Industrial Market Trends Orange County

Grubb & Ellis Research

First Quarter 2008

Grubb & Ellis
Property Solutions Worldwide

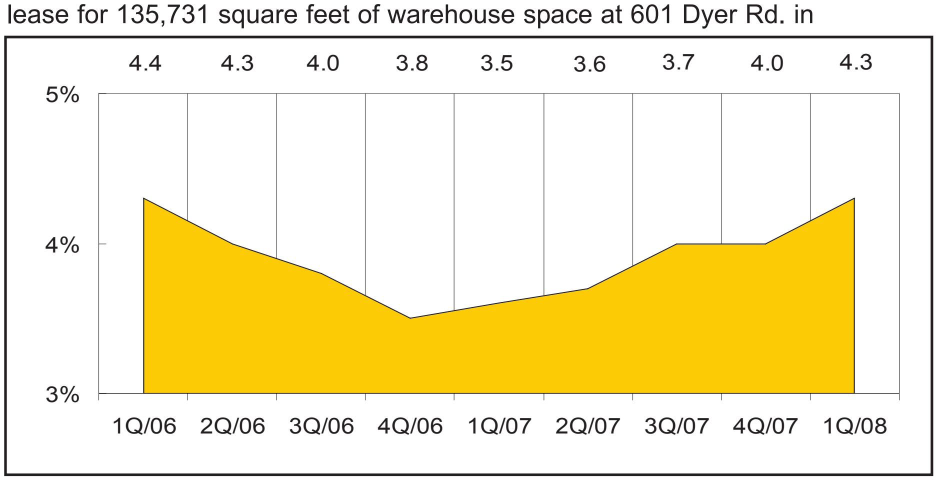
Cautious Optimism

Executive Summary

After a year that ended with much economic uncertainty and U.S. capital market fluctuation, the Orange County industrial market began 2008 by once again posting solid fundamentals. While the office component of the real estate community is dealing with the mortgage meltdown and credit crunch, the industrial market in Orange County has seen ongoing success due to its strong economy and central location in Southern California. So far in 2008 Orange County's land-constrained environment has continued to exert downward pressure on vacancy rates and protect it from the struggles other U.S. industrial markets have faced.

This quarter, as in the last 2 ½ years, the Orange County industrial market posted a vacancy rate below 5 percent. Overall vacancy increased 30 basis points to 4.3 percent from 4.0 percent the previous quarter. Contributing to the increase were recently completed projects such as the 188,000-square-foot Koll Center 3 in Irvine Spectrum and the 830,000-square-foot Pacific Gateway Business Center in Seal Beach. The overall climate throughout the market place is one of cautious optimism, where solid product still demands a high price and where "all cash" buyers still want to own property in this highly desirable market.

The industrial market saw over 2.3 million square feet of lease activity in the first quarter of 2008. The largest of these transactions was at 25892 Towne Centre Dr. in Foothill Ranch, where CPU2 occupied 231,133 square feet. In the Airport Area, Shinoda Design Center inked a 10-year lease for 135,731 square feet of warehouse space at 601 Dyer Rd. in



Industrial Vacancy Rate*

** All Product Types*

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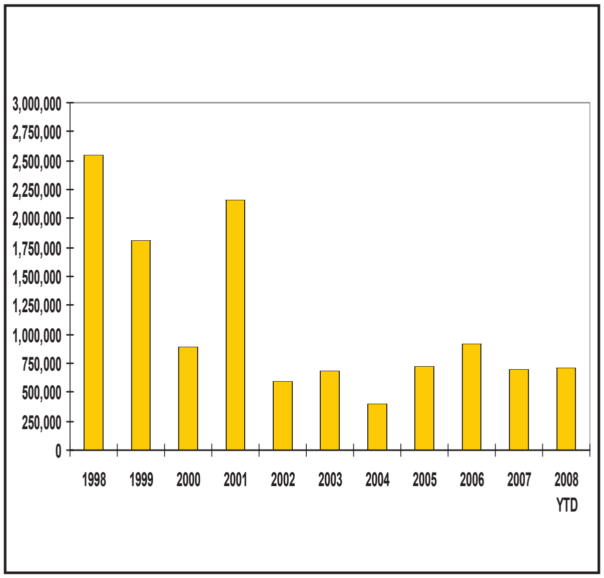
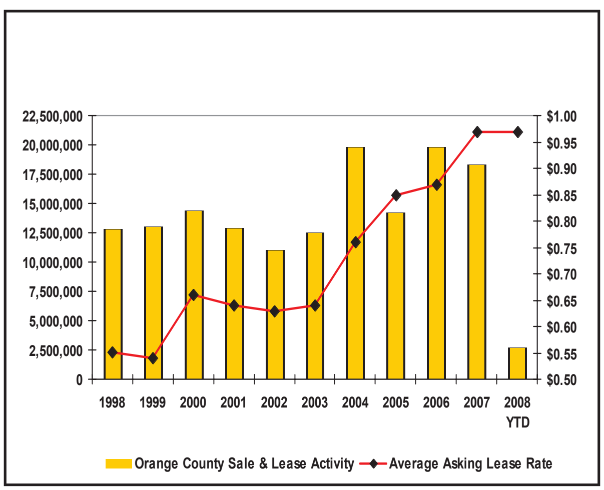
Industrial Market Trends First Quarter 2008

Industrial sales and leasing activity totaled about 2.7 million square feet in the first quarter of 2008. Leasing activity accounted for 86 percent.



Orange County Industrial 10 Year Trend Under Constrcution



Sale & Lease Activity vs. Average Asking Rates

Santa Ana from the Bloom Family Trust. Also in the Airport Area, Alcoa Inc. subleased 84,200 square-foot lease at 16680 Armstrong Ave from Jacquet West, Inc. in Irvine. In sales activity, an 114,500 square-foot multi-tenant building at 1111 Bell Ave. in Tustin fetched a reported $18.5 million from a private investor.

Market Assessment

Industrial sales and leasing activity totaled about 2.7 million square feet in the first quarter of 2008. Sales activity accounted for 14 percent of the total, or 377,196 square feet, and lease activity accounted for 86 percent, or 2.3 million square feet. While not an increase, this activity level was on par with the first quarter of 2007's total of 2.75 million square feet. One can conclude that activity this quarter was fairly status quo for Orange County and only lacked a few of the large industrial investment sales that the market has seen in previous quarters.

The Airport Area accounted for the majority of the activity during the first quarter, with 43 percent or 968,585 square feet. In the previous 2 years the Airport Area has continually posted a vacancy rate below 4 percent, while rental rates have steadily increased during that same period. Currently the average asking rate for general industrial properties is $1.01 NNN per square foot, while R&D/flex space has increased to $0.34 to $1.58 NNN per square foot. Also in the first quarter of 2008 the Airport Area posted 157,276 square feet of positive absorption.

The North Orange county submarket has the lowest vacancy rate of all the submarkets at 3.3 percent, while also leading the way in construction with 589,369 square feet. These conditions have created a very tight market with competitive lease rates and pricing. However, several developments such as the 278,000 square-foot Kimberly Business Center and the 226,000 square-foot Valencia Business Center (both located in Fullerton) are slated to be completed by June of 2008. These projects will add several new buildings in the 6,000- to 32,000-square-foot range.

Net absorption for the county totaled a negative 355, 935 square feet, while average asking rents remained unchanged at $0.97 per square foot. The majority of negative absorption surprisingly came from the R&D sector. Many forecasted that the manufacturing/distribution sector would begin to feel the effects of the housing fallout in 2008, however, this sector only had 44,000 square feet of negative absorption in the first quarter. The majority of that space came from South and West Counties, where new projects such as Koll 3 and Pacific Gateway Business Center were recently completed.

Industrial Market Trends First Quarter 2008

As hinted by the trends of the first quarter, Orange County's industrial market will continue to be stable throughout 2008. Direct vacancy and availability rate levels remain low at 4.3 percent and 6.6 percent respectively; and under construction totals 711,229 square feet with the majority of buildings less then 20,000 square feet.

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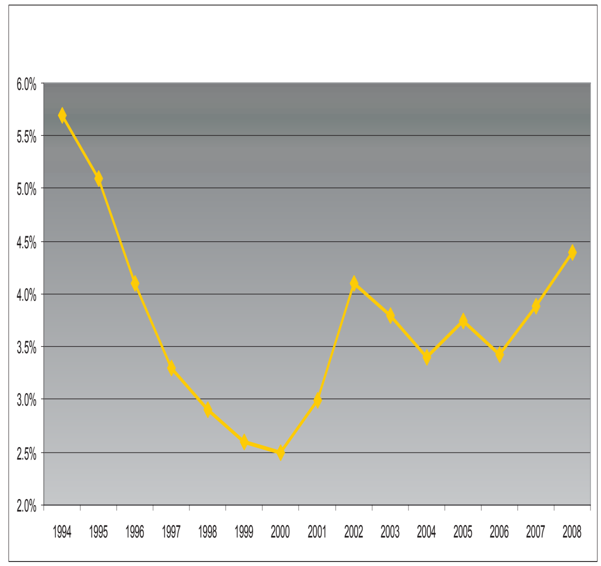
Economics

While Orange County added 6,500 jobs from January to February of 2008, the county has lost 21,800 jobs over the past year. The unemployment rate in Orange County was 4.3 percent in February 2008, down from a revised 4.5 percent in January of 2008, but above the year-ago estimate of 3.6 percent. These figures are still well below the national and state average unadjusted unemployment rates which are currently 5.2 percent and 6.1 percent respectively. In 2008, look for the Orange County economy to struggle throughout the year. Currently, Chapman University's economic research department is predicting a slow growth rate of real GDP close to 1 percent in 2008. This compares to a decrease in real GDP that happened late in 2007 from 2.8 to 2.5 percent or 30 basis points. Furthermore, Orange County's manufacturing sector as a whole continued to grow late in 2007, albeit a slower rate than previously recorded in the year. In 2008, forecasters predict there will continue to be a slower growth rate in the manufacturing sector, but the good news is that they believe there will be no contraction within the industry.

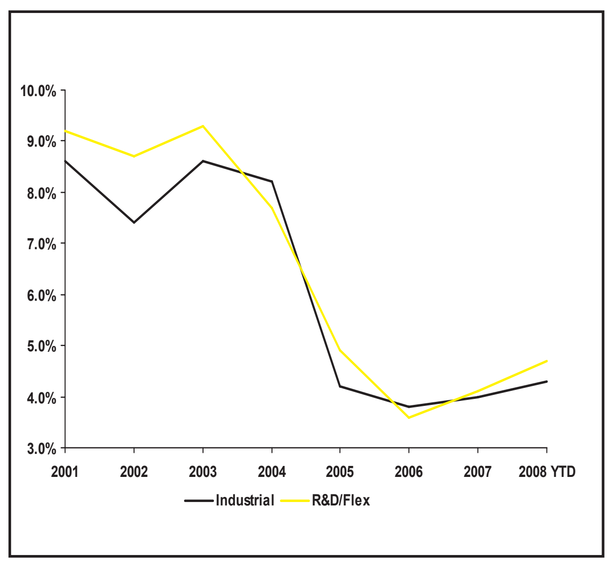


Orange County Unemployement Rate (1995-2008)

Forecast

Perched at an equilibrium point between supply and demand, the Orange County industrial market is in a good position to weather the slower economic conditions expected in 2008. It is forecasted that there will be fewer construction starts in 2008, due in part to the drying up of available lines of credit for development. While these circumstances mean that less well-capitalized companies will find it difficult to develop new buildings, the larger, well-funded development companies will see tremendous opportunity for carefully planned or unique projects.

If the economy remains slow as expected over the next few quarters, it could temporarily boost demand for warehouse space because importers and manufacturers will need to store their excess inventory until sales catch up. We forecast that vacancy will remain at a healthy level (below 5 percent) throughout the next 2 quarters with expectations of continued demand throughout 2008 remaining stable.



Orange County Industrial Vacancy Rate

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Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the first quarter of 2008:

16680 Armstrong Ave
Irvine
84,200 SF
Sublease
Gary Allen, Senior Vice President

16901 Jamboree Rd
Irvine
48,774 SF
Lease
Wade Tift, Senior Vice President

1045 4th St
Santa Ana
46,417 SF
Lease
Jeff Read, Senior Vice President
Wade Tift, Senior Vice President
Byron Foss, Associate

2031 Main St
Irvine
41,983 SF
Lease Extension
Wade Tift, Senior Vice President
Chon Kantikovit, Senior Vice President

190 Crowther Ave
Placentia
40,000 SF
Sublease
Steve Bryant, Senior Associate

2530 S Birch St
Santa Ana
40,000 SF
Lease
Wade Tift, 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 First Quarter 2008

By Submarket (All Product Types)	Total SF(1)	Vacant SF(2)	Vacant %	Net Absorption Current Qtr.	Net Absorption Year-to-date	Under Construction(3)	Asking Rent(4) WH/Dist	Asking Rent(4) R&D/Flex
North County	100,916,101	3,290,586	3.3%	(135,916)	(135,916)	589,369	$0.65	$1.16
Airport Area	86,668,406	3,437,436	4.0%	157,276	157,276	48,477	$0.75	$1.58
West County	43,621,207	2,161,069	5.0%	(152,110)	(152,110)	10,603	$0.63	$0.98
South County	34,613,498	2,447,823	7.1%	(225,185)	(225,185)	62,780	$0.93	$1.37
Totals	**265,819,212**	**11,336,914**	**4.3%**	**(355,935)**	**(355,935)**	**711,229**	**$0.69**	**$1.40**

By Property Type (All Submarkets)	Total SF	Vacant SF	Vacant %	Net Absorption Current Qtr.	Net Absorption Year-to-date	Under Construction	Asking Rent(4)
General Industrial	125,220,627	5,025,358	4.0%	117,258	117,258	135,261	$0.81
Incubator	3,712,267	168,206	4.5%	(8,381)	(8,381)	-	$0.93
R&D/Flex	78,167,762	3,641,282	4.7%	(311,494)	(311,494)	133,534	$1.40
Warehouse/Distribution	58,718,556	2,502,068	4.3%	(153,316)	(153,316)	442,434	$0.69
Totals	**265,819,212**	**11,336,914**	**4.3%**	**(355,935)**	**(355,935)**	**711,229**	**$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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