INDUSTRIAL

INVESTOR OUTLOOK & TRENDS

CUSHMAN & WAKEFIELD®

UNITED STATES

A Cushman & Wakefield Valuation & Advisory Publication

Q1 2012

OVERVIEW

Cushman & Wakefield's (C&W) approach is unique to the industry for projecting the state of the U.S. Industrial Investment Market and Trends. We are able to provide comprehensive real-time market data and analysis by leveraging our expertise and collaborating with the leaders of C&W's multiple disciplines – Valuation & Advisory, Industrial Capital Markets and Industrial Operations, among others. We then augment this expertise through regular input from some of the nation's most prominent institutional buyers and sellers of industrial assets.

For the first quarter 2012, we interviewed representatives from some of the nation's most prominent institutional buyers and sellers of industrial assets.

PHYSICAL CRITERIA/LOCATION

These participants, typical for the market, focus on the type (Class A, B and C) and location of an industrial asset prior to selecting an appropriate overall capitalization rate. While the criteria relative to defining the asset type vary, most agree on the following, as defined by Costar Group Inc.:

Class A Industrial – Class A buildings generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high-quality, and in some buildings, one-of-a-kind floor plans. They can be an architectural or historical landmark designed by prominent architects. These buildings contain a modern mechanical system, and have above-average maintenance and management, as well as the best quality materials and workmanship in their trim and interior fittings. They are generally the most eagerly sought by investors who are willing to pay a premium for quality.

Class B Industrial – Buildings in this category command lower rents or sale prices compared to Class A properties. Such buildings offer utilitarian space without special features, and have ordinary design if new or fairly new; good to excellent design if an older non-landmark building. These buildings typically have average to good maintenance, management and tenants. They are less appealing to tenants than Class A properties, and may be deficient in a number of respects, including floor plans, condition and facilities. They lack prestige and must depend chiefly on a lower price to attract tenants and investors.

Class C Industrial – These structures generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the market. Such buildings typically have below-average maintenance and management, and could have mixed or low tenant prestige, inferior elevators, and/or mechanical/electrical systems. These buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors.

RISK FACTORS/MARKET CONDITIONS/TENANCIES

Although the above criteria are of primary focus, the participants also identified the following risk factors influencing their purchasing decisions:

- Overall vacancy and strengths/weaknesses of the local market
- Current occupancy and near term rollover exposure of the asset
- Potential for up-side of market rent increases and/or decreases
- Competing buildings in the area that are presently listed for sale
- Availability/inventory of developable land for potential competition
- The functionality of the asset (clear ceiling height, layout, design, percentage of office to warehouse space, lighting, adequacy of parking and truck storage, truck turning radius, access to rail, etc.)
- The age and condition of the asset, including the condition of the roof structure and parking areas
- Access to major transportation linkages (Interstate, Rail, Waterway, Intermodal Services, etc.)
- Creditworthiness of the tenant(s)
- Contractual rent in-place above/below market rent levels
- Replacement cost relative to purchase price
- Feasibility of new construction
- The potential for rising interest rates, and the ability to secure financing

CHANGING DEMAND INDICATORS

In addition to the above, investors in the industrial arena are now far more attuned to changing demand drivers and trends relating to the needs of the end-users/occupiers. End-users/occupiers are demanding facilities that are more efficient to operate and offer the ability to ship product faster without increasing costs. Some key observations were made:

Energy Costs – Energy is clearly at the top of the end-users/occupiers list as manufacturers and distributors try to find ways to reduce operating costs. Forecasting energy costs has become very difficult due to the volatility in oil and gas prices. This volatility is causing concern globally, and energy costs impact the entire spectrum of manufacturing, production, and distribution and consequently, affect the pricing of all goods and services.

Access to Major Ports and Port Cites – Access to major deepwater ports is critical to the manufacturing and distribution sectors. The port cities are expected to see sizable increases in shipping volume from Asia to the U.S. Eastern U.S. ports, in particular, will realize increased volume with the completion of the renovation and widening of the Panama Canal (expected by 2013/2014).

Access to Distribution Networks – Inland transportation nodes are now focused on rail versus traditional trucking because these costs continue to rise. Trucking costs in the U.S. have increased over 8.0% in the last 12 months. Thus, distribution centers with direct access to major rail transfer and intermodal facilities are expected to have an advantage. Also, a trend toward larger (1.0 million square feet and greater) distribution facilities in close proximity to UPS and FedEx centers is expected, as customers demand 24/7 delivery, especially for "e-tailers" such as Amazon.com.

Availability of Skilled Labor – Availability to a skilled labor force at competitive hourly rates is critical in choosing the optimal geographical location. Labor costs (typically the largest portion of a manufacturer's operating costs) have now become more in-balance globally, thus manufacturing jobs once dominated by the Asian markets are beginning to reemerge or remain in the U.S.

Proximity to Suppliers – Another trend in the industrial arena is maintaining proximity to suppliers. Manufacturers are finding that proximity increases communication and the flow of information, ultimately resulting in improved processes and products.

Availability of Credit – A critical factor affecting industrial activity in the U.S. and globally is the ability to secure credit. Without credit, the ability of manufacturers and other industrial space users to invest in plant and equipment is severely hampered, thus crimping the demand for space.

OUTLOOK

In general, investors expect the U.S. industrial market to fare better than the European, Asian and Canadian markets. Sales activity in the U.S. is expected to remain moderately healthy through 2012, with more significant sales activity and speculative development anticipated in 2013, as inventory dwindles and rent levels begin to justify new construction.

The appetite remains strong for well-located Class A assets, with access to rail and intermodal services becoming increasingly more important. As the transportation industry continues to grow and evolve, and fuel prices remain volatile, the intermodal concept has become a cost-effective means of shipping. Logistics and supply chain fundamentals are critical in today's Industrial purchasing decision-making process, both from an investor and user perspective.

Investors identify several markets expected to command premium pricing for Class A product:

Southern California (specifically Inland Empire)	Southern Florida (Miami in particular)
Chicago	San Francisco Bay Area
Washington D.C.	Seattle
New Jersey	Dallas
Eastern Pennsylvania	Houston

Southern California is experiencing some of the most aggressive pricing, as overall rates have now compressed to the mid-5.0% range. In fact, the Greater Los Angeles market posted the highest volume of leasing activity in 2011 (37.7 million square feet in transactions), and the lowest overall vacancy rate of all U.S. industrial markets at 4.9%. Chicago was also exceptionally active, posting 30.3 million square feet in transactions.

As inventories and rent concessions continue to dwindle, with demand outpacing supply, new speculative development is on the horizon in the key U.S. industrial markets. Nationally, only 29.6 million square feet of industrial space was added to the market in 2011, of which 4.4 million square feet were speculative development. Moreover, manufacturing employment is on the rise, as producers expand and jobs return to the U.S.

The market participants indicated that available Class A product is becoming limited. Some investors feel Class B assets have superior up-side potential, compared to the higher priced Class A product. Interest in Class C assets still appears to be muted, as the risk factors regarding functionality, age, and condition continue to be of greatest concern. The large capital expenditures required to renovate Class C assets does not appear to allow ample returns.

The lack of product (especially Class A assets) and the decline in interest rates has contributed to the continued trend in cap rate compression over the last 12 to 36 months. Some investors believe cap rates will continue to decline, albeit at a slower pace, since rent levels in most markets are still 5.0% to 20.0% below historical levels. While new speculative development is on the horizon, rent levels in most markets still do not justify new construction, thus contributing to higher pricing. In some major markets development-ready tracts of land are now scarce.

FINAL RESULTS

The results of our investor survey (overall capitalization rates), taken in the First Quarter 2012, provided by representatives of some of the largest institutional/pension fund buyers and sellers of industrial assets nationally, are presented as follows:

Based on the first quarter 2012 results, overall capitalization rates range widely by asset class, indicating a 126-basis point differential between Class A and B industrial product and a 317-basis point difference between Class A and C industrial facilities. Overall rates for Class C properties are 191 basis points above Class B industrial product.

Cushman & Wakefield World Headquarters
1290 Avenue of the Americas
New York, NY 10104-6178
www.cushwake.com/ValuationAdvisory

The market terms and definitions in this report are based on NAIOP standards.

No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

© 2012 Cushman & Wakefield, Inc. All rights reserved.

CUSHMAN & WAKEFIELD®

Q1 2012 INVESTOR SURVEY RESULTS

INDUSTRIAL OVERALL CAPITALIZATION RATES – COMPARISON ANALYSIS

		1Q12	MID-YEAR 2011	1Q11	CHANGE (BASIS POINTS) 1Q11 TO 1Q12	CHANGE (BASIS POINTS) MID-YEAR 2011 TO 1Q12
CLASS A	RANGE	4.00%-6.75%	5.50%-8.00%	6.00%-7.50%		
	AVERAGE	5.93%	6.47%	6.88%	-0.95	-0.54
CLASS B	RANGE	5.50%-8.50%	6.50%-8.75%	6.75%-9.00%		
	AVERAGE	7.19%	7.80%	7.86%	-0.67	-0.61
CLASS C	RANGE	7.00%-13.00%	8.00%-12.00%	8.00%-12.00%		
	AVERAGE	9.10%	9.48%	9.69%	-0.59	-0.38
TOTAL OVERALL AVERAGE		7.40%	7.91%	8.12%	-0.72	-0.51

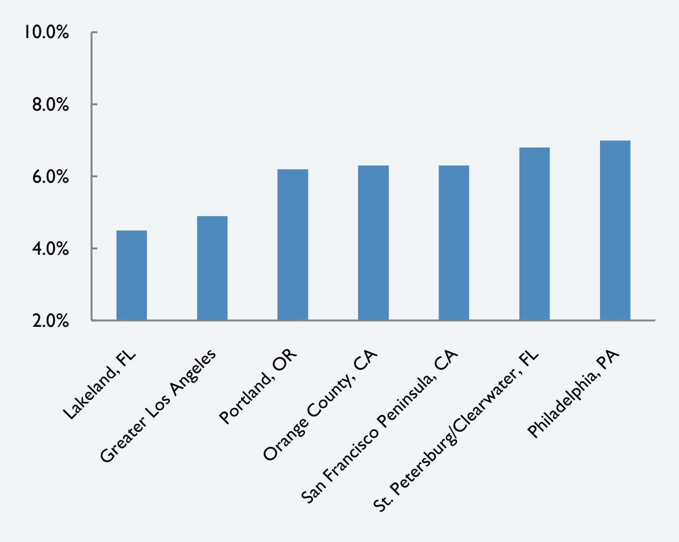
Note: the lower-end of the range would be for Class A assets in Southern California, specifically, Inland Empire region.

Compiled by Cushman & Wakefield's Valuation & Advisory Industrial Practice Group (IPG)

The current survey reflects continuing cap rate compression, though market participants indicate that the compression is starting to stabilize and is anticipated to level off during the remainder of 2012. The first quarter 2012 average overall capitalization rate for Class A, B and C was 7.40%, compared to the first quarter 2011 results of 8.12%, a 72-basis point decrease. Overall, it appears as though investors still remain aggressive, but pricing is beginning to level off, especially for Class B and C assets. Class A assets located in Southern California, particularly in the Inland Empire region, are commanding the most aggressive overall rates.

In conclusion, as tracked by Cushman & Wakefield's Research, the U.S. Industrial Market contains approximately 12.143 billion sf, with an overall vacancy rate of 10.0% as of 4Q11, the lowest level in three years; and the in-demand markets previously identified are still expected to command premium pricing for Class A product. Investors remain cautiously optimistic in the near term, since the U.S. industrial market is heavily dependent upon the global economic climate, access to credit, and global geopolitical factors. Nevertheless, the appetite for well located industrial product is anticipated to remain strong for the remainder of 2012 and into 2013.

MAJOR MARKETS WITH LOWEST VACANCY 4Q11



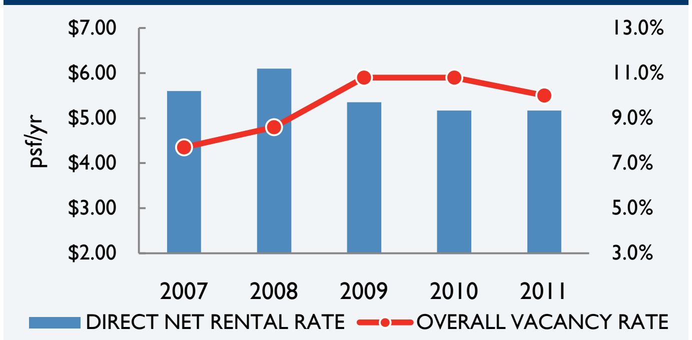
Source: Cushman & Wakefield Research

STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.8%	10.0%	-0.8pp	
Direct Asking Rents (psf/yr)	$5.17	$5.17	0.0%	
YTD Leasing Activity (msf)	345.97	417.05	20.5%	

Source: Cushman & Wakefield Research

RENTAL VS. VACANCY RATES



Source: Cushman & Wakefield Research

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

Michael J. Schaeffer, MAI, FRICS
Executive Managing Director
Valuation & Advisory
Tel: (312) 470-1870
Mob: (847) 767-3582
mike.schaeffer@cushwake.com

James D. Carpenter
Executive Director
Industrial Capital Markets
Tel: (312) 470-3830
Mob: (847) 400-6484
James.carpenter@cushwake.com

James L. Dieter, SIOR
Executive Vice President
Industrial Operations
Tel: (847) 518-3225
Mob: (630) 542-3301
jim.dieter@cushwake.com

Cushman & Wakefield World Headquarters
1290 Avenue of the Americas
New York, NY 10104-6178
www.cushwake.com/ValuationAdvisory

The market terms and definitions in this report are based on NAIOP standards.

No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

© 2012 Cushman & Wakefield, Inc. All rights reserved.

CUSHMAN & WAKEFIELD®