

# INDUSTRIAL MARKET TRENDS

## Orange County

THIRD QUARTER 2007

### Rental Rate Increases as Low Vacancy Continues

With a countywide 3% vacancy rate and 4.85% availability rate, the overall Industrial property sector in Orange County remains as tight as ever. Additionally, asking lease rates continued to surge after several years of languishing behind skyrocketing sale prices for Industrial buildings, which have doubled since 2001.

At the end of the third quarter, year-over-year asking lease rates for Industrial and R&D space countywide accelerated 13% with the biggest hike coming from the south Orange County submarket of R&D buildings which posted an 18.6% hike in asking rates since the first quarter.

Countywide, the advancing lease rates come on the heels of a 16.8% increase in 2006 for the broad Industrial category. Industrial market specialists at Lee & Associates had been advising clients for years of the disparity between the high costs of buying buildings versus bargain rental rates. But last year saw the beginning of what has become a trend of steep rent increases.

At the end of the first quarter of 2007 we reported that the torrid rate of appreciation in the sale prices of Industrial buildings was calming down. The high volume of Industrial sales transactions and price increases are no longer as frenzied as when real estate prices were fueled, in part, by a booming economy and loose underwriting. Although institutional buyers still show a willingness to pay top dollar for larger Industrial buildings, prices for smaller product may be leveling off. Some believe that due to sudden

credit tightening some independent business people can no longer easily tap into their home equity for capital to use as a down payment on an Industrial building.

But not all the news for the first three quarters was about growth. There also was an increase in the amount of Industrial space available in the third quarter. Overall in Orange County there were 1.4 million more square feet on the market than in the

third quarter from the previous period. Only west Orange County – one of the five Orange County submarkets – posted positive net absorption at 617,492 square feet.

Industrial analysts at Lee & Associates, who continued as the dominant brokerage firm in the Orange County Industrial market with a 22% share of all sale and lease transactions in the

third quarter, say some business owners lately are growing cautious about Industrial facility decisions, sensing some early signs of slowing consumer spending.

In fact, a September survey of Orange County business owners by the Cal State Fullerton College of Business and Economics revealed a sense of concern about the direction in which the economy is headed. Local business people expressed greater pessimism than those in national surveys about the likelihood of recession.

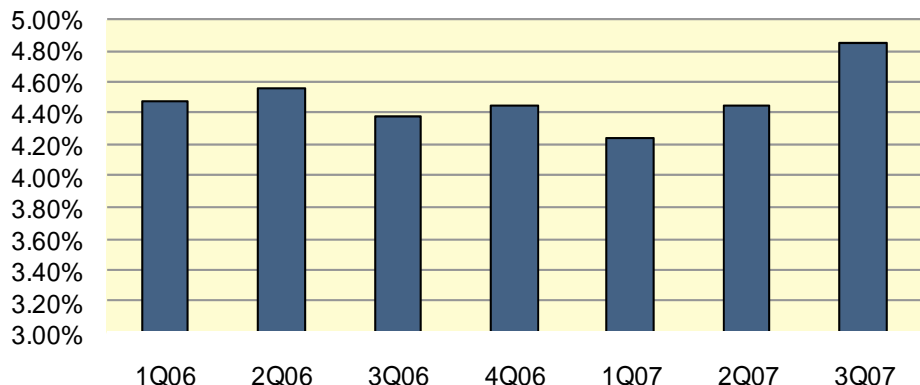
The recent UCLA Anderson Forecast for Orange County projects a 0.1% employment increase, or 700 jobs, next year.

*“ The high volume of Industrial sales transactions and price increases are no longer as frenzied as when real estate prices were fueled, in part, by a booming economy and loose underwriting. “*

#### 3RD QUARTER INDICATORS

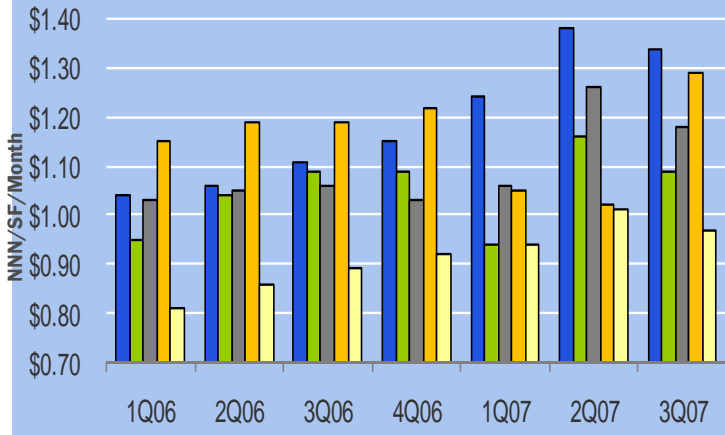
Orange County	3rd Qtr.	Change from last Qtr.
Vacancy	3.0%	↓
Net Absorption	-1,405,368	↓
Avg. Ind. Lease Rate	\$0.88	↑
Avg. R&D Lease Rate	\$1.17	↔

### Availability Rate

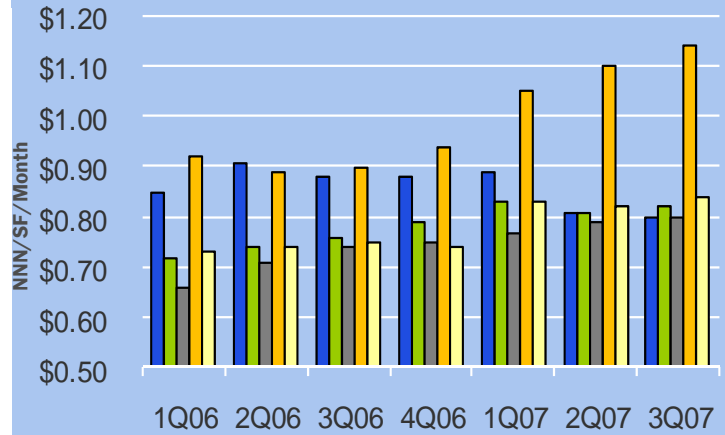


# INDUSTRIAL MARKET REPORT

R & D AVERAGE ASKING LEASE RATES

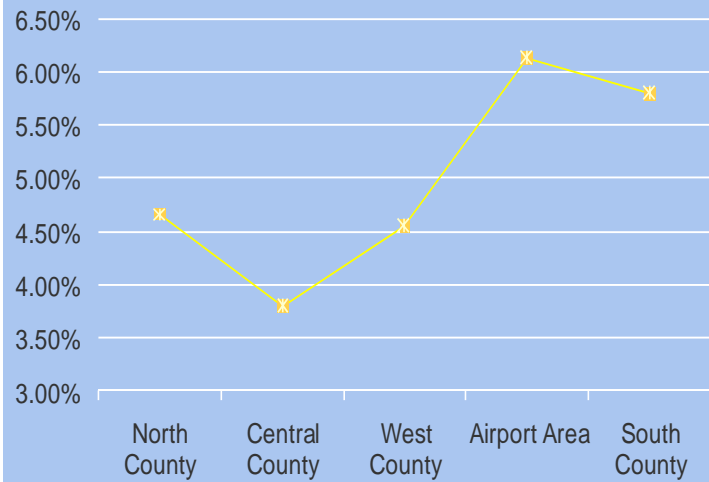


INDUSTRIAL AVERAGE ASKING LEASE RATES

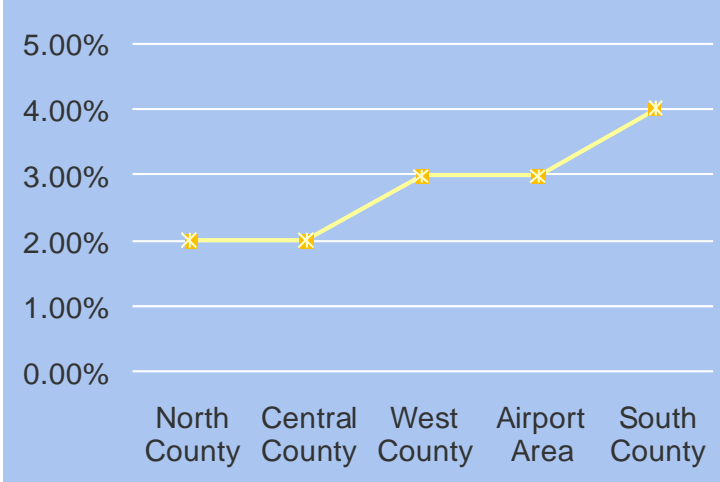


■ North County ■ Central County ■ West County ■ Airport Area ■ South County

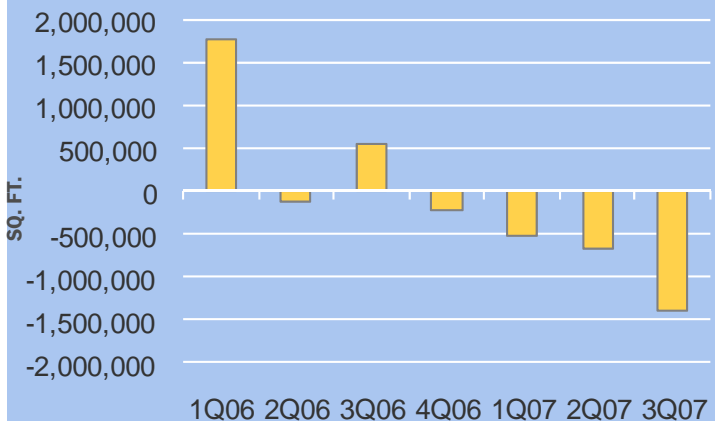
AVAILABILITY BY SUBMARKET



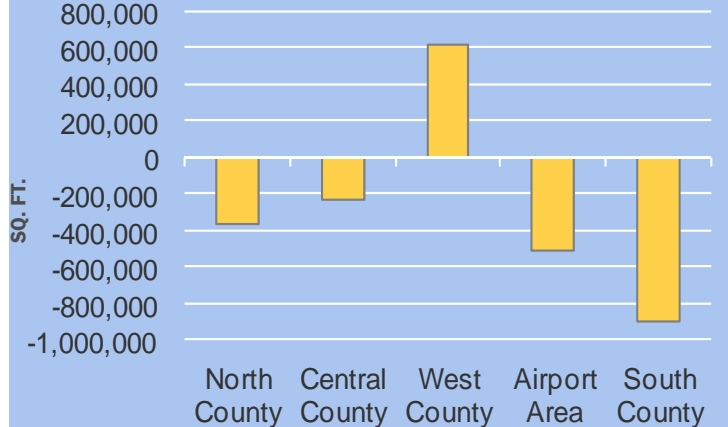
VACANCY BY SUBMARKET



COUNTY-WIDE NET ABSORPTION (BY QUARTER)



THIRD QUARTER NET ABSORPTION (BY SUBMARKET)



# M ARKET FORECAST

*Price and rent growth in Orange County's supply-constrained Industrial real estate market will slow in reaction to an economy that is beset with continuing turmoil in the financial markets, slowing consumer spending and the expectation of little job growth next year.*

## RECENT LEE TRANSACTIONS

1551 Orangethorpe



108,352 SF | Sale | Fullerton  
J. Oliver

17862 Fitch



63,000 SF | Sale | Irvine  
D. Mudge

3585 Cadillac Ave.



27,883 SF | Sale | Costa Mesa  
S. Ahern | J. Snyder

1900 Raymer



34,000 SF | Sale | Fullerton  
C. Fincher | B. Gilmer

17595 Cartwright



25,000 SF | Lease | Irvine  
A. Walburger | J. Snyder

1265 N. Pratt St.



18,446 SF | Sale | Anaheim  
J. deRegt

32 Mauchly #B



5,350 SF | Sale | Irvine  
D. Camera

15662 Graham Street



27,950 SF | Sale | Huntington Bch.  
R. Swanson

11 Hubble



4,010 SF | Sale | Irvine  
T. Rommel

### 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, New Jersey, Illinois, 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.

#### Industrial Services

Over the years, Lee & Associates has earned a reputation as a leader in industrial real estate services in selected markets throughout the United States. The firm's industrial transaction specialists offer a comprehensive range of services, such as facility, site and land acquisition/dispositions, advisory services, sale or lease negotiations based on strong market knowledge and current trends, and build-to-suit analysis and planning.

Lee's wide range of services are applicable to any of the diverse product types categorized as industrial buildings, from manufacturing plants and traditional bulk warehouse/distribution facilities, to more specialized research and development facilities, warehouse/showroom or flex space and high-tech laboratories. Lee's brokers represent institutional investors, individual investors, developers and publicly traded companies as well as large, mid-size and small entrepreneurial companies.

### MARKET DEFINITIONS

**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.

**Triple Net (NNN):** Lease type whereby the landlord receives a base rent and the tenant is responsible for the additional expenses on the property, i.e. taxes, insurance, associations, maintenance, etc.

**Industrial Gross:** The lease rate charged by the landlord includes a charge for real estate taxes, and insurance for the base year of the lease. Increases in those items are passed through to the tenant in subsequent years.

**Vacancy Rate:** The percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

**Inventory:** Industrial inventory includes all multi-tenant and single-tenant buildings larger than 5,000 square feet.

**Gross Absorption:** The total amount of space leased or sold in a specified period of time.

**Net Absorption:** The net difference in occupied space over a specified period of time.

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