

INTERNATIONAL TRADE AND PRODUCTION POWER AN INDUSTRIAL-LED RECOVERY; INVESTORS REMAIN CAUTIOUS

The industrial sector clearly transitioned into recovery in the second half of 2010, aided by a rebound in global consumption that stimulated manufacturing, inventory restocking and export volumes. In addition, the tremendous amount of fiscal stimulus directed to the Midwest region after the near collapse of the automobile industry served to stabilize the area. The confluence of these trends along with accommodative monetary policy featured prominently in the successful jump-start of the U.S. economy. Since then, recovery has progressed sporadically, often with mixed economic signals as demand drivers advance then fade from quarter to quarter. On balance, the U.S. economy is well ahead of where it was one year ago. Private sector industries have created 1.7 million new jobs on a year-over-year basis as of May, retail sales have surpassed their pre-recession levels, and credit markets have begun to thaw. The Fed's expansion of the money supply resulted in a steeper depreciation of the dollar and a surge in commodity prices. Strong global demand further contributed to the run-up in energy and food prices, which stirred inflation concerns in recent months. However, limited pricing power, a weak housing sector and still subdued wage growth will keep short-term inflation concerns at bay.

Industrial properties benefited from surging international trade, as higher levels of air cargo and seaport activity triggered demand for big-box industrial warehouses with proximity to coastal markets and intermodal transit hubs. Markets with exposure to technology, energy, trade and manufacturing began to stabilize earlier in the recovery, while metros posting higher vacancy and construction levels prior to the recession will struggle for another year. Consistent employment growth and greater availability of credit to small and midsized businesses is essential to aid demand for smaller multi-tenant warehouse, flex and business park space. A more broad-based recovery in fundamentals will renew investor confidence and stimulate sales. In addition, the sector's inherent stability and ties to growth-leading industries and higher spreads relative to the cost of debt will spur greater investor interest this year, prompting a decline in cap rates for better quality assets. Stronger NOI growth is anticipated across most markets this year, broadening investor appeal from the West Coast focus.

2011 ANNUAL INDUSTRIAL FORECAST



Economy: The economy is forecast to add 2 million jobs by year-end 2011. Strong export trends and strengthening payrolls in trade and transportation, manufacturing and other goods production sectors will generate consistent strong demand for industrial space.



Construction: Historically low construction levels helped stabilize markets and stem the rise of vacancy across the country. Approximately 30 million square feet of new supply is forecast to deliver by year end.

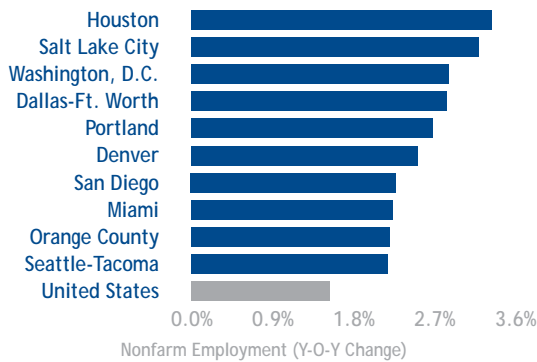


Vacancy: Strengthening demand will generate 78 million square feet of net absorption, resulting in a solid reduction in vacancy of 50 basis points, to 12.1 percent by year end. Tightening vacancy will result in greater pricing power for landlords.

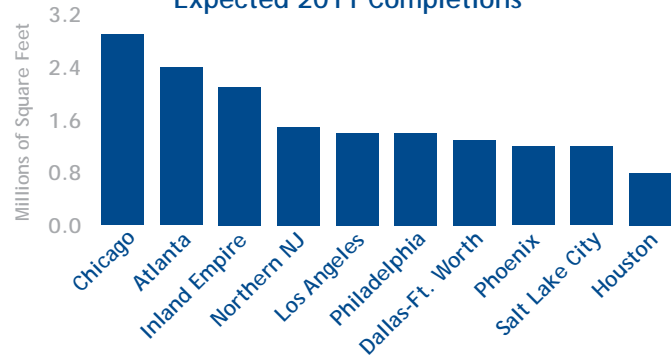


Rents: Asking rents will increase an average of 0.8 percent, while concession reductions will boost effective rents by 1.2 percent nationally. Rent and revenue gains in some markets will exceed national averages, depending on current vacancy levels, supply pipeline, industry concentration and concessions. NOI levels may remain challenged for another two years as current leases roll over to lower market rents.

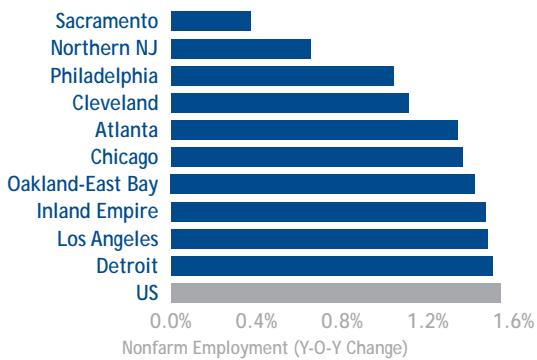
Markets with the Greatest Expected 2011 Employment Growth



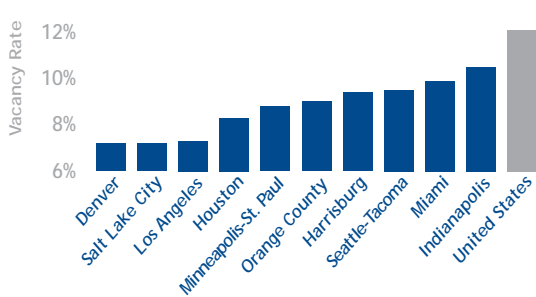
Markets with the Highest Expected 2011 Completions



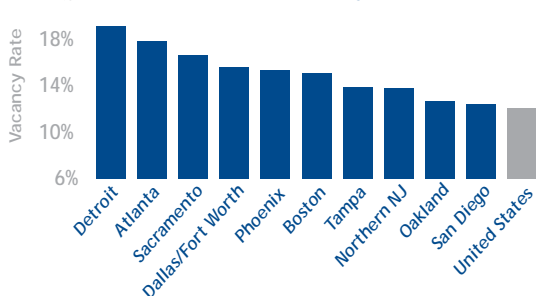
Markets with the Lowest Expected 2011 Employment Growth



Markets with the Lowest Expected 2011 Vacancy Rates



Markets with the Highest Expected 2011 Vacancy Rates

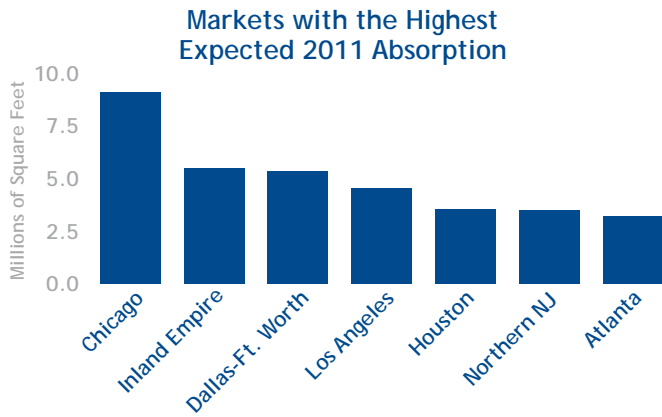


2011 National Industrial Index

Marcus & Millichap is pleased to present the 2011 edition of the National Industrial Index (NII), an analysis that ranks 27 industrial markets based on a series of 12-month forward-looking supply and demand indicators. Markets are ranked according to their cumulative weighted-average scores for various indicators, including projected employment changes, construction, net absorption, revenue change and vacancy. Taking into account both the level and degree of change of multiple variables over the forecast period, the index is designed to indicate our expectations for this year's supply and demand conditions at the market level.

Users of the index are cautioned to keep several important points in mind. First, the index is not designed to predict the performance of individual investments. A carefully selected property in the bottom-ranked market could outperform a poor choice in the top-ranked market. Second, the index is geared toward a short-term time horizon. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its operating fundamentals are improving. It is also important to note that because the NII is an ordinal index, differences in specific rankings should not be misinterpreted. For example, the top-ranked industrial market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

Top Markets Linked to Energy or Trade. The markets positioned at the top of the NII represent a diverse group of metros with the lowest vacancy rates and strong ties to the trade, energy, manufacturing and technology sectors. Vacancy will decline in 26 of the 27 markets included in the NII, and 25 will post positive effective rent growth. Five markets will record effective rent growth of 3.0 percent or greater. Five coastal, two Midwestern and two Texas markets anchor the top third of the index, alongside Denver. With strong linkages to port activity and energy, Los Angeles (#1) advanced one place to best Houston (#2), which held the top spot last year. Seattle (#3) advanced five places on the strength of its high technology focus, and Denver (#4) declined one spot from last year. Denver, a well-established energy and technology hub, ties with Salt Lake City for the lowest vacancy rate in the index at 7.2 percent. Orange County (#5) and Chicago (#6) each advanced one position, while Minneapolis (#7), slipped three positions in this year's ranking. Minneapolis still looks strong across most metrics, but Seattle, Orange County and Chicago have greater momentum. Rounding out the top 10, Miami (#8) soared eight positions in the Index, tying with San Bernardino/Riverside (#15) for the largest positive change in position. Harrisburg (#9) retained its position from last year, benefiting from single-digit vacancy, a forecast of strong demand, and the lowest level of new supply in the index. Dallas-Fort Worth (#10) slipped five spaces because it posts the third-highest vacancy rate and fourth-largest volume of new supply



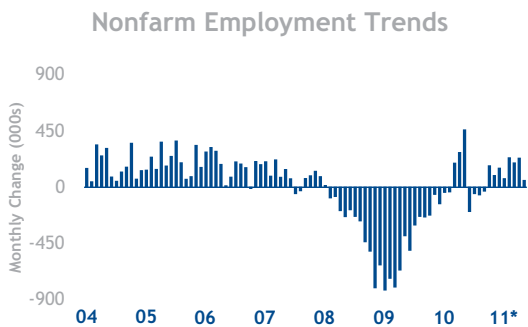
delivering in 2011; it maintains a top-10 ranking, however, because of its pivotal position as an international and intermodal transit hub.

High Vacancy Rates Slow Revenue Recovery Prospects. A mix of geographies fill out the 10 weakest positions in the overall rankings. Sacramento (#27) occupies the bottom rung of the index, slipping seven spots from last year. Sacramento and Detroit (#25), which climbed two positions from last year, are the only two markets in the index forecast to endure another year-over-year revenue decline. Atlanta (#26) retained its low ranking this year, plagued by stubbornly high vacancy. Oakland-East Bay (#23) and Cleveland (#24) slipped four and two places, respectively. Both metros rank in the middle of the pack across most metrics, with decent growth prospects and vacancy close to par with the U.S. level, but their recovery will lag other metros until market demand drivers gain momentum. Salt Lake City (#19) and San Diego (#21) each dropped six positions. Salt Lake City, despite having the second-lowest industrial rents, offers the highest level of concessions in the country. San Diego’s vacancy rate remains some 500 basis points above trend, and demand prospects for this year hover on the low end of the rankings, resulting in weak revenue growth prospects. Boston (#20) ceded two places on the index while Phoenix (#22) advanced two. Boston has corridors of strength with lower vacancy, but struggles with a perennially high metro-wide vacancy rate and concessions. The metro’s economy and housing market have recovered well and will likely climb higher in next year’s ranking. The Phoenix housing market continues to weigh on the metro’s economic performance and its index ranking. The industrial vacancy rate is the fifth-highest in the index; too high to post significant revenue gains this year.

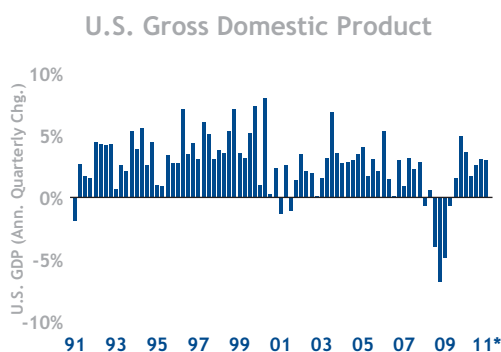
Mid-Ranked Markets Reveal Geographic Diversity in Recovery. Indianapolis (#11) will post the strongest vacancy recovery, moving the market up one position from of last year. Portland (#12) climbed two spots as it moves into a nascent recovery. Vacancy remains well above trend and rents flat, but Intel, Nike and Boeing are expanding. Philadelphia (#13) and Northern New Jersey (#14) moved in opposite directions, up four and down four places, respectively. Philadelphia’s vacancy is already declining and rents are beginning to gain traction. Market conditions in New Jersey have improved as well, but vacancy remains elevated and rents depressed. San Bernardino/Riverside (#15) is forecast to record the second-highest net absorption in the index, resulting in a 100 basis point decline in vacancy. The metro moved up eight spots in the rankings. Washington, D.C., (#16) made one of the bigger drops in the index, down five spots. New supply has consistently outpaced demand for the past five years and vacancy remains elevated. Trade ties to Latin America, in particular, helped elevate Fort Lauderdale (#17) four positions ahead of last year. Tampa-St. Petersburg (#18) advanced seven positions on a forecast of strong demand, significantly tightening vacancy and generating solid revenue growth. Florida’s housing market remains volatile, but international commerce and tourism have helped the state recover quicker than it would have otherwise.

MSA	Rank 2011	Rank 2010	10-11 Change
Los Angeles	1	2	▲ 1
Houston	2	1	▼ 1
Seattle-Tacoma	3	8	▲ 5
Denver	4	3	▼ 1
Orange County	5	6	▲ 1
Chicago	6	7	▲ 1
Minneapolis	7	4	▼ 3
Miami	8	16	▲ 8
Harrisburg	9	9	■ 0
Dallas-Fort Worth	10	5	▼ 5
Indianapolis	11	12	▲ 1
Portland	12	14	▲ 2
Philadelphia	13	17	▲ 4
Northern New Jersey	14	10	▼ 4
San Bernardino-Riverside	15	23	▲ 8
Washington, D.C.	16	11	▼ 5
Fort Lauderdale	17	21	▲ 4
Tampa-St. Petersburg	18	25	▲ 7
Salt Lake City	19	13	▼ 6
Boston	20	18	▼ 2
San Diego	21	15	▼ 6
Phoenix	22	24	▲ 2
Oakland-East Bay	23	19	▼ 4
Cleveland	24	22	▼ 2
Detroit	25	27	▲ 2
Atlanta	26	26	■ 0
Sacramento	27	20	▼ 7

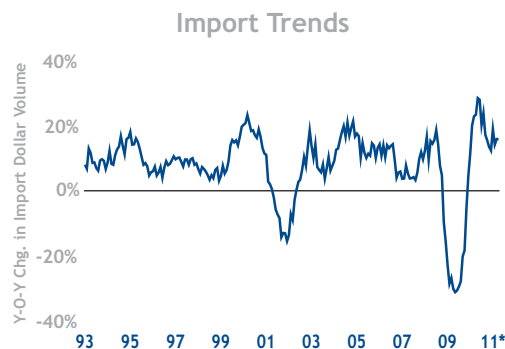
Mixed Signals – Industrial Market Drivers Surge and Recede



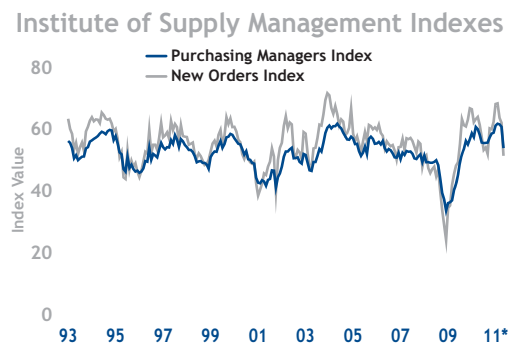
* Through May
Sources: Marcus & Millichap Research Services, BLS



* Forecast
Sources: Marcus & Millichap Research Services, BEA



* Through April
Sources: Marcus & Millichap Research Services, U.S. Census Bureau



* Through May
Sources: Marcus & Millichap Research Services, ISM

The question of whether the U.S. has truly entered economic recovery has largely segued to a discussion of relative strength and durability, although the economy continues to record gains on the low side of expectations and follow a flatter trajectory for recovery. Changes in global demand and exogenous events induced swings in commodity prices that resulted in an ongoing surge and recede pattern in important economic indicators, such as trade, and corporate and consumer spending. Seasonality and inclement weather contributed in varying degrees to disappointing first quarter economic data because of either outright declines or simply a deceleration in the pace of growth. Leading manufacturing and services indicators remain above pre-recession levels that signal strong expansion, but some areas have decelerated more recently from prior robust levels.

The primary drivers of the U.S. economy provided exceptional lift to the industrial sector since mid-year 2010. Expansion among developing countries stimulated U.S. manufacturers and raised exports, while technology products led a rebound in durable goods production. Private sector industries created nearly 1.7 million jobs measured on a year-over-year basis as of May 2011, reducing the unemployment rate by 50 basis points to 9.1 percent from one year ago. Nearly all industry sectors recorded higher payrolls, while losses in state and local government accelerated. Curtailed spending by governments, businesses and consumers, sapped by sharp increases in gasoline prices, resulted in a sharp downturn in GDP to 1.8 percent from 3.1 percent in the previous quarter. Higher oil prices also weighed on GDP, precipitating a strong upturn in oil imports and offsetting slower export growth. On balance, strength in manufacturing production and inventory accumulation contributed positively to GDP growth. The expected retreat in gasoline prices concurrent with rising wages from job growth should eventually stimulate stronger consumer demand and bolster productivity. In addition, the recent corporate rush to raise debt before the Fed ends the Treasury-bond purchase program may indicate that companies are finally ready to invest rather than use the money to buy back stock or refinance existing debt. This suggests an imminent increase in capital expenditures, a boost in employment, and commensurate improvement in commercial real estate.

2011 Economic Outlook

The economy is forecast to add 2 million jobs in 2011, compared to 940,000 jobs last year, reducing the unemployment rate by 70 basis points to 8.7 percent. Strengthening payrolls in trade and transportation, manufacturing and other goods production sectors will further stimulate demand for industrial space.

GDP is forecast to average 3 percent in 2011 before trending up the following year. Surging equipment and software expenditures, harbingers of improved real wages and corporate profits will help boost employment. In addition, foreign trade and inventory restocking will further support industrial warehousing sector activities. The residential sector has yet to enter a sustainable recovery, but will be less of a drag on GDP.

Job growth and credit availability will unlock consumer demand for capital goods. Consumers and small businesses reluctant to buy “big ticket” items in recent years will expand spending on goods such as cars, computers and appliances as hiring improves, wages rise, and credit becomes more widely available.

The Fed’s QE2 policy is slated to sunset in June 2011. Private investors must return to the Treasury market to replace the Fed’s direct purchases. The withdrawal of government stimulus and higher levels of public sector debt will necessitate increased taxes and further spending cuts, and trigger higher interest rates. However, these actions may be deferred beyond the 2012 elections.

MSA Name	Vacancy (Year-End) ¹		Asking Rent per Sq. Ft. ¹		Completions (000s of Sq. Ft.)		Employment Growth ¹	
	10	11*	10	11*	10	11*	10	11*
Atlanta	18.2%	17.9%	\$3.25	\$3.27	2,863	2,400	-0.3%	1.3%
Boston	15.4%	15.1%	\$5.70	\$5.77	138	302	0.9%	2.0%
Chicago	12.7%	11.9%	\$4.11	\$4.15	137	2,900	0.7%	1.4%
Cleveland	12.2%	12.0%	\$3.37	\$3.38	581	374	0.5%	1.1%
Dallas/Fort Worth	16.6%	15.6%	\$3.70	\$3.75	945	1,300	2.0%	2.8%
Denver	7.8%	7.2%	\$5.17	\$5.22	90	387	0.4%	2.5%
Detroit	19.4%	19.2%	\$4.23	\$4.20	335	200	0.7%	1.5%
Fort Lauderdale	12.3%	11.9%	\$6.12	\$6.13	70	100	0.0%	2.1%
Harrisburg	10.2%	9.4%	\$3.76	\$3.84	78	100	-0.5%	1.9%
Houston	9.4%	8.3%	\$5.32	\$5.44	2,028	800	1.8%	3.3%
Indianapolis	11.7%	10.5%	\$3.73	\$3.80	152	352	0.4%	1.8%
Los Angeles	7.9%	7.3%	\$6.26	\$6.33	443	1,400	0.5%	1.5%
Miami	10.8%	9.9%	\$6.26	\$6.30	245	150	0.5%	2.2%
Minneapolis-St. Paul	9.2%	8.8%	\$4.82	\$4.91	24	391	0.2%	1.5%
Northern New Jersey	14.3%	13.8%	\$5.27	\$5.30	239	1,500	0.8%	0.6%
Oakland	13.1%	12.7%	\$7.22	\$7.25	41	250	-0.8%	1.4%
Orange County	9.5%	9.0%	\$7.88	\$7.99	420	263	0.9%	2.2%
Philadelphia	12.7%	12.1%	\$3.84	\$3.88	32	1,400	0.4%	1.0%
Phoenix	16.1%	15.4%	\$4.51	\$4.56	1,496	1,200	0.3%	2.1%
Portland	11.4%	10.7%	\$5.00	\$5.07	986	400	0.5%	2.7%
Riverside-San Bernardino	12.2%	11.2%	\$3.83	\$3.92	783	2,100	-0.5%	1.5%
Sacramento	16.3%	16.7%	\$3.51	\$3.50	21	400	-2.0%	0.4%
Salt Lake City	8.2%	7.2%	\$3.31	\$3.33	100	1,200	0.2%	3.2%
San Diego	12.8%	12.4%	\$9.72	\$9.75	233	176	0.8%	2.3%
Seattle-Tacoma	10.4%	9.5%	\$5.40	\$5.47	450	429	0.5%	2.2%
Tampa	14.6%	13.9%	\$4.61	\$4.64	11	400	0.1%	2.2%
Washington, D.C.	12.2%	11.9%	\$7.00	\$7.23	168	700	1.1%	2.9%

* Forecast ¹ See National Industrial Index Note on page 8.

Global Demand, Consumption and Inventories Energize Industrial Market Recovery

The industrial market gained clear momentum in the second half of 2010 following significant rebounds in primary demand drivers. The turnaround in retail sales, foreign trade, production and restocking manufacturers' inventories spurred industrial space requirements and positive net absorption following six consecutive quarters of a severe contraction in demand for industrial space. The net loss in occupied space totaled nearly 160 million square feet in less than two years, more than three times the loss recorded during the 2001 recession. Historically low construction levels eventually helped stabilize operations and stem the rise in vacancy rates across the country, but firming did not occur quickly or evenly. The national industrial vacancy rate climbed 360 basis points over a 12-quarter period before peaking at 12.8 percent in first quarter 2010. Thereafter, a decisive burst of net absorption totaling a combined 40 million square feet occurred in the most recent two quarters, nudging the vacancy rate down to 12.5 percent as of first quarter 2011. Near record-low supply additions contributed to righting the industrial sector but, on balance, the majority of metro industrial markets remains oversupplied. The momentum shift has not yet carried through to higher rents at the national level, which recorded a 3 percent to 4 percent annual loss in the first quarter of this year.

Coastal Markets, Class A and Big-Box Warehouse Post Strongest Improvements; Regional Disparity Remains. Not all regions and property types benefited equally from this nascent stability in the industrial sector because the early reversal in demand does not yet represent a broad-based recovery in industrial space fundamentals. Industrial markets with high exposure to leading demand drivers in the technology, energy, trade and manufacturing sectors benefited early in the recovery cycle. East Coast and West Coast markets and gateway inland trade hubs led demand and generally exhibited positive net absorption. Markets tied to strong port activity, such as Los Angeles and the Inland Empire, New York and Northern New Jersey, outperformed most markets, particularly in big-box warehouse space. Sunbelt and Midwest markets struggled more because of higher construction and vacancy rates prior to the recession. Texas markets capture huge demand and prove an exception to this rule, including most notably Houston, where single-digit vacancy prompted positive effective rent growth.

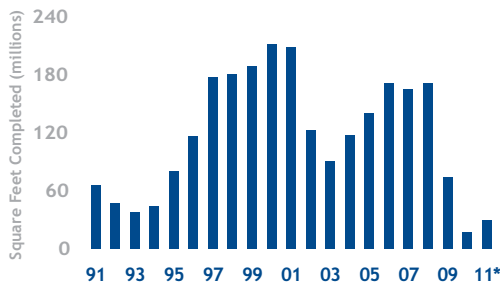
2011 National Industrial Forecast

- ◆ **Vacancy to Continue Downward Drift.** Mounting demand will outpace a modest supply pipeline. The national industrial vacancy rate will decline another 40 basis points to 12.1 percent by year end. Net absorption will register a solid year at nearly 78 million square feet, in line with the early 1990s' recovery years when tight financing conditions blunted supply and vacancy dropped to single digits.

- ◆ **Space Demand Recovery Broadens Beyond Warehouses.** Changes in shipping patterns from port expansions and development, and rail line improvements will shift demand for warehouse space around the country. Higher finish space in R&D and back office space will capture healthy demand from technology hubs in California, Portland and Seattle. A more liquid credit market will facilitate small business expansion and aid demand for smaller multi-tenant warehouse, flex and business park layouts. Strengthening retail sales will continue to boost demand for distribution centers and warehouses.

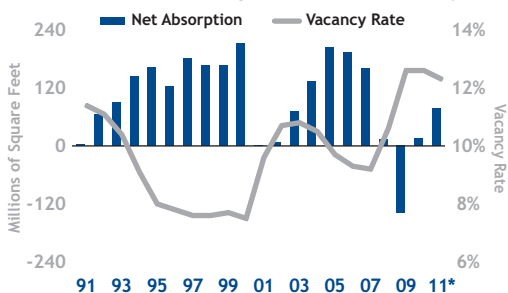
- ◆ **Limited New Construction Strengthens Pricing Power.** Completions in 2011 will total approximately 30 million square feet, spurring occupancy and rent gains. Asking rents will increase on average 0.8 percent, while a reduction in concessions will boost effective rents by 1.2 percent. Net operating income levels will remain challenged for at least two years as current leases roll over to lower market rents.

Industrial Construction Trends



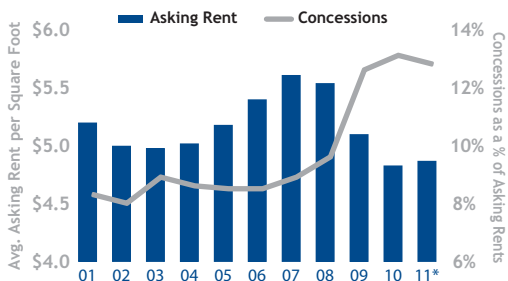
* Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Industrial Absorption and Vacancy



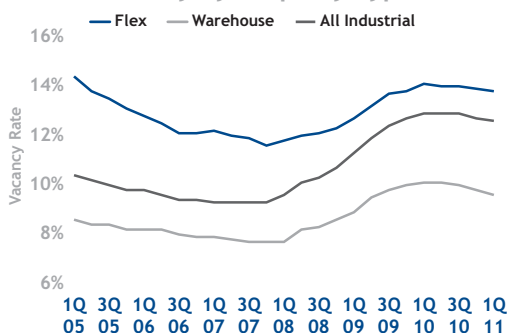
* Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Industrial Rent Trends



* Forecast
Sources: Marcus & Millichap Research Services, Reis, CoStar Group, Inc.

Vacancy by Property Type



Sources: Marcus & Millichap Research Services, Costar Group, Inc.

Graphs include data from CoStar Group, Inc.

Industrial Sector Leads Economic Recovery, Yet Transaction Volume Lags Other Properties

Investor appetite for industrial properties has compared less favorably to other commercial real estate product types and multi-family properties, up to this point in the current investment cycle. The effect of a severe contraction in demand for industrial space tarnished the appeal of industrial acquisitions. In addition, the ubiquitous nature of industrial properties generally doesn't fit the "trophy" profile that was mandated by conservative institutional and foreign investors following the recession. The initially wide bid-ask spread that prevailed across sectors aligned more quickly for apartment and office properties in part because of limited offerings of quality assets in top markets, which caused cap rates to decline and pricing to increase. Conversely, listings of industrial properties consistently swamped by two or three times the number closed deals, impeding any traction in pricing. The result was much slower progress in price and value recovery for industrial properties over the past three years relative to other sectors. Industrial transaction volumes spiked in third and fourth quarters of 2010, notably coinciding with a surge in demand for warehouse space. This flurry of sales did not extend into first quarter 2011, however, with industrial dollar volume recording a 66 percent sequential decline from the previous quarter and trending well below the average volume of the past 12 quarters. Measured on a rolling 12-month basis, however, sales dollar volume doubled, albeit off very low levels, and quarterly volume rose 8 percent higher than the same period last year.

The industrial sector's inherent stability and ties to growth-leading industries, and higher spreads relative to the cost of debt will spur greater investor interest this year, prompting a decline in cap rates for quality assets. Prices will decline for properties that lack solid cash flow, but a rising amount of equity is pursuing noncore investments. Transaction risk will expand in 2011, but buyers and lenders will scrutinize secondary locations relative to asset quality, proximity to infrastructure and competitiveness.

2011 Industrial Investment Outlook

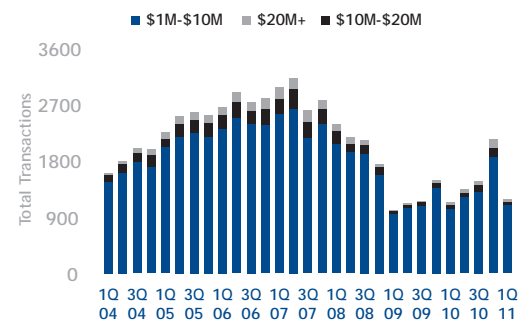
◆ **Recovery in Industrial Property Sales Will Strengthen.** Institutional and public REITs dominated acquisitions in 2010, which totaled nearly \$44 billion. Yields for the sector remain attractive since pricing did not benefit as much from cap rate compression as did other sectors. One exception is fully leased properties in trade and technology hubs, which will continue to post solid price appreciation. Higher NOI growth is expected across most markets, broadening investor appeal from the current West Coast orientation.

◆ **Industrial Prices Reach Bottom, Poised for Recovery.** Industrial prices hit a trough in 1Q10, marking a 25 percent decline from peak in the price per square foot, with a wide quality-based gap. The average price per square foot remained stable at \$51 for the year, reflecting an 8.7 percent cap rate. Cap rates for assets in primary markets lifted 150 basis points from the market peak, compared with 200 and 230 basis points for properties in secondary and tertiary markets, respectively. As industrial properties outperform office assets in operational recovery, stronger industrial sales will reflect a significant renewal of investor confidence and optimism.

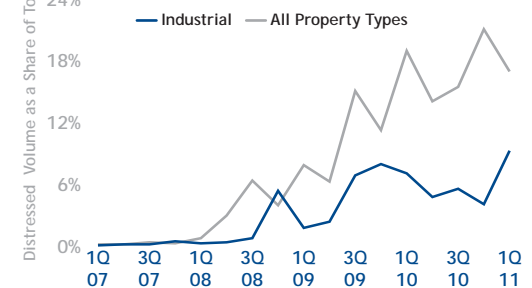
◆ **Investor Demand to Broaden Beyond Warehouse Properties.** Warehouse properties capture roughly two-thirds of current industrial sales. Demand will remain strong for this product type but also will diversify to other segments as smaller businesses participate in economic growth and stimulate demand for multi-tenant facilities.

◆ **Distressed Sales Will Increase, but Quality Will Remain Low.** Distress sales only comprise 9 percent of current industrial sales volume, the lowest of all properties. Approximately 86 percent of distress property sales last year occurred in transactions of \$5 million or less, while less than 2 percent occurred in transactions of \$20 million or more. Improving fundamentals will aid more workouts over the year.

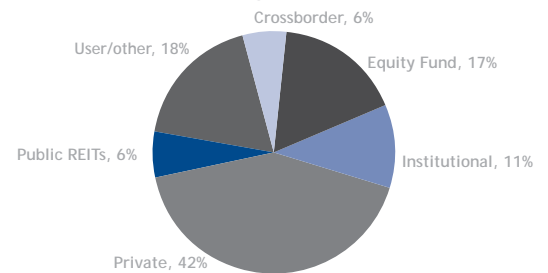
National Industrial Transactions



Distress as a Share of Total Industrial Dollar Volume

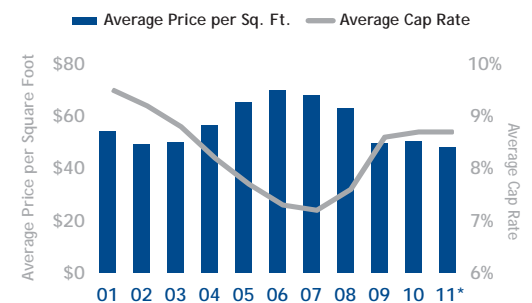


Industrial Buyer Profile Mix



* As of 1Q11

Industrial Price and Cap Rate Trends



* As of 1Q11

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

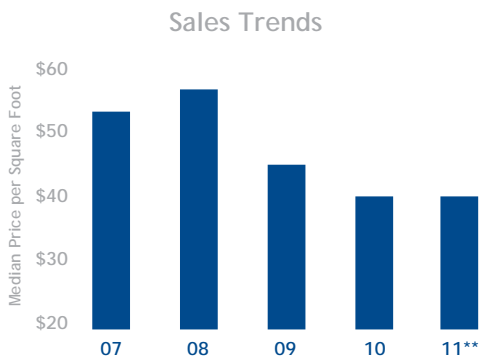
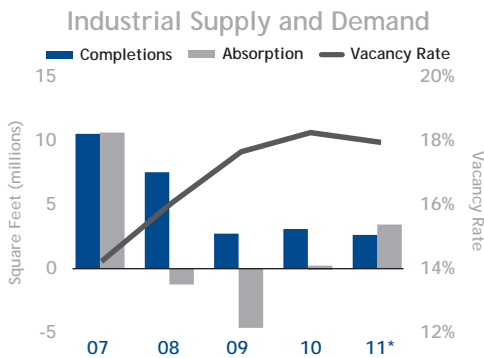
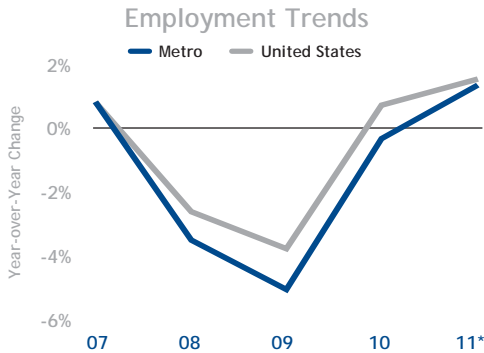
Atlanta's Distribution Network Turning Corner, Full Recovery Remains Elusive

Atlanta's industrial market will continue to strengthen in the latter half of the year as activity at Port of Savannah increases and the Atlanta airport expands operations. The Port of Savannah is the fastest growing port in the nation, and the global recovery continues to boost activity at the harbor, with the container volume increasing by 8.5 percent in the past year. With a proposed deeper harbor, the Port of Savannah will be able to handle double the amount of cargo, which will help lure logistic businesses to expand or relocate to Atlanta, where roughly \$8 billion in cargo passes through each year. At the Hartsfield-Jackson International Airport, meanwhile, construction is underway of an international terminal to meet the growing demand for a global logistics hub. When completed in 2013, the terminal will support long-term demand for warehouse/distribution space near the airport.

As operations stabilize, deal flow will tick up in Atlanta as risk-averse investors return to the market for long-term upside potential. Investment activity will be most profound north of Interstate 20, especially in growing areas of Gwinett and Cobb counties, where a number of listings will draw interest from industrial REITs and institutions. Investors priced out of coastal markets will also re-emerge, repositioning their portfolios by targeting mid- and top-tier warehouse/distribution centers along major transportation routes. Properties with creditworthy tenants command first-year returns in the mid-8 percent range and may continue to tighten in the second half of the year as bidding intensifies. Local syndicates will seek deals near the Hartsfield-Jackson International Airport, targeting larger Class B/C properties below the \$5 million threshold with deferred maintenance for short-term value-add plays. Assets in Fulton and Clayton counties will trade below replacement costs with cap rates in the low-8-percent range.

2011 Market Outlook

- ◆ **2011 NII Rank: 26, No Change.** Soft employment growth and still-active developers kept Atlanta near the bottom of the ranking.
- ◆ **Employment Forecast:** Atlanta employers will expand the labor force by 1.3 percent in 2011, with the addition of 30,000 workers. Last year, payrolls dwindled for the third consecutive year after companies cut 7,200 jobs.
- ◆ **Construction Forecast:** Builders will deliver 2.4 million square feet of industrial space this year, increasing inventory levels by 0.8 percent after completing 2.9 million square feet in 2010.
- ◆ **Vacancy Forecast:** An increase in demand for warehouse/distribution space will drive down vacancy 30 basis points to 17.9 percent by year end. In the previous 12-month stretch, vacancy retreated 50 basis points.
- ◆ **Rent Forecast:** Supported by a rise in demand, owners will raise asking rents 0.6 percent in 2011 to \$3.27 per square foot, while effective rents will increase 0.7 percent to \$3.04 per square foot.
- ◆ **Investment Forecast:** Investment activity will precede strengthening tenant rosters as local and regional investors looking for higher yields will target lower-tier distribution centers near major thoroughfares such as Interstate 85 and 75. These savvy investors will hold for three to five years before re-evaluating.



*Forecast **Trailing 12-Month Period

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast

Employment: 1.3% ▲

Construction: 2.4M ▼

Vacancy: 30 bps ▼

Asking Rents: 0.6% ▲

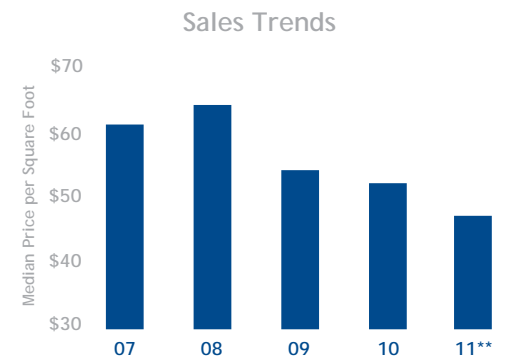
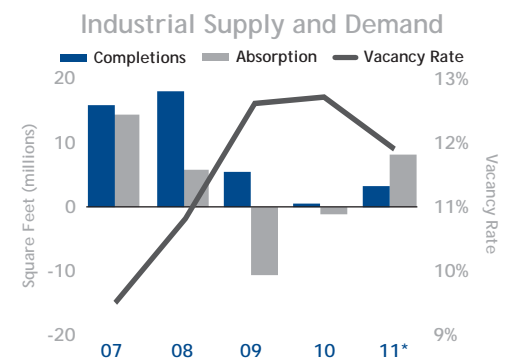
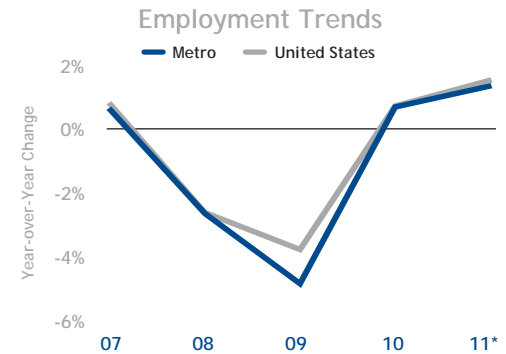
Limited Construction, Resurgent Demand Driving Chicago Industrial Recovery

Employment growth and positive net absorption have initiated a recovery in the Chicago industrial property sector and placed the market on course to record its first vacancy decline in five years during 2011. Space demand in large properties remains steady, but smaller buildings also have joined the recovery, a positive trend for the entire sector. Through the first quarter of this year, buildings measuring up to 100,000 square feet had recorded two consecutive periods of positive net absorption, the first such streak in three years and an indication that new business creation has accelerated. Additional growth in construction, manufacturing and wholesale trade employment will drive further gains in demand for smaller multi-tenant buildings over the remainder of 2011, contributing to the first yearly increase in occupied space since 2008. As improving space demand paces the early phase of the recovery, construction remains minimal. Projects slated for completion this year will exceed last year's paltry total, but will fall far short of the average of 10.7 million square feet completed annually over the past 10 years.

Encouraged by the emerging recovery in property operations, investment activity continues to gain momentum as a more liquid market develops for a broader array of properties. Sales of manufacturing properties, for example, surged more than 40 percent in the past year, and several purchases by owner/users suggest greater availability of credit. For investors, the focus remains on assets leased to highly rated corporate tenants, though improvements in operations may encourage some prospective buyers to assume greater re-leasing risk as 2011 progresses. Generally, cap rates for most properties range from the low- to high-8-percent range. Multiple portfolio sales to large or institutional investors earlier this year occurred at cap rates in the mid- to high-6-percent range, establishing a benchmark for best-in-class assets. Newer, intermodal facilities in the western suburbs will likely generate intense interest when listed for sale.

2011 Market Outlook

- ◆ **2011 NII Rank: 6, Up 1 Place.** Healthy job gains in industrial sectors and minimal supply additions pushed the market up one place in the NII.
- ◆ **Employment Forecast:** Total employment in the Chicago metro will increase 1.4 percent, or by 58,000 workers, in 2011, compared with the addition of 29,800 jobs last year. About 60 percent of the jobs created in the metro through the first quarter were in sectors that occupy warehouse, distribution and flex space.
- ◆ **Construction Forecast:** This year, 2.9 million square feet of space will be delivered in the market, a 0.2 percent increase in inventory.
- ◆ **Vacancy Forecast:** Minimal construction and positive net absorption of 9.1 million square feet will push down the marketwide vacancy rate 80 basis points in 2011 to 11.9 percent, following a 10 basis point uptick last year.
- ◆ **Rent Forecast:** Improving demand will support a 1 percent increase in asking rents this year to \$4.15 per square foot, and a 1.7 percent rise in effective rents to \$3.62 per square foot.
- ◆ **Investment Forecast:** A large stock of modern, distribution properties and Chicago's stature as a regional and national distribution center will continue to sustain strong institutional and large investor bids on warehouse and distribution properties.



*Forecast **Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast

Employment: 1.4% ▲

Construction: 2.9M ▲

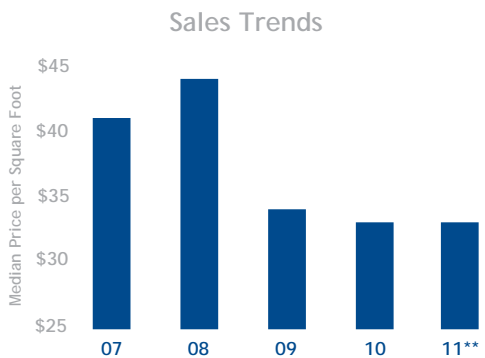
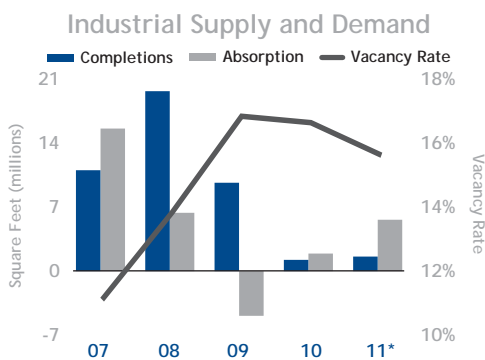
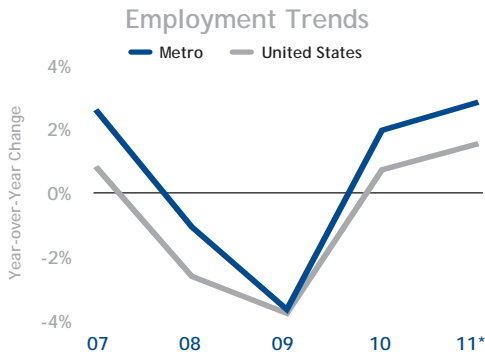
Vacancy: 80 bps ▼

Asking Rents: 1.0% ▲

Investment Surges in Metroplex as Developers Sit on Sidelines

Limited construction continues to drive the recovery in the Dallas-Fort Worth industrial property market, but improving space demand will play a greater role in reducing vacancy and stimulating rent growth as 2011 proceeds. The most notable aspect of the market's recent performance, however, remains a dearth of construction. Projects slated for completion this year represent only one-tenth of average annual completions recorded over the past 10 years, as the recent economic downturn and limited access to financing have discouraged builders. In addition, planned projects are unlikely to start in the near term due to recent reductions in purchase prices and low rents, which remain 7 percent less than their pre-recession level. Signs continue to emerge, though, affirming that tenant closures and downsizings have slowed and space demand is reviving. Positive net absorption was recorded over the six months ending in the first quarter this year, with warehouse and distribution properties of 400,000 square feet and more recording an increase in occupied space of nearly 700,000 square feet during this time.

Many investors, anticipating a more vigorous pace of expansion by tenants and more robust rent growth, have re-entered the market in the past 12 months, fueling a 30 percent increase in transaction velocity. Steady improvements in operating conditions and further expansion of financing will sustain a brisk pace of deals in the months ahead, with assets significantly occupied by top corporate credits comprising a primary target for investors. Class A assets in the market typically trade at cap rates from the low-7 percent to mid-8-percent range, while lesser quality properties change hands at around 9 percent. Recent decreases in property prices continue to support a strong bidding climate for large warehouse and distribution properties or portfolios. Sales of individual assets or portfolios of properties measuring more than 100,000 square feet have nearly doubled in the past year, with many trading at significant discounts to replacement cost.



*Forecast **Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

2011 Market Outlook

- ◆ **2011 NII Rank: 10, Down 5 Places.** High overall vacancy pushed the Dallas/Fort Worth market down five spots in the NII, though healthy overall job gains helped the area retain a top-10 ranking.
- ◆ **Employment Forecast:** Employers in the Metroplex created more than 27,000 jobs in the first quarter and remain on track to add 82,000 positions this year, a 2.8 percent increase. In 2010, 55,800 workers were hired.
- ◆ **Construction Forecast:** The 1-million square foot Whirlpool Distribution Center in Hutchins represents most of the 1.3 million square feet of space slated for delivery in 2011. Approximately 945,000 square feet was completed last year.
- ◆ **Vacancy Forecast:** Steady improvement in tenant demand as the year progresses will support a 100 basis point drop in vacancy this year to 15.6 percent. In 2010, the vacancy rate ticked down 20 basis points.
- ◆ **Rent Forecast:** In 2011, asking rents in the Metroplex will rise 1.4 percent to \$3.75 per square foot, following a 2.1 percent dip last year. After falling 2.4 percent in 2010, effective rents will advance 1.8 percent to \$3.37 per square foot.
- ◆ **Investment Forecast:** Interest in assets in the Alliance Texas area north of Fort Worth and properties near Dallas-Fort Worth International Airport will remain intense as the national economy continues to expand.

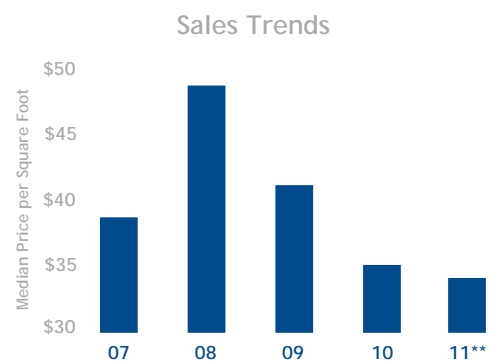
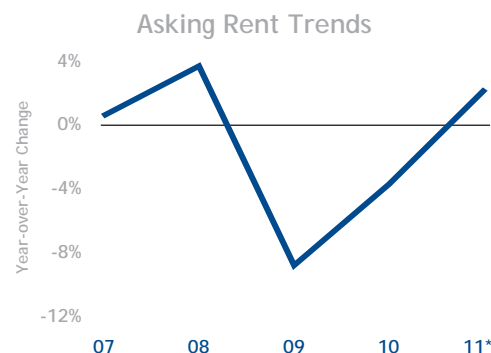
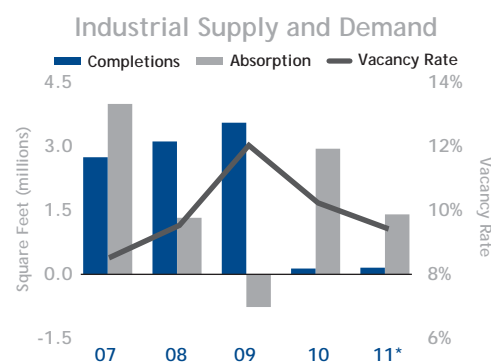
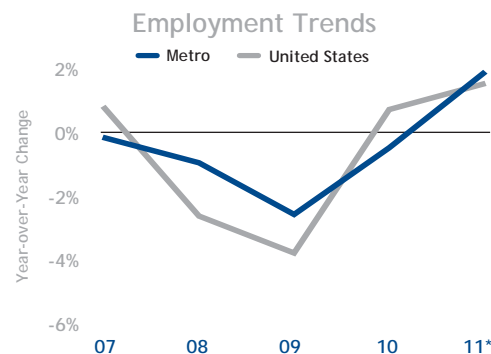
Sales Activity Returns to Pre-Recession Levels as Banks Loosen Lending Criteria

Industrial operations in Harrisburg will recover ahead of much of the nation in 2011, as the area's optimal logistical stance will lure corporate relocations, driving leasing activity for Class A warehouse/distribution space south of Interstate 81. Demand for newer, energy-efficient assets with amenities such as upgraded dock packages, configured warehouses, and higher clear heights in proximity to the Capital Beltway will propel the recovery. Bay Valley Foods, for example, recently took down 600,000 square feet of Class A logistics space along U.S. 11 in Carlisle, where quick access to major highways will increase productivity and reduce transportation times. At the same time, development will remain subdued in the latter half of the year, resulting in a shortage of quality supply in the Harrisburg metro. As a result, vacancy levels will fall to pre-recession levels of 9.4 percent by year end, returning rental pricing power to owners for the first time since 2009.

Sales velocity will return to pre-recession levels this year as most lenders begin to free up capital and loosen their lending criteria, luring investors with long-term strategies. Well-capitalized local and regional syndicates that have a good standing relationship with banks will target Class B/C warehouse properties below 50,000 square feet and east of the Susquehanna River in Dauphin County. Strategically located single-tenant assets near major transportation hubs such as the Harrisburg International Airport, U.S. 322 and Interstate 283 will continue to trade below replacement costs, offering buyers a potential upside once the market finds an equilibrium. Cash-equipped investors with a penchant for filling space can capitalize on these low prices. The median price for these highly vacant properties, particularly along U.S. 15 and U.S. 11, slid from the previous year and is currently in the \$20 per square foot range.

2011 Market Outlook

- ◆ **2011 NII Rank: 9, No Change.** Harrisburg held onto the number nine position in the index supported by single-digit vacancy.
- ◆ **Employment Forecast:** Employers in Harrisburg will beef up payrolls for the first time in four years, adding 6,000 workers to the labor force in 2011, expanding head counts by 1.9 percent. Last year, economic woes resulted in the elimination of more than 1,200 positions.
- ◆ **Construction Forecast:** Builders will complete 100,000 square feet of industrial space in Harrisburg this year, expanding inventory levels by a mere 0.1 percent. In 2010, developers added 77,600 square feet to the market.
- ◆ **Vacancy Forecast:** After plunging 180 basis points last year, vacancy will retreat another 80 basis points in 2011 to the pre-recession level of 9.4 percent.
- ◆ **Rent Forecast:** By year end, owners will increase rental rates for the first time in two years, raising asking rents 2.1 percent to \$3.84 per square foot, after cutting asking rents by 3.8 percent in 2010.
- ◆ **Investment Forecast:** Private, out-of-state investors will acquire vacated distribution/warehouse properties totaling 100,000 square feet and above along major transportation routes in Cumberland County with easy access to the Eastern seaboard. Many of these experienced buyers will have a tenant-in-tow.



*Forecast **Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

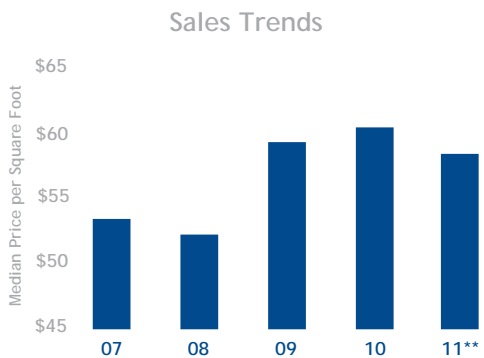
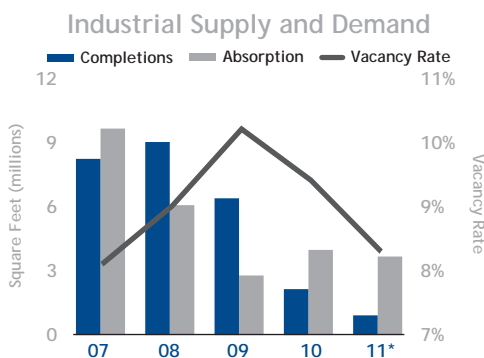
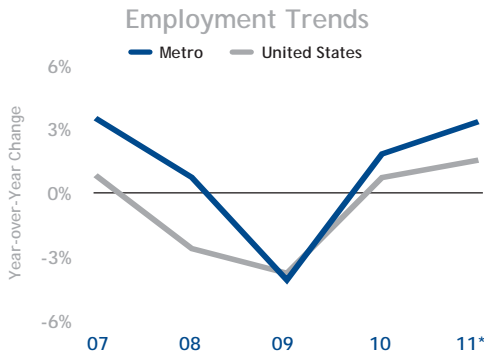
High Energy Prices Place Houston Industrial Market on Strong Footing

Houston's construction pipeline is thinning at a time when key drivers of local industrial space demand, particularly energy prices and container traffic, are strengthening, positioning the market for a strong 2011 performance. Demand-driven energy price growth bodes well for the region's near-term outlook, bringing downsizing and consolidation efforts recorded during the downturn to an end. As energy consumption and overall global trade rises in step with a U.S. economic recovery, leasing activity stands to rise, and space demand will improve. These key drivers, along with a 17-year low in additions to property stock, will support robust absorption of distribution and manufacturing facilities, especially near the Port of Houston, resulting in the market's first annual rent gain since 2008. Looking beyond 2011, the widening of the Panama Canal will further bolster demand for space in the Houston metro, as direct shipping with Asian markets will become more economically feasible.

Acquisition activity in Houston will build momentum through 2011 as both improving economic conditions and attractive lending rates pull both owner-users and investors off the sidelines. Last year, overall industrial sales velocity rose 12 percent, and year-to-date closings appear on track to surpass last year's transaction count. Closings thus far in 2011 have been bolstered by owner-users employment of sale-leaseback transactions, a trend that will persist through the second half of the year. During the remainder of 2011, single-tenant properties suited for manufacturing or heavy industrial applications, or specialized flex space will likely sell with cap rates ranging between 8.8 percent and 9.3 percent. Larger distribution and warehouse properties, meanwhile, will remain sought after by forward-looking, out-of-state investors seeking to reconfigure their portfolios to take advantage of greater demand likely to result from the canal widening. The availability of large, institutional grade warehouse/distribution assets will fall shy of demand due to a slowdown in builder-initiated deals, causing cap rates for such properties to settle at historic lows in the 7 percent range.

2011 Market Outlook

- ◆ **2011 NII Rank: 2, Down 1 Place.** Houston surrendered the top spot in the index, but strong across-the-board fundamentals limited the slide to one place.
- ◆ **Employment Forecast:** After nearly 45,900 jobs were added in the local labor market in 2010, marketwide payrolls will expand by 85,000 workers this year, a 3.3 percent gain.
- ◆ **Construction Forecast:** Roughly 800,000 square feet of new space will come into service in 2011, following the delivery of 2 million square feet last year.
- ◆ **Vacancy Forecast:** Vacancy will reach 8.3 percent this year, down 110 basis points from 2010, when vacancy improved 80 basis points.
- ◆ **Rent Forecast:** Asking rents will rise 2.3 percent to \$5.44 per square foot by year end, while effective rents will advance 3.0 percent to \$5.20 per square foot. Last year, asking and effective rents fell 2 percent and 1.6 percent, respectively.
- ◆ **Investment Forecast:** Newer assets leased to corporate tenants in the northwest section of the metro will remain prime targets for investors. Expectations for healthier operations will intensify bidding for such properties, however, prompting more buyers to consider a greater array of assets, including those facing operational challenges.



*Forecast **Trailing 12-Month Period

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

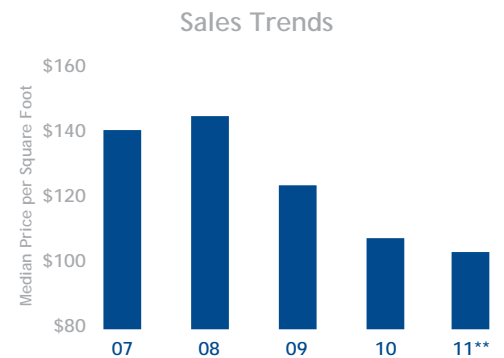
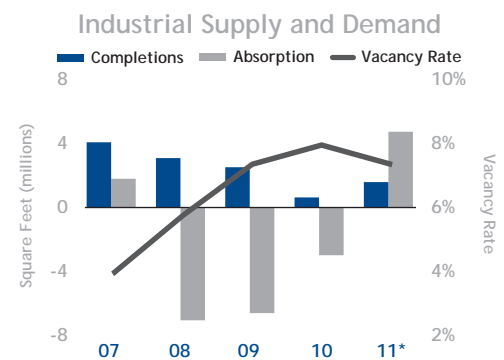
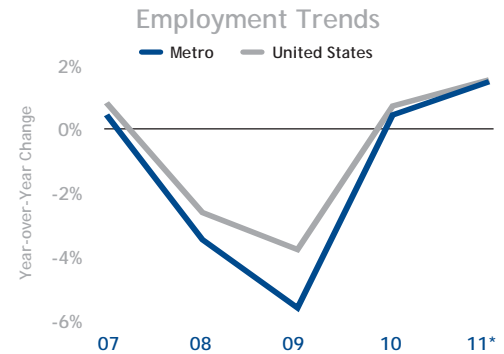
Upturn in Shipping Volume to Bolster Los Angeles Industrial Operations

Economic drivers needed to stimulate industrial leasing activity in Los Angeles continue to accumulate, laying the groundwork for operational improvements in the second half of 2011. As domestic consumption rose and retailers rebuilt inventories early this year, container traffic at the neighboring ports of Long Beach and Los Angeles, the nation's largest port complex, posted better-than-expected growth. A recovery in global trade will persist, aided by the weak dollar and recovering consumer spending, generating demand for warehouse/distribution in transport hubs such as South Bay and Long Beach. Completions of new properties, meanwhile, will remain well below trend, minimizing competition for tenants among owners of existing buildings. As a result, property vacancies in core areas accessible to major transport routes will improve and rents will rise, but a more robust recovery is at least another year away. A shrinking aerospace industry and slumping home building, among other factors, could weigh on space demand in the near term.

Industrial property sales in Los Angeles are once again on the rise as deal-seeking investors, owner-users and institutions are stepping up acquisitions in light of encouraging economic trends and favorable financing terms. Deal flow during 2010 rose 20 percent, and year-to-date closings are on pace to eclipse last year's figure. Although warehouse transactions accounted for 60 percent of all deals closed over the past 12 months, sales activity has picked up across all property types, driven partly by a migration of tenants from leased space to property ownership. For the balance of 2011, owner-users will continue to account for a large share of purchases of smaller properties priced below \$2 million due to the expanded availability of SBA financing. Larger transactions, though, will account for a growing share of all deals as major logistics firms pursue unique opportunities. During the most recent 12 months, for instance, sales of assets priced above \$10 million increased twofold, fueling a 30 percent increase in prices in this segment of the market. Cap rates for industrial properties, meanwhile, are expected to hold relatively steady between 7.5 percent and 8.5 percent.

2011 Market Outlook

- ◆ **2011 NII Rank: 1, Up 1 Place.** Los Angeles moved up to the top position in the index due to the area's recovering port activity and energy sector ties.
- ◆ **Employment Forecast:** After adding 17,000 jobs last year, employers will expand payrolls by 56,000 positions this year, a 1.5 percent increase.
- ◆ **Construction Forecast:** In 2011, additions to supply will total 1.4 million square feet, more than 50 percent below the five-year annual average.
- ◆ **Vacancy Forecast:** The marketwide vacancy rate will retreat 60 basis points to 7.3 percent by year-end 2011, after a 60 basis point rise in 2010.
- ◆ **Rent Forecast:** Asking rents are expected to edge up to \$6.33 per square foot this year as effective rents increase to \$5.98 per square foot, gains of 1.1 percent and 1.7 percent, respectively.
- ◆ **Investment Forecast:** Near-term global supply-chain disruptions aside, Japan's lengthy rebuilding efforts are likely to bolster demand for U.S. goods, strengthening regional industrial operations over the long term. As such, investors may increasingly examine properties near the metro's twin ports that cater to raw materials transloading needs.



*Forecast **Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast

Employment: 1.5% ▲

Construction: 1.4M ▲

Vacancy: 60 bps ▼

Asking Rents: 1.1% ▲

Latin America Ties Spark Miami-Dade Industrial Market Revival

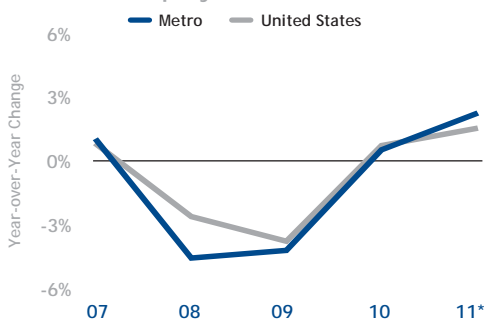
The positive effects of strong international trade on space demand and a barren construction pipeline will combine to reduce vacancy and support modest rent growth in Miami-Dade County this year. Port cargo has recovered from recessionary lows, while Miami International Airport continues to affirm its stature as the primary trade hub with Caribbean and Latin American countries. As a result, properties in the Medley, Airport North and Airport West submarkets continue to drive the countywide revival in property operations thus far. Collectively, properties in these submarkets account for 40 percent of the inventory in the market, but more than 60 percent of the space absorbed over the past year. Space demand will remain strong in these areas as air cargo volumes increase, and rents will start to rise here sooner than in other submarkets. Net absorption in other areas continues to rebound due to an improving job market but, generally, properties with mostly local tenants will recover more slowly than properties occupied by regional and national distributors.

Lower prices and expanded financing continue to draw investors back into the market. Sales velocity rose more than 25 percent in the past year, with many transactions thus far in 2011 involving assets with highly-rated corporate tenants. Cap rates on recently closed deals generally vary from the low-7-percent range for institutional-grade properties to more than 8 percent for most other property types. Keen interest in assets with defensive attributes such as strong, long-tenured tenants will persist, but improving operations may encourage additional investors to assume greater re-leasing risk. Well-located properties with relatively high vacancy that can be purchased at significant discounts may provide buyers with substantial gains as leasing and rents improve further as the recovery cycle takes hold. Risk-tolerant investors will likely focus on properties in the strong western portion of the county adjacent to the airport.

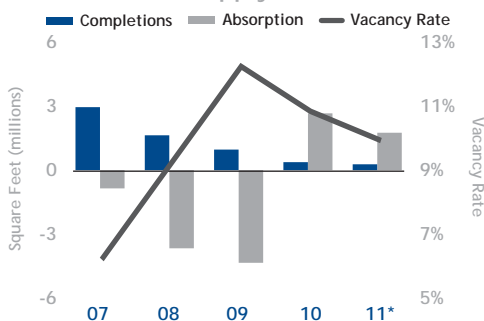
2011 Market Outlook

- ◆ **2011 NII Rank: 8, Up 8 Places.** Growth in international trade propelled Miami's eight-position jump in this year's ranking.
- ◆ **Employment Forecast:** Employers in Miami-Dade County will add 22,000 jobs in 2011, a 2.2 percent increase. The market staged a modest recovery in 2010, as 5,200 positions were added.
- ◆ **Construction Forecast:** Only 150,000 square feet of space will come online in the county this year. In 2010, a mere 245,000 square feet was placed into service, lowering annual average completions to 1.7 million square feet over the past 10 years.
- ◆ **Vacancy Forecast:** The countywide vacancy rate will fall to less than 10 percent for the first time in three years in 2011, declining 90 basis points to 9.9 percent. A 140 basis point drop was recorded last year.
- ◆ **Rent Forecast:** Strengthening tenant demand will support a 0.6 percent rise in asking rents this year, to \$6.30 per square foot. Effective rents will advance 0.8 percent to \$6.02 per square foot.
- ◆ **Investment Forecast:** Large warehouse and distribution assets remain a target. The widening of the Port of Miami shipping lane will accommodate larger ships, while Asian firms continue to employ the airport as a throughpoint for distribution into Latin America.

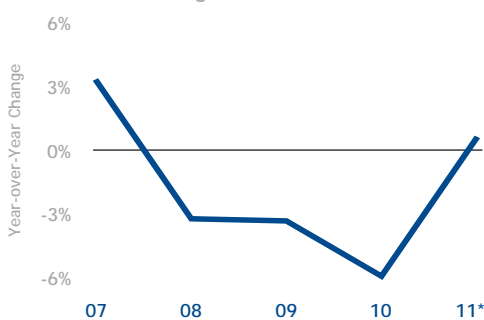
Employment Trends



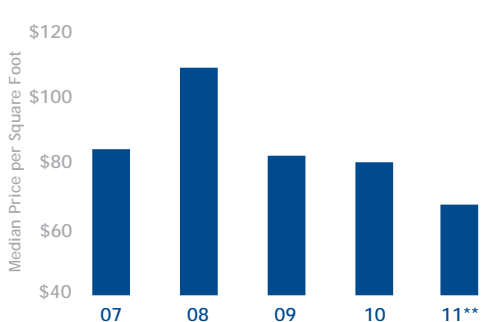
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



*Forecast **Trailing 12-Month Period

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

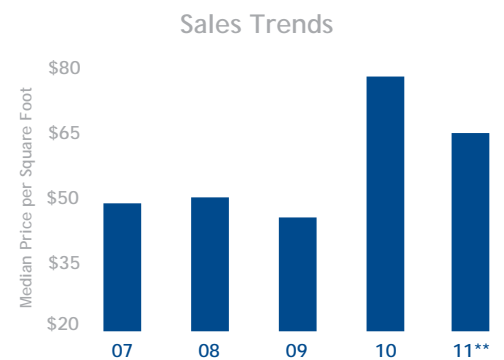
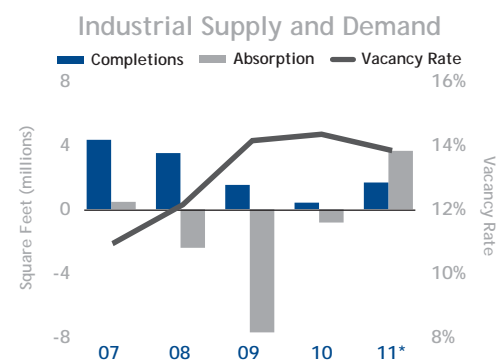
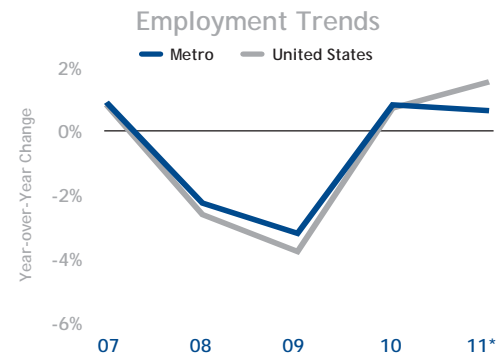
Corporate Restructuring and Relocations Fuel Demand for Class A Space

Operations in the Northern New Jersey industrial arena will improve this year as businesses relocate to the region and take down large blocks of space available at discounted rates. Corporate relocations and restructurings will be the driving force behind the surge in leasing activity, resulting in the first period of positive net absorption since the recession. Companies looking to be in proximity to Manhattan, Port of New York/New Jersey, and Newark Liberty International Airport will migrate to the region to reduce cost. Bartlett Dairy, for example, announced plans to relocate operations to a 105,000-square-foot distribution center in Newark and will transfer more than 400 jobs to the area by 2013. In the past year, more than 30 deals were inked for spaces above 100,000 square feet, a trend that will persist well into 2012. As companies take down these large blocks of space, available supply will thin, putting upward pressure on rents. As a result, owners will raise rental rates for the first time since 2008.

As operations improve and port activity continues to increase, investor confidence will return to Northern New Jersey this year, pushing up deal flow close to pre-recession levels. Sales velocity in the owner-user arena will be particularly prevalent this year, as volatile commodity prices are driving food distribution companies to relocate to areas near the Port of New Jersey/New York and Newark Liberty International Airport. These buyers will target warehouse/distribution facilities in the Foreign-Trade Zone 49, where more than \$410 billion worth of merchandise moves through annually, to save on duties and taxes. Low- to mid-tier properties in the area, particularly in Essex and Union counties, will trade with cap rates in the mid- to high-8-percent range. Out-of-state buyers, meanwhile, will pay cash for Class B/C flex and warehouse space in Hudson County near major thoroughfares such as state Route 495 and Interstate 78 within the Greenville Industrial Park. Single-tenant assets in these markets will trade at prices near \$120 per square foot, while multi-tenant properties will command an average of \$80 per square foot.

2011 Market Outlook

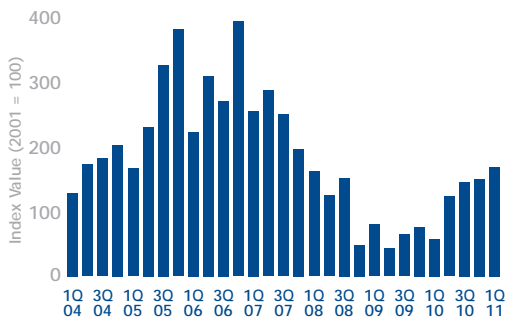
- ◆ **2011 NII Rank: 14, Down 4 Places.** Northern New Jersey fell four places in the index due to a below-average economic recovery.
- ◆ **Employment Forecast:** In 2011, employers in Northern New Jersey will build on last year's payroll expansion, generating 9,250 jobs, an increase of 0.6 percent. In 2010, companies added 11,700 positions.
- ◆ **Construction Forecast:** Construction activity will reach a three-year high in 2011 as builders deliver 1.5 million square feet of industrial space to Northern New Jersey, expanding inventory by 0.3 percent.
- ◆ **Vacancy Forecast:** Vacancy levels will slip 50 basis points this year to 13.8 percent, after ticking up 20 basis points in 2010.
- ◆ **Rent Forecast:** As leasing activity picks up, owners will raise asking rents 0.6 percent by year end to \$5.30 per square foot, the first increase in three years. In 2010, rental rates plunged 6.6 percent.
- ◆ **Investment Forecast:** Local and regional companies will target manufacturing properties proximate to major population centers and fed by transportation hubs such as Interstate 80 in Passaic and Bergen counties. Investors with excess space may even sublease some of the space in order to increase cash flow.



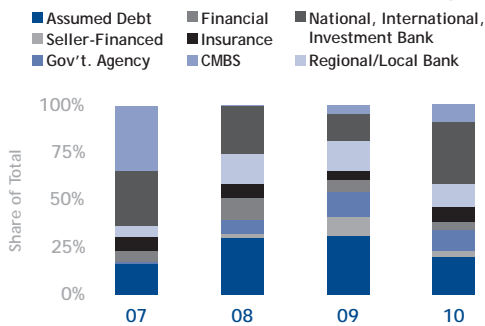
*Forecast **Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Competition Among Lenders Intensifies; Lenders Target Similar Buyer Profiles

Industrial Mortgage Originations Index



Sources of Acquisition Financing



Sources: Marcus & Millichap Research Services, MBA, RCA

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Many lenders have worked through their problem loans, shored up their balance sheets, and now purport to have higher allocations for commercial real estate loans at attractive rates. Lenders of all types, including regional banks, life insurance companies, finance companies and CMBS lenders, have returned to the commercial real estate market. Even funds originally formed as private equity in search of investment partners have reconsidered positions turning into lenders and direct investors. The current environment offers an abundance of competitive financing options and ready access to capital only for the most creditworthy borrowers, a dilemma that still needs resolution to return to a healthy, fully functional transaction market. Life companies still seek the lowest leveraged deals on stabilized assets in primary markets. Regional banks require solid relationships and borrowers with good track records; they prefer stabilized assets and underwrite with flexible but conservative terms, and with full recourse. Generally, loan to values average 70 percent, with debt service coverage ratios of 1.25 or higher. The revival of securitization, or CMBS lending, was anticipated as a means to quickly expand financing to higher levels along the risk continuum, but CMBS lenders have not yet reprised that function, instead focusing on larger trophy properties located in coastal or primary markets. Many CMBS lenders have added a B-Piece loan program in an effort to obtain higher LTVs, but the assets that underlie the loan portfolio still must be top tier in order to attract wary investors back to the CMBS market.

Throughout 2011, a meaningful shift in lending will occur when a significant and sustained upturn in both economic and supply-demand metrics, already fully underway, translates to proven operational performance. As this occurs and intense pricing for core assets in primary markets reduces loan profitability, lenders will expand appetites and seek transactions that fall outside the bell curve. Cap rates for industrial properties have compressed less than other property types, creating a favorable spread over interest rates. In the interim, private investors looking to finance the typical Class B and Class B minus property trading under the \$5 million to \$7 million range will still rely heavily on local and regional banks, loan assumptions and seller financing.

2011 Industrial Capital Markets Outlook

- ◆ **Slowing Economy Offers Potential for Rate Declines.** In-place quantitative easing, low inflation and the slowing economy have the potential to draw down treasury rates from 3.25 percent to 3.5 percent. Inflation and debt concerns make additional liquidity measures unlikely unless geopolitical pressures or housing-related losses escalate.
- ◆ **Conservative Underwriting Here to Stay.** Commercial banks still face significant volumes of loan maturities, the bulk of which come due from 2013 to 2015, and high stress on the residential side, thereby limiting the extent major banks can become aggressive industrial lenders. Industrial loan originations rose 81 percent in 2010, dominated by top-tier assets. Lending for lower quality, but not distressed assets will improve as economic performance proves out in the second half of 2011. Loan assumptions and seller financing, which accounted for 23 percent of commercial real estate financing in 2010, will moderate yet remain requisite to close the financing gap.
- ◆ **The Sectors Expected to Power Economic Growth Tie Directly to the Industrial Sector.** The trade, energy, manufacturing and technology sectors, later boosted by a strengthening retail sector, will invigorate industrial space requirements in a variety of markets, such as distribution and technology hubs. Furthermore, a more liquid credit market will enable small businesses to expand, heightening demand for a broader variety of industrial product. The confluence of these factors in tandem with the inherent stability in industrial properties will win over reluctant investors.

Note: Employment growth is calculated using seasonally adjusted monthly averages.

National Industrial Index Note: Employment and industrial data forecasts for 2011 are based on the most up-to-date information available and are subject to change. Due to the unprecedented depth and duration of the recession, the 2011 NII was re-benchmarked to account for each market's actual rent, vacancy and construction performance.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, CoStar Group, Inc., Economy.com, Real Capital Analytics, Reis, Torto Wheaton Research Services.