

NATIONAL INDUSTRIAL MARKET

ROBUST INDUSTRIAL GROUNDBREAKINGS REFLECT STURDY FUNDAMENTALS

The U.S. industrial market displayed sturdy fundamentals during the third quarter of 2019, with rising asking rents and continued tight vacancy. Although absorption has moderated in 2019 in response to a lack of available product as well as concerns about the global economy and the trade war with China, leasing velocity remains high. Industrial groundbreakings reached a new cyclical high in the third quarter, as developers seek to capitalize on the sturdy performance of the industrial asset class.

NET ABSORPTION DECELERATES

Although overall market demand remains high, net absorption has decelerated through the first three quarters of 2019, as the amount of top-quality available product remains limited, even with a growing construction pipeline. Absorption measured 40.2 million square feet during the third quarter of 2019, compared with 73.6 million square feet in third-quarter 2018. Vacancy remains near historical lows, measuring 5.1% at the end of third-quarter 2019. Average asking rents continued to tick up, with the third-quarter average measuring \$7.40/SF, up 7.4% from one year ago and the highest quarterly average recorded this cycle. Since third-quarter 2014, industrial rents have increased by around 6% annually, with a significant acceleration over the past two years.

Fourteen of the 49 industrial markets tracked by NKF absorbed 1.0 million square feet or more in the third quarter, led by California's Inland Empire with 7.7 million square feet. Chicago, Nashville and Dallas each recorded 3.0 million square feet or more of absorption during third-quarter 2019. Thirteen markets posted declines in occupied space, or negative absorption, during the third quarter, led by the Columbus market.

Another way to measure demand for space is to divide absorption by total occupied space, which shows how rapidly the occupied base is growing regardless of a market's size. For the third quarter of 2019, absorption equaled 0.3% of occupied space across the U.S., led by Nashville and Las Vegas at 1.5% each.

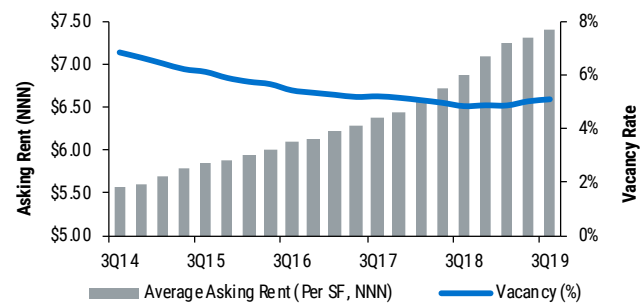
Over the past several quarters, supply chain and third-party logistics providers were responsible for the majority of large lease transactions signed throughout the national industrial market. These industries will continue to seek space in gateway markets to manage the increase in e-commerce. Consumer goods firms were responsible for several large leases during the third quarter of 2019.

CURRENT CONDITIONS

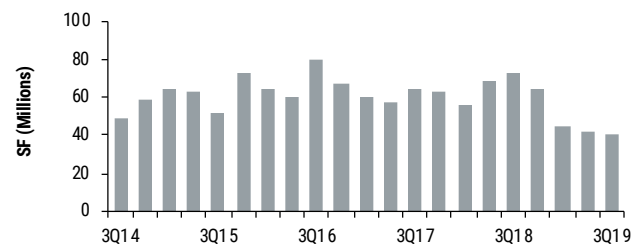
- Absorption measured 40.2 million square feet during third-quarter 2019, down from 73.6 million square feet one year ago.
- Average asking rents rose by 7.4% from one year ago to \$7.40/SF in the third quarter of 2019.
- The national industrial construction pipeline is at a new cyclical high, with 312.1 million square feet currently under construction.
- The industrial sales market remains active, with \$74.5 billion of sales volume in the 12 months ending September 2019.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 15.0 B | 14.9 B | 14.6 B | ↑ |
| Vacancy Rate | 5.1% | 5.0% | 4.9% | ↑ |
| Quarterly Net Absorption (SF) | 40.2 M | 42.3 M | 73.6 M | ↓ |
| Average Asking Rent/SF | \$7.40 | \$7.32 | \$6.89 | ↑ |
| Under Construction (SF) | 312.1 M | 263.6 M | 257.8 | ↔ |
| Deliveries (SF) | 55.2 M | 62.3 M | 60.7 M | ↑ |

CONSTRUCTION PIPELINE ACCELERATES TO NEW CYCLICAL HIGH

The national industrial market saw 55.2 million square feet of new space delivered to the market during the third quarter of 2019, down from the 62.3 million square feet delivered last quarter and 60.7 million square feet delivered during the third quarter of 2018. Delivery totals have moderated from the 71.0 million square feet recorded in third-quarter 2017, but deliveries will likely increase over the next year, given the current level of construction.

Industrial space under construction reached a new cyclical high in the third quarter of 2019, measuring 312.1 million square feet, up from 257.8 million square feet recorded one year ago. Groundbreakings continue to increase nationwide, as warehouse-using tenants demand more space to house growing operations, often in service of e-commerce. The rising cost of construction, however, is a pain point for developers.

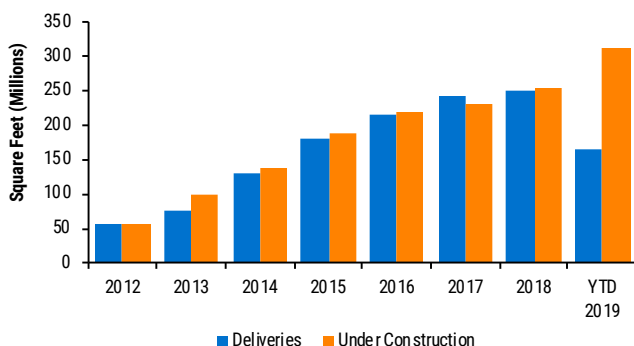
Seven industrial markets have more than 10 million square feet of industrial space under construction as of third-quarter 2019, led by Dallas with 36.3 million square feet and California's Inland Empire with 28.5 million square feet. Atlanta, Pennsylvania's I-81/78 Corridor and Houston rounded out the top five, each with more than 15 million square feet under construction.

Industrial space under construction as of third-quarter 2019 equaled 2.1% of total inventory nationwide. Supply was growing most rapidly in South Carolina's Greenville market, Pennsylvania's I-81/78 Corridor, Jacksonville and California's Inland Empire. In each of these markets, space under construction accounted for more than 4.5% of inventory. Alternatively, markets with a low share of total inventory under construction, such as Orange County (0.3%) and Long Island, New York (0.4%), are often found in regions where the high cost of land makes penciling industrial development a challenge.

New supply may begin to taper during this mature phase of the national economic cycle, although distributors require ongoing delivery of new or renovated product to fit their needs.

CONSTRUCTION AND DELIVERIES

United States Industrial Market



VACANCY RATE REMAINS NEAR HISTORICAL LOW

The U.S. industrial vacancy rate measured 5.1% during third-quarter 2019, up 10 basis points from last quarter and 20 basis points from a year ago. Vacancy is very tight in several major markets, notably Los Angeles at 1.1% and California's Inland Empire at 3.0%. Southern California's access to the ports of Los Angeles and Long Beach make the regional industrial markets there highly desirable for the distribution of exports and imports, particularly with regard to Asia-Pacific trade, and have kept the vacancy rate at a consistently low level over the past few years. None of the 49 markets tracked by NKF recorded a double-digit vacancy rate during the third quarter of 2019.

AVERAGE INDUSTRIAL ASKING RENT TICKS UP

The average industrial asking rent across the U.S. at third-quarter 2019 measured \$7.40/SF, up 7.4% from one year ago and the highest quarterly average recorded this cycle. Industrial rents have increased by 32.6% over the past five years and have ticked up every quarter since the third quarter of 2011, showing both the consistency and upside of the market.

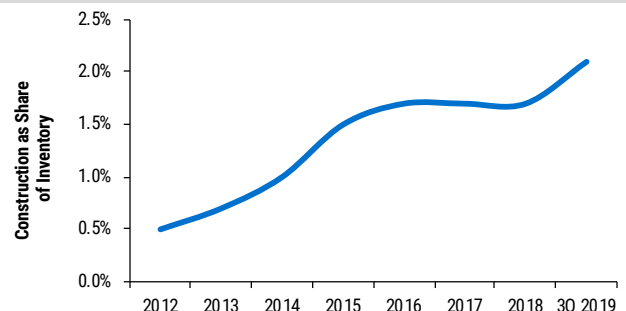
DEVELOPERS TURN TO URBAN MULTISTORY WAREHOUSES TO FILL DEMAND

Although the construction pipeline remains robust, land constraints have led to a dearth of centrally located infill sites that can facilitate last-mile logistics. Demand continues to outweigh available product, particularly in densely populated areas. One solution developers are actively exploring are multistory industrial buildings, which offer drive-up loading facilities on upper floors so they can provide the full functionality of a single-story distribution center. The first modern multistory industrial development constructed in the U.S. was completed last year, with several large projects in New York and San Francisco underway or set to break ground soon.

For additional information on the market impact of urban multistory warehouses, please read NKF's most recent *Real Insight* thought leadership report: [Urban Multistory Warehouses Offer Last-Mile Solution](#), at [ngkf.com](#)

CONSTRUCTION AS A SHARE OF INVENTORY

United States Industrial Market



SALES VOLUME SPIKES IN THIRD QUARTER

The industrial sales market accelerated during the third quarter, with volume measuring \$74.5 billion in the 12 months ending September 2019, up 47.8% from \$50.4 billion one year ago. Investor confidence remains high, as low vacancy, strong rent growth and a paucity of modern distribution facilities continue to drive robust investment in industrial assets. As gateway markets experience tightening vacancy rates—and elevated pricing—investors are allocating funds to emerging markets where construction activity is rising to meet demand.

WHAT TO EXPECT

As of the third quarter of 2019, the current U.S. economic expansion has become the longest growth cycle on record, supplanting the 10-year record set in the late 1990s by the technology boom. The Federal Reserve's GDP growth forecast of 2.1% for 2019 indicates that economic growth may be moderating, although other factors, including a low unemployment rate and wage growth, continue to point to a stable economy. Overall, the economic expansion cycle is in the mature phase but likely will continue at least into early 2020.

Market indicators during the third quarter affirmed the industrial sector's strength as an asset class; space under construction is at a cyclical high, and vacancy is near an all-time low. The average asking rent for industrial space reached a new record high for the current cycle and may continue to edge up in the months ahead, as demand remains strong. However, it is also possible that concern over the global economy may make tenants more cautious.

Investors are finding the evolution of the American economy to be highly beneficial to well-located and modern industrial assets. According to the U.S. Census Bureau, in the second quarter of 2019, e-commerce sales in the U.S. totaled \$146.2 billion, or 10.7% of total retail sales. This segment is accelerating rapidly, and potential tenants often struggle to find adequate distribution space.

As consumers across demographic and economic spectrums continue to demand more rapid product delivery, developers have had to innovate their product and offer more efficient space in the largest urban markets. Additionally, with same-day delivery no longer confined to large cities, markets without a significant warehousing and distribution presence are likely to see an uptick in industrial groundbreakings.

The surge in growth of e-commerce transactions and the demand for faster shipping has pushed rents to a cyclical high. The growth in e-commerce has encouraged institutional investors to purchase more industrial product in order to capitalize on increasing demand and to balance their portfolios. However, with pricing elevated, returns will be under some downward pressure.

With record-high asking rents and consistently low vacancy, the industrial market should sustain its above-average growth into 2020. Although the amount of industrial space under construction reached a new cyclical high in 2019, demand has nearly matched new supply over the past 12 months. Robust leasing activity along with the continued expansion of e-commerce suggest sustained market growth.

NOTABLE 3Q 2019 LEASE/USER TRANSACTIONS

| Tenant | Market | Building | Type | Square Feet |
|-----------------|-------------------------|-----------------------|--------------|-------------|
| VF Outdoor LLC | CA - Inland Empire | 5051 Carpenter Avenue | Direct Lease | 1,206,967 |
| Cardinal Health | CA - Inland Empire | 6275 Lance Drive | Direct Lease | 1,012,995 |
| LG Electronics | CA - Inland Empire | 6207 Cajon Boulevard | Renewal | 830,750 |
| Nike TN, Inc | TN - Memphis | Wingo Road - Lot #2 | Direct Lease | 707,940 |
| LTD Commodities | IL - Chicago - Suburban | 1000 Bilter Road | Renewal | 694,367 |

NOTABLE 3Q 2019 SALES TRANSACTIONS

| Building/Portfolio | Market | Price | Price/SF | Square Feet |
|-----------------------------|---------------|---------------|----------|-------------|
| 9300 Toledo Way | Irvine, CA | \$277,700,000 | \$230 | 1,205,100 |
| 2001 E Orangethorpe Avenue | Fullerton, CA | \$202,100,000 | \$155 | 1,300,000 |
| 521 Chelsea Road | Aberdeen, MD | \$124,600,000 | \$93 | 1,344,570 |
| 490 Columbia Avenue | Riverside, CA | \$123,800,000 | \$124 | 1,000,000 |
| 1175 American Pacific Drive | Henderson, NV | \$111,300,000 | \$124 | 898,398 |

MARKET STATISTICS (CONTINUED ON NEXT PAGE)

| | Total Inventory (SF) | SF Under Construction | SF Absorbed This Quarter | SF Absorbed Year-to-Date | Vacancy Rate | Average Asking Rent (Price/SF) |
|--------------------|-------------------------|--------------------------|-----------------------------|-----------------------------|--------------|--------------------------------------|
| National | 15,040,086,077 | 312,141,874 | 40,225,263 | 127,866,580 | 5.1% | \$7.40 |
| Atlanta | 616,762,775 | 19,700,000 | 2,187,930 | 5,115,354 | 7.8% | \$5.14 |
| Austin | 93,680,507 | 1,656,276 | 340,837 | 551,206 | 8.3% | \$10.49 |
| Baltimore | 180,206,386 | 6,808,329 | 39,934 | 2,103,110 | 8.2% | \$4.77 |
| Boston | 213,059,592 | 2,299,623 | 181,099 | 861,203 | 6.3% | \$9.25 |
| Broward County, FL | 107,586,137 | 1,484,094 | 450,836 | 858,242 | 4.5% | \$9.37 |
| Charleston, SC | 76,065,762 | 2,878,151 | -235,686 | 843,901 | 7.4% | \$5.58 |
| Charlotte | 386,759,489 | 6,137,318 | 2,810,101 | 4,002,075 | 5.7% | \$4.81 |
| Chicago | 1,120,799,821 | 12,809,099 | 5,649,541 | 17,977,238 | 6.7% | \$5.71 |
| Cincinnati | 282,119,644 | 7,661,095 | -463,587 | 847,259 | 4.9% | \$4.30 |
| Cleveland | 287,330,324 | 1,744,925 | 173,530 | 1,135,291 | 5.4% | \$4.71 |
| Columbia, SC | 60,033,399 | 930,135 | 241,674 | 845,420 | 4.8% | \$4.11 |
| Columbus | 286,037,521 | 8,531,714 | -1,594,233 | 396,338 | 4.9% | \$3.96 |
| Dallas | 887,047,373 | 36,348,785 | 3,667,363 | 16,335,077 | 6.2% | \$6.34 |
| Denver | 203,976,672 | 4,793,348 | 937,851 | 2,454,989 | 6.0% | \$8.77 |
| Detroit | 394,610,102 | 5,779,537 | 373,010 | 2,193,874 | 4.0% | \$5.89 |
| Greenville, SC | 215,778,063 | 11,385,766 | -207,765 | 2,481,483 | 4.8% | \$4.04 |
| Houston | 543,267,119 | 16,712,039 | 551,283 | 5,731,019 | 6.2% | \$7.05 |
| Indianapolis | 332,620,100 | 10,855,641 | 1,807,568 | 3,275,301 | 4.2% | \$4.04 |
| Inland Empire, CA | 603,628,892 | 28,533,859 | 7,675,681 | 16,821,113 | 3.0% | \$7.96 |
| Jacksonville | 128,661,021 | 6,232,962 | 200,631 | -296,757 | 4.1% | \$5.42 |
| Kansas City | 283,765,831 | 2,252,640 | -728,327 | 786,233 | 5.8% | \$4.72 |
| Las Vegas | 125,639,083 | 3,678,346 | 1,766,578 | 1,711,109 | 4.4% | \$8.12 |
| Long Island | 159,391,746 | 662,220 | 444,503 | 90,808 | 3.4% | \$12.45 |
| Los Angeles | 1,042,303,105 | 6,044,319 | 1,635,099 | 3,438,457 | 1.1% | \$10.43 |
| Memphis | 265,986,559 | 6,766,787 | 148,183 | 1,617,626 | 5.5% | \$3.16 |

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some NKF metro reports due to different local methodologies. Asking rents are quoted on a triple net basis.

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|------------------------|-------------------------|--------------------------|-----------------------------|-----------------------------|--------------|--------------------------------------|
| National | 15,040,086,077 | 312,141,874 | 40,225,263 | 127,866,580 | 5.1% | \$7.40 |
| Miami | 216,956,972 | 2,091,744 | -76,428 | 1,184,891 | 4.0% | \$8.56 |
| Milwaukee | 241,050,845 | 3,969,226 | 1,718,710 | 3,669,211 | 4.3% | \$4.47 |
| Minneapolis | 388,133,255 | 2,586,563 | 1,002,833 | 1,190,779 | 3.4% | \$6.84 |
| Nashville | 246,267,894 | 4,477,770 | 3,668,147 | 5,328,634 | 3.5% | \$5.93 |
| New Jersey Northern | 655,796,771 | 7,661,095 | 2,550,509 | 3,377,878 | 4.6% | \$9.04 |
| Oakland/East Bay | 250,375,230 | 5,654,991 | -41,458 | -627,845 | 4.9% | \$14.21 |
| Orange County, CA | 259,856,443 | 835,838 | 350,634 | -369,222 | 3.1% | \$13.49 |
| Orlando | 186,643,866 | 1,570,099 | -1,111,678 | -728,013 | 4.8% | \$6.77 |
| Palm Beach | 48,567,228 | 510,253 | 1,898 | -260,905 | 4.4% | \$10.38 |
| Penn. I-81/78 Corridor | 351,452,429 | 18,134,560 | 750,658 | 2,043,849 | 7.6% | \$4.68 |
| Philadelphia | 497,570,327 | 7,944,944 | 1,216,234 | 4,055,070 | 5.2% | \$6.36 |
| Phoenix | 298,219,768 | 3,179,505 | -859,816 | 2,486,524 | 7.7% | \$8.51 |
| Pittsburgh | 137,287,805 | 751,700 | 162,166 | 1,888,393 | 6.4% | \$6.72 |
| Portland | 220,156,693 | 4,682,117 | 274,904 | 518,497 | 4.1% | \$9.17 |
| Raleigh/Durham | 118,684,504 | 2,686,225 | 317,894 | 1,474,669 | 4.1% | \$6.94 |
| Sacramento | 158,031,641 | 1,468,357 | 680,089 | 1,047,245 | 4.1% | \$7.32 |
| Salt Lake City | 230,966,202 | 8,384,675 | 1,491,956 | 3,331,169 | 3.1% | \$6.05 |
| San Antonio | 123,379,018 | 1,495,381 | -310,939 | 1,830,471 | 7.9% | \$6.03 |
| San Diego | 165,785,404 | 1,080,618 | -14,666 | 922,137 | 5.1% | \$13.21 |
| Seattle | 296,007,762 | 3,761,361 | -211,457 | 3,321,991 | 4.6% | \$9.89 |
| Silicon Valley | 215,498,869 | 3,594,817 | -333,474 | -2,783,614 | 8.1% | \$23.03 |
| St. Louis | 270,064,229 | 5,421,697 | 250,213 | -12,831 | 5.5% | \$4.72 |
| Tampa/St. Petersburg | 261,253,216 | 2,971,247 | 331,048 | 1,168,983 | 5.5% | \$5.87 |
| Washington, DC | 304,962,683 | 4,540,083 | 363,652 | 1,631,650 | 6.1% | \$8.87 |

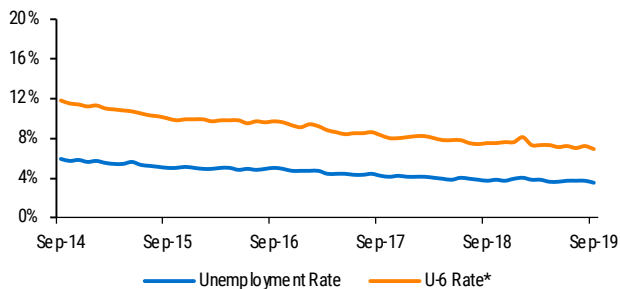
Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some NKF metro reports due to different local methodologies. Asking rents are quoted on a triple net basis.

ECONOMIC CONDITIONS

The U.S. economy grew at an annual rate of 2.0% during the second quarter of 2019, according to the Bureau of Economic Analysis' revised estimate, which was released in September 2019. The inflation rate was 2.4% (not seasonally adjusted) for the 12 months ending in September 2019. The unemployment rate declined 20 basis points from one year ago, reaching 3.5% in September 2019, reflecting an economy near full employment, though one in which job openings and the skills of available labor are not well aligned. Employers added 136,000 new jobs in September 2019, an acceleration from the 108,000 added in September 2018 but a deceleration from this year's earlier performance. Education and Health, Professional and Business Services, and Construction are among the notable growth sectors. Trade tensions with China and political volatility remain; however, two interest rate cuts during the third quarter and the potential for another this year may provide developers with the confidence to pursue projects late in the economic cycle. Although there is a growing chance of an economic downturn in the next 12 to 24 months, a steadily low unemployment rate and ongoing job growth suggest further economic expansion is likely during the balance of 2019.

UNEMPLOYMENT RATE

United States, Seasonally Adjusted

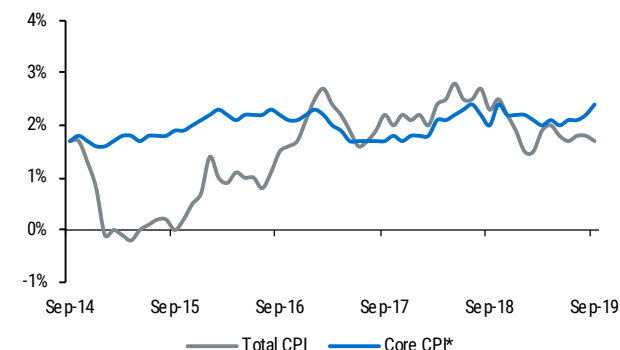


* Includes total unemployed, marginally attached workers, and those working part time for economic reasons

Source: U.S. Bureau of Labor Statistics, NKF Research; October 2019

CONSUMER PRICE INDEX (CPI)

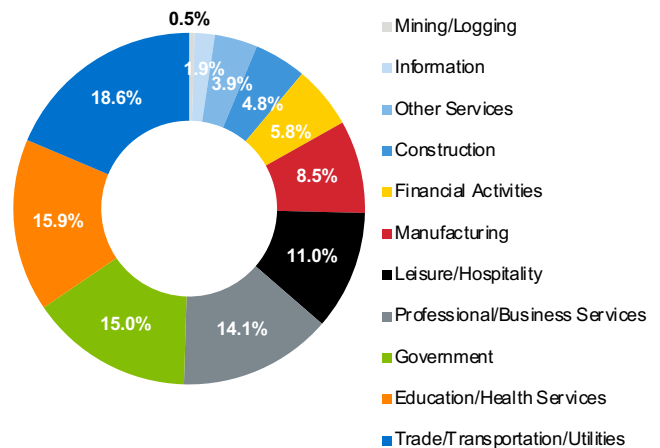
United States, 12-Month % Change, Not Seasonally Adjusted



*Excludes food and energy, which can be volatile; 1982-84=100
Source: U.S. Bureau of Labor Statistics, NKF Research; October 2019

EMPLOYMENT BY INDUSTRY

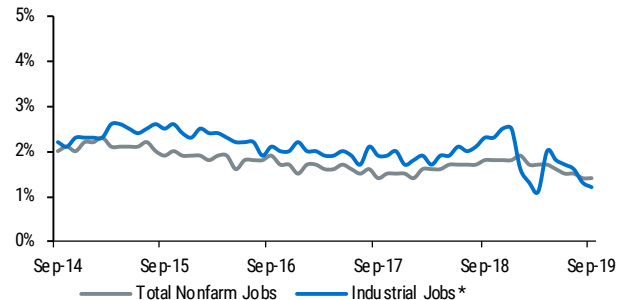
United States, 2018 Annual Average



Source: U.S. Bureau of Labor Statistics, NKF Research; October 2019

PAYROLL EMPLOYMENT

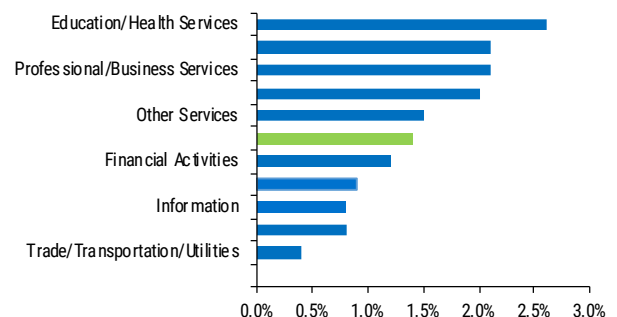
United States, 12-Month % Change, Not Seasonally Adjusted



* Includes manufacturing, wholesale trade, and transportation and warehousing
Source: U.S. Bureau of Labor Statistics, NKF Research; October 2019

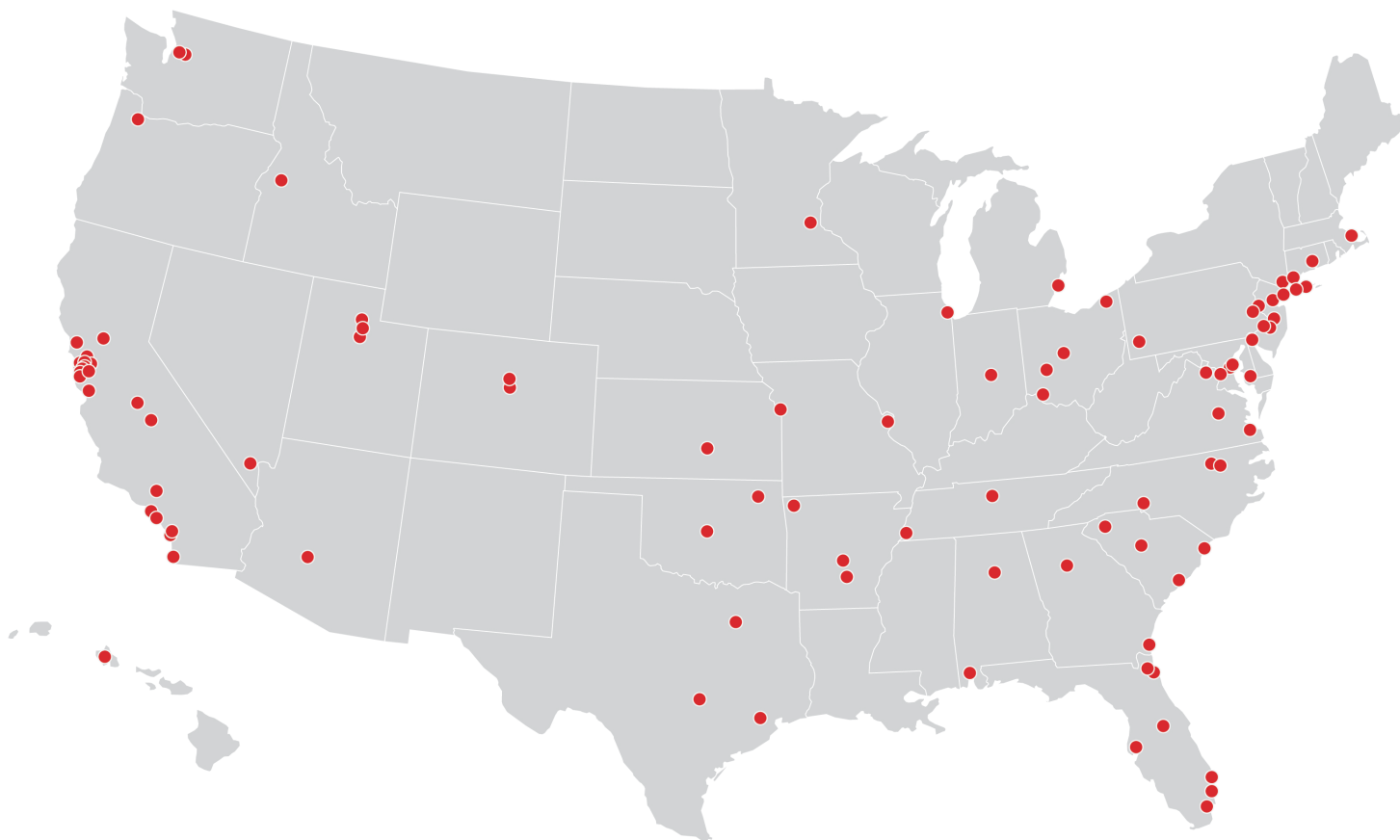
EMPLOYMENT GROWTH BY INDUSTRY

U.S., September 2019, 12-Month % Change, Not Seas. Adj.



Source: U.S. Bureau of Labor Statistics, NKF Research; October 2019

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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