

Office Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Construction

UP

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Market Highlights

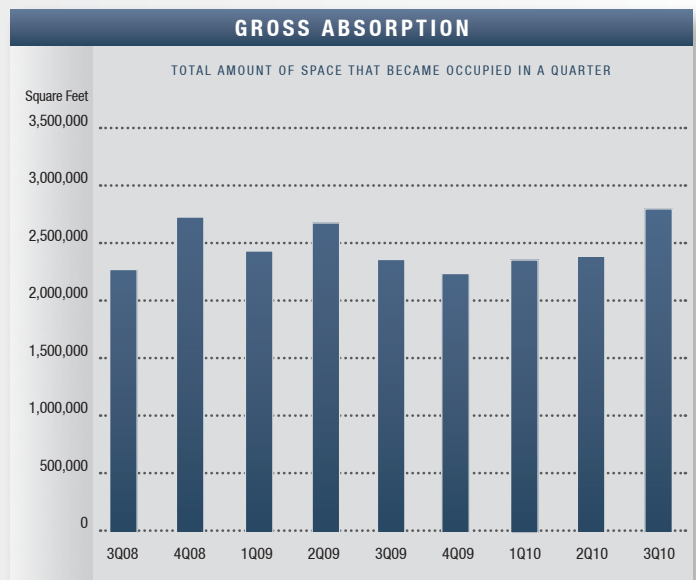
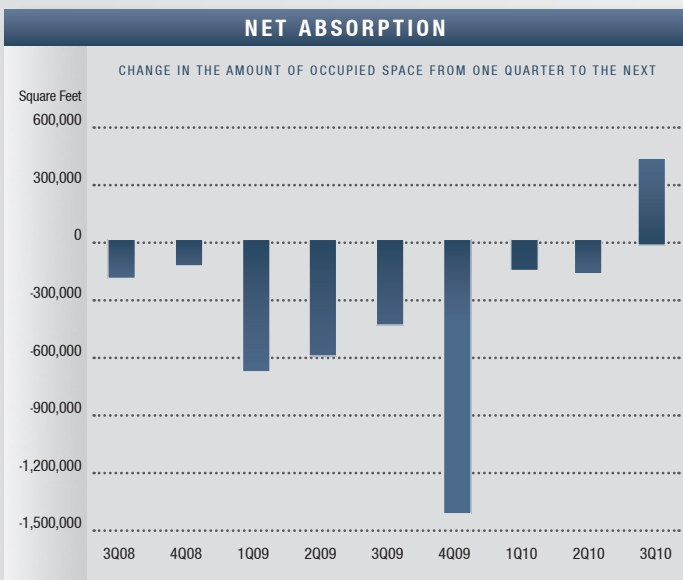
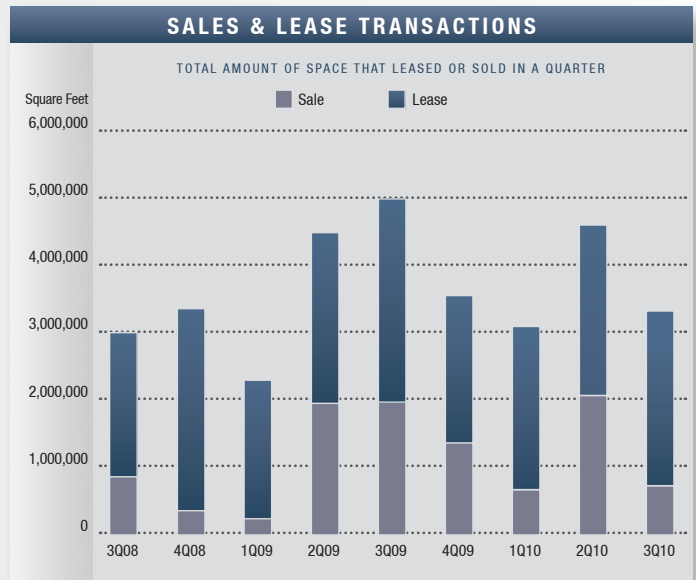
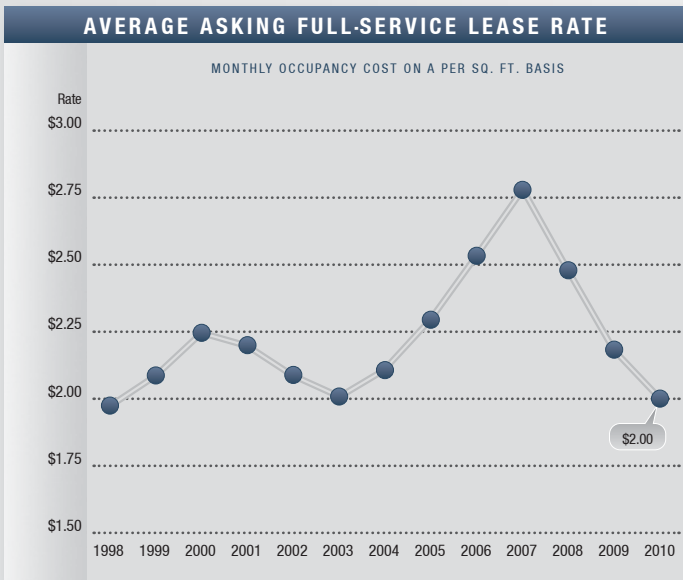
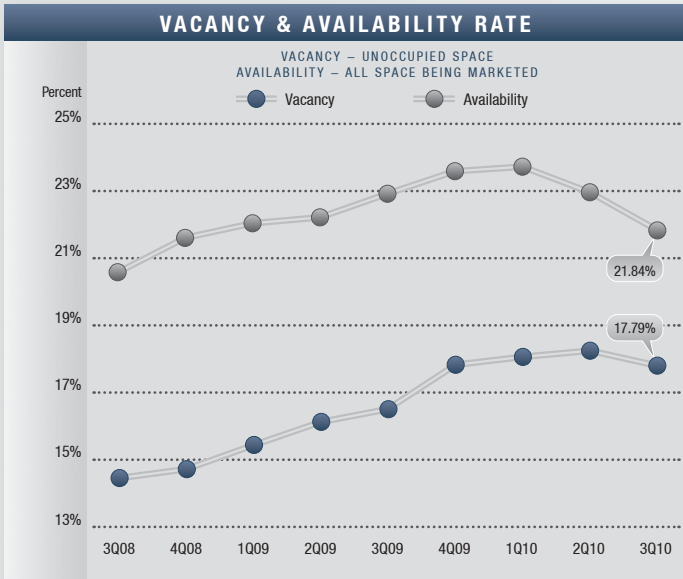
- Bottoming Out?** – The Orange County Office Market is displaying signs of stabilization this quarter. Vacancy and availability rates fell, and net absorption was positive for the first time since the beginning of 2007. Although demand is still weak by historical standards, sale transaction volume is increasing. While this is welcome news to a beleaguered market, it is too early to claim that a robust recovery is underway.
- Construction** – The record year for new development was 1988, when 5.7 million square feet of new space was added and vacancy peaked at 24%. Total space under construction came in at 373,000 square feet for the third quarter of 2010. Low construction levels will lower vacancy and ease the downward pressure on lease rates as an economic recovery takes hold.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 17.79%, a decrease over the second quarter's rate of 18.22%. This is the first time since the second quarter of 2006 that we've seen a drop in the vacancy rate, another indication that the market is stabilizing. This rate of 17.79% is significantly less than the 23% vacancy rate recorded in 1990.
- Availability** – Direct/sublease space being marketed was at 21.84% this quarter — a noticeable decrease of nearly 5% when compared to last year's rate of 22.93% and down from last quarter's rate of 22.98%. We are finally beginning
- Lease Rates** – For the third quarter, the average asking Full-Service Gross (FSG) lease rate per month per square foot in Orange County was \$2.00, a 10.71% decrease over last year's rate of \$2.24 and six cents lower than last quarter's rate. The record high of \$2.77 was established in the fourth quarter of 2008. Class A asking rates for the county are averaging \$2.23 FSG — the highest being in the Airport market where they average \$2.27 FSG.
- Absorption** – Net absorption for the county posted a positive 432,837 square feet for the third quarter of 2010, giving the office market a total of 90,388 square feet of positive absorption for 2010. We see this as a significant event, as this is the first quarter of positive net absorption

since the first quarter of 2007. Continuation of this positive trend will be dependent upon continued job creation.

- Transaction Activity** – Leasing activity checked in this quarter at 2.49 million square feet, a slight decrease over last quarter's total of 2.58 million square feet. Sales activity showed a decrease, posting 770,000 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.
- Employment** – The unemployment rate in Orange County was 9.6% in August 2010 — down from a revised 9.9% in July 2010 and below the year ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 12.4% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, Orange County increased by 12,000 payroll jobs over the last twelve months; the largest gains were 11,000 in professional & business services and 7,800 in leisure and hospitality. However, during that same period, Orange County lost 6,700 jobs in construction.
- Overall** – We are beginning to see a decrease in the amount of available space being added per quarter, as well as an overall increase in investment sales activity for the year. As we enter into the last quarter of 2010, positive absorption has begun, 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 going into 2011. If job creation continues and consumer confidence stabilizes, the office market will continue to stabilize.

OFFICE MARKET OVERVIEW

	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy	17.79%	18.22%	16.50%	7.82%
Availability	21.84%	22.98%	22.93%	(4.75%)
Pricing	\$2.00	\$2.06	\$2.24	(10.71%)
Sale & Lease Transactions	3,264,021	4,588,182	4,915,114	(33.59%)
Gross Absorption	2,790,525	2,380,466	2,354,825	18.50%
Net Absorption	432,837	(176,289)	(420,468)	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
North County													
Anaheim Hills	9	450,097	100,000	34,000	151,937	33.76%	157,426	34.98%	\$1.75	(54,723)	(53,729)	0	13,043
Brea	43	3,450,978	0	127,013	674,045	19.53%	858,023	24.86%	\$1.96	49,109	69,037	70,592	183,610
Buena Park	12	679,060	0	0	108,433	15.97%	137,435	20.24%	\$1.63	2,181	(11,439)	11,520	26,077
Fullerton	29	2,195,254	0	24,000	108,695	4.95%	313,243	14.27%	\$1.61	7,705	10,811	20,825	32,918
La Habra	6	237,859	0	0	6,202	2.61%	12,634	5.31%	\$1.62	0	4,846	6,033	11,330
La Palma	7	571,393	0	0	90,323	15.81%	118,439	20.73%	\$2.07	8,900	29,047	12,608	40,726
Placentia	7	223,841	43,000	0	64,367	28.76%	64,857	28.97%	\$1.47	2,869	6,273	2,869	8,016
Yorba Linda	6	337,312	0	13,200	34,392	10.20%	47,425	14.06%	\$1.80	242	7,060	4,201	31,059
North County Total	119	8,145,794	143,000	198,213	1,238,394	15.20%	1,709,482	20.99%	\$1.86	16,283	61,906	128,648	346,779
West County													
Cypress	27	1,994,579	0	0	192,317	9.64%	148,380	7.44%	\$1.92	(7,813)	(48,172)	417	10,507
Fountain Valley	34	1,730,037	0	0	281,846	16.29%	295,859	17.10%	\$1.72	(21,258)	(56,975)	5,053	32,455
Garden Grove	22	1,490,658	5,798	0	43,229	2.90%	193,088	12.95%	\$1.49	873	16,716	6,741	37,451
Huntington Beach	44	2,426,510	0	4,500	450,079	18.55%	535,194	22.06%	\$2.04	(46,788)	(33,488)	29,127	107,314
Los Alamitos	13	615,456	11,250	0	42,438	6.90%	40,747	6.62%	\$1.86	128	(18,726)	1,486	1,486
Seal Beach	7	482,838	0	0	33,968	7.04%	36,731	7.61%	\$2.30	576	24,241	13,133	56,438
Stanton	3	113,702	0	0	8,944	7.87%	12,653	11.13%	\$0.00	(6)	(144)	870	15,237
Westminster	16	700,121	16,785	0	49,262	7.04%	69,754	9.96%	\$1.74	(12,248)	2,947	3,771	44,610
West County Total	166	9,553,901	33,833	4,500	1,102,083	11.54%	1,332,406	13.95%	\$1.93	(86,536)	(113,601)	60,598	305,498
Central County													
Anaheim	96	7,380,487	194,000	234,454	1,747,487	23.68%	1,892,493	25.64%	\$1.72	(15,387)	(304,104)	149,048	317,521
Orange	81	7,263,790	0	0	1,292,819	17.80%	1,624,489	22.36%	\$2.04	118,564	143,811	247,223	610,152
Santa Ana	179	13,354,455	0	789,962	1,966,644	14.73%	2,226,963	16.68%	\$1.70	(17,168)	206,424	164,251	783,085
Tustin	41	1,786,099	0	212,000	294,704	16.50%	386,793	21.66%	\$1.66	17,013	(4,041)	50,828	139,548
Central County Total	397	29,784,831	194,000	1,236,416	5,301,654	17.80%	6,130,738	20.58%	\$1.83	103,022	42,090	611,350	1,850,306
Airport Area													
Costa Mesa	74	7,300,841	0	551,510	1,414,908	19.38%	1,658,935	22.72%	\$1.89	(44,460)	(204,820)	82,876	300,422
Irvine	291	25,646,367	0	1,377,975	5,436,658	21.20%	6,786,484	26.46%	\$2.11	329,967	270,882	1,027,257	2,487,756
Newport Beach	126	9,367,410	0	10,000	1,424,320	15.21%	1,888,335	20.16%	\$2.29	63,606	(45,719)	284,822	655,502
Airport Area Total	491	42,314,618	0	1,939,485	8,275,886	19.56%	10,333,754	24.42%	\$2.14	349,113	20,343	1,394,955	3,443,680
South County													
Aliso Viejo	43	3,139,681	0	668,000	499,356	15.90%	840,155	26.76%	\$2.08	(16,893)	4,903	41,658	184,798
Dana Point	3	135,296	0	35,000	1,200	0.89%	1,200	0.89%	\$0.00	2,400	1,200	2,400	4,800
Foothill Ranch	10	788,129	0	0	276,652	35.10%	395,722	50.21%	\$2.02	(10,183)	14,204	7,227	91,728
Irvine Spectrum	118	7,991,613	0	0	1,823,561	22.82%	1,688,349	21.13%	\$2.17	47,726	63,010	312,050	672,523
Laguna Beach	5	194,434	2,500	8,100	27,179	13.98%	27,179	13.98%	\$0.00	4,870	7,864	4,870	10,364
Laguna Hills	32	1,741,848	0	78,000	247,106	14.19%	294,550	16.91%	\$1.97	(892)	20,854	55,982	146,105
Laguna Niguel	10	494,835	0	0	60,374	12.20%	63,918	12.92%	\$2.14	7,008	(14,898)	20,277	38,491
Lake Forest	38	1,916,174	0	0	222,624	11.62%	628,907	32.82%	\$1.60	36,507	(5,939)	54,384	183,248
Mission Viejo	37	1,951,395	0	0	227,439	11.66%	299,240	15.33%	\$1.82	28,867	34,710	53,761	138,900
Rancho Santa Margarita	6	251,030	0	0	65,014	25.90%	63,246	25.19%	\$1.53	(1,615)	4,084	984	8,889
San Clemente	10	387,818	0	0	39,497	10.18%	35,431	9.14%	\$1.96	6,023	8,240	34,884	44,036
San Juan Capistrano	16	845,682	0	0	93,882	11.10%	98,327	11.63%	\$2.11	(52,863)	(58,582)	6,497	14,956
South County Total	328	19,837,935	2,500	789,100	3,583,884	18.07%	4,436,224	22.36%	\$2.00	50,955	79,650	594,974	1,538,838
Orange County Total	1,501	109,637,079	373,333	4,167,714	19,501,901	17.79%	23,942,604	21.84%	\$2.00	432,837	90,388	2,790,525	7,485,101

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North County													
Class A	22	2,387,836	0	154,000	338,348	14.17%	549,559	23.01%	\$2.11	16,495	115,392	56,561	185,101
Class B	86	5,393,193	143,000	44,213	879,394	16.31%	1,137,698	21.10%	\$1.93	(1,872)	(58,198)	66,365	148,204
Class C	11	364,765	0	0	20,652	5.66%	22,225	6.09%	\$1.70	1,660	4,712	5,722	13,474
West County													
Class A	29	2,869,073	0	0	402,611	14.03%	534,536	18.63%	\$2.09	(62,077)	(99,915)	29,486	98,964
Class B	111	5,655,368	33,833	4,500	627,515	11.10%	718,854	12.71%	\$1.73	(18,792)	(14,174)	29,193	184,300
Class C	26	1,029,460	0	0	71,957	6.99%	79,016	7.68%	\$1.40	(5,667)	488	1,919	22,234
Central County													
Class A	74	11,717,417	0	960,820	2,296,708	19.60%	2,645,253	22.58%	\$2.00	13,944	(30,880)	328,502	847,926
Class B	250	15,196,728	194,000	275,596	2,767,766	18.21%	3,115,647	20.50%	\$1.63	86,881	89,667	243,850	881,944
Class C	73	2,870,686	0	0	237,180	8.26%	369,838	12.88%	\$1.47	2,197	(16,697)	38,998	120,436
Airport Area													
Class A	133	23,611,411	0	1,226,510	5,377,086	22.77%	6,643,500	28.14%	\$2.27	273,836	34,447	883,479	1,888,203
Class B	324	17,154,627	0	712,975	2,695,150	15.71%	3,493,203	20.36%	\$1.85	143,591	69,497	493,150	1,505,579
Class C	34	1,548,580	0	0	203,650	13.15%	197,051	12.72%	\$1.48	(68,314)	(83,601)	18,326	49,898
South County													
Class A	89	8,695,829	0	647,000	1,549,199	17.82%	2,054,806	23.63%	\$2.09	129,076	155,373	289,964	833,330
Class B	230	10,622,892	2,500	142,100	2,022,510	19.04%	2,371,373	22.32%	\$1.81	(76,667)	(88,691)	300,422	680,795
Class C	9	519,214	0	0	12,175	2.34%	10,045	1.93%	\$0.99	(1,454)	12,968	4,588	24,713
Orange County													
Class A	347	49,281,566	0	2,988,330	9,963,952	20.22%	12,427,654	25.22%	\$2.23	371,274	174,417	1,587,992	3,853,524
Class B	1,001	54,022,808	373,333	1,179,384	8,992,335	16.65%	10,836,775	20.06%	\$1.79	133,141	(1,899)	1,132,980	3,400,822
Class C	153	6,332,705	0	0	545,614	8.62%	678,175	10.71%	\$1.52	(71,578)	(82,130)	69,553	230,755
Orange County Total	1,501	109,637,079	373,333	4,167,714	19,501,901	17.79%	23,942,604	21.84%	\$2.00	432,837	90,388	2,790,525	7,485,101

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
Park Place II - 2 Properties - One Retail	Airport	A	320,480	\$305.79	LBA Realty	Maguire Properties
24502 Pacific Park Dr.	South	B	27,192	\$257.43	Accretive Realty Advisors, Inc.	Saunders Property Company
18831 Von Karmen Ave.	Airport	A	66,000	\$181.82	Great Far East, Inc.	Wells Fargo Bank
17822 Beach Blvd.	West	B	60,988	160.28	Vannalux Associates, LP	Incentive Investments, LLC
17770 Cartwright Rd.	Airport	B	136,000	\$147.06	Menlo Equities	Winthrop Financial Associates
210 Hospital Cir. - 2 Properties	West	C	31,000	\$103.71	Bach Dang Thi Tran	Med Plus Commercial, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1600 S. Douglass Rd. - Renewal	Central	A	127,750	Aug-10	Cash Call	New Tower Trust Company
3 MacArthur Pl.	Airport	A	85,340	Jul-10	Edison Mission Energy	Highridge Partners
3 Banting	South	B	68,427	Jul-10	Cal State Fullerton	LBA Associates
16245 Laguna Canyon Rd.	South	B	58,814	Aug-10	Blizzard Entertainment	Sares Regis Group
5231 California Ave.	Airport	B	53,840	Sep-10	Broadcom	The Irvine Company
17901 Von Karman Ave.	Airport	A	46,900	Jul-10	Oracle	LBA Associates

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.

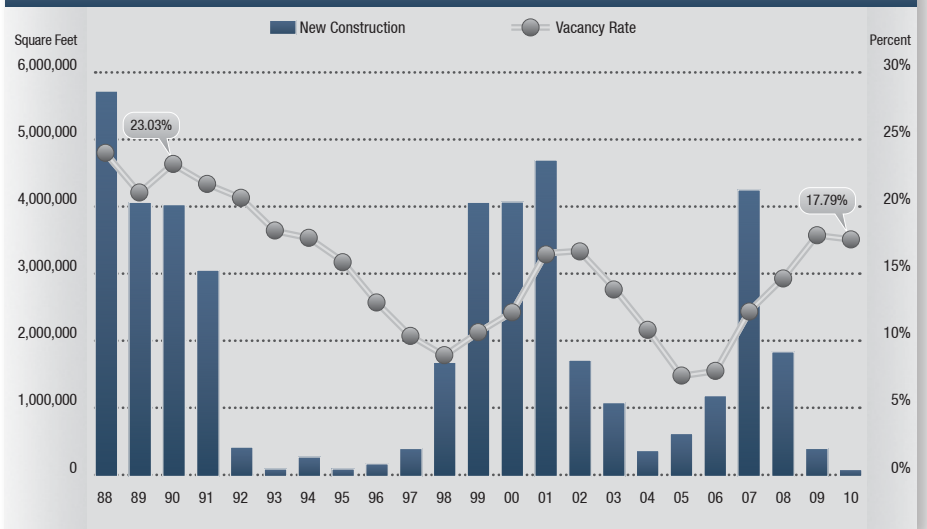
CLASS B

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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