RESEARCH **3Q 2020**

Newmark Knight Frank

NATIONAL INDUSTRIAL MARKET

INDUSTRIAL MARKET EXPANDS DESPITE UNEVEN ECONOMY

The U.S. industrial market continued its expansion in the third quarter of 2020. Demand increased, asking rents edged higher and vacancy remains low, although it did tick up during the quarter. Absorption rose in the third quarter after decelerating during the previous quarter in response to a lack of available product as well as concerns about the global economy amid the COVID-19 pandemic. The industrial construction pipeline remained robust in the third quarter as developers continue to address the persistent demand for modern distribution space—which has been powered by the accelerating use of e-commerce services during the pandemic. The emphasis placed on logistics, warehouses and distribution centers during the pandemic has persisted even as the economy has begun to recover and some Americans have returned to work from furloughs and layoffs. However, the recovery has showed signs of slowing, and a second wave of the coronavirus could lead to further economic disruption.

NET ABSORPTION ACCELERATES

Net absorption increased in the third quarter of 2020 after a deceleration in the second quarter. Absorption measured 47.6 million square feet in third-quarter 2020, compared with 35.9 million square feet in the second quarter of 2020. The pace of absorption still was down slightly from the third quarter of 2019, as overall economic conditions remain considerably weaker than a year ago. Industrial absorption is likely to remain stout during the balance of 2020, notwithstanding the serious economic challenges facing the nation.

Vacancy remains low, measuring 5.7% at third-quarter 2020, although it has increased by 70 basis points over the past year. Asking rents continued to tick up steadily, with the third-quarter average measuring $7.73/SF (NNN), up 5.2% from one year ago and up 0.6% over last quarter. Average asking rents have risen by 32% over the past five years.

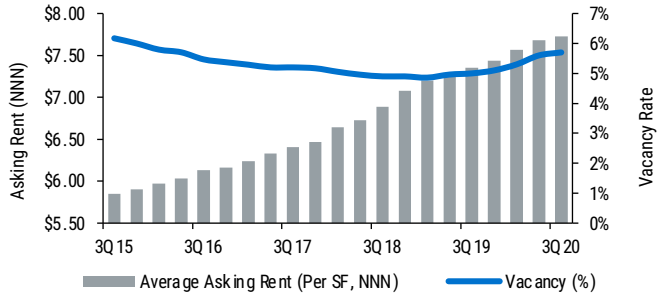
During the third quarter of 2020, 33 of the 49 industrial markets tracked by NKF had positive net absorption, led by the Atlanta market with 8.1 million square feet, and closely followed by the Chicago market with 6.9 million square feet and Inland Empire (CA) with 6.1 million square feet. Markets that saw large amounts of negative absorption include Silicon Valley, which saw negative 1.1 million square feet of net absorption, followed by Sacramento, which saw negative absorption of more than 900,000 square feet, and Memphis, with approximately 700,000 square feet of negative net absorption. 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 third quarter of 2020, absorption equaled 0.3% of occupied space across the U.S., led by Atlanta (1.4%), Milwaukee (1.3%) and the Pennsylvania I-81/78 Corridor (1.0%).

CURRENT CONDITIONS

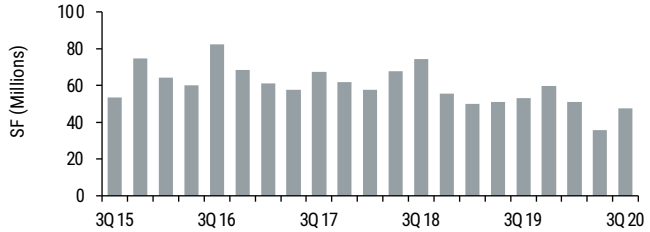
- Absorption totaled 47.6 million square feet during the third quarter of 2020, a slight decline from 53.0 million square feet during the third quarter of 2019; availability of modern stock remains limited.
- Pricing continues to tick up, as average asking rents rose by 5.2% year-over-year, to $7.73/SF (NNN).
- The national industrial construction pipeline remains robust, with 325.7 million square feet currently under construction.
- U.S. industrial market sales activity was modest in third-quarter 2020, with approximately $7.1 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)	15.4 B	15.4 B	15.2 B	↑
Vacancy Rate	5.7%	5.6%	5.0%	↑
Quarterly Net Absorption (SF)	47.6 M	35.9 M	53.0 M	↔
Average Asking Rent/SF	$7.73	$7.68	$7.35	↔
Under Construction (SF)	325.7 M	305.8 M	302.6 M	↔
Deliveries (SF)	75.2 M	79.7 M	69.3 M	↑

CONSTRUCTION PIPELINE ROBUST

The national industrial market saw 75.2 million square feet of new space delivered to the market during the third quarter of 2020. Delivery totals show no sign of slowing, as the construction pipeline remains robust, reaching 325.7 million square feet in the third quarter of 2020, up from 302.6 million square feet one year ago, and up from 305.8 million square feet last quarter. Groundbreakings continued nationwide, as warehouse-using tenants demand more space to accommodate growing operations, often in service of e-commerce. Although the economic crisis brought about by the pandemic has made financing new construction more of a challenge, the increased need for 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, with few restrictions on construction remaining.

Ten industrial markets have more than 10 million square feet of industrial space under construction as of third-quarter 2020, led by Dallas with 29.7 million square feet. Atlanta has 22.3 million square feet under construction, while Chicago has 17.7 million square feet currently underway and Memphis has 17.4 million square feet in progress.

Industrial space under construction as of third-quarter 2020 equaled 2.1% of the standing U.S. inventory. Supply was growing most rapidly in the Austin market, where space under construction equaled 7.4% of inventory. Nashville (6.4%), Memphis (6.3%) and Salt Lake City (4.6%) are all markets where supply is growing quickly.

While the industrial construction pipeline remains under control relative to inventory, the amount of new development warrants monitoring. A steady stream of deliveries over the next few years, will impact market fundamentals. E-commerce, which had a growing market share even before the coronavirus outbreak, continues to accelerate as a share of overall retail sales, enhancing 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, and has become less a convenience and more of an essential service, with long-term benefits for the industrial market.

VACANCY RATE INCREASES MARGINALLY

The U.S. industrial vacancy rate measured 5.7% at third-quarter 2020, up 10 basis points from a quarter prior and 70 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 3.3%, and Orange County (CA) at 3.4%.

With a large construction pipeline, vacancy may increase in the coming years, though industrial market impacts—both positive and negative—from the coronavirus pandemic will shape the industry's standing moving forward. The industrial market will continue to play an outsized role in the short-to-intermediate term, even as normalcy begins to return. Shopping habits have been altered over the past seven months, and the increasing adoption of online shopping is likely to continue beyond the initial economic recovery. Additionally, if more supply chain functions are returned to the U.S., the need for industrial space will grow.

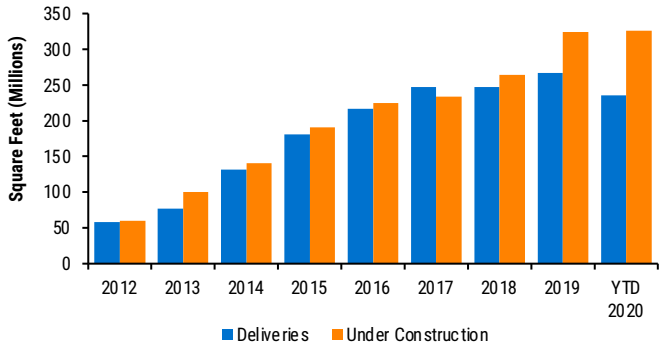
AVERAGE INDUSTRIAL ASKING RENTS EDGE UP

The average industrial asking rent across the U.S. continued its methodical growth, measuring $7.73/SF (NNN) at third-quarter 2020, up 5.2% from one year ago and reaching a new high quarterly average for this cycle. Industrial rents have increased by 32.1% over the past five years and 44.7% 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 growth over the past year. Raleigh/Durham has seen asking rental rates increase by 14.7% since one year ago, to $7.88/SF. Additionally, Nashville asking rental rates are up 12.2% over the past year, to $6.63/SF, followed by Las Vegas, where rents are up 11.9%, to $8.76/SF. West Coast markets lead the nation in average asking rental rates, led by Silicon Valley, where asking rents were $25.70/SF at third-quarter 2020. Additionally, Orange County, San Diego and Oakland/East Bay all have asking rental rates surpassing $13.00/SF. Some asset types remain poised for steady growth as the national economy recovers; notably, storage facilities, especially those with cold-storage capabilities near urban centers, likely will see rents and values rise.

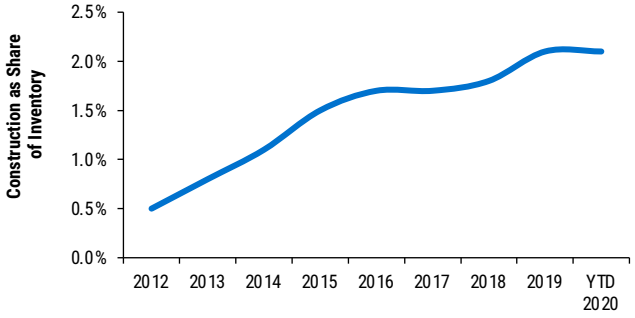
CONSTRUCTION AND DELIVERIES

United States Industrial Market



CONSTRUCTION AS A SHARE OF INVENTORY

United States Industrial Market



INVESTMENT SALES VOLUME SLOWS

The United States industrial market experienced reduced sales activity in the third quarter of 2020 compared with a year earlier, with approximately $7.1 billion in sales volume in the past three months. This compares with $16.1 billion in sales over the same time period in 2019. Major transactions included a 2.3 million-square-foot property located at 9302 West Jefferson Boulevard in the Dallas market, which was valued at $246.7 million, or $107/SF. The property is 100.0% occupied by The Home Depot. Additionally, a 707,596-square-foot property located at 2995 Atlas Road in the Oakland/East Bay market sold for $146.6 million, or $207/SF. Investor confidence in industrial product has outpaced other asset types in many markets, a trend that is likely to continue during the rest of 2020. The value of existing industrial assets in close proximity to major population centers will continue to rise as the demand for quick delivery of goods persists.

U.S. INDUSTRIAL MARKET OUTLOOK

The national industrial market experienced steady growth during the third quarter of 2020. Absorption was up after seeing a dip during the previous quarter; vacancy was up 10 basis points over last quarter due to 75.2 million square feet delivering during the quarter. Asking rental rates continued their methodical growth — but now at a modest rate of increase—and the construction pipeline remains robust. Overall, market indicators during the third quarter of 2020 continued to show the industrial sector's strength as an asset class, even as many other asset types struggle. While the average asking rent for industrial space is still rising, vacancy may rise as more space delivers, and tenants may be wary of paying more in rent as supply increases. Although the national economy has begun to right itself, the recovery is likely to be protracted. Impacts will vary among the different segments of the industrial sector, but the sector as a whole is well-positioned for the remainder of the year and moving into 2021.

The pandemic has placed a greater emphasis on key components of the industrial market. Supply chains have held up after being tested at the beginning of the economic shutdown. Additionally, markets without a significant warehousing and distribution presence are likely to see an uptick in industrial groundbreakings to serve these functions. Financing of new development 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.

Although the economic impacts of the virus slowed over the summer months, the fall and winter could see an uptick in coronavirus cases, which could cause additional modified shutdowns to occur. Coupled with colder weather, this could lead to another surge in online shopping, enhancing further the value of close-in distribution space—especially as the holiday season arrives. 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. Shopping habits have been altered after seven months and probably will never return to their previous baseline.

With continued growth of asking rents and still-low vacancy, the industrial market is likely to be among the most stable property types over the next few years, along with multifamily assets. Industrial space under construction remains near record levels, with a large portion of that space set to deliver during early 2021. 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 likely will allow this property type to outperform in the year ahead. Investors with cold storage assets, properties adjacent to major population centers and ports, and those with modern distribution facilities may be especially well positioned.

NOTABLE 3Q 2020 LEASE/USER TRANSACTIONS

Tenant	Market	Building	Type	Square Feet
Goplus Corporation	CA – Inland Empire	9180 Alabama Street	Direct New	1,079,236
General Motors	IL – Chicago	1023 East Laraway Road	Direct New	1,026,000
TJ Maxx	CA – Inland Empire	3000 East Philadelphia Street	Direct New	991,110
MLILY (Healthcare Arizona, LLC)	AZ – Phoenix	3350 North Cotton Lane	Direct New	643,798
Skechers USA, Inc.	CA – Inland Empire	3350 Redlands Avenue	Direct New	643,263

NOTABLE 3Q 2020 SALES TRANSACTIONS

Building/Portfolio	Market	Price	Price/SF	Square Feet
1 Upland Road	MA – Boston	$120,000,000	$494	243,082
3181 Porter Drive	CA – Silicon Valley	$115,200,000	$1,159	99,415
19000 Homestead Road	CA – Silicon Valley	$103,000,000	$1,026	100,352
2751 Skypark Drive	CA – Los Angeles	$81,000,000	$622	130,258
2300 Pellissier Place	CA – Los Angeles	$52,100,000	$204	255,878

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	**15,424,945,168**	**325,707,569**	**47,642,872**	**134,667,224**	**5.7%**	**$7.73**
Atlanta	638,799,837	22,257,994	8,127,279	14,233,251	7.3%	$5.20
Austin	95,549,961	7,023,720	679,424	1,098,098	8.0%	$10.96
Baltimore	188,199,468	1,718,235	360,475	1,627,873	9.8%	$5.36
Boston	215,521,078	1,124,400	793,469	2,092,212	5.8%	$9.52
Broward County, FL	109,767,983	1,446,178	146,856	721,203	5.6%	$9.47
Charleston, SC	80,145,289	2,067,195	159,363	759,966	8.6%	$5.68
Charlotte	398,875,170	3,927,651	557,129	1,728,546	6.7%	$5.03
Chicago	1,143,386,267	17,740,027	6,867,060	11,905,175	6.6%	$5.85
Cincinnati	288,550,445	7,788,428	1,031,445	1,521,176	5.7%	$4.38
Cleveland	286,861,414	1,202,462	396,843	621,342	5.4%	$4.57
Columbia, SC	61,160,289	70,000	-289,421	-153,545	4.0%	$4.17
Columbus	296,349,720	10,204,021	-40,400	266,729	7.2%	$4.24
Dallas	928,786,373	29,704,797	1,314,448	15,834,556	6.9%	$6.86
Denver	208,150,375	7,514,761	-209,277	2,286,046	6.6%	$8.77
Detroit	402,749,641	4,234,540	899,615	186,182	4.5%	$5.90
Greenville, SC	226,743,050	2,330,171	-512,249	-808,291	7.4%	$4.01
Houston	576,551,066	16,031,725	732,748	7,978,651	8.4%	$7.24
Indianapolis	346,400,350	8,996,338	1,221,113	3,276,337	5.4%	$4.26
Inland Empire, CA	632,336,702	17,172,623	6,093,165	14,989,641	3.7%	$8.10
Jacksonville	134,505,682	2,270,221	-231,034	75,168	6.3%	$5.61
Kansas City	289,557,691	5,796,522	-322,315	3,034,341	5.8%	$4.67
Las Vegas	130,681,314	5,785,353	804,102	2,360,469	5.7%	$8.76
Long Island	160,183,581	789,539	-383,921	-1,538,489	4.4%	$13.07
Los Angeles	1,046,542,361	5,302,315	1,617,961	-2,543,222	2.0%	$10.62
Memphis	276,681,476	17,400,255	-684,351	3,231,465	6.8%	$3.41

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	**15,424,945,168**	**325,707,569**	**47,642,872**	**134,667,224**	**5.7%**	**$7.73**
Miami	220,471,692	2,240,039	20,845	1,919,042	4.6%	$8.19
Milwaukee	245,223,321	1,434,400	2,966,090	2,926,802	4.6%	$4.35
Minneapolis	395,345,414	2,572,276	-56,802	-416,858	3.9%	$5.55
Nashville	246,186,234	15,642,956	1,257,136	2,446,173	3.5%	$6.63
New Jersey Northern	665,042,242	9,413,109	4,142,326	8,344,373	4.2%	$9.26
Oakland/East Bay	253,616,136	2,250,108	393,928	1,376,162	6.2%	$13.64
Orange County, CA	260,878,671	384,321	-223,843	-627,616	3.4%	$14.01
Orlando	189,976,733	2,384,880	119,314	472,481	5.7%	$6.83
Palm Beach	49,025,166	682,291	154,853	346,224	4.7%	$9.77
Penn. I-81/78 Corridor	403,187,293	14,727,272	3,633,990	8,106,278	10.4%	$4.78
Philadelphia	480,038,930	9,931,457	2,133,621	3,566,153	5.1%	$6.98
Phoenix	312,136,331	9,654,395	1,933,761	7,662,115	8.3%	$7.71
Pittsburgh	142,172,336	1,914,200	-324,359	-58,595	6.6%	$5.02
Portland	222,688,325	3,615,473	292,193	1,032,948	4.8%	$9.79
Raleigh/Durham	123,573,641	4,444,518	-499,309	-629,507	4.7%	$7.88
Sacramento	171,611,424	4,299,761	-926,668	-853,041	5.8%	$7.07
Salt Lake City	244,441,715	11,167,690	862,611	3,191,087	3.3%	$6.37
San Antonio	131,639,702	3,687,043	1,158,908	3,570,482	6.9%	$6.70
San Diego	165,388,698	4,162,151	-182,691	-85,044	5.8%	$13.65
Seattle	298,154,619	9,228,920	-81,662	1,496,820	5.0%	$10.08
Silicon Valley	186,144,917	2,017,974	-1,128,421	-615,090	6.5%	$25.70
St. Louis	273,631,554	2,636,909	150,591	583,083	6.1%	$4.54
Tampa/St. Petersburg	269,062,756	1,340,300	302,539	2,355,156	6.0%	$5.93
Washington, DC	312,270,735	5,975,655	2,414,394	3,772,716	5.6%	$9.13

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.

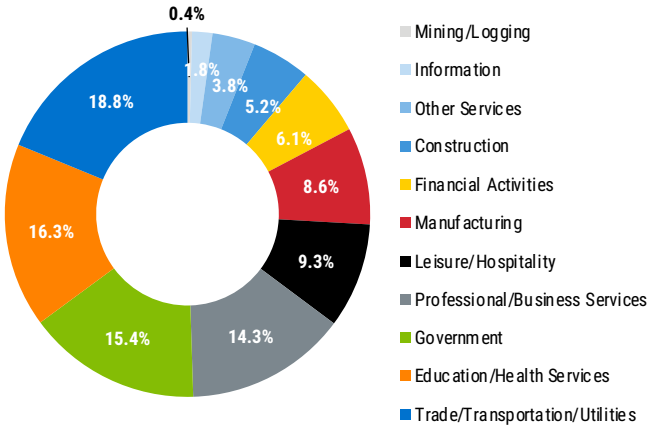
ECONOMIC CONDITIONS

The U.S. economy contracted at an annual rate of 31.4% during the second quarter of 2020, according to the Bureau of Economic Analysis' third estimate, which was released in September 2020. The inflation rate was 1.3% (seasonally adjusted) for the 12 months ending in August 2020. The unemployment rate has increased 440 basis points from one year ago and stood at 7.9% in September 2020, though this is down from a cyclical peak of 14.7% in April. The economy lost more than 22.0 million jobs between March and April of 2020 but has added 11.4 million jobs between May and September as states have begun to reopen their economies. The industrial-intensive Construction and Manufacturing sectors have been fairly resilient during the current downturn.

Uncertainty over the duration of the COVID-19 crisis will be one notable economic challenge as the world tries to return to normal, although containment of the virus in the U.S. remains difficult. The Federal Funds Rate has remained stable over the past few months and is currently in the 0.00–0.25% range; the Fed has pledged to keep rates near zero through at least 2023 as a means to get the economy back to full speed. Once economic conditions begin to normalize, industrial assets are likely to be well positioned. The explosion of e-commerce during the pandemic reflects a transition to new shopping habits, many of which will remain in place even after the pandemic is over.

EMPLOYMENT BY INDUSTRY

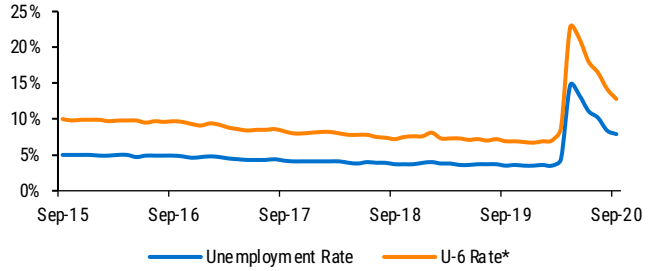
United States, 2020 Annual Average



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

UNEMPLOYMENT RATE

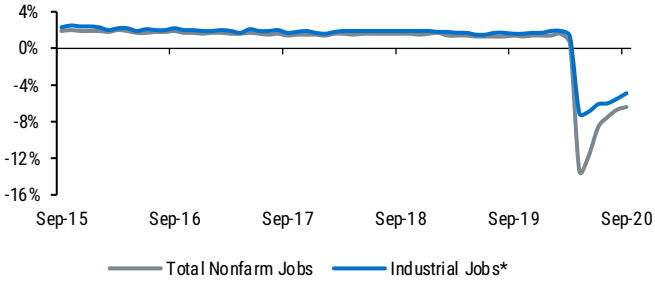
United States, Seasonally Adjusted



* Includes total unemployed, marginally attached workers, and those working part time for economic reasons
Source: U.S. Bureau of Labor Statistics, NKF Research; October 2020

PAYROLL EMPLOYMENT

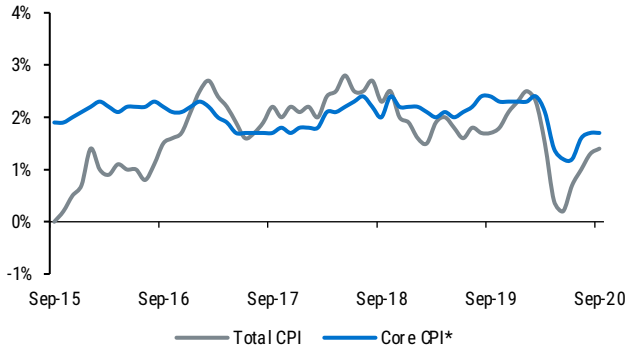
United States, 12-Month % Change , Not Seasonally Adjusted



* Includes manufacturing, wholesale trade, and transportation and warehousing
Source: U.S. Bureau of Labor Statistics, NKF Research; October 2020

CONSUMER PRICE INDEX (CPI)

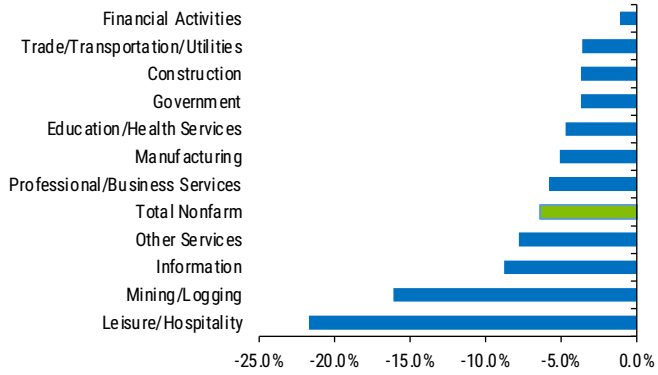
United States, 12-Month % Change, Seasonally Adjusted



*Excludes food and energy, which can be volatile; 1982–84=100
Source: U.S. Bureau of Labor Statistics, NKF Research; October 2020

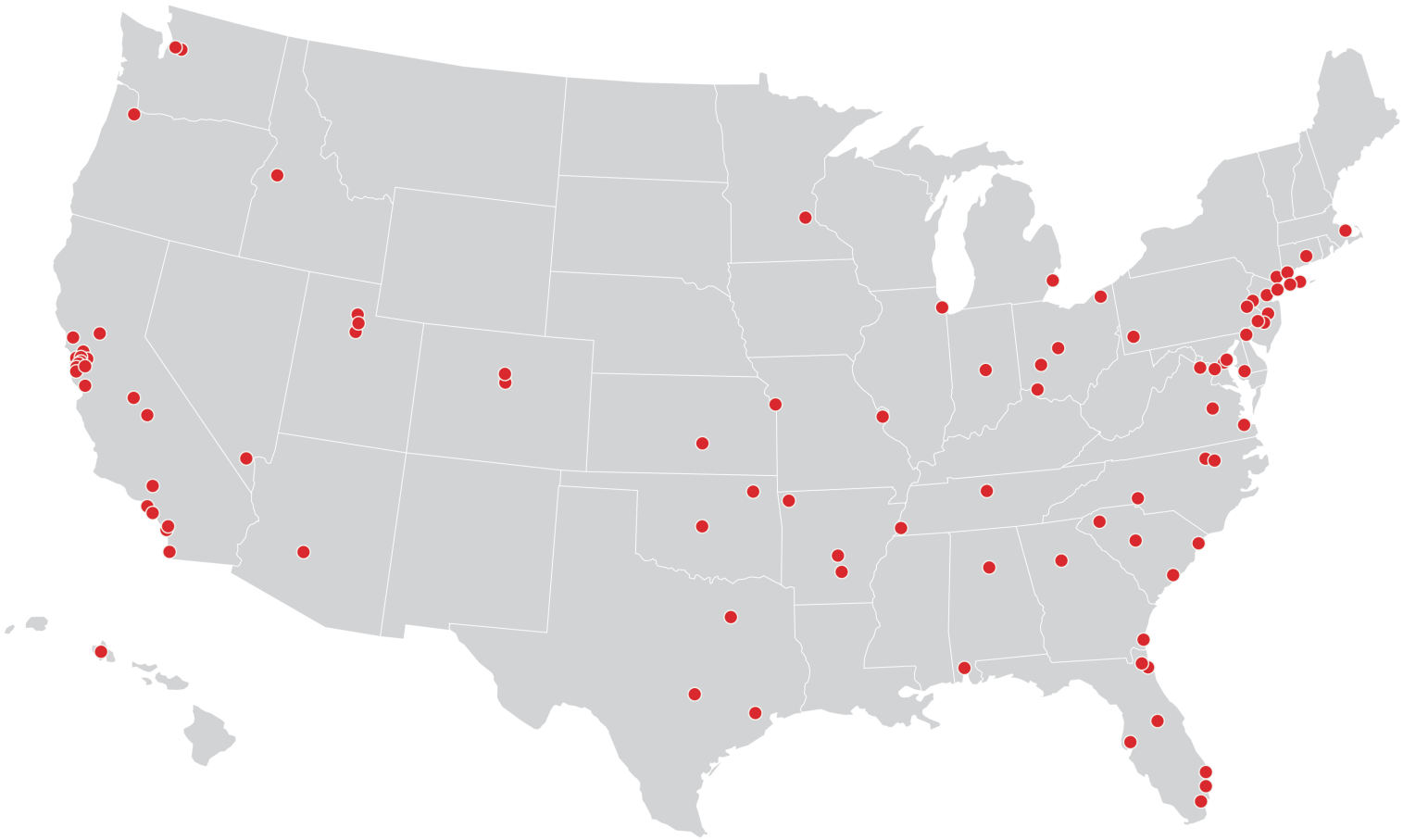
EMPLOYMENT GROWTH BY INDUSTRY

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



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

NEWMARK KNIGHT FRANK UNITED STATES OFFICE LOCATIONS



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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