



NATIONAL & REGIONAL TRENDS UPDATE
U.S. SMALL-CAP REAL ESTATE MARKET
DECEMBER 2009

January 14, 2010
Boxwood Means, Inc.

Summary

- Small-cap market fundamentals offered few signs of rejuvenation in December and closed out 2009 on a weak note. Shopping centers may still be inching along a dimly-lit path to recovery. But the fact remains that falling rents for all major property types remain the name of the game, increasing the fragility of debt service coverage for investors and imposing further downward pressure on property valuations.
- Decreases in shopping center rents have flattened out, with December losses of 0.49% (49 basis points) and -1.40% over three months. As retail sales continue to rebound, modest optimism among retailers at neighborhood and strip centers represents a stabilizing force for leasing conditions. This is further illustrated by Boxwood's *Days on Market* metric, where the elapsed marketing time for shopping center space has narrowed by 6.5% nationally over six months, to an average of 200 days.
- Office rents, too, eased 0.49% for the month but, in contrast with shopping centers, the velocity of rent decline, at -1.37% since October, is accelerating. This sobering trend reflects the necessity of landlords to lower rents at this advanced stage of the real estate cycle in order to compete for scarce tenants. Capturing new office tenants is taking more time, too, as Days on Market increased 3.4% to 182 days on average over the last six months.

Summary – Cont’d

- During 2009, the small-cap industrial sector racked up one of the ugliest years in recent memory. Rents fell 0.73% in December, -2.40% over three months and -8.08% for the full year. These figures are the worst among all property types. Flex rents declined 5.96% over 12 months, while manufacturing and warehouse rents were down 6.11% and 7.57%, respectively. Furthermore, industrial Days on Market rose 4.2% over the last half of the year, to 173 days on average.
- Despite these sorry figures, the restocking of inventories undertaken by manufacturers, and rising imports and exports signal that the economic recovery remains on track, with future benefits for flagging industrial markets. Indeed, rent losses for all components of the industrial sector narrowed last month – the first time that has occurred since the small-cap industrial markets turned south in early 2007.
- Evidence is mounting that the **Northeast** and **Mid-Atlantic** regions will likely lead U.S. small-cap markets into the recovery phase. Rent losses in a variety of property types such as warehouse, retail, shopping centers and office all posted modest rent declines in December and 12-month losses are below national averages. Shopping center rents in the NE were actually in the black for the fourth consecutive month, at 0.58%.

Summary – Cont'd

- Other regions have isolated difficulties: Industrial markets in the **Southwest** underperformed all year long, with rents sliding 0.82% in December and -10.23% through year end. The **West** lagged in retail where the 12-month rent drop of 9.30% was 300 basis points above the national average. The decline in shopping center rents in the **Southeast**, at 9.08%, exceeded the U.S. average by a whopping 335 basis points.
- The **Midwest**, by contrast, shows increasing and relative stability across the board. Monthly and annual rent changes for industrial, office and shopping center sectors were all below the nation's averages, with retail hovering at the U.S. norm.
- Regional and national trends are illustrated on the following pages. So, too, are the relative performance of selected metros based on Days on Market and rent change metrics. There are some surprising winners with yearly rent increases, e.g., Toledo retail, Charlotte shopping centers, Central NJ and Buffalo industrial, etc. Clearly, the ebb tide that has characterized this nearly three-year slump leaves behind only a handful of stable markets amidst many weak and weary ones. While a turnaround in the overall space and capital markets remains elusive in 2010 -- and continued rent declines are troublesome for borrowers -- the deleveraging process that is now underway will eventually be a catharsis for price discovery and, later, bank lending.

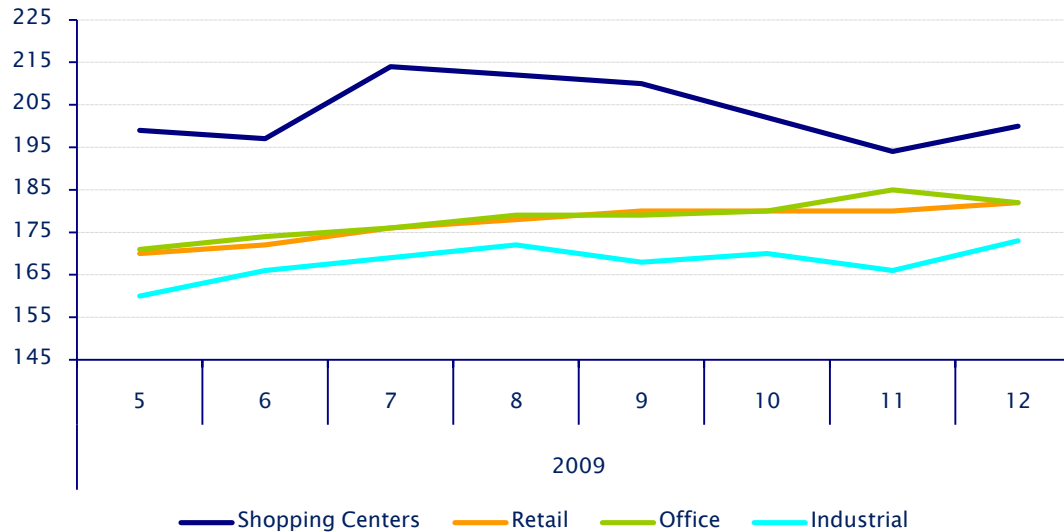
National Rent Levels and Changes

Property Type	Dec.	Nov.	1-Mo. Chg.	3-Mo. Chg.	12-Mo. Chg.
Industrial	\$7.23	\$7.28	-0.73%	-2.40%	-8.08%
Flex	\$8.88	\$8.93	-0.55%	-1.70%	-5.96%
Manufacturing	\$8.17	\$8.23	-0.73%	-2.14%	-6.11%
Warehouse	\$7.53	\$7.59	-0.72%	-2.22%	-7.57%
Office	\$17.64	\$17.73	-0.49%	-1.37%	-3.85%
Medical Office	\$18.97	\$19.02	-0.23%	-0.73%	-3.44%
Retail	\$17.74	\$17.84	-0.54%	-1.62%	-6.33%
Street Retail	\$17.65	\$17.75	-0.58%	-1.82%	-6.51%
Free Standing Bldg.	\$15.80	\$15.89	-0.60%	-1.73%	-7.49%
Other Retail	\$17.20	\$17.29	-0.57%	-1.63%	-6.20%
Shopping Centers	\$17.78	\$17.87	-0.49%	-1.40%	-5.73%
Strip Centers	\$16.77	\$16.86	-0.54%	-1.53%	-5.76%

Source: Boxwood Means, Inc.; LoopNet, Inc.

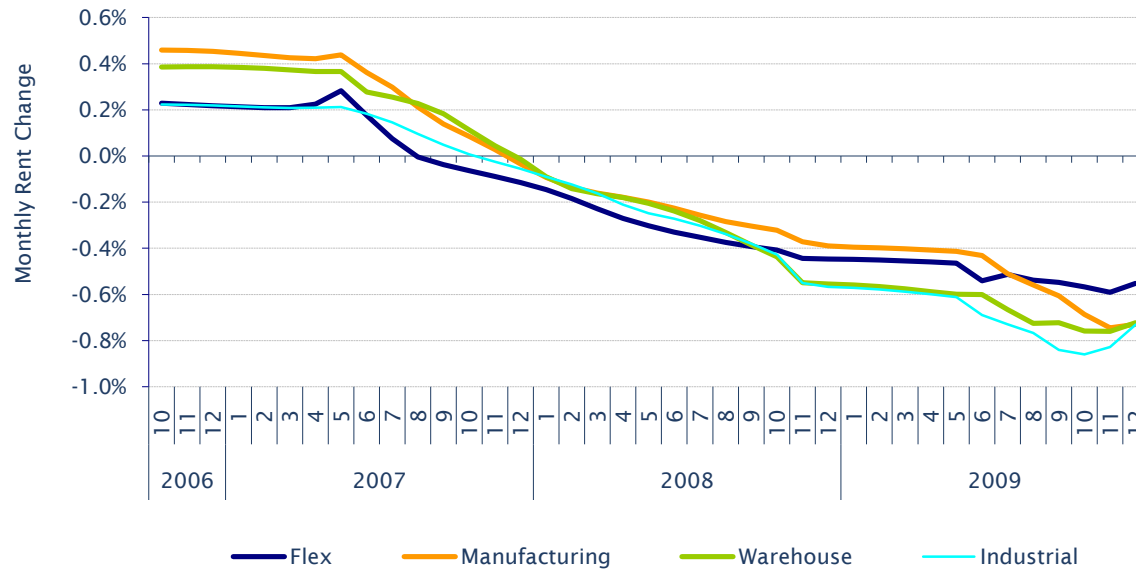
Days on Market Trends

Days on Market Trend – U.S. Averages
 From Market Availability to Lease Closing



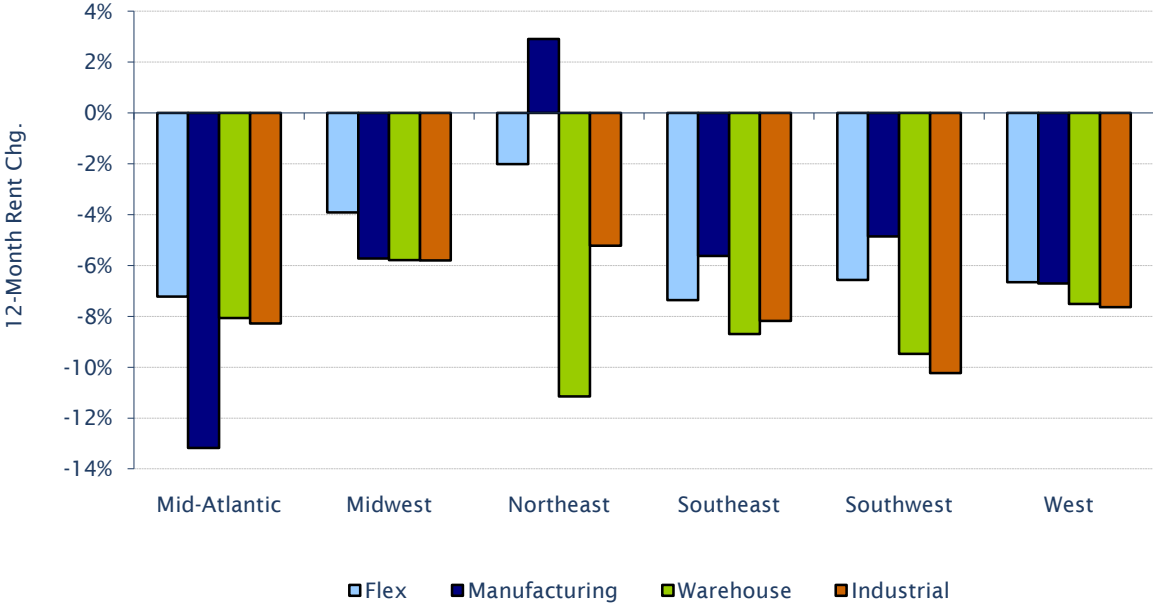
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Industrial Rent Trends



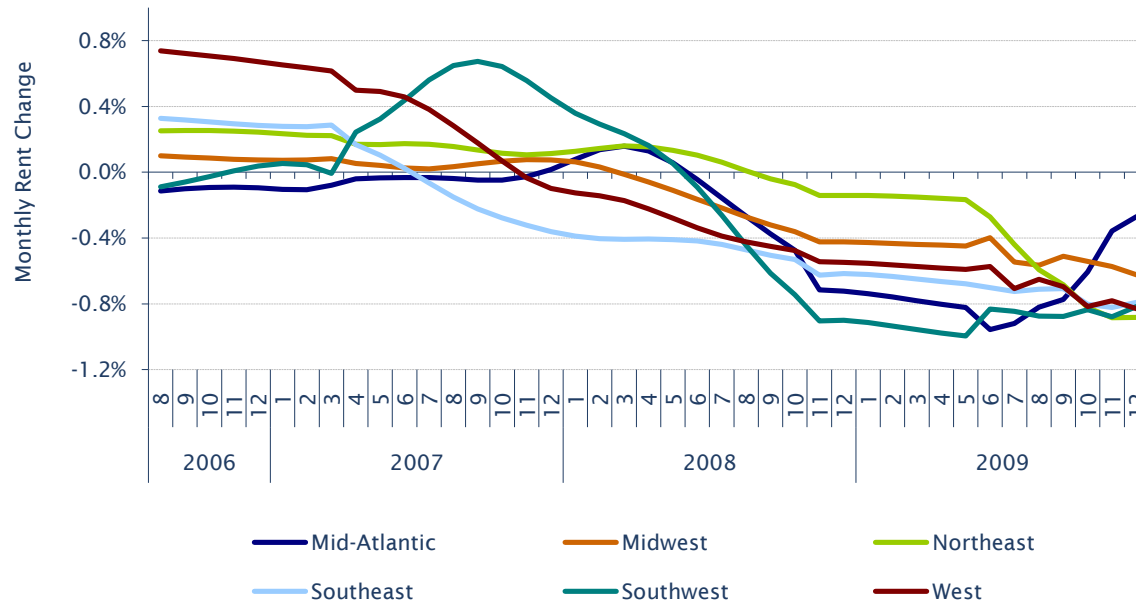
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Industrial Rent Comparisons



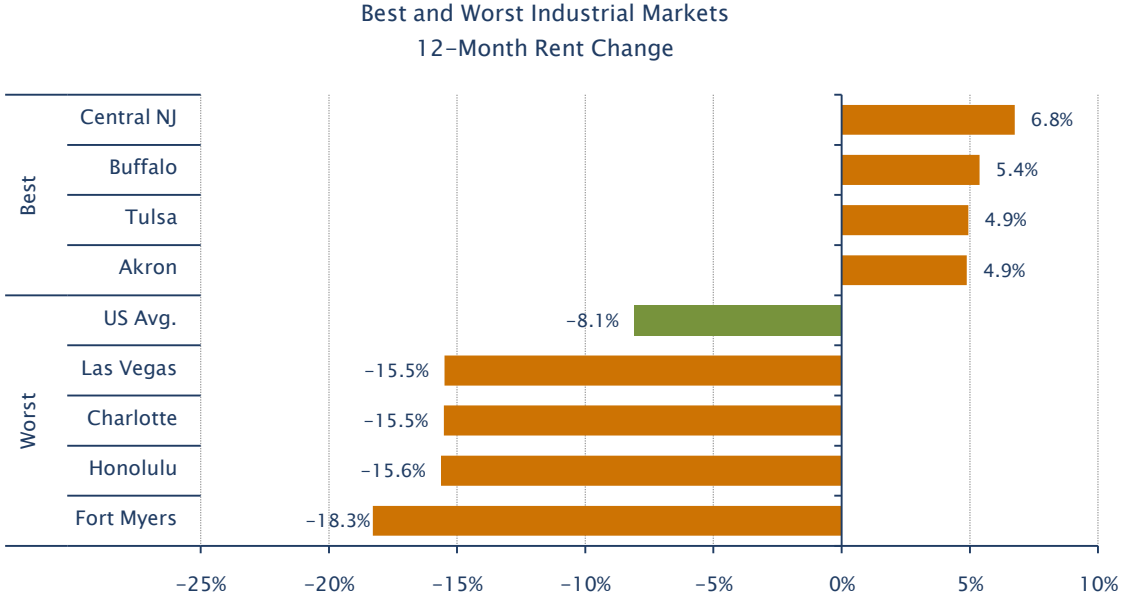
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Industrial Rent Trends



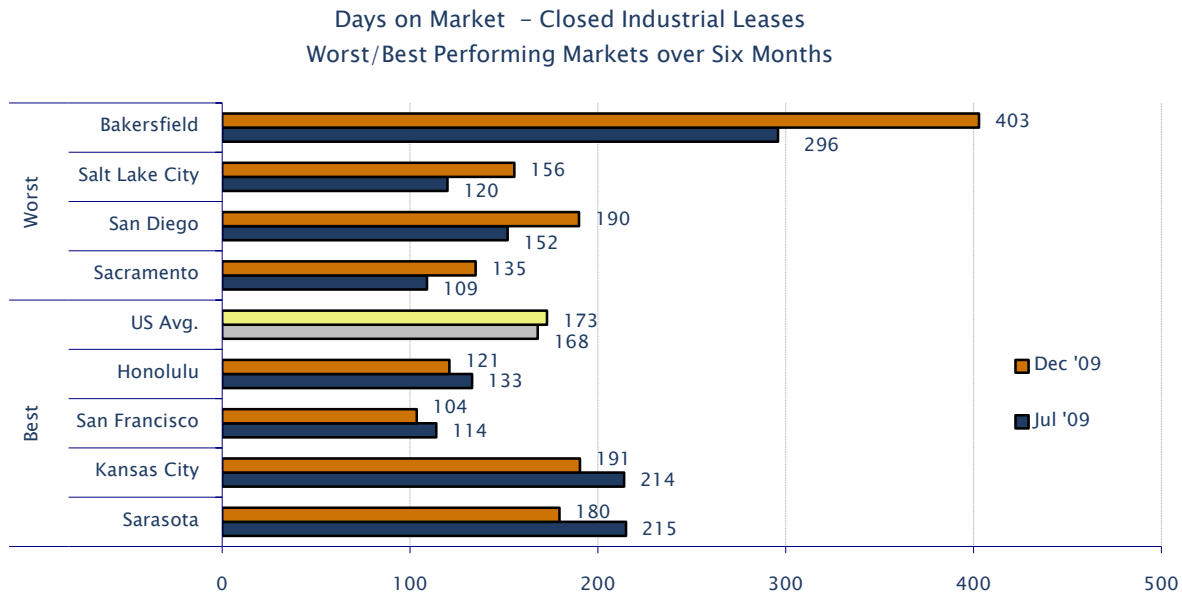
Source: Boxwood Means, Inc.; LoopNet, Inc.

Rent Changes – Selected Industrial Markets



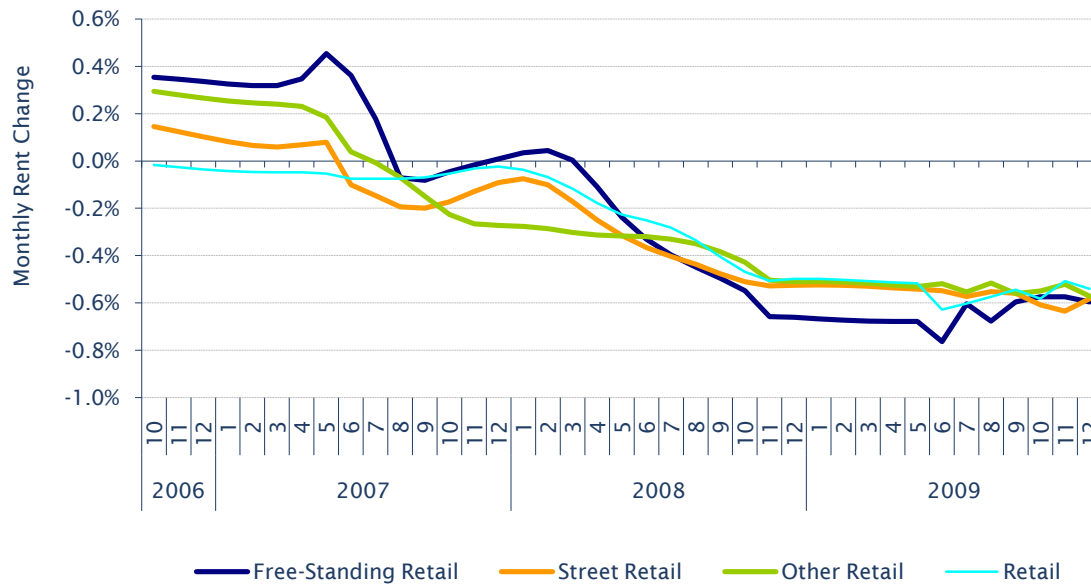
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Industrial Markets



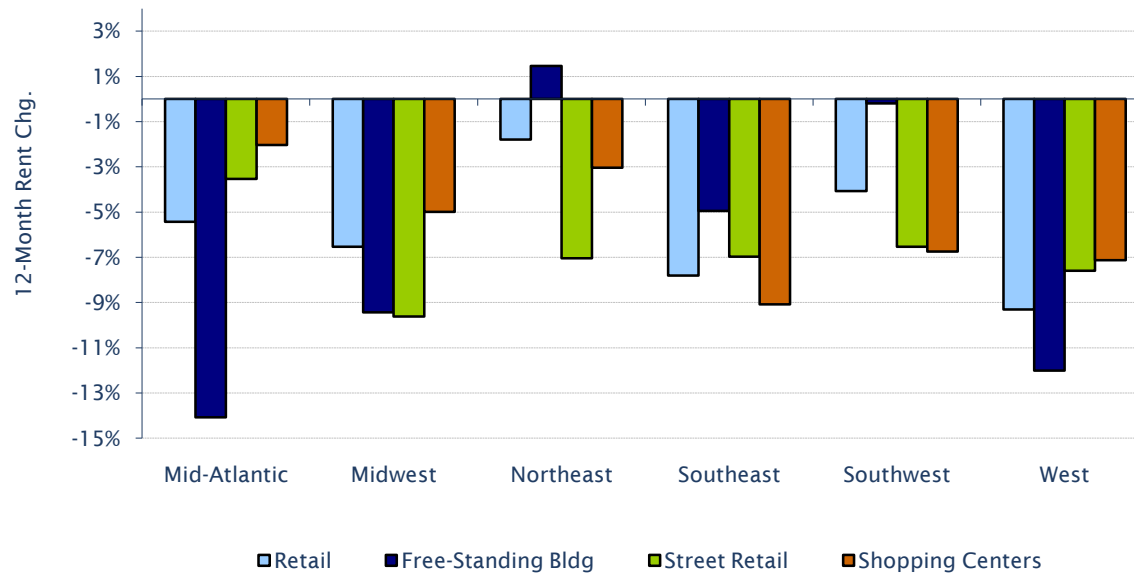
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Retail Rent Trends



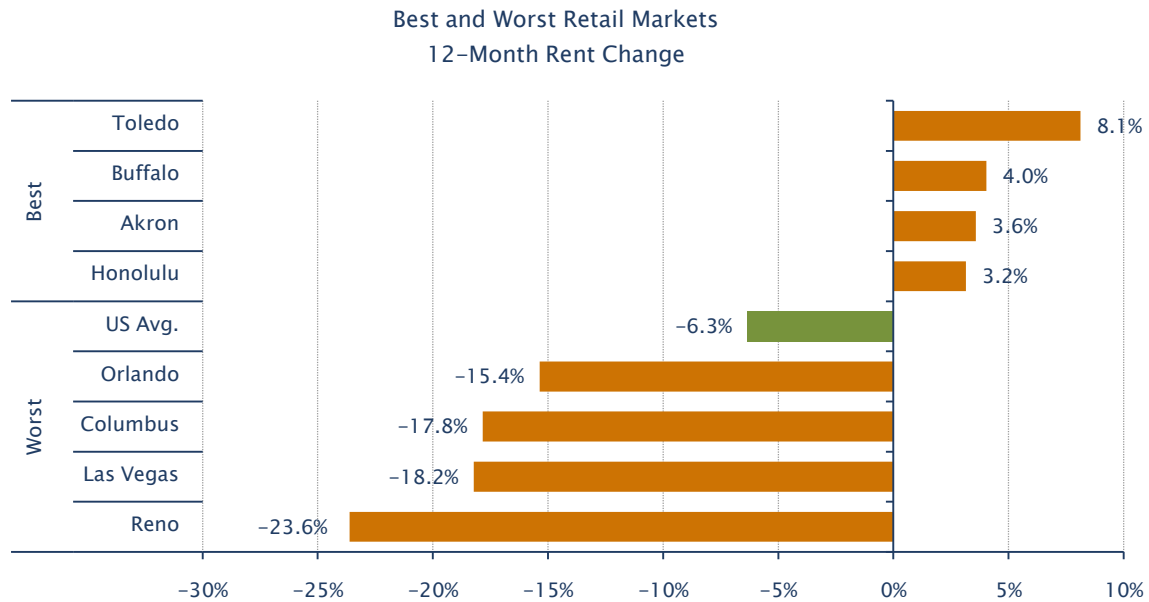
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Retail Rent Comparisons



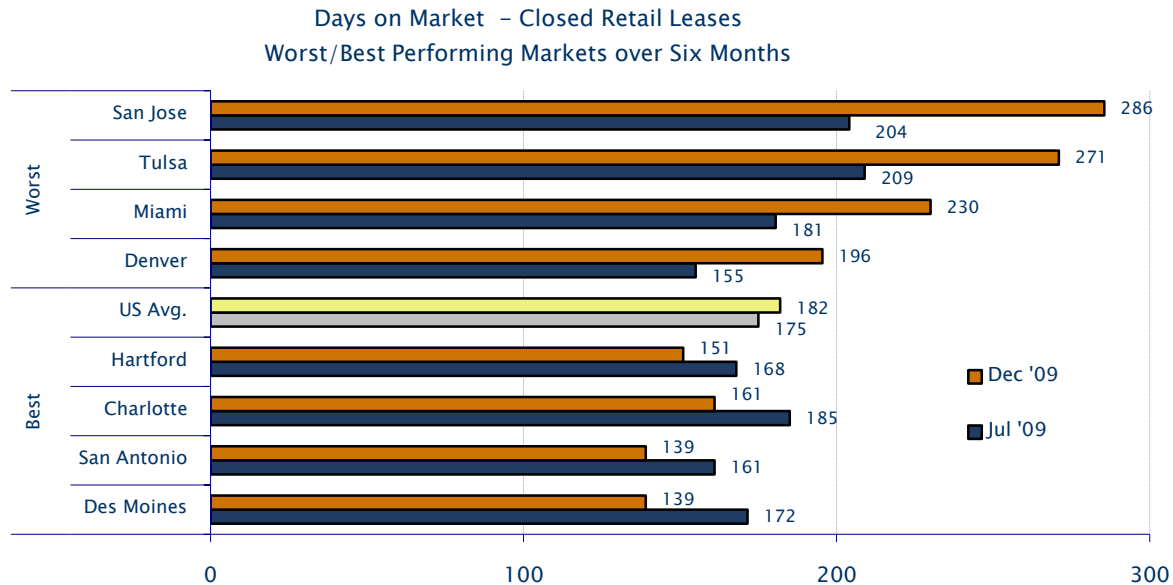
Source: Boxwood Means, Inc.; LoopNet, Inc.

Rent Changes – Selected Retail Markets



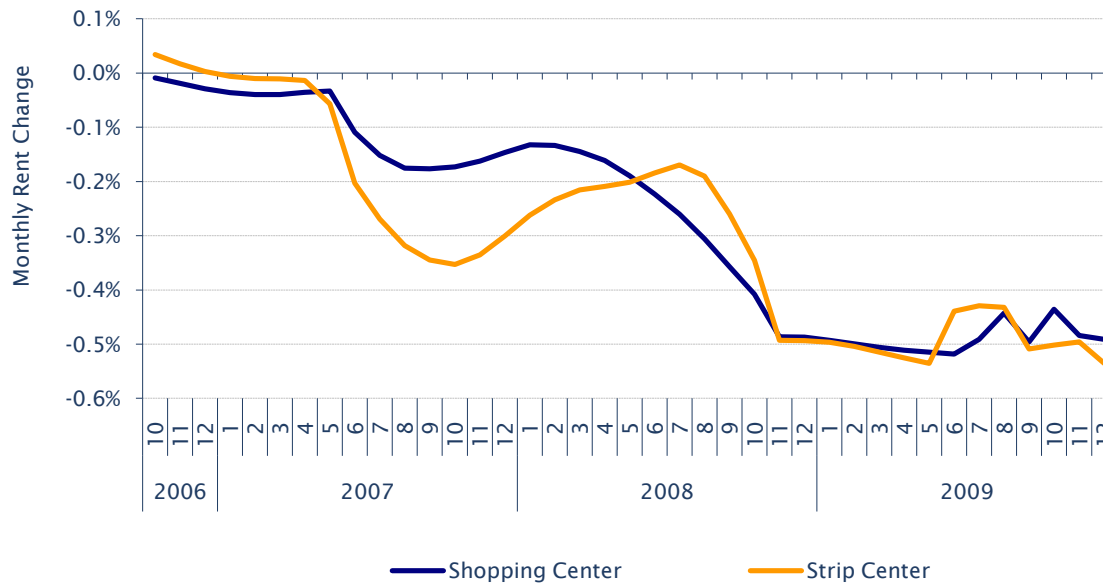
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Retail Markets



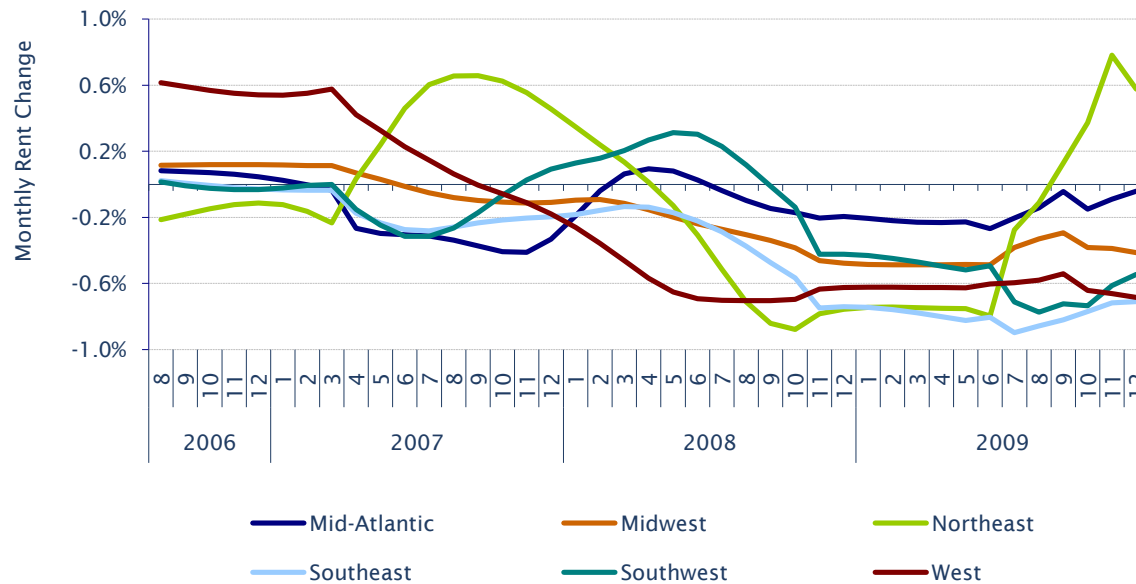
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Shopping Center Rent Trends



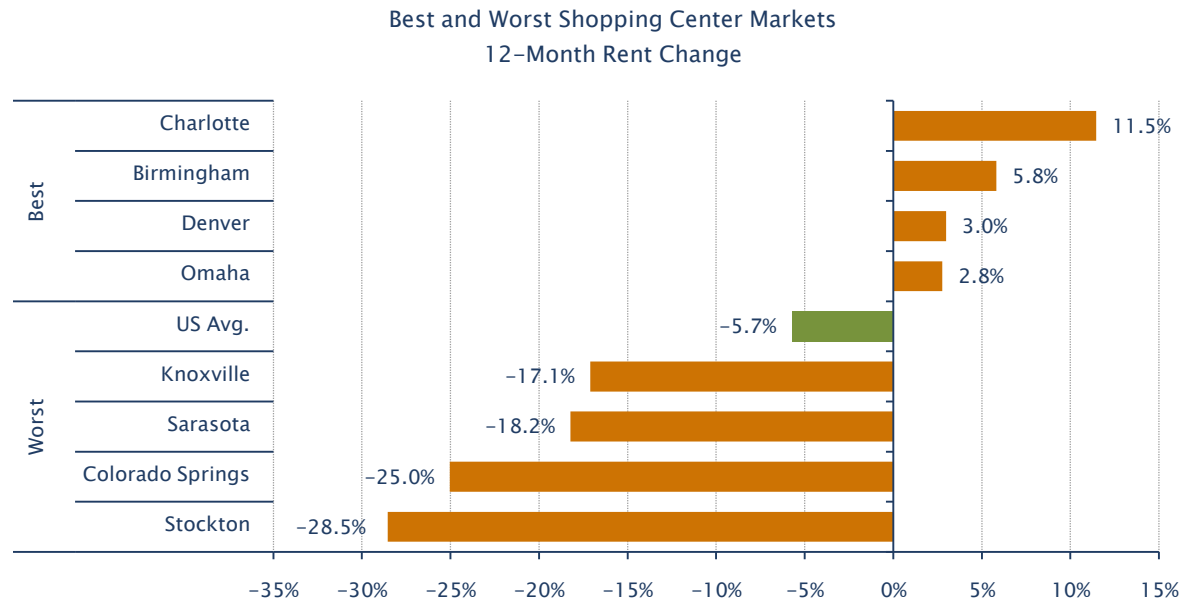
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Shopping Center Rent Trends



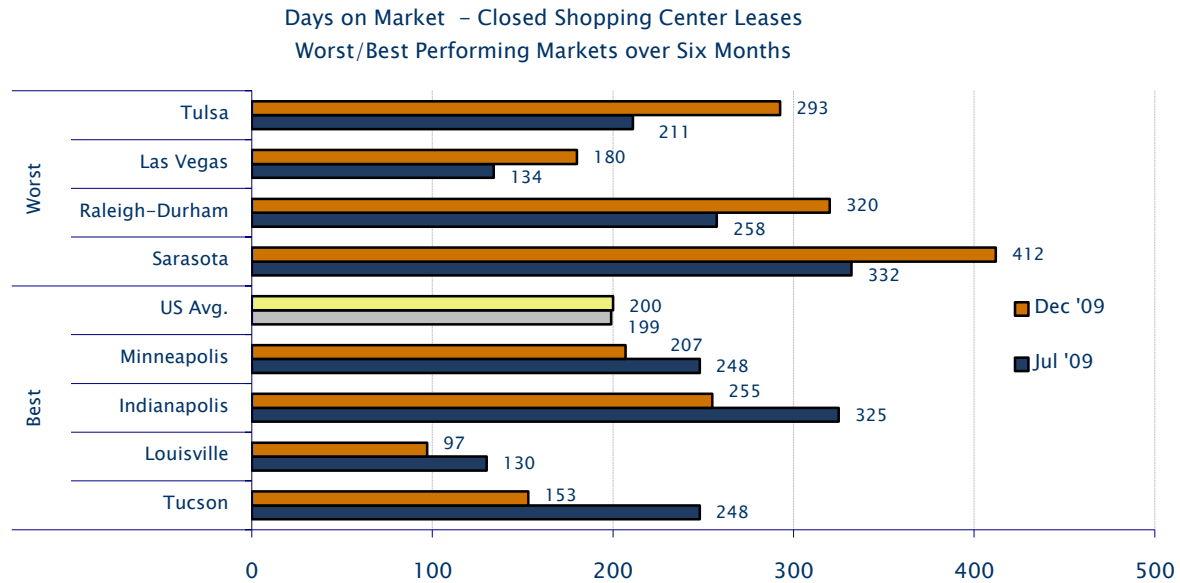
Source: Boxwood Means, Inc.; LoopNet, Inc.

Rent Changes – Selected Shopping Center Markets



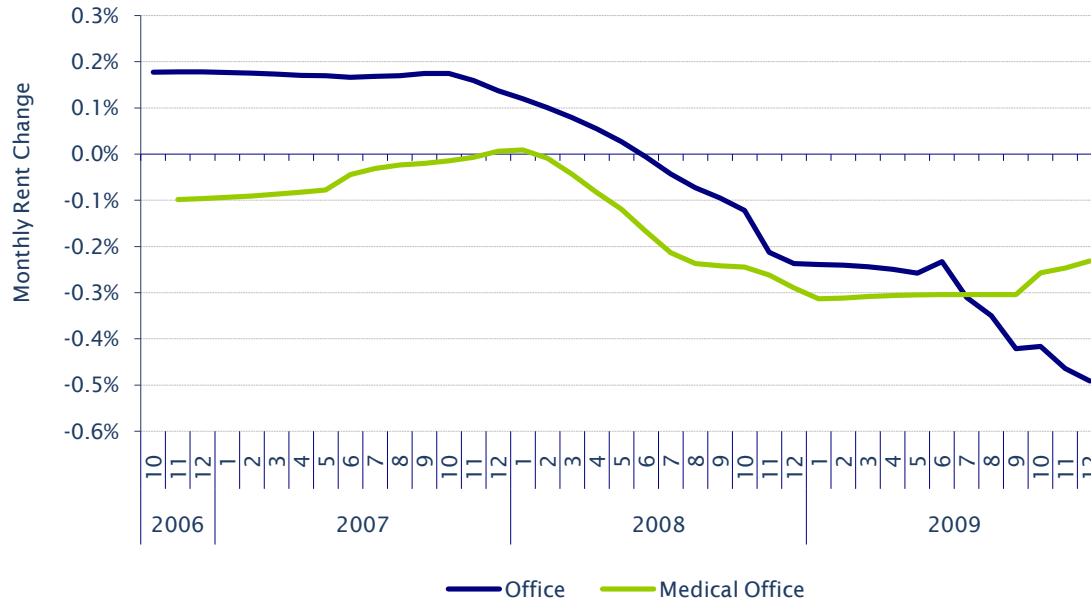
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Shopping Center Markets



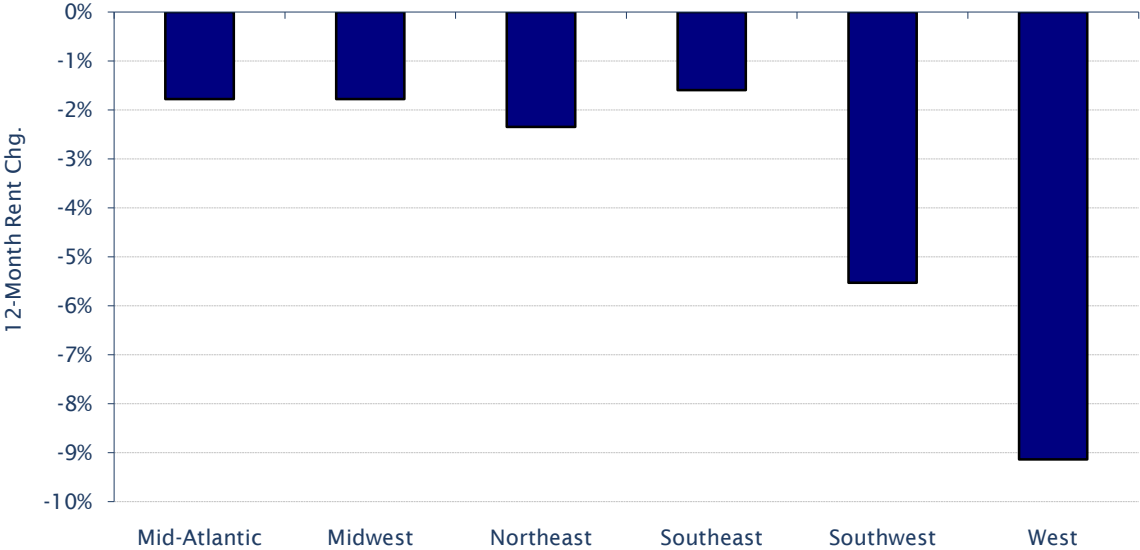
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Office Rent Trends



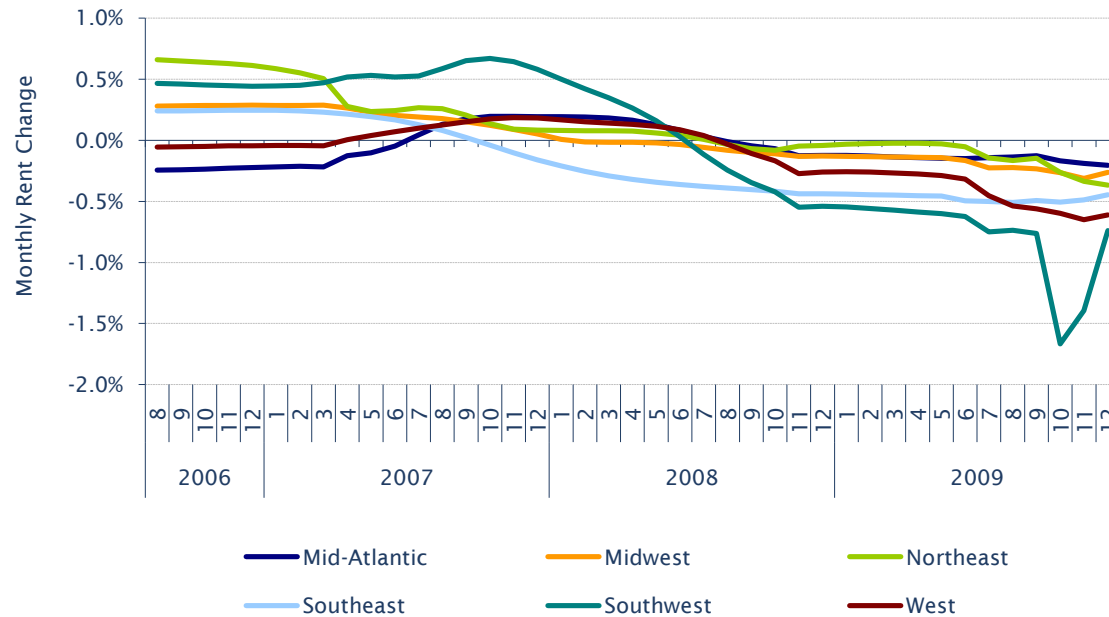
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Office Rent Comparison



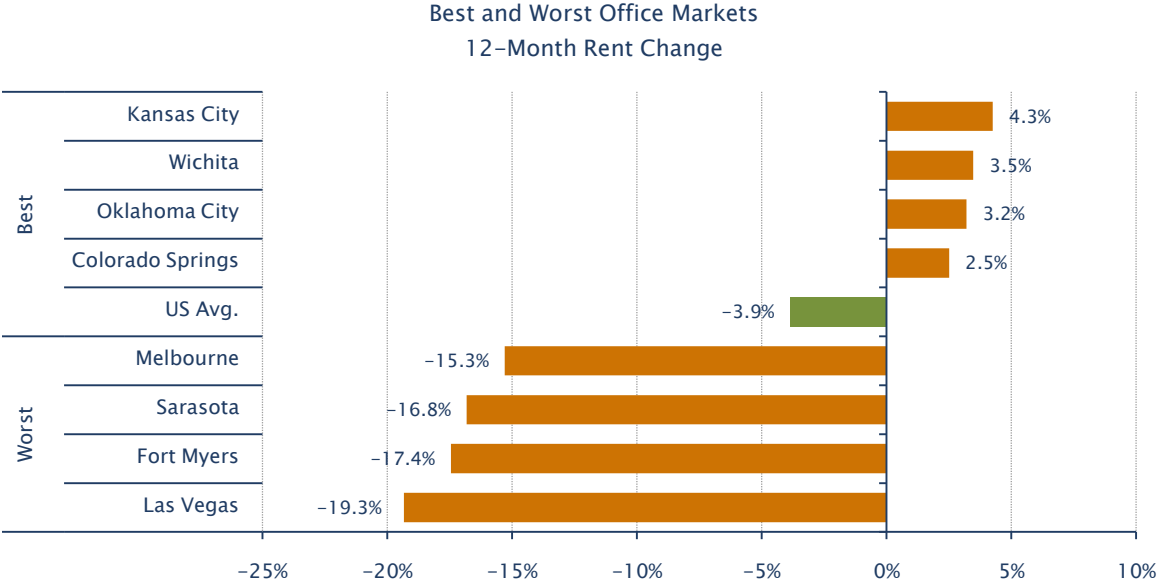
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Office Rent Trends



Source: Boxwood Means, Inc.; LoopNet, Inc.

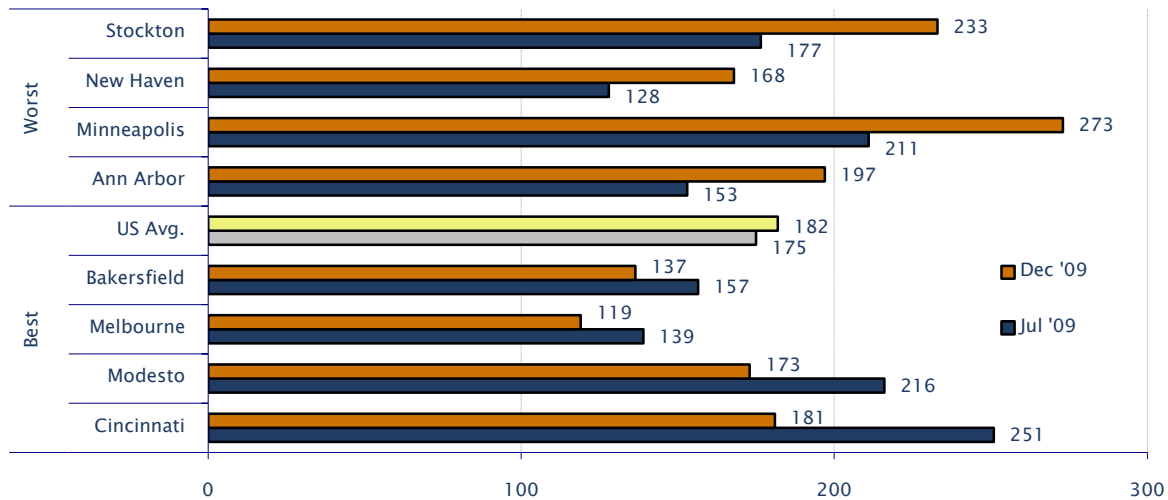
Rent Changes – Selected Office Markets



Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Office Markets

Days on Market – Closed Office Leases
 Worst/Best Performing Markets over Six Months



Source: Boxwood Means, Inc.; LoopNet, Inc.



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