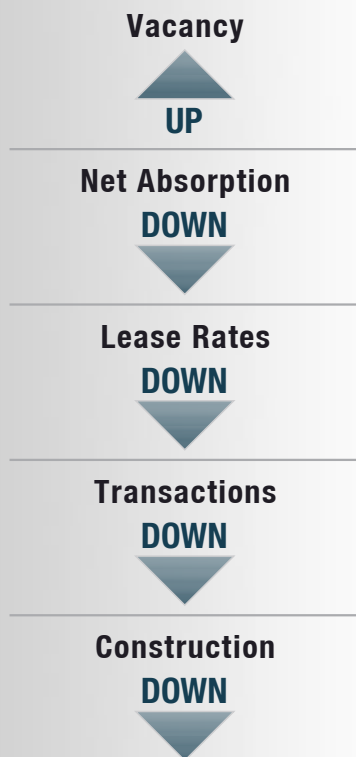




Voit
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Office Market Report

Compared to last quarter:



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Prepared by:
Jerry J. Holdner, Jr. – Lic.#01145748
Vice President of Market Research
VOIT Real Estate Services – Lic.#01333376
e-mail: jholdner@voitco.com

Market Highlights

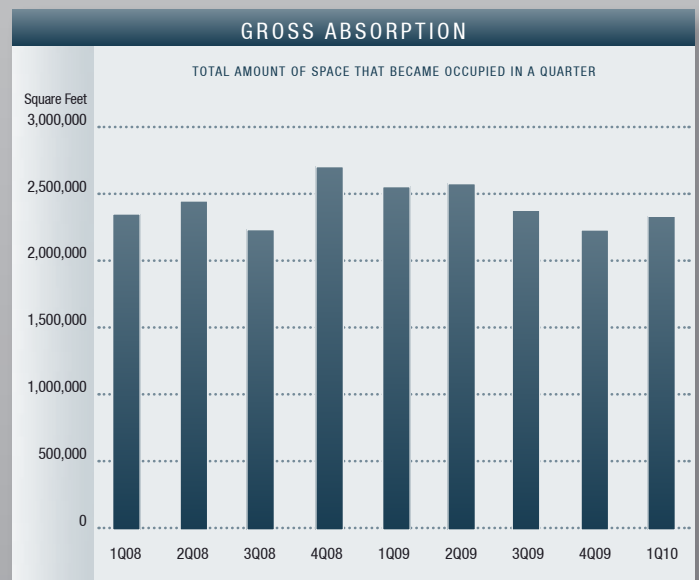
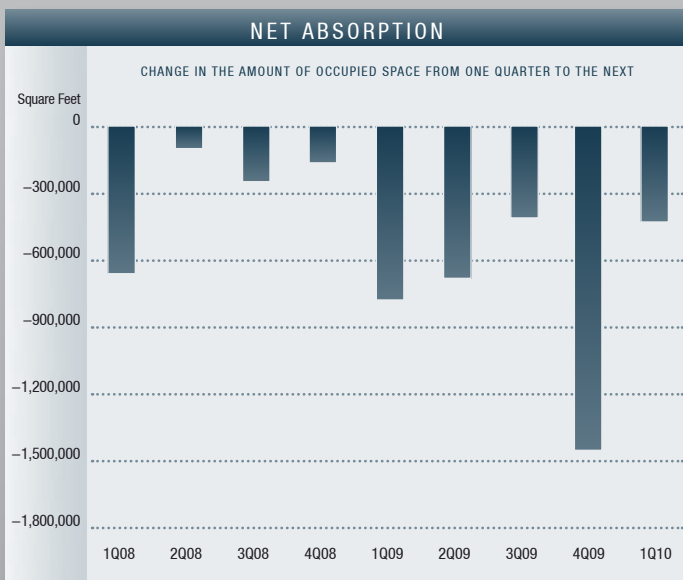
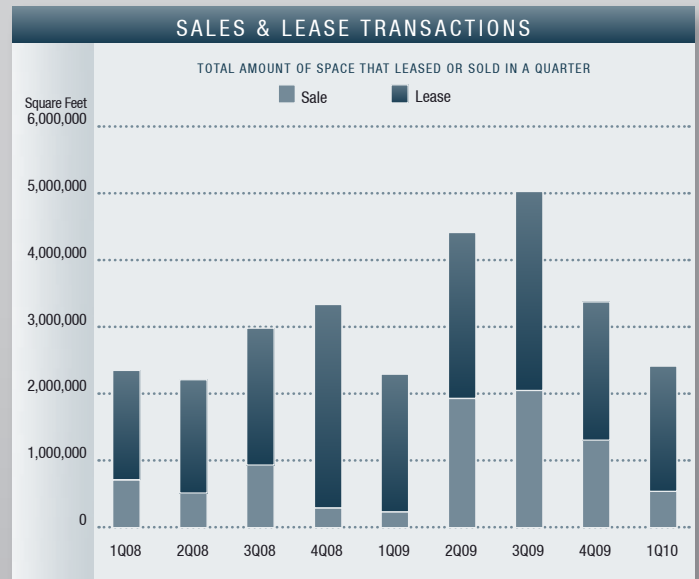
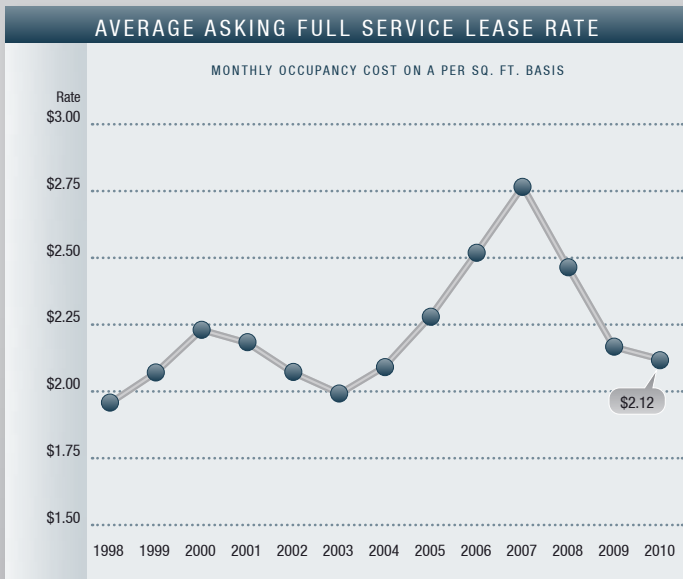
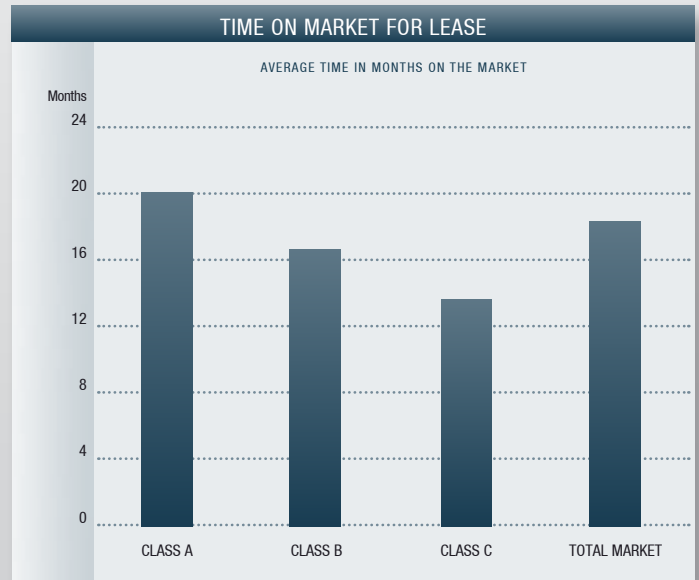
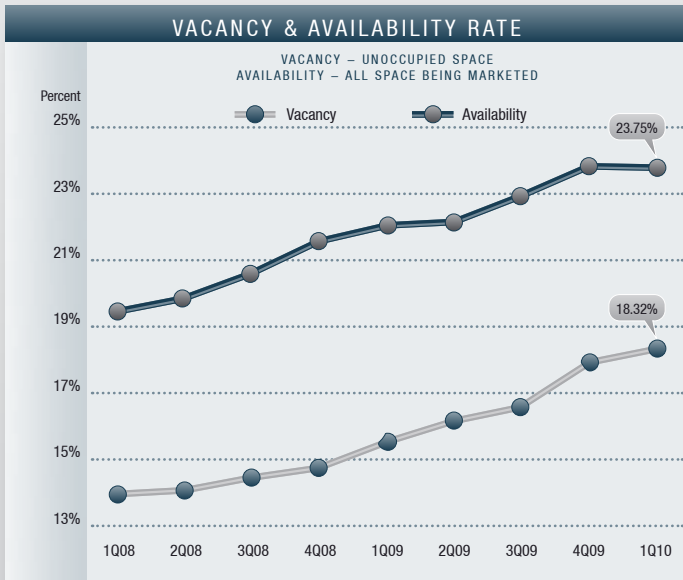
- ◆ **Market Challenges** - 2010 appears to be off to a much better start than 2009, with sales activity increasing as life insurance companies begin lending. However, many users/investors still have concerns with increasing vacancy, tenant delinquencies, economic uncertainty and volatility, and the gap between “ask” and “bid” pricing. Fortunately, the ask-bid gap appears to be diminishing, apparent from the increase in sales activity. Another challenge for the Office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures many tenants are requesting rent relief from landlords, which is leading landlords to renegotiate loan terms with lenders.
- ◆ **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%. At the end of the first quarter total space under construction checked in at 305,500 square feet, most of which was medical office space. 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 18.32%, an increase over last year’s first quarter rate of 15.53%. This rate of 18.32% is still less than the 23% vacancy rate recorded in 1990.
- ◆ **Availability** - Direct/sublease space being marketed was at 23.75% this quarter, up from the 22.09% we saw this same quarter last year. This is an increase of 7.51% over last year’s rate and a decrease from last quarter’s rate of 23.79%. 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 foot in Orange County was \$2.12, which is a 10.55% decrease over last year’s rate of \$2.37 and five 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 \$2.29 FSG and are the highest in the Airport market, where they are averaging \$2.41 FSG.
- ◆ **Absorption** - Net absorption for the county posted a negative 414,162 square feet for the first quarter of 2010; for the past 5 quarters the office market has been averaging approximately 750,000 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 1.9 million square feet, a slight decrease over last year’s first quarter total of 2.1 million square feet. Sales activity showed an increase, posting 543,230 square feet of activity compared to last year’s 201,805 square feet. This 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.
- ◆ **Unemployment** - The unemployment rate in Orange County was 9.7% in February 2010, down from a revised 10.2% in January 2010 and above the year ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 12.8% for California and 10.4% for the nation during the same period.
- ◆ **Employment** - According to the State of California Employment Development Department, Orange County lost 53,000 payroll jobs over the last twelve months; the largest losses were 14,400 in construction, 11,000 in manufacturing and 4,200 in leisure & hospitality. However, between January 2010 and February 2010, Orange County gained 10,300 jobs.
- ◆ **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 begin 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

	1Q2010	4Q2009	1Q2009	% CHANGE VS. 1Q2009
Vacancy	18.32%	17.95%	15.53%	17.97%
Availability	23.75%	23.79%	22.09%	7.51%
Pricing	\$2.12	\$2.17	\$2.37	(10.55%)
Sale & Lease Transactions	543,230	1,303,612	201,805	169.19%
Gross Absorption	2,323,689	2,213,320	2,553,828	(9.01%)
Net Absorption	(414,162)	(1,458,826)	(770,779)	N/A



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RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
Griffin Towers	Airport	A	543,230	\$90,000,000	Lincoln Property Company	Maguire/RBS
2865–2867 E. Coast Hwy.	Airport	B	20,293	\$4,200,000	E Coast Hwy Holdings, LLC	Mccuiston Trust
17100 Gillette Ave.	Airport	B	21,480	\$3,250,000	RTED Irvine, LLC	General Electric Credit Equities
18792 E. 17th St.	Central	C	6,745	\$3,000,000	Citrus Health	Childrens Village Healthcare Centers
1505 E. 17th St.	Central	B	33,820	\$2,800,000	OCSSF–EP, LLC	1505 E. 17th St. Assoc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
14000 Jamboree Rd.	Airport	B	77,626	January–10	Henkle Corporation	The Irvine Company
3 Park Plz.	Airport	A	67,533	February–10	JP Morgan Chase	The Irvine Company
2411 W. La Palma Ave.	North	B	56,000	March–10	N/A	Living Stream Ministry
2601 Main St. – Renewal	Airport	A	43,185	March–10	Federal Express Corporation	Olen Properties
17661–17671 Cowan	Airport	B	27,156	February–10	N/A	Granite Trust Ir V, LLC

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.

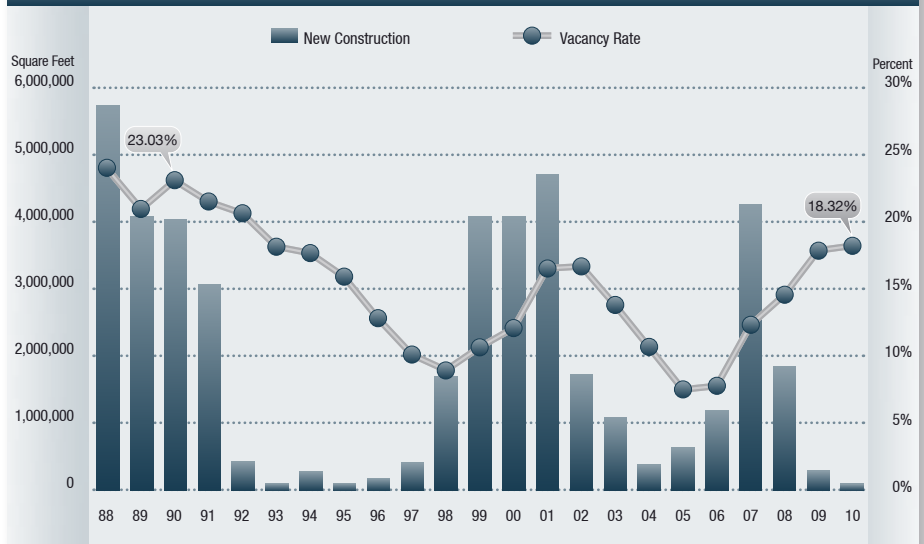
CLASS B

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.

ANNUAL OFFICE NEW CONSTRUCTION VS. VACANCY RATE



For further information, please contact:

<p>ANAHEIM METRO OFFICE 3500 W. Orangewood Ave. Orange, CA 92868-1642 TEL: 714.978.7880 FAX: 714.978.9431</p>	<p>IRVINE OFFICE 2020 Main St. Suite 100 Irvine, CA 92614 TEL: 949.851.5100 FAX: 949.261.9092</p>	<p>LAS VEGAS OFFICE 10100 W. Charleston Blvd. Suite 200 Las Vegas, NV 89135 TEL: 702.734.4500 FAX: 702.733.7690</p>	<p>NEWPORT BEACH OFFICE 101 Shipyard Way Suite M Newport Beach, CA 92663 TEL: 949.644.8648 FAX: 949.644.8695</p>	<p>SAN DIEGO OFFICE 4370 La Jolla Village Dr. Suite 990 San Diego, CA 92122-1233 TEL: 858.453.0505 FAX: 858.453.1981</p>
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