

National Industrial Capital Markets *Speculative Construction Spotlight*

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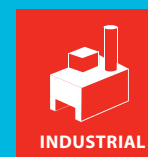
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U.S. Industrial Construction Hits 188 MSF in 2017

Strong Activity Predicted for 2018



Executive Summary

Industrial construction volume tapered down moderately across the country during the first three quarters of 2017, following several strong years. Demand remains strong, however, as low vacancy rates in many markets help fuel continued demand for new space.

Developers across the country delivered 188 million square feet (msf) of new industrial space in the first three quarters of 2017, a 5% decrease from the same time period in 2016, when deliveries were 199 msf. The overall pipeline of construction remains strong, with an additional 280 msf of space under construction nationally-at the third quarter of 2017.

This record activity is being driven by e-commerce growth, along with expansion in general logistics space, as companies react to changing logistics models, population shifts and overall demographic shifts. While build-to-suit activity has been strong, much of the construction has been speculative, as developers look to fill space for tenants who want more modern, efficient warehouse and distribution space.

The current industrial construction cycle has been strong for several years, bringing a total of 921 msf of completed space across the country since 2012. Tenant demand for more efficient buildings with the necessary ceiling height, docking and parking facilities has been strong, creating solid fundamentals that are attracting investors to those types of assets.

Investment Sales

Industrial building sales increased from \$4.9 billion at Q3 of 2016 to \$5.3 billion in the same time period in 2017. This activity shows the continued investor appetite for industrial assets, from e-commerce warehouses to corporate distribution facilities, and a more balanced flow of investment following several years of intense activity and large portfolio sales.

Among the top industrial buyers over the past 24 months were Global Logistic Properties of Singapore, which paid \$1.07 billion for 25 properties; China Life of China, which paid \$936 million for 27 properties; and Gramercy Property Trust of New York, NY, which paid \$701.6 million for 21 properties.

Industrial building
sales increased
from **Q3** of 2016
over the same time
period in **2017**

Spec Construction Still a Focus

Industrial development has been strong for several years, with speculative buildings being introduced to satisfy tenant and investor demand in many markets. Most investors are seeking buildings that are substantially leased – preferably with a strong corporate tenant and 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 trailed demand.

Buildings that are well-located along major distribution corridors and have 32 to 36-foot ceiling heights, 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 spikes as another wave of development moved through to meet demand. There were gains in deliveries in Los Angeles (291%), Memphis (67.77%), Indianapolis (61.69%), and Dallas (27.94%), for example.

Conversely, there were declines in Inland Empire (-25.75%), Chicago (-31.35%) and Houston (-35.41%), as activity tapered down following significant construction deliveries over the past several years. Those markets, however, are expected to continue to see construction growth in the near term, as they are still bell-weather industrial markets that drive the U.S. logistic property market.

In Houston, for example, additional groundbreaking are expected within the next few quarters due to heavy demand. This expansion is being driven by consumer goods distribution, activity from the petrochemical industry, and trade through the Port of Houston.

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

Construction Volume

City	Delivered Q317 YTD MSF	Delivered Q316 YTD MSF	Under Construction Q3 2017 YTD MSF
Dallas/Ft Worth	18.5	14.5	20.0
Atlanta	15.0	13.9	17.6
Inland Empire	13.3	17.9	21.2
Philadelphia	10.6	9.1	17.6
Chicago	8.2	11.9	10.7
Houston	5.9	9.2	3.3
Indianapolis	4.9	3.1	3.4
Los Angeles	3.6	0.9	3.6
Phoenix	3.5	3.2	3.6
Memphis	3.0	1.8	7.2

Strong market fundamentals continue to propel industrial construction. According to statistics from CoStar, industrial vacancies are lower than any point in the last market cycle. Total vacancy at Q3 of 2017 was approximately 3% for light manufacturing; 6.5% for logistics; and 5% for general industrial.

Pricing Projections

Despite strong supply coming online over the past several years, demand for well located, modern distribution and warehouse buildings continues to outpace supply in many markets. Pricing is at record levels, with cap rates reaching sub-4% in markets such as LA, a low 4% in New Jersey and a high 4% in Chicago for core product. Secondary markets are expected to be anywhere from 100 - 200 bps higher for similar core product.

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, and in newly evolving Secondary Gateway markets, such as Charleston, Nashville, and Charlotte, the increases could be higher.

Top Sales Q4 2016 to Q3 2017



Date: November 2016
Market: Etna, OH
Year Built: 2016
Property Name: 11901 National Rd. SW
Price: \$88.9 M
SF: 855,000
Tenant: Amazon



Date: November 2016
Market: Yonkers, NY
Year Built: 2016/2017
Property Name: 10 Hermann Place
Price: \$164.7 M
SF: 121,833
Tenant: FedEx



Date: November 2016
Market: Elmsford, NY
Year Built: 2016/2017
Property Name: 300 Waterside Drive
Price: \$155.9 M
SF: 323,502
Tenant: FedEx

Most Active Sales Markets*

Market	Q1-Q3 of 2017 Volume	2016 Total Volume
LA Metro	\$900 M	\$998 M
Chicago	\$543 M	\$720 M
Dallas	\$367 M	\$469 M
Miami/So Fla	\$344 M	\$492 M
Atlanta	\$272 M	\$349 M
Columbus	\$199 M	\$215 M
NYC Metro	\$190 M	\$492 M
Seattle	\$168 M	\$312 M

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

Conclusion/Future Outlook

The industrial market has seen significant growth in recent years, as strong market fundamentals have fueled a massive wave of construction across the country. Much of the new inventory was built on spec and is being steadily absorbed in many markets. This momentum has attracted investors, both domestic and foreign, who are seeking the long-term growth and stability the industrial market provides.

The outlook for industrial investment remains positive over the next 12 to 18 months, as 280 msf of new construction reaches completion nationally and is steadily absorbed, and as experienced, and new, capital sources clamor to get into this product type. Demand from traditional e-commerce related businesses and logistics companies supporting quick deliver options and last-mile warehouse locations should also bode well for this sector.

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.

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