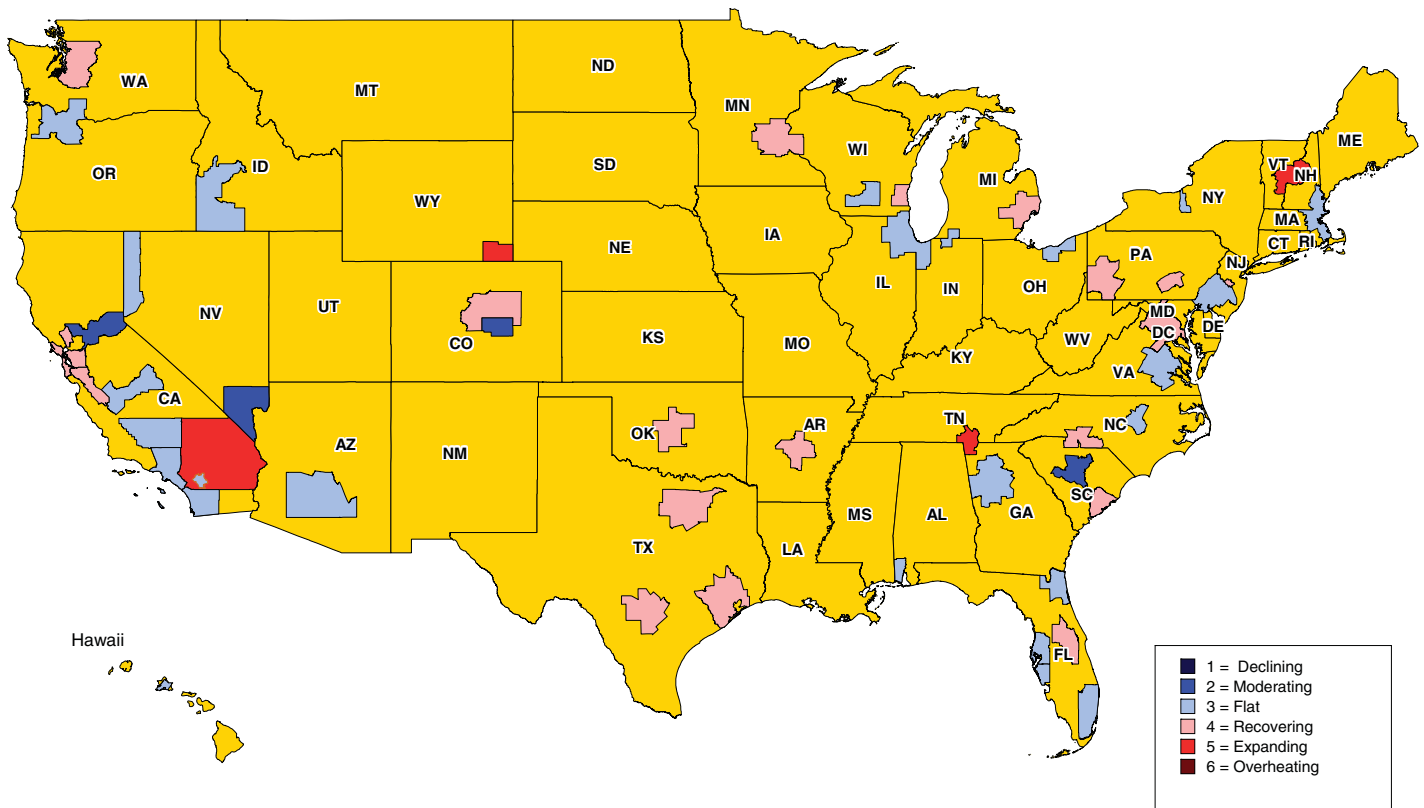


Introduction

The industrial real estate market continues to perform well. Net absorption slowed in the third quarter, but the combination of positive demand and minimal new construction pushed the national vacancy rate down an additional 10 basis points to 9.7 percent. Developers have already noticed and speculative new construction is on the horizon in more and more markets. The following survey identifies 16 markets where speculative construction is soon to commence compared to 10 markets in the previous quarter's.

While quarterly statistics are backward looking, the Grubb & Ellis Industrial Broker Sentiment Survey provides real time market insight that could reflect itself in statistics reported in future quarters. This survey once again reveals some level of slowdown in market activity, but most respondents expect positive demand, stabilizing and growing rents and new supply. The industrial real estate market continues to head in the right direction, despite the economic uncertainty that surrounds it.

Market Velocity



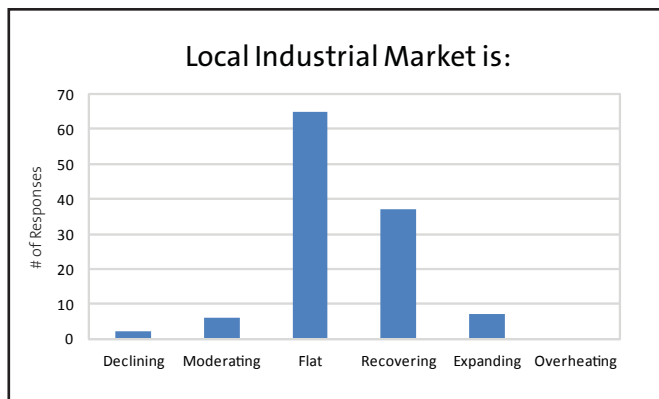
Note: The survey consists of more than 115 responses covering 58 local industrial real estate markets. Individual market results are not statistically significant.

OVERALL MARKET SENTIMENT

The common theme reported in the second quarter survey was a slowdown in activity across the industrial market. The third quarter survey did not register a significant change in the industrial landscape, with 24 markets reporting no change and 19 markets seeing some improvement following a very slow summer, while respondents in 15 markets identified local conditions as getting worse. Overall, on a 6-point scale, where 3 is flat and 4 is recovering, the nation came in at 3.4 compared to 3.6 in the second quarter and 3.7 in the first quarter. At the participant level, the sentiment weakens more significantly, with 56 percent of respondents seeing the market as flat and 32 percent seeing it recovering compared to the previous quarter's 30 percent flat and 55 percent recovering statistics.

Excerpts from select industrial markets:

Atlanta: "Third quarter deal activity slowed with only one lease transaction more than 400,000 square feet and additional second-generation product coming on the market..." **Chicago:** "Activity has picked up since the first week of September; while some companies are still very hesitant to commit, some lookers have made a deal..." **Houston:** "A lot of activity in the market for oilfield service companies, especially crane-served product; things are slower though now than they were in April..." **Inland Empire, Calif.:** "Sentiment was more positive in the second quarter; interest still remains, but industrial users are being very cautious..." **Northern New Jersey:** "There has been activity in the big-box category as users have leased most of the 32'-36' clear height properties at Exit 8A; overall market velocity is probably better than at this time in 2010, but barely..."



MARKET RENTS, LEASE CONCESSIONS AND TERMS

The market has been recovering for more than a year now, but certain segments have been performing better than others. A majority of the activity witnessed in the market is in Class A product and big-box distribution buildings. The Class A activity is a result of overall depressed rents that allow tenants to upgrade without increasing their total rent obligations. The big-box activity relates to differences in business visibility between large and small companies. Overall, rents have stabilized and concession packages are becoming less aggressive. However, the positive net absorption and declining vacancies have not been translating to rising rents yet.

Excerpts from select industrial markets: Central

Pennsylvania: "Rents for Class A product have stabilized, while older Class B and C product is a slugfest, with some landlords trading crazy amounts of free rent in exchange for higher rental rates on the backend of the deal..." **Denver:** "Rents have stabilized for Class B and C quality buildings, but we are seeing upward pressure on large blocks of Class A space due to lack of product..." **Las Vegas:** "Rents are still declining but minimally; typical concessions are still one month free per year of term and not a lot of TIs,

as owners don't have the money..." **Los Angeles:** "Class A rents are off 10-plus percent from the highs; Class B rents are off 25-plus percent; free rent is two to three months for a five-year deal compared to five months free two quarters ago..." **Phoenix:** "Large bulk rents are rising due to a lack of available blocks; overall rents are low but stabilized; landlords are still offering concessions such as a month per year of term in free rent..."

THE LARGE-BLOCK SEGMENT OF THE MARKET

The large-block segment of the market has been outperforming since the beginning of the year. Many markets report a depletion of the available stock and talk of possible speculative construction. Large national and international companies have been capitalizing on the low rents and large levels of avail-

abilities, helping this segment recover faster than any other. However, there is a significant portion of the country with local and regional distribution markets that do not see much activity in this segment even during years of strong economic growth. These are markets such as Boston, Minneapolis and Oakland, to name some of the larger ones.

Excerpts from select industrial markets: Chicago: “Large firms are taking on more space and large build-to-suits have increased; at this point, we do not see rates for this segment going up yet even though there has been good absorption; there is talk of speculative construction starting in 2012 ...”

Detroit: “Class A and B spaces in excess of 100,000 square feet are plentiful and available at all-time low rents...” **Miami:** “Large blocks of Class A space are almost gone (200,000-plus square feet); there are many options in Class B and C buildings...”

Memphis, Tenn.: “Only five bulk spaces over 500,000 square feet are available, of which two are ready to sign; developers are preparing to break ground on speculative buildings in the first quarter next year for the first time in almost three years...”

Orange County, Calif.: “Larger blocks of space are in low supply, leading to widespread anticipation of rent growth; tenant demand is still not strong, but with vacancy as low as it currently is for quality space, development is on the horizon on the few remaining developable parcels...”

THE SMALL-BLOCK SEGMENT OF THE MARKET

The severity of the recent recession resulted in an unprecedented amount of vacant small blocks of space that are available for lease. The subsequent recovery has not fully penetrated into this segment due to the economic uncertainty and difficulty in obtaining financing. As such, in most markets, this segment remains extremely competitive and landlords are still offering discounted rents and significant concession packages. These tenants are also more cost sensitive and they are expecting rent levels that some landlords are no longer willing or able to entertain. However, due to the Small Business Administration loan programs, this segment has been active in user-sales.

Excerpts from select industrial markets: Atlanta: “Small busi-

nesses are renewing and they are not so scared that they have to focus on one-year leases; this segment is still soft with no rent growth...” **Baltimore/Washington:** “Landlords are being very aggressive and lowering face rents 10 to 15 percent; smaller tenants are trying to avoid any decision making, including renewals upon lease expiration...” **Boston:** “Small blocks are more active than large blocks, but activity has slowed...” **Dallas:** “Small businesses are struggling; the market has seen quite a few users in the 20,000- to 40,000-square-foot range purchase their buildings due to favorable SBA loans; the 50,000- to 150,000-square-foot segment seems dead...” **Minneapolis:** “Small businesses are still cautious; many are looking for shorter terms at still aggressive rates; many are willing to expand their search area to find more aggressive deals...” **Orlando, Fla.:** “Mid-sized spaces, 15,000 to 30,000 square feet, seem to be the most active; small spaces are still tough...” **Seattle:** “Smaller users are moving, but not necessarily expanding; the 50,000- to 70,000-square-foot segment has a tremendous amount of spaces available and landlords are willing to do introductory rates in the mid to upper \$0.20s per square foot per month; concessions are still heavy in this segment...”

INDUSTRIES ACTIVE IN THE MARKET

There has been no discernable change in the list of active industries in this survey compared to those of the second quarter. Third-party logistics providers and logistics companies have been the most active segment, especially in national distribution markets of Southern California, Chicago, Central Pennsylvania and Northern New Jersey. However, this trend has been extended to many local and regional industrial markets as well. Brick and dot.com retailers have been active in growing their distribution networks. Activity in the manufacturing sector does not seem to correspond to the increased levels of exports. Some increase in manufacturing activity has been reported, but it is minimal and usually offset by another market that continues to see declines.

Excerpts from select industrial markets: Charleston, S.C.: “Boeing has continued to stir interest in our market; there has been a lot of 3PL activity in the market, but very few have actually

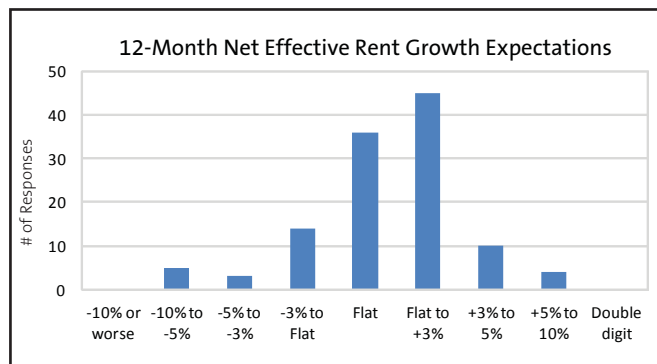
signed leases...” **Harrisburg, Pa.:** “3PLs make up 40 percent of the market...” **Houston:** “Crane-served facilities in Northwest Houston have become a hot commodity; oilfield servicers have a need for them and they are in short supply...” **Portland, Ore.:** “Manufacturing is recovering; Intel expansion has caused absorption in Sunset Corridor...” **Raleigh/Durham, N.C.:** “3PL providers are the only companies doing any business in the market at this time; manufacturing is not active at all...” **San Antonio:** “Manufacturing continues to lead the way with all other sectors staying fairly flat; oil and gas activity associated with Eagle Ford remains active...” **Southwest Florida:** “Industrial space is dominated by construction-related firms and as construction is at an all-time low, there is very little activity other than relocation to lower rent buildings...”

INVESTMENT MARKET

While the investment volume figures indicate a slowdown, the level of interest in the market remains strong. Capitalization rates for Class A product have compressed further and the compression has occurred in additional primary and secondary markets. However, investors continue to be reluctant to reach for lesser quality product and geography. Tertiary investment markets that do not have much institutional-quality product continue to see REO and user-sale transactions.

Excerpts from select industrial markets: **Atlanta:** “Cap rates have fallen below 7 percent for modern, Class A-location A-product buildings with credit tenants and remaining lease terms; tertiary locations still see cap rates between 9 and 10 percent...” **Chicago:** “REITs, private equity and pension funds are doing all the buying right now; everyone is looking for Class A product with good credit tenants; cap rates have compressed to below 6 percent...” **Dallas:** “Several portfolios closed this year; rental rates do not justify the price investors are willing to pay...” **Los Angeles:** “There is a huge appetite for investment product from every major institutional buyer in the area; availability of quality product is sparse and cap rates for the best buildings are down to 5.25 percent...” **Miami:** “The resale of the Weston Business Center in August from RREEF to TIAA CREF at \$123 per square foot is remarkable, reported as a 5.75 percent cap rate;

this was up from the \$94 per square foot RREEF paid in April 2010...” **Phoenix:** “Unless it is a stabilized asset that is well-located, investors continue to purchase based on a low price per square foot; cap rates for well-leased assets come with an eight handle...”



EXPECTED RENT GROWTH AND DEMAND

Respondents to the third quarter survey revised their rent growth expectations downward. While the average rent growth expectations in the second quarter survey were “Flat to +3%”, this time the average comes to just a “Flat” reading. This is despite net absorption being once again positive in the third quarter and vacancy improving by an additional 10 basis points nationally.

The difference comes from the percentage of respondents that expect further weakening in rents. After the second quarter, only 6 percent of respondents expected rents to weaken. This time, the total is 19 percent, with 7 percent expecting rents to go down at least another 5 percent from today’s levels. On the flat to slightly positive side, the two surveys came in comparably with 70 percent expecting such results in the second quarter compared to 69 percent in the third.

Rents are expected to remain flat despite further expectations of positive net absorption in the fourth quarter. Only nine respondents expect negative demand in the fourth quarter compared to 58 expecting activity to be minimal and 50 seeing demand remaining positive for the rest of the year.

Historical Rent Activity and Expected Rent Growth by Market

Market:	Expected Rent Growth Over the Next Year:	Expect Net Absorption in 4Q11 to be:	Expect Speculative Construction This Year:	Market: (continued)	Expected Rent Growth Over the Next Year:	Expect Net Absorption in 4Q11 to be:	Expect Speculative Construction This Year:
Atlanta	Flat to +3%	Positive	No	Phoenix	Flat	Positive	Yes
Bakersfield, Calif.	Flat to +3%	Flat	No	Pittsburgh	Flat to +3%	Positive	No
Baltimore, Md. / Washington, D.C. Corridor	-3% to Flat	Flat	No	Portland, Ore.	Flat to +3%	Flat	Yes
Boise, Idaho	Flat	Positive	No	Raleigh/Durham, N.C.	Flat	Flat	No
Boston	Flat	Flat	No	Reno, Nev.	-3% to Flat	Flat	No
Central Wisconsin	Flat to +3%	Flat	No	Richmond, Va.	Flat	Positive	Yes
Charleston, S.C.	Flat to +3%	Flat	No	Sacramento, Calif.	Flat	Flat	No
Charlotte, N.C.	Flat to +3%	Positive	No	San Antonio	Flat to +3%	Flat	No
Chattanooga, Tenn.	+5% to 10%	Positive	No	San Diego	Flat	Flat	Yes
Cheyenne, Wyo.	+5% to 10%	Positive	Yes	San Francisco	-3% to Flat	Flat	No
Chicago	Flat	Flat	Yes	San Jose, Calif.	Flat to +3%	Positive	Yes
Cleveland	Flat	Flat	No	Seattle	+3% to 5%	Positive	No
Colorado Springs, Colo.	-5% to -3%	Flat	No	South Bend, Ind.	-3% to Flat	Negative	No
Columbia, S.C.	-3% to Flat	Flat	No	Southern I-81 Corridor	+3% to 5%	Flat	Yes
Dallas	Flat to +3%	Positive	No	Southwest Florida	-3% to Flat	Flat	No
Denver	Flat to +3%	Positive	No	Tampa Bay, Fla.	Flat	Flat	No
Detroit	Flat	Flat	No	Temecula, Calif.	Flat to +3%	Negative	No
Fresno, Calif.	Flat	Negative	No	Wilmington, Del.	+3% to 5%	Flat	No
Harrisburg, Pa.	Flat to +3%	Positive	Yes				
Honolulu	Flat	Flat	No				
Houston	Flat to +3%	Positive	Yes				
Inland Empire, Calif.	+3% to 5%	Positive	Yes				
Jacksonville, Fla.	Flat	Flat	No				
Las Vegas	-3% to Flat	Flat	No				
Little Rock, Ark.	+3% to 5%	Flat	No				
Los Angeles	Flat	Flat	Yes				
Memphis, Tenn.	+3% to 5%	Positive	No				
Miami	Flat to +3%	Positive	Yes				
Milwaukee, Wis.	Flat to +3%	Positive	Yes				
Minneapolis	Flat to +3%	Positive	No				
Mobile, Ala.	Flat	Flat	No				
Napa and Solano Counties, Calif.	Flat to +3%	Flat	No				
New Hampshire	Flat to +3%	Positive	No				
New York	-3% to Flat	Flat	No				
North/Central New Jersey	Flat	Flat	Yes				
Oakland, Calif.	Flat	Flat	No				
Oklahoma City	Flat to +3%	Positive	No				
Orange County, Calif.	Flat to +3%	Positive	Yes				
Orlando, Fla.	+3% to 5%	Positive	No				
Philadelphia	Flat	Flat	No				
				Nation	Flat	Flat	Yes in 16

Note: The survey consists of more than 115 responses covering 58 local industrial real estate markets. Individual market results are not statistically significant.