The Lee Industrial Brief

Closing 2014 with a glance to 2015

Q4

2014

Click below. Interactive tabs

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COMMERCIAL REAL ESTATE SERVICES

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increase
in transaction volume over 5 years

$7.9 billion
transaction volume
2013

800
agents
and growing nationwide

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

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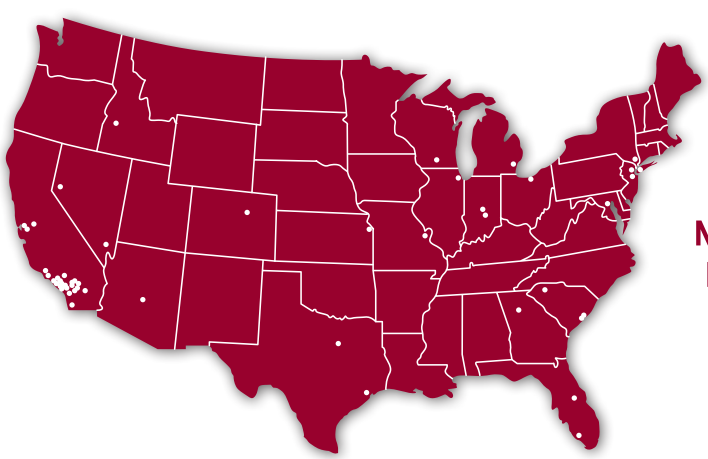
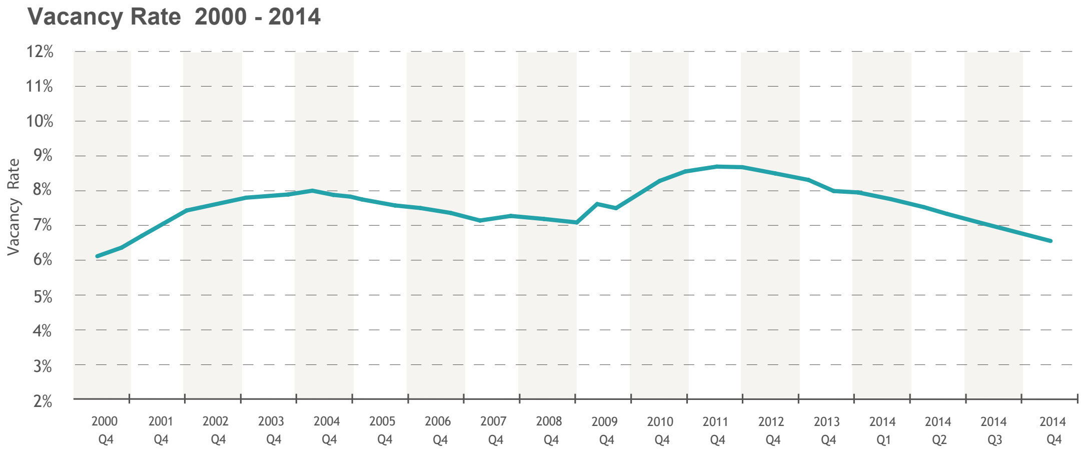


NATIONWIDE LOCATIONS

Houston, TX • Denver, CO • 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 • Little Falls, 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 • Las Vegas, NV • Phoenix, AZ • Carlsbad, CA • Industry, CA • Los Angeles, CA • Riverside, CA • Ontario, CA • Newport Beach, CA • Orange, CA • Irvine, CA

VACANCY DECLINES FROM COAST TO COAST

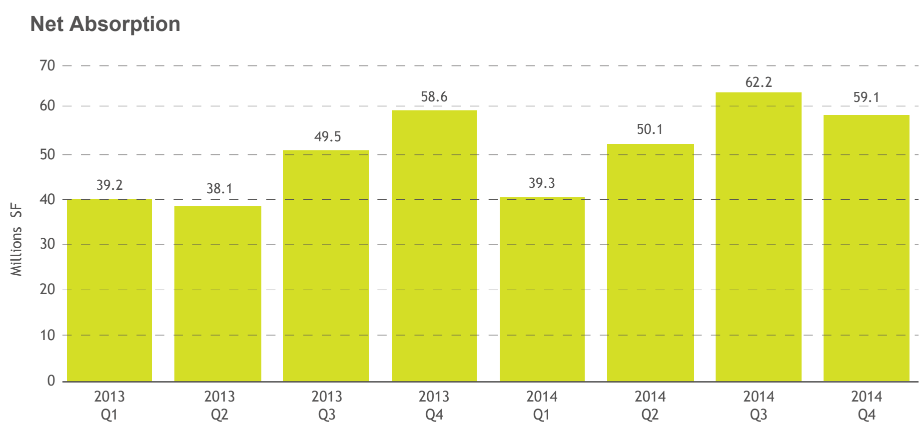
At long last, optimism is trumping uncertainty in industrial markets across the United States. An ongoing concern over tightening supplies of quality space combined with an improving national economy, has boosted the sense of urgency from American businesses to make their moves while supplies last. Vacancy for the top 50 markets across the country fell to 7.2% in the fourth quarter of 2014, as compared to 8.0% a year ago. Vacancy declines were reported across the board, but ranged as low as 3% in some major infill markets.



Development, both on a speculative and build-to-suit basis, gained momentum throughout the year, but lagged behind rising demand, even in markets posting the biggest gains in new deliveries. Restarting the development pipeline has been a challenge from coast to coast for a variety of reasons including higher land prices, rising construction costs and conservative loan underwriting. In more mature markets, land for industrial development is just not available at any price, and conversion of many existing industrial sites to mixed-use projects exacerbated the supply/ demand imbalance in mature markets like Los Angeles and the New York area.

Net absorption for the overall industrial market for Q4 reached 81 million square feet, bringing the total for the year to 230 million square feet almost identical to 2013's mark of 231 million square feet. Large bulk distribution users were the most active throughout the year, contributing significantly to net gains in occupied space. Gains in efficiency offered by higher ceiling clearance and enhanced fire suppression systems offset higher rents for first generation space. Demand was especially high from e-retailers looking to open regional fulfillment centers to reduce shipping times and increase customer service. Absorption in most markets was strong enough to backfill second generation space, which confined supply spikes to areas with larger stocks of functionally obsolete inventory.

Accordingly, average asking lease rates rose another .5% to $5.50 per square-foot in Q4. The steady increase in rents throughout the year had tenants showing more of a willingness to make long-term commitments to lock in today's rates, which most expect to move even higher going forward. Newer bulk distribution product saw the biggest rent gains, but even product with limited functional obsolescence garnered higher rents, especially in mature markets where vacancy was lowest.

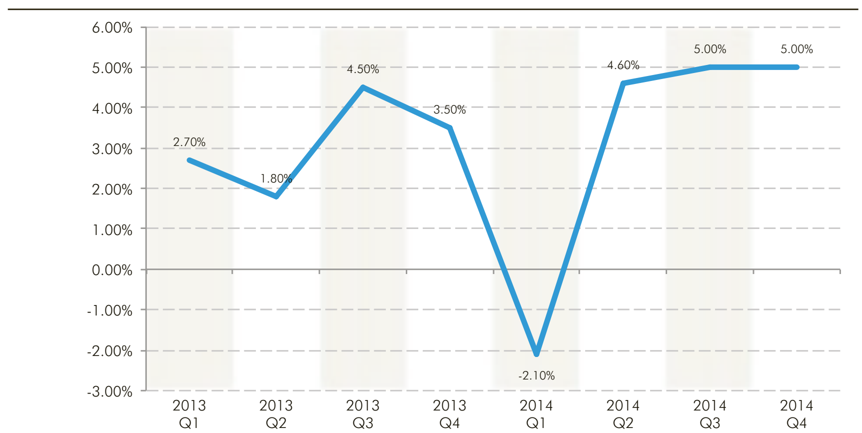


Sales pricing for owner/user product moved sharply higher again in 2014, as businesses looking to control occupancy costs with low-cost SBA loan programs, snapped up what was left of the meager supply of industrial space offered for sale. Investors faced a similar challenge in 2014. Strong market metrics drove demand to new highs and cap rates to new lows across the country. Secondary markets also got a pricing boost, as low returns and intense competition for core assets in major metro areas pushed yield-chasing investors their way.

Driving all this activity was an overall economy that steadily improved over the course of the year. A closer look at key economic drivers brings 2014's industrial market performance into clear perspective.

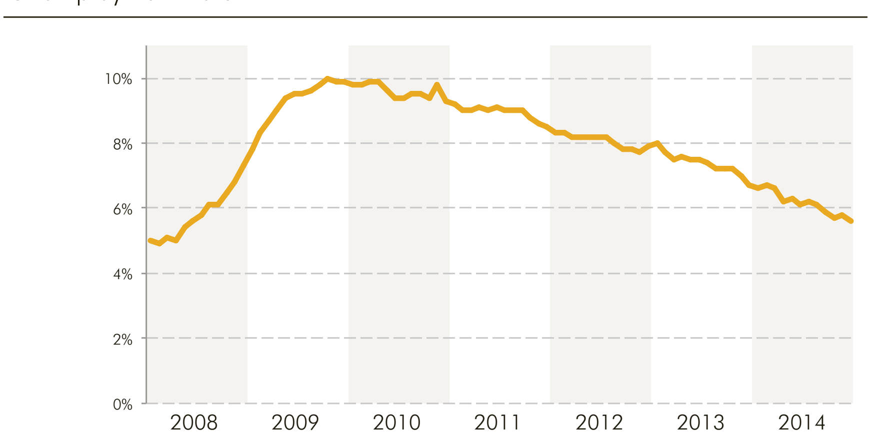
After several years of anemic growth in GDP in the 1.5% to 1.8% range despite massive stimulation from our central bank, the nation's total output finally broke into new territory in 2014. Following a 2.1% decline in the first quarter, attributed mainly to a record cold winter, the US had quarterly growth spurts of 3.6% in Q2, 4.6% in Q3 and the latest estimate for Q4 are coming in at 5%, subject to further revision. This is welcome news for a nation held back by years of uncertainty and caution over the sustainability of an economic recovery that began back in 2010. The boom in energy production resulting from new extraction technologies led the way, but several other factors contributed, as well.

Quarter-to-Quarter Growth in Real GDP



Job and wage growth, weaker in this recovery by historical standards, stepped up the pace in 2014. Job creation ranged between 200,000 and 300,000 per month throughout the last half of the year, and hit a high of 353,000 in November. This proved helpful for unemployed and underemployed workers who have long been frustrated by the lack of quality full-time jobs on offer. Energy-related jobs tended to be the highest paying, so gains were greatest in those states benefiting directly from the boom in oil and gas production. Technology hubs also saw good year-over-year strides in employment and wage growth, but they tended to benefit office related jobs over those in the industrial sector.

Unemployment Rate



The unemployment rate moved down significantly in 2014, falling to a post-recession low of 5.6%. However, the high number of part-time positions and a disproportionate share of the openings in lower-paying jobs de-emphasized it as key indicator of economic health. More attention is now being centered on the Labor Participation Rate to gauge the job market going forward. It measures the number of people eligible to work compared to those who are gainfully employed, and it still hovers at a four decade low rate of 62.7%.

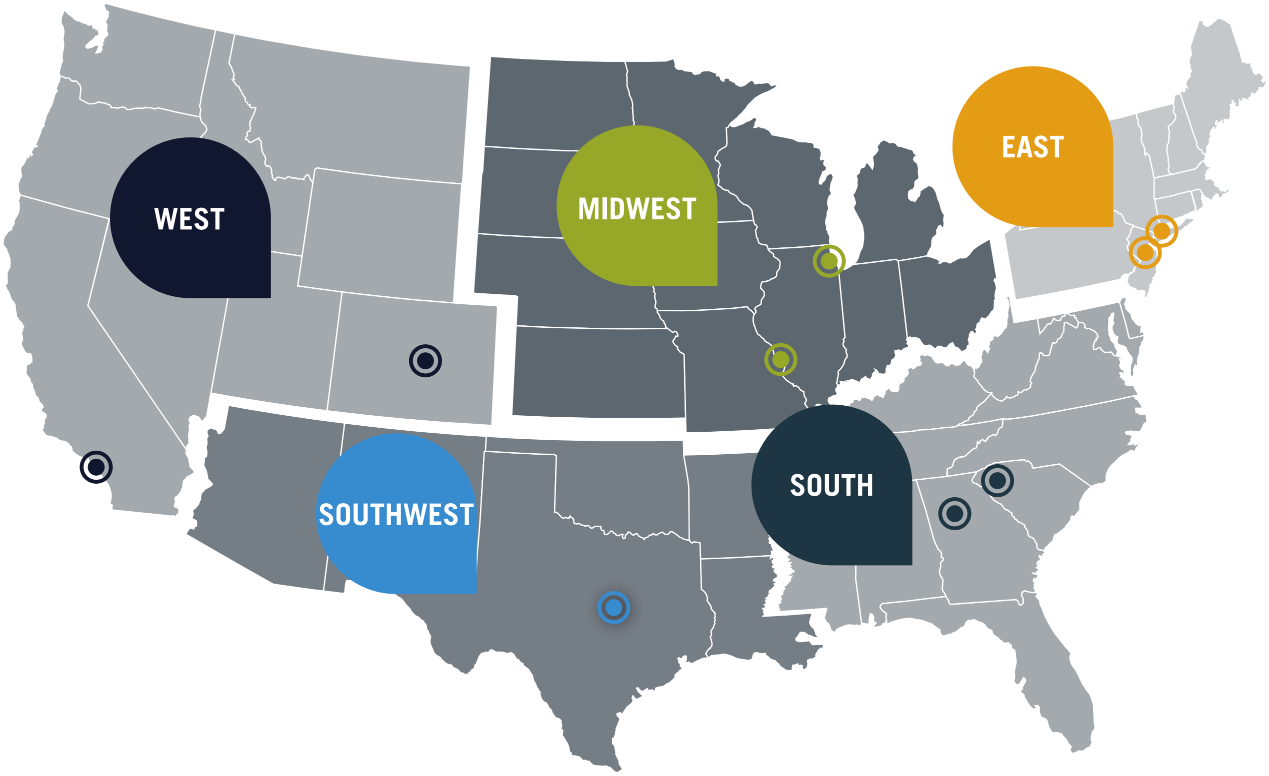
The continuation of the US Federal Reserve Bank's stimulation of the economy was another key driver and a bit of a surprise to many market experts. As predicted, the massive bond-buying program known as Quantitative Easing was ended, but the much-anticipated rise in the Discount and Federal Fund rates failed to materialize. Most thought the bump in rates would have come before the year ended, but that estimate has been pushed back to at least the middle of 2015. That has kept the stock market on a roll, cap rates compressed and businesses making their moves to expand payroll and production while the cost of capital remains at historic lows.

The global economy remained a point of concern over the course of the year and may be a source of greater concern than domestic growth. China's growth slowed in to the 7% range, which was not wholly unexpected, but Japan and Europe performed weaker than expected. Central banks in both regions increased involvement to avoid a deflationary cycle that could have precipitated a worldwide recession. Eurozone growth hovers near zero and that has weakened the Euro against the dollar and other currencies. Taking a page out of the Fed playbook, the European Central Bank recently announced a round of quantitative easing to boost GDP amongst its member nations. Concerns over large Eurozone players like France, Italy and even Germany returned to the headlines in 2014. However, the resulting strength of the US Dollar increases buying power across the Atlantic.

The fall in energy prices worldwide was the big surprise in 2014. Oil prices have fallen from $107 per barrel in June of 2014 to the low $50 range by year end, and industry experts are predicting further declines before the market stabilizes. OPEC has thus far refused to cut production in response, which many believe is a move to counter the impact of the huge increase in US production due to hydraulic fracturing. Fracking, as the process is commonly known, is more expensive than traditional drilling methods and the price of oil fell under the cost of extraction during 2014, causing concerns over future growth. However, the benefits of lower pricing to consumers and heavy users of fossil fuels, figured strongly into 2014's performance overall.

A LOOK AHEAD. The US industrial market will remain strong despite increasing concerns over the global economy. Domestic GDP and job growth will be robust enough to overcome ongoing concerns overseas. Energy prices will remain low at least through the first half of the year, as oil prices are yet to stabilize and could move even lower. This will increase consumer spending in the short term and stimulate additional job growth and industrial productivity nationwide. However, the likelihood of a reduction in oil exploration, extraction and refining in energy states, will negatively impact local job growth. Fortunately, net employment gains in other sectors will minimize that impact. For the moment, the Fed continues to reassure the markets that the cost of capital will remain low until the impact of the energy markets on jobs and GDP becomes more apparent. That will keep vacancy moving lower and net absorption on pace with or ahead of 2014 levels in the near term. Net absorption will moderate in markets with the lowest vacancy, as fewer relocation options force more tenants to stay put. Cap rates will remain compressed due to record high demand and development will pick up, but be limited by the availability and cost of land, especially in the most mature markets. Expect the Affordable Health Care Act to return to center stage in the media and in corporate boardrooms, as new employer mandates kick in and the US Supreme Court rules on a key component of the law that could unravel its financial underpinnings.

Key Market Snapshots



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

DENVER

LA - LONG BEACH

DALLAS / FORT WORTH

CHICAGO METRO AREA

ST. LOUIS

ATLANTA

GREENVILLE / SPARTANBURG

NORTHERN NEW JERSEY

NEW YORK

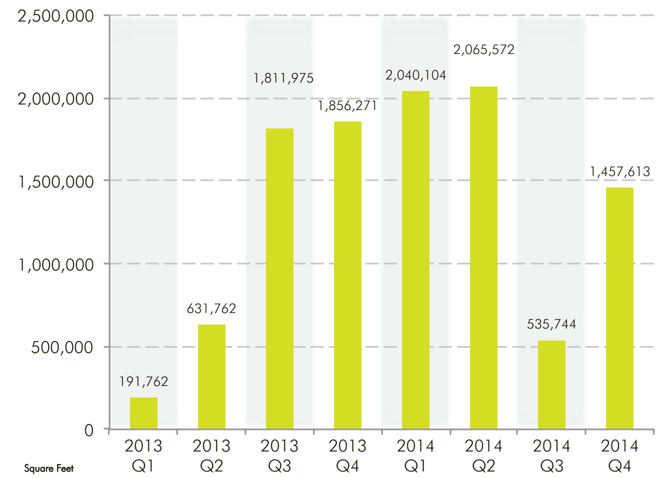
DENVER OVERVIEW

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.

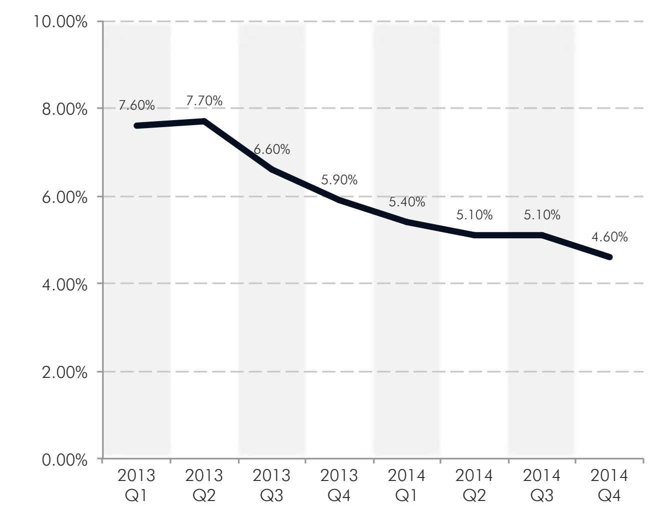
Vacancy ended the year at 4.6%, down 30 basis points for the quarter. Net absorption remained positive in Q4, bringing the total change in occupied space to 6.36 million square feet for the year. Rents are still heading up. By the end of 2014, average asking rates for industrial warehouse product stood at $7.29, up 2.2% in just a single quarter. Sales activity hit $669 million in the first nine months of 2014, more than double 2013's year-over-year total of $316 million. Almost 3.3 million square feet of industrial space was added to the industrial inventory during the year, bringing the industrial base inventory up to just under 288 million square feet. Interest in owner/user sales is still there, but little inventory is available to satisfy current demand. Prices have risen accordingly and competitive bidding for the few buildings that hit the market is common.

In addition to all the other good news, all eyes remain fixed on the marijuana industry as industrial demand continues to grow in the Denver area. The industry is expanding, but still working through kinks in the federal banking laws, which have kept growers and retailers operating almost entirely on a cash basis. That has discouraged some landlords from leasing space to marijuana-based users. It's still too early to tell what the long-term impact of the industry will be.

Net Absorption



Vacancy Rate



4.6%	$7.29	1,457,613	287,745,897	1,803,943
VACANCY	SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

DENVER OVERVIEW (continued)

Opportunities

Tenants:

- Tenants willing to wait can have new facilities built to suit
- New product is state-of-the-art with higher clearance and ESFR systems.

Buyers:

- Steady rent growth should keep values going up.
- Some smaller product beginning to hit the market.

Landlords:

- Landlords can hold out for stronger credit.
- Renewals becoming more common due to low vacancy.

Sellers:

- Strong interest from all buyer classes is moving pricing up across the board.
- Low cost of capital allows leveraged buyers to compete with cash players.

Developers:

- Developers with entitled sites can build with the expectation of quick absorption.
- Cost of capital remains at historically low levels.

Challenges

Tenants:

- Lease rates are rising steadily.
- Users may be forced into less functional space to stay in their preferred location.

Buyers:

- Cap rates continue to compress.
- Owner/user buildings in short supply.

Landlords:

- Renewing tenants in functionally obsolete buildings.
- Uncertainty over a consolidation of the marijuana industry.

Sellers:

- Uncertainty over cap rate decompression when the Fed finally makes a move on rates.
- Buyer concern over underwriting projects with marijuana industry tenants.

Developers:

- Construction costs continue to spike.
- Cost of capital remains low.

A LOOK AHEAD. The marijuana industry's long-term impact on the industrial property market remains unknown. If the banking issues get sorted out, that will go a long way in easing landlord concerns. Current economic fundamentals remain good and the region should continue to outpace the US in job and income growth. Colorado, in general, and Denver in particular, offers a high quality of life, especially outdoor-oriented millennials looking for a good alternative to traditional metro areas. Some concerns are being raised over the potential effect of the massive drop in oil prices experienced in the second half of 2014. The US energy boom has been driven by the hydraulic fracturing process, which is more expensive than conventional drilling. Thus, the lower pricing could render some production unprofitable and cause energy-related expansion in the Denver market to be put on hold until the oil market sorts itself out.

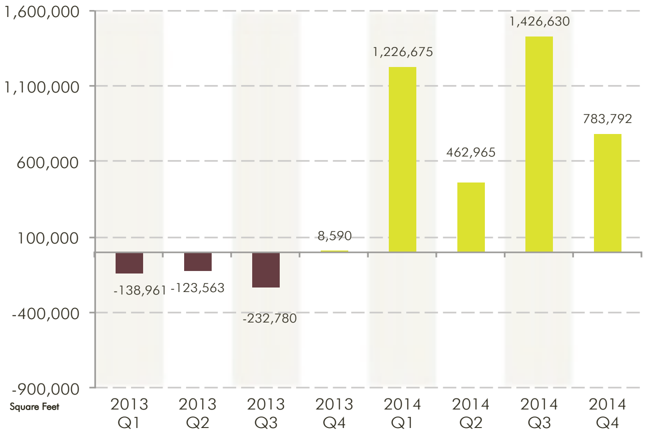
LA - LONG BEACH OVERVIEW

The Los Angeles/Long Beach industrial market includes a major portion of South Los Angeles County and the City of Long Beach with a total base inventory of 191 million square feet. The area has long been one of the busiest industrial markets in the country, driven primarily by the Ports of Long Beach and Los Angeles, which together handle up to 40% of the nation's cargo activity. The area is also home to LAX International Airport, one of the nation's largest air freight hubs.

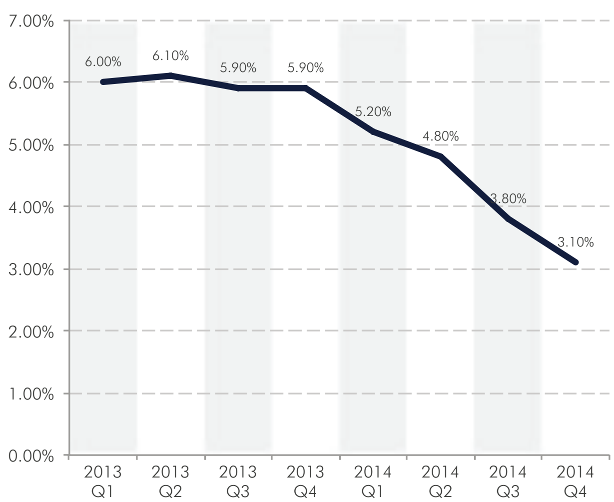
Demand spiked in 2014 and a dwindling supply of functional industrial properties was absorbed at levels not seen since 2007. Net absorption turned positive in 2014, with 3,336,757 square feet of net growth in occupied space over the course of the year compared to a negative 495,304 square feet in 2013. While that came as welcome news to local landlords, functional obsolescence within the remaining stock of available inventory is becoming problematic as more buildings are falling short of changing fire and storage codes. However, demand remained strong enough to push the average asking monthly rental rate up 12% to $0.65 per square-foot in 2014. Vacancy dropped another 70 basis points in Q4, finishing the year at a critically low 3.1%.

Port congestion is also posing greater difficulty and some tenants have looked to the Inland Empire to satisfy their need for functional distribution space. Investor demand has always been strong in the area, but the anticipation of further rent spikes sent buyer demand up and cap rates moving down in 2014. Larger distribution properties are seeing the most user and investor activity, while smaller users focus more on acquiring smaller buildings for their own use. The SBA 504 and 7A loan programs offer high leverage and low interest rates that give owner/users the ability to fix occupancy costs for up to 25 years. Sale prices for owner/user properties have seen double-digit increases, while lease rates for similar product have seen only a modest rise.

Net Absorption



Vacancy Rate



3.1%	$7.80	783,792	191,565,685	221,050
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

LA - LONG BEACH OVERVIEW (continued)

Opportunities

Tenants:

- Proximity to Ports of Long Beach and Los Angeles increases time efficiency and reduces fuel costs.
- Non-distribution users face less competition for space.

Buyers:

- SBA rates for owner/users remain low.
- Investors willing to upgrade obsolete facilities can achieve higher rents.

Landlords:

- Rents are moving up fast, especially for product suitable for distribution.
- Concessions in sharp decline as vacancy tightens up.

Sellers:

- Port proximity and low vacancy is increasing investor demand.
- Functionally obsolete product selling at a premium due to low supply.

Developers:

- High land prices give long-term property holders with low basis the advantage.
- Surface use rents can generate high rents to cover carry cost during entitlement process.

Challenges

Tenants:

- Strong competition for quality distribution space near the ports is pushing tenants inland.
- Labor considerations and regulatory issues is pressuring larger distributors to expand employee driver model rather than current owner/operator format.

Buyers:

- Shortage of product is at critical stage.
- Investors facing cap rate compression due to high demand from regional and institutional investors.

Landlords:

- Manufacturing-oriented product requires major renovations to attract current demand.
- Port congestion issues have some tenants putting moves on hold.

Sellers:

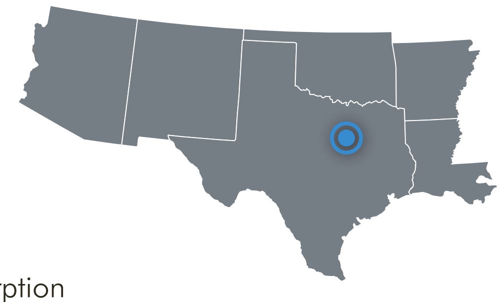
- Lack of suitable exchange alternatives in the local market

Developers:

- High land cost.
- Unresolved port congestion.

A LOOK AHEAD. The Los Angeles/South Bay market will continue to experience strong demand, especially for space close to the ports. Congestion and product shortage will continue to push some users to the Inland Empire where higher quality, newer space is still available. Net absorption will remain positive over the next several quarters, but low vacancy in the distribution category will slow the rate of absorption over time. Due to a critical shortage of industrial land, development will lag well behind surging demand for the foreseeable future. This will spur increase in rents for quality distribution space, which will keep investors clamoring for product in anticipation of net income growth over the long-term. Expect existing owners of older product to begin redeveloping their properties from the ground up to achieve the higher rents for quality distribution product. The completion of the Panama Canal expansion is expected to have some impact on port activity, as larger ships will have improved access to expanding east coast ports. Fortunately, the ports of Long Beach and Los Angeles are expected to remain in growth mode as they already accommodate the largest ships in use worldwide.

DALLAS / FORT WORTH OVERVIEW

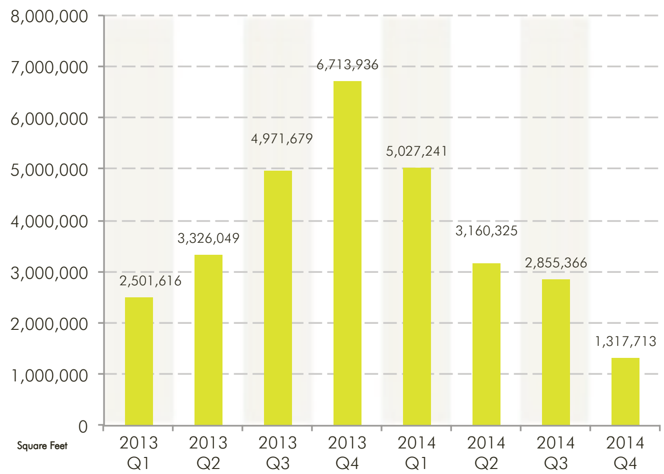


The Dallas/Fort Worth industrial market continued its rapid expansion in 2014. E-Commerce and same-day shipping demand has encouraged major retailers such as Wal-Mart, Amazon, Kohl's to locate large bulk fulfillment centers in the area, and relocations by Toyota North America, State Farm Insurance and others are adding thousands of good-paying jobs to further boost the economy. Businesses, big and small, continue to be attracted to Texas, in particular DFW, with its lack of income tax, business-friendly regulatory environment and central time zone location.

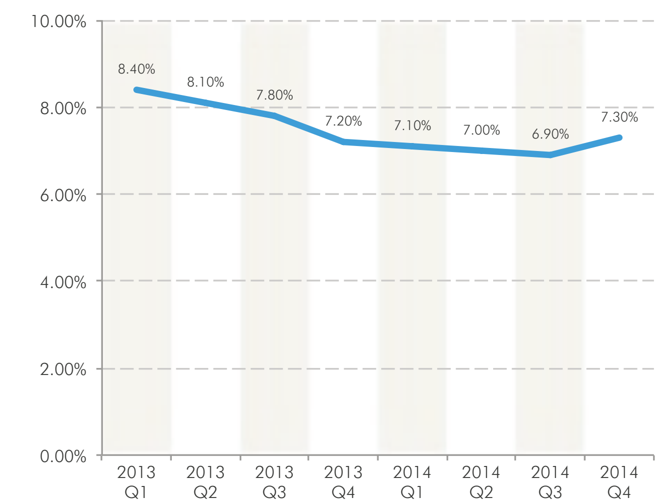
With population growth comes gains in the housing sector, and industrial absorption has received an additional boost due to an uptick in demand from housing-related users in the 20,000 to 100,000 square-foot range. Industrial absorption was light at 1.3 million square feet in Q4, but strong performance during the three previous quarters brought the total gain in net occupancy to 12.7 million square feet in 2014. Vacancy increased 50 basis points to 7.3% in Q4, largely due to the delivery of almost 7 million square feet of new space during the same period. Another 17.4 million square feet of space remained under construction as the year ended.

The Dallas/Fort Worth area is fortunate to have abundant land for expansion, which attracts major users with long-range growth plans. This gives the area a distinct advantage over other major metro markets on both coasts, where vacancy has gone as low as 3% with little land left for development. 13 Investors have also descended on the Dallas/Fort Worth market, with major institutional players leading the way. Cap rates have compressed, but are still higher compared to other major markets, giving developers the opportunity to sell unoccupied new space to investors seeking income growth through rising rents. Average asking lease rates in the DFW area rose to $5.34 by the end of 2014, up 1.9% in just one quarter.

Net Absorption



Vacancy Rate



7.3%	$5.34	1,317,713	802,075,462	17,399,649
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS / FORT WORTH OVERVIEW (continued)

Opportunities

Tenants:

- More choice of quality options due to high degree of speculative development.
- Local and state government incentives for out-of-state companies creating new jobs in Texas.

Buyers:

- Chance to purchase quality product in a growth market with stable economy and business-friendly governments.
- Investor/buyers can acquire at slightly higher cap rates than many other metro markets.

Landlords:

- Large portfolio owners can accommodate growth of existing tenants, reducing lease-up time.
- More expensive new product is helping to push lease rates up across the board.

Sellers:

- Owners of functionally obsolete facilities can sell or exchange for more functional assets.
- Cap rates are compressing, but are still attractive to institutional investors paying more in other markets.

Developers:

- Strong demand is boosting pre-lease activity.
- Land is still available and local municipalities are offering economic development incentives to attract construction activity.

Challenges

Tenants:

- New federal energy codes are driving up tenant improvement costs.
- Operating costs are being driven up by some tax appraisal districts who have become more aggressive in valuating properties.

Buyers:

- Short supply of freestanding owner/user properties has driven up sales prices.
- Federal energy codes have increased renovation cost for add-value buyers.

Landlords:

- Construction costs are rising for new product and renovation of existing buildings.
- Prolific speculative building poses threat of temporary over-supply.

Sellers:

- Strict loan underwriting requires careful screening of leveraged-buyer offers.
- Becoming more difficult to identify suitable exchange properties.

Developers:

- Potential for short term over-supply due to high degree of speculative building.
- Construction costs are rising due to heavy demand.

A LOOK AHEAD. 2015 may be a year of moderation for the Dallas/Fort Worth region, as the market digests several years of prolific industrial growth. Gross leasing activity will remain strong, but rent growth, net absorption and vacancy may level off as users with expiring leases shuffle through existing and new inventory. By year-end 2015, the news will still be good, but a naturally occurring pause in the market boom will likely be good for long-term stability. The State of Texas and local governments in the Dallas/Fort Worth area will continue to attract new businesses from out of state with aggressive incentives, and the local economy will reap the rewards of the boost from the population and job growth that has been created in the past several years.

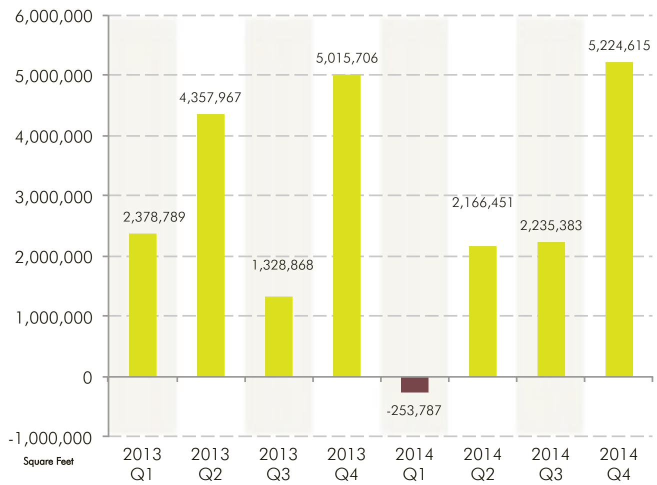
CHICAGO METRO AREA OVERVIEW

The Chicago industrial market continues to be one of the most active major markets in the country. Capital is pouring into the area, both for the purchase of existing industrial properties and for the speculative development of new inventory to satisfy rising demand. While the manufacturing sector is making a comeback, it is bulk distribution centers along major expressways that make up the majority of properties being leased and sold. Just under 8.5 million square feet of new space was delivered during 2014, and another 11.8 million square feet was under construction at year end.

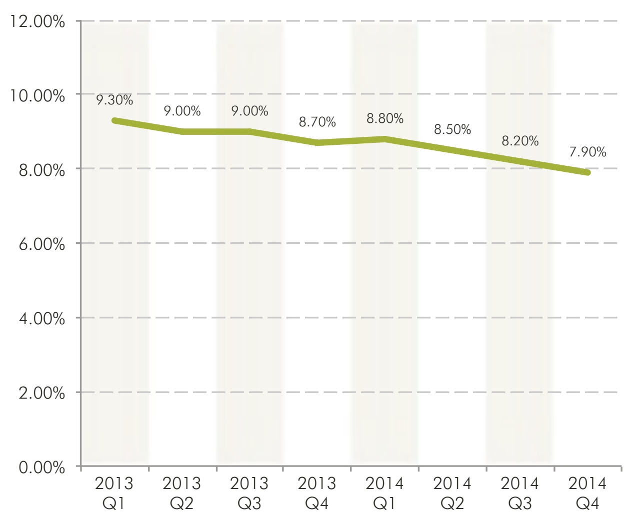
Despite the increase in development activity, vacancy declined in 2014. By the end of the year, the vacancy rate fell to 7.9%, down another 20 basis point from the previous quarter and 80 basis points year-over-year. The choice of quality product has become a concern amongst expanding tenants, but shortages fall into different size ranges depending upon submarket. In all, Chicago's vacancy rate has fallen 330 basis points from its recessionary peak of 2009, and that has tenants willing to pay more to secure new locations. Year-over-year, the average asking rental rate increased by 3.1% to $5.31.

Net absorption for the year came in at a positive 9.8 million square feet with large distribution deals accounting for the bulk of the activity. However, manufacturers looking to access a deeper labor pool closer to the city also made a significant contribution to net gains in occupied space. New leases signed in Q4 should keep net absorption on the rise, as the top four lease signings accounted for over 4.3 million square feet of new commitments.

Net Absorption



Vacancy Rate



7.9%	$5.31	5,224,615	1,154,569,841	11,749,186
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

CHICAGO METRO AREA OVERVIEW (continued)

Opportunities

Tenants:

- Access to superior infrastructure including Downtown Chicago, O'Hare Airport, Interstate Highways and large rail hub.
- Greater operational efficiency offered in new state-of-art facilities.

Buyers:

- Steady vacancy decline.
- Long-term rent growth.

Landlords:

- Larger base of national and international tenants with strong credit.
- More flexible underwriting for refinancing of maturing debt.

Sellers:

- Severe cap rate compression.
- Demand becoming even more intense from investment and owner/user buyers.

Developers:

- Abundance of equity sources to fund new development.
- Rent growth helps to underwrite new projects.

Challenges

Tenants:

- Strong activity has landlords negotiating from greater strength.
- Spot shortages of available space.

Buyers:

- Short supply at very low cap rates.
- Investor interest is still on the rise.

Landlords:

- Managing tenant expectations.
- Large move-outs from older, functionally obsolete product.

Sellers:

- Choosing the buyer most likely to perform.
- Timing exit strategies to maximize sales prices.

Developers:

- Difficulty in predicting long-term demand.
- Overly optimistic rent growth assumptions to develop marginal sites.

A LOOK AHEAD. The Chicago industrial market will carry strong momentum into 2015. Leasing activity from major users is quite strong. They continue to be attracted to Chicago's highway, rail and air transportation infrastructure. Construction will remain strong to meet that demand, and that will put more pressure on lease rates to move higher. Vacancy will decline and absorption will remain strong over the next year, but the pace of both is likely to moderate, as the market reabsorbs second generation product vacated by tenants moving to new projects. All eyes will be on the new Republican governor to see if he can tackle the significant fiscal issues facing Illinois and initiate economic reforms that have been successfully enacted in neighboring Wisconsin and Indiana.

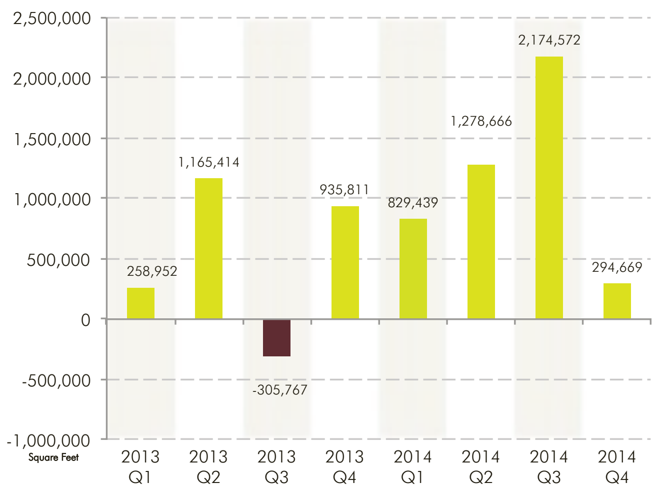
ST. LOUIS OVERVIEW

The big news for 2014 in St. Louis is the return of speculative development to the industrial sector. Virtually non-existent since the market crash in 2008, two projects totaling over 1 million square feet are now underway, both of them being developed on a speculative basis. This represents a key turning point for the St. Louis market, as it clearly exemplifies the return of confidence and optimism in terms of the overall economy. Further evidence of that fact is the 500,000 expansion and an extra shift at the General Motors assembly plant.

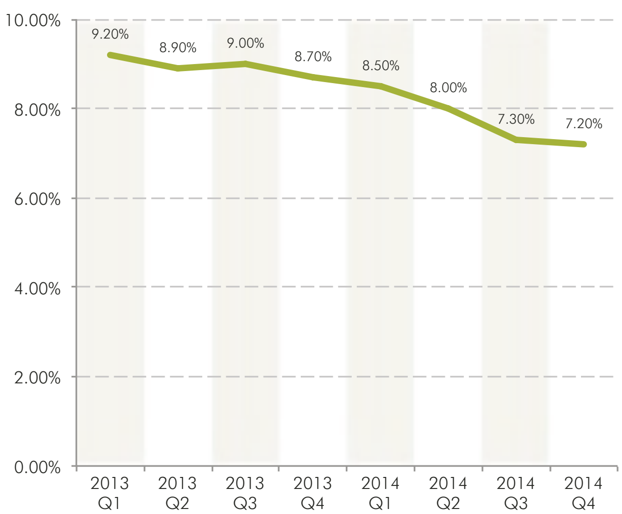
Net absorption numbers for the year also point to a healthier industrial market. In 2014, net growth in occupied space increased by 4,577,000 square feet. Vacancy fell another 150 basis points in 2014, ending the year at a healthy 7.2%. Average asking lease rates overall were relatively unchanged in 2014, settling at $3.97 per square-foot. However, declining vacancy and strong absorption results are boosting developer confidence to keep building, especially for spaces over 100,000 square feet where demand is strong. Optimistic tenants are also looking to sign longer leases to secure quality space in anticipation of strong revenue growth.

St. Louis remains a less expensive alternative to other major markets between the coasts. Lease rates are still reasonable and land is still available, which encourages larger users to make major commitments to the area over the long-term. Institutional investors, facing seriously compressed cap rates in other metro areas throughout the US, are anxious to acquire assets in St. Louis that they believe have long-term upside.

Net Absorption



Vacancy Rate



7.2%	$3.97	294,669	262,234,628	820,939
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ST. LOUIS OVERVIEW (continued)

Opportunities

Tenants:

- Lower rents compared to other major metro areas.
- Economic incentives offered by local municipalities.

Buyers:

- Vacant buildings can still be acquired under replacement cost.
- Owner/users can avoid rising rents by acquiring facilities with fixed-rate SBA financing.
- Major REIT's are offering quality product for sale to satisfy institutional demand.

Landlords:

- Existing landlords have strong upside potential due to rising rents.
- Concessions and lease up times are decreasing.

Sellers:

- Cap rates are coming down.
- Loan underwriting criteria for leverage buyers is becoming more favorable.

Developers:

- Reasonable land pricing.
- Limited competition.

Challenges

Tenants:

- Positive absorption and limited development reduces choice.
- Functional obsolescence of older product.

Buyers:

- Lack of inventory for both user and investor properties.
- Nascent rent growth requires longer term hold strategy.

Landlords:

- Activity not yet at levels that will accelerate rate of rent growth.
- Older product will require more retrofit cost to be competitive.

Sellers:

- Lower quality product with functional obsolescence moving slower.
- Shortage of exchange opportunities.

Developers:

- Rent growth not strong enough to cover rising construction costs.
- Speculative development still carries higher risk than other growth markets.

A LOOK AHEAD. The St. Louis industrial market will continue on its current recovery in 2015. Vacancy is likely to settle in the 5% to 6% range and net absorption, though positive, could be hampered by a lack of available class A product. Sale demand will gain strength for both investment and owner/user properties, but a lack of supply could hinder transaction activity. Savvy institutional buyers are anxious to enter the market, as they can buy more for less in St. Louis and rent growth is just beginning to gain momentum, unlike other major metro areas that have seen rents rise to pre-recession levels. Users are anxious to acquire facilities with fixed rates loans under 5%, but are frustrated by a lack of product. Development activity will gain momentum due to anticipated demand and relatively low land prices. However, developers will be wary of speculative development on a large scale, opting instead to pursue build-to-suit transactions.

ATLANTA OVERVIEW

The overall economic expansion in the Atlanta area continues to fuel the industrial property market. The news is especially good for existing property owners, as demand from tenants and buyers intensified in 2014. Q4 net absorption came in at a positive 7.6 million square feet, 6.6 million square feet of which was bulk distribution space.

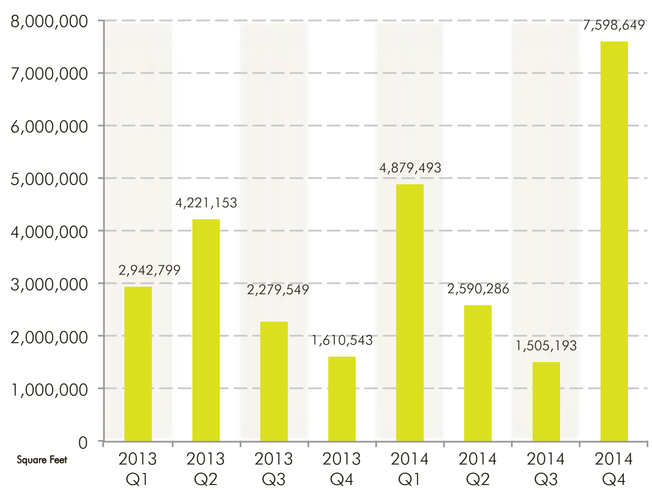
The total net gain in occupied space for all industrial product for the year reached 17.3 million square feet, well ahead of 2013's 11 million-square-foot total. Vacancy fell again in the quarter, dropping 90 basis points to a post- recession low of 9.1%. Just a year ago, the vacancy rate stood at 11.5%. For the first time in six years, activity is good across all industrial product types including flex, shallow bay industrial and bulk distribution.

These improving market metrics do pose a challenge for tenants and buyers, and as the choice of quality space has declined, more businesses are being forced to renew in place. Others are opting to pay substantially more rent to secure space in new projects in alternate submarkets.

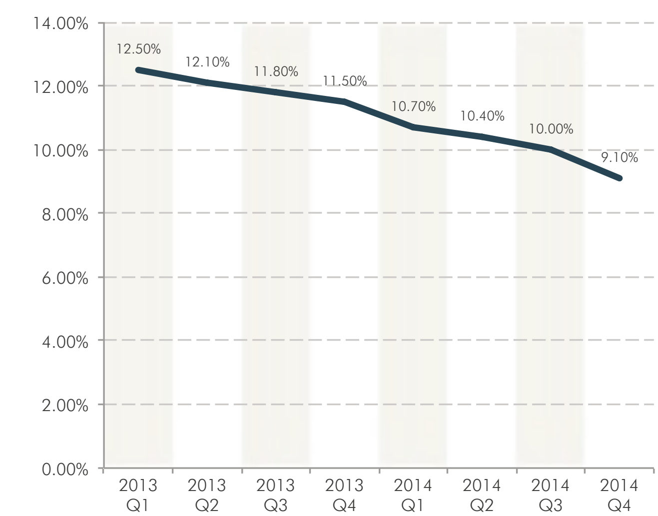
Currently, there is over 11.4 million square feet of new space under construction. Most of the new product being built is bulk distribution facilities offering greater efficiency through higher rents and lower operating costs via enhanced fire suppression technology.

New development is a good mix of speculative space and build-to-suit deals, a good clear sign that developers are bringing new product to the market with a keen eye avoiding overbuilding. In all, Atlanta added 6 million square feet of industrial inventory in 2014 and now boasts a total industrial base of over 590 million square feet.

Net Absorption



Vacancy Rate



9.1%	$3.99	7,598,649	590,237,847	11,435,147
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA OVERVIEW
(continued)

Opportunities

Tenants:

- New bulk distribution product offers higher efficiency and lower cost.
- Panamax project completion in 2015 will help distributors grow.

Buyers:

- Investor/buyers will benefit from continuing rent growth and quicker lease-up time.
- Low SBA rates allow owner/users to reduce and fix occupancy cost despite higher sales prices.

Landlords:

- Increase in lease renewals is reducing down-time and retrofit costs.
- Strong demand is reducing the need to offer lease concessions.

Sellers:

- Competitive bidding from institutional investors is compressing cap rates.
- Functionally obsolete properties are attracting add-value buyers.

Developers:

- Build-to-suit activity reduces project risk.
- Large blocks of speculative space is being leased during construction.

Challenges

Tenants:

- Choice of good product in the right location is becoming more difficult.
- Higher rents are driving up operating costs.

Buyers:

- Competition for quality assets is intense and on the rise.
- Decisions must be made quickly.

Landlords:

- Bid/Ask gap is still a problem on renewal transactions.
- Owners of functionally obsolete properties seeing longer lease-up times.

Sellers:

- Some owners pricing themselves out of the market due to unrealistic expectations.
- Lack of supply for 1031 exchange up-legs.

Developers:

- Demand is concentrated in large blocks of space which increases speculative risk
- Developers purchasing at current land prices at competitive disadvantage.

A LOOK AHEAD. Demand for 2015 should keep pace or outperform 2014. Key economic indicators still favor further business expansion. Rents could rise another 7% to 10%, with the biggest gains occurring in bulk distribution transactions. Atlanta's hub location will continue to attract larger users because it allows them to cover a large geographic territory. Expanded port activity in Savannah and other East Coast ports should spur additional growth, as well. Expect most of the sale activity to come from institutions desiring to establish and expand a footprint in a market they see as having long-term potential for income growth. User deals will get more expensive but less frequent due to a lack of available product. Construction activity should also increase in 2015, as demand is expected to remain strong and steady. However, economic events that cause even a temporary slowdown in demand for large blocks of space will put speculative developers at increased risk.

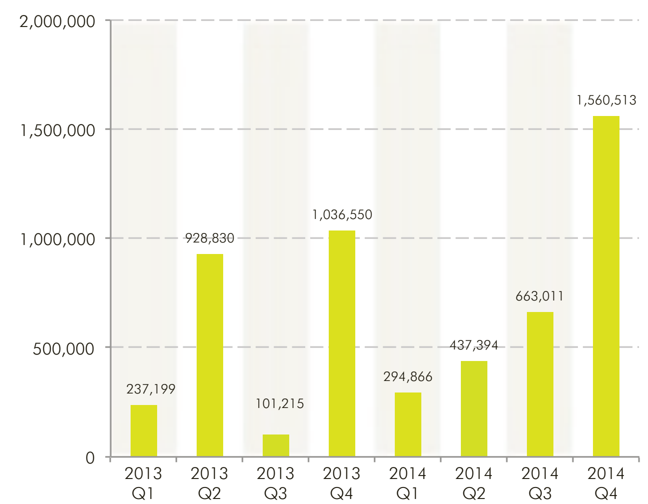
GREENVILLE / SPARTANBURG OVERVIEW

The Greenville/Spartanburg industrial market continued to increase its profile amongst emerging US markets in 2014. Growth in the entire upstate region is largely due to the expanding presence of the automotive industry. Led by BMW Manufacturing Company and Michelin Corporation, both of which have an ongoing and expanding presence, along with an impressive roster of growing companies that manufacture and supply automotive components. The area is also home to CU-ICAR, the Clemson University International Center for Automotive Research, an educational institute dedicated to training a specialized workforce and developing new technologies for the automotive industry.

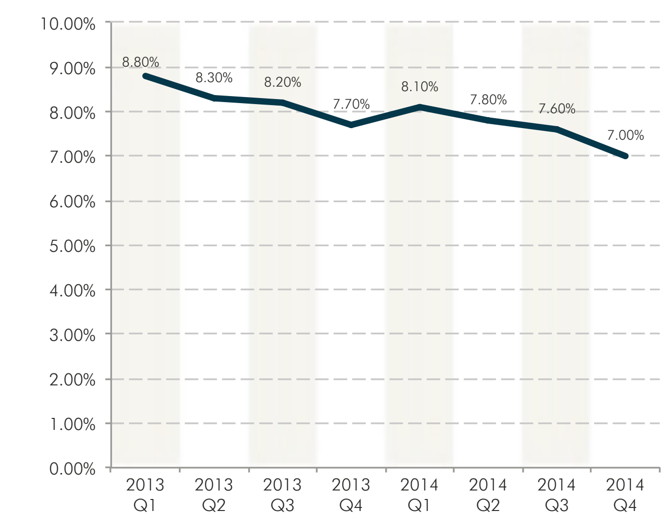
2014 also marked the opening of the SCIP, the South Carolina Inland Port, a rail hub connecting the upstate region to the expanding Port of Charleston, which is undergoing substantial upgrades to handle larger ships that will be transiting the Panama Canal after the Panamax project is completed in 2015. The SCIP, located on land adjacent to the Greenville-Spartanberg Airport, will initially be able to handle 40,000 containers per year, but will ultimately have a 100,000 container capacity when fully utilized. BMW and Adidas are both committed to the use of the new facility, which is also expected to attract new businesses to the Greenville market in the coming years

Net absorption for the year was a positive 2,955,000 square feet, with 1,560,000 square feet of that tallied in the fourth quarter. Vacancy moved lower, ending the year at 7%, down 70 basis points for the year. Average asking lease rates moved up again in 2014, with industrial rents settling at $3.47, a 7.4% rise year-over-year.

Net Absorption



Vacancy Rate



7.0%	$3.47	1,560,513	194,770,807	1,357,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

GREENVILLE / SPARTANBURG OVERVIEW (continued)

Opportunities

Tenants:

- Quality facilities are available for those willing to plan ahead and pay a premium.
- Longer term leases to control future occupancy costs in a rising market.

Buyers:

- The region still has a supply of underperforming assets to acquire.
- Low cost of capital for acquisition and retrofit of existing product.

Landlords:

- Rent growth is ongoing.
- Demand is ahead of supply.

Sellers:

- Improving economy and demographics is attracting more buyers.
- Cap rates are still higher than in larger metro areas.

Developers:

- Demand exceeds existing supply.
- Automotive-related expansion offers more build-to-suit activity.

Challenges

Tenants:

- Lack of existing supply and development of owner/user product.
- Landlord concessions on the decline.

Buyers:

- Rising construction cost to meet new regulatory requirements increase retrofit cost.
- Competition is becoming more intense.

Landlords:

- Elements of functional obsolescence in older product limits rent growth and prolongs lease-up time.
- Lack of space to accommodate growth of existing tenants.

Sellers:

- Limited replacement properties to complete 1031 IRC exchanges.
- Tax impact of straight sale transactions.

Developers:

- Higher land and construction costs are outpacing rent growth.
- Lack of entitled land to meet current demand.

A LOOK AHEAD. Expect Greenville / Spartanburg to continue attracting new businesses to the area, especially automotive-related industries due to its proximity to major automotive players, access to the Port of Charleston and the support from local governments and universities. South Carolina in general and Greenville, in particular, offers a high quality of life that includes a reasonable cost-of-living, access to a variety of outdoor activities and an economy that is outperforming the majority of metro markets around the country. Net absorption will continue to be positive, rents will move up again and vacancy will decline further. New deliveries will increase in 2015, but not enough to bring supply back in balance with demand. BMW's addition of its new X7 vehicle to the production line will also give the industrial market another boost in 2015.

NORTHERN NEW JERSEY OVERVIEW

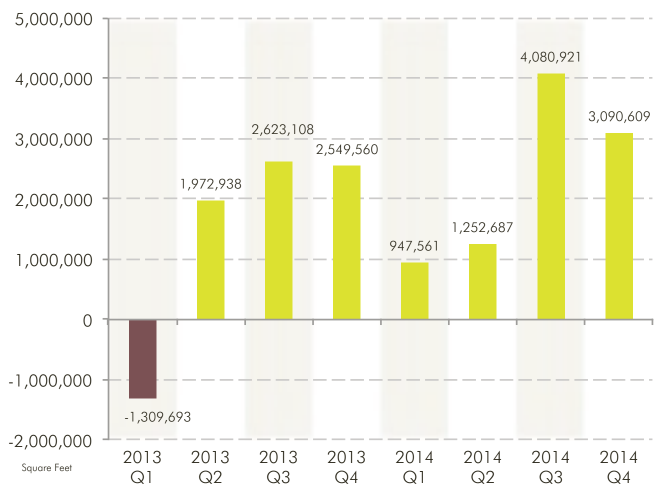
The tightening of the Northern New Jersey industrial market continued throughout 2014. Like other major metro areas across the US, vacancy fell, rents moved up and net absorption was firmly in positive territory. Incentives offered through the Grow New Jersey program, launched, in part, to counter similar efforts in New York, Pennsylvania and Connecticut, has attracted new businesses to the state by offering up to 10 years of tax credits for job creation.

The vacancy rate fell another 30 basis points in the fourth quarter, ending the year at 8.1%, compared to 8.6% at the end of 2013. Activity has been strongest in larger distribution facilities strategically located near tunnel and bridge crossings from New York. Interest from New York based businesses has compounded demand in those areas.

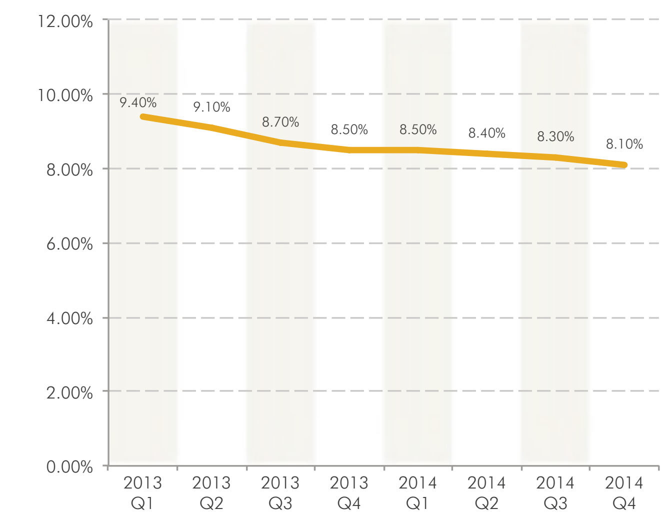
Positive net absorption totaled 3,090,000 square feet in Q4, bringing the total in 2014 to 9,050,000 square feet, a 53% increase over 2013 net absorption of 5,908,000. Fortunately, developers responded to the boom in activity by delivering another 7.1 million square feet of new product, which brought the total base inventory up to 805.3 million square feet by the end of 2014. Another 2.3 million square feet remains under construction.

Average asking rental rates are also making gains, finishing the year at $6.04, up 2.9% for the year. However, asking rents are ranging as high as $8 for new, class A space, which also put upward pressure on rates for class B space. Similarly, asking sales prices for the limited inventory of properties above 50,000 square feet, are exceeding $100 per square-foot, but there is little comparable data to support this price point. Low interest rates have fueled the demand for these properties, as many users are attracted to the opportunity to control long-term occupancy costs with fixed rate financing.

Net Absorption



Vacancy Rate



8.1%	$6.04	3,090,609	805,369,476	2,335,354
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

NORTHERN NEW JERSEY OVERVIEW (continued)

Opportunities

Tenants:

- Bayonne Bridge widening and NY Harbor deepening will increase port activity and related business expansion.
- Grow New Jersey incentive program offers lucrative incentives to expanding businesses.

Buyers:

- Deep pool of established private businesses and publicly traded companies in the area decreases leasing risk.
- Low cost of capital for investment and user transactions.

Landlords:

- Harbor dredging and raising of the Bayonne bridge will boost demand for warehousing.
- Rising rents, lower vacancy and reduced concessions.

Sellers:

- Lack of supply continues to compress cap rates.
- Multiple offers gives sellers stronger negotiation position on due diligence time frames and loan contingencies.

Developers:

- New Jersey has become one of the nation's top five distribution hubs.
- Well-located, quality product is attracting long-term leases from strong credit tenants like Amazon and FedEX.

Challenges

Tenants:

- Shortage of class A product is causing class B rents to rise.
- Overall business operating costs are high in New Jersey compared to other metro areas.

Buyers:

- Shortage of owner/user product has pushed pricing to all-time highs.
- Tight time frames and lender pre-qualification required to compete for assets.

Landlords:

- Value of functionally obsolete properties without "re-purposing" potential will go down.
- Demand for owner/user product is limiting the pool of potential tenants.

Sellers:

- Yields on exchange properties are very low.
- New environmental regulations complicate disposition and drive up costs of sale.

Developers:

- Inefficient and expensive entitlement process.
- Environmental cleanup costs in infill areas is driving up project costs.

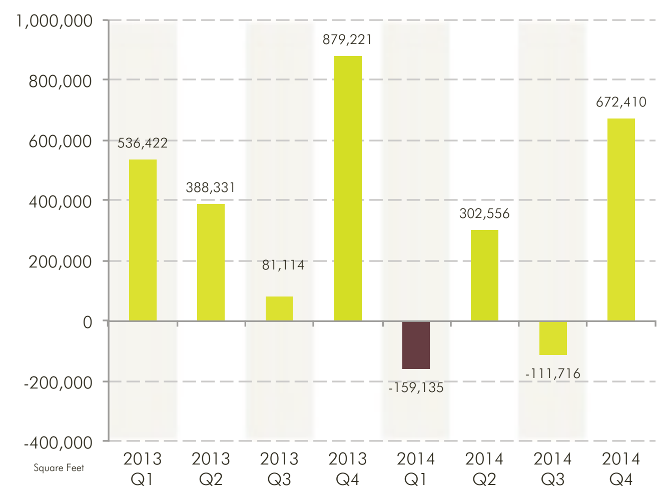
A LOOK AHEAD. The Northern New Jersey industrial market will continue to improve, but will face some near-term challenges. Expect vacancy to fall another 50 basis points by mid-year and absorption to remain near current levels. Newer product is reaching the $8 per square-foot threshold, which may be high enough to cause some of the larger tenants to look elsewhere. Leasing activity will remain strongest in locations convenient to the port, as improvements there are expected to boost port-related commerce. Owner/user sale opportunities will remain scarce, but stubborn, would-be buyers may be forced to lease inferior product if they hold out too long. Investment activity throughout the US will increase again in 2015 and the Northern New Jersey market, due to its strong fundamentals, will be a primary target for domestic institutions and foreign investors looking for safety.

NEW YORK OVERVIEW

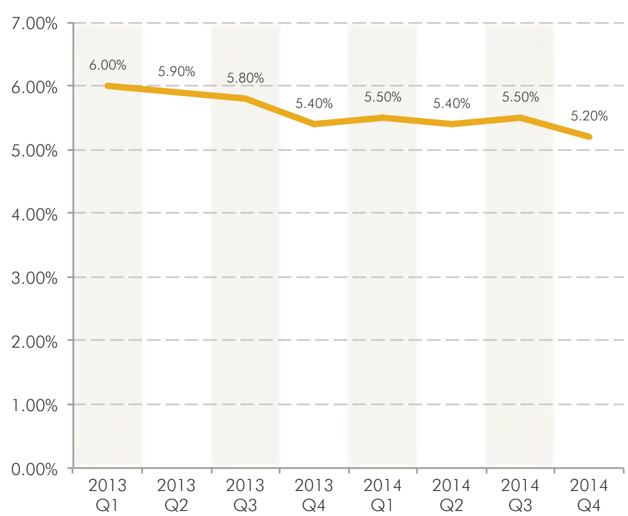
The supply of industrial property in the New York Area continued its decline in Q4. Vacancy fell to just 5.2% by the end of year, down from 5.8% three years ago. Demand for distribution and general warehouse property continued to outpace supply all year, yet the pipeline of new deliveries ran dry. At the same time, the economic recovery gained strength. Job creation in the New York area is ahead of the national average, and US GDP growth jumped to an annualized rate of 5% in the third and fourth quarters.

In many areas across the country, these positive signs have been a catalyst for new industrial development. However, many of the industrial areas of New York are being gentrified and redeveloped to higher density residential and retail uses. Thus, the industrial base is shrinking despite rising demand from expanding businesses. Lease space in the outer boroughs of Queens and Brooklyn are particularly impacted, especially for buildings in the 10,000 range, and buildings offered for sale to owner/users are now a rarity. Landlords are confident in their ability to successfully raise rents and negotiate tougher terms with industrial tenants. While the up-zoning of industrial properties to "higher" uses may offer a boost to the local economy, it poses a significant problem for industrial users trying to grow their businesses without leaving the area.

Net Absorption



Vacancy Rate



5.2%	$19.85	672,410	216,960,234	496,530
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

NEW YORK OVERVIEW
(continued)

Opportunities

Tenants:

- Businesses needing to extricate themselves from existing leases will get more cooperation from landlords anxious to raise rents or convert to new uses.

Buyers:

- Low vacancy will reduce lease-up time for vacant space.

Landlords:

- Steady rent growth.
- Potential for conversion to higher uses for greater rent growth.

Sellers:

- Lack of availability is compressing cap rates.
- Functionally obsolete properties can be sold for redevelopment to higher uses.

Developers:

- Upside potential in rents through redevelopment.
- Gentrification process offers an alternative to ground-up development.

Challenges

Tenants:

- Lack of available product is forcing tenants to expand in place through greater efficiency.
- Significantly higher rents for shrinking supply of quality product.

Buyers:

- Higher occupancy and retrofit costs for older owner/user buildings.
- Cap rate compression due to supply/demand imbalance.

Landlords:

- Functionally obsolete properties require higher retrofit fit costs to secure new tenants.

Sellers:

- Tight supply of suitable exchange properties.
- Tax implications of outright sale from federal, state and local governments.

Developers:

- Competition for redevelopment sites.
- Higher construction costs.

A LOOK AHEAD. Steady demand for industrial space will keep the vacancy rate moving down throughout 2015. Lease rates will keep moving up, as will sales prices for owner/user product. Existing businesses looking to expand will be frustrated by the lack of current supply and the poor outlook for new deliveries. Users who need to remain in the area will be forced to pay more and will opt for longer term leases to protect against a further decline in availability. New construction will be limited to redevelopment of existing industrial space to retail and residential uses, which will exacerbate the supply shortage. Investor interest will stay strong, especially from foreign buyers who still see the New York area as one of the safest metro areas in the world to keep their capital.

Significant Transactions

LOCATION	CONSIDERATION	RATE / SF	BUYER / TENANT	SELLER / LANDLORD
DENVER				
20900 E 36TH DR AURORA, CO	$37,500,000 SALE OF 410,212 SF	$91.42	STOLTZ REAL ESTATE PARTNERS	UNION INVESTMENT REAL ESTATE GMBH
1450 INFINITE DR LOUISVILLE, CO	$25,150,100 SALE OF 154,000 SF	$163.31	JAKOBSON PROPERTIES	GROSVENOR FUND MANAGEMENT, INC.
3600 RONALD REAGAN BLVD JOHNSTOWN, CO	$19,250,000 SALE OF 165,000 SF	$116.67	BROADSTONE REALESTATE, LLC	MCWHINNEY REAL ESTATE SERVICES
LA - LONG BEACH				
5959 RANDOLPH ST LOS ANGELES, CA	53,797,510 SALE OF 400,160 SF	$134.44	RANDOLPH BUSINESS CENTER ILP LLC	CG-LINA PAPER BOX LLC
2350 W. 17TH ST LONG BEACH, CA	$6,526,900 SALE OF 2.66 ACRES	$56.33	ROVAR PROPERTIES LLC	FLYING COLORS GROUP LLC
3828 SCHAUFELE AVE LONG BEACH, CA	$2,634,504 SALE OF 2.52 ACRES	$24.00	DOUGLAS PARK MEDICAL OFFICE II, LLC	DOUGLAS PARK ASSOCIATES III, LLC
DALLAS / FORT WORTH				
VALWOOD INDUSTRIAL PARK FORT WORTH, TX	$49,000,000 SALE OF 996,218 SF	$49.19	LINCOLN PROPERTY COMPANY	RREEF AMERICA REIT III CORP.
DALLAS COWBOYS DISTRIBUTION CENTER DALLAS, TX	$22,300,000 SALE OF 400,123 SF	$55.73	INVESCO ADVISERS, INC.	KBS REIT II, INC.
RIVER PARK 900 GRAND PRAIRIE, TX	$17,000,000 SALE OF 277,000 SF	$61.37	JLL INCOME PROPERTY TRUST, INC.	SEEFRIED PROPERTIES, INC.
CHICAGO METRO AREA				
CH2 DATA CENTER NORTHLAKE, IL	$211,700,000 SALE OF 251,141 SF	$84.30	CARTER VALIDUS MISSION CRITICAL REIT	ASCENT CORPORATION
PORTFOLIO SALE CAROL STREAM, IL	$90,900,000 SALE OF 1,403,501 SF	$64.77	HILLWOOD INVESTMENT PROPERTIES	NORTHERN BUILDERS, INC.
COMMERCE CENTER UNIVERSITY PARK, IL	$85,000,000 SALE OF 1,552,475 SF	$54.75	W.P. CAREY & CO. LLC	FULCRUM ASSET ADVISORS
ST. LOUIS				
255 LOGISTICS CENTER 1659 SAUGET BUSINESS BLVD SAUGET, IL	$19,900,000 SALE OF 502,500 SF	$39.60	RT SAUGET, LLC	COVINGTON GROUP DBA 1659 SAUGET BUSINESS BLVD., LLC
255 LOGISTICS CENTER 1659 SAUGET BUSINESS BLVD SAUGET, IL	$21,200,000 SALE OF 502,500 SF	$42.19	CHAMBERS STREET PARTNERS	RT SAUGET, LLC (WELSH PROPERTY TRUST)
FERDERAL EXPRESS 1647 SAUGET BUSINESS BLVD SAUGET, IL	$15,231,000 SALE OF 198,773 SF	$76.63	MONMOUTH RE INVESTMENT CORP	JONES DEVELOPMENT COMPANY, LLC

LOCATION	CONSIDERATION	RATE / SF	BUYER / TENANT	SELLER / LANDLORD
ATLANTA				
NORTH ATLANTA DISTRIBUTION PORTFOLIO DULUTH, GA	$128,999,999 SALE OF 2,875,856 SF	$44.86	HARTZ MOUNTAIN INDUSTRIES, INC.	CLARION PARTNERS
TECH CENTER OF GEORGIA LAWRENCEVILLE, GA	$63,625,000 SALE OF 944,445 SF	$67.37	TA ASSOCIATES REALTY	TAYLOR & MATHIS, INC.
GENERAL MILLS DISTRIBUTION CENTER SOCIAL CIRCLE, GA	$51,500,000 SALE OF 1,508,765 SF	$34.13	WPT INDUSTRIAL REIT	THE ROCKAFELLER GROUP
GREENVILLE/SPARTANBURG				
COMMONWEALTH DISTRIBUTION CENTER DUNCAN, SC	$9,700,000 SALE OF 221,000 SF	$43.89	EXETER PROPERTY GROUP	ALIANCE PARTNERS, INC.
1300 MOUNT OLIVE RD COWPENS, SC	$8,041,700 SALE OF 89,000 SF	$90.36	BERICAP SPE, LLC	BERRY CONSTRUCTION CO, INC.
15 TYGER RIVER RD DUNCAN, SC	$7,700,000 SALE OF 202,104 SF	$38.10	EXETER PROPERTY GROUP	KATHY RUNION
NORTHERN NEW JERSEY				
MCGRAW-HILL FINANCIAL EAST WINDSOR, NJ	$70,000,000 SALE OF 580,000 SF	$120.69	QTS REALTY TRUST, INC.	MCGRAW-HILL FINANCIAL, INC.
2 PEEKAY DR CLIFTON, NJ	$53,922,346 SALE OF 215,000 SF	$250.80	GI PARTNERS	MOUNTAIN DEVELOPMENT CORP.
300 FAIRFIELD RD #1 FAIRFIELD, NJ	$51,600,000 SALE OF 417,744 SF	$123.52	STOLTZ REAL ESTATE PARTNERS	MIDDLE ATLANTIC PRODUCTS
NEW YORK				
570 Kent Ave NORTH BROOKLYN, NY	LEASE OF 70,OO SF	NOT AVAILABLE	BARRY R. FEARSTEIN GRAD SCHOOL OF CINEMA	CITY OF NEW YORK
THE FACTORY LONG ISLAND CITY, NY	$250,000,000 SALE OF 530,944 SF	$470.86	INVESCO, LTD.	ATLAS CAPITAL GROUP, LLC
4725 34TH ST LONG ISLAND CITY, NY	$60,000,000 SALE OF 322,390 SF	$186.11	BRICKMAN PACIFIC LLC	BLDG MANAGEMENT CO., INC.

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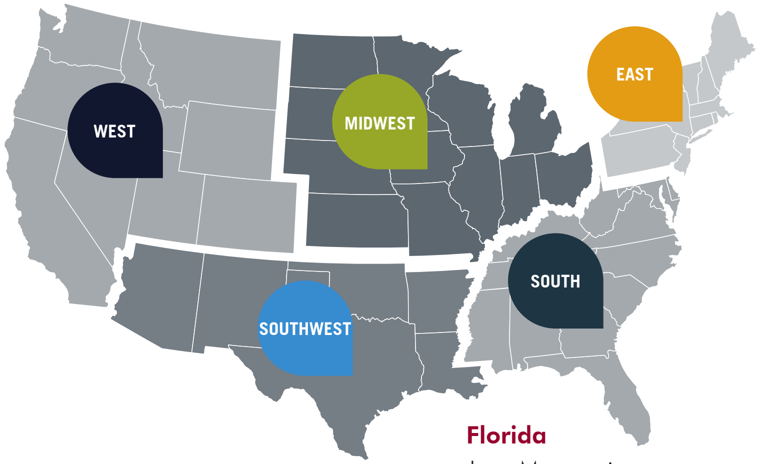

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