The fifth year of the annual CRESA Partners Airport-Area Office-Warehouse Rental Rate Survey finds the market for properties near the top 20 U. S. air cargo airports looking healthier than at any time since we first published our findings in these pages in March 2001. But the 1 percent increase in the national average net rental rate this year, to $6.14 per square foot, must be seen in perspective.

The increase is the first annual growth in our national measure after three years of decline, and it still leaves the rate 9 percent below the average net rental rate we calculated in 2001.

But we also find a market where construction is taking place and new lessors are standing by waiting for the right moment to move. It's a market, in other words, that is starting to grow and showing that it may grow at an even faster rate in the future.

First let's take a look at the data from this years survey and how it compares to surveys from prior years.

The national annual average net rental rate for 2005 of $6.14 is up from $6.05 in 2004. That followed rates of $6.26 in 2003, $6.32 in 2002 and $6.73 in 2001.

The most expensive airport areas, as has been the case in years past, were JFK, LAX, BOS, and SFO, and the least expensive cities were OAK, CVG, SDF, and MEM. Higher rates around IND pushed that city up to 13 from 19 primarily because the properties included in this year's survey were new and reflected development around that city's new Interstate 70 interchange near the airport.

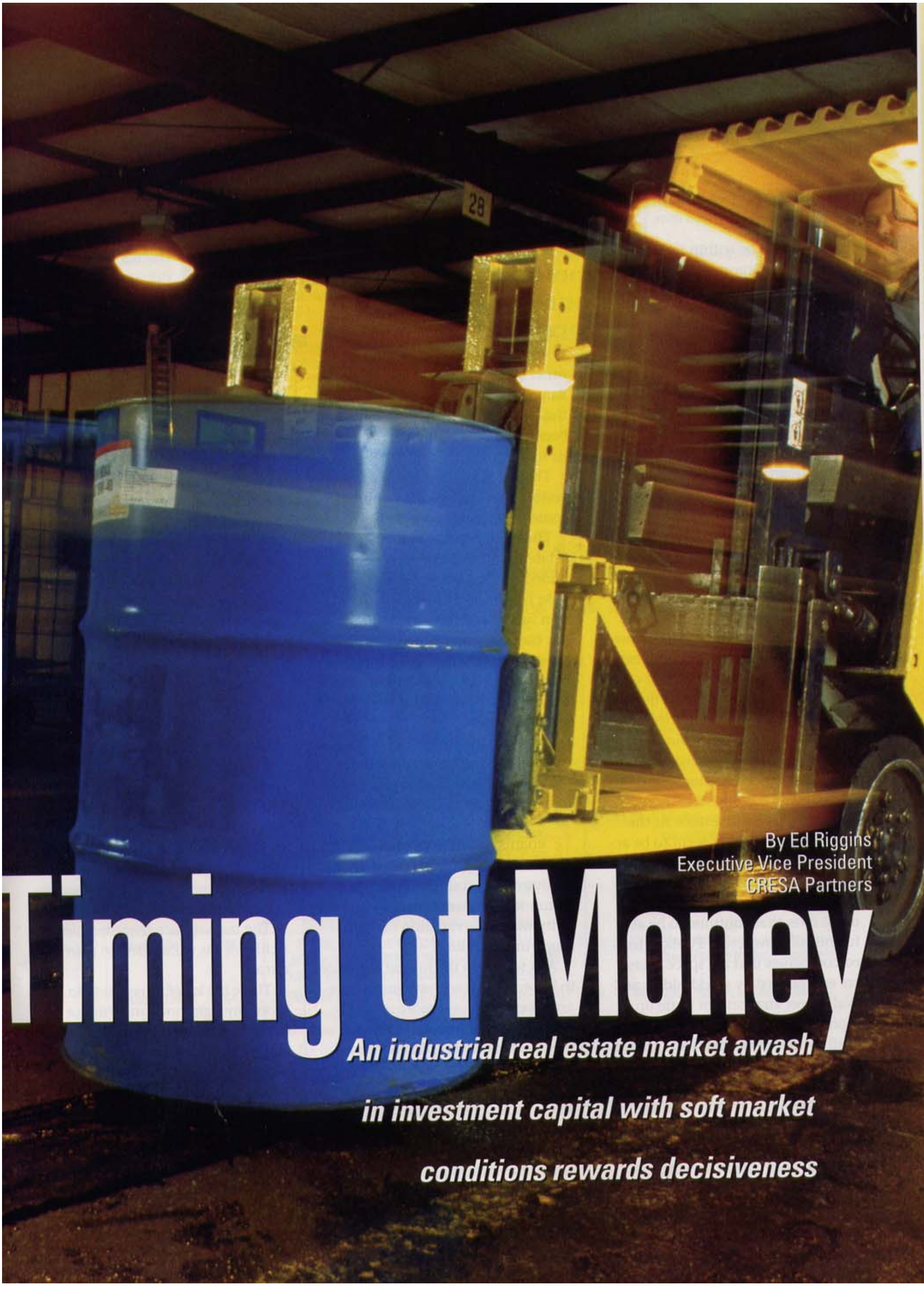
Operating expenses, which are paid by tenants in addition to rent, continue to be a fairly major consideration when comparing alternative properties. These additional charges reimburse the landlord for such things as taxes, insurance, maintenance of common areas, management fees, snow removal.

It is not uncommon for operating expense to add another 15 percent to 25 percent to total leasing costs.

Our methodology for this years survey remained the same as in years past. For each city surveyed we identified three available properties that might be considered by a "typical" airport-oriented office/warehouse tenant, and we used the average of the asking net rental rates for those properties as the representative rental rate for each city.

The cities were then ranked from most to lease expensive, and operating expense data was also collected.

A "typical" tenant by our definition would be seeking a total of approximately 20,000 square feet with about 20 percent of the total area built out as office space. This tenant would have a need for dock high truck doors and would have a re-



By Ed Riggins
Executive Vice President
CRESA Partners

Timing of Money

An industrial real estate market awash in investment capital with soft market conditions rewards decisiveness

There is also no shortage of investors who are looking to buy income-generating properties.

quirement to be within five miles of the airport.

None of the surveyed facilities were located on municipal-owned airport property, where rates tend to be dramatically higher. Also, exceptions to the five-mile proximity rule had to be made for MSP and DIA because of local development patterns.

The data was collected during late fourth quarter 2004 and early first quarter 2005 to provide a snapshot of year-end market conditions. Looking beyond the survey data, here are a couple of observations.

First, there is an enormous amount of capital available for investment in real estate right now.

Among colleagues in my home market of Atlanta and in other cities in which our company does business, this was a recurring theme: "there are lots of buyers out there."

Generally, there are two types of buyers for office/warehouse and other commercial properties: owner/users and investors. At the moment both groups seem to be actively looking to purchase properties. The owner/user buyers are motivated to buy partly because of interest rates that continue to be at historically low levels. Publicly traded companies that are space users are encouraged by stockholders and Wall Street analysts not to tie up capital in non-core assets, so virtually all owner/users buyers are privately held companies.

The owners of these privately-held companies want to purchase the buildings that are occupied by their businesses to diversify their personal financial portfolios. Their logic is easy to understand, given the sorry returns that have been provided by other assets in recent years. It's no surprise, then, that clients nearing the end of their lease term have been asking me. "Hey, can you find us something to BUY?"

There is also no shortage of investors who are looking to buy income-generating properties.

These investors are mostly Real Estate Investment Trusts – publicly-traded companies whose sole purpose is owning real estate — pension funds, and entrepreneurial buyers. Capitalization or "cap" rates have fallen in recent years, partly a reflection of the competition among these investors as they all seek to purchase assets.

This "feeding frenzy" to purchase properties is in dramatic contrast to the leasing market, which brings me to my next point.

Tenants in this slow market will be rewarded for planning ahead.

Around the country, the most common comment about leasing activity was some variation of "not much momentum."

As a tenant in the market for space to lease, companies have more leverage when they have more options, and they have more options when they have more time. Tenants who get started searching early will be rewarded with more favorable lease terms, especially in this market.

For instance, in one recent case, my client was a large international freight forwarders and the decision-making executive is a very astute veteran of the industry. With the client's support, I initiated our space search more than nine months ahead of the client's lease expiration date. The initial property tour included 12 alternatives; this group was short-listed down to three property owners from whom we solicited proposals.

As is common, the company decision maker's attention shifted back and forth between running his business and addressing the property issue. During quiet times when the client's attention was focused on business, a landlord whose property had been eliminated from the competition would submit a (unsolicited) revised proposal with very attractive terms. The client's focus would again shift back to the property issue and we'd again consider the options, which now included the revised proposal. Again, we'd again cut the list.

The client ended up with significant concessions and an overall economic package that was over 25 percent better than the initial offers. This would not have been possible if the client had been under time pressure because of impending lease expiration.

The marketplace rewarded him richly for his willingness to plan ahead.

There is a lot of uncertainty in the economy right now, and I'm not saying it's easy to have the confidence in this environment to plan ahead in order to get a great lease deal. I'm only saying that it's necessary.

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2005 CRESA Partners Airport-Area Office-Warehouse Rental Rate Survey

2005 Rank	2004 Rank	City	2005 Avg. Net Rent	Sample Properties	Typical Expenses Tax, Ins. & Maint.	Survey Comments
1	1	**New York** (JFK)	$14.33	20K w/5Koff @ Int. Airport Ctr. – $21.00; 21,492 sf w/5,382 off @ 149th Rd in Jamaica – 45,920 w/18,143 off @ Johnson Rd in Lawrence – $10.00	$2.00 – $4.50	Multi-tenant buildings.
2	3	**Los Angeles** (LAX)	$10.72	30K w/BTS off @ 5251 Imperial Hwy – $10.08; 22,535K w/7,433 off @ 225 126th St. – $10.68; 31,080K w/8,100 off @ 704 Hindry Ave. – $11.40	$1.08 – $1.44	Rates fall significantly farther away from LAX.
3	2	**Boston** (BOS)	$10.67	22K @ 8-24 Griffin Way – $12.00; 22K @ 50 Eastern Ave. – $10.00; 20K @ 5-7 Griffin Way – $10.00	$3.50 – $4.50	Slow market activity.
4	4	**San Francisco** (SFO)	$8.08	20K w/3,500 off @ 400 Grandview Rd. – $7.80; 18,600K w/3K off @ 165 Valley Dr. – $7.80; 24,277K w/4K off @ 500-490 Carlton Ct. – $8.64	$1.32 – $2.40	Market still soft.
5	5	**Seattle** (SEA)	$6.96	46,120K w/9,568 off @ 18247 8th Ave S. – $6.17; 29,232K w/4,484 off @ 830 S 192nd Ave. – $9.36; 17,500K w/2,500 off @ 1505 192nd St. – $5.34	$1.80 – $2.40	Rates down a bit from last year
6	7	**Chicago** (ORD)	$6.45	20K w/2,800 off @ 220 Gateway Blvd – $4.25; 31,250K w/5,377 off @ 2401-2411 Devon Ave. – $5.63; 24,053K w/5,000 off @ 2320 Touhy Ave. – $9.48	$.97 – $1.15	Age of product varies significantly
7	6	**Philadelphia** (PHL)	$6.42	18,200K w/1,500 off @ 780 Primos Ave. – $7.00; 15K w/3K off @ 1050 Ashland Ave. – $5.50; 54,800K w/4K off @ 100 Henderson Dr. – $7.25	$1.95 – $2.15	Steady
8	8	**Newark** (EWR)	$5.83	20K w/0 off @ 1385 McCarter Hwy – $7.50; 21,750K w/2K off @ 603 South 21 St. – $5.50; 19,745K w/2,500 off @ 195 Norh Munn Ave. – $4.50	$1.25 – $1.75	All older product
9	9	**Miami** (MIA)	$5.33	25K w/2K off @ Beacon Center – $5.50; 20K w/1K off @ Miami Intl. Commerce Center – $5.00; 25K w/2,500 off @ Intl. Corporate Park – $5.50	$1.80 – $2.00	Slow market activity
10	11	**Dallas/Ft. Worth** (DFW)	$5.33	21K w/3,950 off @ 805 Port America Place – $4.90; 20K w/BTS off @ 633 WestPort Pkwy. – $5.10; 20K w/BTS off @ 720 Industrial Grapeve – $6.00	$.90 – $1.70	Slow market activity
11	17	**Minneapolis/ St. Paul** (MSP)	$5.22	23,037K w/6,755 off @ 1060 Lone Oak Rd. – $5.67; 20,131K w/5,012 off @ 915 Blue Gentian Rd. – $4.50; 18,903K w/4,240 off @ 1066 Gemini Rd. – $5.50	$2.27 – $2.40	No development near airport because of nearby residential and retail
12	13	**Detroit** (DTW)	$4.85	14,500K on Airport Drive – $4.25; 23K w/1,200 off @ Genron Ct. – $4.35; 10,248K w/3,792 off @ Metro Office Ctr. – $5.95		Good selection of available properties.
13	19	**Indianapolis** (IND)	$4.75	19K w/3,800 off @ 5770 Decatur Blvd. – $5.75; 20K w/3K off @ 2760 Executive Dr. – $3.50; 20K w/3,800 off @ Sierra Gateway – $5.00	$1.25 – $1.75	New I-70 interchange near airport. New mid-field terminal underway will shorten plane taxi distance.
14	15	**Denver** (DIA)	$4.72	19,800K w/3,690 off @ 13450 E. Smith Rd. – $4.55; 19,623K w/4,047 off @ 16600 E. 33rd. Ave. – $4.95; 19,085K w/3,816 off @ 12330 E. 46th Ave. – $4.65	$1.21 – $1.58	Market slow but steady with little construction. Many developers positioned with sites ready to begin building when market recovers
15	14	**Houston** (SDF)	$4.44	107K w/16K off @ 15415 Intl. Plaza Dr. – $4.32; 61,750K w/1 off @ 4001 Kendrick – $5.16; 59,200K w/1 off @ 1610 Greens Rd. – $3.84	$1.00 – $1.25	Very limited new development and slow leasing activity.
16	12	**Atlanta** (ATL)	$4.30	27,320K w/BTS off @ 5324 GA Hwy 85 – $3.95; 21,568K w/5,542 off @ 5169 Southridge Pkwy. – $4.20; 17,494K w/BTS off @ 20 Southwoods Pwky. – $4.75	$0.85 – $1.05	Very slow market activity, despite heavy cargo traffic at Hartsfield.
17	16	**Oakland** (OAK)	$4.24	21,626K w/3,817 off @ 21053-21075 Alexander Ct. – $4.20; 24K w/2K off @ 1035-1063 Whipple Rd. – $4.32; 24,600K w/1,500 off @ 21040-21056 Forbes St. – $4.20	$1.20 – $1.44	Slow market and rates steady.
18	10	**Cincinnati** (CVG)	$3.95	24K w/2K off @ 1600-1650 Dolwick Dr. – $4.25; 21,390K w/3,800 off @ 2770 Circleport Dr. – $4.25; 21,107K w/4,990 off @ 1961-1973 Intl. Hwy. – $3.34	$.68 – $1.25	Slow market conditions.
19	18	**Louisville** (SDF)	$3.48	16,500K w/2,400 off @ 1023 Industrial Blvd. – $3.95; 16,352K w/5,854 off @ 6901 Riverport Dr. – $3.25; 20K w/4K off @ 6403 New Cut Rd. – $3.25	$.50 – $.55	Rates flat from last year.
20	20	**Memphis** (MEM)	$2.65	19,500K w/800 off @ 3615 Air Park Ave. – $2.75; 24K w/3,765 off @ 3348 Democrat Rd. – $2.25; 20K w/7,435 off @ 3274 Democrat Rd. – $2.95	$0.75	No development nearby because of size of airport.
National Average			**$6.14**			