

MARKETBEAT

SAVANNAH, GA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

BEAT ON THE STREET

"The Savannah area industrial market will continue to benefit from the Georgia Port Authority's commitment to invest in, and expand the Port's infrastructure. Six months of increased container throughput, the lack of recent speculative warehouse construction and competitive lease rates will result in decreasing vacancy and stabilized rental rates within large distribution oriented warehouse space over the next twelve to eighteen months." – Stephen D. Ezelle, CCIM, Senior Associate, Gilbert & Lattimore

ECONOMY

Over the last six months, Savannah has continued to be subject to the sluggish economic conditions that affect our Region and Country as a whole. Despite this sense of uncertainty, Savannah continues to remain stable relative to the state and nation due to its economic diversity including the nation's fourth busiest container port, a strong manufacturing and distribution employment base, the military complexes at Fort Stewart and Hunter Army Airfield, tourism, two regional hospitals and the 40,000 plus area college students and continued influx of retirees and pre-retirees.

The Georgia Ports Authority continues to release encouraging numbers that indicate a turn-around and increase in retail and export container traffic. Container throughput volumes released for May 2010 mark the sixth consecutive month of growth and represent a 25.3% increase over May 2009. The long term dynamics for the Ports of Savannah and Brunswick are projected to be very favorable as a result of the improvements underway at the Panama Canal and the continued migration of imports from the Far East from the West Coast to the East Coast Ports. Thanks to the State of Georgia's continued commitment to invest in one of State's number one employers, the GPA is well positioned to capitalize on increased export activity and projected increases in intermodal transport throughout the country with the Garden City Terminal having two on-dock facilities served by Norfolk Southern and CSX Transportation.

OVERVIEW

The exponential increase and speculative construction of large distribution warehouse space that occurred during the peak of the market from 2005 to 2008 continues to result in an overall vacancy rate of 19.2%, which represents a slight decrease of 0.7% since the fourth quarter of 2009. This minor decrease in vacancy is a result of several recent leases in the 100,000 to 150,000 sf range which were offset by similar vacancies created by lateral movement and relocation of existing tenants within the market that are taking advantage of reduced rates in competitive vacant buildings. As previously indicated, the bulk of the vacancy in the Savannah market is attributed to the speculative construction of large distribution/warehouse space which results in a total inventory in buildings greater than 100,000 sf of 24.7 msf of space in both tenant and owner occupied facilities. This sector of the market is predominantly non-owner occupied space and consists of 16.5 msf constructed since 2003 and is currently 28.4% vacant which includes 1.35 msf available for sublease.

FORECAST


Increased Port activity and container throughput coupled with zero speculative construction over the next twelve to eighteen months will result in increased absorption and decreased vacancy rates in the large distribution/warehouse sector. Rental rates will continue to remain soft until the overhanging product is absorbed with some concessions offered by motivated landlord's. Large manufacturing projects such as Mitsubishi Power Systems (180,000 sf) in Savannah and Firth Rixson (200,000 sf) in Liberty County continue to reaffirm Savannah as a preferred distribution and manufacturing location.


ECONOMIC INDICATORS


| National | 2009 | 2010F | 2011F |
|-------------------|-------|-------|-------|
| GDP Growth | -2.4% | 3.1% | 3.9% |
| CPI Growth | -0.3% | 1.8% | 2.1% |
| Savannah Region | | | |
| Unemployment | 8.2% | 9.1% | 8.0% |
| Employment Growth | -4.9% | -0.5% | 1.5% |

Source: Moody's | Economy.com

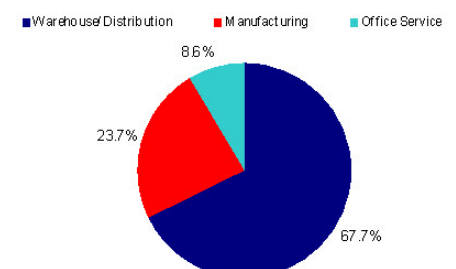
MARKET FORECAST

LEASING ACTIVITY will increase during 2010 as new tenants in the market begin to take advantage of low rates and newly finished vacant space. 

DIRECT ABSORPTION is expected to remain flat, with potential to increase during the second half of 2010 as new tenants enter the market. 

CONSTRUCTION: Speculative construction will not take place for 18 to 24 months. New construction will be limited to build-to-suit projects. 

INVENTORY BY PROPERTY TYPE



MARKET/SUBMARKET STATISTICS

| MARKET/SUBMARKET | INVENTORY*** | NO. OF BLDGS. | OVERALL VACANCY RATE | DIRECT WEIGHTED AVERAGE NET RENTAL RATE* | | | |
|--------------------------|-------------------|---------------|----------------------|------------------------------------------|---------------|---------------|---------------|
| | | | | HT | MF | OS | W/D |
| Downtown / Eastside | 3,273,874 | 94 | 3.9% | N/A | N/A | \$8.23 | \$4.85 |
| Port Corridor | 14,002,074 | 107 | 7.5% | N/A | N/A | \$6.71 | \$3.79 |
| Crossroads / Dean Forest | 22,387,773 | 300 | 25.0% | N/A | \$4.50 | \$8.18 | \$3.66 |
| Southside / Highway 17 | 2,327,432 | 56 | 29.1% | N/A | N/A | \$6.95 | \$4.03 |
| Westside | 2,107,785 | 9 | 46.7% | N/A | N/A | \$9.26 | N/A |
| Chatham County | 44,098,938 | 566 | 19.2% | N/A | \$4.50 | \$8.14 | \$3.73 |

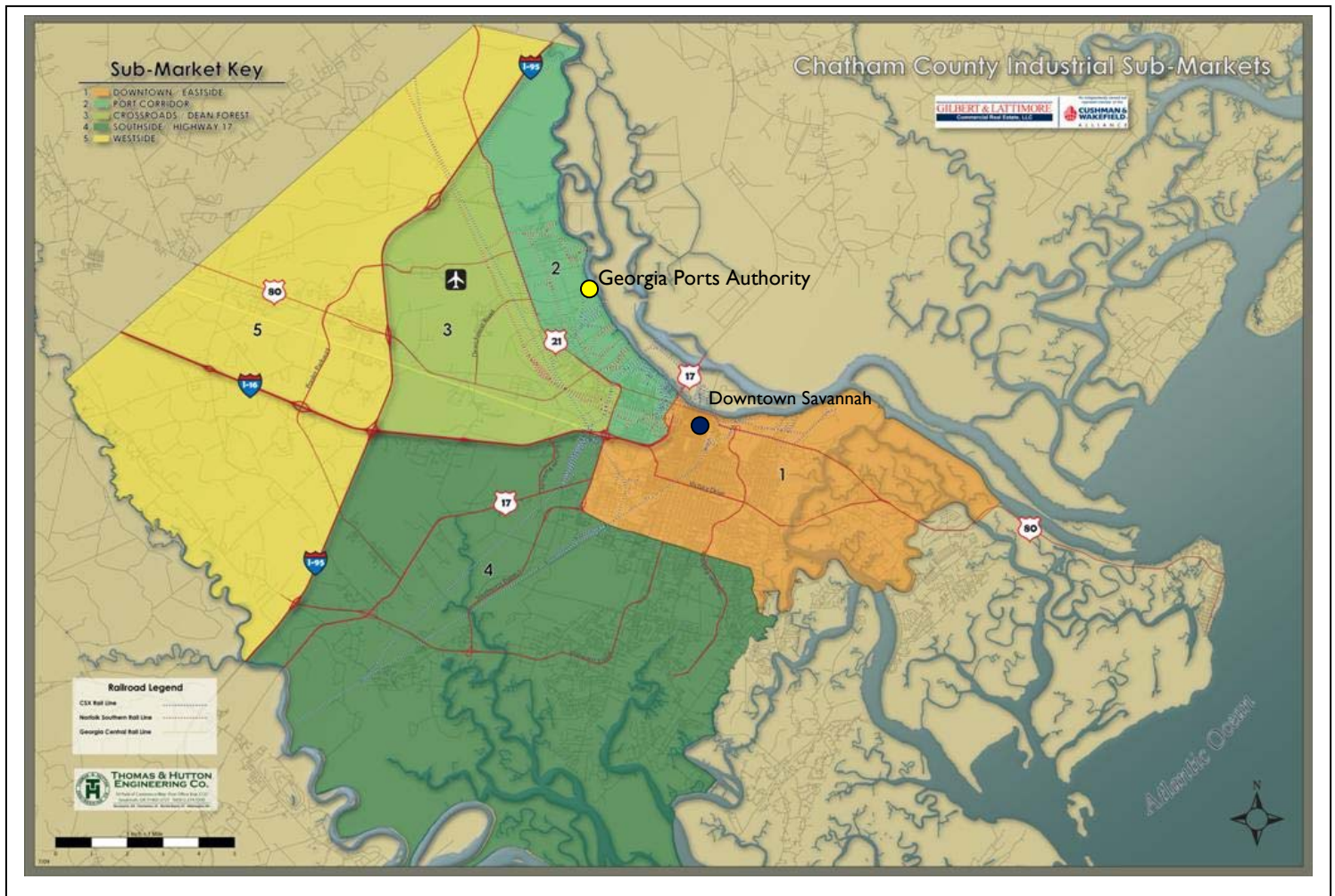
*Rental rates reflect \$psf/year and do not include space available for sub-lease

**Additional sub-markets will be included in 2nd Quarter 2010 report to include Bryan, Effingham and Liberty Counties

***Owner and Tenant occupied buildings 5,000 square feet and larger

HT = High Tech (Does not exist in market) MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

CHATHAM COUNTY SUB-MARKETS:



MARKET HIGHLIGHTS

| SIGNIFICANT 1Q & 2Q 2010 NEW LEASE TRANSACTIONS | | | | |
|---------------------------------------------------|-------------------------|------------------------|-------------|------------------------|
| BUILDING | SUBMARKET | TENANT | SQUARE FEET | PROPERTY TYPE |
| 318 Grange Road | Port Corridor | Maersk | 195,000 | Warehouse/Distribution |
| 6030 Commerce Boulevard | Crossroads/ Dean Forest | Accelatrans | 150,000 | Warehouse/Distribution |
| 217 Bourne Boulevard - SPA Industrial Park | Crossroads/ Dean Forest | Kerry Foods | 103,380 | Warehouse/Distribution |
| Savannah Logistics Park - Building B | Westside | Matson | 100,000 | Warehouse/Distribution |
| 101 Clyde Alexander - LogistiPort - Building B | Crossroads/ Dean Forest | Dole Foods - Expansion | 57,000 | Warehouse/Distribution |
| SIGNIFICANT 1Q & 2Q 2010 SALE TRANSACTIONS | | | | |
| BUILDING | SUBMARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
| N/A | | | | |
| SIGNIFICANT 1Q & 2Q 2010 CONSTRUCTION COMPLETIONS | | | | |
| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| CAP Barbell | Crossroads/ Dean Forest | CAP Barbell | 60,000 | 6/10 |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | | | | |
| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| Coastal Logistics Group | Crossroads/ Dean Forest | CLG | 320,000 | 10/10 |
| Mitsubishi Power Systems | Crossroads/ Dean Forest | MPS | 180,000 | 11/10 |
| Savannah Cartage | Downtown/ Eastside | Savannah Cartage | 25,000 | 10/10 |

Savannah has recently benefitted from the announcement of several large manufacturing facilities to include Mitsubishi Power Systems, and Firth Rixson Limited in Liberty County. Mitsubishi Power Systems began construction of a \$325 Million, gas fired turbine manufacturing facility on a 120-acre portion of the State of Georgia “Mega Site” at the intersection of Interstates 95 and 16. The initial phase of construction is well ahead of schedule and consists of a 180,000-sf facility to be completed in October of 2010. At build-out, the facility will contain a total of six buildings and employ over 500 skilled laborers. CAP Barbell, Inc. recently completed construction of a 60,000-sf regional assembly and distribution center near the Port of Savannah in Dean Forest Business Park that represents a \$4 Million investment in the local market. Another notable announcement that confirms long-term growth expectations for the Port of Savannah is the recent ground breaking on a 320,000-sf, rail served facility for Coastal Logistics Group, a Savannah based third-party logistics provider. The new facility is the first to locate in CenterPoint’s new Intermodal Center on Dean Forest Road.

Overall, the Savannah Industrial Market is poised for positive absorption through the remainder of this year and into 2011 as a result of incoming new businesses and increased Port activity, which can be attributed to a strategically planned system of interstates, railways, a wide range of available warehouse space and Savannah’s central location on the East Coast. We foresee continued momentum which will be generated by the anticipated future permitting of the proposed deepening of the Savannah harbor which is scheduled to coincide with the completion of the Panama Canal improvements estimated to occur in 2014.

For industry-leading intelligence to support your real estate and business decisions please contact:



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

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