Lee & Associates®
COMMERCIAL REAL ESTATE SERVICES

OFFICE MARKET TRENDS
Orange County

FIRST QUARTER 2008

Office Market Stressed, Tenant Deals Improve

Office vacancies in Orange County hit 12.62% and the availability rate shot up to 18% at the end of the first quarter as the negative net absorption trend continued to beset landlords, some of whom are beginning to offer free rent for the first time in several years.

Class-A office property is hardest hit with a first-quarter vacancy rate of 16.2%, up from 14.1% at the end of 2007 and compared to a low of 6.4% at the end of 2005.

The swing toward a more favorable market for tenants may be sustained for some time as there are two chief factors working against office owners and managers.

First, there are no signs the economic slowdown will stabilize soon. Economist Anil Puri of Cal State Fullerton recently forecast that the Orange County economy has worsened and employers will shed 15,000 jobs in 2008.

On top of that, the credit squeeze that has hit commercial real estate is increasing the cost of capital. Some office building owners needing to refinance in the coming months will be forced to inject more capital into the deal as lenders will challenge the value of their office assets.

That means that some owners of office buildings purchased or refinanced in recent years – purchases with projections based on appreciation and increasing lease rates – now face the prospect of the dilution of their assets now that an era of cheap money has ended.

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At a recent Urban Land Institute conference in Orange County, real estate finance experts said the amount of capital available for new and existing commercial projects has fallen to a fraction of the sums invested in the last few years.

The ULI panelists reported that there are $90 billion to $120 billion in commercial mortgage-backed securitized loans coming due in the next 18 months in addition to the $150 billion in funding sought that is currently in the CMBS pipeline. The experts estimated that CMBS money available this year will total between $25 billion to $50 billion. This is in contrast to the $250 billion in CMBS capital invested in 2007 and $200 billion in 2006. Added to the $50 billion available from traditional portfolio lenders, the total of available investment capital in 2008 for commercial real estate is projected at $100 billion tops.

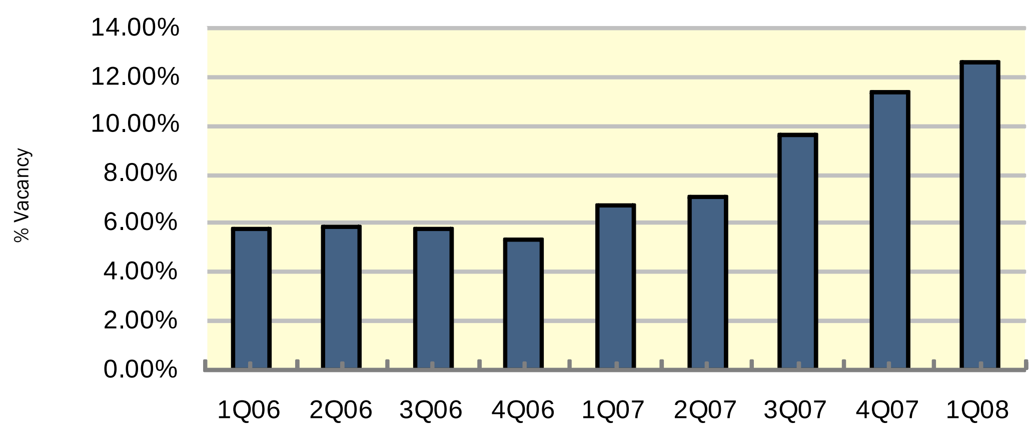
The panelists, Peter Grabell of Bridger Commercial Funding, George McNee of AEW Capital Management and Gary Farmer of Northwestern Mutual, said the tightened financing climate for commercial real estate is as challenging as the aftermath of the savings-and-loan debacle of the early 1990s.

This means that if even a small number of office buildings in Orange County are revalued downward and new pro formas are crafted that call for less rent income and appreciation, this could create more pain for all office landlords who already are feeling a vacancy pinch.

1ST QUARTER INDICATORS

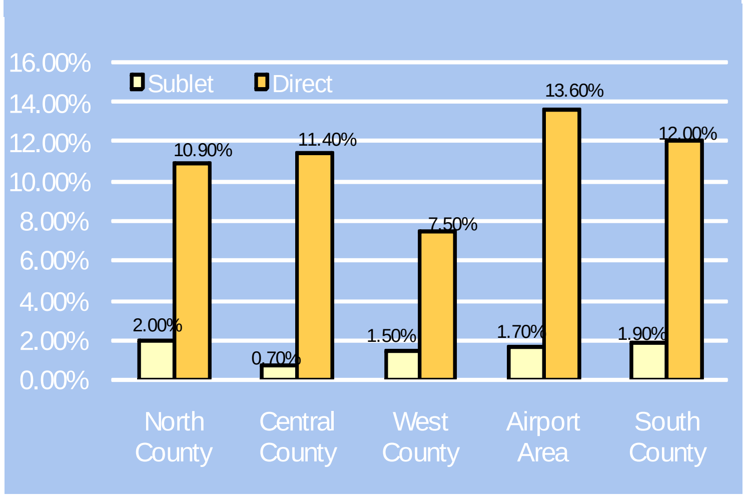
Orange County	1st Qtr.	Change from last Qtr.
Vacancy	12.62%	↑
Net Absorption	-1,001,043 SF	↑
Avg. Lease Rate	$2.53 FSG	↓

VACANCY RATE

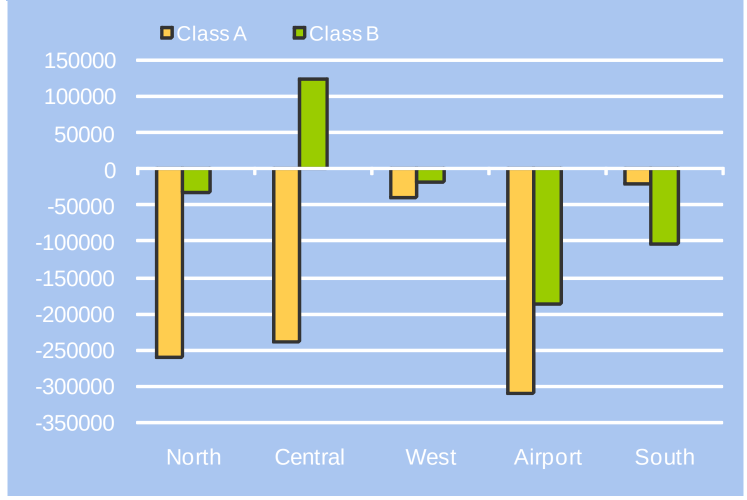


OFFICE MARKET REPORT

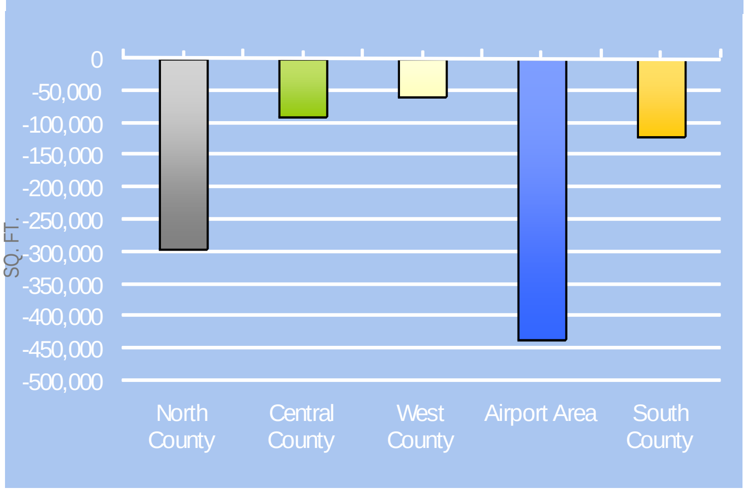
VACANCY BY SUBMARKET
(DIRECT SPACE VS SUBLET SPACE)



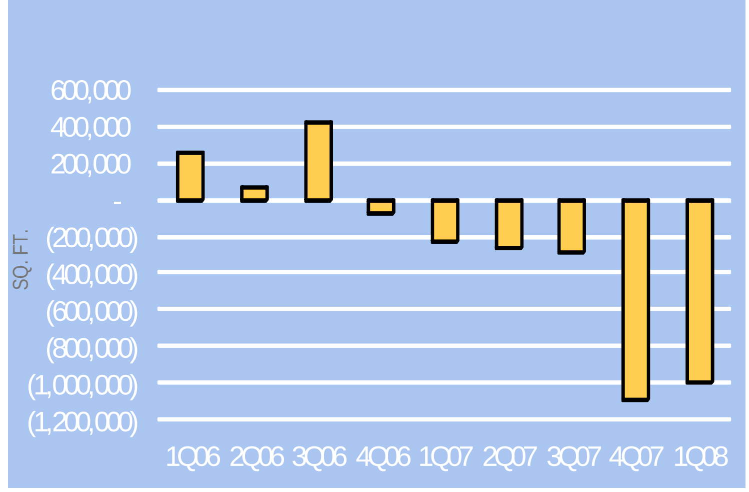
FIRST QUARTER NET ABSORPTION BY SUBMARKET & CLASS



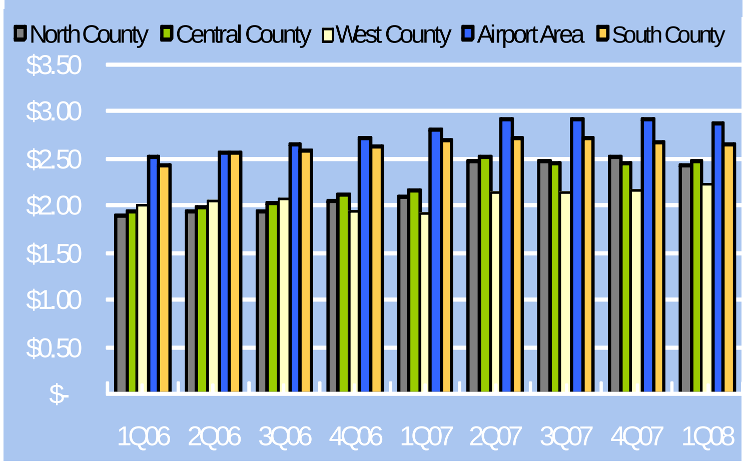
FIRST QUARTER NET ABSORPTION
(BY SUBMARKET, INCLUDING SUBLET SPACE)



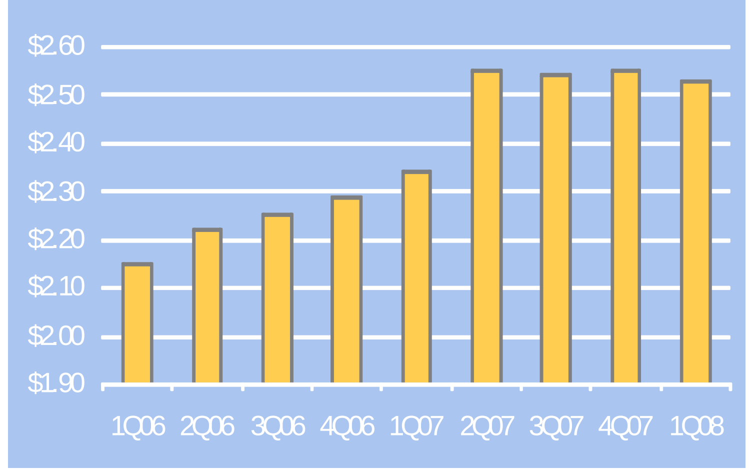
COUNTY-WIDE NET ABSORPTION
(BY QUARTER, INCLUDING SUBLET SPACE)



YTD LEASE RATES FOR SUBMARKETS
(NOT INCLUDING SUBLET SPACE)



AVERAGE OC QUARTERLY LEASE RATES
(NOT INCLUDING SUBLET SPACE)

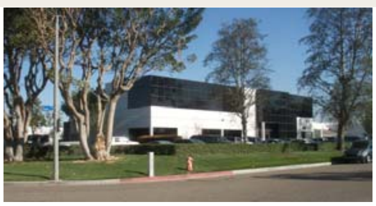


MARKET FORECAST

Looking ahead, tight credit will continue to affect the volume of Office sale transactions. The total number of sales in 2007 was 85 compared to 72 in 2006. But the latest numbers show sales volume has slowed considerably. In the fourth quarter there were 11 deals compared to 29 in the third quarter.

RECENT LEE TRANSACTIONS

1507 W. Yale Street



17,544 SF | Sale | Orange
K. Johnson

27882 Forbes Rd.

5,075 SF | Sale | Laguna Niguel
K. Bruggeman | A. Basso

33332 Valle Road

7,510 SF | Lease | SJC
R. Mason

17171 E. Gale Street

49,352 SF | Sale | City of Industry
A. Buchanan | D. Garrett

13950 Milton Avenue

6,723 SF | Lease | Westminster
J. Hawkins

1290 Hancock Street

5,871 SF | Lease | Anaheim
C. DeMiranda

38 Discovery, Suite 150

10,648 SF | Lease | Irvine
D. Silva

2211 Michelson

4,878 SF | Lease | Irvine
D. Whitney

3 Park Plaza, Suite 770

2,912 SF | Lease | Irvine
K. Ahlberg | D. Whitney

ABOUT Lee & Associates

As a group of independently owned and operated companies, Lee & Associates currently has more than 34 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, 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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