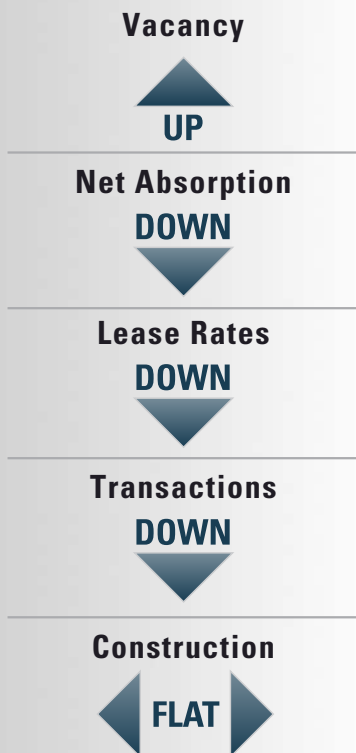




Voit
Real Estate Services

Office Market Report

Compared to last quarter:



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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 delinquencies, 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 quarters 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 quarter 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.

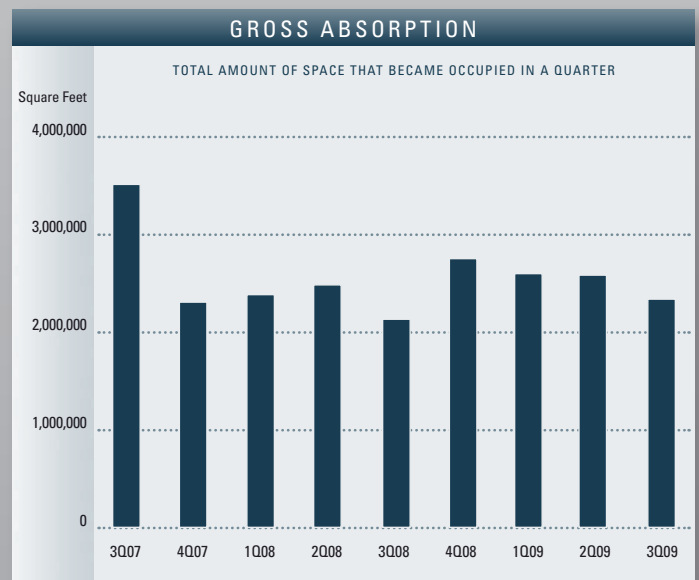
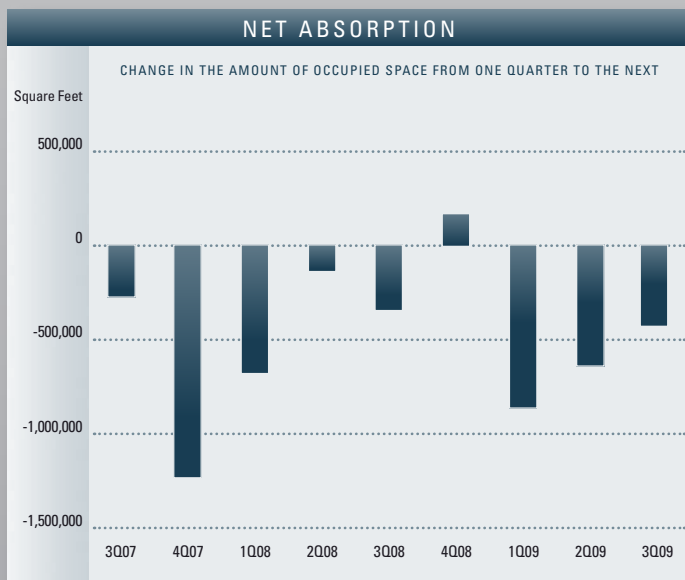
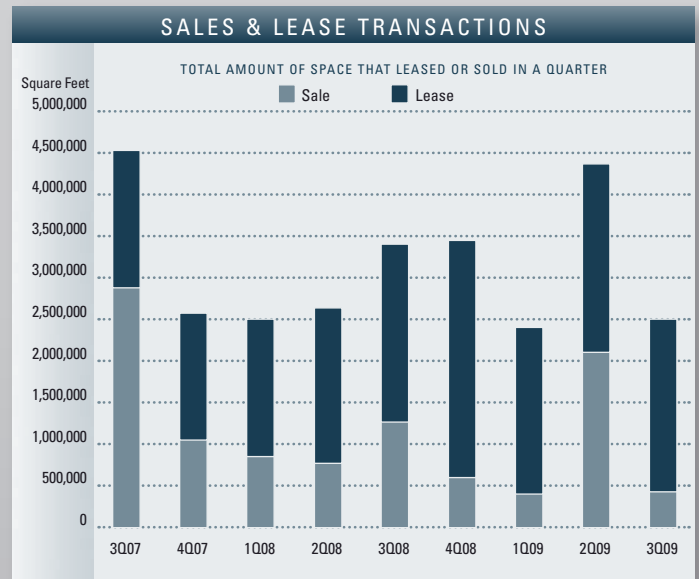
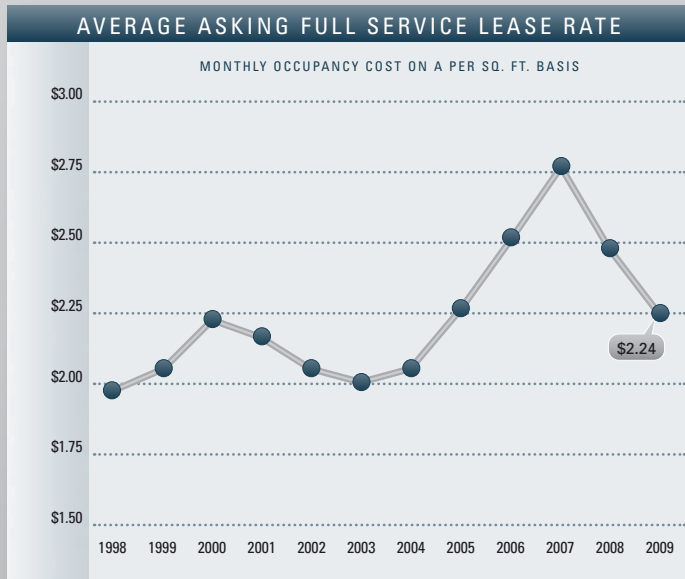
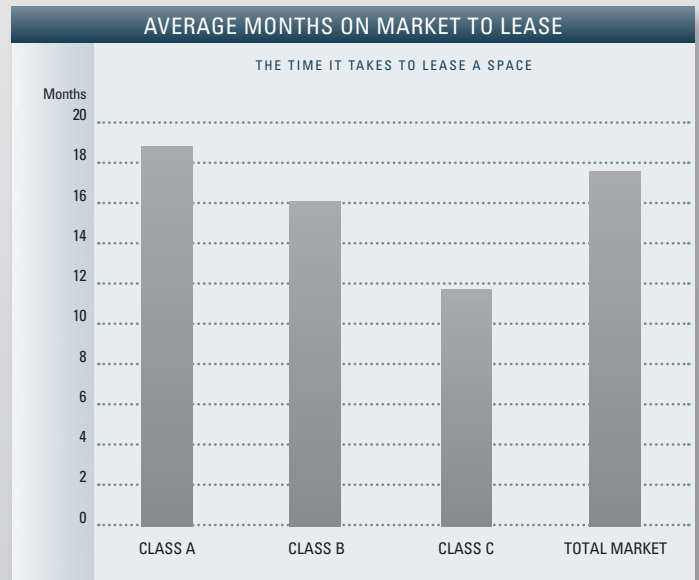
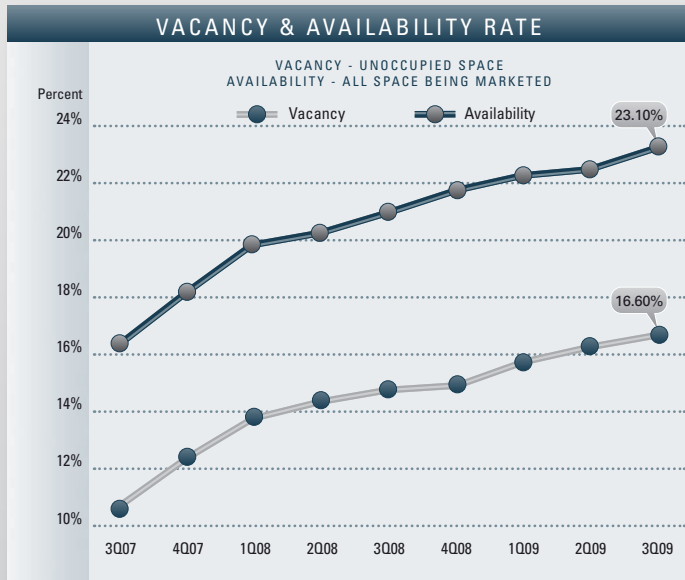
- ◆ **Absorption** - Net absorption for the county posted a negative 438,803 square feet for the third quarter of 2009, giving the office market a total of 1.92 million square feet of negative absorption for the year. This negative absorption can be attributed to the recent job losses.
- ◆ **Transaction 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 quarter, 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.
- ◆ **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

	3Q2009	2Q2009	3Q2008	% CHANGE VS. 3Q08
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%



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RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
3333-3355 Michelson Dr. - 8 Properties	Airport	A	1,576,286	Not Disclosed	LBA Realty	Maguire Properties
1901 E 1st St. - Cabrillo Park	Central	B	167,000	\$11,500,000	1901 Santa Ana Land LLC	Chicago Title Company
901 Civic Center Drive	Central	B	105,199	\$11,250,000	Civic Center Professional Bldg, Inc.	Grubb & Ellis Realty Investors, LLC
9800 Muirlands Blvd.	South	B	56,647	Not Disclosed	9800 LLC	American Sterling Insurance
4100 Mac Arthur Blvd.	Airport	B	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	A	469,998	July-09	Verizon Wireless	The Irvine Company
Park Place - Michelson Drive	Airport	A	365,000	September-09	Western Digital	LBA Realty
1600 Douglas Road	Central	A	127,750	August-09	Cash Call	Kennedy Associates
2441 W. La Palma Ave	Central	B	49,000	July-09	N/A	Living Stream Ministry
27051 Town Centre	South	A	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.

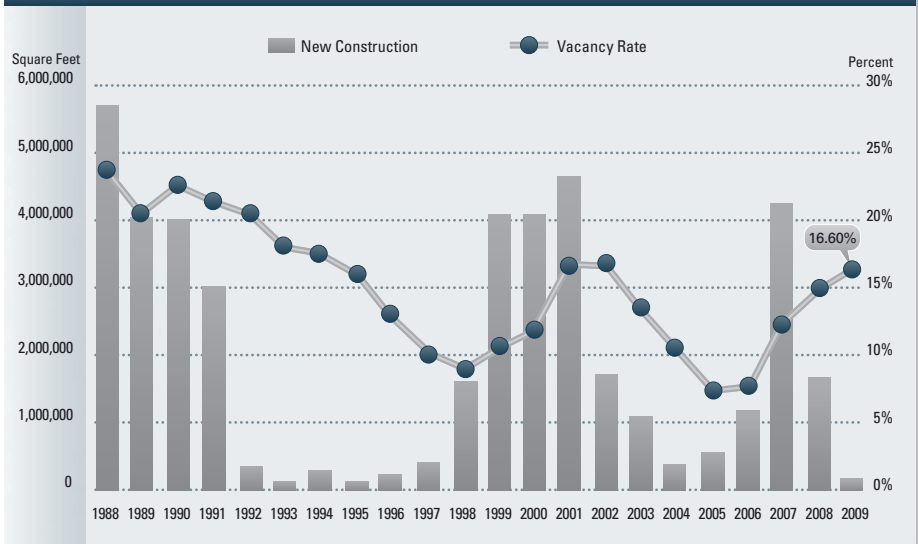
CLASS B

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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