

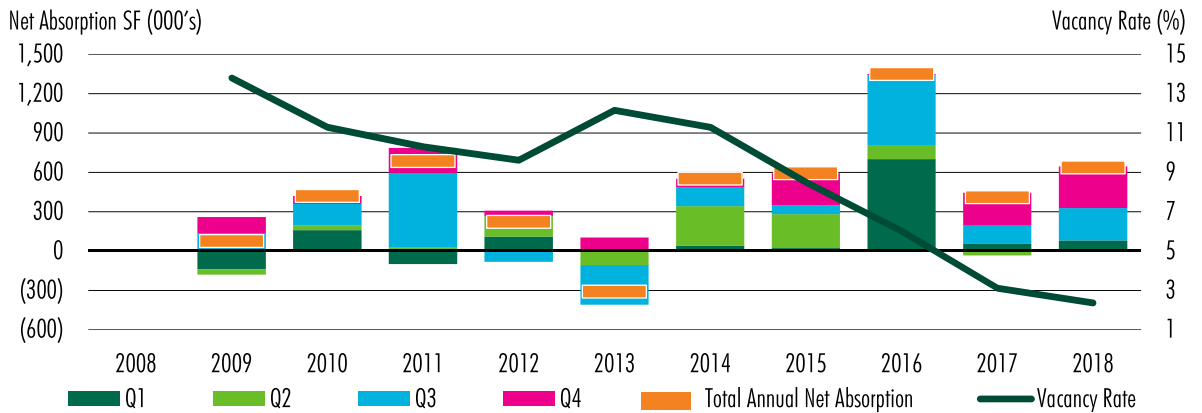
McAllen Industrial, Q4 2018

Vacancy rates at record low; Demand for space grows

▼ Vacancy 2.4%
▲ **Avg. Asking Rate \$4.41 PSF
▲ Net Absorption 308,096 SF
▼ Under Construction 402,000 SF
▲ Completions 221,459 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 2018.

DELIVERED BTS PROP UP NET ABSORPTION

Q4 2018 net absorption increased compared to the previous quarter and pushed the annual net absorption 230,000 sq. ft. above the total for 2017. The quarter registered three new leases and a user sale totaling 202,000 sq. ft. in gross absorption. Four new build-to-suit projects in the Pharr submarket, totaling 232,621 sq. ft., were delivered and occupied during the quarter and accounted for the majority of net absorption.

VACANCY AT NEW LOW, DEMAND ABOVE AVERAGE

The market-wide vacancy rate fell by 40 basis points (bps) quarter-over-quarter to 2.4%, a new record low. Class A saw a vacancy increase of 60 bps due mainly to one new vacancy of 76,000 sq. ft.

CBRE tracks user demand for space in the McAllen Industrial Market, which increased compared to Q3 2018 and remained above the 17-quarter trailing average. The quarter closed with users seeking almost 1.6 million sq. ft. of space. This is

only 111,000 sq. ft. less than total available sq. ft. and more double the total vacant sq. ft. in the market. Demand, like market activity, continues to be driven by the transportation/distribution-logistics-3PL sector which accounted for about 25% of total space requirements in Q4 2018.

RENT RATES STABILIZE

As Class A product experiences persistently low vacancy rates and steady demand, Class B and C product have continued to make up a larger portion of market availability. At the close of Q4 2018, 43% of all available space in the market was Class B and 32% was Class C. Because of this, the warehousing and manufacturing space asking rate have remained relatively flat during the year while the overall industrial average, which includes flex space and cold storage, has increased steadily. However, due to a Class A space becoming available in Q4 2018, the warehousing and manufacturing asking rate increased quarter-over-quarter by \$0.07 per sq. ft.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q4 2018 Net Absorption	Total 2018 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,957,496	2.7	8.1	4.50	N/A	4.53	100,000	-	59,305	62,976
Class A	4,926,805	4.0	5.2	4.81	N/A	4.81	100,000	-	(76,000)	(61,208)
Class B	4,150,259	1.7	7.8	4.23	N/A	4.28	-	-	7,693	(22,307)
Pharr	4,505,757	2.6	6.6	4.24	17.13	8.97	252,000	221,459	247,541	482,566
Class A	1,856,451	1.2	4.1	5.40	19.80	15.59	252,000	221,459	221,459	348,959
Class B	1,781,422	5.2	11.8	3.92	5.00	4.06	-	-	26,082	86,082
Edinburg	2,339,454	1.9	1.9	N/A	N/A	4.80	-	-	12,500	50,000
Class A	437,234	-	-	N/A	N/A	N/A	-	-	12,500	50,000
Class B	478,825	9.1	9.1	N/A	N/A	4.80	-	-	-	-
Hidalgo	1,506,698	5.0	8.8	4.35	15.85	5.83	-	-	(11,250)	12,750
Class A	595,728	7.4	13.5	4.31	N/A	4.31	-	-	-	24,000
Class B	91,400	21.9	45.3	4.50	15.85	10.37	-	-	-	-
Mission	1,684,724	-	-	N/A	N/A	N/A	-	-	-	17,334
Class A	866,084	-	-	N/A	N/A	N/A	-	-	-	17,334
Class B	467,132	-	-	N/A	N/A	N/A	-	-	-	-
Off Park	2,307,597	0.6	9.6	4.20	N/A	4.80	50,000	-	-	-
Class A	24,000	-	-	N/A	N/A	N/A	50,000	-	-	-
Class B	1,174,244	-	8.3	4.20	N/A	4.20	-	-	-	-
McAllen Total	24,301,726	2.4	6.9	4.41	16.82	5.52	402,000	221,459	308,096	625,626
Class A	8,706,302	3.0	4.8	4.74	19.80	6.71	402,000	221,459	157,959	379,085
Class B	8,143,282	2.8	8.8	4.18	11.95	4.77	-	-	33,775	63,775

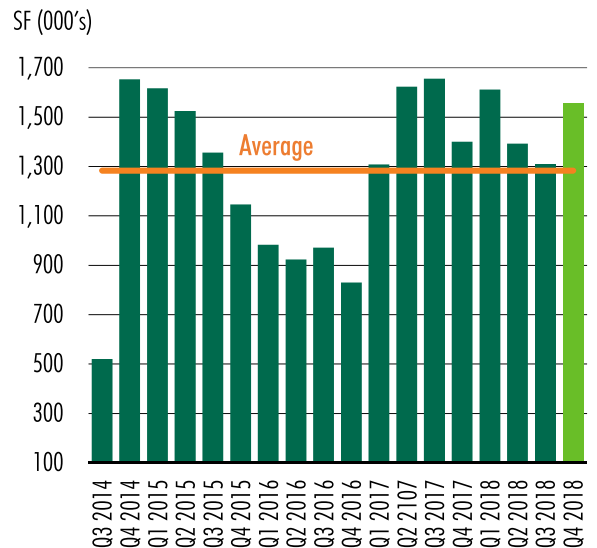
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q4 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
User Sale	McAllen	Wholesale	127,612
Delivered Construction	Pharr	Transportation/Distribution-Logistics-3PL	106,998
Delivered Construction	Pharr	Cold Storage	65,322
Lease	Pharr	Transportation/Distribution-Logistics-3PL	38,082
Lease	McAllen	Transportation/Distribution-Logistics-3PL	30,000
Delivered Construction	Pharr	Cold Storage	26,840
Delivered Construction	Pharr	Cold Storage	22,299

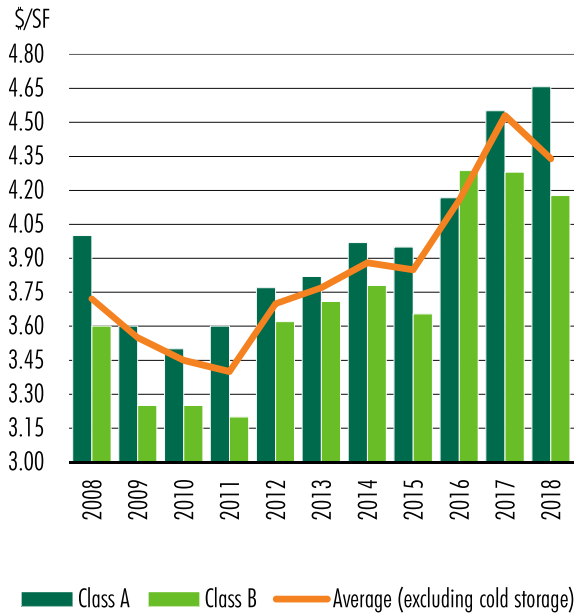
Source: CBRE Research, Q4 2018.

Figure 4: Active Users in the Market



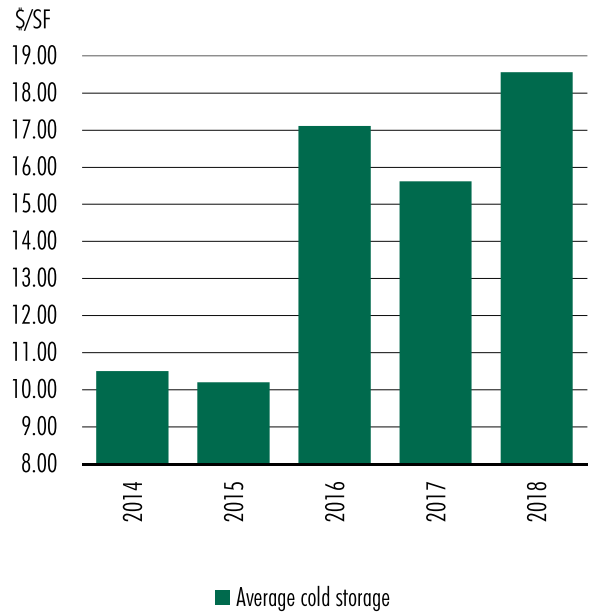
Source: CBRE Research, Q4 2018.

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



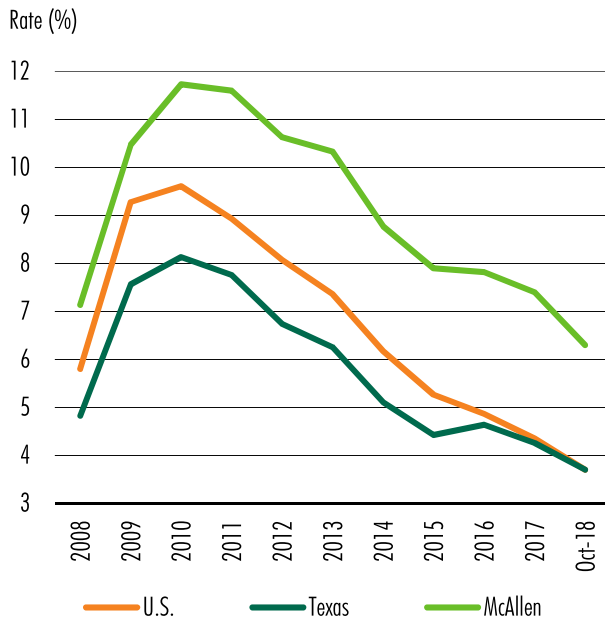
Source: CBRE Research, Q4 2018.

Figure 6: **Asking Rates, NNN Avg. Annual



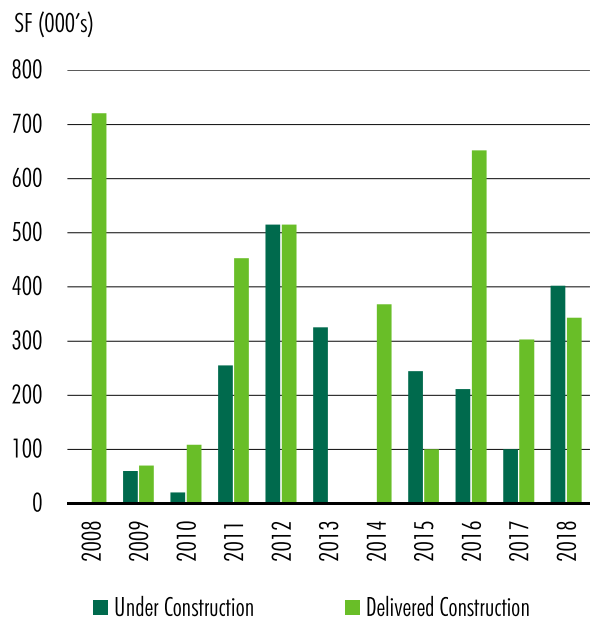
Source: CBRE Research, Q4 2018.

Figure 7: Unemployment Rate

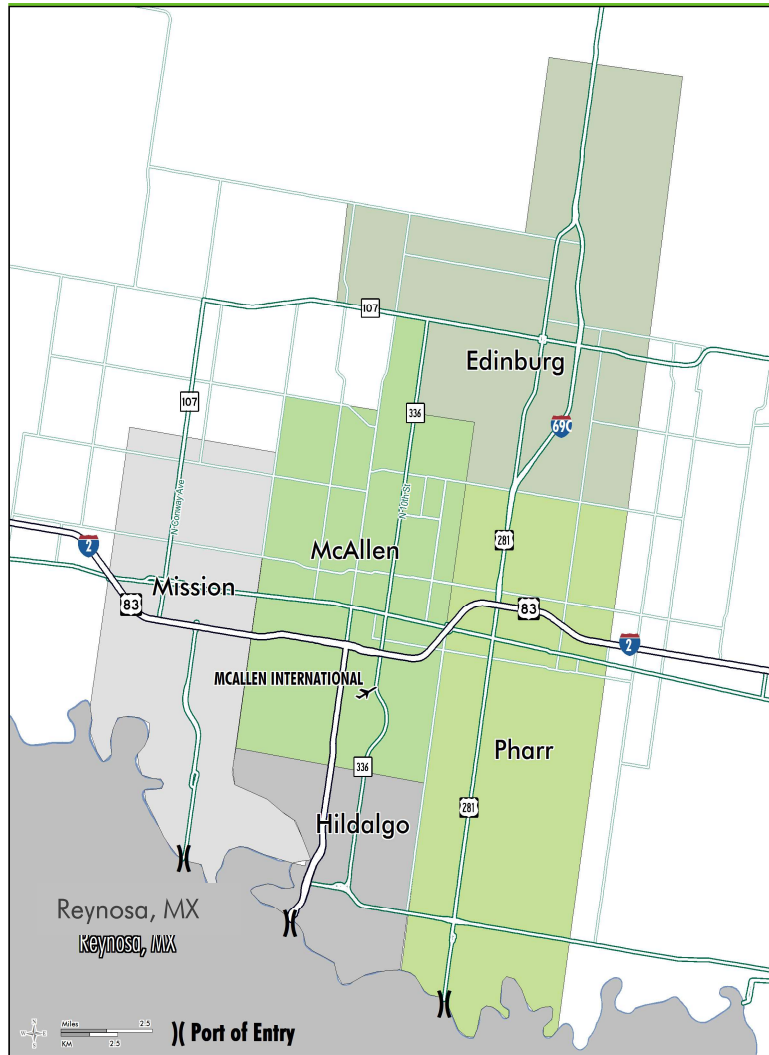


Source: Bureau of Labor Statistics; Federal Reserve Bank of Dallas, December 2018. Seasonally Adjusted.

Figure 8: Construction



Source: CBRE Research, Q4 2018.



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****Notes:**

McAllen average asking rates dating back to Q1 2015 were adjusted during Q3 2017 to better reflect a weighted average based on available sq. ft.

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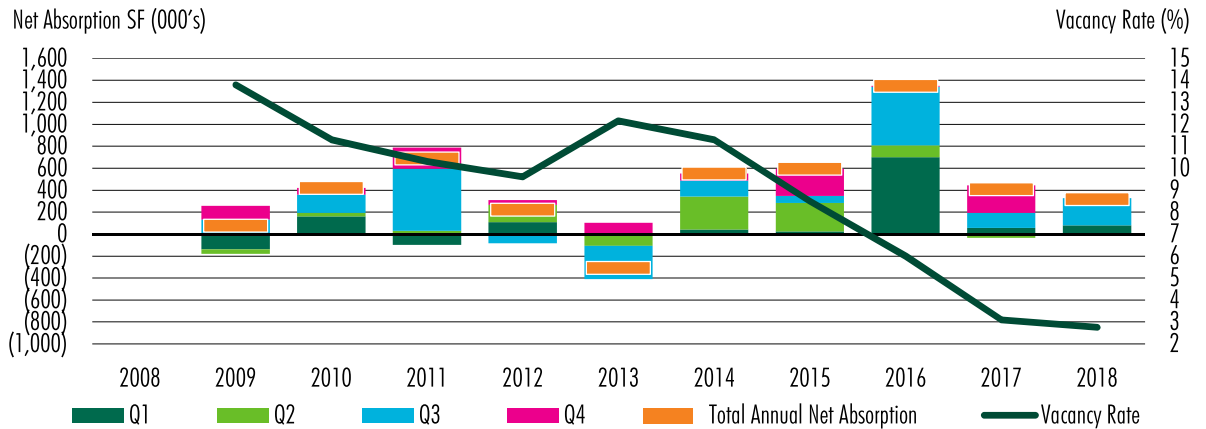
McAllen Industrial, Q3 2018

Absorption rebounds; Vacancy rates at record low

▼ Vacancy 2.8%
▼ **Avg. Asking Rate \$4.34 PSF
▲ Net Absorption 246,642 SF
▶ Under Construction 585,000 SF
▼ Completions 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 2018.

NET ABSORPTION BACK IN POSITIVE TERRITORY

Following a quarter that dipped slightly into negative net absorption, Q3 2018 returned to the mostly consistent trend of positive absorption. The quarter registered six new leases with an average deal size of 40,000 sq. ft. Q3 2018 closed with 306,400 sq. ft. of activity, similar to Q3 2017 activity. Transactions were evenly split between the McAllen, Edinburg, and Pharr submarkets. Class A product held 76% of Q3 2018 gross absorption as well as the only vacancy recorded for the quarter.

NEW VACANCY LOWS, DEMAND ABOVE AVERAGE

The market-wide vacancy rate fell by 70 basis points (bps) quarter-over-quarter to 2.8%, a new record low. Class A and B also saw quarterly declines with vacancy dropping by 140 and 80 bps, respectively. Both Class A and B closed the quarter with the lowest vacancy rates recorded for each class since CBRE began tracking the market.

CBRE tracks user demand for space in the McAllen

Industrial Market, which declined compared to Q2 2018 but remained above the 16-quarter trailing average. The quarter closed with users seeking 1.3 million sq. ft. of space. This is only 546,000 sq. ft. less than total available sq. ft. and almost double the total vacant sq. ft. in the market. Demand, like market activity, continues to be driven by the transportation/distribution-logistics-3PL sector which accounted for about 20% of total space requirements in Q3 2018.

RENT RATES ADJUST TO CHANGES IN AVAILABILITY

As Class A and B product experience persistently low vacancy rates and steady demand, Class C has continued to make up a larger portion of market availability. At the close of Q3 2018, 50% of all available space in the market was Class C. Because of this, warehousing and manufacturing space asking rates have declined during the year while the overall industrial average, which includes flex space and cold storage, has increased steadily.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q3 2018 Net Absorption	Q2 2018 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,958,872	0.0	0.0	4.36	N/A	4.41	100,000	-	100,392	(78,100)
Class A	4,926,805	2.5	3.7	4.80	N/A	4.80	100,000	-	100,392	(85,600)
Class B	3,975,337	2.0	5.9	4.20	N/A	4.25	-	-	0	0
Pharr	4,152,807	3.4	8.1	4.23	17.13	8.14	485,000	-	127,500	10,125
Class A	1,580,935	1.4	4.9	5.40	19.80	15.59	485,000	-	67,500	0
Class B	1,757,422	6.8	13.4	4.01	N/A	4.01	-	-	60,000	0
Edinburg	2,339,454	2	2	22.77	N/A	5.07	-	-	18,750	18,750
Class A	437,234	3	3	6.00	N/A	6.00	-	-	18,750	18,750
Class B	394,625	0	0	N/A	N/A	N/A	-	-	0	0
Hidalgo	1,506,698	4.3	8.1	4.37	15.85	6.37	-	-	0	24,000
Class A	595,728	7.4	13.5	4.32	N/A	4.32	-	-	0	24,000
Class B	91,400	22	45	4.50	15.85	10.37	-	-	0	0
Mission	1,684,724	0	0.0	N/A	N/A	N/A	-	-	0	17,334
Class A	866,084	0	0	N/A	N/A	N/A	-	-	0	17,334
Class B	467,132	0	0	N/A	N/A	N/A	-	-	0	0
Off Park	2,307,597	0.6	9.6	4.20	N/A	4.20	-	-	0	0
Class A	24,000	0	0	N/A	N/A	N/A	-	-	0	0
Class B	1,076,696	0.0	0.0	N/A	N/A	N/A	-	-	0	0
McAllen Total	23,950,152	2.8	7.4	4.34	16.82	5.64	585,000	0	246,642	(7,891)
 Class A	8,430,786	2.4	4.2	4.80	19.80	7.91	585,000	0	186,642	(25,516)
 Class B	7,762,612	2.8	6.6	4.16	15.85	4.82	0	0	60,000	0

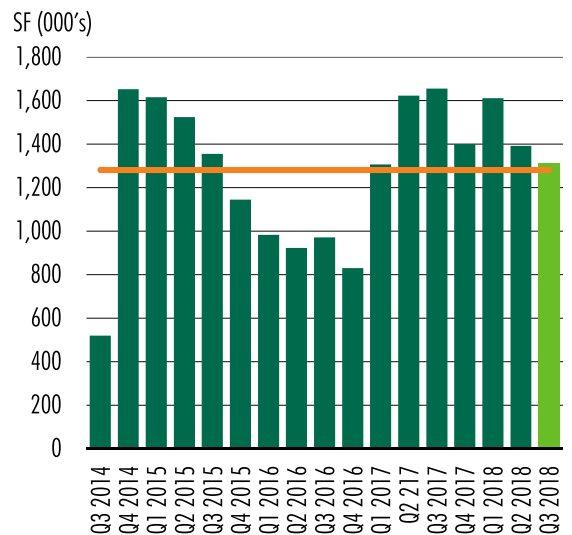
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q3 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Lease	McAllen	Transportation/Distribution-Logistics-3PL	120,000
Lease	Pharr	Other High-tech Manufacturing	67,500
Lease	McAllen	Transportation/Distribution-Logistics-3PL	56,392
Lease	Pharr	Transportation/Distribution-Logistics-3PL	50,000
Lease	Edinburg	High-tech services	6,250

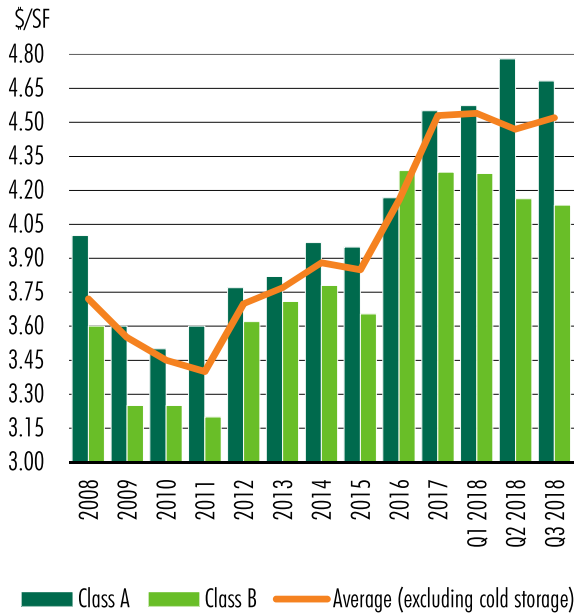
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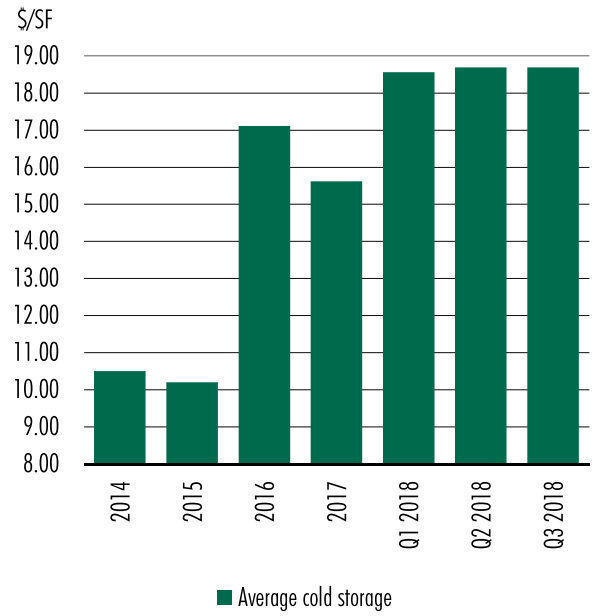
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Figure 5: **Asking Rates, NNN Avg. Annual



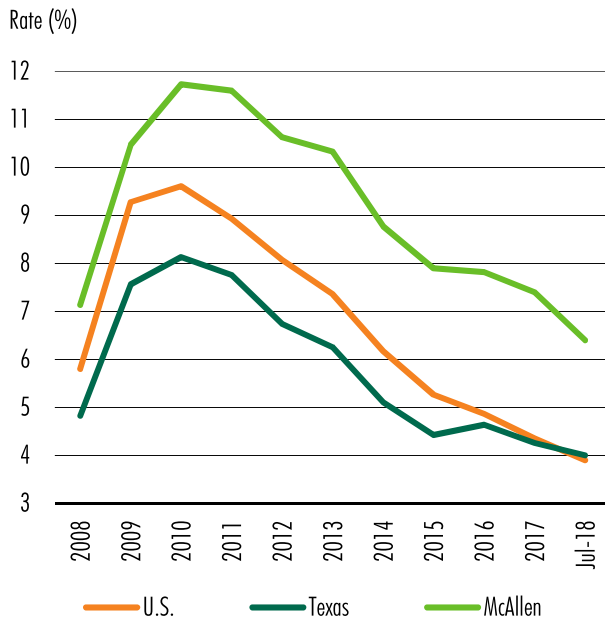
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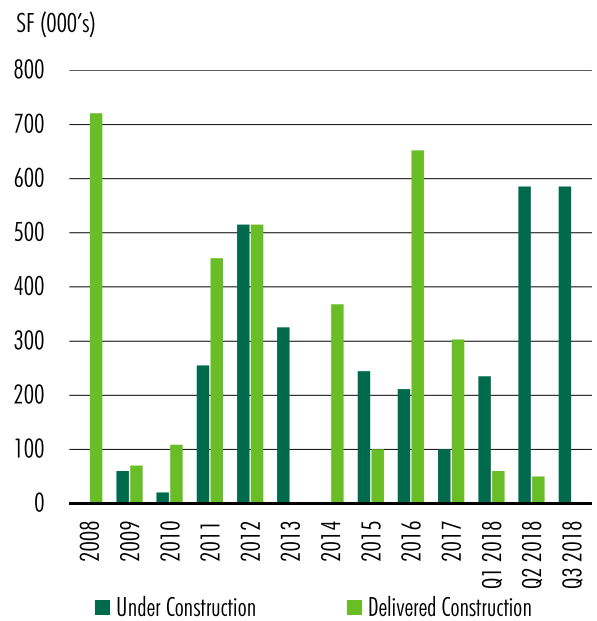
Source: CBRE Research, Q3 2018.

Figure 7: Unemployment Rate

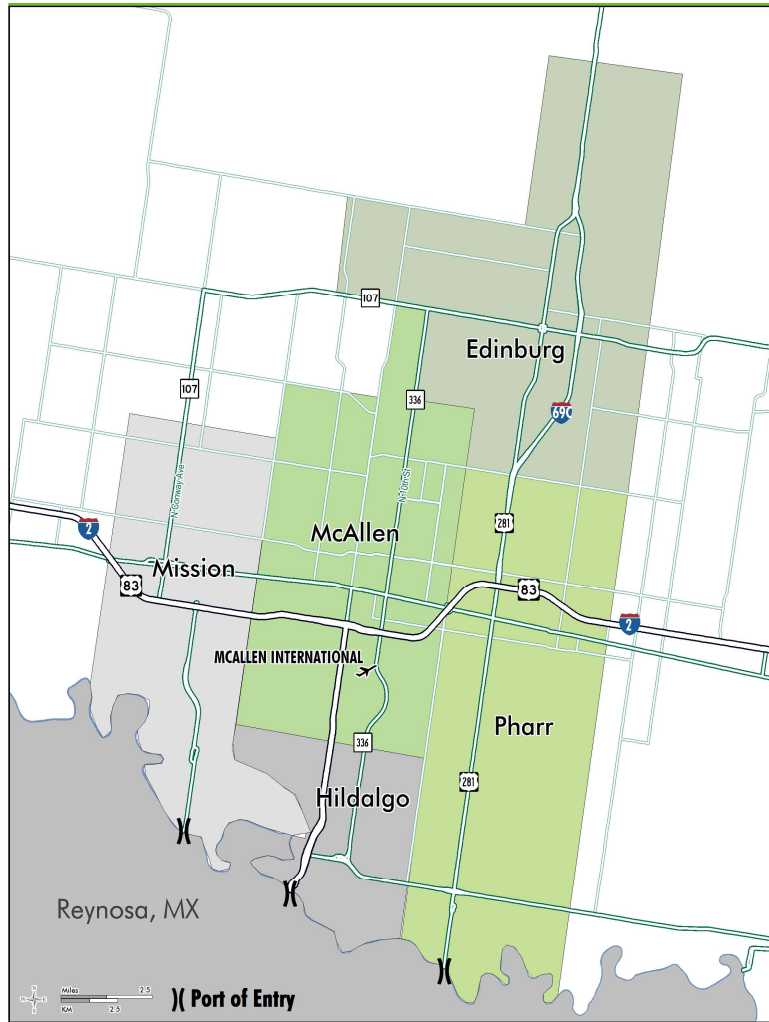


Source: Bureau of Labor Statistics; Federal Reserve Bank of Dallas, September 2018. Seasonally Adjusted.

Figure 8: Construction



Source: CBRE Research, Q3 2018.



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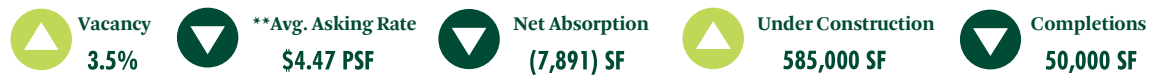
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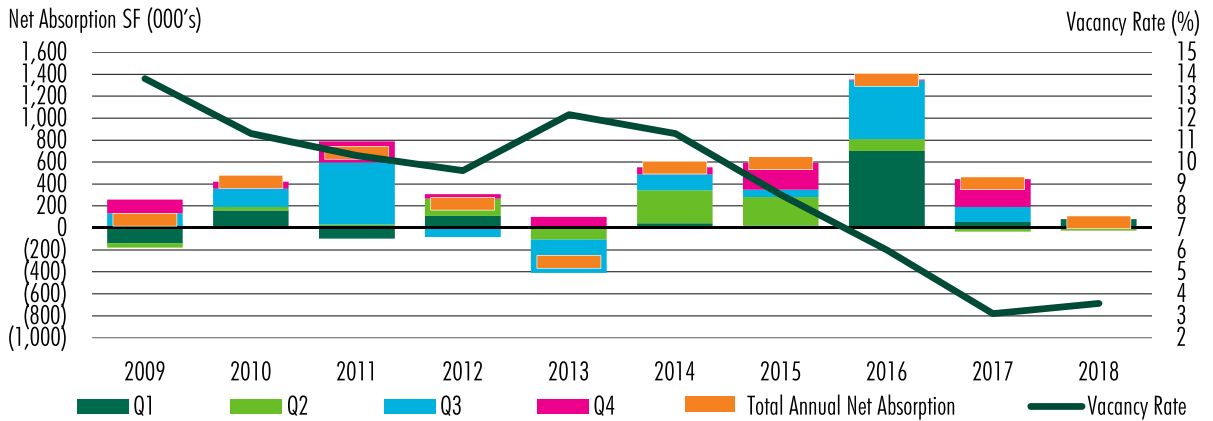
McAllen Industrial, Q2 2018

Net absorption balances out; activity remains strong



*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.

NET ABSORPTION BALANCES, ACTIVITY CONTINUES

Last year during the second quarter, the market saw negative absorption and ended a 14-quarter streak of positive absorption. Net absorption fell into negative territory once again during Q2 2018. However, activity remained healthy. The quarter registered seven new leases, a renewal, and a user sale. Q2 2018 closed with 500,000 sq. ft. of activity, quadrupling over Q1 2018 and doubling over Q2 2017. In addition, a 334,000 sq. ft. deal completed during the quarter is one of the largest leases of an existing property in the McAllen market, only 20,000 sq. ft. shy of the Q3 2014 cycle high.

VACANCY REMAINS LOW, DEMAND ABOVE AVERAGE

The market-wide vacancy rate increased from the record low of 3.0% in Q1 2018 to 3.5% but stayed well below the historical average of 9.6% and fell by 180 basis points (bps) since Q2 2017. Class A and B vacancy also declined year-over-year by 190 bps and 380 bps, respectively.

CBRE Research tracks user demand for space in the McAllen Industrial Market, which declined compared to Q1 2018 but remained above the 15-quarter trailing average. Demand, like market activity, continues to be driven by the transportation/distribution-logistics-3PL sector which accounted for about 20% of total space requirements in Q2 2018.

NEW PRODUCT A FACTOR IN CLASS A RENT GROWTH

Together with persistently low vacancy rates and strong demand, new speculative (spec) projects pushed Class A asking rents up from \$4.57 per sq. ft. in Q1 2018 to \$4.78 per sq. ft. The majority of this increase can be traced to the delivery of a mostly vacant 50,000 sq. ft. spec project which has the highest asking rent of all available Class A products (excluding cold storage). Two additional, and still available, Class A spec projects were delivered in late 2017 and have asking rents above the market-wide and Class A averages.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q2 2018 Net Absorption	Q1 2018 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,958,872	0.0	0.0	4.38	N/A	4.41	100,000	-	(78,100)	(18,621)
Class A	4,926,805	3.1	5.1	4.57	N/A	4.57	100,000	-	(85,600)	0
Class B	3,975,337	2.0	5.9	4.20	N/A	4.23	-	-	0	(30,000)
Pharr	4,152,807	6.5	11.2	4.53	19.80	6.93	485,000	-	10,125	97,400
Class A	1,580,935	5.7	9.1	5.40	19.80	10.83	485,000	-	0	60,000
Class B	1,757,422	10.2	16.9	4.08	N/A	4.08	-	-	0	0
Edinburg	2,339,454	3	3	5.30	N/A	5.30	-	50,000	18,750	0
Class A	437,234	7	7	6.00	N/A	6.00	-	50,000	18,750	0
Class B	394,625	0	0	N/A	N/A	N/A	-	-	0	0
Hidalgo	1,506,698	4.3	8.1	4.33	15.85	6.35	-	-	24,000	0
Class A	595,728	7.4	13.5	4.29	N/A	4.29	-	-	24,000	0
Class B	91,400	22	45	4.50	15.85	10.37	-	-	0	0
Mission	1,684,724	0	0.0	N/A	N/A	N/A	-	-	17,334	0
Class A	866,084	0	0	N/A	N/A	N/A	-	-	17,334	0
Class B	467,132	0	0	N/A	N/A	N/A	-	-	0	0
Off Park	2,307,597	0.6	9.6	4.37	N/A	4.37	-	-	0	0
Class A	24,000	0	0	N/A	N/A	N/A	-	-	0	0
Class B	1,076,696	0.0	0.0	N/A	N/A	N/A	-	-	0	0
McAllen Total	23,950,152	3.5	8.3	4.47	18.69	5.30	585,000	50,000	(7,891)	78,779
Class A	8,430,786	3.8	6.0	4.78	19.80	6.39	585,000	50,000	(25,516)	60,000
Class B	7,762,612	3.6	7.4	4.16	15.85	4.73	0	0	0	(30,000)

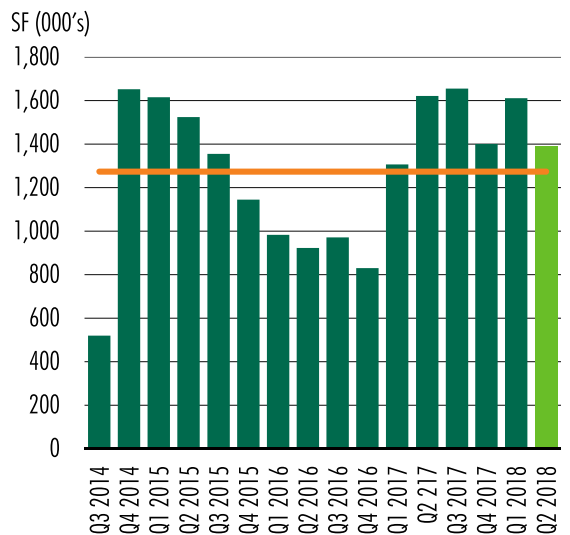
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Source: CBRE Research, Q2 2018.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Sublease	McAllen	Furniture MFG	334,000
User Sale	McAllen	Wholesale	42,770
Lease	Hidalgo	Transportation/Distribution-Logistics-3PL	24,000
Lease	Mission	Transportation/Distribution-Logistics-3PL	17,334
Lease	Edinburg	Transportation/Distribution-Logistics-3PL	12,500
Lease	Pharr	Transportation/Distribution-Logistics-3PL	10,125
Lease	McAllen	Unknown	7,500

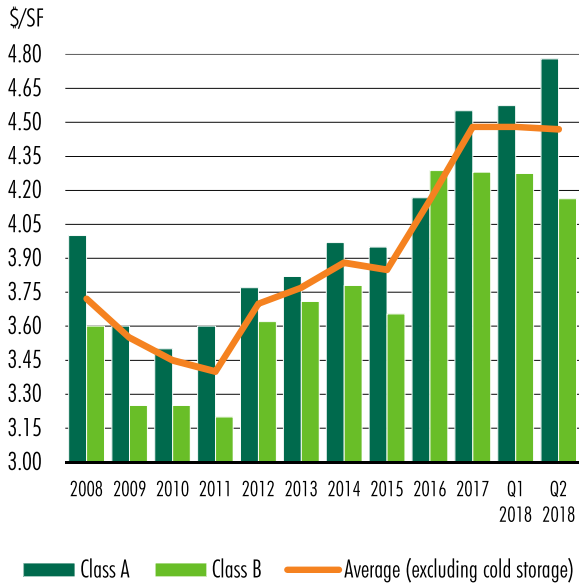
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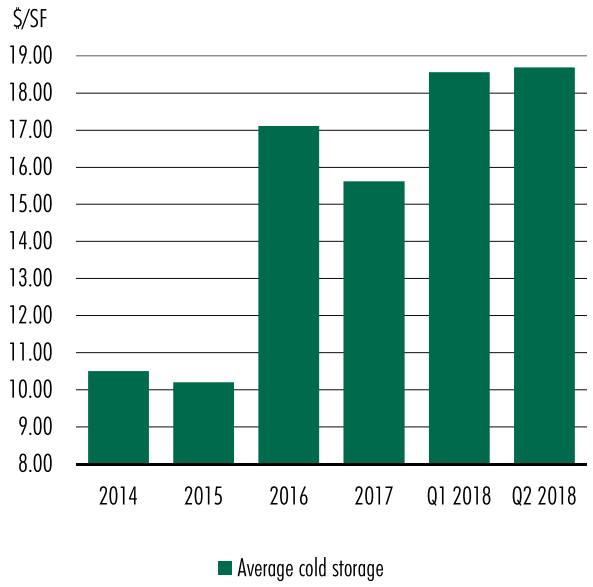
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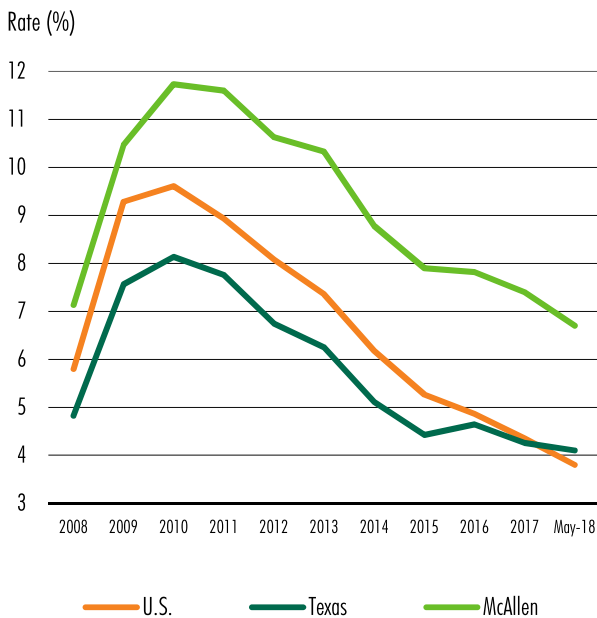
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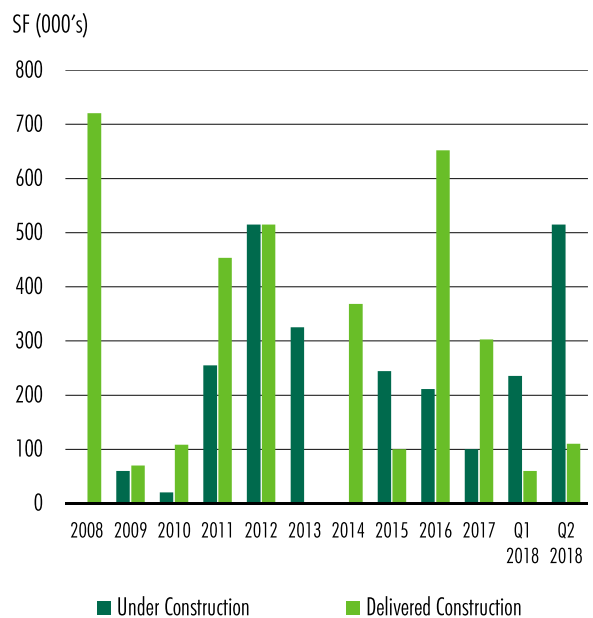
Source: CBRE Research, Q2 2018.

Figure 7: Unemployment Rate

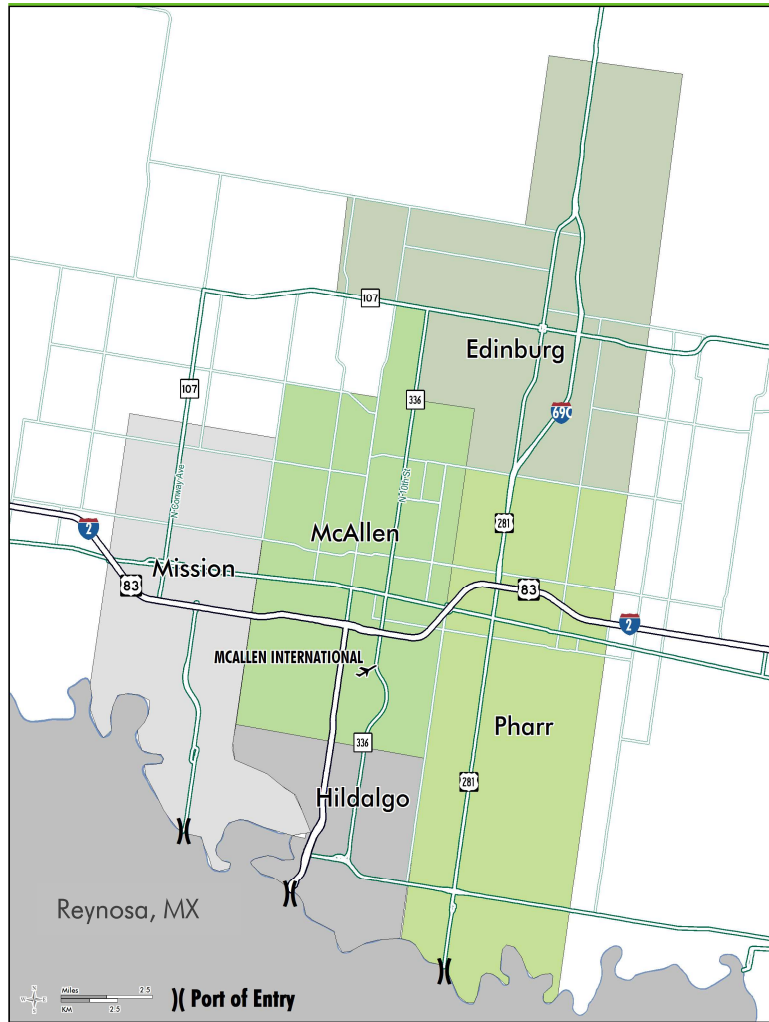


Source: Bureau of Labor Statistics; Federal Reserve Bank of Dallas, July 2018. Seasonally Adjusted.

Figure 8: Construction



Source: CBRE Research, Q2 2018.



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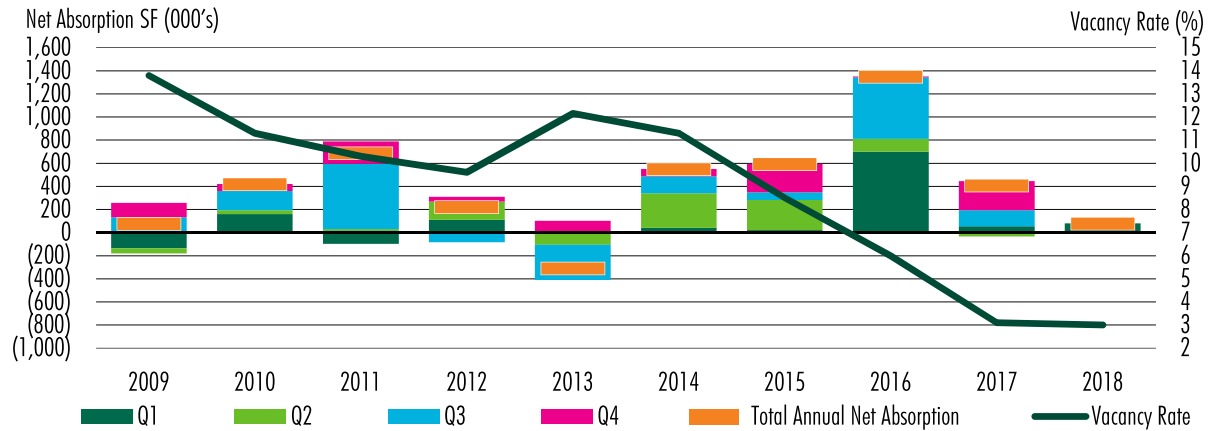
McAllen Industrial, Q1 2018

Vacancy at record-low; net absorption has familiar start

▼ Vacancy 3.0%
▲ **Avg. Asking Rate \$4.54 PSF
▼ Net Absorption 78,779 SF
▲ Under Construction 235,000 SF
▼ Completions 60,000 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 2018.

NET ABSORPTION FOLLOWS HISTORICAL TREND

The McAllen market saw a 24,000 sq. ft. year-over-year increase in net absorption but a quarterly decline of more than 200,000 sq. ft. Despite the quarterly decrease, Q1 2018 followed the first quarter net absorption trend that began in 2012: positive, but less than 100,000 sq. ft. The largest contributor to net absorption was the delivery of a 60,000 sq. ft. cold storage build-to-suit (BTS) in the Pharr submarket. Five other absorption activities were registered, four new leases and one user sale.

RECORD-LOW VACANCY, CONSTRUCTION PICKS UP

The market-wide vacancy rate of 3.0% was just below the Q4 2017 record-low of 3.1%. Year-over-year, when the rate stood at 6.1%, vacancy declined by more than 50%. Class A vacancy also decreased substantially. The current Class A vacancy of 2.9%, a record low and unchanged since Q4 2017, fell from 6.5% a year ago and from 10.1% in Q1 2016. A 60,000 sq. ft. cold storage BTS was delivered in Q1

2018 and a 50,000 sq. ft. speculative project in the Edinburg submarket remained under construction. The quarter also saw the start of five new BTS developments, all located in the Pharr submarket. Four of the newly started BTS projects are cold storage facilities and, together, total about 80,000 sq. ft. The fifth BTS, Phase 1 of the Pharr Logistics Center, is a 105,000 sq. ft. warehouse, part of which will be available for lease.

ASKING RATES STEADY AFTER YEAR-LONG GROWTH

Compared to Q1 2017, market-wide asking rates increased by \$0.40 per sq. ft. per year and Class A increased by \$0.33 per sq. ft. per year. The vacancy rate downward trend slowed by the end of 2017 and the delivery of speculative developments in the second half of 2017 relieved some of the upward pressure on asking rates. Market-wide asking rates increased by \$0.01 per sq. ft. compared to Q4 2017 while Class A rents increased by \$0.02 per sq. ft.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q1 2018 Net Absorption	Q4 2017 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,958,872	0.0	0.0	4.48	N/A	4.48	-	-	(18,621)	81,071
Class A	4,926,805	1.3	11.9	4.50	N/A	4.50	-	-	0	70,000
Class B	3,975,337	2.0	6.7	4.44	N/A	4.44	-	-	(30,000)	42,450
Pharr	4,143,807	6.7	11.7	4.57	19.80	6.84	185,000	60,000	97,400	132,500
Class A	1,580,935	5.7	10.4	5.25	19.80	10.07	185,000	60,000	60,000	67,500
Class B	1,757,422	10.2	16.9	4.08	N/A	4.08	-	-	0	65,000
Edinburg	2,291,771	0	0	N/A	N/A	N/A	50,000	-	0	0
Class A	387,234	0	0	N/A	N/A	N/A	50,000	-	0	0
Class B	394,625	0	0	N/A	N/A	N/A	-	-	0	0
Hidalgo	1,436,698	4.8	8.8	4.29	15.85	6.26	-	-	0	38,200
Class A	595,728	11.5	17.5	4.29	N/A	4.29	-	-	0	38,200
Class B	21,400	0	100	N/A	15.85	15.85	-	-	0	0
Mission	1,684,724	1	1.0	N/A	18.00	18.00	-	-	0	(17,334)
Class A	866,084	2	2	N/A	18.00	18.00	-	-	0	(17,334)
Class B	467,132	0	0	N/A	N/A	N/A	-	-	0	0
Off Park	2,307,597	0.6	9.6	4.82	N/A	4.82	-	-	0	18,000
Class A	24,000	0	0	N/A	N/A	N/A	-	-	0	18,000
Class B	1,076,696	0.0	0.0	N/A	N/A	N/A	-	-	0	0
McAllen Total	23,823,469	3.0	9.7	4.54	18.56	5.36	235,000	60,000	78,779	252,437
 Class A	8,380,786	2.9	10.4	4.57	19.37	5.79	235,000	60,000	60,000	176,366
 Class B	7,692,612	3.4	7.6	4.27	15.85	4.87	0	0	(30,000)	107,450

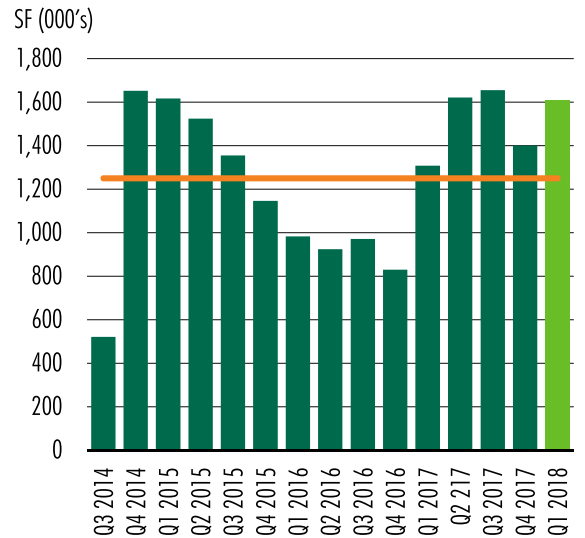
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q1 2018.

Figure 3: Absorption Activity

Type	Submarket	Industry	Total SF
Delivered BTS	Pharr	Transportation/Distribution-Logistics-3PL	60,000
Lease	Pharr	Aluminum MFG	30,000
User Sale	McAllen	Transportation/Distribution-Logistics-3PL	26,750
Lease	Pharr	Paper, Pulp, Packaging & Printing	26,020
Lease	McAllen	Retail	20,000
Lease	McAllen	Other	11,379

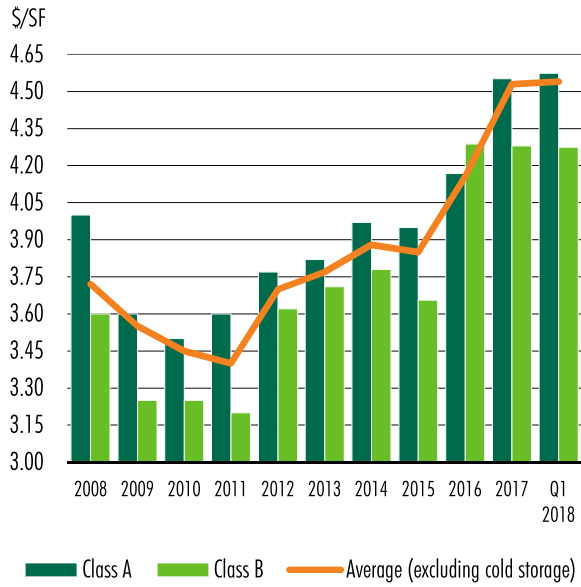
Source: CBRE Research, Q1 2018.

Figure 4: Active Users in the Market



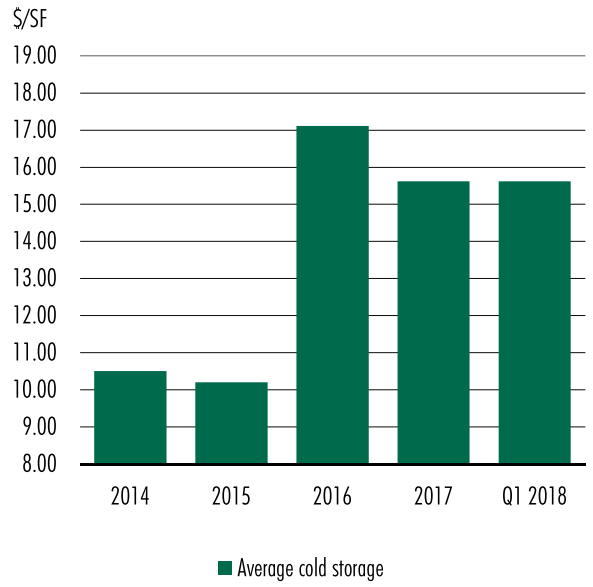
Source: CBRE Research, Q1 2018.

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



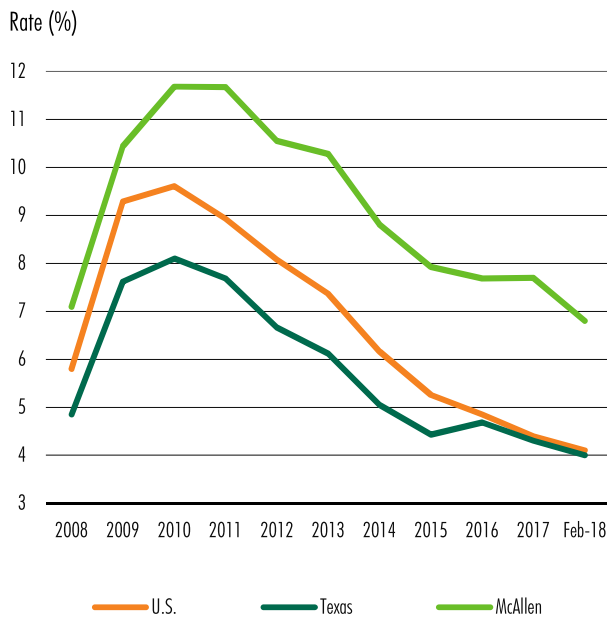
Source: CBRE Research, Q1 2018.

Figure 6: **Asking Rates, NNN Avg. Annual



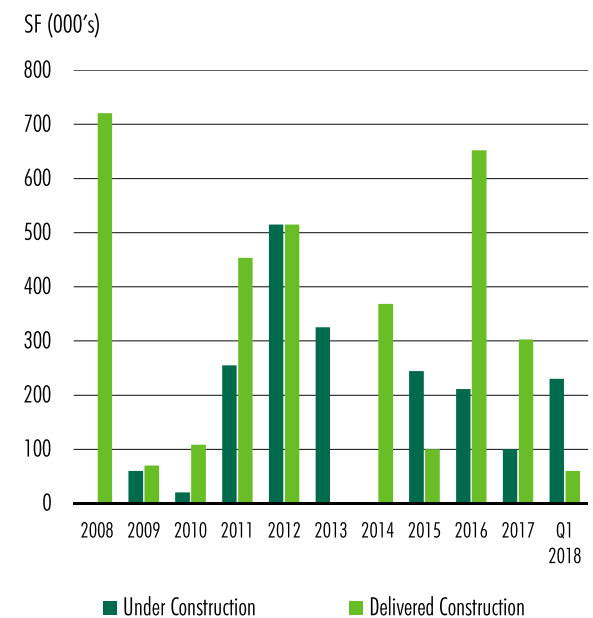
Source: CBRE Research, Q1 2018.

Figure 7: Unemployment Rate

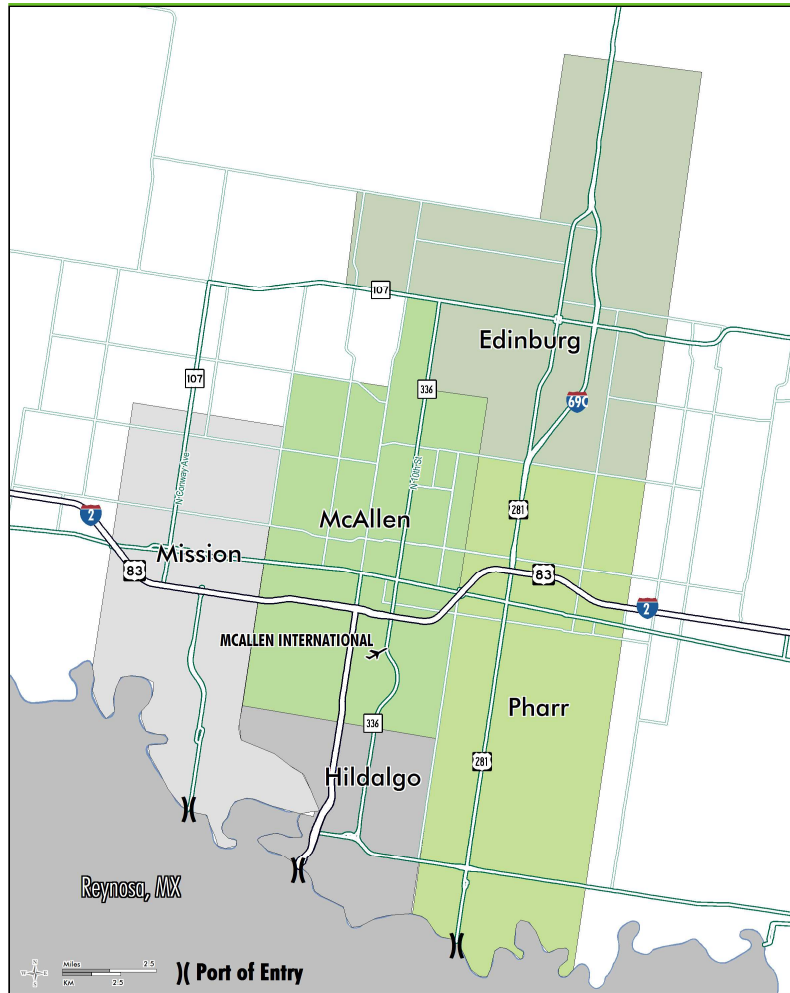


Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis. April 2018. Seasonally Adjusted.

Figure 8: Construction



Source: CBRE Research, Q1 2018.



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****Notes:**

McAllen average asking rates dating back to Q1 2015 were adjusted during Q3 2017 to better reflect a weighted average based on available sq. ft.

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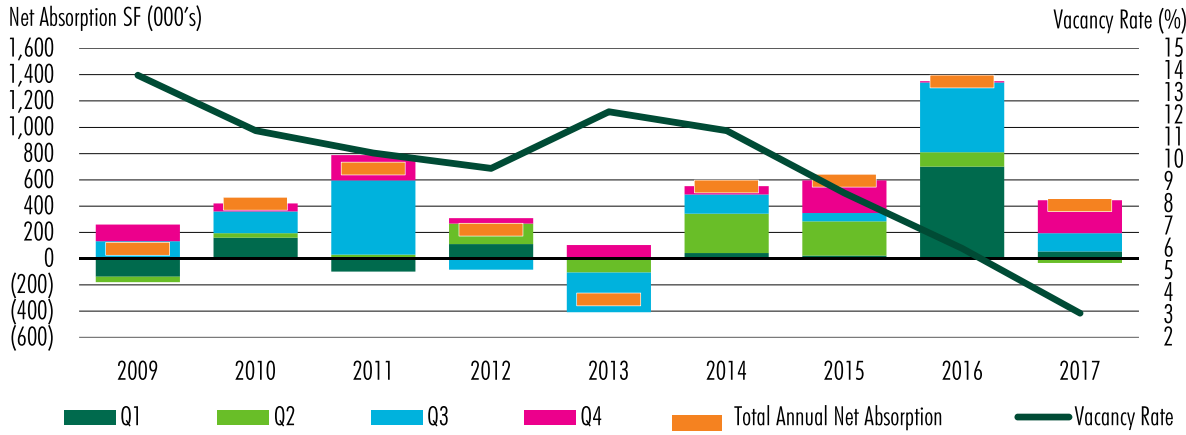
McAllen Industrial, Q4 2017

Record lows and highs; 2017 ends with solid fundamentals

▼ Vacancy 3.1%
▲ **Avg. Asking Rate \$4.53 PSF
▲ Net Absorption 234,437 SF
▼ Under Construction 100,000 SF
▼ Completions 100,000 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.

RECORD HIGH FOURTH QUARTER NET ABSORPTION

A traditionally slow quarter for the market, Q4 2017 had the highest net absorption for the year. The quarter also set a fourth-quarter record for the current cycle, surpassing the previous 2015 high by just 5,000 sq. ft. This was driven by new leases which accounted for 80% of total market activity during the quarter. Absorption was also strengthened by the delivery of a new speculative project with 70,000 sq. ft. pre-leased. During Q4 2017, gross absorption reached 759,000 sq. ft., 157,000 sq. ft. more than the combined previous three quarters. In addition, the majority of vacancies during the quarter were backfilled and the market saw only 50,000 sq. ft. of new vacant space.

VACANCY AT RECORD LOW, STRONG DEMAND

The vacancy rate declined from 3.8% in Q3 2017 to 3.1%, a new cycle-low. Year-over-year, when the

rate stood at 6.0%, vacancy has been cut nearly in half. Meanwhile, demand for space has remained above the lagging 12-quarter average. Notably, demand declined compared to the previous quarter by an amount nearly equal to the Q4 2017 net absorption.

MARKET CONDITIONS PUSH RENTS UP

The combination of compressing availability and solid demand has put upward pressure on average asking rates, particularly in the Class A market. At the end of Q4 2017, Class A vacancy also reached a record low vacancy and had only 11 properties with available space. Class A asking rents grew by \$0.05 per sq. ft. quarter-over-quarter and by \$0.38 per sq. ft. compared to Q4 2016. Market-wide, rents also saw substantial quarterly and annual growth increasing by \$0.14 per sq. ft. and \$0.37 per sq. ft., respectively. With these increases, both the market and Class A rents reached cycle highs.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	**Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q4 2017 Net Absorption	Total 2017 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,962,378	2.7	11.9	4.51	5.40	4.54	-	120,000	81,071	194,209
Class A	4,926,805	1.3	11.3	4.49	N/A	4.49	-	120,000	70,000	147,741
Class B	3,978,843	1.2	4.7	4.48	N/A	4.48	-	-	42,450	56,113
Pharr	4,083,807	7.7	13.5	4.48	19.80	6.41	50,000	-	132,500	19,296
Class A	1,520,935	5.9	12.8	4.97	19.80	9.12	50,000	-	67,500	67,925
Class B	1,757,422	10.2	16.9	4.08	N/A	4.08	-	-	65,000	(38,504)
Edinburg	2,291,771	0	0	N/A	N/A	N/A	50,000	-	0	18,480
Class A	387,234	0	0	N/A	N/A	N/A	50,000	-	0	0
Class B	394,625	0	0	N/A	N/A	N/A	-	-	0	0
Hidalgo	1,436,698	4.8	8.8	4.29	15.85	6.26	-	-	38,200	78,710
Class A	595,728	11.5	17.5	4.29	N/A	4.29	-	-	38,200	78,710
Class B	21,400	0	100	N/A	15.85	15.85	-	-	0	0
Mission	1,684,724	1	1.0	N/A	18.00	18.00	-	-	(17,334)	(17,334)
Class A	866,084	2	2	N/A	18.00	18.00	-	-	(17,334)	(17,334)
Class B	467,132	0	0	N/A	N/A	N/A	-	-	0	0
Off Park	2,307,597	0.6	9.6	4.82	N/A	4.82	-	-	18,000	115,548
Class A	24,000	0	0	N/A	N/A	N/A	-	-	18,000	18,000
Class B	1,076,696	0.0	0.0	N/A	N/A	N/A	-	-	0	0
McAllen Total	23,766,975	3.1	9.8	4.53	15.62	5.33	100,000	120,000	252,437	408,909
 Class A	8,320,786	2.9	10.5	4.55	19.37	5.77	100,000	120,000	176,366	295,042
 Class B	7,696,118	3.0	6.5	4.28	15.85	4.92	0	0	107,450	17,609

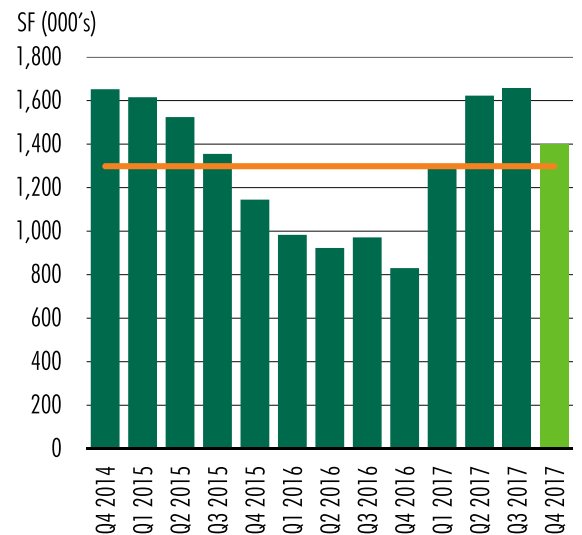
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q4 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Lease	Mission	Machinery/Automation MFG	252,750
Lease	Pharr	Transportation/Distribution-Logistics-3PL	67,500
Lease	McAllen	Paper, Pulp, Packaging & Printing	65,264
Lease	Pharr	Transportation/Distribution-Logistics-3PL	65,000
Lease	McAllen	Transportation/Distribution-Logistics-3PL	50,000
Lease	Hidalgo	Other	38,200
Lease	McAllen	Motor Vehicles & Parts MFG	32,000

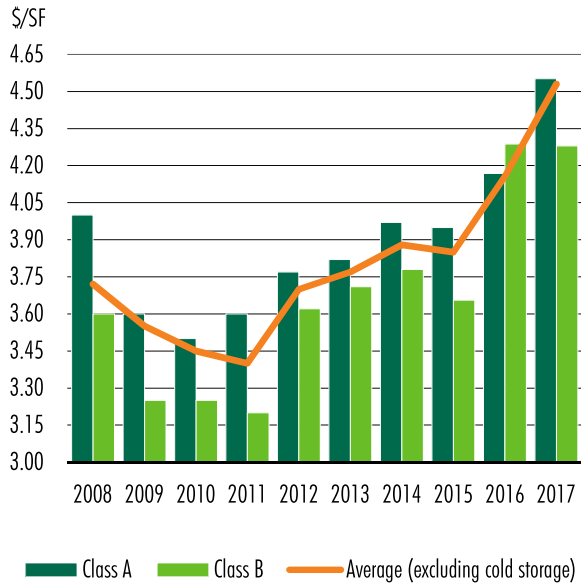
Source: CBRE Research, Q4 2017.

Figure 4: Active Users in the Market



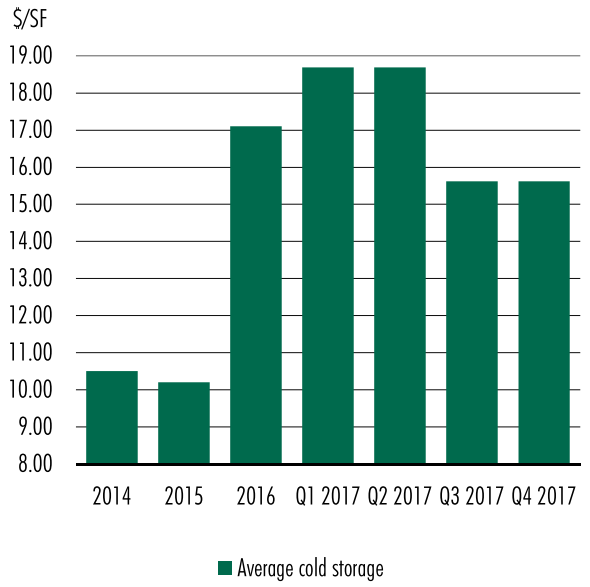
Source: CBRE Research, Q4 2017.

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



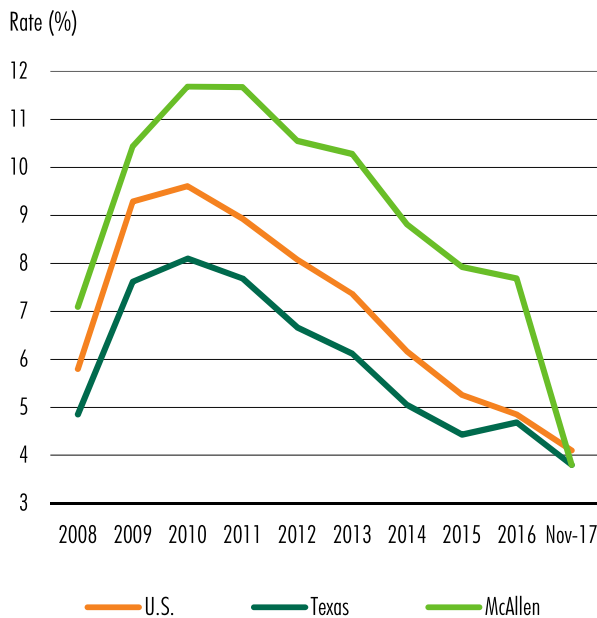
Source: CBRE Research, Q4 2017.

Figure 6: **Asking Rates, NNN Avg. Annual



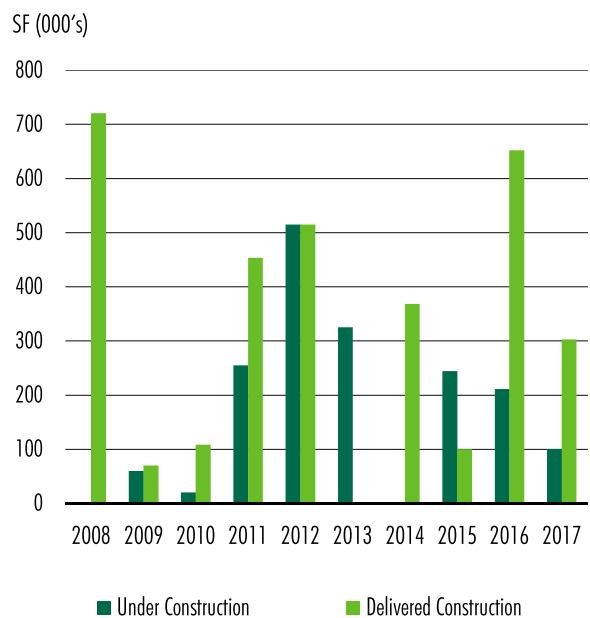
Source: CBRE Research, Q4 2017.

Figure 7: Unemployment Rate

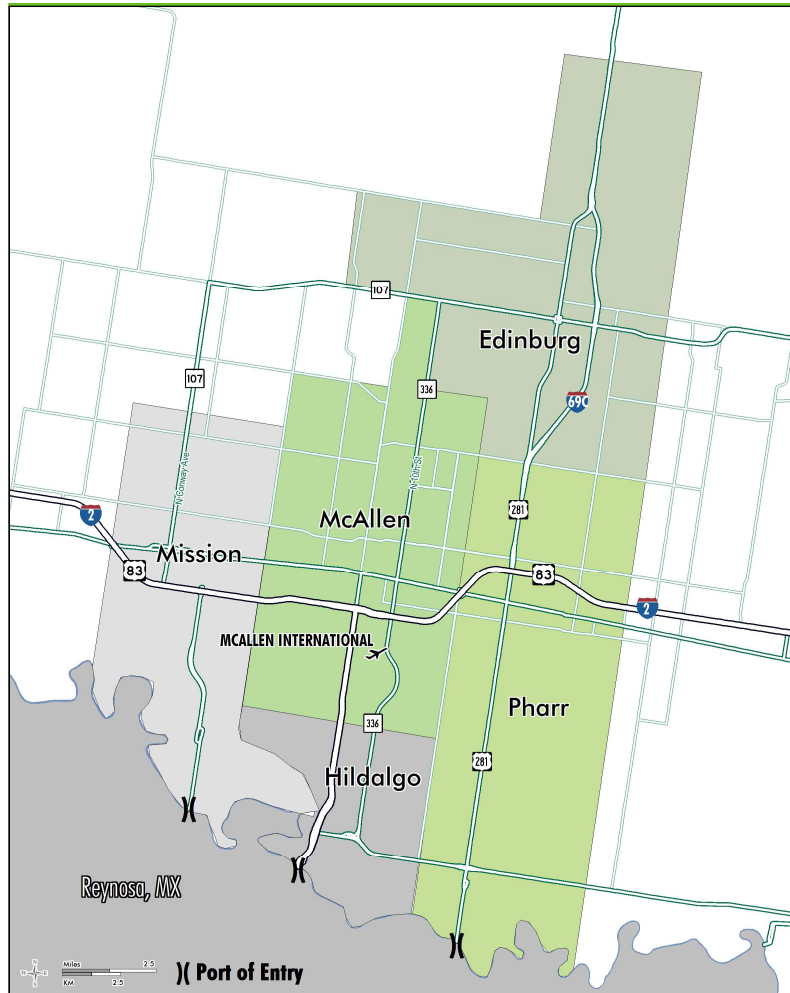


Source: Bureau of Labor Statistics; Federal Reserve Bank of Dallas, December 2017. Seasonally Adjusted.

Figure 8: Construction



Source: CBRE Research, Q4 2017.



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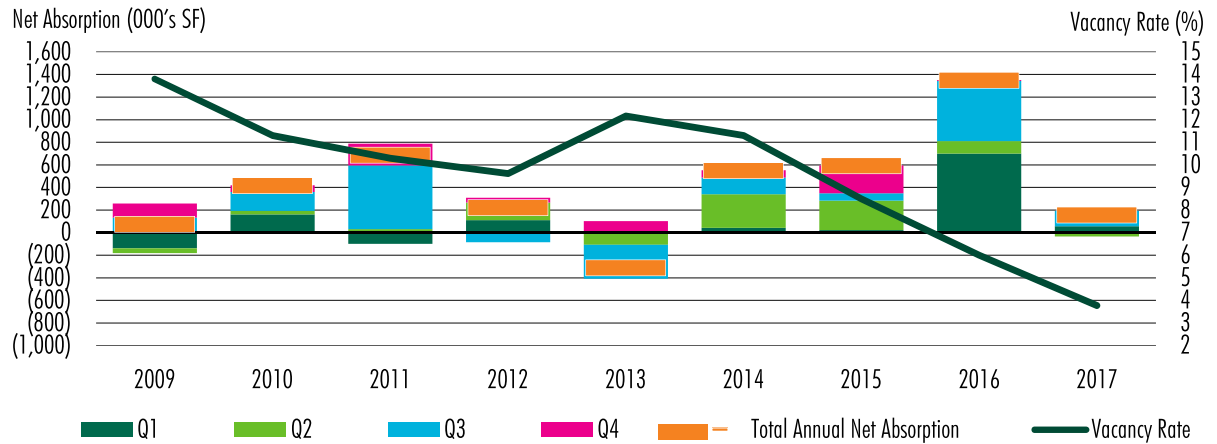
McAllen Industrial, Q3 2017

Net absorption back in black; user pipeline at new high

▼ Vacancy 3.8%
▲ **Avg. Asking Rate \$4.39 PSF
▲ Net Absorption 136,915 SF
▼ Under Construction 170,000 SF
▲ Completions 157,500 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 2017.

NET ABSORPTION BOUNCES BACK

Following a quarter of negative net absorption that broke a 14-quarter streak, the market returned to positive territory. Activity was healthy with gross absorption just shy of 210,000 sq. ft. The industrial market saw a mix of renewals, new leases and user sales. Q3 2017 was a strong quarter for the stable, but usually low-profile, McAllen market.

VACANCY AT RECORD LOW

The vacancy rate declined from 5.3% in Q2 2017 to 3.8%. However, the majority of this decrease was due to database adjustments which removed 377,000 sq. ft. of vacant space from the McAllen submarket. These adjustments were the result of re-occupancy and building owners utilizing available space in their buildings while continuing to market the property.

NEW SPEC SPACE BOLSTERS ASKING RENTS

The newly delivered 157,500 sq. ft. vacant, multi-

tenant spec was larger than the average size of available space already in the market and, cold storage space excluded, has one of the highest asking rates. Given this, and volatility caused by limited availability, the **average asking rate saw a quarterly increase of \$0.08 per sq. ft.

DEMAND FOR INDUSTRIAL SPACE AT CYCLE HIGH

As the market entered the post-recession period, net absorption and leasing activity improved considerably. The buildup of demand during the recovery period saw relief and total industrial space requirements of active user in the market began a downward trend, hitting a low of 830,000 sq. ft. in Q4 2016. Local economic improvements, increased development, and new south-bound commercial lanes at international ports renewed interest in the region. Demand for industrial space saw substantial gains and reached a cycle high of 1.65 million sq. ft. in Q3 2017.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)		**Net Avg. Asking Lease Rates (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q2 2017 Net Absorption	Q3 2017 Net Absorption	
			Industrial Space*	Cold Storage	Industrial Avg.					
McAllen	11,827,292	2.9	5.9	4.28	N/A	4.28	120,000	-	(52,979)	74,909
Class A	4,810,805	1.2	5.8	4.37	N/A	4.37	120,000	-	(24,168)	74,909
Class B	4,728,001	6.0	8.4	4.14	N/A	4.14	-	-	(50,545)	0
Pharr	4,083,916	9.6	13.8	4.64	19.80	6.49	50,000	157,500	0	21,496
Class A	1,521,044	10	13.9	5.40	19.80	9.11	50,000	157,500	0	0
Class B	1,781,422	10	17.1	4.08	N/A	4.08	-	-	0	21,496
Edinburg	2,291,771	0	0	N/A	N/A	N/A	-	-	18,480	0
Class A	387,234	0	0	N/A	N/A	N/A	-	-	0	0
Class B	394,625	0	0	N/A	N/A	N/A	-	-	0	0
Hidalgo	1,436,698	9.0	10.5	5.90	15.85	5.90	-	-	0	40,510
Class A	595,728	21.6	21.6	4.24	N/A	4.24	-	-	0	40,510
Class B	21,400	0	100	N/A	15.85	15.85	-	-	0	0
Mission	1,684,640	0	14.2	4.20	N/A	4.20	-	-	0	0
Class A	866,000	0	27.5	4.20	N/A	4.20	-	-	0	0
Class B	467,132	0	0	N/A	N/A	N/A	-	-	0	0
Off Park	2,307,597	1.4	10.4	4.53	N/A	4.53	-	-	0	0
Class A	0	0	0	N/A	N/A	N/A	-	-	0	0
Class B	1,210,696	1.5	10.6	5.40	N/A	5.40	-	-	0	0
McAllen Total	23,631,914	3.8	8.0	4.39	18.69	5.06	170,000	157,500	(34,499)	136,915
Class A	8,180,811	4.2	10.5	4.50	19.80	5.47	170,000	157,500	(24,168)	115,419
Class B	8,603,276	5.7	9.9	4.41	15.85	4.82	0	0	(50,545)	21,496

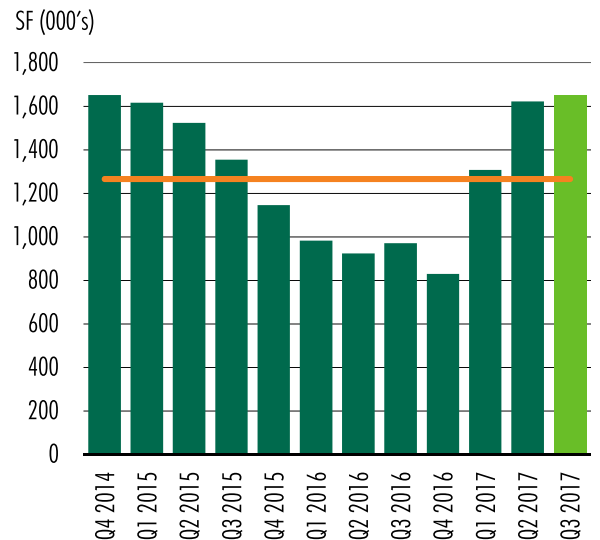
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q3 2017.

Figure 3: Top Market Transactions

Type	Submarket	Industry	Total SF
Lease	McAllen	Transportation/Distribution/Logistics-3PL	40,173
Lease	McAllen	Transportation/Distribution/Logistics-3PL	34,736
User Sale	Pharr	Other-Services	25,279
User Sale	Pharr	Transportation/Distribution/Logistics-3PL	21,496
Lease	Hidalgo	Transportation/Distribution/Logistics-3PL	18,460

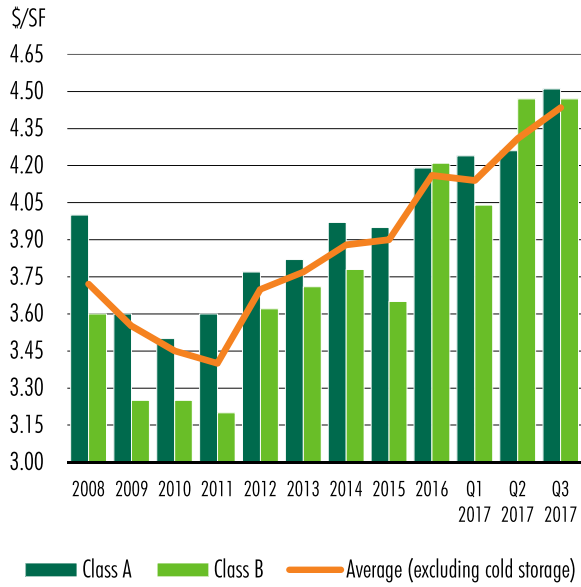
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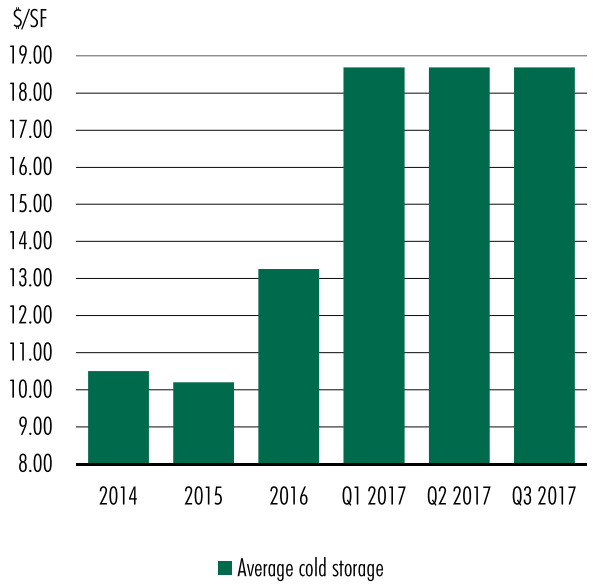
Source: CBRE Research, Q3 2017.

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



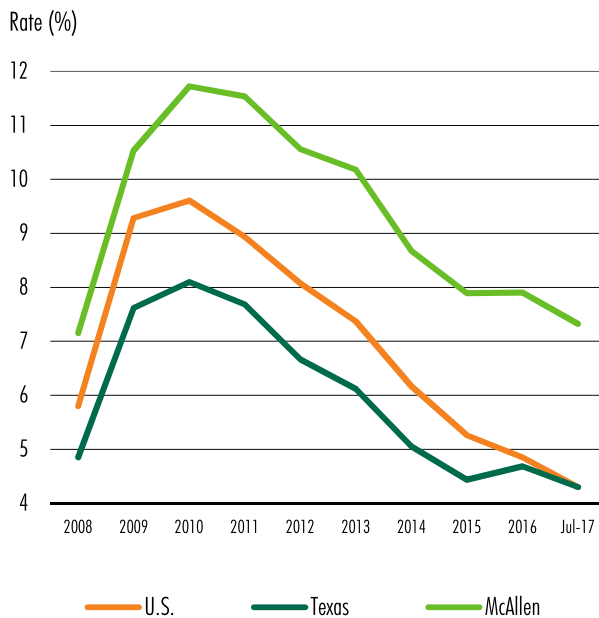
Source: CBRE Research, Q3 2017.

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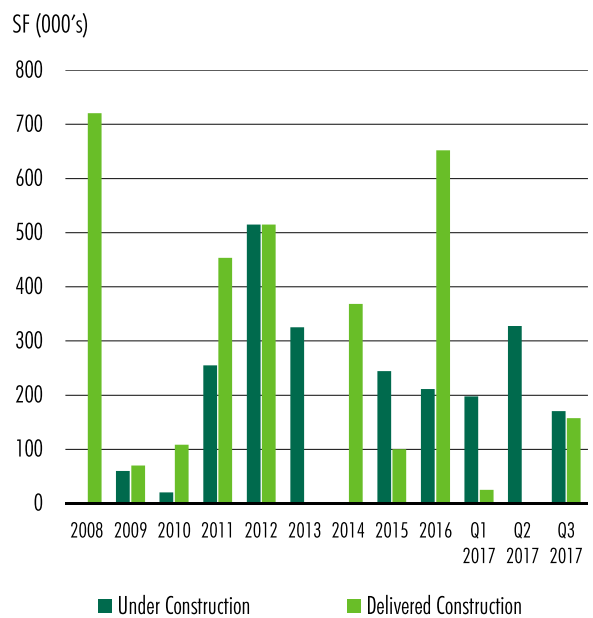
Source: CBRE Research, Q3 2017.

Figure 7: Unemployment Rate

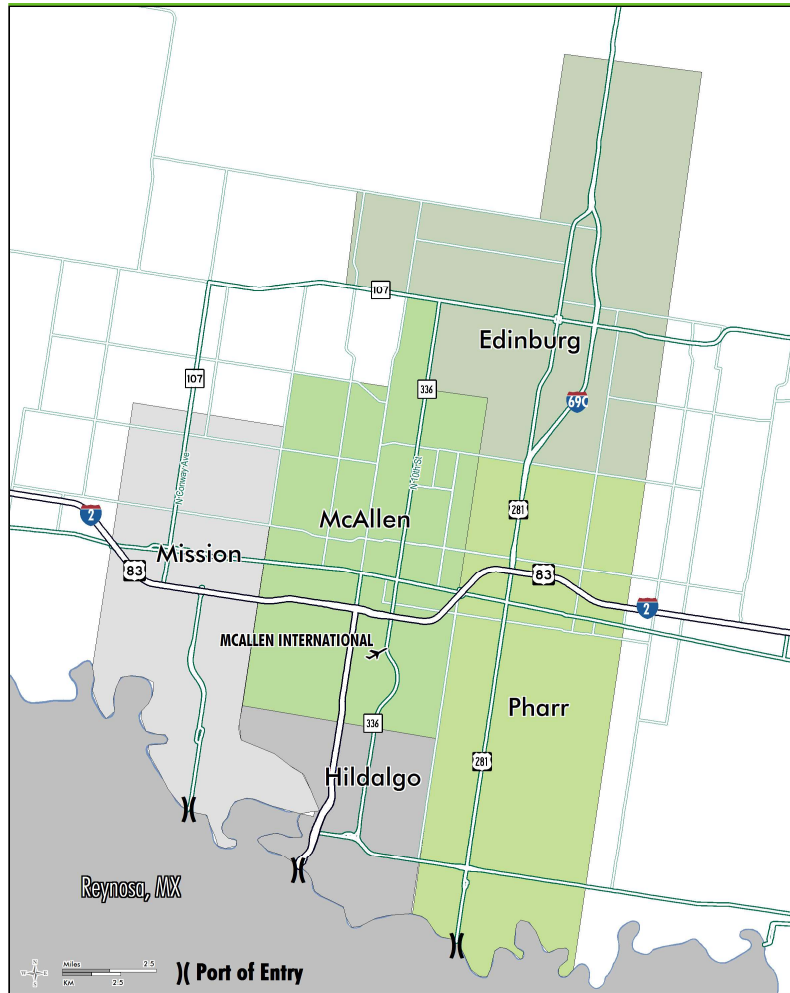


Source: Bureau of Labor Statistics, September 2017.

Figure 8: Construction



Source: CBRE Research, Q3 2017.



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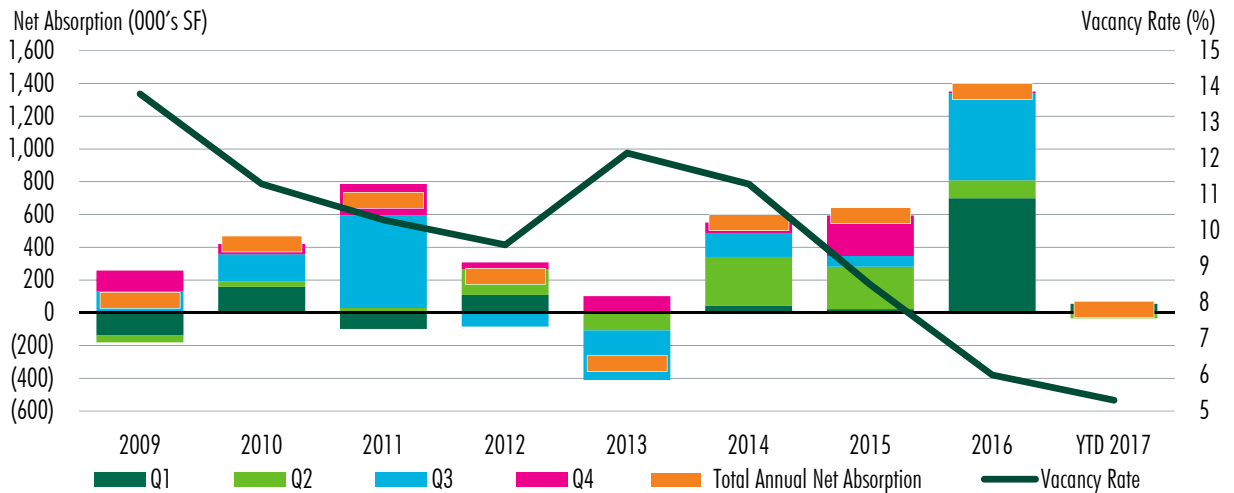
McAllen Industrial, Q2 2017

Net absorption balances out; user pipeline strengthens

▼ Vacancy 5.3%
▲ Avg. Asking Rate \$4.31 PSF
▼ Net Absorption (34,499) SF
▲ Under Construction 327,500 SF
▼ Completions 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, Q2 2017.

Following fourteen quarters of positive net absorption, the McAllen industrial market posted its first negative quarter in Q2 2017. Year-to-date net absorption remains in positive territory.

Compared to Q1 2017, the market vacancy rate fell from 6.1% to 5.3%, a new cycle low. Year-over-year, vacancy was down from 6.5%. This decline was the result of database adjustments which removed just over 168,000 sq. ft. of vacant space.

While Q2 2017 had slightly lower total sq. ft. of new vacancies and a similar number of transactions compared to the previous quarter, transaction sizes were relatively smaller. Market activity registered a total of seven transactions. New leases accounted for roughly 62% of total activity with a median size of 10,600 sq. ft. Demand for industrial space in the market surpassed the trailing ten-quarter average

at just over 1.6 million sq. ft. This number of active users increased by 42% and the average sq. ft. requirement increased by 24% year-over-year.

As demand strengthens and vacancy rates fall, asking rents are expected to continue an upward trend. Class A vacancy rates, excluding cold storage space, declined to 5.3% from 6.2% in Q1 2017 and 9.1% in Q2 2016. Class A rents increased by \$0.02 quarter-over-quarter and \$0.10 year-over-year. The industrial asking rent, which includes cold storage, increased by \$0.28 per sq. ft. quarter-over-quarter.

The quarter saw the start of two new construction projects, a speculative and a build-to-suit which totaled 170,000 sq. ft. An additional 157,500 sq. ft. speculative project that began in Q1 2017, remains under construction.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q1 2017 Net Absorption	Q2 2017 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,827,292	5.3	7.4	4.36	NA	4.63	120,000	-	91,208	(52,979)
Class A	4,810,805	4.9	7.3	4.26	NA	4.26	120,000	-	27,000	(24,168)
Class B	4,728,001	6.4	8.8	4.47	NA	4.47	-	-	64,208	(50,545)
Pharr	3,926,416	7.9	11.5	4.20	19.80	7.15	207,000	-	(134,700)	0
Class A	1,363,544	4.0	4.0	NA	19.80	19.80	207,000	-	425	0
Class B	1,781,422	11.7	19.7	4.08	NA	4.08	-	-	(125,000)	0
Edinburg	2,291,771	0	0	NA	NA	NA	-	-	0	18,480
Class A	387,234	0	0	NA	NA	NA	-	-	0	0
Class B	394,625	0	0	NA	NA	NA	-	-	0	0
Hidalgo	1,436,698	11.8	13.3	4.25	15.85	5.55	-	-	0	0
Class A	595,728	28.4	28.4	4.25	NA	4.25	-	-	0	0
Class B	21,400	0	100	NA	15.85	15.85	-	-	0	0
Mission	1,684,640	0	13.3	4.20	NA	4.20	-	-	0	0
Class A	866,000	0	25.8	4.20	NA	4.20	-	-	0	0
Class B	467,132	0	0	NA	NA	NA	-	-	0	0
Off Park	2,307,597	6.2	10.4	3.71	NA	3.71	-	-	97,548	0
Class A	-	0	7.3	NA	NA	NA	-	-	0	0
Class B	1,210,696	10.6	8.8	3.85	NA	3.85	-	-	0	0
McAllen Total	23,474,414	5.3	8.6	4.31	18.69	5.09	327,000	0	54,056	(34,499)
Class A	8,023,311	5.7	10.0	4.26	19.80	5.32	327,000	0	27,425	(24,168)
Class B	8,603,276	7.4	10.7	4.47	15.85	4.87	-	0	(60,792)	(50,545)
Industrial Space*	19,344,117	5.4	9.1	-	-	4.36	277,500	0	(43,917)	(34,499)
Cold Storage	4,130,297	4.8	5.4	-	-	18.69	50,000	0	425	0

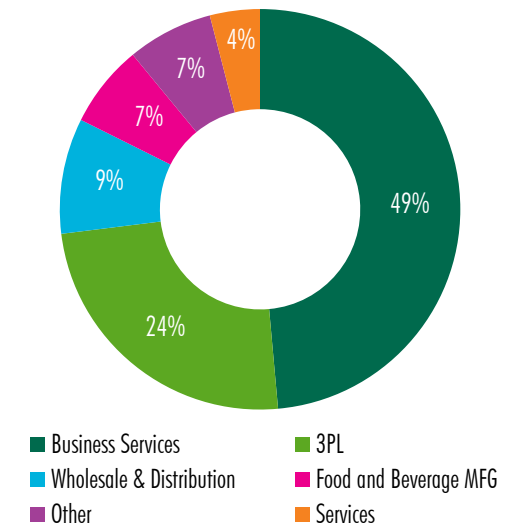
*Industrial space excludes cold storage space. Although Class C is not listed, totals are inclusive of all classes of data.
Source: CBRE Research, Q2 2017.

Figure 3: Top Market Transactions

Type	Submarket	Space Use	Total SF
Lease	McAllen	Warehousing/Storage	97,548
Renewal	McAllen	Logistics-3PL	56,000
Sale	Edinburg	Wholesale/Distribution	52,500
Lease	McAllen	Food/Beverage MFG	31,500
Sale	McAllen	Services	27,000

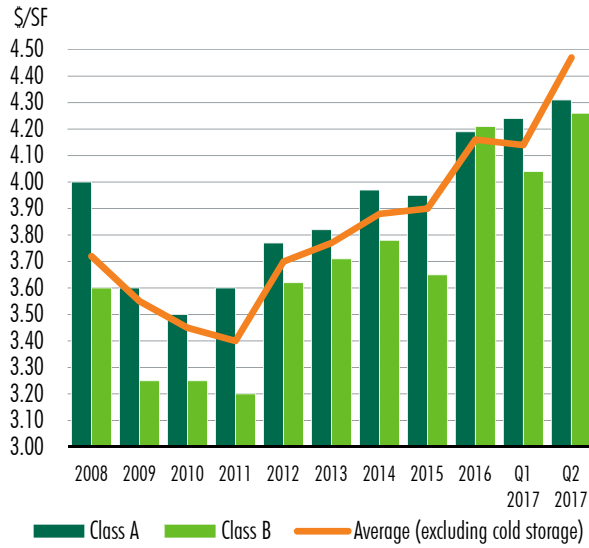
Source: CBRE Research, Q2 2017.

Figure 4: Q2 2017 Activity by Industry



Source: CBRE Research, Q2 2017.

Figure 5: Asking Rates, NNN Avg. Annual



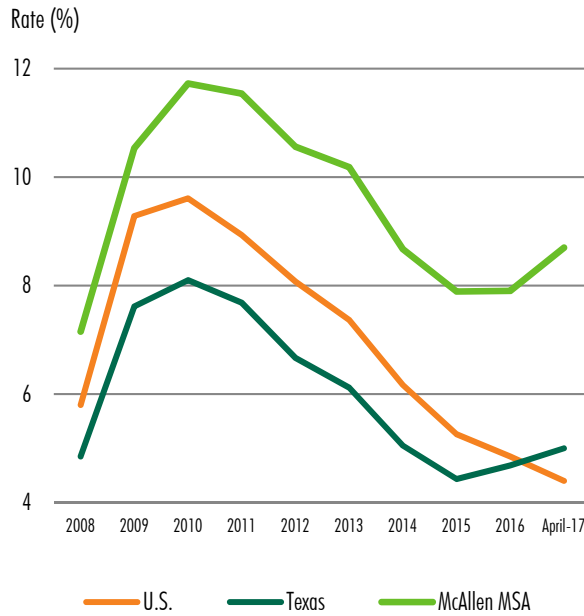
Source: CBRE Research, Q2 2017.

Figure 6: Asking Rates, NNN Avg. Annual



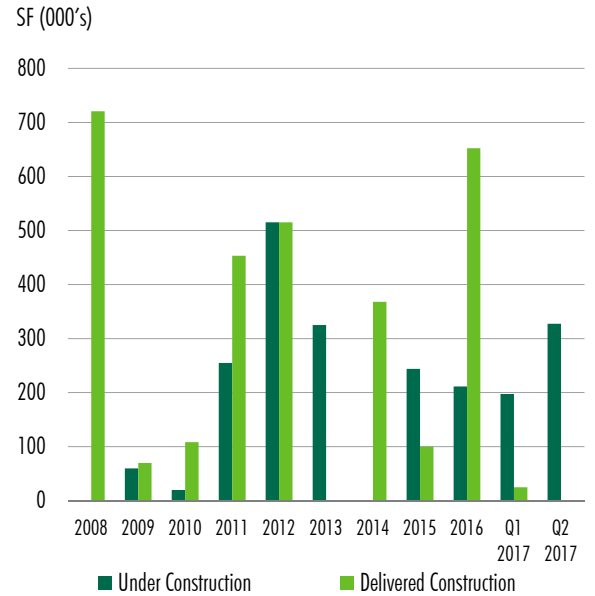
Source: CBRE Research, Q2 2017.

Figure 7: Unemployment Rate

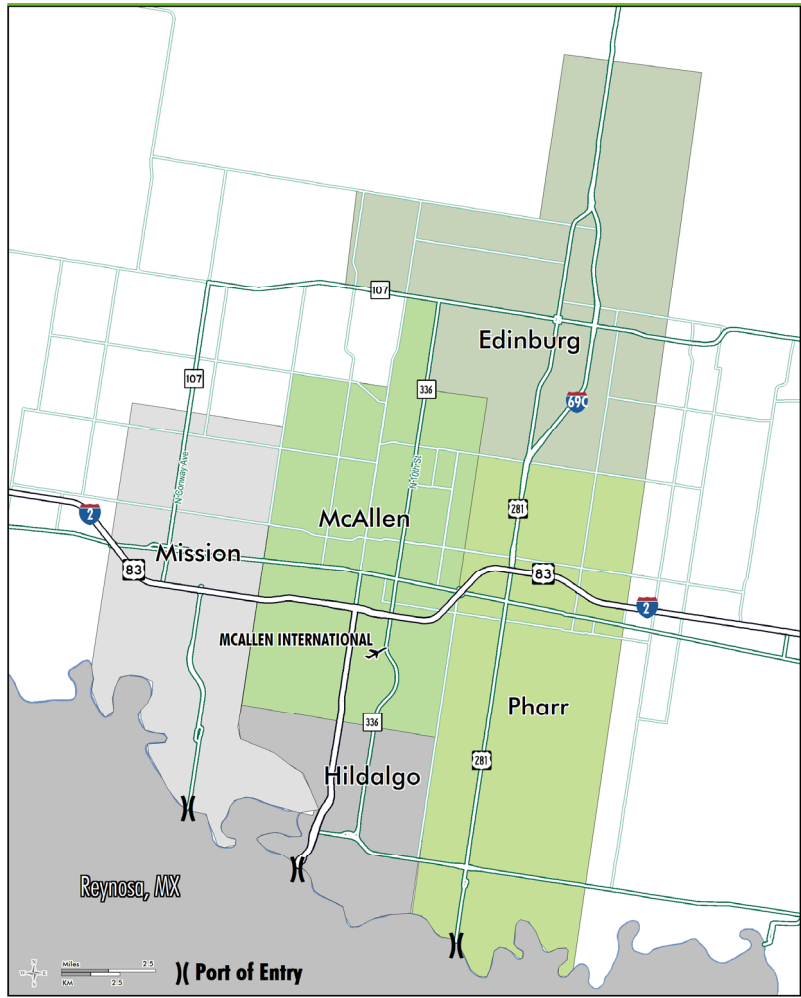


Source: Bureau of Labor Statistics, June 2017.

Figure 8: Construction



Source: CBRE Research, Q2 2017.



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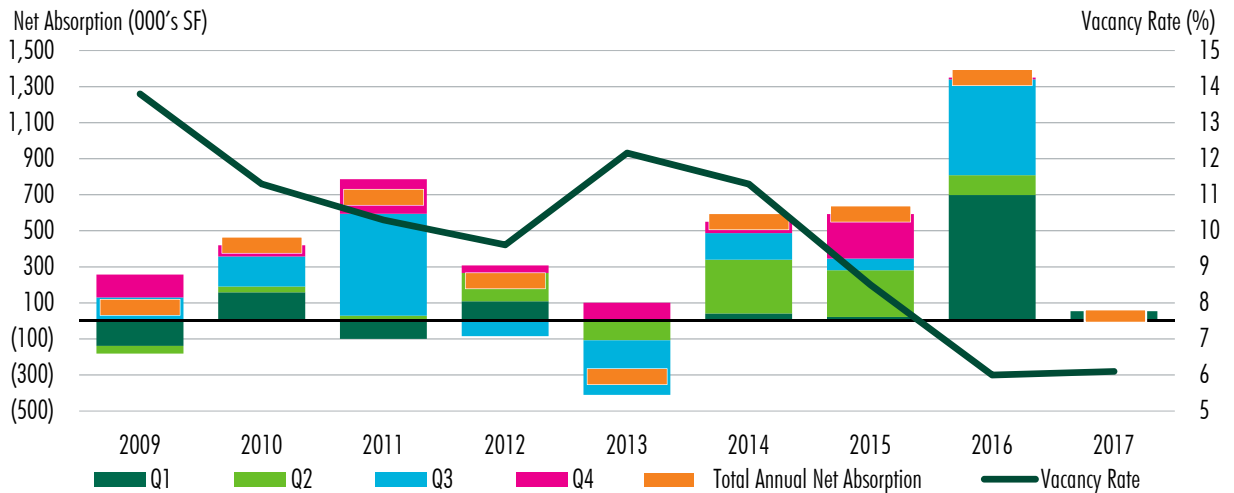
McAllen Industrial, Q1 2017

Low vacancy, solid absorption set positive tone for 2017

▲ Vacancy **6.1%**
▼ Avg. Asking Rate **\$4.14 PSF**
▲ Net Absorption **54,056 SF**
▼ Under Construction **197,500 SF**
▲ Completions **25,000 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 54,000 sq. ft. of net absorption in Q1 2017 continued the fourteen quarter positive streak in net demand for the McAllen market and kept the vacancy rate near the current cycle-low. With only a handful of vacancies recorded for the industrial market, the slight uptick was caused by database adjustments which added just over 45,000 sq. ft. of vacant space. Compared to Q1 2016, the market vacancy rate fell by 53 basis points (bps).

Market activity registered a steady quarter with a total of eight transactions. New leases accounted for nearly 35% of total activity with an average size of 28,500 sq. ft. Demand for industrial space in the market surpassed the trailing nine-quarter average at just over 1.3 million sq. ft. While the number of active users in the market has remained stable, the average user requirement for the quarter is larger,

roughly 20,000 sq. ft., than those of the previous five quarters. McAllen's continued growth as an international trade, warehousing, and logistics hub will continue to attract industries that require more aggregate space, including refrigerated storage.

As demand strengthens and vacancy rates fall, asking rents are expected to continue an upward trend. Q1 2017 Class A rents, excluding cold storage space, have seen vacancy rates drop 400 (bps) year-over-year and from 19.8% in Q1 2015 to 6.2%. Substantial vacancy rate decreases and only 316,000 sq. ft. of speculative construction since 2011, have put upward pressure on Class A and market-wide rents. The industrial asking rent, which includes cold storage, increased by \$0.27 per sq. ft. quarter-over-quarter and \$0.71 per sq. ft. compared to Q1 2016.

Figure 2: McAllen Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rates (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q4 2016 Net Absorption	Q1 2017 Net Absorption
				Industrial Space*	Cold Storage	Industrial Avg.				
McAllen	11,801,205	6.6	8.3	4.18	NA	4.18	-	-	(17,000)	91,208
Class A	4,810,805	6.2	8.0	4.24	NA	4.24	-	-	(27,000)	27,000
Class B	4,703,172	7.6	8.9	4.05	NA	4.05	-	-	0	64,208
Pharr	3,896,416	7.4	9.1	4.23	19.80	6.99	187,500	25,000	12,000	(134,700)
Class A	1,333,544	4.1	5.6	4.60	19.80	15.72	187,500	25,000	0	425
Class B	1,769,422	10.6	13.2	4.08	NA	4.08	-	-	12,000	(125,000)
Edinburg	2,291,771	0.8	0.8	4.32	NA	4.32	-	-	0	0
Class A	387,234	0	0	NA	NA	NA	-	-	0	0
Class B	394,625	0	0	NA	NA	NA	-	-	0	0
Hidalgo	1,436,698	11.8	13.3	4.25	15.85	5.55	-	-	0	0
Class A	595,728	28.4	28.4	4.25	NA	4.25	-	-	0	0
Class B	21,400	0	100.0	NA	15.85	15.85	-	-	0	0
Mission	1,684,640	0	13.3	NA	NA	NA	10,000	-	15,000	0
Class A	866,000	0	25.8	4.20	NA	4.20	10,000	-	15,000	0
Class B	467,132	0	0	NA	NA	NA	-	-	0	0
Off Park	2,346,374	7.7	11.9	3.78	NA	3.78	-	-	0	97,548
Class A	0	0	0	NA	NA	NA	-	-	0	0
Class B	1,249,473	13.3	13.3	3.85	NA	3.85	-	-	0	0
McAllen Total	23,483,191	6.1	8.7	4.14	18.69	4.81	197,500	25,000	10,000	54,056
Class A	7,993,311	6.5	10.7	4.24	19.80	5.24	197,500	25,000	(12,000)	27,425
Class B	8,630,053	8.2	9.8	4.04	15.85	4.45	0	0	12,000	(60,792)
Industrial Space*	19,382,894	7.0	9.6	-	-	4.14	187,500	0	(5,000)	(43,917)
Cold Storage	4,100,297	4.9	5.4	-	-	18.69	30,000	25,000	15,000	425

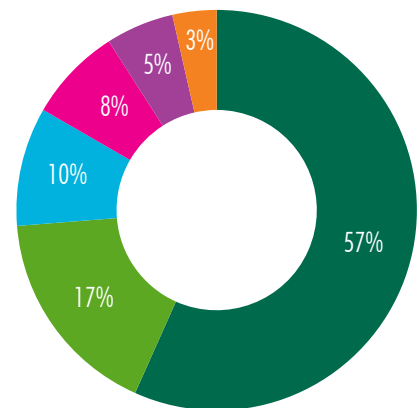
*Industrial space excludes cold storage space. Although Class C is not included, totals are inclusive of all classes of data.
Source: CBRE Research, Q1 2017.

Figure 3: Top Market Transactions

Type	Submarket	Space Use	Total SF
Sale	Off Park	Logistics-3PL	97,548
Renewal	McAllen	Manufacturing	56,000
Lease	McAllen	Logistics-3PL	52,500
Lease	Pharr	Distribution/Wholesale	31,500
Renewal	McAllen	Logistics-3PL	27,000
Delivered Construction	Pharr	Distribution/Wholesale	25,000
Lease	McAllen	Distribution/Wholesale	18,000

Source: CBRE Research, Q1 2017.

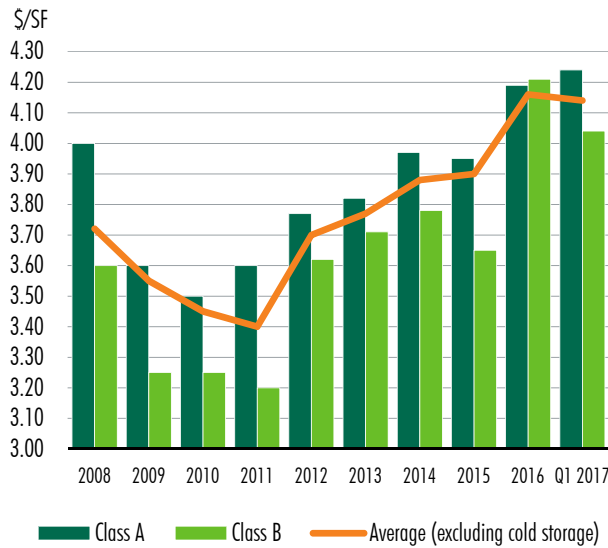
Figure 4: Q1 2017 Activity by Industry



Legend:
 ■ 3PL
 ■ Pet Supplies Wholesale & Manufacturing
 ■ General Merchandise Retail
 ■ Fruit and Vegetable Wholesale
 ■ Electronic Component Wholesale
 ■ Automotive Parts and Accessories Wholesale & Manufacturing

Source: CBRE Research, Q1 2017.

Figure 5: Asking Rates, NNN Avg. Annual



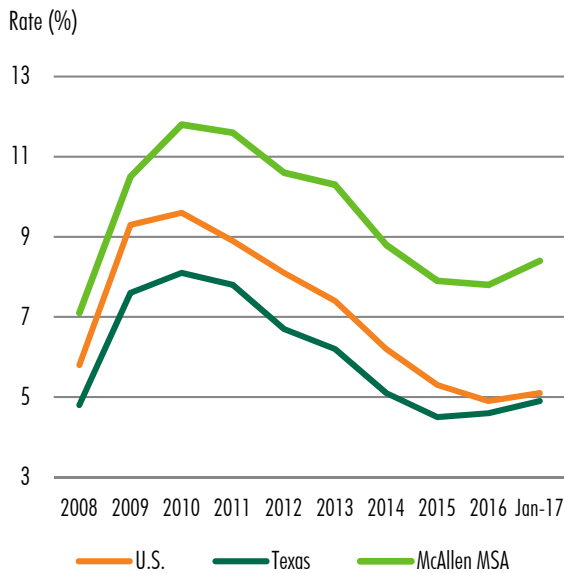
Source: CBRE Research, Q1 2017.

Figure 6: Asking Rates, NNN Avg. Annual



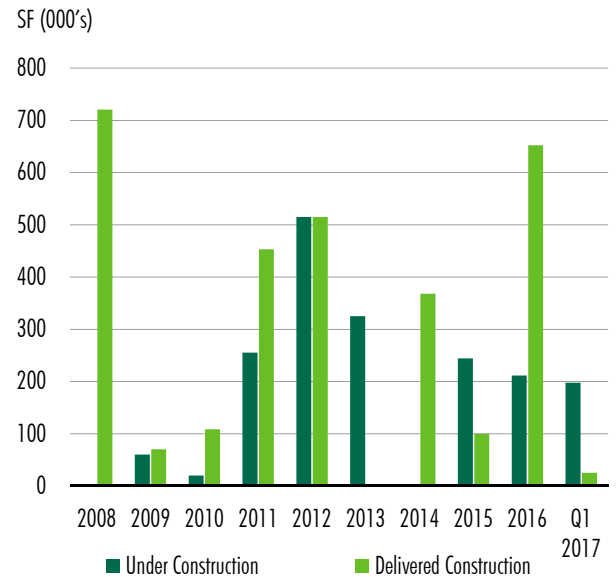
Source: CBRE Research, Q1 2017.

Figure 7: Unemployment Rate

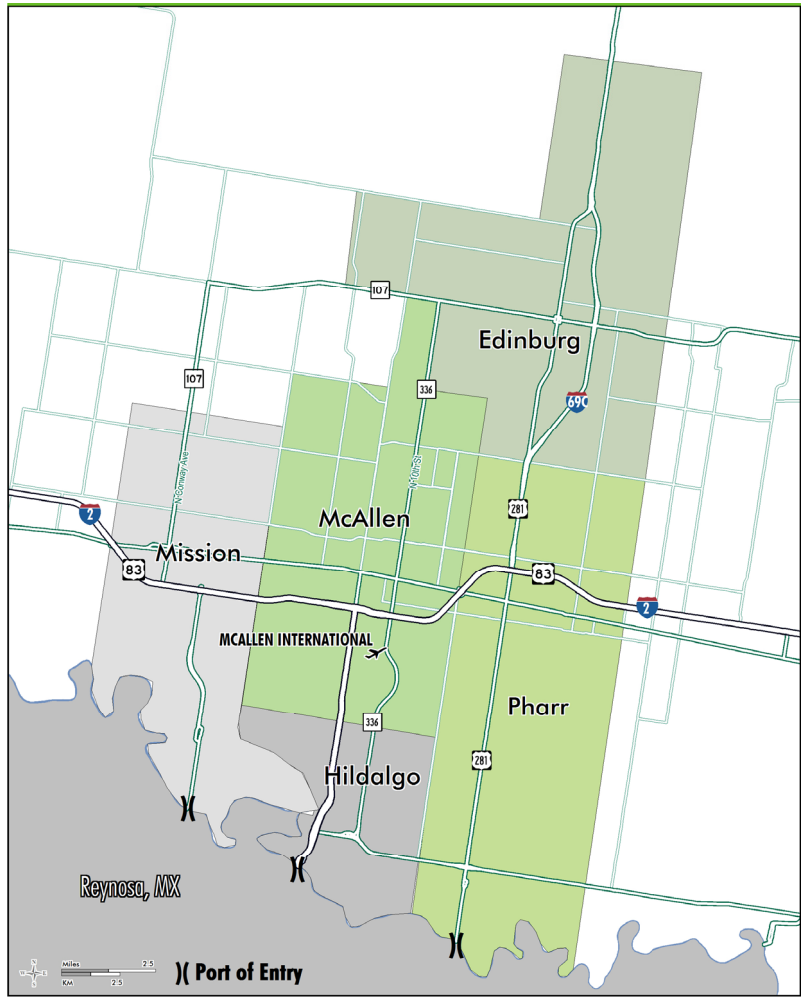


Source: Bureau of Labor Statistics, March 2017.

Figure 8: Construction



Source: CBRE Research, Q1 2017.



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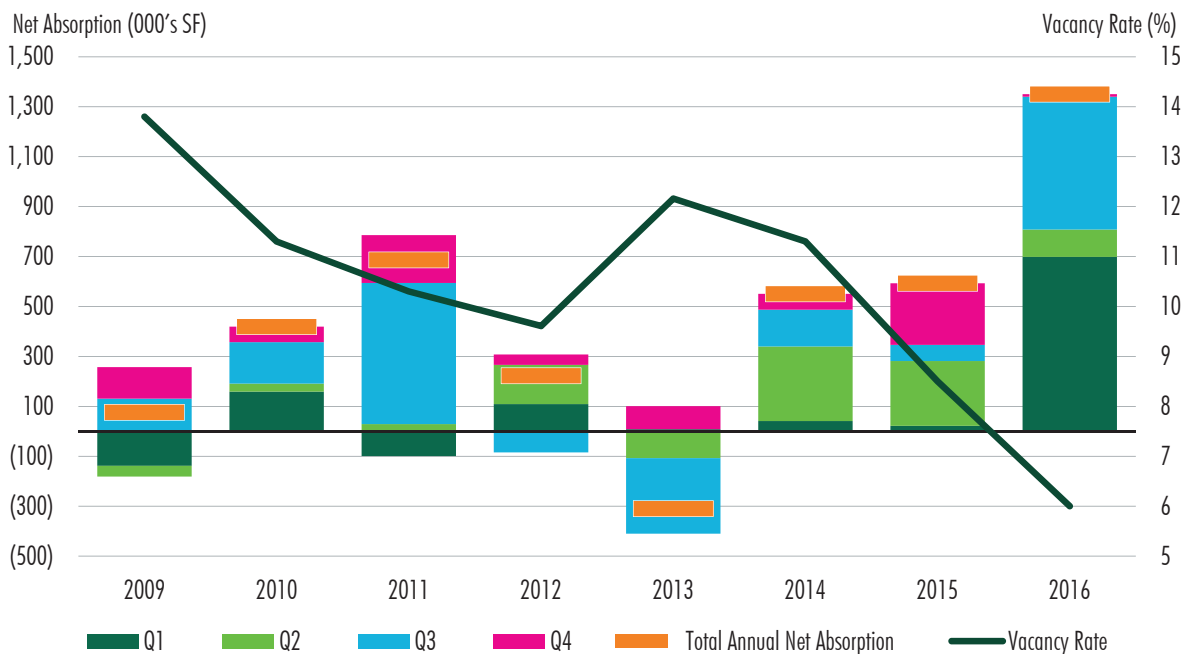
McAllen Industrial, Q4 2016

Vacancy at new low; largest annual net absorption on record

▼ Vacancy Rate 6.0%
▲ Avg. Asking Rate \$4.16 /SF
▼ Net Absorption 10,000 SF
▲ Construction 211,250 SF
▼ Completions 0 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2016.

- The market vacancy rate fell by 10 basis points (bps) quarter-over-quarter and 247 bps year-over-year.
- 70.0% of gross absorption in 2016 was channeled through Class A product.
- By the end of Q4 2016, year-to-date net absorption was 1.4 million sq. ft.
- Total sq. ft. under construction returned to normal levels in Q4 2016 after project deliveries in Q3 pushed it to a two year low.
- Produce out of Mexico continued pushing demand for cold storage warehouse. This industrial segment is essentially at full occupancy.

THIRTEEN CONSECUTIVE POSITIVE QUARTER

Annual net absorption for 2016 is the highest in the current cycle and nearly double the previous high of 686,335 sq. ft. in 2011. The 10,000 sq. ft. of net absorption in Q4 2016 continued the thirteenth quarter positive streak in net demand and helped offset the largest wave of vacancies during this market cycle. This robust activity pushed vacancy down further to a new cycle-low reaching 6.0%.

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 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 ROBUST

The nominal and unadjusted value of export trade from the U.S. to Mexico through the Hidalgo-Pharr port of entry reached \$8.6 billion year-to-date in October 2016. This total is 5.3% below the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached \$15.9 billion, 3.6% above the same period last year. Future import growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican peso. This has shown to boost both exports from, and investment into, Mexico's export manufacturing operations.

The most recent published data for northbound freight traffic from Mexico through the Hidalgo-Pharr port show growth in July year-to-date totals compared to the year prior. Total northbound truck crossings saw a July year-to-date increase of 2.6%, up to 331,809 compared to the equivalent period in 2015.

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected a downturn in the economy that began in February 2016 and continues through the current month. The index summarizes the broad movements in non-agricultural employment, unemployment, real wages and real retail sales. Here, November 2016 saw a year-over-year decline of 1.8% but also a month-over-month growth of 0.2%.

Within the local industrial market, activity registered a steady quarter in terms of transaction volume. Q4 2016 saw a total of five transactions. Transactions this quarter consisted only of new leases and had an average size of 15,000 sq. ft. Total active users in the market remained steady with space requirements under 1.0 million sq. ft. CBRE Research will continue to track events that may ultimately drive additional activity to the region, including the recent designation of the Anzalduas port of entry in McAllen as an international crossing for southbound empty truck containers, further automaker investments in Mexico, and several local government initiatives to bring advanced manufacturing to the region.

MARKET OVERVIEW

The McAllen industrial market includes 23.4 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S. - Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)		
									Warehouse	Cold Storage	Industrial Avg.
McAllen	11,802,463	841,802	7.1	956,103	8.1	(17,000)	-	-	3.98	NA	3.98
Pharr	3,860,285	134,109	3.5	304,388	7.9	12,000	-	201,250	4.55	18.00	5.88
Edinburg	2,291,771	18,480	0.8	18,480	0.8	-	-	-	5.40	NA	5.40
Hidalgo	1,436,698	169,350	11.8	190,750	13.3	0	-	-	4.17	15.85	5.48
Mission	1,684,640	0	0.0	240,000	14.2	15,000	-	10,000	4.56	NA	4.56
Off-Park	2,307,597	239,548	10.4	239,548	10.4	0	-	-	3.74	NA	3.74
Totals	23,383,454	1,403,289	6.0	1,949,269	8.3	10,000	0	211,250	4.16	17.10	4.54

Source: CBRE Research, Q4 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Q4 2016 produced positive net absorption after a strong first three quarters of 2016. Total transactions left Q4 2016 net absorption at 10,000 sq. ft., and were just enough to offset this quarters vacancies. At the end of Q4 2016, the market reached well above all annual levels in net absorption during the current cycle. This year-to-date net absorption of 1.4 million sq. ft. has been largely fuelled by Class A space demand which has accounted 70.0% of total gross absorption. Furthermore, the market positive streak continued at now 13 quarters long making it the lengthiest based on our dataset and has resulted in more than 2.5 million sq. ft. of net occupier demand. Activity in Q4 2016 decreased the overall market vacancy by 10 bps quarter-over-quarter and by 247 bps year-over-year to a new low of 6.0%.

In terms of new vacancy, three properties became available with an average size of 22,300 sq. ft. Two of these vacancies were later leased towards the end of Q4 2016. New vacancies this quarter were the lowest for 2016 which saw one of the largest waves of vacancies in this current cycle.

SUBMARKET ANALYSIS

Growth in average asking lease rates generally improved across submarkets and by product type. In terms of general warehouse space, McAllen was the only submarket to see an quarter-over-quarter decrease. The rest of the submarkets followed the market-wide trend of annual and quarter increases. Within cold storage, Pharr saw a substantial increase in both annual and quarterly average asking lease rate following the lease of property with a lower asking rate. It should be noted that asking rents in the cold storage market can quickly fluctuate given it's low availability of space. For additional rental rate analysis, see Figures 4 and 5.

Q4 SIGNIFICANT TRANSACTIONS

The largest deal for Q4 2016 was for a 24,000 sq. ft. warehouse lease in McAllen by an electronics wholesale company with existing operations locally. McAllen saw just over 50,000 sq. ft. in gross absorption in Q4 2016. The Mission and Pharr submarkets saw 15,000 sq. ft. and 12,000 sq. ft. of gross absorption, respectively. All of the transactions for Q4 2016 were leases by companies with established operations in the region.

LOCAL EMPLOYMENT CONTINUES TO IMPROVE

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market showed continued growth after a slight deceleration at the close of 2015. According to the BLS, total non-farm employment saw a growth of 2.9% year-over-year in October 2016. The regions unemployment rate, 7.5%, dropped 53 bps during the same 12 month period and registered a 51 bps-24-month-decrease compared to October 2014. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing. This sector saw positive growth of 0.8% year-over-year attributed mostly to gains in transportation and warehousing. The U.S. unemployment rate sat at 4.9% in October, while the Texas figure remained below the national average at 4.7%.

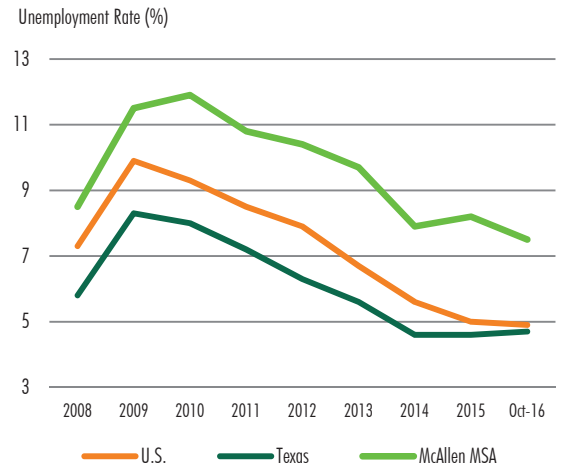
WAREHOUSE INDUSTRIAL RATES GREW

Excluding cold storage, the market wide warehouse average asking lease rate increased by a 5.1% this quarter and 6.7% year-over-year to \$4.16 per sq. ft. Rents remain above recessionary levels and the pick up in rents may be linked to decreasing availability of space given 2016's strong net absorption. In terms of average weight by asset class, Class B and C product combined for a greater share of availability at about 52.0%. 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.

COLD STORAGE VS. WAREHOUSE RENTS

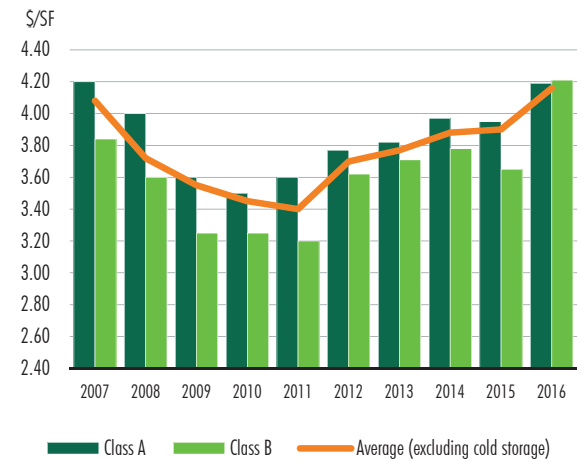
Cold storage industrial rates are tracked separately from the rest of the industrial set because of wide differences between the two. Cold storage rents quickly impacts averages despite a smaller market share. Some available cold-storage properties are asking above \$15.00 per sq. ft., more than triple compared to the warehouse average. Q4 2016 saw a cold storage market-wide average leasing rate of \$17.10, more than three times the average of warehouse rents and the overall industrial market.

Figure 3: Unemployment Rate



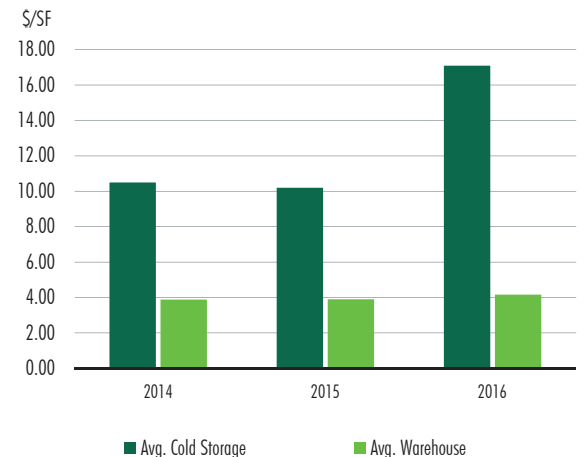
Source: Bureau of Labor Statistics, December 2016.

Figure 4: Asking Rates, NNN Avg. Annual - Warehouse



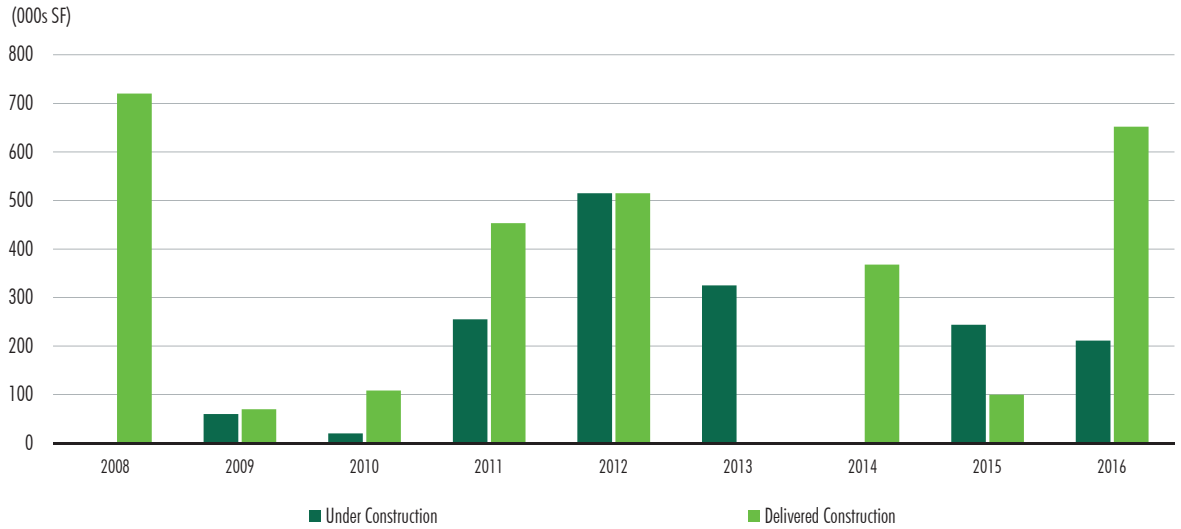
Source: CBRE Research, Q4 2016. All figures exclude Cold Storage.

Figure 5: Asking Rates - Cold Storage vs. Warehouse



Source: CBRE Research, Q4 2016.

Figure 6: Construction



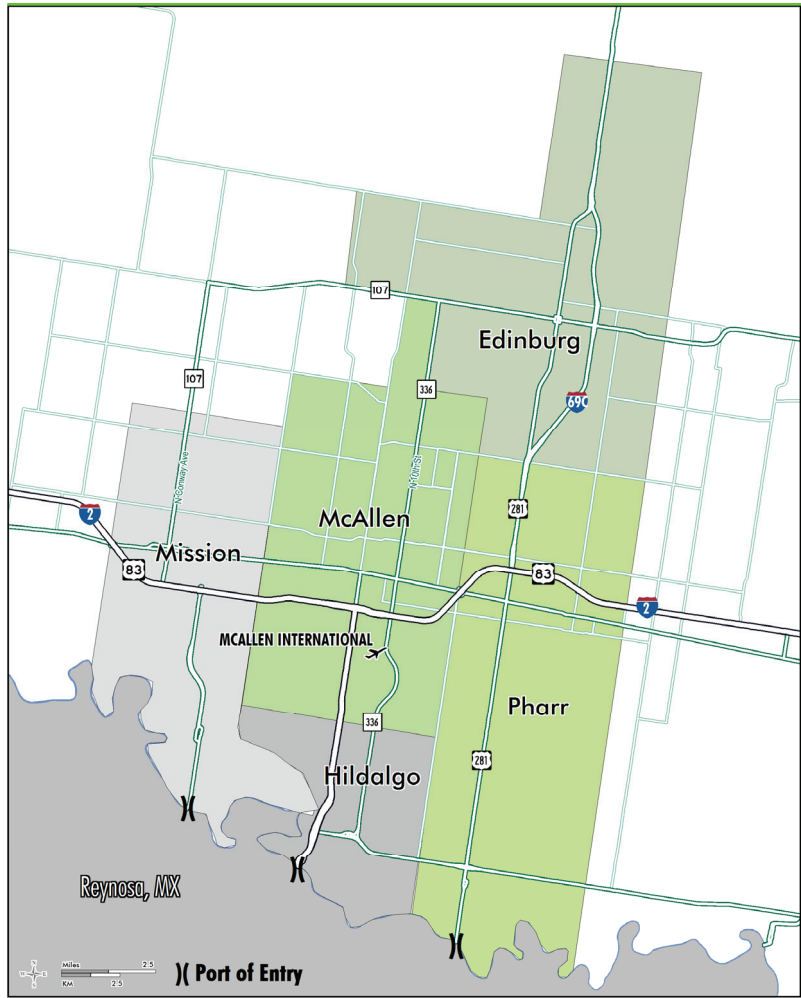
Source: CBRE Research, Q4 2016.

INDUSTRIAL DEVELOPMENT: COLD STORAGE DEMAND STILL HOT

The supply of industrial buildings in McAllen was unchanged in Q4 2016 but increased by 652,000 sq. ft. since Q4 2015. These new industrial buildings were comprised of 482,000 sq. ft. of built-to-suit or owner-occupied space and 170,000 sq. ft. was spec. 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 and vacancy updates to existing buildings. The combined inventory net size adjustment added 21,680 sq. ft. to our tracked inventory and decreased net vacancy by 7,200 sq. ft.

New space under construction more than doubled compared to last quarter resulting from the start of a 140,000 sq. ft. project. By the close of Q4 2016, four active projects totaled 211,250 sq. ft. of industrial space under construction of which 65,000 sq. ft. is expected to be delivered occupied. Cold storage demand continued fueling new development, particularly within Pharr – which became the largest gateway for produce out of Mexico in 2015. This is a trend that carried over from 2015 and did not signal deceleration after recent announcements from three different companies and will likely increase new cold storage development.

CBRE Research is also closely tracking several planned projects, both build-to-suit and speculative, that may start in early 2017. As the market improves and Class A space continues to be absorbed, we expect further downward pressure on vacancy. This may spur additional speculative development in both McAllen and Pharr submarkets.



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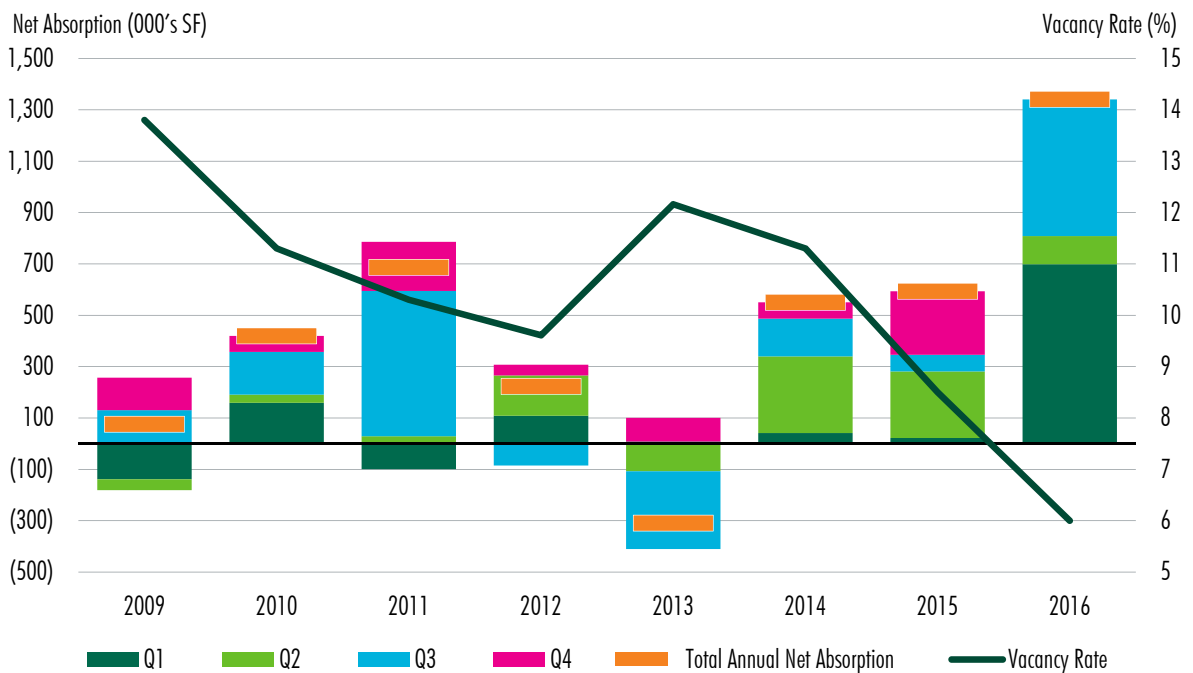
McAllen Industrial, Q3 2016

Vacancy at new cycle low; on track to net absorption record

▼ Vacancy Rate 6.1%
▼ Avg. Asking Rate \$3.96 /SF
▲ Net Absorption 532,214 SF
▼ Construction 65,000 SF
▲ Completions 346,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2016.

- The market vacancy rate fell by 47 basis points (bps) quarter-over-quarter and 341 bps year-over-year.
- 71.0% of gross absorption in Q3 2016 was channeled through Class A product.
- By the end of Q3 2016, year-to-date net absorption was more than 1,300,000 sq. ft.
- Substantial construction project deliveries in Q3 2016 pushed total under construction sq. ft. to a two year low. Two new sites began moving dirt during Q3 2016
- Produce out of Mexico continued pushing demand for cold storage warehouse. This industrial segment is essentially at full occupancy.

TWELVE CONSECUTIVE POSITIVE QUARTER

The regional industrial market registered strong positive net absorption after a soft previous quarter. The 532,214 sq. ft. of net absorption in Q3 2016 continued the twelfth quarter positive streak in net demand and offset the largest wave of vacancies during this market cycle. This robust activity pushed vacancy down further to a new cycle-low reaching 6.1%.

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 ROBUST

The nominal and unadjusted value of export trade from the U.S. to Mexico through the Hidalgo-Pharr port of entry reached \$5.9 billion year-to-date in July. This total is 7.6% below the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached \$11.6 billion, 5.2% above the same period last year. Further export growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican peso. This has shown to boost both exports from, and investment into, Mexico's export manufacturing operations.

The most recent published data for northbound freight traffic from Mexico through the Hidalgo-Pharr port show growth in July year-to-date totals compared to the year prior. Total northbound truck crossings saw a July year-to-date increase of 2.6%, up to 331,809 compared to the equivalent period in 2015.

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected a downturn in the economy that began in February 2016 and continues through the current month. The index summarizes the broad movements in non-agricultural employment, unemployment, real wages and real retail sales. Here, August saw year-over-year decline of 3.9%, the largest decline since April 2010.

Within the local industrial market, activity registered another busy quarter in terms of transaction volume. Q3 2016 saw a total of eleven transactions, five of these deals were above 100,000 sq. ft. Transactions this quarter consisted only of new leases, delivered construction, and sales. New leases were the most active category with an average size of 40,518 sq. ft. Total active users in the market remained steady with space requirements under 1.0 million sq. ft. CBRE Research will continue to track events that may ultimately drive additional activity to the region, including the commercial opening of the Anzalduas port of entry in McAllen, further automaker investments in Mexico, Mexico's energy reform, liquefied natural gas initiative in the region, and several initiatives near Brownsville, including the new SpaceX launch site.

MARKET OVERVIEW

The McAllen industrial market includes 23.4 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S. - Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)		
									Warehouse	Cold Storage	Industrial Avg.
McAllen	11,795,783	824,802	6.9	930,103	7.9	4,689	208,000	-	4.00	NA	4.00
Pharr	3,845,285	168,309	4.4	338,588	8.8	(8,605)	38,000	55,000	3.86	11.98	5.21
Edinburg	2,291,771	18,480	0.8	18,480	0.8	19,020	-	-	4.20	NA	4.20
Hidalgo	1,436,698	169,350	11.8	190,750	13.3	0	-	-	4.12	15.85	5.44
Mission	1,684,640	0	0.0	255,000	15.1	409,560	100,000	10,000	4.20	NA	4.20
Off-Park	2,307,597	239,548	10.4	239,548	10.4	107,550	-	-	3.32	NA	3.19
Totals	23,361,774	1,420,489	6.1	1,972,469	8.4	532,214	346,000	65,000	3.96	13.11	4.30

Source: CBRE Research, Q3 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Q3 2016 produced a healthy net absorption after a strong first half of 2016. Total transactions pushed Q3 2016 net absorption just below 700,000 sq. ft., and were more than enough to offset the largest wave of new vacancies since Q1 2010. At the end of Q3 2016, the market was already above all annual levels in net absorption during the current cycle. This year-to-date net absorption of 1,340,400 sq. ft. has been largely fuelled by Class A space demand which has accounted 71.0% of total gross absorption. Furthermore, the market positive streak continued at now 12 quarters long making it the lengthiest based on our dataset and has resulted in more than 2.0 million sq. ft. of net occupier demand. Activity in Q3 2016 decreased the overall market vacancy by 47 bps quarter-over-quarter and by 341 bps year-over-year to a new low of 6.1%.

In terms of new vacancy, seven properties became available with an average size of 37,100 sq. ft. The largest vacancy, 145,000 sq. ft., was the result of a vacated owner-occupied building with plans to sell the property . A smaller vacancy also occurred in another owner-occupied building but with plans to lease the property.

SUBMARKET ANALYSIS

Growth in average asking lease rates varied across submarkets and by product type. In terms of general warehouse space, McAllen was the only submarket to see an annual increase and a quarter-over-quarter increase. The rest of the submarkets followed the market-wide trend of annual and quarter decreases. Within cold storage, Pharr and Hidalgo each saw the addition of an available property. For additional rental rate analysis, see Figures 4 and 5.

Q3 SIGNIFICANT TRANSACTIONS

There were several significant transactions this quarter. The largest deal was for a 129,440 sq. ft. warehouse purchase in McAllen by a cold storage company with existing operations locally. Another purchase occurred in the Mission submarket where a 101,560 sq. ft. warehouse was purchased by a 3PL company. Q3 also registered a signature for a 107,550 sq. ft. lease by a home fixtures company who also has existing operations locally.

LOCAL EMPLOYMENT CONTINUES TO IMPROVE

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market showed continued growth after a slight deceleration at the close of 2015. According to the BLS, total non-farm employment saw a growth of 3.3% year-over-year in August 2016. The regions unemployment rate, 7.8%, dropped 39 bps during the same 12 month period and registered a 77 bps-24-month-decrease compared to August 2014. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing. This sector saw positive growth of 1.0% year-over-year attributed to gains in transportation and warehousing. The U.S. unemployment rate sat at 4.9% in August, while the Texas figure remained below the national average at 4.7%.

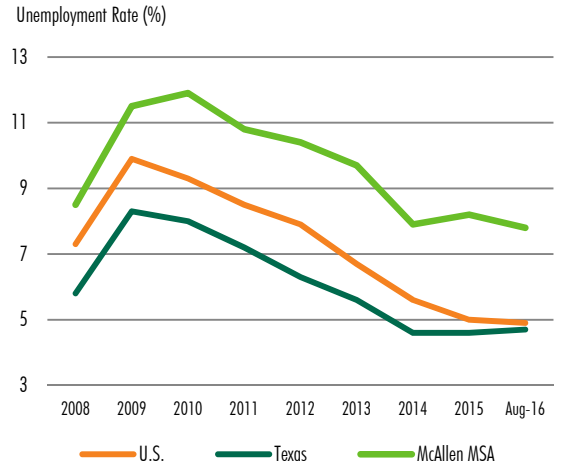
WAREHOUSE INDUSTRIAL RATES WERE FLAT

Excluding cold storage, the market wide warehouse average asking lease rate decreased by a 0.8% this quarter and 0.5% year-over-year to \$3.96 per sq. ft. While rents remain above recessionary levels, the minor dip in rents may be linked to the quarter's strong net absorption. In terms of average weight by asset class, Class B and C product combine for a greater share of availability at almost 60.0% which drives overall averages down. 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.

COLD STORAGE VS. WAREHOUSE RENTS

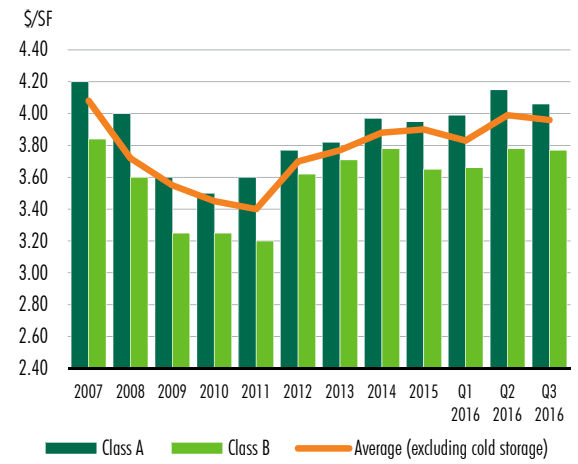
Cold storage industrial rates are tracked separately from the rest of the industrial set because of wide differences between the two. Cold storage rents quickly impacts averages despite a smaller market share. Some available cold-storage properties are asking above \$12.00 per sq. ft., more than double compared to the warehouse average. Q3 2016 saw a cold storage market-wide average leasing rate of \$13.11, more than three times the average of warehouse rents and the overall industrial market.

Figure 3: Unemployment Rate



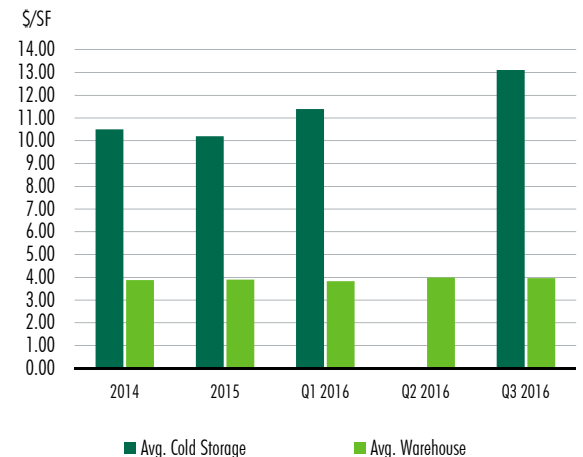
Source: Bureau of Labor Statistics, October 2016.

Figure 4: Asking Rates, NNN Avg. Annual - Warehouse



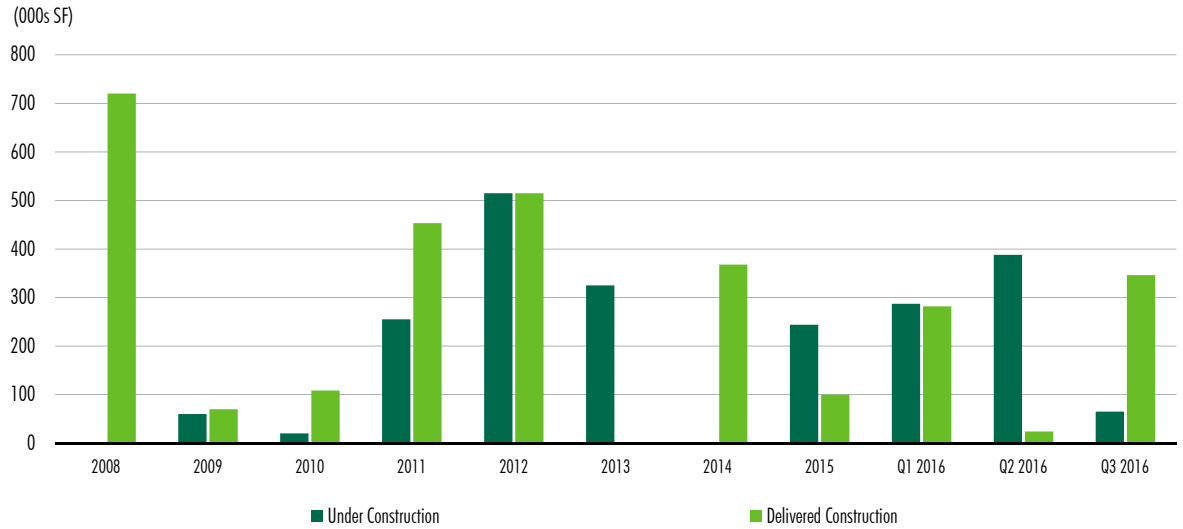
Source: CBRE Research, Q3 2016. All figures exclude Cold Storage.

Figure 5: Asking Rates - Cold Storage vs. Warehouse



Source: CBRE Research, Q3 2016.

Figure 6: Construction



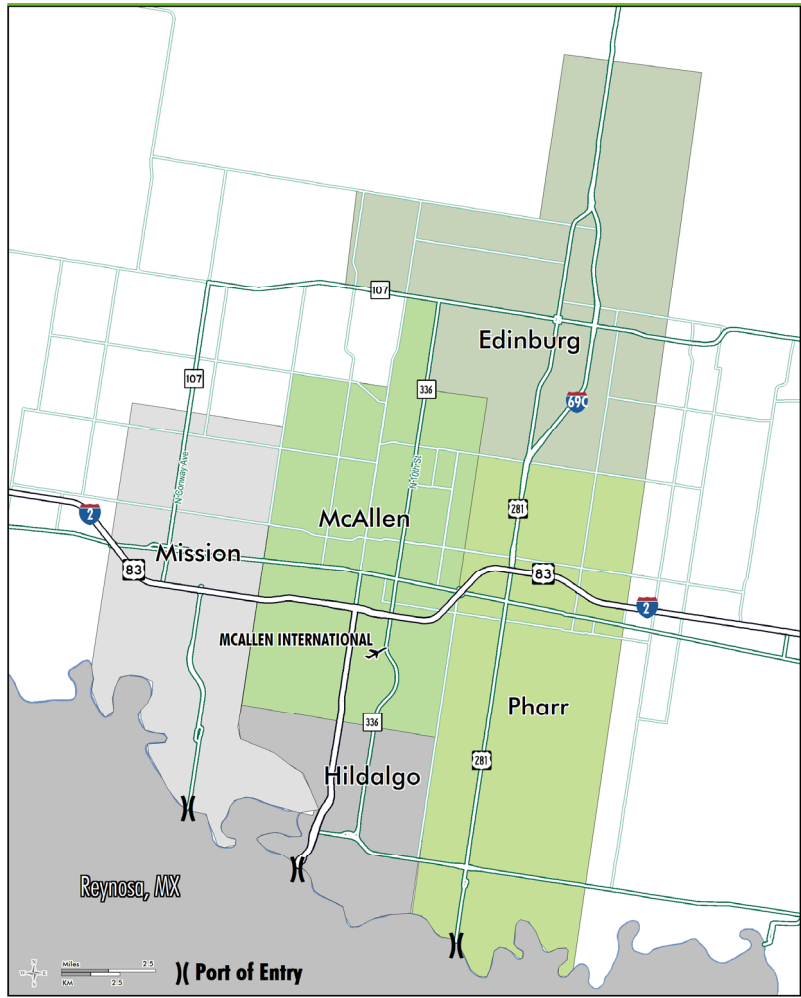
Source: CBRE Research, Q3 2016.

INDUSTRIAL DEVELOPMENT: COLD STORAGE DEMAND STILL HOT

The supply of industrial buildings in McAllen increased in Q3 2016 through the delivery of three construction projects, two located in Mission and one located in Pharr. These new industrial buildings added 346,000 to our database and was comprised of 208,000 sq. ft. of preleased space and 138,000 sq. ft. of owner-occupied space. 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 and vacancy updates to existing buildings. The combined inventory net size adjustment added 99,850 sq. ft. to our tracked inventory and added a net vacancy of 106,660 sq. ft.

New space under construction decreased 82.3% compared to last quarter resulting from the delivery of three projects this quarter. Q3 2016 saw two new constructions starts that are expected to be completed in early 2017. By the close of Q3 2016, three active projects totaled 65,000 sq. ft. of industrial space under construction of which 100% is expected to be delivered occupied. Cold storage demand continued fueling new development, particularly within Pharr – which became the largest gateway for produce out of Mexico in 2015. This is a trend that carried over from 2015 and did not signal deceleration after recent announcements from three different companies and will likely increase new cold storage development.

CBRE Research is also closely tracking several planned projects, both build-to-suit and speculative, that may start later in 2016. As the market improves and Class A space continues to be absorbed, we expect further downward pressure on vacancy. This may spur additional speculative development in both McAllen and Pharr submarkets.



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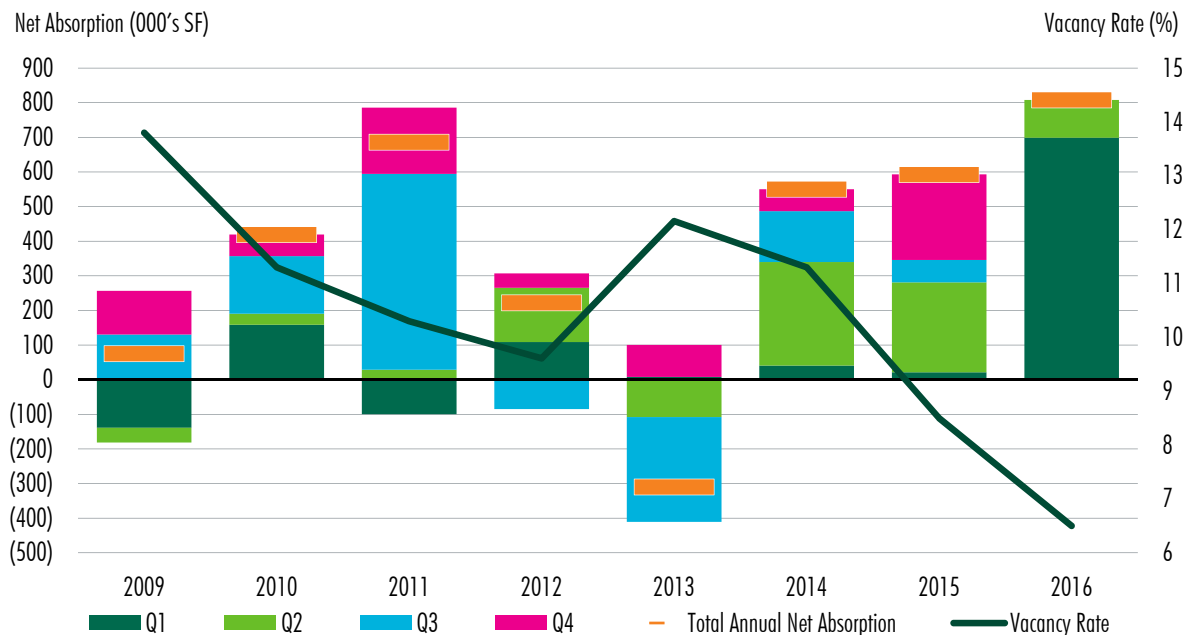
McAllen Industrial, Q2 2016

Largest market in the RGV on track to a net absorption record

▼ Vacancy Rate 6.5%
▼ Avg. Asking Rate \$3.99 /SF
▼ Net Absorption 109,354 SF
▲ Construction 388,000 SF
▼ Completions 24,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2016.

- The market vacancy rate fell by 10 basis points (bps) quarter-over-quarter and 320 bps below year-over-year.
- 62.1% of net absorption in Q2 2016 was channeled through Class A product.
- One construction site started moving dirt in Q2 2016 which pushed total under construction sq. ft. to a three year high. This is expected to be delivered fully occupied.
- Produce out of Mexico continued pushing demand for cold storage warehouse. This industrial segment is essentially at full occupancy.

AN ELEVENTH CONSECUTIVE POSITIVE QUARTER

The regional industrial market registered a positive, but somewhat softer, net absorption after a strong opening quarter. The 109,354 sq. ft. of net absorption in Q2 2016 continued the eleventh quarter positive streak in net demand and offset the largest wave of vacancies since Q4 2014. This robust activity pushed vacancy down further to a new cycle-low reaching 6.5%.

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. Furthermore, 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 ROBUST

The nominal and unadjusted value of export trade from the U.S. to Mexico through the Hidalgo-Pharr port of entry reached \$3.4 billion year-to-date in April. This total is 6.9% below the same period last year. In terms of imports from Mexico to the U.S., the 2016 year-to-date total reached \$6.8 billion, 5.6% above the same period last year. Further export growth is likely, given the sustained strength of the U.S. dollar relative to the Mexican peso. This has shown to boost both exports from, and investment into, Mexico's export manufacturing operations.

The most recent published data for northbound freight traffic from Mexico through the Hidalgo-Pharr port also show growth in March year-to-date totals compared to the year prior. Total northbound truck crossings saw a March year-to-date increase of 3.0%, up to 144,512 compared to the equivalent period in 2015.

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 44th consecutive month in May. The index summarizes the broad movements in non-agricultural employment, unemployment, real wages and real retail sales. Here may saw year-over-year growth of 4.3%, the largest growth since July 2015.

Within the local industrial market, activity registered another busy quarter in terms of transaction volume. Q2 2016 saw three new deals above 50,000 sq. ft. and the partial lease of a spec building delivered this quarter. New leases was the most active category through nine transactions with an average size of 32,000 sq. ft. In terms of outlook at the end of Q2 2016, total active users in the market remained steady with space requirements under 1.0 million sq. ft. CBRE Research will continue to track events that may ultimately drive additional activity to the region, including the commercial opening of the Anzalduas port of entry in McAllen, further automaker investments in Mexico, Mexico's energy reform, and several initiatives near Brownsville, including the new SpaceX launch site.

MARKET OVERVIEW

The McAllen industrial market includes 22.9 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S. - Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)		
									Warehouse	Cold Storage	Industrial Avg.
McAllen	11,496,283	742,991	6.5	973,645	8.5	43,905	-	208,000	3.99	NA	3.99
Pharr	3,799,885	121,704	3.2	291,983	7.7	50,949	-	80,000	3.98	NA	3.98
Edinburg	2,291,771	37,500	1.6	37,500	1.6	8,500	-	-	6.00	NA	6.00
Hidalgo	1,435,748	169,350	11.8	169,350	11.8	0	-	-	4.12	NA	4.12
Mission	1,584,640	81,400	5.1	351,400	22.2	0	-	100,000	4.20	NA	4.20
Off-Park	2,307,597	347,098	15.0	347,098	15.0	6,000	24,000	-	3.54	NA	3.54
Totals	22,915,924	1,500,043	6.5	2,170,976	9.5	109,354	24,000	388,000	3.99	NA	3.99

Source: CBRE Research, Q2 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

Q2 2016 produced a healthy net absorption after a record setting Q1 2016. Total transactions pushed Q2 2016 net absorption just above 100,000 sq. ft., and were enough to offset the largest wave of new vacancies since Q4 2014. Only halfway through 2016, the market was already above all annual levels in net absorption during the current cycle. This year-to-date net absorption of 808,000 sq. ft. has been largely fuelled by Class A space demand which has accounted 74.9% of total net absorption. Furthermore, the market positive streak also continued at now 11 quarters long making it the lengthiest based on our dataset and has resulted in more than 2.0 million sq. ft. of net occupier demand. Activity in Q2 2016 decreased the overall market vacancy by 10 bps quarter-over-quarter and by 320 bps year-over-year to a new low of 6.5%.

In terms of new vacancy, five properties became available with an average size of 36,000 sq. ft. One of the reported vacancies, of 100,000 sq. ft., was result of a relocation. Also in Q2 2016, one spec construction project delivered 24,000 sq. ft. of industrial space of which 18,000 was vacant.

SUBMARKET ANALYSIS

Growth in average asking lease rates varied across submarkets and by product type. In terms of general warehouse space, the submarkets of Edinburg, Off-Park, Mission, and McAllen saw annual increases similar to those reported at the market-wide level. Within cold storage, Pharr saw most of its available options lease, leaving only a property that is only for sale. For additional rental rate analysis, see Figures 4 and 5.

Q2 SIGNIFICANT TRANSACTIONS

There were three significant transactions this quarter. The largest deal was a warehouse lease by a pet product company in McAllen with existing operations locally. Q2 2016 also registered a signature for a 60,000 sq. ft. lease in McAllen for company that refurbishes automotive parts. In Pharr, a company that handles perishable goods leased 50,000 of cold storage warehouse.

LOCAL UNEMPLOYMENT IMPROVED AFTER SLIGHT BUMP

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market showed continued improvement after a slight deceleration at the close of 2015. According to the BLS, total non-farm employment saw a growth of 2.9% year-over-year in April 2016. The regions unemployment rate dropped 30 bps during the same 12 month period, and did register a 150 bps-24-month-decrease compared to April 2014. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing which saw positive growth of 2.1% year-over-year attributed to gains in all three industrial sectors. The U.S. unemployment rate sat at 5.0% in April, while the Texas figure remained below the national average at 4.4%.

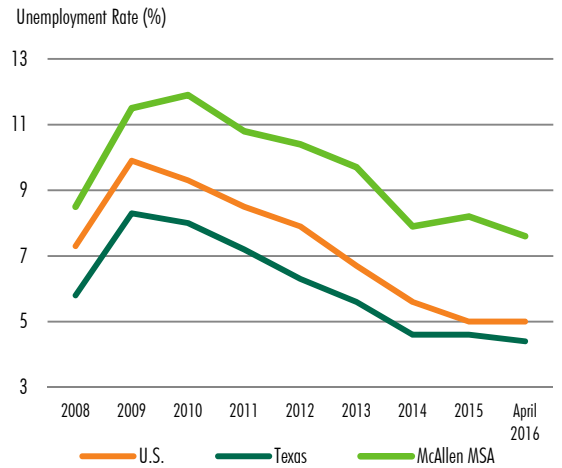
WAREHOUSE INDUSTRIAL RATES REBOUND

Excluding cold storage, the market wide warehouse average asking lease rate increased by a 4.2% this quarter and 1.5% year-over-year to \$3.99 per sq. ft. While rents remain above recessionary levels, rents again moved up after leveling off at the end of 2015. In terms of average weight by asset class, Class B and C product combine for a greater share of availability at almost 60.0% which drives overall averages down. 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.

COLD STORAGE VS. WAREHOUSE RENTS

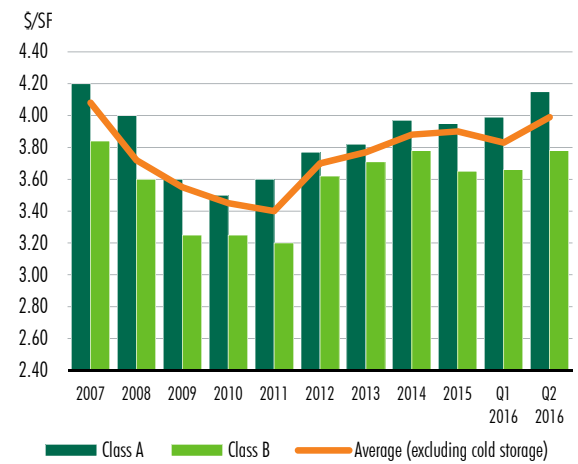
Cold storage industrial rates are tracked separately from the rest of the industrial set because of wide differences between the two. Cold storage rents quickly impacts averages where some available cold-storage properties are asking above \$10.00 per sq. ft., more than double compared to the warehouse average. CBRE Research did not produce a cold storage asking rate during Q2 2016 because of depleted available leasing options after a busy quarter. An average will be calculated in future quarters with available options or new development.

Figure 3: Unemployment Rate



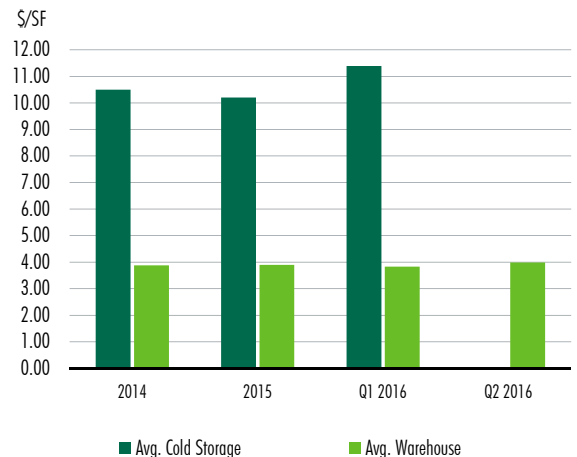
Source: Bureau of Labor Statistics, June 2016.

Figure 4: Asking Rates, NNN Avg. Annual - Warehouse



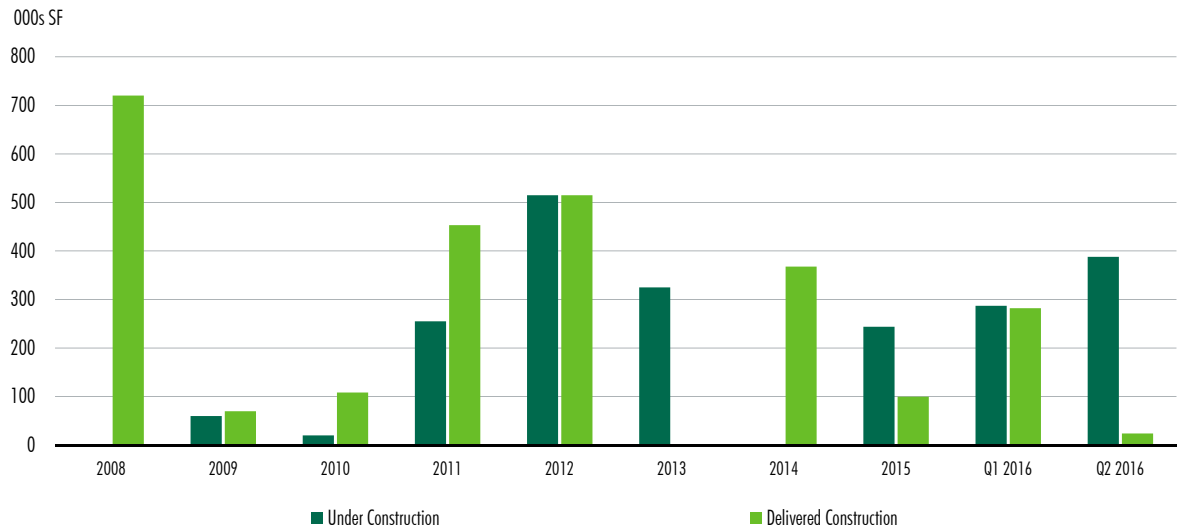
Source: CBRE Research, Q2 2016. All figures exclude Cold Storage.

Figure 5: Asking Rates - Cold Storage vs. Warehouse



Source: CBRE Research, Q2 2016.

Figure 6: Construction



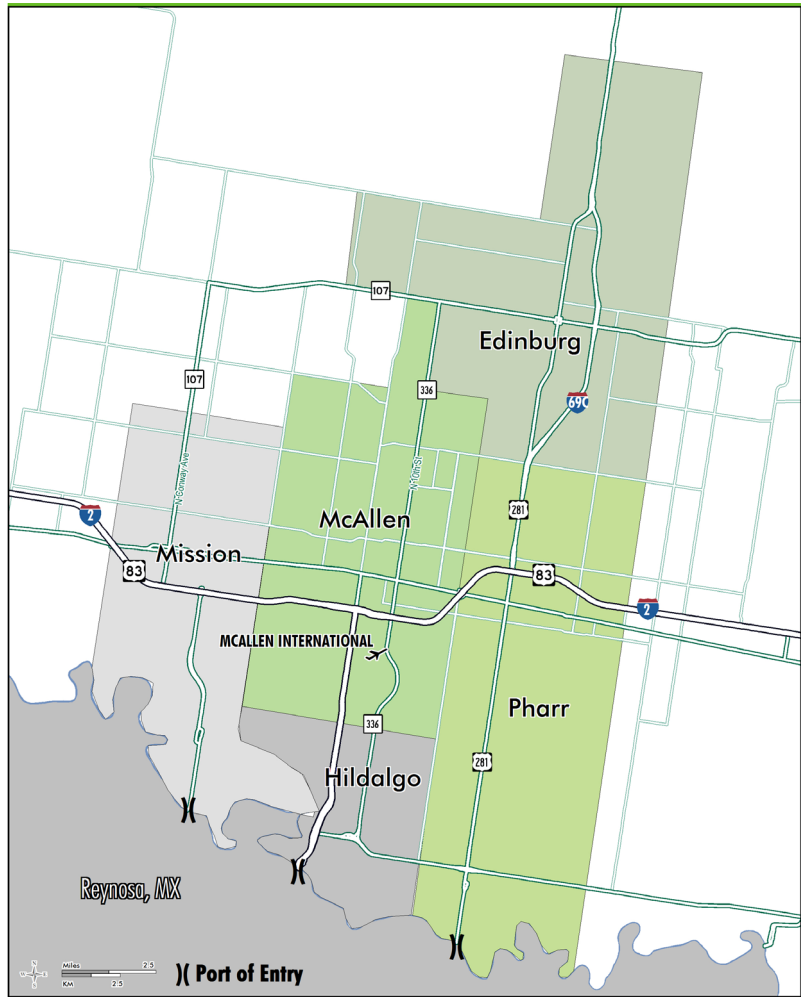
Source: CBRE Research, Q2 2016.

INDUSTRIAL DEVELOPMENT: COLD STORAGE DEMAND STILL HOT

The supply of industrial buildings in McAllen increased in Q2 2016 through the delivery of one construction project. The new industrial building is located in Off-Park (Mercedes) and added 24,000 to our database, including 6,000 sq. ft. preleased to a high-tech robotics manufacturer. 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 added 10,645 sq. ft. from our tracked inventory and added a net vacancy of 79,257 sq. ft.

New space under construction increased 35.2% compared to last quarter resulting from one fresh project start in the last 90 days. The new project is a 100,000 sq. ft. regional distribution warehouse for an automotive tire wholesaler. By the close of Q2 2016, four active projects totaled 388,000 sq. ft. of industrial space under construction of which 100% is expected to be delivered occupied. Cold storage demand continued fueling new development, particularly within Pharr – which became the largest gateway for produce out of Mexico in 2015. This is a trend that carried over from 2015 and did not signal deceleration after recent announcements from three different companies will likely increase new cold storage development.

CBRE Research is also closely tracking several planned projects, both built-to-suit and speculative, that may start later in 2016. As the market improves and Class A space continues to be absorbed, we expect further downward pressure on vacancy. This may spur additional speculative development in both McAllen and Pharr submarkets.



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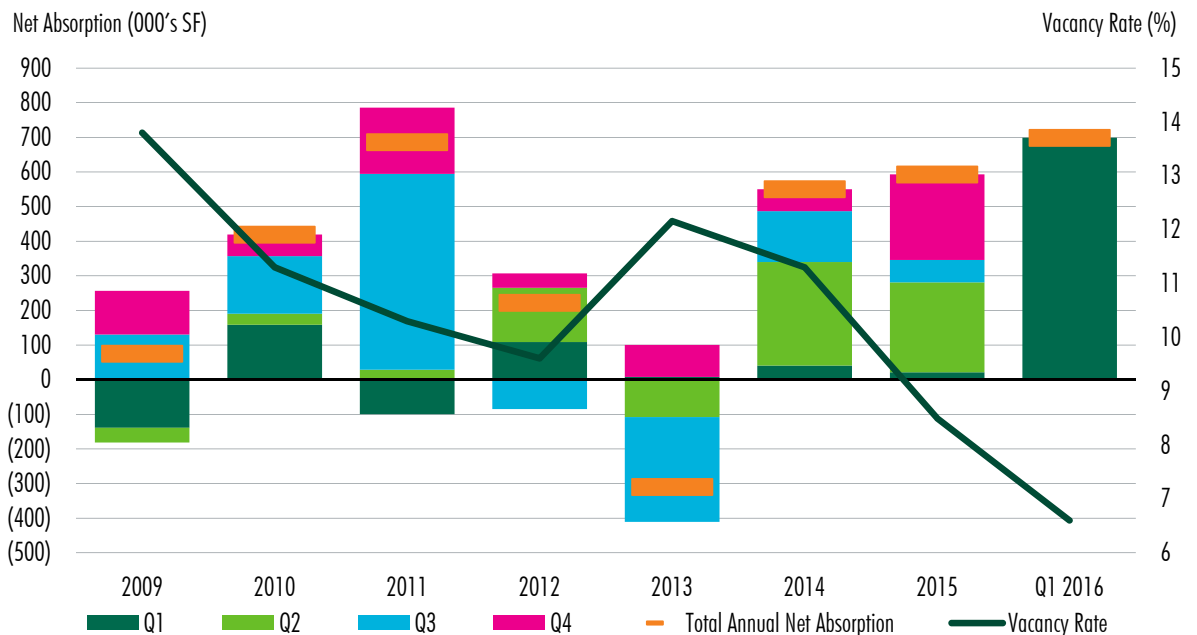
McAllen Industrial, Q1 2016

South Texas see cold storage heating up

▼ Vacancy Rate 6.6%
▲ Avg. Asking Rate \$4.10 /SF
▲ Net Absorption 698,844 SF
▲ Construction 287,000 SF
▲ Completions 282,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2016.

- Three construction sites started moving dirt in Q1 2016 with a mix of dry warehouse and cold storage use making McAllen's industrial demand strong enough to boost Q1 2016 net absorption past trailing annual levels.
- The market vacancy fell by 190 basis points (bps) quarter-over-quarter and is 4.1% below year-over-year.
- The Pharr International port of entry is now the largest gateway for produce out of Mexico. In 2015 top ranking Pharr tallied \$3.0 billion of produce trade while Nogales came in at \$2.9 billion.

A TENTH CONSECUTIVE POSITIVE QUARTER

The regional industrial market registered a strong opening quarter well above both the previous quarterly and annual highs set 5 years ago. The 698,844 sq. ft. of positive net absorption in Q1 2016 continued the tenth quarter positive streak in net demand. This robust activity pushed vacancy down further to a new cycle-low reaching 6.6%.

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 Hidalgo-Pharr ports of entry closed 2015 at \$10.8 billion for the year. January 2016 reported exports valued \$829 million; this is 12.8% below January of last year. In terms of imports from Mexico to the U.S., the 2015 annual total reached \$19.2 billion. January 2016 reported imports valued \$1.6 billion; this is 3.1% above January of last year. It is important to note that year-over-year softening may be a partially explained by fluctuations in currency exchange rates. Here commercial crossing volumes registered an increase; however the stronger U.S. Dollar gained purchasing power relative to 12 months ago. 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. Northbound freight traffic from Mexico through the Hidalgo-Pharr ports also show growth in 2015 annual totals compared to the year prior. Truck crossings saw a preliminary increase of 3.0% to 546,259 while loaded truck containers grew also by 4.7% to 401,436.

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 41st consecutive month in February. The index summarizes the broad movements in non-agricultural employment, unemployment, real wages and real retail sales. Here January and February saw year-over-year growth of 2.3% and 2.2% respectively.

Within the local industrial market, activity registered a busy quarter in terms of volume for a strong start to 2016. Q1 2016 saw two inked deals above 100,000 sq. ft. and the sale of a 200,000 sq. ft. property that was previously vacant. New leases was the most active category through nine transactions with an average size of 56,000 sq. ft. In terms of outlook at the end of Q1 2016, total active users in the market remained steady with space requirements over 1.0 million sq. ft. CBRE Research will continue to track events that may ultimately drive additional activity to the region, including the commercial opening of the Anzalduas port of entry, further automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.6 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)		
									Warehouse	Cold Storage	Industrial Avg.
McAllen	11,497,339	803,483	7.0	948,537	8.3	202,426	-	207,000	3.88	NA	3.88
Pharr	3,788,184	117,419	3.1	142,698	3.8	187,210	138,000	80,000	4.20	11.39	7.96
Edinburg	2,291,771	98,040	4.3	121,080	5.3	211,208	46,000	-	3.12	NA	3.12
Hidalgo	1,435,748	158,100	11.0	158,100	11.0	0	-	-	4.12	NA	4.12
Mission	1,584,640	0	0.0	371,560	23.4	98,000	98,000	-	4.04	NA	4.04
Off-Park	2,283,597	329,098	14.4	362,848	15.9	0	-	-	3.35	NA	3.35
Totals	22,881,279	1,506,140	6.6	2,104,823	9.2	698,844	282,000	287,000	3.83	11.39	4.10

Source: CBRE Research, Q1 2016.

ABSORPTION AND VACANCY ACTIVITY RECAP

The first quarter of 2016 produced a healthy net absorption after a busy 90 days. The total 18 transactions pushed Q1 2016 net absorption just below 700,000 sq. ft. This quarterly gain was not only the largest first quarter recorded since CBRE began tracking the McAllen industrial market in 2009, it is also already above all annual levels during the same period. The market positive streak continued at now 10 quarters long making it the lengthiest based on our dataset and has resulted in more than 1.9 million sq. ft. of net occupier demand. Activity in Q1 2016 decreased the overall market vacancy by 190 bps quarter-over-quarter and by 410 bps year-over-year to a new low of 6.6%.

In terms of new vacancy, four properties became available with an average size of 31,000 sq. ft. One of the reported vacancies was result of a relocation. Also in Q1 2016, one spec construction project delivered 46,000 sq. ft. of vacant industrial space.

SUBMARKET ANALYSIS

Growth in average asking lease rates varied across submarket and by product type. In terms of general

warehouse space, the active submarkets of Pharr, Hidalgo, and McAllen saw annual increases despite a small decrease at the market-wide level. Within cold storage, Pharr saw a bump in the average asking rent after a busy 12 months for perishable cold storage warehousing. For additional rental rate analysis, see Figures 4 and 5.

Q1 SIGNIFICANT TRANSACTIONS

There were three significant transactions this quarter. The largest deal was a purchase by a produce company in Edinburg with existing operations locally and in other regions of the U.S. and Canada. Q1 2016 also registered a signature for a new built-to-suit project in McAllen for user Regal Beloit which manufacturers motors and generators. The 207,000 sq. ft. plant will serve as the regional distribution center for multiple manufacturing plants in Mexico. Also in McAllen, a company that supplies fluid management products to the automotive industry leased 121,000 sq. ft. of warehouse space after signing a new 275,000 sq. ft. built-to-suit lease directly across the border in Reynosa, MX.

LOCAL UNEMPLOYMENT IMPROVED AFTER SLIGHT BUMP

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market showed improvement after a slight deceleration at the close of 2015. According to the BLS, total non-farm employment saw a growth of 1.8% year-over-year in January 2016. The regions unemployment rate was unchanged during the same 12 month period, but did register a 30 bps month-over-month decrease to start 2016. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which saw positive growth of 1.5% year-over-year attributed to gains in all three industrial sectors. The U.S. unemployment rate sat at 4.9% in January, while the Texas figure remained below the national average at 4.5%.

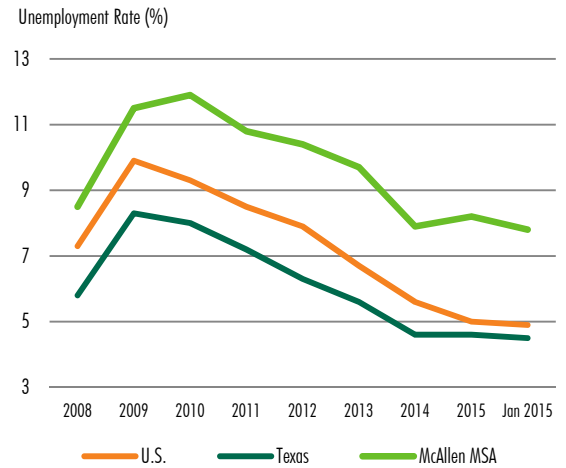
WAREHOUSE INDUSTRIAL RATES LEVEL OFF

Excluding cold storage use, the market wide warehouse average asking lease rate fell by a mere 1.8% both this quarter and year-over-year to \$3.83 per sq. ft. While rents remain well above recessionary levels, the leveling off comes after a busy 90 days where almost 80% of net absorption was attributed to Class A product. This leasing of greater competitive space likely shifted average weights more heavily on Class B and Class C availability pushing overall averages down. 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.

COLD STORAGE VS. WAREHOUSE RENTS

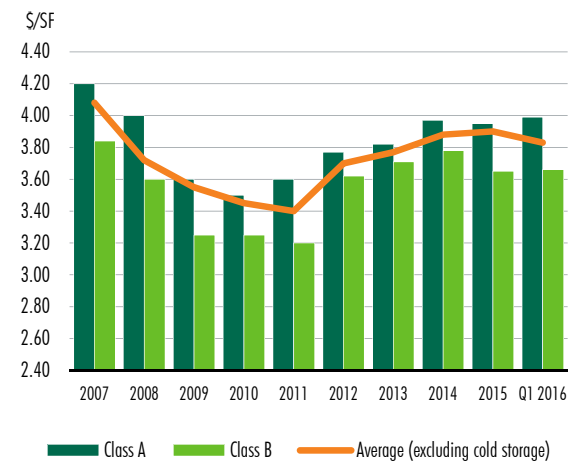
Cold storage industrial rates are tracked separately from the rest of the industrial set because of wide differences between the two. Cold storage rents quickly impacts averages where some available cold-storage properties are asking above \$10.00 per sq. ft., more than double compared to the warehouse average of \$3.83 per sq. ft. During Q1 2016, the cold storage average asking rent saw a quarterly increase of 11.7% to \$11.39 per sq. ft.

Figure 3: Unemployment Rate



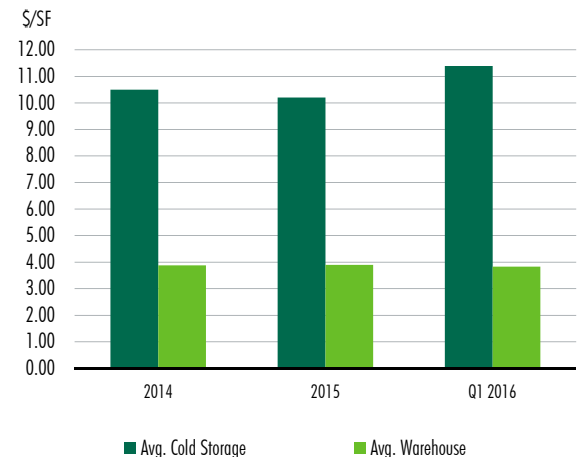
Source: Bureau of Labor Statistics, March 2016.

Figure 4: Asking Rates, NNN Avg. Annual - Warehouse



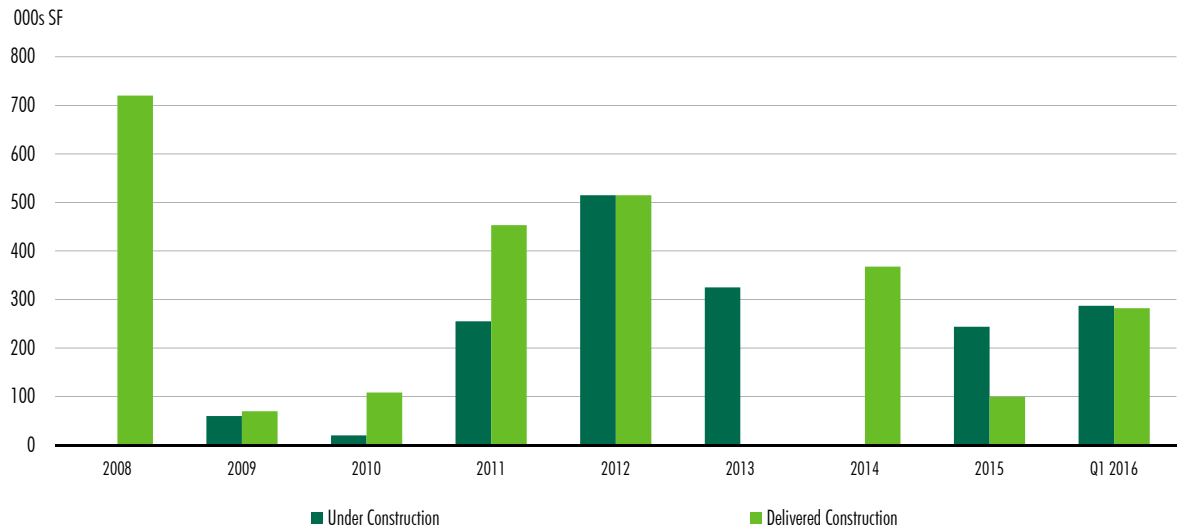
Source: CBRE Research, Q1 2016. All figures exclude Cold Storage.

Figure 5: Asking Rates - Cold Storage vs. Warehouse



Source: CBRE Research, Q1 2016.

Figure 6: Construction



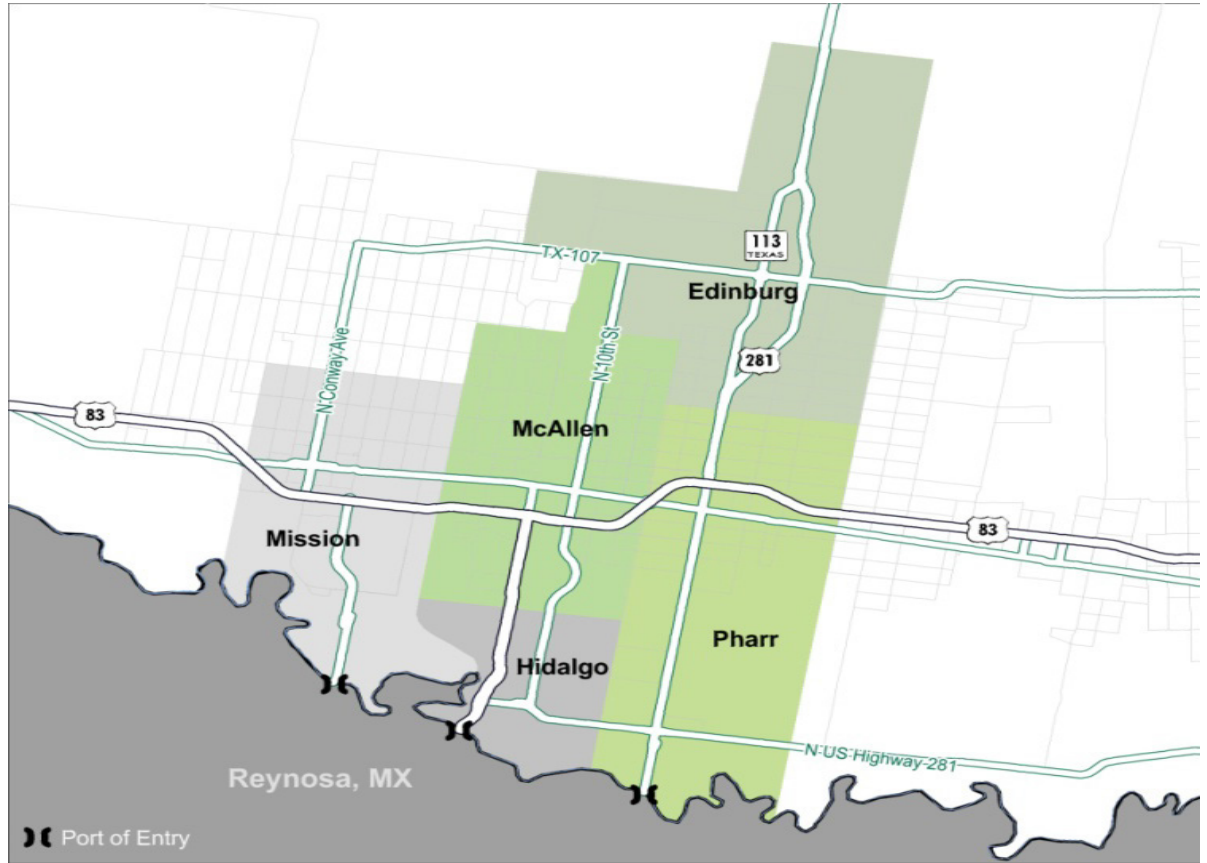
Source: CBRE Research, Q1 2016.

INDUSTRIAL DEVELOPMENT FUELLED BY COLD STORAGE DEMAND

The supply of industrial buildings in McAllen increased in Q1 2016 through the delivery of all four construction projects that carried over from 2015. These included three new buildings along with an expansion to an existing cold storage facility that carried a combined occupancy of 83.7%. 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 added 21,226 sq. ft. from our tracked inventory and added a net vacancy of 10,400 sq. ft.

New space under construction increased 17.5% compared to last quarter resulting from three fresh project starts in the last 90 days. The largest new project is a 207,000 sq. ft. regional distribution warehouse for Regal Beloit’s manufacturing operations out of Mexico. By the close of Q1 2016, the three active projects totaled 287,000 sq. ft. of industrial space under construction of which 100% is expected to be delivered occupied. Cold storage demand continued fueling new development, particularly within Pharr – which became the largest gateway for produce out of Mexico in 2015. This is a trend that carried over from 2015 and did not signal deceleration.

CBRE Research is also closely tracking several planned projects, both built-to-suit and speculative, that may start later in 2016. As the market improves and Class A space continues to be absorbed, we expect further downward pressure on vacancy. This may spur additional speculative development in both McAllen and Pharr submarkets.



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McAllen Industrial, Q4 2015

Vacancy takes a 2-year dive

Vacancy Rate **8.5%**

Avg. Asking Rate **\$4.01 /SF**

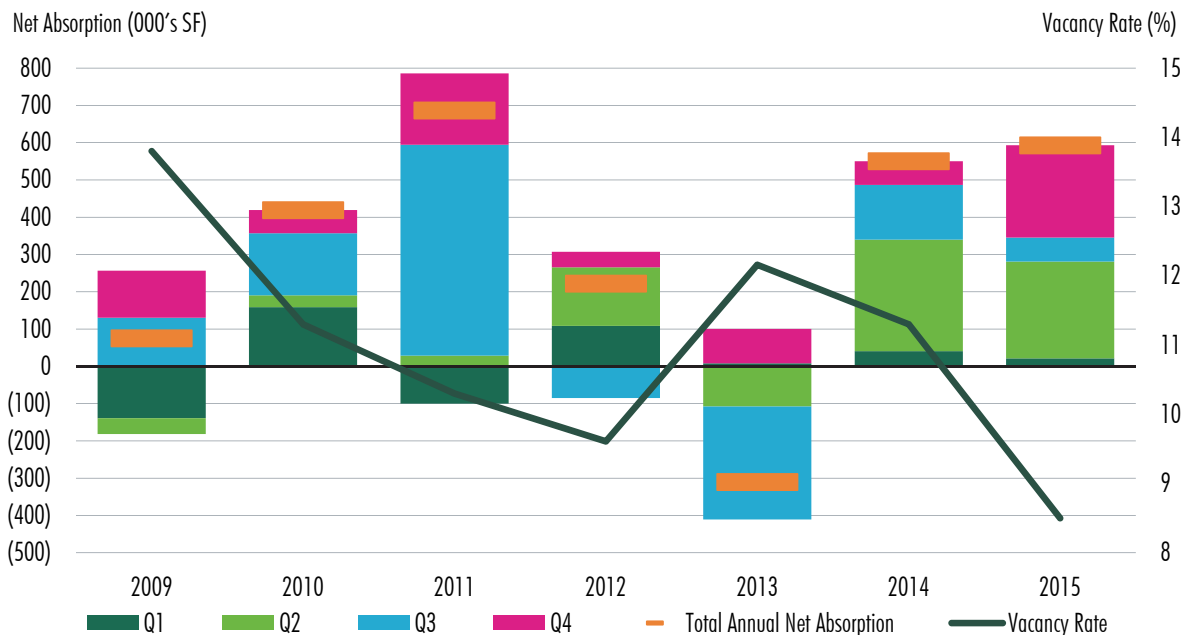
Net Absorption **247,210 SF**

Construction **244,000 SF**

Completions **20,000 SF**

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2015.

- McAllen’s new industrial leases were enough to boost annual net absorption past 2014 levels.
- The market vacancy rate fell by 100 basis points (bps) quarter-over-quarter and is 280 bps below year-over-year.
- The Pharr International Bridge is quickly becoming a major gateway for produce out of Mexico. In 2014 top ranking Nogales tallied \$2.9 billion of produce trade while Pharr came in at \$2.5 billion.
- Bridge official with the Anzalduas International Bridge expect to have the first empty commercial trucks cross in early 2016.

A NINTH CONSECUTIVE POSITIVE QUARTER

The regional industrial market closed 2015 on a high note after recording 247,210 sq. ft. of positive net absorption in Q4 2015, continuing the nine month positive streak in net gain area demand. This progressive activity pushed vacancy down to a new cycle-low reaching 8.5%.

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.

U.S. - MEXICO TRADE

The nominal and unadjusted value of export trade from the U.S. to Mexico through the Hidalgo-Pharr ports of entry escalated to \$8.2 billion year-to-date in September. However, this is 5.3% below the same period last year. In terms of imports from Mexico to the U.S., the year-to-date value increased to \$13.7 billion. This figure is 0.22% 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 after 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.

Northbound freight traffic from Mexico through the Hidalgo-Pharr ports also show growth year-to-date in June compared to the same time last year. Truck crossings saw an increase of 3.3% to 276,765 while loaded truck containers grew also by 6.4% to 207,344.

REGIONAL INDICATORS

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 32th consecutive month in November. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here October and November saw year-over-year growth of 5.5% and 4.1% respectively.

Within the local industrial market, activity saw a slower quarter in terms of the volume of transactions. However, Q4 2015 saw two inked deals above 100,000 sq. ft. New leases was the most active category through four transactions with an average size of 43,000 sq. ft. Overall market activity continued to push the transitioning market in the right direction in 2015. In terms of outlook, total active users in the market remained steady with space requirements at 1.2 million sq. ft. by the end of Q4 2015. CBRE Research will continue to track events that may ultimately drive additional activity to the region, including further automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.6 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)
McAllen	11,497,339	1,017,909	8.9	1,162,963	10.1	112,650	-	-	3.89
Pharr	3,628,958	144,229	4.0	169,508	4.7	20,000	20,000	100,000	6.74
Edinburg	2,245,771	263,248	11.7	286,288	12.7	0	-	46,000	3.12
Hidalgo	1,435,748	158,100	11.0	158,100	11.0	0	-	-	4.12
Mission	1,486,640	0	0.0	270,000	18.2	114,560	-	98,000	4.2
Off-Park	2,283,597	329,098	14.4	362,848	15.9	0	-	-	3.35
Totals	22,578,053	1,912,584	8.5	2,409,707	10.7	247,210	10,000	244,000	4.01

Source: CBRE Research, Q4 2015.

ABSORPTION AND VACANCY

The final quarter of 2015 produced a healthy net absorption despite a lower number of transactions. Even so, Q4 2015 registered two deals larger than 100,000 sq. ft. ultimately contributing to the total 2015 annual net absorption of 592,970 sq. ft. which decreased total vacant sq. ft. by 25%. The market positive streak continued at now nine quarters long making it the lengthiest since CBRE began tracking the McAllen industrial market in 2009 and has resulted in more than 1.2 sq. ft. of net occupier demand. Activity in Q4 2015 decreased the overall market vacancy by 100 bps quarter-over-quarter and by 280 bps year-over-year to a new low of 8.5%.

Both the Mission and McAllen submarket proved the most active in Q4 2015 with a similar net absorption. The McAllen submarket was also the most active in 2015 after accounting for more than 50%, 310,229 sq. ft., of total market annual net absorption. Mission, Hidalgo, and Pharr followed respectively, while Edinburg and Off-Park remained inactive for the year.

Year-over-year, Mission saw the most significant reduction of vacant space after absorbing it all. Hidalgo saw a decrease of 32% in vacant space while Pharr and McAllen saw decreases of 27% and 26% respectively.

Growth in average asking lease rates varied across submarket. While Pharr and Off-Park saw above market gains (some explained by cold-storage industrial space which generally carries an above average rate), the remaining submarkets underwent small decreases or remained flat. The submarket rate steadiness is result of inactivity (Edinburg), or weight recalibration after a busy leasing year (Hidalgo and McAllen). For additional rate analysis, see Figure 4. Edinburg rates were fixed as the submarkets were absent of new activity this quarter.

The largest new lease inked this quarter was by a Dallas based cabinet company which leased approximately a 110,000 sq. ft. warehouse in the McAllen submarket.

EMPLOYMENT

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market show a slight deceleration at the close of 2015. According to the BLS, total non-farm employment saw a growth of 3.2% year-over-year in November 2015. However, unemployment increased to 8.1% from 8.0% in November of 2014. The increase in the unemployment rate is result of new growth in the labor force looking for work and not necessarily a decrease in the number of people employed. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing which saw positive growth of 1.3% year-over-year largely attributed to gains in the wholesale trade and transportation and warehousing sectors. The U.S. unemployment declined to 5.1% in August, as did the Texas figure to 4.1%, a full percentage below the national average.

INDUSTRIAL RATES

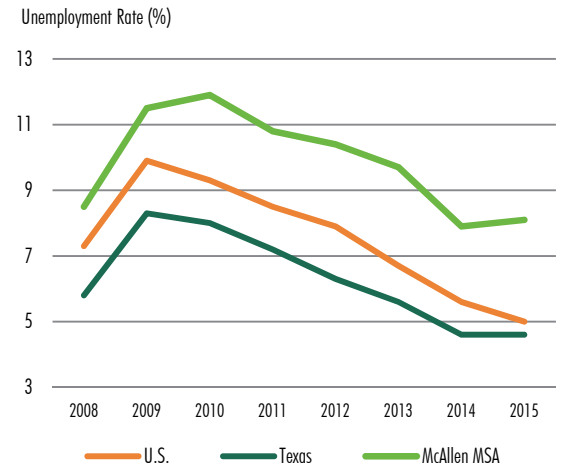
The market wide average asking industrial lease fell by a mere 0.2% this quarter, but remained 0.5% above this time last year at \$4.02 per sq. ft. While the gain from last year reflects some market improvement, the minor increase was result of two significant cold-storage transactions this year, one of which removed availability from the average at an asking rate of \$10.80 per sq. ft. Class A asking rates saw a slight contraction of 1.3%, or \$0.02 per sq. ft.

Note: The market annual gain matched the 2015 U.S. city average - all item - Consumer Price Index (CPI) of 0.5%.

COLD STORAGE VS. WAREHOUSE RENTS

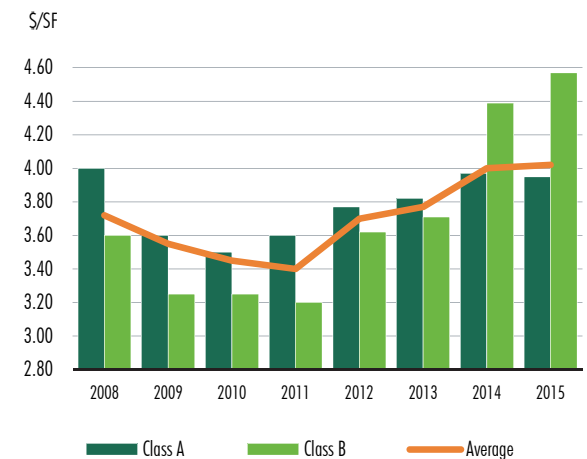
Contrary to expectations, asking rents in Class B properties remained above that of Class A space. This is explained by the significant amount of the Class B space that encompasses cold-storage, which typically carries a higher lease rate. Cold storage rate inflation is also impacting submarkets such as Pharr, as some available cold-storage properties are asking above \$10.00 per sq. ft. A “true” warehouse and distribution average asking rents would yield \$3.90 per sq. ft., up 0.5% from last year. In addition, supply and demand forces may be at play. High availability of Class A space, which is more than two times greater than that of Class B, is keeping a downward pressure on its asking rate.

Figure 3: Unemployment Rate



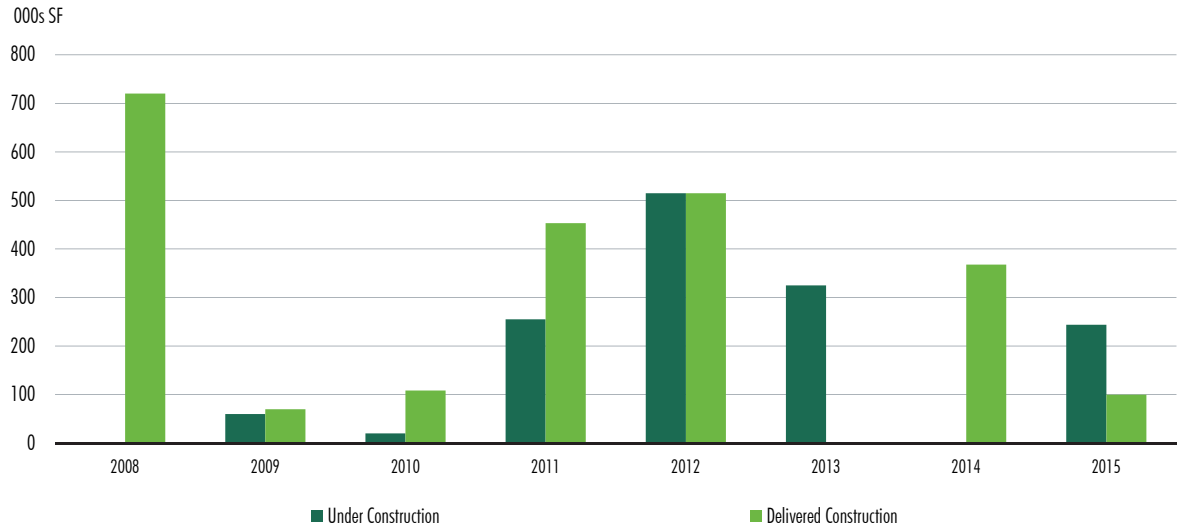
Source: Bureau of Labor Statistics, January 2015.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2015.

Figure 5: Construction



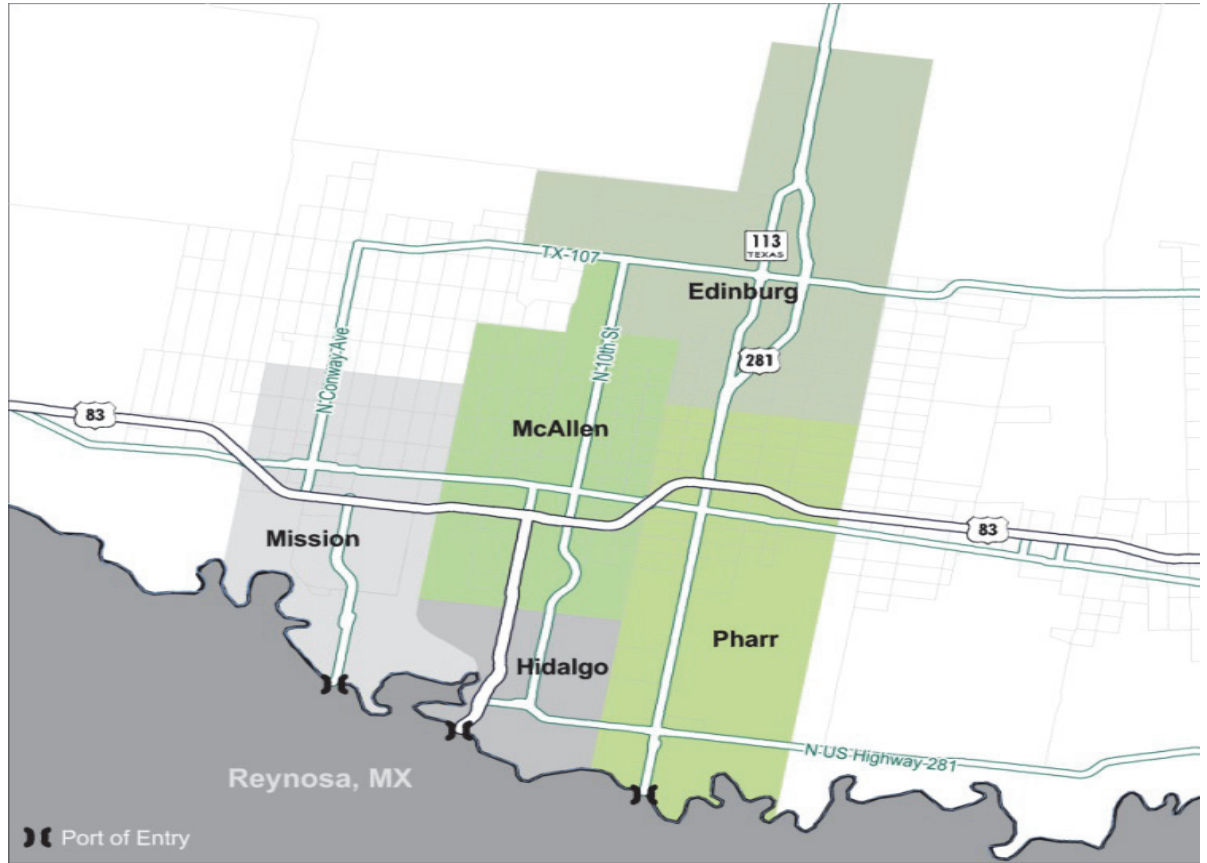
Source: CBRE Research, Q4 2015.

INDUSTRIAL PRODUCT

The supply of industrial buildings in McAllen increased in Q4 2015 through the delivery of a cold storage warehouse in Pharr of approximately 20,000 sq. ft. for a produce distribution company. While no new developments were started this quarter, work continued on the three ongoing projects totaling 244,000 sq. ft. with an expected occupancy of 57%. These included two speculative developments and a built-to-suit property.

The Pharr Bridge Business Park development continued marketing availability through built-to-suits. The 30-acre master plan will feature five Class A built-to-suit properties ranging from 30,000 to 100,000 sq. ft. in size.

With the high vacancy of Class A space, it remains unlikely a developer would deploy additional speculative construction beyond active projects. However, CBRE Research is aware of several built-to-suit projects that will likely deploy in the coming months.



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McAllen Industrial, Q3 2015

Single-digit vacancy as market comes to year-end

Vacancy Rate **9.5%**

Avg. Asking Rate **\$4.03 /SF**

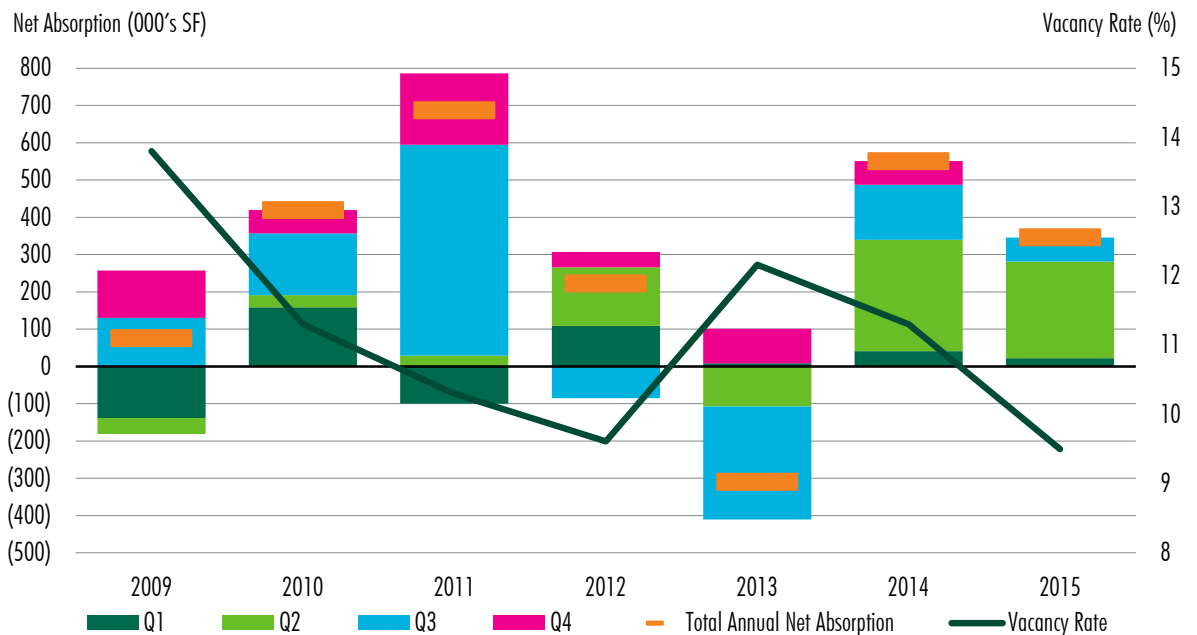
Net Absorption **64,638 SF**

Construction **264,000 SF**

Completions **10,000 SF**

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2015.

- Although lesser from last quarter, McAllen’s new industrial leases were enough to off-set the largest reported quarterly vacancy so far in 2015.
- The market vacancy rate fell by 20 basis points (bps) quarter-over-quarter and is 190 bps below year-over-year.
- The city of McAllen signed an agreement to fund the construction of infrastructure on the Mexico side of the Anzalduas port of entry which will soon see commercial trucks into Mexico. This is the first step toward a new full-service commercial port of entry.

AN EIGHTH CONSECUTIVE POSITIVE QUARTER

The regional industrial market continued in transition after recording 64,638 sq. ft. of positive net absorption in Q3 2015, closing a two year positive streak in net gain area demand. This progressive activity pushed vacancy down to a new cycle-low reaching 9.5%.

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 Hidalgo-Pharr ports of entry escalated to \$5.4 billion year-to-date in June. However, this is 6.2% below the same period last year. In terms of imports from Mexico, the year-to-date value increased to \$9.2 billion. This figure is 0.2% 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 near year-highs in exports. 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 Hidalgo-Pharr ports also show growth year-to-date in June compared to the same time last year. Truck crossings saw an increase of 3.3% to 276,765

while loaded truck containers grew also by 6.4% to 207,344. Recent efforts by the city of McAllen to fund infrastructure on the Mexico side of the Anzalduas port of entry, located in Mission, will soon see commercial trucks into Mexico. This is the first step toward a new full-service commercial port that could improve crossing times at regional ports.

REGIONAL INDICATORS

The McAllen-Edinburg-Mission metro business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 35th consecutive month. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here August saw a growth 4.0% year-over-year. Within the local industrial market, activity saw a firm quarter of net absorption despite several new vacancies and relocations that added to availability. New leases was the most active category through nine transactions with an average size of 25,200 sq. ft. and an average term of 44 months.

Overall market activity continued to push the transitioning market in the right direction, but at a slower pace from the previous quarter. In terms of outlook, total active users in the market remained steady with space requirements above 1.3 million sq. ft. by the end of Q3 2015. CBRE Research also continues to keep an eye on events that may ultimately drive additional activity to the region, including further automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.6 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)
McAllen	11,497,339	1,130,559	9.8	1,275,613	11.1	26,707	-	-	3.96
Pharr	3,608,958	144,229	4.0	169,508	4.7	12,711	10,000	120,000	6.74
Edinburg	2,245,771	263,248	11.7	286,288	12.7	0	-	46,000	3.12
Hidalgo	1,435,748	158,100	11.0	158,100	11.0	25,220	-	-	4.16
Mission	1,486,640	114,560	7.7	384,560	25.9	0	-	98,000	4.06
Off-Park	2,283,597	329,098	14.4	362,848	15.9	0	-	-	3.34
Totals	22,558,053	2,139,794	9.5	2,636,917	11.7	64,638	10,000	264,000	4.03

Source: CBRE Research, Q3 2015.

ABSORPTION AND VACANCY

The now two-year long positive streak is the lengthiest since CBRE began tracking the McAllen industrial market in 2009 and has resulted in more than 988,000 sq. ft. of net occupier demand. This quarter produced a sound net absorption after offsetting the largest vacated sq. ft. of any quarter in 2015, and ultimately decreased the overall market vacancy by 20 bps quarter-over-quarter and by 190 bps year-over-year to a new low, back to 2009, of 9.5%. Overall availability rate saw a greater decrease as several available but occupied spaces were re-absorbed through new leases. Here total availability saw a decrease of 40 bps quarter-over-quarter.

The McAllen submarket remained the most active with a net absorption of 26,707 sq. ft. which continued the decrease in vacancy now 340 bps below year-over-year. Hidalgo reported the largest decrease in vacancy rate while Off-Park saw the most improved availability from last quarter. Mission remained unchanged due to inactivity or activity that was offset by new vacancy.

Three of the six submarkets registered escalations in average asking lease rates from last quarter with Pharr registering the largest gain of 9.4%. Although some is attributed to an increase in leasing demand, recent large increases and above-average asking rates are explained by cold-storage industrial space which generally carries an above average rate. The current cold-storage asking rate averaged \$7.63, and \$10.20 in Pharr alone, per sq. ft. and is well above the non-cold-storage warehouse average of \$3.98 per sq. ft. For additional rate analysis, see Figure 4. Edinburg rates were fixed as the submarkets were absent of new activity this quarter.

The largest new lease inked this quarter was by a pet product manufacturer which leased approximately 50,000 sq. ft. in the McAllen submarket. A food, produce, processing operation also leased 36,000 sq. ft. in the Off-Park submarket.

EMPLOYMENT

The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 3.2% year-over-year in August 2015. In response, unemployment fell to 7.4% from 8.4% in August of 2014. Industrial sector employment includes transportation and warehousing, wholesale trade, and manufacturing which saw positive growth of 1.6% year-over-year largely attributed to gains in the wholesale trade and transportation and warehousing sectors. The U.S. unemployment declined to 5.1% in August, as did the Texas figure to 4.1%, a full percentage below the national average.

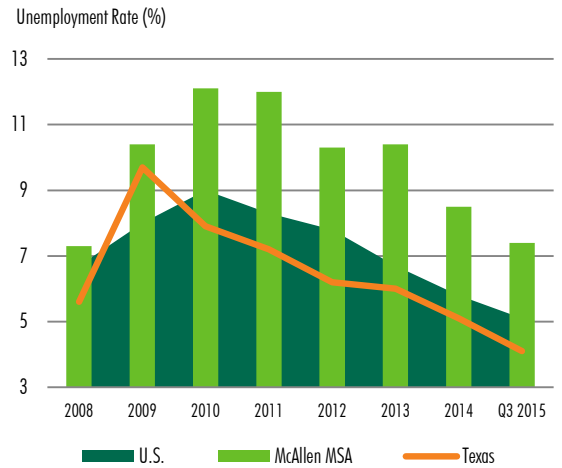
INDUSTRIAL RATES

The market wide average asking industrial lease fell by 1.7% this quarter, but remained 2.8% above this time last year at \$4.03 per sq. ft. While the gain from last year reflects market improvement, the quarterly drop was result of two cold-storage transactions, one of which removed availability from the average at an asking rate of \$10.80 per sq. ft. These transaction also impacted the asset Class B which saw a decrease of 10.2% from last quarter. Class A saw a gain of 1.5%.

COLD STORAGE VS. WAREHOUSE

Contrary to expectations, asking rents in Class B properties remained above that of Class A space. This is explained by the significant amount of the Class B space that encompasses cold-storage, which typically carries a higher lease rate. Cold storage rate inflation is also impacting submarkets such as Pharr, as some available cold-storage properties are asking above \$10.00 per sq. ft. If cold-storage is excluded, “true” warehouse and distribution average asking rents would yield \$3.98 per sq. ft., up 1.3% from last quarter. In addition, supply and demand forces may be at play. High availability of Class A space, which is more than two times greater than that of Class B, is keeping a downward pressure on its asking rate.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, September 2015.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q3 2015.

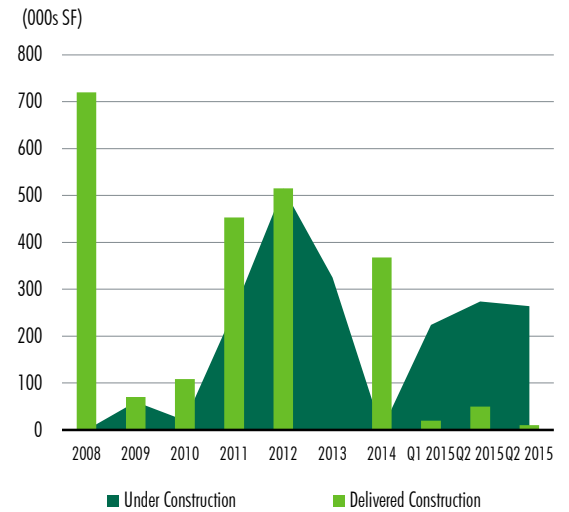
INDUSTRIAL PRODUCT

The supply of industrial buildings in McAllen increased in Q3 2015 through the delivery of a warehouse in Pharr of approximately 10,000 sq. ft. for a third-party-logistics company. While no new developments were started this quarter, work continued on the four ongoing projects totaling 264,000 sq. ft. with an expected occupancy of 64%. These included two speculative developments, a built-to-suit, and one expansion to an existing cold storage property.

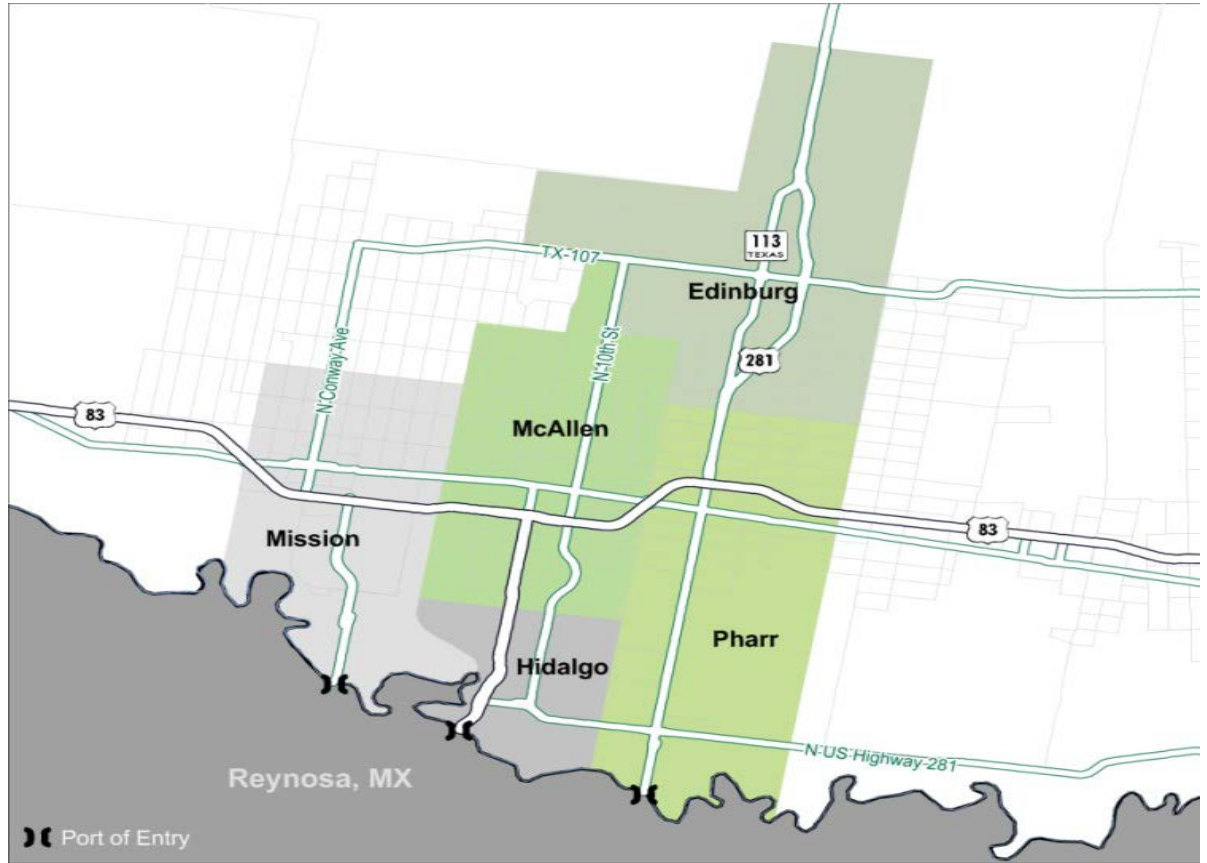
The Pharr Bridge Business Park development continued marketing availability through built-to-suits. The 30-acre master plan will feature five Class A built-to-suit properties ranging from 30,000 to 100,000 sq. ft. in size.

With the high vacancy of Class A space, it remains unlikely a developer would deploy additional speculative construction beyond active projects. However, CBRE Research is aware of several built-to-suit projects that will likely deploy in the coming months.

Figure 5: Construction



Source: CBRE Research, Q3 2015.



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McAllen Industrial, Q2 2015

Vacancy nosedives to single digits; sales active, too

Vacancy Rate **9.7%**

Avg. Asking Rate **4.10 \$/SF**

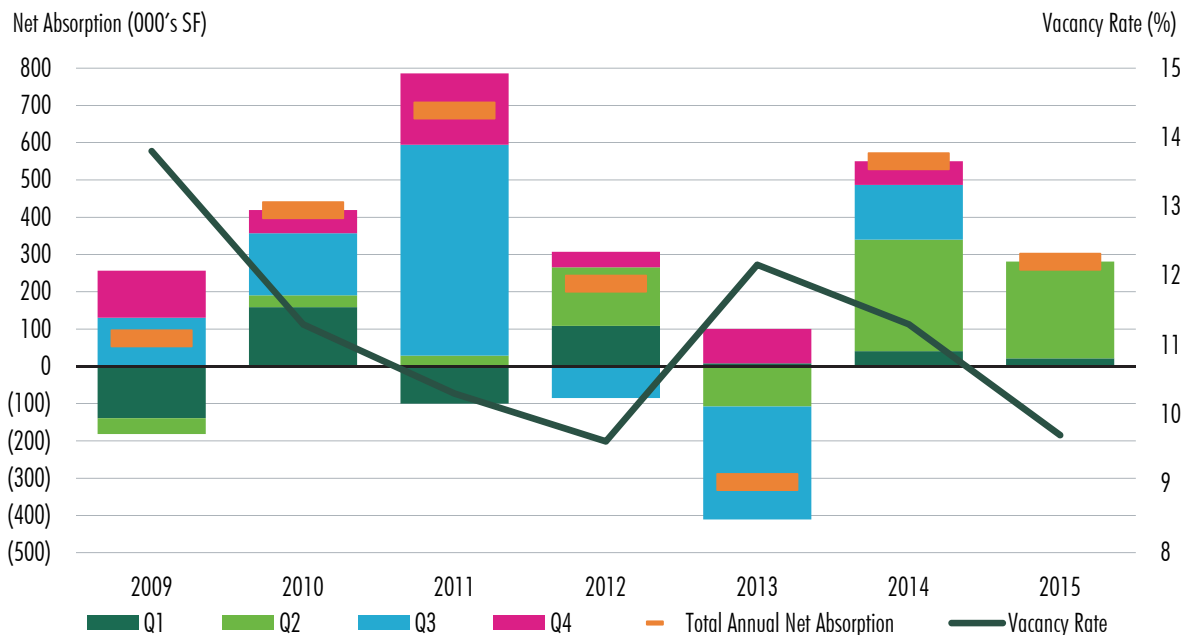
Net Absorption **259,522 SF**

Construction **274,000 SF**

Completions **50,000 SF**

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2015.

- McAllen’s industrial market saw a quarter of strong net absorption which nearly matched the cycle high set in Q2 2014.
- The market vacancy rate fell by 100 basis points (bps) quarter-over-quarter and is 230 bps below year-over-year.
- The second largest vacant property in the market caught traction and was sold to a user/investor.
- The neighboring industrial market in Reynosa, Mexico posted a third consecutive decrease in vacancy rate in Q1 2015.

A SEVENTH CONSECUTIVE POSITIVE QUARTER

McAllen’s industrial market continued in transition after recording 259,522 sq. ft. of positive net absorption in Q2 2015, the second largest quarterly net gain in area demand seen this cycle. This progressive activity pushed vacancy down to single digits reaching 9.7%.

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.

The nominal and unadjusted value of export trade to Mexico through the Hidalgo-Pharr ports of entry escalated to \$3.7 billion year-to-date in April. However, this is 4.8% 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 \$6.2 billion. This figure is 1.5% 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 McAllen-Edinburg-Mission business-cycle index, as reported by the Federal Reserve Bank of Dallas, reflected continued improvement through positive annual growth for the 32nd consecutive month. The index summarizes the broad movements in nonagricultural employment, unemployment, real wages and real retail sales. Here May saw a growth of 0.8% year-over-year.

Within the McAllen industrial market, robust activity was driven largely by warehouse and distribution support for the maquiladora industry in Mexico. Directly across the border, Reynosa closed Q1 2015 at a six-year-low Class A vacancy of 8.1% fueled by the expanding automotive sector. In fact, since 2010 more than 36 new and expanding projects have been completed or announced at a total \$23.3 billion. These projects will feed Mexico's momentum to a higher position amongst top automotive manufacturers in the world. Mexico is currently the seventh largest vehicle manufacturer in the world after surpassing France in 2010, Spain in 2011, and Brazil in 2014. As of May, Mexico had produced 1.4 million vehicles in 2015 which is 8.4% above the same period last year. Local markets will benefit from such, indirectly. Although no direct investment is planned for the region, the local markets have a strong presence of automotive component manufacturing and other automotive supply chain operations.

Overall, activity continued to push the transitioning market in the right direction. Further positive activity is likely to emerge as market indicators continue to improve along with anticipated demand based on the current 1.5 million sq. ft. of users in the market and the expanding maquiladora industry in northeastern Mexico. CBRE Research also continues to keep an eye on events that may ultimately drive additional activity to the region, including further automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.6 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Interstate 2, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)
McAllen	11,497,339	1,142,817	9.9	1,300,520	11.3	172,522	-	-	3.88
Pharr	3,598,958	144,779	4.0	170,058	4.7	0	-	130,000	6.16
Edinburg	2,245,771	278,248	12.4	301,288	13.4	0	-	46,000	3.12
Hidalgo	1,435,748	183,320	12.8	183,320	12.8	50,000	-	-	4.14
Mission	1,486,640	114,560	7.7	384,560	25.9	37,000	50,000	98,000	4.22
Off-Park	2,283,597	329,098	14.4	398,848	17.5	0	-	-	4.01
Totals	22,548,053	2,192,822	9.7	2,738,594	12.1	259,522	50,000	274,000	4.10

Source: CBRE Research, Q2 2015.

ABSORPTION AND VACANCY

The nearly two-year long positive streak is the lengthiest since CBRE began tracking the McAllen industrial market in 2009 and has resulted in more than 920,000 sq. ft. of net occupier demand. This quarter produced a strong net absorption that nearly matched the previous high set last year, and ultimately decreased the overall market vacancy by 100 bps quarter-over-quarter and by 230 bps year-over-year to a single digit vacancy.

The McAllen submarket remained the most active with a net absorption of 172,522 sq. ft. which decreased its vacancy by 150 bps this quarter. Pharr, Edinburg, and Off-Park remained unchanged due to inactivity or activity that was offset by new vacancy.

Four of the six submarkets registered escalations in average asking lease rates from last quarter with Pharr registering the largest gain of 9.6%. Although some is attributed to an increase in demand, recent large increases and above-average asking rates are explained by cold-storage industrial space which generally carries an above average rate. The current cold-storage asking rate averaged \$10.45 per sq. ft. and is well above the non-cold-storage warehouse average of \$3.90 per sq. ft. For additional rate analysis, see Figure 4. Edinburg and Off-Park rates were fixed as those submarkets were absent of new activity this quarter.

New leases was the most active category, however the market registered a big-win as the second largest vacant property of 210,140 sq. ft. sold to a user/investor which also topped the list as the largest transaction this quarter.

EMPLOYMENT

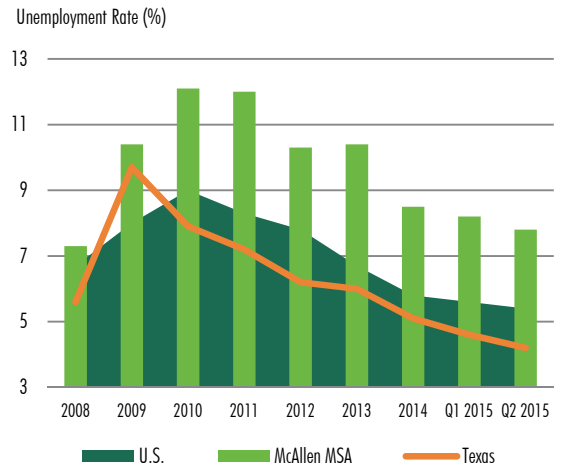
The most recent seasonally adjusted data for the McAllen-Edinburg-Mission employment market show continued improvement. According to the BLS, total non-farm employment saw a growth of 1.7% year-over-year in April 2015. In response, unemployment fell to 7.8% from 9.1% in April of 2014. Industrial sector employment includes transportation and utilities, wholesale trade, and manufacturing which saw negative growth of 0.9% year-over-year largely attributed to losses in the manufacturing sector. The U.S. unemployment rate declined to 5.4% in April, as did the Texas figure which remains below the national average at 4.2%.

INDUSTRIAL RATES

Improved market conditions pushed the market average asking industrial lease rate up by 1.0% this quarter and by 5.4% from this time last year to \$4.10 per sq. ft. This is the seventh consecutive quarter with an average asking rate increase. Class A space saw the only increase of 0.8% while Class B and C remained fixed.

Contrary to the expectations, asking rents in Class B properties remain above that of Class A space. This may be explained by the high amount of the Class B space available that encompasses cold storage, which typically carries a higher lease rate. Cold storage rate inflation is also impacting submarkets like Pharr, where average asking lease rates have surpassed \$5.00 per sq. ft. as some available properties are asking as much as \$10.80 per sq. ft. If we exclude cold storage asking rates to calculate a “true” warehouse and distribution average asking rate, the rate would yield \$3.93 per sq. ft. In addition, supply and demand forces may be at play. High availability of Class A space, which is more than two times greater than that of Class B, is keeping a downward pressure on its asking rate in order to remain competitive.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, March 2015.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q2 2015.

INDUSTRIAL PRODUCT

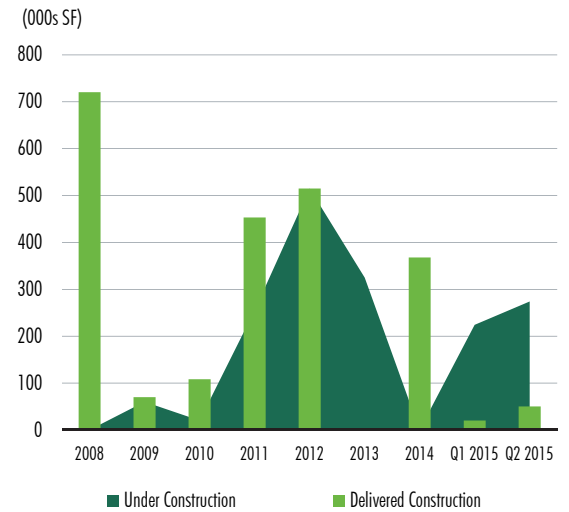
The supply of industrial buildings in McAllen increased in Q2 2015 through the delivery of a warehouse in Mission of approximately 50,000 sq. ft. for Crawford Electric.

Q2 2015 marked the start of an additional 100,000 sq. ft. construction project in Pharr of which half is preleased. This brings total under construction to 274,000 with an expected occupancy of 65%. Existing projects included two new built-to-suits, one expansion to an existing cold storage property, and a speculative development in Edinburg.

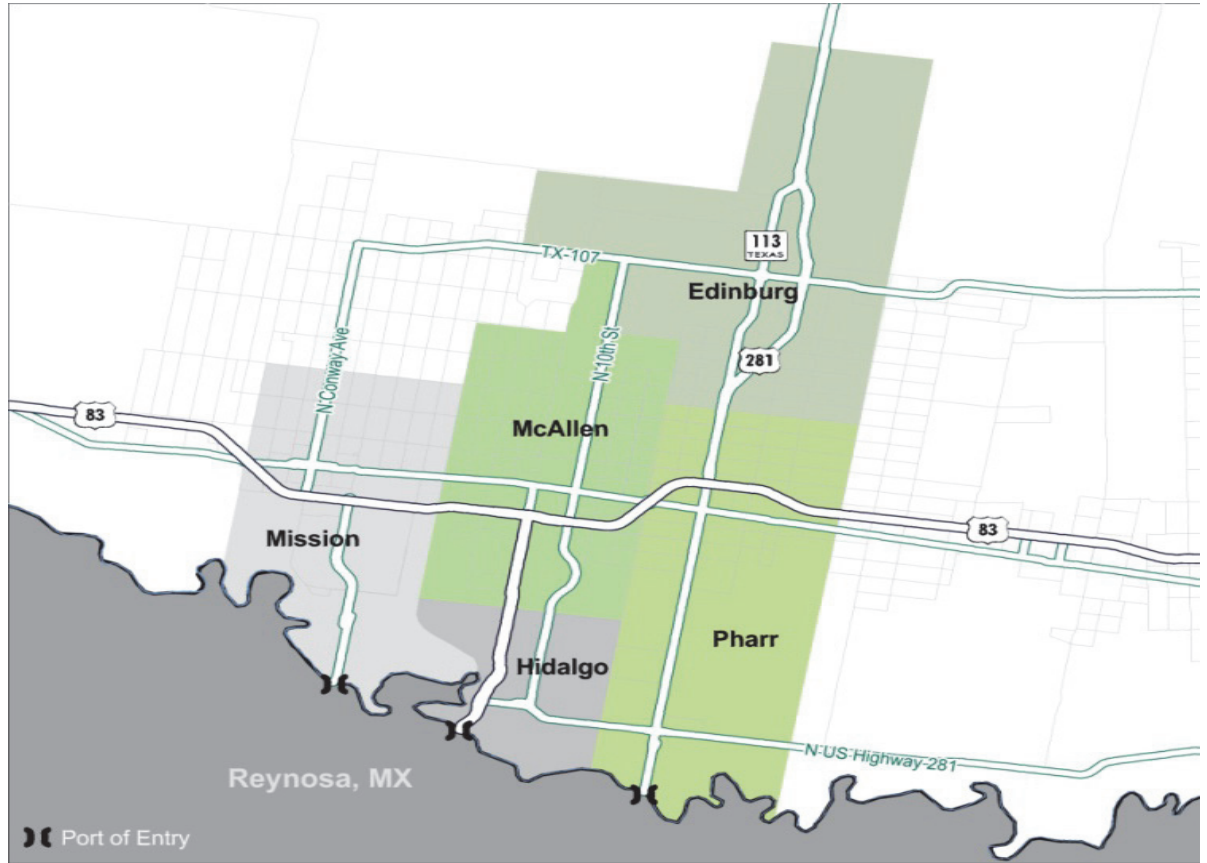
The Pharr Bridge Business Park development continued marketing availability through built-to-suits. The 30-acre master plan will feature five Class A built-to-suit properties ranging from 30,000 to 100,000 sq. ft. in size.

With the high vacancy rate of Class A space, it remains unlikely that a developer would deploy additional speculative construction beyond active projects.

Figure 5: Construction



Source: CBRE Research, Q2 2015.



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McAllen Industrial, Q1 2015

Vacancy continued to decline as 2015 started off positive

 Vacancy Rate
10.7%

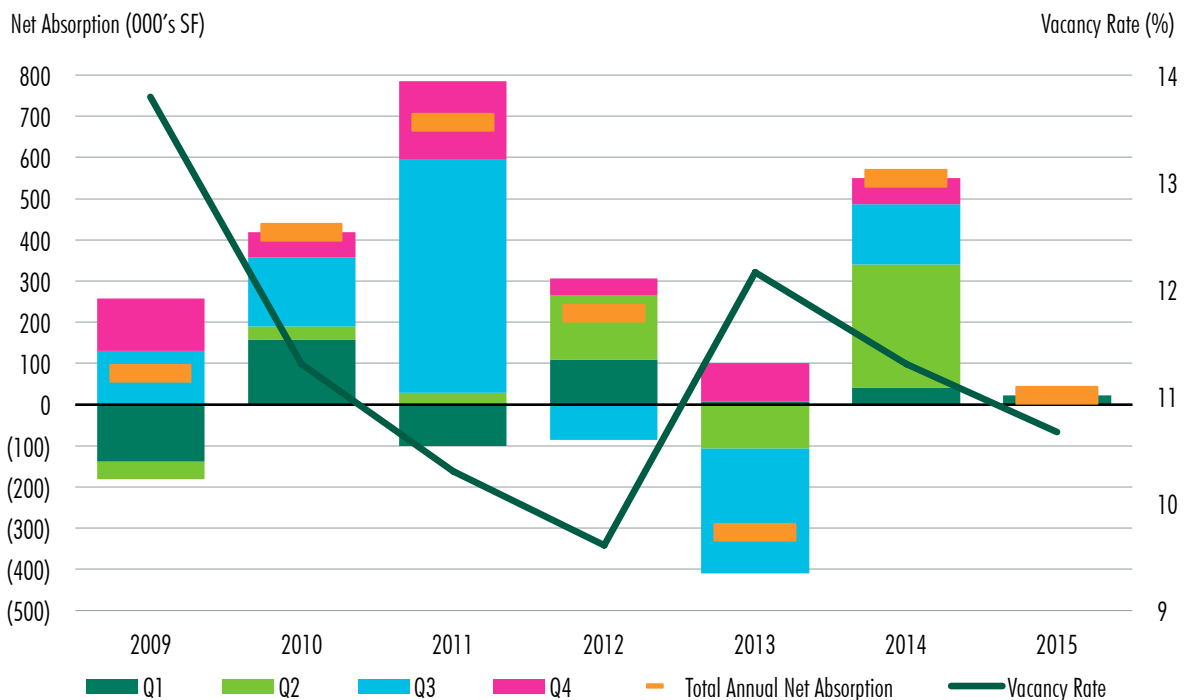
 Avg. Asking Rate
4.06 \$/SF

 Net Absorption
21,600 SF

 Completions
20,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2015.

- The McAllen industrial market produced a sixth consecutive quarter of positive net absorption.
- The Q1 2015 market vacancy rate of 10.7% fell by 60 basis points (bps) quarter-over-quarter and 80 bps year-over-year.
- Five new construction projects were started Q1 2015 totaling 224,000 sq. ft. Additional built-to-suit projects are also in the works for 2015.
- The pipeline of current users in the market remained strong at 1.6 million sq. ft.

A SIXTH CONSECUTIVE POSITIVE QUARTER

The McAllen industrial market started 2015 with positive net absorption. The 21,600 sq. ft. of net absorption continued to decrease the market vacancy rate to 10.7% in Q1 2015. Though the reported net absorption is relatively small, market activity managed to offset 120,000 sq. ft. of newly vacated space and ultimately produced a sixth consecutive quarter of positive net absorption.

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 signaled the 69th 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 solid 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 Mexico through the Hidalgo-Pharr ports of entry saw annual growth. January trade activity registered an increase of 4.6% in imports from Mexico year-over-year. Exports to Mexico increased 2.7% during the same period. This brings the year-to-date face value of imports and export trade with Mexico to \$1.5 billion and \$949 million, respectively.

Locally, overall economic activity in the McAllen metropolitan continued to improve. The McAllen-Edinburg-Mission business cycle index reported by the Federal Reserve Bank of Dallas reflected positive annual growth for the 24th consecutive month in January 2015. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. The January index saw a 2.1% increase year-over-year.

Within the McAllen industrial market, activity continued to derive from both of the primary sectors that drive the regional industrial market,

the maquiladora industry in northeast Mexico and the agricultural sector. Directly across the international border in Reynosa, industrial activity closed 2014 on a strong note with a seven-year-low vacancy rate of 8.9%. Activity was mostly fueled by the automotive sector which in seeing increased production and foreign investment. This is positive news for the McAllen industrial market as it should begin to see an activity transmission given the warehouse and distribution relationship is shares with northeast Mexico.

Furthermore, the pipeline of active users in the market that CBRE Research tracks remained at a healthy 1.6 million sq. ft. in Q1 2015. This signals a healthy amount of activity that is likely to materialize in the near future. Data on active users in the market show that the majority of current users in the market are related to the maquiladora industry, either directly or as a support operation, such as third-party logistics.

Overall, activity continued to push the transitioning market in the right direction. Further positive activity is likely to materialize as market indicators continue to improve along with the growing demand related to the maquiladora industry in northeastern Mexico. CBRE Research also continues to keep an eye on potential events that may ultimately drive additional activity to the region, including major automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.3 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Highway 83, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)
McAllen	11,497,339	1,315,339	11.4	1,473,042	12.8	(1,600)	-	-	3.85
Pharr	3,598,958	144,779	4.0	220,058	6.1	23,250	20,000	30,000	5.62
Edinburg	2,245,771	278,248	12.4	301,288	13.4	0	-	46,000	3.12
Hidalgo	1,435,748	233,320	16.3	233,320	16.3	0	-	-	4.08
Mission	1,436,640	101,560	7.1	371,560	25.9	0	-	148,000	4.20
Off-Park	2,283,597	329,098	14.4	398,848	17.5	0	-	-	4.01
Totals	22,498,053	2,402,344	10.7	2,998,116	13.3	21,600	20,000	224,000	4.06

Source: CBRE Research, Q1 2015.

ABSORPTION AND VACANCY

Q1 2015 marked a sixth consecutive quarter of positive net absorption for the McAllen industrial market. The net absorption of 21,600 sq. ft. was a result of 139,600 sq. ft. of gross absorption and 118,000 sq. ft. of newly vacated space. Continued progressive activity decreased the market vacancy rate by 60 bps quarter-over-quarter and by 80 bps year-over-year to 10.7%.

Broken down gross absorption shows that the McAllen submarket continued to be the most active. New activity recorded 83,350 sq. ft. of gross absorption; however, the McAllen submarket produced a minor negative net absorption as result of two significant vacancies. The Pharr submarket recorded the second largest gross absorption of 56,250 sq. ft. Pharr was also the only submarket to report positive net absorption after weathering two

small vacancies. The net absorption of 23,250 sq. ft. decreased the Pharr submarket vacancy rate to 4.0%. Edinburg, Hidalgo, Mission, and Off-Park submarkets saw no new absorption activity this quarter.

In terms of average asking lease rates by submarket, Off-Park and Pharr saw large increases in Q1 2015. Large increases and above-average asking rates are much attributed to cold-storage industrial space. In fact, the average asking rate for available cold-storage spaces is \$10.45 per sq. ft. This is well above the non-cold-storage warehouse average of \$3.90 per sq. ft. For additional rate analysis, see Figure 5.

The largest deal signed in Q1 2015 was a renewal of 185,499 sq. ft. by a corrugating packaging company in Off-Park. The largest reported vacancy was by Steelcase, furniture wholesalers, as they vacated 64,000 sq. ft. as part of a relocation.

EMPLOYMENT

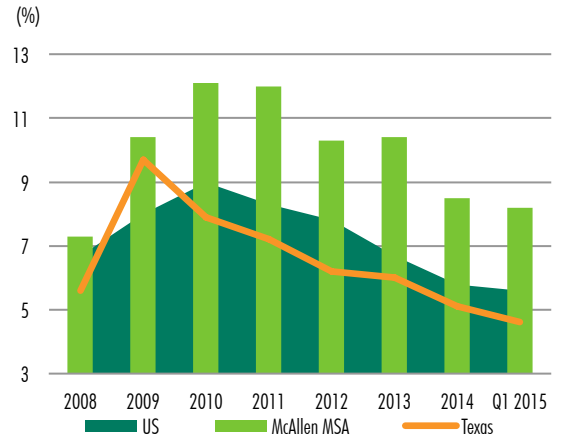
The seasonally adjusted unemployment rate in the McAllen-Edinburg-Mission MSA continued to decline to 8.2% in December 2014. The recorded unemployment rate is 240 bps lower from the same time in 2013. Data show that with the exception of manufacturing and professional and business services, most major industry groups saw positive job growth year-over-year. Of jobs added, education and health services saw the largest year-over-year increase of 4.3%. The reported unemployment rate in the McAllen-Edinburg-Mission MSA remains above the 4.6% in Texas and 5.6% in the U.S.

INDUSTRIAL RATES

Q1 2015 recorded an increase of 1.5% in the average annual asking industrial lease rate from \$4.00 to \$4.06 per sq. ft. This is the sixth consecutive quarter with an average asking rate increase as average rates gets closer to the pre-recession rate of \$4.08 per sq. ft.

Class B space saw positive increases, quarter-over-quarter, in average asking rates of \$0.51 per sq. ft. Contrary to the expected, the asking rate for Class B remains above that of Class A space. This may be due to the high amount of the Class B space available that encompasses cold storage, which typically carries a higher lease rate. Cold storage inflation is also impacting submarkets like Pharr, where average asking lease rates have surpassed \$5.00 per sq. ft. as some available properties are asking as much as \$10.80 per sq. ft. If we exclude cold storage asking rates to calculate a “true” warehouse and distribution average asking rate, the rate would yield \$3.90 per sq. ft. In addition, supply and demand forces may be at play. High availability of Class A space, which is two times greater than that of Class B, is keeping a downward pressure on its asking rate in order to remain competitive. Class C space has lower average asking rates, at an average of \$3.51 per sq. ft.

Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, March 2015.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q1 2015.

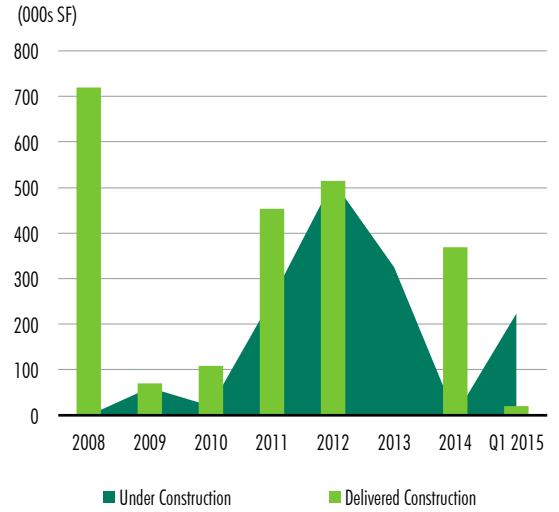
INDUSTRIAL PRODUCT

The supply of industrial buildings in McAllen increased in Q1 2015 through the delivery of a cold storage warehouse in Pharr of approximately 20,000 sq. ft. Furthermore, our internal property database underwent adjustments to more closely match building and tenant specifications.

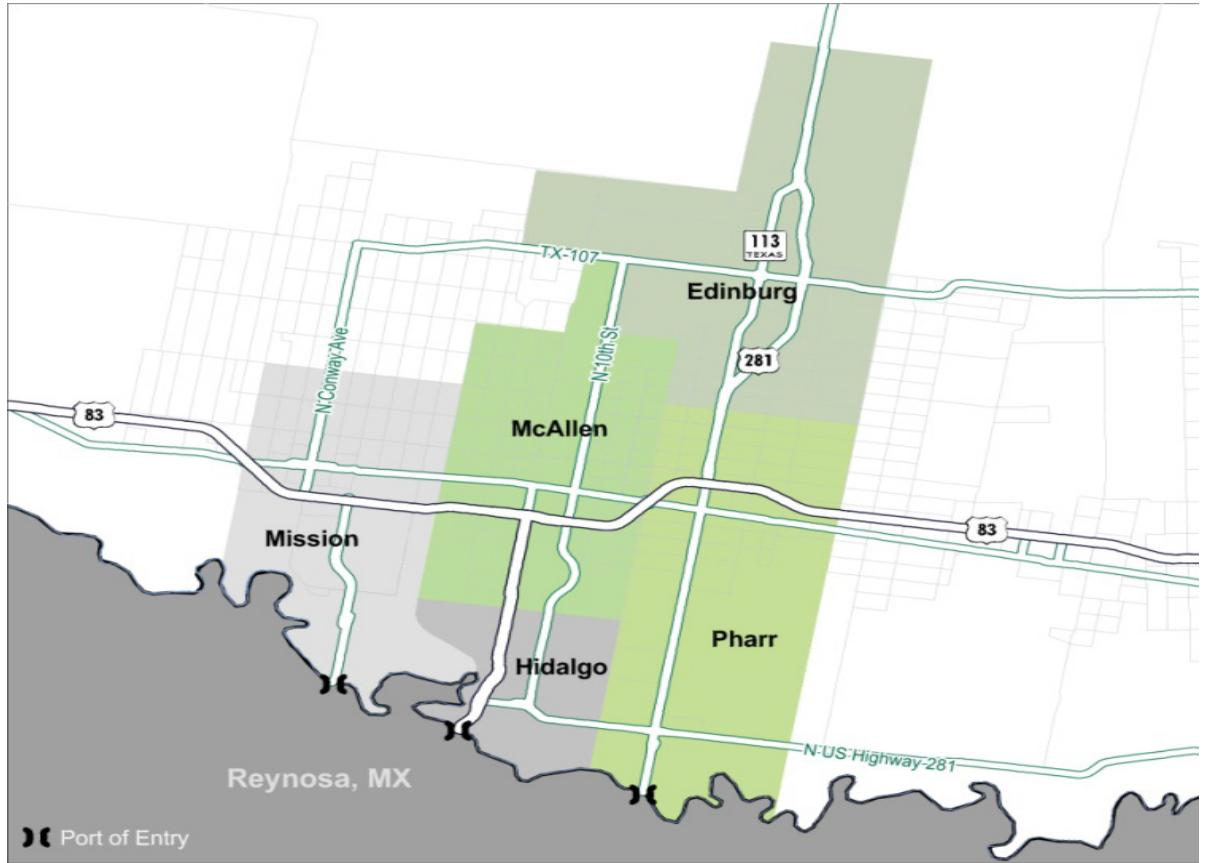
Q1 2015 saw the commencement of five new construction projects. The total 224,000 sq. ft. under construction are expected to be delivered later this year at occupancy of 79%. The projects include three new built-to-suits, one expansion to an existing property, and a speculative development. The largest current project is a 98,000 sq. ft. BTS for Southwest Steel Coil in a seven acre site located in Mission. In Pharr, Pharr Bridge Business Park development has started marketing availability. The 30-acre master plan will feature five new properties. The Class A built-to-suit project will include three 100,000 sq. ft., one 52,500 sq. ft., and one 30,000 sq. ft. facilities. Construction is expected to begin on the pre-occupied 52,500 sq. ft. in the first half of 2015.

With the high vacancy rate of Class A space, it remains unlikely that a developer would deploy additional speculative construction.

Figure 5: Construction



Source: CBRE Research, Q1 2015.



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McAllen Industrial, Q4 2014

McAllen industrial closes 2014 on a positively strong note

 Vacancy Rate
11.3%

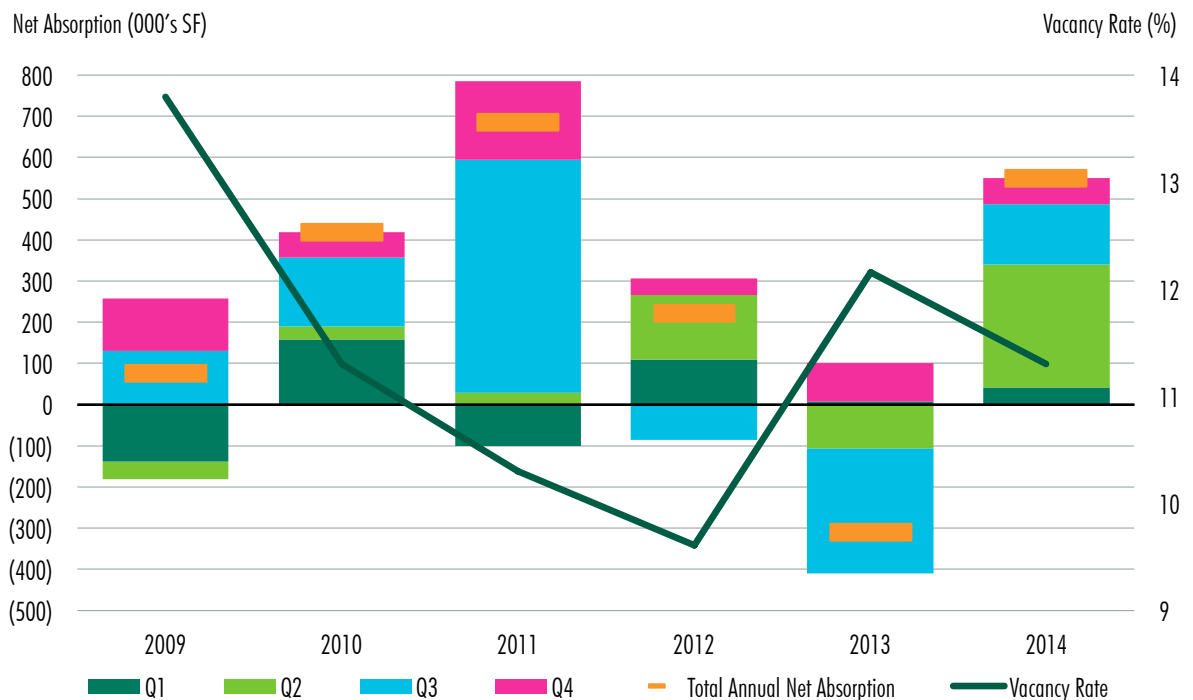
 Avg. Asking Rate
4.00 \$/SF

 Net Absorption
63,447 SF

 Completions
40,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2014.

- The McAllen industrial market continues on a good path as activity produced the fifth consecutive quarter of positive net absorption.
- Year-to-date net absorption in 2014 outperformed the previous two years.
- The Q4 2014 market vacancy rate of 11.3% is down 10 bps quarter-over-quarter and 90 bps year-over-year.
- Two new construction projects were announced for 2015, including a new multi-building built-to-suit development.

OUTPERFORMING PREVIOUS TWO YEARS

CBRE Research reports a fifth consecutive quarter of positive net absorption in the McAllen industrial market. The Q4 2014 net absorption of 63,447 sq. ft. decreased the market vacancy rate to 11.3% and elevated the year-to-date net absorption to 550,293 sq. ft. McAllen manages to weather a significantly large vacancy this quarter, and ultimately outperform the previous two years in 2014.

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, total dollar value of export and import trade with the Mexico through the Hidalgo-Pharr 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 7.0% year-over-year. Imports from Mexico increased 7.7% during the same period. This brings the year-to-date face value of export and import trade with Mexico to \$8.6 billion and \$13.6 billion, respectively.

Economic activity in the McAllen metropolitan area seems to be picking up pace after having leveled off in 2013. The McAllen-Edinburg-Mission business cycle index reported by the Federal Reserve Bank of Dallas registered positive growth this quarter. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. October saw an annual growth of 1.6% month-over-month and 16.7% year-over-year.

Within the McAllen industrial market, activity remains sound. This quarter saw an increase in the number of transactions as the market weathered the largest single vacancy in almost two years. As result, the McAllen market stayed on track as 2014 outperformed the previous two years in terms of annual net absorption.

Demand continues to derive from both of the primary sectors that drive the regional industrial market, the maquiladora industry in Northeast Mexico and the agricultural sector. Furthermore, the pipeline of active users in the market that CBRE Research tracks increased to 1.7 million sq. ft. in Q4 2014 with preliminary expectations of continued increase for 2015. This signals a healthy amount of activity that is likely to materialize in the near future. Data on active users in the market show that the majority of current users in the market are related to the maquiladora industry, either directly or as a support operation, such as third-party logistics.

Overall, activity continued to push the transitioning market forward as the industrial market seems to be moving in the right direction into 2015. Further positive activity is likely to materialize as macro and micro economic indicators continue to improve along with the growing demand related to the maquiladora industry in Reynosa, Mexico. CBRE Research is also keeping an eye on potential events that may ultimately drive additional activity to the region, including major automaker investments in Mexico, Mexico's energy reform, and the new SpaceX launch site just outside Brownsville.

MARKET OVERVIEW

The McAllen industrial market includes 22.3 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Highway 83, near international bridges connecting the U.S. with Reynosa, Mexico. U.S.- Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

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)
McAllen	11,497,177	1,380,013	12.0	1,380,013	12.0	167,290	-	-	3.93
Pharr	3,609,899	197,903	5.5	247,903	6.9	107,365	40,000	-	5.42
Edinburg	2,244,241	255,208	11.4	255,208	11.4	(211,208)	-	-	3.12
Hidalgo	1,435,748	231,850	16.1	251,850	17.5	0	-	-	4.17
Mission	1,436,640	101,560	7.1	371,560	25.9	0	-	-	4.20
Off-Park	2,149,098	354,598	16.5	388,348	18.1	0	-	-	3.22
Totals	22,372,803	2,521,132	11.3	2,894,882	12.9	63,447	40,000	0	3.92

Source: CBRE Research, Q4 2014.

ABSORPTION AND VACANCY

Q4 2014 marked a fifth consecutive quarter of positive net absorption for the McAllen industrial market. The net absorption of 63,447 sq. ft. is noteworthy given that this quarter saw the largest single vacancy in almost two years, 211,208 sq. ft. Positive activity ultimately increased the 2014 total net absorption to 550,293 sq. ft., outperforming the previous two years. Since CBRE Research began tracking the McAllen industrial market in 2009, only 2011 has had higher net absorption of 686,000 sq. ft. The current market vacancy rate of 11.3% is down 10 bps quarter-over-quarter and 90 bps year-over-year.

In terms of net absorption this quarter, the McAllen submarket continues to be the most active in new lease activity recording 167,290 sq. ft. of net absorption. Furthermore, the vacancy rate of the

McAllen submarket decreased by 120 bps to 12.0%. Pharr saw a decrease in vacancy rate of 190 bps to 5.5% after reporting a net absorption of 107,365 sq. ft. Edinburg was the only submarket to see an increase in its vacancy rate after experiencing a large vacancy. Within submarkets, McAllen and Pharr experienced escalations in average asking rates. Edinburg, Mission and Off-Park remained unchanged or saw a decline. For additional rate analysis, see Figure 5.

Of the 301,665 sq. ft. of total gross absorption, the largest lease in Q4 2014 was by Alps Logistics, a third-party-logistics company. The 62,548 sq. ft. expansion leased the remaining space in one of the largest existing buildings in the McAllen industrial market. The largest reported vacancy during Q4 2014 was by International Paper as they vacated 211,208 sq. ft. as part of a contraction.

EMPLOYMENT

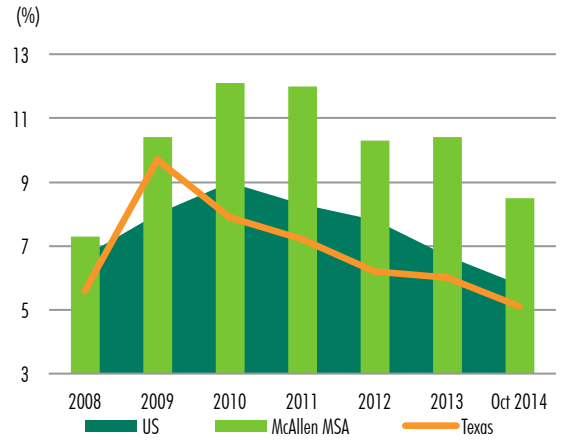
The seasonally adjusted unemployment rate in the McAllen-Edinburg-Mission MSA continued to decline to 8.5% in October. The recorded unemployment rate is 220 bps lower from the same time in 2013. Data show that with the exception of only construction, all major industry groups saw job growth from the same time in 2013. Of jobs added, education and health services saw the largest year-over-year increase of 3.9% followed by retail trade at 1.44%. The October unemployment rate in the McAllen-Edinburg-Mission MSA remains above the 5.1% in Texas and 5.8% in the U.S.

INDUSTRIAL RATES

Q4 2014 recorded an increase of \$0.08 per sq. ft. in the average annual asking industrial lease rate from \$3.92 to \$4.00 per sq. ft. This is the fifth consecutive quarter with an average asking rate increase as market conditions continue to steadily improve from 2013. The average asking lease rate closed 2014 \$0.23, or 6.1%, above the 2013 figure and closer to the pre-recession rate of \$4.08 per sq. ft.

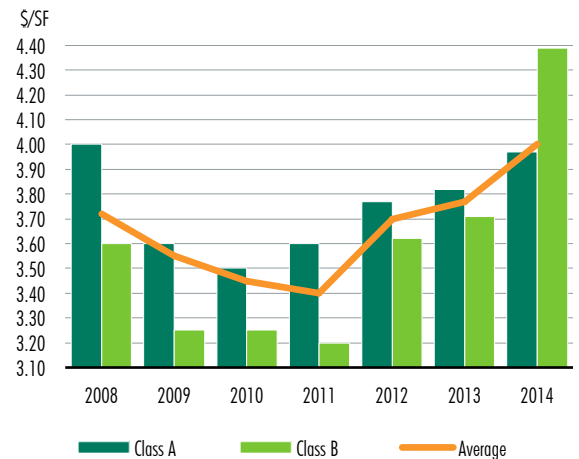
Further broken down, Class C space has lower average asking rates, at an average of \$3.52 per sq. ft. Both Class A and B space saw positive increases, quarter-over-quarter, in average asking rates of \$0.04 and \$0.29, respectively. Contrary to the expected, the asking rate for Class B remains above that of Class A space. This may be due to the high amount of the Class B space available that encompasses cold storage, which typically carries a higher lease rate. Cold storage inflation is also impacting submarkets like Pharr, where average asking lease rates have surpassed \$5.00 per sq. ft. as some available properties are asking as much as \$10.00 per sq. ft. If we exclude cold storage asking rates to calculate a “true” warehouse and distribution average asking rate, the rate would yield \$3.88 per sq. ft. in addition, supply and demand forces may be at play. High availability of Class A space, which is two times greater than that of Class B, is keeping a downward pressure on its asking rate in order to remain competitive.

Figure 3: Unemployment Rate



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

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2014.

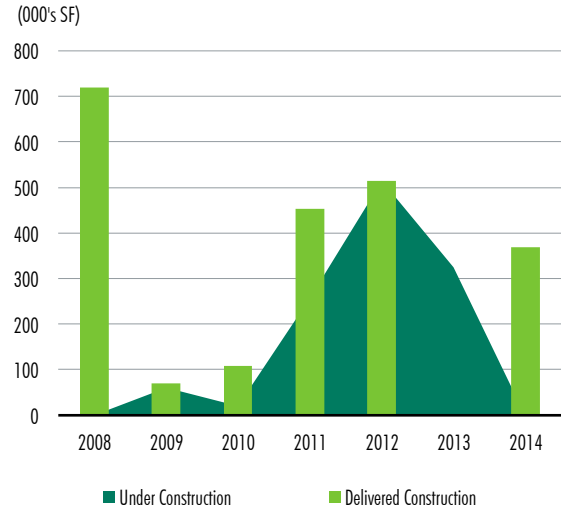
INDUSTRIAL PRODUCT

The supply of industrial buildings in McAllen increased in Q4 2014 through the delivery of two cold storage warehouses in Pharr at approximately 20,000 each. Furthermore, our internal property database underwent a handful of adjustments to more closely match building and tenant specifications.

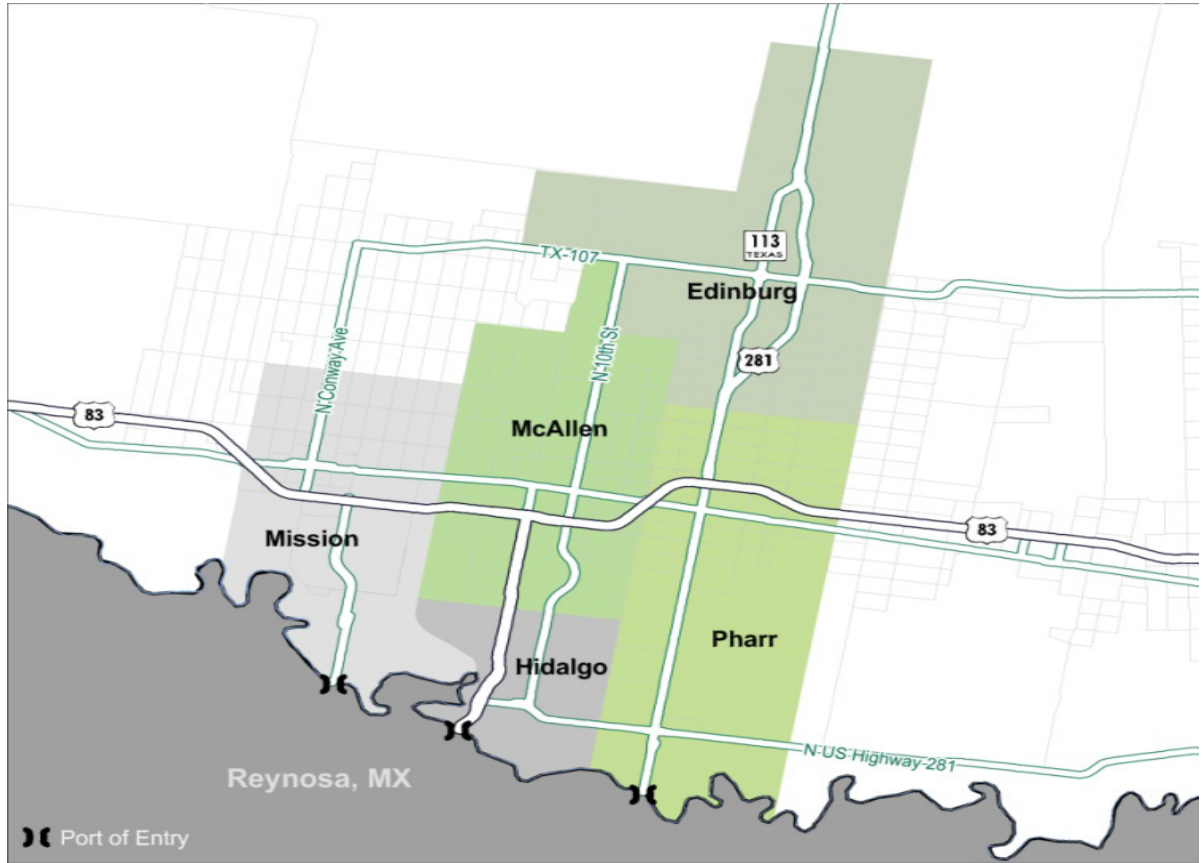
At the close of Q3 2014, there was no industrial space under construction. However, two significant projects have been announced for 2015. In Mission, Southwest Steel Coil announced plans to build a 100,000 sq. ft. Class A facility in a seven acre site. The project is expected later in 2015 and will create up to 40 new jobs. In Pharr, Pharr Bridge Business Park development was also announced and began marketing availability. The 30-acre master plan will feature three 100,000 sq. ft., a 52,500 sq. ft., and a 30,000 sq. ft. built-to-suit Class A facilities. Construction is expected to begin on the pre-occupied 52,500 sq. ft. in the first half of 2015.

With the high vacancy rate of Class A space, it remains unlikely that a developer would deploy new speculative construction.

Figure 5: Construction



Source: CBRE Research, Q4 2014.



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McAllen Industrial MarketView 3Q 2014

Q3 2014

CBRE Global Research and Consulting

 **MARKET SIZE**
22,326,531 Sq. Ft.

 **AVAILABILITY**
2,544,579 Sq. Ft.

 **GROSS ABSORPTION**
1,014,062 Sq. Ft., YTD

 **UNEMPLOYMENT**
9.0% Y-o-Y

MCALLEN AND THE RIO GRANDE VALLEY INDUSTRIAL MARKET CONTINUES TO IMPROVE AS THE LARGEST VACANT PROPERTY WAS LEASED.

Figure 1: Quick Stats

	Q3 2014	Q-o-Q	Y-o-Y
Vacancy	11.4%	↓	↓
Asking Rates, NNN	\$3.92 per SF	↑	↑
Net Absorption	146,976 SF	↓	↑
Under Construction	40,000 SF	↓	↓
Delivered Construction	20,000 SF	↓	↑

Hot Topics

- The McAllen industrial market continues on a good path as activity produced the fourth consecutive quarter of positive net absorption.
- The McAllen-Edinburg-Mission seasonally adjusted unemployment rate decreased to 9.0% in July 2014. The Bureau of Labor Statistics also reports that 5,100 jobs have been created year-to-date in July.
- In terms of trade, the inflation adjusted, total dollar value of import and export trade with Mexico through the Hidalgo-Pharr ports of entry saw improvement in the month of July. The year-to-date face value of import and export trade with Mexico increased to \$10.6 billion and \$6.8 billion, respectively.
- According to Instituto Nacional de Estadística y Geografía (INEGI), maquiladora employment in the neighboring city of Reynosa, Mexico has added 4,928 jobs year-to-date in July. Total maquiladora employment is now 96,249 and narrows the gap with the pre-recession peak of 101,598 in 2007.
- At mid-year 2014, the Reynosa industrial market closed with 280,000 sq. ft. of positive net absorption year-to-date, a vacancy rate of 8.6%, and close to 750,000 sq. ft. of space under construction.
- The recently announced SpaceX \$100 million-plus project will bring the world's first commercial private orbital launch site to the Rio Grande Valley. The project is expected to stimulate educational, research, development, and employment opportunities.

Source: CBRE Research, Q3 2014.

Still on Track

CBRE Research reports a fourth consecutive quarter of positive net absorption in the McAllen industrial market. The Q3 2014 net absorption of 146,976 sq. ft. decreased the market vacancy rate to 11.4% and elevated the year-to-date net absorption to 486,846 sq. ft. Another solid quarter of absorption as McAllen seems to be on track to outperform 2012 and 2013.

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 Hidalgo-Pharr ports of entry saw improvement in the month of July after growth contraction during Q1 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 saw an increase in imports from Mexico of 10.5% year-over-year. Exports to Mexico increased by 1.9% during the same period. This brings the year-to-date face value of import and export trade with Mexico through the Hidalgo-Pharr ports of entry to \$10.6 billion and \$6.8 billion, respectively.

Economic activity in the McAllen metropolitan area seems to have leveled off after a significant decline earlier this year. Similar to U.S. gross domestic product, the business cycle index reported

by the Federal Reserve Bank of Dallas registered contractions during Q1 2014 in response to national weather conditions. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. August saw a growth reduction of 0.1% month-over-month and 1.0% year-over-year.

Within the McAllen industrial market, activity remains stable. Although this quarter saw a considerable decrease in the number of new transactions, gross absorption endured as the largest vacant property became leased. The newly leased property removed more than 353,000 sq. ft. of space from vacant inventory and ultimately elevated the year-to-date net absorption to 486,846 sq. ft. while decreasing the vacancy rate to 11.4%.

Demand continues to derive from both of the primary sectors that drive the regional industrial market, the maquiladora industry in Northeast Mexico and the agricultural sector. Furthermore, the pipeline of active users in the market that CBRE Research tracks increased to 520,000 sq. ft. in Q3 2014 with preliminary expectations of continued increase for Q4 2014. This signals a healthy amount of activity that is likely to materialize in the near future. Data on active users in the market show that the majority of current users in the market are related to the maquiladora industry, either directly or as a support operation, such as third-party logistics.

Overall, activity continued to push the transitioning market forward as the industrial market seems to be on track to outperform 2012 and 2013. Further positive activity is likely to materialize as macro and micro economic indicators continue to improve along with the growing demand related to the maquiladora industry in Reynosa, Mexico.

Market Overview

The McAllen industrial market includes 22.3 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Highway 83, near the international bridges connecting the U.S. with Reynosa, Mexico. U.S.-Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

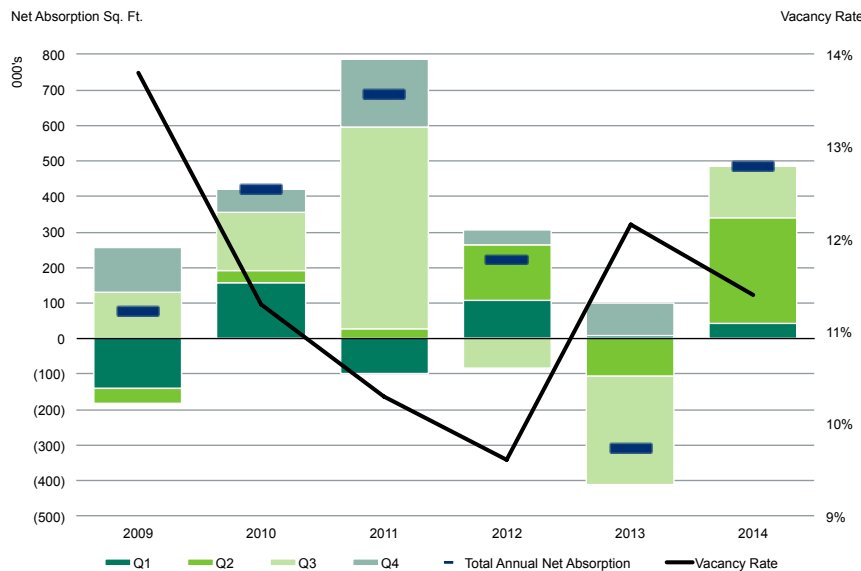
INDUSTRIAL THIRD QUARTER MARKETVIEW

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.
McAllen	11,497,177	1,517,256	13.2	1,544,256	13.4	194,341			3.86
Pharr	3,569,899	265,268	7.4	335,268	9.4	(47,365)	20,000	40,000	4.35
Edinburg	2,237,969	44,000	2.0	44,000	2.0	0			3.12
Hidalgo	1,435,748	231,850	16.1	251,850	17.5	0			4.17
Mission	1,436,640	101,560	7.1	201,560	14.0	0			4.45
Off-Park	2,149,098	384,645	17.9	418,395	19.5	0			3.61
Totals	22,326,531	2,544,579	11.4	2,795,329	12.5	146,976	20,000	40,000	3.92

Source: CBRE Research, Q3 2014.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2014.

Absorption and Vacancy

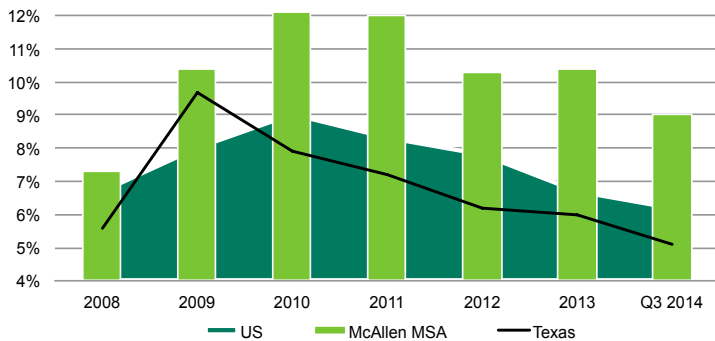
Q3 2014 marked a fourth consecutive quarter of positive net absorption for the McAllen industrial market. The net absorption of 146,976 sq. ft. was the result of 373,602 sq. ft. of total gross absorption after the largest building in the market became leased. As a result, the vacancy rate for industrial real estate in McAllen declined, keeping the transitioning market on track to outperform 2012 and 2013. The current market vacancy rate of 11.4% is down 60 bps quarter-over-quarter and 145 bps year-over-year.

In terms of net absorption, the McAllen submarket continues to be the most active in new lease activity recording 194,341 sq. ft. of net absorption. The submarket saw a handful of new vacancies ultimately offset by a significant new lease transaction. All other submarkets were inactive in Q3 2014, while Pharr experienced gross absorption activity that was ultimately offset by a larger vacancy. This quarter saw an increase in the overall average asking lease rate. Within submarkets, McAllen, Pharr, and Hidalgo all experienced escalations in average asking rates. Edinburg, Mission and Off-Park remained unchanged. For additional rate analysis, see Figure 5.

Of the 373,602 sq. ft. of total gross absorption, the largest space absorbed Q3 2014 was by a national electronics and appliance store chain. The transaction leased the largest existing building in the McAllen industrial market eliminating 353,602 sq. ft. from the vacancy roster. The largest reported vacancy during Q3 2014 was by Sharp Electronics as they vacated 102,200 sq. ft. as part of a market relocation.

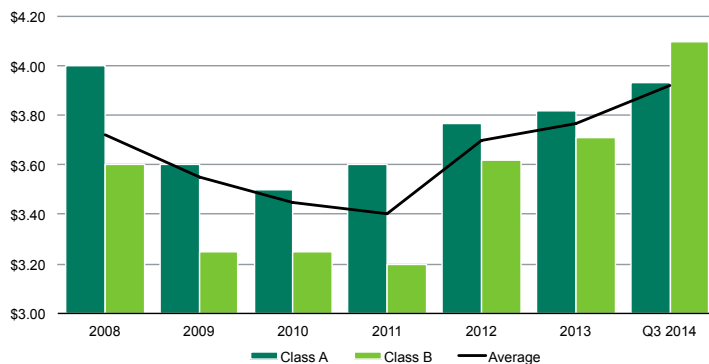
INDUSTRIAL THIRD QUARTER MARKETVIEW

Figure 4: Unemployment Rate



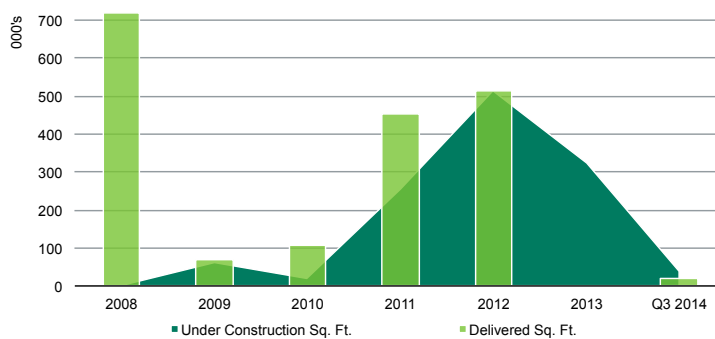
Source: Bureau of Labor Statistics, CBRE Research, September 2014.

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



Source: CBRE Research, Q3 2014.

Figure 6: Construction



Source: CBRE Research, Q3 2014.

Employment

The seasonally adjusted unemployment rate in the McAllen-Edinburg-Mission MSA continued to decline to 9.0% in July. The recorded unemployment rate is 170 bps lower from the same time in 2013. The Bureau of Labor Statistics also reports that 6,400 additional nonfarm jobs were added during the same 12-month period.

Of jobs added, education and health services saw the largest year-over-year increase followed by government and retail. The information and mining sector experienced a modest decline in the number of jobs in the last 12 months.

The April unemployment rate in the McAllen-Edinburg-Mission MSA remains above the 5.1% in Texas and 6.2% in the U.S.

Industrial Rents

Q3 2014 recorded an increase of \$0.03 per sq. ft. in the average annual asking industrial lease rate from \$3.89 to \$3.92 per sq. ft. This is the fourth consecutive quarter with an average asking rate increase as market conditions continue to steadily improve from 2013.

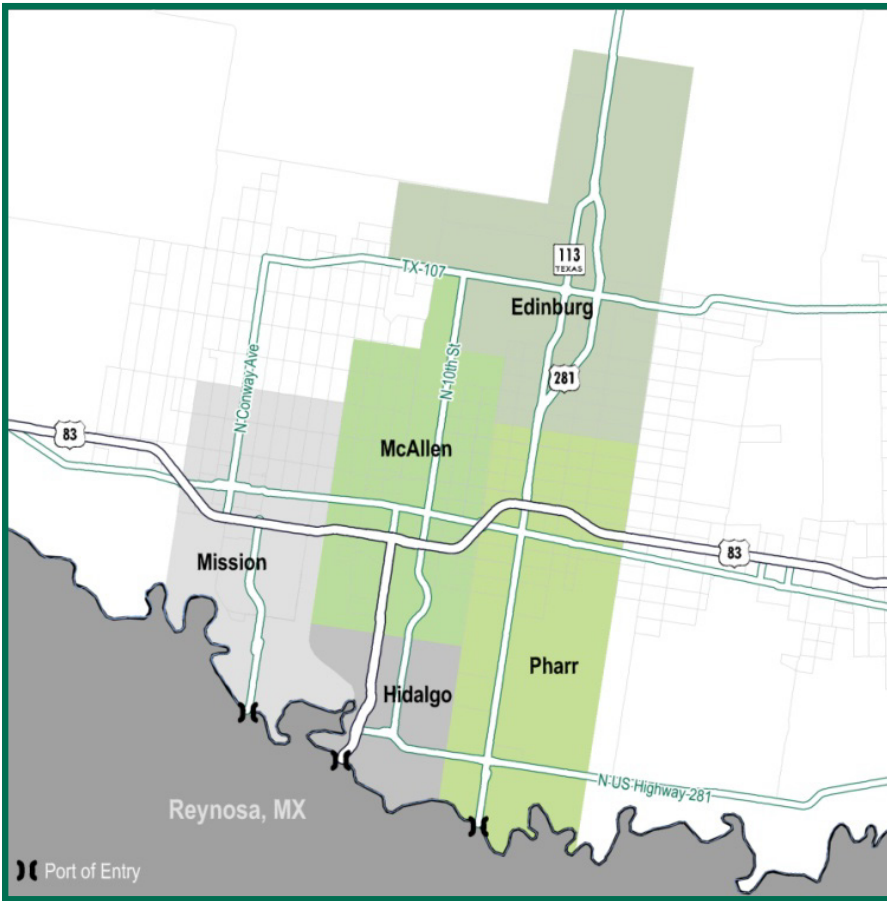
Further broken down, Class C space has lower average asking rates, at an average of \$3.59 per sq. ft. Both Class A and B space saw positive increases, quarter-over-quarter, in average asking rates of \$0.06 and \$0.13, respectively. Contrary to the expected, the asking rate for Class B remains above that of Class A space. This may be a result of high availability of Class A space which is two times greater than that of Class B. The surplus of Class A available space is keeping a downward pressure on its asking rate in order to remain competitive. In addition to supply and demand forces, a concentrated amount of the Class B space available encompasses cold storage, which typically carries a higher lease rate.

Although the vacancy rate sits just above 11%, the market remains in transition out of the 2013 downturn when market vacancy climbed above 12%. Increased activity in 2014 continues to gradually increase asking rates to pre-recession level. However, the large amount of vacant space continues to keep average asking rates below 2007 levels, which were above \$4 per sq. ft.

Industrial Product

The supply of industrial buildings in McAllen increased in Q3 2014 through the delivery of an expansion to an existing building. El Rosal Cold Storage took delivery of approximately 20,000 sq. ft. of cold storage space in the Pharr submarket. Furthermore, our internal property database underwent a handful of adjustments to more closely match building and tenant specifications.

At the close of Q3 2014, there was 40,000 sq. ft. of industrial space under construction. This includes two cold storage properties under construction in the Pharr submarket at 20,000 sq. ft. each. With the high vacancy rate of Class A space, it remains unlikely that a developer would deploy new speculative construction.



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McAllen Industrial MarketView 2Q 2014

Q2 2014

CBRE Global Research and Consulting

 **MARKET SIZE**
22,306,531 Sq. Ft.

 **AVAILABILITY**
2,671,555 Sq. Ft.

 **GROSS ABSORPTION**
640,460 Sq. Ft., Y-o-Y

 **UNEMPLOYMENT**
9.4% Y-o-Y

INCREASED ACTIVITY KEEPS MCALLEN AND THE RIO GRANDE VALLEY'S INDUSTRIAL MARKET IN POSITIVE TRANSITION.

Figure 1: Quick Stats

	Q2 2014	Q-o-Q	Y-o-Y
Vacancy	12%	↑	↑
Asking Rates, NNN	\$3.89 per sq. ft.	↑	↑
Net Absorption	298,896 sq. ft.	↑	↑
Under Construction	60,000 sq. ft.	↓	↓
Delivered Construction	348,000 sq. ft.	↑	↑

Hot Topics

- Industrial real estate activity continues on a good path as the McAllen industrial market produced a third consecutive quarter of positive net absorption.
- The McAllen-Edinburg-Mission seasonally adjusted unemployment rate decreased to 9.4% in March. The Bureau of Labor Statistics also reports that 600 jobs have been created over the year ending April 2014.
- The inflation adjusted, total dollar value of export trade with Mexico through the Hidalgo-Pharr ports of entry remained steady in the month of April with an increase of 0.03%. During the same period, imports from Mexico decreased by 9.7%.
- According to Instituto Nacional de Estadística y Geografía (INEGI), maquiladora employment in the neighboring city of Reynosa, Mexico added 188 jobs in the month of March. This figure brings total maquiladora employment to 94,432 and narrows the gap with the pre-recession peak of 101,598 in 2007.
- The Reynosa industrial market closed Q1 2014 with a vacancy rate of 8.4% as result of a second consecutive quarter of positive net absorption.

Source: CBRE Research, Q2 2014.

Positive Net Absorption; Still in Transition

In Q2 2014, CBRE Research reports a third consecutive quarter of positive net absorption in the McAllen industrial market. The net absorption of 298,896 sq. ft. sets a new 11-quarter-high dating back to Q3 2011 and keeps the transitioning market afloat.

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 basis points (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 strong as manufacturing activity grew by 1.2% from December and 4.7% year-over-year.

In terms of trade, the inflation adjusted, total dollar value of export trade with Mexico through the Hidalgo-Pharr ports of entry remained steady in the month of April with an increase of 0.03%. The year-to-date total increased by 3.9% compared to 2013. During the same period, imports from Mexico decreased by 9.7% in April; however, the year-to-date total increased by 12.6% compared to 2013.

Regionally, economic activity in the McAllen metropolitan improved during Q2 2014. The business cycle index reported by the Federal Reserve Bank of Dallas reflected positive growth in May after a slight decline during April. The index

summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. May saw an increase of 160 bps month-over-month and 50 bps year-over-year.

Within the McAllen industrial market, activity remains stable. Investment sales this quarter include the purchase of over 380,000 sq. ft. of cold storage property through the acquisition of Loop Cold Storage, the largest cold storage operation on the U.S. - Mexico border, by Lineage Logistics. In terms of absorption, the market remains on a progressive path with 298,896 sq. ft. of net absorption. The Mission submarket recorded the largest net absorption after a 348,000-sq.-ft. delivery for Royal Technologies making it the single largest construction project seen since 2005. However, the most active in new leases continues to be the McAllen submarket. Demand continues to derive from both of the primary sectors that drive the regional industrial market, the maquiladora industry in Northeast Mexico and the agricultural sector. CBRE Research data on active users in the market show that the majority of current users in the market are related to the maquiladora industry, either directly or as a support operation, such as third-party logistics.

Overall, McAllen and Rio Grande Valley industrial produced a progressive Q2 2014 with significant positive net absorption due, in part, to a construction delivery. Activity continues to push the transitioning market forward after a negative balance in 2013. Further positive activity is likely to materialize as macro and micro economic indicators continue to improve along with the growing demand related to the maquiladora industry in Reynosa, Mexico.

Market Overview

The McAllen industrial market includes 22.3 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo and McAllen. Most of the major industrial areas are south of Highway 83, near the international bridges connecting the U.S. with Reynosa, Mexico. U.S.-Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

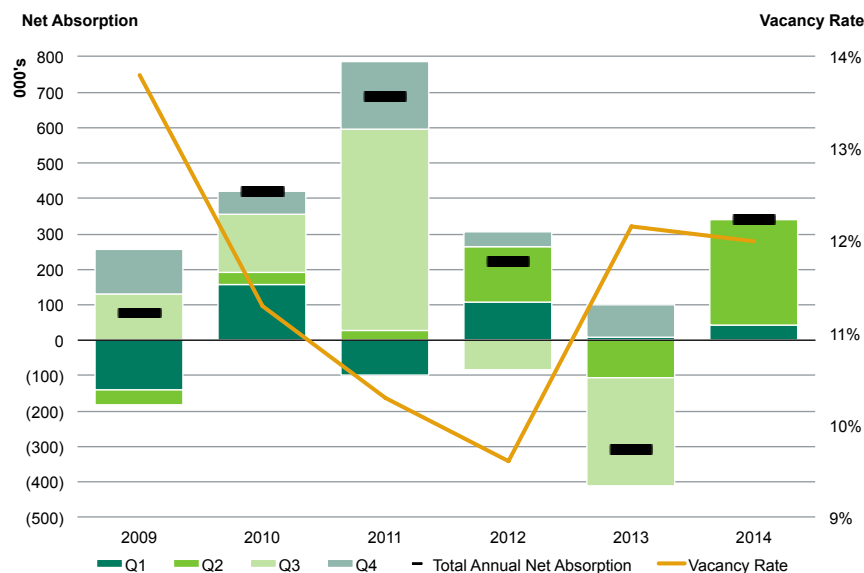
INDUSTRIAL SECOND QUARTER MARKETVIEW

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.	Net Avg. Asking Lease Rates \$/Sq. Ft./Yr.
McAllen	11,497,177	1,711,597	14.9%	1,765,658	15.4%	127,155			\$3.82
Pharr	3,549,899	197,903	5.6%	262,903	7.4%	(50,949)		60,000	\$4.20
Edinburg	2,237,969	44,000	2.0%	44,000	2.0%	0			\$3.12
Hidalgo	1,435,748	231,850	16.1%	251,850	17.5%	(23,750)			\$4.16
Mission	1,436,640	101,560	7.1%	201,560	14.0%	246,440	348,000		\$4.45
Other	2,149,098	384,645	17.9%	418,395	19.5%	0			\$3.61
Totals	22,306,531	2,671,555	12.0%	2,944,366	13.2%	298,896	348,000	60,000	\$3.89

Source: CBRE Research, Q2 2014.

Figure 3: Net Absorption Sq. Ft. and Vacancy Rate



Source: CBRE Research, Q2 2014.

Net Absorption and Vacancy

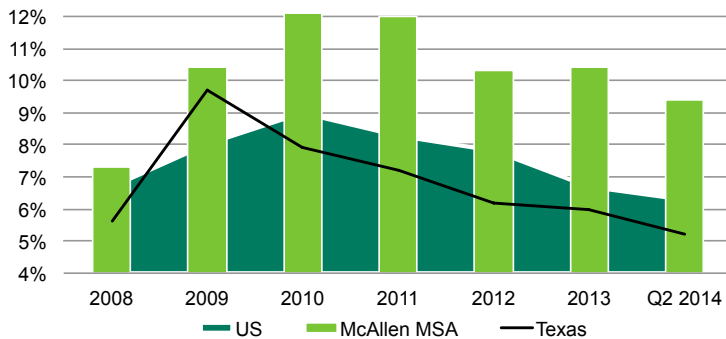
Q2 2014 recorded net absorption of 298,896 sq. ft. in the McAllen industrial market. This third consecutive positive net absorption set a new 11-quarter-high dating back to Q3 2011. As result, the vacancy rate for industrial real estate in McAllen should have continued to decline quarter-over-quarter. However, the vacancy rate increased due to the addition of two vacant buildings that were not previously tracked along with a handful of adjustments to our database. The current vacancy rate of 12.0% is up 50 bps quarter-over-quarter and 200 bps year-over-year. Despite the higher vacancy rate, the consecutive positive net absorption benefits the transitioning market after a handful of large vacancies pushed the vacancy rate up in 2013.

In terms of overall net absorption, the Mission submarket saw the largest net absorption of 246,440 sq. ft. after the delivery of 348,000 sq. ft. for Royal Technologies. Activity further broken down shows that the McAllen submarket continues to be the most active in new lease activity as well as total lease and sale transactions, recording 127,155 sq. ft. of net absorption. The Edinburg and Off-Park regions were inactive Q2 2014, while Pharr and Hidalgo produced negative net absorption. Q2 2014 saw increases in the average asking lease rate for all submarkets with Mission and Off-Park seeing the largest increases of \$0.25 and \$0.24, respectively. For additional rate analysis, see Figure 5.

Of the 480,155 sq. ft. of total gross absorption, the largest space absorbed Q2 2014 was by Royal Technologies as result of their 348,000 sq. ft. construction delivery in the Mission region. In the McAllen submarket, the Department of Homeland Security signed the largest new lease of approximately 55,000 sq. ft. The largest reported vacancy during Q2 2014 was by Royal Technologies as they vacated 101,000 sq. ft. as part of their relocation in the Mission submarket.

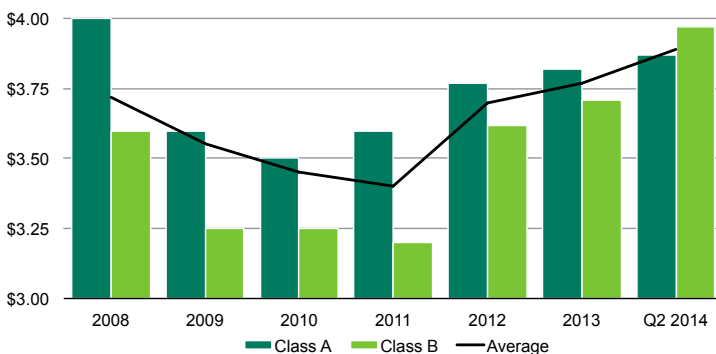
INDUSTRIAL SECOND QUARTER MARKETVIEW

Figure 4: Unemployment



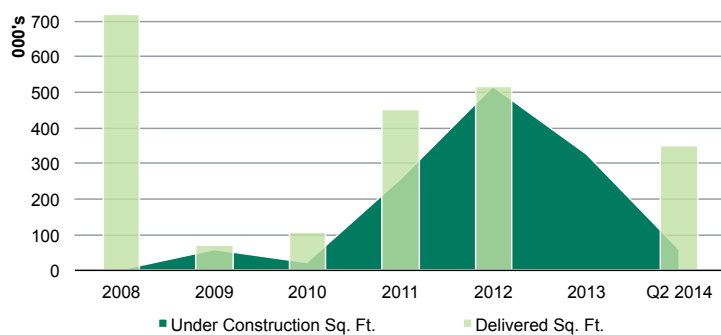
Source: Bureau of Labor Statistics, CBRE Research, June 2014.

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



Source: CBRE Research, Q2 2014.

Figure 6: Construction



Source: CBRE Research, Q2 2014.

Employment

The seasonally adjusted unemployment rate in the McAllen-Edinburg-Mission MSA continued to decline to 9.4% in April from 9.7% in March. The Bureau of Labor Statistics also reports that 100 additional nonfarm jobs were added during the same period. The April unemployment rate is 150 bps lower from the same time in 2013. Of jobs added in the last 12 months, government saw the largest year-over-year increase of 0.9%. The retail trade sector jobs saw the largest decline, contracting by 0.9% year-over-year.

The April unemployment rate in the McAllen-Edinburg-Mission MSA remains above the 5.2% in Texas and 6.3% in the U.S.

Industrial Rents

Q2 2014 recorded an increase of \$0.06 per sq. ft. in the average annual asking industrial lease rate from \$3.83 to \$3.89 per sq. ft. This is the third consecutive quarter with an average rate increase, after a decline during the first half of 2013.

Further broken down, Class C space has lower average asking rates, at an average of \$3.59 per sq. ft. Class A space remained unchanged from the previous quarter at \$3.87 per sq. ft. Class B space saw the largest increase of \$0.17, to \$3.97 per sq. ft. Contrary to the expected, this was enough to push the asking rate for Class B above that of Class A space. This may be a result of high availability of Class A space which is three times greater than that of Class B. The surplus of Class A available space is keeping a downward pressure on its asking rate in order to remain competitive. In addition to supply and demand forces, a concentrated amount of the Class B space available encompasses cold storage, which typically carries a higher lease rate.

Although the vacancy rate sits at 12%, the market remains relatively active, which continues to marginally increase asking rates. However, the large amount of vacant space continues to keep asking rates below 2007 levels, which were above \$4 per sq. ft.

Industrial Product

The supply of industrial buildings in McAllen increased in Q2 2014 with the addition of two existing buildings that were previously not tracked. This quarter also saw the delivery of 348,000 sq. ft. for Royal Technologies in the Mission submarket making it the single largest construction project seen since 2005. Furthermore, our internal property database underwent a handful of adjustments to more closely match building and tenant specifications.

At the close of Q2 2014, there was 60,000 sq. ft. of industrial space under construction. This includes three cold storage properties under construction in the Pharr region at 20,000 sq. ft. each. With the high vacancy rate, it remains unlikely that a developer would build a speculative building.



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McAllen Industrial MarketView 1Q 2014

Q1 2014

CBRE Global Research and Consulting

 MARKET SIZE
22,114,846 Sq. Ft.

 AVAILABILITY
2,540,263 Sq. Ft.

 GROSS ABSORPTION
160,305 Sq. Ft. Y-o-Y

 UNEMPLOYMENT
9.4% Y-o-Y

MCALLEN AND THE RIO GRANDE VALLEY'S INDUSTRIAL MARKET HAD A GOOD START IN 2014 WITH POSITIVE NET ABSORPTION.

Figure 1: Quick Stats

	Q1 2014	Q-o-Q	Y-o-Y
Vacancy	11.5%	↓	↑
Asking Rates, NNN	\$3.83	↑	↑
Net Absorption	40,974	↓	↑
Under Construction	495,000	↑	↑
Delivered Construction	0	↔	↓

Hot Topics

- Industrial real estate activity had a good start in 2014 as the McAllen industrial market produced a second consecutive quarter of positive net absorption.
- The McAllen-Edinburg-Mission unemployment rate decreased to 9.4% in March. The Bureau of Labor Statistics also reports that 1,000 jobs were created in the same month.
- The nominal total dollar value of import and export trade with Mexico through the Hidalgo-Pharr ports of entry increased in the month of January, after contracting in December. Imports from Mexico increased by 16% in January. During the same period, exports to Mexico increased by 24.4%.
- According to Instituto Nacional de Estadística y Geografía (INEGI), Maquiladora employment in the neighboring city of Reynosa, Mexico added 1,923 jobs in the month of January. This figure brings total maquiladora employment to 93,244 and narrows the gap with the pre-recession peak.
- The Reynosa industrial market closed 2013 below a 10% vacancy rate as result of strong net absorption during 2013.

Good start after a slow 2013.

CBRE Research reports a second consecutive quarter of positive net absorption in the McAllen industrial market. After a slow start in the first three quarters of 2013, McAllen has managed to stay afloat as it reports positive net absorption with only three reported vacancies in Q1 2014 to begin the year.

Macroeconomic indicators seem favorable this quarter. The industrial production index (IPI) for the U.S., as reported by the Board of Governors of the Federal Reserve, increased 0.7% in March after a gain of 1.2% in February. The data also show that manufacturing output rose 0.5% in March after a notable gain of 1.4% in February. Similar to the IPI, the Institute for Supply Management recently reported that manufacturing expanded as the Purchasing Manager's Index (PMI) increased by 190 basis points (bps) from January to February and again by 50 bps in March. Furthermore, the reported PMI index indicates growth for the 58th consecutive month in the overall economy, and the tenth consecutive month in the manufacturing sector. In the neighboring country of Mexico, industrial production increased by 65 bps in January and by 30 bps in February. This reading is optimistic as manufacturing activity in Mexico grew by 280 bps year-over-year in January and by an additional 230 bps year-over-year in February.

In terms of trade, the nominal total dollar value of import and export trade with Mexico through the Hidalgo/Pharr ports of entry increased in the month of January, after contracting in December. Imports from Mexico increased by 16.0%, to \$1.5 billion. During the same period, exports to Mexico increased by 24.4%, to \$0.9 billion, after having contracted in December. When adjusted for inflation, exports to Mexico grew by 22.4%, while imports increased by 14.2% year-over-year in January.

Overall regional economic activity in the McAllen metropolitan area has continued to improve. The business cycle index reported by the Federal Reserve Bank of Dallas has reflected positive growth since November

2013. The index summarizes the broad movements in nonagricultural employment, the unemployment rate, real wages, and real retail sales. March saw a growth of 90 bps month-over-month and 660 bps year-over-year.

Activity in the McAllen industrial market remains stable. This quarter recorded 9 lease and one-off-sale transactions. With only three reported vacancies under 50,000 sq. ft. each, McAllen industrial started 2014 with 40,974 sq. ft. of net absorption and a vacancy rate of 11.5%. Within the submarkets, the most active continues to be McAllen. Most of the new leases and sale transactions occurred in this submarket as it leads both gross and net absorption numbers in Q1 2014. Market demand continues to derive from both of the primary sectors that drive the regional industrial market: the maquiladora industry in North-east Mexico and the agricultural sector. CBRE Research data on active users in the market show that the majority of current users in the market are related to the maquiladora industry, either directly or as a support operation, such as third-party logistics.

Overall, McAllen and the Rio Grande Valley industrial market produced a stable Q1 2014. This comes as positive news following a negative balance in 2013 after a handful of large vacancies during the first three quarters of 2013. Further positive activity should continue to materialize as macro and micro economic indicators continue to improve along with the growing demand related to the maquiladora industry in Reynosa Mexico.

Market Overview

The McAllen industrial market includes 22.1 million sq. ft. of space spread across five major submarkets including Mission, Edinburg, Pharr, Hidalgo, and McAllen. Most of the major industrial areas are south of Highway 83, near the international bridges connecting the U.S. with Reynosa, Mexico. U.S./Mexico trade is the major driver of industrial demand in McAllen in addition to produce distribution from South Texas and Mexico.

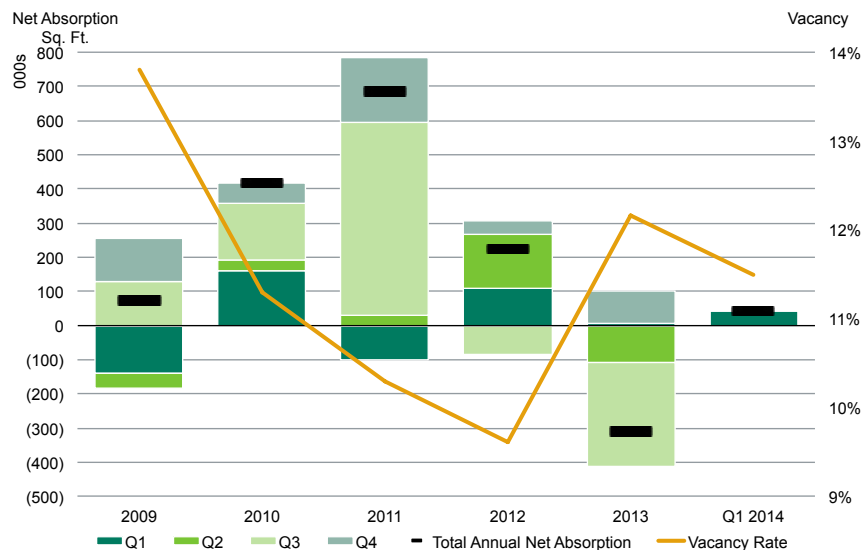
INDUSTRIAL FIRST QUARTER MARKETVIEW

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.
McAllen	11,667,051	1,870,111	16.0%	1,906,111	16.3%	47,334			\$3.78
Pharr	3,548,950	146,954	4.1%	211,954	6.0%	0		170,000	\$3.99
Edinburg	2,193,969	0	0.0%	0	0.0%	18,180			\$0.00
Hidalgo	1,434,498	208,100	14.5%	208,100	14.5%	(24,540)			\$4.05
Mission	1,162,080	0	0.0%	100,000	8.6%	0		325,000	\$4.20
Other	2,108,298	315,098	14.9%	315,098	14.9%	0			\$3.37
Totals	22,114,846	2,540,263	11.5%	2,741,263	12.4%	40,974	0	495,000	\$3.83

Source: CBRE Research, Q1 2014.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2014.

NET ABSORPTION AND VACANCY

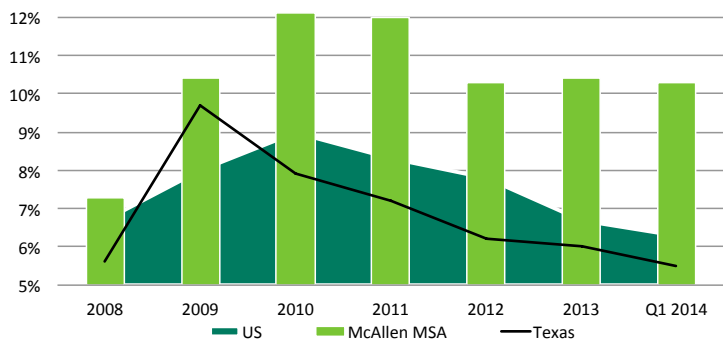
The vacancy rate for industrial real estate in McAllen continued to decline in Q1 2014 with 40,974 sq. ft. of net absorption across the market. The net absorption figure for Q1 2014 surpassed the 8,126 sq. ft. reported during the same period in 2013. As result, the quarter-over-quarter decrease of 70 bps pushed the vacancy rate down from 12.2% to 11.5% in Q1 2014. Despite the higher vacancy rate year-over-year, the consecutive decrease quarter-over-quarter may signal an improving market after a handful of large vacancies in 2013.

Activity further broken down shows that the McAllen submarket continues to be the most active. This submarket reported the most number of lease and sale transactions with 119,665 sq. ft. of gross absorption. As a result, the McAllen submarket average asking lease rate increased to \$3.78 per sq. ft., up \$0.12 year-over-year. Hidalgo and Edinburg followed with a gross absorption of 22,460 sq. ft. and 18,180 sq. ft., respectively. In terms of net absorption, McAllen had the most, at 47,334 sq. ft. Edinburg followed with 18,180 sq. ft., while Hidalgo produced a negative 24,540 sq. ft. The Mission and Pharr submarkets were inactive Q1 2014.

Of the 160,305 sq. ft. of total gross absorption, the largest new deal signed was by Emerson Company for 48,000 sq. ft. in the McAllen region. Also in the McAllen region, Mercatropic Corporation leased 40,000 sq. ft.

INDUSTRIAL FIRST QUARTER MARKETVIEW

Unemployment



Source: Bureau of Labor Statistics, March 2014.

EMPLOYMENT

The unemployment rate in the McAllen-Edinburg-Mission MSA declined to 9.4% in March from 10.3% in February. The Bureau of Labor Statistics also reports that 1,000 additional nonfarm jobs were added during the same period. The March unemployment rate is also 120 bps lower from the same time in 2013. Of jobs added, mining, logging, and construction saw the largest year-over-year increase of 4.3%. Information sector jobs saw the largest decline of -4.8% year-over-year.

The unemployment rate in the McAllen-Edinburg-Mission MSA remains above the 5.5% in Texas and 6.3% in the U.S.

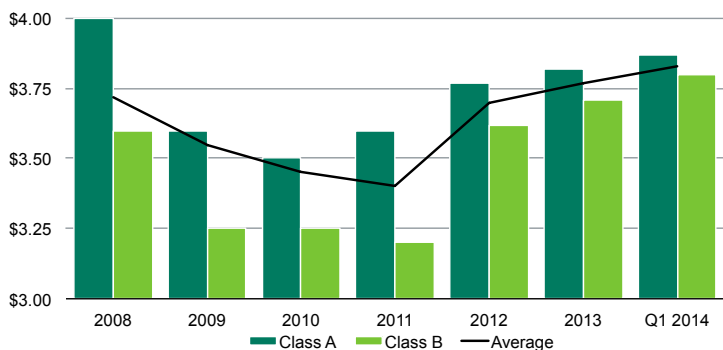
INDUSTRIAL RENTS

Average asking lease rates continue on a positive trend, although rates seem to have leveled off after experiencing steady growth through 2012. The quarter recorded an increase of \$0.06 in the average asking industrial lease rate from \$3.77 to \$3.83. Q1 2014 is the second consecutive quarter with an average rate increase, after a decline during the same time last year and no change during Q2 and Q3 2013.

Further broken down, Class C space has lower average asking rates, at \$3.52 per sq. ft. While all classes saw an increase in average asking lease rates, the largest increase was in Class B, which rose by \$0.09, to \$3.80 per sq. ft. Class A saw an increase of \$0.05, to \$3.87 per sq. ft. Class A continues to anchor rates as it remains the closest to the \$4.00 mark.

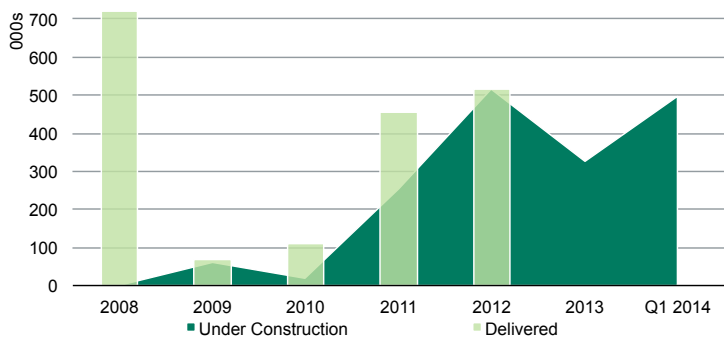
Although the vacancy rate remains above 11%, the market remains relatively active, which continues to marginally increase asking rates. However, the large vacant space added in 2013 is also putting downward pressure on rates, keeping them below 2007 levels, which were above \$4.00.

NNN Annual Asking Rates PSF



Source: CBRE Research, Q1 2014.

Construction SF



Source: CBRE Research, Q1 2014.

INDUSTRIAL PRODUCT

The supply of industrial buildings in McAllen remained unchanged in the Q1 2014 as there were no industrial deliveries. Additionally, our internal property database underwent a handful of adjustments to more closely match building and tenant specifications.

At the close of Q1 2014, there was 495,000 sq. ft. of industrial space under construction. This includes two cold storage properties under construction in the Pharr region totaling 170,000 sq. ft. In the Mission region, 325,000 sq. ft. remains under construction for Royal Technologies and is expected to deliver in Q2 2014. With the high vacancy rate, it remains unlikely that a developer would build a speculative building.

CONTACTS

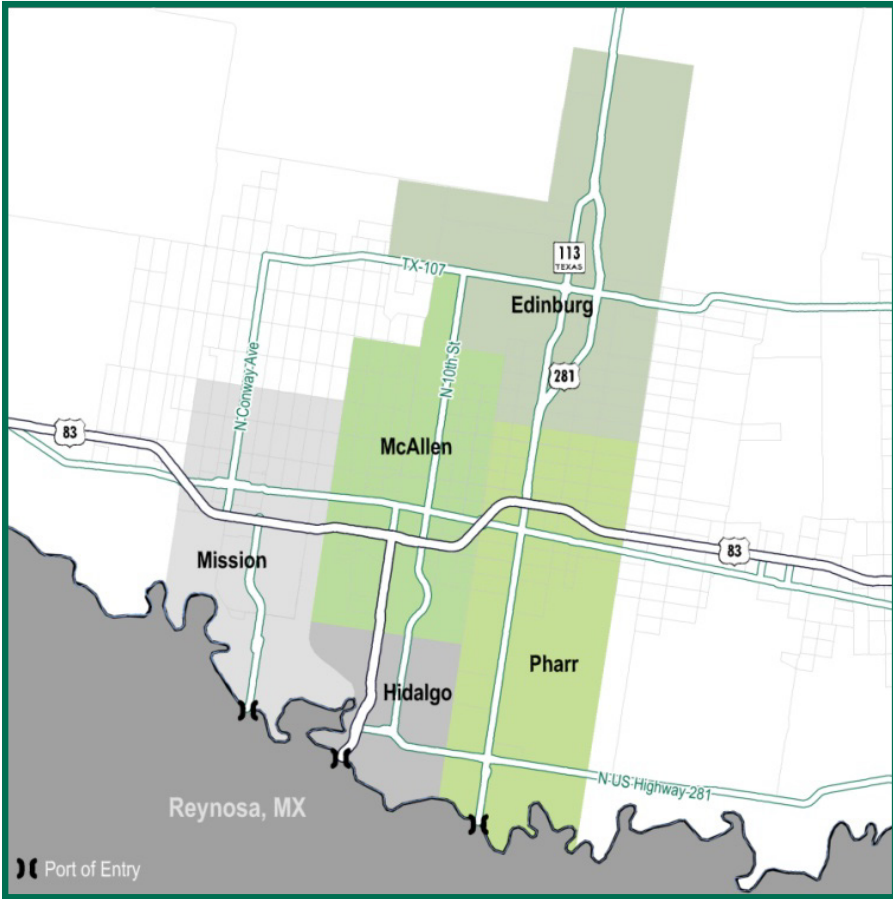
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