Orange County
Industrial Market Report

Fourth Quarter 2009

MARKET OVERVIEW
(Change from last quarter)

Vacancy
6.6%

No change from last quarter

Net Absorption
-332,201 Sq. Ft.

Up from -2,229,719 last quarter

Avg. Industrial Lease Rate
$0.64 MG

Down from $.0.67 MG last quarter

Avg. Industrial/Flex Lease Rate
$0.72 MG

Down from $0.76 MG last quarter

Note: As of this report we are using CoStar's data. Thus, all statistics may not match up to the previous quarterly report.

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

A Glimmer Of Hope For OC Warehouse Owners

As the New Year got under way, it brought along a whiff of optimism for most Orange County industrial landlords that the market may be stabilizing amid growing confidence that a modest economic recovery is beginning to take hold.

The first signs of change in the industrial market came late last year as the torrent of newly vacant space suddenly slowed to a trickle. Additionally, values and sale prices have dropped to levels that reflect real rental rates and should entice more investors and owner-users to take a serious look at buying buildings.

In Q4, 332,201 sq. ft. were added to the available inventory – a fraction of the 6.22 million sq. ft. of negative net absorption that occurred in the first three quarters of 2009. The year closed out with an overall industrial vacancy rate of 6.6% countywide.

The reason behind the stronger fourth-quarter absorption is twofold: The initial and sharp pull back of consumer spending winnowed out a substantial number of warehouse users who, for example, sold home improvement goods and recreational products. The remaining tenants, who have been postponing their facility decisions due to economic uncertainty, believe the worst is over.

But even with the end-of-the-year improvement in the rate of negative absorption, 2009 was the worst year for landlords since the recession and defense-aerospace cutbacks of the early 1990s when the rate of empty industrial space soared into the high teens in some Orange County markets.

The current sharp reduction in new vacancies was more pronounced in the 237.4 million sq. ft. warehouse category with vacancies increasing only 68,611 sq. ft. in Q4. This was a dramatic change from the 1.62 million sq. ft. in third-quarter vacancies and 4.9 million sq. ft. for the first nine months of the year. Warehouse vacancy totaled 5.9% at year's end.

Conversely, flex space – which accounts for roughly 25% of the 309 million sq. ft. total industrial inventory – continues to be hard hit with 263,590 sq. ft. more empty space in Q4 added to the inventory, bringing the year-end vacancy rate for flex product to 8.6%. At the end of 2008, flex-space vacancy was 6.3%.

Tenants also benefited last year as year-over-year lease rates plunged an average of 16.2% countywide. Landlords are moving aggressively to renew existing tenants, 46% of whom are facing lease expirations during the next three years.

Lee & Associates industrial analysts say many landlords – particularly institutional owners – were slow to cut asking rents as the recession took hold. Consequently, owners of empty space are being forced to slash rates even more to attract new tenants.

There were fewer sales transactions in 2009 with 35 buildings of at least 15,000 sq. ft. changing hands in the first three quarters compared to the 39 sales for the same period in 2008. The average price was $113.18 per sq. ft. compared to $127.98 for the prior year. Lee & Associates analysts say prices for buildings of all sizes have fallen as much as 40% since the asset bubble peaked. Cap rates jumped in 2009's first three quarters, averaging 8.13% compared to 6.64% for the same period in 2008.

Total Industrial & Flex Market Statistics — Fourth Quarter 2009

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	2,856	89,083,088	5,390,755	5,390,755	6.1%	(1,826,924)	0	$0.61
Central County	3,294	69,123,785	3,813,515	4,051,083	5.9%	(1,269,989)	375,000	$0.64
West County	1,099	24,592,662	1,192,282	1,476,709	6.0%	(760,604)	0	$0.73
Airport Area	3,224	78,483,236	5,200,599	5,400,027	6.9%	(1,805,728)	0	$0.77
South County	1,876	47,369,175	3,447,423	3,904,384	8.2%	(887,733)	0	$0.94
Totals	12,349	308,651,946	18,895,717	20,222,958	6.6%	(6,550,978)	375,000	$0.72

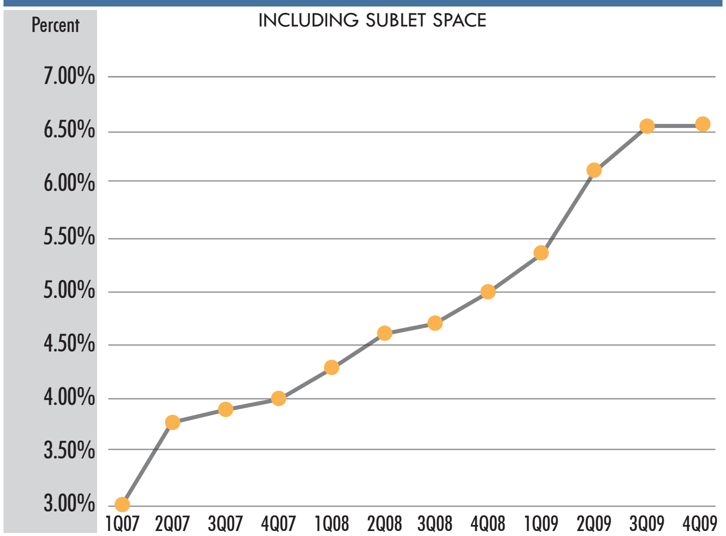
Source: CoStar

Lee & Associates®

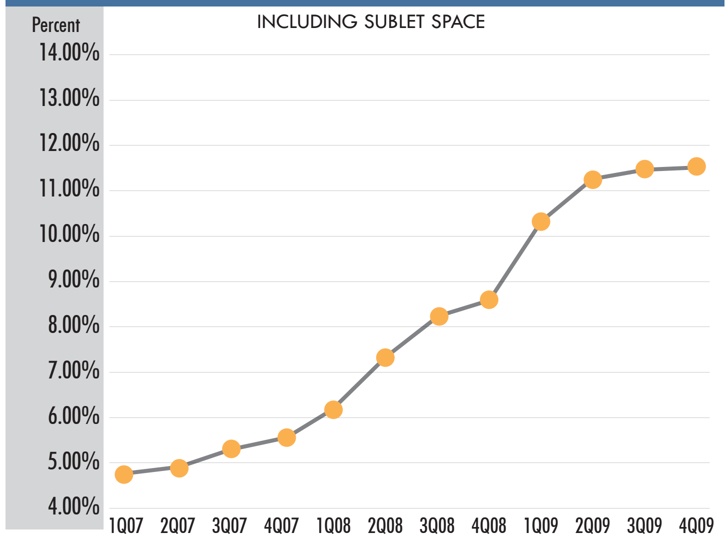
QUARTER IN REVIEW

Fourth Quarter 2009

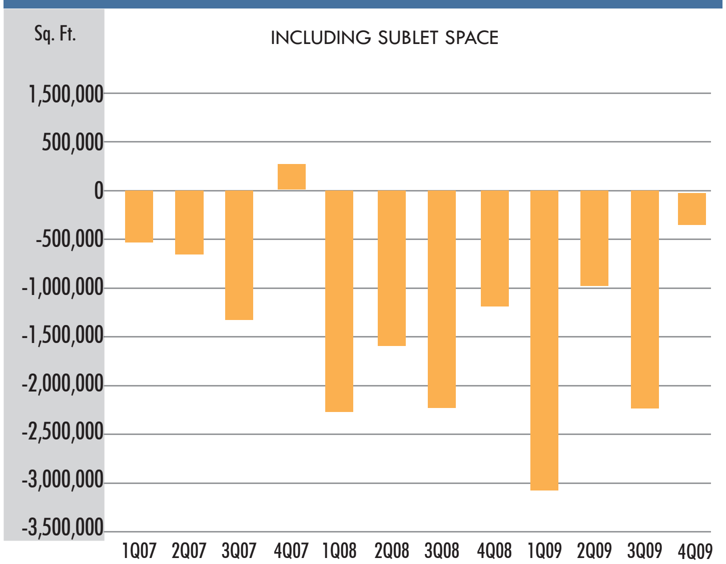
VACANCY RATE



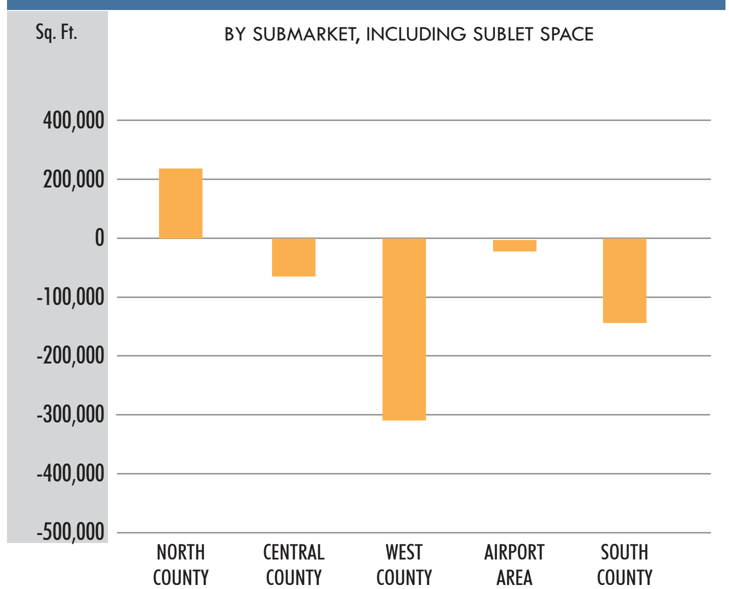
AVAILABILITY RATE



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:

At the street level, it is generally believed that 2010 will be a better year for the economy. For investors, values – based on real rather than inflated rental rates – are reaching levels needed to achieve 7% cash-on-cash returns today and increasing future rents.

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

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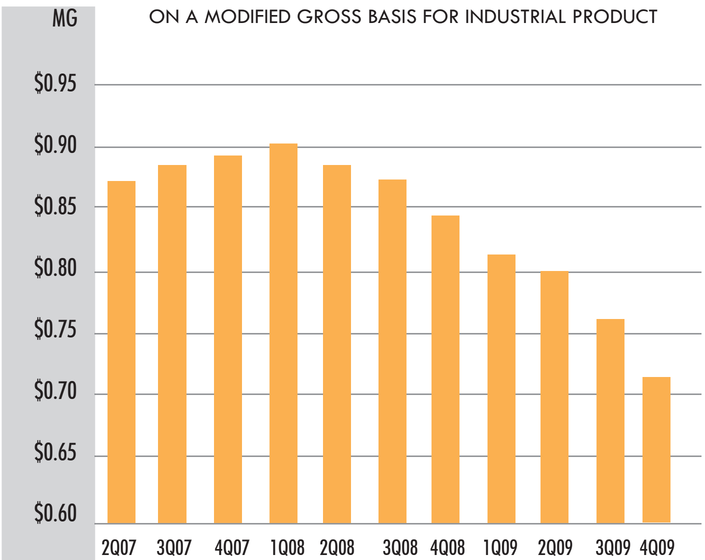
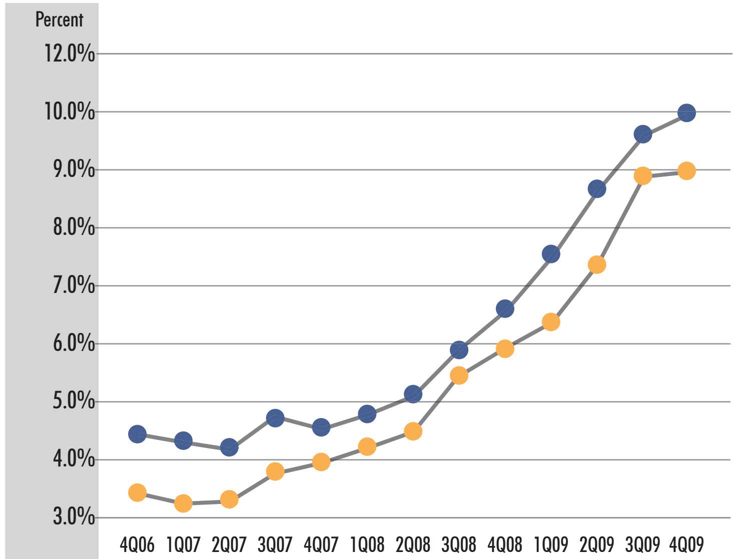
WEIGHTED AVERAGE ASKING LEASE RATES



UNEMPLOYMENT RATE



Recent Transactions

SOLD • 133,747 Sq. Ft.

1041-1071 Kemp | Anaheim

Jim deRegt, Darin McDonald and Ted Sawyer represented both parties in the land sale

LEASED • 84,195 Sq. Ft.

7373 Hunt | Garden Grove

Sean Ahern represented the tenant, RTI.

LEASED • 44,000 Sq. Ft.

3440 West Warner Ave. | Santa Ana

Greg Diab, Jack Haley and Shan Batla represented the landlord, Nott Family Trust.

LEASED • 37,688 Sq. Ft.

12570 Industry | Garden Grove

Scott Smith represented the landlord, Container Supply Company.

SOLD • 33,415 Sq. Ft.

1525 E. Edinger Ave. | Santa Ana

Chuck Noble, Dave Hunsaker, Greg Diab, Jack Haley, Shan Batla represented both parties.

LEASED • 24,848 Sq. Ft.

43 Tesla | Irvine Spectrum

Craig Fitterer and Mark Jerue represented the tenant, Getac, Inc.

SOLD • 16,401 Sq. Ft.

3 Watson | Irvine

Frank Adler and Jeff Hirsch represented the seller, Milano Family Trust.

SOLD • 5,6391 Sq. Ft.

1234 Puerta Del Sol | San Clemente

Guy LaFerrara and Justin Smith represented the seller, Martinez Holdings.

SOLD • 5,339 Sq. Ft.

30253 Tomas | Rancho Santa Margarita

Guy LaFerrara, Mike Baker and Justin Smith represented the buyer, Advanced Powering Services.

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Dan Kruse
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Bryan Miller
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John Martin
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Ted Sawyer
Dick Silva
Travis Smith
Jim Snyder
Curt Stalder
Kevin Thomas
Andy Walburger
Jedd Zaun

About Lee & Associates

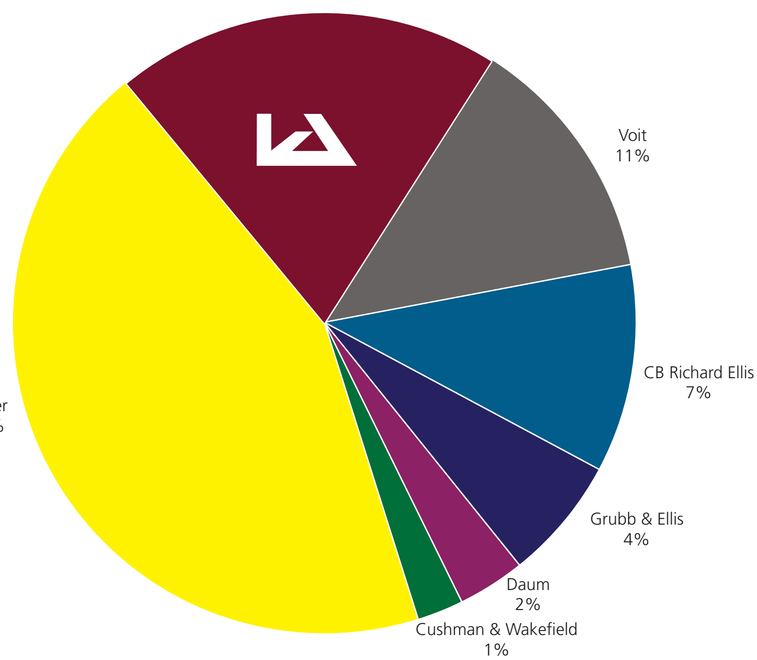
As a group of independently owned and operated companies, Lee & Associates currently has more than 39 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas, New Jersey, Illinois and Wisconsin.

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 responsibility for all the operating expenses and taxes (insurance, taxes, utilities, repairs) 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: 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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