

Orange County OFFICE MARKET REPORT

Fourth Quarter 2009

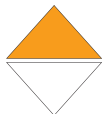
MARKET OVERVIEW (Change from last quarter)

23.77% - Availability



Up from 23.40% last quarter

17.78% - Vacancy



Up from 16.77% last quarter

-982,699 Sq. Ft. - Absorption



Down from -420,773 SF last quarter

Average Lease Rate
\$2.13 FSG



Down from \$2.21 last quarter

OC Office Vacancies Continue To Climb

Despite a modest slowing in the overall pace of recession-caused layoffs and a slight fourth-quarter gain of 2,000 office jobs, the Orange County office market last year continued to suffer the brunt of three years of record job losses, which have totaled 125,300 workers idled since the 2006 peak.

With more than 3.1 million square feet of negative net absorption this year, including nearly 1 million sq. ft. in Q4 for the 11th consecutive quarter of increased vacancy, the overall office vacancy rate hit 17.78%, which is up 13% for the year.

If trends move east to west, however, Orange County and other hard hit West Coast markets can hope that a halt in the occupancy slide is not far off. Positive net absorption of 4.8 million sq. ft. was reported for Q4 in the Northeast markets of New York City, Long Island, northern New Jersey and Philadelphia.

For now, though, the news for local landlords is far from good. Empty Class A space in Q4 settled at 20.3% countywide. The vacancy rate in the South County market was 21.9% and 21% in the Airport market, which contains more than half of the county's 49.5-million sq.-ft. inventory of premium space.

The amount of vacant sublease space overall fell YOY by 263,225 sq. ft. to 1,276,551 sq. ft. due to positive sublease absorption in the Airport market in Q4.

Values of buildings sold in the first three quarters of '09 were 18.5% less than the same period in 2008. But when Q4's sales totals arrive and are factored in, it's anticipated that comparables will be even lower. More importantly, new owners will be freer to write more deeply discounted effective lease deals to reach full occupancy, applying more pressure on higher leveraged competing landlords.

There are two new owners in position to launch a rent war. For example, last June the Emmes Group paid Maguire Properties \$301 per sq. ft. for 3161 Michelson, a new 530,000-sq.-ft., 19-story building in a prime Irvine location. It was completed in June 2007 by Maguire at a cost of \$462 per sq. ft. Sixty-percent leased at time of sale, it represents a loss of 35%. In October, Highridge Partners paid Tishman \$126 a sq. ft. for an 11-story Class A building in the Airport market that Tishman acquired in 2007 for \$336 per sq. ft. That represents a 62.7% loss for Tishman. Highridge says the building is 72% occupied and has a 9% cap rate.

Asking full-service rents averaged \$2.13 at year's end, dropping 4.4% in Q4 for a total 12% annual decline and a 19% fall since 2007. Rents for Class A space ended the year at \$2.31, off 12.8% for the year and 21.2% over the past eight quarters.

Local economists predict slight improvement in the job picture this year, which will help the market come to terms with values and rents. But significant job improvement is needed to replace the seven years of employment gains wiped out by the recession.

Vacancy Rate vs Availability Rate



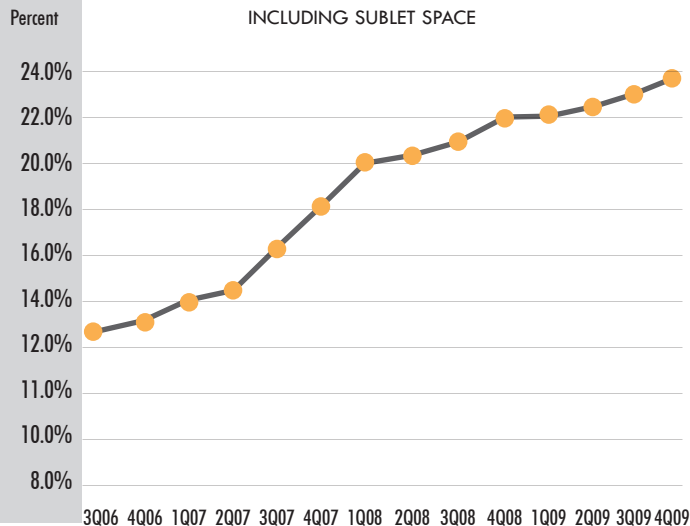
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

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

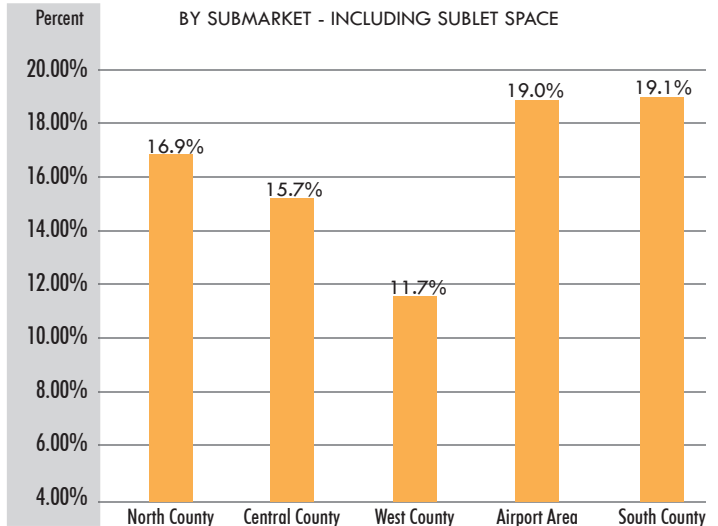
QUARTER IN REVIEW

Fourth Quarter 2009

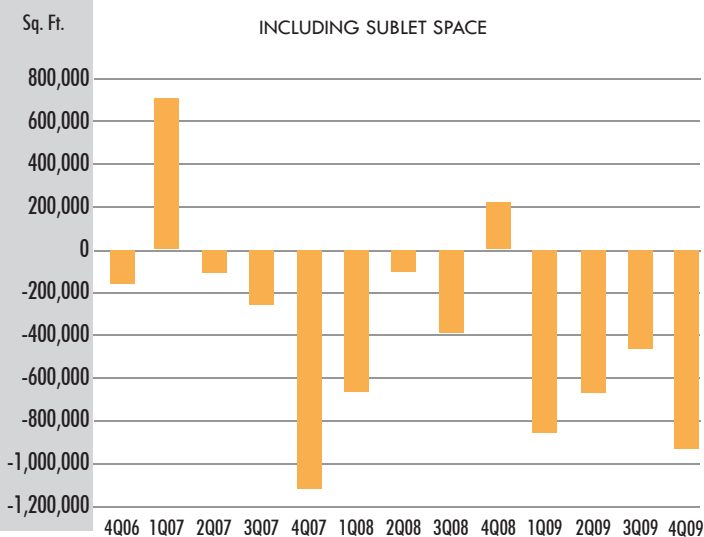
AVAILABILITY RATE



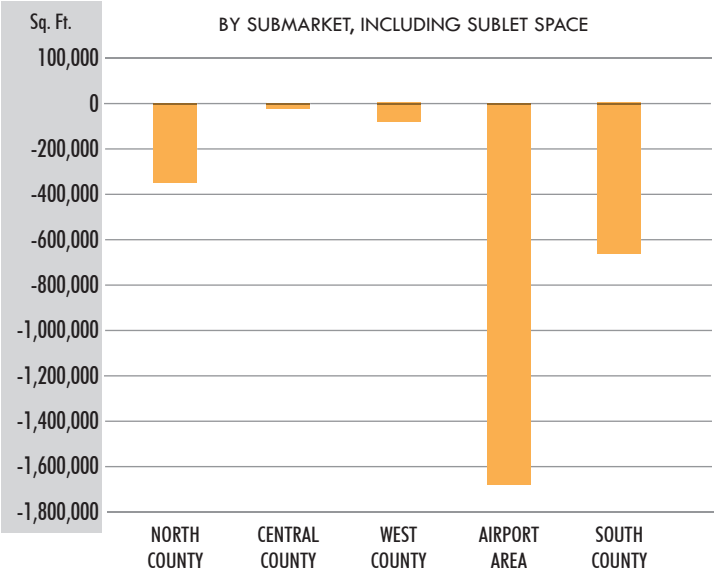
VACANCY RATE



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

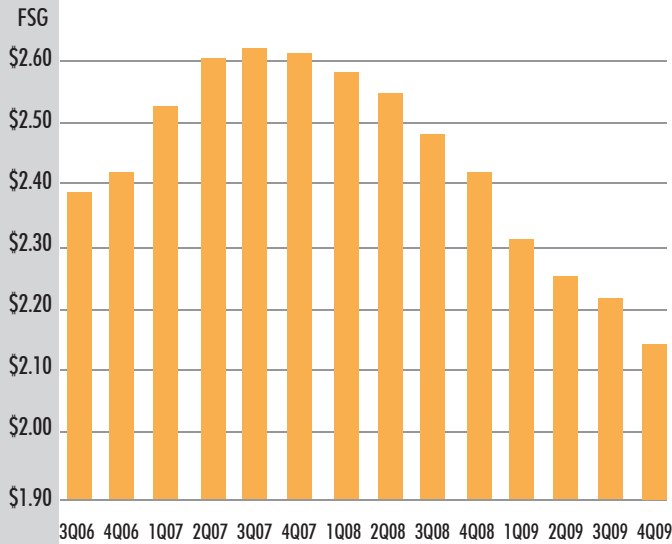
Forecast:

Even though the sharp decline in values and rising vacancies haven't produced the tidal wave of defaults that many expected, landlords were severely battered last year. More corrections can be anticipated in 2010 if lenders, who so far have been amenable to work-outs, see long odds for near-term market improvement, increasing their willingness to book losses.

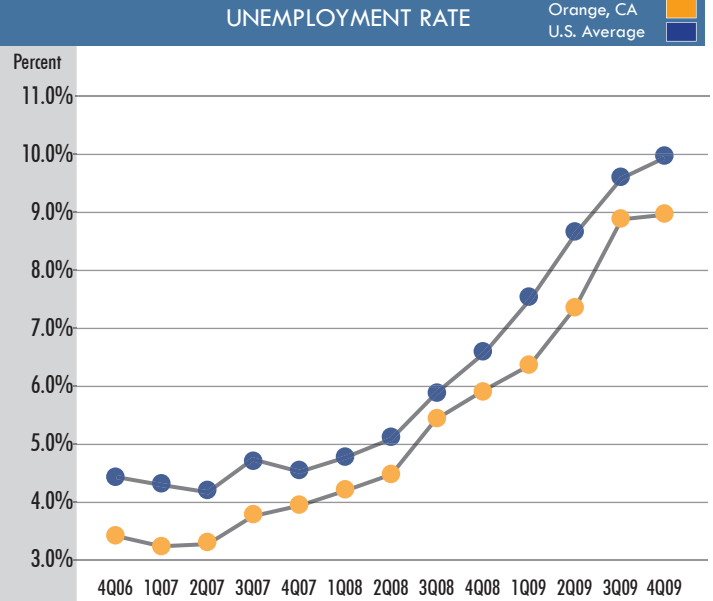
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AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE



Recent Transactions

SOLD • 77,165 Sq. Ft.

3187 Red Hill Avenue | Costa Mesa



Brian Garbutt and Andrew Robben represented the seller, Mesa West.

SOLD • 29,058 Sq. Ft.

17891 Cartwright Road | Irvine



John Collins represented the buyer, TC Communications.

LEASED • 25,792 Sq. Ft.

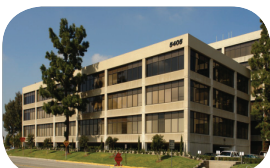
2995 Red Hill | Costa Mesa



Gary McArdell represented the tenant, Profit Recovery Partners.

LEASED • 23,200 Sq. Ft.

5405 Garden Grove Blvd. | Westminster



Dick Silva represented the tenant, Coast Community College.

LEASED • 14,838 Sq. Ft.

1 Spectrum Pointe Dr., Suite 225-255 | Lake Forest



Mark Jerue, Craig Fitterer, and Peter Cheng represented the tenant, Newport Media, Inc.

LEASED • 6,950 Sq. Ft.

19732 MacArthur Blvd., Suite 140/150 | Irvine



Brian Garbutt represented the landlord, CIP Centerpointe 123, LLC.

SOLD • 9,600 Sq. Ft.

17280-17288 Red Hill | Irvine



Allen Buchanan and Craig DeMiranda represented the buyer, Northwind, LLC.

LEASED • 9,395 Sq. Ft.

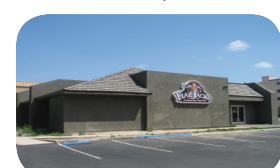
22840 Savi Ranch Pky., Suite 100 | Yorba Linda



Jim Hawkins represented the landlord, Betty L. Davies Family Limited Partnership.

SOLD • 6,873 Sq. Ft.

295 Imperial | Fullerton



Brad Gilmer, Clif Fincher and John Son represented the seller, Zions Bank.

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

LEE & ASSOCIATES - ANAHEIM
1004 West Taft Avenue, Suite 150
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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
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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	

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Newport Beach, California 92660
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SEAN AHERN
KIMBERLY AHLBERG
TIM ARGUELLO
SCOTT BELLIZZI
JOHN COLLINS
CHARLIE LEESON
GARY MCARDRELL
KATHE MORGAN
BOB RIEDEN
DAVID ROMERO
DICK SILVA
DAVID WHITNEY

About Lee & Associates

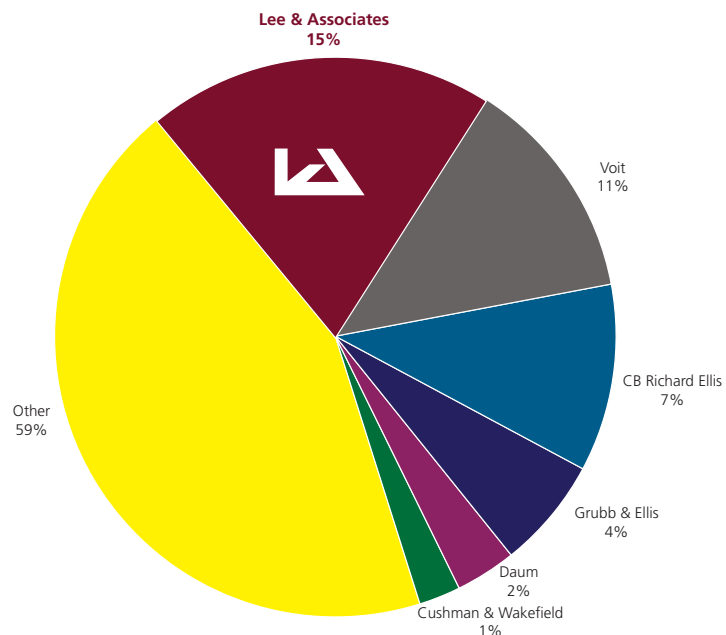
As a group of independently owned and operated companies, Lee & Associates currently has more than 38 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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.