INDUSTRIAL REPORT
Fall 2018

Exceptional Growth Driven by E-Commerce

Yardi® Matrix

Industrial Space: Soaring Demand Balanced by New Construction

Overview

- Vacancy dipped below 5% in the first quarter, a record low since the early 2000s.
- Nearly 125 million square feet of industrial space came online in the first half of the year, with a high volume of new construction in traditional core industrial markets.
- Growth of 15.4% year-over-year in e-commerce sales drives a need for distribution centers near dense population centers.

Bolstered by healthy economic fundamentals, the U.S. industrial real estate market continued its historic growth throughout the first half of the year. Roughly 177,000 jobs were added year-over-year in the trade, transportation and utilities sectors as of mid-year, up 1.1%, a 30-basis-point increase from the same period the previous year. Nearly 125 million square feet of industrial product came online nationally in the first half of the year, with a combined 32.4 million square feet of construction characterizing three of the largest industrial markets at the end of the second quarter, according to Yardi Matrix.

The industrial sector—and industrial real estate as a result—continued to benefit from growth in consumer spending on e-commerce. Retail sales volume totaled $1.3 trillion in the second quarter of 2018, according to U.S. Census Bureau data, with e-commerce accounting for roughly 9% of that, at $120.4 billion. That percentage continues to increase, with e-commerce sales growing by 15.4% over second quarter 2017 while total retail sales increased by just 5.7%. That has driven a need for more distribution centers close to dense population areas.

Growing Demand

The traditional core industrial markets of Chicago, New Jersey, Dallas-Fort Worth and the Inland Empire continue to drive growth, along with emerging markets situated near logistics hubs and infill locations with large urban clusters. Demand is stronger than ever, with more than 128 million square feet of space absorbed nationally in the first half of 2018. About 65 million square feet of that was absorbed in the second quarter, up 7% from mid-2017 levels, and most of the new space was speculative.

Demand continued to soar in every industrial subsector, with warehousing, manufacturing and flex space recording the bulk of occupancy gains (almost 124 million square feet combined). Among markets, demand was strongest in the Inland Empire—one of the country's top e-commerce distribution markets, with high demand for distribution centers. It absorbed some 12.2 million square feet in the first half of the year, followed by Chicago with 11.5 million square feet of absorption and New Jersey with 7.8 million square feet.

Industrial Pipeline in Core Markets

Market	Under Construction (SF)	Total Stock (SF)	UC as a % of Stock
Chicago	7,521,025	666,784,212	1.1%
Inland Empire	17,824,686	419,515,461	4.2%
New Jersey	7,029,370	401,092,424	1.8%

Source: Yardi Matrix research. Data as of July 2018.

The national industrial vacancy rate dipped below 5% in the first quarter as companies snapped up space before it was completed, reaching 4.9%—less than half of the record high of 10.2% in the first quarter of 2010.

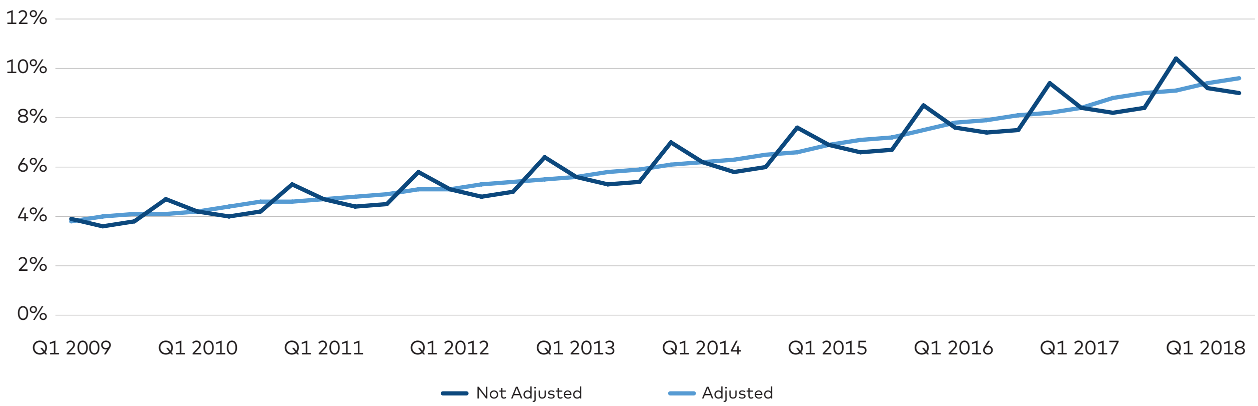
Elevated Construction

It helped that new supply roughly matched demand, at nearly 125 million square feet, with more than 90% of that being warehouse and distribution space. More than 238 million square feet of space was under construction nationally at mid-2018, with particular demand for 100,000- to 250,000-square-foot properties. New construction activity levels continue to be high in the big industrial locations, although at mid-year the core markets of Chicago, the Inland Empire and New Jersey had 20% less under construction than they did at the same time last year. In space-constrained markets, where available land for development is scarce, developers are focused on renovation and site remediation projects, with costs likely to be recovered by higher rents.

Industrial rents continued to increase in most markets, spurred by the exceptional demand and lack of excess space in the top logistics markets. Rents averaged $6.29 per square foot at

Estimated Quarterly U.S. Retail E-Commerce Sales as a Percent of Total Quarterly Retail Sales

(1st Quarter 2009—2nd Quarter 2018)



Source: Retail Indicators Branch, U.S. Census Bureau. Last Revised: August 17, 2018

mid-year, up 7% year-over-year. Expect rents to further increase through 2018 as the quality of available inventory improves due to upgrades and addition of new space. However, rates are likely to slightly decelerate through 2019 as new projects that are currently under construction reach completion and add to the volume of available inventory.

Investors' Healthy Appetite

Investment activity continued its upward trend across all markets in the first half of 2018, with total sales volume amounting to $39 billion, a 26% increase year-over-year—the largest growth rate among all commercial real estate sectors, according to Colliers International. Investors were particularly attracted by value-add opportunities in secondary and tertiary markets where there is available land for development, high population growth and easy access to major airports, seaports, highways and rail yards.

Looking ahead, investment interest—both domestic and foreign—will be spurred by record-low vacancy rates, growing demand for space and soaring rents.

Except where otherwise attributed, data collected from publicly available sources of JLL, CBRE, Colliers International, Cushman & Wakefield and NGKF. All data is aggregated and averaged and does not represent specific market or firm weightings.

CHICAGO

Chicago's economy continued its relatively slow growth in the first half of 2018, held back by modest gains in employment despite year-over-year increases each month since October 2010. The metro counted roughly 750,000 jobs in the trade, transportation and utilities sector as of June 2018, with an increase of some 3,150 jobs marking a slight 0.4% gain over the same month in 2017 and significantly below the national growth rate of 1.1%.

Despite weak employment growth, Chicago's industrial market continues its upward trend. With a total stock of 667 million square feet of space, the metro remains one of the nation's largest and most dynamic industrial markets. According to Yardi Matrix, more than 7.4 million square feet—mostly speculative—was delivered in the first half of 2018. Another 7.5 million square feet was under construction at mid-year, accounting for 1.1 percent of the total inventory.

Chicago Market Indicators for Q2 2018	
YTD net absorption (SF)	11,300,678
QTD net absorption (SF)	4,846,535
Under Construction (SF)	11,082,904
Total vacancy	7.1%
Average asking rent (NNN) per SF	$5.15

The largest industrial project under construction in the first half of 2018 was IKEA's 1.25 million-square-foot distribution center on 72 acres at the Laraway Crossings Business Park in Joliet. The roughly $80 million warehouse is IKEA's first of two Illinois-based giant fulfillment centers serving the Midwest. Upon completion, scheduled for this fall, the distribution center will begin receiving Asian and European goods from coastal ports, to be sorted and sent out for final delivery. In August, the project received a LEED Gold certification.

Strong Leasing Activity

Roughly 9 million square feet of industrial space was leased in Chicago during the second quarter of 2018, a 5.5% increase over the previous quarter, according to JLL. The strong leasing activity in the metro resulted in an average vacancy rate of 7.1%, up 160 basis points from the previous quarter but still low. The average asking rate stabilized at $5.15 per square foot. Home Depot inked the largest industrial lease in the second quarter, taking an entire 588,233-square-foot warehouse at 525 Northwest Ave. in Northlake. The speculative building, which had been vacant since its completion in 2015, is centrally located close to the U.P. Rail East-West Transcontinental Line and features 36-foot-high ceilings, 184 car stalls, 112 trailer stalls and potential for a Union Pacific railway.

The largest second-quarter sale was CRRC Sifang America's purchase of the 381,000-square-foot facility at 13535 S. Torrence Ave. on the Southeast Side for $87 million from developer CenterPoint Properties. The Chinese manufacturer won a $1.3 billion contract in 2016 to build new rail cars for the Chicago Transit Authority; the recent acquisition is part of a $100 million investment plan.

THE INLAND EMPIRE

The Inland Empire's booming economy and growing population continue to support remarkable job gains, especially in the trade, transportation and utilities sector, which has seen increases above the national growth rate each month since 2013. The metro counted roughly 381,000 jobs as of June 2018, a gain of 16,000 positions, or 4.4%, year-over-year and four times higher than the national growth rate.

Intensified e-commerce activity and solid market fundamentals continue to propel the Inland Empire's industrial sector. The metro remains the most sought-after big-box warehouse-and-distribution market in the country, attracting investors and tenants from supply-constrained markets in Southern California. The resultant 3.7% vacancy rate is encouraging developers to build, mostly speculatively. According to Yardi Matrix, more than 13 million square feet of space was delivered in the Inland Empire in the first half of 2018, bringing the market's industrial inventory to nearly 420 million square feet. An additional 17.8 million square feet was under construction at mid-year, accounting for 4.2% of the total stock and significantly below the 26 million square feet that was under development 12 months back.

Alere Property Group developed a 1.1 million-square-foot Class A distribution center at 17350 N. Perris Blvd. in the booming Moreno Valley this spring. The Modular Logistics Center was the largest industrial project completed in the first six months of 2018 and is pending LEED certification. Key details include 40-foot-clear ceiling heights, cross-dock configuration, 256 dock-high doors and four drive-through doors, 300 trailer parking spaces and 390 car parking spaces, as well as 20,000 square feet of office space.

Inland Empire Market Indicators for Q2 2018	
YTD net absorption (SF)	11,204,059
QTD net absorption (SF)	8,334,506
Under Construction (SF)	22,259,810
Total vacancy	3.8%
Average asking rent (NNN) per SF	$7.15

Positive Fundamentals

Absorption is likely to remain positive in the coming quarters, as the market continues to attract e-commerce businesses expanding or relocating from undersupplied nearby markets. Leasing volume totaled more than 11 million square feet in the second quarter of 2018, reducing the market's vacancy rate to 3.8%, down by 30 basis points quarter-over-quarter and achieving the lowest level in nearly half a decade. The average asking rate stabilized at $7.15 per square foot, up $0.55 per square foot over the previous quarter. In one of the largest leases signed in the first half of 2018, UPS took the entire 1 million-square-foot warehouse-and-distribution facility at 11281 Citrus Ave. in Fontana. Completed in 2017, the property was the last available building in Alere Property Group's master-planned Citrus Commerce Center development.

The Inland Empire continues to be a core focus for institutional industrial investors, driving the average sale price to an all-time high of $106 per square foot in the first half of 2018, according to Yardi Matrix. In one of the largest transactions closed during the first half of the year, Mapletree US Management paid $45 million, or $111.19 per square foot, for a 404,725-square-foot industrial facility in the San Bernardino submarket.

NEW JERSEY

Healthy economic fundamentals combined with growing local consumer confidence and the surge of e-commerce continue to support growth of New Jersey's industrial sector, despite slow job improvement. The metro counted roughly 1.75 million jobs in the trade, transportation and utilities sector as of June 2018, up a small 0.7% or 16,000 jobs year-over-year that is well below the national growth rate of 1.1%.

According to Yardi Matrix data, more than 5.6 million square feet was delivered in the first half of the year, bringing the market's total stock to 401 million square feet of industrial space. In addition, some 7 million square feet, accounting for 1.8% of the metro's inventory, was under construction at mid-year, mainly on a speculative basis. The largest industrial project that came online in the first six months of the year was Building 1 of the 2.8 million-square-foot Cranbury Logistics Center developed by Clarion Partners on 395 acres at the northeast corner of New Jersey State Highway 130 and Brick Yard Road, directly south of the Port of New York & New Jersey. The warehouse building, encompassing 1.3 million square feet, is fully leased to giant online retailer Wayfair.

New Jersey Market Indicators for Q2 2018	
YTD net absorption (SF)	7,058,016
QTD net absorption (SF)	4,976,221
Under Construction (SF)	7,208,863
Total vacancy	4.2%
Average asking rent (NNN) per SF	$7.83

The New Jersey industrial market performed well in the first half of 2018, although the limited new supply has restrained leasing activity. Despite a wave of new industrial product coming online in recent months, most new properties have been leased before reaching completion—further highlighting the growing demand for new supply and encouraging developers to start construction on more speculative projects.

Limited Availability

The average vacancy rate of 4.2%, down 10 basis points from the previous quarter, is also evidence of the need for space. Average leasing activity totaled 4.7 million square feet during the second quarter, with the average asking rent stabilizing at $7.83 for the same interval. One Stop Logistics signed one of the largest industrial leases in the metro. In May 2018, the company leased the entire 369,294-square-foot warehouse-and-distribution facility located at 83 Stults Road in Cranbury, within the thriving Exit 8 area. Owned by EverWest Real Estate Partners, the 1974-built facility is served by a private rail spur and offers a 24-foot-clear ceiling height and 24 cross-dock interior loading doors, along with 20,000 square feet of office space and more than 150 parking spaces.

Investor appetite remained strong, despite the shrinking product available for sale. According to Yardi Matrix, industrial space traded for a record average of $100 per square foot in the first half of 2018, up 100 basis points since mid-2017. In one of the metro's largest second-quarter transactions, Sitex Group sold the 290,000-square-foot warehouse facility at 200 Riser Road in Little Ferry to Dassault Falcon Jet for $40.5 million.

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