The Lee Industrial Brief

Q2 2015

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LEE & ASSOCIATES®

COMMERCIAL REAL ESTATE SERVICES

104%
increase
in transaction volume over 5 years

$10 billion
transaction volume
2014

800
agents
and growing nationwide

LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

We are creative strategists who provide value and custom solutions, enabling our clients to make profitable decisions.

OFFICE
INDUSTRIAL
RETAIL
INVESTMENT
APPRAISAL
MULTI-FAMILY
LAND
PROPERTY MANAGEMENT
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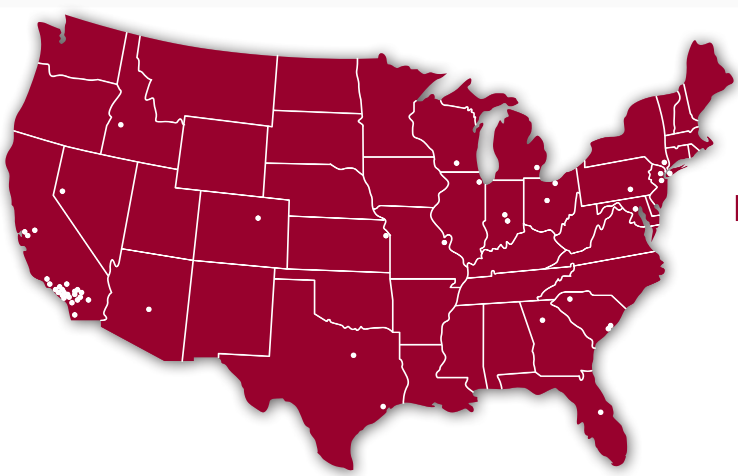


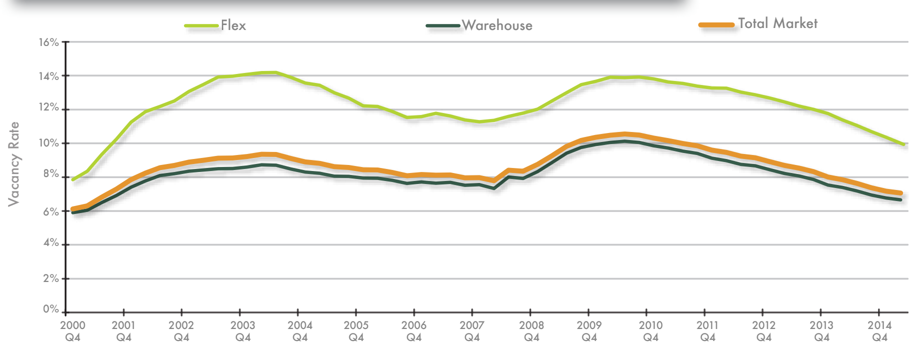
NATIONWIDE LOCATIONS

Eastern Pennsylvania, PA • Cleveland, OH • Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region , MD • Charleston, SC • Edison, NJ • Orlando, FL • Fort Myers, FL • Kansas City, KS • Manhattan, NY • Greenville, SC • Atlanta, GA • Greenwood, IN • Indianapolis, IN • Long Beach, CA • Elmwood, NJ • Boise, ID • Palm Desert, CA • Santa Barbara, CA • Antelope Valley, CA • Dallas, TX • Madison, WI • Oakland, CA • Reno, NV • San Diego, CA • Ventura, CA • San Luis Obispo, CA • Southfield, MI • Santa Maria, CA • Calabasas, CA • St. Louis, MO • Chicago, IL • Victorville, CA • Temecula Valley, CA • Central LA, CA • Sherman Oaks, CA • West LA, CA • Pleasanton, CA • Stockton, CA • Phoenix, AZ • Carlsbad, CA • Industry, CA • Los Angeles, CA • Riverside, CA • Ontario, CA • Newport Beach, CA • Orange, CA • Irvine, CA

BULK DISTRIBUTION SPACE
DOMINATES INDUSTRIAL ACTION

At the mid-year point of 2015, the US industrial property market continues to enjoy improving market metrics. Net absorption, vacancy, average asking rental rates and construction activity all point to further business expansion and strong demand, especially for bulk distribution space, which is dominating market activity. Deals over one million square feet are commonplace, and large speculative development is ongoing in a few major markets around the country. However, some large markets are reaching critically low levels of vacancy without available land to accommodate growth of existing businesses. The national vacancy rate, for warehouse and flex space combined, fell another 20 basis points in Q2, settling at 6.8%. In the past four quarters, the vacancy rate has fallen by 60 basis points, but several major market areas, including Los Angeles and Orange Counties in Southern California have vacancy ranging as low as 3%.

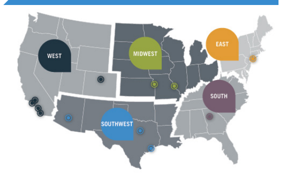
VACANCY RATES BY BUILDING TYPE 2000-2015



ECONOMIC DRIVERS

Click below for info on...

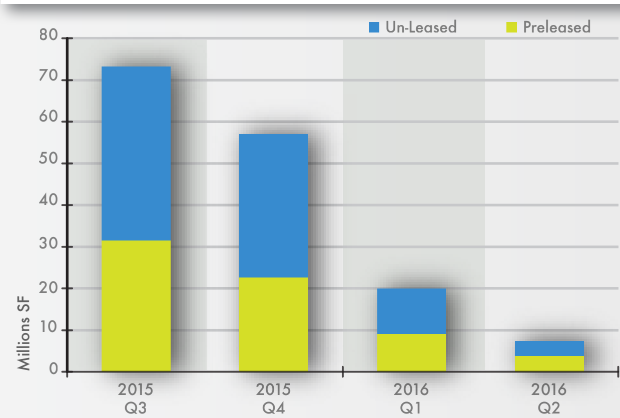
- GDP GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY



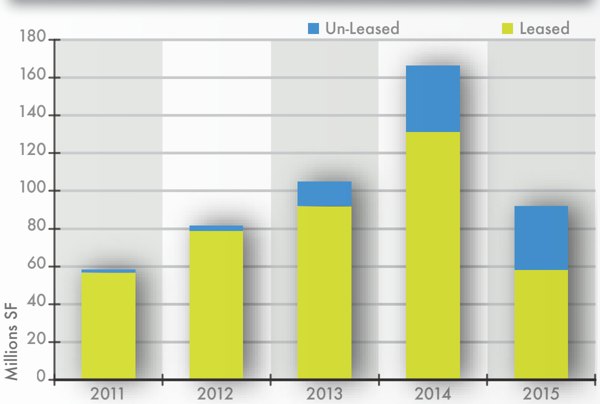
SKIP AHEAD TO MARKET SNAPSHOTS

New deliveries for both speculative and build-to-suit projects in the US started the year on a strong note. Over 47 million square feet of space in 309 buildings were added to the total base inventory of 21.35 billion square feet. Another 175.75 million square feet was under construction in Q2, up substantially from Q1. The building boom, which is dominated by the construction of larger, bulk distribution facilities, still has a head of steam, but may not be able to keep pace with demand in the hottest markets.

FUTURE DELIVERIES
PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



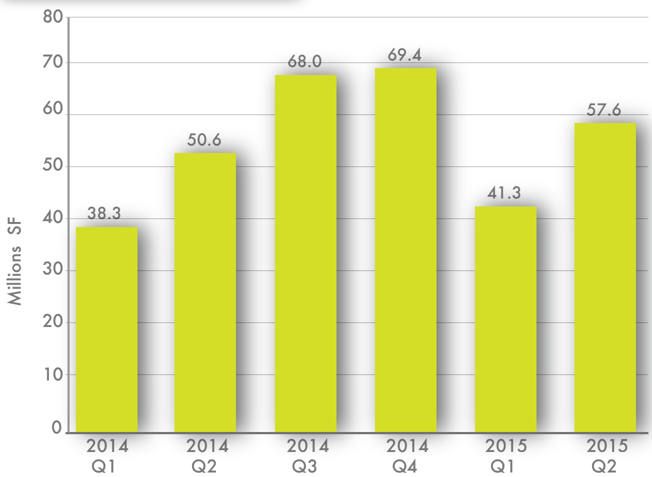
RECENT DELIVERIES
LEASED & UN-LEASED SF IN DELIVERIES LAST 5 YEARS



When it comes to construction activity, it's a case of the haves and have-nots, as building is concentrated in the biggest markets that still have land at prices that make industrial development possible, including Atlanta, Dallas/Fort Worth, Chicago and Southern California's Inland Empire. In more mature markets like Los Angeles and New York, the danger is in losing base inventory to the repurposing of older properties to mixed-use projects that have residential, office and retail components. Construction of industrial product in those markets remains at a virtual standstill.

Net absorption for the overall industrial market in Q2 hit 75.4 million square feet, well ahead of Q1's performance, but short of 2014's fourth quarter tally of 94.7 million square feet. Large distribution users continue to account for the bulk of the net gains. Flex activity contributed less than 10% of the Q2 total. Major leases signed in Q2 included a 1,129,750-square-foot lease to Google in Atlanta and the 1,114,575-square-foot lease for Saddle Creek Logistics in Chicago. E-commerce and 3PL operators continue to make many of the biggest deals around the country. Absorption in almost all primary and secondary markets around the country stayed in positive territory in the second quarter, but tight supply, especially for small to medium-sized owner/users, is running thin. Demand from these companies will only increase as they scramble to secure acquisitions before mortgages get more expensive on the heels of anticipated Fed action. As vacancy has dropped, so have the number of quality choices available to expanding businesses, more of whom are faced with a move to older product with elements of functional obsolescence.

NET ABSORPTION



Average asking lease rates for all industrial product rose another 1.3% to $5.62 per square-foot in Q2. Rents for newer distribution product are moving up even faster due to the higher clear height, energy savings and fire suppression technology offered in new projects. But, the rising tide is lifting all boats, as rents are moving up for industrial product across the board.

Investors, anxious to jump on the rent growth bandwagon, are not faring much better than users in terms of locating quality assets for acquisition. Cap rates keep moving down and until the cost of capital begins to head north, the imbalance of supply and demand will worsen. Institutional buyers have shifted their attention to smaller market areas where they can get deals done and achieve slightly higher yields in the process.

A LOOK AHEAD. The US industrial market should maintain current momentum into 2016. GDP and job growth should be just strong enough to keep markets moving forward at current levels. Interest from foreign investors and domestic institutions to invest in US industrial properties will keep demand running way out front of supply.

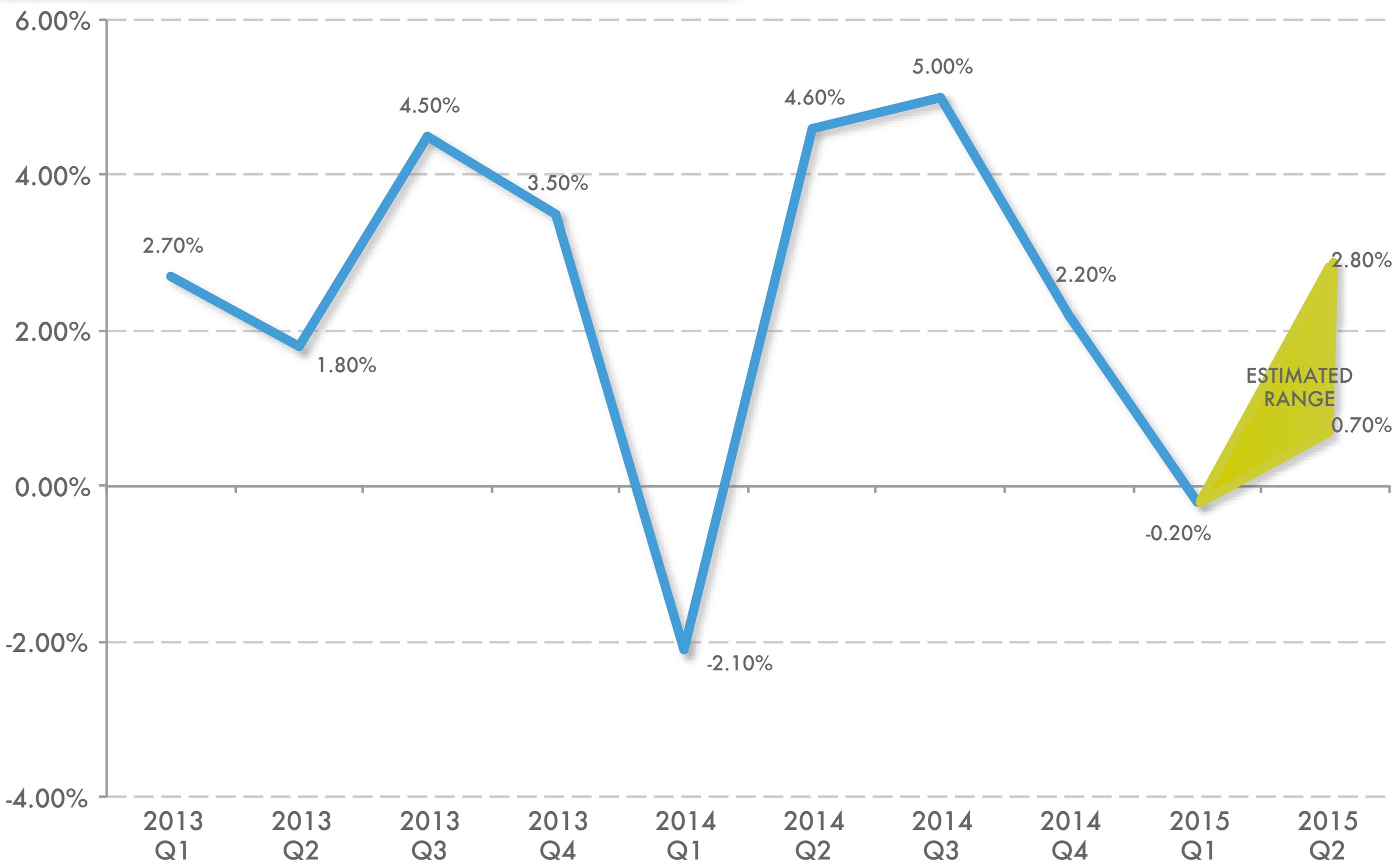
Low oil prices should be with us for a while, which is beginning to translate into more consumer spending and more jobs. Lower costs for fuel should also boost profitability and stimulate additional job and wage growth. Energy dependent states will face more layoffs and struggle to maintain local economic growth until energy prices move substantially higher. Expect a further slowdown in domestic oil production until the price of oil rebounds. Fortunately, gains in employment, even in the energy states, are broad-based enough to stay in positive territory overall.

Vacancy rates and net absorption will remain on their current trajectories, except in areas with low supply and limited construction activity. Tenants in those markets may be forced to leave their current markets in order to grow.

GDP GROWTH

The nation's total output of goods and services picked up the pace in 2014, approaching 3% for the year. Unfortunately, the first quarter of 2015 turned into another disappointment, as the third and final estimate of GDP growth came in at -.2%, and estimates for Q2 growth are not optimistic. The more bearish prognostications run as low .7%, while more optimistic predictions run as high as 2.8%. By the time this report is posted, the first official numbers will have been released, subject to two more revisions in the following 30 day period. Even if

QUARTER-TO-QUARTER GROWTH IN REAL GDP



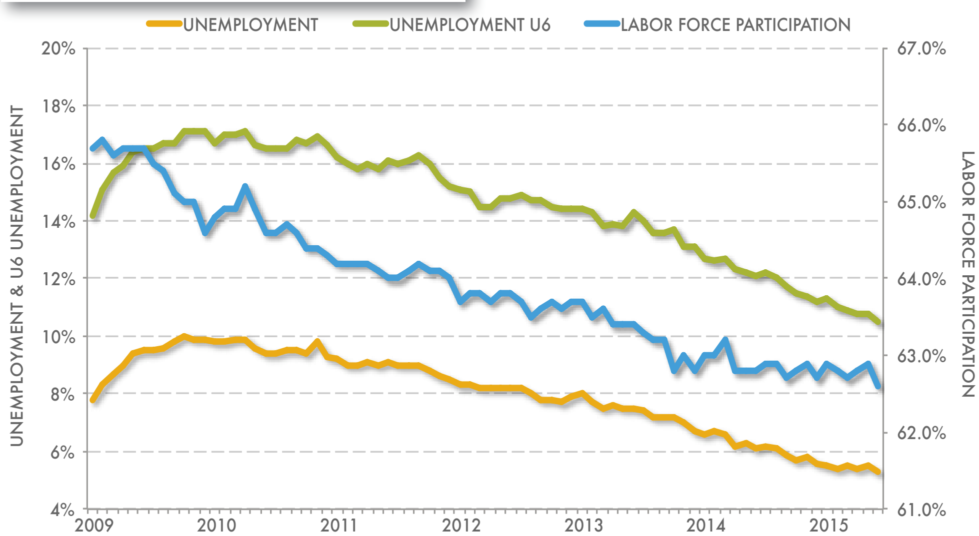
the actuals meet higher estimates, growth for the first half of the year will be lackluster. Weather was blamed for a poor first quarter, just as it was in Q1 of 2014. Consumer spending and wage growth are sluggish and even though US businesses are expanding, they are doing so cautiously, keeping trillions in cash on the sidelines as a hedge against another economic stall. The Federal Reserve Bank's recent Beige Book estimates call for moderate growth in total output and the Congressional Budget Office's annual economic forecast is calling for GDP growth of 3% for the year. However, last year, Q2 and Q3 did the heavy lifting with 4.6% and 5.0% growth respectively, and no one is predicting that kind of performance for the same periods this year. Nearly 70% of GDP comes from consumer spending. So, until that picks up, we can expect more of the same in terms of overall economic growth.

EMPLOYMENT

Job growth remained positive through the first half of the year, and that has helped fuel net absorption in all product types. Monthly job creation has averaged 250,000 over the past twelve months, but June fell short at 223,000. Paradoxically, poor job numbers tend to give the equities markets a boost, as investor concerns over a near-term move by the Fed to raise rates are softened. The unemployment rate fell 20 basis to 5.3% in June, but most of the drop was due to workers falling out of the calculation because they were not actively pursuing new employment. Conversely, a healthy monthly increase in jobs is often accompanied by a rise in the overall unemployment rate, as more workers rejoin those counted in the report by resuming their search for work

The proportion of part time positions remains a problem, as well. Too many businesses remain uncertain about the economy in the near term and opt to hire part time and temporary workers to enable a quicker response to changing markets. At mid-year, over 6.5 million people who prefer full time employment, were working part time because full time positions were unavailable. The U-6 Unemployment Rate, which includes those workers, stood at 10.9% by end of June.

NATIONAL UNEMPLOYMENT



The Labor Participation Rate, which many believe is a more accurate indicator of the true state of the job market, was down again in Q2. This metric measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working. The lack of new jobs and the early exit of Baby Boomers from the workforce have combined to drop this key metric to a four decade low of 62.6% after June's 10 basis point decline.

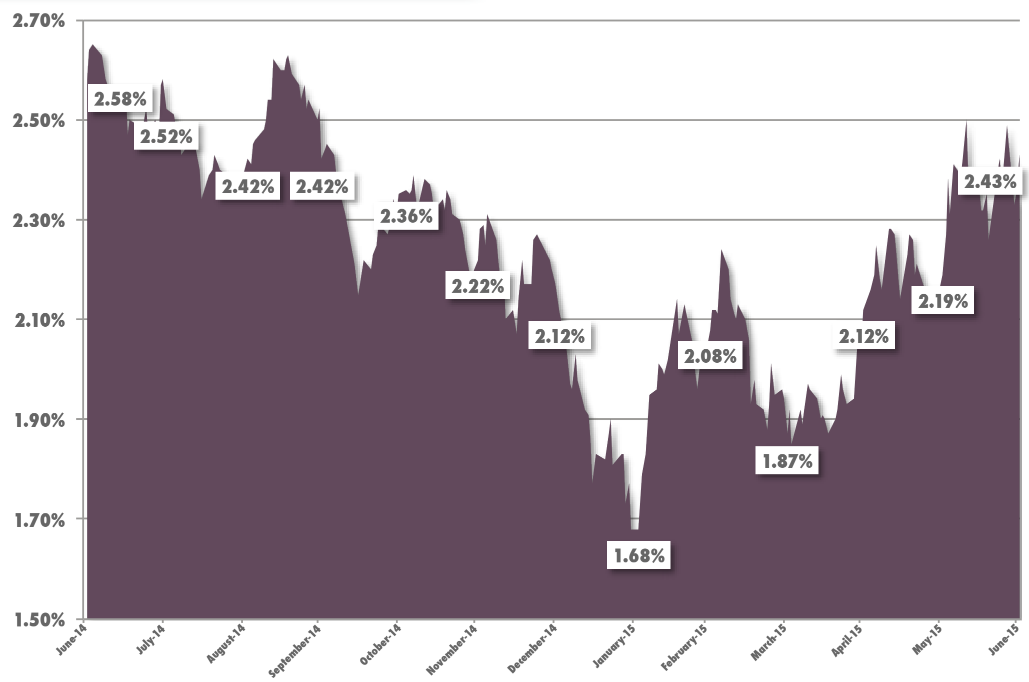
Wage growth is becoming as much a concern as job growth. Gains in real wages have been both hard fought and disappointing. Too many of the jobs being created just don't pay enough to increase consumer spending to the degree that improves GDP growth. Many of the jobs are in hospitality, retail and restaurant service, which can disappear just as quickly as they appear. So, a significant chunk of the US populations still feels like the recession never ended, and spending habits have been influenced as a result.

The pullback in the energy sector is also affecting job and wage growth, as jobs in energy-related industries generally pay well. Layoffs in the field are now common. Schlumberger, one the largest oil field services firms in the US, has already laid off 10,000 workers, and others like Halliburton and Baker Hughes have made similar moves as oil exploration and extraction activities have been scaled back. Fortunately, the TAMI (technology, advertising, media and information) and healthcare services sectors have been expanding its workforces, which has mitigated job losses in energy states. Financial services firms are also getting back into the hiring phase.

MONETARY POLICY

As the economy continues its uneven recovery, more and more attention is being paid to the actions of our nation's central bankers. Fed Chairperson, Janet Yellen and her Board of Governors, have been repeatedly warning the markets of an upcoming move to raise interests rates and a move away from the Fed's aggressive efforts to stimulate economic growth. In fact, many experts warn that more emphasis is being put on the Fed's actions than on actual market activity, which could lead to asset bubbles. At mid-year, the US economy is sputtering despite unprecedented and prolonged central bank intervention. By holding interest rates near zero for the past six years, yields on investments of all kinds have also been kept low. Savers have been punished and investors have been forced to take on more risk in their quest for yield.

TEN YEAR US TREASURY YIELD
IN PERCENTAGE



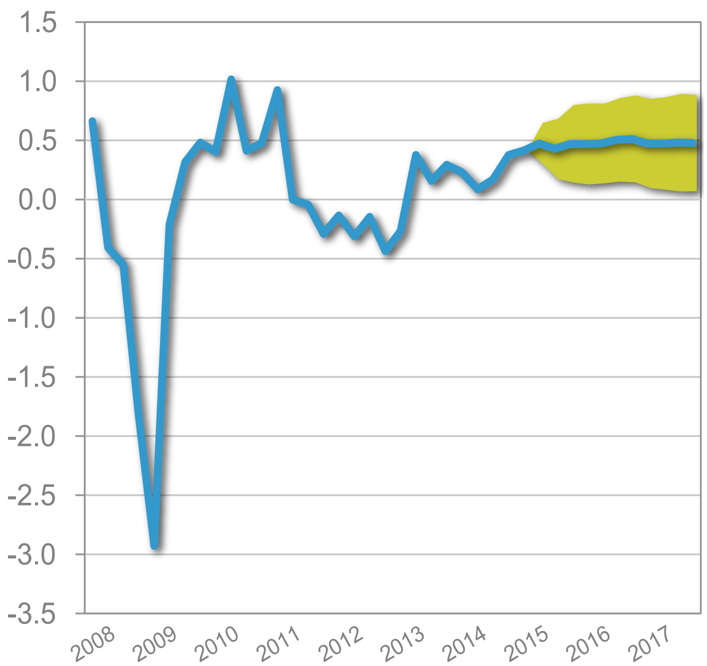
The equities markets have soared as a result, as it offers at least a chance for a reasonable return without giving up liquidity. However, the Dow has leveled off of late, moving just under or over the 18,000 mark, reacting daily to a variety of domestic and international issues that give investors the jitters, including the fact that gains in corporate profitability have flattened out.

Real estate borrowers have also benefited from Fed actions. Long term financing is still available at historically low rates. Low cost of capital contributed to cap rate compression in markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4%. But, yields of 10-Year Treasuries have moved higher in recent months, up by approximately 40 basis points since April. When the Fed finally makes its move on interest rates, the yield on the 10-year Treasury, the benchmark for most real estate loan underwriters, will certainly move higher. That could cause a cap rate decompression to maintain that historic spread, and rent growth will have to remain strong to offset the negative impact on values. IRR's will take a hit, as savvy buyers will be assuming higher cap rates on exit.

GLOBAL ECONOMY

The global economy is another variable for our central bank to consider before bumping our interest rates. The European Central Bank announced an aggressive QE program just as we ended ours in the US. Many believe that nominal GDP growth throughout the Eurozone will delay the Fed's move on domestic interest rates, as the US is still a potent influence on the world economy. To avoid a deflationary spiral, several central banks in Europe have even moved core rates into negative territory.

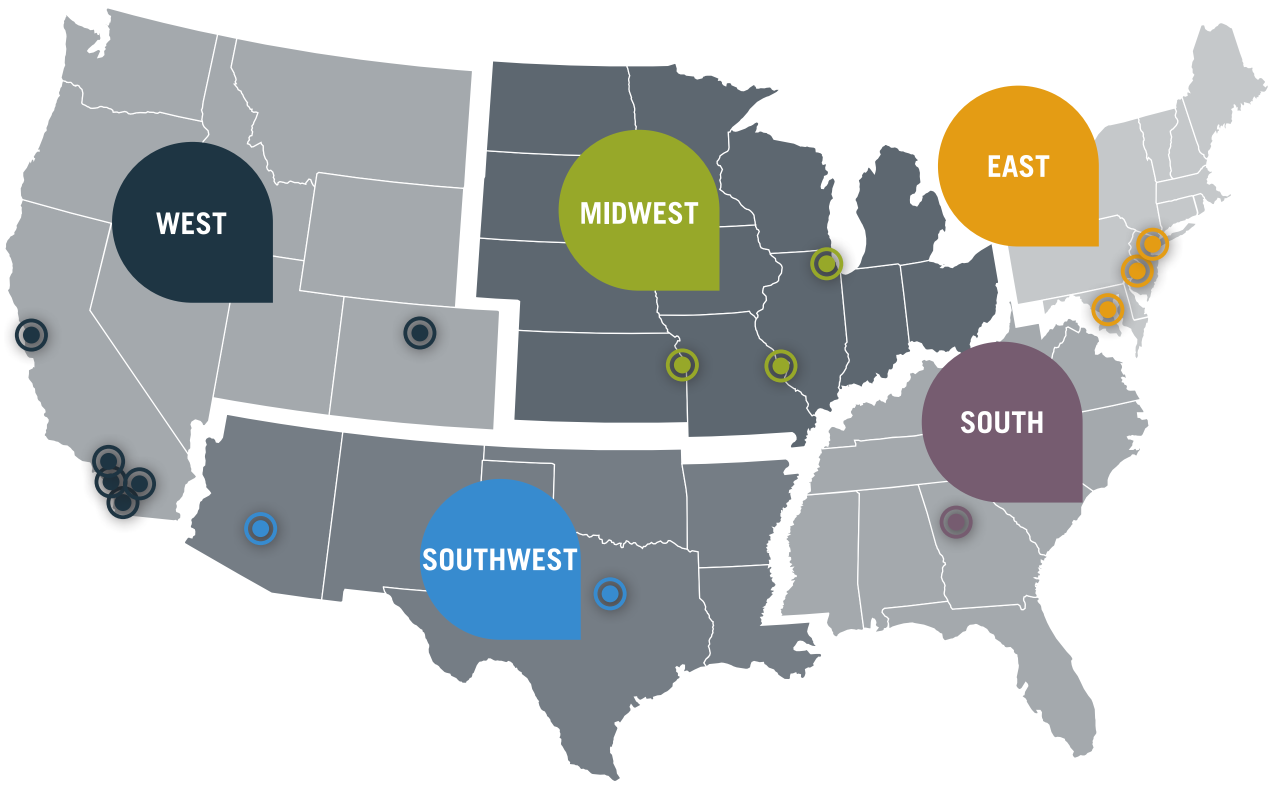
EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)



The recent threat of "Grexit", the potential of Greece leaving the euro, has been resolved, at least for the moment. By agreeing to a restructuring of Greece's long-term sovereign debt and an additional emergency bailout in return for further fiscal austerity measures, the Eurozone once again averted disaster, but may have compounded its long term troubles in the process. Germany wore the black hat in the negotiations, but looking back on the crisis makes one wonder whether the key players knew from the beginning how things would turn out. All that attention paid to 2% of the Eurozone's GDP does raise concerns over the ramifications of a bigger player facing the same conditions, which is a near certainty under the current system.

Changes in currency valuation are also impacting economic growth domestically. The US Dollar has moved to all-time highs against the Yen and the Euro. That means additional buying power when purchasing foreign goods and services with dollars, but it also has a negative impact on US companies with revenues generated from customers paying in other currencies, as the Fed recently pointed out. Share values of publicly traded companies with substantial revenues from overseas have been negatively impacted, as investors see the strong dollar as a threat to those businesses going forward.

Oil prices remain in the $50 per barrel range after plummeting from $107 per barrel in June of 2014. Industry experts are all over the board in terms of predicting an end to the decline. Here again, the good news is also bad news. Lower energy prices have put billions of dollars per month back in the pockets of US consumers, but job growth has been hurt in energy states, which have been producing a substantial portion of the higher-paying, full-time positions. Excess supply is to blame, and that is due to increased output in the US and slow worldwide economic growth. OPEC has refused to cut production in response, which many see as a strategic move to slow US production, which has indeed fallen dramatically in 2015.



To view a key market snapshot either click on a section of the interactive map above or on the cities below.

ORANGE COUNTY
LA NORTH
OAKLAND/EAST BAY
SAN DIEGO
INLAND EMPIRE EAST
DENVER

PHOENIX
DALLAS / FORT WORTH

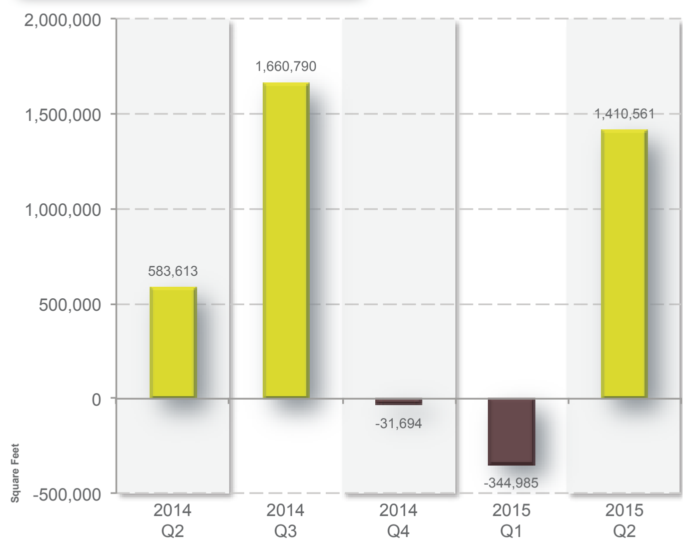
CHICAGO
KANSAS CITY
ST. LOUIS

ATLANTA

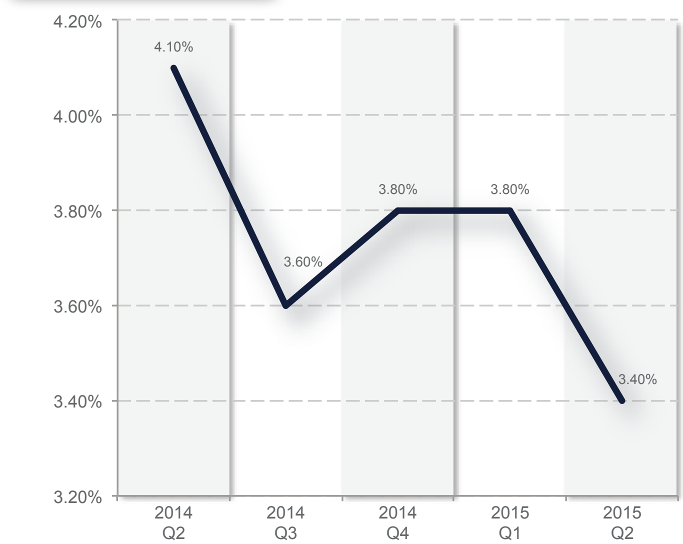
BALTIMORE
PHILADELPHIA
NORTHERN/CENTRAL NJ

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Motivated by improving overall economic conditions over the past several years, industrial businesses have been back in expansion mode in Orange County since 2011. Vacancy has been dropping, absorption has been steady and prices for both lease and sale product have surpassed pre-recession levels. Development has been conspicuously absent from the recovery, and the number of options available to expanding businesses is approaching zero. Landlords and sellers have been the benefactors of the lopsided market thus far, but the lack of availability could soon force businesses to flee the county, which is not good for anyone. Unfortunately, the prospects for a substantial increase in the industrial base are poor, as land is scarce, prohibitively expensive, even with the rental rates and sale prices above pre-recession levels, purchase and lease pricing remains below replacement costs.

At the close of Q2, the vacancy rate of 3.4% is 40 basis points under the Q1 rate. A natural consequence of such low vacancy is the corresponding decrease in the quality of available product, which compounds the problem for businesses who need to move. As a result, tenants end up paying more to get less, as virtually all the high quality inventory is already occupied. This is forcing some tenants to renew in place and

3.4%	$9.34	1,410,561	301,981,419	852,224
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▼

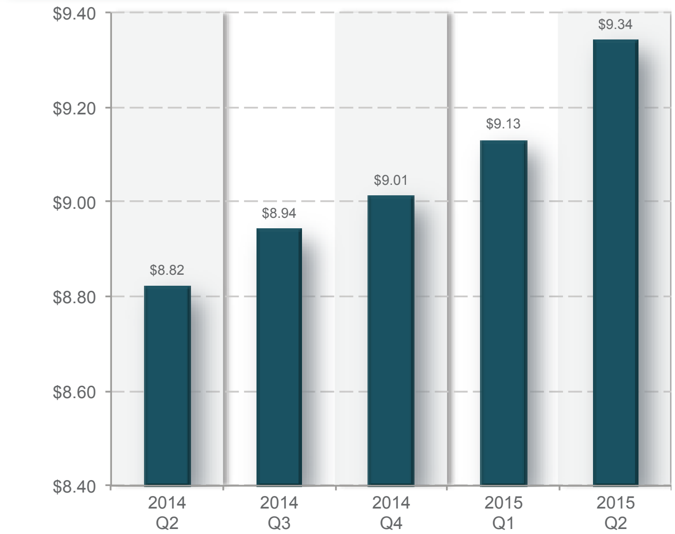
ORANGE COUNTY - TRENDING NOW
(continued)

take additional space nearby on a short-term basis.

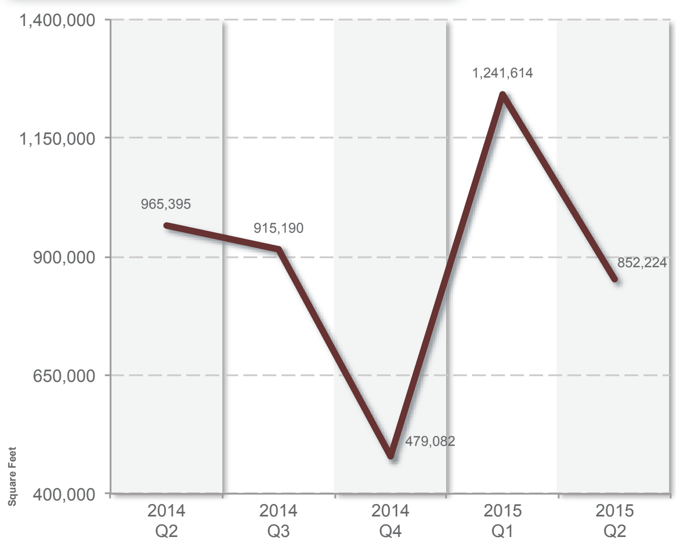
Lack of supply is the dominant cause a slowdown in net absorption. Q4 of 2014 and Q1 of 2015 both posted negative net absorption, because there wasn't enough quality product available on the market to lease or buy. Older, functionally obsolete properties make up a disproportionate share of the available supply, and that is lowering transaction volume. However, Q2 net absorption did turn positive, posting a gain of 1,410,561 square feet. Inventory under construction totaled 852, 224 square feet in Q2, most of it preleased. In Anaheim, a project of older freestanding buildings from 14,000-43,000 square feet has been completely retrofit by Turner Development who is now offering the buildings for sale in like-new condition. Redevelopment projects similar to this development are the only way for area builders to deliver quality facilities to a hungry user base, especially owner/users looking to fix occupancy costs before interest rates move up.

Average asking rental rates continue to move up. In Q2, rates ratcheted up another 2.3% to finish the quarter at $9.34 per square foot on a annual basis. Landlords have tightened up on leasing concessions and are demanding that tenants pick up more of the additional retrofit costs precipitated by the implementation of new Title 24 energy efficiency standards.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

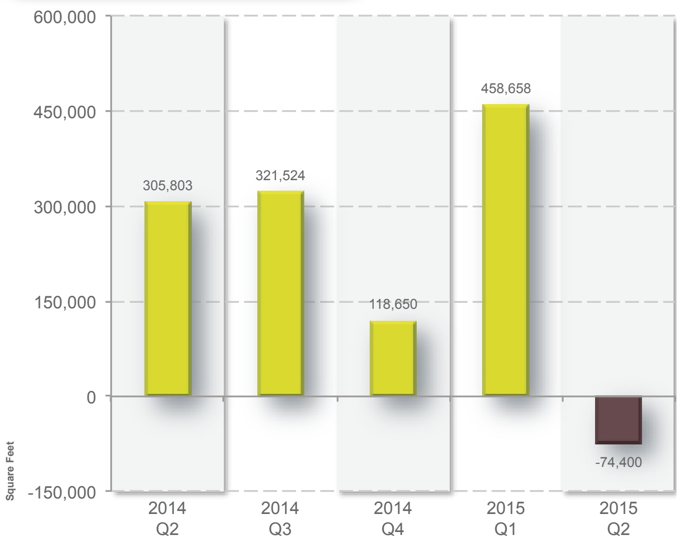


A LOOK AHEAD.

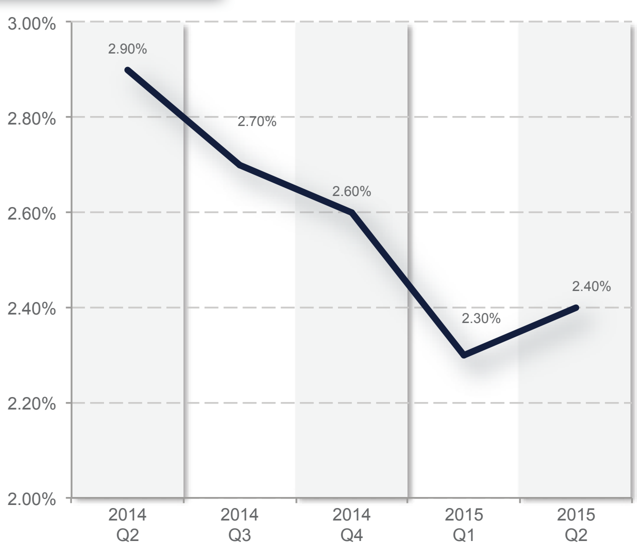
- Competition for space will intensify, both for sale and lease product
- Transaction volume could decrease for the balance of the year due to supply constraints
- Lease rates will move up by as much as 10% by the end of 2015
- Sense of urgency to acquire properties before interest rates move up will intensify
- Construction will remain at a near-standstill
- More users will be forced to leave the county to secure quality space

LA NORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The story for the North Los Angeles industrial market didn't change much in Q2. Vacancy remained critically low and businesses were left with even less quality product to choose from. Industrial development is at a standstill as highest and best use analysis inevitably favors residential and retail uses over industrial. A good example of this trend is IKEA's recent purchase of 400,000 square feet of industrial space to redevelop into a retail superstore in the Burbank area. While any new development has its upside, the replacing of higher-skilled manufacturing jobs with minimum wage retail positions is a potential downside, as wage growth is what drives consumer spending, the biggest component of GDP.

As a result of steady demand and lack of new inventory, vacancy has dipped to dangerously low levels. In Q2, the vacancy rate actually inched up to 2.4%, but that is down 50 basis points year-over-year. Vacancy that low suggests a disproportionate amount of available space has elements of functional obsolescence. However, that has spurred interest from investors to acquire and upgrade existing industrial product to achieve higher rents. Rexford Industrial recently

2.4%	$8.40	-74,400	125,261,200	391,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW (continued)

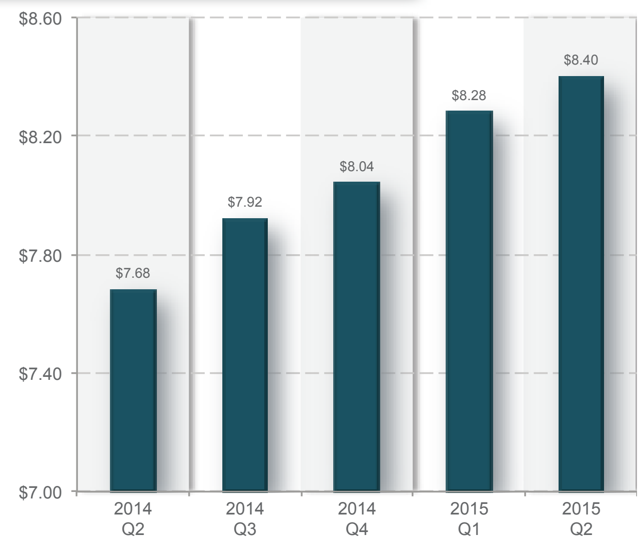
purchased an older 154,000-square-foot building with plans to add additional loading capability and a new fire sprinkler system along with other improvements. Larger investors are also becoming more active in the area, which has historically been dominated by local players. Global Logistics Properties, Inc. out of Singapore, recently acquired over 650,000 square feet in 22 buildings across the region.

Rents have moved up as much as 15% over the past two years, and that trend continued Q2. The average asking lease rate rose $.40 to $8.40 per square foot, but rates are much higher for well-located, functional buildings. In some submarkets, vacancy is approaching 0% in some size ranges, which means localized rent spikes can be expected.

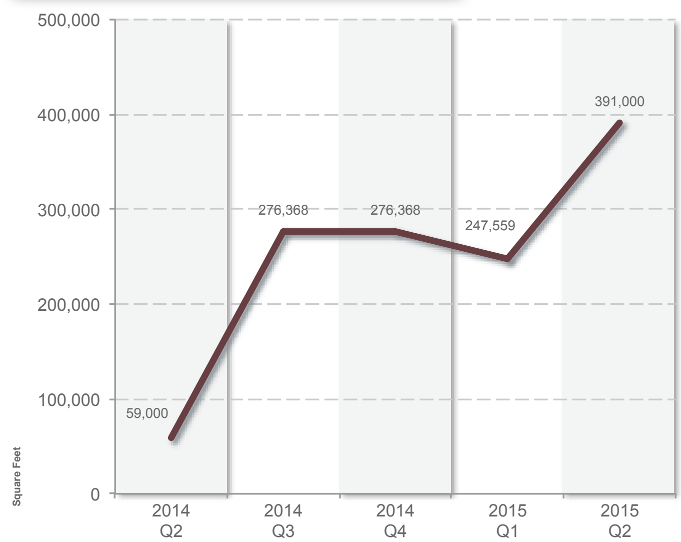
The lack of available inventory for sale is perhaps even more problematic. Scarce supply, coupled with favorable SBA financing has caused double-digit increases in sales prices for owner/user buildings. Business owners, hoping to control their occupancy cost with fixed rate financing at 90% of value eagerly bid up pricing to compete for the few buildings that do hit the sale market.

Net absorption is generally positive, but is being limited by low supply, which is forcing some users to renew in place even if their existing facilities have become inefficient. That contributed to a dip in absorption for Q2, to negative 74,400 square feet. Gains in net occupancy will be hard-fought going forward, especially in light of a potential shrinking industrial base, as older, functionally obsolete industrial buildings are lost to the 'repurposing' phenomenon, which is affecting the entire Los Angeles Basin.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

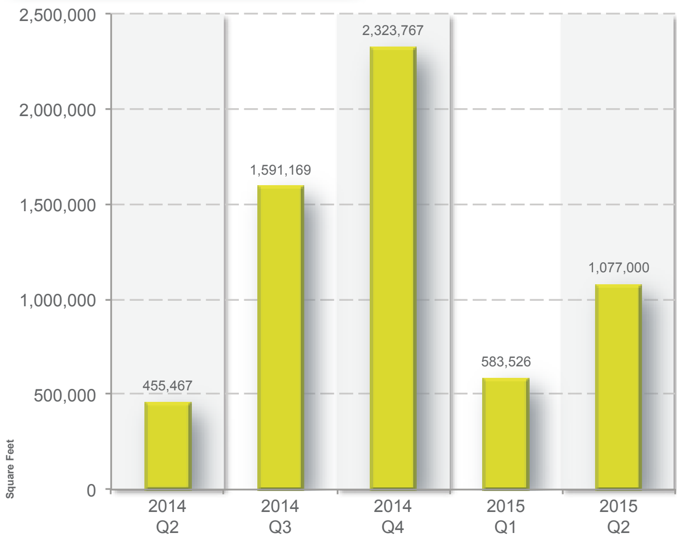


A LOOK AHEAD.

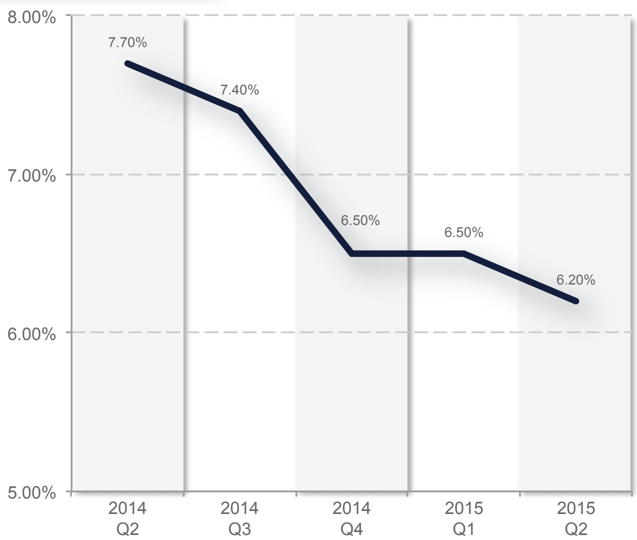
- Leasing activity may decrease for the rest of the year due to lack of supply
- Interest in owner/user properties will intensify, as buyers scramble to acquire property before interest rates start moving up
- Net absorption will stay positive, but decrease due to low supply
- Vacancy will remain at current levels, as a significant portion of the available inventory will languish due to functional obsolescence
- Construction activity in the industrial sector will mostly be limited to tenant improvements and deferred maintenance repairs
- More companies will look north to the Santa Clarita Valley and west to East Ventura County to secure larger facilities for expansion

OAKLAND / EAST BAY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The East Bay 880 Corridor has enjoyed strong economic growth over the past several years, which has boosted industrial activity and shifted the balance of supply and demand. The technology boom, which has impacted the entire San Francisco Bay region, is the tide lifting all boats. Q2 net absorption was up, vacancy went lower and average asking lease rates continue to move higher. Even development has enjoyed a nice run over the past two years, but may be slowing down due to a lack of available land in a market that is approaching infill status.

Net absorption has been consistently positive, and Q2 posted another gain of 1,077,000 square feet in occupied space, which followed a 583,586-square-foot increase in Q1. Gains in all industrial product types were reported, but distribution is still where the action is, especially class A product, which offers greater efficiency to expanding tenants. Yet to be added to net absorption is Tesla's 504,000-square-foot lease in the 880 Corridor and Williams-Sonoma's 252,000-square-foot lease in the 80 Corridor.

With net absorption in such positive territory, vacancy has made a corresponding move lower. Q2 produced another 30 basis point drop, ending Q2 at 6.2%,

6.2%	$9.12	1,077,000	262,119,000	1,462,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▼	▼

OAKLAND / EAST BAY - TRENDING NOW (continued)

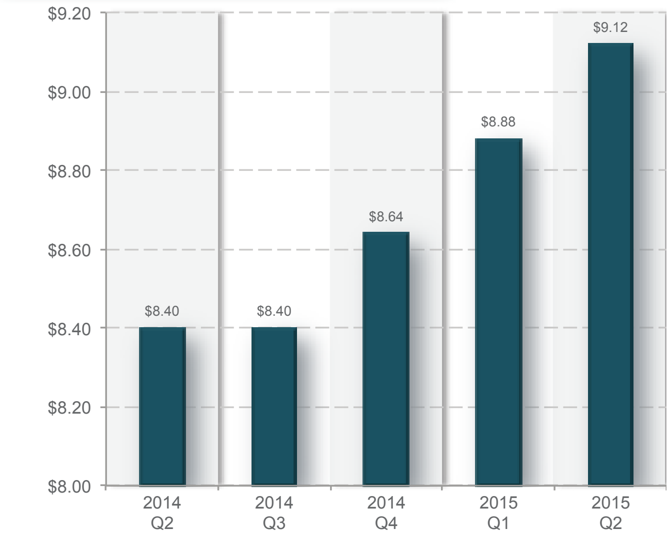
and that represents a 380 basis point drop since 2012. Tightening supply is shifting the advantage to landlords who are less likely to offer concessions and more apt to demand longer lease terms.

Average asking lease rates are moving up, as well. The combined rate for all industrial product was up $.24 in Q2 to a new high of $9.12 per square foot. Just a year ago that rate was $8.40, which was still well ahead of the low point of $6.93 back in 2011. With activity up and vacancy down, tenants are feeling the pressure to act sooner rather than later to avoid higher occupancy costs. That goes for owner/users, too. Supply is even tighter and the sense of urgency to buy before interest rates move up is intensifying. Until that occurs, sales prices will be moving up fast, as the focus is on monthly cost, which at today's rates makes ownership the better option for many users.

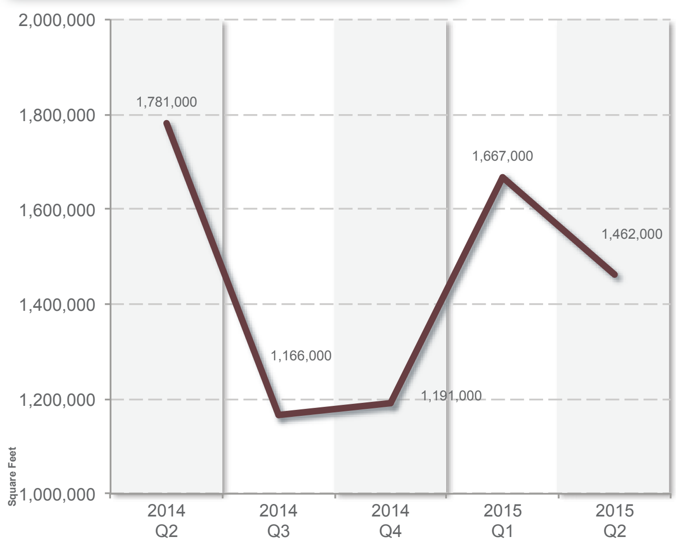
Speculative and build-to-suit development activity is at levels not seen since the 1990's. Over 773,000 square feet of new industrial product was delivered in the first have of 2015, and another 1,462,000 square feet was underway at the close of the second quarter. Major construction underway includes Buildings one and three at the Oaks Logistics Center, and 635,553-square-foot and 327,734 square-foot spec buildings that were 0% preleased at the end of Q2.

Investors of all types are bullish on the area, as they see the long-term potential of an area driven by the tech sector, which is expected to experience prolonged and consistent growth. Cap rates are compressed and until the cost of capital moves up substantially and yields on alternate asset classes go up, demand will run well ahead of supply.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

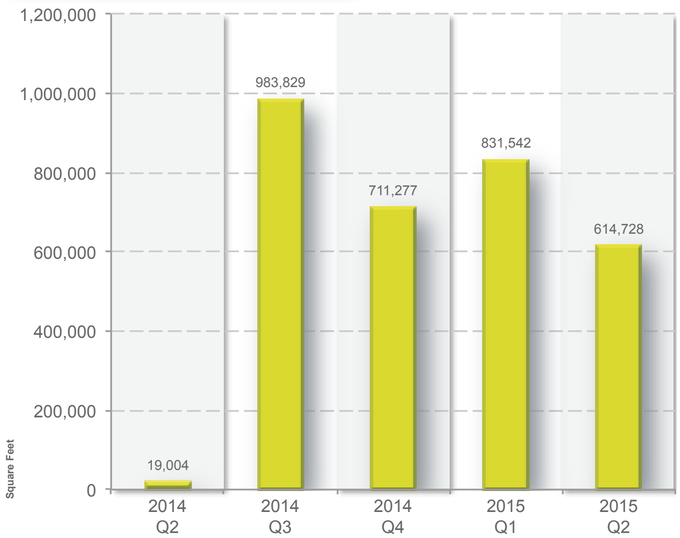


A LOOK AHEAD.

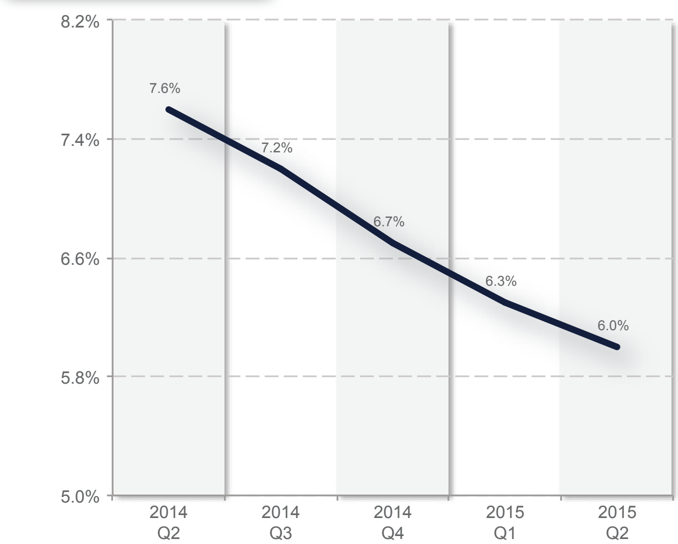
- The rest of 2015 will see high levels of activity with vacancy and lease rates setting new records
- Current pace may not be sustainable beyond the middle of 2016
- Construction activity will peak in 2015
- Land prices will remain high as the market has few available sites suitable for industrial development
- Changes in technology and consolidation of larger companies could impact demand
- The expected rise in interest rates will impact business expansion and moderate lease and sale activity

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

San Diego has several active business sectors driving industrial activity, in particular, Defense, which employs over 100,000 active duty and 30,000 civilian workers that together generate over $20 billion in annual economic activity. The Life Sciences industry attracts significant venture capital, employs over 42,000 physicians and scientists and is the center for human genome research. The Aerospace sector, led by General Atomics, is expanding due mainly to the development and manufacture of drones. Cross-border commerce is also on the upswing. As a result, the unemployment rate in San Diego has fallen to 4.9%.

Net absorption, a reflection of job growth, has been running in positive territory for several years. Central San Diego, which includes the Sorrento Mesa, Kearney Mesa, Miramar and Sorrento Valley submarkets, contributed the biggest share of Q2's 614,728-square-foot gain. Net absorption for the South Bay, hardest hit during the recession, is growing again, posting 146,000 square feet of net growth year-to-date. North County net absorption is also on the rise. That submarket has registered over 352,000 square feet of net absorption in 2015. The diversification of the tenant base to include non-traditional uses like breweries, fitness centers and indoor recreational facilities has

6.0%	$11.53	614,728	189,878,965	1,297,909
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

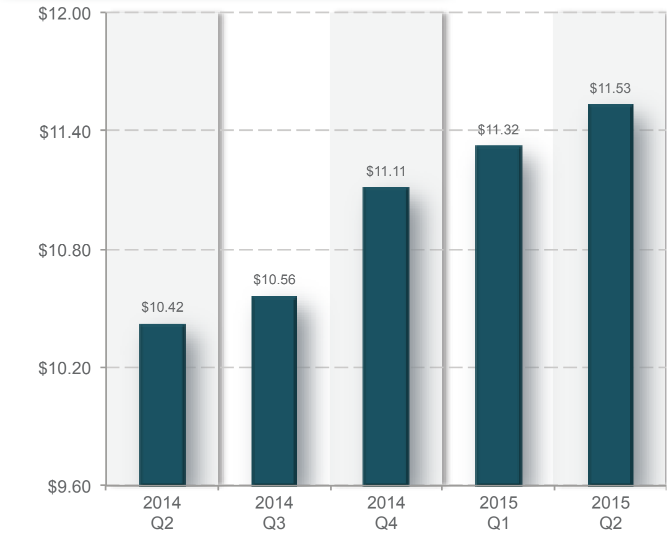
SAN DIEGO - TRENDING NOW (continued)

boosted activity in those areas and offered relief to landlords of buildings with functional obsolescence that negatively impacts traditional industrial users.

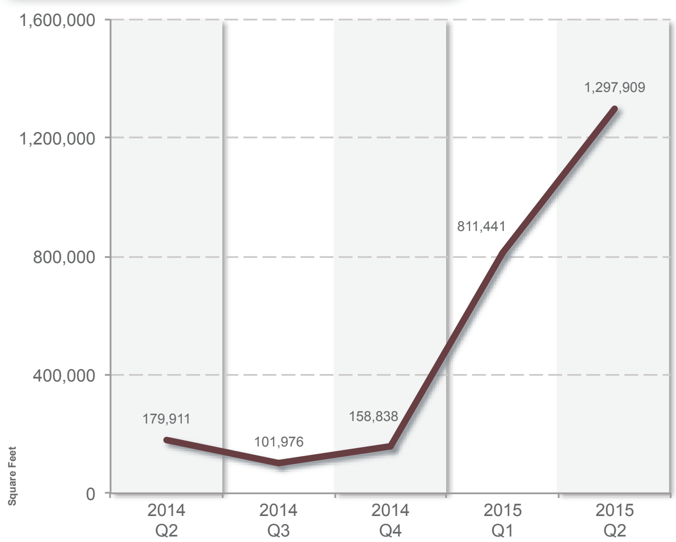
Vacancy throughout San Diego has declined in the last two years and finished Q2 2015 at a scant 6.0%. However, the rate varies significantly within the region, with Central County posting the lowest rate of 3.1% in Q2. North County is now just 3.6% vacant. A higher proportion of the vacant inventory is of lower quality, both in terms of deferred maintenance and functional utility, which is making expansion difficult for businesses who need to stay in submarkets like Kearny Mesa and Miramar. As a result, expanding tenants that need to remain in the area are going to pay more to get less going forward. In the past year, San Diego County average asking lease rates rose by approximately 11%, and as vacancy drops further that pace could accelerate. Rent growth is a countywide phenomenon, with all submarkets registering gains. The overall average asking rate moved up $.21 to $11.53 in Q2.

Owner/users, anxious to acquire facilities with SBA financing, have bid up prices to pre-recession levels and kept demand running ahead of supply. Land is scarce and expensive, lowering the likelihood of additional inventory to meet current demand. San Diego is approaching infill status, making industrial development of any kind a significant challenge. So, area businesses have to make do with what they have and be willing to pay more for the privilege. Investors are busy pursuing acquisitions in anticipation of further rent growth.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

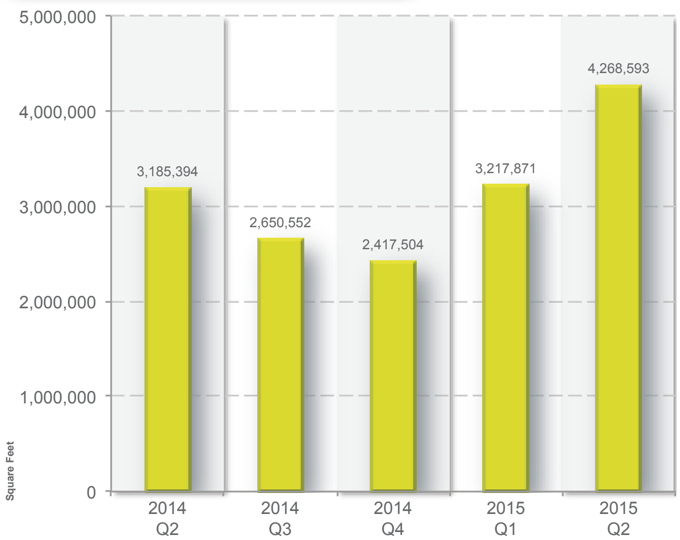


A LOOK AHEAD.

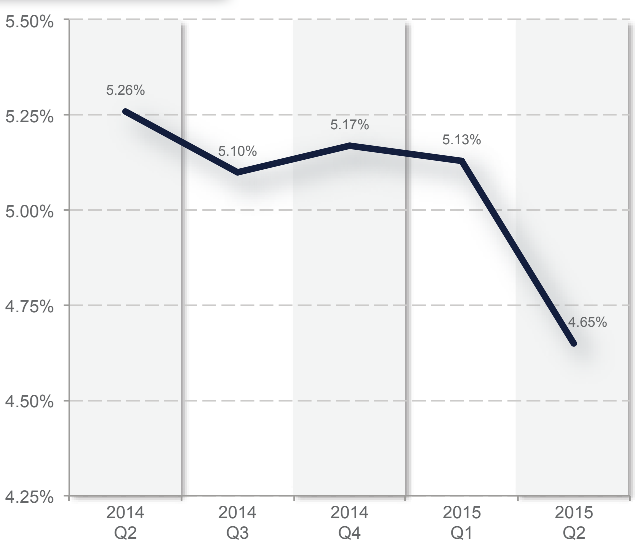
- The Defense Department's 'Pacific Pivot' will precipitate an increase in military spending throughout the San Diego area
- The Life Science industry will continue to attract large amounts of venture capital
- Sales prices for user buildings will move up another 10% in 2015, on top of a 30% rise in the past 18 months
- Large users will aggressively pursue new locations to secure expansion space before inventory thins further
- Speculative construction will be virtually nonexistent countywide for the balance of the year
- Sales prices for R&D/Flex product will soon top $220 per square in Central San Diego
- Vacancy will decline further and stay in the low single-digits through at least the end of 2016

INLAND EMPIRE EAST

GROSS SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Inland Empire-East (East Valley) industrial market includes the Cities of Colton, Grand Terrace, Moreno Valley, Perris, Loma Linda, Mentone, Redlands, Yucaipa, Bloomington, Rialto, Riverside, Jurupa Valley (Portions), Highland, San Bernardino, Banning and Beaumont, and accounts for 177.3 million square feet total base inventory. In all, there are 2,308 existing industrial buildings over 5,000 square feet. The area is served by the Interstates 10, 15, 215 and the 60, 71, and 91 freeways, which makes it one of the largest distribution hubs in the US when combined with the Inland Empire-West market.

Industrial activity maintained momentum in Q2, and even though construction activity is running high, vacancy declined another 48 basis points to 4.65%, a long way from its market peak of 19.21% six years ago. Large lease transactions in East Valley, many of them over 500,000 square feet, have been driving absorption. However, shortages in all size ranges are now commonplace, especially for properties offered for sale to owner/users. Big increases in sales pricing have been realized for the past several years, and prices keep moving up as buyers are scrambling to acquire properties with SBA financing at fixed rates under 5% for up to 25 years. These users are looking more at

4.65%	$6.04	4,268,593	177,296,938	13,885,946
VACANCY	AVG. SF RENTAL RATES	GROSS SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

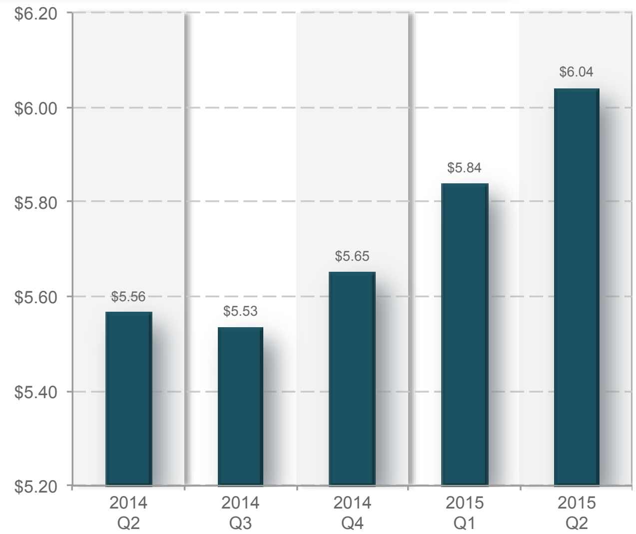
INLAND EMPIRE EAST - TRENDING NOW (continued)

controlling long-term occupancy cost than getting a bargain price, and they are resigned to the inevitable rise in rates that will accompany Fed action to increase the benchmark Fed Funds Rate. In response, some sellers have set their pricing unrealistically high, so the ask/bid gap still complicates and prolongs negotiations on some transactions.

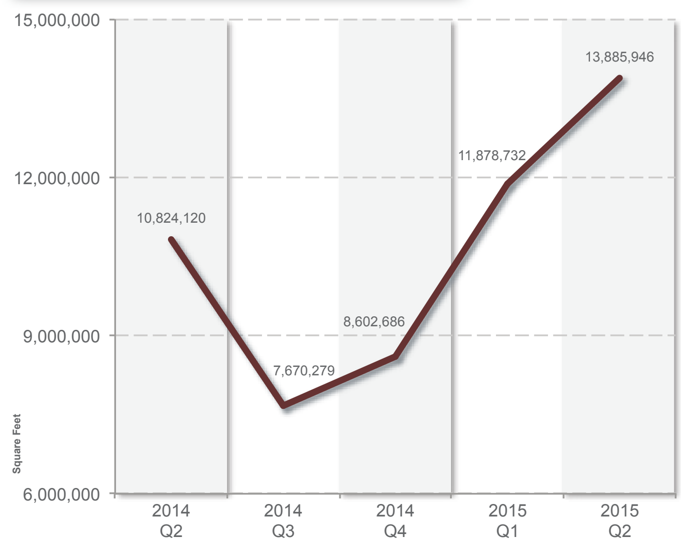
Average asking rental rates for manufacturing and distribution space combined, settled at $6.04 GRS and $5.04 NNN per square foot per month by the end of Q2, up $0.12 on GRS leases with no change for NNN leases. However, year-over-year GRS lease rates have risen by $.48 per square foot. The steady rise in rents is keeping developers busy delivering new inventory to the East Valley market. In Q2, over 4 million square feet of new space was added to the industrial base in just six buildings, and another 13.9 million square feet of space was still under construction, all in buildings over 100,000 square feet. A total of nine state-of-the-art distribution buildings are expected to be completed in Q3.

After 13 straight quarters of significant positive net absorption, East Valley posted another gain in occupied space of 4,268,593 square feet in Q2. With supplies running short in the lower size ranges, some developers are looking to build buildings under 100,000 square feet for sale to local users. But, the bulk of the development activity will remain focused on larger distribution buildings. As a result, smaller users are facing fewer choices in quality facilities and they will have to move quickly when suitable facilities become available.

AVERAGE GRS SF RENTAL RATES



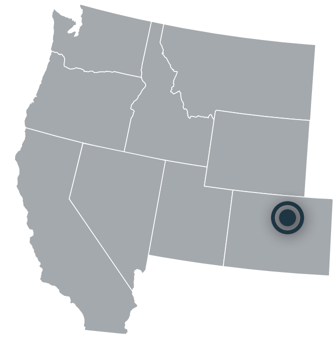
SF UNDER CONSTRUCTION



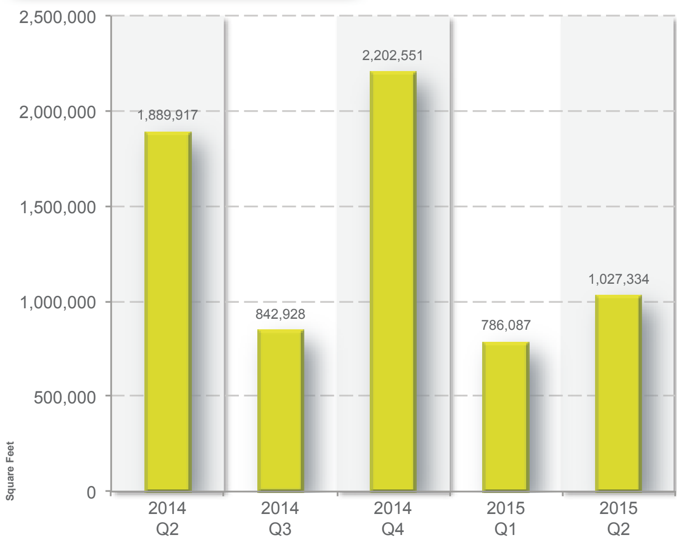
A LOOK AHEAD.

- Gross leasing activity will remain strong in the short term, but may moderate with further declines in vacancy
- Sales prices will continue to move up, but buyers will remain frustrated by short supply
- Vacancy will stabilize, as new project deliveries will offset gross activity
- More of the construction activity will focus on buildings under 100,000 square feet
- Construction will be limited by lower supply of land and a protracted entitlement process
- More tenants will experience 'sticker shock' and renew existing leases in 2nd generation space to achieve lower lease rates

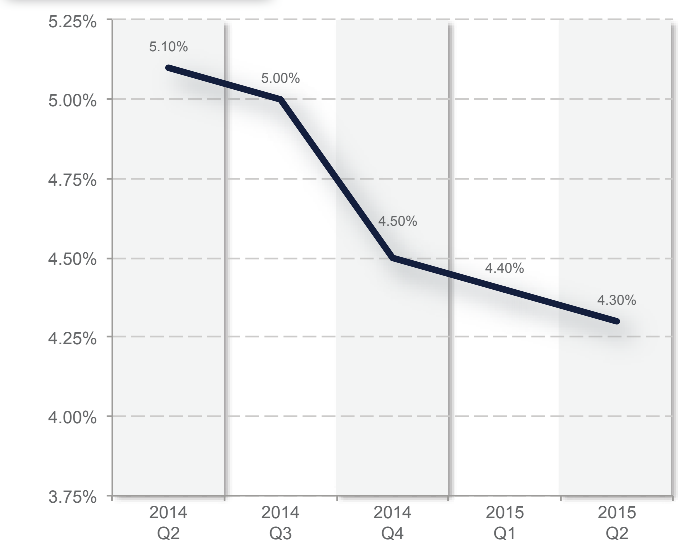
DENVER



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Denver industrial property market is still attracting the interest of institutional investors anxious to acquire bulk distribution space that remains in high demand. They like both the number of and quality of the jobs being created in engineering, renewable energy, fossil fuels, health services and business services.

The vacancy rate at mid-year stood at 4.3%, down from 5.1% from the same time last year. Net absorption remained positive in Q2, bringing the total gain in occupied space to 1,813,421 square feet year-to-date. Average asking rates for industrial product stood at $7.69, up $.09 for the quarter and $.41 for the year. Higher construction costs for tenant improvements are combining with lower supply to accelerate the rise in lease rates throughout the region.

A total of 683,818 square feet of industrial space was added to the industrial inventory so far this year, bringing the industrial base inventory up to 289.5 million square feet. Another 1,239,377 square feet of space was under construction during the quarter and developers remain optimistic about the viability of further speculative development, as large tenants are showing increased interest in pre-leasing new product. Interest in owner/user sales remains intense, but inventory falls

4.3%	$7.69	1,027,334	289,481,541	1,239,377
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

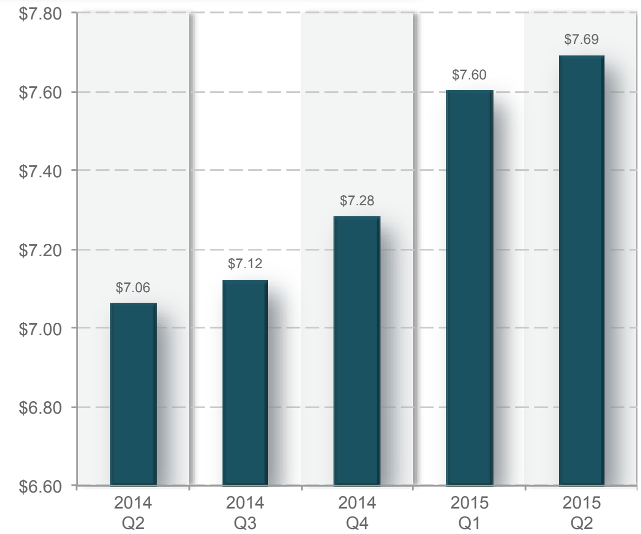
DENVER - TRENDING NOW (continued)

well short of current demand and new development will remain focused on bulk distribution product. Prices for owner/user products have risen accordingly and competitive bidding is common.

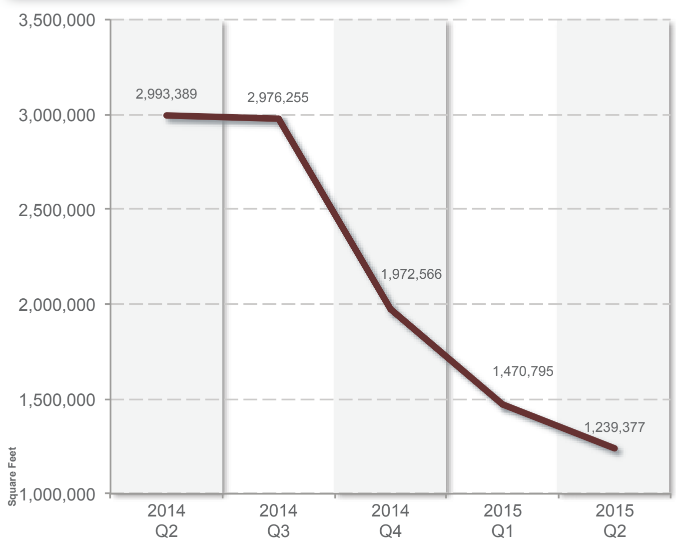
The marijuana industry has been a big plus in terms of space absorption. The industry has expanded rapidly, so much so that users in the industry are willing to take functionally obsolete buildings just to secure space to meet rising consumer demand. Some landlords remain skeptical regarding the industry and are reluctant to lease to marijuana industry businesses. So far, the industry has been good for the industrial market, as an entirely new source of significant absorption has been created virtually overnight. It is still too early to tell if the current trend continues, or the expansion in the industry will slow as supply and demand get closer to equilibrium.

Uncertainty over the long term effects of the energy pricing collapse is weighing on the minds of real estate decision makers. There's no doubt that the crisis has put expansion plans on hold for some in the industry. With no clear direction from the energy markets as to which way pricing will go in the near term, that uncertainty is likely to persist. Thus far, the Highway 85 and Interstate 76 corridors have been most affected. However, job losses in the energy sector are likely to have a ripple effect throughout the local economy and influence net absorption going forward.

AVERAGE SF RENTAL RATES



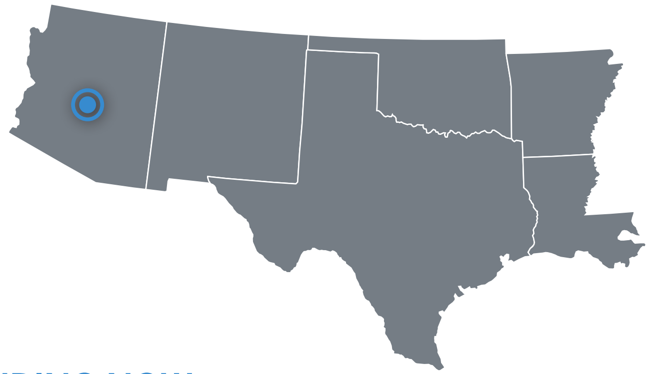
SF UNDER CONSTRUCTION



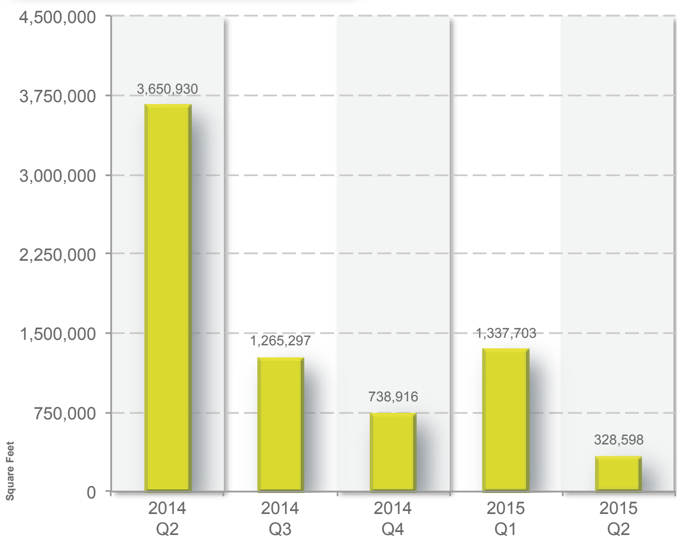
A LOOK AHEAD.

- Lease rates will continue to rise due to low supply, but the rate of increase will level off
- Vacancy should remain near current levels as moderate absorption and new deliveries balance out
- The energy sector will contract further to offset lower revenues
- Sales prices for owner/user product may moderate as the rapid rate of increase is unsustainable
- Speculative construction of bulk distribution will continue
- Construction costs will continue to rise

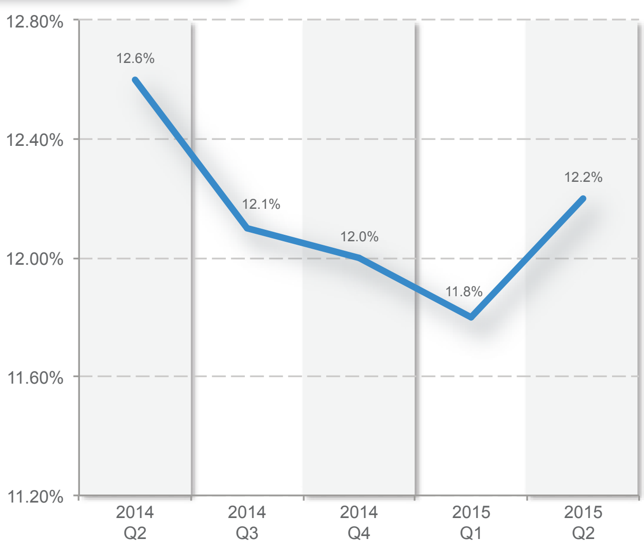
PHOENIX



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix industrial market is still moving forward, but the pace of expansion slowed in the second quarter, as evidenced by a 1 million-square-foot reduction in overall lease and sale activity. The overall economy continues to improve, but not fast enough to accelerate growth in the industrial sector. The housing market, in particular, has grown slower than expected and that has perpetuated the tepid rate of expansion of the general economy. A booming housing market boosts employment in multiple industries and fuels the rise in consumer spending that speeds up further economic growth. Without that key driver, businesses and consumers remain cautious. That said, conditions are still improving and the Phoenix industrial market is generally heading in the right direction.

With the addition of 2.9 million square feet of new inventory to the industrial base in Q2, the industrial base is poised to break the 300 million-square-foot barrier. However, that rise in the base caused vacancy to move up 40 basis points in Q2, ending the quarter at 12.2%. Surprisingly, net absorption stayed in positive territory in Q2, posting a gain of 328,598 square feet, which brought the year-to-date gain in occupied space to 1,668,527 square feet. However, the Southwest and Southeast Valley submarkets accounted for all

12.2%	$6.36	328,598	291,655,962	1,809,479
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

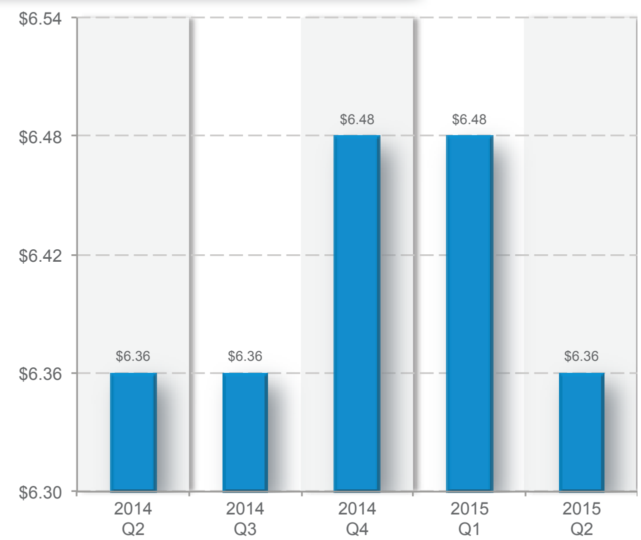
PHOENIX - TRENDING NOW (continued)

but 309,000 square feet of that total so far this year. Distribution product is still the highest in demand, with high tech manufacturing space also figuring into the absorption equation. A good example is IRIS USA, a division of a large Japanese manufacturer that plans to build a $40 million, 280,000-square-foot distribution, manufacturing and office project on 30 acres for its own use. The company plans to take advantage of the Surprise Railplex, tax incentives, local amenities and proximity to a skilled labor force.

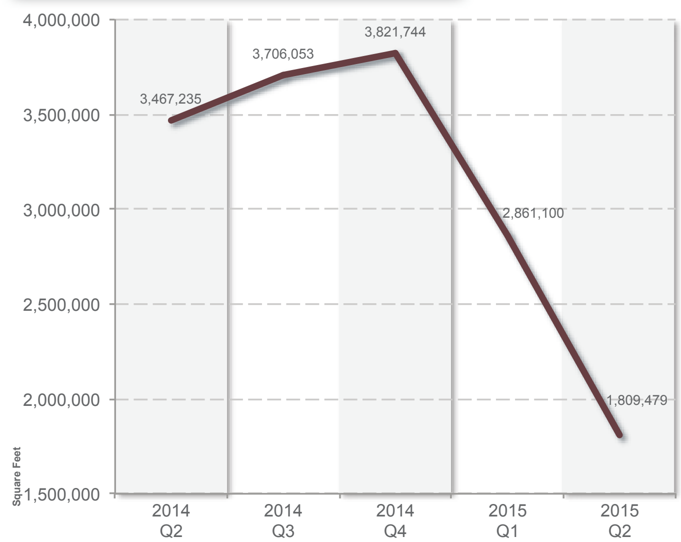
Average asking rental rates in Q2 dipped a penny to $.53 per square foot on a monthly basis. A modest increase in the rate for distribution space was offset by flat or slightly lower rents for manufacturing and flex buildings throughout the Phoenix region. Southeast Valley manufacturing rents saw the biggest move to downside. It is important to note that there has been no significant increase in overall average asking rental rates since 2010.

This is welcome news for existing tenants and businesses from outside the area looking to expand in Phoenix, but frustrating for landlords eager to boost net operating income. Still, developers keep building, especially distribution product, as there is at least some rent growth in that sector and the price of land and the cost of capital remain low. Once leased, first generation distribution product becomes a prime target for institutional investors who have been on a buying binge for the last several years, driving cap rates to record lows in the process.

AVERAGE SF RENTAL RATES



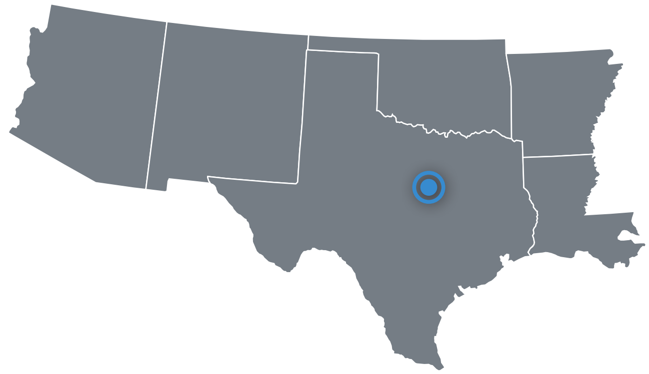
SF UNDER CONSTRUCTION



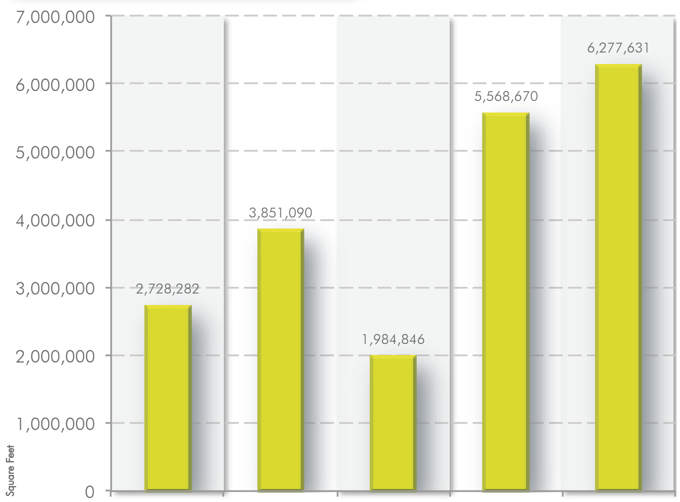
A LOOK AHEAD.

- Net absorption will remain positive, but at more moderate levels
- An increasing amount of available space will have elements of functional obsolescence as tenants vacate older product to occupy first generation space
- Leasing demand will remain at current levels for the balance of the year
- Vacancy will move up for the next several quarters as sluggish activity will struggle keep pace with new deliveries
- Construction activity will remain at the current pace, which will benefit users looking to increase efficiency
- Owner/users will remain in the game as long as the cost of capital stays at or near current levels

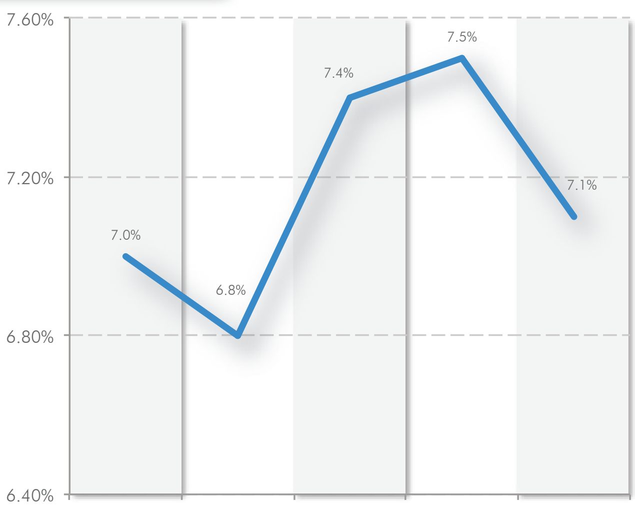
DALLAS / FORT WORTH



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) industrial market's rapid growth continued in the second quarter of 2015. Despite adding prolific amounts of new inventory to its base in the past year, developers are still forging ahead with the construction of new product. An astounding 20.7 million square feet of new space has been delivered in the past four quarters, and another 13.6 square million feet was underway at the end of Q2. Developers remain confident that leasing activity will keep pace with the increase in total inventory. In fact, there is no sign of a slowdown in construction or absorption, as DFW continues to attract major distribution users because of its infrastructure and central location.

The overall industrial vacancy rate stood at 7.1% at quarter's end, a decline of 40 basis points compared to Q1. Slight up and down variations have become common, as the rate is often influenced by the timing of new deliveries. Without such strong construction activity, DFW's vacancy would be running dangerously low, as it is in markets like Los Angeles lacking in land for development.

Net absorption for Q2 totaled a positive 6,277,631 square feet, mostly in first and second generation

7.1%	$5.12	6,277,631	812,507,206	13,611,976
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

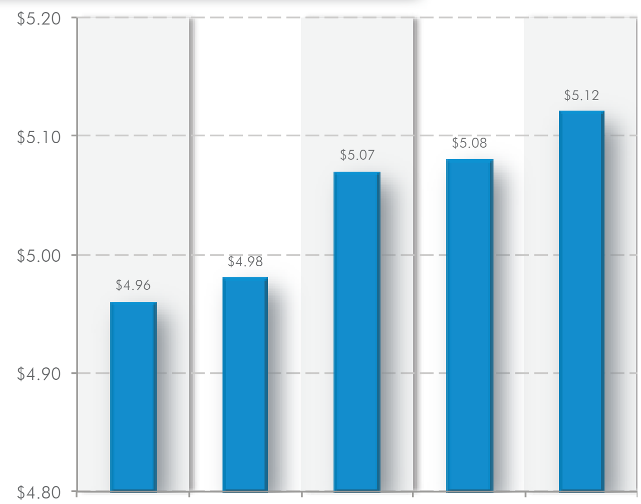
DALLAS / FORT WORTH - TRENDING NOW (continued)

distribution space. Big box users prefer the higher clearance, energy efficiency and additional fire suppression capabilities offered in new space. The willingness of major tenants to pay a premium for that quality is helping move average asking rents up throughout the region. During Q2, the average asking rental rate moved up $.04 to $5.12, which is encouraging landlords to reduce concessions and push for higher rates, even for second generation space and lease renewals. Tenants renewing leases first executed three to five years ago are experiencing sticker shock, as they face rate increases of a dollar or more.

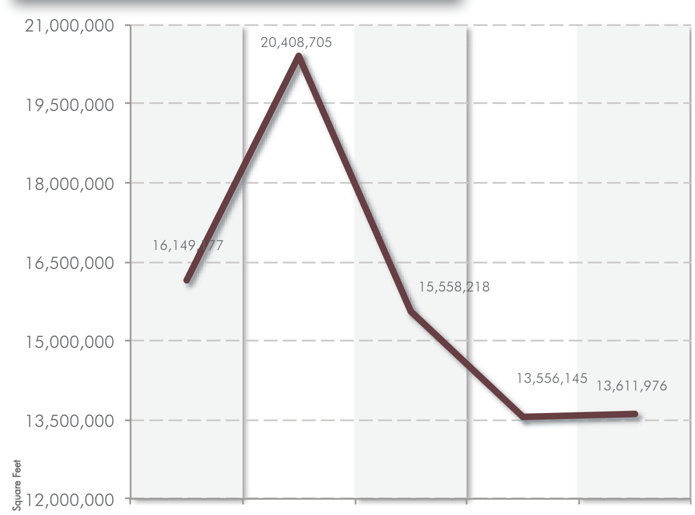
Bulk distribution activity remains strong from as low as 80,000 square feet to as high as 700,000 square feet. E-Commerce and 3PL companies are the most active sectors, but major brick and mortar retailers still like DFW for their bulk fulfillment centers. The combination of the business friendly environment and the availability of land for expansion also makes the region a target for companies from other states that have aggressive growth plans. Add that to the internal expansion and it's easy to see why the area is posting such consistently good numbers.

The building boom is also making DFW a favorite of institutional investors. State-of-the-art distribution product is a preferred asset class, and the willingness to compete for it has driven cap rates lower every quarter, a phenomenon seen around the country for the past several years. Big box tenants tend to have stronger credit than smaller users who occupy multi-tenant business parks, and the sheer size of major distribution projects allows them to deploy capital quickly and efficiently.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

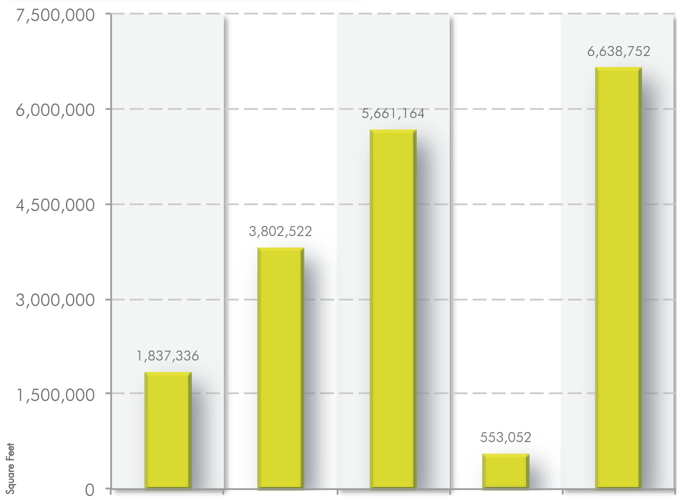


A LOOK AHEAD.

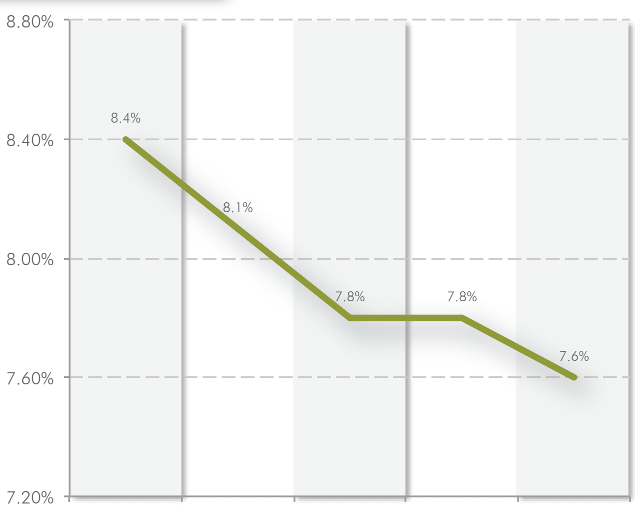
- Leasing activity should remain at least at current levels for the next 12 to 24 months
- Net absorption will moderate as the market takes some time to absorb some older, functionally obsolete product
- Vacancy will remain near current levels as new product keeps pace with leasing activity
- Lease rates will continue to rise for existing and new inventory
- Construction will remain in sync with current demand levels
- Owner/user buildings will sell at or above asking prices due to competitive bidding

CHICAGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Chicago industrial market serves as an intermodal hub and one of the most active markets in the country. Capital is pouring into the area, both for the purchase of existing industrial properties and for speculative development to satisfy rising demand. While the manufacturing sector has gained momentum, most of the activity is concentrated in bulk distribution projects along major expressways.

In Q2, the vacancy rate moved down another 30 basis points to 7.5%. This time last year, the rate stood at 8.8%. That decline is beginning to cause a problem in terms of the number of quality options available to expanding businesses. Shortages are currently confined to selected submarkets, but if activity remains at current levels, which is expected, than the problem will spread to the market at large.

The decline in vacancy goes hand-in-hand with an ascent in lease rates. At the end of Q2, the average asking rental rate in the Chicago area stood at $5.47, up $.12 in the period and $.24 year-over-year. Since the low of the recession in 2010, the rate has risen by $.59. Tenants looking for the best value are also looking to other markets, including SE Wisconsin and NW Indiana, areas that offer incentives to lure tenants

7.6%	$5.47	6,638,752	1,159,648,360	8,382,143
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

CHICAGO - TRENDING NOW (continued)

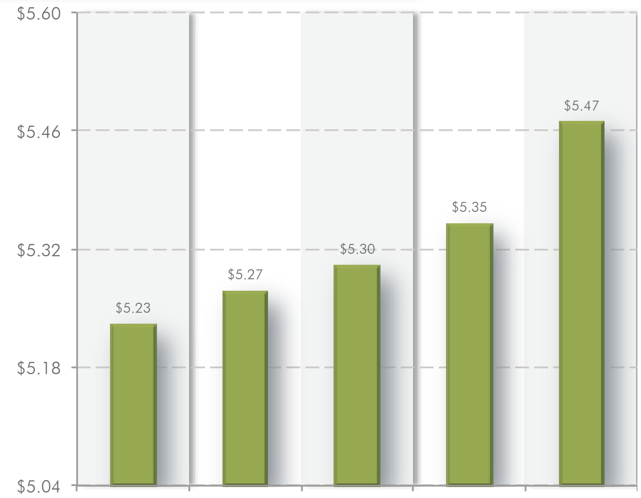
away from Chicago. These areas are also active from a development perspective, which offers tenants the opportunity to upgrade to facilities that have more clear height, greater energy efficiency and enhanced fire-suppression capability.

Positive net absorption for Q2 topped 6.6 million square feet, one of the largest quarterly gains on record. Big distribution deals continue to lead the market in terms of net gains in occupied space. Through the first half of 2015, net absorption stands at over 7.1 million square feet as compared to 1.54 million square feet for the same period last year. Transactions contributing to Q2 performance included Weber-Stephan Products' move into 757,120 square feet, PAE's lease of 723,291 square feet and a lease to Amazon.com for 670,388 square feet.

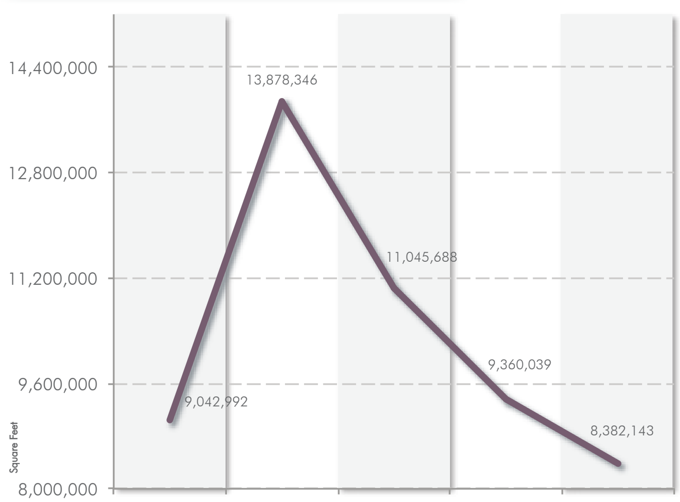
Fortunately, there is still plenty of capital looking for a home in the Chicago Metro area. Institutional investors still like it for its location, infrastructure and inventory of larger buildings. Cap rates are still highly compressed levels, but that has not slowed down the competition for every asset that hits the market.

Capital is also flowing to the area for speculative development. Good rent growth and leasing activity from credit tenants, combined with the availability of land, have made the Chicago area ripe for development. In 2014, just under 10 million square feet was added to the base, which now stands at a staggering 1.15 billion square feet. Another 8.5 million square feet was under construction at the end of Q2. The steady flow of quality, first-generation space is important to business operators with aggressive plans for growth.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

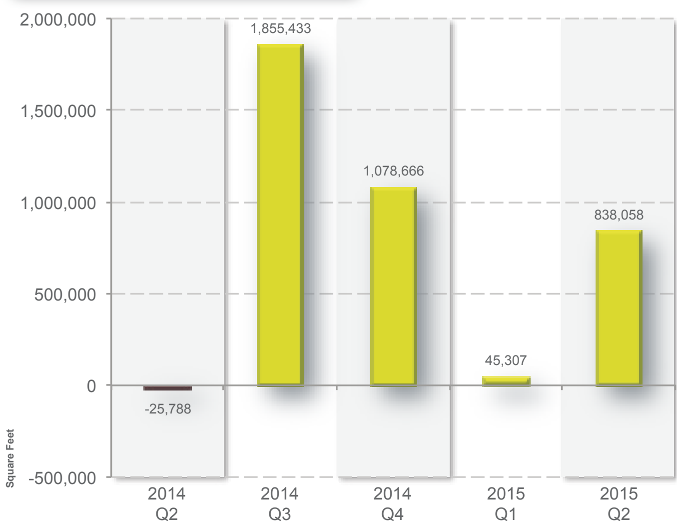


A LOOK AHEAD.

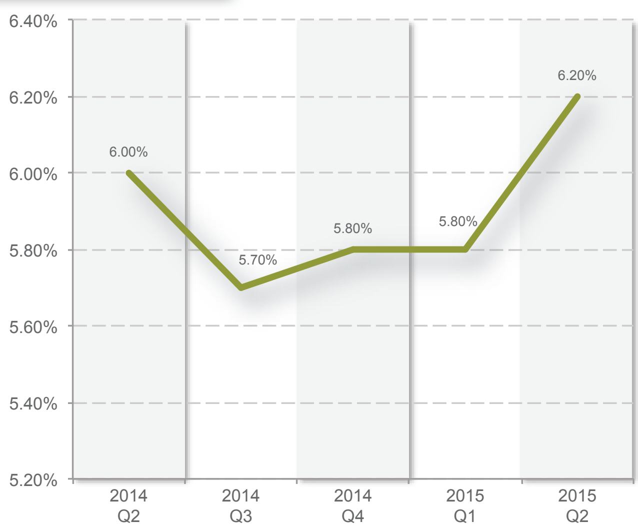
- The market is on track to deliver 10 million square feet of inventory in 2015
- Large distribution projects will be concentrated in SE Wisconsin, NW Indiana and the I 55 corridor
- Sale and lease activity will stabilize near current levels
- Vacancy may move up slightly as the market acclimates to the addition of new inventory
- Average asking sales prices will move 5% to 10% higher in core submarkets
- Net absorption will stay at current levels through the end of 2015

KANSAS CITY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The rise of the intermodals is fueling strong growth in the Kansas City industrial market. Three major projects are driving demand and construction of big box industrial product in the region, one anchored by BNSF, one by Kansas City Southern and another near the Kansas City International Airport. Demand from larger distribution users from 100,000 to 500,000 square feet is keeping net absorption in positive territory, with no sign of abating. The second quarter ended with an 838,058-square-foot gain in net absorption after adding just 45,307 square feet in Q1. In the last year, just over 3,816,000 square feet of net absorption has been recorded.

Construction activity has been robust. In the last year, 4,747,000 square feet of new inventory has been delivered and as of the end of Q2, 3,264,052 square feet was still under construction. Industrial demand is strong and should remain so, in large part due to automotive suppliers looking to be close to major automotive assembly plants operated by GM and Ford. As a consequence, speculative development is concentrated near those facilities. Confidence within the development community remains high, evidenced by the fact that Kansas City is one of the few markets around the country with a substantial inventory of

6.2%	$4.32	838,058	275,842,301	3,264,052
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

KANSAS CITY - TRENDING NOW (continued)

speculative space in the pipeline.

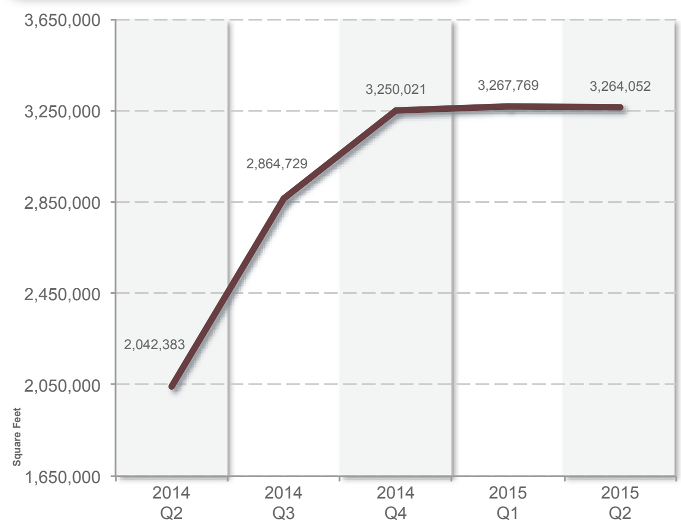
Vacancy stood at 6.2% by the end of Q2, up 40 basis points for the period due to the delivery of over 2 million square feet of new space. Average asking rents are moving up, but at a more modest pace than in other major distribution hubs. The overall asking rate for the region moved up $.02 to $4.32 in Q2.

Low interest rates are still driving purchase demand from owner/users, but the lack of available product is keeping transaction activity well below where it could be. Demand from investor buyers is also well ahead of supply, as major players frustrated by cap rate compression in other big markets look to Midwestern markets like Kansas City to achieve higher yields.

The metro area is divided by the Missouri/Kansas state line and both sides routinely engage in 'border wars' by offering incentives to attract users from the neighboring state. For example, the State of Kansas has eliminated all income tax for corporations based in the state, which was offset by sales and property tax increases.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

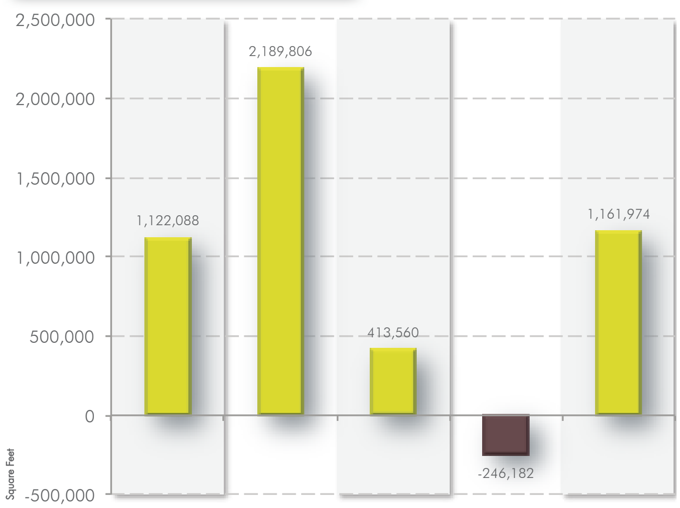


A LOOK AHEAD.

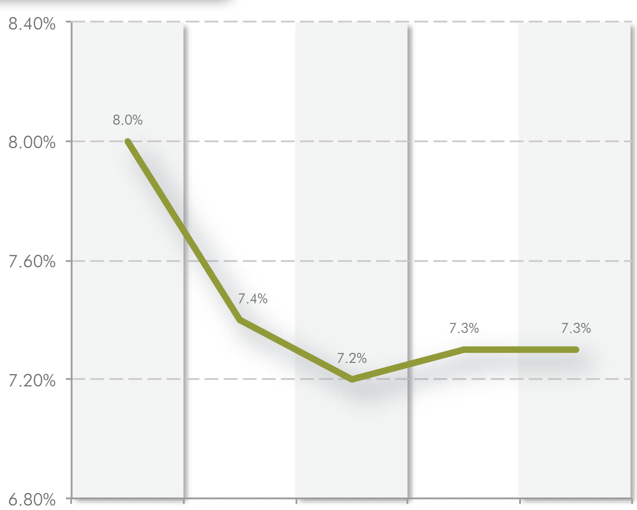
- Overall leasing activity will increase for the balance of the year
- Vacancy will stay near current low levels into 2016
- Rent growth will remain in the 3%-5% range for the next several quarters
- Construction activity will be focused in larger size ranges to accommodate bulk distribution demand in and around intermodals and automotive plants
- Sales prices for user buildings will grow faster than rents, especially for buildings under 40,000 square feet

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

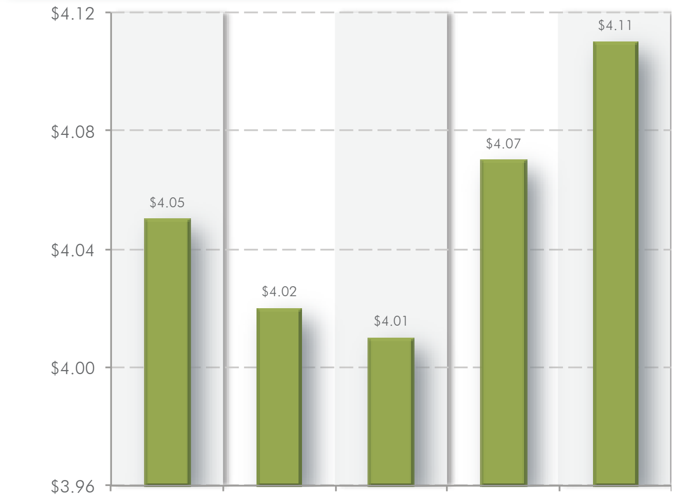
The big new for 2014 was the return of speculative development to the industrial sector. That trend is continuing, in part due to such strong demand from institutional investors, hungry to acquire as much product as possible. Speculative product is leasing well and developers are confident in obtaining a premium price from investors for leased, first-generation distribution space. As of the end of Q2, 762,577 square feet of industrial space was under construction and another 1,144,680 square feet was delivered in the same period.

Net absorption numbers for the year, though short of last year's year-to-date total, still reflect consistent economic growth. In 2014, net growth in occupied space totaled 4,581,702 square feet, just under 2 million of that total coming in the first two quarters. For the first half of 2015, net absorption stands at 915,792. The General Motors automotive assembly plant continues to have a significant impact on net absorption. Auto industry vendors must have space for just-in-time product to deliver to GM's Wentzville facility. So, well-located efficient industrial space is something they are willing to pay a premium for. Average asking lease rates moved up another $.04 in Q2, adding to an increase of $.07 in Q1. Despite those recent gains, overall asking rates have risen less than 2% in the past four quarters

7.3%	$4.11	1,161,974	264,279,276	841,577
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ST. LOUIS - TRENDING NOW
(continued)

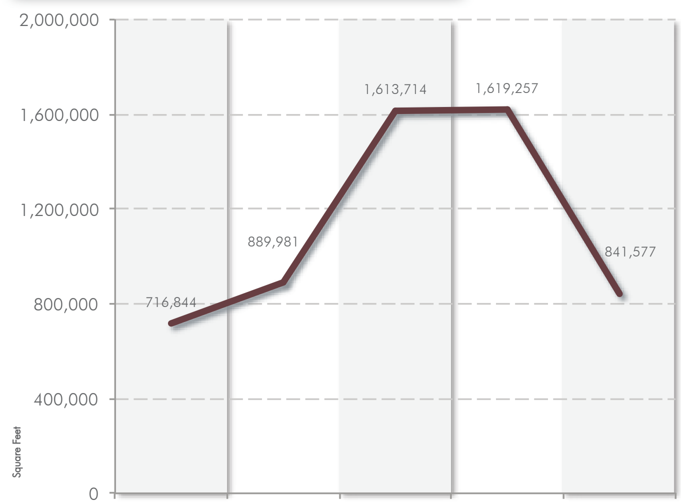
AVERAGE SF RENTAL RATES



The vacancy rate held steady in Q2, remaining at a post-recession low of 7.3%. Year-over-year, vacancy has fallen by 70 basis points. Bulk distribution space in the Metro East and St. Charles submarkets have both contributed heavily to the decline in vacancy, as absorption has been and remains very strong. Unfortunately, recent civil unrest in Ferguson has negatively impacted demand in the North county and North St. Louis City areas.

For businesses who need the central location that St. Louis offers, it continues to provide good value. Rents are lower than in other hub locations and there is land remaining for additional development, which is critically important to fast-growing businesses. With the automotive industry firmly entrenched in the region, related industries are likely to continue expanding. Optimism over continuing strong leasing activity is giving landlords the confidence to reduce concessions and demand stronger credit.

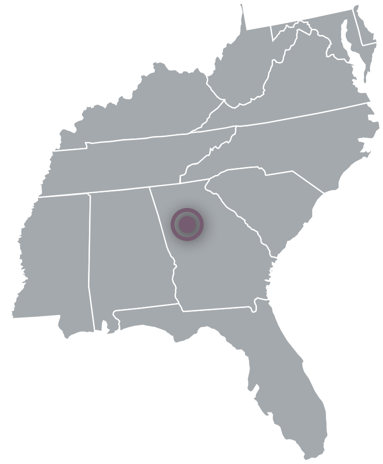
SF UNDER CONSTRUCTION



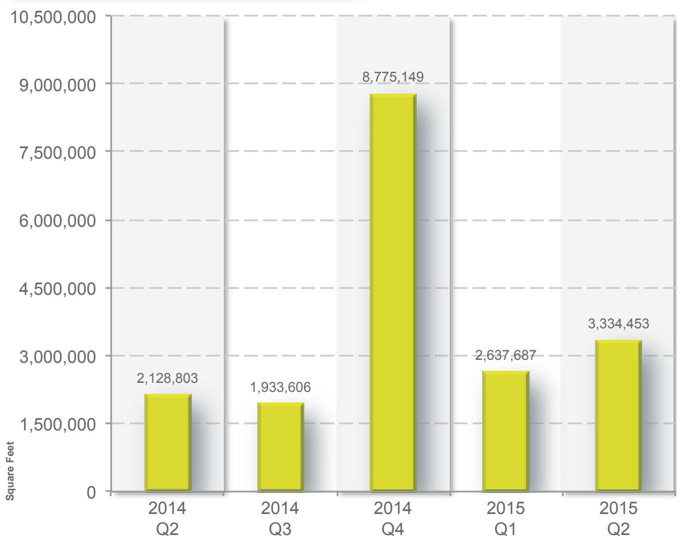
A LOOK AHEAD.

- Leasing activity will increase as spec product is delivered
- Vacancy could move under 6% by the end of Q3
- Average asking lease rates and sales prices will be flat or slightly higher
- Construction activity will increase by 15% to 20% with nine major projects in the pipeline
- New merchant developers will enter the market to take advantage of low land cost and investor demand for distribution product
- The GM plant will continue to attract new businesses to the region

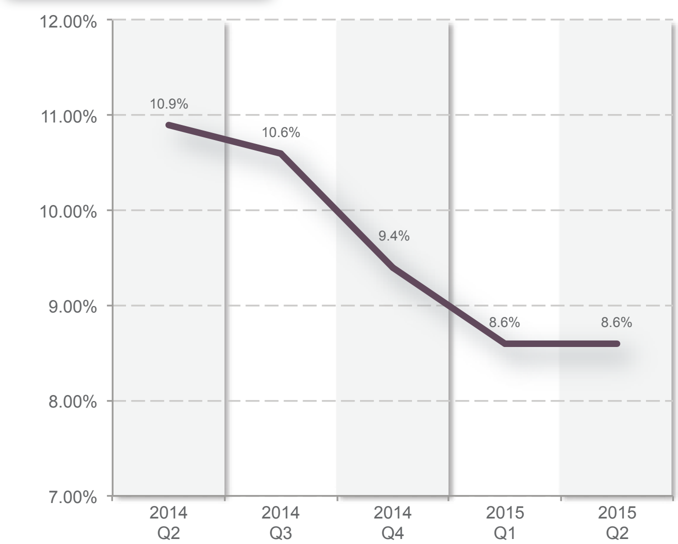
ATLANTA



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Atlanta's economy continued to strengthen in Q2. Major contributors to industrial property gains include a resurgent housing market, which has more suppliers and manufacturers expanding to meet demand, and the progression of improvements to the Port of Savannah, which is attracting new businesses to capitalize on expected increases in port activity. Demand for all industrial building types is good, but especially so for owners of bulk distribution space. Positive net absorption for all industrial product hit 3,334,453 square feet in Q2, with bulk distribution space accounting for all but 240,000 square feet of the total. Over the past four quarters, 16.7 million square feet of positive gains in occupied space have been recorded.

This is keeping the development community busy and happy. Almost 4.8 million square feet of space has been delivered in the first half of 2015, bringing the total base inventory up to 594.5 million square feet. Another 18.4 million square feet is under construction, assuring a hungry user base a choice to quality facilities to accommodate growth. New development is a healthy blend of speculative space and build-to-suit transactions that is preventing fear of an impending over-supply and keeping lenders and developers actively pursuing new projects. For 2015, the region is on track to surpass

8.6%	$4.16	3,334,453	594,521,155	18,401,394
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

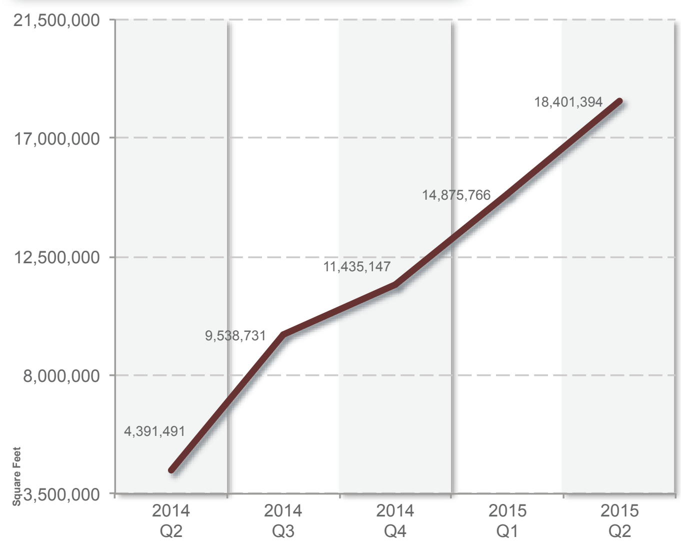
last year's 3.5 million square feet of new deliveries.

Vacancy held steady at 8.6% in Q2, but is down from 10.9% this time last year. That decline is contributing to the surge in the average asking rental rate, which ended Q2 up another $.07 to $4.16 for the period and $0.24 year-over-year. The superior functionality of new product, including improvements in clear height, fire suppression and energy efficiency, is the main driver of rising rents. As a result, pricing for second generation buildings is running behind, but is still benefiting from the overall rise in activity. Some users who are either unwilling to pay the premium or don't need the additional functionality of first generation space, are opting to renew existing leases with landlords anxious not to compete with functionally superior product for new tenants.

Overall market activity is back to pre-recession levels, and with no end of the expansion in sight, investors at all levels are showing strong interest in acquiring industrial assets in the region. Cap rates, as in all major markets, remain severely compressed, but that hasn't stop institutions from competing for quality assets, especially new bulk distribution buildings. Atlanta has an excellent blend of locational and demographic advantages over other major markets across the country. It has access to a deep water port, serves as a distribution hub for the Southeastern US and has a well-educated, growing population that expanding companies in all sectors need for long-term growth.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

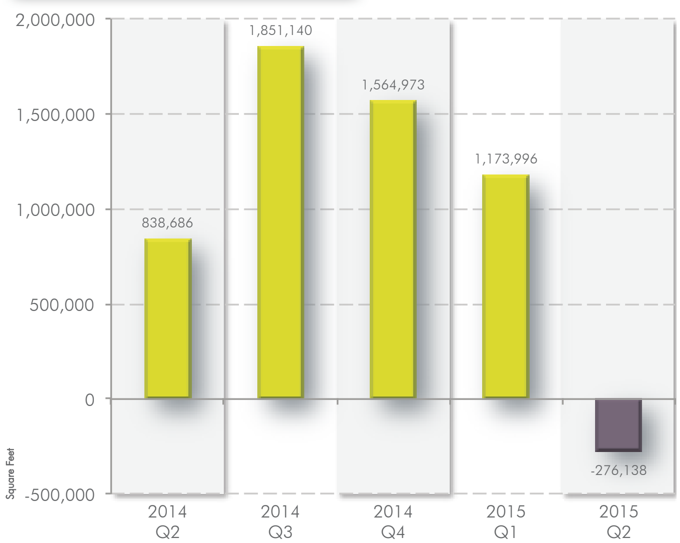


A LOOK AHEAD.

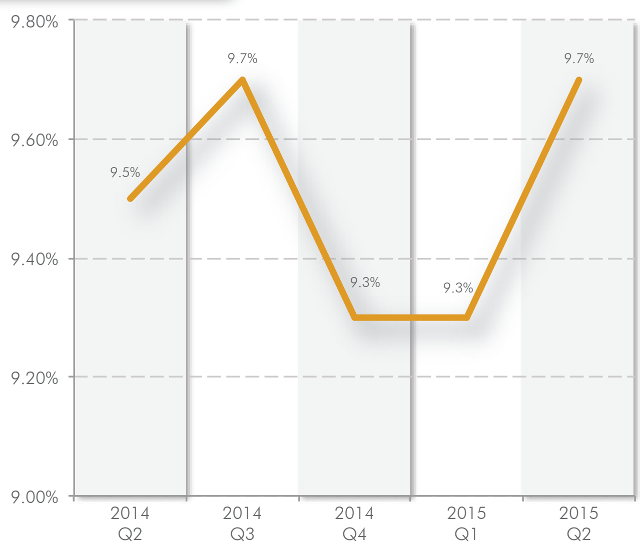
- Net absorption will level off while second generation space is reabsorbed
- Vacancy will decline only slightly for the balance of 2015 due to new deliveries
- Average asking lease rates for new product will rise sharply in the next several quarters
- Sales prices for owner/user buildings will move up as much as 20% in the next year
- Build-to-suit and spec development will increase over the next several quarters
- Energy efficiency and land for trailer storage will be a priority for tenants

BALTIMORE

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Baltimore area's industrial market has come a long way after being hit hard by prolonged recession. Strategically located in a densely populated corridor that includes Washington, D.C., the area now boasts a total base inventory of 237 million square feet of industrial product, and is still attracting the attention of major businesses that like the demographics of the region and its proximity to other large population centers up and down the Atlantic coast. Amazon.com just moved into its new 1,017,000- square-foot fulfillment center during Q2 for that very reason. The online retailer will now be able to speed up delivery times and lower distribution costs to maintain its competitive edge.

Net absorption, which has been on a positive track for some time, took a step back in Q2 by posting 489,625 square feet of negative net absorption. In Q1, the total came to a positive 726,372 square feet and the previous two quarters added up to a positive 3.4 million square feet. So, the sluggish performance in Q2 is understandable, as net absorption can be influenced one way by the timing of a few big moves.

The vacancy rate rose 30 basis points to end Q2 at 9.6%, after reaching a post-recession low of 9.1%

9.7%	$5.78	-276,138	237,023,833	1,438,621
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

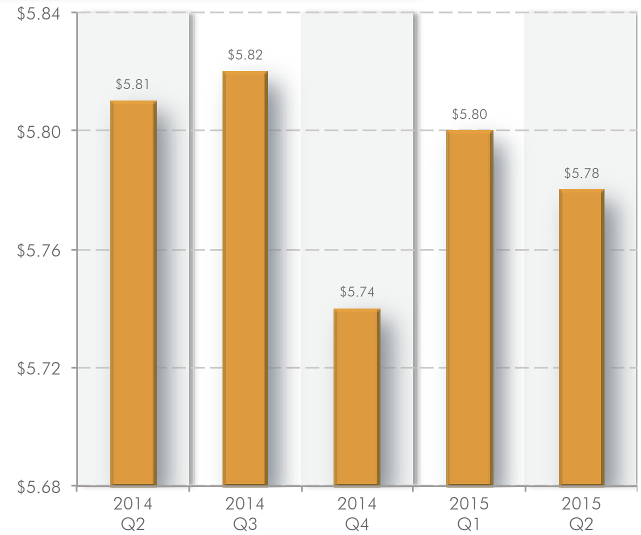
BALTIMORE - TRENDING NOW (continued)

in 2014. This slight up and down trend has not been unexpected given the tepid national economic recovery and a trend toward lower federal government spending, which has always been a key economic driver. This trend contributes to lingering uncertainty about the potential for business growth in the region.

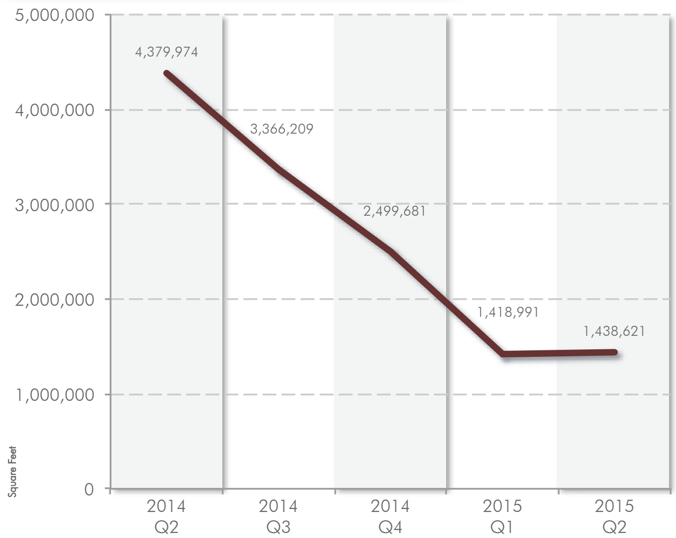
Average asking rental rates have stabilized, moving down by just $.04 in the past year to the current rate of $4.74. Growth among regional distributors continues to drive industrial activity, but the lack of new speculative space is keeping tenants from moving into first generation space that helps to drive lease rates higher. Low availability of land and rising construction costs that necessitate higher rents, are combining to keep new spec projects on the drawing boards. So tenants are forced to choose from existing inventory that lacks the efficiency offered in new product. However, higher land costs could precipitate an increase in redevelopment activity in existing class C projects.

Interest from users to purchase their own facilities is still intense, but competition remains fierce for the few facilities that reach the market. Much of the sale activity is still in off-market opportunities, and sellers continue to hold out for higher prices. Cap rates for quality industrial investment product are under 6% and that has prices back to or above current replacement cost. That, combined with the anticipated rise in interest rates, is turning more owners in sellers, who see the market near a potential peak in the current real estate cycle. However, demand continues to exceed demand across all product types.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

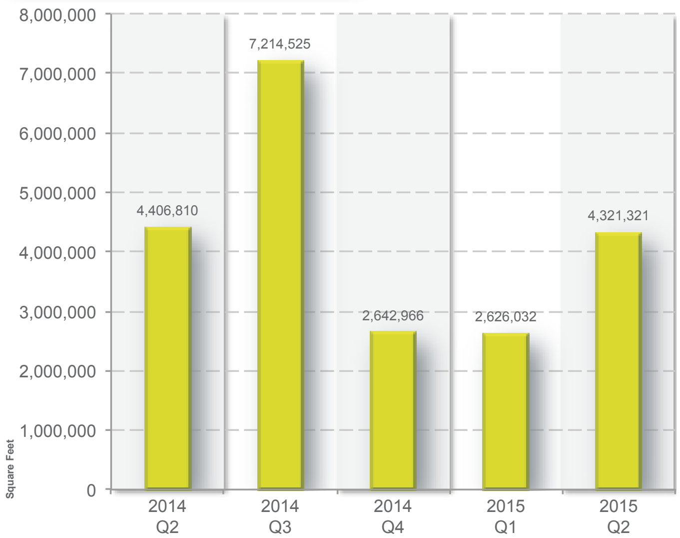


A LOOK AHEAD.

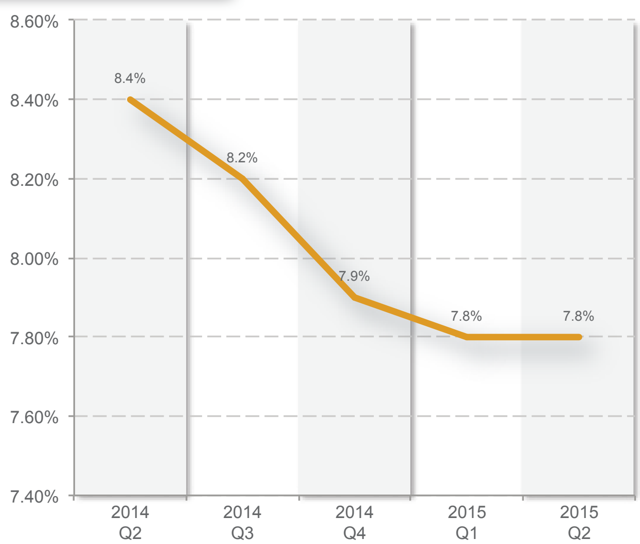
- Gross sale and lease activity will stay strong for the balance of the year
- Net absorption growth will remain positive but will moderate due to lack of quality product to choose from
- Construction will be limited by high land prices and shortage of suitable development sites
- Investment activity, especially sale-leasebacks, will increase
- Uncertainty over government spending cutbacks will continue to influence real estate decisions

PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Like most major industrial markets throughout the US, the Philadelphia area is experiencing declining vacancy, continuing positive absorption and high levels of leasing activity. Tenants looking for space in this 1 billion square-foot market are confronted by limited choice of quality space and higher occupancy costs that are forcing many to re-budget the real estate portion of their expansion plans. The low cost of capital and oil has contributed to robust construction activity, but developers are finding it increasingly difficult to secure prime building sites in key submarkets due to tight land use controls and low supply.

In Q2, the vacancy rate held steady at 7.8% after four consecutive quarters of modest decline. While flex vacancy runs somewhat higher at 9.8%, warehouse space is running 20 basis points under the overall rate at 7.6%. Leasing activity is focused primarily in the warehouse sector. Big leases completed so far this year that will soon reduce vacancy further include Amazon's 483,200-square-foot lease in the Lehigh Valley submarket and the 302,702-square-foot deal with Max Finkelstein Tires in the Southern New Jersey submarket. General purpose warehousing and distribution is driving demand, particularly from businesses in the 3PL, retail and e-commerce sectors.

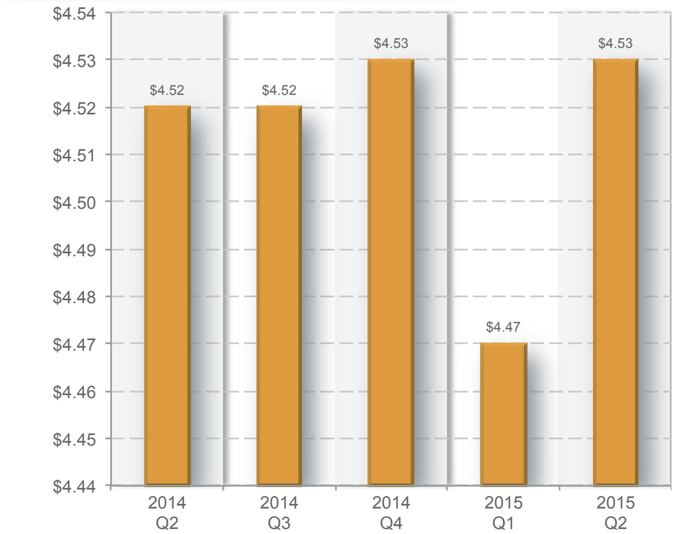
7.8%	$4.53	4,321,321	1,043,814,158	9,060,055
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

PHILIDELPHIA - TRENDING NOW (continued)

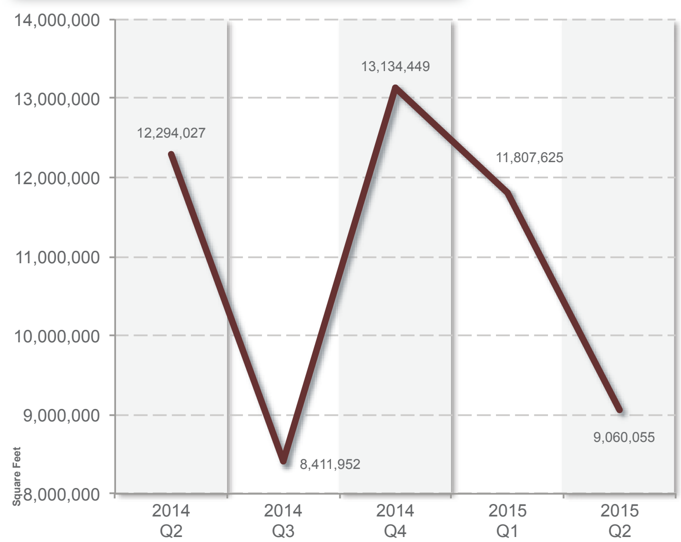
Net absorption was very strong in Q2, topping 4.3 million square feet, bringing the net absorption total over the past year to a stunning 16.8 million square feet, which makes Philadelphia one of the fastest growing industrial markets in the country. The three largest move-ins for 2015 accounted for 2.6 million square feet, led by Five Below's 1,045,000-square-foot deal, accounted for nearly a third of this year's net gain in occupied space. Average asking lease rates have been hovering in the $4.50 range for the past year. After moving up $.06 in Q2 to $4.53, the overall rate is just a penny higher than it was a year ago. However, market activity being as good as it is, rates are expected to move up and stimulate more development.

In Q2, 4,008,570 square feet was delivered in 10 new buildings, but another 9,060,000 is still under construction. Speculative developers are experiencing significantly higher entry-exit spreads and merchant developers are becoming more likely to exit as soon as their projects have stabilized net income. Others are opting to speculate on smaller 'bread and butter-sized' facilities in infill locations. Institutions, who have a mighty appetite for big box projects, have become more willing to take on leasing risk to secure quality buildings. Cap rates are still compressing, but yields in the Philadelphia are still much higher than other big markets like Los Angeles and New York.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

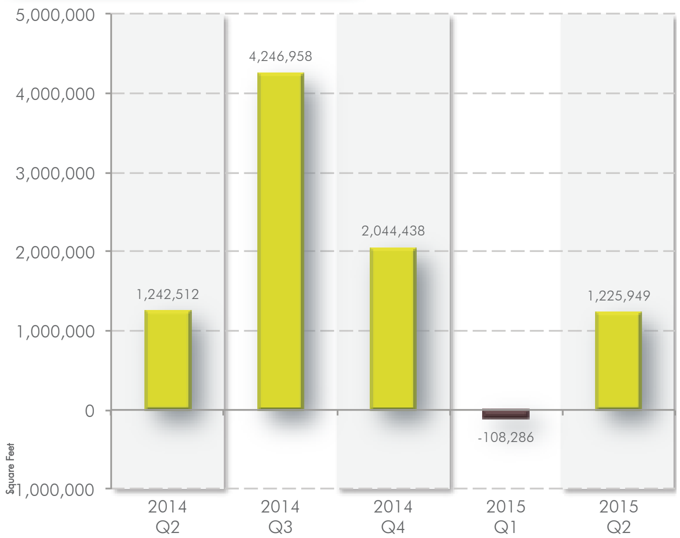


A LOOK AHEAD.

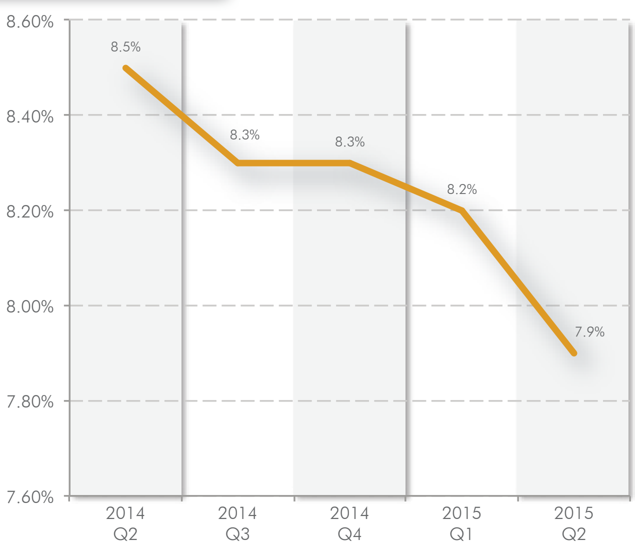
- Overall lease and sale activity is expected to remain strong into 2016
- Vacancy may rise slightly depending on the timing of new deliveries
- Net absorption will remain steady
- Competitive pressure will keep lease rates relatively flat for the next 12 months
- Construction activity will level off and land prices will rise due to scarcity
- Developers with entitled projects will move forward to take advantage of the low cost of capital

NORTHERN/CENTRAL NJ

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Northern/Central New Jersey industrial market is in growth mode and keeping pace with other major hub markets across the country. The region's proximity to a significant portion of the US population makes the area a target for major distributors. E-commerce companies, determined to shorten shipping times to become more competitive, are particularly active. The State of New Jersey is also doing its part to remain competitive with neighboring Pennsylvania, New York and Connecticut. The Grow New Jersey program is an initiative to attract businesses to the state by offering up to 10 years of tax credits to companies for creating new jobs.

Vacancy continued its steady decline in Q2, losing 30 basis point to 7.9%. Year-over-year, the vacancy rate has fallen by 60 basis points. Class A product availability is seeing the most leasing action, but supply is drying up even in class B and C product. That has rents moving higher across building classes, mainly driven by leasing activity in class A distribution product. In Q2, the overall average asking rental rate rose by $.07 to $6.18.

Net absorption moved up again in Q2, posting a 1,225,948-square-foot increase in occupied space.

7.9%	$6.18	1,225,949	803,631,372	3,152,637
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

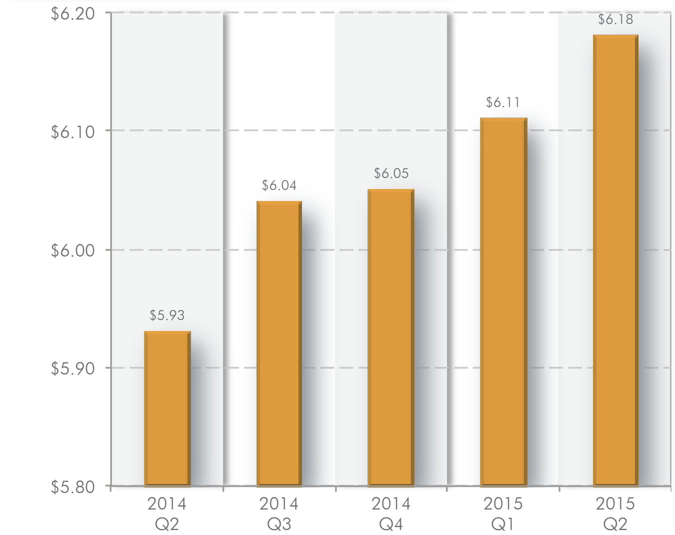
NORTHERN/CENTRAL NEW JERSEY - TRENDING NOW (continued)

Significant contributors in Q2 included Ferguson Enterprise's 450,318-square-foot deal on Meadowlands Parkway and the 324,337 square-foot-lease to Promotion In Motion on Heller Park Lane. Tightening conditions caused by the expansion of multi-national, e-commerce and 3PL companies is pricing smaller privately-held firms, mainstays of the local economy, out of the area. Demand from New York companies, unable to find the right space in their own market, is also on the rise, exacerbating the problem of dwindling supply and higher rents for local users.

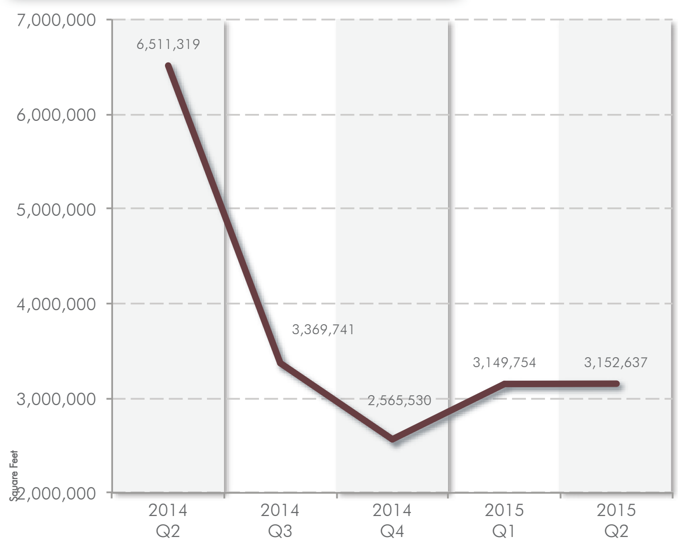
Demand for owner/user product continues to escalate. In some cases, the per-square-foot strike price is exceeding $100. This ongoing trend is putting pressure on investor/buyers, who are also anxious to acquire industrial product before the Fed makes a move to raise interest rates. As a result, cap rates keep compressing, sometimes as low as 5%, as investors are forced to "out-bid" users to prevail. Unsuccessful bidders may have to remain on the sidelines until the next correction, but there are no current indications of a significant change in market direction.

Developers are pushing hard to get new product out of the ground to meet demand, but land is running short. In Q2, 248,000 square feet of space was delivered in five buildings, and another 3,152,637 square feet was under construction. New projects include a mix of build-to-suit and speculative space. Rising rental rates are making it economically feasible to tear down older, functionally obsolete buildings to build the new state-of-art space that is in such high demand. Developers may even have to turn to long term land leases to secure buildable sites.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD.

- Overall sale and lease activity will remain near current levels
- Net absorption could slow due to older properties vacated by tenants moving to new projects taking more time to lease
- Delivery of new warehouse inventory will give average asking lease rates a boost in the next several quarters
- Projects built on leased land will increase in popularity due to low supply of land for sale
- Average asking sales prices for new product will go as high as $200 per square foot
- Expect a moderate interest in redevelopment projects in areas with older B and C product

SELECT TOP INDUSTRIAL LEASES Q2 2015

BUILDING	MARKET	SF	TENANT NAME
Goodman Birtcher Logistic Ctr	Indland Empire	1,589,946	Georgia-Pacific
Fairburn Logistics Center-Building 100	Atlanta	1,129,750	Google, Inc.
Saddle Creek Logistics	Chicago	1,114,575	Saddle Creek Logistics Services
8003 Industrial Ave	NORTHERN NJ	1,064,515	Amazon.com, Inc.
201 Greenwood Ct	Atlanta	800,000	Exel
500 Old Post Rd	Baltimore	644,000	Pier1 Imports
SRG Perris Logistics Center - Bldg 2	Indland Empire	579,708	National Stores, Inc.
First Thirty-Six Logistics Center	Indland Empire	555,670	Fisker Automotive
Centerpointe Business Park - Bldg 6	Indland Empire	532,926	Serta Mattress
901 Page Ave	East Bay/Oakland	506,490	Tesla Motors, Inc.
1 Duke Pky	Chicago	499,154	Fellowes, Inc.

SELECT TOP INDUSTRIAL SALES Q2 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
V Street Industrial Park	Washington DC	797,700	$144.79	5.8%	Terreno Realty Corporation	Stanley Martin Companies, Inc.
2829 Rohr Rd	Columbus	1,199,488	$42.27	7.25%	Ares Commercial Real Estate Mgmt	AFIAA U.S. Investment, Inc.
Chandler Crossroads - FedEx	Phoenix	316,034	$158.78	6%	Rood Investments	SunCap Property Group

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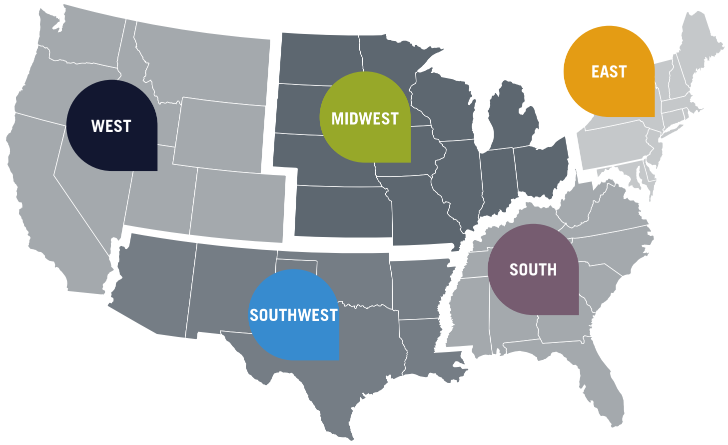
Nationwide Lee Offices



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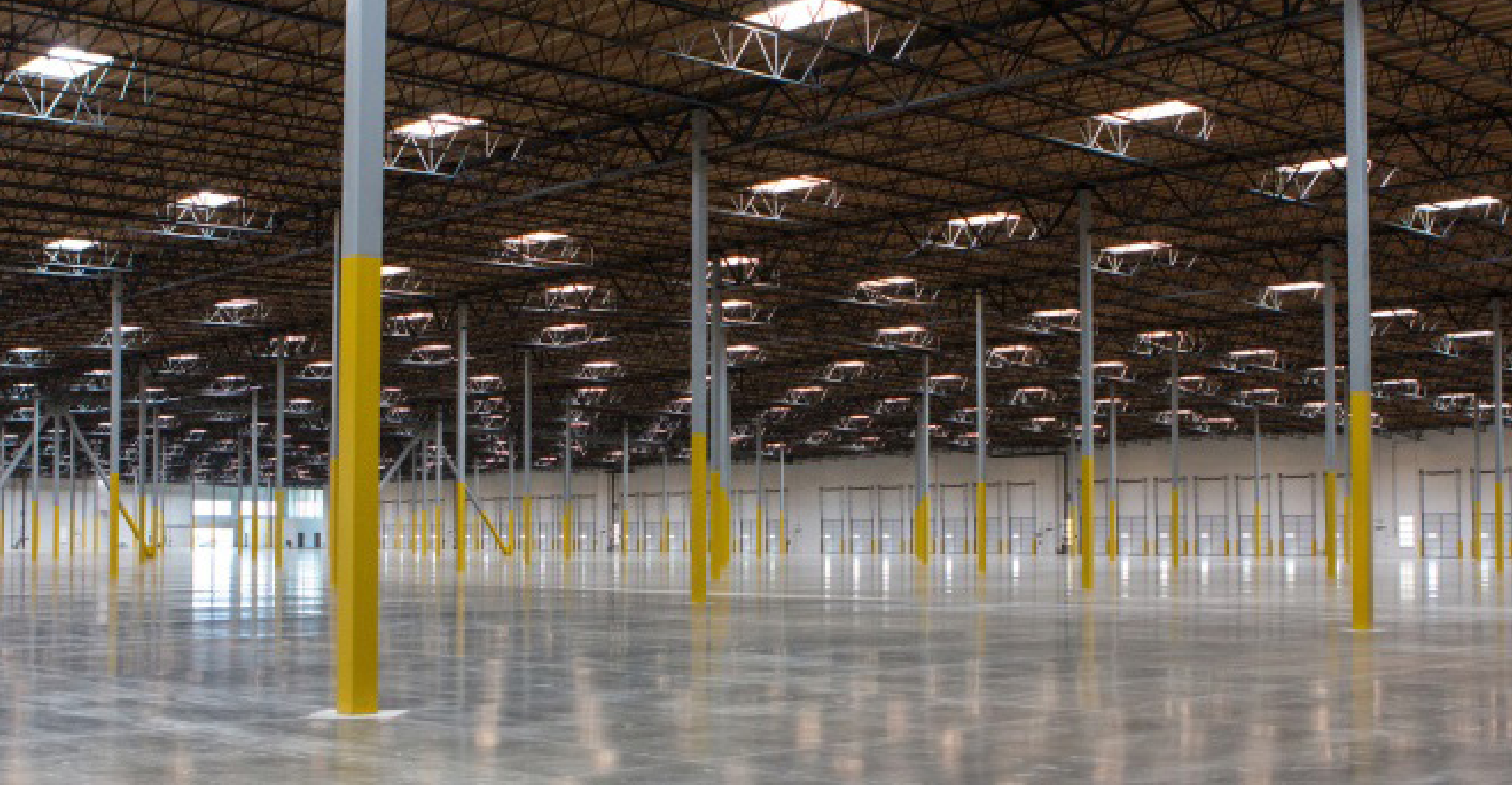

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