

OFFICE MARKET REPORT

SECOND
QUARTER
2006

Compared to
last quarter:

VACANCY



ABSORPTION



LEASE RATES



CONSTRUCTION

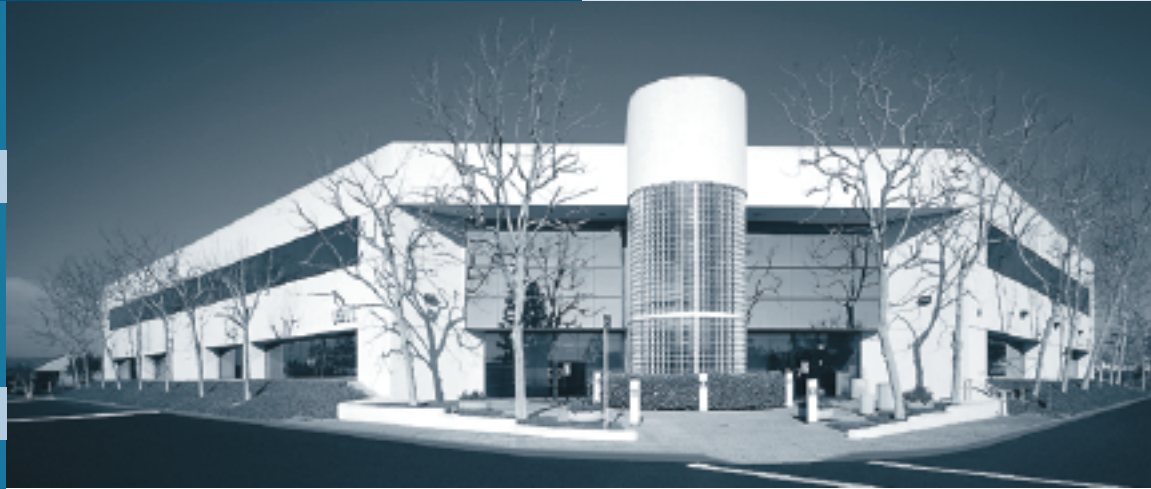


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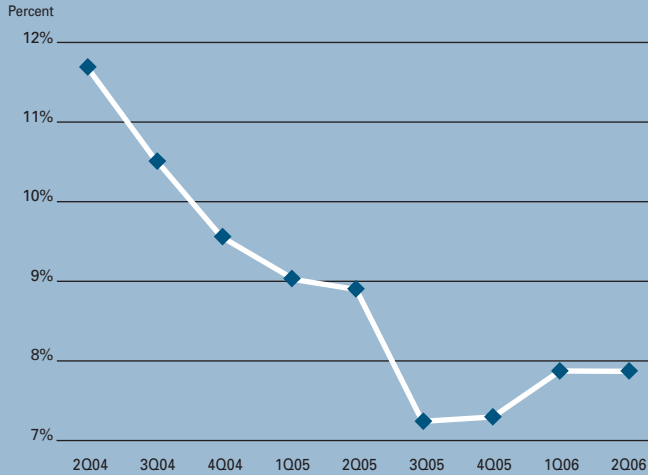
MARKET HIGHLIGHTS

- ◆ Unemployment for the second quarter of 2006 in Orange County is 3.2%, which is 0.4% lower than it was when compared to the first quarter of 2006, and is 0.3% lower than it was during the second quarter of 2005.
- ◆ According to Chapman University, it is estimated that Orange County added 34,000 new payroll jobs in 2005. Furthermore, they are forecasting 26,000 new payroll jobs will be added to the county in 2006 with another 21,000 jobs in 2007 as the Orange County economy continues to expand.
- ◆ Total space under construction checked in at 3.9 million square feet for the second quarter of 2006, which is ten times the amount that was under construction this same time last year.
- ◆ The office vacancy rate checked in at a sub 8% level of 7.88%, constituting a 12% decrease over last year's rate of 8.93%. This would also explain the increase in construction activity and the upward pressure on average asking lease rate.
- ◆ The total amount of office space available in Orange County, including both direct and sublease space, checked in at 11.39% this quarter from 11.15% in the second quarter of 2005, representing an increase of 2.15%.
- ◆ The average asking Full Service Gross lease rate per month per foot in Orange County is currently \$2.47, which is a 12.79% increase over last year's second quarter rate of \$2.19. This is the largest annual jump in lease rates since 1998 and represents one of the biggest jumps in one quarter, eight cents or almost 4% when compared to the first quarter of 2006. This is the tenth consecutive quarter of positive lease rate growth and represents a new record high.
- ◆ Net absorption for the county this quarter posted a negative number of 68,726 square feet, giving the county a total of 204,619 square feet of positive absorption for the first half of 2006. The office market has experienced almost 12 million square feet of positive absorption for the last seventeen quarters. That's an average of over 750,000 square feet of positive absorption per quarter for over four years.
- ◆ Lease rates are expected to continue to increase at moderate levels, and concessions will continue to lessen as the economy in Orange County continues to expand. These conditions will put upward pressure on lease rates going forward. We should see annual lease rate growth of 7% to 10% continuing in 2006.

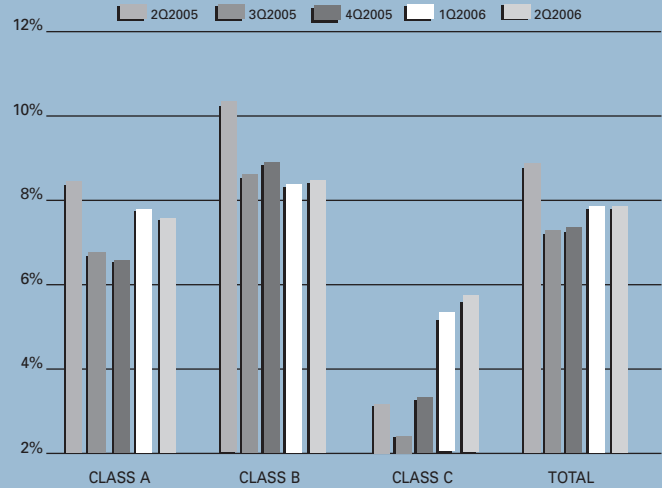
OFFICE MARKET STATISTICS

	2Q2006	1Q2006	2Q2005	% CHANGE VS. 2005
Under Construction	3,905,915	4,265,180	388,000	1006.68%
Planned Construction	4,075,202	3,735,909	5,650,508	-27.88%
Vacancy	7.88%	7.87%	8.93%	-11.76%
Availability	11.39%	10.41%	11.15%	2.15%
Pricing	\$2.47	\$2.39	\$2.19	12.79%
Net Absorption	(68,726)	273,345	830,835	N/A
Activity	2,590,257	3,182,798	3,750,746	-30.94%

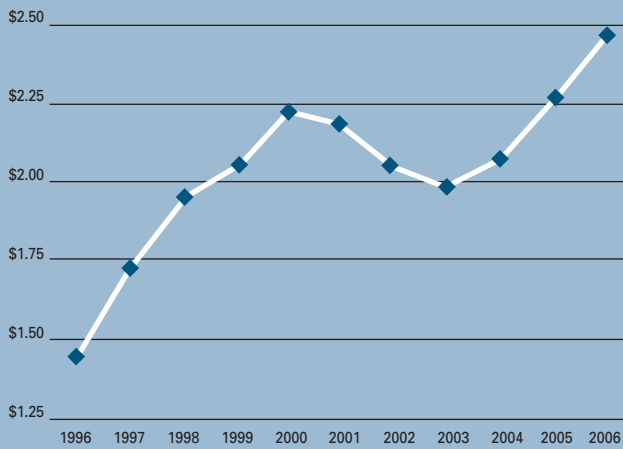
VACANCY RATE



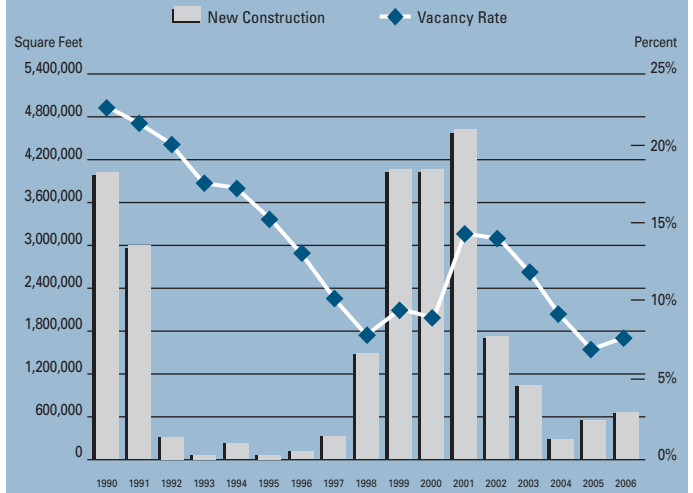
OFFICE VACANCY RATE



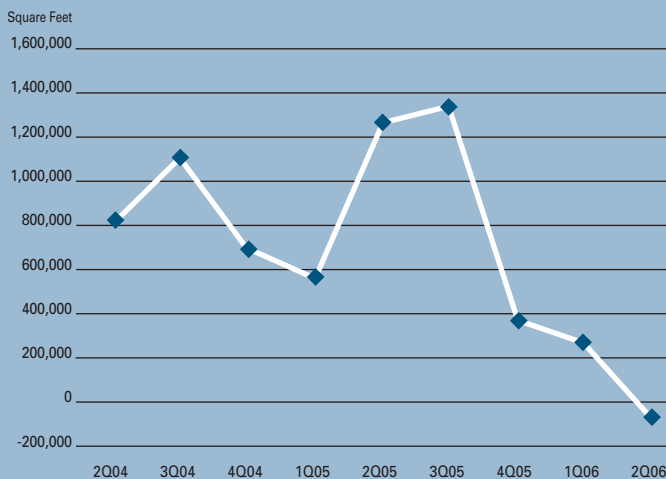
AVERAGE ASKING FULL SERVICE LEASE RATE



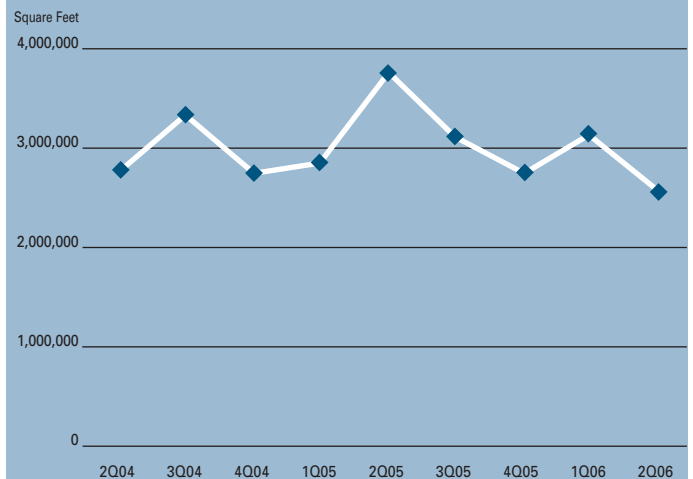
ANNUAL OFFICE NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



SECOND QUARTER 2006

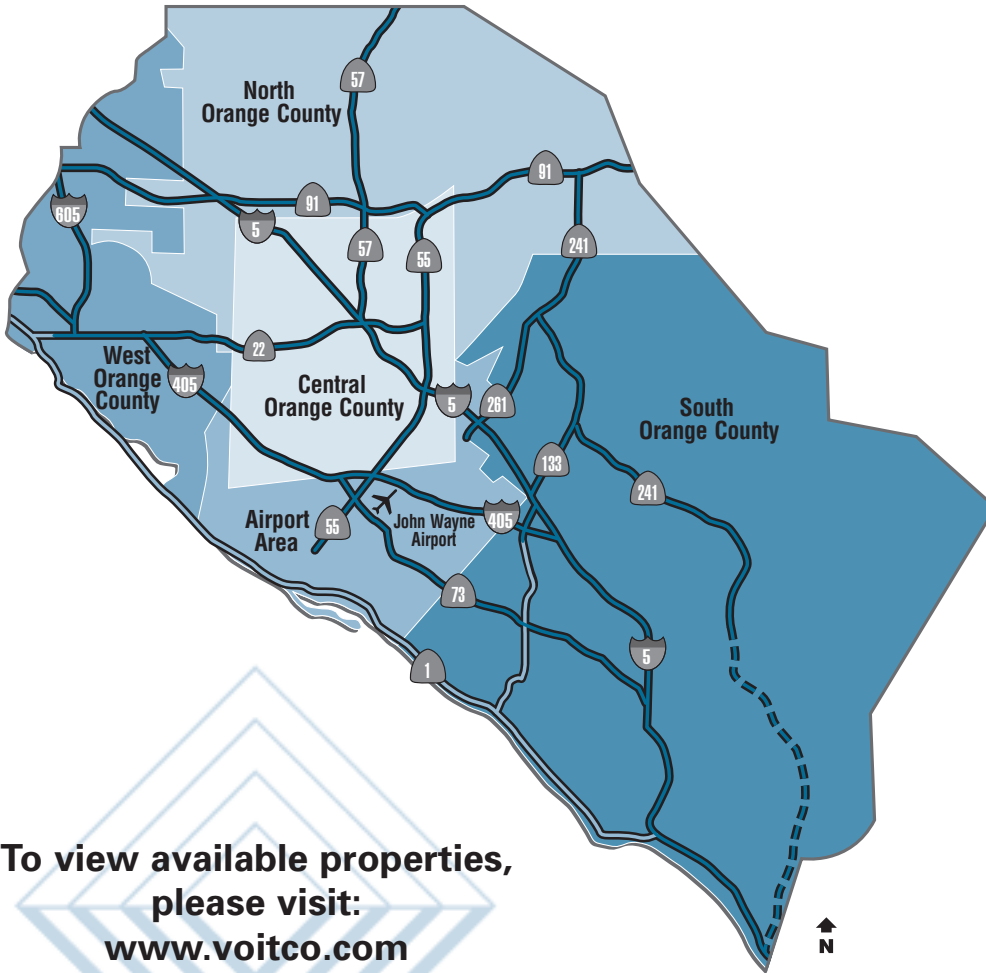
ORANGE COUNTY

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2006	Square Feet Available	Availability Rate 2Q2006	Average Asking Lease Rate	Net Absorption 2Q2006	Net Absorption 2006	Net Absorption 2005	Net Absorption 2004
North County													
Anaheim Hills	12	754,444	0	60,000	14,398	1.91%	14,398	1.91%	\$1.80	606	10,725	(4,960)	11,569
Brea	42	3,330,189	0	202,250	287,774	8.64%	388,367	11.66%	\$2.02	(57,594)	45,903	55,533	324,162
Buena Park	9	593,239	0	25,822	41,255	6.95%	41,255	6.95%	\$1.80	12,708	(5,062)	60,223	107,805
Fullerton	28	1,956,925	81,634	0	46,414	2.37%	69,643	3.56%	\$1.97	(17,006)	(23,593)	7,653	(7,982)
La Habra	7	376,859	0	0	13,236	3.51%	14,159	3.76%	\$1.55	5,682	(2,256)	21,392	20,641
La Palma	9	882,794	0	0	19,803	2.24%	23,926	2.71%	\$1.93	(5,886)	7,324	7,937	1,637
Placentia	5	165,875	0	0	13,138	7.92%	18,018	10.86%	\$1.85	(4)	2,418	(10,228)	7,777
Yorba Linda	6	319,684	0	0	16,977	5.31%	46,347	14.50%	\$1.73	(6,037)	(4,646)	(2,908)	12,119
North County Total	118	8,380,009	81,634	288,072	452,995	5.41%	616,113	7.35%	\$1.94	(67,531)	30,813	134,642	477,728
West County													
Cypress	27	2,135,220	0	0	145,786	6.83%	145,786	6.83%	\$2.06	52,228	43,248	176,874	18,404
Fountain Valley	31	1,544,636	0	0	185,978	12.04%	186,517	12.08%	\$1.95	41,069	(85,163)	83,818	(33,842)
Garden Grove	22	978,934	0	45,000	45,282	4.63%	45,282	4.63%	\$1.73	544	(224)	63,100	3,129
Huntington Beach	43	2,376,332	0	40,000	158,909	6.69%	180,490	7.60%	\$2.14	26,940	7,275	105,552	(83,869)
Los Alamitos	12	627,280	0	0	4,156	0.66%	4,806	0.77%	\$1.85	1,748	(4,156)	19,217	(3,163)
Seal Beach	6	425,418	0	0	1,210	0.28%	1,210	0.28%	\$0.00	0	12,145	24,082	15,106
Stanton	2	85,917	0	0	5,292	6.16%	5,292	6.16%	\$1.46	(1,691)	(1,691)	14,852	2,868
Westminster	12	485,174	0	0	60,992	12.57%	68,892	14.20%	\$2.13	(6,732)	(31,864)	(10,926)	27,647
West County Total	155	8,658,911	0	85,000	607,605	7.02%	638,275	7.37%	\$2.06	114,106	(60,430)	476,569	(53,720)
Central County													
Anaheim	86	5,807,645	0	463,211	448,350	7.72%	779,077	13.41%	\$2.07	(67,711)	(57,126)	116,941	43,136
Orange	76	6,988,601	0	0	508,556	7.28%	689,705	9.87%	\$2.20	(60,903)	(85,696)	191,690	(58,970)
Santa Ana	172	12,190,714	0	600,988	1,031,369	8.46%	1,184,715	9.72%	\$2.10	(23,482)	(10,809)	568,439	28,963
Tustin	34	1,466,938	66,980	0	363,976	24.81%	415,876	28.35%	\$1.91	(100,400)	(47,944)	(38,960)	3,037
Central County Total	368	26,453,898	66,980	1,064,199	2,352,251	8.89%	3,069,373	11.60%	\$2.11	(252,496)	(201,575)	835,110	16,166
Airport Area													
Corona Del Mar	2	86,378	0	0	0	0.00%	0	0.00%	\$0.00	0	0	12,200	(12,200)
Costa Mesa	64	6,394,866	76,650	426,510	525,736	8.22%	753,525	11.78%	\$2.65	78,309	120,459	362,251	52,840
Irvine	246	21,220,711	1,991,401	1,572,141	1,915,092	9.02%	3,123,771	14.72%	\$2.81	172,793	-24,976	953,637	1,081,510
Newport Beach	129	9,495,769	0	0	584,796	6.16%	932,267	9.82%	\$2.96	(33,176)	382,048	76,855	455,906
Airport Area Total	441	37,197,724	2,068,051	1,998,651	3,025,624	8.13%	4,809,563	12.93%	\$2.83	217,926	477,531	1,404,943	1,578,056
South County													
Aliso Viejo	42	2,803,005	596,000	350,000	161,222	5.75%	273,412	9.75%	\$2.96	(71,249)	(28,859)	113,223	296,782
Dana Point	3	159,876	0	0	0	0.00%	0	0.00%	\$0.00	0	0	(5,000)	0
Foothill Ranch	9	738,879	0	0	91,299	12.36%	114,927	15.55%	\$2.51	(19,345)	(44,870)	108,744	30,573
Irvine Spectrum	99	6,404,696	916,166	223,780	376,842	5.88%	966,624	15.09%	\$2.92	3,033	49,644	192,028	604,231
Laguna Beach	5	193,268	0	0	6,001	3.11%	6,001	3.11%	\$2.30	436	2,152	(8,153)	0
Laguna Hills	34	1,823,452	0	0	110,788	6.08%	123,944	6.80%	\$2.37	16,762	(9,099)	90,742	(32)
Laguna Niguel	10	663,140	0	25,500	24,657	3.72%	30,663	4.62%	\$2.70	11,803	10,742	9,021	(23,007)
Lake Forest	42	2,077,066	0	0	331,634	15.97%	331,634	15.97%	\$2.06	(152,967)	(133,499)	200,861	64,645
Mission Viejo	39	2,039,299	40,000	40,000	184,435	9.04%	212,110	10.40%	\$2.24	(7,572)	(13,169)	60,592	16,353
Rancho Santa Margarita	6	219,030	0	0	24,929	11.38%	28,179	12.87%	\$2.25	(2,007)	(8,337)	28,229	13,039
San Clemente	9	345,462	0	0	12,104	3.50%	13,990	4.05%	\$2.12	13,675	10,571	9,919	26,925
San Juan Capistrano	12	637,004	137,084	0	18,569	2.92%	18,569	2.92%	\$2.25	126,700	123,004	40,621	(1,938)
South County Total	310	18,104,177	1,689,250	639,280	1,342,480	7.42%	2,120,053	11.71%	\$2.65	(80,731)	(41,720)	840,827	1,027,571
Orange County Total	1,392	98,794,719	3,905,915	4,075,202	7,780,955	7.88%	11,253,377	11.39%	\$2.47	-68,726	204,619	3,692,091	3,045,801

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
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North County													
Class A	41	3,836,088	0	180,000	201,950	5.26%	181,389	4.73%	\$1.97	(30,323)	113,485	148,340	262,161
Class B	66	4,090,094	81,634	108,072	244,556	5.98%	422,627	10.33%	\$1.95	(35,955)	(80,762)	(13,381)	207,683
Class C	11	453,827	0	0	6,489	1.43%	12,097	2.67%	\$1.38	(1,253)	(1,910)	(317)	7,884
West County													
Class A	33	3,191,442	0	45,000	194,983	6.11%	216,954	6.80%	\$2.19	36,378	(476)	291,803	(33,419)
Class B	93	4,057,979	0	40,000	260,697	6.42%	268,557	6.62%	\$1.89	76,838	63,708	166,949	(16,202)
Class C	29	1,409,490	0	0	151,925	10.78%	152,764	10.84%	\$1.75	890	(123,662)	17,817	(4,099)
Central County													
Class A	86	12,329,567	0	1,034,199	1,097,931	8.90%	1,591,842	12.91%	\$2.26	(168,909)	(304,930)	653,691	2,117
Class B	231	11,986,557	66,980	30,000	1,149,370	9.59%	1,372,581	11.45%	\$1.93	(70,970)	119,179	145,258	41,834
Class C	51	2,137,774	0	0	104,950	4.91%	104,950	4.91%	\$1.65	(12,617)	(15,824)	36,161	(27,785)
Airport Area													
Class A	128	21,467,145	1,382,467	1,763,381	1,757,387	8.19%	3,304,666	15.39%	\$3.00	155,835	(9,009)	653,325	1,139,278
Class B	281	14,181,352	685,584	235,270	1,203,985	8.49%	1,405,406	9.91%	\$2.29	47,016	491,055	718,678	435,768
Class C	32	1,549,227	0	0	64,252	4.15%	99,491	6.42%	\$2.08	15,075	(4,515)	32,940	3,010
South County													
Class A	119	9,637,583	1,522,166	415,500	582,527	6.04%	830,999	8.62%	\$2.81	5,142	17,414	553,016	503,357
Class B	181	8,140,160	167,084	223,780	749,351	9.21%	1,278,452	15.71%	\$2.20	(85,537)	(60,514)	287,482	530,320
Class C	10	326,434	0	0	10,602	3.25%	10,602	3.25%	\$1.85	(336)	1,380	329	(6,106)
Orange County													
Class A	407	50,461,825	2,904,633	3,438,080	3,834,778	7.60%	6,125,850	12.14%	\$2.69	(1,877)	(183,516)	2,300,175	1,873,494
Class B	852	42,456,142	1,001,282	637,122	3,607,959	8.50%	4,747,623	11.18%	\$2.06	(68,608)	532,666	1,304,986	1,199,403
Class C	133	5,876,752	0	0	338,218	5.76%	379,904	6.46%	\$1.84	1,759	(144,531)	86,930	(27,096)
Orange County Total	1,392	98,794,719	3,905,915	4,075,202	7,780,955	7.88%	11,253,377	11.39%	\$2.47	-68,726	204,619	3,692,091	3,045,801

OFFICE MARKET REPORT

SECOND QUARTER 2006



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SUBMARKETS

NORTH

Anaheim Hills, Brea, Buena Park, Fullerton, La Habra, La Palma, Placentia and Yorba Linda

WEST

Cypress, Fountain Valley, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton and Westminster

CENTRAL

Anaheim, Orange, Santa Ana and Tustin

AIRPORT

Corona Del Mar, Costa Mesa, Irvine and Newport Beach

SOUTH

Aliso Viejo, Dana Point, Foothill Ranch, Irvine Spectrum, Laguna Beach, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

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.

For Further Information:

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