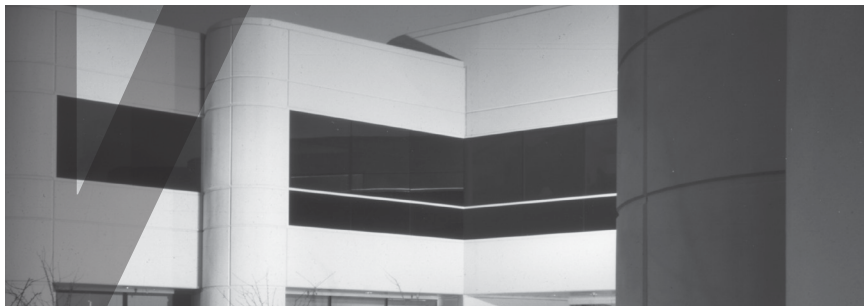




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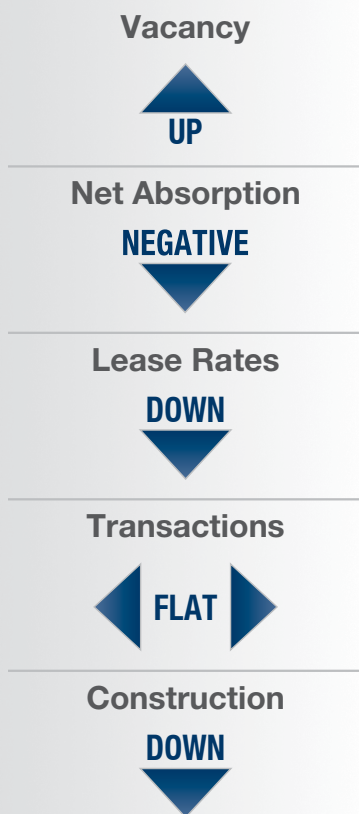
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Office Market Report

Compared to last quarter:



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Market Highlights

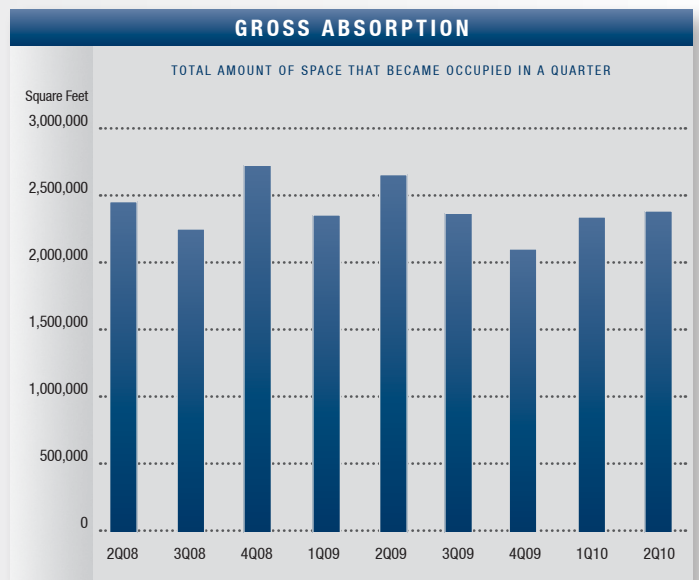
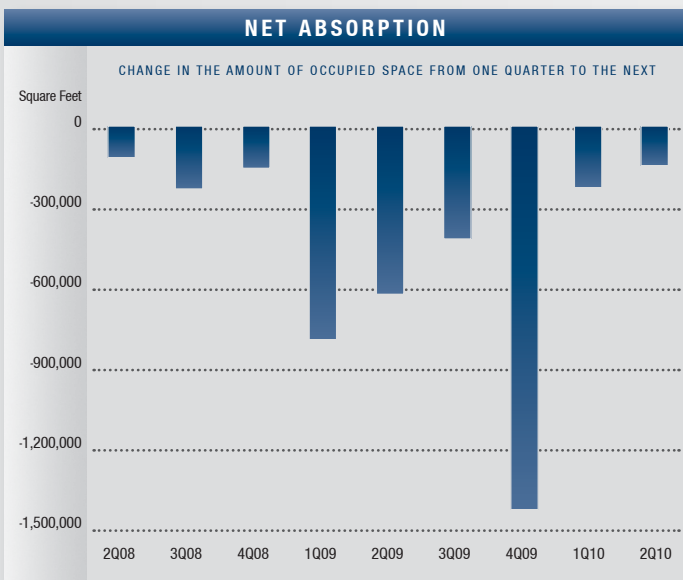
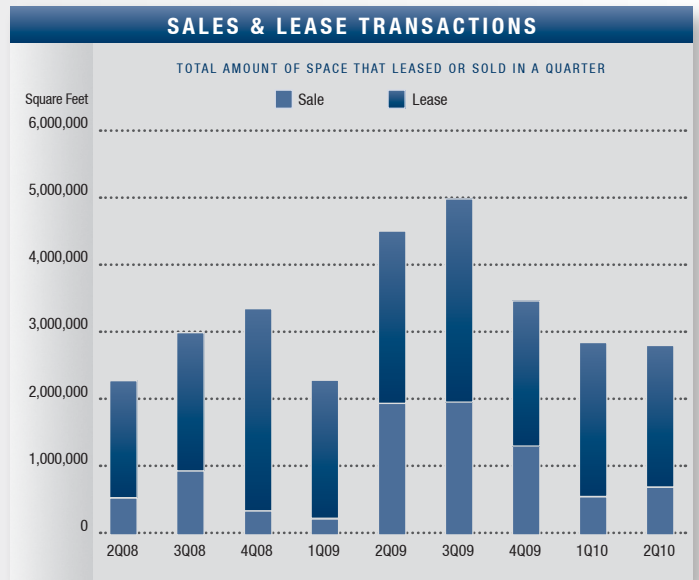
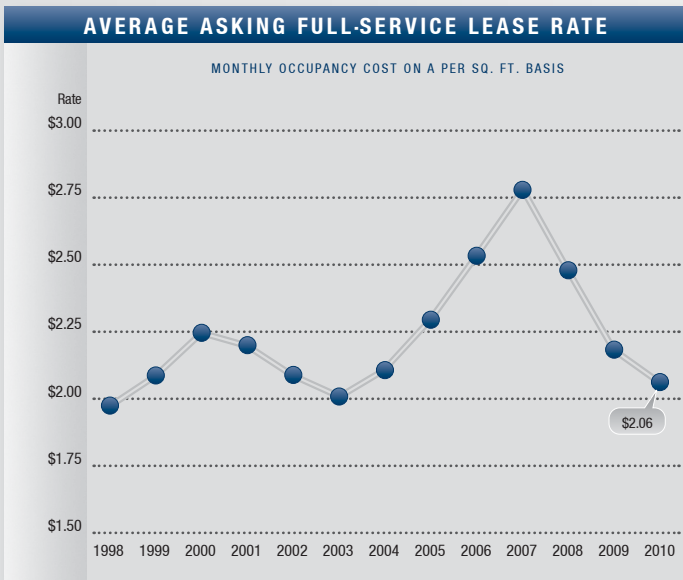
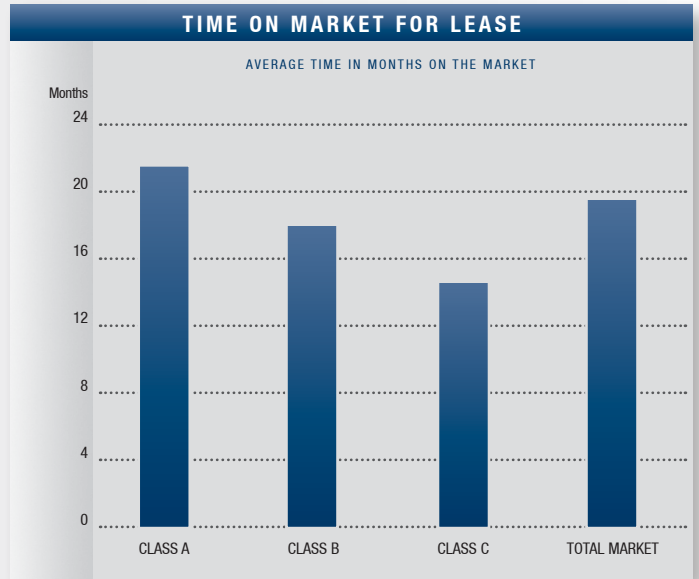
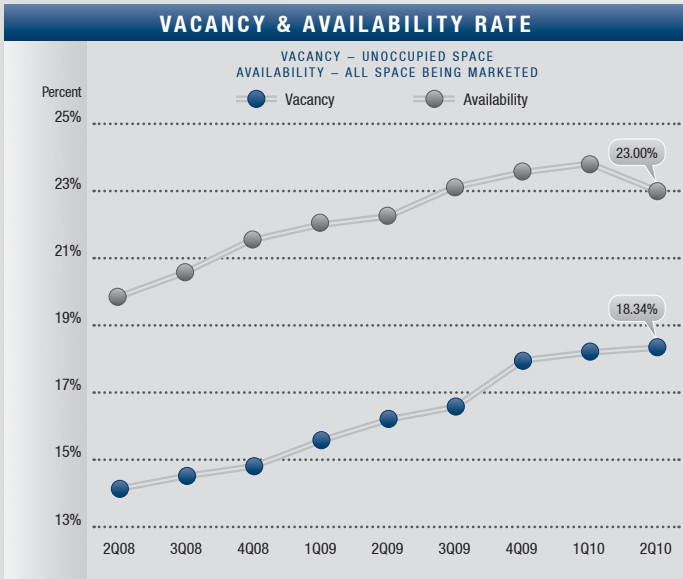
- ◆ **Encouraging Numbers** - The Orange County Office Market is showing trends of stabilization. Availability is down from last quarter, vacancy rose slightly, and net absorption, while still negative, has also improved. Although demand is still weak by historical standards, the volume of sales transactions is increasing. While these are positive indications, stability will need to be sustained in following quarters to be considered recovery.
- ◆ **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%. Total space under construction came in at 158,500 square feet for the second quarter of 2010. 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 18.34%, a slight increase over the first quarter rate of 18.21%, another indication that the market is stabilizing. This rate of 18.34% is still less than the 23% vacancy rate recorded in 1990.
- ◆ **Availability** - Direct/sublease space being marketed was at 23% this quarter — only a 3.14% increase over last year's rate of 22.30% and a noticeable decrease from last quarter's rate of 23.87%. 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 square foot in Orange County was \$2.06 — a 10.04% decrease over last year's rate of \$2.29 and six 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 \$2.23 FSG — the highest being in the Airport market where they are averaging \$2.33 FSG.
- ◆ **Absorption** - Net absorption for the county posted a negative 143,257 square feet for the second quarter of 2010, giving the office market a total of 364,673 square feet of negative absorption for 2010; for the past 5 quarters the office market has been averaging approximately 560,000 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 2.1 million square feet, a slight decrease over last quarter's total of 2.3 million square feet. Sales activity showed an increase, posting 682,348 square feet of activity compared to last quarter's 543,230 square feet. The 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.
- ◆ **Employment** - The unemployment rate in Orange County was 9.2% in May 2010 — down from a revised 9.5% in April 2010 and above the year ago estimate of 8.6%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, Orange County lost 14,800 payroll jobs over the last twelve months; the largest loss was 12,300 jobs in construction. However, during that same period, Orange County gained 8,300 jobs in leisure and hospitality and another 900 jobs in education and health services.
- ◆ **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 enter into the second half of 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

	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy	18.34%	18.21%	16.22%	13.07%
Availability	23.00%	23.87%	22.30%	3.14%
Pricing	\$2.06	\$2.12	\$2.29	(10.04%)
Sale & Lease Transactions	2,797,172	2,818,817	4,432,023	(36.89%)
Gross Absorption	2,377,764	2,322,767	2,650,449	(10.29%)
Net Absorption	(143,257)	(221,416)	(608,703)	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2010	Square Feet Available	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
North County													
Anaheim Hills	9	450,097	100,000	34,000	97,214	21.60%	133,785	29.72%	\$1.91	(666)		6,908	13,043
Brea	43	3,450,202	0	127,013	723,154	20.96%	858,717	24.89%	\$1.98	37,678	19,928	75,562	113,018
Buena Park	12	679,060	0	0	110,614	16.29%	138,605	20.41%	\$1.60	101	(13,620)	9,791	14,557
Fullerton	29	2,188,412	0	24,000	112,600	5.15%	316,589	14.47%	\$1.58	2,798	3,306	5,217	12,093
La Habra	6	237,859	0	0	6,202	2.61%	18,667	7.85%	\$1.62	1,026	4,846	1,477	5,297
La Palma	7	571,393	0	0	99,223	17.37%	139,604	24.43%	\$2.08	1,604	20,147	5,093	28,118
Placentia	7	224,923	43,000	0	67,236	29.89%	67,236	29.89%	\$1.57	277	3,404	490	5,147
Yorba Linda	6	337,312	0	13,200	34,634	10.27%	38,877	11.53%	\$1.77	21,535	6,818	26,858	26,858
North County Total	119	8,139,258	143,000	198,213	1,250,877	15.37%	1,712,080	21.03%	\$1.89	64,353	45,823	131,396	218,131
West County													
Cypress	27	1,994,579	0	0	184,504	9.25%	154,530	7.75%	\$1.91	(33,054)	(40,359)	7,699	10,090
Fountain Valley	33	1,703,037	0	0	258,446	15.18%	280,972	16.50%	\$1.90	(35,593)	(35,717)	10,559	27,402
Garden Grove	22	1,490,658	0	0	44,102	2.96%	192,278	12.90%	\$1.49	6,917	15,843	7,192	30,710
Huntington Beach	44	2,427,165	0	4,500	403,291	16.62%	522,230	21.52%	\$2.06	(249)	13,300	31,668	78,187
Los Alamitos	13	615,456	13,000	0	42,566	6.92%	43,959	7.14%	\$1.86	(1,222)	(18,854)	0	0
Seal Beach	7	482,838	0	0	34,544	7.15%	60,718	12.58%	\$2.30	19,056	23,665	36,837	43,305
Stanton	3	113,702	0	0	8,938	7.86%	14,367	12.64%	\$0.00	3,228	(138)	3,560	14,367
Westminster	16	700,121	0	0	37,014	5.29%	69,218	9.89%	\$1.79	(1,578)	15,195	0	40,839
West County Total	165	9,527,556	13,000	4,500	1,013,405	10.64%	1,338,272	14.05%	\$1.97	(42,495)	(27,065)	97,515	244,900
Central County													
Anaheim	97	7,407,681	0	378,500	1,732,100	23.38%	2,053,224	27.72%	\$1.77	(297,203)	(282,117)	89,368	175,073
Orange	79	7,194,368	0	0	1,411,383	19.62%	1,584,724	22.03%	\$2.08	(189,847)	25,247	70,758	362,929
Santa Ana	178	13,278,774	0	789,962	1,931,056	14.54%	2,303,296	17.35%	\$1.79	211,042	223,552	391,770	618,794
Tustin	41	1,786,099	0	212,000	317,544	17.78%	388,819	21.77%	\$1.64	3,275	(21,054)	27,936	88,720
Central County Total	395	29,666,922	0	1,380,462	5,392,083	18.18%	6,330,063	21.34%	\$1.88	(272,733)	(54,372)	579,832	1,245,516
Airport Area													
Costa Mesa	74	7,298,840	0	562,510	1,422,552	19.49%	1,633,818	22.38%	\$1.90	(59,658)	(212,464)	75,225	217,546
Irvine	290	25,828,755	0	1,377,975	5,787,145	22.41%	7,291,123	28.23%	\$2.15	(28,299)	(13,298)	746,192	1,452,971
Newport Beach	127	9,397,410	0	10,000	1,539,284	16.38%	2,023,962	21.54%	\$2.41	41,086	(114,082)	187,859	370,680
Airport Area Total	491	42,525,005	0	1,950,485	8,748,981	20.57%	10,948,903	25.75%	\$2.20	(46,871)	(339,844)	1,009,276	2,041,197
South County													
Aliso Viejo	43	3,137,330	0	668,000	482,463	15.38%	704,619	22.46%	\$2.16	53,251	21,796	127,125	143,140
Dana Point	3	135,296	0	35,000	3,600	2.66%	3,600	2.66%	\$0.00	0	(1,200)	0	2,400
Foothill Ranch	10	788,129	0	0	266,469	33.81%	389,283	49.39%	\$2.02	10,842	24,387	66,638	82,342
Irvine Spectrum	118	7,991,303	0	0	1,885,855	23.60%	2,248,216	28.13%	\$2.29	75,643	4,051	181,287	360,473
Laguna Beach	5	194,434	2,500	8,100	32,049	16.48%	30,951	15.92%	\$0.00	320	2,994	1,418	5,494
Laguna Hills	32	1,741,727	0	78,000	246,214	14.14%	313,869	18.02%	\$1.88	18,331	21,746	58,597	90,123
Laguna Niguel	10	494,868	0	0	67,382	13.62%	78,450	15.85%	\$2.10	(1,013)	(21,906)	10,522	18,214
Lake Forest	38	1,916,174	0	0	281,553	14.69%	618,107	32.26%	\$1.90	5,900	(42,456)	76,591	128,864
Mission Viejo	37	1,952,091	0	0	256,306	13.13%	302,219	15.48%	\$1.89	(17,250)	5,843	11,551	85,139
Rancho Santa Margarita	6	251,030	0	0	63,399	25.26%	66,229	26.38%	\$1.55	7,905	5,699	7,905	7,905
San Clemente	10	387,818	0	0	45,520	11.74%	56,584	14.59%	\$1.85	(46)	2,217	6,889	9,152
San Juan Capistrano	17	867,278	0	0	87,756	10.12%	91,407	10.54%	\$2.11	606	(5,719)	5,244	8,459
South County Total	329	19,857,478	2,500	789,100	3,718,566	18.73%	4,903,534	24.69%	\$2.07	154,489	17,452	553,767	941,705
Orange County Total	1,499	109,716,219	158,500	4,322,760	20,123,912	18.34%	25,232,852	23.00%	\$2.06	(143,257)	(358,006)	2,371,786	4,691,449

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2010	Square Feet Available	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
North County													
Class A	22	2,387,060	0	154,000	354,843	14.87%	547,518	22.94%	\$2.17	56,622	98,897	71,630	128,540
Class B	87	5,424,275	143,000	44,213	877,522	16.18%	1,144,477	21.10%	\$1.97	6,703	(56,326)	57,688	81,839
Class C	10	327,923	0	0	18,512	5.65%	20,085	6.12%	\$1.71	1,028	3,252	2,078	7,752
West County													
Class A	29	2,871,898	0	0	340,534	11.86%	524,902	18.28%	\$2.13	(41,592)	(37,838)	39,613	69,478
Class B	109	5,574,198	13,000	4,500	606,581	10.88%	739,634	13.27%	\$1.76	(5,053)	2,158	53,420	152,647
Class C	27	1,081,460	0	0	66,290	6.13%	73,736	6.82%	\$1.52	4,150	8,615	4,482	22,775
Central County													
Class A	74	11,704,363	0	1,172,820	2,310,652	19.74%	2,751,672	23.51%	\$2.08	(183,648)	(44,824)	206,196	519,424
Class B	248	15,091,038	0	207,642	2,842,054	18.83%	3,201,660	21.22%	\$1.65	(116,083)	9,346	317,865	644,654
Class C	73	2,871,521	0	0	239,377	8.34%	376,731	13.12%	\$1.49	26,998	(18,894)	55,771	81,438
Airport Area													
Class A	133	23,834,059	0	1,014,510	5,782,253	24.26%	7,073,126	29.68%	\$2.33	(99,358)	(312,383)	462,434	997,699
Class B	323	17,109,982	0	935,975	2,831,392	16.55%	3,739,314	21.85%	\$1.89	57,609	(12,174)	534,196	1,011,926
Class C	35	1,580,964	0	0	135,336	8.56%	136,463	8.63%	\$1.53	(5,122)	(15,287)	12,646	31,572
South County													
Class A	89	8,693,479	0	647,000	1,692,843	19.47%	2,144,196	24.66%	\$2.16	95,331	15,064	328,979	541,207
Class B	230	10,614,785	2,500	142,100	2,015,002	18.98%	2,743,928	25.85%	\$1.88	60,222	(12,034)	222,214	380,373
Class C	10	549,214	0	0	10,721	1.95%	15,410	2.81%	\$1.50	(1,064)	14,422	2,574	20,125
Orange County													
Class A	347	49,490,859	0	2,988,330	10,481,125	21.18%	13,041,414	26.35%	\$2.23	(172,645)	(281,084)	1,108,852	2,256,348
Class B	997	53,814,278	158,500	1,334,430	9,172,551	17.04%	11,569,013	21.50%	\$1.79	3,398	(69,030)	1,185,383	2,271,439
Class C	155	6,411,082	0	0	470,236	7.33%	622,425	9.71%	\$1.52	25,990	(7,892)	77,551	163,662
Orange County Total	1,499	109,716,219	158,500	4,322,760	20,123,912	18.34%	25,232,852	23.00%	\$2.06	(143,257)	(358,006)	2,371,786	4,691,449

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 per SF	Buyer	Seller
2211 Michelson Ave.	Airport	A	271,556	\$381.51	Kilroy Realty Corporation	Hines
Griffin Towers	Airport	A	543,230	\$162.01	Lincoln Property Company	Maguire/RBS
999 W. Town & Country Rd.	Central	B	98,551	\$240.48	Kilroy Realty Corporation	TA Associates Realty
17600 Gillette Ave.	Airport	B	98,925	\$205.71	Hines Global REIT	AJ Irvine Owner Corporation
1570 E. Warner Ave.	Airport	C	38,316	\$75.69	Taifa USA Corporation	Chung & Company, LLC
20051 Birch St.	Airport	B	30,000	\$42.17	David & Brenda Huie	Manijeh E. Lani Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5 Peters Canyon Rd.	Airport	A	107,152	May-10	LSI Title	TA Associates
6251 Katella Ave.	West	B	68,815	May-10	Educational Significa	Warland Investments
6561 Irvine Center Dr.	South	B	64,006	May-10	Sage Software	The Irvine Company
2600 Michelson Dr.	Airport	A	39,988	May-10	LA Fitness International	Maguire Properties
25500-25550 Commercentre	South	A	36,291	May-10	Oakley	Kennedy Associates RE Counsel, LP
17885 Von Karman Ave.	Airport	A	31,700	April-10	Tetra Tech, Inc.	MPG Office Trust, Inc.

Product Type

CLASS A

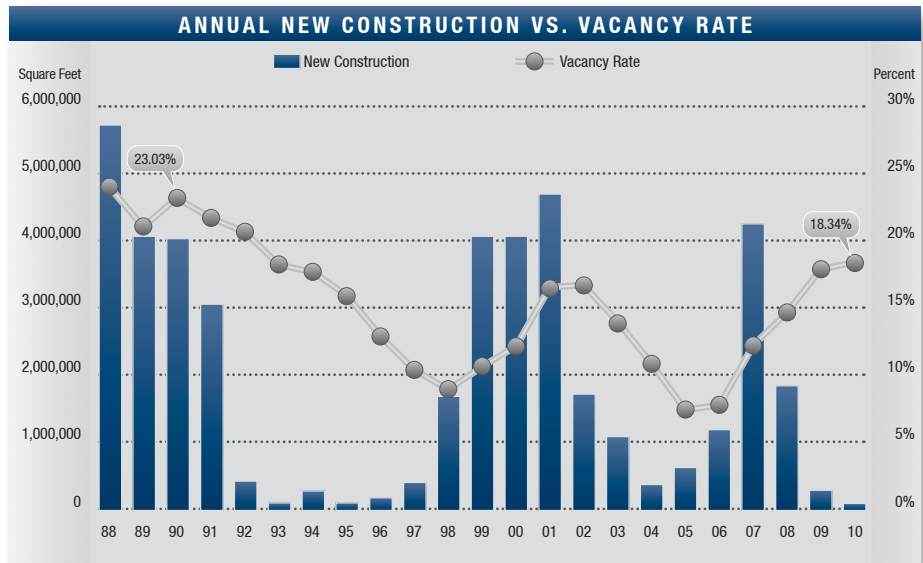
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.



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