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Avison Young U.S. Industrial Capital Markets

2018 Mid-Year Foreign Investment Spotlight

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Amidst political and cultural uncertainty, foreign investment in U.S. commercial real estate remains strong.

Executive Summary

Foreign investment in the industrial sector continues at a steady pace—with \$6.6 billion in volume in the first five months of 2018. Despite a shortage of assets in many markets, the total through May has already surpassed the \$5.8 billion spend in all of 2017. According to a report by Avison Young’s national industrial capital markets group, China, with \$4.14 billion in volume this year, is on track to surpass Canada—a perennial top country of origin that had generated \$1.02 billion through May 31.

As e-commerce and corporate supply chain growth continues at a steady pace, investors purchased 811 industrial assets from a variety of markets, including Columbus, Dallas, Atlanta, Memphis, Phoenix and Chicago, among others.

Avison Young analyzed internal research and sales data provided by Real Capital Analytics in preparing this report.

The industrial sector has seen considerable activity since 2008, attracting foreign and domestic investors searching for the strength and stability of this asset class. From 2011 to 2014, sales volume ranged from \$1.4 to \$3.3 billion per year. In 2015, large platform sales dominated the market and sales jumped to \$26.7 billion for the year. The total then shifted back to a more typical range, reaching \$3.7 billion for 2016, and \$5.8 billion for 2017.

“There remains significant foreign capital on the sidelines, as investors search for assets in a market that has seen tremendous sales volume since 2008,” comments Erik Foster, Avison Young Principal and practice leader of the firm’s U.S. industrial capital markets group. “Supply of high quality assets remains low, as many assets have recently traded and are being held as part of the typical investment cycle.”

U.S. Market Highlight

Columbus saw a considerable jump in sales activity in the first part of 2018, with sales increasing to \$415 million from \$32 million for all of 2017 and \$73 million for all of 2016. The market has become one of the most active distribution corridors in the country, due to its central location and the presence of Rickenbacker Inland Port, a significant cargo airport that ties the Midwest with freight hubs in Asia, Europe and the Middle East.

Dallas, Atlanta, Phoenix, and **Chicago** are all on track to see lower volume than in 2017. In all of those markets except Phoenix, the decline comes after heavy volume in the previous year.

Most active markets

| City | 2018 (through 5/31) | 2017 | 2016 |
|--------------------|------------------------|---------|---------|
| Columbus | \$415 M | \$ 32 M | \$ 73 M |
| Dallas | \$241 M | \$617 M | \$155 M |
| Atlanta | \$173 M | \$589 M | \$118 M |
| Memphis | \$136 M | \$ 68 M | \$ 19 M |
| Phoenix | \$122 M | \$156 M | \$169 M |
| Chicago | \$112 M | \$516 M | \$294 M |
| Eastern PA | \$100 M | -- | -- |
| Miami/South FL | \$ 94 M | \$ 70 M | \$116 M |
| Philadelphia Metro | \$ 90 M | \$159 M | \$185 M |
| Charlotte | \$ 81 M | \$189 M | \$ 55 M |

Across the Globe

Hong Kong, Japan and **Switzerland** each invested at least \$100 million in U.S. industrial assets in 2017, but only Japan remained on the list in 2018, with just \$25 million invested through May 31.

Most active countries

| Country | 2018 | 2017 | 2016 |
|-----------|----------|----------|---------|
| China | \$4.14 B | \$758 M | \$868 M |
| Singapore | \$1.35 B | \$1.12 B | \$618 M |
| Canada | \$1.02 B | \$3.08 B | \$781 M |
| Hong Kong | -- | \$330 M | \$ 39 M |
| Japan | \$ 25 M | \$170 M | \$ 36 M |

Source: Real Capital Analytics

Representative Transactions

Central PA (Tobyhanna)

2086 Corporate Center Dr.

A 1,369,177-sf warehouse/distribution property at 2086 Corporate Center Drive West was sold to Mapletree Commercial in April 2018 for \$99.5 M (\$73 psf).

West Jefferson, Ohio

5 Commerce Parkway & 100 Enterprise Parkway

Granite REIT purchased two warehouse/distribution centers from Duke Realty Corp in May 2018 for a total of \$154.4 M. They include: 15 Commerce Parkway (1.3 MSF; \$79.7M; \$61 psf) and 100 Enterprise Parkway (1.2 MSF; \$74.7 M, \$61 psf).

Las Vegas, NV

4410 Nexus Way

GLP purchased the 558,000-sf Northgate Distribution Center for \$69.7 M (\$125 psf) in April 2018. The property includes an Amazon fulfillment center.



**Northgate Distribution Center
Las Vegas, Nevada**

Top Buyers -- June 2016 - May 2018

| Buyer | Location | # Prop | Price Volume |
|---|-----------|--------|--------------|
| China Vanke/ Hopu Investment/ Bank of China/ SMG Eastern/ Hillhouse Capital | China | 677 | \$4.1 B |
| Caisse de Depot | Canada | 110 | \$1.35 B |
| Mapletree | Singapore | 89 | \$1.93 B |
| GLP | Singapore | 30 | \$1.15 B |
| Brookfield | Canada | 45 | \$693.3 M |

Source: Real Capital Analytics

Trends to Watch

Based on an analysis of past cycles, Avison Young team expects to see the following over the next 12 to 18 months:

- **E-commerce growth** — will continue to dominate this sector, as developers add new product to fill leasing demand. Developers are also moving into mid-sized, multi-tenant warehouse and distribution facilities to support mid-sized tenants and reduce their reliance on bulk users.
- **Last-mile delivery** — will continue to move some investors into infill sites and drive land prices up as demand increases for well-located properties near large population centers.
- **Large portfolios will continue to draw investors** — as they try to leverage mass to expand industrial holdings. These sales are averaging in the \$500 million range.
- **Increased port activity will continue to boost investment volume** — as investors look to tap into facilities that are well positioned to take advantage of global markets. Land constraints are keeping development tempered in some port markets, leading to increased pricing for newer facilities that are developed.
- **Industrial fundamentals will remain strong** — With solid tenant demand and vacancy rates in the 4 to 5 percent range, the outlook for the industrial sector is strong. Demand is outpacing supply in most markets and the development of new product has escalated. Nearly 210 msf was completed across all U.S. markets surveyed by Avison Young in the 12-months ending with first-quarter 2018. Furthermore, there was a total of 204 msf under construction nationally.

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Erik is a Principal of Avison Young and the Practice Leader of the firm's Industrial Capital Markets Group. He oversees a national team providing asset advisory, disposition, equity sourcing, development capitalization and sale-leaseback services to a wide range of institutional and privately held commercial property owners across North America.

With more than 20 years of experience and \$4 billion in transactions, Erik has built a strong track record in the industrial, healthcare and office property sectors. He frequently is selected to advise institutional investors on sales of multi-market portfolios and individual asset assignments throughout the U.S. and internationally.

Erik often is called upon to provide market commentary to national, regional and local media outlets and is a frequent speaker at national commercial real estate industry events.

