

Orange County OFFICE MARKET REPORT

Third Quarter 2010

MARKET OVERVIEW (Change from last quarter)

22.15% - Availability



Down from 23.44% last quarter

18.13% - Vacancy



Down from 18.67% last quarter

353,811 Sq. Ft. - Absorption



Up from -236,299 SF last quarter

Average Lease Rate
\$1.99 FSG



Down from \$2.04 last quarter

Office Picture Continues To Brighten In Q3

Orange County's office market posted the best quarter since before the meltdown. Also, consecutive quarterly declines in vacant and available space were the first in four years.

Vacant space fell 0.5% in the third quarter to 18.13% and total available space settled at 22.2%, 1.3% less than for the same period last year. Year to date, net absorption is barely in negative territory at -147,999 which is in sharp contrast to the 2.7 million sq. ft. of negative absorption in 2009. The data tracks space in buildings larger than 30,000 sq. ft., representing a total base of 104.5 million sq. ft.

The 353,811 sq. ft. of positive absorption in Q3 was the most in 15 quarters and the first time since Q4 2008 that space has come off the market.

Average asking rents fell below the \$2 level for the first time in Q3 to \$1.99 and are 24% off their record high of \$2.63 three years ago.

Countywide, available sublet space plunged in Q3, falling 374,000 sq. ft. to 631,936 sq. ft. It's the first time sublet space has totaled less than 1 million sq. ft. in three years and is at its lowest since Q1 2006.

Net absorption was up in four of the county's five markets. Leading the way were the Central County and Airport markets.

With 20.6 million sq. ft., the Central County market, which is divided by the Santa Ana Freeway and includes Anaheim, continued to perform well with a fourth straight quarter of positive net absorption, pushing its year-to-date gain to 331,658 sq. ft. In the current period, its vacant available space fell 0.2% to 13.2%.

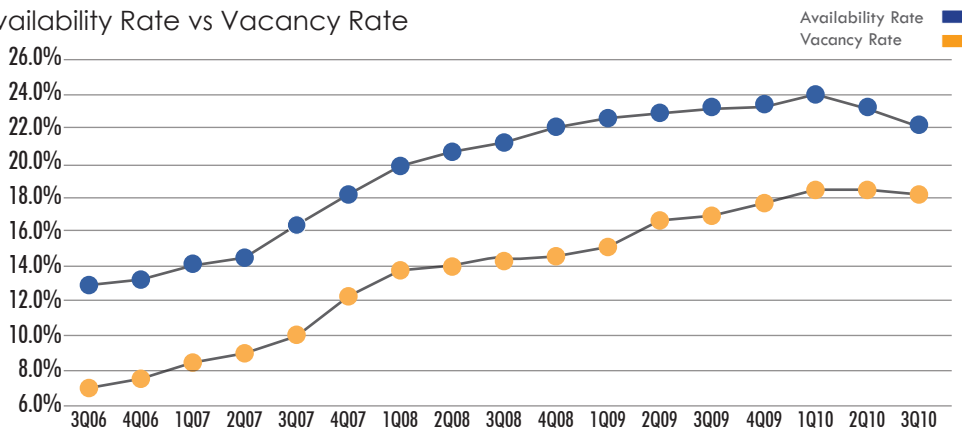
The Airport market – the county's largest with roughly half of the total base inventory – accounted for 76% of the net gain with 269,437 sq. ft. on the plus side. Because of its size, however, the geographically wide area that includes the South Coast Metro and Newport Center submarkets saw its vacancy rate fall only 0.6% to 17.7% from the previous quarter.

North County's market with 9.99 million sq. ft. edged into positive territory for the first time since the end of 2008. But it still is saddled with 2.2 million sq. ft. of vacant available space, or 22.1% of its inventory.

South County with 19.2 million sq. ft. posted the county's biggest Q3 vacancy drop, falling 2% to 15.6%.

With about 5% of the office base inventory, the 5.5 million sq. ft. West County is the smallest market in Orange County but it had the highest occupancy rate at 87.3%. Some 51,605 sq. ft. of empty space came back into inventory in Q3.

Availability Rate vs Vacancy Rate



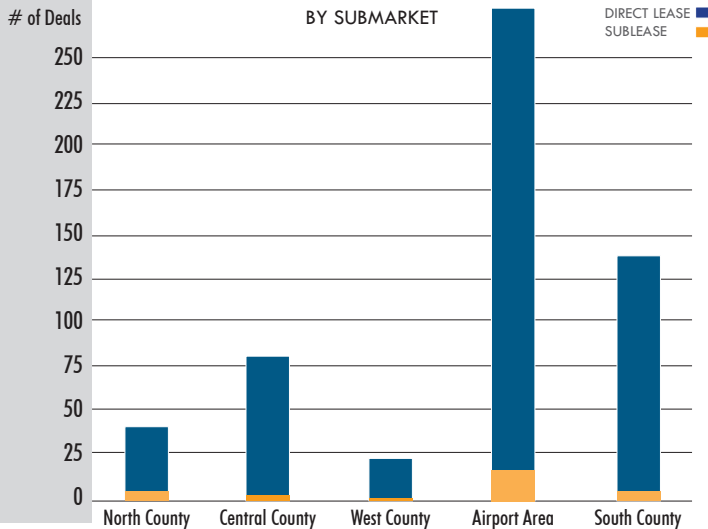
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

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

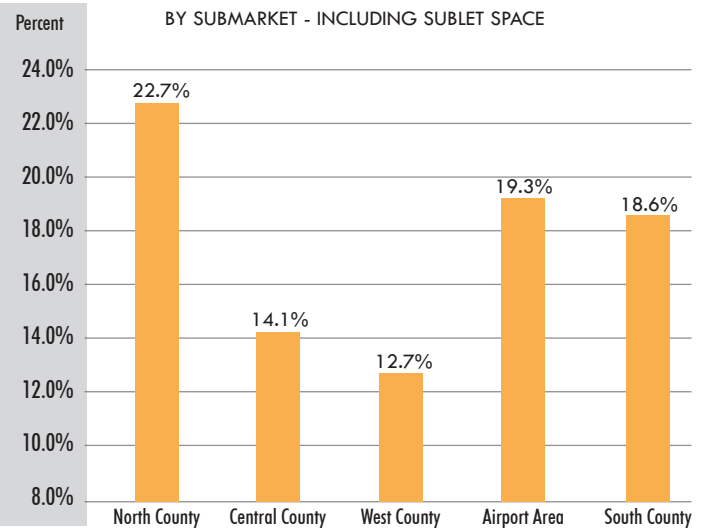
QUARTER IN REVIEW

Third Quarter 2010

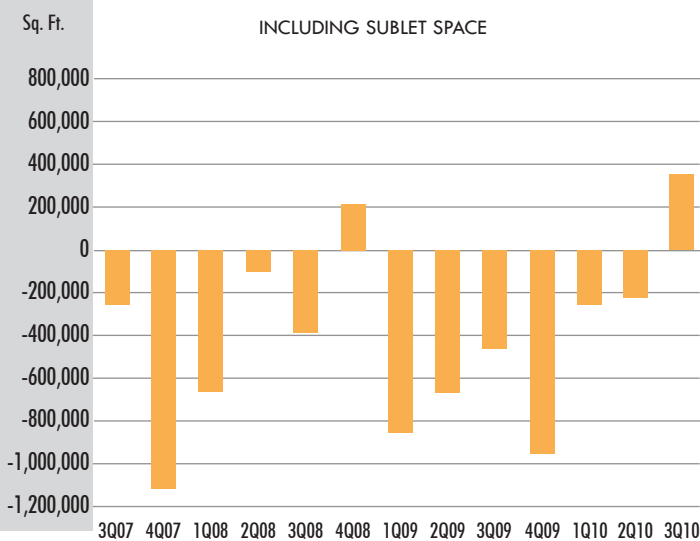
NUMBER OF LEASES EXECUTED FOR THE QUARTER



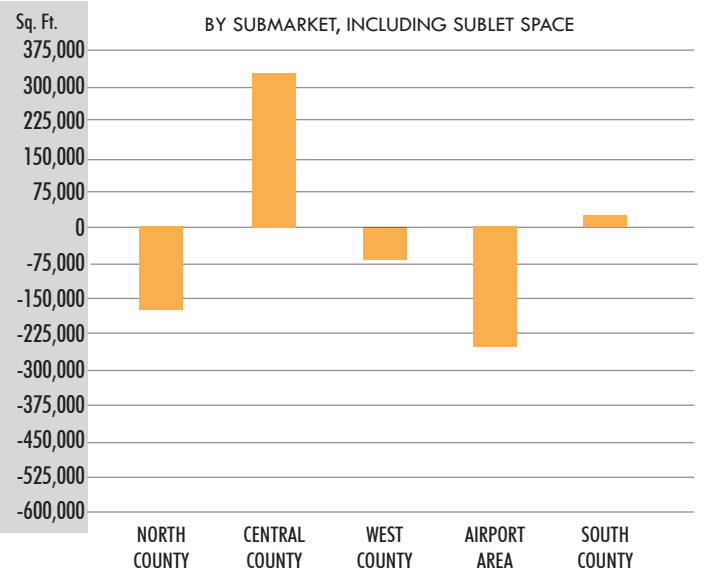
VACANCY RATE



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

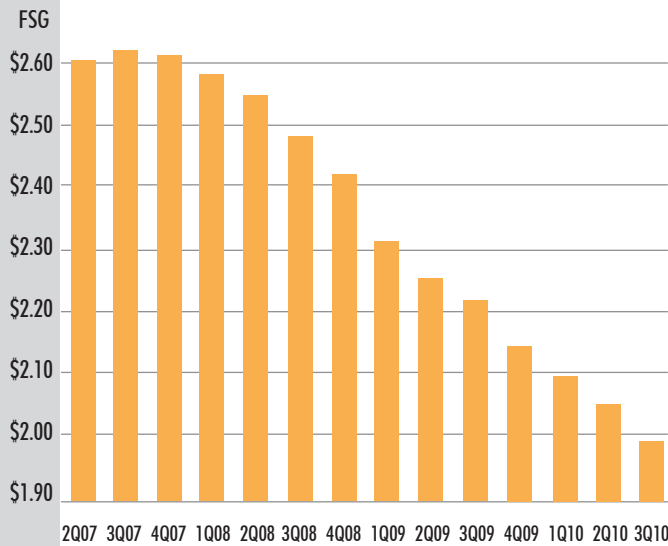
Forecast:

Orange County average asking rents still are falling steadily at about a nickel per quarter compared to reports that pressure is easing in many metro office markets. One national survey of 4 billion sq. ft. showed average rents dropped a penny in the last three months.

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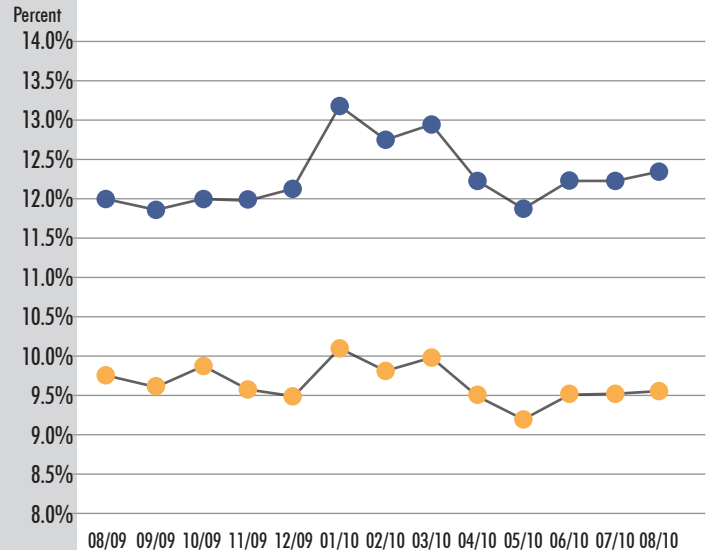
AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE

Source: EDD

California 
Orange County 



Recent Transactions

LEASED • 100,677 Sq. Ft.

16241 & 16245 Laguna Canyon Rd. | Irvine



Phil Cohen and Matt Durkin represented the tenant, Blizzard Entertainment.

SUBLEASED • 38,912 Sq. Ft.

2411 N. Glassell St. | Orange



Phil Cohen and Justin Smith represented the sublessor, Volt Information Sciences, Inc.

LEASED • 27,084 Sq. Ft.

18300 Von Karman, Suite 1000 & 1100 | Irvine



Randy Mason represented the lessee, Gallup, Inc.

LEASED • 12,461 Sq. Ft.

3351 Michelson | Irvine



Marshal Vogt represented the tenant.

LEASED • 10,965 Sq. Ft.

17770 Cartwright Suite 350 | Irvine



Andy Walburger represented the tenant, Gordian Medical.

LEASED • 9,923 Sq. Ft.

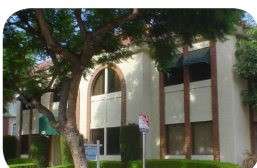
500 City Parkway | Orange



Jeffrey Stephens, George Thomson & Marshal Vogt represented the tenant.

SOLD • 7,391 Sq. Ft.

335 Centennial Way | Tustin



Jonmark Fabiano & John Hatzis represented the Seller and Douglas Garrett represented the buyer.

LEASED • 4,785 Sq. Ft.

17320 Red Hill Ave | Irvine



Bob Reiden represented the tenant, The Habit Burger Grill.

LEASED • 3,819 Sq. Ft.

15635 Alton Pkwy Suite 350 | Irvine



Scott Belizii represented the tenant, Transone Merchant Services West.

QUARTER IN REVIEW

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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 310
Irvine, California 92618
(949) 727-1200

ALLEN BASSO BRAD RAWLINS
ANDREW BERMEDEZ ROB RADER
KURT BRUGGEMAN ANDREW ROBBERN
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
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 41 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois, Indiana, Georgia and Wisconsin.

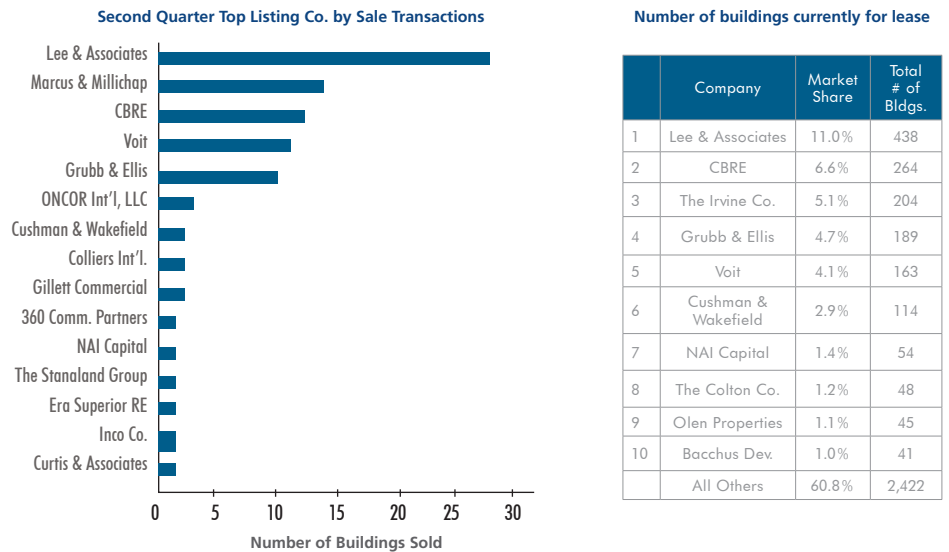
With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$5 billion last year, alone.

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

Source: CoStar Landlord Rep and Sales Rep Companies for Orange County Industrial Buildings.



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.