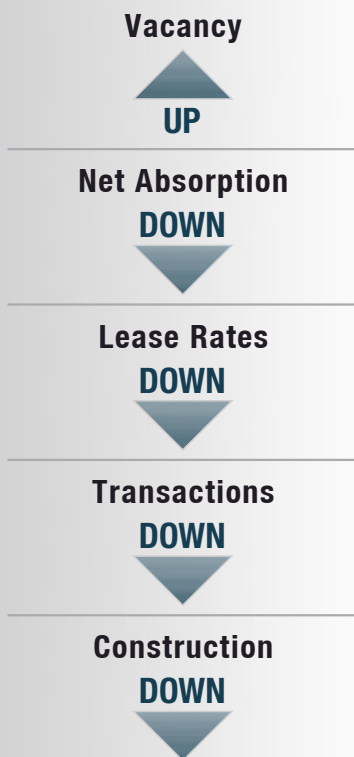




Voit
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Office Market Report

Compared to last quarter:



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Market Highlights

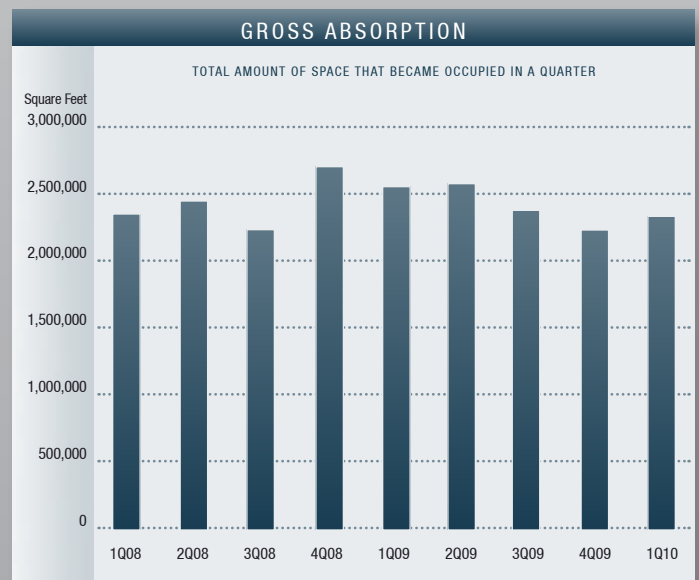
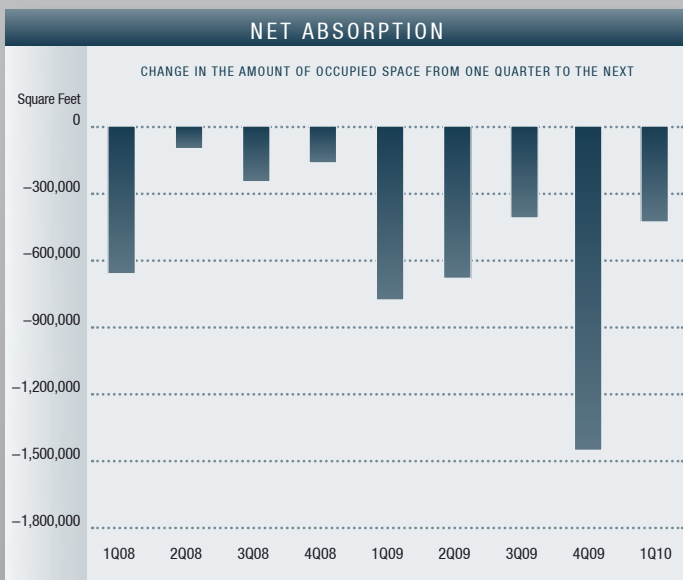
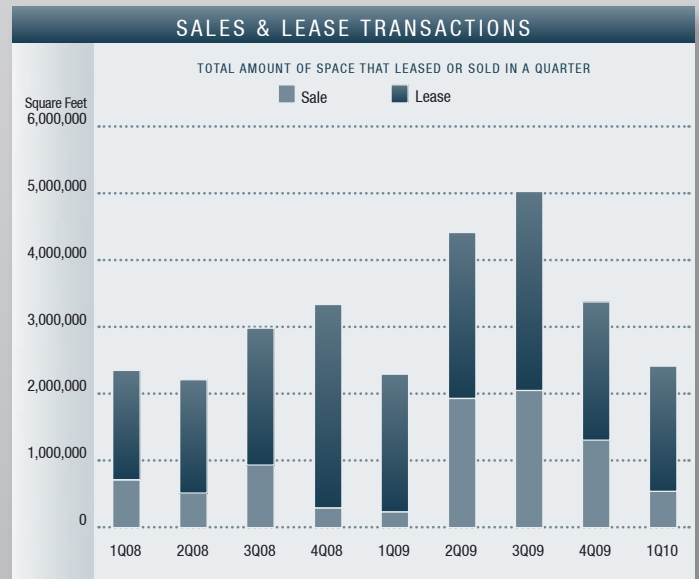
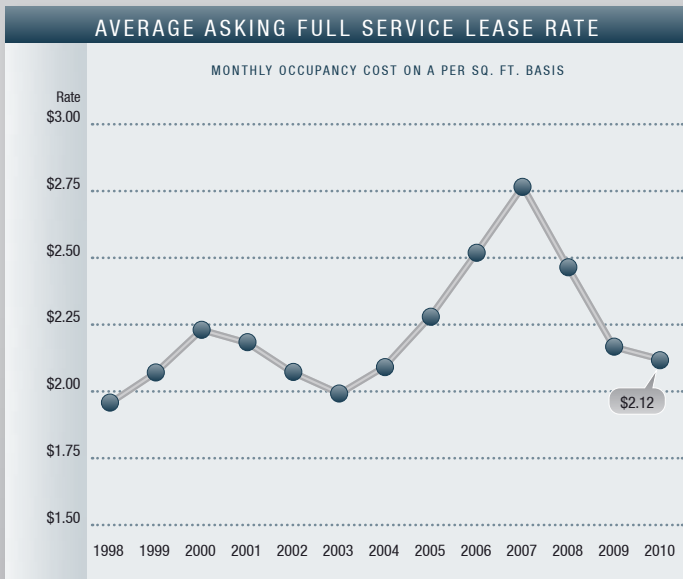
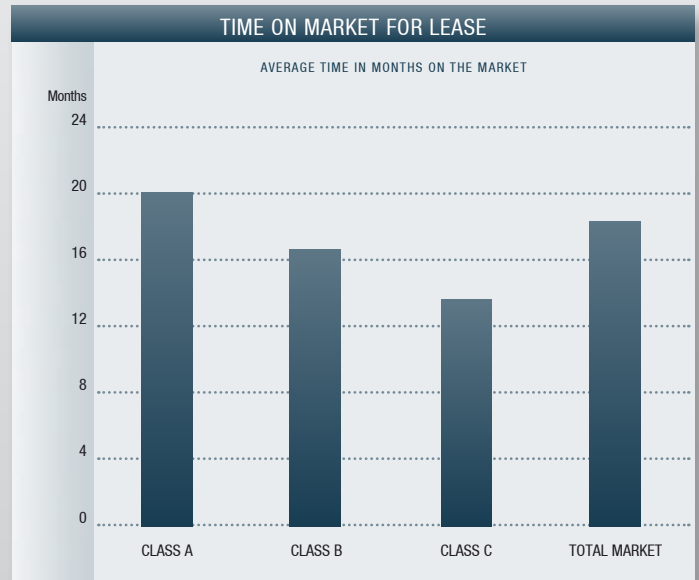
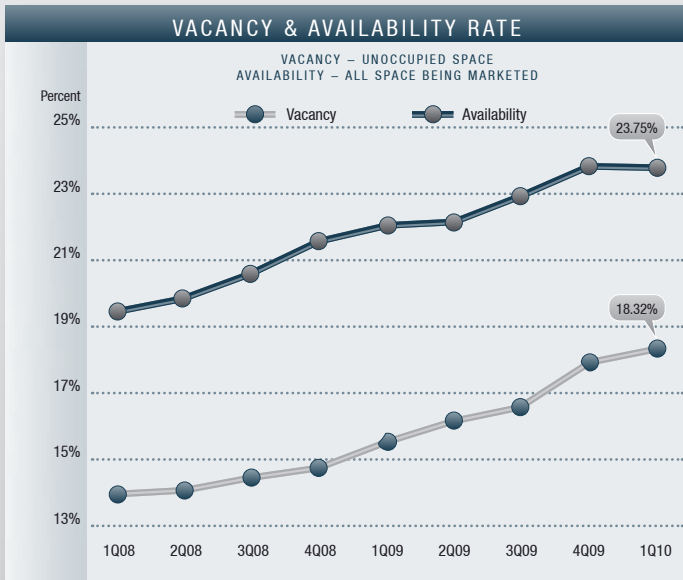
- ◆ **Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with increasing vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing. Fortunately, the ask-bid gap appears to be diminishing, apparent from the increase in sales activity. 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 put an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- ◆ **Construction** - 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%. At the end of the first quarter total space under construction checked in at 305,500 square feet, most of which was medical office space. The slowdown in construction has and will ease the upward pressure on vacancy and the downward pressure on lease rates.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 18.32%, an increase over last year’s first quarter rate of 15.53%. This rate of 18.32% is still less than the 23% vacancy rate recorded in 1990.
- ◆ **Availability** - Direct/sublease space being marketed was at 23.75% this quarter, up from the 22.09% we saw this same quarter last year. This is an increase of 7.51% over last year’s rate and a decrease from last quarter’s rate of 23.79%. We are finally beginning 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 was \$2.12, which is a 10.55% decrease over last year’s rate of \$2.37 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 \$2.29 FSG and are the highest in the Airport market, where they are averaging \$2.41 FSG.
- ◆ **Absorption** - Net absorption for the county posted a negative 414,162 square feet for the first quarter of 2010; for the past 5 quarters the office market has been averaging approximately 750,000 square feet of negative absorption. This negative absorption can be attributed to the recent job losses. Absorption will turn positive once job creation begins.
- ◆ **Transaction Activity** - Leasing activity checked in this quarter at 1.9 million square feet, a slight decrease over last year’s first quarter total of 2.1 million square feet. Sales activity showed an increase, posting 543,230 square feet of activity compared to last year’s 201,805 square feet. This increase in sales activity can in part be attributed to the swell of users/investors seeking distressed assets. Details of the largest transactions can be found on the back page of this report.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.7% in February 2010, down from a revised 10.2% in January 2010 and above the year ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 53,000 payroll jobs over the last twelve months; the largest losses were 14,400 in construction, 11,000 in manufacturing and 4,200 in leisure & hospitality. However, between January 2010 and February 2010, Orange County gained 10,300 jobs.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, as well as an increase in investment sales activity. As we begin 2010, negative absorption has begun to slow, and with few new deliveries in the pipeline to put more upward pressure on vacancies, the market is beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the Office market will again turn positive.

OFFICE MARKET OVERVIEW

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy	18.32%	17.95%	15.53%	17.97%
Availability	23.75%	23.79%	22.09%	7.51%
Pricing	\$2.12	\$2.17	\$2.37	(10.55%)
Sale & Lease Transactions	543,230	1,303,612	201,805	169.19%
Gross Absorption	2,323,689	2,213,320	2,553,828	(9.01%)
Net Absorption	(414,162)	(1,458,826)	(770,779)	N/A



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	INVENTORY					VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Square Feet Available	Availability Rate 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2009	Gross Absorption 1Q2010	Gross Absorption 2009	
North County														
Anaheim Hills	9	450,484	0	34,000	96,548	21.43%	110,425	24.51%	\$1.94	1,660	56	6,135	96,038	
Brea	43	3,450,202	0	125,600	760,832	22.05%	876,907	25.42%	\$2.01	(17,750)	(134,676)	37,456	303,355	
Buena Park	11	649,061	0	0	104,015	16.03%	131,047	20.19%	\$1.73	(13,121)	(12,798)	4,766	57,458	
Fullerton	29	2,188,412	0	16,400	115,398	5.27%	302,789	13.84%	\$1.53	508	2,934	6,876	107,843	
La Habra	6	237,859	0	0	7,228	3.04%	19,462	8.18%	\$1.59	3,820	542	3,820	9,328	
La Palma	7	571,393	0	0	100,827	17.65%	123,404	21.60%	\$2.07	18,543	(62,909)	23,025	37,163	
Placentia	7	223,841	40,000	0	67,513	30.16%	67,513	30.16%	\$1.70	3,127	(28,810)	4,657	25,574	
Yorba Linda	5	297,312	0	13,200	38,269	12.87%	32,950	11.08%	\$1.80	(6,617)	9,492	0	19,862	
North County Total	117	8,068,564	40,000	189,200	1,290,630	16.00%	1,664,497	20.63%	\$1.92	(9,830)	(226,169)	86,735	656,621	
West County														
Cypress	27	1,994,579	0	0	151,450	7.59%	222,720	11.17%	\$1.92	(7,305)	40,379	2,391	120,356	
Fountain Valley	33	1,664,294	0	0	221,373	13.30%	270,091	16.23%	\$1.91	1,356	(28,109)	16,843	46,701	
Garden Grove	22	1,490,658	0	0	51,019	3.42%	195,146	13.09%	\$1.50	8,926	22,391	23,518	44,479	
Huntington Beach	46	2,552,722	0	4,500	407,892	15.98%	495,934	19.43%	\$2.07	19,149	(136,904)	52,119	159,927	
Los Alamitos	13	615,456	13,000	0	41,344	6.72%	42,737	6.94%	\$1.86	(17,632)	(12,571)	0	12,704	
Seal Beach	7	482,838	0	0	67,203	13.92%	90,379	18.72%	\$2.32	4,609	(31,794)	6,468	9,255	
Stanton	3	113,702	0	0	12,166	10.70%	12,927	11.37%	\$0.00	(3,366)	7,205	10,807	14,736	
Westminster	16	700,121	0	0	35,436	5.06%	51,312	7.33%	\$1.82	16,773	(5,303)	40,839	6,198	
West County Total	167	9,614,370	13,000	4,500	987,883	10.28%	1,381,246	14.37%	\$1.99	22,510	(144,706)	152,985	414,356	
Central County														
Anaheim	97	7,399,292	0	214,500	1,451,250	19.61%	2,044,708	27.63%	\$2.08	15,086	(283,177)	85,705	747,253	
Orange	79	7,184,580	0	0	1,221,536	17.00%	1,655,948	23.05%	\$2.08	161,575	30,554	292,174	635,915	
Santa Ana	177	13,188,109	0	789,962	2,152,200	16.32%	2,585,775	19.61%	\$1.84	23,086	(246,445)	227,676	810,901	
Tustin	43	1,891,086	0	212,000	327,482	17.32%	399,415	21.12%	\$1.68	(23,479)	(37,715)	60,784	189,538	
Central County Total	396	29,663,067	0	1,216,462	5,152,468	17.37%	6,685,846	22.54%	\$1.97	176,268	(536,783)	666,379	2,383,607	
Airport Area														
Costa Mesa	74	7,304,252	0	562,510	1,351,183	18.50%	1,597,012	21.86%	\$1.98	(150,095)	(291,852)	141,917	392,568	
Irvine	289	25,809,310	250,000	1,127,975	5,825,971	22.57%	7,351,531	28.48%	\$2.22	(94,567)	(1,013,681)	706,776	2,507,206	
Newport Beach	127	9,341,051	0	0	1,580,540	16.92%	2,200,138	23.55%	\$2.46	(121,875)	(441,995)	182,821	790,442	
Airport Area Total	490	42,454,613	250,000	1,690,485	8,757,694	20.63%	11,148,681	26.26%	\$2.26	(366,537)	(1,747,528)	1,031,514	3,690,216	
South County														
Aliso Viejo	45	3,342,503	0	668,000	535,714	16.03%	751,582	22.49%	\$2.14	(31,455)	(148,355)	16,015	229,079	
Dana Point	3	135,296	0	35,000	3,600	2.66%	3,600	2.66%	\$0.00	(1,200)	0	2,400	0	
Foothill Ranch	10	788,129	0	0	277,311	35.19%	378,870	48.07%	\$2.04	13,545	9,150	15,704	213,920	
Irvine Spectrum	119	8,026,888	0	0	2,074,783	25.85%	2,504,858	31.21%	\$2.35	(169,306)	(347,273)	179,186	1,452,756	
Laguna Beach	5	194,434	2,500	8,100	32,369	16.65%	32,820	16.88%	\$0.00	2,674	(29,897)	4,076	3,323	
Laguna Hills	32	1,734,869	0	104,875	262,787	15.15%	323,814	18.67%	\$1.95	3,415	(58,819)	31,526	141,274	
Laguna Niguel	10	494,868	0	0	66,369	13.41%	75,599	15.28%	\$2.10	(20,893)	10,843	7,692	41,060	
Lake Forest	38	1,916,069	0	0	287,018	14.98%	636,165	33.20%	\$1.93	(48,356)	(11,837)	52,273	163,413	
Mission Viejo	37	1,952,091	0	0	239,056	12.25%	284,447	14.57%	\$1.95	23,093	(62,490)	73,588	172,381	
Rancho Santa Margarita	6	251,030	0	0	71,304	28.40%	72,519	28.89%	\$1.78	(2,206)	(793)	0	25,875	
San Clemente	9	344,437	0	0	41,476	12.04%	80,638	23.41%	\$1.76	2,263	(36,259)	2,263	12,526	
San Juan Capistrano	18	910,659	0	0	47,445	5.21%	70,701	7.76%	\$2.11	(8,147)	12,531	1,393	93,450	
South County Total	332	20,091,273	2,500	815,975	3,939,232	19.61%	5,215,613	25.96%	\$2.12	(236,573)	(663,199)	386,116	2,549,057	
Orange County Total	1,502	109,891,887	305,500	3,916,622	20,127,907	18.32%	26,095,883	23.75%	\$2.12	(414,162)	(3,318,385)	2,323,689	9,693,857	

	INVENTORY					VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2010	Square Feet Available	Availability Rate 1Q2010	Average Asking Lease Rate	Net Absorption 1Q2010	Net Absorption 2009	Gross Absorption 1Q2010	Gross Absorption 2009	
North County														
Class A	22	2,387,447	0	154,000	411,465	17.23%	547,595	22.94%	\$2.17	42,275	37,487	56,910	282,649	
Class B	85	5,353,194	40,000	35,200	859,625	16.06%	1,095,789	20.47%	\$1.76	(54,329)	(252,526)	24,151	363,792	
Class C	10	327,923	0	0	19,540	5.96%	21,113	6.44%	\$1.96	2,224	(11,130)	5,674	10,180	
West County														
Class A	29	2,872,722	0	0	311,395	10.84%	485,734	16.91%	\$2.17	3,754	(48,722)	29,865	158,813	
Class B	110	5,579,631	13,000	4,500	606,048	10.86%	822,414	14.74%	\$1.78	8,691	(60,535)	99,227	220,568	
Class C	28	1,162,017	0	0	70,440	6.06%	73,098	6.29%	\$1.49	10,065	(35,449)	23,893	34,975	
Central County														
Class A	74	11,699,912	0	960,820	2,136,048	18.26%	2,916,038	24.92%	\$2.10	93,156	(12,084)	313,228	1,034,083	
Class B	248	14,983,436	0	255,642	2,752,115	18.37%	3,410,721	22.76%	\$1.79	126,934	(547,003)	327,444	1,146,025	
Class C	74	2,979,719	0	0	264,305	8.87%	359,087	12.05%	\$1.60	(43,822)	22,304	25,667	203,499	
Airport Area														
Class A	134	23,848,534	0	1,226,510	5,706,591	23.93%	7,125,002	29.88%	\$2.41	(254,471)	(1,046,787)	555,205	2,049,317	
Class B	319	16,943,272	250,000	463,975	2,925,543	17.27%	3,881,943	22.91%	\$1.93	(106,821)	(626,009)	457,209	1,562,061	
Class C	37	1,662,807	0	0	125,560	7.55%	141,736	8.52%	\$1.62	(5,245)	(74,732)	19,100	78,838	
South County														
Class A	92	8,829,784	0	647,000	1,917,125	21.71%	2,395,673	27.13%	\$2.22	(95,957)	(136,179)	218,485	1,213,236	
Class B	230	10,712,275	2,500	168,975	2,012,885	18.79%	2,807,670	26.21%	\$1.91	(156,102)	(510,508)	150,080	1,309,325	
Class C	10	549,214	0	0	9,222	1.68%	12,270	2.23%	\$1.50	15,486	(16,512)	17,551	26,496	
Orange County														
Class A	351	49,638,399	0	2,988,330	10,482,624	21.12%	13,470,042	27.14%	\$2.29	(211,243)	(1,206,285)	1,173,693	4,738,098	
Class B	992	53,571,808	305,500	928,292	9,156,216	17.09%	12,018,537	22.43%	\$1.85	(181,627)	(1,996,581)	1,058,111	4,601,771	
Class C	159	6,681,680	0	0	489,067	7.32%	607,304	9.09%	\$1.61	(21,292)	(115,519)	91,885	353,988	
Orange County Total	1,502	109,891,887	305,500	3,916,622	20,127,907	18.32%	26,095,883	23.75%	\$2.12	(414,162)	(3,318,385)	2,323,689	9,693,857	

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.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
Griffin Towers	Airport	A	543,230	\$90,000,000	Lincoln Property Company	Maguire/RBS
2865–2867 E. Coast Hwy.	Airport	B	20,293	\$4,200,000	E Coast Hwy Holdings, LLC	Mccuiston Trust
17100 Gillette Ave.	Airport	B	21,480	\$3,250,000	RTED Irvine, LLC	General Electric Credit Equities
18792 E. 17th St.	Central	C	6,745	\$3,000,000	Citrus Health	Childrens Village Healthcare Centers
1505 E. 17th St.	Central	B	33,820	\$2,800,000	OCSSF–EP, LLC	1505 E. 17th St. Assoc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
14000 Jamboree Rd.	Airport	B	77,626	January–10	Henkle Corporation	The Irvine Company
3 Park Plz.	Airport	A	67,533	February–10	JP Morgan Chase	The Irvine Company
2411 W. La Palma Ave.	North	B	56,000	March–10	N/A	Living Stream Ministry
2601 Main St. – Renewal	Airport	A	43,185	March–10	Federal Express Corporation	Olen Properties
17661–17671 Cowan	Airport	B	27,156	February–10	N/A	Granite Trust Ir V, LLC

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.

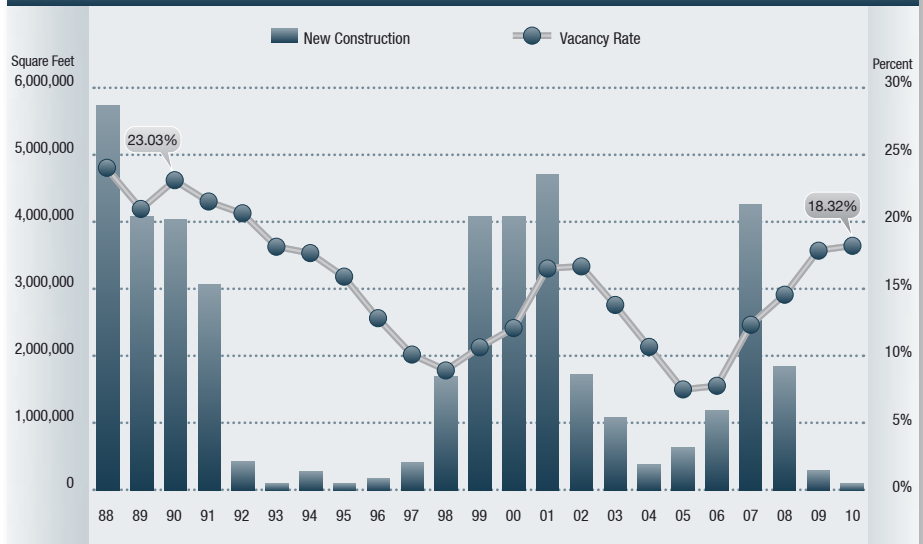
CLASS B

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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