INDUSTRIAL

INVESTOR OUTLOOK AND TRENDS

UNITED STATES

A Cushman & Wakefield Valuation & Advisory Publication

Q1 2013

OVERVIEW

Cushman & Wakefield provides comprehensive real-time market data and analysis by leveraging our expertise and collaborating with the leaders of our multiple disciplines – Valuation & Advisory, Industrial Capital Markets and Industrial Operations, among others. For the first quarter 2013 edition of the U.S. Industrial Investor Outlook and Trends, we augmented our expertise by interviewing 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 criteria, as defined by CoStar Group Inc. (defined on page 4).

RISK FACTORS/MARKET CONDITIONS/TENANCIES

Although the Asset 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 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 new 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, 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:

- **Logistics** – Efficiency in the transformation and distribution of goods from raw material to final market sourcing continues to be the driving force relative to site selection. Location strategy and availability of labor incentives are more critical than ever. With increased competition worldwide, the end-users/occupiers are becoming more innovative and cost conscious prior to final site selection.
- **Energy Costs** – Energy continues to be 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 United States. Eastern U.S. ports, in particular, may realize increased volume with the widening and renovation of the Panama Canal, scheduled to be completed in 2014. Once the third lane is complete, capacity could more than double. Ships as long as 1,200 feet and 160 feet wide, with drafts of 50 feet, will allow some of the largest cargo vessels to carry 13,200 containers, double the dry weight of bulk cargo.

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10019-6178
www.cushmanwakefield.com/knowledge

For more information, contact:
Michael J. Schaeffer, MAI, FRICS
+1 (312) 470 1870
michael.schaeffer@cushwake.com

- **Access to Distribution Networks** – Inland transportation nodes continue to be focused on rail versus traditional trucking because these costs continue to rise. In fact, according to the Association of American Railroads, there are a total of seven Class I railroads serving the United States, with combined revenues reaching over $65 billion. The Class I railroads, with an increased focus on cost efficiency and fuel concerns, were projected to have invested $13 billion on their transportation infrastructure in 2012. Thus, distribution centers with direct access to major rail transfer and intermodal facilities are expected to have an advantage. Also, a trend toward larger (one million square feet and greater) distribution facilities in close proximity to UPS and FedEx centers is still expected, as customers demand 24/7 delivery, especially for "e-tailers" such as Amazon.com. E-commerce trade continues to be on the rise, and customer service and delivery is at the top of the list.

- **Availability of Skilled Labor** – Access 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** – Proximity to suppliers continues to be the trend in the industrial arena. 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 continues to be 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, crimping the demand for space.
- **Business Friendly Environment** – Another critical factor affecting industrial activity in the U.S. is the re-location of plants and warehouses to areas that offer a business friendly environment. States that offer aggressive incentive packages with lower corporate taxes have become key drivers relative to conducting business and site selection criteria.

OUTLOOK

In general, investors indicate that the U.S. industrial market continues to fare better than the European, Asian and Canadian markets. According to Real Capital Analytics (RCA), some of the most active buyers in terms of sales volume in 2012 included DRA Advisors, KTR Capital Partners, Industrial Income Trust (IIT), and Blackstone. The largest sellers in 2012 were ProLogis, Dexus Property Group, Mission West Properties, and Kilroy Realty.

Sales activity in the U.S. is expected to remain moderately healthy through 2013. More significant sales activity and speculative development is anticipated as inventory dwindles, rent levels begin to justify new construction, and the outlook continues for a historically low interest rate environment.

The appetite remains strong for well-located Class A assets, with access to efficient transportation nodes such as rail and intermodal services becoming increasingly more important. As the transportation industry continues to grow and evolve, and fuel prices remain volatile, the intermodal and port concepts have 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:

- Baltimore
- Chicago
- Dallas
- Eastern Pennsylvania
- Houston
- New Jersey (Northern)
- Oakland
- San Francisco Bay area
- Seattle
- Southern California (particularly the Inland Empire)
- Southern Florida (particularly Miami)
- Washington D.C.

Southern California is still experiencing some of the most aggressive pricing, as overall cap rates have now compressed to the low 5.0 percent range, and in some cases below, if contract rent is below market. In fact, with the lowest vacancy in the nation, the overall vacancy rate in Greater Los Angeles is down from 4.9 percent a year ago to 4.6 percent, resulting in occupancy gains of 3.2 million square feet (msf), according to Cushman & Wakefield Research. Chicago was also exceptionally active during 2012. The overall vacancy rate continued to improve and as of year-end 2012 measured 8.7 percent, a decline of 110 basis points from last year and the lowest overall vacancy rate recorded since first quarter 2008.

While the Southern California and Coastal markets have captured the majority of investor interest, the secondary markets of the Midwest region appear to be back on the radar screen, as renewed interest is now focused on Minneapolis, Indianapolis and Louisville. The resurgence of the automotive industry has clearly fueled this renewed interest, especially in the Indianapolis market.

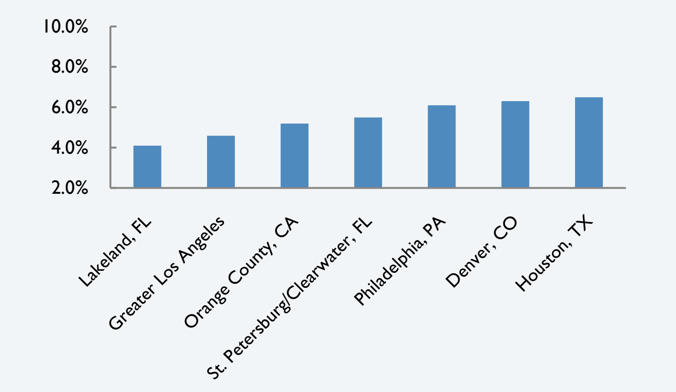
As inventories and rent concessions continue to dwindle, and demand outpacing supply, new speculative development is surfacing in the key U.S. industrial markets. In fact, the overall U.S. vacancy rate fell 130 basis points (bps) from last year, ending the 2012 year at 8.7 percent, even with 58.0 msf of new construction added to the market, according to Cushman & Wakefield Research.

The market participants indicated that available Class A product is becoming very limited, contributing to compressed cap rates and, correspondingly, higher pricing. Some investors feel Class B assets have superior upside 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 sufficient returns.

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10019-6178
www.cushmanwakefield.com/knowledge

For more information, contact:
Michael J. Schaeffer, MAI, FRICS
+1 (312) 470 1870
michael.schaeffer@cushwake.com

MAJOR MARKETS WITH LOWEST VACANCY Q4 2012



Source: Cushman & Wakefield Research

The lack of product (especially Class A assets) and historically low interest rates, have contributed to the continued trend in cap rate compression over the last 42 months; however, cap rates are beginning to level off, even for the key core markets. While new speculative development is beginning to appear, rent levels in most markets still do not justify new construction, thus contributing to aggressive pricing. In some major markets, particularly in core U.S. markets, development-ready tracts of land have become scarce.

STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	10.0%	8.7%	-130bps	
Direct Asking Rents (psf/yr)	$5.10	$5.20	2.0%	
YTD Leasing Activity (msf)	417.1	415.5	-.04%	

Source: Cushman & Wakefield Research

FINAL RESULTS

The results of our investor survey (overall capitalization rates), taken first quarter 2013, provided by representatives of some of the largest institutional/pension fund buyers and sellers of industrial assets nationally, are presented as follows:

FIRST QUARTER 2013 INVESTOR SURVEY RESULTS

INDUSTRIAL OVERALL CAPITALIZATION RATES – COMPARISON ANALYSIS

		FIRST QUARTER 2013	MID-YEAR 2012	FIRST QUARTER 2012	CHANGE (BASIS POINTS) 1Q 2012 TO 1Q 2013	6-MONTH CHAGNE (BASIS POINTS) MID-YEAR 2012 TO 1Q 2013
CLASS A	RANGE	4.75%-7.00%	4.00%-7.75%	4.00%-6.75%		
	AVERAGE	5.80%	5.93%	5.93%	-0.13	-0.13
CLASS B	RANGE	5.50%-9.00%	5.25%-9.00%	5.50%-8.50%		
	AVERAGE	7.10%	7.26%	7.19%	-0.10	-0.16
CLASS C	RANGE	7.25%-10.50%	6.00%-13.00%	7.00%-13.00%		
	AVERAGE	9.03%	9.05%	9.10%	-0.07	-0.02
TOTAL OVERALL AVERAGE		**7.16%**	**7.41%**	**7.40%**	**-0.24**	**-0.25**

Note: the lower-end of the range would be for Class A assets located in Southern Florida (particularly Miami) and Southern California (particularly the Inland Empire region).

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

Based on the first quarter 2013 results, overall capitalization rates range widely by asset class, indicating a 130 basis point differential between Class A and B industrial product and a 323 basis point difference between Class A and C industrial facilities. Overall rates for Class C properties are 193 basis points above Class B industrial product.

The current survey indicates that cap rates for Class A and B assets decreased (-0.25 bps) from first quarter 2012 to first quarter 2013 (12-month period), but, more recently, continued to compress (-0.25 bps) from mid-year 2012 to first quarter 2013, reflecting continued strong demand. However, this trend is expected to level-off, except for selected key core markets with credit tenancies.

The first quarter 2013 overall average rate for Class A, B and C assets was 7.16 percent, compared to the first quarter 2012 results of 7.40 percent. Class A assets continue to show aggressive cap rates, with an overall average rate of 5.80 percent, with Class C Assets at 9.03 percent, as of first quarter 2013. It is interesting to note that overall cap rates for Class C Assets, over the last 18-months, have remained effectively unchanged, reflecting the cautious/limited demand due to physical inefficiencies and functionality concerns.

Overall, it appears as though investors still remain aggressive, but pricing is expected to begin stabilizing, especially for Class A and B assets. Class A assets located in Southern California (especially Inland Empire) and Southern Florida (Miami, in particular), are still commanding the most aggressive overall rates, but investors are starting to be more cautious as new construction is underway.

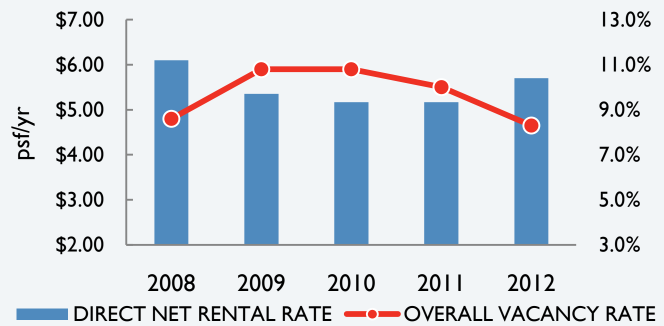
In conclusion, the in-demand markets previously identified are still expected to command premium pricing for Class A product. Investors remain cautiously optimistic in the near term, since the U.S. industrial market is heavily dependent upon the global economic climate, access to credit and global geopolitical factors. However, as resolution of the European debt crises continues to be uncertain,

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10019-6178
www.cushmanwakefield.com/knowledge

For more information, contact:
Michael J. Schaeffer, MAI, FRICS
+1 (312) 470 1870
michael.schaeffer@cushwake.com

foreign investors now see the U.S. as an opportunity. The U.S. unemployment rate still remains comparatively high at 7.8 percent (December 2012), but is the lowest year-end rate since 2008.

RENTAL VS. VACANCY RATES



Source: Cushman & Wakefield Research

Nonetheless, speculative industrial product in the U.S. is starting to emerge, as inventories dwindle and rent levels begin to justify new construction in selected markets. The appetite for well located industrial product is anticipated to remain strong throughout 2013 and this will likely continue into 2014 and 2015 as the economy is anticipated to accelerate.

COSTAR GROUP INC. – ASSET CRITERIA

- **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. 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 or, if new or fairly new, good to excellent design. 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, conditions 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, low clear ceiling heights and/or inferior mechanical/electrical systems. Like Class B buildings, Class C buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield is the world's largest privately-held commercial real estate services firm. The company advises and represents clients on all aspects of property occupancy and investment, and has established a preeminent position in the world's major markets, as evidenced by its frequent involvement in many of the most significant property leases, sales and assignments. Founded in 1917, it has 253 offices in 60 countries and more than 14,000 employees. It offers a complete range of services for all property types, including leasing, sales and acquisitions, equity, debt and structured finance, corporate finance and investment banking, corporate services, property management, facilities management, project management, consulting and appraisal. The firm has more than $4 billion in assets under management globally. A recognized leader in local and global real estate research, the firm publishes its market information and studies online at www.cushmanwakefield.com/knowledge.

VALUATION & ADVISORY

Our Valuation & Advisory (V&A) group is one of the largest and most well respected real estate valuation practices in the industry, and is well resourced to advise our clients on important equity and debt decisions. We are widely recognized for providing the most sophisticated advice involving complex real estate on a global scale. Our V&A professionals have real-time access to the market data and insights of C&W's brokerage, research and capital markets experts. Our model - unique to the industry - combines the best of research analytics and real estate consulting expertise to develop and implement advanced real estate solutions.

When you need to make critical decisions involving your real estate, we provide best in class valuations and advice. We offer a wide range of valuation and advisory services related to acquisition, disposition, financing, litigation and financial reporting.

Our core services include:

- Appraisal
- Appraisal Management
- Dispute Analysis & Litigation Support
- Portfolio Valuation
- Property Tax
- Specialized Services
- Valuation for Financial Reporting

For more than 30 years, C&W has been the trusted valuation advisor to corporations, institutions and investors around the globe. With more than 580 V&A professionals located in major markets throughout the world, we have the global reach and experience to meet all your real estate needs.

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10019-6178
www.cushmanwakefield.com/knowledge

For more information, contact:
Michael J. Schaeffer, MAI, FRICS
+1 (312) 470 1870
michael.schaeffer@cushwake.com

FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

Michael J. Schaeffer, MAI, FRICS
Executive Managing Director
Valuation & Advisory
T +1 (312) 470 1870
M +1 (847) 767 3582
mike.schaeffer@cushwake.com

James D. Carpenter
Executive Director
Industrial Capital Markets
T +1 (312) 470 3830
M +1 (847) 400 6484
james.carpenter@cushwake.com

James L. Dieter, SIOR
Executive Vice President
Industrial Operations
T +1 (847) 518 3225
M +1 (630) 542 3301
jim.dieter@cushwake.com

John Morris
Senior Managing Director
Head of U.S. Industrial Brokerage
T + 1 (847) 518 3218
M +1 (630) 234 2333
john.morris@cushwake.com

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10019-6178
www.cushmanwakefield.com/knowledge

For more information, contact:
Michael J. Schaeffer, MAI, FRICS
+1 (312) 470 1870
michael.schaeffer@cushwake.com