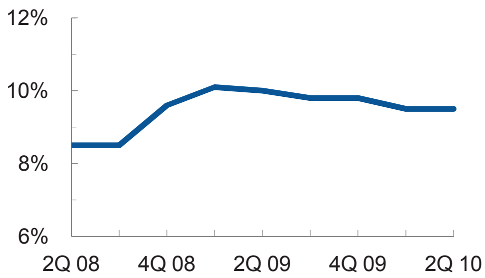
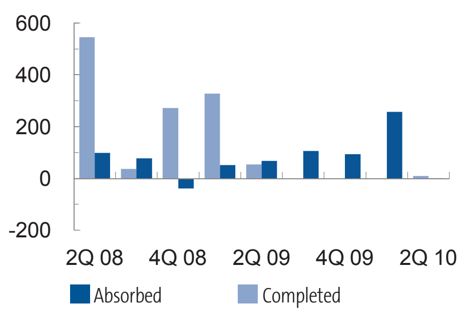
Industrial Trends Report—Second Quarter 2010
San Antonio, TX

GRUBB & ELLIS
From Insight to Results

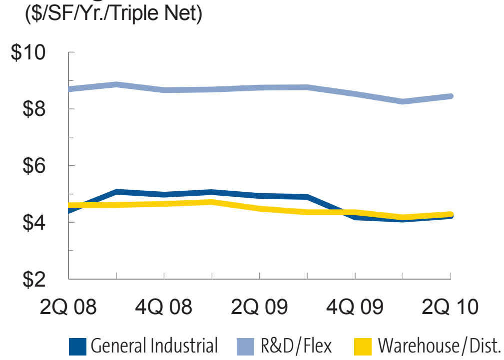
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr./Triple Net)



Industrial Leasing Market Remains Soft

San Antonio's industrial market remained relatively flat to end the second quarter as it posted a meager 1,268 square feet of positive absorption. The primary culprit for the lack of positive growth came from the general industrial sector, which posted 94,612 square feet of red ink. Meanwhile, the warehouse/distribution and R&D/flex categories led the way with 42,111 and 53,959 square feet of black ink, respectively. The bulk of activity once again occurred in the Northeast and Far Northeast submarkets with 60,892 and 53,000 square feet of positive absorption, respectively. The most significant occupancy gain in the Northeast included Avanzar Interior Technologies expanding by 66,800 during the second quarter. The company previously occupied 33,600 square feet at Lanark Distribution Center on a temporary basis but now has a footprint of 101,000 square feet. The popular Northeast submarket also stands to benefit next quarter when Hill Country Electric Supply will occupy 62,000 square feet at Interchange Park North located at 3003 Loop 410.

Even though the Alamo City has posted six straight quarters of positive absorption and appears to be stabilizing, there is still some uncertainty left on the part of tenants. San Antonio's industrial market must also still contend with the large blocks of space becoming vacant later this year as American Standard plans to exit approximately 404,000 square feet. The big question on everyone's mind is how deep of a negative impact this will have on the overall market. While there have been recent leases inked that total nearly 74,000 square feet combined, these occupancies set to occur later this year will only help soften the blow that is forthcoming during the second half of 2010.

FORECAST

- Tenants will hold the upper hand through the rest of 2010 and into 2011 as the leasing market will continue to experience softness due to low demand.
- Asking and effective rental rates are expected to stabilize as landlords begin to test the market and start cutting back on concessions.
- Tenants will also be cautious moving forward and continue to seek short-term renewals through the end of the year.
- Companies in a position to lock in favorable rates will take advantage of the leasing environment in the year ahead and position themselves for growth.

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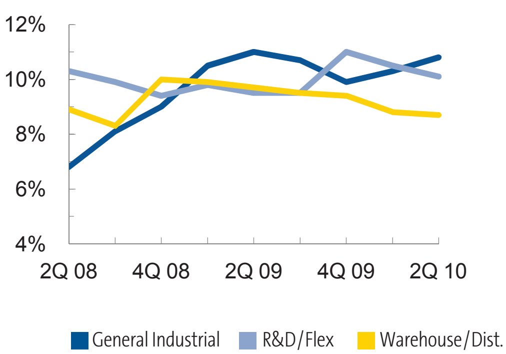
Some positive signs did emerge this quarter, however, as several tenants signed leases in the North Central submarket.

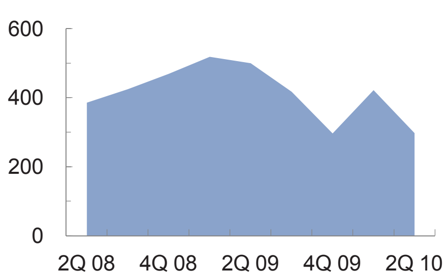
The North Central and Central Business District were the heaviest drag for the quarter with contributions of 106,694 and 32,896 square feet of red ink, respectively. The largest vacancies in the North Central included ISC Building Materials downsizing by 23,000 square feet at 8799 Crownhill and Ghandi Innovations vacating 21,950 square feet at Isom Business Center. Ghandi Innovations was purchased by an out of state entity and has been relocated to a different city. Some positive signs did emerge this quarter, however, as several tenants signed leases in the North Central submarket. Social Security ODAR signed a 10-year 33,906-square-foot lease at the FAS Complex at 10226 San Pedro Ave and plans to move in during the fourth quarter. Also, Heritage Propane leased 30,000 square feet at 2250 Chipley Circle. San Antonio Wings and Bison Aviation also leased 6,738 and 7,553 square feet in the North Central submarket, respectively. The Northeast submarket once again saw ample activity as Avanzar Interior Technologies surprisingly expanded by 66,800 square feet at Lanark Distribution Center. Miner Central Texas, Ltd also pitched in their share as they occupied 14,751 square feet at Crosswinds Industrial Park, located at 11827 Tech Com Road. Rounding out the major occupancies in the Northeast submarket was Distribution International who moved into 11,700 square feet at 1751 Shipman Dr.

Vacancy Rate



San Antonio's overall industrial vacancy saw no movement from the previous quarter as it held steady at 9.5 percent. Vacancy appears to have stabilized over the last year but is expected to increase during the second-half of 2010 and into 2011 due to some major vacancies that are scheduled to take place, which include American Standard and Sysco placing a combined 730,000 square feet back on the market. With nearly 3.4 million square feet, a large portion of the vacant space lies within the warehouse/distribution sector with a vacancy of 8.7 percent, down 10 basis points from the previous quarter. With approximately 2 million square feet, the general industrial sector leads all categories in vacancy at 10.8 percent, up 50 basis points from the first quarter. Finally, the R&D/flex category has roughly 1 million square feet sitting empty with a vacancy rate of 10.1 percent, down 40 basis points from the previous quarter. The Northwest, North Central, and Northeast submarkets lead all submarkets with the lowest vacancy rates in the city at 7.4, 8.3, and 7.1 percent. Meanwhile the Far Northeast, Far West, and Port San Antonio continue to see elevated vacancy rates of 26.1, 32.1, and 19.8 percent, respectively. Meanwhile, the CBD submarket's vacancy rate has not reached a high as it ascended 50 basis points to 11.9 percent to end the quarter.

Sublease Available
(In Thousands of SF)



During the second quarter, overall asking rents managed to climb for the first time in nearly two years by $0.15 to $5.04 NNN per square foot. R&D/flex led the way, rising $0.19 to $8.45 NNN per square foot, after reaching its cyclical low in the previous quarter.

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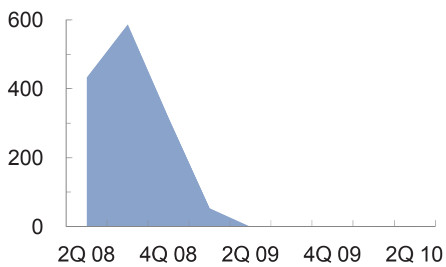
The optimism on the part of tenants should continue to rise as most agree that a double dip recession is highly unlikely.

Asking rents in the general industrial and warehouse/distribution sectors also managed to slightly increase from the prior quarter by $0.13 and $0.12 to $4.22 and $4.29 NNN, respectively. These figures are not indicative of where net effective rents truly stand as concessions are still very much the norm in this market. Going forward rents should stabilize as market conditions gradually improve and landlords start to realize that a recovery is around the corner. With the speculative construction pipeline empty and no deliveries set to occur, landlords will only have existing vacant space to contend with which will aid in the market's recovery.

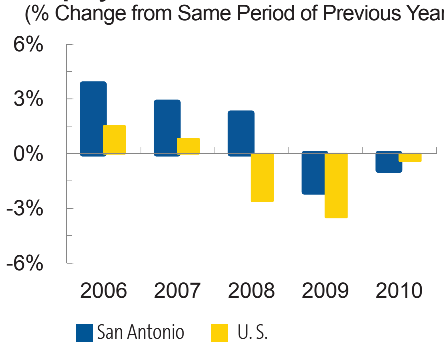
Industrial Space Under Construction
(in Thousands of SF)



San Antonio's sublease inventory fell by 123,919 square feet to just under 300,000 square feet during the second quarter. There is roughly 213,000 square feet of sublease space in the warehouse/distribution sector primarily found in the Northeast submarket, which ended the quarter with 204,022 square feet. The amount of sublease space in the R&D/flex and general industrial sectors does not really pose a threat to the overall market. R&D/flex ended the quarter with 44,631 square feet of sublease space, up 4,895 square feet from the previous quarter. Meanwhile, general industrial product ended with 40,000 square feet of sublease space, down 3,600 square feet from the previous quarter. Sublease availability will be a key to San Antonio's recovery as its descent will be indicative of the market returning to equilibrium. Once the majority of sublease space gets absorbed, the direct availability figure should start to slowly come down as tenant confidence comes back and overall economic figures improve.

San Antonio's industrial tenants have much to be thankful for, including a leasing environment that is providing some of the lowest effective rents seen in years. The optimism on the part of tenants should continue to rise as most agree that a double dip recession is highly unlikely. This optimism has translated to increased tenant activity during the first-half of the year. While it appears that the worst is behind us, an immediate bounce back recovery is not foreseen. Landlords will have to weigh the decision of locking in a tenant at a lower rate versus holding out for a higher rate and longer term. Landlords with high vacancies will continue to offer competitive rates and concessions to lure tenants while landlords who do not feel as much pressure, will look to keep rents where they are and wait for demand to firm up.

Employment Growth
(% Change from Same Period of Previous Year)



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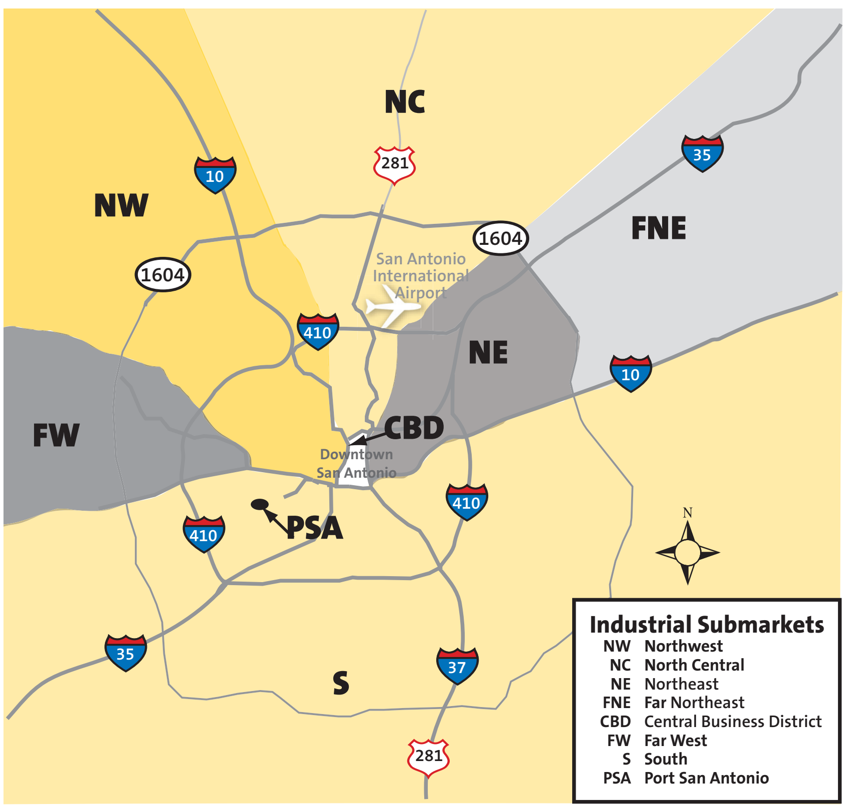
By Submarket	Total SF	Vacant SF	Vacancy %	NET ABSORPTION Current Qtr	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT WH/Dist	ASKING RENT R&D/Flex
Central Business District	6,339,706	753,712	11.9%	(32,896)	(59,082)	-	$3.54	-
Far Northeast	2,607,277	679,608	26.1%	53,000	99,514	-	$6.01	$5.87
Far West	485,697	155,790	32.1%	-	-	-	$12.81	-
North Central	9,598,252	797,213	8.3%	(106,694)	(10,094)	-	$4.97	$8.33
Northeast	28,985,888	2,050,591	7.1%	60,892	190,195	-	$3.85	$7.31
Northwest	8,248,993	607,089	7.4%	16,832	40,705	-	$4.56	$9.52
Port San Antonio	3,641,084	719,295	19.8%	11,400	11,400	-	$5.06	$8.38
South	7,911,694	686,234	8.7%	(1,266)	(14,779)	-	$3.17	-
Totals	**67,818,591**	**6,449,532**	**9.5%**	**1,268**	**257,859**	**-**	**$4.29**	**$8.45**

By Property Type	Total SF	Vacant SF	Vacancy %	Current Qtr	Year To Date	Under Construction SF	ASKING RENT
General Industrial	18,935,295	2,044,630	10.8%	(94,812)	(143,218)	-	$4.22
R&D/Flex	10,295,957	1,038,839	10.1%	53,969	100,721	-	$8.45
Warehouse/Distribution	38,587,339	3,366,063	8.7%	42,111	300,356	-	$4.29
Totals	**67,818,591**	**6,449,532**	**9.5%**	**1,268**	**257,859**	**-**	**$5.04**



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INDUSTRIAL TERMS AND DEFINITIONS

Total SF: Industrial inventory includes all multi-tenant, single tenant and owner occupied buildings at least 10,000 square feet.

Industrial Buildings Classifications: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country, and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis. The asking rent for each building in the market is weighed by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*