The Lee Industrial Brief

Q1

2017

LEE & ASSOCIATES®

COMMERCIAL REAL ESTATE SERVICES

Lee & Associates Overview

62% increase in transaction volume over 5 years

$11.6 billion transaction volume 2016

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

890 agents and growing nationwide

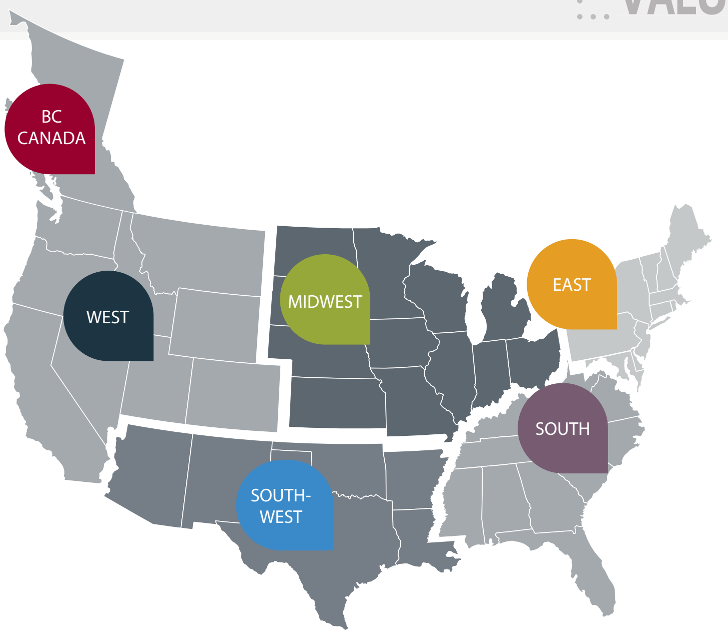
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

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
Seattle, WA

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

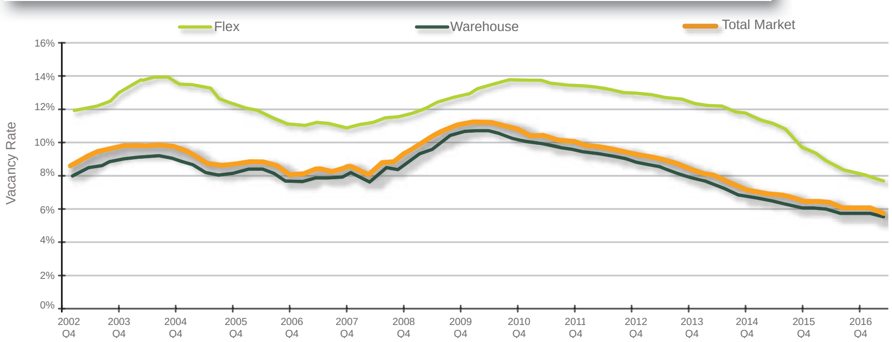
Vancouver, BC
Canada

US INDUSTRIAL MARKET

NET ABSORPTION COOLS - RENTS KEEP MOVING HIGHER

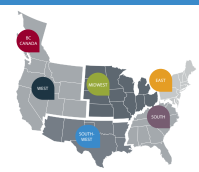
After putting in another strong performance to finish the year, the industrial market took a bit of a breather in Q1, but kept moving in the same direction. Supplies of quality space are declining across the country and rents keep moving higher. Construction activity is robust, but concentrated in a handful of major distribution hubs. Supply in more mature markets is running thin as industrial land is being repurposed to higher uses despite dangerously low vacancy and strong demand from expanding businesses. The post-election surge of optimism continues, but cooled noticeably after the failed attempt to repeal and replace the controversial Affordable Care Act. All things considered, the industrial market kept its momentum and should continue on current trend lines for the rest of 2017. The Fed made another move on interest rates during Q1, the second adjustment in just three months, after inching closer to hitting its targets for inflation and employment. Markets took the move without the global economic hiccup its initial rate hike caused back in December of 2015. This time around, the Fed's moves seem to have come as welcome news, as industrial business owners and commercial real estate investors see the tightening of monetary policy as a sign of a strengthening economy.

VACANCY RATES BY BUILDING TYPE 2001 - 2016



ECONOMIC DRIVERS

- GDP GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY

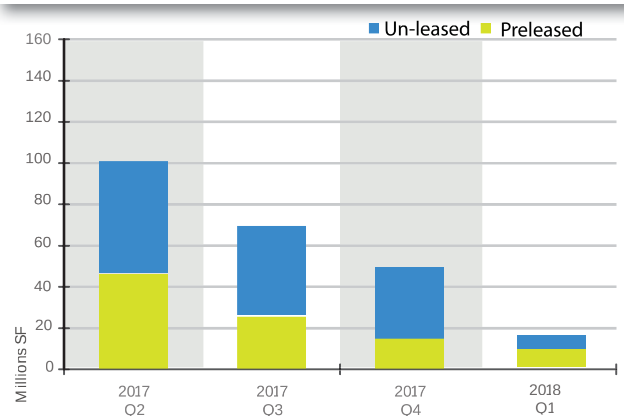


- A LOOK AHEAD

The recent rate hikes did push mortgage rates higher, but not by enough of a margin to dampen the enthusiasm for acquiring industrial properties. Demand from owner/users and third-party investors has pushed prices to record levels, and supply continues to run at a fraction of current demand. Lenders are underwriting deals with closer scrutiny, but there are enough highly qualified buyers out willing to be under the microscope.

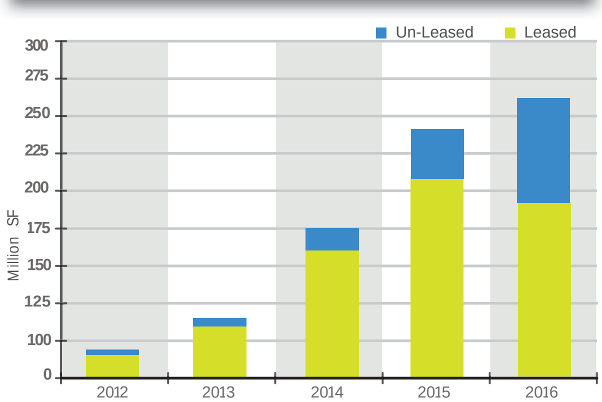
FUTURE DELIVERIES

PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



RECENT DELIVERIES

LEASED & UN-LEASED SF IN DELIVERIES LAST 5 YEARS



Caution has its place, especially so many years into the market up cycle. At this point, no one knows how much further rates will need to rise to initiate the cap rate decompression so many experts have been talking about.

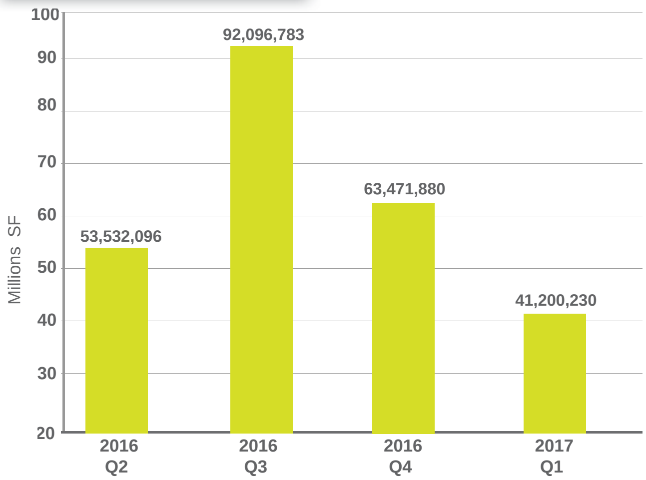
For the time being, owner/user buyers, are still lining up to pay record prices, but even though owners can reap windfall profits by selling, the tax consequences of cashing out are significant and exchanging is seen by many as just kicking the tax can down the road. Still, buyers remain aggressive, especially user buyers who can take advantage of SBA financing at 90% of a property's value. They like the idea of keeping occupancy costs flat for up to 25 years with fixed rate mortgages that are still in low 5% range despite the recent increase.

In Q1, net absorption was positive, but tepid compared to the last several quarters. Rent growth was strong and vacancy held steady as new deliveries stayed in relative balance with leasing action. GDP growth for 2016 came in at a disappointing 1.6%, and the preliminary estimate for Q1 growth is under 1%, which doesn't seem to sync up with current market sentiment and metrics. Fourth quarter earnings season brought generally good news from corporate America. Profits were up and so were revenues, which indicates that there is still room for industrial sector growth. In the past several reporting periods, much of the growth was in profitability caused more by cost-cutting than top line revenue gains. So, the increase in top line revenue was welcome news.

Vacancy was unchanged in Q1, but has been in steady decline in almost every primary and secondary market for the past few years. The shortage of quality space offered for lease has forced tenants to renew in place, relocate to inefficient space or pay the premium for first generation space. Rent growth is being driven by the increased efficiency offered in new projects where the latest in materials handling technology can help tenants think more three dimensionally. Owners of new space are demanding longer terms and stronger credit on top of higher rents.

NET ABSORPTION

* For Top 42 Markets



Developers in low-vacancy markets are unable to find land suitable for ground-up development, and repurposing properties to multifamily and mixed-use retail/office projects is often the only way to make projects pencil out. Land is getting more expensive to acquire, projects are taking longer to get entitled and buildings are getting more expensive to construct, which is keeping significant amounts of spec building concentrated in major land-rich markets like Dallas/Fort Worth, Atlanta, Phoenix, Philadelphia, Chicago and Southern California's Inland Empire.

Net absorption cooled off in Q1 but remained firmly in positive territory with a total gain in occupied space of 57.8 million square feet after posting a total gain of 80 million square feet in the final period of 2016. The e-commerce sector, big shippers and 3PL operators are still the market makers, taking down space in enormous chunks. Until recently, is was just the major distribution hubs getting most of the action, but the push for "Last Mile" locations to speed up shipping time has given secondary and tertiary markets a big boost. Amazon.com continues its massive expansion by leasing multiple fulfillment centers each quarter, some over 1 million square feet. Walmart is expanding in a similar fashion as part of its long term strategy to take the battle to Amazon. E-commerce is here to stay the need for state-of-the-art distribution space will be ongoing for years to come.

New deliveries for both speculative and build-to-suit projects for Q1 reached 63.3 million square feet in 517 buildings, nearly equaling Q4's totals. That brought total US industrial property inventory past the 22 billion-square-foot mark. As the quarter ended, another 268 million square feet was still in the construction pipeline. Development activity is focused primarily in distribution hubs like Dallas, Chicago, Philadelphia and Atlanta where land is still available at prices that allow projects to pencil at today's rents. That is not the case in mature markets like Los Angeles where what little land remains is too expensive for conventional industrial development. Infill markets like LA are losing industrial inventory to repurposing to other product types that make more economic sense.

As we reported last quarter, the balance between spec and build-to-suit construction has helped keep market metrics in balance. New deliveries continue to run comfortably short of net absorption, which has maintained market equilibrium even in markets with substantial construction. Speculative buildings are leasing quickly to fast growing tenants who like not having to wait for build-to-suit space.

The national vacancy rate for warehouse and flex space was unchanged in Q1 at 5.3%. In the past four quarters, the vacancy rate has fallen by 40 basis points, and several major market areas still have vacancy rates in the 2% range, including Central Los Angeles, Long Island, New York and California's Orange County.

Average asking lease rates across the country moved higher again in Q1, ending the period up $.10 to $6.14. Markets with the highest levels of construction are still seeing the most rent growth, as tenants will pay a premium for efficient, first generation space with higher clearance and more sophisticated fire suppression systems. However, rising development costs are driving up the rents required to make projects pencil, and that has developers and their lenders wondering whether the current pace of rent growth will cover those additional costs by the time projects are built.

The global economic growth picture still isn't good, but it has improved substantially. GDP growth in the European Union trumped the US for the first time, but the European central bank is still printing money to buy sovereign and corporate bonds and continues to experiment with negative interest rates to stimulate further economic growth. The Asia Pacific region is picking up the pace, as well. Port activity was way up in the first quarter, in part driven by higher commodity and oil prices. In all, we started 2017 on a much more positive note than we did in 2016, when the world economy got spooked by the Fed's first rate hike in December of 2015.

LOOKING AHEAD

High demand, low supply, rising prices and declining vacancy will continue to drive market dynamics. However, economic growth is still stubbornly sluggish and there is a fair amount of uncertainty from a macroeconomic perspective. Monthly swings in job and wage growth are sending a mixed message about the rest of the year, yet our central bankers are optimistic enough to raise interest rates twice in three months and send a strong signal of further near term hikes. The yield on 10-Year Treasuries, the benchmark for setting commercial mortgage rates, spiked to over 2.6% during Q1, but has settled in the 2.3% range of late, which means the markets have already factored in the Fed rate hikes.

The global economy looks to improve further going forward. The Brexit scare was short-lived, and the markets have gotten used to the idea of an EU without the United Kingdom. China and other emerging economies are still facing big challenges, but talk of global recession has subsided in the wake of improved economic indicators around the world.

US economic growth is perhaps more of a mystery. With GDP getting such a slow start in 2017, it's hard to say where the year will end up. However, the industrial market is largely driven by rapid growth in e-commerce and third-party logistics operators. So, current activity levels are maintainable in the near term. Barring a significant economic event, the industrial property market should continue to expand at the current pace.

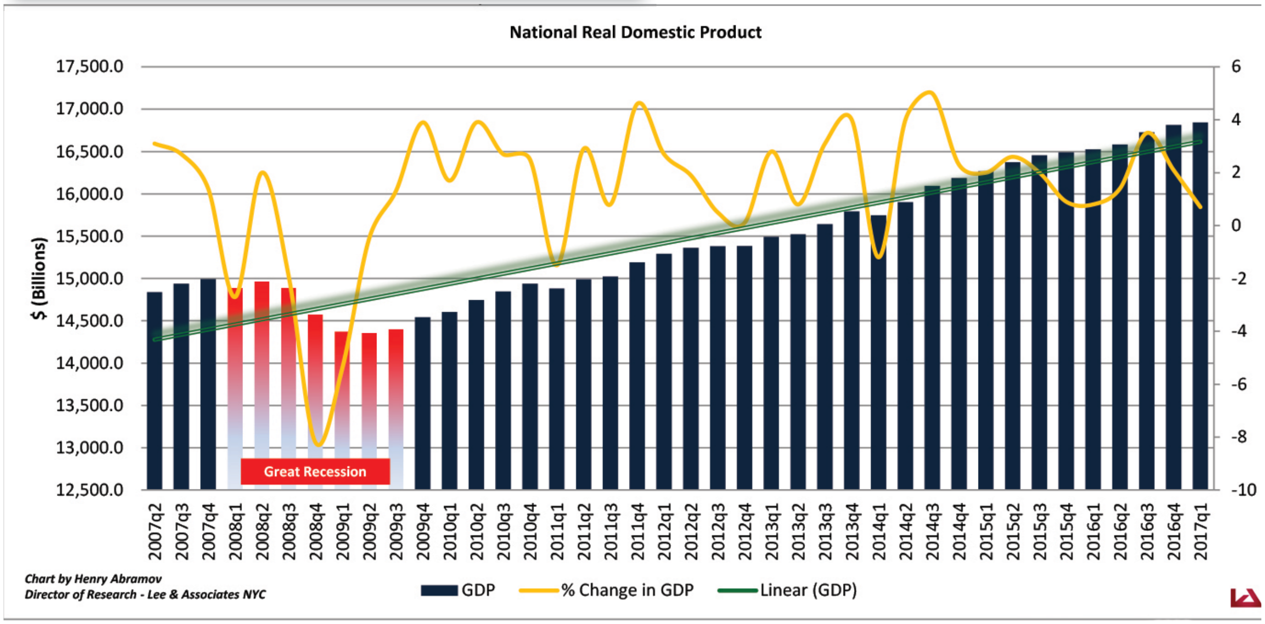
Vacancy will keep moving lower in small increments, as the bulk of new construction is concentrated in distribution hub markets with strong, ongoing positive net absorption. Net absorption should remain positive and healthy in 2017, but may moderate in markets that have very low vacancy. Landlords will keep pushing for longer terms and stronger credit, while tenants will look for shorter terms that provide strategic flexibility and the chance for lower rental rates when the market finally corrects. Construction will remain at current levels in areas with ample supplies of land, but will decline further in markets like Los Angeles where land is either unavailable or too expensive for industrial development. Lenders still have money to loan, but will continue to tighten up on underwriting to mitigate potential downstream risk.

GDP GROWTH

The US economy is, by far, the largest on the planet and we also consume more foreign goods and services than any other nation. Whatever happens here at home, is felt and observed the world over. So, US GDP, the primary metric for tracking the total output of goods and services, is closely watched around the globe.

Annualized US GDP growth in Q4 of last year topped 2.1% on the third and final revision. However, total growth for all of 2016 was just 1.6%, well short of the 2.4% growth rate recorded in 2015. Unfortunately, the US economy is off to another slow start in 2017, with the preliminary estimates of annualized GDP growth coming in under 1%. The question that still remains is whether or not US companies and consumers will accept a slower growth model as the “new normal” and press forward in a way that promotes further growth.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



Until 2016, the US looked relatively good compared to Europe, as growth across the pond had been flat despite drastic monetary and fiscal measures to keep the European Union member countries from sliding into recession. The European Central Bank is even experimenting with Negative Interest Rate Policy (NIRP) and it continues with a massive bond-buying program to keep the cost of capital near historic lows. In 2016, the European Union grew at 1.8%, besting the US for the first time in recent memory, but that fact leaves a lot of experts wondering what the result would have been without all the meddling by central bankers.

Political turmoil, civil unrest and economic challenges around the world still weigh heavy on the minds of central bankers, and the US Fed is among those keeping a close eye on global goings-on. Changes here at home are also on the radar of those who follow GDP closely. The Trump Bump after the election surprised the world and equities markets have soared on the expectation of lower corporate and personal income tax rates, reduced regulations and a huge infrastructure spending program. But, GDP growth

GDP GROWTH

received no boost at all from the enthusiasm that followed the November election. Turning campaign promises into real changes in the law is no small feat, as evidenced by the recent failure of the legislation to repeal and replace the Affordable Care Act. Our political system is designed to have big change occur over time, and checks and balances built into the US Constitution protect the party in the minority. Tax reform is next on the legislative priority list, and it stands to face significant opposition from Democrats and some Republicans in both houses of Congress. So, GDP growth will remain dependent on current laws for the foreseeable future. Though, the psychology of decision making appears to be more positive, as the prospects of a more business-friendly economic environment are still on the rise.

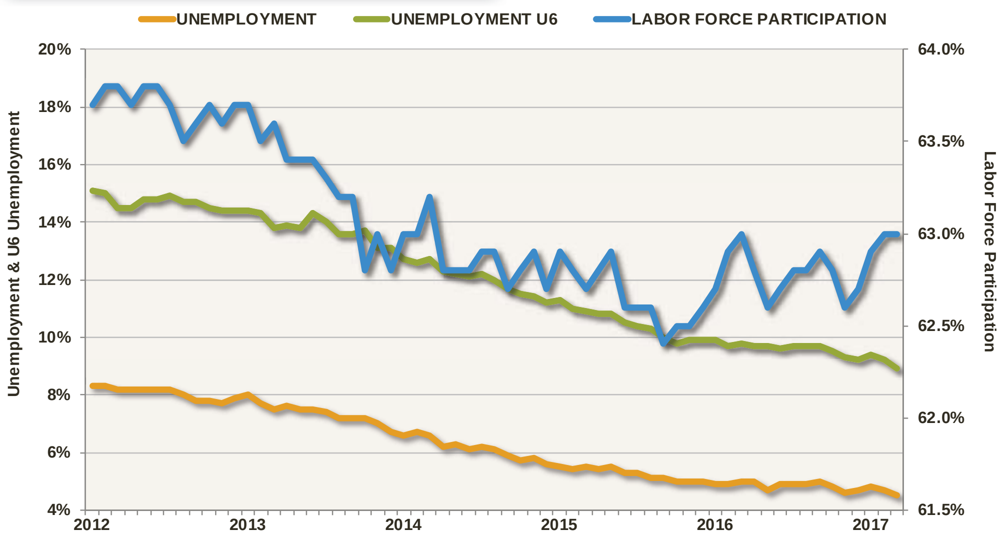
Corporate earnings finally bounced back in Q4 and kept momentum in the 1st Quarter of 2017. For much of 2015 and 2016, companies were resorting to cost-cutting and stock buyback programs to increase profits. In Q4 of 2016, that seemed to turn around and more companies reported revenue increases, which would ordinarily contribute to GDP growth. However, ongoing cost cutting means more job cuts and lower consumer spending, which accounts for roughly 70% of GDP. If earnings growth continues, we should see a positive impact on GDP growth later in the year.

Perhaps the biggest concern relative to GDP growth is the performance of the automotive sector, which significantly impacts manufacturing output, job growth and consumer spending. In the final quarter of 2016, incentive-driven car sales accounted for a disproportionate share of GDP growth. That did little for bottom line profits in the sector, but did give GDP a badly needed shot in the arm. Slow sales of non-SUV vehicles are likely to weigh heavy on automobile manufacturers in Q1 and, most likely, throughout 2017, which will negatively impact GDP growth.

EMPLOYMENT

Job growth statistics are a moving target because of the rather odd way they are compiled. The U3 unemployment rate, the most widely quoted in the media, includes those who are employed and those of the unemployed who have actively sought employment in the most recent five weeks. We are still not sure who came up with U3, but we wish they hadn't because it quite often produces counter-intuitive results. When job creation is good, those who have not been looking for work, re-engage in their search and are added to the total of those who are actively looking, increasing the number of unemployed workers and thereby raising the unemployment rate. March 2017 numbers make a good example. A dismal 98,000 jobs were created in March (well below the number needed to keep up with new entrants to the workforce) yet the unemployment rate went down 20 basis points. Conversely, 235,000 jobs were created in February of 2017 and the U3 unemployment moved just 10 basis points lower. These anomalies happen with some frequency and have caused many to discount the validity of the Bureau of Labor Statistics' U3 metric that removes from the calculation those workers who have not been actively seeking employment in the most recent 5 week period.

NATIONAL UNEMPLOYMENT



The U6 unemployment rates counts those working part time in their field of choice, who would prefer to be working full time, as unemployed. Many believe U6 offers a more accurate employment picture. It does make clearer the frustration of many in the middle class who still feel like the recession never ended. They are technically employed, but don't feel the impact of higher income. The U6 unemployment rate is still double that of U3, at 8.9%.

Job creation slowed in 2016, but did get off to a good start in Q1 of 2017. The 12 month rolling average of new positions had fallen by over 50,000 in the past year, but the pace picked up again in the first two months of the year. Then came March when an unexpectedly low 98,000 new jobs were created. Some say February stole from March due to a higher level of construction jobs coming early due to warmer weather. Wild swings in job growth impact consumer spending and business expansion. Companies large and small tend to more cautious in making long term decisions that have a big impact on hiring.

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 near a four-decades low. A loss of job growth momentum and the early retirement of Baby Boomers, have combined to keep just 63% of potential workers in active production.

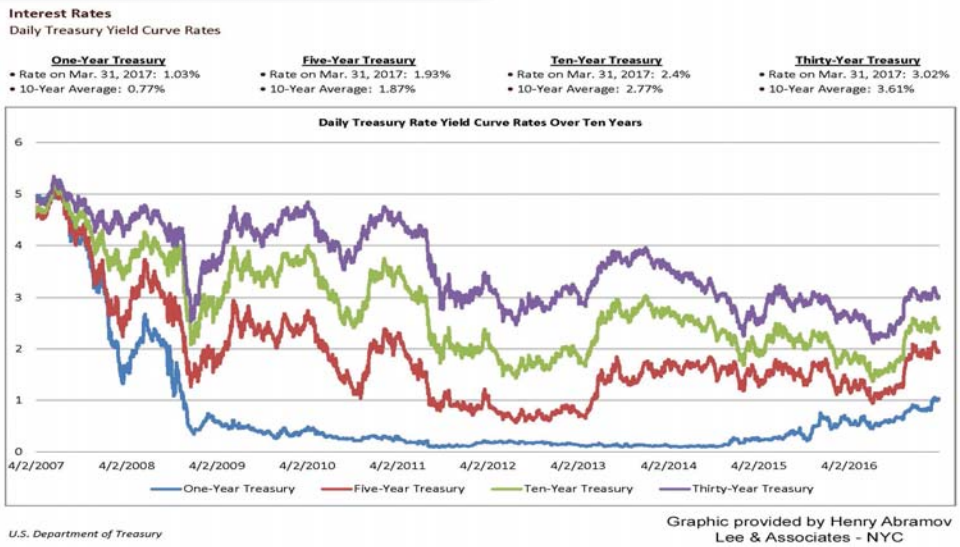
EMPLOYMENT

Lagging wage growth remains a problem that has kept a lid on US economic growth. Full-time, high-paying jobs are available, but too few applicants are qualified. Lower-skilled workers are relegated to jobs that make it difficult to get ahead. Wage growth has seen some improvement having tracked at an annualized a rate of just under 3% for the past several months.2.9%. But, for workers earning a middle income wage, a 3% increase may not change spending habits enough to move the needle on economic growth. Roughly two-thirds of that increase goes to cover current inflation, leaving little for new purchases that would boost GDP. As a direct result, many middle class workers feel like they have been left on the economic sidelines.

MONETARY POLICY

After years of sending cryptic mixed signals, the Fed finally stepped up in December of 2016 and again in March of 2017 by sending its benchmark Fed Funds rate by a combined 50 basis points to 1%. By historical standards, that is still low, and it will take a sustained series of quarter-point increases to fully neutralize the activist posture of our central bank. Since the financial crisis that began at the tail end of 2007, the Fed has been aggressively manipulating the cost and flow of capital to the point that it has drawn heavy criticism for taking a more active role than it should have. Some believe our central bankers are largely responsible for what could be a bubble in the equities and commercial property markets, as both have seen disproportionate gains throughout the economic recovery.

US TREASURY RATES



Fed rate hikes generally strengthens the US dollar making exports more expensive and effectively raises the debt service on dollar-denominated loans for borrowers around the world. However, the spike in the dollar has quieted some in recent months and its impact on the rest of the world found on the front page less often. What may become big news soon is the potential impact of reducing the Fed's balance sheet, which swelled to over $4.5 trillion after several years of bond-buying known as quantitative easing (QE). That money, created in a computer on an as-needed basis, has to go back into the computer to be removed from circulation. Speculation from some Fed officials indicates that the balance sheet problem will be addressed sooner than later. To date, the Fed has been reinvesting proceeds from maturing T-bills by buying more T-bills. When that changes, bondholders will be watching carefully just in case the market doesn't take the adjustment in stride. For many who fear the inflationary impact of the dilution of the US dollar associated with QE, the Fed's decision to clean up its balance sheet will be welcome news.

Despite the Fed's more robust monetary stance, central banks around the world are still at full throttle in terms of monetary stimulus. The European Central Bank and the Bank of Japan are still toying with negative rates, which certainly doesn't telegraph a bullish outlook for economic growth. Both banks continue to buy corporate bonds in addition to their own sovereign debt. The Bank of Japan is running out of government debt to buy back and have resorted to buying individual stocks, which is against the law here in the US. Critics are not bashful in criticizing these drastic measures, which are largely untested and could have consequences down the line.

MONETARY POLICY

Concerns of a near term recession here in the US have subsided, at least for now. The surprise election of Donald Trump as President sent markets on a tear and drowned out the voices of the economic naysayers who predicted a bursting of a stock bubble and the beginnings of an economic correction. If such a thing did occur, at least the Fed has extricated itself from the corner it painted itself into by keeping rates at the zero bound for so long. With Q1 GDP growth so weak, having some room to maneuver is probably not a bad thing. It only takes two consecutive quarters to be in recession, and first quarter growth under 1% lends little comfort.

Trump's promise of a big infrastructure investment has buoyed hopes that the Fed will get a little help from Congress and the White House. But, the deficit hawks on the political right are loathe to let deficits move higher on their watch. If the recent failure to repeal and replace the Affordable Care Act is any indication, it could be a long year for Mr. Trump, Speaker Ryan and Majority Leader McConnell. At the end of the day, the Fed may not get the assist and will opt to keep its foot on the economic gas pedal.

If that turns out to be the case, borrowers will continue to enjoy low interest rates. Mortgage rates have begun to move up, but remain near historic lows Most commercial property lenders use a spread over the yield on the 10 Year T-bill to set mortgage rates, and that yield is currently stabilized in the 2.4% range, which mortgage rates will remain slightly under 5%. For the moment, it's still a good time to borrow money.

GLOBAL ECONOMY

In the past two quarters we have been describing the global economic outlook as troublesome. We still do, but we can point to at least some improvement around the world. The panic over the Brexit vote was short-lived. It didn't take long for world markets to absorb the news. There's a long way to go, but the UK's exit from the EU is drawing much less attention now. The British Pound took a beating, but that may also be short-lived, once the actual process ramps up this spring.

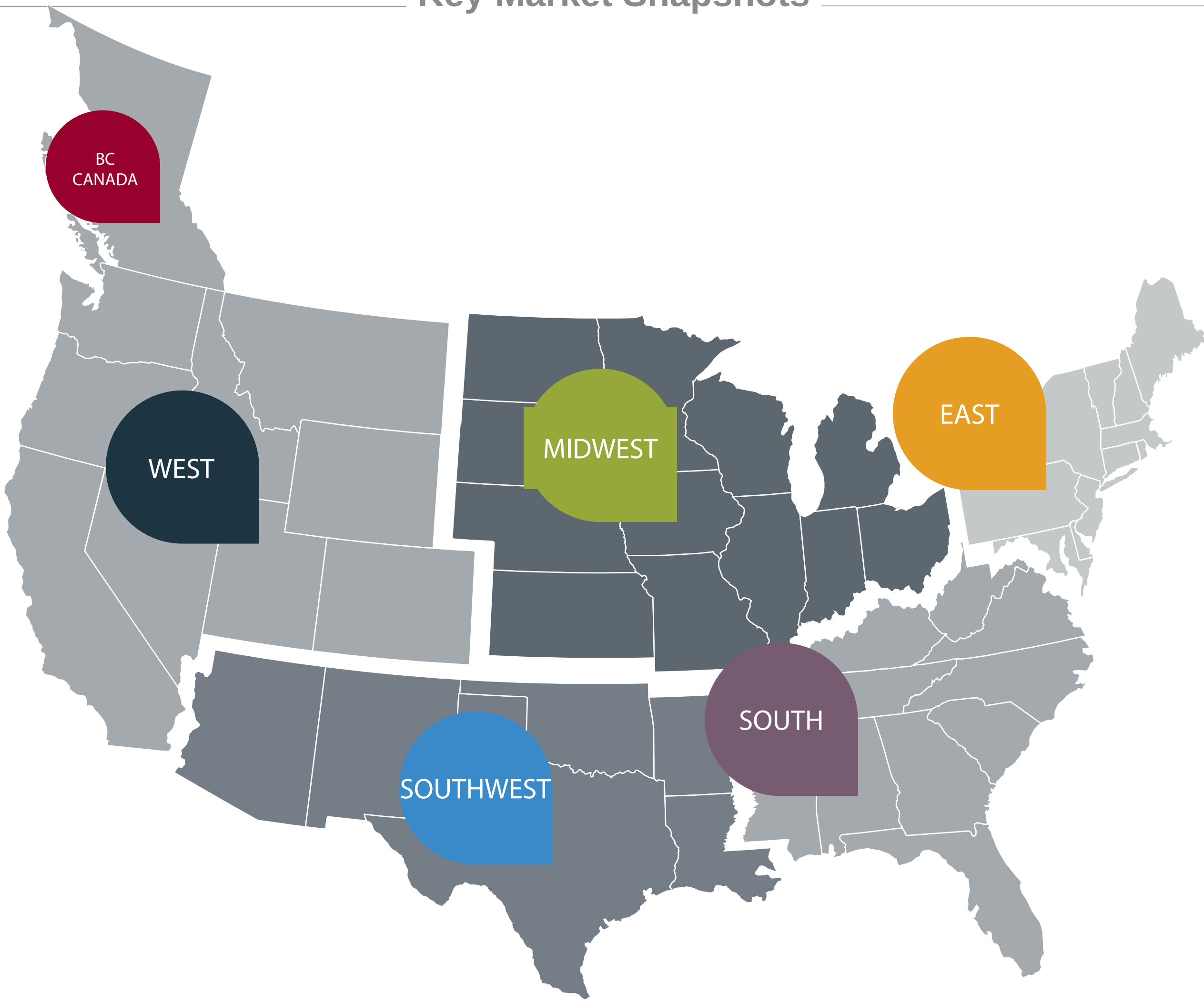
EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

When the UK made its surprise decision to leave the EU, the long term survival of the union was called into serious question. However, while Europe's political union is still in doubt, GDP growth across the pond has picked up. EU GDP growth for 2016 bounced back up to 1.8%, 20 basis points higher than the US growth rate. Yet the aggressive monetary policy of the European Central Bank continues and calls for fiscal austerity fall on deaf ears. That, and the ongoing nationalist fervor whipped up by a huge influx of refugees from the Middle East, leaves a lot of unanswered questions on the continent.

The recent OPEC agreement to cap production helped to stabilize the price of a barrel of oil above $50 in Q1 of 2017. Even non-OPEC players like Russia and Venezuela cut production to help bring reduce supply. But, US producers have increased output to fill a perceived gap, and the active rig count continued to rise through the first three months of the year. Supply is still running ahead of demand and without more robust economic growth around the world, oil prices are not likely to rise much beyond current levels.

Oil-rich Middle-Eastern countries, including Saudi Arabia, are still burning through cash reserves to cover oil revenue shortfalls. Even China is issuing government debt to help it cope with its ongoing transition from an export based economy to one more reliant on domestic consumption. But, a recent spike in import/export activity in the Asia Pacific region is cause for cautious optimism that world trade may be on a sustainable upswing, which would give world GDP growth some needed momentum.

Key Market Snapshots



EAST BAY / OAKLAND
LA NORTH
LOS ANGELES/LONG BEACH
INLAND EMPIRE EAST
INLAND EMPIRE WEST
ORANGE COUNTY
SAN DIEGO
DENVER

PHOENIX
DALLAS/FT WORTH
HOUSTON

MINNEAPOLIS/ST. PAUL
CHICAGO
CLEVELAND
COLUMBUS

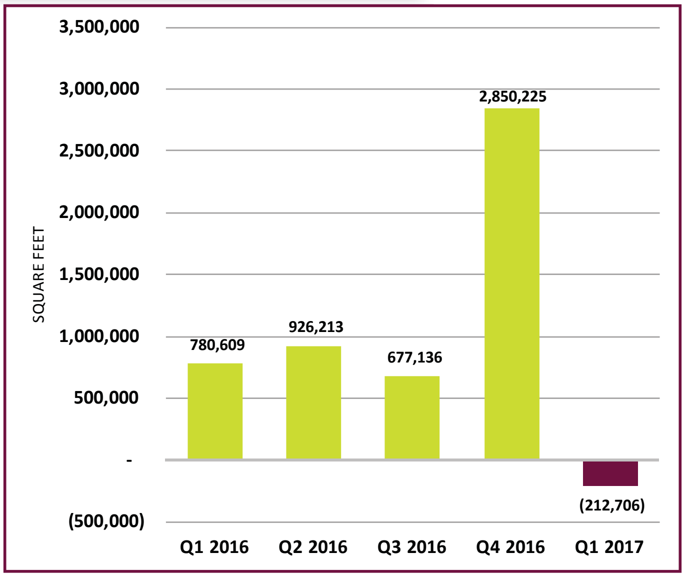
ATLANTA

PHILADELPHIA
NEW JERSEY

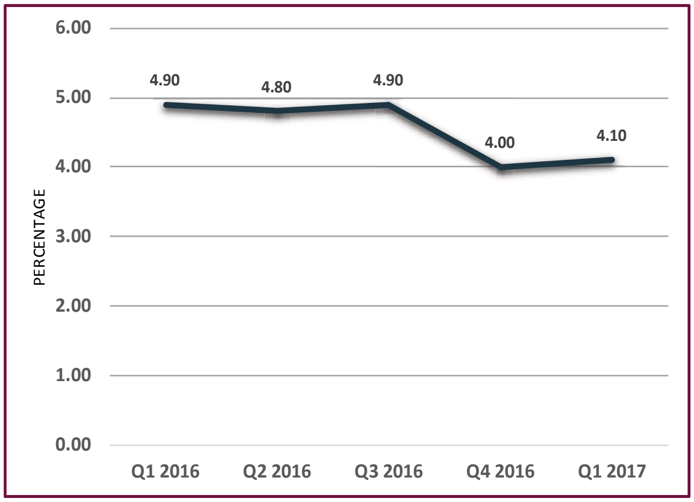
VANCOUVER, BC CANADA

EAST BAY / OAKLAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The entire Bay Area is in a period of robust economic growth due, in large part, to the resurgence of the tech and automotive sectors along with strong consumer demand for products and services. The East Bay 880 Corridor, located across the bay from San Francisco and the Silicon Valley, has benefited directly from the tech boom, and that has given the industrial market the momentum to decrease vacancy, increase rental rates and keep net absorption in positive territory. The region's biggest problem is the lack of available land sites for developers who are anxious to build state-of-the-art industrial properties while demand is so strong.

Net absorption for Q1 took a breather, recording a net loss in occupied space of 212,706 square feet after a spectacular gain of 2.8 million square feet in the final quarter of 2016. Year-over-year, the area has posted over 4.2 million square feet of gains in occupied space. The largest move-in for Q1 was SAS Automotive's 142,188-square-foot lease at 39888 Eureka Drive, while the biggest lease signing for the period was for a 161,000-square-foot building in the Dublin Business Center, which will soon be occupied by Coast Building Products. Recently, much of the bulk distribution leasing has been dominated by the likes of Tesla, FedEx, UPS, Amazon and Apple, and that has forced other local tenants to secure space outside their preferred areas. Though the market is healthy across all industrial product types, it's the large distribution deals that are getting the headlines.

With the weak net absorption in Q1, vacancy edged up 10 basis points to 4.1% after declining by 90 basis points in the previous period. In the past four quarters, the vacancy rate is down by 70 basis points.

4.1%	$10.80	(212,706)	264,186,216	1,981,942
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

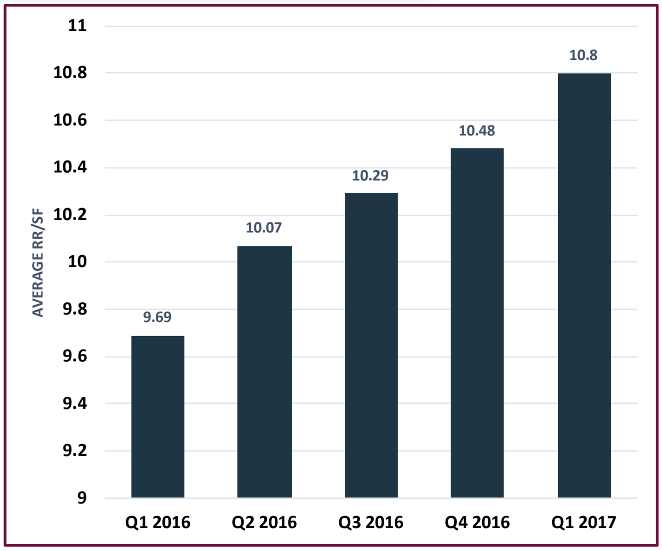
EAST BAY / OAKLAND - TRENDING NOW (continued)

Lower vacancy has emboldened landlords push for higher rents, and many tenants are opting to renew in place and make do with space that has become inefficient. Growth in the tech and bio-tech sectors remains strong, and that has led to occupancy gains in the manufacturing and flex space categories.

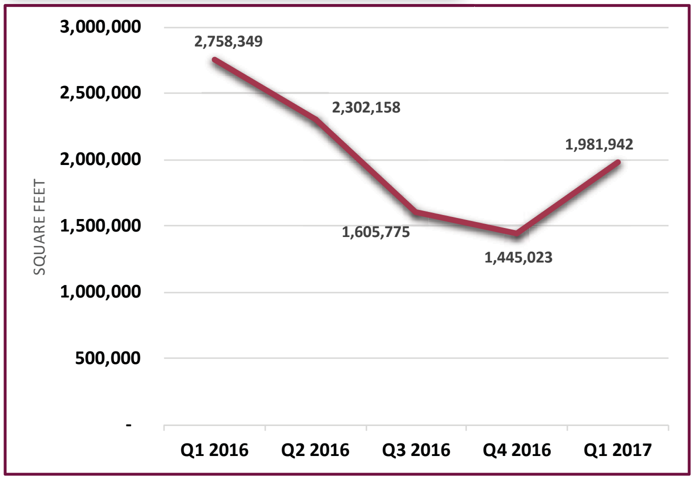
Current conditions have kept speculative construction going strong. Just over 2.5 million square feet of new industrial product has been delivered in the past four quarters, and almost 2 million square feet was still under construction as Q1 ended. New deliveries were light in Q1, as just two properties were added to the 264-million-square-foot inventory base. The second quarter is shaping up to be a big one in terms of newly delivered space, including a 707,820-square-foot spec building on Atlas Road and another 333,365-square-foot, fully leased building at 3596 Baumberg Ave.

Average asking lease rates keep moving higher. The combined rate for all industrial product in Q1 was up sharply, gaining $.32 to $10.80 per square foot. Year-over-year, the average asking lease rate is up $1.11, or 11.5%, making it one of the strongest industrial rent growth markets in the country. Current rates make it hard to believe that the average asking rate as recently as 2011, was just $6.93.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



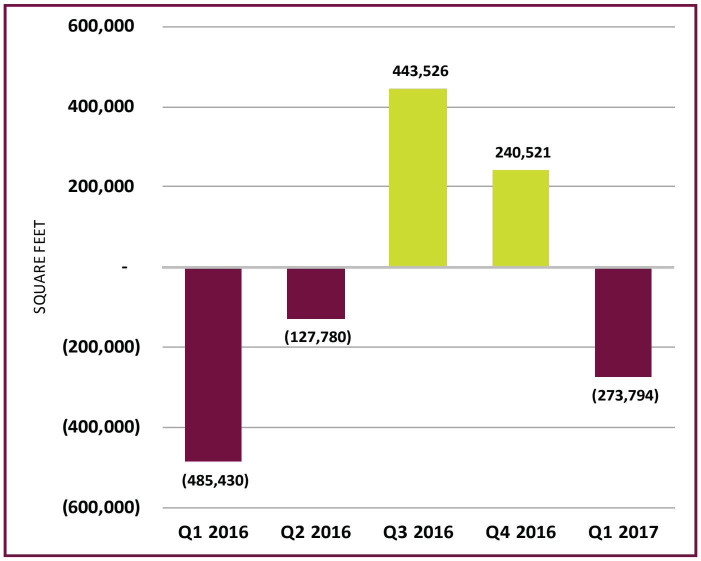
A LOOK AHEAD

- Gross sale and lease activity will be strong for the next 12 months
- Due to supply limitations, net absorption may decline in 2017
- Construction activity will continue at current levels for the next year, but will be limited by tight supply of buildable sites
- Traffic congestion is becoming more of a problem for bulk distribution users
- Vacancy will move even lower in 2017
- Lease rates and sales prices will continue to keep moving higher, with many spaces marketed without pricing

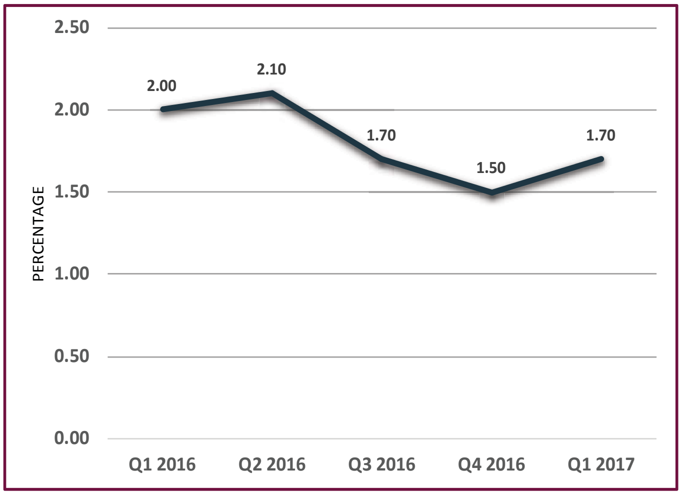
LA NORTH

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



With vacancy levels stalled below 2%, just about the only thing moving in the Los Angeles North industrial market is the average asking lease rate. Rents advanced seven percent to an average $0.77 per square foot year-over-year, and some submarkets at the eastern end of the region are seeing rates approach $1.00 per square foot.

Submarkets including Van Nuys, Sun Valley, North Hollywood and Burbank are sought after for their proximity to the major entertainment studios and freeway access. Those markets are seeing the lowest vacancy levels –in some cases below one percent—and the highest lease rate increases.

Although warehousing and distribution directly resulting from the growth of e-commerce has been responsible for the majority of industrial activity in the country, the Los Angeles North market tends to have a more diverse user base with a large portion of entertainment companies making up the single biggest cluster. In the first quarter, entertainment and media users accounted for more than 17% of the space leased. The balance of activity came from a range of use types including furniture, cosmetics and medical manufacturers, lighting and wiring companies and third-party distributors.

In total, area companies signed 781,663 square feet of leases in Q1, about the same amount as the prior quarter, but nearly 500,000 square feet short of the same period last year. Dwindling supply continues to put the brakes on leasing velocity and absorption. Also, many companies are being forced to consider locations well outside their current trade areas or deal with the inefficiency of remaining in place. Of the transactions that occurred in the first quarter,

1.7%	$9.24	(273,794)	117,331,565	1,204,875
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▲

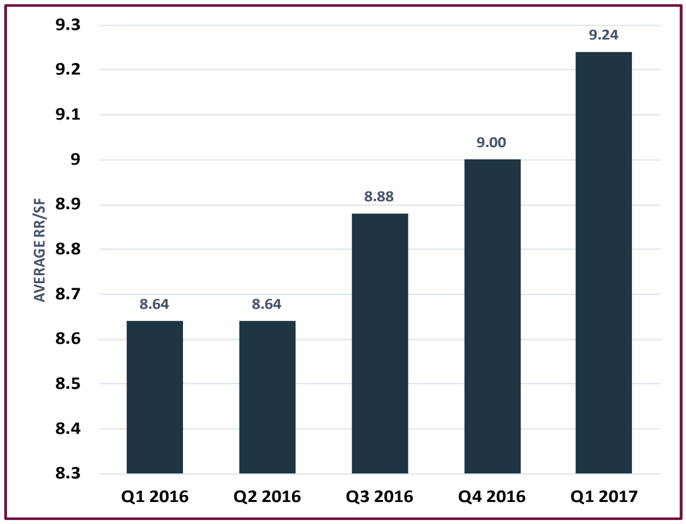
LA NORTH - TRENDING NOW (continued)

approximately one-third were located in the Santa Clarita Valley, the northernmost end of the region and the submarket with the largest inventory of industrial product.

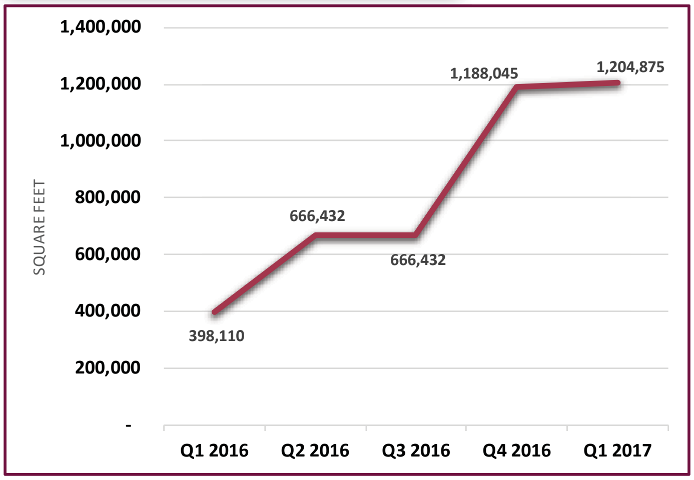
The sales sector is similarly affected by the demand/ supply imbalance. Only about a dozen properties traded hands in the quarter generating a median sale price of $167.50 per square foot. Prices rose sharply over the fourth quarter when the median price of buildings sold was $141. Pricing has now surpassed the $157 median sale price reached at the height of the last market cycle by 7%. The majority of industrial property owners in the region are users, and as lease rates rise, more and more business owners are seeking properties to buy in order to better control their costs. For owner/users, loans of up to 90% of market value are still readily available at fixed interest rates below 5%, which is largely responsible for the supply/demand disparity.

Development of owner/user product has been at a standstill due to the scarcity and high cost of land. So, buyers are competing aggressively for the thin supply of quality product that actually reaches the market. That, compounded by the fact that the industrial inventory throughout the region is functionally obsolete, makes the acquisition of owner/ user product that much more challenging.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

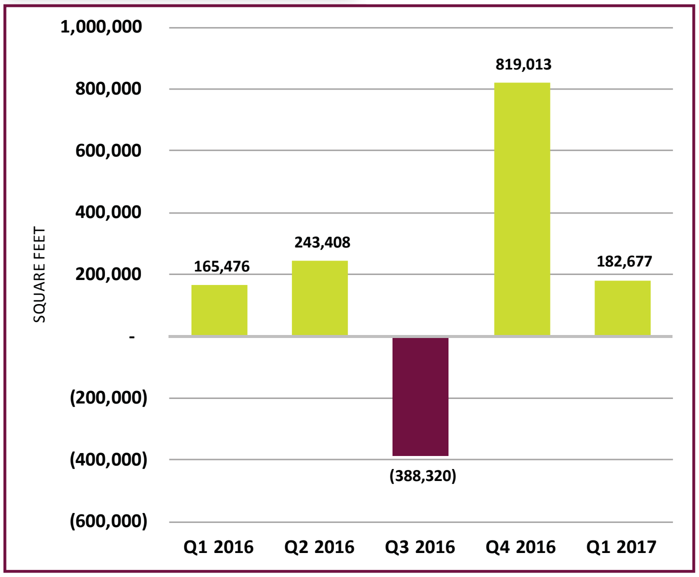


A LOOK AHEAD

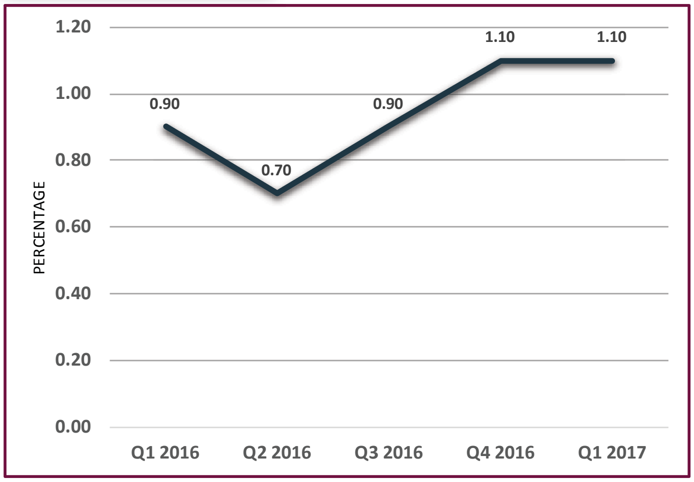
- Asking lease rate growth will slow simply because of the scarcity of available product for lease
- Limited inventory will curtail investment activity and push asking prices even higher
- Expect little change in record-low vacancy rates
- New construction will continue to be limited by land availability
- Leasing activity and absorption will continue to decline in supply-constrained market

LOS ANGELES/SOUTH BAY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Los Angeles/Southbay industrial market includes major portions of Los Angeles County 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. In 2016, it was a record year for container volume at the Port of Los Angeles, despite the opening of the expanded Panama Canal, and conditions remain favorable for further gains in 2017. TEU volumes are expected to increase by as much as 4% to 5% in 2017. In Q1, the Port of Long Beach was up 1.5% and the Port of Los Angeles was up by over 10%. While big retailers account for a significant portion of the import value, many face significant challenges going forward. For many brands and suppliers, the 2017 holiday selling season could be a make it or break it year.

In Q1, there were a couple of disruptions to market conditions that impacted market dynamics. The first relates to the fact that several South Bay municipalities have legalized the cultivation and distribution of marijuana pursuant to the recent state referendum. Sales prices for buildings under 100,000 square feet in the City of Long Beach have spiked by 50% to 100%, literally overnight. The appetite the industry has for space is unprecedented, and building owners are taking advantage of the must-have nature of the requirements by demanding shorter escrows and non-refundable deposits on top of the inflated prices.

The second relates to a recent decision by the City of Carson to place a 45-day moratorium that affects all industrial developments, as well as any new lease or lease renewal for more than three years in term or in a building with more than five dock doors. City officials refer to the move as a "pause button" motivated by concerns over safety for the city's residents.

1.1%	$9.84	182,677	251,719,049	1,699,749
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

LOS ANGELES/SOUTH BAY - TRENDING NOW (continued)

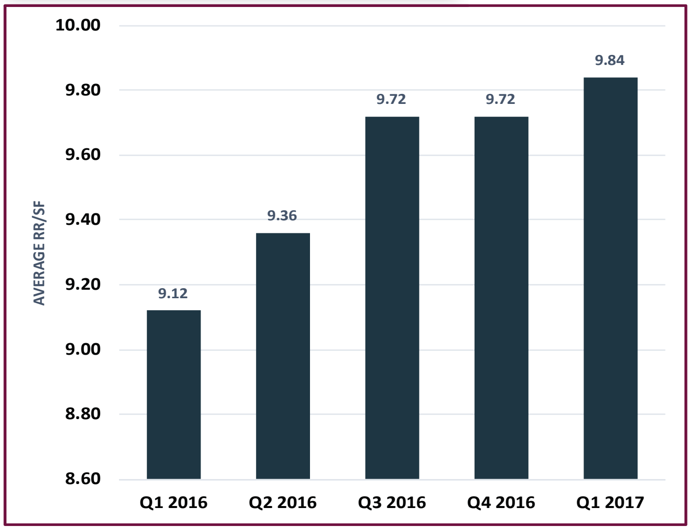
The business community's response to the move has been overwhelmingly negative for the city, which has long been known as business-friendly to logistics tenants, landlords and developers.

Manufacturing, value add distribution and self-fulfillment companies continue to experience greater demand as world economies tend to favor some component of domestic labor. These companies tend to have larger balance sheets and are willing to pay more for space than 3PL operators who don't move their own product. While these companies tend to favor the Inland Empire for its larger buildings and labor pool, more of them are looking to infill locations around the South Bay.

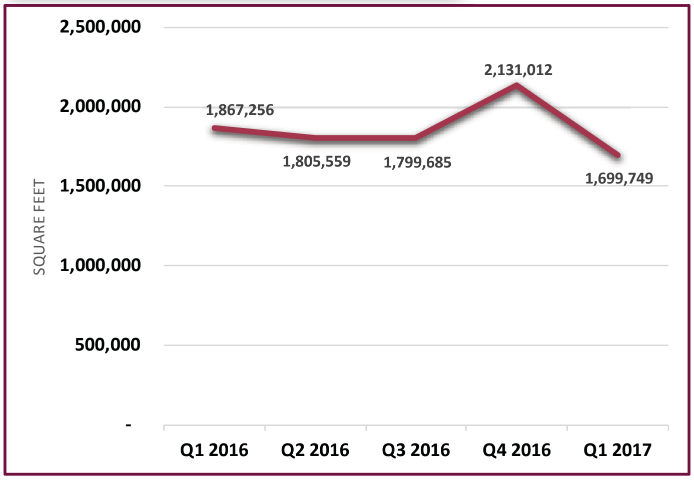
Vacancy remained unchanged at just 1.1% in Q1. Distribution space is being absorbed almost immediately, often before hitting the open market. Landlords are celebrating when existing tenants with renewal options decide to move because it gives them a chance to assert their market advantage and push for longer lease terms, higher rents and stronger credit. As we remarked last quarter, it's good to be king, but it may be even better to be a landlord in the South Bay these days.

The average asking rental rate moved up a penny to $.82/square foot/month. But, asking rates are becoming less of a market indicator because a substantial amount of space being offered for lease without a price. So, asking rents may not present a clear picture on actual rent growth. The final quarter of 2016 recorded net absorption of over 819,000 square feet, followed by a gain of 182,677 square feet in Q1. With vacancy so, net absorption becomes less of an indicator of market health.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

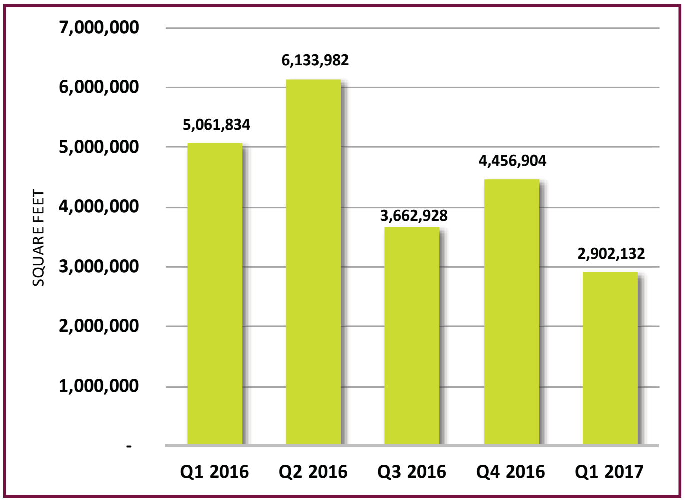


A LOOK AHEAD

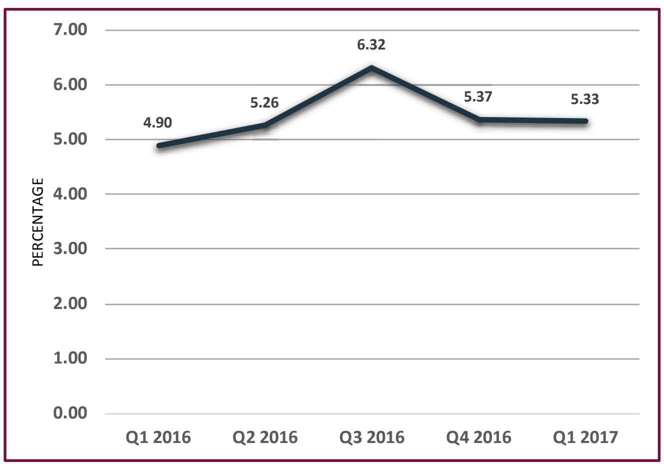
- Overall market activity will remain limited by short supply
- More landlords will be marketing their buildings with no asking price
- Cities will be raising infrastructure and development fees, and incorporating new infrastructure fees for new industrial projects
- Tenants will be forced to renew existing leases at much higher rates throughout 2017
- Lease rates will keep moving higher with the marijuana industry as a wild card
- As rents rise further, developers will be able to demolish functionally obsolete buildings and build new projects

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.

Robust leasing activity and higher prices in the Western Inland Empire are pushing prices higher in the East Valley. Tenant renewals are becoming more common, as businesses are finding it difficult to find good quality space that meets their needs. Those business owners looking to buy their next facility are re-doubling efforts to secure industrial product before suffering the consequences of a further rise in mortgage interest rates. They are also shopping multiple financing sources to secure the best possible deal, while lenders are tightening up by increasing scrutiny of borrower qualification.

Gross lease and sale activity, which tracks transaction activity, came in at just under 4.6 million square feet in the first quarter, after posting a total of over 7 million square feet in Q4 of 2016. Gross absorption, which tracks the total of amount of move-ins for a period, came in at 2.9 million square feet, with nearly 450,000 square feet of that total attributed to new sales. The market kept its momentum going into the new year, though tenant demand for very large spaces continues to lag levels seen in the past few years. The East Valley is a much less expensive alternative to the Western Inland Empire and that should help sustain activity in the East Valley. In some instances, pricing is as much as 30% higher in the West.

5.33%	$7.29	2,902,132	199,446,509	15,586,802
VACANCY	AVG. SF RENTAL RATES	GROSS SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

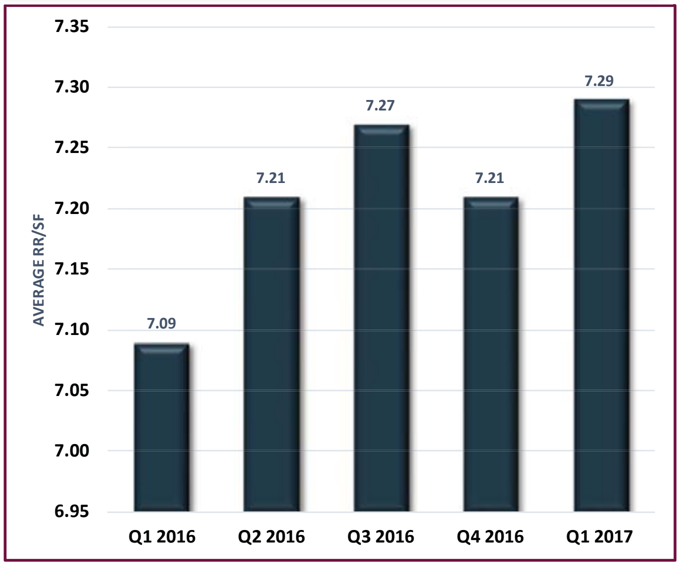
INLAND EMPIRE (EAST) - TRENDING NOW (continued)

That differential is also emboldening landlords in the East Valley to keep pushing for higher rents, longer lease terms and stronger credit. While lease rates keep moving up, landlords are also tightening up on free rent and tenant improvements. Quality, functional space moves fast, forcing tenants to make quick decisions, even on buildings that lack the functionality they need. Bidding wars for quality product is expected and gives landlords the leverage they need to insist on those higher rates. In Q4, average asking lease rates for manufacturing and distribution space combined, posted another increase to $7.29 on a gross basis.

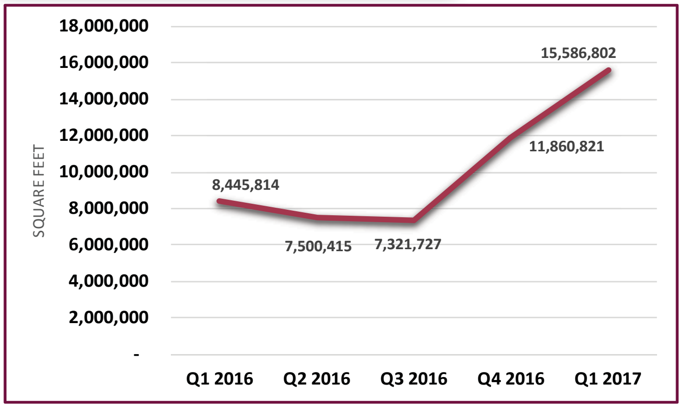
Over 15.6 million square feet of space was under construction as Q1, up from 11.8 million square feet in Q4 of 2016. Over 83% of that total is in buildings over 200,000 square feet. Another three buildings were delivered in the East Valley during the current period, but another 23 buildings are scheduled for completion in Q2 of 2017. The industrial base inventory in the IE East now stands at 199.4 million square feet.

Development of industrial projects in the past several years has been concentrated in buildings over 400,000 square feet. That trend has shifted to smaller projects, with buildings ranging from 50,000 up to 400,000 square feet. There are dozens of these smaller projects underway in the East Valley, but developers are betting on more tenants moving to the East Valley as good quality product becomes harder to find and more expensive in the Western Inland Empire. Building costs are higher for these projects, but demand is driving rents to levels that allow smaller building footprints to pencil out.

AVERAGE GROSS SF RENTAL RATES



SF UNDER CONSTRUCTION

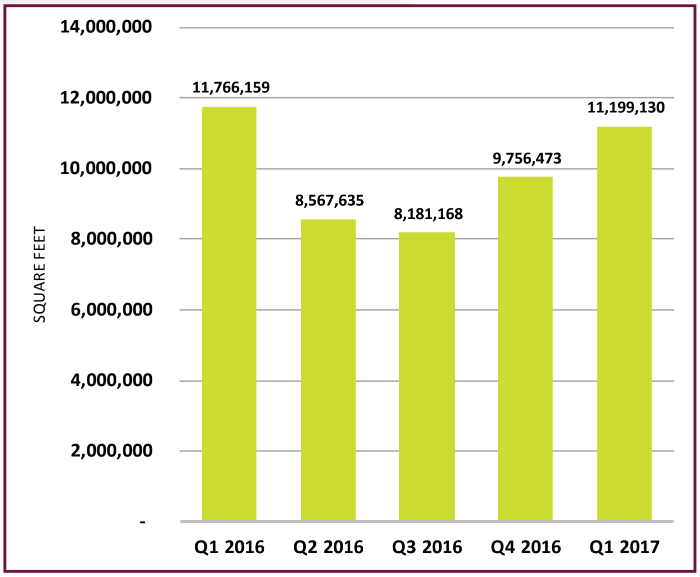


A LOOK AHEAD

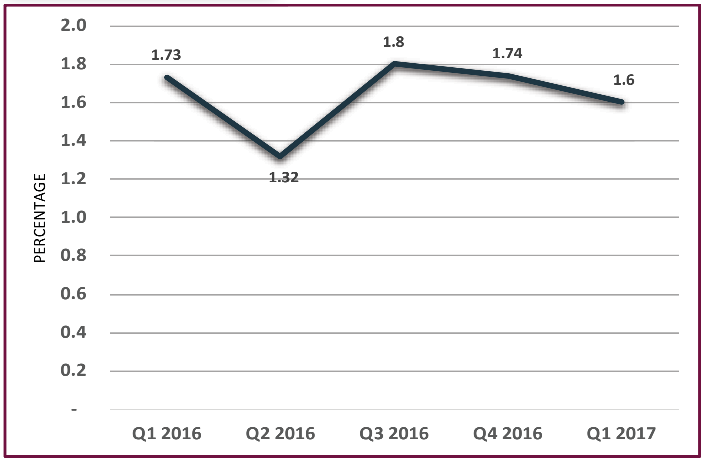
- Overall gross activity should remain strong and steady as new deliveries are leased by tenants looking for more efficient space
- Vacancy will remain near current low levels, but tick up slightly by year end as deliveries increase
- Sales prices for owner/user buildings may soften if interest rates keep moving up
- Lease rates will keep moving up, with smaller size ranges seeing an increase of 15% to 20% in the next 24 months
- Construction activity will increase throughout 2017 and the first half of 2018

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 300.5 million of the nearly 529 million square feet of existing industrial space in the overall 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 over 500,000 square feet.

IE West remains one of the most prolific US markets in terms of construction of state-of-the-art distribution facilities so popular with large brick-and-mortar retailers, e-commerce operators and 3PL companies. As Q1 ended, 12.4 million square feet of Class A distribution space was under construction in the IE West, and another 1.8 million square feet was delivered in the period. When combined with the IE East market, a nation-leading 27.7 million square feet of new space is in the construction queue. New deliveries include a good mix of speculative development and build-to-suit projects, which has given growing companies the chance to expand quickly. Though, with vacancy dropping to record low levels, tenants are wise to plan further ahead as the market tightens further.

1.6%	$6.85	11,199,130	300,000,787	12,399,821
VACANCY	AVG. SF NNN RENTAL RATES	GROSS SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▲	▼	▲

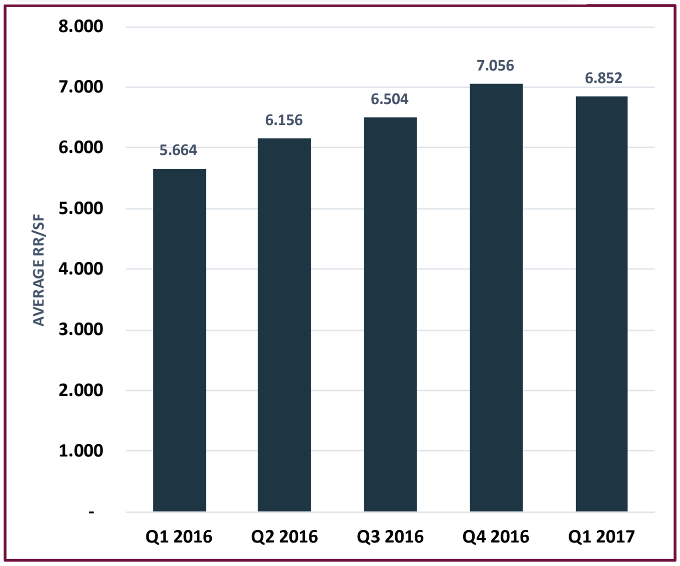
INLAND EMPIRE (WEST) - TRENDING NOW (continued)

The vacancy rate decreased again in Q1, dipping another 14 basis points to a scant 1.6%. However, looking at the vacancy rate by submarket is even more telling. Vacancy in Chino fell to just .33% on its base of 51 million square feet in Q1, while Mira Loma's vacancy declined to .26% on its base of 38.4 million square feet. Fontana posted the first quarter vacancy rate in the IE West, but just 2.89% of 60.7 million square feet base is currently unoccupied.

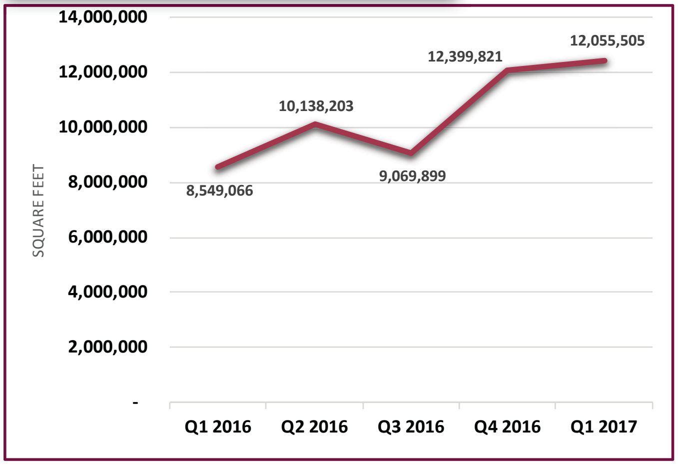
Average asking lease rates finished the period at $6.85 ($.571/month). However, many first generation projects are being marketed without an asking price due to intense bidding from potential tenants. So, the average asking rate may not accurately reflect current conditions. Even so, the asking rate has risen by 21% since the beginning of 2016, which makes the IE West one of the fastest rent growth markets in the country. As might be expected under such circumstances, landlords have all but eliminated concessions for the time being. If you are a big tenant in the market right now, you better have strong credit and be ready to sign a longer lease.

Notable new leases in the IE West for the first quarter of 2017, include Amazon's 1,007,705-square-foot lease with Goodman Birtcher, Alere Property Group's 604,178-square-foot lease to B Braun Medical Inc. in Ontario and a lease to Arvato Digital Services, LLC for 552,677 square feet, also in Ontario.

AVERAGE NNN SF RENTAL RATES



SF UNDER CONSTRUCTION

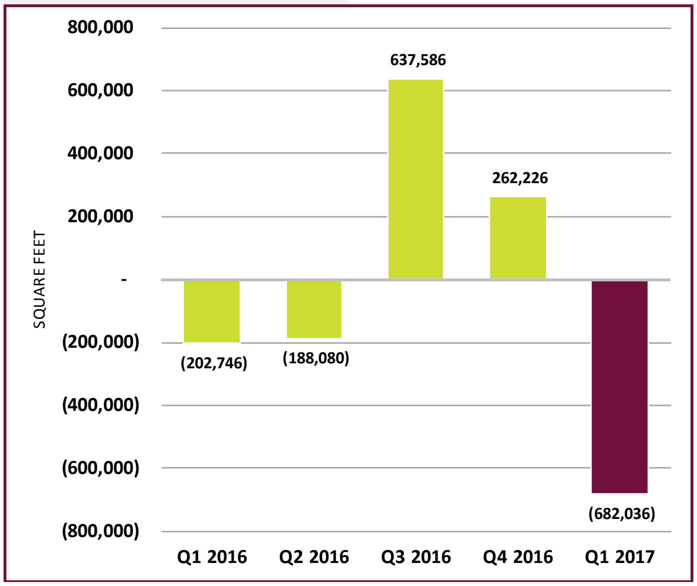


A LOOK AHEAD

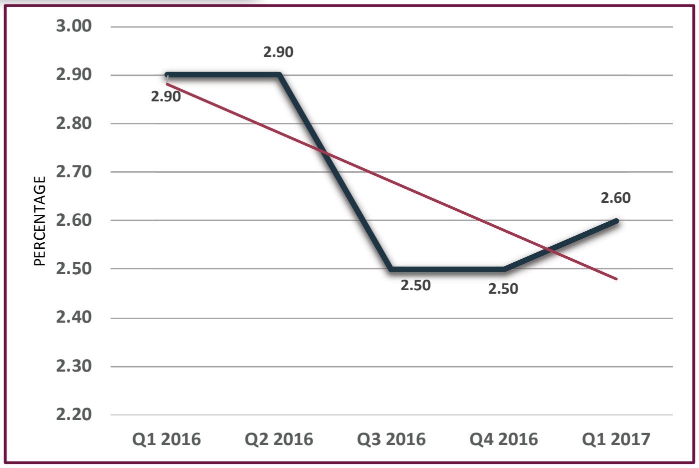
- Overall gross leasing activity should remain strong due to expected growth in the logistics sector
- New space will continue to be absorbed quickly
- Possible change in international trade policy is a "wild card" issue for 2017
- Overall rent growth will be in the 4% to 5% range for the year
- Vacancy could move slightly higher because more of the construction pipeline is being built on spec
- Construction activity will increase throughout the year

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Orange County has long been known for its high quality of life, which includes a favorable climate, outdoor lifestyle, diverse housing market and broad-based economy. It is situated between, San Diego and Los Angeles Counties, and just west of the Inland Empire, one of the nation's largest distribution hubs. The ports of Los Angeles and Long Beach, which together account for approximately 40% of the nation's port activity, are also nearby. Orange County's industrial market boasts a wide variety of entrepreneurial companies, and unlike other metro areas, it is not highly dependent on any particular sector as areas like Silicon Valley. Thus, it tends to outperform other regions of California in economic down cycles, which makes the area a favorite of institutional and local investors.

Net absorption stumbled in the first quarter, posting its biggest three-month loss in seven years. But vacancy rates remained in record-low territory with the market's momentum reflected in skyrocketing rents that have jumped an average of 16% in the last eight quarters. So, the lack of net absorption is more about a lack of choice than a lack of demand.

More than 682,036 square feet of space came back on the market in the first quarter, most of which was in the Airport submarket. North County, which includes Anaheim and roughly half of the county's total inventory, was the only submarket to tighten in the first quarter. The North County vacancy rate is 2.2%, 40 basis points under the countywide average.

At the end of Q1, cities with the most industrial space available were Irvine, Anaheim, Santa Ana, Buena Park, Fullerton, Cypress, Costa Mesa, and Tustin.

2.6%	$10.32	(682,036)	277,965,508	255,710
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

ORANGE COUNTY - TRENDING NOW (continued)

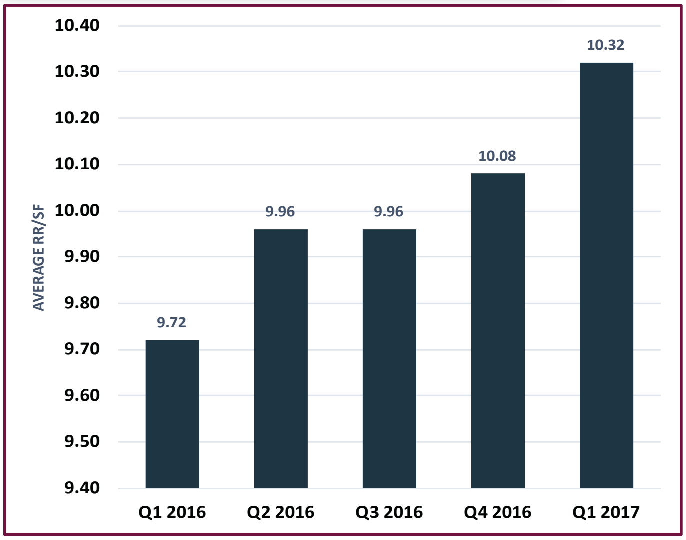
Lee & Associates' survey includes 8,310 buildings with a total of 278 million square feet of space.

There are a dozen speculative buildings underway in cities of Fullerton, Anaheim and Brea. Even though they will add roughly 2.5 million square feet to the industrial inventory, that total falls short of replacing the 4.7 million square feet of space that has been razed in the last eight years in favor of multifamily and retail construction. Although the inventory reduction is small in terms of the total inventory (1.6%), it looms larger because the market has reached infill status.

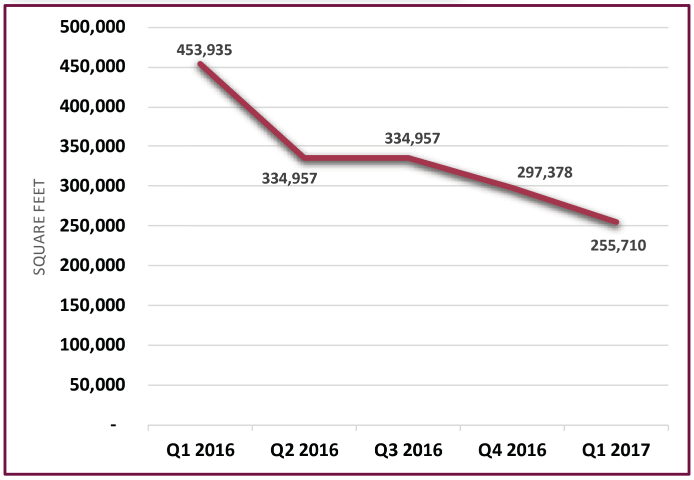
More than 406,000 square feet of space returned to inventory in Q1 in the Irvine Business Center, which pushed the Airport submarket vacancy rate up by 50 basis points to 3.5%. The South and West County submarkets also showed slight increases in vacancy, but available space remains tight. Average asking rents in South County, the highest in the county, rose 9.5% year-over-year. In West County, which includes Cypress, Huntington Beach, Los Alamitos, Stanton, Seal Beach and Westminster, there has been less upward pressure on rents, but with a vacancy rate of only 1.3%, some acceleration can be expected in the near term.

Tight supply is forcing tenant and owner/user buyers to allow more time to secure quality, functional space. Most buildings are leased while current tenants are still in occupancy, which complicates and protracts the moving process, especially for buildings requiring significant tenant finish.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

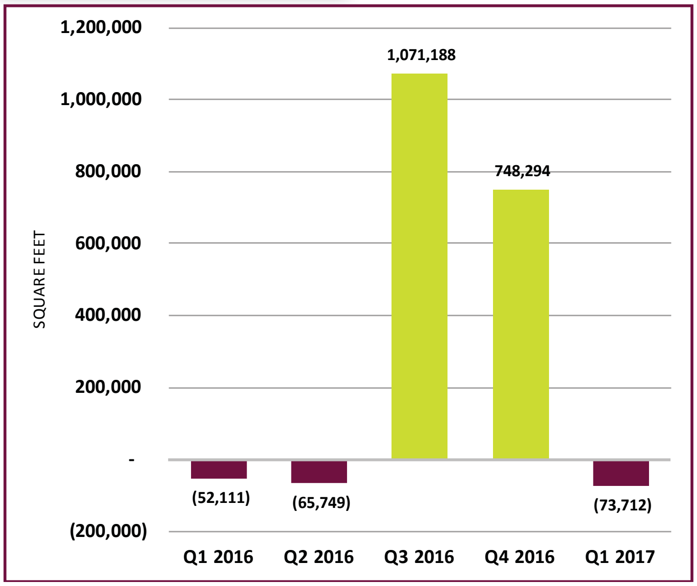


A LOOK AHEAD

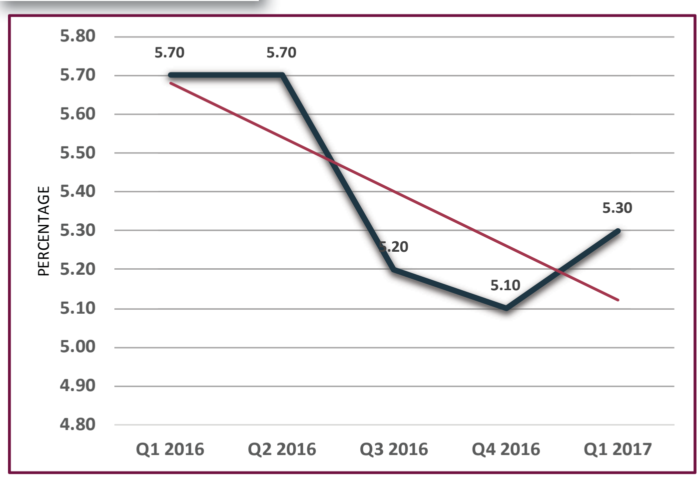
- Vacancy will remain in the 2% range throughout the year
- Net absorption will be light in 2017 due to ongoing supply shortages
- Lease rates will move up throughout the year
- Time-on-market for quality product will be measured in days rather than months
- Sales prices will keep increasing as long as interest rates remain historically low
- New deliveries will remain near zero throughout 2017

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

San Diego has several active business sectors driving industrial activity. The Defense industry, which employs over 100,000 active duty and 30,000 civilian workers, combined, accounts for nearly $23 billion in direct expenditures and more than $45 billion in annual economic activity. The Life Sciences industry attracts significant venture capital, employs over 42,000 physicians and scientists and is the center for human genome research. The Aerospace sector, led by General Atomics, is expanding due to the development and manufacture of drones. Cross-border commerce is also on the upswing, in part due to the strategic location between Mexico and neighboring Riverside, Orange and Los Angeles Counties. Innovation industries including cyber-security and communications are supported by the University of San Diego and the Salk, Scripps, Sanford Burnham and J. Craig Ventor Institutes.

Overall vacancy throughout San Diego has been in steady decline for several years, but finished Q1 up 20 basis points to 5.3%. Flex vacancy was unchanged for the period at 8.1%, but the warehouse sector increased by 30 points to 4.4%. Tenants are having trouble finding space that fits their functional requirements in preferred areas, especially larger tenants looking for top quality space. Over 80% of the leases completed in the first quarter were under 10,000 square feet, and small owner users accounted for 53% of the sales transactions. The majority of immediate owner/user demand is for buildings under 40,000 square feet, and the pool of qualified buyers is running well ahead of current supply. Buyer interest in less expensive submarkets is increasing due to the recent uptick in mortgage interest rates.

5.3%	$12.28	(73,712)	189,910,131	1,433,825
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▲

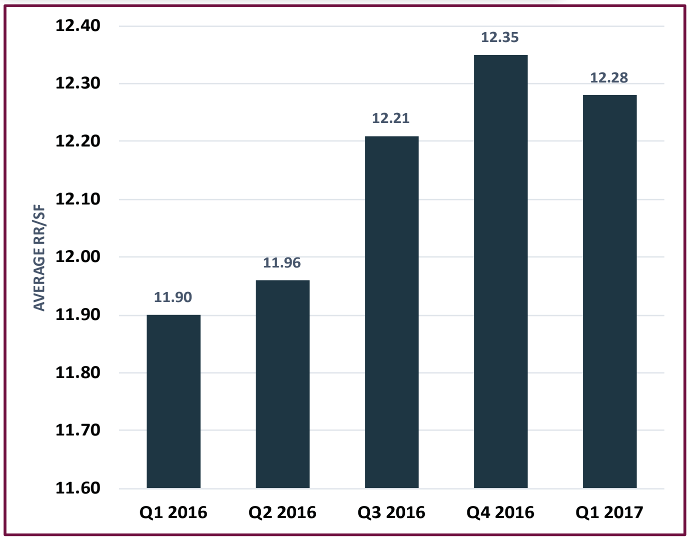
SAN DIEGO - TRENDING NOW (continued)

Construction activity remains restricted by high land costs and a shortage of available sites. Less than 1.8 million square feet of new space was delivered in 2016 and just 157,000 square feet was delivered in the first quarter, most of it committed prior to completion. Another 1.4 million square feet remains in the construction queue, primarily in the northern reaches of the county. New concerns over the potential of a border-adjustment tax has developers taking a harder look at moving forward on new projects in submarkets near the US/Mexico border.

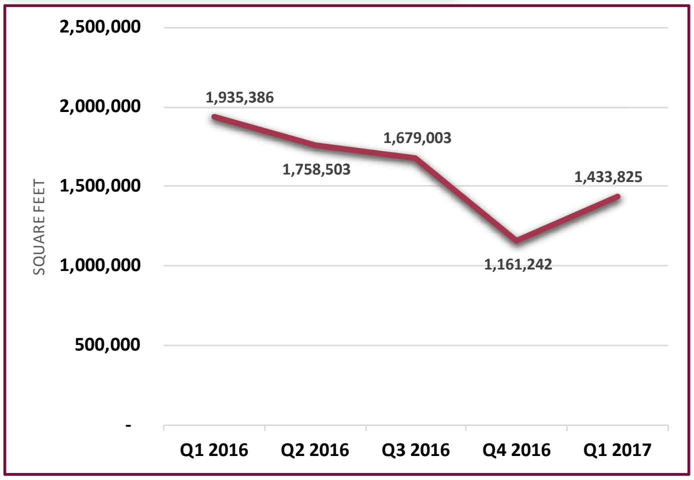
Average asking rents have been moving up across all submarkets as a result of scarce supply. However, a $.07 decline to $12.28 was recorded in the first quarter. Flex rents dipped slightly, but have been moving up consistently for the last several years. For the period the average rate for flex space stood at $17.54, down $.06, but vary significantly by submarket. The Torrey Pines area, with its high concentration of specialized laboratory space, the rate for flex space is over $46 per square foot. Landlords are pushing hard on rents to help defray the higher cost of tenant improvements occasioned by the recent enactment of Title 24 energy conservation regulations.

Investors continue to show strong interest in acquiring assets throughout San Diego County due to its strong balanced regional economy driven by a thriving biotech sector and defense industry growth. In a major show of confidence in the commercial property market, TIAA-CREF recently purchased a 450,000-square-foot bio-tech facility for $680 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

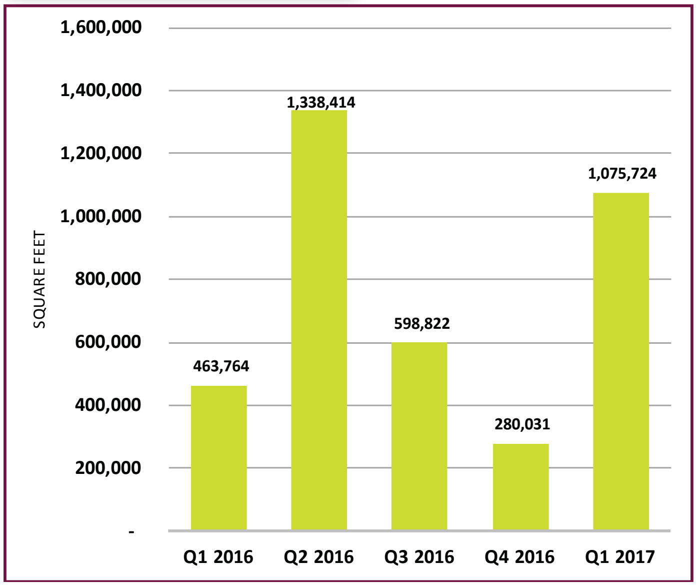


A LOOK AHEAD

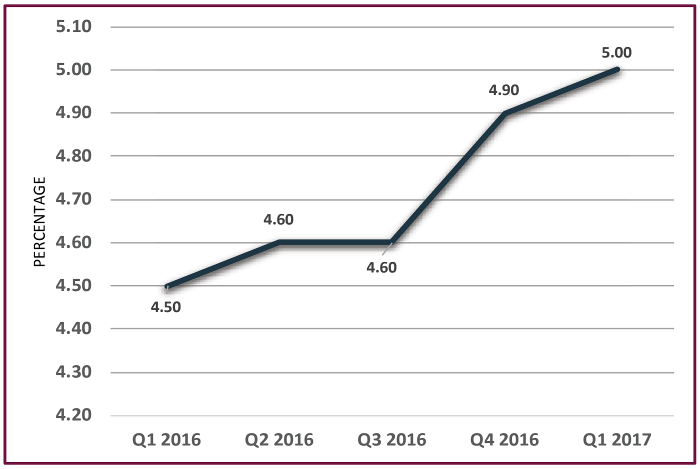
- Biotech will continue to drive activity in the flex sector
- Net absorption will moderate in 2017 due to limited availability
- Higher mortgage rates will slow pricing growth for owner/user properties
- Construction will be limited by the high cost and dwindling supply of buildable sites
- Look for some older industrial product to be repurposed to creative office
- Buildings suitable for biotech tenants will see the strongest rent growth in 2017

DENVER

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Layoffs, capital expenditure cutbacks and the ongoing slump in energy prices remain a challenge, but the fossil fuels industry has shown recent signs of improvement. Active rig counts are up and domestic oil production is rising again as drillers decided to take advantage of OPEC's decision to limit oil production. Oil prices have stabilized above $50/bbl, but there is still a long way to go before the energy sector fully recovers from the massive price decline that began back in 2014. As a region with a strong energy component, Denver has suffered from the decline both in terms of industrial and office property performance, and though deal flow is down, big tenants looking for big spaces are still dominating the headlines. After Amazon secured a 1 million-square-foot facility in NE Denver, rumor has it the online retail giant is already looking for another 1 million-square-foot space in the region.

Growth among marijuana growers and dispensaries has also slowed down due to new rules imposed by municipalities to limit the number of operators. The huge boost that the marijuana industry gave the industrial market is largely played out and the declining number of potential buyers from the industry is putting downward pressure on sales prices for owner/user properties.

The overall vacancy rate moved up again in Q1, this time by another 10 basis points to finish Q1 at 5%. Year-over-year, the vacancy rate is up by 50 basis points. The bulk distribution sector remains the most active, both in terms of leasing activity and new construction. The rise in vacancy is largely the result of significant deliveries of speculative product that takes time to absorb.

5.0%	$8.27	1,075,724	296,359,322	4,787,620
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

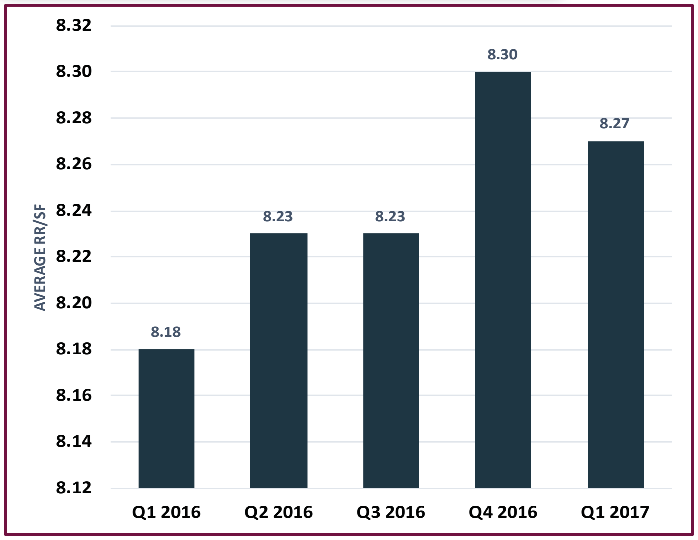
DENVER - TRENDING NOW (continued)

Net absorption was back up again in Q1 to start the year on a strong note. The total gain in occupied space hit 1,075,724 square feet, which is nearly four times higher than the total for Q4 of 2016. New deliveries for the quarter totaled 1,729,375 square feet, nearly 700,000 square feet more than was recorded in the previous period. In all of 2016, almost 5.3 million square feet of new space was delivered, and 2017 appears to be tracking for a similar performance in 2017. Denver's total industrial inventory currently stands at 294.6 million square feet.

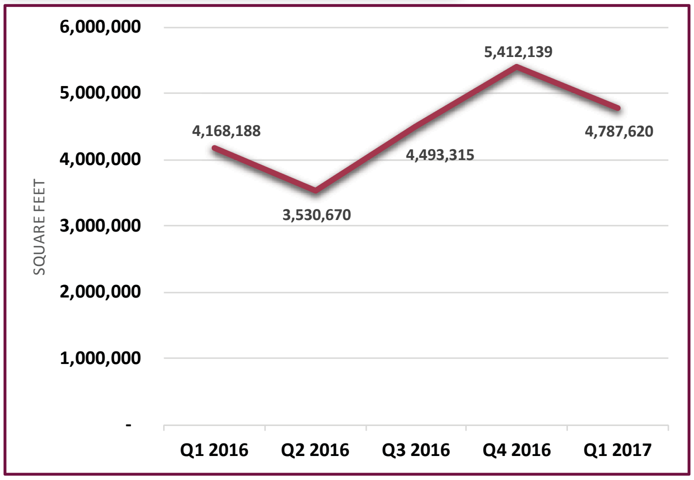
Currently, industrial inventory in the Denver area exceeds 296.3 million square feet and another 4.8 million square feet of space is underway, mostly larger distribution buildings catering to big tenants. The largest project under construction, a 1,015,740-square-foot building at 22205 E 19th Ave, is 100% preleased. Another big building in the construction queue is the 100% preleased, 647,000 square foot building at 9410 E 40th Ave. Developers are still betting on continuing demand, but there are growing concerns that rents required to make new projects profitable will meet formidable resistance from expanding tenants. A lack of activity in the smaller size ranges is another trend landlords are tracking closely, as it may indicate a near term softening of rental rates.

By the end of Q1, average asking rates for all industrial product stood at $8.27, down $.03 for the period but up $.09 year-over-year. The warehouse sector ended the period up a penny to $7.25, while flex rates jumped by $.25 came in at $10.87. Industrial tenants are also facing higher operating expenses, which have risen to as high as $3.50 per square foot from $1.50 in recent years.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

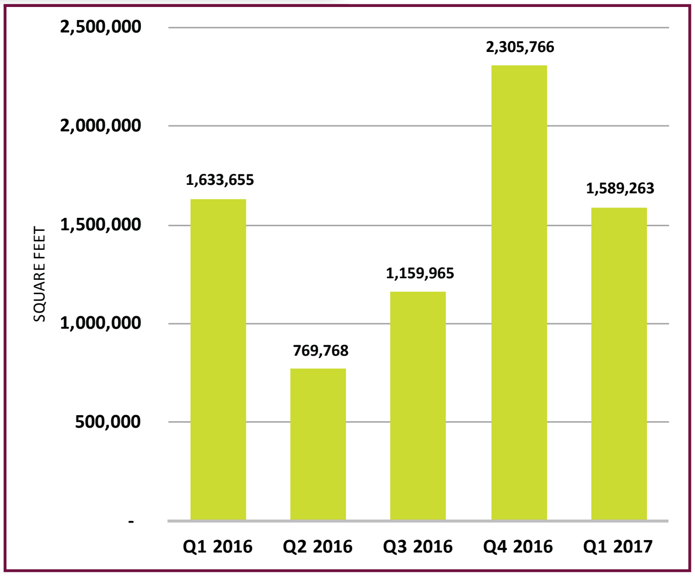


A LOOK AHEAD

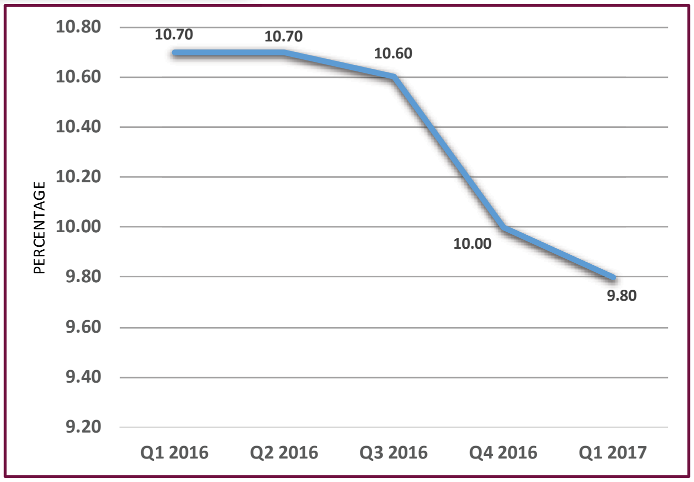
- Vacancy will remain in the current range, but could move slightly higher, depending on the timing of new deliveries
- Owner/user sales prices will move slightly lower due to reduced demand from the marijuana industry
- Net absorption will remain near current levels for the balance of the year
- Average asking lease rates could see a small increase in 2017 due to higher rates for first generation space
- Construction should continue at current levels, but construction costs will keep moving up

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix industrial sector began 2017 in solid fashion, breaking the double-digit hold on vacancy rates for the first time in nearly 10 years. Vacancy, construction and net absorption were in positive territory for the period, and speculative construction activity remained strong for multi-tenant warehouse space to meet the growing demand of tenants. An example of this need was a surge in homebuilder-related businesses, such as cabinet makers, window and door manufacturing companies, all of which are expanding to meet robust housing market activity.

The Phoenix market continues to be a viable alternative for out of state companies, as rental rates are lower, more quality product is available and land is still available to build more inventory to accommodate future business growth. Many out of state investors are bullish on sales opportunities in Phoenix, as cap rates are attractive compared to other major metro areas, including nearby Southern California. On the negative side, leasing activity (leases signed this quarter for future occupancy) was below historic norms. Flex property absorption was negative in three of the four submarket clusters. In addition, asking NNN rental rates remained flat in Q1 at $6.84.

Industrial vacancy stood at 9.8% rate as the period ended, 20-basis points less than the previous quarter and the lowest since the end of 2007. The Northwest and Northeast submarket clusters have the lowest vacancy rates, while the Southeast Valley posted the highest in the region. Net absorption remained firmly in positive territory in Q1, as well, posting a net gain in occupied space of just over 1.9 million square feet.

9.8%	$6.84	1,589,263	298,957,107	4,809,131
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

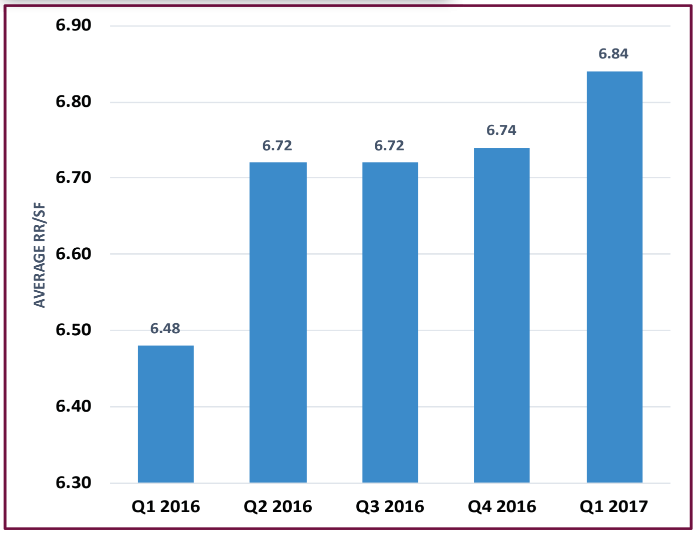
PHOENIX - TRENDING NOW (continued)

However, almost of all of the gain was recorded in the Southwest Valley area. The Northeast, Northwest and Southeast areas posted declines in net occupancy for the quarter.

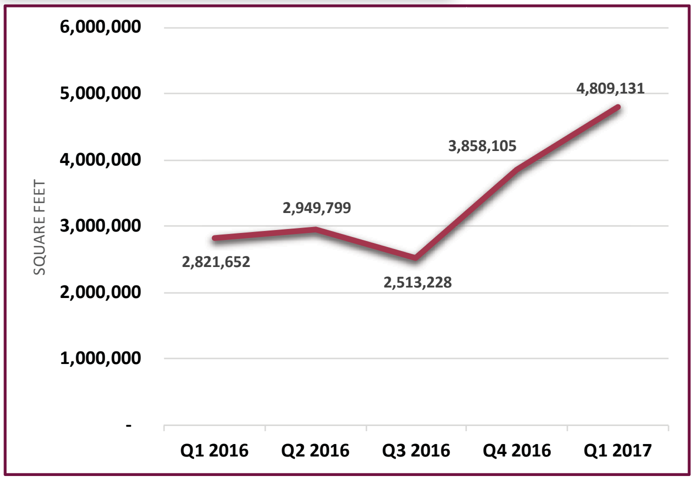
Deliveries to inventory totaled 1,663,345 square feet. The Northwest Valley had 618,350 square feet delivered in Q1, leading all other submarkets. Under construction activity is up nearly one million square feet over last quarter to just over 4.8 million square feet. The Southwest Valley dominated in terms of new construction, with its significant concentration of large distribution buildings.

The largest lease transaction for the quarter was the Essendant Co. lease of a 261,880-square-foot distribution facility at Liberty Logistics Center II in Tolleson. In another significant transaction, LaMi Products, Inc. subleased 216,845 square feet in Tolleson's Buckeye Logistics Center. The largest sales transaction was an 11-building portfolio of flex buildings at 9014 N. 23rd Ave. in Phoenix. BKM Capital Partners paid $17,200,000, or $75.89 per square foot for the 226,645 square foot project. MS International, Inc. acquired the 187,611-square-foot building at 4405 S. Riverpoint Pkwy in Phoenix from Annaly Commercial RE for $11,960,000, or $63.75 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

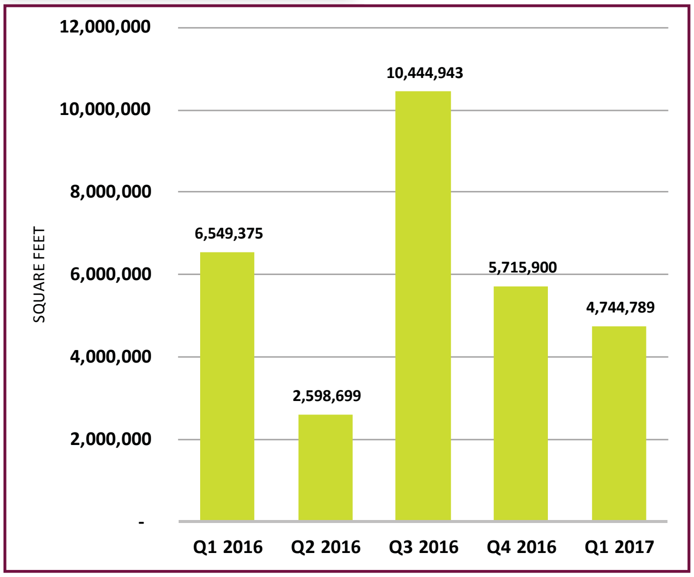


A LOOK AHEAD

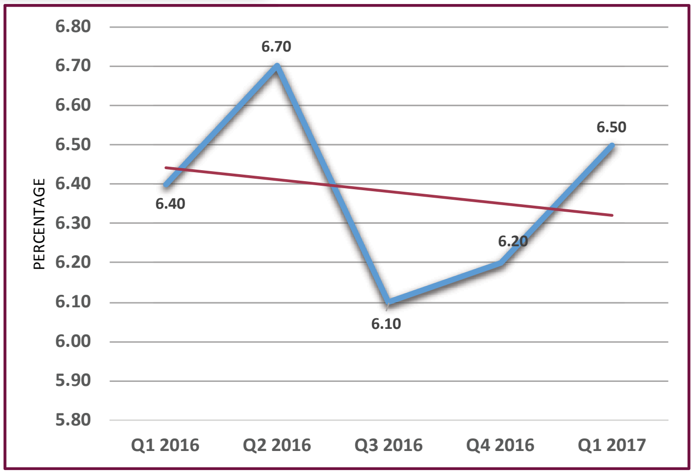
- Solid pipeline of distribution product will continue to put modest pressure on vacancy rates
- Class A product investment by big institutional players limits choices for others
- Rental rates will begin to edge up after leveling off this past quarter
- Strengthening housing market brings home-related businesses back in droves
- Rent concessions are still in play, although abated rent periods are shrinking
- Southwest Valley and Sky Harbor expected to see most leasing activity in 2017
- Higher-priced submarkets like Scottsdale Airpark are losing some deals to other nearby submarkets where lease rates and building costs are less

DALLAS/FT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) industrial market consistently outperforms almost every other major market. The e-commerce sector continues to experience explosive growth and the DFW market is a primary beneficiary of that growth. The nation's largest retailers and expanding e-commerce players continue to favor the area because of its central location, proximity to over 25 million consumers within a single day's drive and its fast-growing supply of state-of-the-art distribution space. The area's rapid population growth, affordable housing stock and lower cost of living also attracts major corporate users to the region, as evidenced by big moves from Bell Helicopter, Toyota and Lockheed Martin. The regional economy generated over 120,000 new jobs in 2016, and the population is growing by 360 residents per day.

New deliveries of industrial space topped 19.8 million square feet in 2016, and started 2017 by adding another 7.6 million square feet, bringing the total base inventory up to 856.7 million square feet. Another 21.7 million square feet of space remained under construction by the end of Q1, tops in the nation. 2017 is shaping up to be the fourth consecutive year with more than 10 million square feet of new deliveries. Significant completions in the first quarter included a 920,275-square-foot spec building at 2250 Altamoore Drive, and a 683,646-square-foot building at 2100 N Refuge Way. The Altamoore building is 0% preleased, while the N Refuge Way building is 50% committed. Historic absorption numbers indicate that new deliveries will not outrun activity, but there has been a recent decrease in preleasing activity that developers are keeping a close eye on.

6.5%	$5.61	4,744,789	856,692,955	21,689,320
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▼

DALLAS/FT WORTH - TRENDING NOW (continued)

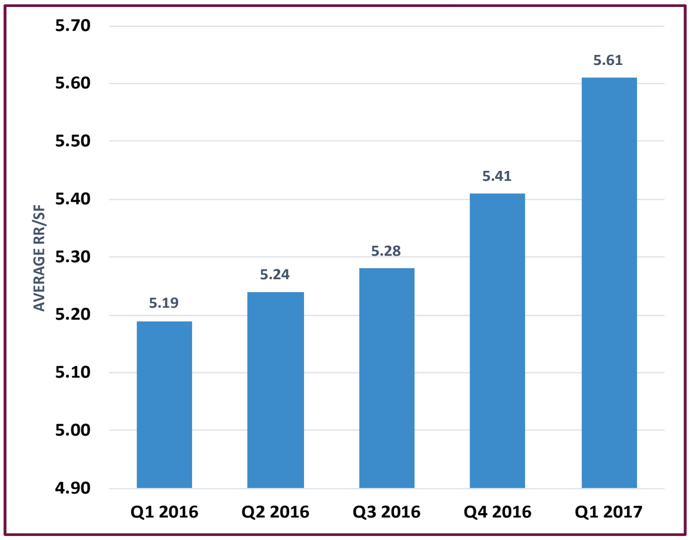
Unlike other major markets, DFW has plenty of land and that has kept land prices well under those of large markets on both coasts.

The industrial vacancy rate ended the quarter at 6.5%, up 30 basis points from the previous quarter and 10 basis points higher year-over-year. That is quite remarkable considering such high levels of new construction and further testimonial to the current balance between supply and demand. Landlords are still bullish on the leasing market and those who own high quality, functional buildings are pushing hard in lease negotiations, as they believe there is still has room for significant rent growth.

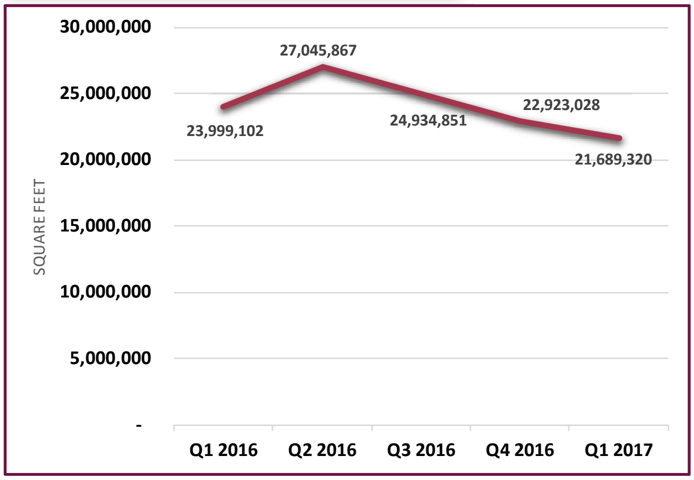
Net absorption remained strong in Q1, posting a net gain of 4.74 million square feet, after ending 2016 with a quarterly total of 5.7 million square feet. Big box users will pay for quality and that has kept overall average asking rental rates moving up at a slow but consistent pace. However, Q1 saw a significant jump to $5.61, a $.20 gain in just three months. Larger tenants are favoring the South Dallas and GSW submarkets as more new product is being delivered there.

New lease signings for the first quarter bode well for net absorption later this year. UPS signed a 1,004,000-square-foot lease for 2320 E Bardin Road in the Great SW/Arlington submarket and Lasko Products inked a lease for 505,000 square feet on Meacham Blvd in the North Ft. Worth submarket. KidKraft also committed to a new lease of 401,572 square feet at 2525 Esters Rod in the DFW Airport submarket.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



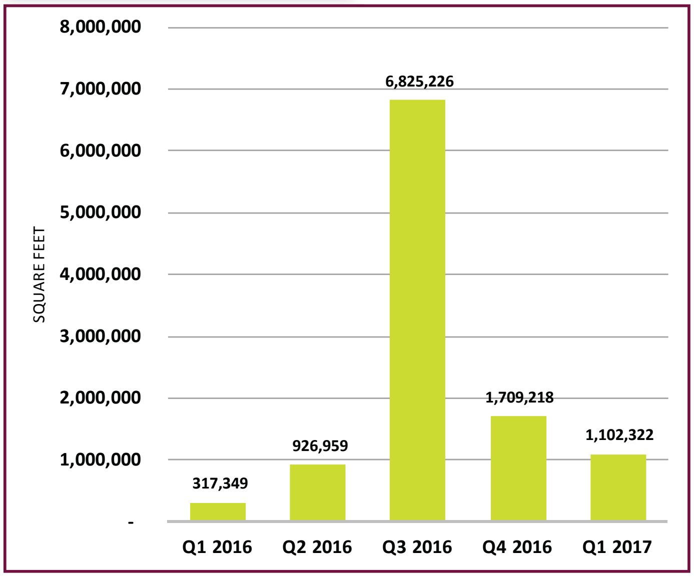
A LOOK AHEAD

- Leasing activity should remain strong, barring a slowdown in the overall economy
- Net absorption will keep moving higher
- There may be an uptick in demand for space in the 50K to 100K range for last mile distribution centers
- Vacancy will move up and down in a narrow range, above and below 6% depending on new deliveries
- Construction activity will continue to lead the nation in 2017
- Lease rates will increase by up to 3% in 2017

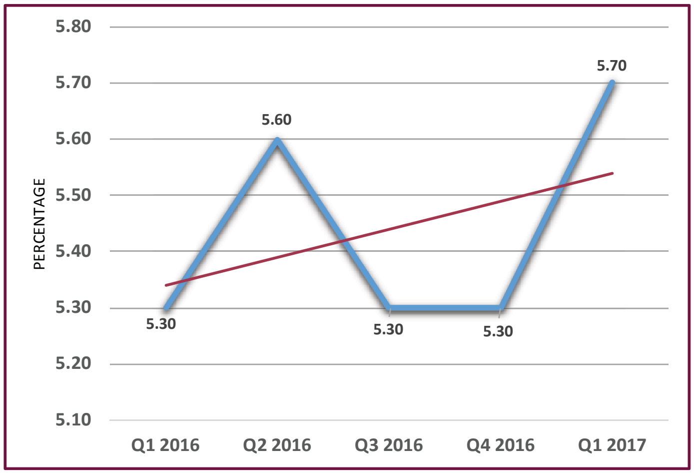
HOUSTON

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



Houston's regional economy continues to feel the pinch of lower oil prices, but signs of improvement in the industrial market are becoming apparent. Not long ago, the exploration and extraction side of the energy sector, which includes industry leaders like Halliburton, Schlumberger, Baker Hughes and NOV, were shedding space, laying off workers and slashing capital budgets. While it is far from a complete turnaround, increased drilling activity has oilfield service companies interested in more space, especially in crane-served buildings that experienced the biggest spike in vacancy over the past two years.

Oil prices held above $50 per barrel in the opening months of the year, but they are still well below the threshold for full recovery. Active rig count is back on the rise, but is still less than half of the peak number from September of 2014.

Lower oil prices continue to benefit the downstream petrochemical companies that have been enjoying the lower cost of feedstock. The resulting expansion of the petrochemical companies has helped to offset the damage to the industrial market. There is an estimated $60 billion being spent on petrochemical construction projects in the Houston area, including Ravago's purchase of 200 acres to build 1.5 million square feet in Baytown.

One of the new bright spots in the industrial sector is the proliferation of e-commerce users. Houston is one of the nation's largest metro areas and big online retailers are busy securing space for the "last mile," which has become so important in terms of speeding up delivery times. This trend is leading to larger transactions, not generally associated with the Houston market. Good examples include the 1 million square foot lease lease

5.7%	$6.80	1,102,322	581,213,392	4,660,457
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

HOUSTON - TRENDING NOW (continued)

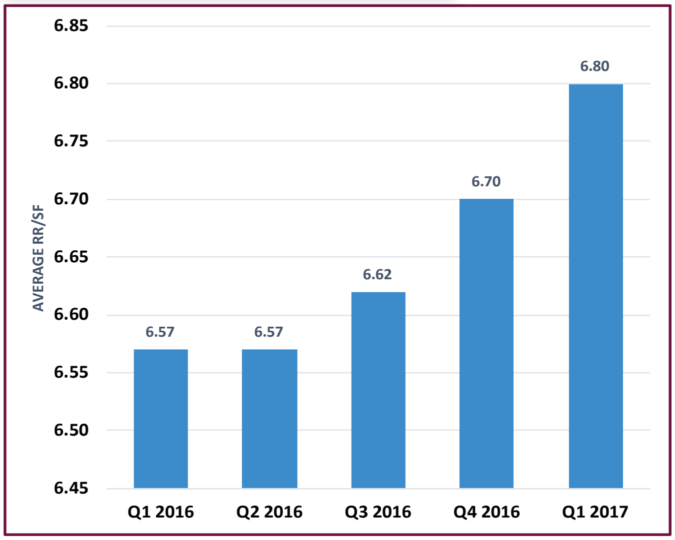
by Amazon with Duke, and Conns 600,000-square-foot lease with Centerpoint.

The vacancy rate for the Houston market finished the period at 5.7%, up 40 basis points from a year ago. That rate, despite the increase, is still low relative to other major industrial markets around the country. Total inventory for the Houston area hit 581.2 million square feet after adding over 3.5 million square feet of new product in Q1. Nearly 4.7 million square feet remains under construction. Construction levels might be even higher if not for a shortage of good land sights in the NW and SE markets, the two areas drawing the most tenant interest.

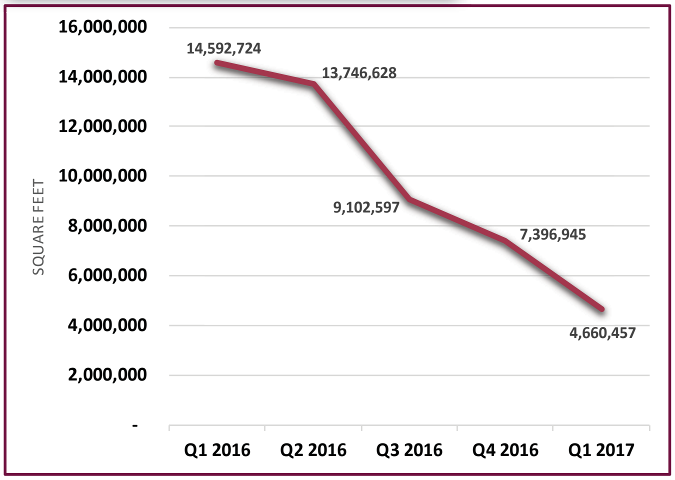
Net absorption stayed firmly in positive territory in the first quarter, adding another 1.1 million square feet to the total of occupied space, after a gain of 1.7 million square feet in the final quarter of 2016. The average asking lease rate added a dime to end the period at $6.80. However, to keep coupon lease rates moving, many landlords are offering tenants greater amounts of free rent. Tenants are pushing back on landlords for termination options and shorter lease terms, while both sides are struggling to understand the post-election political and business climate.

Worth noting again this quarter is the significance of the Grand Parkway. Several new sections of this 180+ mile loop opened in 2016, which has opened up new opportunities for development sites that were previously inaccessible. The new 800,000-square-foot FedEX distribution center is just one of the new projects located on the recently completed segments of the Grand Parkway.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

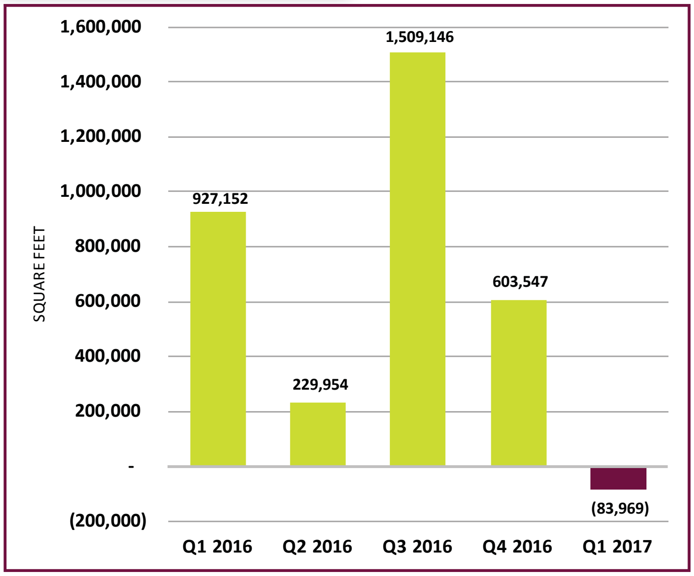


A LOOK AHEAD

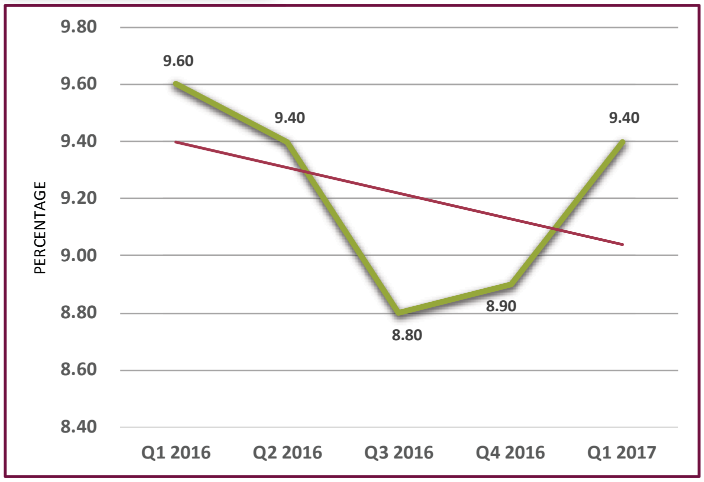
- Gross leasing activity should increase over 2016 levels
- Net absorption will remain positive, but will spike as companies expand into new projects
- Vacancy will start moving lower again due to an increase in leasing activity, but may increase in the Southeast due to new spec deliveries
- Overall asking rents will increase in 2017 by as much as 5% as landlords push for increased yields on tighter investments
- Owner/user prices will see gains due to an ongoing shortage of good options in desirable submarkets
- E-commerce activity will increase, as larger operators like Amazon expand service to Houston's growing population

MINNEAPOLIS/ ST. PAUL

NET SF ABSORPTION



VACANCY RATE



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 and the state is home to more than 36 universities. Over 40% of residents have college level degrees and 93% have earned high school diplomas.

As e-commerce operators and major retailers focus more on "Last Mile" delivery times, MSP becomes more of a distribution market. The current industrial base inventory totals just over 115 million square feet, with 25.1 million square of that total identified as bulk distribution. Another 16.3 million square feet is classified as warehouse/distribution. Light industrial space is the largest component of the industrial base at nearly 44.6 million square feet and there is 29.2 million square feet of flex space.

Unlike many major markets in the US that have vacancy rates under 6%, MSP's vacancy rate finished Q1 at 9.4%, down just 10 basis points on a year-over-year basis. Vacancy remains highest in the Northwest submarket at 12.6% across all industrial property types. The other three major submarkets ranged from 6.8% to 7.7%. By product type, the flex sector has the highest vacancy at 12%, while the lowest vacancy is still in the light industrial category at just 6.1%.

9.4%	$6.76	(83,969)	115,281,316	1,069,442
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

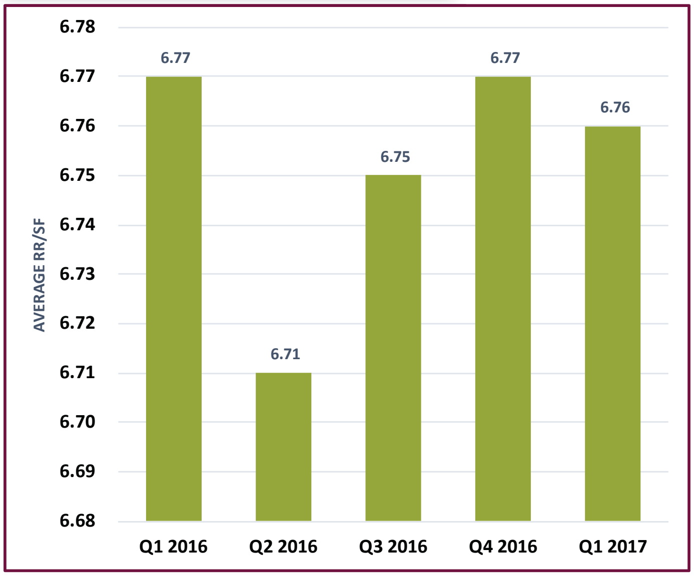
MINNEAPOLIS/ST. PAUL - TRENDING NOW (continued)

Net absorption in Q1 slipped into negative territory with a net loss in occupied space of almost 84,000 square feet. The two largest tenants to vacate during the quarter were Star Exhibits and Wagner Spray at 184,000 square
feet and 116,000 square feet, respectively. Fortunately, both companies contributed to net absorption last quarter by expanding into even larger facilities. In terms of product type, flex and light industrial accounted for all the net loss for the quarter, while warehouse distribution posted a net gain of nearly 500,000 square feet.

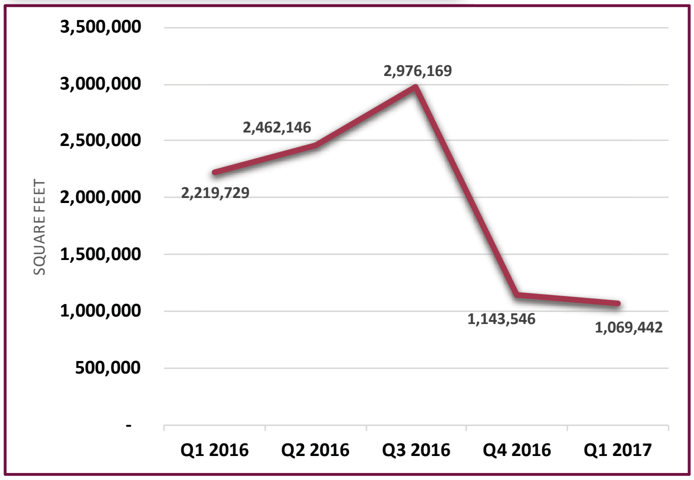
Average asking lease rates for direct space in all product types combined have been flat over the past year, but lost a penny on a year-over-year basis to finish Q1 at $6.76. However, landlords are getting tougher on up-front free rent and tenant improvement expenditures. Tenants looking for bulk warehouse space in the Northwest market will have more leverage for the near term due to a surge of new deliveries and vacancy in large second generation facilities.

As we reported last quarter, developers have locked down most of the prime land sites, so interest in infill sites is on the rise. Despite high costs to build, spec properties are offering similar rates to existing buildings, which gives tenants a chance to improve efficiency without paying the premium that has become common in industrial markets around the country. During the first period of 2017, only 134,384 square feet of space was delivered and another 1,069,442 square feet was under construction. The Northwest submarket is the most active in terms of new product.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

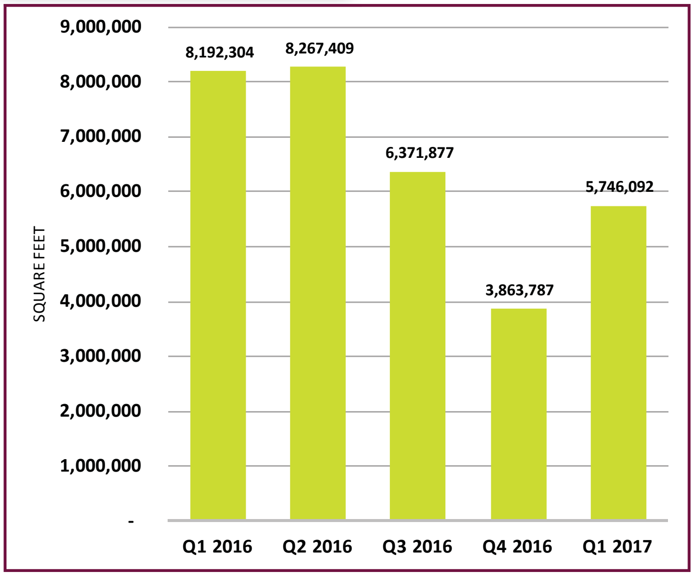


A LOOK AHEAD

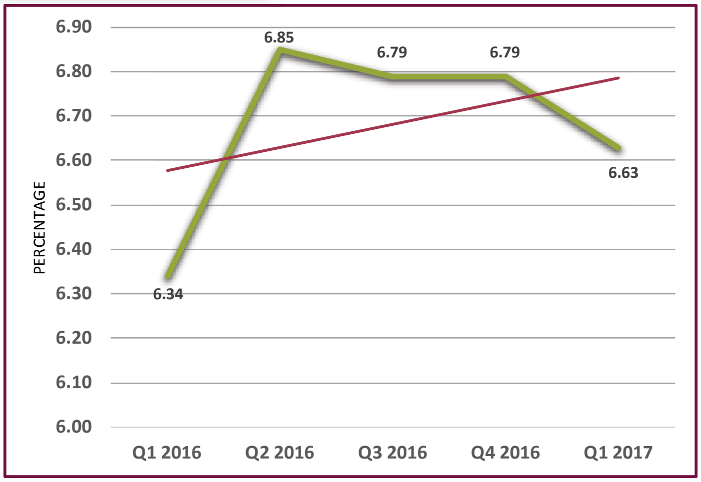
- Gross sale and lease activity will remain strong for the remainder of the year
- Net absorption will remain in positive territory
- Vacancy will make modest declines despite high rate of new deliveries
- Expanding e-commerce sector will continue to drive leasing activity
- Average asking lease rates will increase slightly
- Construction costs will keep moving higher, putting more upward pressure on asking rents for new product

CHICAGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

While Chicago has been and will remain a key transportation hub, high levels of taxes and regulation pose an ongoing and significant challenge to area businesses. Nearby markets like Northwest Indiana and Southeast Wisconsin are capturing more attention from expanding companies by promoting more business-friendly environments where it is less expensive to do business. But, Chicago's central location and extensive air, rail and trucking infrastructure are fundamental strengths that major distribution operators still prefer over other Midwest markets.

Vacancy for the region remains relatively stable in Q1, the overall vacancy rate declined by 16 basis points to 6.63%, which can be attributed to higher first quarter leasing volume and the modest amount of space being returned to the market. Thirteen of the region's 22 submarkets saw vacancy fall in Q1, but year-over-year, the region recorded a 29 basis point increase in vacancy. Competition for quality product remains intense, especially in submarkets like O'Hare and the 1-55 Corridor. In many cases, good functional space is just not available, forcing tenants to renew in place or look to those other markets to meet their space needs.

Tightening supply has yet to spark rapid rent growth. At the end of the first quarter, the average asking rental rate in the Chicago metro area stood at $5.60, up $.07 in the period. Lease rates are moving up faster for Class A product, which is getting harder to find. For tenants who can work around functional issues associated with Class B and C space in other submarkets like North Kane County and Southeast Wisconsin, there are more buildings to choose from.

6.63%	$5.60	5,746,092	1,269,599,858	17,732,792
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

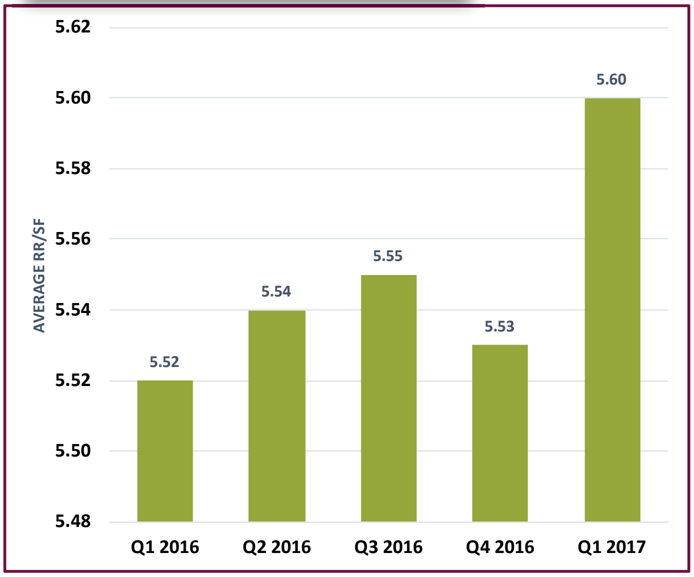
CHICAGO - TRENDING NOW (continued)

Positive net absorption for Q1 was just over 5.7 million square feet, with larger distribution deals accounting for the bulk of net gains in occupied space. In 2016, almost 26.7 million square feet of net absorption was reported, after another strong year in 2015. However, as we reported last quarter, much of the existing inventory lacks the clear height, fire-suppression and truck access preferred by today's distributors, which gives expanding tenants yet another reason to look outside the area.

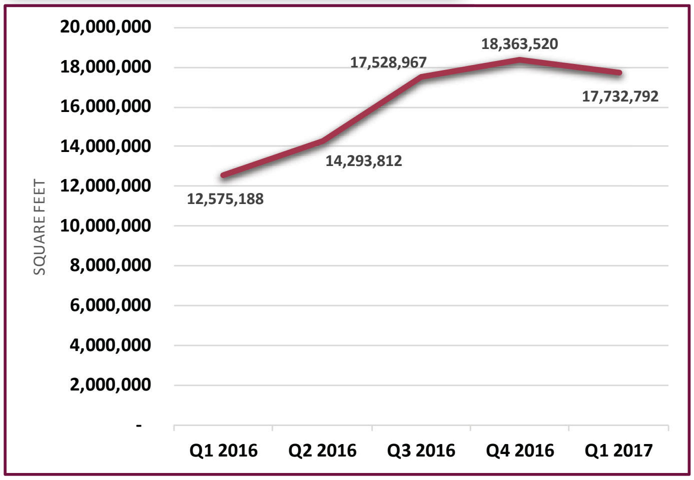
New deliveries totaled more than 3.95 million square feet in Q1 compared to 6 million square feet in Q4 of 2016. Currently, another 17.7 million square feet is in the construction queue. New construction remains primarily in larger distribution facilities. Tightening availability of quality, functional product has kept developers bullish on speculative product, which helped bring the total base inventory up to 1.27 billion square feet in the first quarter. So far, net absorption has kept pace with new deliveries, so construction activity should remain near current levels throughout 2017. Of the 49 projects under construction, 32 are speculative and 17 are build-to-suit deals, but are virtually equal in terms of total square footage.

First quarter leasing transactions added up to 7.9 million square feet in Q1, which represents a 15% increase over Q4's total of 6.9 million square feet, but a substantial decrease from 2016's first quarter total of 10.3 million square feet. Sales volume for the first period totaled 2.2 million square feet, a narrow increase over fourth quarter volume.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

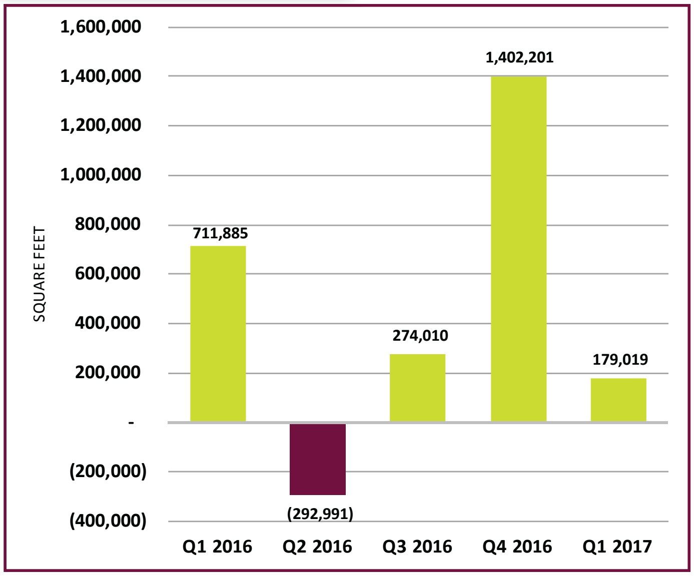


A LOOK AHEAD

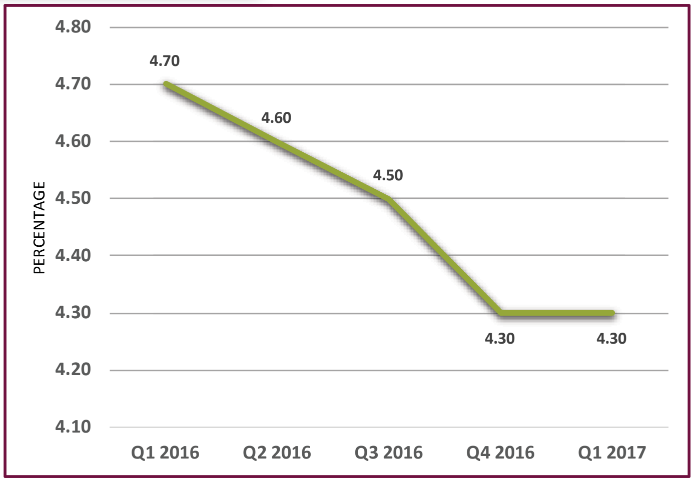
- Leasing activity will remain strong but supply of quality product will continue to run short of supply
- Net absorption will remain firmly in positive territory, fueled by expansion moves into first generation space
- Vacancy will remain stable as net absorption remains in good balance to new deliveries
- Average asking lease rates will increase modestly throughout the year
- Construction activity will continue at or slightly below the current pace

CLEVELAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Cleveland industrial market still has a large manufacturing component that distinguishes it from other major metro markets. As a result, many of the jobs created in the region are higher-paying, full-time jobs that add balance to the overall employment base and contribute to gains in the housing market. Advances in automaton and other manufacturing techniques make Northeastern Ohio a good alternative to shipping jobs overseas. But, growth in the manufacturing sector doesn't necessarily mean growth in industrial occupancy, as the high cost of moving has encouraged many companies to grow in place by upgrading existing facilities.

The recent election has buoyed hopes of a more manufacturing-friendly business environment that may result from reduced regulations and lower corporate tax rates. The proposed border-adjustment tax, which would provide favorable tax treatment to exports, could also give a big boost the region's manufacturers. This has helped to mitigate the slowdown in the energy sector, which was giving Ohio's economy a big boost until energy prices collapsed in the middle of 2014. Cleveland's economy continues to grow at a slow but consistent pace and is historically less volatile relative to some of the first tier markets

The overall vacancy rate was unchanged in Q1 to 4.3%%, but has declined by 40 basis points year-over-year. The aerospace industry has been a major contributor to leasing activity, mainly due to the NASA's Glenn Research Center and the Cleveland Airport. But, manufacturing throughout Northeastern Ohio is strong. Companies are reinvesting in their businesses and existing real estate. The high level of specialized improvements required by manufacturers makes it difficult and expensive to move, which limits leasing

4.3%	$4.27	179,019	490,869,195	1,139,005
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

CLEVELAND - TRENDING NOW (continued)

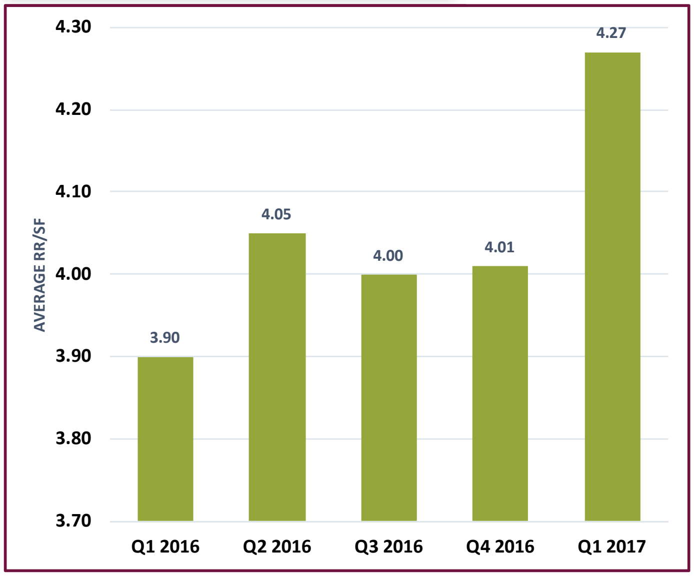
activity, but the manufacturing sector is a primary driver of industrial sector growth. Even so, tightening supply of quality space is forcing more tenants to consider spaces with functionally obsolescence that have been vacant for years.

In Q1, another 509,393 square feet was delivered, and 1,390,005 square feet was still under construction as the period ended. In 2016, nearly 1.6 million square feet of space was completed, almost all of it in distribution buildings with high ceiling clearance and the latest in fire suppression systems. Construction activity is concentrated in the Southeast and Southwest submarkets, and developers like Scannell and Fogg continue to build on a speculative basis due to healthy demand from distribution users.

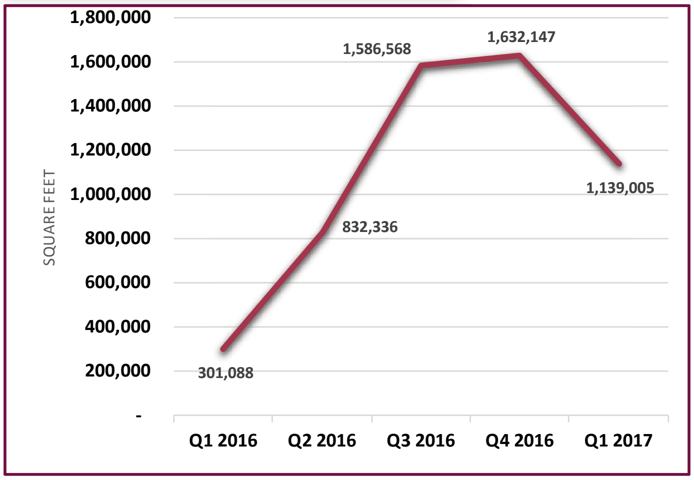
First quarter net absorption totaled 179,019 square feet, down substantially from a strong Q4, but still in positive territory. The biggest contributor to the gain was the 350,000-square-foot lease to Jobs Ohio Beverage Systems at 2210 International Parkway.

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

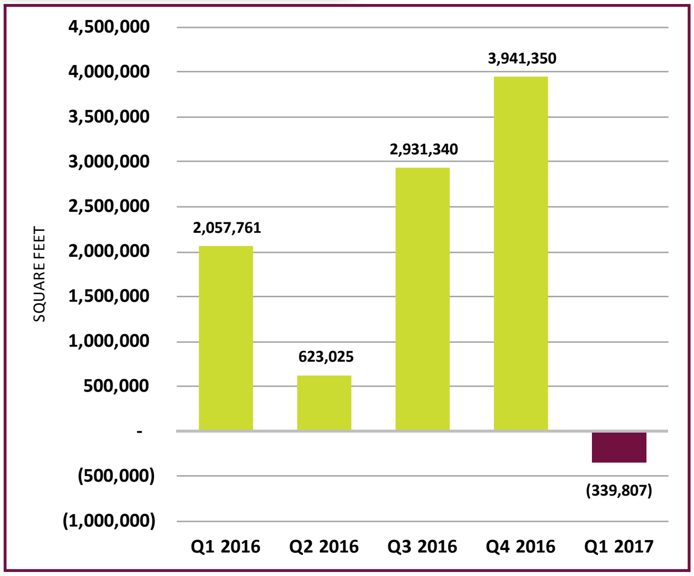


A LOOK AHEAD

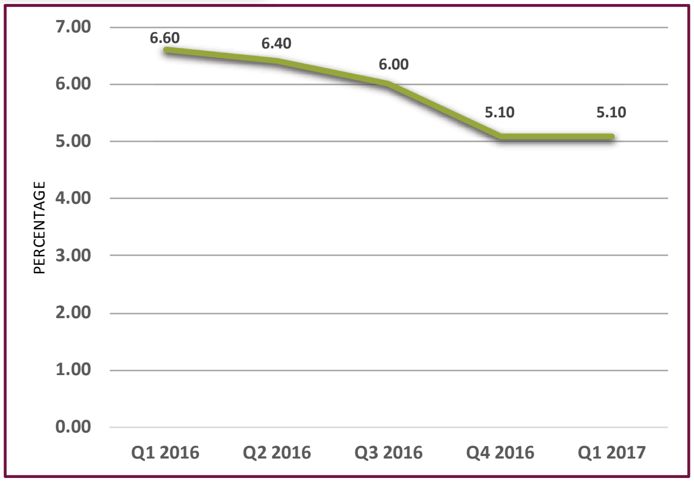
- Lease and sale activity will remain strong as tenants compete aggressively for quality product
- Net absorption should increase in 2017 due to an increase in new deliveries
- Average asking lease rates will move slightly higher in 2017
- Construction activity will increase as planned projects get underway
- Low oil prices will continue to limit the contribution from the energy sector
- Vacancy should remain at current levels throughout the year

COLUMBUS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Logistics infrastructure continues to drive the Columbus industrial market, and remains a favored distribution hub for the likes of FedEx Air, FedEx Ground, UPS and UPS Supply Chain Solutions. The Norfolk Southern Heartland Corridor and CSX Gateway rail lines link Columbus to east coast ports. Four major interstate highways, four intermodal systems and the cargo-dedicated Rickenbacker International Airport add to the region's strategic significance.

The State of Ohio has no personal property, inventory or corporate income tax and the Columbus area has the lowest average hourly wage rate among major logistics hubs. As a result, major companies including Abercrombie & Fitch, Big Lots, Eddie Bauer, Target and Walmart have major distribution facilities in the Columbus area. The region also boasts a fast-growing workforce attributable, in part, to 63 nearby college and university campuses serving 140,000 students, 20,000 of whom graduate each year.

The industrial inventory base rose by just under 400,000 square feet in Q1 bringing total inventory up to 271.5 million square feet. Another 2.45 million square feet remains under construction, mainly in larger bulk distribution facilities. Of that total, over 600,000 square feet is being built on a speculative basis. However, the automotive manufacturing sector remains a factor in new construction with new facilities activity near the Honda of America plant in Marysville.

Lee & Associates is marketing the new 33 Innovation Park, a 205-acre business park focused on advanced manufacturing, R & D and automotive related uses. National and international developers have been selling off Class B assets to build war chests for the next round of Class A construction. As sellers, they can take advantage of demand that continues to run out in front of supply.

5.1%	$3.50	(339,807)	271,518,141	2,454,331
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

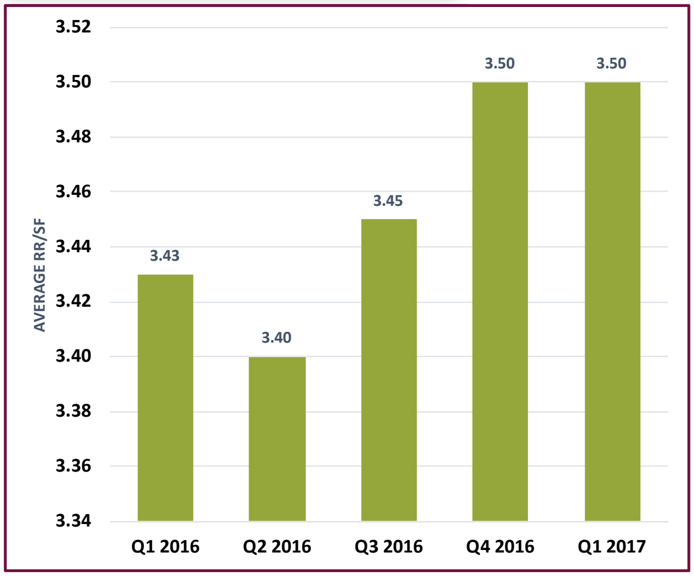
COLUMBUS - TRENDING NOW (continued)

Net absorption slipped into negative territory in Q1, with a net loss of 339,807 square feet, but the pullback was no surprise after three straight quarters of big gains in occupied space. In Q4 of 2016, net growth in occupied space saw an impressive gain of almost 4 million square feet. Most of the net growth is in leased product, as owner/user availability is very tight, which is forcing current owner/users to spend on renovations and upgrading of existing facilities.

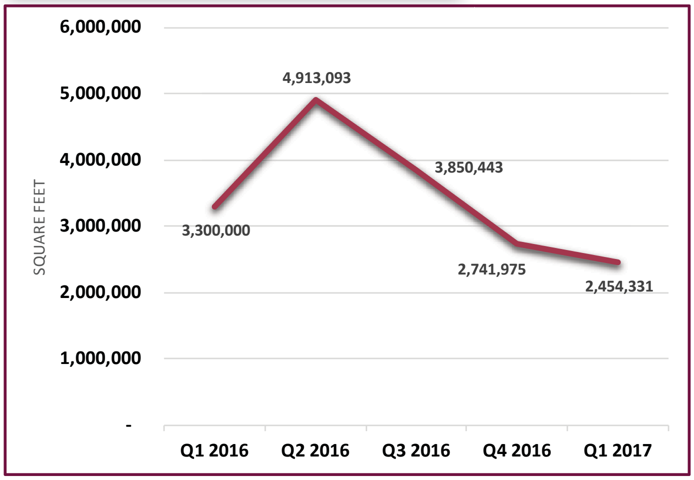
Vacancy has been vacillating quarter-to-quarter due to large amounts of new spec deliveries. In Q4, the vacancy rate fell 90 basis points to 5.1%, but was unchanged in Q1. Average asking rental rates were also unchanged for the current period after moved up by $.05 to $3.50 last quarter. Landlords continue to push for longer term leases for new Class A product. Five year leases have become the new minimum benchmark.

A concern for property owners is the expiration of property tax abatements that have been in use for the past 20 years. In many instances, 100% of property taxes have been abated, but those breaks are expiring, so the owners of buildings 15 years of age and older are sometimes discounting lease rates. The long-term impact of this normalization process is problematic from a political standpoint, as the bulk of funding for Ohio's schools comes from property taxes. Developers of new projects are negotiating with municipalities and school boards to secure tax incentives of their own. Currently, the issue is a hot topic of discussion, but there is no legislation in the works that would change the current situation.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

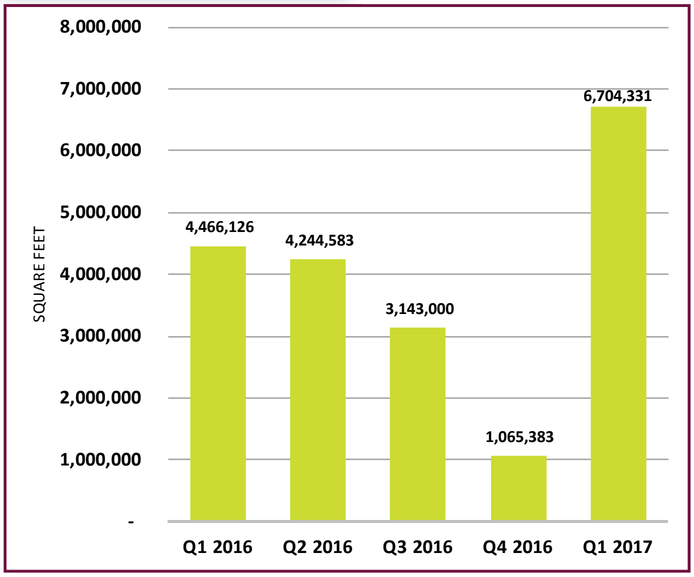


A LOOK AHEAD

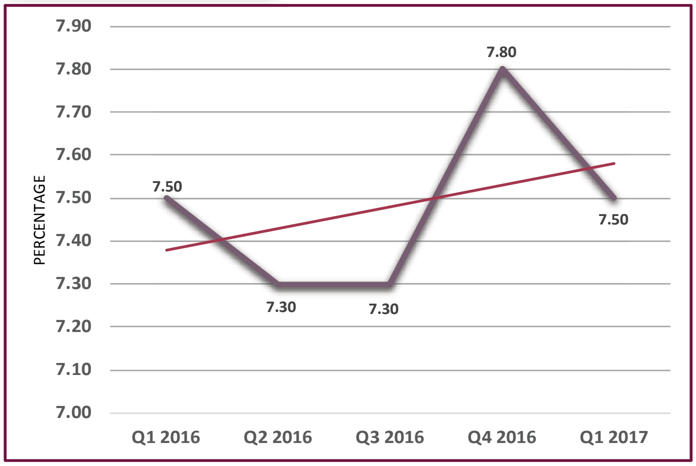
- Overall vacancy will remain in the 5% range for the year after falling sharply in 2016
- Asking lease rates will move slightly higher as construction costs keep moving up
- New construction should decrease slightly as developers pause to allow recently delivered spec product to lease up
- Sales prices for user buildings will continue to escalate due to short supply
- Lease rates for new buildings under 250K square feet will approach the $5 mark in 2017
- Tax-abated industrial land will remain scarce and get more expensive

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Atlanta is situated within an eight hour drive of 35% of the nation's population, making it one of the nation's largest logistics hubs. The Hartsfield-Jackson International Airport, the world's most traveled airport for 15 consecutive years, offers connectivity to the global marketplace. Add the nearby Port of Savannah, which is benefitting from the recently completed Panamax Project, and it becomes clear why the logistics and e-commerce sectors are expanding in the region.

The Atlanta area is also known for its high quality of life, lower cost of living relative to other major metro areas and its business-friendly political and labor environment. A strong education system is also attracting businesses to the area, with over 66 colleges and universities filling a pipeline of talented potential employees who like the area for its affordability and amenities. Employers are also attracted to the strong population growth, which makes Atlanta a good bet for long term expansion.

After moving higher in Q4 of 2016 due to new deliveries, vacancy headed lower again in Q1, falling 30 basis points to 7.5%. Big e-commerce and 3PL operators are still willing to pay more for first generation space because of the efficiencies gained with higher ceiling clearance and advanced fire protection systems. Demand remains strong for buildings over 1 million square feet, and first generation space is leasing up fast. Most of the larger blocks of new space being built on spec are spoken for within six months of delivery. Developers like it because construction costs come down as building size goes up, and rising construction cost is one of the major hurdles facing builders today. Institutional buyers are anxious to acquire bulk distribution facilities, which gives merchant developers a predictable exit strategy for their projects.

7.5%	$4.49	6,704,331	624,085,259	19,637,162
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

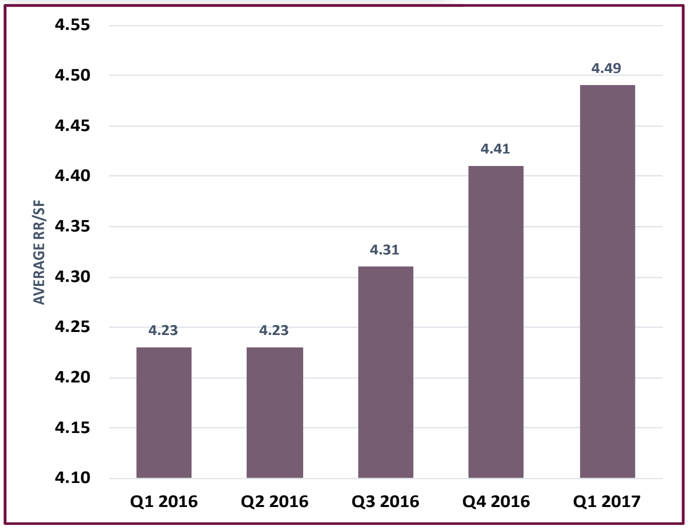
ATLANTA - TRENDING NOW (continued)

Atlanta's industrial inventory topped 624 million square feet in Q1 with another 19.6 million square feet still in the construction queue. Developers are still bullish about further rent growth and net absorption, but securing suitable land sites in urban submarkets and near transportation corridors is becoming more of a challenge. Net absorption has remained reliably in positive territory with no clear indication of a slowdown. In Q1, over 6.7 million square foot of net gain in occupied space was recorded, with the majority of the total tallied in the South Atlanta and I-20 W/Fulton submarkets. The average asking rental rate moved up $.08 to $4.49.

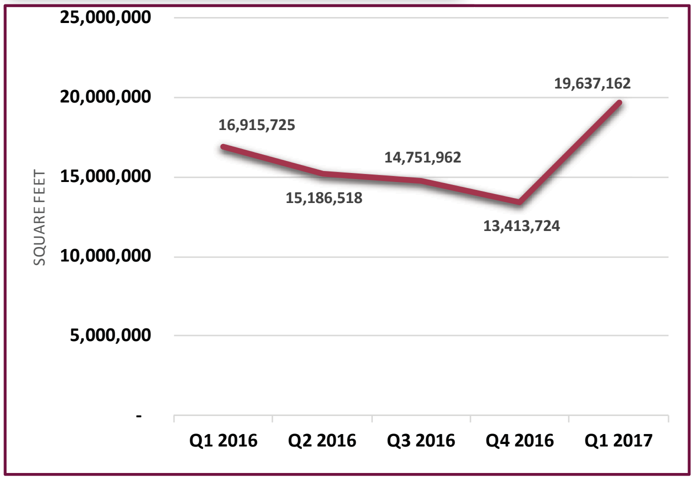
Landlords continue to enjoy the upper hand in lease negotiations. They are pushing hard for longer lease terms, sometimes insisting on seven to 10 year leases, especially for new product. Some tenants, including 3PL operators that have short term contracts, are unsure about their future growth, making them apprehensive about committing to such long leases. But, these same tenants are faced with stiff competition for quality space that is routinely pursued by multiple parties willing to pay more and commit to longer leases.

The availability of functional buildings for owner/users remains tight, and with cap rates as low as they are, investors are willing to compete on price and can often make decisions quicker. Spec developers are focused on larger distribution buildings that are less expensive to build, so there is little chance of relief for owner/user buyers in the near term. Interest rates have moved up, but remain near historic lows. That has kept demand running well ahead of supply.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

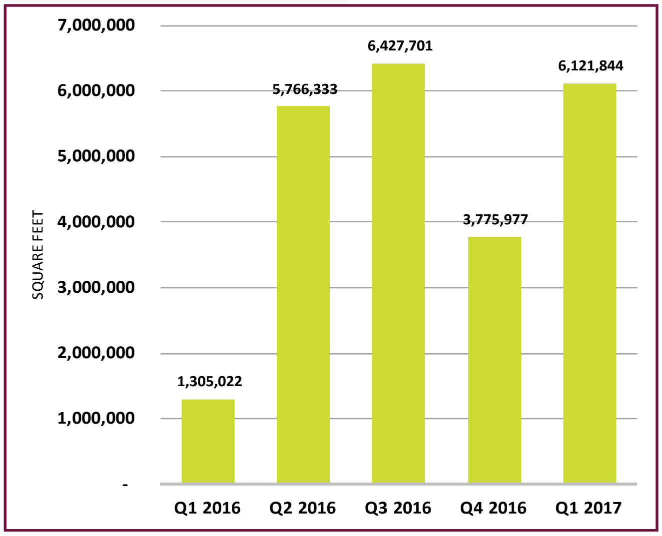


A LOOK AHEAD

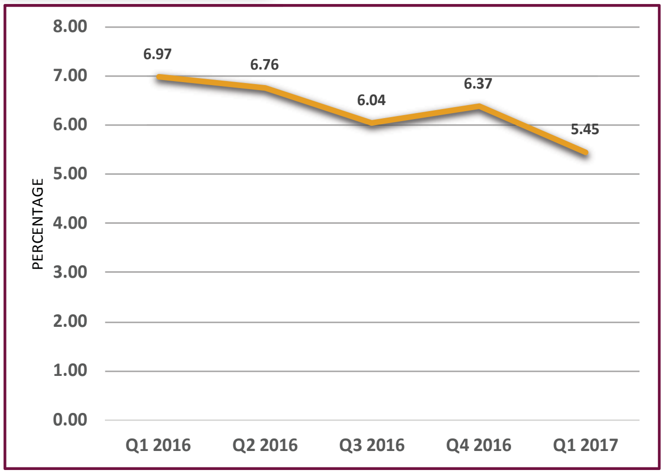
- Vacancy will continue to fluctuate due to periodic surges in new deliveries
- Net absorption may move lower in 2017 due to tenants vacating second generation space
- Lease rates will move up another 3% to 5% in 2017, as owners of recently acquired properties will push for higher rents to offset low cap going-in cap rates
- Sales prices may flatten out if interest rates make a significant move up
- Construction activity will keep current momentum throughout the year
- Limited supply may cause more tenants to bifurcate their operations within the region

PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The 1.1 billion square foot Philadelphia market covers 18,000 square miles encompassing Eastern Pennsylvania, Southern New Jersey, and all of Delaware. In Q1 2017 the market continued to see strong leasing activity and robust positive net absorption. New deliveries continue to run at a record pace and speculative projects drive the construction queue, especially in the Lehigh Valley where record demand has outpaced construction. Economic incentives like Pennsylvania's LERTA 10 year program have been a driving force in leasing up speculative deliveries in tertiary markets.

With so many good sites either recently developed or tied up in the planning process, fully entitled sites have become scarce, which has driven land prices higher in prime markets like Central Pennsylvania and the Lehigh Valley, entitled or not. Consistent and strong demand has shifted attention to areas peripheral to Central PA and the Lehigh Valley, expanding those submarkets. Proximity to ample labor remains a major component in the site selection process. Higher land cost is driving interest into more rural, car-dependent communities along major transportation corridors, which will ultimately drive development further away from the market's deeper labor pools.

Nearly 19 million square feet of space was added to the base inventory in 2016, making the market one of the most active development markets in the country rivaling Dallas/Fort Worth and Southern California's Inland Empire. Of the 12.8 million square feet of space under construction at the end of the quarter, most is being built on a speculative basis.

5.45%	$4.83	6,121,844	1,080,366,827	12,848,088
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

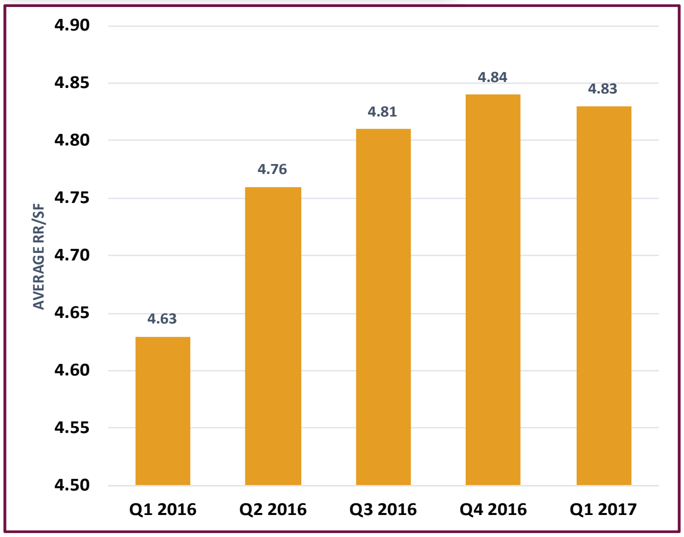
PHILADELPHIA - TRENDING NOW (continued)

So far, rising interest rates have not deterred new construction, but it is still too soon to tell if further increases will impact future projects.

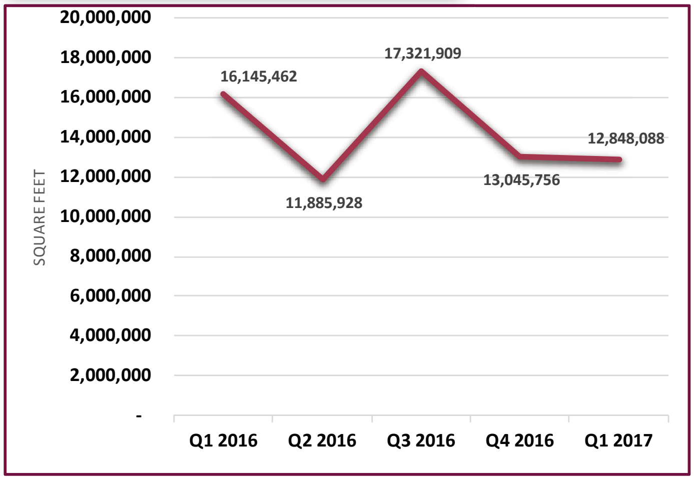
Tenant requirements increased in Q1. Currently over 19 million square feet of tenant requirements are working their way through the selection process, with an impressive average size of 240,000 square feet. A disproportionate share of that activity is focused in Central PA and the Lehigh Valley. Low vacancy in the Lehigh Valley has pushed lease rates towards the $6 threshold for new product, which represents a year-over-year increase of roughly 20%. Renewal rates are also moving up fast, as tenants have fewer relocation options. Landlords in Central PA will continue to see rates increases, but they will be more modest due to greater availability of Class A product. Of the current vacancy there, 51% is the result of speculative deliveries in the second half of 2016.

The regional vacancy rate for industrial produce in Q1 fell by 92 basis points to end the quarter at 5.45% Year-over-year, the vacancy rate has declined by 22%, despite the high rate of new deliveries. Positive net absorption in the first quarter got the year off to a good start. The net gain in occupied space totaled over 6.1 million square feet for Q1, and just over 23 million square feet in the past year, maintaining the market's status as one the most active in the country.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

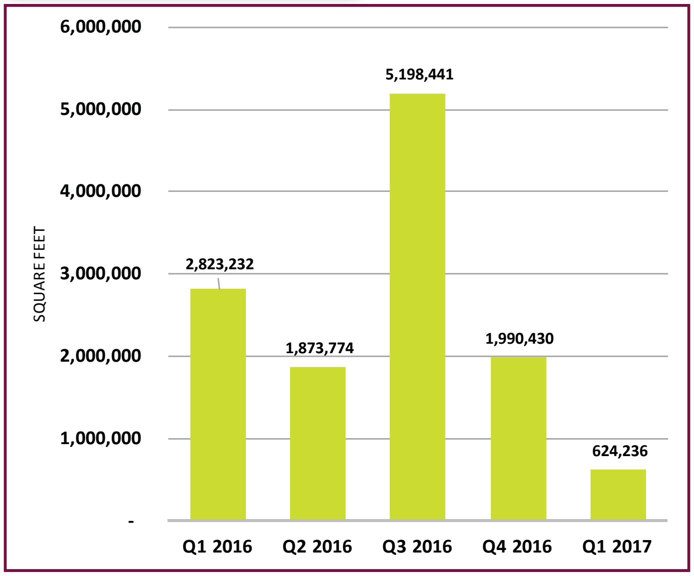


A LOOK AHEAD

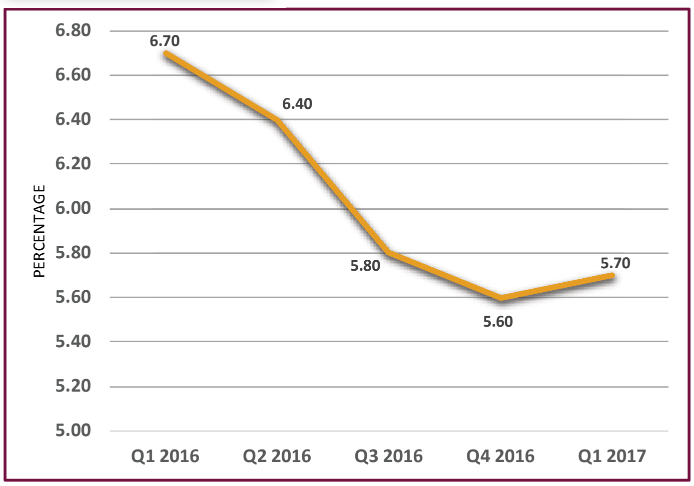
- Net absorption and preleasing activity will remain strongest in the Lehigh Valley as new product will refuel a somewhat deal fatigued submarket, where availability remained scarce coming off a record breaking 2016
- A pause in large scale development west of Harrisburg will help decrease vacancy in the Central PA market over the balance of 2017
- Sale activity will remain concentrated in Class B and C assets over the next 24 months
- Speculative construction should continue into 2018 with emphasis on buildings with at least 36' clear heights or higher
- Lehigh Valley will see the strongest rent growth again in 2017

NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

As one of the nation's major distribution hubs, Northern and Central New Jersey is a high priority for e-commerce operators, major retailers and 3PL companies, and that has kept demand for Class A space at a pace that has sparked high levels of bulk distribution construction. However, the demand for smaller single-tenant light industrial buildings has grown exponentially due to the "last mile" logistics needs of those same players who need to shorten shipping time throughout this densely populated area. This trend represents the largest shift in the region's industrial real estate demand in the past several years, and it appears to be gaining momentum in 2017. The raising of the Bayonne Bridge and deepening of the New York Harbor, along with state tax credits for job creation are also expected to increase warehouse space demand going forward.

The overall vacancy rate moved 10 basis points higher in Q1, to finish the period at 5.7%. Year-over-year, the vacancy rate has declined by 100 basis points. Large spaces in Class A product nearest the ports continue 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 for space. Tenants, particularly those in and around the Meadowlands, Liberty and I-95 Turnpike Corridor from Union County and northward, are running out of space options. Vacancy is moving down faster in Northern New Jersey due to its ideal location for logistics operations, but tenants that need more dock doors and trailer parking space must be willing to pay a premium to get it.

In Q1, the overall average asking rental rate posted its second consecutive sharp increase, moving up by $.14 to $7.00. Year-over-year, the overall asking rate for industrial product moved up by 9.4%, but warehouse rents were up 11.7%, compared to the flex sector, which saw rates fall by .7% in the same period.

5.7%	$7.00	624,236	812,881,868	11,493,730
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▼

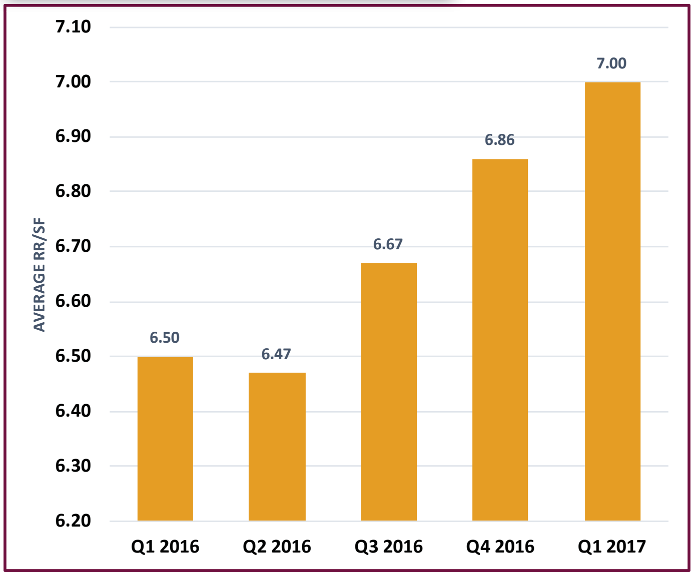
NEW JERSEY - TRENDING NOW (continued)

Net absorption slowed in Q1, but was still firmly in positive territory at 624,236 square feet. In the two previous quarters, over 7 million square feet of net gain in occupied space was recorded. The slowdown in Q1 was mainly in the flex sector, which posted a net loss of over 1 million square feet. The warehouse sector recorded a gain of nearly 1.7 million square feet. Notable move-ins for the first quarter, included Wayfair's occupancy of over 930,000 square feet at the Cranbury Station Park Project and a 616, 992-square-foot lease to Amazon at the Mohawk Distribution Center.

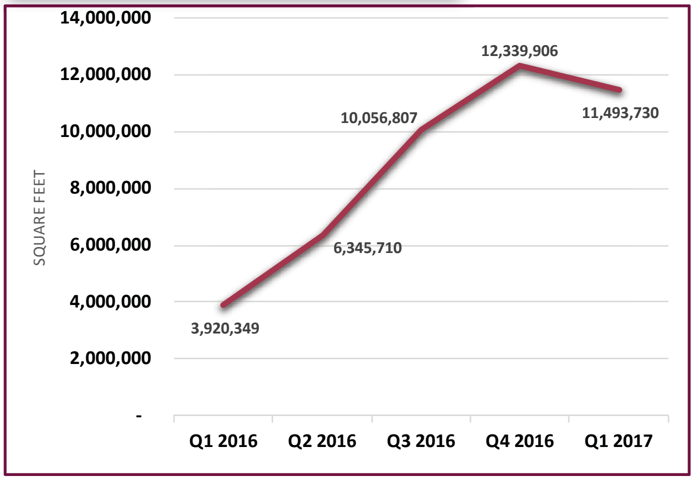
Despite two Fed rate hikes and a significant increase in mortgage rates, owner/user demand is still running well ahead of supply. As a result, prices continue to move sharply higher. At some point, the increase in rates will impact demand and that will give an advantage to cash buyers who are willing to close quickly. Due to rapid price increases, securing appraisals that match negotiated sales prices is becoming more of a problem.

In Q1, just over 2 million square feet of space was delivered and another 11.4 million square feet is in the construction queue, much of it being built on spec. Developers are focused on Central New Jersey due to the availability of land that can accommodate ground-up construction of buildings over 200,000 square feet. The majority of recent deliveries have occurred along the I-95 Turnpike Corridor between exits 7 and 12. Northern New Jersey has fewer well-positioned land sites and developers face the additional regulatory, environmental and engineering challenges of redeveloping Brownfield sites.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



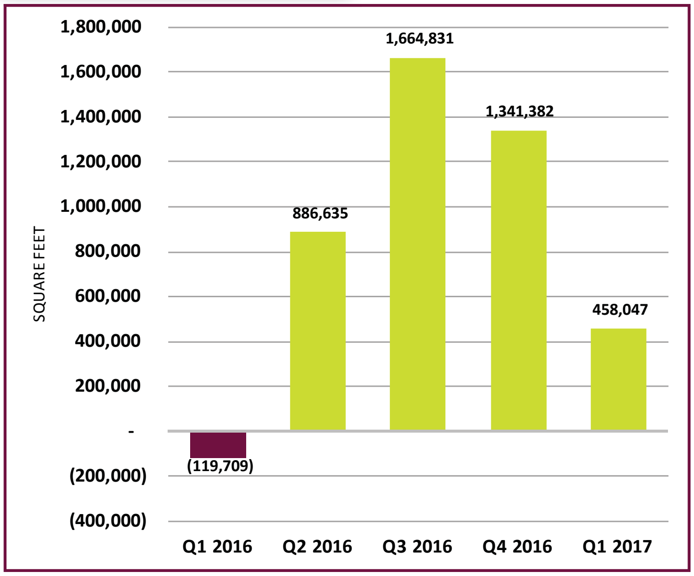
A LOOK AHEAD

- Overall sale and lease activity will increase throughout the year, fueled by e-commerce and 3PL users
- There will be an influx of New York City and Long Island tenants targeting the I-95 Turnpike Corridor for relocation
- Despite tighter loan underwriting, construction activity will continue to increase
- Net absorption should surpass 9 million square feet in 2017, most of it coming in the second half of the year
- Average asking rental rates will increase to $7.50-$7.60 by end of the year
- Vacancy will decline slowly throughout the year

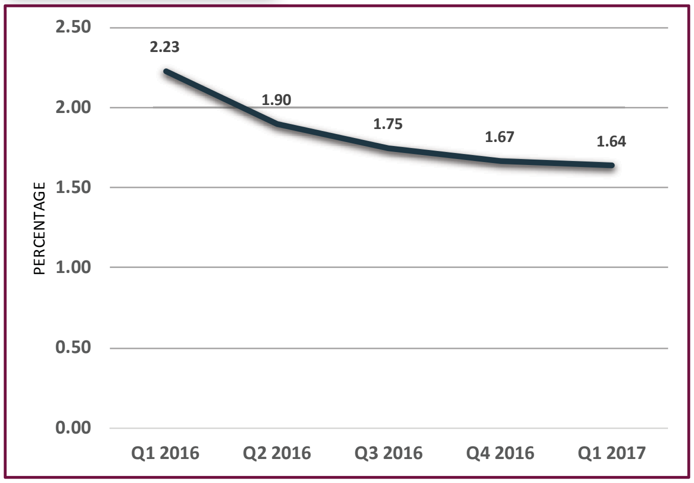
VANCOUVER, BC CANADA

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



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 a key driver of economic growth, but the finance, insurance and real estate sectors, along with a growing number of technology companies, have also contributed substantially to GDP growth. Major corporations including Microsoft and Sony Pictures have made their way north to set up shop in the region thanks to the boom in the Vancouver film industry. The forest industry continues to flourish, as well. British Columbia's high quality wood products are in global demand, resulting in shipments to more than 100 countries worldwide. Exports to China have grown substantially over the last decade and B.C. continues to concentrate on Japan and Korea, along with new opportunities in India.

Vancouver's transportation, logistics and warehousing sector remains one of the Lower Mainland's largest. The region benefits from its proximity to the Pacific Northwest region of the US and its access to Asian markets via multiple ports. However, distribution tenants within the Delta market will be effected by the upcoming decision regarding the Massey Tunnel Project. The construction will likely bring delays and increased operating expenses. The scope of these inconveniences will depend on whether the new infrastructure will come in the form of a new bridge or additional tunnel.

Record low vacancy is still the big story in Vancouver, especially if you are a tenant who must make a move. The shortage of available supply has spread to most municipalities within the Fraser Valley after first tightening in Metro Vancouver. Since the Q1 of 2016, the overall vacancy rate has fallen from 2.23% to a new low of 1.64%, rivaling US markets like Los Angeles, Orange

1.64%	$10.55	458,047	205,333,489	1,500,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INDUSTRIAL SF INVENTORY	SF UNDER CONSTRUCTION

VANCOUVER, BC CANADA - TRENDING NOW (continued)

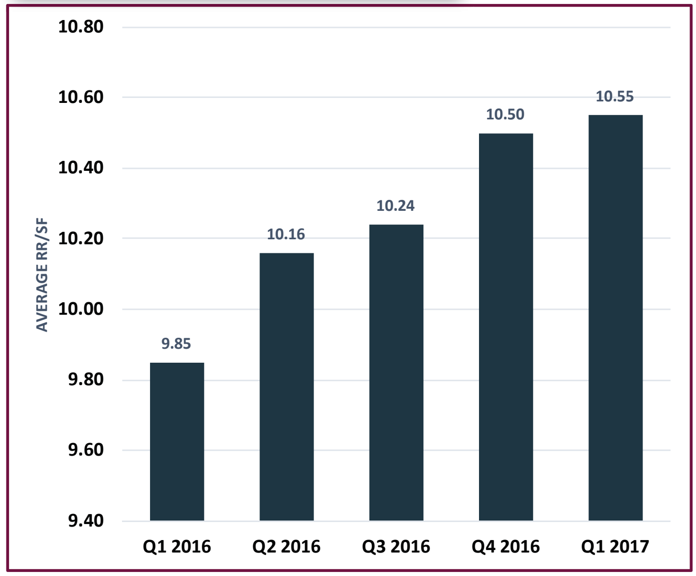
County, CA and New York's Long Island. With vacancy so low, Landlords can afford to be selective and they have increased their focus on longer lease terms and tenant creditworthiness to offset the hazards of a potential market correction. They have also tightened up on free rent and options to renew or expand.

Net absorption has been consistently positive for the past five years and remained so in the first quarter of 2017, with a gain of 458,047 square feet. That was the smallest gain since Q1 of 2016, but it brought total net absorption over the past four quarters to just over 4.35 million square feet, not an insignificant performance given such short supply. The bulk distribution market remains very active, and demand continues to run ahead of supply, especially for larger requirements.

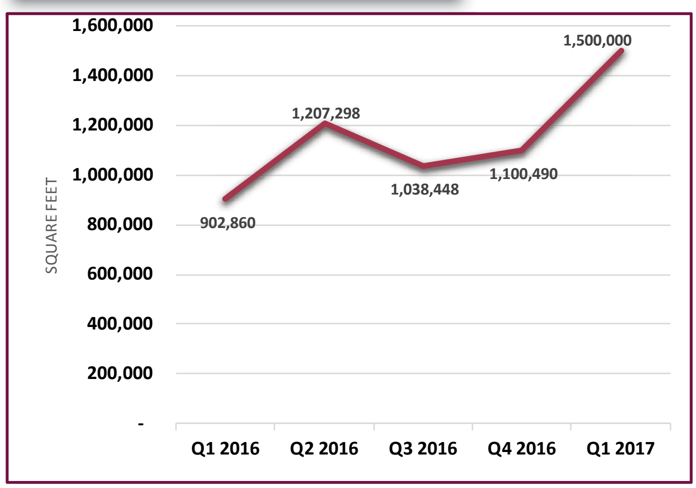
The average asking lease rate jumped up by $.05 in Q1 to end the period at $10.55. Rent growth has been strong and consistent all year. The average asking rate is up by $.70, or 7.1% compared to the same period last year, and low vacancy isn't the only factor impacting rent growth. Rising interest rates are pushing up borrowing costs for landlords who will be looking for higher rents to cover those increases.

Lack of available land, changes to municipal building codes and rising construction costs have combined to make it tough to get ground-up development projects underway. In 2016, only 2.4 million square feet of new space was delivered, but another 1.5 million square feet was under construction in Q1. Until recently, Vancouver was more of a "if you build it, they will come" market, preleasing has become more prevalent, which is forcing tenants to plan further ahead.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Leasing activity and net absorption will stay on pace
- Sales activity will remain strong, but will be impacted if interest rates keep rising
- Lease rates could move up by 10%-15% by the end of 2017
- Vacancy will remain in the 1.5% to 2% range
- Construction activity will stay strong as long as there is a ready supply of zoned and serviced land sites
- Developers will keep building as much as they can, including some speculative projects

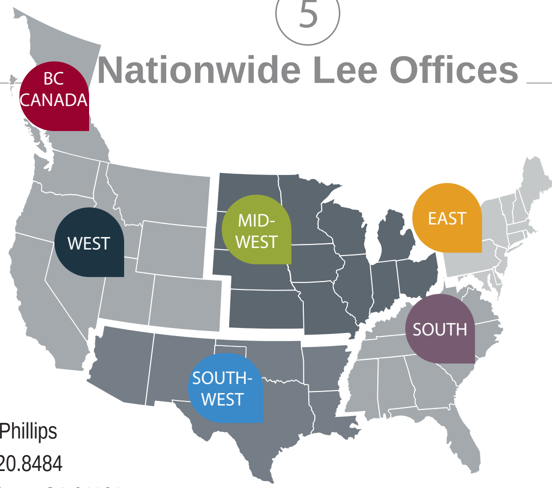
SELECT TOP INDUSTRIAL LEASES Q1 2017

BUILDING	MARKET	SF	TENANT NAME
7030 Tradepoint Ave	Baltimore	1,348,024	Under Armor
2320 Bardin Rd	Dallas/FT Worth	1,004,400	UPS
Prologis Park Tacoma - Bldg B	Seattle/Puget Sound	770,195	UPS
BridgePort Logistics Ctr Bldg C	Northern New Jersey	718,219	Target
Skyline/20 West	Atlanta	604,852	Mars
Ontario Airport Mission Center #3	Inland Empire, CA	604,178	The Braun
Johnson Diversey Dist Center	Milwaukee	551,759	Diversey, Inc.
1700 Meacham Blvd.	Dallas/Ft Worth	505,000	Lasko Products, Inc.
1464 W. Merrill Ave	Inland Empire, CA	436,650	Kuehne + Nagel, Inc.
Gillem Logistics Center Bldg 200	Atlanta	406,625	Kuehne + Nagel, Inc.
2525 Esters Rd	Dallas/Ft Worth	401,572	KidKraft

SELECT TOP INDUSTRIAL SALES Q1 2017

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Underwood Distribution Center	Houston	2,165,200	$71.59	N/A	Hines	BlackRock
838 Lincoln Country Pkwy	Charlotte	1,000,000	$55.70	6.28%	Stoneridge Realty & Investments	Hartz Mountain Industries, Inc.
2305 W. Marshall Dr	Dallas/Ft Worth	667,635	$77.89	N/A	AFL-CIO Building Investment Truts	Robinson Weeks Partners
350 Starke Rd	No New Jersey	353,349	$206.59	4.5%	Bentall Kennedy	CIM Group, LP
Cleveland Technology Center	Cleveland	333,215	$182.09	7.2%	H5 Capital	BYTEGRID Holdings, LLC

Nationwide Lee Offices



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