Lee & Associates - Irvine/Newport Beach/Anaheim

Orange County

Industrial Market Report

Third Quarter 2010

MARKET OVERVIEW
(Change from last quarter)

Vacancy
6.7%

No change from last quarter

Net Absorption
-116,583 Sq. Ft.

Down from 273,569 Sq. Ft. from last quarter

Avg. Industrial Lease Rate
$0.62 NNN

Down from $0.64 NNN last quarter

597 Total Number of Transactions for the Quarter

Down from 762 transactions last quarter

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

Q3 Hiccup In Momentum; Absorption Goes Negative

Despite recent signs indicating the Orange County industrial market was stabilizing, third quarter data produced little positive news for landlords, with key markers showing that the momentum of the first half of the year has sputtered.

Countywide, leasing activity in Q3 was down across the board. While the rate of vacant space is 6.7%, which was unchanged from last period, it's only 0.6% off its 10-year high of 7.3% in 2003's third quarter. The data tracks buildings larger than 10,000 sq. ft.

In addition to net absorption slipping into negative territory, the Q3 volume of leased space and transactions dropped 24.5% and 23.6% respectively from the previous quarter, a clear sign that users are increasingly thin on the ground.

The trend that has been most constant is the steady downhill march of lease rates. At the end of the quarter, asking rents averaged 62 cents per sq. ft. triple net, off 13.8% year over year and down 27.9% from the all-time high of 86 cents reached in early 2008. Asking rents are averaging their lowest since the end of 2002.

The West and Central county markets fared best in the third quarter. In the West, the vacancy rate fell from 5.9% to 4.6%. But West County's total inventory is small, accounting for 8.2% of the county's 294.5-million sq.-ft. base, and its vacancy rate was influenced greatly by 327,268 sq. ft. of Q3 net absorption. There was a positive net gain of 24,054 sq. ft. in Central County. The vacancy rate in this market dropped 0.20% to 5.9% in the quarter.

North County, the largest industrial market with 85.3 million sq. ft., put back 230,484 sq. ft. into the vacancy column. Its vacancy rate rose 0.2% to 6.3%. Asking rents are lowest in North County, too, settling at 50 cents.

The Airport and South County markets have the highest vacancy rates and combined for 237,421 sq. ft. of negative net absorption in the quarter. Vacant space in the Airport market, which has a 75.5-million sq.-ft. base, rose 0.2% to 7.9%. In the 44.9-million sq.-ft. South County market the vacancy rate was 7.8%, still a far cry from its 12.2% vacancy high in early 2003. Asking rents in the Airport market average 66 cents per sq. ft. and are 82 cents in South County.

Industrial specialists at Lee & Associates say uncertainty about the economy continues to weigh on the confidence among users of industrial space. Since the 2008 financial collapse, landlords have been aggressive in renewing leases with existing tenants.

Total Industrial & Flex Market Statistics (Buildings 10,000 sq. ft. and greater) — Third Quarter 2010

Market	Existing Inventory		Vacancy			Net Absorption	Under Construction	NNN Asking Rate
	# of Bldgs.	Total Building Square Feet	Direct SF	Total SF	Vac. %			
North County	2,108	85,297,680	5,329,186	5,405,449	6.3%	(230,484)	0	$0.50
Central County	2,151	64,573,361	3,669,171	3,807,179	5.9%	24,054	375,000	$0.53
West County	741	24,209,561	885,373	1,113,602	4.6%	327,268	0	$0.61
Airport Area	2,309	75,503,637	5,722,800	5,938,090	7.9%	(135,366)	0	$0.66
South County	1,300	44,961,869	3,151,027	3,518,979	7.8%	(102,055)	0	$0.82
Totals	8,609	294,546,108	18,757,557	19,783,299	6.7%	(116,583)	375,000	$0.62

Source: CoStar

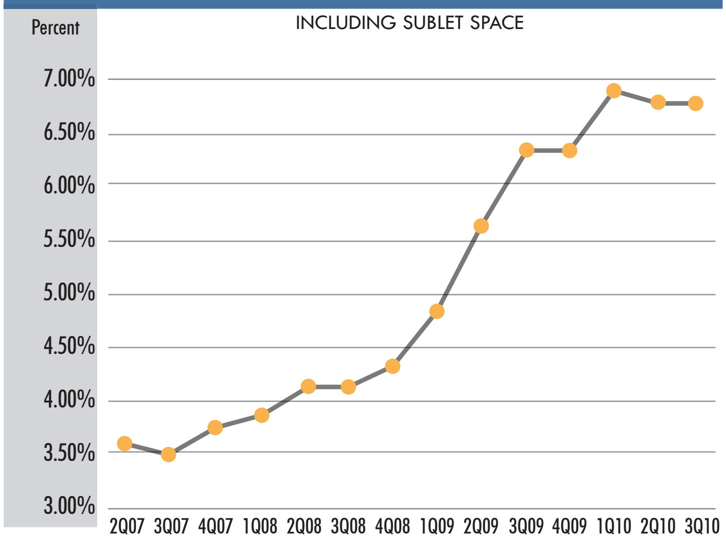
Lee & Associates®
COMMERCIAL REAL ESTATE SERVICES

Lee & Associates - Irvine/Newport Beach/Anaheim Industrial Market Report

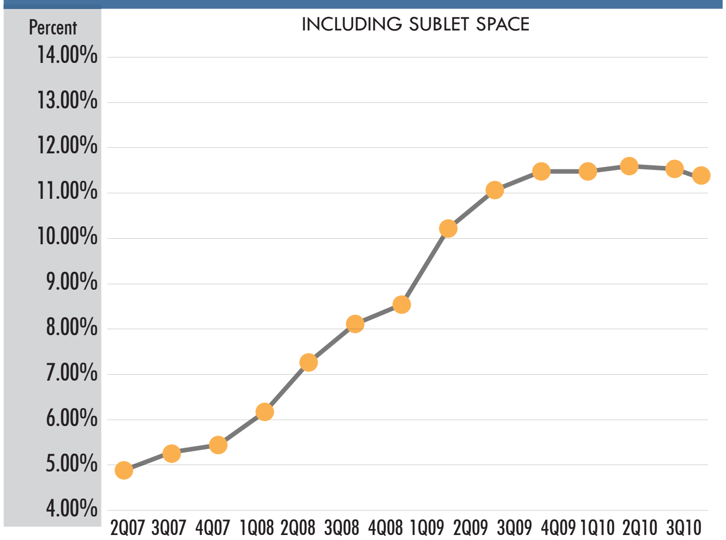
QUARTER IN REVIEW

Third Quarter 2010

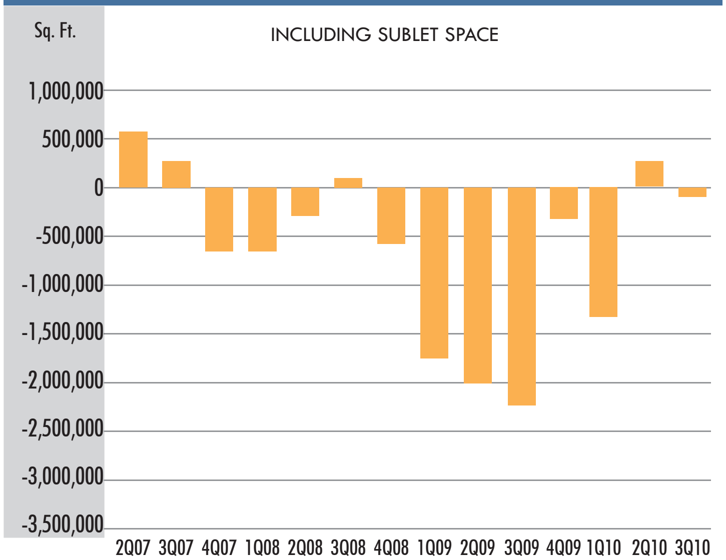
VACANCY RATE



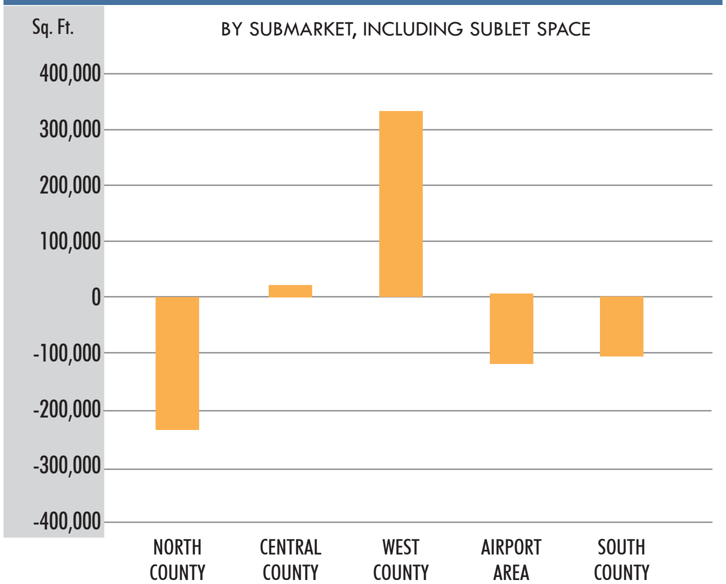
AVAILABILITY RATE



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:

There is a growing sense that industrial activity will remain slack in the fourth quarter resulting from economic unease coupled with political uncertainty leading up to the general election.

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QUARTER IN REVIEW

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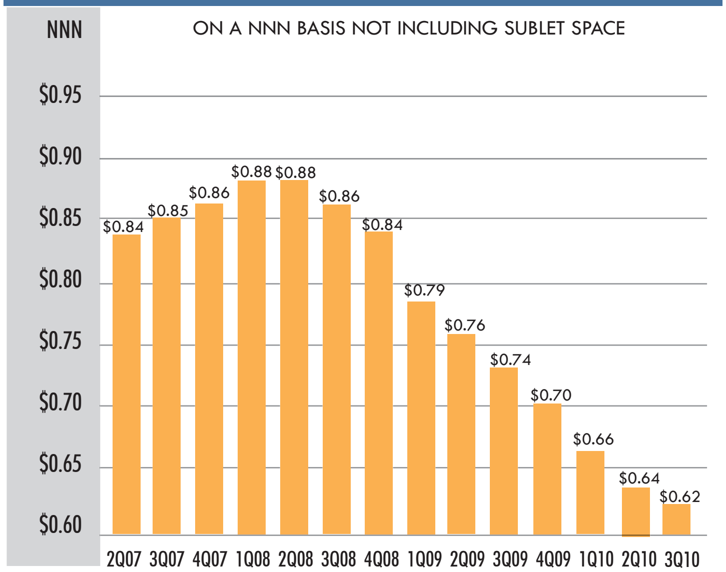
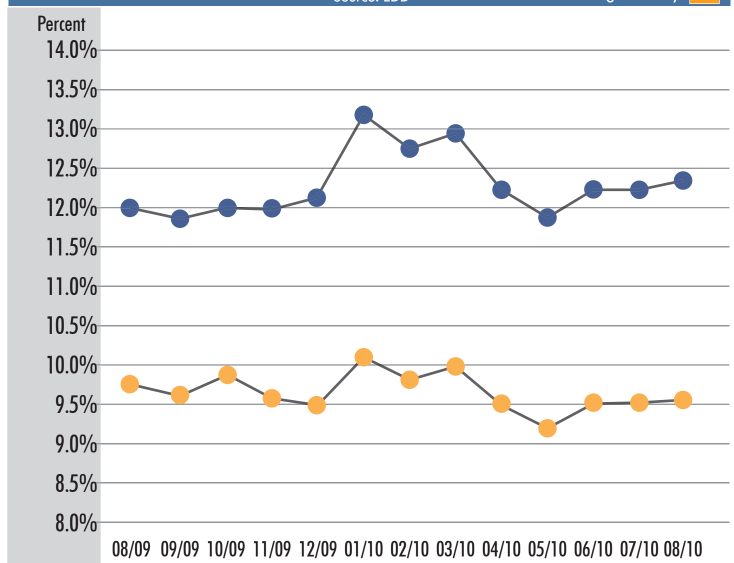
WEIGHTED AVERAGE ASKING LEASE RATES



UNEMPLOYMENT RATE

Source: EDD

CA Average
Orange County



Recent Transactions

LEASE • 227,797 Sq. Ft.

1415-1545 Moonstone | Brea

Guy LaFerrara and Justin Smith represented the buyer, PSIP Cam Brea, LLC.

LEASE • 135,360 Sq. Ft.

13225 Alondra Blvd. | Santa Fe Springs

Greg Diab and Jack Haley represented lessee, Tire's Warehouse.

LEASE • 77,028 Sq. Ft.

17800 Kalama River | Fountain Valley

Jim Snyder and Andy Walburger represented the lessor, TA/Western.

SALE • 52,000 Sq. Ft.

4240 E. La Palma | Anaheim

Scott Seal represented the buyer, Rezai & Son, LLC.

SOLD • 45,250 Sq. Ft.

5500 La Palma | Anaheim

Bryan Miller represented the buyer, Belt Drivers, LTD.

SOLD • 35,277 Sq. Ft.

26845 Vista Terrace | Lake Forest

Mark Jerue, Craig Fitterer, and Peter Cheng represented the buyer, Preece, Inc.

LEASE • 33,273 Sq. Ft.

72 Corporate Park | Irvine

Bob Griffin represented the lessor, Manulife.

SOLD • 32,805 Sq. Ft.

3183 Red Hill | Costa Mesa

Phil Cohen and Brian Garbutt represented the buyer, Belalance, LLC.

SOLD • 11,060 Sq. Ft.

15855 Chemical Lane | Huntington Beach

Curt Stalder, Darin McDonald and Ted Sawyer represented both parties.

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QUARTER IN REVIEW

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

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

Allen Buchanan
Pat Delaney
Christopher Destino
Greg Diab
Johnny Eubanks
Clif Fincher
Jeff Gahagan
Brad Gilmer
Tom Gilmer
Tom Grant
Jack Haley
Chuck Hardy
James Hawkins
Doug Himes
Mark Hintergardt
Luke Hudson
Elizabeth Hughes
Dave Hunsaker
Dan Kruse
Larry Lawrence
Robert Leiter
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Bryan Miller
David Newton
Chuck Noble
Jim Oliver
Jon Passafiume
Steve Pelletier
Bob Sattler
Scott Seal
Scott Smith
John Son
John Tenaglia
Randy Verdieck
Dave Williams

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

Mike Baker
Andrew Bermudez
Christine Bowen
Kurt Bruggeman
Dale Camera
Peter Cheng
Phil Cohen
Matt Durkin
Craig Fitterer
Brian Garbutt
Dylan Gormly
Mark Jerue
Ryan Harman
Jason Helmick
Brian Hughes
Guy Laferrara
Randy Mason
Jay Mast
John Matus
Rich Mcevoy
Nate Pivaroff
Andrew Robben
Ted Rommel
Ryan Swanson
Justin Smith
John Sullivan

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

Frank Adler
Sean Ahern
Tim Arguello
Chris Barnett
Jeff Blasingame
John Collins
Chris Coyte
Jim deRegt
Bill Garrett
Bob Griffin
Jeff Hirsch
Steve Jehorek
Pat Lacey
Mike Long
John Martin
Darin McDonald
Kevin Quick
Ted Sawyer
Dick Silva
Travis Smith
Jim Snyder
Curt Stalder
Kevin Thomas
Andy Walburger
Jedd Zaun

About Lee & Associates

As a group of independently owned and operated companies, Lee & Associates currently has 41 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois, Georgia, Indiana and Wisconsin.

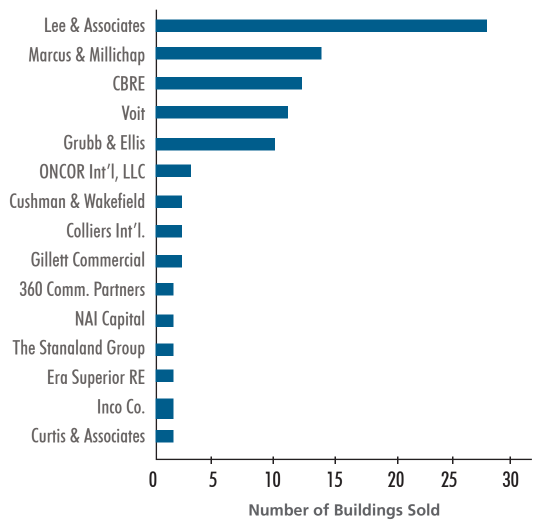
With a broad array of regional, national and international clients—ranging from individual investors and small businesses, to large corporations and institutions—Lee & Associates has successfully completed transactions with a total value of more than $5 billion last year, alone.

Industrial Services

Lee & Associates knows industrial real estate. Large, mid-size and small, we help clients transact their way through the intricacies of manufacturing plants, bulk warehousing/distribution facilities, specialized flex 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

Third Quarter Top Listing Co. by Sale Transactions



Number of buildings currently for lease

	Company	Market Share	Total # of Bldgs.
1	Lee & Associates	11.0%	438
2	CBRE	6.6%	264
3	The Irvine Co.	5.1%	204
4	Grubb & Ellis	4.7%	189
5	Voit	4.1%	163
6	Cushman & Wakefield	2.9%	114
7	NAI Capital	1.4%	54
8	The Colton Co.	1.2%	48
9	Olen Properties	1.1%	45
10	Bacchus Dev.	1.0%	41
	All Others	60.8%	2,422

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 net lease rates for all buildings in the summary. Direct leases only; excludes sublease space and parking charges.

Inventory: Industrial and flex inventory includes all multi-tenant and single tenant buildings greater than 10,000 square feet. 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.

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