



## The Lee Industrial Brief

*Infill Markets Running Short On Supply*

# Q1

2015

*Click below. Interactive tabs*

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- 3 KEY MARKET SNAPSHOTS
- 4 SIGNIFICANT TRANSACTIONS
- 5 NATIONWIDE LEE OFFICES

**104%**

**increase**  
in transaction  
volume over 5 years

**\$10 billion**

**transaction volume**  
2014

**800**

**agents**  
and growing  
nationwide

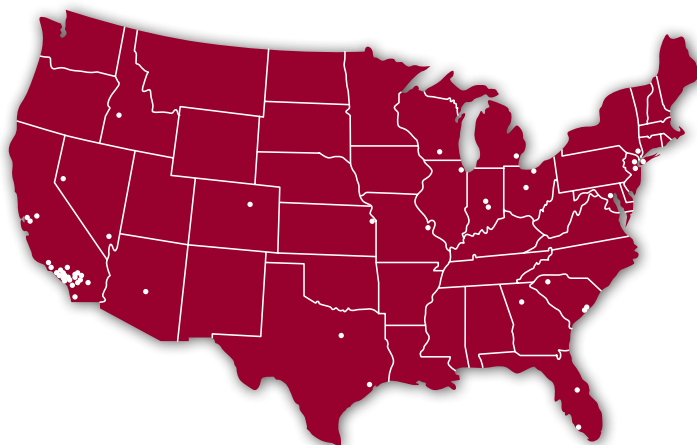
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Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

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- LAND
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- VALUATION & CONSULTING



**NATIONWIDE  
LOCATIONS**

Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region, MD • Charleston, SC • Edison, NJ • Orlando, FL • Fort Myers, FL • Kansas City, KS • Manhattan, NY • Greenville, SC • Atlanta, GA • Greenwood, IN • Indianapolis, IN • Long Beach, CA • 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

## THE MARKET BY THE NUMBERS

Optimistic users, developers and investors continued the positive pace of 2014 in the first quarter of the new year. Net absorption, construction activity and cap rates all point to another year of solid growth and improving market metrics in primary and secondary markets across the US. However, concerns over declining vacancy are also becoming more prevalent, as some markets are reaching critically low levels of quality space for expanding businesses to grow into. The national vacancy rate for warehouse and flex space combined fell another 10 basis points in Q1, settling at 7.0%. Year-over-year, the vacancy rate has fallen by 100 basis points and several major market areas, including Los Angeles, have vacancy ranging as low as 3%.

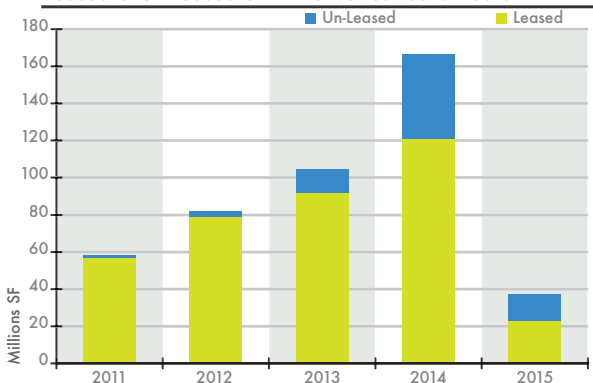
Vacancy Rates by Building Type 2000-2015



New deliveries for both speculative and build-to-suit projects started the year on a strong note. Thirty-seven million square feet of space in 284 buildings were added to the total base inventory in the US of 21.5 billion square feet. Another 152 million square feet remained under construction in Q1, which is a clear indication that the building boom is showing no signs of abating. If anything, construction is not likely to keep pace with demand in expanding markets. That said, construction activity is concentrated in the biggest markets that still have readily available land for ground-up projects, including Atlanta, Dallas/Fort Worth, Chicago and Southern California’s Inland Empire. In more mature, infill markets like Los Angeles and New York, construction remains at a virtual standstill, and there is an increasing risk of an eroding industrial base due to the gentrification and repurposing of older properties to mixed-use projects that have residential, office and retail components.

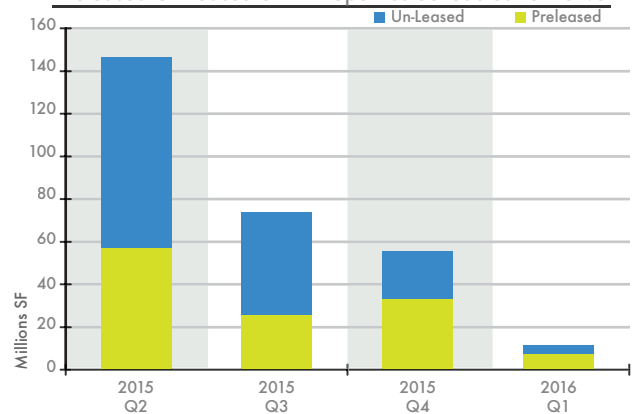
### Recent Deliveries

Leased & Un-Leased SF in Deliveries Last 5 Years



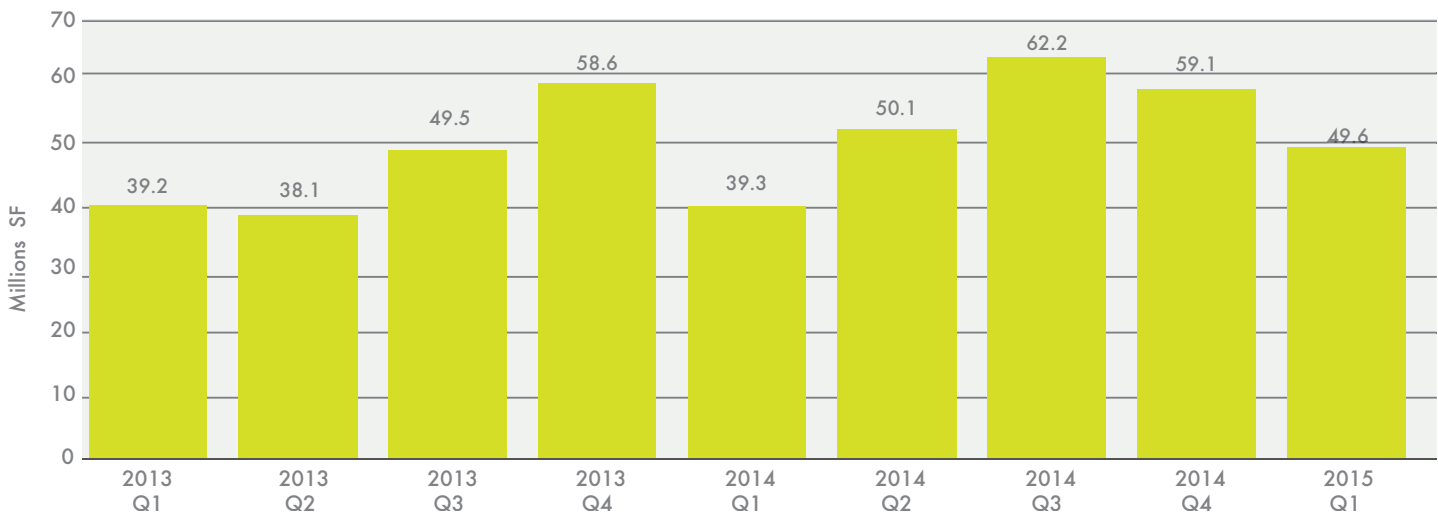
### Future Deliveries

Preleased Un-Leased SF in Properties Scheduled to Deliver



Net absorption for the overall industrial market for Q1 hit 49.6 million square feet, giving the year another strong start. This followed a whopping gain of 86 million square feet in occupied space in Q4. Large distribution users continue to account for the bulk of the net gains, with flex activity contributing less than three million square feet of the Q1 total. Major leases signed in Q1 included a 522,000-square-foot lease to Solo Cup in the Inland Empire, the 401,000-square-foot lease for MI Windows & Doors in The Dallas/Fort Worth market. E-retailers are still making big moves, as well, including Amazon's 1.1 million-square-foot fulfillment center in the Baltimore area. Absorption in almost all markets around the country was positive in Q1, but some areas impacted by tight supply are seeing net growth moderate, as tenants must renew in place for lack of quality options in the market. When vacancy falls to low levels, a disproportionate amount of the available space is second and third generation space with elements of functional obsolescence.

### Net Absorption



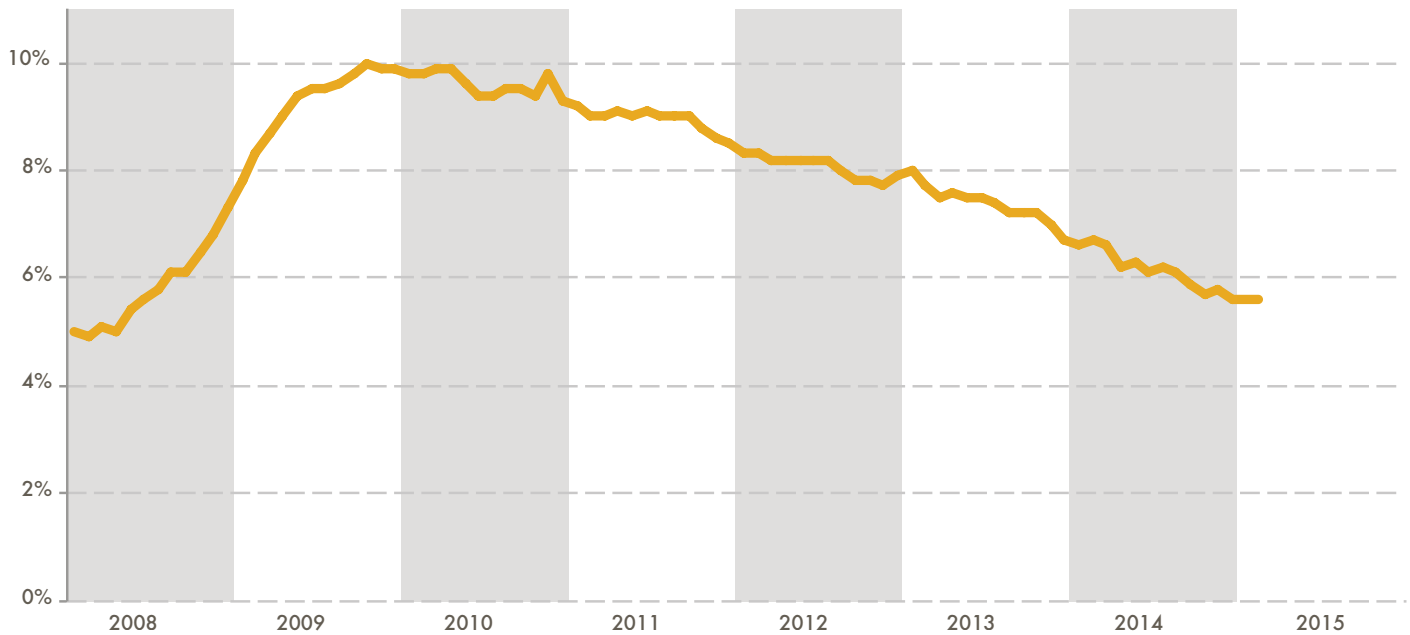
Average asking lease rates for all industrial product rose another 1.3% to \$5.63 per square foot in Q1 after a .5% gain in the previous quarter. Rents for newer distribution product are moving up even faster due to the higher clear height and fire suppression technology offered in new projects. However, in markets with lower vacancy, all industrial product is seeing rent growth, as some tenants are forced into less than desirable space to remain in their preferred submarkets.

Owner/user product remains in very short supply, which is slowing market activity, while users anxious to take advantage of SBA financing deals continue to hold out for the right property to acquire for their own use. This demand should continue to strengthen throughout the year, as the Federal Reserve is yet to make a move on raising interest rates. Investors are not faring much better than the users in terms of locating quality assets for acquisition. To the chagrin of buyers across the country, cap rates keep moving down, and until the cost of capital begins to head north, they will continue to move down. Even major institutional buyers are becoming more active in smaller market areas where they can achieve slightly higher yields than they can in primary metro markets.

## ECONOMIC DRIVERS

The nation's total output of goods and services showed significant improvement in 2014. GDP grew at an annual rate approaching 3%, but lower than anticipated due to a disappointing fourth quarter after back-to-back quarters in the 4% to 5% range that had everybody talking about better times ahead. Unfortunately, preliminary estimates for Q1 GDP growth are not optimistic. Another cold winter for most of the country is expected to negatively impact Q1 performance. Bad weather was blamed for a 2.1% decline in the first quarter of last year. With circumstances being so similar, poor Q1 performance will not come as much of a surprise. The Congressional Budget Office recently released its annual economic forecast, and it calls for GDP growth of 3% for the year.

### National Unemployment

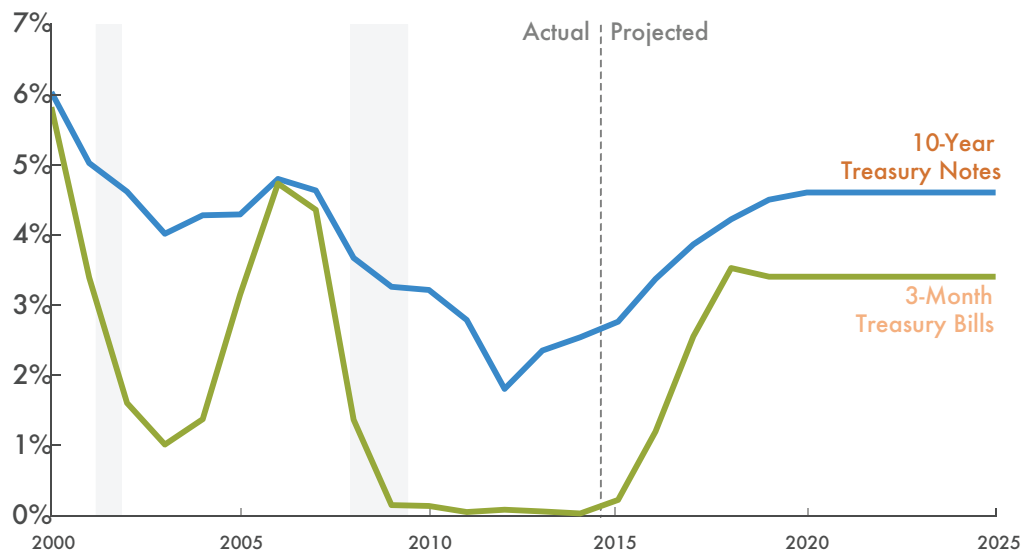


The unemployment rate has been moving down for several years, and is now fluctuating in the mid-five percent range. The national unemployment rate through February remained at 5.5%, but tends to fluctuate by a tenth or two each month, as the impact of new jobs is balanced against the change in the number of unemployed workers rejoining or exiting the work force. Part-time positions remain a problem, and may be giving a false sense of improvement to the economy, as these jobs yield less spendable income to boost GDP. The Labor Participation Rate, which measures the number of people eligible to work compared to those who are gainfully employed, is stuck at 62.7%, lowest in four decades. This is partly due to retiring Baby Boomers, but more importantly, it is indicative of a lack of quality jobs at rates of pay that motivate more participation in the work force.

Job growth picked up the pace in 2014, which showed up in the net absorption gains for the year. Job creation ranged from 200,000 to 300,000 per month in 2014, topping out at 353,000 in November. Then 2015 got off to a strong start. January and February hit 275,000 and 295,000 in new job creation respectively, but March was another story altogether, adding a meager 126,000 jobs for the month. Nobody saw it coming, and nobody seems to know why it happened, but it is cause for concern, and it will put all eyes on April's report and the preliminary GDP estimates for the quarter. However, the poor job numbers gave the stock markets a boost, as investor concerns over a near-term move by the Fed to raise rates were softened.

Wage growth is perhaps as much a concern as job growth. Since the last recession, real wage growth has been lackluster at best, with many of the jobs being created in the unskilled and semi-skilled categories. The increase in the number of part-time jobs is also a drag on wage growth. Without more disposable income, GDP growth will be negatively impacted, as consumer spending makes up roughly 70% of GDP. The slowdown in the energy sector is also affecting wage growth, as jobs in that sector tend to be higher paying and full time assignments. Layoffs in the field have become commonplace again, and it will certainly curtail job creation in the energy states. Fortunately, job gains in technology, professional services and the TAMI sector (technology, advertising, media and information) have been strong and are expected to remain so. While these sectors offer more of a benefit to the office market, any net gain in jobs and income help the economy at all levels.

While job and GDP growth are closely watched, more eyes may be on the Federal Reserve Bank than on any other market variable. Our central bank has taken unprecedented steps over the past six years to stimulate economic growth, so much so that more attention is on Fed action than on the actions of the marketplace itself. By holding interest rates to near zero for over five years, yields on investments of all kinds have been negatively affected. Savers have been punished, as yields on cash deposits fall well short what little inflation we have, and investors have been forced to take on more risk to get even a nominal yield on their capital.



Source: Congressional Budget Office

The equities market has soared for the past five years as result, as it offers a chance at a reasonable yield without giving up liquidity. Real estate borrowers have also benefited from Fed actions. Long term financing is still available at historically low rates. Low cost of capital has also contributed to cap rate compression in industrial markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4% for prime properties in major markets. But, that is still double the yield of 10-Year Treasuries, which, in late April was just 1.9%. When treasury yields finally go up as the Fed moves interest rates higher, cap rate decompression to maintain that spread becomes a real possibility. Investors will have to focus on markets where rent growth is strongest to make up the difference. Exit cap rate estimates will have to go up, which will bring IRR's down accordingly.

Thankfully, quantitative easing (QE) is finally behind us, so now it becomes a question of when the Fed makes a move on interest rates. While many believe that will occur in Q2, others think no rate hike will occur until GDP and core inflation become more predictable.

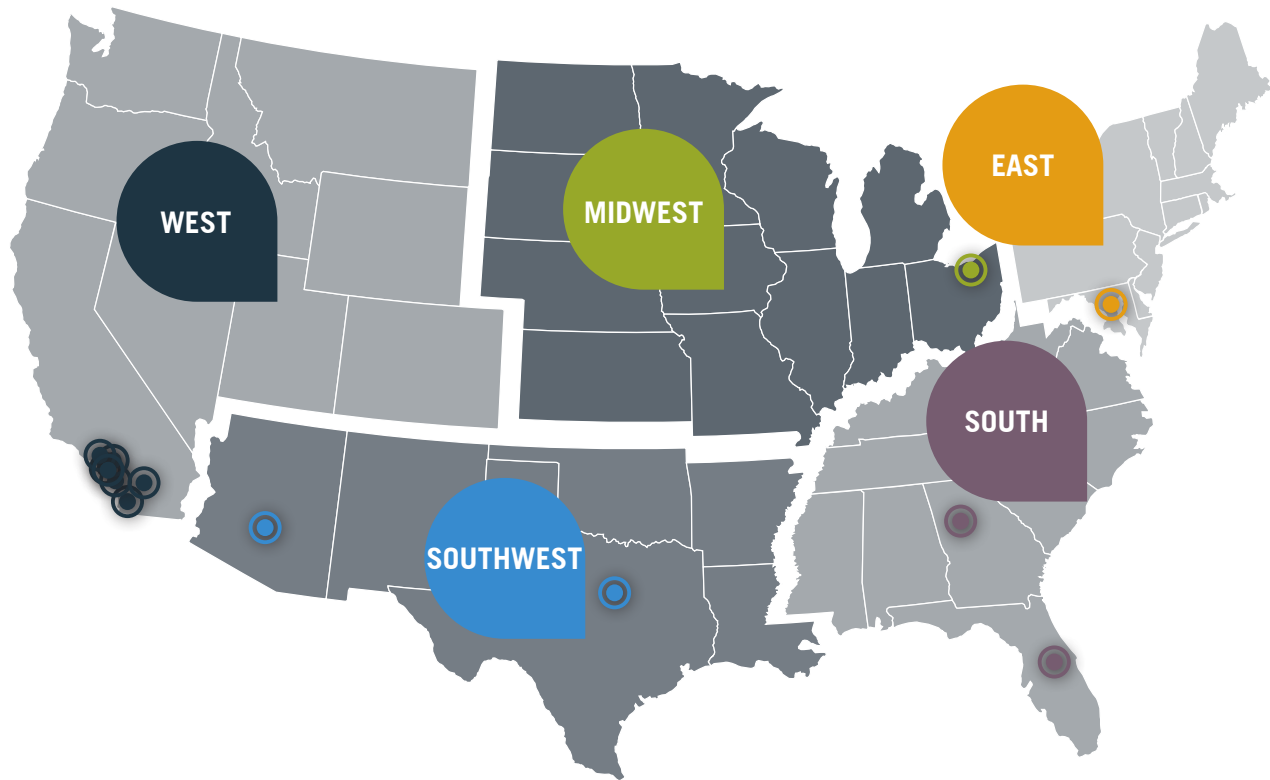
The global economy is another variable for our central bank to consider before bumping our interest rates. The European Central Bank announced an aggressive QE program just as we ended ours in the US. With growth either at zero or in negative territory in the Eurozone, it may not be a good time for our central bank to make things more difficult domestically. Several central banks in Europe even have moved core rates into negative territory in their attempt to avoid a potential deflationary cycle that would stall out the chances for economic growth in the region.

Changes in currency valuation are also impacting economic growth domestically. The US Dollar has moved to all-time highs against the Yen and the Euro. That means additional buying power when purchasing foreign goods and services with Dollars, but it also has a negative impact on US companies with revenues generated from customers paying in other currencies.

Oil prices remain in the \$50 per barrel range after plummeting from \$107 per barrel in June of 2014. Industry experts are all over the board in terms of predicting an end to the decline. Here again, the good news is also bad news. Lower energy prices have put tens of billions back in the pockets of US consumers, but they have also hurt job growth in energy states and reduced the level of exploration and extraction activities across the country. Excess supply is to blame, and that is due to increased productivity in the US and anemic worldwide economic growth, which has reduced demand for fossil fuel products. OPEC has thus far refused to cut production in response, which many believe is a strategic move to slow US production by pushing prices low enough to make US oil and gas extraction unprofitable. At the moment, that strategy seems to be working.

**A LOOK AHEAD.** The US industrial market should remain strong through the end of 2015. Domestic GDP and job growth should be healthy enough to offset a sluggish global economy. The strong dollar and interest from foreign investors to invest in the US has re-established our status as the strongest and healthiest in the world. The dollar is still the world's reserve currency and US Treasuries are still the safest investment alternative.

Low oil prices will be with us for the near-term and that will give consumers more buying power, lower costs for fuel intensive industrial users and stimulate job growth. This will increase consumer spending in the short term and stimulate additional job growth across the country. Energy dependent states will have a rougher time until prices stabilize at much higher levels. Expect more layoffs in high-paying energy job categories and a significant slowdown in domestic production until the price of oil makes sense to extract and refine again. Fortunately, gains in employment, even in the energy states, are broad-based enough to stay in positive territory overall. Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, markets with the lowest vacancy will see absorption and leasing activity moderate due to lack of supply. Cap rates will remain compressed due to record high demand, but they could begin to move in the other direction once the Fed makes a move on interest rates. Higher interest rates means higher yields on alternative investments, which could hurt the equities market and pricier real estate markets in the short term. Development will continue in markets with large inventories of vacant land, and slow even further in infill markets as redevelopment of existing industrial sites to alternative uses will become more prevalent. Q2 may be when the Supreme Court announces its ruling on the challenge to health care subsidies offered through Healthcare.gov. If the plaintiffs in the case prevail, the viability of the entire program will be called into question.



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

**ORANGE COUNTY**  
**LA - LONG BEACH**  
**CENTRAL LA**  
**NORTH LA**  
**SAN GABRIEL VALLEY**  
**SAN DIEGO**  
**INLAND EMPIRE EAST**

**PHOENIX**  
**DALLAS / FORT WORTH**

**CLEVELAND**

**ORLANDO**  
**ATLANTA**

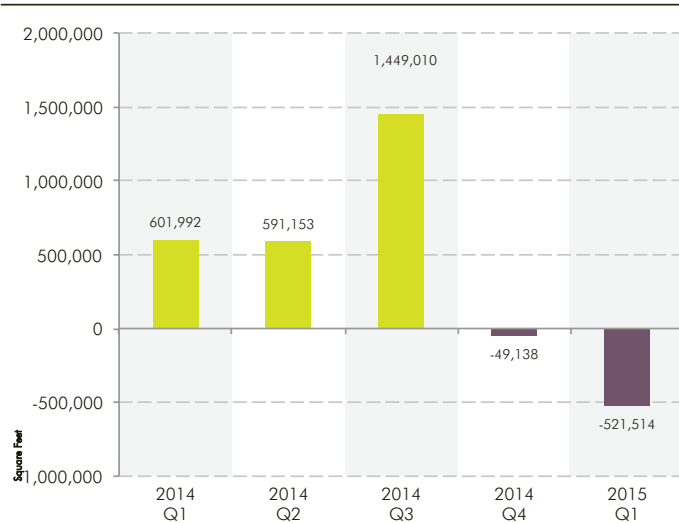
**BALTIMORE**



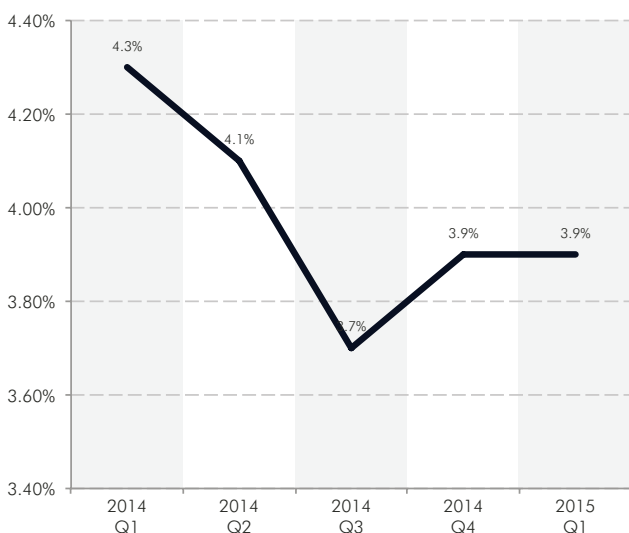
# ORANGE COUNTY



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The Orange County industrial market is a good news/bad news story. The good news for property owners is that industrial businesses have been in expansion mode for the past several years due to a solid economic recovery in the county, which is running well ahead of the state in terms of job and wage growth, the key drivers of industrial absorption. That combined with the availability of low cost, fixed-rate financing for owner/users through the Small Business Administration, has put particular strain on availability of quality industrial product. Sales prices have soared by as much as 50% in just the past two years, as supply has all but dried up and competitive bidding for scarce assets intensifies. The average sales price rose nearly 20% in 2014, and a similar increase is likely in 2015, provided interest rates stay at near current levels. That is, of course, bad news for tenants and owner/users who have seen vacancy drop to 3.9%, where it stood at the close of Q1. Lack of supply is driving prices up and the choice of quality properties to choose from down. Though net absorption has been trending positive, Q4 of 2014 posted over 350,000 square feet to the negative, but lack of supply rather than demand was to blame. Q1 net absorption came in at 521,000 square feet to the negative for the same reason. Net absorption is losing momentum

3.9%

VACANCY

\$9.14

AVG. SF RENTAL RATES

-521,514

NET SF ABSORPTION

301,684,025

INDUSTRIAL SF INVENTORY

748,228

SF UNDER CONSTRUCTION



## ORANGE COUNTY - TRENDING NOW (continued)

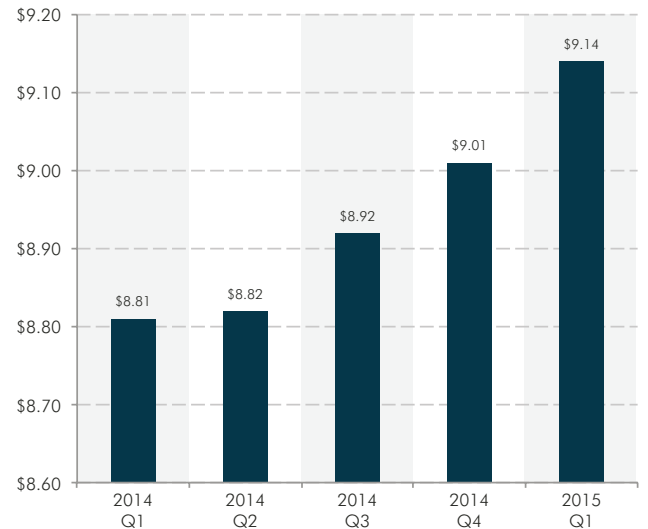
because more of the vacant space is manifesting elements of functional obsolescence. By the end of Q1, just 748,000 square feet was under construction, all of it in the North County market, with a good portion of that committed to area users. Not a single square foot of new inventory was delivered in Q1. Add the fact that some cities are tightening up their industrial zoning and many remaining industrial sites are being rezoned altogether for residential and retail uses.

Average asking rental rates are also moving up, but not at the same pace as sales prices. In 2014, the overall rate for industrial product was up over 3%. Q1 rents rose 1.4% to settle at \$.76 per square foot on a monthly basis. With sale product availability nearing zero, landlords have tightened up on leasing concessions and they are pushing for larger annual rent increases, as vacancy can only go lower.

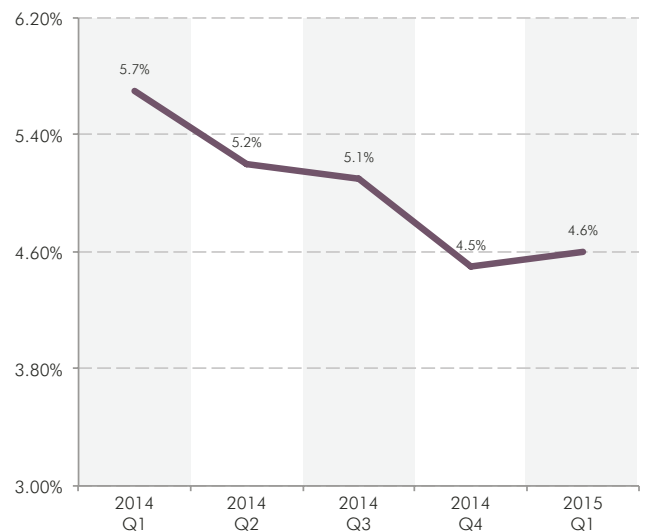
Supply constraints have also impacted overall lease and sale activity. Despite improving economic conditions, combined sale and lease activity fell by 30% in 2014. As a result, more businesses are looking outside of Orange County for quality space, mainly in the Inland Empire. However, falling vacancy and rising prices there pose a similar challenge, raising the sense of urgency amongst expanding businesses to lock in new locations as soon as possible.

Orange County's flex market is also on the rise. Of the 69 million square feet of flex space in the county, 5.1% of it remained vacant at the end of Q1, with an average asking rental rate of \$1.03, up \$.04 year-over-year. Flex space contributed 203,000 square feet of negative net absorption in the first quarter.

### Average SF Rental Rate



### County Unemployment Rate



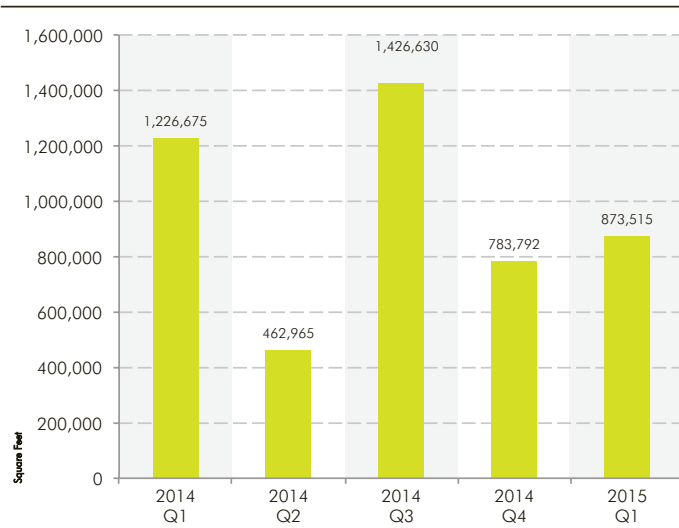
## A LOOK AHEAD.

- Competition for space will intensify, both for sale and lease product
- Lease and sale activity will struggle to hit 2014 levels due to supply constraint
- Lease rates will increase up to 7% by the end of 2015
- Sales prices will spike sharply again in 2015, as owner/users scramble to acquire properties before an expected spike in SBA interest rates
- Construction will remain slow, confined mostly to the remodeling of existing inventory
- Energy efficiency upgrades, especially solar systems, will become more common

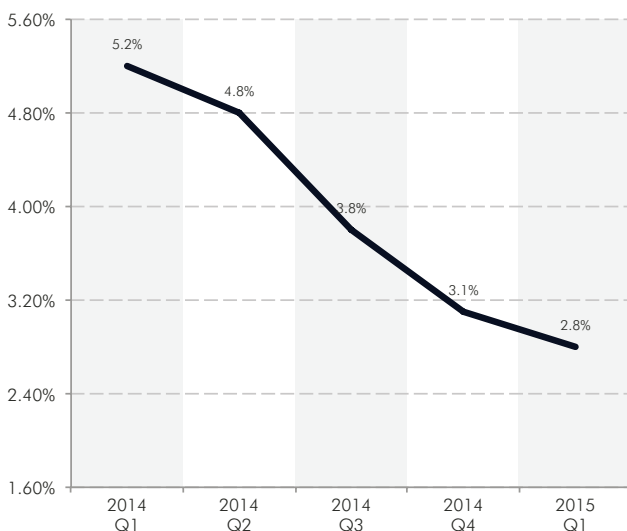
# LA - LONG BEACH



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The Los Angeles/Long Beach industrial market includes a total base inventory of over 191 million square feet. The area has long been one of the busiest industrial markets in the country, driven primarily by the Ports of LA and Long Beach, 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.

In the first two months of 2015, combined cargo was down approximately 24% for the Ports of LA and Long Beach. Once a tentative agreement was reached on February 20th, volumes soared dramatically in March ending the month up 23% compared to March 2014.

Leasing activity for the quarter totaled 2,931,351 square feet, which is a 27.7% increase compared to Q4 2014. Net absorption remained positive despite the incredibly tight supply. Q1 saw an increase of over 10% of 873,515 square feet in occupied space, following Q4 2014's total of 783,792 square feet. Average asking rental rates moved up again in Q1 and have caught up to pre-recession levels.

Vacancy rates are down to 2.8% overall for the South Bay, creating a much more competitive market as the

2.8%

VACANCY

\$8.04

AVG. SF RENTAL RATES

873,515

NET SF ABSORPTION

191,909,277

INDUSTRIAL SF INVENTORY

0

SF UNDER CONSTRUCTION



## LA - LONG BEACH - TRENDING NOW (continued)

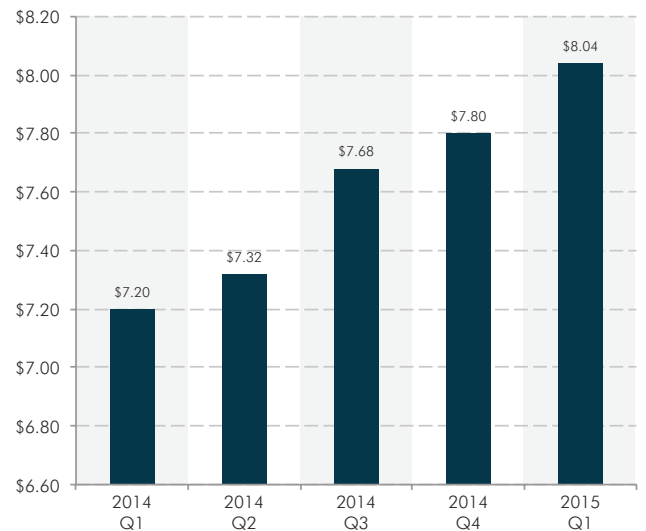
fight for remaining inventory increases. Leases for Class A construction are approaching the \$0.70 per square foot Net mark, and recent sales are creeping above \$165 per square foot with Mitsubishi Logistics' recent acquisition of 19310 Pacific Gateway Drive setting the precedent at \$27.5 Million (\$194.00 per square foot).

Low interest rates have contributed to a higher frequency of purchases, and consequently have propelled sale prices to a height unseen since 2007. Prices for Class C buildings have climbed above \$100.00 per square foot, forcing some Buyers to wait on the sidelines for the next turn of the cycle.

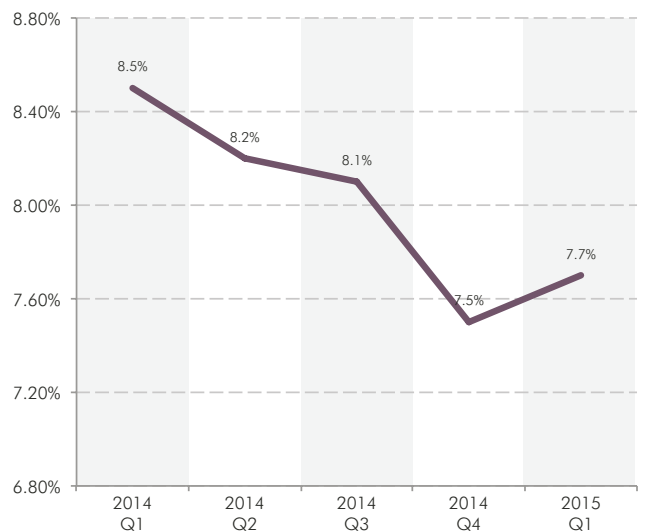
The over-all lack of available buildings in the South Bay has created tough competition for the few remaining land sites. Developers are competing with Owner/Users to acquire what little is left. Land sites that have traditionally sat empty for generations are now being bought up and re-positioned.

Landlords are gaining the upper hand with the ability to increase rates, dictate term, and give fewer concessions. Buildings are being put under long-term lease contracts with annual increases, 5 to 10+ years. These deals will continue to carry them through the economic cycle, creating a much needed sense of security for the owners. Should a tenant default or fail to renew a space, the low vacancy and high demand of the South Bay Market will ensure there is almost always someone on the sidelines ready to purchase or lease a property.

### Average SF Rental Rate



### County Unemployment Rate



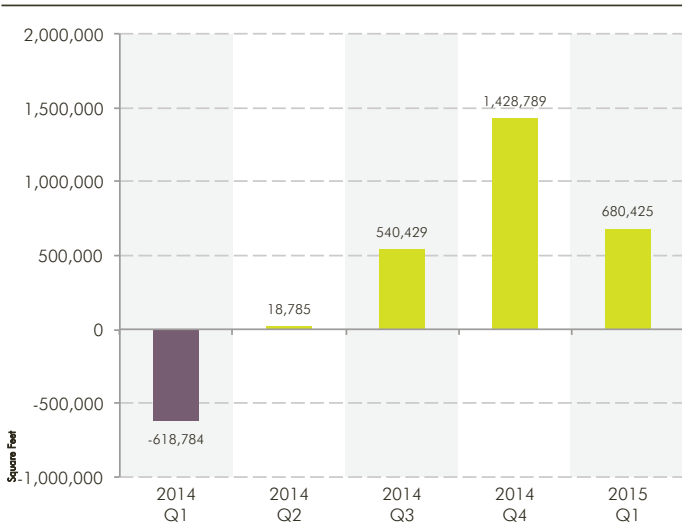
## A LOOK AHEAD.

- Business owners will continue to gain confidence resulting in more consumers participating in the marketplace
- Vacancy could finish the year near or even below 2%
- Average asking lease rates for Class A will move near \$.70 per square foot per month by year-end
- Average asking sales prices will top \$125 per square foot
- 2015 will experience a 1.5% or higher gain at the Ports
- Construction will remain at a near standstill due to a shortage of available land

## CENTRAL LA



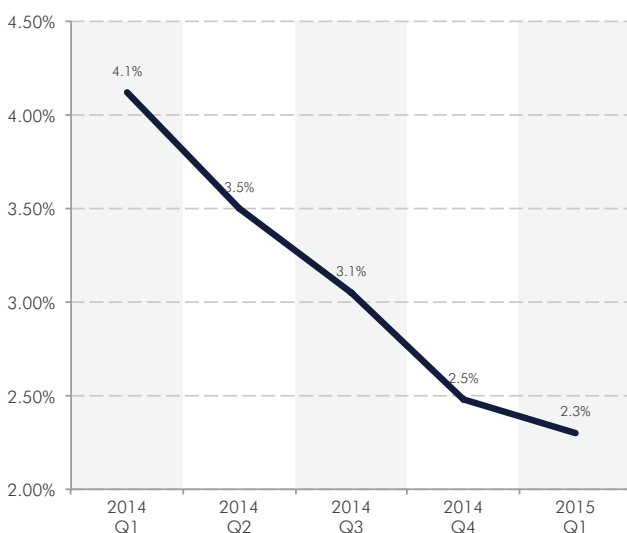
## Net Absorption



## TRENDING NOW

The Central Los Angeles market, which includes Downtown, Vernon, Commerce, and the Mid-Cities, continues to tighten up, so much so that the ability for companies to expand in the region are facing the tight supply, functionally obsolete product and rents and sales prices at levels not seen since the previous market peak. High vacancy, negative absorption, falling rents and lower sales prices are all things in the past, with opposite now being the case.

## Vacancy Rate



Vacancy fell again in Q1 of 2015 to a new low of 2.3%. While this comes as good news for landlords, even those tenants willing to be higher rates for space in the area, are unable to find properties that are suitable for their needs. With vacancy so low, more tenants are renewing in place, but an increasing number are being forced to leave the area for the Inland Empire where availability of quality product is more abundant. That is increasing the pool of obsolete space and forcing landlords to spend more to make their space suitable for expanding tenants. The lack of inventory is also posing a problem for landlords anxious to keep current tenants within their portfolios.

There is virtually no vacant land for the development of modern facilities and what few parcels do become

2.3%

VACANCY

\$6.96

AVG. SF RENTAL RATES

680,425

NET SF ABSORPTION

280,292,739

INDUSTRIAL SF INVENTORY

187,847

SF UNDER CONSTRUCTION



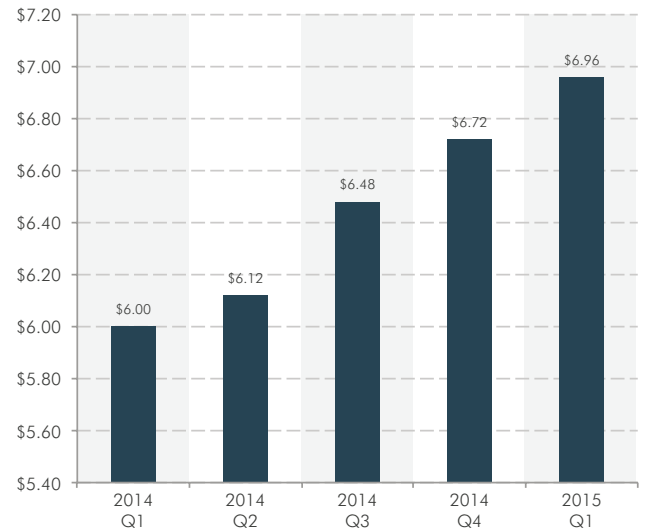
## CENTRAL LA - TRENDING NOW (continued)

available are at prices that don't justify the construction of traditional industrial product. Older industrial product is being purchased for redevelopment to higher uses including multi-family and mixed use retail-office-residential projects. This does not bode well for businesses who need to stay in the area to remain profitable, as the base inventory is shrinking and becoming more obsolete at the same time.

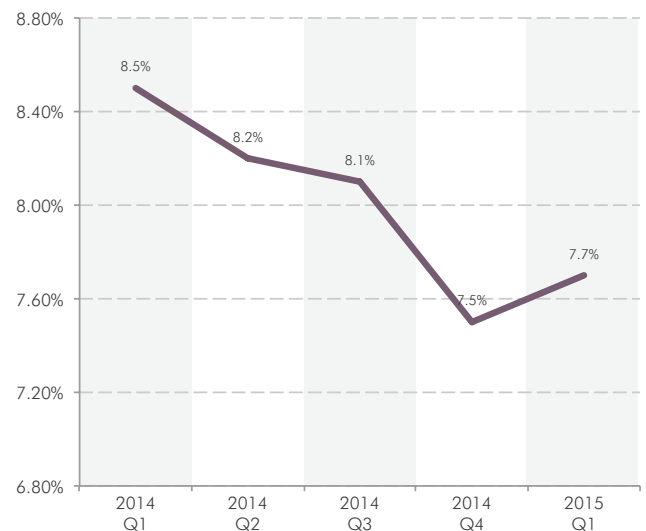
Net absorption remains positive, but is severely restricted due to lack of supply. Q1 came in at a positive 680,425 square feet, following Q4's total of 1,568,784 square feet. Average asking rental rates keep moving up, posting another \$.04 increase over Q4 of 2014 and \$.08 year-over-year. Sale prices are also up, but with virtually no available product, users looking to take advantage of low interest rates, sit frustrated on the sidelines or get in line to compete for the rare building that hits the market.

Cap rates are compressed as they are all across the US in major metro areas. Institutions are very interested in the Central Los Angeles market, but like the owner/user buyers, they are frustrated by the lack of available supply.

### Average SF Rental Rate



### County Unemployment Rate

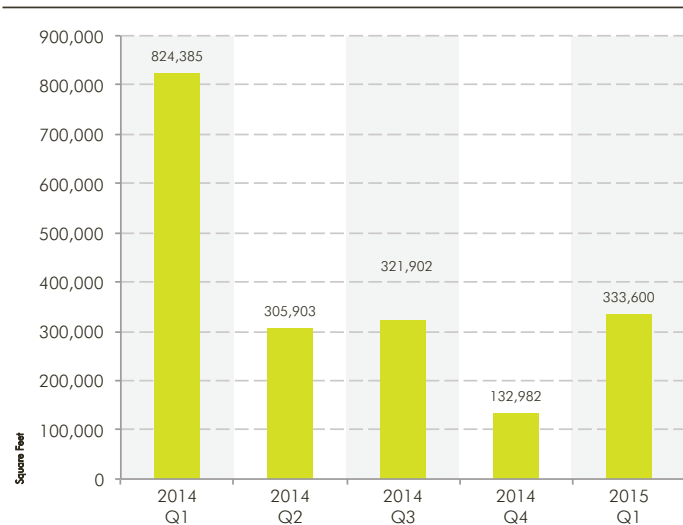


## A LOOK AHEAD.

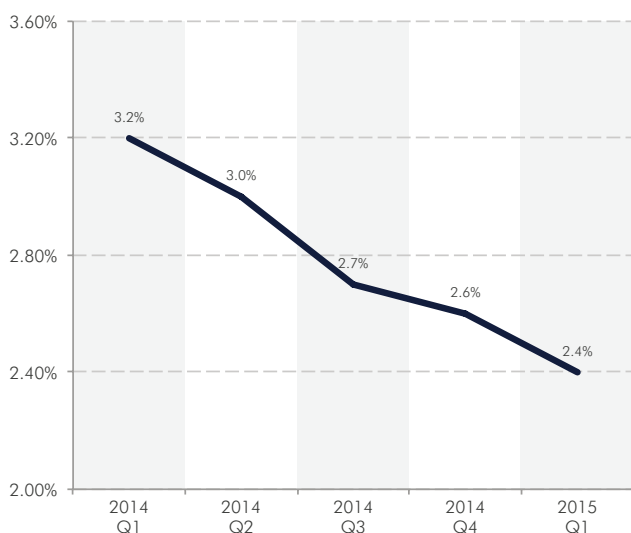
- Gross activity will remain strong, as users trade space to increase efficiency and accommodate growth
- The increase in lease rates will continue throughout 2015
- Development of new industrial product will be conspicuously absent
- Net absorption will remain marginally positive, entirely due to lack of supply
- Vacancy will go sub-2% before the year ends
- What industrial land does become available will be above \$30 per square foot and is likely to be sold for non-industrial projects
- Look for more e-commerce companies like Amazon and online grocery operations to become more active in the area

# NORTH LA

## Net Absorption



## Vacancy Rate



## TRENDING NOW

The North Los Angeles industrial market is facing the same challenge as neighboring Central Los Angeles Market. An older area, with much of its base inventory built in the 1960s and 1970s, North LA has also seen vacancy decline to record low levels, while growing businesses become increasingly frustrated by a lack of supply of functional product. This densely populated area has little land left for development, but sites that do become available are likely to be developed as high-density residential or mixed-use projects that include residential, retail and even office components. Vacancy has fallen so low that many area businesses are becoming unable to find suitable space in their preferred submarket. In Q1, the vacancy rate hit a new low of 2.4%, down 120 basis points year-over-year. Vacancy that low also has the quality of available product on the decline, as a disproportionate amount of space that comes to market has elements of functional obsolescence such as low clearance heights and poor parking ratios.

Even so, rents are on the rise and tenants are effectively paying more to get less. Q1 average asking lease rates hit \$0.69 psf, up 3% in just one quarter and up 10% year-over-year. Functional buildings in prime locations are experiencing competitive bidding with

2.4%

VACANCY

\$8.28

AVG. SF RENTAL RATES

333,600

NET SF ABSORPTION

125,593,600

INDUSTRIAL SF INVENTORY

111,600

SF UNDER CONSTRUCTION

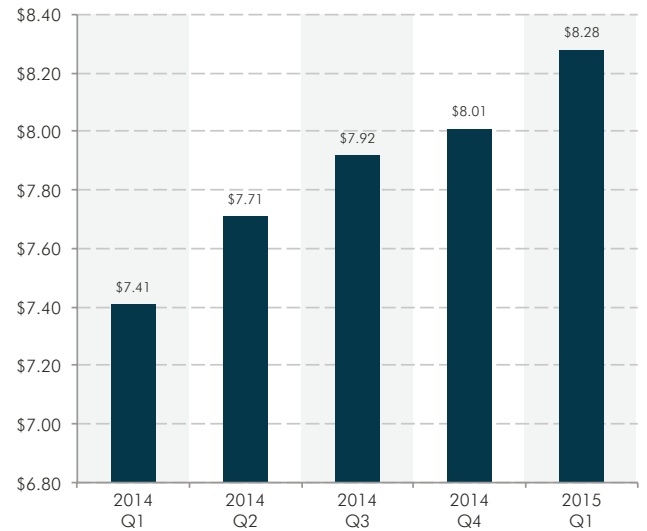


## NORTH LA - TRENDING NOW (continued)

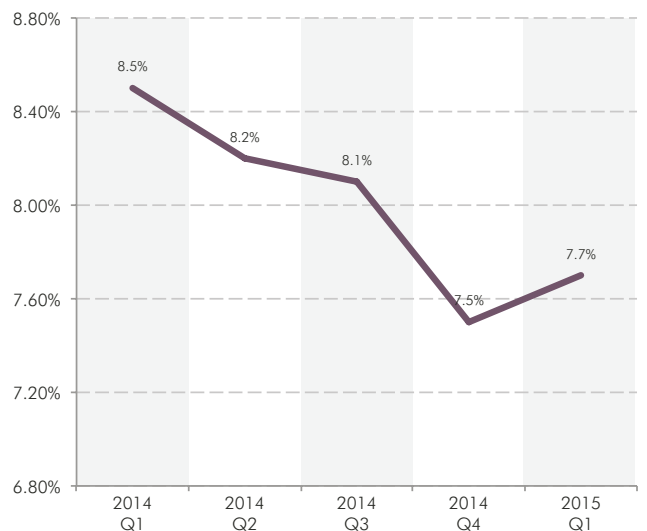
rates reaching as high as \$1.05 per square foot. No relief from rising rents is expected in the near term, as improving economic conditions are likely to accelerate business growth and demand for space. Demand for product available for sale is also intense. Sales prices for owner/user buildings have spiked, as well, and the lack of product across the board does present some danger that employers will be leaving the market for areas where business expansion will be less restrictive.

Net absorption continues its positive run. Q1 saw an increase of 200,618 square feet over Q4 and a year-over-year gain in occupied space of 2,175,700 square feet. So-called "below the line" entertainment users that include companies providing lighting and props are enjoying an increase in demand for services due to changes in tax credits available to the film industry. However, critically low vacancy will hamper net absorption going forward, as some businesses renew in place and forego growth plans. Landlords who can keep their existing tenants and avoid income loss due to vacancy can pass at least a portion of that savings along to their tenants.

### Average SF Rental Rate



### County Unemployment Rate



## A LOOK AHEAD.

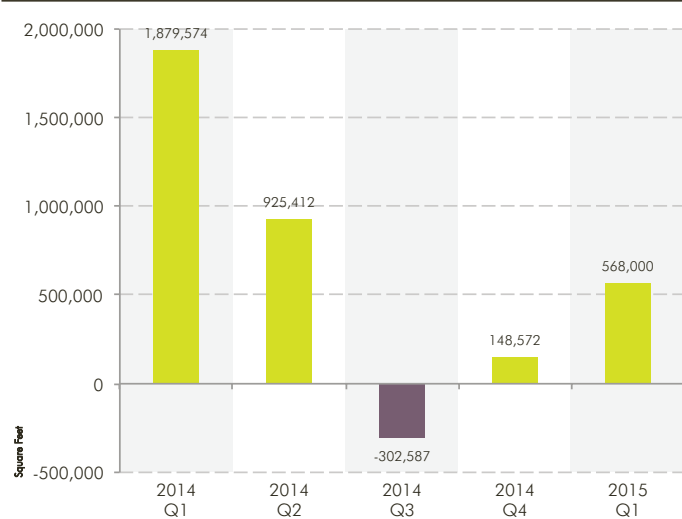
- Leasing activity will moderate due to lack of supply
- Demand for product for sale will remain strong, but lack of supply will severely affect transaction activity
- Net absorption will stay positive, but decrease as supply continues its decline
- Vacancy will remain under 3% for the foreseeable future
- Sales prices will experience another double-digit gain in 2015
- Construction activity will remain at a standstill due to the high price and scarcity of industrial land for development.
- More companies will look north to the Santa Clarita Valley and west to Moorpark, Simi Valley and Ventura County markets to secure larger facilities for expansion



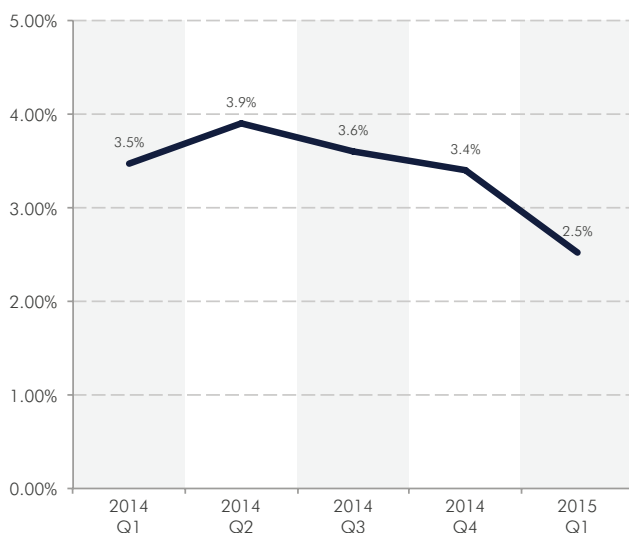
# SAN GABRIEL VALLEY



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The San Gabriel Valley (SGV) industrial market is composed of three major submarkets; West SGV, 60 Freeway Corridor and the 210 Freeway Corridor. The highest concentration of industrial space, just over 79 million square feet, is located along the 60 Freeway in City of Industry, which represents 47% of the region's 169 million-square-foot inventory base. Like other Southern California markets, the area has extremely low vacancy, rising rents, strong net absorption and intense interest in owner/user purchases.

The first quarter of 2015 saw another 28 basis point drop in the vacancy factor, which now stands at a dangerously low 2.52%. Year-over-year, the rate is down 95 basis points, and the lack of available product is causing significant concern from tenants and landlords that significant expansion will require relocation to other markets further inland. Also, a greater portion of the vacant space has elements of functional obsolescence, as tenants show a willingness to pay higher rents to secure quality, functional product.

Average asking rental rates have been on the rise for several years. Q1 added another \$.01 per square foot, bringing the benchmark rate up to \$.61. Landlord concessions have diminished at the same time, further

2.5%

VACANCY

\$7.32

AVG. SF RENTAL RATES

568,000

NET SF ABSORPTION

169,545,277

INDUSTRIAL SF INVENTORY

1,187,245

SF UNDER CONSTRUCTION



## SAN GABRIEL VALLEY - TRENDING NOW (continued)

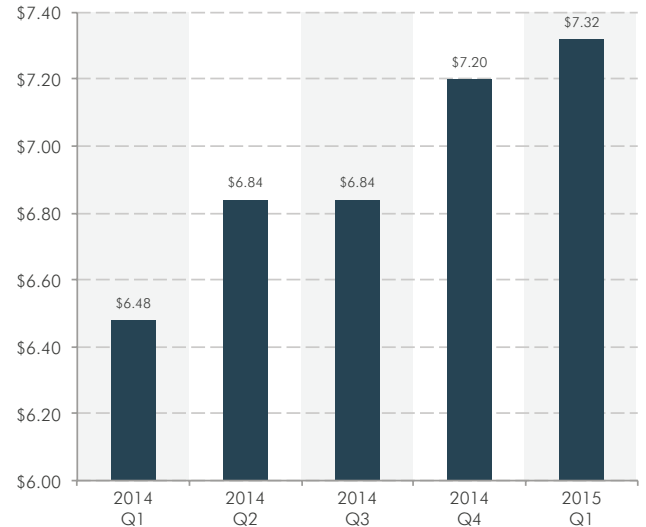
exacerbating the increase in occupancy costs incurred by relocating businesses. City of Industry, where the greatest concentration of quality buildings are located, saw its vacancy rate fall below 4% during the quarter, with further declines expected going forward.

Net absorption was positive again for the quarter, adding another 568,000 square feet to the total of occupied space. However, low vacancy is keeping the lid on net absorption, as more tenants are being forced to renew in place or migrate to other markets. The 60 Fwy Corridor led the way, netting another 510,000 square feet of new occupancy, and distribution users continued to lead the way in terms of leasing activity throughout the region.

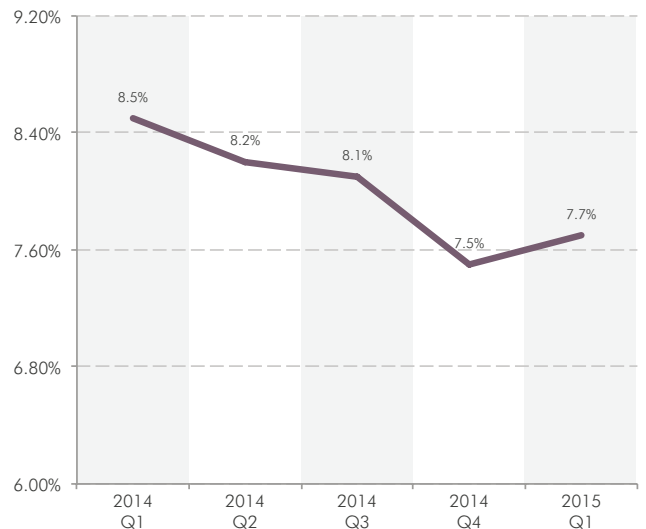
Development of new product is progressing at a modest pace. Just 352,000 square feet of new inventory was under construction as the quarter closed, which is not enough to keep pace with current demand. However, developers are showing a willingness to take on the additional risk of speculative construction.

Demand from area businesses interested in acquiring industrial buildings for its own use, is at an all-time high and availability had dropped to near zero in some size ranges. Driven by low cost, fixed-rate loans offered through the Small Business Administration, business owners see the benefit of fixing long term occupancy cost and investing for their own accounts.

### Average SF Rental Rate



### County Employment Rate



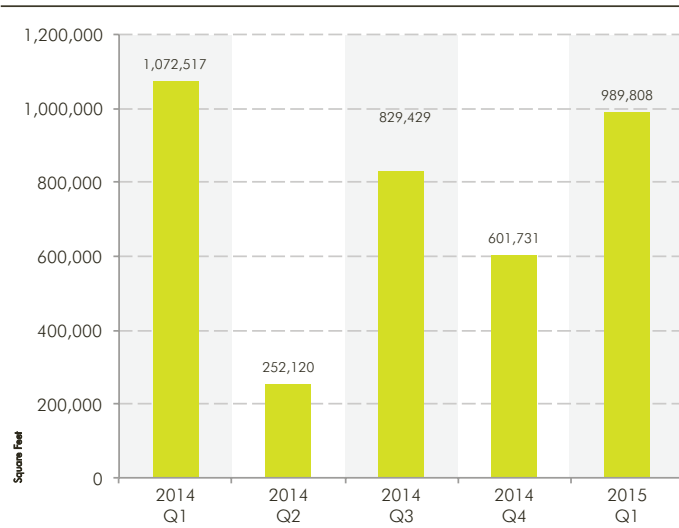
## A LOOK AHEAD.

- Lease and sale activity will remain strong as companies increase inventories to meet expected demand
- Vacancy could rise slightly in the short term as older product is vacated in favor of new product deliveries
- Average asking lease rates will move up another 5% in 2015
- Sales prices will also move up, but inventory will remain scarce
- Construction should pick up as developers move aggressively to acquire more land

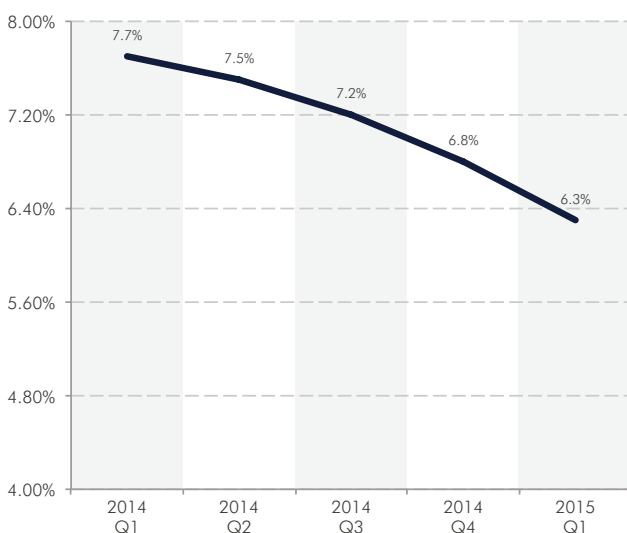
# SANDIEGO



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The region has several active business sectors that are driving industrial activity, 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, employs over 42,000 physicians and scientists and is the center for human genome research. Aerospace companies, another major sector, is growing rapidly due to the development and manufacture of drones. Cross-border commerce is also on the upswing and that should continue as the economies on both sides continue to grow.

Unemployment in San Diego County moved down again in Q1 to 5.1% and the regions steady job growth has helped keep net absorption consistently in positive territory. Central San Diego, which includes the Sorrento Mesa, Kearney Mesa, Miramar and Sorrento Valley submarkets accounts for much of the region's industrial activity. Last year, Central County posted a gain in occupied space of 349,751 square feet, and added another 249,978 square feet in the first quarter of 2015. South San Diego is also picking up the pace. Net absorption is picking up in areas like Otay Mesa, which were hit particularly hard by the last recession. Net absorption hit 97,540

6.3%

VACANCY

\$11.30

AVG. SF RENTAL RATES

989,808

NET SF ABSORPTION

189,602,389

INDUSTRIAL SF INVENTORY

745,780

SF UNDER CONSTRUCTION



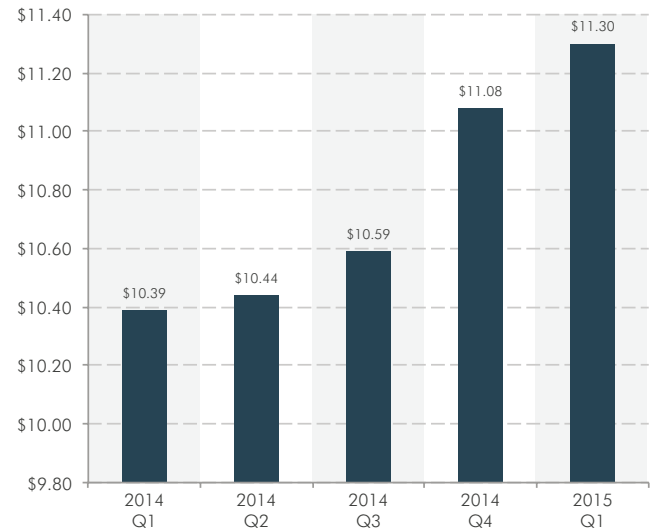
## SAN DIEGO - TRENDING NOW (continued)

square feet in Otay Mesa for the first quarter, adding to 2014's total of 698,120 square feet.

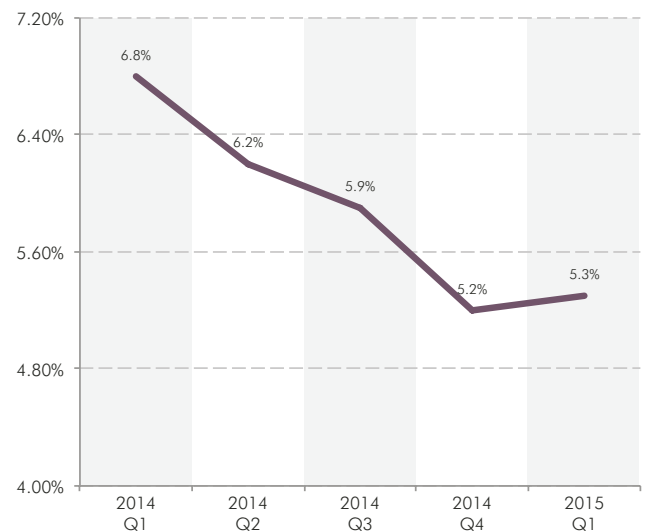
Conditions vary widely around the county, but Central County activity is being impaired by a shortage of product. Vacancy has fallen dramatically in areas around the Miramar Naval Air Station and there is an acute shortage of smaller buildings offered for sale to users. Central County vacancy hit a low of 3.4% in the first quarter, and with no new inventory scheduled for delivery in 2015, that trend is likely to continue. Expanding tenants that need to remain in the area are going to suffer much higher rents going forward. Last year Central County lease rates grew by approximately 5%, and as vacancy drops further, that pace could accelerate. Things aren't much different in the nearby I 15 Corridor, as industrial rents are rising just as fast. Even North County, which was also hit hard during the recession due to over-supply, is experiencing rent growth. Average asking lease rates there finished the quarter at \$15.78, up 14% on a year-over-year basis.

Interest from owner/users, anxious to acquire facilities with low cost, SBA financing, is strong and getting stronger. The 90% loan-to-value loans allow business owners to fix occupancy for up to 25 years. However, time is of the essence for these buyers, as SBA rates are certain to rise when US Federal Reserve Bank begins its inevitable reversal of current monetary policy.

### Average SF Rental Rate



### County Unemployment Rate



## A LOOK AHEAD.

- Investor demand for portfolio properties will remain strong in all San Diego County submarkets.
- Lease rates will rise as the existing inventory shrinks with no speculative industrial projects current planned to

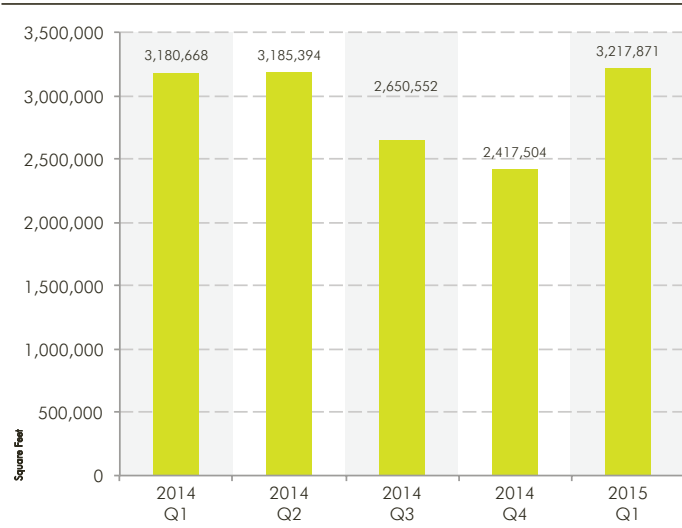
break ground in 2015.

- The inventory of entitled, developable industrial land is in north and south county with the central county areas essentially built-out.

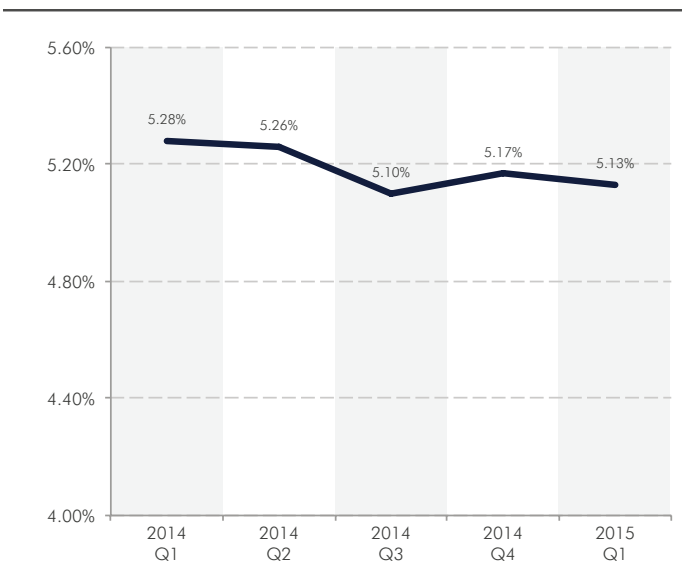
# INLAND EMPIRE EAST



## Gross Absorption



## Vacancy Rate



## TRENDING NOW

The Inland Empire-East (East Valley) industrial market includes the Cities of Colton, Grand Terrace, Moreno Valley, Perris, Loma Linda, Mentone, Redlands, Yucaipa, Bloomington, Rialto, Riverside, Jurupa Valley (Portions), Highland, San Bernardino, Banning and Beaumont, and accounts for 173.4 million square feet total base inventory. In all, there are 2,303 existing industrial buildings over 5,000 square feet. The area is served by the Interstates 10, 15, 215 and the 60, 71, and 91 freeways, which makes it one of the largest distribution hubs in the US when combined with the Inland Empire-West market.

Industrial activity has been gaining strength for the past several years, and even though construction activity has been robust, vacancy has declined substantially to 5.13%, down a whopping 14.1% since its previous market peak at 19.21% in the 2nd quarter of 2009. Large lease transactions, many of them over 500,000 square feet, primarily in the East Valley area, have been driving gross absorption. However, shortages of quality space in smaller size ranges are not uncommon, and interest from owner/users to acquire industrial facilities has reached all-time highs due to the low cost of capital and strong historical performance. Double digit gains in per-square-foot sales pricing have been

5.13%  
VACANCY

\$5.28  
AVG. SF RENTAL RATES

3,217,871  
GROSS SF ABSORPTION

173,409,294  
INDUSTRIAL SF INVENTORY

11,878,732  
SF UNDER CONSTRUCTION

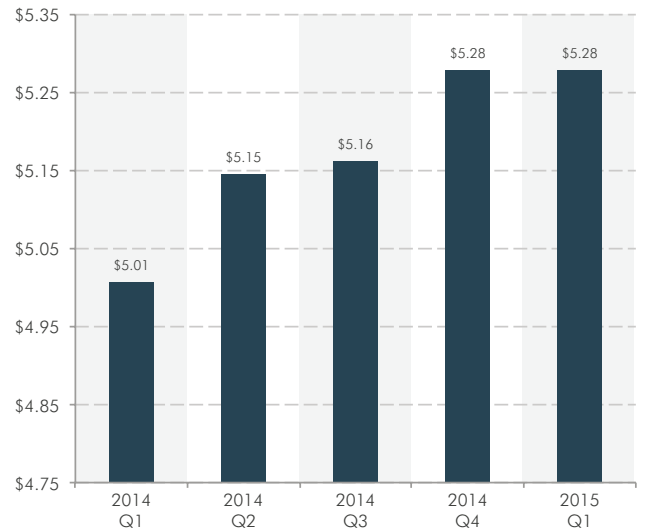
## INLAND EMPIRE EAST - TRENDING NOW (continued)

in neighboring Los Angeles and Orange counties.

Average actual rental rates for manufacturing and distribution space combined, settled at \$5.28 GRS and \$4.67 NNN per square foot annually by the end of Q1, the GRS rate was unchanged over the quarter and the NNN rate was up \$0.60 for the quarter. Year-over-year, rates were up \$0.27 GRS and \$0.86 NNN. However, lease rates vary widely by submarket, ranging from a low of \$3.00 GRS in buildings located in the San Bernardino submarket to a high of \$8.40 for buildings located in the Riverside submarket.

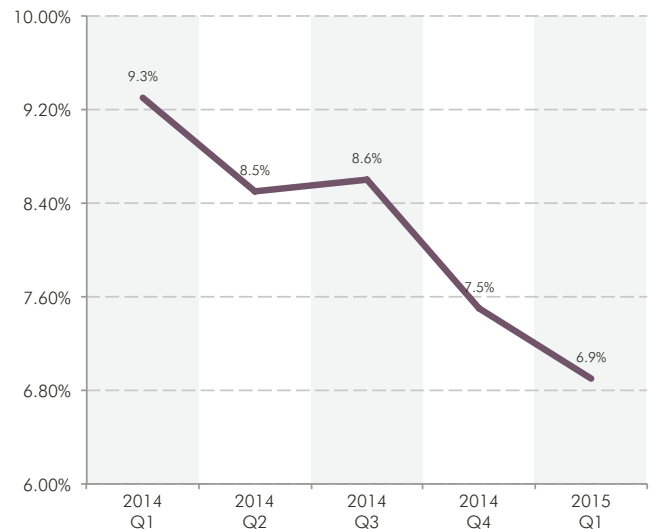
After 12 straight quarters of significant positive net absorption, the East Valley posted a positive 4.5 million square foot gain in total occupied space in Q1. With supplies running short in the lower size ranges, developers are gearing up to bring new projects to the market that feature buildings under 100,000 square feet. The bulk of the development activity has been in much larger distribution buildings, many in excess of one million square feet. This has left the market short of quality product for smaller users to choose from.

Average SF Rental Rate



County Unemployment Rate

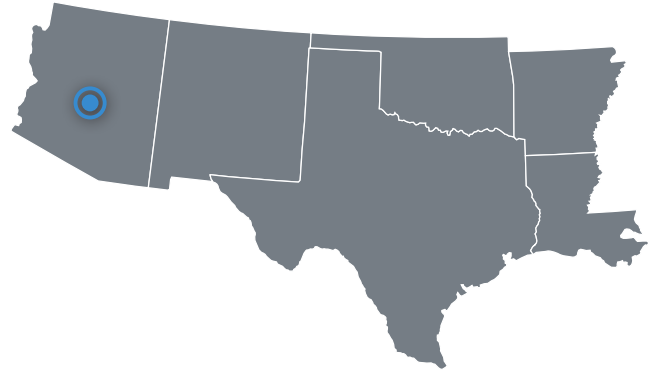
\*Riverside County



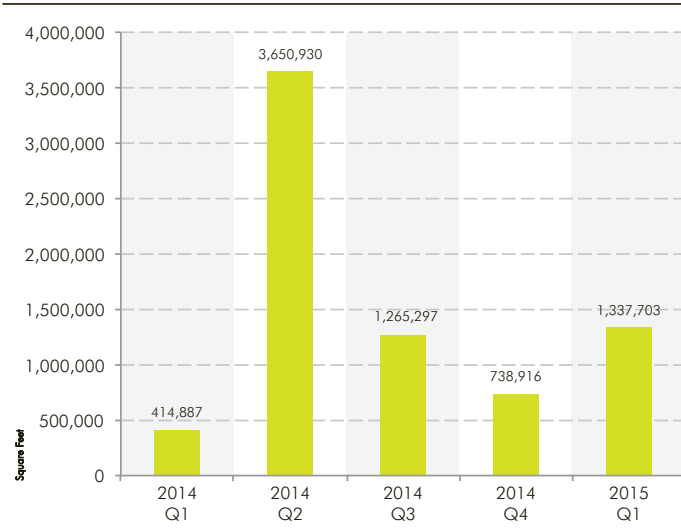
### A LOOK AHEAD.

- Gross leasing activity will remain stable and lease rates could rise another 10% to 20% in the near term
- Sales prices will continue to move up, but buyers will remain frustrated by short supply
- Vacancy will stabilize, as new project deliveries will offset strong gross activity
- Current construction is in larger space blocks, but new projects will feature more product under 100,000 square feet
- More tenants will be renewing existing leases to avoid much higher rates for new product

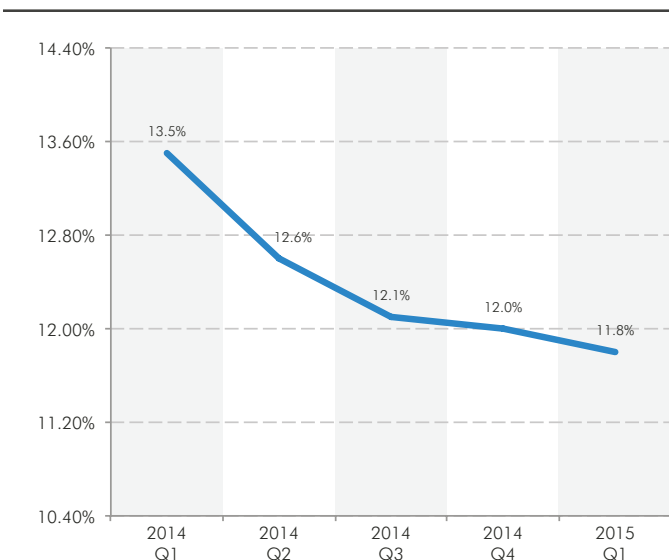
## PHOENIX



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The Phoenix industrial market put in another strong performance in Q1, continuing an expansion that has accelerated over the past seven quarters. Improving general economic conditions throughout the region have industrial users back in expansion mode, and a stream of new deliveries is offering a chance to upgrade to more efficient space. Over 2.3 million square feet of new space was delivered in Q1 and another 2.8 million square feet remained under construction. In total, over 32 million square feet of inventory has been added since the last recession, making Phoenix a prime target of expanding companies looking to move away from infill markets with only aging, obsolete inventory to choose from.

Net absorption stayed in positive territory for the quarter, posting a gain of just over 1.3 million square feet, with nearly a third of that concentrated in the Southwest and Southeast Valley submarkets. Activity for data and call centers along with manufacturing facilities is greatest in the Southwest Valley, while bulk distribution deals for larger tenants are more prevalent in the Southeast Valley. Chandler and the Sky Harbor Airport area remain popular for medium-sized users where there is concentration of multi-tenant business parks offering quality space for lease.

11.8%

VACANCY

\$6.48

AVG. SF RENTAL RATES

1,337,703

NET SF ABSORPTION

290,557,286

INDUSTRIAL SF INVENTORY

2,861,100

SF UNDER CONSTRUCTION



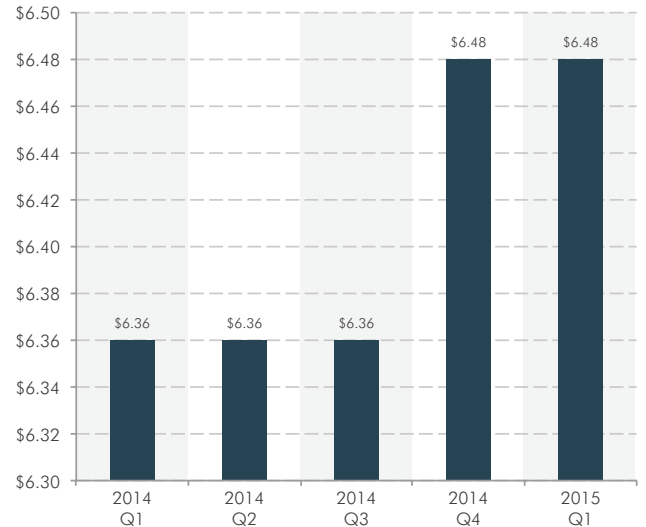
## PHOENIX - TRENDING NOW (continued)

Despite the addition of new inventory to the industrial base, vacancy moved down another 20 basis points in the first quarter, bringing the overall vacancy rate down to a post-recession low of 11.6%. Year-over-year, vacancy has fallen by 12.6%, a clear sign of market health that has developers encouraged to continue building new projects, especially while the cost of capital remains at historic lows. A few transactions of larger distribution buildings can significantly move the vacancy needle in a positive direction.

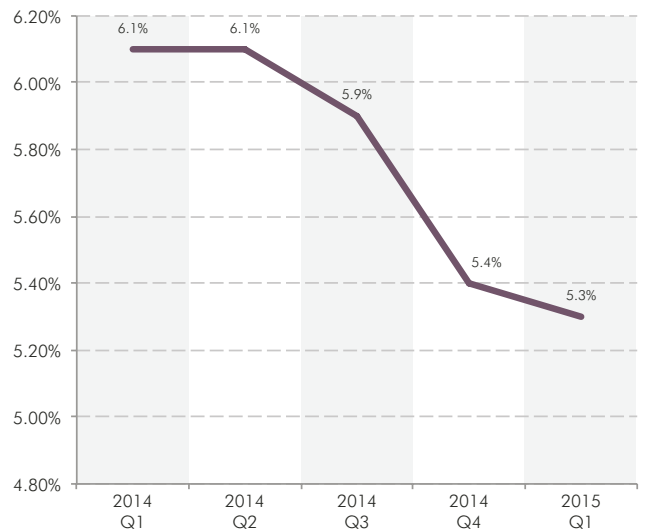
Average asking rental rates dipped by 0.4% for the quarter to \$6.48 per square foot. However, the decline was caused mainly by the Southwest Valley's manufacturing sector where asking rates fell by over 6.6%. That drop is more than likely a temporary anomaly, and is not expected to continue. Distribution and flex rates were unchanged compared to the previous quarter.

A highlight for the quarter was the signing of a 593,000-square-foot lease by retail discounter Tuesday Morning. The facility, scheduled for occupy later this year, will serve as a Western US distribution center. Cummins Rocky Mountain's \$10.2 million acquisition of a 73,000-square-foot general industrial building in Avondale topped the sales chart for the quarter. Demand for owner/user product remains strong, but well ahead of supply, as users remain attracted to available low cost financing.

### Average SF Rental Rate



### County Unemployment Rate

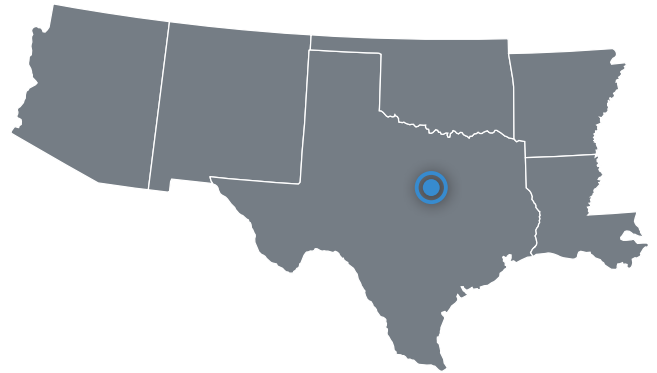


## A LOOK AHEAD.

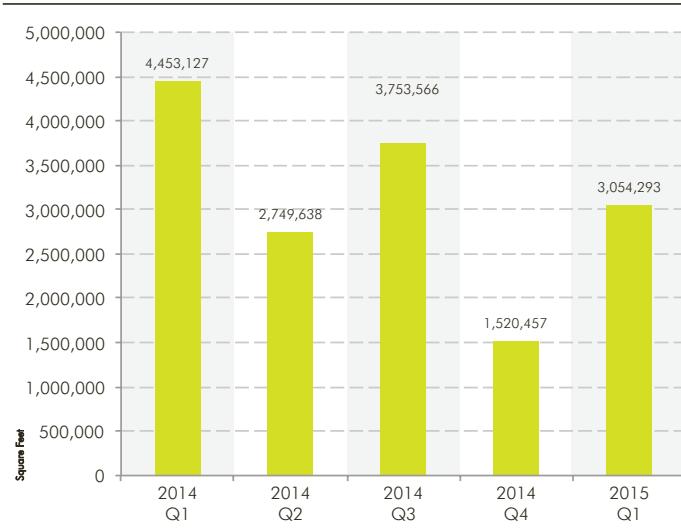
- Net absorption should remain in the 1.0 to 1.50 million square feet per quarter range for the rest of the year
- Vacancy rate will continue a steady but moderate decline, and should be below the 11% threshold by the start of Q4
- Demand from owner/users to purchase will dampen leasing demand but a lack of product will also keep the lid on sales activity
- Construction activity will remain at the current pace as expanding users look for greater efficiencies offered by first generation product
- Population and job gains are heading back in the right direction, which should give a boost to a lagging housing market and smaller users who service the homebuilding industry



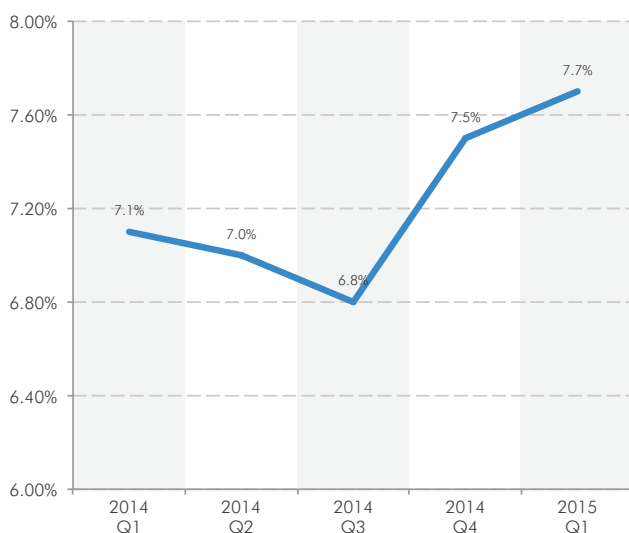
# DALLAS/FORT WORTH



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The Dallas/Fort Worth (DFW) industrial market continues to move forward at a sustainable pace. In one of the few major metro areas steadily adding new inventory to its base, developers seem to have a handle on just how much new product can be brought to market without precipitating a market correction. Despite the addition of a nation-leading 25 million square feet of new space in the last two years, the vacancy rate has risen just 60 basis points in that time, finishing Q1 at 7.7%. Major tenants' appetite for first generation space supports further rent growth, helps offset rising construction costs and keeps developers busy bringing even more space on line.

For now, the balance is working for everyone. The Dallas/Fort Worth area is fortunate to have abundant land for expansion, which attracts major users with long-range growth plans. That gives tenants the opportunity to upgrade to state-of-art space and increase efficiency, which allows builders to move forward on speculative projects with a reasonable expectation of a successful leasing campaign at prices and terms that make sense. Other major national markets have either run out of land altogether or experiencing re-purposing to high density residential or mixed use. Vacancy in other major metro markets on both coasts have gone as low

7.7%

VACANCY

\$5.30

AVG. SF RENTAL RATES

3,054,293

NET SF ABSORPTION

809,113,361

INDUSTRIAL SF INVENTORY

14,482,593

SF UNDER CONSTRUCTION



## DALLAS / FORT WORTH - TRENDING NOW (continued)

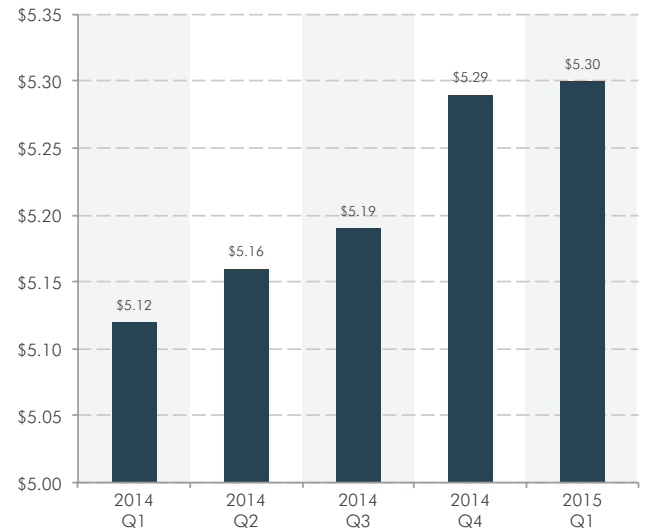
as 3% with little land left for development. Add the Texas-sized government incentives to attract business, and it bodes well for steady growth in the DFW market going forward.

Even second generation space is seeing good activity. The market has enough steam to backfill existing inventory without substantial downtime, which allows landlords to push for terms closer to that of new product. Shortages of second generation product in many size ranges are becoming more common. Average asking lease rates continue to go up as a result. In Q1, the average asking lease rate for the region stood at \$5.30 up \$.18 on a year-over-year basis.

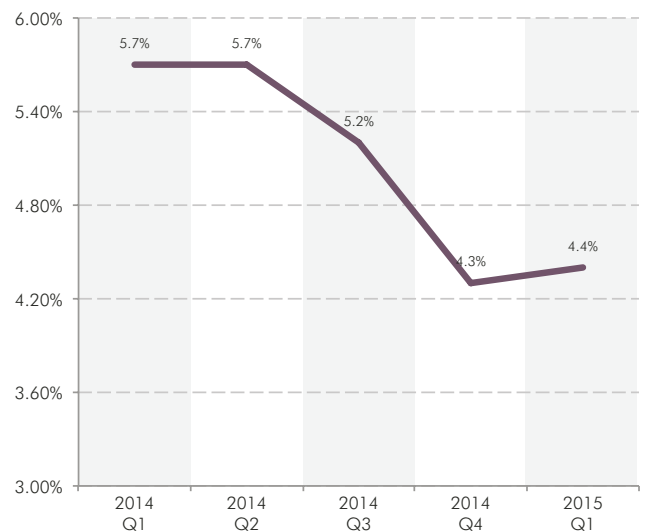
Bulk distribution is very active in the 80,000 to 200,000 square-foot ranges as well as the 400,000 to 700,000 square-foot ranges. E-Commerce and same-day shipping demand has encouraged major retailers to locate large bulk fulfillment centers in the area. However, businesses of all sizes like Texas for its lack of income tax and business-friendly regulatory environment. Migration of businesses to the area from higher tax states like California contribute to net absorption, which came in at a positive 3,054,000 square feet for Q1, double the total for Q4 of 2014.

Investor interest in the DFW market is still on the rise with major institutional players competing aggressively for all asset classes. Cap rates remain compressed due to intense demand, but returns are still running above other major markets that lack the land to support new product.

### Average SF Rental Rate



### County Unemployment Rate

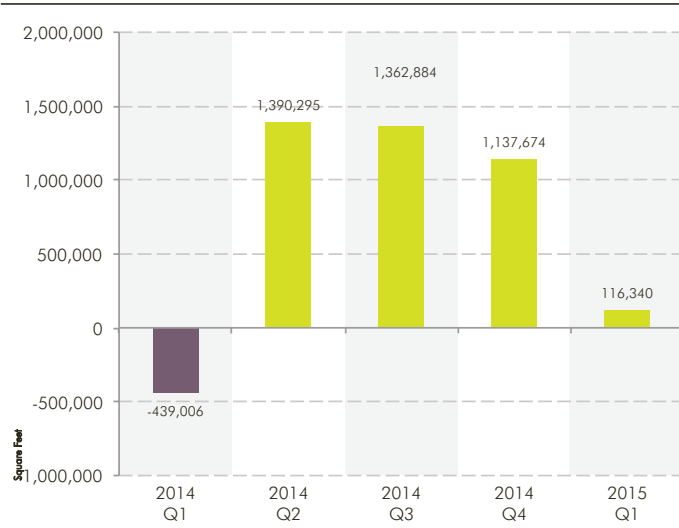


## A LOOK AHEAD.

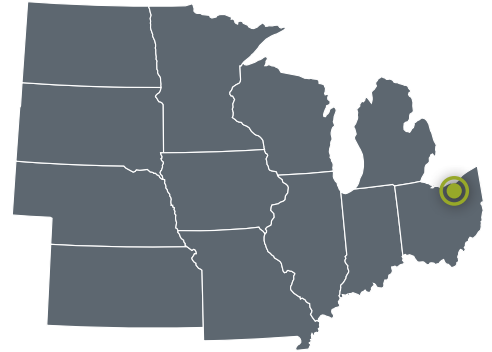
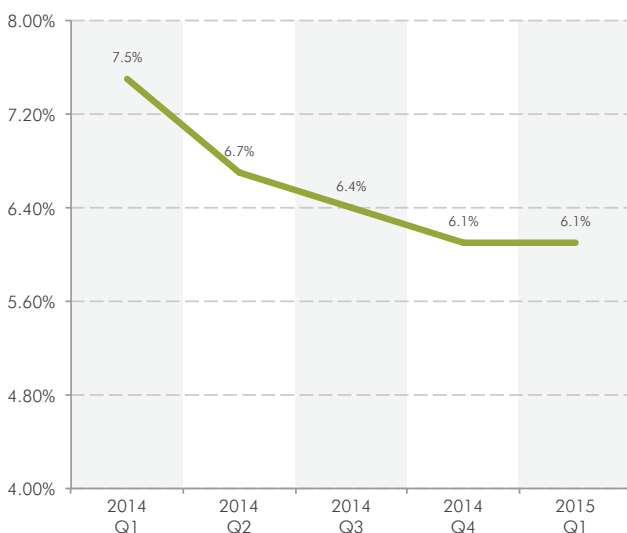
- Leasing activity should increase slightly over the next 12 to 24 months
- Net absorption will moderate as the market takes some time to absorb some older, functionally obsolete product recently vacated
- Vacancy will remain near current levels as new product deliveries continue into 2016
- Lease rates will move up slightly throughout 2015
- Construction will remain steady, but in sync with current demand levels
- Longer term leases, as long as 15 to 20 years, are becoming more common

## CLEVELAND

## Net Absorption



## Vacancy Rate



## TRENDING NOW

Cleveland, like many industrial markets in the Midwest, continued to move forward in Q1. While the pace is modest, it is consistent, and that has business and consumer confidence on the rise throughout the region. Job growth for 2014 increased 1.3% over the previous year, and a more business friendly environment emanating from the Governor's office has the entire state back in expansion mode. Energy related job growth has been leading the way, as new technologies in fossil fuel extraction have rekindled that industry, especially in the Youngstown and Southeast Ohio. However, the recent slide in oil and gas prices is beginning to have an impact. Until energy prices normalize at a higher price point, the pullback in that sector will hamper growth throughout the state.

Industrial inventory stands at 482,403,000 square feet, primarily in manufacturing and distribution space. Just 5% of the total is flex product. By the end of the first quarter, just 6.1% of that space was vacant, a basis point decline year-over-year. At current activity levels, the vacancy rate will continue to move down, but only at a modest level. Expansion by tool and die makers is driving demand from 3PL and materials handling operations.

6.1%

VACANCY

\$3.75

AVG. SF RENTAL RATES

116,340

NET SF ABSORPTION

482,403,488

INDUSTRIAL SF INVENTORY

469,600

SF UNDER CONSTRUCTION



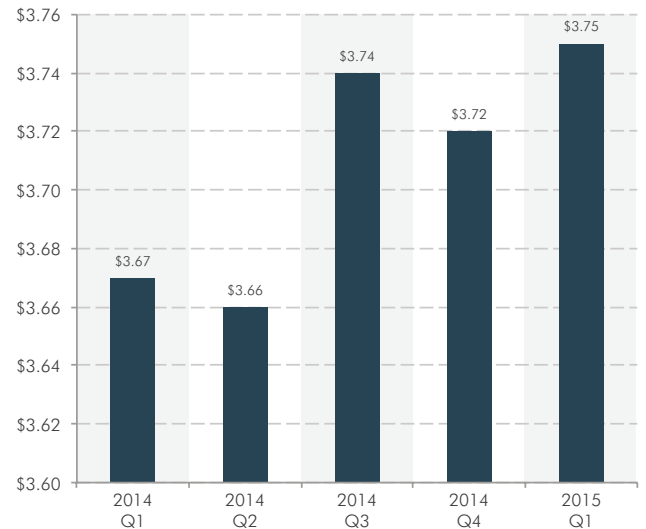
## CLEVELAND - TRENDING NOW (continued)

Net absorption for the first quarter was a positive but lean 116,340 square feet, following three consecutive quarters of absorption over 1.1 million square feet. Poor absorption for the quarter was largely due to the move-out of Midwest Air Technologies and a fire at Fanny May's 341,000-square-foot building. Net growth in occupied space is expected to pick up that slack as the regional economy expands further. Tenants moving in that contributed to absorption in Q1 included Cosmax USA's lease of 179,405 square feet at 30701 Carter Street and Ta Chen's expansion of 112,370 square feet at 1214 Marquette Street.

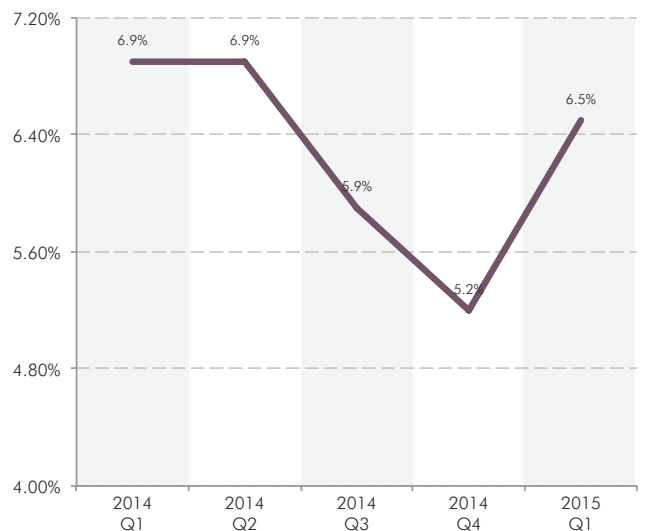
Average asking rates have also made modest gains, with Q1 posting a \$.03 per square foot increase to \$3.75. There is still enough uncertainty remaining to influence business expansion, especially for those users in or servicing the energy sector.

Development activity has been tepid and mainly restricted to build-to-suit and owner/user transactions for specialized facilities. Caution from builders contemplating speculative projects is still at a level that will keep the industrial base from expanding too fast.

### Average SF Rental Rate



### County Unemployment Rate



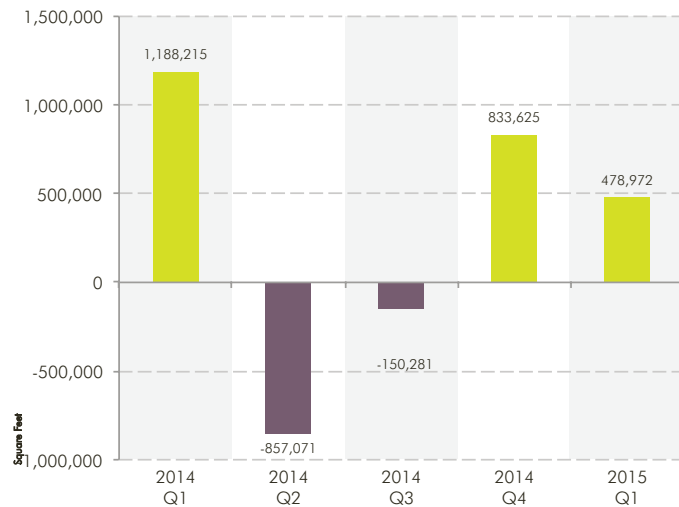
## A LOOK AHEAD.

- Lease and Sale activity will remain strong as major tenants will scramble to control the limited supply of quality space
- Net absorption will be moderate but consistent
- Average asking lease rates will continue to move up at the current pace throughout the year
- No speculative construction in 2015
- Biotech, medical, manufacturing and oil and gas will drive growth into 2016
- Rate of economic growth will be heavily influenced by oil and gas prices

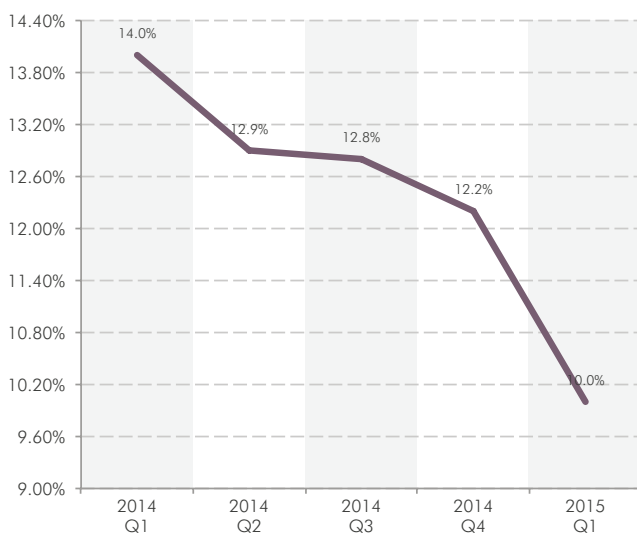
## ORLANDO



## Net Absorption



## Vacancy Rate



## TRENDING NOW

The Central Florida market, which encompasses Orange and Seminole Counties, followed up a record 2014 with another strong quarter of activity in Q1. The base inventory of industrial space totals 93,965,374\* square feet and finished the quarter with a vacancy rate of 10.0%. Adding the flex inventory brings the base up to 107,522,925\* square feet with a combined Q1 vacancy rate of 10.8%. Year-over-year that represents a decline of 250 basis points. Vacancy varies significantly by submarket from a low of 7.2% to a high of 19.0%.

Rental rate growth has been good, and remains above the \$5 per square foot level. The combined industrial average asking lease rate that includes bulk distribution, manufacturing and office/warehouse product, finished the quarter at \$4.40, up \$ .15 year-over-year. Including flex rents, which currently stand at \$7.96, the overall average asking lease rate for the region finished the quarter at \$5.15.

2014 was a record year for net absorption, posting a gain of over three million square feet of growth in occupied space. Q1 added another 536,181 square feet, with the Orlando Central Park submarket leading the way. The bulk of leasing activity is concentrated in bulk distribution and general purpose warehouse buildings.

\*Includes buildings greater than 20,000 square feet

10.0%

VACANCY

\$5.15

AVG. SF RENTAL RATES

478,972

NET SF ABSORPTION

93,965,374

INDUSTRIAL SF INVENTORY

1,323,778

SF UNDER CONSTRUCTION

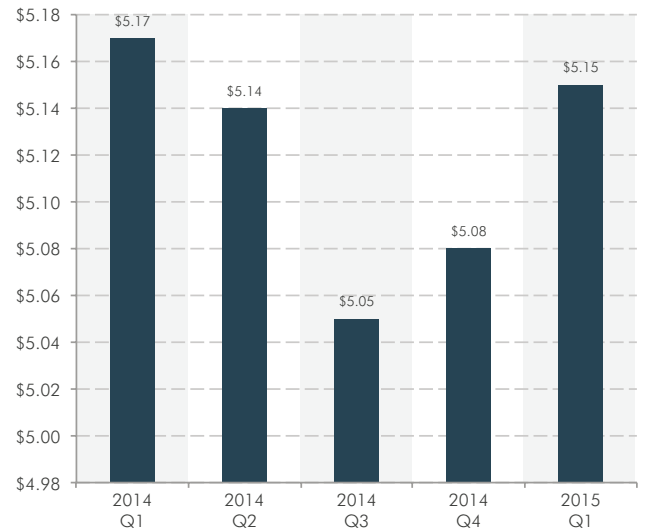


## ORLANDO - TRENDING NOW (continued)

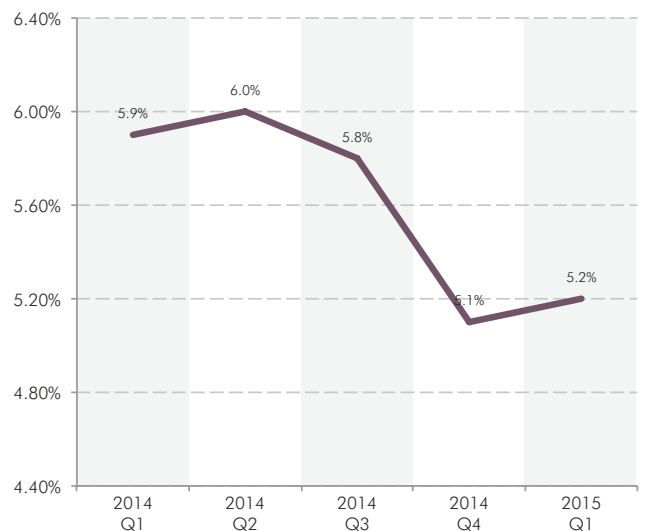
Construction activity is picking up and land prices are back to pre-recession levels. By the end of Q1, over 1,323,778 square feet was under construction, but short supply of ready-to-build sites is keeping a lid on new deliveries and pushing some of the big-box e-commerce users, in need of trailer/storage space, to neighboring Polk County.

Investor interest in the region from offshore and institutional buyers has compressed cap rates to record lows, mirroring a nationwide trend. With rent growth expected to accelerate and even lower cap rates in primary metro areas across the country, the Central Florida market can expect sales activity to remain robust. However, lingering concerns over the sustainability of the economic recovery, continues to figure into decision making for users and investors.

### Average SF Rental Rate



### County Unemployment Rate



## A LOOK AHEAD.

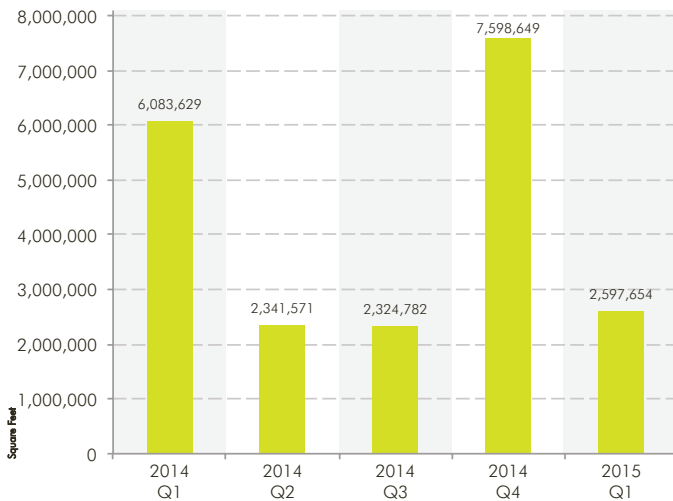
- Lease and sale activity should remain strong for the next several quarters
- Vacancy will decline modestly, mainly due to new deliveries
- New inventory deliveries will help give rents a 10% to

- 15% bump over the next 18 months
- Land prices will continue to ramp up as developers scramble to secure remaining quality sites
- Overall construction activity will improve as expected rent growth will encourage new projects to get underway

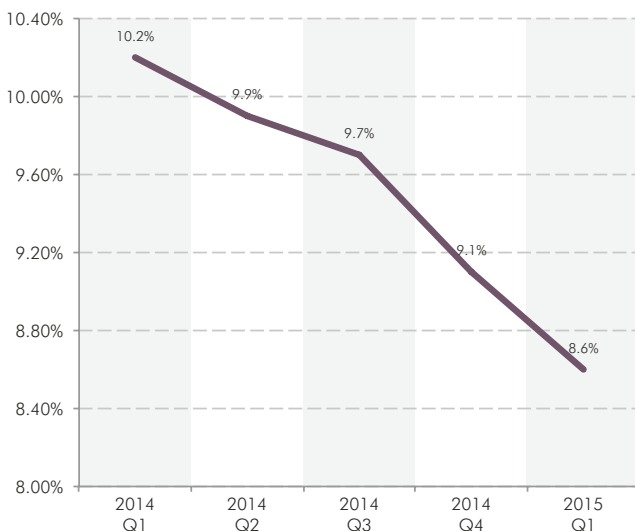
## ATLANTA



## Net Absorption



## Vacancy Rate



## TRENDING NOW

Atlanta's strengthening economy continues to swing the industrial market in favor of landlords. Demand for all industrial building types remained strong in the first quarter after a big year in 2014. The news is especially good for owners of bulk distribution space, which is getting a lot of attention from major users looking to expand while quality space is still available. Overall net absorption came in at a positive 2,597,654 square feet in Q1, and 1,474,000 of that was in bulk distribution space. That comes on the heels of solid net absorption in 2014, which exceeded 18.3 million square feet.

Vacancy fell again during the quarter, dropping 50 basis points to a new low of 8.6%. Just a year ago, the vacancy rate stood at 10.2%, which puts Atlanta at the top of the heap in terms of vacancy decline in major metro areas. However, much of the distribution space being vacated has elements of functional obsolescence, and that could increase time on market for that space to be re-leased and moderate further declines in vacancy. New inventory being delivered offers greater efficiency in terms of clear height, better column spacing and energy efficiency.

As the vacancy rate moves down, average asking rental rates continue to move up. At the end of Q1

8.6%

VACANCY

\$4.09

AVG. SF RENTAL RATES

2,597,654

NET SF ABSORPTION

588,791,910

INDUSTRIAL SF INVENTORY

14,875,766

SF UNDER CONSTRUCTION



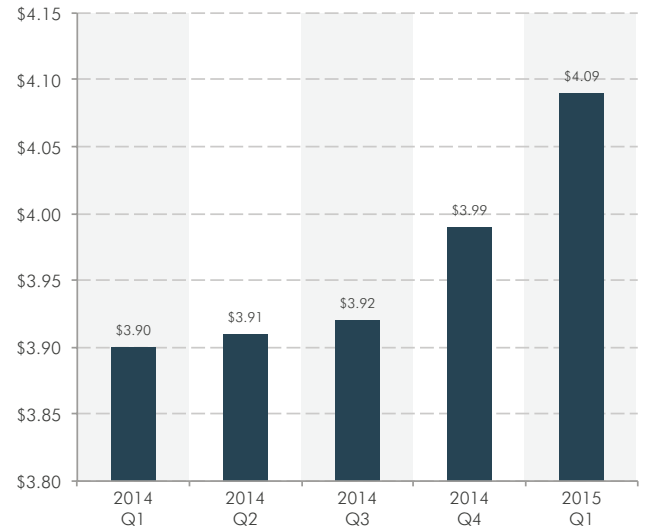
## ATLANTA - TRENDING NOW (continued)

the average asking rental rate settled at \$4.09, \$.10 for the quarter and \$.19 year-over-year. Each new project delivered to the market puts additional upward pressure on rates, as tenants demonstrate a willingness to pay a premium for quality and more cubic footage. However, this could bifurcate the rate structure, with older buildings generating slightly lower rents. Also, diminishing supply is generating more in-place renewals, as tenants that don't need substantially more space opt to negotiate with existing landlords anxious to avoid reductions in net operating income due to vacancy.

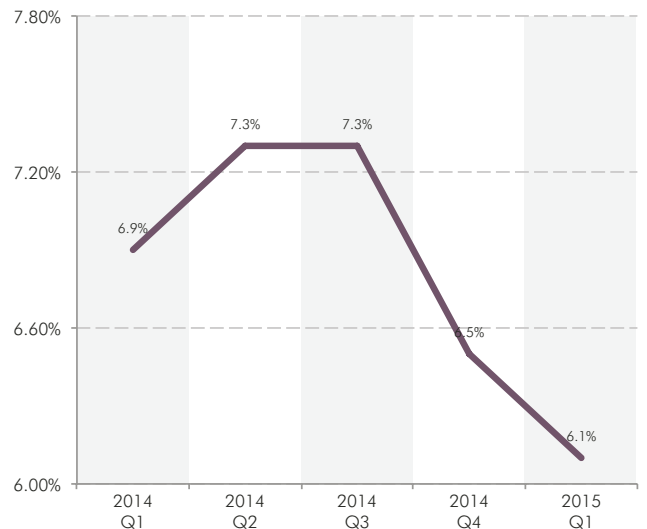
Currently, there is over 14.9 million square feet under construction, most of which is bulk distribution space. Fortunately, there is a significant amount of speculative development underway, and that offers more options for tenants unable to plan far enough ahead for a build-to-suit deal. New development is a good mix of speculative space and build-to-suit deals. Over 6 million square feet of space was delivered in 2014 and the market is on pace to repeat that performance. The ability to absorb new product with such consistency is welcome news for land owners who have been holding on to sites until market conditions became more favorable.

Atlanta's strong market metrics are not lost on institutional investors who have increased their appetite for assets in the region. They like the product, rent growth and roster of major tenants expanding in the area. Atlanta is also becoming a hub for e-commerce users, including FedEx and UPS, among others. As a consequence, competition for the limited supply of investment grade product coming to market has compressed cap rates to record lows.

### Average SF Rental Rate



### Metropolitan Statistical Area Unemployment Rate



## A LOOK AHEAD.

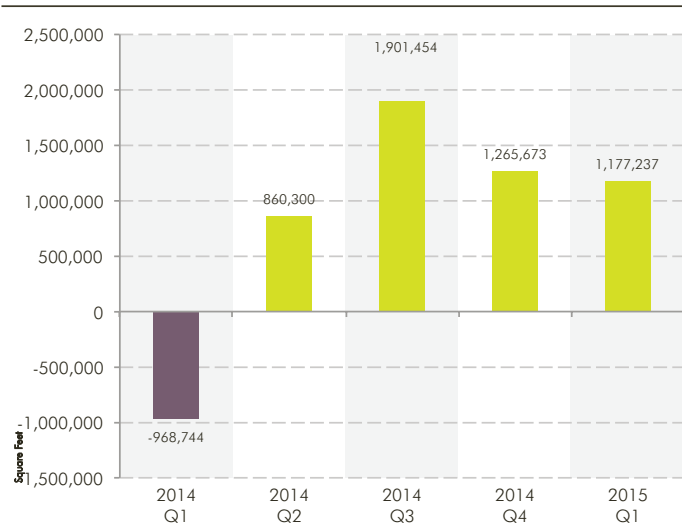
- Net absorption will level off near current levels
- Overall vacancy will decline, but some submarkets will see vacancy increase due to functional obsolescence in older properties
- Average asking lease rates will rise another 4% to 5% by the end of 2015
- Sales prices will exceed previous peak levels by year end
- Construction activity will moderate as existing pipeline of new inventory is absorbed
- Energy efficiency and land for trailer storage will become more of a priority for expanding tenants



## BALTIMORE



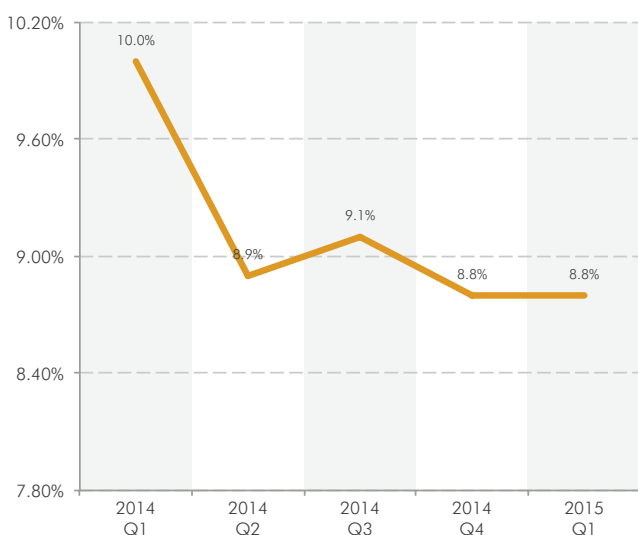
## Net Absorption



## TRENDING NOW

The Baltimore area's proximity to the larger regional economy that includes the nation's capital continues to aid the ongoing return to market equilibrium. Maryland's new Governor, Larry Hogan, is also increasing the State's economic development programs to attract new business, and build on the diverse mix of existing businesses in the Greater Baltimore Metropolitan Area. The region now boasts a total base inventory of 236 million square feet after adding another 1.244 million square feet in the first quarter of 2015. That brings the total square footage delivered in the past twelve months to 4.404 million square feet, and more than 1.3 million square feet was under construction as the quarter ended.

## Vacancy Rate



The big news in Q1, was Amazon's move into its new fulfillment center of over 1.017 million square feet. Amazon, like many other e-commerce companies, recognizes the value of locating in this densely populated region with its strong transportation infrastructure and central location along the eastern seaboard. Significant lease signings for the quarter included a 507,000-square-foot lease for Restoration Hardware on Kelso Drive, and another by Best Buy for 220,000 square feet. Both deals were renewals of existing leases, further evidence of the area's strong demographic

8.8%

VACANCY

\$5.81

AVG. SF RENTAL RATES

1,177,237

NET SF ABSORPTION

235,906,028

INDUSTRIAL SF INVENTORY

1,324,795

SF UNDER CONSTRUCTION



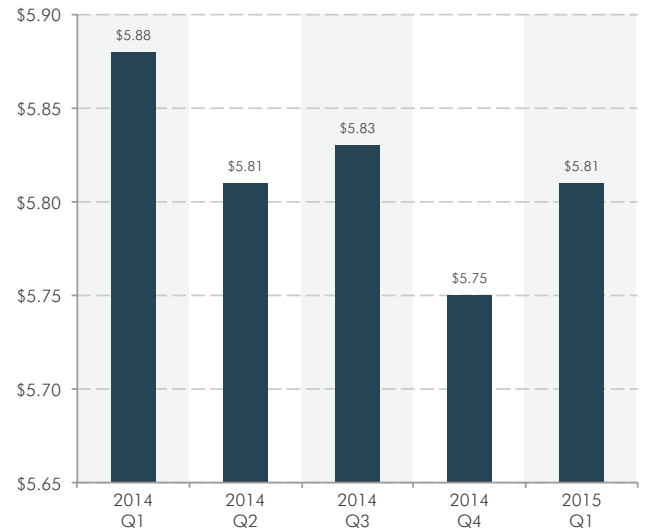
## BALTIMORE - TRENDING NOW (continued)

profile preferred by major retailers.

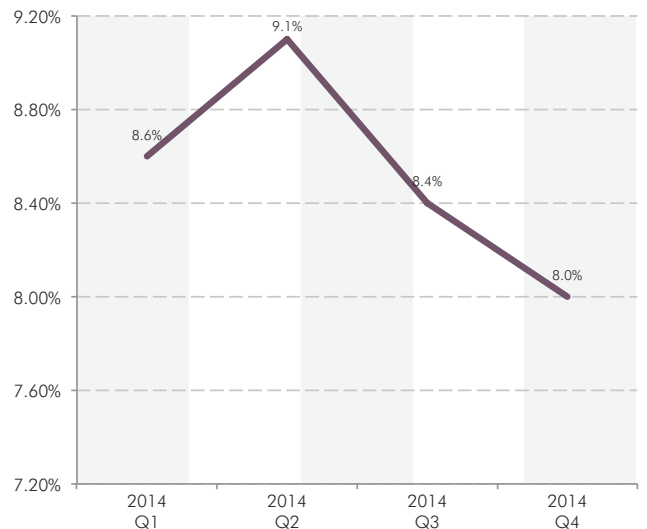
Average asking rental rates have been relatively stable, having moved up just \$.09 in the past two years to \$5.81, which makes the region the exception to the rule as compared to other major metro areas around the country. Warehouse rents moved up \$.06 to \$4.82 per square foot, while flex rents fell by \$.07, settling at \$11.22. Vacancy, currently at 8.8% overall, was unchanged for the quarter, but down 110 basis points since Q1 of 2014. Vacancy varies from a low of 3.3% to a high of 12.9% depending on sub-market.

Interest from users to purchase their own facilities remains strong, competition for the limited supply of owner/user facilities is still intense. Of the area's 5,641 industrial properties, over 600 of them are owner-occupied. With inventory running thin, many sales are off-market opportunities, and sellers are happy to entertain multiple bids from buyers hungry to acquire facilities while the cost of capital remains low.

### Average SF Rental Rate



### County Unemployment Rate



## A LOOK AHEAD.

- The area's heavy reliance on federal government employment could impair the recovery if federal spending declines
- Rent growth will be slow and concentrated in the highest quality product in prime submarkets
- Net absorption will be nominal, as tenants will be moving within existing inventory
- Economic development programs will increase, which

- could boost market activity by the end of the year
- More speculative development will take place, but construction activity will remain at current levels for the balance of 2015
- Owner/user demand will remain well ahead of supply as long as the cost of capital remains low

## SELECT TOP INDUSTRIAL LEASES Q1 2015

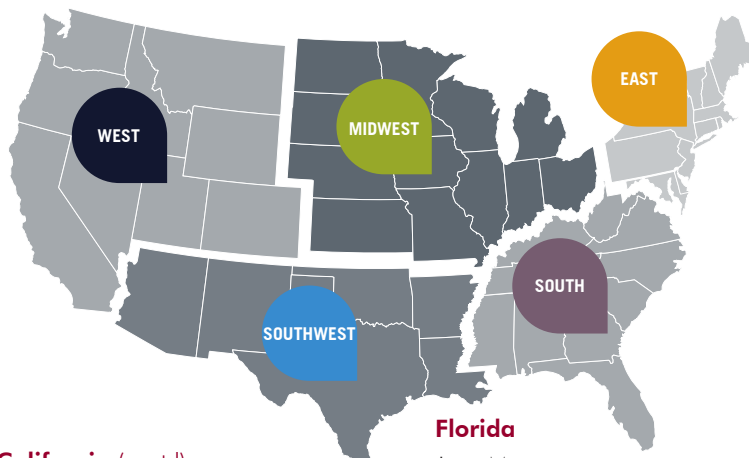
BUILDING	MARKET	SF	TENANT NAME
1200 ORCHARD GATEWAY	CHICAGO	604,565	MIDWEST WAREHOUSE & DISTRIBUTION SYSTEM, INC
EMPIRE GATEWAY	INLAND EMPIRE	522,267	SOLO CUP COMPANY
5750 FRANCIS ST	INLAND EMPIRE	518,472	SAMSUNG
HOFFMAN LA ROCHE	NORTHERN NJ	504,000	HACKENSACK UNIVERSITY HEALTH NETWORK
PROLOGIS REDLANDS DISTRIBUTION CENTER	INLAND EMPIRE	446,050	BURLINGTON COAT FACTORY
1900 LAKESIDE PKY	DALLAS/FT WORTH	401,600	MI WINDOWS & DOORS
8350 PARDEE DR	EAST BAY/OAKLAND	232,881	COASTER COMPANY OF AMERICA
CAREFREE INDUSTRIAL PARK	KANSAS CITY	201,000	GRAINGER INDUSTRIAL SUPPLY
FREEWAY SPRINGS LOGISTIC CENTER	LOS ANGELES	214,849	PENNSYLVANIA COLLEGE OF HEALTH AND SCIENCE
MAJESTIC AIRPORT CENTER 2	ATLANTA	195,328	GE POWER SYSTEMS
3 MONTGOMERY WAY	NORTHERN NJ	183,084	LAY-Z-BOY

## SELECT TOP INDUSTRIAL SALES Q1 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
DCT TO EXETER	COLUMBUS	3,480,003	\$32.21	6.55%	EXETER PROPERTY GROUP	DCT INDUSTRIAL TRUST
1325-1327 CHESAPEAKE TER	SOUTH BAY/SAN JOSE	261,059	\$384.78	6.7%	KILROY REALTY CORP	DIVCOWEST
ALAMO CROSSING COMMERCE	HOUSTON	1,047,797	\$82.08	5.07%	CORNERSTONE REAL ESTATE ADVISORS	COLONY REALTY PARTNERS
TECH CENTER OF GEORGIA	ATLANTA	944,445	\$67.37	5.79%	TA REALTY	TAYLOR & MATHIS, INC



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## The Lee Industrial Brief

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2015

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