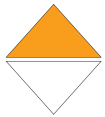


# Orange County OFFICE MARKET REPORT

Fourth Quarter 2008

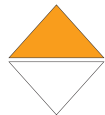
Change from last quarter:

16.4% - Vacancy



up 0.7% from last quarter

13.48% - Availability



up 5.31% from last quarter

- 185,872 Sq. Ft. - Absorption



down 46.65% from last quarter

Average Lease Rate  
\$2.39 FSG



down 2.85% from last quarter

## Office Vacancy Rate Increases Slowing; Rents Continue To Fall

The volatility of Orange County's office market began to calm down somewhat in the second half of 2008 as the rising rate of vacancies slowed dramatically. Nevertheless, landlords are cutting rents as they continue to face the most challenging office-leasing climate since the 1990 recession.

Overall, Orange County employers shed 38,400 jobs in 2008, a year that witnessed history's first global credit crisis. Local economists predict 9,000 layoffs in 2009.

Office users are under stress, too. The sharply declining economy forced financial, information and professional and business service companies to idle 23,317 workers while closing or consolidating operations.

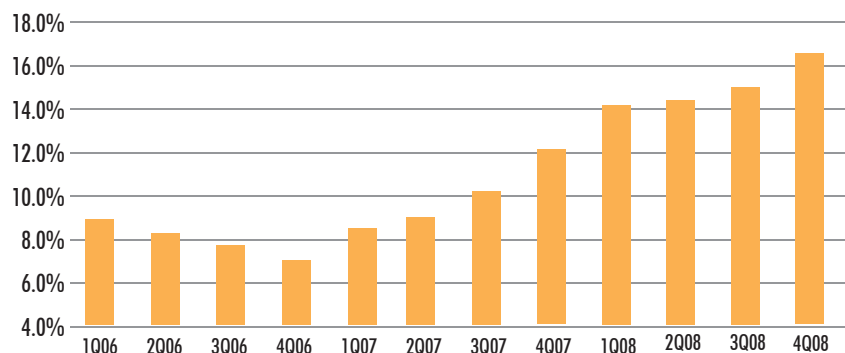
Double-digit vacancies steadily drove down rental rates in 2008 overall by 7.7% year-over-year and 9.6% for Class A space in the same period. Class B space rents fell 6.2% and Class C rents inched downward 3.6%. Heading into the new year, asking rents are strained in the core areas of the county's five office markets. For example, Class A asking rents in the Airport market statistically settled at \$2.60 a sq. ft. at the year's end, but Lee & Associates' office specialists are reporting that some landlords are asking as little as \$2 per sq. ft. for top-tier space.

This is despite the relative settling of the office market during the last two quarters, which saw a handful of large transactions for premium office space. Lee & Associates' analysts say executives of companies remained concerned about the trajectory of the economy and are reluctant to make office facility decisions. Even though vacancies rose only 0.2% in the second half of 2008, the overall vacancy rate closed out Q4 at 16.4% after beginning the year at 11.2%. Negative absorption in the first half of '08 totaled 1.12 million square feet.

When each of the county's Class A office markets is analyzed, however, a clearer picture comes into focus. The county's largest and most troubled inventory of Class A office space is in the Airport market where 18% of 27 million sq. ft. of space is vacant. This market accounts for more than half of the county's 49 million sq. ft. of premium office inventory.

The South county market from the Irvine Spectrum to San Clemente has a 21% vacancy rate in its 9.1 million sq. ft. Class A inventory. The county's Central market, which extends roughly from Disneyland to Santa Ana's Civic Center and from Garden Grove to Angel Stadium in Anaheim, also has a Class A vacancy rate of 21% of its premium inventory that totals 8.2 million sq. ft.

### Vacancy Rate

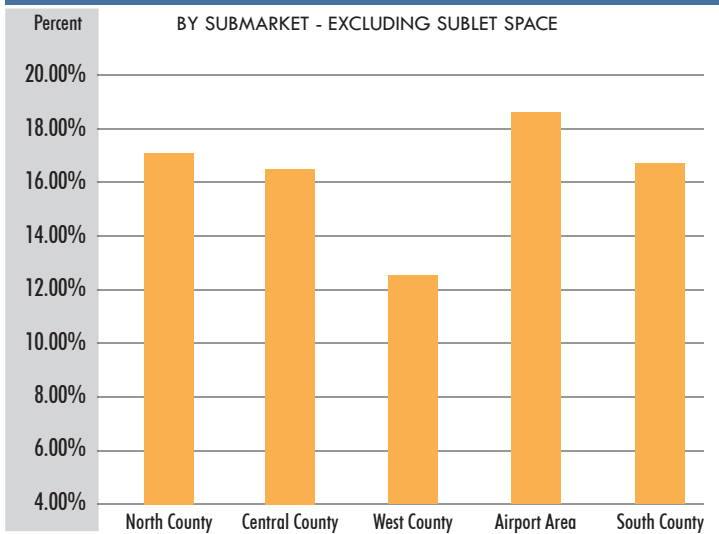


The Orange County OfficeMarket Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

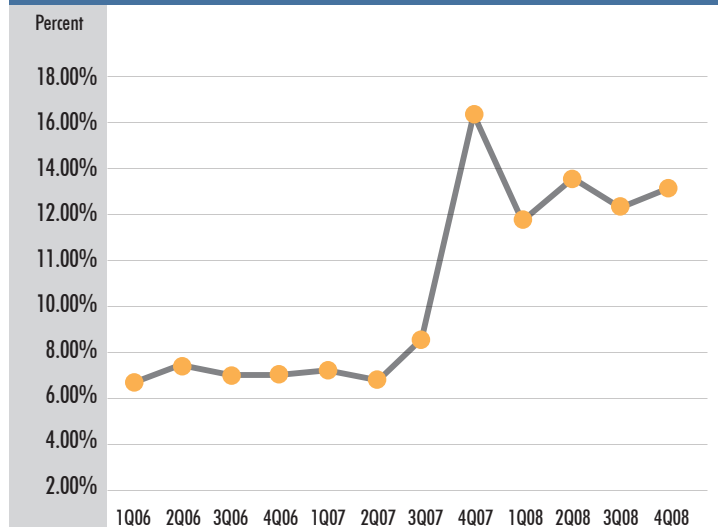
# QUARTER IN REVIEW

Fourth Quarter 2008

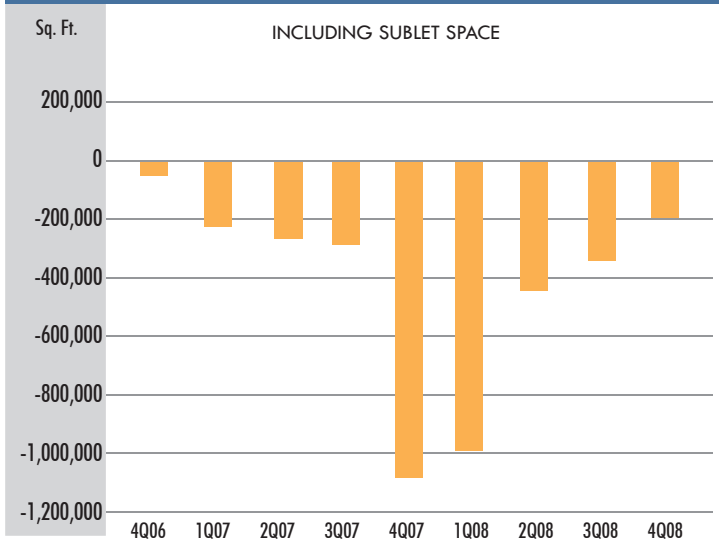
## VACANCY RATE



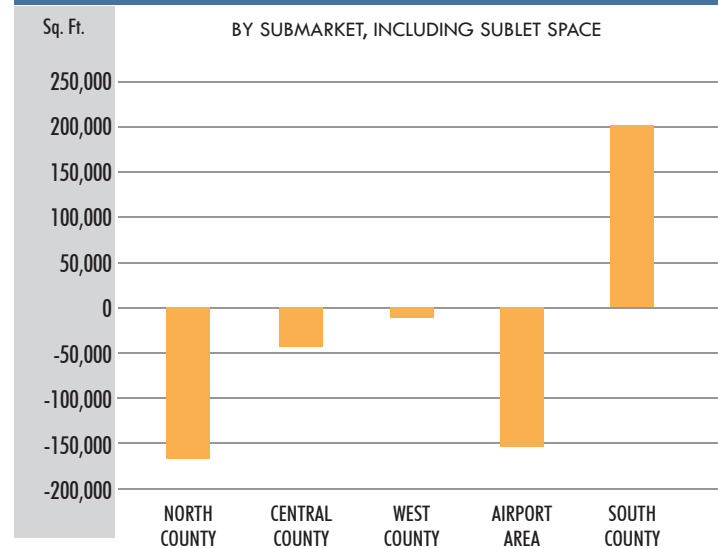
## AVAILABILITY RATE



## COUNTY WIDE NET ABSORPTION



## NET ABSORPTION



### Submarkets

#### NORTH

Anaheim, Brea, Buena Park, Fullerton, La Habra, Orange, Placentia, and Yorba Linda

#### WEST

Cypress, Garden Grove, Huntington Beach, La Palma, Los Alamitos, Seal Beach, Stanton and Westminster

#### NORTH

Fountain Valley, Santa Ana and Tustin

#### AIRPORT

Costa Mesa, Fountain Valley, Irvine, Newport Beach, Santa Ana and Tustin

#### SOUTH

Aliso Viejo, Foothill Ranch, Irvine Spectrum, Laguna Hills, Laguna Niguel, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano

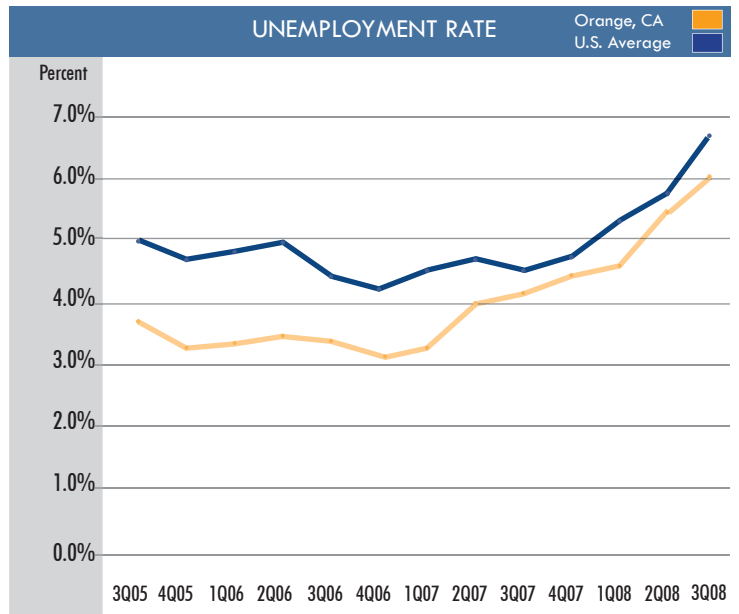
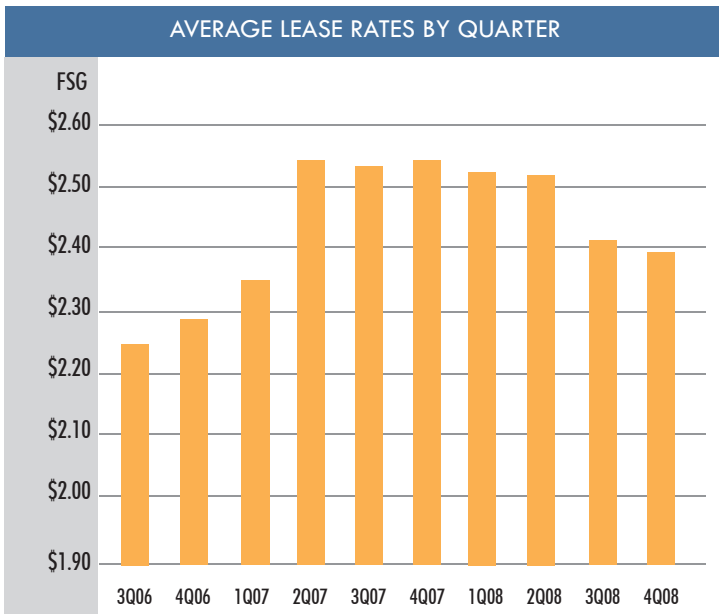
### Forecast:

In the fourth quarter, the office vacancy rate moved up for the third consecutive quarter to above 13%. The rate will increase sharply in the next few quarters. This is explained by still high rates of new office space coming on the market each quarter. This new space is being added at a time when more space is being vacated than is being leased.

Source: Chapman University, December 2008

# QUARTER IN REVIEW

Fourth Quarter 2008



## Recent Transactions

**SOLD • 120,000 Sq. Ft.**  
2545,55 & 65 Chapman | Fullerton

Bob Engen represented the seller, Hope University.

**LEASED • 31,603 Sq. Ft.**  
100 Technology | Irvine

John Collins represented the tenant, Irvine Biomedical.

**LEASED • 23,260 Sq. Ft.**  
2211 Michelson | Irvine

Dave Whitney represented the landlord, Crescent Irvine, LLC.

**SOLD • 44,123 Sq. Ft.**  
15501 Red Hill Avenue | Irvine

Phil Cohen represented the buyer, Jack Markovitz Trust July 10, 2002.

**LEASED • 8,454 Sq. Ft.**  
2601 Saturn | Brea

Kaye-T Wing represented the lessee, Bates Coughtry Reiss, LLC.

**LEASED • 14,041 Sq. Ft.**  
18881 Von Karman | Irvine

Bob Rieden represented the tenant, National Payment Provider.

**LEASED • 12,752 Sq. Ft.**  
3030 Saturn Street | Brea

Bob Sattler and Jonmark Fabiano represented the lessor, Brea Corporate Park.

**LEASED • 9,001 Sq. Ft.**  
3050 Saturn Street | Brea

Bob Sattler and Jonmark Fabiano represented the lessor, Brea Corporate Park.

**SOLD • 5,357 Sq. Ft.**  
2117 W. Orangewood Avenue | Orange

Andre Bermudez and Skyler Serrano represented the seller, Brandon and Helen Kim.

# QUARTER IN REVIEW

Fourth Quarter 2008

## 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  
SONYA DOPP-GRECH  
JONMARK FABIANO  
PHIL FRIDD  
DOUG GARRETT  
JOHN HATZIS  
JAMES HAWKINS  
DAN MUDGE  
DAVID NEWTON  
BOB SATTLER  
CHRIS SHEA  
GEORGE THOMSON  
MARSHAL VOGT

LEE & ASSOCIATES - IRVINE  
7700 Irvine Center Drive, Suite 600  
Irvine, California 92618  
(949) 727-1200

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

LEE & ASSOCIATES - NEWPORT  
3991 MacArthur Blvd., Suite 100  
Newport Beach, California 92660  
(949) 724-1000

SEAN AHERN  
KIMBERLY AHLBERG  
TIM ARGUELLO  
JOHN COLLINS  
CHARLIE LEESON  
KATHE MORGAN  
BOB RIEDEN  
DAVID ROMERO  
DICK SILVA  
DAVID WHITNEY

## About Lee & Associates

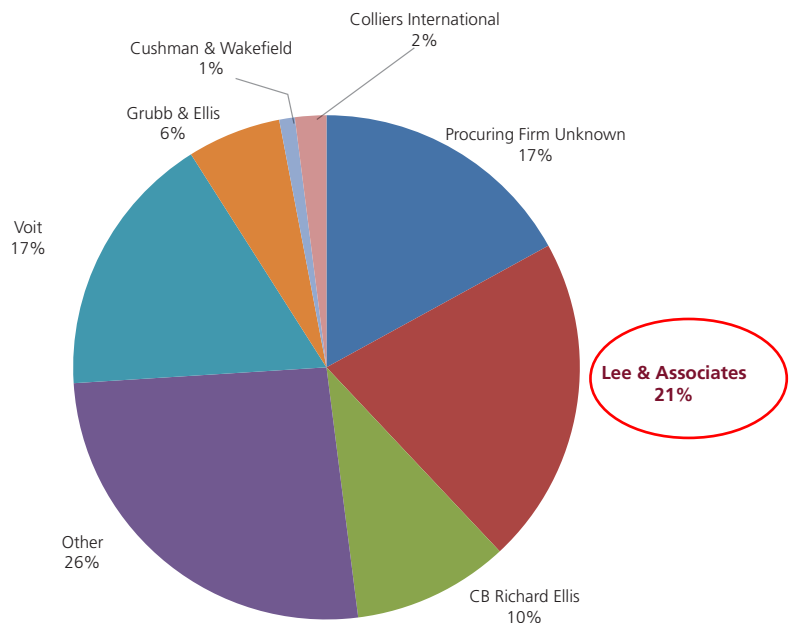
As a group of independently owned and operated companies, Lee & Associates currently has more than 33 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas and Wisconsin.

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 \$4 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



### 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.