

Orange County OFFICE MARKET REPORT

Third Quarter 2009

Office Vacancies Rise, Lease Rates Fall, Investors Lurk

Increasing vacancies of office space continued to beset landlords who lately have become more aggressive in cutting rents in an effort to retain and attract tenants while the still-sour economy is forcing companies to further idle thousands of workers and consolidate operations.

This combination of increasing available space and decreasing rental rates is adding mounting pressure on landlords as they see the values of their assets continue to decline, spurring an increase in building sales.

The overall year-over-year vacancy rate was 14.8%, a 1.7% increase over the third quarter of last year, a rate that is skewed by 19.6% vacancy in the Class A category. Moreover, premium buildings in the Airport market, which contains about half of the county's 49.2 million square feet of Class A space, posted a vacancy rate of 21.6%.

Lease rates, however, plunged sharply during the same 12-month period, falling 11.43% from a year ago. The substantial drop in rental rates stands in greater relief when compared to the overall 15.05% drop in asking rents since their 2007 peak. Although asking rents for premium space in the Airport market average \$2.44 per square foot, representing a 15.3% YOY decline, effective rents for high-rise space have skidded to as low as \$2 per square foot with landlords giving generous concessions of free rent, parking and tenant-improvement allowances.

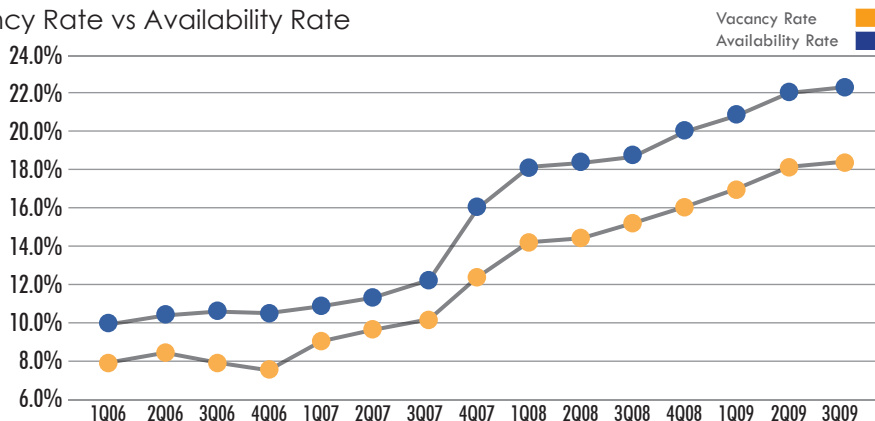
The downward pressure on Class A lease rates also has narrowed the gap in asking rents between Class A and Class B space.

The sharp reduction in lease rates reflects a broader realization and widespread concern among landlords that the horizon for a turnaround in demand for office space may be more distant than was earlier hoped. During last four quarters ending Sept. 30, a total of 59,100 Orange County workers lost their jobs, reported the state Economic Development Department, increasing the county's unemployment rate during that period from 5.7% to the current rate of 9.4%. This eclipses 1992's 7.3% jobless rate at the peak of the last major recession, according to EDD data.

In their mid-year report, economists at Chapman University forecast a rebound in jobs in the second half of 2010.

A number of well-capitalized investors are betting that the university's forecasters are correct and have zeroed in on a number of distressed properties, acquiring them at prices that signal enormous cuts in values. One benchmark sale occurred just after the close of the third quarter: A 246,819-square-foot, 11-story Class A building in an airport-close Santa Ana location – a building that was purchased in 2007 for \$83 million or \$336 per square foot – was sold for \$31 million or \$126 a square foot. The building was 78% leased. One upside to the sale is the buyer reportedly said he believes the building's amenity-rich area will be the first to rebound.

Vacancy Rate vs Availability Rate



MARKET OVERVIEW (Change from last quarter)

18.3% - Vacancy



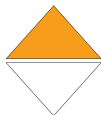
up 1.09% from last quarter

22.50% - Availability



up 0.89% from last quarter

- 615,176 Sq. Ft. - Absorption



up 25.10% from last quarter

Average Lease Rate
\$2.22 FSG



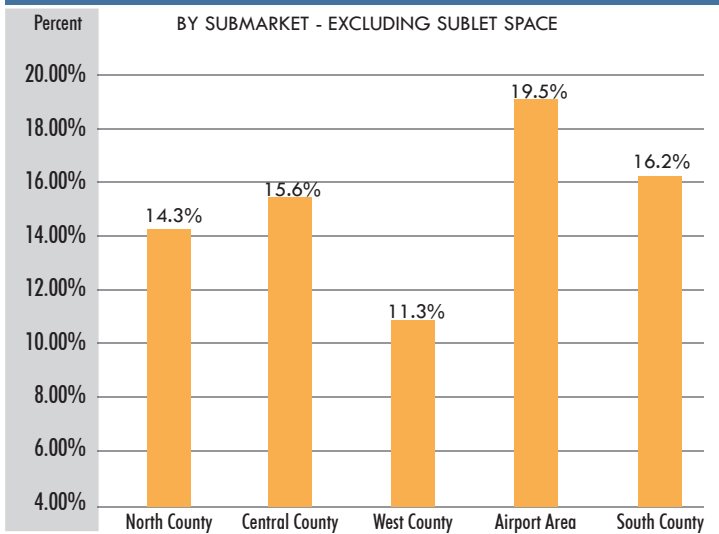
down 5.93% from last quarter

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

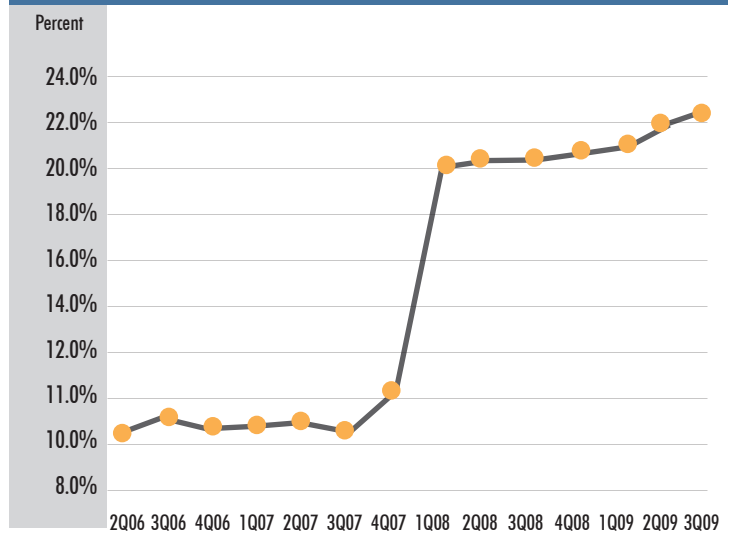
QUARTER IN REVIEW

Third Quarter 2009

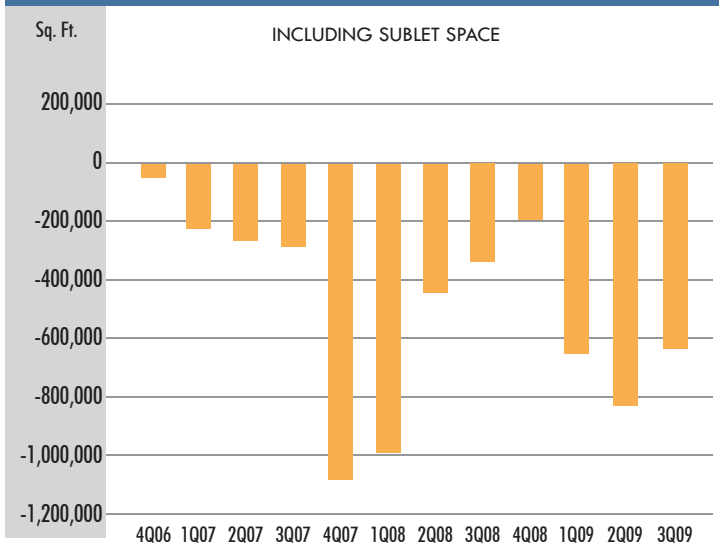
VACANCY RATE



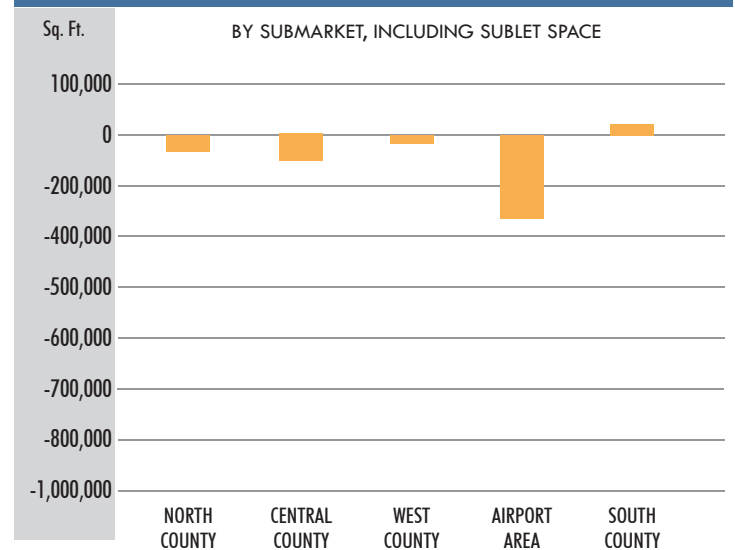
AVAILABILITY RATE



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

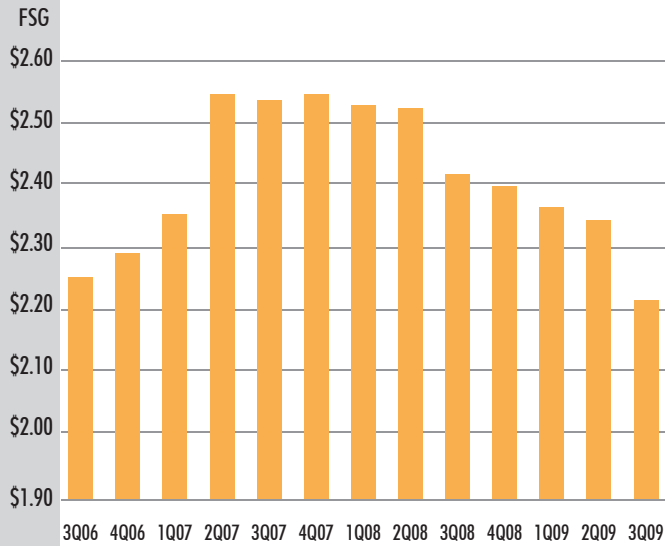
Forecast:

The notion that office users will benefit from lower rents is cold comfort to companies who would rather be planning their expansion than fretting over facility costs. Nevertheless, smart companies interested in high-image buildings are looking at a big window of opportunity over the next year or more to control prestigious office space. Delay, however, may reduce the length of discounted lease opportunities.

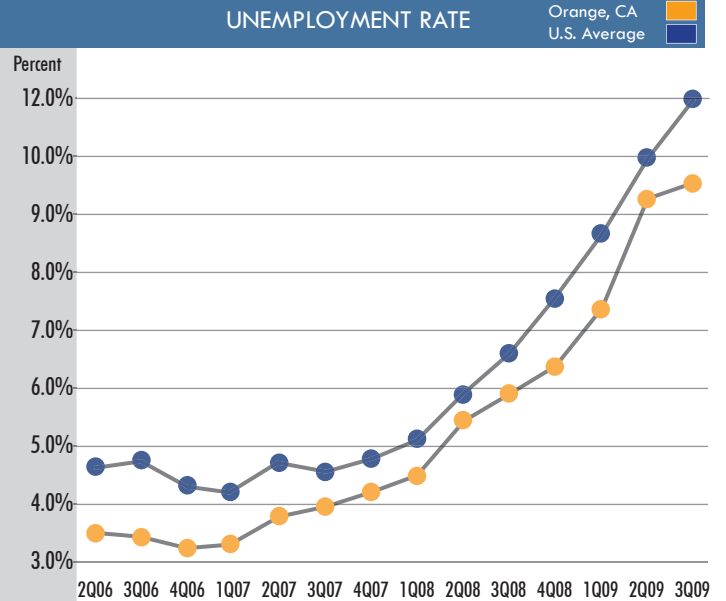
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AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE



Recent Transactions

LEASED • 21,960 Sq. Ft.

125 Technology | Irvine



Dick Silva represented the tenant, Coast Community College.

LEASED • 18,211 Sq. Ft.

2603 Main St. | Irvine



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

LEASED • 16,009 Sq. Ft.

3080 & 3090 Bristol Street | Costa Mesa



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

LEASED • 13,153 Sq. Ft.

2211 Michelson | Irvine



Dave Whitney represented the landlord, Crescent Irvine, LLC.

LEASED • 12,060 Sq. Ft.

23161 Lake Center Drive | Lake Forest



Adam Wlcker and Dave Smith represented the tenant, PreMedia, Inc.

SOLD • 11,429 Sq. Ft.

7761 Garden Grove Blvd. | Garden Grove



Phil Fridd and John Son represented the seller, William & Gini Grace.

LEASED • 11,328 Sq. Ft.

1936 E. Deere Avenue, Suite 100 | Santa Ana



Brian Garbutt represented the landlord, PRIM Alton Deere, LLC.

LEASED • 10,899 Sq. Ft.

20 Pacifica | Irvine



David Romero represented the tenant, Kippy L. Wroten.

LEASED • 10,342 Sq. Ft.

19732 MacArthur Blvd., Suite 100 | Irvine



Brian Garbutt represented the tenant, TC3 Health, Inc.

QUARTER IN REVIEW

Third Quarter 2009

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

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PHIL FRIDD	
DOUG GARRETT	
JOHN HATZIS	
JAMES HAWKINS	
DAN MUDGE	
DAVID NEWTON	
BOB SATTLER	
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JOHN SON	
JEFF STEPHENS	
ERIK THOMPSON	

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PHIL COHEN	ADAM WICKER
CRAIG FITTNER	KAYE-T WING
MATT FRYER	
BRIAN GARBUTT	
RYAN HARMAN	
BRIAN E. HUGHES	
MARK JERUE	
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JOHN COLLINS
CHARLIE LEESON
GARY MCARDELL
KATHE MORGAN
BOB RIEDEN
DAVID ROMERO
DICK SILVA
DAVID WHITNEY

About Lee & Associates

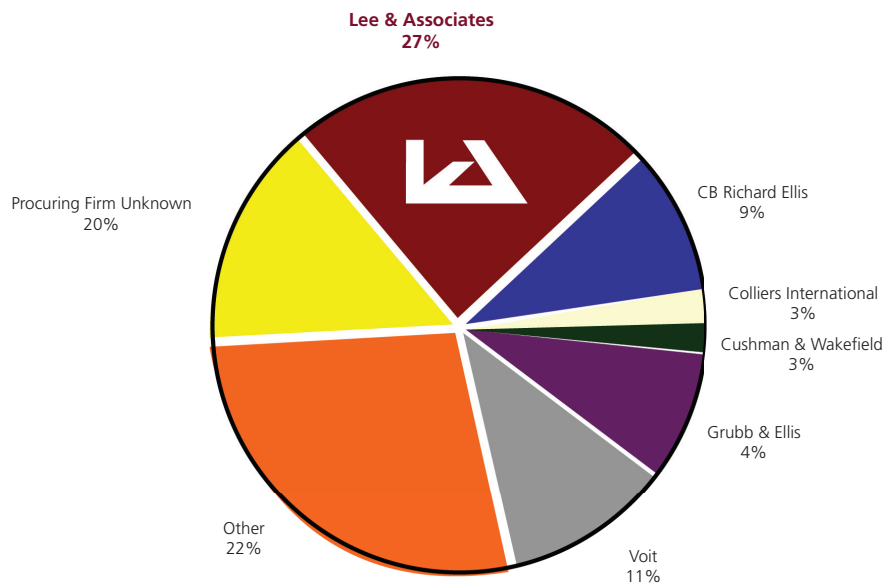
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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 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.