

OFFICE MARKET REPORT

FOURTH
QUARTER
2006

Compared to
last quarter:

VACANCY



UP

ABSORPTION



DOWN

LEASE RATES



UP

CONSTRUCTION



DOWN

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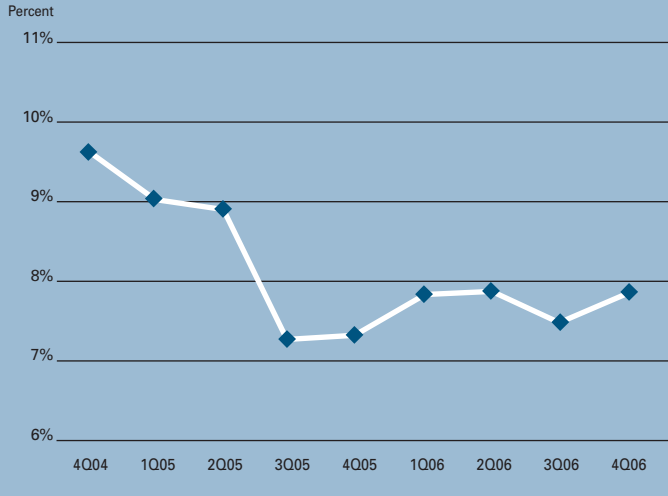
MARKET HIGHLIGHTS

- ◆ Unemployment for the fourth quarter of 2006 in Orange County is 3.4%, which is 0.2% lower than it was when compared to the third quarter of 2006, and is 0.2% lower than it was at the end of last year.
- ◆ According to Chapman University, it is estimated that Orange County added 21,000 new payroll jobs in 2006. Furthermore, they are forecasting 15,000 new payroll jobs will be added to the county in 2007 as the Orange County economy continues to expand.
- ◆ Total space under construction checked in at almost 5 million square feet for the fourth quarter of 2006, which is four times the amount that was under construction this same time last year. More than half of the space currently under construction is either pre-leased or build to suit.
- ◆ The office vacancy rate checked in at a sub 8% level of 7.91%, constituting a 7% increase over last year's fourth quarter near record low rate of 7.39%. 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 11.5% this quarter from 9.94% in the fourth quarter of 2005, representing an increase of 15.69%. This increase was due to the large amount of space that mortgage companies and mortgage related businesses put on the market as sub-lease space in 2006.
- ◆ The average asking Full Service Gross lease rate per month per foot in Orange County is currently \$2.52, which is a 10.53% increase over last year's fourth quarter rate of \$2.28. This is the twelfth consecutive quarter of positive lease rate growth and represents a new record high.
- ◆ Net absorption for the county this year posted a positive number of 554,675 square feet. This is a decrease of 85% when compared to last years 3,692,091 square feet. The Orange County office market was still able to grow even as mortgage companies and mortgage related businesses contracted in 2006.
- ◆ 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 5% to 7% continuing in 2007.

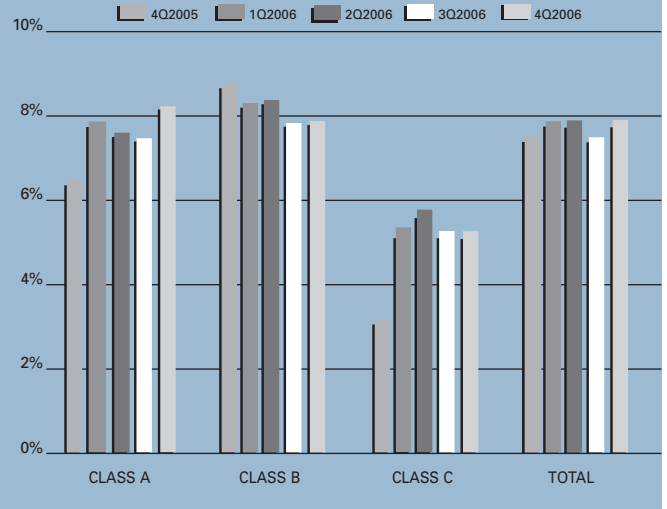
OFFICE MARKET STATISTICS

	2006	2005	2004	% CHANGE VS. 2005
Inventory Added	1,184,554	570,910	332,939	107.49%
Under Construction	4,926,803	1,231,696	625,997	400.00%
Planned Construction	3,207,255	6,316,240	3,933,274	-49.22%
Vacancy	7.91%	7.39%	9.61%	7.04%
Availability	11.50%	9.94%	12.69%	15.69%
Pricing	\$2.52	\$2.28	\$2.09	10.53%
Absorption	554,675	3,692,091	3,045,801	-84.98%
Activity	11,151,258	12,434,495	11,977,425	-10.32%

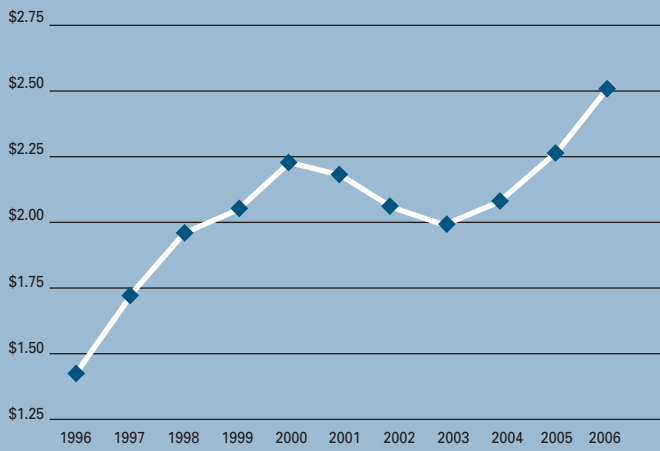
VACANCY RATE



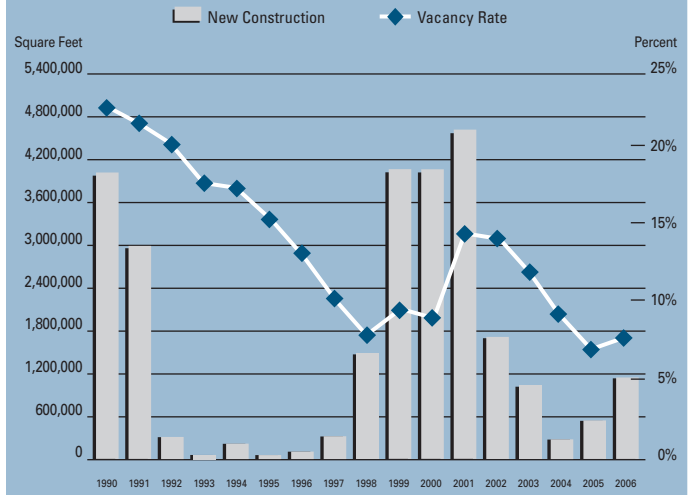
OFFICE VACANCY RATE



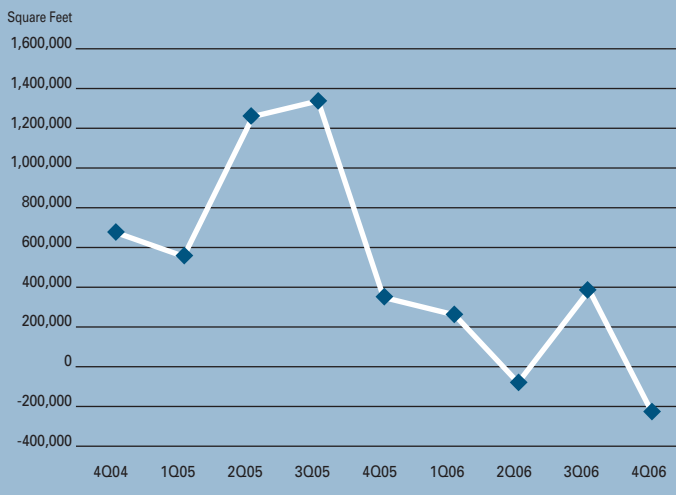
AVERAGE ASKING FULL SERVICE LEASE RATE



ANNUAL OFFICE NEW CONSTRUCTION VS. VACANCY RATE



NET ABSORPTION



GROSS ABSORPTION



FOURTH QUARTER 2006

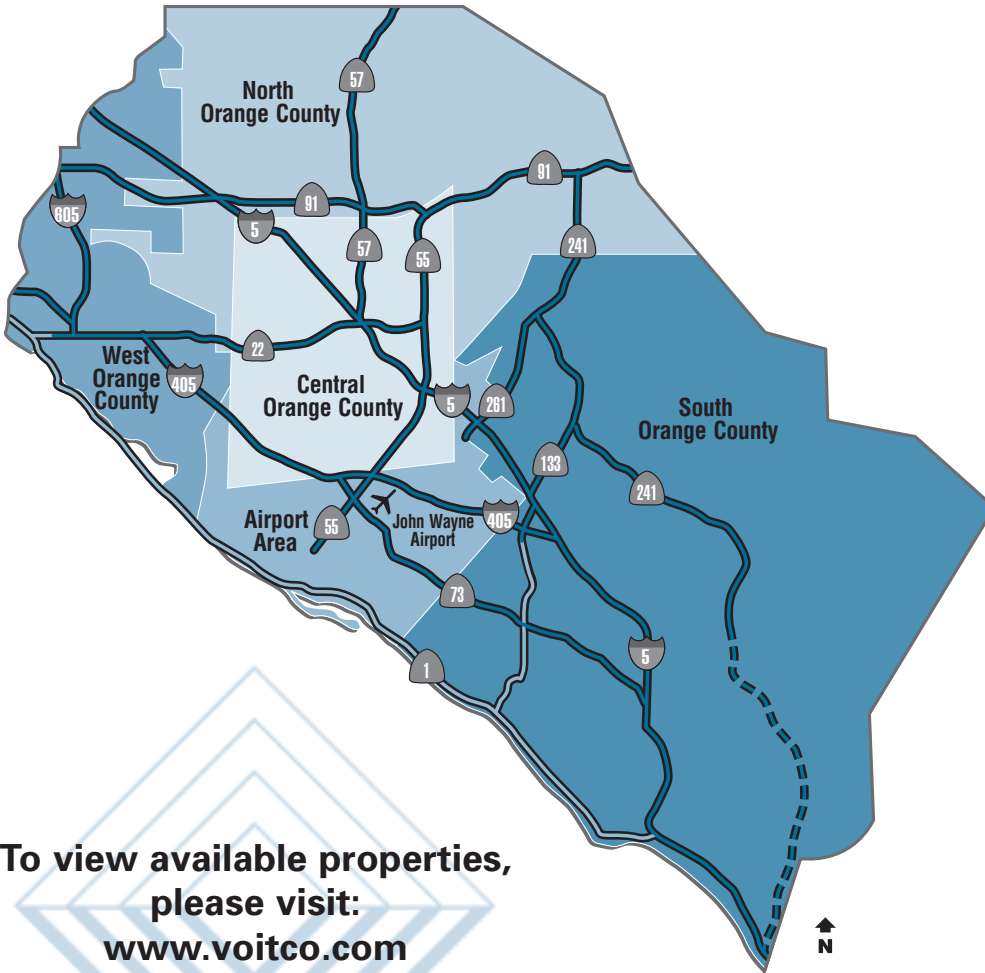
O R A N G E C O U N T Y

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number Of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2006	Square Feet Available	Availability Rate 4Q2006	Average Asking Lease Rate	Net Absorption 4Q2006	Net Absorption 2006	Net Absorption 2005	Net Absorption 2004
North County													
Anaheim Hills	12	738,938	0	62,500	21,582	2.92%	21,582	2.92%	\$2.19	5,961	3,541	(4,960)	11,569
Brea	42	3,324,707	0	202,250	205,382	6.18%	752,395	22.63%	\$2.18	(7,771)	128,295	55,533	324,162
Buena Park	9	593,239	25,822	0	38,946	6.56%	38,946	6.56%	\$1.88	(11,679)	(2,753)	60,223	107,805
Fullerton	28	1,958,793	81,634	0	48,117	2.46%	70,654	3.61%	\$2.04	(15,004)	(30,143)	7,653	(7,982)
La Habra	7	376,859	0	0	6,491	1.72%	6,491	1.72%	\$1.60	3,400	4,489	21,392	20,641
La Palma	8	592,841	0	0	20,312	3.43%	35,737	6.03%	\$2.22	(1,157)	6,815	7,937	1,637
Placentia	5	165,875	0	0	10,824	6.53%	15,704	9.47%	\$1.95	0	4,732	(10,228)	7,777
Yorba Linda	6	319,684	0	0	8,263	2.58%	12,471	3.90%	\$1.41	3,350	4,068	(2,908)	12,119
North County Total	117	8,070,936	107,456	264,750	359,917	4.46%	953,980	11.82%	\$2.11	(22,900)	119,044	134,642	477,728
West County													
Cypress	27	2,007,476	0	0	122,088	6.08%	172,928	8.61%	\$2.13	17,303	66,946	176,874	18,404
Fountain Valley	31	1,544,636	0	0	176,962	11.46%	178,446	11.55%	\$2.05	965	(76,147)	83,818	(33,842)
Garden Grove	21	938,018	0	45,000	41,745	4.45%	51,801	5.52%	\$1.81	5,540	(10,187)	63,100	3,129
Huntington Beach	45	2,444,742	40,000	0	175,042	7.16%	177,418	7.26%	\$2.12	12,010	(8,858)	105,552	(83,869)
Los Alamitos	11	572,878	0	0	17,546	3.06%	20,817	3.63%	\$1.75	(4,505)	(17,546)	19,217	(3,163)
Seal Beach	6	425,418	0	0	8,079	1.90%	11,883	2.79%	\$2.95	(5,330)	5,276	24,082	15,106
Stanton	2	85,917	0	0	5,153	6.00%	5,153	6.00%	\$0.00	(1,852)	(1,552)	14,852	2,868
Westminster	12	485,174	0	0	56,768	11.70%	63,268	13.04%	\$2.15	26,624	(27,640)	(10,926)	27,647
West County Total	155	8,504,259	40,000	45,000	603,383	7.10%	681,714	8.02%	\$2.09	50,779	(69,708)	476,569	(53,720)
Central County													
Anaheim	87	6,032,296	0	463,211	622,443	10.32%	752,393	12.47%	\$2.17	(16,767)	(231,219)	116,941	43,136
Orange	74	6,943,639	0	0	415,371	5.98%	574,665	8.28%	\$2.29	86,378	6,986	191,690	(58,970)
Santa Ana	174	12,306,478	0	600,988	949,923	7.72%	1,238,524	10.06%	\$2.18	(69,270)	89,187	568,439	28,963
Tustin	36	1,552,520	0	0	379,534	24.45%	379,534	24.45%	\$2.16	(6,036)	(63,502)	(38,960)	3,037
Central County Total	371	26,834,933	0	1,064,199	2,367,271	8.82%	2,945,116	10.97%	\$2.20	(5,695)	(198,548)	835,110	16,166
Airport Area													
Corona Del Mar	2	86,378	0	0	3,854	4.46%	3,854	4.46%	\$3.85	0	(3,854)	12,200	(12,200)
Costa Mesa	66	6,508,631	76,650	426,510	564,657	8.68%	816,947	12.55%	\$2.72	(38,787)	85,038	362,251	52,840
Irvine	252	21,759,600	3,014,291	521,016	2,136,883	9.82%	2,908,771	13.37%	\$2.87	-297,094	-14,547	953,637	1,081,510
Newport Beach	128	9,410,586	165,013	0	583,571	6.20%	856,276	9.10%	\$3.07	35,621	383,273	76,855	455,906
Airport Area Total	448	37,765,195	3,255,954	947,526	3,288,965	8.71%	4,585,848	12.14%	\$2.90	(300,260)	449,910	1,404,943	1,578,056
South County													
Aliso Viejo	43	2,906,807	376,000	565,000	225,934	7.77%	252,577	8.69%	\$2.83	38,200	(27,873)	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	11	813,911	0	0	105,514	12.96%	233,793	28.72%	\$2.57	(24,309)	(59,085)	108,744	30,573
Irvine Spectrum	99	6,409,911	941,893	223,780	304,954	4.76%	1,104,896	17.24%	\$3.09	(31,807)	121,532	192,028	604,231
Laguna Beach	5	193,268	0	0	3,012	1.56%	3,012	1.56%	\$0.00	0	5,141	(8,153)	0
Laguna Hills	35	1,875,398	0	0	85,048	4.53%	134,093	7.15%	\$2.34	15,925	16,641	90,742	(32)
Laguna Niguel	10	664,413	25,500	0	43,717	6.58%	43,717	6.58%	\$2.85	2,441	(8,318)	9,021	(23,007)
Lake Forest	40	2,000,786	0	0	198,154	9.90%	214,141	10.70%	\$2.14	22,693	(19)	200,861	64,645
Mission Viejo	38	1,989,242	180,000	40,000	152,648	7.67%	168,232	8.46%	\$2.39	(25,808)	18,618	60,592	16,353
Rancho Santa Margarita	6	219,030	0	57,000	6,879	3.14%	10,129	4.62%	\$2.24	17,358	9,713	28,229	13,039
San Clemente	9	345,462	0	0	7,902	2.29%	7,902	2.29%	\$0.00	739	14,773	9,919	26,925
San Juan Capistrano	17	849,971	0	0	122,690	14.43%	112,605	13.25%	\$2.62	46,350	162,854	40,621	(1,938)
South County Total	316	18,428,075	1,523,393	885,780	1,256,452	6.82%	2,285,097	12.40%	\$2.64	61,782	253,977	840,827	1,027,571
Orange County Total	1,407	99,603,398	4,926,803	3,207,255	7,875,988	7.91%	11,451,755	11.50%	\$2.52	-216,294	554,675	3,692,091	3,045,801

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North County													
Class A	41	3,816,941	0	182,500	108,842	2.85%	533,665	13.98%	\$2.34	(4,667)	204,718	148,340	262,161
Class B	65	3,800,168	107,456	82,250	239,619	6.31%	406,441	10.70%	\$1.98	(18,233)	(78,797)	(13,381)	207,683
Class C	11	453,827	0	0	11,456	2.52%	13,874	3.06%	\$1.28	0	(6,877)	(317)	7,884
West County													
Class A	32	3,017,097	0	45,000	200,475	6.64%	209,288	6.94%	\$2.33	22,194	(5,968)	291,803	(33,419)
Class B	94	4,090,197	40,000	0	275,888	6.75%	345,406	8.44%	\$2.00	28,585	48,517	166,949	(16,202)
Class C	29	1,396,965	0	0	127,020	9.09%	127,020	9.09%	\$1.88	0	(112,257)	17,817	(4,099)
Central County													
Class A	87	12,412,926	0	1,034,199	1,074,533	8.66%	1,321,139	10.64%	\$2.39	42,115	(273,846)	653,691	2,117
Class B	235	12,342,818	0	30,000	1,197,631	9.70%	1,526,710	12.37%	\$1.93	(53,596)	81,279	145,258	41,834
Class C	49	2,079,189	0	0	95,107	4.57%	97,267	4.68%	\$1.59	5,786	(5,981)	36,161	(27,785)
Airport Area													
Class A	130	21,738,182	2,028,287	856,510	2,136,989	9.83%	3,065,714	14.10%	\$3.12	(336,075)	(200,180)	653,325	1,139,278
Class B	286	14,502,639	1,227,667	91,016	1,091,267	7.52%	1,459,425	10.06%	\$2.33	31,585	651,062	718,678	435,768
Class C	32	1,524,374	0	0	60,709	3.98%	60,709	3.98%	\$1.80	4,230	(972)	32,940	3,010
South County													
Class A	119	9,668,621	1,327,666	605,000	651,036	6.73%	951,835	9.84%	\$2.72	(65,566)	10,105	553,016	503,357
Class B	188	8,468,020	195,727	280,780	598,549	7.07%	1,326,395	15.66%	\$2.38	127,631	238,757	287,482	530,320
Class C	9	291,434	0	0	6,867	2.36%	6,867	2.36%	\$1.90	(283)	5,115	329	(16,106)
Orange County													
Class A	409	50,653,767	3,355,953	2,723,209	4,171,875	8.24%	6,081,641	12.01%	\$2.76	(341,999)	(265,171)	2,300,175	1,873,494
Class B	868	43,203,842	1,570,850	484,046	3,402,954	7.88%	5,064,377	11.72%	\$2.10	115,972	940,818	1,304,986	1,199,403
Class C	130	5,745,789	0	0	301,159	5.24%	305,737	5.32%	\$1.66	9,733	(120,972)	86,930	(27,096)
Orange County Total	1,407	99,603,398	4,926,803	3,207,255	7,875,988	7.91%	11,451,755	11.50%	\$2.52	-216,294	554,675	3,692,091	3,045,801

OFFICE MARKET REPORT

FOURTH 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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