

Industrial Investment Market Overview

Midyear 2010

AIP Mission & Value Statement:

AIP's Commitment is to provide our clients with a well maintained, clean and economically managed property, at competitive rental rates, to allow them to conduct their business in a productive environment for their employees and clients.

AIP's Commitment is to provide our clients with superior customer service by responding to their needs and requests within 24 hours, and to deal with our clients with the highest ethical standards.

AIP's Commitment is to treat our vendors with dignity, respect and fairness while maintaining AIP's right to expect and receive competitive pricing and quality professional work.

AIP's Commitment is to provide our partners with above average returns on their capital and property appreciation while maintaining the highest ethical standards in conducting our business.

AIP's Commitment is to be involved in the communities, both financially and through hands-on volunteering in cities where AIP owns and manages property.

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U.S. Industrial Real Estate Markets Now In Recovery

Outlook for Warehouses and other Industrial Properties Best in Several Years, Positives — Stronger Absorption, Falling Vacancies and Improving Cap Rates — Outweighing Stubbornly Soft Rents and Historically Weak Sales Volume.

The U.S. Industrial real estate market now appears to be headed into recovery after several quarters of negative absorption.

With the economy sending out mixed signals but generally gaining strength, absorption of industrial buildings turned positive in the second quarter following six consecutive quarters of net loss, CoStar Group reported in its State of the Commercial Real Estate Industry Mid-Year 2010 Industrial Review & Outlook. The national industrial vacancy rate declined for the first time in two years, according to the company's most recent analysis of industrial property markets.

For owners, the warehouse sector is still working through some significant market turbulence. Broad-based growth in rental rates probably won't resume until 2011, and the investment sales market remains choppy, with total transaction volume still well below the historical average. Liquidity hasn't yet returned for owners and industrial capitalization rates and pricing, though improving, still show a mixed picture.

But overall, "we think the outlook is better than it has been in a few years," said Jay Spivey, CoStar Director of Analytics, who teamed with CoStar Director of Advisory Services Hans Nordby earlier this week to present the finding and forecast to CoStar clients.

Investment Sales

On the down side, sales transaction volume remains low by historical standards. Liquidity has not returned to the industrial market and the time that properties sit on the market before being sold — and the number of properties withdrawn from the market without being sold — continues to rise.

However, the second quarter saw a slight narrowing of the gap between asking and actual sales prices, possibly an indication that buyers and sellers are starting to agree on pricing.

Significant trades during the quarter included the sale by Industrial Developments International (IDI) of a nine-property bulk portfolio to Cabot Properties, Inc. on June 2 for \$115 million, and IDI's sale of the 687,118-square-foot Weston Business Center to RREEF America LLC for \$65 million. The former DHL distribution facility in Breinigsville, PA, sold for \$58.3 million in May.

Industrial cap rates still reveal a bit of a mixed picture. On industrial deals of \$20 million and above, cap rates fell to 8%, largely because of the demand for high-quality assets by institutional investors who will pay more for bigger and newer assets, Nordby said.

Over the last couple of quarters, most of the lower sale price tranches are also seeing stabilized or declining cap rates in the 8.5% to 9% range, showing increased and broad-based interest in industrial by investors, Nordby said.

But the higher-end deals are still garnering the most attention. ON trades exceeding \$120 per square foot, the average price per square foot on deals of \$20 million or more is starting to spike upward, while transactions at lower price points are still flat or down on a per-pound basis.

"What I'm hearing from our institutional investor clients is that gateway CBD office markets, and also coastal apartments, are becoming a little rich, and those investors are starting to look at other asset classes," Nordby said. "There's more institutional investor in warehouses. It's coming and it will eventually show up in the price per pound."

Atlanta Industrial Sales Transaction Activity

Tallying industrial building sales of 15,000 square feet or larger, Atlanta industrial sales figures rose during the first quarter 2010 in terms of dollar volume compared to the fourth quarter of 2009.

In the first quarter, 35 industrial transactions closed with a total volume of \$103,951,290. The 35 buildings totaled 3,295,205 square feet and the average price per square foot equated to \$31.55 per square foot. That compares to 43 transactions totaling \$92,232,105 in the fourth quarter. The total

square footage was 2,638,659 for an average price per square foot of \$34.95.

Total year-to-date industrial building sales activity in 2010 is up compared to the previous year. In the first three months of 2010, the market saw 35 industrial sales transactions with a total volume of \$103,951,290. The price per square foot has averaged \$31.55 this year. In the first three months of 2009, the market posted 37 transactions with a total volume of \$75,976,028. The price per square

foot averaged \$34.40.

Cap rates have been lower in 2010, averaging 11.00%, compared to the first three months of last year when they averaged 13.33%.

One of the largest transactions that occurred within the last four quarters in the Atlanta market is the sale of Shawnee Ridge in Suwanee. This 1,700,745-square-foot industrial building sold for \$47,800,000, or \$28.11 per square foot. The property sold on 5/29/2009.

AIP's Most Recent Purchase - 3701 New McEver Road

3701 New McEver Road was purchased in July 2010. The 31,500 square foot brick and steel building, is located in Atlanta's Northwest industrial corridor. The property was purchased from State Bank & Trust out of foreclosure.

The \$625,000 (\$19.84 SF) purchase price was significantly below market sale comparables and replacement cost.

At the time of purchase, the property was 38% leased to Tru Tec Industries, Logo Central, Online Technologies and RSI Mechanical Services.

Based on AIP's initial assumptions, the property's cash-on-cash performance will exceed 30% once the property is fully leased.



Atlanta Industrial Properties Is Proud To Support Our Community

We invite you to participate in these upcoming events. If you have an interest in participating, contact Daniel Levison to find out more event details.

Upcoming Events

- USO, 8/13
- USO, 9/30
- Special Olympics, Fall Games, 11/12-11/14

