INDUSTRIAL MARKET UPDATE

Relevant information on the Greater Cincinnati industrial real estate market in a quick-read format.

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CCR CINCINNATI COMMERCIAL REALTORS®

An independently owned and operated member of the CUSHMAN & WAKEFIELD® ALLIANCE

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Don't Miss The Opportunity

We have reached the bottom of this recession and recovery has been sited on the horizon. However, unemployment statistics are still a cause for concern for a sustainable recovery and for positive absorption in the commercial real estate sector. As the economy recovers, traditionally the industrial real estate market lags behind by approximately six to 12 months.

Our industry has a few hurdles to overcome as the economy begins it slow recovery. Obtaining financing remains a challenge for many borrowers. In addition, there is another major issue facing the commercial real estate industry. Many of the loans that were originated by using commercial mortgage-backed securities (CMBS) had high loan-to-value, plus they were often interest-only and had optimistic appraisals.

As these loans mature over the next few years, borrowers will face significantly lower property values, much lower loan-to-value (this means more equity will be required) and amortizing loans. Many borrowers may find it difficult or impossible to qualify for a new loan when the old one matures. The result could be extensive foreclosures, which would continue to drive prices down if the financial institutions and our government cannot figure out this issue. With these uncertainties, it is hard to predict where pricing in the real estate market is headed.

This uncertainty has created a pricing disparity between sellers and buyers. Sellers refuse to believe their property value has dropped 15 percent to 30 percent in the last two years. Buyers are only motivated to purchase if they find what they perceive to be a "good deal." If the buyer does not think they are looking at a bargain, they will wait believing a better opportunity is around the corner.

The only sale transactions completed in today's market are deals priced 15 percent to 30 percent off where the market was in 2007. Many initial offers are coming in at 50 percent to 60 percent of the asking price. If the seller's counter offer does not measure up, the negotiation is derailed before it even starts. As a result, the market's deal momentum has ground to a halt. People are looking at and even making offers on well-priced, good assets. However, this buyer-seller disparity requires a seller who is in tune with current market conditions to close the deal.

If a seller can wait it out, offering the building on a three- to five-year lease with extremely aggressive rates may provide a good solution. Those who need to sell have to face the reality that their property is not worth what it was in 2007. The good news for them is that they should be able to get an excellent deal on their new purchase. Plus, interest rates remain very attractive for borrowers who have the 20 percent to 35 percent down payment. This is a fabulous time as a buyer or a tenant to lock in long-term, low occupancy costs for your business.

If you do decide to wait to sell, it could be a very, very long wait. It may be many years before prices ever get to pre-recession levels again. Also many potential buyers are inclined to continue waiting. The next 12 months should be a good time to buy, however, when the market turns, it turns

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MARKET MOVES

by Si Pitstick and Josh Young, Cincinnati's Large Industrial Building Experts

Si Pitstick and Josh Young, along with Britt Casey of C&W Chicago, just completed a lease in Romeoville, IL for LeSaint Logistics for a 225,000 sf building owned by Prologis.

Si, Josh and Joe Chickey from CCR represented Down Lite in the sale of its 120,000 sf warehouse facility in Mason, OH.

Si, Josh and Alex Hayden of C&W Los Angeles represented Promax in renewing/restructuring its 465,000 sf lease with Duke Realty for a distribution center in West Chester, OH.

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fast. With no new construction, inventories will eventually subside. If the economy surges, it would take 12 to 24 months for developers to gear up for new construction. This means prices could quickly spike if demand picks up rapidly. Additionally, as soon as the Federal Reserve senses the economy is heating up, interest rates will climb, adding to the cost of ownership and lease rates.

Bottom line, if you find a building that fits your business or works as an investment that is being offered at a "good price," take advantage of the opportunity. These times won't last forever. To learn more, please contact Si Pitstick at (513) 864-6600 or Josh Young at (513) 864-6602.

Greater Cincinnati/Northern Kentucky Selected Market Industrial Transactions
Third Quarter 2009

Submarket		Size (SF)	Lease/Sale	Lease Rate/Sale Price ($PSF)
1.	Central	35,000	Sale	$500,000 ($14.29/sf)
2.	Northeast	120,000	Sale	$3,150,000 ($26.25/sf)
3.	Northern Kentucky	350,000	Lease	$2.65/sf NNN
4.	Tri-County	250,000	Sale	$5,200,000 ($20.80/sf)