

CAPITAL TRENDS MONTHLY

INDUSTRIAL

REAL CAPITAL ANALYTICS

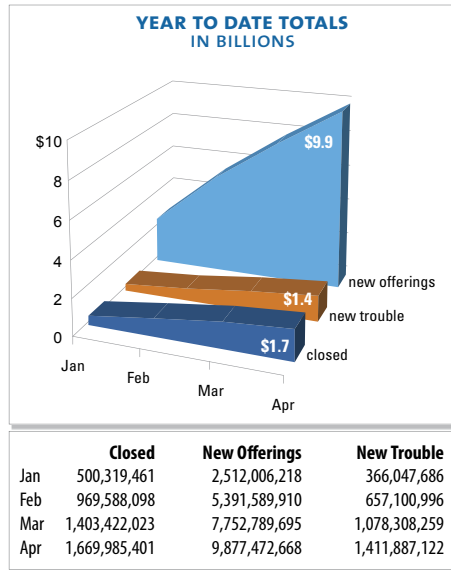
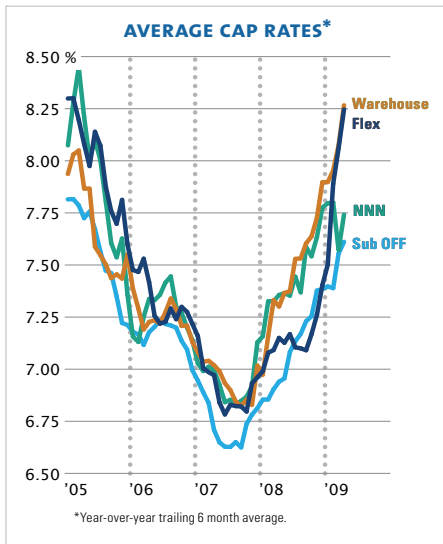
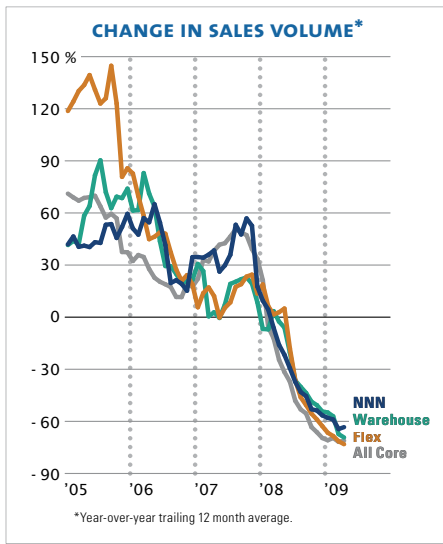
Excerpts from the May 2009 Industrial Capital Trends Monthly by Real Capital Analytics

Sales Treading Muddy Waters

Industrial property sales in April, at \$266m, were decidedly un-spring-like, though they lagged office volume by only \$22m. Towering over paltry volume was \$2.1b of new offerings at a ratio of roughly 9:1 to closed deals for April. With total ytd sales of \$1.6b against offerings of \$9.9b, that ratio narrows marginally for the year to nearly 6:1, pushing industrial more out of balance than any property type.

That poor balance may tip toward distress, where industrial currently has the lowest overall volume of \$2.4b after adding \$1.3b ytd. The similarly priced retail sector now has nearly \$30b of distressed assets.

but with trading negligible and offerings stacking up, yields have clearly not stopped rising. That circumstance makes it almost impossible to set a market price. Industrial cap rates are converging near 8.0%, a rate that offers little to no spread above prevailing mortgage rates. More troubling, though, is the mountain of unsold property awaiting new capital; lack of movement there is almost certain to push up distress levels dramatically for industrial property.



Month In Review

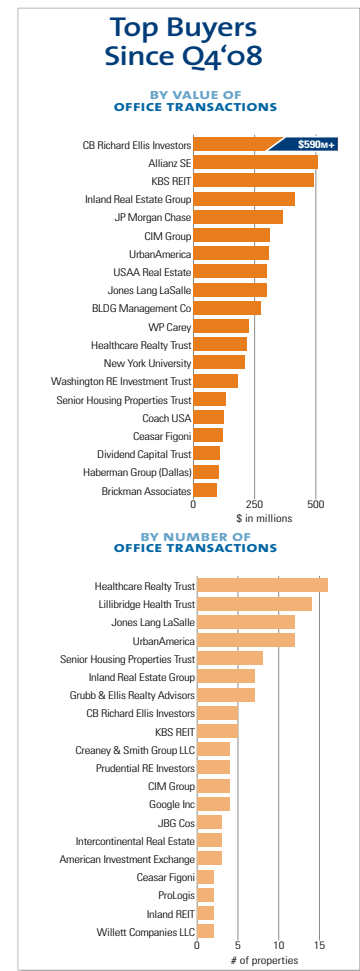
Sales volume for virtually all industrial property, regardless of niche or subtype, has fallen at the same rate over the past year and in tandem with volume for all core properties.

Investors were rare: one-third of acquisitions in April were by user-occupiers, while another third were long-term single-tenant deals involving little risk.

One hoped-for sale that has yet to fully materialize is ProLogis' planned disposition of a 33 million-square-foot US portfolio valued at about \$1.3b. At the end of q1'09, ProLogis had approximately \$600m of the portfolio under contract, and expects to close the sale in stages throughout the year.

Cap rates for warehouse and flex, which typically move parallel to those for suburban office because these property types share some key characteristics, rose 150 bps in just the past six months, and are now about 50 bps above yields for suburban office. Yields for the currently more attractive single-tenant assets, up about 125 bps over the same period, have maintained a narrower spread against the suburban office subtype.

Despite the differences in cap rates for these industrial niches, they are all trading along parallel lines. Caps are up significantly across the board,



Industrial Transaction Activity by Market	Flex				Warehouse				Industrial Totals				
	Transactions Closed Past 12 Months	Vol \$ Mil	# Props	\$/SF	Avg Cap Rate	Vol \$ Mil	# Props	\$/SF	Avg Cap Rate	Vol \$ Mil	# Props	\$/SF	Avg Cap Rate
Southwest													
Austin	15	2				33	2	36	6.6%	48	4	36	6.6%
Dallas	82	10	46		370	25	47	6.6%	452	35	47	6.6%	
Denver	152	10	88	7.8%	114	7	62	7.7%	265	17	73	7.7%	
Houston	104	8	95	6.5%	157	13	42	10.0%	261	21	47	8.2%	
Phoenix	183	14	109	7.5%	162	12	66	7.3%	344	26	83	7.4%	
San Antonio													
Tertiary Southwest	101	8	98	7.8%	56	9	87	6.6%	157	17	94	7.5%	
Southwest Total	\$635	52	\$95	7.5%	\$892	68	\$55	7.4%	\$1,527	120	\$68	7.5%	