Lee & Associates - Irvine/Newport Beach/Orange

Orange County
Industrial Market Report

Fourth Quarter 2008

Change from last quarter:

4.23% - Vacancy

up 5.75% from last quarter

-1,223,207 Sq. Ft. - Absorption

up 46.3% from last quarter

Avg. Industrial Lease Rate
$0.84 MG

down 3.5% from last quarter

Avg. R&D Lease Rate
$1.05 MG

down 2.8% from last quarter

Despite Slowdown Orange County Industrial Space Remains Tight

Considering that the broad economy staggered to a close in 2008, prompting concern that the end of the deepening recession may not occur before late '09, space in Orange County's Industrial market remains in surprisingly short supply. Nevertheless, Industrial real estate owners – anticipating more slowing ahead – are increasingly willing to deal on lease terms and sale prices.

Of the county's 394-million square-foot inventory of Industrial and Research-and-Development space, only 6.01% was available at the end of 2009, a year-over-year increase of 1.25% or 7 million square feet – a far cry from availability rates in the mid to high teens in the early 1990s.

At the end of 2008, Orange County's Industrial and R& D vacancy rate of 4.23% was among the nation's lowest and nearly two thirds less than the national average.

There is no question that a number of medium-sized Industrial tenants in Orange County have been downsizing and many small-space users – especially those trading in building products and discretionary consumer goods – are shuttering their operations. But Industrial specialists at Lee & Associates – the county's pre-eminent Industrial brokerage firm – say the desirability of the Orange County coupled with the lack of available land keeps Industrial space in healthy overall demand.

However, the incessant daily drumbeat of bad economic news and bearish forecasts are making Industrial real estate owners nervous. Locally, about 38,400 jobs were lost in Orange County last year and local economists predict 9,000 layoffs in 2009. Sale and leasing activity has slowed dramatically as Industrial users, anxious over slumping sales, have been putting off facility decisions amid the cloudy outlook.

Consequently, Industrial real estate prices have tumbled back to 2006 levels as underwriting requirements for purchase-money loans have stiffened. Despite the relatively low supply of space for rent, landlords with available space have eased lease rates and credit requirements.

Orange County is divided into five markets. The North County market is the largest with 121 million sq. ft. of inventory or 31% of the total. It ended 2008 with a 7.19% availability rate or 8.7 million sq. ft. At the same time North County was the most volatile market, posting the largest year-over-year swing in net absorption. After closing Q4 2007 with slight gain, North County tenants gave back 2.7 million sq. ft. to the market by mid-year. The Airport market, the smallest, ended the year with 9.35% available space of its 40 million sq. ft. total.

The Central County market, the second largest with 103 million square feet, is the most supply-constrained with 3.5 million sq. ft. available. Available space in the West and South county markets was 4.97% and 7.39% respectively.

Total Industrial Market Statistics — Fourth Quarter 2008

Market	Existing Inventory		Vacancy			YTD Net Absorption	Under Construction	Gross Asking Rate
	# of Bldgs.	Total Building Square Feet	Total Vacant	Total SF Available	Vac. %			
North County	4,160	120,977,789	6,250,316	8,702,942	5.17%	-752,181	392,864	$0.99
Central County	2,048	103,025,768	2,134,472	3,468,522	2.07%	-378,294	845,464	$0.97
West County	1,883	76,314,005	2,657,176	3,794,564	3.48%	-617,477	620,369	$0.88
Airport Area	1,385	39,929,350	2,879,458	3,732,694	7.21%	-531,515	0	$0.82
South County	1,705	53,745,707	2,741,830	3,973,622	5.10%	129	786,646	$1.17
Totals	11,181	393,992,619	16,663,252	23,672,344	4.23%	-2,279,338	3,023,464	$0.95

Source: AIR

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

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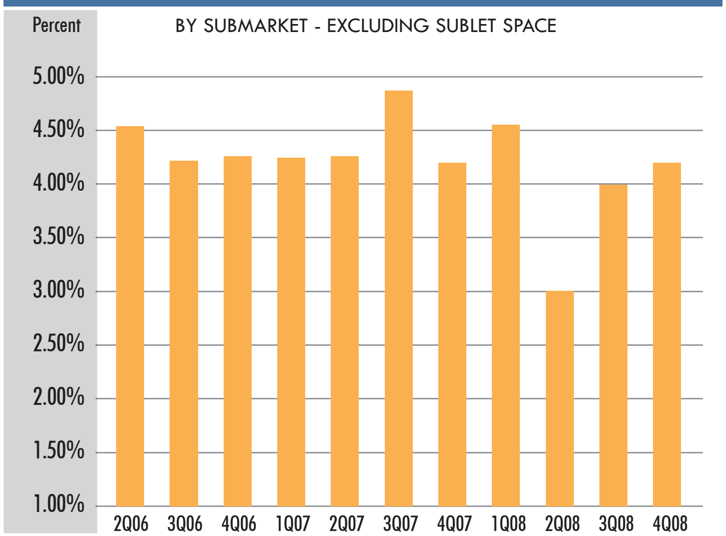
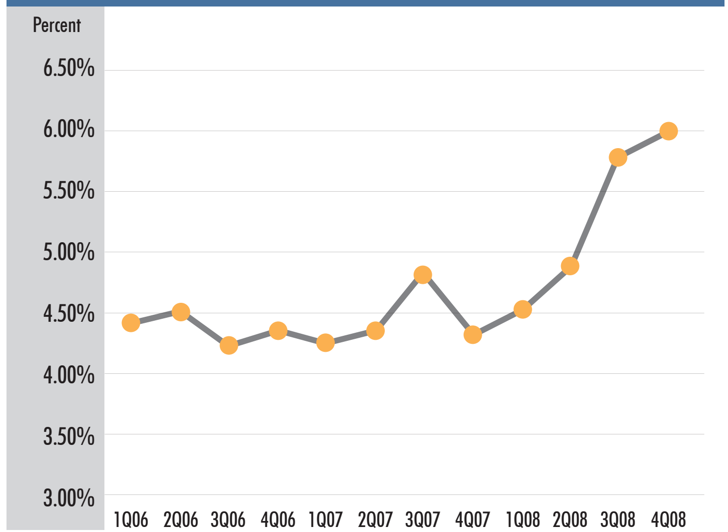
QUARTER IN REVIEW

Fourth Quarter 2008

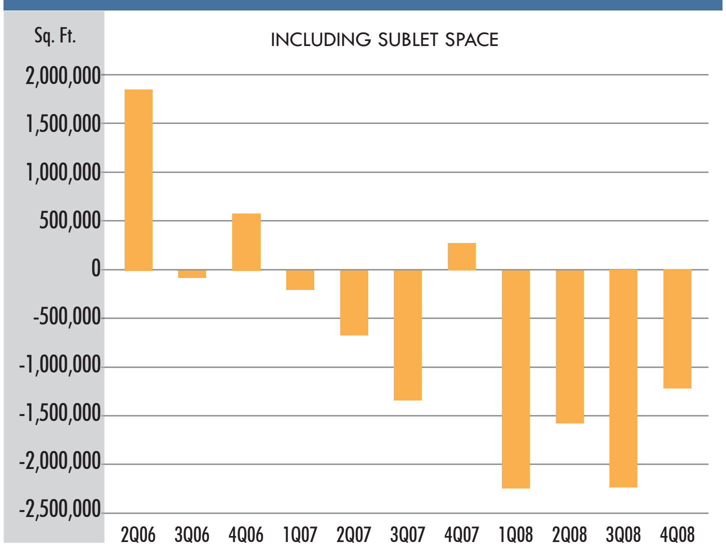
VACANCY RATE



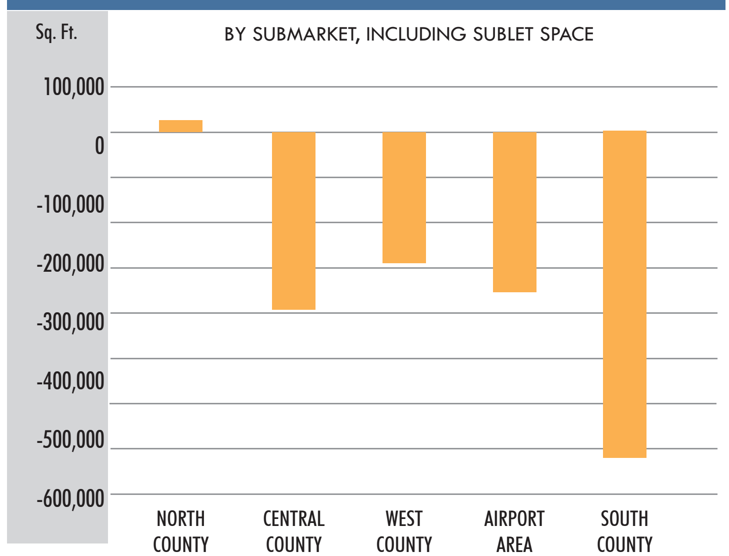
AVAILABILITY RATE



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:

The Federal Reserve's massive rescue of the financial system last fall in an effort to thaw the frozen credit markets has driven down the inter-bank trading rate to a five-year low. This should improve the outlook for stabilization of industrial real estate as banks ease lending requirements, giving small businesses better access to needed capital for raw materials and inventory.

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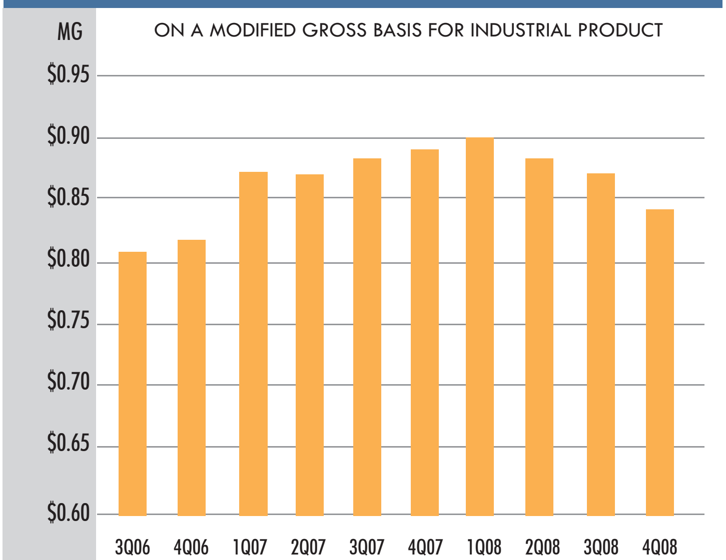
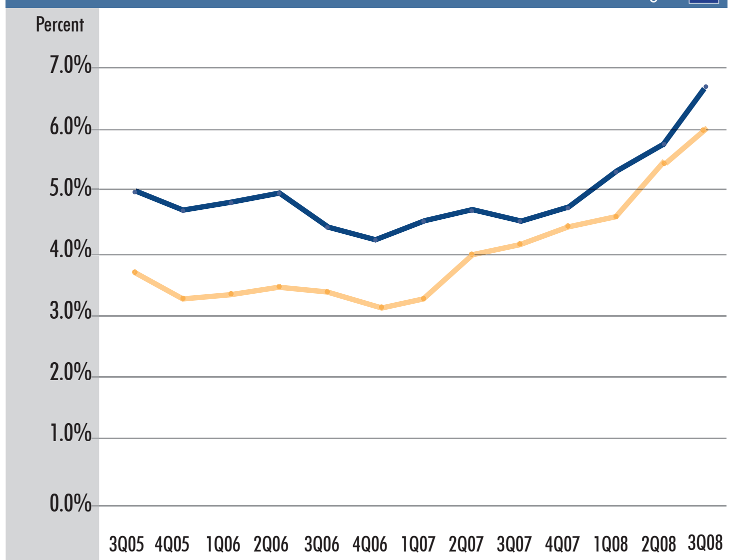
WEIGHTED AVERAGE ASKING LEASE RATES



UNEMPLOYMENT RATE



Recent Transactions

SOLD • 62,196 Sq. Ft.

10233 Palm Drive | Santa Fe Springs

Elizabeth Hughes represented the buyer, Sona Enterprises.

LEASE • 70,171 Sq. Ft.

7155 Fenwick | Westminster

Curt Stadler and Jim Snyder represented the tenant, BE Aerospace, Inc.

LEASED • 42,400 Sq. Ft.

3050 Red Hill | Costa Mesa

Jim Snyder represented the tenant, Anajet, Inc.

SOLD • 20,680 Sq. Ft.

7151 Patterson | Garden Grove

Frank Adler and Jeff Hirsch represented the buyer, Patterson Investment Partners. Scott Smith represented Gerald Bronstein.

SOLD • 16,200 Sq. Ft.

1195 Osprey Circle | Anaheim

Scott Seal represented both the seller, David & Susan Leal and the buyer, Simpletricity, LLC.

SOLD • 10,853 Sq. Ft.

2901 Tech Center Drive | Santa Ana

Greg Diab and Jack Haley represented the buyer, Ronni Levinson.

SOLD • 13,576 Sq. Ft.

32921 Calle Perfecto | San Clemente

John Sullivan, Senior, Mike Bake, Guy LaFerrara, and Justin Smith represented the seller, Burke Calle Perfecto.

SOLD • 6,230 Sq. Ft.

500 Wald | Irvine

Ted Rommel represented both the seller, Image Holdings, Inc. and the buyer, Bayport Foxmore Associates, LP.

SOLD • 5,350 Sq. Ft.

32 Mauchly, Unit B | Irvine Spectrum

Dale Camera and Jason Helmick represented the buyer, Group Delta Consultants.

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Jack Haley
Chuck Hardy
James Hawkins
Doug Himes
Mark Hintergardt
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Dave Hunsaker
Dave Kruse
Larry Lawrence
Robert Leiter
Frank Mejia
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Brian Hughes
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Jack Hogan
Steve Jehorek
Chris Lamm
Pat Lacey
Mike Long
John Martin
Darin McDonald
Kevin Quick
Ted Sawyer
Jason Schultz
Dick Silva
Travis Smith
Jim Snyder
Curt Stalder
Kevin Thomas
Andy Walburger
Troy Wooton
Jedd Zaun

About Lee & Associates

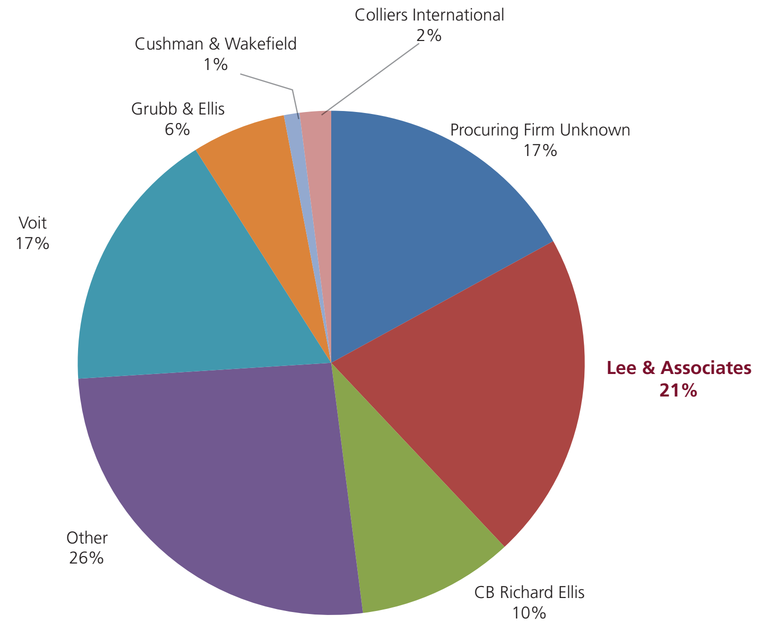
As a group of independently owned and operated companies, Lee & Associates currently has more than 33 offices in California, Arizona, Nevada, Michigan, Missouri, Idaho, Texas and Wisconsin.

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 more than $4 billion last year, alone.

Office 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.

Lee & Associates' Brokerage Market Share in Orange County



TERMS:

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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