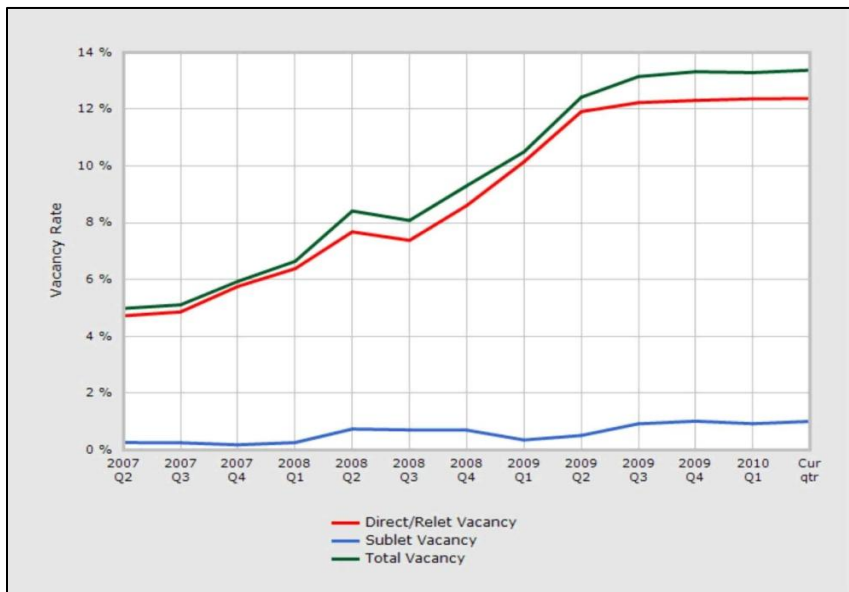


State of the Market April 2010, Orlando

One of the effects of a business cycle contraction is the removal of excess capacity from the system. Business cycles tend to reoccur every 5-7 years. Vacancy is a kind of excess capacity. So what's different this time? We're at the end of a 20+ year downward interest rate cycle. Interest rates have steadily declined since 1982. Fed Funds are now effectively zero. It's highly probable that we will experience a many-year cycle of increasing interest rates. There is an inverse relationship between interest rates and property values. When rates go up, values go down. When interest rates go down, values go up. Someone that entered the business world since 1984 awakened every New Year's Day to higher stock and real estate prices than the previous year. Everyone believed that house prices always go up. This belief carried over to commercial properties. Of course they go up in value. It's the American Way. But, maybe not this time.

Below is a chart showing Orlando's industrial vacancy. Even vacancy has gotten difficult to describe. We have space that is vacant and not accruing rent, space that is vacant with someone still paying rent, space that is underutilized but occupied and still paying rent, and finally, space that is occupied but not paying rent. Industrial vacancy in Orange County is about 15%. Spaces less than 20,000 sq. ft. are about 11%. Spaces over 100,000 sq. ft. are over 19% vacant.

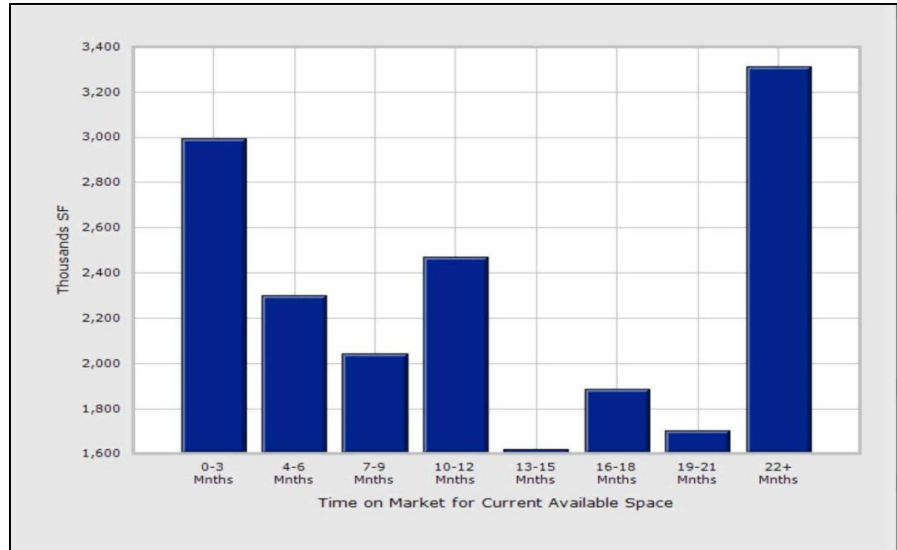


Grade-level "flex" space that was largely used by construction-oriented businesses is about 18%. Orlando's vacancy is just slightly higher than that in the Tampa area, Jacksonville area and Palm Beach area. Polk County has slightly higher vacancy, but Polk had a large block of new space come online just before the recession. Florida's industrial vacancy is much more severe than that of the U.S. average of 10.4%. Florida's economy was highly dependent on growth. Growth has slowed dramatically, and some of our commercial space and housing have become "surplus".

Warehouse rental rates are quoted triple net (NNN - excluding taxes, insurance and utilities) or modified gross (taxes and insurance included). Owners vary in what their rent includes so it's prudent to ask what is included. A typical distribution building has 5-7% office space. That amount of office is included in the rates on the next page. For spaces with larger percentages of office, the office space is priced separately at \$9.00 to \$12.00 sq. ft. For example, a 10,000 sq. ft. building with 3,000 sq. ft. of office might be priced at \$4.00 for the 75% warehouse and \$10.00 for the 2,500 sq. ft. (that portion that exceeds the expected 5% or 500 sq. ft.). This asking rent might be computed as $\$4.00 \times .75 + \$10.00 \times .25$ or \$5.50 per sq. ft. NNN. Taxes can range from \$0.45 per sq. ft. for an older metal building to \$1.25 for a new tilt wall structure. Insurance is in the range of \$.25 to \$.35 per sq. ft. For the 10,000 sq. ft. above, the base or net rent might be \$5.50 per sq. ft. with the taxes and insurance another \$1.00. The expected occupancy cost or industrial gross rent for this building with 3,000 sq. ft. of office might be \$6.50 per sq. ft. per year and still be equivalent to a shell rate of \$4.50 per sq. ft. on the next page.

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We are experiencing a large gap in what could be described as bid and asked. So much so that MIT started publishing an index of institutional property bid and asked at <http://web.mit.edu/cre/research/credl/rca.html>. They report that property values fell about 35% after 2007. Values have recovered slightly recently but we found 35% to be a good rule of thumb for most Florida properties today, both commercial and residential. MIT is reporting a 25% spread between what sellers want and buyers are offering. We think that is a major factor in Orlando's commercial real estate market. This chart from CoStar, a commercial data service, shows the listing time on the market. It's bimodal. We did some research on this and came up with several explanations. One, spaces less than 10,000 sq. ft. still seem to be leasing. That activity and the relatively few "properly priced" listings account for the left node. The right node includes listings based on what owners think they need, i.e. probably overpriced. That and the already lethargic overall market explain the right node.



So what are the right prices? There have been very few sales transactions and completed lease rates are not publicly documented, so we had to work from the lower priced listings that result in deals. We're seeing the following rental rates for functional, second generation space in Orange County:

7,500 to 10,000 sq. ft.	\$3.25 to \$4.25 per sq. ft. NNN
15,000 to 25,000 sq. ft.	\$3.00 to \$4.00 per sq. ft. NNN
25,000 to 50,000 sq. ft.	\$2.25 to \$3.00 per sq. ft. NNN
More than 100,000 sq. ft.	\$1.00 to \$2.50 per sq. ft. NNN

Occupancy levels won't recover rapidly. It will take time to work through the present high levels of unemployment. Unemployed people do not occupy commercial space. Improving employment will lead to improving occupancy.

Our databases can be sorted by submarkets, building size, and wide range of building characteristics. E-mail us with questions and we'll try to cover the subject in future State of the Market report. We're also available to provide data specific to your situation and to provide a range of industrial real estate services including relocation, building obsolescence, transportation planning, and financing. Please call us at 407- 629-6001.

Jay Rohr has held the highly respected (CRE) Counselor of Real Estate professional designation for 13 years and has been serving the industrial/commercial real estate market in Central Florida for more than 35 years as a broker and consultant. Larry Kahn has 25 years experience in restructuring businesses, especially with respect to supply chains and logistics. MetroOne, Inc. has provided specialized industrial sales, leasing and advisory services in Central Florida since 1988. Watch for our next quarterly State of the Market report.

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