

NATIONAL INDUSTRIAL MARKET

INDUSTRIAL MARKET REMAINS STURDY DESPITE PANDEMIC

The U.S. industrial market continued to expand in the second quarter of 2020. Although demand slowed, asking rents increased and vacancy remains low. Absorption was positive but decelerated in the second quarter in response to a lack of available product as well as concerns about the global economy amid the COVID-19 pandemic. However, industrial construction remained robust in the second quarter, as developers seek to capitalize on the persistent, stout demand for modern distribution space—demand that has been accelerated by the power of e-commerce during the pandemic and the momentum to return more supply chain activities to the U.S. The global health emergency has placed greater emphasis on logistics, warehouses and distribution centers. As states begin to reopen their economies—something being delayed by additional outbreaks of the coronavirus in July—some of the habits that consumers adopted during the pandemic, such as greater reliance on e-commerce, are likely to persist.

ABSORPTION SLOWS DURING SECOND QUARTER

Net absorption decelerated in the second quarter of 2020; the amount of top-quality available product remains limited, even with a growing construction pipeline. Absorption measured 22.7 million square feet in second-quarter 2020, compared with 45.9 million square feet in the first quarter of 2020. The pace of absorption was further off from the second quarter of 2019's figure, which was 52.9 million square feet. Absorption is likely to remain healthy over the balance of 2020, notwithstanding the serious economic challenges facing the nation. Distribution centers and warehouses will remain very important as consumers continue to be cautious about re-entering stores for their essential goods.

Vacancy remains near the cyclical low, measuring 5.6% at second-quarter 2020, although it has increased by 60 basis points over the past year. Asking rents continued to tick up, with the second-quarter average measuring \$7.67/SF, up 5.7% from one year ago and up 1.6% from the first quarter of 2020. The average asking rent has risen by 33% over the past five years.

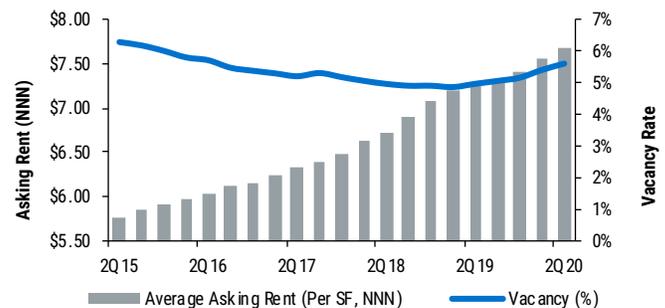
During the second quarter of 2020, 34 of the 49 industrial markets tracked by NKF had positive net absorption, led by the Dallas market with 4.1 million square feet, and closely followed by Inland Empire (CA) with 3.4 million square feet and Atlanta with 3.1 million square feet. Markets that saw large amounts of negative absorption include Los Angeles, which saw negative 2.9 million square feet of net absorption, followed by Detroit with negative 1.4 million square feet and Oakland/East Bay with negative 1.0 million square feet. 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. During the second quarter of 2020, absorption equaled just 0.2% of occupied space across the U.S.; Denver, Tampa/St. Petersburg, and Memphis led the nation with absorption relative to their total occupied space of 0.6% or greater.

CURRENT CONDITIONS

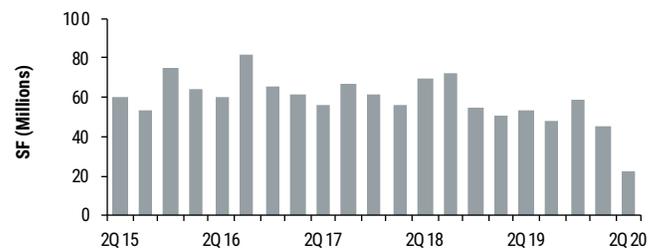
- Absorption totaled 22.7 million square feet during the second quarter of 2020, down from 52.9 million square feet during the second quarter of 2019; available, modern inventory remains scarce.
- Pricing continues to tick up, as average asking rents rose by 5.7% over the past 12 months to \$7.67/SF.
- The national industrial construction pipeline remains robust, with 304.6 million square feet currently under construction.
- U.S. industrial market sales activity was down in second-quarter 2020, with approximately \$6.6 billion in sales volume.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	15.3 B	15.3 B	15.1 B	↑
Vacancy Rate	5.6%	5.4%	5.0%	↑
Quarterly Net Absorption (SF)	22.7 M	45.9 M	52.9 M	↔
Average Asking Rent/SF	\$7.67	\$7.55	\$7.26	↔
Under Construction (SF)	304.6 M	317.8 M	291.2 M	↔
Deliveries (SF)	68.7 M	80.6 M	64.7 M	↑

CONSTRUCTION PIPELINE STEADY

The national industrial market saw 68.7 million square feet of new space delivered to the market during the second quarter of 2020. Delivery totals show no sign of slowing in the near term, as the construction pipeline remains robust, at 304.6 million square feet. This figure is up from 291.2 million square feet one year ago, but down slightly from 317.8 million square feet last quarter. Groundbreakings continued to increase nationwide, as warehouse-using tenants demand more space to accommodate growing operations, often in service of e-commerce. While the economic crisis brought about by the pandemic may make financing new construction more of a challenge, the need for more distribution centers may allow continued development at a more rapid pace than would make sense for other property types. Construction that is underway is likely to reach completion except in markets where moratoriums have been implemented. The slowing of demand during second-quarter 2020 suggests that despite the strong positioning of the industrial property type, developers still need to be disciplined about groundbreakings given the current economic climate.

Nine industrial markets have more than 10 million square feet of industrial space under construction as of second-quarter 2020, led by Dallas with 28.5 million square feet. California's Inland Empire has 18.7 million square feet under construction, while Atlanta has 17.6 million square feet underway.

Industrial space under construction as of second-quarter 2020 equaled 2.0% of the standing U.S. inventory. Supply was growing most rapidly in the Salt Lake City market, as well as in Las Vegas and the Pennsylvania I-81/78 Corridor. In each of these markets, space under construction equaled more than 4.0% of inventory.

While the industrial construction pipeline remains under control relative to inventory—particularly given the strong absorption in recent years—the amount of new development warrants monitoring. This is especially important given the massive disruption to the global economy caused by COVID-19. That said, e-commerce continues to accelerate as a share of overall retail sales, which enhances the need for modern distribution facilities, particularly near large population centers. The pandemic has accelerated the integration of online shopping and package delivery into our daily lives. It has become less a convenience and more of an essential service, with long-term benefits for the industrial market.

VACANCY RATE UP FOR 5TH STRAIGHT QUARTER

The U.S. industrial vacancy rate measured 5.6% at second-quarter 2020, up 20 basis points from a quarter prior and 60 basis points from a year ago. The current rate is higher than it has been since the second quarter of 2016, but vacancy has remained below 6.0% since the fourth quarter of 2015. Vacancy is very tight in several major markets, notably Los Angeles at 2.0%, Salt Lake City at 3.1% and Nashville at 3.2%.

With a large construction pipeline, vacancy may increase in the coming years, although industrial market impacts—both positive and negative—from the coronavirus pandemic will shape the industry's standing moving forward. The industrial market will play an outsized role throughout the duration of the outbreak in the short term, and may see lasting changes beyond the initial economic recovery as more supply chain functions are returned to the U.S., especially as stocks of food and medical equipment are replenished. However, the overall consumer economy is likely to remain sluggish for some time, moderating the demand for space.

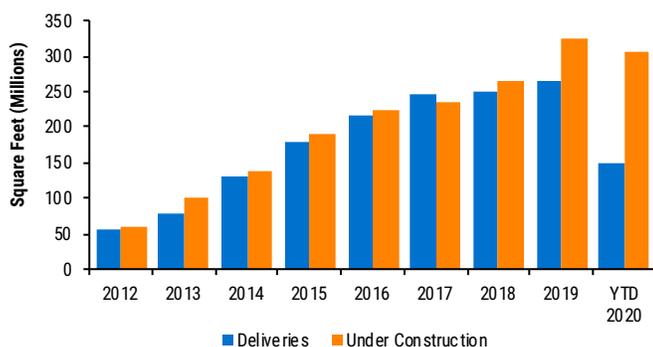
AVERAGE INDUSTRIAL ASKING RENTS TICK UP IN 2Q20 AND RISE 5.7% DURING THE PAST YEAR

The average industrial asking rent across the U.S. continued its methodical growth, measuring \$7.67/SF at second-quarter 2020, up 5.7% from one year ago, and reaching a new high quarterly average for this cycle. Industrial rents have increased by 33.2% over the past five years and 45.5% since the beginning of 2010. There has been rent growth in every quarter since the third quarter of 2011, when rent measured \$5.10/SF.

Rents in some markets have seen outsized rent growth over the past year. Raleigh/Durham has seen asking rental rates increase by 18.2% since one year ago, to \$7.97/SF. Additionally, Dallas asking rental rates are up 14.9% over the past year to \$6.72/SF. West Coast markets lead the nation in average asking rental rates, led by Silicon Valley, where asking rents were \$26.25/SF at second-quarter 2020. Additionally, Orange County, Oakland/East Bay, San Diego, and Portland all have asking rental rates surpassing \$13.00/SF. Certain asset types are poised for steady growth as a result of the pandemic. Data centers in particular will see an increase in value, as the country likely will have the need for expanded network capacity moving forward. Storage facilities, especially those with cold-storage capabilities near urban centers, likely also will see rents and values rise.

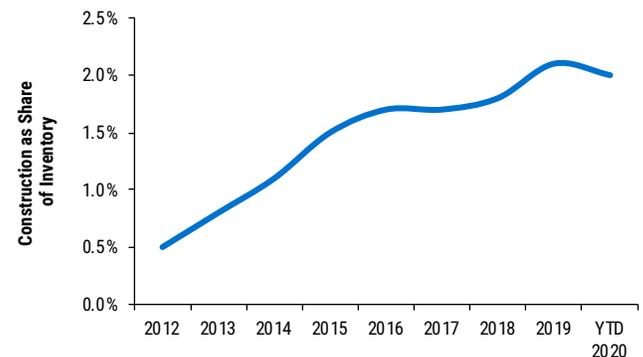
CONSTRUCTION AND DELIVERIES

United States Industrial Market



CONSTRUCTION AS A SHARE OF INVENTORY

United States Industrial Market



INVESTMENT SALES VOLUME DECELERATES

The United States industrial market experienced decreased sales activity in the second quarter of 2020, with approximately \$6.6 billion in sales volume, compared with \$14.0 billion in sales over the same time period in 2019. Major transactions included a 926,392-square-foot property located in Somerset, NJ in the New Jersey Northern market, which was valued at \$164.0 million, or \$177/SF. Additionally, an 820,000 square foot property located at 2601 4th Avenue East in the Minneapolis market sold for \$118.7 million, or \$145/SF. Investor confidence in industrial product may outpace other asset types over the balance of 2020, as low vacancy, steady rent growth and a paucity of modern distribution facilities continue to drive interest. Notably, the value of existing industrial assets in close proximity to major population centers will likely rise as the continued COVID-19 pandemic places a premium on quick delivery of daily goods to the greatest number of consumers.

U.S. INDUSTRIAL MARKET OUTLOOK

The national industrial market experienced uneven growth during the second quarter of 2020, as absorption decelerated and vacancy rose, while asking rental rates continued their methodical growth and the construction pipeline remains robust. Overall, market indicators during the second quarter of 2020 affirmed the industrial sector's strength as an asset class, even within the context of COVID-19. Space under construction remains near cyclical highs, and vacancy, while rising, remains near an all-time low. The average asking rent for industrial space hit a record high for the current cycle and may continue to edge up in the months ahead, as demand remains sturdy. However, some larger tenants may be wary of paying more in rent given the high degree of uncertainty regarding how quickly the global economy can recover from the recession. Lower levels of absorption and a slowing of rent growth may be likely for the balance of 2020 and into 2021.

As a result of the ongoing pandemic, consumers across the nation are continuing to view rapid home delivery of online purchases as a necessity. Developers will need to continue to expand their footprints to provide maximum efficiency, especially 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 to serve these functions—pending the availability of financing. Such financing may be challenging in the short term, but industrial product is among the best positioned for the current environment due to the functions it serves. Supply chains have been tested during the pandemic, but so far have held up fairly well. As the stock of food and medical supplies are replenished and perhaps more manufacturing is brought back to the U.S., expanded capacity will be necessary.

Even after the coronavirus is contained, it is likely that some new online shopping habits will persist, enhancing further the value of close-in distribution space. Greater long-term online consumer demand may make industrial warehouses, particularly those with cold-storage capability, an especially valuable commodity on the investment sales market. Institutional investors may purchase more industrial assets to balance their portfolios, but returns may be uneven until consistent economic growth resumes.

With rising asking rents and still-low vacancy, the industrial market is likely to be among the most stable property types over the next few years. Industrial space under construction remains near record levels, with a large portion of that space set to deliver during the second half of 2020. The next 12 to 24 months are likely to see the vacancy rate rise as this new product delivers, even if absorption remains sturdy. Still, further expansion of e-commerce and a growing dependence on data centers likely will allow this property type to outperform in the year ahead.

NOTABLE 2Q 2020 LEASE/USER TRANSACTIONS

Tenant	Market	Building	Type	Square Feet
Uline	CA – Inland Empire	4810 South Hellman Avenue	Direct New	1,245,049
Amazon	NJ – New Jersey Northern	343 Half Acre Road	Sublease new	953,595
Amazon	IL – Chicago	30260 South Gaaskamp Boulevard	Direct New	810,900
Amazon	CA – Inland Empire	4501 Patterson Avenue	Direct New	800,218
Amazon	NY – Long Island	5515 Grand Avenue	Direct New	770,000

NOTABLE 2Q 2020 SALES TRANSACTIONS

Building/Portfolio	Market	Price	Price/SF	Square Feet
400 Longfellow Court	CA – Oakland/East Bay	\$136,000,000	\$222	612,300
901 Page Avenue	CA – Silicon Valley	\$110,000,000	\$217	506,490
3980 Central Park Boulevard	CO – Denver	\$85,700,000	\$132	646,975
915 Old Country Road	CA – Inland Empire	\$56,289,065	\$1,291	43,617
555 Turnpike Street	MA – Boston	\$51,000,000	\$76	674,143

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	15,321,619,180	304,625,415	22,682,482	68,624,462	5.6%	\$7.67
Atlanta	633,892,303	17,629,079	3,052,963	4,230,807	8.1%	\$4.99
Austin	95,439,679	1,851,133	74,042	297,928	8.6%	\$10.87
Baltimore	186,188,398	3,713,625	570,830	2,709,250	8.3%	\$5.20
Boston	214,256,710	2,094,000	285,635	1,249,682	5.8%	\$9.29
Broward County, FL	109,364,970	1,703,671	316,338	702,524	5.4%	\$9.60
Charleston, SC	78,564,712	2,965,205	211,065	567,669	7.7%	\$5.71
Charlotte	396,147,541	4,798,462	-709,003	183,532	6.8%	\$5.07
Chicago	1,136,431,246	15,297,650	1,567,056	3,253,918	7.0%	\$5.73
Cincinnati	287,512,883	6,697,896	392,356	894,550	5.4%	\$4.37
Cleveland	286,836,287	844,058	23,036	224,499	5.5%	\$4.62
Columbia, SC	61,486,660	80,000	215,754	165,568	3.6%	\$4.08
Columbus	292,533,561	9,726,677	176,853	1,776,655	6.0%	\$4.17
Dallas	924,102,000	28,504,651	4,144,685	13,187,863	6.9%	\$6.72
Denver	207,005,414	6,975,511	2,173,075	2,470,422	5.9%	\$8.77
Detroit	400,766,838	6,121,677	-1,407,206	-627,138	4.4%	\$6.02
Greenville, SC	223,750,005	3,967,384	-424,040	-191,394	6.4%	\$4.03
Houston	568,356,110	16,917,911	1,957,688	5,456,483	7.8%	\$7.15
Indianapolis	340,579,391	11,525,540	758,368	93,256	4.8%	\$4.14
Inland Empire, CA	625,930,277	18,745,803	3,387,297	8,473,306	3.8%	\$8.08
Jacksonville	133,909,612	307,026	-250,829	143,265	5.9%	\$5.68
Kansas City	286,309,921	6,204,537	-92,652	2,791,652	5.0%	\$4.62
Las Vegas	128,137,001	5,221,585	720,324	696,817	5.0%	\$8.33
Long Island	159,981,770	830,059	-418,779	-1,217,003	4.3%	\$12.84
Los Angeles	1,046,440,930	4,231,063	-2,910,063	-3,595,041	2.0%	\$10.56
Memphis	273,806,559	10,760,393	1,621,976	3,010,773	6.3%	\$3.25

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	15,321,619,180	304,625,415	22,682,482	68,624,462	5.6%	\$7.67
Miami	220,211,930	2,009,059	984,938	1,746,269	4.5%	\$8.31
Milwaukee	242,622,022	4,557,663	249,805	194,649	4.4%	\$4.42
Minneapolis	395,234,300	3,728,711	-101,176	-388,638	3.6%	\$5.71
Nashville	243,491,186	8,820,309	188,574	1,262,754	3.3%	\$6.01
New Jersey Northern	661,050,597	9,844,432	1,050,693	4,202,047	4.3%	\$9.20
Oakland/East Bay	253,205,053	2,563,976	-975,111	-286,320	6.7%	\$13.63
Orange County, CA	260,839,543	390,139	224,229	-387,834	3.3%	\$14.08
Orlando	189,600,842	2,760,771	285,671	276,413	5.7%	\$6.49
Palm Beach	48,850,109	992,471	118,782	147,949	4.9%	\$9.74
Penn. I-81/78 Corridor	397,986,823	15,930,802	1,311,866	4,614,857	10.2%	\$4.74
Philadelphia	477,609,177	5,786,055	1,175,000	1,564,784	5.1%	\$6.96
Phoenix	307,475,098	7,838,788	-318,678	-671,072	9.5%	\$7.59
Pittsburgh	141,811,211	1,694,200	-159,892	11,597	6.3%	\$5.01
Portland	221,068,785	5,377,012	-704,225	72,669	4.7%	\$13.19
Raleigh/Durham	123,062,983	4,150,971	579,331	208,415	4.0%	\$7.97
Sacramento	171,516,587	2,365,549	-183,150	-651,997	5.7%	\$7.38
Salt Lake City	243,032,198	11,762,329	720,241	2,385,654	3.1%	\$6.24
San Antonio	128,963,373	4,413,352	562,355	2,214,597	7.2%	\$6.24
San Diego	164,825,208	1,066,609	-201,001	-378	5.4%	\$13.33
Seattle	296,655,088	7,925,143	1,068,561	1,578,482	4.3%	\$9.99
Silicon Valley	186,307,615	1,712,387	63,896	42,191	5.8%	\$26.25
St. Louis	272,641,136	1,963,174	-553,234	194,497	5.9%	\$4.52
Tampa/St. Petersburg	266,122,082	3,627,340	1,661,802	2,028,314	5.4%	\$5.80
Washington, DC	309,705,456	5,629,577	196,436	1,314,720	6.3%	\$8.99

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.

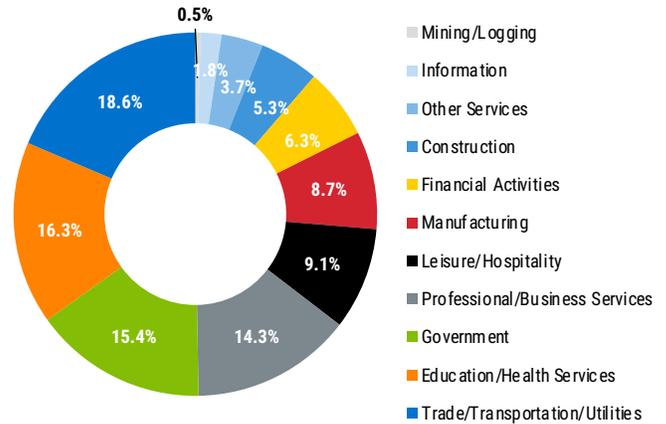
ECONOMIC CONDITIONS

The U.S. economy contracted at an annual rate of 5.0% during the first quarter of 2020, according to the Bureau of Economic Analysis' third estimate, which was released in June 2020. The inflation rate was 0.1% (seasonally adjusted) for the 12 months ending in May 2020. The unemployment rate increased 740 basis points from one year ago, reaching 11.1% in June 2020, though this is down from a peak of 14.7% in April. The economy lost more than 22.0 million jobs between March and April of 2020 combined, but has added 7.5 million jobs over the past two months as states begin to reopen their economies—a trend that may be challenged by a reacceleration of the coronavirus's spread in July. Information, Financial Activities and Construction have lost the fewest jobs on a percentage basis during the past 12 months.

Uncertainty over the duration of the COVID-19 crisis will be a notable challenge to economic normalization—the virus must be contained before the economy can materially accelerate. Interest rates have remained stable over the past few months and are currently in the 0.00–0.25% range, as the Fed continues to shore up the economy. Even after economic conditions begin to normalize, industrial assets may be particularly well positioned. Consumers are adapting to a new normal in how they purchase goods, and the increase in online shopping that has boosted the industrial market is likely here to stay.

EMPLOYMENT BY INDUSTRY

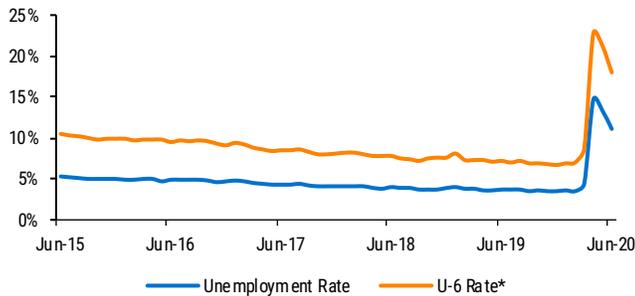
United States, 2020 Annual Average



Source: U.S. Bureau of Labor Statistics, NKF Research; July 2020

UNEMPLOYMENT RATE

United States, Seasonally Adjusted

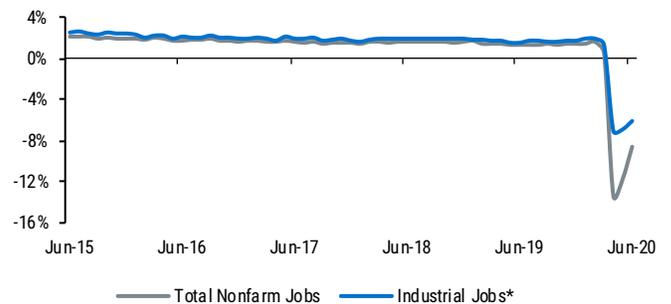


* Includes total unemployed, marginally attached workers, and those working part time for economic reasons

Source: U.S. Bureau of Labor Statistics, NKF Research; July 2020

PAYROLL EMPLOYMENT

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

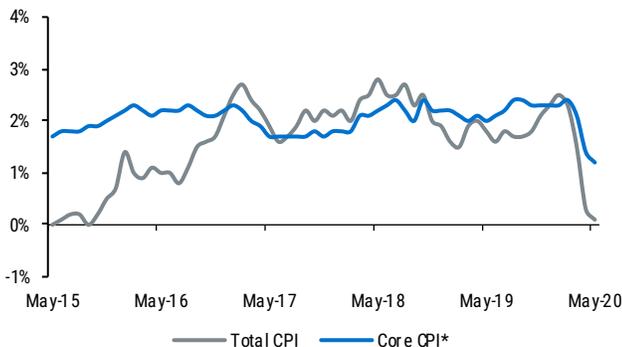


* Includes manufacturing, wholesale trade, and transportation and warehousing

Source: U.S. Bureau of Labor Statistics, NKF Research; July 2020

CONSUMER PRICE INDEX (CPI)

United States, 12-Month % Change, Seasonally Adjusted

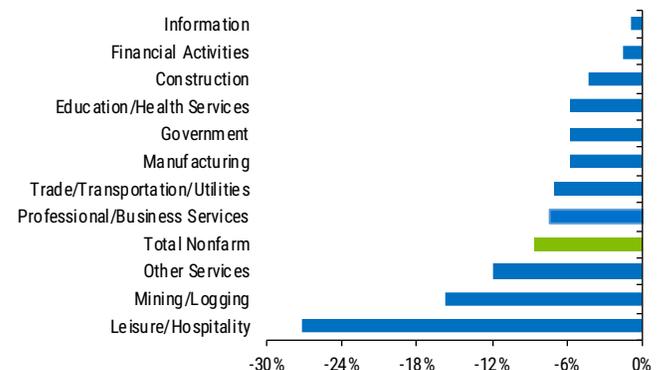


*Excludes food and energy, which can be volatile; 1982–84=100

Source: U.S. Bureau of Labor Statistics, NKF Research; July 2020

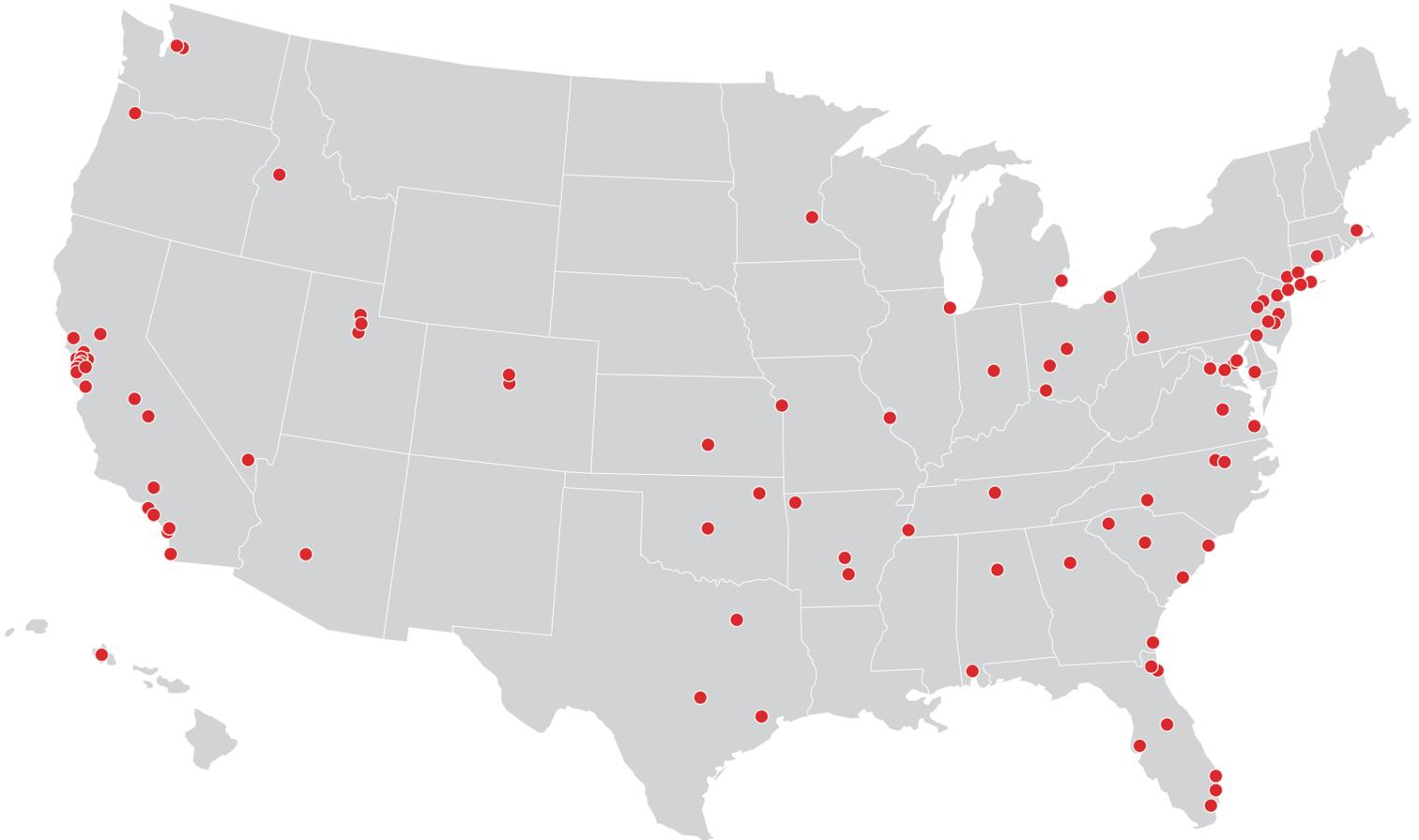
EMPLOYMENT GROWTH BY INDUSTRY

U.S., June 2020, 12-Month % Change, Not Seas. Adj.



Source: U.S. Bureau of Labor Statistics, NKF Research; July 2020

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