

MARKETBEAT

UNITED STATES INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

ECONOMY

The U.S. economy faced more challenges during second quarter 2009 as the national unemployment rate reached 9.5% in June, the highest rate reported since August 1983. However, the manufacturing index posted a slight improvement for six straight months according to the Institute for Supply Management (ISM). This index rose since the beginning of the year and reported 44.8 as of June, indicating contraction at a slower yet steady pace moving towards growth. This reading marked a considerable gain after recording 32.9 in December, the lowest reading since June 1980. Index numbers below 50.0 signal contraction and below 41.0 indicate recession.

The 8.5-billion-square-foot U.S. industrial market continued to be affected by falling retail sales and a decline in consumer confidence despite the improved manufacturing reading. Overall vacancy increased as leasing and user sales fell resulting in historic levels of negative absorption.

OVERVIEW

As of mid-year, vacant industrial space totaled 843.6 million square feet (msf) which translated into an overall vacancy rate of 9.9%, the highest national rate in five years. In fact, each of the 39 industrial markets tracked by Cushman & Wakefield, Inc. reported an increase in the overall vacancy rate from first to second quarter. A few markets recorded nominal increases including Atlanta (up 0.8 percentage points) followed by Denver and Lakeland, Florida, each posting an increase of 1.0 percentage point over the past quarter.

Leasing totaled over 100.8 msf year-to-date, a decline of 28.2% compared to last year at this time. Only two markets reported an increase in activity from mid-year 2008: Oakland (+933,122 sf) and Long Island (+58,705 sf). Of the remaining markets, 21 of these regions reported a drop in transactions in excess of 1.0 msf comparing the first six months of 2008 to 2009. Chicago (-5.2 msf), Atlanta (-4.9 msf), and Los Angeles (-4.5 msf) posted the largest declines in leasing. User sales, another indicator of occupier demand, recorded about half of the transactions signed from the first half of last year and totaled nearly 16.8 msf year-to-date.

Investment sales reported a third of the activity from last year at this time with 25.2 msf sold year-to-date. Only the Suburban Maryland industrial market posted a positive yet nominal change in investment acquisitions over the year (+47,100 sf). A total of 19 markets recorded a drop in transactions in excess of 1.0 msf from mid-year 2008 to mid-year 2009. Chicago (-12.7 msf), the Inland Empire, CA (-9.5 msf), and Phoenix (-7.6 msf) posted the largest declines in investment activity. Commercial real estate lending will remain limited until market fundamentals improve.

Increasing vacancies in industrial properties, along with declining rents and continued rising construction costs, have slowed construction deliveries across the country. Limited new construction will help maintain the level of supply. Completions totaled 43.0 msf during the past six months. These deliveries represented a 42.6% decline from projects completed last year at this time. However, the total of industrial facilities developed on a build-to-suit basis increased from 7.8 msf at mid-year 2008 to 13.2 msf at mid-year 2009. Speculative buildings reported the opposite trend: 29.8 msf completed year-to-date compared to 67.2 msf this time last year. The current surplus of available vacant space and lack of financing will limit the number of projects that break ground.

FORECAST

The first six months of 2009 presented challenges for owners and opportunities for tenants in the industrial market. In order for the national industrial market to return to equilibrium, the amount of existing vacant space needs to be absorbed. Many markets across the country will remain in this state of over-supply until industrial occupiers lease or buy more space than comes onto the market. However, many of these users are waiting for the economy to improve in order to move forward on real estate decisions. In the meantime, economic fundamentals will continually favor tenants who can take advantage of the soft market. Some landlords are offering lower rental rents and concessions to cover just their operating expenses. These owners will negotiate aggressive incentive packages in hopes of increasing long-term building revenue and value. Cushman & Wakefield, Inc. forecasts that industrial market fundamentals on a national basis will slowly begin to improve over the next year.

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.7%	1.3%
CPI Growth	3.8%	-0.6%	1.6%

Regional	2008	2009F	2010F
Unemployment	5.8%	9.3%	10.0%
Employment Growth	-0.4%	-3.7%	-1.0%

Source: Moody's | Economy.com

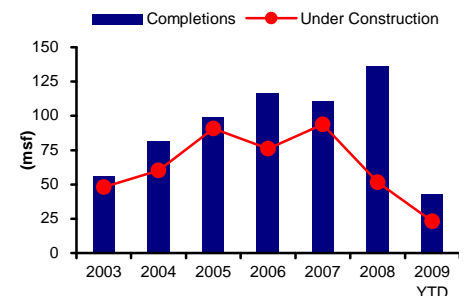
MARKET FORECAST

LEASING ACTIVITY dropped off and this trend will likely continue for the remainder of the year. ↓

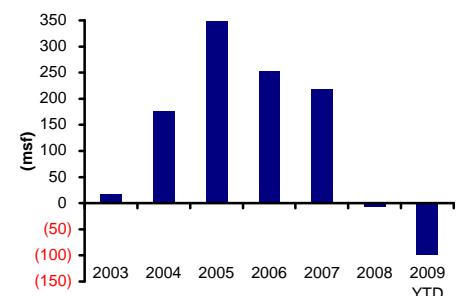
OVERALL ABSORPTION is expected to remain negative through 2009, potentially improving during the fourth quarter. ↔

CONSTRUCTION: The current supply of available space and lack of financing will limit the amount of projects breaking ground going forward. ↓

CONSTRUCTION ACTIVITY



OVERALL ABSORPTION



Market	Inventory	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Weighted Average Asking Triple Net Rental Rate*		
							Flex	MF	WD
Atlanta, GA	498,649,146	9.6%	4,172,737	182,160	309,680	(641,174)	\$8.77	\$3.85	\$3.57
Austin, TX***	43,894,743	18.8%	N/A	0	713,387	(495,408)	\$9.12	\$5.04	\$6.12
Baltimore, MD	195,662,550	12.4%	2,966,565	1,042,000	306,074	(35,260)	\$11.99	N/A	\$5.35
Bellevue, WA	58,452,161	10.8%	755,570	590,173	691,932	(1,303,463)	\$15.66	\$9.20	\$8.14
Binghamton, NY***	19,344,435	12.2%	43,000	N/A	N/A	8,093	\$12.08	\$3.77	\$5.11
Birmingham, AL***	14,321,491	18.6%	N/A	0	232,750	(1,147,367)	\$6.83	N/A	\$4.09
Boston, MA	206,396,088	14.7%	1,843,696	145,000	0	(4,658,402)	\$10.14	\$6.00	\$5.49
Central NJ**	399,981,531	10.1%	3,225,133	898,776	821,107	(6,799,593)	\$14.70	\$5.26	\$5.02
Charlotte, NC***	39,875,933	13.1%	N/A	64,196	250,000	226,633	\$8.87	N/A	\$4.24
Chicago, IL	1,144,157,139	11.0%	11,336,135	3,815,114	7,181,455	(13,712,295)	\$8.85	\$4.09	\$4.36
Cleveland, OH***	406,301,491	7.8%	985,016	461,500	738,500	(1,220,700)	N/A	N/A	\$3.59
Columbus, OH***	237,140,203	13.2%	3,051,167	N/A	N/A	(891,649)	\$4.46	\$3.24	\$2.85
Contra Costa, CA	36,131,911	15.3%	373,029	81,725	0	(1,411,837)	\$8.76	\$12.00	\$6.00
Dallas/Ft. Worth TX	506,782,042	11.8%	8,731,181	1,238,738	6,938,951	153,127	\$8.58	\$4.11	\$3.63
Denver, CO	196,225,297	6.9%	3,955,319	0	773,360	521,606	\$8.79	\$5.17	\$4.50
Detroit, MI***	327,206,959	18.1%	N/A	314,650	141,739	(8,258,634)	\$8.37	\$4.22	\$4.71
Fredericksburg, VA***	9,759,062	21.3%	113,360	0	62,900	83,221	\$10.45	\$5.83	\$8.18
Ft. Lauderdale, FL	96,157,875	9.7%	890,531	467,556	199,510	(2,028,738)	\$10.21	\$8.62	\$7.34
Hampton Roads, VA***	111,382,966	9.4%	1,171,743	241,560	893,669	546,268	\$8.90	\$5.37	\$5.09
Hartford, CT	86,745,026	12.1%	320,202	0	0	(1,230,681)	\$7.32	\$4.37	\$4.70
Houston, TX	335,596,232	9.4%	6,656,434	717,720	3,205,309	(3,757,006)	\$7.56	\$3.73	\$4.81
Indianapolis, IN***	206,256,484	10.0%	1,955,216	1,255,327	4,117,940	1,407,559	\$6.52	\$1.80	\$3.18
Inland Empire CA	399,889,342	13.8%	7,005,807	1,618,596	3,053,243	(4,439,912)	\$10.28	\$5.08	\$4.32
Jacksonville, FL	97,897,565	10.8%	962,820	279,874	1,879,327	(182,354)	\$8.57	\$4.01	\$3.76
Kansas City, MO***	185,240,137	6.7%	1,972,489	1,100,000	136,518	(398,342)	\$7.17	\$4.39	\$4.17
Lakeland, FL	26,359,615	5.3%	165,962	52,800	487,000	499,362	\$8.00	\$5.81	\$5.11
Long Island NY	126,195,121	9.1%	1,196,061	255,426	0	(825,428)	\$8.27	\$8.51	\$7.25
Los Angeles, CA	615,730,723	4.9%	6,405,334	150,692	1,496,950	(9,162,778)	\$12.80	\$6.07	\$6.24
Los Angeles-North, CA	219,940,462	4.0%	1,470,899	248,403	265,087	(2,488,891)	\$9.84	\$7.59	\$8.23
Los Angeles-South, CA	230,372,515	5.1%	3,750,396	184,138	1,030,800	(1,665,466)	\$11.41	\$6.00	\$7.08
Louisville, KY***	124,931,744	9.8%	1,374,016	500,000	890,110	169,175	\$5.57	\$3.04	\$3.53
Memphis, TN***	146,834,857	16.0%	3,986,396	0	100,000	(1,266,435)	\$7.26	N/A	\$2.59
Miami, FL	169,650,104	8.9%	2,080,985	365,932	668,759	(3,071,143)	\$11.47	\$4.29	\$6.24
Milwaukee, WI***	270,823,585	8.4%	1,263,735	74,108	207,160	11,357	\$5.47	\$3.91	\$3.98
Minneapolis, MN	85,203,686	12.2%	N/A	0	494,260	(903,497)	\$7.41	\$5.36	\$4.72
Nashville, TN***	163,828,406	8.7%	1,456,209	109,600	2,111,152	(287,789)	\$9.29	N/A	\$3.78
Northern NJ**	374,491,133	7.1%	2,266,694	0	15,000	(6,044,982)	\$10.84	\$5.51	\$6.49
Northern VA	44,193,640	13.0%	682,193	574,121	280,024	(1,021,539)	\$11.62	N/A	\$8.49
Oakland, CA	140,756,457	8.9%	3,313,715	19,500	71,616	(2,422,357)	\$9.31	\$6.19	\$5.13
Orange County, CA	271,212,553	6.7%	3,804,365	291,852	0	(4,654,991)	\$12.08	\$7.67	\$7.54
Orlando, FL	103,398,124	12.2%	1,200,413	833,300	434,350	(946,646)	\$10.23	\$4.70	\$5.17
PA I-81/I-78 Distribution Corr.	207,853,455	15.2%	3,115,159	3,645,400	3,014,960	(4,523,336)	\$4.78	\$3.55	\$4.03
Palm Beach, FL	46,111,659	7.9%	252,763	0	384,000	(646,611)	\$10.80	\$6.33	\$7.73
Philadelphia, PA	280,636,685	8.7%	1,795,721	1,327,700	261,749	(3,396,288)	\$9.31	\$4.27	\$4.72
Phoenix, AZ	262,097,490	15.3%	3,186,737	2,399,239	1,303,319	(3,717,631)	\$12.22	\$7.84	\$6.00
Pittsburgh, PA***	79,954,872	10.8%	1,464,581	313,800	381,313	(936,857)	\$7.87	\$3.71	\$5.20
Portland, OR	175,243,613	8.0%	1,025,932	495,475	385,491	(1,668,016)	\$11.26	\$5.33	N/A
Raleigh/Durham, NC***	29,248,542	11.2%	N/A	210,574	201,000	78,569	\$9.95	N/A	\$4.71
Richmond, VA***	104,473,526	9.4%	2,183,424	0	174,992	(2,326,660)	\$9.58	\$4.05	\$4.80
Roanoke, VA***	20,778,801	15.0%	N/A	N/A	N/A	(1,002,436)	\$5.49	\$6.08	\$3.92
Rochester, NY***	72,710,391	13.8%	N/A	N/A	N/A	N/A	\$7.25	\$5.50	\$3.00
Salt Lake City, UT***	104,428,859	7.5%	1,328,974	36,100	1,613,950	(1,011,165)	\$7.16	\$3.99	\$4.90
San Antonio, TX***	31,169,298	16.5%	1,009,214	1,125,000	315,000	131,546	\$8.64	N/A	\$4.39
San Diego, CA	188,681,852	10.1%	3,330,313	200,097	950,611	(2,861,661)	\$15.36	\$8.88	\$8.04
San Francisco Peninsula, CA	62,736,564	7.8%	559,638	333,311	102,000	(1,518,981)	\$19.94	\$17.10	\$10.01
Seattle, WA	129,203,198	8.3%	1,306,526	0	1,217,918	(1,874,603)	\$12.10	\$6.42	\$5.12
Silicon Valley, CA	240,703,001	13.3%	3,615,503	0	450,000	(4,472,089)	\$13.92	\$8.80	\$6.20
St. Louis, MO***	224,666,833	8.4%	1,657,734	98,047	455,019	(303,968)	\$7.43	\$2.98	\$3.90
St. Petersburg/Clearwater, FL	50,864,572	6.8%	410,786	0	0	(925,001)	\$9.21	\$5.36	\$6.13
Stockton/Tracy CA	46,742,774	18.6%	992,109	0	3,756,860	2,398,539	N/A	\$3.38	\$3.83
Suburban MD	47,464,879	16.6%	746,008	0	244,610	(1,791,879)	\$12.40	N/A	\$8.48
Syracuse, NY***	47,574,392	14.4%	209,826	155,000	0	(837,743)	\$6.96	\$3.38	\$3.63
Tampa, FL	77,778,754	9.5%	949,089	575,000	315,200	(943,309)	\$9.75	\$3.54	\$4.89
Tucson, AZ***	38,694,302	10.0%	N/A	50,000	1,474,971	N/A	\$7.92	\$5.40	\$4.56
TOTAL - ALL MARKETS:	11,543,188,846	10.2%	126,044,560	29,139,280	58,202,582	(115,897,936)	\$9.63	\$5.21	\$5.11
TOTAL - C&W MARKETS:	8,482,346,534	9.9%	100,818,460	23,029,818	42,990,512	(98,175,204)	\$11.48	\$6.22	\$5.89

* Rental rates reflect asking \$psf/year

** Based on estimated inventory

*** Alliance market

MF = Manufacturing WD = Warehouse/Distribution



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge
Cushman & Wakefield, Inc.
51 West 52nd Street, w York, NY 10019
(212) 841-7500

Please consider your environmental responsibility before printing this report.

*Market terms & definitions based on BOMA and NAIOP standards.
This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2009 Cushman & Wakefield, Inc. All rights reserved.