

NATIONAL 1Q17 INDUSTRIAL MARKET

THE STREAK CONTINUES

The U.S. industrial market racked up a 10th consecutive quarter of absorption exceeding 50 million square feet, while vacancy and rent hit another record for the cycle.

Demand Rolls On

Net absorption totaled 51.7 million square feet in the first quarter of 2017, the 10th consecutive quarter above 50 million. However, it fell short of the 57.0 million square feet absorbed in the previous quarter and the 61.3 million square feet absorbed in the first quarter of 2016.

Nineteen of the 50 industrial markets tracked by NGKF absorbed 1 million square feet or more in the first quarter, led by Atlanta with 6.7 million square feet and the Inland Empire with 4.1 million square feet. Rounding out the top five were Dallas, Chicago and Cincinnati, all major hubs for e-commerce and distribution occupiers. Eleven markets saw drops in occupied space, i.e., negative absorption, topped by Silicon Valley—also the priciest market—with negative 986,000 square feet of red ink, as the region's technology companies continued their retrenchment in the face of tighter funding.

DISTRIBUTORS CAPTURED TWO-THIRDS OF DEALS SIGNED IN FIRST QUARTER

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. In the first quarter, occupied industrial space expanded by 0.4% across the U.S., led by Cincinnati at 1.3%, while four more markets recorded gains of 1.0% or more: Atlanta, Phoenix, Pennsylvania's I-81/78 Corridor and Sacramento. At the other extreme, Silicon Valley saw occupied space shrink by 0.5%.

The largest lease of the quarter was signed by Sofidel Group, an Italian producer of tissue paper, for 1.4 million square feet in Circleville, Ohio, south of Columbus. Retailers were prominent on the list of megadeals: Under Armour took 1.3 million square feet in Baltimore; Amazon signed for 1.1 million square feet, also in Baltimore; and Art Van Furniture leased 1.1 million square feet in Warren, Michigan, near Detroit. In another large lease, UPS took 1.0 million square feet in Arlington, Texas, between Dallas and Fort Worth.

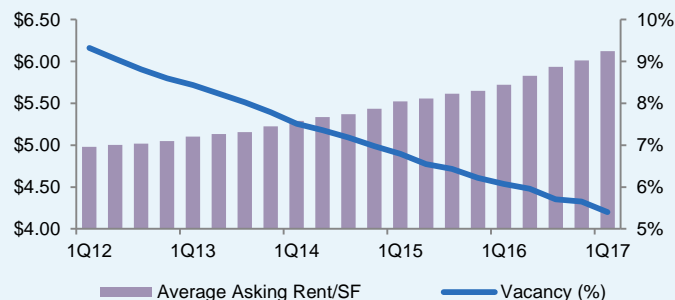
Retailers were the largest tenant group doing deals in the first quarter, accounting for 29% of industrial and flex square footage leased, with manufacturers close behind at 28%. Services, transportation and

Current Conditions

- Absorption exceeded 50 million square feet for the 10th consecutive quarter.
- Vacancy dropped to a 30-year low.
- Average asking rents posted a solid increase.
- Look for the market to sustain its above-trend growth for at least another year.

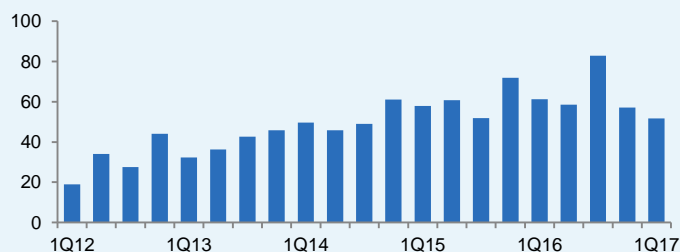
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Vacancy Rate	5.4%	5.7%	6.1%	↓
Net Absorption*	51.7	57.0	61.3	↔
Average Asking Rent/SF	\$6.12	\$6.01	\$5.72	↑
Under Construction*	214.7	216.0	189.1	↔
Deliveries*	45.4	57.1	51.2	↔

* Square feet, millions



NATIONAL 1Q17 INDUSTRIAL MARKET

wholesale trade, the next largest tenant groups, together took 37%, while a smattering of other industries accounted for the remaining 6%. The distribution-oriented sectors of trade (retail plus wholesale), services and transportation captured two-thirds of the deals signed in the first quarter, highlighting two big trends driving demand for industrial space: the migration of retail sales online, and the re-engineering of supply chains by companies looking to achieve efficiencies and cut costs.

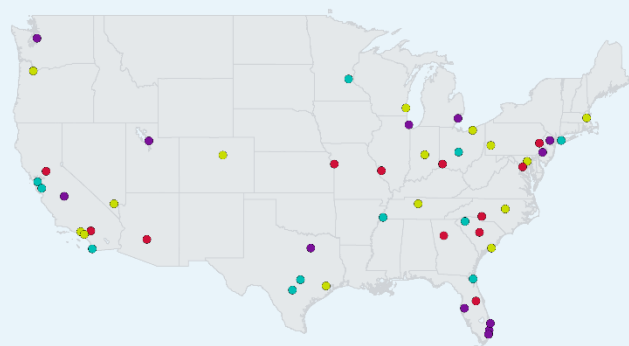
Supply Still Trails Demand

Developers added 45.4 million square feet of new space during the first quarter, the lowest level in almost two years. However, space under construction at the end of the quarter remained near recent highs at 214.7 million square feet, down slightly from the peak of 216.0 million square feet registered in the previous quarter. It was the third consecutive quarter with the amount of space under construction topping 200 million square feet. Six major distribution hubs accounted for almost half of that total, led by the Inland Empire with 27.2 million square feet and Dallas with 21.0 million square feet. Chicago, Atlanta, the I-81/78 Corridor and Northern New Jersey rounded out the top six, all with at least 10 million square feet underway.

CONSTRUCTION TOPPED 200M SF FOR THIRD CONSECUTIVE QUARTER

Industrial space under construction at the end of the quarter was 1.4% of total inventory, down from 1.5% in the prior two quarters. Based on this metric, the supply was growing most rapidly in the Inland Empire at 5.0%, with six more markets situated between 3.0 and 4.0%: Nashville, Baltimore, Las Vegas, the I-81/78 Corridor, Jacksonville and Kansas City.

Demand Momentum Map



YTD Net Absorption % of Occupied SF

● > 0.5% ● 0.4% - 0.5% ● 0.0% - 0.3% ● < 0.0%

Fifty-two mega-projects with at least 1 million square feet were under construction at the end of the quarter, 10 more than at year-end 2016. Inland Empire led with 10 big projects, followed by Atlanta with seven, Chicago and Eastern Pennsylvania (Philadelphia plus the I-81/78 Corridor) with five each and Dallas with four. Numerous other markets had one or two big projects underway.

Tightest Market in 30 Years

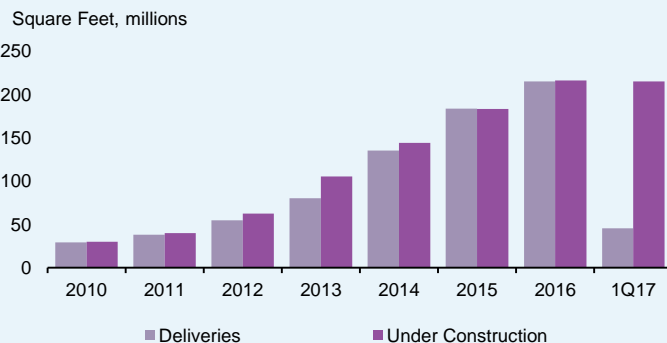
The vacancy rate dropped by 30 basis points in the first quarter to 5.4%, the lowest level since at least 1986. It was down from 5.7% in the fourth quarter and 6.1% in the first quarter of 2016.

52 MEGA PROJECTS UNDER CONSTRUCTION, UP FROM 42 IN FOURTH QUARTER

Los Angeles and Orange County were the tightest industrial markets at the end of the year, with vacancy rates of 0.9% and 2.0%, respectively. Rounding out the five lowest-vacancy markets were Cincinnati, Seattle and Long Island. Despite its massive construction pipeline, the Inland Empire, at 3.6% vacant, was the sixth-tightest market in the U.S., a testament to port-related demand coupled with Southern California's massive population base. Only one market had a vacancy rate that cracked double digits: Phoenix at 10.0%.

Four markets, all relatively small, posted first-quarter vacancy declines of at least one percentage point: Cincinnati; Columbia and Charleston, South Carolina; and Sacramento. Sixteen of the 50 markets covered in the report posted vacancy increases, but they were small compared with the tightening that occurred in other markets. Austin topped that list with an increase of 90 basis points, ending the first quarter at 6.1%.

Construction and Deliveries



Source: CoStar, NGKF



NATIONAL 1Q17 INDUSTRIAL MARKET

Rental Gains at Cyclical Peak

The average asking rent across the U.S. ended the first quarter at \$6.12/SF triple net, up a robust 1.9% from the fourth quarter and up 7.1% from a year ago—the strongest year-over-year increase in the current cycle.

Twelve markets posted double-digit rent gains over the past four quarters, led by Seattle with a hefty 17.2% increase. Raleigh-Durham, Dallas, Austin and Nashville rounded out the top five gainers. At the low end, several markets reported gains of 1.0% or less, including Pittsburgh, Cincinnati, Baltimore and Houston, but no market saw an outright decline in rents over the past four quarters.

What to Expect

The economy is in its eighth year of expansion—94 months in April, to be exact—making this the third-longest of the 12 post-World War II expansions, and it shows no signs of slowing. Unlike the office, retail and apartment markets, the industrial market appears to be in the prime of its run. Office absorption has receded gradually since 2014, but industrial absorption has accelerated every year since 2009. Demand for industrial space will be hard-pressed to match 2016's total absorption of 260.0 million square feet, but the market is off to a good start, kicking off 2017 with its 10th consecutive quarter above the 50 million-square-foot threshold.

E-commerce, the economic driver that is supercharging demand for industrial space, continues to grow at a double-digit pace every year, pressuring brick-and-mortar retailers to invest more in their online strategies and supply chains to avoid being “Amazoned.” In fact, Amazon has been the biggest occupier of new distribution and fulfillment centers in recent years.

Global trade has been another important demand driver for industrial space. Trade volumes have been weak in recent years, restrained by slower growth in China and widespread economic softness outside the U.S. But the global economy is firming, and the Trump administration appears to be backing away from its campaign rhetoric advocating tariffs and trade restrictions, prompting importers and exporters to sigh in relief. The brightening trade picture bodes well for industrial demand.

Look for the industrial market to sustain its above-trend growth for at least another year. Construction and absorption are both at record highs, but the latter is still winning the battle, at least for the time being. If the economy continues to grow, it will become the second-longest post-war expansion by this time next year and the longest ever in the summer of 2019. That is not out of the realm of possibility, and the industrial market could go along for the ride.

Select Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Sofidel Group	Columbus (Circleville), OH	254 Pittsburgh Rd	Direct New	1,435,750
Under Armour	Baltimore, MD	7030 Tradepoint Ave	Direct New	1,348,024
Amazon	Baltimore (North East), MD	600 Principio Pky	Direct New	1,148,890
Art Van Furniture	Detroit (Warren), MI	6500 14 Mile Rd	Direct New	1,056,890
UPS	Dallas (Arlington), TX	2320 E Bardin Rd	Direct New	1,004,400

Select Sales Transactions

Building/Portfolio	Market	Sale Price	Price/SF	Square Feet
Oaktree Capital Industrial Portfolio	Connecticut/Massachusetts	\$124,000,000	\$42	2,953,569
Boehringer Ingelheim	Fort Dodge, IA	\$102,700,000	\$210	489,208
350 Starke Rd	Carlstadt, NJ	\$73,000,000	\$219	332,796
Amazon DFW Logistics Center	Dallas (Irving), TX	\$67,000,000	\$64	1,052,380
Warren Distribution Ctr., 6500 14 Mile Rd	Detroit (Warren), MI	\$57,000,000	\$54	1,056,890



NATIONAL 1Q17 INDUSTRIAL MARKET

www.ngkf.com

Market Statistics

Market	Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed YTD	% Vacant	Average Asking Rent/SF
Atlanta	613,461,841	15,677,971	6,735,580	6,735,580	8.3%	\$4.72
Austin	87,736,412	1,425,057	-134,426	-134,426	6.1%	\$9.95
Baltimore	171,339,102	5,947,274	369,606	369,606	8.6%	\$5.16
Boston	219,843,325	849,092	559,968	559,968	6.9%	\$7.55
Broward County, FL	105,355,156	464,201	435,151	435,151	4.6%	\$8.92
Charleston, SC	722,883,720	110,532	1,066,017	1,066,017	5.5%	\$5.66
Charlotte	355,581,288	5,341,192	2,308,493	2,308,493	6.0%	\$4.01
Chicago	1,111,917,370	16,441,609	3,534,423	3,534,423	7.6%	\$5.18
Cincinnati	268,126,266	2,704,604	3,315,425	3,315,425	3.0%	\$3.71
Cleveland	294,504,561	605,588	654,659	654,659	6.5%	\$4.18
Columbia, SC	61,069,410	204,000	519,065	519,065	7.2%	\$3.90
Columbus	272,957,030	3,812,000	-377,841	-377,841	5.7%	\$3.45
Dallas	812,427,292	21,048,747	4,088,188	4,088,188	6.7%	\$5.56
Denver	186,380,594	4,660,868	256,942	256,942	4.4%	\$8.43
Detroit	380,597,191	6,820,545	1,526,304	1,526,304	5.3%	\$4.84
Fresno	64,807,193	328,988	252,483	252,483	5.4%	\$4.68
Greenville, SC	206,077,516	727,450	-27,618	-27,618	6.5%	\$3.65
Houston	538,152,531	4,495,393	1,334,727	1,334,727	5.6%	\$6.99
Indianapolis	193,122,480	640,756	459,720	459,720	6.6%	\$4.01
Inland Empire, CA	539,374,742	27,184,093	4,129,973	4,129,973	3.6%	\$6.35
Jacksonville	121,381,342	3,846,940	-396,064	-396,064	6.4%	\$4.29
Kansas City	271,227,342	8,071,237	1,878,310	1,878,310	6.0%	\$4.78
Las Vegas	106,350,074	3,621,893	138,509	138,509	7.5%	\$7.42
Long Island	157,406,324	237,500	-245,077	-245,077	3.5%	\$10.52
Los Angeles	983,842,021	6,843,296	324,281	324,281	0.9%	\$8.86
Memphis	249,848,709	947,620	-774,730	-774,730	7.4%	\$2.91
Miami	209,149,675	2,694,993	570,944	570,944	3.8%	\$7.73
Milwaukee	229,149,402	1,253,517	364,391	364,391	4.9%	\$4.56
Minneapolis	372,428,467	634,584	-85,223	-85,223	4.4%	\$6.42
Nashville	222,911,498	8,397,637	568,686	568,686	3.8%	\$4.89
New Jersey Northern	727,161,505	10,390,510	3,181,956	3,181,956	5.4%	\$7.30
Oakland/East Bay	250,489,570	2,247,112	-799,013	-799,013	4.5%	\$11.27
Orange County, CA	259,024,742	181,069	99,289	99,289	2.0%	\$11.52
Orlando	179,692,325	395,820	1,256,320	1,256,320	4.6%	\$5.82
Palm Beach	47,631,939	394,446	239,087	239,087	4.1%	\$9.39
Penn. I-81/78 Corridor	325,179,780	10,964,628	3,082,078	3,082,078	6.6%	\$4.46
Philadelphia	498,284,449	2,670,792	2,157,723	2,157,723	7.0%	\$5.08
Phoenix	281,569,041	5,055,049	2,593,271	2,593,271	10.0%	\$6.84
Pittsburgh	134,204,574	529,500	339,035	339,035	7.6%	\$4.37
Portland	215,795,955	2,109,821	152,621	152,621	4.0%	\$8.04
Raleigh/Durham	117,137,634	818,756	206,721	206,721	6.5%	\$7.01
Sacramento	155,061,482	1,421,177	1,352,599	1,352,599	8.4%	\$4.92
Salt Lake City	136,214,783	3,089,525	473,347	473,347	3.7%	\$5.44
San Antonio	111,190,473	693,680	-308,735	-308,735	6.8%	\$5.61
San Diego	168,491,188	218,307	-69,913	-69,913	4.5%	\$11.28
Seattle	300,680,649	2,405,262	1,410,883	1,410,883	3.3%	\$8.65
Silicon Valley	214,925,896	500,000	-985,937	-985,937	7.8%	\$21.12
St. Louis	259,069,244	4,901,299	1,517,326	1,517,326	6.0%	\$4.43
Tampa/St. Petersburg	253,515,615	3,022,119	736,418	736,418	5.7%	\$4.97
Washington, DC	284,218,624	6,653,311	1,720,924	1,720,924	7.0%	\$8.22
National	15,048,949,342	214,701,360	51,706,866	51,706,866	5.4%	\$6.12



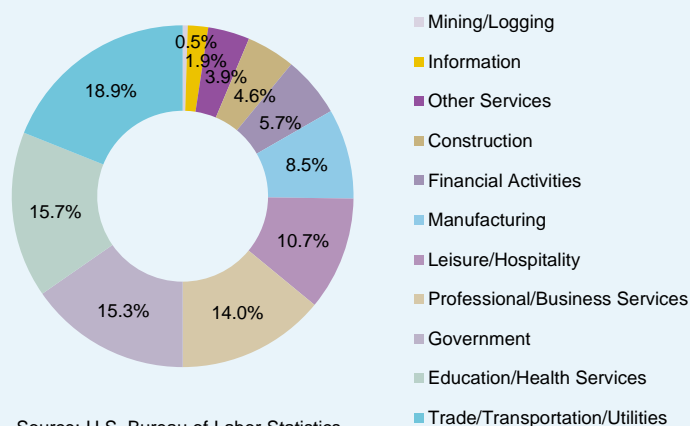
NATIONAL 1Q17 INDUSTRIAL MARKET

ECONOMIC CONDITIONS

The economy is believed to have grown at a seasonally adjusted annualized rate of 0.6% in the first quarter, according to the Federal Reserve Bank of Atlanta, down from 1.6% for all of 2016. Despite sluggish GDP growth, hiring has been brisk considering the expansion is well into its eighth year and the jobless rate, 4.5% in March, is near full employment. Employers added a monthly average of 178,000 new jobs in the first quarter, on par with last year's pace of 187,000. Fed officials felt confident enough to raise short-term interest rates by a quarter point in March and have penciled in two more increases this year, though rates remain low by historic standards. The Trump administration has been slow to tackle key campaign promises that will lift the economy, specifically tax cuts and infrastructure, but consumer and business confidence remains high. The administration has backed away from the threat of trade restrictions, a relief for most businesses.

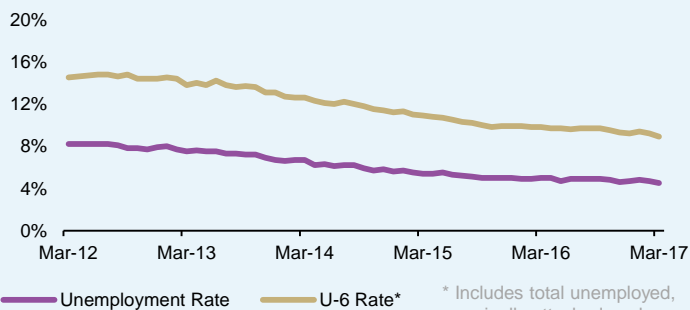
Employment By Industry

United States, 2016 Annual Average



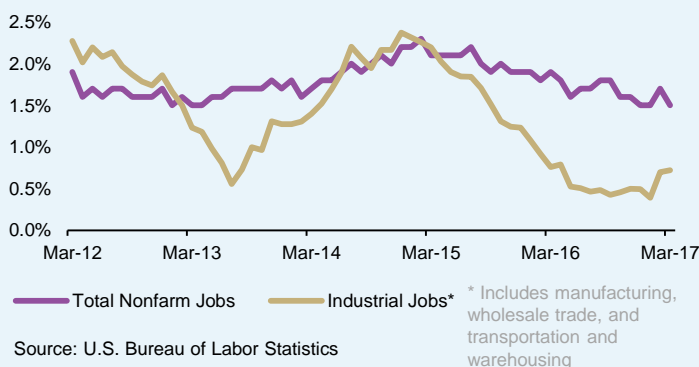
Unemployment Rate

Seasonally Adjusted



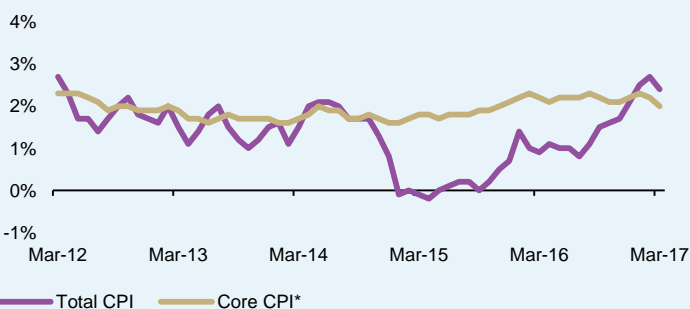
Payroll Employment

12-Month % Change, Not Seasonally Adjusted



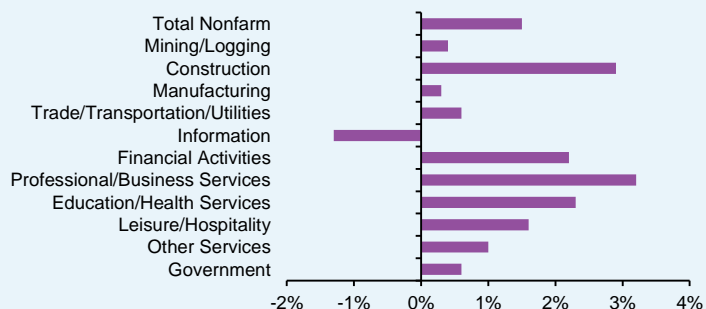
Consumer Price Index (CPI)

All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Employment Growth by Industry

Mar 2017, 12-Month % Change, Not Seasonally Adjusted





Chicago

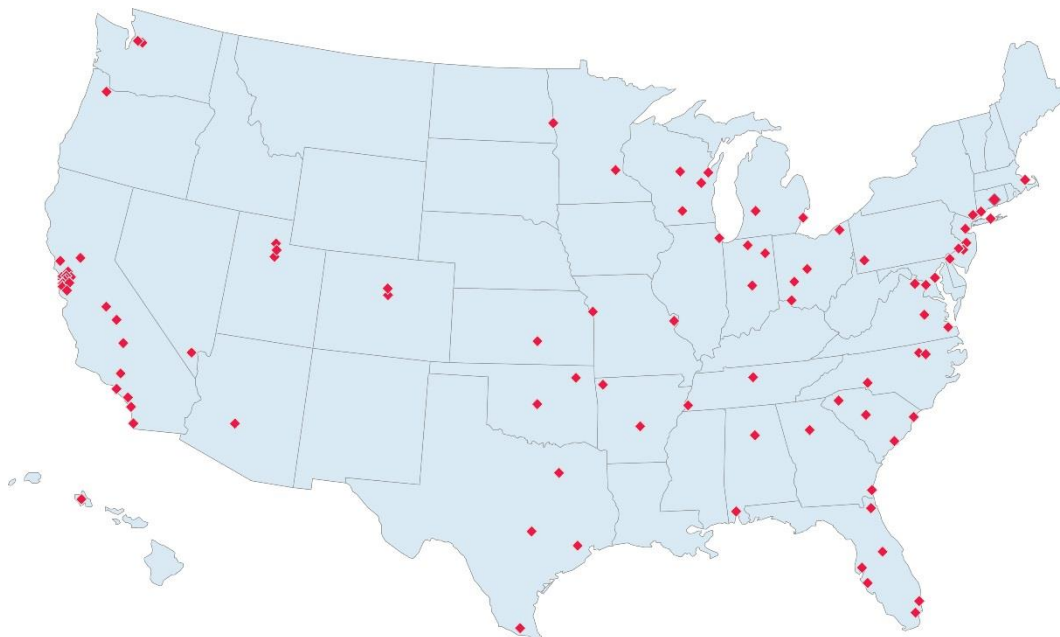
500 W Monroe St
Suite 2900
Chicago, IL 60661
312.224.3200

Robert Bach

Director of Research - Americas
312.224.3244
rbach@ngkf.com

Geoffrey Kasselmann

Executive Managing Director
National Industrial Practice Leader
2015-2016 SIOR Global President
773.957.1426
gkasselmann@ngkf.com

Newmark Grubb Knight Frank United States Office Locations

Newmark Grubb 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 Grubb Knight Frank Research Reports are also available at www.ngkf.com/research

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Grubb Knight Frank (NGKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NGKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications.

Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.



Please recycle,
whenever possible
Sustainably

Newmark Grubb Knight Frank