Industrial Investment Outlook

United States | Q4 2016

INDUSTRIAL

Total volumes for 2016 on pace to see second largest tally since 2008

U.S. Industrial property market	
-70	2.1%
12-month change in total vacancy (bps)	12-month net absorption (as a % of inventory)
1.8%	8.7%
12-month completions (as a % of inventory)	12-month rent growth (p.s.f.)

U.S. Industrial investment	
$46.3	-31.1%
Investment sales (FY, billions of $US)	FY investment sales growth (%)
4.9%	-22
Average cap rate (%)	12-month change in cap rate (bps)

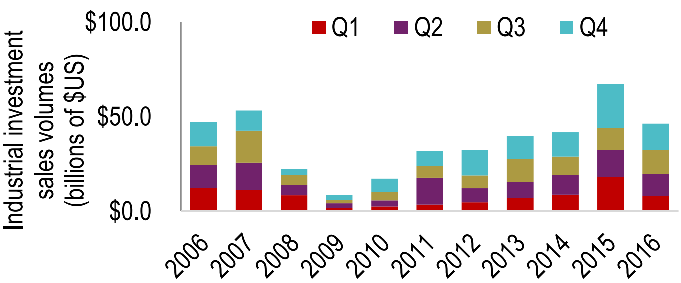
National annualized rent growth set new record in 2016. U.S. vacancy set a new record-low of 5.6 percent. As U.S. demand continues to rise and land values soar, major urban areas are running low on options for Class A warehouse space, driving annualized rental growth increases in the vast majority of JLL-tracked markets.

Total volumes for 2016 set second largest tally since 2008. Fourth-quarter volume represented a nearly 11.0 percent higher tally than in the third quarter. U.S. industrial investment volumes maintained three consecutive quarters of growth after a slow start to the year. 2016 investment volumes were down just under a third from 2015's record-setting tally; however, the year represented the second highest total since the global financial crisis (GFC), finishing at $46.3 billion. Additionally, if deals over $250.0 million are excluded from final totals, 2016 was up 1.2 percent over 2015.

Single-asset transactions primary driver of volume in 2016, as shift in overall deal size persistent. The first half of the year exhibited an overwhelming skew toward single-asset transactions, which represented the vast majority of investment in the United States. The fourth quarter trended very near to the 10-year rate of normalcy, as familiar acquirers like GLP and Blackstone closed on two $1.0 billion+ portfolios. A resurgence of interest in large-scale portfolios in the second half of 2016 will carry on to 2017, as the industrial market fundamentals continue to attract investor confidence.

Industrial investment sales

With $46.3 billion of activity at year-end, industrial investment sales volumes finished with the second largest annual tally since 2008



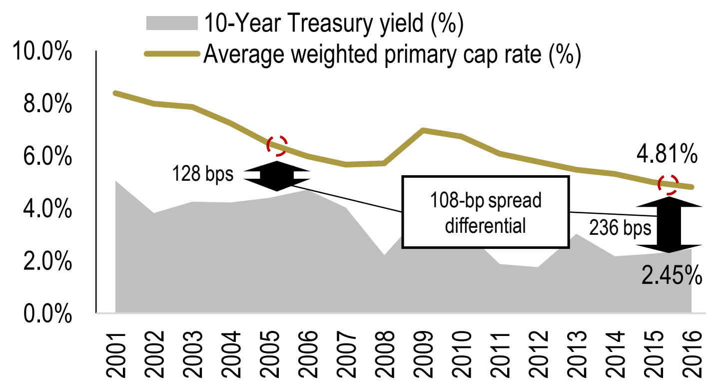
Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

Single-market-focused portfolios continue to drive volumes. 70.0 percent of primary markets, 56.0 percent of secondary markets and 44.0 percent of tertiary markets tallying 5.0+ percent annualized rental growth. As investors continue to broaden investment strategies and the industrial sector continues to grow in its sophistication, market-specific and regional portfolio transactions are one investment strategy investors are adopting to gain exposure to an expanding population, growing geographic economy or rapidly changing supply chain.

Class A cap rates continue to support stabilized ranges despite recent escalation in cost of debt. Yields on the U.S. 10-Year increased nearly 100 bps by year-end from their lowest point at the close of Q2. This has paralleled more recent increases in the cost of debt. With capitalization rates for all assets when taken over the U.S. risk-free rate still far exceeding the spreads experienced in the previous cycle, investors will have the comfortable ability for further compression of spreads over the next 18 months, despite record cap rates in most markets.

Persistent global market volatility drives healthy spreads

Primary market cap rates displayed resounding stability despite post-election jumps in debt costs and 10-Year Treasury yields, with spreads remaining over 100 basis points relative to prior peak



Source: JLL Research, NCREIF, Board of Governors of Federal Reserve System

TOP 5 INDUSTRIAL THEMES

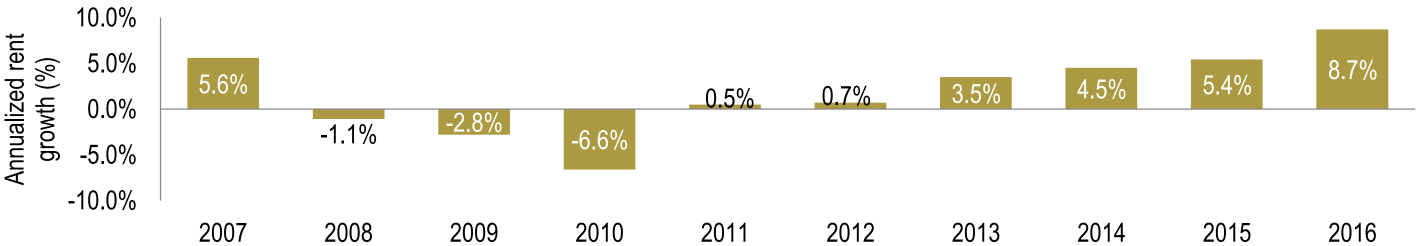
1 National annualized rent growth sets new record in 2016

Going into 2016, the bar was set high with 2015's record-breaking numbers. By year-end 2016, final tallies helped to further support the narrative that demand for warehouse and distribution space is not expected to slow down any time soon. A wave of new development projects was exhibited in most industrial markets, with major markets such as Atlanta, Chicago and Dallas alone contributing to nearly one-third of total new deliveries, with a 26.3 percent preleased rate at delivery. This has helped push U.S. vacancy to a new record-low of 5.6 percent, while most large metropolitan markets are trying to strike a "construction vs. leasing" timing balance to avoid the appearance of overbuilding. As demand continues to rise and land values soar, major urban areas are running low on options for Class A warehouse space, driving annualized rental growth increases in the vast majority of JLL-tracked markets.

"Mega-box" and "big-box" spaces continue to be in hot demand, with five leases in excess of 1.0 million square feet signed this quarter. Overall, while there were fewer expansions, leasing activity by "new to market" tenants increased by 670 basis points compared to last quarter. At the industry level, consumer durables- and construction-related companies were responsible for a combined total of nearly 22.0 percent of all leasing activity in the fourth quarter. With a strong 2016, 2017 is expected to be another year of big numbers—with 194.0 million square feet still in the construction pipeline, putting upward pressure on rental rates and providing tenants with new supply options.

Modest growth in fundamentals fuels record-low vacancies

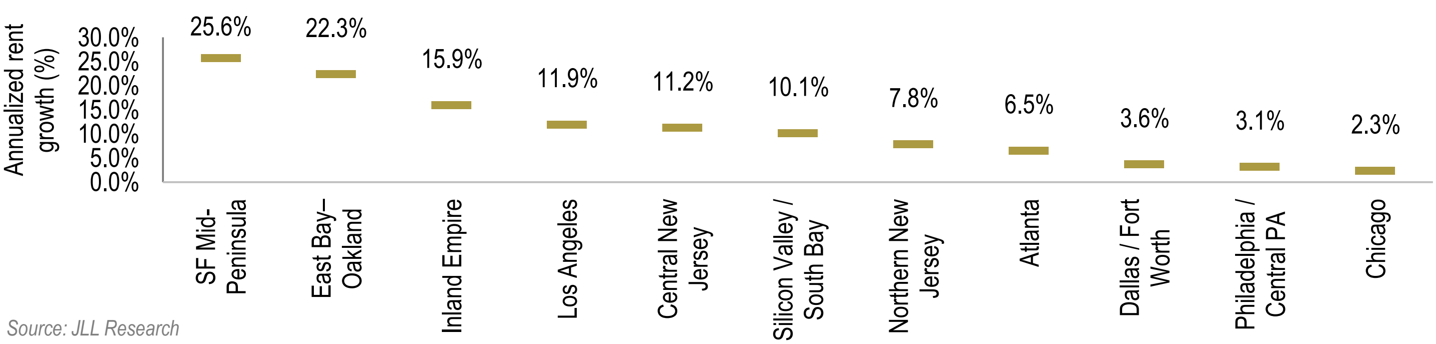
Despite an increase in new deliveries, vacancy continued to decrease nationally to a record 5.8 percent in the third quarter



Source: JLL Research

Primary markets annualized rental gains in 2016

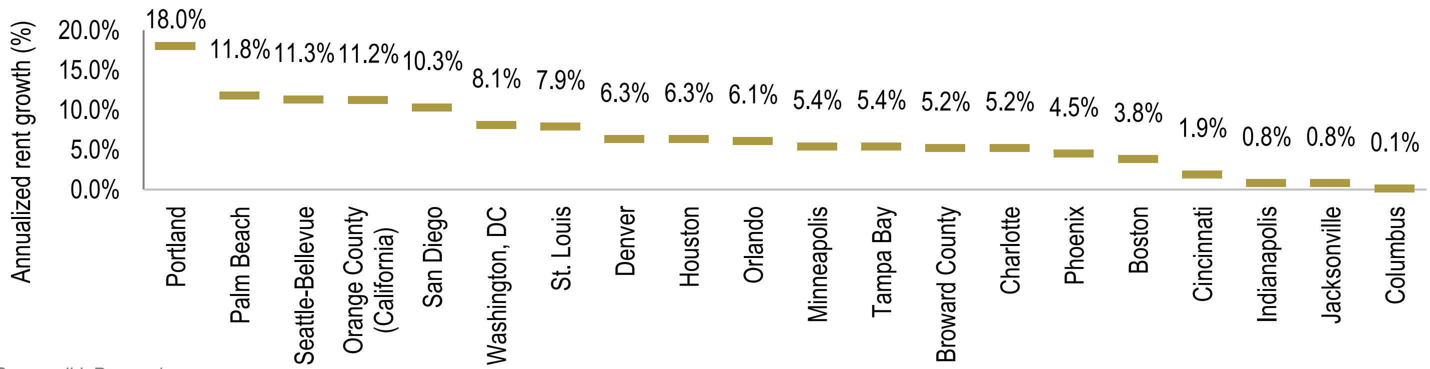
Several primary markets exceeded 5.0 percent annualized rent growth at the close of Q4 2016



Source: JLL Research

Secondary markets annualized rental gains in 2016

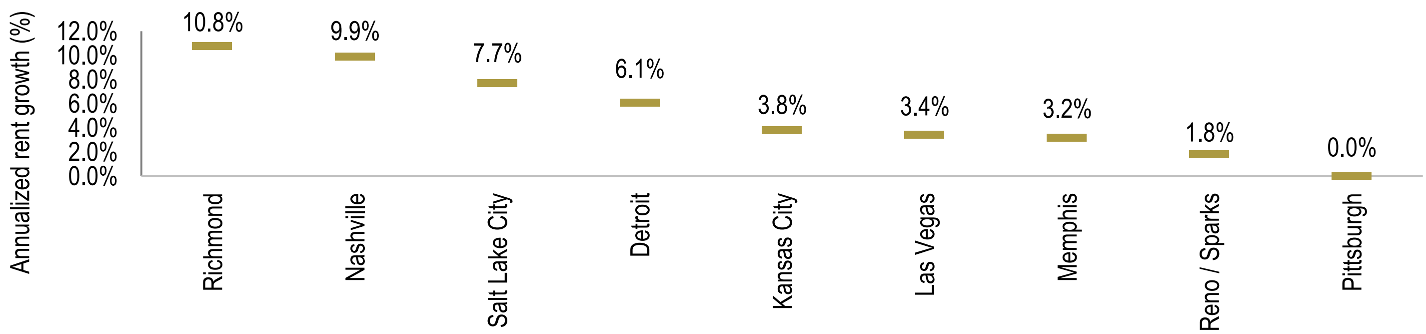
Strong 2016 rent growth in secondary markets was indicative of record industrial demand



Source: JLL Research

Tertiary markets annualized rental gains in 2016

Strong annualized rent growth even in tertiary markets continued to showcase record demand in 2016



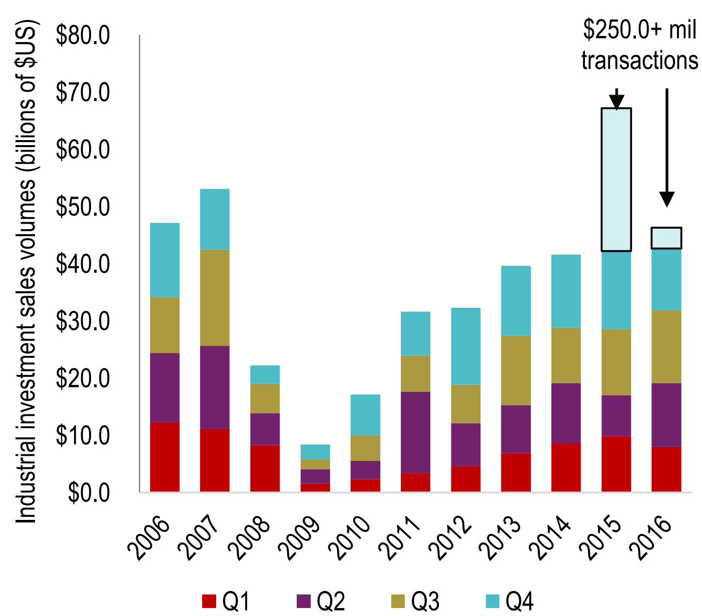
Source: JLL Research

2 Shift in overall deal size persistent throughout 2016

Looking back on 2016 as a whole, the year can be defined through a few key takeaways: these include global volatility, pronounced rental growth and retained investor confidence in the industrial sector. U.S. industrial investment volumes maintained three consecutive quarters of growth after a slow start to the year, only the third time since 2007 that each quarter exhibited positive investment growth. 2016 investment volumes were down just under a third from 2015's record-setting tally; however, the year represented the second highest total since the global financial crisis (GFC), finishing at $46.3 billion. Additionally, if deals over $250.0 million are excluded from final totals, 2016 was up 1.2 percent over 2015. Fourth-quarter volume represented a nearly 11.0 percent higher tally than the third-quarter. 2016 was one of only three years since 2007 to exhibit consecutive quarterly growth. The sustained investment activity despite consistent volatility throughout 2016 is indicative of the asset class's ability to weather global economic, political and financial uncertainty. Institutional investment accelerated acquisition momentum in the second half of the year after sitting on the sidelines for the first two quarters, capped by the fourth-quarter GLP closing on a $1.1 billion Hillwood portfolio which tailored to ecommerce-related assets. Additional investor confidence continues to propel the sector, as exhibited through significant institutional interest surrounding the possible sale of GLP.

Volumes for 2016 set second largest tally since 2008

Total investment volume down nearly one-third from last year's record total; continued growth in fourth quarter represented the third consecutive period of quarter-to-quarter gains



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

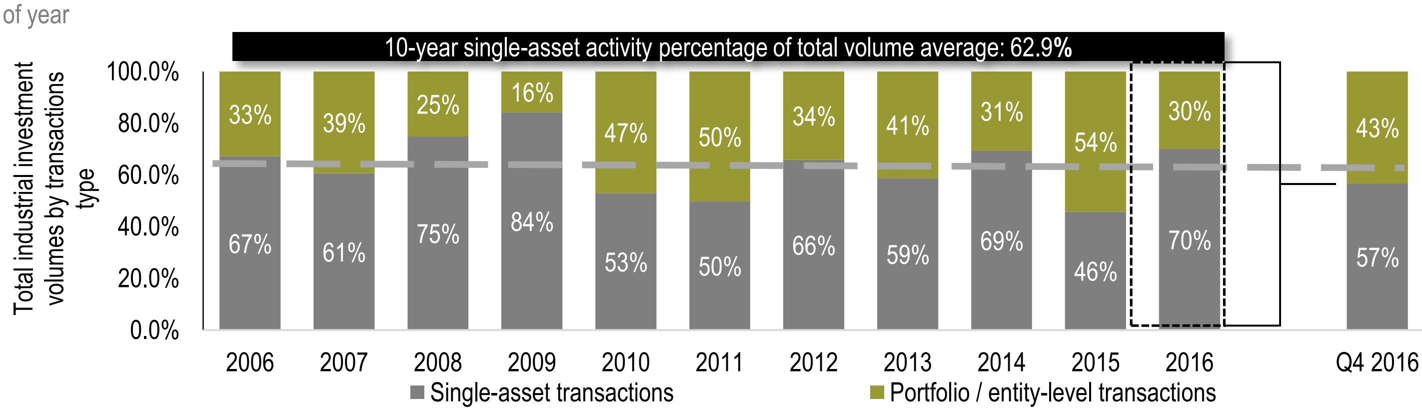
3 Single-asset transactions primary driver of volume in 2016, as shift in overall deal size persistent

The first half of the year exhibited an overwhelming skew toward single-asset transactions, which represented the vast majority of investment in the United States This can be attributed to the volatility experienced in global markets after concerns of China's weak growth, and then the unexpected Brexit leave vote left several investors on the sidelines during the first half of the year. As volatility resided, the second half of the year exhibited a shift in investor activity through the participation in the industrial sector via expanded portfolio acquisition volumes. The fourth quarter trended very near to the 10-year rate of normalcy (43.0 percent of all transactional volume), as familiar acquirers like GLP and Blackstone closed on two $1.0 billion+ portfolios.

2016 exhibited an overall shift in deal size from the prior year, as only 15.0 percent of all volumes were represented in deals exceeding $150.0 million. A pronounced increase in the total share of transactions falling between $20.0 and $99.9 million was representative of 2016's exhibited rise in single-asset and single-market-focused portfolio transactions that was particularly pronounced in the first half of the year. A significant resurgence of interest in large-scale portfolios in the second half of 2016 will carry on to 2017, as the industrial market fundamentals continue to attract investor confidence.

Single-asset transactions primary driver of 2016 activity

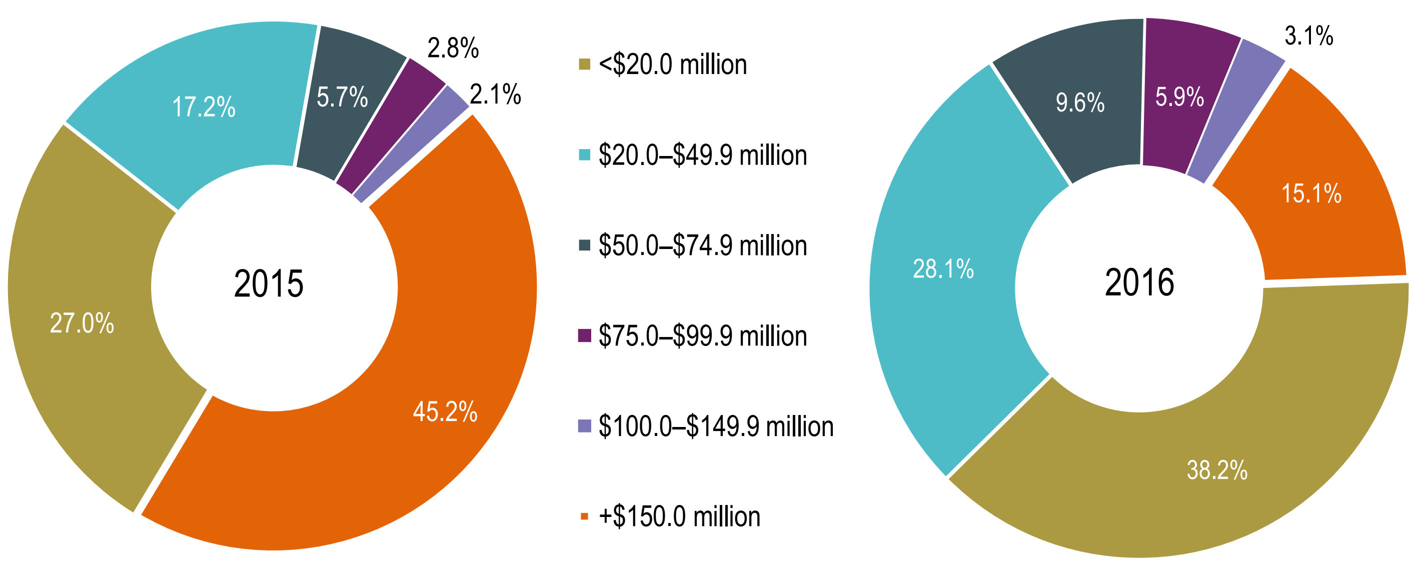
However, second-half large-scale portfolios transacted with familiar acquirers, normalizing portfolio levels toward the 10-year average in latter half of year



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

Shift in overall deal size persistent throughout 2016

The majority 2016 volumes consisted of single-asset and single-market-focused portfolio transactions; second-half demand for large-scale transactions drove resurgence of $150.0+ mil deals



Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0M)

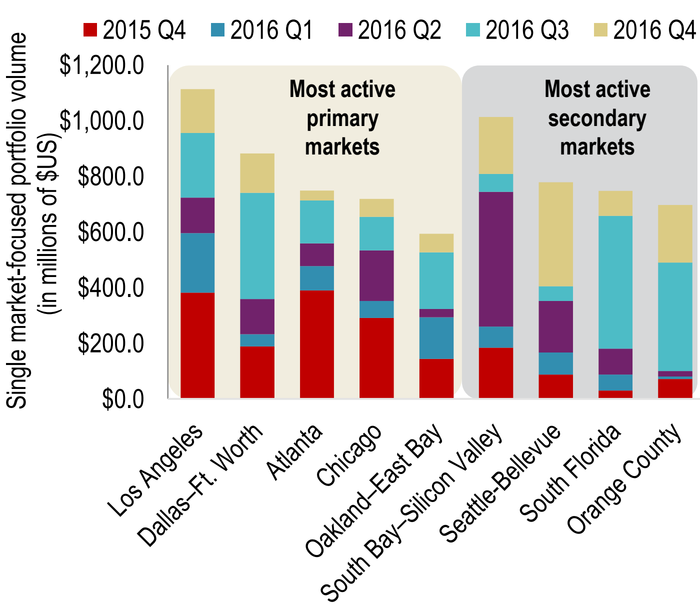
4 Single-market-focused portfolios continue to drive volumes

Investors continued a more selective approach to the opportunities they chose to underwrite, as investor sentiment continues to mount that we are in the later stages of the cycle. This was despite the record demand and tightness displayed throughout all industrial markets, with 70.0 percent of primary markets, 56.0 percent of secondary markets and 44.0 percent of tertiary markets tallying 5.0+ percent annualized rental growth, with nearly 95.0 percent of markets showing annualized growth for the year. A continued swing away from capturing residual value through accelerated cap rate compression is occurring, and instead focus on maximizing asset cash flows through rent growth and credit-grade tenancy will continue through 2017.

Continued compression is, however, expected in product-restricted markets such as Seattle or infill Los Angeles, as the rarity of opportunities will merit more aggressive underwriting, and single-market-focused portfolios will continue to drive volume if available in these markets. The shift toward building scale through single-market-focused and regional portfolio acquisitions has largely benefited investors seeking less competitive yet fundamentally sound non-core markets. As an example, South Bay–Silicon Valley has constituted the highest single-market-focused portfolio volumes of JLL-tracked markets with over $829.0 million in 2016 alone. As investors continue to broaden investment strategies and the industrial sector continues to grow in its sophistication, market-specific and regional portfolio transactions are one investment strategy investors can adopt to gain exposure to an expanding population, growing geographic economy or rapidly changing

Single-market-focused portfolios continue to drive volumes

Core markets and select geographically isolated secondary markets with growing population centers attracted the bulk of portfolio investment activity via single-market transactions



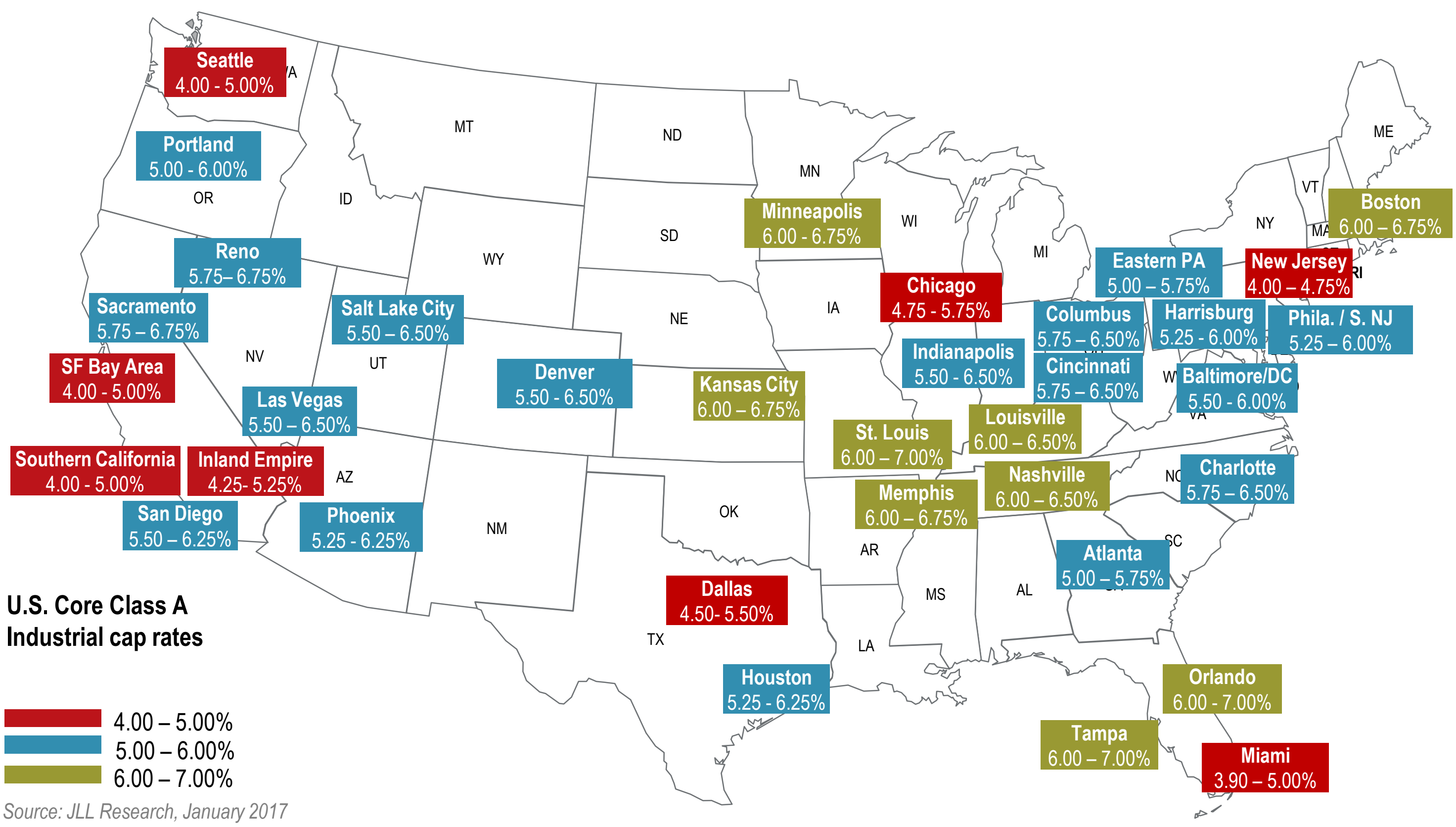
Source: JLL Research (All portfolio transactions larger than 200,000 s.f.; excluding data centers; markets with $500.0M+ in activity in past five quarters)

5 Class A cap rates continue to support stabilized ranges despite recent escalation in cost of debt

2016 emerged as experiencing heightened volatility, with fears regarding emerging market growth, questions concerning the stability of the Eurozone due to the unexpected Brexit vote in late June, one of the largest shippers in the world going bankrupt, unexpected results in the U.S. presidential election and a December raise in the Federal Reserve's effective interest rate. Yields on the U.S. 10-Year increased nearly 100 basis points by year-end from their lowest point at the close of Q2. This has paralleled more recent increases in the cost of debt. With capitalization rates for all assets when taken over the U.S. risk-free rate still far exceeding the spreads experienced in the previous cycle, investors will have the comfortable ability for further compression of spreads over the next 18 months, despite record cap rates in most markets, particularly in the core industrial markets where investors are willing to purchase assets at top dollar to gain market access. Despite the increased volatility of the global economic, political and financial markets prevalent throughout 2016, institutional-grade asset cap rates remained stable in all markets, especially pronounced within core markets. This trend indicates the steadfast appetite for institutional-grade industrial assets throughout the investment market. Additionally, the unsolicited bid on GLP and the current discounted stock price under net asset value (NAV) are positive signs that the industrial sector remains an attractive target for institutional investment.

Nationally, in a broader asset context, Class A industrial assets across almost all U.S. markets continued to test or exceed JLL observed ranges, based on stabilized cap rate ranges analyzed throughout all markets. Despite the continuance of cap rate compression for Class A assets, investors have been more selective with opportunities. Investors will continue to be selective, as investor sentiment remains that we are in the later stages of the cycle. A continued swing away from capturing residual value through accelerated cap rate compression, and instead focused on maximizing asset cash flows through rent growth, occupancy gains and credit-grade tenancy will continue in the near-term. Continued compression is, however, expected in product-restricted markets.

Class A cap rates continue to support stabilized ranges despite recent escalation in cost of debt



Source: JLL Research, January 2017

Notable portfolio transactions, Q4 2016

Market	Portfolio	Buyer	Seller	Price ($)	Size (s.f.)	Price (p.s.f.)
National	LBA Realty / Ind. / Western Markets / 71 bldgs.	Blackstone	LBA Realty	$1,500,000,000	18,894,936	$79
National	USAA / Ind. / SE Majority Large Warehouse / 19 bldgs.	Gramercy Property Trust	USAA Real Estate	$675,000,000	11,900,000	$57
National	Spirit Realty / Ind. / 84 Lumber 108 bldgs.	84 Lumber	Spirit Realty Capital	$205,700,000	3,475,226	$59
Seattle-Bellevue	Cornerstone / Ind. Parks / Seattle / 11 bldgs.	ING Group	Barings	$132,699,999	939,958	$141
Atlanta	STAG / Single Tenant Ind. / Atl. & Atlanta / 6 bldgs.	Pure Industrial REIT	STAG Industrial	$81,000,000	1,569,558	$52

Notable single-asset transactions, Q4 2016

Market	Property	Buyer	Seller	Price ($)	Size (s.f.)	Price (p.s.f.)
Columbus	11901 National Rd SW, Etna, OH	GC Essential Asset REIT II	Prologis	$88,898,030	855,000	$104
New Jersey	350 Starke Rd, Carlstadt, NJ	Bentall Kennedy	Meadowlands Partners LLC	$76,000,000	332,796	$228
Philadelphia / C. PA	2086 Corporate Center Dr W, Tobyhanna, PA	Exeter Property Group	USAA Real Estate	$72,500,000	1,369,177	$53
Chicago	3050 Corporate Dr, DeKalb, IL	GC Essential Asset REIT II	Clayco / Venture One	$69,400,000	987,000	$70
All Others	6100 McIntosh Rd, Sarasota, FL	Agellan Comm'l REIT	Meridian Cos / Hudson Realty Capital	$52,500,000	907,234	$58

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