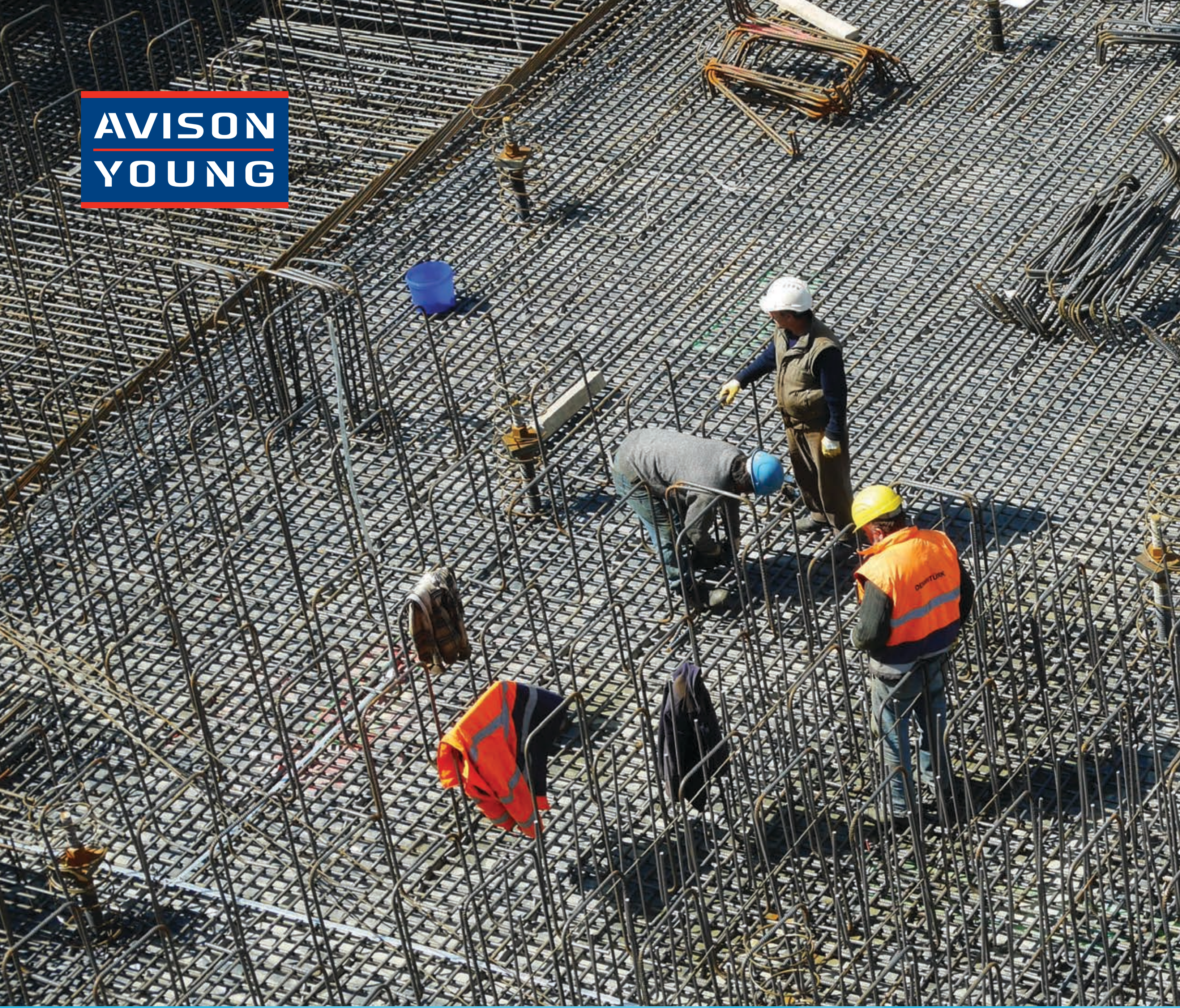


National Industrial Capital Markets

U.S. Construction Spotlight

November 2018

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

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

Industrial Construction Hits 237 MSF in 2018

Secondary Markets Will Continue to Grow for 2019

INDUSTRIAL

Executive Summary

Demand for modern e-commerce, distribution and manufacturing space continues to fuel a building boom in the U.S. industrial sector. As vacancy rates remain at record lows in many markets -- and rental growth is strong -- developers are working to feed the construction pipeline. There was 237.7 msf of construction delivered through Q3 of 2018, a slight decrease from the 243.9 msf delivered through Q3 of 2017.

The construction pipeline also remains strong, with an additional 337.3 msf under construction nationally. This bodes well for investors, who continue to focus on the industrial sector as a top asset class.

An analysis of data through October 31, 2018 shows that construction activity remained strong or steady in many core markets, such as Northern New Jersey, Los Angeles and Atlanta. This wave of construction activity also has been significant in secondary markets, where developers often find more available land and lower costs of entry. This is occurring in Southeast markets, such as Nashville and Greenville/Spartanburg, and in the Midwest in Columbus and Indianapolis, among other markets.

Across the U.S., this record activity is being driven by tenant demand for distribution and warehouse space uses that range from online consumer goods fulfillment to automotive parts distribution and light manufacturing. While build-to-suit activity has been strong, much of the construction has been speculative.

Since 2012, developers have added 1.56 billion square feet of industrial space in the U.S. These modern buildings are being designed with taller ceiling heights for racking and sorting; increased docking, more efficient parking configurations for large trucks and mid-sized vans for fulfillment; and expanded parking capacity for employee traffic.

Construction in Core Markets

Developers are continuing to add inventory throughout the core markets, as low vacancies and strong demand fuel additional growth. Northern New Jersey has already exceeded the 9.7 msf of space it delivered in 2017 -- with 10.3 msf delivered through October. Los Angeles is on pace to come close, with 5.4 msf delivered through October, approximately 77% of the 7 msf total for 2017.

Activity was steady in Atlanta, where 14.7 msf was delivered in 2018, 81% of the 2017 total of 18 msf. Atlanta has seen activity move from approximately 4.3 msf in 2013 and 2014 to 10.9 msf in 2015 and 22.6 msf in 2016, before tapering down in 2017. With its business friendly climate, extensive rail system, two deep water sea ports and the country's busiest airport, the Atlanta region has been a big draw for industrial tenants.

Chicago saw the biggest decline among the core markets analyzed, slowing to 10 msf in 2018 from 22.6 msf in 2017, one of the strongest years for that market. Those numbers are bolstered by the longer term view, however. Avison Young research shows the pipeline expanded by 80.6% from Q2 to Q3 of 2018, with 18.5 msf currently under construction.

Construction is strong in Northern New Jersey and steady in LA and Atlanta, following several years of robust activity in all three markets.

Secondary Markets See Construction Boom

In recent years, secondary markets have become the focus of developers, as they look to deliver new product to meet tenant demand. The Nashville market, for example, has seen solid construction growth since 2015, with typical yearly activity averaging around 3.1 msf. The exception was 2016 to 2017, when the totals jumped from 2.8 msf to 9.7 msf, respectively. So far in 2018, there has been 1.4 msf, as the market absorbs the previously completed space.

Indianapolis has captured considerable attention as a strong distribution and warehousing hub, seeing 33.2 msf of completed construction since 2013. The volume has moderated recently, as absorption catches up with supply. So far in 2018 there was 3.9 msf delivered through the end of October. This follows a stronger 2017, when there was 7.9 msf delivered.

Philadelphia also has seen notable construction growth since 2014, when 12 msf was delivered. The totals for subsequent years was 14.9 msf in 2015, 18.2 msf in 2016 and 18.3 msf in 2017. This year, there has been 10.1 msf delivered through October, 55.4% of the total for last year.

The report is based on an analysis of CoStar and Real Capital Analytics statistics by Avison Young's National Industrial Capital Markets Group.

Investment Sales

Investors have focused considerable attention on these modern industrial assets, spending $11.6 billion on 130 msf of newly constructed buildings in the past year, ending with Q3 2018. This included 351 properties with an average price per square foot of $101. The average cap rate was 5.7%.

Among the top industrial buyers over the past 24 months were Digital Realty, San Francisco, $2.08 billion on 6 properties; Duke Realty, Carmel, IN, $1.1 billion on 22 properties; Gramercy Property Trust of New York, NY, $1.04 billion on 23 properties.

Most investors are looking for buildings that are well leased with a strong corporate tenant that has a long term lease. This construction to investment cycle often takes 12 to 18 months, which has left investors scrambling in some markets as the supply trails demand.

Buildings that are well-located along major distribution corridors and have higher ceilings, efficient docking and loading layouts, and large truck bays are in demand from the tenant and investor standpoint. Investors also consider the overall health of the local market and the business climate in that region.

As the construction cycle reaches a mature stage, some markets saw slowdowns, while others saw increases as development moved in to meet demand.

Industrial building sales totaled ***$11.6 B*** in the past year, ending ***Q3 2018.***

Development Growing in Secondary Markets

Southeast Growth

Nashville's diversified economy has elevated its national status, making it a target city for tenants and investors. In the last 10 years, record-setting population growth has supported a rapid expansion and urbanization of the Nashville area. The current population of 1.8 million is expected to increase by 1 million in the next 20 years.

Indianapolis Hub Expands

Indiana is ranked #1 for total state share of manufacturing employment, which includes a growing automotive industry with assembly plants for Honda, Subaru and Toyota. It also ranks first in the region for pass-through interstates, giving its growing base of distributors an advantage. The Hoosier state has a business friendly climate and a decreasing corporate income tax rate.

Columbus Population Growth Fuels Industrial

Because of its wealth of local universities and high concentration of young people, the Columbus region is considered one of the top MSAs for population and job growth. About 46 percent of the U.S. population lives within a 10-hour drive of Columbus, making it ideal for distribution. Its four intermodal facilities handle more than 800,000 containers annually, allowing businesses to distribute their goods via rail, truck or ship to destinations all over the country.

Columbus has ***4 intermodal facilities*** that handle ***800K+ containers*** annually

Construction Volume

Core Markets	Delivered 2018 YTD	Delivered 2017	Delivered 2016
Chicago	10,035,199	22,625,417	19,252,092
Los Angeles	5,381,254	7,003,459	2,570,779
Northern New Jersey	10,316,417	9,678,451	4,909,502
Atlanta	14,652,553	18,082,484	22,646,720
Dallas	15,751,030	28,270,109	21,113,505
Total	56,136,453	85,659,920	70,492,598

Key Secondary Markets	Delivered 2018 YTD	Delivered 2017	Delivered 2016
Charlotte	4,545,558	6,282,268	3,775,413
Nashville	1,389,850	9,698,566	2,797,615
Denver	2,567,893	5,700,251	4,738,815
Indianapolis	3,933,480	7,892,950	4,414,954
Columbus	4,287,065	3,028,676	5,714,382
Philadelphia	10,103,350	18,250,950	18,197,215
Greenville/Spartanburg	2,831,158	2,305,439	8,454,343
Total	29,658,354	53,159,100	48,092,737

Pricing Projections

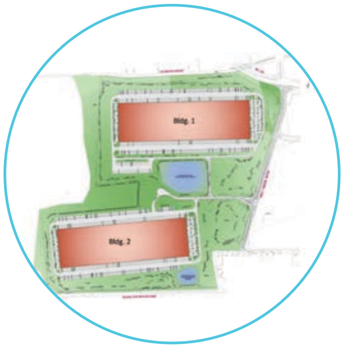
Demand for well located, modern distribution and warehouse buildings continues to outpace supply in many markets. Pricing is at record levels -- reaching $100 to $150 psf in some primary markets and $70 to $90 psf in many secondary markets.

Avison Young's National Industrial Capital Markets Group expects investment pricing to continue increasing at a pace of three to five percent in most markets during the next year. In some land constrained and Gateway markets, the increased could be higher.

Key Sales Q4 2017 to Q3 2018

Date: July 2018
Market: Piedmont, SC (Charlotte)
Year Built: 2016
Property Name: 120 Moon Acres Rd.
Price: $158 M
SF: 852,288 SF
Tenant: Magna International

Date: May 2018
Market: Queens, NY
Year Built: 2017
Property Name: 45-06 57th Ave.
Price: $262.5 M
SF: 362,000 SF
Tenant: FedEx



Date: December 2017
Market: Trexlertown, PA
Year Built: 2017
Property Name: 700 Uline Way
Price: $249 M
SF: 2.36 MSF/2-bldg
Tenant: Uline

Most Active Sales Markets*

Market	Q1-Q3 of 2018 Volume	2017 Total Volume
LA Metro	$1.22 B	$1.26 B
Chicago	$675 M	$981 M
Dallas	$627 M	$655 M
San Francisco	$476 M	$985 M
Columbus	$418 M	$228 M

*Industrial properties greater than 100K SF and built since 2010

Conclusion/Future Outlook

The industrial engine continues to move at a strong pace, despite increasing interest rates and the impact of tariffs on construction costs. Over the past several years, development has moved at a steady pace through core, secondary and tertiary markets, prompting investors to follow in pursuit.

With record low vacancy rates in many markets, along with strong demand and rising rents, investors should see at least another 18 to 24 months of solid activity. The challenge in some markets is finding quality assets that have not recently traded.

In many markets the supply of new product is not being built fast enough to meet demand, moving rents higher and pushing development outward from population centers. In some markets, such as Chicago's O'Hare submarket, redevelopment of older sites is helping to bring new supply to the market.

Regardless the approach, these fundamentals continues to show that the industrial sector has plenty of room for expansion. Given the projections for e-commerce growth, including expansion of last mile warehousing and delivery, the outlook for industrial investment remains positive for the foreseeable future.

National Industrial Capital Markets Practice Leader

Erik Foster is a Principal of Avison Young and the Practice Leader of the firm'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.

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

One South Wacker, Suite 3000
Chicago, Illinois

AVISON YOUNG
NATIONAL INDUSTRIAL CAPITAL MARKETS

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