

## FORECASTING

### MANUFACTURING SECTOR IS IMPROVING

"We are beginning to see some early, yet encouraging, recovery signals, as the manufacturing sector is improving," said Craig Meyer, managing director and head of Jones Lang LaSalle's North American Industrial Services team, in a statement. "The most important growth indicator we're seeing is the bottoming out of packaged goods inventories. The increase in global trade volumes in so far this year is another encouraging signal pointing toward increasing future demand for industrial property."

However, the industrial sector will not be immune to the downside risks of extensive sublease space, facility closures, consolidations and the downsizing that could continue well into 2010 and 2011, according to the report. Although labor markets are beginning to stabilize, unemployment is expected to remain high creating a drag on the demand for office space.

Until industrial occupancy stabilizes, negative net absorption will continue and asking rents will remain depressed, according to Jones Lang LaSalle. Rental rates will only start to increase in earnest in 2011.

"This year will be the last large window of opportunity for savvy industrial tenants as competition for those tenants will remain intense and landlords are offering a mix of concessions to secure new occupants," said Meyer. "Occupiers will be able to capitalize on low occupancy costs to re-optimize warehouse/distribution operations and supply chain networks. For owner-occupiers and well capitalized investors there will be excellent acquisition opportunities."

The following are outlooks for the industrial sector by region:

**Atlanta:** Atlanta's industrial market will continue to contract over the next few quarters as activity in the manufacturing and construction industries remain depressed. However, as the economy recovers during the year and beyond, demand for existing industrial space should increase noticeably given Atlanta's solid infrastructure and location. New construction is not anticipated and rents in the region are beginning to stabilize, while landlords will continue to compete fiercely for the few large tenants in the market.

Source: [nreionline.com](http://nreionline.com)

### KEY TERMS AND DEFINITIONS

**Availability Rate:** The ratio of available space to total rentable space, calculated by dividing the total available square feet by the total rentable square feet.

**Cap Rate:** Short for capitalization rate. The Cap Rate is a calculation that reflects the relationship between one year's net operating income and the current market value of a particular property. The Cap Rate is calculated by dividing the annual net operating income by the sales price (or asking sales price).

**Flex Building:** A type of building designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. A typical flex building will be one or two stories with at least half of the rentable area being used as office space, have ceiling heights of 16 feet or less, and have some type of drive-in door, even though the door may be glassed in or sealed off.

**Industrial Building:** A type of building adapted for such uses as the assemblage, processing, and /or manufacturing of products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities. The primary purpose of the space is for storing, producing, assembling, or distributing product.

**Market:** Geographic boundaries that serve to delineate core areas that are competitive with each other and constitute a generally accepted primary competitive set of areas. Markets are building-type specific, and are non-overlapping contiguous geographic designations having a cumulative sum that matches the boundaries of the entire Region (See also: Region). Markets can be further subdivided into Submarkets.

**Net Absorption:** The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space.

**Sublease Space:** Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation. Sublease space is sometimes referred to as sublet space.

**Triple Net:** A lease in which the tenant pays rent to the landlord as well as all taxes, insurance, and common area maintenance expenses that arise from the use of the property.

**Vacancy Rate:** A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

## COMMERCIAL REAL ESTATE ♦ FLEX MARKET REPORT

This report segments the flex market to include only multi-tenant flex projects that we define as versatile buildings with unit sizes of 2,000 SF and larger. This includes office space of 20% to 50%, ceiling heights of up to 20 FT, and some type of drive-in door. We believe this definition to be more reflective of the Greenville/Spartanburg flex market and includes multi-tenant buildings that are generally of higher quality, with different rental rates, vacancy rates, and absorption rates than the overall industrial market statistics reveal. Because the flex market generally attracts smaller businesses, it has been hardest hit by the two-year economic decline as small companies have had a much more difficult time keeping doors open and business operational. Our Mid-Year 2010 report shows; however, that vacancies are beginning to stabilize and small business activity has increased significantly during the 2Q 2010. We expect to see this trend continue with the availability rate dropping as absorption of the flex space increases throughout the remainder of the year.



### Multi-Tenant Flex Inventory and Vacancy Rates

as of JUNE 2010

	Greenville	Spartanburg	Anderson	Total
<b>Total Inventory (SF)</b>	5,372,213	1,916,259	343,753	7,632,225
<b>Direct Vacant (SF)</b>	1,203,785	264,466	23,000	1,223,232
<b>Availability Rate</b>	22.4 %	21.7 %	10.3 %	21.7 %
<b>Net Absorption (SF)</b>	(70,280)	14,106	(2,800)	(58,974)
<b>New Product (SF)</b>	0	0	0	0
<b>Average Asking Rate (/ SF)</b>	\$5.91 (NNN)	\$4.76 (NNN)	\$10.15	\$5.73 (NNN)



### EXPERT ANALYSIS

"I foresee a brighter future for the Upstate flex market in the coming months. With the newly announced expansions and developments entering the Upstate market such as the ZF Group's \$350 million manufacturing facility, CT & T's need for a new facility here, and others such as Proterra, there will be an increased demand for quality flex space. Not to mention the many vendors that will emerge to support these large companies, which will need facilities in close proximity and will be on the lookout for available space in the market. Good things are happening in the Upstate and if property owners/investors are patient, they will begin seeing results of the increased activity and returns on their investments."

- Tim Bright

### UPSTATE SC COMMERCIAL REAL ESTATE FIRMS ♦ FLEX MARKET RANKINGS

Company Name	# of Deals	Deals by SF	~ # of Brokers	City,
1. NAI Earle Furman	10	38,548	28	Greenville
2. Bentley Commercial/CORFAC INTERNATIONAL	4	24,396	9	Greenville
3. Langston-Black	3	24,700	24	Greer
4. Covington	3	4,650	2	Greenville
5. Carolina Holdings	2	5,250	4	Greenville

Source: Co-Star Group (Based on deals closed in past 180 days.)

For more information, please contact our Flex Market Experts:

**Richard Barrett**  
rbarrett@bentleycommercial.com

**Tim Bright**  
tbright@bentleycommercial.com

TOTAL MARKET			GREENVILLE		
	MID YEAR 2010	YEAR END 2009		MID YEAR 2010	YEAR END 2009
VACANCY RATE	16.1 %	14.1 %	VACANCY RATE	17.5 %	13.9 %
NET ABSORPTION (SF)	(58,974)	(25,014)	NET ABSORPTION (SF)	(70,280)	63,190
RENTAL RATE (/SF)	\$5.73	\$5.88	RENTAL RATE (/SF)	\$5.91	\$6.20

SPARTANBURG			ANDERSON		
	MID YEAR 2010	YEAR END 2009		MID YEAR 2010	YEAR END 2009
VACANCY RATE	14.1 %	15.7 %	VACANCY RATE	6.7 %	7.2 %
NET ABSORPTION (SF)	14,106	(83,342)	NET ABSORPTION (SF)	(2,800)	(5,366)
RENTAL RATE (/SF)	\$4.76	\$4.73	RENTAL RATE (/SF)	\$10.15	\$8.50

### STATISTICAL SUMMARY

Looking at the stats above for the Flex Market in the Upstate, it may seem as though we are still in the downturn with declining rental rates, increasing availability, and negative net absorption; however, we firmly believe that this is simply the sign that things have bottomed and are stabilizing.

It has become a tenants market. They now have better options and can get the space they need and want for an affordable rate and attractive lease term. Once this state of "great deals" provides incentive for tenants to occupy space, the availability will decrease and net absorption will increase, thus, creating a demand for space that will in return cause the rental rate to climb. We are confident these figures will look very different after the first two quarters of 2011.

### SLOW, YET SUSTAINING RECOVERY

As the market starts a slow comeback, it's being driven by improved fundamentals.

The U.S. industrial market is expecting a slow, sustained recovery for the rest of 2010. Although manufacturing and retail sales have improved, a more robust jobs recovery globally is needed before extended growth can occur in the industrial sector.

The first quarter of 2010 represented the 10th consecutive quarter of rising vacancy rates in the U.S. industrial sector. Indeed, the vacancy rate has risen from 7.9% in the fourth quarter of 2007 to 10.9% in the first quarter of 2010, reports brokerage firm Grubb & Ellis.

Net absorption, a measure of demand, measured negative 160 million sq. ft. in 2009. That unhealthy figure was driven in part by new supply as completions totaled 61 million sq. ft. By the end of 2009, the construction pipeline had less than 20 million sq. ft. under way with starts almost nonexistent.

The average asking rent dropped 6.2% in 2009 for warehouse and distribution space, 2.8% for general industrial space and 8.5% for flex space. The average effective rate for all types of industrial space decreased by 12% as landlords made concessions to tenants, including free rent and tenant improvement allowances.

Following a bruising stretch, however, vacancy, absorption and rental rates are showing signs of stabilizing as the drivers of demand for industrial space — manufacturing activity, freight shipments, global trade and retail sales — have been improving for several months.

Source: nreionline.com

TOP FLEX SALE TRANSACTIONS 2010 (Q1 & Q2)				
BUYER	LOCATION	SIZE (SF)	SALE PRICE	PRICE(/SF)
*Donald Allen	25 Airpark Court Greenville	15,375	\$1,500,000	\$97.56
Compass Investment Group, LLC	3321 Hwy 24 Greenville	5,000	\$115,000	\$23.00
Procure Medical, LLC	703 Laurens Road Greenville	2,400	\$100,000	\$41.67
TJR, LLC C/O Reid Hipp	1186 Pendleton Street Greenville	14,000	\$310,000	\$22.14
RW Lockhart Living Trust	2161 Ridge Road Greenville	10,000	\$595,000	\$59.50

TOP FLEX LEASE TRANSACTIONS 2010 (Q1 & Q2)			
BUSINESS NAME	LOCATION	BUILDING SIZE (SF)	LEASE RATE(/SF)
*DLI Transportation	111 Smith Hines Rd. Greenville	1,761	\$5.95
Anything Concrete Decorative	107 Ben Hamby Ln. Greenville	4,800	\$6.25
*Gel Engineering	111 Smith Hines Rd. Greenville	1,938	\$10.00
Floor Covering	1200 Woodruff Rd. Greenville	3,000	\$9.40
Chapman Mechanical, Inc.	348 Feaster Rd. Greenville	1,500	\$7.10

\*Bentley Commercial Deals

### Market Bottom Proves Elusive for U.S. Warehouse Market

Although demand for U.S. warehouse and flex space continued to decline in the first quarter of this year, the declines are flattening and analysts for CoStar Group and other leading commercial real estate players agree that the national industrial leasing market appears to be at or very near the bottom. On the plus side, the national vacancy rate for industrial and flex property is flattening and leasing activity has continued to rebound after hitting an all-time low in early 2009. The U.S. industrial vacancy rate edged up slightly to 10.5% in the first quarter, although the availability rate - space being marketed by brokers which may not be vacant yet -- rose at a slightly higher clip to just under 15%. Forecasters had hoped to see an initial return to positive absorption in the first quarter after the market posted 13 million square feet in the red during the fourth quarter. However, another 19 million square feet of negative absorption occurred in {first quarter} 2010 --{which was} far below the first and second quarters of last year, which wracked up negative absorption of 62 million square feet, Spivey noted.

Drivers of demand for industrial space have been improving for several months, including manufacturing, freight shipments, imports and exports, inventory restocking and retail sales, Bach noted. But it will take a while for many of these indicators to make up ground lost to the steep economic decline in late 2008. Walter C. Rakowich, CEO for ProLogis (a leading industrial REIT, also agreed that the market appeared to be turning. But the warehouse giant found signs of improvement hard to discern in the first quarter. "We hear great things about the recovery and we believe it will have a positive impact on our performance, but industrial tends to lag the overall economy, and we are not seeing it just yet," Rakowich said in the company's first-quarter earning call last week. "On the one hand, the operating environment is still soft, although it feels like it has hit bottom. On the other hand, values have risen, buyers are plentiful and there is rising activity and optimism in the market.

In addition, there is virtually no new supply and our development business is picking up abroad very nicely." ProLogis rival AMB Property Corp. was more positive in its assessment of the first quarter, reporting an encouraging uptick in leasing in tandem with quarter-end occupancy that continues to significantly outpace the U.S. rate. "We continue to expect improvement in occupancy in the second half of this year and gain further traction in to 2010. We believe that rents have bottomed in most of our markets today," said AMB Chief Financial Officer Thomas S. Olinger in a conference call. "Many of our customers are talking expansion for the second half of this year ... it certainly feels like brighter days are ahead, and if history were to repeat itself, fundamentals should improve by the third or fourth quarter," Rakowich said.

One overriding factor that cuts in the favor of industrial landlords is the near halt in new supply. Rental rates are also continuing to decrease in most markets -- and very significantly in some, but those discounts are also causing a burst of leasing activity in those markets. "We're forecasting stronger rent growth in tight markets over the next cycle, especially going into 2011, when these markets really pop," he said. "The non-supply-constrained markets should see unprecedented growth in occupancy and rents in the next cycle, because no new supply is kicking in."

Source: Co-Star