Avison Young U.S. National Industrial Capital Markets

Mid-Year 2017 Spotlight - Foreign Investment in U.S. Capital Markets

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Erik Foster
Principal, Practice Leader
U.S. Industrial Capital Markets
erik.foster@avisonyoung.com | 312.273.9486

Avison Young | Chicago
One South Wacker, Suite 3000
Chicago, Illinois
312.957.7600

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Amidst political and cultural uncertainty, foreign investment in U.S. commercial real estate remains strong

Executive Summary

Capital from non-U.S. sources continues to fuel activity in the U.S. industrial sector. Foreign investors purchased $4.3 billion of corporate distribution, warehouse and related space across the U.S. between first-quarter 2016 and first-quarter 2017. According to research by Avison Young's U.S. national industrial capital markets group, Canada remained the top country of origin for industrial investment with a volume of $831.1 million in the first quarter of 2017, followed by China, with its volume rising by more than 540%—from $5.2 million in the first quarter of 2016 to $284.9 million in the first quarter of 2017.

Avison Young analyzed research and sales data provided by Real Capital Analytics through first-quarter 2017. The yearly figures contained herein are for sales from first-quarter 2016 to first-quarter 2017.

The U.S. industrial sector has been on a strong run since 2008, attracting foreign and domestic investors searching for a safe haven against their own currencies, economies and political uncertainties. From 2011 to 2014, volume ranged from $1.4 billion to $3.3 billion per year, then jumped to $27.3 billion in 2015 due to large portfolio and whole company platform sales. The total foreign investment in U.S. industrial assets then shifted back to a more typical range, reaching $3.5 billion for all of 2016.

"With the strength of the U.S. supply chain and continued growth in e-commerce, the industrial asset class should continue to attract investors looking for stable, long-term returns for the near future," comments **Erik Foster**, an Avison Young Principal and practice leader of the U.S. national industrial capital markets group.

Top Countries of Origin
Q1 2017

In the first quarter of 2017, foreign investors from seven countries purchased 79 U.S. industrial properties totaling $1.3 billion. This was a 29% increase from the first quarter of 2016 when investors from nine countries purchased 46 U.S. industrial properties totaling $443.6 million.

Buyer Origin *(by dollar value)*	Properties	Volume ($USD)
Canada	43	$831.1 M
China	27	$284.9 M
Singapore	2	$ 77.8 M
Hong Kong	2	$ 41.3 M
Australia	2	$ 31.2 M
Germany	2	$ 13.6 M
Malaysia	1	$ 5.7 M

Top U.S. Markets for Non-U.S. Capital
Q1 2017

The first-quarter 2017 volume was a shift from the prior year when Columbus was close to the top of the list in volume, following closely behind Los Angeles and San Francisco's East Bay market. "We see this as a natural wave of activity, as investors shift between primary and secondary markets, depending on availability of assets and the investors' long-term strategy," says Foster. "While the movement to secondary markets has been pronounced in recent years, investors are also looking in core markets because of the strength and value they can deliver. In addition, primary markets always have a certainty around their liquidity that not all secondary markets have."

Top Markets 2017 *(through Q1 by dollar volume)*	Properties	Volume ($USD)
Dallas, TX	8	$153.6 M
Inland Empire, CA	6	$ 81.1 M
Northern New Jersey, NJ	1	$ 73.0 M
Seattle, WA	3	$ 68.4 M
Chicago, IL	6	$ 61.9 M
Charlotte, NC	7	$ 61.3 M
Miami, FL	3	$ 60.8 M

Key U.S. Sales to Foreign Investors

Among the key investment sales in first-quarter 2017 was Canadian investment firm Brookfield AM's purchase of **37** industrial properties from TA Realty of Boston for **$680 million.** The **7.6-million-square-foot** (msf) portfolio, purchased in March 2017, included properties in Inland Empire, Dallas and other markets. Among the properties in that portfolio are:

Properties	Market	Size	**Price**	Price per SF
I-210 Logistics Center II, 1686 W. Baseline Rd., Rialto, CA	Inland Empire	758,940 sf	**$67.3 M**	$89
1580 Eastridge Ave., Riverside, CA	Inland Empire	355,182 sf	**$28.2 M**	$79
1360 Madeline Lane, Elgin, IL	Chicago	217,843 sf	**$26.8 M**	$123
1401 Valley View Lane, Irving TX	Dallas	414,871 sf	**$22.4 M**	$54
5220 S. Westmoreland Rd., Dallas, TX	Dallas	345,600 sf	**$18.7 M**	$54

Major U.S. Industrial Markets' Industrial Rental Rates (NNN)

Market	Q1 2016	Q1 2017	**% CHANGE**
Atlanta	$3.73	$3.94	**5.6%**
Charlotte	$3.98	$4.15	**4.2%**
Chicago	$4.67	$4.56	**-2.3%**
Columbus	$3.14	$3.63	**15.6%**
Dallas	$5.02	$5.28	**5.1%**
Indianapolis	$3.35	$3.50	**4.4%**
Inland Empire	$5.23	$5.61	**7.2%**
Miami	$6.95	$7.07	**1.7%**
Los Angeles	$8.28	$9.24	**11.5%**
Memphis	$2.85	$2.75	**-3.5%**
Nashville	$4.36	$4.98	**14.2%**
No. New Jersey	$6.40	$7.17	**12.0%**
Seattle	$6.19	$6.77	**9.3%**

Source: CoStar

Strong demand and low inventory are driving rents upward in many markets. Over the past year, significant rental increases occurred in core markets such as Northern New Jersey (12%) and Los Angeles (11.5%), as well as secondary markets such as Columbus (15.6%) and Nashville (14.2%).

Trends to Watch

Based on an analysis of past cycles, Avison Young expects to see the following trends in the U.S. industrial market over the next 12 to 18 months:

- **E-Commerce will continue to grow**, forcing retailers to look for new ways to move products to consumers quickly. Many will look for new facilities as they streamline their supply chain operations, expand their warehouse capacity, and add smaller, last-mile facilities. This all bodes well for growth in the industrial sector.

- **Investment from Asia will increase** as Chinese investors continue to look to the U.S. for opportunities. Also, look for Canadian investors to remain near the top of the list, as the proximity and cohesive financial markets between the two countries helps transaction flow.

- **Portfolios will dominate**. Investors will continue to leverage capital as they expand their industrial holdings. Look for regional or sector-specific funds to trade, even in secondary markets, in the $300 million to $700 million range.

- **U.S. industrial fundamentals will remain strong**. With solid tenant demand and vacancy rates in the 4% to 5.5% range across many markets, the outlook for the industrial sector is strong. The current construction cycle brought 970 msf of completed construction to the market from 2011 through 2016. Also, there is an additional 259 msf under construction nationally, as of first-quarter 2017. We expect this space to be absorbed steadily over the next 12 to 18 months, keeping rental and vacancy rates stable.

Comfortable balance established after years of record-setting activity

The U.S. industrial market has registered record-setting activity in recent years, as significant demand for big box buildings, last-mile distribution facilities and urban in-fill space has pushed vacancy rates to below 6% across most markets. New construction has been leasing well in many markets, with tempered development keeping the demand-supply equation at a comfortable balance. One key driver of the industrial market is e-commerce, which has been growing at a 7% to 10% rate annually, according to the U.S. Commerce Department.

Foreign investors have moved into the U.S. industrial sector in force, buying $42.1 billion in assets from 2011 through first-quarter 2017. This activity should continue at a steady annual pace for at least the next 12 to 18 months.

U.S. National Industrial Capital Markets
Practice Leader

Erik Foster
Principal, Practice Leader
U.S. Industrial Capital Markets
erik.foster@avisonyoung.com | 312.273.9486

One South Wacker, Suite 3000
Chicago, Illinois 60606

Erik Foster is a Principal of Avison Young and the practice leader of the firm's U.S. national industrial capital markets group. He oversees a team providing asset advisory, disposition and sale-leaseback services to a wide range of institutional and privately held commercial property owners across North America. With 20 years of experience, Erik has built a strong track record in industrial investment sales and capital markets.

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