MARKETBEAT

DENVER INDUSTRIAL REPORT

2Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD® Global Real Estate Solutions℠

ECONOMY

The pace of economic deterioration quickened through the end of second quarter as job losses mounted and growth in nonfarm-industry sales screeched to a halt. Through June 2009, year-over-year employment in metro Denver fell by 55,200 jobs (down 4.3%) with greatest losses in natural resources & construction (contracting by 14,200 positions), professional & business services (shedding 11,600 employees), retail trade (down 7,300 workers) and leisure & hospitality (losing 6,600 jobs). Only two major industry sectors grew (education & health – up 4,800 jobs, and government – up 200 positions). Meanwhile, total nonfarm sales in the area were 2.0% lower (by $1.6 billion) through the twelve months ending April compared to the same period one year ago. Hardest-hit were retail- and industrial-oriented businesses, with aggregate sales down 5.9% and 3.3% respectively. While office-oriented sectors did report a 9.2% year-over-year increase in sales, receipts through the first four months of this year were down 0.6% from the same period in 2008.

OVERVIEW

Results from Cushman & Wakefield's mid-year industrial market survey reflect economic strains. Vacancy rates are up, absorption is weakening, leasing activity is sluggish and new construction has come to a virtual standstill. Shocked by the sudden drop-off in sales, and confounded by extreme tightening of credit, area businesses which had been thriving are now hunkering down to ride out this storm. With prospects for recovery uncertain, many tenants have opted to downsize or seek short-term renewals. Landlords have been remarkably accommodating, dropping rents and offering generous concessions to stabilize income streams and protect asset values.

Overall vacancy rose 60 basis points (bps) from year-ago levels, ending second quarter at 6.9%. Highest year-over-year increases in vacancy were reported in the Northeast (up 100 bps to 8.2% overall), and the Southwest (up 80 bps to 4.6% overall). Central and Northwest regions fared better with overall vacancies rising just 20 to 30 bps to 3.2% and 5.7%, respectively. The Southeast, which had the highest mid-year vacancy rate at 10.2% overall, actually saw vacancy levels decline by 50 bps compared to one year ago due to an uptick in demand from defense contractors, info-tech specialists and healthcare suppliers.

Year-to-date absorption of 521,606 square feet (sf) is down by more than two-thirds from historical mid-year averages for this market, while new leasing activity of just over 3.9 million square feet (msf) in the last six months is off by 20.0%. Interestingly, the average lease size of 13,453 sf is 25.0% higher than normal due to several large transactions that have closed this year. In the first quarter, Anheuser-Busch signed for 119,116 sf at Majestic Commercenter, OHL took 109,000 sf at ProLogis' Peoria Distribution Center, and Propak Logistics committed to 95,000 sf at the former Furniture Row Facilities at 5501 Peoria. All were new entrants to the Denver market. In second quarter, transactions such as MBM Customized Food Service's 115,000-sf signing at 20761 East 35th Drive in Aurora, AtLast Fulfillment's 84,422-sf sublease at Aurora Commerce Center, and Precision Metal Manufacturing's 71,218-sf lease at 11060 Irma Drive suggest momentum of larger concerns has not completely disappeared; yet, caution abounds and only the most motivated operators seem willing to make a move in such unstable times.

Sensing dangers on the horizon, landlords have slashed asking rents over the past several months and effective rents are even lower. Overall rents have fallen 6.2% since the end of last year to $5.64 per square foot (psf), reaching their lowest level in three years in the span of just six months.

FORECAST

Rental rates are likely to fall further in coming periods as vacancy rates rise and area businesses face heightened financial pressures. Tenants that are in the market find exceptional opportunities. Cushman & Wakefield expects overall vacancy rates to edge 100 to 150 bps higher over the next four to six quarters, although availability of top-quality space will probably tighten due to a lack of new speculative development. Build-to-suit construction or renovation of existing facilities may become the most viable options for accommodating large requirements in the next few years.

BEAT ON THE STREET

"Denver is entering this recession later than most other markets in the country, but is likely to emerge earlier and recover stronger. Its diversified economy, high-quality workforce and relative strengths in key industrial sectors like energy, technology, and research and development, will help it turn around with a vengeance once this cycle matures."

– Sherman R. Miller, Executive Managing Director / West Regional Manager

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	5.0%	8.7%	9.5%
Employment Growth	0.8%	-4.3%	-0.8%

Source: Moody's | Economy.com, US Bureau of Labor Statistics

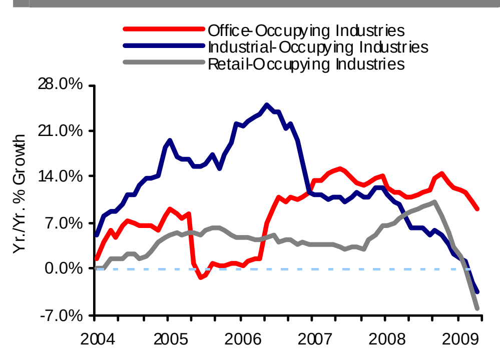
MARKET FORECAST

NEW LEASING ACTIVITY should average 1.2 msf to 2.2 msf per quarter over the next four to six quarters.

DIRECT ABSORPTION may turn negative in coming quarters as more firms downsize or close down altogether.

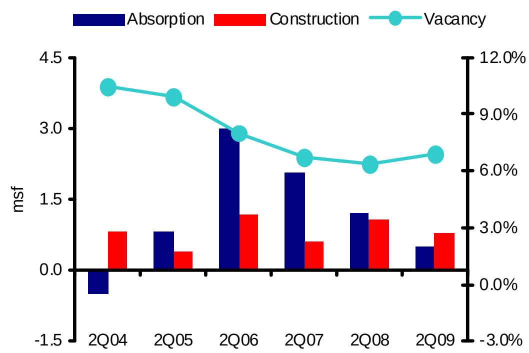
CONSTRUCTION activity will be limited to build-to-suit projects and renovations until credit markets improve.

NONFARM INDUSTRY SALES



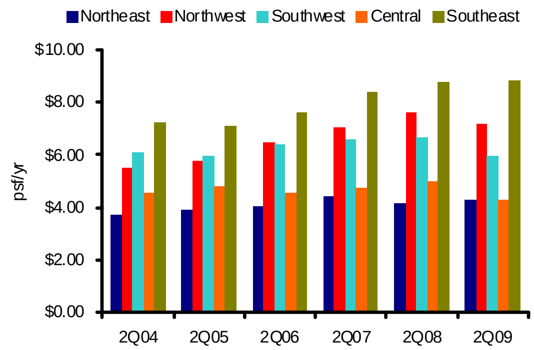
TOTAL MARKET

OVERALL SUPPLY AND DEMAND TRENDS



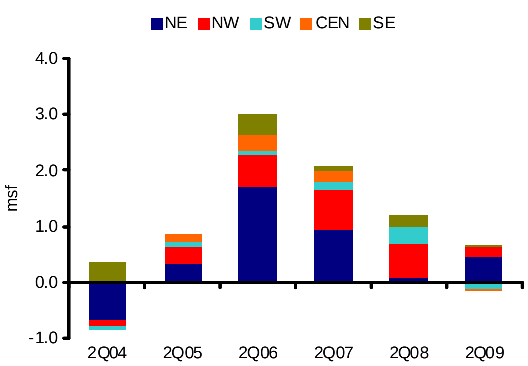
- Despite the relatively modest 773,360 sf of new construction added to the market year-to-date, deliveries overshot demand by 251,754 sf by mid-year 2009 as retrenchment sentiments took hold throughout the metro area. This resulted in a 60-bps increase in overall vacancy to 6.9%.
- New speculative supply is off the table for the next few years given financial market constraints, but select build-to-suit projects and retro-fitting of existing facilities is likely where strong, credit-worthy tenants are in play.

OVERALL RENTS BY REGION



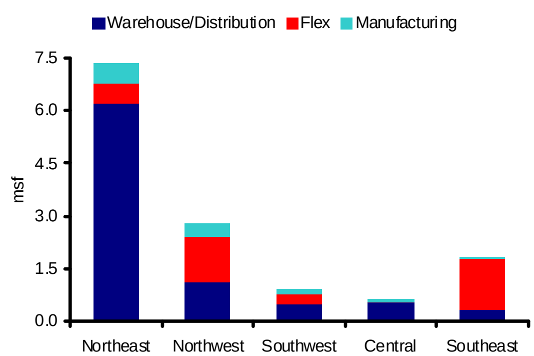
- On a year-over-year basis overall rents were down in all but two regions (the Northeast and the Southeast), but all five regions registered negative rental rate appreciation over the first six months of 2009. Greatest declines were in the Southwest (down 8.1% since the start of this year to $5.99 psf overall), the Northwest (down 6.3% to $7.16 psf overall), and the Central region (down 6.1% to $4.30 psf overall). Southeast rents were down 5.4% to $8.88 psf overall, while in the Northeast they were down 4.2% to $4.30 psf overall.

OVERALL ABSORPTION BY REGION



- The Northeast region reported 463,774 sf of positive overall absorption year-to-date even with 574,662 sf of new supply coming online. Year-to-date leasing activity amounted to almost 2.7 msf in 104 new and expansion deals.
- The Northwest ranked second for overall demand, absorbing 167,721 sf. The average lease size in this market was 7,686 sf with 84 new and expansion deals signed involving 645,607 sf.
- Absorption in the Southeast was a paltry 37,759 sf overall, while the Central and Southwest regions had negative absorption through mid-year.

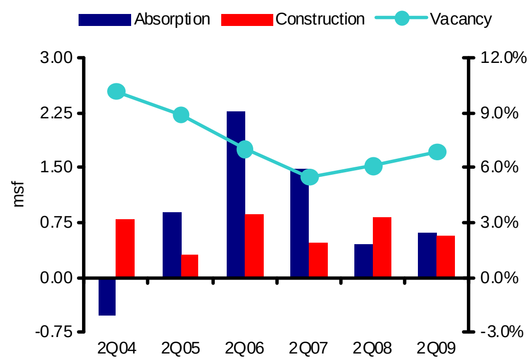
OVERALL AVAILABLE SPACE BY PRODUCT



- The Northeast has 54.4% of all available space currently on the market (up from 53.6% at year-end 2008), and 71.6% of marketed warehouse/distribution product (a 1.2% increase in the past six months). Requirements for quality space in this region will persist, yet second- and third-generation offerings coming on line may require retrofitting to satisfy new tenants.
- The Northwest and Southeast combined are home to 34.3% of availabilities (down from 36.2% six months ago), and 74.8% of all marketed flex space (down from 80.0% in the same period). Flex demand is likely to remain soft in the near term, but the lack of new construction may ease pressures.

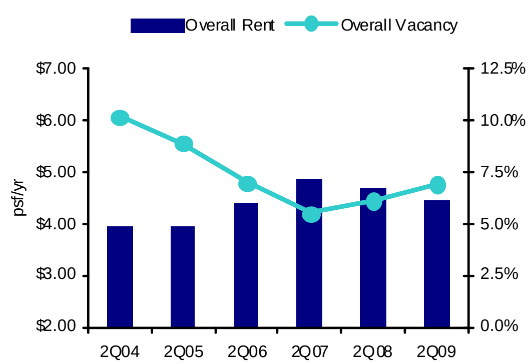
WAREHOUSE/DISTRIBUTION

OVERALL SUPPLY AND DEMAND TRENDS



- Through mid-year 2009 demand for warehouse/distribution space kept abreast of new supply. Overall absorption of 611,393 sf year-to-date against 574,662 sf of construction delivered in the same period reflects relative balance, albeit levels were down appreciably from historical norms and demand was not quite enough to prevent overall vacancy rates from rising. Indeed, the overall vacancy rate of 6.9% at the close of second quarter was 80 bps higher than this time last year and is likely to rise further despite the lack of new construction as this economic downturn progresses.

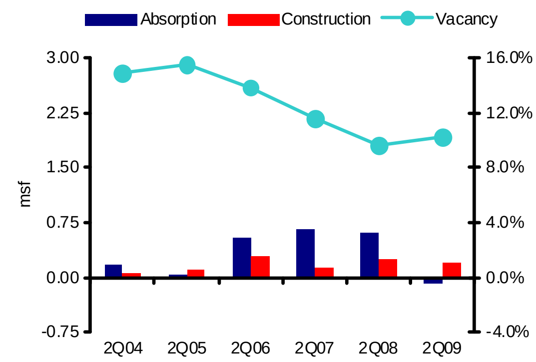
OVERALL RENTAL VS. VACANCY RATES



- Landlords have been quick to respond to the recent rise in vacancy levels, dropping overall asking rents for warehouse/ distribution space by 7.1% to $4.47 psf in the past six months.
- Declines were steepest in the Southeast and Central regions (down 13.4% and 9.8% since December to $7.06 psf and $4.14 psf, respectively). In the Northwest rates were 9.6% lower in this time frame at $5.26 psf, while in the Northeast they were 4.8% lower at $4.13 psf.

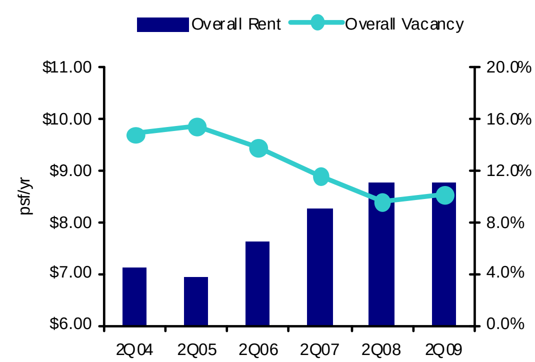
FLEX

OVERALL SUPPLY AND DEMAND TRENDS



- Demand for flex space in metro Denver had been outpacing supply over the past several years, serving to drop vacancy rates low enough to justify higher delivery levels. Unluckily, demand dissipated just as supply in the pipeline started to come online. The net effect to date has been a 60 bps increase in overall flex vacancy rates in the past twelve months and negative year-to-date absorption of 70,139 sf.
- Because flex tenants tend to be smaller without deep pockets, they may be more susceptible in today's economy. Expect weakness to persist in this sector through 2010.

OVERALL RENTAL VS. VACANCY RATES



- The delivery of higher-priced new product has worked to offset the effects of higher vacancies on rental rates. At the close of second quarter, flex rents were just 2.5% under what they were six months ago at $8.77 psf – a decline substantially lower than that experienced market-wide.
- The Northeast reported the greatest regional rent decrease for flex product, down 20.6% to $5.48 psf overall in the last six months. Overall Northwest rents were down 5.2% to $8.69 psf in this time frame, and in the Southeast they fell 3.8% to $9.37 psf.

MARKETBEAT

DENVER INDUSTRIAL REPORT 2Q09

MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE* HT	MF	OS	W/D
Northwest I-25 Corridor	10,743,028	163	6.8%	61,415	0	0	(18,239)	N/A	$0.00	$6.63	$4.82
West	11,073,327	161	3.4%	107,298	0	0	(12,828)	$9.51	$0.00	$8.62	$3.02
Northwest Central	6,425,314	181	4.6%	67,506	0	36,220	(18,470)	N/A	$0.00	$8.26	$7.02
Broomfield/Boulder	21,428,587	337	6.6%	409,388	0	21,790	217,258	$11.15	$7.43	$8.49	$6.15
Northwest Total	**49,670,256**	**842**	**5.7%**	**645,607**	**0**	**58,010**	**167,721**	**$10.89**	**$7.43**	**$8.17**	**$5.23**
Central I-70 Corridor	22,695,271	462	7.0%	269,763	0	0	(428,206)	N/A	$3.87	$4.91	$3.62
I-70 East	47,772,127	544	9.3%	1,851,758	0	444,947	617,227	N/A	$3.50	$7.52	$4.39
Northeast I-25 Corridor	3,114,552	84	4.6%	43,246	0	0	4,725	N/A	$0.00	$8.00	$6.14
Northeast Central	12,731,044	303	6.8%	436,888	0	129,715	363,828	N/A	$4.16	$7.27	$4.66
Brighton	3,046,136	24	10.4%	52,100	818,308	0	(93,800)	N/A	$0.00	$7.00	$2.50
Northeast Total	**89,359,130**	**1,417**	**8.2%**	**2,653,755**	**818,308**	**574,662**	**463,774**	**N/A**	**$3.99**	**$7.08**	**$4.18**
Central Total	**19,426,115**	**548**	**3.2%**	**91,737**	**0**	**0**	**(24,254)**	**N/A**	**$5.34**	**$4.50**	**$4.01**
Southeast Central	4,355,354	115	11.8%	40,250	0	0	(40,160)	$8.00	$5.50	$8.55	$5.92
Southeast Suburban	13,437,468	269	9.7%	334,014	13,440	140,688	77,919	$10.19	$0.00	$9.79	$7.42
Southeast Total	**17,792,822**	**384**	**10.2%**	**374,264**	**13,440**	**140,688**	**37,759**	**$9.38**	**$5.50**	**$9.44**	**$7.06**
Southwest Central	10,631,341	387	3.6%	80,273	0	0	(59,940)	N/A	$4.81	$4.88	$5.13
Southwest Englewood	6,867,502	196	4.9%	85,242	0	0	(1,534)	N/A	$2.50	$9.03	$4.96
Lakewood	2,478,131	76	7.7%	24,441	0	0	(61,920)	N/A	$0.00	$8.79	$6.77
Southwest Total	**19,976,974**	**659**	**4.6%**	**189,956**	**0**	**0**	**(123,394)**	**N/A**	**$3.58**	**$8.77**	**$5.21**
TOTAL	**196,225,297**	**3,850**	**6.9%**	**3,955,319**	**831,748**	**773,360**	**521,606**	**$10.02**	**$5.17**	**$8.51**	**$4.50**

*Rental rates reflect $psf/year
HT = High Tech   MF = Manufacturing   OS = Office Service   W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
20761 East 35th Drive	I-70 East	MBM Customized Food Service	115,000	Warehouse/Distribution
22100 East 26th Avenue	I-70 East	Atlast Fulfillment	84,422	Warehouse/Distribution
11060 Irma Drive	Northeast Central	Precision Metal Manufacturing	71,218	Manufacturing

SIGNIFICANT 2Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5590 High Street	Northeast Central	Colorado Petroleum Products	222,234	$4,100,000
5555 Joliet Street	I-70 East	Drive Train Industries	96,842	$4,256,100
200 South Kalamath	Central Business District	Stranahan's Colorado Whiskey	54,363	$3,050,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Concord Business Center II - Bldgs. 1 and 2	Southeast Suburban	Playtime Creations	140,688	5/09
Marty Farms Industrial Center - Bldg. 2	Northeast Central	Airgas Intermountain	30,000	4/09
Lake Arbor Business Center - Bldg. A	Northwest Central	Aspen Electronics Manufacturing	23,100	5/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Vestas America Campus	Brighton	Vestas America	818,308	1/10
7039 South Jordan Road	Southeast Suburban	Colorado Electric Supply	13,440	1/10

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*Market terms & definitions based on BOMA and NAIOP standards.