Grubb & Ellis Industrial Broker Sentiment Survey
First Quarter 2011

GRUBB & ELLIS®
From Insight to Results

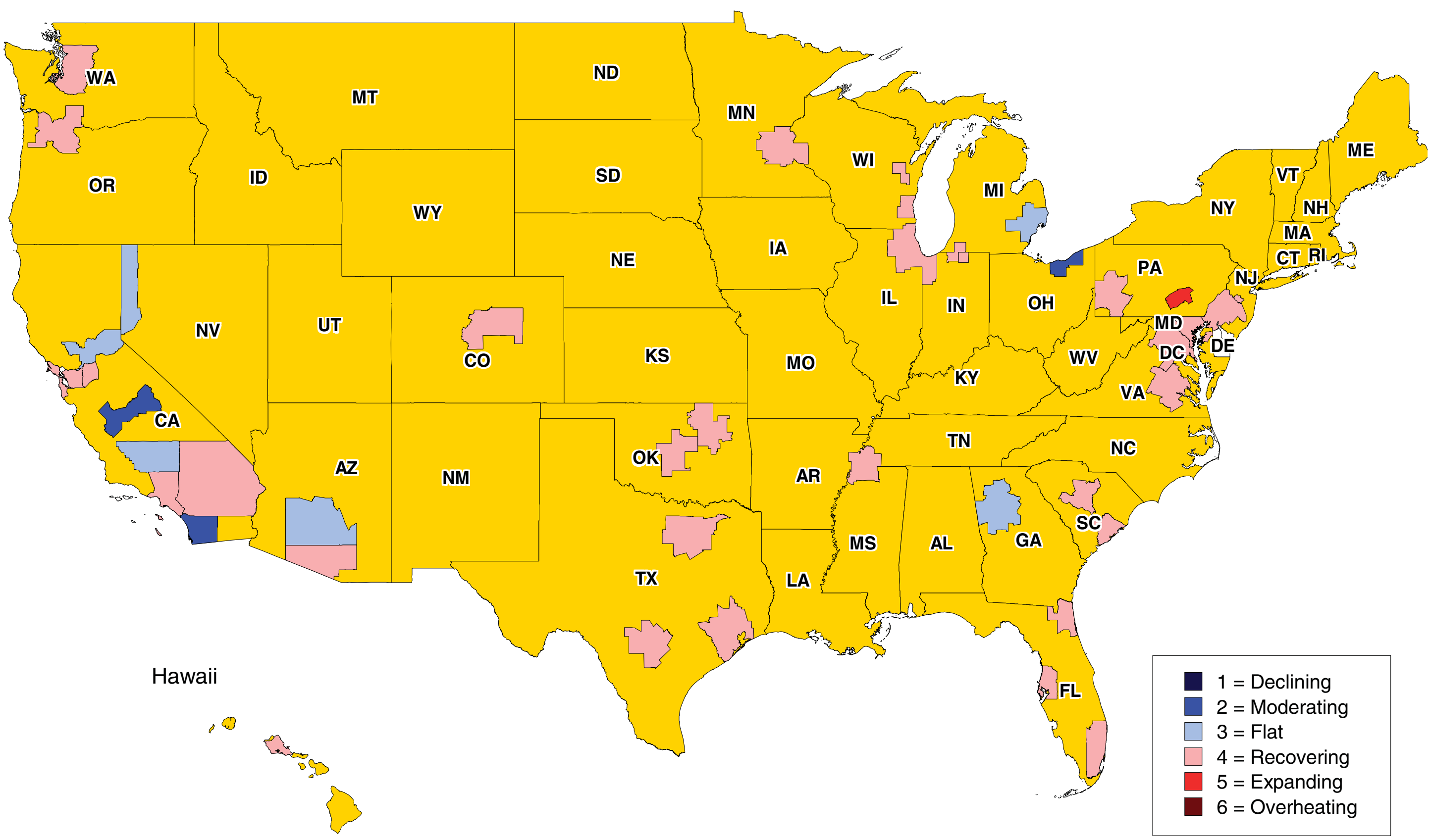
Introduction

The U.S. industrial real estate market bottomed in mid-2010 and has since been on the road to recovery. Net absorption in the first quarter of 2011 totaled 31 million square feet, suggesting that the recovery is accelerating. The national vacancy rate is just eight basis points above the psychologically relevant 10-percent mark, and the national availability rate, which is approximately 320 basis points higher than the vacancy rate, has been recovering at a similar pace.

Economic data is also pointing upward: after a slowdown in the first quarter, GDP growth for the reminder of the year is expected to come in at around 4 percent, industrial production is back to an all-time high, and the percent increase in activity at U.S. sea ports is up by double digits from a year ago. Statistically speaking, the market is definitely heading in the right direction, and conditions appear to be improving at an accelerating rate.

Statistics, however, do not always match the market's sentiment. In the broader economy, for example, consumer confidence is close to an all-time low despite the ongoing economic and stock market recoveries. The new Grubb & Ellis Industrial Broker Sentiment Survey is designed to complement our in-depth statistical reviews of the local and national markets and provide insight into the market from the real estate practitioner's point of view.

Market Activity Velocity



Note: The survey consists of more than 100 responses covering 44 local industrial real estate markets. Individual market results are not statistically significant.

Grubb & Ellis Company
1551 N. Tustin Avenue, Suite 300
Santa Ana, CA 92705
www.grubb-ellis.com

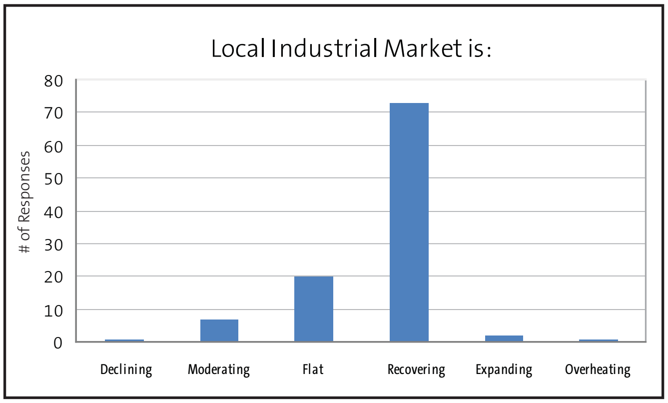
For additional information please contact:

Rene Circ *National Director of Research, Industrial*
312.224.3962 • rene.circ@grubb-ellis.com

©2011 Grubb & Ellis Company

OVERALL MARKET SENTIMENT

Local industrial real estate markets have stabilized and are improving across the country. Approximately 73 percent of the respondents see improvements, 19 percent see the market as stable and only eight percent see the market still worsening. Geographically speaking, 25 of the markets represented are growing, 16 are flat and three are still struggling.



While not all market segments are performing identically in all markets, respondents were three times as likely to use positive words like "improving" and "recovering" versus negative words like "weak" and "slow" when describing local market velocity. Only one respondent described his market as going "backwards."

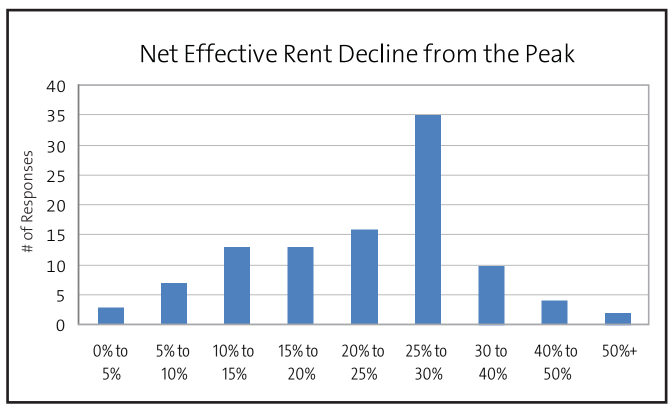
***Excerpts from select industrial markets:* Atlanta:** "Several large deals have filled some space that has been vacant for several years; the market continues to recover in the absence of new construction, but at a slow rate..." **Dallas:** "Activity is picking up and more transactions are closing..." **Central Pennsylvania:** "Speculative construction will most likely make a comeback in 2011..." **Chicago:** "The volume of activity seems to be in the middle market of 100,000 to 300,000-square-foot users..." **Inland Empire, Calif.:** "Buildings of 400,000 square feet or more have been very active with users and investors; mid-size buildings (20,000 to 150,000 square feet) have also seen increased sales activity, but leasing remains soft..." **Northern New Jersey:** "Velocity has increased with better quality tenants in the New Jersey market..."

NET EFFECTIVE RENTS

While asking rental rates have fallen by about 15 percent from their peak, the net effective rents are where the real state of the local market can be seen. From the market peak, which was in 2008 in most markets, average net effective rents have fallen by about 25 percent. Rents declined by more than 25 percent in 16 markets, while five markets have seen single-digit declines.

Although there is not a clear, identifiable geographic trend, markets that had experienced significant expansion before the recession, such as Phoenix and Inland Empire, Calif., also saw the largest pullback. Following a very deep and prolonged decline, rents are starting to stabilize in most markets, with some markets experiencing rent growth.

***Excerpts from select industrial markets:* Baltimore:** "Rental rates are slowly getting back to 2007 levels, but there are still plenty of concessions available as well as many choices..." **Denver:** "Effective rents have stabilized, especially for Class A properties..." **Detroit:** "Even with a lack of quality space, rates remain low..." **Houston:** "Effective rents have stabilized and rents for Class A properties are starting to rise due to lack of large blocks of space, especially in active submarkets..." **Jacksonville, Fla.:** "Effective rents for Class A properties have stabilized; there are still rock bottom rates out there for some Class B and many Class C buildings..." **Los Angeles:** "Effective rents for Class B buildings have stabilized and Class A rents are starting to rise..."



Grubb & Ellis Company
1551 N. Tustin Avenue, Suite 300
Santa Ana, CA 92705
www.grubb-ellis.com

For additional information please contact:

Rene Circ *National Director of Research, Industrial*
312.224.3962 • rene.circ@grubb-ellis.com

©2011 Grubb & Ellis Company

GRUBB & ELLIS.
From Insight to Results

LEASE CONCESSIONS AND TERMS

Positive sentiment created by increased activity and positive net absorption continues to be offset by high vacancy rates. Landlords must compete on price, and while asking and effective rents have stabilized, incentives continue to be plentiful in most markets. Respondents from every market have mentioned that free rent remains the primary concession offered, and although free rent might be moderating, most markets are still reporting one month of free rent per year of term. Landlords are also trying to attract new tenants by paying higher commission rates to procuring brokers. Low teaser rates followed by large steps seem to be becoming less prevalent.

Lease terms remain short, but instead of tenants opting for shorter terms to avoid long-term commitments as was the case in 2009, landlords are now driving the trend in many markets. Larger, well-capitalized corporations still have some leverage to lock in today's rates for longer terms, but for the most part, landlords are counting on a continued market recovery and rising rents over the next few years. Landlords are also increasingly reluctant to offer termination options, which provide tenants with today's lower rates and future flexibility, due to their negative impact upon building values.

Tenants are continuing their "flight to quality," driving activity in modern, Class A properties, which can be leased at Class B rates. The best buildings are filling up, however, suggesting that Class A rents will recover first.

Excerpts from select industrial markets: **Inland Empire, Calif.:** "Most lease terms are two to five years; the few long term deals that close have a fair-market-value bump three years down the road on average; free rent; 4 percent commission is standard..." **Central New Jersey:** "Landlords are still offering some concessions, including free rent (one to three months) and a willingness to take back some responsibilities on NNN leases..." **Los Angeles:** "Lease terms are still typically five years with options; very few seven to ten-year deals, unless there is a termination provision; 1 month per year of term and 4 percent commissions..." **Memphis:** "Big companies have taken advantage of lower rates and signed five to 10-year terms; free rent is most common at six to seven months for a five-year deal..." **Minneapolis:** "We're seeing three- to five-year terms, but many tenants are focusing on flexibility with attempts to add early termination clauses; free rent is offered first; TIs are offered but not often above market unless an exceptional tenant; commission incentives available on long leases..." **Northern California:** "Larger corporations are locking in long term; others still going short term; free rent is still in the picture and for institutional owners TI's are in, while smaller owners trade TIs for additional free rent..."

INDUSTRIES ACTIVE IN THE MARKET

Third-party logistics providers have been by far the most active industry in the industrial real estate sector. Nearly 50 percent of all respondents across 26 markets mentioned 3PLs as being active and taking more space. Macroeconomic variables point to a rising manufacturing sector, a trend that was confirmed by this survey: 19 markets across the country highlighted manufacturing as one of the sectors that is expanding. The specific industries varied by market, but respondents most commonly mentioned the food, energy, defense and automotive sectors. Medical and healthcare-related activity was also reported. The one industry that was underrepresented was retail, which was mentioned only in Southern California, Chicago and Pennsylvania, though some retailer activity may be reflected in the 3PL category.

Excerpts from select industrial markets: **Oklahoma City:** "Manufacturers, oil and gas related industries are active..." **Pittsburgh:** "Limited 3PL activity; warehouse still lagging; light manufacturing for new industries (energy) replacing older industrial base..." **Portland, Ore.:** "We have seen a new trend of smaller distribution buildings feeding regional markets; activity is growing on the renewable energy front as a result of state incentives and abatements..." **Reno, Nev.:** "Distribution remains active and strong. There have also been a surprising amount of manufacturing/assembly/processing companies looking for space in the market..." **Tampa, Fla.:** "Competing 3PLs are active;

©2011 Grubb & Ellis Company

defense contractor activity, assembly and light manufacturing are picking up..." **Washington, D.C.:** "Data centers have absorbed the most industrial space in our market..."

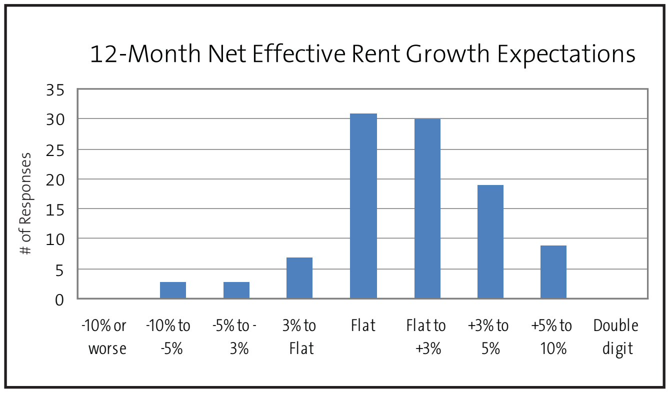
INVESTMENT MARKET

The industrial investment market has picked up considerably over the course of 2010. During the year, total activity doubled, while cap rates declined by 200 basis points. Most of the activity was concentrated in major markets, such as Southern California, Dallas, Northern New Jersey and Chicago, while secondary and tertiary markets lagged. Although survey respondents did not reveal any major new geographic trends in 2011, investors are starting to take on lease-up risk in primary markets due to the scarcity of quality product available for sale. Some respondents expressed a view of current pricing exceeding market fundamentals, and a few even mentioned that land sales might be on the horizon in 2011. The user/buyer segment continues to be active, even in secondary and tertiary locations.

Excerpts from select industrial markets: **Atlanta:** "We're starting to see a lot of capital coming back to the market; cap rates are in the mid-7s, and investors are starting to consider lease-up risk as well..." **Columbia, S.C.:** "Industrial investment is non-existent..." **Chicago:** "Cap rates will continue to compress as velocity increases..." **Detroit:** "There is little investment activity to report..." **Los Angeles:** "User/buyers have returned to the market, and land is starting to attract attention, albeit at 30 to 40 percent discount from the market highs..." **Northern New Jersey:** "Pricing has gotten silly again with funds chasing low cap rate deals on full buildings..." **Richmond, Va.:** "There is very little activity in this segment..." **Seattle:** "Cap rates have fallen significantly in the last several quarters with the lows being sub seven for a 10-year leaseback on a local company; there seems to be a premium due to pent-up demand..."

EXPECTED RENT GROWTH

Following 25 percent peak-to-trough rent declines coupled with high vacancy rates, it is not surprising that most respondents are reluctant to express large rent growth expectations. On average, respondents projected 12-month rent growth of between 0 and 3 percent. Respondents in 28 markets expect positive rent growth, nine markets are expected to remain flat and rents in five markets are expected to decline further.



There was no clear identifiable geographic trend, but markets that are more land-constrained, such as Miami, Seattle and San Francisco, are expected to outperform the nation. At the other end of the spectrum, some Midwestern markets, such as Detroit and Cleveland, are likely to be flat due to high vacancy rates.

Market statistics are starting to show rent growth for industrial properties and net effective rents will most likely outperform expectations. After all, assuming 2 percent annual rent growth, it would take over 14 years to reverse the 25 percent decline that occurred over the past two.

Grubb & Ellis Company
1551 N. Tustin Avenue, Suite 300
Santa Ana, CA 92705
www.grubb-ellis.com

For additional information please contact:

Rene Circ *National Director of Research, Industrial*
312.224.3962 • rene.circ@grubb-ellis.com

©2011 Grubb & Ellis Company

GRUBB & ELLIS.
From Insight to Results

Historical Rent Activity and Expected Rent Growth by Market

Market:	Net Effective Rents Have Declined From Their Peak By:	Expected Rent Growth Over the Next Year:
Appleton, Wisc.	25% to 30%	Flat to +3%
Atlanta	20% to 25%	Flat
Bakersfield, Calif.	25% to 30%	+5% to 10%
Baltimore	10% to 15%	Flat to +3%
Charleston, S.C.	25% to 30%	Flat to +3%
Chicago	20% to 25%	Flat to +3%
Cleveland	20% to 25%	Flat
Columbia, S.C.	30% to 40%	Flat to +3%
Dallas	20% to 25%	+3% to 5%
Denver	15% to 20%	+3% to 5%
Detroit	40% to 50%	Flat
Elkhart/Goshen, Ind.	15% to 20%	-3% to Flat
Fresno, Calif.	15% to 20%	-10% to -5%
Harrisburg, Pa.	5% to 10%	+5% to 10%
Honolulu	15% to 20%	Flat to +3%
Houston	15% to 20%	Flat to +3%
Inland Empire, Calif.	30% to 40%	Flat to +3%
Jacksonville, Fla.	15% to 20%	Flat to +3%
Los Angeles	20% to 25%	Flat to +3%
Memphis, Tenn.	20% to 25%	Flat to +3%
Miami	25% to 30%	+3% to 5%
Milwaukee	25% to 30%	+3% to 5%
Minneapolis	10% to 15%	+3% to 5%
North & Central New Jersey	20% to 25%	+3% to 5%
Oklahoma City	5% to 10%	Flat to +3%
Orange County, Calif.	25% to 30%	Flat to +3%
Philadelphia	5% to 10%	Flat to +3%
Phoenix	30% to 40%	-3% to Flat
Pittsburgh	5% to 10%	Flat to +3%
Portland, Ore.	15% to 20%	Flat to +3%
Reno, Nev.	25% to 30%	-3% to Flat
Richmond, Va.	20% to 25%	Flat
Sacramento, Calif.	25% to 30%	Flat
San Antonio, Texas	15% to 20%	Flat to +3%
San Diego	25% to 30%	Flat
San Francisco	25% to 30%	+3% to 5%
Seattle	25% to 30%	+3% to 5%
South Bend, Ind.	20% to 25%	Flat
South Bend/Mishawaka, Ind.	25% to 30%	-3% to Flat
Stockton, Calif.	20% to 25%	+3% to 5%
Tampa, Fla.	25% to 30%	+3% to 5%
Tulsa, Okla.	15% to 20%	Flat
Tuscon, Ariz.	25% to 30%	Flat
Washington, D.C.	15% to 20%	N/A
Nation	**20% to 25%**	**Flat to +3%**

Note: The survey consists of over 100 responses covering 44 local industrial real estate markets. Individual market results are not statistically significant.

Grubb & Ellis Company
1551 N. Tustin Avenue, Suite 300
Santa Ana, CA 92705
www.grubb-ellis.com

For additional information please contact:

Rene Circ *National Director of Research, Industrial*
312.224.3962 • rene.circ@grubb-ellis.com

©2011 Grubb & Ellis Company