

Orange County OFFICE MARKET REPORT

Second Quarter 2010

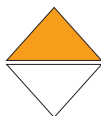
MARKET OVERVIEW (Change from last quarter)

23.44% - Availability



Down from 24.35% last quarter

18.67% - Vacancy



Up from 18.61% last quarter

-236,299 Sq. Ft. - Absorption



Up from -265,511 SF last quarter

Average Lease Rate
\$2.04 FSG



Down from \$2.09 last quarter

New Data Shows Signs Of Stabilization

Available office space declined in the second quarter – the first quarterly drop in 18 quarters for buildings larger than 30,000 sq. ft.

For landlords, the Q2 data gives reason to hope that the long, deep and painful slide in occupancy may be coming to an end. It also may be a reassuring signal many investors are seeking while easing underwriting qualms that have kept capital on the sidelines. The next few quarters will tell the story. For now, and in today's parlance, it's less bad.

Available space dropped nearly a full point to 23.4%. There are other indicators in the office data lending support to the notion that the market is at the threshold of stabilization. Available vacant space fell 0.3% to 17.2%. Only once in the last 18 quarters was there no change in occupancy. In the second quarter, occupancy declined only 0.1% to 81.3%.

There also was a hefty volume of space leased in the second quarter, 2.3 million sq. ft. This may be the result of landlords bending over backward to sign new and existing tenants, who likely will command the high ground in negotiations for the next several years. Asking lease rates continued their steady decline.

There were seven building sales in Q1, the last full reporting period of closed deals. The value of the deals plunged to \$151.37 per sq. ft., compared to \$217.16 in the same period last year in which there were four transactions.

Sale transactions is a category that bears watching because it may reflect greater volatility in the coming quarters. Although the prices per square foot in building sales have been in full retreat, there are occasional transactions that have occurred at surprisingly and, some say, unaccountably high levels.

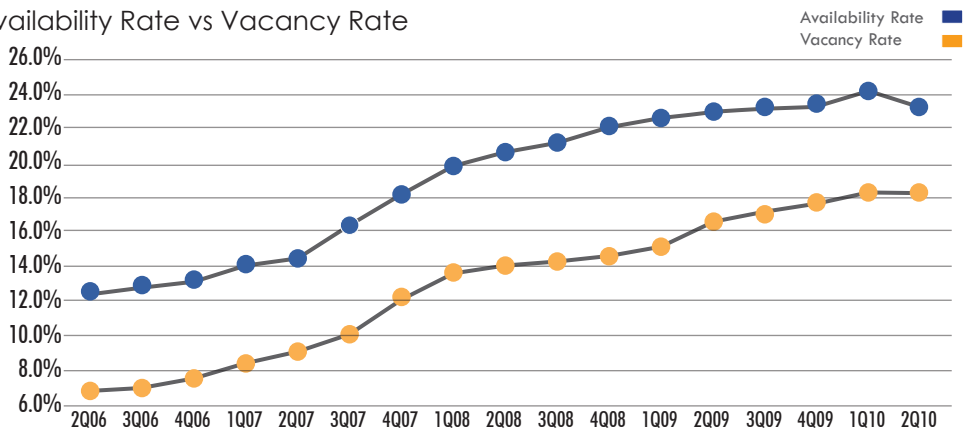
The best example is the recent sale of a 271,000-sq.-ft. LEED Silver building at 2211 Michelson in Irvine at \$380 a sq. ft. The buyer was attracted by the building's 92% occupancy.

Even though analysts point out that the building's leases today probably would renew for at least 25% less, they say the building is the lone local option for companies and government agencies with mandates to lease sustainable facilities. Nevertheless, the sale price is likely to confound those seeking more clarity in values and for underwriting risk.

Otherwise, there's hardly a building in the market that is not distressed. Credit tenants shopping for space increasingly are relying on their brokers to help them gauge whether a landlord has the needed resources to maintain building services.

Locally, the job market appears to have stabilized, particularly among office workers. Nevertheless, companies are seeking to build reserves and are keeping their powder dry on new hires, opting to make do in the post-recession doldrums.

Availability Rate vs Vacancy Rate

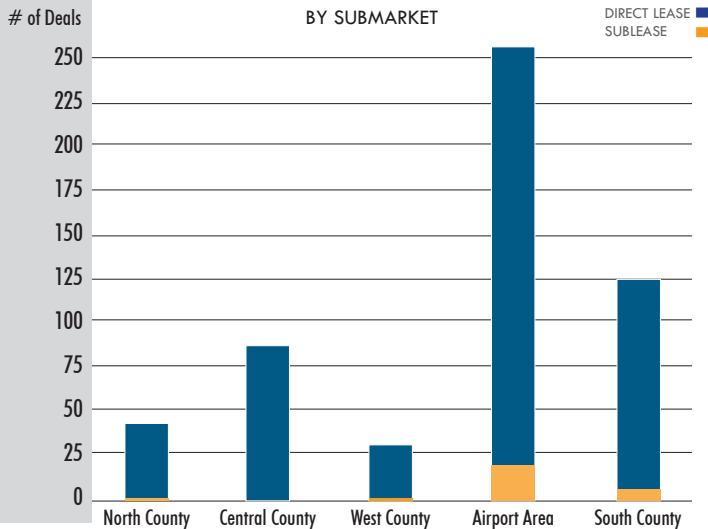


*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

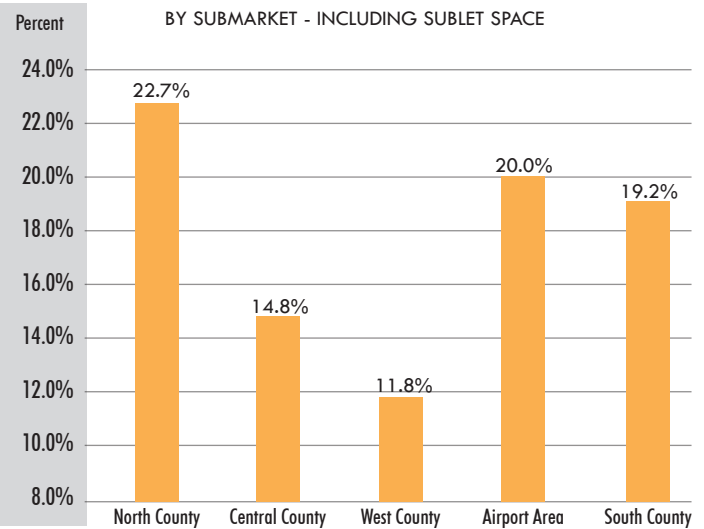
QUARTER IN REVIEW

Second Quarter 2010

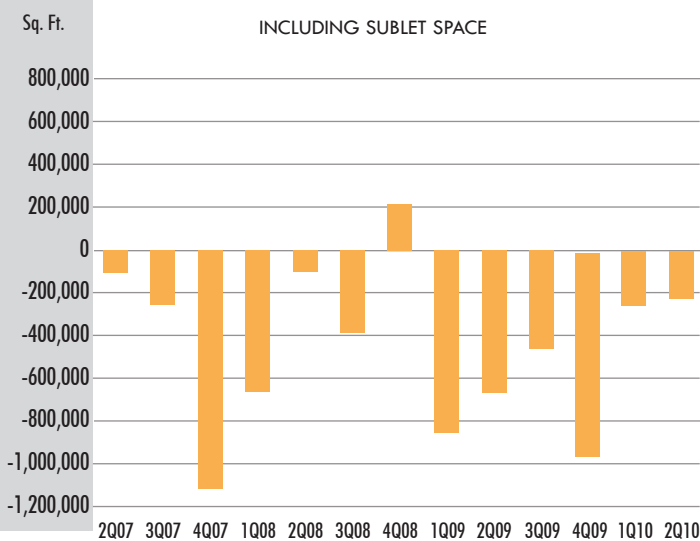
NUMBER OF LEASES EXECUTED FOR THE QUARTER



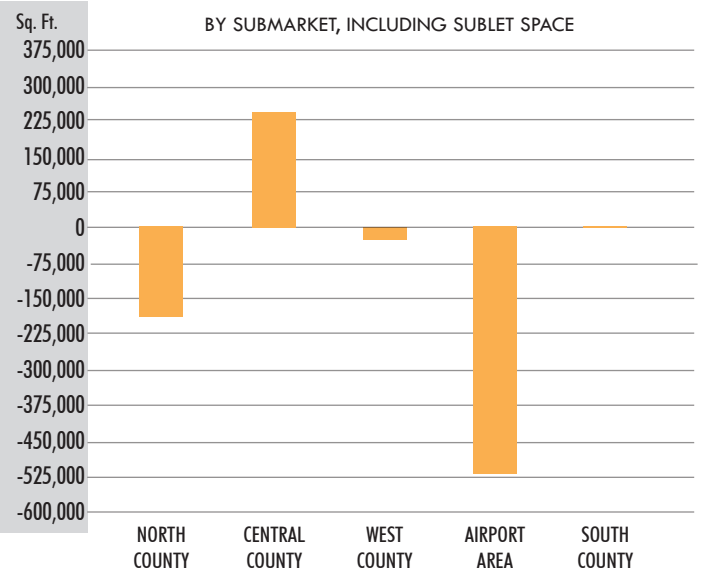
VACANCY RATE



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

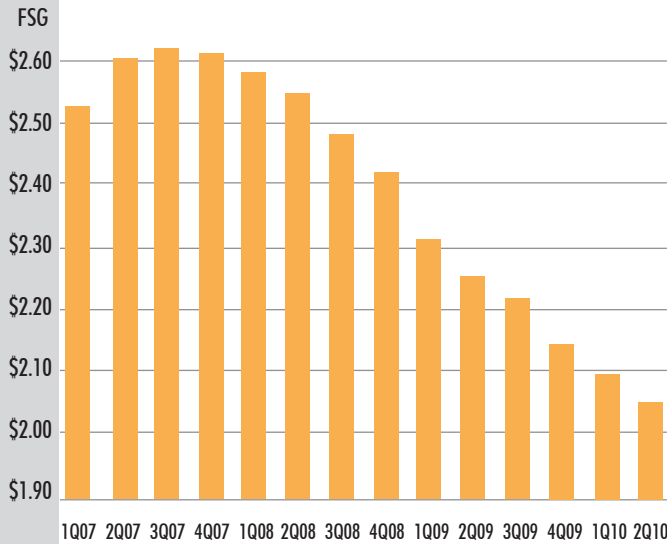
Forecast:

Landlords of less than premium buildings, the B and C categories, will face increasing challenges to keep tenants from moving to higher-image product where there is an abundance of available space at nearly comparable effective lease rates.

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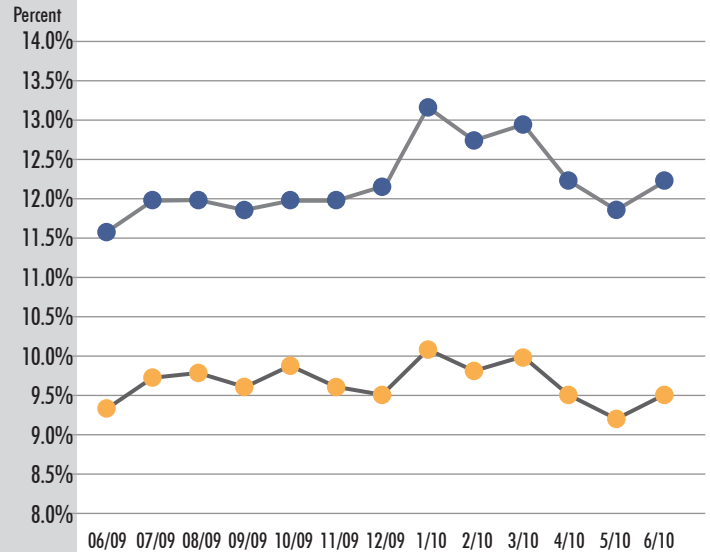
AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE

Source: EDD

California
Orange County



Recent Transactions

SOLD • 99,099 Sq. Ft.

520 S. Harbor Blvd. | Santa Ana



Andrew Robben and Brian Garbutt represented both parties.

SOLD • 39,747 Sq. Ft.

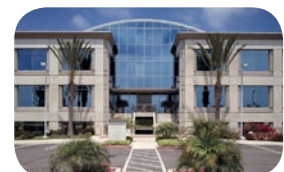
525 N. Muller | Anaheim



Erik Thompson represented the buyer, CIT College of InfoMedical Technology.

LEASED • 39,636 Sq. Ft.

20401 SW. Birch St. | Newport Beach



D. Whitney, J. Snyder and K. Ahlberg represented the landlord, Ferrado Bayview, LLC.

SOLD • 38,316 Sq. Ft.

1570 E. Warner | Santa Ana



C. DeMiranda, D. Newton, J. Stephens and E. Thompson represented the seller, Chung & Co. LLC.

SOLD • 17,969 Sq. Ft.

11732 South St. | Artesia



Ken Gould represented the seller, Ethan Allen Retail Inc.

SOLD • 12,096 Sq. Ft.

26431 Crown Valley Pkwy. | Mission Viejo



A. Wicker, D. Smith and M. Fryer represented the seller, Brianlou Crown Valley, LLC and buyer, James Howard.

SOLD • 11,704 Sq. Ft.

4300 E. Pacific Coast Highway | Long Beach



Adam Wicker and David Smith represented the buyer.

LEASED • 8,141 Sq. Ft.

3300 Irvine Ave. | Newport Beach



G. Thomson, M. Vogt and B. Rieden represented the landlord, Arden Realty.

SOLD • 5,620 Sq. Ft.

26045 Acero | Mission Viejo



Gary McArdell represented the lessor and A. Wicker, D. Smith and R. Rader represented the lessee.

QUARTER IN REVIEW

Second Quarter 2010

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
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Irvine, California 92618
(949) 727-1200

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

LEE & ASSOCIATES - NEWPORT
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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

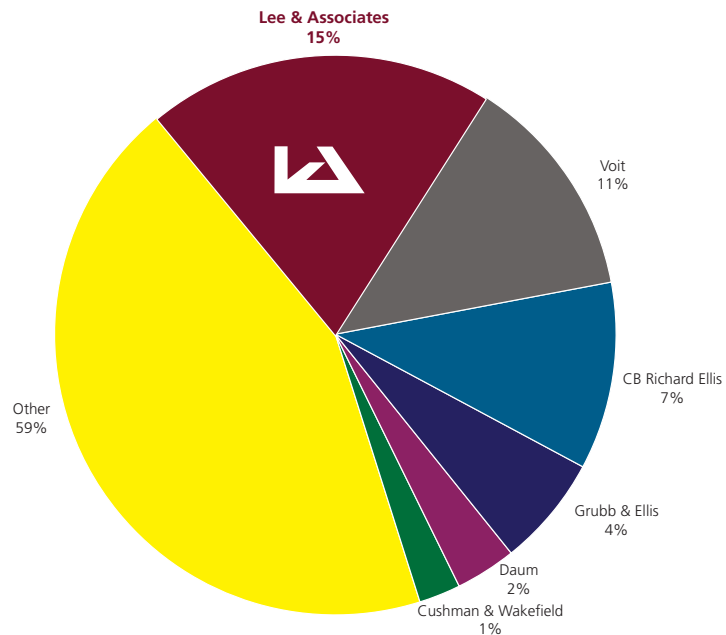
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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.