


DUKE KROEGER & COMPANY

Industrial Market Report 3RD Qtr 2008

Market at a Glance
Orlando Industrial Market

Average Sales Price
$67.76

Absorption
49,775 SF

Vacancy
Increase to 8.7%

Largest Lease Signing
355,732 SF

Sublease Space
1,014,669 SF

Average Rental Rate
$7.23

New Construction
15 New Building
totaling 437,933

Inventory
170,965,584 SF

For more information on this report, please call:

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Market Overview

The Orlando Industrial market ended the second quarter 2008 with a vacancy rate of 8.7%. The vacancy rate was up over the previous quarter with net absorption totaling positive 49,775 square feet at the end of the third quarter.

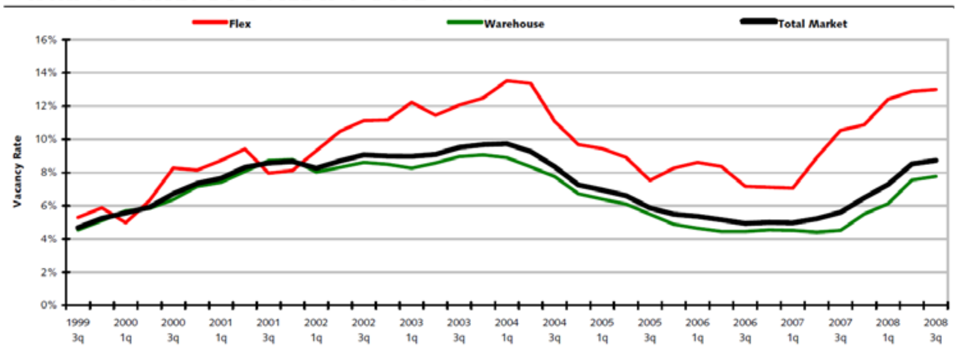
A total of 15 buildings delivered to the market in the quarter totaling 437,933 square feet, with 807,473 square feet still under construction at the end of the quarter.

Vacant sublease space decreased to 1,014,669 square feet in the quarter from 1,043,625 square feet at the end of the second quarter.

The third quarter ended with an average quoted rental rate for available space of $7.23 per square foot, a decrease from $7.28 per square foot at the end of the second quarter.

Total Industrial inventory in the Orlando market area amounted to 170,965,584 square feet in 6,088 buildings as of the end of the third quarter 2008. The Flex sector consists of 31,295,665 square feet in 1,475 projects. The Warehouse sector consists of 139,669,919 square feet in 4,613 buildings. Within the Industrial market there were 717 owner-occupied buildings accounting for 30,959,064 square feet of Industrial space.

Vacancy Rates by Building Type 1999-2008



**Graph copied from Co-Star Group*

Absorption

Third Quarter 2008 net absorption for the overall Orlando Industrial market was positive 49,775 square feet. That compares to negative 1,265,429 square feet in the second quarter 2008, negative 1,037,712 square feet in the first quarter 2008, and negative 384,055 square feet in the fourth quarter 2007.

Notable tenants moving out of large blocks of space in 2008 include: PETCO moving out of 52,800 square feet at Crossroads Business Park; and Weathermaster Building Products, Inc. moving out of 46,000 square feet at 227 Power Court in Sanford. Notable tenants moving into large blocks of space include: United Stationers moving into 404,286 square feet at Southridge Commerce Park; United States Postal Service moving into 355,732 square feet at 2000 E. Landstreet Rd.; and Fonon, Inc. moving into 131,000 square feet at 400 Rinehart Road.

The Flex building market recorded net absorption of positive 82,212 square feet at the end of the third quarter compared to negative 48,043 square feet in the second quarter, negative 213,604 in the first quarter and negative 22,255 in the fourth quarter 2007.

The Warehouse building market recorded net absorption of negative 32,437 square feet in the third quarter 2008 compared to negative 1,217,386 square feet in the second quarter 2008, negative 824,108 in the first quarter 2008, and negative 361,800 square feet in the fourth quarter 2007.

Vacancy

The Industrial vacancy rate in the Orlando market area increased to 8.7% at the end of the third quarter 2008. The vacancy rate was 8.5% at the end of the second quarter 2008, 7.3% at the end of the first quarter 2008, and 6.5% at the end of the fourth quarter 2007.

Flex projects reported a vacancy rate of 13.0% at the end of the third quarter 2008, 12.9% at the end of the second quarter 2008, 12.4% at the end of the first quarter 2008, and 10.9% at the end of the fourth quarter 2007.

Warehouse projects reported a vacancy rate of 7.8% at the end of the third quarter 2008, 7.6% at the end of second quarter 2008, 6.1% at the end of the first quarter 2008, and 5.5% at the end of the fourth quarter 2007.

Sublease Vacancy

The amount of vacant sublease space in the Orlando market decreased to 1,014,669 square feet by the end of the third quarter 2008, from 1,043,625 square feet at the end

of the second quarter 2008. There was 482,127 square feet vacant at the end of the first quarter 2008 and 420,975 square feet at the end of the fourth quarter 2007.

Orlando's Flex projects reported vacant sublease space of 96,951 square feet at the end of third quarter 2008, down from the 97,947 square feet reported at the end of the second quarter 2008. There were 87,936 square feet of sublease space vacant at the end of the first quarter 2008, and 149,928 square feet at the end of the fourth quarter 2007.

Warehouse projects reported decreased vacant sublease space from the second quarter 2008 to the third quarter 2008. Sublease vacancy went from 945,678 square feet to 917,718 square feet during that time. There was 394,191 square feet at the end of the first quarter 2008, and 271,047 square feet at the end of the fourth quarter 2007.

Rental Rates

The average quoted asking rental rate for available Industrial space was $7.23 per square foot per year at the end of the third quarter 2008 in the Orlando market area. This represented a 0.7% decrease in quoted rental rates from the end of the second quarter 2008, when rents were reported at $7.28 per square foot.

The average quoted rate within the Flex sector was $10.66 per square foot at the end of the third quarter 2008, while Warehouse rates stood at $6.25. At the end of the second quarter 2008, Flex rates were $10.61 per square foot, and Warehouse rates were $6.30.

Deliveries and Construction

During the third quarter 2008, 15 buildings totaling 437,933 square feet were completed in the Orlando market area. This compares to 12 buildings totaling 927,749 square feet that were completed in the second quarter 2008, 19 buildings totaling 344,658 square feet completed in the first quarter 2008, and 1,265,541 square feet in 19 buildings completed in the fourth quarter 2007.

There were 807,473 square feet of Industrial space under construction at the end of the third quarter 2008.

Some of the notable 2008 deliveries include: Beachline Corporate Center - Bldg 100, a 360,000-square-foot facility that delivered in second quarter 2008 and is now 0% occupied, and Northwest Distribution Center - Building B, a 200,232-square-foot building that delivered in second quarter 2008 and is now 0% occupied.

The largest projects underway at the end of third quarter 2008 were SouthPark Business Center, a 150,000-square-foot building with 0% of its space pre-leased, and Airport Distribution Center North - Bldg A, a 105,788-square-foot facility that is 0% pre-leased.

Sales Activity

Tallying industrial building sales of 15,000 square feet or larger, Orlando industrial sales figures fell during the second quarter 2008 in terms of dollar volume compared to the first quarter of 2008.

In the second quarter, 13 industrial transactions closed with a total volume of $48,965,071. The 13 buildings totaled 586,937 square feet and the average price per square foot equated to $83.42 per square foot. That compares to 20 transactions totaling $80,592,040 in the first quarter. The total square footage was 1,327,799 for an average price per square foot of $60.70.

Total year-to-date industrial building sales activity in 2008 is down compared to the previous year. In the first six months of 2008, the market saw 33 industrial sales transactions with a total volume of $129,557,111. The price per square foot has averaged $67.66 this year. In the first six months of 2007, the market posted 59 transactions with a total volume of $397,361,475. The price per square foot averaged $76.23.

Cap rates have been higher in 2008, averaging 7.97%, compared to the first six months of last year when they averaged 6.62%.

One of the largest transactions that has occurred within the last 4 quarters in the Orlando market is the sale of 1750 Cypress Lake Dr - Bldg 5 in Orlando. This 340,036 square foot industrial building sold for $25,400,000, or $74.70 per square foot. The property sold on 2/1/2008, at a 5.95% cap rate.