The State of the Commercial Real Estate Industry:

Third Quarter 2010 Industrial Review & Outlook

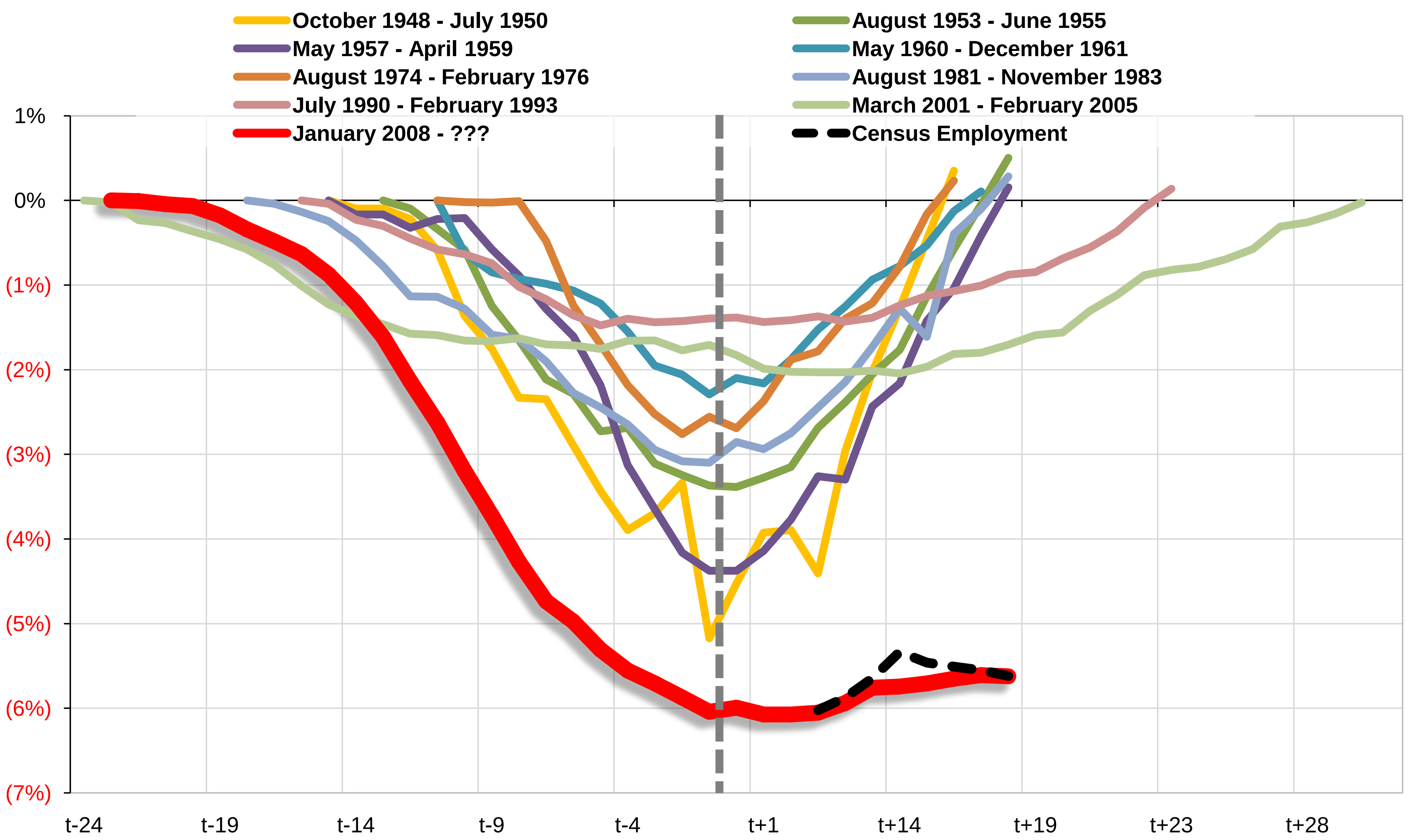
KNOW YOUR MARKET

Today

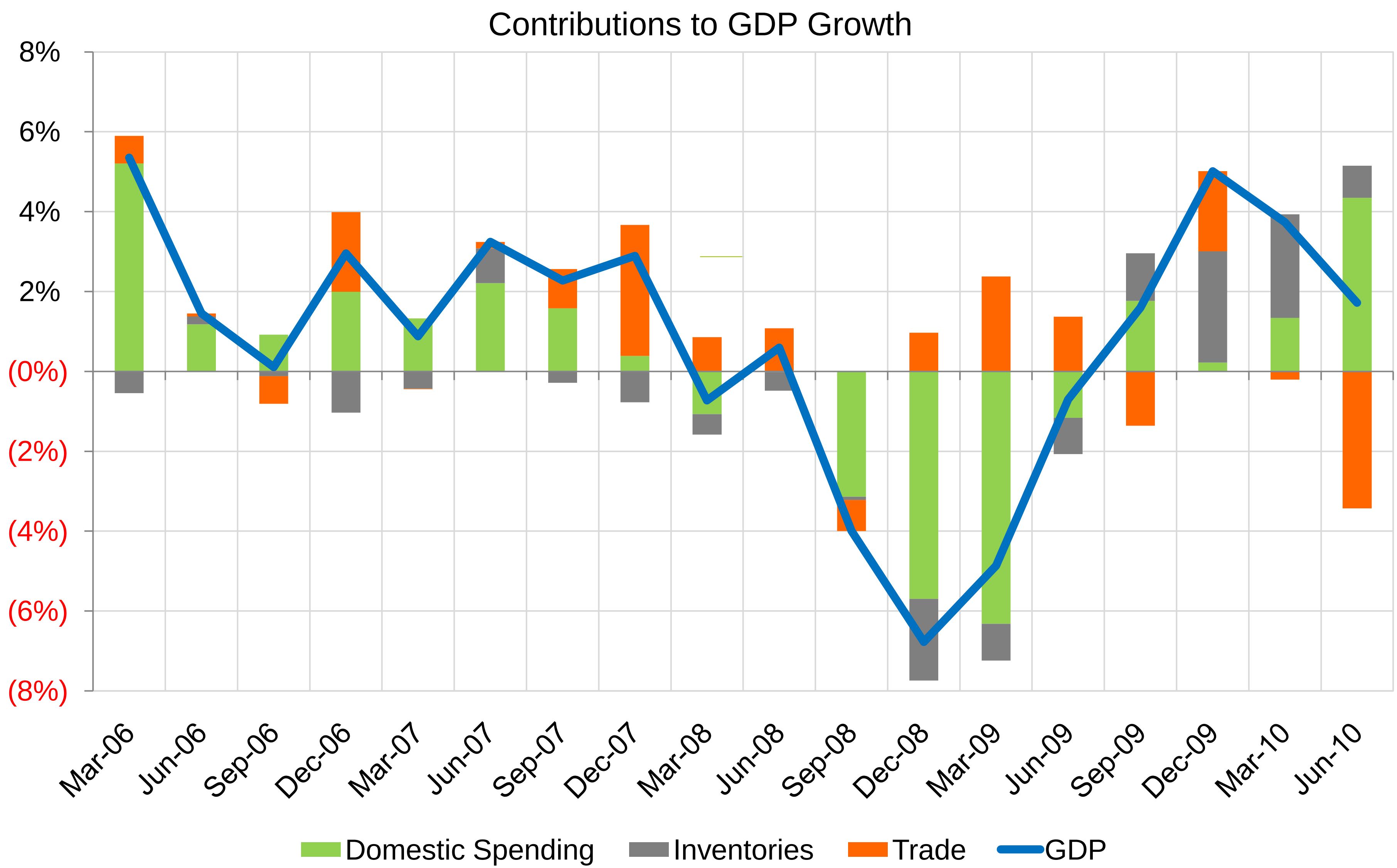
- The Economy
- Leasing Market Review & Outlook
- Spotlight: Ports
- The Capital Markets
- The Property Sales Market
- The Danger Zone
- Questions

The Economy

Worst Post-War Job Loss Periods – By % of Workforce (Excluding Census)

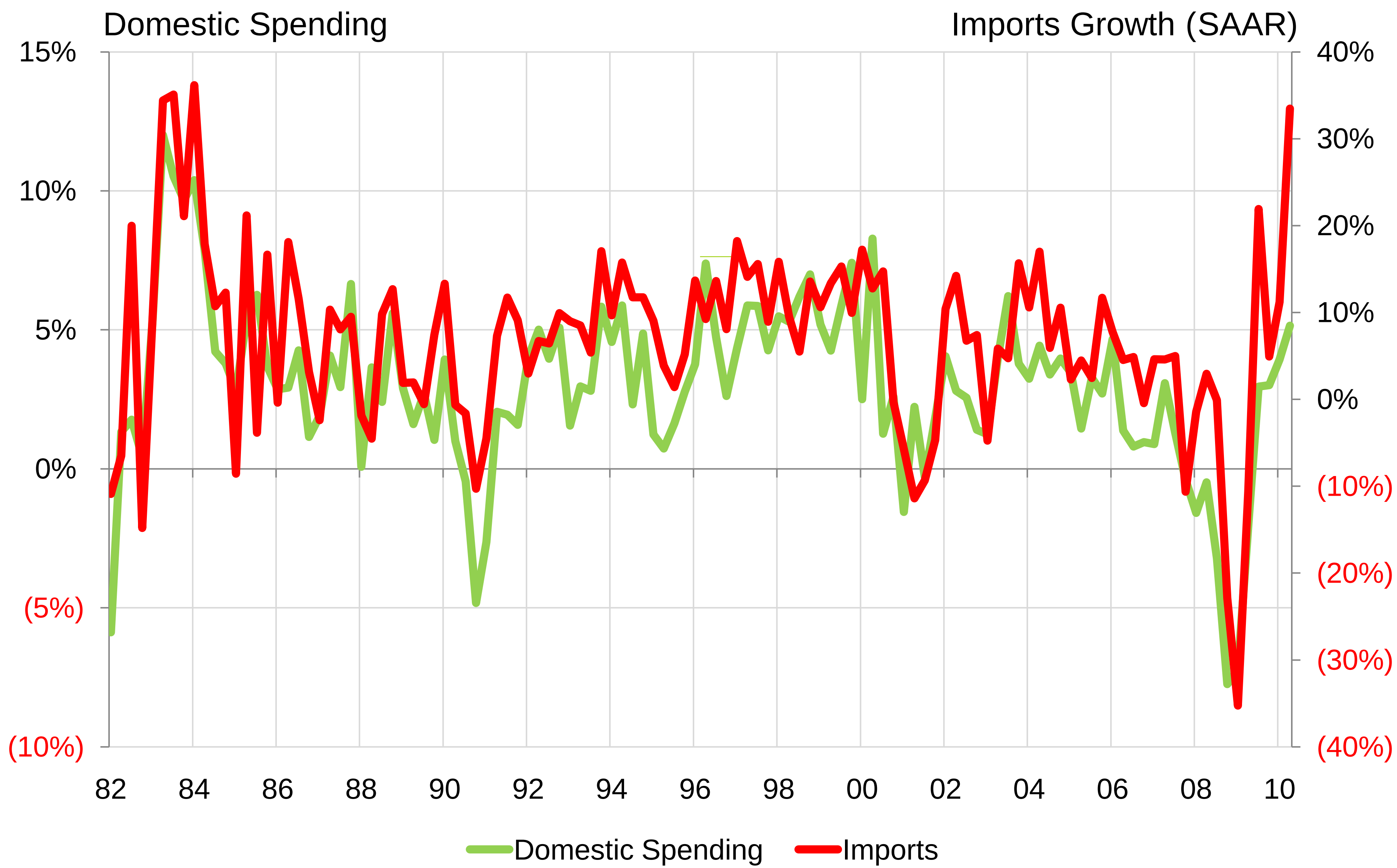


Recent Weakness is Entirely Trade-Related



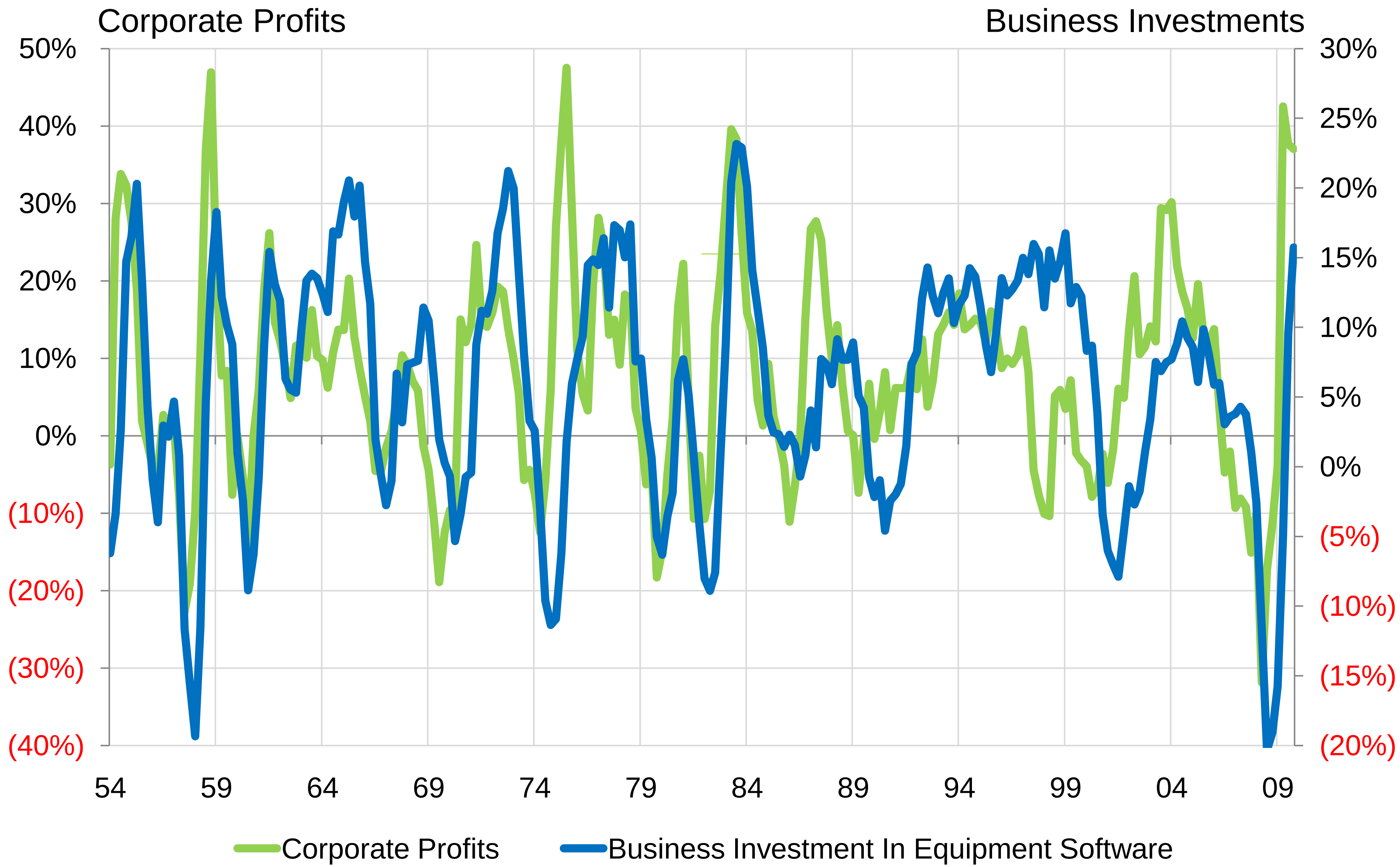
Source: BEA

Imports Have Been Unusually Strong



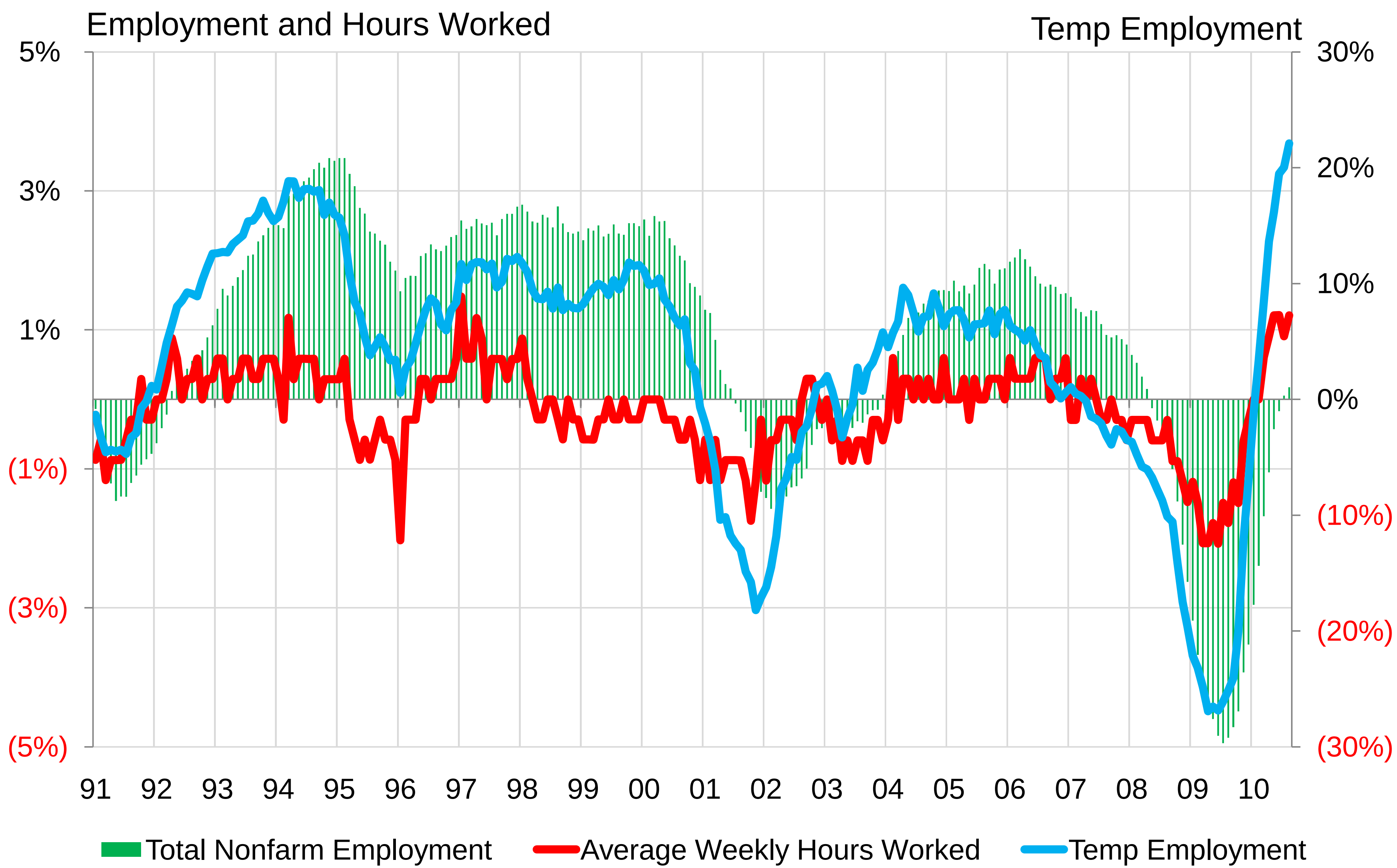
Source: BEA

Strong Earnings Will Support Business Investment



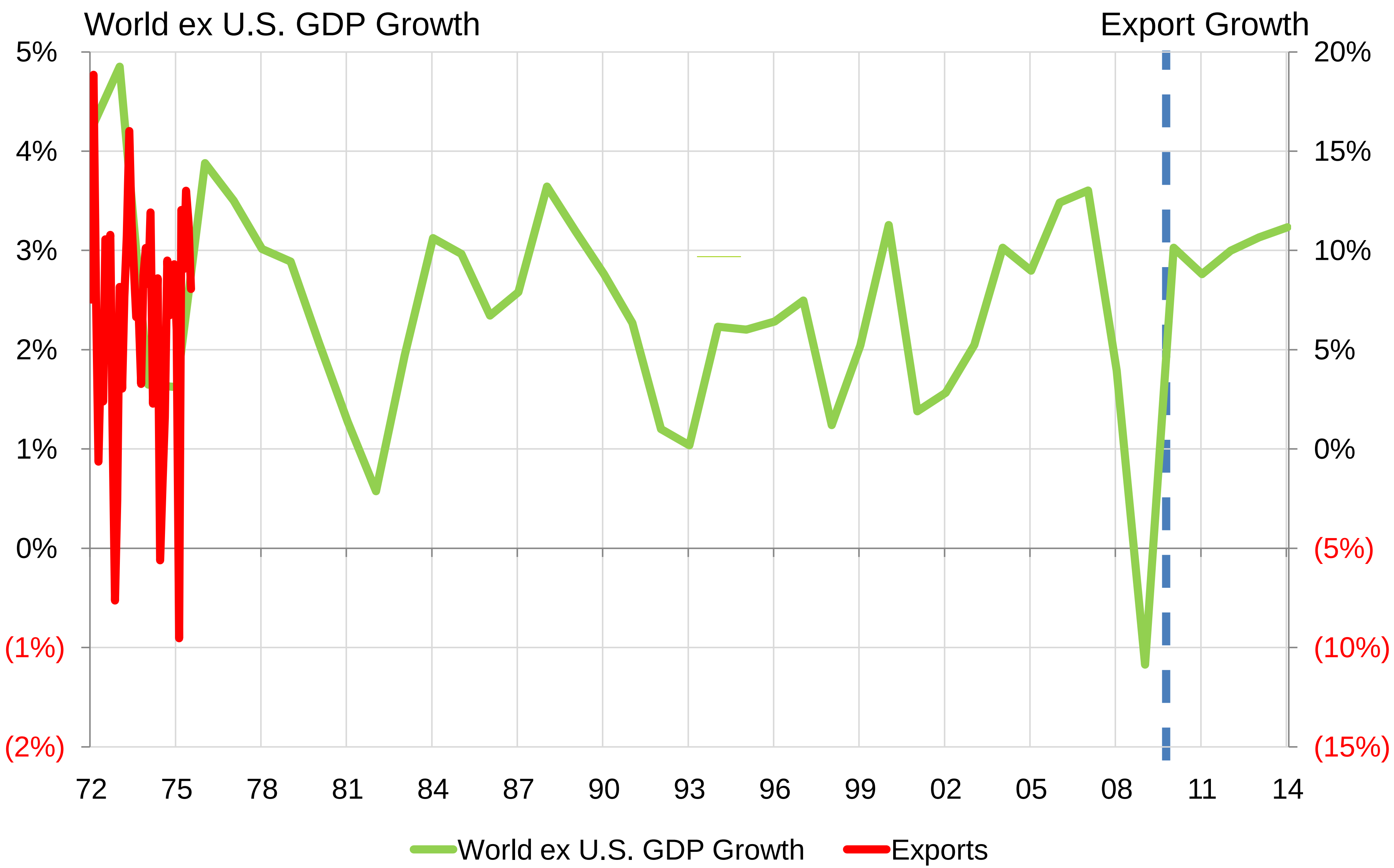
Source: Federal Reserve; BEA

Leading Indicators Signal More Job Creation



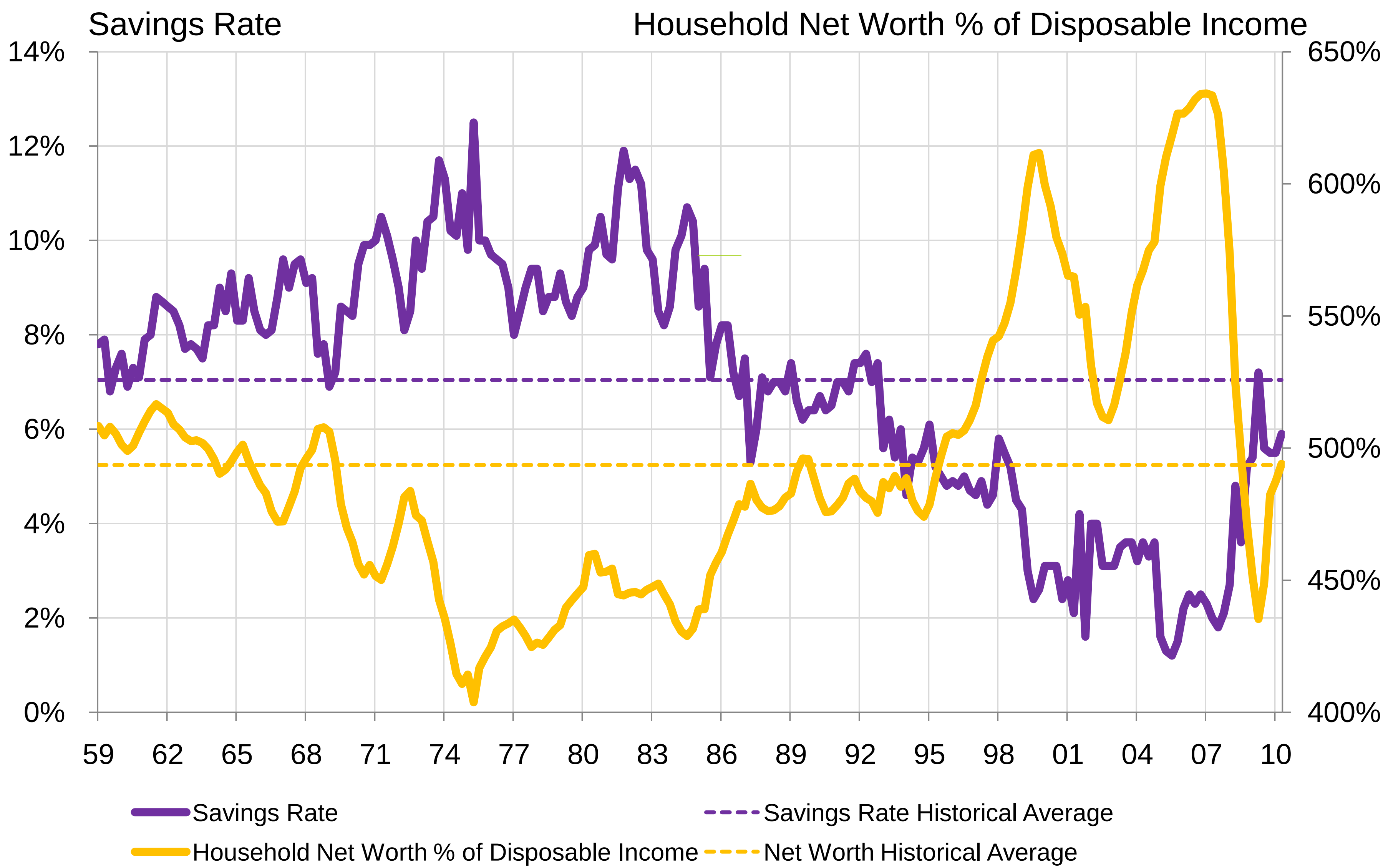
Source: BLS

Global Growth Will Drive Exports



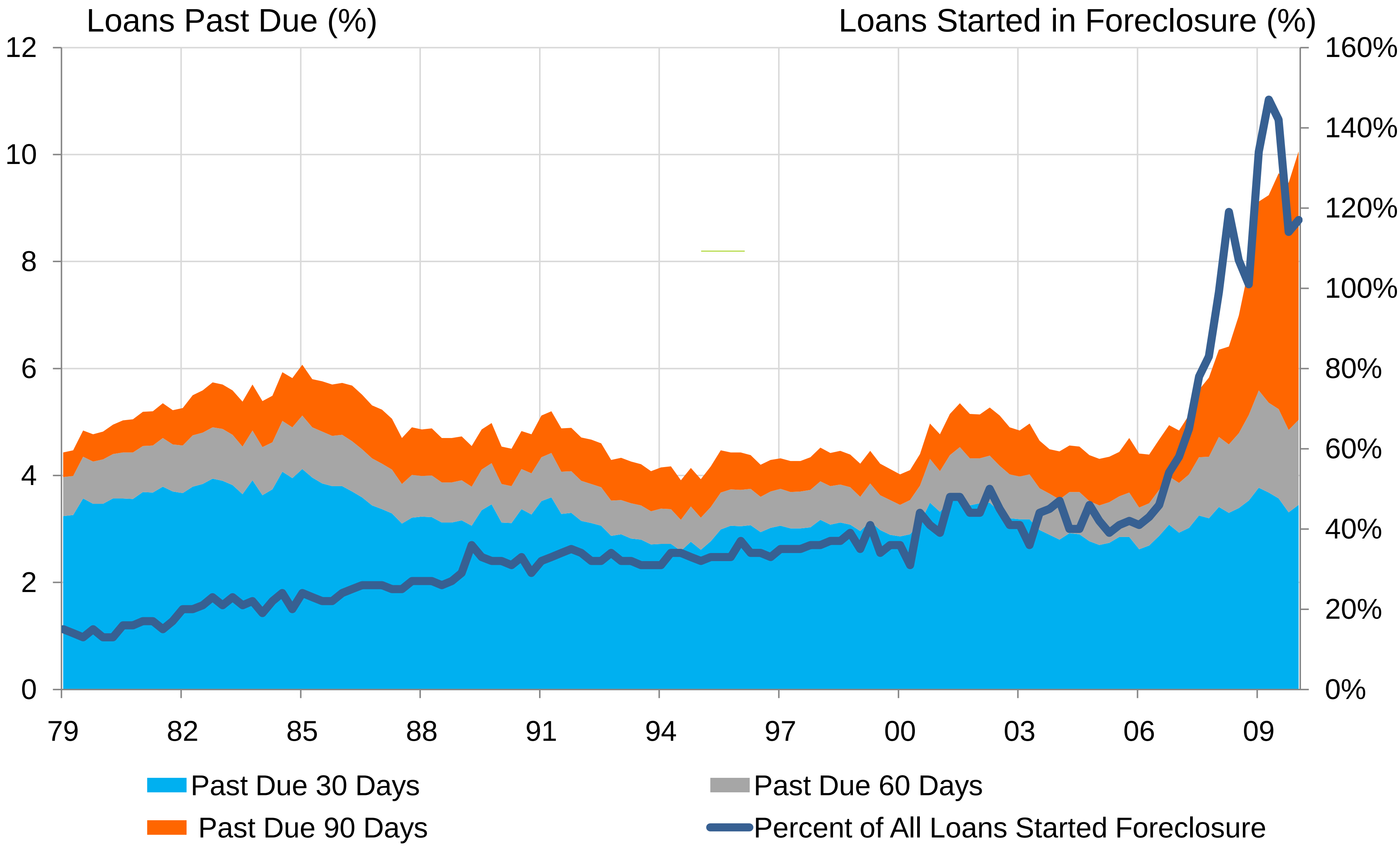
Source: BEA; Global Insight; Moody's Economy.com

A Return to Thrift?



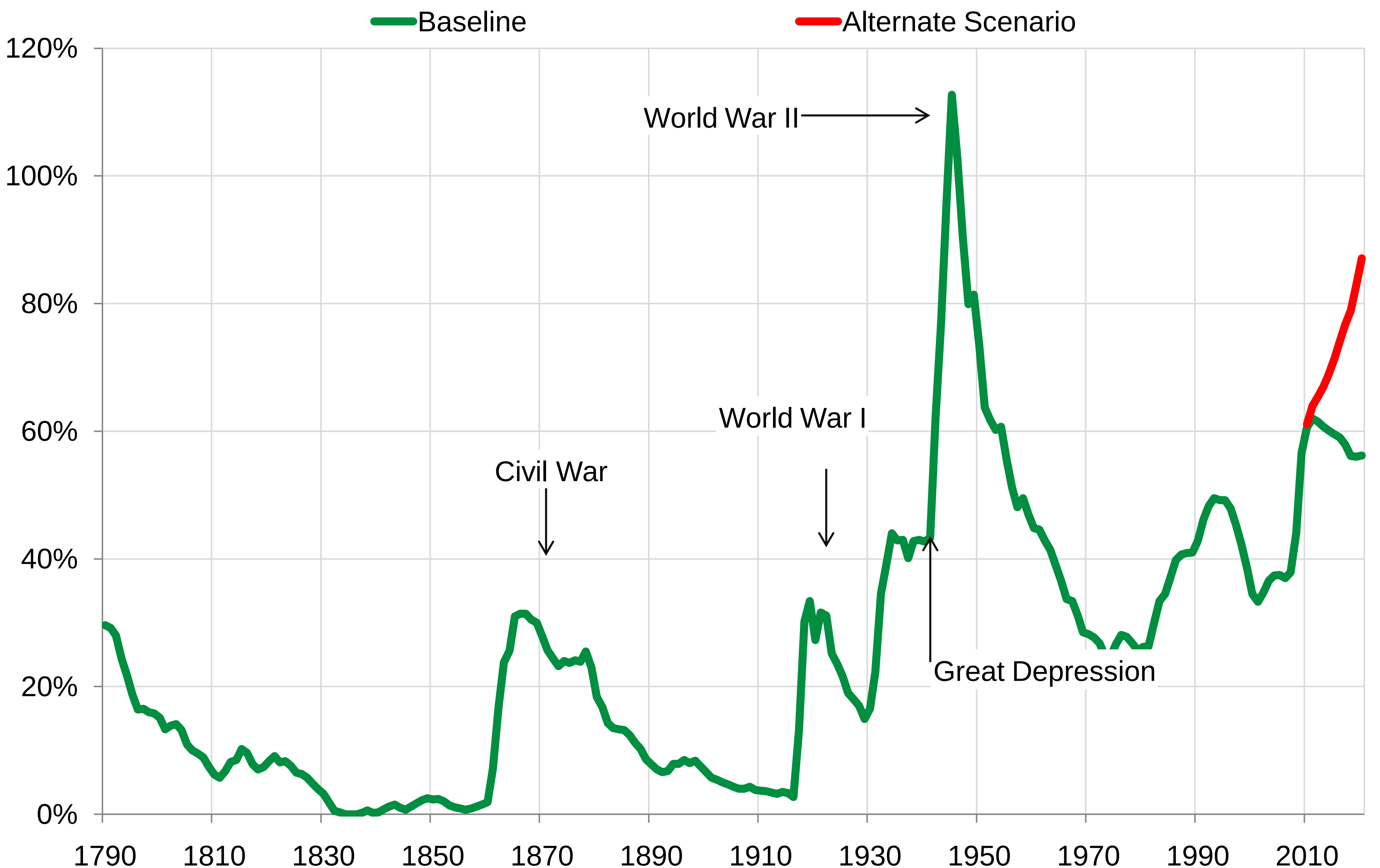
Source: Moody's Economy.com

Foreclosure Activity Isn't Over



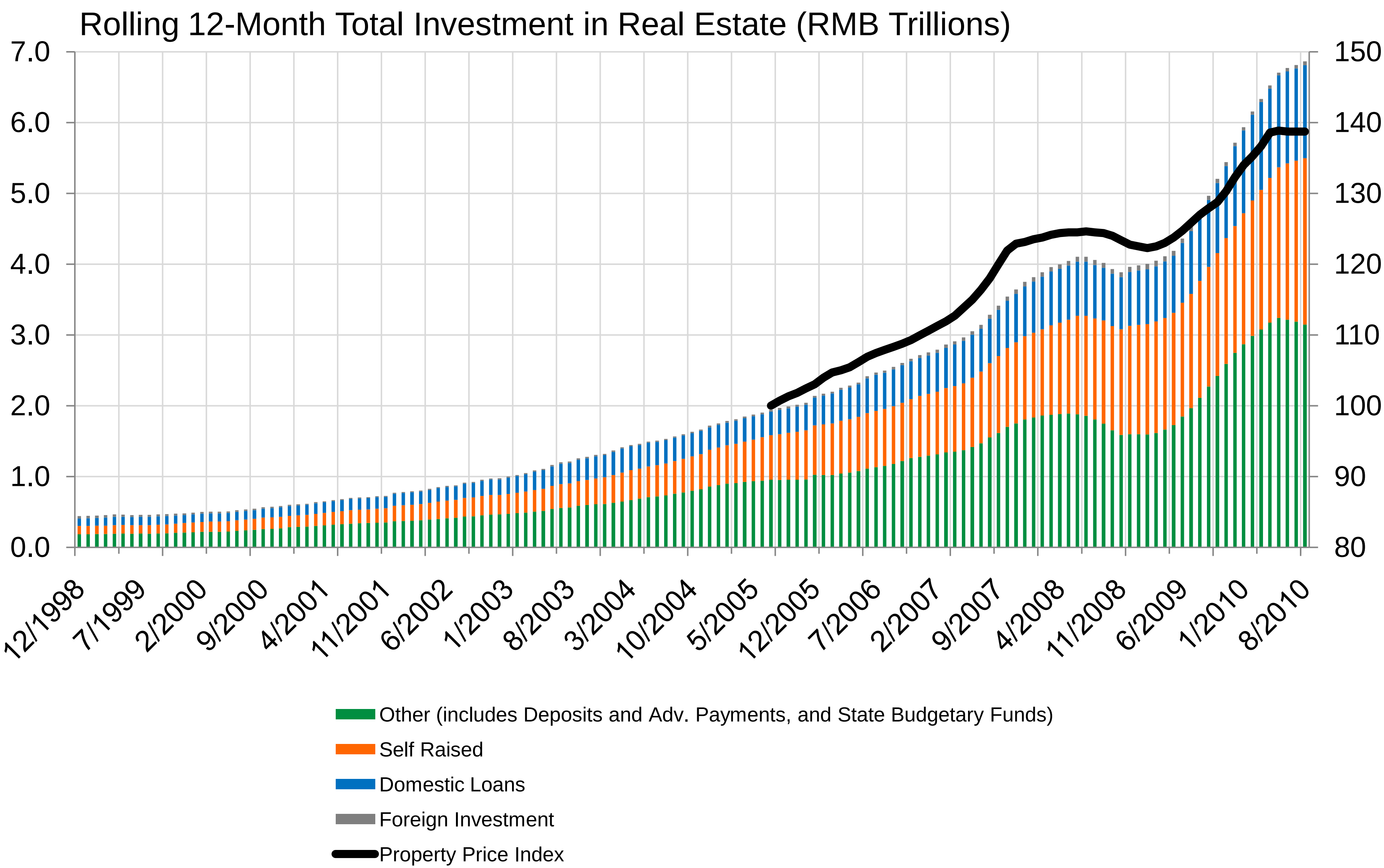
Source: MBA; Moody's Economy.com

Federal Debt Held By Public (% of GDP)



Source: CBO

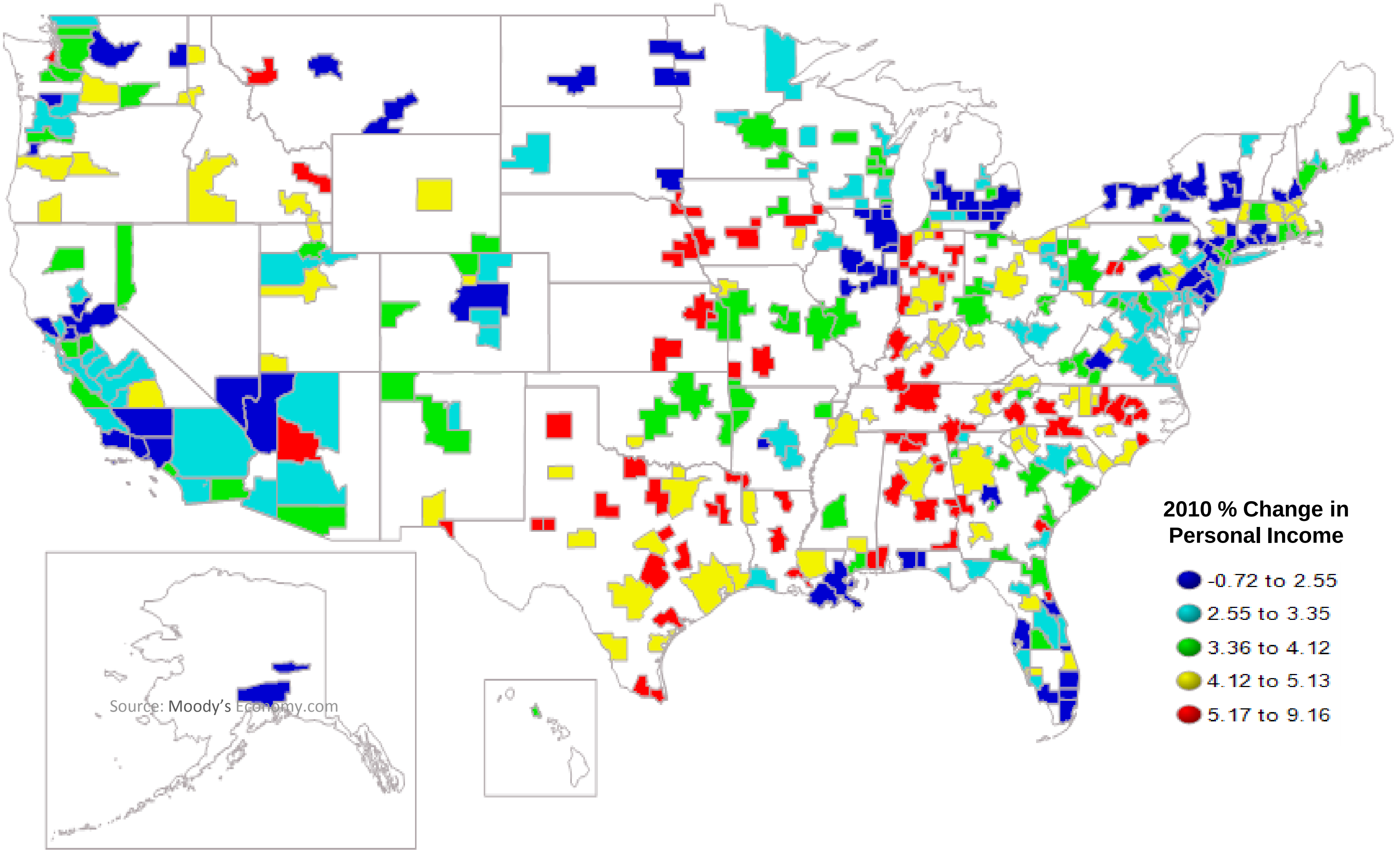
Credit Has Reinvigorated The (Chinese) Real Estate Sector



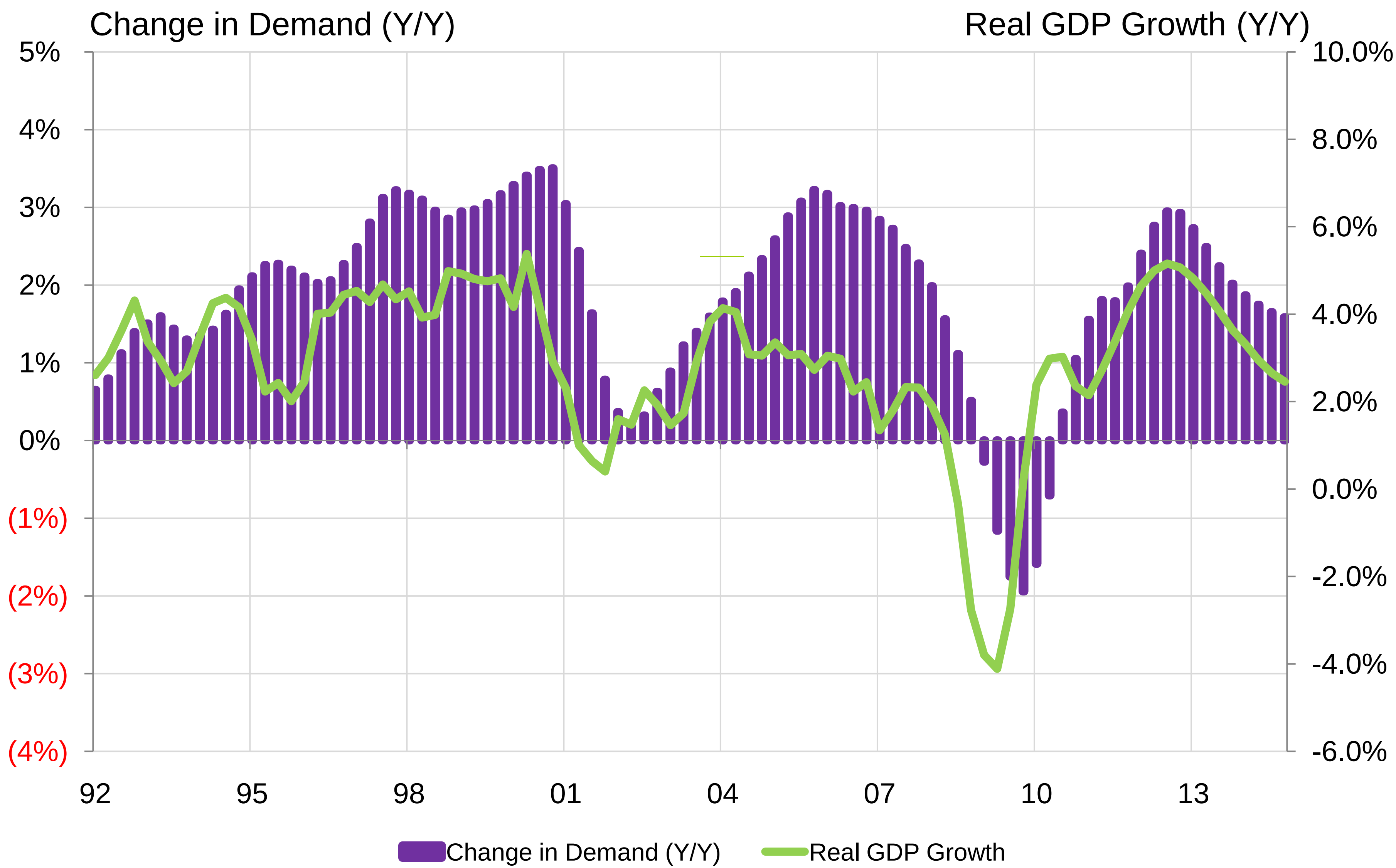
Source: National Bureau of Statistics

Where Might Holiday Sales Really Jingle?

CoStar Group



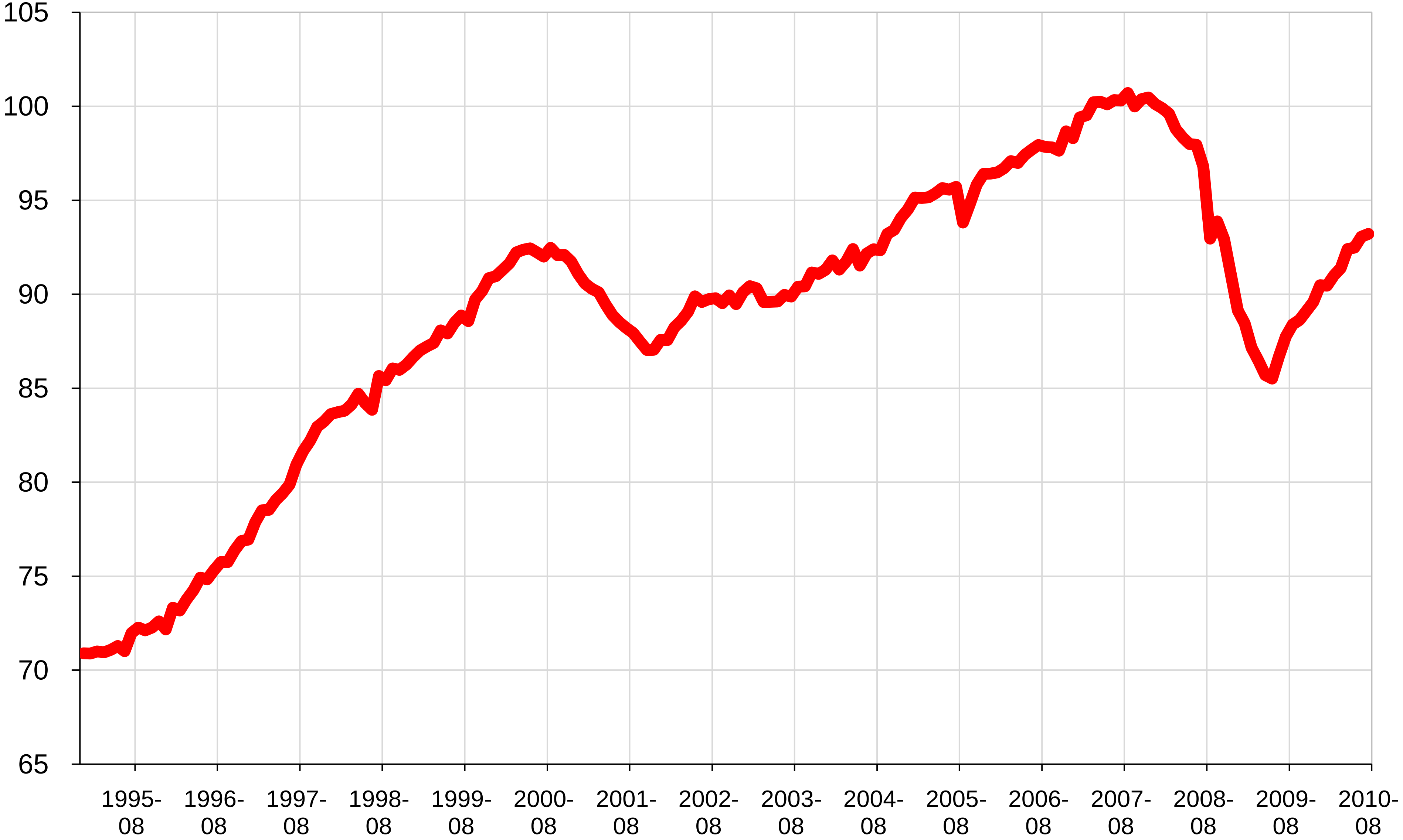
Warehouse Demand Is Tied To Economic Growth



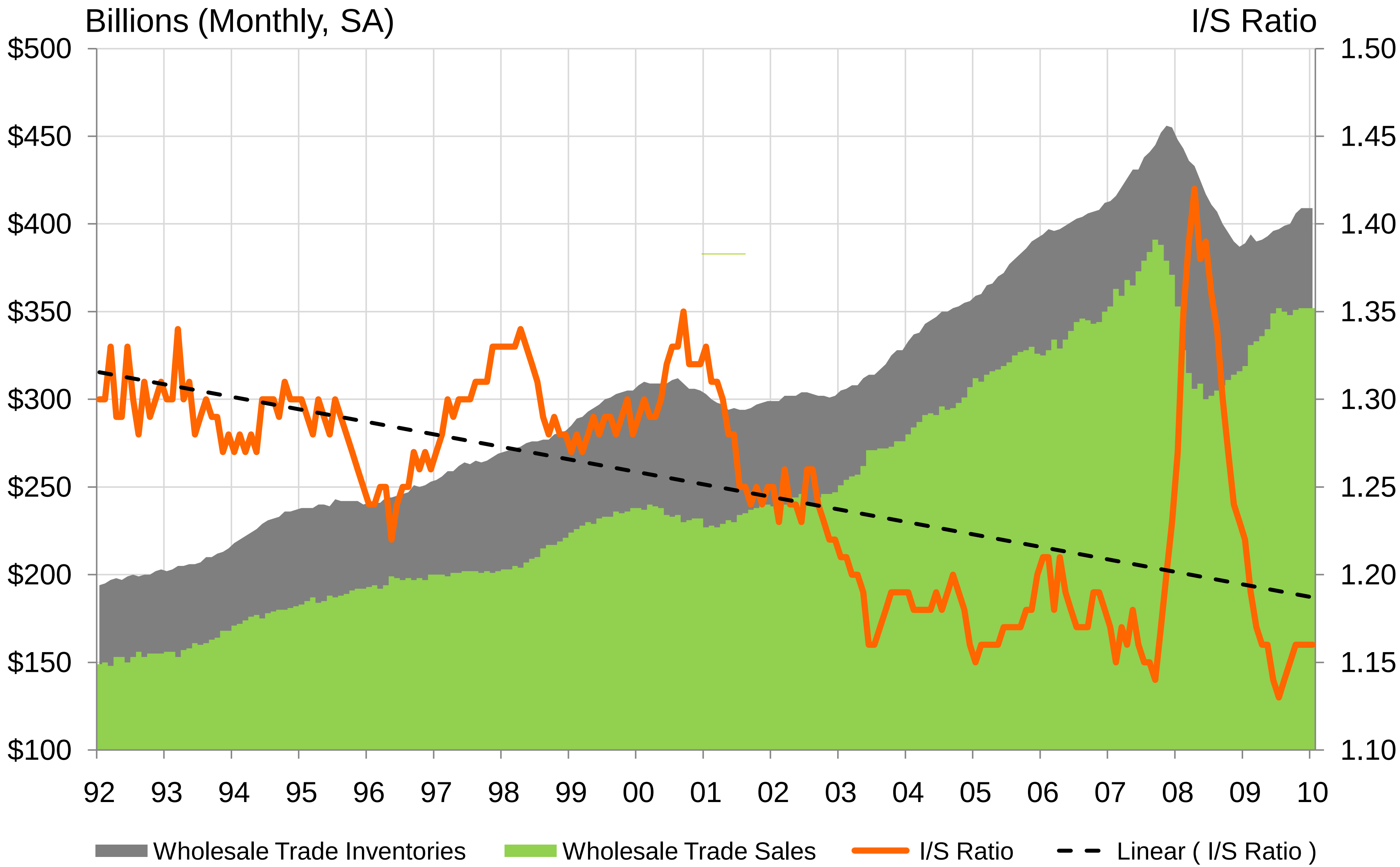
Source: Moody's Economy.com; PPR

As of 10Q2

Federal Reserve's Industrial Production Index



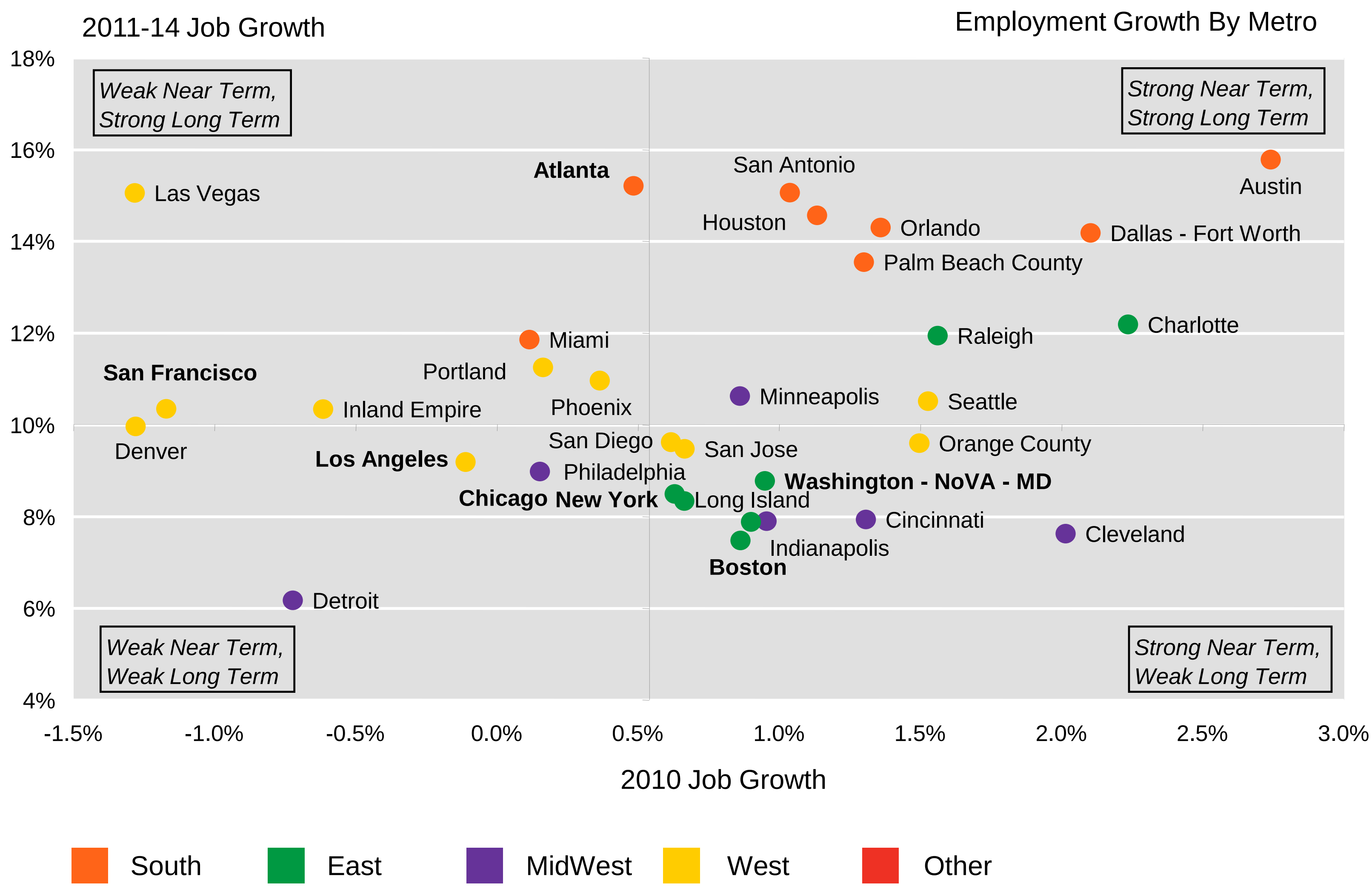
Inventories Running Lean



Source: US Census Bureau; Moody's Economy.com; PPR

As of 10Q2

Tech, Energy, And Demographics Will Drive Performance



Sources: Moody's Economy.com, BLS

Leasing Market Review and Outlook

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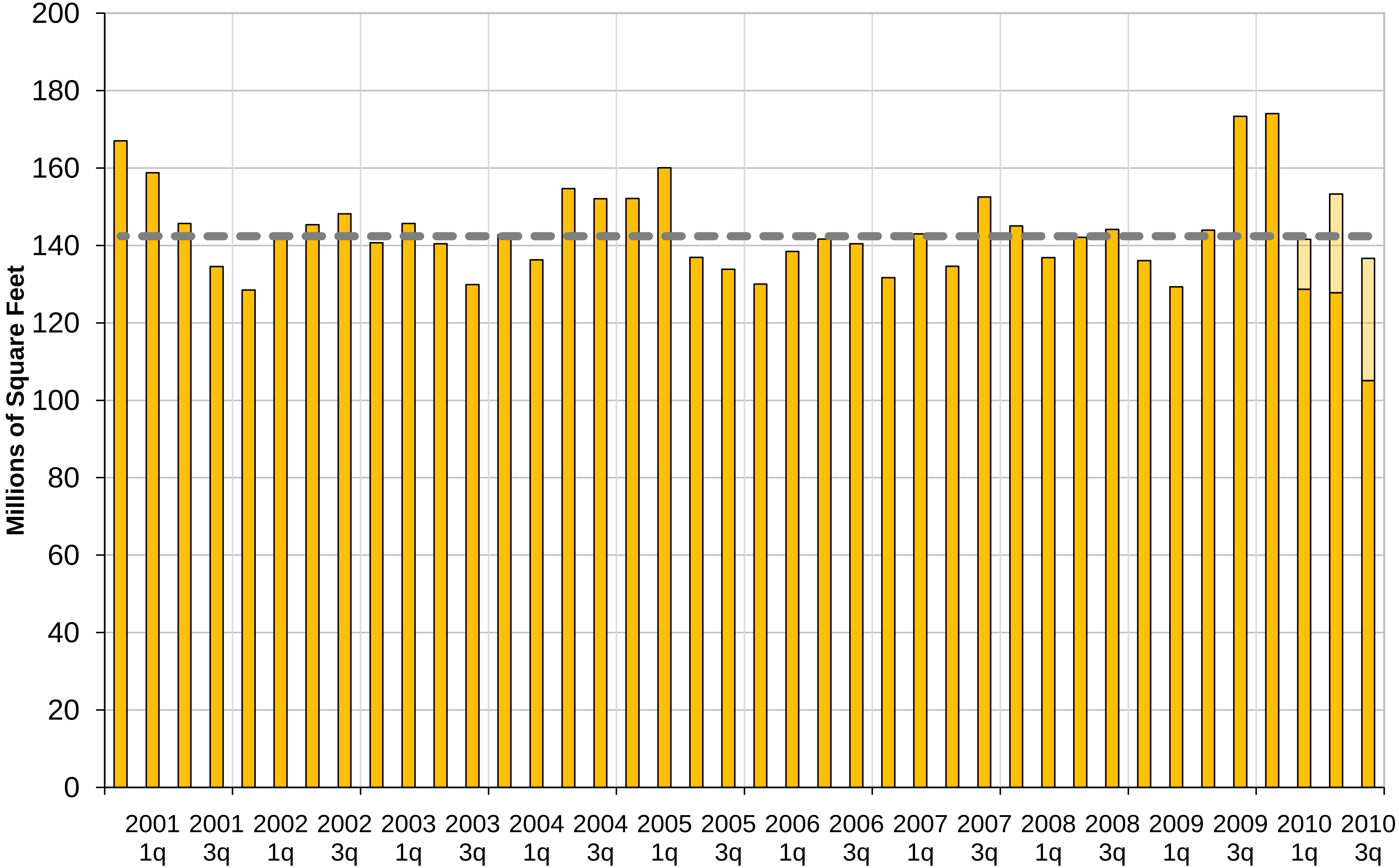
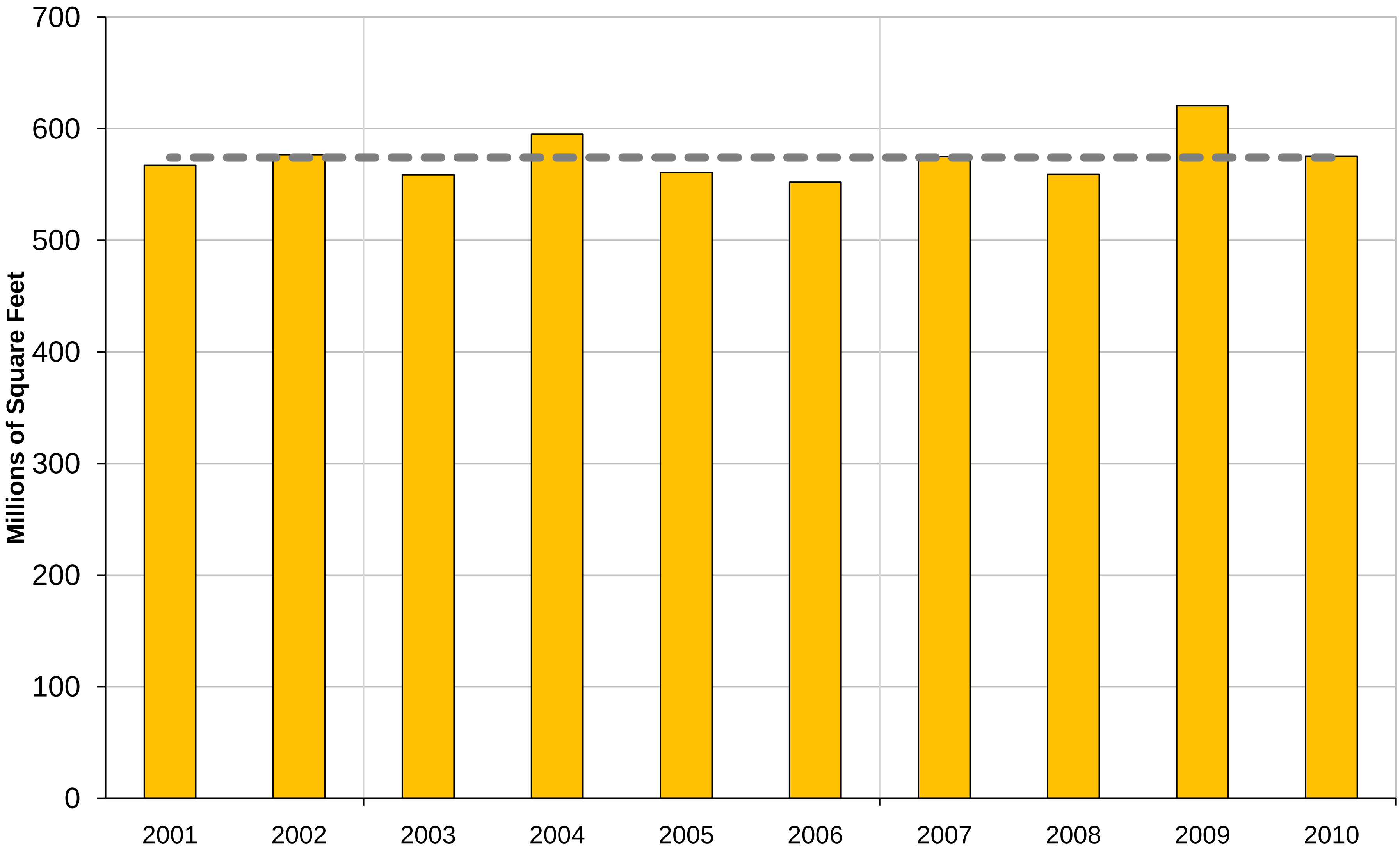
 Presented by Jay Spivey, Hans Nordby, and Shaw Lupton

U.S. Leasing Activity



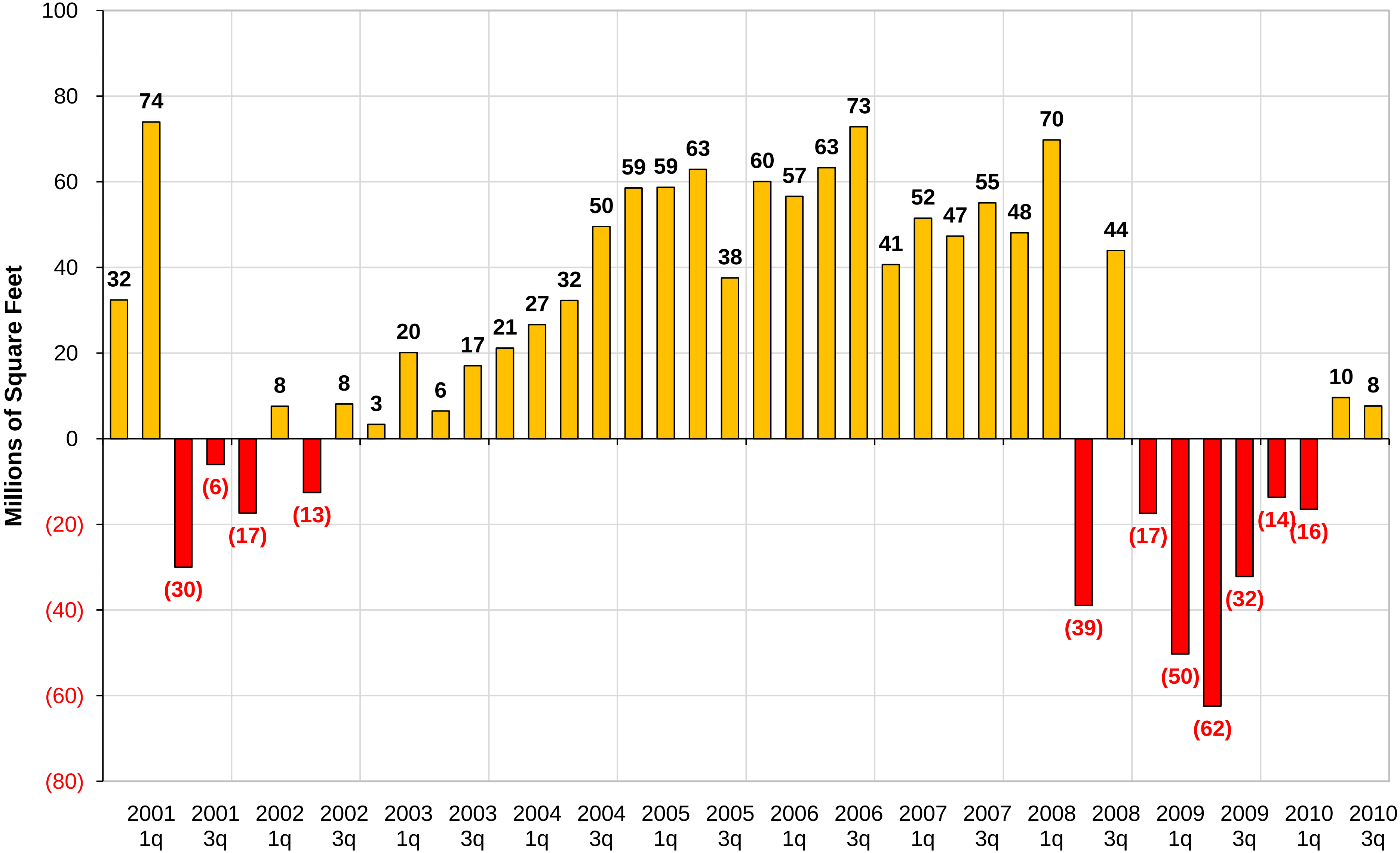
Source: CoStar Group

U.S. Leasing Activity by Year



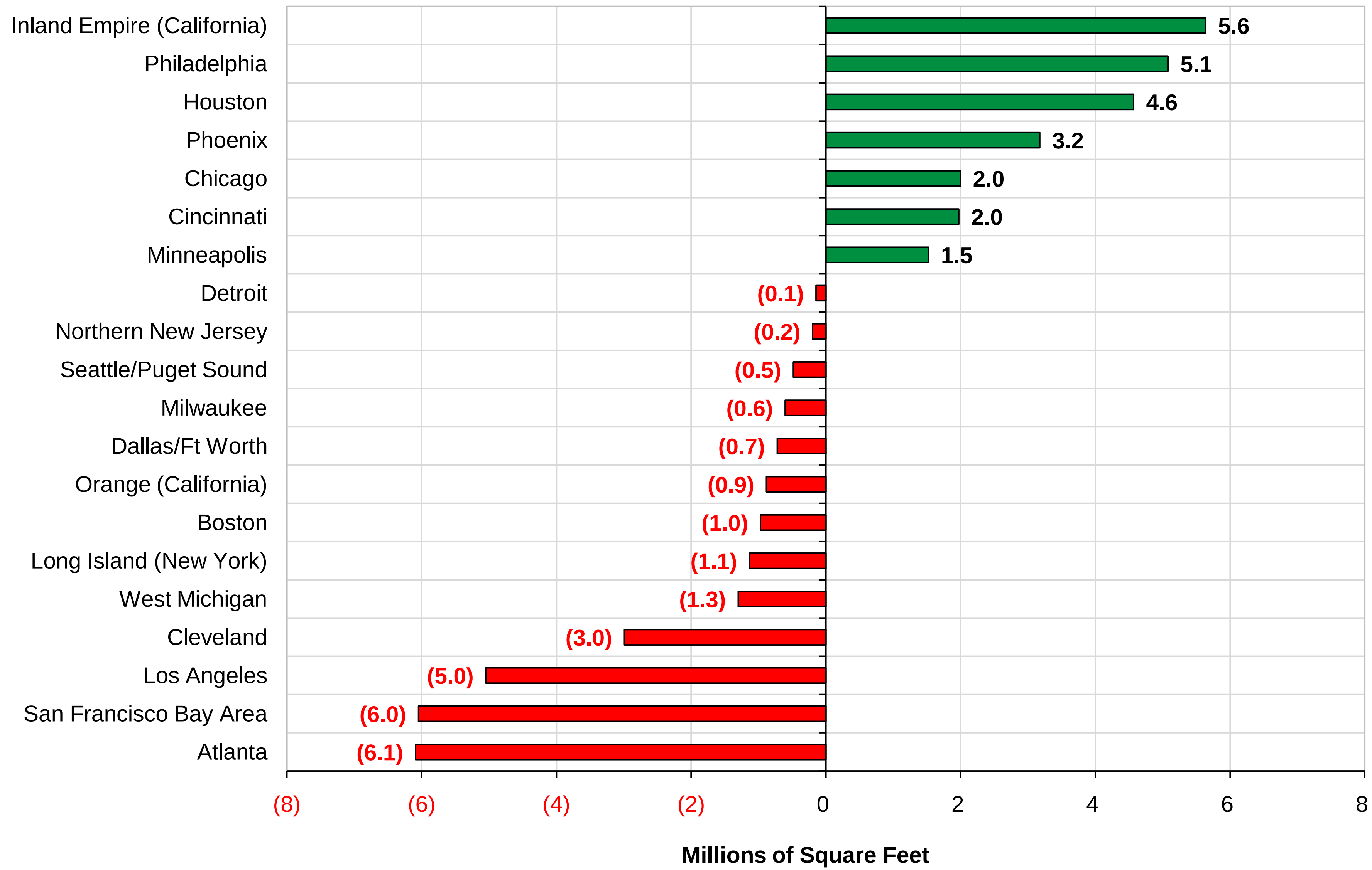
Source: CoStar Group

Historical Net Absorption



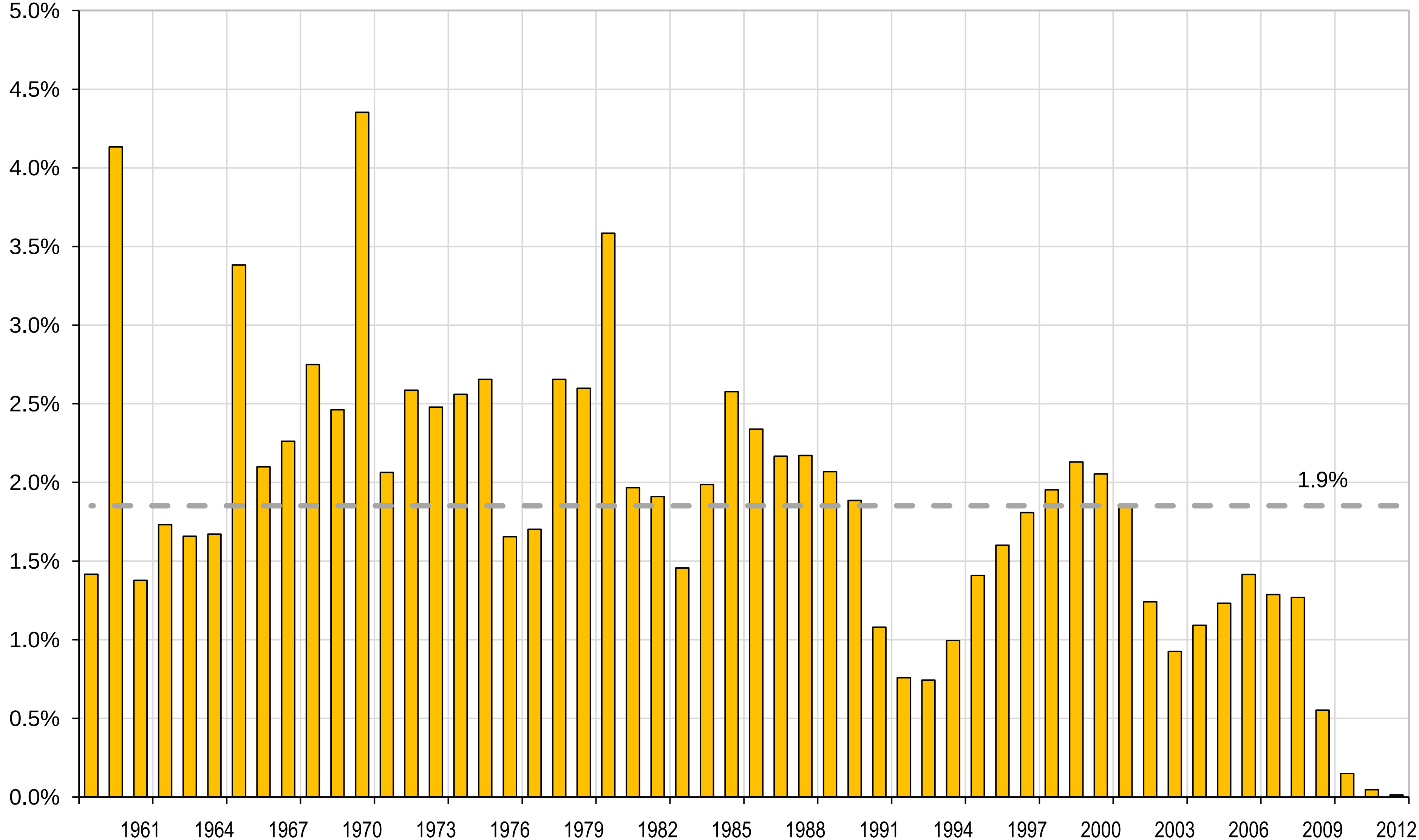
Source: CoStar Group

2010 Net Absorption – 20 Largest Markets



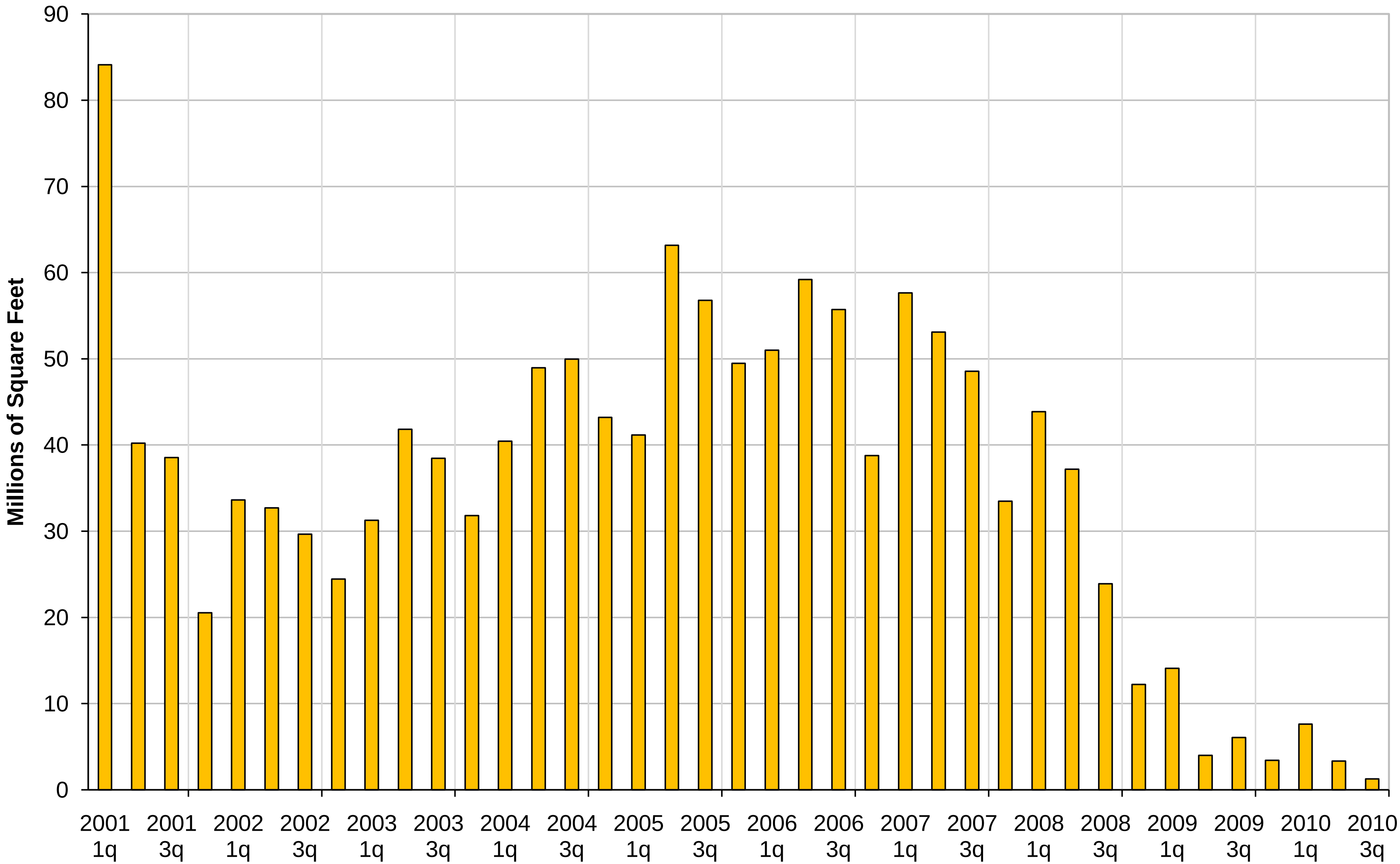
Source: CoStar Group

Deliveries By Year as % of Inventory



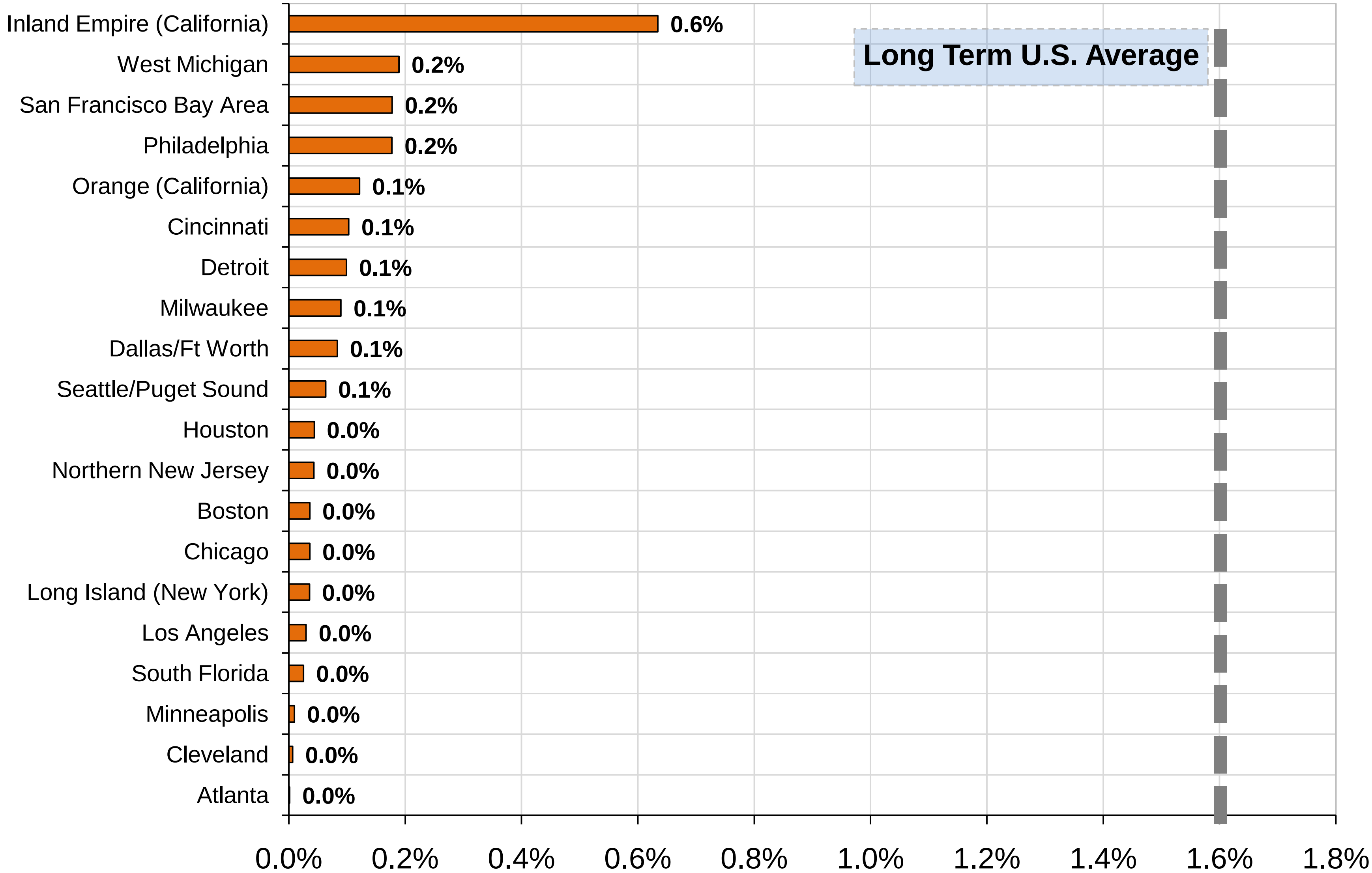
Source: CoStar Group

Construction Starts



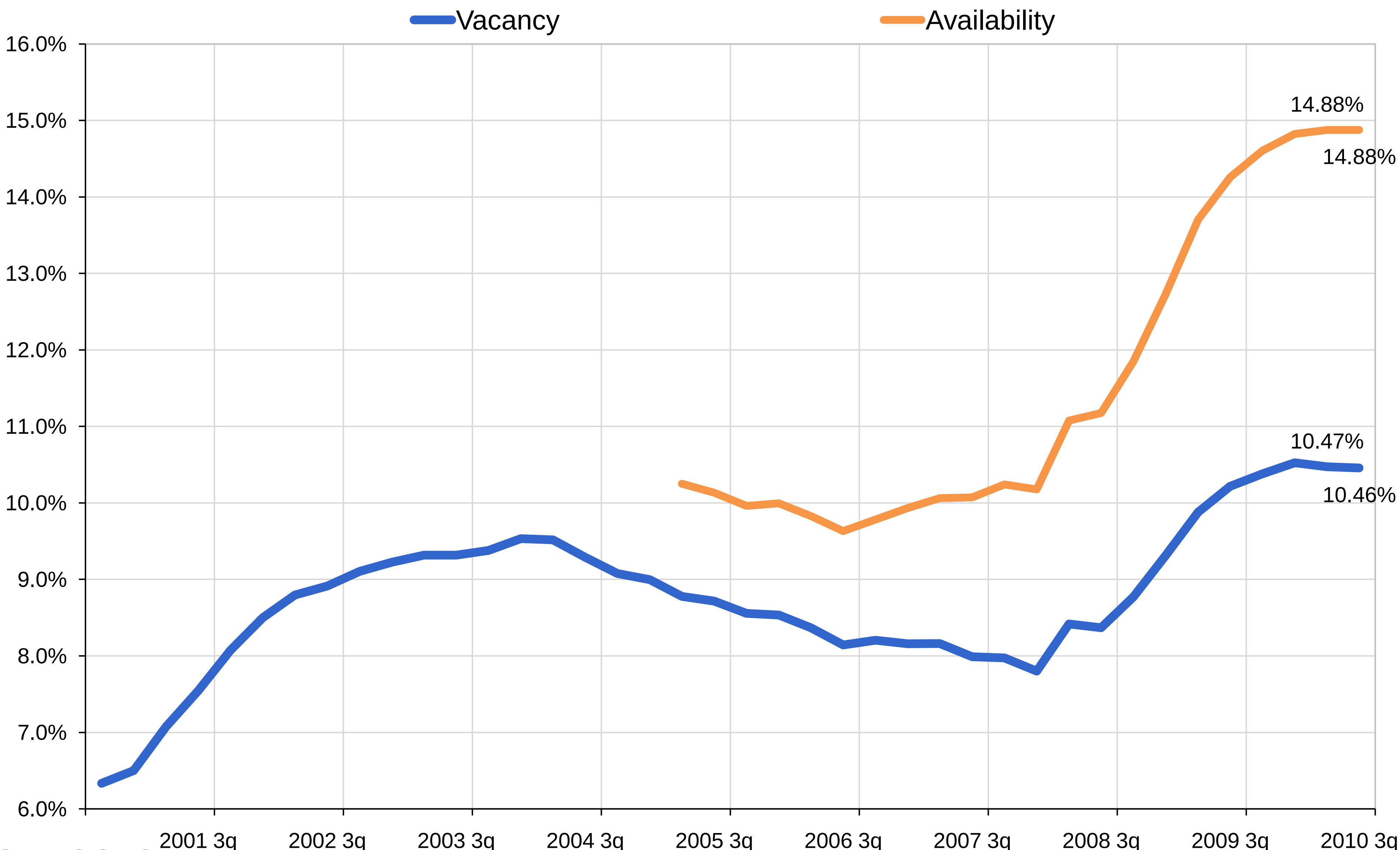
Source: CoStar Group

Under Construction – 20 Largest Markets (Percent of Stock)



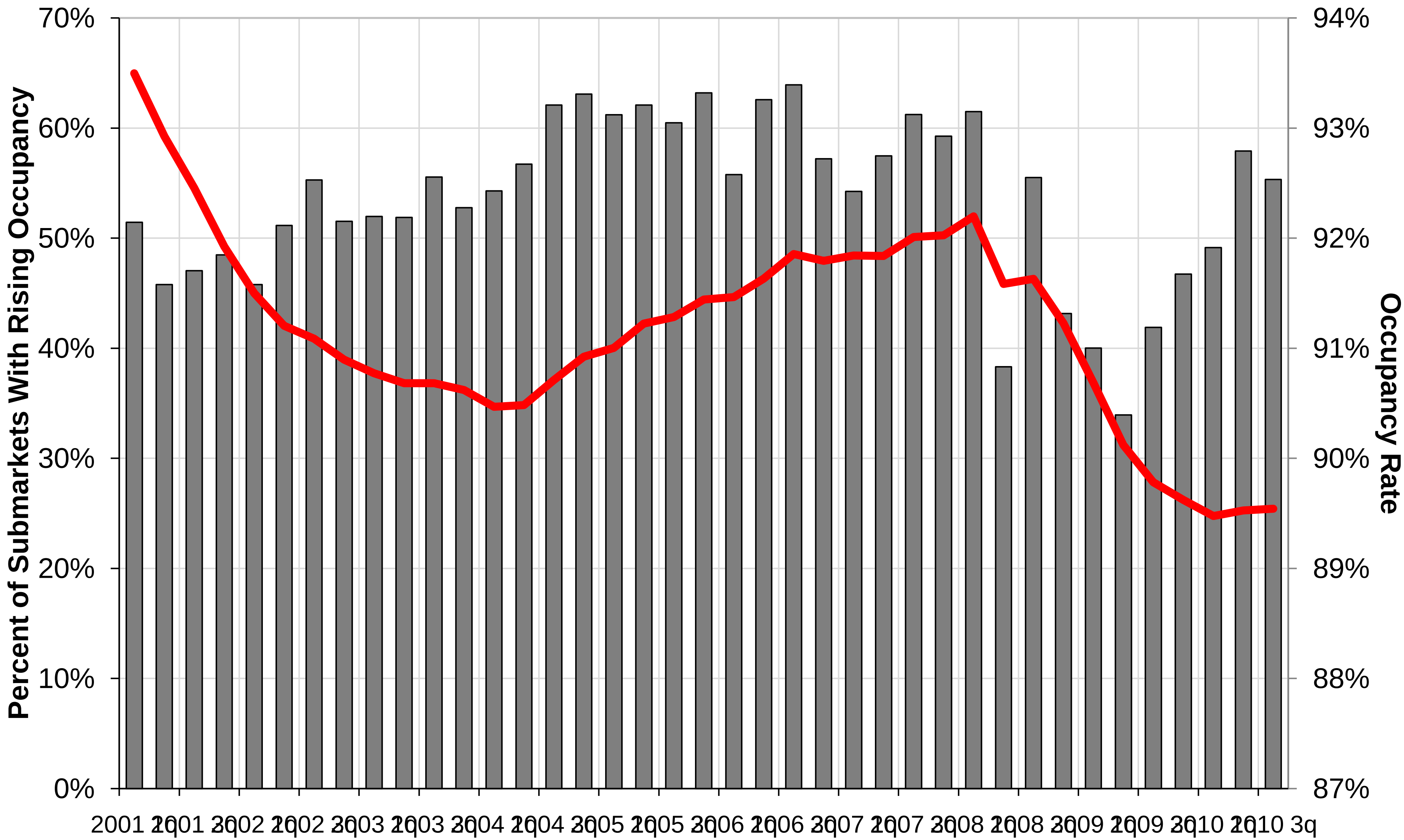
Source: CoStar Group

Historical Vacancy and Availability Rates



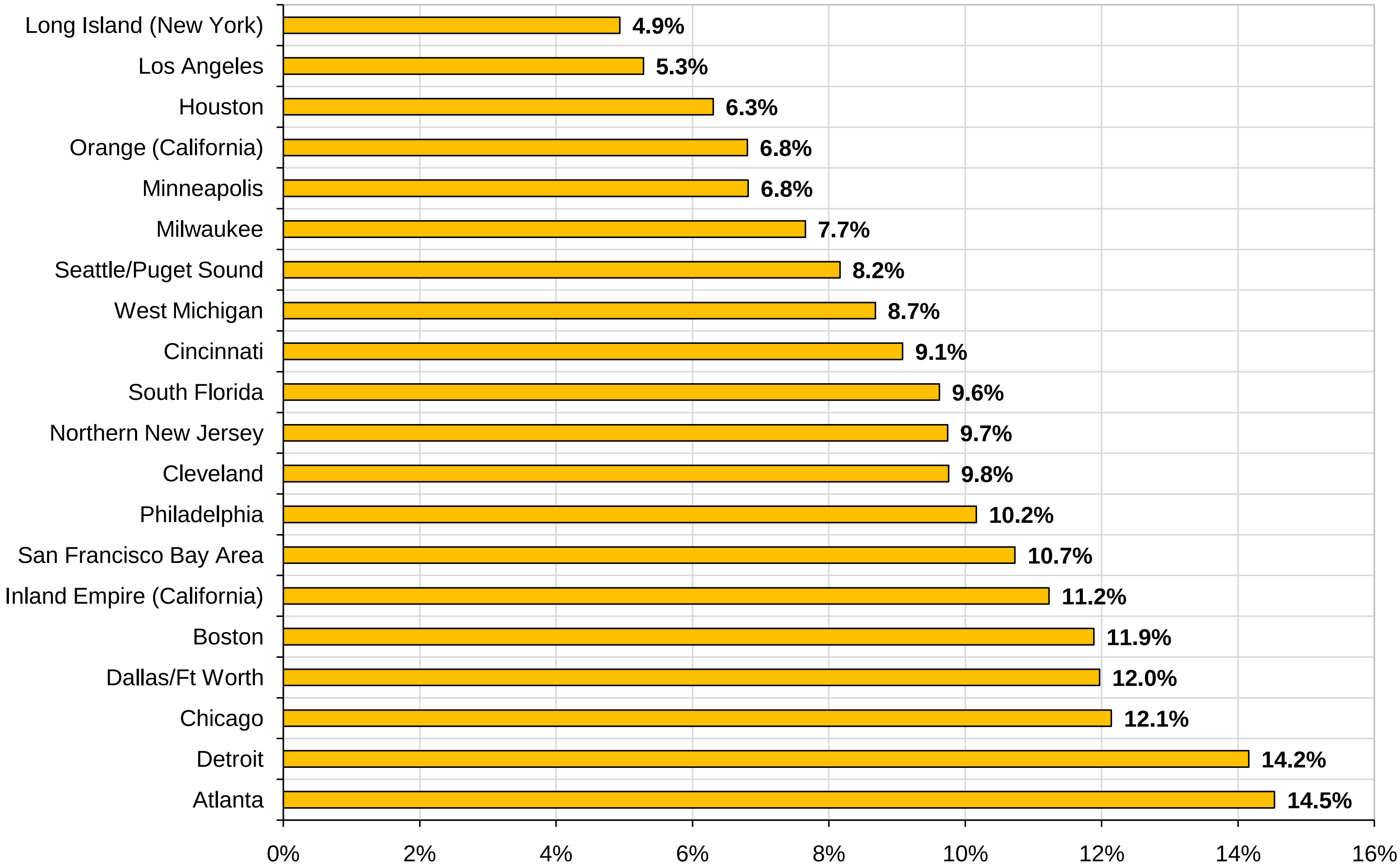
Source: CoStar Group

Submarkets With Declining Vacancy Rates



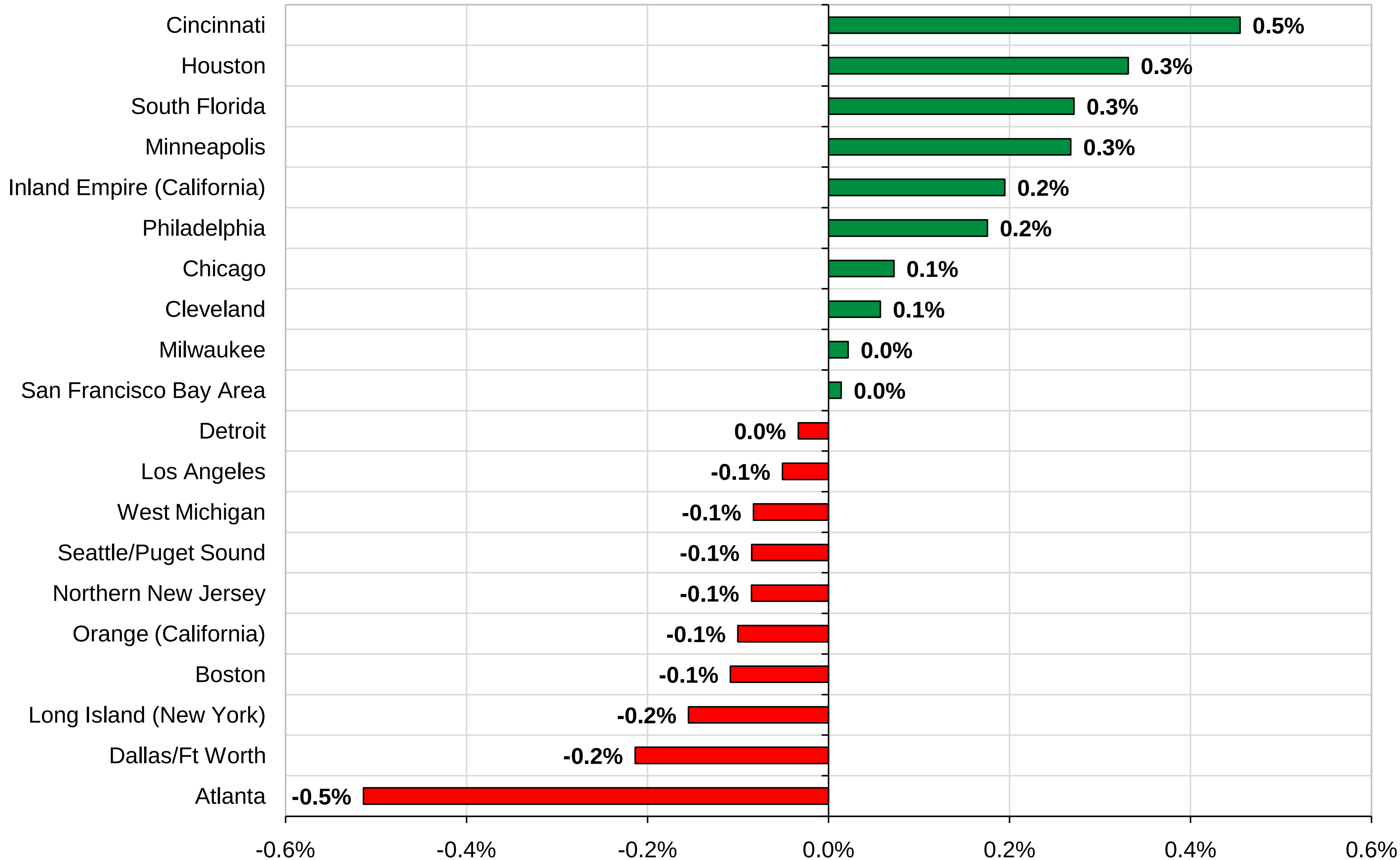
Source: CoStar Group

Vacancy Rates – 20 Largest Markets



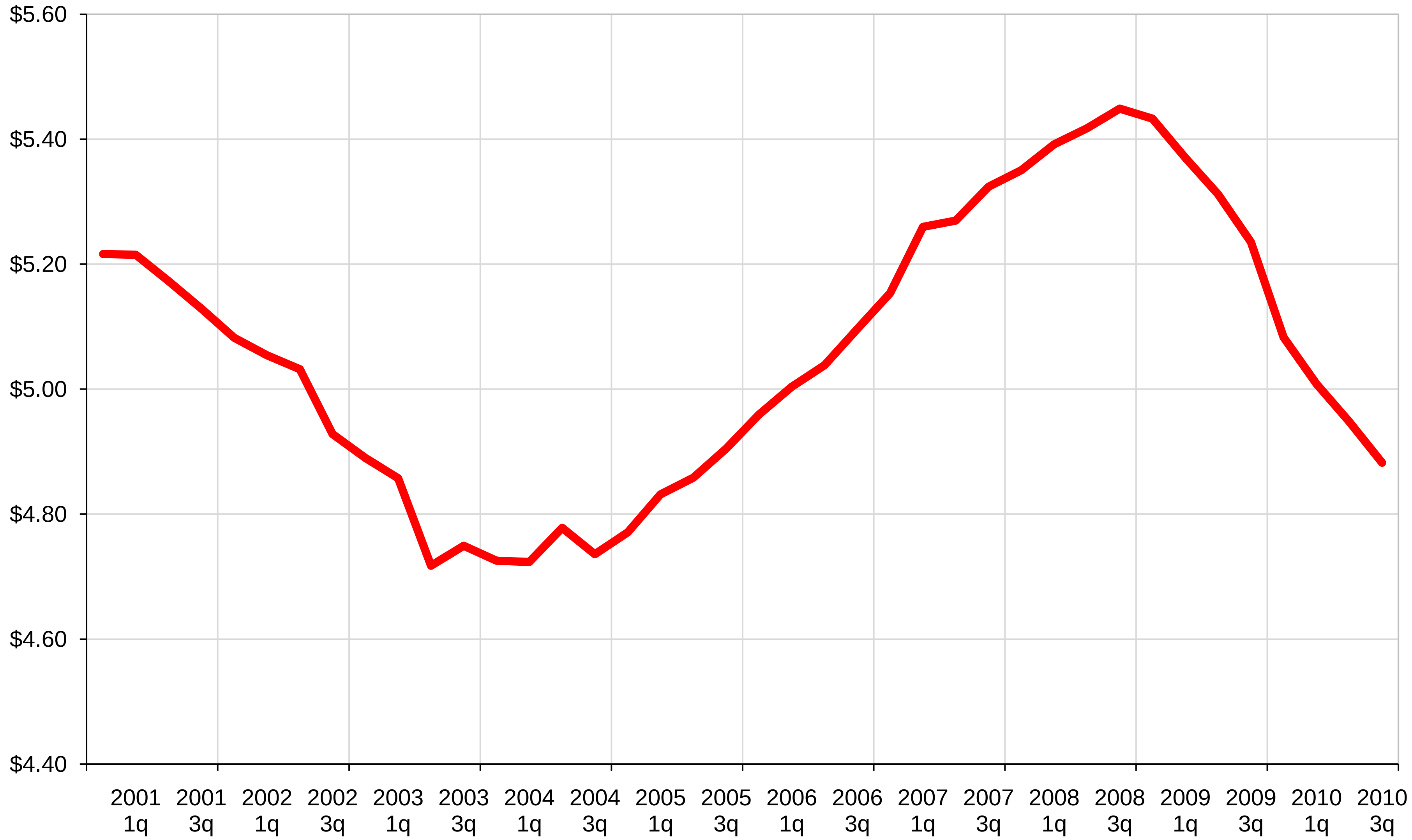
Source: CoStar Group

Quarter-Over-Quarter Occupancy Gains



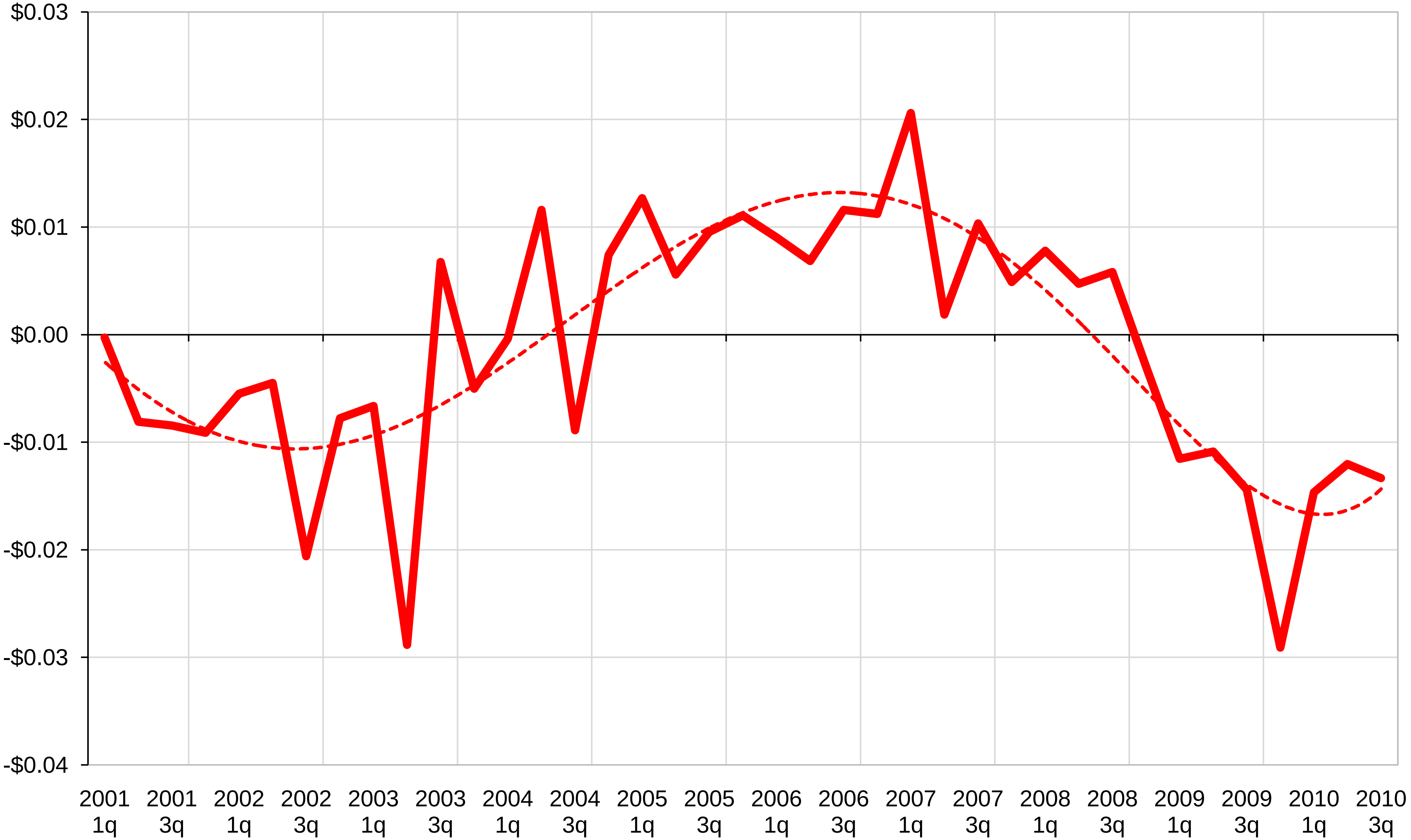
Source: CoStar Group

Quoted Warehouse Rents



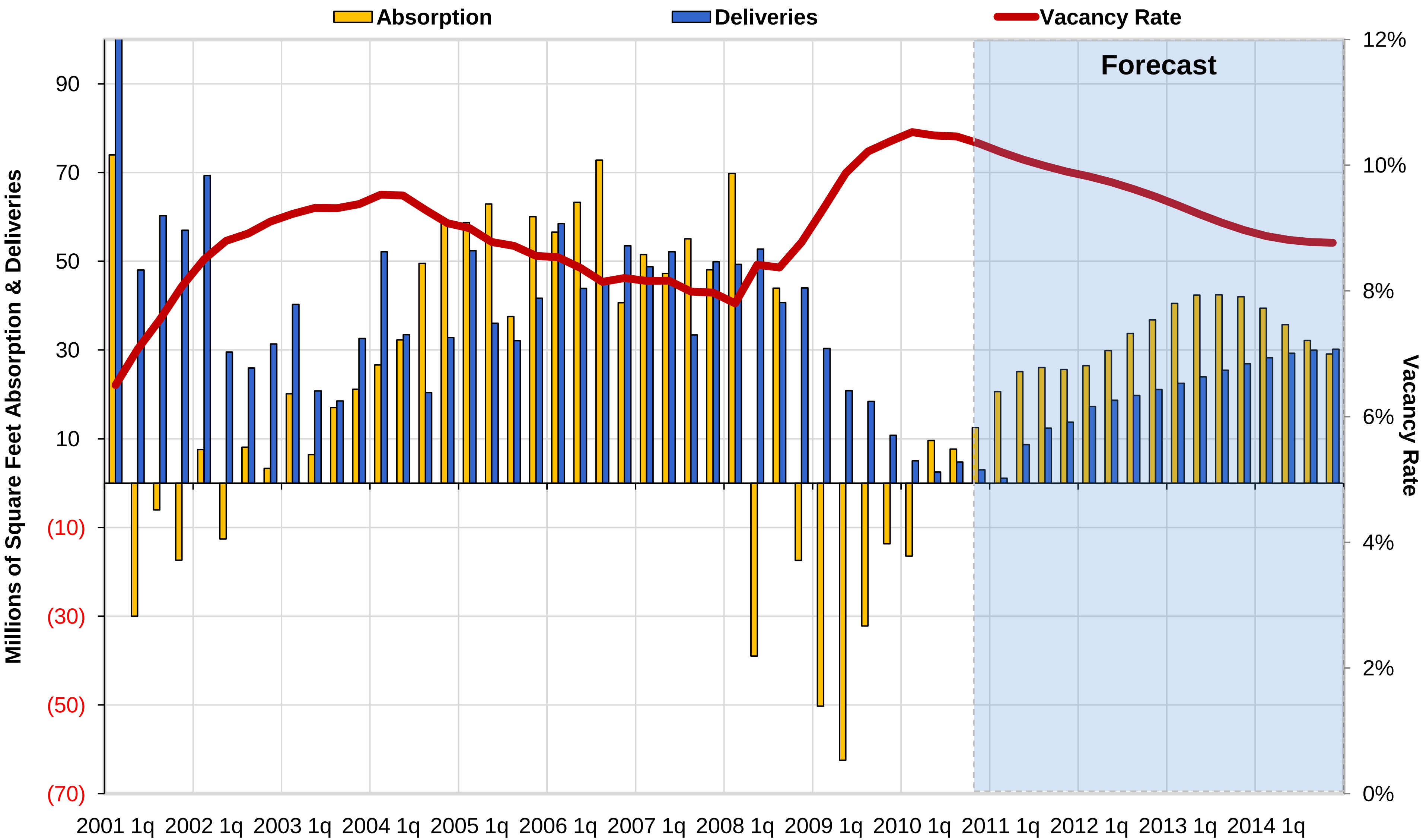
Source: CoStar Group

Quarterly Change in Quoted Warehouse Rents



Source: CoStar Group

Vacancy Forecast



Source: CoStar Group

Spotlight – U.S. Ports

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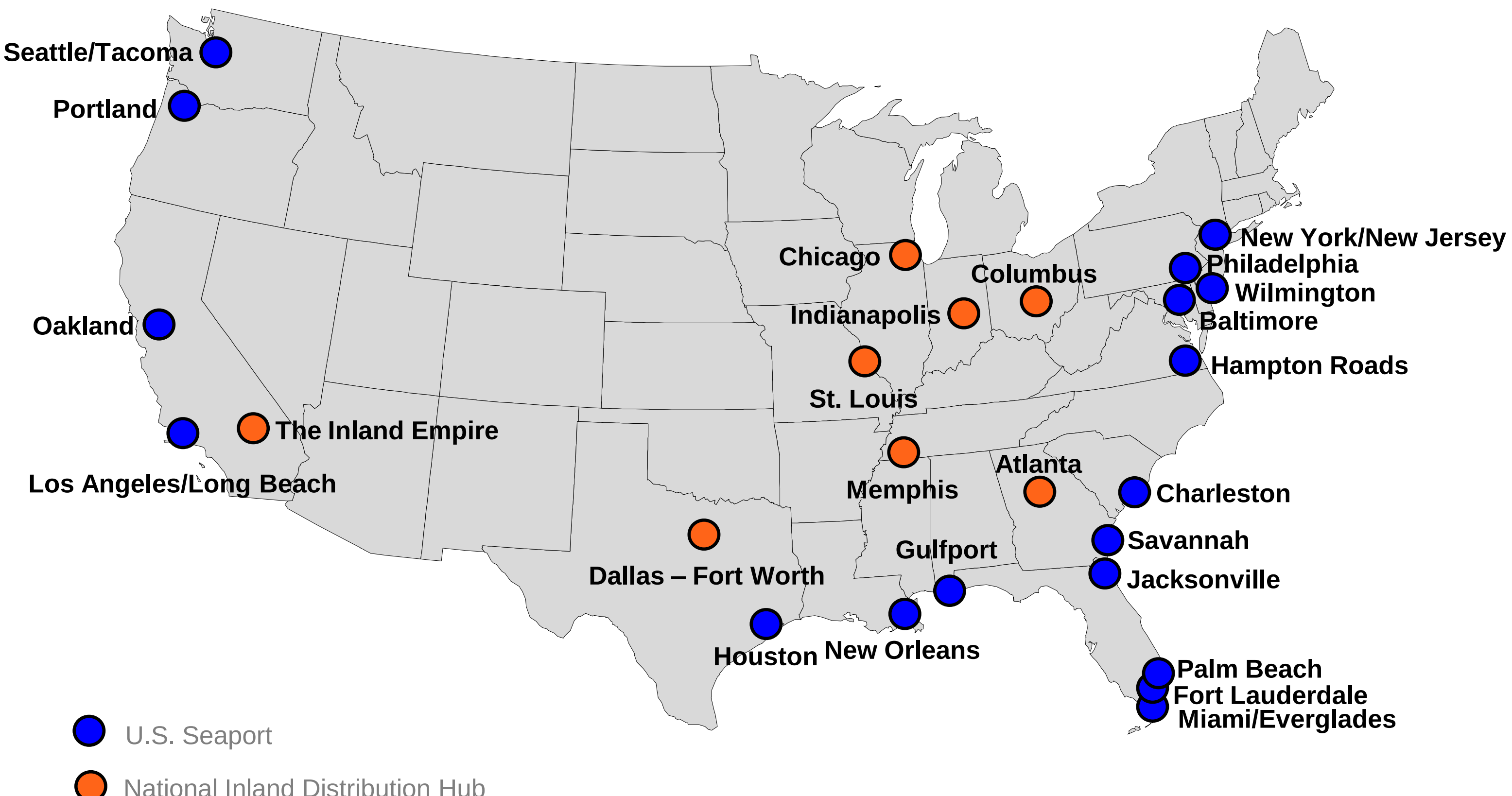
So Many Ports, So Little Time…

U.S. Seaports And National Inland Distribution Hubs

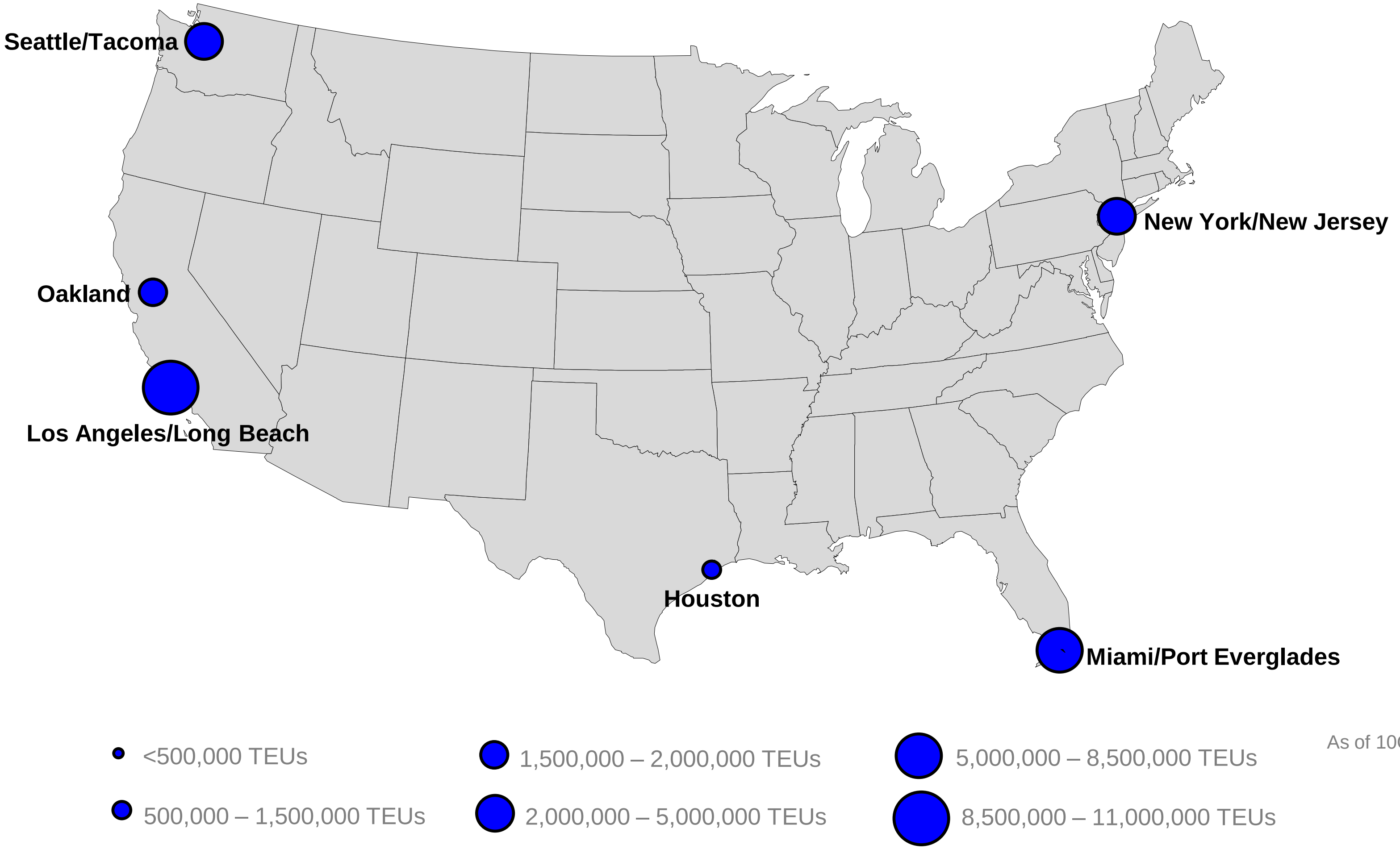


As of 10Q3

Sources: AAPA; PPR

Try One of These on For Size

Average Annual Loaded TEU Throughput At Major U.S. Seaports, 2006-10*

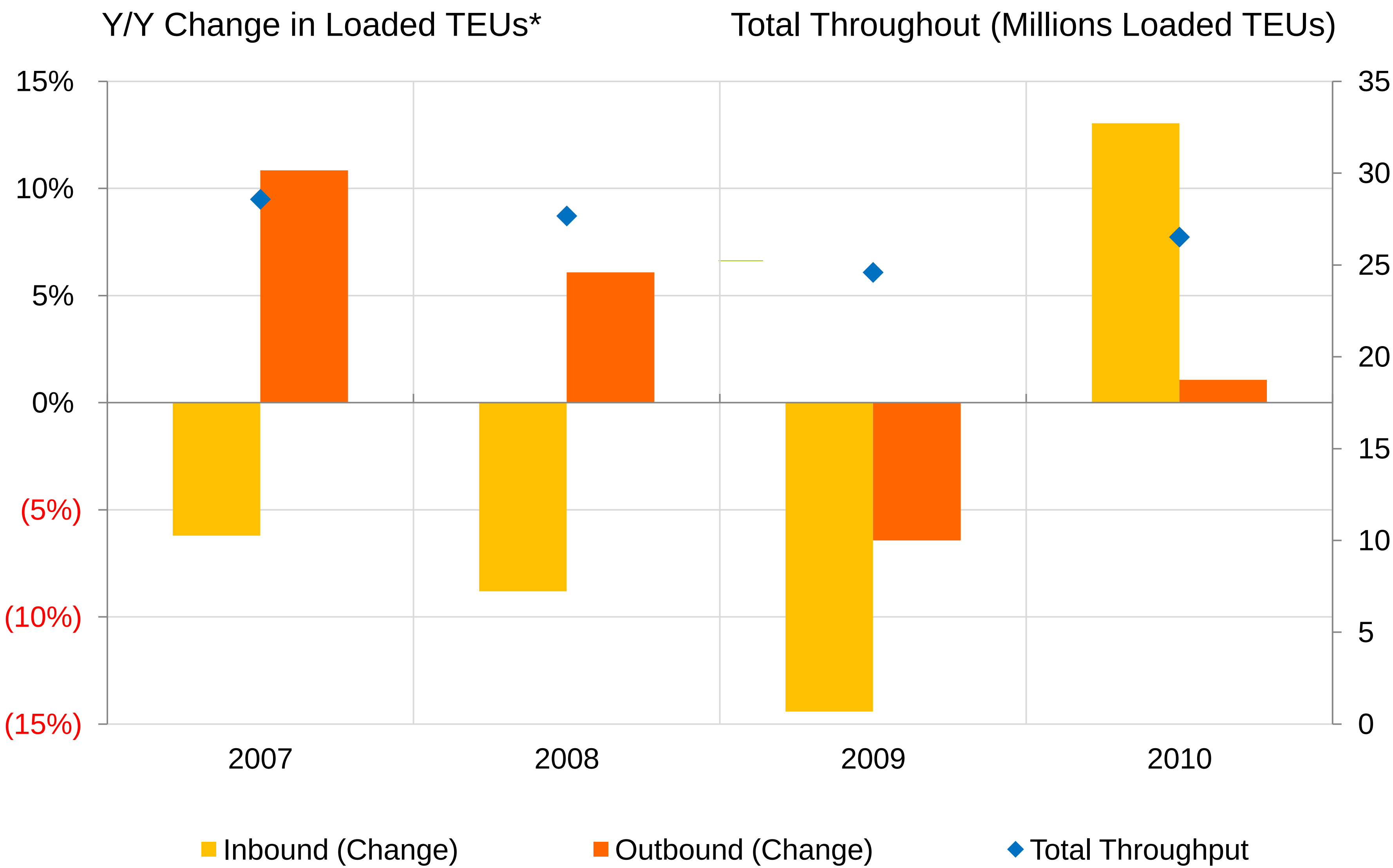


As of 10Q3

Sources: AAPA; PPR

*2010 Projected

Coming or Going – It's All Good



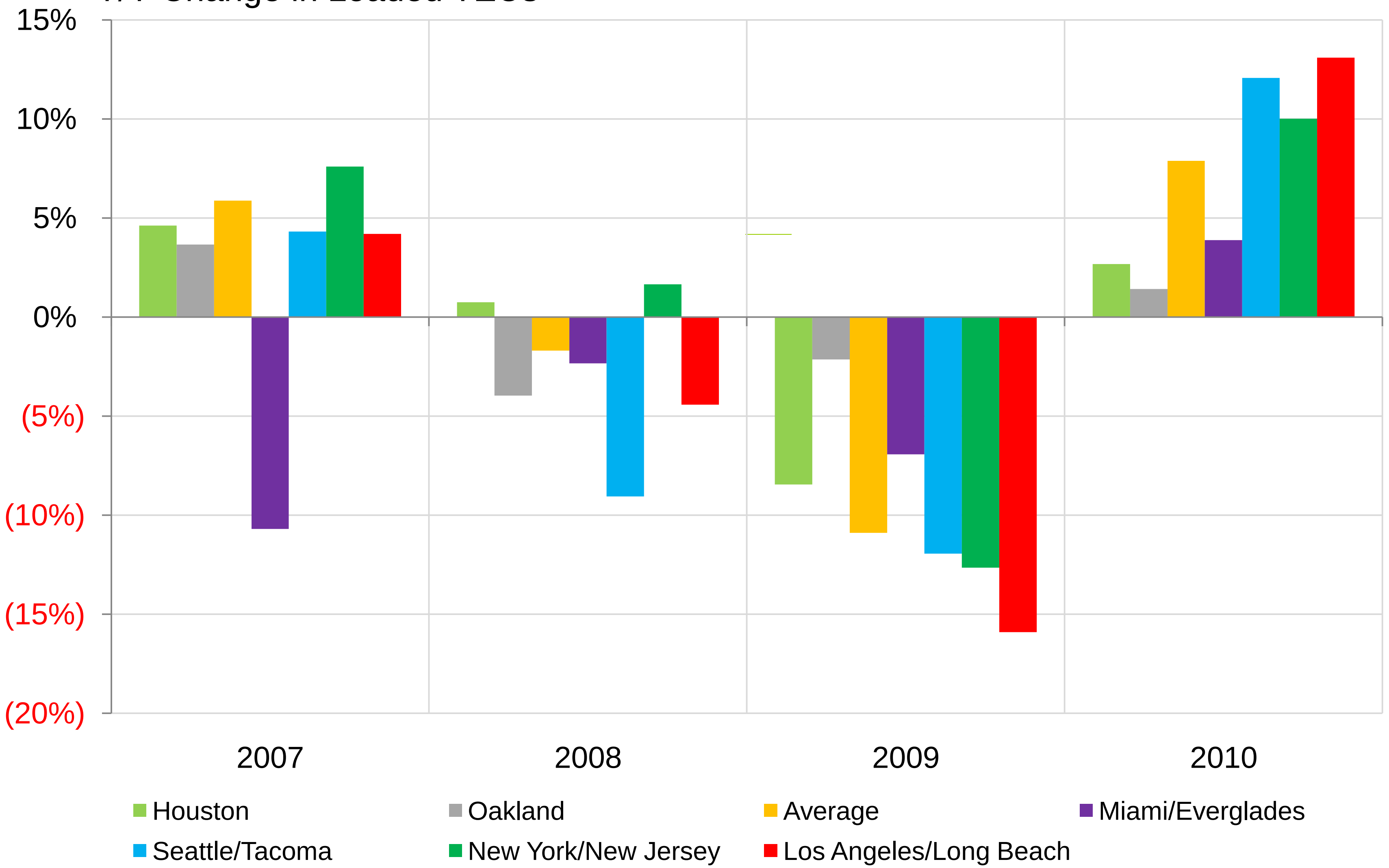
Sources: AAPA; PPR

*Ports of Houston, Los Angeles/Longbeach, Miami/Everglades, New York/New Jersey, Oakland, Seattle/Tacoma. 2010 projected.

As of 10Q3

A Rising Tide…

Y/Y Change in Loaded TEUs*

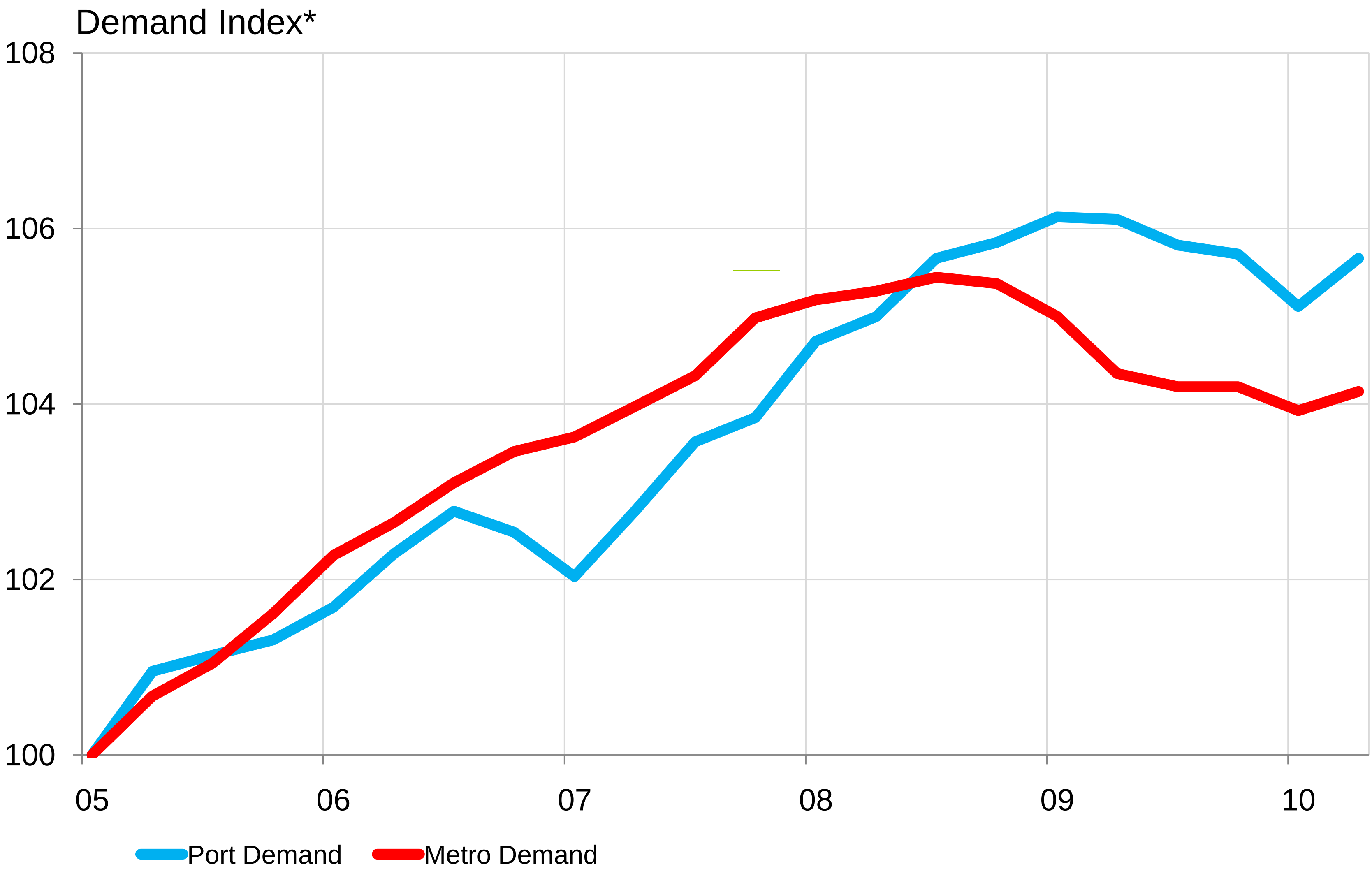


Sources: AAPA; PPR

*In order of export exposure. 2010 projected.

As of 10Q3

A (Relative) Bastion Of Stability

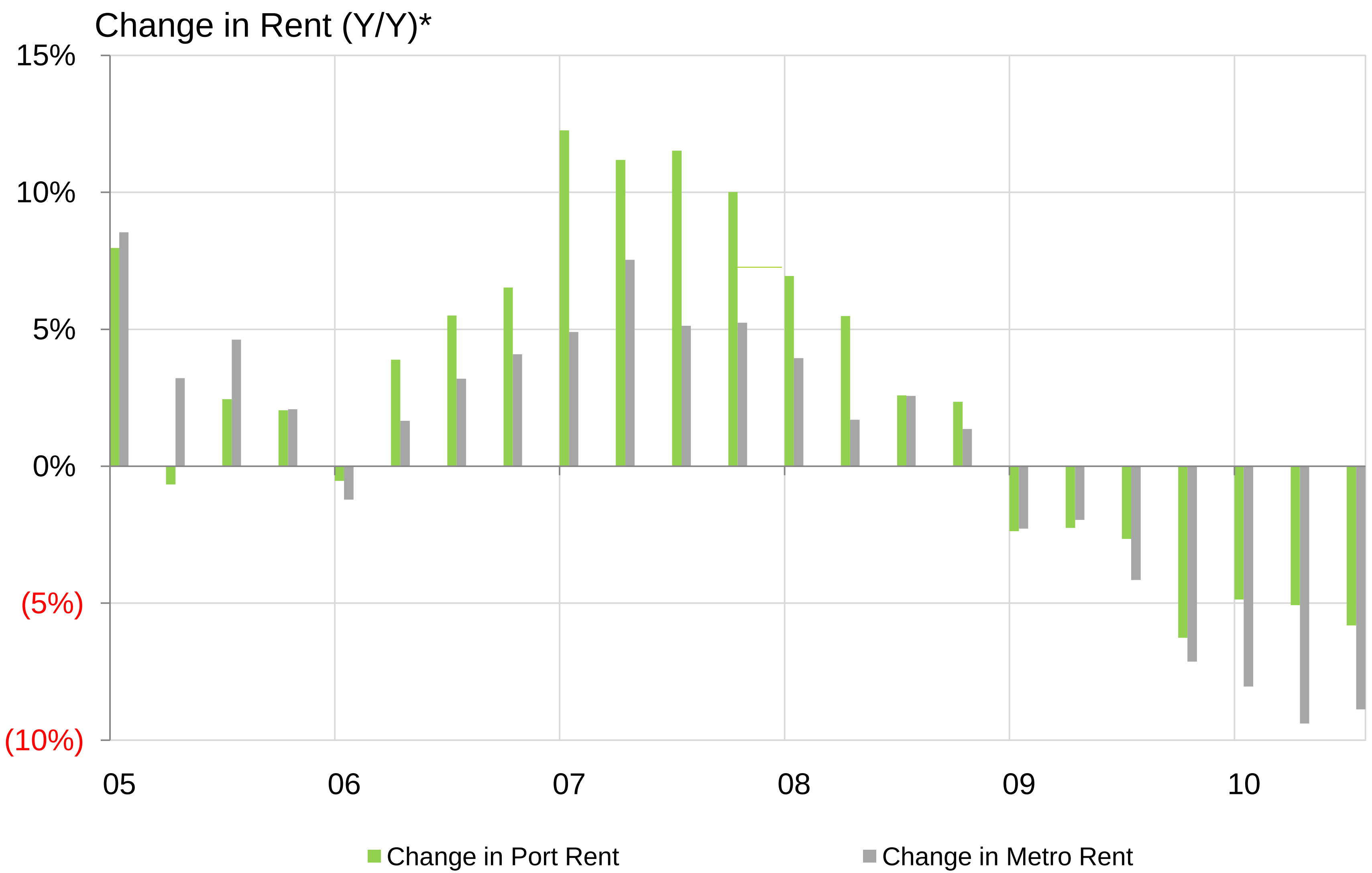


Sources: CoStar; PPR

*Ports of Houston, Los Angeles/Long Beach, Miami/Everglades, New York/New Jersey, Oakland, Seattle/Tacoma

As of 10Q3

Downward Stickiness

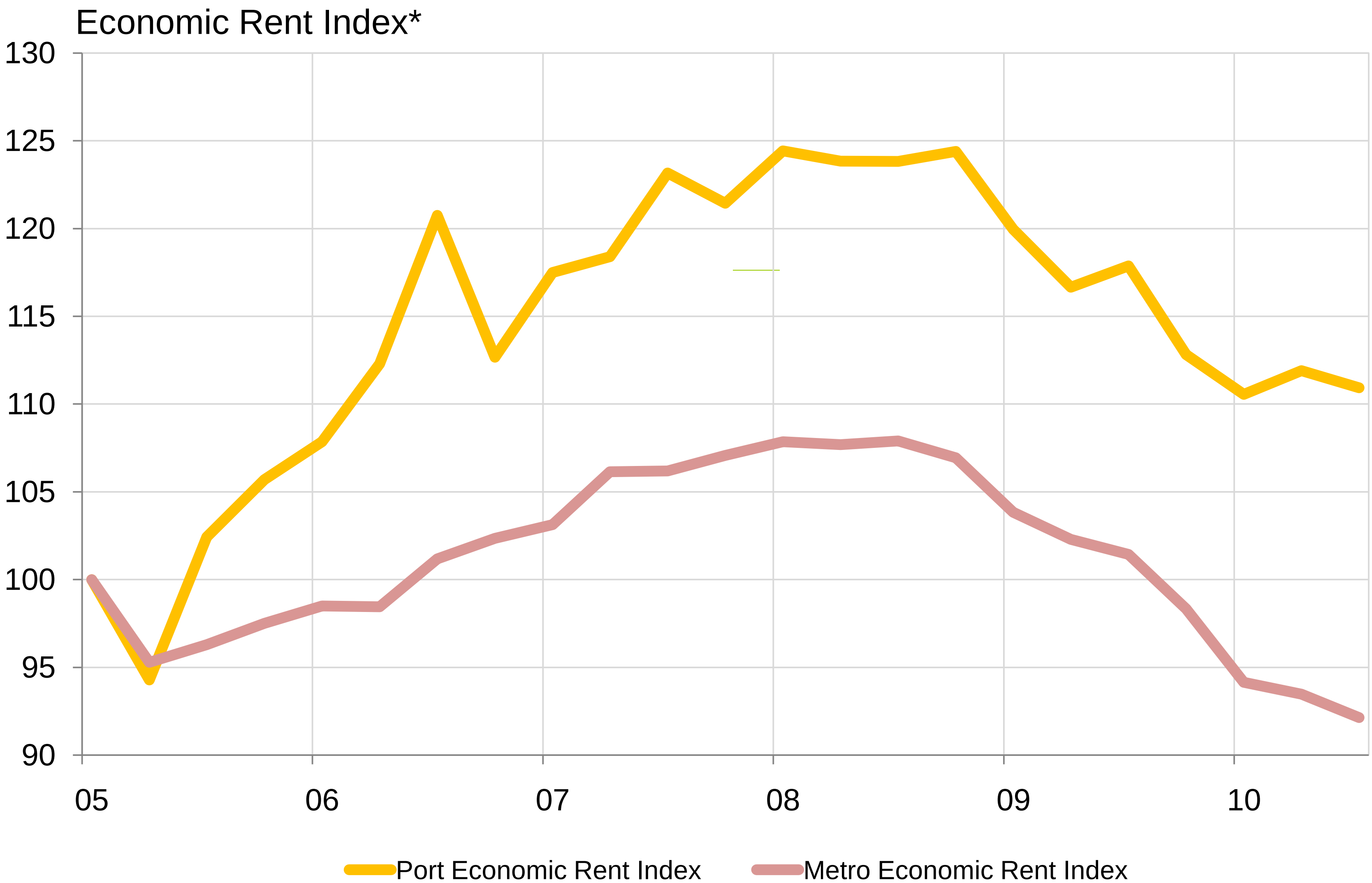


Sources: AAPA; PPR

*Ports of Houston, Los Angeles/Long Beach, Miami/Everglades, New York/New Jersey, Oakland, Seattle/Tacoma

As of 10Q3

All About Income



Sources: CoStar; PPR

*Ports of Houston, Los Angeles/Long Beach, Miami/Everglades, New York/New Jersey, Oakland, Seattle/Tacoma. Economic rent = occupancy X NNN rent.

As of 10Q3

Capital Markets

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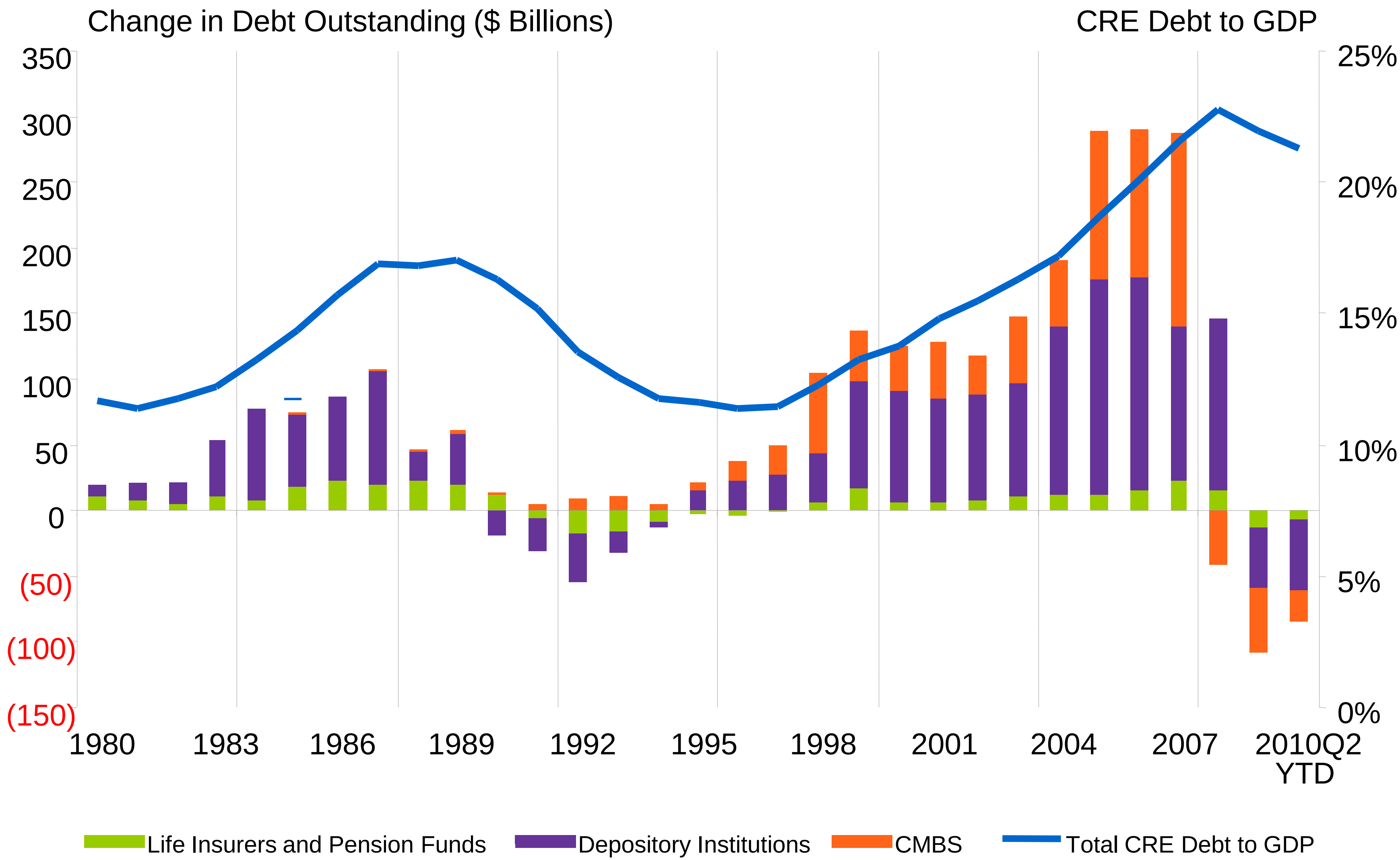
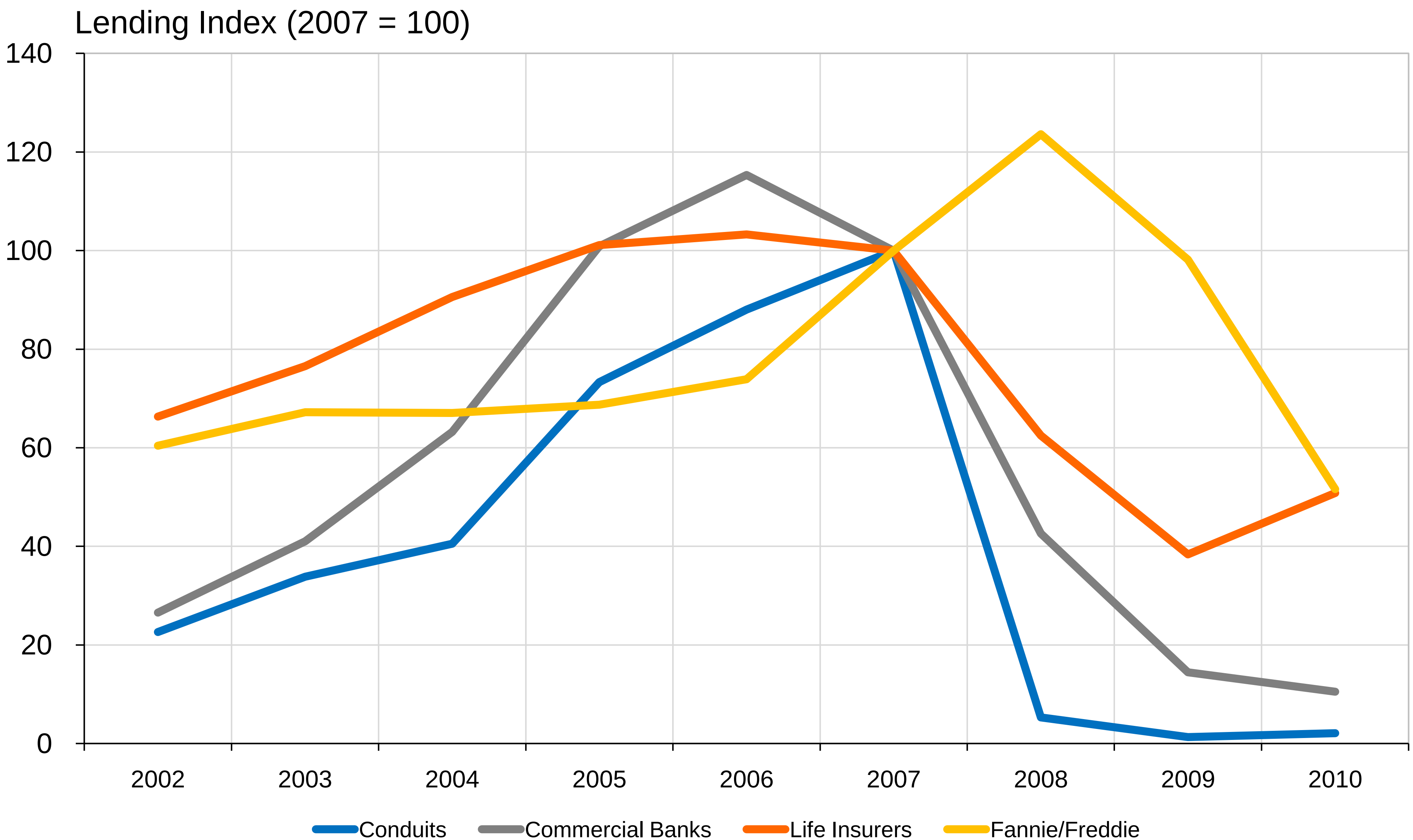
Leverage is Beginning To Come Out of The System



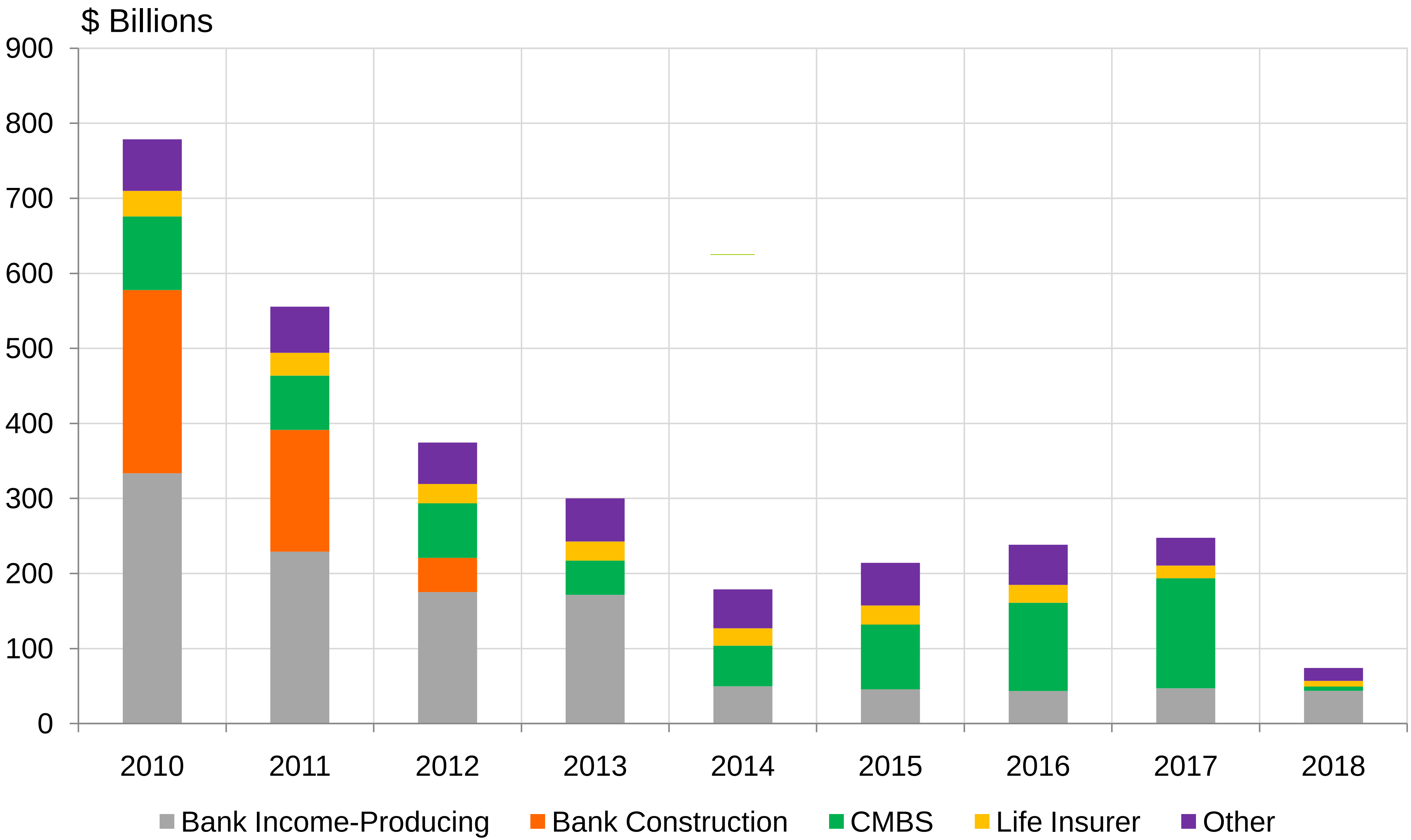
Source: Federal Reserve

Some Lenders Have Pulled Back More Than Others (CRE Lending Index By Source)



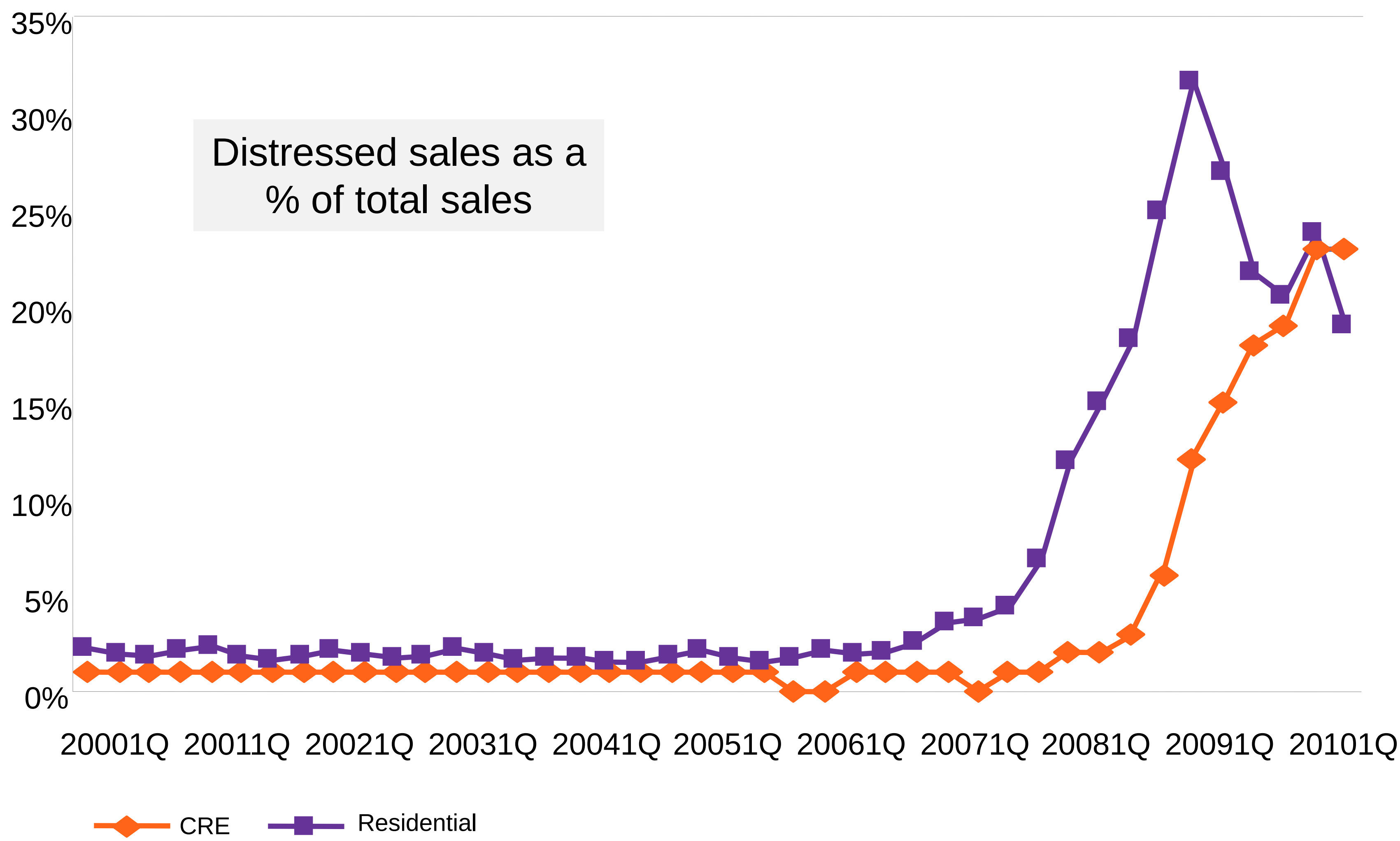
Sources: ACLI; Moody's Economy.com; Commercial Mortgage Alert; MBA

Those Loans Didn't Go Away, They Just Moved To 2010 (For Now)



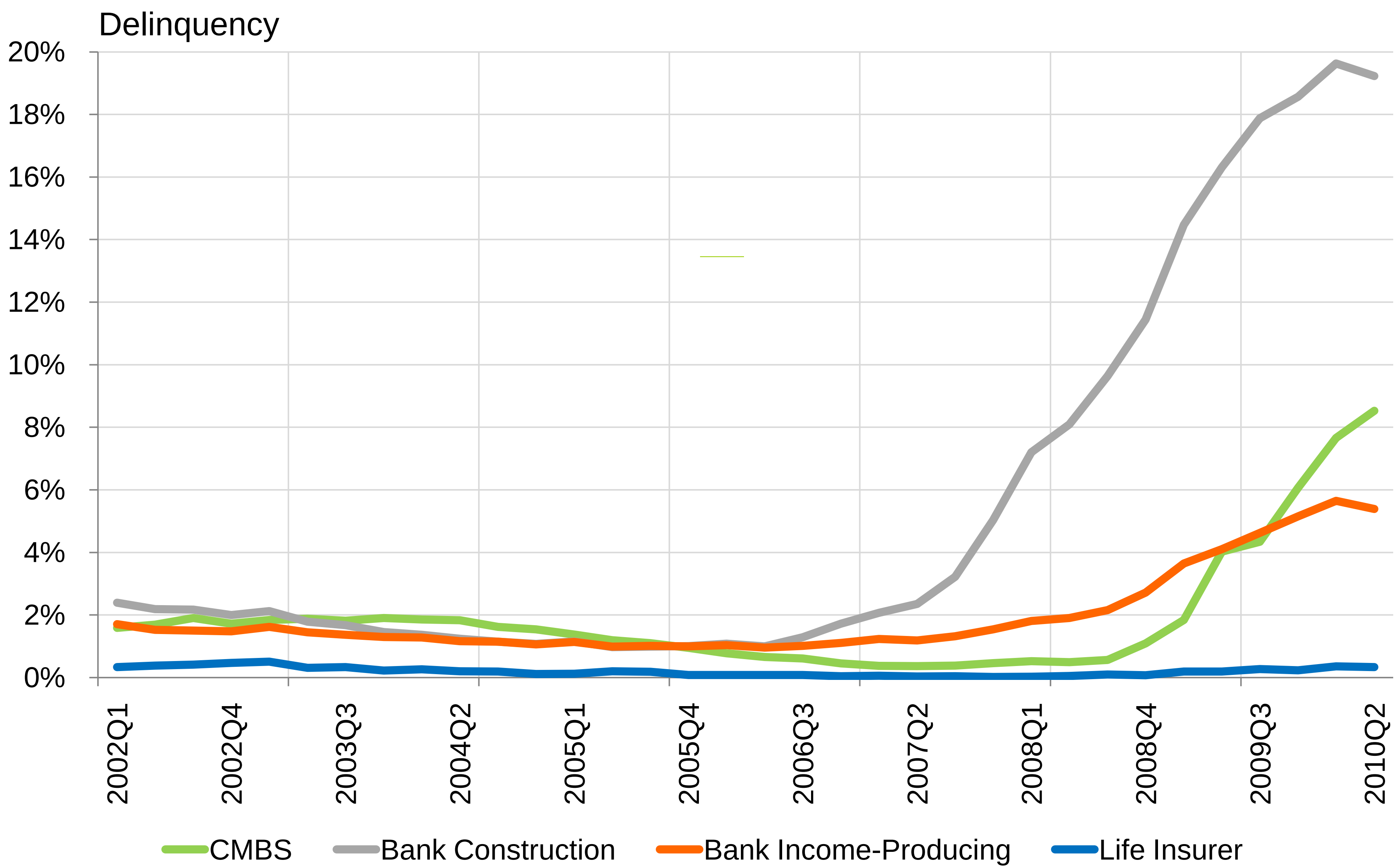
Source: PPR; Federal Reserve; Trepp; Giliberto-Levy

Single-Family Distress Seems To Lead CRE Distress



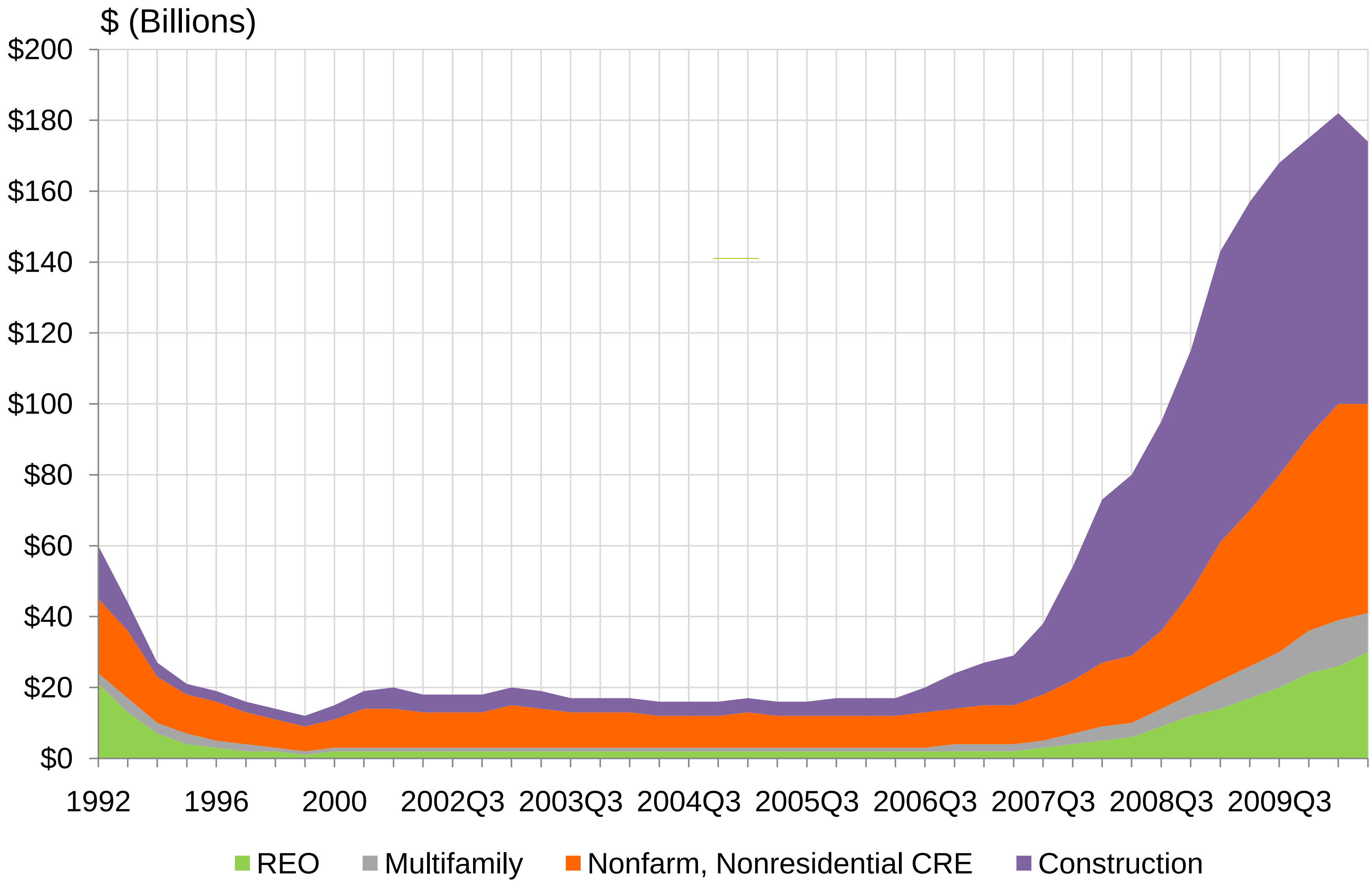
Sources: CoStar Group, Inc.; Collateral Analytics

Delinquencies Continue To Increase



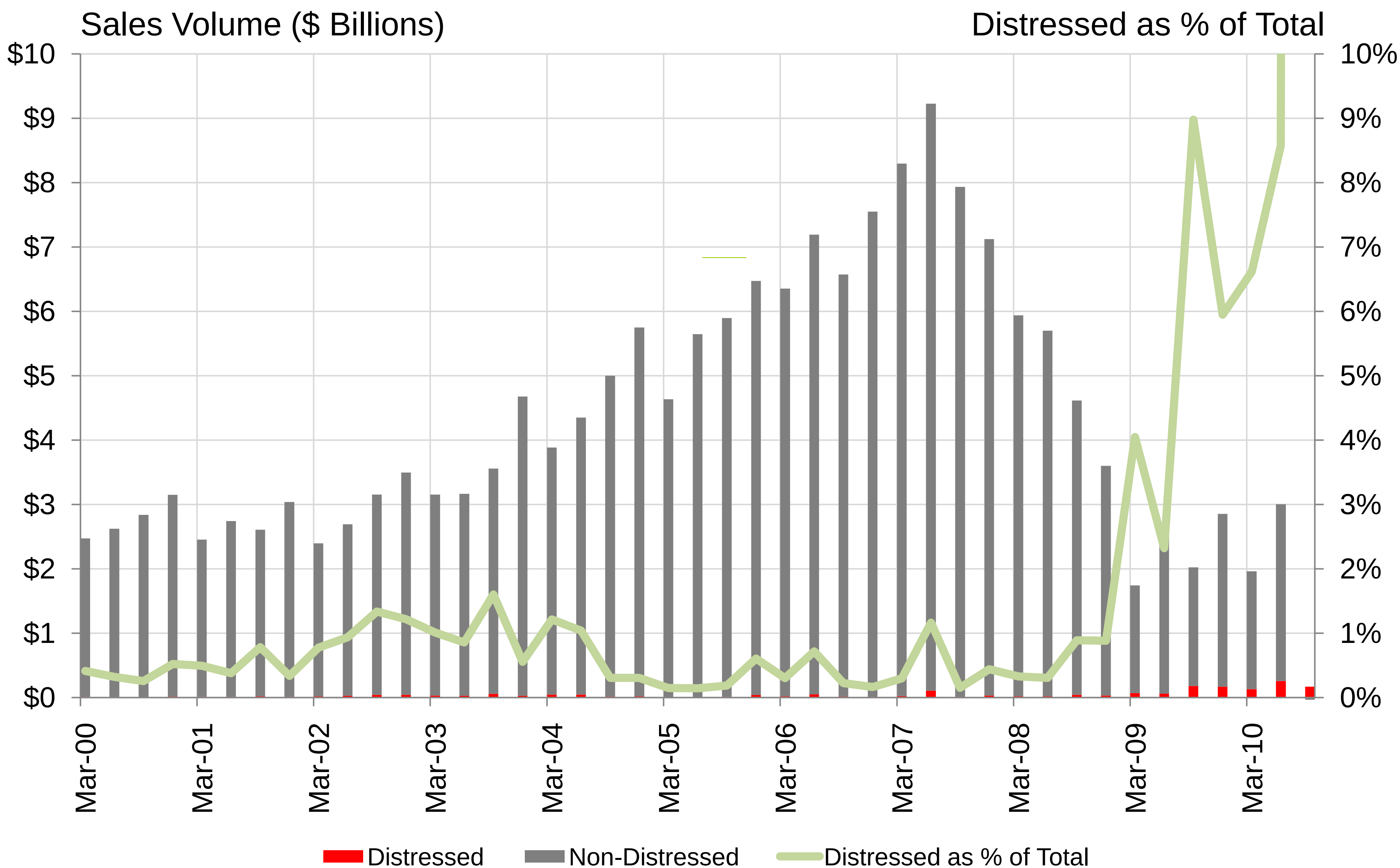
Source: Trepp

A $170 Billion Problem (Opportunity?)



Source: FDIC

Distressed Warehouse Sales Volume In The PPR54



Source: CoStar; PPR

As of 10Q2

Sales Market Review

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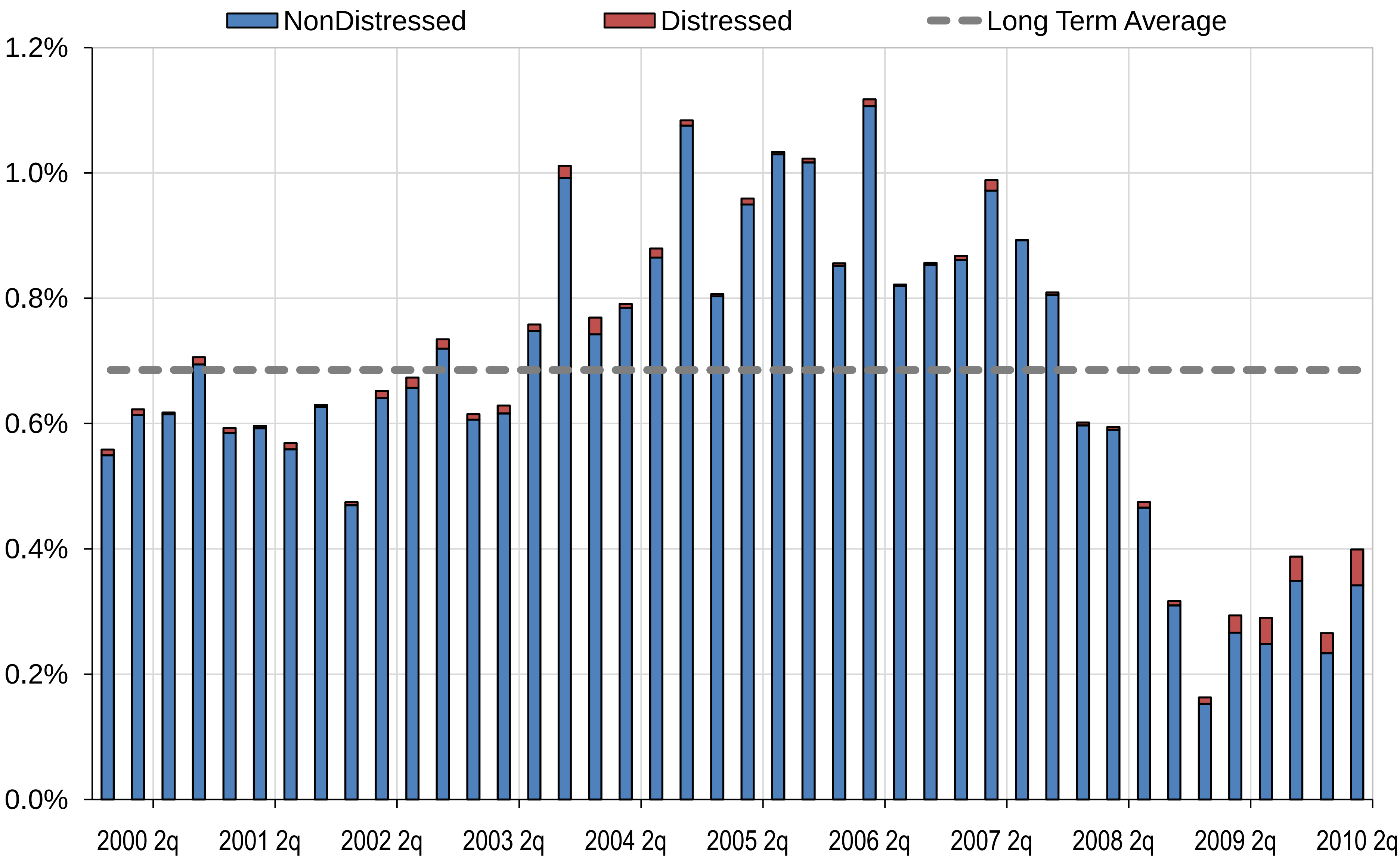
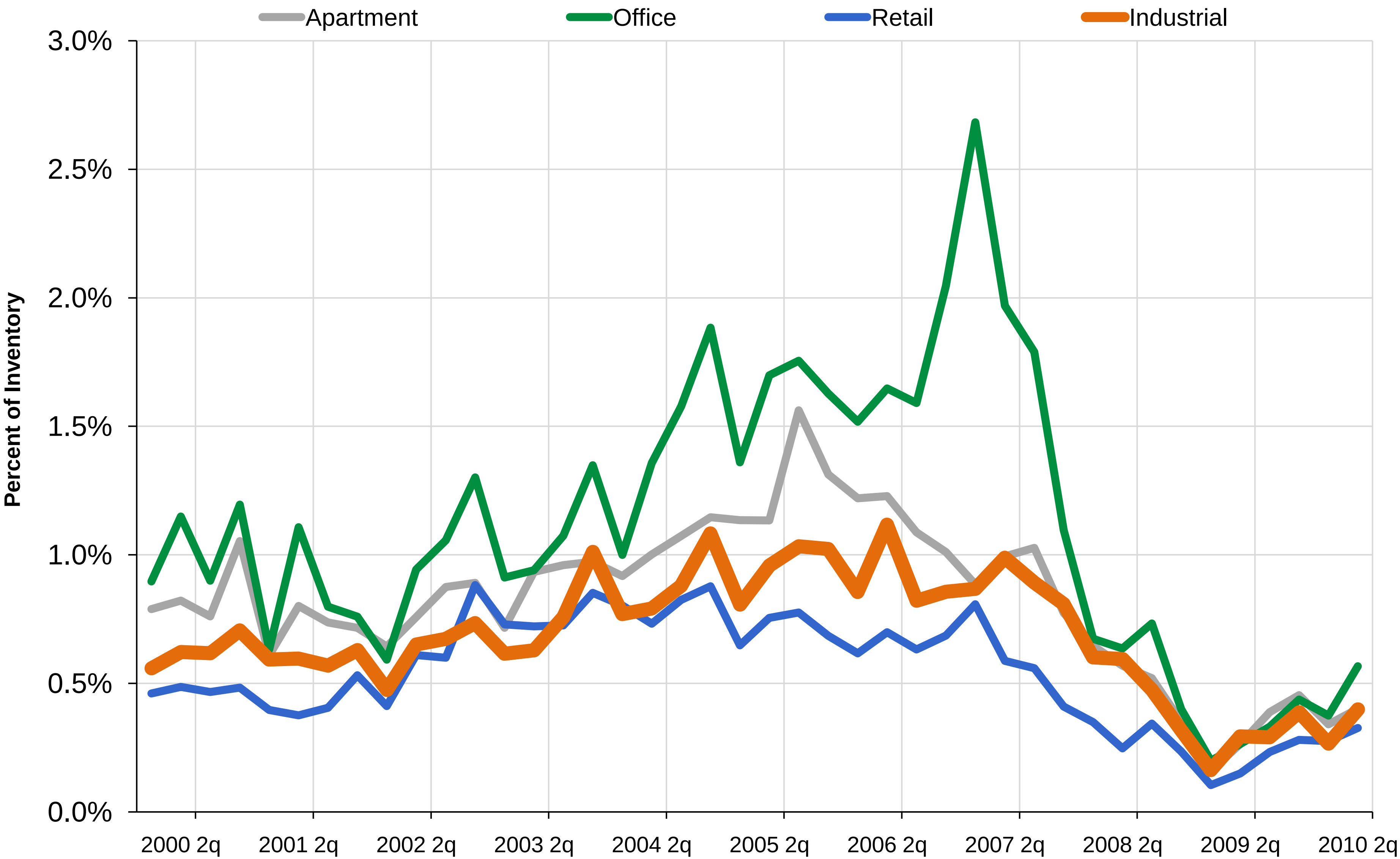
Sales Transaction Square Footage as a Percent of Total Market Size



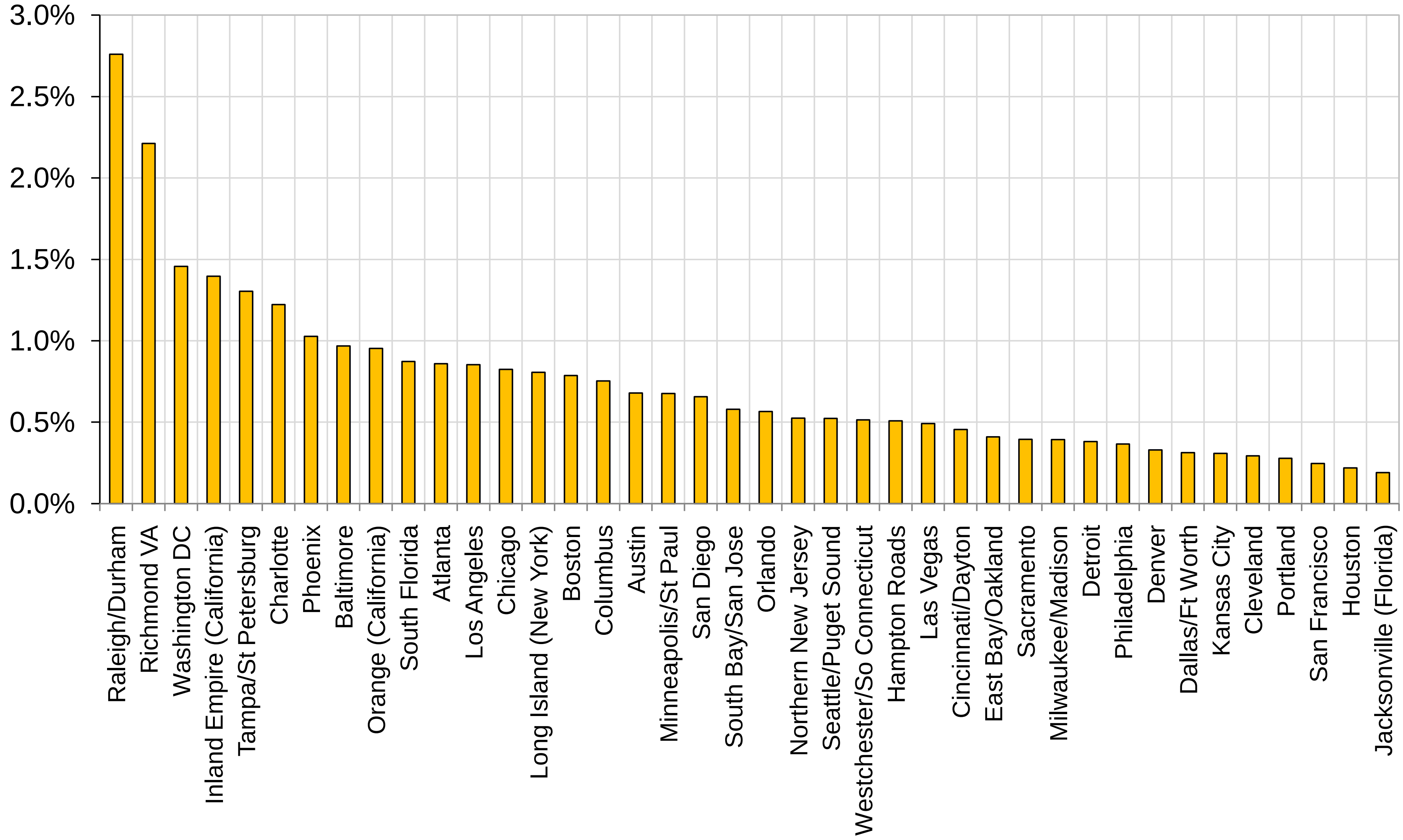
Source: CoStar Group

Sales Transaction Square Footage as a Percent of Total Market Size



Source: CoStar Group

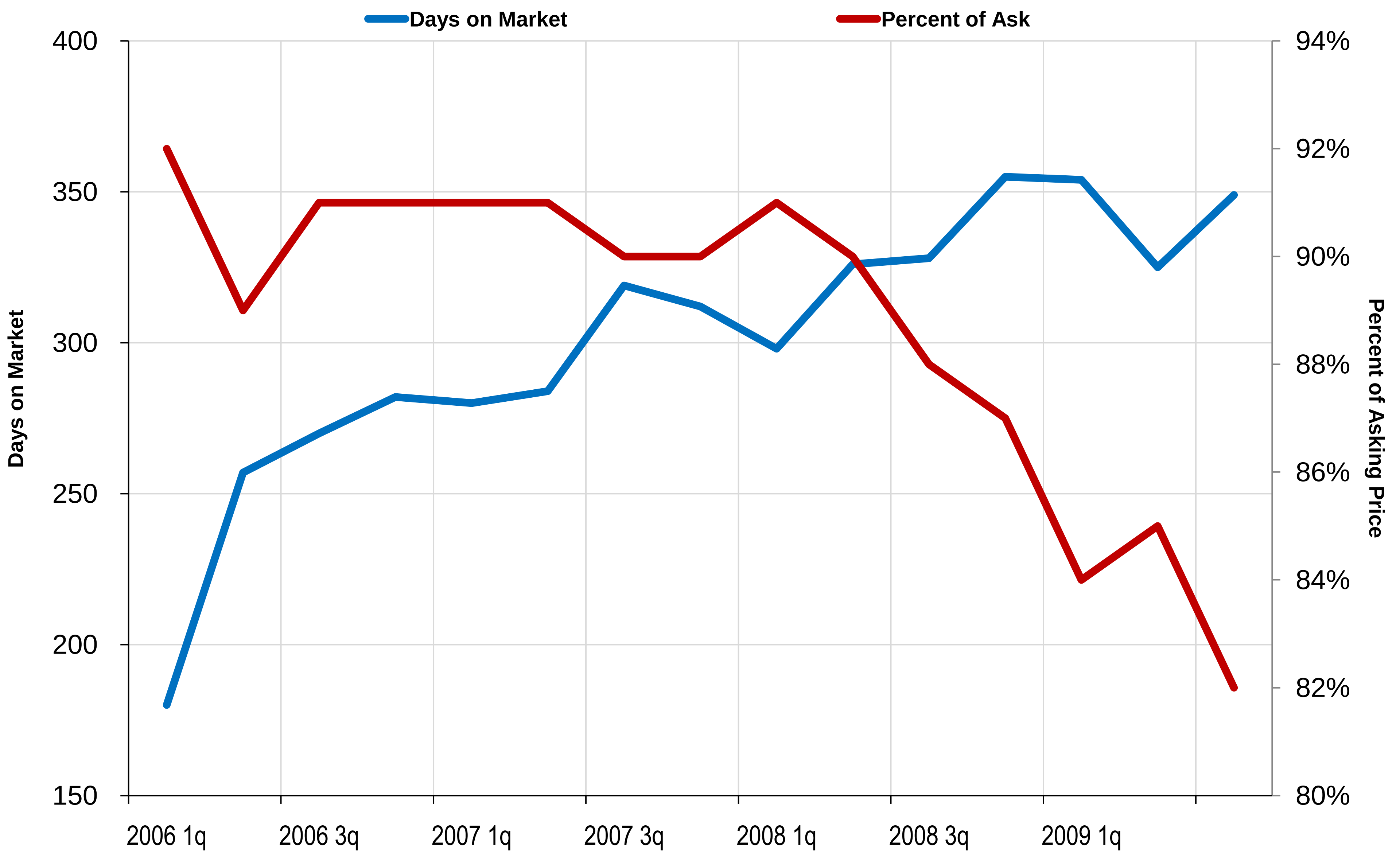
2010 Sales Square Footage as a Percent of Total Market Size



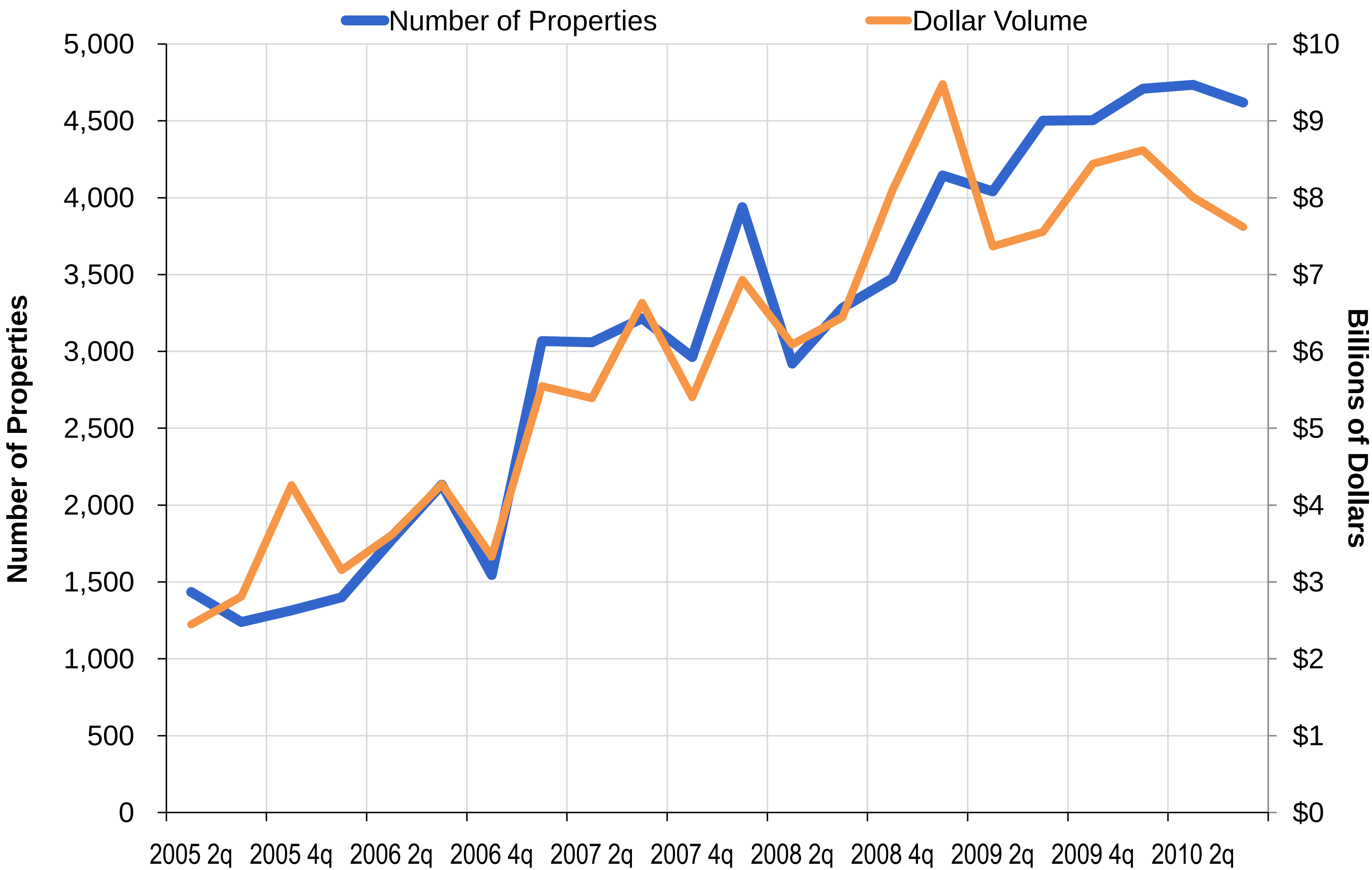
Source: CoStar Group

Days on Market vs. Selling Price as a Percent of Asking Price

CoStar GROUP



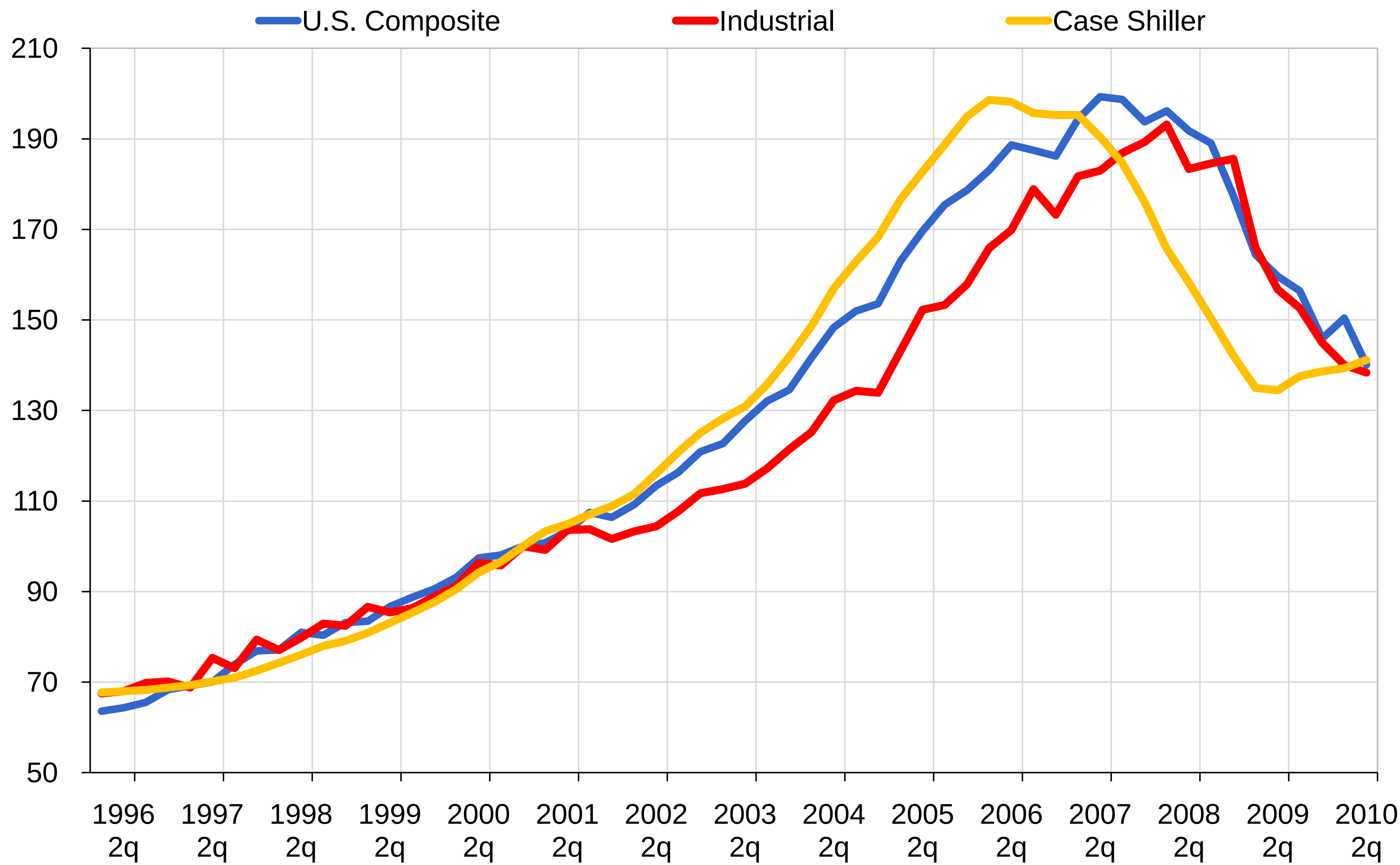
Sales Withdrawn From The Market



Source: CoStar Group

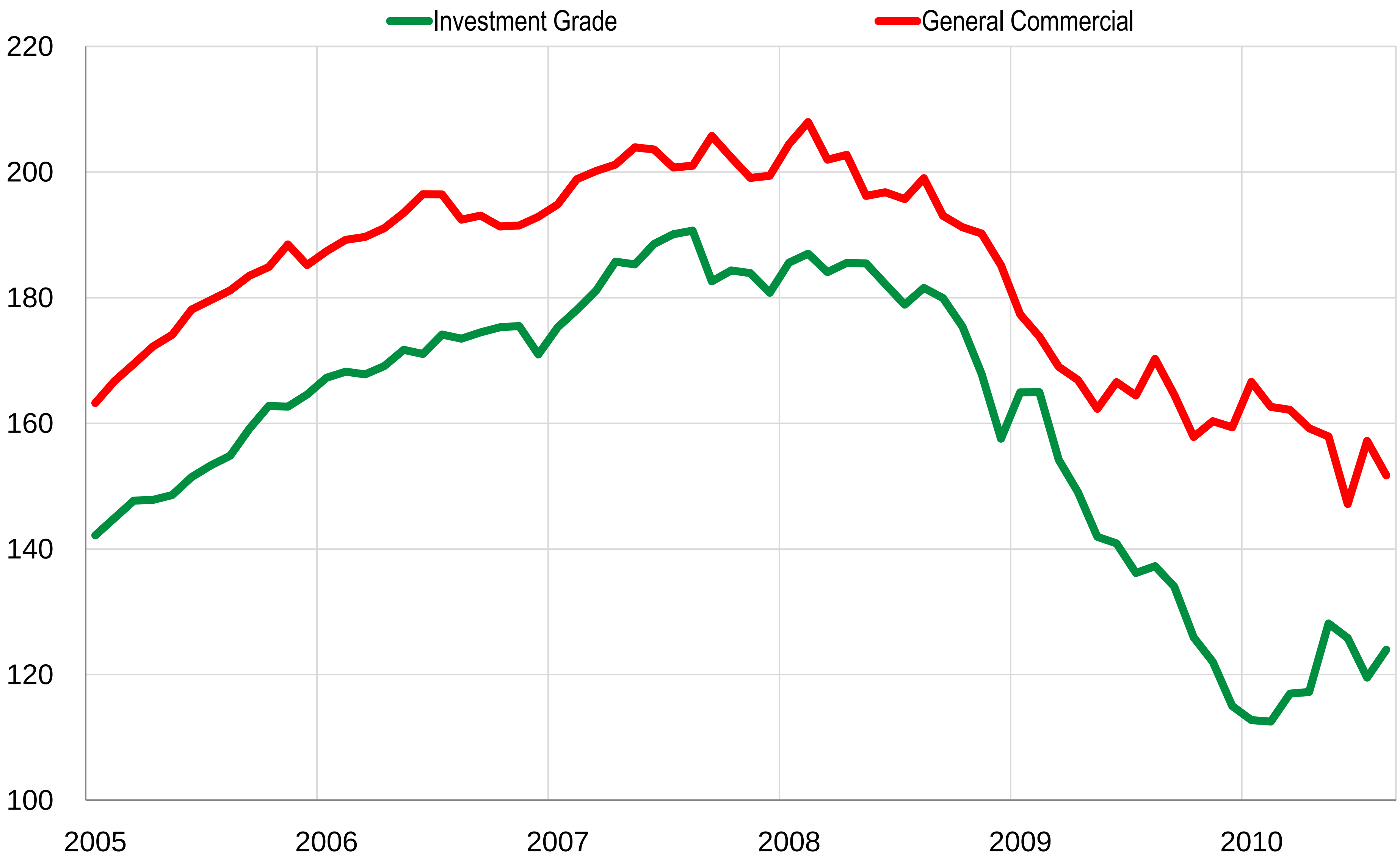
CoStar Repeat Sales Index

For more, visit www.costar.com/ccrsi



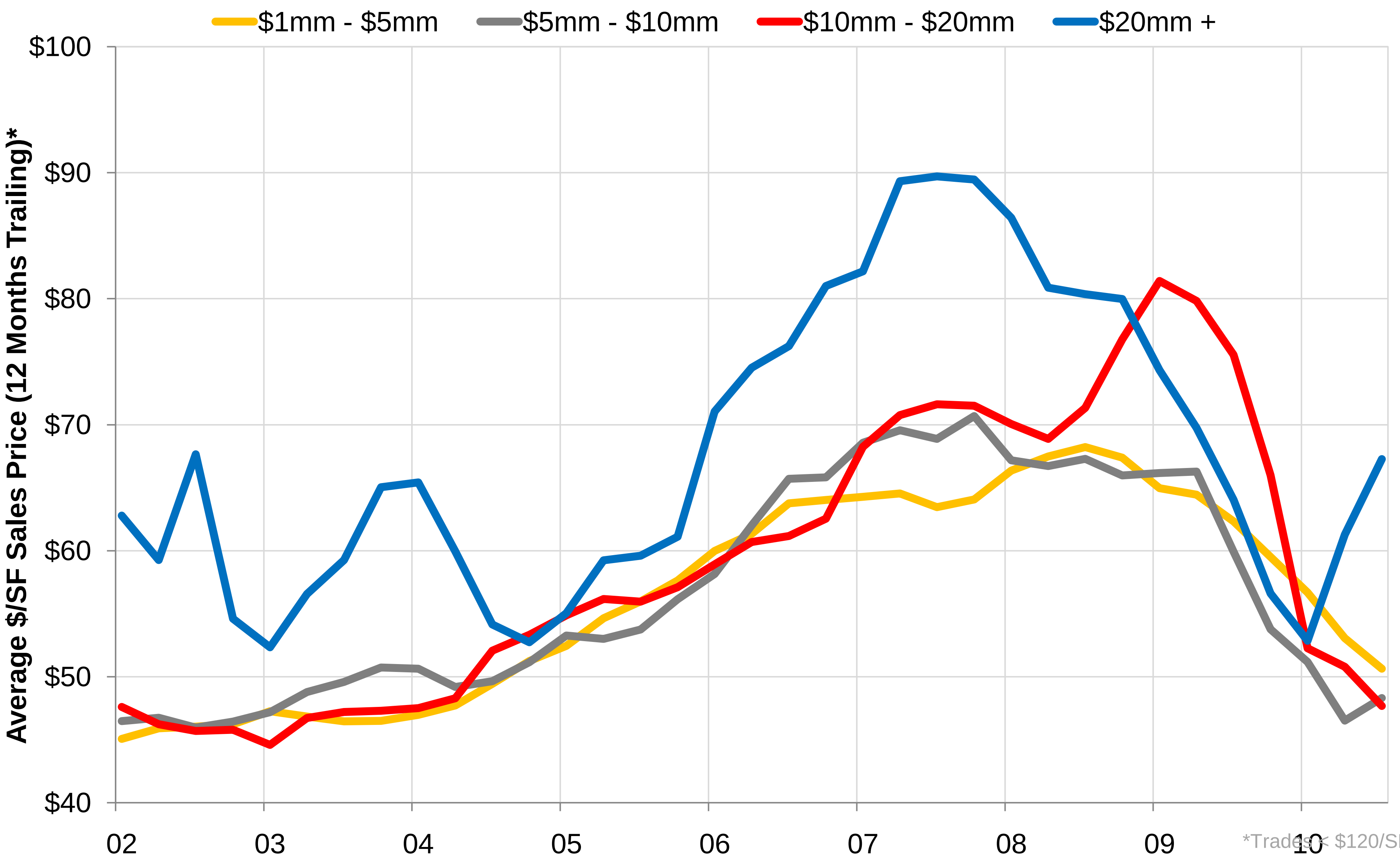
Source: CoStar Group

And Larger Buildings Are Seeing Price Appreciation



Source: CoStar Group

Prices/SF By Deal Size



*Trades < $120/SF
As of 2010 Q2

Source: CoStar Group

Top Industrial Sales Third Quarter 2010

Portfolio of 7 Telecom Properties in Arizona, California, Virginia

Date: 7/15/2010
Price: $725 Million
Price/SF: $846
Cap Rate: 10.01%
Buyer: Digital Realty Trust
Seller: Rockwood Capital

Portfolio of 6 Properties in Georgia, Pennsylvania, Ohio, Illinois, Texas

Date: 8/17/2010
Price: $172 Million
Price/SF: $37
Cap Rate: 8.12%
Buyer: FIG / Cardinal Industrial
Seller: Dividend Capital

Portfolio of 4 Properties in East Bay / Oakland Market

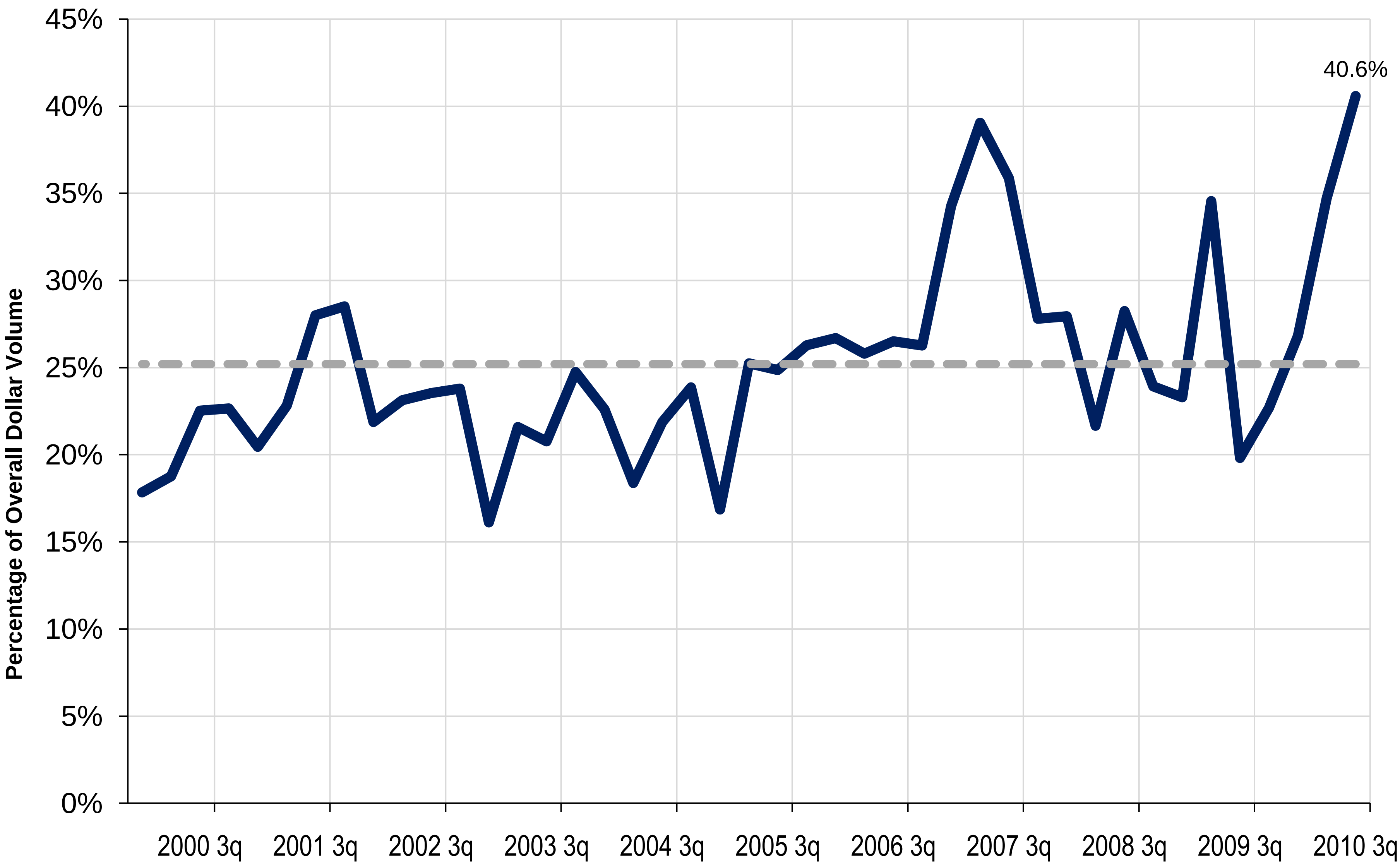
Date: 9/1/2010
Price: $60 Million
Price/SF: $83
Cap Rate: 6.80%
Buyer: Industrial Income Trust
Seller: SARES*REGIS Group

Portfolio of 5 Properties in Miami

Date: 8/13/2010
Price: $66.75 Million
Price/SF: $76
Cap Rate: 5.92%
Buyer: AMB Property Corporation
Seller: TA Associates Realty

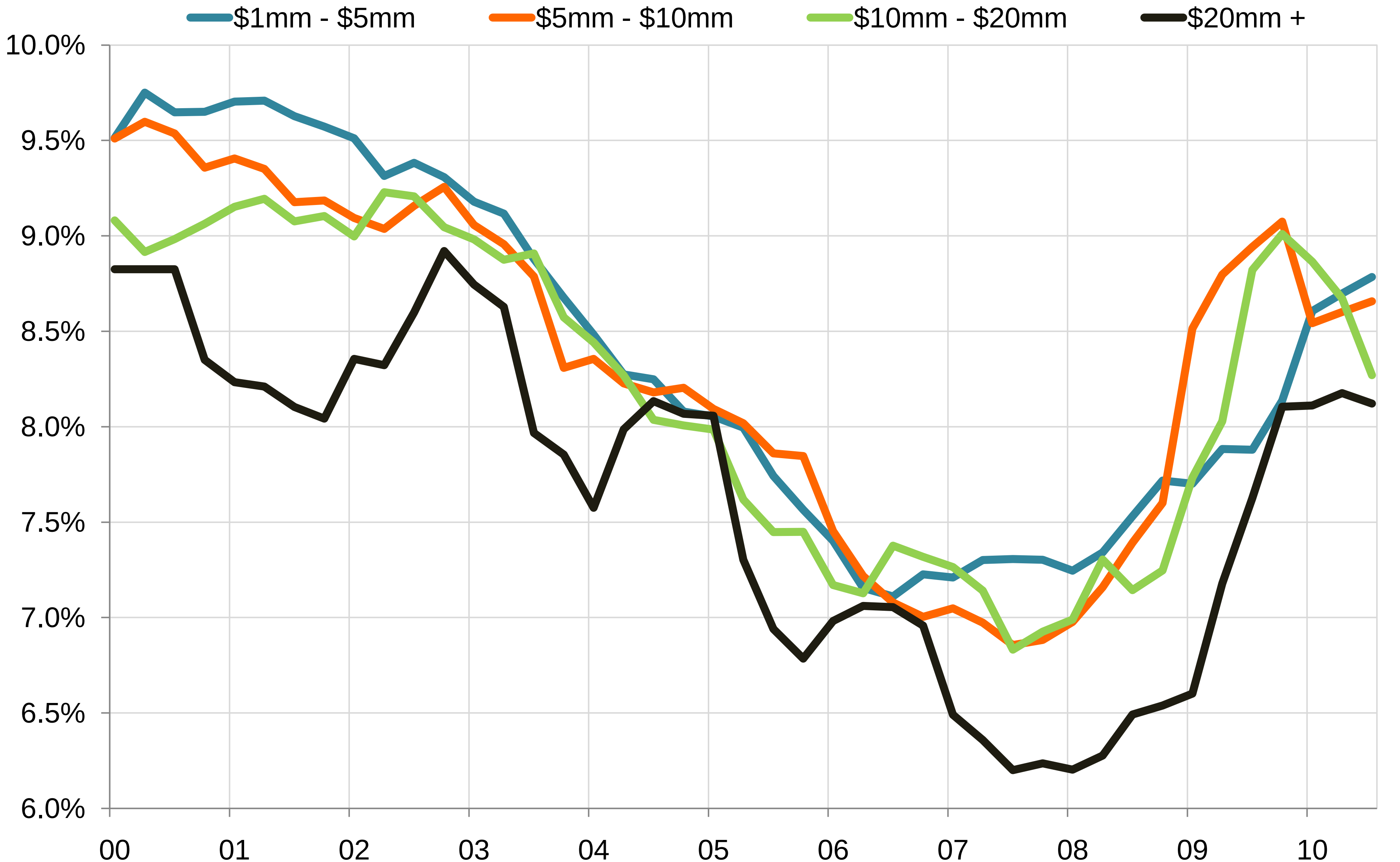
Source: CoStar Group

Portfolio Sales Volume as % of Total Volume



Source: CoStar Group

Cap Rates by Price Range

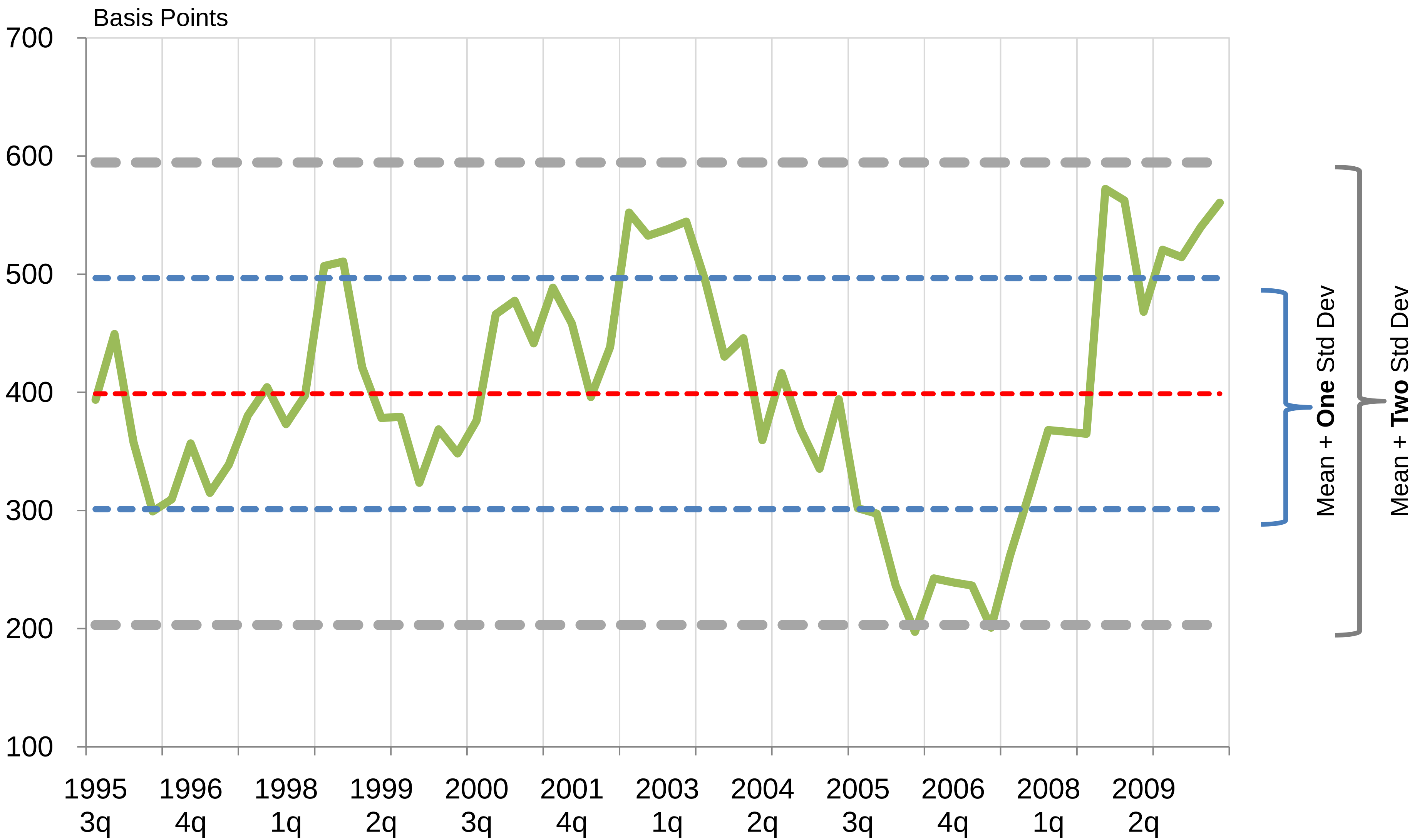


*Trades < $120/SF

Source: CoStar Group

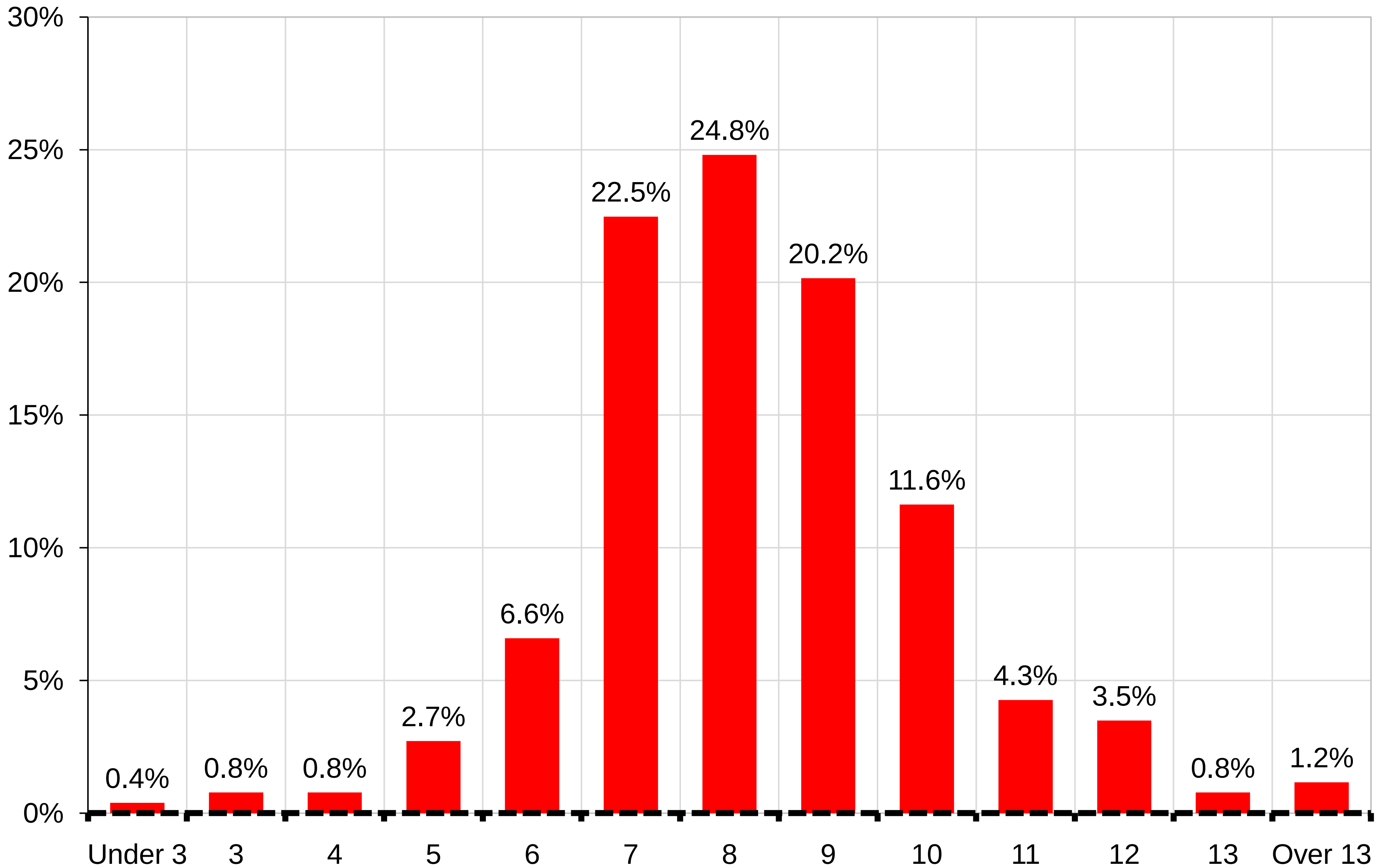
As of 2010 Q2

Cap Rate Spread High By Historical Standards

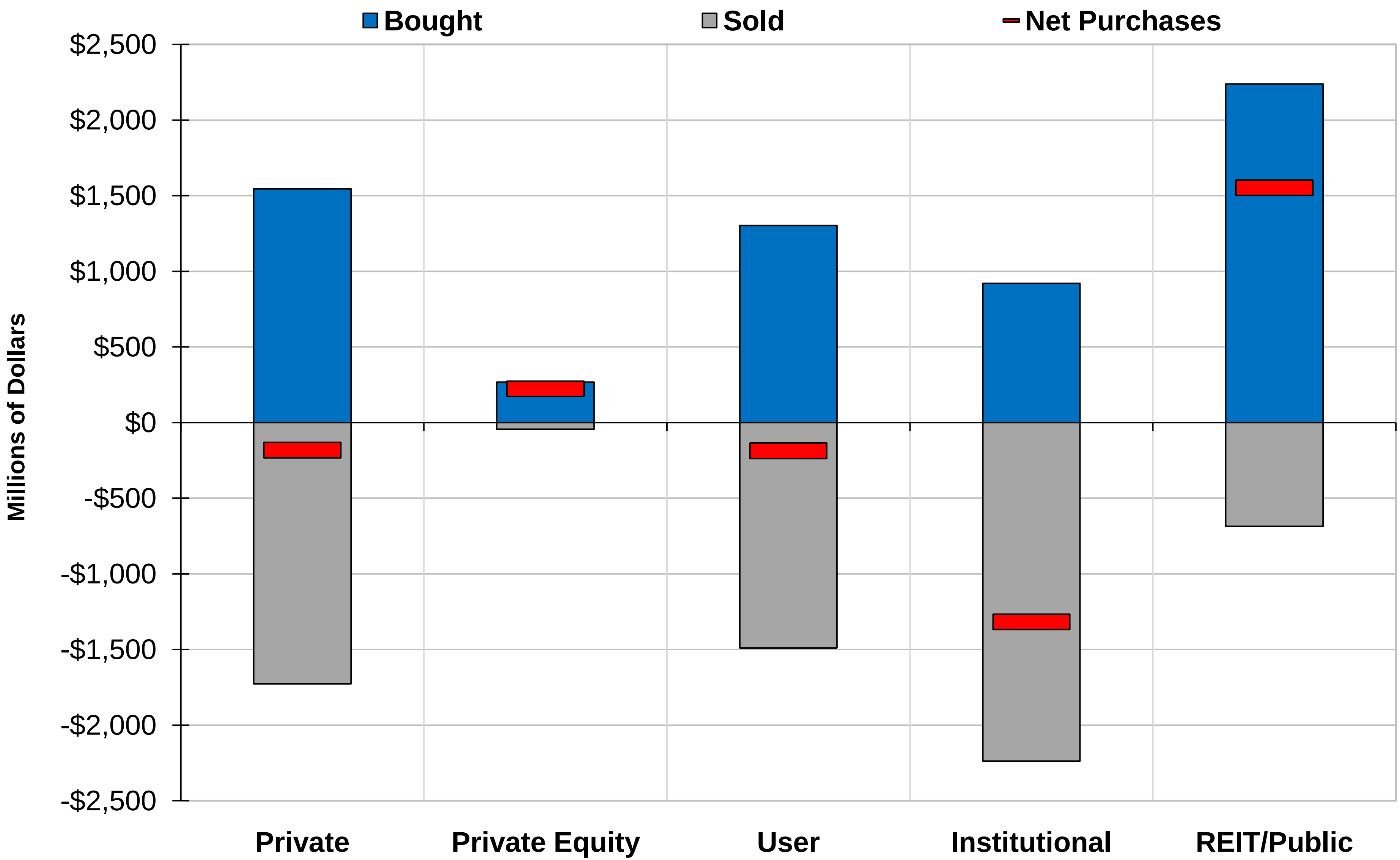


Source: NCREIF

Distribution of Cap Rates on Sales in 2010



Sales of Industrial Properties in 2010 By Investor Type



Source: CoStar Group

DANGER ZONE

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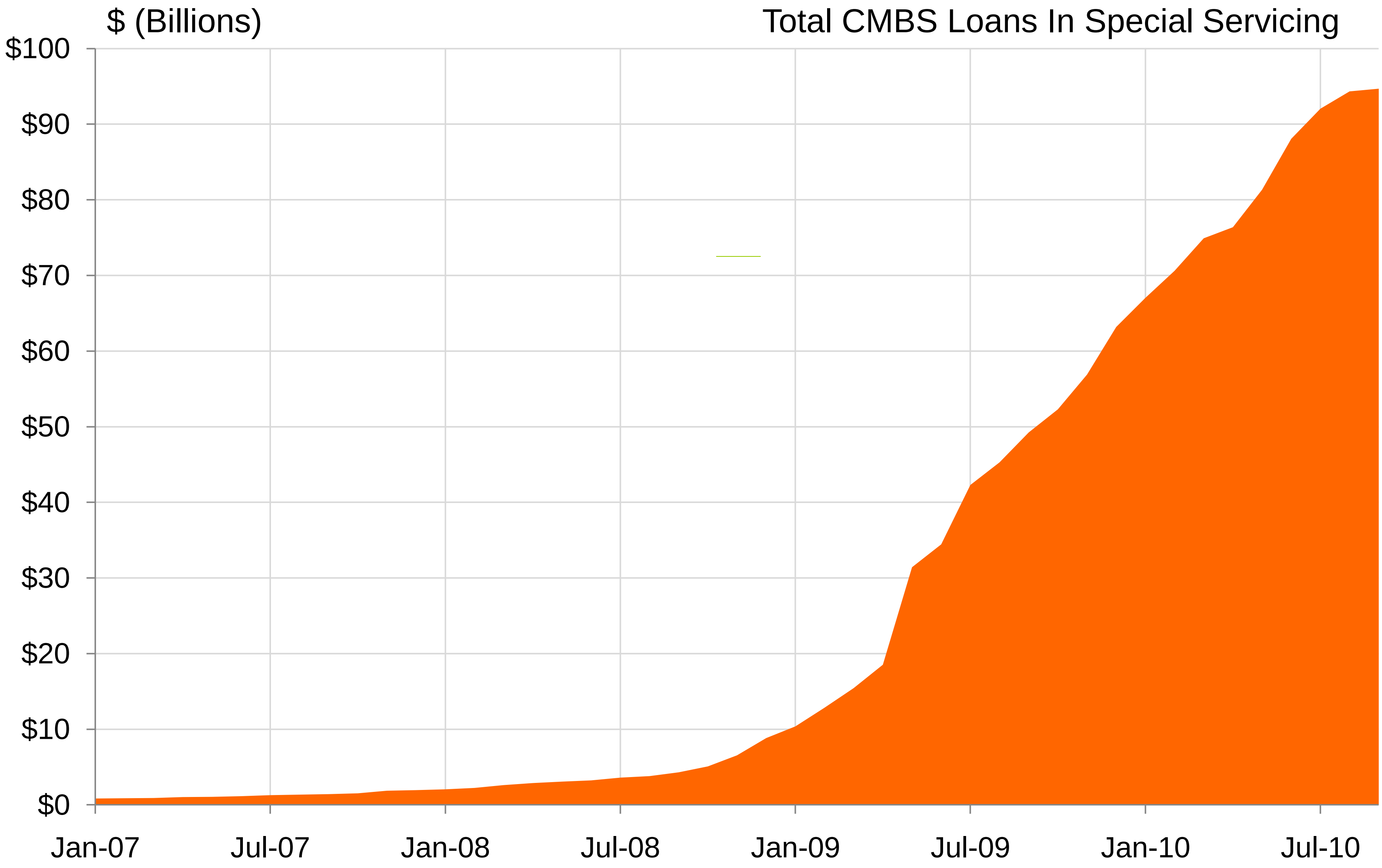
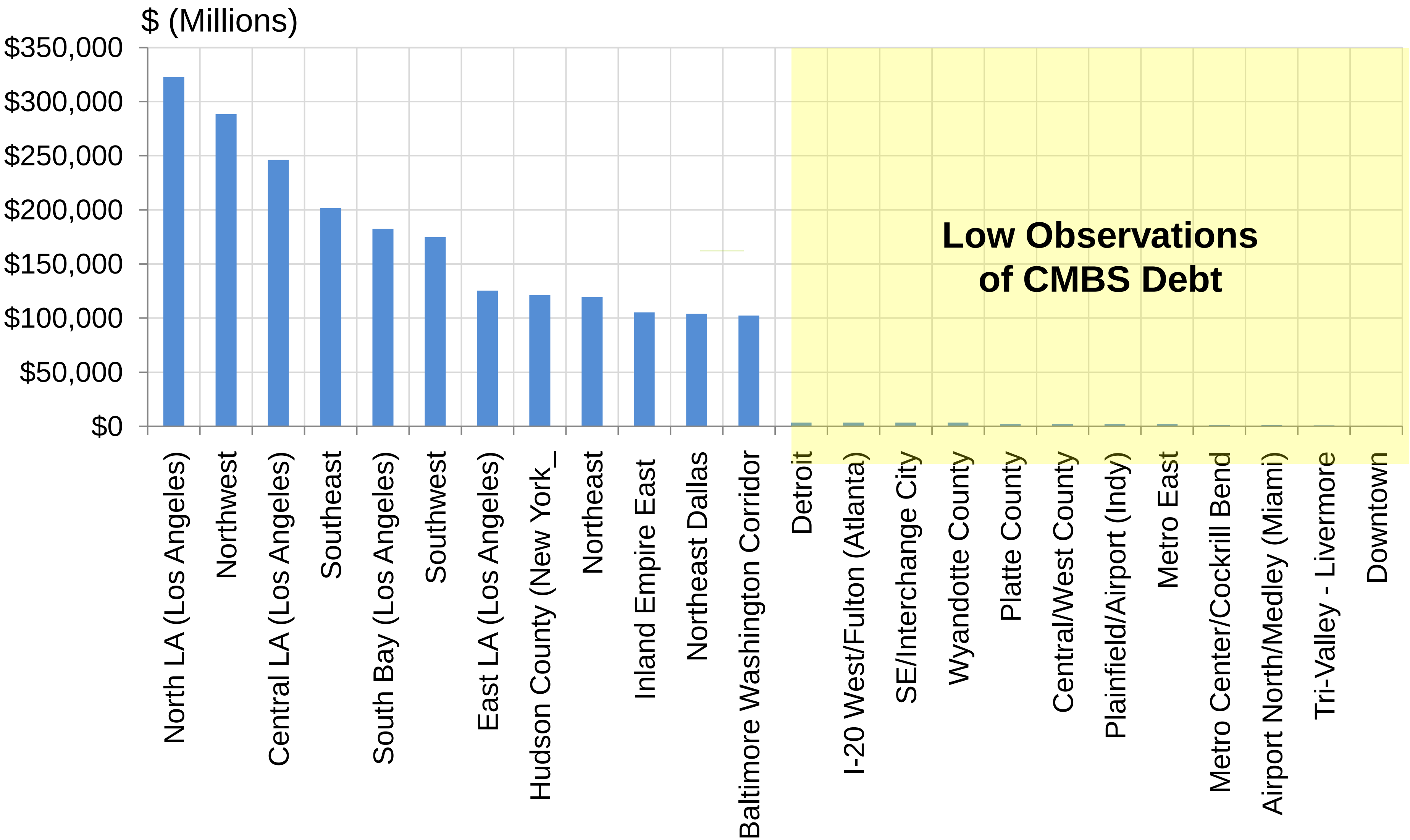
No Signs of Slowing Down

CoStar Group



Source: Trepp

Beware of New Owners With Sharp Pencils



Source: Trepp; PPR

Thank You

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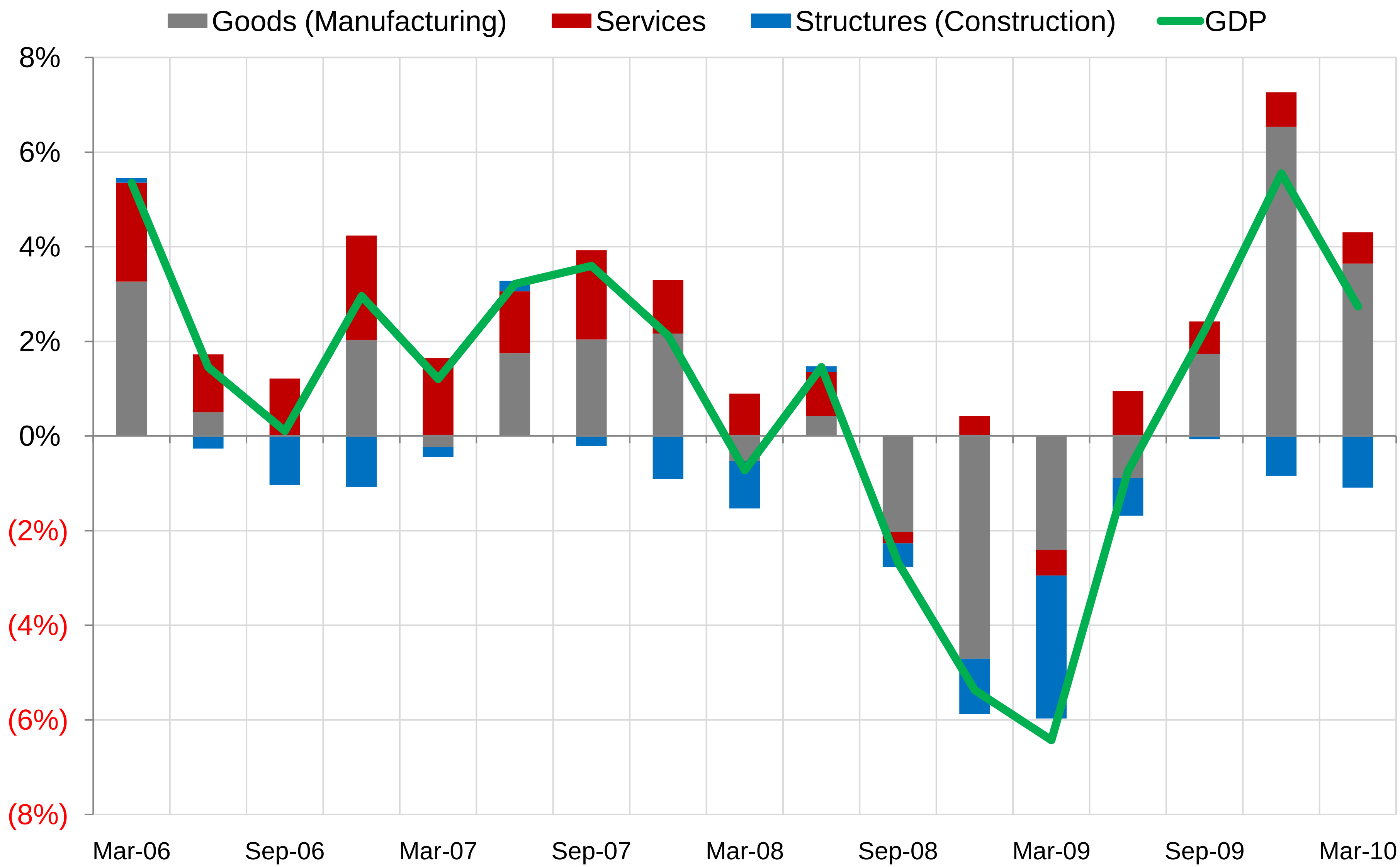
 Presented by Jay Spivey, Hans Nordby, and Shaw Lupton

Template Charts to Build New PPR Slides

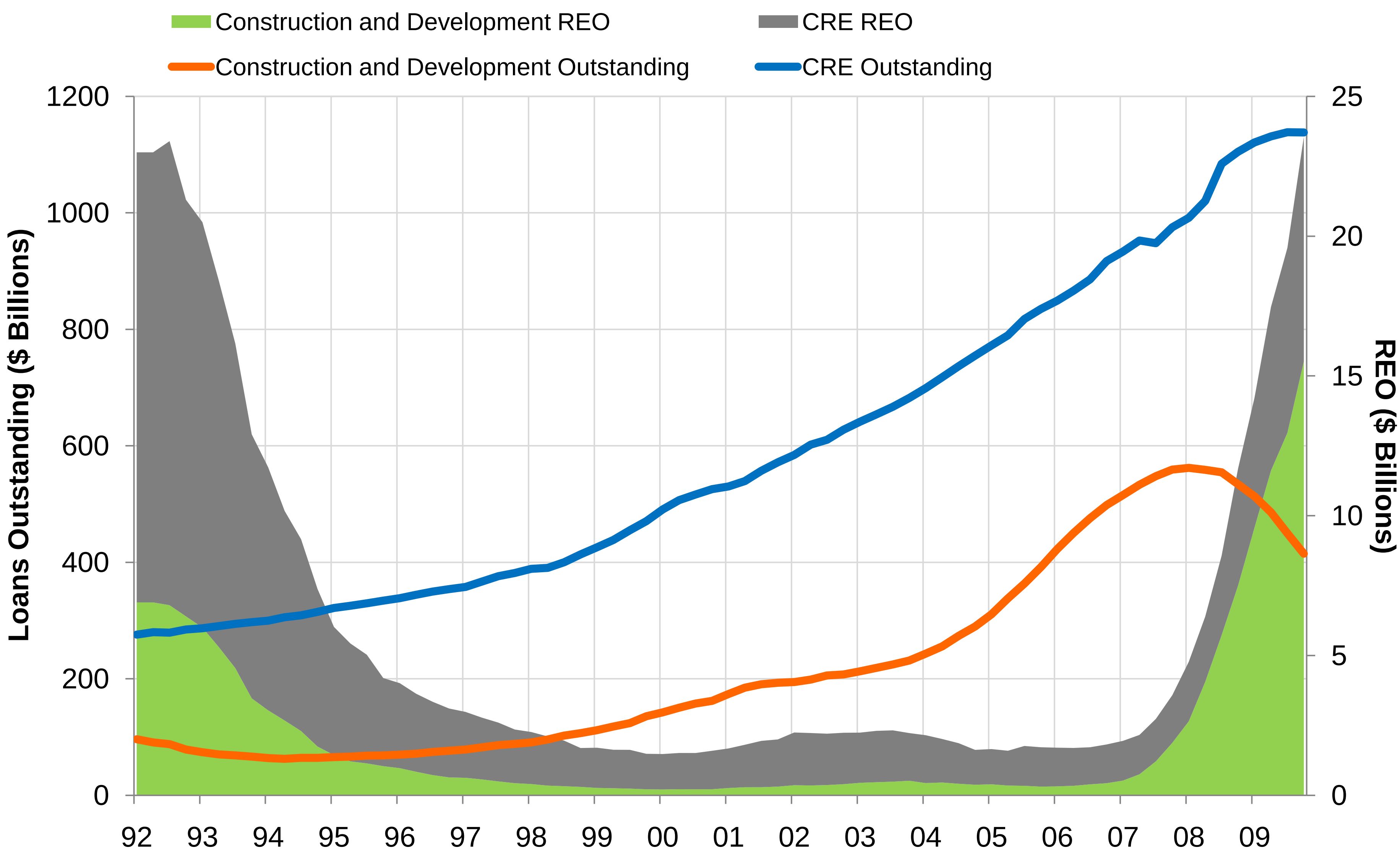
KNOW YOUR MARKET

Manufacturing Is Driving The Recovery



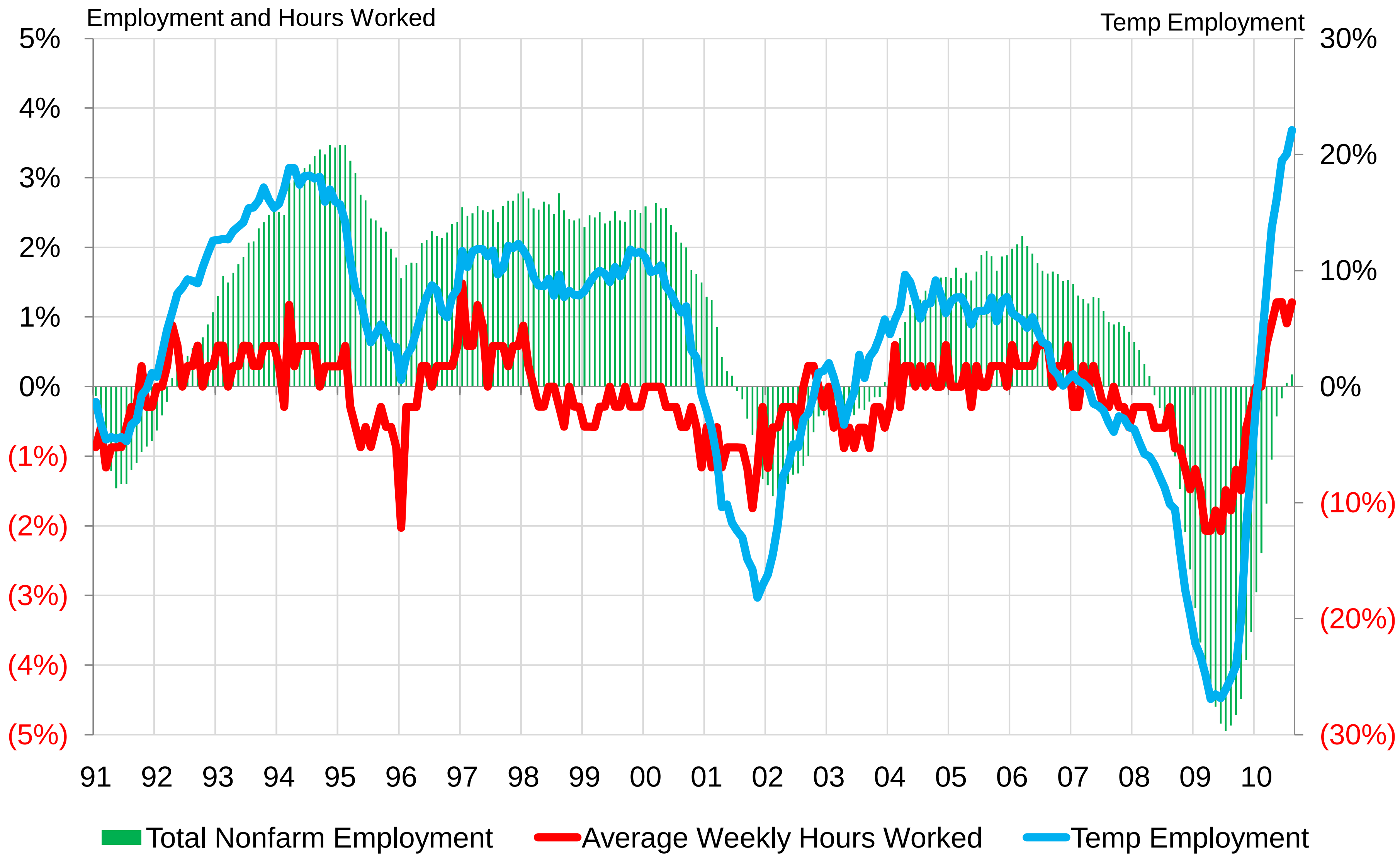
Source: BEA

Real Estate Owned By Bank Universe



Source: CoStar Group

Leading Indicators Signal More Job Creation



Source: BLS