

NATIONAL 1Q18 INDUSTRIAL MARKET

INDUSTRIAL SECTOR MAINTAINS TIGHT MARKET CONDITIONS

The U.S. industrial market recorded rising asking rents and consistent overall vacancy through the first quarter of 2018. Although net absorption decelerated modestly, the industrial asset class continues to attract investor interest, while construction keeps up with strong tenant demand.

Net Absorption Decelerates

Demand for industrial space leveled off during the first quarter of 2018, posting 45.7 million square feet of net absorption. This was the lowest quarterly absorption total recorded since the third quarter of 2013. Although absorption is down from the 60.3 million square feet recorded at the fourth quarter of 2017 and the 59.0 million square feet recorded one year ago, the vacancy rate held steady at 5.3% for the fourth consecutive quarter. Average asking rents in first-quarter 2018 measured \$6.67/SF, the highest quarterly average recorded this cycle. These figures all speak to the overall strength of the national industrial market.

Fourteen of the 49 industrial markets tracked by NKF absorbed 1.0 million square feet or more in the first quarter, led by California's Inland Empire with 7.7 million square feet and Northern New Jersey with 4.0 million square feet. The Chicago, Atlanta, Los Angeles and Indianapolis markets all recorded 2.0 million square feet or more of absorption through first-quarter 2018. Six markets posted declines in occupied space, or negative absorption, through the first quarter, led by the Seattle market.

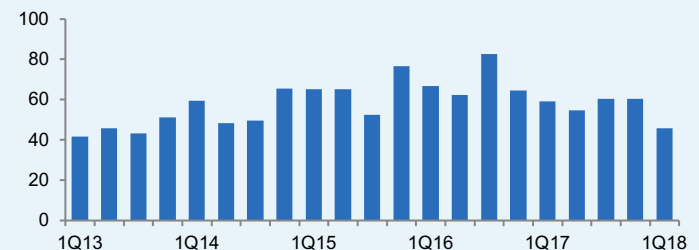
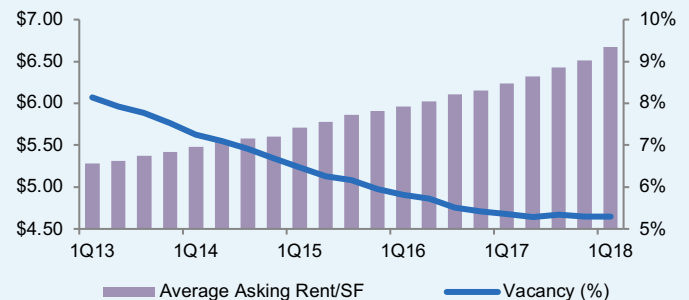
Another way to measure demand for space is to divide absorption by total occupied space, which shows how rapidly the occupied base is growing regardless of a market's size. Through the first quarter of 2018, occupied industrial space expanded by 0.3% across the U.S., led by California's Inland Empire at 1.4% and Greenville, South Carolina, at 1.0%. By contrast, the Seattle market saw occupied space shrink by 0.1% during the quarter.

The largest industrial lease of the first quarter was a direct new deal signed by the United States Postal Service for 818,000 square feet in Portland, Oregon. Other large new leases were signed by supply chain service provider Tellworks Communications, for 722,733 square feet in Dallas, and third-party logistics provider Kenco, for 701,228 square feet in Chicago. Two lease renewals were also signed by building products distributor BlueLinx Corporation, one for 585,637 square feet in the Atlanta market, and another for 580,252 square feet in Frederick, Maryland. Mirroring fourth-quarter 2017, when logistics providers were behind the three largest leases of the quarter, two of the largest lease deals signed during the first quarter of 2018 were for third-party logistics and supply chain service providers.

Current Conditions

- Absorption leveled off from recent quarters, measuring 45.7 million square feet at first-quarter 2018.
- Vacancy remained low, at 5.3% for the fourth consecutive quarter.
- Average asking rents rose 2.5% from last quarter to \$6.67/SF, the highest average recorded this cycle.
- Blackstone REIT purchased a 22-million-square-foot industrial portfolio for \$1.8 billion in March.

Market Analysis



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Vacancy Rate	5.3%	5.3%	5.4%	↔
Net Absorption*	45.7	60.3	59.0	↔
Average Asking Rent/SF	\$6.67	\$6.51	\$6.24	↑
Under Construction*	223.7	224.4	237.6	↔
Deliveries*	44.4	62.5	56.4	↔

* Square feet, millions

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Deliveries Stabilize

Developers delivered 44.4 million square feet of new space during the first quarter of 2018, stabilizing after the third and fourth quarters of 2017 posted totals of 69.4 million and 62.5 million square feet respectively, the largest delivery totals recorded so far this cycle. Industrial space under construction during first-quarter 2018 measured 223.7 million square feet, down from 224.4 million square feet recorded for the fourth quarter and 237.6 million square feet recorded one year ago. The volume of space under construction has been fairly stable since the fourth quarter of 2016. Developers continue to break ground on new projects to meet the growth demand for distribution space.

As in the previous three quarters, six major distribution hubs accounted for nearly 100.0 million square feet of the first quarter's construction total, led by Dallas with 24.0 million square feet and California's Inland Empire with 21.2 million square feet. Atlanta, Chicago, Northern New Jersey and Pennsylvania's I-81/78 Corridor rounded out the top six, with all markets but the I-81/78 Corridor posting more than 12.0 million square feet of industrial space under construction as of first-quarter 2018.

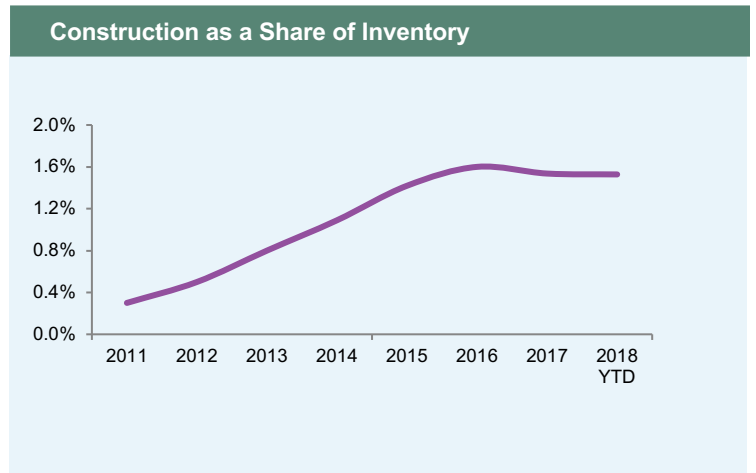
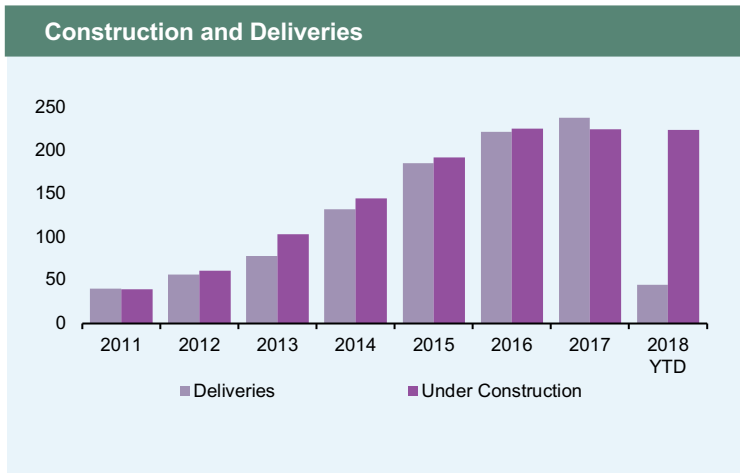
Industrial space under construction during first-quarter 2018 comprised 1.5% of total inventory. Based on this metric, the supply was growing most rapidly in Charleston, South Carolina, at 6.9%, California's Inland Empire at 3.7% and Baltimore at 3.6%. Markets that serve as major distribution hubs and are near large seaports and metropolitan areas, such as the ones listed above, will continue to require more new supply in the coming years, especially as the e-commerce and logistics sectors continue to thrive. As seen in recent quarters, several of the largest leases signed during the first quarter were for supply chain and third-party logistics providers, industries that will continue to seek space in gateway markets to manage expanding global trade flows and the increase in e-commerce.

Vacancy Remains Low and Little-Changed

The vacancy rate remained low through the first quarter of 2018, at 5.3%, identical to the rate recorded over the past three quarters and 10 basis points lower than the 5.4% recorded at first-quarter 2017. Vacancy is very tight in several major markets, notably Los Angeles at 1.1%, Orange County at 2.2%, Long Island at 3.1%, Cincinnati at 3.2% and Seattle at 3.4%. 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 continue to keep the vacancy rate at a low level.

None of the 49 markets tracked by NKF had a double-digit vacancy rate as of first-quarter 2018. This speaks to the overall strength of the national industrial market. It also helps to explain why investors have become keen on this product type. According to the National Council of Real Estate Investment Fiduciaries (NCREIF), U.S. industrial was the only core property sector to achieve a double-digit unlevered total return during 2017, at 13.1%. Industrial outperformed the second-best performing sector, apartments, by 691 basis points during 2017.

No industrial markets posted a first-quarter vacancy increase of 1 percentage point or greater. The largest increase occurred in Charleston, where vacancy increased by 90 basis points from the fourth quarter of 2017 to 9.3%. Twenty other markets posted a smaller rise in vacancy for first-quarter 2018. Twenty-two of the 49 markets covered in this report posted vacancy declines relative to figures from fourth-quarter 2017, led by Las Vegas, where vacancy fell by 80 basis points to 6.8%. Vacancy was unchanged in six markets during first-quarter 2018. On balance, vacancy remained low enough in most markets to drive rent increases during the quarter. Only nine markets nationally posted rent declines relative to fourth-quarter 2017 totals.



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Average Asking Rents Up 6.9% Year-Over-Year

Average asking rents across the U.S. at first-quarter 2018 measured \$6.67/SF triple net, up 2.5% from the fourth quarter and up 6.9% from the first quarter of 2017. Notably, the first-quarter average is the highest recorded this cycle and reflects the overall strength of the national industrial market. Modern distribution centers that meet the needs of e-commerce tenants, offering higher ceiling heights and automated warehouse management systems, have seen strong national rent growth because of consistently robust demand. In denser, urban markets such as New York City and Seattle, developers are planning multi-story warehouses that will offer truck ramps to second-floor loading bays. Although cost estimates for multi-story facilities are sometimes 50.0% greater per square foot than single-story product, rising rents allow the projects to pencil out on a cost-per-square foot basis. The concept of rapid last-mile delivery—the delivery of goods to customers within hours—continues to proliferate in dense urban environments across the United States. The desire to reduce delivery times, along with increasing rents, will continue to push industrial developers to innovate their product even further in order to remain competitive.

What to Expect

As of the first quarter of 2018, the current U.S. economic expansion is tied for the second-longest growth cycle post-World War II. The Federal Reserve's latest GDP growth forecast of 2.8% for 2018 suggests that the expansion is likely to continue beyond this year. The industrial market's appeal to investors continues to grow—2017 annual total returns eclipsed 13.0%, per NCREIF, far outperforming other sectors. Although industrial absorption decelerated during the first quarter, vacancy remained low, and asking rents jumped 2.5% from last quarter—both signs that the industrial market remains healthy in early 2018.

E-commerce, along with related industries such as supply chain management and third-party logistics, has continued its rapid growth into 2018. Consumers across demographic and economic spectrums are demanding rapid product delivery, which has led developers to innovate their product and offer more highly efficient space in urban markets. The boom in e-commerce has led to high construction levels and increasing asking rents, which reached their highest level recorded this cycle during the first quarter. The growth in e-commerce has pushed institutional investors to purchase more warehouse and distribution facilities to capitalize on ever-increasing demand: In March, Blackstone REIT purchased a 22-million-square-foot portfolio concentrated around urban centers nationwide for \$1.8 billion.

The first quarter of 2018 saw Congress pass a \$1.3 trillion omnibus spending bill guaranteeing government funding through the fiscal year. Both the spending bill and the 2017 Tax Cuts and Jobs Act are expected to benefit the U.S. commercial real estate industry overall. The new tax law is also likely to benefit the national industrial market, as businesses are now able to immediately expense several types of asset purchases, encouraging more owner-user transactions. However, the Trump Administration's willingness to begin a "trade war" with China by imposing steep tariffs on Chinese imports may negatively affect the national industrial market due to its impact on gateway markets. Markets supporting importers have seen the strongest demand for industrial product—Los Angeles has the lowest vacancy rate nationally as of first-quarter 2018, measuring 1.1%.

With record-high asking rents, low vacancy and consistent tenant demand, the industrial market should sustain its above-trend growth at least through 2018. As consumers continue to demand rapid deliveries, e-commerce tenants will require more innovative space nationwide.

Select Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
USPS	Portland, OR	7007 NE Cornfoot Road	Direct New	818,000
Tellworks Communications	Dallas, TX	4101 Research Drive	Direct New	722,733
Kenco	Chicago, IL	5800 West Industrial Drive	Direct New	701,228
Bluelinx Corporation	Atlanta, GA	200 Hosea Road	Direct Renewal	585,637
Bluelinx Corporation	Washington, DC	4300 Georgia Pacific Blvd	Direct Renewal	580,252

Select Sales Transactions

Building/Portfolio	Market	Sale Price	Price/SF	Square Feet
Cabot Canyon Industrial 2018	IL, KS, CA, TX, MD, CO, NJ, FL	\$1,800,000,000	\$83	21,718,000
3053 Arden Road	Oakland/East Bay, CA	\$93,500,000	\$395	237,000
L&B Warehouse Acquisition 2018	Boston, MA	\$72,700,000	\$99	737,810
Sitex Group NJ Industrial Portfolio 2018	Northern New Jersey	\$65,000,000	\$173	375,182
2652 Long Beach Avenue	Los Angeles, CA	\$57,821,000	\$217	266,396

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Market Statistics

Market	Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed YTD	% Vacant	Average Asking Rent/SF
Atlanta	608,313,497	16,365,055	2,832,957	2,832,957	7.9%	\$4.96
Austin	90,317,020	1,666,597	243,390	243,390	7.7%	\$10.64
Baltimore	174,422,226	6,280,958	-47,073	-47,073	9.2%	\$4.98
Boston	221,359,300	388,700	839,622	839,622	6.3%	\$8.30
Broward County, FL	105,191,697	1,248,382	102,688	102,688	4.3%	\$8.96
Charlotte	373,079,950	3,889,823	1,425,737	1,425,737	5.6%	\$4.23
Charleston, SC	67,759,399	4,681,728	121,934	121,934	9.3%	\$5.55
Chicago	1,129,042,600	13,715,968	3,237,198	3,237,198	8.1%	\$5.30
Cincinnati	305,120,670	4,051,676	1,709,465	1,709,465	3.2%	\$4.00
Cleveland	284,048,222	1,999,628	-96,545	-96,545	5.8%	\$4.34
Columbia, SC	58,391,433	1,029,657	185,728	185,728	8.3%	\$4.02
Columbus	276,822,033	5,576,305	1,400,338	1,400,338	4.1%	\$3.85
Dallas	838,804,753	24,046,978	1,796,972	1,796,972	6.2%	\$5.29
Denver	189,148,459	6,383,208	165,234	165,234	4.7%	\$7.42
Detroit	388,601,699	5,904,627	746,740	746,740	5.0%	\$5.05
Greenville, SC	200,674,164	3,414,460	1,926,501	1,926,501	5.4%	\$3.49
Houston	515,404,027	6,719,658	979,339	979,339	5.1%	\$6.38
Indianapolis	316,984,288	4,253,101	2,411,017	2,411,017	5.3%	\$3.76
Inland Empire, CA	568,101,758	21,208,768	7,688,877	7,688,877	3.7%	\$6.98
Jacksonville	126,008,832	368,205	671,791	671,791	3.5%	\$4.60
Kansas City	283,261,116	2,416,841	928,300	928,300	6.0%	\$4.89
Las Vegas	110,662,833	181,442	358,563	358,563	6.8%	\$8.12
Long Island	158,426,223	217,875	116,043	116,043	3.1%	\$11.27
Los Angeles	992,204,255	2,822,154	2,414,074	2,414,074	1.1%	\$9.40
Memphis	252,638,153	5,114,441	-267,976	-267,976	6.5%	\$3.08
Miami	212,705,320	1,910,757	676,347	676,347	4.4%	\$7.28
Milwaukee	230,814,520	847,800	62,453	62,453	4.1%	\$4.41
Minneapolis	378,257,958	1,066,250	1,621,704	1,621,704	4.0%	\$6.64
Nashville	232,795,404	5,249,656	462,737	462,737	4.1%	\$5.65
New Jersey Northern	633,829,484	12,348,160	3,988,396	3,988,396	4.8%	\$8.25
Oakland/East Bay	249,909,101	2,568,891	334,270	334,270	3.8%	\$13.59
Orange County, CA	258,861,045	793,138	151,398	151,398	2.2%	\$12.84
Orlando	182,254,443	773,712	461,939	461,939	4.1%	\$6.16
Palm Beach	48,208,897	0	-66,364	-66,364	3.6%	\$9.27
Penn. I-81/78 Corridor	334,586,953	8,881,210	225,875	225,875	6.8%	\$4.44
Philadelphia	500,094,417	4,897,156	491,625	491,625	6.2%	\$5.37
Phoenix	284,821,150	7,314,039	669,598	669,598	8.4%	\$7.46
Pittsburgh	134,844,946	100,000	197,845	197,845	7.6%	\$4.52
Portland	219,132,693	2,837,909	281,295	281,295	4.4%	\$8.04
Raleigh/Durham	117,350,485	1,937,346	535,485	535,485	5.9%	\$6.92
Sacramento	156,345,033	754,576	966,085	966,085	5.7%	\$6.24
Salt Lake City	221,268,193	3,798,101	473,315	473,315	3.8%	\$6.21
San Antonio	114,997,141	718,457	42,966	42,966	6.4%	\$5.89
San Diego	168,150,355	2,375,677	-168,244	-168,244	4.1%	\$11.81
Seattle	302,835,892	6,089,949	-429,097	-429,097	3.4%	\$9.76
Silicon Valley	215,657,251	606,519	1,238,417	1,238,417	7.9%	\$22.32
St. Louis	263,842,939	5,525,081	488,205	488,205	5.0%	\$4.74
Tampa/St. Petersburg	257,111,677	1,841,842	73,014	73,014	5.5%	\$5.43
Washington, DC	292,033,630	6,564,125	1,002,058	1,002,058	6.6%	\$8.52
National	14,645,497,534	223,746,586	45,672,236	45,672,236	5.3%	\$6.67

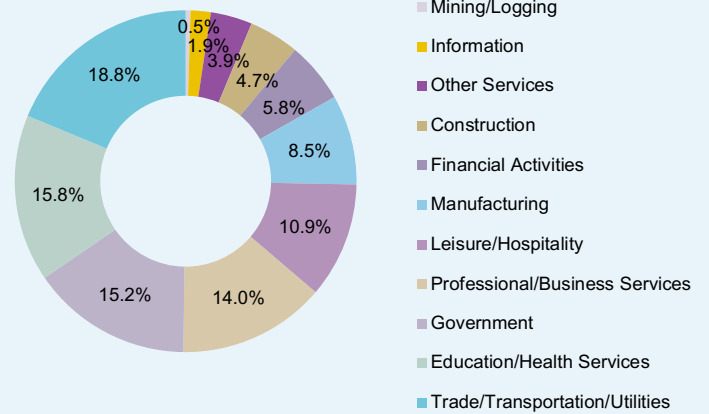
Note: Absorption reflects change in occupied space for the specified period of time. Rents are quoted in triple net terms.

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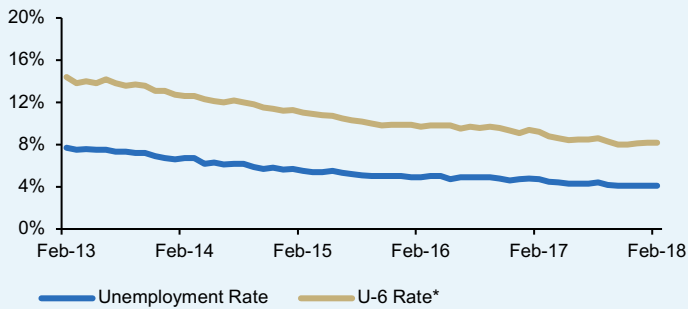
ECONOMIC CONDITIONS

The U.S. economy grew at an annual rate of 2.9% during the fourth quarter, according to the Bureau of Economic Analysis' third estimate, released in March. While imports outpaced exports, the cost of goods increased 2.5% during the fourth quarter—though the inflation rate was just 2.0% (not seasonally adjusted) for the 12 months ending in February. GDP continues to make solid gains, consistent with steady job growth. The unemployment rate has held steady at 4.1% since October 2017, reflecting an economy near full employment. Employers added an extraordinary 326,000 new jobs in February 2018, although that number normalized to 103,000 new jobs in March 2018, with mining/logging and construction among the notable growth sectors. Although consumer and business confidence has increased with the passage of the Tax Cuts and Jobs Act, the full effect of tax reform will not be felt in the near term. Also, two key macroeconomic trends bear monitoring: the Fed's continued interest rate hikes, which may curtail consumer and business spending as lenders tighten standards, and the threat of trade-hampering tariffs.

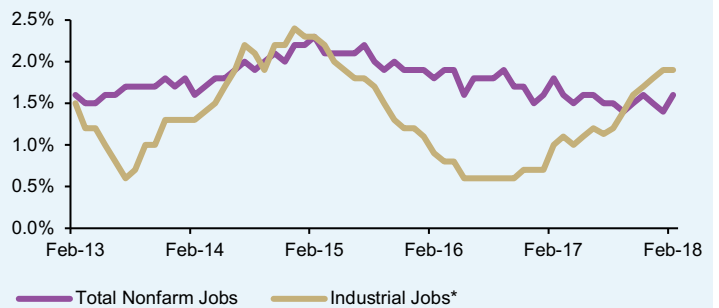
Employment By Industry



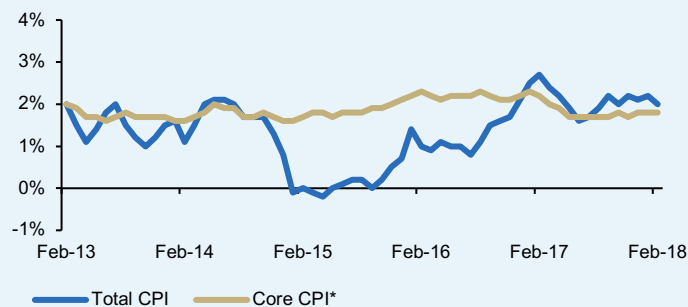
Unemployment Rate



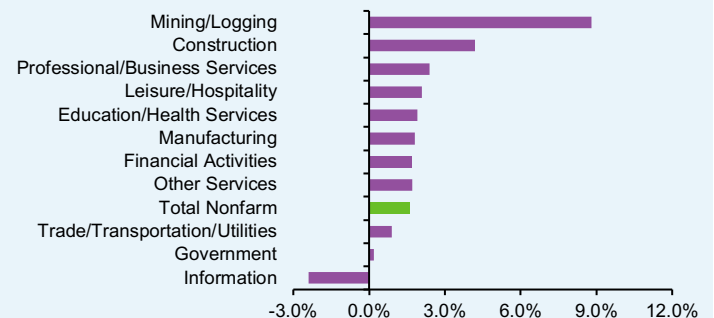
Payroll Employment



Consumer Price Index (CPI)



Employment Growth by Industry



New York Headquarters

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New York, NY 10017
212.372.2000

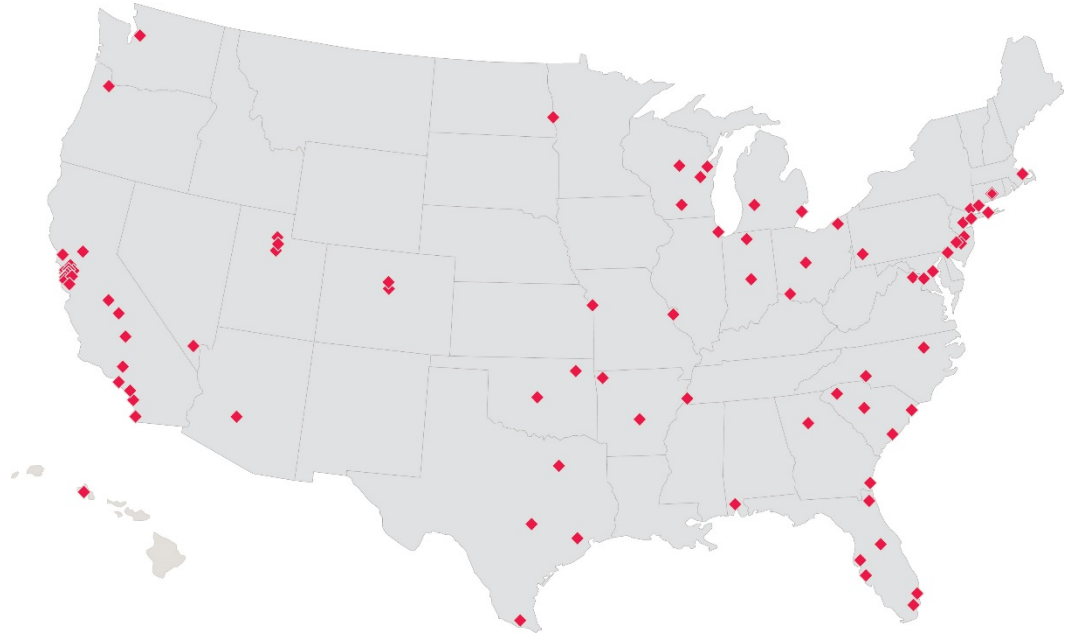
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