

# NATIONAL INDUSTRIAL MARKET

## INDUSTRIAL SECTOR FEATURES STRONG FUNDAMENTALS IN FIRST HALF OF 2019

The U.S. industrial market displayed strong fundamentals during the first half of 2019, with rising asking rents and the lowest vacancy rate among all primary commercial asset classes. While absorption slowed in the second quarter due to a lack of available product, leasing velocity remains high. Industrial space under construction reached a new cyclical high, as developers seek to capitalize on the consistently sturdy returns of the industrial asset class.

### NET ABSORPTION DECELERATES

Although overall market demand remains high, net absorption decelerated during the second quarter, as the amount of top-quality available product remains limited, even with a growing construction pipeline. Absorption measured 26.4 million square feet during the second quarter of 2019, compared to 68.5 million square feet in second-quarter 2018. Vacancy remains near historical lows, at 5.1% as of the end of the second quarter of 2019. Average asking rents continued to tick up, with the second-quarter average measuring \$7.37/SF, up 9.3% from one year ago and the highest quarterly average recorded this cycle. Since first-quarter 2014, asking rents have increased by an average of 6.1% annually, with a significant acceleration over the past year.

Ten of the 49 industrial markets tracked by NKF absorbed 1.0 million square feet or more in the second quarter, led by Dallas and California's Inland Empire, each with 5.6 million square feet. Chicago, Atlanta and Houston each recorded 2.0 million square feet or more of absorption during second-quarter 2019. Fifteen markets posted declines in occupied space, or negative absorption, during the second quarter, led by the Jacksonville 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 second quarter of 2019, absorption equaled 0.2% of occupied space across the U.S., led by Raleigh/Durham and California's Inland Empire at 1.0% each. By contrast, the Jacksonville market saw occupied space shrink by 1.1% over the quarter.

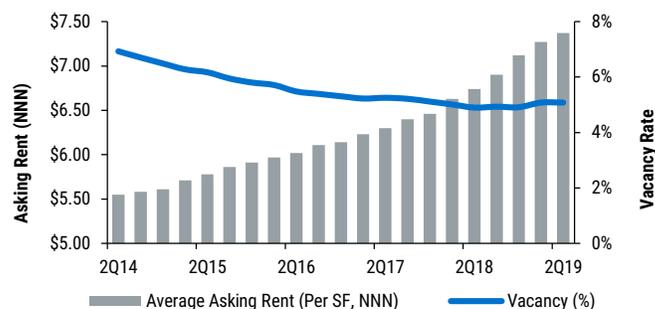
Amazon continues its rapid expansion, signing the largest lease of the second quarter, a 2.6 million-square-foot commitment in Oklahoma City. Other noteworthy second-quarter deals included DMSI signing a direct lease for 1.1 million square feet in Morena Valley, California; Stitch Fix signing a 925,800-square-foot direct lease in Lithia Springs, Georgia; and Burlington Coat Factory renewing for 800,444 square feet in Redlands, California.

### CURRENT CONDITIONS

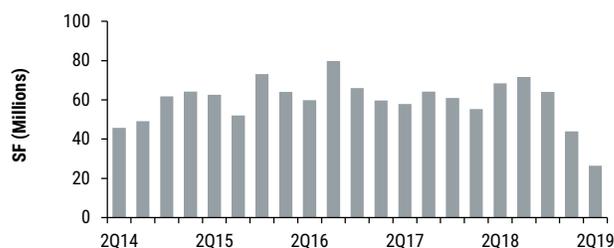
- Absorption measured 26.4 million square feet during second-quarter 2019, down from 68.5 million square feet one year ago.
- Average asking rents rose by 9.3% from one year ago to \$7.37/SF in the second quarter of 2019.
- The national industrial construction pipeline is at a new cyclical high, with 286.7 million square feet currently under construction.
- The industrial sales market remains active, with \$56.9 billion of sales volume in the 12 months ending June 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	14.5 B	↑
Vacancy Rate	5.1%	4.9%	5.0%	↔
Quarterly Net Absorption (SF)	26.4 M	43.9 M	68.5 M	↑
Average Asking Rent/SF	\$7.37	\$7.27	\$6.74	↑
Under Construction (SF)	286.7 M	281.8 M	245.1 M	↔
Deliveries (SF)	50.6 M	49.9 M	69.1 M	↑

## CONSTRUCTION PIPELINE ACCELERATES TO NEW CYCLICAL HIGH

Developers delivered 50.6 million square feet of new space to the market during the second quarter of 2019, up slightly from the 49.9 million square feet delivered last quarter but down from the 69.1 million square feet delivered during the second quarter of 2018. Delivery totals have moderated from the 71.2 million square feet recorded in third-quarter 2017, but deliveries likely will increase over the next year, given the current level of construction.

Industrial space under construction reached a new cyclical high in the second quarter of 2019, measuring 286.7 million square feet, up from 245.1 million square feet recorded one year ago. Industrial space under construction has remained above 230.0 million square feet since the first quarter of 2017. Groundbreakings continue to increase nationwide, as warehouse-using tenants demand more space to house growing operations, often in service of e-commerce.

Five industrial markets have more than 10 million square feet of industrial space under construction as of second-quarter 2019, led by Dallas with 32.3 million square feet and California's Inland Empire with 29.4 million square feet. Atlanta, Pennsylvania's I-81/78 Corridor, and Houston, rounded out the top five, each with greater than 16 million square feet under construction.

Industrial space under construction as of second-quarter 2019 equaled 1.9% of total inventory nationwide. Based on this metric, the supply was growing most rapidly in the Penn. I-81/78 Corridor and Jacksonville, each at 5.3% of inventory. Demand for rapid or same-day delivery is no longer confined to large markets, and the result is rapid development in markets not traditionally considered major industrial players, like Jacksonville, Salt Lake City, and San Antonio.

Alternatively, markets with a low share of total inventory under construction such as Orange County (0.3%) and Long Island, NY (0.3%) are often found in regions where the high cost of land makes penciling industrial development a challenge.

Markets that serve as international trade and distribution hubs and that are near large seaports or growing metropolitan areas will continue to see supply rise in the period ahead, as e-commerce and third-party logistics tenants keep expanding operations. Over the past several quarters, supply chain and third-party logistics providers were behind the majority of large lease transactions signed throughout the national industrial market. These industries will continue to seek space in gateway markets to manage expanding global trade flows and the increase in e-commerce.

## VACANCY RATE REMAINS NEAR HISTORICAL LOW

The U.S. industrial vacancy rate measured 5.1% during second-quarter 2019, up 20 basis points from last quarter and 10 basis points from a year ago. Vacancy is very tight in several major markets, notably Los Angeles at 1.1% and Orange County 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 several quarters. None of the 49 markets tracked by NKF recorded a double-digit vacancy rate during the second quarter of 2019.

## AVERAGE INDUSTRIAL ASKING RENT CONTINUES TO RISE; RETURNS STURDY

The average industrial asking rent across the U.S. at second-quarter 2019 measured \$7.37/SF triple net, up 1.4% from the first quarter and up 9.3% from one year ago. Industrial markets experiencing double-digit rent growth over the past year include Sacramento at 16.7%, Philadelphia at 15.9%, and Phoenix at 15.7%. Industrial rents have increased by 32.8% over the past five years, and have ticked up in each quarter since third-quarter 2011, showing both the consistency and upside of the market.

The industrial market continues to outperform all asset types in 2019—total returns for industrial properties during the first quarter (the most recent data available at this writing) measured 3.02% per the NCREIF Property Index, significantly outpacing office returns of 1.63%. For all of 2018, the industrial market achieved a total annualized return of 14.30%, more than double that of multifamily or office assets.

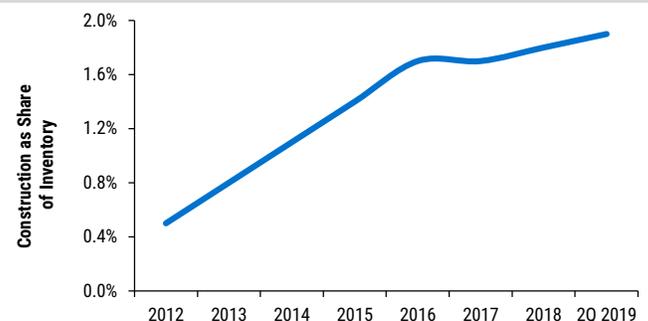
## CONSTRUCTION AND DELIVERIES

### United States Industrial Market



## CONSTRUCTION AS A SHARE OF INVENTORY

### United States Industrial Market



## SALES VOLUME ROBUST IN SECOND QUARTER

The industrial sales market remains sturdy, with volume measuring \$56.9 billion in the 12 months ending June 2019, up from \$49.4 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 second quarter of 2019, the current U.S. economic expansion has become the longest growth cycle of the post-World War II era, 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 steady 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 late 2019. While it seems likely that the Fed will cut the short-term interest rate during the second half of 2019, this is driven more by the tariff war than by a decline in traditional macroeconomic indicators.

Market indicators during the second 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.

Investors are finding the evolution of the American economy to be highly beneficial to well-located and modern industrial assets. Although e-commerce represents only 9% of total retail sales, the 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.

With record-high asking rents and consistently low vacancy, the industrial market should sustain its above-average growth through the second half of 2019. While the amount of industrial space under construction reached a new cyclical high in mid-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 during the second half of 2019.

## NOTABLE 2Q 2019 LEASE/USER TRANSACTIONS

Tenant	Market	Building	Type	Square Feet
Amazon	Oklahoma City, OK	9201 S Portland Avenue	Direct Lease	2,560,000
DMSI	Morena Valley, CA	17350 Perris Boulevard	Direct Lease	1,109,378
Stitch Fix	Lithia Springs, GA	801 Factory Shoals Road	Direct Lease	925,800
Burlington Coat Factory	Redlands, CA	27582 Pioneer Avenue	Renewal	800,444
Kimberly Clark	Dupont, WA	2800 Center Drive	Direct Lease	747,488

## NOTABLE 2Q 2019 SALES TRANSACTIONS

Building/Portfolio	Market	Price	Price/SF	Square Feet
3350 Laurel Ridge Avenue	Lorton, VA	\$123,600,000	\$121	1,017,693
19401 N Cajon Boulevard	San Bernardino, CA	\$97,800,000	\$121	806,332
1800 Union Airpark Boulevard	West Milton, OH	\$93,000,000	\$52	1,791,246
1601 Bronxdale Ave	Westchester, NY	\$89,000,000	\$292	304,425
945 Monument Drive	Indianapolis, IN	\$71,900,000	\$75	962,500

**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)
<b>National</b>	<b>14,959,910,143</b>	<b>286,667,844</b>	<b>26,359,482</b>	<b>70,236,915</b>	<b>5.1%</b>	<b>\$7.37</b>
Atlanta	612,077,788	18,984,719	2,710,437	3,499,611	7.2%	\$5.09
Austin	92,929,038	1,565,960	-639,286	-213,266	8.6%	\$10.56
Baltimore	178,972,497	4,502,925	-785,574	827,487	8.0%	\$4.76
Boston	212,465,537	2,145,623	656,861	482,712	6.4%	\$8.96
Broward County, FL	106,987,538	1,413,124	64,722	337,736	4.6%	\$9.39
Charlotte	75,314,394	3,437,779	-499,179	324,085	7.2%	\$5.69
Charleston, SC	385,482,371	8,612,172	691,488	956,337	6.5%	\$4.80
Chicago	1,114,130,468	9,255,838	3,685,419	7,769,972	7.2%	\$5.68
Cincinnati	278,005,352	4,532,509	150,537	1,232,554	3.7%	\$4.29
Cleveland	286,882,119	2,033,525	745,770	961,761	5.3%	\$4.73
Columbia, SC	59,542,831	1,088,056	438,395	637,863	5.2%	\$4.07
Columbus	283,737,410	4,920,151	31,689	-120,814	4.3%	\$3.95
Dallas	879,864,612	32,338,502	5,580,632	11,211,890	6.2%	\$5.96
Denver	202,192,177	3,826,511	529,212	1,455,366	5.5%	\$8.77
Detroit	394,401,019	4,369,950	1,541,588	2,739,850	3.9%	\$5.63
Greenville, SC	214,555,662	7,394,208	-729,011	1,905,361	5.0%	\$3.87
Houston	538,651,061	16,142,286	2,269,781	5,056,880	5.8%	\$6.90
Indianapolis	330,150,388	6,983,574	-104,064	1,274,968	4.4%	\$3.99
Inland Empire, CA	599,575,776	29,401,456	5,571,214	9,639,518	3.5%	\$7.76
Jacksonville	127,929,180	6,734,450	-1,359,700	-783,049	4.4%	\$5.20
Kansas City	283,013,775	1,310,783	513,141	1,414,796	5.3%	\$4.77
Las Vegas	123,775,234	3,639,933	919,702	1,941,291	4.3%	\$7.75
Long Island	159,637,857	514,534	-9,685	-315,103	3.6%	\$13.09
Los Angeles	1,042,049,858	6,283,339	1,178,470	2,023,823	1.1%	\$10.33
Memphis	264,458,614	5,344,063	-484,322	654,728	5.8%	\$3.20

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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Miami	215,768,871	3,520,223	578,809	1,088,722	3.6%	\$8.39
Milwaukee	239,083,154	5,526,187	1,108,289	1,950,501	4.4%	\$4.69
Minneapolis	386,677,480	1,741,640	-1,205,719	-244,829	3.7%	\$6.77
Nashville	243,648,865	3,094,264	167,271	1,218,510	4.7%	\$5.72
New Jersey Northern	649,122,904	4,990,041	502,752	830,307	4.8%	\$9.12
Oakland/East Bay	250,227,322	5,320,059	-1,018,837	-835,724	5.1%	\$14.84
Orange County, CA	260,325,541	655,614	313,742	-184,300	3.0%	\$13.27
Orlando	186,156,136	1,950,258	208,523	344,261	4.0%	\$6.71
Palm Beach	48,492,885	366,253	-99,790	-274,262	4.3%	\$10.25
Penn. I-81/78 Corridor	348,822,436	18,633,911	-1,050,758	1,293,191	7.1%	\$4.60
Philadelphia	496,220,327	7,285,035	1,794,671	3,334,988	5.1%	\$6.33
Phoenix	294,181,877	5,602,038	127,825	2,787,628	7.3%	\$8.46
Pittsburgh	137,083,418	588,087	553,659	1,817,727	6.6%	\$6.57
Portland	219,611,990	1,968,552	130,676	243,593	4.0%	\$8.64
Raleigh/Durham	118,312,017	2,485,955	1,119,663	1,029,695	4.5%	\$6.73
Sacramento	158,034,484	931,238	797,151	367,156	4.4%	\$7.56
Salt Lake City	228,930,620	7,938,863	405,337	1,283,749	3.1%	\$6.49
San Antonio	120,899,372	4,561,726	33,191	283,413	7.3%	\$6.01
San Diego	171,510,814	1,417,422	-84,058	771,453	5.0%	\$12.54
Seattle	292,637,774	4,422,861	250,513	1,303,234	3.8%	\$9.79
Silicon Valley	215,940,086	3,107,910	-910,073	-2,450,140	8.0%	\$24.65
St. Louis	269,027,145	5,128,607	-262,378	-1,636,081	5.5%	\$4.69
Tampa/St. Petersburg	260,258,643	4,015,543	138,288	660,062	5.5%	\$5.81
Washington, DC	302,153,426	4,639,587	92,498	337,704	6.0%	\$8.79

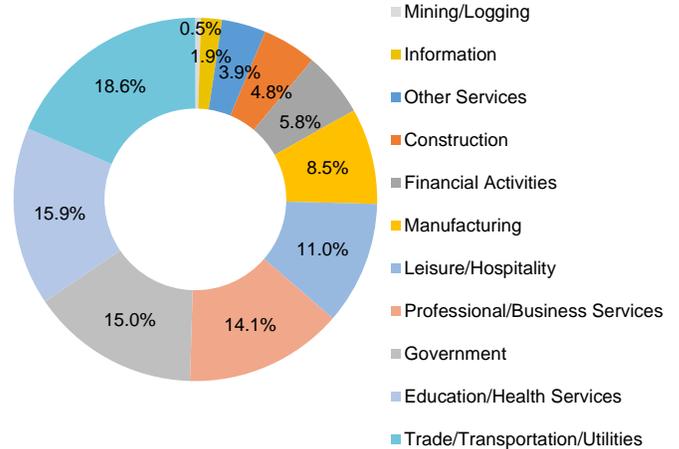
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## ECONOMIC CONDITIONS

The U.S. economy grew at an annual rate of 3.1% during the first quarter of 2019, according to the Bureau of Economic Analysis' revised estimate, which was released in June 2019. The inflation rate was 2.0% (not seasonally adjusted) for the 12 months ending in May 2019. The unemployment rate declined 30 basis points from one year ago, reaching 3.7% in June 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 224,000 new jobs in June 2019, a deceleration from the 262,000 added in June 2018, with Mining and Logging, Construction, and Education and Health among the notable growth sectors. As of the second quarter of 2019, the current U.S. economic expansion has become the longest growth cycle of the post-World War II era. Concerns over trade tensions with China and issues at the Mexican border remain volatile; however, pending interest rate cuts may provide developers with the confidence to pursue projects late in the economic cycle. While the chance of an economic downturn in the next 12-24 months rose during the first half of 2019, a steadily low unemployment rate and modest wage growth suggest further economic expansion.

## EMPLOYMENT BY INDUSTRY

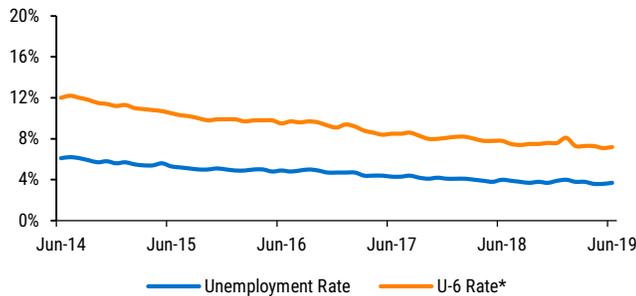
United States, 2018 Annual Average



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

## UNEMPLOYMENT RATE

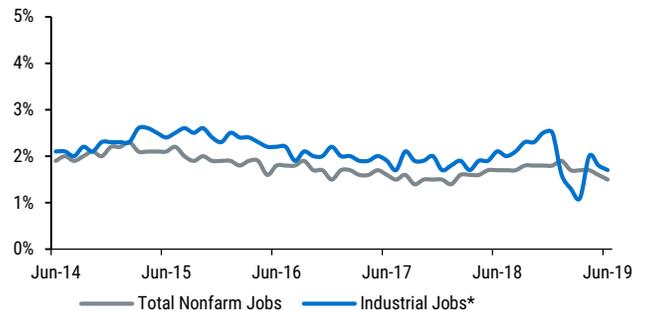
United States, Seasonally Adjusted



\* Includes total unemployed, marginally attached workers, and those working part time for economic reasons  
Source: U.S. Bureau of Labor Statistics, NKF Research; July 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; July 2019

## CONSUMER PRICE INDEX (CPI)

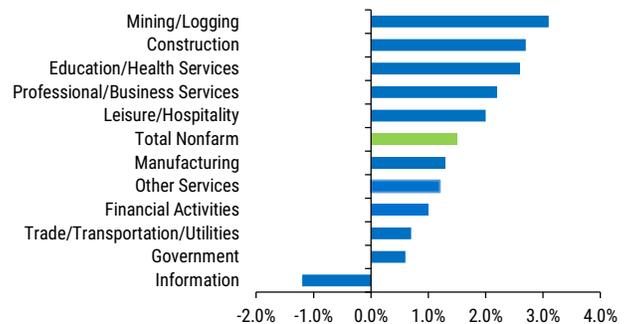
United States, 12-Month % Change, Not Seasonally Adjusted



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

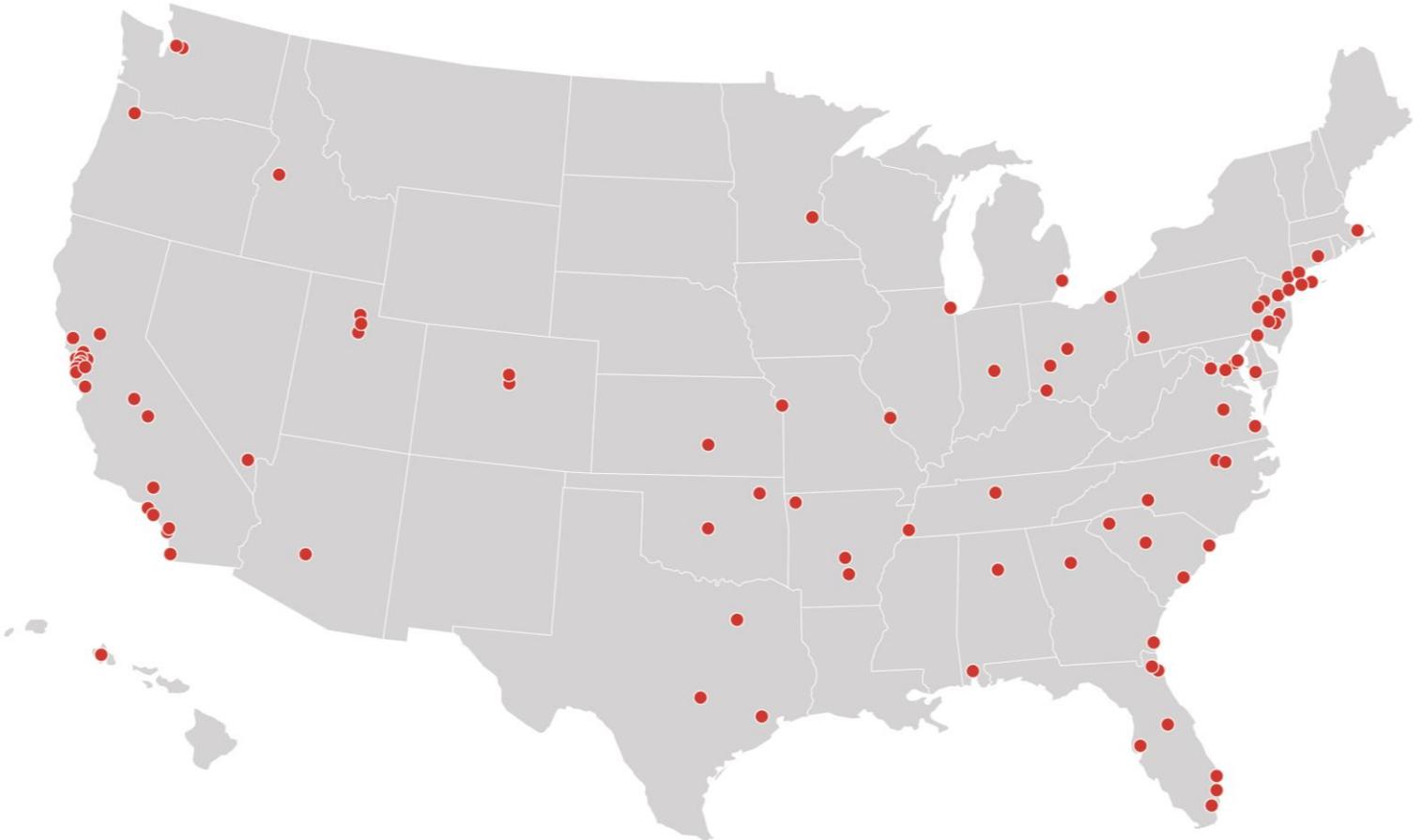
## EMPLOYMENT GROWTH BY INDUSTRY

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



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

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