

OFFICE MARKET TRENDS

Orange County

FIRST QUARTER 2007

2007 Is Pivotal Year for Office Market

The first quarter of 2007 saw an increase in average asking lease rates for Orange County's office market, continuing a trend of steady upward movement that began in 2002.

Office specialists at Lee & Associates project that the office market will hold firm through the remainder of the year.

After 2007, however, the office picture becomes hazy as there is growing uncertainty about the supply of office space that might be available beginning next year.

As discussed in our previous quarterly analyses on the office market, the teetering sub-prime mortgage industry – which accounts for a substantial amount of Class A and B space – now is in full retreat. Stories of sub-prime's woes made national headlines throughout the first quarter and Orange County serves as national or regional headquarters for some of the largest lenders in the country.

When the mortgage shakeout ends, it is projected that at a minimum some 1.2 million square feet of space, or roughly 2% of the total office inventory, leased by this industry will come back on the market. Already, about

600,000 square feet of space leased by the former sub-prime giant New Century – which filed for Chapter 11 in March – is headed back on the space-available list.

Within the next six to 12 months about 2 million square feet of new Class A space near John Wayne Airport and the Irvine Spectrum will be completed with a substantial amount

of new top-tier office product coming on line this year from The Irvine Company, Maguire Properties, Opus and Hines.

In fact, Hines' 265,000-square-foot building at 2211 Michelson Drive is the first of the new raft of Class A properties to be finished. Slated for

completion in May, the Hines building has a little more than three of its 12 floors pre-leased.

Given the sluggishness of the pre-leasing activity to date, it can be reasonably argued that Class A leasing activity in existing buildings and pre-leasing activity for new buildings during the next quarter or two will be the harbinger for the continuation of the current high Class A single-digit vacancy rate and the direction of lease rates later this year and next.

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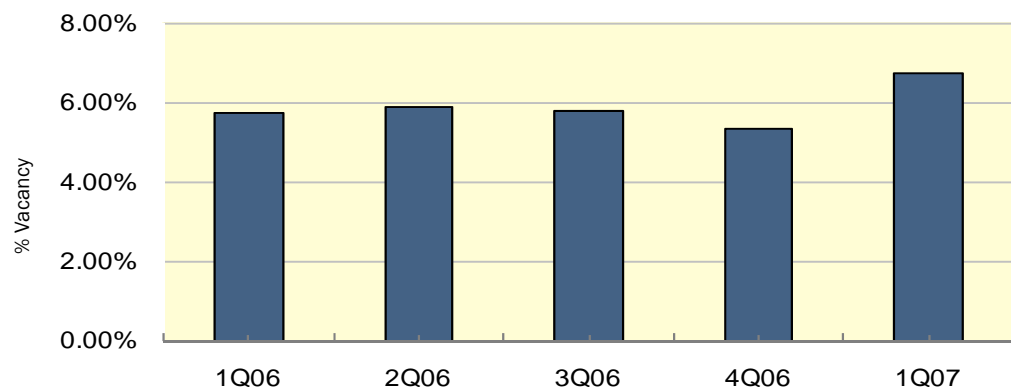
1ST QUARTER INDICATORS

Orange County	1st Qtr.	Change from last Qtr.
Vacancy	6.76%	↑
Net Absorption	229,898 SF	↓
Avg. Lease Rate	\$2.34 FSG	↑

SNAPSHOT

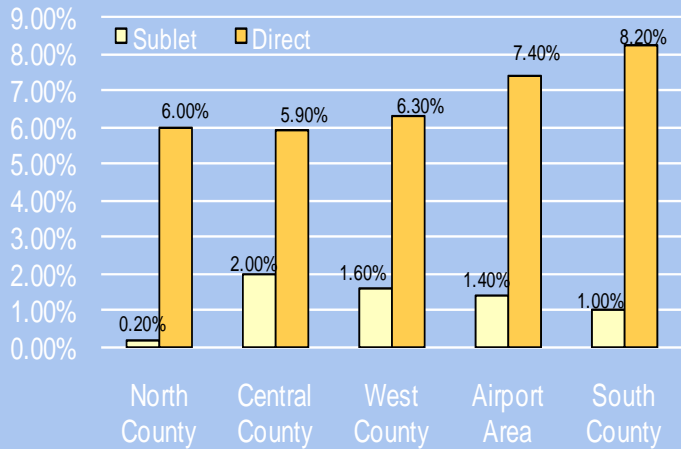
- Office specialists...project that the office market will hold firm through the remainder of the year.
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VACANCY RATE



OFFICE MARKET REPORT

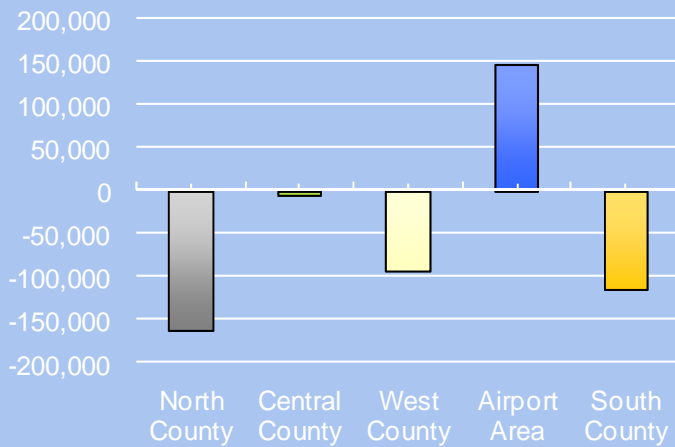
VACANCY BY SUBMARKET
(DIRECT SPACE VS SUBLET SPACE)



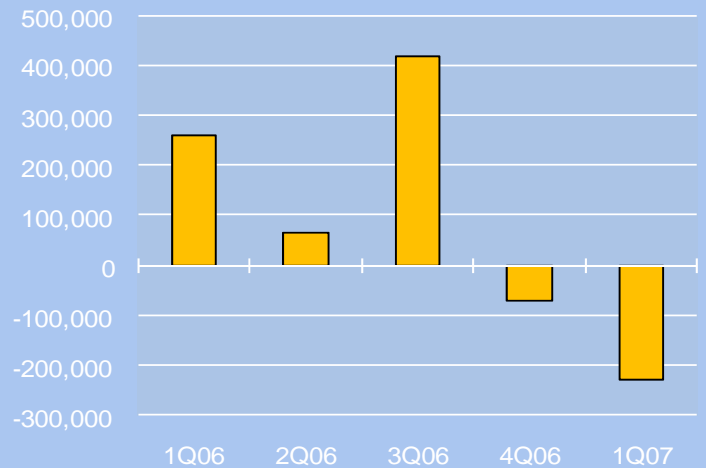
1Q07 NET ABSORPTION BY SUBMARKET & CLASS



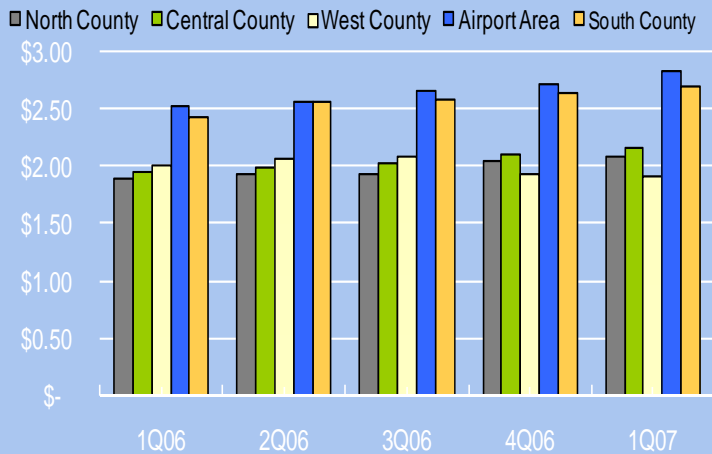
FIRST QUARTER NET ABSORPTION (BY SUBMARKET, INCLUDING SUBLET SPACE)



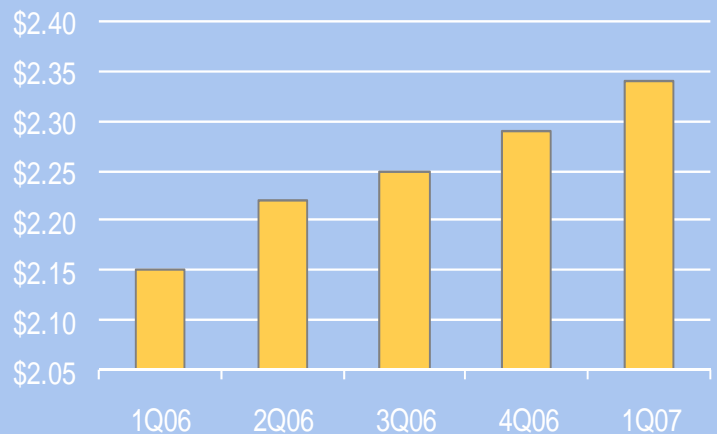
COUNTY-WIDE NET ABSORPTION (BY QUARTER, INCLUDING SUBLET SPACE)



YTD LEASE RATES
(NOT INCLUDING SUBLET SPACE)



AVG. OC QUARTERLY LEASE RATES



M ARKET FORECAST

If numerous major new leases are not signed this year to absorb the a raft of new Class A space being completed, landlords will be forced to carve up more full floors than they would like in order to sign leases to accommodate smaller space tenants seeking prestigious addresses and in need of room to grow.

RECENT LEE TRANSACTIONS

27281 & 27285 las Ramblas



55,863 SF | Sale | Mission Viejo
A. Wicker | D. Smith

10101 Slater



58,629 SF | Sale | Fountain Valley
A. Buchanan

95 Argonaut



48,183 SF | Sale | Aliso Viejo
A. Wicker | D. Smith

2211 Michelson



37,259 SF | Lease | Irvine
D. Whitney

NWC Citrus & Chapman

NO PICTURE AVAILABLE



20,320 SF | Sale | Orange
J. Hawkins | R. Verdick

2355 Main Street



18,500 SF | Lease | Irvine
C. Shea

23291 Mill Creek



11,630 SF | Sale | Laguna Hills
A. Wicker | D. Smith | M. Fryer

3191 Redhill



7,000 SF | Lease | Costa Mesa
B. Reiden | D. Romero

3525 Hyland



5,873 SF | Sale | Costa Mesa
B. Reiden

ABOUT Lee & Associates

Lee & Associates is recognized as the fourth largest full-service commercial real estate sales organization in the country. As a group of independently owned and operated companies, the organization currently has more than 34 offices in California, Arizona, Nevada, Michigan, Missouri, New Jersey, Illinois, 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 nearly \$4 billion last year, alone.

Office Brokerage 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.

MARKET DEFINITIONS

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.

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LEE & ASSOCIATES—ANAHEIM, INC.

701 S. PARKER STREET, SUITE 1000
ORANGE, CALIFORNIA 92868
(714) 947-9100

LEE & ASSOCIATES—IRVINE, INC.

7700 IRVINE CENTER DRIVE, SUITE 600
IRVINE, CA 92618
(949) 727-1200

LEE & ASSOCIATES—NEWPORT BEACH, INC.

3991 MACARTHUR BLVD, SUITE 100
NEWPORT BEACH, CALIFORNIA 92660
(949) 724-1000

CRAIG DEMIRANDA BOB SATTLER
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