

MARKETBEAT

LAKELAND INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q09

ECONOMY

The Lakeland industrial market continued to weaken in the third quarter of 2009 primarily due to the decrease in industrial-related jobs and the sustained deficit of demand from tenants in the market looking to lease or buy space. Over the last twelve months, the Lakeland-Winter Haven MSA lost a total of 8,900 positions, with the transportation and utilities industry losing 3,100 positions, construction employment decreasing by 1,400 jobs and the manufacturing sector losing 1,200 jobs. This negative job growth, coupled with the sustained economic slowdown has resulted in a continued lack of new and expansion leasing activity, increased vacancy and a decline in rental rates during the quarter.

OVERVIEW

At the close of the third quarter of 2009, Lakeland's industrial market fundamentals showed additional signs of the vulnerability that is currently affecting the economy and in particular, the local real estate market. Asking rental rates and absorption levels have both decreased significantly and vacancy rates have increased since this time last year. Softened demand in the market has caused the market-wide vacancy to tick up to 6.7%. This is a 1.4 percentage point increase over the second quarter of 2009 and a 2.2 percentage point rise in vacancy over this time last year. As can be expected with in a market with a shortage in tenant demand and such a dramatic increase in vacancy, overall absorption was negative 304,460 square feet (sf) during the third quarter, bringing the year-to-date total for the market to a still positive 209,152 sf. Additionally, leasing activity totals were down significantly in third quarter. A scant 93,300 sf of new and expansion leasing deals were completed during the quarter, bringing the year-to-date total to just 273,512 sf, which is down 46.1% from the leasing activity recorded during the same time period in 2008.

Tenant demand, particularly from tenants over 50,000 sf, has continued to remain soft resulting in a decrease in asking rents for the fifth quarter in a row. Market-wide, the average direct net asking rental rate is the lowest recorded in the market since the fourth quarter of 2005, averaging \$4.67 per square foot (psf) at quarter-end. This is a substantial decrease of \$0.62 psf since last quarter and \$1.03 psf from this time last year. The decrease in asking rental rates was most prominent in warehouse/distribution space, which accounts for 64.3% of Lakeland's industrial space, where asking rents in this product type decreased \$0.28 psf since mid-year and \$0.69 psf from the average posted this time last year. Additionally, the substantial amount of available space in the market continued to foster competition between landlords to offer additional lease concessions, decreasing the tenant's effective rental rate further over the term of their lease.

FORECAST

When economic conditions begin to strengthen, which many economists are predicting will occur over the next six to twelve months, a rise in inward migration and employment growth is expected to follow. In the meantime, with tenant demand remaining well below normal levels, opportunities for lease concessions, such as free rent, are being utilized as landlords try to entice tenants away from favorably priced sublet space or new product. And while Cushman & Wakefield does not expect market fundamentals to improve in the near future, they should become more stabilized during the next few quarters.

BEAT ON THE STREET

"Lakeland continues to feel the downward pressure on rental rates as companies look for ways to cut costs, the bright spot is that Lakeland continues to outshine the rest of Florida as it has posted over 200,000 sf of positive absorption YTD, but the lack of new prospects is a cause for concern and will the true test to see if Lakeland stays in positive territory for the year."

—Rian Smith, Director

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	6.7%	11.5%	12.9%
Employment Growth	-2.0%	-4.6%	-2.9%

Source: Moody's | Economy.com

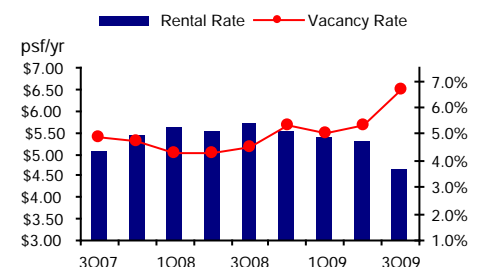
MARKET FORECAST

OVERALL ABSORPTION is expected to remain stable through remainder of 2009, though it should make some positive gains in 2010 as corporate confidence returns in the market. ➡

RENTAL RATES should continue to decline due to the decreased demand, increased vacancy, and competition between landlords to land tenants. ↓

CONSTRUCTION activity will remain virtually non-existent until the excess vacant space in the market gets re-absorbed. ➡

DIRECT RENTAL RATE VS. VACANCY RATE



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS	W/D
Southwest Lakeland	9,446,181	93	3.5%	85,850	0	0	(206,756)	N/A	\$3.00	\$8.07	\$4.62
Southeast Lakeland	2,297,618	65	12.6%	25,750	0	52,800	(11,250)	N/A	N/A	\$5.00	\$5.42
Northwest Lakeland	10,183,969	85	6.7%	161,912	0	0	(59,842)	N/A	\$4.50	N/A	\$4.89
Northeast Lakeland	4,484,859	42	10.3%	0	0	487,000	487,000	N/A	N/A	N/A	\$4.65
TOTAL	26,412,627	285	6.7%	273,512	0	539,800	209,152	N/A	\$3.38	\$5.27	\$4.83

BY PROPERTY TYPE								3Q09	2008	2007	2006
High Technology	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Manufacturing	8,808,553	82	2.8%	80,000	0	0	(38,000)	\$3.38	\$5.44	N/A	\$3.82
Office Service	623,023	20	17.1%	5,000	0	0	(3,500)	\$5.27	\$8.00	\$6.55	\$6.04
Warehouse/Distribution	16,981,051	183	8.3%	188,512	0	539,800	250,652	\$4.83	\$5.37	\$5.34	\$4.83
TOTAL	26,412,627	285	6.7%	273,512	0	539,800	209,152	\$4.67	\$5.52	\$5.42	\$4.85

*Rental rates reflect \$psf/year

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
2520 Knights Station Road	Northwest Lakeland	Sylvite	38,000	Warehouse/Distribution
625 McCue Road	Northwest Lakeland	Agape Food Bank	21,000	Warehouse/Distribution
3115 Drane Field Road	Southwest Lakeland	Undisclosed	16,000	Warehouse/Distribution

SIGNIFICANT 3Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Ruthven Industrial Center II - Building I	Southeast Lakeland	N/A	26,400	7/09
Ruthven Industrial Center II - Building II	Southeast Lakeland	N/A	26,400	8/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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*Market terms & definitions based on BOMA and NAIOP standards.

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