

# Orange County OFFICE MARKET REPORT

Second Quarter 2009

## Landlords See Values Declining As More Space Hits Market

The effects of the great recession on Orange County's Office market in the second quarter continued with the expected and now-familiar refrain: Times got tougher for landlords, especially owners of premium space.

Although more economists see a light at the end of the tunnel with an upturn in the overall economy beginning by year's end, real estate financial analysts are decidedly downbeat in their Office outlook, believing the worst is yet to come. Even when a resumption of positive economic growth occurs, local economists say job creation in Orange County will lag.

In its mid-year forecast economists at Chapman University in Orange predict that the county's job losses this year will hit 45,740 and only 1,930 next year. Bear in mind that last fall Chapman experts anticipated only 9,128 jobs would be lost this year. In 1991, the worst year for local employment in the 1991-95 recession, employers shed almost 29,000 jobs.

The good news is that among California's 10 largest metro areas, Orange County and San Francisco are faring best with an unemployment rate of 8.3 percent.

In Q2 the amount of vacant Office space increased 821,276 square feet against a base of 102.5 million square feet and pushed the total vacancy rate to 18.1% from 14.1% one year ago.

Vacancy in Class A buildings, which total about 49 million square feet, was 19.9%, up from 17.6% at the end of 2Q 2008. The Airport market – which totals 27 million square feet of Class A space – posted a vacancy rate of nearly 21%. Vacancy increases in Class B and C space were more moderate. But, if history repeats, some of these tenants may move up to a better class of building as rates grow more attractive.

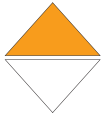
Asking lease rates continued to fall in the second quarter. Overall rates averaged \$2.36 cents per square foot, off 7.17% from the second quarter last year and 14.6% from their peak. Asking rates for Class A space averaged \$2.34 cents, down 10.7% from a year ago and 16.1% from their high of \$2.79.

As asking rents fall and vacancies rise, asset values are plunging. The sales of two Maguire Properties' Class A buildings in the Airport market of Irvine, illustrate the dramatic decline in building prices. In mid 2007, a Maguire-owned 230,605-square-foot building on Von Karman Avenue sold for \$486 a square foot. At the end of 2Q 2009, another Maguire building, the recently completed 531,794-square-foot tower on Michelson Drive at the 405 Freeway, sold for \$288 per square foot – an almost 40% decline.

Maguire's Michelson sale was no surprise inasmuch as it was well known the real estate investment trust was forced to cut its losses. Otherwise, other Office owners are unlikely to sell unless their backs are against the wall; prudent investors know not to use short-term circumstances to make long-term judgments.

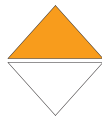
### MARKET OVERVIEW (Change from last quarter)

18.1% - Vacancy



up 5.23% from last quarter

22.30% - Availability



up 5.69% from last quarter

- 821,276 Sq. Ft. - Absorption



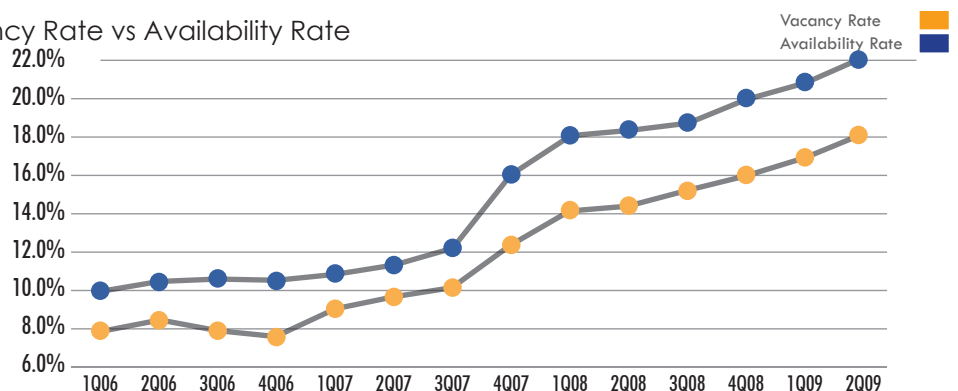
down 30.62% from last quarter

Average Lease Rate  
\$2.36 FSG



down 5.93% from last quarter

Vacancy Rate vs Availability Rate

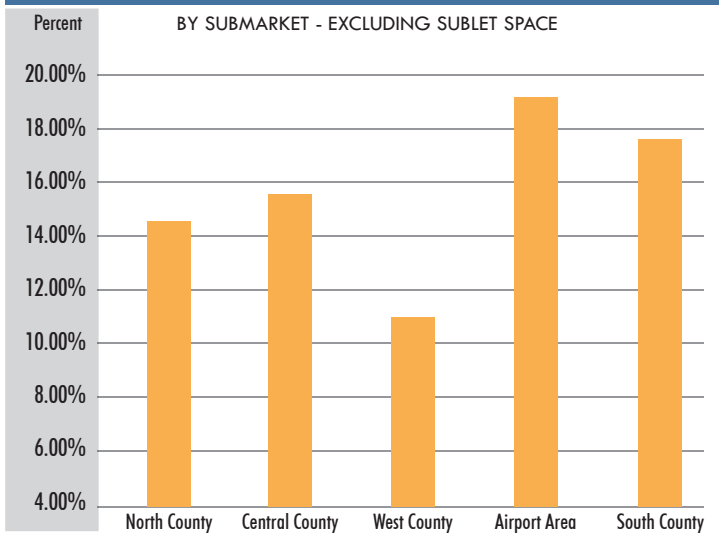


The Orange County Office Market Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Anaheim offices.

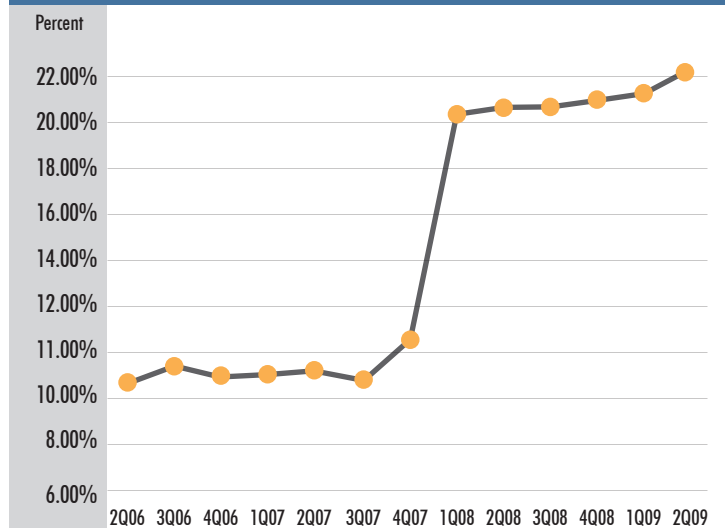
# QUARTER IN REVIEW

Second Quarter 2009

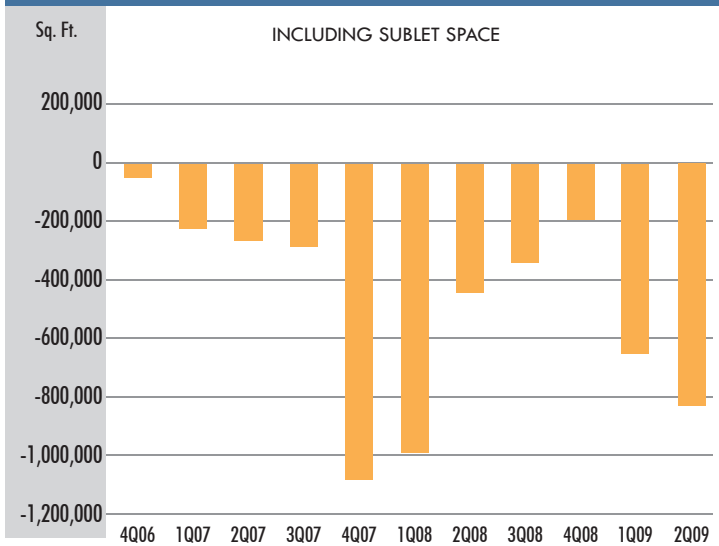
## VACANCY RATE



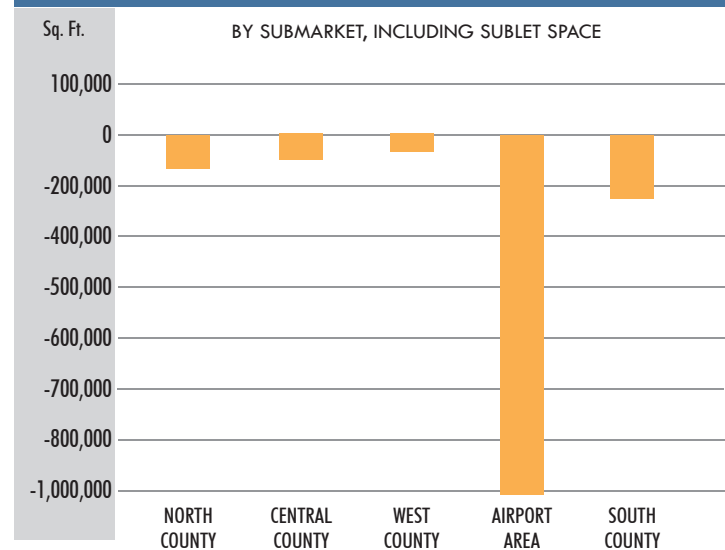
## AVAILABILITY RATE



## 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

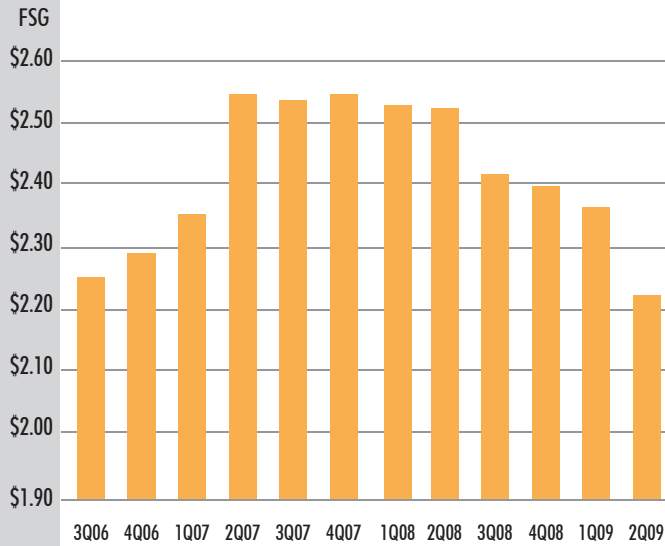
### Forecast:

Landlords should brace themselves for continued declines in asset values in the months ahead as poor employment fundamentals, building operation challenges and more distressed building sales will push prices even lower.

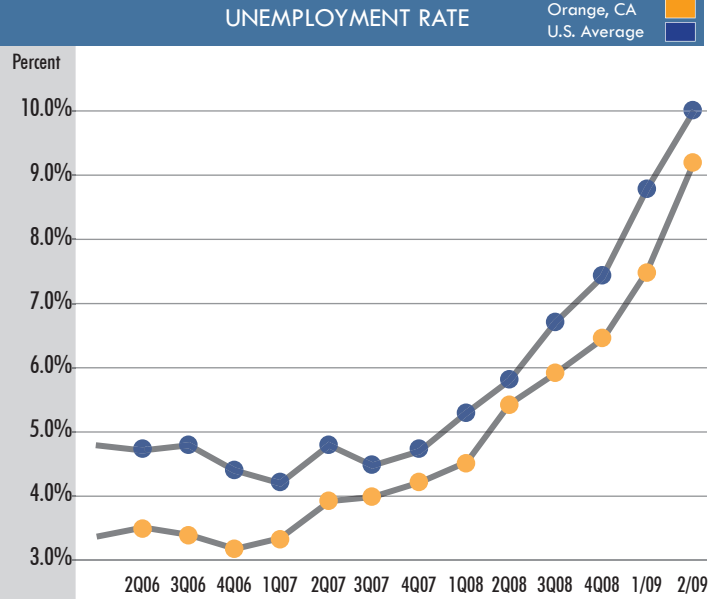
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AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE



## Recent Transactions

**LEASED • 22,011 Sq. Ft.**

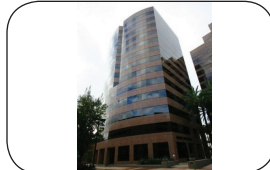
9 Pasteur, Suite 100 | Irvine Spectrum



Adam Wicker, Dave Smith, Matt Fryer and Rob Rader represented the tenant, Bloosky.

**LEASED • 18,211 Sq. Ft.**

2603 Main St. | Irvine



Sonya Dopp-Grech represented the tenant, Action Property Management, Inc.

**LEASED • 12,783 Sq. Ft.**

1845 W. Orangewood | Orange



George Thomson and Marshall Vogt represented the landlord, ARI Orangewood, LP.

**LEASED • 10,899 Sq. Ft.**

20 Pacifica | Irvine



David Romero represented the tenant, Kippy Wroten Law.

**LEASED • 9,920 Sq. Ft.**

920 Roosevelt | Irvine



Adam Wicker, Dave Smith, Rob Rader & Kurt Bruggeman represented the landlord, Kaye-T Wing represented the tenant.

**LEASED • 10,346 Sq. Ft.**

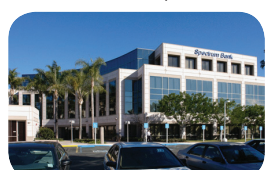
111 Pacifica | Irvine Spectrum



Adam Wicker and Dave Smith represented the landlord, Kilroy Realty.

**LEASED • 8,715 Sq. Ft.**

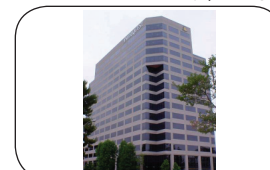
15615 Alton | Irvine



Kimberly Ahlberg represented the tenant, C.W. Driver, Inc.

**LEASED • 5,136 Sq. Ft.**

1100 Town & Country | Orange



Mark Hintergardt represented the tenant, RJ Waltos Insurance.

**SOLD • 4,950 Sq. Ft.**

16500 Bake Parkway | Irvine Spectrum



Adam Wicker, Dave Smith and Matt Fryer represented the seller, Segway Financial and Andrew Bermudez represented buyer, Edge Technologies, LLC

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## 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	

LEE & ASSOCIATES - IRVINE  
111 Pacifica, Suite 350  
Irvine, California 92618  
(949) 727-1200

ALLEN BASSO	ANDREW ROBBERN
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PHIL COHEN	ADAM WICKER
CRAIG FITTERER	KAYE-T WING
MATT FRYER	
BRIAN GARBUTT	
RYAN HARMAN	
BRIAN E. HUGHES	
MARK JERUE	
RANDY MASON	
ROB RADER	

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

SEAN AHERN  
KIMBERLY AHLBERG  
TIM ARGUELLO  
JOHN COLLINS  
CHARLIE LEESON  
KATHE MORGAN  
BOB RIEDEN  
DAVID ROMERO  
DICK SILVA  
DAVID WHITNEY

## About Lee & Associates

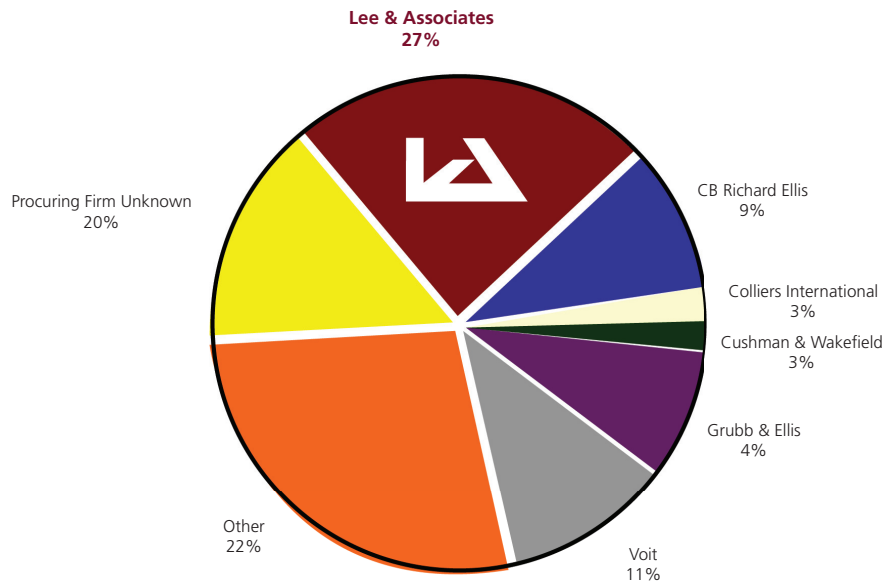
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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 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.