

Industrial Market Trends Orange County

Grubb & Ellis Research
Fourth Quarter 2007



Demand Constrained By Supply

Executive Summary

The Orange County industrial market had another strong year in 2007, with the demand for industrial property exceeding the supply. In contrast to the residential and office market, the fundamentals of the Orange County industrial market such as occupancy, absorption and rental rate growth held up extremely well over the last year. Leasing activity continues to be steady, with the average monthly asking rate increasing slightly, to \$0.97 NNN per square foot. The increase can be attributed to the lack of quality space available on the market combined with the limited new construction on the horizon being marketed for lease.

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The market posted a 4 percent vacancy rate during fourth quarter, unchanged from three months prior. Most industry professionals consider that a vacancy rate of 10 percent or under indicates a healthy market - encouraging developers to build on a speculative basis. By that measure, our current 4 percent vacancy is very tight, making Orange County one of the nation's healthiest industrial markets. Net absorption increased to 33,407 square feet. This is a function of tenant demand being constrained by a limited available inventory.

The largest lease transaction of the fourth quarter took place in the Airport Area, where Behr Process Corporation leased 223,560 square feet of space from PR I Santa Ana Industrial LLC for six years. North Orange County recorded the second largest transaction with the leasing of 205 S Puente St.

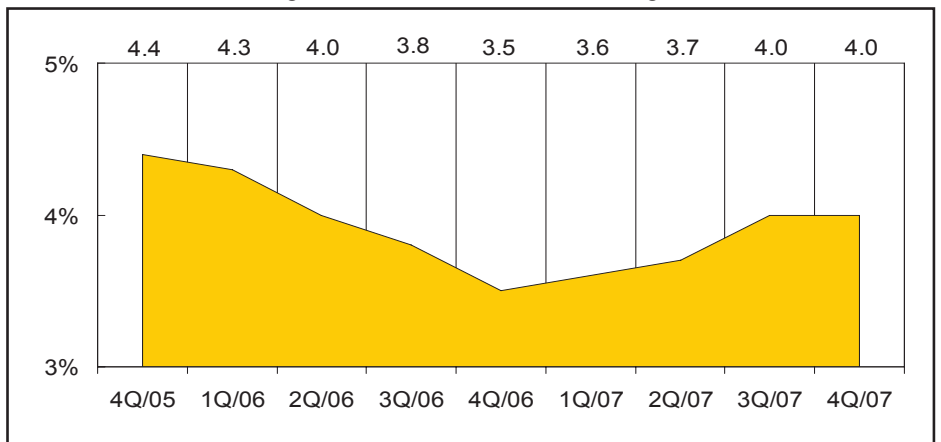
Orange County Industrial Market Trends

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Industrial Vacancy Rate*

* All Product Types

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At 703,875 square feet, the amount of industrial product under construction is down 29 percent from one year ago. Going forward, developers will have to justify their projects from a lease underwriting standpoint.

in Brea, where Carrier Corporation inked a 10-year deal for 220,232 square feet of space. In sales activity, a 277,037square-foot multi-tenant property at 12752 Monarch St. in Garden Grove fetched a reported \$24 million from a private investor.

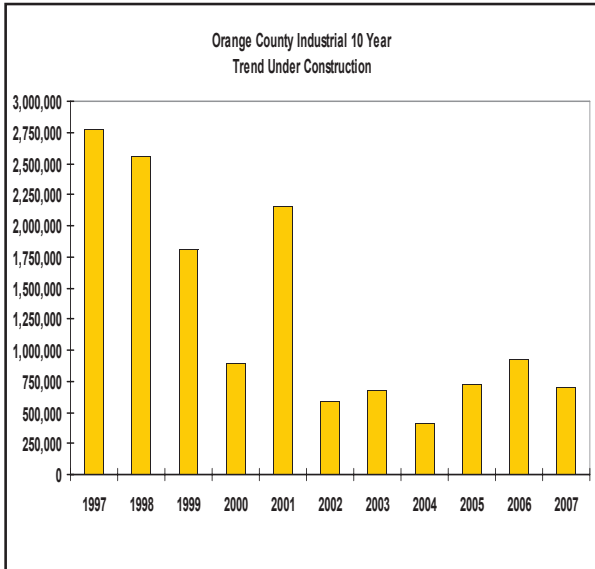
Market Assessment

Sale and lease activity in the Orange County industrial market totaled over 4 million square feet in the fourth quarter. The leasing market thrived, accounting for almost 70 percent of total activity or 2.8 million square feet. This activity level, which is down 30 percent from the fourth quarter of 2006, brought the year-to-date total to over 18.3 million square feet, slightly below 2006's year-end total. The fourth quarter saw some apprehensive tenants taking more time to make decisions on their leasing plans. Some buyers adopted a wait and see attitude as well, opting to delay purchases until the housing crisis and financial markets get more stabilized.

As was the case throughout 2007, the Airport Area submarket accounted for the bulk of industrial sale and lease activity in the fourth quarter with over 1.4 square feet and maintained the second highest average asking lease rate of \$1.20 NNN per square foot per month. North Orange County posted over 1.2 million square feet of activity in the fourth quarter, dropping the vacancy rate to 4.9 percent, the lowest of the Orange County submarkets. Users desire this location because of its close proximity to the Ports of Los Angeles and Long Beach, and more affordable lease rates for warehouse space (average asking rate of \$.72 NNN per square foot per month) versus the Airport Area.

As one of the only areas with developable industrial land, the South County market continued to see significant amounts of development as well as increasing vacancy rates. At the end of the fourth quarter, the vacancy rate stood at 6.2 percent, up by 230 basis points from a year ago. Due to several development projects coming online in the first part of 2008, South County has become a market in which both tenants seeking space and investors are finding better opportunities. In West County the vacancy rate dropped 70 basis points from last quarter to 4.6 percent at year's end, a result of many new construction projects such as BKM Lampson Business Park (102,781 square feet) becoming leased.

Local industrial construction activity increased marginally during the fourth quarter, totaling 703,875 square feet. However, talk of an impending recession, a weakening dollar, and tighter lending practices has construction activity down 29 percent from one year ago. The exception was Pannatoni Development, which closed one of the biggest deals the Orange County industrial market has ever seen in the fourth quarter with the purchase of the nearly 100-acre Boeing site. This property, located in the Northeast Anaheim Corridor in close proximity to the 91 and 57 freeways, is comprised of 14 office and R&D/flex buildings totaling 1.5 million square



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feet. The site is expected to undergo substantial changes, including new development and redevelopment of several properties, providing unique opportunities for industrial investment in the coming years.

Economics

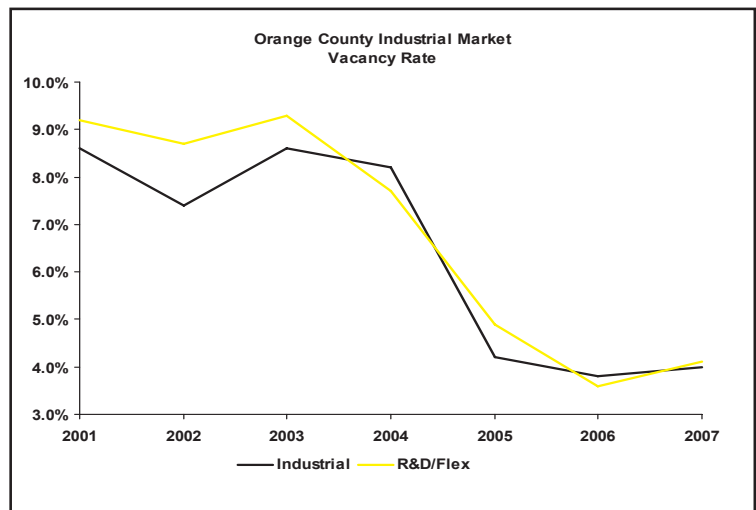
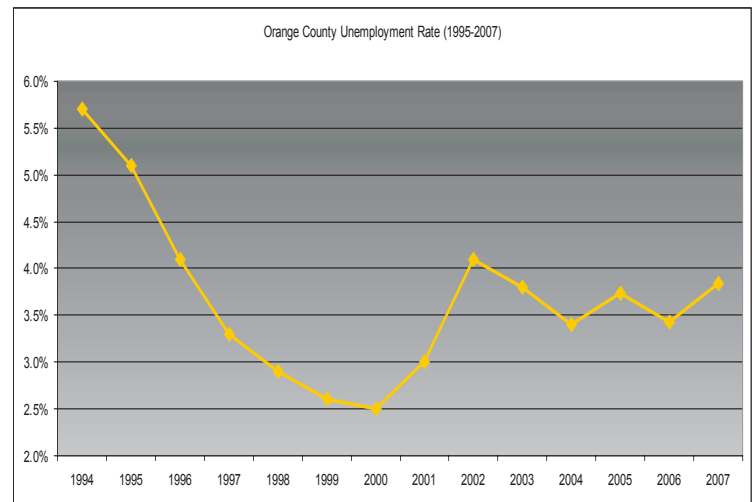
The unemployment rate in Orange County remained stable at 4.2 percent in October and November 2007, but increased slightly by 80 basis points from 12 months prior. This compares with an unadjusted unemployment rate of 5.6 percent for California and 4.5 percent for the nation during the same period.

The manufacturing sector, which accounts for about 12 percent of the county's workforce, added 200 jobs between October and November. However the total amount of jobs did not change between November 2006 and November 2007. Economists at Chapman University are forecasting a slight decline in manufacturing jobs in the next year, from 183,400 in 2007 to 182,800, a drop of less than 1 percent. This forecast is good news for the sector considering the outlook for jobs could worsen this year. John Husing, an economist with the consulting firm Economics & Politics Inc. says the net number of jobs in the region could decline this year.

Forecast

As we transition into 2008, the climate of the Orange County industrial market is one of long-term growth. Investment profiles will continue to shift as we enter 2008. Given recent turmoil in the credit markets, limited access to easy money is disrupting many investment transactions, putting investors with leverage (institutional and foreign buyers) in the best position to take advantage of opportunities. On the owner-user side, anticipate smaller building sale transactions to cool as higher debt financing persuades many to opt for leases in the beginning of next year. In the short term the leasing market may show small signs of weakness, however ambitious plans in cities like Anaheim, Tustin, and Huntington Beach will help generate activity and balance out the county overall. Monthly asking rental rates, which have risen \$0.10 in the past year will continue to slightly increase, with vacancy continuing to hover around 4.5 percent for the next two quarters.

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Asking sale prices rose over 9 percent while asking rents increased 11 percent in 2007.

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Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the fourth quarter of 2007:

7465 Lampson Ave

Garden Grove

45,686 SF

Lease

Jeff Read, Senior Vice President

Braden Berkley, Associate

17032 Armstrong Ave

Irvine

35,032 SF

Lease

John Suggs, Associate Vice President

140 Technology Dr

Irvine

26,370 SF

Lease

Dave Kluver, Associate Vice President

Nick Carey, Associate

300 State College Blvd

Fullerton

17,947 SF

Investment Sale

Steve Sprenger, Senior Vice President

12601 Industry St

Garden Grove

105,500 SF

Investment Sale

Kirk Cole, Senior Vice President

Industrial Market Terms and Definitions

Inventory: Industrial Inventory includes all multi-tenant, single tenant and owner-occupied buildings at least 10,000 square feet.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

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Industrial Market Snapshot Orange County Fourth Quarter 2007

By Submarket (All Product Types)	Total SF ⁽¹⁾	Vacant SF ⁽²⁾	Vacant %	Net Absorption		Under Construction ⁽³⁾	Asking Rent ⁽⁴⁾	
				Current Qtr.	Year-to-date		WH/Dist	R&D/Flex
Submarket								
North County	103,848,440	3,125,790	3.0%	26,566	74,861	505,551	\$0.64	\$1.10
Airport Area	90,698,827	3,706,087	4.1%	(329,090)	(189,376)	10,000	\$0.62	\$1.67
West County	43,793,941	2,006,080	4.6%	373,615	692,281	-	\$0.64	\$1.13
South County	33,068,006	2,050,348	6.2%	(37,684)	(407,235)	188,324	\$0.94	\$1.34
Totals	271,409,214	10,888,305	4.0%	33,407	170,531	703,875	\$0.65	\$1.45
By Property Type								
(All Submarkets)								
General Industrial	126,010,224	5,057,746	4.0%	108,158	159,989	109,198	\$0.83	
Incubator	3,612,171	121,301	3.4%	(22,658)	46,563	-	\$0.91	
R&D/Flex	79,796,498	3,281,902	4.1%	(77,610)	(372,492)	158,660	\$1.45	
Warehouse/Distribution	61,990,321	2,427,356	3.9%	25,517	336,471	436,017	\$0.65	
Totals	271,409,214	10,888,305	4.0%	33,407	170,531	703,875	\$0.97	

(1) Inventory includes multi-tenant and single tenant buildings with at least 10,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects.

(4) Asking rates are per square foot per month triple net. Rates for each building are weighted by the amount of available space within the building.

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

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