

## *THE U.S. INDUSTRIAL LANDSCAPE IN 7 MINUTES PRESENTED BY THE CUSHMAN & WAKEFIELD INDUSTRIAL PLATFORM*

In this uncertain economic climate, everyone is guessing what the future holds for real estate and its affects on the broader economic picture. While the industrial market is not a crystal ball, it is typically the first real estate sector to rebound from a recession. As such, we feel that the trends and conditions of the industrial market can provide valuable insight to the overall direction of the economy.

What does the current leasing activity look like? Is there any absorption? Is anybody building anything these days? To answer these questions and many others, C&W is pleased to provide this brief, yet informative, overview of the current dynamics of the U.S. industrial landscape.

- Most recent reading of The Institute of Supply Management's Manufacturing Index has reported eight consecutive months of improvement.
- Retail sales have reported positive growth resulting in a positive outlook for the industrial market.
- Overall vacancy continued to climb for the tenth consecutive quarter to just under 11%.
- Construction completions reached their lowest point since Cushman & Wakefield started tracking.
- Typically the industrial sector is one of the first real estate sectors to rebound from a recession; positive trends include: 60% of Cushman & Wakefield industrial markets are showing an increase in year-over-year leasing activity and 1<sup>st</sup> quarter national leasing activity increased 10% (to 60.5 million sf) over the same period last year
- Some of the more active markets in 1<sup>st</sup> quarter of 2010 have been Atlanta, Inland Empire, and the PA I-81/I-78 industrial corridor.
- Rebuilding of inventories will help spur absorption, which currently remains flat. In the immediate future, corporate earnings will & have been improving and a gradual increase in inventories is expected, though generally the inventory to sales ratio will be declining in the mid term.
- When global trade recovers, East Coast ports will be best positioned for increased TEU activity. In addition, the widening of The Panama Canal will bode well for both the eastern seaboard port markets, as well as inland hubs such as Columbus, OH.
- Core markets' general characteristics today: presence of intermodal hubs, stable supply and demand factors, liquidity, diversification and market depth. Also, superior infrastructure with international airports and container ports both seaport and inland.
- Because of price declines in the real estate markets, industrial assets can be purchased at a discount to replacement cost today.
- Discounted building prices and rents have an adverse effect for non-functional buildings trying to compete against state of the art facilities.

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- Because of the uncertainty and constantly changing business climate, industrial users are requiring shorter leases, flexible terms, and occupancies that can be easily increased or decreased in size.
- Stable and sufficient credit is not only important for the occupier, it's equally important for the owner/landlord.
- Rail and intermodal markets will have bright futures when global trade reaches full stride. The intermodal "break even" point will decrease from about 800 or 900 miles to about 600.
- Transportation costs will continue to be a driving force that will offset the lower labor costs of Asian markets. Distributors' goal of locating closer to their customers will also drive site selections from Asia to parts of the U.S.
- Being closer to the consumer and minimizing transportation costs will bode well for the smaller regional distribution markets especially as oil prices increase.
- The southeast region of the U.S. is seeing increased manufacturing jobs due to fuel price uncertainty, a general pull back from China, and possibly Mexico's lack of stability. Near sourcing will continue to be the trend in the decision making process for plant locations.
- The rise of rail to distribute product to and thru inland ports will be evident over the coming years.
- A key to economic recovery will be the equity markets to spur growth in the industrial sector.
- Portfolio optimization remains high on companies' list of priorities, causing a high level of demand.
- Energy optimization, as part of cost cutting and sustainability initiatives, is a current activity of the occupier today.
- Developers/owners continue to find it difficult to finance large tenant improvement projects.
- A key difference now compared to prior recessions is globalization and how the global economy is interconnected.
- The improved linkage between Hampton Roads, VA (one of the best deep water ports on the East Coast) and Columbus, OH (a well positioned inland hub) is a major capacity improvement projects in terms of moving freight in the U.S.
- The ports in Baltimore, Philadelphia, Charleston, Savannah, Jacksonville, and Norfolk are all dredging and building additional crane capacity to coincide with the widening of the Panama Canal. Many Eastern ports today do not have the channel depth to handle the imminent 12,000 TEU vessels.