Industrial Market Tighter than Vacancy Numbers Show

EXECUTIVE SUMMARY

Leasing activity in Tampa Bay's industrial market increased significantly during the second quarter, setting the expectation for a higher volume of closed transactions in the third and fourth quarters. As uncertainty and apprehension about the macroeconomic forecast began to calm, business owners demonstrated willingness to make real estate decisions.

It is worth noting that vacancy rates published in this report do not give a clear indicator of how much usable space is available. Many industrial properties in Tampa Bay are outdated or have become functionally obsolete, and therefore may never be leased in their current conditions. So while vacancy rates may indicate there is still industrial inventory available in the market, tenants and buyers are, in reality, having difficulty finding space that works for their business needs.

• During the second quarter, Jan Boltres of Colliers International Tampa Bay represented SIMS Recycling Solutions, Inc. in a lease expansion that doubled the company’s space to 150,126 square feet in the Hanna Distribution Center at 5806 N 53rd Street in Tampa.

• In the largest sale of the second quarter, C&S Wholesale Grocers, Inc. purchased an 836,771-square-foot distribution building from Delhaize America, Inc. for $25 million. The Class B building is located at 1802 Jim Johnson Blvd. in Plant City.

OVERALL INDUSTRIAL/FLEX MARKET SUMMARY STATISTICS, Q2 2014

<table>
<thead>
<tr>
<th></th>
<th>Q2 2014</th>
<th>Q3 2014*</th>
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<tbody>
<tr>
<td><strong>VACANCY</strong></td>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td><strong>NET ABSORPTION</strong></td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>CONSTRUCTION</strong></td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>FLEX RENTAL RATE</strong></td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td><strong>INDUSTRIAL RENTAL RATE</strong></td>
<td>↑</td>
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</tbody>
</table>

*Projected

Relative to prior period. Note: Arrows compare current quarter to the previous quarter historically adjusted figures. All data in this report include non-owner occupied buildings 10,000 square feet and greater.

CURRENT VACANCY RATE: 9.6%
PREV. QTR. VACANCY RATE: 10.0%
YEAR AGO VACANCY RATE: 10.2%

CURRENT NET ABSORPTION: 788,794 sf
UNDER CONSTRUCTION: 2,180,600 sf

CURRENT AVG. ASKING RATE: $4.72/NNN
PREV. QTR. AVG. ASKING RATE: $4.73/NNN
YEAR AGO AVG. ASKING RATE: $4.60/NNN

COMPLETIONS, ABSORPTION AND VACANCY RATES

ABSORPTION & COMPLETIONS

The Tampa Bay industrial market posted over 2.1 million square feet of positive absorption during the first half of 2014. In addition, 461,931 square feet of new industrial product was completed.
VACANCY AND ABSORPTION

Tampa Bay’s industrial market experienced a significant increase in activity during the second quarter, setting an expectation of higher closed transaction volume in the third and fourth quarters. Over the past several quarters, vacancy rates had not moved significantly; however, in the second quarter there was a notable dip to 9.6%, from 10% in the first quarter. The Polk County submarket, where 1 million square feet of industrial space is currently under construction for one of two area Amazon distribution centers, experienced the most absorption during the second quarter, with 461,009 square feet absorbed.

Interest in smaller industrial properties – those in the 10,000- to 40,000-square-foot range – picked up substantially in Tampa Bay during the second quarter. In Pinellas County, industrial demand for both sale and lease transactions increased significantly, with some large tenants in that area seeking to expand. In addition, Tampa’s Airport submarket saw existing tenants expand, and the East Tampa submarket was active, particularly for user sales where limited product was available for sale.

MARKET ACTIVITY

In Tampa Bay’s industrial market during the second quarter, market-wide lease rates were up slightly, while lease rates for smaller users – 10,000 to 20,000 square feet – remained flat. During the second quarter, the overall average asking rental rate for industrial product remained consistent with the previous quarter, while rates for flex product increased from $7.36 to $7.54 per square foot.

Meanwhile, concessions remained similar to the first quarter, with many landlords offering one month of free rent per year of the lease. In addition, tenant improvement allowances dwindled during the second quarter, with owners preferring to give free rent instead.

UNEMPLOYMENT TRENDS

The Tampa Bay MSA unemployment rate posted 6.2 percent in May 2014, which represents a 15.1 percent decrease from May 2013. The State of Florida rate ended the month of May at 6.1 percent, while the national rate posted 6.3 percent.


USER AND INVESTMENT SALES

In Tampa Bay, investment demand for industrial space was very high during the second quarter, especially for newer Class A properties; however, there was very little product available on the market. Industrial owners are eager to lease up properties and push rental rates higher before putting properties on the market for sale.

Investment demand continues from all types of investors: local, regional, national, institutional and foreign buyers. During the second quarter, interest rates held steady or dipped slightly, which fueled investor demand further.

For industrial users, financing opportunities were improved but remained difficult to secure in the second quarter. And, as has been the case in recent quarters, very little distressed industrial assets are in lenders’ pipelines.

NEW DEVELOPMENT

During the second quarter, construction was completed on Building 700 in Interstate Commerce Park in Polk County. The 50,400-square-foot manufacturing and distribution warehouse at 4100 Frontage Road S in Lakeland is fully leased to Brew Hub, LLC. Brew Hub’s business model allows craft brewers to partner with the company and brew their beers onsite, and then have the beer packaged and distributed using the Brew Hub distribution system.
## UPDATE SUBMARKET COMPARISONS

### SUBMARKET BREAKDOWN

<table>
<thead>
<tr>
<th>Submrkt &amp; Prop. Type</th>
<th>Bldgs.</th>
<th>Total Inventory S.F.</th>
<th>Direct Vac. %</th>
<th>Total Vac. %</th>
<th>Net Absorp. Current Qtr. S.F.</th>
<th>Net Absorp. YTD S.F.</th>
<th>New Completions S.F.</th>
<th>Under Construc. S.F.</th>
<th>Avg. Direct Asking Rate NNN</th>
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<tr>
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<td>6.1%</td>
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<td>10.9%</td>
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<td>7.7%</td>
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<tr>
<td>Industrial</td>
<td>376</td>
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<td>5.1%</td>
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<td>7.4%</td>
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<td>64,381</td>
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## TAMPA BAY OVERALL MARKET

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<tr>
<th>Qtr. &amp; Year</th>
<th>Bldgs.</th>
<th>Total Inventory S.F.</th>
<th>Direct Vac. %</th>
<th>Total Vac. %</th>
<th>Net Absorp. Current Qtr. S.F.</th>
<th>Net Absorp. YTD S.F.</th>
<th>New Completions S.F.</th>
<th>Under Construc. S.F.</th>
<th>Industrial (Non-Flex) Avg. Direct Asking Rate NNN</th>
<th>Flex Avg. Direct Asking Rate NNN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 2Q</td>
<td>4,855</td>
<td>197,528,384</td>
<td>9.5%</td>
<td>9.6%</td>
<td>788,794</td>
<td>1,474,569</td>
<td>50,400</td>
<td>2,180,600</td>
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<td>$7.54</td>
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<tr>
<td>2014 1Q</td>
<td>4,854</td>
<td>197,477,984</td>
<td>9.9%</td>
<td>10.0%</td>
<td>685,775</td>
<td>685,775</td>
<td>411,531</td>
<td>2,231,000</td>
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<td>2013 4Q</td>
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<td>10.1%</td>
<td>-103,445</td>
<td>631,563</td>
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<td>1,560,549</td>
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<td>$7.25</td>
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<td>10.0%</td>
<td>305,485</td>
<td>735,008</td>
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</table>
485 offices in 63 countries on 6 continents

- United States: 146
- Canada: 44
- Latin America: 25
- Asia Pacific: 186
- EMEA: 84

- $2.1 billion in annual revenue
- $75.1 billion in transaction volume
- 1.46 billion square feet under management
- Over 15,800 professionals

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