

MERCURY  REPORT
Small-Cap Rent Series
Boxwood Means, Inc.



NATIONAL & REGIONAL TRENDS UPDATE
U.S. SMALL-CAP REAL ESTATE MARKET
JANUARY 2010

February 11, 2010

Summary

- Transit into the New Year may have promoted a different, more optimistic tone, but the hard facts remain just that: small-cap property fundamentals continued to weaken in January. As noted below, Days on Market rose to new highs for all property types. That said, the trajectory of monthly rent losses appears to be flattening out across the board.
- Retail rents declined 0.48% (48 basis points), the smallest monthly loss since October 2008. These rents are down 1.52% over the last three months and 6.31% over 12. Shopping center rents receded by 0.51% in January with 12-month losses amounting to 5.75%. Consumer spending, though increasing over the last six months, has yet to juice up retail sales or demand for retail space as consumers are intent on rebuilding savings that were battered by losses in the stock market and during the recession.
- Fourth quarter's 5.7% growth in GDP was welcome news for small-cap industrial markets after last year's horrid CRE results. Industrial rents, which continue to suffer the broadest declines among major property types, dropped 0.74% in January, on par with the previous month. Rents are down 8.23% since this time last year and 12.13% since peak levels in late 2007. Flex space, not nearly as dependent on production cycles and inventory changes as warehouses and manufacturing happen to be, has fared relatively better, off 0.53% and 6.04% for the month and year, respectively.

Summary – Cont’d

- Days on Market (“DOM”), Boxwood’s proxy for underlying leasing demand, rose to the highest levels in at least nine months. Nationally, shopping center DOM rose 8% in January to an average of 216 days of marketing time until lease closing. Retail DOM rose 4% to 189 days, while office (182) and industrial (175) were stable versus the previous month. Clearly, securing space users for multi-tenant properties remains elusive for landlords at this stage of the economic recovery.
- The regional differences in performance remain striking. The **Northeast** and **Mid-Atlantic** regions have been relatively resilient. Year-over-year rent declines for all four major property types are below national averages, and NE shopping and strip centers continue to run against the grain posting rent *increases* since last fall.
- Retail and shopping centers are very soft in the **Southeast** and **West**, where many collapsed housing markets undermined the viability of local retailers and neighborhood centers. SE shopping center rents have dropped 9.01% over 12 months, or 326 basis points above the national average. Similarly, retail rents in the West are down 9.26%, almost 300 basis points higher than the norm. The **Midwest** is performing near national averages for all property types; MW industrial rents, down 6.04% over 12 months, is the smallest loss among all regions.

Summary – Cont'd

- Office and industrial markets are under-performing in the **Southwest**. Industrial rents have declined 10.18% year-over-year, almost 200 basis points above the national average. Office rents are even worse off, down 9.32% and exceeding the U.S. benchmark by over 500 basis points. A preference among SW property owners to decrease face rents rather than bid concessions up may account for some of the regional variance.
- The outlook suggested by the trends illustrated on the following pages is worrisome but not bleak. Days on Market, though somewhat volatile in January, has inflated modestly over the last six months. Moreover, the downward slope of rents no longer induces vertigo. That being said, it's certain that the small-cap markets will test new lows until the economy further recovers and adds jobs, bolsters consumer confidence and stabilizes housing.
- New federal government initiatives to expand Small Business Administration guarantees for CRE loans may also support small-cap markets. This proposed SBA financing that targets owner-occupied CRE loans will extend credit to needy small businesses – including those with maturing loans – and, in turn, may strengthen their ability to add workers to payrolls. The initiative may also help many commercial banks migrate modestly away from less-than-optimal loan extensions that have predominated.

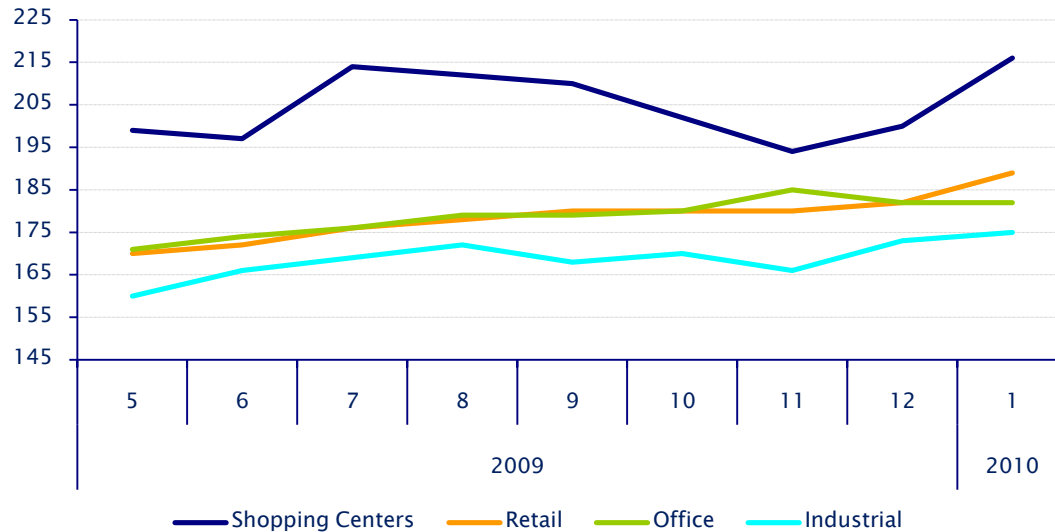
National Rent Levels and Changes

Property Type	Jan. '10	Dec. '09	1-Mo. Chg.	3-Mo. Chg.	12-Mo. Chg.
Industrial	\$7.17	\$7.23	-0.74%	-2.28%	-8.23%
Flex	\$8.83	\$8.88	-0.53%	-1.67%	-6.04%
Manufacturing	\$8.11	\$8.17	-0.73%	-2.19%	-6.42%
Warehouse	\$7.48	\$7.53	-0.71%	-2.18%	-7.71%
Office	\$17.57	\$17.64	-0.44%	-1.39%	-4.04%
Medical Office	\$18.94	\$18.97	-0.20%	-0.68%	-3.34%
Retail	\$17.66	\$17.74	-0.48%	-1.52%	-6.31%
Street Retail	\$17.56	\$17.65	-0.52%	-1.73%	-6.51%
Free Standing Bldg.	\$15.71	\$15.80	-0.53%	-1.69%	-7.36%
Other Retail	\$17.11	\$17.20	-0.49%	-1.58%	-6.19%
Shopping Centers	\$17.69	\$17.78	-0.51%	-1.48%	-5.75%
Strip Centers	\$16.68	\$16.77	-0.50%	-1.52%	-5.76%

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

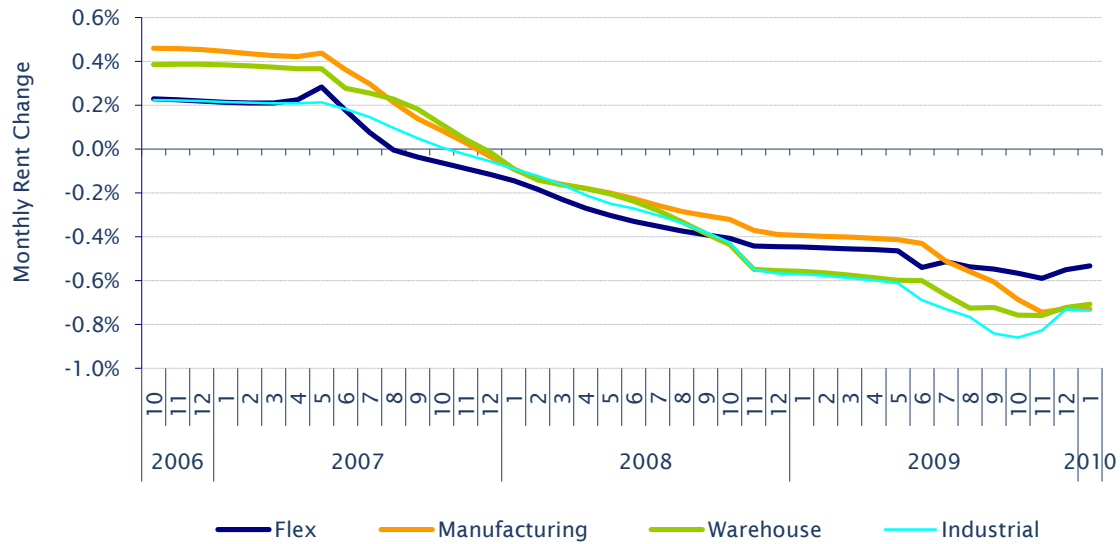
Days on Market Trends

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



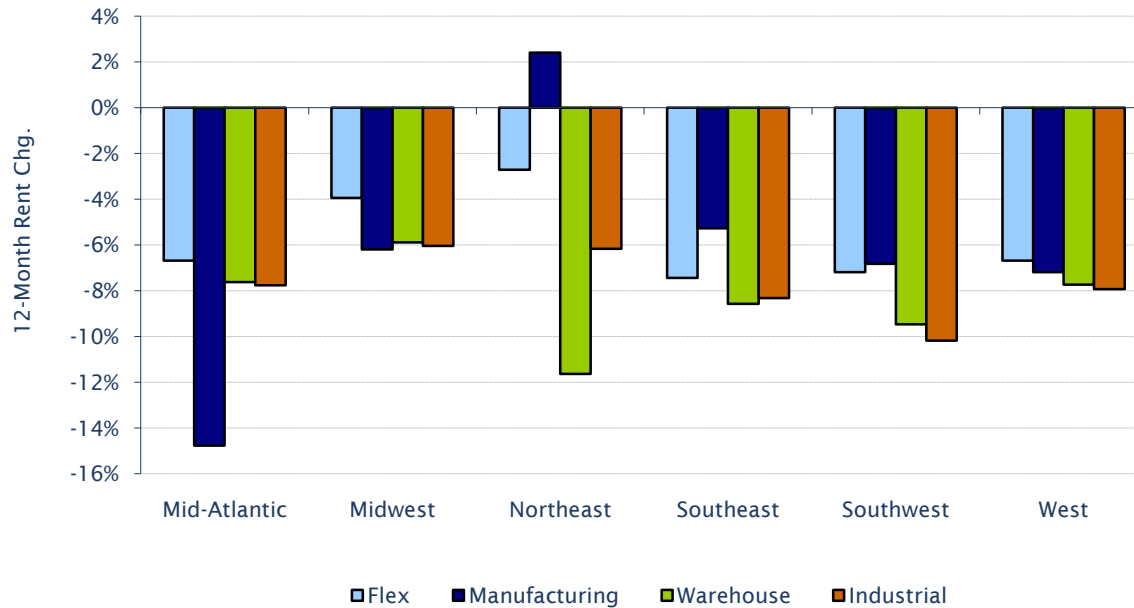
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Industrial Rent Trends



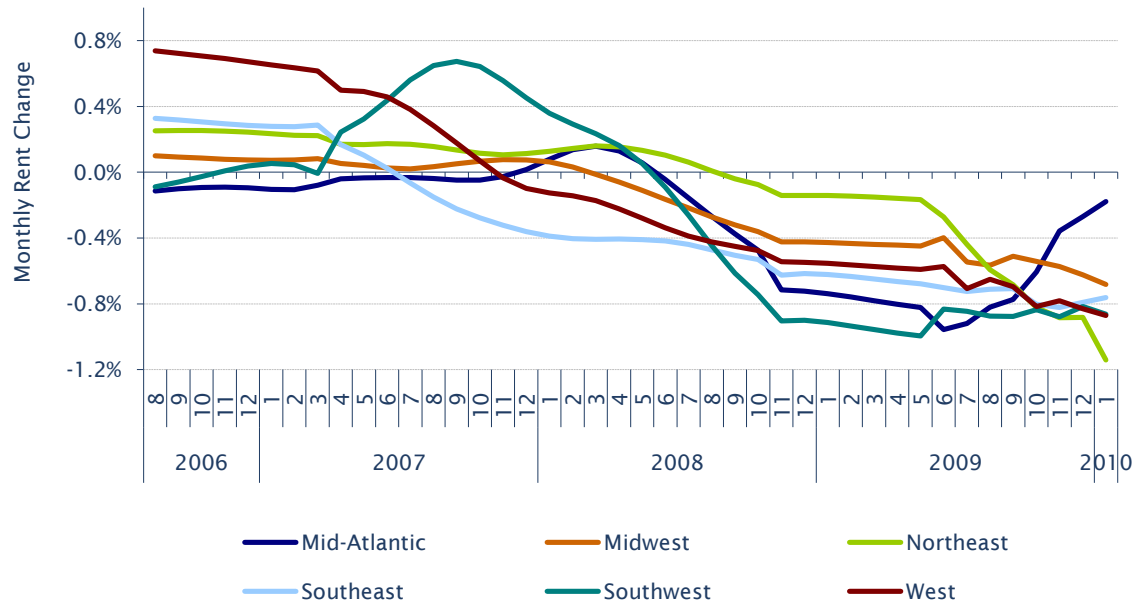
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Industrial Rent Comparisons



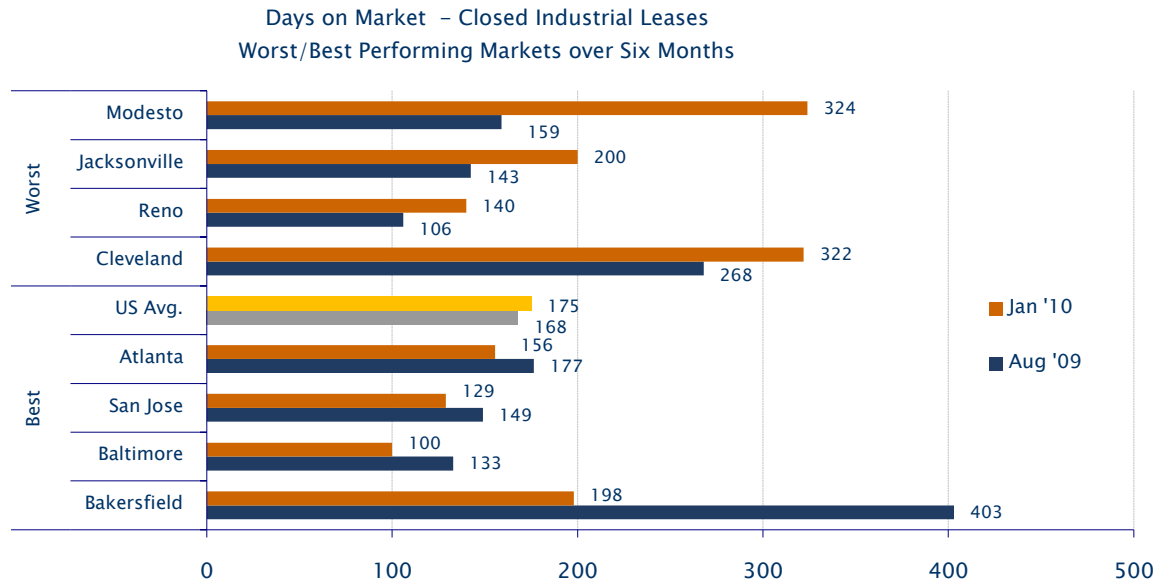
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Industrial Rent Trends



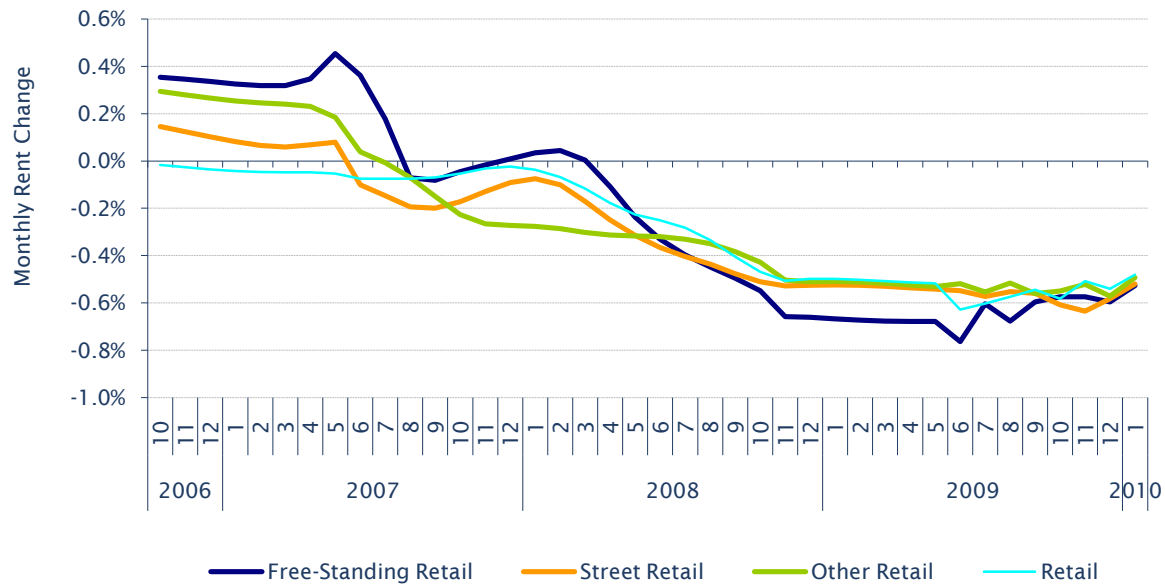
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Industrial Markets



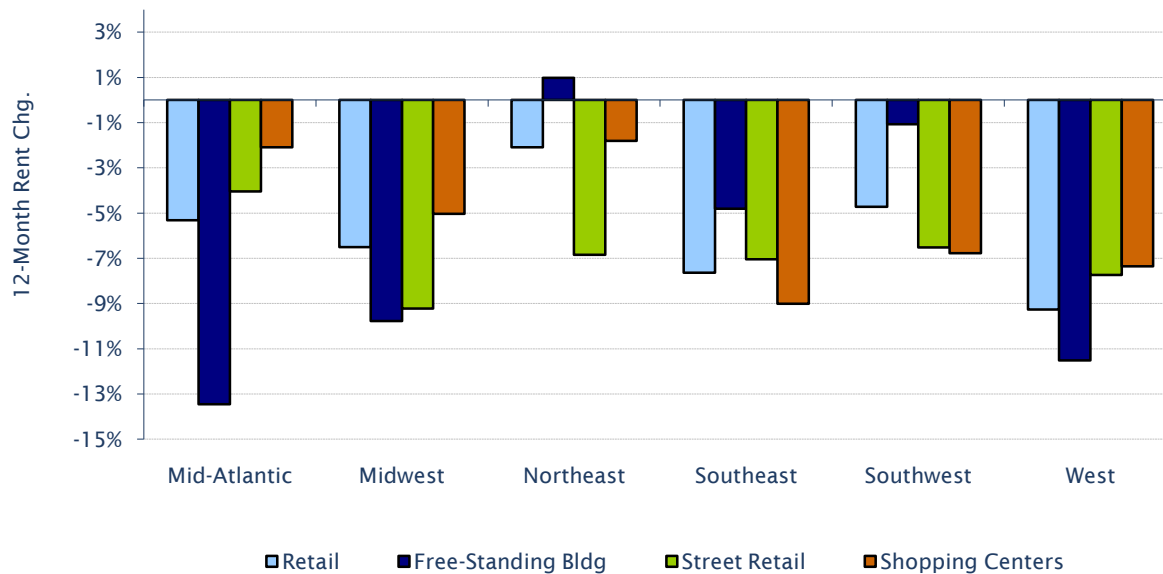
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Retail Rent Trends



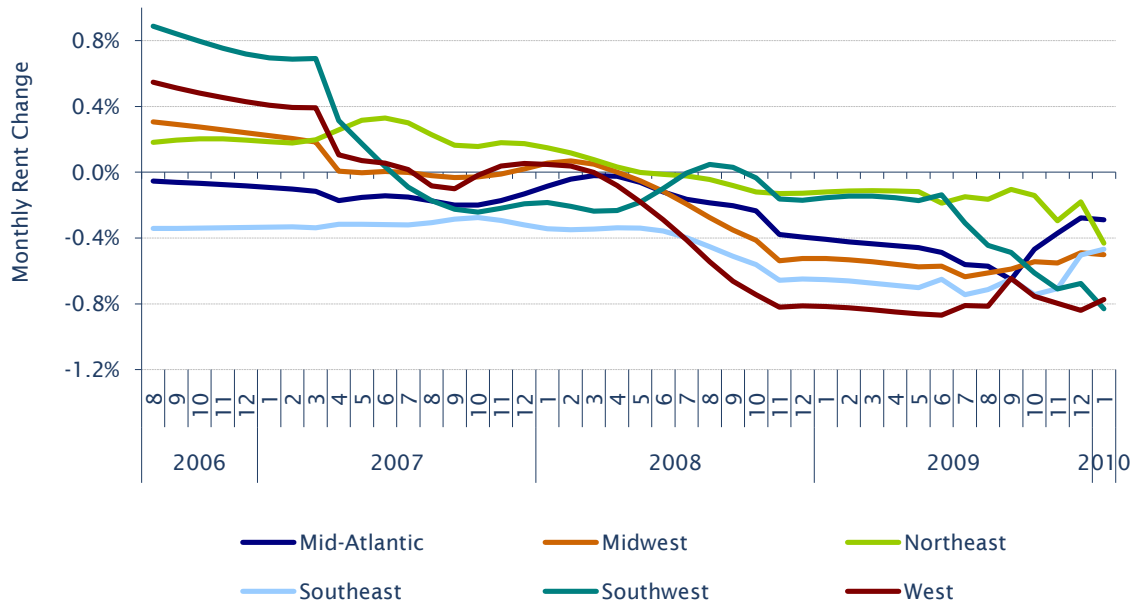
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Retail Rent Comparisons



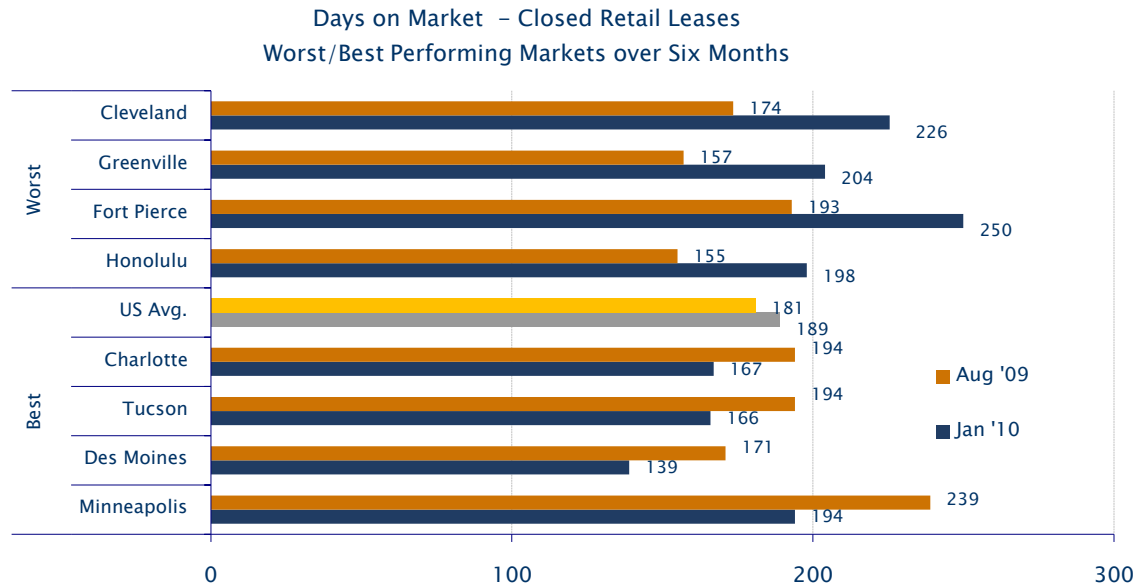
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Retail Rent Trends



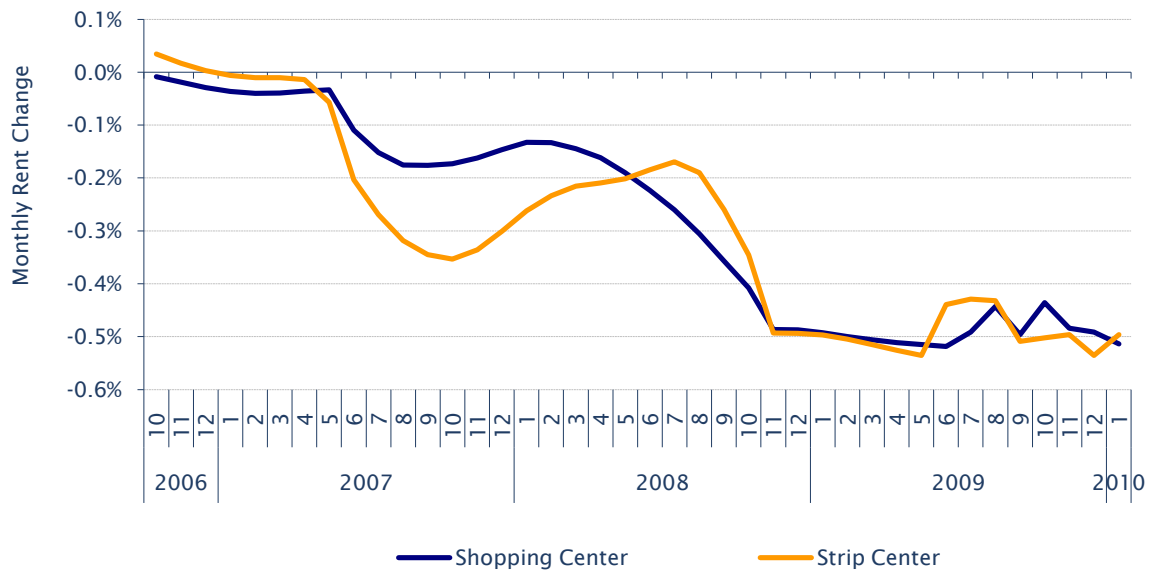
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Retail Markets



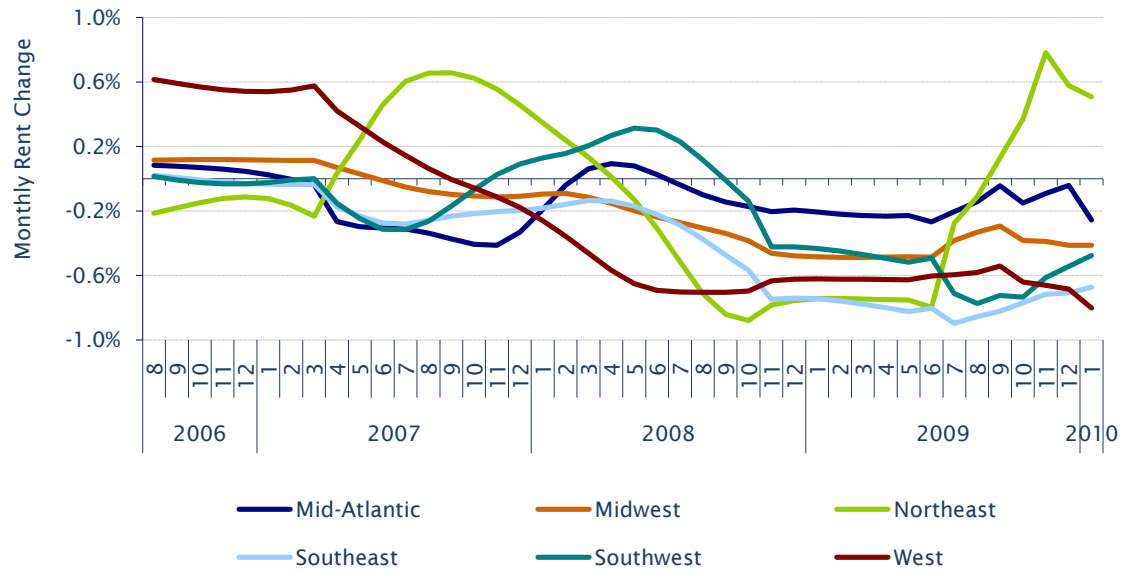
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Shopping Center Rent Trends



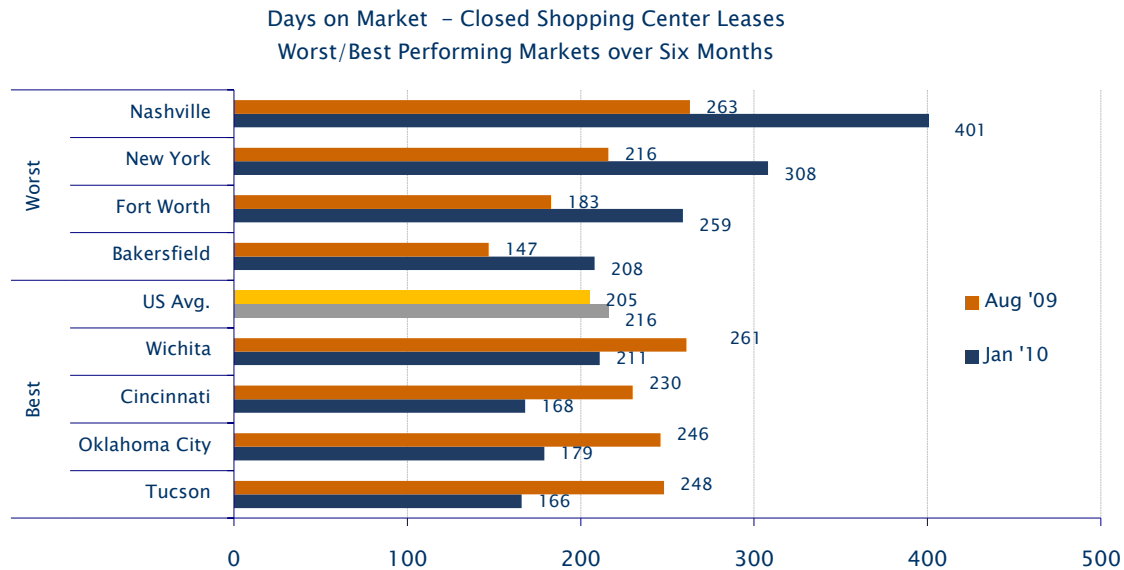
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Shopping Center Rent Trends



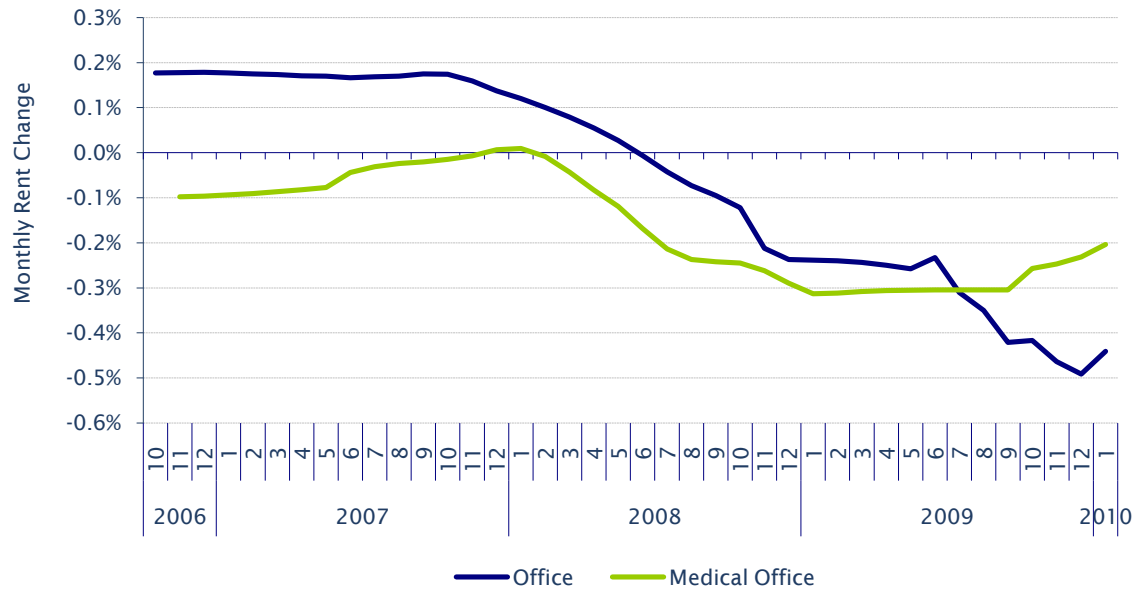
Source: Boxwood Means, Inc.; LoopNet, Inc.

Leasing Conditions – Selected Shopping Center Markets



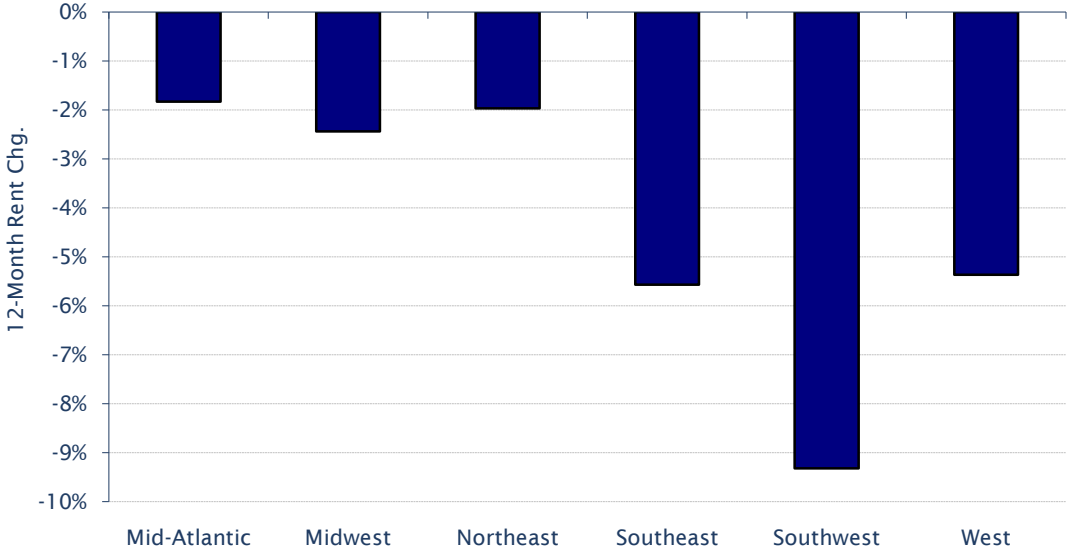
Source: Boxwood Means, Inc.; LoopNet, Inc.

National Office Rent Trends



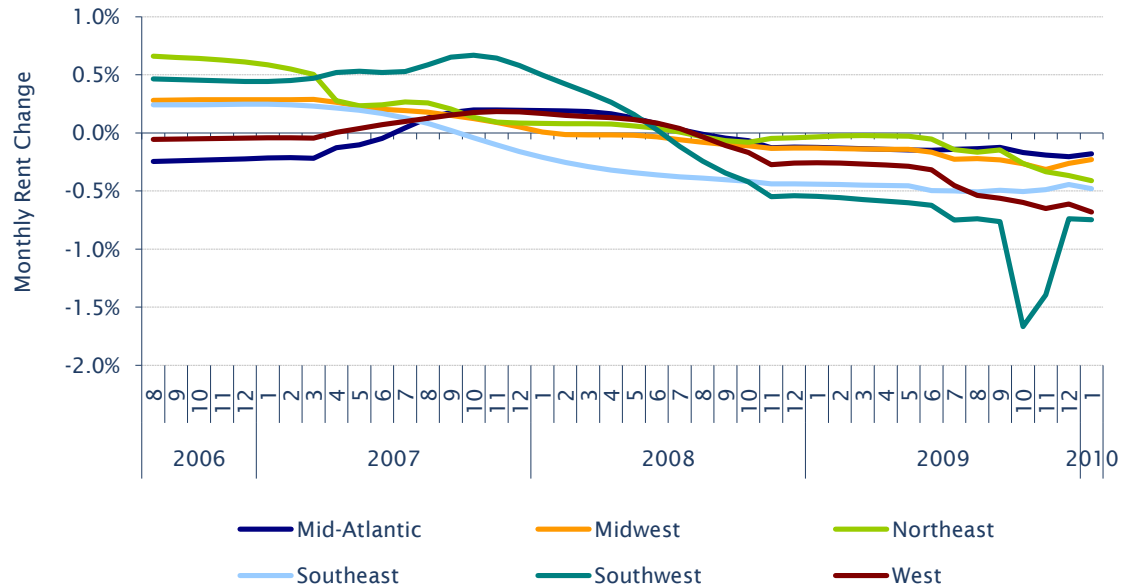
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Office Rent Comparison



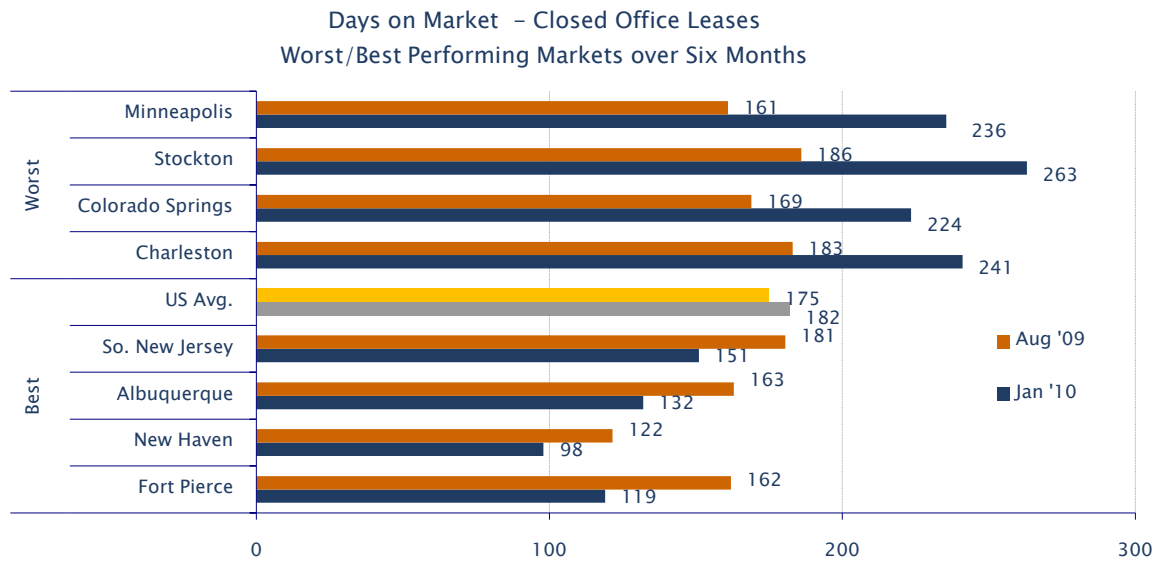
Source: Boxwood Means, Inc.; LoopNet, Inc.

Regional Office Rent Trends



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

Leasing Conditions – Selected Office Markets



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

MERCURY REPORT

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The information in this complimentary *National and Regional Trends Update* as well as paid Mercury Reports is compiled and processed by Boxwood Means, Inc. through a partnership with LoopNet, Inc. which supplies the raw lease and sales listings data.

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