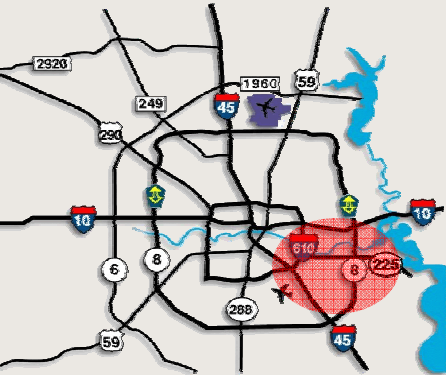


# Industrial Market

SOUTHEAST CORRIDOR | FIRST QUARTER | 2008



## MARKET INDICATORS

**1Q-'07**      **1Q-'08**

### Inventory

64.7 MSF      68.8 MSF



### Net Absorption

(292,958) SF      75,720 SF



### Overall NNN Rental Rate

\$3.95 PSF      \$4.77 PSF



### Overall Vacancy

3.6%      4.2%



### Deliveries

442,090 PSF      28,740 SF



### Under Construction

3.9 MSF      2.1 MSF



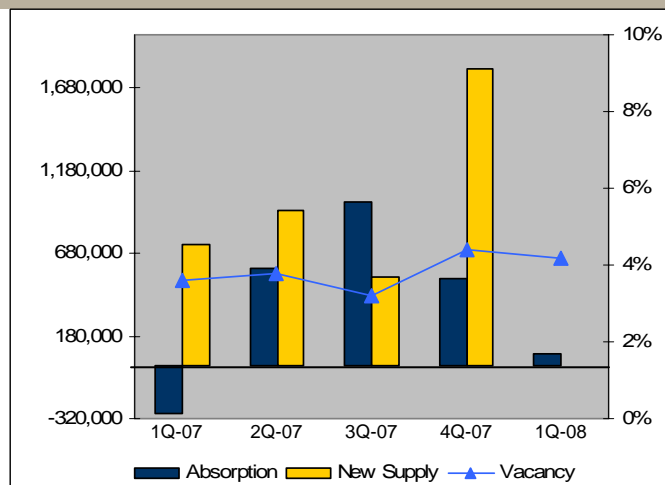
## Southeast Industrial Fundamentals Strong

Houston's Southeast Industrial Corridor closed the first quarter with strong market fundamentals. Attesting to healthy tenant demand for industrial space, the submarket posted an impressive 95.8% occupancy at the end of March 2008, despite the addition of 5 million sq. ft. of new industrial space delivered in 2007. With 2.1 million sq. ft. under construction (compared to 3.9 million sq. ft. at this time last year), developers have curbed speculative development activity which should help the absorption of recently completed industrial projects. Positive net absorption of 75,720 sq. ft. in the first quarter – a healthy improvement from the negative net absorption of 292,958 sq. ft. in the first quarter last year – was nevertheless low on a quarterly basis. Robust leasing activity in the first quarter should boost annual absorption with key tenant move-ins scheduled for later this year. See page 2 for more information on recent industrial leases signed year-to-date in the Southeast submarket.

Driving much of the Southeast Industrial Corridor's growth is the Port of Houston and the superior multimodal logistics infrastructure. Recent expansions and increased trade activity at the Port have been key in successfully attracting companies involved in the warehousing, containerization and distribution of manufactured goods. See page 3 for more information on the Port of Houston.

The healthy Houston economy and local manufacturing sector – benefiting from the expanding energy sector with oil trading at nearly \$130 per barrel and natural gas at \$11 per MMBtu – together with above average job growth bode well for the submarket's continued growth. Houston gained 86,000 new jobs in the twelve months ending in February 2008, representing a solid 3.4% growth rate that exceeded the 2.3% growth for Texas and 0.6% for the U.S.

## Absorption, New Supply & Vacancy



### Major Industrial Tenants

- Logisco, Inc.
- WSP USA LLC
- Wilson Industries, Inc.
- Packwell
- O'Neal Steel
- Wal-Mart
- Katoen Natie
- Gassett Metals
- Frontier Logistics
- Laufen Ceramics, Inc.
- Gulf Winds Inc.
- Conn's Appliances, Inc..
- Garlock Sealing Technologies
- RhinoPak
- Duke Energy Partners



**TOP INDUSTRIAL LEASES  
1Q 2008**

**Frontier**

**Port Crossing Commerce Center**

Sq. Ft. Leased 247,240  
Lease Date Jan-08

**Supply Chain Management**

**Bayport North Distribution Center**

Sq. Ft. Leased 144,000  
Lease Date Jan-08

**LSI Distribution**

**8500 Market Street**

Sq. Ft. Leased 172,000  
Lease Date Jan-08

**Rags2000\***

**Eastport 3**

Sq. Ft. Leased 71,135  
Lease Date Mar-08

**Delta Petroleum Corp.**

**Cedar Crossing Distribution Center**

Sq. Ft. Leased 62,100  
Lease Date Mar-08

**W & O Supply, Inc.\***

**McCarty Distribution**

Sq. Ft. Leased 60,600  
Lease Date Mar-08

**Lyondell Chemical**

**317 Allen Genoa Road**

Sq. Ft. Leased 20,000  
Lease Date Mar-08

**Jacobson Warehouse**

9990 I-10

Sq. Ft. Leased 20,000\*\*  
Lease Date Jan-08

**Occupancy & Availability**

Southeast industrial corridor posted 95.8% occupancy in the first quarter, down from 96.4% at this time last year.

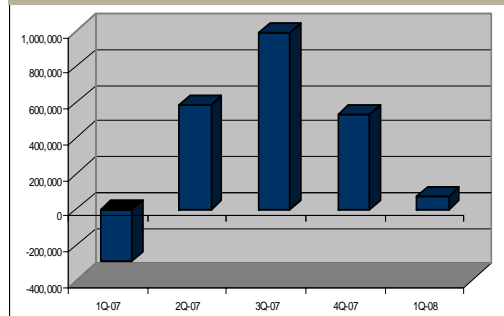
The primary factor affecting Southeast industrial occupancy continues to be the significant amount of speculative construction being added to the market. Thus far, developers have accurately gauged the market's strong demand for industrial space as evidenced by occupancy levels at or above 90% since 1999. Large users' preference for newer product has also been a critical factor in the market's quick absorption of the new space.

Still, with only 2.1 million sq. ft. of industrial projects under construction (compared to over 5.0 million sq. ft. delivered in 2007), developers appear to be heeding the old adage of quitting while still ahead. Assuming no new significant projects break ground in subsequent quarters, this slowing of speculative construction activity should bode well for the market's ability to sustain above average occupancy levels over the next 12 months.

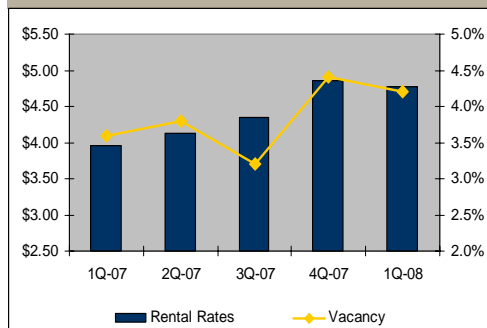
**Absorption & Demand**

Southeast Corridor posted 75,720 sq. ft. of positive net absorption in the first quarter, marking a significant improvement from the negative net absorption of 292,958 sq. ft. at this time last year. When compared to the positive net absorption of 528,979 sq. ft. in the fourth quarter 2007, however, this year opened on a very muted note. Houston's strong economic conditions locally – particularly in the local manufacturing sector servicing the energy industry – are expected to boost net absorption over the next three quarters, although it remains to be seen if the market can match the robust 1.8 million sq. ft. of annual positive absorption recorded in 2007.

**QUARTERLY ABSORPTION**



**NNN RENTAL RATE & VACANCY**



**Rental Rates & Vacancy**

Q1-08: \$4.77 NNN PSF

Q1-07: \$3.95 NNN PSF

**20% rental rate growth over the past year**

Q1-08: 4.2% vacancy

Q1-07: 3.6% vacancy

**Leasing Activity**

Healthy industrial leasing activity in the first quarter totaled 589,000 sq. ft. compared to 361,000 sq. ft. in the previous quarter. Signed industrial leases with tenant move-ins scheduled for later this year will benefit the submarket's 2008 annual net absorption.

\*renewal

\*\*expansion for a total of 90,000 SF leased

# THE PORT OF HOUSTON

Houston's Southeast Industrial Corridor is home to the Port of Houston, the strongest economic driver in the area with a direct impact on the submarket's industrial tenant base. The Port of Houston's market strength and strategic location represents a winning combination for business growth and increased industrial development in the submarket. A strong catalyst for much of this development has been the \$1.2 billion Bayport Container and Terminal Project that is expected to generate an estimated \$1 billion of annual business revenue, with another \$40 million in annual tax revenue, in addition to the 12,000 new jobs created. Phase I of the project commenced operations November 2006, with construction for the full project scheduled to continue over the next ten years. Strong growth for the Port of Houston is expected to continue driving new industrial development in the Southeast Corridor. Significant increased demand for containerized, waterborne cargo has been driven by several factors, including new trade agreements with Asia, Europe and Latin America, as well as the overall expansion of global industrialization. The recent West Coast Longshoremen strike of 2002 – when 29 west coast ports shut down for ten days at an estimated cost to the U.S. of \$19 billion – has also been a significant factor in increased demand at the Port of Houston, as business leaders seek new shipping patterns in order to maximize their logistics operations for transporting goods to markets worldwide.



## Key Factors Driving Demand:

- Emerging alternate shipping patterns following West Coast Longshoremen strike of 2002
- Need for alternative ports to East and West coast ports
- Significant increase in exports/imports and global business activity
- Growing trade activity with Asia, Europe, Latin America
- Increased global industrialization
- Houston's new engine of growth, following energy, is international trade

**240.9 million tons of cargo**

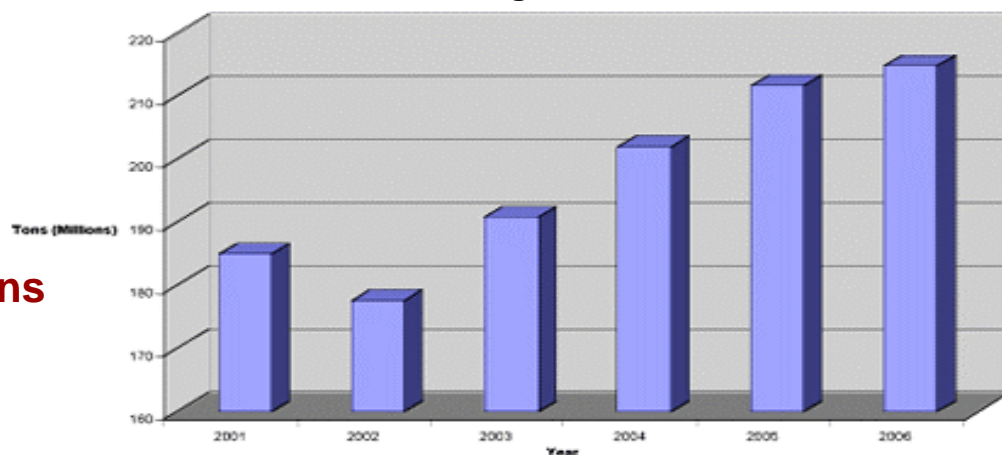
**moved through the**

**Port of Houston in 2006 -**

**an increase of 50 million tons**

**over the past 6 years**

**Port of Houston Authority  
Total Tonnage Handled 2001-2006**





## Houston Industrial Sales

## Year-To-Date 2008

Total volume	\$84.2 (in millions)
# of properties:	8
Total Sq. Ft.:	2,064,523
Price/Sq. Ft.:	\$41
Average Cap:	7.0%

Source: Real Capital Analytics

## Sale Activity

Houston's industrial investment sales market recorded healthy activity in the first quarter of 2008, with 8 properties trading for a total dollar volume of \$84.2 million, at an average price per square foot of \$41 and capitalization rates averaging 7.0%. Overall, sales activity is expected to slow from last year's levels as the credit crisis continues tightening lending requirements for all commercial property types.

Significant Southeast Corridor industrial property sales closed over the past six months, as well as two featured properties on the market at the end of the first quarter 2008, are listed below.

## SELECT INDUSTRIAL SALES ACTIVITY – Southeast Corridor November 2007-March 2008

PROPERTY / ADDRESS	SQ. FT. YOC/REN	BUYER / SELLER	SALES PRICE / \$ PER SQ.FT.
Former Kemiron Industrial Bldg. 8701 Park Place Boulevard	102,000 various	John Frantz Company Kemiron Water Solutions	\$3.4 MIL \$50
North Port Industrial 1100 Pleasantville Drive	53,571 1978	F&W LLC MetroBank NA	\$2.0 MIL \$36
8316 East I-10 Warehouse 8316 East I-10 Freeway	100,000 1963	Frank Kubiak Western Financial Services, Inc.	Undisclosed n/a
2200 Market Warehouse 2200 Market Street	45,600 1963	RSSJ Holdings Ronnie L. Calhoun	\$1.2 MIL \$27
16730 Jacintoport Industrial 16730 Jacintoport Boulevard	192,896 1956	Oil States Industries, Inc. BTEC Turnbines, LP	Undisclosed n/a
Industrial Business Park 226 Texas City	44,000 1963	Thanh Quang Luong Stahlman Enterprises	\$1.3 MIL \$29.00
1520 Live Oak Building 3 1520 Live Oak Street	54,425 2004	Weir Kyle Webland Equities, LP	Undisclosed n/a
Cedar Crossing Business Park 4458 E. Greenwood Street	172,000 2007	Duke Realty Powers Holdings LLC	\$11.4 MIL \$66

## FEATURED SOUTHEAST INDUSTRIAL PROPERTIES FOR SALE



**9189 Winkler Drive**  
**153,000 SQ. FT.**  
**100% leased, built 1978**



**8910-8930 Lawndale Street**  
**119,500 SQ. FT.**  
**89% leased, built 1979**



Port 225, Phase I and II – 1.2 MSF



Port Crossing Commerce Center – 1.2 MSF



InterPort Business Park – 598,000 sf



Cedar Crossing Distribution Center – 312,000 sf



Republic Distribution Center – 312,522 SF



East Belt Business Park, Bldgs. 3 &amp; 4 – 170,000 sf

## DEVELOPMENT PIPELINE

### INDUSTRIAL PROJECTS DELIVERED

The Southeast Corridor has over the past several years consistently ranked as one of Houston's most dynamic sectors for new development. While only one new industrial project was delivered in the first quarter of 2008 – NAI Houston's 28,000-sq. ft. warehouse at 950 Seaco Avenue – a total of 5.04 million sq. ft. of new industrial space was added in 2007.

Below are the most significant Southeast industrial projects to come online in the past twelve months:

Transwestern's 1.2 million-sq. ft. Port 225 industrial complex located at 3000-3100 Highway 225 (delivered December 2007)

National Property Holdings' 1.2 million sq. ft. Port Crossing Commerce Center located at 1701-1921 South 16th Street (delivered November 2007)

Clay Development's 700,000-sq. ft. Underwood Business Park CDC 14 & 15 located at 10001, 10016, and 10051 Porter Road (delivered May 2007)

First Industrial's 598,000-sq. ft. InterPort Business Park at 13001 Bay Area Boulevard (delivered November 2007)

Cedar Crossing's 312,000-sq. ft. Cedar Crossing Distribution Center Building A at 5151 Rice Farm Road (delivered December 2007)

Johnson Development Associates' 312,522-sq. ft. Republic Distribution Center located at 10525 Red Bluff Road (delivered March 2007)

Trammell Crow's 170,000 sq. ft. East Belt Business Park at 1475-1485 East Sam Houston Parkway (delivered December 2007)

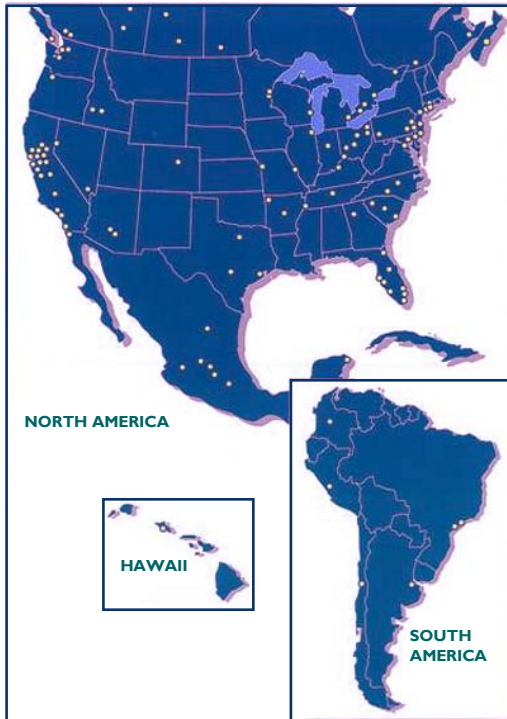
### INDUSTRIAL PROJECTS UNDER CONSTRUCTION

Southeast Houston had 2,095,600 sq. ft. of industrial space under construction at the end of the first quarter. Of the six projects underway, three are greater than 100,000 sq. ft. including Vantage Companies' 772,000-sq. ft. Bayport Distribution Center II; Clay Development's 700,000-sq. ft. Underwood Business Park II; and Xebec Realty Partners' 495,000-sq. ft. Chambers County Industrial Park.

Following the success of phase one for the Underwood and Bayport projects (both of which were delivered in 2006 and are currently over 50% leased), Clay and Vantage have moved quickly into phase two of their respective projects with delivery expected by the second quarter 2008. For its part, the Chambers County Industrial Park has an estimated completion date set for January 2009.

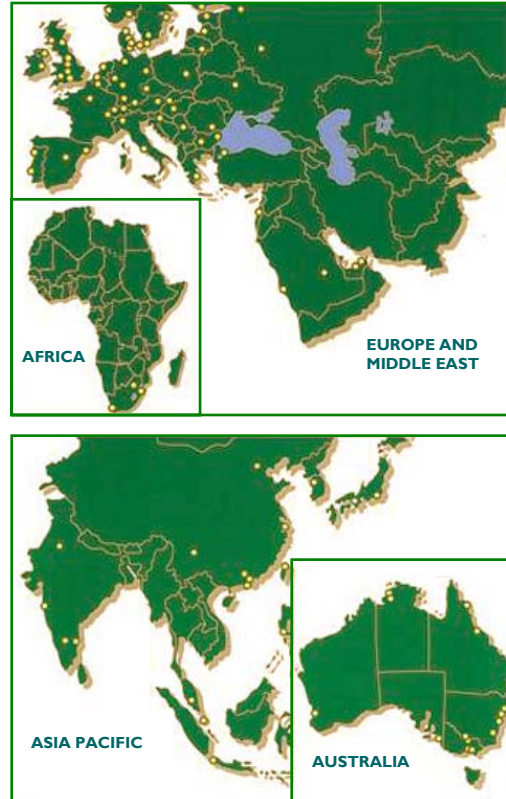


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