The Lee Industrial Brief

Q3 2014

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in transaction volume over 5 years

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transaction volume
2013

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agents
and growing nationwide

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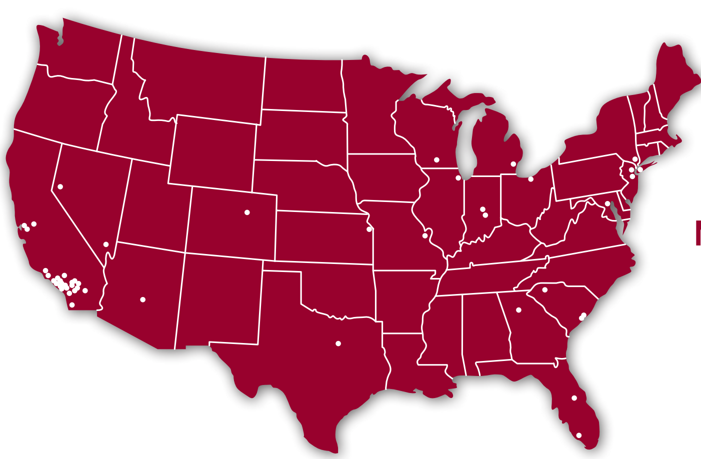

NATIONWIDE LOCATIONS

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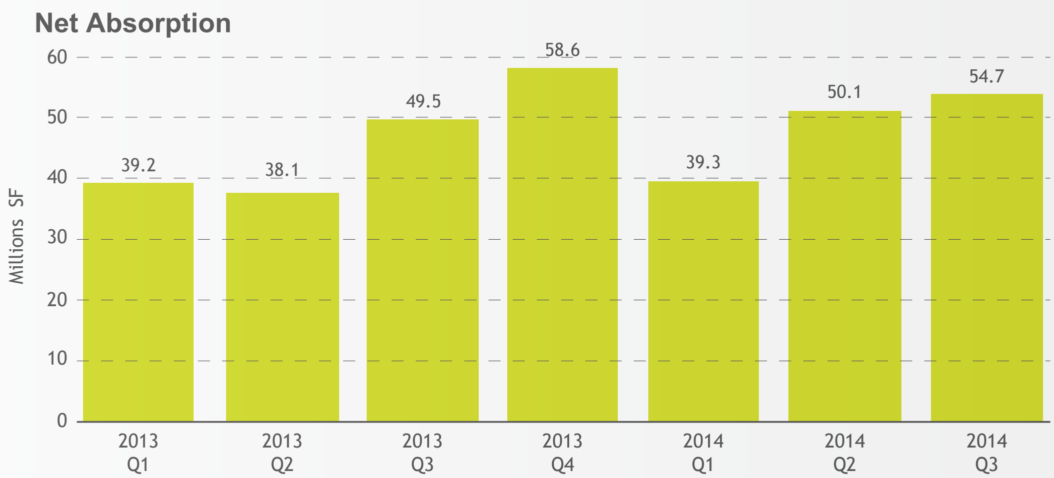
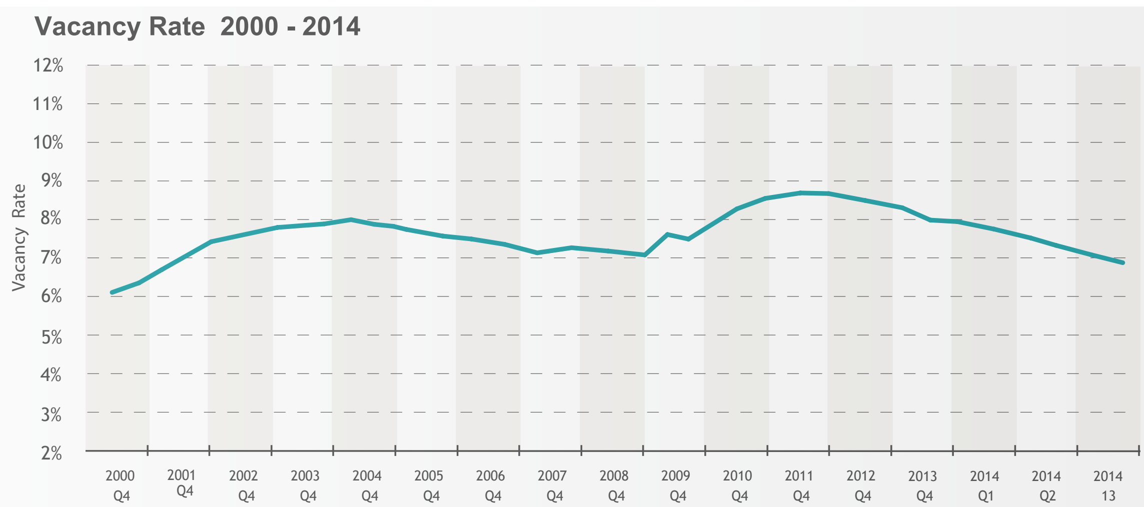
SUPPLY TIGHTENS FROM COAST TO COAST

In industrial markets across the country, concerns over having enough space to keep up with steady and strong demand are rising. Vacancy for the top 50 markets across the country fell another 20 basis points in the third quarter of 2014 to 7.5%. However, vacancy is as low as 3% in the tightest markets, and this trend is becoming a major hurdle for users looking to secure quality, functional space. Development was essentially shut down for nearly five years and getting new projects up and running has become more difficult due to cautious loan underwriting and a protracted entitlement process. This supply/demand imbalance is likely to get worse before it gets better, especially in those markets approaching full build-out like Los Angeles.

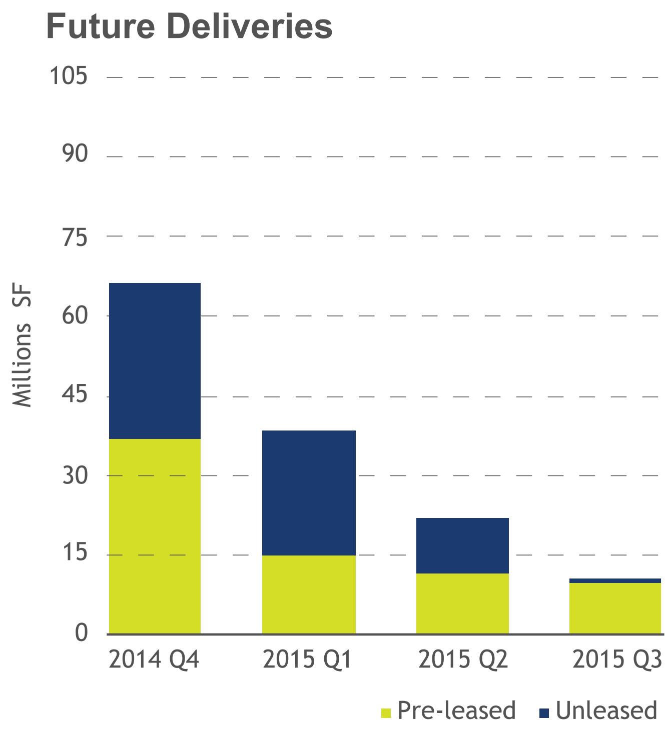


Absorption was in positive territory again in Q3, coming in at just under 65 million square feet. Large users are having a major impact on net gains in occupied space, as they are making big moves in anticipation of thin availability going forward. Build-to-suit activity has been on the rise for the past several quarters, which points to the dwindling supply of good quality product in the existing base inventory.

With vacancy on its way down and absorption on its way up, there is little doubt that lease rates and sales prices will head north, as well. In some markets, pricing is near or at pre-recession levels, especially for owner-user product. The SBA has kept the user market hot with its 504 and 7A loan programs that allow users to purchase with just 10% down and borrow at fixed rates in the 5% range for 20 years or more. The appeal of controlling occupancy costs to that degree has kept demand at a fever pitch, causing double digit annual price hikes in markets from coast to coast.



Investors are also on the hunt to acquire industrial assets. Declining vacancy, robust net absorption and product scarcity are strong buying signals. Cap rates range as low as 5% in the hottest markets. Even in secondary markets, investors are willing to take on additional leasing risk and properties with evidence of functional obsolescence. They like the upside potential for strong rent growth, especially in those markets with low vacancy and a lack of land to build new inventory.

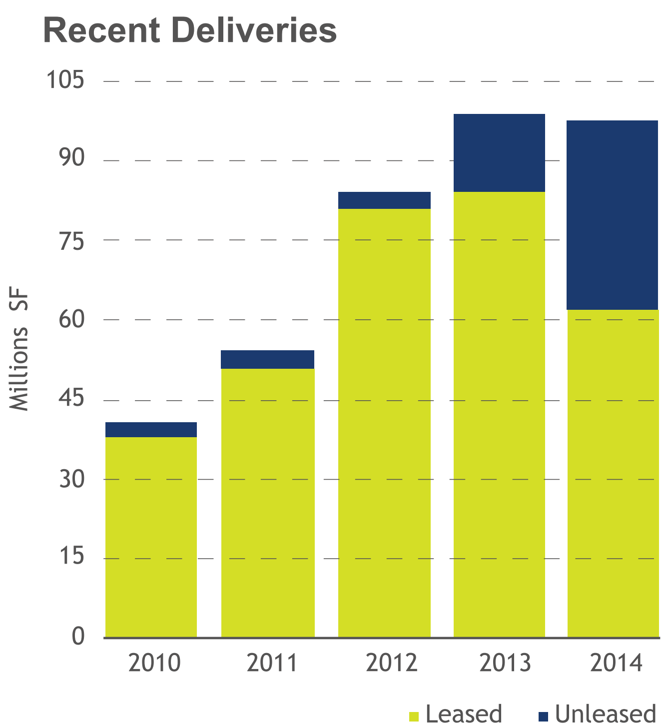


So, what is driving all this activity? A growing economy? Job growth? Low cost of capital? Increased corporate profits? Energy boom? More confidence in the future? The answer: all of the above.

GDP growth, while lagging behind previous recoveries, is finally picking up steam. Adjusted GDP estimates had the economy growing at 4.6% in Q2, and preliminary estimates for Q3 are in the 3% range, a full point ahead of the pace over the past three years.

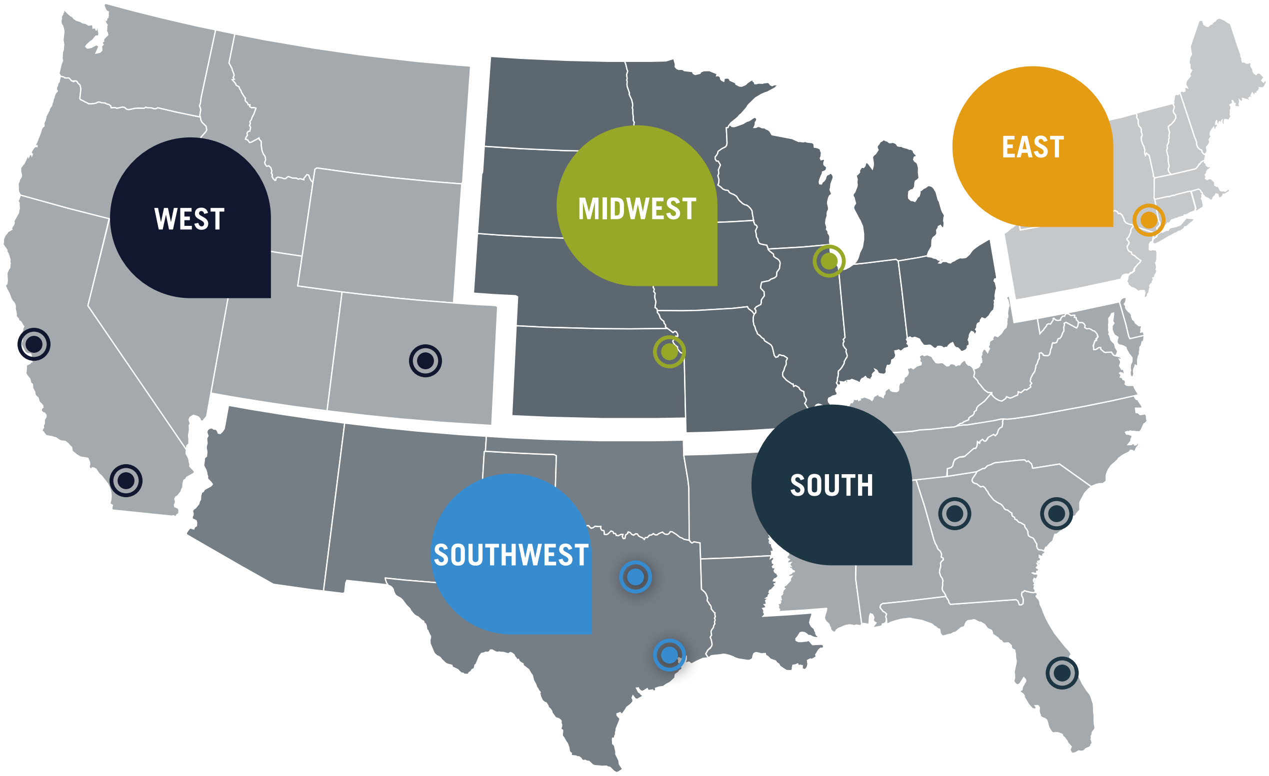
Job growth is finally picking up, as well. Throughout Q3, monthly job creation exceeded 200,000, which is enough to move the needle on a stubbornly high unemployment rate. At 5.9%, the benchmark rate is as low as it's been since before the Great Recession. That good news, though, is tempered by the disappointing "quality" of the jobs created and the rising number of part-time offerings from employers with lingering uncertainty about the long-term health of the economy. Also, the return to the work force by those who had previously given up seeking employment, will put upward pressure on the unemployment rate. Many are now looking to the Labor Participation Rate to gauge the job picture looking ahead. It measures the number of people eligible to work compared to those who are gainfully employed. Unfortunately, labor participation sits at a four decade low of 62.7%.

Perhaps the biggest question facing the US economy is: What is the Fed going to do next? After five years of holding interest rates near zero, and adding nearly $5 trillion to its balance sheet in the way of US Treasuries and Residential Mortgage Backed Securities, the US Federal Reserve Bank has signaled an end its bond buying during Q4 of 2014. This indicates the central bank's optimism over sustainable growth, and a return to a more neutral stance, which will likely include steady increases in the Discount and Fed Funds rates beginning sometime in 2015. Long-term rates for real estate financing will rise in response, as most of those loans are indexed to the yield on 10 year US Treasuries. With rising interest rates, comes higher yields on other investments, which many believe could cause a pullback in the equities markets. That could be good news for real estate, as it is less volatile and an historically good hedge against inflation. While it is impossible to predict the actual outcome, it is safe to say that the weaning of the economy off Fed stimulus programs will impact decision making for investors and users.



A LOOK AHEAD. The national industrial market seems to have enough momentum to keep moving up, even with the challenges posed by the shift in Federal Reserve policy, the midterm election and military conflicts around the globe. Gains in domestic energy production will continue to be a bright spot and will hold down fears of higher energy prices generally seen when upheaval in the Middle East heats up. Vacancy and net absorption will continue on the current trajectory in the near term, as users follow through on strategic growth plans already in place. Cap rate decompression and a possible reduction in business expansion due to a rise in the cost of capital are issues to keep in mind as we move into 2015. Development will get more expensive, which means lease rates will have to come up to keep speculative projects moving through the pipeline. Space shortages in some markets will cause rent spikes, as even modest demand will keep competition strong for quality space. Concerns over health care costs will be front and center again, as the Affordable Care Act's employer mandates are approaching. The law's enrollment period for year two will occur in Q4, and still so much is unknown about first year results.

Key Market Snapshots



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

INLAND EMPIRE EAST

OAKLAND / EAST BAY

DENVER

HOUSTON

DALLAS / FORT WORTH

KANSAS CITY

CHICAGO METRO AREA

ATLANTA

ORLANDO

CHARLESTON

NEW JERSEY

INLAND EMPIRE EAST OVERVIEW

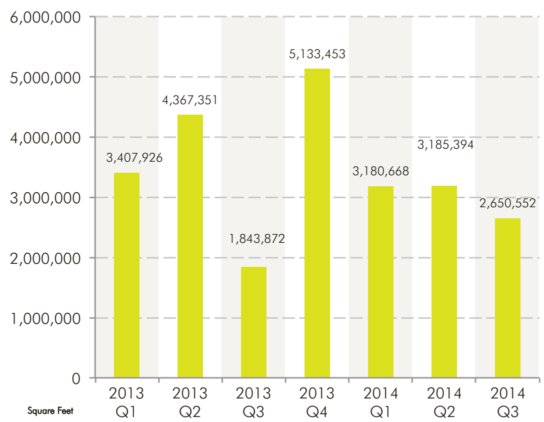
The Inland Empire industrial property market continues to be an absorption leader for the US in 2014. With large transactions dominating the market, third quarter gross absorption totaled over 2.65 million square feet in the East Valley portion of the Inland Empire alone.

Vacancy fell by another 16 basis points to a new low of 5.10% in the East Valley. Back in 2010, that rate stood at 11.97%, providing convincing evidence of a massive market turnaround. In 2014, 18 leases over 100,000 square feet have been finalized in the East Valley for a total of 6.6 million square feet.

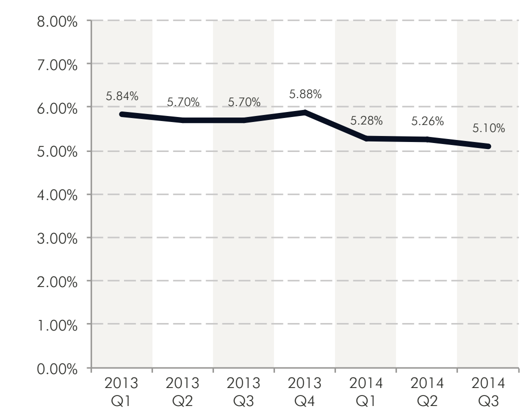
The resulting strain on the existing base has developers pushing to break ground on new speculative projects. In all, over 20 million square feet of space has been constructed in the Inland Empire this year, predominantly in logistics and ecommerce facilities. However, land prices are up and so is the length of red tape required to get new projects through the entitlement and permitting process.

Delays of an additional 6-12 months are common, and in a market starved for quality space, that could reduce location options for expanding tenants. Small to mid-sized owner/user properties are in strong demand, but a lack of supply has severely limited transaction activity; however, demand for large big-box industrial buildings is driving the market in this area.

Net Absorption



Vacancy Rate



5.1%	$5.16	2,650,552	165,170,024	7,670,279
VACANCY	**SF RENTAL RATES** *GRS	**GRS SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

INLAND EMPIRE EAST OVERVIEW (continued)

Opportunities

Tenants:

- Lower cost and higher quality product than neighboring LA and Orange Counties.
- State-of-the-art facilities being built increase space efficiency.
- Abundant labor force for long-term expansion.

Buyers:

- Owner/user buyers can still buy more for less than in LA and Orange Counties.
- Institutional investors are attracted to the large size and high quality of Inland Empire industrial product.

Landlords:

- Declining availability will minimize concessions and push lease rates higher.
- Strong credit tenants in the market reduce risk.

Sellers:

- Optimism over sustained economic growth in the Inland Empire has compressed cap rates.
- Owner/user pricing up by double digits year-over-year since 2012.

Developers:

- Large parcels are still available.
- Land cost lower than LA and Orange Counties.

Challenges

Tenants:

- California's new cap and trade law could cause a big spike in fuel costs for major distributors.
- Protracted entitlement process makes expansion planning more difficult.
- Lack of existing space for immediate occupancy.

Buyers:

- Lack of product for sale has driven prices to pre-recession levels.
- Expected rise in long-term interest rates could have immediate impact on occupancy cost.

Landlords:

- Lower clear height could affect lease-up time and rental rates in second generation product.

Sellers:

- Difficulty finding exchange properties in the Inland Empire.
- New requirements for energy audits.

Developers:

- Expensive and lengthy entitlement process.
- Higher land prices outpacing rent growth.

A LOOK AHEAD. The Inland Empire has outperformed nearly every distribution hub in the country and that trend is likely to continue. Nearly 40% of goods imported into the US come through the nearby ports of Long Beach and Los Angeles. Even if the expansion of the Panama Canal cuts into that activity as many are predicting, the flow of goods through those ports will continue at high levels. The Inland Empire is also served by a significant rail and Interstate highway network that make it a logical choice for major distribution operations. Net absorption and rent growth show little signs of letting up, and sales activity from owner/users will remain strong, for buildings under 100,000 square feet. As this demand strengthens, the market could experience another price spike and further shortages of quality properties for sale. Improvements in the national employment and GDP outlook will also help to shore up the lagging housing market, which has been a drag on local consumer spending.

OAKLAND / EAST BAY OVERVIEW

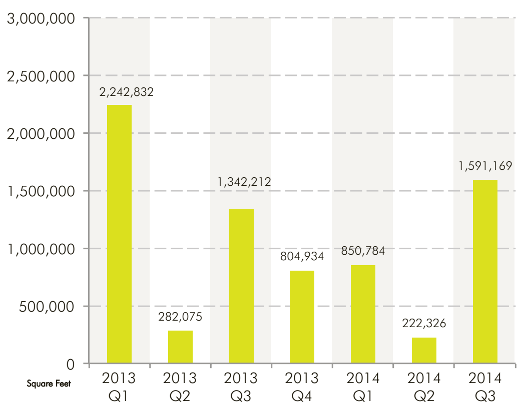
The Oakland/East Bay industrial market has returned to a healthy state, driven in large part by a resurgent technology sector across the San Francisco Bay. Third quarter net absorption was up again, at 1,591,169 square feet, an 18.5% improvement year-over-year.

Speculative and build-to-suit development activity is at levels not seen since the 1990's. Currently, 608,974 square feet of industrial product is underway and another 2,153,145 square feet is coming on line soon. Three speculative projects, ranging from 175,000 to 700,000 square feet, were recently pre-leased.

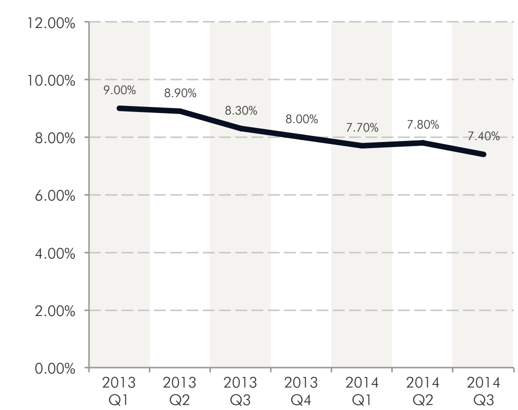
Vacancy has dipped from a high of 10.7% in 2011 to a modest 7.4% rate in Q3 of 2014. Leasing activity remained strong as build-to-suit projects were inked with Benjamin Moore for 141,844 square feet and another 574,640 square foot distribution facility for Amazon.

User sale activity is good, but available product is falling well short of demand, as business owners scramble to fix their occupancy costs before Federal Reserve Bank raises interest rates.

Net Absorption



Vacancy Rate



7.4%	$8.47	1,591,169	280,255,233	2,153,145
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

OAKLAND / EAST BAY OVERVIEW (continued)

Opportunities

Tenants:

- Institutional quality buildings with state-of-the-art features are now being built on a speculative basis.

Buyers:

- SBA financing helps to fix occupancy cost on a long-term basis.
- Investors who acquire property in 2014 should realize significant upside in net income due to rising rents.

Landlords:

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

Sellers:

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

Developers:

- Strong demand and rising rents are making speculative development more viable.
- New product offers a substantial upgrade to existing product, which is shortening initial lease-up time.

Challenges

Tenants:

- The potential for spot shortages in some size ranges could increase the lead time required to find quality space.
- Reduced choice is forcing some tenants into functionally obsolete space.

Buyers:

- Seller expectations are widening the gap between bid and ask.
- Intense demand for owner/user product is reducing choice of quality product.

Landlords:

- As speculative development continues, owners of older product may experience higher vacancy due to functional obsolescence.

Sellers:

- High tax burden for outright sales will force owners to exchange into premium-priced properties.
- Sellers may have to take the risk of exchanging into properties outside the local market.

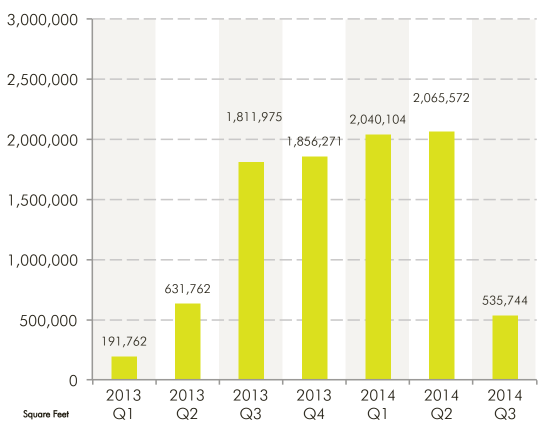
Developers:

- Opportunities for land acquisition are limited and expensive.
- Rent growth will have to remain steady to absorb higher land, entitlement and construction costs.

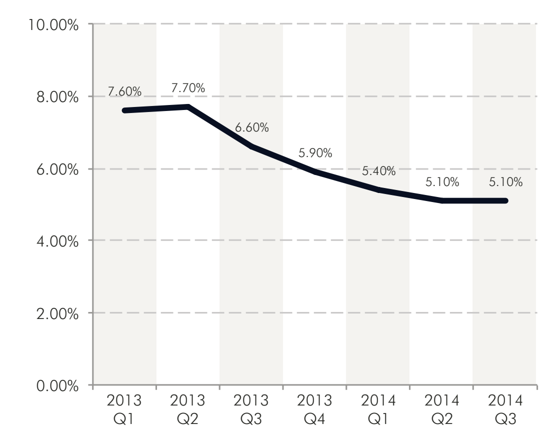
A LOOK AHEAD. The Oakland/East Bay market's strong performance is expected to continue into 2015. The backlog of requirements waiting for new product from Richmond down to Union City is growing as more tenants are willing to wait and pay the price to occupy quality space. Another 3+ million square feet is expected to come on line in the next 18 months. With land now in the $15-$20 per square foot range, developers will be asking for higher lease rates to get their projects out of the ground. Vacancy is heading down and should level off at around 5%. The area will continue to benefit from a strong Bay Area economy driven by the technology sector in San Francisco and Silicon Valley, along with the commerce generated by the Port of Oakland. Limitations on future growth driven by a lack of space and a relatively high cost of living are concerns for the long-term.

DENVER OVERVIEW

Net Absorption



Vacancy Rate



The Denver industrial property market is attracting a lot of attention from two groups at the opposite ends of the business spectrum: institutional investors and marijuana growers. Big investors like the strong economic fundamentals and demographics of the mile high city.

Job growth is good and the jobs being created are in growth industries like engineering, renewable energy, fossil fuels, health services and business services. Vacancy stands at a new low 5.1% at the end of Q3, down from a high of 9.1% at the lowest point in the last recession.

Absorption was in positive territory again in Q3, posting a gain in occupied space of 535,744 square feet. Rents are moving up, as well. Asking rates for industrial warehouse product are now at $5.95, as compared to $4.85 back in 2010. Sales activity through August of 2014 was over $400 million, on par with the full year total for 2013.

Construction activity is also picking up. Since the beginning of 2014, the Denver area has added 2,561,524 square feet to an industrial base inventory of 287,000,000 square feet. Perhaps the biggest news is the intense leasing demand generated by the marijuana growing industry since the legislation legalizing the drug took effect at the beginning of the year. Owners willing to accept marijuana growers are receiving cash payments for rent, as the commercial banks are still steering clear of servicing the industry due to conflicts with federal laws.

Growers are willing to accept lesser quality space and pay relatively high rents, even for space with elements of functional obsolescence. The industry is still growing, but no one knows how long the expansion will last due to the state being the first to enact such a law.

5.10%	$7.12	535,744	286,714,116	2,464,771
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

DENVER OVERVIEW (continued)

Opportunities

Tenants:

- National tenants with stronger credit than local operations have the advantage when competing to lease new product.

Buyers:

- Projected rent growth allows buyers to bid more aggressively for quality product.

Landlords:

- Landlords can hold out for stronger credit tenants.
- Rent growth is strong and steady.

Sellers:

- Strong demand is creating competitive bidding on good quality product.
- Institutional quality product is attracting more attention.

Developers:

- Lease rate rise is making new projects easier to underwrite.
- Cost of capital still low.

Challenges

Tenants:

- Low vacancy is driving lease rates up, even for lesser quality product.
- Second generation warehouse space is becoming functionally obsolete.

Buyers:

- Competition for institutional grade distribution buildings has driven cap rates down.
- Owner/user buildings in critically short supply.

Landlords:

- As new product comes on line, lease up time for older product will increase.
- Choosing to accept marijuana industry tenants.

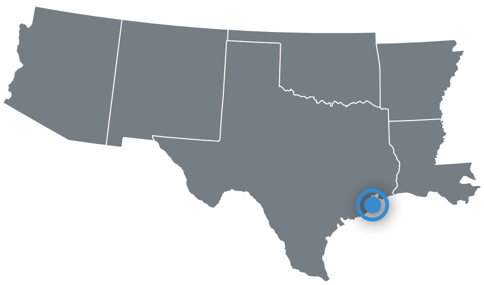
Sellers:

- Lack of available product could force some sellers out of the Denver market to complete exchange transactions.

Developers:

- Rise in construction cost is impacting potential returns on new projects.

A LOOK AHEAD. The legalization of marijuana and its impact on the industrial property market will continue to be the hot topic in the quarters to come. The industry is new, yet it has already had significant impact on net absorption. Moderate level of construction will keep pace with absorption in the short term, but the potential for consolidation in the renewable energy sector could slow growth in occupied space down the road. Denver's location at the foot of the Rockies and distance from other major population centers, limit its potential as a distribution hub. However, its educated workforce will continue to attract companies in need of higher skilled workers and grow the economy through strong population growth. Higher median incomes will support internal growth of the business and health services industries, and the low vacancy rate will keep rents moving up for the next several quarters.



HOUSTON OVERVIEW

Houston's industrial market is a good news story across the board. Key indicators all point to steady economic expansion, mainly due to a booming oil and gas industry and a resurgent housing market.

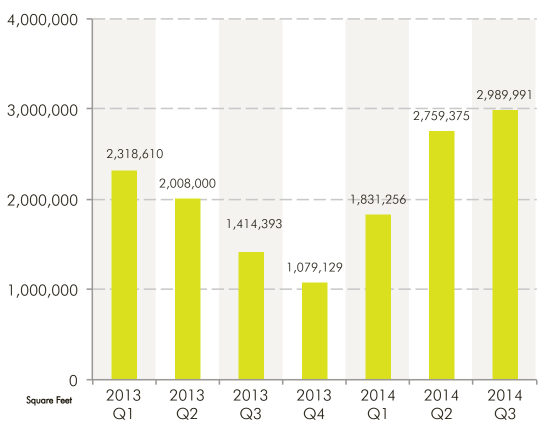
Job growth, by some estimates, will exceed 100,000 for 2014 and that has industrial users, retailers, homebuilders and service providers growing rapidly. Net absorption came in at close to 3 million square feet in Q3, bringing the year-to-date tally to 7,580,000 square feet.

Vacancy is holding steady in the 5% range despite strong lease and sale activity, mainly due to an increase in new product deliveries. In Q3, 1,198,720 square feet of new product was delivered and another 6.4 million square feet was under construction. Much of that is being built on a speculative basis, a clear reflection of the optimism for continued business expansion.

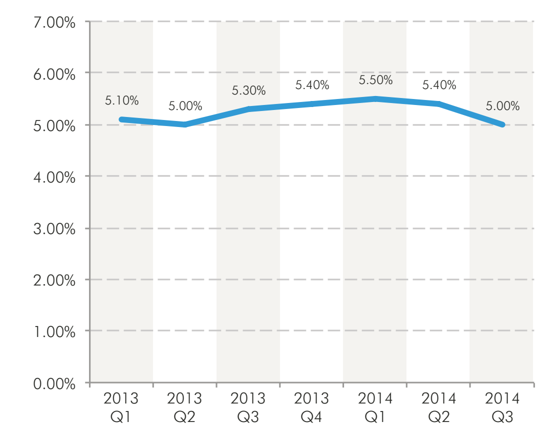
Lease rates are currently averaging $5.95 up 4.4% since the Q3 of last year. The spectacular gain in oil and gas production is fueling market performance. In 2014, the State of Texas will be second only to Saudi Arabia in fossil fuel production.

Refining capacity is also being increased and the investment in new capacity is helping energy related businesses in the Houston market to expand. As a result, payrolls have expanded over 3% in the past year, more than twice the national rate. More jobs and higher incomes means demand for more housing, which, in turn, helps industrial users who service the construction industry.

Net Absorption



Vacancy Rate



5%	$5.95	2,989,991	532,572,953	6,349,474
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

HOUSTON OVERVIEW (continued)

Opportunities

Tenants:

- Steady flow of new product gives expanding tenants a chance to grow and upgrade within the immediate market area.
- Strong population growth will give expanding energy companies more access to skilled work-ers.

Buyers:

- Sustained rent growth should increase net operating income and property values.
- Lower vacancy and rising rents will increase loan-to-value ratios for long-term financing.

Landlords:

- Strong demand will allow landlords to reduce concessions and negotiate for higher lease rates.
- Time on market will decrease due to strong demand.

Sellers:

- Increase in demand is creating competitive bidding for quality product.

Developers:

- Rising rents and lower vacancy is lowering risk for speculative development.
- Low cost of capital is reducing overall project cost.

Challenges

Tenants:

- Quality space getting more difficult to secure due to high demand.
- Lease rates are rising and will continue to do so as long as the energy sector keeps growing.

Buyers:

- Increase in competitive bidding.
- Cost of capital expected to rise soon.

Landlords:

- Localized spikes in vacancy for older product as tenants move to new projects.
- Pace of new deliveries will slow rent growth.

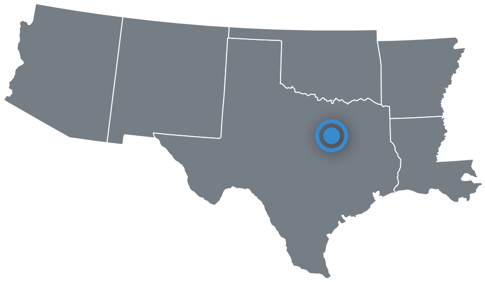
Sellers:

- Expected rise in interest rates could reduce demand from leverage buyers.
- Lack of quality product available to complete exchanges.

Developers:

- Expected rise in interest rates will increase project costs.
- Competition from other speculative projects could slow down pace of rent growth.

A LOOK AHEAD. Of all the major industrial centers in the US, none appear to have a brighter future than Houston. Texas is a major producer and refiner of fossil fuel products, and Houston will benefit substantially from the energy boom that has gained momentum each quarter. Advances in drilling techniques are opening up new areas for production. The Eagle Ford Shale area and the Permian Basin are leading the way now and will continue to contribute to the Houston economy for many years to come. Job growth will remain strong into 2015, which will keep net absorption at or above current levels. New deliveries will keep vacancy in the 5% range. Lease rates and sales prices will keep moving up, but not enough to slow strong leasing activity from energy and housing related industrial users. Top all that with the State of Texas' low tax rates and aggressive campaign to attract new businesses and its easy to see that Houston's current expansion will continue.



DALLAS / FORT WORTH OVERVIEW

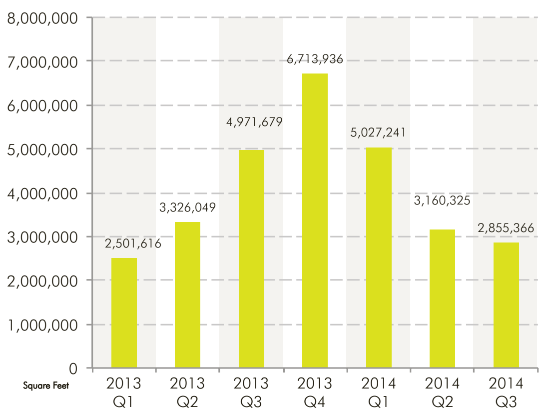
Thanks to the business friendly tax structure and resurgent energy sector , the State of Texas is attracting new residents and businesses from around the country to join in an economic boom. The Dallas/Fort Worth industrial market is directly benefiting from this significant trend.

Declining vacancy and strong net absorption have rents on the rise and construction crews busy building new space to keep pace with rising demand. Vacancy currently stands at 6.9%, down 30 basis points since the beginning of the year, despite the delivery of over 7.3 million square feet of new product in 2014.

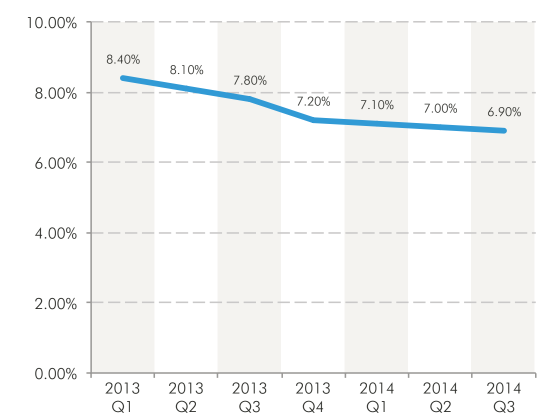
Over 15 million square feet was still under construction by the end of the quarter, including the 1,002,000 Alliance Center North 2, being built on spec. Net absorption, positive since 2009, hit 2.8 million square feet in Q3, bringing the year-to-date net gain in occupied space to over 11 million square feet.

The average asking rental rate ticked up .4% in Q3, ending the quarter at $5.25 per square foot. Williams Sonoma, Inc., Whirlpool and UPS all signed leases in Q3, which combined take 2 million square feet of inventory off the market.

Net Absorption



Vacancy Rate



6.9%	$5.25	2,855,366	796,690,384	15,716,306
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

DALLAS / FORT WORTH OVERVIEW
(continued)

Opportunities

Tenants:

- Build-to-suit opportunities for tenants willing to sign longer term leases.
- Lower overall occupancy cost compared to other major metro markets.

Buyers:

- Low interest rates user properties fixes long-term occupancy costs.
- Rising rents and quicker absorption will precipitate quicker gains in net operating income.

Landlords:

- The need to offer concessions is diminishing, especially on lease renewals.
- Higher rents due to fierce competition for quality space.

Sellers:

- Prices are rising as supply diminishes.
- Sellers can dictate stronger terms and insist on faster closings as a consequence of competition from multiple prospects.

Developers:

- Enormous demand for new product to keep pace with an increasing population.
- Strong market performance is moderating tight lender underwriting.

Challenges

Tenants:

- Big players with strong credit are taking up large blocks of the first generation space.
- Lease rates should continue to move up and landlords are offering fewer concessions.

Buyers:

- High prices, even for properties with elements of functional obsolescence.
- Cap rates are low.

Landlords:

- Landlords of second generation space have to offer significant concessions to retain large tenants.

Sellers:

- Owners of properties with severe functional obsolescence will have difficulty disposing of assets.

Developers:

- The supply of quality land sites has decreased as large scale development has increased.

A LOOK AHEAD. Texas will keep its reputation for doing things in a big way. The current economic boom shows no signs of abating, and the DFW industrial market will lead the way, along with Houston, for the foreseeable future. Expect much of the leasing activity for the rest of the year to concentrate in the areas of e-commerce and food distribution. Vacancy will move lower and net absorption will continue along its current path. Both average asking rates as well as average asking sale prices will increase. New developments will continue to come on line and make headlines by penning major leases with national credit tenants.

KANSAS CITY OVERVIEW

Kansas City is on a roll. Industrial demand is on the rise. Net absorption has turned positive and perhaps the most telling of all is the return of speculative development to the area.

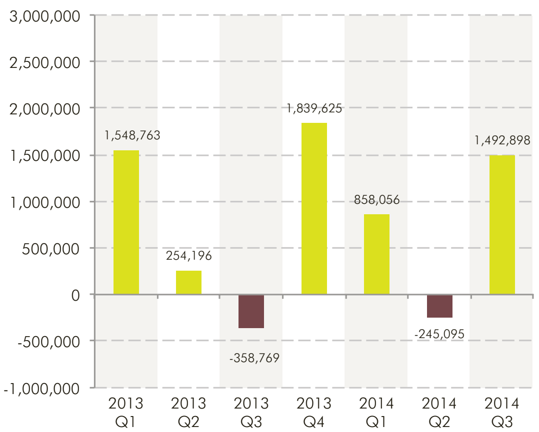
Since the beginning of 2014, over 3 million square feet of space has come out of the ground, welcome news to larger users who are experiencing healthy business growth and need quality space for expansion. Confidence within the development community has spiked, evidenced by the fact that a significant portion of the space under construction is being built on spec. Build-to-suit activity is also strong.

In 2014, AlphaBroder, Amazon and Smart Warehousing have all inked deals totaling over 1.1 million square feet combined. However, it's the speculative construction surrounding the new BNSF rail hub and KCI airport area intermodal that has people talking.

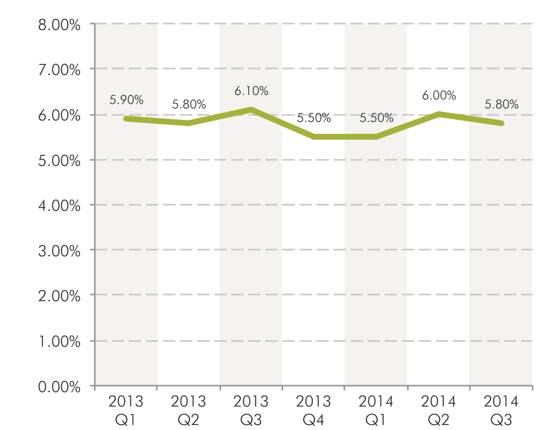
Despite the new building boom, net absorption came in at a healthy 1,482,898 square feet in Q3, but was tempered by users who vacated existing locations in favor of the new, higher quality space. Rents are making modest gains, but have not spiked as they have in other major distribution markets.

Vacancy stands at 5.8%, down 30 basis points year over year. Low interest rates are driving purchase demand from owner/users, but the lack of available product is keeping this popular market niche from contributing significantly to net absorption.

Net Absorption



Vacancy Rate



5.8%	$4.22	1,482,898	268,884,788	3,275,008
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

KANSAS CITY OVERVIEW (continued)

Opportunities

Tenants:

- Access to a quality workforce and the low cost of industrial occupancy will allow for rapid business growth.
- The new BNSF and KCS intermodal rail facilities will create efficiencies for distribution users servicing the Midwest.

Buyers:

- Pricing is still well under pre-recession highs and owner/users can still control occupancy costs with low interest rate, long-term financing through the SBA.

Landlords:

- Lease concessions are decreasing steadily.
- Overall rental rates should make moderate gains in the next year as lease comps for new product give a boost to rates for second generation space.

Sellers:

- Strong demand for quality product for sale will keep buyers competing for the limited supply of product offered for sale.
- Cap rates will remain at record lows, as investors have limited options for better yield in alternative investments.

Developers:

- Healthy market metrics will allow for additional speculative development.
- Strong interest from larger users will shorten lease up time and reduce carrying costs.

Challenges

Tenants:

- Limited availability will make finding quality space more difficult in the next several quarters.
- Potential for rate spikes if decline in vacancy accelerates.

Buyers:

- Owner/user properties will cause competitive bidding.
- Cap rates will remain compressed due to strong interest from institutional investors.

Landlords:

- Owners of older space being vacated in favor of new product will see longer lease-up times.

Sellers:

- As is the case across the country, sellers will have fewer opportunities to acquire quality assets to complete 1031 exchanges.

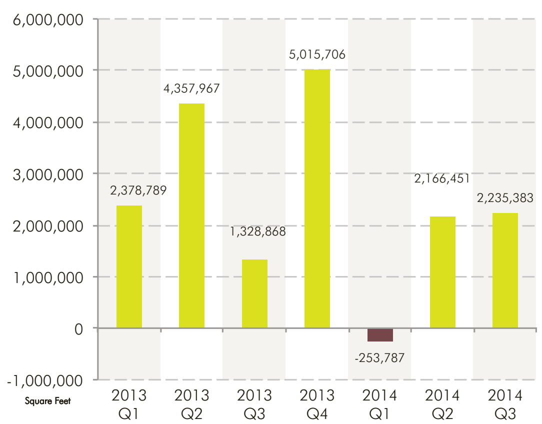
Developers:

- Equity of 40% or more required to finance speculative projects.
- Finished industrial land sites are becoming more costly and harder to find for developers.

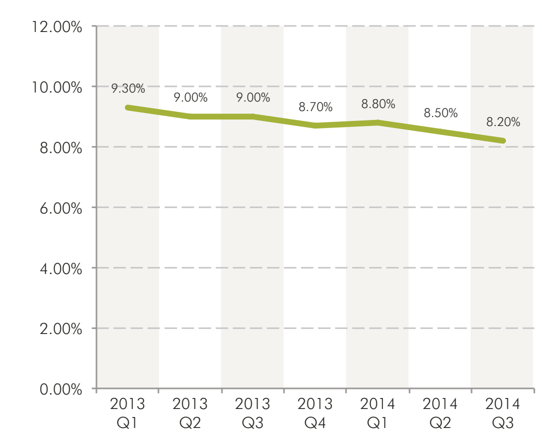
A LOOK AHEAD. The market will need some time to re-absorb the second generation space being vacated by users moving to new projects. That will keep vacancy hovering around 6% for the next several quarters. However, the vacancy rate could swing significantly, as demand for bulk distribution space from users occupying over 250,000 square feet are expected to stay hot, especially in the vicinity of Kansas City's excellent intermodal hubs. Interest from owner/users is also heavy, but activity is being stifled by a low supply of quality product offered for sale. If projects already in the development pipeline go forward, construction activity will increase through 2015.

CHICAGO METRO AREA OVERVIEW

Net Absorption



Vacancy Rate



Strong construction activity in the industrial sector is the big story coming out of the Windy City in 2014. Speculative development is now in full swing. By the end of Q3, over 14 million square feet was under construction, much of it preleased. Developers are aggressively pursuing new opportunities, as they are bullish on the Chicago area's upside potential in terms of user demand and rent growth.

Major tenants are following through on massive expansion plans, including the 1,700,000-square-foot lease signed by Michelin at RidgePort Logistics Center, the 1,022,544-square-foot renewal signed by DSC Logistics, Inc. at Liberty Business Center, and the 757,120-square-foot build to suit lease signed by Weber- Stephen Products in Huntley, Illinois. Net absorption numbers also look good.

The third quarter registered a 2,235,383-square-foot increase in occupied space, bringing the year to date total to a positive 4,148,047 square feet. Average asking rents are rising at a moderate pace, settling at $5.27 by the end of Q3, which is a 3.13% increase over the same time last year. Activity is concentrated in state-of-the-art distribution space in suburban submarkets. Large users remain attracted to the excellent, rail, air and highway infrastructure that has made Chicago one of the largest distribution hubs in the US.

Investors also favor the area, as evidenced by the willingness to acquire quality distribution product at sub 6% cap rates. The area is not without its challenges, however. A very close eye is being kept on the upcoming gubernatorial election, which is closer than expected and its keeping businesses guessing on how it will tilt the political landscape going forward. The Chicago area is also being pressured by neighboring markets in Wisconsin and Indiana, which have lower tax rates and governments less burdened by unfunded pension liabilities and fiscal deficits.

8.2%	$5.27	2,235,383	1,147,964,747	14,716,059
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

CHICAGO METRO AREA OVERVIEW
(continued)

Opportunities

Tenants:

- Despite high tax rates, Chicago still offers an excellent location and infrastructure for major distributors.
- New product, while more expensive, provides higher operating efficiencies.

Buyers:

- Beginning to see rental rate growth.
- Buyers can underwrite faster lease-up time and lower concession costs.

Landlords:

- Rising rents and low cap rates make existing projects easier to refinance.
- Stronger credit tenants are in the market for space.

Sellers:

- Historically low cap rates.
- Supply shortage for institutional grade product is creating competitive bidding.

Developers:

- Underwriting for loans getting more flexible.
- Demand for new space is strong and steady.
- Equity partners eager to support new projects

Challenges

Tenants:

- Weaker credit tenants finding it more difficult to negotiate with confident landlords.
- Lack of top quality space in some submarkets.

Buyers:

- User demand is well ahead of supply.
- Cap rates remain compressed for core assets and value add opportunities.

Landlords:

- Increased competition for existing product from new, more efficient space.

Sellers:

- Uncertainty over impact of higher interest rates on cap rates.
- Shortage of good local product to exchange into.

Developers:

- Availability of land is tightening up.
- Long lead times on bed space for precast.

A LOOK AHEAD. The Chicago industrial market will continue to tighten up. Rents will rise at a moderate pace, as will leasing activity over the next several quarters. As vacancy drops further, the pace of net absorption could slow as some tenants will either renew in place or be forced to consider surrounding markets to satisfy needs for expansion. Submarkets with strong development activity will see vacancy level off a bit, as it will take some time to fully absorb new product and backfill vacated space. Market direction should firm up after the election, especially for those tenants contemplating major long-term commitments to new space. Competition from out-of-state markets should not be discounted, as they pose a significant threat to the region's distribution base.

ATLANTA OVERVIEW

The Atlanta industrial property market continues to outperform almost every major market in the US. Second quarter net absorption, totaling over 2,590,286 square feet, was followed up with another 1,505,193 square feet in Q3.

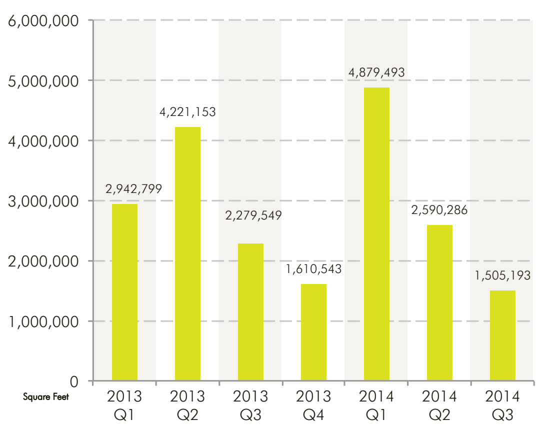
Activity was good across all size ranges, but larger transactions are still the big news in town. Anticipating growth over the long-term, major users are making their moves to secure good locations before higher land prices and increased demand for space force rents even higher.

Significant transactions for the quarter include Walmart.com occupying 1.2 million square feet of warehouse space in the MAC IV Building in the I-20 W. Fulton Submarket, the 560,625-square-foot lease for Menlo Logistics at Majestic Airport Center, and the 429,600-square-foot lease signed by Georgia Pacific at Liberty Distribution Center in the South Atlanta market.

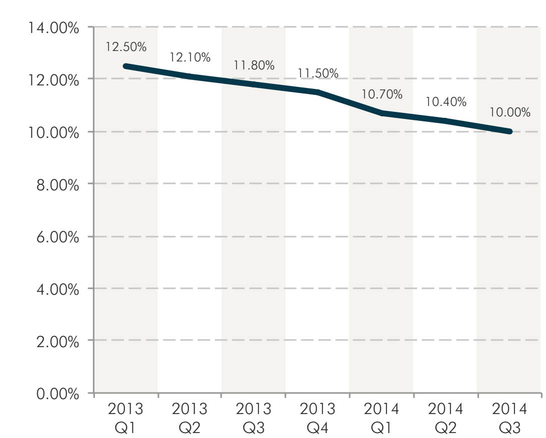
Developers continue to respond with new projects. In total over 9,538,000 of space was under construction in the 3rd quarter, including a 1,036,000-square-foot building fully leased to Surya Carpets.

Despite the addition of new inventory, the vacancy rate continues to fall. The overall rate dipped 40 basis points in Q3 to just 10%. Average asking lease rates moved up slightly to $3.94.

Net Absorption



Vacancy Rate



10.0%	$3.94	1,505,193	587,313,887	9,538,731
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

ATLANTA OVERVIEW
(continued)

Opportunities

Tenants:

- Atlanta's "hub" location and infrastructure allows users to cover a large geographical area.
- Panamax project and the expansion of the Port of Savannah will bring additional distribution activity to the area.

Buyers:

- SBA financing still readily available for owner/users with fixed rates under 5%.
- Rents will continue the current growth trend.

Landlords:

- Rising rental rates will continue to improve cash flow.
- Higher credit tenants will decrease leasing risk.

Sellers:

- Cap rate compression due to strong demand and low cost of capital.
- Decreasing vacancy is pushing NOI and sales prices up.

Developers:

- New product is sharp contrast in quality to current inventory.
- Rising rents will help underwrite new projects.

Challenges

Tenants:

- Rising rents and less choice of quality product is making relocation more difficult and expensive.
- Big credit tenants have the advantage over local companies when competing for space.

Buyers:

- Very low cap rates and rising rents have pricing near pre-recession levels.
- Financing costs could spike when Fed announces interest rate hikes, putting leveraged buyers at a disadvantage.

Landlords:

- Competition from new product will put downward pressure on rents for second generation buildings.

Sellers:

- Threat of cap rate decompression to maintain spread to rising cost of capital.
- Unrealistic price expectations.

Developers:

- Rise in lease rates may not keep pace with expected increase in cost of capital.

A LOOK AHEAD. Atlanta's strong lease and sale activity should continue for the next several quarters, as GDP growth in the US is running at a stronger pace. East coast ports, including nearby Savannah will see an increase in container activity when the Panama Canal opens up to larger ships. This will attract even more distribution activity to the Atlanta market. Sale transactions will be primarily to investors, as there is just not enough owner/user inventory to go around. Net Absorption should top 12 million square feet by year end, and an increase to 14-16 million is anticipated in 2015. Rent gains will be most significant in distribution product. Activity for flex space, by contrast, is and will remain sluggish. Development will remain focused on larger product for both build-to-suit and speculative projects. A combined 15 million square feet could be built over the next 18 months. Optimism still prevails throughout the Atlanta region, but the potential affect of a rise in interest rates could slow the pace of growth the market has experienced in the last three years.

ORLANDO OVERVIEW

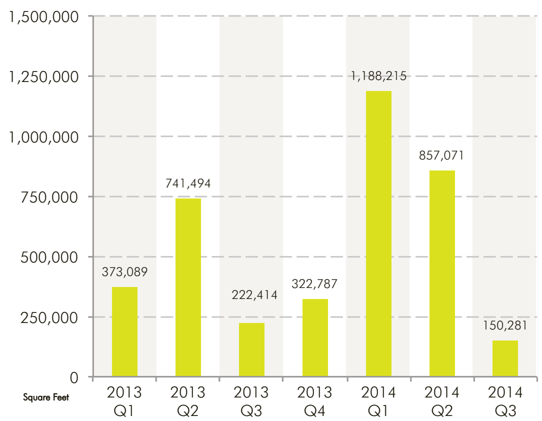
The Orlando industrial property market continues to recover. Strong Q2 net absorption, totaling over 857,000 square feet, was followed up with another 150,000 square feet in Q3, marking the eighth consecutive quarter of net growth in occupied space.

Leasing activity was good across all size ranges. Sales were strong in Q3, with 16 transactions totaling $37.2 million in consideration. Noteworthy lease singings included a 153,800-square-foot deal with Nissan, the 67,200-squarefoot expansion for Taylor Farms Florida Inc. and the 54,250-square-foot lease to Twin Med.

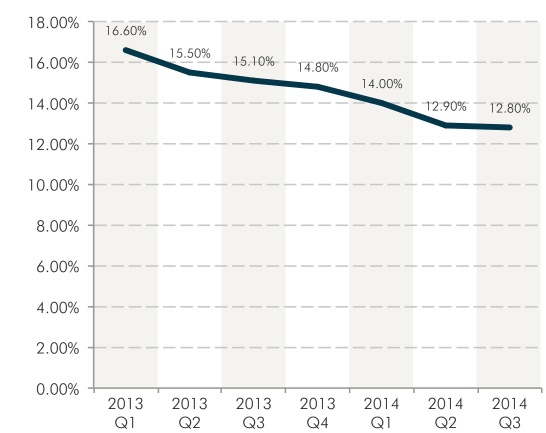
Three buildings totaling 1.28 million square feet were delivered in Q3, and there is another 1.3 million square feet of new construction already underway or scheduled to break ground in the 4th quarter. These include: Liberty's 190,000-square-foot building on Central Port Drive, McCraney's two Bent Oak buildings totaling 705,000 square feet, McDonald's Lee Vista Building F with 145,800 square feet, and Prologis' 123,000-square-foot building at Beltway Commerce Center.

The vacancy rate declined to 12.8%, which is down from 15.1% just a year ago. Average asking lease rates in Q3 moved down 9 cents to $5.05.

Net Absorption



Vacancy Rate



12.8%	$5.05	150,281	178,897,925	1,355,800
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

ORLANDO OVERVIEW
(continued)

Opportunities

Tenants:

- Class B rental rates remain low.

Buyers:

- Advantage to cash buyers due to tight loan underwriting for leveraged investors.

Landlords:

- Rental rates should continue trending upward.
- Higher credit tenants looking for space will decrease leasing risk.

Sellers:

- Low inventory keeping demand well ahead of supply.

Developers:

- Sharp contrast in quality between new product and current inventory.
- Expected rise in rents for class A space will help underwrite new projects.

Challenges

Tenants:

- Choice of class A product is limited.
- Concessions are decreasing.

Buyers:

- Very low inventory.
- Rent growth for older product is limited by functional obsolescence.

Landlords:

- Tenants are relocating but not growing enough to accelerate net absorption.

Sellers:

- Lenders are reluctant to relax stringent underwriting criteria, which limits pool of qualified buyers.

Developers:

- Extremely short supply of land.
- Lack of public redevelopment funding for new projects.

A LOOK AHEAD. Another 2.5 million square feet of new construction should get underway over the next several quarters. Look for REITs to lead the development charge for the foreseeable future, as the difficulty in obtaining favorable financing will keep developers needing leverage on the sidelines. Vacancy will continue its incremental decline but will not go below 10 % due to new deliveries. The flight to quality will continue and that will keep rent growth for class B product lagging behind class A. Expect overall average asking rental rates for Q4 to remain relatively unchanged, but net absorption should stay in positive territory. Lack of supply will limit owner/user sales despite the availability of SBA financing.

CHARLESTON OVERVIEW

The Charleston industrial market is back in growth mode, having posted positive net absorption of 917,000 square feet in Q3 after a difficult second quarter. The big news in Charleston is the increasing port activity and the anticipation of the deepening of the port depth to accommodate post-Panamax shipping trade.

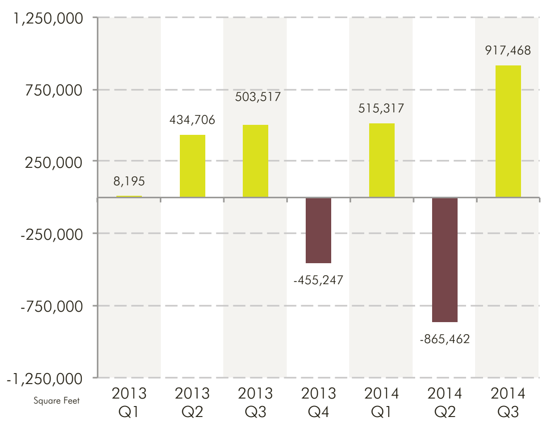
In October, the US Army Corps of Engineers released its Draft Integrated Feasibility Report and Environmental Impact Statement for the Post-45 Harbor Deepening project, recommending that the Charleston Harbor be deepened to 52 feet.

State funding has already been set aside for its portion of the project cost and construction could begin in 2015, boosting optimism from developers eager to build new distribution product to handle the additional flow of goods.

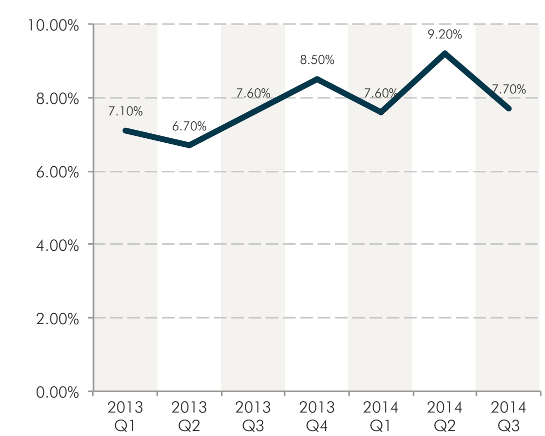
While no new product was delivered in the third quarter, 284,000 square feet of space was under construction. Big move-ins for the quarter included Frontier Logistics and Coastal Logistics Group, Inc., at 274,000 and 200,000 square feet respectively.

Warehouse vacancy stands at 7.7%, down 70 basis points since the beginning of 2014. Warehouse rents moved up another 1.1% in Q3, averaging $4.43, but range up to $4.65 for class A space. The SC Ports Authority also announced a 13.4% increase in container activity in September.

Net Absorption



Vacancy Rate



7.7%	$4.79	917,468	64,435,157	284,000
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

CHARLESTON OVERVIEW (continued)

Opportunities

Tenants:

- Distribution tenants have potential for growth as the Ports of Charleston and Savannah expand.
- New class A space offered in speculative development projects will offer greater efficiency for large distribution operations.

Buyers:

- Declining vacancy and rising rents will increase internal rates of return for long-term holders.
- Cap rates are higher than in larger metro areas.

Landlords:

- Shortage of new product should keep the vacancy rate moving down.
- Rising rents will increase net operating income in the short term.

Sellers:

- Interest from investors unable to find product in larger markets will increase competition and lower cap rates.

Developers:

- Demand for warehouse space should remain strong in anticipation of the port expansion.

Challenges

Tenants:

- Lack of new class A inventory could complicate expansion plans.
- Rents still higher than surrounding markets.

Buyers:

- Lack of quality product.
- Increase in competition will drive cap rates down.

Landlords:

- Accommodating large tenant requirements.
- Competition from other Southeast markets for larger users.

Sellers:

- Lack of attention from institutional buyers who prefer larger markets.
- Shortage of local product for 1031 exchange.

Developers:

- Uneven absorption history makes speculative development more difficult to time.
- Potential delays in port improvements could affect near-term demand.

A LOOK AHEAD. Charleston's future, both short and long-term appears bright. At present, West Coast ports capture 70% of the nation's container activity, but that is expected to change starting in 2015 when the Panama Canal opens its locks to the larger modern fleet of global container ships. As a port city, Charleston, along with other East Coast port cities, stands to gain a significant chunk of that market share. The impact on the entire Charleston area should be substantial in many ways, but in particular to the growth in occupied industrial space. For now, expect to see more of the same in terms of absorption, leasing activity and rent growth. As port improvements take shape in 2015, the market will gain momentum and construction should increase to meet the needs of large distributors ramping up for future container activity.

NEW JERSEY OVERVIEW

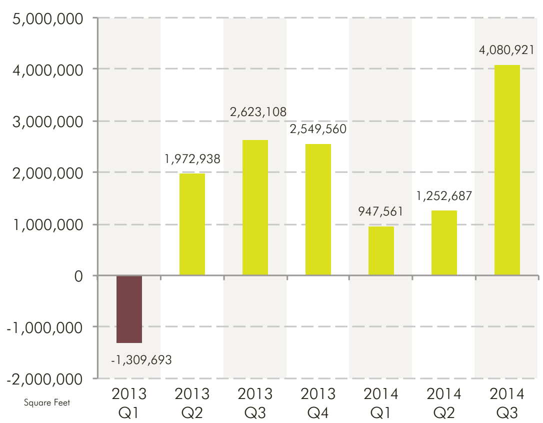
The Northern New Jersey industrial market is tracking with other major metro areas. Vacancy is declining, net absorption is in positive territory, rents are rising again and development activity is gaining traction. The third quarter ended with the vacancy rate at 8.3%, down 10 basis points for the third straight quarter.

Net absorption moved higher again in Q3, posting a 4,080,000-square-foot increase in occupied space, tripling Q2's performance. Significant contributors to net absorption included OHL's 611,000-square-foot deal and new facilities for Home Depot and NFI Industries, each of which was over 400,000 square feet. Average asking rents jumped another 1.2% over the second quarter to $6.03.

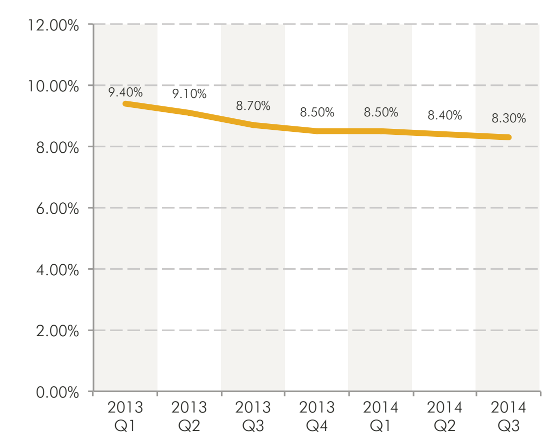
Ecommerce is driving a significant portion of the big box market, and developers are pushing hard to get new product out of the ground to meet that demand. In the third quarter, 3.6 million square feet of new inventory was delivered to the market, more than the total for the first two quarters of 2014 combined. Currently, another 2.6 million square feet is under construction, and much of that is uncommitted, which speaks to developer confidence that demand will remain robust and rents will keep moving up.

The State of New Jersey is stepping in to do its part to keep things moving forward, as well. Grow New Jersey is an initiative to attract business to the state by offering businesses up to 10 years of tax credits for job creation. It was launched, in part, to counter similar efforts in New York, Pennsylvania and Connecticut.

Net Absorption



Vacancy Rate



8.3%	$6.03	4,080,921	806,523,358	2,668,553
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**INDUSTRIAL SF INVENTORY**	**SF UNDER CONSTRUCTION**

NEW JERSEY OVERVIEW (continued)

Opportunities

Tenants:

- Big box opportunities for larger spaces near the Port of Newark/Elizabeth.
- Proximity to two thirds of the nation's buying power within one day's drive from New Jersey.

Buyers:

- Income growth potential is still favorable.
- 90% loan-to-value SBA financing is still available to owner/users at interest rates under 5%.

Landlords:

- Harbor dredging and raising of the Bayonne bridge will boost demand for warehousing when Panamax project is completed.
- Limited sites available for development will limit competition.

Sellers:

- Interest from New York buyers willing to bid up prices in New Jersey to be nearby.
- Low interest rates and intense demand are keeping cap rates low.

Developers:

- Brownfield development is finally moving forward due to strong demand.
- Limited land availability will prevent overbuilding.

Challenges

Tenants:

- Significant portion of available product is becoming obsolete for modern warehouse applications.
- Larger tenants have limited choice of available product.

Buyers:

- Low availability.
- Aging industrial base forcing buyers to accept the risk of functional obsolescence.

Landlords:

- Tenants moving toward shorter lease terms to increase ability to respond to changing market conditions.
- Interest from tenants to acquire property as owner/users is slowing demand for lease product.

Sellers:

- Complicated and expensive local tax consequences to selling property.
- Government regulations complicate disposition.

Developers:

- Protracted and expensive entitlement process.
- Land prices rising faster than rents, making underwriting of new projects more difficult.

A LOOK AHEAD. Northern New Jersey's near-term outlook is good. Expect vacancy to continue its modest decline and absorption to remain near current levels. There may be a lull in new deliveries by mid 2015 as much of the current construction BE pipeline is expected to complete by the end of this year. Locations near the port will see the most activity and the most in terms of rent growth, as big users position their operations for expanding container activity once the Panama Canal expansion is completed. Net absorption could be hampered next year due to a shortage of owner/user sale opportunities. Investors will have to expand their focus to class B space to acquire new projects, and be willing to pay a premium to bid successfully.

Significant Lee Transactions

ADDRESS	TRANSACTION	BUYER / TENANT	AGENT(S)
ATLANTA			
3060 SouthPark Boulevard Suite 200 Ellenwood, GA	$4,377,807 lease of 159,153 SF property	PrimeSource Building Products, Inc.	Michael Sutter & Rick Tumlin
2850 Barrett Lakes Boulevard Suite 100-200 Kenesaw, GA	$3,350,909 lease of 150,000 SF property	Atlanta Bonded Warehouse Corporation	Billy Snowden, Tommy Hiles
814 Livingston Court Marietta, GA	$2,588,900 sale of 51,778 SF property	Maxair, Inc.	Doug Brown
CHARLESTON			
2935 Ashley Phosphate Road North Charleston, SC	Represented Landlord in 51,268 SF Lease	Undisclosed Tenant	Thomas Buist
3290 & 3298 Benchmark Drive North Charleston, SC	Represented Tenant in 257,000 SF Lease	Tri-Modal Distribution Services, Inc.	Thomas Buist & John Lasiter
412 Industrial Drive Summerville, SC	Represented Tenant in 64,500 SF Lease	Supply Chain Services International, LLC	Thomas Buist
CHICAGO			
4100 Rock Creek Boulevard Joliet, IL	$6,767,292 lease of 323,795 SF property	Dynamic 3PL	Walter Murphy
1260 N Ellis Street Bensenville, IL	$2,597,751 lease of 80,360 SF property	Bestway Transport, Inc.	Chris Nelson
1800 Hawthorne Lane, Suite C. West Chicago, IL	$2,239,000 lease of 144,924 SF property	Plastipak Packaging	James Planey, SIOR & Jeffrey Janda, SIOR
DENVER			
5850 & 5870 E. 56th Avenue Denver, CO	$5,500,000 sale of 121,101 SF property	A.R. Wilfley & Sons	Ron Webert (buyer rep)
2750 Tower Road Aurora, CO	$1,800,000 sale of a 11,000 SF office building on 10 acres	SRO	Ron Webert (listing agent)
220 E. 56th Avenue Denver CO	$398,652 lease of 11,600 SF property	Heartland Express	Ron Webert (tenant rep)
DALLAS / FORT WORTH			
201 S. Interstate 45 Wilmer, TX	$28,800,000 sale of 758,922 SF property	USAA Real Estate Company	Adam Graham, Mark Graybill, & Trey Fricke
3325 Roy Orr Boulevard Grand Prairie, TX	$7,701,127 lease of 145,579 SF property	Fruit of The Earth	Tom Walrich & Reed Parker
2801 N Earl Rudder Freeway Bryan, TX	$5,900,000 sale of 26,156 SF property	180 Industrial, LLC	Adam Graham & Mark Graybill
HOUSTON			
Bayport North Dist Center - Bldg. I Pasadena, TX	216,000 SF lease	N/A	Landlord Rep Company - The Carson Companies
Airfreight & Logistics Centre - Bldg. 5 Houston, TX	150,000 Sf lease	DB Schenker	Tenant/Landlord Rep Company - CBRE
Alamo Crossing Commerce Houston, TX	1,047,758 SF sale	Cornerstone Real Estate Advisors	N/A

Significant Lee Transactions

ADDRESS	TRANSACTION	BUYER / TENANT	AGENT(S)
KANSAS CITY			
1704-06 E. 123rd Terrace Olathe, KS	$935,500 sale of 14,500 SF property	CDM Capital Asset Group	Nathan Anderson
4312 Clary Boulevard Kansas City, MO	$900,000 sale of 112,000 SF property	ETL Leasing, Inc.	Nathan Anderson
6130 Equitable Road Kansas MO	$856,949 lease of 53,326 SF property	Sika Corporation	Russell Pearson
OAKLAND			
7200 Edgewater Drive Oakland, CA	$4,192,535 lease of 134,300 SF property	Dealer Tire	Craig Hagglund
14700 Doolittle Drive San Leandro, CA	$4,100,000 sale of $45,200 SF property	Dr.R. Stephens & Co.	Jesse Lucas
845 92nd Avenue Oakland, CA	$3,970,216 lease of 35,500 SF property	United Site Services, Inc.	Drew Fischer & Brian Barden
ORLANDO			
7414 Kingspointe Parkway Orlando, FL	58,700 SF leased	APAC Sales Force, Inc.	Tom McFadden & Bo Bradford
2126 Landstreet Road Orlando, FL	54,250 SF Leased	Twin Med	Tom McFadden & Bo Bradford
7414 Kingspointe Parkway Orlando, FL	22,075 SF Leased	Beyond Exhibit	Tom McFadden & Bo Bradford
NEW JERSEY			
301 Island Road Mahwah, NJ & 195 Anderson Avenue Moonachie, NJ	$24,500,000 sale of 231,105 SF property	TA Associates	Jeffrey Miller
230-250 Moonachie Avenue Moonachie, NJ	$2,949,452 lease of 144,170 SF property	Grace Kennedy Foods USA	Michael Schaible
23 Just Road Fairfield, NJ	$1,975,000 sale of 22,000 SF property	Seehadi Commercial Flooring	Doug Gaffney & Jason Lynch
RIVERSIDE			
38388 & 38444 Sky Canyon Drive Murrieta, CA	$5,300,000 sale of 59,605 SF property	Paul Dohrman	Charley Black, Jim Nadal & Mike Hanna
2755 Willow Avenue Rialto, CA	$4,050,000 sale of 45,032 SF property	Kobelco EDTI Compressors, Inc.	Paul Whitehouse
3075 Palisades Drive Corona, CA	$3,324,375 sale of 26,595 SF property	ELCI, LLC	Paul Whitehouse

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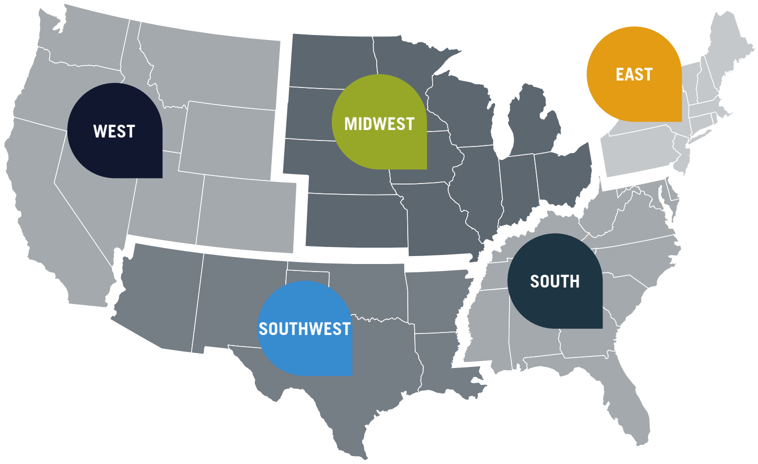
Nationwide Lee Offices



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The Lee Industrial Brief

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