



Milwaukee & Metropolitan Area Industrial Market Report • First Quarter 2009



CAPSTONE BUSINESS CENTER

OVERVIEW

The Southeastern Wisconsin industrial market saw a slowdown in the amount of transactions in the fourth quarter of 2008 which has continued through the first quarter of 2009. This is mainly a result of an unstable national economy and an unprecedented tightening of bank credit. Overall, the industrial market saw little negative absorption and for the most part remained stagnant from the third quarter of 2008. The biggest bright spot of the second half of 2008 was the Airport Submarket which saw significant absorption speculative developments that have remained largely vacant since being built in 2006. Typical asking rental rates for new construction continue to remain at \$4.25-\$4.75 psf for warehouse space and \$8.50-\$9.75 psf for built out office space with most leases being signed around \$4.00 psf for warehouse and \$8.50 psf for finished office space. Second generation space could see more activity in 2009 due to more economic rates and greater flexibility for short term deals. Rates of \$3.50 psf for warehouse space and \$7.50 for built out office space in these older industrial buildings have remained unchanged for several years. The Western market has continued to have the lowest vacancy rates of Southeast Wisconsin at 5.8% vacancy, conversely the North Central market has the highest vacancy rate at 21.1%, which can be attributed to an abundance of old product and the emergence of newer facilities in the Western market.

Due to a weakened national economy, locally we are anticipating that the Southeast Wisconsin industrial market will continue to be slow until mid to late 2009. However, even with a slower economy there are still active deals in the market, mainly driven by tenants looking to take advantage of increased landlord concessions and aggressive lease rates. Short term deals have been common place in 2009 with companies waiting to pull the trigger on long term expansion plans until the future becomes clearer. Larger global firms have also been pulling back development and putting deals on hold while smaller local companies have remained active in the market. New development will remain slow due to the availability of speculative space still on the market from previous years as well as continued uncertainty in the capital markets. Vacancy rates will most likely remain constant through the second and third quarters of 2009, but with a lack of new development, vacancy rates should start to decline by early 2010. In conclusion, the industrial markets will likely remain stagnant in 2009 with most tenants opting to remain in their current locations while others are forced to downsize. The market may be hit with negative absorption in the first half of 2009, but should pick up over the second half of the year.

INVESTMENT SALES

The industrial investment sales market continued to be sluggish in the 1st quarter of 2009. According to www.reit.com, investment sales globally were down 75% in the first quarter of 2009 from the same period last year. Both buyers and sellers are trying to adjust to the "new rules" of engagement. For transactions to close, sellers have to tolerate long due diligence periods, buyer-favorable contract terms, and numerous strings attached to the deal. Capitalization rates have crept upwards at least 150-200 basis points for both value-add and core assets. The majority of landlords have accepted the reality that it is not a seller's market and that they need to nurture their assets by renewing leases and addressing capital needs. Milwaukee commercial real estate professionals continue to track the investment sales activity in the Chicago market. Several Chicago industrial assets are rumored to be on the market in the 10% to 11% cap rate range. If these properties sell in 2009 for attractive double-digit cap rates, it will definitely have an impact on value for real estate owners in southeast Wisconsin. The silver lining for Milwaukee is that in the boom years it was not overbuilt and therefore vacancies have not skyrocketed. The slow and steady growth of our local economy will provide a shorter than anticipated value-recovery period.

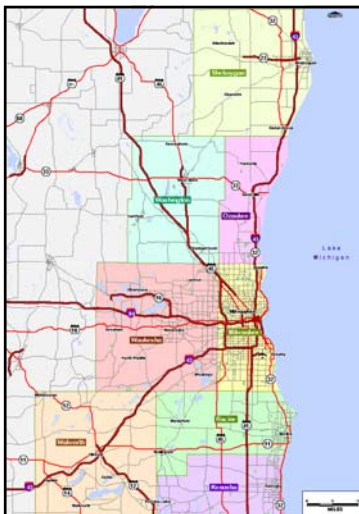
Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this comprehensive report of the local market. The industrial market statistics have been extracted from our internal database, with up-to-date information supplied by our brokerage and management staff. We are also a member of the Milwaukee Office Data Advisory Board which tracks and scrubs data from Xceligent on a quarterly basis. Our absorption statistics are calculated comparing occupancy to occupancy and account for occupied square footage associated with new construction.

Inland

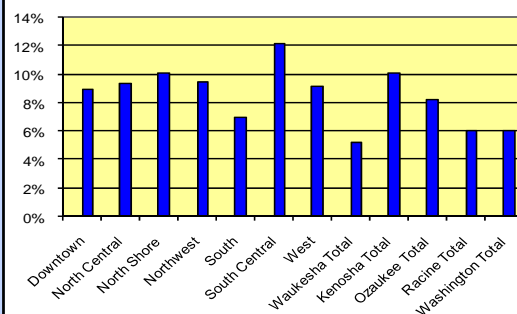
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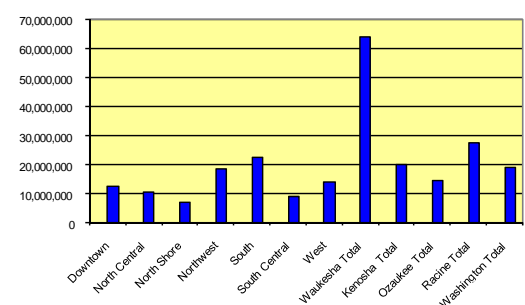
COUNTY	SUBMARKET	# OF BUILDINGS	INVENTORY (SF)	TOTAL VACANT (SF)	VACANCY (%)	QTRLY ABSORPTION (SF)	SUBLEASE AVAILABLE SF
Milwaukee	Downtown	190	12,503,215	1,109,522	8.9%	37,733	0
Milwaukee	North Central	149	10,693,545	993,618	9.3%	16,000	0
Milwaukee	North Shore	102	7,044,697	706,626	10.0%	-4,360	0
Milwaukee	Northwest	343	18,254,795	1,731,971	9.5%	-153,104	88,800
Milwaukee	South	350	22,344,925	1,542,287	6.9%	86,821	36,396
Milwaukee	South Central	155	8,949,893	1,082,775	12.1%	0	0
Milwaukee	West	193	13,891,443	1,261,971	9.1%	145,860	0
Milwaukee	Total	1,482	93,682,513	8,428,770	9.0%	128,950	125,196
Waukesha	Northeast	474	20,719,635	1,261,786	6.1%	207,063	10,460
Waukesha	Northwest	309	16,421,772	899,330	5.5%	-69,825	74,100
Waukesha	Southeast	299	13,544,269	719,007	5.3%	3,671	0
Waukesha	Southwest	330	13,278,969	409,085	3.1%	-13,132	82,322
Waukesha	Total	1,412	63,964,645	3,289,208	5.1%	127,777	166,882
Kenosha	Total	201	19,952,029	2,002,938	10.0%	112,661	56,050
Ozaukee	Total	189	14,586,225	1,200,345	8.2%	-10,952	59,211
Racine	Total	383	27,360,689	1,657,659	6.1%	351,218	38,965
Washington	Total	318	19,023,941	1,136,405	6.0%	102,115	0
Grand Total		3,985	238,570,042	17,715,325	7.4%	811,769	446,304



Direct Vacancy Percentage



Total Universe Square Feet



Inland Companies • 1243 N. 10th Street, Suite 300, Milwaukee, WI 53205 • 414.276.9500 Direct • 414.276.9501 Fax • www.inlandcompanies.com

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