The Lee Industrial Brief

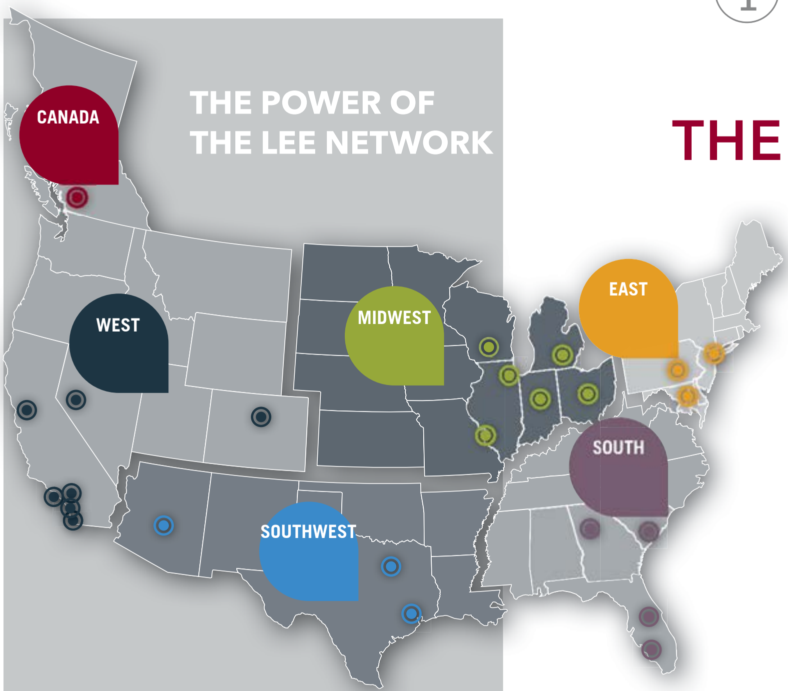
Q3

2017

LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

THE POWER OF THE LEE NETWORK



THE LEE ADVANTAGE

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1. **MARKET LEADER**
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2. **RELEVANT WORK**
   SEASONED AGENTS WITH RELEVANT TRANSACTION EXPERIENCE
3. **WE SAVE YOU TIME**
   CREATIVE PROBLEM SOLVING SKILL SETS
4. **ABILITY TO UNDERSTAND**
   EFFECTIVE CLIENT COMMUNICATION
5. **INTEGRITY**
   SHAPES OUR CULTURE & DEFINES THE CHARACTER

62%
increase
in transaction volume over 5 years

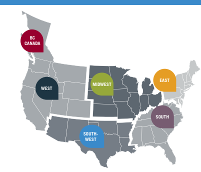
$11.6 billion
transaction volume
2016

900
agents
and growing nationwide

US INDUSTRIAL MARKET
Net Absorption Slows - Vacancy Flattens

ECONOMIC DRIVERS

- GDP GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY

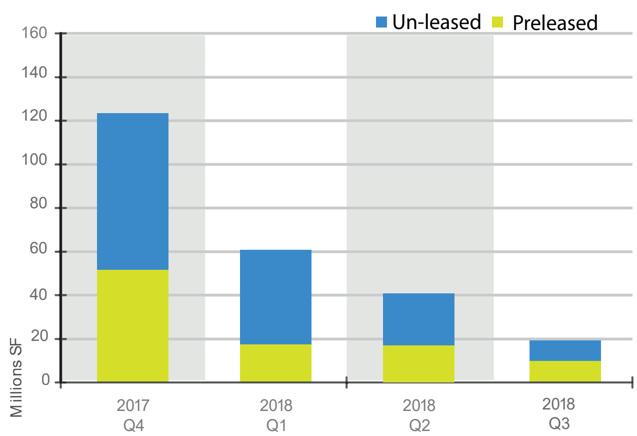


- A LOOK AHEAD

TRENDING IN Q3:

- Big deals, both spec and build-to-suit, remain the primary activity driver across the country
- E-commerce still the market maker, as big online retailers, shippers, and 3PL operators stay in expansion mode
- Absorption and construction remains concentrated in the largest distribution hubs
- Large infill markets continue to struggle with low vacancy and functionally obsolete product that is slowing market velocity
- Vacancy rate remains flat, as net absorption and new deliveries remain in balance
- Interest rates for owner/user acquisitions remain near historic lows despite mid-year Fed rate hike
- Cap rates remain compressed at all-time low levels

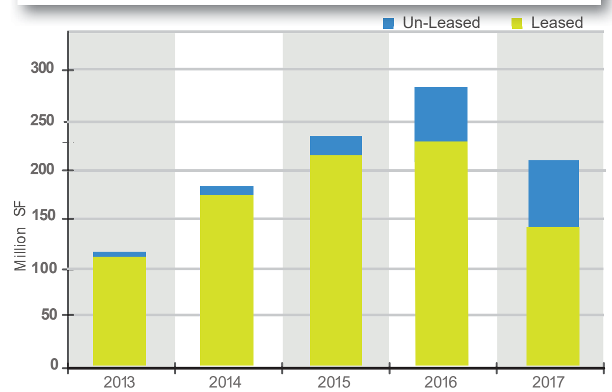
FUTURE DELIVERIES
PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



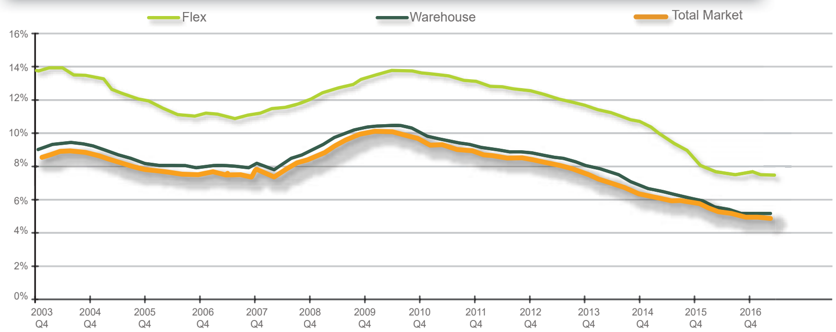
MARKET METRICS:

Net absorption in Q3 fell sharply to just 55.8 million square feet, well below the 80.3-million-square foot gain in Q2. The current quarter was the lowest recorded in the past year. In the first three quarters of 2017, just over 206 million square feet of net absorption has been recorded, compared to 264 million square feet for the same period last year. As we have regularly been reporting, the e-commerce sector, big shippers, and 3PL operators are still the most active tenants, and that hasn't changed. The big push for "Last Mile" locations to speed up shipping times has become a key driver of net absorption. That has smaller, closer in locations, even those in secondary and tertiary markets, seeing strong leasing action from the big players. Amazon, the biggest of big players, continues to drive its revenues back into an aggressive expansion strategy. But, Walmart is stepping up to take on the mighty Amazon. After acquiring Jet.com, the world's largest brick-and-mortar retailer has focused more on building its online presence, trimmed its store count and put Amazon on notice that it will be facing stiffer competition going forward. Walmart's recent earnings report indicates that the strategy is working. But, Amazon is also raising

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



VACANCY RATES BY BUILDING TYPE 2002 - 2016



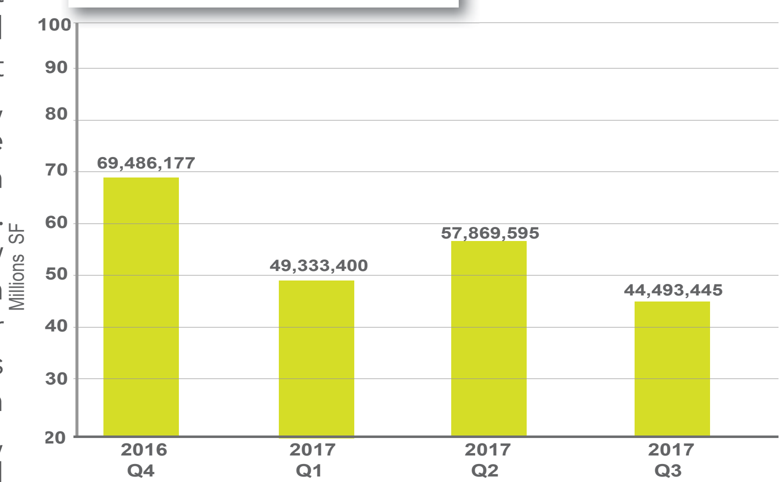
the competitive bar by deploying its own fleet of cargo aircraft that will operate from a new air hub in the Midwest, a bold move meant to drive down shipping time and cost.

The overall national vacancy rate for warehouse and flex space across the country was unchanged at 5.2% in the third period, and is just 20 basis points lower than it was a year ago. Though, several major market areas still have vacancy rates under 4% with low levels of new deliveries, which is restricting transaction velocity. Vacancy remains lowest in the Los Angeles and Orange County areas with vacancy rates under 2.2% and 2.7%, respectively. The vacancy rate for the top 43 markets tracked by CoStar has been flat over the past four quarters, holding at 5.1%. Most of the major industrial markets across the US have less than 7% vacancy, with the exception of Phoenix, which fell 30 basis points in Q3 to 8.9%.

Fortunately, new deliveries remain in good relative balance to net absorption, which, in part, explains the flattening vacancy rate, but also means the industrial sector is in little danger of being overbuilt in the near term. Year-to-date, new deliveries totaled 208.4 million square feet while net absorption ended the same period at 206 million square feet. A significant portion of new construction is preleased, and speculative projects, especially those offering larger state-of-the-art distribution space, are leasing soon after completion. US industrial property inventory now stands at over 22 billion square feet with another 276 million square feet still under construction. Development activity remains focused primarily in the largest distribution hubs like Dallas, Chicago, Philadelphia, Atlanta and Southern California's Inland Empire where land where land is affordable enough for industrial projects. In fact, those five markets account for a third of the nation's industrial construction (approximately 91.2 million square feet). Yet, the two largest projects under construction are manufacturing build-to-suits in secondary markets. The largest, at 3.8 million square feet, is the Gigafactory near Reno, followed by Volvo's new 2.3-million-square-foot assembly facility in Charleston, South Carolina. Both projects will be completed next year.

NET ABSORPTION

* For Top 42 Markets



Short supply in many markets and new deliveries in others has combined to keep lease rates moving higher. The overall average asking lease rate across the country rose 1.4% in Q3, adding another $.09 to $6.31. Unchanged is the fact that areas with the highest levels of construction have the strongest rent growth. Tenants looking to increase efficiency, are willing to pay more for first generation space and invest in new automation technology. Developers are also demanding higher lease rates to offset the rising cost of land and construction.

LOOKING AHEAD

The primary drivers of industrial demand remain firmly in place, even though overall economic growth remains tepid. The shift to e-commerce retailing has been and a boon to industrial markets across the country, especially the biggest distribution hubs. That is fortunate given the fact that, with a few major exceptions, growth in the manufacturing sector remains tepid, as indicated by lackluster job manufacturing job growth.

Until 2017, the automotive sector had been enjoying strong growth since the economic recovery began in earnest, but things have changed. Sales have slowed, especially for sedan-type vehicles, and we are beginning to see plant slowdowns and planned shutdowns designed to curtail excess supply. That means potentially lower revenues for thousands of parts suppliers that make up a significant portion of the nation's manufacturing sector. Automotive and aircraft manufacturing are the two large sources of manufactured goods in the US. So, when one of those takes a hit, the impact can be significant. Overall job and wage growth has been inconsistent of late, and manufacturing jobs tend to be full-time and higher paying, which makes the slowdown in the automotive industry that much more disconcerting. Part time positions and full time positions at the lower end of the wage skill already account for a significant portion of the total job growth as it is.

The yield on the10-Year Treasury, the benchmark for setting commercial mortgage stabilized in the 2.3% range by the end of Q3, but another Fed rate hike, which many expect by the end of the year, could push that yield higher and send mortgage rates high enough to curtail construction and impact pricing for owner/user sales.

Oil prices have stabilized above $50 per barrel, and that stimulated an increase in domestic oil production. Active rig count rose sharply early in the year, but has since leveled off. Domestic production increases has also stimulated crude oil exports, mainly from the Gulf coast, which is good news for the port cities in Texas and Louisiana, as that region remains in recovery mode after heavy damage from multiple hurricanes.

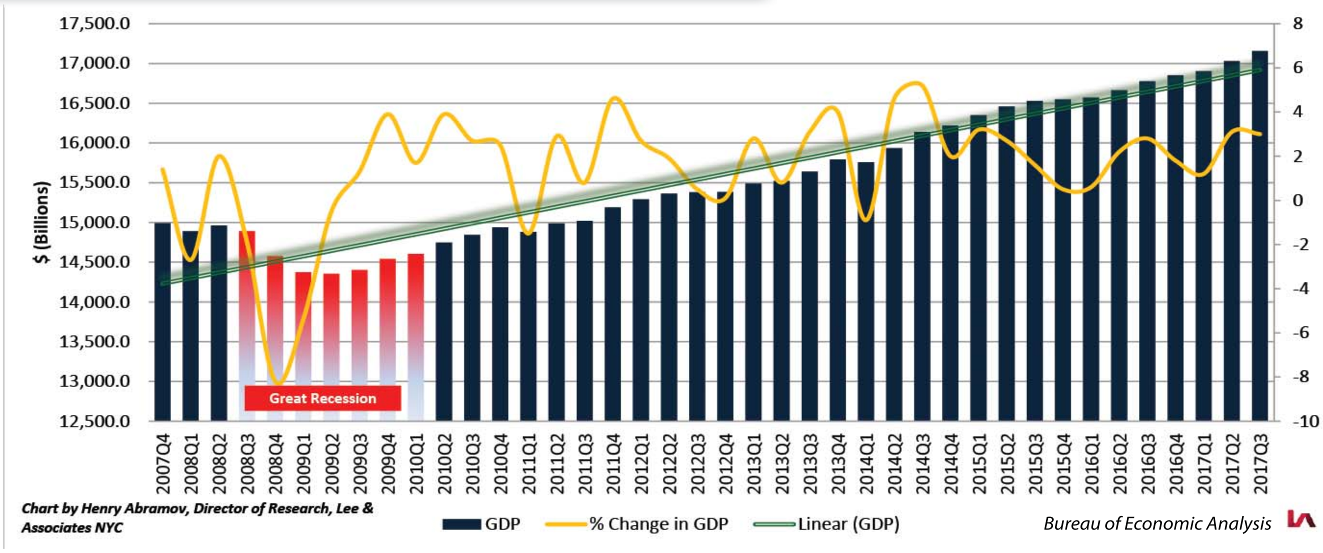
Leasing activity, vacancy, net absorption, construction and rent growth should stay in relative balance heading into the new year. Risk of overbuilding remains low, as developers and lenders are exercising caution, especially as it relates to speculative projects. All eyes are on the Fed as it contemplates further rate hikes and begins to execute its strategy for unwinding its $4.5 trillion balance sheet. That combination has many experts concerned that the combination may cause a spike in commercial mortgage rates. Higher rates would likely lead to cap rate decompression, as investors look to maintain the spread between the cost of capital and cap rates.

GDP GROWTH

TRENDING IN Q3

- Q3 GDP comes in above expectations at 3.1%
- Impact of multiple hurricanes less than forecast
- Consumer spending softens but stays in positive territory
- Businesses bulk on inventories

QUARTER-TO-QUARTER GROWTH IN REAL GDP



The first estimate of GDP growth for the third quarter came in above expectations at 3.0%. For the first time since 2014, the US economy posted back-to-back growth number of 3% or more. After disappointing performances in Q4 of 2016 and Q1 of 2017, the economy seems to have gained momentum, posting strong gains in consumer spending, business investment and exports, three of the four major components of the GDP formula. The fourth, government spending, fell by .1% in Q3, much to the delight of those looking to depend less on government as a key economic driver.

In Q3, consumer spending, which accounts for roughly 70% of GDP, grew at an annualized rate of 2.4%, despite a spending decline in hurricane-ravaged areas of Texas and Florida. Those decreases are likely to reverse in Q4, as those hit by the storms spend on recovery efforts and return to normal spending patterns.

Net investment by the nation's businesses was a major contributor to the strong economic performance in the third period. Nonresidential fixed investment grew at an annualized rate of 3.9%, which may be a precursor to an increase in productivity in the near term. That could bolster job growth and put upward pressure on tepid wage growth, a main concern of our central bankers.

GDP GROWTH

Inventories also rose sharply in Q3, but that may just be a response to the fact that inventories were allowed to deplete earlier in the year.

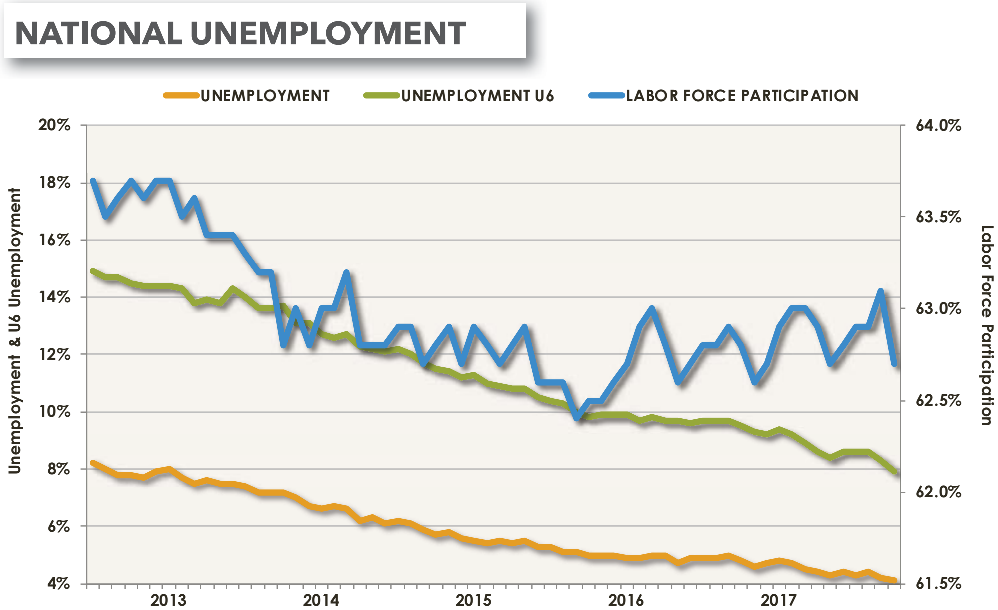
The softer US Dollar helped boost US exports by 2.3% in Q3, taking a chunk out of the trade deficit, a persistent drag on GDP. Credit is partly due to rising levels of oil and gas exports from Gulf Coast ports, which have risen sharply in recent quarters.

Inflation remains stubbornly below the Fed's target of 2%, but both measures of inflation moved higher in Q3. Core inflation, which strips out food and energy, picked up to a 1.3% annualized rate in Q3, while inflation in personal consumption expenditures, increased to 1.5% on an annualized basis, up sharply from the previous quarter.

EMPLOYMENT

TRENDING IN Q3

- Monthly job gains remain sporadic
- U3 Unemployment rate is down to 4.2%
- U6 Unemployment rate fell to 8.3% in September
- Job growth in manufacturing remains sluggish
- High percentage of new jobs are at the lower end of the wage scale
- Wage growth remains sluggish 9 years into economic recovery



Monthly job creation metrics remain sporadic, but over the past 12 months employers have added an average of 185,000 jobs each month, which many economists believe should be enough to tighten up the labor market and put upward pressure on wages. However, job growth, whether it's measured month by month or a rolling twelve month average, has definitely cooled off. In September, the U3 unemployment rate fell to a post-recession low. U3 measures employed workers and those who are unemployed but have sought employment in the most recent five weeks. So, job growth in a given month can be slow, but the unemployment rate will go down if more people stop looking for work. This happened in September when the U3 rate went down 20 basis points when there was a net loss of 33,000 jobs. Conversely, a big month for job growth is often accompanied by a rise in the U3 rate as those not actively looking for work start looking again and are added back into the calculation.

For this reason, more experts are looking to the U6 unemployment rate, which is a broader index that also includes part time workers, who prefer to work full time, as unemployed. That rate has been falling steadily, ending September at 8.3%.

Unfortunately, too many of the jobs created and counted each month are either part time or at the lower end of the wage scale. This explains the feeling of many workers who feel as though the recession never ended. In fact, of the top 30 fastest growing occupations as measured by the Bureau of Labor Statistics, 17 of them had a median annual wage of less than $35,000 and just eight of them had an average annual wage of more than $50,000.

EMPLOYMENT

Only one exceeded $100,000. Compounding this problem is the fact that many jobs that require specific skills and experience go unfilled due to a lack of qualified candidates, and these are often higher-paying, full time positions. Add the fact that high-skilled manufacturing jobs, positions that many are qualified for, have either been exported overseas or lost to advances in automation.

Job growth drives business growth and business growth drives net absorption of office, retail and industrial space. So, uneven job growth and weak wage growth may be at least partly to blame for across-the-board declines in Q3 net absorption.

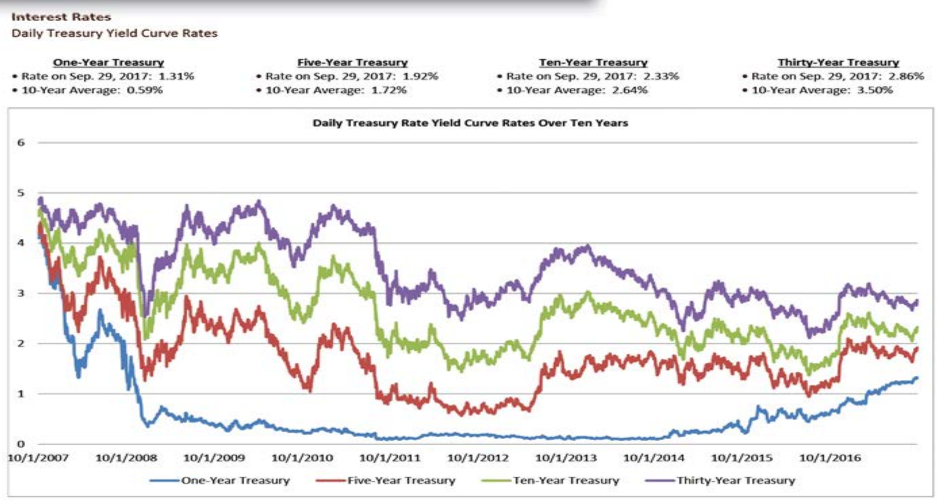
MONETARY POLICY

TRENDING IN Q3

- Four vacancies on seven-member Board of Governors gives Trump a chance to shake things up
- Powell tapped to replace Janet Yellen as Fed Chairman
- FOMC passes on rate hike in September, but experts predict another bump in December
- The unwinding of the Fed's $4.5 trillion balance sheet begins in Q4
- Yellen hedges on prediction on further rate hikes based on weak inflation data

Concern over unprecedented vacancies on the Fed's Board of Governors is causing increasing investor uncertainty. Currently, four of the seven seats are empty. The latest resignation came from Stanley Fischer, who gave notice in September. Since all seven Governors also sit on the 12-member Federal Open Market Committee (FOMC), the group that weighs in on moving rates is making big decisions on monetary policy shorthanded. By law, the President nominates candidates for the Board, but thus far, none of President Trump's nominees has been confirmed by the Senate.

US TREASURY RATES



Provided by Henry Abramov
Lee & Associates - NYC

Department of the Treasury

The President has made his decision not to re-appoint Janet Yellen to a second term as Fed Chairman, instead nominating current Board member Jerome Powell for the position. Four others were in contention, including economist John Taylor, who would have been the only controversial pick, due to his belief that changes in the Fed Funds rate should be made by mathematical formula rather than by vote. In the end, Mr. Powell is a safer pick in terms of continuity in Fed policy, as he has a history of voting in lockstep with Ms. Yellen. Thus, the move for Mr. Powell for the chairmanship probably means it's more of the same in terms of monetary policy. However, his views on regulating banking activity as seen as more business friendly than those of Ms. Yellen. That bodes well for the big banks.

The current Fed Funds rate ranges from 1.00% to 1.25%, but most of the experts think another 25 basis point rise is likely after the FOMC meets in December. Since it is expected already, investors are likely to build it into decision making beforehand.

MONETARY POLICY

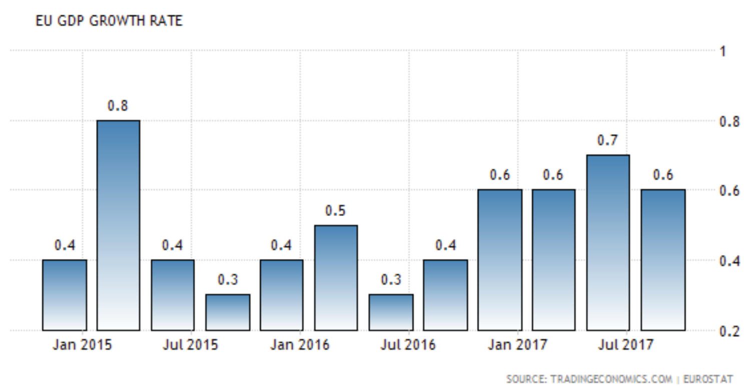
What is altogether unknown is the impact of a rate hike in conjunction with the unwinding the Fed's massive balance sheet that includes roughly $4.5 trillion in US Treasuries and Residential Mortgage-Backed Securities (RMBS) it bought with electronically printed dollars, a process known as Quantitative Easing (QE). Recently, Ms. Yellen announced that beginning in October, $6 billion in Treasuries and $4 billion in RMBS would come off the balance sheet each month, with those amounts to grow substantially over time. Since it's never been done, no one knows what the outcome will be, but if QE actually helped drive down rates and stimulate the economy, it's hard to argue that reversing the process won't have the opposite effect.

On top of all that, inflation remains stubbornly under the Fed's 2% target and Ms. Yellen is already on record as saying that current monetary policy could reverse course if inflation stays too low. Fortunately, inflation picked up in Q3, which will help keep Fed policy on its current trajectory for the time being. Those of us in the real estate business have to keep a close eye on the yield of the 10 Year T-Bill, as that is the mostly widely used benchmark to determine commercial property mortgage rates. So far, that yield is holding in the 2.3% range, which means mortgage rates remain near historic lows for the moment. However, there is a correlation between the Fed Funds Rate and the yield on the 10 Year T-bill. So, if the Fed follows its present course over the next year, mortgage rates will move higher.

GLOBAL ECONOMY

After a pretty rough year in 2016, global economic activity has definitely picked up in 2017. The panic over the Brexit is over and fears of an economic whiplash have faded. The Bank of England, the UK's counterpart to our Fed, even raised interest rates for the first time in recent memory, indicating that central bank's belief in near-term economic growth. So far, it looks like London won't lose its status as a financial hub in that part of the world.

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



GDP growth around the world is improving with all continents around the globe reporting stronger growth this year. That's not to say that economic woes don't continue in many areas, but there is less bad economic news on the front pages of major newspapers these days, reducing concerns of another global economic setback anytime soon.

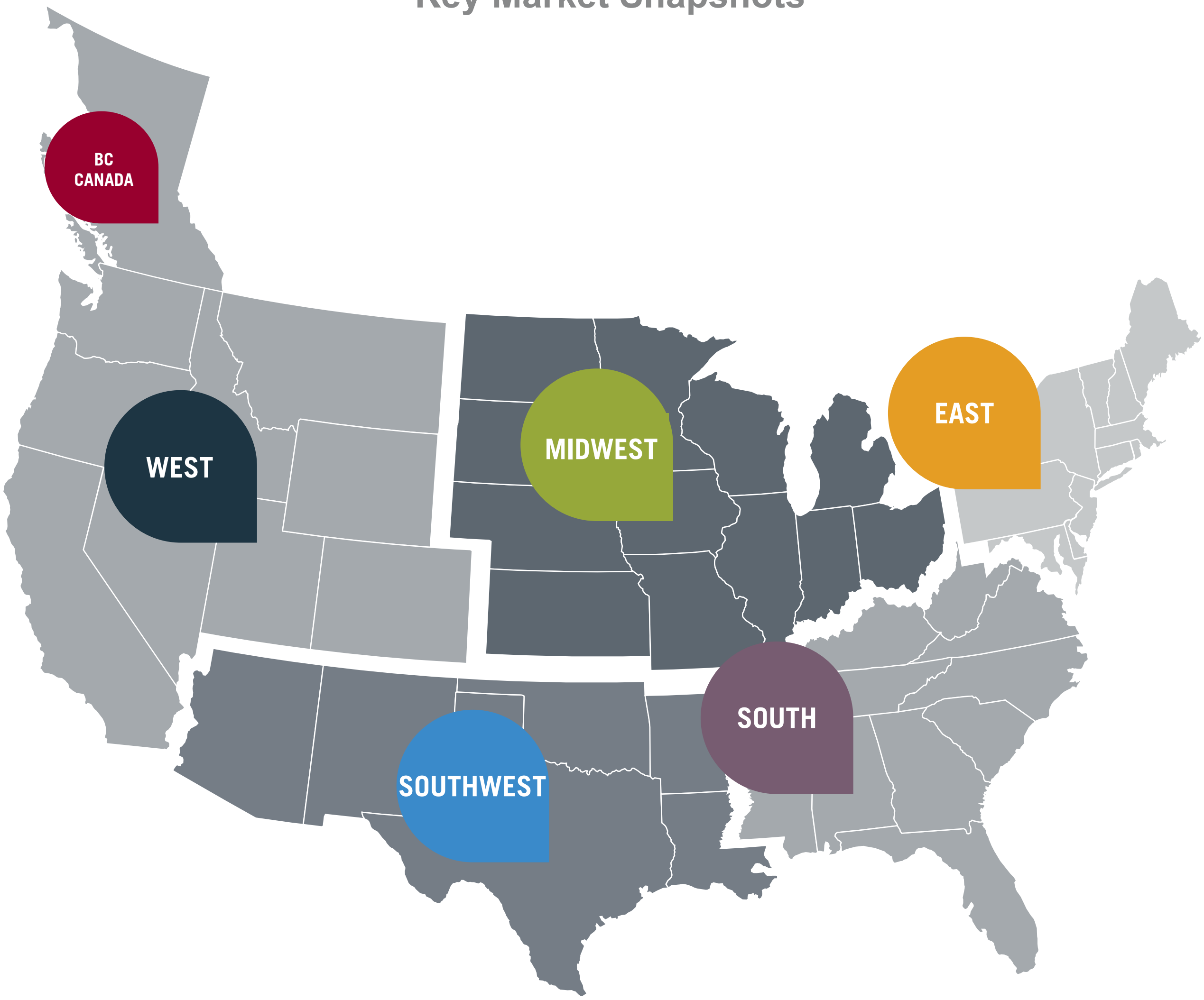
All eyes are on the European Union this year. After several pivotal elections that could have shifted power to more nationalistic parties, results were mixed, leaving things pretty much as status quo on the continent. Recently, the European Central Bank (ECB) announced its plans to scale back its Quantitative Easing (QE) policy by beginning to gradually reduce its bond buying from its current 65 Billion Euro per month level. No word from Chairman Draghi on raising benchmark interest rates, which remain in negative territory, a policy that still spooks economists worldwide. The ECB's monetary policy helped the EU beat the US in terms of GDP growth in 2016, but Mr. Draghi has watched US economic growth improve this year despite a higher Fed Funds rate and a suspension of QE. This could explain the recent hawkish rhetoric coming out of Europe these days.

China's economy and stock markets have also stabilized, which has relieved anxiety over a potential economic crisis in the world's second largest economy. China's leader, Xi Jinping, has taken a more active role in controlling economic events, consolidating his power in the process. New restrictions on capital flowing out of China have made it clear that he is willing to assert himself and the communist party as it relates to economic policy. China has also taking a more aggressive stance in terms of air pollution by actively promoting the country's active leadership in electric vehicle production.

As we reported last quarter, trade throughout Asia has improved in 2017 despite the fact that the US pulled out of the Trans Pacific Partnership trade agreement after Donald Trump took the reins as President. Tensions between the US and China over what constitutes fair trade between the world's two largest economic engines are heating up, but that hasn't stopped other East Asian nations from boosting trade this year. Port activity is up with most regions signaling robust growth moving forward.

GLOBAL ECONOMY

Tension in the Middle East, on the other hand, is on the rise, as long held differences between major oil powers have again been laid bare. Saudi Arabia blames Iran for troubles in Yemen and Qatar has been ostracized by several Middle Eastern countries for its alleged ties to terrorist activities. Problems persist in Syria and Kurds are still pushing for independence in Iraq. Through all that, the oil keeps flowing and OPEC countries have mainly complied with their recent agreement to curb oil production in an effort to bring supply and demand further into balance.



FEATURED MARKETS THIS QUARTER

WEST
Los Angeles

SOUTH
Atlanta

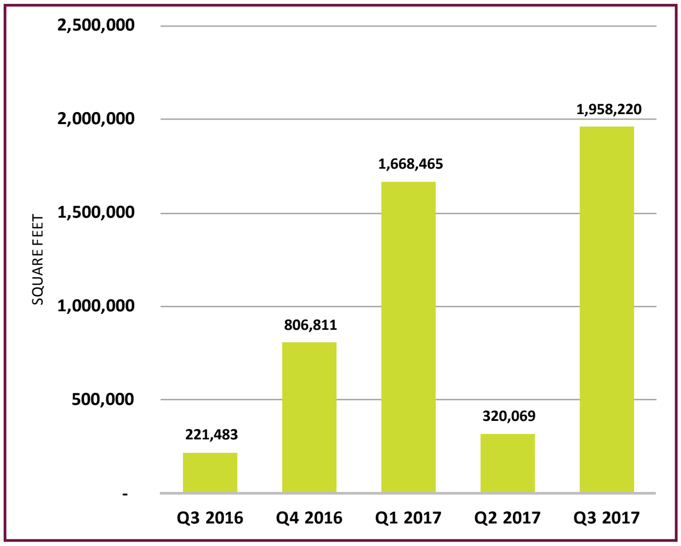
MIDWEST
Chicago

SOUTHWEST
Dallas/Fort Worth

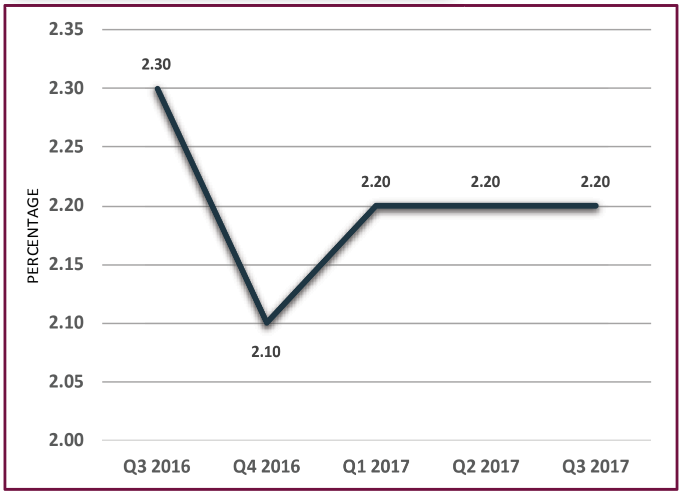
EAST
Philadelphia

WEST REGION - LOS ANGELES

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Vacancy rate of 2.2% lowest of all major metro areas
- Low net absorption due to tight supply
- Average asking rents continue steep climb
- New deliveries running at a trickle
- Sales prices for owner/user buildings beyond previous peak
- Landlords insist on stronger credit and longer leases

The Greater Los Angeles Industrial Market (LA) encompasses a vast area that includes all of Los Angeles and Ventura Counties. The region extends north to Lancaster, west to the Ventura/Santa Barbara County line, east to the Riverside County line and south to the Orange County line. The ports of Long Beach and Los Angeles also fall within those boundaries. Together, the ports handle approximately 40% of our nation's container traffic. Industrial inventory including warehouse and flex space currently stands at 995.4 million square feet, with just 64 million of that total in flex space.

The area is home to one of the highest concentrations of owner/user buildings, a concept first made popular back in the late 1970's by a handful of local merchant developers. Since that time, the owner/user market that caters to small to medium-sized entrepreneurial business owners, has had a major impact on market dynamics. There is also a major component of institutional ownership concentrated in major distribution business parks and incubator multi-tenant parks. The big institutional players like the consistency in demand that has long been associated with the area. However, that core strength has turned into a major challenge, as more companies struggle to find space, whether it be for sale or lease.

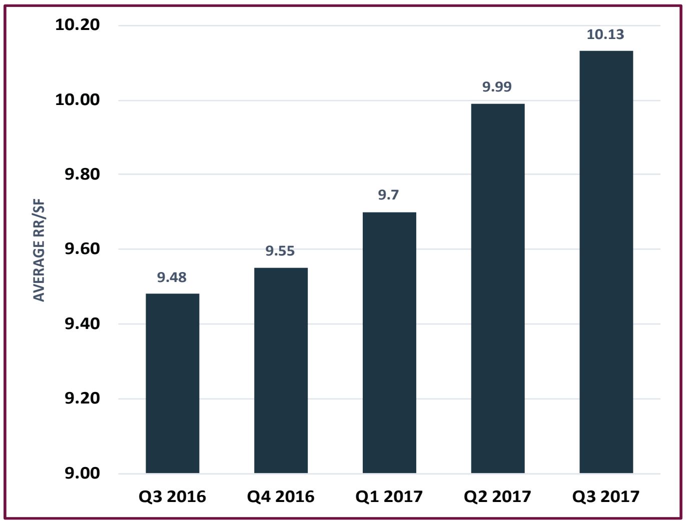
2.2%	$10.13	1,958,220	995,377,826	5,779,167
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

WEST REGION - Featuring Los Angeles (continued)

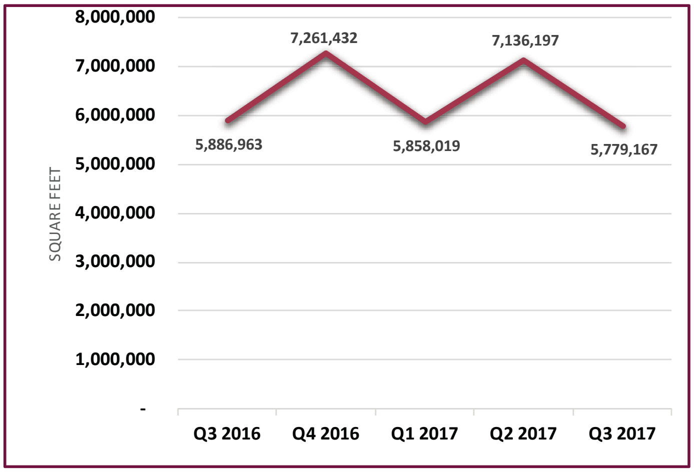
Vacancy ended 2015 at just 2.2%. It also ended the third quarter of 2017 at the same rate. Even at the bottom of the last real estate cycle in 2010, LA's vacancy never rose above 5.4%, which even today is considered low for most major markets around the nation.

Protracted low vacancy can be attributed to the fact that demand for space has remained strong, and construction of new inventory is running at a trickle. Throughout the entire region, just 2.5 million square feet of new space was delivered in Q3. Most of that space was preleased or presold, leaving very little first generation space on the market for tenants with immediate requirements. Multiple offers on for lease and for sale properties is the new normal, and properties often lease or sell above the asking price. In many cases, buildings are marketed without an asking price, as it seems that each building leased or sold sets a new record, making it hard to pin down market value beforehand.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



The average asking rent jumped another \$.14 in Q3 to break the \$10 per year barrier for the first time ever. This has emboldened landlords to insist on longer leases, stronger credit and little in the way of tenant improvements. The region-wide average asking lease rate has increased by 7% year-over-year, but many high-demand submarkets have seen larger increases. Sales prices have doubled in many areas in just the last six or seven years, and when the recreational marijuana industry ramps up its absorption next year, municipalities that opt in to the new law could see rents and sales prices double literally overnight. Net absorption is very low due mainly to tight supply. In Q3, a net gain of 1.95 million square feet was recorded, a small number given the size of the base. However, that total was more than five times that of Q2 and it was the largest quarterly gain in two years. Low supply is compounded by the fact that much of the space that makes it to the market has varying degrees of functional obsolescence.

Conditions like these generally send the signal to developers to build new space, and they would if they could find suitable sites for new projects. LA is an infill market for the most part, and the land that is suitable for industrial development is so expensive that even at today's rents, projects are just too tough to pencil. Add the fact that local governments are insisting that industrial land is repurposed to so-called higher purposes like office, retail and multifamily. There is now probably a greater probability that the LA industrial base will shrink rather than grow. Throughout the region, less than 6 million square feet of space is under construction.

WEST REGION - Featuring Los Angeles (continued)

A LOOK AHEAD

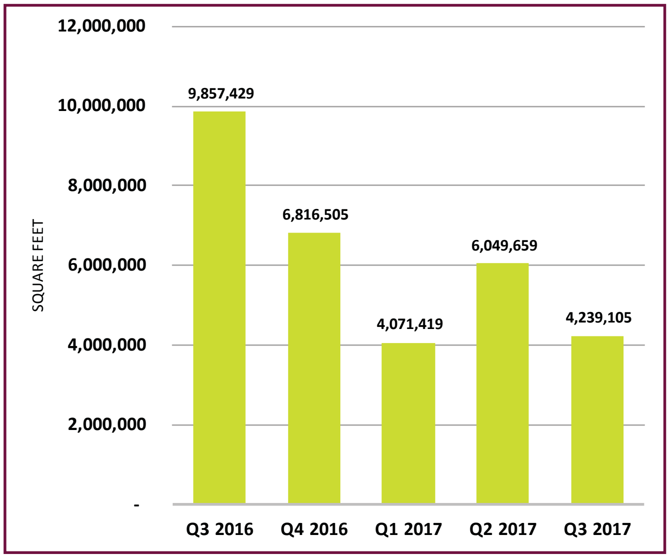
- Lease rates will continue to move higher at current pace due to ongoing short supply
- Net absorption will slow due to lack of quality supply
- Tenants will be forced to renew in place at substantially higher rates
- Sales prices for user building will keep going up as long as mortgage interest rates remain near current levels
- Vacancy will remain in the 2% range
- Construction activity will fall even further next year

Regional Snapshots Around the West

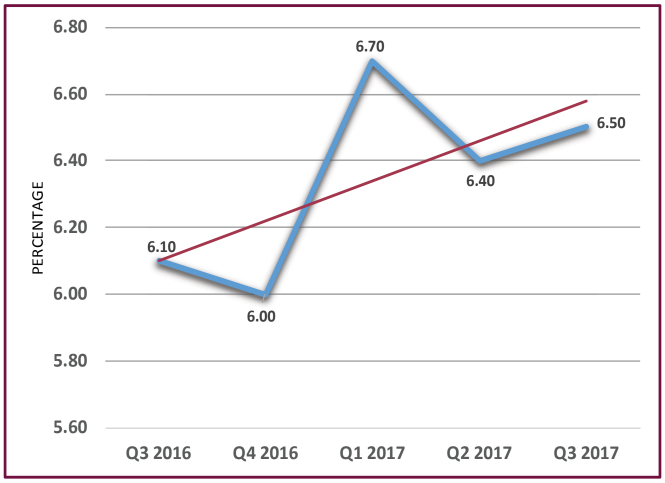
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Boise	3.5	6.21	570,914	42,986,807	329,680
Denver	5.0	8.47	2,335,483	301,707,070	8,237,762
East Bay/Oakland	3.7	11.75	(644,843)	264,231,807	1,742,353
Inland Empire East	4.92	8.08	6,436,721*	209,825,355	18,697,989
Inland Empire West	1.7	7.15	13,132,901*	303,503,315	8,778,657
Los Angeles	2.2	10.13	1,958,220	995,377,826	5,779,167
Orange County	2.9	11.28	190,167	278,094,112	1,304,754
San Diego	4.8	12.50	291,030	190,218,123	1,811,603
Seattle	3.4	9.22	2,342,957	316,964,851	6,205,070
Stockton	3.2	4.51	998,996	157,406,795	4,752,264
* Reported on Gross Absorption					

SOUTHWEST REGION - DFW

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Major distributors continue to drive industrial activity
- Year-over-year deliveries decline
- Absorption moves off record highs but stays firmly in positive territory
- Rent growth flattens
- Vacancy moves higher due to lower activity and spec deliveries

With its relatively low cost of living, affordable housing supply and business-friendly regional and state governments, the Dallas/Ft Worth (DFW) region's industrial market has been booming for the last several years. The area has been and remains a national leader in net absorption and new construction of industrial space. Big corporate users continue to move to the region from high-tax, high-regulation states and are drawn to the area's population growth and its high quality of living.

DFW's central location, relatively low rents and large tracts of affordable land for potential expansion has also helped turn the area into a major distribution hub. DFW is within a single day's drive to over 25 million people, making it a priority destination for 3PL operators, big shippers, e-commerce players like Amazon and the distribution components of major retailers.

Though leasing activity, construction and net absorption remain the envy of all but a few major metro areas around the country, there are signs that market activity may be leveling off. A nation-leading 22.1 million square feet of space is currently in the construction queue, but new

6.5%	$5.30	4,239,105	869,727,326	22,098,909
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

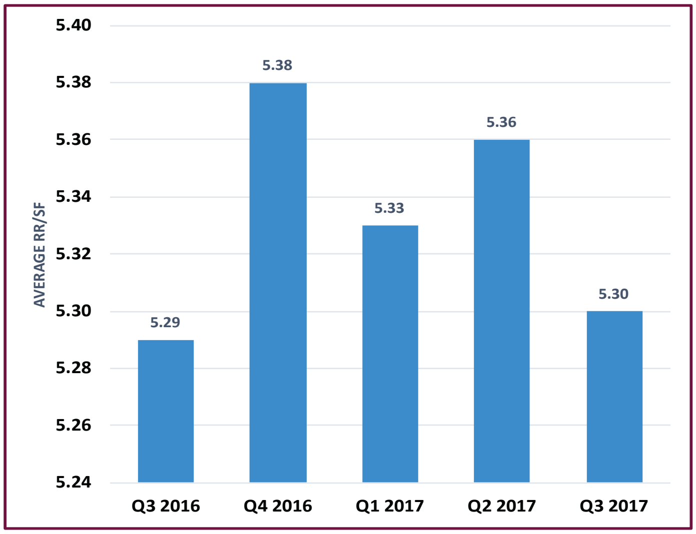
SOUTHWEST REGION - Featuring DFW (continued)

deliveries for the year have declined. In the first three periods of 2016, over 21 million square feet of new space was delivered as compared to 15.4 million square feet for the same period this year. Of note is the fact that nine of the largest projects currently under construction are reported as being 0% preleased. Also, eight of the 15 largest projects delivered so far this year were completed without any leasing commitments. That still leaves preleasing activity at 36% market-wide, even with the high level of new deliveries.

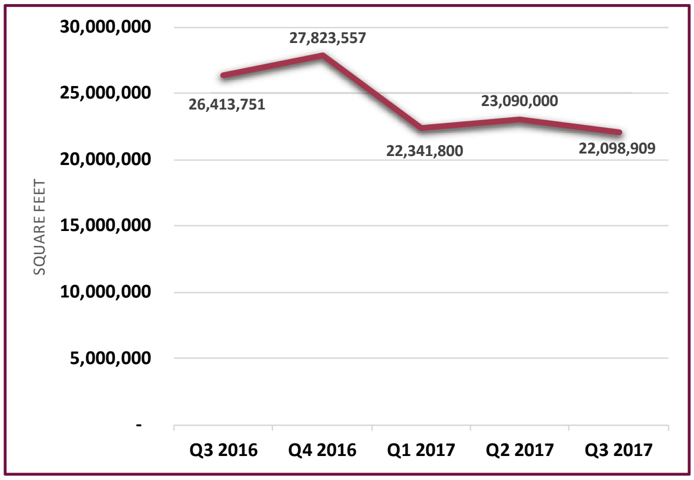
As a result of all that construction and slightly lower transaction velocity, the overall vacancy rate ticked up by 10 basis points in the third period to 6.5%. That also represents a 40-basis-point increase year-over-year. Not surprisingly, rent growth has flattened, managing an increase of just a penny year-over-year to $5.30. That includes a decline of $.06 in Q3. In fact, the overall average asking rent has only increased by $.10 since the end of 2015, which is welcome news for expanding tenants who have seen big rent spikes in other major transportation hubs like Southern California's Inland Empire.

Net absorption, while still firmly in positive territory, has also slowed in 2017. Through the first three quarters of last year, over 18.6 million square feet of net gain in occupied space was recorded, while the year-to-date total for this year is just under 15.4 million square feet. That still puts Dallas near the top of all markets nationally, but when recent vacancy, rent growth and net absorption metrics are combined, it does indicate a loss in market momentum.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



For the time being, the transaction activity level looks like it will remain in relative balance to the supply of industrial space. However, the overall economic recovery, in the minds of some experts, is getting a little long in the tooth. Yet, vacancy in the DFW region is still low enough to keep builders delivering more state-of-the art distribution facilities in the near term, and with no end in sight to the prolific growth in online sales, market metrics should remain healthy well into next year.

SOUTHWEST REGION - Featuring DFW (continued)

A LOOK AHEAD

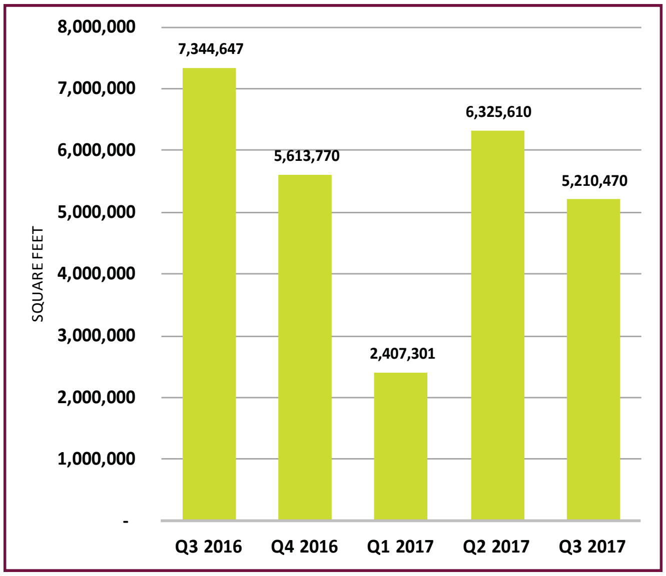
- Rent growth will remain relatively flat into next year
- New deliveries will outpace absorption in the short term
- Demand for "last-mile" space in the 100,000-200,000- square-foot range will remain strong
- Construction activity will decline heading into 2018
- Vacancy could edge higher over the next few quarters
- Property owners without long term strategies will be looking to sell in 2018

Regional Snapshots Around the Southwest

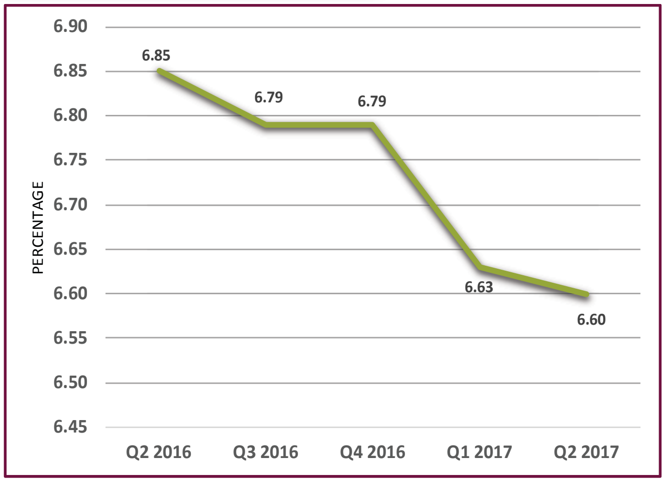
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Houston	5.5	6.74	2,932,994	591,019,076	5,009,213
Phoenix	8.9	7.23	2,414,335	321,499,567	4,497,501

MIDWEST REGION - CHICAGO

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Vacancy increases to 6.55%
- Construction levels decline
- Lease and sale activity slows
- Speculative deliveries outpace build-to-suits
- Net absorption slows but remains firmly in positive territory

Chicago's central location, extensive air, rail and trucking infrastructure make it a favorite location for major distributors. The broader regional market includes nearby Northwest Indiana and Southeast Wisconsin, markets that both offer significant incentives to attract Chicago area businesses. While the region enjoys relative good health, third quarter results were somewhat disappointing.

Even though 13 of the 22 submarkets experienced a vacancy rate decrease during Q3, the overall vacancy rate ticked up 10 basis points to 6.55%. The largest increase for the period occurred in the I-80 / Joliet area, where vacancy rose from 4.41% to 6.37%. The amount of available supply in the Metropolitan Chicago industrial market moved up by 1.6 million square feet in the third quarter to 84 million square feet. This increase is largely due to an increase in space returned to the market coupled with the delivery of unleased spec projects.

Year-over-year, the region has experienced a 25 basis point decline in vacancy. Despite the recent softness in leasing activity, tenants have to compete for the best quality product, as a substantial portion of the existing inventory lacks the functionality of first generation space. That has encouraged some tenants to either renew existing leases or take advantage of incentive programs offered by areas

6.7%	$5.89	5,210,470	1,204,568,168	11,940,899
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

MIDWEST REGION - Featuring Chicago (continued)

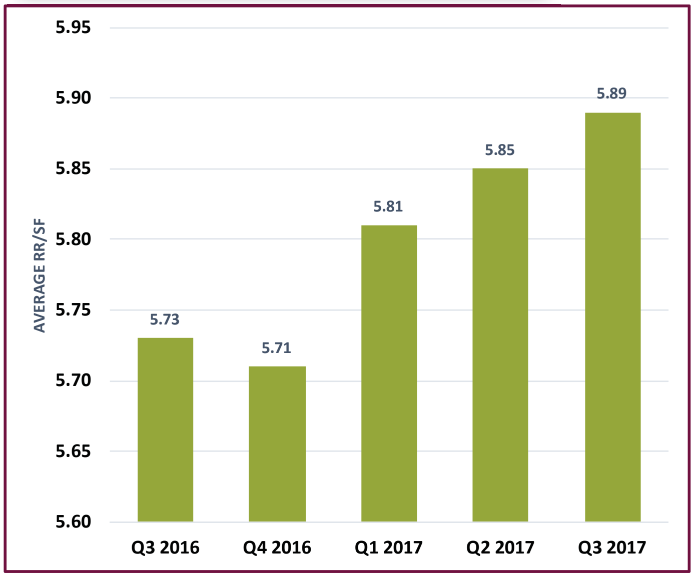
outside the core Chicago market that offer quality product and room for long term business growth.

Over 6.2 million square feet of new inventory was delivered in Q3 and speculative projects continued to drive construction related activity throughout the region. Selected projects completed during the period include the Core5 Logistics Center, a 1,026,000-square-foot facility that is 0% preleased and a 1,000,560-square-foot building in the South Suburban submarket that is now 100% leased to Georgia-Pacific.

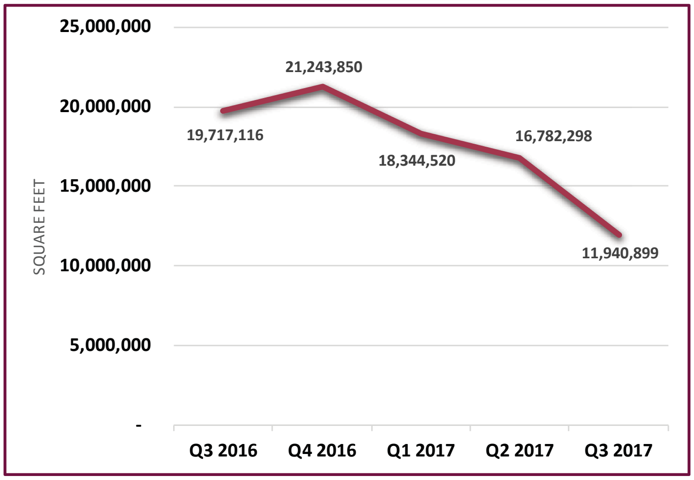
Three other major projects ranging in size from 381,000 to 749,000 square feet were delivered in the third quarter with no space preleased. The largest move-in for 2017 thus far is the 1.3-million-square-foot facility for Mars Candy in the I-80 Corridor submarket. As Q3 ended, just 10.5 million square feet of space was still in the construction queue, but that reflects the seasonality of the construction cycle throughout the Midwest.

Net absorption took a breather in Q3, falling to 4.1 million square feet after a robust gain of 9.8 million square feet in the second quarter. The I-55 Corridor reported the lowest net absorption with negative 664,000 square feet, while the South Cook submarket posted the region's biggest gain of 1.2 million square feet. Even with the disappointing third quarter, year-to-date net absorption region-wide stood at a whopping 19.7 million square feet. Despite high levels of leasing activity and new construction for the past several years, rent growth has been tepid. In the past year, the overall average asking rent has risen by approximately 2.8%, including warehouse and flex space. Rent growth for first generation space is moving up faster due to the functional obsolescence of older buildings.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



MIDWEST REGION - Featuring Chicago (continued)

A LOOK AHEAD

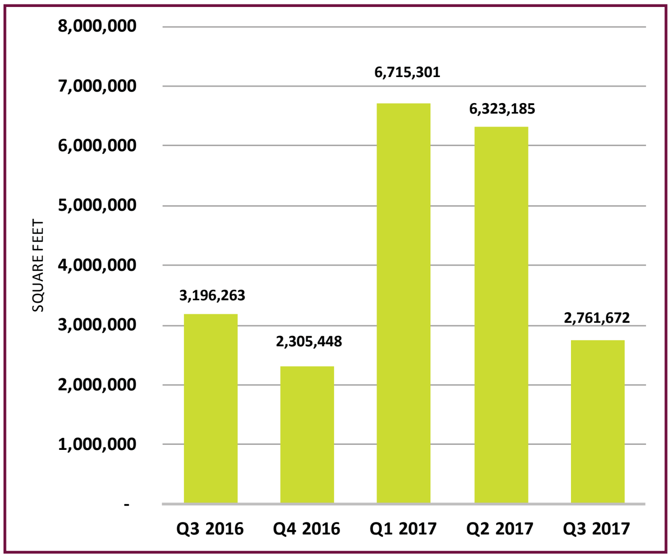
- Transaction activity will remain stable in the near term
- Net absorption will remain positive, but off record pace
- Foxconn's intention to build a 20-million-square-foot manufacturing facility in Southeast Wisconsin will be a game changer for the entire region
- Vacancy will resume its modest decline as new deliveries decline through the winter months
- Average asking lease rate growth will remain modest but steady
- Construction activity will ease further heading into 2018

Regional Snapshots Around the Midwest

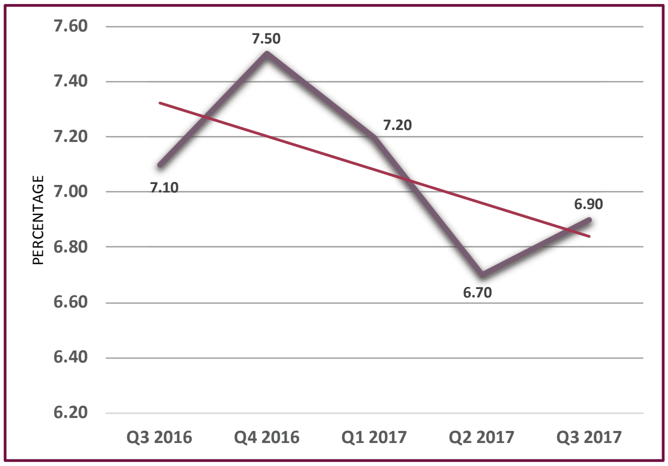
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Cleveland	3.9	4.37	1,056,921	492,281,118	867,314
Columbus	4.6	3.78	3,831,003	267,671,133	3,382,945
Detroit	3.3	5.58	1,181,159	579,537,174	3,762,457
Indianapolis	6	4.32	395,316	332,147,434	3,709,244
Madison	8.8	4.65	1,914,761	93,686,484	345,000
Minneapolis	4.2	6.67	(446,684)	386,495,915	1,952,695
St. Louis	5.2	4.48	4,226,356	271,037,056	3,738,968

SOUTH REGION - ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Vacancy sees modest rise
- New deliveries up as net absorption falls
- Construction remains near record levels
- Rent growth continues but at modest pace

Atlanta's business-friendly political environment adds to its excellent infrastructure and growing population of young, highly educated workers. The region ranks high in terms of overall quality of life factors, including a wide variety of affordable housing alternatives relative to other large metro areas. Situated within an eight hour drive of 35% of the US population, Atlanta is a priority market for major distributers, including big retailers and e-commerce players like Amazon, plus a growing number of 3PL operators expanding to service the prolific growth in online sales. While over 180 million people live within a two-day ground delivery area, the recent push for so-called 'last mile' locations meant to speed up delivery times, has also increased leasing activity amongst smaller local e-fulfillment operators.

Atlanta's Hartsfield-Jackson airport, consistently the world's most traveled, offers logistical access to the global marketplace. The nearby Port of Savannah is expected to grow rapidly now that the Panama Canal expansion project has been completed. Combined, these key locational components will make Atlanta the Southeast's primary transportation hub for decades to come.

After a 50 basis point drop in Q2, the overall vacancy rate drifted 20 basis points higher in Q3 to finish the period at 6.6%. However, that is still 50 basis points

6.9%	$4.50	2,761,672	633,151,589	18,736,900
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

SOUTH REGION - Featuring Atlanta (continued)

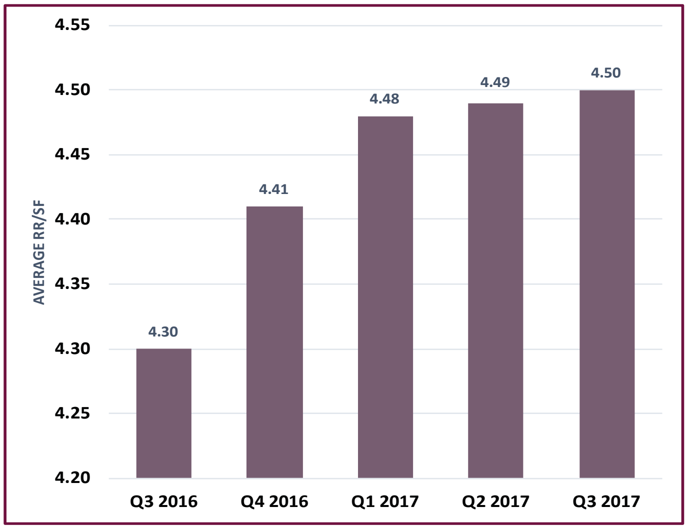
under the overall rate in Q4 of 2016. With such large amounts of new construction, significant quarter-to-quarter variations in vacancy are not uncommon. In Q3, the combination of a slowdown in net absorption during a period of strong deliveries caused the vacancy rise.

Net absorption through Q2 led the entire nation at over 13.3 million square feet. In Q1, over 6.6 million square foot of net gain in occupied space was recorded, and Q2 followed up with another 6.1 million-square-foot gain. A more pedestrian gain of 2.9 million square feet was recorded in the third quarter. That still puts year-to-date at 16.2 million square feet, maintaining Atlanta's status as an industrial market leader.

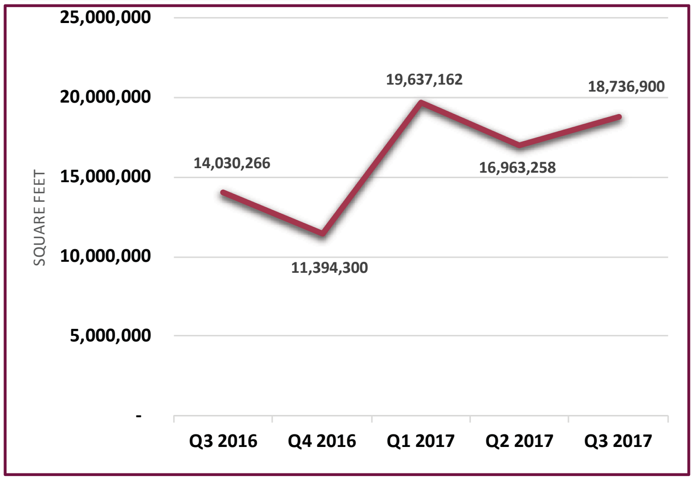
New deliveries were up during the period with just over 4 million square feet of new space delivered, primarily in state-of-the-art distribution. That brought the total of new deliveries up to 13.3 million square feet for 2017. Four of the five largest buildings delivered so far this year were in the South Atlanta submarket. They are range in size from 878,300 to 1,200,000 square feet and are now 100% leased to the likes of Dollar General, Home Depot and Shugart Farms.

As we have been reporting in recent quarters, speculative development is also thriving, as developers have been able to lease their projects within months of completion. That has encouraged robust competition amongst institutional investors to acquire those first generation developments from merchant developers. The big institutions like the region's potential for long term rent growth given its established reputation as a regional distribution hub.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



Atlanta's industrial inventory topped 704 million square feet in Q3 and another 15.77 million square feet still under construction. Large projects soon to be delivered include the Building B1 in the Lambert Farms Logistics Park, a 1.55-million-square-foot facility that is 65% leased and a new 1.2-million-square-foot building that is 100% preleased to UPS.

Average asking rents continue to rise, but at a more tepid pace through the first three quarters of 2017. In Q3, the average rate was up a penny to $4.50. In the past 4 quarters rent growth has been modest at just over 2%. Landlords still have the upper hand as demand for space remains strong for the time being. They can push for stronger credit and offer less in tenant concessions, especially for first generation space that offers the potential for greater operational efficiency.

SOUTH REGION - Featuring Atlanta (continued)

A LOOK AHEAD

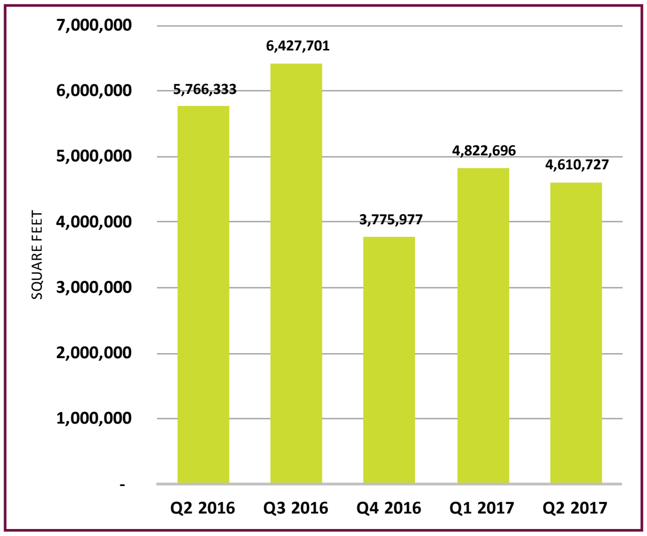
- Net absorption may moderate in 2018 after finishing the year on a good note
- Vacancy will decline over time, but the timing of new deliveries will continue to cause periodic spikes in the total amount of occupied space
- Expect only modest rent growth in 2018
- Sales prices for owner/user buildings may have peaked now that interest rates are moving up
- Construction activity may taper off next year after record new deliveries over the last several years
- Smaller e-fulfillment operators will continue to expand due to the need for 'last mile' efficiency

Regional Snapshots Around the Southeast

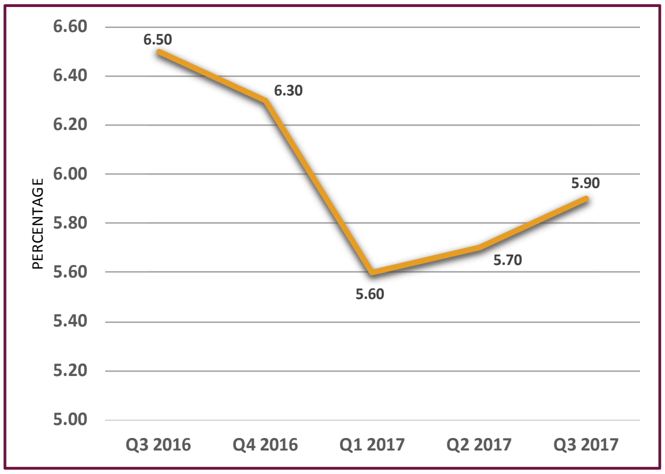
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Atlanta	6.6	4.50	16,246,934	704,742,964	15,769,418
Charleston	5.9	6.47	1,847,491	51,082,362	1,035,447
Greenville	5.9	3.67	2,358,578	207,675,857	5,147,710
Orlando	4.8	6.55	2,638,948	189,753,968	1,970,906

EAST REGION - PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Preleasing of speculative development projects continues
- Net absorption remains firmly in positive territory
- Vacancy declines to stay near record low
- Average asking rental rate up 2% year-over-year
- Construction level rises to nearly 23 million square feet

The Philadelphia market (PHL) covers over 18,000 square miles that includes Eastern Pennsylvania, Southern New Jersey and all of Delaware. The region boasts an industrial inventory of 1.1 billion square feet, making it one of the largest metro areas in the country. Given its proximity to the most densely populated region of the United States, industrial activity is dominated by major distributors including e-commerce companies, 3PL's and major retailers.

The PHL region experienced a vacancy decrease to 5.71% at the end of the Q3, keeping the vacancy rate near a record low. Due largely to some notable built-to-suit deliveries, the market recorded over 4.2 million square feet in positive absorption during the quarter. Total absorption year-to-date has topped 13.7 million square feet, which is an average quarterly pace of almost 4.6 million square feet. At this pace, the Philadelphia Industrial market could end the year with a net occupancy gain of over 18 million square feet and break the record set just last year.

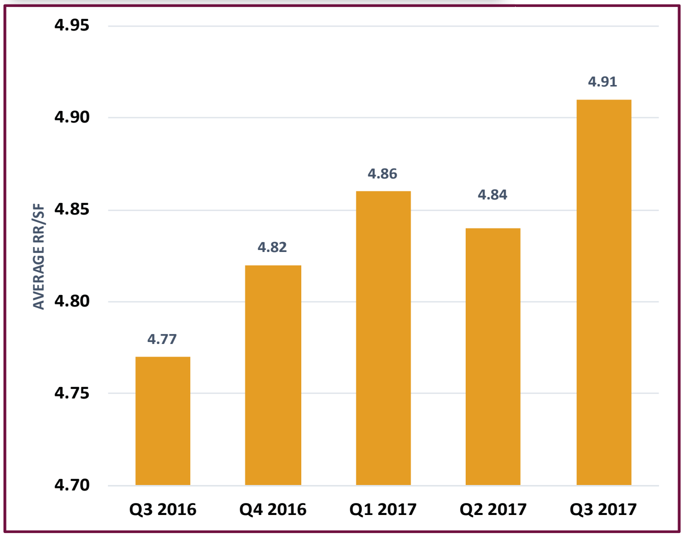
The Garden State also continued to grow in Q3. The Southern New Jersey Industrial submarket has accounted for nearly a third of the total Philadelphia market's positive absorption for the year. New build-to-suit projects (BTS) and speculative (SPEC)

5.9%	$4.91	591,310	1,097,228,690	18,403,022
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

EAST REGION - Featuring Philadelphia (continued)

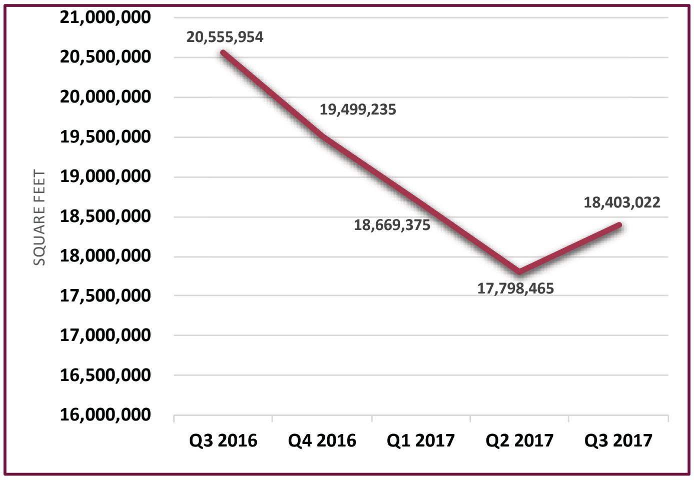
construction preleasing in both Burlington and Gloucester counties accounted for nearly 73% of this year's net absorption in Southern New Jersey. This included the 1.85 million square feet of BTS projects delivered in Q3 for Amazon and Greenyard Logistics in Gloucester County and the Camuto Group in Burlington County. Seven buildings have been delivered this year that were either BTS or SPEC product that was preleased during construction. This trend should continue through the end of the year. As we head into Q4, there are currently four SPEC buildings under construction in Southern New Jersey, two of which have already been preleased.

AVERAGE SF RENTAL RATES



The I-81 Corridor recorded 25% of the PHL region's total absorption in Q3, and approximately 20% of the total positive absorption year-to-date. Vacancy decreased slightly in Q3, ending the period at 4.95%, marking the third consecutive quarter with a vacancy rate under 5.0%. Like Southern New Jersey, a significant portion of 2017's positive absorption (approximately 40%) is directly attributed to BTS deliveries. Focused predominantly in Luzerne County, BTS activity continues to help drive the positive absorption we've seen for the last several quarters. While SPEC preleasing is not considered rare, it has been a less consistent driver this year. Of the five projects under construction, four are SPEC projects in Luzerne County, two of which are preleased. When delivered, they will account for over 1 million square feet of positive absorption.

SF UNDER CONSTRUCTION



In both Central PA and the Lehigh Valley, vacancy rates increased during the quarter and combined for a 60,000 square feet decline in occupied space. However, these markets have accounted for 6.7 million square feet in positive absorption over the past four quarters. A closer look reveals that, while there is overwhelming positive absorption (7.9 million square feet) occurring in Class A, B and C properties in Central PA and the Lehigh Valley, there still was nearly 1.2 million square feet in negative absorption. Looking forward to the end of 2017, its expected both the Central PA and Lehigh Valley submarkets will experience positive absorption in Q4, predominantly on the back of expected BTS deliveries such as Whirlpool in Central PA and FedEx in the Lehigh Valley.

EAST REGION - Featuring Philadelphia (continued)

A LOOK AHEAD

- Competitive capital and tenant demand will continue to drive interest in land sites suitable for big box (500K+) development along the I-81/I-78 transportation corridor
- Class A product in Central PA will account for the bulk of net absorption
- Demand for big box development in Southern New Jersey may outpace new deliveries due to longer lead times and limited land sites
- Negative net absorption in Class B buildings will continue

Regional Snapshots Around the East

REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Baltimore	6.5	5.94	2,418,696	243,512,325	7,556,689
Long Island/Queens	4.1	15.87	(1,055,622)	357,000,913	354,243
New Jersey	5.3	7.26	6,391,683	819,657,165	14,052,937

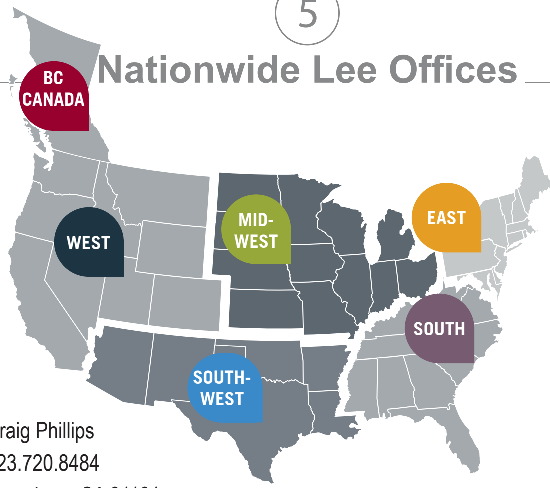
SELECT TOP INDUSTRIAL LEASES Q3 2017

BUILDING	MARKET	SF	TENANT NAME
1 Brick Yard Rd - Bldg 1	Northern New Jersey	1,346,088	Wayfair, Inc.
Majestic Airport Center IV Bldg A	Atlanta	1,039,570	ASOS
Amazon Fulfillment Center	Detroit	856,000	Amazon Fulfillment Services, Inc.
Pacific Palm Center	Inland Empire	624,627	JC Penney
Sandy Lake 121 Distribution Center	Dallas/Ft Worth	604,800	Amazon.com, Inc.
Emser Tile	Houston	600,000	Emser Tile
533 W. Lower Buckeye Rd	Phoenix	473,209	Amazon.com, Inc.
2 Turner Pl	Northern New Jersey	451,800	Cascades Containerboard Pkg
2120 Boeing Way	Stockton/ Modesto	451,611	Whirlpool
Dry Warehouse	Atlanta	386,846	Blackall Studios
UPS Columbus Hub II	Columbus	375,000	UPS

SELECT TOP INDUSTRIAL SALES Q3 2017

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Gillem Logistics Center	Atlanta	848,421	$54.40	5.75%	Barins Real Estate Advisors, LLC	Rob inson Weeks Partners
Neovia Logistics Services	Inland Empire	406,714	$105.42	4.75%	TA Realty	Cohen Asset Management,
8730 Bollman Pl	Baltimore	447,555	$90.49	5.6%	Goldman Sachs Group, Inc.	Terreno Realty Corporation
Apex Distribution Center	Houston	410,600	$98.15	5.6%	WPT Industrial REIT	Crow Holdings Industrial
13000 Darice Pkwy	Cleveland	554,037	$72.20	6.16%	VEREIT, Inc.	AIC Ventures

Nationwide Lee Offices



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