

NORTH AMERICA INDUSTRIAL INDICATORS



...IN 7 MINUTES

SEPTEMBER 2012

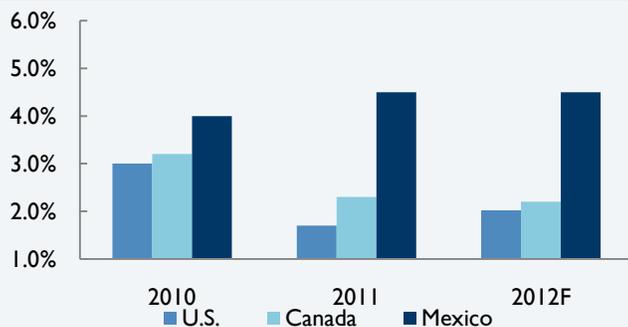


DESIGNED FOR THE BUSY REAL ESTATE PROFESSIONAL, THIS OVERVIEW PROVIDES A SNAPSHOT OF CURRENT ACTIVITY AND TRENDS AFFECTING THE REAL ESTATE LANDSCAPE. WE HOPE THE SUCCINCT FORMAT AND EASILY ACCESSIBLE

INFORMATION IS HELPFUL TO YOUR DECISION MAKING AS WE COVER A VARIETY OF ISSUES THAT MAY NOT BE COVERED IN MOST STAND-ALONE REPORTS.

The deepening of the European economic slump, the potential so-called "fiscal cliff" and the risk of a hard landing for China's economy have added greater uncertainty for U.S. economic prospects. It appears that a full economic recovery may be years off; job growth has been anemic and unemployment has been hovering stubbornly above 8% since February 2009. Meanwhile, manufacturing in Canada was revived during the first half of 2012 and Mexico's industrial GDP grew 3.6% in the first half of the year. However, continued growth for both countries will depend on the strength of the U.S. recovery.

NORTH AMERICA – GDP GROWTH



MARKET DRIVERS/INFRASTRUCTURES

- **Intermodal Volume Rises:** Intermodal shipments on major U.S. railroads rose 4.3% in August, reaching the second strongest volume for the month on record, according to the Association of American Railroads. So far this year, Canadian intermodal volume is up 6.9% year-over-year while Mexican intermodal volume rose 18.5% in the first 35 weeks of 2012, compared to the same period in 2011.
- **New Bridge for Long Beach:** The Long Beach Board of Harbor Commissioners approved a \$649.5 million contract for the design and construction of a replacement for the Port of Long Beach's Gerald Desmond Bridge. Construction of the new bridge is to start in 2013 and is scheduled for completion in 2016 and is designed to ease traffic congestion and improve safety.

- **New Baltimore Intermodal Facility Site:** The Port of Baltimore could once again become a contender for import cargo bound for the Midwest as a result of CSX's decision to locate its new intermodal rail terminal near the Port of Baltimore's Seagirt Marine Terminal. The \$90 million rail terminal at Mount Clare will give the port near-dock double stack container service to the Midwest. CSX plans to open the facility in 2015 to coincide with the opening of the Panama Canal expansion project.
- **China Slowing:** The preliminary reading of HSBC's survey of purchasing managers shows Chinese production in August plummeting to a nine-month low. A key manufacturing index in China fell to 47.8 in August from 49.3 in July. Export business declined at the sharpest rate since March 2009, when the global financial crisis dried up European and U.S. demand for Chinese goods.
- **Mexico Growing:** Reflecting the steadily increasing trade between the NAFTA members and growing consumption by the Mexican middle class, U.S./Mexico cross-border truck trade hit an all-time high (by value) in May, jumping 17.1% year-over-year to \$29.1 billion, as shipments from Mexico rose 16% and U.S. exports expanded by 18.4%. Trade among the North American Free Trade Agreement partners has risen steadily this year, with total trade rising in value by 8.3% year-over-year in May.

INDUSTRIAL INVESTMENTS/ACTIVITY

- American Realty Capital Trust III Inc. completed its purchase of a 1.04-msf industrial portfolio in Stockton, CA, for nearly \$63 million. The assets included two 517,920-sf distribution centers.
- According to Real Estate Capital Analytics, the private sector has ramped up acquisitions and improved their market share to 33% in the first half of 2012 from 30% in 2011.
- The listed REITs have made over \$1.3 billion of acquisitions in 2012, 13% behind their pace in 2011. Their share of all acquisitions in the industrial sector dropped to 9% from 11%. However, the average reported cap rate on their acquisitions continues to trend down due to competition for top assets with institutional buyers.
- Institutions and equity funds are on track to buy slightly more industrial properties in 2012 than in 2011, but have seen their share of the market decline slightly, to 29%.
- Leasing activity for space 500,000 sf or larger recorded its highest average during 2012 with an average of 771,345 sf in size. In 2009, the average lease size dropped to a low of 614,500 sf due to the effects of the recession. Since the beginning of 2011, seven leases over 1.0 msf have been recorded.



UNITED STATES

- **Job Growth Slowing:** With 96,000 jobs added in August and 141,000 jobs added in July, the U.S. economy has averaged monthly job gains of 118,500 so far in the third quarter. While this is better than the second quarter performance of 66,700 jobs per month, it is less than the first quarter average of 225,700 per month and is well behind the target rate of 300,000+ per month, which is needed to bring the national unemployment rate down to normal levels in less than two years.
- **U.S. Industrial Production Down:** Industrial production tumbled sharply and dropped 1.2% in August compared to July. It was the biggest setback since a 1.7% decline in March 2009 when the country was in recession. Manufacturing output, the most important component of industrial production, fell 0.7%, led by a 4% drop in output at auto plants. On a positive note, even with the August decline, output at manufacturing plants is still 20.7% above the recession low hit in June 2009.
- **Retail Sales Rebounded:** Boosted by high gasoline prices and demand for durable goods, retail sales increased in August by the most in six months. The 0.9% followed a revised 0.6% advance in July.
- **Port Volume Growing:** Containerized imports at major U.S. ports are expected to rise 8.5% in September and remain strong through the holiday peak season despite the threat of an East and Gulf Coast port strike. The Port Tracker raised its forecast for September imports through 10 major U.S. import gateways to 1.49 million 20-foot-equivalent units. October volume is forecast to increase by 11.7%, November up 1.9%; and December up 2.7%.
- **Strong Growth in US Agriculture Exports:** U.S. agricultural exports should remain strong for many years due to the growing demand for food in developing nations. However, infrastructure and logistical hurdles are restricting the ability of the farm industry to satisfy global demand. China is and will continue to be a huge market for U.S. agricultural exports. Improved rail service to West Coast ports will help those natural gateways in the trans-Pacific trade to increase their share of exports to China.

TOP FIVE NORTH AMERICAN PORTS

Port Name	Y-O-Y Change	2012 Year-to-Date	2011 Year-to-Date	2011 Annual Change
Ports of LA & Long Beach	1.4%	6,831,969	6,734,798	-0.7%
New York/NJ	1.5%	2,720,791	2,680,411	4.0%
Savannah, GA	2.6%	1,508,363	1,470,575	4.2%
Port of Vancouver (BC)	6.2%	1,300,728	1,224,934	-0.3%
Oakland, CA	0.7%	1,148,853	1,141,397	0.5%
TOTALS	2.0%	13,510,704	13,252,115	0.9%

As of June

- **Amazon.com Collecting California Sales Tax:** Amazon.com, the world's biggest Internet retailer, began collecting sales taxes on purchases made by CA shoppers. Products that the retailer or its subsidiaries sell online are subject to collection of the sales tax in California as well as Kansas, Kentucky, New York, North Dakota, Pennsylvania, Texas and Washington. New tax revenue to California and local governments, generated just by Amazon, are expected to be as high as \$100 million during the first year.

CANADA

- **Fastest-Growing Cities in Canada:** Edmonton and Calgary in Alberta will be the fastest-growing cities in Canada over the next four years due to robust investment in energy, according to the Conference Board of Canada. It also expects other cities in Western Canada—including Saskatoon, Regina and Vancouver—to do well. With 29 billion Canadian dollars (US\$29.7 billion) worth of energy-related projects underway in oil-rich Alberta and nearly C\$86 billion of projects proposed for the future, real GDP for the province's capital city of Edmonton is forecast to expand 4.6% this year, with sister city Calgary growing 3.8%.
- **Rise in Manufacturing:** Post-recession recovery in manufacturing and strength in construction will drive real GDP growth of 3.1% in Vancouver this year. Meanwhile, Montreal's manufacturing sector will have its best performance in more than a decade this year, but a sluggish construction sector and slower growth in services are expected to limit overall growth to 1.2% in 2012.
- **CP Unveils New Intermodal Improvements:** The Calgary-based carrier has introduced new intermodal services, which offer faster transit times that connect Vancouver to Toronto or Chicago. CP's new intermodal schedules eliminate one day from the 2,600-mile Toronto to Vancouver transcontinental trains and two days from the 2,200 mile Vancouver to Chicago train service.

MEXICO

- **Continued Growth:** In spite of the violence, businesses in Juarez have continued to grow. A total of 85 major multinational companies including Johnson & Johnson, Delphi, Siemens and Foxconn all have major manufacturing operations in Juarez. In 2011, trade between Juarez and El Paso, its sister city on the Texas side of the river, totaled more than \$80 billion, up by more than \$10 billion from the previous year. As trade increases, the factories in Juarez are expanding their payrolls. The number of export sector jobs jumped from 166,000 in June 2009 to 215,000 in June 2012, an increase of nearly 30%.
- **Foreign Direct Investment Up:** According to Nomura Securities, Mexico is poised to become Latin America's largest economy, surpassing Brazil, and become one of the emerging markets' most dynamic economies over the next decade. The PRI party has regained the presidency and the Lower House and the party supports structural, pro-market, reforms. Mexico's economy and its banks will also be supported and even accelerated by positive demographics, hitting a sweet spot in 2020. Current projections point not only to Mexico showing one of the strongest levels of population growth among major economies, but also the greatest fall in the dependency ratio (proportion of young/old relative to the working age population).
- **EPL Oil & Gas Inc.** is buying some shallow water Gulf of Mexico assets from Hilcorp Energy GOM Holdings LLC for \$550 million. The properties in the deal include three fields that Hilcorp had acquired from Chevron Corp. on the Central Gulf of Mexico shelf in the vicinity of EPL's existing core field areas. The properties are currently producing about 10,000 barrels of oil equivalent per day, about 50% of which are oil.