

OFFICE MARKET REPORT

THIRD
QUARTER
2006

Compared to
last quarter:

VACANCY



ABSORPTION



LEASE RATES



CONSTRUCTION

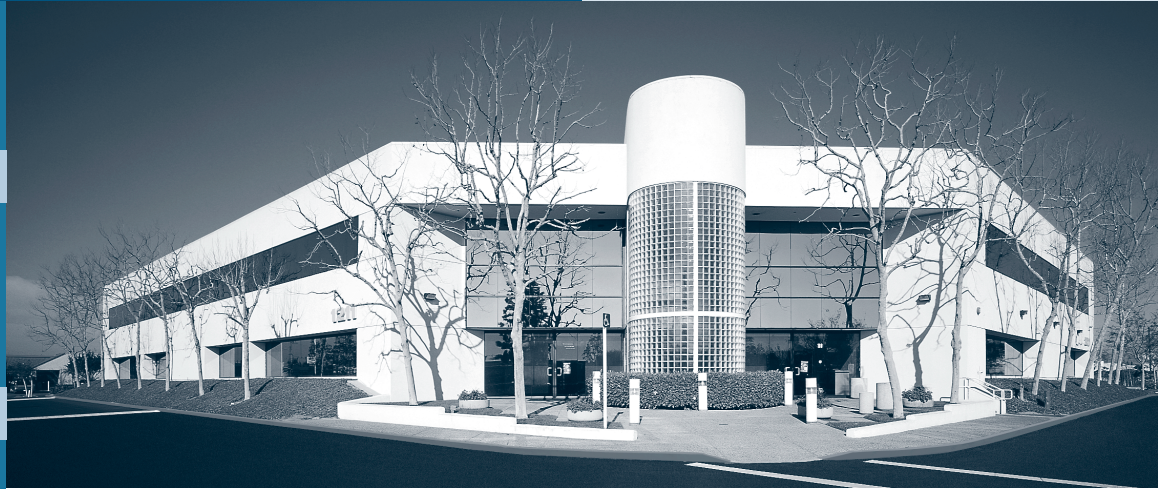


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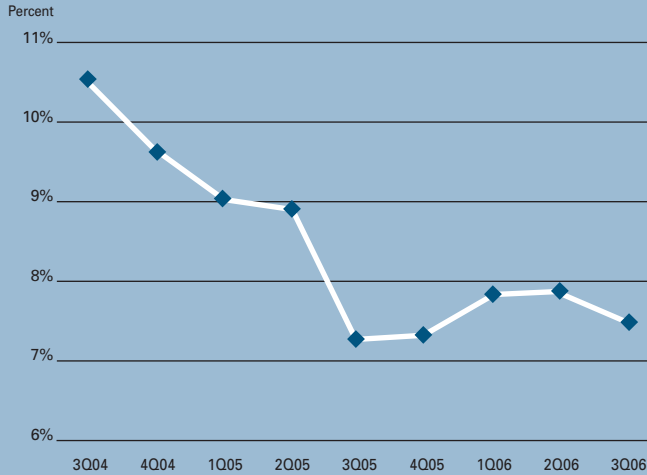
MARKET HIGHLIGHTS

- ◆ Unemployment for the third quarter of 2006 in Orange County is 3.6%, which is 0.4% higher than it was when compared to the second quarter of 2006, and is 0.2% lower than it was during the third 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 5 million square feet for the third quarter of 2006, which is almost three times the amount that was under construction this same time last year.
- ◆ The office vacancy rate checked in at a sub 8% level of 7.49%, constituting a 2% increase over last year's third quarter all time record low rate of 7.34%. 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 10.91% this quarter from 10.17% in the third quarter of 2005, representing an increase of 7.28%.
- ◆ The average asking Full Service Gross lease rate per month per foot in Orange County is currently \$2.48, which is a 9.73% increase over last year's third quarter rate of \$2.26. This is the eleventh consecutive quarter of positive lease rate growth and represents a new record high.
- ◆ Net absorption for the county this quarter posted a positive number of 391,227 square feet, giving the county a total of 763,577 square feet of positive absorption for the first three quarters of 2006. The office market has experienced over 13 million square feet of positive absorption for the last eighteen quarters. That's an average of over 730,000 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.

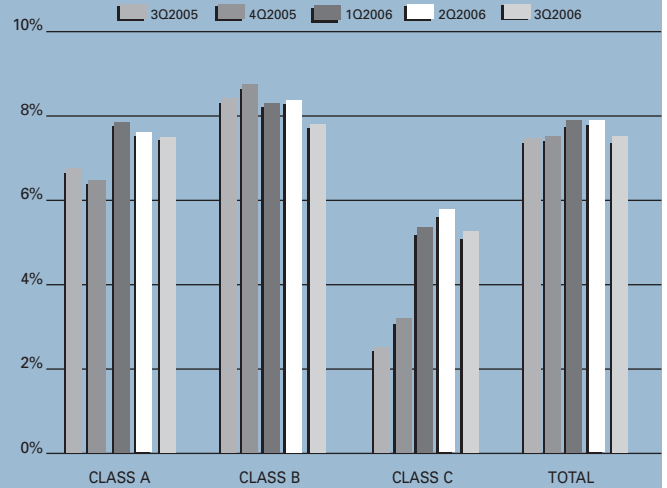
OFFICE MARKET STATISTICS

	3Q2006	2Q2006	3Q2005	% CHANGE VS. 3Q05
Under Construction	4,981,475	3,905,915	1,753,296	284.12%
Planned Construction	2,991,239	4,075,202	7,279,319	-58.91%
Vacancy	7.49%	7.88%	7.34%	2.04%
Availability	10.91%	11.39%	10.17%	7.28%
Pricing	\$2.48	\$2.47	\$2.26	9.73%
Net Absorption	391,227	(68,726)	1,340,024	-70.80%
Activity	2,825,622	2,592,631	3,146,591	-10.20%

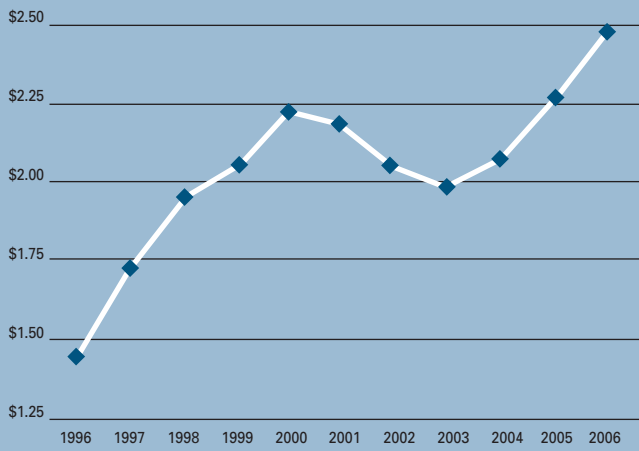
VACANCY RATE



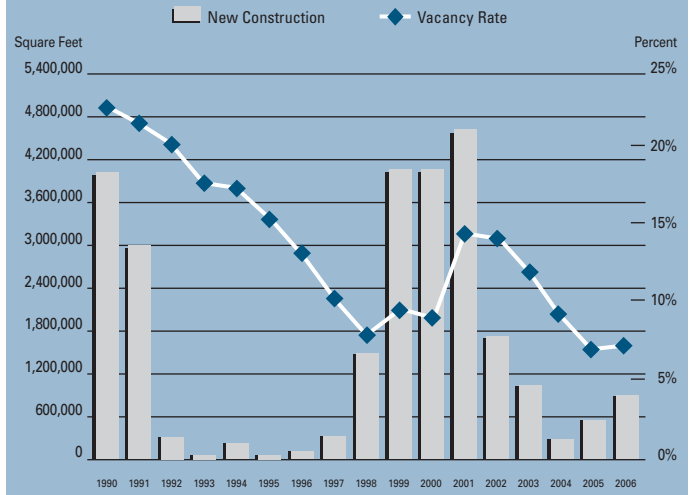
OFFICE VACANCY RATE



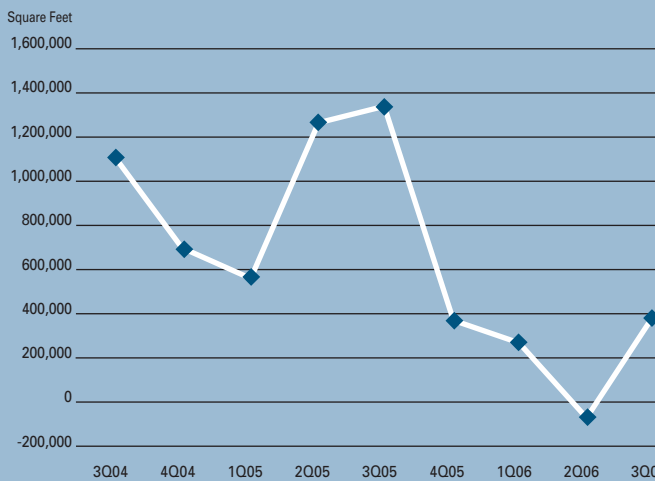
AVERAGE ASKING FULL SERVICE LEASE RATE



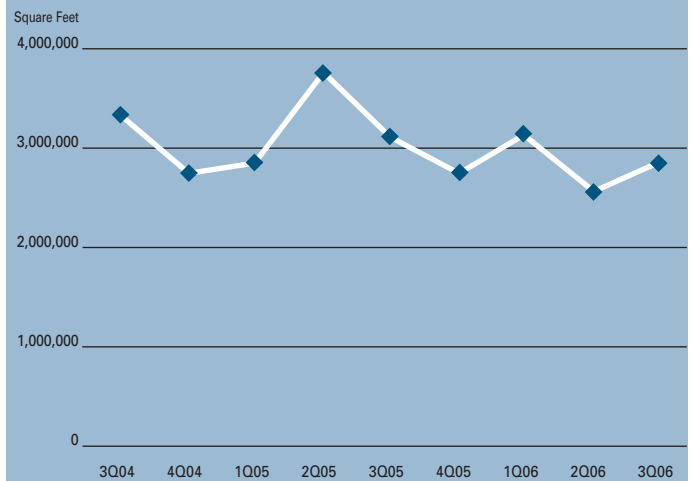
ANNUAL OFFICE NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



T H I R D Q U A R T E R 2 0 0 6

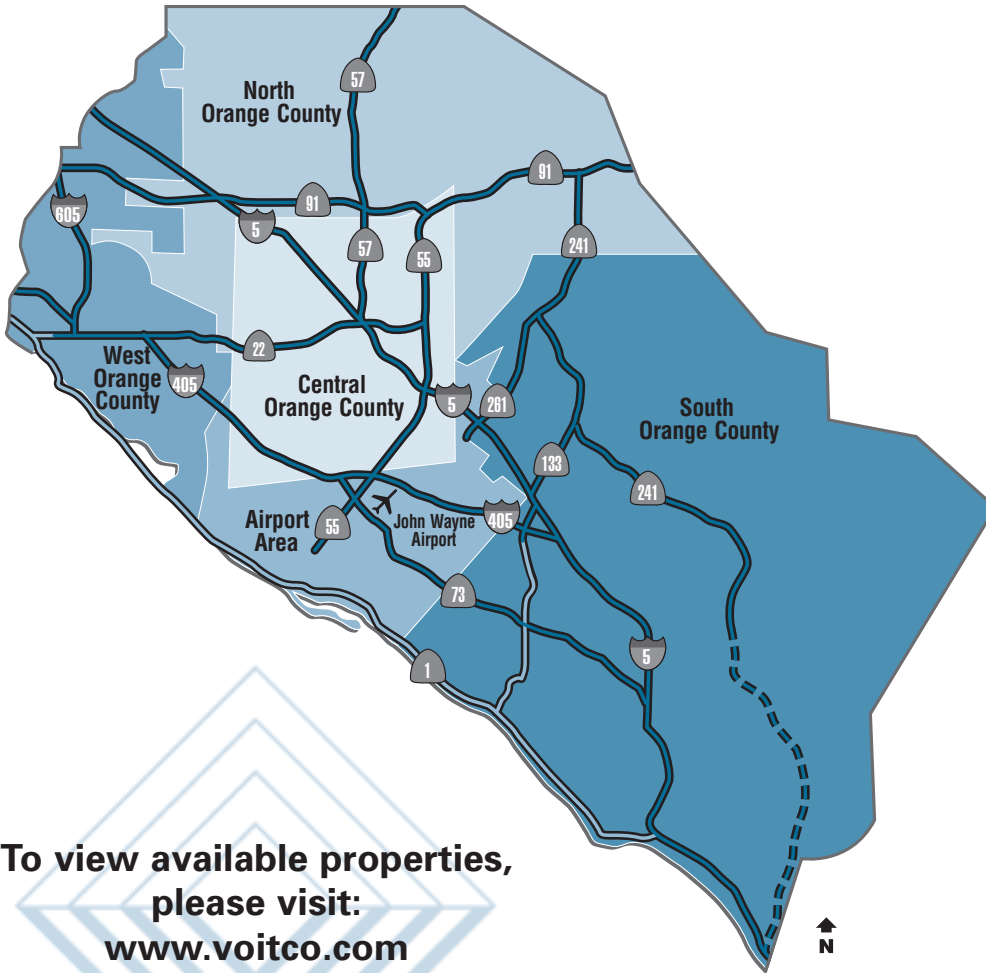
O R A N G E C O U N T Y

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2006	Square Feet Available	Availability Rate 3Q2006	Average Asking Lease Rate	Net Absorption 3Q2006	Net Absorption 2006	Net Absorption 2005	Net Absorption 2004
North County													
Anaheim Hills	12	754,455	0	62,500	27,543	3.65%	27,543	3.65%	\$1.82	(13,145)	(2,420)	(4,960)	11,569
Brea	42	3,328,901	0	202,250	197,611	5.94%	371,751	11.17%	\$2.02	90,163	136,066	55,533	324,162
Buena Park	9	593,239	25,822	0	27,267	4.60%	35,594	6.00%	\$1.83	13,988	8,926	60,223	107,805
Fullerton	28	1,956,925	81,634	0	36,085	1.84%	66,579	3.40%	\$2.03	10,329	(13,264)	7,653	(7,982)
La Habra	7	376,859	0	0	9,891	2.62%	9,891	2.62%	\$1.65	3,345	1,089	21,392	20,641
La Palma	9	882,794	0	0	19,155	2.17%	22,860	2.59%	\$1.91	648	7,972	7,937	1,637
Placentia	5	165,875	0	0	10,824	6.53%	15,704	9.47%	\$1.85	2,314	4,732	(10,228)	7,777
Yorba Linda	6	319,684	0	0	11,613	3.63%	14,136	4.42%	\$1.33	5,364	718	(2,908)	12,119
North County Total	118	8,378,732	107,456	264,750	339,989	4.06%	564,058	6.73%	\$1.95	113,006	143,819	134,642	477,728
West County													
Cypress	28	2,167,476	0	0	155,222	7.16%	155,222	7.16%	\$2.05	(1,836)	33,812	176,874	18,404
Fountain Valley	31	1,544,636	0	0	177,927	11.52%	180,011	11.65%	\$2.04	8,051	(77,112)	83,818	(33,842)
Garden Grove	22	966,409	0	45,000	47,285	4.89%	47,285	4.89%	\$1.76	(11,003)	(11,227)	63,100	3,129
Huntington Beach	43	2,376,332	40,000	0	183,481	7.72%	183,481	7.72%	\$2.17	(24,572)	(17,297)	105,552	(83,869)
Los Alamitos	12	612,935	0	0	13,041	2.13%	24,272	3.96%	\$1.75	(8,885)	(13,041)	19,217	(3,163)
Seal Beach	6	425,418	0	0	2,749	0.65%	3,804	0.89%	\$0.00	(1,539)	10,606	24,082	15,106
Stanton	2	85,917	0	0	3,325	3.87%	3,325	3.87%	\$0.00	1,967	276	14,852	2,868
Westminster	12	485,174	0	0	83,392	17.19%	83,392	17.19%	\$2.16	(25,000)	(54,264)	(10,926)	27,647
West County Total	156	8,664,297	40,000	45,000	666,422	7.69%	680,792	7.86%	\$2.06	(62,817)	(128,247)	476,569	(53,720)
Central County													
Anaheim	86	5,811,377	0	463,211	605,676	10.42%	865,680	14.90%	\$2.11	(156,594)	(214,452)	116,941	43,136
Orange	76	6,994,990	0	0	501,516	7.17%	607,005	8.68%	\$2.24	7,040	(78,656)	191,690	(58,970)
Santa Ana	174	12,278,770	0	600,988	877,302	7.14%	1,210,717	9.86%	\$2.12	152,429	150,944	568,439	28,963
Tustin	34	1,456,666	66,980	0	386,234	26.51%	386,234	26.51%	\$2.10	(109,693)	(70,202)	(38,960)	3,037
Central County Total	370	26,541,803	66,980	1,064,199	2,370,728	8.93%	3,069,636	11.57%	\$2.14	(106,818)	(212,366)	835,110	16,166
Airport Area													
Corona Del Mar	2	86,378	0	0	3,854	4.46%	3,854	4.46%	\$3.85	(3,854)	(3,854)	12,200	(12,200)
Costa Mesa	64	6,400,075	76,650	426,510	528,890	8.26%	723,515	11.30%	\$2.62	(3,154)	117,305	362,251	52,840
Irvine	247	21,441,901	2,781,125	520,000	1,783,056	8.32%	2,897,272	13.51%	\$2.90	296,989	307,060	953,637	1,081,510
Newport Beach	130	9,481,457	0	0	625,208	6.59%	779,515	8.22%	\$3.00	(40,378)	341,636	76,855	455,906
Airport Area Total	443	37,409,811	2,857,775	946,510	2,941,008	7.86%	4,404,156	11.77%	\$2.89	249,603	762,147	1,404,943	1,578,056
South County													
Aliso Viejo	42	2,803,204	591,000	350,000	185,766	6.63%	234,771	8.38%	\$2.76	(24,544)	(53,403)	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	81,205	10.99%	225,027	30.46%	\$2.57	10,094	(34,776)	108,744	30,573
Irvine Spectrum	99	6,404,730	971,893	223,780	271,909	4.25%	971,127	15.16%	\$2.97	104,933	154,577	192,028	604,231
Laguna Beach	5	193,268	0	0	3,012	1.56%	3,012	1.56%	\$2.30	2,989	5,141	(8,153)	0
Laguna Hills	35	1,875,398	0	0	101,990	5.44%	137,251	7.32%	\$2.40	11,435	(301)	90,742	(32)
Laguna Niguel	10	664,413	25,500	0	46,158	6.95%	48,043	7.23%	\$2.85	(21,501)	(10,759)	9,021	(23,007)
Lake Forest	41	2,042,066	0	0	232,509	11.39%	232,509	11.39%	\$2.07	80,950	(34,374)	200,861	64,645
Mission Viejo	38	1,988,460	180,000	40,000	126,840	6.38%	170,090	8.55%	\$2.33	31,442	44,426	60,592	16,353
Rancho Santa Margarita	6	219,030	0	57,000	24,237	11.07%	35,107	16.03%	\$2.13	692	(7,645)	28,229	13,039
San Clemente	9	345,462	0	0	8,641	2.50%	8,641	2.50%	\$2.29	3,463	14,034	9,919	26,925
San Juan Capistrano	12	637,004	140,871	0	20,269	3.18%	20,269	3.18%	\$2.29	(1,700)	121,304	40,621	(1,938)
South County Total	309	18,071,790	1,909,264	670,780	1,102,536	6.10%	2,085,847	11.54%	\$2.60	198,253	198,224	840,827	1,027,571
Orange County Total	1,396	99,066,433	4,981,475	2,991,239	7,420,683	7.49%	10,804,489	10.91%	\$2.48	391,227	763,577	3,692,091	3,045,801

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North County													
Class A	41	3,836,088	0	182,500	104,175	2.72%	161,745	4.22%	\$2.04	97,775	211,260	148,340	262,161
Class B	66	4,088,817	107,456	82,250	224,358	5.49%	386,873	9.46%	\$1.95	20,198	(60,564)	(13,381)	207,683
Class C	11	453,827	0	0	11,456	2.52%	15,440	3.40%	\$1.41	(4,967)	(6,877)	(317)	7,884
West County													
Class A	33	3,177,097	40,000	45,000	238,500	7.51%	238,500	7.51%	\$2.22	(35,917)	(43,993)	291,803	(33,419)
Class B	94	4,090,235	0	0	300,902	7.36%	314,672	7.69%	\$1.89	(42,805)	23,503	166,949	(16,202)
Class C	29	1,396,965	0	0	127,020	9.09%	127,620	9.14%	\$1.87	15,905	(107,757)	17,817	(4,099)
Central County													
Class A	87	12,406,850	0	1,034,199	1,114,500	8.98%	1,228,898	9.90%	\$2.29	(12,995)	(313,813)	653,691	2,117
Class B	232	12,000,178	66,980	30,000	1,159,010	9.66%	1,743,520	14.53%	\$1.93	(101,555)	109,539	145,258	41,834
Class C	51	2,134,775	0	0	97,218	4.55%	97,218	4.55%	\$1.66	7,732	(8,092)	36,161	(27,785)
Airport Area													
Class A	129	21,695,831	2,026,921	856,510	1,811,842	8.35%	2,995,571	13.81%	\$3.08	145,545	136,536	653,325	1,139,278
Class B	281	14,171,072	830,854	90,000	1,064,227	7.51%	1,335,305	9.42%	\$2.30	104,745	630,813	718,678	435,768
Class C	33	1,542,908	0	0	64,939	4.21%	73,280	4.75%	\$2.08	(687)	(5,202)	32,940	3,010
South County													
Class A	119	9,638,891	1,542,666	390,000	509,404	5.28%	886,441	9.20%	\$2.71	73,123	90,537	553,016	503,357
Class B	181	8,141,465	366,598	280,780	586,548	7.20%	1,192,822	14.65%	\$2.27	121,112	102,289	287,482	530,320
Class C	9	291,434	0	0	6,584	2.26%	6,584	2.26%	\$1.85	4,018	5,398	329	(16,106)
Orange County													
Class A	409	50,754,757	3,609,587	2,508,209	3,778,421	7.44%	5,511,155	10.86%	\$2.70	267,531	80,527	2,300,175	1,873,494
Class B	854	42,491,767	1,371,888	483,030	3,335,045	7.85%	4,973,192	11.70%	\$2.06	101,695	805,580	1,304,986	1,199,403
Class C	133	5,819,909	0	0	307,217	5.28%	320,142	5.50%	\$1.87	22,001	(122,530)	86,930	(27,096)
Orange County Total	1,396	99,066,433	4,981,475	2,991,239	7,420,683	7.49%	10,804,489	10.91%	\$2.48	391,227	763,577	3,692,091	3,045,801

OFFICE MARKET REPORT

THIRD 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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