

Orange County OFFICE MARKET REPORT

First Quarter 2009

Volatility Returns To Office Market; Lease, Occupancy Rates Fall In Q1

It was a painful quarter for building owners as volatility returned to the market after seeming to steady in the second half of 2008.

The first-quarter Office vacancy rate in Orange County jumped 0.8% to 17.2% from the last quarter of 2008, and asking rents fell 4.2% with the Class A sector being hit hardest. Employers reduced their need for space as they have been shedding jobs at a rate greater than expected by local economists who recently revised upward their forecast for layoffs this year.

The drop in average rents in the first quarter was more than half of the 7.26% year-over-year decline. Additionally, Q1 net negative absorption for the overall Orange County Office market totaled 628,749 sq. ft. That was a huge swing from the negative 185,872 sq. ft. in the fourth quarter of 2008, a year in which net negative absorption totaled 1,461,770 sq. ft. with 76% of that occurring in the first half of '08.

Landlords are facing an even grimmer outlook for the remainder of the year. The latest forecast for the local economy from Cal State Fullerton does not see a recovery beginning until next year. Anil Puri, dean of the university's Mihalyo College of Business, said he sees 15,000 to 20,000 workers being idled in 2009, doubling the prediction he made in late 2008, a year that saw 31,000 layoffs.

Moreover, sales reports recently totaled for last year show there were 40 transactions, less than half of those posted in 2007. For the eight buildings sold in the fourth quarter prices were 26% less than for the 11 transactions in Q3.

There are signs, however, that the economy has stopped its freefall. Consumer spending is up, and Cal State Fullerton's latest Orange County Business Expectations Index climbed for the first time in four quarters. This parallels field reports by Lee & Associates analysts, showing a noticeable sentiment among business decision makers that they are keen to shake off "recession fatigue" and forge ahead with commerce. But job gains are not expected until next year.

The hint that the economy may be turning will serve as good news to owners of top-quality buildings that have caught the brunt of the Office downturn, particularly in the Airport, Central and South Orange County submarkets.

Class A Office, which represents nearly half of the county's total 103-million-sq.-ft. inventory, posted overall negative net absorption of 456,596 sq. ft. in the first quarter, a turnaround from 82,518 sq. ft. of positive net absorption at the end of 2008.

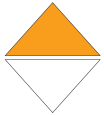
Premium Office space in the Airport area – largest of the county's five submarkets with 27 million sq. ft. and almost half of the county's Class A total – posted a 19.9% vacancy rate, up 0.3% from the prior quarter. Average asking rents for direct and sublet space fell 6.8% from Q4 to \$2.60 per sq. ft.

There's a 20% vacancy rate in the 8.7-million-sq.-ft. South Orange County submarket. Asking lease rates fell 0.9% from the prior quarter to \$2.36 per sq. ft.

In Central Orange County submarket with 8.4 million sq. ft. of Class A space, the vacancy rate for Q1 increased 0.6% to 15.37% from the end of last year with negative net absorption of 75,842. Asking rents also fell 6.58% from Q4, averaging \$2.11 per sq. ft.

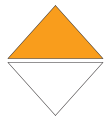
MARKET OVERVIEW (Change from last quarter)

17.2% - Vacancy



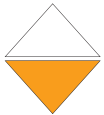
up 4.87% from last quarter

21.10% - Availability



up 3.94% from last quarter

- 628,749 Sq. Ft. - Absorption



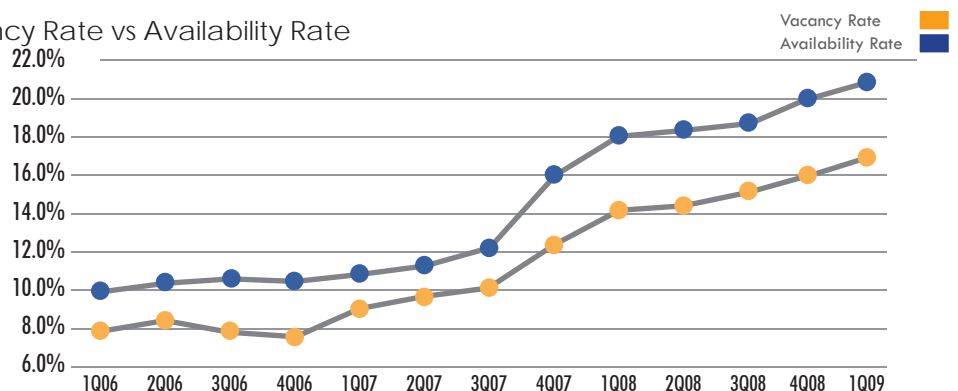
down 138.27% from last quarter

Average Lease Rate
\$2.36 FSG



down 1.25% from last quarter

Vacancy Rate vs Availability Rate

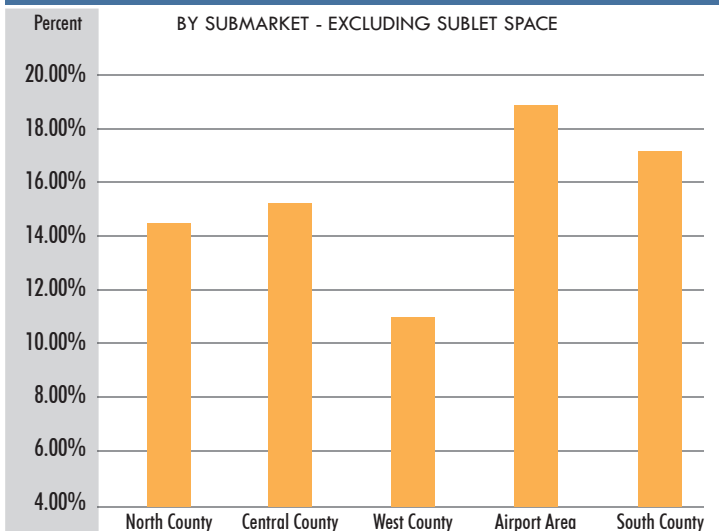


The Orange County Office Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Anaheim offices.

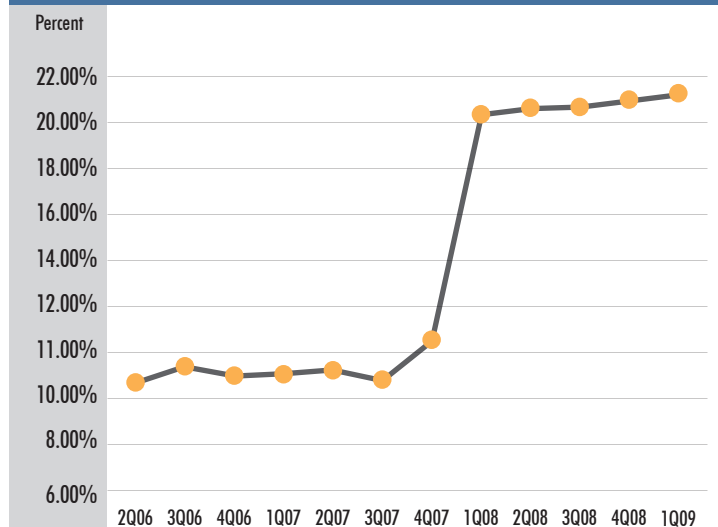
QUARTER IN REVIEW

First Quarter 2009

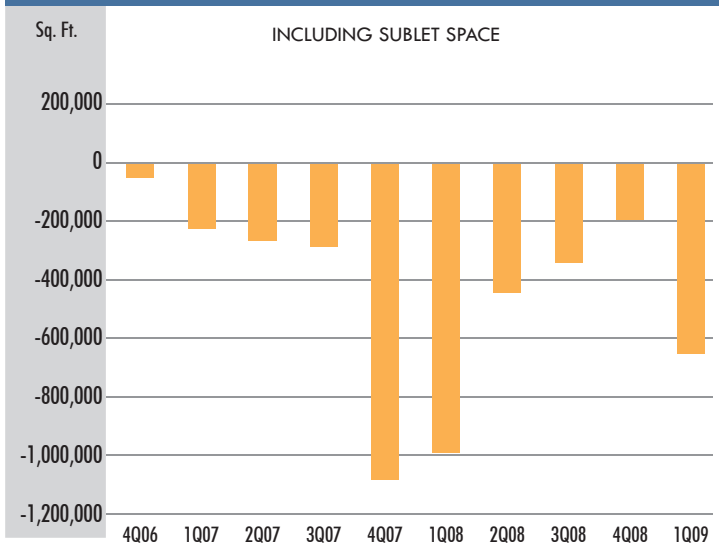
VACANCY RATE



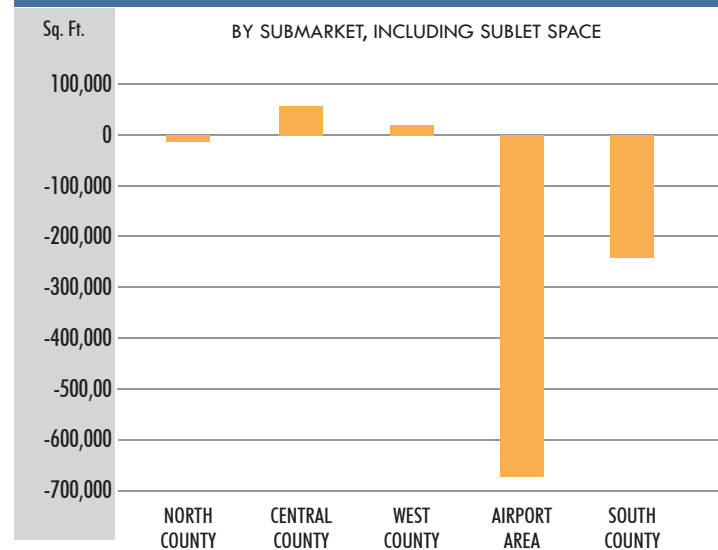
AVAILABILITY RATE



COUNTY WIDE NET ABSORPTION



NET ABSORPTION



Submarkets

NORTH

Anaheim, Brea, Fullerton, La Habra, Orange, Placentia, and Yorba Linda

WEST

Cypress, Garden Grove, Huntington Beach, Los Alamitos, Seal Beach, Stanton and Westminster

CENTRAL

Fountain Valley, Santa Ana and Tustin

AIRPORT

Costa Mesa, Irvine, and Newport Beach

SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

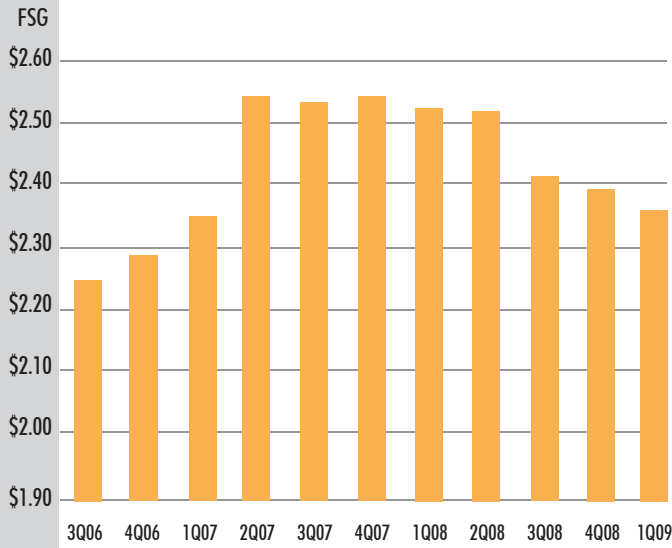
Forecast:

The Office market will continue to be skewed heavily in favor of tenants. For building owners there's good news in the debt market that may help many landlords needing to refinance. The Fed in July will offer loans under TALF to help finance top-rated CMBS issued prior to this year. This has sparked a small rally in the moribund CMBS market and will aid building owners with enough equity to refinance although underwriting standards will be toughened.

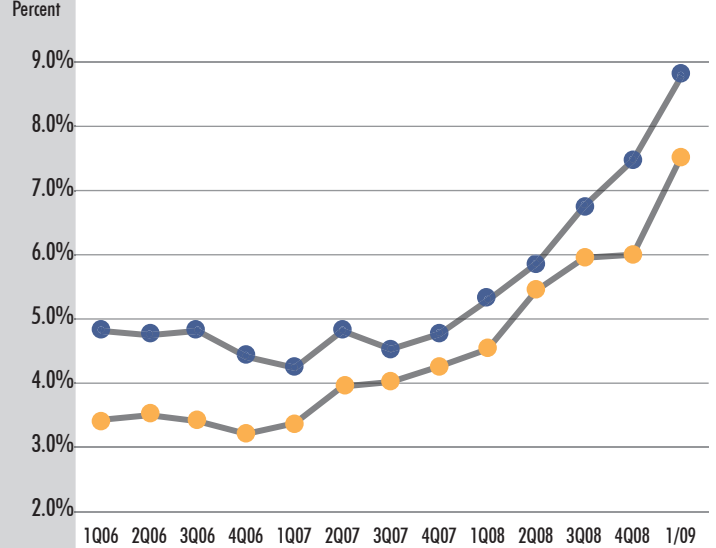
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AVERAGE LEASE RATES BY QUARTER



UNEMPLOYMENT RATE



Recent Transactions

LEASED • 32,349 Sq. Ft.

2525 Campus Drive | Irvine



Phil Cohen and Matt Durkin represented the lessor, K. Hovnanian Companies of California, Inc.

LEASED • 24,131 Sq. Ft.

2100 East 4th Street | Santa Ana



John Hatzis represented the lessee, THINK Together.

LEASED • 14,515 Sq. Ft.

2 Executive Circle | Irvine



Tim Arguello represented the tenant, Parman Law Group.

SOLD • 9,000 Sq. Ft.

8782 Lampson Avenue | Garden Grove



John Son represented the seller, Garden Grove Free Will Baptist Church of Orange County.

LEASED • 8,629 Sq. Ft.

2211 Michelson | Irvine



David Whitney represented the landlord, Crescent Irvine, LLC.

LEASED • 8,226 Sq. Ft.

14471 Chambers | Tustin



John Collins represented the landlord, JNB Chambers.

LEASED • 7,823 Sq. Ft.

14642 Newport Avenue, Suite 100 | Tustin



Braw Rawlins and Allen Basso represented the landlord, G&L Tustin III, LLC.

LEASED • 7,635 Sq. Ft.

16400 Bake Parkway | Irvine



Douglas Garrett and Jonmark Fabiano represented the lessee, Polytec, Inc.

LEASED • 6,318 Sq. Ft.

2424 S.W. Bristol, Suite 250 | Irvine



Brian Garbutt and Andrew Robben represented the landlord, Back Bay, LLC.

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Office Members of the Lee & Associates Group of Companies-Orange County

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About Lee & Associates

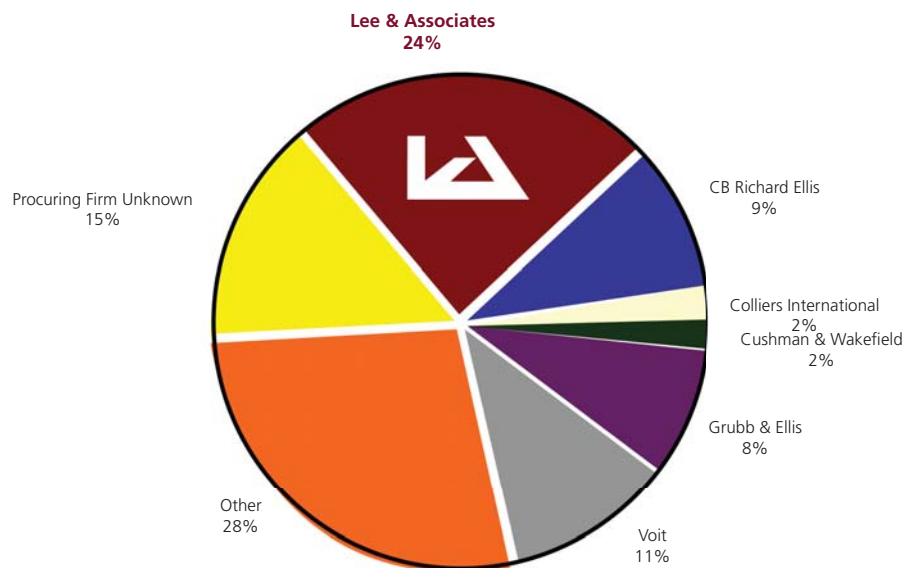
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$5 billion last year, alone.

Office Services

The firm's office brokers negotiate various transactions, including mid- and high-rise properties, business and office parks, mixed-used projects, office land for development, multi-tenant buildings and commercial investments. Our brokers analyze the financial arrangements to streamline transactions, and use innovative marketing efforts and unique transaction structuring to provide creative solutions to meet the client's needs. Our comprehensive service line includes owner and tenant leasing, acquisition and sales, along with marketing and consulting capabilities. We focus on strategic counseling, rather than merely the transaction, in order to execute the best possible real estate strategies for our clients. This includes building strong relationships within the brokerage community overall. As a result, our clients are assured of the broadest exposure possible.

Lee & Associates' Brokerage Market Share in Orange County



TERMS:

Average Asking Lease Rate: The rate determined by multiplying the lease rate for each building in the summary by its associated available space, summing the products then dividing by the sum of the available spaces with gross lease rates for all buildings in the summary. Direct leases only; excludes sublease space and parking charges.

Full Service Gross (FSG): Lease type whereby the landlord assumes responsibility for all the operating expenses and taxes for the property.

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government, medical buildings are not included.

Occupied Square Feet: NRA not considered vacant.

Vacancy Rate: The percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

Gross Absorption: The total amount of space leased or sold in a specified period of time.

Net Absorption: The change in total occupied square feet from one period to the next. Positive absorption is reflected when a lease is signed, which may not coincide with the date of occupancy.

Net Rentable Area (NRA): The gross building square footage minus the elevator core, pipe shafts, vertical ducts, balconies and stairwell areas.

Vacancy Rate: Vacant square feet divided by the NRA.