Orange County
Industrial Market Report

First Quarter 2010

MARKET OVERVIEW
(Change from last quarter)

Vacancy
7.0%

Up from 6.6% from last quarter

Net Absorption
-1,309,320 Sq. Ft.

Down from -332,201 Sq. Ft. from last

Avg. Industrial Lease Rate
$0.59 NNN

Down from $.0.61 NNN last quarter

393 Total Number of Transactions for the Quarter

Up from 387 transactions last quarter

Industrial Market Struggles In Tenuous Recovery

The vacancy rate for industrial space in Orange County jumped 0.4% to settle at 7% last quarter. Despite an increase in local port traffic and improved unemployment numbers, it's evident that companies are not through consolidating. Nevertheless, it was the second-best period for net absorption in the last five quarters.

While the local and national economy shows improvement, owners and tenants still are bracing for more tough times and a long, mild and uneven recovery with weak job creation.

Some notable snapshots of the first quarter:

- There are 25 million sq. ft. of vacant flex space in the Airport and South Orange County markets, which combine for 64% of the flex market. Vacancy rates in each are 9.5% and 9.8% respectively. The flex market is the county's hardest-hit segment of industrial space and its overall vacancy rate is 8.7%. Yet South Orange County and the North County flex markets posted net quarterly increases in occupancy. This is notable when compared to their combined net losses of more than 604,000 sq. ft. last year. The Airport flex market, however, was hammered in the first quarter, adding 208,682 sq. ft. to the rolls of vacant space.

- The number of sales transactions increased in the first quarter. With the amount of distressed properties forecast to increase this year, trading should top last year's 53 transactions and the 55 of 2008. There were 17 properties sold during the first quarter at an average $111 per sq. ft., a price almost unchanged from last year.

- Newly vacated industrial space – warehouse and flex – was 1.3 million sq. ft. Empty space now totals 21.6 million sq. ft. That is more than the size of the Fullerton industrial complex, the county's largest submarket with 21.5 million sq. ft.

The state Employment Development Department issued its revised 2009 layoff total, saying 110,158 non-farm county workers were idled last year compared to 31,000 job cuts in 2008.

Local economists from Cal State Fullerton and Chapman University say lately there have been net job gains and more are expected but the county's employment losses during the recession erased seven years of job growth. The unemployment rate will remain high as discouraged workers are returning to be counted in the labor force.

In a long-term outlook that is less sanguine, Cal State Fullerton forecaster and dean Anil Puri said the state's poor finances and increasing national debt present a "disturbing picture."

Total Industrial & Flex Market Statistics — First Quarter 2010

Market	Existing Inventory		Vacancy			YTD Net Absorption	Under Construction	Gross Asking Rate
	# of Bldgs.	Total Building Square Feet	Direct SF	Total SF	Vac. %			
North County	2,863	89,147,146	5,851,735	5,974,283	6.7%	(623,538)	0	$0.59
Central County	3,296	69,111,102	4,026,374	4,284,217	6.2%	(229,516)	375,000	$0.64
West County	1,101	24,768,320	1,194,486	1,500,147	6.1%	(23,138)	0	$0.71
Airport Area	3,223	78,536,710	5,854,190	6,079,112	7.7%	(527,853)	0	$0.74
South County	1,873	47,204,062	3,328,698	3,758,644	8.0%	94,725	0	$0.89
Totals	12,356	308,767,340	20,255,483	21,596,423	7.0%	(1,309,320)	374,400	$0.71

Source: CoStar

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

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QUARTER IN REVIEW

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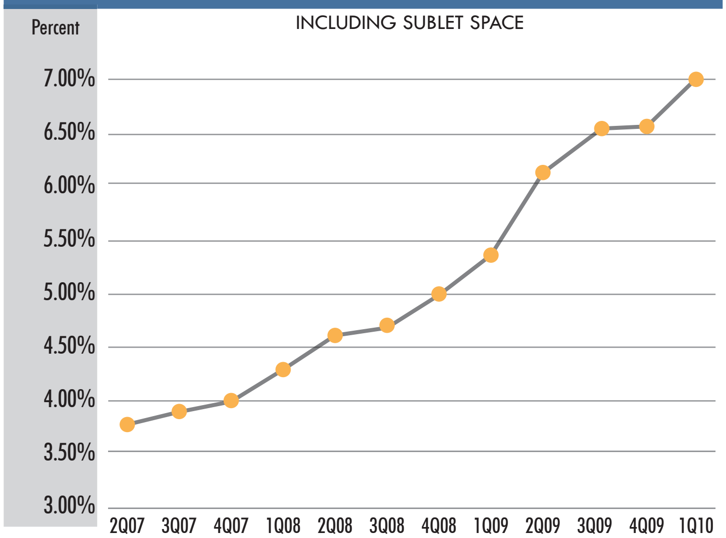
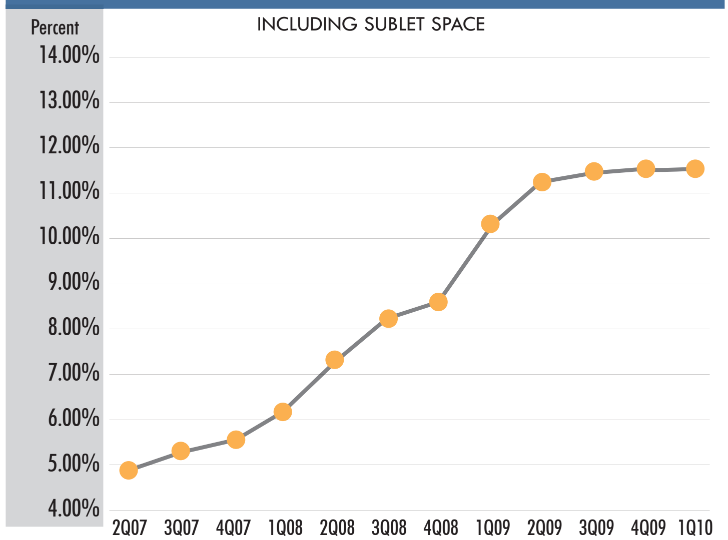
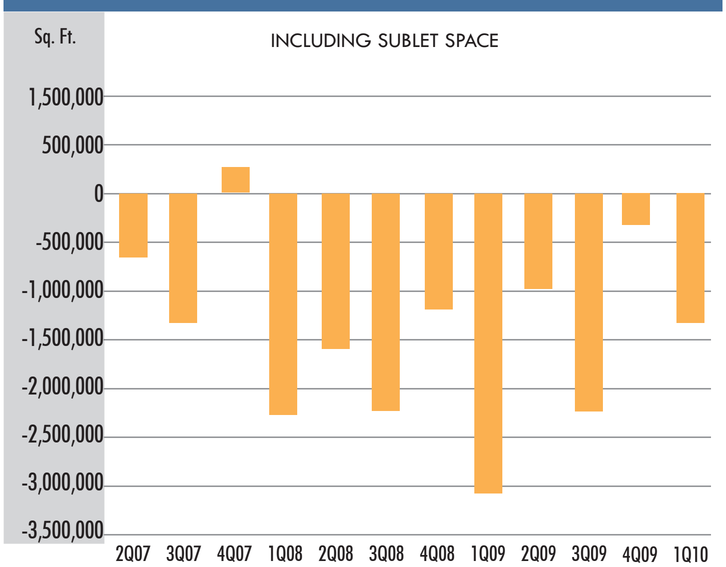
VACANCY RATE



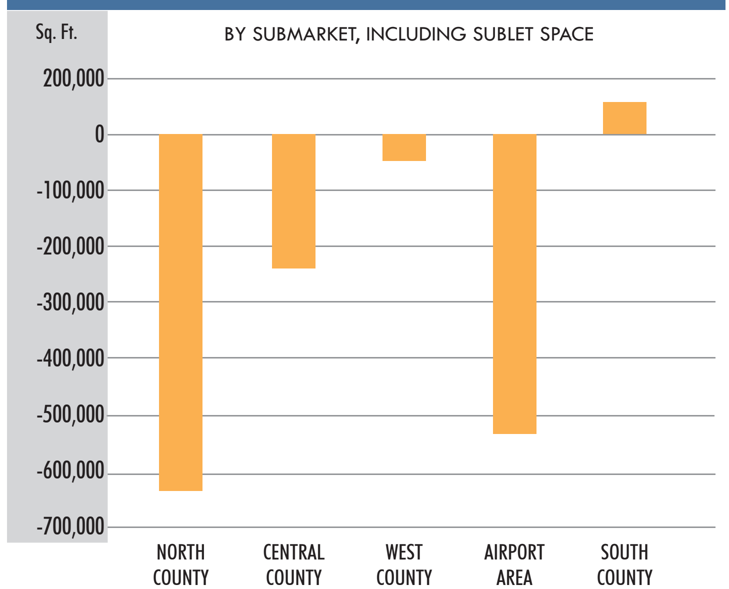
AVAILABILITY RATE



COUNTY WIDE NET ABSORPTION



NET ABSORPTION



Submarkets

NORTH
Anaheim Hills Ind, Brea Ind, Buena Park Ind, Fullerton Complex Ind, Placentia East Ind, Placentia West Ind

WEST
Cypress/Los Alamitos Ind, Huntington Beach Ind, West Huntington Beach Ind

CENTRAL
Anaheim Stadium Area Ind, Chapman Ave Corridor Ind, Disneyland Area Ind, Eastern Central Cnty Ind, Garden Grove Ind, Katella North Ind, Lincoln Ave Corridor Ind, Park Center Ind, Santa Ana Civic Ctr Ind

AIRPORT
Airport Complex East Ind, Airport Complex South Ind, Costa Mesa Ind, Fountain Valley Ind, Irvine Business Ctr Ind, North Irvine Ind, South Santa Ana East Ind, South Santa Ana West Ind, Tustin Ind

SOUTH
Irvine Spectrum Ind, Laguna Ind, Mission Viejo Ind, North Laguna Hills Ind, Outlying Orange Cnty Ind, San Clemente Ind, San Juan Capistrano Ind

Forecast:

Chapman University says its survey of California purchasing managers points to continued expansion in the manufacturing sector in the second quarter. It would be the fifth straight quarterly increase in its manufacturing composite index, which covers production, inventories of purchased materials, commodity prices, new orders and employment in the high-tech, durable and non-durable goods industries.

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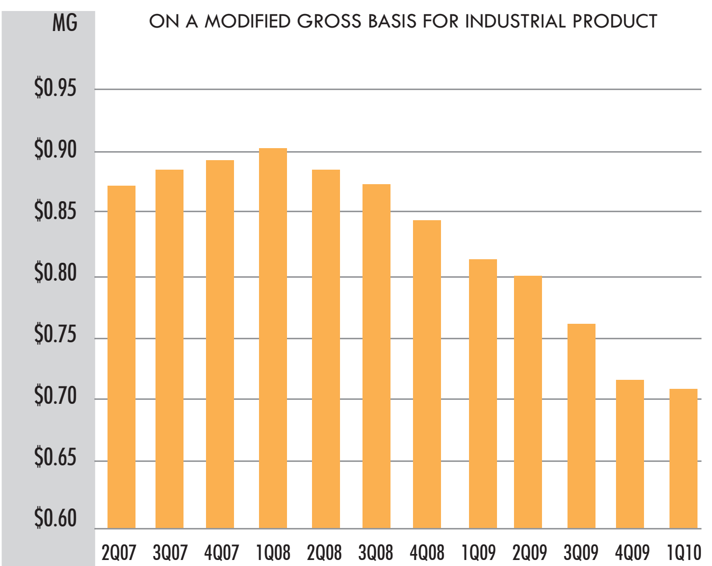
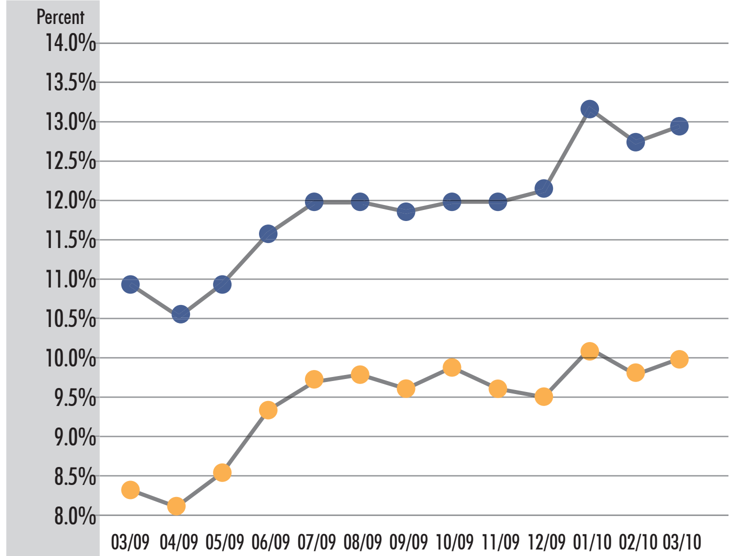
WEIGHTED AVERAGE ASKING LEASE RATES



UNEMPLOYMENT RATE

Source: EDD



Recent Transactions

LEASED • 86,300 Sq. Ft.

11870 Monarch | Garden Grove

Sean Ahern represented the lessor, David Homme Trust.

SOLD • 44,228 Sq. Ft.

12200 Industry | Garden Grove

Frank Adler and Jeff Hirsch represented the buyer, Goodwin.

LEASED • 40,000 Sq. Ft.

6350 Altura | Buena Park

Scott Smith represented the lessor, Kornland Building.

SOLD • 35,745 Sq. Ft.

8710-8750 Research Dr. | Irvine

Randall Verdieck represented the seller, RDJH Enterprise, LLC.

SOLD • 28,475 Sq. Ft.

1107 E. Walnut | Santa Ana

Chris Coyte and John Martin represented the seller, Diamond Ice.

SOLD • 16,740 Sq. Ft.

7 Autry | Irvine Spectrum

Craig Fitterer, Mark Jerue and Ryan Swanson represented the seller, Hughes Family Trust.

SOLD • 15,277 Sq. Ft.

9671-9701 Irvine Center | Irvine

Ryan Swanson represented the buyer and seller.

SOLD • 14,784 Sq. Ft.

2614 Rouseeelle St. | Santa Ana

Greg Diab represented the seller, Kuntz Real Estate Trust and Jack Haley represented the buyer, Kemp Pepic.

SOLD • 9,504 Sq. Ft.

30422 Esperanza | Ranch Santa Margarita

Ted Rommel represented the buyer, Igvest Development and Mark Jerue and Craig Fitterer represented the seller.

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Members of the Lee & Associates Group of Companies-Orange County

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1004 West Taft Avenue, Suite 150
Orange, California 92865
(714) 647-9100

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LEE & ASSOCIATES - IRVINE
111 Pacifica, Suite 310
Irvine, California 92618
(949) 727-1200

Mike Baker	Brian Hughes
Andrew Bermudez	Guy Laferrara
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Phil Cohen	Nate Pivaroff
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Jason Helmick	

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

Frank Adler	Mike Long
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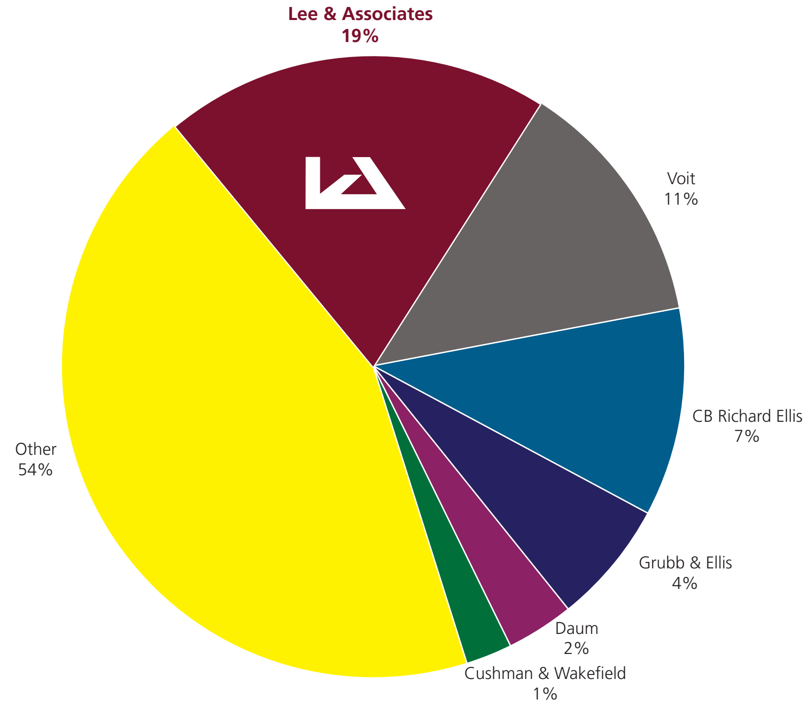
As a group of independently owned and operated companies, Lee & Associates currently has more than 39 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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 $5 billion last year, alone.

Industrial Services

Lee & Associates knows industrial real estate. Large, mid-size and small, we help clients transact their way through the intricacies of manufacturing plant, bulk warehousing/distribution facilities, specialized R&D complexes, modern build-to-suit flex space and turn-key, high-tech campuses. Our industrial specialists provide skilled guidance running the gamut from facility, site and land acquisition/disposition to advisory services, sale and lease negotiations, build-to-suit analysis and planning.

Lee & Associates' Brokerage Market Share in Orange County



Source: CoStar Landlord Rep and Sales Rep Companies for Orange County Industrial Buildings.

TERMS:

Availability Rate: The ratio of available space to total rentable space, calculated by dividing the total available square feet by the total rentable square feet.

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.

Modified Gross (MG): Lease type whereby the landlord assumes responsiblitiy for most of the operating expenses such as taxes, insurance and structural repairs for the property.

Inventory: Industrial and flex inventory includes all multi-tenant and single tenant buildings. Owner-occupied, government, medical buildings are not included.

Occupied Square Feet: NRA not considered vacant.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

Net Absorption: The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space.

Net Rentable Area (NRA): The gross building square footage minus the elevator core, pipe shafts, vertical ducts, balconies and stairwell areas.

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