

MEMORANDUM

To: CCIM 2009 Market Review
From: Ed Brown, SIOR, CCIM
Date: March 19, 2009
Re: Warehouse Market

A. Opening:

1. Due to the economy, demand for warehouse space has slowed down resulting in:
 - a. Higher Vacancy
 - b. Negative absorption
 - c. Downward pressure on rental rates.
2. Market hit bottom in 2004 (Tech Bubble) then started to recover from 2004 through the end of 2007.
3. Positive absorption from '04 to end of '07.
4. Vacancy decreased from '04 – '07.
5. If you take out some old warehouses our vacancy went to 8% at the end of 2007.
6. Then the recession kicked in.
 - a. 280,000sf negative absorption in 2008
 - b. Current vacancy is 17% / 13% if you take out an old million SF tobacco warehouse in Durham.
 - c. It is now a tenants market.
7. Total market is approximately 23 million SF.

B. THE GOOD NEWS

I. GOOD NEWS: Fundamentally healthy warehouse market

- A. Tenant Diversification
 1. No longer Tech based.
 2. Tenant base diversified.
- B. New Construction will be limited now and in the future.
 1. Few good sites left with water and sewer.
 2. Hard to find a site without wet land or power lines limitations.
 3. Land and construction costs still high relative to achievable rental rates.
 4. Financing does not exist.

II. Good time to be a tenant.

1. More selection
2. Aggressive landlords results in better term for tenant.

C. THE BAD NEWS (Next 12 months will be painful for landlords)

1. As economy slows:
 - a. Vacancy increases
 - b. Concessions increase
 - c. Absorption decreases
 - d. Rental rates decrease
2. Subleases Increase (As high as they have ever been)
 - a. 1,300,000sf includes 422,000sf leased to Anderson Windows.
 - b. Prior Year Subleases:
 1. 2007 – 586,675sf
 2. 2006 – 437,957sf
 3. 2005 – 223,511sf
 4. 2004 – 218,991sf
 - c. If you include vacancy and subleases, we have 23% of the market available.
3. More Vacancy Coming
 - a. 250k – Body Shop - North Raleigh - April
 - b. 215k – Delta Power – Central Raleigh - July
 - c. 72k Undisclosed – West Raleigh – 60 days
 - d. 60k – Stock Building – North Raleigh – 30 days
 - e. 50k – Stock Building – West Durham – 30 days

THE SHOE HAS NOT YET QUITE DROPPED IN THE WAREHOUSE MARKET

III. GENERAL MARKET OVERVIEW

A. Rental Rates Decrease over the last 12 months

1. 15% decrease since early 2008.
2. New buildings: high \$4/sf, now low \$4/sf
3. Older buildings: high \$3/sf, now low \$3/sf
4. May see another 5% drop before hitting bottom in 12 months.

B. Land Costs Decrease over the last 12 months

1. We are now back to 2004 prices of \$65,000 to \$150,000/AC
2. 1 year ago \$80,000 to \$200,000 an acre (15 to 20% decrease)
3. 3 years ago \$65,000 to \$100,000 an acre

C. Construction Costs Stay the Same

1. Construction prices have stayed relatively the same from a year ago
2. 2007/2008 - \$50/sf to \$55/sf for 50,000 – 100,000 lit shell
3. 2004 - \$45/sf for 50,000 to 60,000sf lit shell
4. Labor decreased
5. Materials, etc. have stayed the same.
6. Concrete increase (because the Columbians control the concrete)

D. Tenant Activity

1. Keep existing tenants is the name of the game.
2. Few new companies coming to the market.
3. Construction industry continue to give space back (i.e. Stock Building Supply).
4. Tenants of the future:
 - a. As consumers start buying again, commodity distributors will need space.
 - b. As companies try to lower operating costs, they will outsource to logistics companies who will need space.

E. Construction Activity

1. SPEC In 2008

- a. 150,000sf in Granville County of I-85
- b. 128,000sf Greenfield North in Garner

2. BUILD TO SUITS In 2008

- a. 250,000sf by Airport for Implus Footwear
- b. 150,000sf East Raleigh – Owens & Minor

3. SPEC 2009

- a. NONE

4. BUILD TO SUIT 2009

- a. FEW TO NONE (increase in vacancy limits need for build to suit)

F. Institution Buyers

1. 4 million sf traded hands in 2006 & 2007.
2. Little to no activity in 2008 and 2009.
3. The one industrial institutional deal about to close that I am aware of is north of an 11% cap rate.

	4 th Quarter 2008	4 th Quarter 2007	4 th Quarter 2006	4 th Quarter 2005	4 th Quarter 2004	4 th Quarter 2003	4 th Quarter 2002
VACANCY	17.3%	14.81% 10.4%	12.55%	20.86%	26%	27.2%	21%
ABSORPTION	-278,161	792,938	1,830,103	1,076,185	-287,332	-1,289,492	-341,989

*13% vacancy if an old 1.1. million sf tobacco warehouse in Durham is not included (Source TBJ SPACE)

RECAP WAREHOUSE

1. Next 12 months predications
 - A. Vacancy increases
 - B. Concessions increase
 - C. Rental rates decrease another 5 to 10%
 - D. Absorption remains negative as space is given back.
2. No new Spec Construction for 18 - 24 months
3. Future demand will be:
 - A. Commodity Distributors as consumers start to spend again.
 - B. Logistics Companies as companies outsource to save money.
4. The name of the game now is “Keeping Your Tenants” and “Making Sure Other Landlords Don’t Steal Your Tenants”