



The Lee Industrial Brief

2017

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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

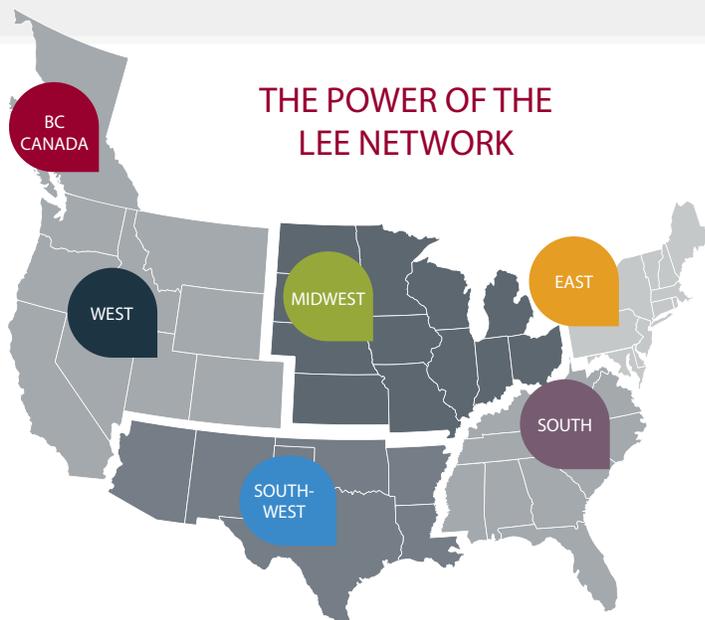
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Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

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San Luis Obispo, CA
Ventura, CA
San Diego, CA
Reno, NV
Oakland, CA

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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 Steady - Rents Up - Vacancy Declines

Despite robust levels of new construction, the supply of quality industrial space continues to thin in markets large and small across the country. Major distribution hubs continue to see the most construction and state-of-the-art distribution facilities account for the lion's share of the new space being built. Supply in mature, infill markets like Los Angeles and the New York area are running at critically low levels, which is forcing big users to look outside preferred areas in order to expand. The industrial base is actually shrinking in some markets, as older product is being repurposed to so-called higher uses. On the other hand, big hubs with land to spare like Dallas/Fort Worth and Atlanta are experiencing record levels of new construction and absorption, along with strong rent growth.

ECONOMIC DRIVERS

GDP GROWTH

EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY



A LOOK AHEAD

VACANCY RATES BY BUILDING TYPE 2002 - 2016



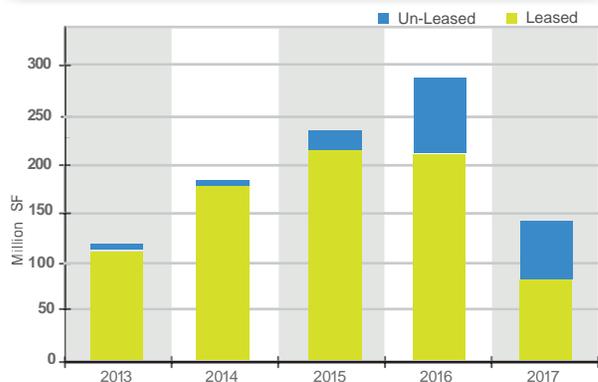
There is good news coming out of markets of all sizes, though, as the e-commerce, shipping, retail and 3PL distribution boom has spread to "last mile" facilities from coast-to-coast. The Amazons and Walmarts of the world

continue to gobble up space closer to customers to speed delivery and compete for online sales. The biggest of these players are accounting for a disproportionate share of gross and net absorption and that masks ongoing challenges for manufacturers and smaller users who are left to pick from a dwindling supply of aging inventory that is less efficient but still expensive. Vacancy in the tightest markets has fallen to as low as 1%.

Clearly, it is a good time to be an industrial landlord. With supply and demand in such a state of imbalance, they are

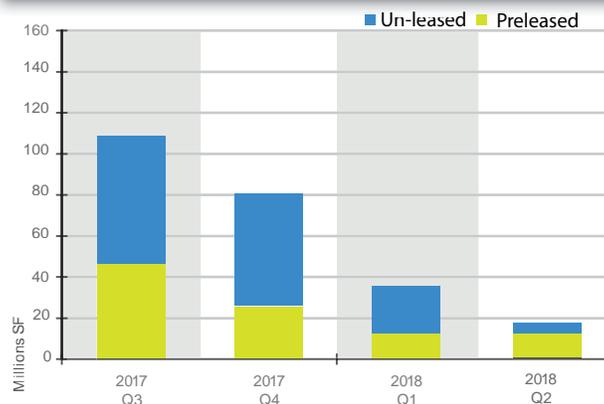
RECENT DELIVERIES

LEASED & UN-LEASED SF IN DELIVERIES LAST 5 YEARS



FUTURE DELIVERIES

PRELEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



demanding longer lease terms and stronger credit without offering much in the way of tenant improvements or rent abatement. In many markets, even tenants who renew in place are getting sticker shock, as their landlords insist on rents that are often more than 50% higher than their current rates.

The Fed made another move on interest rates in June, its third rate hike in six months, yet targets for inflation and wage growth are still not being met. Mortgage rates did increase late last year in anticipation of tighter monetary

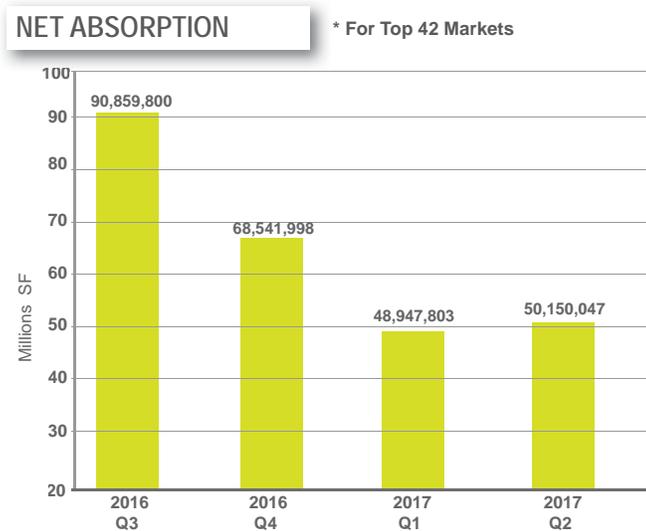


policy, but not enough to dampen demand for owner/user properties financed through the SBA’s 504 and 7A programs. Supply of owner/user product continues to run short, yet developers continue to focus on large distribution projects that attract the big credit tenants preferred by the institutional buyers who remain willing to pay cash for their projects at historically low cap rates. Though rates remain low, construction lenders, who are increasingly concerned over the potential for a market correction, are tightening up on their underwriting standards, including higher equity requirements. So far, cash buyers are still lining up to pay top dollar for new projects and cap rates remain compressed. Talk of tax reform coming out of Washington is still just that, talk. However, investors and developers will be following more closely as legislation takes shape, especially new rules on expensing, depreciation and 1031 exchanges.

Let’s take a closer look at the numbers for Q2:

Net absorption in Q2 was 71.76 million square feet, slightly ahead of 70.65 million square feet recorded in the first period. That brings the total gain in occupied space for the past four periods up to a whopping 361.82 million square feet. The e-commerce sector, big shippers and 3PL operators are still the most active tenants, and they have increased their influence with the push for “Last Mile” locations to speed up shipping times, even in secondary and tertiary markets. Amazon.com continues to employ its enormous revenues into expanding its distribution network. The

e-commerce giant is expanding its distribution footprint by millions of square feet each quarter, forcing its major competitors into doing the same. Walmart’s recent acquisition of e-commerce player Jet.com is a good example. The world’s largest brick-and-mortar retailer has made known its intention to compete head-to-head with Mr. Bezos’ amazing machine. Amazon is also ramping up its own shipping capabilities, as evidenced by its recent announcement to deploy of fleet of its cargo aircraft. It is fair to say that without Amazon and the competition it has fueled, industrial market would not be flying as high as it is today.



The national vacancy rate for warehouse and flex space across the country was down another 10 basis point to 5.1% in the second period, but in the past four quarters,

the vacancy rate has fallen by 30 basis points, and several major market areas still have vacancy rates in the 2% range with little or no construction to relieve tight supplies.

New deliveries for both speculative and build-to-suit projects in all markets for Q2 reached 64.24 million square feet in 537 buildings, as compared to 71 million square feet of new deliveries in the first period. That brought total US industrial property inventory up to almost 22.2 billion square feet. At the end of Q2, another 272.36 million square feet was still in the construction queue. Development activity remains focused primarily in the largest distribution hubs like Dallas, Chicago, Philadelphia, Atlanta and Southern California’s Inland Empire where land is still available at a price point that pencils. However, the two largest projects under construction are being built for manufacturing operations. The second phase of Elon Musk’s Gigafactory near Reno, Nevada totals 3.8 million square feet, and Volvo’s new automotive plant, totaling 2.3 million square feet is underway in Charleston, South Carolina.

Average asking lease rates of all markets across the country moved higher again in Q2, ending the period up \$.10 to \$6.22. Markets with the highest levels of construction continue to see the most rent growth, as first generation space, with its greater efficiencies, commands higher rates. However, higher land and construction costs are pressuring developers to push for higher rates. Thus far, the advantages of first generation space have tenants willing to pay a premium to get it.

LOOKING AHEAD

The current dynamics of the industrial market are not expected to change significantly in the coming quarters. The primary drivers of industrial demand remain firmly in place, even though overall economic growth in the US remains stubbornly slow. The shift to e-commerce retailing continues and that will benefit the bulk distribution market to the detriment of brick-and-mortar retail properties. Job and wage growth run hot and cold one month to the next, but overall job creation is strong enough to absorb new entries into the workforce. Concerns over the types of jobs are probably greater than worries over how many jobs are being created. Part time and full time positions at the lower end of the wage skill is good cause to be skeptical, as consumer spending and retail sales growth are directly depend on wage growth.

The yield on 10-Year Treasuries, the benchmark for setting commercial mortgage rates, spiked early in the year, but has settled in the 2.3% range of late, which means mortgage rates should remain near current levels for the balance of the year. No one knows how many more Fed rate hikes it will take to send mortgage rates high enough to put the brakes on construction and long term lending for industrial real estate.

The threat of global recession has been reduced in the wake of improved economic conditions around the world. Oil prices have rebounded from declines early in the year, which is good news to big oil producing nations that have been suffering since prices fell back in 2014. Prices have come up enough to stimulate more drilling activity in the US, as well, and that is welcome news for energy dependent regions of the nation.

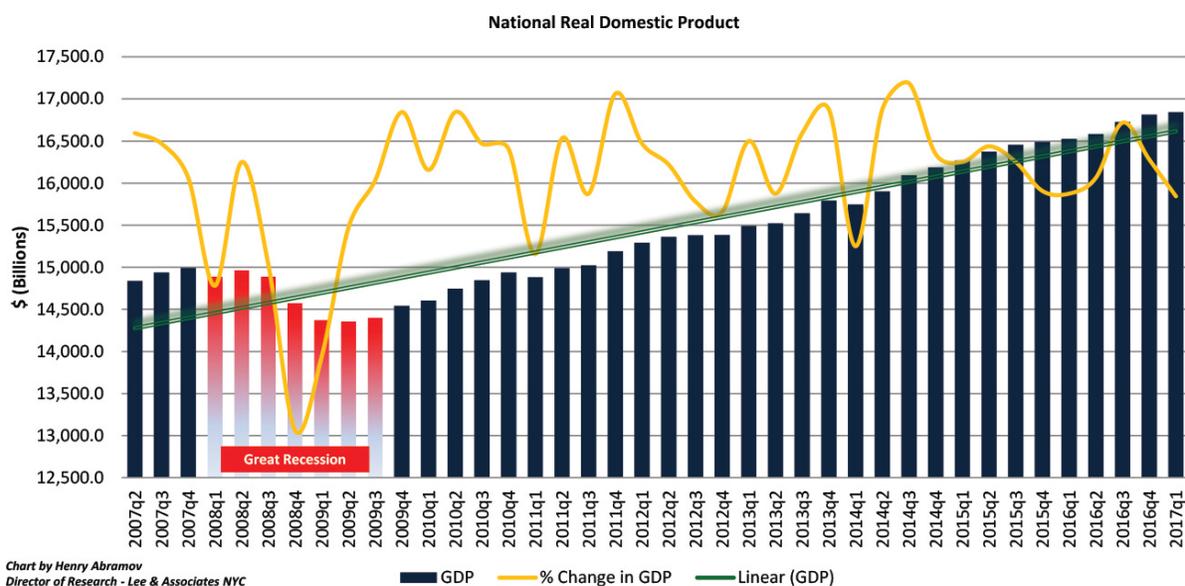
We expect more of the same in terms of industrial market conditions for the balance of the year. Leasing activity, vacancy, net absorption, construction and rent growth should stay in relative balance to one another as long as current trends in e-commerce continue. Risk of overbuilding is minimal and construction lenders are already becoming more cautious. Perhaps the greatest risk is in the potential for cap rate decompression precipitated by a rise in capital costs that would accompany more aggressive monetary policy.

GDP GROWTH

US GDP, the primary metric for tracking the total output of our country's goods and services, is closely scrutinized by economists around the world who saw more of the same out of the US economy in Q2. After another disappointing first quarter that saw US growth at an annualized rate of just 1.2%, growth picked up as it has in Q2 as it has been doing in recent years. The first estimate for the period came in at 2.6%, compared to 2.1% in the same period last year after a weak first quarter. That has given rise to more talk about taking a new look at the current GDP model to more accurately reflect seasonal changes.

Total GDP growth for all of 2016 was up just 1.6%, and it looks like the US economy is in for another year in the same range. Once thought to be anemic, 2% growth seems to be the new normal these days, and the Trump administration's goal of sustained 3% growth is looking lofty, at least until a tax reform or infrastructure bill becomes a reality. The prospects for either or both remain questionable.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



Corporate earnings in the first quarter of 2017 were mixed, but generally good. More companies reported revenue increases rather than cost-cutting measures as a reason for improved profitability. That means more hiring, more consumer spending and hopefully, a bump in GDP performance going forward.

Concerns regarding the performance of the automotive sector continue. After several years of robust sales increases, consumers have put the brakes on auto purchases, especially small sedan-type cars. With gas prices down, consumers are opting for expensive trucks and SUV's, but fewer consumers can afford to make those purchases. In the final quarter of 2016, incentive-driven car sales accounted for a disproportionate share of GDP growth, but through the first half of the year, sales are down, and inventories are swelling, and that is having a negative impact on GDP. Automotive manufacturers have responded with production cutbacks of slow-selling models, but have not yet resorted to deep discounting to rental companies as a means of reducing over-supply as they have done in the past. Overall sales volume is down substantially through the first half of the year, and used car lots are swelling with formerly leased vehicles, which is exacerbating the problem. Also, auto loan defaults have been rising as of late.

GDP GROWTH

Ongoing aggressive monetary policy in Europe has kept the EU growing faster than the US. The EU posted another decent quarter of 2.2% growth in Q2, after Q1's 2.1% mark. The European Central Bank has been running full steam ahead with its bond-buying program and has taken drastic monetary and fiscal measures to keep the European Union member countries from sliding into recession. The European Central Bank is even experimenting with NIRP (Negative Interest Rate Policy) 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.

As we reported last quarter, the "Trump Bump" after the election sent equities markets soaring on the expectation of lower corporate and personal income tax rates, reduced regulations and a huge infrastructure spending program. But, the nation waits while Republicans and Democrats in both houses of Congress continue to do battle with little or no result. That might not be all bad in terms of GDP growth, however. Businesses dislike uncertainty and will live with a less than optimum economic environment, as long as they know what to expect in terms of laws and regulations. If that remains the case, GDP growth should chug along near current levels for the rest of the year.

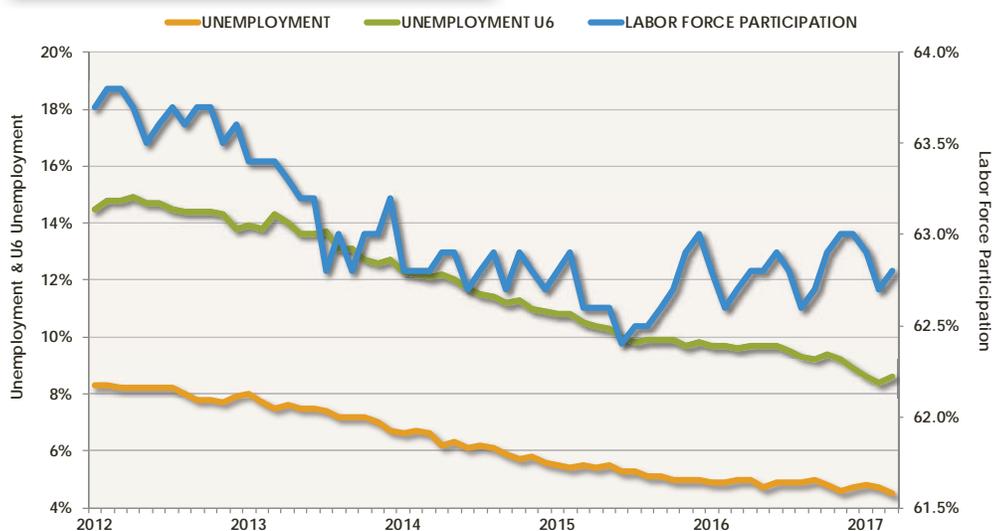


EMPLOYMENT

Job growth statistics remain difficult to make sense of. Here's what we said last quarter, and we stand by it in Q2: 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. June of 2017 is a great example. Over 222,000 jobs were created, one of the best months in over a year, yet the unemployment rate rose by 10 basis points to 4.4%. These anomalies have caused many to discount the validity of the Bureau of Labor Statistics' U3 metric.

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 that 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 8.6%.

NATIONAL UNEMPLOYMENT



Job creation slowed in 2016, with the 12 month rolling average of new positions falling by over 50,000. But that pace has picked up again through the first half of 2017, as the 12 month average is back on the rise. The second quarter of 2017 ended with a strong performance in June, when over 222,000 private sector jobs were added, much better than in March when an unexpectedly low 98,000 new jobs were created to end Q1. Wild swings in job growth impact consumer spending and business expansion. Companies large and small tend to be more cautious in making long term decisions that have a big impact on hiring. Of significant import is the fact that tech sector job growth, which had been leading the way in terms of job creation, has slowed substantially this year. Even tech hotspots like San Francisco are cooling off, raising concerns over the impact on commercial real estate occupancy going forward.

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 62.8% of potential workers in active production.

EMPLOYMENT

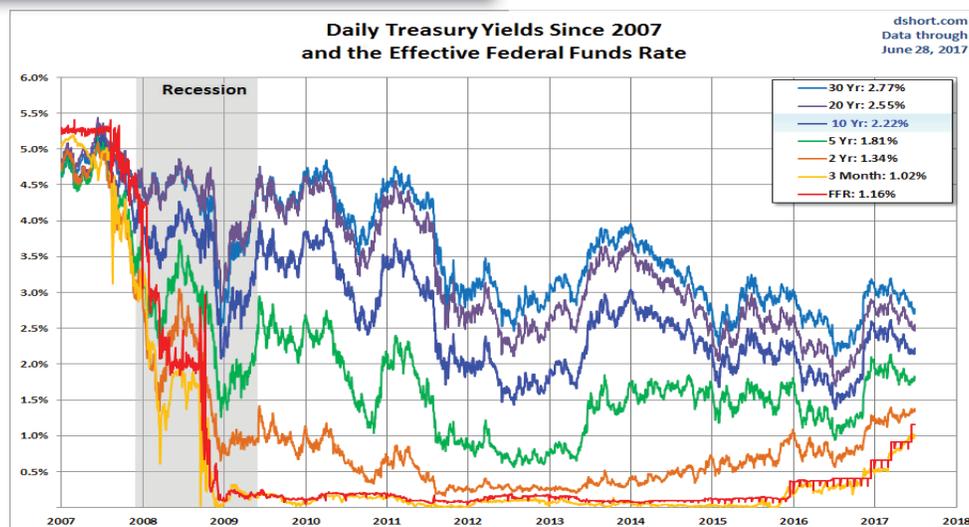
Lagging wage growth is still tightening the drag on US economic growth. Full-time, high-paying jobs are available, but remain unfilled for lack of qualified applicants. Lower-skilled workers are still having a harder time getting ahead. Wage growth has seen some improvement, but remains under 3%. In June, wages grew by 2.8% on a year-over-year basis. For workers at the lower end of the wage scale, where most of the new jobs are, income growth in the low single digits has little impact on their spending habits.



MONETARY POLICY

As the saying goes, “be careful what you wish for.” Calls for the Fed to reverse its easy money policy were finally heeded and after a preliminary move back in December of 2015, our central bankers have clearly changed their tune. In the past six months, the Fed has moved its Fed Funds rate up three times, with the most recent in the middle of June. Currently, that benchmark rate is set in a range of 1% to 1.25%, still low by historical standards. However, Ms. Yellen and friends have clearly drawn the line in the sand in terms of their intentions, despite up-and-down job numbers, tepid inflation and weak wage growth. It will take a sustained series of quarter-point increases to fully neutralize the activist posture of our central bank, which began ten years ago. As we have been reporting for the past two year, critics are vocal in their belief that Fed policy

US TREASURY RATES



is 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.

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, dollar gains have been pared

back recently, as economic growth around the world has gained momentum. 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. Money created in a computer on an as-needed basis, has to go back into the computer to be removed from circulation at some point or inflation will be sure to spike. In recent weeks, the Fed has been discussing plans to gradually reduce its holdings by not reinvesting in maturing US Treasuries and Residential Mortgage Backed Securities. It is unknown how the bond markets will react to the change, but many are concerned that it will drive up bond yields, which would exacerbate the effects of expected further rate hikes by pushing borrowing costs up too quickly.

Despite the Fed’s more robust monetary stance, central banks around the world are still in activist mode. The European Central Bank is still buying bonds at a 65 billion euro-per-month clip and holding interest rates in the zero bound. Though, there is more talk of backing off that aggressive stance given the recent improvements in European Union GDP and employment metrics. The Bank of Japan can’t seem to wear itself off of central bank meddling. Its appetite for bond purchases is so voracious, it is running out of government debt to buy back.

MONETARY POLICY

Concerns of a near term recession here in the US remain muted, but other than a low unemployment rate, the Fed has little to point to support the case for a more robust recovery. The surprise that was Donald Trump is now a daily reality and not much has changed since he was sworn in as our President other than a daily dose of juicy headlines.

Trump's promises of a big infrastructure investment and tax reform would give the Fed a little help if either came to pass, but that is not likely. Deficit hawks on the political right are pushing back and Democrats appear united in blocking anything and everything the new President puts on the negotiating table.

Mortgage rates started to move higher as T-bill yields, the benchmark for commercial property loans, made a move up. However, the Fed has made two interest rate moves this year, and the yield on the 10 Year T-Bill has actually fallen. Clearly, that anomaly reflects further uncertainty about the US economy going forward, as investors are willing to pay more for the safety of US sovereign debt. So, it remains a good time to borrow, but borrowers are facing stricter loan underwriting from increasingly cautious lenders.

GLOBAL ECONOMY

Until the end of last year, we were describing the global economic outlook as troublesome. We still remained concerned, but the global picture has definitely brightened in the first half of 2017. The panic over the Brexit vote is over, though the UK is still in for some rough road ahead. The actual process of extricating itself is now underway, and it should make for some interesting sausage making before it is complete. The British Pound remains under siege and other players will be making their plays to replace the UK as a financial services hub, but there is no clear indication of that happening in the near term

EURO AREA REAL GDP² (QUARTER-ON-QUARTER PERCENTAGE CHANGES)



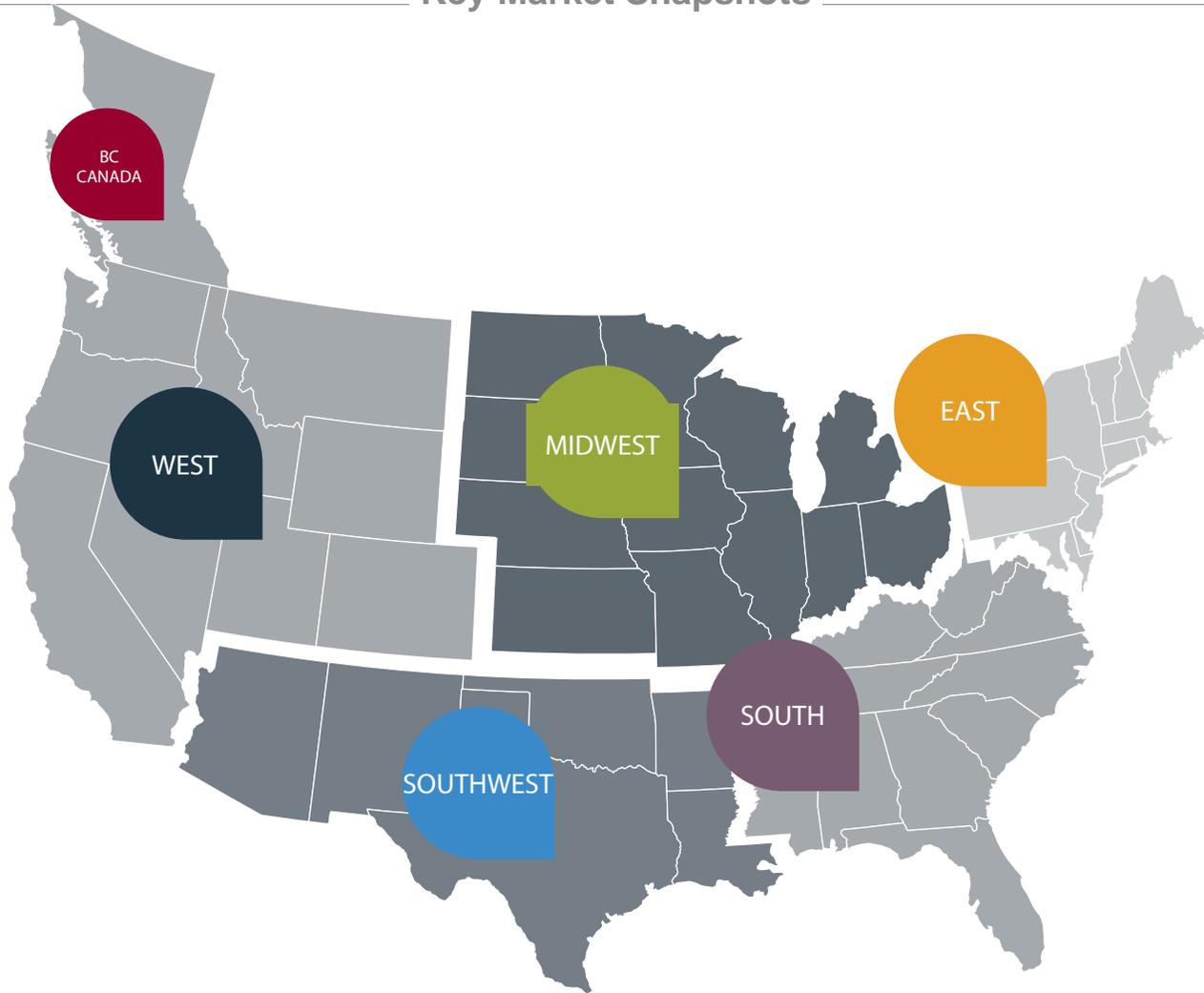
While Europe's political union is still not certain, GDP growth there is steadily improving. In 2016, GDP was up 1.8%, 20 basis points higher than the US growth rate, and that has more experts questioning why Mr. Draghi and his fellow central bankers at the ECB still have the monetary throttle wide open.

China's economy has stabilized and its stock markets have become less volatile. In fact, trade throughout Asia has improved in 2017 despite the fact that the US pulled out of the Trans Pacific Partnership trade agreement after Donald Trump took the reins as President. The recent OPEC

agreement to cap production helped to stabilize the price of a barrel of oil above \$50 in Q1, but an increase in US oil production in recent months sent the price of oil back into the low \$40 range again by the end of Q2. Supply is still running ahead of demand and without more robust economic growth around the world, oil prices are likely to remain near current levels.

In June, Qatar, still a big oil player, was snubbed by other Middle Eastern countries for alleged ties to financing terror-related groups, and that has frayed nerves throughout the region that is already tense over the conflict with ISIS in Syria and Iraq. The fact that so much attention is on the Middle East right now without a resulting spike in oil prices is proof positive that there is more oil coming out of the ground than is currently needed. Fears over "peak supply" have given way to the potential global impact of "peak demand" instead.

Key Market Snapshots



LA NORTH
INLAND EMPIRE EAST
INLAND EMPIRE WEST
ORANGE COUNTY
NORTH SAN DIEGO
SEATTLE/PUGET SOUND
DENVER

PHOENIX
DALLAS/FT WORTH
HOUSTON

MINNEAPOLIS/ST. PAUL
CHICAGO
INDIANAPOLIS
CLEVELAND

ATLANTA
GREENVILLE/SPARTANBURG
CHARLESTON

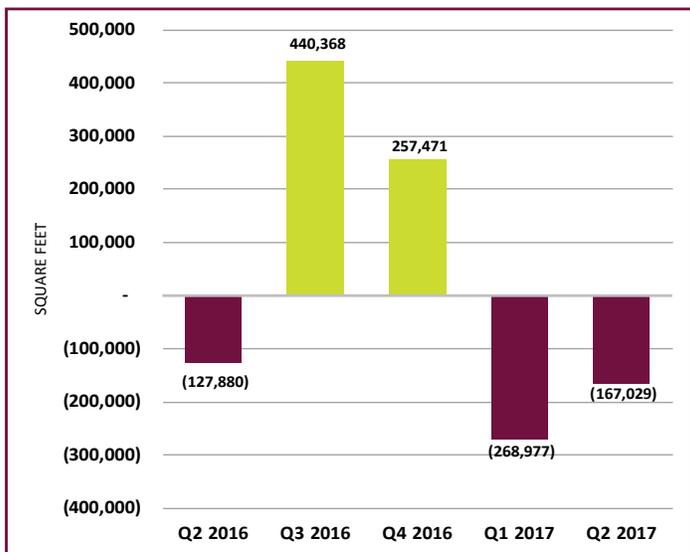
PHILADELPHIA
NEW JERSEY
LONG ISLAND

VANCOUVER, BC CANADA

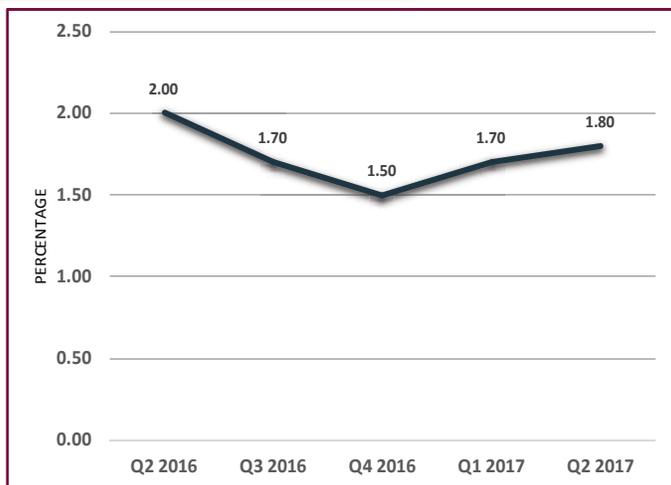


LANORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The standstill in the industrial market continued into the second quarter. With vacancy levels down to 1.8%, available space is at a minimum and absorption is flagging. That is good news for landlords, who remain in the driver's seat when negotiating renewals, while tenants are finding too few options to choose from along with higher average lease rates for what little space becomes available.

Although it has ebbed and flowed throughout the year, leasing activity does appear to be trending downward, a direct result of the extremely tight inventory of available space. Only 911,756 square feet of space was leased on a gross basis in the second quarter, which represents a year-over-year decline of nearly 376,000 square feet and a 100,000-square foot decline compared to Q1. It should also be noted that a sizable portion of the leasing activity is attributable to renewals. Tenants in need of additional space are facing intense competition and significantly higher lease rates.

Tenants are paying an average of \$0.07 per square foot or 9.6% more than they did a year ago when both direct and sublease space are factored in. Direct space rates jumped \$0.03 per square foot in Q1, ending the period up 12% year-over-year.

Entertainment and media-related tenants continue to account for the greatest percentage of leasing activity. This is consistent with broader economic data for the region. The just-released, "2017 Otis Report on the Creative Economy of the Los Angeles Region," prepared by the Los Angeles County Economic Development Corporation (LAEDC) for Otis College of Art & Design, found that Metropolitan Los Angeles has the highest percentage of creative workers - 8.6% - in the country,

1.8%

VACANCY

\$9.60

AVG. SF RENTAL RATES

(167,029)

NET SF ABSORPTION

117,269,938

INDUSTRIAL SF INVENTORY

1,157,691

SF UNDER CONSTRUCTION



Key Market Snapshots

LA NORTH - TRENDING NOW
(continued)

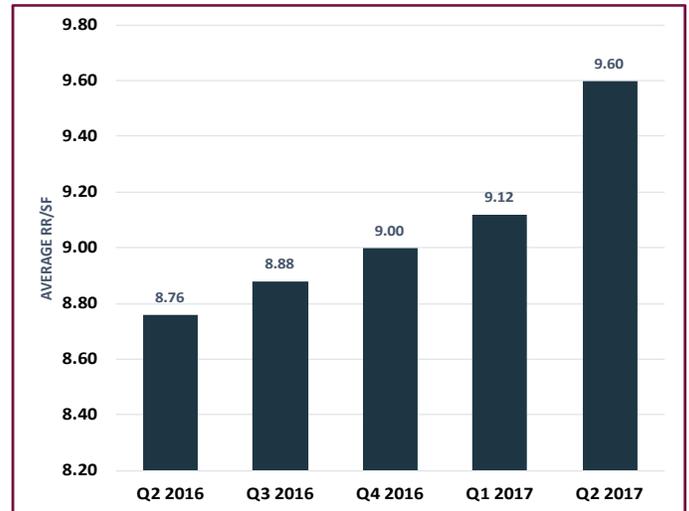
and direct wage and salary employment in creative industries increased 7.9% over the study period from 2010 to 2015. The report projects that creative industry employment will grow 5.2% from 2015 to 2020 with the largest percentage gains occurring in those media sub-segments with strong technology components.

Other industries active in the market include lighting and home furnishings companies, cosmetics manufacturers and distributors, e-commerce and fulfillment companies and automotive users. While entertainment/media users have been preferred tenants for some time because this industry is far less price resistant than others, landlords more recently are finding an even more lucrative tenant group—cannabis cultivators. While these growers require very heavy power not typically available in buildings in the region, properties that have it are leasing at rates twice and even three times the current average lease rate. The cannabis segment has also driven up sale prices virtually overnight and other types of owner-users are hard-pressed to compete.

A total of 50 buildings totaling 973,000 square feet traded in the second quarter at a median price of \$200 per square foot, up 16.2% compared to Q2 of 2016 when 53 buildings totaling 777,000 square feet traded at a median price of \$172 per square foot.

The vacancy rate actually moved up 10 basis points to 1.8% in the Q2, while net absorption remained negative for the second straight period with a net loss in occupied space of 167,029 square feet. Another 1,157,691 square feet ended the quarter still under construction, while total inventory actually declined by 62,000 square feet to end the period at 117,269,938 square feet.

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
- New construction will continue to be limited by land availability
- Expect little change in record-low vacancy rates
- Some industrial sites will be repurposed in favor of mixed use residential/retail/office projects
- The cannabis industry will disrupt traditional market dynamics in terms of rent growth and sales prices for owner/user properties



INLAND EMPIRE-EAST

TRENDING NOW

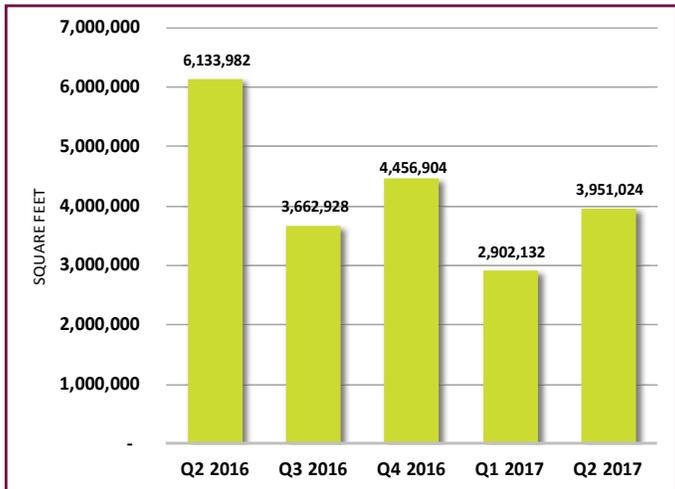
The Inland Empire-East (East Valley) industrial market includes the Cities of Colton, Grand Terrace, Moreno Valley, Perris, Loma Linda, Mentone, Redlands, Yucaipa, Bloomington, Rialto, Riverside, Jurupa Valley (Portions), Highland, San Bernardino, Banning and Beaumont. The area is served by the Interstates 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.

Gross absorption for 2016 totaled 19.3 million square feet, continuing on the heels of the great absorption performances in 2015 of 15.3 million square feet. The second quarter of 2017, even with a lack of inventory, posted strong activity and gross absorption.

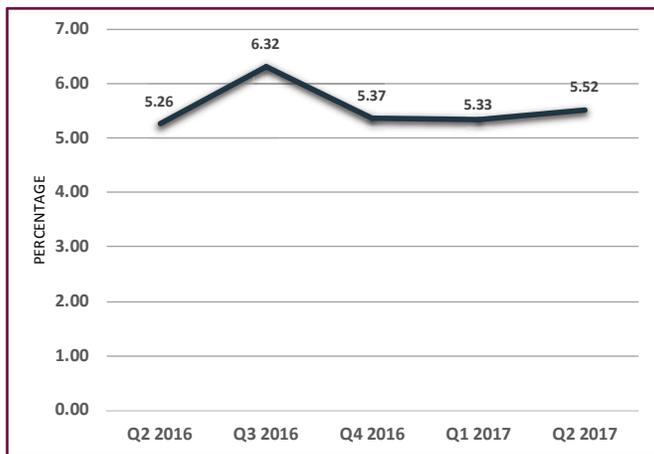
Gross activity in the second quarter was 6.2 million square feet, with investment purchases and lease renewals accounting for 36.7% of the total. Overall gross activity will only be constrained by supply, while there are more small development projects delivering in the next six to 12 months, there is still a lack of supply. Second quarter 2017's absorption figures were just under 4.0 million square feet, compared to 6.1 million square feet during the same period last year.

The vacancy rate remained stable in the second quarter at 5.5%. Although it may rise for the year given the moderate increase in new supply, ongoing high demand should keep vacancy at a low level through the end of the year. Bulk distribution space remains robust as companies keep moving east of the LA/Long Beach ports to capitalize on lower pricing. Manufacturing demand has picked up, as well, though most companies are still manufacturing overseas and assembling and distributing in the Inland Empire. General industrial businesses have experienced rapid revenue growth, but remain cautious not to make the mistakes made during the last economic expansion and subsequent recession.

GROSS SF ABSORPTION



VACANCY RATE



5.52%

VACANCY

\$7.46

AVG. SF RENTAL RATES

3,951,024

GROSS SF ABSORPTION

202,832,974

INDUSTRIAL SF INVENTORY

15,158,165

SF UNDER CONSTRUCTION



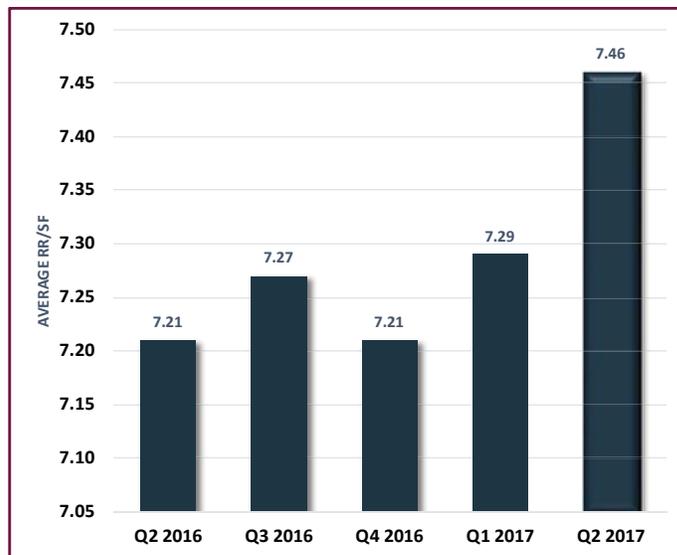
INLAND EMPIRE (EAST) - TRENDING NOW (continued)

The second quarter ended with 15.2 million square feet of space under construction, a 2.8% decrease compared to Q1. Upwards of 85% of that total is in buildings over 200,000 square feet. Twelve buildings completed construction in the East Valley in Q2, with 20 new buildings projected to be completed in Q3. Development of new buildings will continue on projects already in the pipeline, but new development is projected to slow down.

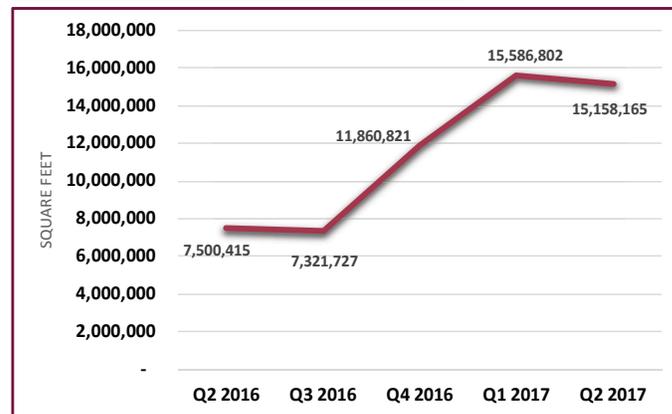
Average asking sales prices increased slightly in the second quarter while the supply of buildings offered for sale remains limited. User buyers are competing for quality buildings by offering short escrows and all-cash terms. With interest rates rising, owner/user buyers are feeling the pressure to make their purchase decisions before further rate hikes increase occupancy cost further. Investment buyers are accepting lower cap rates in return for good credit tenants on longer term leases.

Landlords are scrutinizing credit and financials and are quicker to force late paying tenants out because of the pent-up demand. Quality tenants are more than happy to pay landlords' asking rates. Due to the steady rise in sales prices, sellers are asking 10% to 15% over the last sales comp in order to maximize returns due the limited inventory. Both asking and actual GRS rates increased over the previous quarter, and are expected to increase slightly throughout the remainder of 2017. However, rates could be kept in check due to increasing new construction deliveries, but that could be offset by demand from Los Angeles and West Inland Empire tenants looking for a more affordable options.

AVERAGE GROSS SF RENTAL RATES



SF UNDER CONSTRUCTION



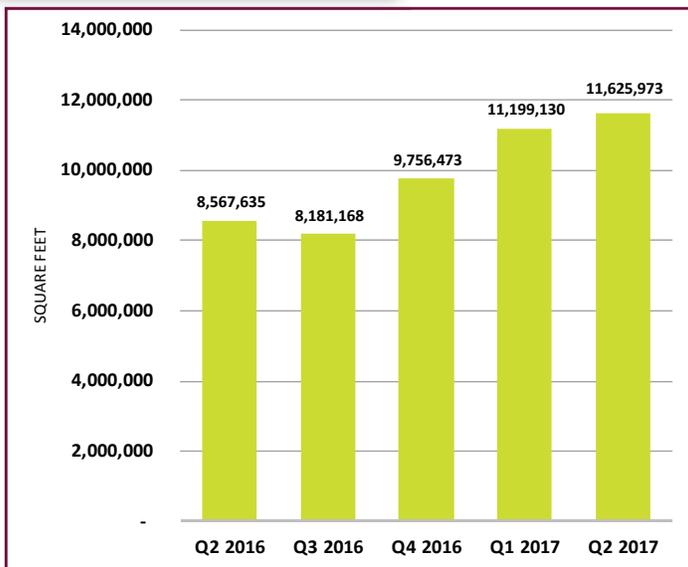
A LOOK AHEAD

- Gross leasing activity will remain near current levels
- Vacancy may rise slightly by year end due to the timing of new deliveries
- Ongoing low interest rates will keep owner/user prices moving higher
- Lease rates in the smaller size ranges will move up fastest
- Construction activity will remain strong, as leasing activity continues to keep pace with new deliveries

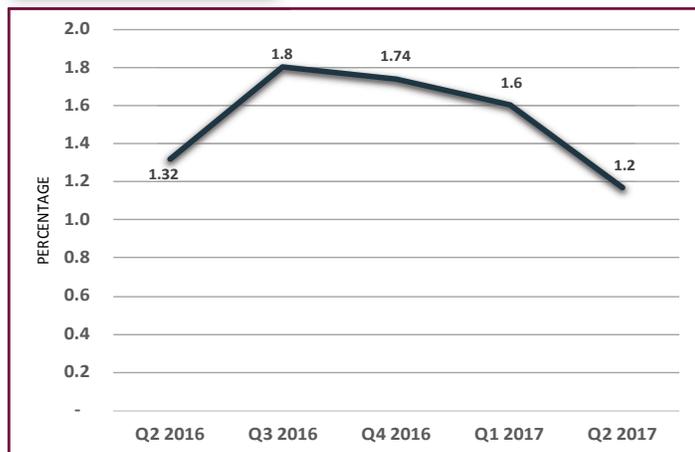


INLAND EMPIRE - WEST

GROSS SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Inland Empire West (IE West) industrial market is located just an hour away from the bustling ports of Los Angeles and Long Beach that together handle up 40% of goods entering the US each year. The area is part of the greater Inland Empire region and includes the cities of Chino, Ontario, Rancho Cucamonga, Fontana, Eastvale, and Jurupa Valley. Together, these cities contain 303.2 million of the 536.5 million square feet of existing industrial space in the overall Inland Empire. Bulk distribution product, much of it in buildings over 500,000 square feet, accounts for the lion's share of the region's industrial space. IE West is served by several major highways including Interstates 10, 15 and 215, along with the 57, 60, 91, 210 and 605 Freeways, which has helped to make it one of the nation's largest distribution hubs.

E-commerce, 3PL's, retailers and consumer goods companies continued to drive demand in the first half of the year. These big players will remain the key market drivers as they all need larger, state-of-the-art facilities that can only be located in the Inland Empire due to a lack of buildable land in Los Angeles and Orange Counties. The logistics sector is also the greatest source of job growth for the region.

Prolific growth in logistics has led to unprecedented levels of construction in the IE West since the most recent economic recovery began. By the end of Q2, just under 12 million square feet of Class A distribution space was still under construction in the IE West, and another 1.2 million square feet was delivered in the period. When combined with the IE East market, a total of 26.5 million square feet of new space is underway, making the Inland Empire tops in the nation in terms of new construction. Demand continues to keep

1.2%

VACANCY

\$7.02

AVG. SF NNN RENTAL RATES

11,625,973

GROSS SF ABSORPTION

303,201,782

INDUSTRIAL SF INVENTORY

12,404,923

SF UNDER CONSTRUCTION



INLAND EMPIRE (WEST) - TRENDING NOW (continued)

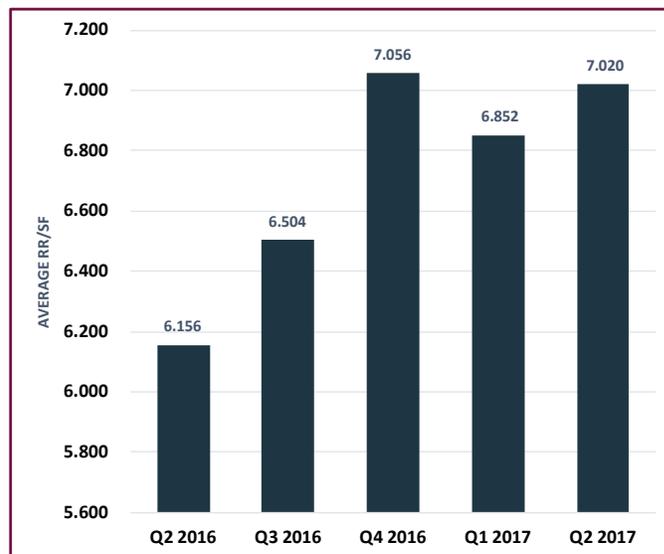
pace with new deliveries, which has kept vacancy on the decline and rents rising to record highs.

The overall vacancy rate in the IE West has fallen to a dangerously low 1.17%. However, only .2% of Chino's 52-million-square-foot base is currently unoccupied. With supply running so short, many tenants are being forced to plan further ahead and make forward commitments to space that is under construction. Others are moving to the IE East area where vacancy is not quite as tight.

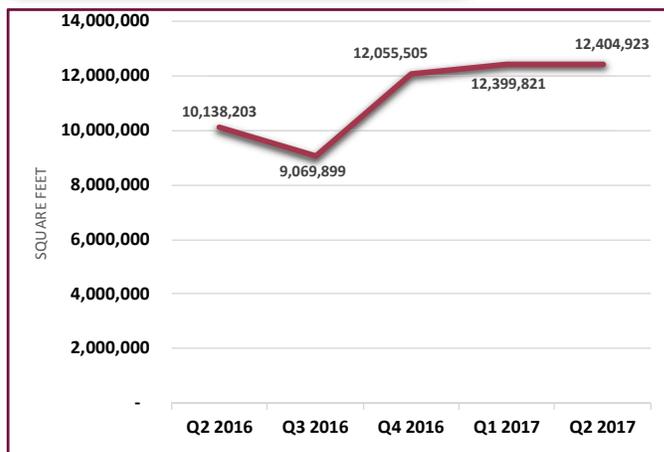
With supply and demand so out of balance, it is not surprising to see average asking lease rates move sharply higher. In Q2, the average rate hit a new high of \$7.02 (\$.585/month), which is 14% higher than it was just a year ago. However, since many new projects are being marketed without an asking price, the average asking rate may not accurately reflect current conditions. Even so, the IE West remains one of the fastest rent growth markets in the US, and landlords are not likely to give up the high ground they enjoy anytime soon. Tenants must be ready to decide quickly and be willing to accept longer lease terms with nominal concessions.

While big deals capture the headlines, industrial activity is strong across the board. Even smaller distributors are keen on securing facilities with well-designed office space, expanded truck courts, high clearance and modern fire suppression technologies that they can combine with the latest in materials handling equipment to increase operational efficiency.

AVERAGE NNN SF RENTAL RATES



SF UNDER CONSTRUCTION



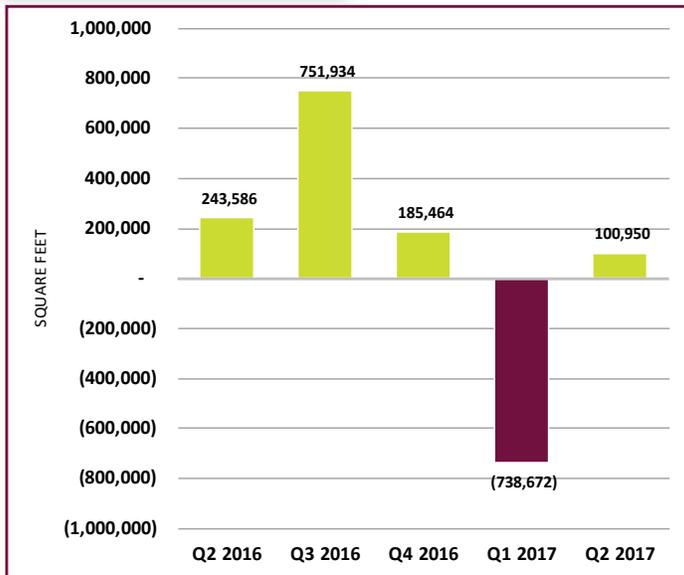
A LOOK AHEAD

- Net absorption will be steady through the end of the year, as the logistics industry stays in expansion mode
- Overall rent growth will be in the 8% range for the year
- Vacancy could tick up slightly due to the very high level of new deliveries
- Build-to-suit deals will become a larger share of overall construction activity
- Importers of consumer goods remain concerned over a proposed border adjustment tax
- Sales prices will be driven even higher due to short supply and low mortgage interest rates



ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Strong demand and the record-low supply of available industrial space have combined to drive up lease rates at a torrid pace. The second quarter was no exception to this years-long trend. Average asking rents jumped another 4.5% in just three months, ending Q2 at an average of \$.90/square foot on a monthly basis. Virtually every building that comes to the market for lease is drawing multiple offers, regardless of size. Through the second quarter, average countywide lease rates climbed 9.5% year over year and are up 21% over the last eight quarters, according to data collected by Lee & Associates on 8,312 buildings over 10,000 square feet totaling 277.8 million square feet.

The overall vacancy rate settled at 2.7% at the end of Q2, but the total of vacant space that is being actively marketed for lease was 2.1% or 5.6 million square feet. It is important to note that a disproportionate amount of vacant space is older buildings that have elements of functional obsolescence like low ceiling clearance, poor loading capability and inferior location, which is at least partly the result of a virtual lack of new construction and an actual decline in overall inventory.

In the last eight years, the industrial inventory has been reduced by 93 buildings totaling 4.8 million square feet to make way for new multifamily and mixed-use development. There was an 181,069-square-foot building completed in Fullerton in Q2, but the countywide inventory nevertheless fell by 395,788 square feet from the first quarter. Compounding the problem is the fact that what little land for industrial development does become available, comes at a price that even today's record-high rents and sales prices do not justify. Construction costs have also risen, making buildings under 40,000 square feet,

2.6%

VACANCY

\$10.82

AVG. SF RENTAL RATES

100,950

NET SF ABSORPTION

303,554,810

INDUSTRIAL SF INVENTORY

195,458

SF UNDER CONSTRUCTION



ORANGE COUNTY - TRENDING NOW (continued)

where demand is the deepest, virtually impossible to pencil at a profit to the developer.

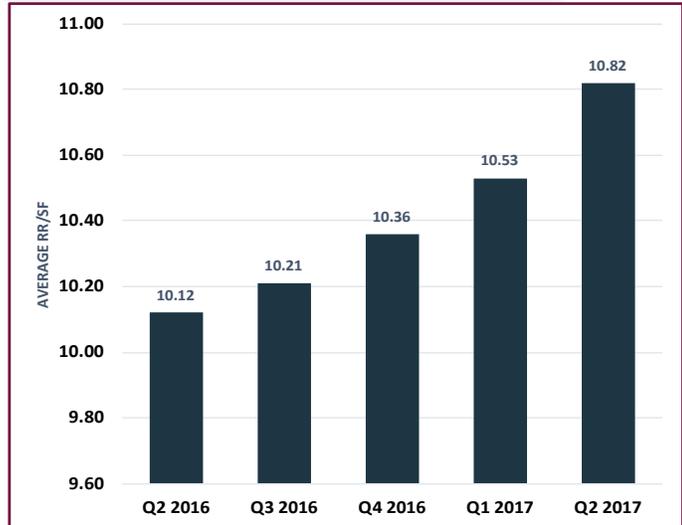
Strained market conditions have business owners weighing new strategies and options to accommodate their company's growth and, in some cases, they are re-evaluating retirement plans. With current building prices in record territory and rising concern that Congress might disallow the 1031 exchange provision as an element of its planned tax code overhaul, more owner/users of highly appreciated assets are looking at sale-leasebacks of existing facilities with an exchange into safe, long term leased assets with major fast food and drugstore operators.

The South County submarket was the big gainer in Q2 with 407,006 square feet of net absorption, pushing down the vacancy rate 100 basis points to 2.7% in the 41,924,704-square-foot submarket. There was 325,337 square feet of negative net absorption in the West County submarket, which totals 44,717,187 square feet. Average asking rents for West County in Q2 jumped 6.9% over Q1.

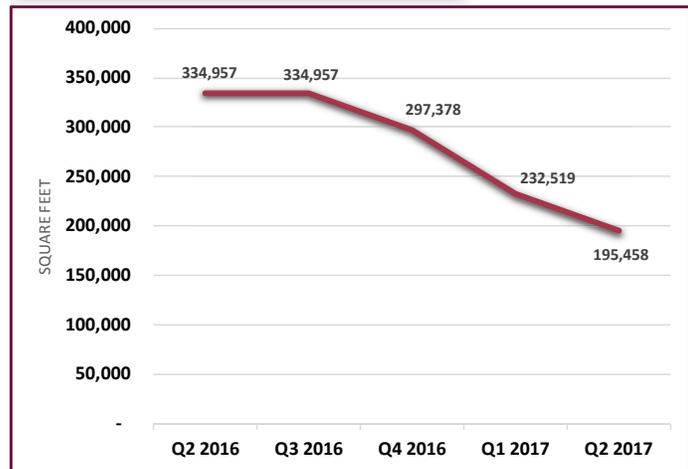
North County posted 58,315 square feet of net absorption in Q2, but the vacancy rate remained unchanged at 2.3%. The largest submarket with 117,181,593 square feet and 42% of the total base inventory, North County currently has only nine buildings available over 150,000 square feet.

Despite 22,346 square feet of negative net absorption in Q2, the vacancy rate in the Airport submarket slipped 50 basis points after two buildings totaling 430,640 square feet were removed from the total inventory. The Airport submarket's base now totals 73,741,760 square feet.

AVERAGE ANNUAL SF RENTAL RATES



SF UNDER CONSTRUCTION



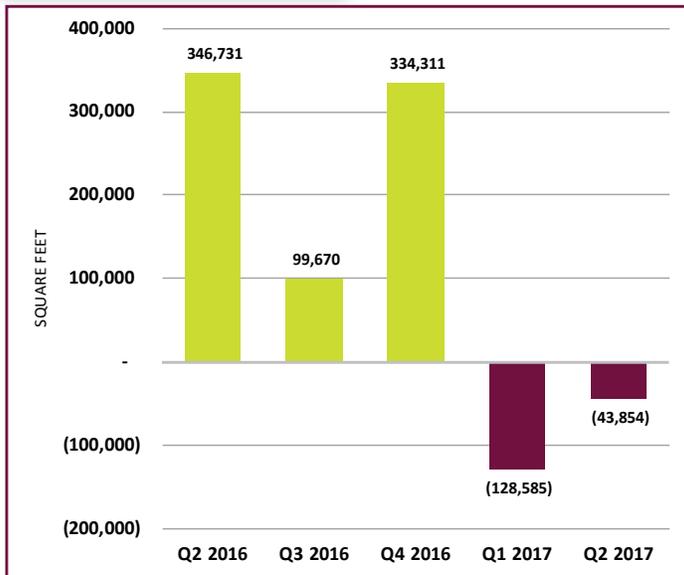
A LOOK AHEAD

- Sale and lease activity will continue to decline, as more businesses are forced to renew leases or keep existing owned facilities due to extremely low supply
- The new marijuana growing sector will cause massive spikes in lease rates and sales prices in cities that opt in to allowing the industry
- Lease rates will keep moving up for quality product
- Vacancy will remain in the 2% range, but functionally obsolete buildings will make up a disproportionately high portion of available space
- Sales prices for owner/user buildings will moderate if interest rates move significantly higher
- Cap rates will remain compressed, especially for institutional quality product

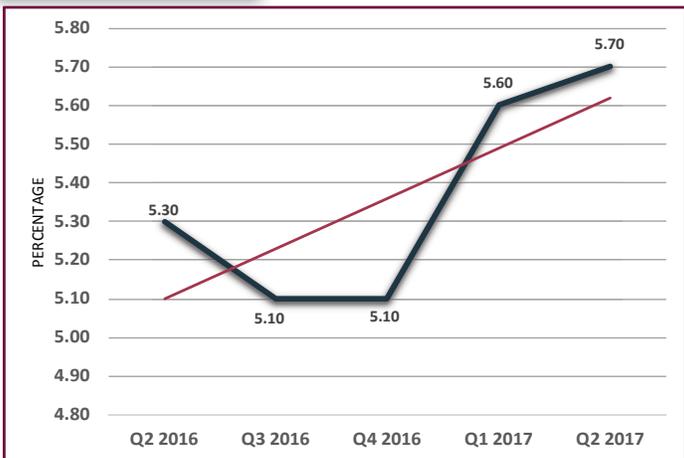


NORTH SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

San Diego County 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. San Diego also has a thriving tech sector, led by Qualcomm, a company that manufactures components for the world's leading smartphone brands.

Cross-border commerce is in growth mode, as well, despite all the recent attention put on potential changes to the North American Free Trade Agreement (NAFTA). Passed during the Clinton administration, NAFTA is considered to be a huge success by free-trade economists, and would be very difficult to modify given the complex supply chain that sends parts for many manufactured goods back and forth across the border multiple times before being completed. For now, focus on NAFTA seems to have subsided in favor of other issues including tax reform and healthcare insurance.

The North San Diego region, which is the focus of this report, is strategically located between Orange County, the Inland Empire, a major distribution hub and the US/Mexico border. North County is considered to be a more affordable alternative to Central San Diego and is considered a hub for start-up operations.

5.7%

VACANCY

\$11.04

AVG. SF RENTAL RATES

(43,854)

NET SF ABSORPTION

54,790,953

INDUSTRIAL SF INVENTORY

545,691

SF UNDER CONSTRUCTION

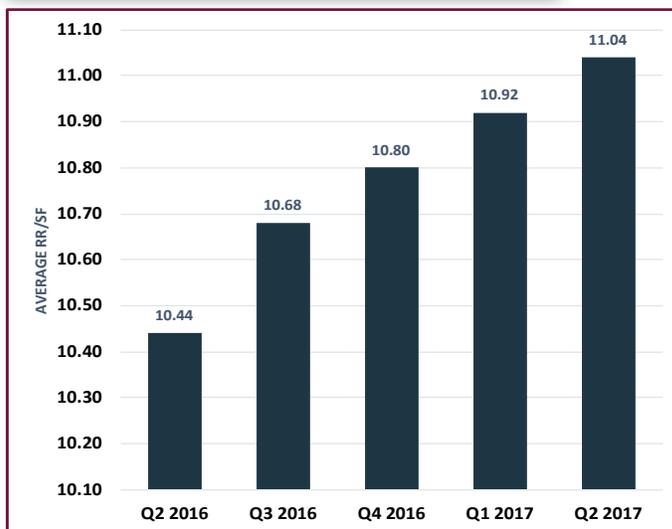


NORTH SAN DIEGO - TRENDING NOW (continued)

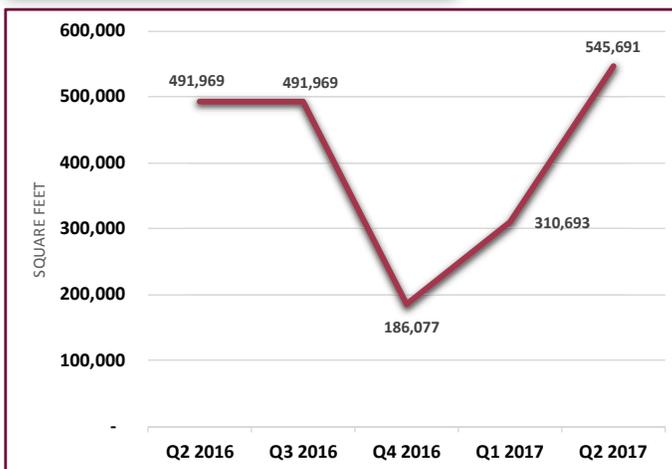
Overall vacancy throughout San Diego has fallen to critically low levels, ending Q2 at 5.2%, down another 30 basis points as compared to Q1. Vacancy in North County ended the same period with a vacancy rate of 6.8%, but the warehouse market rate has fallen to 3.3%, while flex vacancy moved up to 10.2%. Industrial tenants are struggling to find quality space and are forced to renew in place or take less efficient space if they are otherwise obligated to relocate. With good space in shorter and shorter supply, landlords are able to raise rents, turn down offers with shorter lease terms and push the cost of tenant improvements onto their new tenants. Tenants who signed leases more than three years ago are having a difficult time accepting the major increase in rents they face when relocating or renewing existing leases.

Construction remains restricted by high land costs and a shortage of available sites, but North County is leading the way in terms of development activity. Nearly half of the 1.6 million square feet under construction (782,394 square feet) and two-thirds of new deliveries (367,326 square feet) were recorded in North County. Developers in North County are taking a “bull market” approach, speculating on continued momentum in terms of rent growth. Several industrial builders are even incorporating the creative office concept into their projects to attract firms who look to attract and retain younger workers. Several large projects are planned for North County, including the 411,000-square-foot Pacific Vista Commerce Center and the 402,000-square-foot Pacific Coast Collection, both scheduled for delivery in 2018.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



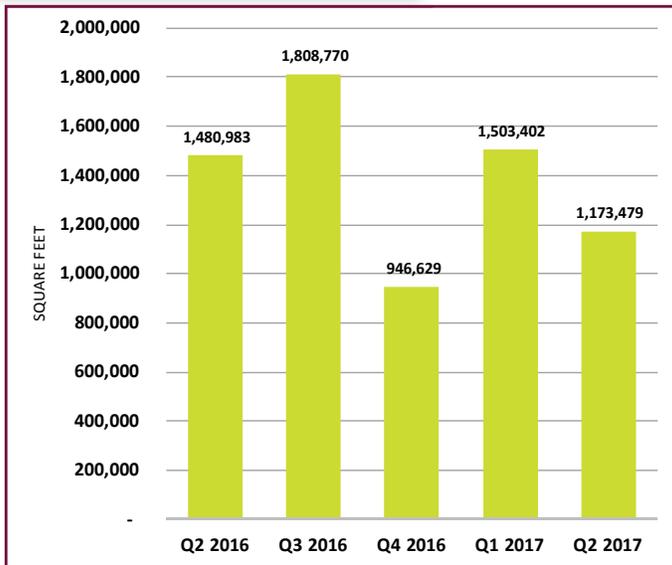
A LOOK AHEAD

- Biotech will continue to drive activity in the flex sector
- Net absorption should increase in the final two quarters of the year
- Average asking lease rates will continue to move higher
- Land prices will move substantially higher due to lack of supply
- Construction will continue to be strongest in North County
- Leasing activity will remain near current levels because of short supply of quality space

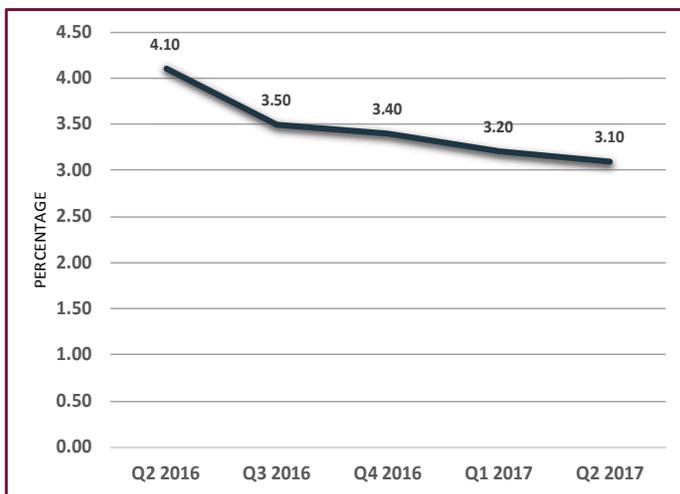


SEATTLE/PUGET SOUND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Seattle/Puget Sound region is home to many of the nation's largest companies including, Amazon.com, Costco Wholesale, Microsoft, Starbucks, Weyerhaeuser, Nordstrom, Inc. and Alaska Air Group, just to name a few. The metro area currently ranks 15th in the US in terms of population and is expected to exceed 3.8 million people by 2020. The regional economy is thriving, mainly due to its booming tech and aircraft manufacturing sectors. Inventory of industrial buildings rose to 316.2 million square feet by end of Q2 2017. The market is comprised of five major submarkets including Downtown, Eastside, Northend, Southend and Tacoma. Southend is the largest submarket with 104.6 million square feet of space, followed by Tacoma at 72.3 million square feet. Eastside is the smallest of the submarkets with its 13.26-million-square-foot base.

The industrial market has been tightening for the past several years. Net absorption has remained firmly in positive territory, vacancy has been in steady decline, rent growth has been prolific and new deliveries have consistently fallen short of demand for quality, first generation space, especially in the distribution sector. That makes it a good time to be a landlord and a very difficult time to be a tenant.

The vacancy rate in the region is among the lowest in the nation at 3.1%, after falling another 10 basis points in Q2. Year-over-year, vacancy has fallen by over 32%, and it shows no signs of changing direction anytime soon. This has created a sense of urgency for tenants who have to make a move, as the supply of good quality, functional space is reaching dangerously low levels.

3.1%

VACANCY

\$8.82

AVG. SF RENTAL RATES

1,173,479

NET SF ABSORPTION

316,226,093

INDUSTRIAL SF INVENTORY

3,452,246

SF UNDER CONSTRUCTION



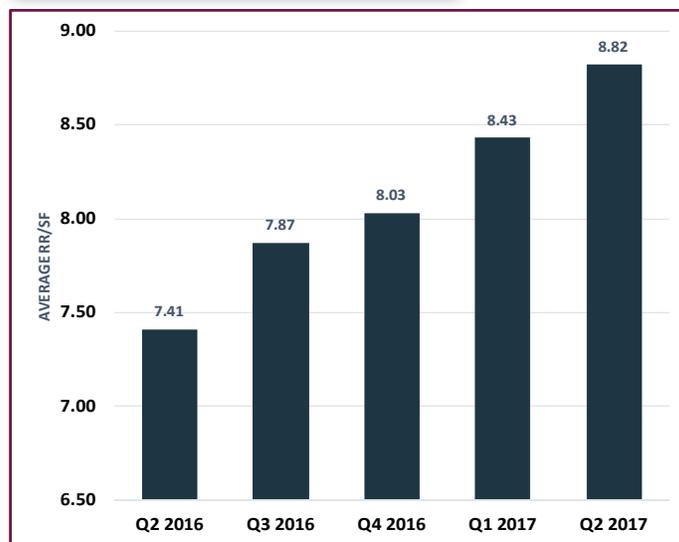
SEATTLE/PUGET SOUND - TRENDING NOW (continued)

Such tight supply has caused a massive spike in lease rates, further complicating things for tenants who grow increasingly concerned about getting stuck with record high occupancy costs nine years into a real estate upcycle. Landlords are pushing hard for longer lease terms out of the same concerns and they have been largely successful. Rents have risen so fast that many brokers leave pricing information off their promotional flyers to avoid sending out quickly outdated information. In Q2, the overall average asking rental rate rose by \$.39, or 4.6% to \$8.82. That increase in a mere quarter is greater than the annual rent growth rate for most metro areas around the country.

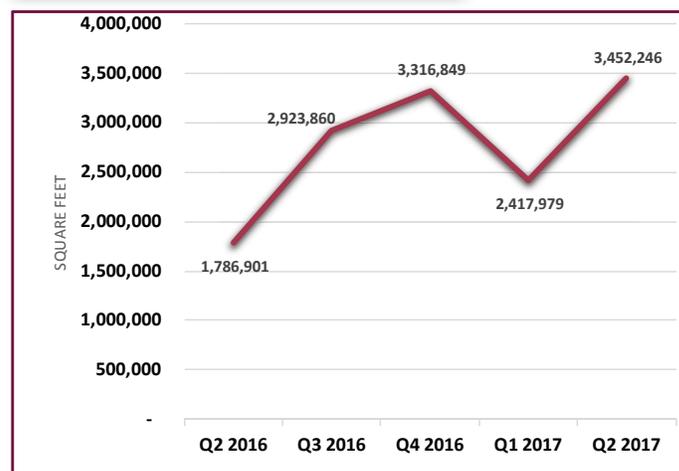
Net absorption has remained firmly in positive territory despite the lack of alternatives out there for expanding tenants. In the second quarter, a net gain of 1,173,479 square was reported, bringing the net gain in occupied space in the past year up to 5,432,280 square feet.

While developers are anxious to take advantage of high demand, rising rents and net gains in occupancy, they are hindered by high land prices, protracted entitlement processes, government taxation and expensive changes to building codes. That has kept new deliveries running well below existing demand for first generation space. In Q2, seven new buildings were delivered totaling 953,017 square feet, bringing year-to-date completions to 1,852,000 square feet. Another 3,452,000 square feet is still under construction, with all of that total in warehouse product. Virtually no flex space has been built in the last six years, yet demand for that product is strong, rents have risen and vacancy has declined.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



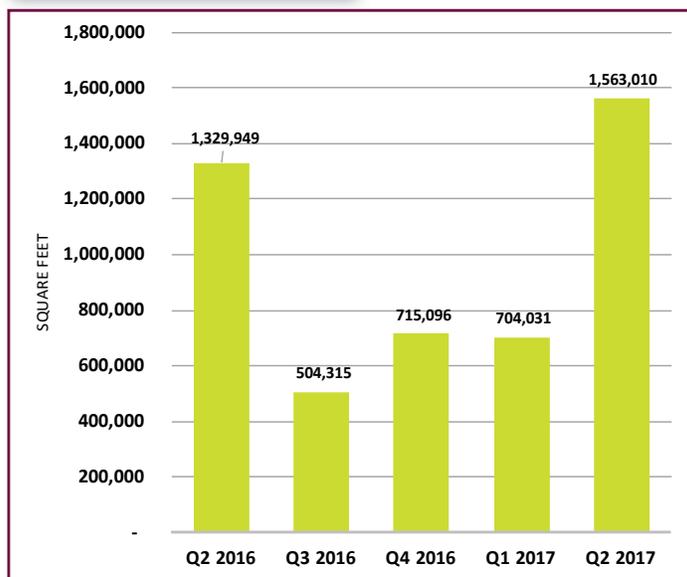
A LOOK AHEAD

- Competition for space will increase further for small to mid-size tenants in core submarkets
- Construction of big box industrial space may double over the next 12 months
- Vacancy will keep moving lower but in smaller increments
- Net absorption will moderate due to tight supply
- Rent growth for spaces over 100,000 square feet will flatten out as demand and supply move toward balance
- Asking rents will continue to see annual increases as high as 10%, especially in spaces under 25,000 square feet



DENVER

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The energy sector is showing signs of a comeback, which is mitigating the economic damage caused by layoffs and capital expenditure cutbacks when oil prices collapsed back in 2014. Active rig count has been rebounding and US oil exports are on the rise again after decades-long restrictions on crude exports was lifted. Oil prices stabilized above \$50/bbl in Q1, but fell again early in the second quarter before moving up again late in the period. The crisis is certainly far from over, but oil drillers are finding new ways to lower the price of extraction and make a profit even at today's prices. Denver's population growth remains strong, as younger workers are attracted to the region for its high quality of life and outdoor recreational opportunities. More people means more consumer spending and that bodes well for further business expansion going forward, especially in the distribution sector.

The overall vacancy rate was unchanged in Q2 at 5%. Year-over-year, the vacancy rate has risen by 40 basis points. The bulk distribution sector is still where the action is, both in terms of leasing activity and new construction. As we reported last quarter, the rise in vacancy is mainly due to the delivery of speculative product that has not been absorbed by the time of completion. Though, Amazon's signing of three leases totaling 3.75 million square feet will soon be moving the vacancy needle. Fed Ex and other logistics companies are also in the hunt for new locations, which should get vacancy back on the decline in the next few quarters. Second generation facilities with lower clear heights are staying on the market longer, which has also contributed to the slight rise in vacancy. That activity is concentrated along the I-25 corridor.

5.0%

VACANCY

\$8.39

AVG. SF RENTAL RATES

1,563,010

NET SF ABSORPTION

298,169,961

INDUSTRIAL SF INVENTORY

4,012,307

SF UNDER CONSTRUCTION



Key Market Snapshots

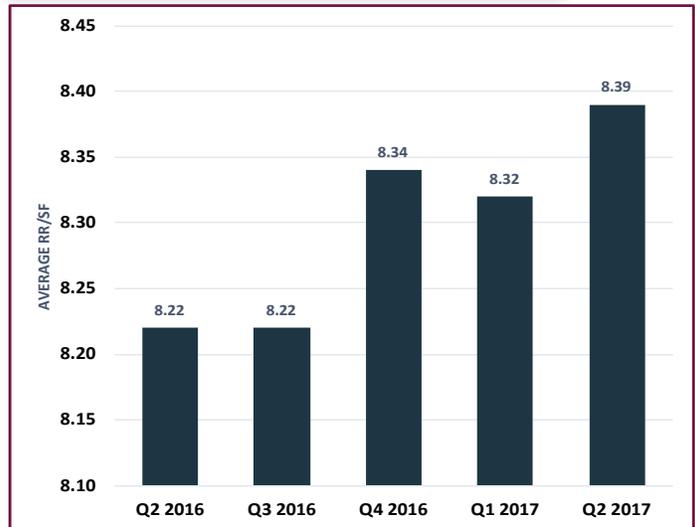
DENVER - TRENDING NOW
(continued)

Currently, Denver boasts an industrial inventory of nearly 298.2 million square feet with another 4 million square feet of space in the construction queue. Larger distribution buildings account for the bulk of development activity. The largest project under construction in Q2 was the 1,015,740-square-foot building at 22205 E 19th Ave, being developed by Prologis. That project is 100% preleased and scheduled for delivery in Q4. Another 522,271-square-foot building on Himalaya Road is being built by Majestic Realty Co. The 73% preleased facility should be done in Q3. Developers are still betting on continuing demand from bigger users, but a slowdown in activity of smaller tenants could impact overall rent growth for the region, making future projects tougher to finance going forward. The flex sector is not seeing construction activity due high construction costs that cannot be justified by current rent levels.

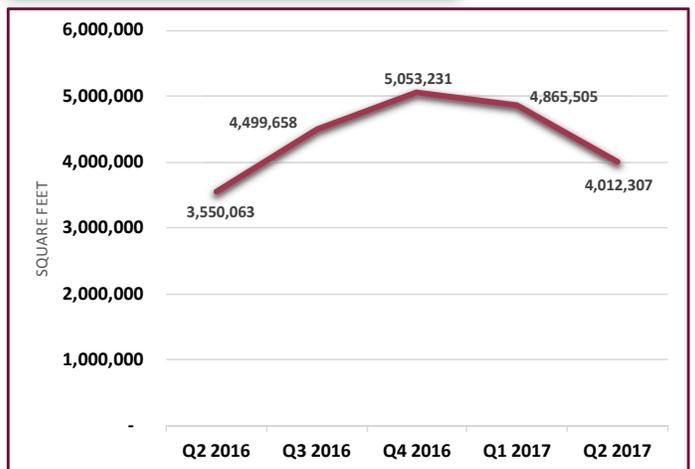
Net absorption was back up again in Q2, ending the period with a net gain in occupied space of 1,563,010 square, more than double the total for Q1. At the midpoint of 2017, net absorption stands at 2,267,000 square feet. New deliveries for the quarter totaled 1,465,359 square feet, up by over 284,000 square feet for the period. In the past year, more than 5.2 million square feet of new space was delivered.

By the end of Q1, average asking rates for all industrial product stood at \$8.39, up \$.07 after a modest \$.02 decline in Q1. Year-over-year, the overall average rate is up \$.17 or 2%. However, the warehouse sector jumped by \$.18 in Q2 to \$7.46, while flex rates fell \$.08 to \$10.84. Industrial tenants are also facing higher operating expenses, which has driven up aggregate occupancy costs substantially in recent years.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

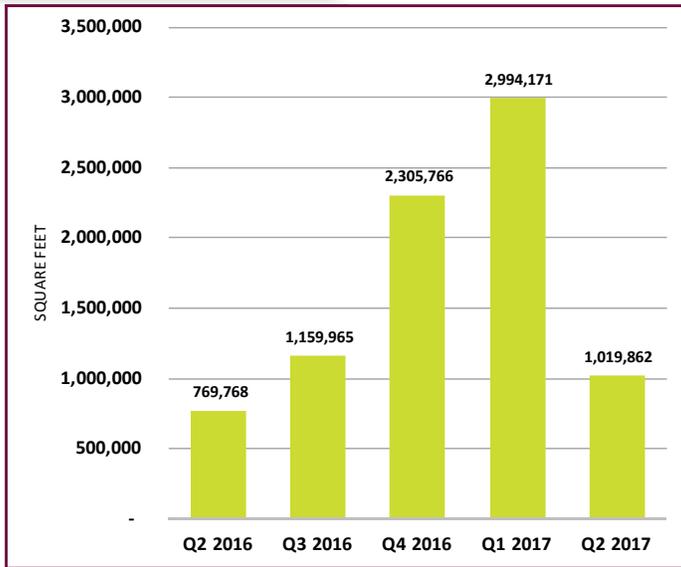
- Leasing activity will remain near current levels, but should be strong enough to keep a good relative balance with new deliveries
- Vacancy could drift slightly higher in the next 12-24 months due to high rate of new deliveries
- Average asking lease rates will remain relatively flat
- Bid to ask spread will widen as buyers see additional risk for a market correction after such a long recovery
- Net absorption should remain could reach 4 million square feet by year-end
- Large developers with land already in inventory will continue to build at current pace



PHOENIX

TRENDING NOW

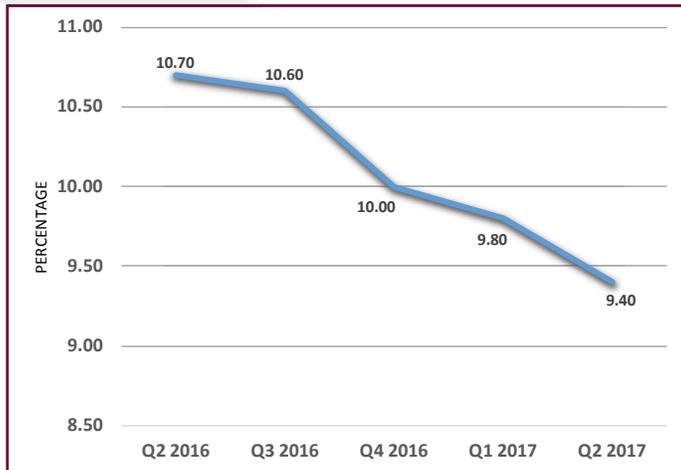
NET SF ABSORPTION



The Phoenix industrial market continues on a positive trajectory at the halfway mark of 2017. Though, national GDP came in at a revised 1.4% in Q1, joblessness stayed on the decline in the second quarter. Population growth remained strong in the Phoenix area and companies such as Intel, UPS, Amazon and others continue to hire new workers. That has the Phoenix unemployment rate, currently at 4.3%, running below national and statewide levels.

Absorption is on pace to best 2016's gain in occupied space by over 2 million square feet, which brought the vacancy rate to its lowest level since 2008. The second quarter also marked another period of strong leasing activity, rent growth and declining landlord concessions. These healthy market metrics have kept construction activity growing in both spec and build-to-suit projects.

VACANCY RATE



The overall Phoenix industrial inventory will top 300 million in Q3. The continued expansion is fueled by the rise of state-of-the-art projects that appeal to big and small users alike. Lower lease rates relative to other major metro areas continue to make the Phoenix area attractive to out-of-state business looking for a place to grow. Add the low cost of doing business, proximity to other key markets and the availability of land for expansion, and it is easy to see why Phoenix is attracting so much attention.

The industrial vacancy rate dropped to 9.4%, down 40-basis points from Q1. Vacancy is at its lowest point since Q4 2007. This is expected to drop additionally for the rest of the year. This increase in activity includes an addition of more than 30 million square feet of inventory during that time period, further indicating the strong demand for industrial product in this market.

9.4%

VACANCY

\$6.96

AVG. SF RENTAL RATES

1,019,862

NET SF ABSORPTION

299,334,022

INDUSTRIAL SF INVENTORY

3,344,584

SF UNDER CONSTRUCTION



PHOENIX - TRENDING NOW (continued)

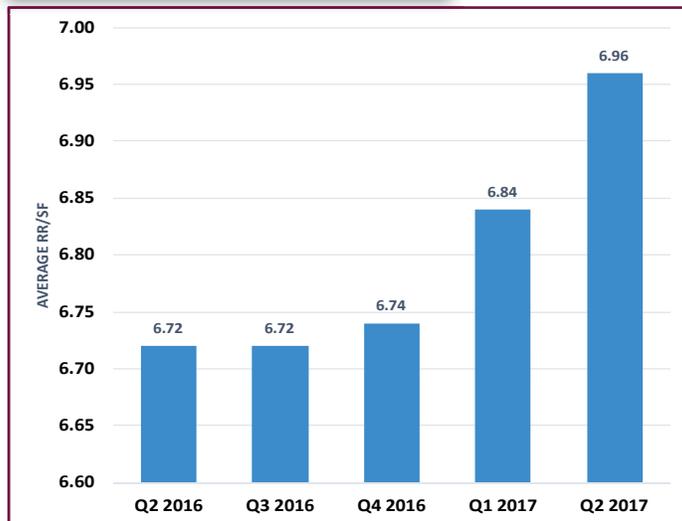
Net absorption posted 1,019,862 square feet for Q2 and 4,014,033 square feet for the first half of the year. This puts absorption on pace for more than 8 million square feet by year-end, which could make this the strongest 12-month period for absorption in over a decade. The net gain in occupied space would be even higher if not for a shortage of freestanding buildings with yards, which are in very high demand. The few that do hit the market are generally sold to owner/users and rarely offered for lease.

As Q2 ended, 2,344,584 square feet of space was still under construction. This is a drop from last quarter, as deliveries were up in Q1 including the 1 million-square-foot Conair distribution center in Glendale and Coldwater Depot-Phase II in Avondale. Building completions in Q2 totaled 2,272,965 square feet bringing year-to-date deliveries to nearly 4 million square feet.

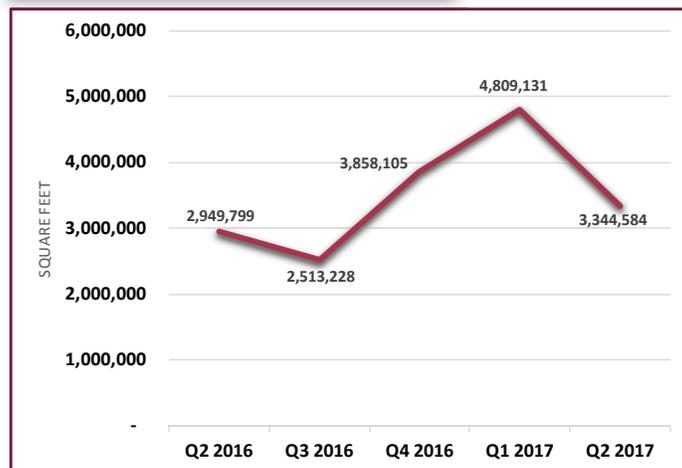
Rental rates have moved upward for the quarter instead of remaining flat for several quarters. Overall rates were 1.8% higher than last quarter, with the largest increase of 6.5 % in the Northeast Valley. Only the Northwest Valley submarket showed a quarterly decline in rates at -3.3%.

In the largest lease transaction for the quarter, Updike Distribution Logistics took 226,436 square feet at Papago Distribution Center, 1010 N. 47th Ave., Phoenix, while the largest industrial sale was Young's Market Co.'s purchase of 402 S. 54th Pl., Phoenix for \$20.5 million, or \$82.36 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



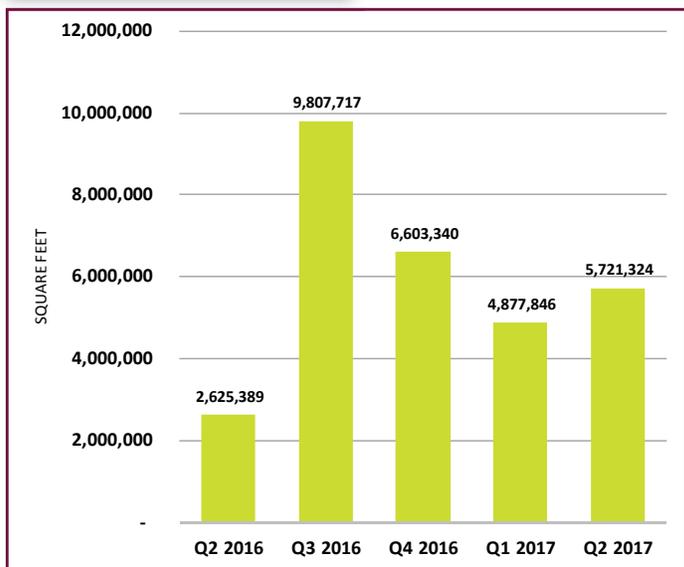
A LOOK AHEAD

- Leasing activity will keep moving higher in the second half of the year
- Net absorption will remain firmly in positive territory, as expansion will continue within the area and from out-of-state companies
- Rent growth will continue at the current pace into next year
- The owner/user market will remain tight and sales prices will keep moving up
- Vacancy will keep moving lower, but will be moderated by high levels of new deliveries
- Robust levels of new construction will continue

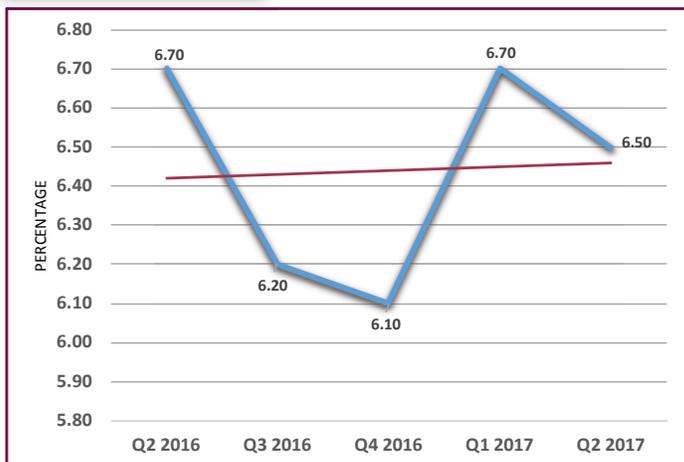


DALLAS/FORT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

While the e-commerce sector continues to experience explosive growth in the Dallas/Fort Worth Region (DFW), online retailing only tells a part of the story. With its relatively low cost of living, robust housing supply, rapidly growing population and business-friendly regional and state governments, the region has been and remains a magnet for major corporate expansions. Bell Helicopter, Toyota and Lockheed Martin are just a few of the big corporate users who have decided to move from high-tax, high-regulation states like California to DFW. Big companies like these attract more businesses who need to be around them, and that bodes well for all product types now and into the future.

With higher population comes consumer spending and that means more demand for distribution space. Add the fact that the region is within a single day's drive to 25 million people and it becomes easy to see why big retailers, 3PL operators and online giants like Amazon all need to be in the area. The regional economy generated over 120,000 new jobs in 2016, nearly four times that of the Chicago metro area, and the population is growing by 360 residents per day.

New deliveries of industrial space topped 19.8 million square feet in 2016, and in the first half of 2017 another 15.7 million square feet was added to a base inventory that topped 864 million square feet as Q2 ended. A nation-leading 22.26 million square feet of space is currently under construction. Significant completions in 2017 include a 1,075,260-square-foot, spec facility in the SouthPort Business Park, and a 1 million-square-foot building at 2008 Lookout Drive that is now fully occupied.

Fortunately, net absorption continues to run in relative balance with new construction, which has kept vacancy

6.5%

VACANCY

\$5.38

AVG. SF RENTAL RATES

5,721,324

NET SF ABSORPTION

864,478,597

INDUSTRIAL SF INVENTORY

22,269,488

SF UNDER CONSTRUCTION



Key Market Snapshots

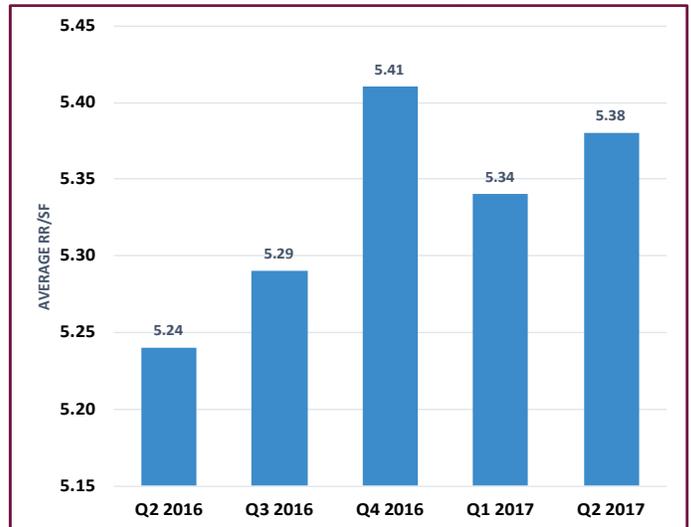
DALLAS/FT WORTH - TRENDING NOW
(continued)

running up. In Q2, over 5.7 million square feet of net absorption was recorded, up from almost 4.9 million square feet in Q1. In the past four quarters, over 27 million square feet of net growth in occupied space has been realized. With numbers like that, developers are anxious to keep building, but they and their lenders are keeping a closer eye on a recent decline in pre-leasing action that may foretell a decline in activity which could result in overbuilding. For the moment, activity levels look like they will keep pace, but the economic recovery is in its ninth year, so lenders, especially construction lenders, are becoming more cautious.

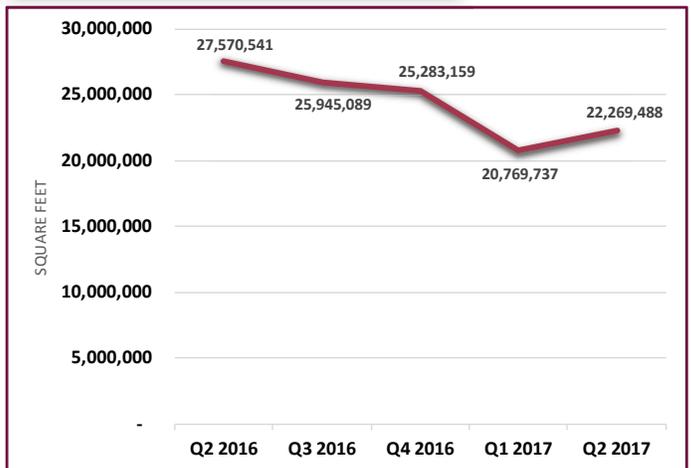
Average asking rental rates have moved up by a modest \$.14 on a year-over-year basis, but did jump by \$.04 in Q2 of 2017. The average rate in the warehouse market, which includes all the new big box development, managed a \$.20 increase year-over-year to end Q2 at \$4.54. The flex market lost \$.04 in Q2 to end the period at \$9.59. South Dallas, with its excellent access to major highways, has seen good leasing action this year as big users of some key vacancies have been filled and more new product is being delivered there. A good example is UPS's move into 1 million square feet at 2320 Bardin Road.

The industrial vacancy rate ended the quarter at 6.5%, down 20 basis points from the previous quarter and on a year-over-year basis. With such high levels of new construction the region's vacancy rate has moved up and down in a range from 6.1% to 6.7% since 2015. Currently, over 20 million square feet in active requirements are in the market, which is good news to landlords who are trying to keep the upper hand in lease negotiations.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

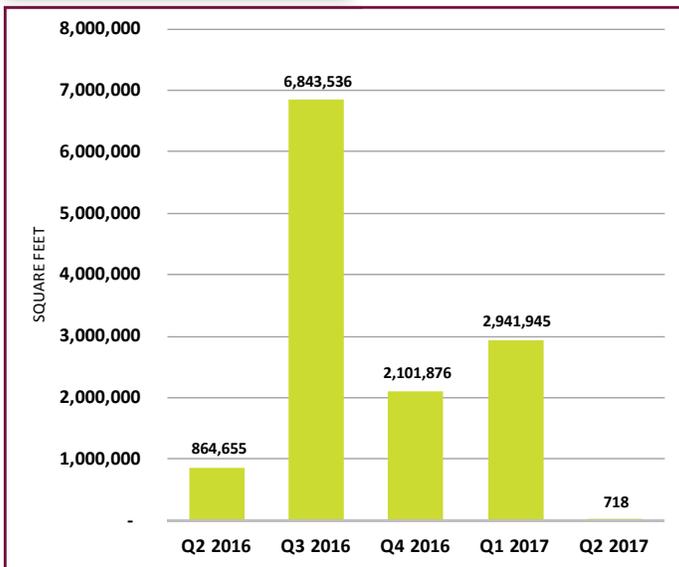
- Leasing activity should remain strong due to ongoing population growth and corporate relocations
- Net absorption will keep pace with new deliveries through the end of the year
- Vacancy could move slightly higher due to new deliveries in South Dallas and GSW
- Average asking lease rates will increase by as much as 3% in 2017
- Construction activity will decline slightly as several major projects deliver in Q3
- Demand for "last-mile" space in the 100,000-200,000 square foot range will increase to meet growing consumer demand



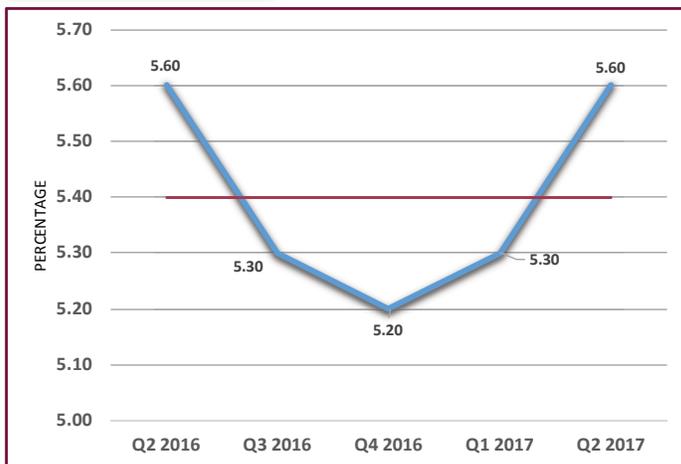
HOUSTON

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



While it is far from a full recovery, increased drilling activity has the energy sector heading in a better direction. Headlines announcing employee layoffs from the likes of Haliburton and Schlumberger are far less frequent. Oil prices held above \$50 per barrel in the opening months of the year, then fell sharply again due to persistent worldwide oversupply, but managed to make a modest rebound late in the second quarter. Active rig count has been on the rise, especially in the Permian Basin and domestic oil production has moved higher in response to OPEC's production cuts. Still, oil prices are well below levels that will end current energy sector woes, and oil companies are looking to become more efficient in anticipation of pricing holding near current levels for a while longer.

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 other components of the industrial market. Ethylene and polypropylene refining on the Gulf Coast is still the catalyst for increasing deal volume. Manufacturers, 3PLs and other service companies that cater to the plastics refining sector are becoming more active in response to an estimated \$60 billion in petrochemical construction projects in the Houston area either underway or recently completed to meet rising worldwide demand for plastics.

Manufacturing space was particularly hard hit as the brakes on oil production were applied after the precipitous pricing decline that began in the middle of 2014. That may be turning around now that domestic drilling activity is on the mend. Even though one of Houston's largest crane-served park remains roughly 30% vacant, activity in the 15,000 to 40,000-square-foot range is heating up. Steel companies and other specialized

5.6%

VACANCY

\$6.74

AVG. SF RENTAL RATES

718

NET SF ABSORPTION

586,162,279

INDUSTRIAL SF INVENTORY

4,440,619

SF UNDER CONSTRUCTION



Key Market Snapshots

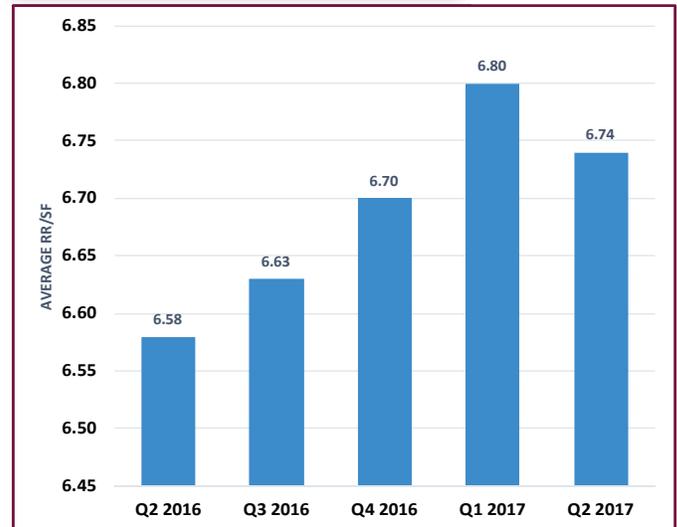
HOUSTON - TRENDING NOW
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manufacturers are also becoming more active. However, recent lease comps are still 10% to 20% below what was market when a barrel of oil was over \$80.

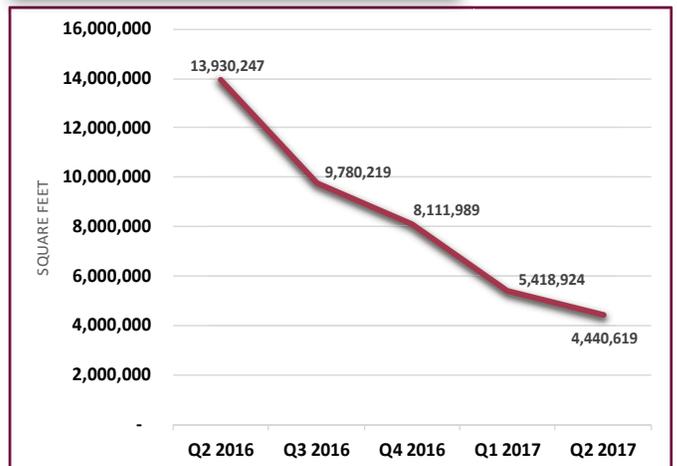
Bulk distribution properties continue to benefit from a steady flow of large transactions from a broad base of big box users, including e-commerce and shipping companies. Houston is one of the nation's largest metro areas and big online retailers are working on "last mile" delivery capabilities to speed up delivery times. DHL, FedEx and Amazon Fresh, among others have recently made big moves in Houston. Very large distribution deals, not generally associated with the Houston market, have been instrumental in mitigating declines in occupancy associated with the energy sector.

The vacancy rate for the Houston market has been relatively stable considering the area's dependence on the fossil fuels industry. In the past year, the overall vacancy rate has risen by just 30 basis points, despite adding roughly 15 million square feet of new deliveries. Total inventory for the Houston area hit 586.1 million square feet after adding nearly 1.7 million square feet of new industrial space in Q2. Another 4.4 million square feet remains under construction. Net absorption was flat during the second quarter, but has been steady in positive territory for many years. The average asking lease rate declined by \$.06 in Q2 to end the period at \$6.74, but that is still \$.16 higher year-over-year. Of note is the fact that rents in the lowest vacancy submarkets are moving up much faster. Tenants are pushing back on landlords for termination options and shorter lease terms, as flexibility has become a higher priority.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

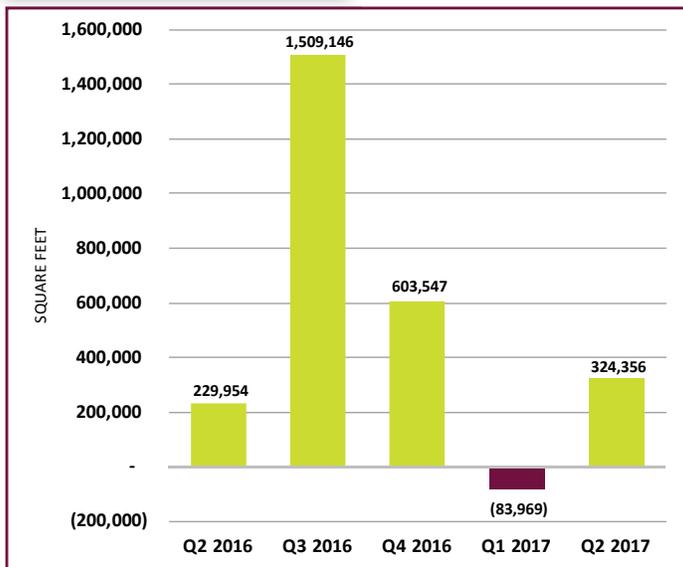
- Gross leasing activity should increase in low vacancy submarkets as tenants scramble to secure declining supply of quality product
- Lease rates will continue to increase in the NW bulk distribution sector, and begin recovering in the manufacturing sector
- Net absorption will be moderate as tenants vacate existing space to move into new projects, especially in the Southeast submarket
- Construction activity will be highest in the Southeast submarket with 5 ground-up projects due to get underway soon
- Vacancy will remain under 6% for through the next several quarters
- Build-to-suit transaction volume to remain active in larger SF deals



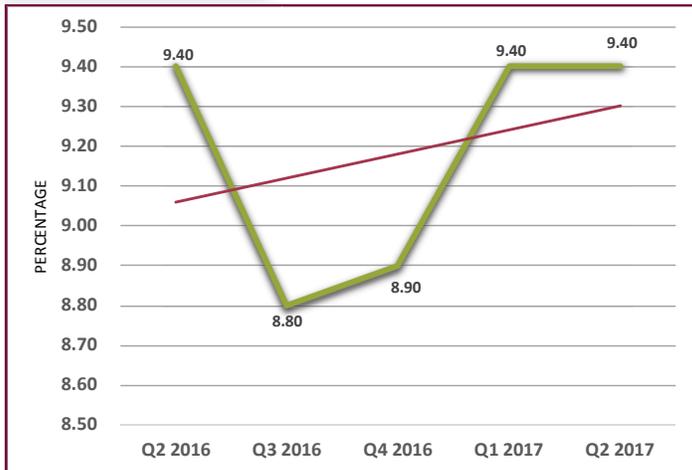
MINNEAPOLIS/ST. PAUL

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



Like many other Midwest metro areas, the Greater Minneapolis-St Paul MSA (MSP) economy is known for consistency that translates into steady but slow movement in industrial market metrics. The region doesn't see the wild swings associated with high growth markets like Phoenix, Dallas, Houston and Atlanta. MSP is home to 17 Fortune 500 companies including 3M, United Health Group, Target, Medtronic and General Mills that have been calling the area home for decades. That helps to stabilize commercial property markets over the long term and reduces the risk of major market corrections relative to other areas.

Big corporations are attracted by the highly educated labor force of over 1.8 million and the thousands of small to mid-sized industrial businesses operating throughout the region. MSP also boasts the highest labor participation rate of the 30 largest metro areas in the country and over 40% of residents have college level degrees.

The market rebounded in Q2 after a slow start to the year. After falling into negative territory in the first three months of the year, net absorption rose sharply, with a net gain in occupied space of 419,483 square feet, in part due to a positive turnaround in the flex sector, which was substantially negative in Q1. By submarket, it was the Northwest sector that made the biggest gain in occupied space at 235,535 square feet. Big moves in the Northwest included a 108,988-square-foot flex deal with MVP Logistics in the Nilfisk Building. However, the largest occupancy occurred in the Southwest submarket, a 125,724-square-foot bulk warehouse deal with Goodwill Industries.

E-commerce operators, 3PL's and major retailers continue to focus on "last mile" locations all over the country and the MSP region is benefitting from that

9.4%

VACANCY

\$6.80

AVG. SF RENTAL RATES

324,356

NET SF ABSORPTION

117,072,578

INDUSTRIAL SF INVENTORY

1,992,662

SF UNDER CONSTRUCTION



Key Market Snapshots

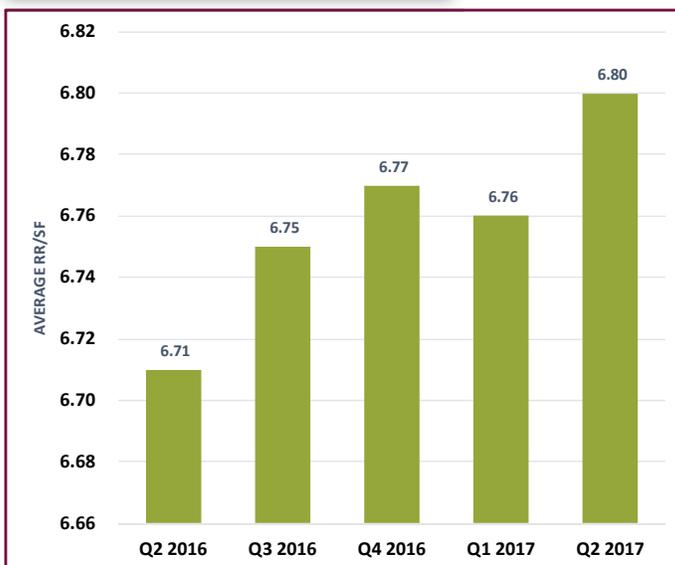
MINNEAPOLIS/ST. PAUL - TRENDING NOW
(continued)

trend. That has developers looking to acquire infill sites to build product with the high clearance and state-of-the-art fire suppression technology favored by those users. The current industrial base inventory includes just over 117 million square feet, with almost 26 million square of that total classified as bulk warehouse. Another 17 million square feet is classified as warehouse/distribution. Light industrial space is the largest component of the industrial base at nearly 43.9 million square feet and there is 30.2 million square feet of flex space.

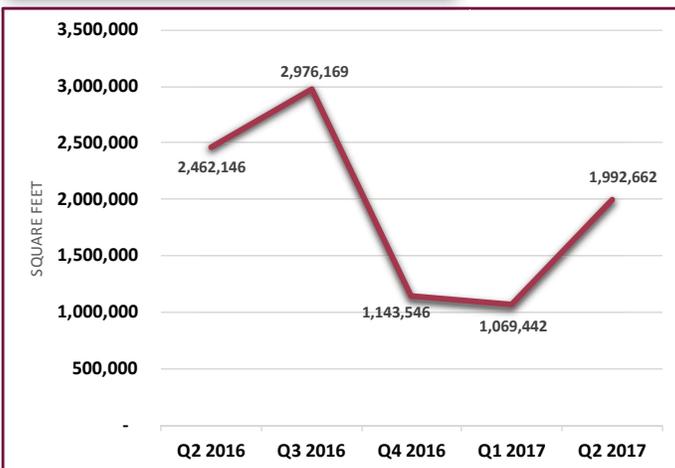
Compared to the biggest industrial markets in the US, MSP's vacancy rate is running substantially higher at 9.4%, which was unchanged in Q2 for the second straight period. Vacancy remains highest in the Northwest submarket at 13.8% across all industrial property types. The other three major submarkets ranged from 6.0% to 8.1%. By product type, the flex sector has the highest vacancy at 12.1%, while the lowest vacancy is still in the light industrial category at just 6.2%. Of note is the fact that transaction count is down by 23% year-over-year. That may have more to do with lower levels of supply of top quality space than it does a reduction in demand.

Average asking lease rates remain relatively flat, having risen only \$.09 year-over-year. The second quarter ended with a combined asking lease rate of \$6.80, up \$.04 in the period. However, landlords of the most functional distribution space are pushing harder for higher rates and offering less in concessions to secure new tenants. With supply of quality functional product on the decline, tenants are either forced to wait for the right space or expand their geographic parameters.

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 should remain in positive territory through the end of 2017
- Vacancy will make a modest but steady move lower over the next few quarters
- Average asking lease rates will increase as vacancy declines in the most active submarkets
- Development will be focused on infill sites in prime areas
- Higher land and construction costs will limit new deliveries



CHICAGO

TRENDING NOW

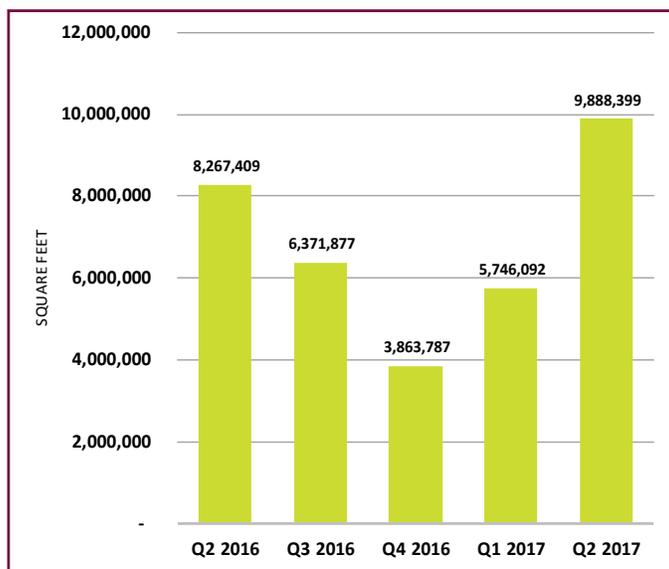
The Chicago region's strategic Midwest location makes it one of most important transportation hubs in the country. The broader regional market includes nearby Northwest Indiana and Southeast Wisconsin, both of which compete head-to-head with Chicago in terms of attracting industrial users and investors. But, Chicago's central location and extensive air, rail and trucking infrastructure make it a favorite location for major distributors.

The pace of Chicago's economic growth is picking up. Over 38,500 net new jobs were added in the region over the past twelve months, which equates to a 1.1% expansion of the workforce. As a result the unemployment rate of 5.1% has declined to its lowest level in more than a decade. The outlook for further job formation is largely positive and that should stimulate further demand for distribution, manufacturing and food processing facilities. With the expectation of ongoing strong demand and at least a slight decrease in construction going forward, Chicago market metrics are likely to tighten further.

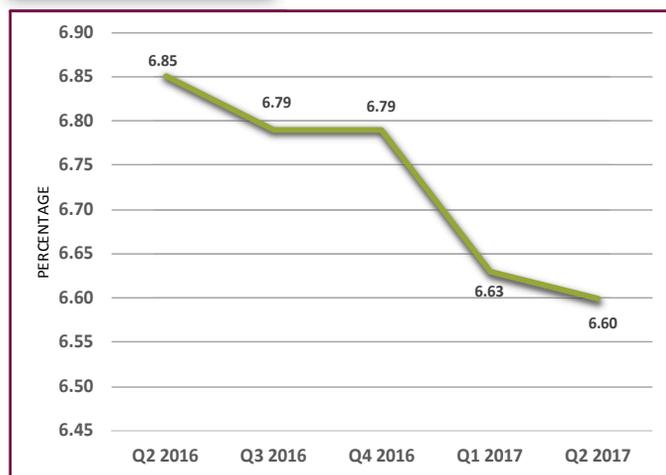
Vacancy for the region edged slightly lower in Q2, with the overall vacancy rate falling a modest 3 basis points to 6.60%, and that came despite a decline in leasing activity. Year-over-year, the region recorded a 25 basis point decline in vacancy. Competition for quality product is particularly intense in submarkets like O'Hare and the 1-55 Corridor. In many cases, good functional space is unavailable, forcing tenants to renew existing leases or relocate outside the core Chicago market for room to grow.

Despite high levels of activity and new construction, rent growth has been flat. In the past year, the overall average asking rent has run in a range of just \$.07, ending Q2 at

NET SF ABSORPTION



VACANCY RATE



6.6%

VACANCY

\$5.53

AVG. SF RENTAL RATES

9,888,399

NET SF ABSORPTION

1,277,302,383

INDUSTRIAL SF INVENTORY

16,447,558

SF UNDER CONSTRUCTION



Key Market Snapshots

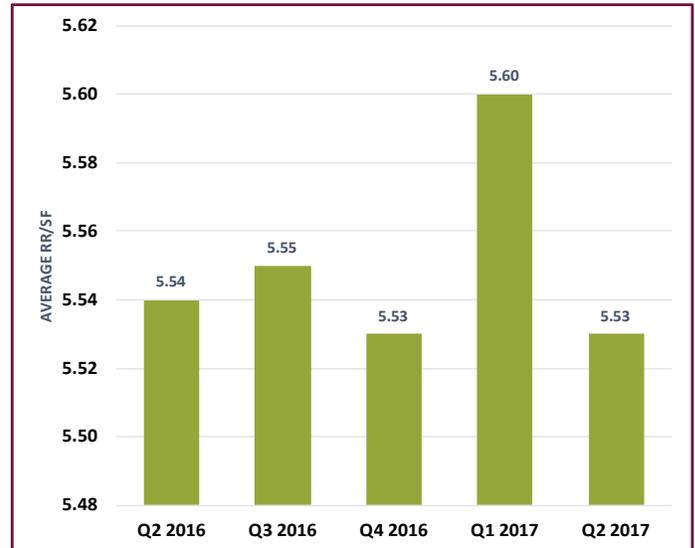
CHICAGO - TRENDING NOW (continued)

\$5.53, down a penny lower year-over-year. Looking at rents by product type tells a slightly different story. While flex rents have declined by \$.36 in the past year, the warehouse sector has managed a \$.09 increase. Lease rates are moving up faster for first generation space, though. The bifurcation of the rent structure based on functionality will continue to grow with new deliveries.

Positive net absorption for Q2 was a robust 9.9 million square feet, with larger distribution deals accounting for most of the gain. In 2016, almost 26.7 million square feet of net absorption was reported. At the midyear point in 2017, net occupancy gains are running ahead of that pace at over 15.6 million square feet. Big build-to-suit deals are in the news these days. In the first two quarters of 2017, three facilities, each over 1 million square feet were delivered to their new occupants. Venture One build 1 million square feet for Georgia Pacific in University Park, while another 1 million square feet was completed for Uline. The largest move-in year-to-date is the 1.3-million-square-foot facility for Mars Candy in the I-80 Corridor submarket. However, a growing portion of the existing inventory lacks the functionality of today's state-of-the-art first generation buildings, which could impact leasing activity going forward.

New deliveries totaled more than 5.1 million square feet in Q2, bringing year-to-date completions up to nearly 10.3 million square feet. That puts the region near the top of the list nationally in terms of new space completed for the year. Currently, another 16.44 million square feet is in the construction queue. New construction remains primarily in larger distribution facilities with build-to-suit projects outpacing spec development.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

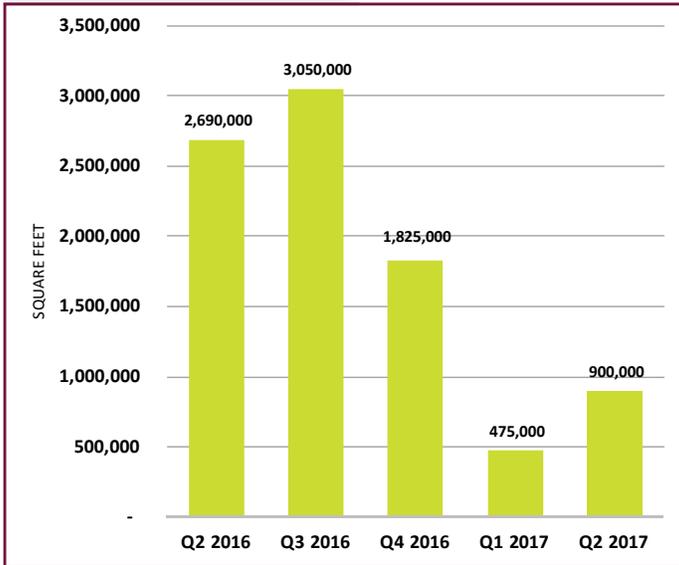
- The pace of transaction activity will remain consistent throughout the year
- Average asking lease rates will rise due to delivery of first generation space
- E-commerce expansion will help keep net absorption in balance with new construction
- Sales prices will remain stabilized near current level
- Vacancy will be in the 6.0% to 6.5% range by the end of 2017
- Construction activity will remain at current pace for the year



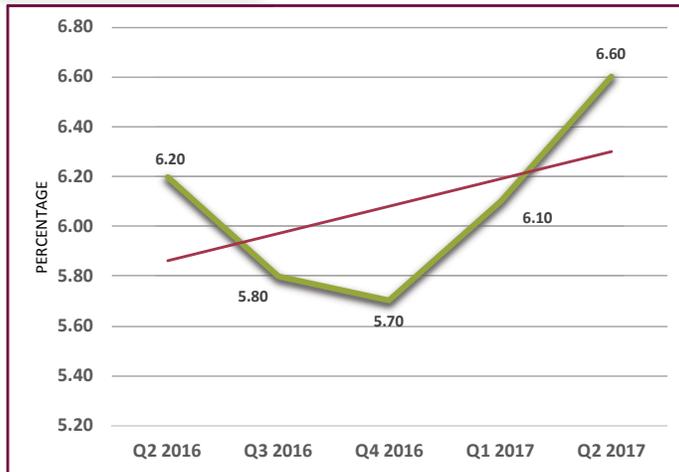
INDIANAPOLIS

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



The Indianapolis market remains on the radar of expanding e-commerce and 3PL operators. They like the central Midwest location, proximity to major population centers and the fact that land is available to construct new state-of-the-art buildings with the clear height and fire suppression technologies necessary to optimize operational efficiency.

New deliveries for the quarter topped 6.3 million square feet, bringing the total completions for the year up over 5 million square feet. The largest building added to inventory in 2017 is a 602,073-square-foot spec distribution facility delivered in the first quarter, while another 293,423-square-foot, fully leased facility was delivered in Q2. The total base inventory for the region now stands at over 328 million square feet. By the end of Q2, another 4,375,014 square feet of space was still under construction.

Developers remain bullish due to high demand for new build-to-suit deals and strong overall demand for bulk distribution space. However, land in established business parks is becoming more difficult to find and that has builders looking to new areas in order to find adequate sites that are reasonably priced. Several very large transactions were recently announced or completed that bode well for further development activity. Geodis Logistics expanded into 400,092 square feet in AirTech Park 10, Ryder Integrated Logistics expanded into 412,000 square feet at Precedent South and Atkins Nutritional expanded into 423,042 square feet at Axxcess 70 Building 1. Newcomers to the Indianapolis market Beijing West Industries and Wesco Distribution, Inc., leased 276,514 square feet and 212,500 square feet respectively. Family Concepts signed on for a build-to-suit of 251,080 square feet at AllPoints@Anson. Several other lease renewals of 700,000 square feet or more have also been inked in 2017.

6.6%

VACANCY

\$3.75

AVG. SF RENTAL RATES

900,000

NET SF ABSORPTION

259,091,642

INDUSTRIAL SF INVENTORY

6,300,000

SF UNDER CONSTRUCTION



Key Market Snapshots

INDIANAPOLIS - TRENDING NOW
(continued)

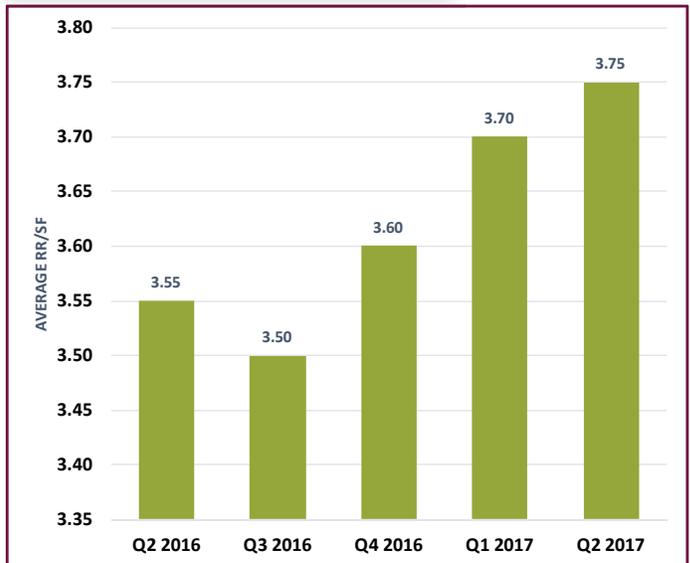
Several other lease renewals of 700,000 square feet or more have also been inked in 2017.

Overall industrial vacancy rose by 30 basis points in Q2 to 6.6%, in part due to the delivery of new speculative projects. Variations like these quarter to quarter are not unexpected in markets with strong construction activity like Indianapolis. Year-over-year, vacancy is down by just 10 basis points, which means demand for new space is in relative balance with new deliveries. Both main product types enjoy a low vacancy rate. Flex space ended the quarter down 40 basis points to 5.4%, while the warehouse sector rose by the same margin to 5.8%.

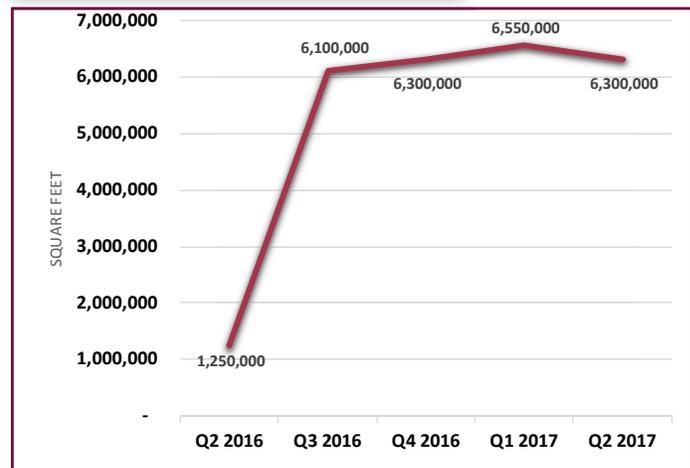
After several quarters of robust gains in occupied space, net absorption in Q2 cooled off with a nominal net loss of 45,713 square feet, as compared to over 7 million square feet of positive net absorption in the previous four quarters. With such strong recent history of leasing activity, tenants are advised to begin looking for space at least nine months prior to their lease expiration and allow at least two years if they choose a build-to-suit strategy.

Indianapolis rental rates have risen by 5.4% year-over-year to a new high of \$3.75. More than half that gain came in the second quarter, as newly delivered inventory is commanding a premium. That has encouraged investors and users to acquire industrial properties throughout the region. Investors see the potential for higher values via continuing rent growth, while users look to control their occupancy costs through fixed rate financing offered through the Small Business Administration. Unfortunately for both, inventory available for acquisition remains quite thin.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



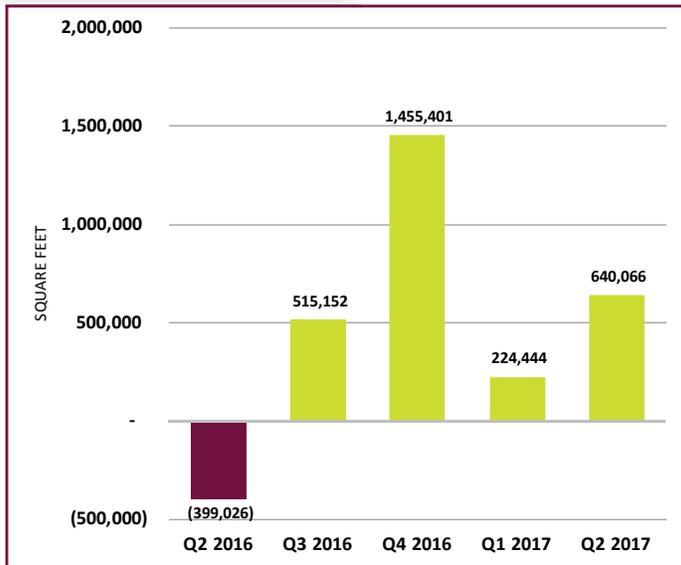
A LOOK AHEAD

- Construction of speculative space will remain in balance with leasing activity
- The vacancy rate will vary slightly above and below current levels due to spec deliveries
- Average asking rental rates will remain on current trajectory
- Net absorption will stay in positive territory for the rest of the year
- Large e-commerce and 3PL users will continue to dominate leasing activity
- Look for construction costs to keep moving up



CLEVELAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Emerging technologies, both in the R&D, startup and manufacturing sectors are pacing growth in Cleveland, a region that is already distinguished from other major metro markets by its large manufacturing component. Job growth in these high-paying sectors is fueling a boom in residential development, especially in the CBD submarket. That growth has helped to offset lower energy prices, which, due to the advent of hydraulic fracturing, had fueled an energy boom in Ohio until energy prices collapsed back in 2014.

The overall vacancy rate edged slightly lower in Q2, shedding 10 basis points to just 3.9%. Year-over-year, vacancy is down 40 basis points, with the manufacturing sector leading the way. Manufacturers continue to reinvest in their existing locations because of the specialized nature of their improvements, and that tends to limit the decline in vacancy. But with such low vacancy, tenants who have to move are forced to make do with facilities with increasing incidence of functional obsolescence. On the other hand, landlords of second generation space are increasingly concerned about competing with new projects having generous tax abatements that lower operating costs compared to their older facilities.

Net absorption nearly tripled in Q2 to 640,066 square feet, as compared to Q1, bringing the net gain in occupied space up to just over 2 million square feet in the past year. That is significant in that other major markets posting bigger absorption numbers, derive the bulk of their net gains through very large distribution transactions that generate fewer high-paying jobs like the manufacturing jobs being created in the Cleveland area. Though, the largest move-in so far in 2017 was Jobs Ohio Beverage Systems 350,000 square feet at 2210 International Pkwy, a distribution facility.

3.9%

VACANCY

\$4.26

AVG. SF RENTAL RATES

640,066

NET SF ABSORPTION

491,711,148

INDUSTRIAL SF INVENTORY

835,161

SF UNDER CONSTRUCTION



Key Market Snapshots

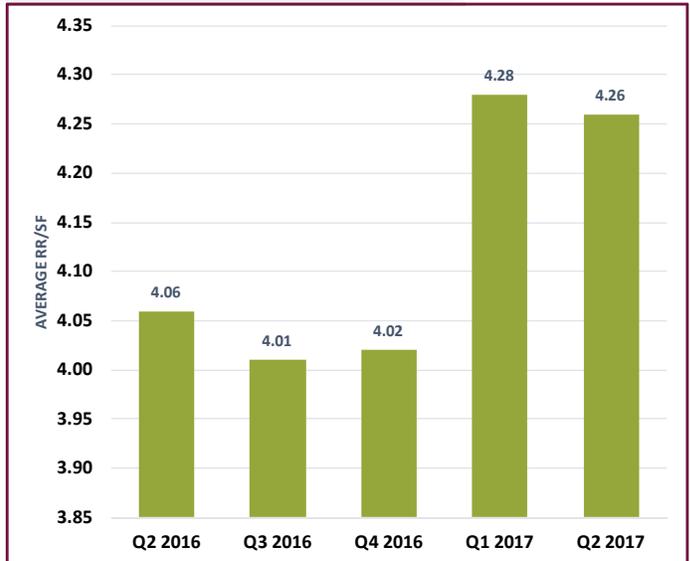
CLEVELAND - TRENDING NOW
(continued)

New construction activity is primarily focused in distribution product, as is the case across the country. 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. In Q2, three new buildings were delivered totaling 192,444 square feet, while another 835,161 square feet remained under construction. Year-to-date, 701,837 square feet of space has been completed in a combination of speculative and build-to-suit projects, bringing total inventory for the region up to almost 472 million square feet.

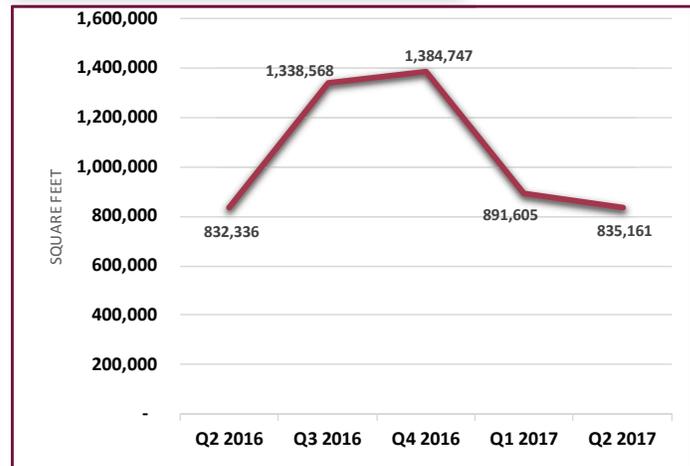
First quarter net absorption totaled 179,019 square feet, down substantially from a strong Q4, but still in positive territory. The biggest contributor to the gain was the 350,000-square-foot lease to Jobs Ohio Beverage Systems at 2210 International Parkway. The short supply of quality, modern industrial facilities is limiting activity and tenants have grown more concerned about having viable options to support the growth of their businesses. Also, new fire codes due out before the end of the year will put a further premium on the highest quality space.

Limited availability of industrial property for sale has investor competition on the rise, as well. Many east coast buyers see Cleveland as a great place to invest because of its history of stability and higher cap rates.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



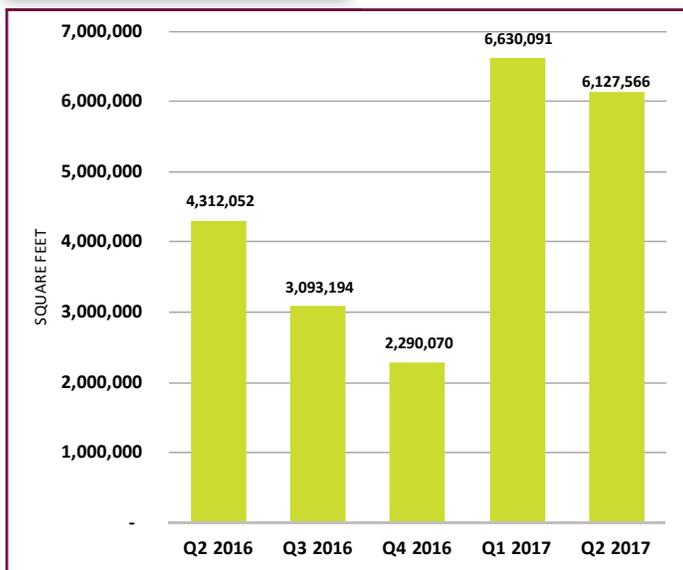
A LOOK AHEAD

- Lease and sale activity will remain strong due the region's stable, growing economy
- Net absorption should rise as tenants look to upgrade into more efficient, first generation space
- Average asking lease rates will keep moving higher
- Stabilized oil prices above \$50/bbl will give the energy sector a needed boost
- Cost of construction will keep moving higher, putting upward pressure on sales pricing
- Vacancy should remain near current level, but could decline slightly by year-end

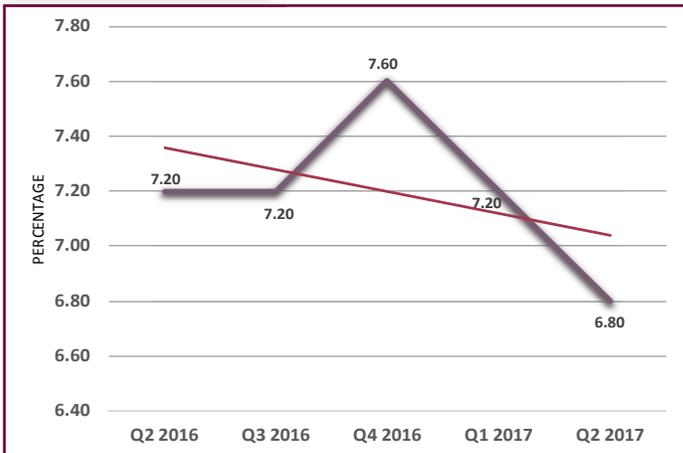


ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Atlanta is situated within an eight hour drive of 35% of the nation's population, which makes it a priority market for major distributors, including e-commerce, 3PL and shipping operators. Amazon keeps gobbling up space, but so are smaller e-fulfillment operators who provide that critical "last mil" in the delivery process.

The region boasts the world's most traveled airport offering logistical access to the global marketplace, and the nearby Port of Savannah, a key east coast port that is expected to grow rapidly now that the Panama Canal expansion known as Panamax has been completed. Combined, these key locational components make Atlanta the Southeast's key transportation hubs. Over 180 million people reside within a two-day ground delivery area.

The Atlanta area is also known for its business-friendly business environment, and consistently ranks at or near the top of list of best regions in which to do business. In addition to its excellent infrastructure, employers like Atlanta for its growing population of young, highly educated workers who are attracted to the region for its high quality of life factors that include a vibrant housing market and relatively low cost of living.

The overall vacancy rate dropped sharply in Q2, shedding another 40 basis points to finish the period at 6.8%, despite high levels of construction and new deliveries. Big bulk distribution deals are moving the vacancy needle in a big way. Big contributors to lower vacancy in 2017 include Variety Wholesalers move into over 1.4 million square feet at 60 Herring Road, Wayfair's new 846,946-square-foot facility at 130 Distribution Drive, and Duracell's 873,800-square-foot lease at Shugart Farms Lake Park Industrial project.

6.8%

VACANCY

\$4.49

AVG. SF RENTAL RATES

6,127,566

NET SF ABSORPTION

626,454,619

INDUSTRIAL SF INVENTORY

16,963,258

SF UNDER CONSTRUCTION



Key Market Snapshots

ATLANTA - TRENDING NOW
(continued)

Atlanta's industrial inventory topped 625 million square feet in Q2 with another 16.96 million square feet still in the construction queue. Currently, there is just a single building over 1 million square feet in Atlanta's speculative industrial inventory, but four more were under construction as Q2 ended. Almost 6.97 million square feet of new space was delivered in the second period, bringing new deliveries up to 8.54 million square feet in 2017. Speculative development is thriving, as developers have been consistently able to get their projects leased up with just a few months of completion. That has institutional investor interest in acquisitions at an all-time high, as the big long term players see opportunities for long term rent growth given the region's strategic location and transportation infrastructure.

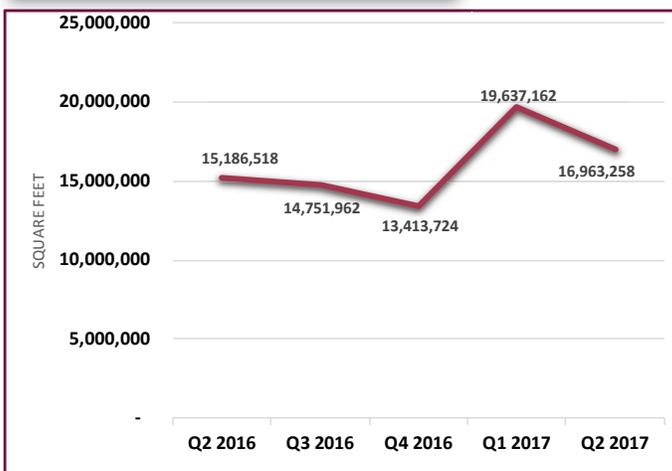
Net absorption has skyrocketed in in 2017. In Q1, over 6.6 million square foot of net gain in occupied space was recorded, and Q2 followed up with another 6.1 million-square-foot gain, making Atlanta the nation's net absorption leader at the mid-year point. The average asking rental rate was unchanged in Q2 at \$4.49, but is still 4% higher than it was just a year ago.

Landlords continue to benefit from strong demand. They are achieving higher rental rates, offering lower concessions, and often have the ability to select tenants based on strength of credit and length of lease term. It is truly a good time to be a landlord in Atlanta.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

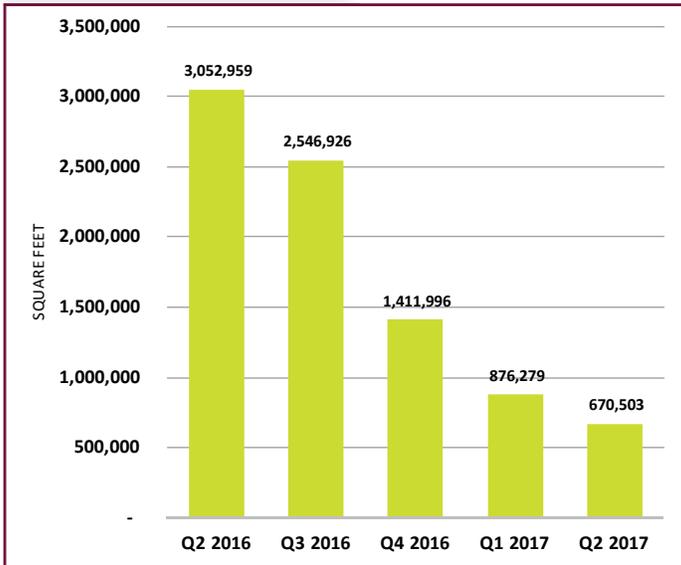
- Net absorption will remain steady through the end of the year, before moderating in 2018
- Construction activity will remain strong for the balance of the year, then taper off in 2018
- Vacancy should fall slightly through the end of the year, but may rise slightly next year as net absorption slows
- Lease rate growth will slow, driven in part by merchant developers who want to get spaced leased and sold quickly to take advantage of historically low cap rates
- Sales prices for owner/user prices may have peaked after rising rapidly over the last several years
- Smaller e-fulfillment operators will continue to expand, as will materials handling specialists who will be called upon to increase fulfillment efficiency



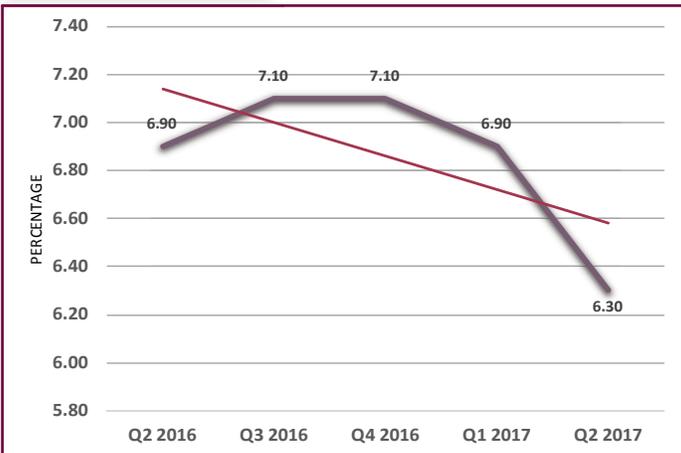
GREENVILLE / SPARTANBURG

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



The Greenville/Spartanburg area is located between the larger markets of Atlanta and Charlotte, NC. Interstate highways 26 and 85 cross in the center of the region that also has easy access to the deep water Port of Charleston that can accommodate vessels drafting up to 48 feet. The market is served by three railroads and the S.C. Inland Port, a full-service port terminal in Greer that has exceeded expectations since it opened in 2013. Recently, the addition of a second inland port facility to the Upstate region was announced.

As a result of prolific regional economic growth, net absorption of industrial space has been consistently positive. In Q2, 670,503 square feet was added to the total of occupied space, bringing total net absorption in the last four quarters to over 5.5 million square feet, a number usually associated with much larger metro areas. Tenants making big contributions to net absorption in 2017 include Phillips Feed's move into 251,100 square feet at Wingo Park, Building 3, PI Development's move into 210,891 square feet at 513 Old Griffin Road and Tower International's new 215,738-square-foot building at Southchase Industrial Park.

The overall vacancy for the region declined sharply in the second quarter, shedding 60 basis points to a post-recession low of just 6.3%. That has increased the sense of urgency from tenants that need to be in close proximity to major manufacturers like BMW. Tenants who can wait are taking a hard look at build-to-suit opportunities that will help them increase operational efficiency rather than settle for what just happens to be available. Some tenants are focusing on acquiring real estate for their own user rather than lease, but find themselves competing with aggressive developers keen on taking advantage of market growth that still seems to have good momentum.

6.3%

VACANCY

\$3.64

AVG. SF RENTAL RATES

670,503

NET SF ABSORPTION

206,524,977

INDUSTRIAL SF INVENTORY

1,019,350

SF UNDER CONSTRUCTION



Key Market Snapshots

GREENVILLE/SPARTANBURG - TRENDING NOW
(continued)

Whether leasing or buying, time is the main hurdle for users looking for build-to-suit opportunities. That keeps landlords on the high ground, as those building owners looking to lease good quality space are calling the shots on lease rates and concessions.

As we reported back in Q4 of 2016, almost 8.7 million square feet was delivered last year, more than the combined total of the past 4 years. Things have changed in 2017, as new deliveries have fallen off, which has tightened up the market for tenants. Year-to-date deliveries stood at just over 781,000 square feet compared to almost 4 million in the same period last year. Thus, it is easy to see why tenants are having trouble finding true Class A space that allows them to take advantage of higher ceiling heights and state-of-the-art fire suppression technology featured in new buildings. As a result, the potential of overbuilding remains low.

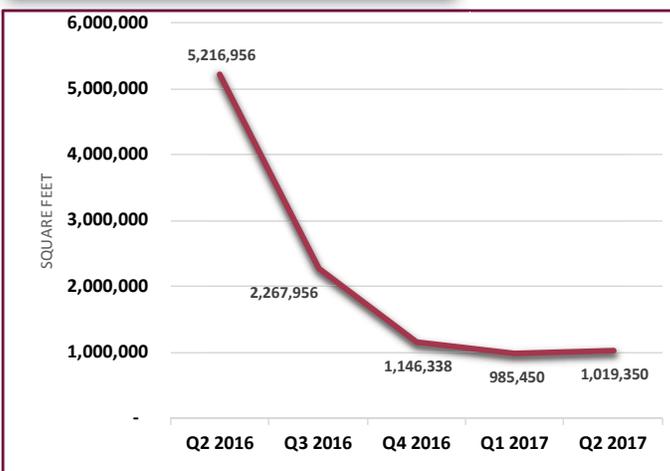
The largest project delivered in 2016 was the new 1.5-million-square-foot build-to-suit for Dollar Tree, while the biggest building underway is a 331,850-square-foot building at 3082 Moore Duncan Hwy that is 0% preleased. Getting construction financing for spec projects is becoming more difficult nationwide and the Greenville/Spartanburg area is no exception. However, projects in the best locations generally lease up before delivery.

Despite this ongoing supply/demand imbalance, average asking rents remain flat, having moved up just a penny in the last year. Of note is the fact that rents do vary widely by building quality and location. The Anderson submarket is highest at \$4.79, followed by Greenville at \$4.07.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

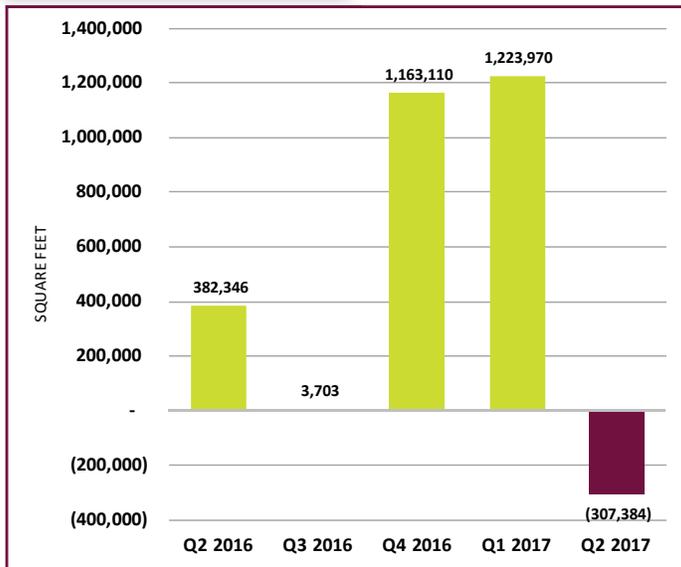
- Rent growth will pick up in new product as construction costs rise and strong credit tenants remain willing to pay more for quality
- Net absorption will stay in positive territory, but may be restricted by short supply in prime submarkets
- Vacancy will remain near current levels as demand and new deliveries remain in balance
- Greenville's strong population growth will increase interest from fast-growing companies looking for long term growth potential
- Developers will become more active as the supply of quality product becomes critically short
- Expect an increase in sale and lease activity through the end of the year



CHARLESTON

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



In 2016, Site Selection Magazine named South Carolina the “Second Best Business Climate;” U.S. News and World Report ranked Charleston the 19th best place to live based on quality of life and job opportunity; and Travel and Leisure Magazine readers voted Charleston No. 1 in its “Best City in the World” survey. Charleston’s economy is seeing record overall growth and strong job creation. Robust population gains have fueled an active housing market, as well. Companies like Boeing, Mercedes, Volvo and others remain attracted to South Carolina in general and Charleston, in particular due to a high quality of life, excellent infrastructure along with power and water at reasonable rates.

The Port of Charleston has undergone a major expansion in anticipation of the Panamax project, and South Carolina’s Inland port in the Greenville/Spartanburg area and the recently announced inland port in Dillon SC, should keep container activity on the rise for years to come. The port is one of the most productive in the nation due to its high container crane production and low truck turn times. The port is busy handling Post-Panamax vessels and now ranks sixth nationally in terms of dollar volume of goods handled.

That activity has kept developers on the lookout for buildable sites as close to the Port as possible. However, limited land availability and high land cost in the Port area is forcing construction activity to surrounding submarkets. According to CoStar, five buildings totaling nearly 460,000 square feet were completed in the second quarter. Another 6.8 million square feet remains under construction, much of it being built on a speculative basis, which is indicative of the confidence builders have in the area. Currently, the region boasts an industrial base inventory of over 72.5 million square feet.

6.0%

VACANCY

\$5.71

AVG. SF RENTAL RATES

(307,384)

NET SF ABSORPTION

72,563,634

INDUSTRIAL SF INVENTORY

6,787,094

SF UNDER CONSTRUCTION



Key Market Snapshots

CHARLESTON - TRENDING NOW
(continued)

The overall vacancy rate for the region has been on the decline since 2013, dropping another 140 basis points in just the past year. However, vacancy did rise sharply in Q2 to 6.0%, up 110 basis points in just three months, mainly due to delivery of spec product not yet leased. Leasing activity generally strengthens with proximity to the Ports, but no submarket has a vacancy rate over 7.6%, which means the entire region is benefitting from overall economic growth.

After a combined net increase in occupied space of nearly 2.4 million square feet in the previous two quarters, net absorption declined by just over 307,000 square feet in Q2, the first occupancy decline since Q3 of 2015. Leasing activity remains strongest in the distribution sector, but all industrial product types are generally seeing gains as the petroleum, automotive and aerospace sectors are also in expansion mode. In 2016, occupancy grew by almost 2.5 million square feet.

Average asking rental rates for flex and warehouse space combined moved up another \$.04 in Q2 to \$5.71, despite the decline in net absorption. Flex asking rents rose by \$.25 to \$15.78, in Q2, but they have moved up by an impressive \$3.17 year-over-year. It is important to note, however, that the warehouse sector contains nearly ten times the square footage of the flex sector.

Warehouse rents continued to rise, gaining another \$.04 to end the quarter at \$5.21. Tenants have generally adopted a, "closer to the Ports is best" attitude, but the efficiencies gained by occupying first generation space being built in surrounding areas, are offsetting the associated increase in drive time and fuel costs.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



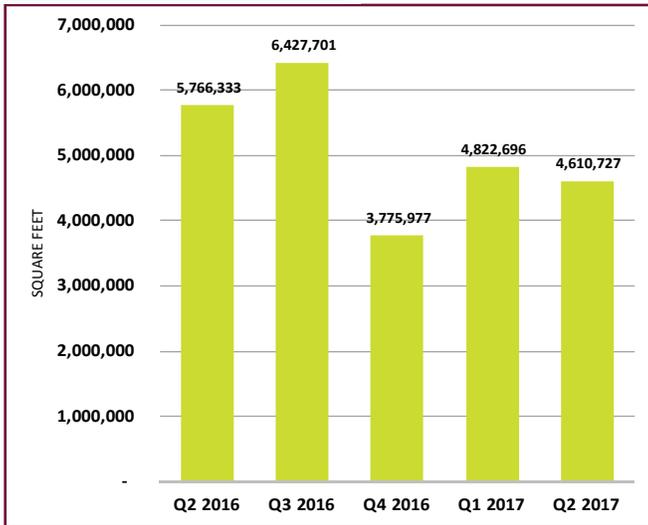
A LOOK AHEAD

- Overall leasing activity will remain strong as tenants scramble to secure quality space in a tightening market
- Vacancy will make significant moves up and down in 2017 due to the timing of new deliveries
- Net absorption will be moderate and steady
- Average asking rental will keep moving higher, especially for space nearest the Port of Charleston
- Construction activity is expected to remain strong for the next several years
- Growth in the residential sector will boost regional economic growth in 2017

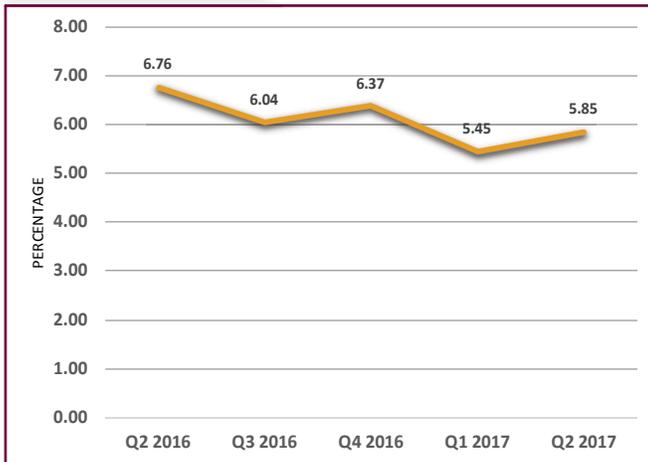


PHILADELPHIA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Philadelphia market covers over 18,000 square miles that includes Eastern Pennsylvania, Southern New Jersey and all of Delaware. The region boasts an industrial inventory of over 1.1 billion square feet, making it one of the largest metro areas in the country. Given its proximity to the most densely populated region of the United States, industrial activity is dominated by major distributors including e-commerce companies, 3PL's and major retailers. New deliveries, many of them built on a speculative basis, are running strong, especially in the Lehigh Valley. But, tertiary markets are becoming more of a factor when it comes to new inventory, as lower land costs and government incentives to both builders and tenants are encouraging notable national developers to build big projects there rather than in the Lehigh Valley where FAR pricing is closing in on \$25 for unentitled sites.

Though activity is strong throughout the region, it's Central Pennsylvania that gets most of the attention. In Q2, Central Pennsylvania had the largest increase in construction starts with the largest footprints. Approximately, 5 million square feet of space got underway there in the second period. Proximity to ample labor remains a major component in the site selection process.

Lease rates in the Lehigh Valley continue to rise as vacancy remains relatively low. Average Class A available space leases at approximately \$5.75 per square foot, a 21% increase year-over-year. Upcoming deliveries will take the pressure created by rising demand and should help to stabilize rental rates there for the rest of the year. But, tenants there are still facing record-high lease rates, while tenants in Central PA have yet to be subjected to dramatic increases. Several large move-outs have kept rents in Central PA in check and vacancy under 7%.

5.85%

VACANCY

\$4.90

AVG. SF RENTAL RATES

4,610,727

NET SF ABSORPTION

1,089,388,733

INDUSTRIAL SF INVENTORY

18,391,927

SF UNDER CONSTRUCTION



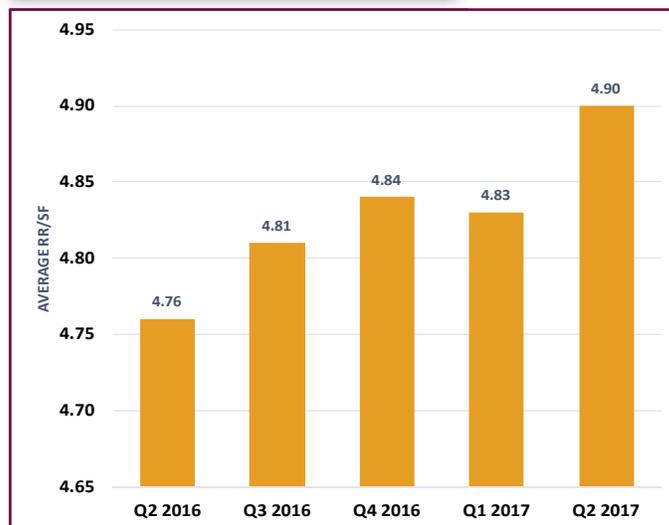
PHILADELPHIA - TRENDING NOW (continued)

Of note is the fact that economic incentives in many industrial parks along the I-81 Corridor are burning off, and tenants with lease expirations coterminous with those breaks have begun to explore more affordable options. Adding higher operating costs to elevated rental rates may be enough to send cost-conscious tenants to those tertiary submarkets where new development may be taking place.

Bulk distribution users continue to dominate market activity. Over 12 million square feet of near-term tenant requirements in excess of 300,000 square feet are currently in the queue. The uptick in recent construction activity is a direct response that demand. The regional vacancy rate for industrial product in Q2 rose by 40 basis points to end the quarter at 5.85%, , mainly due to strong deliveries. Year-over-year, the vacancy rate has declined by 15.56%, despite the high rate of new deliveries. Positive net absorption declined in the second quarter to 4,455,727 square feet as compared to a very strong 6,121,844 square feet in Q1. In the past year, the region recorded a net gain in occupied space of almost 20.8 million square feet.

Of concern to many is the fact that several major manufacturing operations have or plan to cease operations in the area, leaving millions of square feet of functionally obsolete product vacant. Some of these facilities are expected to remain vacant for extended periods, while others present opportunity for redevelopment. Resulting layoffs, while not good news to some, may relieve some of the labor market pressure that has been building of late.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Portfolio sales will continue to dominate sales activity as some investors and developers reset for the next cycle
- Net absorption and preleasing activity in tertiary markets will be driven by economic incentives
- Vacancy will vacillate with new large scale deliveries in the Lehigh Valley and Central PA
- Lease rates in the Lehigh Valley and Central PA will keep moving higher due to the premium for first generation space
- Asking sales prices will continue to rise in primary submarkets
- As retail product loses more favor with investors, interest in acquiring industrial property in submarkets to the north and west will increase

NEW JERSEY

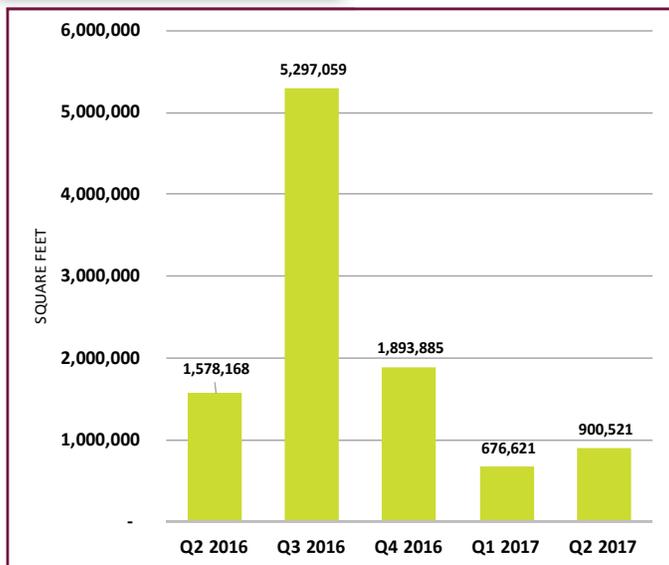
TRENDING NOW

Northern and Central New Jersey remains a high priority for e-commerce operators, major retailers and 3PL companies, who are taking down large blocks of space for regional fulfillment centers as well as smaller “last mile” spaces to shorten delivery times in one of the nation’s most densely populated areas.

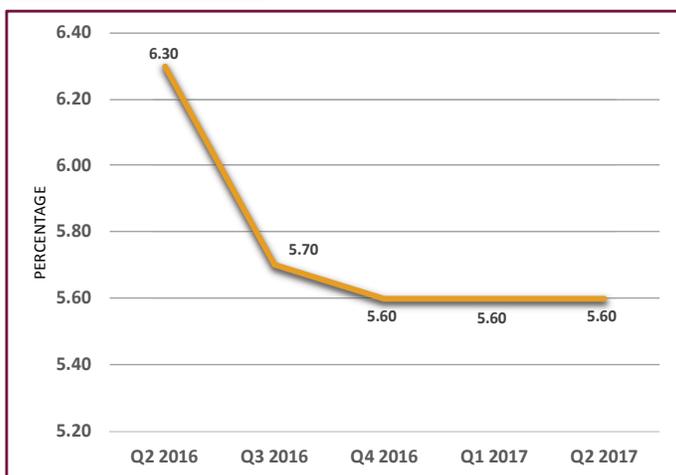
The overall vacancy rate was unchanged in Q2 at 5.6%. Year-over-year, the vacancy rate has declined by 70 basis points, mainly due to a huge net absorption performance in Q3 of 2016. As we have been reporting in recent quarters it’s the Class A space nearest the ports that accounts for most leasing action, but even small and mid-sized tenants must be willing to compete for space as the market tightens further. Tenants, particularly those in and around the Meadowlands, Port and I-95 Turnpike Corridor from Exit 8A to the GW Bridge, 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.

The overall average asking rental rate moved up another \$.09 in Q2 to \$7.10, after a \$.14 increase in Q1. Asking rents are now well past the previous market peak of \$6.52 set back in 2008. Year-over-year, the overall asking rate for industrial product moved up by nearly 9.6%, but warehouse rents were up 11.2%, compared to the flex sector, which posted a year-over-year rent increase of 4.3%. Tightening supply of functional space in the Northern New Jersey submarkets is driving rents up faster there, as tenants in need of more docks/tailboards and trailer parking space are willing to pay more to get it. Landlords, region-wide, maintain the upper hand in lease negotiations. They are pushing hard for higher lease rates rather than longer lease terms, as is the case in other major metro areas.

NET SF ABSORPTION



VACANCY RATE



5.6%

VACANCY

\$7.10

AVG. SF RENTAL RATES

900,521

NET SF ABSORPTION

815,662,964

INDUSTRIAL SF INVENTORY

12,541,438

SF UNDER CONSTRUCTION



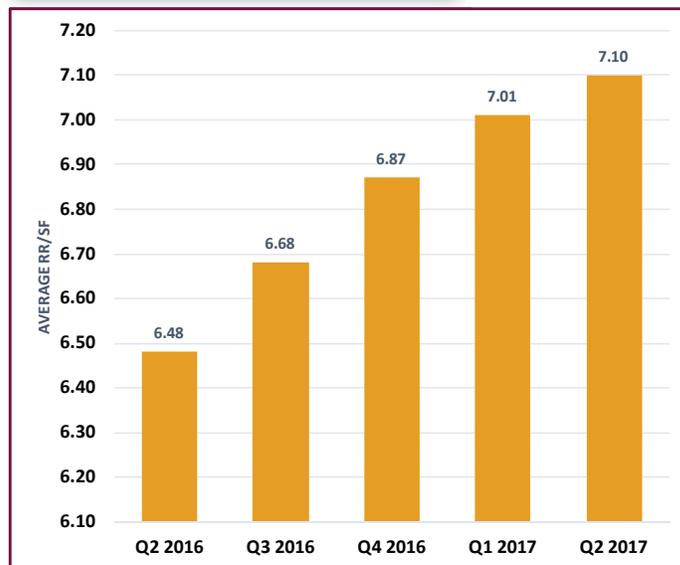
NEW JERSEY - TRENDING NOW (continued)

Unsolicited offers by users to purchase properties offered for lease only are also on the rise. Those landlords that even hint that their buildings are potentially for sale are likely to receive multiple offers to purchase in a matter of days. As a result of the shortage of owner/user facilities, the bulk of the sale activity is generated by institutional investors and value-add players, looking to capitalize on rising rents.

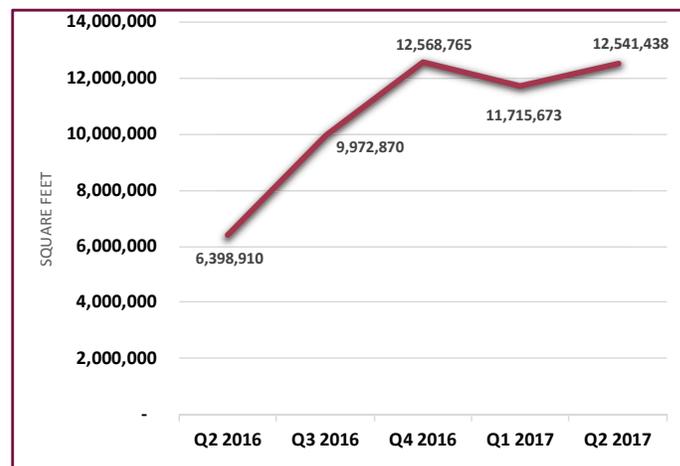
Net absorption picked up in Q2, rising by over 224,000 square feet to 900,521 square feet. However, the flex sector has dampened overall market performance over the past year. In Q2, the flex sector contributed just 14,067 square feet to the overall net gain in occupied space after posting a 1,147,222-square foot loss in the first quarter. Year-to-date, warehouse sector occupancy has grown by over 2.7 million square feet, after a gain of 886,454 square feet in Q2. Tight conditions and continuing positive absorption are forcing tenants to concede many amenities and conveniences to acquire well-located facilities, including outside storage, quality office space and adequate loading configurations.

In Q2, nearly 2.3 million square feet of space was delivered, bringing year-to-date completions to over 4.25 million square feet. Another 12.5 million square feet was underway as the quarter ended. Developers remain focused on Central New Jersey due to the availability of land that can accommodate ground-up construction of projects offering the outside storage space that is in such high demand.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



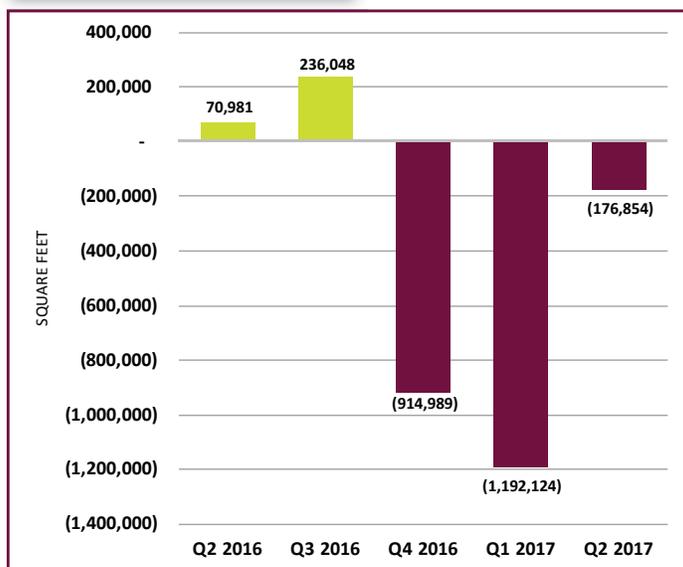
A LOOK AHEAD

- Look for more all cash sales and shorter closing times as competition to purchase industrial product heats up even further in this flight to quality market setting
- Users will continue to pursue and be willing pay more for high quality space to increase operational efficiency
- Average asking rental rates are likely to reach as high as \$7.90 by the end of the year
- Developers in densely populated Northern New Jersey are looking to build multi-level warehouse facilities as Prologis is in Seattle
- Look for more of the largest warehouse facilities to be built in an "X" shape to maximize door count and operational efficiencies
- Vacancy will end the year in the 5.2%-5.4% range

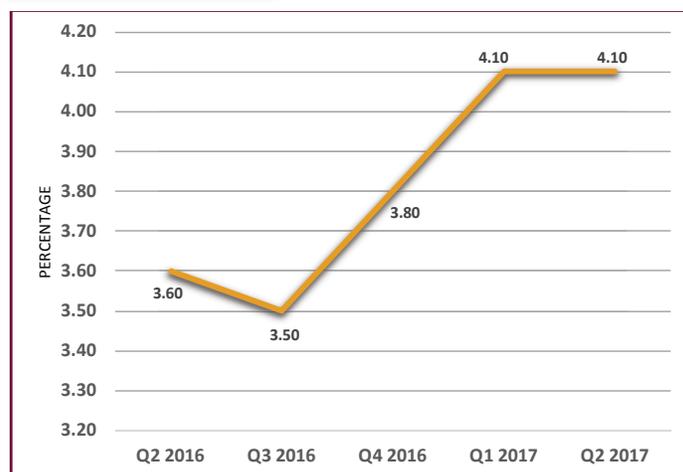


LONG ISLAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Supply of good functional industrial space on Long Island is still thin despite a recent uptick in vacancy. Development of new first generation space is very light, leaving tenants with older, sometimes functionally obsolete, space to choose from. That has forced many industrial users into New Jersey to secure space that allows them to operate efficiently. Distributors are looking to the Interstate 95 Corridor to avoid transportation bottlenecks, while other tenants are moving east to tap government incentive programs and lower taxes.

The industrial vacancy rate for Long Island ended Q2 at 4.1%, unchanged for the quarter but up 50 basis points year-over-year. Delivery of new product for the period remained light. Only 55,481 square feet of space was completed in four buildings during the second quarter, after just 18,092 square feet of deliveries in the first period. Most of the industrial-zoned properties now have residential overlays, so industrial base inventory, which currently stands at 355.3 million square feet, actually declined by over 935,000 square feet in the two years ending in Q4 of 2016. That is good news for the owners of quality industrial product throughout Long Island, but presents a significant challenge for tenants who need to relocate and remain in the area to remain in proximity to their customers.

R&D space is faring better, though, as some older industrial product with adequate parking and locations near public transportation is being converted to R&D to capture higher rents. In turn, existing flex/R&D product is being converted to full office if parked above 2 to 1. While some owners of traditional industrial product have been making improvements to mitigate functional obsolescence, many industrial areas have residential zoning overlays, which generally make more economic sense. So, the depletion of industrial inventory is likely to continue.

4.1%

VACANCY

\$15.55

AVG. SF RENTAL RATES

(176,854)

NET SF ABSORPTION

355,300,354

INDUSTRIAL SF INVENTORY

354,961

SF UNDER CONSTRUCTION



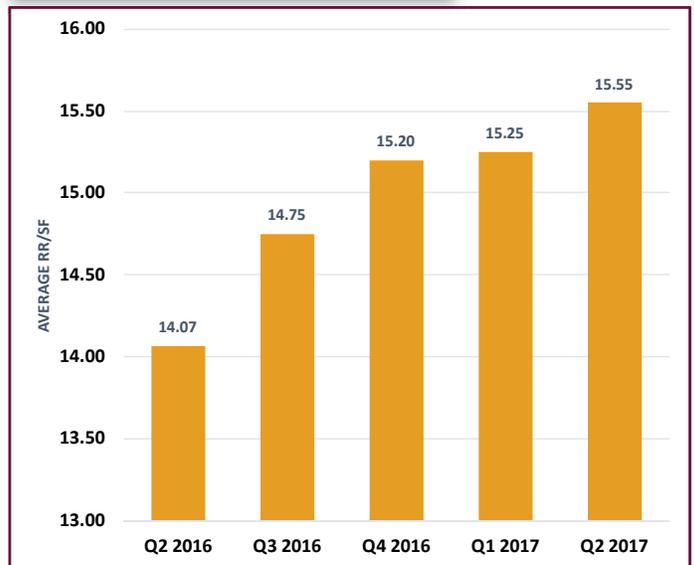
LONG ISLAND - TRENDING NOW (continued)

The shortage of quality product has kept average asking lease rates moving up fast. In Q2, the rate for Long Island industrial space jumped \$.30 to \$15.22, after a \$.25 increase in the first quarter. That capped a year-over-year increase of 10.5%. Unfortunately, tenants are owner/users are also faced with rising property taxes that are driving up overall occupancy costs. In many areas of Long Island, taxes make up nearly a third of rental cost. However, taxes are as much as 30% less in Suffolk County.

Net absorption for the Long Island market in Q2 was negative for the third straight quarter. A decline in occupied space of 176,854 square feet was reported, after a decline of 1.2 million square feet in Q1 and 915,000 square feet decline in the final quarter of 2016. In fact, only two of the last six quarters have ended with a net gain in occupancy, clearly indicating movement out of the area to find functional space at a lower price point. Larger move-outs for 2017 include Sheralven Enterprises Ltd.'s move from 182,047 square feet on Moreland Road, Terry's Tire Town's move from 125,040 square feet on Oyster Bay Road and Flushing Building Supply's move from 101,000 square feet on Delong Street. The largest tenant move-in this year is an 85,000-square-foot space for Gelberg Braid.

Small industrial buildings continue to be sold at a premium to owner/users, and prices are approaching \$200 per square foot in Nassau County, as those users sell their current facilities in Queens for future residential use and move east to find a new home for their businesses. Interest rates did move higher late last year, but have stabilized recently despite several Fed rate hikes.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

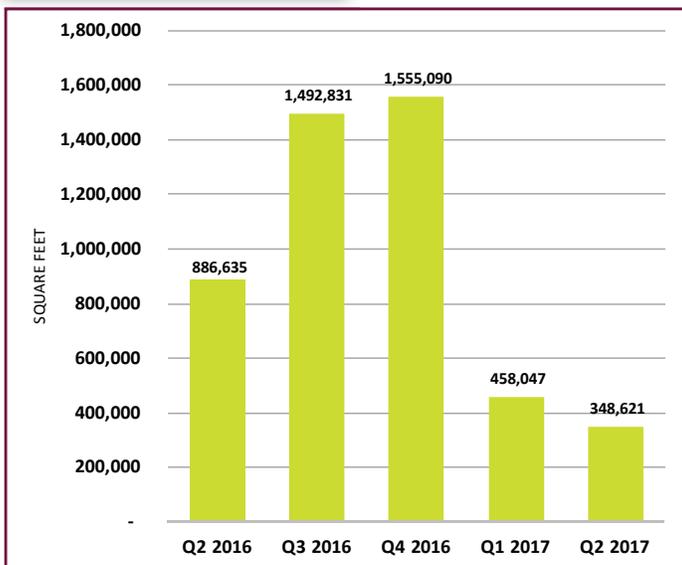


A LOOK AHEAD

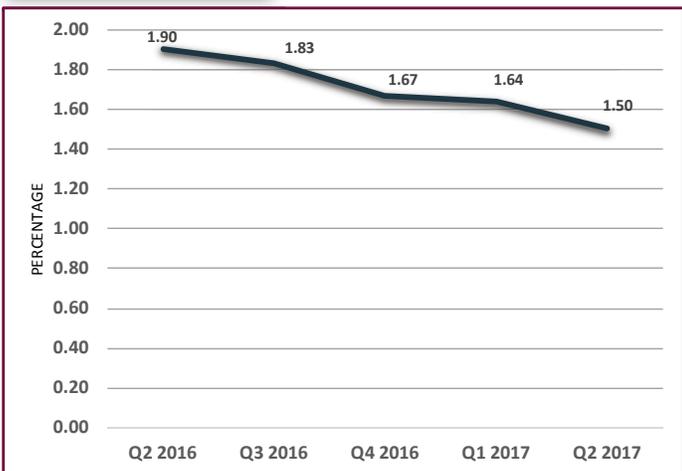
- Gross leasing activity will remain constrained by low supply and functional obsolescence
- Development activity will be light, but remain concentrated in eastern submarkets
- Net absorption for 2017 will end up in negative territory
- Sales prices will keep moving up unless there is a significant spike in interest rates
- Average asking lease rates will keep moving up for the rest of 2017, especially for property outside EDZ zones
- More tenants will be forced off the island due to lack of functional inventory

VANCOUVER, BC CANADA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Greater Vancouver region is the key driver of economic activity in British Columbia. Major corporations including Microsoft and Sony Pictures have made their way north to set up shop in “North Hollywood” thanks to a boom in the film industry. The forest industry is another key driver, as British Columbia’s high quality wood products remain in high demand around the world, especially from Asian powerhouses like China, Japan and Korea.

There are, however, several major issues confronting the area. Land is scarce, industrial vacancy is critically low, rents have spiked and things remain unsettled on the political front as a new minority government tries to address major issues including the new Massey Tunnel Project, which was championed by the previous majority government. In a recent survey, 76% of business owners are less confident about the future of the BC economy under the new administration, which could substantially impact facilities decisions and job growth in the near term.

Interest rates may also be moving higher, which could increase the cost of capital enough to influence demand for industrial space. On July 12, the Bank of Canada increased its benchmark interest rate for the first time in nearly a decade. It remains to be seen what near-term impact on mortgage rates will be in response to that action.

Property values have been soaring in some submarkets, as well. In Railtown, for example, some properties have seen a threefold increase in value, which has caused a major increase in property taxes in that area. Since most Canadian companies lease space on a triple net basis, tenants are responsible for the payment

1.5%

VACANCY

\$10.68

AVG. SF RENTAL RATES

348,621

NET SF ABSORPTION

205,802,692

INDUSTRIAL SF INVENTORY

1,500,000

SF UNDER CONSTRUCTION



VANCOUVER, BC CANADA - TRENDING NOW (continued)

of property taxes, which drives up the overall cost of occupancy.

As we reported last quarter, record low vacancy is the big story in Vancouver. In Q2, the overall vacancy rate fell another 14 basis points to a new low of 1.5%. In some size ranges that rate is effectively 0%, making it very difficult for tenants who have to make a move rather than renew their existing leases. In Abbotsford, where vacancy used to be highest due to outlying location to the east, the vacancy rate is just .5%, less than Vancouver itself. With vacancy so low, Landlords have increased their focus on longer lease terms and tenant creditworthiness to reduce long-term risk.

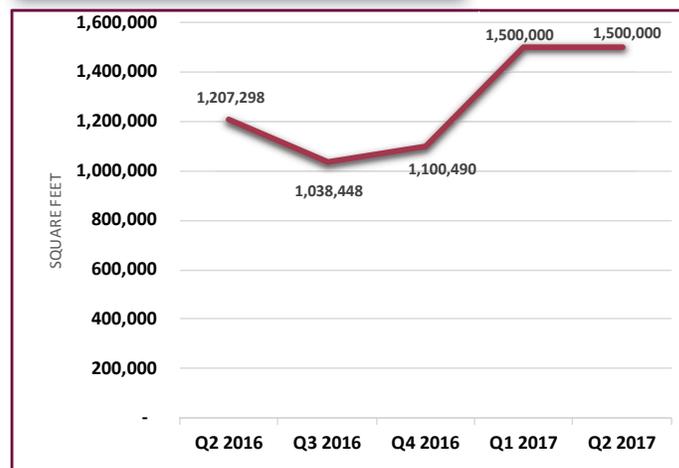
Net absorption has been consistently positive for the past five years and has remained so in 2017, adding another net gain in occupied space of 348,621 square feet in the second quarter. That is a relatively small gain compared to recent quarters, but remarkable considering the fact that supply is running so short.

Lack of available land has developers looking to stack new industrial projects by building space on more than one level. Also, efforts are underway in municipalities like Abbotsford, which has plans to convert 696 acres of ALR land to industrial use. Developers looking to fulfill high demand, are looking for land across the Fraser River and as far east as Chilliwack. Currently, 1.5 million square feet of new inventory is under construction throughout the region, well short of the amount needed to fulfill current demand.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Leasing activity should remain near current levels despite the supply shortage
- Demand to acquire property will remain high, as strong interest from offshore investors continues
- Capitalization rates will remain compressed due to the demand/supply imbalance
- Vacancy may go slightly lower by the end of the year
- Look for more Sale Leaseback transaction going forward, as owner/occupants look to sell while prices are at all-time high levels
- Lease rates could move up by another 10%-15% in 2017
- Construction activity will stay strong as long as there is a ready supply of zoned and serviced land sites

SELECT TOP INDUSTRIAL LEASES Q2 2017

BUILDING	MARKET	SF	TENANT NAME
Lambert Farms Logistics Park, Bldg B1	Atlanta	1,004,400	Lindt
Lebanon Valley Dist Center	Philadelphia	874,126	Ace Hardware
Amazon-Troutdale Logistics Ctr	Portland	857,379	Amazon
Northeast Gateway Industrial Park - BTS	Westchester	855,000	Amazon
3375 Plainfield Rd	Indianapolis	702,000	SWS
21561 Mississippi St	Chicago	624,370	Clearwater Paper
Gateway East 624	St. Louis	624,150	GEODIS
Memphis Depot Industrial Park	Memphis	600,000	Nickey Warehouses, Inc.
4555 Redlands Ave	Inland Empire	599,113	Essendant
First Florence Logistics Center	Philadelphia	577,200	B&H Photo
455 Research Dr - Eastgate 3	Memphis	517,490	Cynnex

SELECT TOP INDUSTRIAL SALES Q2 2017

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Hampshire/AEW 6-Bldg NNJ Ind Portf	No New Jersey	1,218,164	\$120.55	5.25%	AEW Capital Mgmt	The Hampshire Companies, LLC
Safari Business Center	Inland Empire	1,138,119	\$124.06	4.11%	Rexford Industrial	American Realty Advisors
1818 Ellis Rd-Parmer RTP	Raleigh/Durham	1,417,934	\$77.58	N/A	Karlin Real Estate	GlaxoSmithKline
1544--1546 Hecht Dr	Chicago	715,000	\$101.52	N/A	InvestCorp Group	Bridge Development Partners
Rite Aid Dist Ctr	Greenville	901,350	\$72.07	6.25%	Easton Vance R.E. Inv	Johnson Dev Assoc.



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