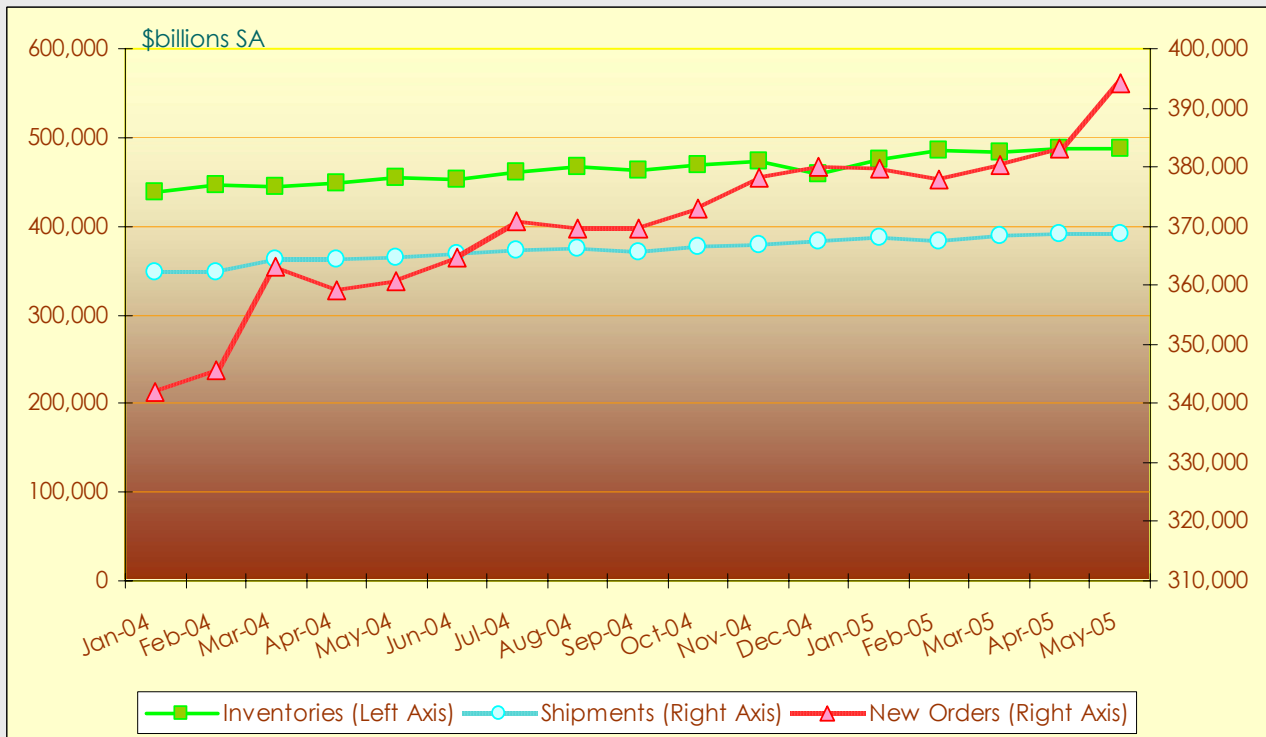


### ECONOMIC BACKDROP

Inventories, new orders and shipments have all been improving steadily over the past few months. In particular, the level of new orders jumped significantly between April and May of this year, possibly signaling an improved level of new shipments. Levels of new orders rose 2.9% between April and May, which on an annualized basis represents a 41% increase. One sign of the health in this sector pertains to gains made by new orders for manufactured  durable  goods, which rose 5.5% in the last two months.



### Manufacturers' Inventories, Shipments and New Orders



Source: US Census Bureau & Haver Analytics

Both manufacturing inventories and shipments have remained relatively flat and the shipment-to-inventory ratio has remained at around 1.25%, which is relatively low in both historical and statistical terms.

All things considered, the data from the US Census Bureau suggests that the industrial sector is set for continued growth and expansion for the remainder of 2005 and into early 2006. Some markets will continue to outperform from a fundamentals standpoint, as well as an investment perspective.



# Commercial Real Estate Spotlight

## Industrial View

### Fundamentals

*Industrial markets on both coasts benefit from increased trade...*

Coupled with limited supply, key markets located near a major coastal port have the lowest vacancy rates in the nation. Southern California, the area serviced by the Port Authority of NY and NJ, as well as, South Florida continue to lead the way in terms of lowest availability of industrial space.

One of the key drivers in today's industrial market is the level of trade with China and other Asia-Pacific countries. With significant port traffic on the West Coast, ships have found it more cost effective to ship cargo through the Panama Canal rather than sit idle in a congested West Coast port. This is having an impact on the demand for space in Miami, Fort Lauderdale and West Palm Beach.

An analysis by Torto Wheaton Research examined which markets, are forecast

#### Net Absorption Rates – Top 10 Markets Forecast for 2005 to 2009

Market	2005-2009 Rate of Absorption
Riverside, CA	5.0%
Las Vegas, NV	2.8%
Phoenix, AZ	2.5%
Charlotte, NC	2.4%
Orlando, FL	2.2%
Tucson, AZ	2.2%
San Diego, CA	2.1%
Stamford, CT	2.1%
Austin, TX	2.0%
Fort Lauderdale, FL	2.0%
US National Average	1.3%

Source: Torto Wheaton Research

to have the greatest level of absorption between 2005 and 2009. Riverside, CA, was the clear winner with 5% of all net industrial absorption over the next five years in the nation.

#### Lowest Vacancy Forecast Q3 2005

Rank	Industrial Market	Vacancy	Trend By 2006
1.	West Palm Beach, FL	4.7%	▼
2.	Orange County, CA	5.4%	▼
3.	Los Angeles, CA	5.4%	▼
4.	Long Island, NY	5.6%	▼
5.	Ventura County, CA	6.8%	▼
6.	Orlando, FL	6.8%	▲
7.	Riverside, CA	7.0%	▼
8.	Tucson, AZ	7.1%	▼
9.	Fort Lauderdale, FL	7.2%	▲
10.	Newark, NJ	7.4%	▼
11.	Albuquerque, NM	7.5%	▲
12.	Miami, FL	7.7%	▲
13.	Tampa, FL	7.9%	◀▶
14.	San Diego, CA	8.1%	▼
15.	San Francisco, CA	8.1%	▼
	<u>National Average</u>	<u>10.1%</u>	▼

Source: NAR/Torto Wheaton Research





# Commercial Real Estate Spotlight Industrial View Fundamentals

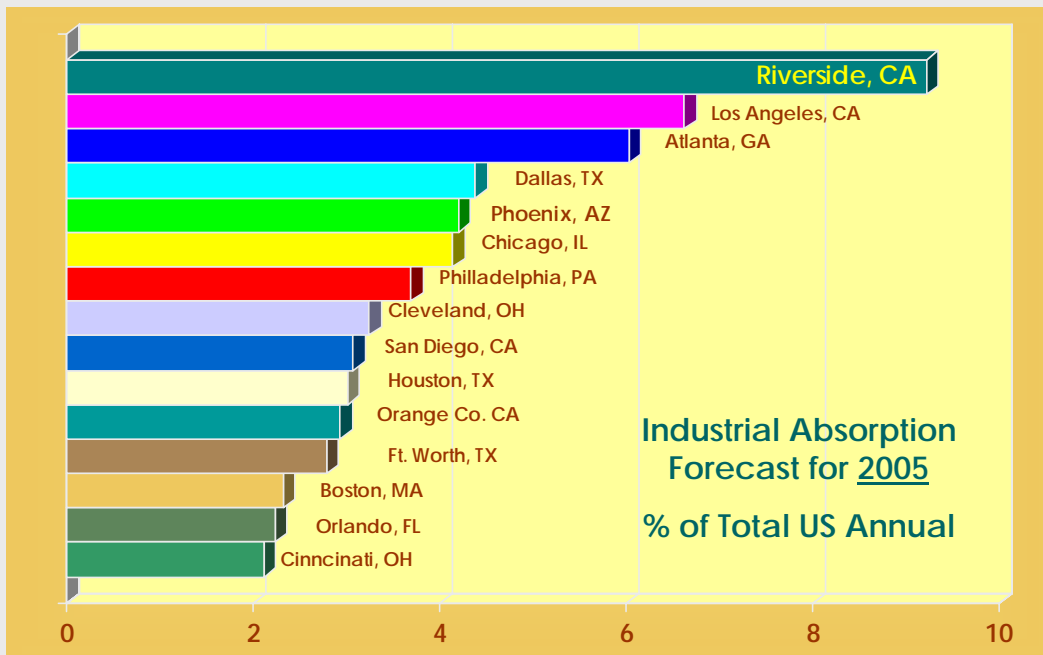
*Obsolescence, changing use, land value, brownfield re-development potential and other issues that cloud the fundamentals...*

One of today's challenges is how to measure the level of obsolescence in a specific industrial market or submarket. As most practitioners know, there are some buildings that are available for sale or lease, that do not meet the needs of today's industrial user. Many of these functionally obsolete buildings are, however, still included in the vacancy rate and often provide a false sense of the overall market conditions.

Should a vacant industrial building be removed from the active inventory only when it is bought and converted to another purpose (i.e. loft condominiums)? In many markets, vacant and functionally obsolete buildings essentially are on the market for land value and redevelopment potential. This is happening around Chicago and in and around Northern New Jersey. Should vacant industrial buildings that are being offered for sale, but are really "tear-downs" be included as vacant space up until the building is demolished?

In many industrial areas throughout the Northeast and Midwest, buildings are located on brownfield's or environmentally challenged land. The question is, should industrial properties that are contaminated or otherwise environmentally challenged, be included on the active inventory?

These questions are raised just for debate and do not represent NAR policy.



Source: NAR/Torto Wheaton Research





# Commercial Real Estate Spotlight Industrial View Rent

*Rent growth not always in markets with the lowest vacancy rates...*

On a national basis office rents are expected to grow by a modest 0.35% by the third quarter of 2005. The table on the right, shows several markets that are expected to achieve higher rent growth than the national average.

It is natural to assume that markets with a low rate of availability would be more likely to experience rent growth. In the case of markets like Long Island, NY and Los Angeles this scenario holds true. Markets like St. Louis and Salt Lake City are also anticipated to have higher than average rent growth even though their vacancy rates are in double digits.

In an analysis of projected rent growth between 2005 and 2009, Torto Wheaton Research found that San Jose and San Francisco were expected to have the greatest level of rent growth. Both of these markets are still in recovery from the high-tech melt down and are on the road to recovery.

Market	Average Net Rental Rate
San Diego, CA	\$8.88/psf
Orange County, CA	\$8.53/psf
Ventura County, CA	\$7.90/psf
Fort Lauderdale, FL	\$7.80/psf
San Francisco, CA	\$7.64/psf
Los Angeles, CA	\$7.27/psf
Seattle, WA	\$7.19/psf
New York City, NY	\$6.90/psf
Hartford, CT	\$6.58/psf
Las Vegas, NV	\$6.49/psf

Source: NAR/Torto Wheaton Research

## RENT GROWTH FORECAST Q3 2005

Rank	Industrial Market	Rent Growth	Trend By 2006
1.	San Francisco, CA	1.84%	▲
2.	Long Island, NY	1.50%	▲
3.	Fort Lauderdale, FL	1.45%	▲
4.	St. Louis, MO	1.43%	▲
5.	Los Angeles, CA	1.29%	▲
6.	Las Vegas, NV	1.22%	▲
7.	Orange County, CA	1.13%	▲
8.	Miami, FL	1.11%	▲
9.	Salt Lake City, UT	1.11%	▲
10.	Oakland, CA	1.06%	▲
11.	Phoenix, AZ	1.05%	▲
12.	Ventura County, CA	1.05%	▲
13.	Orlando, FL	0.94%	▲
14.	New York City, NY	0.85%	▲
15.	Tampa, FL	0.85%	▲
	<u>National Average</u>	<u>0.35%</u>	▲

Source: NAR/Torto Wheaton Research





# Commercial Real Estate Spotlight

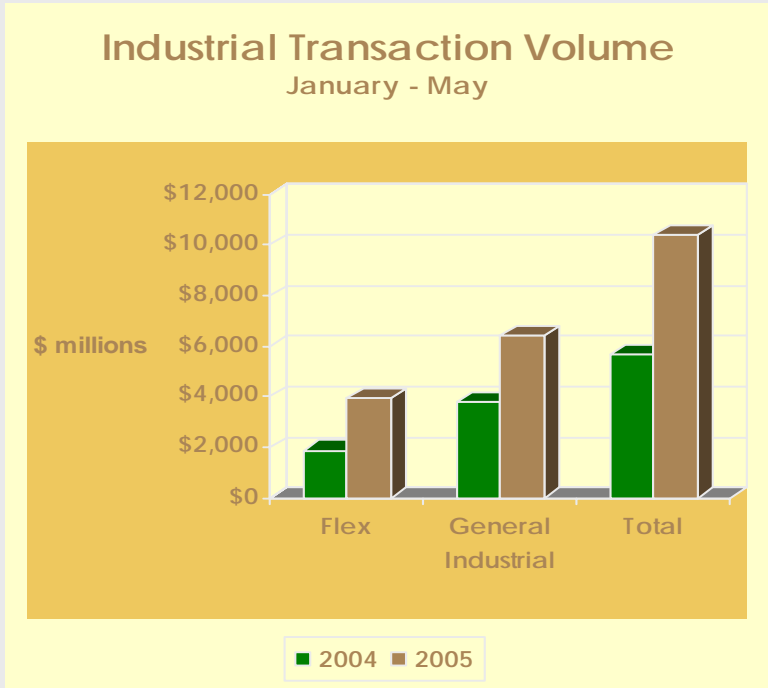
## Industrial View

### Investment

Sale-leaseback activity dominates industrial investment so far in 2005...

The volume of industrial building sales transactions has increased by more than 83% for the first five months of 2005 compared to the same time period last year. A look at the two main industrial categories shows a significant difference in transaction volume. Flex space has increased by 109%, while general industrial, warehouse or distribution space increased by 70% over the first five months of year.

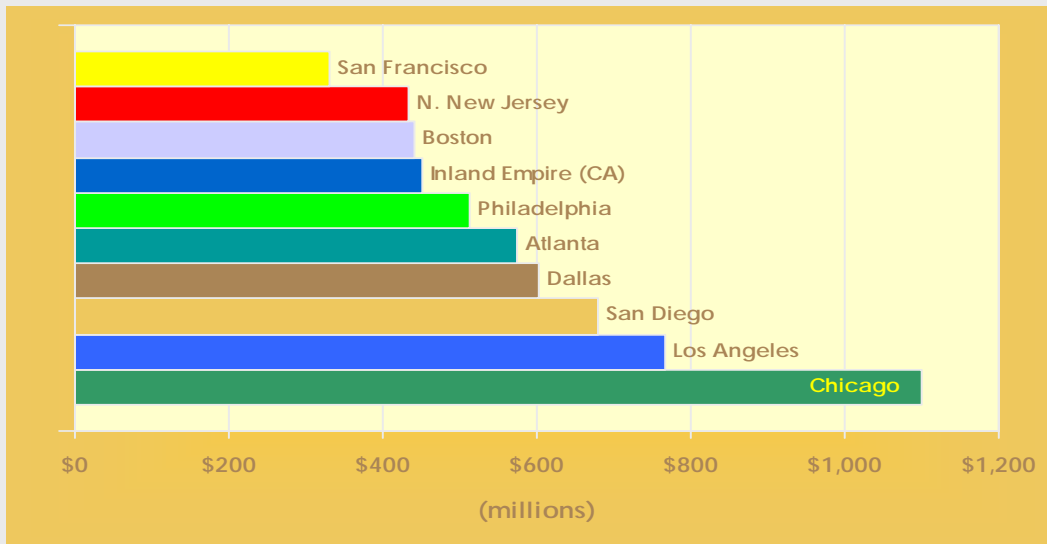
In terms of pricing, on a per square foot basis, for the last three months - pricing has averaged around \$63 per square foot, up from the average \$52 seen 12 months earlier.



Source: Real Capital Analytics, June 2005

The Chicago market has dominated industrial transaction volume over the last 12 months with over 80 buildings trading hands. The Los Angeles market came in second, despite the pricing differential between the two markets. For example, the average price for an industrial property in Chicago is \$43, while in Los Angeles the average is \$102 per square foot.

The most active sellers in 2005 have been end-users, particularly corporations, that have decided to get out of owning and managing real estate and opted instead for a sale leaseback. As with the office sector, institutions and pension funds have once again become the dominant player in acquiring industrial property. Markets with excess demand include most major industrial markets, with notable exceptions being Houston, Orlando and San Jose, where a healthy supply of industrial product for sale still exists.



Top Industrial Markets by Investor Volume

04/04 to 04/05

Source: Real Capital Analytics, June 2005

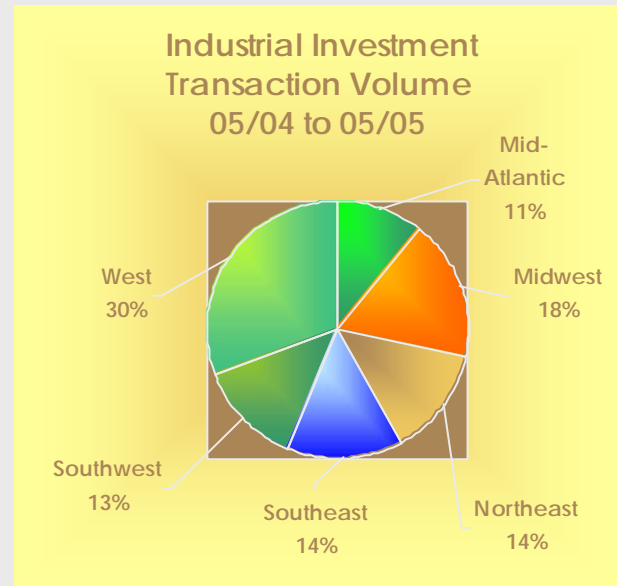




## Commercial Real Estate Spotlight Industrial View Investment

The West continued to dominate industrial building transactions during the course of the last 12 months accounting for 30% of all transaction volume. The Greater Los Angeles area accounted for almost half of the volume recorded in the West.

In the Midwest, Chicagoland accounted for almost 60% of transactions. In the Mid-Atlantic, Philadelphia dominated the industrial acquisitions, while Dallas and Atlanta, had the most activity in the Southwest and Southeast, respectively. In the Northeast, Boston and Northern New Jersey are experiencing the most industrial investment activity.



Source: Real Capital Analytics, 06/2005

NAR Research also provides analysis of monthly economic indicators, such as GDP and employment data that clearly impact commercial markets over time.

If you have questions or comments regarding this report or any other commercial real estate research, please feel free to contact Scott MacIntosh, NAR's Senior Economist-Commercial/Investment Real Estate, at (202) 383-1188 or [smacintosh@realtors.org](mailto:smacintosh@realtors.org)

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### WATCH FOR UPCOMING SPOTLIGHTS

Commercial Real Estate Spotlight - Retail View - July 2005

Commercial Real Estate Spotlight - Multi-family View - August 2005

Commercial Real Estate Spotlight - September 2005





# Commercial Real Estate Spotlight

## Industrial View

July 2005

### NAR – 2005 YEAR-END INDUSTRIAL FORECAST

<i>Industrial Market</i>	<i>Forecast Vacancy Rate</i>
<i>Albuquerque, NM</i>	<i>7.6%</i>
<i>Atlanta, GA</i>	<i>14.4%</i>
<i>Austin, TX</i>	<i>15.4%</i>
<i>Baltimore, MD</i>	<i>14.5%</i>
<i>Boston, MA</i>	<i>15.1%</i>
<i>Charlotte, NC</i>	<i>12.8%</i>
<i>Chicago, IL</i>	<i>12.2%</i>
<i>Cincinnati, OH</i>	<i>8.6%</i>
<i>Cleveland, OH</i>	<i>10.3%</i>
<i>Columbus, OH</i>	<i>12.4%</i>
<i>Dallas, TX</i>	<i>12.2%</i>
<i>Denver, CO</i>	<i>12.1%</i>
<i>Detroit, MI</i>	<i>14.8%</i>
<i>Edison, NJ</i>	<i>8.8%</i>
<i>Ft. Lauderdale, FL</i>	<i>7.4%</i>
<i>Fort Worth, TX</i>	<i>10.2%</i>
<i>Hartford, CT</i>	<i>10.5%</i>
<i>Houston TX</i>	<i>10.3%</i>
<i>Indianapolis, IN</i>	<i>10.4%</i>
<i>Jacksonville, FL</i>	<i>10.5%</i>
<i>Kansas City, MO</i>	<i>10.3%</i>
<i>Las Vegas, NV</i>	<i>10.0%</i>
<i>Long Island, NY</i>	<i>5.3%</i>
<i>Los Angeles, CA</i>	<i>5.3%</i>
<i>Miami, FL</i>	<i>7.8%</i>
<i>Minneapolis, MN</i>	<i>10.3%</i>
<i>Nashville, TN</i>	<i>13.2%</i>
<i>New York, NY</i>	<i>8.0%</i>
<i>Newark, NJ</i>	<i>7.3%</i>

<i>Industrial Market</i>	<i>Forecast Vacancy Rate</i>
<i>Oakland, CA</i>	<i>10.4%</i>
<i>Orange County, CA</i>	<i>5.3%</i>
<i>Orlando, FL</i>	<i>6.8%</i>
<i>Philadelphia, PA</i>	<i>10.2%</i>
<i>Phoenix, AZ</i>	<i>10.6%</i>
<i>Portland, OR</i>	<i>9.4%</i>
<i>Riverside, CA</i>	<i>7.2%</i>
<i>Sacramento, CA</i>	<i>13.7%</i>
<i>Salt Lake City, UT</i>	<i>8.9%</i>
<i>San Diego, CA</i>	<i>7.9%</i>
<i>San Francisco, CA</i>	<i>8.1%</i>
<i>San Jose, CA</i>	<i>13.4%</i>
<i>Seattle, WA</i>	<i>8.8%</i>
<i>Saint Louis, MO</i>	<i>8.0%</i>
<i>Stamford, CT</i>	<i>11.1%</i>
<i>Tampa, FL</i>	<i>8.0%</i>
<i>Trenton, NJ</i>	<i>9.6%</i>
<i>Tucson, AZ</i>	<i>6.3%</i>
<i>Ventura, CA</i>	<i>6.7%</i>
<i>Washington, DC</i>	<i>10.0%</i>
<i>West Palm Beach, FL</i>	<i>4.6%</i>
<i>Wilmington, DE</i>	<i>12.4%</i>
<i>National Average</i>	<i>9.9%</i>

Source: NAR Forecast

