The Lee Industrial Brief

Q1 2016

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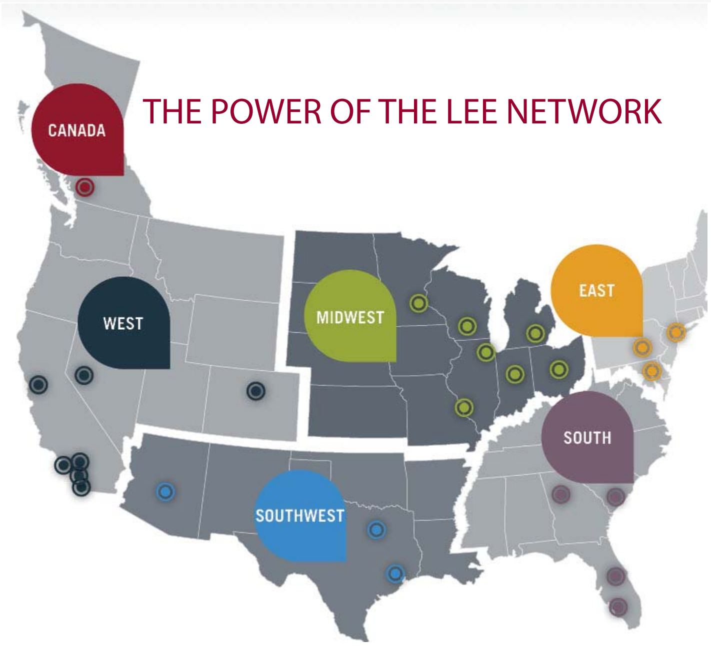

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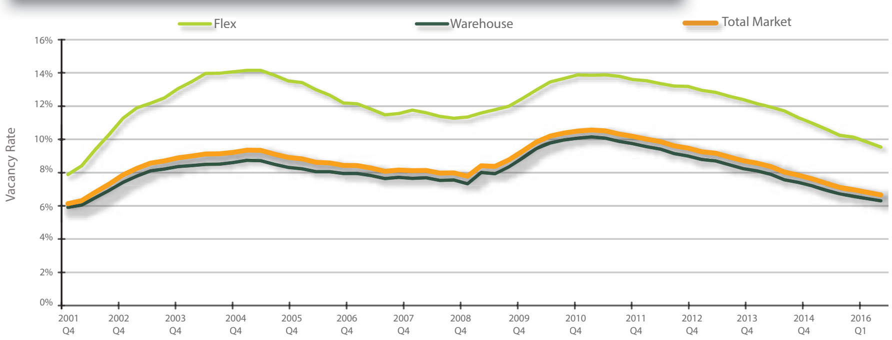
US INDUSTRIAL MARKET
Another Quarter of Remarkable Consistency

The US industrial property market has shown remarkable consistency for the past several years. Net absorption has been strongly positive and rental rates have moved up in every quarter dating back to 2010. New deliveries have been running just shy of net absorption, which has helped keep vacancy moving down. What's not to like about market metrics that show that kind of balance? The risk of overbuilding seems very low, as developers and their lenders have shown remarkable discipline since the industrial market began its bull run in 2011. Last quarter we reported a disproportionate amount of market activity was concentrated in big deals in big buildings with big tenants in buildings owned by big owners. That trend continued in the first quarter of 2016. While everybody likes the numbers that are being posted each quarter, more than half the net absorption was recorded in less than a dozen markets across the country. Some markets are seeing multiple transactions over 1 million square feet in the same quarter.

VACANCY RATES BY BUILDING TYPE 2000-2016



ECONOMIC DRIVERS

GROWTH

EMPLOYMENT

MONETARY POLICY

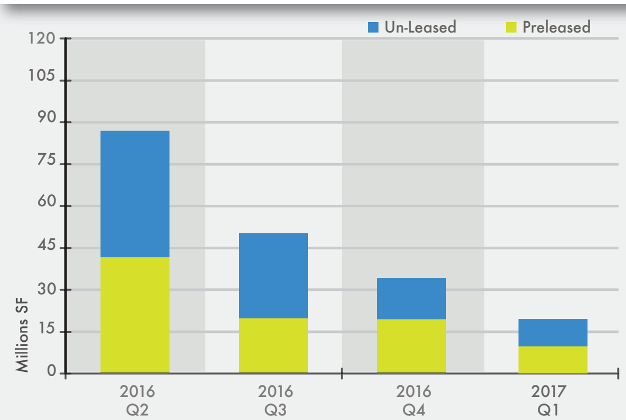
GLOBAL ECONOMY

A LOOK AHEAD

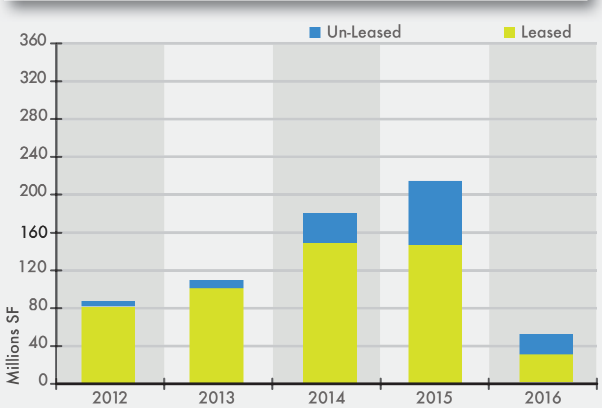
Big 3PL operators and online retailers like Amazon currently have the biggest appetite for space. Bulk distribution accounts for as much as 90% of the net absorption in markets around the country. In Q1, another 63.4 million square feet of net absorption was recorded, with 58.7 million square feet of that total in warehouse product, and most of that was in larger bulk distribution facilities. It seems to be more about moving product than it does about making product. As a result, activity in manufacturing and flex facilities pales in comparison. Institutional investors like doing big deals and developers are glad to oblige by continuing to build state-of-the-art distribution buildings, leasing them up and putting them out to competitive bid to the big institutional players. Strong demand from big tenants and big institutional investors is encouraging developers to build more on spec, as the expectation of quick lease-up at record high rates, followed by a sale at a recordilow cap rates, have become predictable.

New deliveries for both speculative and build-to-suit projects for Q1 hit 59.6 million square feet in 484 buildings.

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



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

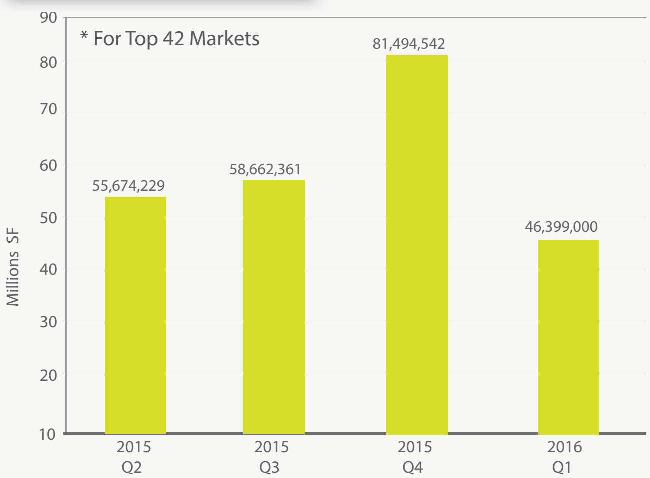


That followed a nearly 66.3-million-square foot gain in inventory in Q4 of last year. The US industrial property topped 21.65 billion square feet in Q1, and another 207.5 million square feet is still under construction. However, construction is concentrated in just a handful of major markets including Dallas, Houston, Atlanta, Philadelphia, Chicago and Southern California's Inland Empire.

The national vacancy rate for warehouse and flex space combined has been falling steadily, and that trend continued in Q1, as the amount of vacant space declined by another 10 basis points to finish the quarter at 6.2%. During 2015, the vacancy rate fell 70 basis points, but several major market areas have reached critically low levels, including Los Angeles and Orange Counties in Southern California, both of which are struggling with vacancy rates in the 2% range. Finding quality product there is nearly impossible, as the aging inventory in those markets is becoming functionally obsolete. The demand is there, but land is scarce and very expensive.

Vacancy declines have average asking lease rates moving consistently higher. Asking rates have moved up in every quarter going back to 2011. In Q1, rent growth was equal to Q4's increase, moving up another $.08 to finish the year at $5.83 per square foot. Rents are up across the country, but areas with higher of construction are seeing the biggest gains, as tenants continue to pay a premium for first generation space.

NET ABSORPTION



Demand from owner/users is simply off the charts, and supply of that product is critically low in markets, big and small, all across the country. That imbalance has sent prices to levels well beyond the previous market peak back in 2007. Driven by cheap, fixed-rate loans, businesses owners who are tired of paying more rent, are seizing the opportunity to fix their occupancy costs for up to 25 years with SBA loans at rates in the 4% range. The Fed's first move on interest rates that came in December had a negligible effect on mortgage rates and our central bankers are sounding dovish again, which means rates will likely stay near current levels for the time being.

Investors, both institutional and private, still have a voracious appetite for industrial assets. Cap rates are still at record lows and there is no clear indication of a change in that trend. However, some of the big players are expressing more concern that the market may be topping out. That has some building owners and asset managers changing their leasing strategy to focus more on strong credit and longer term leases, even if they have to up some ground on lease rates.

A LOOK AHEAD

The US industrial market should continue on its present path into 2016, but the pace of growth could slow, as concerns over the global economy grow. While there isn't quite as much bad news coming from across both oceans, good news on the international economic front is still hard to come by. The US economy, while in much better shape than the rest of the world, is also struggling to keep GDP above stall speed. At some point, the industrial market is going to feel the impact of sluggish economic growth. Today's results are a function of yesterday's decision making. So, expect to hear more conversation about slowdowns and corrections going forward. Interest from foreign investors should increase in 2016 as they see the US as a safe haven for assets that are at increasing risk in non-dollar-based economies. That should keep cap rates compressed, as foreign investors will keep paying more as their focus on capital preservation increases.

Interest from foreign investors should increase in 2016 as they see the US as a safe haven for assets that are at increasing risk in non-dollar-based economies. That should keep the pressure on cap rates, as foreign investors will keep paying more as their focus on capital preservation increases.

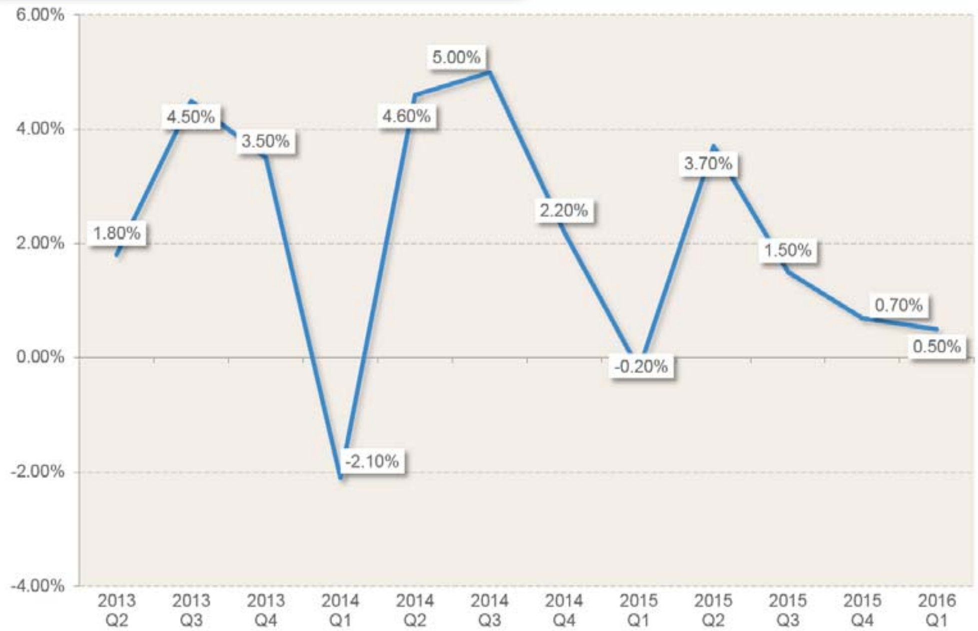
Vacancy will continue to decline and more markets will begin to see spot shortages of space, especially those areas that have low levels of construction. Low vacancy will be accompanied by a further decline in product quality. Net absorption should remain well into positive territory in both primary and secondary markets, but will necessarily decline where supplies are thin. Expect more lease renewals as tenants in tight markets are forced to renew.

Average asking rental rates will move, especially in those markets with the first generation space that tenants are looking for. Construction will remain concentrated in large markets that still have land available at a price point that makes sense for industrial development. Look for the current balance of new deliveries and net absorption to continue, as developers and lenders maintain the discipline to avoid overbuilding.

GDP GROWTH

GDP, the key measurement of the total output of US goods and services continued to run at a slow pace in the first quarter of 2016. The first estimate of Q1 GDP growth, according to the GDP Now index, is a dismal .3%. Persistent concerns over political and economic issues around the world are keeping optimism here at home in check. The year started with a big selloff in the US equities markets. Fortunately, most of those losses were recovered during Q1. Three weeks into Q2 2016 the Dow was back above 18,000 and the S&P recovered most of its losses, despite a disappointing earnings season. Volatility in equities has become commonplace as jittery investors react quickly to anything and everything. GDP performance hasn't helped to ease those concerns. The final estimate of GDP for Q4 indicated just 1.4% growth, which didn't help change the economic narrative. The Economy grew by only 2.4% in 2015, and the poor Q1 number makes it unlikely that 2016's growth trajectory will improve.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



Consumer spending, which accounts for roughly 70% of GDP, is the main culprit. US consumers are keeping a firm grip on their wallets, as their outlook for better times remains hazy. Retail sales, a large component of consumer spending, declined by .4% in January, was unchanged in February and fell by .3% in March. Persistently weak wage growth may be partly to blame. Income growth is running close to the rate of inflation, which is still under the Fed's target of 2%. So, workers are just don't feel like they are getting ahead, and that makes them more cautious about making the big purchases that will give consumer spending the shot in the arm it needs. Instead, they continue to pay down existing debt to reduce their exposure to financial troubles down the road.

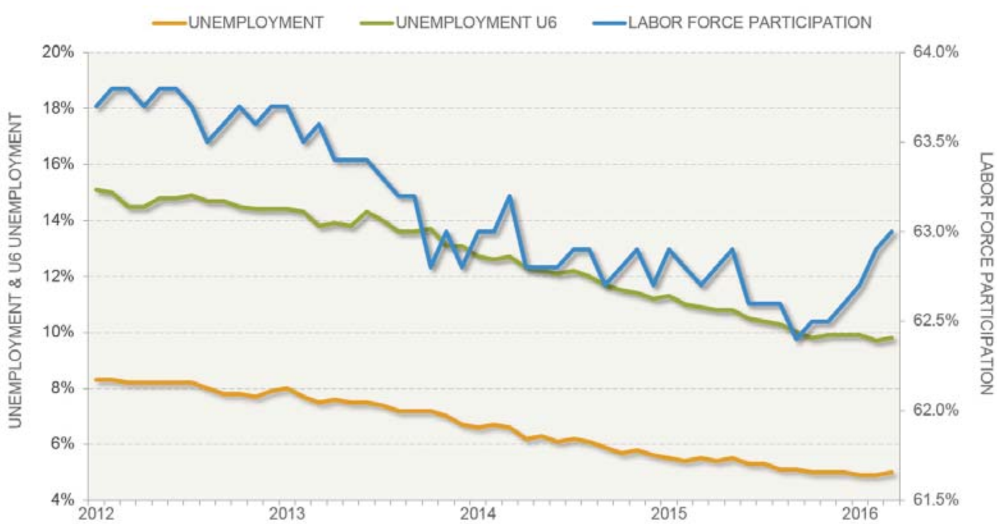
Net exports, another key component of the GDP equation, have been hurt by the US dollar's strength against other currencies. US goods and services are getting more expensive abroad and the impact to US companies is measurable. In Q1, that impact was slightly abated, as the dollar did lose some ground against other major currencies after the Fed signaled a slowdown in the frequency of interest rate adjustments. Though, significant currency fluctuations are likely to remain a persistent thorn in the side of export growth, as economies around the world continue to play the devaluation game to make their goods and services more attractive.

EMPLOYMENT

Job growth picked up in Q1 after showing signs of slowdown in the latter half of 2015. By the close of Q1, the unemployment rate stood at 5%, up 10 basis points since February. Job gains for the quarter were strongest in retail trade, construction and healthcare. Hiring in the manufacturing remained in a funk, a direct result of a decrease in manufacturing activity. The key manufacturing index compiled by the Institute of Supply Management (ISM) has spent most of the past year in negative territory.

The high proportion of part time positions may give the numbers a boost, but they aren't doing much in terms of helping the middle class get ahead. Over 6 million workers who prefer to work full time are still stuck in part time jobs. The U6 unemployment rate, which includes roughly 6 million of such workers, ended March at 9.8%, up 10 basis points from the previous month. Concerns over slowing domestic growth and the prospect of recessions abroad are prompting employers to hire part time and temporary workers. The cost of health care pursuant to the Affordable Care Act (ACA) is also contributing to a part time employment problem, as employers are inclined to hire workers just under the 30 hour per week threshold that would require them to provide health benefits.

NATIONAL UNEMPLOYMENT



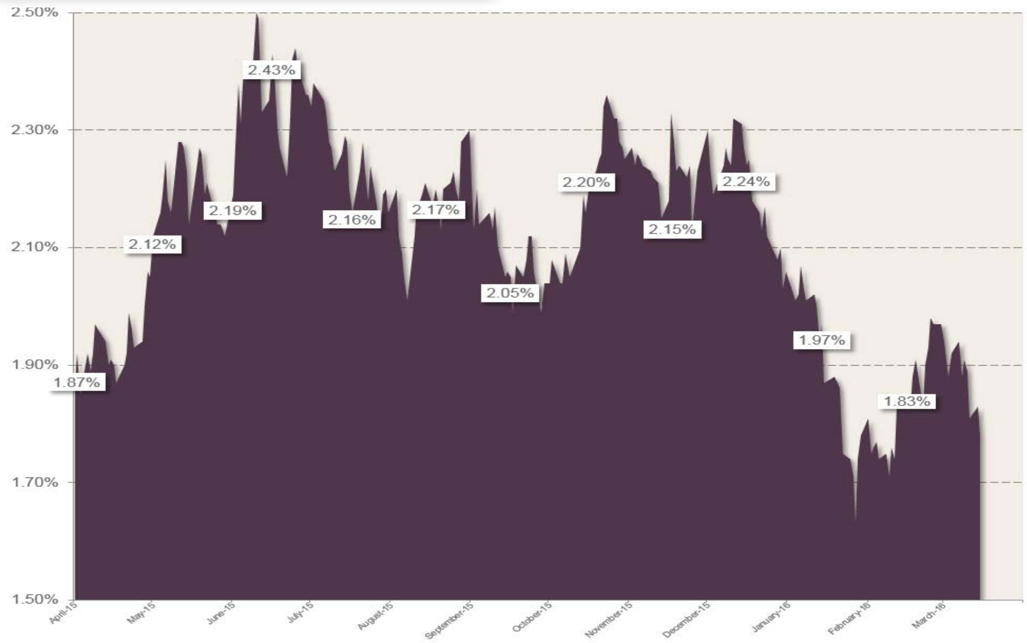
The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working is also stagnant. Sporadic job growth and the early exit of Baby Boomers, who are retiring at a rate of 10,000 per day, have combined to keep just 63% of potential workers in active production.

Wage growth is another problem that has dogged the US economy since it began recovering back in 2010. While the general unemployment rate has fallen to 5.0%, full-time, high-paying jobs are in short supply. And, many of those positions sit unfilled due to a lack of qualified candidates. Without a good boost in wages, consumer spending, the main GDP driver, will remain stagnant. Layoffs in the energy sector has not helped the job picture, either. Thousands of high wage positions are disappearing and it may be years before the energy sector recovers enough to see those jobs return. The jobs being lost are generally full-time, and that only makes things worse. The oil industry continued its belt tightening in Q1 idling more wells and slashing capital expenditure budgets. So, further job losses are expected.

MONETARY POLICY

Fed Chairperson, Janet Yellen and her Board of Governors have tamed down the rhetoric regarding multiple rate hikes in 2016. Back in December, when they finally pulled the trigger on an initial rate hike, it had little immediate effect here at home. But, it did push up sovereign bond yields on dollar-based sovereign debt. Needless to say, central bankers around the world expressed their displeasure with the move and have since been warning the Fed that further rate hikes in the short term will be harmful to the global economy. The Fed's move ran counter to the actions of other central banks that have been engaged in aggressive quantitative easing and lowering benchmark rates into negative territory. The Fed's action reduced uncertainty about the policy direction in the beginning, but now Ms. Yellen is singing a more cautious tune. So, decision makers everywhere look to be heading back into the fog when it comes to predicting the cost of capital going forward.

TEN YEAR US TREASURY YIELD



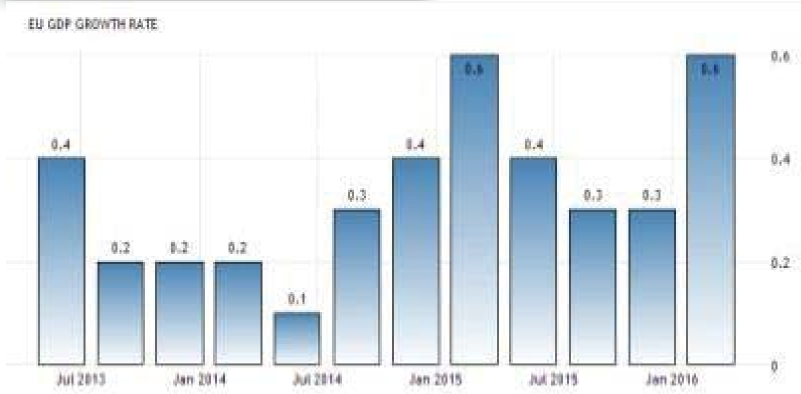
Real estate borrowers have been relieved to discover that the Fed's initial rate hike had little effect on mortgage interest rates. Long term financing is still cheap and demand to acquire commercial real estate has been unaffected, thus far. Cap rates remain compressed with no clear sign of a change in direction, but there is a lot more talk about that now than there was a few months ago. If the Fed follows through with more rate hikes soon, the possibility of higher cap rates will become very real indeed. Even a 50 basis point move up would have a massive impact on property values. Rents, even in the fastest growing markets, are not climbing nearly fast enough to bridge that gap.

The yield on 10-Year Treasuries moved back down late in the year, then up again before settling at around 1.85% by the end of the quarter. Many attribute the downward pressure on yields to a "flight to quality", as foreign capital pours into T-bills as a safe haven. If that is true, then real estate borrowers will benefit directly, as most commercial real estate mortgage rates are based on a spread over the 10-Year.

GLOBAL ECONOMY

The global economic outlook continues to look troublesome. Whether the topic is the European Union, emerging markets, energy-producing states or the manufacturers of the world's goods, the news is mostly bad. Global growth estimates keep moving down and several countries are in recession, especially countries like Brazil and Venezuela that depend almost entirely on the export of raw materials and oil. Europe's political union goes from one crisis to the next it seems. Without having the authority to enforce fiscal activity, EU leaders and European Central Bank have been ineffective in addressing skyrocketing debt around the system. Calls for austerity from nations swimming in debt been largely ignored, and the recent refugee crisis is exacerbating economic problems in Southern Europe where the flow of refugees from the Middle East is heaviest. Border enforcement issues are resurfacing as a result of the staggering cost of providing hundreds of thousands of displaced citizens, mainly from Syria.

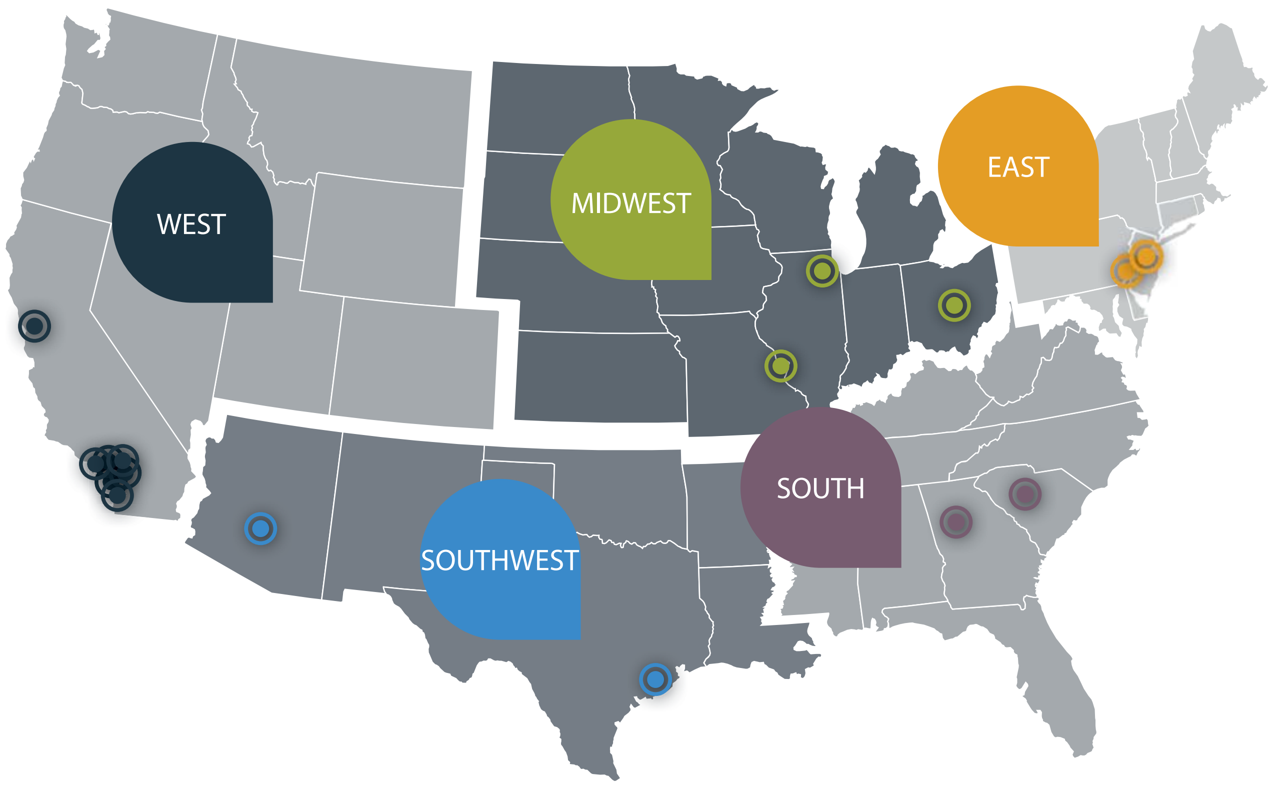
EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)



Oil-rich Middle-Eastern countries, including Saudi Arabia, are issuing sovereign debt and burning through cash reserves to cover revenue shortfalls precipitated by the falling price of oil. Even China is issuing sovereign bonds to help it cope with its massive transition from total dependence on the exportation of manufactured goods to a more consumer-based economy that can be self- supporting. Gone are the days of double-digit economic growth in the world's most populous country.

Despite all these concerns, the US economy is still growing, but just above stall speed, a fact not lost on major corporations that are already facing a slowdown in profit growth. Many of the nation's biggest companies are boosting share prices by buying back their own stock and slashing costs, rather than by increasing revenues. Even commercial real estate markets continue to grow at a steady and healthy pace. Rents are rising, vacancy is declining and new buildings are being delivered at a pace that limits the potential of overbuilding. Employment is on the rise, but wage growth is weak. Inflation, once considered evil, is the hoped for outcome of central bank policy. Yet, even with all its efforts to boost inflation, it is still running well below the desired level of 2%. Without rising prices, there is little incentive to increase production by hiring new workers. We don't see things changing much to the good as we look ahead. So, we expect another year of modest economic growth and improving market metrics for industrial real estate. All things considered, things could be a lot worse.

Key Market Snapshots



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

LA NORTH
LOS ANGELES/SOUTH BAY
INLAND EMPIRE EAST
ORANGE COUNTY
SAN DIEGO NORTH

PHOENIX
HOUSTON

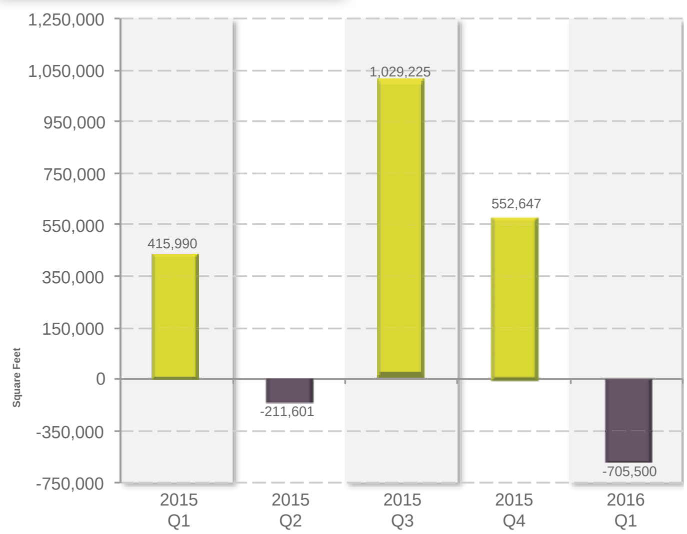
CHICAGO
COLUMBUS
ST. LOUIS

ATLANTA
GREENVILLE /SPARTANBURG

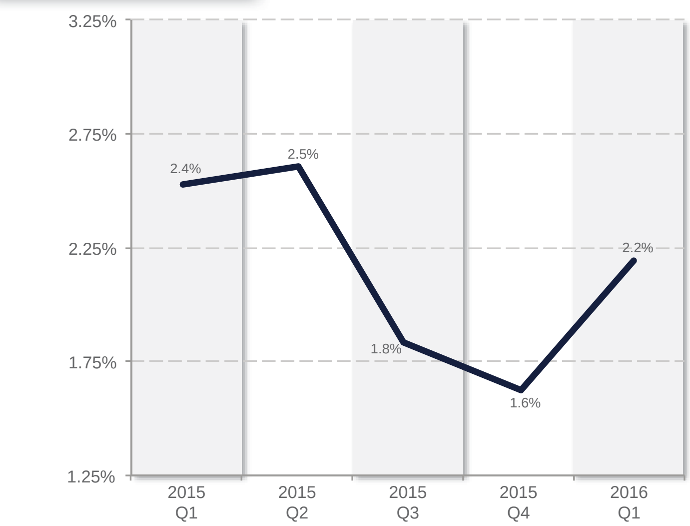
PHILADELPHIA
NORTHERN/CENTRAL NJ

LA NORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Conditions in the North Los Angeles industrial market tightened again in Q1, and there is little evidence that the shortage of supply will loosen up any time soon. Vacancy is so low that any building that becomes available is immediately snapped up by a local business desperate to find a new home. Quality is also an issue, as much of what hits the market is older product with significant elements of functional obsolescence and deferred maintenance. Tenants who lose the bidding wars for space, are left with no choice but to stay where they are, despite inefficiencies within existing locations.

The lack of industrial development projects underway offers little relief to tenants and owner/users looking for new digs. Land is so scarce and so expensive that building standard industrial product is no longer feasible. However, there is a handful of redevelopment projects that may offer some industrial tenants relief if they are willing to pay a premium. Shubin Nadal Realty has two such projects, one in Northridge, a 44-acre office and industrial complex renamed The Campus that will be repositioned for R&D, creative office and retail users. Another Shubin Nadal project in Burbank consists of 14 industrial brick buildings. The 14-building complex will be retrofitted to attract entertainment industry tenants. Rexford Properties continues its rehabilitation of a functionally obsolete 154,000-square-foot building in Chatsworth to add additional loading capability, a new fire sprinkler system and other improvements. A 59-acre land parcel in Burbank was recently acquired by Overton Moore Properties, but plans for product mix have yet to be announced.

Business growth in the North Los Angeles market is led by the entertainment industry, which has been responsible for much of the job growth and industrial

2.2%	$9.00	(705,500)	125,573,300	0
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

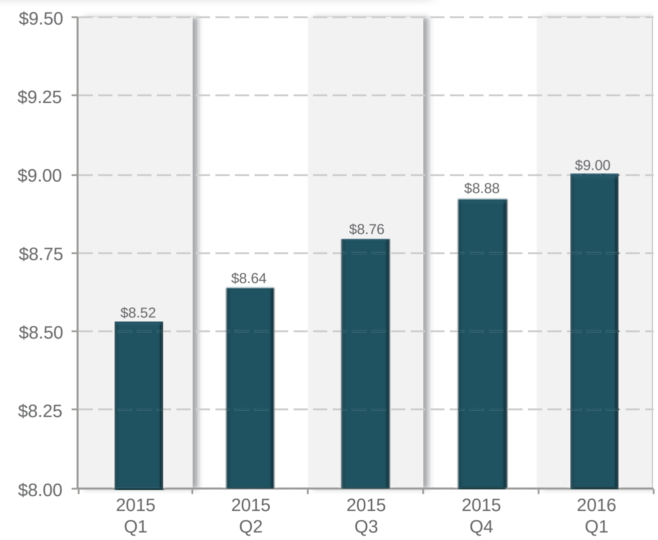
LA NORTH - TRENDING NOW
(continued)

space absorption. In 2014, employment in the creative and entertainment sectors grew by 2.4% and 2.5%, according to the most recent study. Many of these users are in set design, catering and equipment rental, which occupy industrial product.

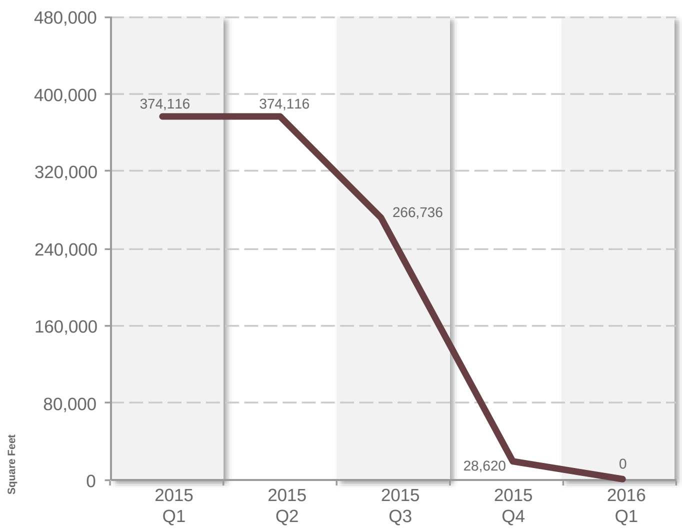
Existing owner/users and tenants who would like to own are still actively looking for available product, but with little success. Sales prices have skyrocketed, ranging from $200 to as high as $300 per square foot for prime properties. They can still power money through the Small Business Administration programs with just 10% down with interest rates under 5%. Now that the Fed seems to have cooled to the idea of multiple rate hikes in 2016, money will still be cheap. The problem will be finding the building, and frenzied buyers will keep prices moving higher.

By the numbers in Q1, the vacancy rate bumped up to 2.2% after reaching a record low 1.6% vacancy rate in the prior quarter. Year-over-year, vacancy has moved 20 basis points lower. In some submarkets, there is literally no vacant space to tour. Hopefully, a few brave developers will continue their efforts to redevelop existing projects that offer industrial space at a price point that is feasible for existing users. The harsh reality is that even these projects will have to target R&D and creative office users to achieve the rental required to make projects feasible. Average asking rental rates also continued to rise in Q1. Year-over-year, the overall rate has moved up $0.48 to $9.00 per square foot, and it is not uncommon to see well-located, quality buildings with asking rates of $16.20 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

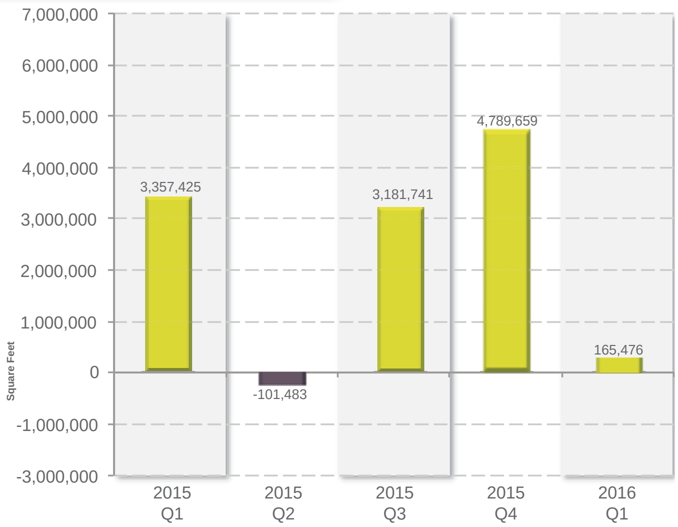


A LOOK AHEAD

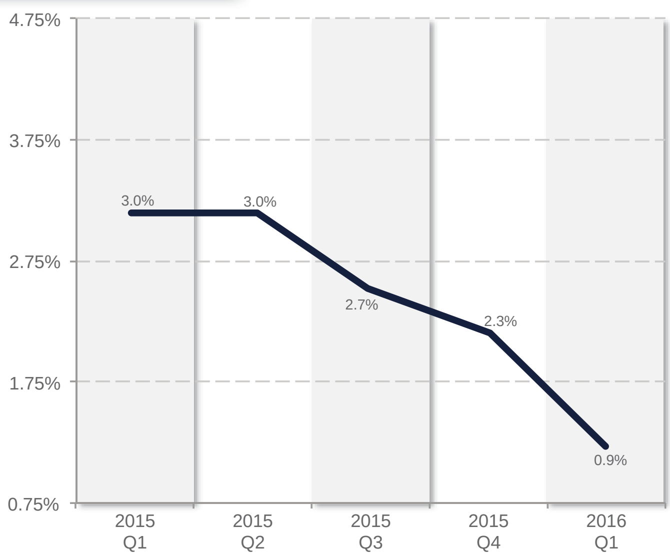
- Average asking lease rates should rise another 10% in 2016 with some submarkets moving even higher
- Interest in owner/user properties will remain strong due to continued low interest rates
- Positive net absorption wil moderate due to low supply
- Vacancies in many submarkets will remain at sub-2% levels through 2016
- Building sale prices will see another double digit spike by the end of the year
- Development activity will be limited mainly to add-value and redevelopment plays

LOS ANGELES/SOUTH BAY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Los Angeles/Southbay industrial market includes major portions of Los Angeles and the City of Long Beach. 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. Both ports reported an increase in activity during Q1 of roughly 9%. Port activity is expected to remain robust, especially in light of the lower cost of imported goods due to a strengthening US Dollar. Add to that lower current shipping cost to the west coast from China, and both ports should attract more discretionary cargo than in recent years. Even with the Panama Canal soon to be handling more and bigger ships, estimates call for significant increases in local container activity for the balance of the year.

Vacancy fell to 0.9% in Q1. Distribution space is being absorbed in record time and tenants, confident in continued business growth, are in a mad dash to the finish line to be the winning bidder, as virtually every space that comes available has multiple offers. Landlords are not only getting higher rates, but they are keen on demanding stronger credit from interested tenants. They see it as their chance to mitigate leasing risk in the event of a correction that many see as a possibility due to a variety of concerns over the global economy. It is as good to be an owner today as it once was to be king, as landlords are getting it all; higher rents, stronger credit, longer lease terms, shorter lease-up times and less in tenant concessions.

The average asking rental rate moved up four pennies in Q1 to $.67 on a monthly basis, bringing the year-over-year rise in rents to 6%. Net absorption remains positive, ending Q1 at 165,476 square feet.

0.9%	$9.12	165,476	213,317,000	1,867,256
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

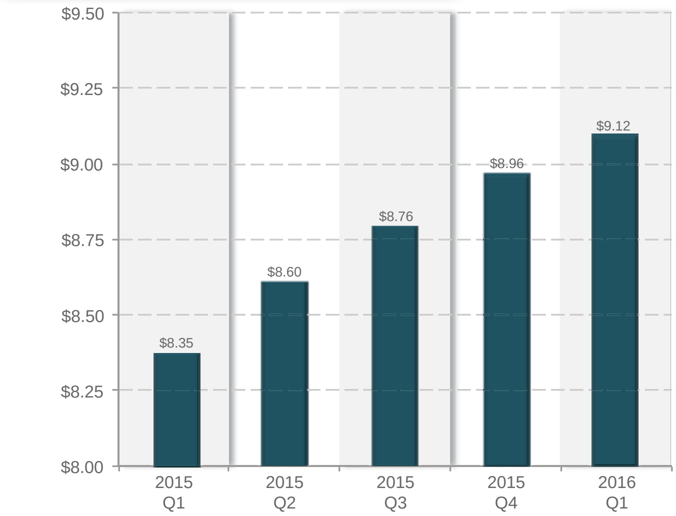
LOS ANGELES/SOUTH BAY - TRENDING NOW (continued)

Those numbers would be much higher if not for such short supply. Even though new minimum wage laws will be a challenge, 3PL and service companies continue to be attracted to the area because of the time to market from Asia and the region's reliability factor.

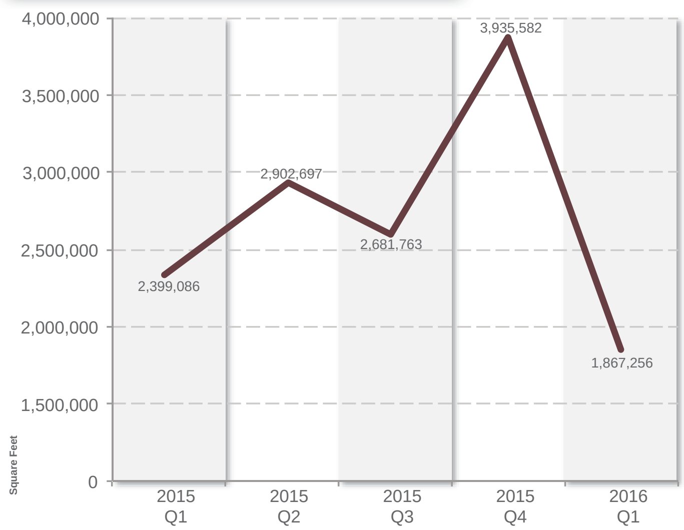
Adding supply is an even more difficult problem than dealing with a shortage of it. Development in the region is thin and will remain so in the short term due to the limited availability of buildable sites. Much of the land that does remain undeveloped is contaminated, which makes projects more time consuming and expensive, if not impossible. However, strong demand and rent growth has caught the interest of big development REITs and other new players backed by pension fund capital chasing higher yields. There are several larger projects in the planning stages, but new deliveries for Q1 totaled just 216,000 square feet. For the rest of 2016 there is approximately 1.4 million square feet of delivers and they are expected to be leased prior to completion. Big or small, every developer will have to grapple with contamination, zoning issues or functional obsolescence to some degree.

Investors are still targeting the region as a priority for acquisition, as they prefer distribution product in port locations. And, with as much as 40% of the goods entering the US through the Ports of Long Beach and Los Angeles on a consistent basis, they see the demand for industrial product as perpetual. But, turning an owner into a seller is no small task, as the lack of supply limits the choice of exchange up-leg properties, which is a deal killer for long term owners who bought at a fraction of today's values. Buyers who do a get chance to make an acquisition have to be willing to pay a premium, conduct their due diligence in a matter of weeks and have cash at the ready.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

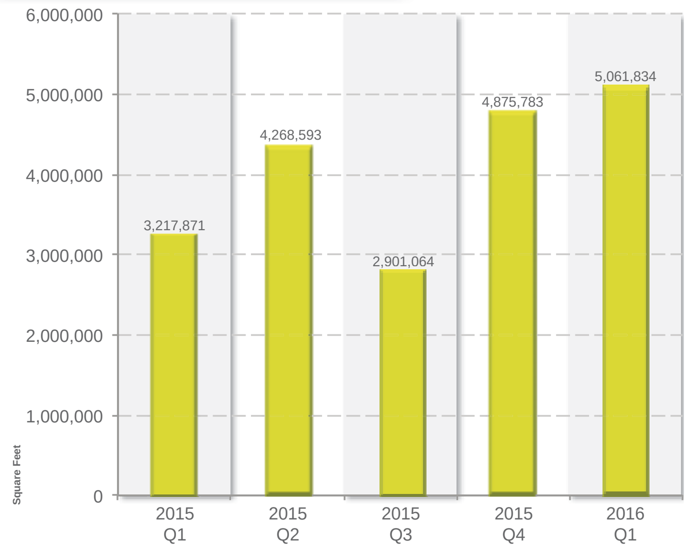


A LOOK AHEAD

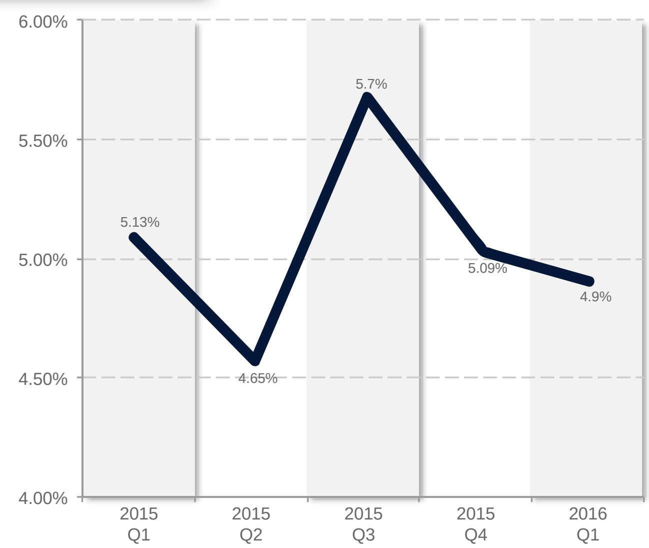
- Leasing activity will remain strong overall, but lesser credit tenants will be squeezed out
- Net absorption will be limited to current levels due to supply shortages
- Vacancy will fluctuate between 1% and 2% through 2016
- Lease rates will move higher and renewing tenants will see 10% to 20% increases over their current rates
- Average asking sale prices for land and buildings will spike again in 2016
- More properties for sale will come to the market without an asking price

INLAND EMPIRE-EAST

GROSS SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Inland Empire-East (East Valley) industrial market includes the Cities of Colton, Grand Terrace, Moreno Valley, Perris, Loma Linda, Mentone, Redlands, Yucaipa, Bloomington, Rialto, Riverside, Jurupa Valley (Portions), Highland, San Bernardino, Banning and Beaumont. 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 lease and sale activity is still the envy of virtually any other market in the country. The numbers are simply astounding. Gross absorption in 2015 set a new record of 15.3 million square feet. That came on the heels of two huge years in 2014 and 2013, which hit 11.4 and 14.8 million square feet respectively. The Gross Activity total for Q1 (including investment sales and renewals) was 8.1 million square feet, a clear indication that the Inland Empire-East market is still running at full tilt. Gross Absorption, which tracks the total of amount of move-ins for a period, was 5.1 million square feet, well ahead of the 3.2 million square feet tallied this time last year.

Tenants in all size ranges have learned that when the right space hits the market, take it, and do so without pushing the landlord for concessions because chances are good that another tenant is pursuing the same space. Time on market is measured in weeks rather than months, and in the case of top quality, functional space, it's more a matter of days than it is weeks. Simply put, it's a great time to be an owner and a very tough time to be a business in need of space. Tenants without stellar credit are having an even tougher time, and are often relegated to leasing marginal space with elements of functional obsolescence. That's the reality of a market that has an overall vacancy rate of just 4.9%.

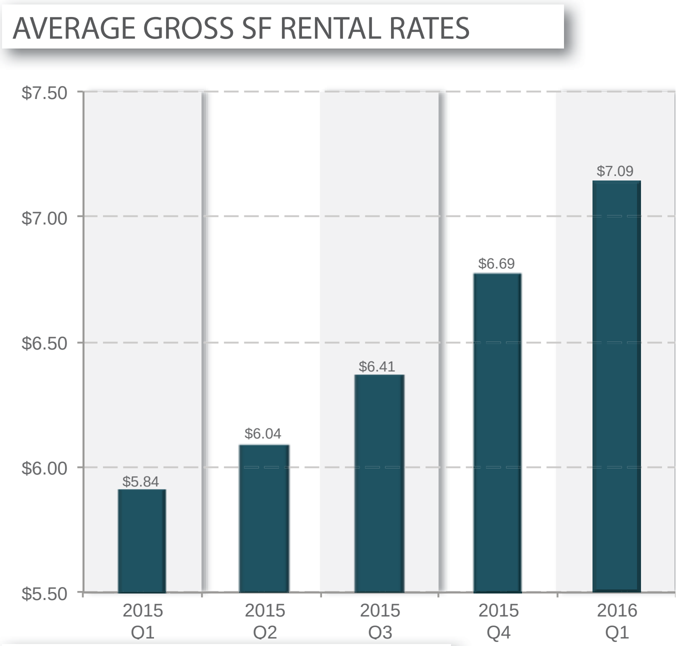
4.9%	$7.09	5,061,834	183,067,188	8,445,814
VACANCY	AVG. SF RENTAL RATES	GROSS SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

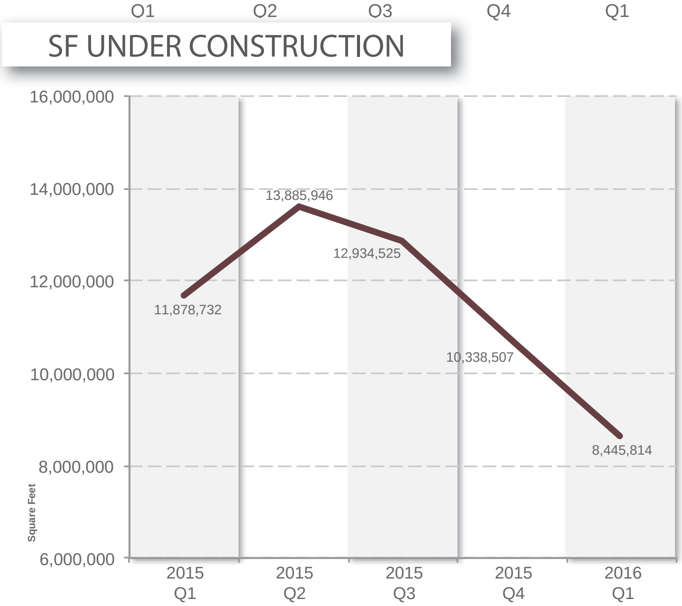
INLAND EMPIRE (EAST) - TRENDING NOW (continued)

In the neighboring Corona/Norco market, things are even tougher tenants and would-be owner/users. There, the vacancy rate fell to 1.26% in Q1. It is important to note that 8.4 million of the 9.5 million square feet that is currently vacant is in East Valley spaces over 100,000 square feet. Factoring that space out, vacancy is under 3% in all other sizes ranges throughout the IE-East. It's hard to believe that the vacancy factor for the entire region topped out at a staggering 19% back in 2010.

Average asking rental rates for manufacturing and distribution space combined, moved up $0.40 to$7.09 GRS by the end of Q1. Year-over-year GRS lease rates have climbed by 21.4%. Asking NNN rents showed a slight decline, but this may be due to the TBD strategy being deployed by landlords of first generation space. No asking price is published and the actual terms of confirmed transactions are kept confidential. Therefore, it's believed to assume that actual net rents are rising in sync with gross rents. Tenant concessions are disappearing for quality product, but tenants willing to deal with less functional, older product can still negotiate for at least some free rent.

Over 8.4 million square feet of space was under construction in Q1, and nearly 90% of that was in buildings 200,000-square-foot and larger. However, with demand running so high for smaller spaces, developers are responding, as sales prices and lease rates have come up enough to justify the higher unit cost of building smaller buildings. Four buildings, totaling 1.85 million square feet, were delivered during the first quarter, bringing total base inventory up to just over 183 million square feet. Another 22 buildings are scheduled for are scheduled for completion in Q2. Redevelopment of older, obsolete buildings is also back in play, as the availability of prime sites for ground-up development is getting thin.



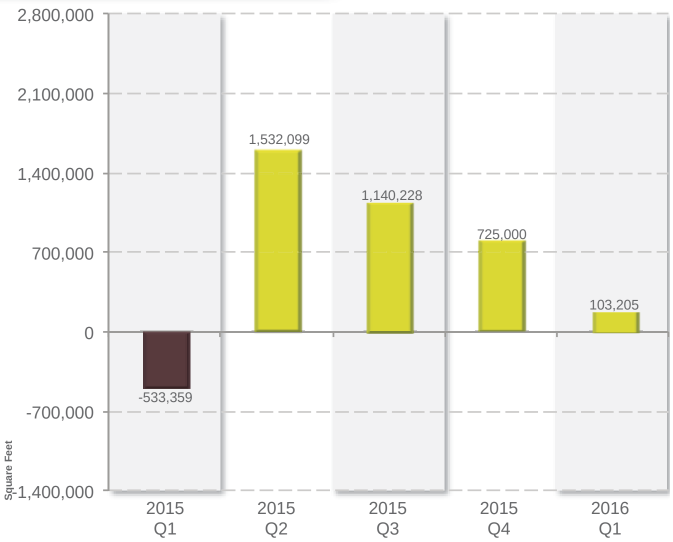


A LOOK AHEAD

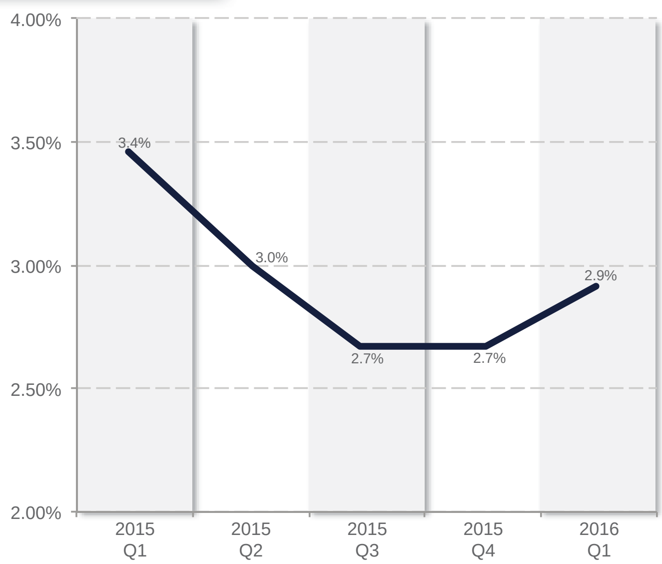
- Gross leasing activity will remain strong in East Valley and is expected to keep pace with speculative development of bulk distribution space
- Net absorption will be positive but should moderate in low vacancy submarkets due to very tight supply
- Sales prices and lease rates will continue to move up, especially for smaller buildings
- Overall vacancy will remain near current levels as leasing activity and new deliveries remain in balance
- Look for development to shift more to smaller building sizes throughout the region

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Industrial businesses throughout Orange County are still in growth mode, but space is getting very difficult to find. Vacancy is so low that it doesn't even come close to meeting current demand. As a result, lease rates and sales prices continue to rise to record levels. Development activity is negligible and time-on-market for existing space is now measured in weeks rather than months. Landlords are pushing for stronger credit and tenant improvement costs are being pushed on to business owners, even those costs related to the new Title 24 energy regulations.

Construction activity is not likely to come to the rescue anytime soon. There just isn't enough land left in the county to add significant amounts of new industrial space. What is left in terms of buildable sites is cost prohibitive, resulting in the repurposing of industrially-zoned land for high-density residential and mixed-use, office and retail projects. New industrial projects that do get built will only be offering larger buildings that are cheaper to build. We may have already seen the last 10,000-square-foot building constructed in Orange County, despite the fact that demand for smaller buildings remains red hot. Those who own small buildings throughout the county have seen their property values move up at a double-digit pace for the last four years, eclipsing the previous market peak of 2007. SBA loans at 90% of appraised value are still available at fixed rates in the 4.5% range for up to 25 years. Even at today's prices, it still makes sense for business owners to buy buildings and lease them to their own companies.

Vacancy fell another 20 basis points for the quarter, finishing at just 2.9%. But, the lack of space is not the

2.9%	$9.84	103,205	278,000,000	420,962
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

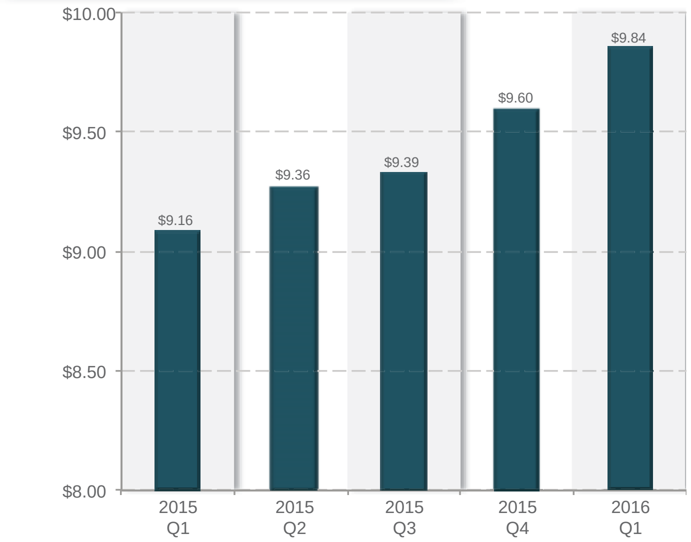
ORANGE COUNTY - TRENDING NOW
(continued)

only problem. Quality buildings are snapped up immediately leaving a disproportionate amount of space with functional obsolescence. Only tenants who start the process early and stand ready to pull the trigger immediately, are securing good, functional spaces. Many businesses are looking years in advance of their lease expirations because they know that supply is going to be an ongoing issue. Those tenants who signed leases three or more years ago have a good chance of negotiating buyouts with existing landlords who know they can achieve higher rents with minimal downtime.

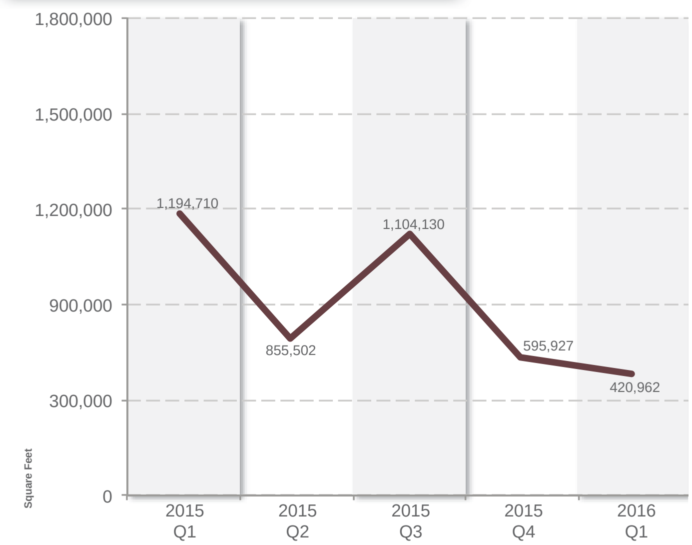
Net absorption and lease/sale transaction activity is finally showing the stresses associated with low vacancy. Without adequate choices, many tenants are forced to remain in their existing facilities and put up with cramped, inefficient space. The net gain in occupied space totaled a negative 103,205 square feet in Q1, as compared to a positive 725,000 square feet in Q4 of 2015. Anaheim and Cypress were the only cities in the county that had significant growth in occupied space, while other typically strong submarkets fell flat or experienced negative occupancy growth. Lack of supply is almost entirely to blame, as evidenced by the fact that most buildings that do become available are the subject of multiple bidding.

Inventory under construction offers little relief. Only 216,633 square feet was delivered in Q1 and just 420,962 square feet is currently under construction. A large portion of that total is in one building at the Imperial Business Center in Brea. Overall average asking rental rates moved up again in Q1, rising to $9.84 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

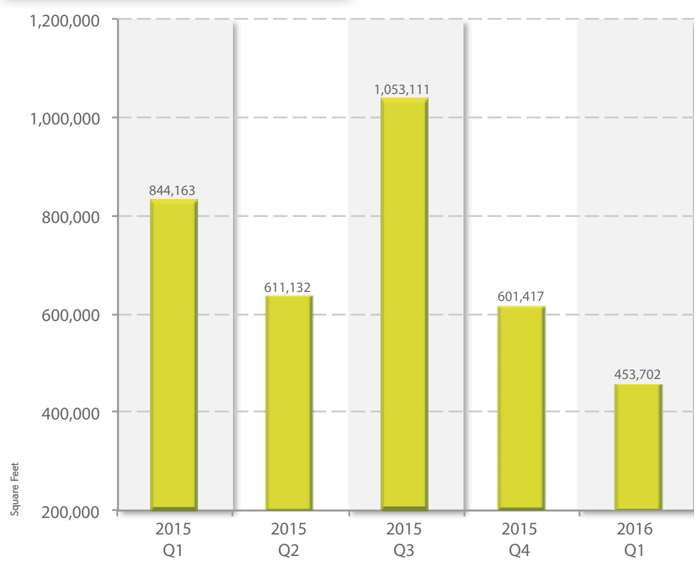


A LOOK AHEAD

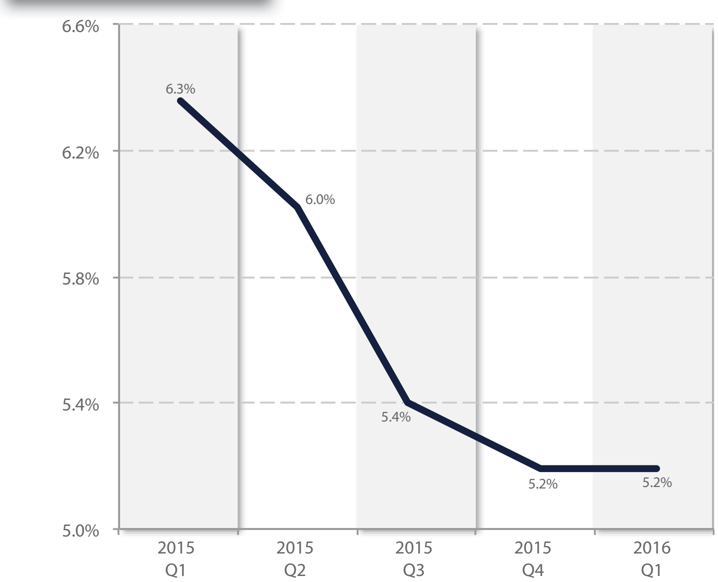
- Competition for sale and lease product will intensify
- Transaction volume and net absorption will continue to be constricted by low supply
- Lease rates will rise another 10% by the end of the year
- Landlords will tighten concessions further and continue to hold out for strong credit
- Construction was nominal and restricted to larger buildings
- Vacancy will remain in the low 2% range for the foreseeable future

SAN DIEGO NORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

San Diego has several active business sectors driving industrial activity. In particular, the Defense industry, which employs over 100,000 active duty and 30,000 civilian workers, combined, accounts for more than $20 billion in annual economic activity. The Life Sciences industry attracts significant venture capital, employs over 42,000 physicians and scientists and is the center for human genome research. The Aerospace sector, led by General Atomics, is expanding due mainly to the development and manufacture of drones. Cross-border commerce is also on the upswing. As a result, the unemployment rate in San Diego has fallen to 4.7%.

Net absorption for Q1 totaled 453,702 square feet to continue the run of positive gains in occupied space that dates back to 2010. Of particular interest in Q1 was the fact that over 400,000 square feet of the quarter's total reflected gains in the flex sector. Gains in flex were concentrated in Carlsbad, Sorrento Valley and Sorrento Mesa. This reflects the strong growth of businesses in the biomedical and aerospace sectors that need more highly improved space. Otay Mesa in the South Bay market, added 95,000 square feet, while Miramar, Rancho Bernardo and Scripps Ranch posted negative numbers for the quarter. Recent distribution transactions include the 171,676 square foot lease to Suja Juice and Brixton's lease of 67,000 square feet. Expanding tenants include non-traditional uses like breweries, fitness centers and indoor recreational facilities, some of whom are willing to lease buildings with functional obsolescence that is problematic for traditional industrial users.

Vacancy throughout San Diego has been in steady decline in the last several years but finished Q1 unchanged at 5.2%. However, vacancy for flex space fell

5.2%	$11.87	453,702	189,579,978	1,482,289
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

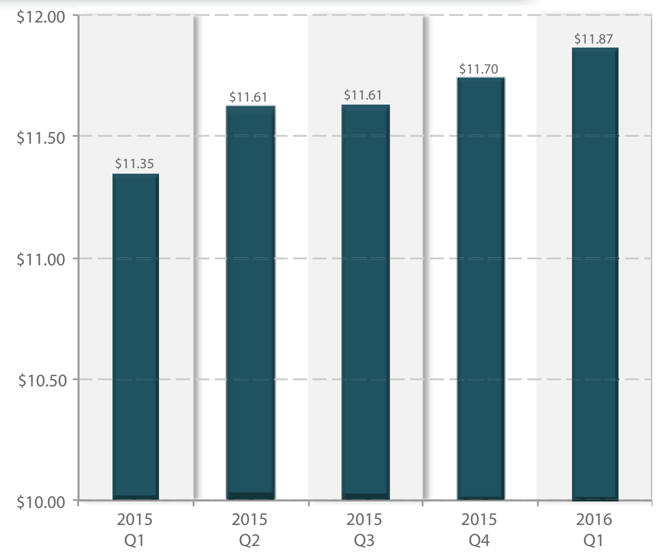
SAN DIEGO NORTH - TRENDING NOW (continued)

90 basis points in the first three months to 8.7%. The warehouse rate ticked up 30 basis points to 4.1% overall, but Central and North County both have fallen below 3%. Add the fact that a higher proportion of the vacant inventory is of lower quality and it's easy to see why industrial tenants are having a difficult time finding space that works. North County, which took longer to recover from the last recession, has tightened up substantially, equaling submarkets like Kearny Mesa and Miramar in Central County.

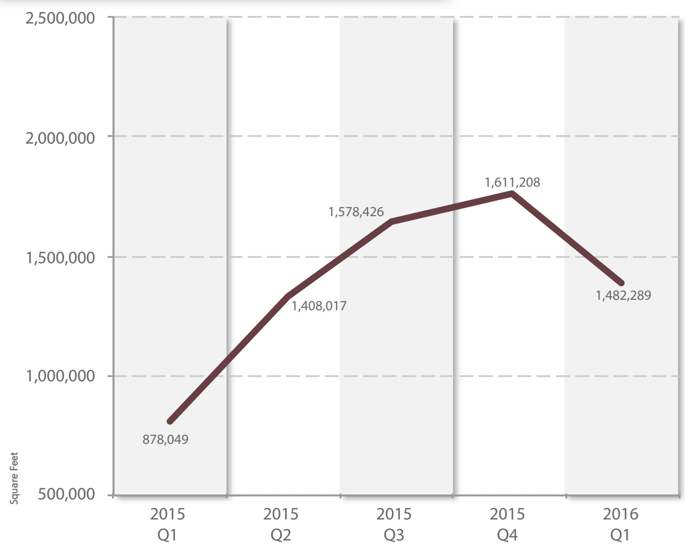
Average asking rents keep moving up across all submarkets as a result of scarce supply. In the past year, San Diego County average asking lease rates rose by approximately 4.6% overall, but warehouse rents have jumped by over 6% in the same period. In Q1, the overall rate jumped another $.17 to $11.87. The issue of functionality is really coming into play. Tenants are willing to pay substantially higher rents for space that has a ratio of office to warehouse and good loading capability. Smaller spaces with docks are in especially high demand.

Owner/user demand is strong throughout the region. The first move by the Fed to raise interest rates back in December, had no effect on SBA financing as many thought it would. Long term financing is still available at 90% of building value in the low 4% range. Even with prices as high as they are, it still makes sense for a business owner to buy and lease the building back to his own company. Inventory is limited in buildings from 8,000 to 15,000 square feet where demand is most intense. But, demand for buildings over 40,000 square feet, especially in North County, are moving much slower.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

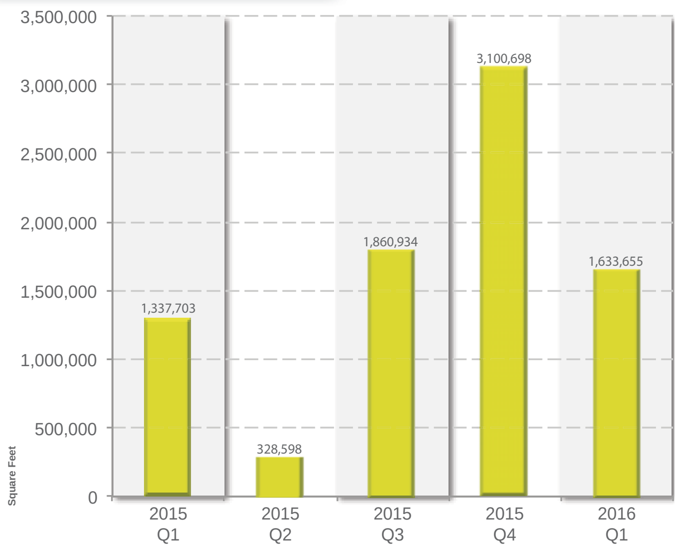


A LOOK AHEAD

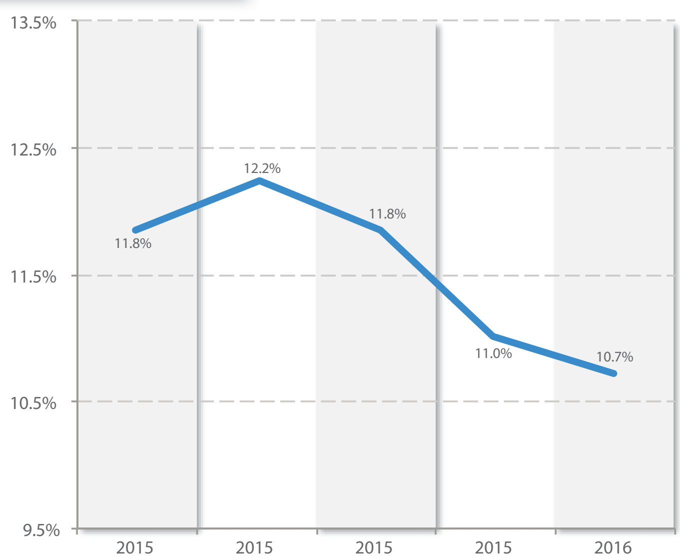
- Lease rates will keep moving due to tightening supplies across the board
- The Life Science industry will continue to boost absorption of flex space
- Sales prices for user buildings will keep moving up, especially for smaller buildings
- Construction activity will ilncrease by 15% as several planned projects get underway
- Net absorption will remain near current levels, but will moderate in areas with tightest supply
- Vacancy will stabilize in the 4% to 5% range for the rest of the year

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix economy continued to expand and the industrial property market remained healthy to start 2016. The housing market has picked up and residential developers are building new homes and buying up large tracts of land for future construction. The flurry of construction has led to significant growth for housing-related industrial users, most of whom occupy smaller spaces in 5,000 to 15,000-square-foot range. While the area is still attractive to major corporations who are being offered significant tax incentives to expand in Phoenix, it's the smaller users who are generating most of the lease and sale activity of late. In fact, there has been a noticeable slowdown as it relates to spaces exceeding 100,000 square feet. In Q1, the largest lease transaction completed was just over 142,000 square feet. This trend runs counter to what's happening in other major industrial hubs around the country, where the bulk of industrial leasing activity is in spaces from 100,000 to over 1 million square feet. Owners of larger bulk distribution space, especially in the Southwest Valley submarket, have responded by dividing their properties into smaller bays.

In Q1, generally the slowest period in terms of net absorption, over 1.6 million square feet was added to the total of occupied space, and that came on the heels of a 3.1-million- square-foot gain in the final quarter of 2015. The Southwest Valley area outperformed all other submarkets with a 499,000-square-foot gain, followed closely by Southeast Valley at 426,000 square feet. More than 88% of the increase was generated in distribution/ warehouse space. Unfortunately, manufacturing space posted a gain of just 41,000 square feet in the period, which may be indicative of the nationwide slowdown in the manufacturing sector.

Nearly 2 million square feet of new inventory was delivered in the first quarter, a mix of multi-tenant projects, build-

10.7%	$6.48	1,633,655	294,922,226	2,821,652
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

PHOENIX - TRENDING NOW
(continued)

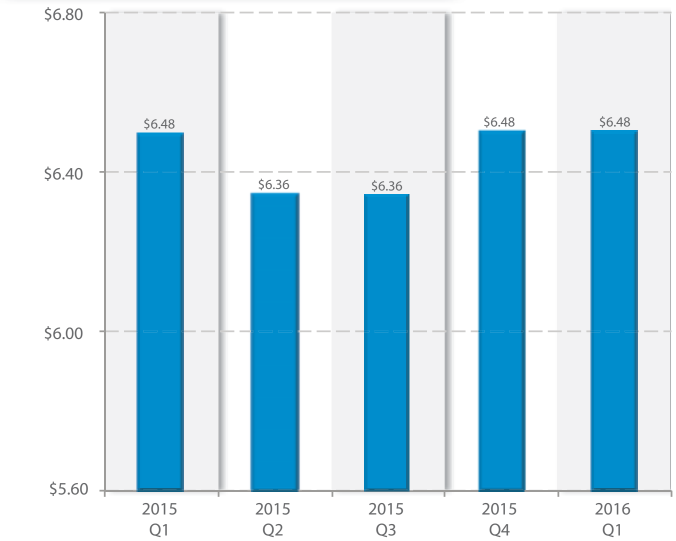
to-suits and speculative distribution space. However, the shift is on to build projects capable of dividing to smaller spaces to accommodate the shift in demand. Q1 deliveries brought the Phoenix Valley's base inventory total up to almost 25 million square feet. As the quarter came to an end, another 2 million square feet was still under construction. Just over 70% of the space underway is in warehouse/distribution product, and the balance is evenly split between manufacturing and flex space.

Vacancy fell to a post-recession low during the first quarter, finishing the period at just 10.7%. The Northwest and Northeast Valley areas came in lowest at 7.1% and 7.8%, respectively. Southwest Valley still has the highest vacancy rate, having finished Q1 at 13.2%, in part due to its disproportionately high vacancy (20.5%) in manufacturing space. Even though the total supply of available space appears to be adequate to accommodate further business expansion, the market for smaller spaces has tightened substantially throughout the region.

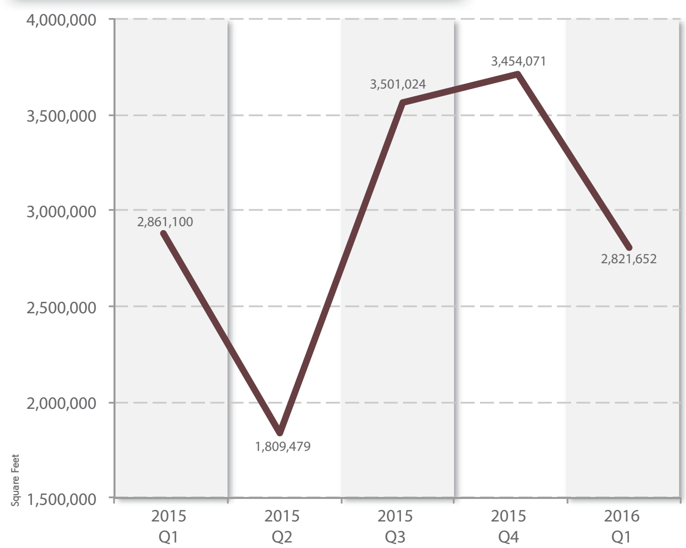
Average asking rental rates for all industrial product types remained unchanged at $.54 per square foot on a monthly basis in Q1. However, there were significant changes by submarket. The Southeast Valley submarket saw a 4.6% increase in its average rate, while the Southwest Valley saw a decline of 2.5%, mainly due to the oversupply of larger blocks of distribution space.

Investors chasing higher yields are still big on Phoenix because cap rates have compressed to lower levels in other major metro markets. The region seems to maintain a significant upside potential in terms of rent growth and net absorption in the coming years.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

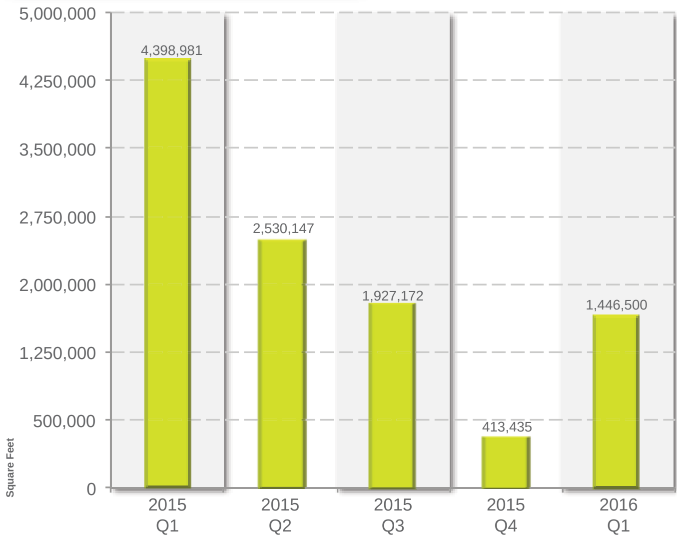


A LOOK AHEAD

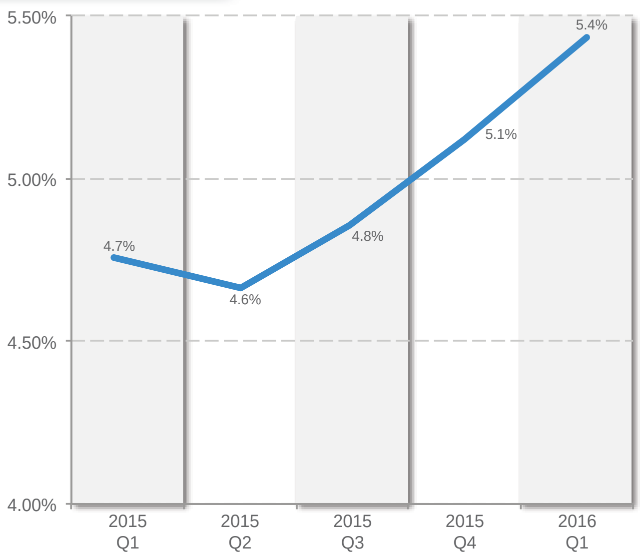
- Gross activity should remain at current levels but shift to transactions involving smaller spaces
- Net absorption could be modest in 2016, challenged by a steady stream of new deliveries
- Lease rates will be generally flat for the balance of the year
- Vacancy could drop to single digits by end of 2016
- Construction activity will remain at current levels, with emphasis on multi-tenant business park projects
- Investor interest in Phoenix will remain strong as it offers more buying opportunities than in tighter markets lke Southern California

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Houston's economy has been heavily impacted by the fall in oil prices and there's no doubt that the overall industrial property market has been affected. Hardest hit have been those companies involved in exploring for and extracting crude oil and natural gas, the so-called upstream users. They have responded to tougher times by cutting operating budgets through drastic reductions in capital expenditures, personnel layoffs and the idling of more than half the active wells in the United States. Oil prices have moved up slightly, which is encouraging, but $40 for a barrel of West Texas Intermediate (WTI) just doesn't pencil, and we can all expect further cost-cutting measures going forward, and that will put additional downward pressure on Houston's industrial market.

Downstream energy companies are, conversely, doing very well. Profit margins are way up due to the lower cost of oil and gas feedstock. Petrochemical companies are also benefitting for the same reason. Their cost of raw materials is a fraction of what it once was and that savings goes right to the bottom line. In the Houston area alone, there is up to $60 billion being spent on petrochemical construction projects. Estimates are that Exxon's expansion will add as much as 14% to total exports from the Port of Houston. Other large projects are being completed by Chevron, Lyondell Basell and Dow Chemical.

The transportation industry continues to enjoy its boost from lower fuel prices, and low gas prices are having a positive effect on consumer spending and retail sales. The Panamax project is nearing completion and that is expected to boost activity at the Port of Houston. As a result, demand for larger distribution buildings over 250,000 square feet remains strong.

5.4%	$6.47	1,446,500	560,708,210	12,219,828
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▲	▲	▼

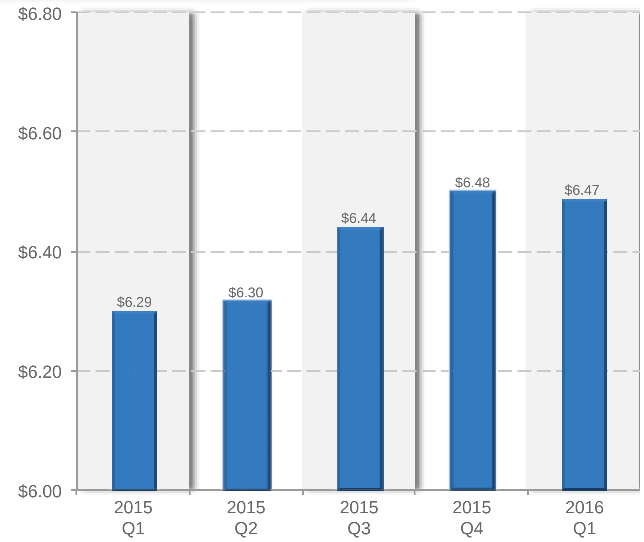
HOUSTON - TRENDING NOW
(continued)

Even though these bright spots exist, the overall market has been dealt a significant setback. But that also creates opportunity for healthy businesses. In the North and Northwest submarkets, creditworthy tenants are seeing some incredible bargains. Where distribution space rents were once as high as $10.20 per square foot, with improvement allowances in the $5 to $10 range, tenants are now seeing deals as low as $7.80 per square foot with allowances of up to $25.

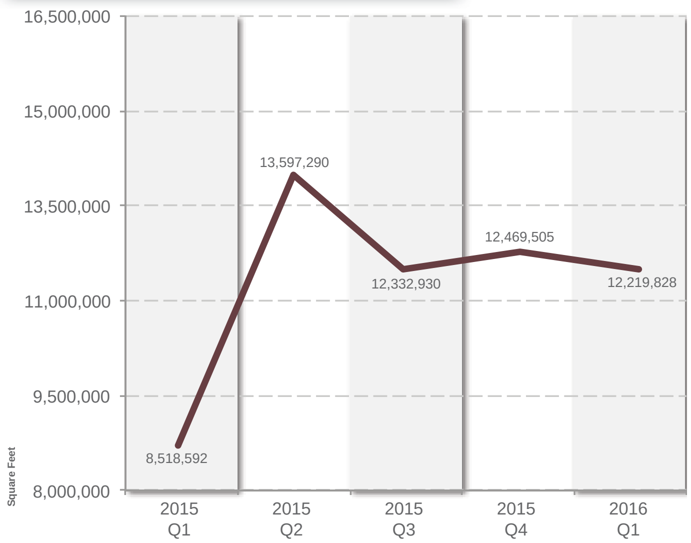
Tenants looking for manufacturing space are also seeing some good opportunities. The supply of freestanding buildings up to 50,000 square feet in North, Northwest and West submarkets has spiked, and owners of those properties are getting aggressive by lowering rates and offering generous amounts of free rent. Some tenants, who would otherwise have little interest in purchasing, are shifting their focus to purchase opportunities due to new lease accounting rules. This comes at a time when owners of manufacturing buildings are really feeling the pinch. So far, there is still a big gap between bid and ask, but that will close with time, as the cost of carrying empty buildings becomes unworkable.

Investors in Houston are legitimately concerned with stability and fluctuations in tenant performance. When a company's revenue is so dependent on the price of a single commodity that is experiencing wild price swings, balance sheets and income streams can take a beating. There are additional concerns over a spike in loan defaults as evidenced by the fact that major banks with exposure to the energy sector are ramping up reserves to cover a potential wave of defaults.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

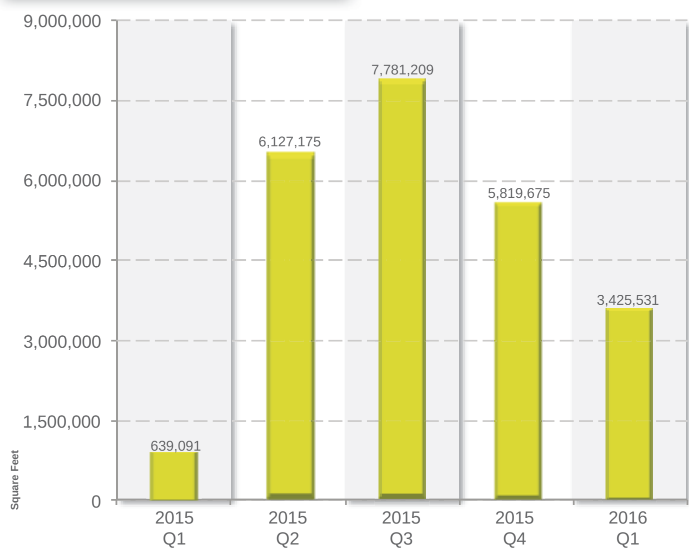


A LOOK AHEAD

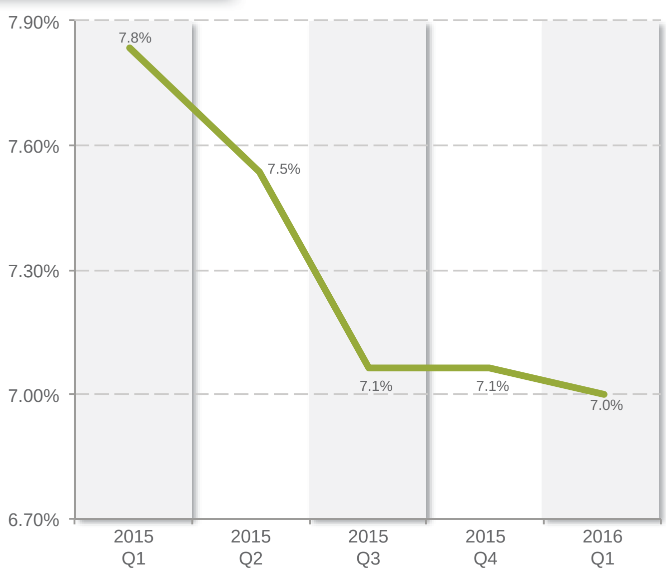
- Gross leasing activity will be stronger near the ports but will remain sluggish throughout the year
- Net absorption, while marginally positive in Q1, is expected to decline for the next several quarters
- Vacancy will keep moving up at approximately 30 basis points per quarter for the balance of 2016
- Landlords and tenants will sign shorter term leases due to near term market uncertainty
- Construction will slow in the Northwest/North submarkets but remain active in the East and Southeast
- Sale prices will decline in properties serving upstream oil sector users, as more properties will be sold to pay off other debt

CHICAGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The economic and political environment continues to dominate the headlines in the Chicago land market. Ever-increasing taxes, pressures to increase the minimum wage and the ongoing attempt from surrounding states to woo employers away from Chicago, all weigh on decision making for area businesses. Yet, despite those challenges, the Chicago industrial market continues to thrive as a critical industrial hub due its central location and intermodal infrastructure. It's also a favorite in terms of institutional investment in existing properties and development of new industrial projects. While the manufacturing sector is experiencing growing pains due to global economic conditions and a strong dollar relative to the currencies of major trading partners, it remains integral to the overall health of Chicago's economy. It's the bulk distribution projects along major expressways that are leasing well and seeing the strongest rent growth.

The decline in overall vacancy has been ongoing. By the end of the first quarter, the overall vacancy rate dipped another 10 basis points to 7.0%. Year-over-year that represents an 80 basis point decline and has become problematic for tenants looking for quality relocation options. Quality product tends to go first and that leaves many tenants with the prospect of having to pay more for lesser quality product. Add the facts that tenants are faced with higher taxes and more regulatory controls, and it is easy to understand why tenants are looking to more business-friendly markets to meet their expansion needs.

7.0%	$5.69	3,425,531	1,169,879,849	14,036,591
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

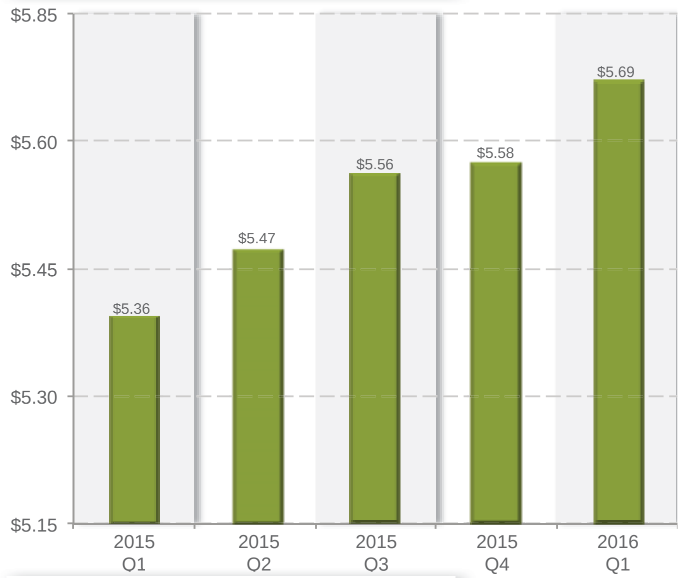
CHICAGO - TRENDING NOW (continued)

The drop in vacancy goes hand-in-hand with an increase in lease rates. At the end of Q1, the average asking rental rate in the Chicago metro area stood at $5.69, up $.11 in the period and $.33 higher year-over-year. That adds further motivation to look for better value in areas like southeast Wisconsin and northwest Indiana. Those areas are also adding new inventory, which gives tenants the opportunity to upgrade to buildings that have the amenities that allow them to operate with greater efficiency.

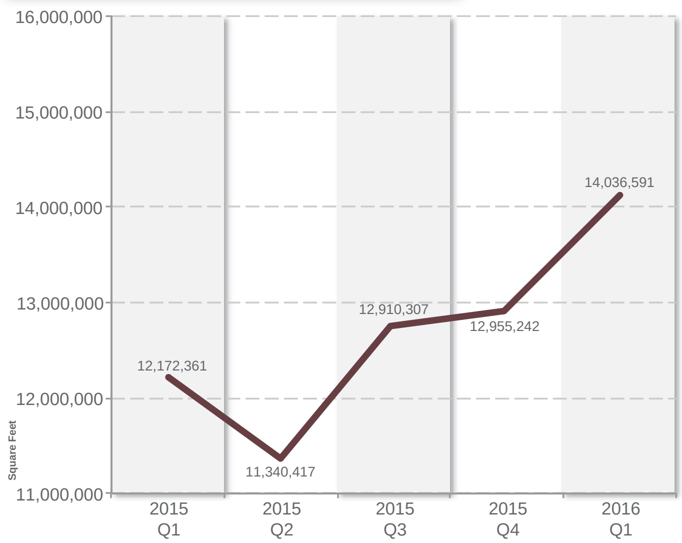
Positive net absorption for Q1 hit 3.4 million square feet, with larger distribution deals continue to lead the market in terms of net gains in occupied space. In 2015, over 20.3 million square feet of net absorption was reported, a clear sign of the overall health of the region's industrial sector. However, the aging supply of existing product is making it more difficult for landlords to accommodate the expansion requirements circulating through the market. Of the nearly 1.1 billion square feet of existing industrial space in the region, a significant portion lacks the clear height, fire-suppression and truck access preferred by today's distributors.

New deliveries totaled more than 17.2 million square feet in 2015, and another 3.3 million square feet was delivered in the first quarter of 2016. Currently, 14 million square feet is still under construction. New projects now in inventory include Saddle Creek's new 1,114,575-square-foot building space, now fully occupied, and 423,726-square-foot spec building at 10 Falcon Court. Virtually all new construction is in larger distribution facilities.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

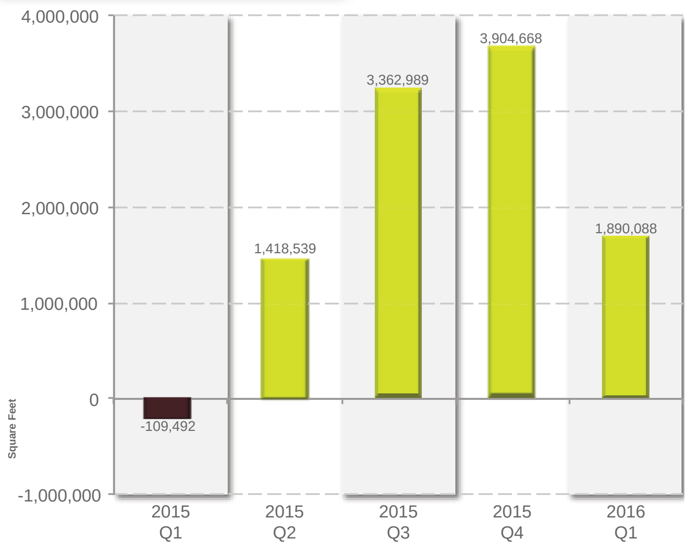


A LOOK AHEAD

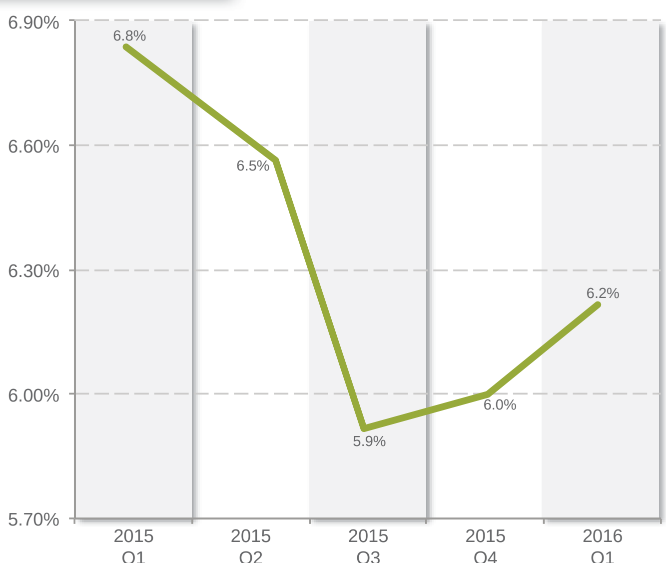
- Leasing activity will keep pace with new construction, holding down vacancy in the 7.25% range
- Sale activity should remain at least at current levels throughout the year
- After a record absorption year in 2015, net growth in occupied space will moderate slightly
- Average asking lease rates will continue to move higher as availability tightens even in second generation space
- Construction activity for 2016 will remain above the 20 year average but will come in under 2015's total
- Other states will continue their aggressive efforts to attract area businesses, which puts Chicago at risk for job and revenue declines

COLUMBUS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Columbus industrial market has an extensive logistics infrastructure that makes it a favorite distribution hub of major logistics employers like Abercrombie & Fitch, Eddie Bauer, Restoration Hardware, Target, Walmart and Big Lots, among others. The region is the top-ranked inland and coastal port in population concentration within a one-day drive. In Fact, KPMG recently ranked all of Ohio No. 1 in effective tax rate for new logistics operations. Ohio has no personal property tax, inventory tax or corporate income tax. The Norfolk Southern Heartland Corridor and CSX Gateway rail lines link Columbus to multiple deep water, east coast ports. It is also located at the intersection of four major interstate highways, four intermodal systems and the cargo-dedicated Rickenbacker International Airport. No wonder FedEx Air, FedEx Ground, UPS and UPS Supply Chain Solutions also have a presence in Columbus. And, it isn't all about transportation and supply chain. Home to Ohio State University, the region is increasing its emphasis on data centers and processors.

When the big players are building spec buildings up to 1 million square feet, there is something good going on. VanTrust out of Kansas City has aggressively entered the market and will be developing over 1.5 million square feet, all on spec. Another Kansas City-based company, Northpoint Development recently completed a 1 million-square-foot spec building that was leased up prior to completion by Saddle Creek Logistic. They are also underway on another 450,000-square-foot spec building. Investors are also getting on the Columbus train. Exeter, based out of Philadelphia, is now the area's largest landlord, controlling 15 million square feet of space.

6.2%	$3.49	1,890,088	261,214,815	1,278,136
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

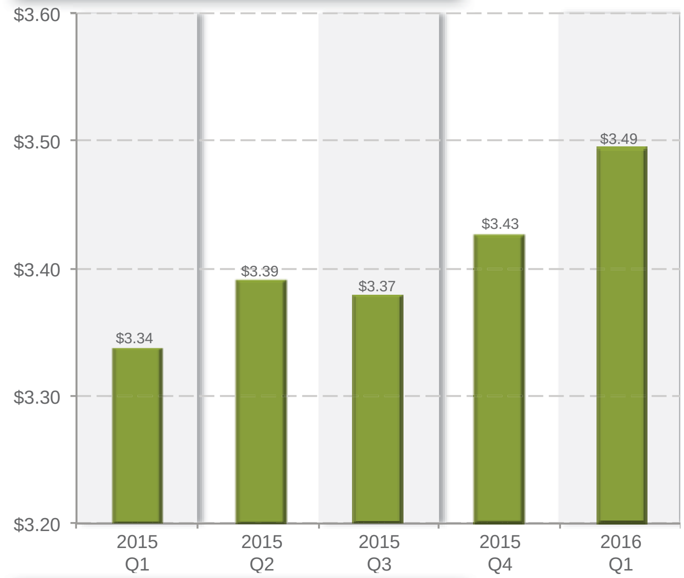
COLUMBUS - TRENDING NOW (continued)

Every market has its challenges and Columbus has a very interesting one. It has to do with expiring tax abatements that were enacted to attract businesses to the area. Well, the program worked, but now many of those tax breaks are expiring and it has become problematic for landlords who own buildings within municipalities that offered 15 year, 100% abatement of real estate taxes on improvements. The roll-off of these incentives can amount to as much as 30% of net rents, so significant discounting is occurring in these properties. The long-term impact of this normalization process will be significant for years to come.

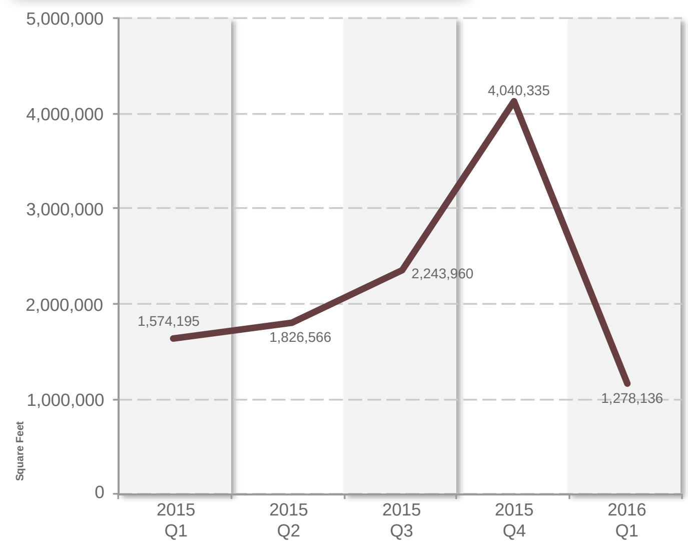
As far as Columbus numbers go, net absorption hit 1,890,088 square feet in Q1. Vacancy has fluctuating quarter-to-quarter due to significant new deliveries of spec product. In Q1, the vacancy rate fell by 30 basis points to 6.2%, despite the high level of new speculative development.

The industrial inventory base stood at 261,214,815 million square feet by the end of Q1, with 1,333,538 square feet of that added in the period. Another 1,278,136 square feet remains under construction, most of it larger bulk distribution facilities. But, new manufacturing facilities are also in the development mix. The Sofidel Group, an Italian-based paper manufacturing company recently announced the construction of a new 1.4 million-square-foot facility just south of Columbus.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

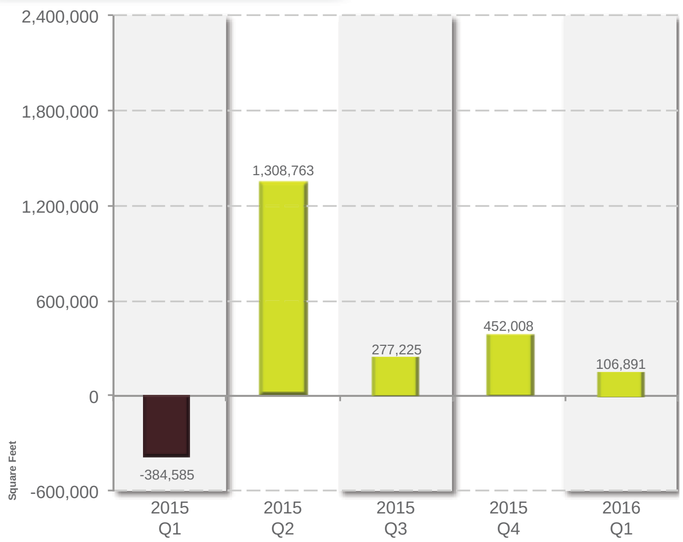


A LOOK AHEAD

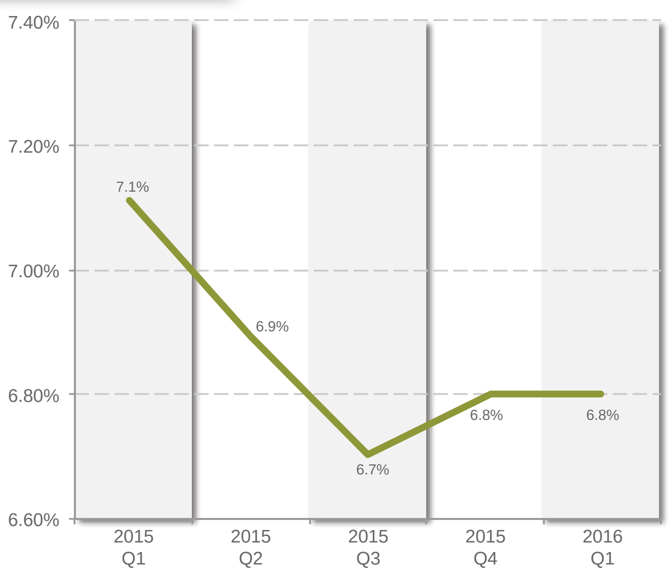
- Overall vacancy will remain in the 6% range due to new deliveries
- Asking lease rates will increase slightly as construction costs move up
- New construction may moderate to let the market catch up from the flurry of spec projects
- E-commerce companies will continue to be attracted to Columbus' extensive transportation infrastructure
- Overall gross activity will remain strong, as several large and mid-sized requirements are currently in play
- Net absorption will improve to the historical average of more than 4 million square feet per year

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

From an economic perspective, St Louis got a shot of both good and bad news in the past several months. The departure of the Rams to Los Angeles is definitely one for the loss column, as the region is expected to lose up to $80 million per year in economic activity. The good news is the newly awarded, $1.7 Billion National Geospatial-Intelligence Agency (NGA) facility coming soon to the North St. Louis City area. The NGA is the nation's primary source of geospatial intelligence (GEOINT) for the Department of Defense and US Intelligence Community. The agency supports US national security, defense and disaster relief efforts throughout the country. Over the next several years, the NGA is expected to hire over 3,100 workers, and that should be a catalyst for a flurry of development activity in the surrounding area.

The industrial base for the St Louis region remained at 263.2 million square feet in Q1 after no new space was delivered. As the period ended, 3,904,153 square feet of industrial space in remained under construction, most of that on a spec basis. Since much of the existing inventory lacks the high ceiling clearance and fire suppression systems preferred by today's expanding businesses, first generation space is being snapped up in short order. Institutional demand for quality distribution product is still intense, prompting some developers to sell right away to take advantage of the cap rate compression that has found its way to the St. Louis area. Yields in St. Louis are still higher than in bigger markets on both coasts, but they have fallen as much as 125 basis points in the past 18 months. Developers have responded by acquiring more land in anticipation of continuing strong demand for new product.

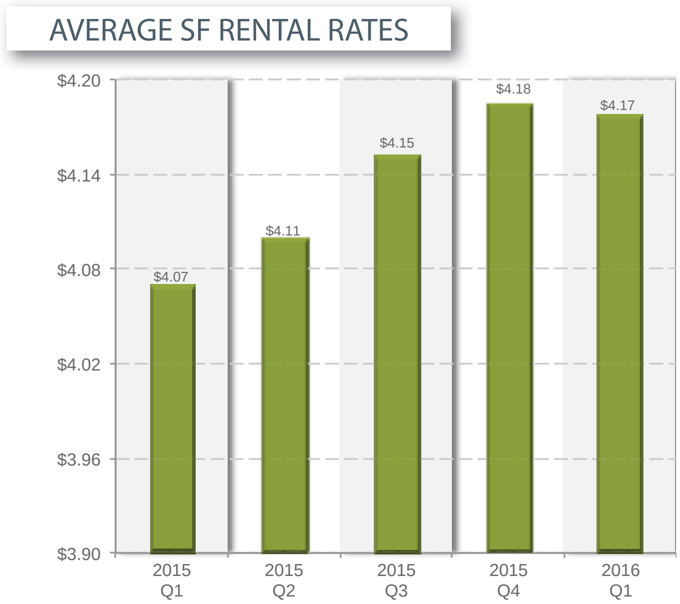
6.8%	$4.17	106,891	263,196,976	3,904,153
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

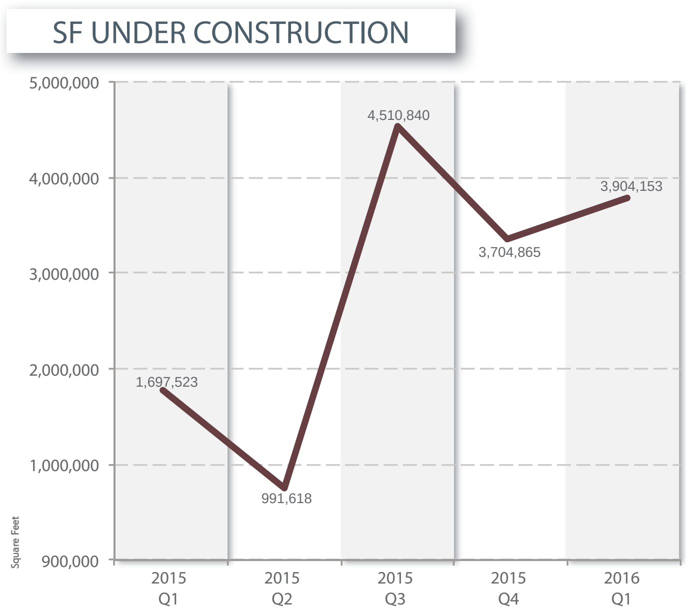
ST. LOUIS - TRENDING NOW (continued)

Demand from owner/users is still running well ahead of supply, as low interest loans through the SBA are still at historically low levels despite the Fed's first rate hike back in December. Rates should remain low for the balance of the year, as the central bank became more dovish in Q1 due to ongoing global economic troubles and lackluster domestic GDP growth. That will give would-be owner/users more time to hunt down buildings that fit their needs. It will also keep prices for quality owner/user buildings on the upswing.

In Q1, net absorption slowed to just 106,891 square feet, after gaining 452,008 square feet in Q4 of last year. Auto industry vendors in need of space for just-in-time delivery to GM's Wentzville facility, continue to figure heavily into the absorption picture. Overall average asking lease rates fell by a penny in Q1 to finish the period at $4.17. Year-over-year, the rate has risen by 2.5%, well short of many other major markets around the country that have vacancy rates as low as 2% and little or no construction activity. Tenants are responding to tightening conditions by making quicker real estate decisions and moving up occupancy dates to reduce the risk of having to choose from a dwindling supply of quality buildings. Less creditworthy tenants are being forced to fund a greater share of needed improvements, as landlord see the pendulum swinging their way.

The vacancy rate finished the quarter unchanged at 6.8%. This time last year, vacancy stood at 7.1%. Bulk distribution space deals in the Metro East (Illinois) submarket leads the way, in large part due to offers of tax abatement and other economic incentives not available on the Missouri side of the river.



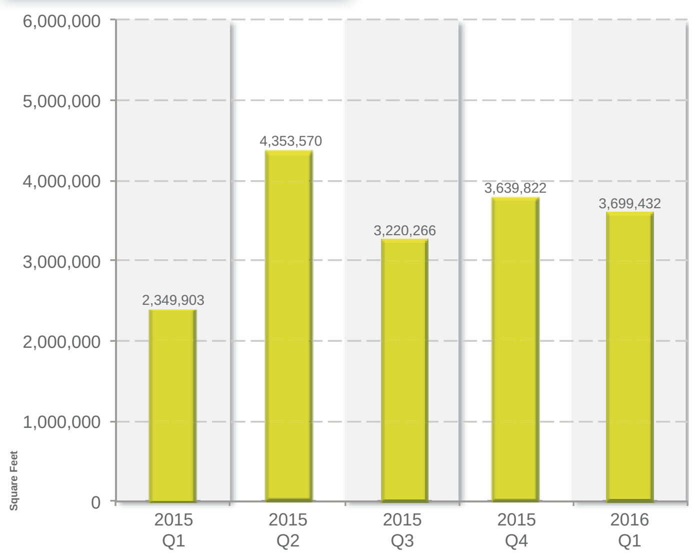


A LOOK AHEAD

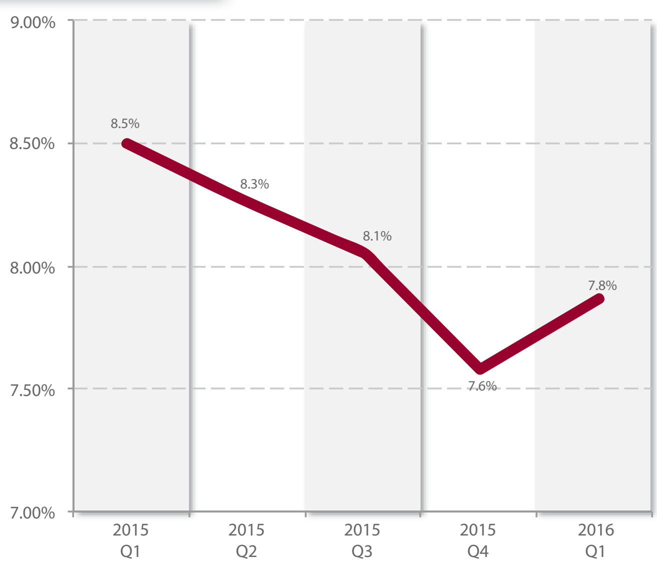
- Leasing activity should increase significantly in the next several quarters
- Sale activity will be held back by short supply, but prices will move up by 10% in 2016
- Vacancy will remain stabilized in the 6% range
- Average asking lease rates will rise10% in 2016
- Construction activity will increase significantly throughout the year
- The GM plant will continue to attract new businesses to the region
- Users looking to buy will be forced to lease due to low supply

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Atlanta's industrial market was among the nation's top performers in 2015 and that trend continued in the first quarter of 2016. Bulk distribution remains the darling of the industrial sector given the strong demand for the product and its lower cost of construction relative to smaller freestanding buildings and multi-tenant business park projects. Net absorption for Q1 hit 3.7 million square feet during the period, and all but 90,000 square feet of that was attributed to distribution deals, the largest of which was Google's move into 1,129,000 square feet at the Fairburn Logistics Center. Net absorption for all of 2015 was 13.5 million square feet. So, the market is on pace for another year of strong net growth in occupied space.

Vacancy ticked up in Q1, rising 20 basis points to 7.8%. Year-over-year vacancy is down by 70 basis points despite high levels of construction. Tenants continue to focus on the added functionality of newer product and show a willingness to pay a premium for high ceiling clearance and more advanced fire suppression technology that allow for higher cubic storage capacity. This fact is not lost on landlords, and they are pushing hard on every transaction for higher lease rates and insisting that tenants cover more operating expenses and participate in the cost of capital expenditures. Tenants deciding to move up to more functional product are advised to allow for more time to make their moves, as competition for first generation space is intense.

Development activity is still running strong. Last year nearly 7.9 million square feet of industrial space was delivered. In Q1, over 5.9 million square feet of completions were recorded, bringing the Atlanta region's industrial inventory up to 602.5 million square

7.8%	$4.32	3,699,432	602,561,916	10,712,731
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

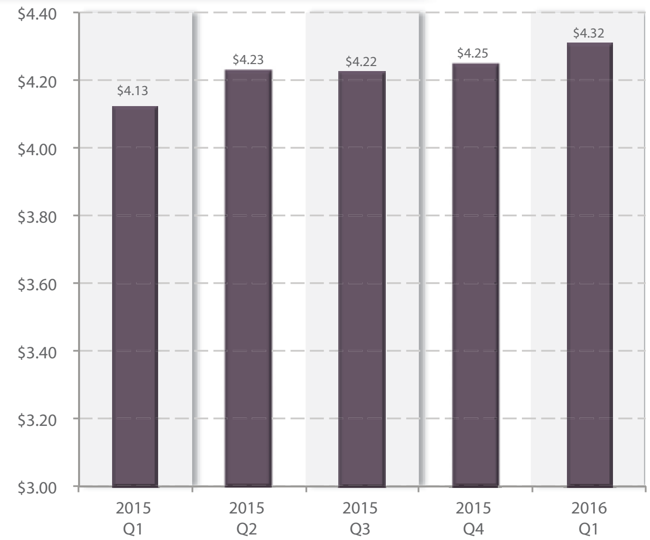
ATLANTA - TRENDING NOW
(continued)

feet. Another 10.7 million square feet remains under construction. Large distribution users like their prospects for further expansion due to the steady supply of new inventory, and developer confidence continues to run high as evidenced by the fact that speculative space deliveries are outpacing build-to-suit projects by a 3-to-1 margin.

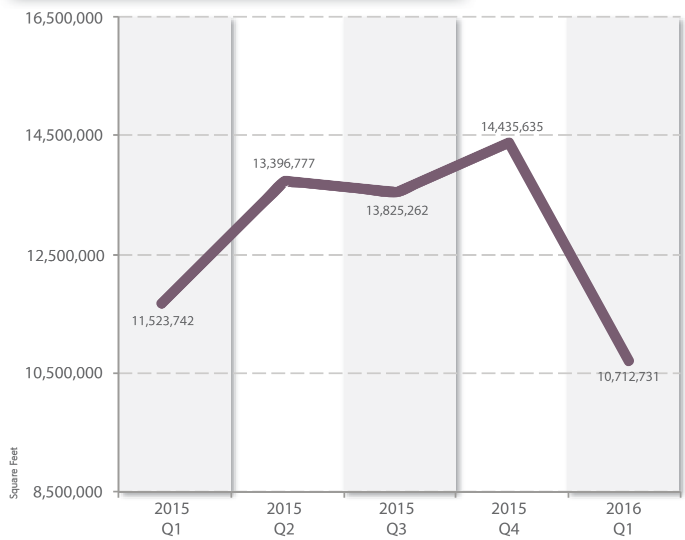
Activity in general industrial product is also on the upswing, which has stimulated construction in prime niche markets like Alpharetta, Kennesaw and Suwanee/Buford. However, the rent growth curve is flattening, a possible early indication that rents for general industrial product may be approaching a natural peak for this cycle. If manufacturing activity across the country cools further, this trend will become more pronounced.

Investor demand for quality industrial product in the Atlanta area is still running well ahead of supply. Cap rates have compressed for all industrial product types, and available capital for further investment is still pouring into the region. Large bulk distribution product remains the favorite of institutional investors. They like the absorption numbers and strong rent growth that Atlanta has been producing. Low cap rates have prompted some investors to shorten their hold periods, but the lack of product to trade into is frustrating for those sellers who are unwilling to face the tax consequences of cashing out. Rumblings about cap rate decompression due to the projected increase in interest rates have been quieted of late, as Fedspeak has become more dovish since Ms. Yellen and her Board of Governors bumped the Fed Funds rate back in December.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

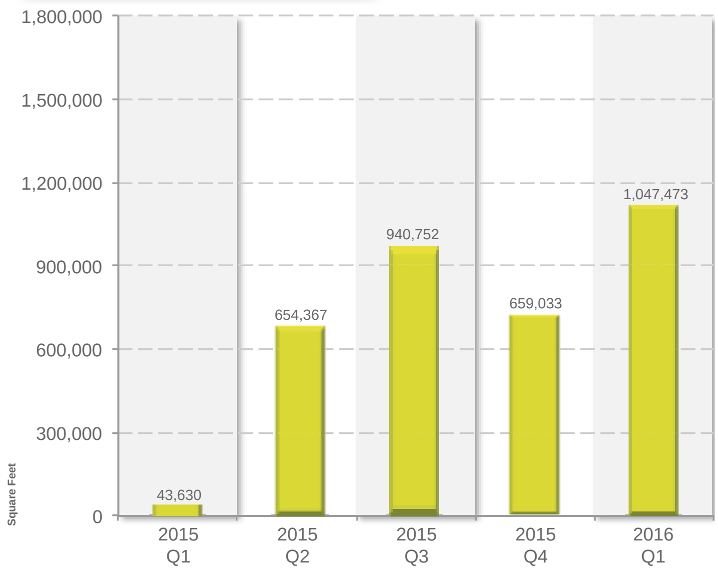


A LOOK AHEAD

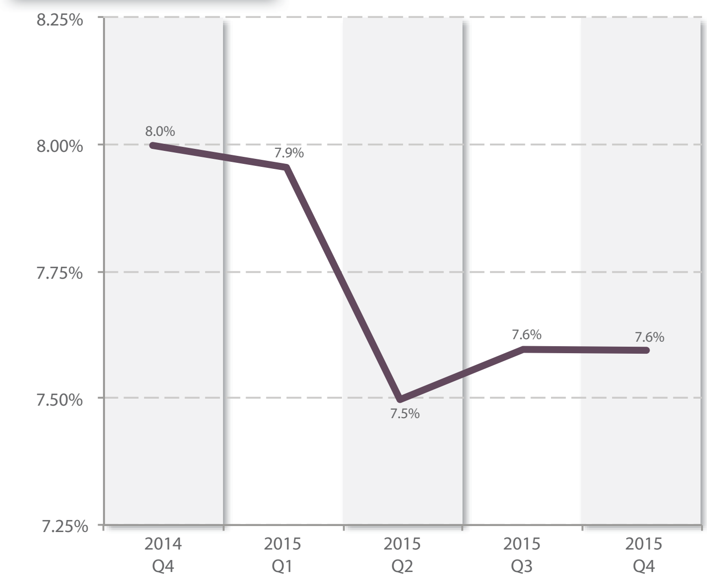
- Leasing activity will stay at current levels through 2016
- Vacancy will move down only slightly due to delivery of new inventory
- Overall average asking lease rates may plateau near current levels in 2016
- New deliveries will remain at least at current levels for 2016
- Rents will still move up for first generation distribution product
- The market will test the efficiency of 40 foot clear heights with a 1 million-square-foot spec building
- Energy efficiency and land for trailer storage will remain a priority for tenants

GREENVILLE/SPARTANBURG

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Greenville/Spartanburg area is strategically located between the larger markets of Atlanta and Charlotte, NC. Interstate highways 26 and 85 cross in the center of the region that also has easy access to the deep water Port of Charleston that can handle 8,400 TEU vessels drafting up to 48 feet. To extend the reach of the port and boost efficiency for the movement of international freight, the South Carolina Inland Port was opened in 2013. With more than 250 international firms, the Upstate South Carolina region leads the nation in per capita international investment. The area is also known for its pro-business environment, favorable tax rates and access to a diverse workforce. Major companies with significant presences in the region include Michelin North America, General Electric, Verizon, Hubble Lighting, BMW and Fluor Corporation, among others.

These large manufacturing and industrial companies continue to come to the Upstate area, and that attracts a wide variety of suppliers and support services firms. The automotive, aviation/aerospace, advanced materials and bioscience sectors are especially active, and they are offering good job opportunities for thousands of well-trained, highly educated workers that enjoy the quality of life and affordability of the area. As a result, net absorption of industrial space has been consistently positive. In Q1, over 1,047,473 square feet was added to the total of occupied space, following a yearly total of 2.3 million square feet in 2015. That number would likely be higher if there was more availability in the 15,000 and 25,000-square-foot range, where demand is especially strong.

Robust demand across the board has really put a strain on the stock of quality industrial space. Vacancy has

7.6%	$3.57	1,047,473	199,510,063	5,145,638
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

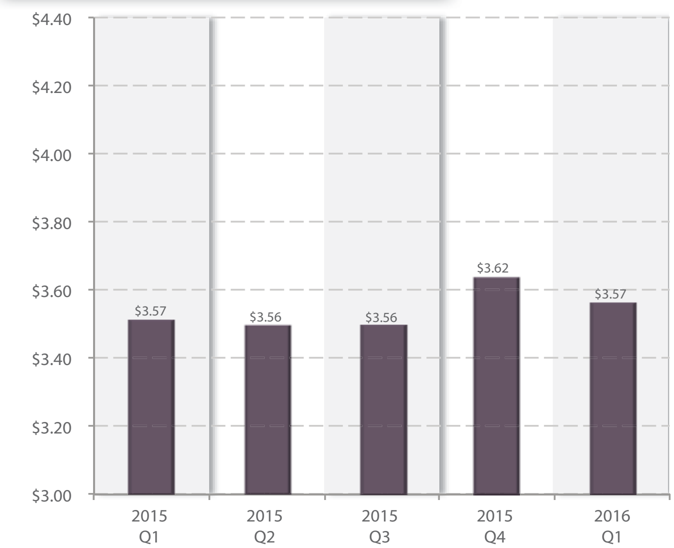
GREENVILLE / SPARTANBURG - TRENDING NOW (continued)

come down to 7.6%, and is 40 basis points lower year-over-year.Tenants, both large and small are running short of options as development of new product is still running behind demand. In Q1, 1,168,970 square feet of new space was delivered adding to 2015's total of 2,320,370 square feet of new industrial product. To their credit, developers and their lenders have been cautious of overbuilding and have chosen to keep spec development in check. At the end of Q1, a total of 5,145,636 square feet was still under construction, the bulk of which is preleased. Big projects in the queue include the Dollar Tree Distribution Facility at 1.5 million square feet and the 1.3 million-square-foot Techtronic Industrials project in Anderson County.

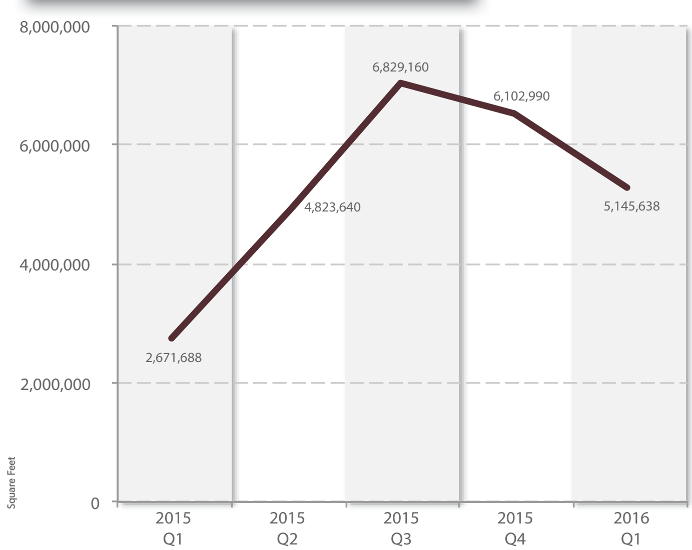
Average asking rents dipped slightly to start 2016. By the end of Q1, the overall asking rental rate stood at $3.57, up $.05. Year-over-year, the asking rate is unchanged. However, tenants intent on locating in quality, first generation space continue to show a willingness to a premium to secure it. Greenville County and the Highway 101 and 290 segment of Spartanburg County are still the most active areas, as suppliers and support operations locate there to be close to major corporate users.

Major economic expansion on the scale occurring in the Upstate area requires capital, and lots of it. For the moment, the cost of that capital is extraordinarily low. However, landlords, tenants, developers and investors are expressing increasing concerns over the impact of Fed action to raise interest rates that has been in the headlines for the past year. So far, the first move by our central bankers has not slowed things down, but more frequent and consistent actions could impact growth plans across the board going forward.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

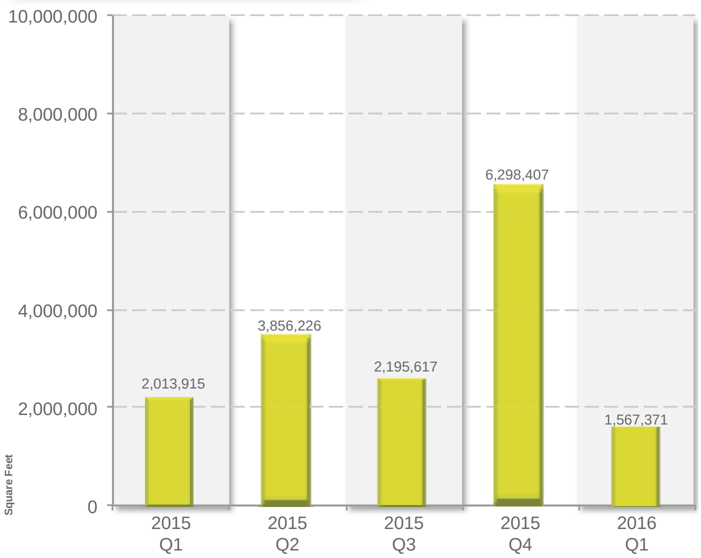


A LOOK AHEAD

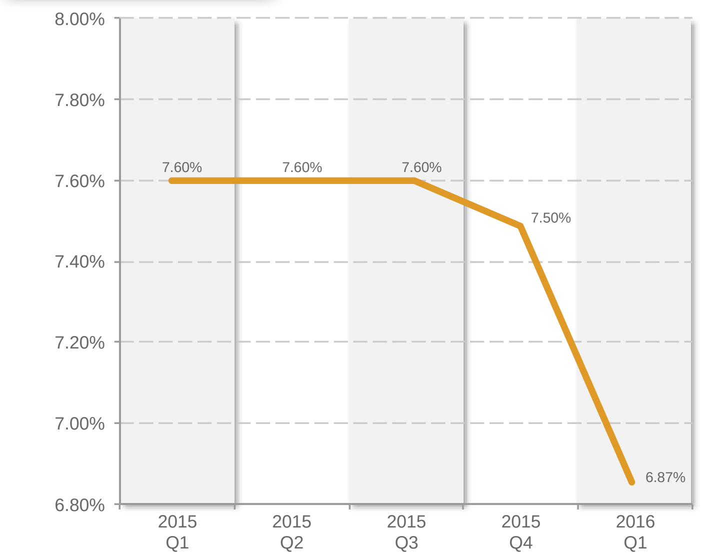
- Lease and sale activity should increase in 2016
- Net absorption may moderate due to periodic supply shortages
- Vacancy should decline slightly throughout the year
- Lease rates will keep moving up, especially for first generation space
- Development activity will increase in response to strong business growth

PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

With a base inventory of just over 1 billion square feet, the Philadelphia industrial market is one of the largest industrial hubs in the nation. The region includes eastern Pennsylvania, southern New Jersey and all of Delaware. Like other major metro markets, the region is experiencing declining vacancy and rising lease rates as well as strong net absorption figures.

The market is also experiencing robust construction activity, with over 70% of the current construction being on a speculative basis. This remarkable figure reflects developer confidence in current demand and long-term rent growth. Developers and institutional investors are keen to the fact that large logistical operations are drawn to this market because of its proximity to multiple, high-density population centers and the abundance of highway and railway infrastructure. However, over half of ongoing speculative projects are below 500,000 sf, as land use controls and ongoing development pressure are driving scarcity in preferred locations for larger scale projects, particularly in the region's popular submarkets like the Lehigh Valley. To meet increasing demand, the redevelopment of existing projects and new construction on secondary land sites (in less desirable locations or with more difficult entitlement challenges) are both getting more attention.

In its "Core Data Set" (industrial buildings of 100,000 square feet and up, which make up roughly 40% of the inventory in the market) Lee & Associates of Eastern Pennsylvania, reports a slightly lower vacancy rate for Q1, coming in at 6.87%. Recent development activity has failed to increase vacancy rates, which remain below structural levels and down significantly year-

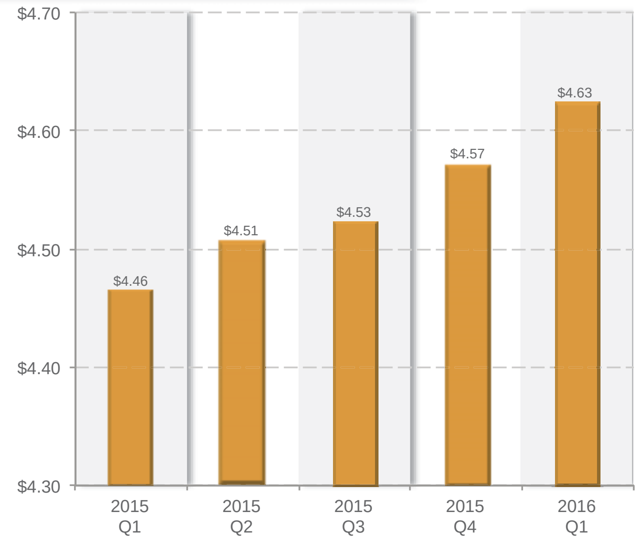
6.87%	$4.63	1,567,371	1,053,768,389	16,145,462
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

PHILADELPHIA - TRENDING NOW (continued)

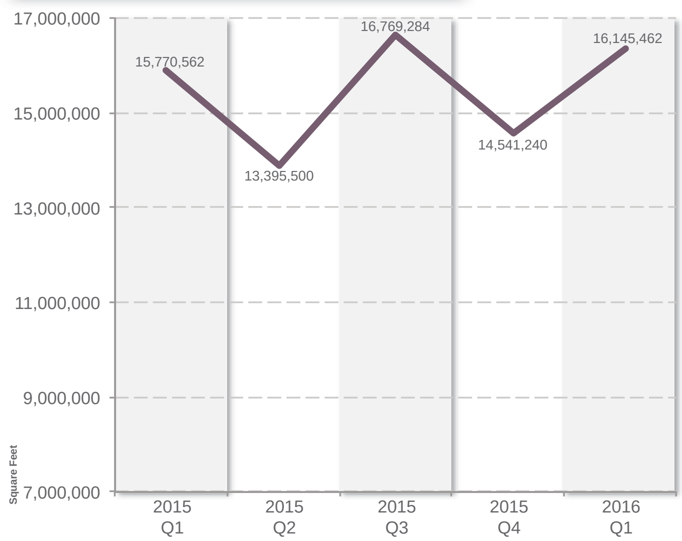
over-year. General warehousing and bulk distribution facilities in the Lehigh Valley and Central Pennsylvania submarkets still lead the way in terms of transaction activity. With vacancy rates low and continuing to decline, more tenants are choosing to renew in place. Significant transactions during the quarter include Samsung's move from Central Pennsylvania to 500,000sf at Berks 78 in the Lehigh Valley, UPS leasing 341,000sf in the newly constructed First 33 Commerce Center, and BMS Logistics 312,000 square feet lease at Quarry Rd. Contrary to the market as a whole, net absorption across the Core Data Set rose, topping 1.5 million sf in Q1.

Concerns over the future direction of interest rates are rising, but the market has yet to see any measurable effect. Demand for space from users and investors is still exceeding supply. Sales volumes have been light, but this reflects the lack of supply rather than decreased demand. Institutional investors have driven cap rates to record-low levels, especially for large, stabilized assets. Demand from owner/users also remains strong, especially for smaller (under 500,000sf) speculative projects.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

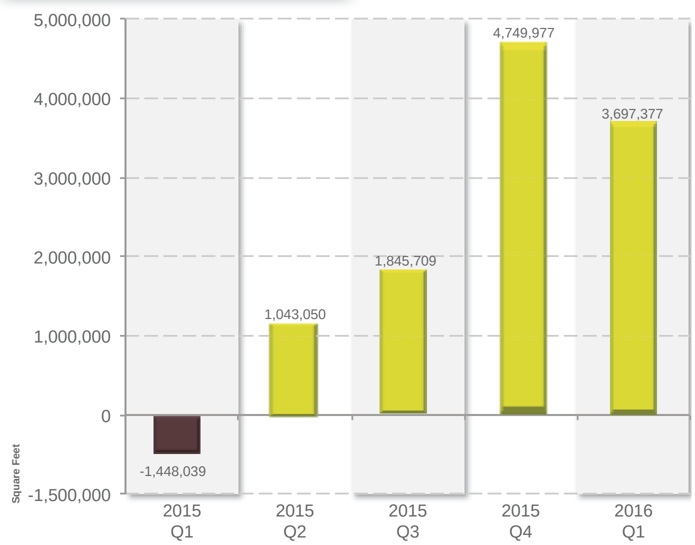


A LOOK AHEAD

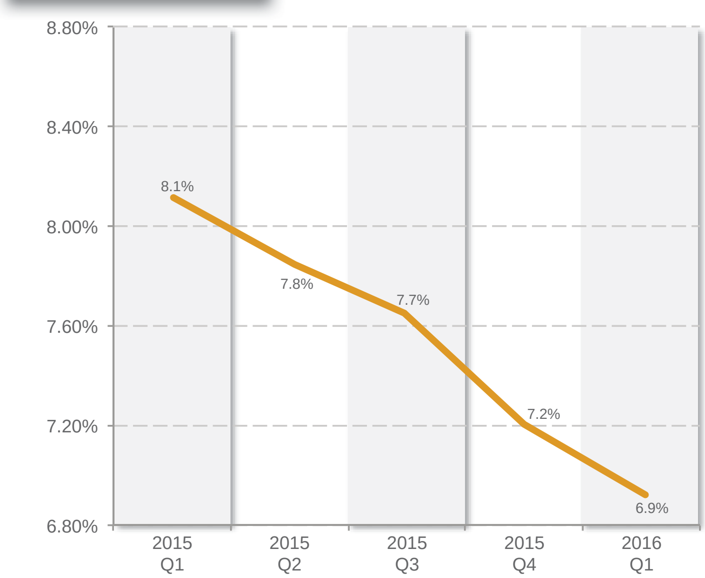
- Overall lease and sale activity will remain strong, driven by logistics-based business expansion
- Regional vacancy will remain near 7%, and will continue to remain below structural levels in Central PA and Lehigh Valley
- Lehigh Valley rents will move up to $5 or more this year as demand continues to outpace supply
- Net absorption will remain positive overall, but will moderate in submarkets with older inventory
- Construction activity will maintain current momentum throughout the region for the rest of the year

NORTHERN/CENTRAL NJ

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Northern/Central New Jersey industrial market remains one of the most active industrial hubs in the country. The region's proximity to over one-third of the nation's buying power within a one-day drive makes it a favorite of the distribution sector. E-commerce retailers, big box retailers and 3PL operators look to the area to reduce delivery time and transportation costs. They also like the heavy incentives offered by the State of New Jersey to recruit them away from other major population centers like Pennsylvania, Connecticut and New York. The Grow New Jersey program offers up to 10 years of tax credits to companies for creating new jobs. Long Island, New York's Wenner Bread, a Lee & Associates client, is a good example. The company was enticed with $30 million incentives to make a 301,000-square foot move to New Brunswick, New Jersey.

Vacancy moved another 30 basis points lower in Q1, finishing the period at 6.9%. Year-over-year, the vacancy rate has declined by 120 basis points. Class A product continues to see the most leasing action, but supply is getting tight and landlords are demanding stronger credit and offering less in tenant improvement dollars to get it. This has really put the squeeze on small and mid-sized tenants, who are having trouble competing for quality space in good locations. Their only options are to accept inferior locations, pay for their own improvements or leave the region altogether.

Availability is thinning, even in Class B and C product, and rents keep moving up. In the first quarter, the overall average asking rental rate rose by $.12 to $6.38. Net absorption was strongly in positive territory in Q1, posting a gain of nearly 3.7 million square feet in occupied space. That came on the heels of a 4.75-million-square-foot gain in the final quarter of 2015. In past four quarters, net absorption hit 11.3 million square feet. Notable move-ins for the period included a lease of 406,437 square feet to Continental Terminals at the Carteret

6.9%	$6.38	3,697,377	809,071,117	3,509,666
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

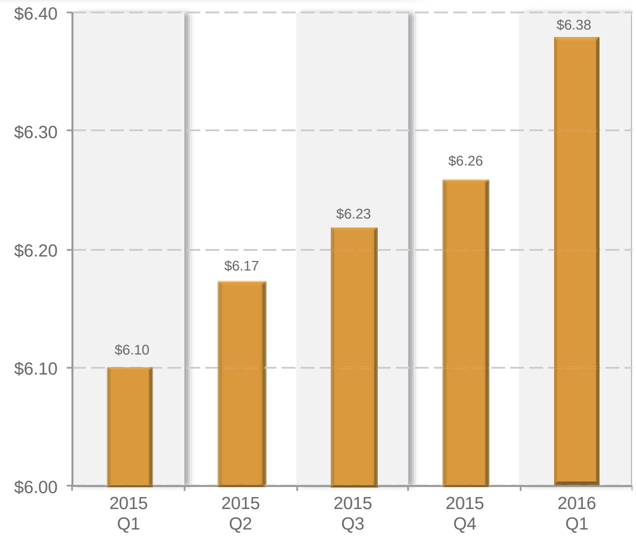
NORTHERN/CENTRAL NEW JERSEY - TRENDING NOW (continued)

Center, and the Garden State Cold Storage lease of 278,936 square feet at 580 Carteret Drive.

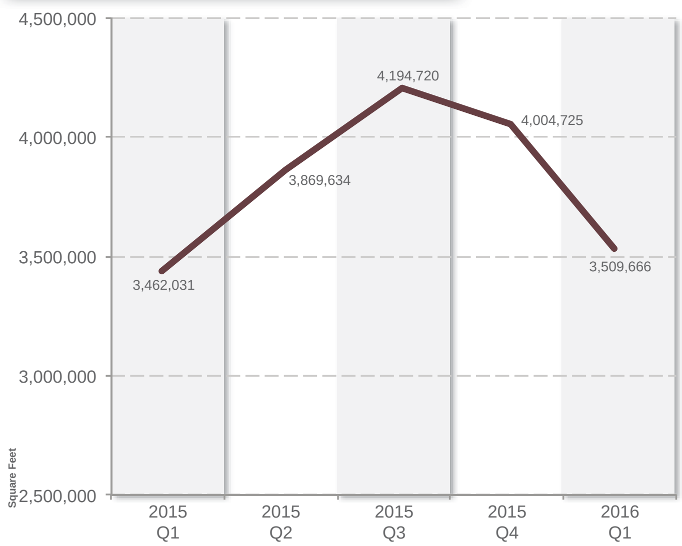
Demand for owner/user product continues to run well ahead of supply. As many as eight to ten offers on the same property are commonplace, and with prices rising so fast, some of the winning bidders are second-guessing their victories. Getting properties to appraise at the contract price is getting more difficult as prices move up. Unsuccessful bidders are frustrated by the short supply, but little is expected to change unless and until Fed action precipitates a significant rise in mortgage rates. The central bank's first such move last December had little effect.

Developers are anxious to get new product out of the ground, but the cost of land near the Port, where demand is highest, is so high that it's a stretch to make new projects pencil despite the rise in rents. The strongest tenants that operate on higher profit margins will pay the premium for prime locations, but there is only so many of those to go around, and developers are concerned about it taking longer to fill spec space. In Q1, just under 2 million square feet of space was delivered in nine buildings, and another 3.5 million square feet is underway, the largest of which is a 496,320-square-foot spec building at 2353 Route 130. That project was 0% preleased as the quarter closed. Another 495,000-square-foot building under construction at 901 Linden Ave in the Legacy Commerce Center, is 100% committed by Blue Apron. With this blend of spec and pre-committed inventory, there is little chance that the industrial market will wander into overbuilt territory this year.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Overall sale and lease demand will remain strong
- Net absorption could slow down due to lack of available space options
- Delivery of new inventory will drive overall average asking lease rates up further in the near term
- Construction activity will slow down due to lack of available land
- Average asking sales prices for new product will keep escalating unless interest rates spike
- Development on leased land will become more prevalent in 2016, as some landowners refuse to sell outright

SELECT TOP INDUSTRIAL LEASES Q1 2016

BUILDING	MARKET	SF	TENANT NAME
525 Northport Pkwy	Savannah	1,100,000	JLA Homes
Majestic Spectrum South Bldgs 4&5	Inland Empire	885,000	Port Logistics
Inland Port XIV	Kansas City	822,104	Amazon
Majestic Airport Center DFW Bldg 5	Dallas/Ft Worth	799,460	Bed Bath & Beyond
Michelin Distribution Center	Chicago	718,761	Reviva Logistics
Foothill Commerce Center	Inland Empire	475,026	Delta Children's' Products
Telemundo Bldg 1	Miami-Dade County	467,000	Telemundo Studios
CentrePointe South Bldg 5	Inland Empire	458,262	3PL
Beltway Crossing NorthWest Bldg 7	Houston	441,000	Advance Auto Parts
White Oak Center II	Chicago	427,991	GFX Corporation
Carter Distribution Center Bldg 1	Dallas/Ft Worth	417,600	Mother Parkers Tea & Coffee

SELECT TOP INDUSTRIAL SALES Q1 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
1001 Columbia Ave	Inland Empire	507,000	$207.10	5.9%	GE Asset Management	Cole REIT Advisors III, LLC
Amazon	Stockton	1,015,740	$89.84	5.5%	AFL-CIO Bldg Investment Trust	USAA Real Estate Company
Amazon Building	Philadelphia	1,015,740	$89.59	4.59%	Circle Industrial	Duke Realty Ltd Partnership

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