How Long Can The Boom Times Last For The Industrial Sector? Are Markets Reaching Equilibrium?

October, 2017
The Market Has Never Been Stronger

U.S. Industrial Market
Strong Demand In A Slow Growth Environment

Logistics/Light Industrial Demand Vs GDP

Sources: Moody's Analytics; CoStar Portfolio Strategy As of 17Q1

Absorption & GDP (Y/Y)

- Logistics
- Light industrial
- GDP

Sources: Moody's Analytics; CoStar Portfolio Strategy
As of 17Q1
Logistics Fundamentals In Equilibrium

Logistics National Index Fundamentals

Source: CoStar Portfolio Strategy As of 17Q2
Logistics Supply Is Strong …

Historic Supply Vs Recent Supply

Source: CoStar Portfolio Strategy As of 17Q2

Average Annual 2003 - 2007

16Q3 - 17Q2

Supply Above Average

Supply Below Average

Inland Empire
Chicago
Atlanta
Dallas FW
Memphis
Houston
Phoenix
Columbus OH
Philadelphia
Saint Louis
Cincinnati
Nashville
Kansas City
Charlotte
Portland OR
Denver
Miami
New York
Minneapolis
East Bay
Indianapolis
Los Angeles
Edison
Seattle
Baltimore
Detroit
Northern NJ
... Demand Is Stronger

Historic Demand Vs Recent Demand

- Source: CoStar Portfolio Strategy As of 17Q2

- Average Annual 2003 - 2007 vs 16Q3 - 17Q2

- As of 17Q2
Logistics Occupancies Strong In All Hub Sizes

Total Logistics Market*

Source: CoStar Portfolio Strategy As of 17Q2

*Bubble Size = Market RBA. †In Most Cases, Since 2001.
Increased Speculative Construction

Logistics Under Construction RBA & Occupancy In National Index

Source: CoStar Portfolio Strategy As of 17Q1
Logistics Rents To Reach New Peaks

Logistics Rents Prerecession, Current, And Forecast

Rent ($/SF)

- East Bay
- Los Angeles
- Inland Empire
- Miami
- Orange County
- Seattle
- Reno
- Houston
- Edison
- Norfolk
- Philadelphia
- Nashville
- Phoenix
- Lehigh Valley
- Atlanta
- Dallas - Fort Worth
- Chicago
- Columbus OH
- Portland OR
- Detroit
- Memphis
- Indianapolis
- Harrisburg
- Saint Louis

Source: CoStar Portfolio Strategy

As of 17Q2
How Much Has E-Commerce Contributed?

The Good
E-Commerce Has A Long Runway

Online Vs. In-Store Sales

Quarterly Sales Volume ($B, SA)

Change (Y/Y)

Sources: U.S. Department of Commerce; Moody's Analytics; CoStar Portfolio Strategy

As of 17Q1
Inventories Confirm Supply Chain Expansions

Retail Inventories, Sales, & Their Ratio

Sources: Moody's Analytics; CoStar Portfolio Strategy

As of June '17
U.S. Industrial Is 22 BSF; E-Commerce is 0.6 BSF

Breakdown Of The U.S. Industrial Market By Type (Billions SF)

**Total U.S. Industrial Market**
- Warehouse, 11.1
- Manufacturing, 6.2
- Distribution, 3.4
- Food Processing, 0.3
- Truck Terminal, 0.2
- Refrigerated, 0.1
- Showroom, 0.1

**U.S. Distribution / Warehouse Market**
- Non E-Commerce SF, 13.9, 96%
- E-Commerce SF, 0.6, 4%

Source: CoStar Portfolio Strategy

As of 17Q3
E-Commerce Small Share Of Total, Huge Of New

Amazon And Rest Of E-Commerce As Share OF Net Absorption

Source: CoStar Portfolio Strategy

As of 17Q3
How Much Has E-Commerce Contributed?

The Scary
Troubled Times Getting Worse?

Public Retailers Reporting Negative FYE Same Store Sales Growth

Sources: SEC Filings; CoStar Portfolio Strategy

Back to Recession Levels

As of 17Q1
2017 Announced Closures Outpacing 2008

Announced Store Closures By Square Feet

Sources: Business Insider; Clark Howard; ICSC; SEC Filings; RIS; CoStar Portfolio Strategy

As of 17Q2
Top 50 Retailers Occupy A Lot Of SF

Breakdown Of The U.S. Industrial Market Occupied By Top Retailers

- E-Commerce: 596 SF, 50%
- Top 50 Retailers: 532 SF, 45%
- At Risk: 163 SF, 14%
- Risk Free: 369 SF, 31%
- Grocers: 57 SF, 5%

Source: CoStar Portfolio Strategy

As of 17Q3
Industrial Is Popular – Deals Are Hard To Find

Investment Volume
Without Industrial Would Underperform The Benchmark

NCREIF Returns Vs. Without Industrial

% Returns

Sources: NCREIF; CoStar Portfolio Strategy

As of 17Q2
New Industrial Investors Want To Write Big Checks

Industrial Individual Asset Vs. Portfolio Pricing*

Source: CoStar Portfolio Strategy As of 17Q1

*Shading = Distance from trailing 90-day mean. Size = Price.
Strong Volume Driving Down Returns

Annual Sales Volume And Quarterly 90th Percentile Cap Rates

Source: CoStar Portfolio Strategy As of 17Q3

* 2017 Is Annualized Based On First Three Quarters
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