

## State of the Market - July 2010, Orlando

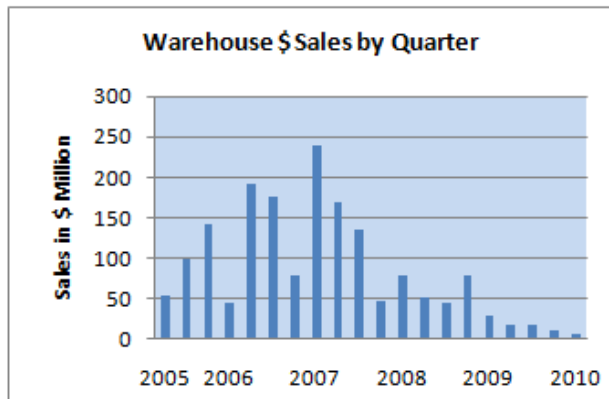
**Are we there yet?** We're all trying to understand the state of the economy and especially the state of the commercial real estate market in Central Florida. There are a few encouraging signs. Lease transaction volume is picking up, landlords are beginning to acknowledge the gap between "bid" and "ask" and vacancy levels have been relatively stable for three months now.

Central Florida is a sizable warehouse market. This table compares the existing base of industrial buildings along the I-4 corridor including space per capita. Per capita data provides a convenient way of comparing metro areas, but is generally not effective at the city or county level.

Warehouse Characteristics by County					
County	Total Sq. Ft.	# Bldg	SF / Bldg	SF per Capita	Vac'y
Orange	117,468,000	3,499	33,572	108	12.7%
Seminole	29,287,000	1,539	19,030	71	12.8%
Lake	9,633,000	506	19,038	31	17.0%
Orl. SMSA	163,855,000	5,836	28,077	79	13.0%
Polk	45,290,000	1,174	38,578	78	13.5%
Hillsboro.	109,813,000	3,439	31,932	92	11.2%
US	19,847,726,000	553,706	35,845	65	10.3%

There are several functional types of warehouse space. A majority of the space is used for distribution. Distribution space is characterized by easily accessible dock-high loading, high ceilings and 5% to 6% office. Another 12% of the inventory is called flex-space, which is usually grade-level and designed for a higher proportion of AC space and office finish. Manufacturing space, comprising about 10% of the market

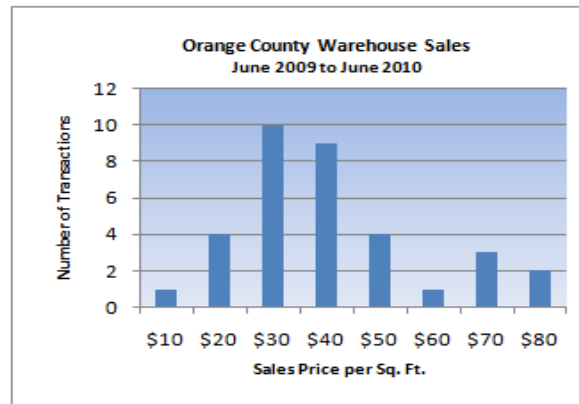
is typically grade-level with heavy industrial zoning, 3-phase power and frequently lower ceilings, although manufacturing is more of "use" than a building type. One other useful distinction is whether the property is a "user" property or an "investor" property. Investor properties tend to be multi-tenant. About 64% of all Orange County warehouses are multi-tenant.



Metro area sales volumes appear to be tracking those cited by national sources such as the MIT CPPI index. Prices are down as much as 40% from the 2006-2007 peak. In Orange County, there were only 29 industrial warehouse sales over 10,000 sq. ft. from June 2009 to June 2010.

These sales totaled \$74,000,000, indicating a decline in dollar volume of 88% over the 2007 peak of \$594,000,000. The 1,900,000 sq. ft. of buildings sold represents 1.4% of the total market, indicating an uncharacteristically low turnover rate of 71 years. 9 of the sales were in Orlando Central Park and another 6 in the Landstreet and Regency Industrial Park areas, 5 were near downtown Orlando, and 8 in the northwest quadrant. The east side of town was severely under represented with 1 sale in Airport Industrial Park.

Of the 29 sales transactions, two were sales of investment properties totaling 510,000 sq. ft. and one sale of 6 warehouses totaling 110,000 sq. ft with separate legal descriptions located on Premier Row in Orlando Central Park by Northwestern Mutual. With some slight adjustments for outliers, the average sales price was \$46.51 per sq. ft. with a standard deviation of \$18.68. Note that this chart is skewed by my omission of transactions under 10,000 sq. ft., which would typically be at a higher price per sq. ft. The small sample size and a large level of market and perhaps political uncertainty probably contribute to the high standard deviation.

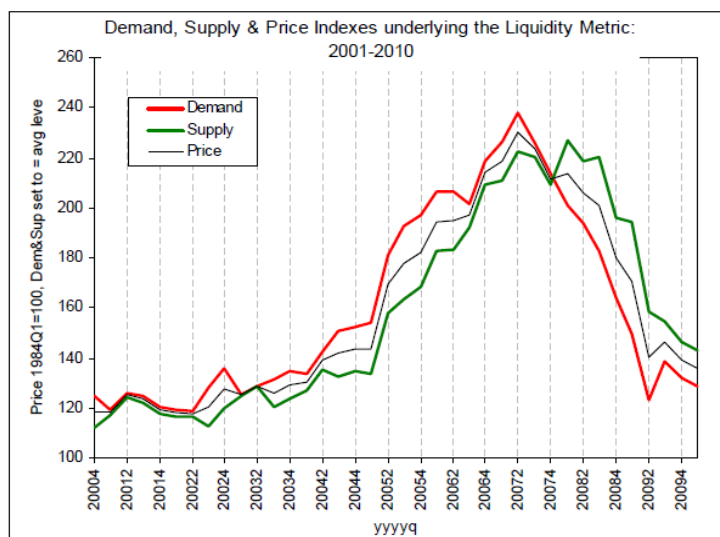


**So what does all this mean?** Landlord's don't want to (and possibly can't) sell at deeply discounted prices, so there is a gap between what sellers are asking and investors are willing to pay. This is called the demand/supply gap in the MIT index. We're seeing short term leases at deeply discounted rates and little motivation to sell. Lease transaction volume is increasing, but many deals we're seeing are for slightly less space. Absorption along the I-4 corridor has been flat or slightly positive over the past 3 months, but at 13% vacancy there isn't much pricing power for rental rates or sales prices. Owners are making lease deals at reduced rates but listings still reflect 2007 pricing. For purchasers, financing is difficult because the lenders are reluctant, but perhaps at this stage in the economy, justifiably so. In this high vacancy environment, substandard properties tend to take the biggest hits and "A" properties tend to outperform. Tenants are moving up to nicer properties.

Today you can lease more building for less money. Most landlords are also granting options to extend the lease and some are granting options to purchase. Leasing with options gives you a lot of flexibility and excellent leverage. We'd be happy to explore the lease/purchase alternative with you.

Much like the housing market, commercial property values are down 30-40% from the peak, and many properties are upside down relative to their mortgage. Banks are permitting extensions and/or forbearance in many cases and the Central Florida economy seems to be reaching a level of equilibrium. The equilibrium is not recovery, but more of a "muddle through".

Jobs are the key to our recovery. Unemployed people don't occupy commercial space, and they also don't buy much. 70% of the US GDP was consumption, so the economy, jobs, the housing market, and commercial space utilization are all closely related to one another. As employment in Central Florida improves, so will commercial occupancy and with increasing occupancy will come increasing rents and property values.



**MIT Demand, Supply, Price Index**

Based on NCREIF reported values - all commercial properties

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

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