

MARKETBEAT

UNITED STATES INDUSTRIAL OVERVIEW

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q08

ECONOMY

The U.S. economy lost 159,000 jobs in September, the largest decline since March 2003, which increased the unemployment rate to 6.1%, the highest reported in four years. Unemployment coupled with declining consumer spending will continue to limit new orders and the production of goods. In fact, new orders fell for the tenth consecutive month which will impact the industrial real estate market as firms may start consolidating locations in response to the economic instability and financial turmoil. In addition, the Institute for Supply Management (ISM) index fell to 43.5 in September, the lowest reading in seven years since October 2001, following the attacks of September 11, 2001. Index numbers below 50.0 indicate contraction and below 41 marks recession.

OVERVIEW

Leasing activity fell 12.7% to 208.7 million square feet (msf) year-to-date compared to third quarter last year. The Inland Empire, Dallas, and Baltimore posted the largest declines in tenant leasing activity falling 6.6 msf, 4.5 msf, and 4.3 msf, respectively, since this time last year. Furthermore, quarterly overall absorption reported a negative number for the first time in over five years. The change in occupied space for the top 38 industrial markets totaled negative 8.8 msf year-to-date compared to 66.1 msf recorded over the same period last year. The drastic drop can be attributed to the lack of demand for warehouse/distribution space which measured 4.8 msf year-to-date, only 8.5% of last year's total as of third quarter.

As a result of declining tenant demand, the national overall vacancy rate rose to 8.1%, the highest rate reported in ten quarters. The majority of the top industrial markets experienced minimal movement in vacancy. The Inland Empire, Phoenix, and Tampa reported the greatest changes with increases of 5.9, 4.3, and 3.1 percentage points, respectively.

Broadly speaking, the lending markets continue to be virtually frozen. Investor sales totaled 125.8 msf year-to-date, a drop of 23.2% compared to the first nine months of 2007. Atlanta and Chicago reported the greatest declines in activity by 9.7 msf and 9.4 msf, respectively, since this time last year. However, the Inland Empire, Central New Jersey, and Los Angeles Central industrial markets recorded more year-to-date acquisitions from third quarter 2007 with increases of 7.0 msf, 4.8 msf, and 3.0 msf, respectively. Out of the top 38 industrial markets, only eight experienced an increase in investor transactions compared to last year.

Construction completions totaled 99.0 msf year-to-date, an increase of 34.7% over the same period last year. Many of these projects broke ground during more stable economic times. Dallas, the Inland Empire, and Phoenix reported the greatest changes in deliveries over the past year with increases of 6.0 msf, 5.0 msf, and 4.7 msf, respectively. However, with diminishing access to capital, new construction starts with continue to taper off and many proposed speculative projects will be put on hold indefinitely.

FORECAST

The U.S. industrial market will remain soft for at least another 12 to 24 months. Companies are forecasted to downsize existing operations due to the lack of consumer spending. As a result, demand for industrial space will continue to fall leading to increased vacancy and declining rents during this volatile market cycle. However, the industrial market will bode well compared to other sectors as it responds quickly to changes in the market. Shorter lease terms and shorter construction cycles track closer to the national economy and the industrial sector will be the first to improve during the recovery period.

BEAT ON THE STREET



"Although sales and leasing have slowed from last year, market fundamentals will improve more quickly in the industrial sector than the office sector. Industrial users will still be challenged to operate more efficiently in the short term during this volatile economic cycle."

-Michael P. McKiernan, Executive Managing Director, U.S. Industrial Brokerage

ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.8%	2.0%	1.9%
CPI Growth	3.2%	2.9%	4.4%
Unemployment	4.6%	4.6%	5.6%
Employment Growth	1.8%	1.1%	0.0%

Source: Moody's | Economy.com

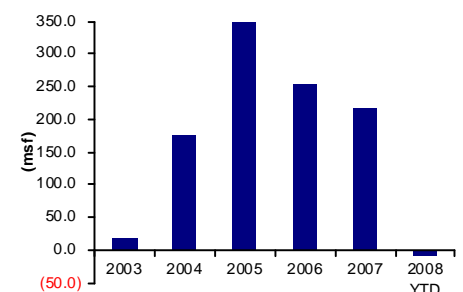
MARKET FORECAST

LEASING ACTIVITY continued to fall in the third quarter and is expected to remain slow through year-end. ↓

OVERALL ABSORPTION is forecasted to remain negative on a national level until production picks up pace in response to renewed consumer confidence and demand. ↓

CONSTRUCTION: Many proposed projects will continue to sit idle until existing space is absorbed and market fundamentals improve. ↓

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	Manufacturing	Warehouse
Atlanta, GA	494,133,854	9.0%	11,687,232	2,136,928	4,016,737	5,084,733	\$8.49	\$3.42	\$3.51
Austin, TX***	42,162,045	14.6%	N/A	840,837	1,828,455	(153,985)	\$9.72	\$5.64	\$6.36
Baltimore, MD	194,795,064	11.9%	4,225,245	1,554,866	1,232,837	484,980	\$12.20	N/A	\$5.56
Bellevue, WA	57,280,147	7.0%	2,593,947	1,110,408	813,767	946,684	\$16.68	\$8.38	\$8.01
Birmingham, AL***	14,135,321	15.6%	N/A	N/A	N/A	(150,008)	\$6.67	N/A	\$4.75
Boston, MA	215,838,315	12.5%	4,303,881	230,000	667,908	(324,018)	\$10.11	\$5.84	\$5.52
Central NJ**	398,491,924	8.5%	7,027,095	1,969,607	3,016,483	1,455,108	\$14.76	\$4.91	\$5.35
Charlotte, NC***	39,139,133	13.7%	N/A	313,800	768,183	424,539	\$8.77	N/A	\$4.39
Chicago, IL	1,128,378,521	9.3%	21,770,916	11,831,563	14,526,946	(2,052,727)	\$9.30	\$4.10	\$4.56
Cincinnati, OH***	291,649,130	6.4%	1,426,287	N/A	N/A	1,018,267	N/A	N/A	N/A
Cleveland, OH***	404,720,583	7.5%	2,978,440	2,244,725	1,036,943	1,999,036	N/A	N/A	\$3.72
Columbus, OH***	231,287,485	11.7%	3,505,089	4,143,427	1,444,525	(1,242,497)	\$5.57	\$3.63	\$2.96
Contra Costa, CA	36,830,654	9.5%	1,339,127	132,343	205,842	443,187	\$13.98	\$11.47	\$6.86
Dallas, TX	397,392,774	11.2%	14,351,798	7,565,016	13,051,127	3,720,507	\$8.47	\$3.11	\$3.73
Denver, CO	192,814,296	5.7%	7,353,058	1,157,782	1,664,100	2,751,379	\$8.90	\$5.36	\$4.81
Detroit, MI***	324,387,445	14.9%	N/A	227,122	458,088	N/A	\$8.52	\$4.45	\$4.99
Fort Myers/Naples FL	31,199,191	10.1%	1,053,383	157,470	824,810	(533,761)	\$9.30	\$6.45	\$7.24
Fredericksburg, VA***	8,908,735	21.8%	252,425	0	101,400	(470,322)	\$8.45	\$5.00	\$5.38
Ft. Lauderdale, FL	94,962,864	6.8%	2,498,922	1,608,064	1,754,105	(805,140)	\$10.25	\$8.28	\$8.18
Hampton Roads, VA***	106,923,043	8.9%	1,773,259	554,888	1,396,687	(1,150,418)	\$9.57	\$5.70	\$5.03
Hartford, CT	86,709,918	9.7%	1,417,941	0	1,720,000	1,343,622	\$8.38	\$4.25	\$5.03
Houston, TX	325,803,216	7.6%	13,687,016	6,038,065	6,724,806	4,208,610	\$7.39	\$5.89	\$4.68
Indianapolis, IN***	202,302,605	9.7%	8,515,592	4,730,540	2,152,219	1,423,670	\$6.61	\$1.63	\$3.04
Inland Empire CA	387,379,315	11.6%	15,825,652	8,394,759	17,721,077	(3,599,066)	\$11.97	\$5.86	\$5.04
Kansas City, MO***	180,069,890	6.5%	2,988,429	718,561	1,361,603	1,049,477	\$5.16	\$6.07	\$4.38
Lakeland, FL	25,704,355	4.5%	483,090	507,000	249,900	286,592	\$8.00	\$5.81	\$5.52
Las Vegas, NV***	101,230,861	8.9%	1,442,709	1,931,276	4,030,597	1,226,802	\$11.36	\$9.54	\$7.44
Long Island NY	126,135,121	8.6%	1,335,521	0	0	N/A	\$10.80	\$9.42	\$8.39
Los Angeles, CA	615,978,553	2.9%	13,925,219	1,256,793	1,439,756	(5,413,221)	\$12.59	\$7.06	\$7.51
Los Angeles-North, CA	218,395,300	2.4%	3,552,823	321,678	372,351	(729,356)	\$12.60	\$9.13	\$9.48
Los Angeles-South, CA	230,062,867	4.1%	6,999,553	1,221,832	657,124	(3,038,455)	\$14.20	\$6.39	\$8.02
Louisville, KY***	123,654,754	8.7%	3,962,192	3,090,248	2,040,973	3,186,174	\$5.37	\$3.12	\$3.54
Memphis, TN***	145,084,675	13.5%	5,918,546	762,743	2,584,616	1,706,148	\$7.76	N/A	\$2.53
Miami, FL	166,389,873	6.7%	4,832,699	1,219,669	251,100	(2,450,764)	\$10.14	\$7.00	\$7.13
Minneapolis, MN	84,405,198	9.9%	N/A	780,120	955,415	245,632	\$7.64	\$5.49	\$4.75
Nashville, TN***	154,709,113	8.4%	5,738,210	1,117,000	2,832,679	1,576,764	\$8.76	N/A	\$3.67
Northern NJ**	374,366,783	5.9%	5,856,058	97,350	240,196	(2,183,963)	\$11.66	\$6.01	\$6.61
Northern VA	44,518,608	11.1%	1,669,189	627,004	694,438	350,117	\$13.59	N/A	\$8.83
Oakland, CA	140,587,729	7.5%	3,111,065	30,561	0	(2,808,486)	\$10.16	\$7.32	\$5.42
Orange County, CA	269,512,718	4.2%	7,709,486	0	811,814	(1,694,080)	\$13.66	\$9.54	\$9.14
Orlando, FL	100,211,453	8.8%	2,450,923	772,973	1,538,740	(338,784)	\$12.74	\$5.81	\$5.64
PA I-81/I-78 Distribution Corridor	191,685,285	12.6%	4,678,789	8,614,264	3,085,850	106,006	\$5.00	\$3.81	\$4.13
Palm Beach, FL	45,237,462	5.0%	640,661	810,302	508,305	(253,125)	\$10.82	\$5.73	\$8.31
Philadelphia, PA	276,338,492	7.6%	5,264,816	1,610,185	1,795,878	(501,015)	\$9.03	\$5.58	\$4.77
Phoenix, AZ	267,386,928	10.4%	7,570,518	3,994,519	10,311,804	(1,351,394)	\$13.29	\$7.92	\$7.08
Pittsburgh, PA***	81,267,804	12.7%	2,836,484	395,655	731,278	1,015,591	\$8.15	\$4.11	\$4.52
Portland, OR	174,294,156	6.7%	4,503,104	520,870	2,442,741	(669,270)	\$11.09	\$4.66	\$5.69
Richmond, VA***	102,881,913	6.7%	2,905,188	110,220	505,077	606,776	\$9.21	\$4.40	\$5.82
Rochester, NY***	71,214,289	12.4%	N/A	N/A	N/A	N/A	\$7.25	\$5.50	\$3.00
Salt Lake City, UT***	102,808,407	6.6%	3,060,020	1,563,975	2,552,153	269,452	\$7.35	\$4.06	\$4.93
San Diego, CA	187,251,635	8.1%	6,269,255	670,610	1,028,492	(861,780)	\$17.61	\$9.22	\$9.05
San Francisco Peninsula, CA	62,184,663	5.8%	1,380,007	560,311	0	(265,071)	\$26.34	\$9.89	\$11.35
Seattle, WA	127,810,982	6.0%	4,186,574	1,213,914	2,086,166	1,750,815	\$10.51	\$7.09	\$5.21
Silicon Valley, CA	238,124,493	11.6%	9,564,856	0	235,230	(460,604)	\$16.77	\$10.68	\$6.73
St. Louis, MO***	249,207,381	6.8%	5,345,885	1,752,169	1,408,621	277,979	\$6.69	\$3.33	\$4.09
St. Petersburg/Clearwater, FL	50,622,643	5.2%	952,425	35,000	200,000	(593,717)	\$9.67	\$4.87	\$6.47
Suburban MD	47,887,146	8.5%	1,249,626	280,500	617,766	374,566	\$14.02	N/A	\$8.27
Syracuse, NY***	48,804,370	12.6%	1,153,188	226,000	310,000	(2,077,384)	\$5.19	\$3.17	\$3.96
Tampa, FL	77,026,324	7.1%	1,416,196	501,789	1,492,370	(1,388,517)	\$10.37	\$5.38	\$5.94
Tucson, AZ***	37,709,909	6.0%	480,988	1,398,178	235,164	N/A	\$9.02	\$6.96	\$6.00
TOTAL- ALL MARKETS	11,248,387,711	8.4%	263,020,597	95,655,479	126,735,242	1,772,285	\$10.06	\$5.69	\$5.51
TOTAL- C&W MARKETS	8,184,128,820	8.1%	208,737,666	69,534,115	98,955,981	(8,763,776)	\$11.79	\$6.60	\$6.51

* Rental rates reflect asking \$/psf/year

** Based on estimated inventory

*** Alliance market



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
New York, NY 10019
(212) 841-7500

*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.