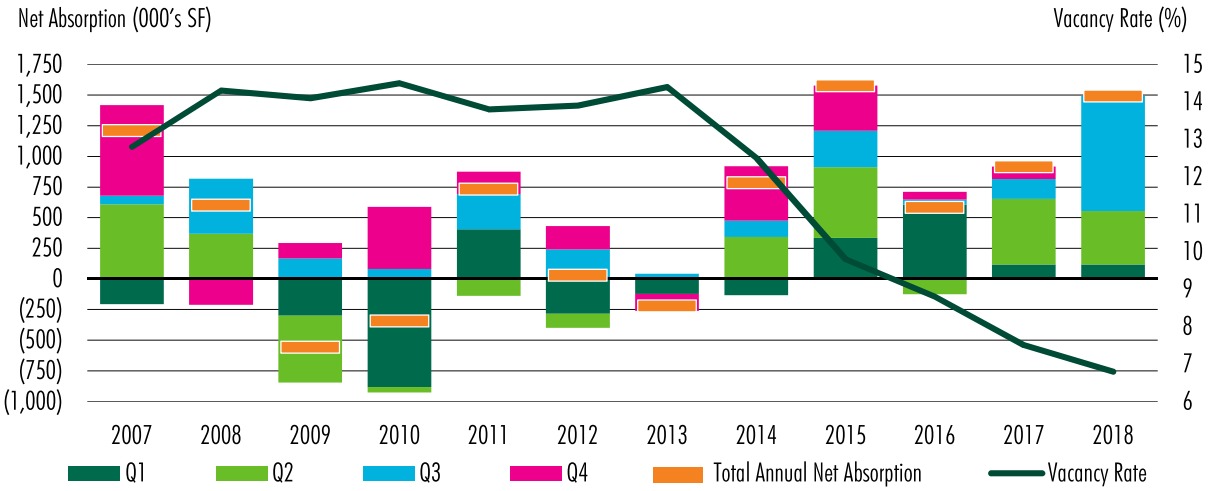
El Paso Industrial, Q3 2018

Absorption, rents at record high; Vacancy at record low

Vacancy	**Avg. Asking Rate	Net Absorption	Under Construction	Completions
6.8%	$4.18 PSF	964,452 SF	367,000 SF	324,500 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2018.

RECORD ABSORPTION, VACANCY HITS NEW LOW

Q3 2018 net absorption in the industrial market doubled over Q2 2018 and surpassed the 2017 total annual net absorption by 50,000 sq. ft. Q3 2018 had the largest quarterly absorption recorded since CBRE began tracking the market. Absorption was more than 225,000 sq. ft. higher than the previous record high seen in Q4 2007.

The market-wide vacancy rate fell by 110 basis points (bps) quarter-over-quarter and by 70 bps year-over-year, making it the lowest vacancy rate recorded since CBRE began tracking the market. Class A saw the largest decline, falling by 230 basis bps since Q2 2018 and 320 bps since Q3 2017.

INDUSTRIAL MARKET SEES BUSY QUARTER

The market registered over 1.8 million sq. ft. of activity and 29 transactions. Just over 50% of total activity was through new leases and the rest was comprised of renewals and one user sale of 142,000 sq. ft. While Class B product was the most active in terms of total transactions, Class A accounted for 95% of the quarter's net absorption due to four leases above 85,000 sq. ft. and the delivery of 274,500 sq. ft. of build-to-suit developments.

ASKING RENTS ADJUST TO AVAILABILITY CHANGES

The continued compression of available industrial space and consistently strengthening demand has put upward pressure on asking rents. The market-wide average asking rate increased by $0.12 per sq. ft. compared to Q2 2018, making it the highest market-wide rate recorded for the industrial market. Class A and B asking rates also saw quarterly growth and hit record highs, increasing by $0.10 and $0.14 per sq. ft., respectively.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q3 2018 Net Absorption	Q2 2018 Net Absorption
West	8,239,011	13.3	14.9	4.30	-	-	255,096	156,700
Class A	6,412,457	12.2	14.3	4.47	-	-	112,721	156,700
Class B	1,606,419	19.4	19.4	3.81	-	-	142,375	0
Northeast	9,489,095	3.8	7.0	3.99	50,000	-	10,607	16,000
Class A	1,150,774	0.4	0.6	N/A	-	-	0	16,000
Class B	7,103,470	4.9	9.3	3.99	-	-	10,607	0
Central	14,645,590	2.0	3.8	3.64	30,000	49,500	64,700	12,098
Class A	469,619	0.0	0.0	N/A	-	49,500	49,500	0
Class B	5,895,184	1.1	1.6	4.25	-	-	15,200	0
East	18,623,444	5.3	6.4	4.10	182,000	275,000	356,323	183,034
Class A	7,936,708	2.4	2.4	4.86	-	275,000	426,226	153,034
Class B	8,293,164	4.2	6.2	4.45	-	-	(69,903)	30,000
Lower Valley	6,588,633	17.9	22.3	4.36	105,000	-	277,726	69,147
Class A	3,772,939	25.9	26.3	4.65	-	-	177,726	69,147
Class B	1,829,073	10.9	26.1	3.77	-	-	100,000	0
El Paso Total	**57,585,773**	**6.8**	**8.9**	**4.18**	**367,000**	**324,500**	**964,452**	**436,979**
Class A	**19,742,497**	**9.9**	**10.7**	**4.60**	**0**	**324,500**	**766,173**	**394,881**
Class B	**24,727,310**	**5.1**	**8.3**	**4.04**	**0**	**0**	**198,279**	**30,000**

Although Class C is not included, totals are inclusive of all classes of data.

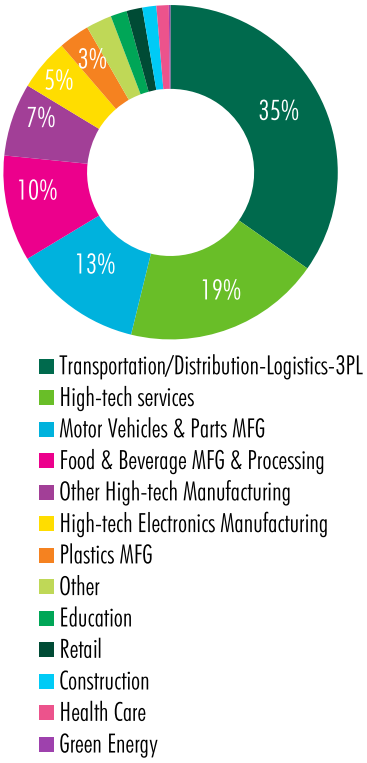
Source: CBRE Research, Q3 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	Lower Valley	High-tech services	305,000
Lease	East	Motor Vehicles & Parts MFG	201,226
Lease	Lower Valley	Unknown	153,851
User Sale	West	Food & Beverage MFG & Processing	142,375
Lease	West	Other High-tech Manufacturing	112,721
Lease	Lower Valley	Transportation/Distribution-Logistics-3PL	100,000
Lease	Lower Valley	Transportation/Distribution-Logistics-3PL	87,726
Renewal	West	Transportation/Distribution-Logistics-3PL	85,000
Renewal	Northeast	High-tech Electronics Manufacturing	80,269
Lease	East	Transportation/Distribution-Logistics-3PL	52,000

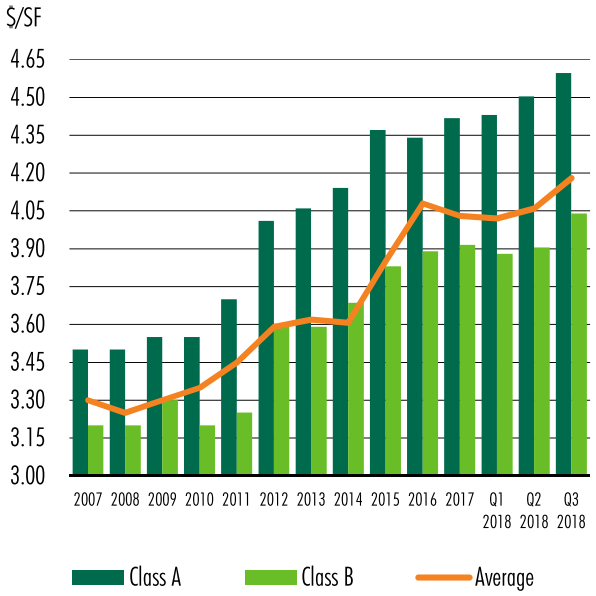
Source: CBRE Research, Q3 2018.

Figure 4: Q3 2018 Activity by Industry



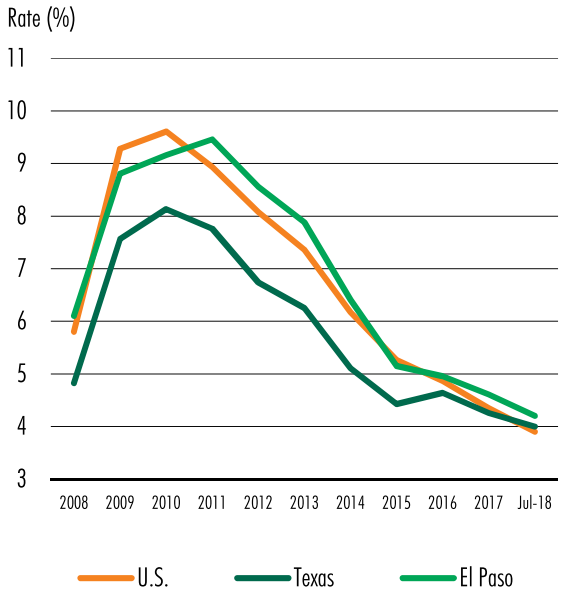
Source: CBRE Research, Q3 2018.

Figure 5: **Asking Rates, NNN Avg. Annual



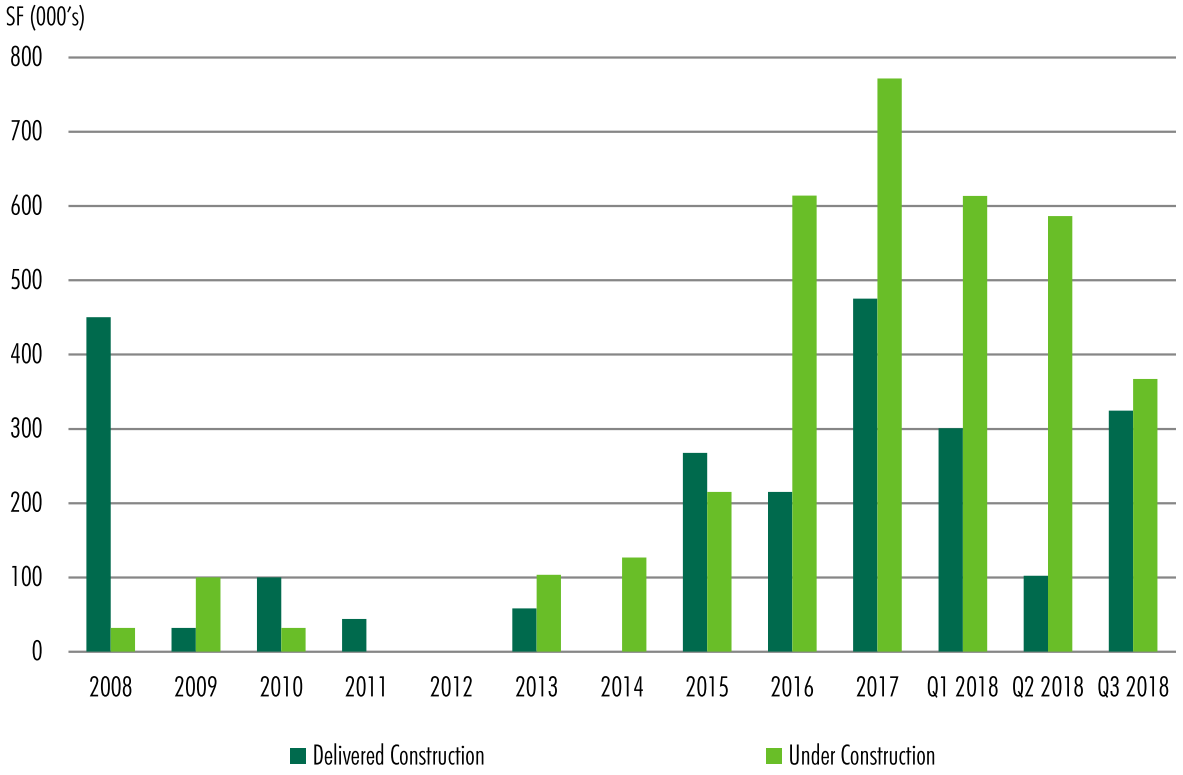
Source: CBRE Research, Q3 2018.

Figure 6: Unemployment Rate

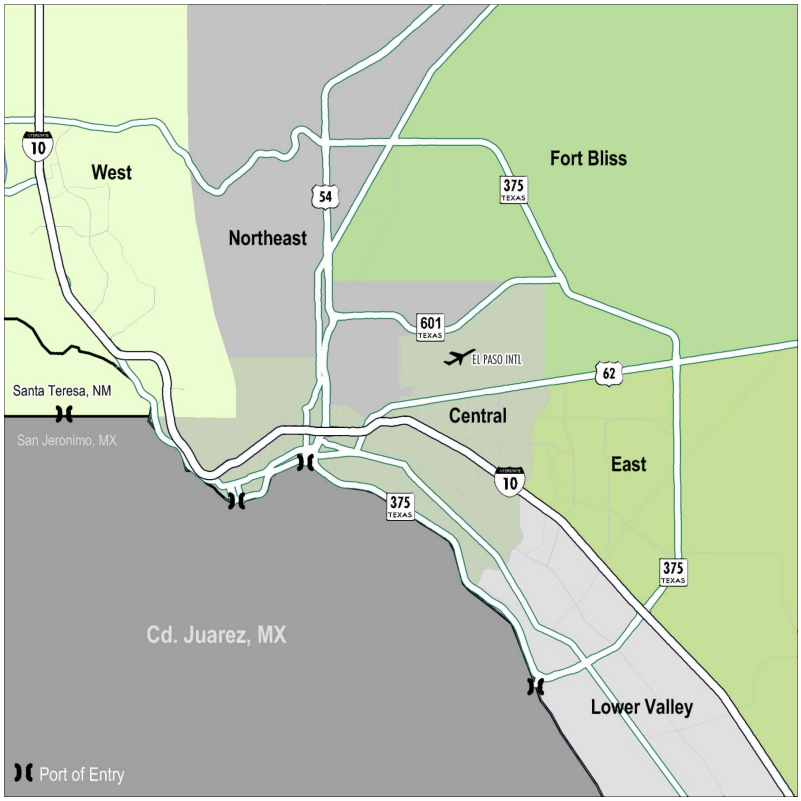


Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis, September 2018. Seasonally Adjusted.

Figure 7: Construction



Source: CBRE Research, Q3 2018.



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**Notes:
El Paso average asking rates dating back to Q1 2014 were adjusted during Q3 2017 to better reflect a weighted average based on available sq. ft.

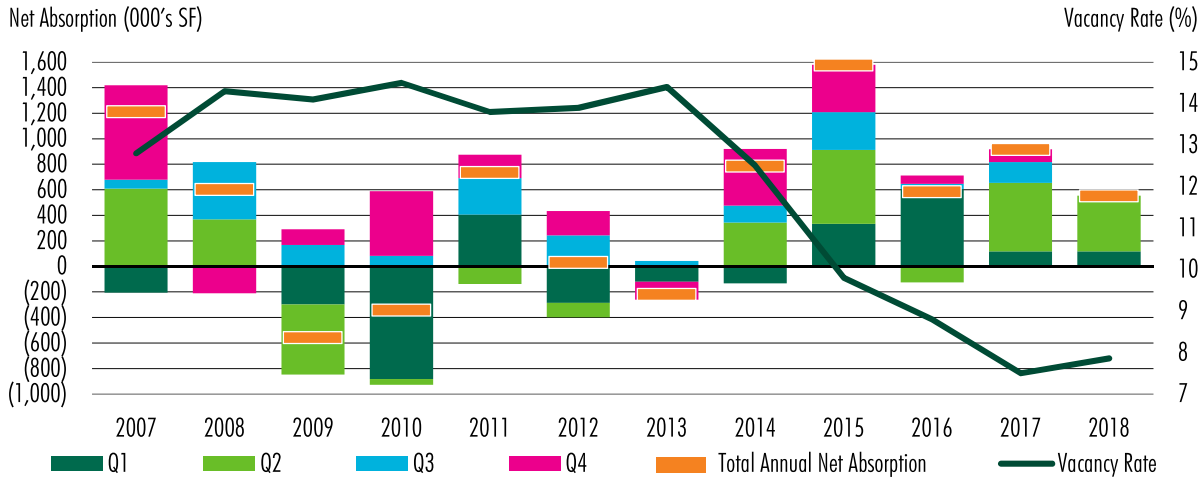
El Paso Industrial, Q2 2018

Absorption spurred by robust activity, Class A rent hits high

Vacancy	**Avg. Asking Rate	Net Absorption	Under Construction	Completions
7.9%	$4.06 PSF	436,979 SF	586,500 SF	102,189 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2018.

STRONG ABSORPTION, VACANCY REMAINS LOW

Q2 2018 net absorption in the industrial market more than tripled over Q1 2018 but was 100,000 sq. ft. less than Q2 2017. However, Q2 2017 absorption included 320,000 sq. ft. of delivered build-to-suits (BTS) while Q2 2018 saw only a 15,000 sq. ft. BTS project. The market-wide vacancy rate was flat quarter-over-quarter due to the delivery of a vacant speculative project and database adjustments. At 13.4%, Class A saw the only significant decline in vacancy, falling by 130 basis points (bps) since Q1 2018 and 140 bps since Q2 2017.

MARKET ACTIVITY DRIVES UP ASKING RENTS

The market registered over 1.5 million sq. ft. of activity which was almost evenly divided between new leases, renewals, and investment sales. Class A product accounted for 70% of leases and renewals and 90% of the quarter's net absorption. All classes saw positive absorption during the quarter and no new major vacancies were recorded.

Average asking rents increased across all classes and most submarkets compared to Q1 2018. Market-wide rents were up by $0.04 per sq. ft. since last quarter and $0.03 per sq. ft. annually Class A had the strongest rent growth increasing by $0.07 per sq. ft. to $4.50 per sq. ft., a new cycle record.

SPEC DELIVERY, TWO BTS START CONSTRUCTION

An 87,000 sq. ft. speculative development was delivered in Q2 2018, making the current product pipeline exclusively BTS development. Two new BTS projects began moving dirt and one 15,000 sq. ft. project was delivered, closing the quarter with a total of seven projects under development.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q2 2018 Net Absorption	Q1 2018 Net Absorption
West	8,215,436	16.2	16.2	4.26	-	-	156,700	16,000
Class A	6,683,321	17.5	17.6	4.26	-	-	156,700	16,000
Class B	1,311,980	12.2	12.2	N/A	-	-	0	0
Northeast	9,489,095	3.9	6.4	3.97	50,000	-	16,000	96,800
Class A	1,150,774	0.4	0.6	6.00	50,000	-	16,000	0
Class B	7,103,470	5.1	8.4	3.95	-	-	0	96,800
Central	14,596,090	2.1	3.8	3.54	49,500	-	12,098	120,730
Class A	420,119	0.0	0.0	N/A	49,500	-	0	118,000
Class B	5,745,808	0.3	0.6	3.96	-	-	0	2,730
East	18,348,444	5.6	7.3	3.75	382,000	-	183,034	25,536
Class A	7,661,708	4.0	4.0	4.75	382,000	-	153,034	75,321
Class B	8,293,164	3.3	6.6	4.36	-	-	30,000	(53,249)
Lower Valley	6,587,949	22.1	28.2	4.29	105,000	102,189	69,147	(142,930)
Class A	3,772,255	30.6	32.9	4.67	105,000	102,189	69,147	(54,000)
Class B	1,829,073	16.4	33.7	3.53	-	-	0	(100,000)
El Paso Total	**57,237,014**	**7.9**	**10.0**	**4.06**	**586,500**	**102,189**	**436,979**	**116,136**
Class A	**19,688,177**	**13.4**	**13.9**	**4.50**	**586,500**	**102,189**	**394,881**	**155,321**
Class B	**24,283,495**	**4.6**	**8.1**	**3.90**	**0**	**0**	**30,000**	**(53,719)**

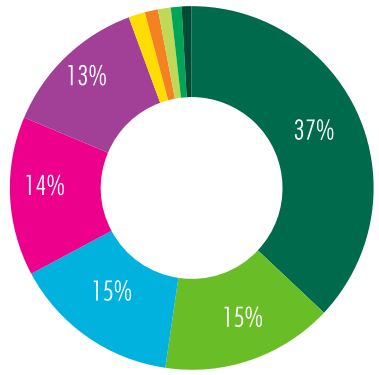
Although Class C is not included, totals are inclusive of all classes of data.
Source: CBRE Research, Q2 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	East	Transportation/Distribution-Logistics-3PL	204,000
Lease	East	Retail	153,034
Lease	West	Paper, Pulp, Packaging & Printing	140,920
Lease	East	Motor Vehicles & Parts MFG	128,500
Renewal	West	Goods MFG	128,220
Lease	Lower Valley	Transportation/Distribution-Logistics-3PL	54,000
Renewal	Northeast	Transportation/Distribution-Logistics-3PL	44,000
Renewal	East	Goods MFG	37,577
Lease	East	Motor Vehicles & Parts MFG	32,500
Lease	East	Transportation/Distribution-Logistics-3PL	30,000

Source: CBRE Research, Q2 2018.

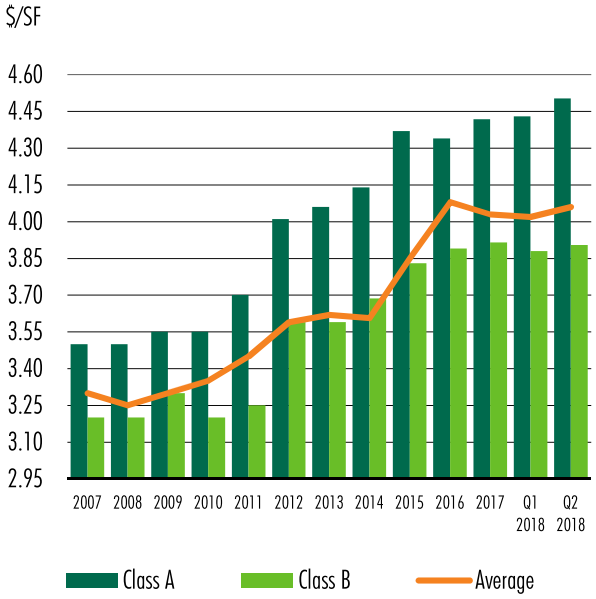
Figure 4: Q2 2018 Activity by Industry



- Transportation/Distribution-Logistics-3PL
- Goods MFG
- Motor Vehicles & Parts MFG
- Retail
- Paper, Pulp, Packaging & Printing
- Metals MFG
- Other
- Wholesale
- Green Energy
- Government

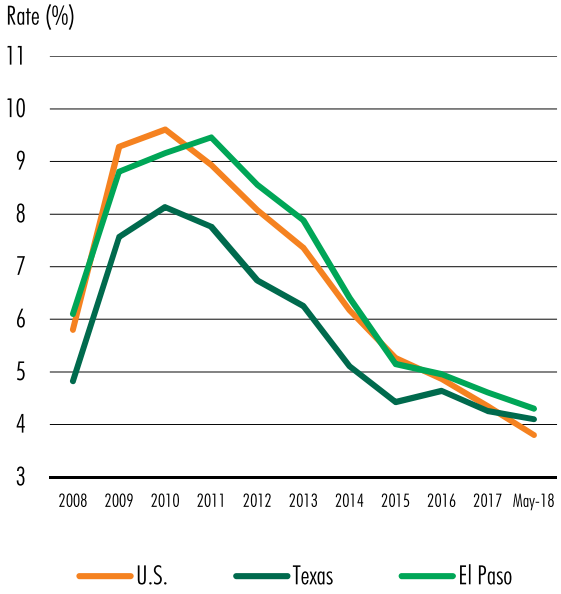
Source: CBRE Research, Q2 2018.

Figure 5: **Asking Rates, NNN Avg. Annual



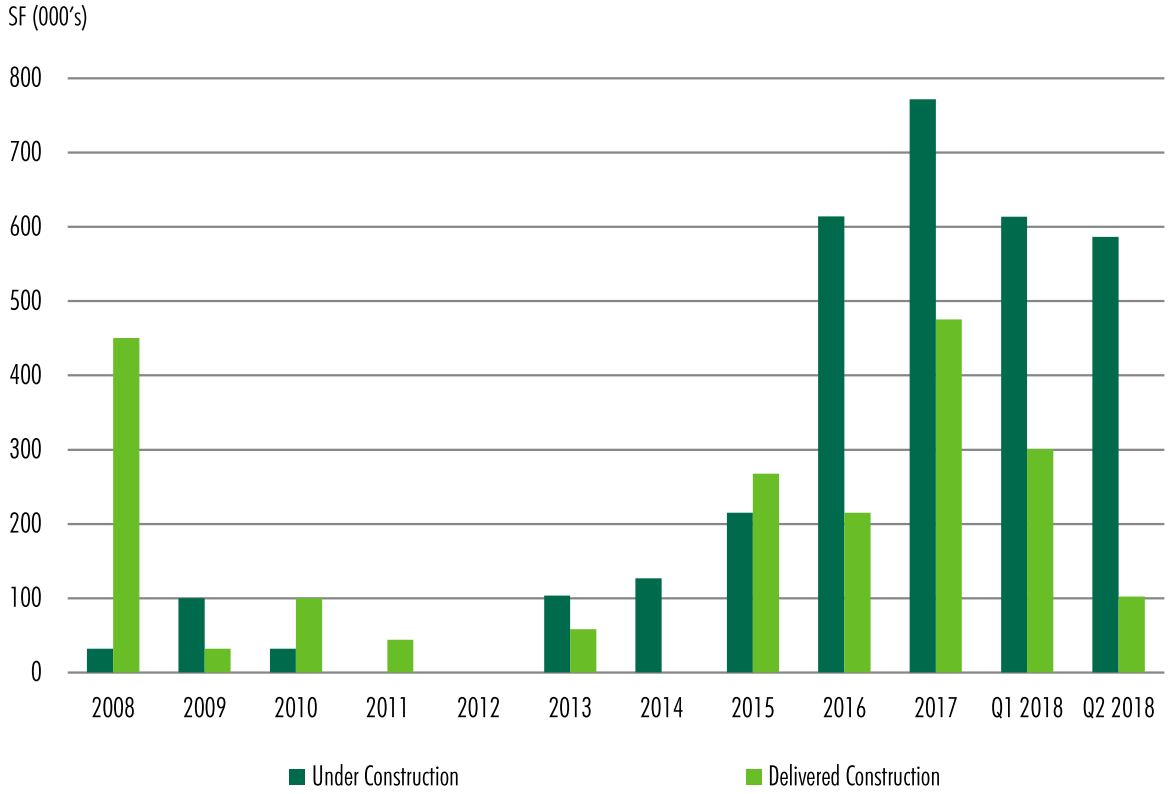
Source: CBRE Research, Q2 2018.

Figure 6: Unemployment Rate

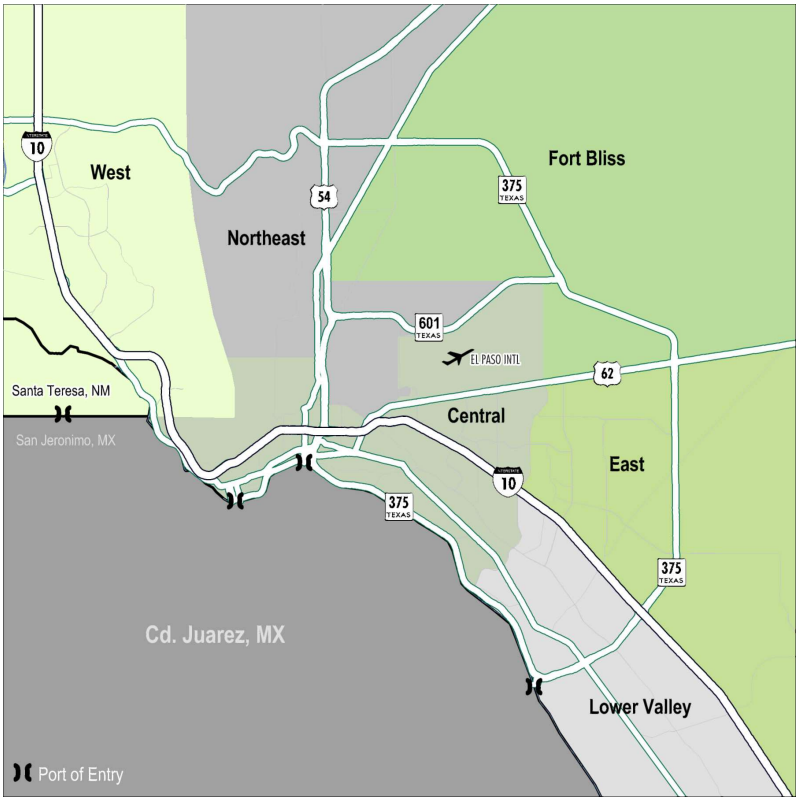


Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis, June 2018. Seasonally Adjusted.

Figure 7: Construction



Source: CBRE Research, Q2 2018.



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**Notes:
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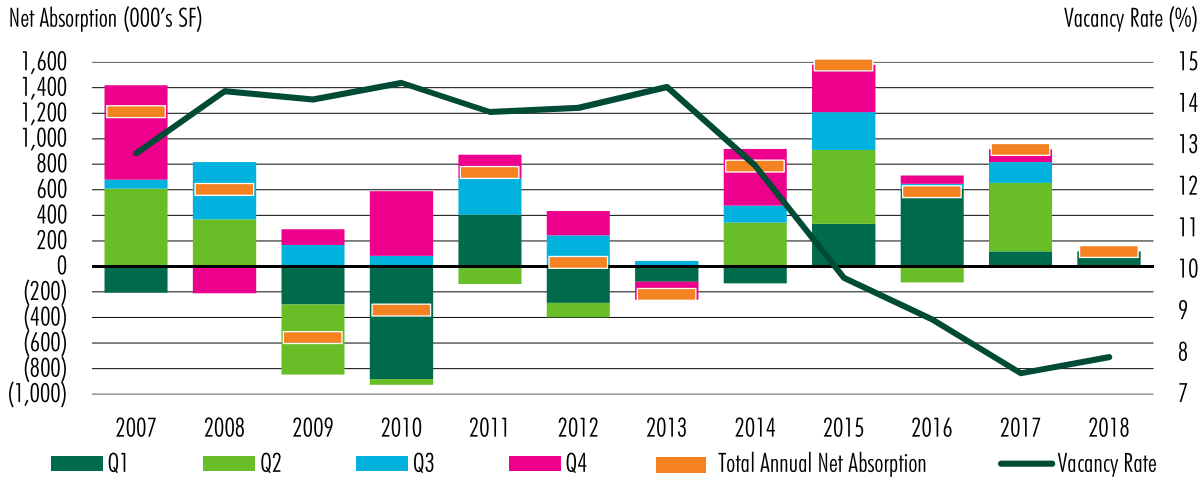
El Paso Industrial, Q1 2018

Robust leasing demand, new construction depict Q1 2018

Vacancy	**Avg. Asking Rate	Net Absorption	Under Construction	Completions
7.9%	$4.02 PSF	116,136 SF	613,689 SF	300,718 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2018.

ABSORPTION STARTS STRONG, VACANCY UPTICK

Overall industrial activity remains solid across El Paso, well above historical averages for occupancy and rents. Net absorption during Q1 2018 was 116,136 sq. ft., just 855 sq. ft. below Q1 2017 figures, and 16,000 sq. ft. above Q4 levels. The market-wide vacancy rate increased by 40 basis points (bps) compared to the previous quarter due to large block of class B space. Year-over-year, vacancy has declined by 80 bps.

NEAR-RECORD ACTIVITY LEVEL, ASKING RATES SLIP

The El Paso industrial market saw 36 transactions including new leases, renewal and delivery of new construction during the last 90 days. Renewals accounted for 62% of the 1.4 million sq. ft. of activity while new leases comprised 35%.

The market-wide asking rent decreased by $0.01 per sq. ft. compared to Q4 2017. This was caused by a 200,000 sq. ft. Class B space that came online during Q1 2018 and caused Class B rates to fall by $0.03 per sq. ft. Class A rates remain well above historical norms at $4.43 per sq. ft. and increased quarterly by $0.01 per sq. ft.

BTS CONTINUES TO DRIVE NEW CONSTRUCTION

After a record quarter of new construction, development levels remain strong. Three new build-to-suit (BTS) projects totaling 145,000 sq. ft. began moving dirt in Q1 2018. Three other BTS and one spec project (468,500 sq. ft. total) were also under construction. During Q1 2018, a 118,000 sq. ft. BTS and a 183,000 sq. ft. spec were delivered to the Central and West submarket, respectfully.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q1 2018 Net Absorption	Q4 2017 Net Absorption
West	8,215,436	16.3	18.2	4.26	-	182,718	16,000	(16,000)
Class A	6,683,321	19.8	19.9	4.26	-	182,718	16,000	(16,000)
Class B	1,311,980	1.3	12.2	N/A	-	-	0	0
Northeast	9,489,095	4.5	8.0	3.94	-	-	96,800	(110,481)
Class A	1,150,774	1.8	2.0	4.58	-	-	0	0
Class B	7,103,470	5.7	10.4	3.91	-	-	96,800	(110,481)
Central	14,596,090	2.2	3.9	3.47	49,500	118,000	120,730	(15,200)
Class A	420,119	0.0	0.0	N/A	49,500	118,000	118,000	0
Class B	5,745,808	0.3	0.6	3.66	-	-	2,730	(15,200)
East	18,349,795	6.4	8.9	3.85	382,000	-	25,536	117,044
Class A	7,661,708	5.4	6.4	4.68	382,000	-	75,321	0
Class B	8,294,515	3.7	7.7	4.28	-	-	(53,249)	117,044
Lower Valley	6,485,760	19.3	28.4	4.16	182,189	-	(142,930)	124,660
Class A	3,670,066	30.5	32.7	4.50	182,189	-	(54,000)	124,660
Class B	1,829,073	7.0	35.3	3.53	-	-	(100,000)	0
El Paso Total	**57,136,176**	**7.9**	**11.0**	**4.02**	**613,689**	**300,718**	**116,136**	**100,023**
Class A	**19,585,988**	**14.7**	**15.6**	**4.43**	**613,689**	**300,718**	**155,321**	**108,660**
Class B	**24,284,846**	**3.6**	**9.1**	**3.88**	**0**	**0**	**(53,719)**	**(8,637)**

Although Class C is not included, totals are inclusive of all classes of data.

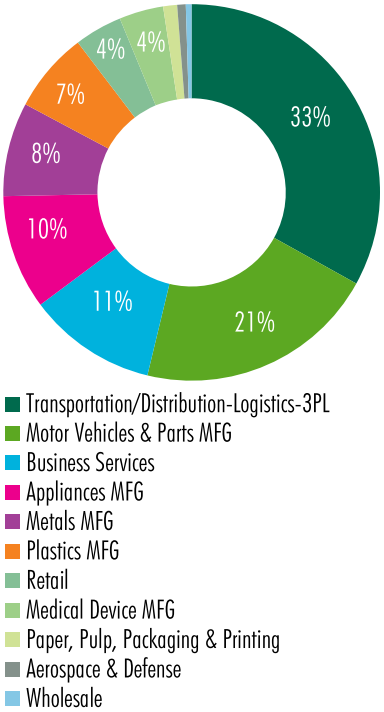
Source: CBRE Research, Q1 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	Northeast	Motor Vehicles & Parts MFG	209,100
Renewal	East	Business Services	126,000
Renewal	East	Motor Vehicles & Parts MFG	114,715
Renewal	East	Appliances MFG	108,000
Lease	East	Transportation/Distribution-Logistics-3PL	100,483
Renewal	East	Metals MFG	79,376
User Sale	Central	Transportation/Distribution-Logistics-3PL	65,000
Renewal	Lower Valley	Transportation/Distribution-Logistics-3PL	60,000
Lease	Northeast	Retail	56,400
Renewal	West	Plastics MFG	48,000

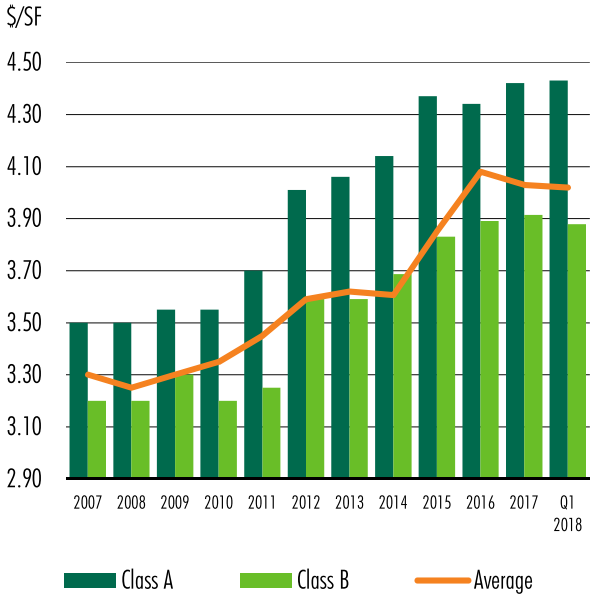
Source: CBRE Research, Q1 2018.

Figure 4: Q1 2018 Activity by Industry



Source: CBRE Research, Q1 2018.

Figure 5: **Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q1 2018.

Figure 6: Unemployment Rate

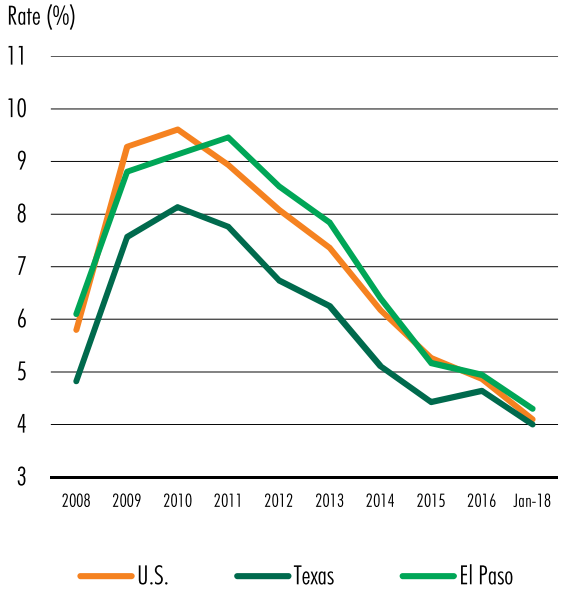


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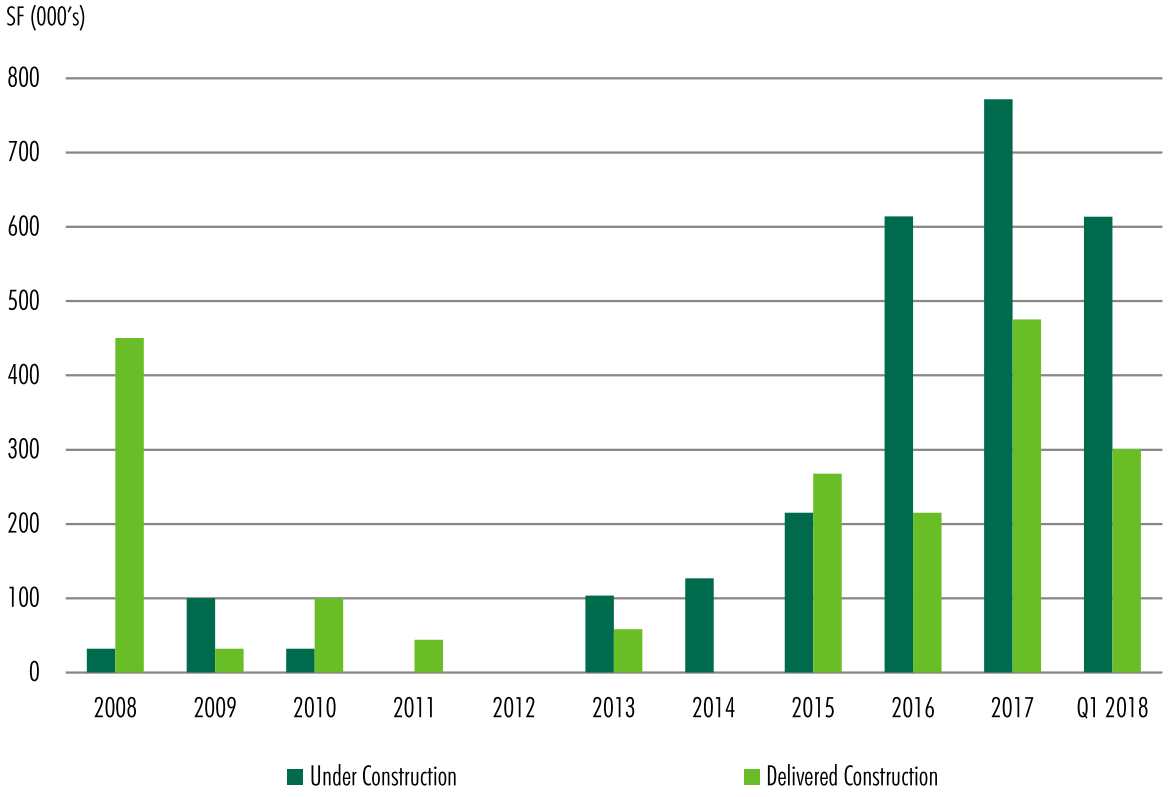
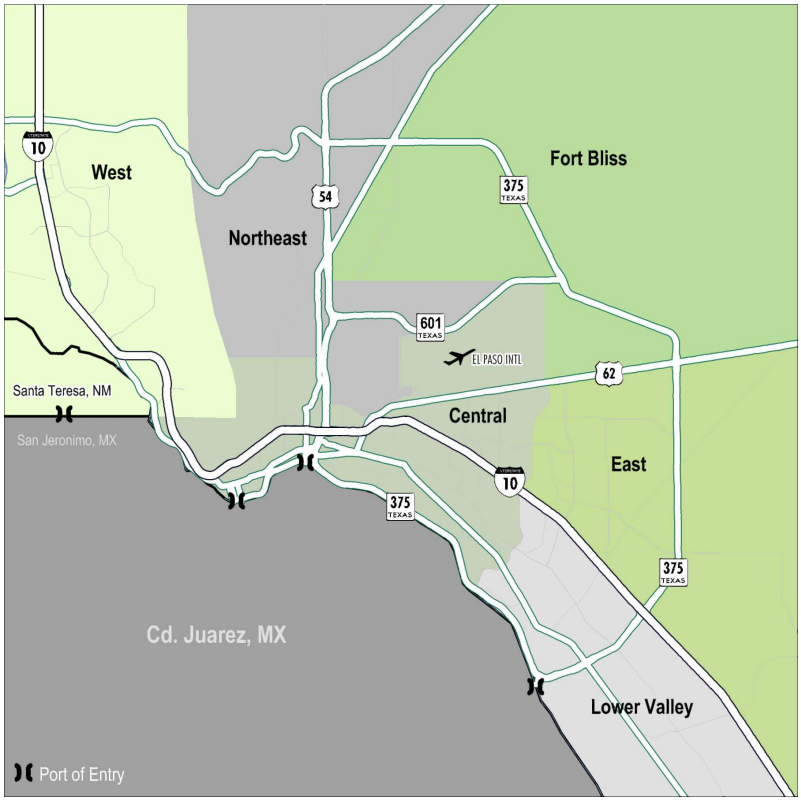
Figure 7: Construction



Source: CBRE Research, Q1 2018.



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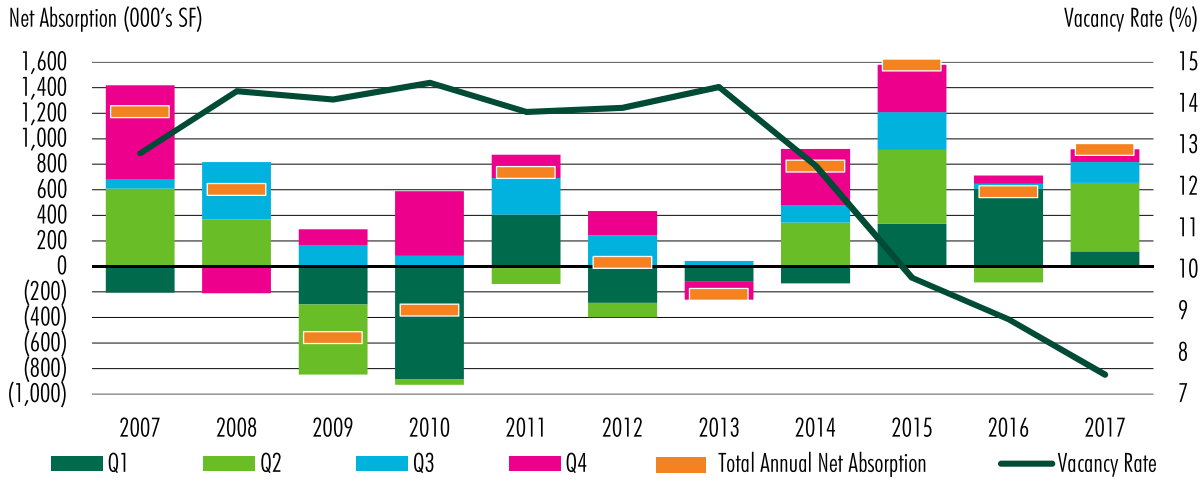
El Paso Industrial, Q4 2017

2017 ends with record low vacancy, active construction

Vacancy	**Avg. Asking Rate	Net Absorption	Under Construction	Completions
7.5%	$4.03 PSF	100,023 SF	771,500 SF	115,000 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2017.

NET ABSORPTION SURPASSES 2016, MARKET-WIDE VACANCY REMAINS AT RECORD LOW

Net absorption in Q4 2017 grew by 56.5% compared to Q4 2016. Total annual net absorption also grew by 56.5% compared to total 2016 net absorption, an increase of 338,000 sq. ft. The market-wide vacancy rate, which saw significant declines in the first half of the year, remained unchanged since Q3 2017 and decreased by 130 basis points year-over-year.

STRONG ACTIVITY, ASKING RATES SLIP

The El Paso industrial market was healthy in Q4 2017 with over 1.3 million sq. ft. of activity and 28 recorded transactions. Activity continues to be driven by companies already in the El Paso region with organic growth accounting for roughly 85% of gross absorption in Q4 2017. Class B properties reported both most move-ins and move-outs this quarter. This removed properties with a weighted average asking rate of $3.95 per sq. ft. and added a weighted average asking rate of $3.86 per sq. ft., causing a small quarterly decline in market-wide asking rents.

CYCLE HIGH CONSTRUCTION, BTS STILL DOMINATE

The year closed with over 770,000 sq. ft. of space under construction, the largest year-end figure in the current cycle. The majority of this space (65%) is build-to-suit (BTS) and includes two projects totaling 332,000 sq. ft. which broke ground in Q4 2017. Additionally, a BTS of 115,000 sq. ft. was delivered during the quarter in the Lower Valley submarket. Two speculative projects, totaling 272,000 sq. ft., remain under construction and are expected to be delivered in early 2018.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q4 2017 Net Absorption	Total 2017 Net Absorption
West	8,032,718	14.4	16.6	4.19	183,000	-	(16,000)	304,000
Class A	6,500,603	17.5	18.0	4.19	183,000	-	(16,000)	304,000
Class B	1,169,605	1.5	1.5	N/A	-	-	0	0
Northeast	9,488,397	5.7	8.9	3.90	-	-	(110,481)	(45,298)
Class A	1,150,774	1.8	2.0	4.58	-	-	0	(9,600)
Class B	7,102,772	7.3	11.6	3.88	-	-	(110,481)	(11,029)
Central	14,427,042	2.1	4.3	3.67	167,500	-	(15,200)	167,200
Class A	302,119	0.0	30.3	4.40	167,500	-	0	0
Class B	5,745,308	0.3	0.9	3.93	-	-	(15,200)	5,200
East	18,349,485	6.2	9.5	3.90	332,000	-	117,044	304,408
Class A	7,661,495	6.4	7.4	4.69	332,000	-	0	95,263
Class B	8,294,418	3.0	8.2	4.25	-	-	117,044	209,145
Lower Valley	6,499,690	17.0	24.1	4.23	89,000	115,000	124,660	184,539
Class A	3,670,066	29.1	30.5	4.51	89,000	115,000	124,660	165,339
Class B	1,829,073	1.5	23.8	3.52	-	-	0	19,200
El Paso Total	**56,797,332**	**7.5**	**10.8**	**4.03**	**771,500**	**115,000**	**100,023**	**914,849**
Class A	**19,285,057**	**14.1**	**15.4**	**4.42**	**771,500**	**115,000**	**108,660**	**555,002**
Class B	**24,141,176**	**3.4**	**8.3**	**3.91**	**0**	**0**	**(8,637)**	**222,516**

Although Class C is not included, totals are inclusive of all classes of data.

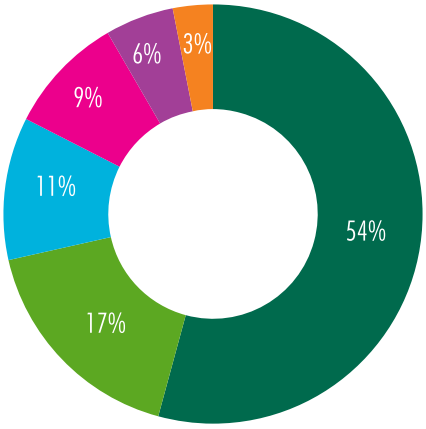
Source: CBRE Research, Q4 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	East	Transportation/Distribution-Logistics-3PL	354,159
Renewal	East	Home Goods MFG	189,200
Extension	East	Plastics MFG	120,850
Lease	Northeast	Business Services	100,240
Lease	East	Transportation/Distribution-Logistics-3PL	45,945
Lease	Northeast	Motor Vehicles & Parts MFG	40,835
Renewal	East	Transportation/Distribution-Logistics-3PL	40,000
Lease	Northeast	Transportation/Distribution-Logistics-3PL	36,000
Lease	East	Transportation/Distribution-Logistics-3PL	32,500
Lease	East	Transportation/Distribution-Logistics-3PL	30,000

Source: CBRE Research, Q4 2017.

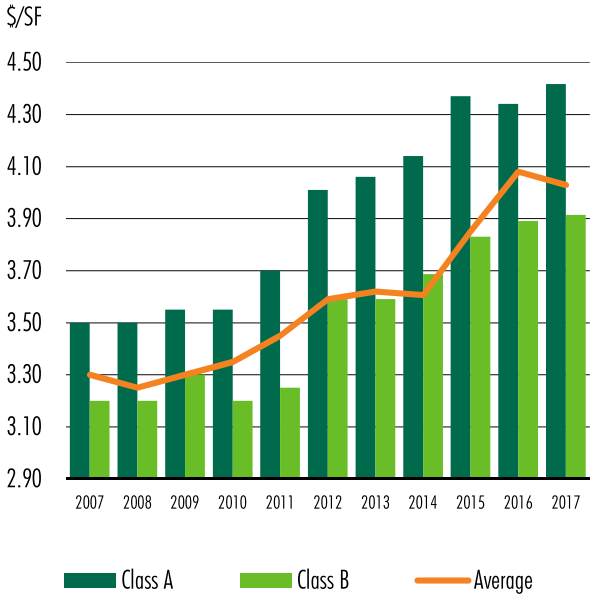
Figure 4: Q4 2017 Activity by Industry



- Transportation/Distribution-Logistics-3PL
- Home Goods MFG
- Plastics MFG
- Business Services
- Motor Vehicles & Parts MFG
- Paper, Pulp, Packaging & Printing

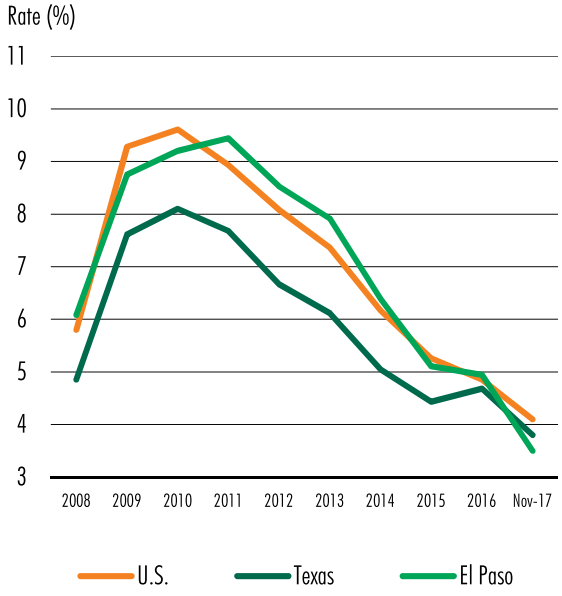
Source: CBRE Research, Q4 2017.

Figure 5: **Asking Rates, NNN Avg. Annual



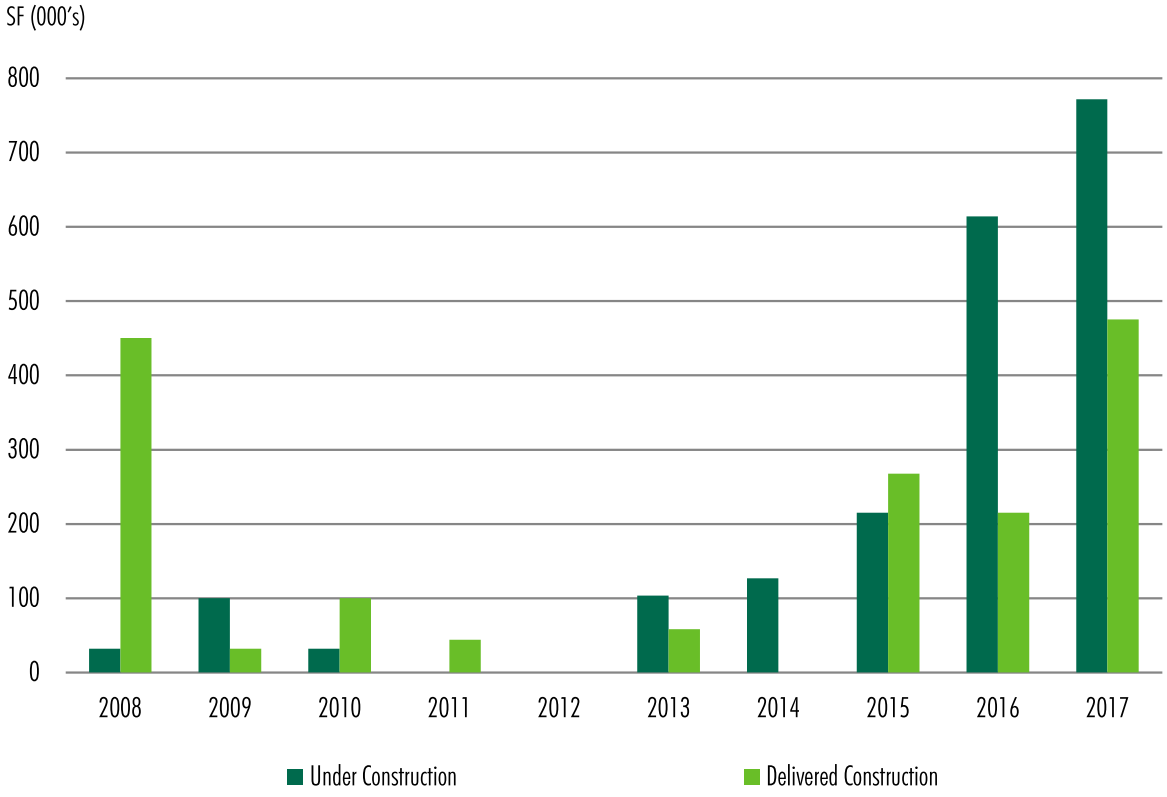
Source: CBRE Research, Q4 2017.

Figure 6: Unemployment Rate

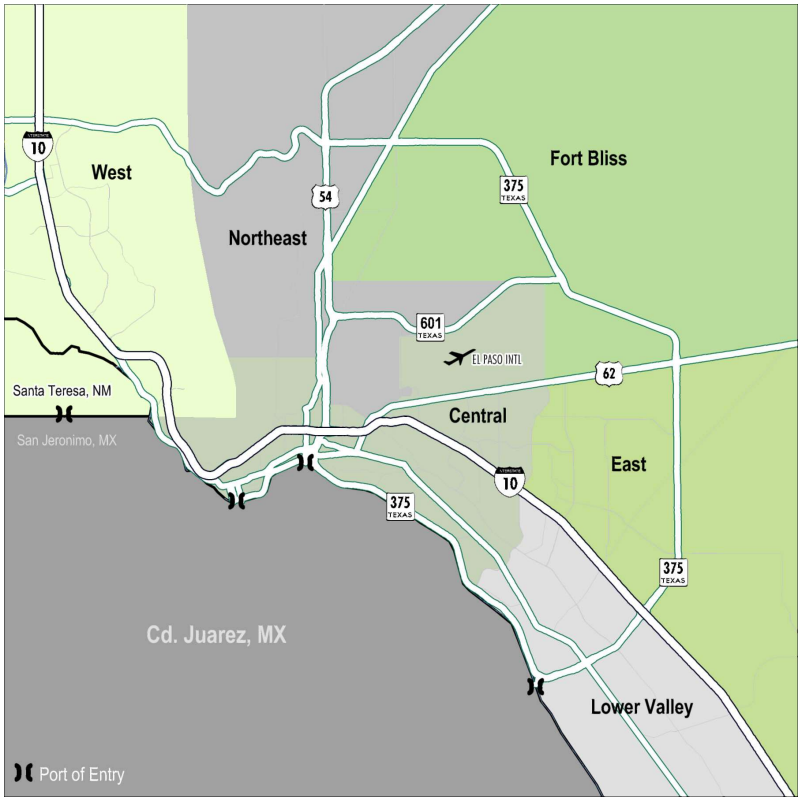


Source: Bureau of Labor Statistics; Federal Reserve Bank of Dallas, December 2017. Seasonally Adjusted.

Figure 7: Construction



Source: CBRE Research, Q4 2017.



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**Notes:
El Paso average asking rates dating back to Q1 2014 were adjusted during Q3 2017 to better reflect a weighted average based on available sq. ft.

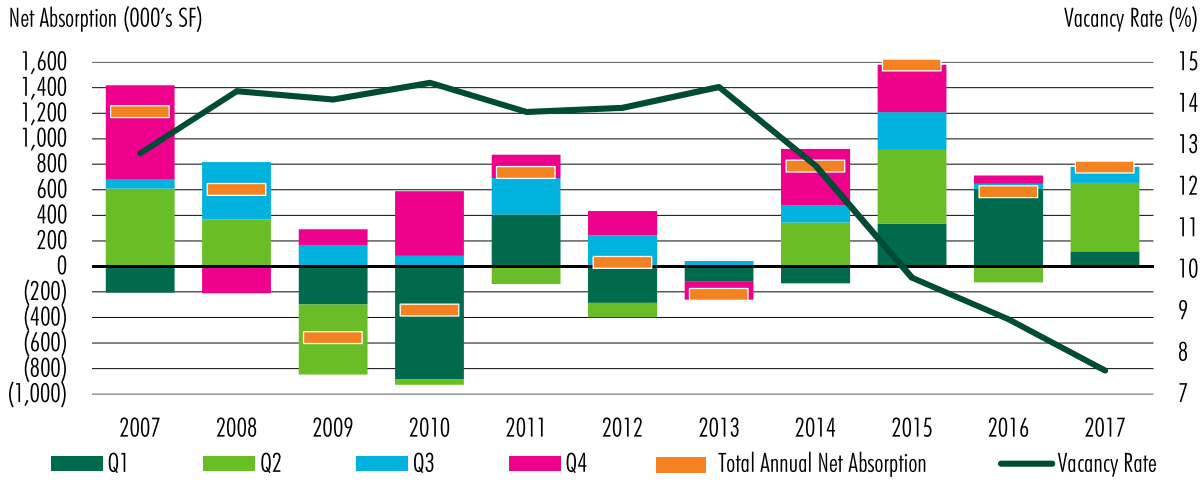
El Paso Industrial, Q3 2017

Record low vacancy, robust activity push market forward

Vacancy	**Avg. Asking Rate	Net Absorption	Under Construction	Completions
7.5%	$4.08 PSF	162,664 SF	575,500 SF	0 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2017.

NET ABSORPTION OUTPACES 2016, MARKET-WIDE VACANCY HITS RECORD LOW

At the end of Q3 2017, year-to-date net absorption was almost 815,000 sq. ft., 230,000 sq. ft. more than the annual net absorption of 2016. Q3 2017 net absorption was four times larger than that of Q3 2016. Vacancy decreased by 40 basis points (bps) quarter-over-quarter and by 120 bps year-over-year. The Q3 2017 vacancy is the lowest rate seen since CBRE began tracking the market

1.1 MSF OF ACTIVITY DRIVEN BY RENEWALS, USE OF SPACE TRENDS REMAIN CONSISTANT

Renewals accounted for more than 750,000 sq. ft. of leasing activity and had an average size of 63,000 sq. ft. in Q3 2017. The remaining activity came from new leases, of which 100,000 sq. ft. were backfills. While activity in the market was comprised of a variety industries, about 85% of this quarters activity is used for warehousing or distribution purposes. This has been a long-running trend in the region that continues to strengthen as existing companies expand their building footprints.

SPEC CONSTRUCTIONS MAKES ANOTHER APPERANCE

In the previous quarter, the El Paso industrial market saw the start of the first speculative (spec) development in this cycle. The building in the West submarket is expected to be completed late in Q4 2017. Once the 183,000 sq. ft. building has a tenant, developers have said they will begin a second spec building next door. The second new spec project kicked off in Q3 2017, a 89,000 sq. ft. project in the Lower Valley. Expected completion of this building is early 2018.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q2 2017 Net Absorption	Q3 2017 Net Absorption
West	7,873,855	14.6	14.9	4.18	183,000	-	320,000	0
Class A	6,500,495	17.4	17.8	4.18	183,000	-	320,000	0
Class B	1,169,605	1.5	1.5	N/A	-	-	0	0
Northeast	9,494,189	4.5	7.1	4.11	-	-	(27,357)	(2,551)
Class A	1,150,774	1.8	2.0	4.58	-	-	(9,600)	0
Class B	7,108,564	5.7	9.2	4.09	-	-	(17,757)	(2,551)
Central	14,359,155	1.9	3.5	2.66	49,500	-	148,000	34,400
Class A	301,619	0.0	30.2	4.75	49,500	-	0	0
Class B	5,762,108	0.0	0.6	3.95	-	-	0	20,400
East	18,323,266	6.9	9.6	3.77	-	-	55,328	169,536
Class A	7,661,495	6.4	8.6	4.47	-	-	(25,032)	120,295
Class B	8,122,404	4.6	7.9	4.33	-	-	80,360	49,241
Lower Valley	6,384,230	17.5	21.9	4.36	343,000	-	39,200	(38,721)
Class A	3,555,066	31.1	32.6	4.50	343,000	-	20,000	(38,721)
Class B	1,828,613	0.0	12.5	3.75	-	-	19,200	0
El Paso Total	**56,434,695**	**7.5**	**9.8**	**4.08**	**575,500**	**0**	**535,171**	**162,664**
Class A	**19,169,449**	**14.3**	**16.1**	**4.37**	**575,500**	**0**	**305,368**	**81,574**
Class B	**23,991,294**	**3.3**	**6.6**	**4.13**	**0**	**0**	**81,803**	**67,090**

Although Class C is not included, totals are inclusive of all classes of data.

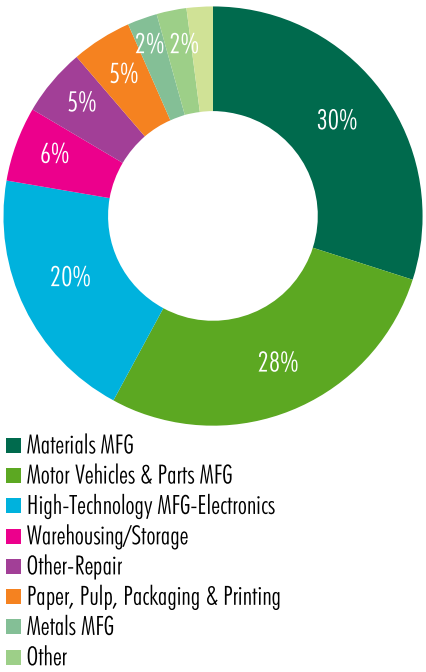
Source: CBRE Research, Q3 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	East	Wholesale	263,801
Renewal	East	Motor Vehicles & Parts MFG	144,000
Renewal	East	High-Technology MFG-Electronics	80,000
Lease	East	Transportation/Distribution/Logistics-3PL	68,454
Renewal	East	High-Technology MFG-Electronics	58,000
Lease	Central	Transportation/Distribution/Logistics-3PL	56,000
Lease	East	Motor Vehicles & Parts MFG	54,000
Renewal	East	High-Technology MFG-Electronics	52,800
Lease	East	Motor Vehicles & Parts MFG	50,311
Renewal	Central	Warehousing/Storage	41,156

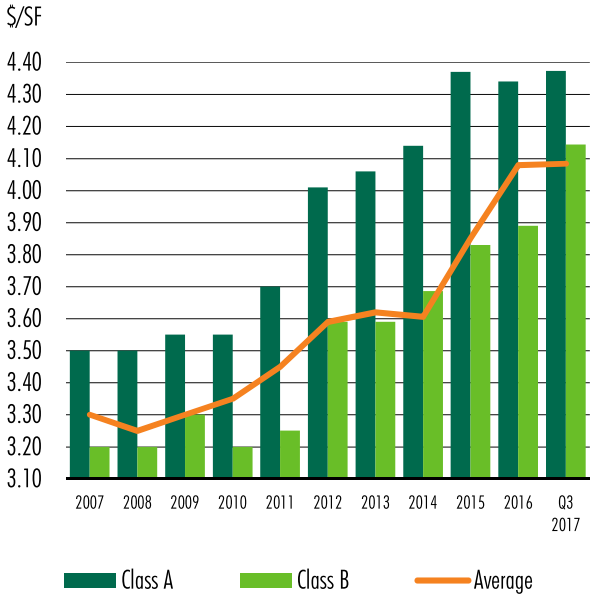
Source: CBRE Research, Q3 2017.

Figure 4: Q3 2017 Activity by Industry



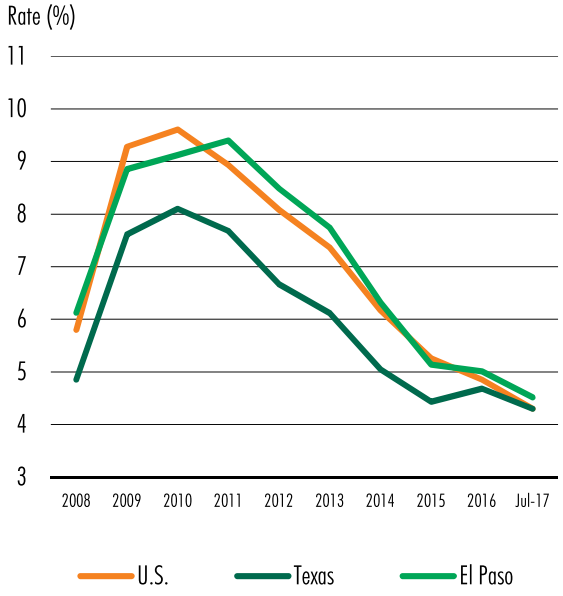
Source: CBRE Research, Q3 2017.

Figure 5: **Asking Rates, NNN Avg. Annual



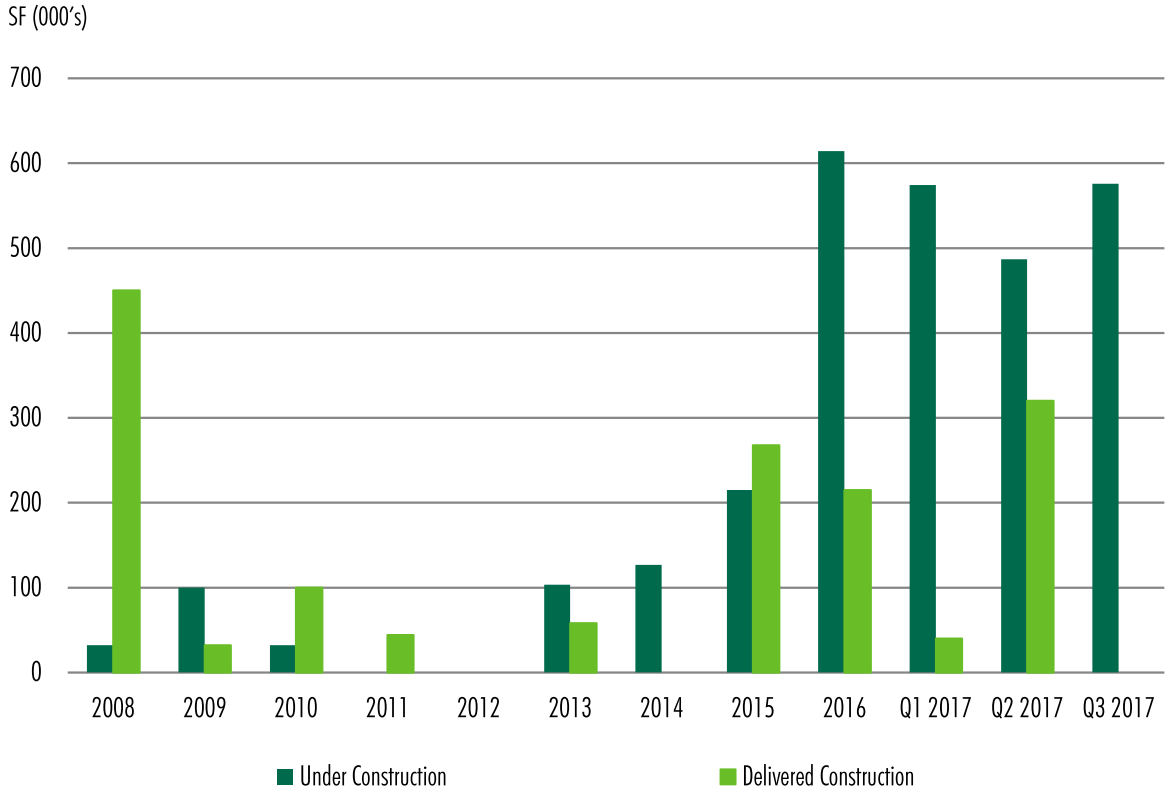
Source: CBRE Research, Q3 2017.

Figure 6: Unemployment Rate

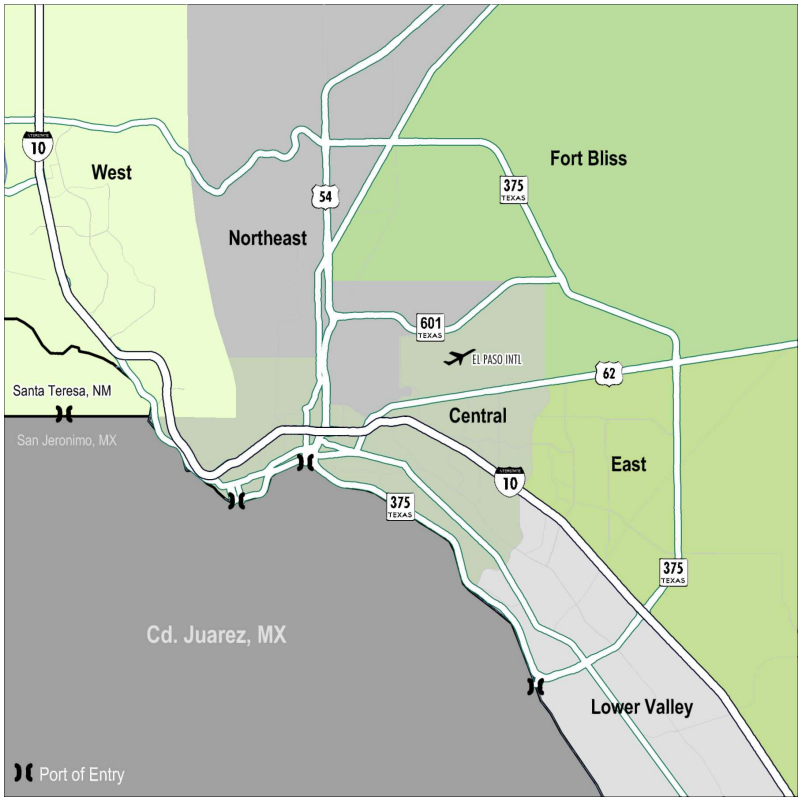


Source: Bureau of Labor Statistics, September 2017. Not Seasonally Adjusted.

Figure 7: Construction



Source: CBRE Research, Q3 2017.



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**Notes:
El Paso average asking rates dating back to Q1 2014 were adjusted during Q3 2017 to better reflect a weighted average based on available sq. ft.

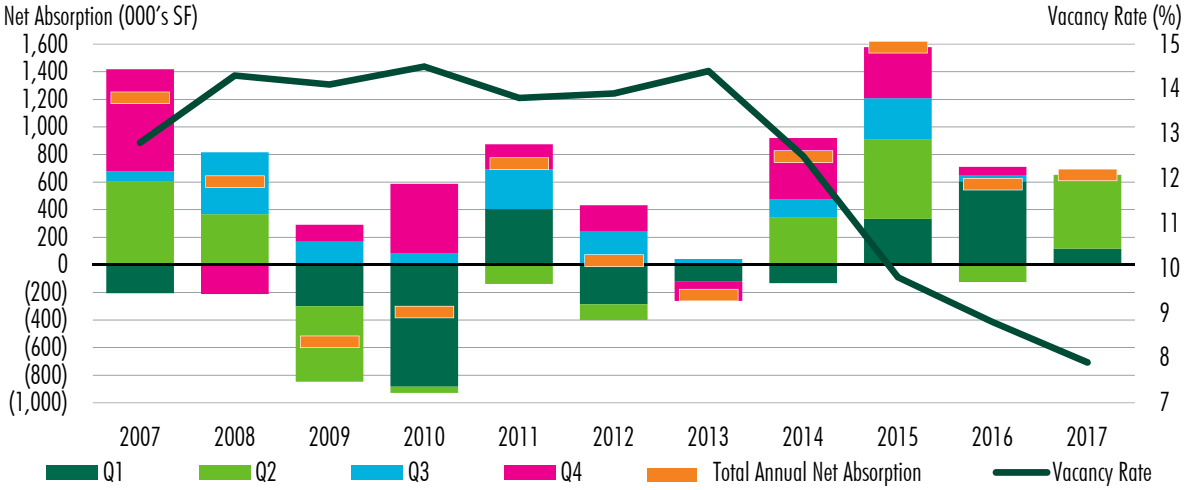
El Paso Industrial, Q2 2017

Strong absorption, deliveries push vacancy to record low

Vacancy	Avg. Asking Rate	Net Absorption	Under Construction	Completions
7.9%	$4.13 PSF	535,171 SF	486,500 SF	320,000 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2017.

The local market saw positive net absorption that was higher than the combined total of the previous four quarters and was just shy of the total annual net absorption of 2016. Vacancy decreased by 80 basis points (bps) quarter-over-quarter and by 70 bps year-over-year. Q2 2017 vacancy is the lowest quarterly rate in the current expansion cycle.

Submarket vacancy continued to compress with the most notable quarter-over-quarter decreases in the West and Central submarkets. The Northeast and East submarket saw the largest portion of new leases with 145,000 sq. ft. and 124,000 sq. ft., respectively. The West submarket saw the delivery of two build-to-suit (BTS) projects that totaled 320,000 sq. ft. Q2 2017 market activity remained healthy, registering 28 transactions.

Leasing activity, which totaled over 1.1 million sq. ft., was driven by new transactions accounting for 32% of all activity. Gross absorption was a mix of leases, expansions, a sale, and delivery of BTS construction. The average new lease term was five years and the average renewal term was 45 months.

This quarter saw the start of a speculative project as well as a BTS lease, both of these project types have been non-existent in the market. As vacancy decreases, spurring more development, asking rates have seen upward pressure. While market-wide rates decreased compared to Q1 2017 due to database adjustment, the Northeast and Central submarkets saw increases of $0.35 and $0.18. Asking rates in the East and Lower Valley remained flat. Only the West submarket, where the database adjustments were made, saw a decrease.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q1 2017 Net Absorption	Q2 2017 Net Absorption
West	7,873,855	14.6	14.6	4.16	320,000		0	320,000
Class A	6,500,495	17.4	17.4	4.16	320,000	-	0	320,000
Class B	1,169,605	1.5	1.5	N/A	-	-	0	0
Northeast	9,494,189	4.5	6.5	4.09	-	-	95,091	(27,357)
Class A	1,150,774	1.8	2.0	5.30	-	-		(9,600)
Class B	7,108,564	5.7	8.3	3.87	-	-	119,760	(17,757)
Central	14,315,695	1.6	3.0	3.38	-	-	0	148,000
Class A	301,619	0.0	30.2	4.00	-	-	0	0
Class B	5,761,708	0.3	1.7	3.78	-	-	0	0
East	18,171,904	8.3	9.5	4.12	-	-	(11,500)	55,328
Class A	7,510,352	8.3	8.6	4.46	-	-	26,000	(25,032)
Class B	8,122,185	6.0	7.7	4.31	-	-	(37,500)	80,360
Lower Valley	6,384,230	16.9	21.3	4.30	254,000	40,000	59,400	39,200
Class A	3,555,066	30.0	31.5	4.50	254,000	40,000	59,400	20,000
Class B	1,828,613	0.0	12.5	3.73	-	-	0	19,200
El Paso Total	**56,239,873**	**7.9**	**9.6**	**4.13**	**486,500**	**320,000**	**142,991**	**535,171**
Class A	**19,018,306**	**15.0**	**15.8**	**4.43**	**486,500**	**320,000**	**85,400**	**305,368**
Class B	**23,990,675**	**4.0**	**5.5**	**4.04**	**0**	**0**	**82,260**	**81,803**

Although Class C is not included, totals are inclusive of all classes of data.

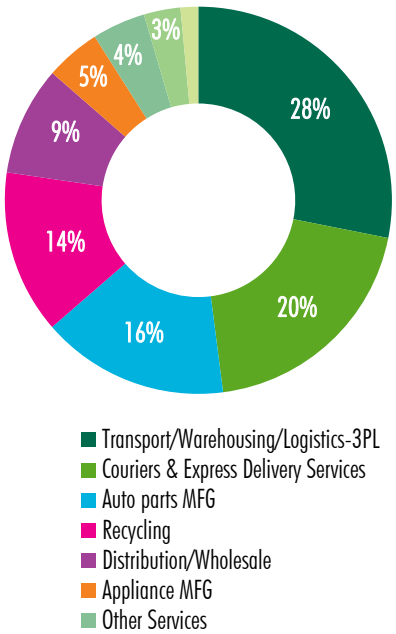
Source: CBRE Research, Q2 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Delivered Construction	West	Couriers & Express Delivery Services	215,000
User Sale	Central	Recycling	148,000
Lease	Northeast	Auto parts MFG	120,000
Delivered Construction	West	Transport/Warehousing/Logistics-3PL	105,000
Expansion	East	Transport/Warehousing/Logistics-3PL	51,501
Lease	East	Appliance MFG	50,000
Renewal	Northeast	Auto parts MFG	50,000
New Construction Lease	Central	Distribution/Wholesale	49,500
Renewal	East	Textile MFG	33,228
Renewal	Lower Valley	Distribution/Wholesale	30,000

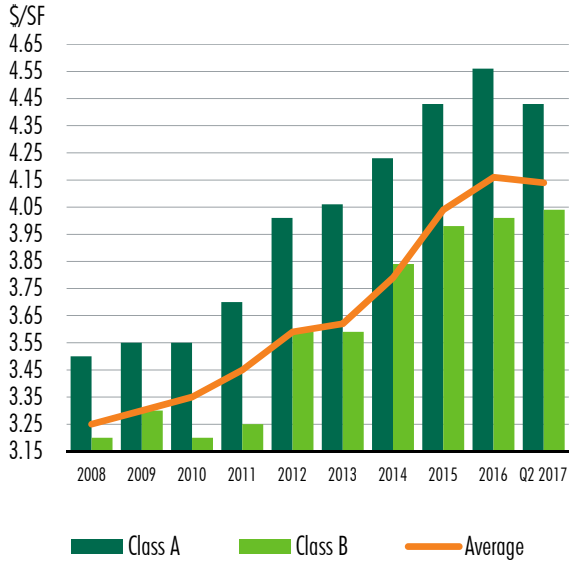
Source: CBRE Research, Q2 2017.

Figure 4: Q2 2017 Activity by Industry



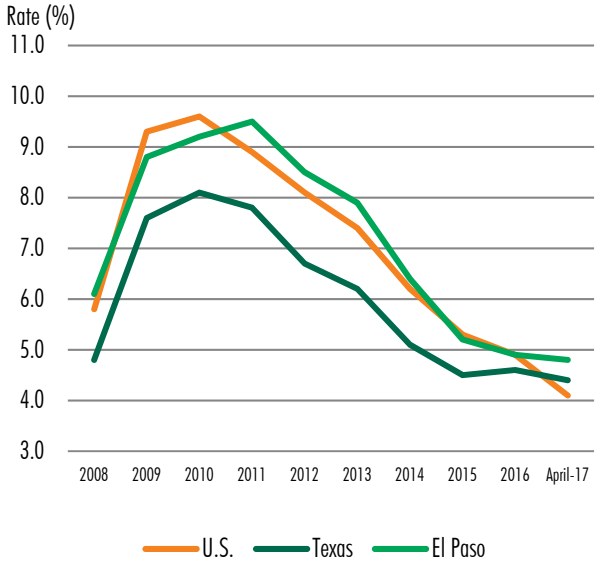
Source: CBRE Research, Q2 2017.

Figure 5: Asking Rates, NNN Avg. Annual



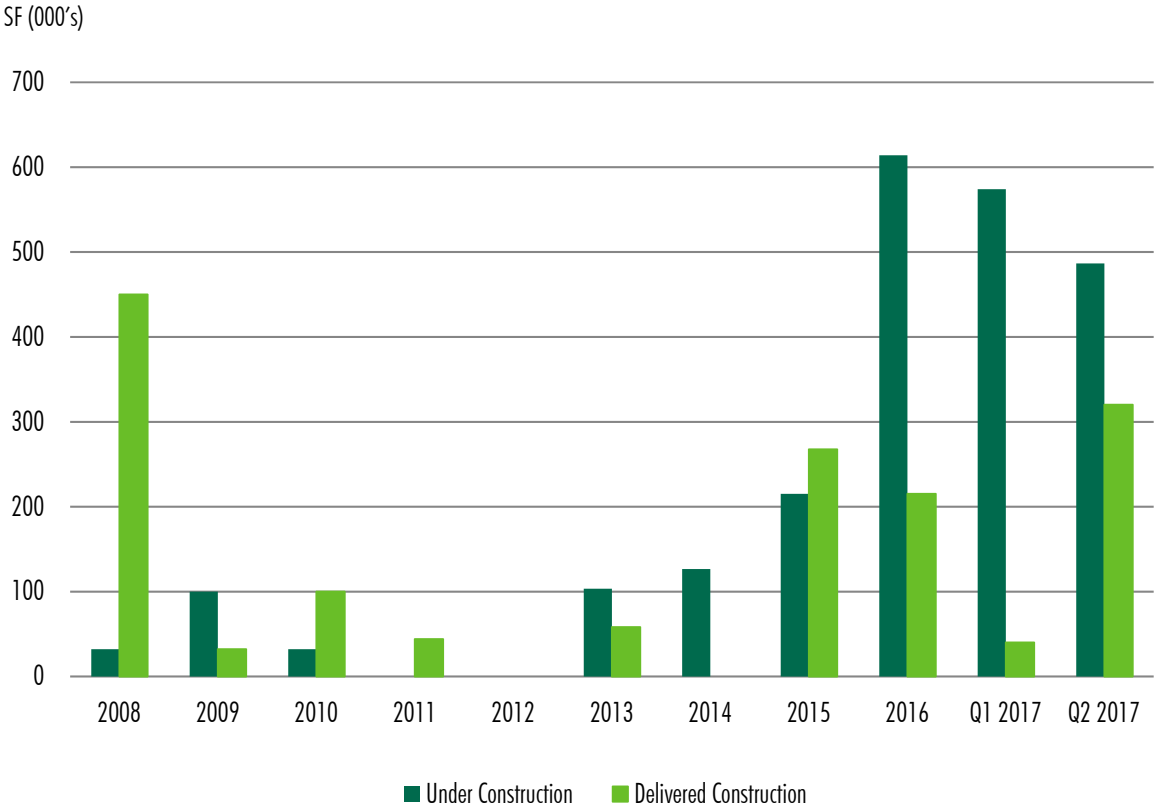
Source: CBRE Research, Q2 2017.

Figure 6: Unemployment Rate

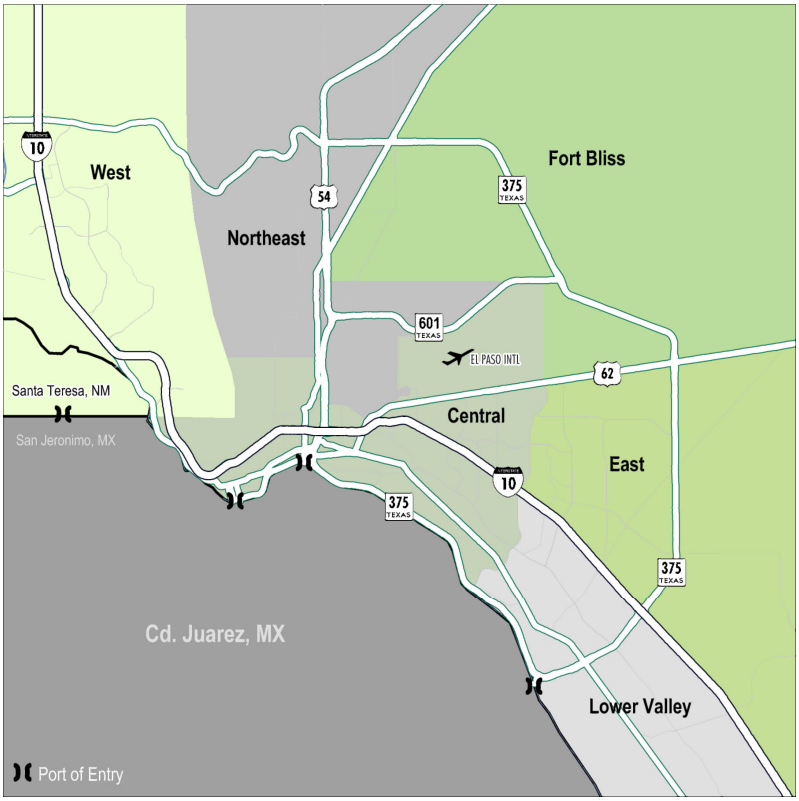


Source: Bureau of Labor Statistics, March 2017. Not Seasonally Adjusted.

Figure 7: Construction



Source: CBRE Research, Q2 2017.



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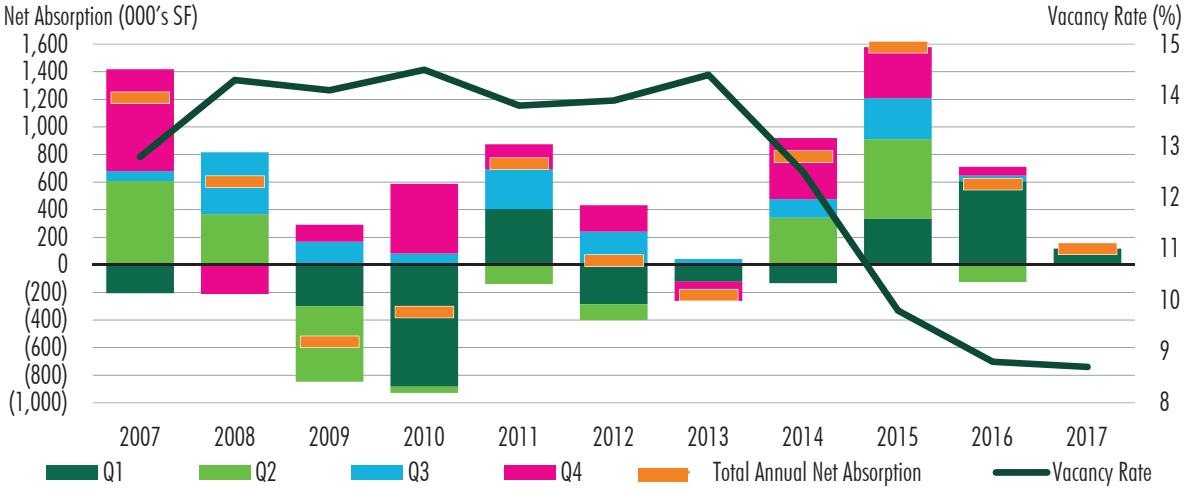
El Paso Industrial, Q1 2017

Steady absorption, tightening vacancy rates push rents up

Vacancy	Avg. Asking Rate	Net Absorption	Under Construction	Completions
8.7%	$4.18 PSF	116,991 SF	574,000 SF	40,000 SF

*Arrows indicate change from previous quarter. Asking rents are weighted based on available square feet.

Figure 1: Historical Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2017.

The local market saw positive net absorption that was higher than the combined total of the two previous quarters. The vacancy rate decreased 10 basis points (bps) quarter-over-quarter but increased 30 bps year-over-year. The Q1 2017 vacancy rate is the second lowest quarterly vacancy rate in the current cycle.

Submarket vacancy rates continued to compress but the East and Central submarkets saw a slight uptick. The East submarket, however, saw the largest portion of activity with close to 434,000 sq. ft. in renewals. The Central submarket had no new vacancies this quarter, it's vacancy rate increased due to database adjustments and additions.

Q1 2017 market activity remained healthy, registering 20 transactions. Market activity was driven largely by renewals which accounted for 70% of all market activity. Gross absorption for the quarter was a mix of new leases, expansions, a sale, and a sublease. The average new lease term for was 41 months and the average renewal term was 43 months.

Since 2011, demand for industrial space has increased by 3.7% each year while speculative developments have been non-existent. This tightening of the market has led to an average asking lease rate growth of 4.1% per year. This trend continued in Q1 2017 where increases were seen across submarkets and across classes. In particular, the market average increased by $0.02 per sq. ft. since Q4 2016 and $0.11 per sq. ft. year-over-year. Class A and B asking rates increased by $0.16 and $0.11 per sq. ft. compared to Q1 2016.

Figure 2: El Paso Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rate ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q4 2016 Net Absorption	Q1 2017 Net Absorption
West	7,646,855	16.2	16.4	4.93	320,000		(207,021)	0
Class A	6,273,495	19.3	19.5	4.89	320,000	-	(207,021)	0
Class B	1,169,605	2.3	2.3	6.91	-	-	0	0
Northeast	9,481,141	4.1	7.5	3.74	-	-	168,744	95,091
Class A	1,137,326	0	0	NA	-	-	16,000	0
Class B	7,025,404	5.1	9.8	3.77	-	-	152,744	119,760
Central	14,308,595	3.6	4.1	3.20	-	-	0	0
Class A	301,619	0	0	NA	-	-	0	0
Class B	5,761,708	1.5	2.1	3.74	-	-	0	0
East	18,460,604	9.0	11.2	4.14	-	-	102,185	(37,500)
Class A	7,661,495	7.8	9.8	4.45	-	-	64,000	0
Class B	8,122,185	6.7	9.0	4.34	-	-	20,185	(37,500)
Lower Valley	6,384,230	17.6	22.0	4.30	254,000	40,000	0	59,400
Class A	3,555,066	30.8	32.3	4.51	254,000	40,000	0	59,400
Class B	1,828,613	1.1	13.5	3.72	-	-	0	0
El Paso Total	**56,281,425**	**8.7**	**10.7**	**4.18**	**574,000**	**40,000**	**63,908**	**116,991**
Class A	**18,929,001**	**15.3**	**16.5**	**4.60**	**574,000**	**40,000**	**(127,021)**	**59,400**
Class B	**23,907,515**	**4.3**	**7.6**	**4.05**	**0**	**0**	**172,929**	**82,260**

Although Class C is not included, totals are inclusive of all classes of data.

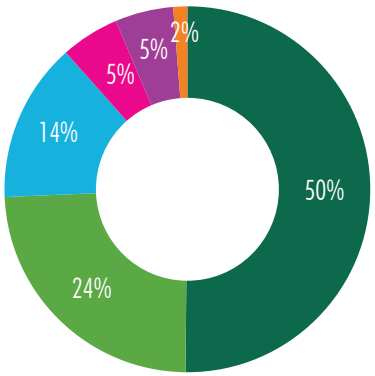
Source: CBRE Research, Q1 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Renewal	East	Medical MFG.	187,200
Sale	Northeast	Distribution/Wholesale	100,560
Renewal	East	Transport/Warehousing/Logistics-3PL	96,000
Renewal	East	Transport/Warehousing/Logistics-3PL	60,000
Renewal	East	Transport/Warehousing/Logistics-3PL	48,000
Renewal	Lower Valley	Transport/Warehousing/Logistics-3PL	48,000
Sublease	East	Transport/Warehousing/Logistics-3PL	42,000
Delivered Construction	Lower Valley	Food & Beverage MFG.	40,000
Renewal	Central	Metalworking Machinery MFG.	40,000
Renewal	East	Transport/Warehousing/Logistics-3PL	24,000

Source: CBRE Research, Q1 2017.

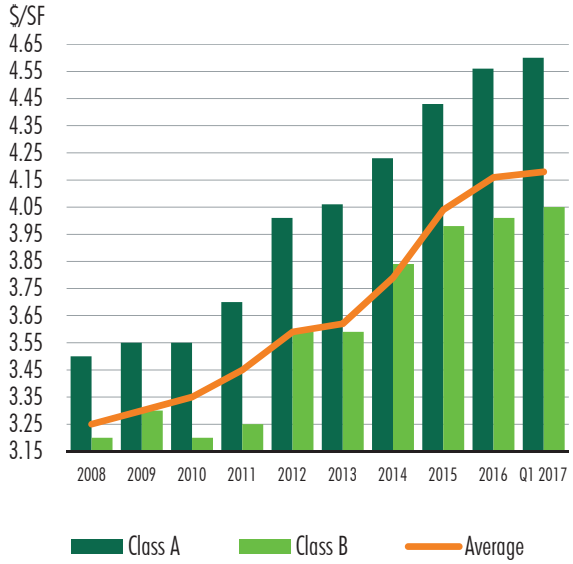
Figure 4: Q1 2017 Activity by Industry



- Transport/Warehousing/Logistics-3PL
- Medical MFG
- Distribuiton/Wholesale
- Food & Beverage MFG
- Metalworking Machinery MFG
- Other Services

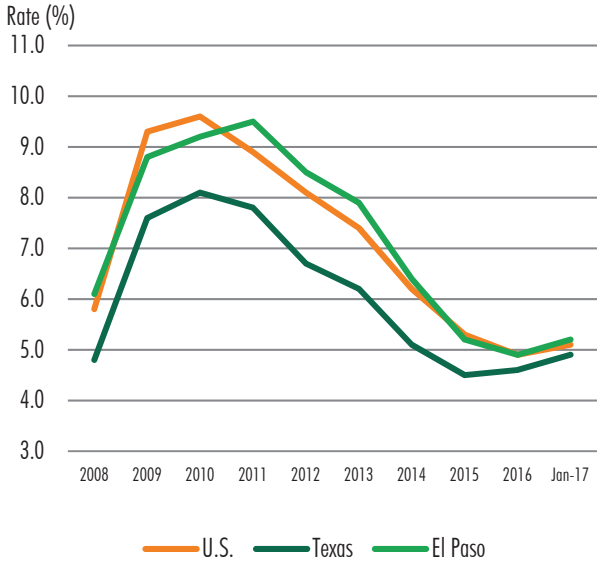
Source: CBRE Research, Q1 2017.

Figure 5: Asking Rates, NNN Avg. Annual



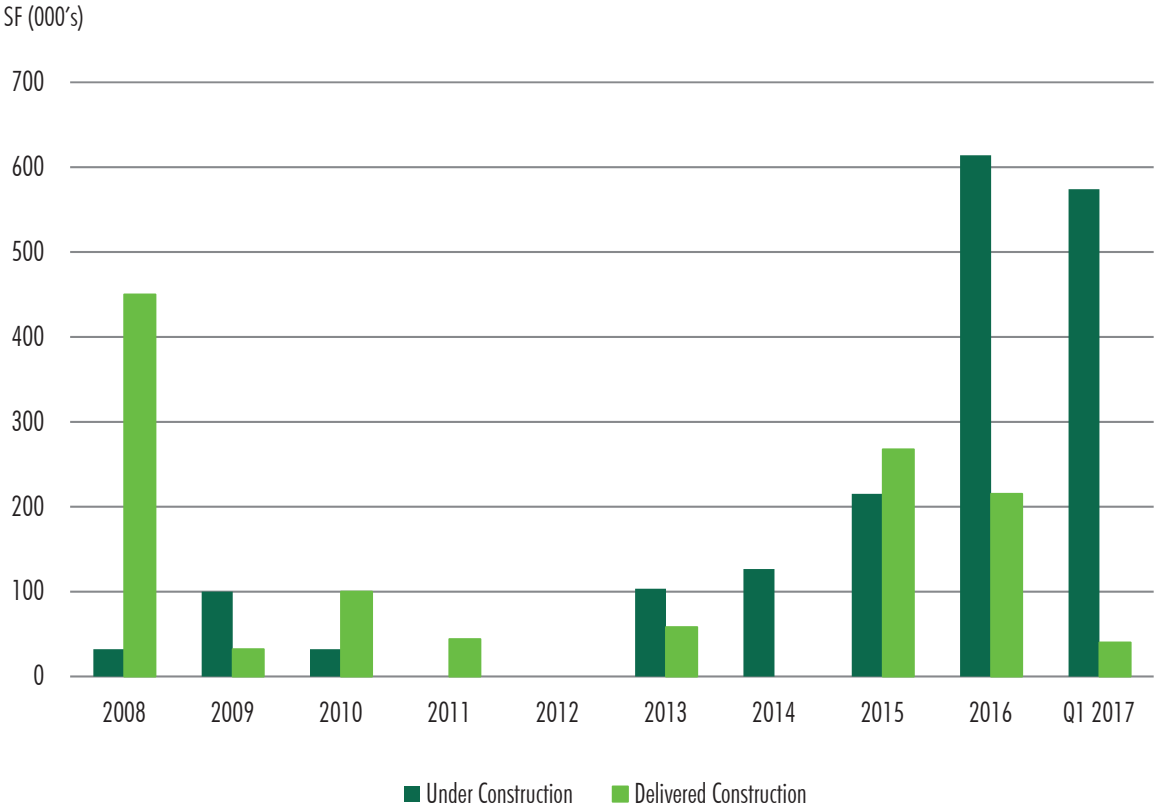
Source: CBRE Research, Q1 2017.

Figure 6: Unemployment Rate

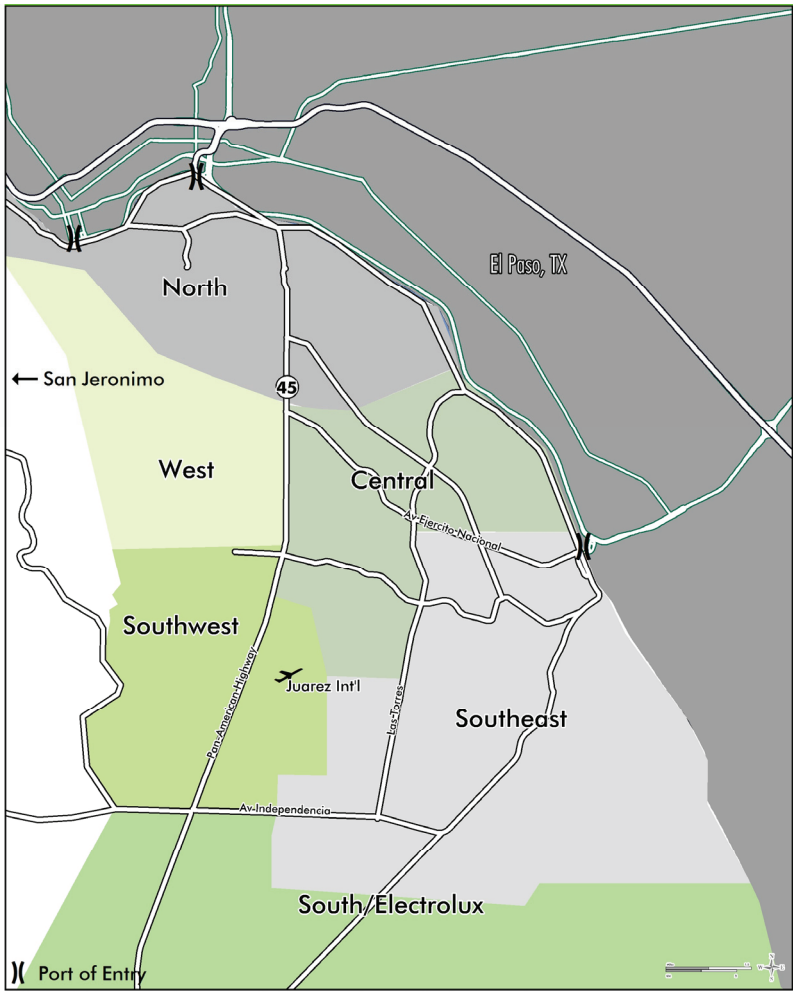


Source: Bureau of Labor Statistics, March 2017.

Figure 7: Construction



Source: CBRE Research, Q1 2017.



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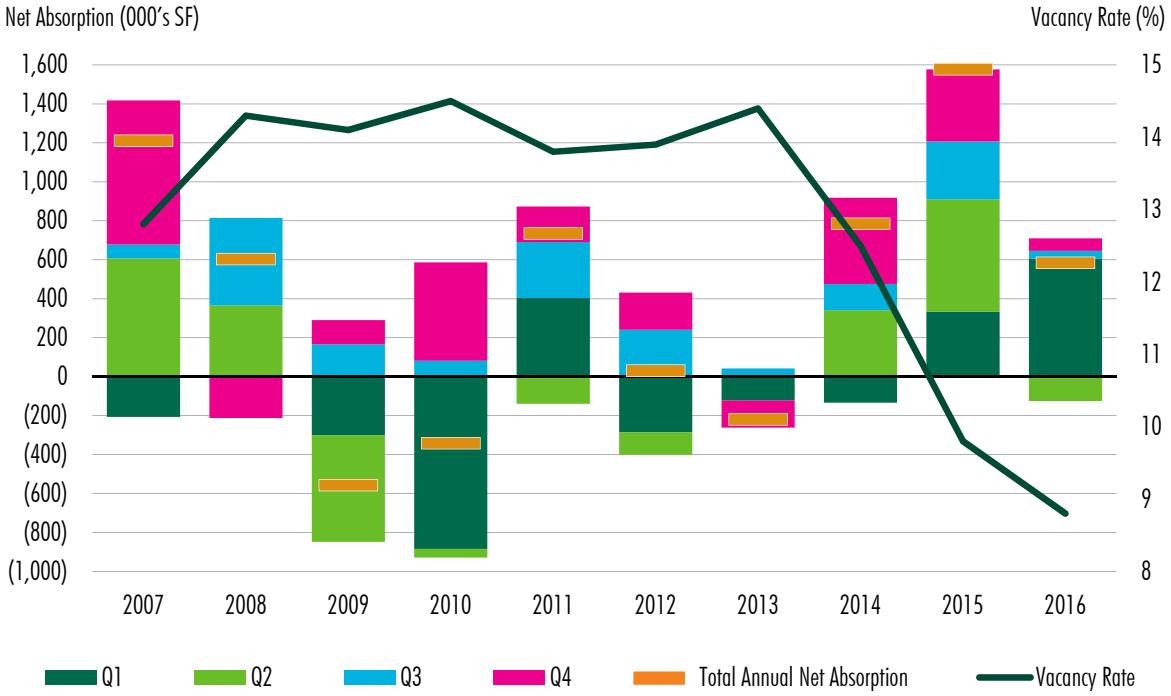
El Paso Industrial, Q4 2016

Low vacancy, steady demand mark a year of landlord gains

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
8.8%	$4.16 /SF	63,908 SF	614,000 SF	0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2016.

- Net absorption remained in positive territory after a soft previous quarter and negative figures in Q2 2016 for the first time in 2 years.
- Overall industrial vacancy remained flat at 8.8%.
- Vacancy for competitive, Class A space of 100,000 sq. ft. or less is the tightest segment at 2.1%.
- Market-wide average asking rents remained above record-high levels.
- New construction projects began in Santa Teresa and the Lower Valley – additional project planned.

POSITIVE ANNUAL NET ABSORPTION

The local market saw positive net absorption for the second consecutive quarter after registering its first negative net absorption in Q2 2016 since the recovery began in early 2014. Leasing activity remained healthy in Q4 2016 and total 2016 market net absorption finished in positive territory. Overall industrial vacancy hovered steadily at 8.8%, the tightest annual vacancy in the current cycle.

MACROECONOMIC INDICATORS MIXED; PMI PICKS UP, PRODUCTION INDICES SLIP

Economic data related to the region's industrial sector show mixed movements in year-over-year levels between Q4 2015 and Q4 2016. These include U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a seasonally adjusted (preliminary) year-over-year reduction of 0.6% caused by significant decreases in mining and utilities. However, steady improvements to the price of energy caused positive monthly growth in the mining industry during in October and November.

The Institute for Supply Management (ISM) reported for November that the Purchasing Manager's Index (PMI), a short-term leading indicator for production, showed an increase of 1.3% since October 2016 and Manufacturing grew for the third consecutive month. The PMI continues at a level that indicates expansion, signaling the 90th consecutive month of growth in the overall U.S. economy. Meanwhile in Mexico, the most recent data from INEGI, Mexico's government agency that collects statistical data, show seasonally adjusted industrial production decreased by 0.5% in October 2016 compared to a year ago. Here, manufacturing has seen five years of mostly uninterrupted growth. Construction and utilities saw October year-over-year growth while mining experienced a decline.

TRADE & REGIONAL INDICATORS STEADY

The nominal and unadjusted value of export trade from the U.S. to Mexico through the El Paso-Santa Teresa ports of entry reached $35.0 billion year-to-date in October. This total is 2.2% above the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached $44.0 billion, 4.4% above the same period last year. Year-over-year differences in the previous quarter were significantly large because of trade softening in early 2015 and the first four months of 2016 had substantiated strong growth while surpassing previous year performances.

Trade growth at the El Paso-Santa Teresa port has slowed but continued an upward trend. Further import growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican Peso. This has shown to boost both imports from and investment into Mexico's export operations.

The most recent published data for northbound freight traffic from Mexico through the El Paso - Santa Teresa ports also show growth in July year-to-date totals compared to the year prior. While ports in El Paso saw a minor dip, -1.0%, in the 2016 year-to-date flow of trucks, crossings in Santa Teresa grew enough, 21.7%, to off-set and produce positive increases overall. Total northbound truck crossings saw a July year-to-date increase of 1.5%, up to 505,487, compared to the equivalent period in 2015. Loaded truck crossings decreased by 1.0% while loaded rail container crossings registered a growth of 1.2%, during the same period.

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 81st consecutive month in November 2016. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here November 2016 dipped below the current cycle average since 2010 by 0.3% with a registered growth of 1.4% year-over-year.

El Paso's industrial market registered 28 transactions in Q4 2016, with renewals and new leases as the most active categories. New leases saw the occupancy of spaces at an average size of 26,300 sq. ft. In terms of outlook, active users in the market increased, surpassing the strong net demand during the first half of 2016. Total requirements were slightly higher than the trailing five year average at 1,320,000 sq. ft. Of current users, roughly one-third were requirements introduced in the past 90 days.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,646,855	1,236,040	16.2	1,251,820	16.4	(207,021)	-	320,000	4.93
Northeast	9,494,589	530,576	5.1	856,129	9.0	168,744	-	-	3.73
Central	14,226,600	428,750	3.0	499,750	3.5	0	-	-	3.12
East	18,384,604	1,650,077	8.9	1,872,583	10.1	102,185	-	-	4.02
Lower Valley	6,344,230	1,144,074	18.0	1,226,050	19.3	0	-	294,000	4.45
Totals	56,038,430	4,925,817	8.8	5,687,432	10.1	63,908	0	614,000	4.16

Source: CBRE Research, Q4 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Net absorption remained in positive territory in Q4 2016, due mostly to activity in the Northeast and East submarkets. One large vacancy of roughly 240,000 sq. ft. nearly offset progressive leasing activity, but was not enough after a pick-up in space absorption. The overall market vacancy rate was flat quarter-over-quarter, but remained 100 basis points (bps) below the Q4 2015 vacancy rate.

The Northeast submarket recorded the largest net absorption after a relatively strong 90 days which decreased vacancy by 175 bps to 5.1%. The East was the only other submarket to see positive net absorption as result of only one reported vacancy. The Central and Lower Valley submarkets remained flat while the West was saw negative net absorption.

VACANCY ANALYSIS; Q4 TOP TRANSACTION

Two existing vacant blocks of 860,000 sq. ft. and 460,000 sq. ft., as well as the additional 240,000 sq. ft. vacancy in Q4, have kept the overall availability rate flat in Q4 2016 and conceal the much improved local market fundamentals. If we exclude the two largest blocks mentioned above, the market would yield a much tighter vacancy of 6.6% which reflects a market near full occupancy.

If space less than 200,000 sq. ft. is considered, the segment yields vacancy of 4.8%, 4.0 percentage points below the market wide average. Slicing even further to only include Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.1%. This highlights the current tightness for this key segment which is most sought after.

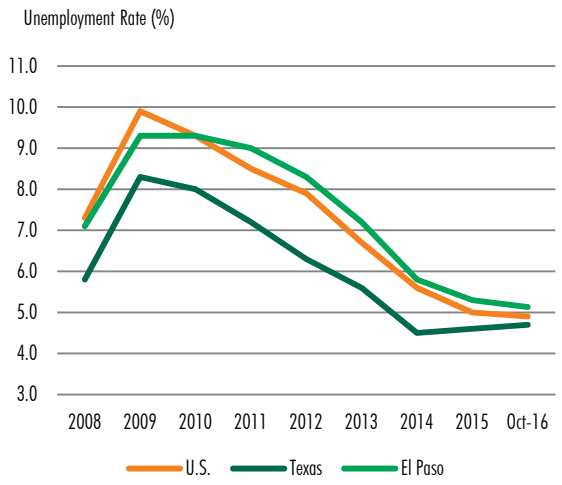
The largest new lease this quarter was by a third party logistics company for just over 100,000 sq. ft. in the Northeast submarket. Another significant transaction, in the East submarket, was also by a third party logistics company. This lease accounted for almost 50,000 sq. ft. of absorption.

LOCAL UNEMPLOYMENT FLAT, EMPLOYMENT AND LABOR FORCE TREND UP

The most recent seasonally adjusted data for the El Paso employment market show a continued strengthening of the labor force. According to the BLS, total non-farm employment saw a growth of 2.3% and 2.6% year-over-year in September and October 2016 (preliminary), respectively. Unemployment remained just above the national average in October at 5.1%, similar to October of 2015 figures, but continues to trend downward.

The uninterrupted, positive local labor force growth since February 2010, continued into October 2016. October year-to-date additions to the labor force were below October 2015 figures but still strong. Industrial sector employment, which includes transportation and warehousing, wholesale trade, and manufacturing, saw a small contraction of less than 0.5% year-over-year, anchored down primarily by losses in the manufacturing industry. El Paso wholesale registered growth of 0.9% year-over-year and transportation and warehousing grew by 2.0% in October 2016. The U.S. unemployment rate sat at 4.9% in October, while the Texas figure remained below the national average at 4.7%.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, December 2016.

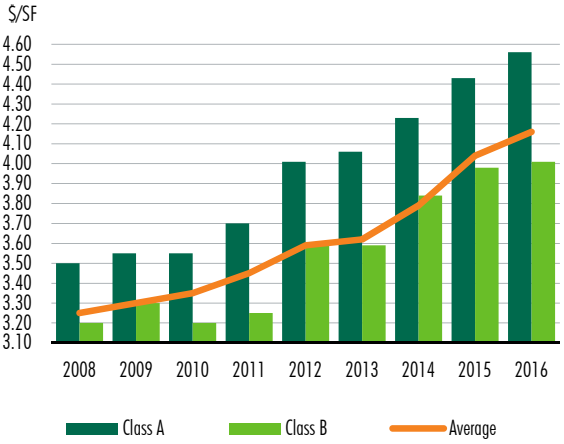
INDUSTRIAL RATES SUSTAIN MARKET HIGHS

The average asking industrial lease rate increased by $0.01 to $4.16 per sq. ft. in the Q4 2016. Average rents still pushed up by $0.12 per sq. ft., or 3.0%, compared to a year ago. During the same 12 month period, the U.S. city average - all item - Consumer Price Index (CPI, s.a.) increased by 1.6% and by 2.2% if we exclude food and energy prices.

Compared to Q3 2016, Class A asking rates increased by $0.07 or 1.6% while Class B saw a decrease of $0.01 or 0.2%. Class B average also remained above the $4.00 mark for the third consecutive quarter. When looking at year-over-year, three of five submarkets saw increased average asking rents (see Figure 2.) The West measured the highest gain of 8.1%. The East and Lower Valley saw an upturn of 1.3% and 1.8%, respectively. For the third consecutive quarter, the Central submarket registered a decrease. Asking rents decreased by 4.9% compared to Q4 2015 as result of leasing of higher quality space in the first half of 2016.

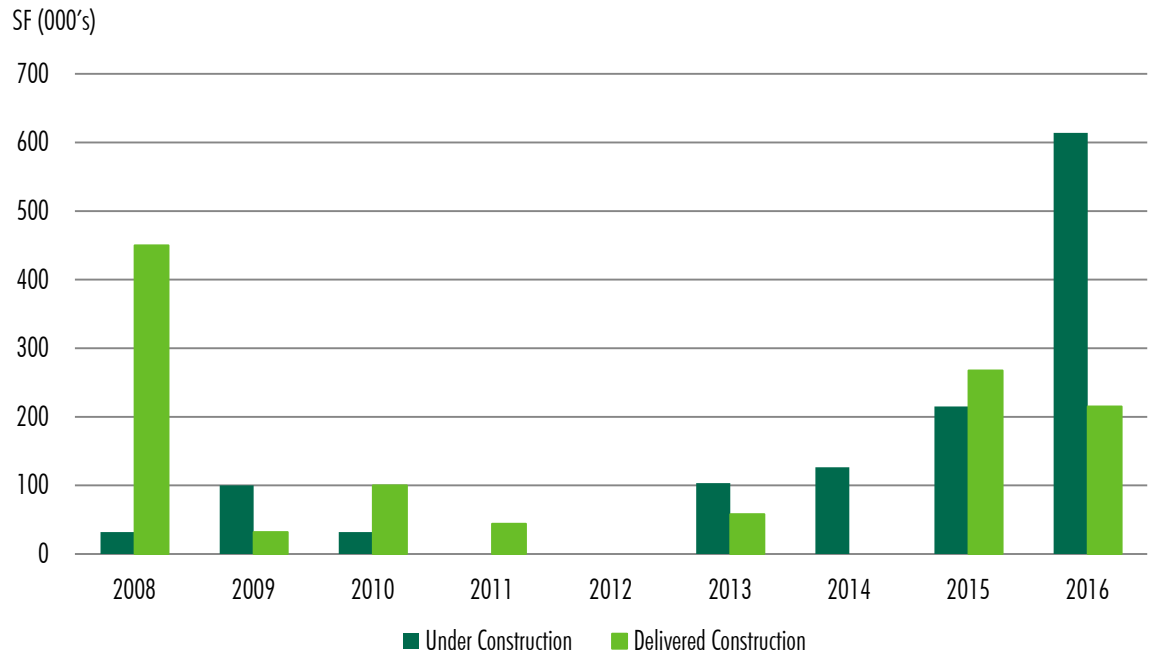
After adjusting for inflation, the market annual asking rent for 2016 is the highest in the current cycle. El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2016.

Figure 5: Construction



Source: CBRE Research, Q4 2016.

NEW INDUSTRIAL PRODUCT STARTED

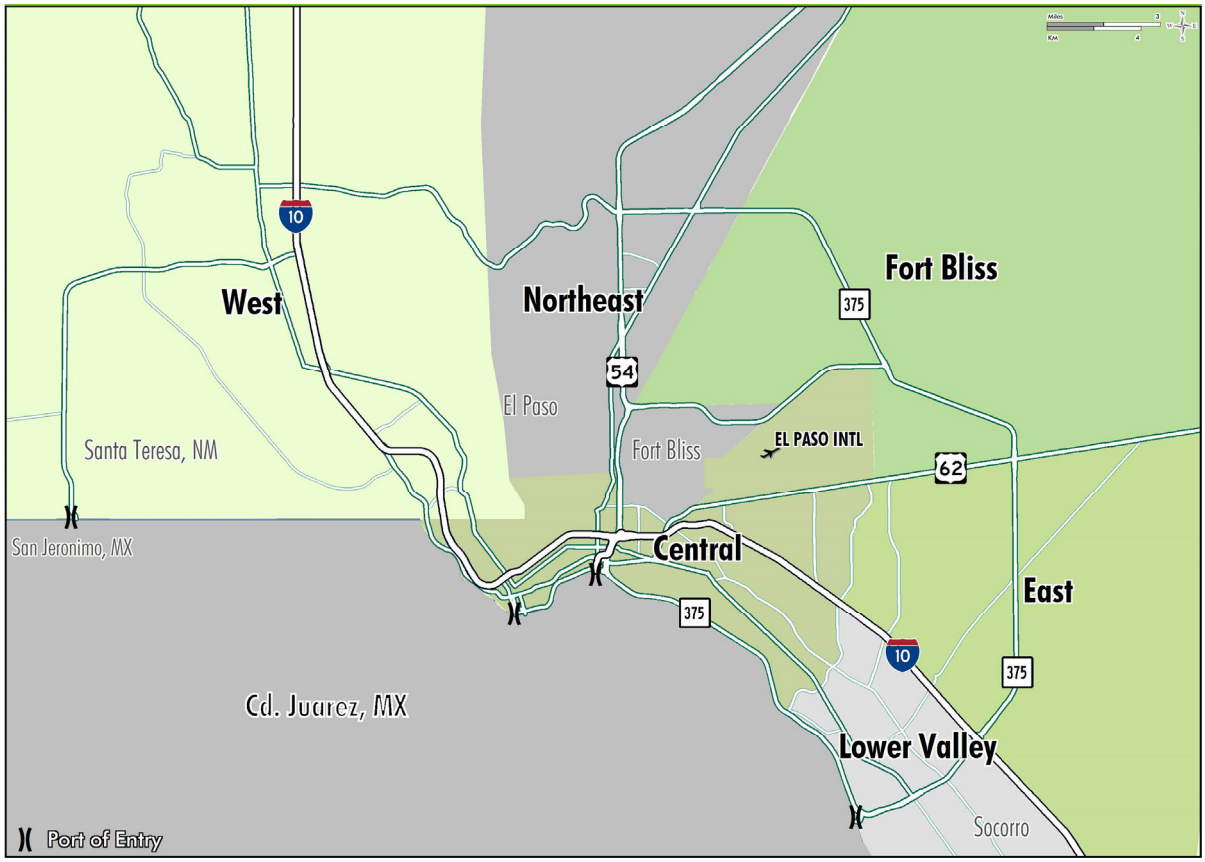
The supply of industrial buildings in El Paso remained unchanged as there were no new construction deliveries. However, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications based on new information. This included size updates to existing buildings as well as adding and or removing properties based on type of use. The combined inventory net size adjustment was negative 58,448 sq. ft. which added a net vacancy of 56,568 sq. ft.

Q4 2016 registered the start of two build-to-suit project, a warehouse in the Lower Valley and a cold storage facility in the West submarket. The projects are expected to be completed mid 2017 and will deliver roughly 300,000 sq. ft. of future net absorption. Work also continued on the 215,000 sq. ft. distribution center for FedEx as well as the other BTS warehouse project in the Lower Valley that broke ground in Q3 2016. Both , are expected to deliver in early 2017.

PLANNED DEVELOPMENT IN WEST SUBMARKET

The state of New Mexico has also confirmed additional projects in the pipeline for Santa Teresa. The recently delivered project for MCS has expressed plans to expand by an additional 40,000 sq. ft. in the near future. Two speculative projects, totaling 360,000 sq. ft. are expected to begin construction in early 2017.

While not yet confirmed, additional construction projects are believed to be coming to El Paso's West and Lower Valley submarket. Although a much improved market, there remains a relatively ample amount of available space, including several Class A options, which makes additional speculative announcements unlikely. Construction cost have seen steady increases and remain elevated. This will continue to hinder the likelihood of additional development.



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El Paso Industrial, Q3 2016

Back in the black; net absorption rebounds positively

Vacancy Rate 8.7%

Avg. Asking Rate $4.15 /SF

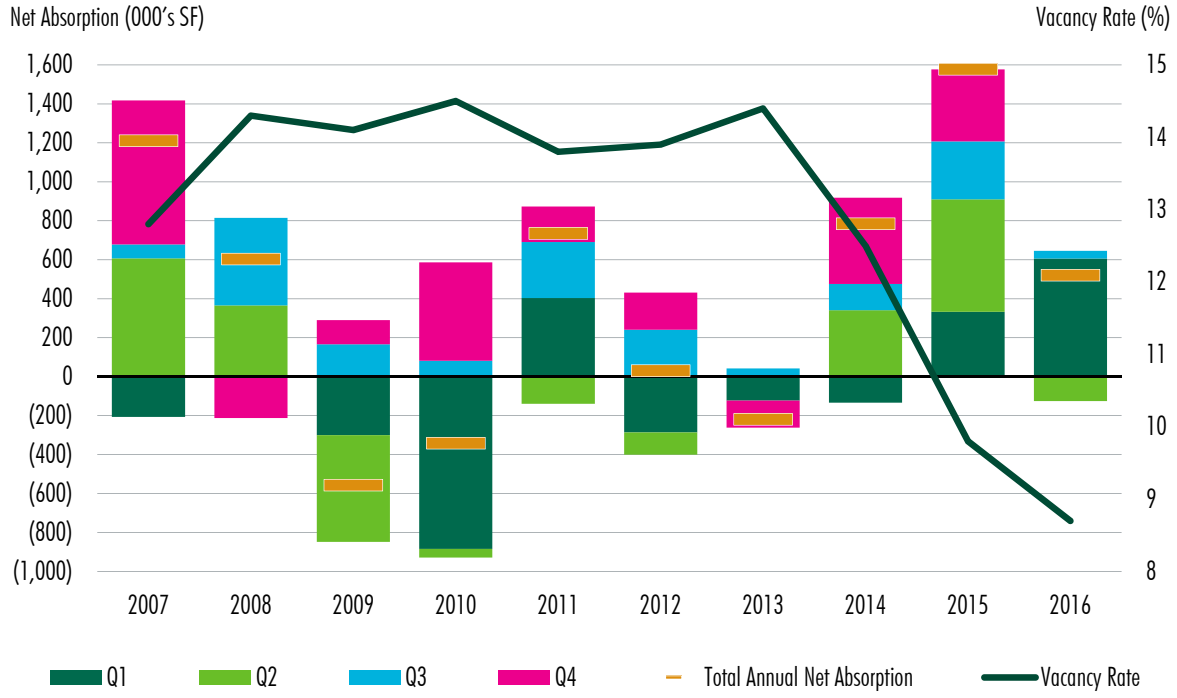
Net Absorption 39,840 SF

Construction 319,000 SF

Completions 0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2016.

- Net absorption returned to positive territory after seeing negative figures in the previous quarter for the first time in 2 years.
- Overall industrial vacancy remained flat at 8.7%.
- Vacancy for competitive, Class A space of 100,000 sq. ft. or less is the tightest segment at 2.1%.
- Market-wide average asking rents remained above record-high levels.
- New construction projects started moving dirt in Santa Teresa – additional project planned.

POSITIVE ANNUAL TERRITORY STILL HOLDS ON

The local market saw positive net absorption this quarter after registering its first negative net absorption in Q2 2016 since the recovery began in early 2014. Leasing activity remained healthy in Q3 2016 and year-to-date market net absorption increased in positive territory. The overall industrial vacancy rate remained steady, but healthy at just below 9.0%.

MACROECONOMIC INDICATORS MIXED; PMI CONTRACTS, PRODUCTION INDICES PICKS UP

Economic data related to the region's industrial sector show mixed movements in year-over-year levels between Q3 2015 and Q3 2016. These include U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a seasonally adjusted (preliminary) year-over-year reduction of 1.1% caused by significant decreases in mining and utilities. However, recent improvements to the price of energy caused positive monthly growth in the mining industry during August.

The Institute for Supply Management (ISM) reported for August that the Purchasing Manager's Index (PMI), a short-term leading indicator for production, decreased slightly and Manufacturing contracted following a consecutive three month growth. Despite this, the PMI remains at a level that indicates expansion, signaling the 87th consecutive month of growth in the overall U.S. economy. Meanwhile in Mexico, the most recent data from INEGI, Mexico's government agency that collects statistical data, show seasonally adjusted industrial production increased by 0.3% in July 2016 compared to a year ago. Here, manufacturing has seen nearly three years of mostly uninterrupted growth.

TRADE & REGIONAL INDICATORS WERE STEADY

The nominal and unadjusted value of export trade from the U.S. to Mexico through the El Paso-Santa Teresa ports of entry reached $24.8 billion year-to-date in July. This total is 6.3% above the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached $33.2 billion, 10.1% above the same period last year. Year-over-year differences in the previous quarter were significantly large because of trade softening in early 2015 and the first four months of 2016 had substantiated strong growth while surpassing previous year performances.

Trade growth at the El Paso-Santa Teresa port has slowed but continues an upward trend. Further import growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican Peso. This has shown to boost both imports from and investment into Mexico's export operations.

The most recent published data for northbound freight traffic from Mexico through the El Paso - Santa Teresa ports also show growth in July year-to-date totals compared to the year prior. While ports in El Paso saw a minor dip, -1.0%, in the 2016 year-to-date flow of trucks, crossings in Santa Teresa grew enough, 21.7%, to off-set and produce positive increases overall. Total northbound truck crossings saw a July year-to-date increase of 1.5%, up to 505,487, compared to the equivalent period in 2015. Loaded truck crossings decreased by 1.0% while loaded rail container crossings registered a growth of 1.2%, during the same period.

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 78th consecutive month in August 2016. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here August 2016 dipped below the current cycle average since 2010 by 2.0% with a registered growth of 0.14% year-over-year.

El Paso's industrial market registered 21 transactions in Q3 2016, with renewals and new leases as the most active categories. New leases saw the occupancy of spaces at an average size of 41,000 sq. ft. In terms of outlook, active users in the market decreased in response to strong net demand during the first half of 2016. Total requirements remained just below the average at 1,155,000 sq. ft. Of current users, roughly two-thirds were requirements introduced in the past 90 days.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,646,855	1,029,019	13.5	1,268,150	16.6	-93,000	-	215,000	4.71
Northeast	9,494,589	651,952	6.9	917,508	9.7	10,368	-	-	3.92
Central	14,226,600	404,750	2.8	455,750	3.2	-81,536	-	-	3.08
East	18,384,604	1,656,262	9.0	1,772,583	9.6	223,208	-	-	4.00
Lower Valley	6,344,230	1,144,074	18.0	1,212,325	19.1	-19,200	-	104,000	4.50
Totals	56,096,878	4,886,057	8.7	5,626,316	10.0	39,840	-	319,000	4.15

Source: CBRE Research, Q3 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Net absorption returned to positive territory in Q3 2016, due mostly to activity in the East submarket. Two large vacancies totaling roughly 175,000 sq. ft. nearly offset progressive leasing activity, but were not enough after a pick-up in space absorption. The overall market vacancy rate was flat quarter-over-quarter, but remained 169 bps below year-over-year.

The East submarket recorded the largest net absorption after a relatively strong 90 days which decreased vacancy by 71 bps to 9.0%. The Northeast was the only other submarket to see positive net absorption as result of no reported vacancies. The West, Central, and Lower Valley saw slight, but negative net absorptions.

VACANCY ANALYSIS; Q3 TOP TRANSACTION

The addition of two large spaces, each over 200,000 sq. ft., in the previous quarter to the available industrial stock and two existing vacant blocks of 860,000 sq. ft. and 460,000 sq. ft., have kept the overall availability rate flat in Q3 2016 and conceal the much improved local market fundamentals. If we exclude the two largest blocks mentioned above, the market would yield a much tighter vacancy of 6.5% which reflects a market near "full occupancy."

If space less than 200,000 sq. ft. is considered, the segment yields vacancy of 5.2%, more than 3.6 percentage points below the market wide average. Slicing even further to only include Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.1%. This highlights the current tightness for this key segment which is most sought after.

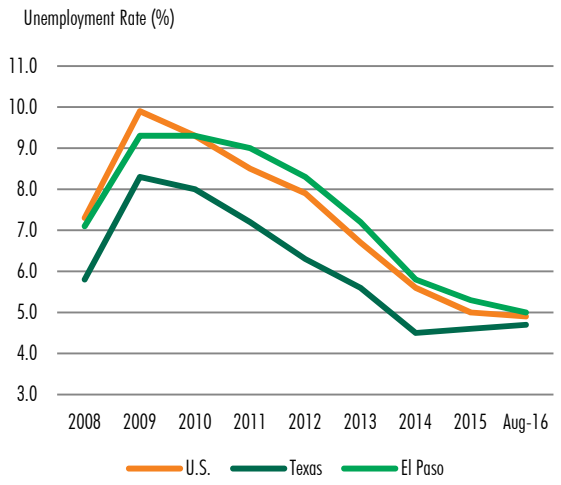
The largest new lease this quarter was by a food processing company, a new user to the market, for 87,000 sq. ft. in the East submarket. Another significant transaction, also in the East submarket, was a manufacturing company re-occupying a property it previously occupied. This re-occupation accounted for 105,000 sq. ft. of absorption.

LOCAL UNEMPLOYMENT, EMPLOYMENT, AND LABOR FORCE TREND UP

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 2.3% and 2.2% year-over-year in July and August 2016 (preliminary), respectively. Unemployment rose just above the national average in August at 5.0%, similar to August of 2015 figures.

The local labor force saw strong growth, August year-to-date additions to the labor force were nearly double compared to August 2015. Industrial sector employment, which includes transportation and warehousing, wholesale trade, and manufacturing, saw a small contraction of 1.0% year-over-year, anchored down primarily by losses in the manufacturing industry. El Paso wholesale registered the only positive growth of 0.8% year-over-year in August 2016. The U.S. unemployment rate sat at 4.9% in August, while the Texas figure remained below the national average at 4.7%.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, September 2016.

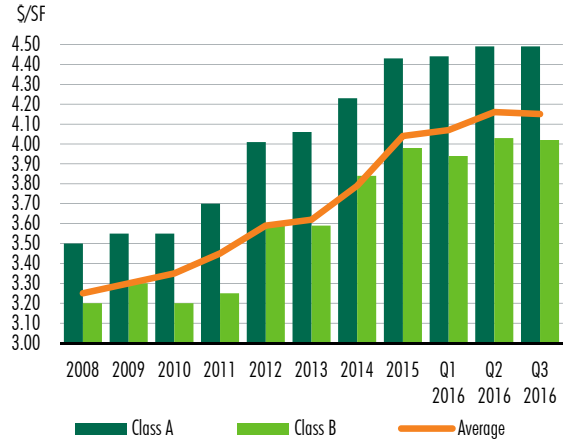
INDUSTRIAL RATES SUSTAIN MARKET HIGHS

The average asking industrial lease rate decreased by $0.01 to $4.15 per sq. ft. in the Q3 2016. Average rents still pushed up by $0.13 per sq. ft., or 3.2%, compared to a year ago. During the same 12 month period, the U.S. city average - all item - Consumer Price Index (CPI, n.s.a.) increased by 1.1% and by 2.3% if we exclude food and energy prices.

Compared to Q2 2016, Class A asking rates remained unchanged while Class B saw a decrease of $0.01 or 0.2%. Class B average also remained above the $4.00 mark for the second consecutive quarter. When looking at year-over-year, four of five submarkets saw increased average asking rents (see Figure 2). Lower Valley measured the highest gain of 3.7%. The West, Northeast, and East saw an upturn of 3.3%, 2.9%, 0.8%, respectively.

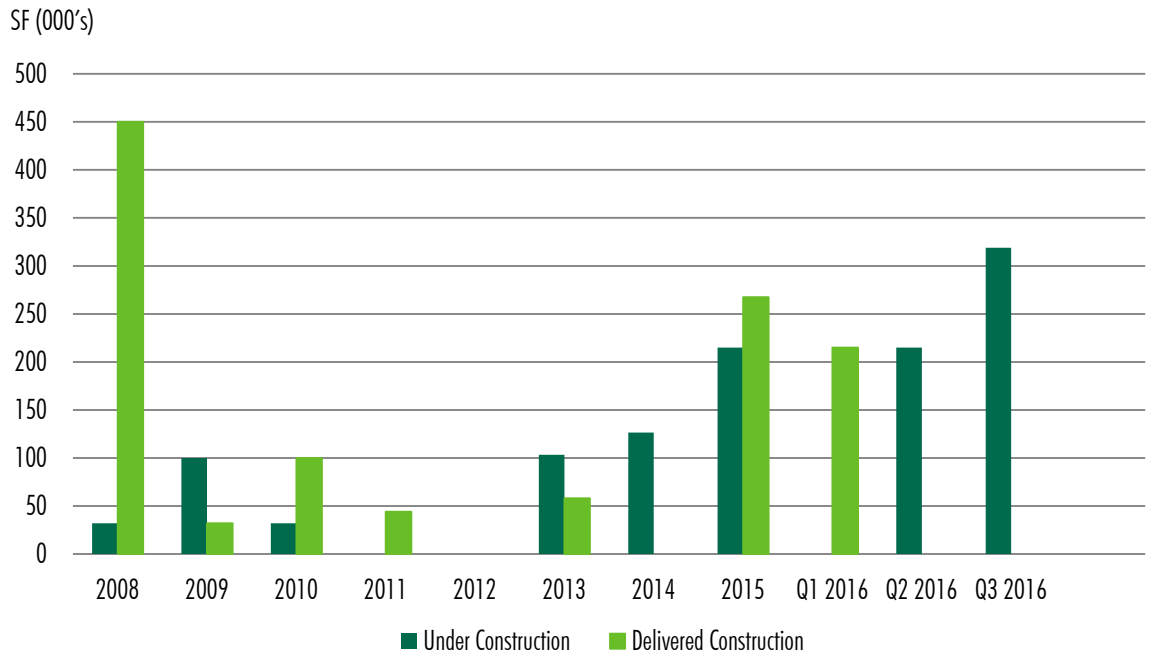
For the second consecutive quarter, the Central submarket registered the only decrease of 5.8% compared to Q3 2015 as result of leasing of higher quality space. El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q3 2016.

Figure 5: Construction



Source: CBRE Research, Q3 2016.

NEW INDUSTRIAL PRODUCT STARTED

The supply of industrial buildings in El Paso remained unchanged as there were no new construction deliveries. However, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications based on new information. This included size updates to existing buildings as well as adding and or removing properties based on type of use. The combined inventory net size adjustment was positive 421 sq. ft. which added a net vacancy of 102,279 sq. ft.

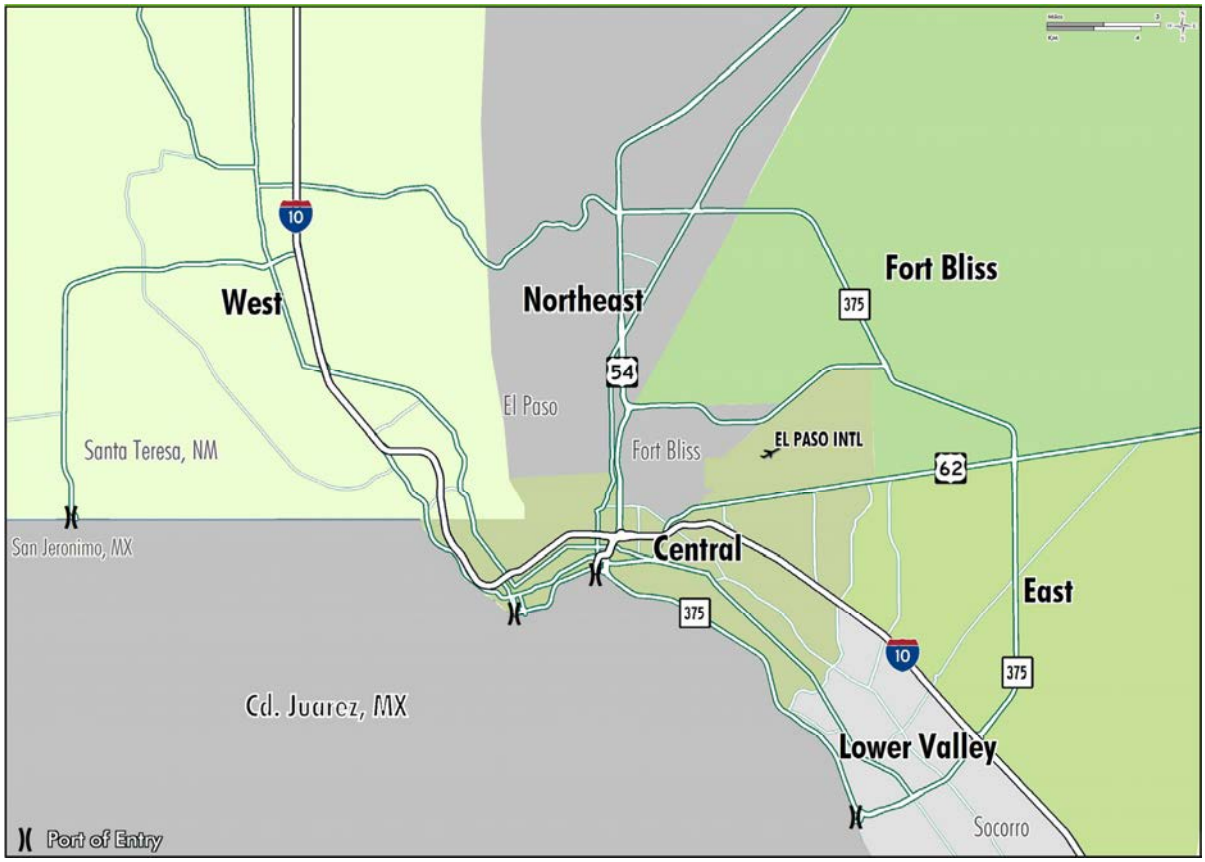
Q3 2016 registered the start of a build-to-suit warehouse project in the Lower valley submarket, near the Ysleta Port of Entry. The project is expected to be completed mid 2016 and will deliver roughly 100,000 sq. ft. of future net absorption. Work also continued on the 215,000 sq. ft. distribution center for FedEx, also expected to deliver in early 2017.

PLANNED DEVELOPMENT IN WEST SUBMARKET

The state of New Mexico has also confirmed additional projects in the pipeline for Santa Teresa. A new cold storage facility is expected to starting moving dirt before the end of 2016. Construction is expected to be completed in early 2017 and can accommodate future expansions. In addition, the recently delivered project for MCS has also expressed plans to expand by an additional 40,000 sq. ft. in the near future.

While not yet confirmed, additional construction projects are believed to be coming to El Paso's West submarket, including Santa Teresa. Earlier reports indicated that developers are in advanced planning to develop new industrial product near the intermodal yard.

Although a much improved market, there remains a relatively ample amount of available space, including several Class A options, which makes speculative announcements unlikely. Relatively elevated construction costs also continue to hinder the likelihood of additional development.



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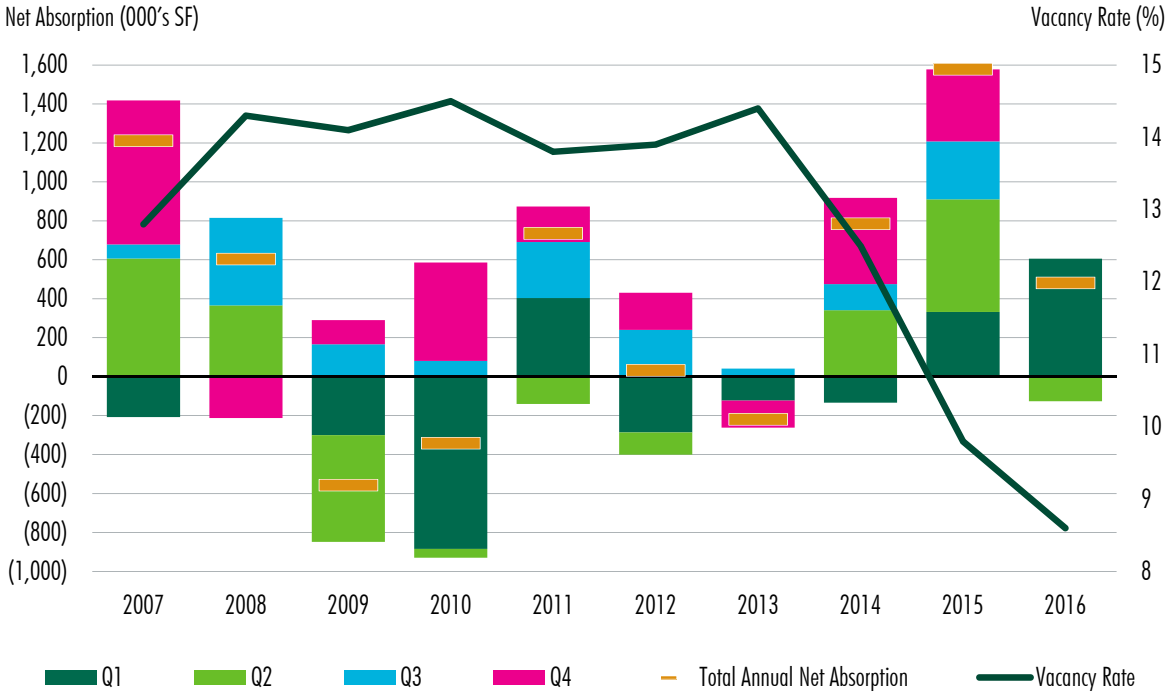
El Paso Industrial, Q2 2016

Net absorption balances out; annual total remained positive

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
8.6%	$4.16 /SF	(125,444) SF	215,000 SF	0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2016.

- Two large vacancies pushed net absorption into negative territory for the first time in 2 years.
- Overall industrial vacancy inched up slightly to 8.6%.
- Vacancy for competitive, Class A space of 100,000 sq. ft. or less is the tightest segment at 2.1%.
- Market-wide average asking rents continued increasing above record-high levels.
- New construction projects started moving dirt in Santa Teresa – additional project planned.

STILL IN POSITIVE ANNUAL TERRITORY

After a two year of positive streak, the local market registered its first negative net absorption since the recovery began in early 2014. Leasing activity remained healthy in Q2 2016 but was offset by two significantly large vacancies. Despite this, market net absorption remained positive year-to-date with a healthy vacancy rate below 9.0%.

MACROECONOMIC INDICATORS MIXED; PMI ORDERS GROW, PRODUCTION INDICES SLIP

Economic data related to the region's industrial sector show mixed movements in year-over-year levels between Q2 2015 and Q2 2016. These include U.S. industrial production, as reported by the Federal Reserve's Board of Governors. Production did see a seasonally adjusted (preliminary) year-over-year reduction of 1.4% caused by significant decreases in mining and utilities. However, recent improvements to the price of energy caused positive monthly growth in the mining industry during May. Further, the Institute for Supply Management (ISM) recently reported that the May 2016 Purchasing Manager's Index (PMI), a short-term leading indicator for production, signaled the 84th consecutive month of growth in the overall U.S. economy and a third consecutive positive month in Manufacturing. The most recent report also cites some optimism with growth in new orders for five consecutive months. Meanwhile in Mexico, the most recent data from INEGI, Mexico's government agency that collects statistical data, show seasonally adjusted industrial production fell by 0.9% in April 2016 compared to a year ago. Here, manufacturing saw its first year-over-year contraction in three years.

TRADE & REGIONAL INDICATORS WERE STRONG

The nominal and unadjusted value of export trade from the U.S. to Mexico through the El Paso-Santa Teresa ports of entry reached $14.8 billion year-to-date in April. This total is 16.2% above the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached $19.0 billion, 16.6% above the same period last year. It should be noted that year-over-year differences are significantly larger because of trade softening in early 2015. Nonetheless, the first four months of 2016 have substantiated strong growth while setting new dollar-volume-highs. Further import growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican Peso. This has shown to boost both imports from and investment into Mexico's export operations.

The most recent published data for northbound freight traffic from Mexico through the El Paso - Santa Teresa ports also show growth in March year-to-date totals compared to the year prior. While ports in El Paso saw a minor dip, -1.4%, in the 2016 year-to-date flow of trucks, crossings in Santa Teresa grew enough, 32.4%, to off-set and produce positive increases overall. Total northbound truck crossings saw a March year-to-date increase of 2.0%, up to 209,784, compared to the equivalent period in 2015. Loaded truck and loaded rail container crossings registered growths of 7.8% and 10.0% respectively, during the same period.

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 75th consecutive month in May 2016. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here May 2016 remained above the current cycle average since 2010 of 2.0% with a registered growth of 3.1% year-over-year.

El Paso's industrial market registered 20 transactions in Q2 2016, with renewals and new leases as the most active categories. New leases saw the occupancy of spaces at an average size of 38,000 sq. ft. and an average term of 48 months. This average includes two lease transactions above 120,000 sq. ft. The market also registered two significant capital market transactions. A six-building-portfolio was traded in the Butterflied trail park, near the airport, as a new institutional owner entered the El Paso market. In addition, this quarter also traded a single 420,000 sq. ft. industrial warehouse at, like many major markets, a compressing cap rate trend.

In terms of outlook, active users in the market decreased in response to strong net demand during the first half of 2016. Total requirements remained just below the average at 930,000 sq. ft. Of current users, roughly half were requirements introduced in the past 90 days.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,646,855	936,019	12.2	1,268,150	16.6	(270,864)	-	215,000	4.71
Northeast	9,494,589	651,952	6.9	840,361	8.9	159,274	-	-	3.95
Central	14,226,600	323,214	2.3	455,750	3.2	20,000	-	-	3.11
East	18,384,183	1,787,109	9.7	1,941,754	10.6	(196,014)	-	-	4.00
Lower Valley	6,344,230	1,124,874	17.7	1,212,325	19.1	162,160	-	-	4.5
Totals	56,096,457	4,823,168	8.6	5,718,340	10.2	(125,444)	0	215,000	4.16

Source: CBRE Research, Q2 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

After a record two-year-streak in positive territory that saw an aggregate net absorption of 3.1 million sq. ft., two significantly large vacancies pushed net absorption into the "red" during Q2 2016. The bulky vacancies totaled 472,000 sq. ft. and included a single property over 270,000 sq. ft. – considered larger than the average El Paso market lease size. These move outs were enough to offset progressive leasing activity which included two transactions over 120,000 sq. ft. Negative net absorption this quarter increased the overall market vacancy rate by 20 basis points (bps) quarter-over-quarter, but remained 230 bps below year-over-year.

The Lower Valley submarket recorded the largest net absorption for a consecutive quarter after a strong 90 days which decreased vacancy by 260 bps to 17.7%. Northeast and Central followed as most active submarkets, respectively. The West and East saw negative net absorptions after being unable to weather significant vacancies. The larger bulk of vacancies mentioned were a result of a cancelled contract with a third-party-logistic company in El Paso with clients in Cd. Juarez, Mexico.

VACANCY ANALYSIS; Q2 TOP TRANSACTION

This quarter saw the addition of two large (270,000 sq. ft. and 201,000 sq. ft.) spaces to the available industrial stock. These large vacant blocks, along with an existing above 860,000 sq. ft. and another at 460,000 sq. ft., continue to keep an upward pressure on the overall availability rate and conceal the much improved local market fundamentals. If we exclude the two existing largest blocks mentioned above, the market would yield a much tighter vacancy of 6.5% which reflects a market near "full occupancy."

If space less than 200,000 sq. ft. is considered, the segment yields vacancy of 5.0%, more than 3.6 percentage points below the market wide average. Slicing even further to only include Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.1%. This highlights the current tightness for this key segment most sought after.

The largest new lease this quarter was by Mahle Behr Troy, a German automotive part manufacturer, of approximately 153,000 sq. ft. in the Northeast. The warehouse and distribution center will service four plants in Cd. Juarez and will employ 50 workers. This will be Mahle Behr's largest warehouse in the U.S.

LOCAL UNEMPLOYMENT REMAINS LOW

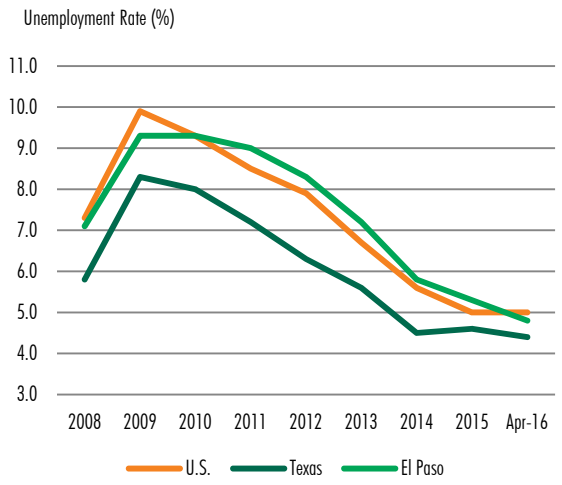
The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 3.2% and 2.6% year-over-year in April and May 2016, respectively. In response, unemployment remained just below the national average in April at 4.8%, down from 5.2% in April of 2015. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing which saw a small contraction of 0.6% year-over-year, anchored down primarily by losses in the manufacturing industry. Here, transportation and warehousing registered the only positive growth of 1.2% year-over-year in May 2016. The U.S. unemployment rate sat at 5.0% in April, while the Texas figure remained below the national average at 4.4%.

INDUSTRIAL RATES SUSTAIN MARKET HIGHS

The average asking industrial lease rate increased by $0.09 to $4.16 per sq. ft. in the second quarter of 2016. This pushed average rents up by $0.29 per sq. ft., or 7.5%, compared a year ago. During the same 12 month period, the U.S. city average - all item - Consumer Price Index (CPI, n.s.a.) increased by 1.0% and by 2.2% if we exclude food and energy prices.

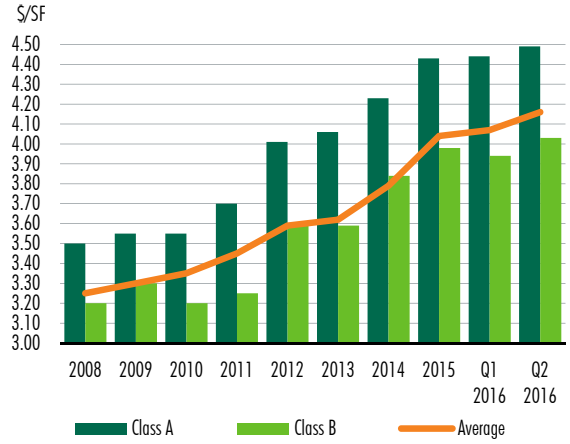
Compared to Q1 2016, Class A asking rates started 2016 with a quarterly increase of $0.05 per sq. ft. or 1.1%, while Class B saw an increase of $0.09 or 2.3%. Class B average also surged passed the $4.00 mark for the first time. When looked at year-over-year, four of five submarkets saw increased average asking rents (see Figure 2). Northeast measured the steepest gain of 16.5%, as availability decreased and landlords took advantage of the busy year into 2016. The Lower Valley, West, and East saw an upturn of 8.2%, 3.3%, 1.5%, respectively. The Central submarket registered the only decrease of 3.4% compared to Q2 2015 as result of leasing of higher quality space. El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 3: Unemployment Rate



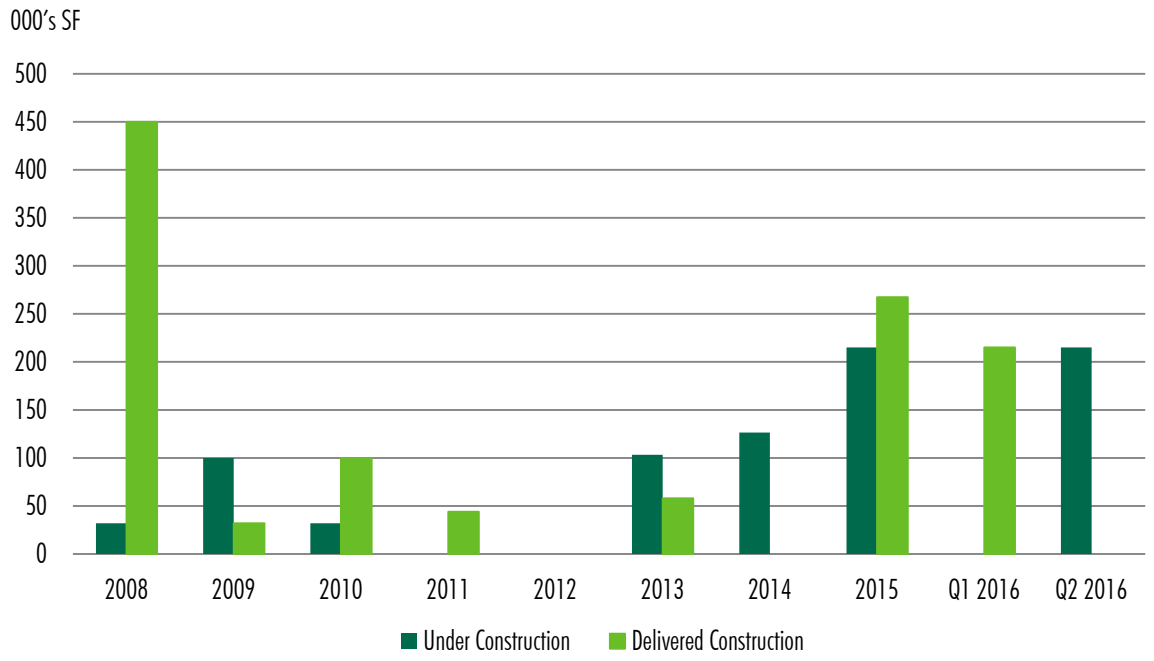
Source: Bureau of Labor Statistics, June 2016.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q2 2016.

Figure 5: Construction



Source: CBRE Research, Q2 2016.

NEW INDUSTRIAL PRODUCT STARTED

The supply of industrial buildings in El Paso remained unchanged as there were no new construction deliveries. However, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications based on new information. This included size updates to existing buildings as well as adding and or removing properties based on type of use. The combined inventory net size adjustment was positive 108,286 sq. ft. which removed a net vacancy of -7,272 sq. ft.

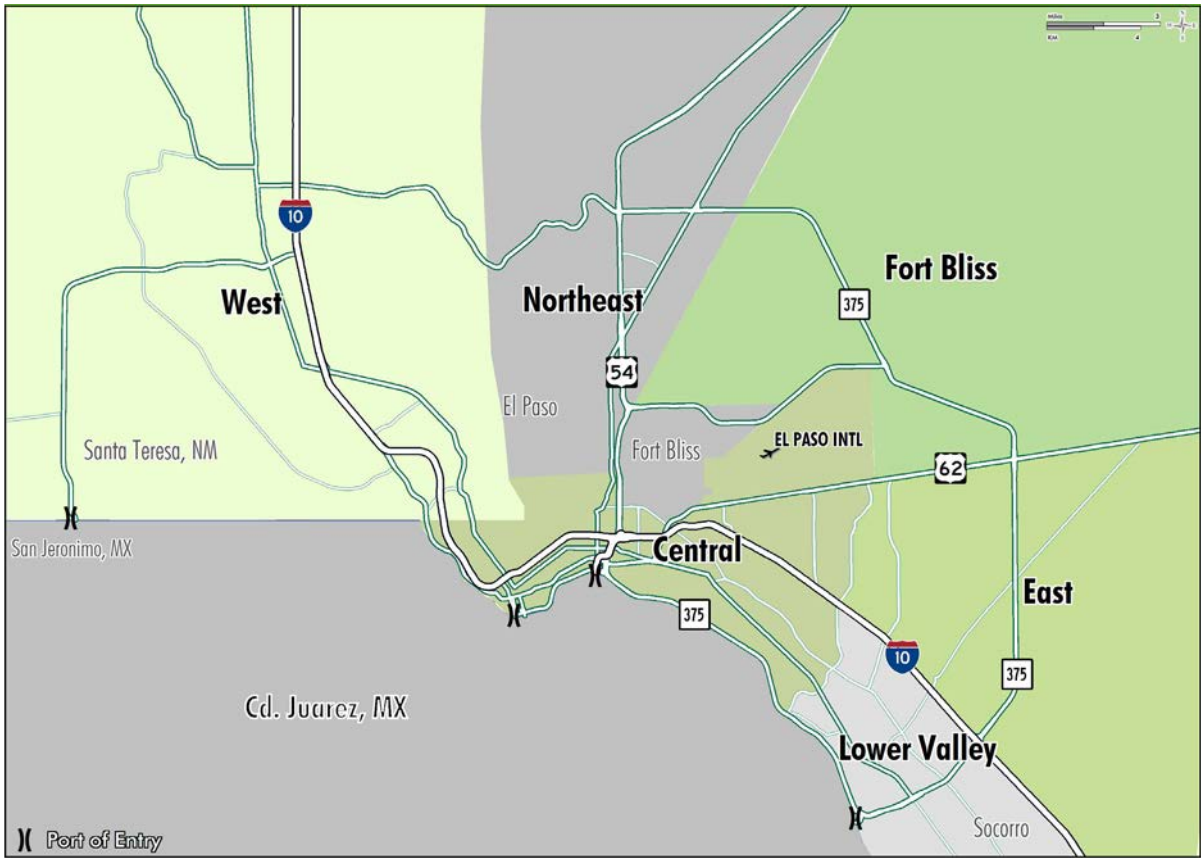
Q2 2016 registered the start of a built-to-suit project in Santa Teresa, part of the West submarket. The $20 million distribution center for FedEx is expected to be up and running early 2017. The 215,000 sq. ft. project will employ between 140 and 240 employees.

PLANNED DEVELOPMENT IN WEST SUBMARKET

The state of New Mexico has also confirmed additional projects in the pipeline for Santa Teresa. A new cold storage facility is expected to start moving dirt later this year. The $14 million project will create 14 jobs and can accommodate future expansions. In addition, the recently delivered project for MCS has also expressed plans to expand by an additional 40,000 sq. ft. in the near future.

While not yet confirmed, additional construction projects are believed to be coming to El Paso's West submarket, including Santa Teresa. Earlier reports indicated that developers are in advanced planning to develop new industrial product near the intermodal yard.

Although a much improved market, there remains a relatively ample amount of available space, including several Class A options, which makes speculative announcements unlikely. Relatively elevated construction costs also continue to hinder the likelihood of additional development.



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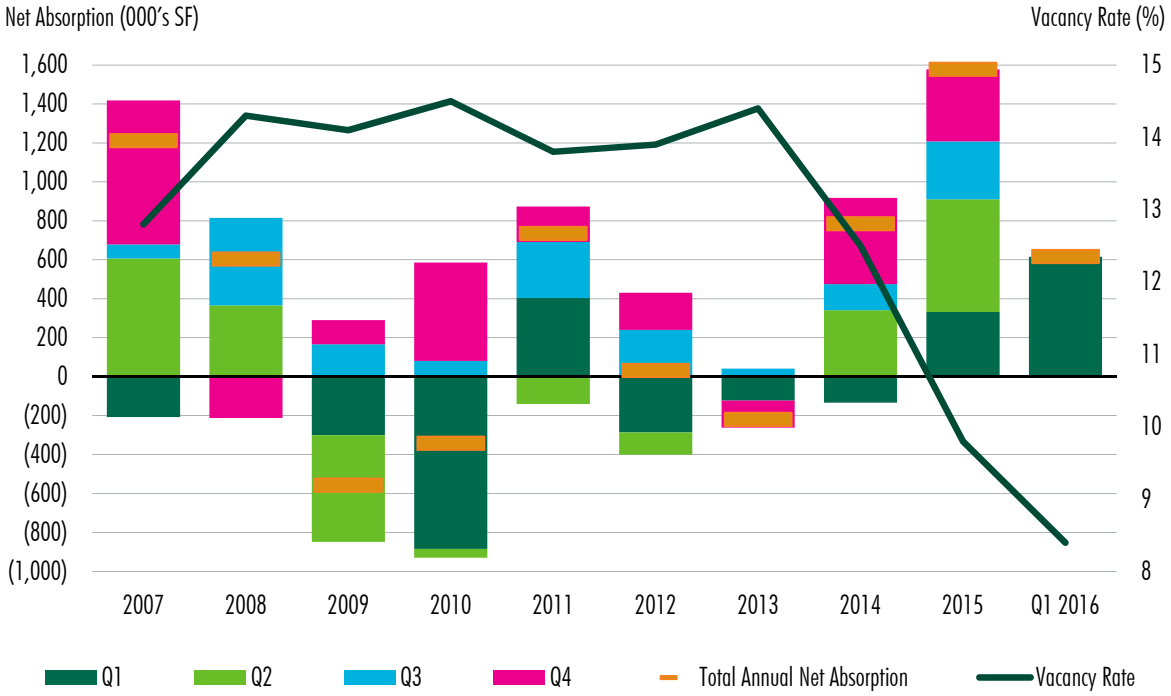
El Paso Industrial, Q1 2016

Vacancy slides deeper into single digits; big box leased

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
8.4%	$4.07 /SF	606,317 SF	0 SF	215,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2016.

- After an annual net absorption of 1.6 million sq. ft. in 2015, 2016 stared stronger than any other year in the current cycle.
- Overall industrial vacancy continued to compress and is now down to 8.4%.
- Vacancy for competitive, Class A space under 100,000 sq. ft. is the tightest segment at 2.3%.
- The neighboring and complementary industrial market in Cd. Juarez reported its fourteenth quarter of nonstop positive net absorption.

EIGHTH CONSECUTIVE POSITIVE QUARTER

Industrial demand picked up even more steam at the start of 2016 after registering the largest net absorption since Q4 2007 and the highest number of transactions, including a lease of the second largest vacant building in town since 2013. Positive activity kept vacancy on a sharp decline past single digits to 8.4%. The now eight quarter positive streak means the market has now eliminated 3.1 million sq. ft. of vacant space over the trailing two years.

MACROECONOMIC INDICATORS MIXED; PMI& MANUFACTURING EXPAND, PRODUCTION SLIPS

Economic data related to the region's industrial sector show mixed movements in year-over-year levels between 2015 and 2016. These figures include the seasonally adjusted U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a preliminary year-over-year reduction of 1.0% caused by significant decreases in mining and utilities. Within the three major groups, manufacturing saw the only increase of 1.8% during the same annual period. Further, the Institute for Supply Management (ISM) recently reported that the Purchasing Manager's Index (PMI), a short-term leading indicator for production, signaled the 81st consecutive month of growth in the overall U.S. economy during February, however, manufacturing signaled contraction for the fifth consecutive month. The most recent report also cites some optimism with growth in new orders for two consecutive months in February. Meanwhile in Mexico, the most recent data from INEGI, Mexico's government agency that collects census data , show seasonally adjusted industrial production grew by 1.8% January 2016 compared to a year ago. Here, manufacturing also led the upsurge which grew by 2.2% year-over-year in January 2016.

TRADE & REGIONAL INDICATORS ROBUST

The nominal and unadjusted value of export trade from the U.S. to Mexico through the El Paso-Santa Teresa ports of entry closed 2015 at $41.3 billion for the year. January 2016 reported exports valued $3.5 billion, this is 15.3% above January of last year. In terms of imports from Mexico to the U.S., the 2015 annual total reached $54.1 billion. January 2016 reported imports valued $4.4 billion, this is 21% above January of last year. It is important to note that year-over-year differences are significantly large because of trade softening in early 2015, which saw a bounce back in the latter half of 2015 and into the first month of 2016. Further import growth is likely, given the continued strength of the U.S. dollar which has shown to boost both imports from and investment into Mexico's export-oriented operations.
The most recent and preliminary data for northbound freight traffic from Mexico through the El Paso Santa Teresa ports also show growth in 2015 annual totals compared to the year prior. While ports in El Paso saw a slight dip, -1.5%, in the 2015 flow of trucks, crossings in Santa Teresa grew enough, 16.8%, to off-set and produce positive increases overall. Total northbound truck crossings saw a year-over-year increase of 0.4% to 850,017 in 2015. Loaded rail container crossings experienced a growth of 18.5% to 51,380 during the same annual period.

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 71st consecutive month in January 2016. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Annual growth during the opening month 2016 remained amongst the largest gains since the recovery began 2010. Here January 2016 remained above 4.0% for a fifth consecutive month at 4.3% growth year-over-year.

El Paso's industrial market registered a whopping 40 transactions. Renewals and new leases were the most active categories at 17 tallies each. New leases saw the occupancy of spaces at an average size of 27,000 sq. ft. and an average term of 46 months. To avoid a skew, this average excludes the lease of the second largest vacant building in town which saw a tenant take more than 400,000 sq. ft. in Q1 2016. While new leases are a usual indicator of market demand, renewal activity is also important as it further stabilizes the market through continued occupancy. This quarter saw an average renewal size of 95,000 sq. ft. and a term of 37 months. This includes three properties above 350,000 sq. ft.

In terms of outlook, active users in the market decreased in response to strong net demand this quarter. Total requirements remained near the average at just below 1.3 million sq. ft. Of current users, roughly 50% were new requirements in the past 90 days.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,645,580	647,547	8.5	740,547	9.7	50,080	215,000	-	4.57
Northeast	9,494,946	818,106	8.6	979,595	10.3	-78,437	-	-	3.88
Central	14,117,423	361,214	2.6	412,214	2.9	116,781	-	-	3.42
East	18,384,183	1,591,095	8.7	1,873,740	10.2	153,497	-	-	3.96
Lower Valley	6,344,230	1,287,034	20.3	1,355,285	21.4	364,396	-	-	4.31
Totals	55,986,362	4,704,996	8.4	5,361,381	9.6	606,317	215,000	0	4.07

Source: CBRE Research, Q1 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Due in large part to a single transaction, El Paso registered the largest net absorption of any opening quarter during the current market cycle. The reported Q1 2016 net absorption of 606,317 sq. ft. continued the market on a positive streak, now at two full years. During this eight quarter period, El Paso's industrial market saw net occupancy climb to a total 3.1 million sq. ft. over what has become the longest and largest streak in El Paso since 2007. Net occupier demand this quarter decreased the overall market vacancy rate by 140 bps quarter-over-quarter and 340 bps year-over-year.

The Lower Valley submarket recorded the largest net absorption after a strong 90 days which decreased vacancy by 570 bps to 20.3%. East, Central, and West followed as most active submarkets, respectively. The Northeast saw a slight negative net absorption after being unable to weather two significant vacancies. The West submarket did register a slight increase in vacancy rate in response to a consolidation where a tenant relocated from two Santa Teresa properties into a newly delivered built-to-suit, also in Santa Teresa.

VACANCY ANALYSIS; Q1 TOP TRANSACTION

This quarter saw the re-occupancy of a "big-box" warehouse, however, current availabilities show two properties above 400,000 sq. ft. which accounted for 1.3 million sq. ft., or 28%, of all space vacant. These large vacant blocks, including one above 850,000 sq. ft., continue to keep an upward pressure on the overall availability rate and conceal the much improved industrial market fundamentals. If we exclude the two large blocks mentioned above, the market would yield a much tighter vacancy of 6.0% which reflects a market near "full occupancy."

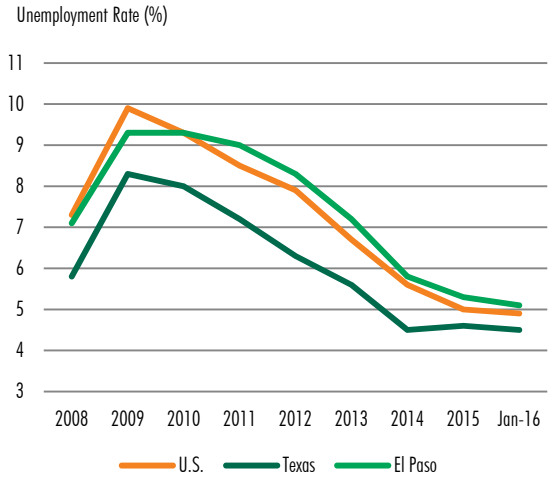
If space less than 200,000 sq. ft. is considered, the segment yields vacancy of 5.7%, more than 2.5 percentage points below the market wide average and slicing even further to just the Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.3%. This highlights the current tightness for this key segment.

The largest new lease this quarter was an approximately 412,000 sq. ft. warehouse lease in the Lower Valley submarket by Eureka Company which manufactures household appliances on both sides of the U.S. – Mexico border.

LOCAL UNEMPLOYMENT REMAINS LOW

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 1.6% year-over-year in January 2016. In response, unemployment remained just above the national average in January at 5.1%, down from 5.7% in January of 2015. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which significant positive growth of 2.1% year-over-year, anchored largely by gains in the transportation and wholesale trade industry. Manufacturing registered small but positive growth. The U.S. unemployment rate sat at 4.9% in January, while the Texas figure remained below the national average at 4.5%.

Figure 3: Unemployment Rate



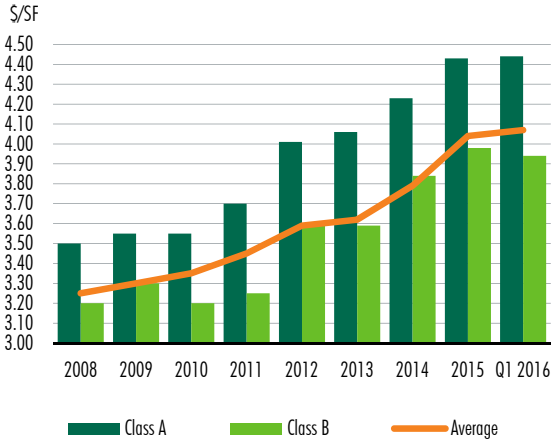
Source: Bureau of Labor Statistics, March 2016.

INDUSTRIAL RATES SUSTAIN MARKET HIGHS

The average asking industrial lease rate increased by $0.03 to $4.07 per sq. ft. in the first quarter of 2016. This pushed average rents up by $0.30 per sq. ft., or 8.0%, compared a year ago. During the same 12 month period, the U.S. city average - all item - Consumer Price Index (CPI, n.s.a.) increased by 1.4% and by 2.2% if we exclude food and energy prices.

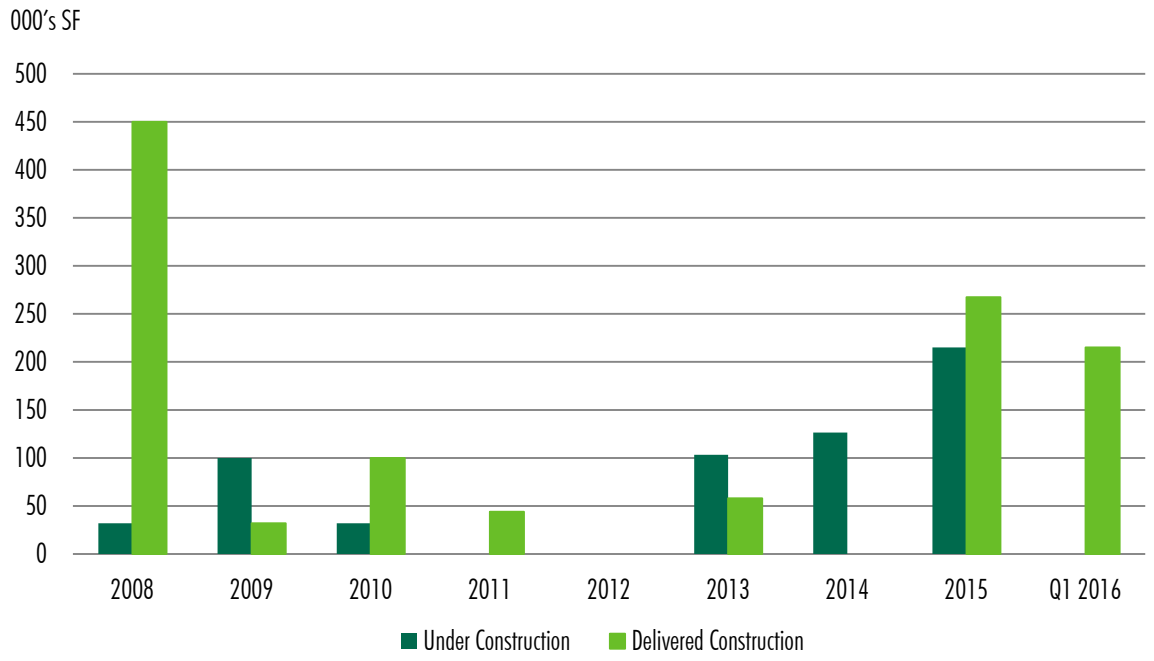
Compared to Q4 2015, Class A asking rates started 2016 with a quarterly increase of $0.01 per sq. ft. or 0.2%, while Class B saw a decrease of $0.04 or -1.0%. Class C led growth with the largest growth this quarter gain of $0.17 or 5.9%. When looked at year-over-year, all four of five submarkets saw increased average asking rents (see Figure 2). Northeast measured the steepest gain of 14.5%, as availability decreased and landlords took advantage of the busy year in 2015. The Central, Lower Valley, and East saw an upturn 14.4%, 6.7%, 2.9%, respectively. The West submarket registered the only decrease of 4.4% compared to Q1 2015, but did see a small quarterly gain of $0.01 per sq. ft. in asking rents. El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q1 2016.

Figure 5: Construction



Source: CBRE Research, Q1 2016.

INDUSTRIAL PRODUCT ADDS TO BOTTOM LINE

The supply of industrial buildings in El Paso increased based on one new construction delivery. MCS Industries took delivery of approximately 215,000 sq. ft. in Santa Teresa within the West submarket. Furthermore, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications based on new information. This included size updates to existing buildings as well as adding and or removing properties based on type of use. The combined inventory net size adjustment was positive 425,667 sq. ft.

There were no additional industrial projects under construction at the end of Q1 2016.

PLANNED DEVELOPMENT IN WEST SUBMARKET

Although not yet confirmed, additional construction projects are believed to be coming to El Paso's West submarket, including Santa Teresa. Earlier reports indicated that developers are in advanced planning to build new industrial development and there appears to be an additional 250,000 sq. ft. built-to-suit on the radar for a to-be-determined tenant.

Although a much improved market, there remains a relatively ample amount of available space, including several Class A options, which makes speculative announcements unlikely . Relatively elevated construction costs also continue to hinder the likelihood of additional development.

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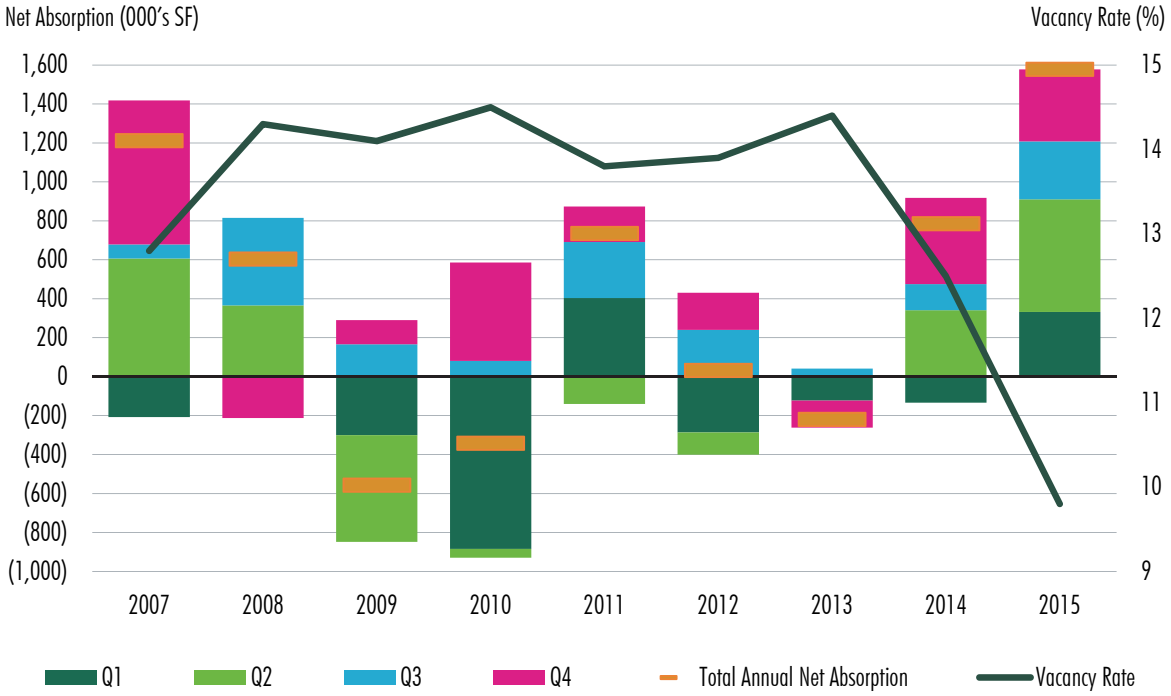
El Paso Industrial, Q4 2015

Expansion cycle sets a record for industrial demand in 2015

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
9.8%	$4.04 /SF	369,691 SF	215,000 SF	80,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2015.

- Market demand increased annual net absorption to 1.6 million sq. ft., surpassing the high of 2007.
- Overall industrial vacancy continued to slide and is now down to 9.8%.
- Vacancy for competitive, Class A space under 100,000 sq. ft. is the tightest segment at 2.5%.
- The neighboring and complementary industrial market in Cd. Juarez continued to be actively strong as it recorded a thirteenth quarter of nonstop positive net absorption.

SEVENTH CONSECUTIVE POSITIVE QUARTER

The local industrial market saw a total of 369,691 sq. ft. of positive net absorption in Q4 2015. The net gain in area demand raised the year-to-date aggregate to exceed the 2007 high and continued vacancy on a sharp decline to single digits to 9.8%. The new cycle high net absorption of 1.6 million sq. ft. in 2015 means the market has now eliminated 2.5 million sq. ft. of vacant space over the trailing seven quarters.

MACROECONOMIC INDICATORS

Economic data related to the region's industrial sector show mixed movements in year-over-year levels between 2014 and 2015. These figures include the seasonally adjusted U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a preliminary monthly decrease of 0.6% in November and a year-over-year reduction of 1.2% largely caused by decreases in mining and utilities. Within the index, manufacturing increased by 0.9% during the same annual period. Further, the Institute for Supply Management (ISM) recently reported that the Purchasing Manager's Index (PMI), a short-term leading indicator for production, signaled the 78th consecutive month of growth in the overall U.S. economy during November. However, manufacturing signaled contraction for the first time in 36 months driven by lessened new orders and production. Meanwhile, the most recent data from INEGI, Mexico's government agency that collects census information, show seasonally adjusted industrial production decreased 0.1% in October, but saw a gain of 1.0% year-over-year. Manufacturing grew by 0.1% in October and posted a strong expansion of 2.3% year-over-year. .

TRADE & REGIONAL INDICATORS

The nominal and unadjusted value of export trade from The U.S. to Mexico through the El Paso-Santa Teresa ports of entry escalated to $30.4 billion year-to-date in September. However, this is 2.3% below the same period last year. In terms of imports from Mexico to the U.S., the year-to-date value increased to $37.2 billion. This figure is 12.4% above the same period in 2014. Trade contraction earlier this year continued to drag on annual totals, however, the year-over-year differences continue to shrink where negative and grow where positive signaling a gradual upright correction since second quarter. Further import growth is likely, given the considerable appreciation of the U.S. dollar which has shown to boost both exports from and investment into Mexico's export-oriented operations.

The most recent published data for northbound freight traffic from Mexico through the El Paso Santa Teresa ports also shows growth year-to-date in June compared to the same time last year. Northbound truck crossings saw an increase of 1.6% to 422,900 while loaded truck containers grew also by 1.6% to 242,800. Loaded rail container crossings experienced a growth of 18.6% to 24,200 during the same period.

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 69th consecutive month. Also worth pointing out, annual growth during the closing quarter of 2015 showed the largest gains since the recovery began 2010. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here August saw larger growth than any of the trailing 14 months of 2.5% year-over-year.

Within the El Paso industrial market, activity registered another solid quarter with close to 20 transactions. Renewals and new leases were the most active categories as 8 renewals were recorded at an average size of 59,000 sq. ft. and an average term of 24 months. During this quarter 8 new lease transactions were inked at an average size of 65,000 sq. ft. and term of 46 months. While new leases are a usual indicator of market demand, renewal activity is also important as it further stabilizes the market through continued occupancy. For owners, the improving market continued to create investment opportunities having traded more than 1.8 million sq. ft. in 2015 after a reported 3.6 million sq. ft. in 2014.

Overall market fundamentals improved significantly in 2015 after registering the sharpest increase in occupancy in the current cycle. In terms of outlook, active users in the market remained steady with total requirements above 2.1 million sq. ft. at the end of 2015. Of current users, roughly 1.2 million sq. ft. were new requirements in the past 90 days signaling additional new demand and anticipated net absorption.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,430,580	509,650	6.9	698,570	9.4	0	-	215,000	4.56
Northeast	9,475,123	871,319	9.2	991,535	10.5	50,000	-	-	3.82
Central	13,703,541	593,616	4.3	668,501	4.9	8,000	-	-	3.28
East	18,394,030	1,790,451	9.7	2,436,693	13.2	226,050	-	-	3.97
Lower Valley	6,344,230	1,651,430	26.0	1,719,681	27.1	85,641	80,000	-	4.37
Totals	55,347,504	5,416,466	9.8	6,514,980	11.8	369,691	80,000	215,000	4.04

Source: CBRE Research, Q4 2015.

ABSORPTION AND VACANCY

Over the preceding seven quarters, El Paso's industrial market saw net occupancy climb to a total 2.5 million sq. ft. over what has become the longest and largest streak in El Paso since 2007. In Q4 2015, net absorption was recorded at just under 370,000 sq. ft. and closed the 2015 annual net absorption at a new high of 1.6 million sq. ft. Net occupier demand this quarter decreased the overall market vacancy rate by 60 bps quarter-over-quarter and 270 bps year-over-year to levels unseen during the current economic cycle.

The East submarket recorded the largest net absorption after an active 90 days which decreased vacancy by 130 bps to 9.7%. On an annual basis, 2015 proved positive for all submarkets. The East and the Lower Valley incurred the largest submarket net absorptions of the year at 632,321 sq. ft. and 363,192 sq. ft. respectively.

VACANCY ANALYSIS AND TOP TRANSACTION

Current availabilities show three properties above 400,000 sq. ft. which accounted for 1.9 million sq. ft., or 35%, of all space vacant. These large vacant blocks, including one above 850,000 sq. ft., continue to keep an upward pressure on the overall availability rate and partially mute El Paso's much improved industrial sector fundamentals. In fact, if we exclude the three large blocks mentioned above, the market would yield a much tighter vacancy of 6.5% which mirrors that of the adjacent and complementary market in Cd. Juarez.

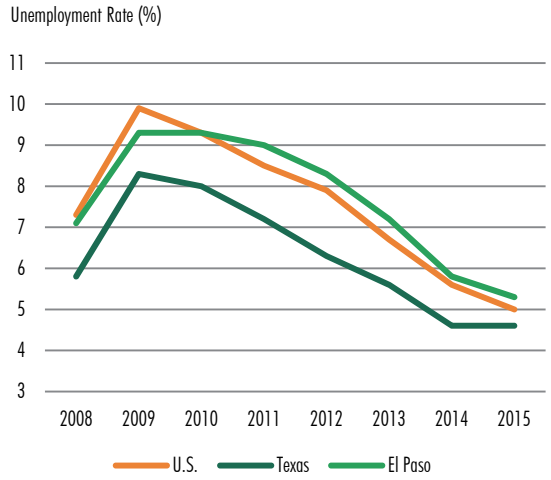
If present vacancy for space less than 200,000 sq. ft. is considered, it yields vacancy of 5.7%, more than four percentage points below the market wide average and slicing even further to just the Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.5%. This highlights the current tightness for this key segment.

The largest new lease this quarter was a 108,000 sq. ft. warehouse lease in the East submarket by an undisclosed company with ties to automotive component manufacturing on both sides of the U.S. – Mexico border.

EMPLOYMENT

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 1.6% year-over-year in November 2015. In response, unemployment remained close to the national average in November at 5.3%, down from 6.0% in November of 2014. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which saw small but positive growth of 0.7% year-over-year, anchored largely by gains in the transportation industry and some in manufacturing. The U.S. unemployment rate sat at 5.0% in November, while the Texas figure remained below the national average at 4.6%.

Figure 3: Unemployment Rate



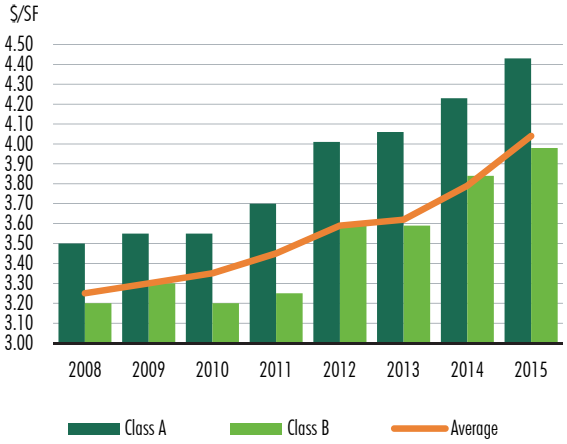
Source: Bureau of Labor Statistics, January 2016.

INDUSTRIAL RATES

The market average asking industrial lease rate increased by $0.02 to $4.04 per sq. ft. in the final quarter of 2015. The 6.6% increase this year is amongst the largest experienced by the local market based on our dataset back to 2003 and well out gained the 2015 U.S. city average - all item - Consumer Price Index (CPI) of 0.5%. The active market and sharp decreases in vacancy also continued to push overall average asking rates above $4.00per sq. ft. for the first time ever.

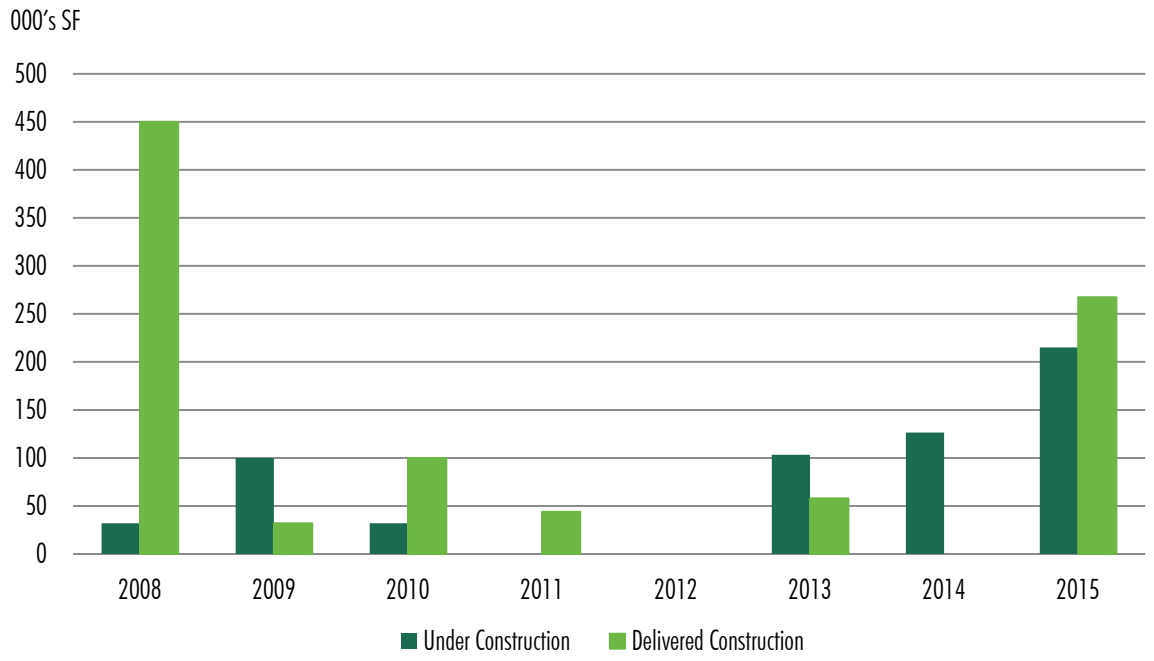
Compared to 2014, Class A closed 2015 with an annual increase of $0.20 per sq. ft. or 4.7%, while Class B saw an increase of $0.14 or 3.6%. Class C remains the only category below $3.00 per sq. ft. but is gradually closing that gap. Also year-over-year, all five submarkets saw increased average asking rents (see Figure 2). Northeast measured the steepest gain of $0.44 per sq. ft., 13.0%, as availability decreased as landlords took advantage of the busy year. Last, the Central, West, Lower Valley, and East saw an upturn 10.4%, 7.8%, 7.6% and $2.6 per sq. ft., respectively. El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2015.

Figure 5: Construction



Source: CBRE Research, Q4 2015.

INDUSTRIAL PRODUCT

The supply of industrial buildings in El Paso increased based on one new construction deliveries. El Paso Water Utilities took delivery of approximately 80,000 sq. ft. in the Lower Valley submarket. Furthermore, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications based on new information. This included size updates to existing buildings. The combined inventory net size adjustment was positive 19,500 sq. ft.

Within the West submarket in Santa Teresa, work continued on a built-to-suit construction project for MCS Industries, a picture frame manufacturer on both sides of the U.S. – Mexico border. Construction on their 2015,000 sq. ft. facility is expected to be completed in Q1 2016.

PLANNED CONSTRUCTION

Additional construction may be coming to Santa Teresa, where availability remains tight, in the coming months. Earlier reports indicated that two developers are in advanced talks to build more than 250,000 Sq. ft. of speculative space and there appears to be an additional 250,000 sq. ft. built-to-suit in the 2016 radar for a to-be-determined tenant.

Although a much improved market, there remains a relatively ample amount of vacant space, including several Class A options, which makes any speculative announcements unlikely.

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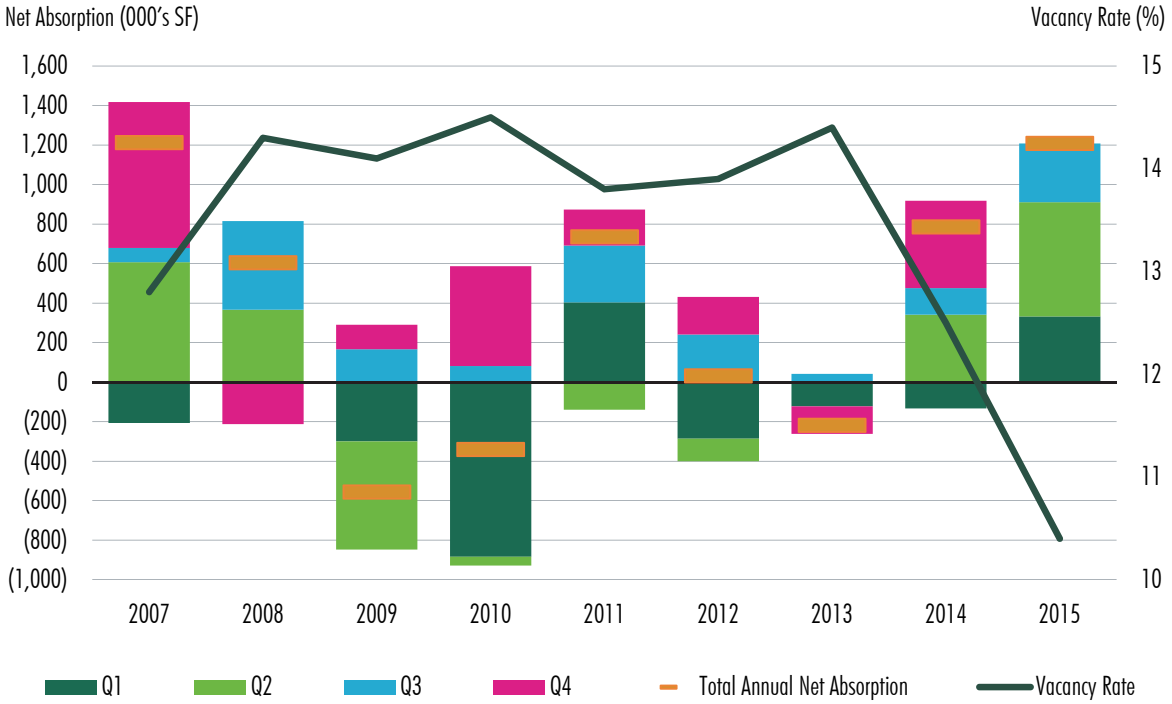
El Paso Industrial, Q3 2015

On-track to a new cycle record with sharp drop on vacancy

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
10.4%	4.02 $/SF	297,382 SF	295,000 SF	187,456 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2015.

- Market demand increased year-to-date with a net absorption of 1.2 million sq. ft., matching the high of 2007.
- Overall industrial vacancy continued to slide and is now down to 10.4%.
- Vacancy for competitive, Class A space under 100,000 sq. ft. is the tightest segment at 2.8%.
- The neighboring and complementary industrial market in Cd. Juarez continued to be actively strong as it recorded a 3-years of nonstop positive net absorption.

SIXTH CONSECUTIVE POSITIVE QUARTER

The local industrial market saw a total of 297,382 sq. ft. of positive net absorption in Q3 2015. The net gain in area demand raised the year-to-date aggregate to match the 2007 high and continued vacancy on a sharp decline closer to single digits to 10.4%. If the positive trend continues, the market is steering toward setting a new cycle high in 2015 net absorption.

MACROECONOMIC INDICATORS

Macroeconomic data related to the region's industrial sector show a general increase in year-over-year levels between August 2014 and August 2015. These figures include the seasonally adjusted U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a preliminary monthly decrease of 0.4% in August - but year-over-year total production increased by 0.9%, while manufacturing increased by 1.2% during the same period. Further, the Institute for Supply Management (ISM) recently reported that the Purchasing Manager's Index (PMI), a short-term leading indicator for production, signaled the 75th consecutive month of growth in the overall U.S. economy during August, and the 32nd month of growth for the manufacturing sector. Meanwhile, the most recent data from INEGI, Mexico's government agency that collects census information, show seasonally adjusted industrial production increased 0.2% in July, and saw gains of 0.7% year-over-year. Manufacturing fell slightly by 0.5% in July but posted a sturdy expansion of 1.3% year-over-year.

U.S. - MEXICO TRADE

The nominal and unadjusted value of export trade to Mexico through the El Paso-Santa Teresa ports of entry escalated to $19.6 billion year-to-date in June. However, this is 4.5% below the same period last year. In terms of imports from Mexico, the year-to-date value increased to $24 billion. This figure is 11.6% above the same period in 2014. Trade contraction earlier this year continued to be drag on annual totals, however, trade saw an upright correction in the second quarter with June trade reaching year-highs in both directions. Further import growth is likely given the considerable appreciation of the U.S. dollar which has shown to boost both imports from and investment into Mexico export-oriented operations.

Northbound freight traffic from Mexico through the El Paso Santa Teresa ports also show growth year-to-date in June compared to the same time last year. Truck crossings saw an increase of 1.6% to 422,900 while loaded truck containers grew also by 1.6% to 242,800. Loaded rail container crossings experienced a growth of 18.6% to 24,200 during the same period.

REGIONAL INDICATORS

The El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 67th consecutive month. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here August saw larger growth than any of the trailing 14 months of 2.5% year-over-year.

Within the El Paso industrial market, activity registered another strong quarter with close to 30 transactions. Renewals and new leases were the most active categories as 9 renewals were recorded at an average size of 34,000 sq. ft. and an average term of 38 months. During this quarter 12 new lease transactions were inked at an average size of 59,000 sq. ft. and term of 43 months. While new leases are a usual indicator of market demand, renewal activity is also important as it further stabilizes the market through continued occupancy. For owners, the improving market continued to create investment opportunities having traded more than 1.6 million sq. ft. so far this year after a reported 3.6 million sq. ft. in 2014.

Overall market fundamentals improved significantly this quarter. In terms of outlook, total active users in the market remained steady with space requirements above 1.4 million sq. ft. by the end of Q3 2015. Of current users, approximately 435,000 sq. ft. were new requirements in the past 90 days signaling additional new demand and anticipated net absorption. The growing demand related to the maquiladora industry in Cd. Juarez should also drive additional real estate activity to El Paso in the coming months given the existing manufacturing-distribution market dynamic.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,430,580	509,650	6.9	698,570	9.4	126,456	126,456	215,000	4.56
Northeast	9,475,123	921,319	9.7	972,735	10.3	160,360	-	-	3.81
Central	13,703,541	611,979	4.5	771,864	5.6	43,406	49,000	-	3.27
East	18,374,530	2,021,501	11.0	2,539,743	13.8	(78,440)	-	-	3.97
Lower Valley	6,264,230	1,657,071	26.5	1,657,071	26.5	45,600	12,000	80,000	4.34
Totals	55,248,004	5,721,520	10.4	6,639,983	12.0	297,382	187,456	295,000	4.02

Source: CBRE Research, Q3 2015.

ABSORPTION AND VACANCY

Over the past year and a half, El Paso's industrial market saw net occupancy up by a total 2.1 million sq. ft. over what has become the longest and largest streak in El Paso since 2007. In Q3 2015, net absorption was recorded at just under 300,000 sq. ft. and raised the annual net absorption through the first three quarters of 2015 to 1.2 million sq. ft. This not only matched the current cycle high set in 2007, but positioned the market on track to close 2015 at a new cycle high for annual net absorption. Net occupier demand this quarter decreased the overall market vacancy rate 10.4%, 50 bps quarter-over-quarter and 300 bps year-over-year to levels unseen during the current economic cycle.

The Northeast submarket recorded the highest net absorption after an active 90 days which decreased vacancy by 430 bps to 9.7%. The West, which includes Santa Teresa, New Mexico, saw a slight decrease in vacancy due to a construction delivered occupied. The East submarket saw a small uptick in vacancy rate after reporting negative net absorption due to several market move-out/ relocations. At a broader scale, the market was able to weather close to 800,000 sq. ft. of new vacancies through 1.1 million sq. ft. of gross absorbed space.

Current availabilities show four properties above 200,000 sq. ft. which accounted for 2.3 million sq. ft., or 36%, of all space vacant. These large blocks of available space, including one above 850,000 sq. ft., continue to keep an upward pressure on the overall availability rate and partially mute El Paso's improved industrial sector fundamentals

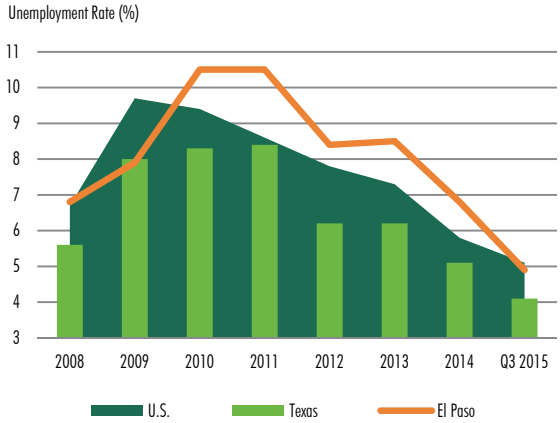
But if present vacancy for space less than 200,000 sq. ft. is considered, it yields vacancy of 8.3%, more than three full percentage points below the market wide average and slicing even further to just the Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.8%. This highlights the current tightness for this key segment.

The largest transaction this quarter was a 265,000 sq. ft. warehouse lease in the Northeast submarket by an undisclosed company. The largest user-sale was a purchase of 109,000 sq. ft. in the Lower Valley by a plastics manufacturer with operations on both sides of the U.S. – Mexico border.

EMPLOYMENT

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 0.7% year-over-year in August 2015. In response, unemployment remained below the national average in July as it fell to 4.9% in from 6.4% in July of 2014. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which saw small but positive growth of 0.2% year-over-year. The U.S. unemployment rate declined to 5.1% in August, as did the Texas figure which also remains below the national average at 4.1%.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, September 2015.

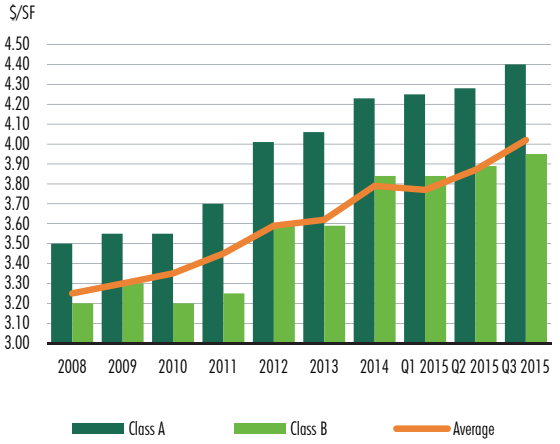
INDUSTRIAL RATES

The market average asking industrial lease rate increased by $0.15 to $4.02 per sq. ft. in Q3 2015. The 3.9% quarter-over-quarter and 7.8% year-over-year increases are amongst the largest increases experienced by the local market based on our dataset back to 2003. The active market and sharp decreases in vacancy also pushed overall average asking rates above $4.00per sq. ft. for the first time ever.

Class A experienced an increase of $0.12 per sq. ft. while Class B saw a decrease of $0.06 from Q2 2015. The decreased for Class B product is partially in response to added vacancy due to its negative net absorption reported in Q3 3015. Class C remains the only category below $3.00 per sq. ft. Four of the five submarkets saw increased average asking rents while the West remained unchanged (see Figure 2). Northeast measured the steepest gain of $0.41 per sq. ft. as availability decreased as landlords took advantage of the busy quarter. Last, the Lower Valley, Central, and East saw an upturn of $0.18, $0.05, and $0.03 per sq. ft., respectively.

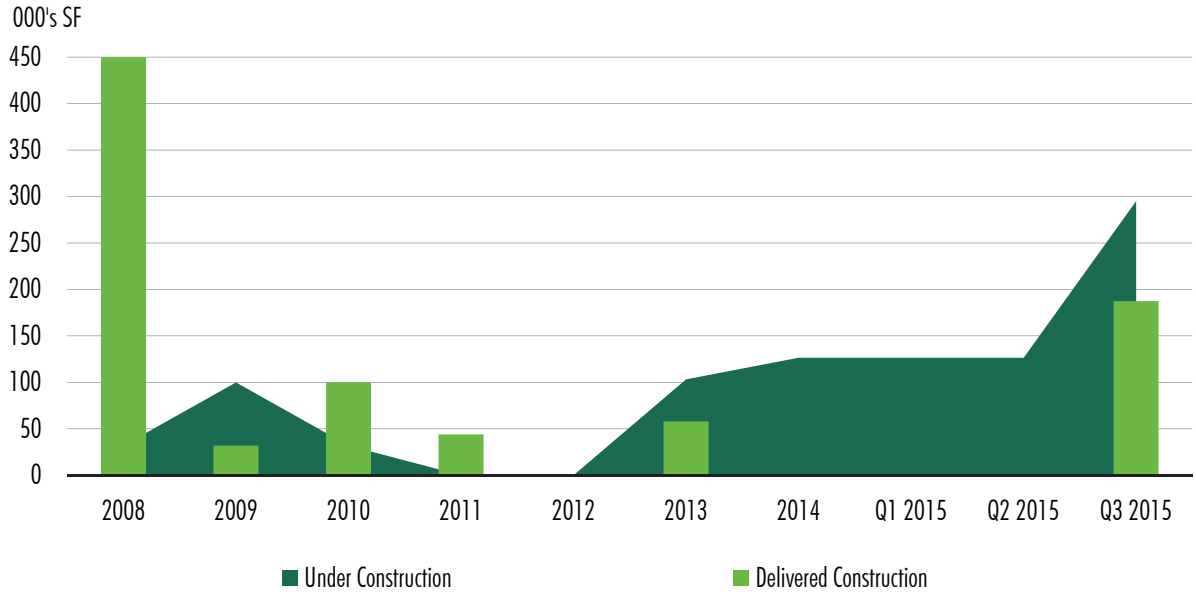
El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q3 2015.

Figure 5: Construction



Source: CBRE Research, Q3 2015.

INDUSTRIAL PRODUCT

The supply of industrial buildings in El Paso increased based on three new construction deliveries. Schneider Electric took delivery of 126,456 sq. ft. in the West submarket early in the quarter. Garick Group took delivery of 49,000 in Central while 12,000 sq. ft. were delivered in the Lower valley to an unknown tenant. Furthermore, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications. This included size updates to existing buildings and the addition of three building that's were not previously tracked. The combined inventory net size adjustment was positive 850,509 sq. ft.

El Paso's industrial market registered the start of two built-to-suit construction projects. MCS Industries, a picture frame manufacturer on both sides of the U.S. – Mexico border, started construction on their 2015,000 sq. ft. facility in Santa Teresa, New Mexico located in the West submarket. On the opposite end of town, El Paso Water utilities started construction on a 80,000 sq. ft. building in the Lower Valley.

PLANNED CONSTRUCTION

Additional construction may be coming to Santa Teresa, where availability remains tight, in the coming months. Recent reports indicated that two developers are in advanced talks to build more than 250,000 Sq. ft. of speculative space and there appears to be an additional built-to-suit in the radar for a to-be-determined tenant. It is also worth mentioning that the state legislature recently approved $8.3 million for road repairs within the industrial park in anticipation of increased truck flow.

Although a much improved market, there remains a relatively ample amount of vacant space which makes any speculative announcements unlikely.

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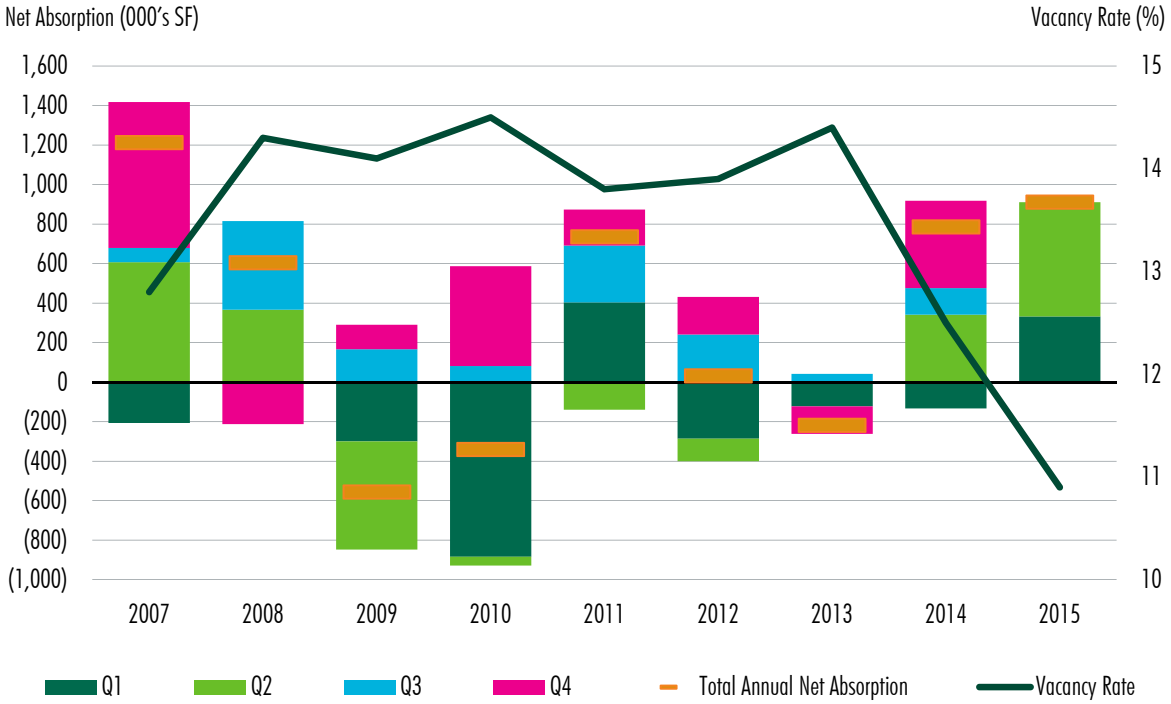
El Paso Industrial, Q2 2015

Vacancy sinks to post-recession low; tightest market in 7 years

Vacancy Rate	Avg. Asking Rate	Net Absorption	Construction	Completions
10.9%	3.87 $/SF	577,578 SF	126,456 SF	0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2015.

- El Paso's robust industrial market reported a net absorption larger than any quarter since Q4 2007.
- The overall industrial vacancy rate continued to decline to 10.9%.
- Vacancy for competitive, Class A space under 100,000 sq. ft. is the tightest segment at 2.7%.
- The neighboring and complementary industrial market in Cd. Juarez continued to be strong as it posted an 11th consecutive quarter of positive net absorption.

FIFTH CONSECUTIVE POSITIVE QUARTER

El Paso's industrial market saw a total of 577,578 sq. ft. of positive net absorption in Q2 2015, the largest quarterly net gain in area demand in more than seven years which pushed vacancy down to a post-recession level closing in on single digits to 10.9%.

Macroeconomic data related to the region's industrial sector show a general increase in year-over-year levels between May 2014 and May 2015. These figures include the seasonally adjusted U.S. industrial production, as reported by the Federal Reserve's Board of Governors - which did see a preliminary monthly decrease of 0.2% in May - but year-over-year total production increased by 1.4%, while manufacturing increased by 1.8% during the same period. Further, the Institute for Supply Management (ISM) recently reported that the Purchasing Manager's Index (PMI), a short-term leading indicator for regional production, signaled the 72nd consecutive month of growth in the overall U.S. economy during May, and the 29th month of growth for the manufacturing sector.

Meanwhile, the most recent data from the INEGI, Mexico's government agency that collects census information, show seasonally adjusted industrial production decreased 0.1% in April, yet saw gains of 1.1% year-over-year. Manufacturing grew as a result by 2.0% in April and posted a strong expansion of 3.8% year-over-year.

In terms of trade, the nominal and unadjusted value of export trade to Mexico through the El Paso-Southern New Mexico ports of entry escalated to $12.7 billion year-to-date in April. However, this is 5.6% below the same period last year. The relative lessening may be a result of slight contraction in U.S. Gross Domestic Product during Q1 2015 and a "hangover" of last year's similar negative GDP growth which also dislocated trade flows. In terms of imports from Mexico, the year-to-date value increased to $15.4 billion. This figure is 9.4% above the same period in 2014. Further import growth is likely given the considerable appreciation of the U.S. dollar which has shown to boost both imports from and investment into Mexico export-oriented operations.

Locally, the El Paso metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 63th consecutive month. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here April saw a growth of 1.6% year-over-year. Within the El Paso industrial market, activity registered another strong quarter of just under 30 transactions. Renewals and new leases were the most active categories as 13 renewals were recorded at an average size of 44,000 sq. ft. and an average term of 38 months. During Q2 2015 nine new lease transactions were inked at an average size of 38,000 sq. ft. and term of 50 months. Only five new vacancies, all at or below 20,000 sq. ft., were tracked market-wide this quarter.

All El Paso area submarkets posted positive absorption for the third straight quarter - although the West, which includes Santa Teresa, New Mexico, remained unchanged as this submarket remains tight with essentially only one substantial vacancy of 458,000 sq. ft. Limited options here are beginning to trigger new construction. For example, it was announced that new building will begin in San Teresa for existing user, MCS Industries. The sizable 215,000 sq. ft. project is expected to start soon and will cost $11.1 million. However, close to 190,000 sq. ft. of space is likely to become available by the end of 2015 as MCS Industries will relocate operations once their new larger facility delivers, which frees up additional options for companies considering establishing in Santa Teresa and or near the new Union Pacific intermodal hub. Furthermore, recent reports indicate that two developers are in advanced talks to build more than 250,000 sq. ft. of speculative space in the Santa Teresa area.

Total active users in the market remained buoyant with space requirements exceeding 1.6 million sq. ft. by the end of Q2 2015. Of current users, approximately 675,500 sq. ft. were new requirements in the past 90 days signaling additional fresh demand and forecasted net absorption. The growing demand related to the *maquiladora* industry in Cd. Juarez should continue to drive additional real estate activity to El Paso in the coming months given the existing manufacturing-distribution market dynamic.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,304,124	507,844	7.0	696,764	9.5	-	-	126,456	4.56
Northeast	8,763,241	1,225,982	14.0	1,770,769	20.2	38,971	-	-	3.4
Central	13,654,541	579,785	4.2	809,700	5.9	114,298	-	-	3.22
East	18,235,903	1,909,415	10.5	2,430,460	13.3	346,209	-	-	3.94
Lower Valley	6,252,230	1,687,153	27.0	1,796,153	28.7	78,100	-	-	4.16
Totals	54,210,039	5,910,179	10.9	7,503,846	13.8	577,578	0	126,456	3.87

Source: CBRE Research, Q2 2015.

ABSORPTION AND VACANCY

The positive industrial net absorption streak is the longest and largest in El Paso since 2007 and has resulted in more than 1.8 million sq. ft. of total net occupier demand. The recent quarter's hefty growth of more than a half-million square feet is the largest since the beginning of the recession and the healthy activity decreased the overall market vacancy rate by 90 basis points (bps) quarter-over-quarter and by 280 bps year-over-year to levels unseen since the beginning of the economic recovery.

The East submarket recorded the highest net absorption of 346,209 sq. ft. which decreased vacancy by 210 bps to 10.5%. The West, which includes Santa Teresa, New Mexico, remained unchanged with vacancy at 7.0%. This submarket has limited space availability with essentially a single big-box vacancy of 458,000 sq. ft. However, additional space is becoming available in the Santa Teresa industrial park as MCS Industries will relocate current operations once their new building is delivered later this year.

Current availabilities show only five properties above 200,000 sq. ft. and accounted for 2.3 million sq. ft., or 31.1%, of all space available. These large blocks of available space, including one above 850,000 sq. ft., continue to keep an upward pressure on the overall availability rate and partially mute El Paso's improved industrial sector fundamentals

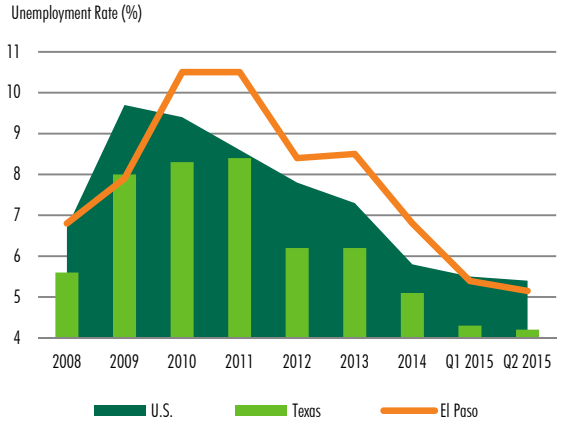
But if present vacancy for space less than 200,000 sq. ft. is considered it yields vacancy of 7.1%, more than three full percentage points below the market wide average and slicing even further to just the Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local tenants - vacancy shrinks substantially to only 2.7%. This highlights the current tightness for this key segment.

The largest deal this quarter was a 130,000 sq. ft. warehouse purchase in the East submarket by a customs brokerage company that services clients on both sides of the U.S. – Mexico border.

EMPLOYMENT

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 0.2% year-over-year in April 2015. In response, unemployment remained below the national average as it fell to 5.2% from 6.7% in April of 2014. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which saw robust growth of 1.7% year-over-year. The U.S. unemployment rate declined to 5.4% in April, as did the Texas figure which also remains below the national average at 4.2%.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, June 2015.

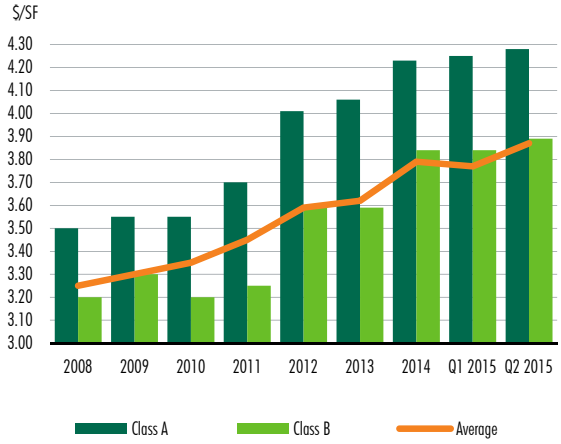
INDUSTRIAL RATES

The market average asking industrial lease rate increased by $0.10 to $3.87 per sq. ft. in Q2 2015. The quarter-over-quarter increase of 2.7% is the largest gain since Q3 2012. As expected with a continued decline in vacancy, the Q2 2015 average asking rate is also 3.8% above the same time last year.

Class A experienced an increase of $0.03 per sq. ft. while Class B saw a gain of $0.05 from Q1 2015. Class C remains the only category below $3.00 per sq. ft., but it did register the largest increase this quarter of $0.14 per sq. ft. The solid gains for Class C rents are seen during an active Q2 2015 as it accounted for 48.2% of net absorption over the past 90 days. All five submarkets saw increased average asking rents (see Figure 2). Central measured the steepest gain of $0.23 per sq. ft. as availability decreased as landlords took advantage of the busy quarter. Last, the West, Lower Valley, and East saw an upturn of $0.22, $0.12, and $0.09 per sq. ft., respectively.

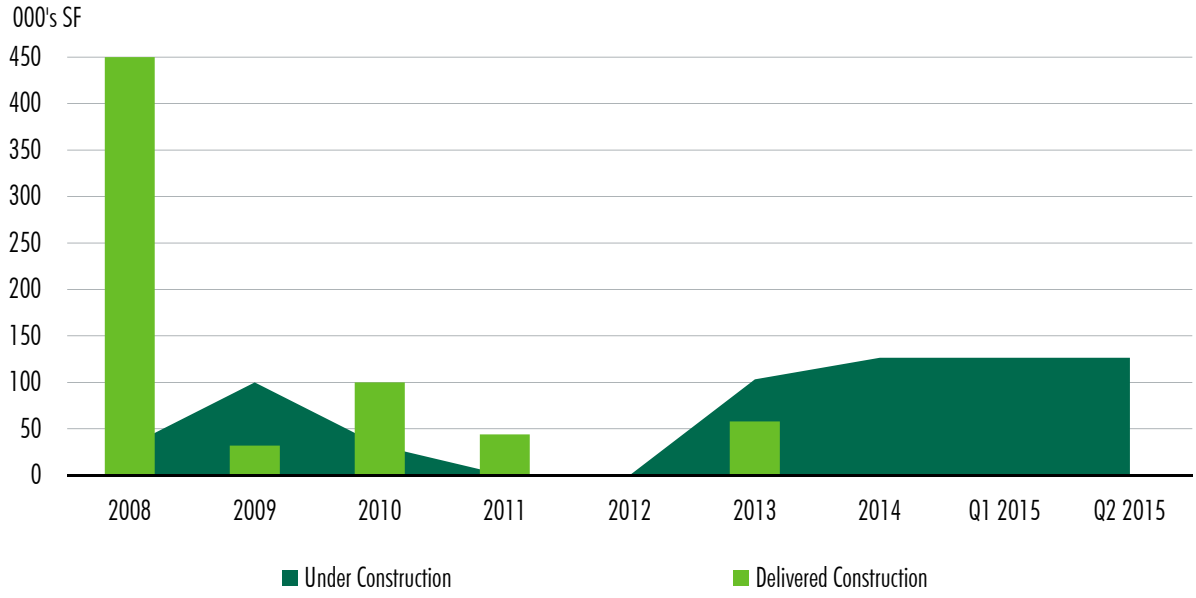
El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q2 2015.

Figure 5: Construction



Source: CBRE Research, Q2 2015.

INDUSTRIAL PRODUCT

The supply of industrial buildings in El Paso remained unchanged in Q2 2015 as there were no space deliveries. However, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications. This included size updates to existing buildings. The combined inventory net size adjustment was negative 34,634 sq. ft.

El Paso's industrial market had one project under construction at the end of Q2 2015. Schneider Electric's ongoing built-to-suit activity will add 126,456 sq. ft. of new construction to El Paso's West submarket once delivered in Q3 2015.

The recently announced built-to-suit project for MCS Industries in Santa Teresa is expected to start early July 2015. The $11.1 million, 215,000 sq. ft. industrial development is expected to deliver early 2016.

Furthermore, recent reports indicated that two developers are in advanced talks to build more than 250,000 Sq. ft. of speculative space, also in Santa Teresa where availability remains tight. It is also worth mentioning that the state legislature recently approved $8.3 million for road repairs within the industrial park in anticipation of increased truck flow.

Although a much improved market, there remains a relatively ample amount of vacant space. Because of this, it is unlikely that a developer would build on a speculative basis. Nevertheless, Class A options are limited and certain areas such as Santa Teresa remain tight overall. This may ultimately trigger build-to-suit activity in the near future.

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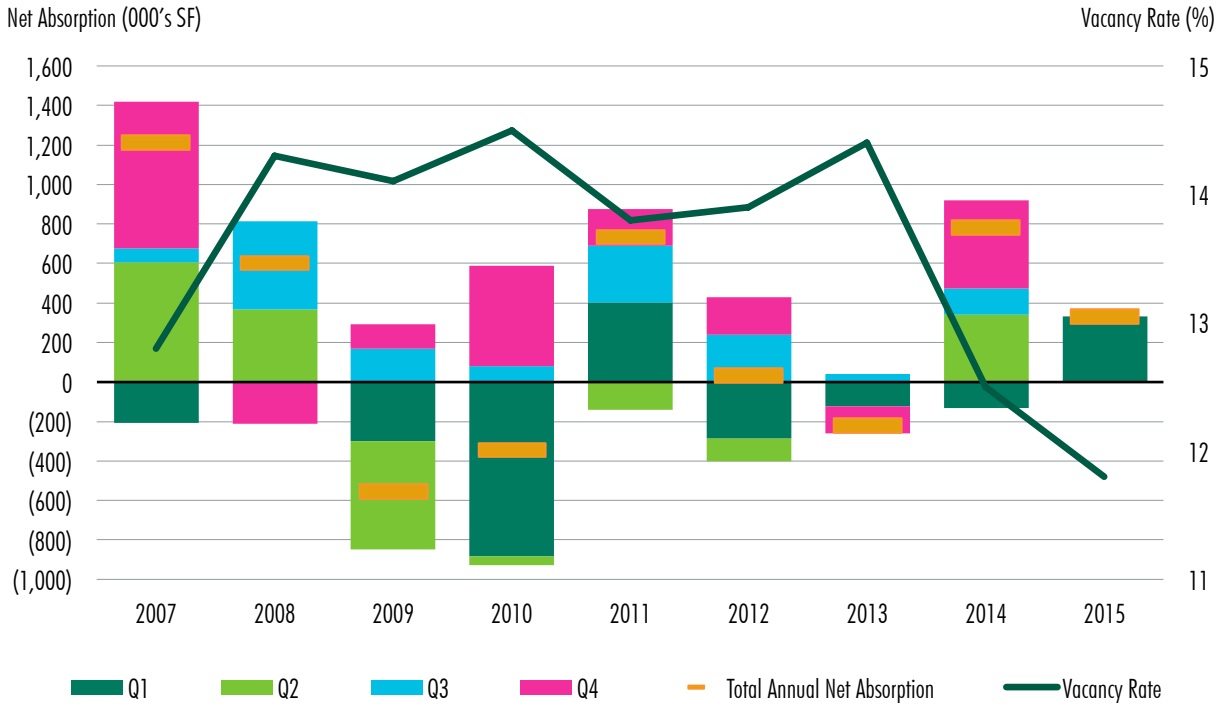
El Paso Industrial, Q1 2015

Industrial activity keeps momentum forward; 2015 starts off strong

Vacancy Rate 11.8% | Avg. Asking Rate 3.77 $/SF | Net Absorption 332,825 SF | Construction 126,456 SF | Completions 0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2015.

- The active El Paso industrial market began the year with positive net absorption the first time since 2011.
- The overall industrial vacancy rate continued to decline to 11.8%. This emphasizes the optimistic momentum of the local market.
- The vacancy rate for competitive, Class A space under 100,000 sq. ft. remained as the most "tight" segment at 2.6%.
- The neighboring and complementary industrial market in Cd. Juárez continued strong as it posted a 10th consecutive quarter of positive net absorption.

A FOURTH CONSECUTIVE POSITIVE QUARTER

The industrial real estate market in El Paso reported a fourth consecutive quarter of positive activity in Q1 2015. Total transactions recorded 332,825 sq. ft. of positive net absorption. This is the first time since 2011 that the local industrial market has started on a positive note. Furthermore, progressive activity continued to deplete vacant space to a market vacancy rate of 11.8%.

Macroeconomic data are as follows. The U.S. seasonally adjusted industrial production, as reported by the Board of Governors of the Federal Reserve, saw an increase of 0.2% in January after a decrease of 0.3% in December. Furthermore, the reported January figure is up 4.8% year-over-year. The data also show that of the major industry groups, manufacturing output rose by 5.6% year-over-year in January. The Institute for Supply Management also recently reported that the Purchasing Manager's Index (PMI) in November signals the 69rd consecutive month of growth in the overall U.S. economy, and the 26th month of growth for the manufacturing sector. According to the most recent data from INEGI in Mexico, seasonally adjusted industrial production decreased 0.3% in December, however, saw a sound increase of 2.1% year-over-year. The manufacturing sector had similar results. Manufacturing decreased by 1.9% in December, however, posted a strong gain of 4.6% year-over-year.

In terms of trade, the inflation adjusted, dollar value of export and import trade with the Mexico through the El Paso-Santa Teresa ports of entry continued to fluctuate in January as movements seem to have reversed. During the first half of 2014, there was negative growth in year-over-year import totals while export growth remained small, but positive. January of 2015 registered an increase of 6.2% in imports from Mexico year-over-year. Exports to Mexico decreased 12% during the same period. This brings the year-to-date face value of imports and export trade with Mexico to $3.5 billion and $3.0 billion, respectively.

Locally, overall economic activity in the El Paso metropolitan continued to improve. The El Paso metro business-cycle index as reported by the Federal Reserve Bank of Dallas reflected positive annual growth for the 60th consecutive month. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. January saw a growth of 400 basis points (bps) year-over-year.

Within the El Paso industrial market, activity registered a quarter of more than 30 transactions signaling a continued uptick in demand for industrial space. The transaction break down shows renewals and new leases as the most active categories with only one reported vacancy over 100,000 sq. ft. Further examined, sixteen renewals were recorded at a total 1.2 million sq. ft. and an average term over 37 months. This indicates additional stability to an improving real estate market. The bulk of new gross absorption was in the form of new leases, most of which were warehouse operations for existing manufacturers in the borderplex region.

Within submarkets, the start of 2015 proved healthy as none reported a negative net absorption. Although the West, which includes Santa Teresa, New Mexico, remained unchanged with a net absorption of zero, this submarket remains tight with essentially only one substantial vacancy. The 458,100 sq. ft. vacant facility should gather traction in 2015 as it is the only major space readily available in West El Paso.

Despite the strong absorption of industrial space, total active users in the market remained above 1.1 million sq. ft. at the end of Q1 2015. Of the current users, half are new requirements introduced this quarter alone signaling additional demand that is likely to materialize in the future. Furthermore, positive industrial indicators along with growing demand related to the maquiladora industry in Cd. Juárez should continue to initiate additional real estate activity to El Paso in the coming months given the manufacturing-distribution market dynamic. Furthermore, the neighboring industrial markets follow similar activity patterns, however not always in synchronization as the industrial activity transmission from Cd. Juárez to El Paso has recently followed approximately a six month lag.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,304,124	507,844	7.0	507,844	7.0	0	-	126,456	4.78
Northeast	8,763,856	1,241,015	14.2	1,645,644	18.8	472	-	-	3.39
Central	13,654,541	694,083	5.1	870,725	6.4	40,000	-	-	2.99
East	18,269,922	2,296,874	12.6	2,644,213	14.5	138,502	-	-	3.85
Lower Valley	6,252,230	1,680,412	26.9	1,855,053	29.7	153,851	-	-	4.04
Totals	54,244,673	6,420,228	11.8	7,523,479	13.9	332,825	0	126,456	3.77

Source: CBRE Research, Q1 2015.

ABSORPTION AND VACANCY

A fourth consecutive quarter of positive net absorption was recorded in Q1 2015 for the El Paso industrial market. The four-quarter positive streak is the longest since 2007 and has resulted in more than 1.2 million sq. ft. of total positive net absorption. The 332,825 sq. ft. of net absorption during this quarter was a result of 676,412 sq. ft. of gross absorption and 343,587 sq. ft. of newly vacated space. Progressive activity decreased the overall market vacancy rate by 70 bps quarter-over-quarter and by 270 bps year-over-year to 11.8%.

Furthermore, four of the five submarkets produced positive net absorption this quarter. The Lower Valley submarket recorded the highest net absorption of 153,851 sq. ft. which decreased the submarket vacancy rate by 260 bps. The East recorded the second highest positive net absorption of 138,502 sq. ft. The West, which includes Santa Teresa, New Mexico, remained unchanged with a net absorption of zero. This submarket remains limited with essentially a single large vacancy and a vacancy rate of 7.0%.

Of the 676,803 sq. ft. of total gross space absorption Q1 2015, 60% was attributed to Class A product while Class B accounted for 33%.

The bulk of gross absorption was in the form new lease transactions. The largest deal signed this quarter was a renewal by a third-party logistics (3PL) company that services clients on both sides of the border. The 3PL renewed 354,000 sq. ft. of warehouse space in the East submarket for an extended term.

An examination of current availability shows that of the total available space, five properties above 200,000 sq. ft. account for 2.1 million sq. ft. or 27.5% of all space available. These large blocks of available space, including one above 850,000 sq. ft., continue to keep an upward pressure on the overall vacancy rate and conceal the improving fundamentals of the local real estate market.

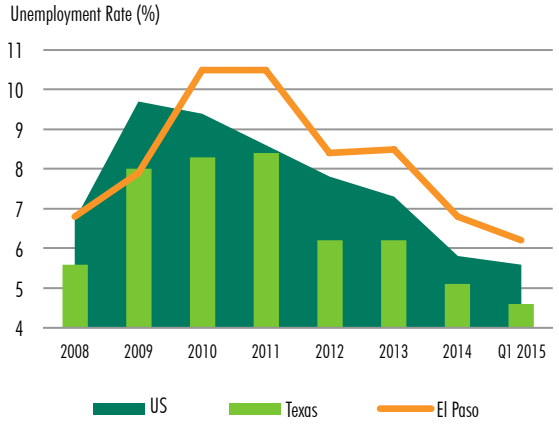
If we look at the present availability based on space available under 200,000 sq. ft., the parameter specification yields a vacancy rate of 8%. Furthermore, if we filter by Class A space under 100,000 sq. ft., the segment of the industrial market most in demand by local tenants, the vacancy rate is only 2.6%. This highlights the current tightness for this key segment.

EMPLOYMENT

The most recent seasonally adjusted data for the El Paso employment market show continued improvement. According to the BLS, total employment saw a growth of 2.4% year-over-year in December 2014. In response to this, the unemployment rate improved in December as it fell to 6.2% from 8.3% in December of 2013. Data show the highest year-over-year job increases in the fields of education and health services, professional and business services, and transportation, warehouse and utilities.

The U.S. unemployment rate declined to 5.6% in December, as did the Texas figure which remains below the national average at 4.6%.

Figure 4: Unemployment Rate



Source: Bureau of Labor Statistics, March 2015.

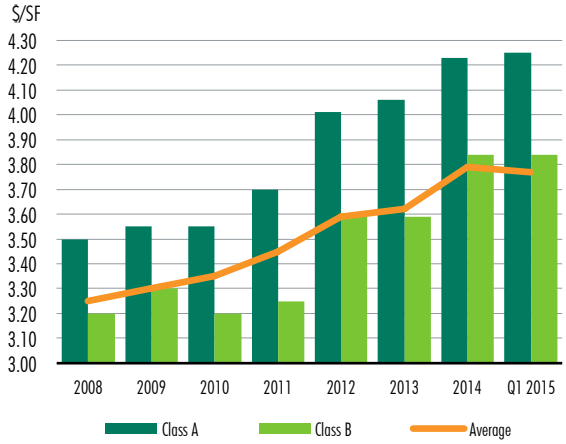
INDUSTRIAL RATES

The average asking industrial lease rate decreased by $0.02 to $3.77 per sq. ft. from Q4 2014. The decrease in average asking rate may be partially explained by the much active Class A segment. Strong absorption in Q1 2015 of Class A space reallocated a larger average weight on Class B and Class C asking rates.

Further analyzed, Class A experienced the largest increase of $0.02 per sq. ft. while Class B saw no change from Q4 2014. Class C remains the only class below $3.00, however saw an increase of $0.01 per sq. ft. in Q1 2015. Of the submarkets (see Figure 2), the West saw the largest gain of $0.55 per sq. ft. as available space is down to five buildings. Central and Northeast saw an increase of $0.02 and $0.01 per sq. ft., respectively. The most active submarkets in Class A leasing this quarter, the Lower Valley and East, saw decreases of $0.02. Again, this may be attributed to a redistribution of average weights to lower asset classes.

Besides the published asking rates, landlords also have more leverage negotiating lower rental incentives, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to asking rates.

Figure 5: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q1 2015.

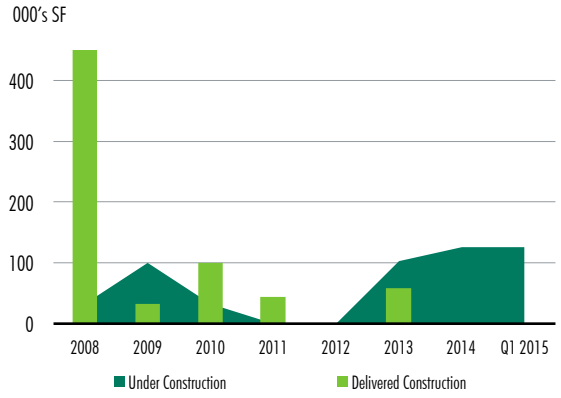
INDUSTRIAL PRODUCT

The new supply of industrial buildings in El Paso remained unchanged in the Q1 2015 as there were no industrial deliveries. However, our internal property database did undergo a handful of adjustments to more closely match building specifications. These adjustments included the removal of two industrial properties that were recently redeveloped for different use.

The El Paso industrial market has one project under construction. Schneider Electric's ongoing built-to-suit activity will add 126,456 sq. ft. of new construction to El Paso's West submarket in 2015.

With the elevated vacancy rate, it remains unlikely that a developer would build a speculative building. Nevertheless, Class A options are limited and certain areas like Santa Teresa remain overall tight. This may ultimately trigger a build-to-suit in the near future.

Figure 6: Construction



Source: CBRE Research, Q1 2015.

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El Paso Industrial, Q4 2014

2014 closes at levels not seen in six years

Vacancy Rate 12.5%

Avg. Asking Rate 3.79 $/SF

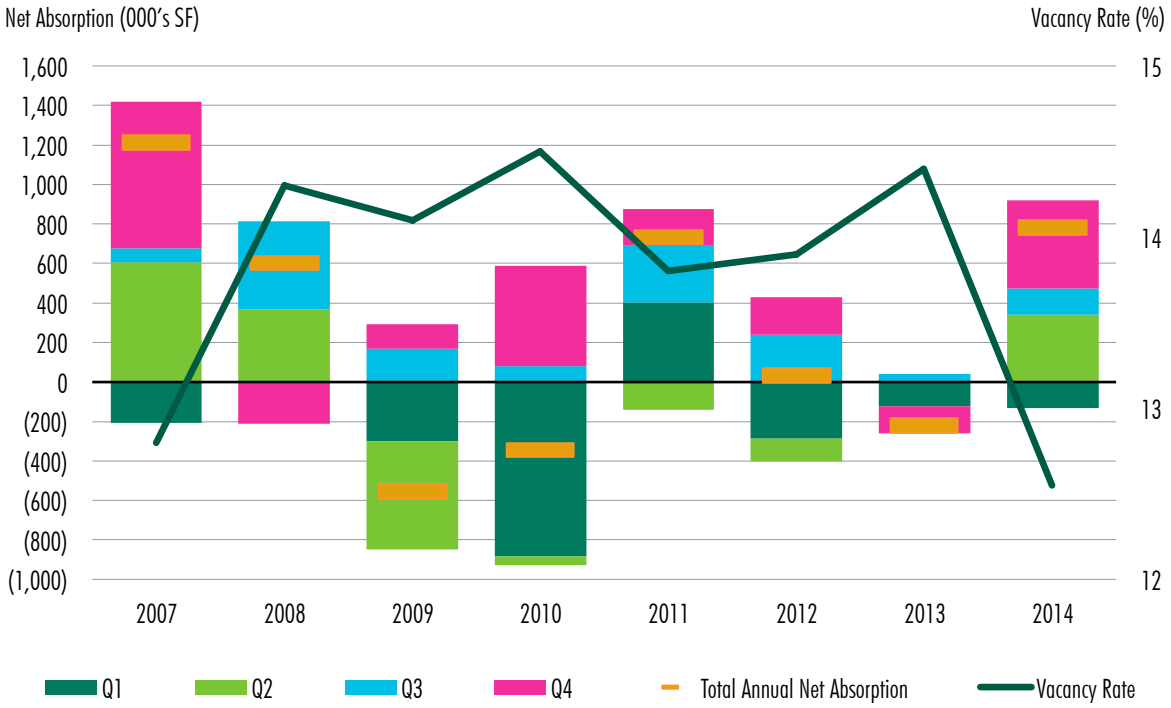
Net Absorption 442,697 SF

Construction 126,456 SF

Completions 0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2014.

- 2014 year-to-date net absorption of 784,961 sq. ft. continued to decrease the vacancy rate to levels not seen since 2008.
- The vacancy rate for competitive, Class A space under 100,000 sq. ft. continued to drop to 2.2%.
- The Cd. Juarez industrial market continues strong as it posted a ninth consecutive quarter of positive net absorption. The reported 2014 year-to-date net absorption of 1.7 million sq. ft. continued to reduce the vacancy rate to 8.8%. This should prove to be a positive driver of future activity in the El Paso industrial market.

A THIRD CONSECUTIVE POSITIVE QUARTER

The industrial real estate market in El Paso reports a third consecutive quarter of strong activity in Q4 2014. Total transactions recorded 442,697 sq. ft. of positive net absorption. This ultimately helped El Paso industrial close 2014 on a strong note outperforming the previous six years with a year-to-date net absorption of 784,961 sq. ft. and a vacancy rate of 12.5%.

Macroeconomic indicators for the portray confidence. The U.S. seasonally adjusted industrial production, as reported by the Board of Governors of the Federal Reserve, saw a strong increase of 1.3% in November and steady growth since August. Furthermore, the reported November figure is up 5.2% year-over-year. The data also show that of the major industry groups, manufacturing output rose by 4.8% year-over-year in November. The Institute for Supply Management also recently reported that the Purchasing Manager's Index (PMI) in November signals the 66rd consecutive month of growth in the overall U.S. economy, and the 18th month of growth for the manufacturing sector. According to INEGI in Mexico, seasonally adjusted industrial production increased 0.3% in October with a solid increase of 2.3% year-over-year. The manufacturing sector had even better results. Manufacturing increased by 0.7% in October with a strong gain of 3.9% year-over-year.

In terms of trade, the inflation adjusted, dollar value of export and import trade with the Mexico through the El Paso-Santa Teresa ports of entry continued to fluctuate in the month of September, after a contraction during the first half of 2014. The U.S. weather freeze earlier this year weakened all components of U.S. gross domestic product in Q1 2014, including personal consumption, business investment, and bilateral trade. However, U.S. growth rebounded sharply in the second and third quarters. Locally, September registered an increase of exports to Mexico of 10.9% year-over-year. Imports from Mexico decreased 4.0% during the same period. This brings the year-to-date face value of export and import trade with Mexico to $31.4 billion and $33.3 billion, respectively.

Locally, overall economic activity in the El Paso metropolitan continues to improve. The business cycle index reported by the Federal Reserve Bank of Dallas reflected positive growth for the 21th consecutive month. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. October saw a growth of 133 bps and an optimistic outlook with an increase of 1,014 bps year-over-year.

Within the El Paso Industrial market, leasing activity continued strong in Q4 2014. This quarter registered over 30 transactions signaling a continued uptick in demand for industrial space. The transaction break down shows expansions to existing operations and the sale of two significantly large empty buildings. In addition, eleven renewals were recorded with an average term over 36 months, indicating additional balance to an improving real estate market. The bulk of new absorption was in the form of new leases most of which were transportation and distribution operations. This is of no surprise given the surge in activity directly across the border in Cd. Juarez, Mexico. A healthy industrial market in Cd. Juarez should continue to drive additional real estate activity to El Paso given the manufacturing-distribution market dynamic.

In the West submarket, the new 2,200 acre Union Pacific intermodal facility continues to stimulate activity and further interest in the area. Increased activity in the Santa Teresa industrial park has left essentially no space available as occupancy in the park is currently 99.8%. An abundant amount of activity in Santa Teresa has also materialized in the form of industrial-use-land sales. Also in the West submarket, the third largest vacancy in the market, largest in the West, is expected to be free of heavy-injection-molding-machinery by the end of 2014. The building will now have more marketing capabilities as space-use is no longer constrained.

Overall, El Paso produced a strong quarter of activity in Q4 2014 while maintaining a healthy, and above average, 1.6 million sq. ft. of active users in the market. Certain key segments, such as Class A space under 100,000 sq. ft., remain tight with limited availability. However, large blocks of available space continue to overshadow progressive activity. Furthermore, positive industrial indicators along with growing demand related to the maquiladora industry in Cd. Juarez should continue to initiate additional real estate activity to El Paso in the coming months as the industrial activity transmission from Cd. Juarez to El Paso has recently followed approximately a six month lag.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Net Avg. Asking Lease Rates ($/SF/Yr)
West	7,304,124	507,844	7.0	507,844	7.0	36,108	-	126,456	4.23
Northeast	8,943,856	1,241,487	13.9	1,807,069	20.2	197,209	-	-	3.38
Central	13,788,135	734,083	5.3	910,725	6.6	45,000	-	-	2.97
East	18,166,890	2,506,150	13.8	3,232,343	17.8	48,380	-	-	3.87
Lower Valley	6,252,369	1,844,263	29.5	2,033,944	32.5	116,000	-	-	4.06
Totals	54,455,374	6,833,827	12.5	8,491,925	15.6	442,697	0	126,456	3.79

Source: CBRE Research, Q4 2014.

ABSORPTION AND VACANCY

El Paso industrial recorded a third consecutive quarter of positive net absorption in Q4 2014, continuing the positive rebound after two quarters of negative net absorption. The reported 442,697 sq. ft. of net absorption in Q4 2014 was a result of 677,263 sq. ft. of gross absorption and 234,566 sq. ft. of newly vacated space. This ultimately produced a year-to-date net absorption of 784,961 sq. ft. The positive activity outperformed the previous six years and decreased the overall market vacancy rate to an eight-year-low 12.5%.

Furthermore, all submarkets produced positive net absorption this quarter for a combined 442,697 sq. ft. The Northeast submarket recorded the highest net absorption of 197,209 sq. ft. which decreased the submarket vacancy rate by 250 bps. The Lower Valley recorded the second highest positive net absorption of 116,000 sq. ft. while the West submarket recorded the lowest, but positive, 36,108 sq. ft. of net absorption.

Of the 677,263 sq. ft. of gross space absorbed, an overwhelming 65% was Class B product which is also the class with the most total available sq. ft.

The bulk of gross absorption was in the form new lease transactions and the largest deal signed was a renewal by Express Point, which renewed for 132,000 sq. ft. of warehouse space in the East submarket for an extended term.

Large blocks of vacant space over 200,000 sq. ft. continue to keep an upward pressure on the overall vacancy rate and conceal the fundamental health of the local real estate market. Analysis shows that of the current 134 available properties, eight are above 200,000 sq. ft. The eight properties currently account for 29.7% of all available space.

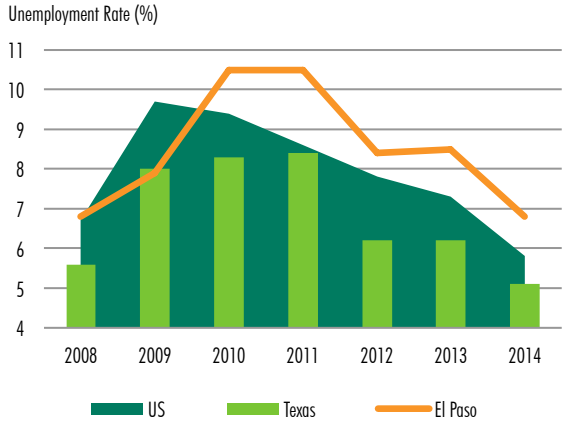
Furthermore, if we look at the present availability based on space available under 100,000 sq. ft., the parameter specification yields a vacancy rate of 5.3%. If we filter by Class A space under 100,000 sq. ft., the vacancy rate is only 2.2%. This truly highlights the current tightness for the key segment of the industrial market most in demand by local tenants.

EMPLOYMENT

The most recent data for the El Paso employment market show significant improvement. According to the BLS, total employment saw a growth of 1.8% year-over-year in October. In response to this, the seasonally adjusted unemployment rate improved in October as it fell to 6.8% from 8.6% in October of last year. Employment data show the highest year-over-year job increases in education and health services, retail trade, transportation, warehouse and utilities, leisure and hospitality, and government.

The U.S. unemployment rate declined to 5.8% in October, as did the Texas figure which remains below the national average at 5.1%.

Figure 4: Unemployment Rate



Source: Bureau of Labor Statistics
CBRE Research, Q4 2014.

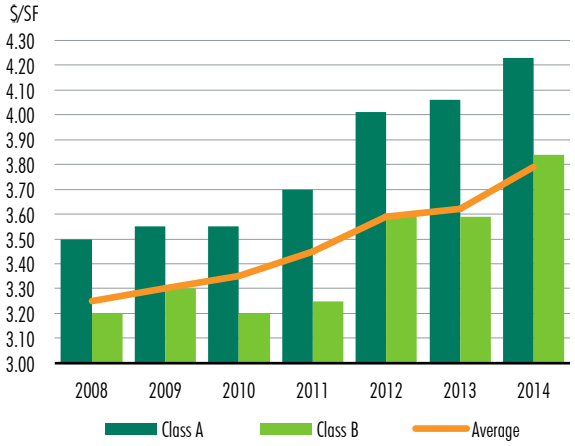
INDUSTRIAL RATES

Corresponding with improved market conditions, the average asking rates per sq. ft. saw an increase in Q4 2014. The average asking industrial lease rate appreciated by $0.06 to $3.79 per sq. ft. from Q3 2014 and $0.17 above the rate from the same time last year. The reported overall average asking lease rate for 2014 experienced the largest year-over-year growth of 4.7% since CBRE Research began tracking asking rates in 2007.

Further analyzed, Class A experienced the largest increase of $0.12 per sq. ft. while Class B saw an increase of $0.05 from Q3 2014. The less competitive and highest vacancy rate Class C saw a decline of $0.03 per sq. ft. Of the submarkets, the West saw the largest gain as available space is now down to seven buildings for a total 507,844 sq. ft. The active Lower Valley saw an increase of $0.01 per sq. ft. Both the Northeast and East submarkets remained unchanged while Central saw a decline in average asking lease rates.

As previously stated, besides the published asking rates, landlords also have more leverage negotiating lower rental incentives, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to asking rates.

Figure 5: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2014.

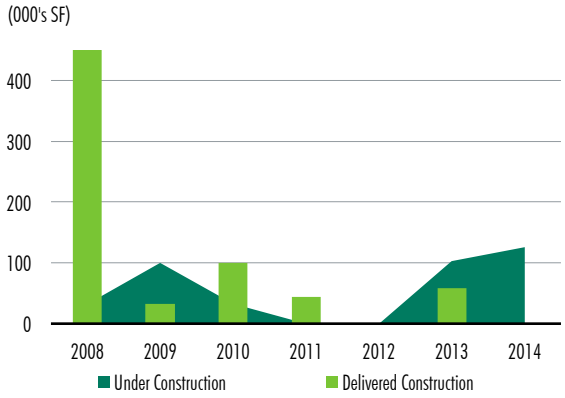
INDUSTRIAL PRODUCT

The supply of industrial buildings in El Paso remained unchanged in the Q4 2014 as there were no industrial deliveries. However, our internal property database did undergo a handful of adjustments to more closely match building specifications.

The El Paso industrial market has one project under construction. Schneider Electric's ongoing built-to-suit activity will add 126,456 sq. ft. of new construction to El Paso's West submarket in 2015.

With the elevated vacancy rate, it remains unlikely that a developer would build a speculative building. Nevertheless, Class A options are limited and a build-to-suit could be a possibility in the near future.

Figure 6: Construction



Source: CBRE Research, Q4 2014.

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El Paso Industrial MarketView 3Q 2014

MARKET SIZE
54,514,461 Sq. Ft.

AVAILABILITY
7,321,890 Sq. Ft.

Y-o-Y GROSS ABSORPTION
1,884,807 Sq. Ft.

UNEMPLOYMENT
7.1% Y-o-Y

Directional arrows based on changes from previous quarter. Data reflects market totals.

EL PASO INDUSTRIAL OFFSETS THE SINGLE LARGEST VACANCY IN MORE THAN FOUR YEARS FOR POSITIVE NET ABSORPTION IN Q3 2014.

Figure 1: Quick Stats

	Q3 2014	Q-o-Q	Y-o-Y
Vacancy	13.4%	↓	↓
Asking Rates, NNN	$3.73 per SF	↔	↑
Net Absorption	134,052 SF	↓	↑
Under Construction	126,456 SF	↑	↓
Delivered Construction	0	↔	↔

Hot Topics

- El Paso's industrial real estate market recorded a second consecutive quarter of positive net absorption, despite a significant 458,000 sq. ft. vacancy becoming available this quarter.
- The vacancy rate for competitive, Class A space under 100,000 sq. ft., which is the segment of the market most demanded by local tenants, continued to drop to 2.5%.
- The most recent U.S. Bureau of Labor Statistics (BLS) data for El Paso reflect a decrease in the seasonally adjusted unemployment rate to 7.1%, down 180 basis points (bps) year-over-year.
- In terms of trade, the inflation adjusted, total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry saw improvement in the month of July. July registered the largest monthly increase of 2014 as imports from Mexico increased 7%. Exports to Mexico decreased by a slim 0.8% during the same period. This brings the year-to-date face value of export and import trade with Mexico to $24.2 billion and $25.7 billion, respectively.
- Cd. Juarez industrial activity continues on a strong path after an eighth consecutive quarter of positive net absorption in Q3 2014. Continued maquiladora investment is materializing into a construction boom. This should prove to be a positive driver of future activity in the El Paso industrial market.

Source: CBRE Research, Q3 2014.

A Second Consecutive Quarter of Positive Activity

The industrial real estate market in El Paso reports a second consecutive quarter of strong activity in Q3 2014. Total transactions recorded 792,000 sq. ft. of gross absorption, a new two-year-high. This ultimately helped El Paso industrial weather the new largest vacancy in the market since 2010. As result, the local market produced 134,052 sq. ft. of positive net absorption.

Macroeconomic indicators signal favorable activity this quarter. Industrial production for the U.S., as reported by the Board of Governors of the Federal Reserve, saw a slight decline of 0.1% in August after steady growth through July. Furthermore, the reported August figure is up 4.1% year-over-year. The data also show that of the major industry groups, manufacturing output rose by 3.6% year-over-year in August.

Comparable to the IPI, the institute for Supply Management recently reported that manufacturing continued to expand in August as the Purchasing Manager's Index (PMI) increased by 190 bps, to 59.0%. Furthermore, the PMI index indicates growth for the 63rd consecutive month in the overall economy, and the 15th consecutive in the manufacturing sector. In the neighboring country of Mexico, industrial production increased by 0.3% from July to August. The data also show a 2.0% increase year-over-year from the same period in 2013. This reading is optimistic as manufacturing activity grew by 3.8% in August from the same time in 2013.

In terms of trade, the inflation adjusted, total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry saw improvement in the month of July after growth contraction during the first half of 2014. The U.S. climate freeze earlier this year induced a growth weakening in all components of U.S. gross domestic product, including personal consumption, business investment, and bilateral trade. Locally, July registered the largest monthly increase of 2014 as imports from Mexico increased 7%. Exports to Mexico decreased by a slim 0.8% during the same period. This brings the year-to-date face value of export and import trade with Mexico to $24.2 billion and $25.7 billion, respectively.

Locally, overall economic activity in the El Paso metropolitan continues to improve. The business cycle index reported by the Federal Reserve Bank of Dallas reflected positive growth for the 18th consecutive month. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. July saw a growth of 18 bps and an optimistic outlook with an increase of 805 bps year-over-year.

Within the El Paso Industrial market, leasing activity continued strong in Q3 2014. This quarter registered close to 30 transactions signaling an uptick in demand for industrial space. In fact, there were a handful of announcements this quarter which will positively impact jobs and ultimately the local industrial market. Charles Schwab announced the opening of a new operations center. The project will create 445 jobs and more than $21.5 million in capital investments. As previously announced, CN Wire established its first North American manufacturing facility in Santa Teresa which will ultimately generate 300 jobs in the region. Of equal importance is the announcement by Schneider Electric of its plans to expand via El Paso's first built-to-suit activity in over 9 years. Schneider Electric is expected to create 193 jobs. In the West submarket, the new 2,200 acre Union Pacific intermodal facility, which connects the region to Houston, Chicago, Los Angeles, and Chihuahua Mexico, continues to stimulate activity and further interest in the area. Increased activity in the Santa Teresa industrial park has raised the occupancy rate in the park to 98.7% at the end of the Q3 2014. An abundant amount of activity is also materializing in the form of industrial-use-land sales. This quarter recorded more than 43 acres of land sales in Santa Teresa in addition to the 70 acres recorded in the previous 9 months. Furthermore, the pipeline of active users in the market that CBRE Research tracks increased by 290,000 sq. ft., to 2.5 million sq. ft. despite a significant gross absorption this quarter. This signals a healthy amount of activity that is likely to materialize in the near future.

On the adverse side of things, TTI Floor Care (Hoover) vacated operations from the 458,000 sq. ft. facility in the West submarket. The vacancy activity which began late 2013 is the largest single building vacancy since 2010. Furthermore, the newly vacant space is likely to be a challenge to lease as it contains heavy machinery which requires a specific type of user. This activity adds to the recent large vacancies in the El Paso industrial market. These few large-size vacancies continually put upward pressure on the industrial vacancy rate and conceal the health of the primary segment of the local industrial market.

Overall, El Paso produced a strong quarter of activity with a notable number of transactions as Q3 2014 manages to weather a significant vacancy. Certain key segments, such as Class A space under 100,000 sq. ft., remain tight with limited availability. However, large blocks of available space continue to overshadow progressive activity. Furthermore, positive industrial indicators along with growing demand related to the maquiladora industry in Cd. Juarez should continue to drive additional real estate activity in the coming months as the industrial activity transmission from Cd. Juarez to El Paso has recently followed approximately a six month lag.

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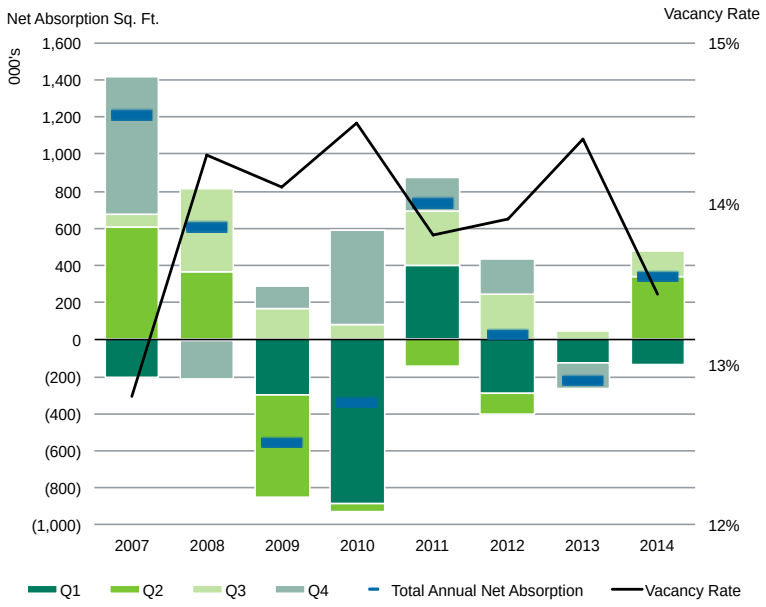
INDUSTRIAL THIRD QUARTER
MARKETVIEW

Figure 2: Market Statistics

Market	Rentable Area Sq. Ft.	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Net Avg. Asking Lease Rates $/Sq. Ft. /Yr.
West	7,304,124	537,758	7.4%	537,758	7.4%	(116,940)		126,456	$3.84
Northeast	9,002,943	1,473,110	16.4%	1,808,196	20.1%	71,382			$3.38
Central	13,788,135	779,083	5.7%	942,225	6.8%	4,800			$3.07
East	18,166,890	2,571,676	14.2%	3,212,372	17.7%	196,450			$3.87
Lower Valley	6,252,369	1,960,263	31.4%	2,080,944	33.3%	(21,640)			$4.05
Totals	**54,514,461**	**7,321,890**	**13.4%**	**8,581,495**	**15.7%**	**134,052**	**0**	**126,456**	**$3.73**

Source: CBRE Research, Q3 2014.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2014.

ABSORPTION AND VACANCY

El Paso recorded a second consecutive quarter of positive net absorption in Q3 2014, rebounding back after two quarters of negative net absorption before that. The reported 134,052 sq. ft. of net absorption in Q3 2014 was a result of a-two-year-high 791,843 sq. ft. of gross absorption and 657,791 sq. ft. of newly vacated space. This ultimately decreased the overall market vacancy rate by 30 bps, to 13.4 %, from 13.7% in the previous quarter.

Furthermore, the East submarket recorded the highest net absorption of 196,450 sq. ft. which decrease the East submarket vacancy rate by 120 bps. The Northeast recorded a positive net absorption of 71,382 sq. ft. The fairly inactive Central submarket recorded 4,800 sq. ft. of positive net absorption while the Lower Valley produced a negative but small net absorption. In the West submarket, despite a recording the largest transaction in Q2 2014, activity was unable to fully compensate for the 458,000 sq. ft. vacancy this quarter ultimately producing 116,940 sq. ft. of negative net absorption and increasing its vacancy rate by 310 bps.

Of the 791,843 sq. ft. of total space absorbed, an overwhelming 75% was Class A product and 17% was Class B. The bulk of gross absorption was in the form of user-sales. The largest new deal was from CN Wire, which absorbed 256,439 sq. ft. of manufacturing space in the West submarket to establish a presence in North America.

Along with several small sized vacancies, at an average size of 25,000 sq. ft., the largest reported vacancy this quarter was from TTI Floor Care (Hoover), which vacated 458,000 sq. ft. in the West submarket as part of a contraction.

Though this quarter produced a decline in the overall vacancy rate, it remains relatively elevated. Large blocks of vacant space over 200,000 sq. ft. compose seven of the current 140 available properties, yet account for 35% of all vacant space. Furthermore, if we look at the current availability based on space available under 100,000 sq. ft., the parameter specification yields a vacancy rate of 6.5%. If we filter by Class A space under 100,000 sq. ft., the vacancy rate is only 2.5% for this most desired space. This truly highlights the current tightness for the key segment of the industrial market most in demand by local tenants.

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INDUSTRIAL THIRD QUARTER
MARKET STATISTICS

EMPLOYMENT
The most recent data for the El Paso employment market show significant improvement. According to the BLS, total employment increased 1.0% year-over-year in July. In response to this, the seasonally adjusted unemployment rate improved in July as it fell to 7.1% from 8.0% in January and from 8.9% in July of last year.

Employment data show job increases in professional and business services, retail trade, transportation, warehouse and utilities, education and health services, leisure and hospitality, construction, wholesale trade, and financial activities.

The U.S. unemployment rate declined to 6.2% in July, as did the Texas figure which remains below the national average at 5.1%.

INDUSTRIAL RENTS
After three consecutive quarters of increase, the average asking rates per sq. ft. saw no increase in Q3 2014. This may be a result of the current high vacancy which continues to add downward pressures on asking lease rates. The average asking industrial lease rate remained at $3.73 per sq. ft. from Q2 2014 and $0.15 above the rate from the same time last year. Class A and B saw no increase this quarter, while Class C saw a marginal increase of $0.01. Of the submarkets, all but Northeast and Lower Valley saw a decline in average asking lease rates. The Lower Valley remained unchanged while the Northeast increased by $0.04 as increased activity reduced vacancy by 350 bps year-over-year (see Figure 2).

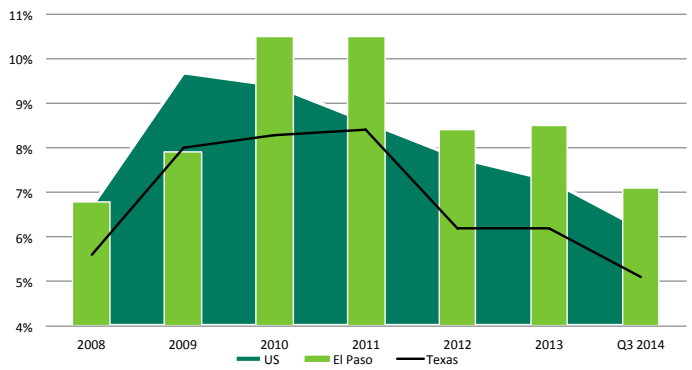
As previously stated, besides the published asking rates, landlords also have more leverage negotiating lower rental incentives, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to asking rates.

INDUSTRIAL PRODUCT
The supply of industrial buildings in El Paso remained unchanged in the Q3 2014 as there were no industrial deliveries. However, our internal property database underwent a handful of adjustments to more closely match building specifications.

In new construction, Schneider Electric announced its plans to expand via El Paso's first built-to-suit activity in over nine years. The expansion project will add 126,456 sq. ft. of new construction to El Paso's West submarket. With the high vacancy rate, it remains unlikely that a developer would build a speculative building. Nevertheless, Class A options are limited and a build-to-suit could be a possibility in the near future.

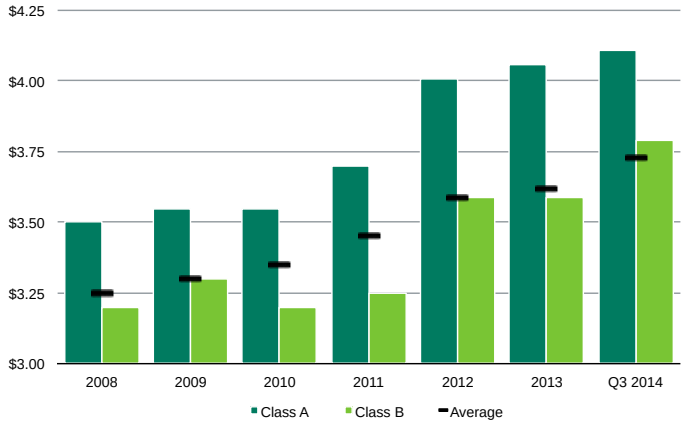
Other than a few relatively small construction projects in Santa Teresa, CBRE Research is unaware of future construction projects in the approaching months.

Figure 4: Unemployment Rate



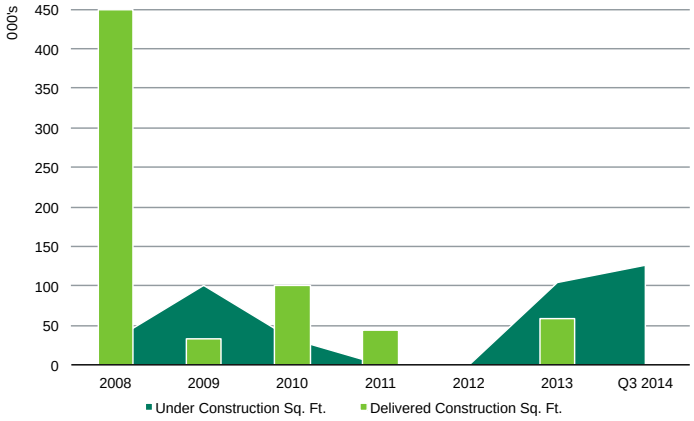
Source: U.S. Bureau of Labor Statistics, CBRE Research, September 2014.

Figure 5: NNN Annual Average Asking Rates, per Sq. Ft.



Source: CBRE Research, Q3 2014.

Figure 6: Construction



Source: CBRE Research, Q3 2014.

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El Paso Industrial
MarketView 2Q 2014


MARKET SIZE
54,508,029 Sq. Ft.


AVAILABILITY
7,487,639 Sq. Ft.


GROSS ABSORPTION
1,092,964 Sq. Ft., Y-o-Y


UNEMPLOYMENT
7.3% Y-o-Y

*Arrows indicate change from previous quarter.

STRONG INDUSTRIAL ACTIVITY SETS A 13-QUARTER HIGH.

Figure 1: Quick Stats

	Q2 2014	Q-o-Q	Y-o-Y
Vacancy	13.7%	↓	↓
Asking Rates, NNN	$3.73 per sq. ft.	↑	↑
Net Absorption	341,574 sq. ft.	↑	↑
Under Construction	0	↓	↓
Delivered Construction	0	↔	↔

Hot Topics

- El Paso's industrial real estate market recorded its highest net absorption total since Q1 2011, setting a new 13-quarter high.
- The vacancy rate for competitive, Class A space under 100,000 sq. ft., which is the segment of the market most demanded by local tenants, continued to drop to 2.8%.
- The new Union Pacific intermodal facility was officially delivered in May, one year ahead of schedule. The $400 million dollar project is already stimulating activity and further interest in the region.
- The nominal, total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry continued to increase in the month of April. Imports from Mexico increased by 4.9%, while exports to Mexico also increased by 4.9% during the same period.
- The seasonally adjusted U.S. industrial production index, reported by the Board of Governors of the Federal Reserve System, rebounded with an increase of 0.6% in May, after a slight decline in April. Furthermore , the reported May figure is up 4.3% year-over-year.
- The most recent U.S. Bureau of Labor Statistics (BLS) data for El Paso reflect a decrease in the seasonally adjusted unemployment rate to 7.3%, down 170 basis points (bps) year-over-year.Cd. Juarez industrial activity continues on a strong path with positive net absorption and continued maquiladora investment that is materializing into a construction boom. This should prove to be a positive driver of future activity in the El Paso industrial market.

Source: CBRE Research, Q2 2014.

Positive Numbers Emerge

The industrial real estate market in El Paso reports strong activity in Q2 2014. Total transactions recorded 624,202 sq. ft. of gross absorption. This quarter was absent of recent large-scale vacancies that have concealed the health of the primary segment of the local market. As result, the local market produced 341,574 sq. ft. of positive net absorption to set a new 13-quarter-high dating back to Q1 2011.

Macroeconomic indicators continue on a favorable path this quarter. Industrial production for the U.S., as reported by the Board of Governors of the Federal Reserve, increased 0.6% in May after a slight decline in April. The data also show that manufacturing output rose 0.6% during the same period. The total production index (IPI) and manufacturing industry group increased by 4.3% and 3.6% year-over-year, respectively.

Comparable to the IPI, the institute for Supply Management recently reported that manufacturing expanded from April to May as the Purchasing Manager's Index (PMI) increased by 50 bps, to 55.4%. Furthermore, the PMI index indicates growth for the 60th consecutive month in the overall economy, and the 12th consecutive in the manufacturing sector. In the neighboring country of Mexico, industrial production increased by 67 bps from April to May. The data also show a 261 bps increase year-over-year from the same period in 2013. This reading is optimistic as manufacturing activity grew by 1.2% from December and 4.7% year-over-year.

In terms of trade, the nominal, total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry continued to increase in the month of April after flows contacted in February. Imports from Mexico increased by 4.9%, to $3.8 billion. Exports to Mexico also increased by 4.9%, to $3.5 billion during the same period. When adjusted for inflation, imports from Mexico declined by 9.4%, while exports declined by 3.2% year-over-year.

Regionally, economic activity in the El Paso metropolitan area has continued to improve. The business cycle index reported by the Federal Reserve Bank of Dallas reflected positive growth for the 14th consecutive month. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. Although the data shows a slowdown in growth during February, March saw a growth of 24 bps and an optimistic outlook with an increase of 448 bps year-over-year.

Within the El Paso Industrial market, leasing activity has picked up in Q2 2014. Investor interest also experienced an up-tick as two investment sales, totaling 1.9 million sq. ft., closed during Q2 2014. The buildings that traded hands saw immediate investor interest soon after going on the market. In the West region, the new Union Pacific intermodal facility was officially delivered in May, one year ahead of schedule. The $400 million, 2,200 acre rail facility connects the region to Houston, Chicago, and Los Angeles. The intermodal hub has an annual lift capacity of 225,000 containers with 1,266 container and trailer parking stalls, both of which will be expanded by the end of the year. The project continues to stimulate activity and further interest in the region. The market impact ranges from increased leasing activity in the west, to over 70 acres of land sales in Santa Teresa. In fact, CN Wire Corp is set to occupy the last sizable space in Santa Teresa in Q3 2014. The Turkish company is expected to lease 256,000 sq. ft. of warehouse space while creating nearly 200 jobs. Once the deal is completed, the occupancy rate in Santa Teresa industrial park will reach 99%.

On the adverse side of things, the contraction of 105,000 sq. ft. by Johnson Controls hit the market this quarter. The warehouse, located in the East region, comes as the largest reported vacancy of Q2 2014. Furthermore, TTI Floor Care (Hoover) vacated operations from the 458,000 sq. ft. facility in the West submarket. However, the vacancy will rollover to the Q3 2014 as Hoover has yet to fully vacate all equipment from the premises. Once the vacancy hits the market, it will add to recent large vacancies in the El Paso industrial market. These few large-size vacancies continually put upward pressure on the industrial vacancy rate and conceal the health of the primary segment of the local industrial market.

Overall, El Paso produced a strong quarter of activity with a notable number of transactions as Q2 2014 set a new 13-quarter high for net absorption. Certain segments, such as Class A space under 100,000 sq. ft., remain tight with limited availability. However, large blocks of available space continue to overshadow progressive activity. Additionally, the active users in the market that CBRE Research tracks increased by 440,000 sq. ft., to 2.2 million sq. ft. despite large gross absorption this quarter. This signals a healthy amount of activity that is likely to materialize in the near future. Furthermore, positive industrial indicators along with growing demand related to the maquiladora industry in Cd. Juarez should continue to drive additional real estate activity in the coming months as the industrial activity transmission from Cd. Juarez to El Paso has recently followed approximately a six month lag.

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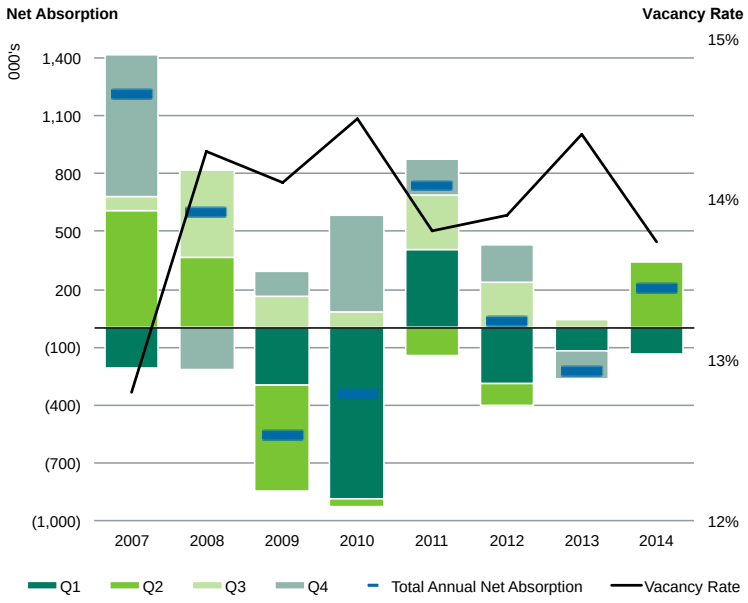
INDUSTRIAL SECOND QUARTER
MARKETVIEW

Figure 2: Market Statistics

Market	Rentable Area Sq. Ft.	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	NNN Avg. Asking Lease Rates $/Sq. Ft. /Yr.
West	7,297,692	316,097	4.3%	774,197	10.6%	327,432			$3.95
Northeast	9,002,943	1,544,492	17.2%	1,979,578	22.0%	(47,700)			$3.34
Central	13,788,135	890,011	6.5%	1,115,653	8.1%	0			$3.08
East	18,166,890	2,798,416	15.4%	3,502,386	19.3%	(76,369)			$3.89
Lower Valley	6,252,369	1,938,623	31.0%	2,044,264	32.7%	138,211			$4.05
Totals	**54,508,029**	**7,487,639**	**13.7%**	**9,416,078**	**17.3%**	**341,574**	**0**	**0**	**$3.73**

Source: CBRE Research, Q2 2014.

Figure 3: Net Absorption Sq. Ft. and Vacancy



Source: CBRE Research, Q2 2014.

NET ABSORPTION AND VACANCY

El Paso recorded a solid level of positive net absorption in Q2 2014, after two consecutive quarters of negative net absorption. Additionally, the local market set a 13-quarter high for net absorption. The reported 341,574 sq. ft. of net absorption in Q2 2014 was a result of 624,202 sq. ft. of gross absorption and 282,628 sq. ft. of newly vacated space. This ultimately decreased the overall market vacancy rate by 80 bps, to 13.7 %, from 14.5% in the previous quarter.

Furthermore, the West submarket recorded the highest net absorption of 327,432 sq. ft. which cut the West submarket vacancy rate by more than half, to 4.3%. The historically active Lower Valley submarket recorded 138,211 sq. ft. of net absorption. The East and Northeast submarkets reported negative net absorption, while the Central submarket remained inactive.

Of the 624,202 sq. ft. of total space absorbed, 53.1% was Class A product and 46.9% was Class B, while the bulk of gross absorption was the form of new leases. The largest new deal was from an established logistics company who absorbed 264,432 sq. ft. of warehouse space in the West submarket to increase their El Paso footprint.

Along with several small sized vacancies, at an average size of 40,000 sq. ft., the largest reported vacancy this quarter was from Johnson Controls, which vacated 105,000 sq. ft. in the West submarket as part of a contraction. Following that, Morrison Express and Boeing vacated 60,000 sq. ft. each in the East and Northeast respectively.

Although this quarter produced a significant decline in the overall vacancy rate, it remains relatively elevated. As previously reported, recent large vacancies have outweighed positive activity in El Paso in the last several months and continue to put upward pressure on the vacancy rate. Large blocks of vacant space over 200,000 sq. ft. compose eight of the current 149 available properties, yet account for 31% of all vacant space. Furthermore, if we look at the current availability based on space available under 100,000 sq. ft., the parameter specification yields a vacancy rate of 6.3%. If we filter by Class A space only, the competitive, Class A space under 100,000 sq. ft. have a vacancy rate of only 2.8%. This truly highlights the current tightness for the key segment of the industrial market most in demand by local tenants.

INDUSTRIAL SECOND QUARTER
MARKET STATISTICS

EMPLOYMENT

The most recent data for the El Paso employment market show significant improvement. According to the BLS, total employment increased 1.3% year-over-year in April. In response to this, the seasonally adjusted unemployment rate improved in April as it fell to 7.3% from 8.0% in January and from 9.0% in April of last year.

Employment data show job increases in retail trade, education and health services, leisure and hospitality, professional and business services, wholesale trade, transportation, warehouse and utilities, construction, and government.

The U.S. unemployment rate declined to 6.3% in April, as did the Texas figure which remains below the national average at 5.2%.

INDUSTRIAL RENTS

Average asking rates per sq. ft. seem be on a positive slope yet again after having leveled off since 2012 as high vacancy puts downward pressures on asking lease rates. This quarter recorded an increase of $0.09 per sq. ft. in the average asking industrial lease rate from $3.64-to-$3.73 per sq. ft. While asking rates may vary from leased rates, the Q2 2014 asking rate represents the third consecutive quarter of growth and is also the largest gain of the past three quarters. Class B product saw the largest increase, at $0.15 per sq. ft., increasing the Class B average to asking lease rate to $3.79 per sq. ft. with this space becoming more active in recent quarters. Class A product saw an increase of $0.07 per sq. ft., to $4.11.

Of the submarkets, all but Central saw an increase in average asking lease rates. The West lead for the second consecutive quarter with the largest increase of $0.23 per sq. ft., the East increased by $0.11, the Lower Valley increased by $0.10, and the Northeast saw an increase of $0.07 (see Figure 2).
As previously stated, besides the published asking rates, landlords also have more leverage negotiating lower rental incentives, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to asking rates.

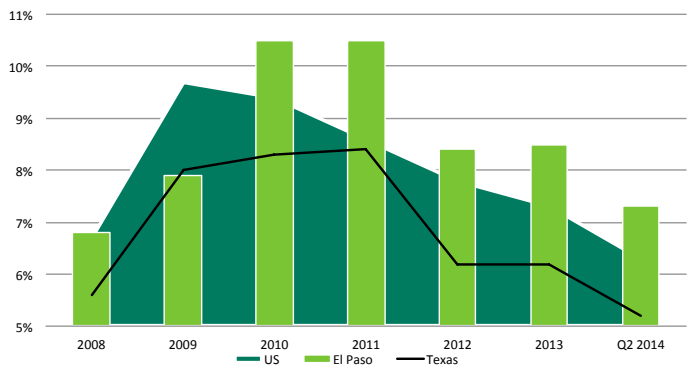
INDUSTRIAL PRODUCT

The supply of industrial buildings in El Paso remained unchanged in the Q2 2014 as there were no industrial deliveries. However, our internal property database underwent a handful of adjustments to more closely match building specifications.

The previously reported 80,000 sq. ft. of construction in Santa Teresa has been removed as no activity has materialized since the announcement. Also in Santa Teresa, companies W. Silver Recycling and Twin Cities have begun small construction projects for their operations. Twin Cities is set to build two 3,600 sq. ft. buildings, while W. Silver is set construct a 10,000 sq. ft. building. We expect further investment in West region as the submarket vacancy rate is close to 4.0% and the Santa Teresa Industrial Park is set to reach 99% occupancy in Q3 2014.

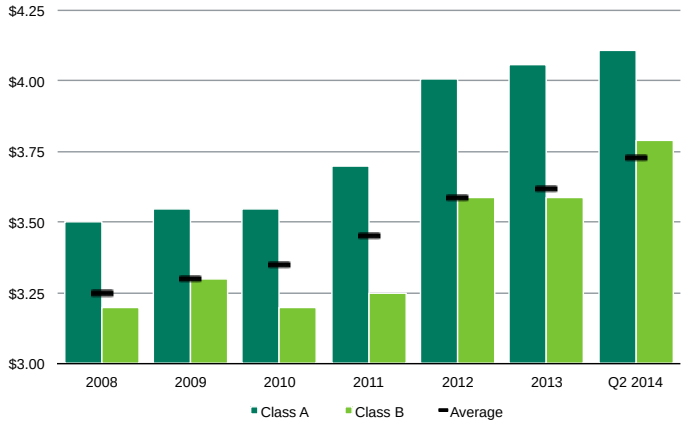
With the high vacancy rate, it remains unlikely that a developer would build a speculative building. Nevertheless, Class A options are limited and a build-to-suit could be a possibility later this year. CBRE Research is aware of future possible construction projects in the approaching months.

Figure 4: Unemployment



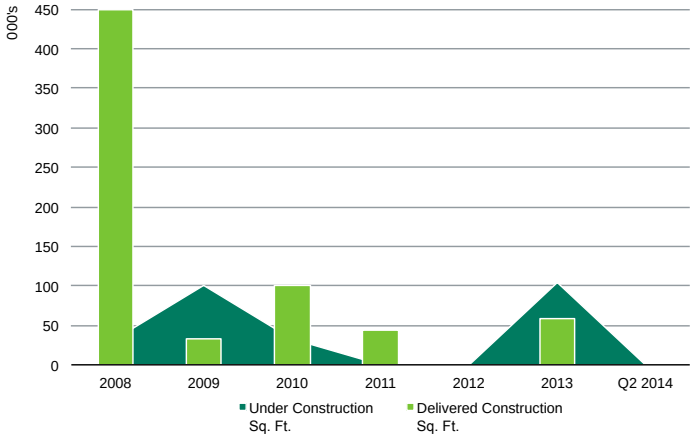
Source: U.S. Bureau of Labor Statistics, CBRE Research, June 2014.

Figure 5: NNN Annual Average Asking Rates, Per Sq. Ft.



Source: CBRE Research, Q2 2014.

Figure 6: Construction



Source: CBRE Research, Q2 2014.

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El Paso Industrial
MarketView 1Q 2014

MARKET SIZE
54,464,669 Sq. Ft.

AVAILABILITY
7,874,236 Sq. Ft.

Y-o-Y GROSS ABSORPTION
468,762 Sq. Ft.

UNEMPLOYMENT
8.0% Y-o-Y

*Arrows indicate change from previous quarter.

ANOTHER QUARTER OF ROBUST INDUSTRIAL ACTIVITY, ULTIMATELY OFFSET BY TWO LARGE VACANCIES.

Figure 1: Quick Stats

	Q1 2014	Q-o-Q	Y-o-Y
Vacancy	14.5%	↑	↑
Asking Rates, NNN	$3.64	↑	↑
Net Absorption	(133,362)	↑	↓
Under Construction	80,000	↓	↑
Delivered Construction	0	↓	↔

Hot Topics

- Industrial real estate activity had a healthy start in 2014, but new occupancies were offset by several large vacancies for another quarter.
- Despite the large vacancies, the available inventory of El Paso industrial space remains low for competitive, Class A space under 100,000 sq. ft., which is the segment of the market most demanded by local tenants.
- The nominal, total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry increased in the month of January, after contracting in December. Imports from Mexico increased by 3.4%, while exports to Mexico increased by 19.9% during the same period.
- The most recent data from the Bureau of Labor Statistics for El Paso reflect a decrease in the unemployment rate to 8.0%, down 50 basis points (bps) year-over-year.
- The $400 million Union Pacific intermodal facility is now expected to deliver in May. This is one year ahead of schedule and is already stimulating activity and further interest in the region.
- Cd. Juarez industrial activity continues on a strong path with positive net absorption and continued maquiladora investment. This should prove to be a positive driver of future activity in the El Paso industrial market.

Source: CBRE Research, Q1 2014.

Stable Activity as Large Vacancies Continue

The industrial real estate market in El Paso had a healthy amount of activity to begin 2014. Numerous transactions recorded a total 1.4 million sq. ft. of leasing activity with 468,762 sq. ft. of gross absorption. However, the gross absorption was again offset by a pair of large vacancies, including a 264,432-sq.-ft. manufacturing facility in the West submarket. Even so, the negative net absorption reported this quarter conceals the health of the primary segment of the local industrial market.

Macroeconomic indicators seem favorable this quarter. Industrial production (IPI) for the U.S., as reported by the Board of Governors of the Federal Reserve, increased 0.6% in February after a slight decline in January. The data also show that manufacturing output rose 0.8% and nearly reversed its decline of 0.9% reported in January, as result, partially, from extreme weather. Similar to the IPI, the institute for Supply Management recently reported that manufacturing expanded from January to February as the Purchasing Manager's Index (PMI) increased by 190 bps to 53.2%. Furthermore, the reported PMI index indicates growth for the 57th consecutive month in the overall economy, and the ninth consecutive in the manufacturing sector. In the neighboring country of Mexico, industrial production increased by 60 bps from December to January. The data also show a 90 bps increase year-over-year from the same period in 2013. This reading is optimistic as manufacturing activity grew by 2.5% from December and 2.3% year-over-year.

In terms of trade, the nominal total dollar value of import and export trade with Mexico through the El Paso-Santa Teresa ports of entry increased in the month of January, after contracting in December. Imports from Mexico increased by 3.4%, to $3.2 billion. During the same period, exports to Mexico increased by 19.9%, to $3.5 billion, after having contracted in December. When adjusted for inflation, exports to Mexico grew by 6%, while imports declined by 10% year-over-year.

Regional economic activity in the El Paso metropolitan area has continued to improve. The business cycle index reported by the Federal Reserve Bank of Dallas has reflected positive growth since January 2013. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. January saw a growth of 25 bps month-over-month and 16 bsp year-over-year.

Within the El Paso Industrial market, activity remains lively. This quarter saw more than 30 lease, renewal, or one-off-sale transactions. Investor interest also remains as two large properties, totaling 441,872 sq. ft., traded hands. Furthermore, there are three large portfolios currently on the market for sale. Of the aggregate 2.5 million sq. ft. available in the market as investment sales, 1.4 million sq. ft. is under contract, while the remaining 1.1 million sq. ft. hit the market in March. The Santa Teresa region in the West submarket has become energetic in the last several months. The ahead-of-schedule, $400 million Union Pacific (UP) intermodal facility is now expected to be delivered May. This is one year ahead of schedule and is already stimulating activity, interest, and preparation in the region.

On the adverse side of things, Leviton finalized the shut down of operations in West El Paso. After a local presence of nearly 19 years, Leviton left more than 264,000 sq. ft. vacant as part of a consolidation of North American manufacturing operations. Eureka also vacated 100,000 sq. ft. of warehouse space in the Lower Valley, following a 418,000-sq.-ft. vacancy in the previous quarter. This adds to recent large vacancies in the El Paso industrial market. These few large-size vacancies have put upward pressure on the industrial vacancy rate and outweighed positive activity in El Paso over the last several months. In fact, large-sized vacant space over 200,000 sq. ft. compose eight of the current 154 available properties, yet account for 35% of all vacant space.

Overall, El Paso has produced a stable quarter of activity with a notable amount of transactions and absorbed sq. ft. Certain regions like the East and Northeast remain active and continue to tighten. However, large blocks of vacancy continue to overshadow progressive activity. Additionally, the active users in the market that CBRE Research tracks increased by 250,000 sq. ft., to 1.7 million sq. ft. this quarter. This signals a healthy amount of activity that is likely to materialize in the near future. Furthermore, positive industrial indicators along with the growing demand related to the maquiladora industry in Cd. Juarez should continue to drive additional real estate activity in the coming months.

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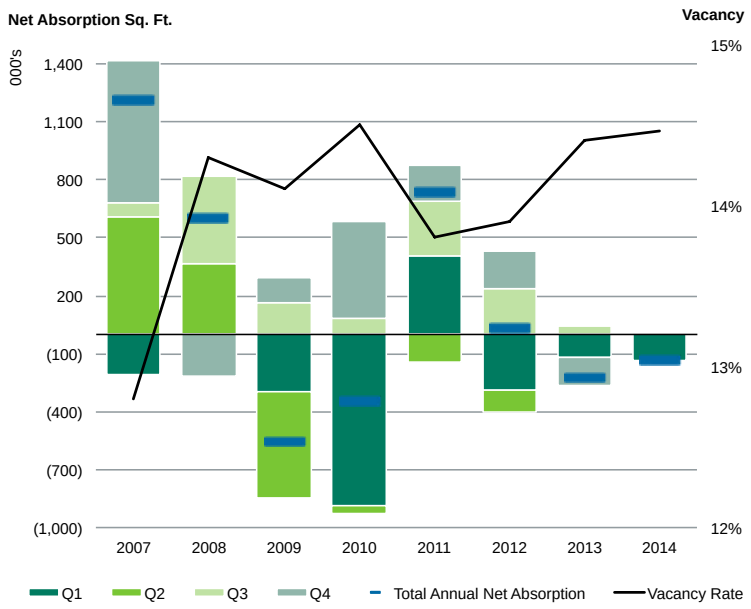
INDUSTRIAL FIRST QUARTER
MARKETVIEW

Figure 2: Market Statistics

Market	Rentable Area Sq. Ft.	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Net Avg. Asking Lease Rates $/Sq. Ft. /Yr.
West	7,272,653	643,529	8.8%	651,529	9.0%	(287,032)		80,000	$3.72
Northeast	9,002,943	1,496,622	16.6%	1,936,708	21.5%	82,800			$3.27
Central	13,789,635	895,228	6.5%	1,219,530	8.8%	0			$3.17
East	18,147,069	2,747,047	15.1%	3,499,696	19.3%	108,155			$3.78
Lower Valley	6,252,369	2,091,810	33.5%	2,197,451	35.1%	(37,285)			$3.95
Totals	**54,464,669**	**7,874,236**	**14.5%**	**9,504,914**	**17.5%**	**(133,362)**	**0**	**80,000**	**$3.64**

Source: CBRE Research, Q1 2014.

Figure 3: Absorption and Vacancy Rate



Source: CBRE Research, Q1 2014.

NET ABSORPTION AND VACANCY

Historical data for El Paso industrial show that it is not uncommon to experience negative net absorption during the first quarter of the year. This quarter was no different. El Paso has produced negative net absorption in four of the last five first quarters. However, this quarter experienced negative net absorption below the five year first quarter average. The reported negative 133,362 sq. ft. of net absorption in Q1 2014 was a result of 468,762 sq. ft. of gross absorption and 602,124 sq. ft. of newly vacated space. This ultimately increased the overall market vacancy rate to 14.5%, from 14.4% in the previous quarter.

Along with several small sized vacancies, at an average size of 18,000 sq. ft., the largest reported vacancy this quarter was from Leviton, which vacated 264,432 sq. ft. in the West submarket as part of a consolidation. Following that, Eureka vacated 100,000 sq. ft. in the Lower Valley. These two vacancies accounted for more than 60% of all new vacant space this quarter. If these two large vacancies were to be excluded, El Paso would have produced positive net absorption for the quarter and the vacancy rate would have declined to 13.9%. Furthermore, the historically active East submarket recorded the highest net absorption of 108,155 sq. ft. After that, the recently active Northeast submarket recorded 82,800 sq. ft. of net absorption. The Central submarket remained inactive while the Lower valley and West submarkets recorded a negative net absorption.

The recent large vacancies, including two in this quarter, have outweighed positive activity in El Paso in the last several months and continue to keep an upward pressure on the market vacancy rate. In fact, large-sized vacant space over 200,000 sq. ft. compose eight of the current 154 available properties, yet account for 35% of all vacant space. Historically, El Paso has ideally been a market for space under 100,000 sq. ft. When we look at the current availability based on this parameter, the El Paso vacancy rate is closer to 6.6%. Furthermore, if we filter by Class A space only, the competitive, Class A space under 100,000 sq. ft. have a vacancy rate of 3.3%. This truly highlights the current "tightness" for the key segment of the industrial market most in demand by local tenants.

Also, of the 468,762 sq. ft. of total space absorbed, 63% was Class A product and 37% was Class B, while the bulk of activity was in the form of renewals and sales. The largest new deal was from Sumitomo Electric Wiring Systems who absorbed an additional 111,500 sq. ft. in addition to a renewal of 149,843 sq. ft. in the East submarket.

INDUSTRIAL FOURTH QUARTER
MARKET STATISTICS

EMPLOYMENT
The most recent data show mixed results for the El Paso employment market. According to the Bureau of Labor Statistics (BLS), total nonfarm employment decreased by 100 jobs in the month of December. On the upside, total labor force employment increased by 300 while the number unemployed decreased by 900. In response to this, the unemployment rate improved in December as it fell to 8.0% from 8.2 in November and from 9.5% in January of 2013.

Preliminary numbers for January show job increases in mining, logging, and construction. However, labor force data, including the unemployment rate, have not been released.

The U.S. unemployment rate for December declined to 6.7% in December, as did the Texas figure which remains below the national average at 6.0%. More recent data from the BLS show that employment conditions continued to improve during January 2014 in the U.S. and Texas at 6.6% and 5.7% respectively.

INDUSTRIAL RENTS
Average rates per sq. ft. seem to have leveled off after experiencing steadily growth through 2012. This quarter recorded an increase of $0.02 in the average asking industrial lease rate from $3.62 to $3.64. The Q1 2014 rate is the second consecutive quarter of growth after the flattening of rates five quarters back to 2012. Of the positive drivers, Class B product saw the largest increase of $0.05, increasing the Class B average to $3.64 per sq. ft. Class B has become more active in the preceding quarters following up to 2014. The current Class B average asking Lease rate is the highest since back before 2009. Class A product saw a decrease of $0.02 in the Q1 2014. The recorded decrease to $4.04 may be a result of the increase in the overall vacancy rate as it neutralizes some of the upward pressures on asking lease rates.

Of the submarkets, all but the Central saw an increase in average asking lease rates. The West saw the largest increase of $0.06 while the recently active Northeast saw an increase of $0.05.

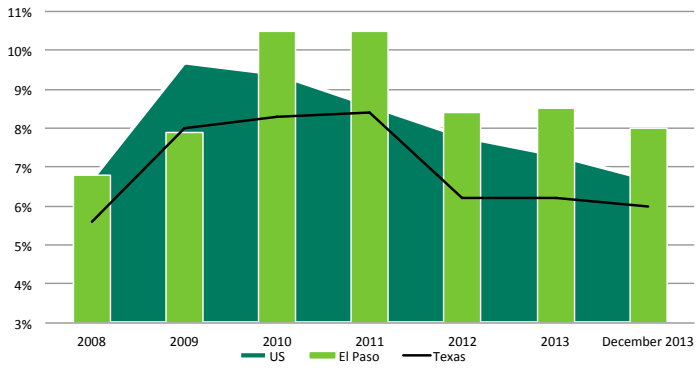
As previously stated, besides the published asking rates, landlords also have more leverage negotiating lower rental incentives, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to asking rates.

INDUSTRIAL PRODUCT
The supply of industrial buildings in El Paso remained unchanged in the Q1 2014 as there were no industrial deliveries. 23,280 sq. ft. of space were delivered in the East submarket, however the space is classified as flex-space. For this reason, the newly delivered flex-space is not counted as part of the industrial database.

The previously reported 80,000 sq. ft. of construction in Santa Teresa remain ongoing. The project has an unknown delivery date as construction start seems to have slowed. Also in Santa Teresa, companies W. Silver Recycling and Twin Cities have begun construction projects for their operations. Twin Cities is set to build two 3,600 sq. ft. buildings, while W. Silver is set construct a 10,000 sq. ft. building. We expect further investment in Santa Teresa as the $400 million Union Pacific intermodal facility is being delivered in May of this year, one year ahead of schedule.

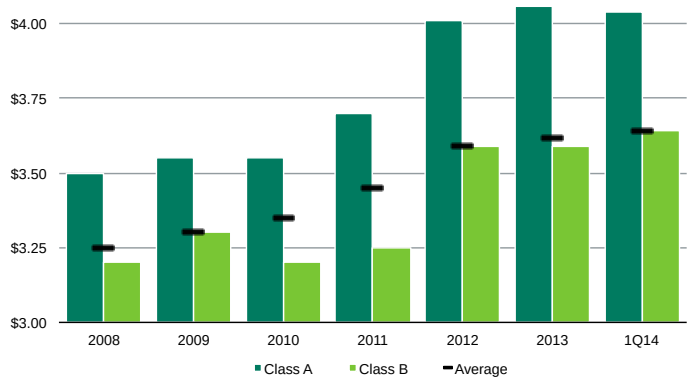
CBRE Research is not aware of any other planned construction in the approaching months. With the high vacancy rate, it remains unlikely that a developer would build a speculative building. Nevertheless, Class A options are limited and a build-to-suit could be a possibility later this year.

Figure 4: Unemployment



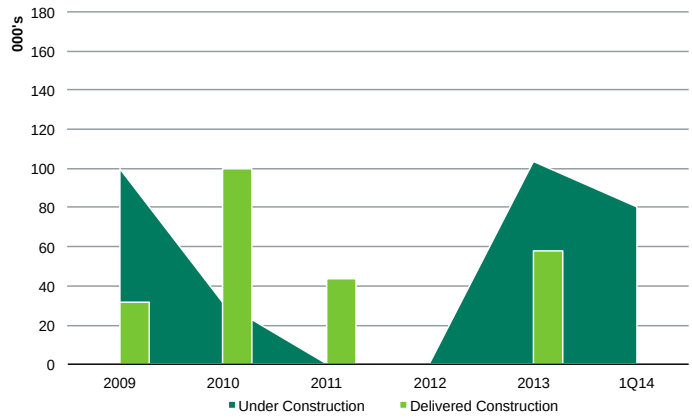
Source: Bureau of Labor Statistics, March 2014.

Figure 5: NNN Annual Average Asking Rates, Per Sq. Ft.



Source: CBRE Research, Q1 2014.

Figure 6: Construction Sq. Ft.



Source: CBRE Research, Q1 2014.

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INDUSTRIAL FOURTH QUARTER 4Q 2013

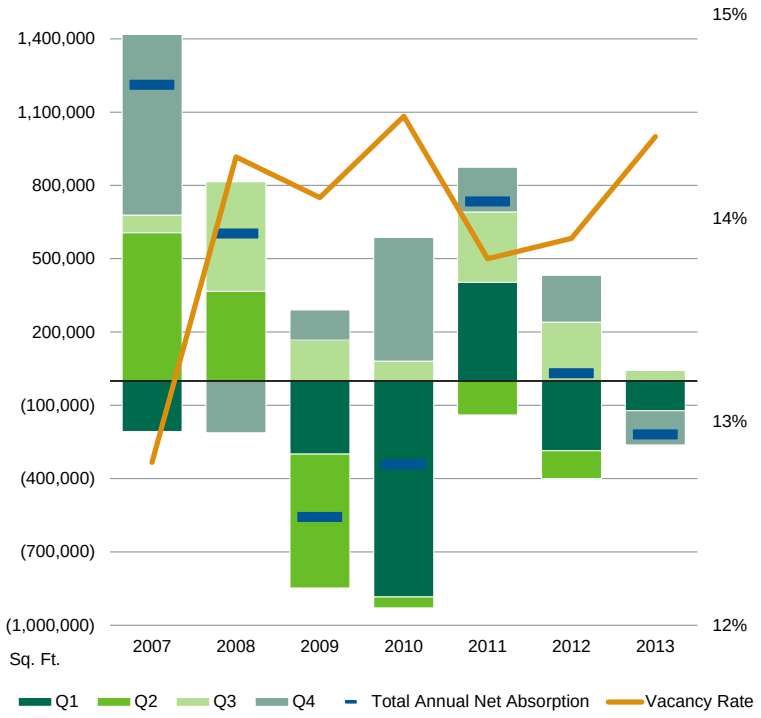
MARKETVIEW

Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Net Avg. Asking Lease Rates $/Sq. Ft./Yr
West	7,272,653	362,097	5.0%	626,529	8.6%	58,000	58,000	80,000	$3.66
Northeast	9,002,943	1,579,422	17.5%	1,804,108	20.0%	233,104	0	0	$3.22
Central	13,789,635	882,293	6.4%	1,206,595	8.8%	41,750	0	0	$3.17
East	18,147,069	2,929,335	16.1%	3,256,907	17.9%	(53,554)	0	23,280	$3.76
Lower Valley	6,252,369	2,069,425	33.1%	2,175,066	34.8%	(418,500)	0	0	$3.94
Totals	**54,464,669**	**7,822,572**	**14.4%**	**9,069,205**	**16.7%**	**(139,200)**	**58,000**	**103,280**	**$3.62**

Source: CBRE Research, Q4 2013.

ABSORPTION AND VACANCY RATE



Source: CBRE Research, Q4 2013.

NET ABSORPTION AND VACANCY

After 2008, El Paso experienced five consecutive fourth quarters and two consecutive years of positive net absorption. This fourth quarter ended this trend as El Paso produced a quarter below the historical average and, beyond that, negative net absorption. There was 139,200 sq. ft. of negative net absorption in the closing quarter of 2013 and 219,415 sq. ft. of negative net absorption for the year. This activity increased the market vacancy rate to 14.4%, from 14.1% in the previous quarter and from 13.9% in the fourth quarter in 2012.

Along with a handful of other large scale vacancies this year, the largest reported vacancy this quarter was from Eureka, which left 418,500 sq. ft. in the Lower Valley. If this single consolidation by Eureka to Illinois was excluded, Lower Valley fundamentals would have remained unchanged as other vacancies were soon filled. Likewise, El Paso would have produced positive net absorption of 279,300 sq. ft. in the fourth quarter and positive 199,085 sq. ft. for all of 2013, resulting in a vacancy rate of 13.6%. Other vacancies reported were relatively small in size, at an average of 37,500 sq. ft. The East was the only other region that experienced negative net absorption this quarter as there were three minor vacancies with minimal gross absorption.

Certain regions, like the East and West, are experiencing a "tightness." These regions have historically been the most active, which has led to the limited availability of competitive Class A space under 100,000 sq. ft. in these regions. In response, activity has shifted to regions with higher vacancy and favorably competitive lease rates. This trend was highlighted during this quarter as the Northeast was the most productive submarket. The Northeast reported an unmatched 233,104 sq. ft. of net absorption this quarter. This decreased the vacancy rate in that region from 20.1% to 17.5% from the previous quarter.

Furthermore, of the 579,452 sq. ft. of total space absorbed, 43% was Class A product and 40% was Class B, while the bulk of activity was in the form of renewals and tenant occupied sales. The largest new deals were a lease by Handgards, Inc. of 126,000 sq. ft. in the Northeast submarket and 89,000 sq. ft. of warehouse space leased to EP Logistica in the Lower Valley submarket.

INDUSTRIAL FIRST QUARTER 1Q 2013

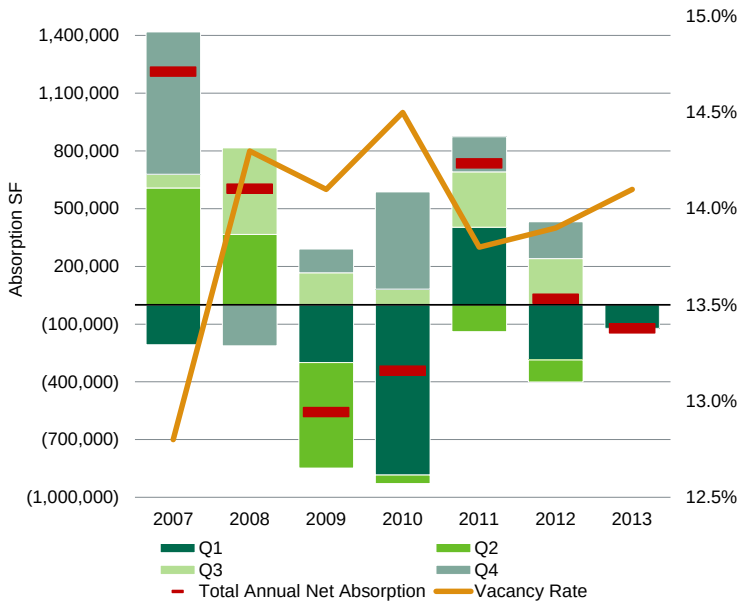
MARKETVIEW

Market Statistics

Market	Rentable Area	Vacant SF	Vacancy Rate	Net Absorption SF	Delivered Construction SF	Under Construction SF	Net Avg. Asking Lease Rates ($/SF/YR)
West	7,214,653	162,241	2.2%	16,000	0	0	$3.77
Northeast	9,002,447	1,871,957	20.8%	(112,911)	0	0	$3.20
Central	13,768,564	935,124	6.8%	0	0	0	$3.13
East	18,146,860	2,991,787	16.5%	74,543	0	0	$3.76
Lower Valley	6,252,169	1,721,492	27.5%	(100,000)	0	0	$3.83
Totals	54,384,693	7,682,601	14.1%	(122,368)	0	0	$3.59

Source: CBRE Research, 1Q13

ABSORPTION AND VACANCY RATE



Source: CBRE Research, 1Q13

NET ABSORPTION AND VACANCY

During the first three months of 2013 the vacancy rate for El Paso's industrial real estate market increased from 13.9% to 14.1% with negative 122 KSF of net absorption. There were few new leases signed with the majority of activity coming in the form of lease renewals.

The largest new deal was 63 KSF of warehouse space leased by Impulso in the East submarket. All of the other leases in the 1st quarter were under 50 KSF and most of these were expansions, not new companies leasing space. There were also two large vacancies over 100 KSF; one in the Lower Valley and one in the Northeast. Overall, 348 KSF of industrial space came back on the market in the 1st quarter.

The market wide indicators for net absorption and, more importantly vacancy, point to overall poor conditions in El Paso. However, the availability of certain size ranges in several submarkets remain very limited. Class A space in all size ranges is tight in the East and Lower Valley submarkets except for those properties owned by Five Star, which has historically charged premium rents and, therefore carried a fair amount of vacant space during market downturns. For firms looking at spaces between 25 KSF and 100 KSF they may be surprised at the lack of options despite the 14.1% vacancy rate.

CBRE