SOUTHEAST TEXAS

CBRE
CB RICHARD ELLIS

MarketView Houston

Industrial | Fourth Quarter 2009

Over the past year, Houston relatively outperformed the rest of the nation economically, but did not avoid the influence of the global recession. Houston's economic climate continues to provide a positive outlook and appears to position the city well for recovery. With economic analysts looking towards employment statistics to spur confidence, recent reports are encouraging. For instance, the Greater Houston Partnership predicts a net gain of 1,900 jobs by year-end 2010. Also, IHS Global Insight released predictions that Houston will be one of the leading cities to emerge from the recession and will return to pre-recession job levels in 2011.

Quick Stats

	4Q09	Change from last Yr.	Change from last Qtr.
Vacancy	6.8%	↑	↑
Lease Rates	$0.48	↓	↓
Net Absorption*	848 K	↑	↑
Under Construction	1.3 M	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

While these assessments provide encouragement for Houston, the Houston industrial market only recently started to experience a slight uptick in activity. The industrial vacancy rate ended the year with 6.8%, which is slightly higher than the 6.2% vacancy rate posted at the end of 2008 but still remains near historical lows. Overall, asking lease rates decreased slightly over the past year, and effective rates are lower compared to a year ago due to lower demand, a struggling national economy, and a very competitive business climate. Most of the national REITs and institutional owners of local industrial portfolios have been able to maintain at or near historically high occupancy levels during this period.

Absorption for the fourth quarter posted at 848,018 SF, bringing year-to-date absorption to 180,211 SF. This year ended positive, but is significantly lower than the 2008 year-end absorption of 4.5 MSF. New construction deliveries continue to decrease with 929,013 SF completing this quarter. The year-end-total of 5.7 MSF of new construction delivered represents nearly half of the amount delivered in 2008 (12.3 MSF). The downward trend of deliveries to the Houston industrial market aligns with current economic conditions, as 1.3 MSF is under construction and financing constraints continue to be of concern for many developers.

The Houston-Sugar Land-Baytown MSA's over-the-year job growth was -3.4% in November, declining by 88,900 jobs since November 2008. Last year at this time, the area added 31,800 jobs, or 1.2% over the previous year. Educational & Health Services and Government were the two major industry groups adding the most positions, up 6,900 and 6,400 jobs respectively from November 2008. Construction was down 25,800 jobs from this time last year, the most in this time series which started in 2000. Professional & Business Services and Manufacturing were also down considerably from November 2008. The thirteen county region's unemployment rate was 8.2%, up from the 5.4% rate of November 2008. - Source: The Worksource.

New construction delivered 929,013 SF in the fourth quarter, down from 1,660,465 SF delivered in the third quarter and bringing year-to-date deliveries for 2009 to an excess of 5.6 MSF. The largest delivery this quarter was the addition of the 585,000 SF distribution center near Interstate 45 and the North Belt. Through 2009, we saw a reduction in development activity as buildings under construction came to market and ground breaking on new projects fell to a near standstill amidst concerns of overbuilding as well as a lack of money to support proposed projects. Tenants that are in the market continued to desire locations along the Beltway with easy access to major freeways, reducing excess transportation costs.

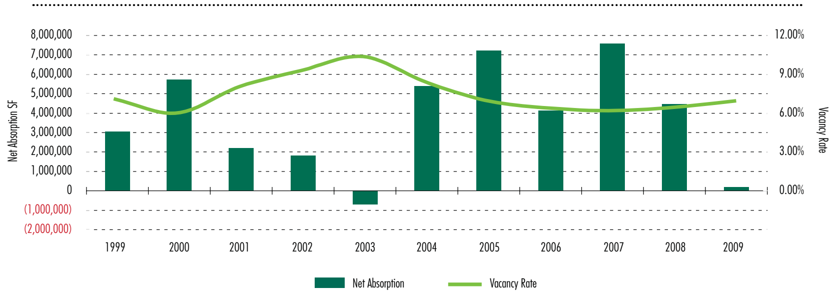
The vacancy rate dipped below third quarter's posting, closing 2009 at 6.8%. The North submarket posted this quarter's greatest vacancy rate at 8.8%, delivering 687,000 SF and a total of 11 new buildings during 2009. The North submarket has continued to struggle for many of the same reasons as last quarter - new completed construction far outpacing demand. The Southeast is also struggling due to a decline in Port traffic. Overall, leasing was slow in the fourth quarter, though there are more prospects now than existed at the beginning of the quarter.

The overall gross average asking rental rate across local industrial product types remained flat at $0.48 PSF this quarter. In the North, Southeast and Southwest submarkets higher asking rates for new space has been reduced to capture business and fill open space. Effective rates are notably lower in contrast to a year ago due to lease concessions. In an effort to maintain and attract new tenants, landlords are offering free rent, reduced rental rates and increased improvement allowances. Landlords have also become more willing to renegotiate leases to maintain occupancy levels.

Absorption posted 848,018 SF in the fourth quarter closing the year on a positive note, totaling 180,218 SF for all four quarters. Most areas in Houston continue to struggle with industrial leasing and landlords are attempting to maintain occupancy levels by renewing tenants early and lowering lease rates. A lack of tenant credit continues to be a concern and banks are slow to lend causing difficulties for small and medium size companies to operate. Construction costs are down due to the reduction in steel but pricing for landlords has not changed significantly. With construction costs remaining soft, the outlook for new projects is weak. Expectations that the market may be at a turning point have increased, but at the moment, there aren't any indicators to support that industrial commercial real estate is experiencing recovery.

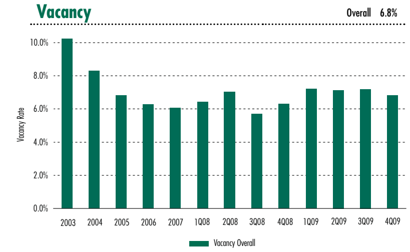
VACANCY RATE ~VS~ NET ABSORPTION

Vacancy Rate 6.8%
Net Absorption 848 K



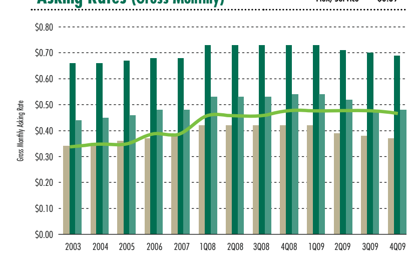
Vacancy

Overall 6.8%



Asking Rates (Gross Monthly)

Overall	$0.48
Warehouse/Distribution	$0.37
Manufacturing	$0.46
Flex/Service	$0.69



Absorption (Net)

4Q09 848,018
2009 180,218