

Cincinnati, Ohio

2011 INDUSTRIAL SUPPLY CHAIN LOGISTICS MARKET UPDATE

Overview

2011 is another year of opportunity for tenants and buyers of industrial real estate in Southwest Ohio and Northern Kentucky. And despite property owners and landlords citing the positive absorption numbers to end the 4th quarter of 2010 as a return to normalcy and stability in the commercial real estate market, 2010 saw the year end with almost 9% of industrial properties vacant. In a total market of almost 300M square feet of industrial product, 9% vacancy equates to over 26M square feet of empty flex, distribution, and manufacturing space throughout Southwest Ohio and Northern Kentucky.

MARKET TRENDS

The flight to quality continues, as tenants are finding favorable lease terms due to the existing vacancy of industrial assets. Landlords are willing to sign tenants to short-term leases below their quoted rates, provided the tenants require minimum capital expenditures, to improve occupancy and mitigate their operating expense exposure. Not surprisingly, many tenants are jumping at the flexibility offered by short-term leases, not fully understanding that flexibility also allows landlords to "bet" on a recovering market to raise rental rates when their leases expire. Market conditions are reflective of this practice, and create an illusion of improved leasing activity. The same is true in the sales market, where increased activity is also yielding lower sales prices. The reduced rental rates and sale comparables are causing significant issues for property valuations and credit underwriting. And given the lending market is still overly cautious, buyers without the ability to pay cash have found it increasingly difficult to close transactions.

TENANT'S PERSPECTIVE

HK Systems leased 598,000 SF and **Camco Chemical Co.** leased another 268,500 SF in Northern Kentucky. **Palmer Donavin Manufacturing** signed for 234,400 SF in the Northwest submarket, with **Keystone Foods** and **Centurion Medical Products** taking 203,000 SF and 114,000 SF, respectively. And in the Northern submarket, **Appleton Papers** relocated from Northern Kentucky to take 219,648 SF. Sales activity was mixed between institutional investors seeking "value add" property acquisitions and end-users with access to capital leveraging the market to their benefit. Notable sales include **Masters Pharmaceutical, Inc.** buying a 148,000 SF building for under \$25.00 per SF at \$3,575,000, **Utility Trailer Manufacturing Company** acquiring 253,500 SF for a little more than \$12.00 per SF at \$3,050,000 and **Keidel Supply Company** paying just over \$15.00 per SF at \$2,361,800 for a 156,800 SF facility.

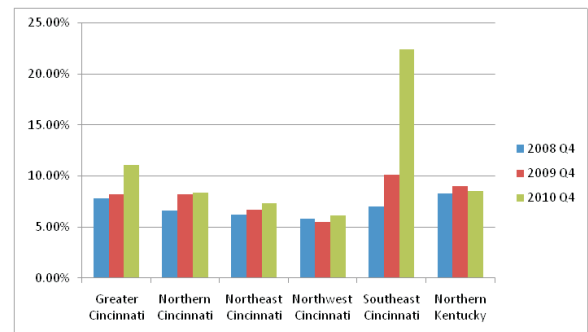
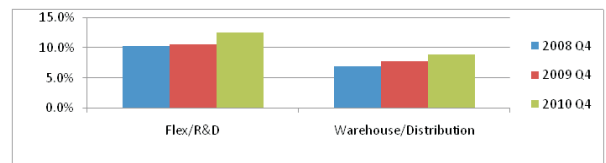


Industrial Product Availability

Property Type	Vacancy Rate	Total Market SF	Space Available	Quoted Rent PSF
Flex/R&D	12.46%	6,723,463	837,436	\$7.27
Warehouse/Distribution	8.85%	291,026,080	25,754,694	\$2.82

SUBMARKET	VACANCY RATE	AVERAGE RENT PSF
Greater Cincinnati	11.1%	\$3.07
Northern Cincinnati	8.4%	\$3.39
Northeast Cincinnati	7.3%	\$4.41
Northwest Cincinnati	6.1%	\$3.44
Southeast Cincinnati	22.4%	\$3.18
Northern Kentucky	8.5%	\$3.31

Historical Industrial Vacancy



Prepared By CresaPartners
 One Financial Way , Suite 300
 Cincinnati, Ohio 45242
 513.241.7373 ■ www.cresapartners.com