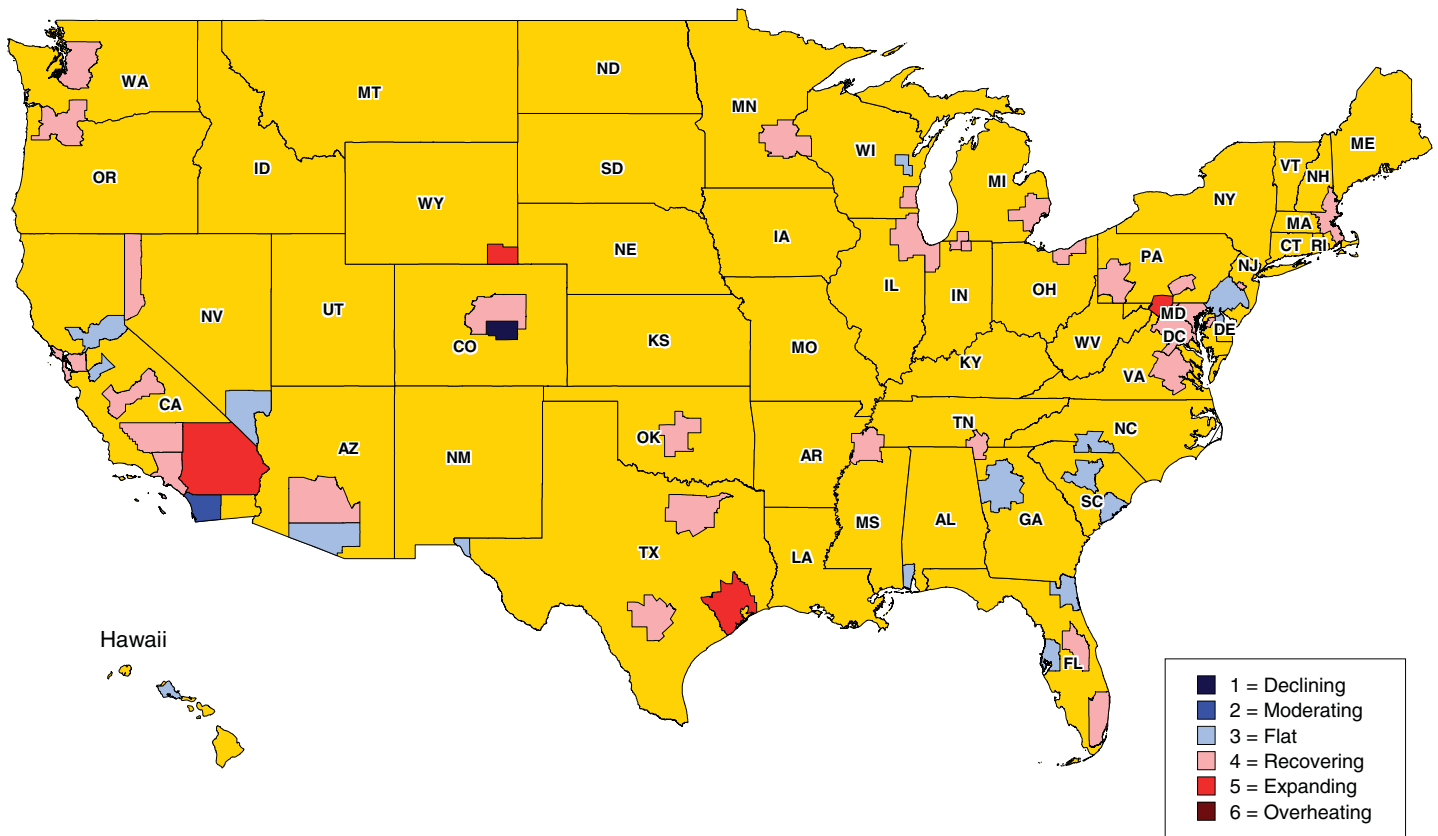


Introduction

Industrial activity, as measured by market statistics, showed resilience to the economic slowdown experienced during the second quarter. Demand kept pace with the first quarter and vacancy rates declined by 30 basis points to 9.8 percent. National vacancy has not been in single digits since 2009. The ongoing lack of new construction has been a positive contributor to the market's recovery. With less than 4 million square feet delivered, the second quarter had the lowest level of completions on record.

Some of the demand captured by net absorption during the second quarter was a result of leases that were signed in previous quarters. The Grubb & Ellis Industrial Broker Sentiment Survey provides real time market insight that could reflect itself in statistics reported in future quarters. This survey does reveal some level of slowdown in market activity, but not a reversal of the positive trend we have been experiencing for over a year.

Market Velocity



Note: The survey consists of more than 100 responses covering 56 local industrial real estate markets. Individual market results are not statistically significant.

OVERALL MARKET SENTIMENT

While the first quarter survey was positive across the country, activity has slowed during the second quarter in many markets. The slowdown was reported in markets that were more optimistic in the first quarter, while markets that did not see the boost in activity at the beginning of the year were more likely to report further improvements. Overall, on a six-point scale, where 3 is flat and 4 is recovering, the nation came in at 3.6 compared to 3.7 in the first quarter. Of the 56 markets responding, 16 reported some level of slowdown compared to nine reporting increased activity.

Excerpts from select industrial markets:

Chicago: "It appears as though the companies that needed to expand in 2011

have done so already; there is definitely a slowdown in velocity compared to Q1; anticipate

increased activity in Q4 for 2012 expansion..." **Dallas:** "Unchanged..." **Harrisburg, Pa.:** "Larger tenants are back; activity is strong; lease rates are edging higher; speculative construction is starting again..."

Minneapolis: "Market is improving with increased showings; deals are still taking time to close..." **Los Angeles:** "Leasing activity was strong in Q1, but has dropped off; Class A space is in strong demand, with B product lagging..."

Monterrey, Mexico: "The market remains active; despite violence, companies are expanding; most transactions are existing manufacturing expansions as well as large DCs..." **Northern New Jersey:** "Activity compared to Q1 was several basis points lighter; only velocity presently in the market are national 3PL operators who have absorbed approximately 750,000 square feet since April 1..."

MARKET RENTS, LEASE CONCESSIONS AND TERMS

The ongoing recovery that is being captured by positive net absorption and rising occupancies is not yet evident in lease rates. While most markets reported that rents have bottomed, very few reported rising rents and only one, Cheyenne, Wyo., saw rents rising across the entire spectrum. Concessions are still very prevalent; the only aspect that was not reported in any market was the near-zero net rents that landlords were signing during the recession to at least cover their operating expenses.

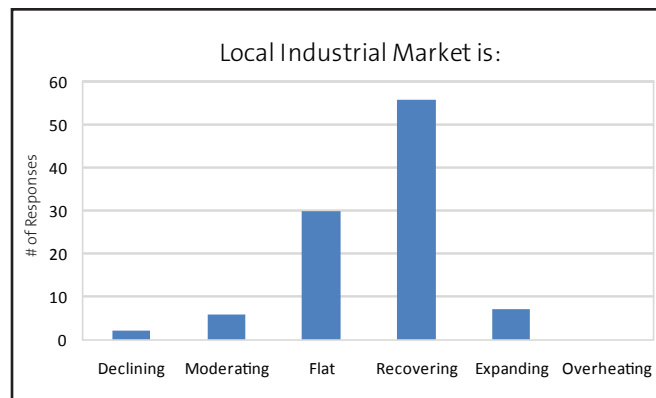
Excerpts from select industrial markets: **Charleston, S.C.:** "As more and more sublease space burns off, rents are stabilizing, concessions are decreasing, with the potential of pricing power over the next year..." **Chicago:** "Rents have stabilized, free rent is still at one month per year of term; some active owners have

obtained R/E tax reductions, which helped; institutional landlords are still not willing to lose a deal due to rate..."

Dallas: "Rates are still down and concessions are prevalent in the market..." **Inland Empire, Calif.:** "Rents are still very low and free rent excessive (at least a month per year of lease term); buildings above 500,000 square feet are an exception, as the market is so tight that concessions are fewer and prices are rising..."

Jacksonville, Fla.: "Landlords are offering smaller concessions for Class A product, but are still really aggressive with Class B and C product..." **Memphis, Tenn.:** "Rents for Class A, bulk deals over 400,000 square feet have stabilized due to limited supply; market under 400,000 square feet is still very aggressive due to oversupply..."

Northern New Jersey: "Rents have bottomed and most tenants realize that, if they do not move now, space may not be available in the near future and a BTS can be very time consuming; landlords are still offering concessions as they are not completely confident but not reaching as before, as they are usually talking to more than one tenant..."



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ACTIVE SEGMENTS OF THE MARKET

For several quarters researchers in Grubb & Ellis markets across the country have been discussing an ongoing “flight to quality.” Brokers responding to this survey confirmed this trend and painted the same, consistent story from coast to coast and in Mexico: large blocks of space are becoming scarce; modern, Class A space is becoming less vacant; there is an absolute glut of smaller, second-generation spaces, where landlords are doing everything to keep their current tenants. The small tenants that are active in the market continue to seek shorter terms, three years, which suggests that the ongoing economic recovery still has not penetrated to the small business sector, which in turn can shed some light on the slow job creation across the country.

Excerpts from select industrial markets: Harrisburg, Pa.: “Shortage of large blocks of space 400,000 square feet and above; strong activity in the 200,000 - 300,000-square-foot range as well...” **Miami:** “100K plus Class A is difficult to find; there is a glut of Class B and C space; 50K and smaller has low velocity...” **Philadelphia:** “We are seeing some larger leases, 100,000 square feet plus, as well as small deals, 10,000 square feet and less, being completed; the mid-market still has not returned, which tends to be our ‘bread and butter’...” **Portland, Ore.:** “200,000-square-foot plus spaces have been quickly absorbed; sub 100,000-square-foot segment is slowly picking away at vacancy; at the current absorption, the market will stabilize within 24-36 months...” **Reno, Nev.:** “350,000 square feet and larger spaces have been taken, leaving zero space to accommodate larger bulk users; small tenants are churning in the market stepping up to newer space leaving less functional space...”

INDUSTRIES ACTIVE IN THE MARKET

The survey revealed no surprises in terms of active industries. Distribution markets, such as Atlanta, Chicago and the Inland Empire, reported third-party logistics being active, while energy markets such as Houston, Oklahoma City and Denver reported oil and gas and alternative energy companies looking for space. A repeat from the first quarter, manufacturing continues to be

active across the country, with 25 separate markets reporting manufacturers as one of the more active industries. Manufacturers are not expanding everywhere, though, and their exodus from Orange County, Calif., continues. Retailers have also been noted as growing, signaling increased level of confidence in the consumer. Larger companies were noted again as being more active in the market than smaller users.

Excerpts from select industrial markets: Atlanta: “Manufacturers are active; large companies that can afford to take advantage of the soft market...regardless of the industry...” **Boston:** “Clean energy (wind suppliers) is active in anticipation of Cape Wind MA project and RI project...” **Miami:** “3PLs are very active, still consolidating and upgrading space; manufacturing not active...” **Oklahoma City:** “Energy related companies are the most active, followed by medical...” **Phoenix:** “Some manufacturers are closing their doors while new ones are moving in; large retailers have been moving to this market and absorbing a lot of space – Gap, Home Depot, Amazon...” **Seattle:** “3PLs and retailers are growing...”

INVESTMENT MARKET

The industrial investment market is a testament to the ongoing uncertainty in the overall market and economy. During the quarter, market preference for Class A properties, especially in primary markets, versus everything else continued. Despite the progress made in secondary markets, i.e. the Exeter acquisition of the \$240-million Pinchal portfolio located in several secondary Midwest markets, cap rates seen in Southern California, Chicago and New Jersey reached new lows. Los Angeles Metro is by far the most desired investment market with as much as 100-basis-point spread over the runner-up. This spread can be attributed to market-specific rent growth expectations. At the other end of the spectrum, respondents from smaller industrial markets reported that the investment market is still mostly “non-existent.” REO and distressed sales still represent the majority of activity in smaller markets.

Excerpts from select industrial markets: Chicago: “Cap rates are 6 percent for Class A product, discovery on B & C deals...”

Denver: “Cap rates have compressed due to lack of supply; stabilized, newer, multi-tenant product trades in the mid 7 percent; older product is 8 to 9 percent...” **Fresno, Calif.:** “No industrial investment deal in last 12 months...” **Inland Empire, Calif.:** “Class A buildings are at a premium with some sub 5 percent rates in the works...” **Las Vegas:** “Cap rates are all over the board and very product specific – 8 to 9 percent; very few deals that are not REO...” **Orange County, Calif.:** “Cap rates for A product back to ‘07 levels; lots of buyers looking for both stable and opportunistic properties; not much available; multiple bidders for the properties that do come available...” **San Antonio, Texas:** “Class A space with strong tenant mix trades between 7.5 and 8 percent; weaker properties and tenants add 150-200 basis points...” **Tucson, Ariz.:** “Market is flat except for bank-owned properties; income properties are moving slowly with cap rates hovering between 10 and 11 percent...”

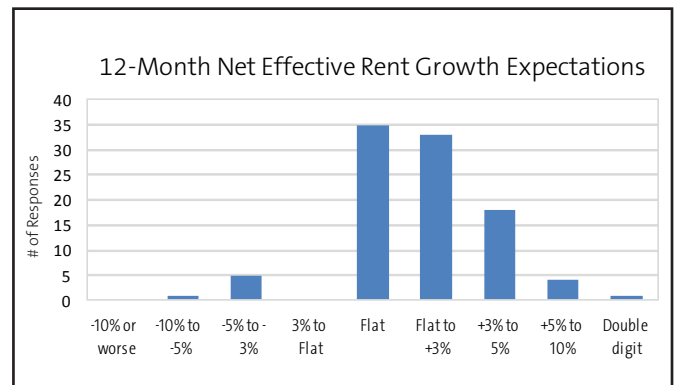
EXPECTED RENT GROWTH

Our first quarter survey showed rent growth expectations “Flat to +3%.” Respondents to the second quarter survey have kept their expectations unrevised. This result is a bit surprising given the depressed rent levels coupled with the national vacancy rate slipping into single digits during the quarter, an area that most market participants associate with growing rents.

In total, 36 percent of all respondents expect rent growth over the next 12 months to be flat; 34 percent see it being between 0 and 3 percent; 19 percent indicated rents growing between 3 and 5 percent; and 5 percent of respondents see rents growing faster than 5 percent. Only 6 percent of respondents expect rents to decline further. On a market level, only respondents from smaller or tertiary markets, Colorado Springs, Colo., Columbia, S.C., Northwest Arkansas and South Bend, Ind., see

declining rents over the next 12 months. The best performing market is also a small market, Cheyenne, Wyo., growing double digits, being helped by the growing energy sector. Overall, of the 56 markets represented, 39 are expected to see at least some rent growth, 0 to 3 percent, while 13 are expected to perform better than that.

If the economic slowdown experienced during the second quarter does prove to be temporary, Grubb & Ellis continues to expect net effective rent growth to outperform these expectations over the next 12 months.



Grubb & Ellis Industrial Broker Sentiment Survey Second Quarter 2011



Historical Rent Activity and Expected Rent Growth by Market

Market:	Expected Rent Growth Over the Next Year:	Do You Expect Speculative Construction This Year:	Market: (continued)	Expected Rent Growth Over the Next Year:	Do You Expect Speculative Construction This Year:
Atlanta	Flat	No	Philadelphia	Flat to +3%	No
Bakersfield, Calif.	+3% to 5%	No	Phoenix	Flat	No
Baltimore, Md. / Washington, D.C. Corridor	Flat to +3%	No	Pittsburgh, Pa.	+3% to 5%	Yes
Boston	Flat	No	Portland, Ore.	Flat to +3%	No
Central Valley, Calif.	Flat	No	Reno, Nev.	Flat	No
Central Wisconsin	Flat to +3%	No	Richmond, Va.	Flat to +3%	No
Charleston, S.C.	Flat to +3%	Yes	Sacramento, Calif.	Flat	No
Charlotte, NC	Flat	No	San Antonio, Texas	Flat	No
Chattanooga, Tenn.	Flat to +3%	No	San Diego	Flat	No
Cheyenne, Wyo.	Double digit	No	San Francisco	+3% to 5%	No
Chicago	Flat	Yes	Seattle	+3% to 5%	No
Cleveland	Flat to +3%	No	South Bend, Ind.	-5% to -3%	No
Colorado Springs, Colo.	-10% to -5%	No	Southern I-81 Corridor	Flat	No
Columbia, S.C.	-5% to -3%	No	Tampa, Fla.	Flat to +3%	No
Dallas	Flat to +3%	No	Tucson, Ariz.	Flat to +3%	No
Delaware, Md.	Flat	No			
Denver	+3% to 5%	No			
Detroit	Flat	No			
El Paso, Texas	Flat to +3%	No			
Elkhart/Goshen, Ind.	Flat	No			
Fresno, Calif.	Flat	No			
Harrisburg, Pa.	+3% to 5%	No			
Honolulu	Flat to +3%	No			
Houston	Flat to +3%	Yes			
Inland Empire, Calif.	+3% to 5%	Yes			
Jacksonville, Fla.	Flat	No			
Las Vegas	Flat to +3%	No			
Los Angeles	+3% to 5%	Yes			
Memphis, Tenn.	+3% to 5%	No			
Miami	Flat to +3%	No			
Milwaukee, Wis.	Flat to +3%	Yes			
Minneapolis	Flat to +3%	No			
Mobile, Ala.	Flat	No			
Monterrey, Mexico	Flat to +3%	Yes			
New Hampshire	Flat	No			
North/Central New Jersey	+3% to 5%	Yes			
Northwest Arkansas	-5% to -3%	No			
Oakland, Calif.	+3% to 5%	No			
Oklahoma City	Flat	No			
Orange County, Calif.	Flat to +3%	Yes			
Orlando, Fla.	+3% to 5%	No			
			Nation	Flat to +3%	Yes in 10

Note: The survey consists of more than 100 responses covering 56 local industrial real estate markets. Individual market results are not statistically significant.