

ANNUAL MARKET UPDATE COMMERCIAL REAL ESTATE

JULY 2009

INDUSTRIAL MARKET REPORT BY WILLIAM M. CONNELLY, CCIM

January 2007 seems like a long time ago. At that time the Clark County Industrial Market had single-digit vacancies and rising rents. As the US recession continues pushing the local employment rate above 13%, business owners are resistant to expand or hire more people. This lack of confidence in the marketplace is forcing landlords to accept a new reality. It's a tenant's market and they call the shots.

This competition has occurred on the Portland side of the river. The large institutional landlords have thrown in the towel and are now making offers to qualified tenants that they would not even have considered in the first quarter of 2009. I expect this trend to transfer to the Clark County side of the river. The key phrase in the previous sentence is "qualified tenant". Credit, like in the banking industry, is a key consideration for landlords. Landlords are not going to make attractive offers to tenants they do not think will survive the lease term. Landlords will still complete transactions with less qualified tenants. The only difference will be stiffer terms for under capitalized tenants.

“ It's a tenant's market and they call the shots. ”

The vacancy rate in Clark County multi-tenant business parks remained steady at 13.40% from the fourth quarter of 2008. The vacancy rate in the Portland industrial market increased to 8.1%. The net absorption rate for Clark County at the end of the second quarter 2009 was -25,888. See Pg. 2, Figure 1, "Industrial Market Net Absorption Trend".

Like the US recession, Clark County's industrial market rate of decline seems to be slowing. As the va-

cancy chart on Page 2 shows, the vacancy rate leaped dramatically from 2006 through 2008. See Pg. 2, Figure 2, "Multi-Tenant Industrial Park Vacancy Trend". Businesses cut back their space requirements by letting their leased space expire without renewing or by simply closing down completely. Projects that were under construction were completed adding to the space available for lease. With no new construction due to the high vacancy rate, as well as, the total lack of funding for new projects, all new lease transactions will come out of the existing inventory. A word of caution to tenants, once the prime vacant space is leased the less attractive space will be the only alternative. As always in business, you get what you pay for.

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With the worst of the banking crisis behind us, the bankers now fear making loans due to the credit risk of the borrower i.e. will the borrower's business survive the recession and be able to pay back the loan. This fear prevents money flowing to finance investment real estate transactions, speculative new construction and even "build to suit" new construction (transactions that have 50% or more down payments are still financeable). Real estate transactions that are financeable today are owner occupied existing structures.

There are bright spots to the Clark County industrial market. Wind and solar related companies are active and growing, as are food related companies, metal fabrication, and anything "green" i.e. energy efficient related, to name few.

It is important to watch and even reduce costs, but to miss out on the outstanding opportunities in real estate could be even a greater risk.

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FEATURED CLIENTS:

- ESD #112
- Frito Lay, Inc.
- Gaither Family, LLC
- General Electric
- Hewlett-Packard
- Hinton Development
- McMorgan & Company
- NW Natural
- Panther Systems
- Schnitzer Northwest
- Stein Distributing
- Sunlight Supply

WILLIAM M. CONNELLY, CCIM
VICE PRESIDENT

Bill Connelly, CCIM joined Eric Fuller & Associates, Inc. in January of 1998. Bill is responsible full time for the marketing of industrial properties for sale or lease in Southwest Washington. He has been responsible for leasing major industrial projects such as the Quad 205 Business Park, Central Business Park and the North Park Industrial Center.

Prior to joining Eric Fuller & Associates, Inc., Bill began his career at Norris, Beggs & Simpson as an industrial sales and leasing specialist in June of 1987. Before joining Norris, Beggs & Simpson, he was a marketing representative and account executive for Northwest Telecommunications and American Business Machines.

Bill graduated from Georgetown University in 1976 with a Bachelor of Science degree in Business Administration/Economics. He maintains a real estate license in Oregon and Washington and is a member of the National Association of Realtors, the Portland Board of Realtors, and Clark County Board of Realtors, the National Association of Industrial and Office Parks (NAIOP), past Chairman of Columbia River Economic Development Council (CREDC), Boy Scouts of America, and holds the designation of Certified Commercial Investment Member (CCIM).

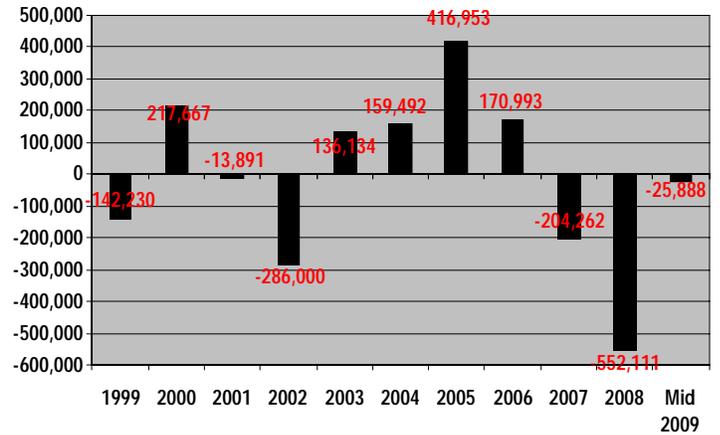
Bill has obtained a diversified and thorough knowledge over the past 22 years of the complexities involved in industrial leasing and sales transactions and has been recognized as "Power Broker" by the CoStar Group.

For more information, contact:



FIGURE 1.

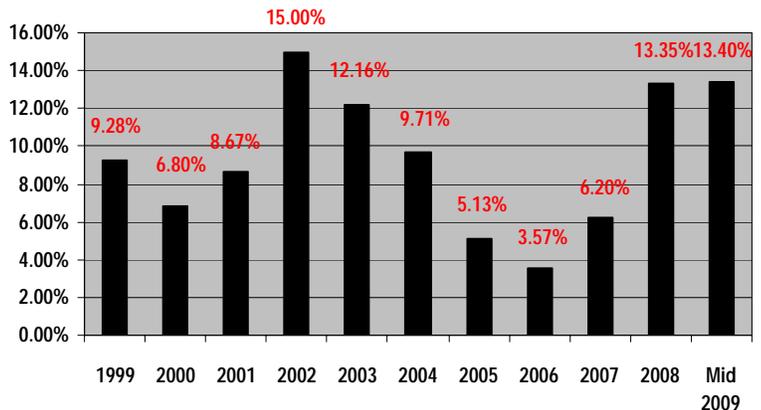
INDUSTRIAL MARKET NET ABSORPTION TREND



Source: Eric Fuller & Associates, Inc.

FIGURE 2.

MULTI-TENANT INDUSTRIAL PARK VACANCY TREND



Source: Eric Fuller & Associates, Inc.

FIGURE 3.

MY FORECAST FOR THE NEXT 12 MONTHS

- ↓ No construction for 2009 and 2010
- ↓ Lease rates decreasing to \$0.40/SF to \$0.45/SF, plus Triple Net
- ↓ Land prices reduced to \$4.00/SF to \$6.00/SF
- ↓ Negative net absorption over 100,000 SF
- ↑ Vacancy rates increase to 15.0%