FORECASTING

US INDUSTRIAL REAL ESTATE MARKET NOW IN RECOVERY

Outlook for warehouses and other industrial properties best in several years. Positives– stronger absorptions, falling vacancies, and improving cap rates– outweighing stubbornly soft rents and historically weak sales volume.

With the economy sending out mixed signals but generally gaining strength, absorption of industrial buildings turned positive in the second quarter following six consecutive quarters of net loss, CoStar Group reported in their State of the Commercial Real Estate Industry Mid-Year 2010 Industrial Review & Outlook. The national industrial vacancy rate declined for the first time in two years, according to the company's most recent analysis of industrial property markets.

CoStar Group reported 13 million square feet of positive net absorption in the second quarter, the first positive reading since mid-2008, a period that has experienced far more severe and dramatic demand declines than the years of the dot-com collapse and economic recession of the early 2000's. "It's been a long time coming. We think the outlook is good and we'll continue to see positive absorption."- Jay Spivey, CoStar Director of Analytics.

Given the positive absorption and low levels of construction, the national vacancy rate edged down in the quarter from 10.1% to 10%, the first drop in over two years. Availability (space being marketed even though it may not yet be vacant) also edged down from 14.8% to 14.7%. While the dot-com era saw almost four years of relentless vacancy increases, the most recent downturn saw only six quarters of erosion in vacancies. CoStar believes vacancies have leveled and will decline steadily over the next four years down to about 8%. The rate of vacancy increases actually peaked in second-quarter 2009 and has slowly decreased ever since, finally reaching a tipping point last quarter, Spivey noted.

As they have since 2008, rental rates continued to fall in the second quarter but at a less rapid rate. Despite positive news on vacancies and absorption, positive rent growth is still probably a year or two away. *Source: Co-Star*

KEY TERMS AND DEFINITIONS

Availability Rate: The ratio of available space to total rentable space, calculated by dividing the total available square feet by the total rentable square feet.

Cap Rate: Short for capitalization rate. The Cap Rate is a calculation that reflects the relationship between one year's net operating income and the current market value of a particular property. The Cap Rate is calculated by dividing the annual net operating income by the sales price (or asking sales price).

Flex Building: A type of building designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. A typical flex building will be one or two stories with at least half of the rentable area being used as office space, have ceiling heights of 16 feet or less, and have some type of drive-in door, even though the door may be glassed in or sealed off.

Industrial Building: A type of building adapted for such uses as the assemblage, processing, and /or manufacturing of products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities. The primary purpose of the space is for storing, producing, assembling, or distributing product.

Triple Net: A lease in which the tenant pays rent to the landlord as well as all taxes, insurance, and common area maintenance expenses that arise from the use of the property.

Market: Geographic boundaries that serve to delineate core areas that are competitive with each other and constitute a generally accepted primary competitive set of areas. Markets are building-type specific, and are non-overlapping contiguous geographic designations having a cumulative sum that matches the boundaries of the entire Region (See also: Region). Markets can be further subdivided into Submarkets.

Net Absorption: The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space.

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation. Sublease space is sometimes referred to as sublet space.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

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UPSTATE, SC
2010 MID-YEAR

COMMERCIAL REAL ESTATE ♦ INDUSTRIAL MARKET REPORT

The Upstate, SC industrial warehouse market is comprised of **3,288** buildings /**160,119,969** square feet of space throughout Greenville, Spartanburg, Anderson, Laurens, Cherokee, and Pickens counties. As of Mid-Year 2010, the market continues to reflect a positive transition in economic conditions. At Year-End 2009, a more optimistic forecast was adopted within the Upstate market, with the feeling that the downward spin had stopped and the market was beginning to stabilize. The news of new industries and large corporate expansions affecting our market during the first and second quarters 2010 confirmed this anticipated upward trend.

Industrial Inventory and Vacancy Rates
as of JUNE 2010

	Greenville	Spartanburg	Anderson	Total
Total Inventory (SF)	67,554,224	65,577,120	13,671,108	146,802,452
Direct Vacant (SF)	7,241,724	6,451,759	949,231	14,642,714
Availability Rate	11.1 %	10.2 %	6.9 %	10.9 %
Net Absorption (SF)	46,005	(152,165)	259,547	153,387
New Product (SF)	23,728	0	0	23,728
SF Under Construction (SF)	77,089	0	0	77,089
Average Asking Rate (/ SF)	$2.99	$2.95	$2.16	$2.84

EXPERT ANALYSIS

"The industrial market has shown resiliency in 2010. Activity has been consistent with new industry entering the market and establishing strategic footholds. Optimism has significantly increased with plans for several new facilities announced for the Upstate. These new players will create a secondary wave of new growth as some of their key suppliers also establish operations here." **- Richard Barrett**

UPSTATE SC COMMERCIAL REAL ESTATE FIRMS ♦ INDUSTRIAL MARKET RANKINGS

	Company Name	# of Deals	Deals by SF	# of Brokers	City,
1.	**Bentley Commercial/CORFAC INTERNATIONAL**	**19**	**334,456**	**9**	**Greenville**
2.	NAI Earle Furman	17	723,991	28	Greenville
3.	CB Richard Ellis/The Furman Co.	7	310,550	N/A	Greenville
4.	Spencer/Hines Properties	6	65,800	9	Spartanburg
5.	ProLogis	6	604,811	N/A	Greenville

Source: Co-Star Group (Based on deals closed in past 365 days.)

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TOTAL MARKET

	MID YEAR 2010	YEAR END 2009	MID YEAR 2009
AVAILABILITY RATE	10.9 %	11.0 %	11.1 %
NET ABSORPTION (SF)	15,839	499,656	(1,236,305)
RENTAL RATE (/SF)	$2.84	$3.02	$3.02

TOTAL MARKET STATISTICAL SUMMARY

The warehouse/industrial sector reported a vacancy rate of 10.9% at the end of the second quarter 2010. It was 11.0% at the end of the first quarter of 2010, as well as the fourth quarter of 2009, and was 11.2 % at the end of the third quarter of 2009. This would seem to confirm that stabilization has occurred and excess vacant space is being absorbed. To further confirm this positive trend, there was a positive net absorption of 86,725 SF during the second quarter. This more than offsets a sluggish first quarter which had negative absorption of (70,886 SF). This positive trend is poised to continue with notable projects under way or in advanced negotiations. Absorption has been further accelerated by a decline in the average asking rental rate. Warehouse rates at the end of the second quarter were $ 2.84/SF, a decline of (.15) from the first quarter's rate of $2.99 and a Year-End 2009 rate of $3.02. While this fall has been significant, there is no new construction product slated to be available currently through 2011; therefore, the belief is these rates have bottomed and should stabilize in late 2010.

GREENVILLE

	MID YEAR 2010	YEAR END 2009
AVAILABILITY RATE	11.1 %	11.6 %
NET ABSORPTION (SF)	46,005	(485,760)
RENTAL RATE (/SF)	$2.99	$2.99

The Greenville area's availability rate is down significantly from year end 2009. Net absorption is strongly moving to the positive, and with no new deliveries expected this year, the rental rate should have hit bottom and begin to level out.
With inventory decreasing, the Greenville Market is poised for new industrial development projects as the need for warehouse space increases to meet the future demands of new industry and growth.

3rd STRONGEST JOB MARKET IN THE US

According to a *Business Week* report, **Greenville is the third strongest job market in the United States**.
Based on a Manpower survey of the first three quarters this year, *Businessweek.com* ranked the country's 100 largest metropolitan statistical areas. According to the survey, the hiring in the Greenville area is in manufacturing (nondurable goods); transportation and utilities; and professional and business services. Eighteen percent of Greenville area companies plan to hire more employees in the July-to-September period, according to the survey. Six percent expect to reduce their payrolls, and 74 percent expect to maintain staff levels.

Source: Business Week

SPARTANBURG

	MID YEAR 2010	YEAR END 2009
AVAILABILITY RATE	10.2 %	10.3 %
NET ABSORPTION (SF)	(152,165)	342,606
RENTAL RATE (/SF)	$2.95	$3.23

The Spartanburg area's vacancy remained relatively unchanged during the first two quarters of 2010. Rental rate dropped considerably from Year-End 2009 to Mid-Year 2010. Despite the negative net absorption, Spartanburg is expected to end the year in 2010 with positive absorption. This projection is based on the significant drop in rental rates coupled with announcements of expansion and growth in the area that were revealed during the second quarter of the year.

TOP INDUSTRIAL SALE TRANSACTIONS
Past 12 months

BUYER	LOCATION	SIZE (SF)	SALE PRICE	PRICE(/SF)
Star Eve Real Estate, LLC	378 Neely Ferry Rd. Greenville	103,284	$2,695,000	$26.09
Cliffstar Corporation	1990 Hood Rd. Greer	63,000	$1,500,000	$23.78
Odermath	2751 New Cut Rd. Spartanburg	42,496	$1,410,000	$33.18
*Clemson University Research	103 Clemson Research Pk. Greenville	48,830	$1,985,000	$40.65
Phillips Feed and Pet Supply	5455 N. Blackstock Rd. Spartanburg	97,100	$2,762,500	$28.45

Industrial building sales of 15, 000 SF or larger in the Greenville/Spartanburg market rose during the first quarter of 2010 as compared to first quarter 2009. In first quarter 2010, four industrial transactions closed with a total volume of $3,424,460. The price per square foot averaged $20.00. This compares to $2,585,500 in first quarter 2009 and averaged $24.24. Cap rates have been slightly higher at 9.95% in first quarter 2010 as compared to 9.34% in first quarter 2009.

TOP INDUSTRIAL LEASE TRANSACTIONS
Past 12 months

BUSINESS NAME	LOCATION	BUILDING SIZE (SF)
RES MED	110 Hidden Lakes Circle Duncan	174,000
*Private Company	570 Gilliam Rd. Greer	100,500
*Wal-Mart Stores East, LP	1224 Old Stage Rd. Greenville	45,000
Spartanburg Meats	115 Littlejohn Rd. Spartanburg	33,120
*Supply One, Inc.	125 Tate Rd. Pickens	31,787

*BENTLEY COMMERCIAL DEALS

GROWTH & DEVELOPMENT

At Mid- Year 2010, a few significant developments will continue to have a positive impact on the market as noted in prior reports. One major new development is the announcement that Southwest Airlines intends to fly out of Greenville-Spartanburg International Airport and Charleston International Airport starting next year. This announcement is a huge plus for the state of South Carolina, as many felt the lack of a low-cost airline put the area at a competitive disadvantage for business development and expansion, particularly here in the Upstate. Southwest's service to the Upstate will help draw new companies and corporate headquarters to the area.

Upstate South Carolina will be home to one of the nation's most innovative transportation companies.

Other developments are a part of the continuing boom of the automotive industry in the Upstate. As the planned BMW expansion comes on line, other developments have occurred such as the ZF Group which will build a new $350 million manufacturing facility in Laurens County that will employ 900 people. Also, Seoul-based CT&T Co. Ltd. has formed a joint venture with 2AM Group of Spartanburg, SC, to build their first North American assembly facility. This new $21 million plant will produce and assemble CT&T's eZone all-electric cars and will create 370 jobs over the next five years.

In addition, Proterra Inc., which develops and assembles drive and energy storage systems for heavy-duty vehicles, including its ground-breaking BE-35 fast-charge battery-electric transit bus, announced plans for a 240,000 square foot facility in Greenville County at the Clemson University International Center for Automotive Research (CU-ICAR). This facility will be for research and development as well as assembly of products. Proterra anticipates that it will invest $68 million and create more than 1,300 new jobs over the next seven years in Greenville County. "This exciting news reaffirms South Carolina as one of the best places in the world to do business," said Sen. Jim DeMint. "We can all be proud of the strategic partnership between economic development professionals, education and research leaders and elected officials at every level that helped attract these much-needed jobs. Proterra's decision to locate in Greenville is one more step towards the fulfillment of the long-term vision of the Upstate as a world-class automotive cluster. I'm confident this investment will pay dividends for both Proterra and our community for years to come."

Source: *Carolina News Wire*