CBRE **MARKETVIEW**

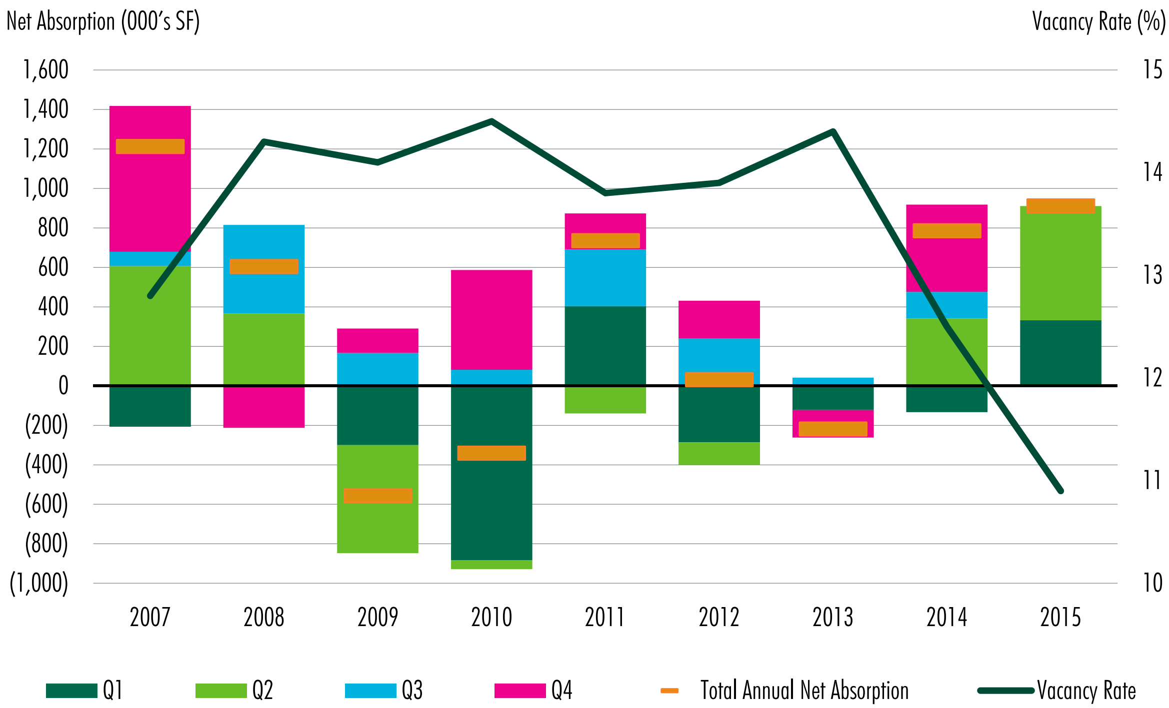
El Paso Industrial, Q2 2015

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

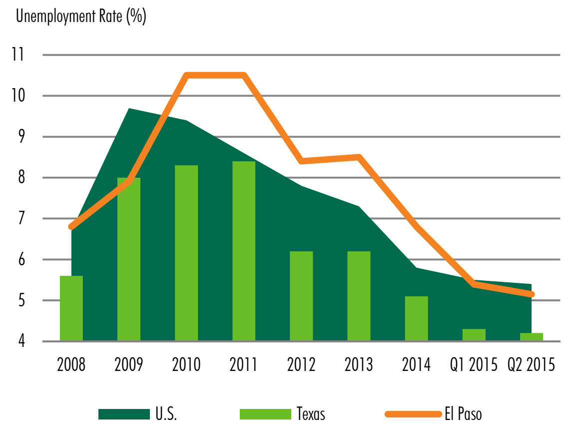
But if present vacancy for space less than 200,000 sq. ft. is considered it yields vacancy of 7.1%, more than three full percentage points below the market wide average and slicing even further to just the Class A space under 100,000 sq. ft. - the segment of the industrial market most in demand by local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

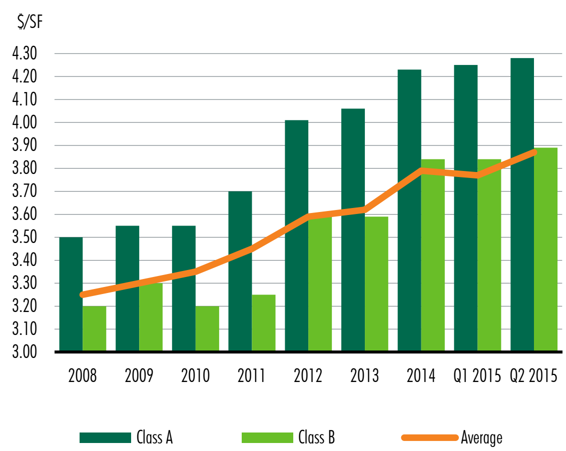
INDUSTRIAL RATES

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.

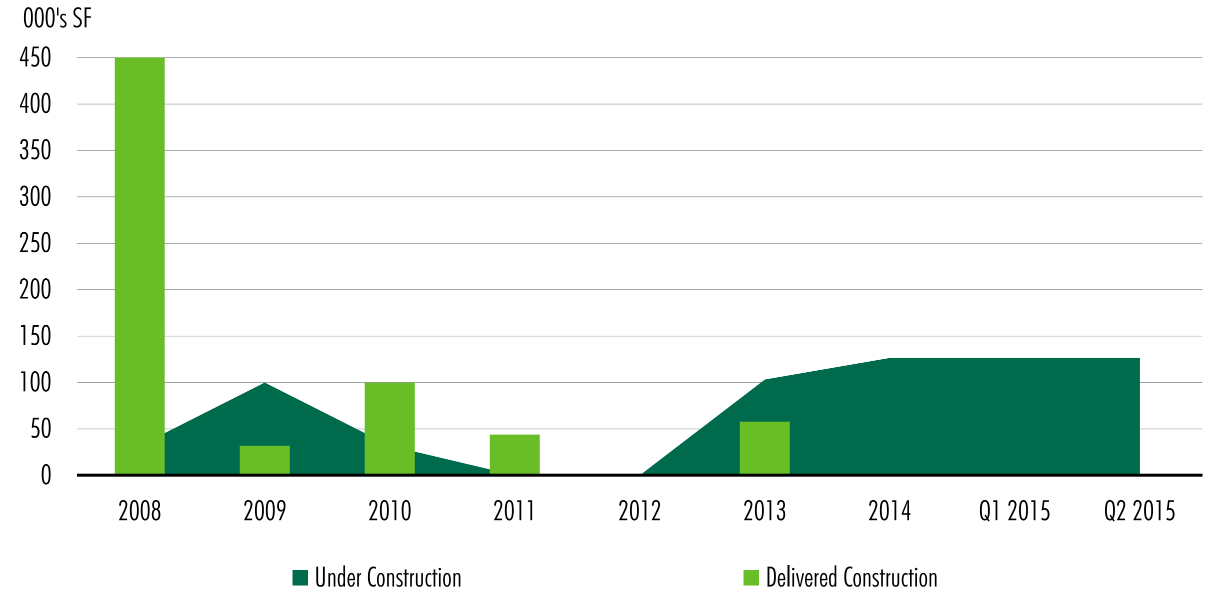
El Paso landlords also have more leverage negotiating compressed concessions, such as free rent and tenant improvements. This is causing effective rates, which account for the face rate plus incentives, to become closer to, and at times surpass, asking rates.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q2 2015.

Figure 5: Construction



Source: CBRE Research, Q2 2015.

INDUSTRIAL PRODUCT

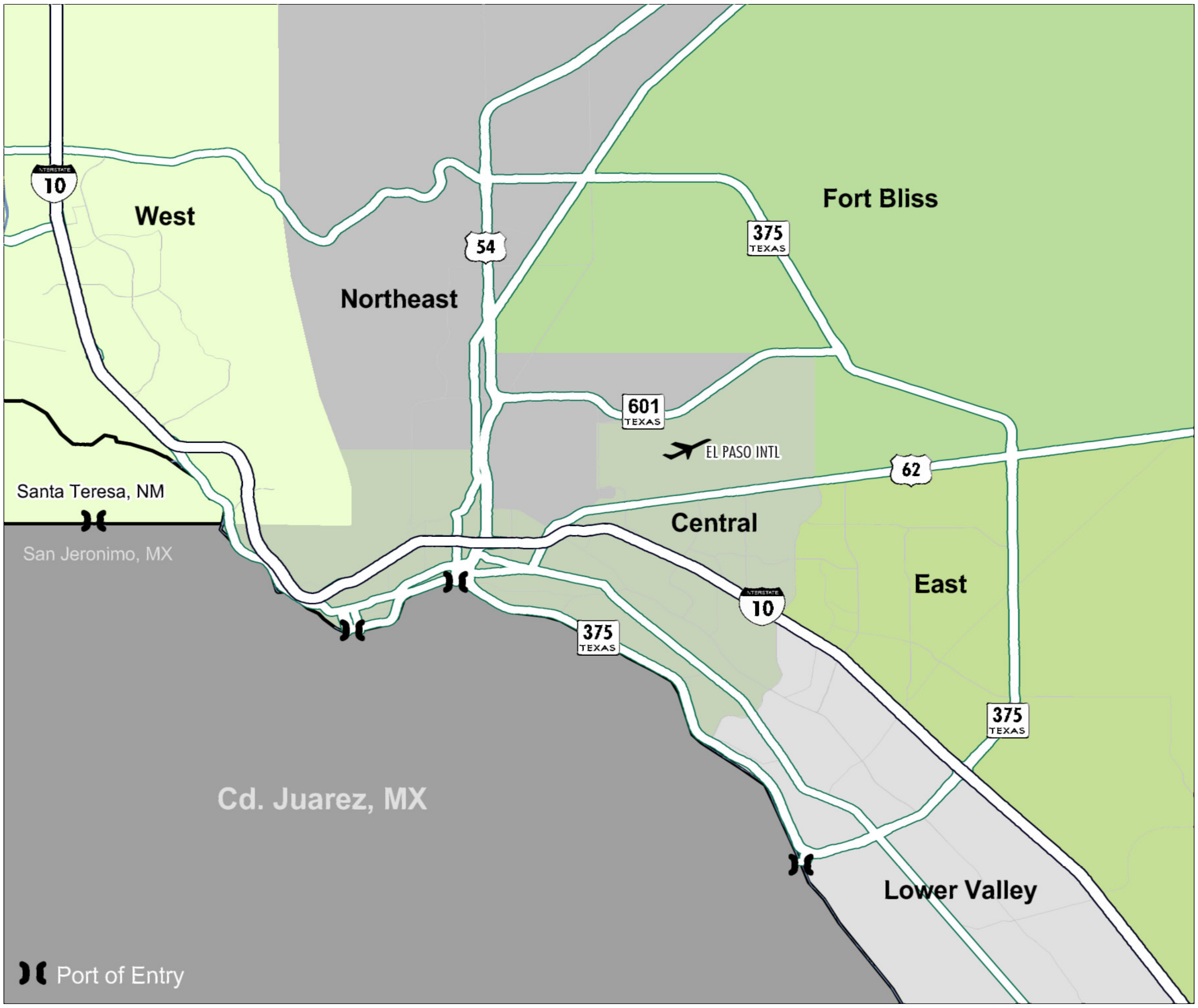
The supply of industrial buildings in El Paso remained unchanged in Q2 2015 as there were no space deliveries. However, CBRE's internal property database did undergo a handful of adjustments to more closely match building specifications. This included size updates to existing buildings. The combined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