

OFFICE MARKET TRENDS

Orange County

SECOND QUARTER 2007

Orange County Office Market Goes Its Own Way

Despite a national trend in which office rents are surging in reaction to frenzied transactional activity of the last two years, Orange County – even though it's seen its share of office properties change hands – is a bit of an anomaly.

Historically low Orange County vacancy rates have begun creeping upward, just as we forecasted this time last year, and asking rents are edging higher, too, owing largely to so many high-profile acquisitions by deep-pocketed buyers and new premium office product being added to the inventory.

But broad rent increases in Orange County are advancing only slightly overall and at roughly half the rate seen in the nation's top office markets. Additionally, there are signs that some Orange County landlords are feeling the pressure to lure tenants with concessions that serve to mask much lower effective lease rates. For example, it is rumored that one major landlord is offering such a generous tenant improvement allowance on one Class A building that it translates into the equivalent of 18 months of free rent on a five-year lease.

As for asking rates, at the end of the second quarter Orange County office rents averaged \$2.63 per square foot, a 1.5% increase from the first quarter. Nationally, asking rents jumped 3.1% in the second quarter in the 79 largest U.S. markets. That followed a 2.8% national first quarter gain.

So it's clear that for now Orange County is going its own way.

With so much new Class A office space recently completed and more expected soon, coupled with numerous sales of buildings at record prices, many landlords are challenged to generate even average returns. The overall vacancy rate has been rising, due to thousands of mortgage industry layoffs, slow job growth and the completion of new space that's already come on-line.

The Anaheim Stadium submarket in north central Orange County, which includes The City in Orange, is the county's most troubled. The Class A vacancy rate is 16% on a base 3.17 million square feet in 22 buildings. Even if the pace of average annual net absorption of 200,000 square feet were to immediately resume, there's enough inventory for three years. But with an

abundance of small mortgage companies in this submarket there is a strong likelihood the vacancy rate in this submarket will continue to rise.

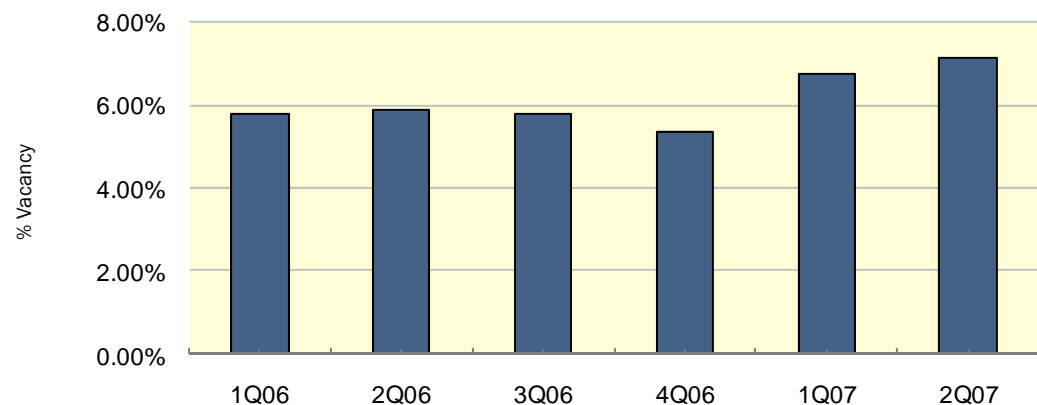
Not all submarkets are the same. In Newport Center buildings command consistently higher than average rents and occupancy rates. At the end of the second quarter only 4.2% of Newport Center's Class A space was available, and last year its rents began breaking the \$5 per-square-foot barrier.

"...vacancy rates have begun creeping upward, just as we forecasted this time last year. Asking rents are edging higher, too.... But there are definite signs of weakness in the market. ...some Orange County landlords are feeling the pressure to lure tenants with concessions that serve to mask much lower effective lease rates."

2ND QUARTER INDICATORS

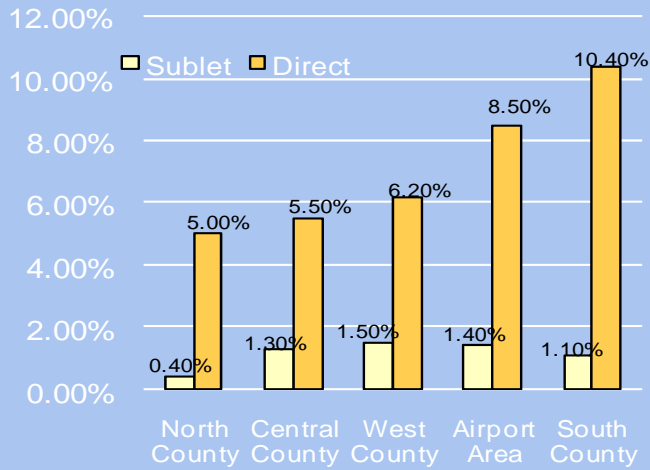
Orange County	2nd Qtr.	Change from last Qtr.
Vacancy	7.12%	↑
Net Absorption	-264,368 SF	↓
Avg. Lease Rate	\$2.55 FSG	↑

VACANCY RATE

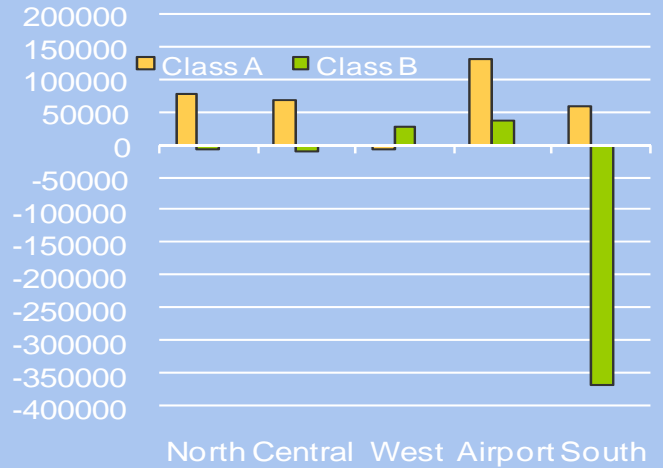


OFFICE MARKET REPORT

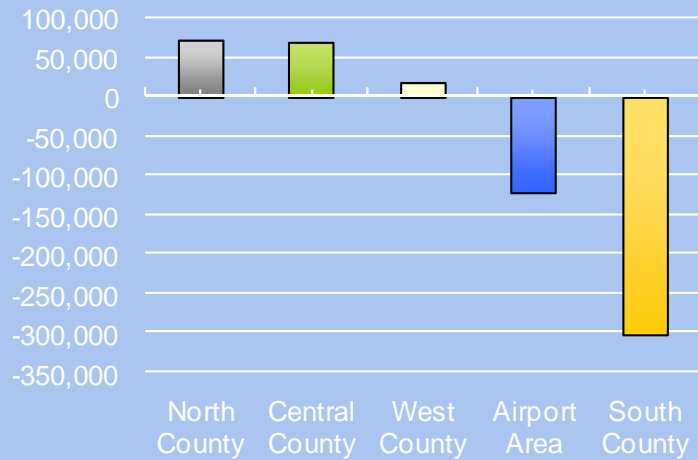
VACANCY BY SUBMARKET
(DIRECT SPACE VS SUBLET SPACE)



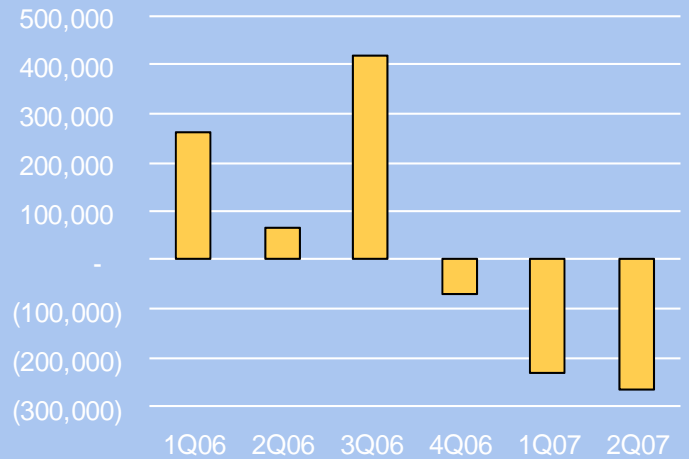
2Q07 NET ABSORPTION BY SUBMARKET & CLASS



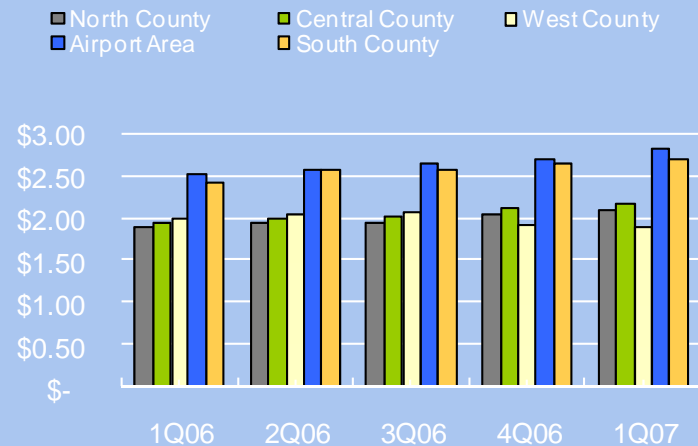
SECOND QUARTER NET ABSORPTION
(BY SUBMARKET, INCLUDING SUBLET SPACE)



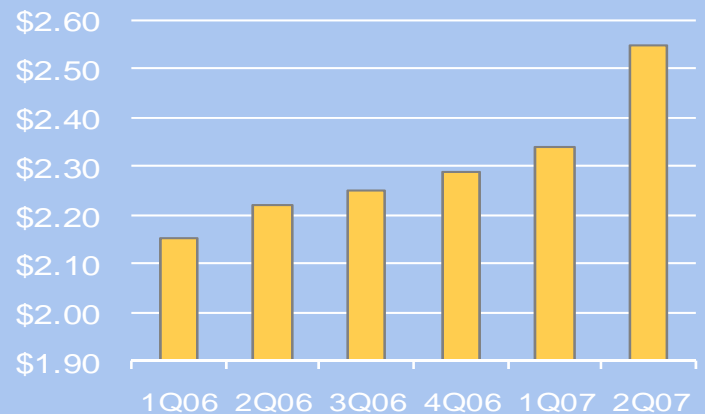
COUNTY-WIDE NET ABSORPTION
(BY QUARTER, INCLUDING SUBLET SPACE)



YTD LEASE RATES
(NOT INCLUDING SUBLET SPACE)



AVG. OC QUARTERLY LEASE RATES



M ARKET FORECAST

With Orange County job growth flattening and as more new office product comes online, office vacancy rates will continue to rise. For landlords needing to produce stronger investment returns, tenants will be courted with offers of reductions in effective rents. All the signs point to tenants being in increasingly better negotiating positions for new leases as well as renewals.

RECENT LEE TRANSACTIONS

1201 W. La Veta



77,017 SF | Sale | Orange
S. Dopp-Grech

2211 Michelson



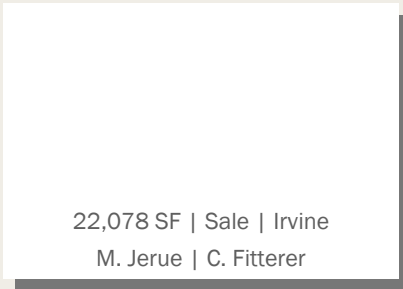
25,359 SF | Lease | Irvine
D. Whitney

1601 Alton Parkway



24,000 SF | Lease | Irvine
D. Romero | J. Schultz

8687 Research



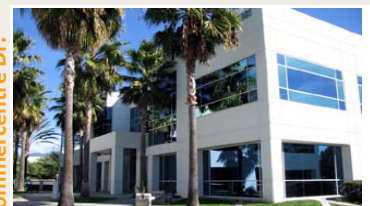
22,078 SF | Sale | Irvine
M. Jerue | C. Fitterer

1528 E. Warner



20,768 SF | Sale | Santa Ana
J. Hirsch | F. Adler

25381 Commercentre Dr.



20,592 SF | Sale | Lake Forest
D. Smith | A. Wicker | R. Rader

26431 Crown Valley Pkwy.



12,094 SF | Sale | Mission Viejo
R. Mason | A. Bermudez

1220,1224 & 1226 Broadway



7,600 SF | Sale | Santa Ana
D. Garrett

1010 Brookhurst

NO PICTURE AVAILABLE



2,350 SF | Sale | Fullerton
D. Garrett | R. Leiter

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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