

Industrial Market Update

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

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625 Eden Park Dr., Suite 750
Cincinnati, OH 45202-6041



Si Pitstick

Executive Vice President
Global Supply Chain Solutions

Cell: 513-508-5014

Email: sipitstick@c-c-r.com



Joshua E. Young
Industrial Specialist

Cell: 513-509-0404

Email: joshyoung@c-c-r.com

Office: 513-241-2300

Fax: 513-241-2654

Web Site: www.c-c-r.com

2009 Market Forecast

Financial experts Bob Pearson, the senior vice president of Bellwether Real Estate Capital, LLC, and George M. Vredevel, Jr., president, Quadrant Financial, Inc. recently shared their outlooks on the current lending environment.

1. Can owner occupants of industrial buildings find financing? What terms are available?

Pearson: Financing is available, but the qualifications are far more stringent and the terms more conservative than just 90 days ago. Companies must be profitable and demonstrate future profitability. Many lenders are out of the market, but certain banks and life insurance companies are still lending. Terms depend on the size and strength of the company, the outlook for the business and the functionality of the real estate. Special purpose buildings are far less desirable.

Loan amounts are up to 60-75 percent of the appraised value and subject to no more than 75-80 percent of cost. Loan terms of up to 15 years are available with amortization of up to 20 years. Floating rates are 275-350 basis points over LIBOR, but are frequently quoted with a floor (roughly 5 percent). Fixed rates range from 6 percent to 7.25 percent for five years and 6.5 percent to 8 percent for 10 years.

Recourse will typically be required of the company and/or the principals. Non-recourse deals (no guarantees) are only available to the strongest companies with lower leverage (50 percent to 60 percent loan-to-value [LTV] or less) loans.

Vredevel: Owner-occupant properties are perhaps the least impacted sector of commercial real estate finance. While the credit market has tightened or even evaporated for many income-producing properties, owner-users are still able to get attractive funding. Commercial banks are a bit more conservative, quoting 75 to 80 percent LTV; however, the SBA continues to offer very attractive long-term fixed rates with LTV as high as 90 percent (higher in select cases). Borrowers can amortize their debt up to 25 years and can expect interest rates in the 6 percent to 7.75 percent range, depending on length of term.

2. Is financing available for industrial investment property?

Pearson: Lenders still want to finance investment real estate on stabilized, multi-tenant buildings. For single-tenant properties, the terms are much the same as they are for owner-occupied deals. For stabilized multi-tenant properties, non-recourse loans are still readily available through the life companies for loans of 65-70 percent LTV, with amortizations of up to 25 years.

Vredevel: Single-tenant investment properties are very difficult to finance, unless you have a strong credit tenant, a long lease term and low LTV (65 percent). Conventional banks are also taking a more conservative approach to industrial investment property, requiring lease terms of at least three years (preferably five years), lower LTV (no more than 75 percent) and loan amortizations between 20 and 25 years, depending on the age of the property. Non-recourse financing is all but extinct. Prepare your customers for personal guarantees, unless the LTV is less than 50 percent.

3. With many banks receiving capital infusions from the federal bail-out, what are your expectations for 2009?

Pearson: The federal bailout seems to be helping encourage banks to lend to one another, but we still don't see it translating into more loans or better terms for their customers. Life insurance companies will receive new allocations heading into the first of the year, so many will re-enter the market, but still not enough to meet demand. There will be more capital available, but the lenders will still be pretty selective. I still expect this difficult environment to continue into 2009 and see it improving later in the year only if there are signs that the recession is starting to bottom out.

Vredevel: Credit will continue to be extremely tight. While the Federal Reserve and the Treasury are pumping capital into the banks, the OCC (the regulatory agency governing banks) is pressuring banks to focus

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Market Moves

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



Si Pitstick and Josh Young represented the seller of this 100,000 sf industrial building located in Sharonville, OH. The building had several functional challenges, including low ceiling heights, a roof that needed to be replaced and 25,000 sf of two-story office. Si and Josh were able to sell the building to S-K Rigging to store machinery. They did not need or want high ceilings.



Si and Josh worked with Kyle Kehner and Chuck Belden in the Cushman & Wakefield Ontario, CA office to lease a 60,000 square foot industrial facility for LeSaint Logistics. The facility needed to be close to LeSaint's location in Fontana, CA, and it had to be expandable. They were able to negotiate a lease with Panattoni Development for one of its buildings in Fontana that met LeSaint's objectives. ■



Si and Josh represented Quick Pak, a division of NFI, in its site search and lease negotiations for a 205,000 square foot outside warehouse. After evaluating several competitive proposals, Si and Josh arranged a favorable renewal with the company's landlord, RREEF.

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on liquidity and capital preservation. These government agencies are telling the banks two completely separate things. Our prediction is that the OCC will win, because the banks have to endure their audit process each year. That said, the credit markets in 2009 will continue to be very tight. Banks will be conservative and underwrite straightforward transactions, with lower risk, recourse and much higher spreads.

You may contact Pearson at (513) 985-4408 and Vredeveld at (513) 281-5626. For more information on the industrial real estate market, please contact Si Pitstick or Josh Young at (513) 241-2300. ■

Greater Cincinnati/Northern Kentucky Selected Market Industrial Transactions

Fourth Quarter 2008

| <u>Submarket</u> | <u>Size (SF)</u> | <u>Lease/Sale</u> | <u>Lease Rate/Sale Price (\$PSF)</u> |
|----------------------|------------------|-------------------|--------------------------------------|
| 1. Central | 50,000 | Lease | \$2.25/SF Gross |
| 2. Northeast | 130,000 | Lease | \$2.75/SF NNN |
| 3. Northern Kentucky | 320,000 | Lease | \$3.15/SF NNN |
| 4. Tri-County | 80,000 | Lease | \$3.20/SF NNN |