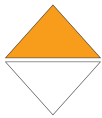


# Orange County OFFICE MARKET REPORT

First Quarter 2010

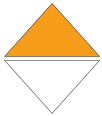
## MARKET OVERVIEW (Change from last quarter)

24.6% - Availability



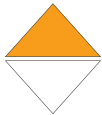
Up from 23.77% last quarter

18.6% - Vacancy



Up from 17.78% last quarter

-265,511 Sq. Ft. - Absorption



Up from -982,699 SF last quarter

Average Lease Rate  
\$2.09 FSG



Down from \$2.13 last quarter

\*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

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

## Aggressive Landlords Up The Ante For Scarce Tenants

In the past four quarters, leasing transactions jumped 26.4% compared to the prior year. This demonstrates the intensity of the competition to attract and retain tenants as the total volume of available space edged up to 25.5% in the first quarter, the seventh straight quarter of negative net absorption.

Operating on evidence that demand for office space will remain weak for some time, Orange County landlords have been on a tear, renewing tenants – as much as two years early – and crafting highly attractive leases to fill space.

Clearly, companies that believe in their business models and operations and have decent credit can dramatically reduce facility costs as the mantra of today's landlord is: occupancy, occupancy, occupancy.

More than 1 million square feet of leases were signed in Q1 but available space still increased by 341,653 sq. ft. measured in buildings larger than 30,000 sq. ft. The high-vacancy Airport and South Orange County markets – which combine for 69% of the county's total office inventory and landed leases for 82% of the Q1 total volume leased – gave back 295,633 sq. ft., the bulk of the space added to the available county inventory. The lowest vacancy rates are in the Central and West markets, which account for 22% of the total county inventory.

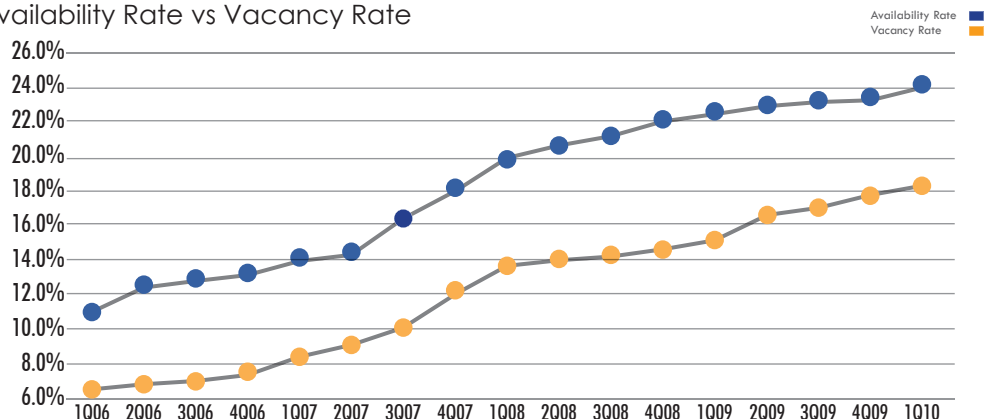
An accurate picture of today's rental rates must include historically generous allowances, incentives and short-term leases along with the knowledge that quoted full-service rents for office buildings larger than 30,000 sq. ft are 11% less than a year ago and are down 23% since the market came off its peak two years ago.

Despite strong national economic news for March in which non-farm employment gained 162,000 jobs – the largest monthly job gain in three years – the region's unemployment rate remains persistently high and hit 10.1% last quarter, which is looking like the new normal. Chapman University economists predict job growth in the second half but not enough to lift the commercial real estate market before 2011. Without positive job growth, it is unrealistic to expect that the market has reached the bottom of the trough. More than 53,000 Orange County workers were idled last year.

Some are betting prices for buildings may be close to the bottom, however, and have seized what they perceive as attractively priced opportunities.

There has been a surge in building sales beginning in Q2 last year with investors supporting the market with more than \$600 million in acquisitions of distressed buildings. This has served to establish a measure of value that until now has been absent since the asset bubble burst. It also strengthens the case that stabilization is near despite several assets still under considerable stress that has yet to be resolved. Even on that score, Real Capital Analytics last year ranked Orange County 36th of the 56 largest metro markets with troubled assets in all commercial categories.

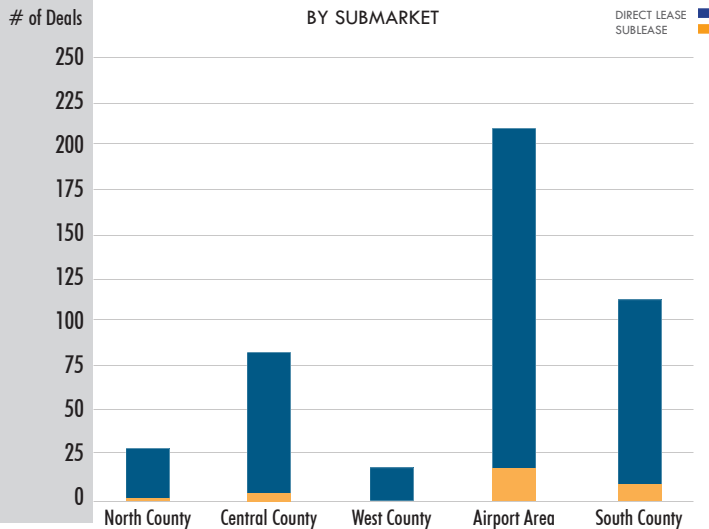
### Availability Rate vs Vacancy Rate



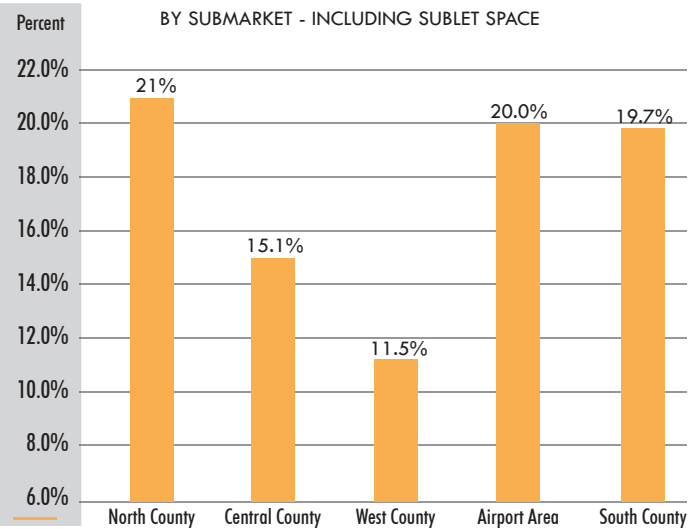
# QUARTER IN REVIEW

First Quarter 2010

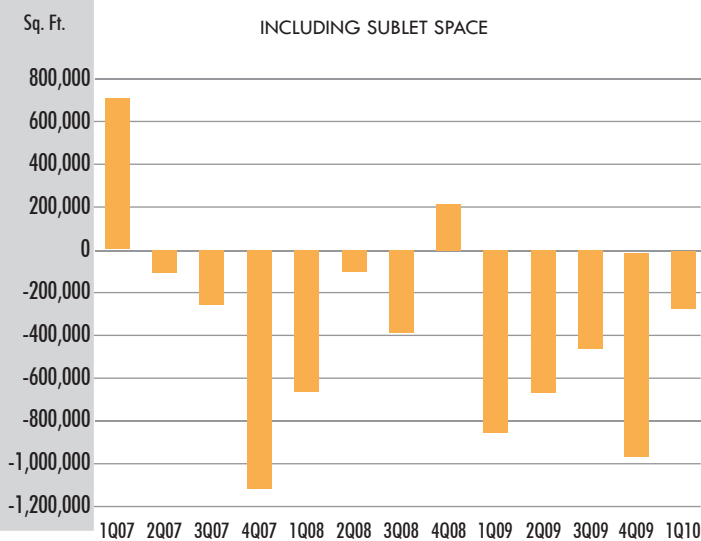
## NUMBER OF LEASES EXECUTED FOR THE QUARTER



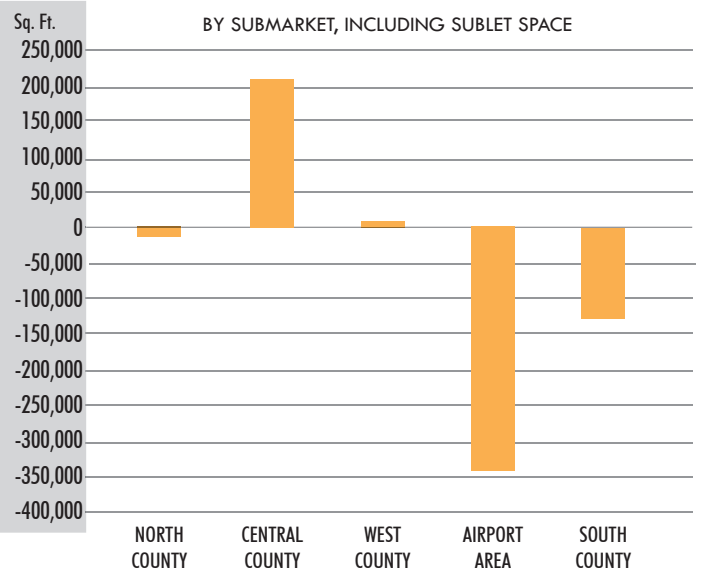
## VACANCY RATE



## COUNTY WIDE NET ABSORPTION



## YTD 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

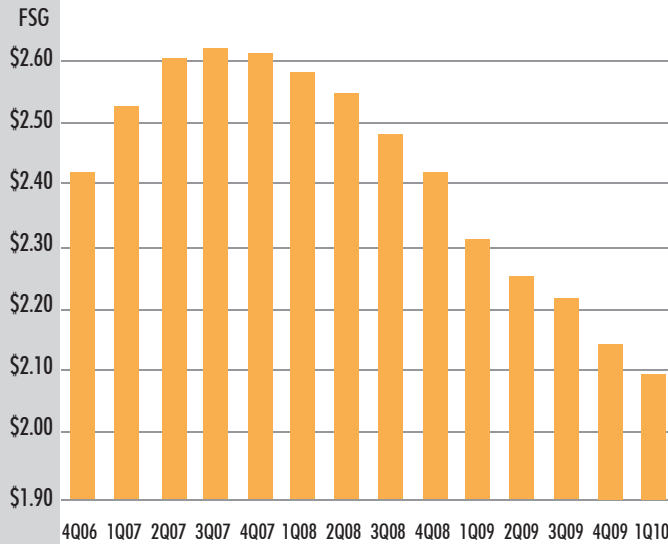
### Forecast:

The improved health of the financial and high-tech sectors make them likely to produce the most notable gains in office jobs going forward. But much is needed, and soon, from every sector to halt the occupancy slide.

# QUARTER IN REVIEW

First Quarter 2010

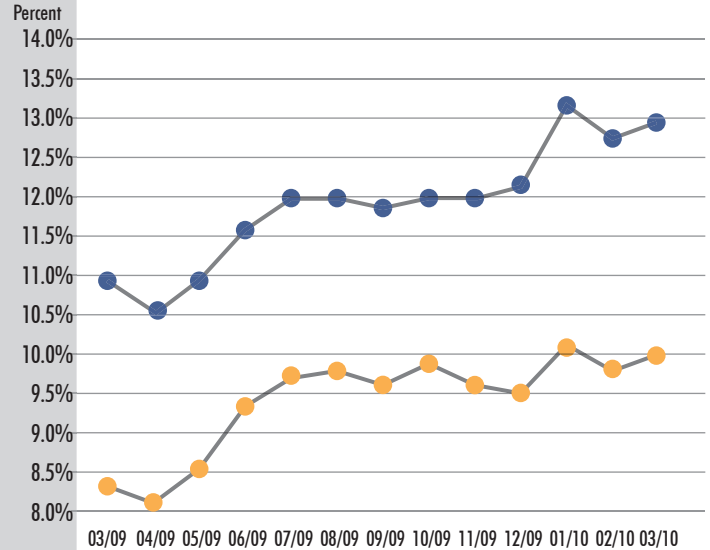
## AVERAGE FSG LEASE RATES BY QUARTER



## UNEMPLOYMENT RATE

Source: EDD

U.S. Average Orange County



## Recent Transactions

### LEASED • 27,156 Sq. Ft.

17671 Cowan | Irvine



Brian Garbutt represented the landlord, Granite Trust IRV, LLC.

### LEASED • 19,633 Sq. Ft.

27071 Aliso Creek Road | Aliso Viejo



Craig DeMiranda represented the tenant, Clear Channel Broadcast.

### SOLD • 7,253 Sq. Ft.

300 N. Euclid | Fullerton



Phil Fridd represented the seller, K. K. & M. Properties and John Hatzis represented the buyer.

### LEASED • 6,793 Sq. Ft.

2825-A Laguna Canyon Rd. | Laguna Beach



Ryan Harman represented the landlord, Molto Bello Properties.

### LEASED • 6,115 Sq. Ft.

300 Goddard Way | Irvine



Gary McArdell represented the tenant, The Maher Corporation.

### LEASED • 5,800 Sq. Ft.

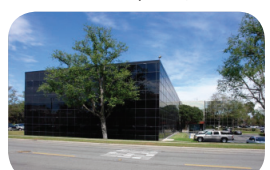
2211 Michelson | Irvine



David Whitney represented the landlord, Hines.

### LEASED • 4,200 Sq. Ft.

3300 Irvine Ave. | Newport Beach



Bob Rieden and George Thomson represented the landlord, Arden Realty.

### LEASED • 3,565 Sq. Ft.

18426 Brookhurst | Fountain Valley



Allen Basso, Rich McEvoy and Brad Rawlins represented the landlord.

### SOLD • 3,100 Sq. Ft.

745 N. Brea Blvd. | Brea



John Son represented the seller, Brea Mesa Inv. Group and Tim Sullivan represented the buyer, Dr. Carmones.

# QUARTER IN REVIEW

Fourth Quarter 2009

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

LEE & ASSOCIATES - ANAHEIM  
1004 West Taft Avenue, Suite 150  
Orange, California 92865  
(714) 647-9100

CRAIG DEMIRANDA	GEORGE THOMSON
SONYA DOPP-GRECH	MARSHAL VOGT
JONMARK FABIANO	
PHIL FRIDD	
DOUG GARRETT	
JOHN HATZIS	
JAMES HAWKINS	
DAN MUDGE	
DAVID NEWTON	
BOB SATTLER	
CHRIS SHEA	
JOHN SON	
JEFF STEPHENS	
ERIK THOMPSON	

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ALLEN BASSO	ROB RADER
ANDREW BERMUDEZ	ANDREW ROBBERN
KURT BRUGGEMAN	DAVE SMITH
PHIL COHEN	RYAN SWANSON
JASON DI ROCCO	ADAM WICKER
CRAIG FITTERER	KAYE-T WING
MATT FRYER	
BRIAN GARBUTT	
RYAN HARMAN	
BRIAN E. HUGHES	
MARK JERUE	
RANDY MASON	

LEE & ASSOCIATES - NEWPORT  
3991 MacArthur Blvd., Suite 100  
Newport Beach, California 92660  
(949) 724-1000

SEAN AHERN  
KIMBERLY AHLBERG  
TIM ARGUELLO  
SCOTT BELLIZZI  
JOHN COLLINS  
GARY MCARDELL  
KATHE MORGAN  
BOB RIEDEN  
DAVID ROMERO  
DICK SILVA  
DAVID WHITNEY

## About Lee & Associates

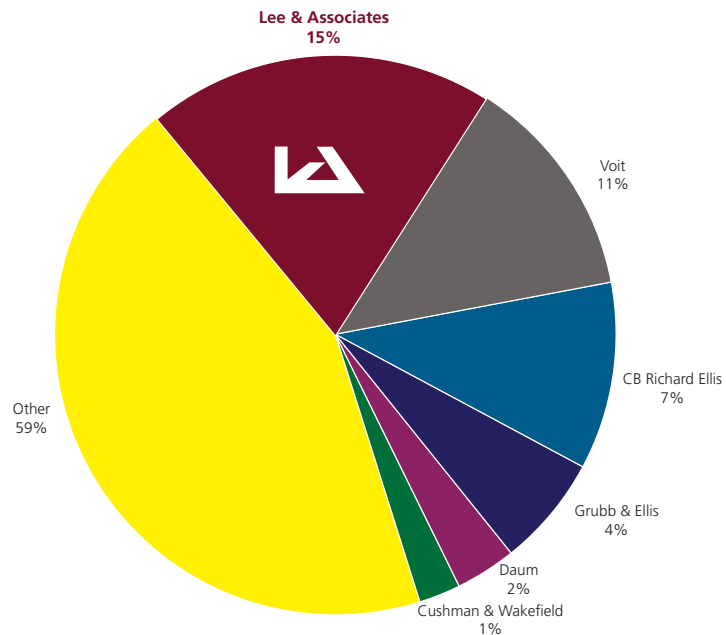
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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 containing at least 30,000 square feet of rentable space. 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 foot 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.