MARKETBEAT

DENVER INDUSTRIAL REPORT

3Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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ECONOMY

Weakness in metro Denver's economy was evident at the close of third quarter 2009 as industry revenues fell and companies continued to layoff workers. Total nonfarm sales in the area were 6.2% lower (by over $5.0 billion) through the twelve months ending June compared to the same period one year ago. Hardest-hit were retail- and industrial-oriented businesses, with aggregate sales down 9.8% and 7.9% respectively. Meanwhile, year-over-year employment in metro Denver fell by 58,000 jobs (down 4.6%) through August 2009 with about one-quarter of these occurring in industrial-occupying industries. Most notably, the specialty trade contractor subsector lost 8,700 positions (a decrease of 14.4%), durable goods manufacturing shed 3,900 jobs (down 8.8%), and durable goods wholesalers cut 3,800 employees from local payrolls (a 9.7% loss).

OVERVIEW

Denver's industrial market is clearly being impacted by economic strains. Vacancy rates are rising, leasing activity is sluggish and rental rates are falling fast. Overall industrial market vacancies increased 130 basis points (bps) over the past twelve months to end third quarter 2009 at 7.3%. Flex markets registered the greatest year-over-year deterioration, up 220 bps to 10.7% overall. Warehouse/distribution vacancies edged 130 bps higher to 7.3% overall even though a modest 1.1 million square feet (msf) of new construction came on line during this time frame (a mere 0.6% growth in inventory).

Year-to-date leasing activity involving new and expansion requirements amounted to just under 6.1 msf, which is off 14.0% from the long-run historical average in this market. Many tenants are opting to downsize or sign short-term renewals, uncertain about longer-run prospects for recovery. Even though a significant share of federal stimulus monies appropriated were specifically targeted to benefit the industrial sector, confidence has yet to rebound as only small portions have yet begun to enter the economic pipeline. Optimism has not entirely disappeared from this notoriously entrepreneurial market, however, as several transactions that did close in third quarter reflect. For instance Metech International, a computer component recycling firm, more than doubled its Denver-area footprint when it signed for 112,625 square feet (sf) in the Northwest I-25 submarket in order to accommodate the expansion of its CRT glass processing capacities. FulCircle leased 76,663 sf in the I-70 East submarket near DIA to open a new print and fulfillment facility from which to better serve its rapidly expanding customer base. Similarly, Dodson Global (a renown master distributor of carbon steel fittings and flanges) expanded by approximately 56,090 sf in the Central I-70 submarket in order to meet growing operational needs.

Still, with so many others sensing dangers on the horizon, landlords have slashed asking rents over the past several months and negotiated effective rents 10.0% to 15.0% lower in an effort to protect asset values and preserve cash flow. Overall rates quoted have fallen 8.1% from year-ago levels to $6.02 per square foot (psf), with warehouse/distribution rents plunging 10.5% market-wide since September 2008 to $4.27 psf overall and office service properties now being offered at a 5.7% discount at $8.82 psf overall. By region, Central and Southwest markets reported the greatest depreciation, down 16.3% and 12.1% respectively to overall average rates of $4.00 psf and $5.96 psf. The Southeast (down 6.1% at $8.64 psf overall) and Northeast (down 6.9% to $4.05 psf overall) registered lowest year-over-year declines.

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

"Even in the midst of this downturn, metro Denver continues to out-rank other areas in the country for its friendly business climate, high-quality workforce and above-average living standards, and these attributes are sure to help the area rebound quickly once recovery takes hold."

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

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	5.0%	7.7%	8.0%
Employment Growth	0.8%	-4.2%	-1.2%

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

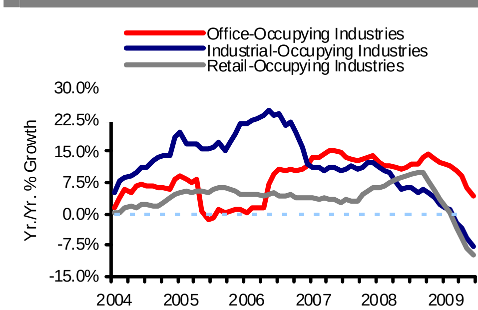
MARKET FORECAST

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.

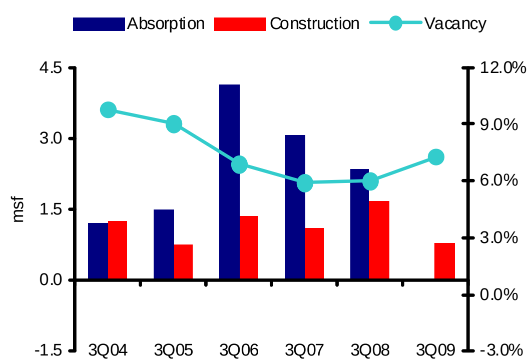
CONSTRUCTION activity will be limited to build-to-suit projects and renovations until credit markets improve.

NONFARM INDUSTRY SALES



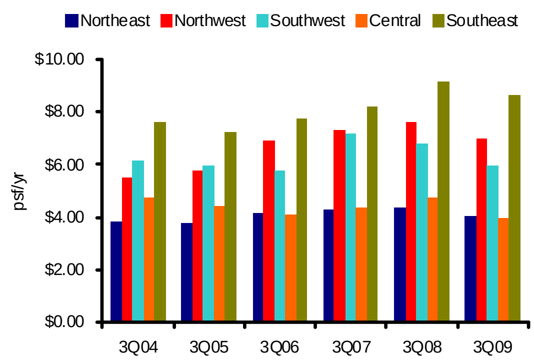
TOTAL MARKET

OVERALL SUPPLY AND DEMAND TRENDS



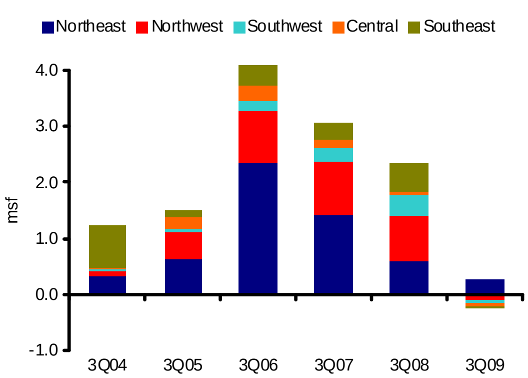
- Inventory grew 0.8% over the past twelve months with the addition of 1.5 msf of new construction while overall vacancy increased 130 bps to 7.3% during this time frame. Overall absorption of a mere 27,569 sf is the weakest recorded in a decade.
- New speculative supply is off the table for the next 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



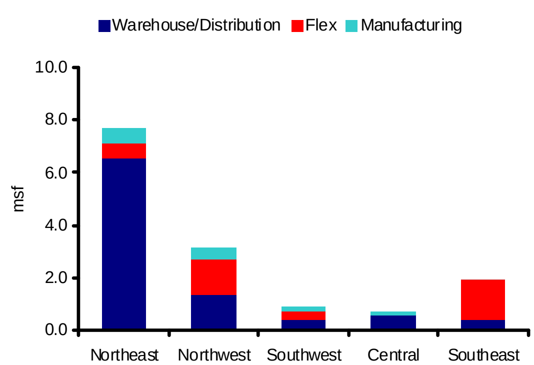
- On a year-over-year basis rents were down in all five regions tracked by Cushman & Wakefield. The Central region registered the greatest decline, with overall rents down 16.3% compared to third quarter 2008 at $4.00 psf. The Southwest reported the second-highest fall in rental rates, down 12.1% to $5.96 psf overall. In the Northwest overall rents fell 7.8% to $7.02 psf, while in the Northeast they were down 6.9% to $4.05 psf and in the Southeast they dipped 6.1% to $8.64 psf. Expect further depreciation in coming periods.

OVERALL ABSORPTION BY REGION



- The Northeast region reported 276,607 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 2.9 msf in 174 new and expansion deals.
- All other regions reported negative absorption, ranging from as much as –76,586 sf in the Northwest to as little as -31,743 sf in the Southeast.
- With leasing activity sluggish and more firms looking to downsize in coming months, weak absorption trends are likely to persist through 2010.

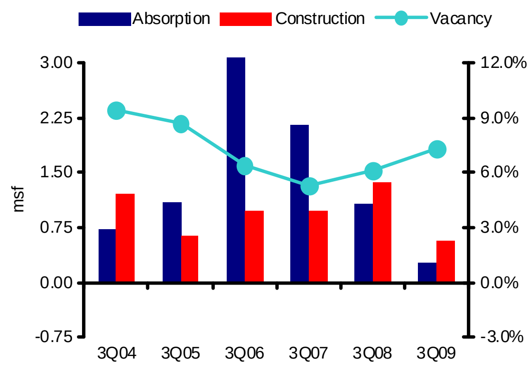
OVERALL AVAILABLE SPACE BY PRODUCT



- The Northeast has 53.5% of all available space currently on the market (down from 54.3% one year ago), and 70.5% of marketed warehouse/distribution product (a 0.7% decrease in the past twelve months). Demand 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 35.4% of availabilities (up from 35.2% twelve months ago), and 75.2% of all marketed flex space (down from 80.9% in the same period). Flex demand is likely to remain soft in the near term, but the lack of new construction may ease pressures.

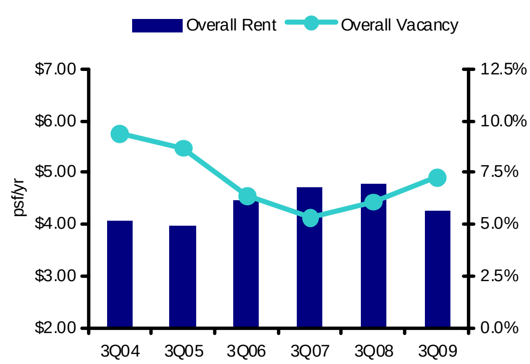
WAREHOUSE/DISTRIBUTION

OVERALL SUPPLY AND DEMAND TRENDS



- Through third quarter 2009 demand for warehouse/distribution space kept abreast of new supply. Overall absorption of 261,976 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 7.3% at the close of third quarter was 130 bps higher than this time last year and is likely to rise further despite the lack of new construction as this economic downturn progresses.

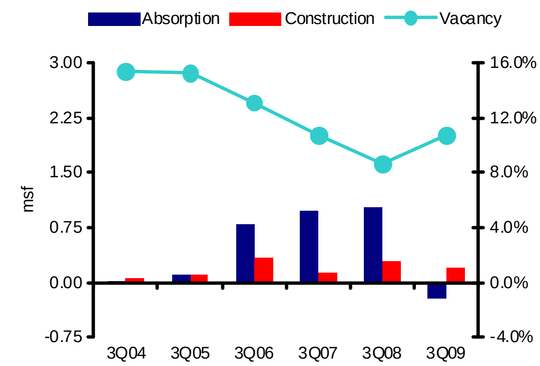
OVERALL RENTAL VS. VACANCY RATES



- Landlords have been quick to respond to the recent rise in vacancy levels, dropping overall asking rents for warehouse/distribution space by 10.5% to $4.27 psf over the past twelve months.
- Declines were steepest in the Central and Southeast regions (down 19.0% and 16.2% since September 2008 to $3.89 psf and $6.90 psf, respectively). In the Northwest rates were 15.4% lower in this time frame at $5.10 psf, while in the Northeast they were 8.0% lower at $3.91 psf.

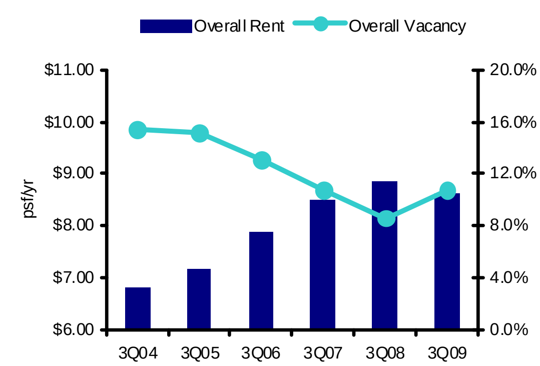
FLEX

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 2.7% under what they were twelve months ago at $8.61 psf – a decline substantially lower than that experienced market-wide.
- The Northeast reported the greatest regional rent decrease for flex product, down 16.3% to $5.36 psf overall in last year. Overall Northwest rents were down 3.8% to $8.75 psf in this time frame, and in the Southeast they fell 3.5% to $9.10 psf.

MARKETBEAT

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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	11,388,452	164	8.3%	248,920	0	0	(220,475)	N/A	$7.00	$6.72	$4.57
West	11,073,327	161	3.4%	144,975	0	0	(17,180)	$9.52	N/A	$8.42	$3.69
Northwest Central	6,445,314	182	5.9%	91,438	13,120	36,220	(43,533)	N/A	N/A	$8.30	$6.53
Broomfield/Boulder	21,618,640	341	6.7%	593,993	0	21,790	204,602	$11.27	$7.43	$8.32	$5.81
Northwest Total	**50,525,733**	**848**	**6.2%**	**1,079,326**	**13,120**	**58,010**	**(76,586)**	**$11.01**	**$7.43**	**$8.03**	**$5.08**
Central I-70 Corridor	22,440,983	463	7.3%	456,178	0	0	(401,578)	N/A	$3.87	$4.76	$3.26
I-70 East	48,011,127	546	9.6%	2,743,264	0	444,947	435,829	N/A	$2.99	$6.98	$4.19
Northeast I-25 Corridor	3,132,883	85	3.7%	68,167	0	0	29,646	N/A	N/A	$8.00	$5.18
Northeast Central	12,738,200	303	7.9%	544,763	0	129,715	306,510	N/A	$3.14	$7.17	$4.30
Brighton	3,046,136	24	10.4%	52,100	818,308	0	(93,800)	N/A	N/A	$7.00	$2.50
Northeast Total	**89,369,329**	**1,421**	**8.6%**	**3,864,472**	**818,308**	**574,662**	**276,607**	**N/A**	**$3.17**	**$6.87**	**$3.94**
Central Total	**19,330,812**	**547**	**3.5%**	**164,034**	**0**	**0**	**(67,283)**	**N/A**	**$4.92**	**$4.00**	**$3.77**
Southeast Central	4,458,986	116	11.2%	98,454	0	0	(26,544)	$8.00	$5.50	$8.60	$5.88
Southeast Suburban	13,476,590	271	10.6%	453,360	13,440	140,688	(5,199)	$10.07	N/A	$9.33	$7.21
Southeast Total	**17,935,576**	**387**	**10.8%**	**551,814**	**13,440**	**140,688**	**(31,743)**	**$9.31**	**$5.50**	**$9.14**	**$6.90**
Southwest Central	10,676,141	390	3.5%	168,324	0	0	(22,995)	N/A	$4.05	$4.88	$5.25
Southwest Englewood	7,292,208	205	4.0%	202,472	0	0	53,988	N/A	$1.90	$8.50	$5.33
Lakewood	2,549,852	80	9.6%	54,062	0	0	(104,419)	N/A	$4.95	$8.65	$6.43
Southwest Total	**20,518,201**	**675**	**4.4%**	**424,858**	**0**	**0**	**(73,426)**	**N/A**	**$3.23**	**$8.47**	**$5.37**
TOTAL	**197,679,651**	**3,878**	**7.3%**	**6,084,504**	**844,868**	**773,360**	**27,569**	**$10.12**	**$4.77**	**$8.29**	**$4.30**

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

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
500 West 53rd Place	Northwest I-25	Metech International	112,625	Warehouse/Distribution
13333 East 37th Avenue	I-70 East	FulCircle Marketing	76,663	Warehouse/Distribution
4625 Forest	Central I-70	Dodson Global	56,090	Warehouse/Distribution

SIGNIFICANT 3Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
3770 East 40th Avenue	Central I-70	Lee Hing, Inc.	88,000	$2,150,000
5600 Flatiron Parkway	Boulder/Broomfield	Boulder County Sheriff	77,000	$8,050,000
20400 East 26th Avenue	I-70 East	Drake-Williams Steel	55,440	$3,000,000

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

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.