The Lee Industrial Brief

Q2 2014

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transaction volume
2013

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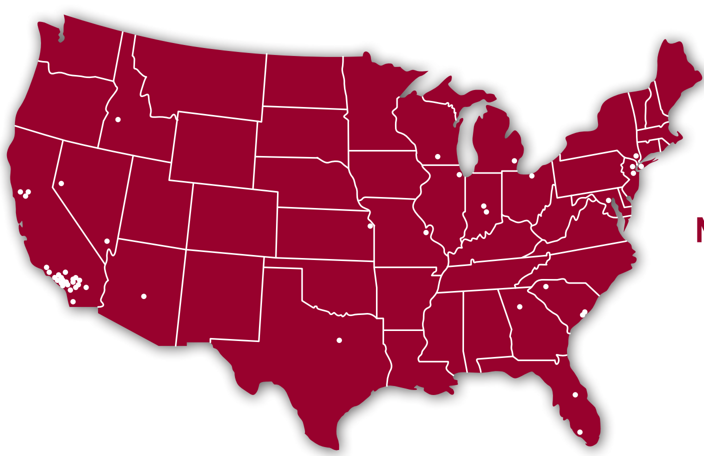

NATIONWIDE LOCATIONS

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IS AMERICA RUNNING OUT OF SPACE?

The current state of the industrial property market in the US is positive overall. Gross and Net Absorption have been trending up for more than two years in primary and secondary markets across the country. Vacancy has decreased accordingly, falling to 7.8% by the end of the 2nd Quarter of 2014, compared to 9.4% in the same period in 2012. In the aggregate, the market is more balanced as landlords are pushing for higher rates and fewer concessions, while tenants are still able to secure new leases at terms below the peak of the market in 2007.

Development is back in play, but concentrated in just a handful of markets that have a ready supply of land that can be acquired at a price in line with achievable rents. New construction is lagging in markets nearing full build-out, as high land prices driven by scarcity are hindering local developers. A push by some cities to redevelop older industrial areas to more intense uses like retail and multi-family, is also inhibiting industrial inventory growth. The result in some markets is spot shortages of quality property, forcing tenants to either work around elements of functional obsolescence or wait for a more time consuming build-to-suit alternative.

Demand from tenants and current owner/users to purchase industrial product has created hot spots of sale activity throughout the country, as savvy users scramble to control occupancy cost by taking advantage of fixed rate, long term financing offered through the Small Business Administration. This demand has driven vacancy to critical lows in markets across the country, most notably in Southern California. What little product being developed there to meet this demand is snapped up immediately and at prices approaching pre-recession levels.

While the statistics tell the story of where the market is now, a closer look at economic conditions that drive decision-making in the industrial sector is more telling in terms of identifying opportunities and challenges going forward. Let's take a look at those issues and their potential impact on market activity:

Click below on interactive tabs

GDP GROWTH | MONETARY POLICY | POLITICS | DEFICITS | REGULATORY ISSUES | A LOOK AHEAD

JOB GROWTH

The current cycle of economic expansion has often been referred to as a "jobless recovery." The unemployment rate has been slow to fall from its peak of 10.0% back in 2009. Moreover, much of the reduction in the unemployment rate, which now stands at 6.1%, has come from discouraged job seekers leaving the workforce rather than through the creation of new jobs. This has made the traditional unemployment rate a less reliable indicator of economic health. The Labor Participation Rate, which measures the percentage of the potential workforce engaged in work activity, is a more telling indicator. That index stands at approximately 63%, the lowest it has been in four decades. There has also been a shift to more part time jobs, as employers wary of unknown costs of the Affordable Care Act and its affect on the economy, are hiring workers below the law's 30 hour per week threshold for full time employment. That said, net job growth is becoming more consistent, month-to-month. Good news came in May as revised estimates for new job creation hit 288,000, the best month of 2014 by a large margin. Industrial absorption, which correlates with job growth, should get a boost if the employment picture continues to brighten.

GDP GROWTH

Gross Domestic Product (GDP) has long been a primary benchmark for assessing economic health. The current recovery has been marked by annual GDP growth in the 2% range, substantially less than in previous recoveries. Many blame the depth and breadth of what came to be known as the 'Great Recession', which hit all elements of the economy hard, especially the financial sector. While it is true that our overall economy is much improved, there remains an element of uncertainty that has kept GDP moving forward at a less than robust pace. Consumer spending growth, which accounts for 70% of GDP, has been nominal as consumers focus on reducing debt accumulated during the recession. The bright spot when it comes to economic growth is related to energy production, as advances in methods to free up natural gas and oil are fueling an energy boom. North Dakota, which now boasts the lowest unemployment rate in the nation, has led the way with its Bakken oil field production. Along with generating good-paying jobs, energy production boosts GDP growth by reducing imports, a key component of the GDP formula. If this trend continues, it will have a positive impact on industrial expansion and space absorption, as stronger GDP growth will increase overall confidence in a prolonged economic recovery.

MONETARY POLICY

In addition to keeping its benchmark rates near zero for several years now, the Federal Reserve Bank has been engaged in a massive bond buying program to increase the flow and decrease the cost of capital throughout the economy. The Fed has added over $4 Trillion to its balance sheet for the program known as Quantitative Easing (QE), with mixed results. Until recently, the central bank was buying back US Treasuries and purchasing Residential Mortgage-Backed Securities (RMBS) at a rate of $85 Billion per month. In December 2013 the Fed began scaling the program back, reducing monthly purchases by $10 Billion per month. Inflation fears associated with the Fed pullback have not yet materialized. If the program can be up unwound without igniting an inflationary cycle, confidence should increase and industrial lease and sale activity could accelerate. However, as QE is phased out, mortgage rates for industrial property are likely to rise, which could put pressure on cap rates to move back up to maintain the spread to the cost of capital. That threat, however, may boost sale activity in the industrial sector in the near term.

POLITICS

With the midterm elections just a few months away, it is unlikely that any significant legislation will be enacted this year. Immigration reform, balancing the budget and other big issues will be on the back burner until at least next year. Current gridlock in Congress due to having opposing parties in control of the Senate and House of Representatives has Congressional approval ratings at all time lows, and several political scandals within the Executive Branch have captured media headlines in recent months. Concerns over the poor rollout of the Affordable Care Act and confusion over the potential impact of multiple changes to the law by executive order, has created additional uncertainty over the cost of the controversial health care law. Forward planning for expansion is more difficult as a result, which could negatively affect industrial absorption in the near term.

DEFICITS

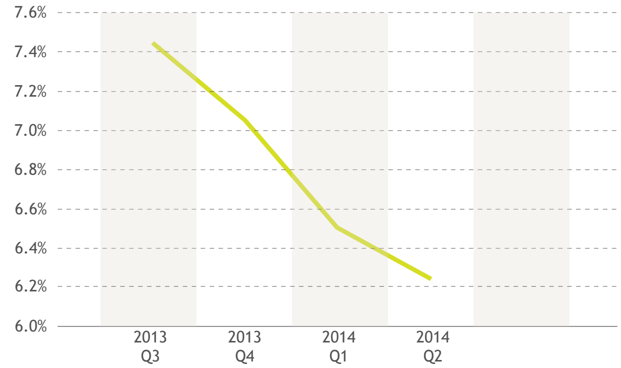
Federal deficit spending fell in the 2012-2013 fiscal year to $680 Billion, a staggering sum, but down from over $1 Trillion the year before. The narrowing gap can be attributed to the increases in income and capital gains tax rates, mandatory cuts due to Sequestration, the winding down of two wars and other cost cutting measures at the federal level. However, the national debt, at over $17 Trillion, is still rising with no change in trajectory in sight at the moment. The Affordable Care Act has captured the recent headlines on the entitlement front, but concerns over Social Security, Medicare and Medicaid funding over the long term are still looming as the Baby Boom generation, the largest in American history, moves into retirement. Attempts by the US House of Representatives to legislate spending cuts are generally considered dead on arrival when they reach the US Senate. When the Fed finally starts raising interest rates, debt service on US Treasuries will increase accordingly, exacerbating the deficit issue further. How federal deficits will impact industrial absorption directly is unknown. At minimum, it will add to the uncertainty over other issues.

REGULATORY ISSUES

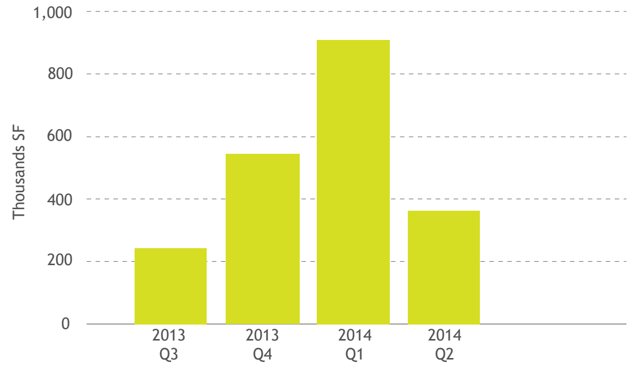
Tightening of regulatory control by the EPA and other agencies is also a looming concern of the private sector. Costs for energy production, pollution control and other environmental controls have the potential to add significant expense to the cost of doing business in the US. Environmental concerns over hydraulic fracturing as a means to reach more oil and gas, are slowing down more energy production, which would boost GDP by reducing net imports. The Keystone Pipeline project, yet to be approved, has been under review for 5 years, frustrating proponents on both sides of the political aisle. With stricter regulation comes higher costs for businesses looking to expand, as the capital required to meet regulatory guidelines and timelines becomes prohibitive. Regulatory difficulties are more likely to impact large scale industrial projects, but could still have substantial impact on industrial absorption.

A LOOK AHEAD. Growing a business has become far more complicated with time and there is no immediate reason to think that this trend won't continue. Businesses large and small are increasingly affected by economic factors that might not have been considered in times past. Even small businesses have to think on a global scale and when the number of variables to be considered goes up, so do concerns over taking risk in a world economy that can change with amazing speed. Fortunately, the US is still a world economic power and our economy is expanding again, albeit at a moderate pace. However, local economic conditions vary widely throughout the US. So, after giving full consideration to macro-economic factors, look more to local market conditions to determine opportunities for the acquisition, leasing or development of industrial properties. Expect vacancy to continue its decline, and for markets with available land to grow at a faster pace than infill locations. Absorption should remain positive, but may slow down due more to a lack of supply than demand. Rents will rise at a moderate pace nationally, enough to kick start speculative development and boost build-to-suit activity. The results of the mid-term election will also reduce uncertainty and provide enough clarity for healthy businesses to follow through on expansion plans.

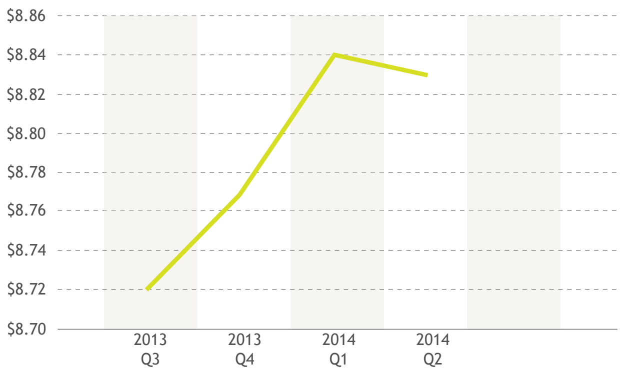
Vacancy Rate



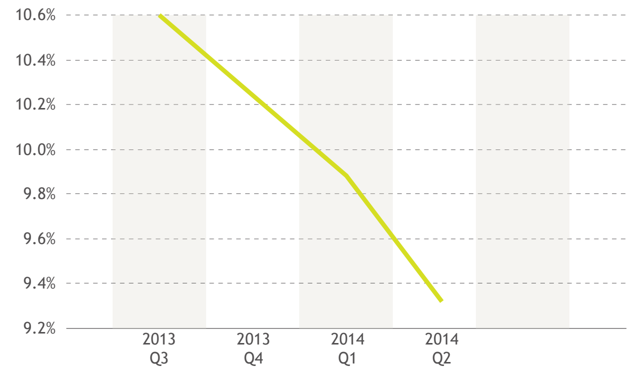
Net Absorption



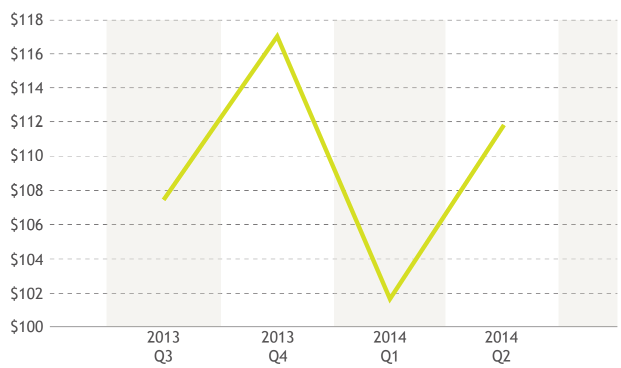
Asking Rent Per SF



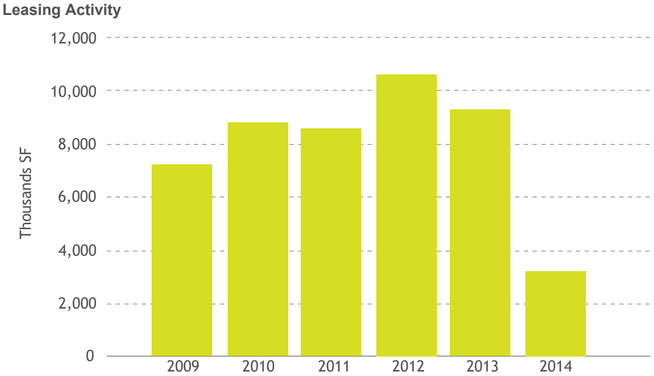
Availability Rate



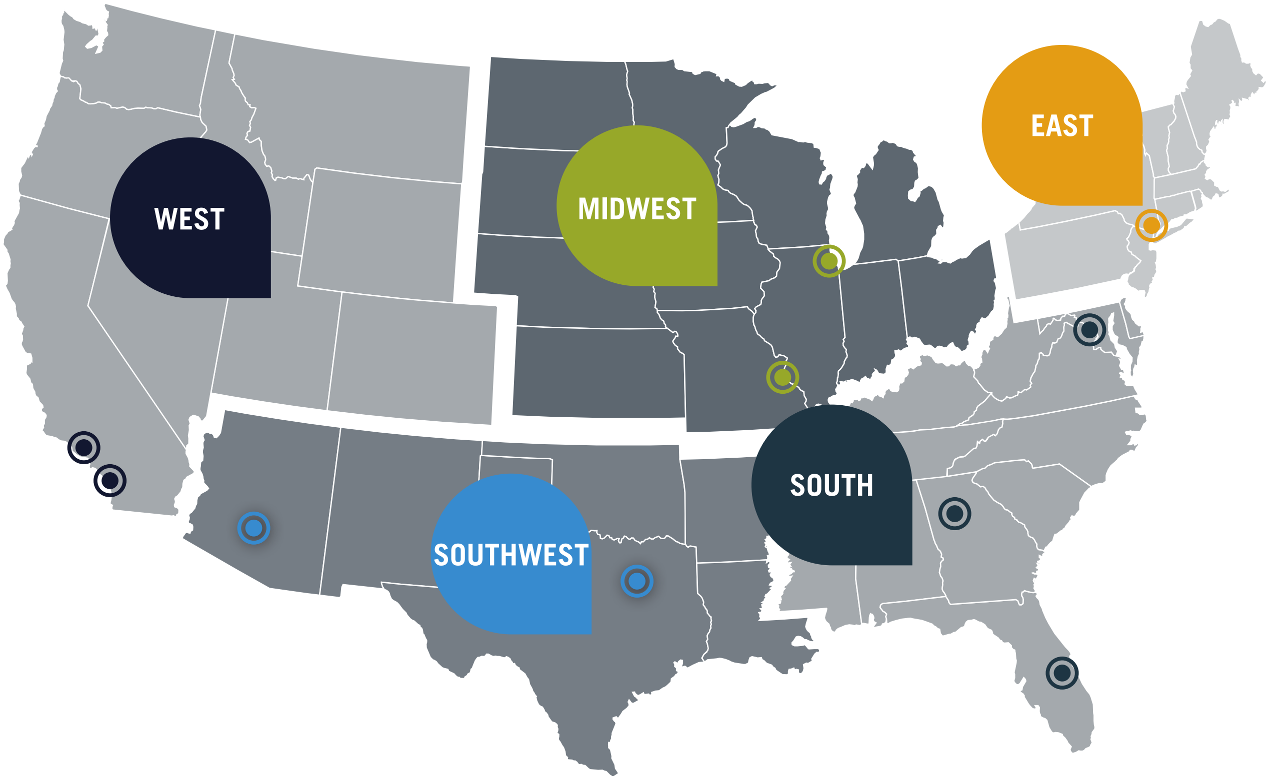
Average Sale Price Per SF



Leasing Activity



Key Market Snapshots



CENTRAL LOS ANGELES

SAN DIEGO

PHOENIX

DALLAS / FORT WORTH

ST. LOUIS

CHICAGO

ATLANTA

ORLANDO

BALTIMORE

NEW YORK

CENTRAL LOS ANGELES OVERVIEW

The current Central market, which includes Downtown, Vernon, Commerce, and the Mid-Counties, is a study in contrasts when compared to 2009. An area once plagued with high vacancy, negative absorption, falling rents and lower sales prices is now one of the tightest industrial markets in the US.

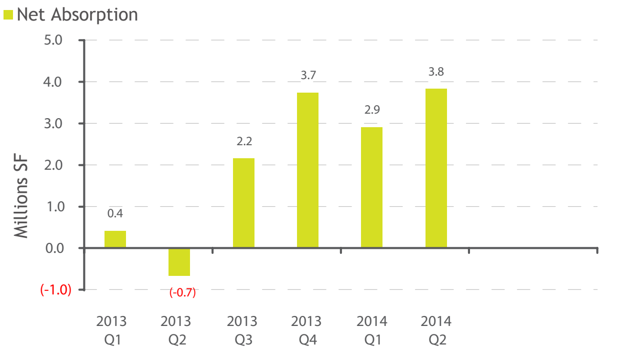
Vacancy has fallen to 3.5%, rents are rising again and sales prices have spiked dramatically. Net absorption, while positive for 12 straight quarters, is sluggish due to short supply rather than weak demand. Businesses are focusing on growth again and there is overall optimism for a sustained economic recovery.

However, market constraints are hindering progress. There is virtually no vacant land for the development of modern facilities and what few parcels do become available are at prices that don't justify the construction of traditional industrial product. In fact, some older industrial product is being re-purposed to non-industrial uses that can command the higher rents required to justify the cost of acquisition and construction.

Of the product that does become available, much of it was constructed in the 1950's and 1960's and contains significant elements of functional obsolescence, further reducing choice and impeding market activity.

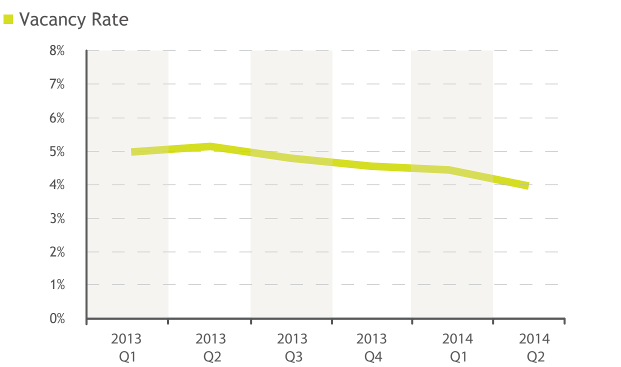
Conditions here mirror those of several other Southern California markets, including Orange County and North Los Angeles, where development is at a near standstill and vacancies rates are running under 5%.

Net Absorption
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate
Past 6 Quarters



Source: CoStar Property®

3.5%	$7.94	3,827,670	986,039,437	2,388,150
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

CENTRAL LOS ANGELES OVERVIEW (continued)

Opportunities

Tenants:

- Lease rates have risen only modestly, thus far. Tenants willing to sign longer term leases now can lock in lower occupancy costs before a further drop in vacancy causes rents to spike.

Buyers:

- Owner/users fortunate enough to acquire a property can do so with a fully amortized, fixed rate SBA loan in the 5% range at 90% of appraised value.
- Investor/buyers willing to acquire properties needing major renovations will benefit from rising rents.

Landlords:

- Landlords can take a harder stance on rental rates, tenant improvements & other concessions.
- Functionally obsolete buildings will still command high rents.

Sellers:

- Functionally obsolete properties will still command premium pricing.
- Competitive bidding for quality properties will drive prices higher.

Developers:

- Limited redevelopment sites available to developers willing to take on the risk for higher returns.

Challenges

Tenants:

- Dwindling supply forcing tenants to lease buildings that reduce efficiency just to stay in the area.
- Rising rents and lack of quality of product.

Buyers:

- Owner/user buyers will have to compete with investors and developers to acquire traditional industrial product.
- Investors will have to compete aggressively for properties trading in the 5%-6% range, some requiring additional investment for retrofit and deferred maintenance.

Landlords:

- Tenant improvement costs will rise as older, obsolete properties are upgraded to accommodate new uses.

Sellers:

- Finding suitable exchange properties.
- Heavy tax burden for those sellers cashing out.

Developers:

- Lack of available land.
- Added risk associated with redevelopment projects.

A LOOK AHEAD. The near term outlook for Central Los Angeles is for more of the same. Vacancy will remain in the 3.5%-4% range. Absorption will be positive but nominal due to the lack of supply. Sales prices, which have already jumped back to previous peak values, will continue a steady rise as long as interest rates remain low. Increased optimism in the business community will fuel strong demand for space, especially from the apparel and food service industries. Competition for industrial product will get more intense as the economic recovery continues and tenants will have to allow more time to secure new facilities. The area will remain an important market for all of Southern California, given its proximity to the Ports of Los Angeles and Long Beach, the Inland Empire, and Orange County.

SAN DIEGO OVERVIEW

The San Diego area has been steadily recovering from its low point in 2010. The region has a strong balance of business sectors, most notable of which is Defense, which employs over 100,000 active duty and 30,000 civilian workers, generating over $20 Billion in annual economic activity. The Life Sciences industry attracts significant venture capital and employs over 42,000 physicians and scientists. Aerospace companies, another major economic contributor, are expected to experience up to 30% growth over the next six years, largely due to the development and manufacture of drones.

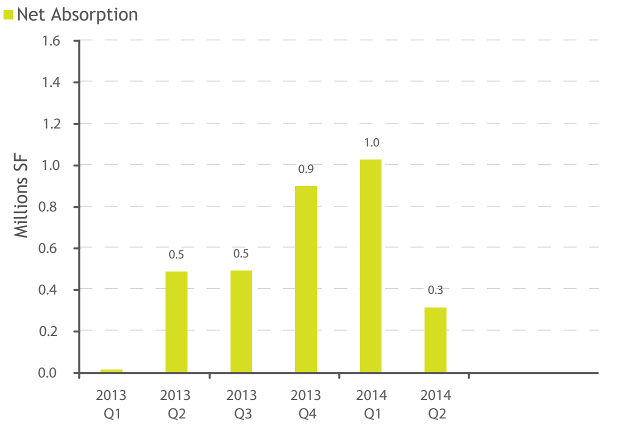
Cross-border commerce is also a growing economic driver for the area. Unemployment in San Diego County has fallen to 5.8%, well under the 7.6% rate for California overall. Net absorption has been positive for 8 straight quarters, causing a corresponding drop in the vacancy rate to 7.6%, down from 8.2% just two quarters ago. Conditions vary widely throughout the county with Central County most heavily impacted by the lack of available quality product.

Vacancy has fallen dramatically in areas around the Miramar Naval Air Station and there is an acute shortage of smaller buildings offered for sale to users. North County, hit harder during the recession due to oversupply, is also returning to health. Rates have stabilized and started to move up. Lease and sale activity is also rising as tenants and buyers make their moves before the market tightens further.

The South County market is a study in contrasts as vacancy in Chula Vista and National City is now under 5%, while the Otay Mesa market is 14% vacant due to overbuilding just prior to the 2008 recession.

Net Absorption

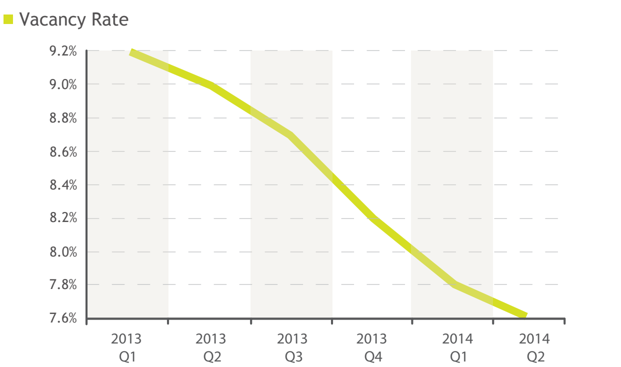
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate

Past 6 Quarters



Source: CoStar Property®

7.6%	$10.43	315,746	189,421,658	115,000
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

SAN DIEGO OVERVIEW (continued)

Opportunities

Tenants:

- North County and Otay Mesa area businesses still have a good selection of quality buildings at relatively low lease rates.

Buyers:

- Investors can count on substantial rent growth in the near term due to tight supply.
- Owner/users can still take advantage of SBA financing deals, but need to make their moves before rates rise and inventory dries up.

Landlords:

- Tighter supply is strengthening negotiating position relative to rate, tenant improvements and free rent.

Sellers:

- Owner/users and foreign investors paying cash are willing to pay a premium for smaller free-standing buildings.

Developers:

- Build-to-suit activity should rise as availability decreases.

Challenges

Tenants:

- With vacancy falling to critical levels, tenants will be paying more to get less in terms of quality and location.
- Those renewing their leases could see substantial increases in rental rates.

Buyers:

- Competition for quality buildings is causing prices to be bid above asking for owner/user and multi-tenant business parks.

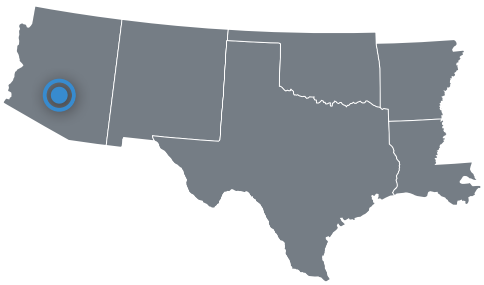
Landlords:

- Those needing to refinance loans made before the recession could experience an equity gap, as lenders will be underwriting conservatively.
- Tight market may force San Diego sellers to exchange into unfamiliar markets.

Developers:

- Lack of land for development is driving prices up.
- Changes in zoning and general plans are impacting traditional industrial areas as cities look to gentrify aging markets.

A LOOK AHEAD. The San Diego industrial property market will continue to tighten, such that a lack of availability could slow net absorption and gross activity. Unlike areas like Phoenix that have land available to add to its current industrial base, San Diego is nearing full build-out and is surrounded by ocean, mountains, Mexico and Camp Pendleton, one of the largest military bases in the country. Existing product will get more expensive to lease and sales prices for owner/user properties will also go up, but that could change if the Federal Reserve allows interest rates to rise significantly. Growth in major industries is strong, so the employment picture looks positive for the near term. North County will catch up to its counterparts, as its larger stock of available properties will see more activity from Central County users in need of quality space.



PHOENIX OVERVIEW

The Phoenix industrial market rebounded nicely from its slow start to the year. The rise in vacancy for Q1 was negated by a strong performance in Q2. The benchmark rate fell 90-basis points to 12.6%, settling close to 2013's year-end levels. However, the significant swing is not necessarily cause for serious concern. As one of the few markets that has a ready supply of land for industrial development, the Phoenix area had a flurry of deliveries just as positive net absorption pulled back from higher levels in 2013.

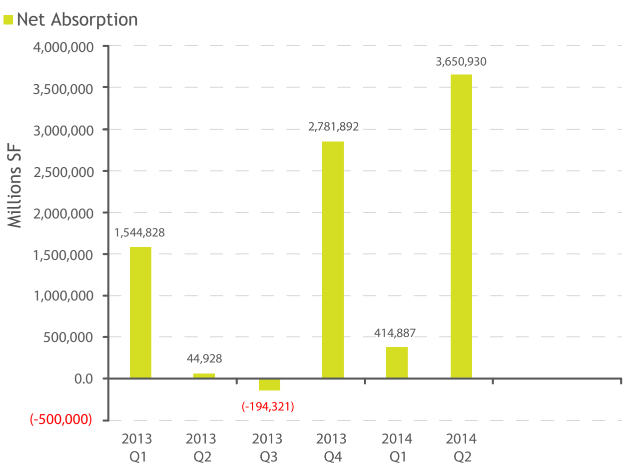
Net absorption was in positive territory, posting a solid 3,650,930 square feet for the quarter, while 1,855,230 SF of new buildings were added to the industrial property base. That's great news for users, as additional inventory means greater choice in quality facilities, which may motivate larger operators to make their moves on first generation space before lease rates move any higher.

Since the preponderance of new speculative space is concentrated in larger buildings, especially those over 200,000 square feet, so too is the bulk of the vacancy. That combination has skewed the overall vacancy picture. However, things can change quickly, as absorption of just a handful of larger spaces can cause a quick and substantial drop in the vacancy rate. This phenomenon also explains the significant swing in the vacancy rate over the past several quarters.

For those businesses looking for smaller spaces, it is a different story, as users must choose from a dwindling supply of existing product.

Net Absorption

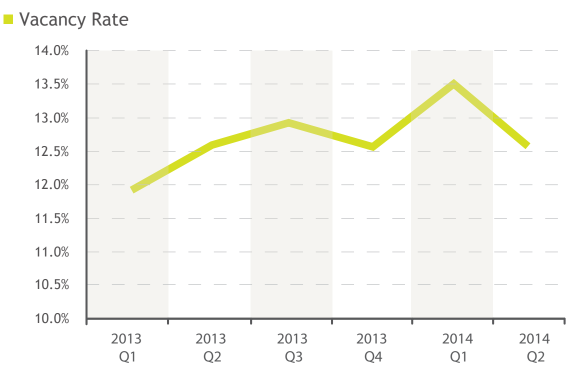
Past 6 Quarters



Source: Lee Phoenix Proprietary Data

Vacancy Rate

Past 6 Quarters



Source: Lee Phoenix Proprietary Data

12.6%	$6.53	3,650,930	286,878,394	3,467,235
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

PHOENIX OVERVIEW (continued)

Opportunities

Tenants:

- Larger tenants have greater choice of new, quality facilities, especially in the Southwest and Southeast Valley areas.
- Rents are still below previous market peak, but expected to rise soon as new product is absorbed.

Buyers:

- Investor buyers can still buy in the 7% cap rate range on existing income, with rents and net absorption expected to rise in the near term.
- User buyers can control long term occupancy cost with fixed rate loans in the 5% range, funded through the Small Business Administration.

Landlords:

- Rents are rising and concessions are tightening in many submarkets, especially for smaller spaces.
- Time on market coming down.

Sellers:

- Stronger negotiating position to reduction in bid to ask spread.
- Owner/user buildings attracting multiple offers, pushing sales prices higher.

Developers:

- Rising rents in smaller size ranges due to steady net absorption.

Challenges

Tenants:

- Lack of functional, quality space in tight submarkets including Sky Harbor /Tempe, Chandler, Scottsdale Airpark and Northwest Valley.
- Competitive bidding for quality space becoming more common.

Buyers:

- Limited inventory of product for sale. Only 70 properties for sale out of a 300 million square foot market base.
- Owner/user buyers facing competitive bidding situations.

Landlords:

- Landlords losing leasing opportunities as tenants, unwilling to compromise on quality and functionality, opt for build-to-suit solutions.
- Excess inventory of large spaces is increasing time on market.

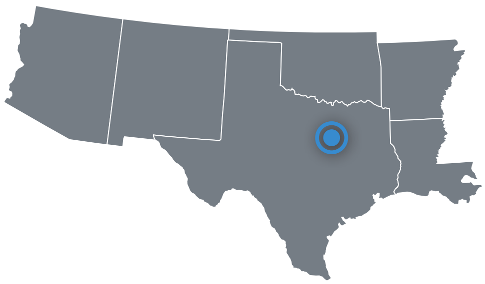
Sellers:

- Difficulty finding up-leg properties to complete 1031 exchanges due to high demand for quality investment properties.

Developers:

- Potential for overbuilding due to recent deliveries and projects currently under construction.

A LOOK AHEAD. The Greater Phoenix industrial market has come a long way since the bottom of the last real estate cycle in 2010, and it should continue to experience consistent and positive net growth going forward. The business outlook is upbeat, with most of the key indicators of economic growth in positive territory. The State of Arizona is aggressively marketing the state as the place to be to build a business, which should boost absorption over time. Interest in Phoenix as a market to invest in should also remain strong as cap rates for the area are higher than in other major markets across the country. By the end of the year, vacancy should fall by 70-100 basis points and lease rates could move to $6.65 PSF from the current rate of 6.53 PSF, all driven by moderate net absorption.



DALLAS / FORT WORTH OVERVIEW

The Dallas/Fort Worth Metroplex (DFW) has been and continues to be heading in the right direction. Job and population growth, key indicators of economic health, are increasing at a steady pace. The area's central US location, business-friendly environment and affordable cost structure continues to attract businesses from around the country that are contributing to record-breaking net absorption.

Construction activity in the industrial sector is robust, with build-to-suit activity leading the way. In 2014, several major move-ins have pushed occupancy to new levels, including Proctor & Gamble's 1,600,000 square foot distribution center. In all, over 14,000,000 square feet of bulk distribution facilities are currently being developed, topping all other metro areas of the country.

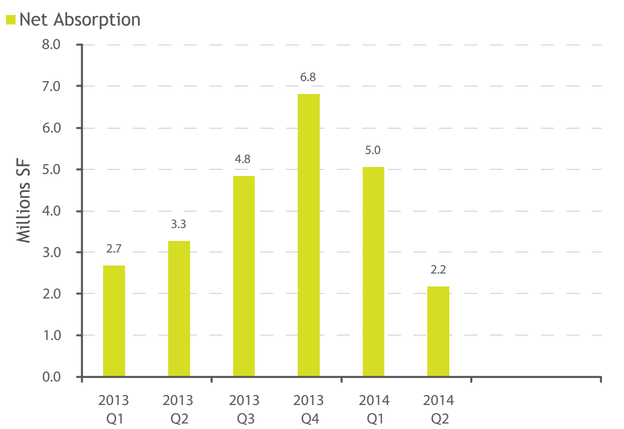
Demand for warehouse, manufacturing, assembly and flex product is also on the rise, which speaks to the increasing diversity of the local economy and the improving job picture.

The unemployment rate has fallen to 5.1%, well below the national rate of 6.1%.

Rents, too, are on the upswing, as the increase in demand for space has lowered the industrial vacancy rate overall to 7.3%, which has encouraged landlords to push rates higher and developers to move forward with speculative development.

Net Absorption

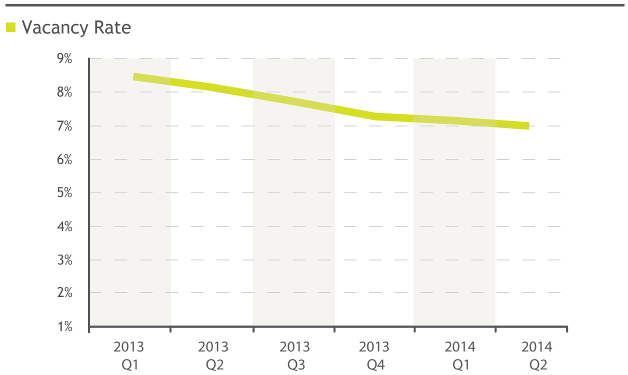
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate

Past 6 Quarters



Source: CoStar Property®

7.3%	$5.23	2,170,039	793,088,760	1,541,913
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

DALLAS / FORT WORTH OVERVIEW (continued)

Opportunities

Tenants:

- With rates lower than other major distribution markets, larger users can lock in lower occupancy cost with long term leases in a centrally located market.

Buyers:

- Investors acquiring properties in 2014 will benefit from steady and strong demand for space and a corresponding rise in rental rates.
- Investor buyers will pay a premium but, increases in net operating income due to rising rents should boost long term internal rates of return.
- User buyers can still control occupancy cost by acquiring property with fixed rate long-term loans.

Landlords:

- Increases in rental rates will improve net operating income for existing assets.

Sellers:

- Cap rates should remain low as supply tightens further.

Developers:

- Relatively low land costs reduces the risk associated with speculative development.
- Build-to-suit deals will anchor new projects in the near term.

Challenges

Tenants:

- Low vacancy levels will increase competition for quality space.

Buyers:

- Lack of supply of user and investment properties will push prices up.
- Current low cost of capital could rise significantly if the Fed takes an anti-inflationary stance.

Landlords:

- Availability of new speculative product may lower rental rates for older product.

Sellers:

- Lack of supply will make exchange up-legs more difficult to complete.

Developers:

- Heavy demand for very large spaces (over 500,000 square feet) will create more risk for speculative developers who build to meet that demand.

A LOOK AHEAD. The outlook for the Dallas/Fort Worth industrial market is excellent. Internal economic growth is expected to continue, so too is the intense interest from companies around the country who are attracted by the favorable tax laws, strong government support, low cost of living and ready access to a diverse labor base. Net absorption should continue to rise, but may be tempered by the decreasing stock of existing space. Fortunately, land is still available for development to keep up with demand over time, but competition for existing product could become more intense in the short run. Lease rates and sales prices should continue moving up, as will the construction of new inventory, which should keep supply and demand in relative balance for the next several quarters.

ST. LOUIS OVERVIEW

The St. Louis area industrial market continued its pattern of moderate and steady growth in the 2nd Quarter of 2014. Net absorption was positive again, marking the 8th consecutive quarter of net growth in occupied space.

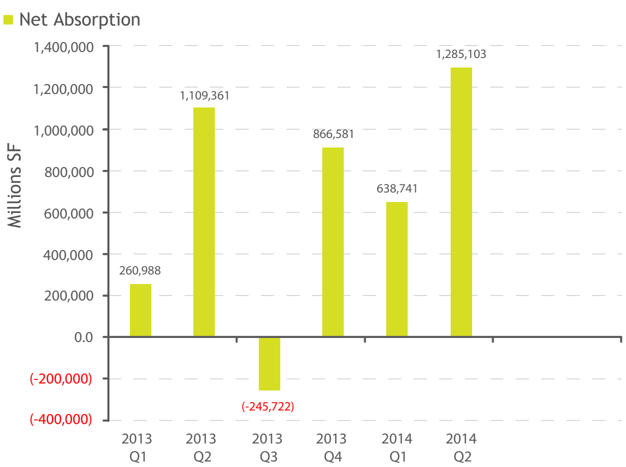
The vacancy rate dipped accordingly, with the key benchmark now standing at a slim 7.5%. Activity has been particularly strong in larger bulk warehouse properties, and the recent spate of build-to-suit transactions is a clear signal that existing inventory cannot satisfy current demand. That comes as welcome news to area developers who have put speculative development back on the table. Several projects are underway including the Gateway Commerce Center, a 673,135 square foot building.

However, for new construction to gather more momentum lease rates will have to continue moving up, as current land prices are still making new projects tough to pencil. All the good news about net absorption is great news for landlords, who are now in a position to tighten up their negotiating positions relative to tenant improvements, lease rates and other concessions.

Tenants in need of larger blocks of space in the near term can expect to pay more, at least until speculative development picks up the pace.

Net Absorption

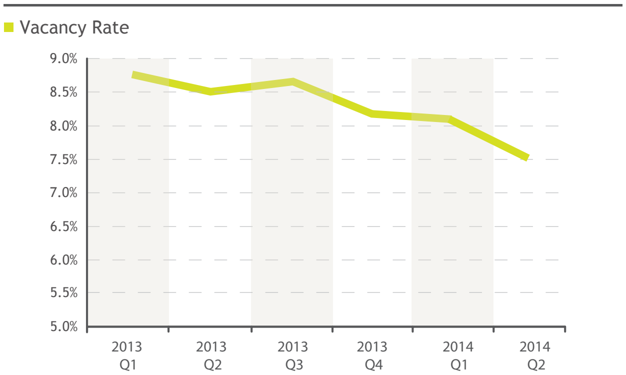
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate

Past 6 Quarters



Source: CoStar Property®

7.5%	$3.99	1,285,103	262,326,615	1,207,135
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

ST. LOUIS OVERVIEW (continued)

Opportunities

Tenants:

- Those willing to commit and able to wait for product to be built can secure new state-of-art facilities at today's prices in a rising market.

Buyers:

- In secondary submarkets, investors can expect a 100 basis point premium over cap rates in prime locations.
- Owner/user opportunities are still available to buyers willing to make a move before inventory tightens further.

Landlords:

- Rising rents and lower vacancy will continue to strengthen landlord negotiating position.
- History of stable rental market in St.Louis reduces long-term risk profile.

Sellers:

- Strong competition for high quality assets will keep prices moving up.
- Cap rates are historically low levels.

Developers:

- Spike in demand and rates is making more projects feasible.
- Those already in control of entitled land are in position to capture more build-to-suit activity.
- Developer-friendly permitting process.

Challenges

Tenants:

- Rising rents and reduced choice for those unable to wait for spec projects to come on line.
- Multiple municipalities with different regulatory controls.

Buyers:

- Investor competition is tight for highest quality assets.
- Shortage of quality owner/user inventory.

Landlords:

- Rent growth is positive but on lower trajectory than in other major US markets.
- Older properties will experience higher vacancy as tenants move to new projects.

Sellers:

- Lack of product suitable for exchange in the area.

Developers:

- Activity is there, but rents just below the threshold to produce desired returns for developers with higher land basis.

A LOOK AHEAD. St. Louis is enjoying a steady economic recovery, which is expected to gain strength in the next 12 to 24 months. The return of build-to-suit and speculative development indicates business confidence in the area over the long term. We expect lease rates to rise faster now that vacancy has entered the 7% range, which will motivate tenants to make deals and developers to build product sooner rather than later. That activity should fuel economic growth by creating new jobs, increasing production and expanding the tax base. Net absorption could slow in the near term as the choice of quality product, especially for owner/users, becomes more limited. However, the overall momentum of the expanding market should keep growth in positive territory.

CHICAGO METRO AREA OVERVIEW

Similar to its coastal counterparts in Los Angeles and New York, the Chicago Metro area's industrial marketplace is experiencing declining vacancy, increasing demand and rising prices.

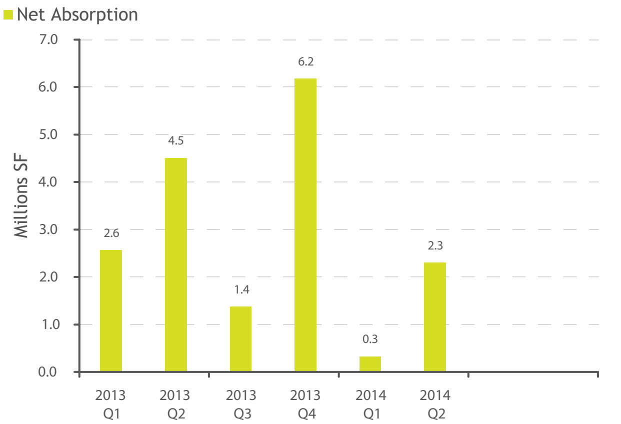
Vacancy in the region stands at 8.6%, a noticeable decline from the previous quarter. While the national economy is expected to grow at a sluggish 2% rate through the second quarter of this year, Chicago's industrial product is still being absorbed at a consistent rate.

Over a dozen major speculative-projects are underway or planned for 2015, mainly concentrated in the Southeast Wisconsin, O'Hare and Far Southwest suburban markets.

Availability overall is at its lowest levels in years, which has pushed lease rates and sales prices higher. Average asking lease rates are $5.23 psf.

Net Absorption

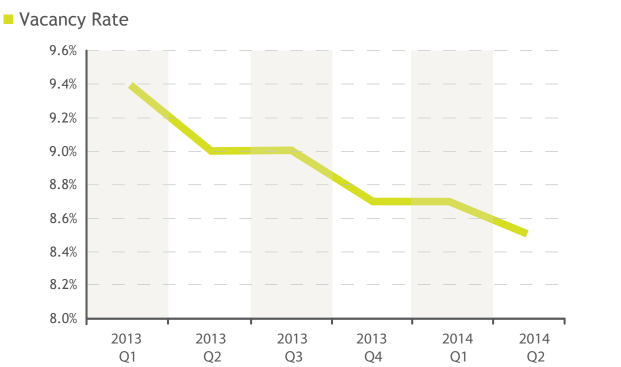
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate

Past 6 Quarters



Source: CoStar Property®

8.6%	$5.23	2,303,618	1,149,028,553	7,721,186
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

CHICAGO METRO AREA OVERVIEW (continued)

Opportunities

Tenants:

- Despite high cost structure, Chicago tenants benefit from the transportation infrastructure that includes O'Hare Airport, Interstate Highways and access to Class 1 rail systems.
- New inventory, while expensive, afford tenants in functionally obsolete buildings to upgrade to more efficient and modern space.

Landlords:

- Low vacancy will allow landlords to reduce concessions, insist on longer lease terms and negotiate for higher net rents.
- Time on market for vacant space should decrease.

Developers:

- Strong tenant activity will facilitate the financing of major developments through many sources of available debt and institutional equity partners.
- Speculative development will continue due to the lack of "A" product in the market.

Challenges

Tenants:

- Rising rents, minimal concessions and lack of available product will impact real estate decisions.

Buyers:

- Strong competition among institutional investors for "A" product in "A" locations.
- Limited availability could force investors into higher risk properties.

Landlords:

- Investment credit tenants still have the power to negotiate for favorable lease terms, rates and concessions.
- Availability of new speculative product may push down rental rates in older buildings.

Sellers:

- Difficult to find suitable alternative investments.
- Properties in comparable markets trading at similar cap rates.

Developers:

- Competition for development sites will intensify.

A LOOK AHEAD. Chicago's industrial market will continue to move toward 2007's peak pricing threshold. Demand is steady and should keep vacancy at current levels. With business confidence and transaction velocity on the rise, lease rates should continue to move up and cap rates for "A" product in "A" locations will remain close to record levels. An increase in interest rates or unsettled political issues have the potential to negatively affect continued growth, but given Chicago's excellent infrastructure and central location, it will remain an industrial activity hub for the foreseeable future.

ATLANTA OVERVIEW

The Atlanta industrial property market continues to be an absorption leader for the US in 2014. First quarter net absorption, totaling over 4,500,000 square feet, was followed up with another 2,400,000 square feet in Q2, with very large transactions contributing most to these record-setting numbers.

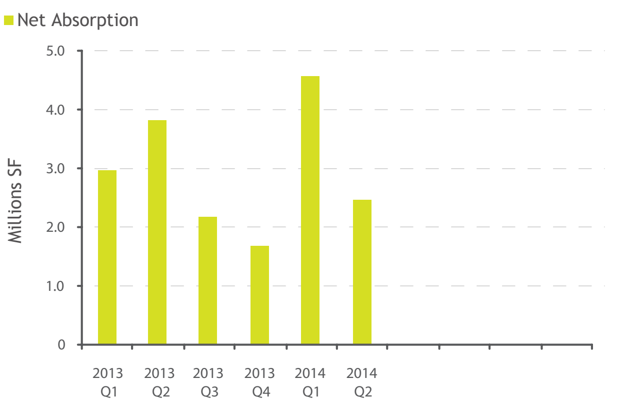
Leasing activity is also up as several build-to-suit projects have been inked and are underway, including Proctor & Gamble's 1,000,000 square feet expansion of its existing South Atlanta location and another 1,500,000 square foot distribution facility for Kroger at Fort Gillem. Leases over 200,000 square feet are occurring with greater frequency, and the resulting strain on existing inventory has developers responding with new speculative projects.

At quarter's end, 560,625 square feet of speculative space was under construction, with another 3,830,856 square feet in build-to-suit deals.

The vacancy rate is now 10.5%, a marked decrease from its high of 14.9% in 2010, and average asking lease rates are moving back up after years of remaining flat. Sale activity has also picked up.

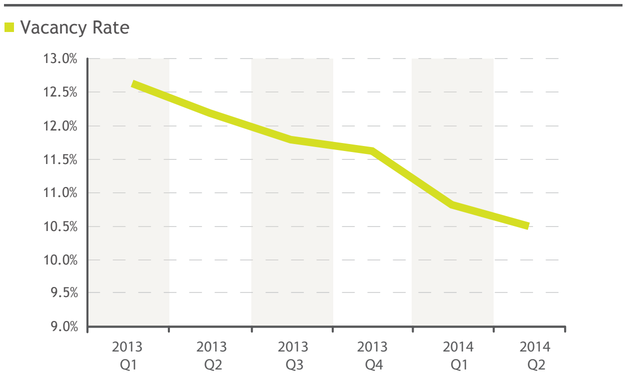
In the 2nd quarter of 2014, gross absorption hit 8,586,144 square feet, up from 7,602,795 square feet in the Second Quarter of 2012.

Net Absorption
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate
Past 6 Quarters



Source: CoStar Property®

10.5%	$3.93	2,453,848	584,771,473	4,391,481
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA OVERVIEW (continued)

Opportunities

Tenants:

- Good choice of space for startup firms. Favorable rates and terms are still available to smaller tenants willing to commit to new deals soon, as landlords will soon gain the upper hand.

Buyers:

- Owner/user buyers can still buy at prices well off the previous market peak.
- SBA financing still readily available.
- Investors acquiring in 2014 will benefit from the expected rise in rents.

Landlords:

- Declining availability will lead to fewer concessions and more upward pressure on lease rates.

Sellers:

- Optimism over sustained economic growth and stability will make buyers more aggressive.

Developers:

- Increase demand and rising rents are making speculative development more viable.

Challenges

Tenants:

- The potential for spot shortages in some size ranges could increase the lead time required to find quality space. Tenants must act fast to secure their first choice.

Buyers:

- Seller expectations is widening the gap between bid and ask.
- Shortage or buildings available for sale between 25,000 and 50,000 square feet.

Landlords:

- As speculative development gains momentum, owners of older product may experience higher vacancy.

Sellers:

- High tax burden for outright sales will force owners to exchange into premium-priced properties.

Developers:

- Rent growth still not strong enough to meet pro-forma requirements in the near term.
- Residential activity is increasing land prices for the most desirable industrial locations.

A LOOK AHEAD. Atlanta's strong performance is expected to continue into 2015. Due to the expansion at the Port of Savannah and Hartsfield Jackson Airport, cargo volumes continue to increase, and the region has become a dominant inland hub for business expansion. Net absorption and rent growth should continue, as the recent flurry of build-to-suit transactions clearly indicates that the market is not overbuilt. Speculative construction should pick up to meet the demand of expanding businesses over 250,000 square feet. Sales activity from owner/users will remain strong, especially for buildings under 100,000 square feet. As this demand strengthens, the market could experience spot shortages of quality properties for sale. Optimism is on the rise, and despite lingering uncertainty over general economic and political issues, Atlanta should maintain its current momentum.

ORLANDO OVERVIEW

Compared to the market low back in 2009, the Orlando market has made significant gains. Lease and sale transaction velocity continues to rise and pricing is just 20% to 30% off the previous market peak in 2007.

Industrial vacancy stands at 11.4% down from 14% at the end of the second quarter last year. Unlike some of the other major metro markets, Orlando has been slower to recover due to abnormally high unemployment tied specifically to residential construction activity.

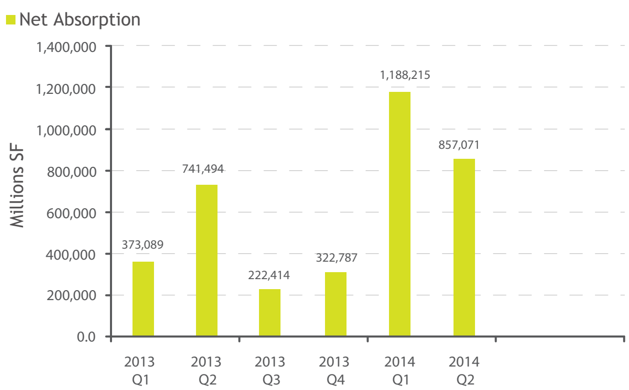
The unemployment rate continues to fall and the market continues to slowly improve. Speculative construction has begun in Orlando, and will add a supply of more modern buildings with all of the latest, greatest bells and whistles which should further help to fuel demand.

In Q1 and Q2, 365,914 square feet of new space was added to the speculative industrial base inventory. Construction activity going forward is likely to increase as the rising rent environment will help developers and their lenders to underwrite new projects. In fact, over 2.4 million square feet (which includes Publix Supermarkets 1.1 million square foot cold distribution center) was under construction at the end of the 2nd quarter.

Activity has risen slowly and steadily in 2014, with the bulk/distribution market contributing 482,618 of the 857,071 square feet of net absorption in the second quarter.

Net Absorption

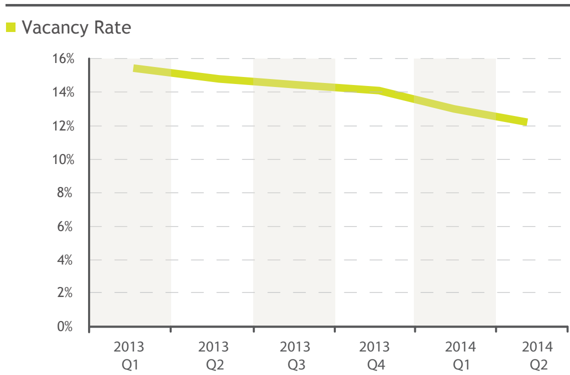
Past 6 Quarters



Source: Lee Orlando Proprietary Data

Vacancy Rate

Past 6 Quarters



Source: Lee Orlando Proprietary Data

11.4%	$5.50	857,071	178,592,582	1,914,757
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

ORLANDO OVERVIEW
(continued)

Opportunities

Tenants:

- With lease rates rising, but still under the previous peaks, tenants can lock in lower occupancy costs with long term lease commitments.

Buyers:

- Owner/users can fix occupancy costs with fixed-rate, long-term loans before the Federal Reserve begins normalizing interest rates.
- Investor/buyers who acquire assets now will benefit from the continuation of rising lease rates.

Landlords:

- Decreasing vacancy rate will allow landlords to push for higher lease rates, especially for the highest quality properties.

Sellers:

- Equity gap for once-distressed assets is narrowing, allowing greater flexibility for disposition.

Developers:

- Increased user demand and improving lending environment will increase IRR's for new projects.

Challenges

Tenants:

- Potential shortage of quality properties could force some tenants into less efficient facilities or delay growth plans.

Buyers:

- Interest rates are likely to rise as soon as Fed easy money policy begins to reverse course.

Landlords:

- Lease rates for lower quality product will lag behind increases for class A space.

Sellers:

- Limited availability of investment grade assets for 1031 Exchange transactions.

Developers:

- Lease rate rise may not be enough to justify some new projects in the short term.

A LOOK AHEAD. The local economy, which is fueled by visitors to major entertainment venues and business convention facilities, is moving in the right direction; however, nagging uncertainty over prospects for the general economy is limiting consumer confidence. Concern over the ramifications of the mid-term election is also keeping many industrial users in wait-and-see mode. However, the overall business environment appears strong enough to keep the market on its present trajectory for the rest of the year, which means net absorption should remain positive. Vacancy will likely drop to the 11% and lease rates could increase as much as 10% for the best product. Development will continue, but at a moderate pace. If long term interest rates remain near current levels and supply of quality product holds up, user sales should pick up for the balance of 2014.

BALTIMORE OVERVIEW

The Baltimore area's proximity to the larger regional economy that includes the nation's capital has helped the industrial market return to equilibrium after being hit hard by prolonged recession. Net absorption is nominally positive, vacancy has fallen to 8.8% from the peak of 11.2% in 2009 and rents have stabilized throughout the region.

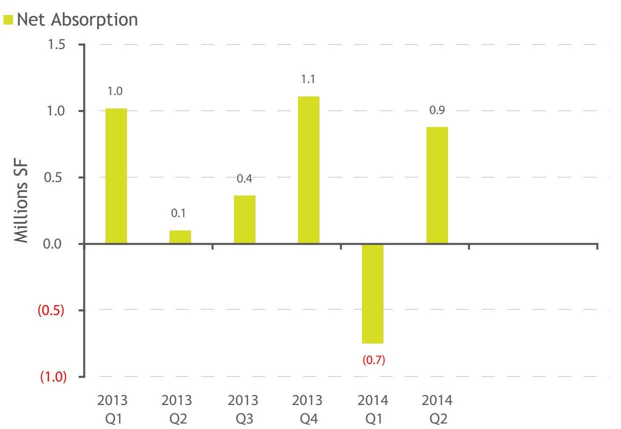
Growth among regional distribution users has been the primary driver of gross absorption in this 250 million square foot market, especially in the 20,000 to 70,000 square foot range. However, the attraction of the region's population density is generating build-to-suit activity from larger distributers, as well, most notably a 1,000,000 square foot facility for Amazon.com in the Baltimore City submarket. Other significant build-to-suit transactions include 1,000,000 square feet for Clorox and 655,000 square feet for Sephora. Perhaps the strongest trend of late is the interest from users to purchase their own facilities.

Demand is intense and competition is fierce for the few facilities that are for sale. Much of that activity is concentrated in off-market opportunities, and sellers have taken to holding out for higher pricing due to the lack of supply. This strategy seems to be working, as prices for owner/user properties are heading north, even for properties of lower quality. Net absorption overall would definitely be more robust if more product was available for sale. The same holds true for industrial investment properties.

Cap rates have compressed and interest from institutional buyers is very strong, as they anticipate strong rent growth due to continuing high demand and a severe lack of supply of developable land throughout the region.

Net Absorption

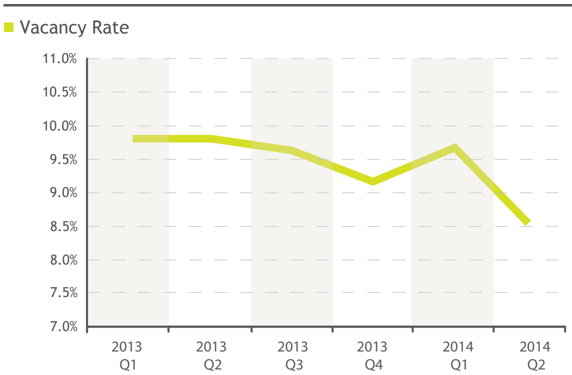
Past 6 Quarters



Source: CoStar Property®

Vacancy Rate

Past 6 Quarters



Source: CoStar Property®

8.8%	$5.83	877,145	229,009,632	4,189,956
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

BALTIMORE OVERVIEW (continued)

Opportunities

Tenants:

- Those willing to commit to longer term leases soon will benefit from lower occupancy costs before an expected rise in rental rates.

Buyers:

- Owner/users can still purchase facilities with low down payments and fixed rate financing at historically low interest rates.

Landlords:

- Best quality product will lease at higher rates going forward with fewer concessions and faster lease-up time.

Sellers:

- Patient sellers can hold out for higher prices due to intense demand that is expected to continue.

Developers:

- Build-to-suit opportunities exist for developers already in control of buildable sites.

Challenges

Tenants:

- Choice of quality product is declining as vacancy rate falls.

Buyers:

- Short supply is driving competitive bidding and higher prices for investors and owner/users.

Landlords:

- Lower quality facilities with elements of functional obsolescence will take longer to lease up.

Sellers:

- Those who are unable to identify suitable exchange properties will face heavy tax burden on exit.

Developers:

- High prices for what little land is left will make speculative development difficult to pencil at today's lease rates.

A LOOK AHEAD. The Baltimore area industrial market should continue to tighten up over the next several quarters. Demand will strengthen as the overall regional economy continues to improve. However, net absorption growth will be hampered by the lack of supply, a situation that will become more problematic until significant speculative development gets underway. Over 4,000,000 square feet is in the construction pipeline, but may not be delivered in time to balance supply and demand in the near term. What land remains for industrial development will only get more expensive, and some industrial areas will undergo redevelopment to other uses, which could exacerbate the supply shortage over the next several years. Owner/users will continue to aggressively pursue acquisition opportunities, at least until there is a significant rise in interest rates, which is not anticipated until at least the middle of 2015 when the Fed is expected to reverse course on its easy money policies.

NEW YORK OVERVIEW

The industrial property market in the New York Area is facing the same challenge as many primary markets across the country: a lack of available space. Vacancy has fallen to just 5.0% in the 2nd Quarter of 2014, down from 5.7% three years ago.

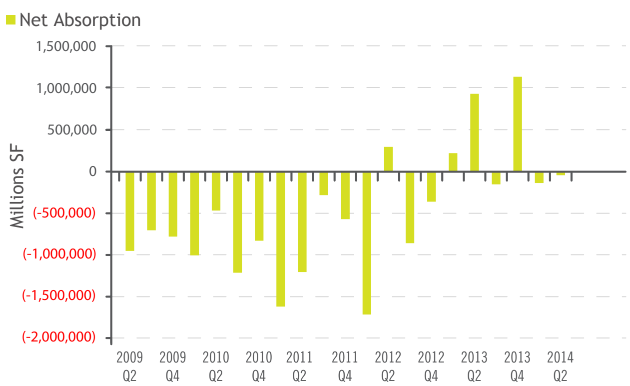
Demand for distribution and general warehouse property has been increasing steadily over the past several years, yet very little new product has been developed. While strong demand is expected to continue as the economic recovery picks up steam, the likelihood of newly developed inventory is not good. Industrial areas are being gentrified and redeveloped to higher density residential and retail uses. Thus, the industrial base is shrinking as demand for more space continues to rise. Lease space in the outer boroughs of Queens and Brooklyn are particularly impacted, especially for buildings in the 10,000 range.

Product offered for sale is virtually non-existent. Landlords are confident in their ability to successfully raise rents and negotiate tougher terms with industrial tenants. The average asking lease rate has risen 5% since the Q2 of 2012.

While the up-zoning of industrial properties to "higher" uses may benefit the area in some ways, it poses a significant problem for industrial users trying to grow their businesses without leaving the area. The good news is that the demand is there, along with it the chance for new job creation and higher tax revenue.

Net Absorption

Alternating quarters 2009 - 2014



Source: Lee New York Proprietary Data

Vacancy Rate

County	Size (SF)	2Q14	2Q11
Bronx	23,392,286	6.6%	6.2%
Kings (Brooklyn)	90,421,880	6.5%	6.0%
Manhattan	9,084,194	1.6%	1.2%
Queens	75,013,208	3.9%	5.7%
Richmond (Staten Island)	5,335,501	5.5%	5.9%
Total New York City	**203,247,069**	**5.2%**	**5.7%**
Nassau	50,128,300	7.2%	7.6%
Suffolk	103,168,173	3.9%	5.4%
Total Long Island	**153,296,473**	**4.9%**	**6.1%**
Westchester	28,368,758	4.1%	3.9%
Total New York Area	**384,912,300**	**5.0%**	**5.7%**

Source: Lee New York Proprietary Data

5.0%	$12.47	-43,285	384,912,300	226,054
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

NEW YORK OVERVIEW (continued)

Opportunities

Tenants:

- Tenants with long-term leases in gentrifying neighborhoods, where industrial space is being converted to retail, may be able to buy out of their leases or purchase their leased properties from their landlords.

Buyers:

- Low vacancy minimize time on market for unoccupied space.

Landlords:

- Rents are rising for what little space becomes available.
- Option to redevelop, re-zone and move to higher uses offers opportunity for significant increases in net operating income.

Sellers:

- Lack of availability is driving sales prices higher.
- Properties with deferred maintenance and/or functional obsolescence can still be sold at premium prices.

Developers:

- Upside potential in rents through redevelopment to higher uses will increase return on investment.
- Gentrification process offers an alternative to ground-up development in an infill market.

Challenges

Tenants:

- Lack of available product will force tenants to become more efficient within existing locations.
- Spike in rents will put pressure on profitability in an economy that is growing at a steady but slow pace.

Buyers:

- Owner/user buyers may be forced to buy lower quality facilities with higher retrofit costs.
- Investors will have to pay a premium due to high demand and the upside potential for rental income growth.

Landlords:

- Owners of functionally obsolete properties will face higher tenant improvement costs to attract quality tenants.

Sellers:

- Lack of local product suitable for exchange and low cap rates for alternative properties in other markets.

Developers:

- Competition for re-use and re-development sites is intense.
- Prices are rising as sellers recognize the upside potential of gentrification.

A LOOK AHEAD. Steady demand for industrial space will keep vacancy at very low levels for the next several years. Pricing for lease and sale product will rise as long as the economic recovery keeps fueling the need for more space. Job growth in the industrial sector will be moderated by the lack of additional space for business expansion. Redevelopment activity will remain strong and developers will aggressively compete for new projects in the hope of securing long term financing before the Fed reverses its policies that have kept interest rates at historic lows. Users who need to stay in their local market to thrive will be forced to pay more for that privilege and will opt for longer term leases to protect against a further decline in availability down the road. Existing landlords and those developers already in a position to launch their projects will enjoy a significant advantage for the foreseeable future.

Significant Lee Transactions

ADDRESS	TRANSACTION	BUYER / TENANT	AGENT(S)
ATLANTA			
701 E Bay Street Charleston, GA	$24,180,000 sale of 244,000 SF property	Weaver Capital Partners	Taylor Smith & Austin Wilson
13-16 Overmyer Way Forest Park, GA	$5,500,000 sale of 242,450 SF property	Columbus Nova	Rick Tumlin & Michael Sutter
3025 Commerce Way Hapeville, GA	$2,490,447.60 lease of 53,558 SF property	Fulton County	Rick Tumlin, Mike Sutter, & Billy Snowden
BALTIMORE			
711 Dorsey Run Road Elkridge, MD	$1,062,674 lease of 13,056 SF property	Tecla K-9 Academy	Bill Harrison & Dennis Boyle
55 Fisk Avenue Springfield, MA	$914,595 lease of 46,205 SF property	SRS Distribution	Thomas Whelan
3437 9th Street Baltimore, MD	$692,778 lease of 17,175 SF property	Greenwood Recovery	Kate Jordan
CENTRAL LOS ANGELES MARKET			
6901 S. Alameda Street Huntington Park, CA	$6,525,604 sale of 35,561 SF property	Camfield Partners	David Brandt & Jeff Rinkov
656 S. Vail Avenue Montebello, CA	$4,550,000 sale of 44,050 SF property	S&S Trust	Matthew Artukovich
6260-6973 Chalet Drive Commerce, CA	$3,000,000 sale of 42,141 SF property	Sourabh Roy & Anas	Peter Bacci, Jack Cline, & Chuck Campbell
CHICAGO			
951 Douglas Road Batavia, IL	$2,836,119.90 lease of 78,087 SF property	AGS Technology	Nick Eboli & Michael Androwich
2760-2770 Spectrum Drive Elgin, IL	$2,213,572.40 lease of 154,523 SF property	Medela, Inc.	John Sharpe & Steve Bass
DALLAS			
8590 Airport Road Brampton, Ontario	$6,525,604 sale of 35,561 SF property	UTi Canada Contract Logistics	Trey Fricke & Reid Bassinger
915 Enterprise Boulevard Allen, TX	$3,546,211 lease of 105,542 SF property	S&S Trust	George Tanghongs & Brett Lewis
Suwanee, GA	$3,506,666.68 lease of 400,000 SF property	KGP Telecommunications	Tom Walrich & Reed Parker
NEW YORK			
545 West 45th Street New York, NY	$5,400,000 sale of 13,000 SF property	Hudson Vista LLC	Alan Weisman

Significant Lee Transactions

ADDRESS	TRANSACTION	BUYER / TENANT	AGENT(S)
ORLANDO			
2479 Eunice Avenue Orlando, FL	$2,429,000 sale of 121,440 SF property	Huntly Christie	Sher Tolan
1125 & 1075 Gills Drive Orlando, FL	$1,077,066.37 lease of 52,590 SF property	Ace World Wide Moving & Storage	Sher Tolan
236 Outlook Point Drive Orlando, FL	$1,075,318.19 lease of 19,824 SF property	Evolve Media Group	Sher Tolan
PHOENIX			
900 Fiesta Blvd Gilbert, AZ	$6,847,400 sale of 62,413 SF property	Frank A. Rhoades Separate Property Trust	Dave Johnson & Bob Kling
22230 N Black Canyon Hwy Phoenix, AZ	$6,000,000 sale of 120,000 SF property	Premier Storage Holdings LLC	Nate Bubeck & Jerry Marrell
78th Way and Raintree Scottsdale, AZ	$8,325,000 sale of 415,563 SF property	Boeing V LLC	Mark Linsalata, Bill Blake, Fred Darche, John Cerchiai & Colton Trauter
SAN DIEGO			
2212 Verus Street San Diego, CA	$1,425,000 sale of 18,400 SF property	Two Golfers Properties, LLC	Charlie Adolphe
11255 Central & 5376 Phillips Boulevard Montebello, CA	$6,380,000 sale of 47,000 SF property	Dos Lagos Center 2, LLC	Tom Morgan, Gary Friesen & Thomas Smith
ST. LOUIS			
3861 Fountain Lakes Parkway St. Charles, MO	$5,075,000 sale of 120,000 SF property	Exeter LLC	Thomas Homco
22 Brookhill Drive Neward, DE	$372, 082.44 lease of 8,948 SF property	The Brickman Group	Thomas Homco
1201 Research Boulevard Creve Coeur, MO	$358,684 lease of 17,286 SF property	American Document Destruction	David Zeigler

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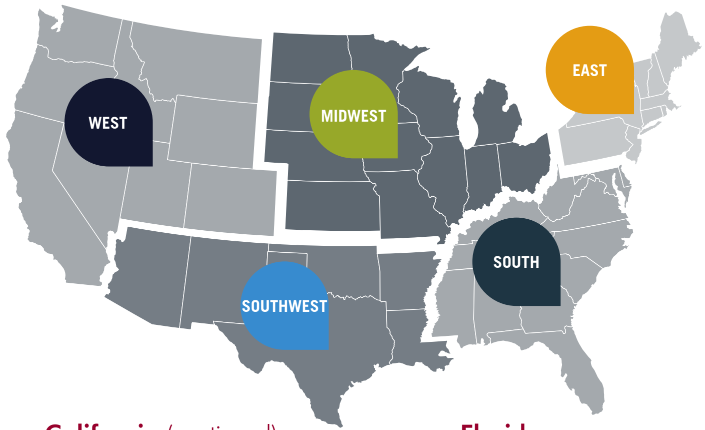
Nationwide Lee Offices



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