

NATIONAL INDUSTRIAL MARKET

INDUSTRIAL MARKET TIGHTENS FURTHER IN FOURTH QUARTER

The U.S. industrial market experienced a steady increase in asking rents along with tightening vacancy during the fourth quarter of 2018. Industrial space under construction rose to a new cyclical high during the fourth quarter, as developers seek to capitalize on the consistency of the industrial asset class.

NET ABSORPTION UP YEAR-OVER-YEAR

Demand for industrial space decreased slightly during the fourth quarter of 2018, posting 60.3 million square feet of net absorption compared with 62.4 million square feet in the third quarter. However, the total rose compared with fourth quarter of 2017. Overall, demand remains healthy, as annual net absorption measured 238.0 million square feet of absorption in 2018, compared with 239.9 million square feet of absorption in 2017. Vacancy remains historically low, averaging 5.0% during the fourth quarter. Average asking rents continued to increase, with the fourth-quarter average measuring \$7.16/SF, up 10.3% from one year ago and the highest quarterly average recorded this cycle.

Seventeen of the 49 industrial markets tracked by NKF absorbed 1.0 million square feet or more in the fourth quarter, led by Atlanta with 7.2 million square feet and California's Inland Empire with a similar figure. Dallas, Phoenix, and Detroit all recorded 3.3 million square feet or more of absorption during fourth-quarter 2018. Five markets posted declines in occupied space, or negative absorption, during the fourth quarter, led by the Washington, D.C., 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 fourth quarter of 2018, absorption equaled 0.4% of occupied space across the U.S., led by Charleston, Atlanta, Phoenix and California's Inland Empire, with all four markets recording 1.3%. By contrast, the Washington, D.C., market saw occupied space shrink by 0.3% over the quarter.

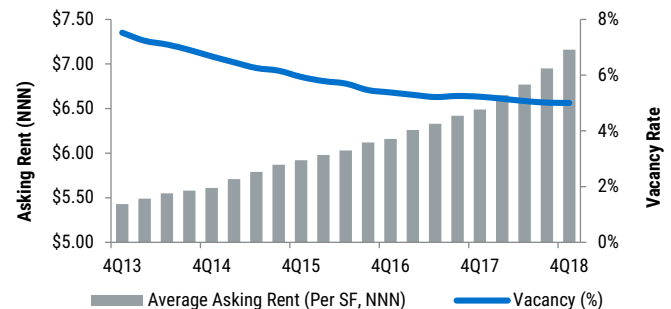
The largest industrial lease of the fourth quarter was a direct lease signed by Lowe's Home Center, for 1.4 million square feet in Moreno Valley, California. Other noteworthy fourth-quarter deals included Supply Chain Solutions signing an extension for 769,958 square feet of space in Memphis, Tennessee; Amazon signing a 640,000-square-foot direct lease in Beaumont, California; and Four Seasons General Merchandise signing to renew and expand its lease for a total of 631,264 square feet in the city of Commerce, California.

CURRENT CONDITIONS

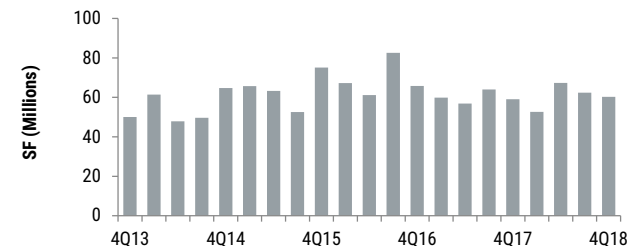
- Absorption measured 60.3 million square feet during fourth-quarter 2018, up from 59.1 million square feet one year ago.
- Vacancy declined 20 basis points year-over-year to 5.0% in fourth quarter 2018.
- Average asking rents rose by 10.3% from one year ago to \$7.16/SF in the fourth quarter of 2018.
- The national industrial construction pipeline remains robust, with 262.7 million square feet currently under construction.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	14.8 B	14.9 B	14.4 B	↑
Vacancy Rate	5.0%	5.0%	5.2%	↔
Quarterly Net Absorption (SF)	60.3 M	62.4 M	59.1 M	↔
Average Asking Rent/SF	\$7.16	\$6.95	\$6.49	↑
Under Construction (SF)	262.7 M	256.7 M	237.7 M	↔
Deliveries (SF)	51.3 M	59.4 M	63.5 M	↔

CONSTRUCTION PIPELINE ROBUST

Developers delivered 51.3 million square feet of new space to market during the fourth quarter of 2018, down from the 59.4 million square feet delivered last quarter and 63.5 million square feet one year ago. Delivery totals have moderated from the 70.9 million square feet recorded in third-quarter 2017, the largest figure seen so far this cycle.

Industrial space under construction rose to a new cyclical high in fourth-quarter 2018, measuring 262.7 million square feet, up from 237.7 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.

Seven industrial markets have more than 10 million square feet of industrial space under construction as of fourth-quarter 2018, led by Dallas with 25.2 million square feet and California's Inland Empire with 22.0 million square feet. Atlanta, Chicago, Houston and Washington, D.C., rounded out the top six, with those major markets alone posting 105.4 million square feet of industrial space under construction.

Industrial space under construction as of fourth-quarter 2018 equaled 1.8% of total inventory nationwide. Based on this metric, the supply was growing most rapidly in Las Vegas at 4.8% of inventory, Jacksonville at 4.0% and California's Inland Empire at 3.7%. 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.

PORT ACTIVITY DRIVES GROWTH AND VALUE OF EAST COAST INDUSTRIAL MARKETS

With the exponential growth of e-commerce along with related industries such as supply chain management and third-party logistics, an ever-increasing demand for improved distribution facilities in close proximity to urban areas has led to a booming warehouse market. Additionally, the need for increased shipping capacity along with the distribution of goods to and from Latin America and the Caribbean has created greater demand for larger container vessels to accommodate more goods. Historically, American ports have struggled with congestion and an inability to serve the newest generation of large container ships, with California's coast representing the only real option for these massive shipping vessels. However, the completion of the Panama Canal expansion project has created greater opportunity for industrial facility growth near East Coast ports. The ability to receive massive ships has increased both the demand for and the value of these facilities. Industrial developers have responded to these needs by increasing storage capabilities, and East Coast industrial markets like Miami, New York and New Jersey have established themselves as major players heading into 2019.

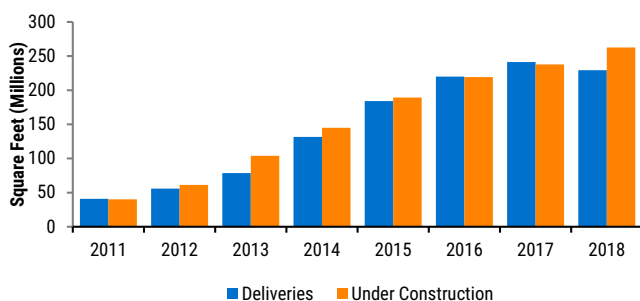
For additional information on the impact of expanding port activity, please read NKF's most recent *Real Insight* thought leadership report: [Expanding Port Activity is Driving the Value of Adjacent Industrial Real Estate](http://ngkf.com), at ngkf.com.

VACANCY DECLINES TO CYCLICAL LOW

The U.S. industrial vacancy rate measured 5.0% during fourth-quarter 2018, down 20 basis points year-over-year. Vacancy is very tight in several major markets, notably Los Angeles at 1.1% and Orange County at 2.6%. 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 fourth quarter of 2018.

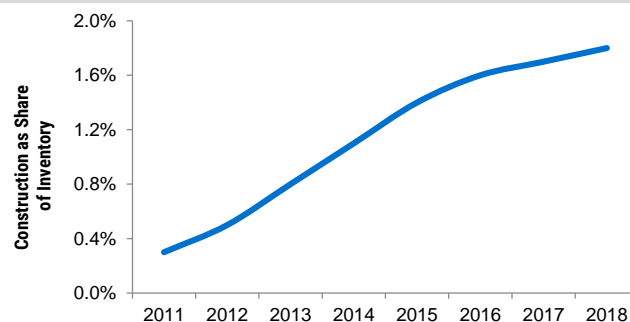
CONSTRUCTION AND DELIVERIES

United States Industrial Market



CONSTRUCTION AS A SHARE OF INVENTORY

United States Industrial Market



ASKING RENTS CONTINUE TO TICK UP

Average asking rents across the U.S. at fourth-quarter 2018 measured \$7.16/SF triple net, up 3.0% from the third quarter and up 10.3% from one year ago. Industrial rents have increased in each quarter since third-quarter 2011, affirming the incredible resilience and consistency of the market. E-commerce tenants are demanding top-quality distribution centers that can offer higher ceiling heights and automated warehouse management systems, which are helping to drive rents to record highs. Within the largest metropolitan areas nationwide, developers are planning multi-story warehouses that will offer truck ramps to second-floor loading bays. 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 rental rates will push industrial developers to continue innovating available product in order to remain competitive.

WHAT TO EXPECT

As of the fourth quarter of 2018, the current U.S. economic expansion has become the second-longest growth cycle post-World War II. If growth continues through mid-2019, the expansion will supplant the 10-year record set in the late 1990s by the technology boom. The Federal Reserve's GDP growth forecast of 2.3% 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.

The industrial market's appeal to investors continued to grow in 2018, as market statistics for fourth-quarter 2018 prove the industrial sector's strength as an asset class; vacancy is historically low. Average asking rents for industrial space reached a new record high for the current real estate cycle and may continue to edge up in the months ahead, as demand remains strong.

E-commerce, along with related industries such as supply chain management and third-party logistics, continued to grow rapidly during the fourth quarter of 2018. 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. The surge in growth for e-commerce and the demand for ever-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 balance their portfolios.

With record-high asking rents and consistently low vacancy, the industrial market should sustain its above-trend growth into late 2019. As consumers continue to order more goods online, e-commerce tenants will require more space. However, the amount of space under construction remains elevated. When combined with concerns about global trade and a slowdown in the Chinese and American economies, some deceleration in the industrial market is likely to occur this year.

SELECT 4Q 2018 LEASE/USER TRANSACTIONS

Tenant	Market	Building	Type	Square Feet
Lowe's Home Center, LLC	Moreno Valley, CA	24385 Nandina Avenue	Direct Lease	1,387,899
Supply Chain Solutions	Memphis, TN	2100 Troyer Avenue	Lease Extension	769,958
Amazon	Beaumont, CA	1010 4th Street	Direct Lease	640,000
Four Seasons General Merchandise	City of Commerce, CA	5804 East Slauson Avenue	Lease Renewal/Expansion	631,264

SELECT 4Q 2018 SALES TRANSACTIONS

Building/Portfolio	Market	Price	Price/SF	Square Feet
22021 20th Avenue SE	Bothell, WA	\$144,894,332	\$228.82	633,223
15520 Wayne Road	Romulus, MI	\$126,600,000	\$208.91	606,000
4500 Amnicola Highway	Chattanooga, TN	\$9,600,000	\$19.60	489,800
9050 Hermosa Avenue	Rancho Cucamonga, CA	\$68,950,000	\$147.12	468,652

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)
National	14,796,839,085	262,662,294	60,267,740	238,014,726	5.0%	\$7.16
Atlanta	603,752,177	20,776,956	7,200,524	19,639,897	6.8%	\$5.37
Austin	89,854,022	2,103,064	379,635	2,101,420	6.5%	\$10.19
Baltimore	178,763,543	4,292,925	302,024	1,005,582	8.3%	\$4.91
Boston	220,742,292	1,765,729	332,799	2,034,434	6.2%	\$9.03
Broward County, FL	105,969,992	1,860,234	229,084	1,066,717	4.0%	\$9.41
Charlotte	379,476,867	6,082,358	910,071	6,501,345	6.1%	\$4.59
Charleston, SC	73,610,762	2,251,859	1,228,949	6,652,209	7.5%	\$5.57
Chicago	1,138,298,840	15,461,596	1,968,973	13,822,281	7.7%	\$5.50
Cincinnati	273,710,261	5,265,135	1,660,639	0	2.7%	\$4.51
Cleveland	286,073,241	2,957,296	728,647	1,956,226	5.8%	\$4.24
Columbia, SC	58,906,140	863,056	597,298	1,669,238	6.7%	\$4.05
Columbus	280,543,896	6,140,034	2,723,759	5,795,139	4.2%	\$3.91
Dallas	862,312,979	25,171,564	5,377,059	19,395,062	6.1%	\$5.82
Denver	198,567,966	3,805,418	2,215,172	4,862,375	5.0%	\$8.77
Detroit	392,443,103	4,279,064	3,393,854	6,608,544	4.2%	\$5.58
Greenville, SC	203,879,329	5,769,644	442,553	4,208,061	4.9%	\$3.72
Houston	527,774,580	11,402,844	2,333,892	8,675,380	5.2%	\$6.99
Indianapolis	324,226,531	6,898,359	1,392,309	9,252,941	3.8%	\$3.85
Inland Empire, CA	588,914,711	21,993,805	7,151,709	27,507,853	3.7%	\$7.50
Jacksonville	126,544,922	5,035,759	144,216	1,613,284	2.8%	\$5.18
Kansas City	278,801,679	3,387,505	1,418,874	4,371,622	5.0%	\$4.82
Las Vegas	112,816,561	5,419,677	741,360	1,633,391	5.3%	\$7.47
Long Island	158,759,477	633,409	-28,492	-616,926	3.4%	\$13.05
Los Angeles	992,938,055	5,409,005	2,437,757	5,404,326	1.1%	\$9.86
Memphis	263,126,268	2,408,807	1,560,639	6,477,960	6.3%	\$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.

MARKET STATISTICS (CONTINUED FROM PREVIOUS PAGE)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
National	14,796,839,085	262,662,294	60,267,740	238,014,726	5.0%	\$7.16
Miami	214,704,685	2,842,019	157,952	3,064,109	4.0%	\$8.10
Milwaukee	232,988,449	1,121,140	655,141	1,355,530	3.6%	\$4.56
Minneapolis	383,883,087	2,031,632	710,028	3,165,257	3.5%	\$6.90
Nashville	238,280,706	6,630,897	197,006	2,290,124	3.5%	\$5.87
New Jersey Northern	643,815,220	5,892,382	2,856,132	16,248,760	4.3%	\$8.33
Oakland/East Bay	250,388,311	4,899,782	-98,574	34,491	4.5%	\$14.78
Orange County, CA	259,467,889	895,297	489,899	37,127	2.6%	\$13.16
Orlando	185,002,433	1,041,385	190,593	3,207,155	3.9%	\$6.43
Palm Beach	48,335,227	220,000	75,594	148,954	3.4%	\$10.00
Penn. I-81/78 Corridor	343,823,044	10,468,614	1,415,896	9,378,357	6.8%	\$4.66
Philadelphia	495,789,854	4,961,230	-300,390	718,266	5.5%	\$5.39
Phoenix	291,381,752	3,062,465	3,446,909	8,447,426	7.5%	\$8.54
Pittsburgh	135,597,461	1,234,887	421,289	1,373,377	7.0%	\$6.42
Portland	221,617,200	2,399,523	255,118	3,850,004	3.9%	\$8.40
Raleigh/Durham	118,352,802	4,078,256	767,477	2,241,219	4.9%	\$6.87
Sacramento	169,143,910	986,887	687,470	3,806,296	4.8%	\$7.46
Salt Lake City	226,564,001	6,456,447	-236,322	3,627,903	4.3%	\$6.06
San Antonio	117,401,553	4,223,628	757,785	1,047,498	6.1%	\$6.12
San Diego	170,375,297	1,545,682	-135,071	551,664	5.0%	\$12.01
Seattle	289,234,490	5,341,030	822,576	3,505,002	3.7%	\$9.77
Silicon Valley	216,464,040	2,441,000	32,804	-1,271,221	7.2%	\$23.40
St. Louis	267,132,483	5,630,010	640,908	2,990,257	4.8%	\$4.80
Tampa/St. Petersburg	259,155,886	2,180,979	416,153	1,960,857	5.3%	\$5.84
Washington, DC	297,131,111	10,642,020	-801,937	4,597,953	6.1%	\$8.58

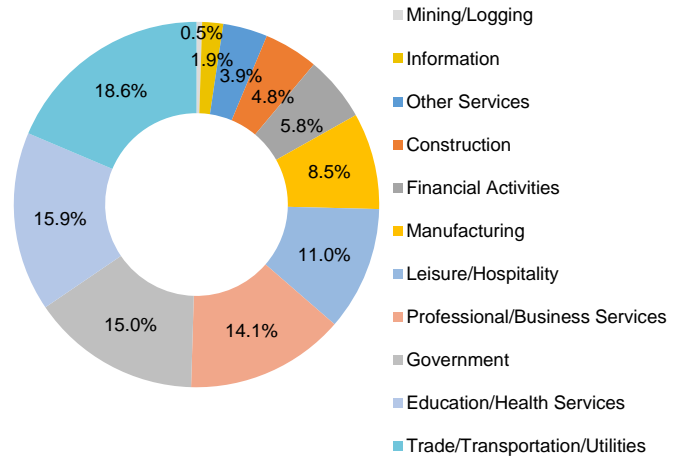
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ECONOMIC CONDITIONS

The U.S. economy grew at an annual rate of 3.4% during the third quarter, according to the Bureau of Economic Analysis' revised estimate, released in December 2018. The inflation rate was 2.2% (not seasonally adjusted) for the 12 months ending in November 2018. The unemployment rate declined 20 basis points from one year ago, reaching 3.9% in December 2018, reflecting an economy near full employment. Employers added 312,000 new jobs in December 2018, a significant increase from the 175,000 added in December 2017, with Mining and Logging, Construction and Professional and Business Services among the notable growth sectors. Economic confidence weakened in the fourth quarter, as political uncertainty and concerns over tariffs led to stock market volatility—most significantly in the technology sector—and fears of a forthcoming recession. The Fed lowered its 2019 growth forecast to 2.3% and indicated there would be two interest rate hikes rather than the three that were initially planned. Still, other factors, including a steady unemployment rate and modest wage growth, continue to point to a stable economy despite these headwinds.

EMPLOYMENT BY INDUSTRY

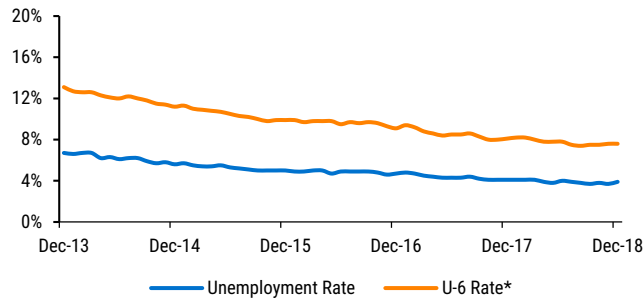
United States, 2018 Annual Average



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

UNEMPLOYMENT RATE

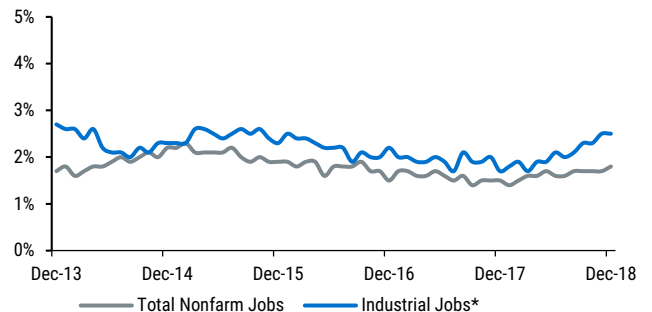
United States, Seasonally Adjusted



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

PAYROLL EMPLOYMENT

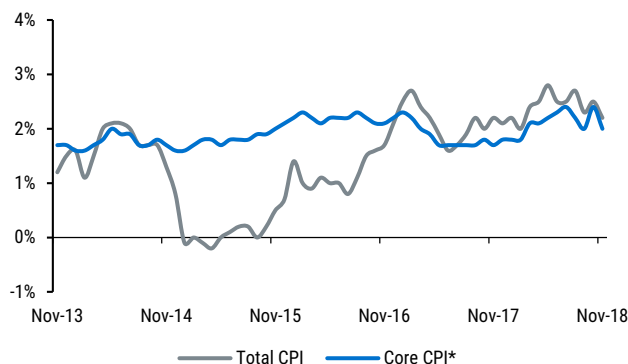
United States, 12-Month % Change, Not Seasonally Adjusted



* Includes manufacturing, wholesale trade, and transportation and warehousing
Source: U.S. Bureau of Labor Statistics, NKF Research; January 2019

CONSUMER PRICE INDEX (CPI)

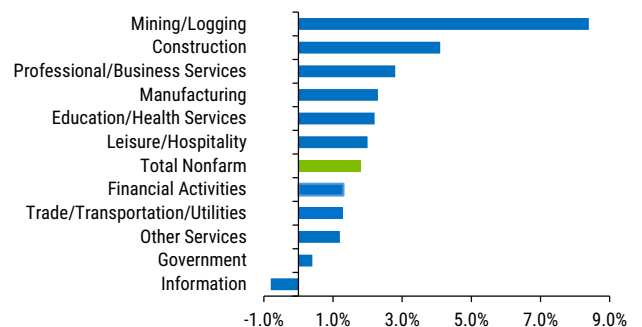
United States, 12-Month % Change, Not Seasonally Adjusted



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

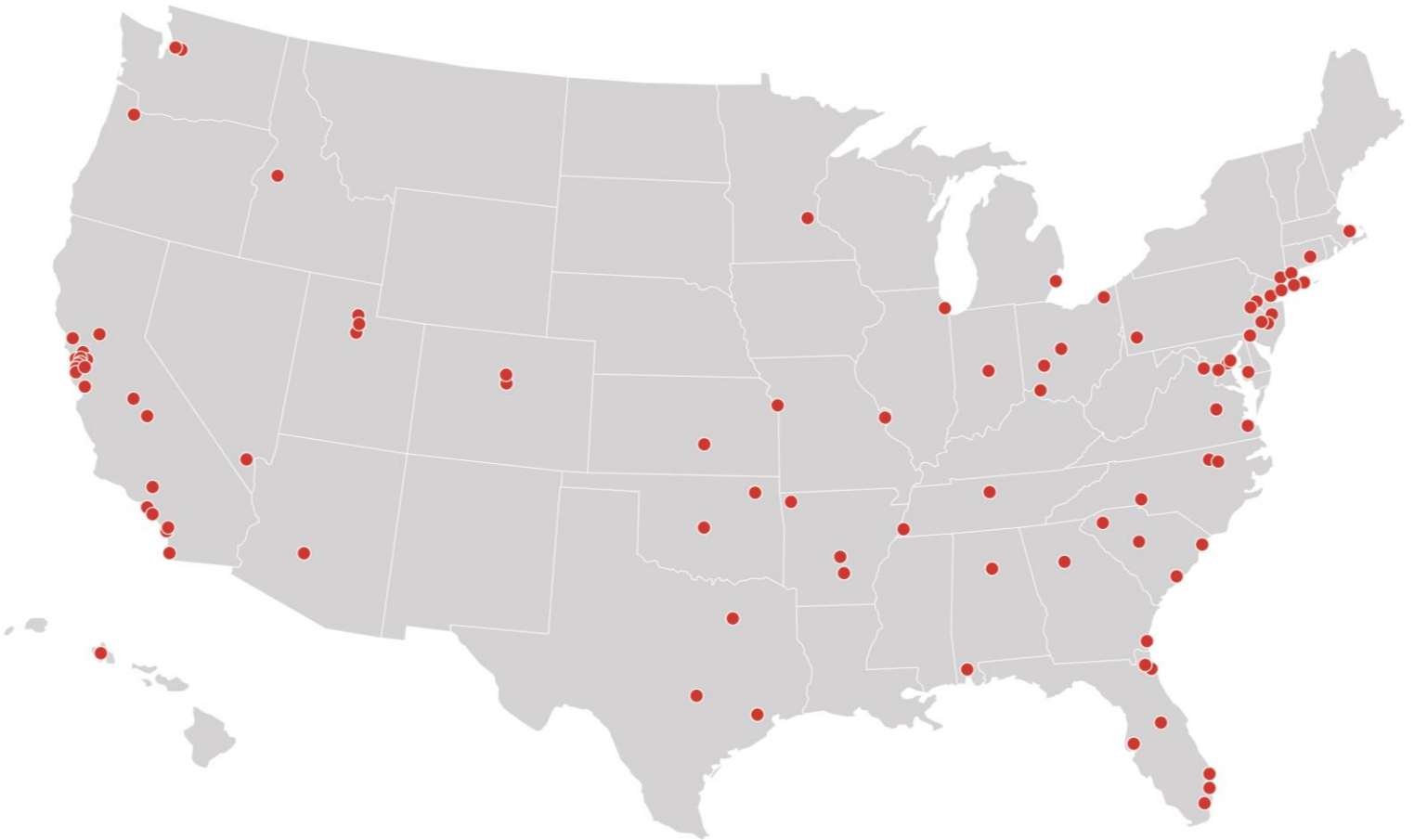
EMPLOYMENT GROWTH BY INDUSTRY

U.S., December 2018, 12-Month % Change, Not Seas. Adj.



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

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

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