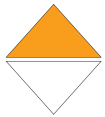


# Orange County OFFICE MARKET REPORT

Fourth Quarter 2008

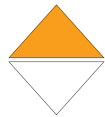
Change from last quarter:

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.

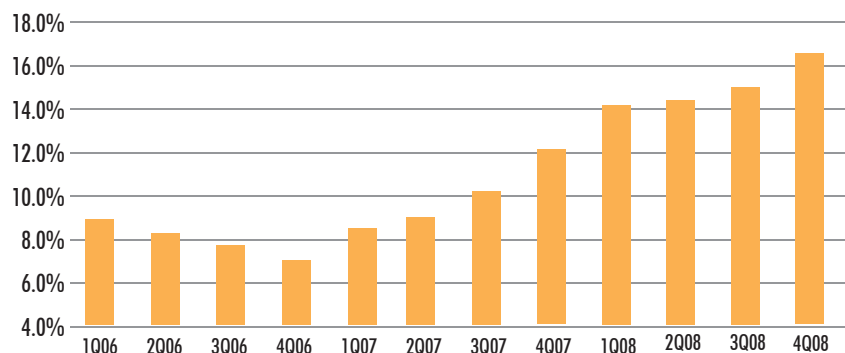
Double-digit vacancies steadily drove down rental rates in 2008 overall by 7.7% year-over-year and 9.6% for Class A space in the same period. Class B space rents fell 6.2% and Class C rents inched downward 3.6%. Heading into the new year, asking rents are strained in the core areas of the county's five 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

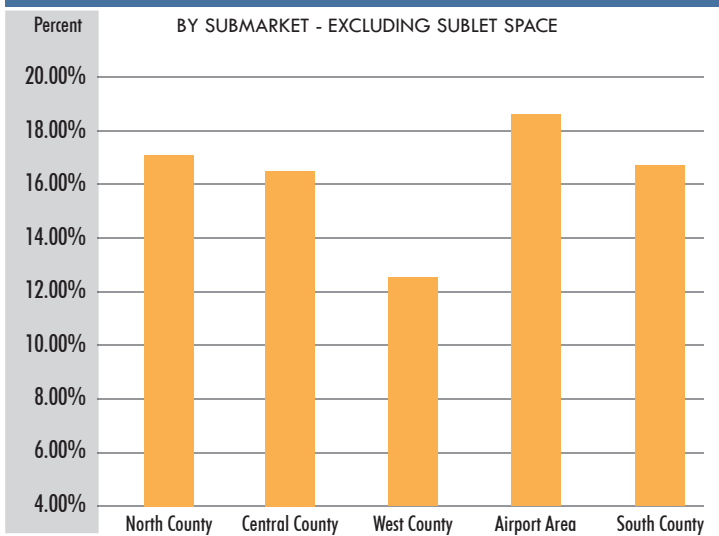


The Orange County OfficeMarket Report is published quarterly by the Lee & Associates' Irvine, Newport Beach and Orange offices.

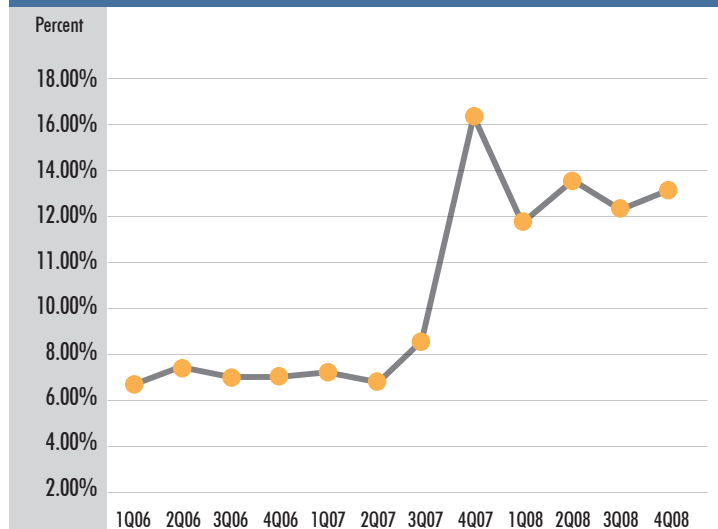
# QUARTER IN REVIEW

Fourth Quarter 2008

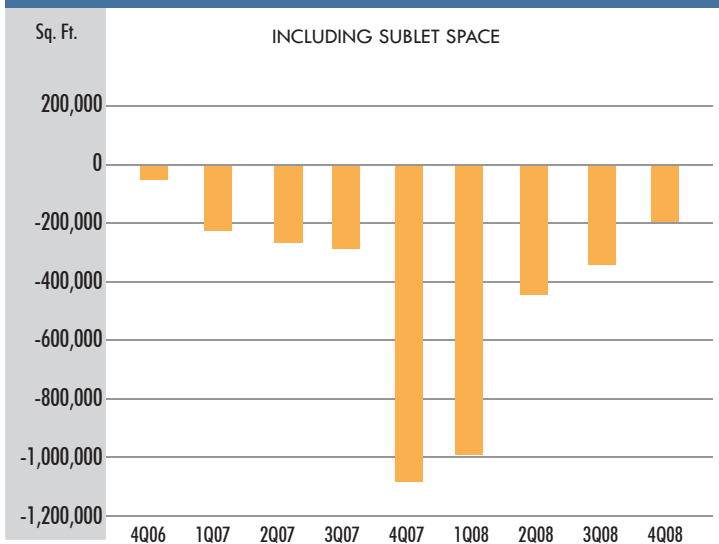
## VACANCY RATE



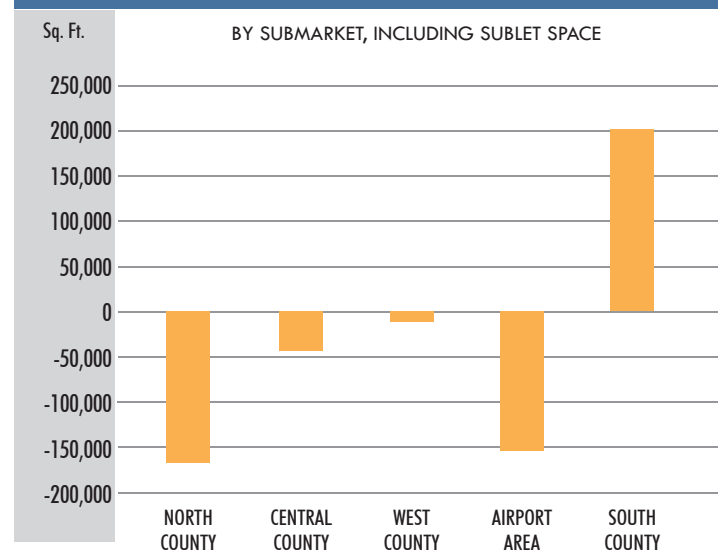
## AVAILABILITY RATE



## 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

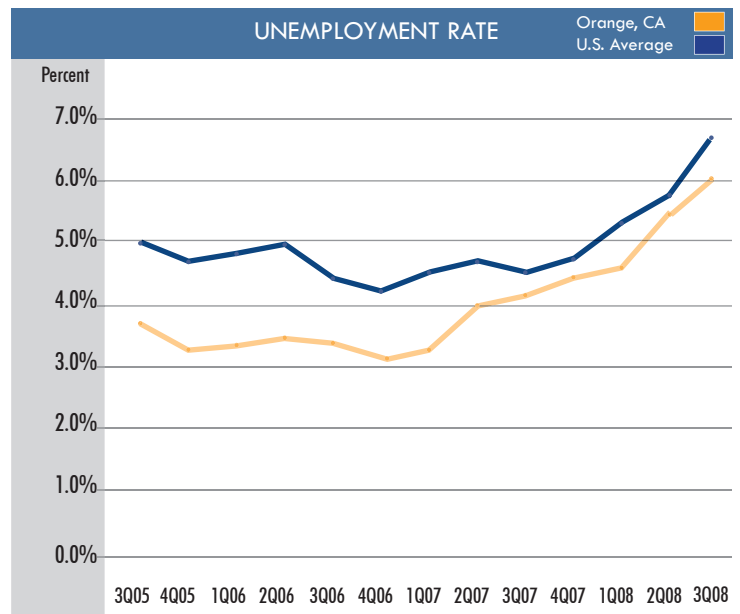
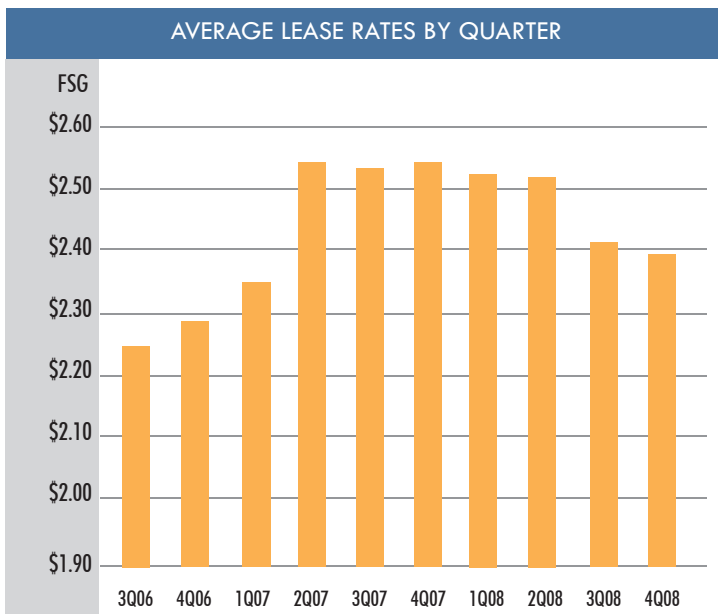
### Forecast:

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



RANDOLPH T. MASON, CCIM, SIOR



## BIOGRAPHY

Randolph T. Mason, CCIM, SIOR is a Senior Vice President and one of the Shareholders at Lee & Associates – Irvine, Inc. With more than twenty-two years of real estate brokerage experience, Mr. Mason specializes in the leasing and selling of office and industrial properties throughout the Orange County marketplace, as well as representing various multi-market firms across the country. Mr. Mason specializes in representing the tenant and buyer side of the transaction which has allowed him to focus on his client's needs by being their fiduciary and exclusively represented advocate. After graduating with a degree in Marketing and Finance, Mr. Mason traveled Europe for twenty-two months on an international real estate internship. This experience exposed Mr. Mason to cultures and strategies which have subsequently benefitted his local clients. While in London, Mr. Mason met his wife, Rosalia, who is from Venice, Italy. They have been married over seventeen years and have a daughter, Martina, and a son, Barron.

## AFFILIATIONS / EDUCATION SIOR:

Mr. Mason is an active member of the prestigious organization of the Society of Industrial and Office Realtors which is the leading professional commercial and industrial real estate association. An SIOR represents today's most knowledgeable, experienced, and successful commercial real estate brokerage specialists. Commercial real estate professionals who hold an SIOR designation are recognized by corporate executives, commercial brokers, agents, lenders, and other real estate professionals as the most experienced and capable brokerage practitioners in any market. Mr. Mason is currently the Secretary of the local Inland Empire and Orange County chapter.

## AFFILIATIONS / EDUCATION CCIM:

Mr. Mason is actively involved as a Certified Commercial Investment Member which is considered the Ph.D of real estate. A Certified Commercial Investment Member (CCIM) is a recognized expert in the disciplines of commercial and investment real estate. A CCIM is an invaluable resource to the commercial real estate owner and user and is among an elite corps of 8,600 professionals who hold a CCIM designation. Only six percent of the estimated 125,000 commercial real estate practitioners nationwide hold the CCIM designation. This designation labels Mr. Mason as an elite broker in the market.