COHEN Asset Management™

CAM's Industrial Corner

NEWSWORTHY INFORMATION FOR OUR INVESTORS

December 2009, Volume 1

www.cohenasset.com

Commentary from Cohen Asset Management™

Inventory and Industrial Real Estate

By Bernie Bazile, *Director of Research*

The article below written by Luciana Suran at CBRE Econometric Advisors (formerly Torto Wheaton Research) entitled "The Inventory Issue" focuses on the correlation between business inventory levels and demand for a subset of industrial space. Distribution and warehousing properties are one of the three industrial sub-property types which Cohen Asset Management, Inc. analyzes.

The U.S. economy rests on a shaky foundation, despite recent improvement, and demand for logistics-related industrial space remains rather weak. Nonetheless, one tenet real estate investors must keep in mind is that recovery lies ahead and a long-term view is essential for uncovering opportunities. Stock market investors have seen patience and strategy materialize into profit in the first half of 2009 as the asset class as a whole rebounded from recent lows. Real estate will undoubtedly take more time, but the following factors will drive recovery in logistics-related industrial properties:

1. Expanding Trade: If the U.S. economy is growing more open and trade between nations will continue to expand, comparative advantages will support movement of imports and exports across the U.S.

2. Low Completion Levels: Suppressed construction in most industrial markets will prove beneficial when the asset class recovers and tenants look for space in structurally constrained markets.

3. The Inventory Issue: The inventory drawdown detailed in the following article is a reflection of the economic malaise, but monitoring this trend for signs of improvement, like today's positive news on business inventories, as well as indications of more permanent changes in inventory activity will add to the analysis conducted in Cohen Asset Management, Inc.'s investment and asset management decisions in the long run.

Feature Article

The Inventory Issue

By Luciana Suran, *CBRE Econometric Advisors, Economist*

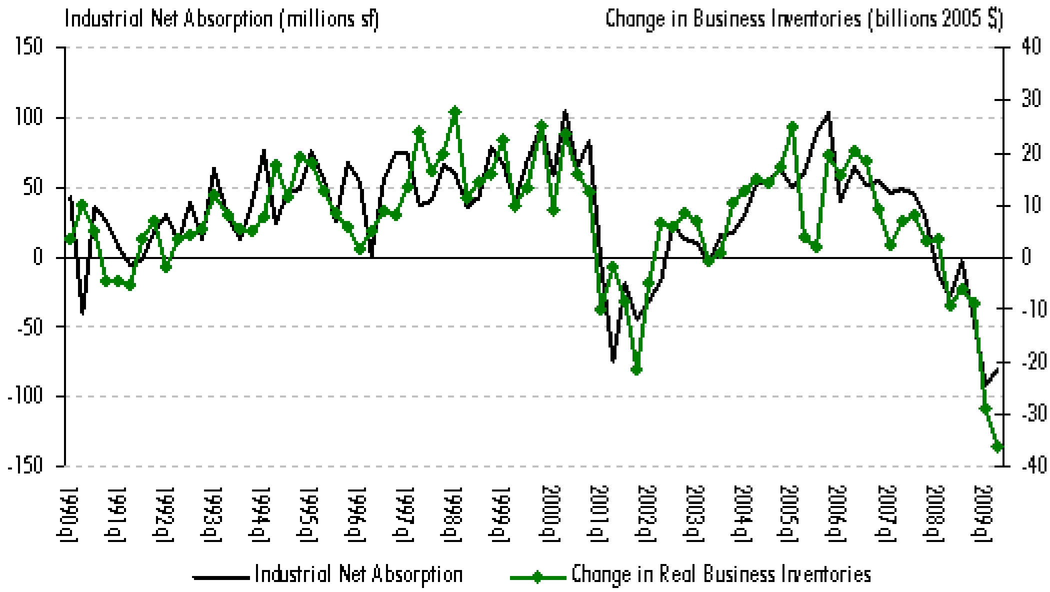
In a recession marked by sharp layoffs, bank failures, and never-ending debate on which letter the economic recovery will look like—a U? V? W? L? An L on its side?—one topic often glossed over is the issue of inventories. Business inventories, which consist of goods that have not yet been sold to consumers nor used as intermediate inputs during production processes, have contracted during this recession to an extent not seen in previous economic downturns. Since the recession began in late 2007, approximately $94.3 billion worth of inventories[1] has been shed, which so far has averaged to $15.7 billion worth of inventories decline per quarter during this recession (which has lasted six quarters so far).

So what is different about this recession? Why have businesses been more likely to rid themselves of stockpiled inventory this time around? A key factor is the credit crunch, which occurred early in the downturn. Increased economic and financial uncertainly related to the housing bust and corporate bankruptcies like the Lehman Brothers debacle made lenders extremely wary of giving out loans, and lending conditions for both businesses and consumers were severely constricted. At the height of the credit crunch in the last quarter of 2008, more than 70% of respondents of the Federal Reserve Board's Senior Loan Officer Opinion Survey reported tightening lending standards for commercial and industrial loans.

The short-term credit market is vital to the daily functioning of businesses. Companies use this credit to pay employees and fulfill other day-to-day business obligations. The credit crunch, however, changed everything. With no sources of fresh cash available, businesses were forced to look for cash from current assets which, in financial accounting terminology, include accounts receivable (AR) and inventories. Since in many ways, inventories are more readily convertible to cash than AR, companies decided to sell off their inventories as a source of cash. Saks Fifth Avenue, for example, used this strategy, discounting luxury retail items by as much as 75% during the 2008 holiday season (which was great for my shoe collection but not so great for my checking account). Other companies that sold off inventory for cash purposes include Home Depot, Black & Decker and, of course, numerous American auto companies.

The sharp reduction in business inventories also had a significant impact on the commercial real estate market. The reductions have greatly reduced the demand for industrial real estate space here in the United States. As the chart below indicates, occupied industrial space (as measured by net absorption) closely tracks changes in the level of business inventories, with a correlation of almost 0.80. As businesses reduce their inventory stockpiles, their need for warehousing/distribution space also declines.

[1] Measured in constant 2005 $.



Sources: CBRE-EA. U.S. Bureau of Economic Analysis

But while the demand for industrial space on a national level closely tracks changes in business inventories, the picture is a bit murkier when looking at individual cities. Industrial space demand on a *market* level in cities such as Atlanta, Los Angeles, and Raleigh also closely mirror national changes in businesses inventories, but in other markets, including Riverside, Pittsburgh, and Nashville, the correlation between warehouse demand and changes in inventories is much lower and lacking statistical significance. This has partly to do with the nature of industrial activities in different markets. Both Riverside and Nashville, for example, are heavily geared towards distribution activities, where goods are often redistributed to other locations in the country. Atlanta and Los Angeles, on the other hand, appear to be more focused on the storage and warehousing side of industrial real estate.

The inventory drawdown has some important implications for the future of industrial real estate demand in the U.S. Facilities that are geared primarily to the storage or warehousing of goods will likely experience sharper contractions in demand for space than more distribution-related facilities will. Furthermore, many companies are keen on pursuing lean inventory management beyond the recession in order to free up more working capital, which may lead to a secular shift to leaner inventories.

While the rate of inventory decline has subsided in the past couple of months, inventories are still shrinking. Don't expect to see significant demand for industrial real estate until this trend changes.

Luciana Suran analyzes and contributes to the econometric models covering CBRE-EA's Industrial markets and to new econometric projects. Prior to joining CBRE-EA, Luciana was a Project Manager/Analyst for Benchmarking Partners, Inc. Luciana holds a masters degree in Economics from New York University and a Bachelors degree in Economics from Williams College. Ms. Suran is currently a member of the National Association for Business Economics (NABE).

About Us

Cohen Asset Management, Inc. ("CAM") is a private real estate investment firm. The firm's relationships extend to high net worth individuals, institutional investors and domestic business entities. The company was formed to engage primarily in the business of acquiring, owning, developing, and managing net leased income-producing industrial and office properties nationwide. CAM is an active operator and sponsor of real estate assets and has a well-established reputation as a value added investor focusing on real estate opportunities that are inefficiently priced due to a variety of circumstances such as vacancies, rollover risk, sub-optimal management, inefficient current use, deferred maintenance, long-term undervalued leases or other unfavorable property and market conditions. CAM creates value by correcting these deficiencies. Additionally, CAM has studied and completed research on capital flows that can impact the identified target markets on which it focuses.

CAM has acquired, developed, and sold real estate throughout the United States and its principals have had hands-on experience over many market cycles. CAM combines the talents and hands-on operating expertise of an entrepreneurial company with the discipline and research capabilities of an investment firm. CAM has established a reputation for excellence by providing superior results to its investors while focusing on measurable goals and what it takes to achieve them. It is this commitment that allows CAM and its Affiliates to continue attracting new investors while at the same time expanding its asset base.

COHEN
Asset Management, Inc.

1900 Avenue of the Stars, Suite 500 • Los Angeles, CA 90067 • 310-860-0598
www.cohenasset.com • Mailing address: P.O. Box 24710 • Los Angeles, CA 90024

For archives of CAM's Industrial Corner, please visit our Investor Relations site at www.cohenasset.com.