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Greater Springfield's commercial/industrial real estate market continues to experience improving conditions

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With two months left in the fourth quarter of 2010 Greater Springfield's commercial and industrial real estate marketplace continues to experience challenging though apparently improving overall market conditions.

While 2010 will not be remembered as a robust year for absorption, sales transactions or other positive measurable metrics it appears that it hopefully will be a year remembered as a transitional time period when the marketplace began to mark positive occurrences, such as increased market interest, increased closing of transactions and a measurable level of lease activity.

As this occurrence continues to chip away at market inventory the jury is still out as to its true meaning and its sustainability as the overall national economy continues to be flat and it would appear that job creation and retention continues to falter.

Regardless, the local marketplace continues to experience historically high vacancy rates in all market segments with the industrial and office market continuing to experience additional inventory added and continued negative absorption.

Greater Springfield's industrial marketplace continues to experience the unfavorable economic conditions that continue to negatively affect the international, national, regional and local economies. These less than favorable conditions continue to have a negative impact on market demand and the continued addition of space to the available inventory. It is estimated that current overall vacancy is in excess of 15% and increasing.

The local marketplace continues to offer a diversity of availabilities ranging from smaller spaces to 500,000 s/f properties for sale or lease. The majority of the offerings are typically 100,000+ s/f modern industrial park located properties readily adaptable to a variety of industrial and distribution or warehouse uses.

Quoted area rental rates and asking prices continue to exhibit signs of destabilization and decline. Asking rental rates have continued a downward migration with the majority of asking rental rates for existing warehouse, distribution space ranging between \$2.50 and \$4 per s/f NNN. Asking rental rates for existing manufacturing space range from approximately \$3.50 to \$5 per s/f NNN. These asking rental rates vary by location, property amenity and the landlord's perception of market position. The majority of recent lease transactions have also seen a notable increase in non rent landlord concessions, such as free rent, turnkey delivery of space and other tenant specific requests.

Asking sales prices have begun a downward migration as sales transaction volume and market interest declines. Market absorption continues to be negative as additional inventory continues to outpace market activity. New construction continues to be very limited and focused on previously planned projects and requirements whose needs are not compatible with the existing market

inventory due to specialized locational or physical requirements.

Greater Springfield's office market place also continues to experience increased overall vacancy rates in all property categories and market segments.

Overall office market conditions continue to be sluggish with limited absorption whose gains continue to be offset by increased availability.

Market rental rates for existing office space continue to be pressured by increased availability with many landlords offering increased incentives to attract interest. Increased market challenges continue to offer landlords difficult choices as operating costs and tenant improvement costs have not decreased leaving landlords a very slim margin in which to negotiate.

Class A rental rates have continued a downward migration with asking rentals ranging from \$14 to \$20 per s/f gross and current contract rental rates ranging under \$18 per s/f with many in the \$14-\$15 per s/f full service gross range.

Class B office space continues to be negatively affected by the lessening of Class A rents and the migration of historic Class B office users to Class A space.

Quoted asking Class B office rents currently range from \$8-\$14 per s/f gross with the majority of rents in the \$10-\$12 per s/f range.

Most prudent landlords have also employed various other non rent incentives such as free rent, turnkey build out, space planning and other tenant concessions in a very aggressive manner in an attempt to secure prospects.

The marketplace continues to experience limited new prospects with the majority of market activity being a continuation of existing market occupants relocating for preferable economics or amenity of the relocation.

We are cautiously optimistic that some form of recovery is a foot, but believe it will be a longer, slower, process towards positive absorption of space, and we expect rents and sales prices to continue to decline through 2011.

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