The Lee Industrial Brief

Q3 2016

LEE & ASSOCIATES®

COMMERCIAL REAL ESTATE SERVICES

155% increase in transaction volume over 5 years

$12+ billion transaction volume 2015

Ranked 2nd june 2016 Commercial Property Executive (2016 Top Brokerage Firms)

870 agents and growing nationwide

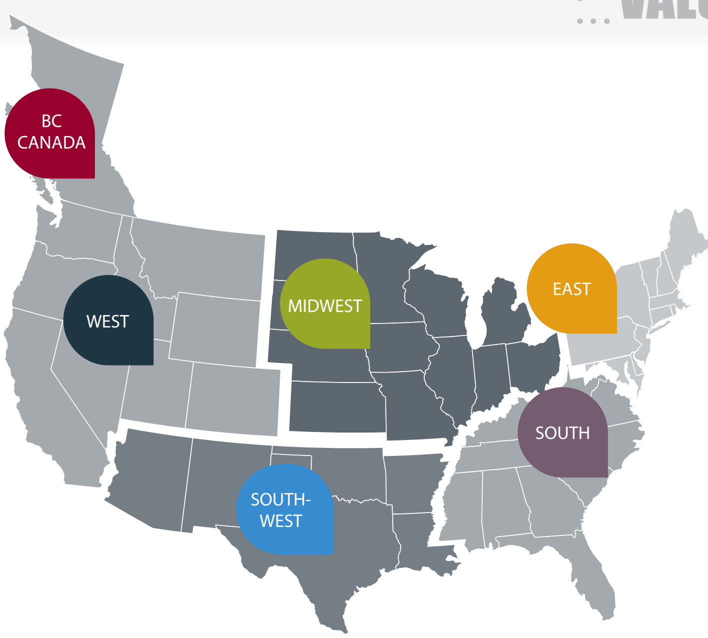
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

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

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

OFFICE
INDUSTRIAL
RETAIL
INVESTMENT
APPRAISAL
MULTI-FAMILY
LAND
PROPERTY MANAGEMENT
VALUATION & CONSULTING



THE POWER OF THE LEE NETWORK

Irvine, CA
Orange, CA
Newport Beach, CA
Ontario, CA
Riverside, CA
Los Angeles, CA
Industry, CA
Carlsbad, CA
Stockton, CA
Pleasanton, CA
West LA, CA
Sherman Oaks, CA

Central LA, CA
Temecula Valley, CA
Victorville, CA
Calabasas, CA
Los Olivos, CA
San Luis Obispo, CA
Ventura, CA
San Diego, CA
Reno, NV
Oakland, CA
Antelope Valley, CA
Santa Barbara, CA

Palm Desert, CA
ISG- LA, CA
Boise, ID
Long Beach, CA
Denver, CO
Pasadena, CA
Walnut Creek, CA

Phoenix, AZ
Dallas/Ft Worth, TX
Houston, TX

Chicago, IL,
St. Louis, MO
Southfield, MI
Madison, WI
Indianapolis, IN
Greenwood, IN
Cleveland, OH
Columbus, OH
Twin Cities, MN

Atlanta, GA
Greenville, SC
Fort Myers, FL
Orlando, FL
Charleston, SC
Valuation, Atlanta

Elmwood,NJ
Manhattan, NY
Edison, NJ
Chesapeake Region
LI/Queens , NY
Eastern Pennsylvania

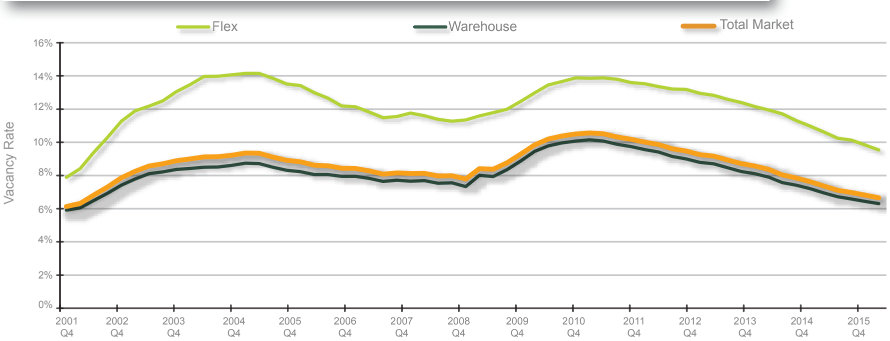
Vancouver, BC
Canada

US INDUSTRIAL MARKET

Industrial Market Finds Another Gear

For owners and developers of industrial real estate, the third quarter of 2016 was cause for celebration. Just when the experts were starting to wonder about the market getting long in the tooth, it took off again. Net absorption was sharply higher, rent growth was strong, vacancy declined and new deliveries were way up. What makes it even more remarkable is the fact that US and global economic growth is anemic and concerns over a real estate correction are spreading. Major US corporations have reported declining earnings for six straight quarters, and central banks across both oceans are printing money and experimenting with negative interest rates to keep their economies from slipping into recession. Our own central bankers have repeatedly threatened to tighten up on their cheap money policy by raising interest rates, but that has been nothing but talk since they made a single rate hike late last year. Domestic GDP growth has slowed substantially in the past year. But, despite all of it, the industrial market just keeps on exceeding expectations quarter after quarter.

VACANCY RATES BY BUILDING TYPE 2001 - 2015



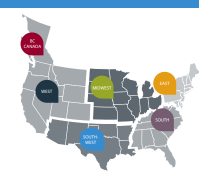
ECONOMIC DRIVERS

GROWTH

EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY



A LOOK AHEAD

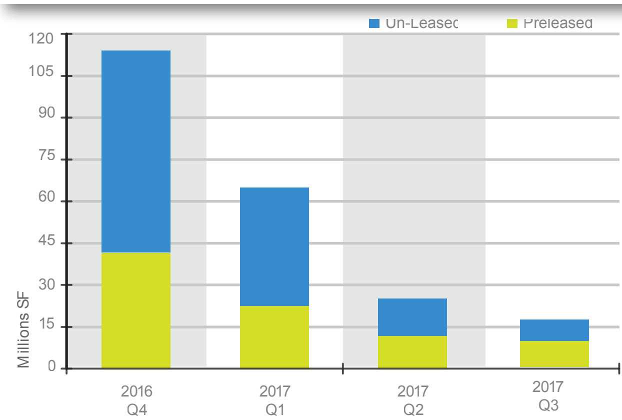
If you're a tenant, owner/user buyer or investor, you are having a tough go of it. With vacancy declining in almost every primary and secondary market, quality space offered for lease is getting tougher to find, and many tenants are forced to settle for older properties, many with elements of functional obsolescence. For those tenants fortunate enough to secure first generation space, rates are up and landlords are demanding longer terms and stronger credit.

Owner/user buyers are frustrated in every market we track. Property values have skyrocketed and the supply has dwindled to zero in some markets. Still, they keep hunting for the rare opportunity to buy with as little as 10% down with long term loans with fixed interest rates in the low 4% range. Many markets have recorded double-digit appreciation for owner/user buildings the past three or four years. Yet, demand keeps moving higher.

For investor buyers, the odds for successful acquisitions are not much better. Competition for industrial investment property is fierce and trades are being made above asking prices at cap rates running as low as 4%.

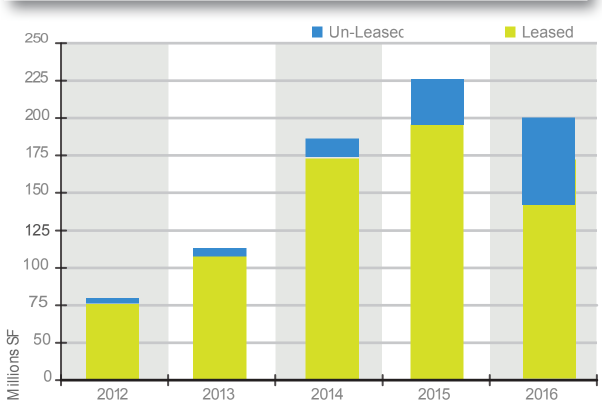
FUTURE DELIVERIES

PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



RECENT DELIVERIES

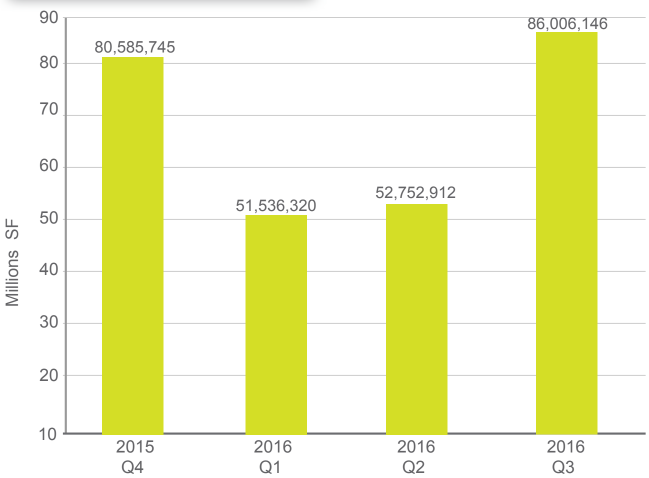
LEASED & UN-LEASED SF IN DELIVERIES LAST 5 YEARS



Even secondary markets are experiencing a huge imbalance of supply and demand. All industrial product types are in high demand. The institutional players are focused on big distribution buildings occupied by strong credit tenants. They also like multi-tenant business parks, but have to compete with local and regional players for those assets. Add value deals are also in play. Those deals are often the target of developers who are having their own troubles securing quality sites for ground-up development, as land becomes more expensive, scarce and harder to get entitled. So, with all that in mind, let's take a look at the numbers for Q3.

Net absorption, the key driver that makes it all go, was way up in Q3. Over 112 million square feet of positive net absorption was recorded nationwide. That is an increase of 37% over Q2's total and the biggest quarterly gain in net occupancy in years. E-commerce players, the big shippers and 3PL operators are the biggest contributors, along with major retailers. The big push for "Last Mile" locations is making a difference in markets big and small. Amazon.com has been opening multiple major fulfillment centers each quarter, with many of them near or over 1 million square feet. Walmart is also making a push to do the same, as the world's largest retailer ramps up to compete with Amazon, the goliath of the e-commerce movement. Without the e-commerce boom, the market would have a very different look and feel. But, the sector may be at just the beginning of its expansion phase, as online sales are still only a small fraction of overall retail sales across the country.

NET ABSORPTION * For Top 42 Markets



New deliveries for both speculative and build-to-suit projects for Q3 reached 81.5 million square feet in 475 buildings. That is a 48% increase over the previous quarter and the highest total in the past year. That brings total US industrial property inventory up to 21.85 billion square feet. As the quarter ended, another 234.4 million square feet was still in the construction pipeline. Development activity is far from evenly distributed. Infill markets like Los Angeles and Long Island New York, have virtually no construction, while land rich markets like Dallas, Houston, Atlanta, Philadelphia, Chicago and Southern California's Inland Empire have up to 20 million square feet underway at the same time.

A good balance between spec and build-to-suit construction has helped keep market metrics in balance. New deliveries are running just short of net absorption, which bodes well for continued equilibrium in most markets around the country. At this time, no primary or secondary market in the US is considered overbuilt. That gives developers the confidence to keep on building without fear of being overextended if the market finally does cool off. In the markets with high levels of speculative construction, tenants are able to expand quickly if needed. They may have to pay more, but they continue to show a willingness to do so, as long as they get space that helps improve efficiency.

For the past two quarters we reported that a disproportionate amount of market activity was concentrated in big deals by big tenants in big buildings. That didn't change much in Q3. The warehouse sector accounted for 104 million of the 112 million square feet of net absorption recorded in Q3. Most of that was in bulk distribution deals. Think Amazon. However, that doesn't mean every big deal is a big e-commerce player. The biggest building under construction right now is a manufacturing plant for Volvo in Charleston, South Carolina.

The national vacancy rate for warehouse and flex space combined has been falling steadily, and that trend continued in Q3 with another 20 basis point drop to finish the period at 5.6%. In the past four quarters, the vacancy rate has fallen by 40 basis points, but several major market areas have vacancy rates in the 2% range, including Central Los Angeles, Long Island, New York and California's Orange County. Not coincidentally, those markets have nominal amounts of new construction. The base inventory of industrial product is actually shrinking in some mature markets, as land is being repurposed to so-called higher uses.

Vacancy declines have average asking lease rates moving higher across the country. The national average asking rate continued its five year long move up. In Q3, rents rose another $.08 to $6.01 per square foot. Markets with the most construction are experiencing more rapid rent growth, as tenants continue to pay a premium for first generation space that offers greater efficiency. That includes major distribution hubs like Atlanta, Dallas, and Southern California's Inland Empire.

LOOKING AHEAD

The US industrial market should finish 2016 as it began; high demand, low supply, rising prices and declining vacancy. Weak economic growth, confusing monetary policy and political theater around the globe is yet to put the brakes on US industrial market growth. But, if interest rates don't move up soon, our central bankers will have little room to maneuver in the event of market correction. When the Fed Funds Rate moves up, cap rates may move in the same direction, if not in lockstep. That means that even markets with the strongest rent growth would see valuations decline. That possibility is not lost on investors, expanding businesses and developers who will take pre-emptive action to protect their interests.

Internationally, there is no good news. Period. The global economy is on its heels right now and there is little indication that things will get better before they get worse. Post-Brexit impact on the EU is still a big unknown. China and other emerging economies are struggling. The US economy is doing better, but only by comparison. GDP numbers are falling behind 2015 levels, job creation is trending down and our manufacturing sector is struggling to keep from sliding backward. Is this enough to slow the industrial market down? To date, the answer is no. The market has a head of steam that will be hard to cool down. Barring a "significant" economic event, we should all expect the industrial sector continue to expand. Even at half its current pace, market growth would be significant.

The US is still the preferred safe haven for foreign investment and owning US Dollar-denominated assets is a good bet. So, capital will keep flowing into the US, which would mitigate the impact of a slowdown in industrial market activity.

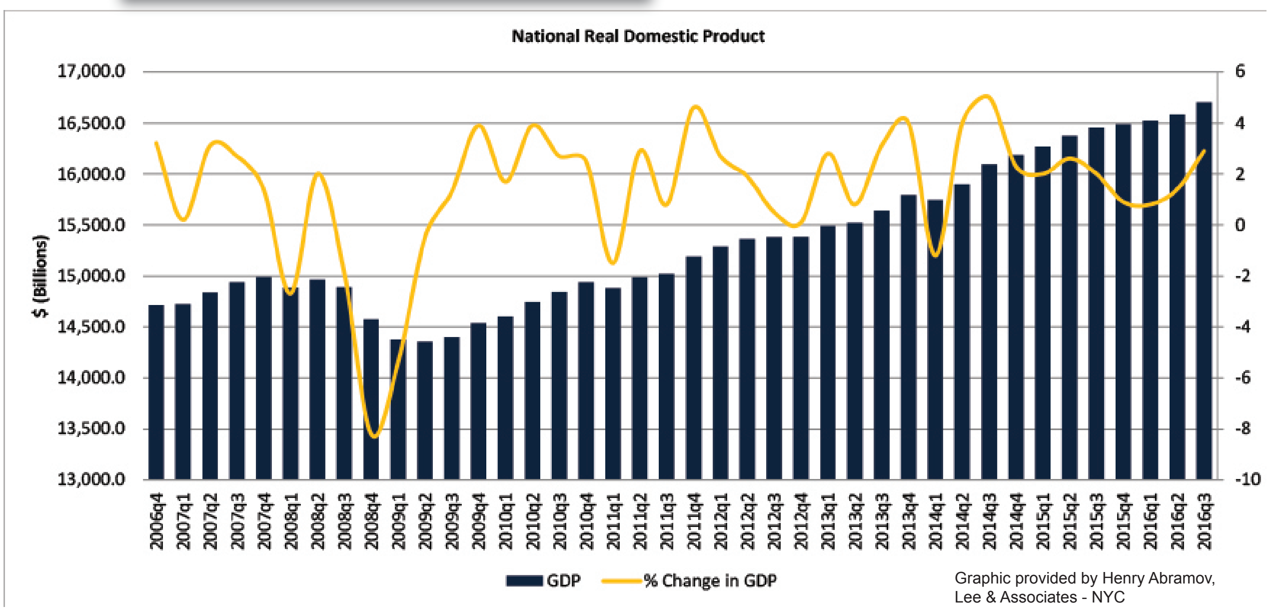
Vacancy will keep moving lower and more markets will look Central Los Angeles where vacancy is running at 2% and construction is essentially non-existent. Net absorption should stay near record levels in most markets, but may moderate in markets that lack quality options for expanding tenants. More tenants will be forced to renew and average lease rates will continue to move higher, especially in those markets with the first generation space. Construction will stay at current levels in areas with ample supply of land, but will decline in markets with fewer available sites and higher levels of regulatory controls. Expect the entitlement process to become longer and more expensive.

GDP GROWTH

US GDP, the benchmark that tracks the total output of US goods and services, is perhaps the most closely watched statistical barometer in the world. Our economy is the largest on the planet and we consume more foreign goods and services than any other nation. So, the fortunes of those nations who depend on exporting goods and services to the US are inextricably linked to our own.

Unfortunately, US GDP growth over the past several quarters has been dismal, running just above stall speed despite massive intervention by our central bank. In the fourth quarter of 2015, the US economy grew at an annualized rate of just .8%. In Q1, the economy expanded by just .9%, followed by a 1.4% rate in Q2. Even if things pick up in the second half of the year, it is unlikely that the US will achieve even a 2% rate of growth. In 2015, GDP grew at a 2.4% clip.

QUARTER-TO-QUARTER GROWTH IN REAL



The current estimate of Q3 growth offered by the Atlanta Fed's GDP Now tracker, is at 2.9% and has been trending down each week. As poor as our economic growth is, it's better than it is in Europe and Japan, where governments are resorting to drastic measures to keep their economies from sliding into recession. The central banks of the EU and Japan have resorted Negative Interest Rate Policy (NIRP) and massive bond-buying programs to encourage corporate borrowing.

Political turmoil, civil unrest and economic challenges around the world have dampened expectations here at home. There is no denying the effects of globalization and things are not going well outside our borders. So, only diehard optimists are predicting much near term improvement in the US GDP growth rate. The bigger question now is whether or not US companies and consumers will acclimate to a lower growth model and accept it as the "new normal."

GDP GROWTH

Volatility in equities has been on the rise in 2016, as US companies grapple with sluggish market conditions. Corporate earnings have declined repeatedly the last six quarters and companies have been resorting to cost-cutting and stock buyback programs to increase profits and earnings per share. Reducing operating costs means job cuts and that means reduced consumer spending, which accounts for roughly 70% of GDP.

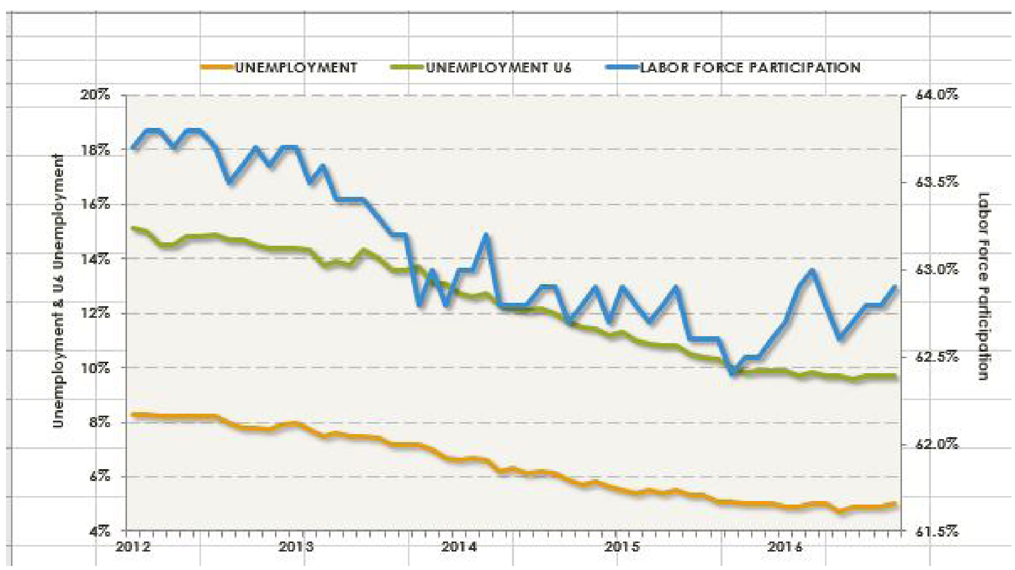
As we pointed out the last two quarters, US consumers have become more cautious. Retail sales growth, a large component of consumer spending, has been spotty at best. Sluggish wage growth remains a problem. Income growth is running just above the rate of inflation, which remains stubbornly below the Fed's target of 2%. Even auto sales, which have been very strong in the past couple of years, are seeing a drop-off, further evidence that consumer confidence could use a boost.

EMPLOYMENT

Job growth, which was running at over 200,000 per month on a rolling twelve month average, has slowed down and become more volatile in recent months. Q3 started strong with a total new job count of 252,000. However, August and September were both disappointing, posting job counts of 167,000 and 156,000, respectively. The low point for 2016 came in May when only 11,000 new jobs were recorded. The best month of the year thus far came in June, when 271,000 new jobs were created. Wild swings in job growth is certain to affect consumer spending and that makes CEOs more cautious and less inclined to implement aggressive growth strategies. If that is so, then we can expect job growth to stay on its current trajectory.

Despite erratic job growth numbers, the U3 unemployment rate (the index most widely used) has only ticked up slightly from its low of 4.7% back in May. As Q3 closed, the U3 unemployment rate stood at 5%, which historically is indicative of a fully employed economy. However, that number is deceiving because so many of the jobs being created are either part time or at the lower range of the wage scale. The U6 unemployment rate, which accounts for part-time workers who would prefer to work full time in their field, is still at 9.7%. This index perhaps more telling of our employment picture because it makes clear the fact that too many people are working at jobs that don't pay the bills. This reduces discretionary income and negatively impacts consumer expenditures. Concerns over slowing domestic growth and the prospect of recessions abroad is prompting employers to hire more part time and temporary workers. The cost of health care pursuant to the Affordable Care Act (ACA) is also contributing to part time employment problem, as employers are inclined to hire workers just under the 30 hour per week threshold that would require them to provide health benefits.

NATIONAL UNEMPLOYMENT



The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working, also remains stagnant. Choppy job growth reports and the early exit of Baby Boomers, have combined to keep just 62.9% of potential workers in active production. It is important to note that Labor Participation has moved of a five decade low, but it may begin to move back down in the coming quarters as the rate of retiring Baby Boomers increases.

Wage growth is another problem that has dogged the US economy. Full-time, high-paying jobs are in short supply and wage growth overall is tracking at a rate of approximately 2.6%, marginally above the current rate of inflation. That kind of wage growth offers little relief to workers at or near the minimum wage level who are

EMPLOYMENT

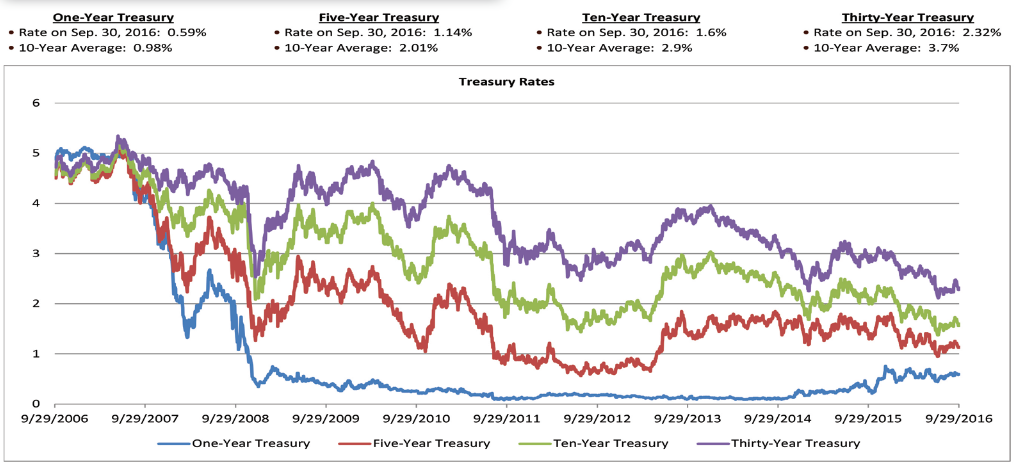
struggling to make ends meet. It's no wonder that so many middle class workers are disillusioned with a recovery that they feel has left them on the outside looking in. Many of them come from the manufacturing sector, which has been steadily shedding jobs for the past year.

Layoffs in the energy sector has not helped the job picture, either. Upwards of 700,000 full time positions have been eliminated since oil prices declined sharply back in 2014. Many of these jobs are high-paying technical positions that are not easily replaced in other business sectors. Until oil prices move much higher than current levels, we can expect more of the same kind of job losses.

MONETARY POLICY

In December of last year, the US Federal Reserve Bank finally pulled the trigger and boosted the Fed Funds rate by 25 basis points to .5%. Since that time, our central bankers have chosen not to take further action, citing any number of reasons to sit on their hands and continue the longest monetary stimulus in Fed history. Some believe our central bankers were caught off guard when their first move on rates roiled world markets and sent the US Dollar soaring. A strong dollar makes US exports more expensive and raises the cost of paying back dollar-denominated loans from around the world. That first move on rates also sent US equities markets into a slide that many had been predicting. But, the Fed walked back their plans for regular rate hikes throughout 2016 and yield-chasing investors poured back into the equities markets, driving up stock prices back up despite six consecutive quarters of earnings declines. Now the chatter about another rate hike this December is getting louder and most experts believe there is at least a reasonable chance for a single rate hike after the Presidential election but before the end of the year. However, few will be surprised if the Fed kicks the interest rate can again.

US TREASURY RATES



30-Year Treasury constant maturity series was discontinued on February 18, 2002 and reintroduced on February 9, 2006. From February 18, 2002 to February 8, 2006, Treasury published alternatives to a 30-year rate. Historical trend reflects discontinued time frame as an estimation.

Graphic provided by Henry Abramov, Lee & Associates - NYC

While the talk here is about when to raise rates, central bankers around the world have been going in the opposite direction. The European Central Bank (ECB) has taken its benchmark rate into negative territory, as has the Bank of Japan. That means that borrowers get paid for borrowing money, which has raised legitimate concerns within the business and investment communities. Both those central banks are buying corporate bonds in addition to their own sovereign debt, raising further concerns over the long term consequences of actions that are based on unproven economic models. The most outspoken critics of central bank policy are calling out individual central bankers they believe are panicking by doubling down on failed policies to save their academic reputations. Given the current state of economies around the world, that argument is sounding more reasonable all the time.

Back here in the US, Fed Chairman Janet Yellen and her Board of Governors have slowly but surely been painting themselves into a corner by continuing their current easy money policy. With GDP growth near stall speed, concerns over what action the Fed can take if we fall into recession. With a Fed Funds rate of .5%, just two 25 basis-point decreases take it to 0%. If that doesn't adequately stimulate GDP growth, then there may be no place to go but into negative territory, which is completed uncharted territory. That will send economic uncertainty to new levels and cause declines in consumer spending and business investment. If that happens, the Fed may be out of ammunition and may leave the federal government with no other choice but to increase spending to stimulate the economy. That means bigger federal deficits that are already on the rise and on their way back to over $1 Trillion per year. Bottom line: the Fed has itself in a pickle and is running out time and ideas to get the economy back on a track of healthy growth.

MONETARY POLICY

Real estate borrowers are still reaping the benefits of the Fed's current monetary policy direction. Mortgage rates have remained at historic lows, and borrowers are in a position to lock in those low rates for up to 25 years. Most lenders use a spread over the yield on the 10 Year T-bill (now at approximately 1.7%) to set mortgage rates. So, long-term loans are still readily available in the 4% range. Until the Fed does more than talk about raising rates, it will still be a good time to borrow money.

Clearly, keeping a close eye on what central bankers are up to around the world is a good idea. More drastic measures are being taken every day somewhere around the world, including the newest tool, negative interest rates. Imagine paying for the privilege of loaning someone else money. Sound crazy to you? If it does, you are not alone.

GLOBAL ECONOMY

In the past two quarters we have been describing the global economic outlook as troublesome. The International Monetary Fund must agree, as it has twice reduced its estimate of global growth this year. The stakes remain high and the outcome of the current global economic conundrum is largely unknown.

Energy exporting nations are reeling from the sharp decline in oil prices, but they can't seem to get on the same page on production levels to support a price recovery. Iran is back in the oil business, which has added unneeded supply and Saudi Arabia keeps pumping to keep the price down in an effort to squeeze out US and Canadian production, which is more expensive. That strategy has worked, but every nation that exports oil has taken a huge hit as a result. Venezuela, Brazil and Russia have been hit particularly hard. Venezuela is near complete collapse economically and politically, while Brazil is grappling with runaway inflation and government scandals. Nations that export other commodities have also suffered from price collapses relating back to slower growth in China, the world's largest manufacturer.

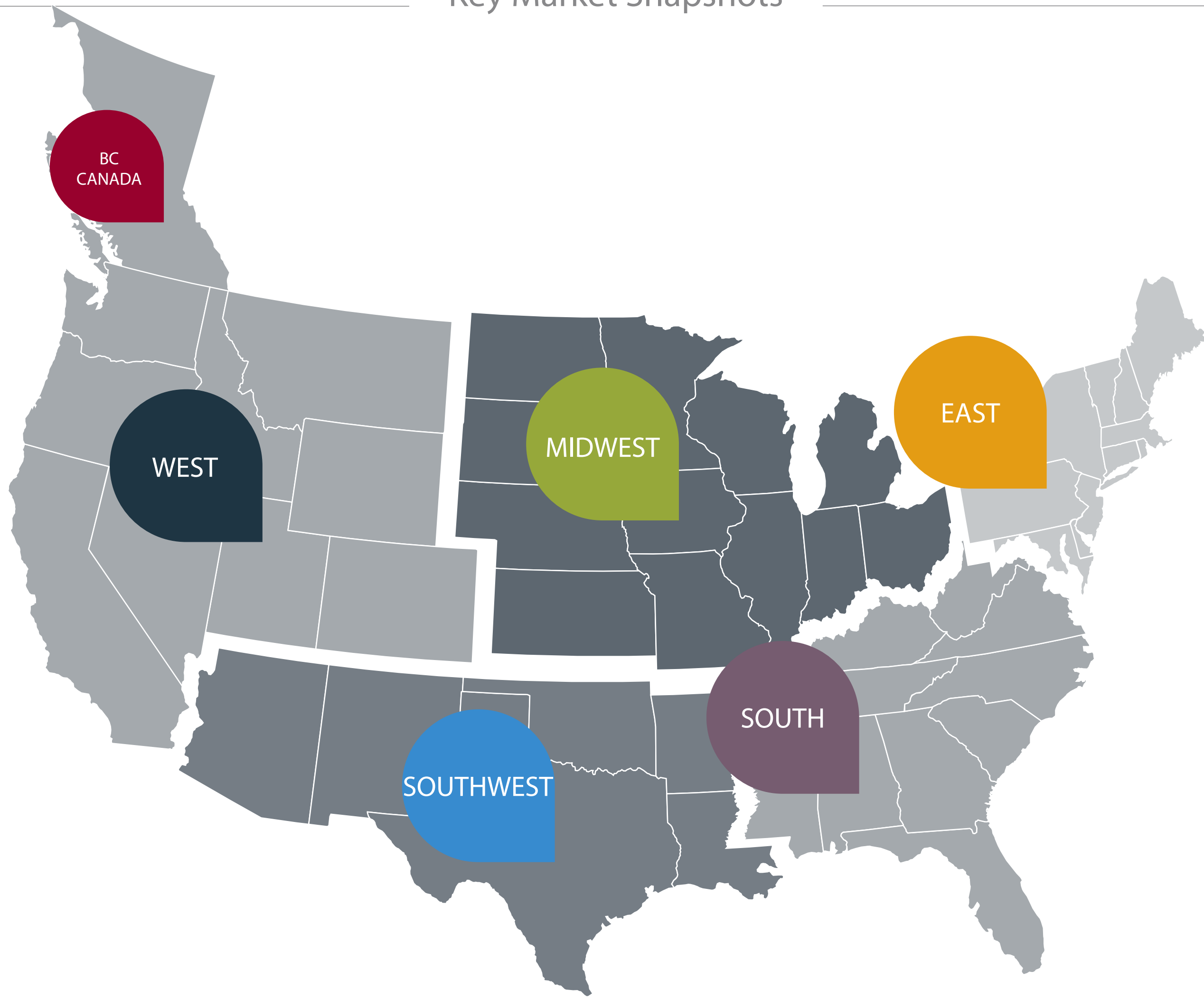
EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

When the UK made its surprise decision to vote for an exit from the European Union, the long term survival of the EU became a major topic. Few gave the Brexit vote a chance and the shock wave from the vote was felt immediately. Europe's political union in constant crisis mode these days and there is no governing body with the real authority to enforce anything. Sovereign debts are mounting, unemployment is persistently high and GDP growth in Europe is nearing recession territory. Calls for austerity from nations swimming in debt have been largely ignored, and the ongoing refugee crisis has whipped up nationalist fervor throughout Europe. The Euro and British Pound have taken a beating of late, and central bankers are taking drastic steps to stimulate business and consumer spending.

Oil-rich Middle-Eastern countries, including Saudi Arabia, are burning through cash reserves to cover revenue shortfalls precipitated by the falling price of oil. China is issuing sovereign bonds to help it cope with its massive transition from total dependence on the exportation of manufactured goods.

None of this sounds like good news and that is undeniably correct. However, the US economy is in much better shape relatively speaking. Once again, the world views the US as the safe haven of choice. That keeps capital moving into the US and much of that finds its way to the commercial real estate market. In fact, foreign demand for US real estate assets continues to contribute to gains in asset prices, as it increases competition in all product types. Foreign investors are willing to pay a premium to assure the preservation of their capital.

Key Market Snapshots



VANCOUVER, BC
CANADA

LA NORTH
LOS ANGELES/LONG BEACH
INLAND EMPIRE EAST
INLAND EMPIRE WEST
DENVER

PHOENIX
DALLAS/FT WORTH
HOUSTON

MINNEAPOLIS/ST. PAUL
CLEVELAND
COLUMBUS
INDIANAPOLIS

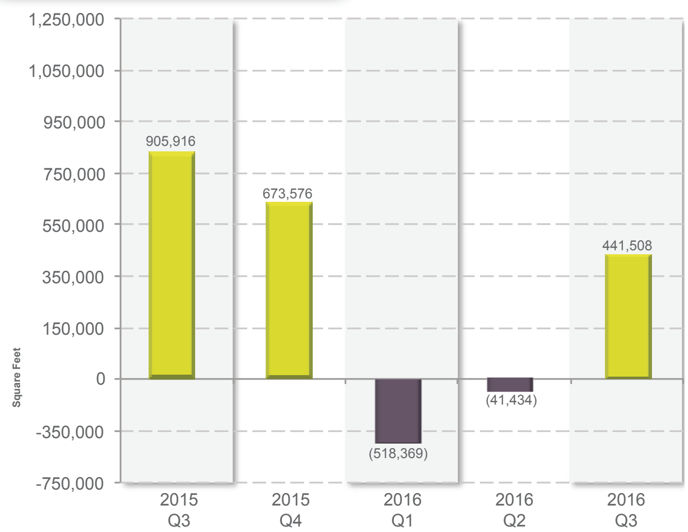
ATLANTA
CHARLESTON
GREENVILLE / SPARTANBURG
ORLANDO

PHILADELPHIA
NEW JERSEY
BALTIMORE

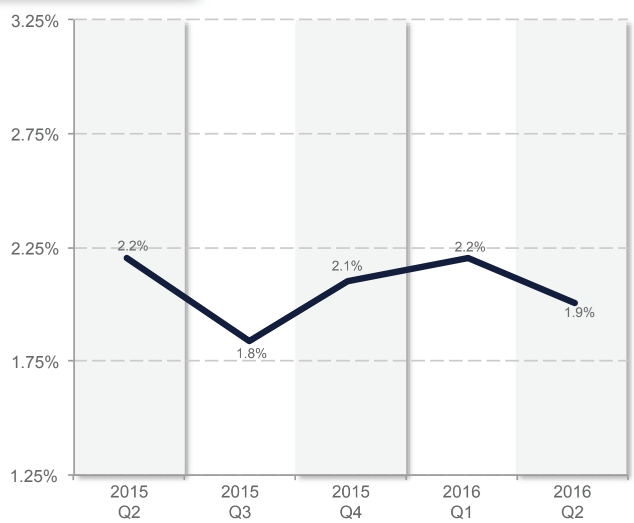
LA NORTH

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



With the industrial property vacancy rate running below 3% for the past two years and under 2% in recent quarters, the focus has turned to lease rates in the LA North region. Demand remained steady even during the last recession, so lease rates didn't decline as sharply as they did in surrounding markets. Now, with so little construction and the redevelopment of the area's aging industrial stock into other product sectors such as multifamily, the supply-demand ratio has given landlords the green light to initiate significant rent increases.

Average asking rates rose 5% year-over-year to $9.48 per-square-foot in Q3, and are now more than 6% above the peak of the last real estate cycle. Yet, the overall rate does not accurately reflect the degree to which rents have escalated in prime areas and for the highest quality buildings. The current lease rate in the Burbank submarket averages $15.00 per-square-foot and more than half of the submarkets in the L.A. North region are now averaging more than $10.80 per-square-foot.

Vacancy rates, which declined to 1.9% in Q3, are also below 2% in eight of the area's 13 submarkets. Perhaps the most extreme example of the supply constraint that exists in the region today is in Van Nuys, which posted a rate of just .05%.

With rents rising and availability at all-time lows, developers are actively seeking out opportunities, and several development projects are currently underway. Overton Moore Properties has broken ground on the Point @ Simi Valley Business Center, a 141,000-square-foot industrial development northwest of Los Angeles. Another 398,000 square feet of industrial development is under construction in Santa Clarita Valley and 361,000 square feet of industrial development has broken ground in Sun Valley to the northeast.

1.9%	$9.48	441,508	117,278,844	759,258
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW (continued)

Also worth noting, OPI Products, Inc., the nail polish manufacturer, is relocating its North Hollywood manufacturing operations to North Carolina, where its new parent, Coty, Inc., maintains its main manufacturing plant. The exit of OPI, which employs more than 400 workers, is a disappointment to the business community in the area, but the move will open up a 21-building manufacturing campus in the heart of the San Fernando Valley.

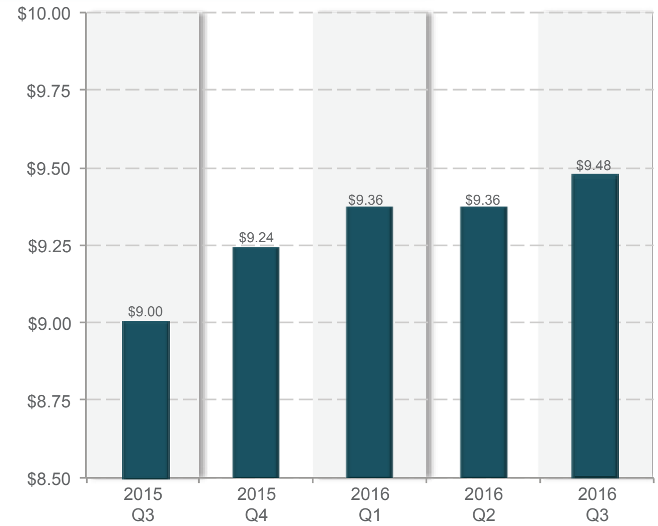
Neither the upcoming vacancy nor the development underway will impact the log jam industrial tenants are experiencing to any significant degree, but these developments are likely to free up some of the Class B and Class C space available for smaller tenants who want to expand.

While media reports suggest that sale prices are moderating, that does not appear to be the case in the Los Angeles North industrial sector. Building sale prices rose another 5.5% in just a single quarter and are now 13.5% higher year-over-year.

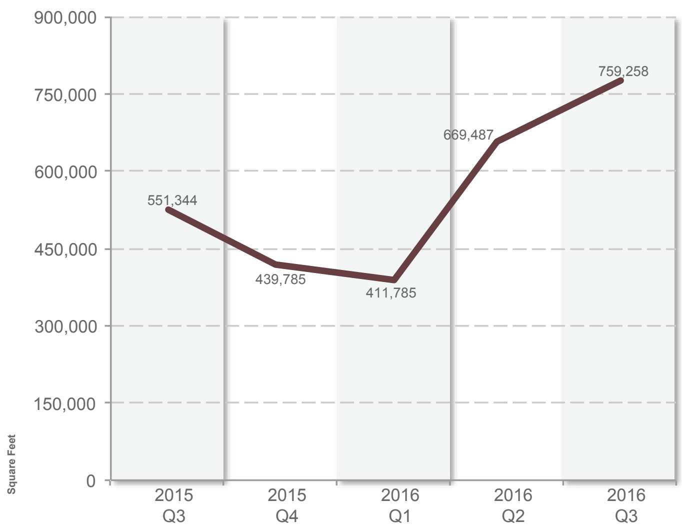
Investors of all types have been extremely active in the market. Local investor Majestic Asset Management Inc., just acquired a 347,000-square foot industrial building in the Conejo Valley, paying $37 million or $106.62 per square foot for the fully leased asset, and LaSalle Investment Management, an international real estate firm, just acquired a five-building, 491,600-square-foot industrial portfolio in Santa Clarita Valley's Valencia submarket for $64 million or $130 per square foot.

The West Coast, with its port access, has been a prime target of real estate investors, and The Blackstone Group recently paid $1.5 billion for a logistics portfolio with 12 million square feet in and around California.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

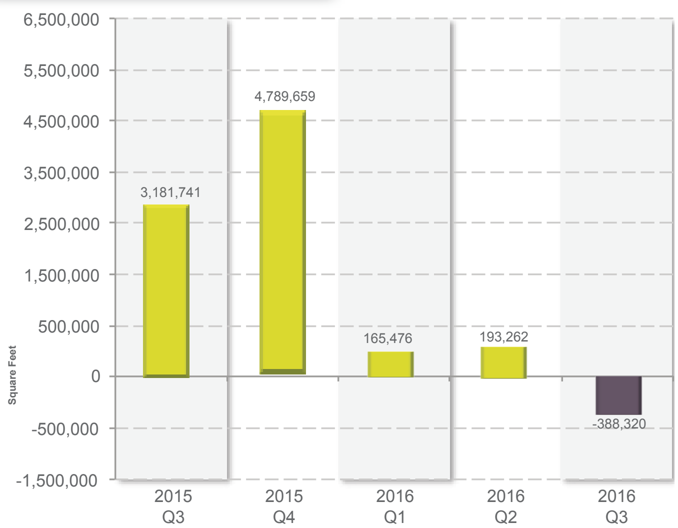


A LOOK AHEAD

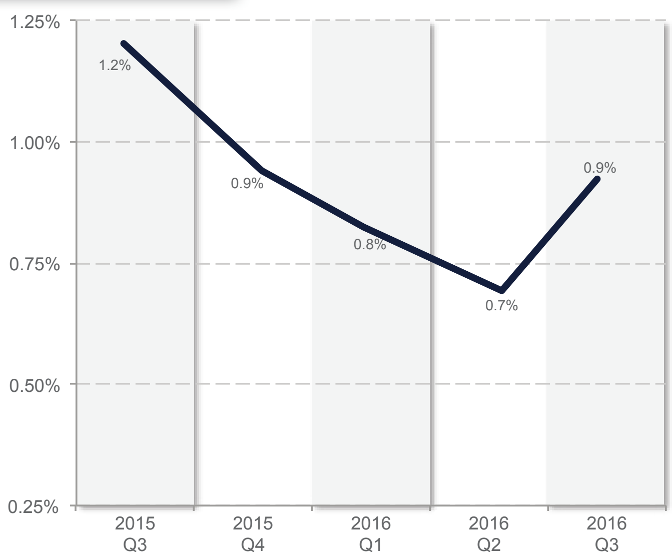
- Average asking lease rates will likely rise another 10% or more, driven not just by demand, but also by the new construction that is expected to establish higher thresholds for Class A properties
- Building prices should increase by 10% or more over the coming year
- Expect little change in record-low vacancy rates
- Investment activity will remain strong as local investors vie for limited supply and national and global firms look to suburban markets to boost portfolios
- New construction will continue to be limited by land availability

LOS ANGELES/SOUTH BAY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Los Angeles/Southbay industrial market includes major portions of Los Angeles and the City of Long Beach. The area has long been one of the busiest industrial markets in the country, driven primarily by the Ports of Long Beach and Los Angeles, which together handle up to 40% of the nation's cargo activity. Port activity has been on the rise for several years, but the Hanjin Shipping's bankruptcy filing in late August has been a major disruption to the regional supply chain. Fully loaded ships are anchored offshore due to financial and legal uncertainties. An estimated $15 billion in goods are stranded offshore just as retailers are ramping up for the holiday sales season. There is also the problem of finding a place for as many as 15,000 empty containers that would otherwise be reloaded onto Hanjin ships returning to foreign ports. The port area is woefully short of land and space as it is. So, the poorly timed bankruptcy has become nothing less than a logistical nightmare. It is too early to determine the effects of this crisis on the industrial property market.

Vacancy actually rose 20 basis points in Q3 and still stands at just .9%. Distribution space is being absorbed almost immediately and tenants are scrambling to be the winning bidder, as virtually every available space attracts stiff competition. Landlords are demanding stronger credit and commanding higher rates, which helps to insulate them from a market correction should one occur. They see it as their chance to mitigate future leasing risk in the event of a correction. Very low vacancy also allows landlords to focus more attention on renewing their best tenants well in advance of their lease expirations.

Some tenants are so desperate for space that they will consider even those buildings with significant functional

0.9%	$9.72	(388,320)	207,497,104	2,213,529
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▼	▲

LOS ANGELES/LONG BEACH - TRENDING NOW (continued)

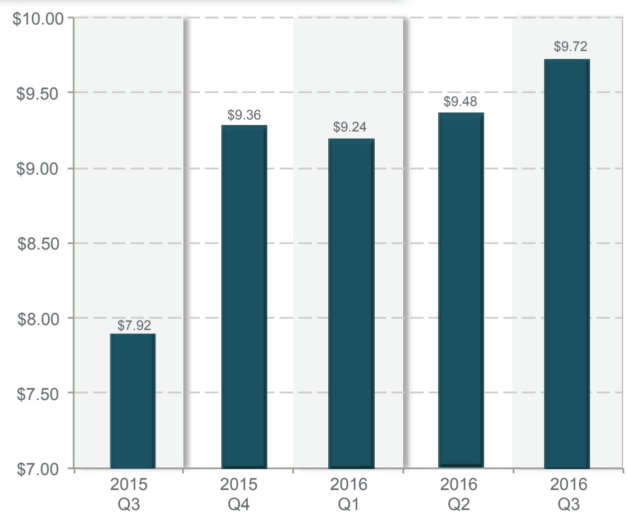
are also becoming more concerned about signing long term leases at such high rates, but have little leverage in such a lopsided supply/demand environment.

The average asking rental rate moved up $.02 in Q3 to $.81 on a monthly basis, after a similar increase in Q2. Net absorption turned negative for the quarter due to the timing of larger move-outs, ending Q3 with a decline in occupied space of 388,320 square feet. Those new vacancies won't last long with supply at such critically low levels. Even though new minimum wage laws are a concern to distributors and service companies, they remain attracted to the area because of the 10 million consumers that reside within a one hour drive of the ports. UPS just made a major commitment by leasing half of the Brickyard project to service major e-commerce giant Amazon.

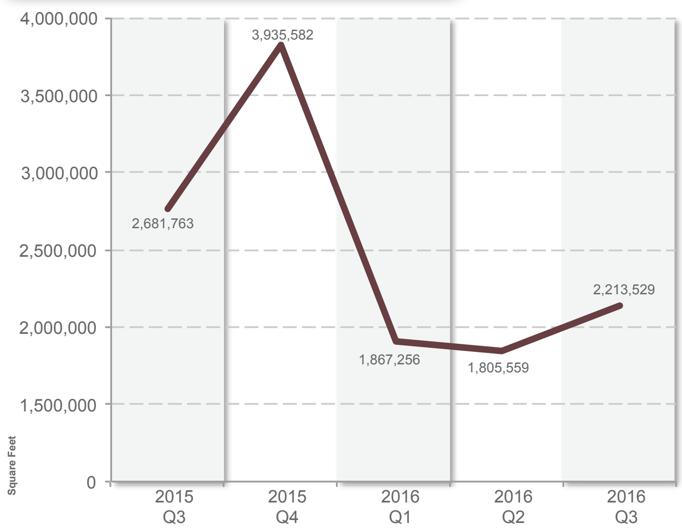
Badly needed development of new space poses another problem. The availability of buildable sites is very low and many of the remaining land sites are burdened with environmental issues. The price for buildable land sites has skyrocketed in the last three years to a record high $50 per square foot, a level that would require lease rates even higher for the new developments. So, development activity remains nominal even though developers have shown a willingness to take on higher levels of risk. Currently, just over 2.2 million square feet is under construction.

Demand from investors for stabilized assets and value-add opportunities remains intense. Cap rates are at all-time lows across all size ranges and the competition for product increases with asset size. The region has long been a favorite of institutional investors because of its proximity to the ports.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

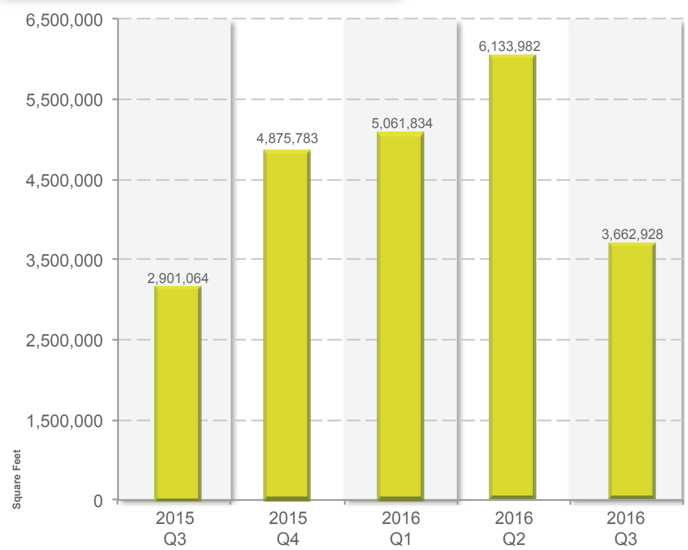


A LOOK AHEAD

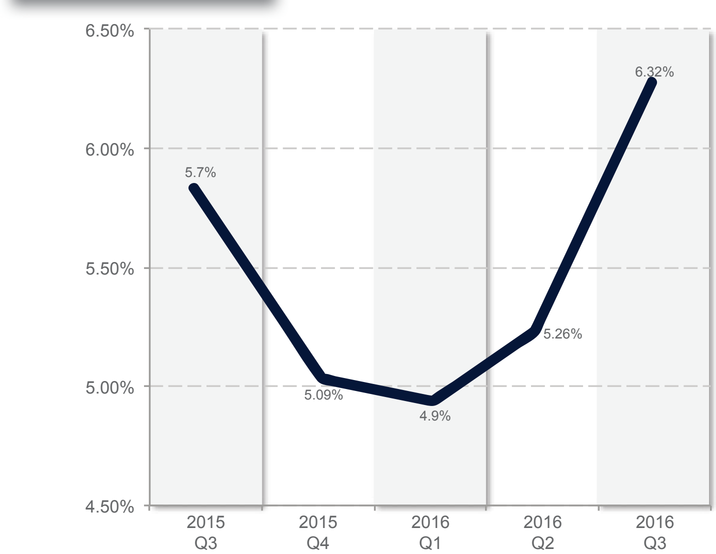
- Leasing activity will remain strong with a bigger emphasis on renewals
- Vacancy will fluctuate 1% and 2% throughout 2017
- Average asking sale prices for land and buildings will keep moving higher even if interests rates move up
- Lease rates will move up another 3% to 5% in the next year
- Renewing tenants will experience sticker shock as landlords maintain the upper hand
- A yes vote on legalizing recreational marijuana use will be a game changer by sending lease rates and sales prices sharply higher

INLAND EMPIRE-EAST

GROSS SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Inland Empire-East (East Valley) industrial market includes the Cities of Colton, Grand Terrace, Moreno Valley, Perris, Loma Linda, Mentone, Redlands, Yucaipa, Bloomington, Rialto, Riverside, Jurupa Valley (Portions), Highland, San Bernardino, Banning and Beaumont. The area is served by the Interstates 10, 15, 215 and the 60, 71, and 91 freeways, which makes it one of the largest distribution hubs in the US when combined with the Inland Empire-West market.

Industrial lease and sale activity gained strength in the third quarter. Gross activity for the period hit nearly 9.3 million square feet, with investment purchases and lease renewals accounting for 61% of the total. That amounts to more than half of 2015's annual total of 15.3 million square feet. Gross absorption, which tracks the total of amount of move-ins for a period, came in just under 3.7 million square feet, up by 800,000 square feet compared to Q3 of 2015, but the lowest quarterly total for 2016. Momentum in activity for very large requirements has slowed, but users in the 100,000 to 500,000-square-foot range remain very active. Landlords remain bullish and continue to push for longer leases and stronger credit.

Tenants are more motivated than ever and most are either seeking larger facilities or consolidating multiple locations to gain the efficiencies offered in first generation buildings. With demand at such high levels, tenants must decide quickly when the right space comes along and be prepared to compete for it. Those tenants without options to renew are at risk of having their existing spaces leased out from underneath them, which can pose timing challenges as they scramble to locate alternate space. For tenants with renewal options at fair market value, many are experiencing sticker shock

6.32%	$7.27	3,662,928	189,841,733	7,321,727
VACANCY	AVG. SF RENTAL RATES	GROSS SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▼

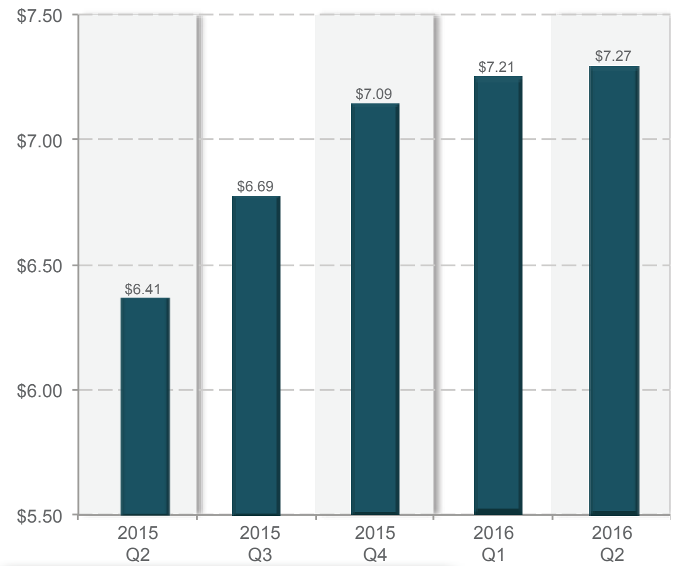
INLAND EMPIRE (EAST) - TRENDING NOW
(continued)

as landlords present their proposed rent increases. But, with so few alternatives in the market right now, tenants renew anyway as they come to realize that what they have may be better than what they can get if they make a move.

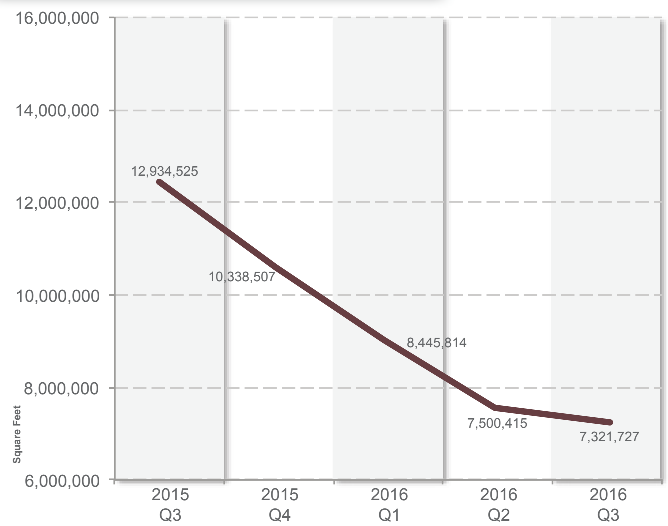
Lease rates have been moving up consistently and landlords are offering little in the way of free rent and tenant improvements. Time on market for quality, functional space is very short, leaving tenants who need to move with little choice but to accept lower quality product, much of which has elements of functional obsolescence. That's the reality of a market tight on supply. In Q3, average asking lease rates for manufacturing and distribution space combined, posted a slight increase of $0.06 to $7.27 on a gross basis.

Over 7.3 million square feet of space was still under construction at the end of Q3, with 78% of that total in buildings over 200,000 square feet. Twelve buildings were delivered in the East Valley during the third quarter, and another four buildings are scheduled for completion by the end of the year. Including deliveries in Q3, the industrial base inventory moved up to 189.8 million square feet. Developers prefer larger sites and seek locations as far west as possible. However, demand from smaller tenants has caused a resurgence in business park development that offer buildings in the 30,000 to 100,000 square foot range. These projects, last seen back in 2008, are more expensive to build, but the demand for quality space has given builders the confidence that they can achieve higher rents that make their projects pencil out.

AVERAGE GROSS SF RENTAL RATES



SF UNDER CONSTRUCTION

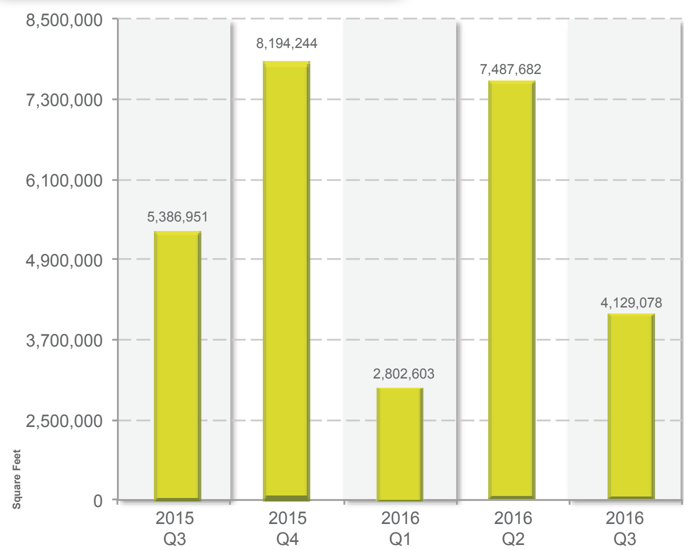


A LOOK AHEAD

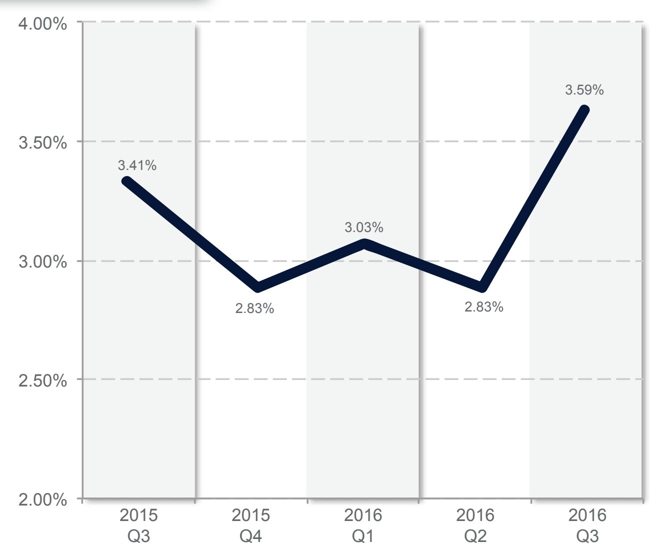
- Overall Gross Activity should remain strong into next year
- Vacancy will remain near current levels due to steady flow of new deliveries
- Sales prices for owner/user buildings will keep moving higher due to short supply
- Lease rates will move up another 5% to 7% in the next year
- Construction activity is on the rise with several new business parks breaking ground by the end of the year
- Net absorption will remain strong and steady

INLAND EMPIRE-WEST

GROSS SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Inland Empire West (IE West) industrial market includes the cities of Chino, Ontario, Rancho Cucamonga, Fontana and Mira Loma. Together, these cities contain 290 million of the over 500 million square feet of existing industrial space in the Inland Empire market. IE West is one of the largest industrial markets in the United States, and serves as a key distribution hub for the Western States. Located within an hour's drive of the ports of Long Beach and Los Angeles, these docks account for up to 40% of the goods entering the US each year. IE West is served by several major highways including Interstates 10, 15 and 215, with easy access to the 57, 60, 91, 210 and 605 Freeways. Bulk distribution product makes up the vast majority of the industrial space, with a high concentration of buildings in excess of 500,000 square feet each.

Quality is also a differentiating factor for IE West, as the region is the most active in the US in terms of construction of state-of-the-art distribution facilities with high ceiling clearance and the latest in fire safety systems that allow large distributors to operate with greater efficiency. By the end of Q3, just over 9 million square feet of Class A distribution space was under construction. Over 18.8 million square feet has been delivered through the first three quarters of 2016. A good portion of that space has been preleased, but speculative development makes up is also a big factor in terms of construction, which gives expanding major retailers, e-commerce companies and 3PL operators the opportunity to quickly expand their capacity within the region.

Despite high levels of new construction, demand is still so strong that supply constraints, especially for buildings under 300,000 square feet, have become a major problem for expanding tenants.

3.59%	$5.76	4,129,078	519,584,021	16,525,428
VACANCY	AVG. SF NNN RENTAL	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

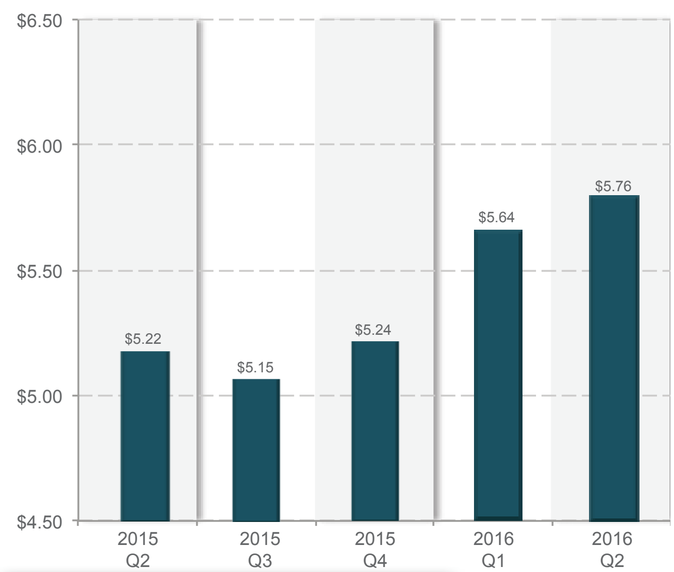
INLAND EMPIRE (WEST) - TRENDING NOW (continued)

That could be more of an issue going forward, as land is becoming scarce and expensive. Add the fact that political resistance to bulk distribution projects is on the rise in some jurisdictions, which complicates the entitlement process.

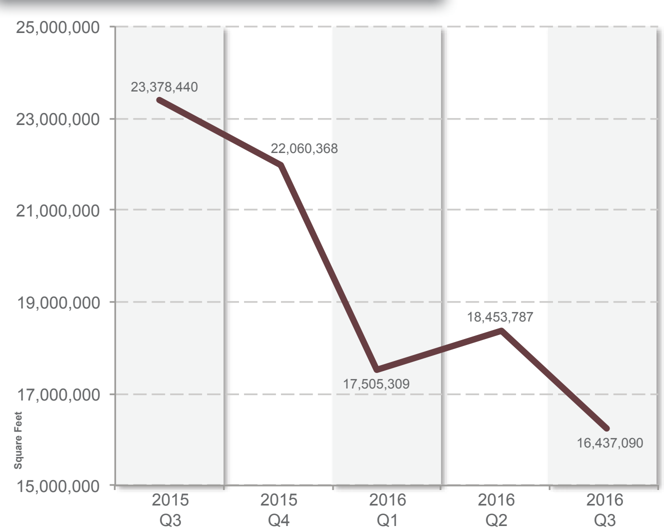
Average asking lease rates continued moving up in Q3 to finish the period at $6.50. Year-over-year, the average rate has risen by a whopping 23%. Rent growth is so prolific that many newer buildings are being marketed without an asking price. Not only are tenants battling higher occupancy cost, they also face critically low vacancy, which is making quality space more difficult to secure. In Q3, the vacancy rate actually moved up 6 basis points, but still stands at a scant 1.38%, lowest of all the nation's major distribution hubs. In Miraloma, not a single square foot of its 31.9-millio-square foot base of buildings over 100,000 square feet was vacant. No wonder landlords are becoming even more difficult in lease negotiations, insisting on longer leases and stronger credit. Concessions are all but gone for the time being.

Notable new leases in the IE West include Walmart's 639,473-square foot lease at the Goodman Logistics Center in Fontana, a 480,000-square-foot lease to Home Depot at 5450 Francis Street in Ontario and a 408,806-square-foot lease, also to Home Depot, in Mira Loma.

AVERAGE GROSS SF RENTAL RATES



SF UNDER CONSTRUCTION

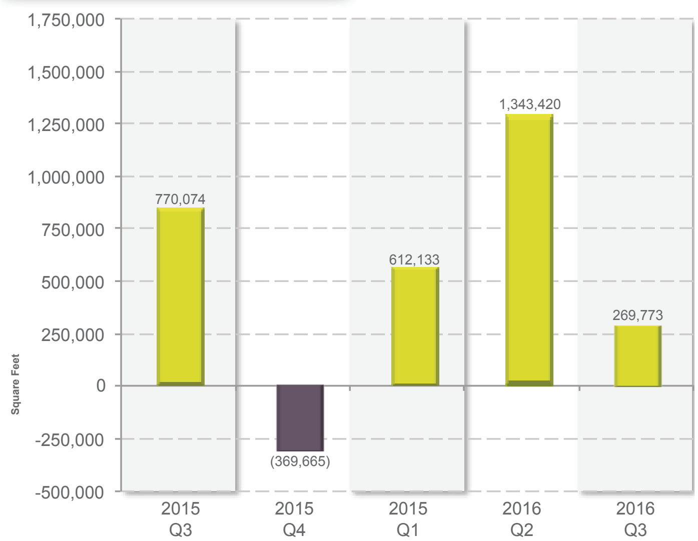


A LOOK AHEAD

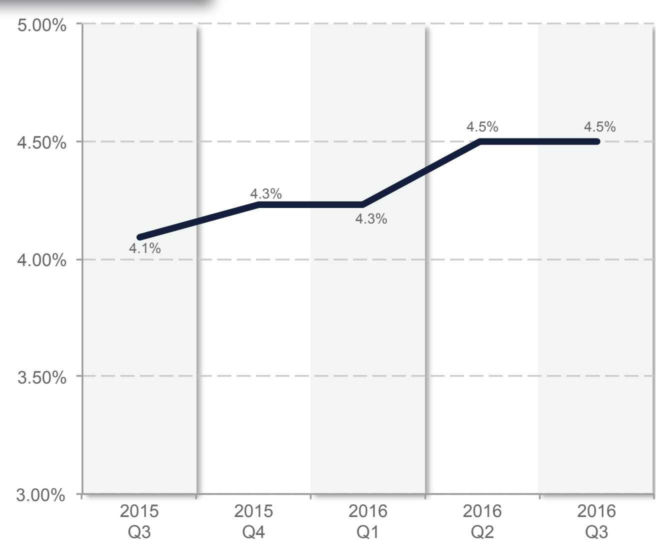
- Overall gross leasing activity should remain strong as tenants scramble to control limited inventory
- Net absorption will moderate due to low supply
- Supply constraints will continue for space under 300,000 square feet, especially if home building improves in 2016
- Annual rent growth will moderate to the 4% to 5% range
- Vacancy will remain near current low level, as new deliveries will keep pace with demand
- Construction will keep current momentum into 2017, as demand for first generation space is still very strong

DENVER

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Denver industrial property market remained healthy in Q3, despite the ongoing troubles in the energy sector. Layoffs, capital expenditure cutbacks and the ongoing slump in prices continues, but the Denver region is showing remarkable resilience, as growth in other industries is ongoing. The industrial market is less impacted by job losses as energy sector employment is concentrated in the office sector. During Q3, oil prices moved back up into $50/bbl range, but the crisis is far from over. The good news is that population and job growth overall remains strong, and the Denver area remains one of the most popular destinations for highly educated, younger workers who are attracted to the region's high quality of life and outdoor recreational activities. Developing urban cores like LoDo, RiNo and The Highlands all offer the live-work-play lifestyle that has become so popular with millennials.

The overall vacancy rate was unchanged in Q3 at 4.5%, but up from 4.1% a year ago. The bulk distribution sector remains the most active, and that activity is focused on spaces larger than 200,000 square feet. Space in the 50,000 to 100,000-square-foot range is moving slower. This has raised some concern considering the fact that another six million square feet is scheduled for delivery by the end of the year. But, for the time being big distribution users are facing short supply of first generation space with high the clearance and fire suppression capabilities that maximize space utilization. Most good development sites are already controlled by local developers.

Net absorption hit nearly 270,000 square feet in Q3, bringing the total change in occupied space in 2016 to just over 1 million square feet.

4.5%	$8.25	269,773	292,770,248	4,559,050
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

DENVER - TRENDING NOW (continued)

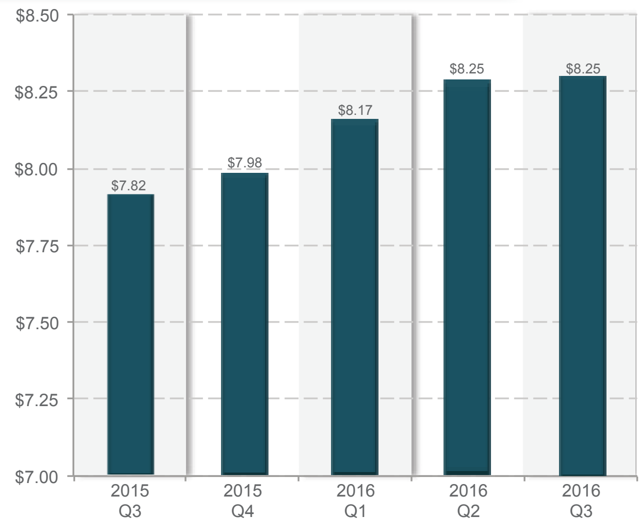
New deliveries for the quarter totaled 616,142 square feet, adding to Q2's total of 2,019,952 square feet. Another 4.5 million square feet of space is underway, mostly larger buildings that will accommodate users over 75,000 square feet. Over 3 million square feet of the current inventory under construction is preleased, and large players like Amazon, Walmart and McLane have all made plans for more distribution facilities in the area.

Rents have moving at a moderate pace. By the end of Q3, average asking rates for all industrial product stood at $8.25, unchanged for the period but up $.43 in the past year. The warehouse sector ended the period with an average rate of $7.28, while flex the rates came in at $10.34.

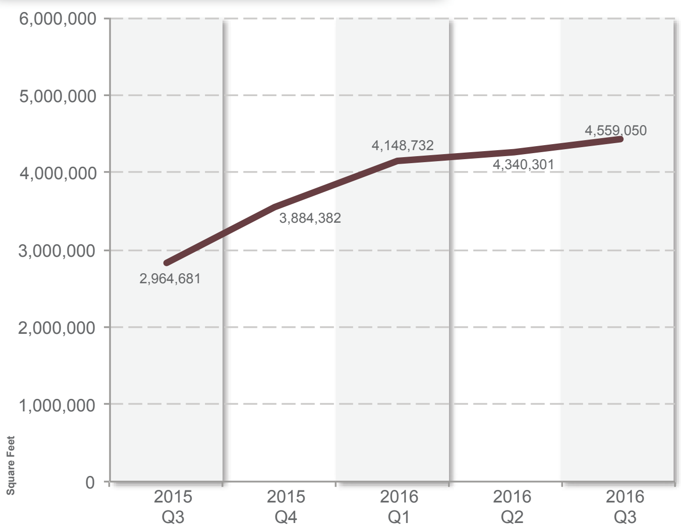
Investors are still hungry to acquire additional industrial product. Cap rates remain compressed and demand continues to run well ahead of supply, as it is most primary and secondary markets throughout the US. Investors see Denver as a market still on the upswing, with strong activity levels and steady rent growth.

The supply of owner/user buildings offered for sale is still thin, especially for buildings in the 5,000 to 20,000 square foot range, where demand is highest. SBA lending rates are still at all-time lows, and buyers are still willing to pay a premium for the chance to level occupancy costs for up to 25 years. The "marijuana effect" has contributed disproportionately to the price spike, which has made the owner/user market a little too rich for some traditional owner/users.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

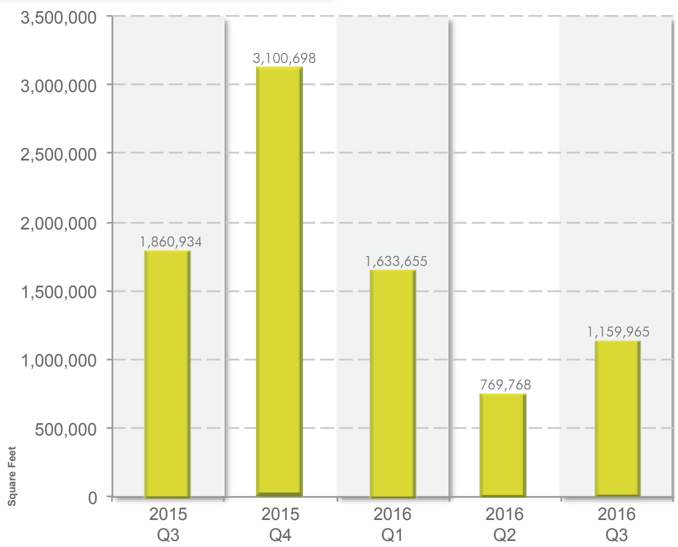


A LOOK AHEAD

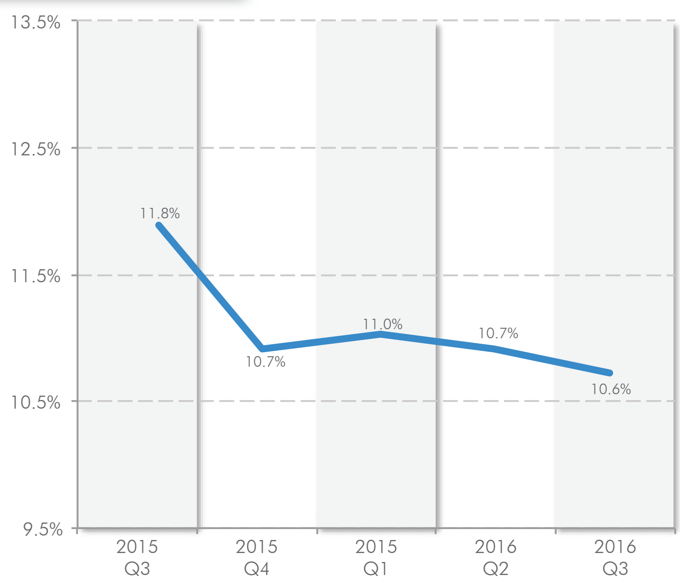
- Vacancy will remain tight, holding near 5% for the next several quarters
- Net absorption will remain solidly in positive territory
- Owner/user sales will slow down due to lack of supply and record-high pricing
- Average asking lease rates are beginning to stabilize
- Construction will continue at current levels with a good balance of spec and build-to-suit projects
- Overall market will improve if oil prices continue to recover

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix industrial market continued to improve in Q3. The region does not show the signs of overheating it did back in 2005 to 2007, and that is reassuring to both investors and landlords. They see ongoing opportunities for income growth without the inherent risks associated with those pre-recession market conditions. They also like the fact that, unlike many other major metro areas around the country, pricing has yet to reach the previous market peak. The unemployment rate by the end of the quarter fell to a post-recession low, and is now back in line with the national rate. Jobs drive net absorption and net absorption drives rent growth, which should keep the market moving higher in the coming quarters.

Interest from California companies is on the rise, as they see locating in the Phoenix Valley as a way of mitigating the record high lease rates, owner/user sales prices and limited availability in the Los Angeles/Orange County/Inland Empire industrial markets. Investor/buyers from those areas are also taking a harder look at Phoenix, as they see the potential for higher yields than they can achieve in California.

Phoenix industrial vacancy moved lower again in Q3, posting a decline of 10 basis points to 10.6%. That modest decline is significant given the fact that 4.8 million square feet of new space has been delivered so far this year. Since 2008, over 40 million SF has been added to the Phoenix industrial sector.

Construction remains strong with 2,513,228 square feet of mostly distribution space in the pipeline. Sky Harbor Airport and East Valley submarket sectors are seeing the most market activity. Absorption this quarter was a robust 1,159,965 square feet, besting Q2 by a significant margin.

10.6%	$6.72	1,159,965	296,375,699	2,513,228
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

PHOENIX - TRENDING NOW
(continued)

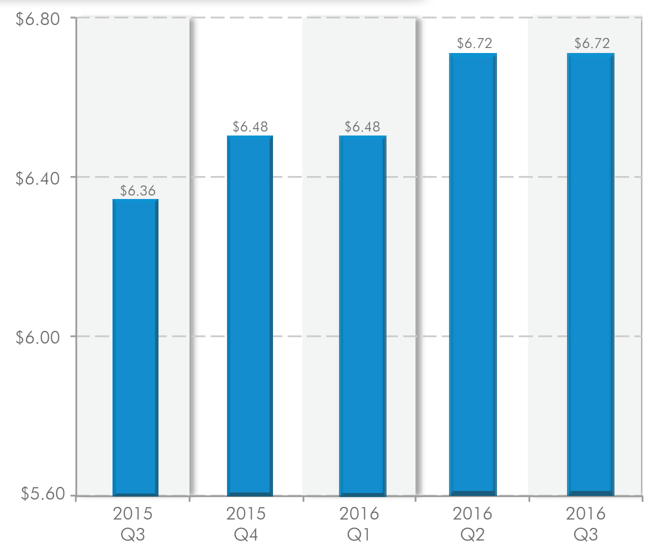
Absorption stands at 3.3 million-square-foot year-to-date and should top out in the 5 to 5.5 million-square-foot range for the full year. That will be down from last year, but still on pace above the historical average. The region is in the middle of its seventh straight year of positive gains in occupied space.

Overall asking rental rates have remained steady these past few quarters, but are expected to tick up next year as availabilities begin to decline. Distribution/warehouse rents for the quarter fell 2% to $.48 per square foot on a monthly basis. Manufacturing rents were unchanged at $.46, while flex rents rose 1.9% in the period to $1.05. The biggest gain occurred in Northeast Valley manufacturing product, which saw an increase of 12% to end Q3 at $.56.

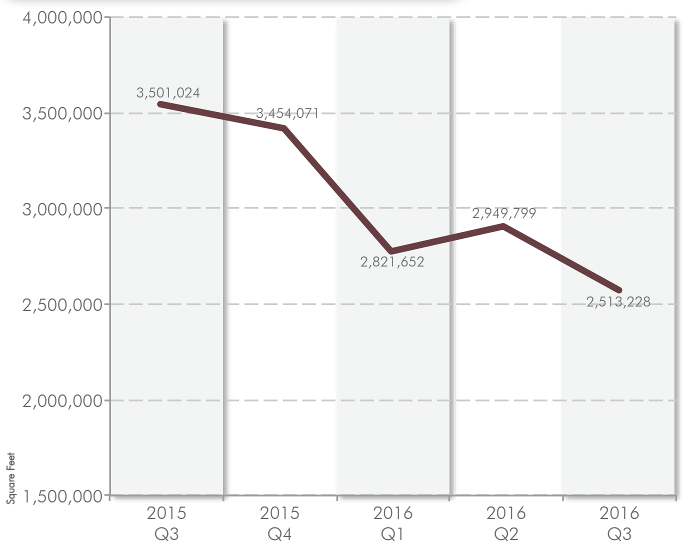
The largest lease transaction for the quarter was Nestle Water signing for 394,775 square feet at 1635 S. 43rd Ave, Phoenix. A logistics company, OHL, leased 295,695 square feet at 10 West Logistics Center, 6200 W. Van Buren St., Phoenix.

The largest sales transaction in Q2 was for $74,750,000 at 6835 W. Buckeye Rd., Phoenix. Seera Investment Bank of Bahrain and The Koll Co. were the buyers. The price per square foot was listed at $74.06. The building is leased to Amazon.com.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

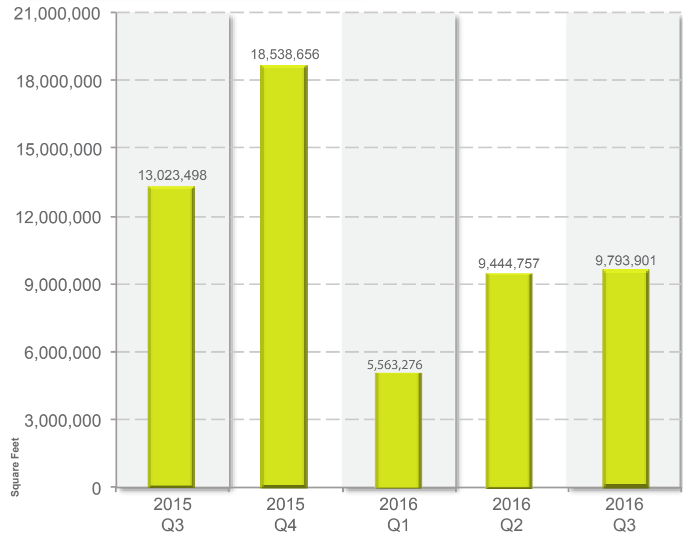


A LOOK AHEAD

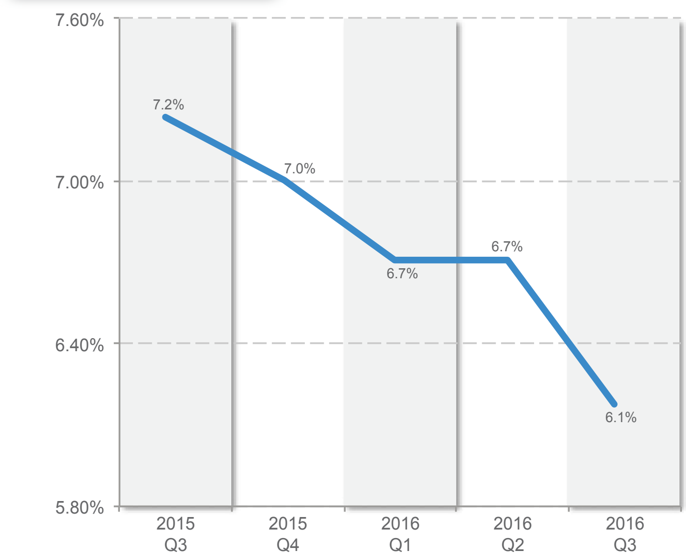
- Lease and sale activity should remain near current levels
- Rent growth should pick up as new deliveries are absorbed and vacancy declines accelerate
- Phoenix will remain a prime target for institutional investors because of higher cap rates as compared to other major metro markets
- Net absorption will stay in positive territory in 2017
- Construction activity will be primarily in multi-tenant distribution
- Lower industrial rents and sales prices will continue to attract California companies

DALLAS/FT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) industrial market maintained its status as one of the nation's hottest performers. Unlike the Houston market, Dallas is not dependent on the energy sector. The nation's largest retailers and expanding e-commerce players choose the DFW area because of its central location and it's steadily expanding base of state-of-the art distribution space. Major manufacturers including Bell Helicopter, Toyota and Lockheed Martin are attracted by the low tax, business friendly environment, good supply of affordable housing and the overall low cost of living that helps attract and retain skilled workers.

New deliveries of industrial space topped 15.3 million square feet through the first three quarters of 2016. Only Southern California's Inland Empire has delivered more space in 2016. Another 22.3 million square feet of space remained under construction heading into Q4, tops in the nation. The region is on track to deliver over 26 million square feet for the year. Roughly 27% of the space under construction is preleased and spec buildings constructed in 2015 are now 85% occupied. This will keep developers in the mood to build, especially in infill sites with good access to major transportation corridors. The DFW area is blessed with an abundance of land, unlike pure infill markets like Los Angeles. So the region remains a target for big users that like the option of being able to expand without pulling up stakes.

New construction remains focused in bulk distribution product with high clearance and state-of-the-art fire suppression technology. Big moves this year include a 1,440,000-square-foot space for Lego Systems a 1,128,227-square-foot lease to NFI and another 1,041,879-square-foot building for Amazon. Though, there are signs of a softening in activity in buildings over 300,000 square feet.

6.1%	$5.36	9,793,901	839,734,841	22,347,583
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS/FT WORTH - TRENDING NOW
(continued)

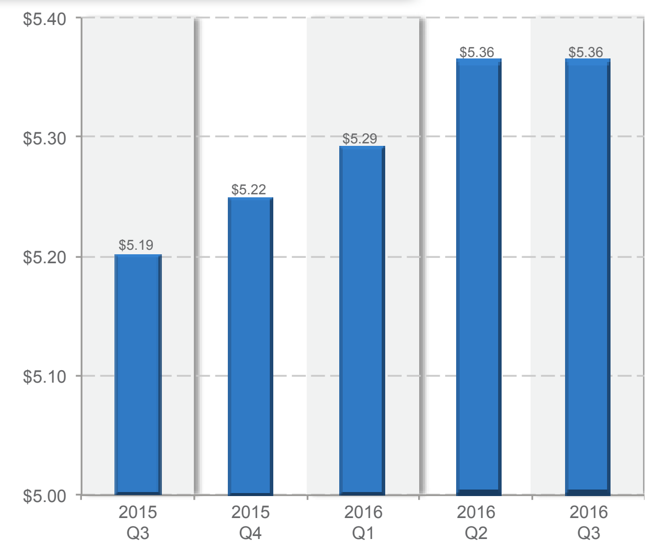
Microbreweries, technology based businesses and even retail/showroom are also impacting overall industrial market activity.

The industrial vacancy rate fell sharply in Q3, shedding 60 basis points to finish the quarter at 6.1%. However, vacancy is 90 basis points lower than it was this time last year. With such high levels of new deliveries, the vacancy factor can move in either direction each quarter, but the overall trend has a downward trajectory. Landlords are leveraging that trend in their negotiations for new leases and in-place renewals. However, the balance between leasing activity and development should keep vacancy near current levels in the coming quarters. This stands in stark contrast to other major markets like Los Angeles and New York that have little or no construction and sub-2% vacancy.

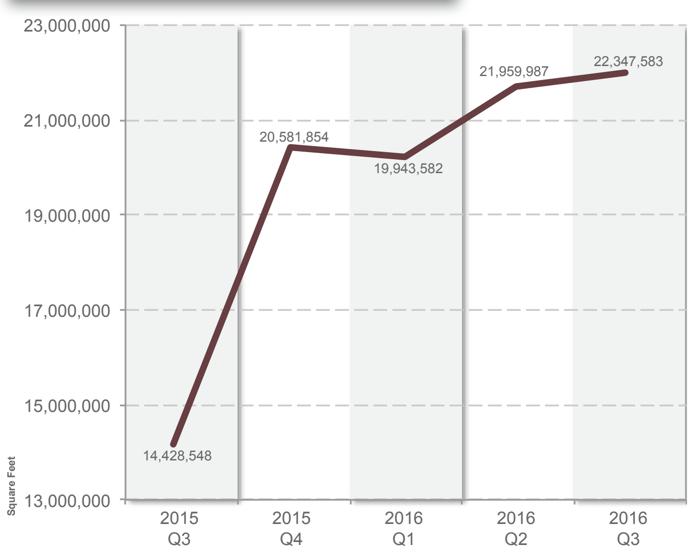
Net absorption for Q3 hit almost 9.8 million square feet, bringing 2016's net gain in occupied space to over 19.1 million square feet. Big box users will pay for quality and that has kept average asking rental rates on the rise. In Q3, the overall rate moved up another $.03 to $5.36. The inner loop submarkets are seeing the strongest rent growth. Tenants who are renewing leases signed four or five years ago are facing increases that are nearly double their current rates. In 2016, overall industrial rents have been moving up at annualized rate of approximately 1.5%.

Institutional investors still have a voracious appetite for quality bulk distribution product, and that has brought cap rates in the region into the 5% range, on par with other hot markets around the country. Institutions like to do big deals and the DFW region has what they are looking for. However, supply is still running well short of demand, and domestic players are facing significant competition from foreign-sourced money coming to the US as a safe haven.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

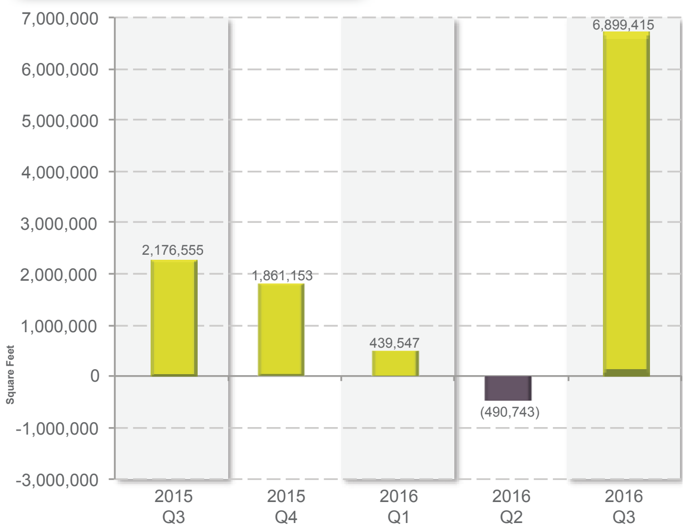


A LOOK AHEAD

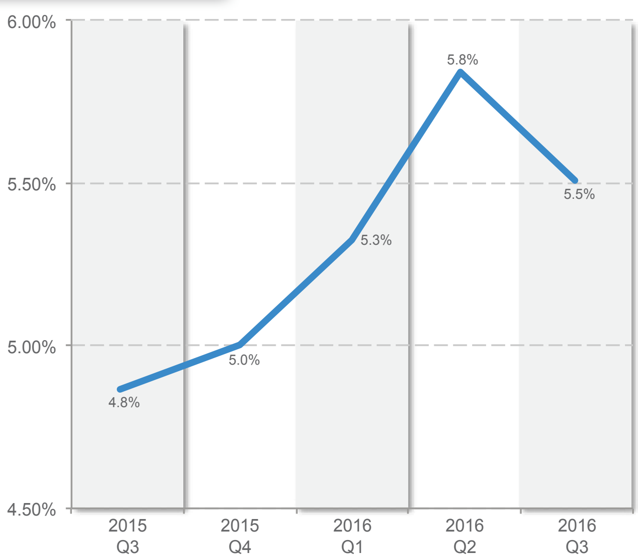
- Leasing activity should remain near current level in Q4
- Net absorption will remain strong enough to keep up with new deliveries
- Vacancy will move up and down near current levels based on the timing of new deliveries
- Lease rates will begin to level off in the coming quarters
- Construction activity will keep increasing due to high demand for Class A distribution space
- Increases in land and construction costs going forward will pressure developers to push lease rates higher

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Houston's regional economy continues to battle with effects of the fall in oil prices, and that has caused significant shifts in the industrial property market. Hardest hit have been those companies involved in exploring for and extracting crude oil and natural gas, the so-called upstream users. They have responded by cutting operating budgets through drastic reductions in capital expenditures and personnel. However, there are signs of renewed life in the energy sector, as oil prices have been edging higher and have stabilized near the $50/bbl level. That does not mean the industry is out of the woods, but it has resulted in more optimism for a recovery sooner rather than later.

As we reported last quarter, downstream energy companies are enjoying higher profits due to lower feedstock costs. That has sent petrochemical companies into expansion mode. There is an estimated $60 billion being spent on petrochemical construction projects in the Houston area. Exxon, Chevron Lyondell Basell and Dow Chemical all have major projects in the works. Output from these operations should boost exports from the Port of Houston going forward, which has been expanded to accommodate higher expected port activity resulting from the completion of the Panamax project.

In anticipation of more port activity, leasing action has shifted from the North/Northwest/North submarkets to the East/Southeast submarkets. That has landlords with bulk distribution space in the North and Northwest getting more aggressive on lease terms to present their propertiesas a low cost alternative space closer to the port.

Throughout the city, owners of crane-served buildings are lowering rates and increasing concessions to attract tenants. This product type has been hurt by the slowdown

5.5%	$6.63	6,899,415	571,969,671	7,465,046
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

HOUSTON - TRENDING NOW (continued)

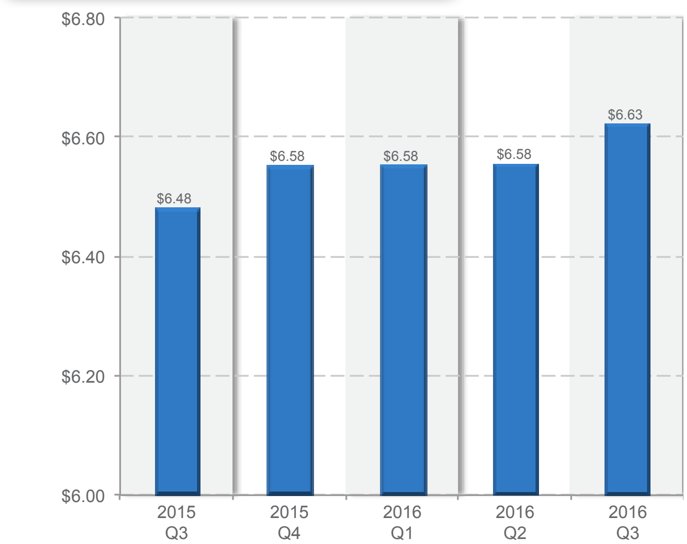
in activity from upstream energy sector tenants. Some tenants are shifting their focus to purchase opportunities because more landlords are deciding to sell rather than wait out the downturn. In many cases, user/buyers can acquire properties for less than replacement cost using low interest rate, long term financing. Some of these transactions are being done on an off-market basis, as oil companies that have not survived the downturn have the inside track on deals that result from the financial troubles of competitors they know well.

The vacancy rate for the Houston market moved back down by 30 basis points in Q3, but is still 50 basis points higher since the end of 2015. Flex vacancy, which is included in the overall number, stands at 6.8%, down 20 basis points for the period, while the warehouse market fell 40 basis points to 5.3%.

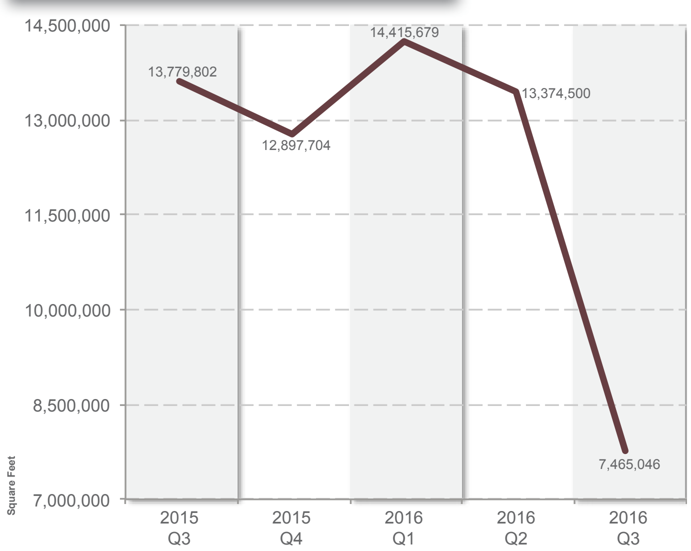
In all, the Houston region contains almost 572 million square feet of industrial space after adding another 6.6 million square feet of new product in Q3. Another 7.4 million square feet is currently in the construction pipeline, including an 800,000-square-foot building on W. Grand Parkway, which is 100% preleased, and another 501,020-square-foot building at Cedar Port Distribution Park. That building is also fully leased.

Net absorption returned to positive territory, adding almost 6.9 million square feet to the total of occupied space, after a net loss of 490,000 square feet in the second quarter. In the past year, over 8.7 million square feet of positive net absorption has been recorded. The overall average asking lease rate is up $.15 year-over-year and was up a nickel in Q3 to $6.63.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Gross leasing activity will be mixed, but highest in the submarkets in proximity to the port
- Net absorption will be weakened in the West and North submarkets, but that will be offset by bigger gains in port area submarkets
- Northwest and North submarkets will see vacancy move higher
- Rents in the East will rise by 5% by year end
- Landlords and tenants will be signing shorter term leases due to near-term market uncertainty
- Construction will increase in the East and Southeast areas
- Pricing for NET land (net of detention with public utilities) will range from $3.50 to $5.00 per square foot depending on tract size

MINNEAPOLIS/ST. PAUL

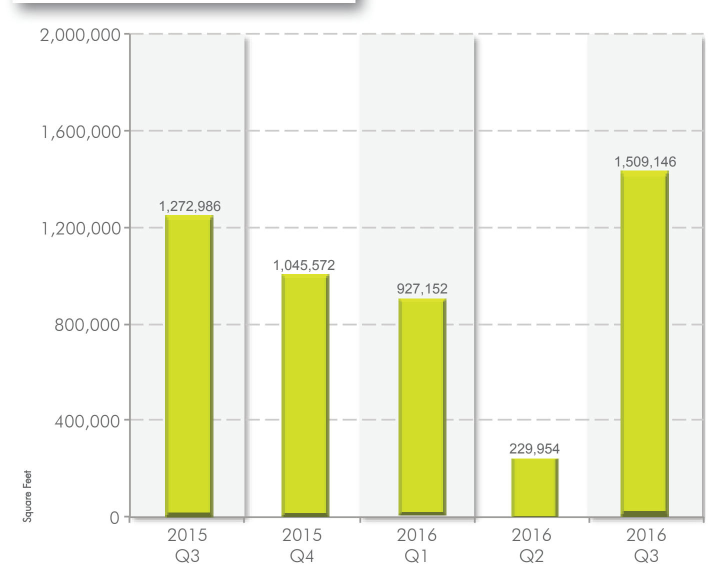
TRENDING NOW

The Greater Minneapolis-St Paul MSA (MSP) has one of the highest concentrations of major corporate headquarters in the US. The region is home to 17 Fortune 500 companies including 3M, United Health Group, Target, Medronic and General Mills. A highly educated labor force of over 1.8 million supports these industry leaders and the thousands of small to mid-sized industrial businesses operating in the region. MSP also boasts the highest labor participation rate of the 30 largest metro areas in the country. Minnesota offers more than 36 universities and over 40% of residents have college level degrees and 93% have earned high school diplomas.

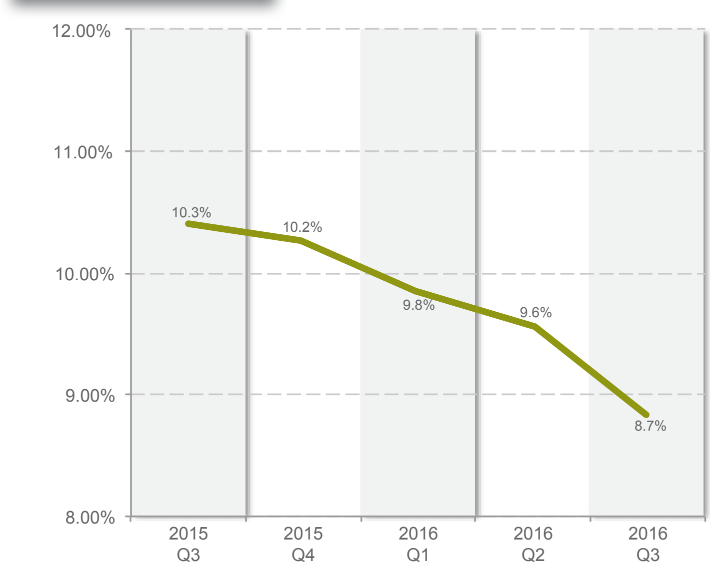
In recent years, MSP has become more of a distribution market, as e-commerce and major retailers focus on "Last Mile" strategy to shorten delivery times. The current industrial base inventory totals just under 112 million square feet, with over 25.5 million square of that total in the bulk distribution category. As Q3 ended, nearly 3 million square feet of new space was under construction. The Southwest and Northwest markets accounted for 2.1 million square feet of that total. Until this year, construction was primarily coming from build-to-suit projects, but speculative development now represents a growing percentage of overall construction activity.

Unlike many major markets in the US that have vacancy rates under 6%, MSP's vacancy rate finished Q3 at 8.7%, but that was after a 90 basis point decline in just one quarter. A year ago, the overall vacancy rate was 10.3%. Vacancy is highest in the Northwest market at 13%, and ranges from 6.9% to 7.2% in the other three market areas. Significant contributions to the recent decline in vacancy include a 242,004-square-foot build-to-suit for Milestone AV Technology, a 215,861-square-foot

NET SF ABSORPTION



VACANCY RATE



8.7%	$6.77	1,509,146	111,941,834	2,976,169
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

MINNEAPOLIS/ST. PAUL - TRENDING NOW
(continued)

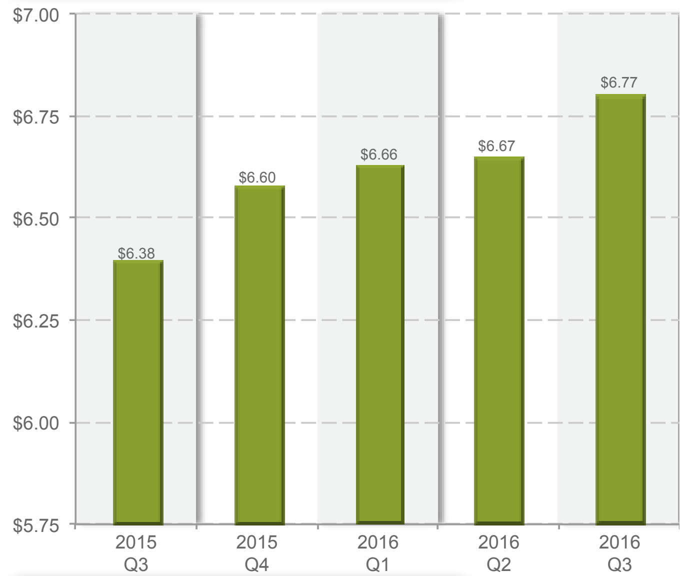
bulk warehouse building for Amerisource Bergin and 142,000-square-foot space now occupied by Amazon. Four of the five largest transactions this year are in bulk warehouse product.

Net absorption in Q3 was strong in Q3. The net gain in occupied space topped 1.5 million square feet after a slow second quarter. Year-to-date, net absorption exceeds 2.6 million square feet. In the past four quarters, net growth in occupied space is over 4 million square feet. Other major companies moving into new space in 2016 include Lindenmeyr Munroe, Medline and Bell International Laboratories.

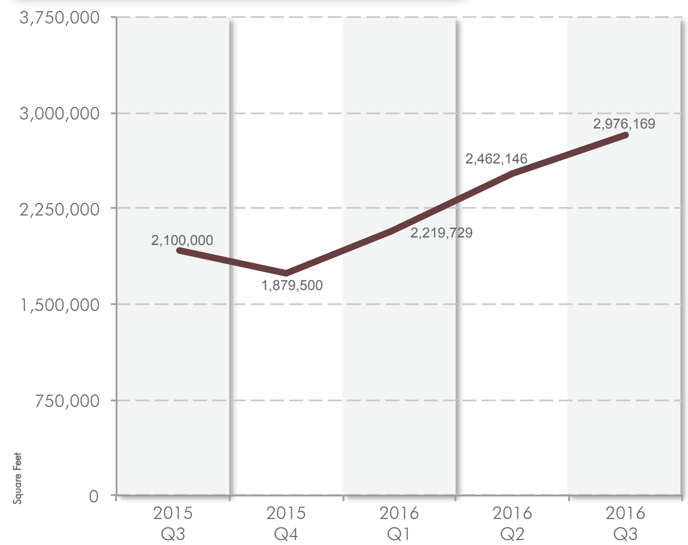
Average asking lease rates for all product types combined are moving up at a moderate pace, gaining $.10 in Q3 to end the period at $6.77. Year-over-year that rate has risen by 6.1%. Lease rates are highest in the Northeast market at $7.09 and lowest in the Northwest at $6.45. Landlords are getting tougher on up-front free rent and are even tightening up on tenant improvement expenditures, especially those that are highly specialized. Tenants looking for bulk warehouse space in the Northwest market will have more leverage for the near term, as a surge of available space from new development and vacancy in large facilities.

Developers have locked down most of the prime land sites throughout the region, and are looking for lead tenants to commit to space before breaking ground. Despite high costs to build, spec properties are offering similar rates to existing buildings, which levels the competitive playing field for securing expanding tenants. New projects are primarily in the bulk distribution product type. Currently, all 10 projects under construction that are greater than 100,000 square feet have clear heights of 28 feet or more.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

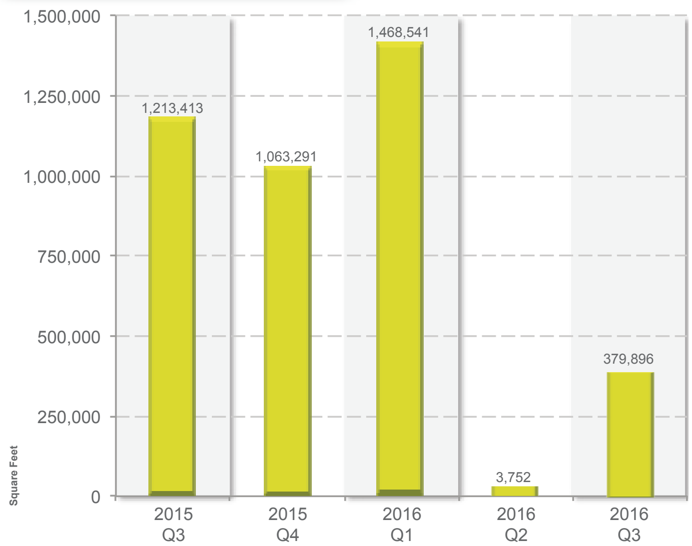


A LOOK AHEAD

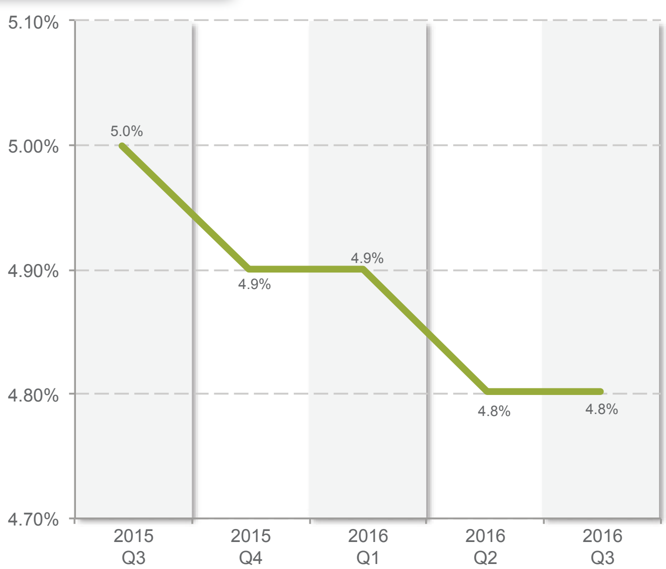
- Overall sale and lease activity will remain above average for the next several quarters
- Net absorption will remain in positive territory
- Vacancy will make modest declines due to higher levels of new deliveries
- Average asking lease rates should stay relatively flat going forward
- Construction activity should increase by another 5% to 10%
- Sale prices could move up another 5% in the next year

CLEVELAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Like other industrial markets in the Midwest, Cleveland continues to improve, but at a more moderate pace compared to distribution hubs like Dallas, Atlanta and the Inland Empire. Confidence in the regional economy is improving and the unemployment rate has been consistently under the national rate of 5%. The Governor's office continues offer tax incentives that promote the region's business-friendly environment, and the world renowned healthcare sector continues to fuel new business formation and growth throughout the region.

The Cleveland area also boasts a strong manufacturing base, which generates higher-paying, full time jobs that add balance to overall employment base. This has helped offset the setback in the energy sector, which, until early 2015, was giving Ohio's economy a big boost. Recently, oil prices have been moving higher, but further increases are needed to turn the oil business around.

For now, the big trend is the increase in speculative development of bulk distribution space. Developers like Fogg and Scannell are responding to the shortage of functional space within the existing 490.6-million square-foot inventory by ramping up spec construction. In Q3, another just 60,973 square feet was delivered, but 977,248 square feet remained underway. In 2016, 1,329,041 square feet of space has been completed, almost all of it in distribution buildings with high ceiling clearance and the latest in fire suppression systems. The availability of first generation space is welcome news to growing companies that would otherwise have to wait years for the delivery of build-to-suit facilities. Significant new deliveries for 2016 include a 743,721-square-foot for Arhaus HQ, and a 163,500-square-foot facility for Ramco Manufacturing. Both buildings are owner-occupied.

4.8%	$4.00	379,896	490,643,206	977,248
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

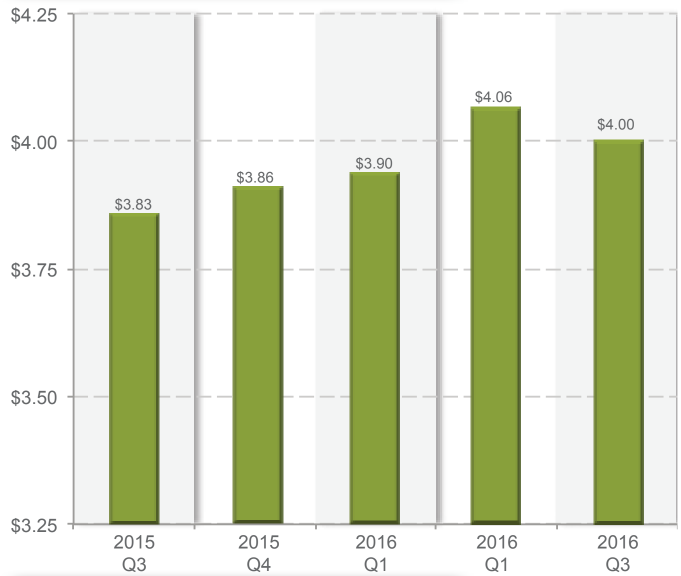
CLEVELAND - TRENDING NOW (continued)

The overall vacancy was unchanged in Q3 4.8%. In the past four quarters, vacancy has declined by the same margin. The aerospace industry has been a major contributor to leasing activity, mainly due to the NASA's Glenn Research Center and the Cleveland Airport.

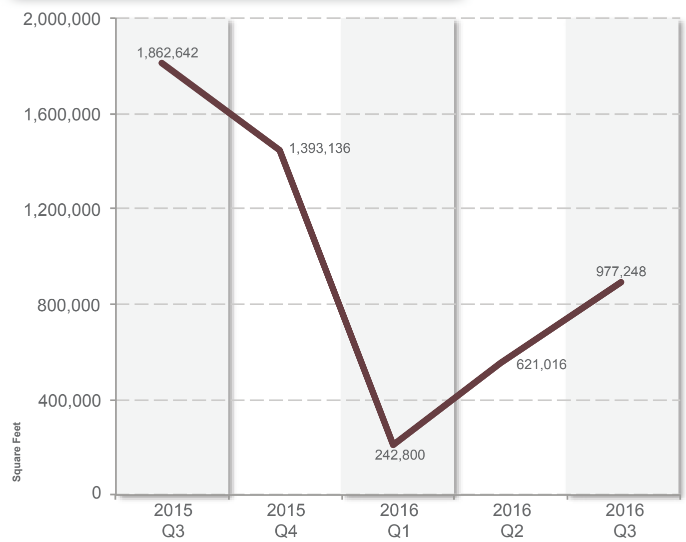
Third quarter net absorption totaled 379,896 square feet, bringing 2016's total to a positive 1,852189 square feet. Main contributors to the Q3 total included the Arhaus facility and a 306,010-square-foot lease to Royal Appliance. A 276,448-square-foot lease to Graphic Packaging International, Inc. at 5700 Lee Rd S, rounded out the top three move-ins for the quarter. Gains in occupied space could be much higher if not for the limited supply of quality industrial product available for sale to area businesses. Quality product is gobbled up quickly, but buildings with functional obsolescence and/or deferred maintenance issues are sitting longer.

Users are still able to acquire product with nominal down payments and long term financing at historically low rates, and that has kept owner/user buildings in demand. Unfortunately, properties offered for sale are in short supply and many of the properties that do reach the market require significant further investment, which drives up occupancy cost. But, until the Fed makes a significant move on interest rates, pricing for good quality owner/user assets will keep moving higher, as the opportunity for users to become their own landlords remains compelling.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

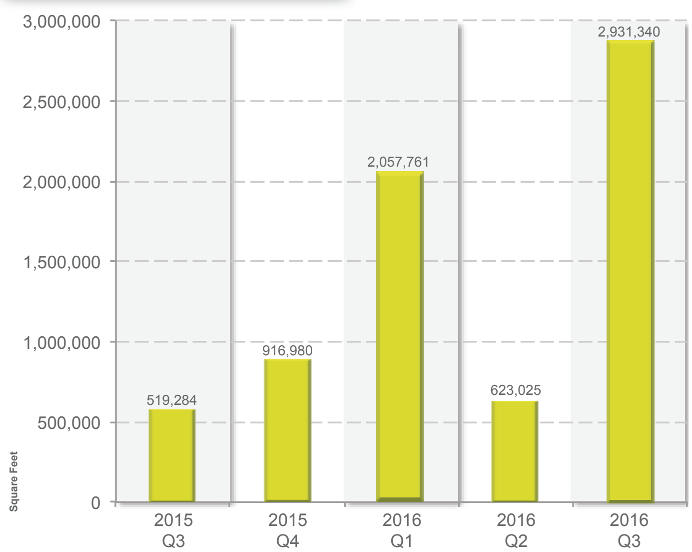


A LOOK AHEAD

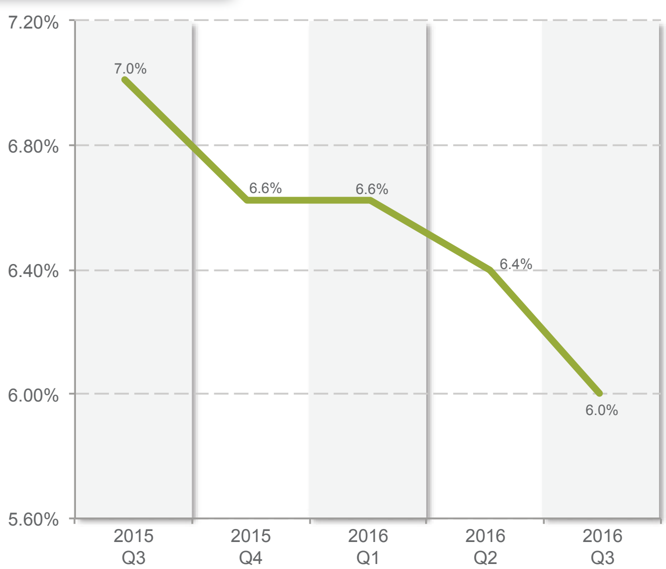
- Lease and sale activity will remain strong as businesses scramble to secure quality space
- Net absorption should remain positive and steady
- Average asking lease rates will rise slightly over the next several quarters
- Construction activity will shift to more speculative projects
- Low oil prices will limit the contribution from the energy sector to economic growth
- Vacancy will remain in the 5% range for the next 12 months

COLUMBUS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Columbus industrial market has an extensive logistics infrastructure that makes it a favorite distribution hub of major logistics employers. The region is still the top-ranked inland and coastal port in population concentration within a one-day drive. As a result, FedEx Air, FedEx Ground, UPS and UPS Supply Chain Solutions all maintain a presence in Columbus. The Norfolk Southern Heartland Corridor and CSX Gateway rail lines link Columbus to multiple deep water, east coast ports. It is also located at the intersection of four major interstate highways, four intermodal systems and the cargo-dedicated Rickenbacker International Airport. Add robust population growth and a well-educated and skilled labor force and it is easy to assume that the region will continue on its path of steady economic growth.

Given such a strong infrastructure, interest from large developers is on the rise. The larger players are actively pursuing the development of spec buildings in the 500,000 to 1 million-square-foot range. Dallas-based developer Hillwood Investment Properties has acquired several large parcels in anticipation of building speculative projects to meet demand from large users. CLAYCO is doing the same in the Licking County submarket to the East. New projects are featuring buildings over 500,000 square feet with clear heights exceeding 32 feet.

The industrial inventory base rose to 269 million square feet by the end of Q3. Another 3.8 million square feet remains under construction, almost all of it in larger bulk distribution facilities. However, the automotive manufacturing sector is expanding and new facilities are being constructed, especially near the Honda of America plant in Marysville. Lee & Associates is marketing the new 33 Innovation Park, a 205-acre business park, which is focused on advanced manufacturing, R & D and the automotive related uses. Also, the Sofidel Group, an Italian-based paper manufacturing

6.0%	$3.45	2,931,340	269,592,259	3,850,443
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

COLUMBUS - TRENDING NOW (continued)

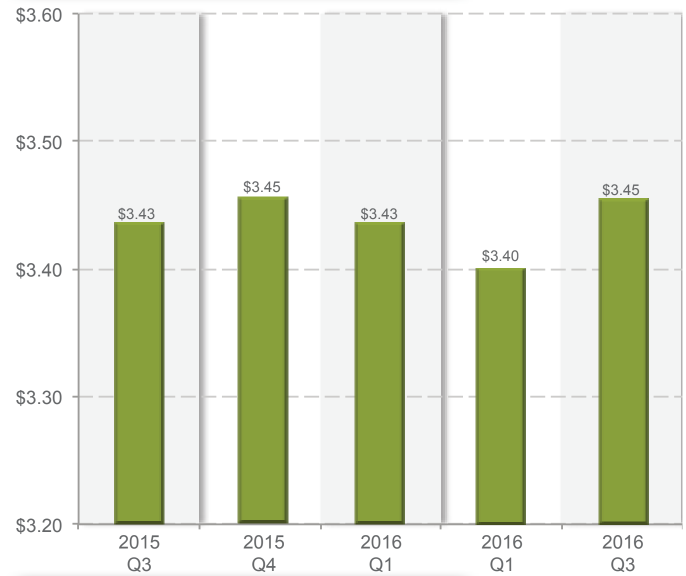
company recently announced the construction of a new 1.4 million-square-foot facility that will support more than 300 new jobs.

Net absorption topped 2.9 million square feet in Q3, bringing total net growth in occupied space in 2016 up to 5.6 million square feet. Vacancy has been vacillating quarter-to-quarter due to large amounts of new spec deliveries. In Q3, the vacancy rate fell another 40 basis points to 6.0%. Average asking rental rates moved up by $.05-per-square-foot, per year to end the quarter at $3.45-per-square-foot per year. Landlords continue to push for longer term leases for new Class A product. Vacancy declines have made this easier to do and five year leases are becoming the minimum norm for the region.

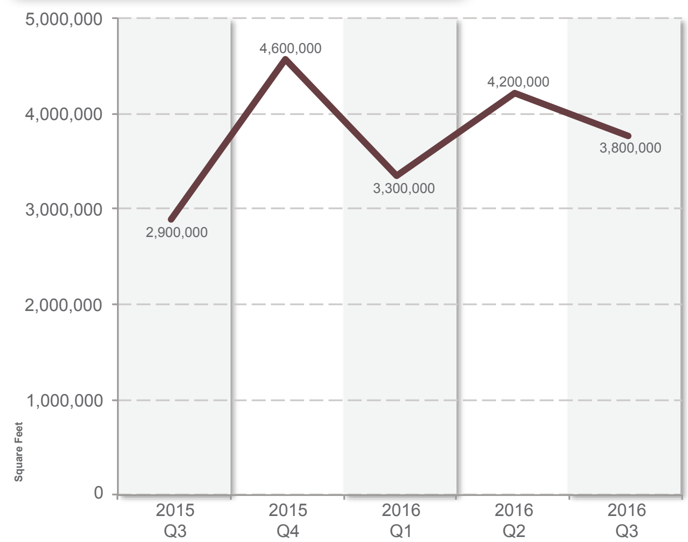
Despite good market metrics overall, the leasing market is having to adjust to the roll-off of expiring tax abatements that have been in use to attract businesses to the region for the past 20 years. In many instances, 100% of property taxes have been abated, but those breaks are expiring, so same owners of buildings 15 years of age and older are being forced to participate in a portion of a tax increase.

Duke Realty ProLogis and other major owner/developers are still bullish on the region. They have been selling off Class B assets to build war chests for the next round of new Class A construction. Advances in logistics and e-commerce will continue to drive occupier demand and position Columbus at the forefront of this exponentially expanding industry.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

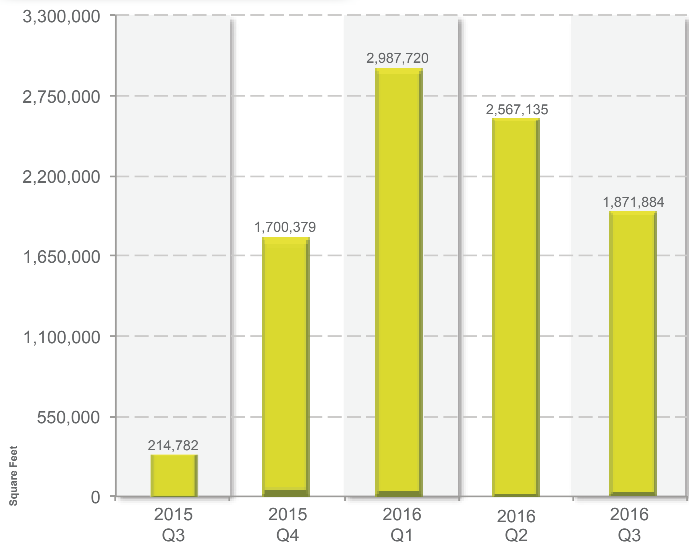


A LOOK AHEAD

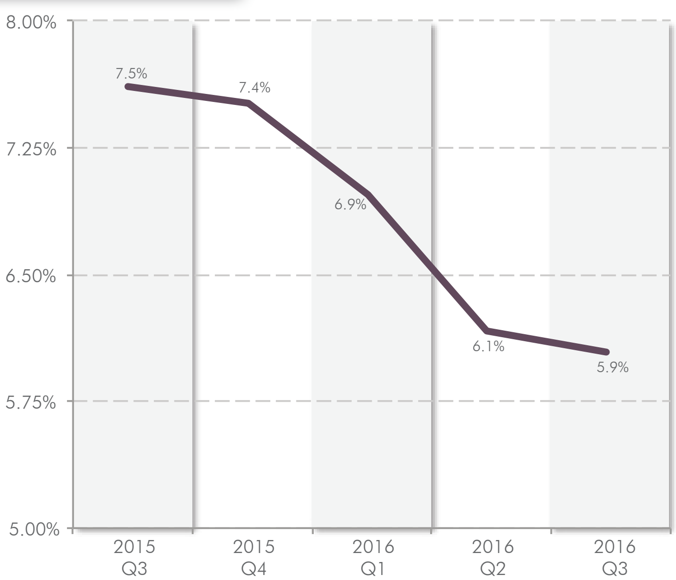
- Overall vacancy will remain in the 6% range due to new deliveries
- Asking lease rates will increase slightly as construction costs move up
- New construction should remain near current levels, as developers focus on getting new spec projects to full occupancy
- Overall gross activity will remain strong, buoyed by several large and mid-sized requirements from companies new to the area
- Net absorption may exceed 6 million square feet for the year
- Owner user building prices will increase due to limited supply

INDIANAPOLIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Given Indianapolis' central location, the market continues to appeal to the rapidly growing e-commerce and logistics sectors. These expanding businesses like the idea that they can make long term growth plans in the region, as ample land is still available for future development. Over 5 million square feet of speculative space is slated for delivery over the next 18 months, which offers Indianapolis tenants with a steady flow of space for immediate occupancy. New deliveries for the quarter topped 1.1 million square feet, the largest of which was a 529,200-square-foot spec building at 4860 S Indianapolis Rd. The Indianapolis industrial market inventory rose to over 322 million square feet.

During the third quarter, nearly 3 million square feet of speculative space either broke ground or was announced. Build–to-suit activity has been steady this year as well, with nearly 4 million square feet completed or due to begin construction. Recent build-to-suit deals include such companies as Integrated Distribution Services (IDS), IU Health, Daimler Trucks North America, Ken's Foods, Wurth Supply, Brybelly Holdings and Venture Logistics. Notable speculative space occupancies this year include a 529,000-square foot facility for Amerisource Bergen, a 325,000-square-foot space for Cummins, Inc. and Continental Tire's new 741,000-square-foot distribution center. The largest building currently under construction is the 2-million-square-foot facility at 17 Innovation Blvd. The bulk distribution space is 70% preleased. The AllPoints Anson Building 8A, a 708,304-square-foot building is also in the construction pipeline. That property is 0% preleased.

Overall industrial vacancy fell 20 basis points in Q3 to settle at 5.9%, which is the lowest the market has seen in five years. That rate could be a low point for the near-

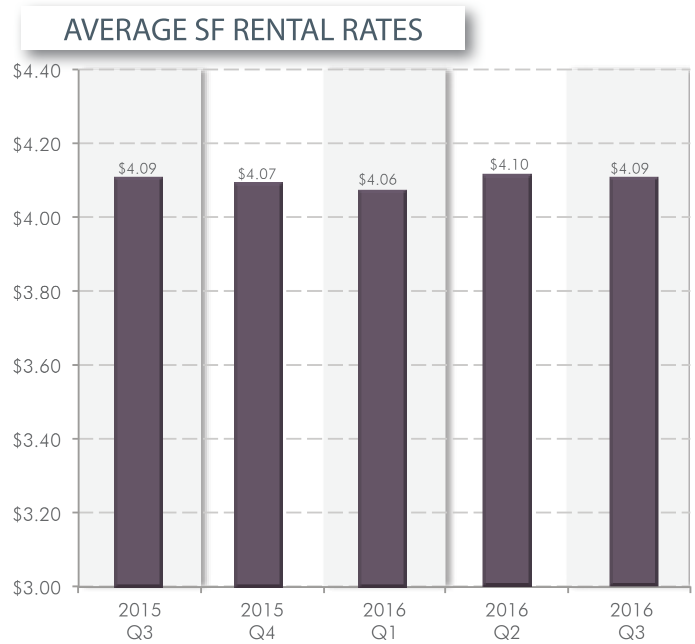
5.9%	$4.09	1,871,884	322,138,023	4,017,716
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▼	▲	▼

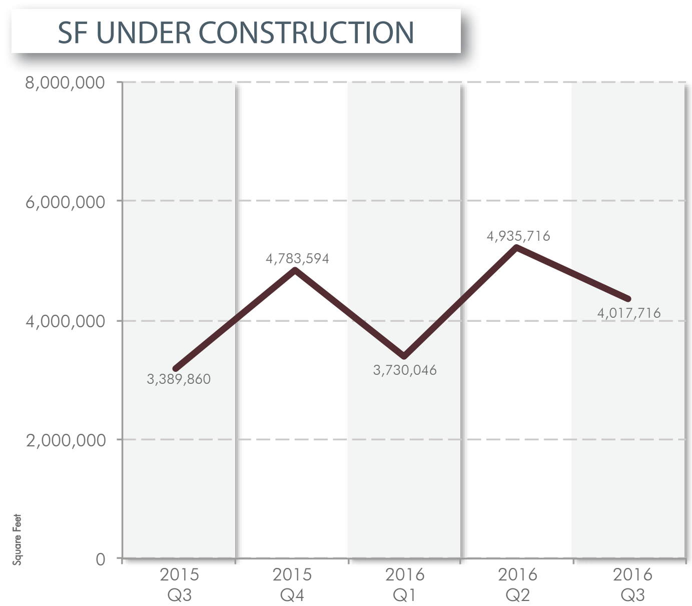
INDIANAPOLIS - TRENDING NOW
(continued)

term as the market adjusts for the supply of new speculative space and proposed new occupancies. However, the demand for new space is expected to remain in relative balance with the supply of speculative deliveries over the next 12 to 18 months. Since the final quarter of 2015, the overall vacancy rate has declined by 160 basis points, which is clear indication of the steady demand for industrial space, especially for larger bulk distribution facilities.

Significant occupancy growth for the third consecutive quarter was also recorded. Net absorption for the period hit 1,871,884 square feet. That came on the heels of a nearly 2.6-million-square-foot gain in Q2. Given a strong fourth quarter performance, which is expected, growth in occupied space could surpass the previous market peak back in 2007.

Unlike many other distribution hubs that have seen strong rent growth, Indianapolis rental rates have remained relatively flat. Since Q1 of 2015, the average asking rental rate has moved up just $.07. For the third quarter, average asking rate moved down a penny to finish at $4.09. In fact, warehouse rents are exactly where they were at the end of 2008. This is welcome news to tenants, who have been able to count on the availability of quality space at prices substantially lower than in other major metro areas.



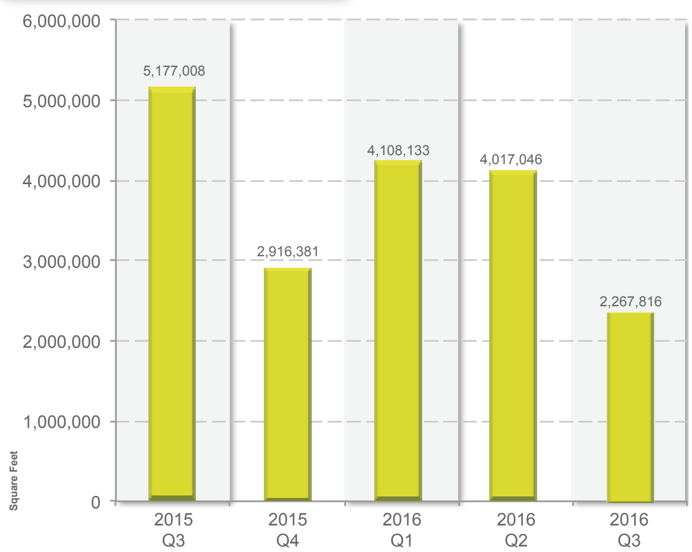


A LOOK AHEAD

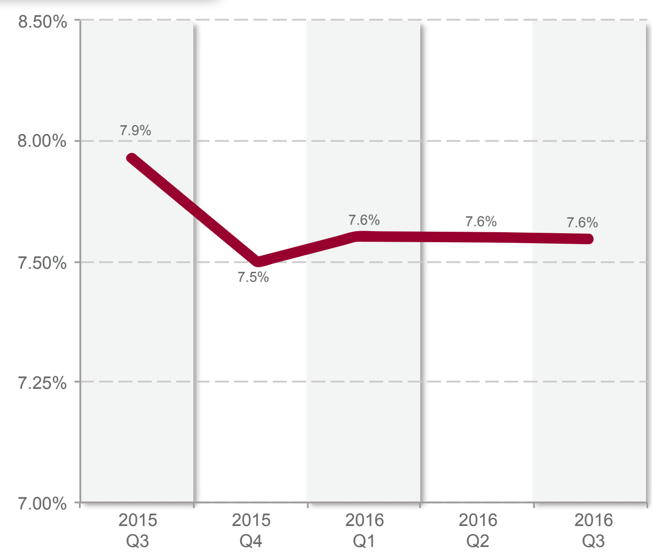
- Construction of speculative space will remain in balance with leasing activity over the next several quarters
- Average asking rental rates will remain relatively flat
- Growth in occupancy will come primarily from large distribution users in e-commerce and 3PL
- The vacancy rate will vary slightly above and below current levels due to the large amount of spec space deliveries
- Net absorption will stay in positive territory in 2017

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Atlanta's industrial market maintained its status as one of the nation's hottest in Q3. As one of the South's major distribution hubs, companies large and small keep moving to and expanding in this rapidly growing metro area. The Hartsfield-Jackson International Airport is one of the biggest draws to the region. It has been the world's most traveled airport for 15 consecutive years, and offers convenient connectivity to the global marketplace.

Atlanta's favorable business climate and numerous tax incentive are also motivating businesses to expand in the area. Tax credits of up to $3,500 for each job created are available depending on demographics and location. Metro Atlanta's college-level education system is another key economic driver. The region is known for turning out graduating engineers and IT specialists, two of the most sought after specialties in today's economy. In all, over 66 colleges and universities continue to feed a pipeline of talented potential employees, who like the Atlanta area for its affordability and amenities.

Activity in bulk distribution buildings, especially in larger buildings, is still running strong. Net absorption for Q3 topped 2,267,816 million square feet, as a result. The quarter's biggest move-ins included Google's move into 1,229,000 square feet at Fairburn Distribution Center, and Exel Logistics' 987,840-square-foot lease at Greenwood Center. With year-to-date net absorption of 10.39 million square feet, the Atlanta area is on track to surpass 2015's total of 13.5 million square feet.

Vacancy remained consistent in Q3, to finish the period at 7.6%. Year-over-year vacancy is down by 30 basis

7.6%	$4.52	2,267,816	614,621,829	14,030,266
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

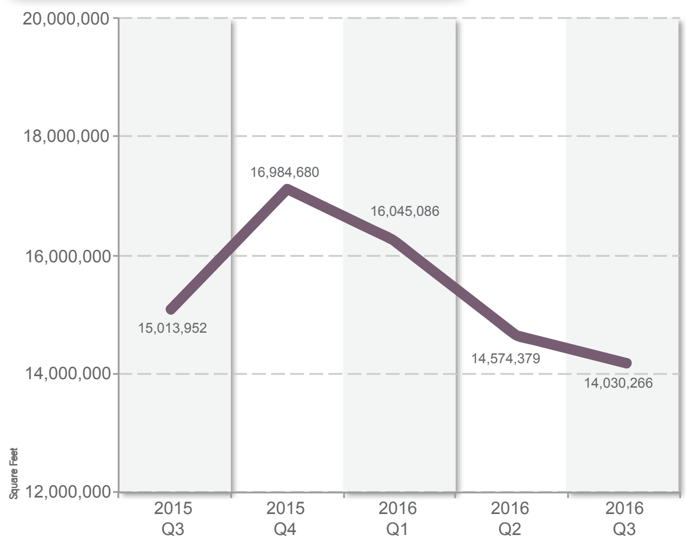
Tenants keep showing their willingness to pay more for the higher ceiling clearance and advanced fire suppression technology offered in first generation space. Landlords see the strong demand as an opportunity to squeeze tenants by offering little in the way of tenant improvements and free rent. Tenants deciding to move up to more functional product have to be ready to sign on the dotted line, as most of the new space being built is either preleased or snapped up just after being delivered to the market. So, it is important for tenants who need to move to get out in front of the decision by starting the move process early.

Development activity maintained momentum in Q3. Builders delivered another 3.07 million square feet, bringing 2016's new deliveries up to 10.9 million square feet. Of note, is that number is almost exactly equal to year-to-date net absorption. Atlanta's industrial inventory moved up to 614.6 million square feet in Q3, with another 15.3 million square feet still underway. Large distribution users like the expansion capability that comes with the available of first generation speculative space. Likewise, developer confidence is buoyed by consistent demand for built-to-suit space. In all, there remains a healthy balance between spec and pre-leased projects that should continue in the coming quarters.

Activity in general industrial product is also making a significant contribution to industrial activity, as is the manufacturing sector. Food, automotive, gun and shoe manufacturers have been particularly active of late. E-fulfillment operations are also contributing to overall activity, as they look to meet their needs for "last mile" facilities. With development focused on larger distribution facilities, the availability of general industrial and manufacturing space is declining each quarter.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

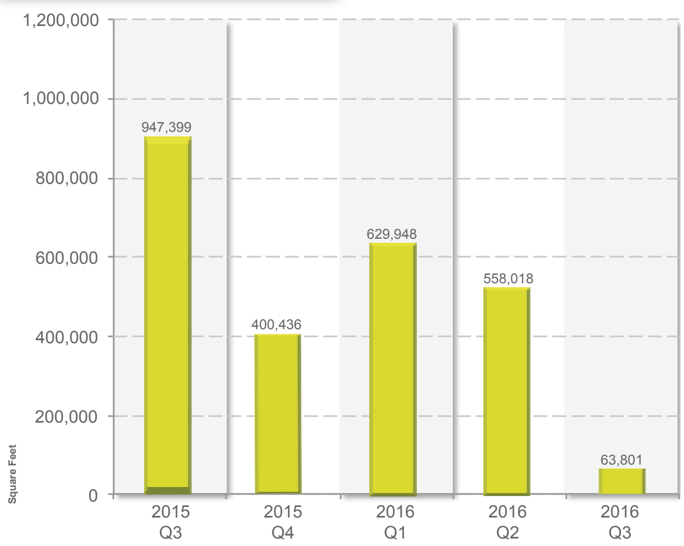


A LOOK AHEAD

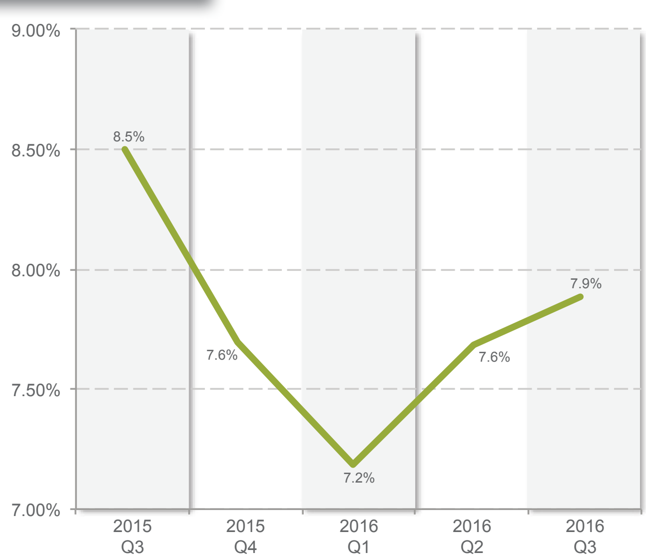
- Leasing activity should rise in Q4, but sale activity may decline due to low supply
- Net absorption could move higher in Q4, as tenants expand into newly delivered space
- Overall average asking lease rates should continue to increase steadily into 2017
- The market will test the efficiency of 40-foot clear heights with a 1 million-square-foot spec building
- Competition for development sites near the airport and South Cobb will increase
- Another 4.5 million square feet of industrial space should break ground in Q4

CHARLESTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

2016 has already been quite a year to remember for Charleston. Site Selection Magazine named South Carolina the "Second Best Business Climate;", U.S. News and World Report ranked Charleston as a top-twenty best place to live based on quality of life and job opportunity. Also, Travel and Leisure Magazine readers recently voted Charleston No. 1 in its "Best City in the World" survey.

Charleston's economy is seeing record growth in virtually every measurable area, leading the Southeast in job creation. In addition, the tri-county region is gaining population at a rate of 48 people per day. All commercial sectors remain strong and show little signs of slowing down. The manufacturing sector has been expanding in recent years. Boeing, Mercedes-Benz and most recently, Volvo, have chosen the Charleston area to make major, long-term investments in manufacturing facilities. In response to the Panamax project, the Port of Charleston has been expanded to accommodate larger ships, a fact not lost on major manufacturers and distribution users who see the region's potential as a significant industrial hub in the years to come. The region also offers a high quality of life for the workforce at relatively low cost compared to many primary metro areas around the country.

Total industrial inventory at the end of Q3 topped 71.4 million square feet after another six buildings totaling 287,681 square feet were completed. That followed two consecutive periods of strong deliveries and brought the total amount of space completed this year to over 1.6 million square feet. New development is a mix of speculative and build-to-suit projects. Another 3.54 million square feet of space is still under construction. The largest projects underway include Volvo North

7.9%	$5.37	63,801	71,417,653	3,544,512
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

CHARLESTON - TRENDING NOW
(continued)

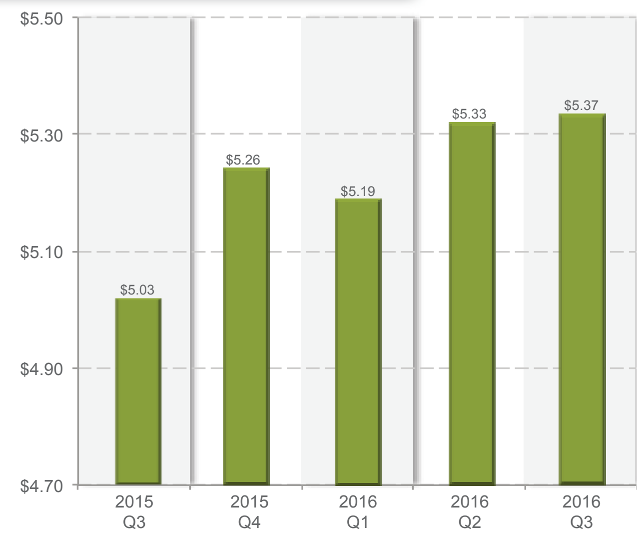
American Manufacturing's 2,300,000-square-foot automotive assembly plant and another 396,000-square foot building at 5300 International Blvd. Both projects are 100% preleased.

Vacancy is stabilized in the high 7% range. Year-over-year, the vacancy rate has increased by 30 basis points, finishing Q3 at 7.9%. High levels of new deliveries in a market the size of Charleston often cause vacancy to move up and down significantly from one quarter the next. Even with swings in both directions for the past three years, vacancy is exactly where it was in Q1 of 2014. Though, expanding tenants are growing more concerned about a lack of quality product going forward. Rising construction costs require rent levels higher than the current market supports, which increases risk to area developers looking to build speculative projects.

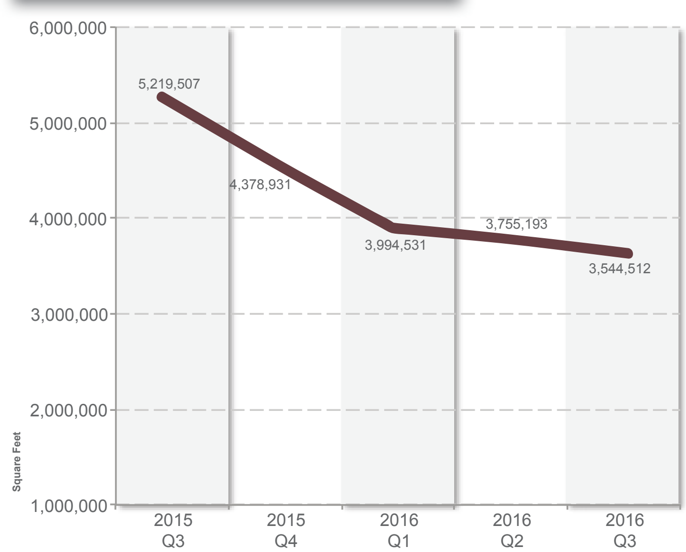
Net absorption was light in Q3 but it did stay in positive territory at 63,801 square feet, mainly due to a negative quarter in flex product, which represents less than 10% of the total inventory. However, in the past four quarters, over 2.7 million square feet of gains in occupied space have been recorded. Major companies adding to net absorption this year include BAE Systems move into 281,000 square feet at 175 McQueen Blvd and WABCO's 145,200-square foot facility at Whitfield Corporate Park.

Average asking rental rates have been growing, but at a tepid pace compared to many other markets around the US. Year-over-year, the overall asking rate has moved up by $.34, but managed just a $.04 gain in Q3 to $5.37. Though, in North Charleston, the largest of the industrial submarkets at 28.8 million square feet, overall asking rents finished the quarter at $5.97.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

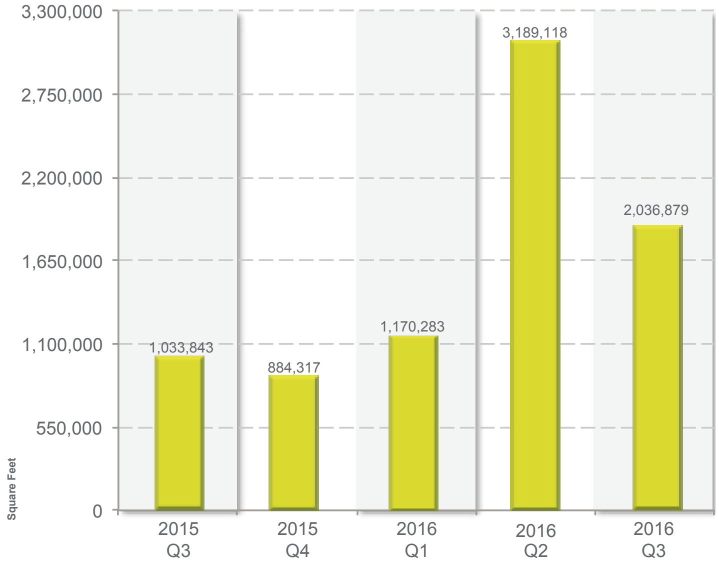


A LOOK AHEAD

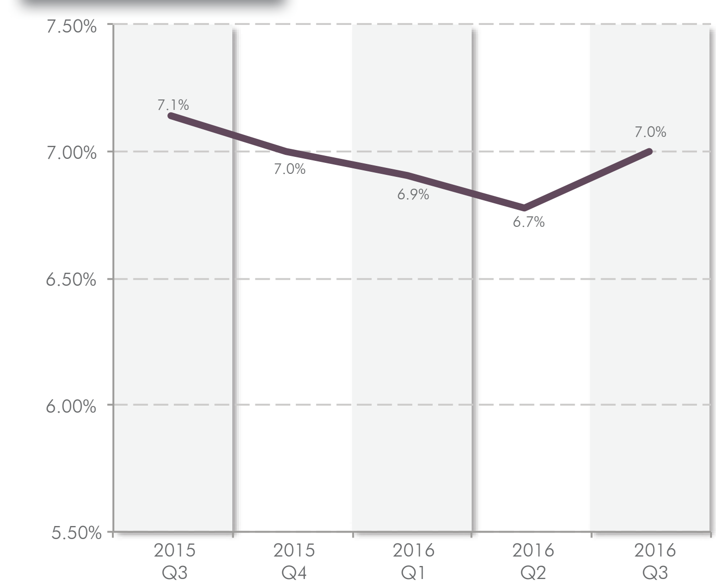
- An increase in leasing activity will tighten supply in 2017
- Steady net absorption will encourage developers to get started on new projects
- Rent growth will accelerate and make speculative construction more viable
- Construction at current levels will not keep pace with expected demand next yea
- Charleston's expanded port facilities will spur growth in the distribution sector
- Landlords will see higher cost of tenant improvements

GREENVILLE/SPARTANBURG

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Greenville/Spartanburg area is located between the larger markets of Atlanta, GA and Charlotte, NC. Interstate highways 26 and 85 cross in the center of the region that also has easy access to the deep water Port of Charleston that can accommodate vessels drafting up to 48 feet. The market is served by two major railroads, Norfolk-Southern and CSX Transportation, along with a short-line railroad, Carolina Piedmont. Norfolk-Southern provides direct service to the Port of Charleston with second day delivery, and all major US Markets are accessible within six days by rail. The S.C. Inland Port, a full-service port terminal in Greer, has been a major economic driver in the Upstate since it opened in 2013. Over the past year, volume at the inland port exceeded projections by over 62%. The facility is operated by the SC Ports Authority as a container yard and exclusive daily rails service is provided by Norfolk Southern to the Port of Charleston.

As a result of the rapidly expanding business base, net absorption of industrial space has been consistently positive. In Q3, just over 2 million square feet was added to the total of occupied space, and that came on the heels of record-high gain in Q2 of nearly 3.2 million square feet. In just the last two quarters, net absorption gains exceeded the combined annual total for 2013 and 2014. If not for scarce availability in the smaller size ranges, absorption totals would probably be even higher, which is very impressive given that fact that the Greenville/Spartanburg area has an industrial base inventory of just 206 million square feet.

Even with such high net absorption, vacancy moved up 30 basis points in Q3 to finish at 7.0%. This was mainly due to a second consecutive quarter of high levels of new deliveries. In the past two quarters, almost 6 million square

7.0%	$3.67	2,036,879	206,032,927	2,017,956
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

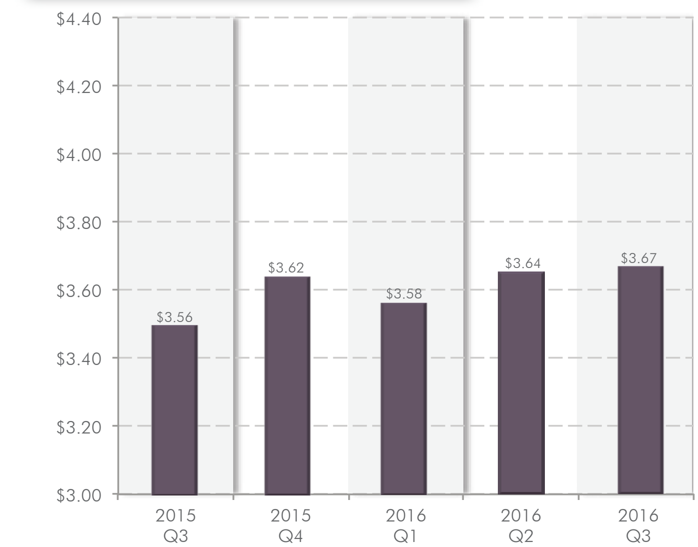
GREENVILLE / SPARTANBURG - TRENDING NOW
(continued)

feet has been delivered, more than the combined total of the previous 13 quarters. Few industrial markets in the country could claim such prolific growth in construction activity. Yet, tenants are still running short of options, as build-to-suit projects make up a significant share of the new space, and the speculative development of new product is just not keeping pace with demand. The largest project delivered in Q3 was the new 1.3-million-square-foot home for Techtronic Industries. The company will take occupancy of the entire building.

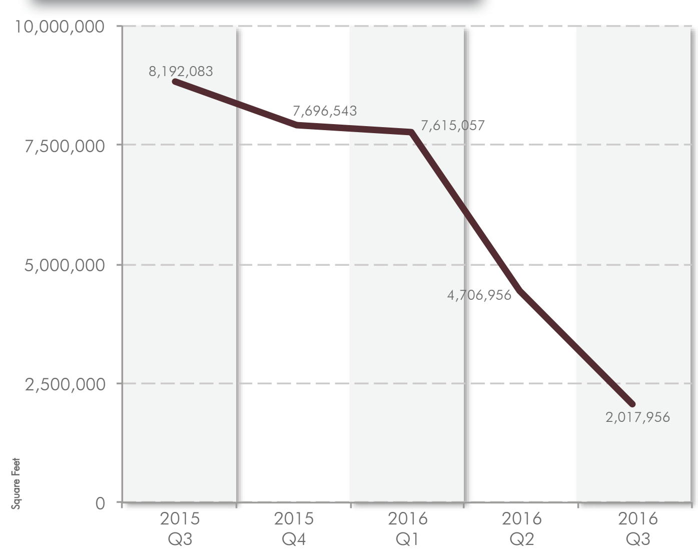
The pipeline of space under construction for Q3 included just over 2 million square feet, down from the previous quarter's 4.7-million-square-foot total. That raises concerns of supply shortages going forward given the ongoing rise in tenant demand in all size ranges. Tenants are willing to pay for quality space if they can get it. The problem is getting product built fast enough to meet that demand. Currently, the largest project under construction is the Toray-Phase 1 building, a 750,000-square-foot facility that is 100% preleased.

As a result of this imbalance, average asking rents moved up another $.03 in the quarter to $3.67. But, rents vary widely by submarket. The Anderson submarket is highest at $4.79, followed by Greenville at $4.17. The lowest average asking lease rate in Q3, $2.66, was recorded in Laurens County. Landlords like the steady rent growth, and show little interest in selling, which has kept demand for investment properties well ahead of supply.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

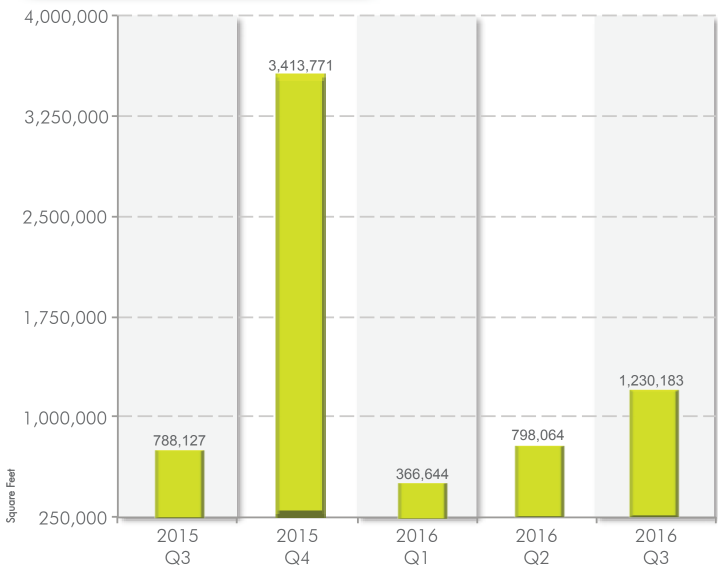


A LOOK AHEAD

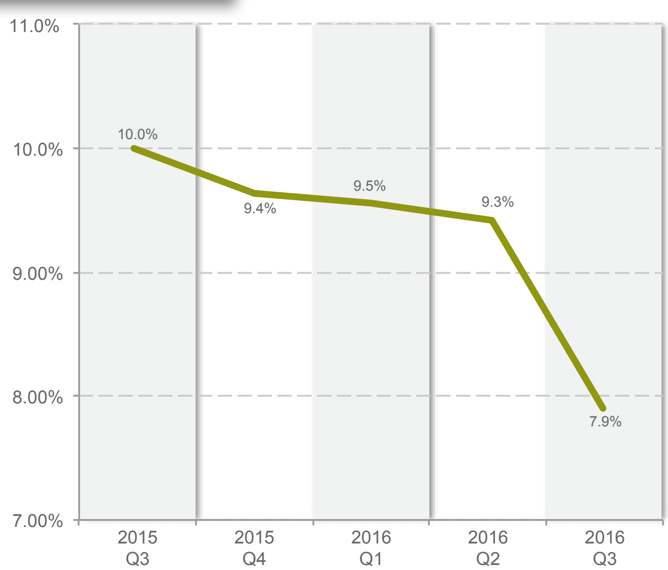
- Lease and sale activity should increase in the coming quarters as new product is delivered
- Net absorption will remain positive, but moderated by supply shortages
- Vacancy will decline further
- Lease rates will keep moving up at current rate of growth
- Development activity will increase in response to robust demand
- The good mix of spec and build-to-suit construction will protect the market from being overbuilt

ORLANDO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The overall economy in Orlando is growing steadily. This central Florida city is a major entertainment hub and home to more than a dozen major theme parks that generate significant industrial activity. A robust housing market is also boosting industrial activity. Residential construction is back to levels not seen since 2006. The unemployment rate in the Orlando area is down to 4.4%, well below the national average, and its number of employed has grown by 39,000 in the past year.

The strong local economy is encouraging developers to ramp up the construction of speculative product. At the end of Q3, 2,274,278 square feet of industrial space remained under construction. The largest project underway is the McCraney Property Company's four Bent Oak buildings totaling 826,893 square feet. Other projects that will be delivered soon include Becknell Development's Air Commerce Park, which totals 478,400 square feet, and EastGroup's Horizon VII building on Beacon Lake Drive, totaling 110,533 square feet The current base inventory of industrial properties now stands at just over 109 million square feet. General purpose warehouse projects make up the bulk of the speculative construction, but more distribution product is needed due to expansion in the e-commerce sector. Secondary land sites are getting more attention from developers, as there are few prime sites available.

Average asking lease rates continue to move higher. In Q3, the overall rate hit $5.36, up $.22 for the period. That increase was the first since Q3 of 2015. Expanding tenants are now willing to trade up for newer, more functional buildings and they are willing to pay for it. Landlords see this as an opportunity to push hard for longer lease terms and stronger credit. The highest asking rental rate for bulk distribution space, $5.71,

7.9%	$5.36	1,230,183	109,150,824	2,274,278
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ORLANDO - TRENDING NOW (continued)

is found in the Southwest submarket. In the Airport/Southeast submarket, which has the largest inventory of bulk distribution space, 16 million square feet, asking rents average just $4.85. With land prices and construction costs moving higher, tenants can expect further rent spikes going forward.

Net absorption has been consistently positive in recent years and that trend continued in Q3. Another 432,119-square-foot gain in occupied space was recorded, bringing the year-to-date total to 1,230,183 square feet. However, four of the ten submarkets did post negative absorption for the period and two others were unchanged. Of the four submarkets posting a gain in occupied space, the Airport/Southeast submarket had the highest at 166,047 square feet, followed closely by the Silver Star submarket at 162,419 square feet.

Vacancy keeps moving lower each quarter as a result. The overall vacancy rate stood at 8.5% by the end of Q3, down 80 basis points in the period. Year-over-year, the vacancy rate is down by 150 basis points. Vacancy in bulk distribution product fell to 9.9% in Q3. While the flex rate is performing well, vacancy is still at 14.3%.

There were 32 building sales in the quarter with total consideration of $82,380,700. The 1.7 million square feet of buildings sales averaged $44 per square foot. Good quality product is selling at highly compressed cap rates and acquisition demand includes institutional, local and foreign buyers looking to take advantage of anticipated rent growth. Until interest rates rise significantly, owner/user demand will remain strong, but supply will continue to run short.

AVERAGE SF RENTAL RATES

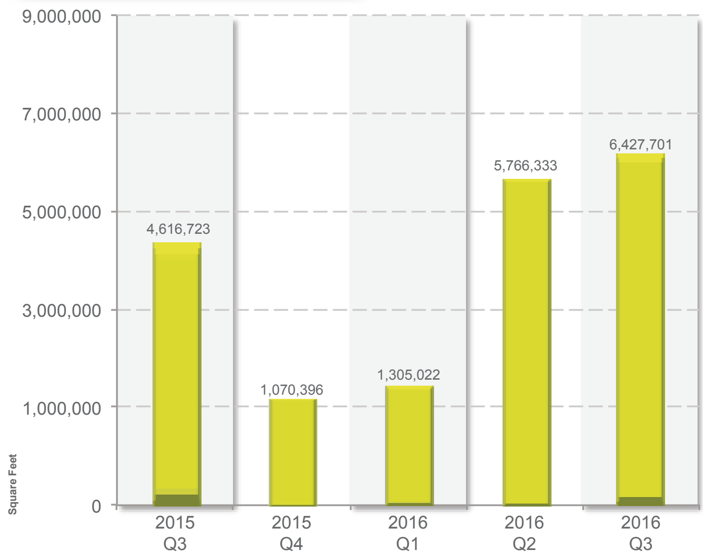
SF UNDER CONSTRUCTION

A LOOK AHEAD

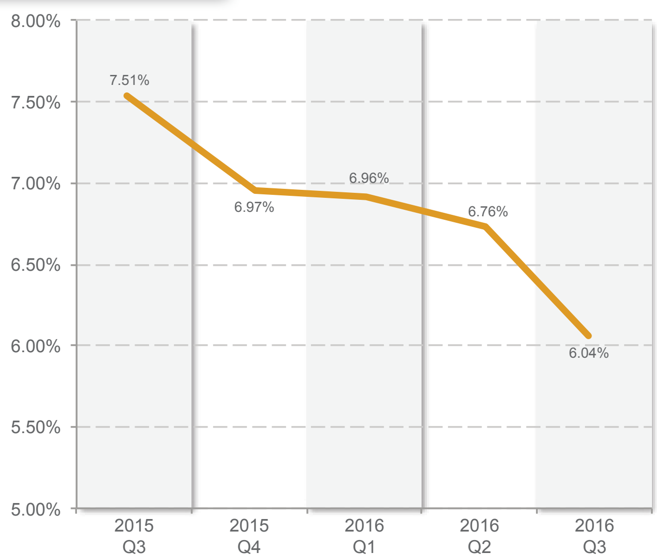
- Both lease and sale activity should maintain current pace
- Net absorption should remain near current levels
- Vacancy will decline by as much as 200 basis points over the next 12-24 months
- Average asking lease rates will move up another 10% in the next year
- Construction will remain near current levels due to limited supply of land sites
- E-commerce growth will tighten supply of larger distribution inventory

PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Philadelphia industrial market is one of the top five industrial hubs in the nation boasting over 1.06 billion SF of space. Activity is driven by two of the nation's most active industrial hubs , Central Pennsylvania and the Lehigh Valley, while emerging markets like Southern New Jersey contribute strong leasing and construction activity. The market continues to experience strong leasing activity, rising rents and significant positive net absorption. Construction activity remains robust, but land use constraints and organized local opposition to industrial development are causing delays in the entitlement process in both Central PA and the Lehigh Valley. Going forward, this could create strain in timely bringing new product to the market. In the short term, the scarcity of viable development sites has driven land costs to new highs.

The availability of ample pools of labor is another growing factor in the site selection process, especially in established Central PA industrial hubs west of Harrisburg. Smaller local population, the lack of affordable high-density housing, a decreasing unemployment rate and limited public transportation are all factors which concern occupiers in a submarket that boasts over 20 million SF of industrial space.

Our analysis focuses on our Core Data Set (CDS), specifically buildings 100,000 SF and up, where another 2.9 million SF of industrial space was added during Q3. Since Q4 2015, approximately 15 million SF of space has been constructed, and as of Q3 2016, only 11% still remains available for lease, making the region one of the most attractive development markets in the country. Another 17 million SF of space was still under construction as the quarter ended, with 83% underwritten on a speculative basis across the region.

As an effect of record low vacancy in the Lehigh Valley (1.4%), the trend of preleasing of speculative construction continued.

6.04%	$4.81	6,427,701	1,066,187,270	17,321,909
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▲

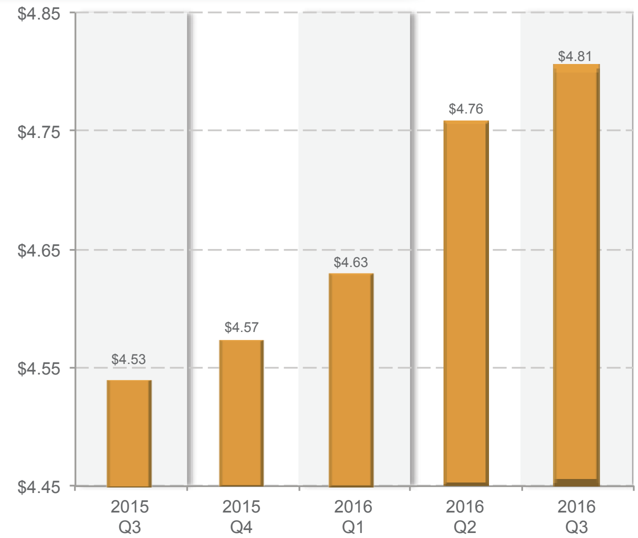
PHILADELPHIA - TRENDING NOW (continued)

This has, in turn, pushed rental rates in the Lehigh Valley to a record-high $5.75/SF, nearly $.30 higher than the same time last year. Across the region, average rental rates climbed $.05 to $4.81, up 6.2% YOY.

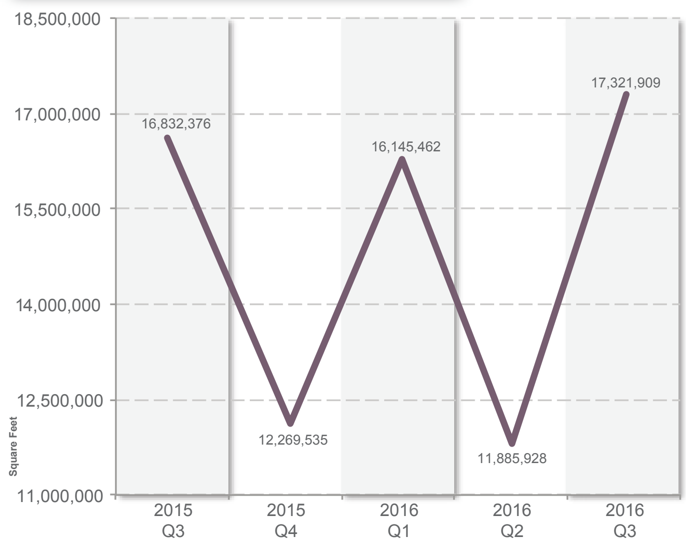
The regional vacancy rate for industrial product in the CDS fell for a third straight quarter, ending at 6.04%. Positive net absorption for Q3 was 6.4 million SF. 3 million SF of absorption was directly related to new deliveries in the Lehigh Valley, Southern New Jersey, the I-81 corridor and Suburban Philadelphia, with 2 million SF of those deliveries being Build-to-Suit projects. In the past year, almost 20 million SF of net gain in occupied space has been recorded, making the Philadelphia region the nation's most rapidly expanding industrial market. Significant contributors to net absorption in Q3 include Liberty Property Trust's two building build-to-suit project for Uline in the Lehigh Valley at 1.7 million SF as well as Amazon's move into Liberty's completed 613,920 SF speculative project in Southern New Jersey. Amazon.com continued to expand its presence in the market, also taking down a total of 1.4 million SF in the Lehigh Valley and I-81 submarkets.

International investors continue to drive Class A acquisitions throughout the region. Significant investors like GLP continued to show strong commitment to the Philadelphia market as that group announced the $1.1 billion purchase of Hillwood's industrial portfolio, which includes a number of assets in the Philadelphia Market. Regional investors have found Class B acquisition opportunities in major submarkets like Central PA and the Lehigh Valley, however the majority of transactions in Q3 occurred in secondary submarkets such as Suburban Philadelphia and Delaware, continuing a trend from Q2.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

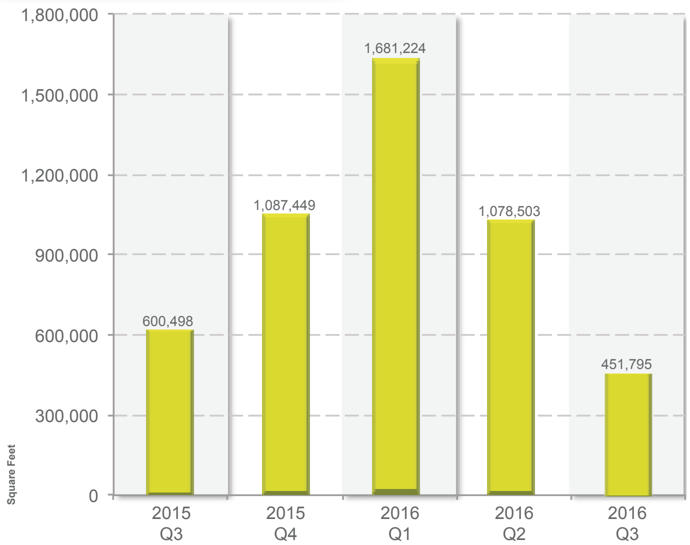


A LOOK AHEAD

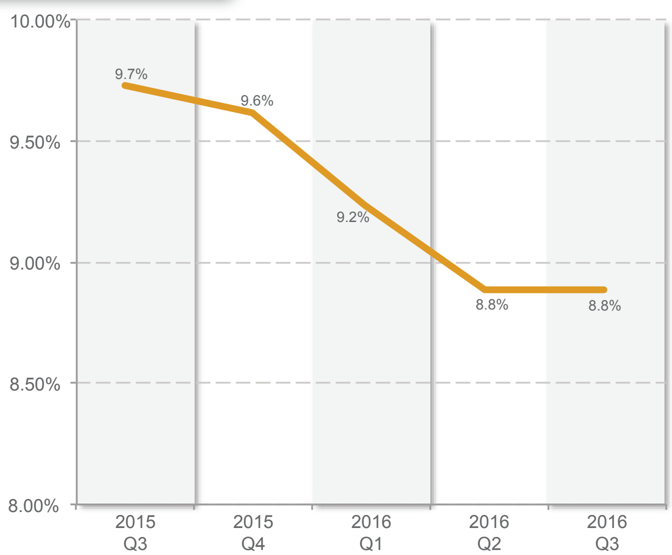
- Sustained demand, low vacancy, and cheap capital should continue to drive the pace of lease and sale activity
- Vacancy in the Lehigh Valley will continue to remain low, while vacancy in Central PA will fluctuate as large scale deliveries and transactions continue to be the norm
- Speculative construction across all submarkets should remain active
- New development opportunities will emerge in Berks County, stretching the traditional boundaries of the Lehigh Valley submarket
- Institutional money will continue to expand its reach as to asset class and geography

BALTIMORE

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The e-commerce sector is located north of Baltimore, an area that competes with the Lehigh Valley and the 8A in New Jersey. The region also has a large government presence. Agencies located in the area include the National Security Agency, Department of Defense, National Institute of Health, Department of Homeland Security and the Social Security Administration. Howard County is home to the largest concentration of engineers in the country. Johns Hopkins and the University of Maryland are among the major universities located within the region.

The Baltimore industrial market has been tightening up over the past several years. Q3 saw a continuation of that trend. Total base inventory moved up to 238.5 million square feet, with just 322,800 square feet of that delivered in the quarter. Projects completed in 2016 include a 300,000-square-foot building at 4803 Hollins Ferry Road, which is 0% leased, and a 263,500-square-foot building at 1500 Broening Hwy. That building is 100% occupied. Construction of larger buildings has been focused north of Baltimore in Harford and Cecil Counties, while new projects will build east of the city at the Sparrows Point Steel Mill. As the quarter ended, another 2,546,076 square feet of industrial space was still under construction, primarily in bulk distribution projects.

A lack of land and the State of Maryland's SWM regulations continues to put constraints on development activity, and has pushed new projects further from I-95, the main trucking corridor. Builders are having difficulty penciling new projects, as higher construction costs associated with the new regulations require lease rates to be 15%-20% above the current market.

8.8%	$5.97	451,795	238,485,623	2,546,076
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

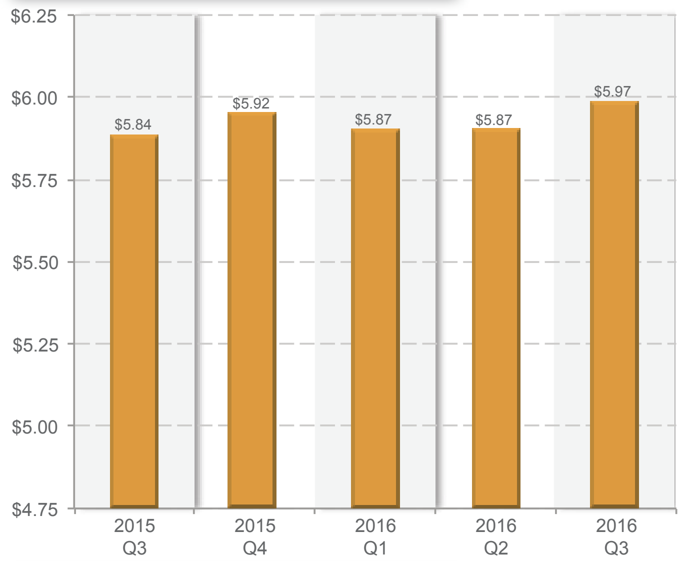
BALTIMORE - TRENDING NOW (continued)

The region recorded positive net absorption of 451,795 square feet in the third quarter, as compared to over 1 million square feet in Q2. In the past year, almost 4.3 million square feet of net absorption has been recorded, almost all of that in the warehouse sector, as flex activity remains tepid. Notable transactions that will boost absorption in the coming quarters include the 1 million square-foot lease to Under Armour and the 350,000-square-foot lease to FedEx, both in the Tradepoint Atlantic project at Sparrow Point.

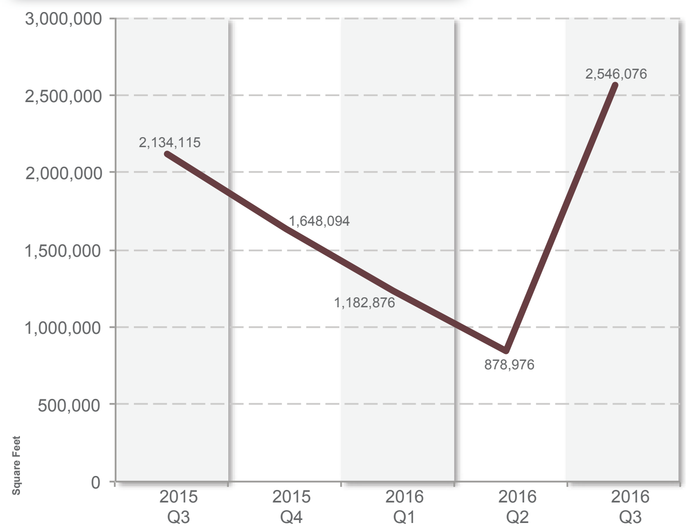
The vacancy rate was unchanged in Q3 at 8.8%, but year-over-year vacancy has declined by 90 basis points drop. However, some major submarket vacancy rates are ranging as high as 15%. In those areas, tenants still believe they have the upper hand, but in healthier submarkets, owners of quality space continue to push rental rates higher and demand longer leases with stronger credit tenants. Landlords also have enough confidence in ongoing demand to pass on transactions from lesser credit tenants who insist of high levels of tenant improvements. For tenants willing to work around functional obsolescence, good bargains are still available. Overall, average asking rental rates have gained just $.13 year-over-year to $5.97.

Competition for quality industrial investment property is still running well ahead of demand, as it is across the country. In the Baltimore area, only those who can react quickly to new opportunities are having any success. Cap rates are still at record lows and that has scared away local investors who are more cautious not to overpay in an increasingly uncertain global economy. These same investors are reluctant to sell their existing properties, as they are loathe to pay the taxes associated with cashing out and don't want to pay the price premium for up-leg exchange properties.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

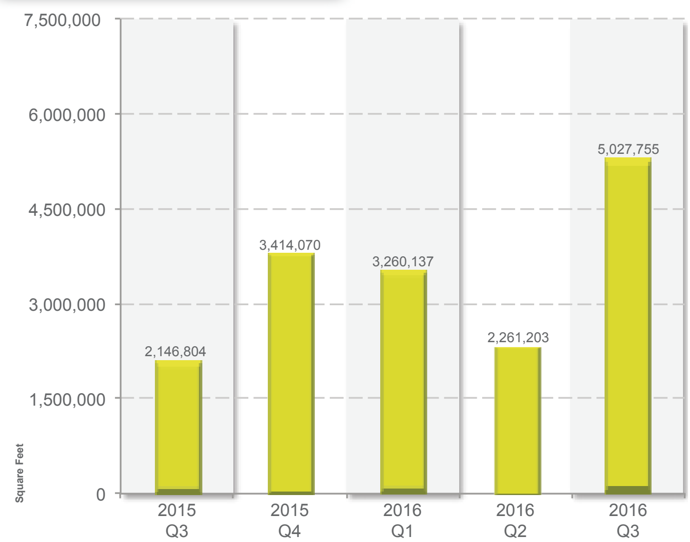


A LOOK AHEAD

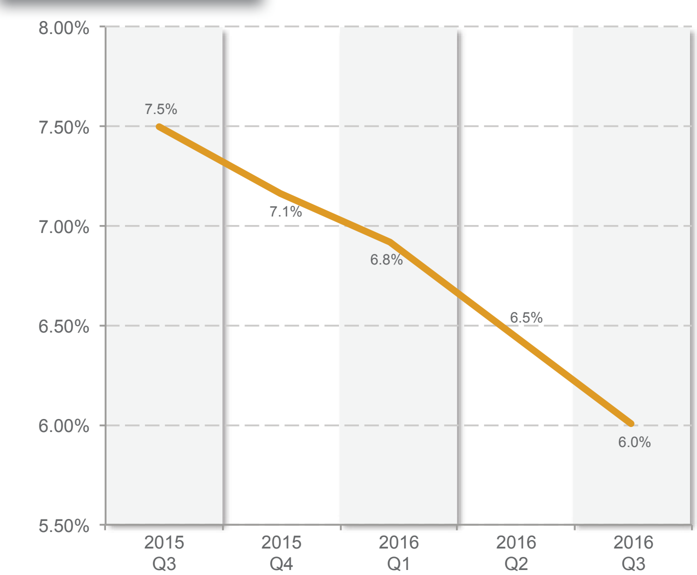
- Risk averse local investors will continue to lose out to institutional investors
- Net absorption will remain steady, but declining availability of quality product could slow it down going forward
- Vacancy will continue to decline in small increments over the next several quarters
- Overall asking rental rates will move up at current pace, but Class A space in prime submarkets will see stronger rent growth and leasing activity
- Speculative development will be hampered by new regulatory controls and limited availability of land
- Construction of bulk distribution product in the near term will be limited to build-to-suit deals

NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Northern/Central New Jersey industrial market, one of the nation's major industrial hubs, saw a significant increase in activity in Q3. Demand from a steady flow of industrial users from New York has risen sharply in recent quarters, causing a significant decline in vacancy and an increase in net absorption. The Grow New Jersey program continues to offer up to 10 years of tax credits to companies for creating new jobs, but there are concerns over the potential impact of the recently enacted 23 cent per gallon gasoline tax on the New Jersey economy in general, and the distribution sector, in particular. Although, in-store retail trade is expected continue to grow through 2020, which should mitigate those effects.

Vacancy moved another 50 basis points lower in Q3, to finish the period at 6.0%. Year-over-year, the vacancy rate has declined by a substantial 150 basis points. Large spaces in Class A product continues to see the most leasing action, but supply is getting tight across the board and even small and mid-sized tenants must be willing to compete to secure quality space. Landlords have been successful in trimming tenant improvement spending except to the most creditworthy tenants.

In Q3, the overall average asking rental rate rose by $.20 to $6.66. Net absorption was very strong in Q3, posting a gain in occupied space of just over 5 million square feet in occupied space, the best quarterly performance in several years. In the past year, nearly 14 million square feet of net absorption has been recorded, making the region one of the fastest growing industrial markets in the country. Notable move-ins for the period included a lease of 809,762 square feet by Amazon at 380 Middlesex Ave, a 695,072-square-foot lease to FedEx at 25 Talmadge Road and a lease of 571,000 square feet to List Logistics at 75 Mill Rd. All three of these transactions make clear the rapid expansion of the e-commerce sector and its influence on major shippers

6.0%	$6.66	5,027,755	809,714,905	7,369,588
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

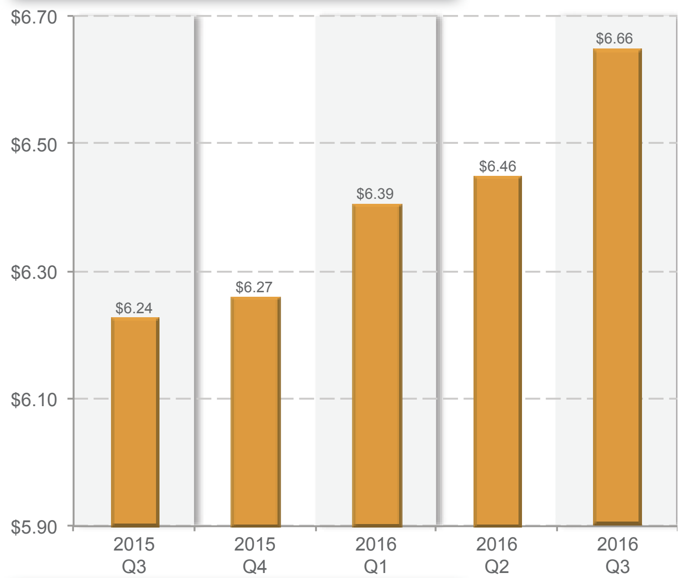
NEW JERSEY - TRENDING NOW (continued)

and 3PL operators who all place high value on the region's proximity to a third of the nation's buying power.

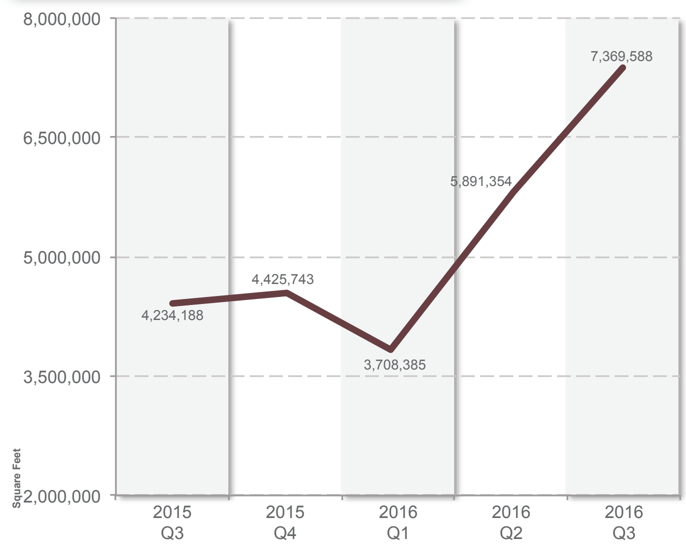
Owner/user buyers are still frustrated by short supply. Low interest rate financing has resulted in a prolonged period of supply/demand imbalance. Prices have risen by as much as 30% in some submarkets in just the last two or three years. Cash buyers willing to close quickly have the upper hand. So, it is important for leveraged buyers to show proof of pre-qualification when submitting offers. Sellers have as many as ten offers to choose from for quality owner/user buildings on the same property. As we reported earlier in the year, prices are moving up so fast that matching contract price with appraised value is becoming more of a challenge. Since the Fed continues to kick the can on an interest rate rise, SBA rates on owner/occupied properties remain at historic lows, which is keeping upward pressure on pricing.

Developers are having difficulty locating sites for ground-up construction and the price of land, especially near the Port, has become prohibitively expensive. In Q3, just 1.7 million square feet of space was delivered in seven buildings, but over 7.3 million square feet is still under construction, the largest being a 567,000-square-foot building in Windsor Center Drive and the 565,000-square-foot Matrix Distribution Park on Interstate 84. Both projects are 100% preleased. With land so scarce and rents moving up, redevelopment of existing industrial product is becoming a more viable option.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

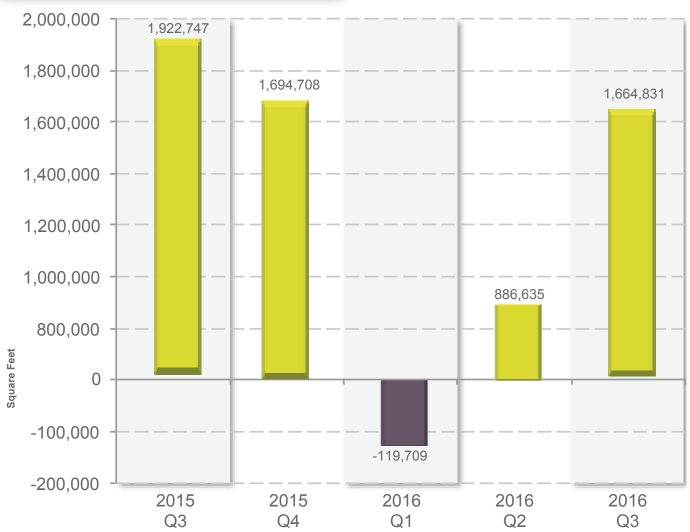


A LOOK AHEAD

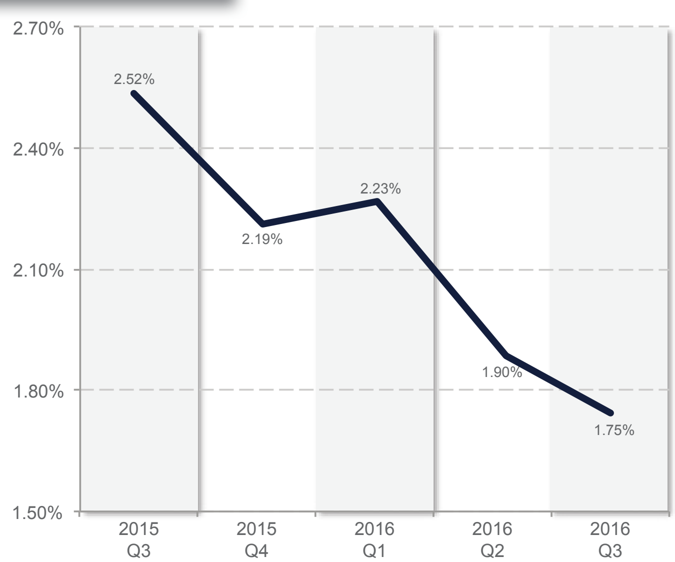
- Overall sale and lease demand from users will continue at record levels
- More risk averse investor/buyers will lose some of their appetite due to concerns over a looming pricing bubble
- Net absorption will moderate slightly due to supply shortages
- Vacancy will decline below the 5% level in prominent submarkets
- Average asking rental rates will continue to rise, particularly in secondary markets that are seeing increased tenant interest
- Average asking sales prices, which have risen sharply, may level out in the next several quarters

VANCOUVER, BC CANADA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The economy of the Greater Vancouver area continues to outpace the rest of British Columbia and Canada overall. Over the past decade, construction has been the key driver of economic growth. The finance, insurance and real estate sectors have contributed the most to gains in GDP. The offshore investment market has also fueled the economic expansion, as foreign money pouring into residential real estate has had a spill-over affect on the commercial real estate market.

The transportation, logistics and warehousing sector remains one of the Lower Mainland's largest and continues to show strong annual growth, mainly due to the proximity to the Pacific Northwest region of the US and the Asian markets via multiple ports. The growth in the film industry is also making a significant contribution to regional growth, in part due to the relative weakness of the Canadian versus US dollar. The Canadian government is also offering tax incentives to encourage US production companies to operate in the Vancouver market. As a result, production space is at a premium and large warehouse spaces are being snapped up.

Landlords have been enjoying the spoils of record lease rates, high demand and historically low vacancy. They can afford to be more selective in terms of choosing tenants with the strongest credit. Vacancy in the region has been below 2% for consecutive quarters, having ended Q3 at a scant 1.75%, a 15 basis point decline during for the period. Richmond, the largest of the region's 12 submarkets at 36.2 million square feet, has a vacancy rate of 2.54%. Surrey, the next largest submarket with 31.6 million square feet, finished the quarter with a 1.82% vacancy rate, while the 24.3-million-square-foot Vancouver submarket, ended Q3 with a vacancy rate of only 1.30%.

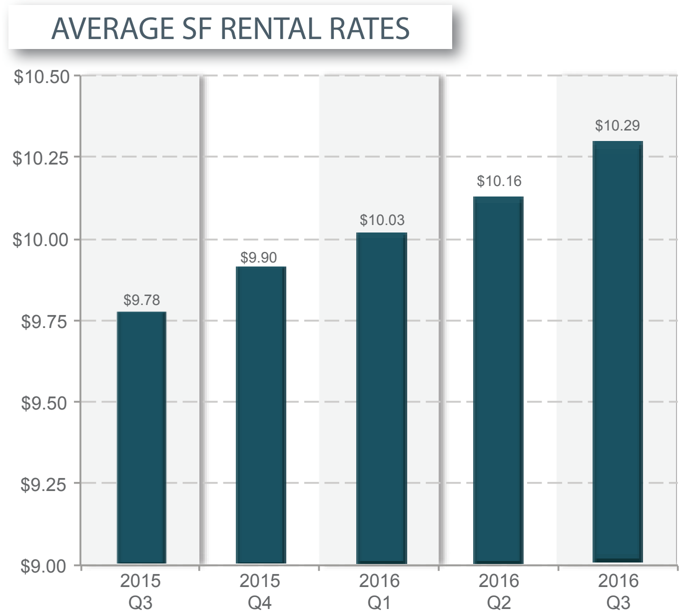
1.75%	$10.29	1,664,831	203,699,212	1,035,974
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

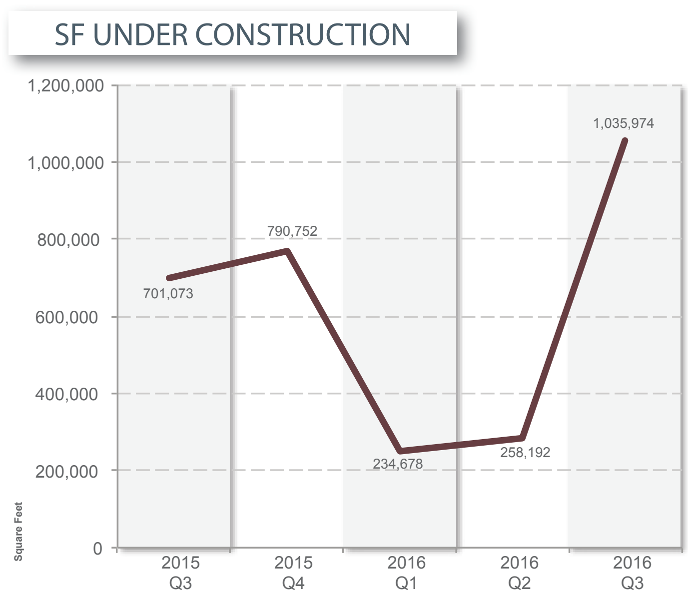
VANCOUVER, BC CANADA - TRENDING NOW (continued)

Annual net absorption has been consistently positive for the past five years. Though there have been four quarters with minor losses in occupied space since the Q1 of 2011. The third quarter of 2016 posted a positive 1,664,831 square feet of positive net absorption after a solid gain of 886,635 square feet in Q2. Through the first three quarters, over 2.4 million square feet of net gains have been recorded. The bulk distribution market remains very active, and demand is running ahead of supply, especially for requirements over 100,000 square feet.

The average asking lease rates have been moving sharply higher. In the first quarter, that rate was $9.65. By the end of Q2, it jumped $.51 to $10.16. By the end of Q3, it moved up another $.10 to a post-recession high of $10.26. This makes clear the impact of critically low vacancy levels on tenants in need of space.

Developers are anxious to add supply to take advantage of current market conditions, but the geography of the region combined with zoning and land use regulations put constraints on where and what developers can build. Construction costs are one the rise, as well, partly due to more stringent geotechnical requirements. So, the availability of land ready for near term ground-up development is in short supply. In 2016, just 1.5 million square feet of new space has been delivered, with 1.0 million square feet of that coming on line in the Q3. Another 1.8 million square feet is in the construction pipeline. Most small to mid-size developers prefer to build and sell smaller strata (condominium) warehouse rather than hold for long term investment. Small units run from 3,000 to 5,000 square feet, while larger bays run from 8,000 to 15,000 square feet.





A LOOK AHEAD

- Leasing activity is expected to remain active and steady for the next 12-24 months
- Absorption numbers will remain at current levels due to limited supply
- Vacancy will remain in the 1.5% to 2% range
- Lease rates will keep climbing due to low vacancy
- Construction activity will stay strong, as local developers do their best to keep pace with demand
- Developers will get more creative and take more risk to get new projects going

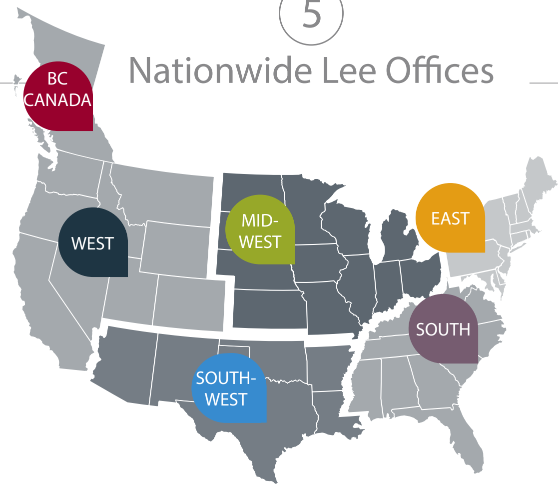
SELECT TOP INDUSTRIAL LEASES Q3 2016

BUILDING	MARKET	SF	TENANT NAME
Southfield Park 35, Bldg 1	Dallas/Ft Worth	1,128,227	NFI Industries, Inc.
Georgia-Pacific	Chicago	1,000,560	Georgia Pacific
6521 W. Monee Manhattan Rd	Chicago	856,605	Amazon
Summit II	Memphis	789,291	Technicolor
Stateline F	Memphis	740,844	ScanSource, Inc.
32 Springside Rd	Philadelphia	682,708	Camuto Group
Liberty Business Center II - Lot 4	Philadelphia	650,000	East Penn Manufacturing Co
Renaissance South Business Park	Louisville	645,840	Hillsdale Furniture
Greenwood Industrial Bldg 400	Atlanta	612,070	The Home Depot
Inland Port XV	Kansas City	548,333	Smart Warehousing
Warehouse Bldg 2200	Baltimore	532,515	Henry Bath, LLC

SELECT TOP INDUSTRIAL SALES Q3 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Bridgedale Plaza	Long Island	656,000	$297.26	N/A	Rockland Funding LLC	Fruchthandler Family
230 W. Tasman Dr	South Bay	286,409	$425.96	N/A	Milken Institute	TMG Partners
715 NW Hoyt St	Portland	392,708	$224.09	N?A	City of Portland Dev	US Postal Services
Pinole Point Bus Ctr	Oakland	476,529	$165.15	N/A	JLL Income Prop Tr	Prologis

Nationwide Lee Offices



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