

Orange County OFFICE MARKET REPORT

Fourth Quarter 2010

Office Market Begins 2011 With New Life

Net absorption of office space in 2010 was in the black for the first time in four years as the year ended with all signs – except rents – generally improving for Orange County landlords, including available space falling for a third consecutive quarter.

Even though 21.7% of office space remains available, the combination of comparative healthy year-to-date demand, which began to surge in Q2, plus the steady downward trajectory in vacancies are clear signals that the steep four-year slide has come to a halt.

Additionally, investors buying office properties represent another strong indication that the market hit bottom in 2010. Increased acquisitions of distressed local trophy assets and other Class A buildings in 2010 are serving to put a floor under values, which have plunged further than any time since the Great Depression.

The turnaround in office data mirrored 2010's uptick in employment in professional and business services, health, education and leisure and hospitality. Although overall employment fell slightly last year, economic forecasters Chapman University and Cal State Fullerton predict slight job gains in 2011 in every major category except construction.

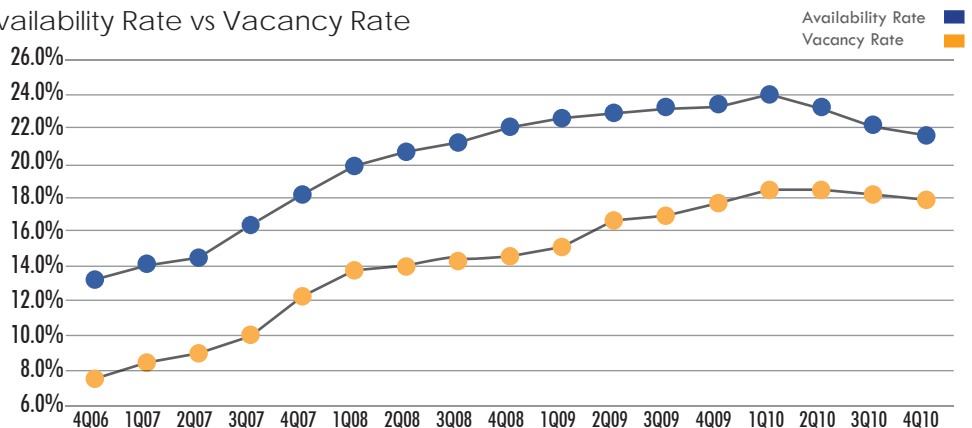
This year, the typical year-end slowdown in transaction activity was confounded by surprisingly robust net absorption. Despite the fewest fourth-quarter lease deals in three years, Q4 net absorption totaled 392,602 sq. ft., the most since the start of 2007 based on Lee & Associates' analysis of office buildings larger than 30,000 sq. ft.

The county's office market closed out the year with net positive absorption of 244,603 sq. ft., a mammoth swing from the negative 2.7 million sq. ft. of 2009 and the most in the 4.3 million-sq-ft., three-year tumble. After falling for the past three quarters, occupancy increased in Q4 to 82.2%, equaling the rate at the end of 2009. Asking rents fell again in Q4, although at a slower pace.

A year-end market-by-market snapshot looks like this:

- The bellwether Airport market – which contains nearly half the 104.5 million sq. ft. of county office space – led the 2010 turnaround with 397,464 sq. ft. of space coming off available inventory.
- The 20.7-million sq.-ft. Central County market turned in the year's best comparative performance with a 309,181-sq.-ft. net gain.
- South County's 19 million sq. ft. started the year with 26.8% total space available but closed 2010 at 21.9% with the help of three buildings totaling 323,000 sq. ft. removed from inventory.
- The small 5.5-million sq.-ft. West County market is the county's tightest with vacancy at 11.1% and 14.5% total available.
- The 9.9-million sq.- ft. North County market was alone in the year-to-date minus column, adding 264,188 sq. ft. to its available inventory, which settled at a record 28.5%.

Availability Rate vs Vacancy Rate



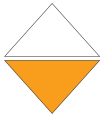
MARKET OVERVIEW (Change from last quarter)

21.71% - Availability



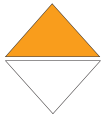
Down from 22.15% last quarter

17.79% - Vacancy



Down from 18.13% last quarter

392,602 Sq. Ft. - Absorption



Up from 353,811 SF last quarter

Average Lease Rate
\$1.97 FSG



Down from \$1.99 last quarter

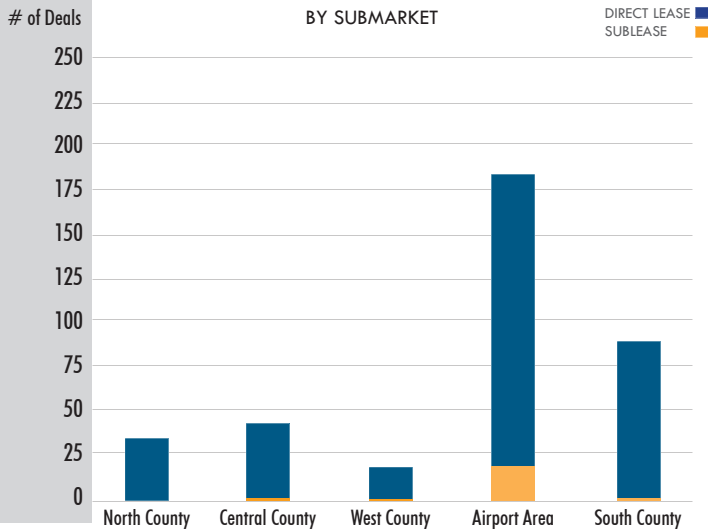
*All numbers are based on office space in buildings 30,000 sq. ft. and larger.

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

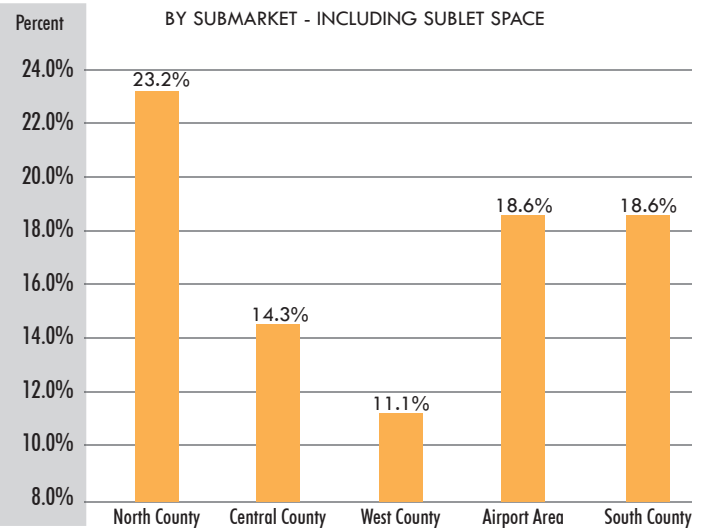
QUARTER IN REVIEW

Fourth Quarter 2010

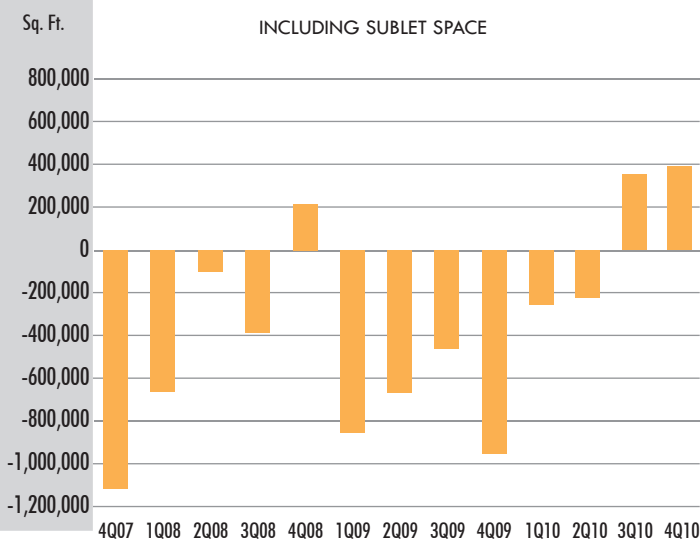
NUMBER OF LEASES EXECUTED FOR THE QUARTER



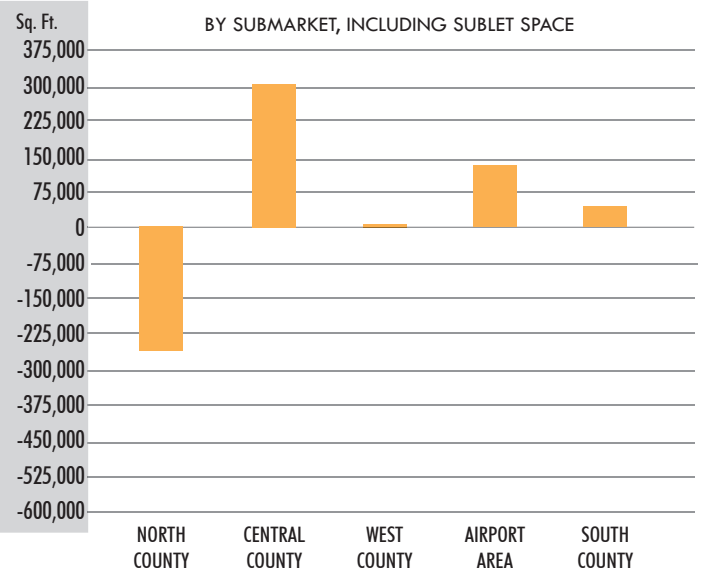
VACANCY RATE



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

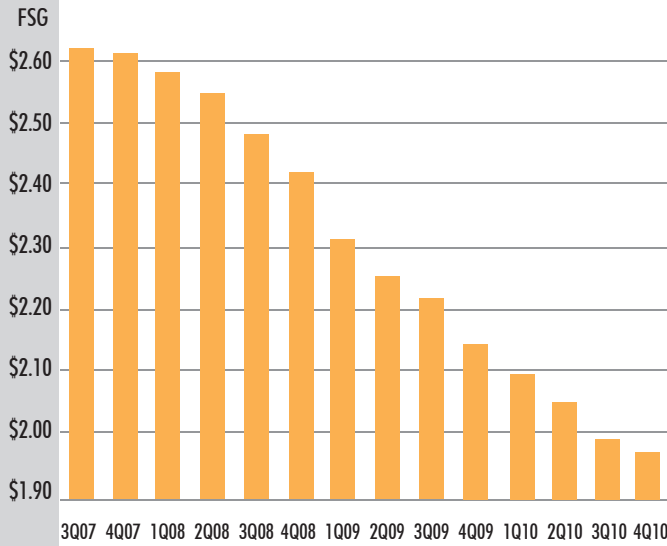
Forecast:

Although confidence is returning among decision makers, it's unlikely this will translate into more than modest improvement in hiring during the next two years. In the meantime, rents will remain depressed as fierce competition for tenants continues.

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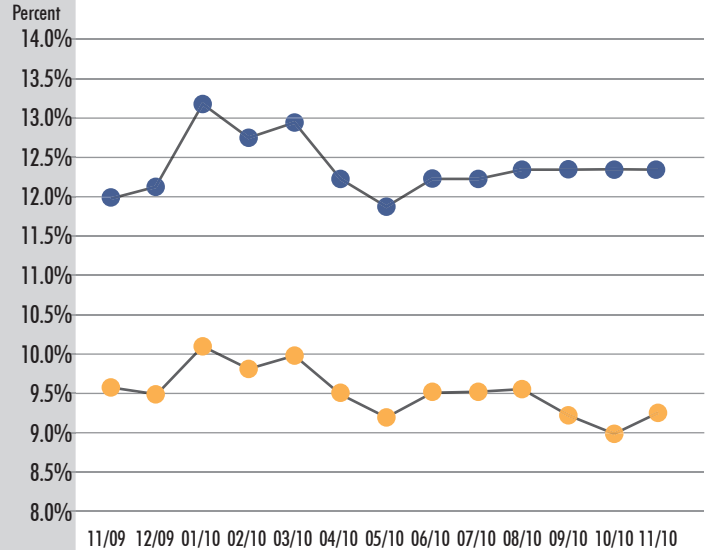
AVERAGE FSG LEASE RATES BY QUARTER



UNEMPLOYMENT RATE

Source: EDD

California
Orange County



Recent Transactions

SOLD • 82,911 Sq. Ft.

151 Kalmus Dr., Suite A-E | Costa Mesa



Allen Basso and Brian Garbutt - Represented Seller and Buyer.

SOLD • 45,900 Sq. Ft.

603 S. Valencia Ave. | Brea



George Thomson and Marshal Vogt - Represented the Seller, Kilroy Realty Group

SOLD • 30,857 Sq. Ft.

450 W. 4th St. | Santa Ana



Jonmark Fabiano, Jeffrey Gahagan, George Thomson and Marshal Vogt - Represented Seller and Buyer.

SOLD • 27,211 Sq. Ft.

300 S. Flower St. | Orange



George Thomson/Marshal Vogt - Represented Seller and Buyer.

LEASED • 27,113 Sq. Ft.

8845 Irvine Center Dr #100, 200 & 210 | Irvine



Ted Rommel - Represented the Landlord, Image Holdings, Inc.

LEASED • 9,274 Sq. Ft.

1506 Brookhollow. | Santa Ana



Adam Wicker, David Smith and Matt Fryer represented the tenant, US Dept. of Veteran Affairs

LEASED • 9,255 Sq. Ft.

16842 Von Karman | Irvine



Gary McArdell - Represented the Tenant, Lee & Sakahara.

LEASED • 5,928 Sq. Ft.

25910 Acero Suite 100 | Mission Viejo



Tim Arguello - Represented the Tenant, Realty One Group.

SOLD • 2,937 Sq. Ft.

1955 Sunny Crest Dr., Suite 100-104 | Fullerton



John Collins - Represented the Buyer, Central Drugs.

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

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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	

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ANDREW BERMUDEZ	ROB RADER
KURT BRUGGEMAN	ANDREW ROBBERN
PHIL COHEN	DAVE SMITH
CRAIG FITTERER	RYAN SWANSON
MATT FRYER	ADAM WICKER
BRIAN GARBUTT	KAYE-T WING
DYLAN GORMLY	
RYAN HARMAN	
MARK JERUE	
RANDY MASON	

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KIMBERLY AHLBERG
TIM ARGUELLO
SCOTT BELLIZZI
JOHN COLLINS
SONIA KOHLI
GARY MCADELL
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.

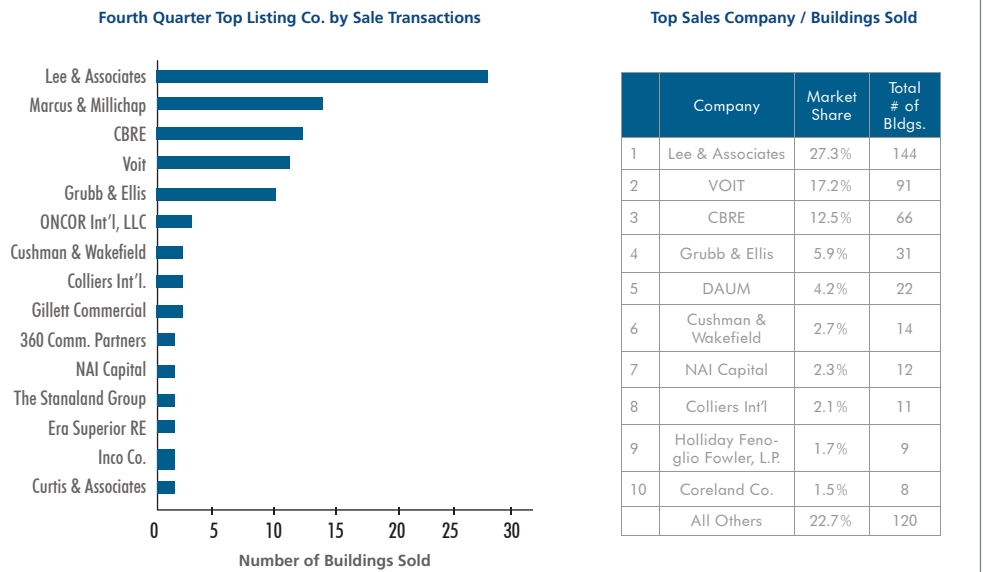
With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than \$5 billion last year, alone.

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.