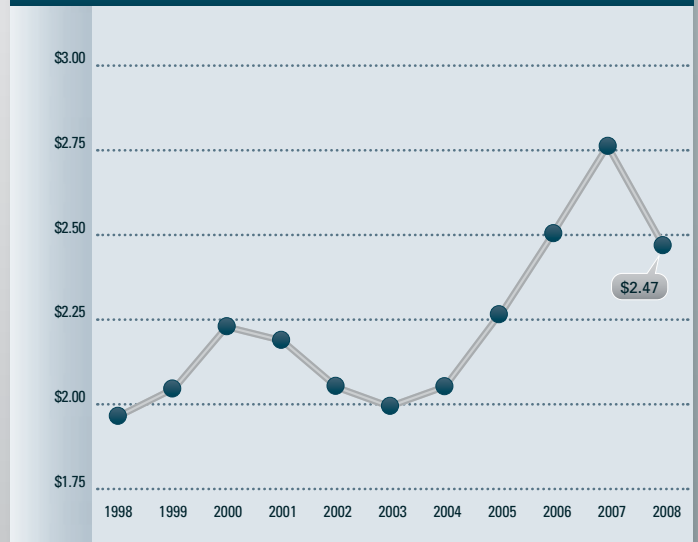
Lease Activity

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
40 Pacifica, Irvine Spectrum	South	A	206,964	November-08	FDIC	The Irvine Company
1 Premier Place, Irvine Spectrum	South	A	181,000	November-08	Taco Bell	Ford Motor Company
19500 Jamboree Road, Irvine	Airport	A	110,802	October-08	Consumer Portfolio	Scholle Center LLC
17360 Brookhurst St, Fountain Valley	West	B	98,850	February-08	Memorial Care	FV City Center, LLC

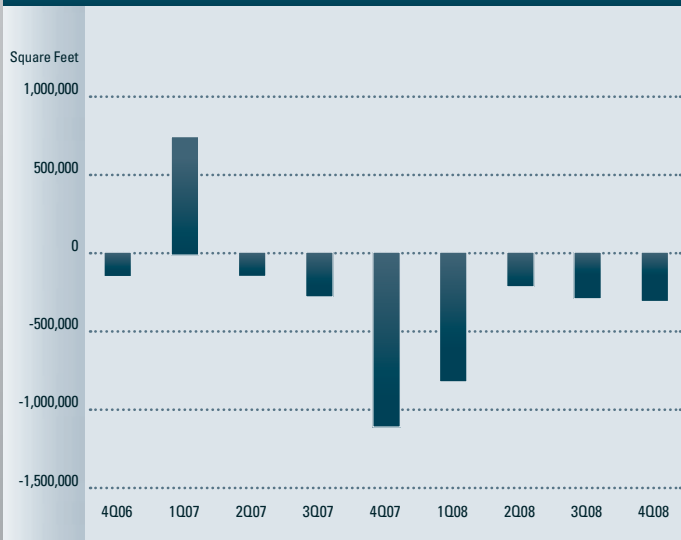
VACANCY RATE



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 4Q2008	Square Feet Available	Availability Rate 4Q2008	Average Asking Lease Rate	Net Absorption 4Q2008	Net Absorption 2008	Gross Absorption 4Q2008	Gross Absorption 2008
North County													
Anaheim Hills	9	450,484	0	0	98,264	21.81%	110,253	24.47%	\$2.41	(4,127)	(10,676)	7,638	51,462
Brea	42	3,353,520	0	120,000	642,378	19.16%	811,979	24.21%	\$2.25	124,822	(117,423)	200,304	391,602
Buena Park	11	649,061	0	0	78,096	12.03%	114,607	17.66%	\$1.85	(8,273)	(8,765)	7,849	55,914
Fullerton	29	2,121,316	0	0	103,352	4.87%	152,103	7.17%	\$2.02	106,863	43,385	130,130	210,407
La Habra	7	376,859	0	0	11,590	3.08%	12,643	3.35%	\$1.64	(1,694)	(8,539)	418	6,036
La Palma	8	599,687	0	0	59,103	9.86%	62,509	10.42%	\$2.30	(5,362)	(15,650)	1,330	16,900
Placentia	7	223,859	0	0	41,830	18.69%	41,830	18.69%	\$1.87	(20,136)	2,570	5,347	43,689
Yorba Linda	5	233,684	0	0	41,144	17.61%	47,038	20.13%	\$2.01	8,623	(27,359)	8,623	24,505
North County Total	118	8,008,470	0	120,000	1,075,757	13.43%	1,352,962	16.89%	\$2.20	200,716	(142,457)	361,639	800,515
West County													
Cypress	28	2,087,906	0	0	208,753	10.00%	228,875	10.96%	\$2.16	(4,869)	(22,989)	10,546	104,661
Fountain Valley	34	1,694,294	0	0	196,060	11.57%	200,667	11.84%	\$2.21	658	13,071	7,128	65,566
Garden Grove	21	1,007,938	0	0	57,336	5.69%	198,426	19.69%	\$1.72	26,998	71,352	43,183	136,671
Huntington Beach	43	2,373,912	0	0	281,037	11.84%	406,753	17.13%	\$2.37	(18,716)	(54,533)	38,997	209,785
Los Alamitos	13	562,154	0	0	11,141	1.98%	11,141	1.98%	\$1.93	(2,750)	2,550	1,426	16,215
Seal Beach	7	482,838	0	0	40,018	8.29%	58,985	12.22%	\$2.79	1,310	(4,807)	11,550	56,939
Stanton	3	113,702	0	0	16,005	14.08%	19,840	17.45%	\$1.42	(455)	(11,335)	0	4,779
Westminster	16	688,772	0	0	46,906	6.81%	49,649	7.21%	\$2.14	16,102	(21,445)	18,538	70,824
West County Total	165	9,011,516	0	0	857,256	9.51%	1,174,336	13.03%	\$2.28	18,278	(28,136)	131,368	665,440
Central County													
Anaheim	94	6,993,329	90,000	1,052,075	1,057,458	15.12%	1,935,583	27.68%	\$2.20	(423,813)	(579,056)	87,294	415,092
Orange	75	6,808,598	0	0	1,298,827	19.08%	1,650,891	24.25%	\$2.25	45,344	(381,426)	118,739	431,534
Santa Ana	177	12,946,781	80,533	889,847	1,876,762	14.50%	2,265,030	17.49%	\$2.04	(124,180)	(269,919)	181,766	800,696
Tustin	43	1,890,773	0	1,019,200	266,288	14.08%	402,410	21.28%	\$1.89	5,011	(47,523)	31,779	168,066
Central County Total	389	28,639,481	170,533	2,961,122	4,499,335	15.71%	6,253,914	21.84%	\$2.14	(497,638)	(1,277,924)	419,578	1,815,388
Airport Area													
Costa Mesa	71	6,534,497	0	620,660	937,705	14.35%	1,586,207	24.27%	\$2.54	(42,657)	(129,794)	84,107	389,196
Irvine	287	25,688,529	0	1,127,975	4,809,424	18.72%	6,535,872	25.44%	\$2.70	1,843	53,598	621,823	2,643,765
Newport Beach	130	9,674,495	25,569	0	974,590	10.07%	1,356,266	14.02%	\$3.15	(147,670)	(209,330)	237,356	950,396
Airport Area Total	488	41,897,521	25,569	1,748,635	6,721,719	16.04%	9,478,345	22.62%	\$2.75	(188,484)	(285,526)	943,286	3,983,357
South County													
Aliso Viejo	47	3,447,601	0	722,000	355,904	10.32%	788,134	22.86%	\$2.72	539	278,236	47,195	446,972
Dana Point	4	169,091	0	0	2,358	1.39%	2,358	1.39%	\$2.50	(2,358)	(1,158)	0	3,600
Foothill Ranch	10	788,129	0	0	300,006	38.07%	512,455	65.02%	\$2.38	2,208	(95,314)	7,777	51,330
Irvine Spectrum	116	7,748,488	51,863	0	1,563,779	20.18%	2,631,239	33.96%	\$2.80	184,422	184,947	463,331	1,058,421
Laguna Beach	5	194,434	0	0	5,146	2.65%	5,146	2.65%	\$2.25	(4,163)	(5,146)	0	0
Laguna Hills	31	1,654,827	0	0	205,722	12.43%	246,589	14.90%	\$2.35	(9,406)	(50,520)	24,240	103,471
Laguna Niguel	10	666,607	0	0	61,195	9.18%	78,231	11.74%	\$2.35	4,386	(14,754)	22,664	39,944
Lake Forest	41	2,065,771	0	0	312,693	15.14%	509,551	24.67%	\$2.07	(23,853)	(107,936)	28,836	172,985
Mission Viejo	38	2,000,852	0	0	238,949	11.94%	297,657	14.88%	\$2.29	(870)	(61,011)	32,240	187,450
Rancho Santa Margarita	6	251,030	0	0	72,244	28.78%	70,270	27.99%	\$1.97	(9,244)	(23,250)	930	11,952
San Clemente	10	387,756	0	0	12,999	3.35%	23,888	6.16%	\$2.21	(2,423)	(431)	0	11,478
San Juan Capistrano	18	891,529	0	0	94,440	10.59%	134,806	15.12%	\$2.20	25,716	25,231	34,462	68,616
South County Total	336	20,266,115	51,863	722,000	3,225,435	15.92%	5,300,324	26.15%	\$2.43	164,954	128,894	661,675	2,156,219
Orange County Total	1,496	107,823,103	247,965	5,551,757	16,379,502	15.19%	23,559,881	21.85%	\$2.47	(302,174)	(1,605,149)	2,517,546	9,420,919

	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2008	Square Feet Available	Availability Rate 4Q2008	Average Asking Lease Rate	Net Absorption 4Q2008	Net Absorption 2008	Gross Absorption 4Q2008	Gross Absorption 2008
North County													
Class A	22	2,321,447	0	120,000	491,227	21.16%	524,314	22.59%	\$2.50	(2,480)	(232,989)	40,716	155,678
Class B	86	5,359,196	0	0	573,896	10.71%	813,753	15.18%	\$2.00	204,443	95,252	315,339	633,100
Class C	10	327,827	0	0	10,634	3.24%	14,895	4.54%	\$1.95	(1,247)	(4,720)	5,584	11,737
West County													
Class A	29	2,873,980	0	0	266,427	9.27%	376,215	13.09%	\$2.58	16,471	(86,912)	52,643	238,274
Class B	108	4,991,202	0	0	547,204	10.96%	750,661	15.04%	\$1.91	19,672	27,064	72,571	327,947
Class C	28	1,146,334	0	0	43,625	3.81%	47,460	4.14%	\$1.43	(17,865)	31,712	6,154	99,219
Central County													
Class A	72	11,494,611	170,533	1,807,395	2,152,160	18.72%	2,630,091	22.88%	\$2.34	(5,221)	(773,177)	273,224	841,441
Class B	244	14,230,821	0	1,153,727	2,104,663	14.79%	3,312,603	23.28%	\$1.94	(495,726)	(461,805)	117,115	868,444
Class C	73	2,914,049	0	0	242,512	8.32%	311,220	10.68%	\$1.84	3,309	(42,942)	29,239	105,503
Airport Area													
Class A	136	23,629,975	0	1,315,660	4,303,669	18.21%	5,701,288	24.13%	\$2.92	(87,099)	(470,097)	554,110	2,145,242
Class B	320	16,929,711	25,569	432,975	2,334,458	13.79%	3,688,105	21.78%	\$2.38	(98,188)	130,087	357,829	1,713,005
Class C	32	1,337,835	0	0	83,592	6.25%	88,952	6.65%	\$1.90	(3,197)	54,484	31,347	125,110
South County													
Class A	97	9,048,231	51,863	722,000	1,799,484	19.89%	2,711,920	29.97%	\$2.50	132,013	276,903	396,616	1,362,935
Class B	228	10,841,358	0	0	1,411,922	13.02%	2,572,750	23.73%	\$2.30	41,805	(145,599)	265,059	779,446
Class C	11	376,526	0	0	14,029	3.73%	15,654	4.16%	\$1.80	(8,864)	(2,410)	0	13,838
Orange County													
Class A	356	49,368,244	222,396	3,965,055	9,012,967	18.26%	11,943,828	24.19%	\$2.68	53,684	(1,286,272)	1,317,309	4,743,570
Class B	986	52,352,288	25,569	1,586,702	6,972,143	13.32%	11,137,872	21.27%	\$2.14	(327,994)	(355,001)	1,127,913	4,321,942
Class C	154	6,102,571	0	0	394,392	6.46%	478,181	7.84%	\$1.83	(27,864)	36,124	72,324	355,407
Orange County Total	1,496	107,823,103	247,965	5,551,757	16,379,502	15.19%	23,559,881	21.85%	\$2.47	(302,174)	(1,605,149)	2,517,546	9,420,919

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
1325 N Anaheim Blvd.	Central	A	90,000	3	January-09	Karcher Partners
1525 N Tustin Ave	Central	A	80,533	4	August-09	The Muller Company
22 Odyssey - Odyssey Medical	South	A	51,863	2	June-09	EDC Development
1375 Dove Street	Airport	B	25,569	3	N/A	N/A

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.

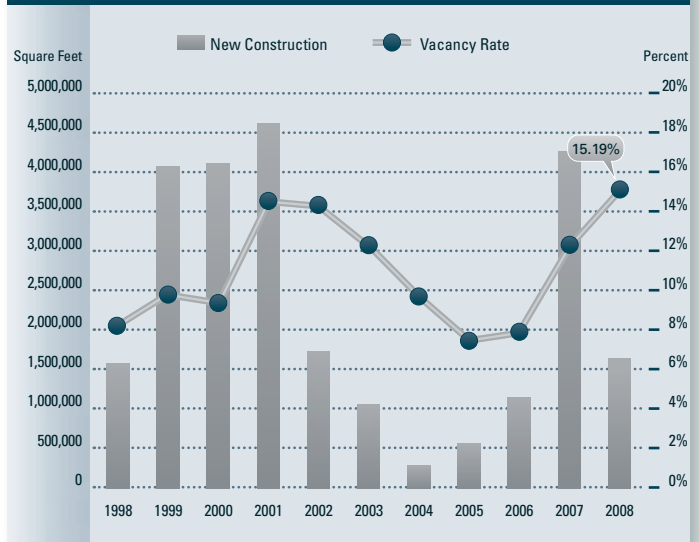
CLASS B

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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LAS VEGAS OFFICE

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SAN DIEGO OFFICE

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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.