



INDUSTRIAL MARKET OVERVIEW

**Newmark Grubb
Knight Frank**

Presented to:



March 10, 2016



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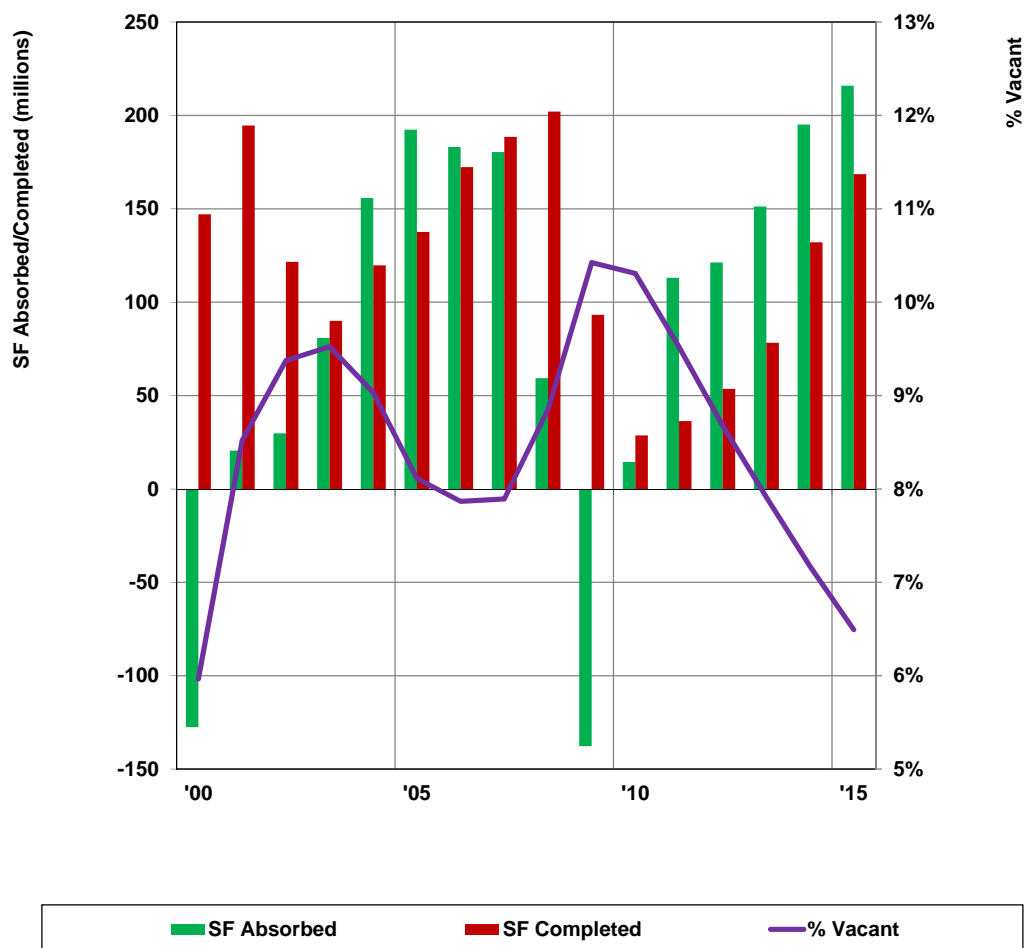
- National Industrial Market
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National Industrial Market

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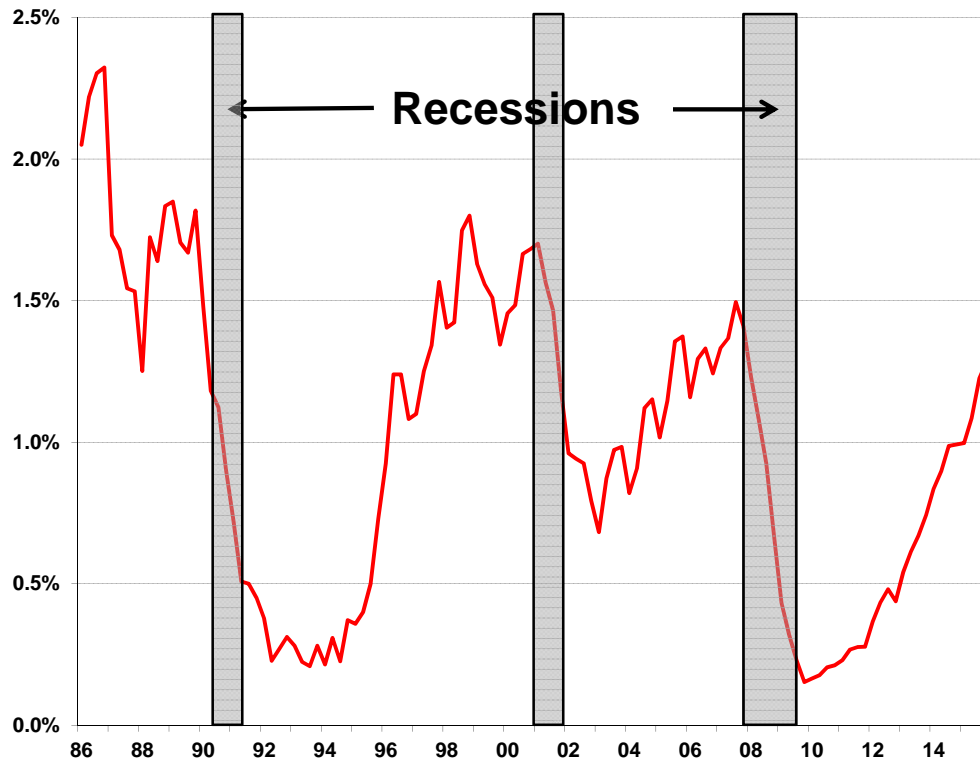
U.S. Industrial Market Vacancy Still Falling



- ◆ Absorption of 216M SF in 2015 is the most since at least 2000.
- ◆ Absorption has exceeded completions every year since 2010.
- ◆ Over past five years, absorption = 797M SF, completions = 469M SF.
- ◆ Vacancy lowest since 2000-Q4.

Industrial Pipeline Low But Ramping Up

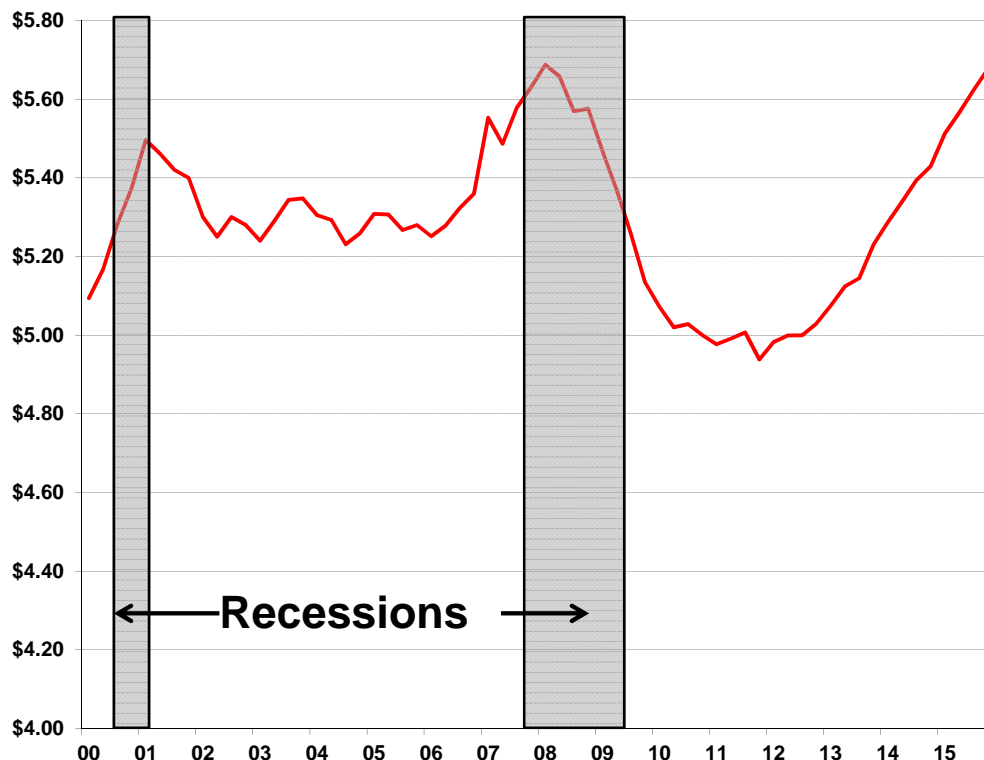
SF Under Construction as % of Inventory, End of Quarter



- ◆ Construction ended Q4 at 179.5M SF, close to pre-recession peak of 182.3M SF in 2007-Q3.
- ◆ Inland Empire led all markets with 26.8M SF underway, followed by Dallas with 20.7M SF, Atlanta with 18.3M SF and Chicago with 9.8M SF.
- ◆ As % of inventory, construction was highest in Inland Empire at 5.4% versus U.S. average of 1.3%. Chicago was down the list at 0.9% (24th place).

Rent Almost at New Peak

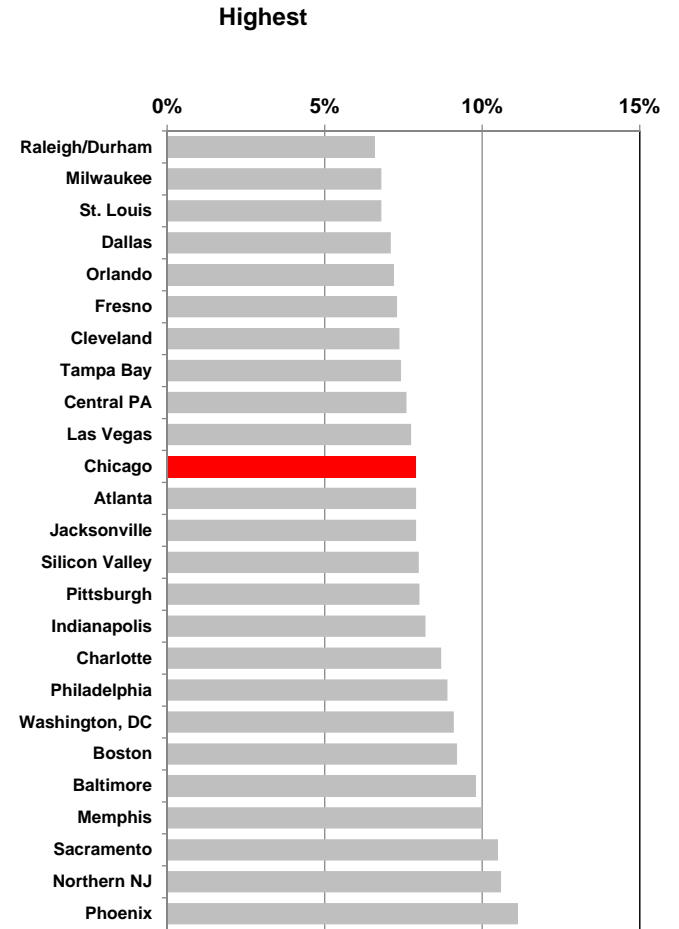
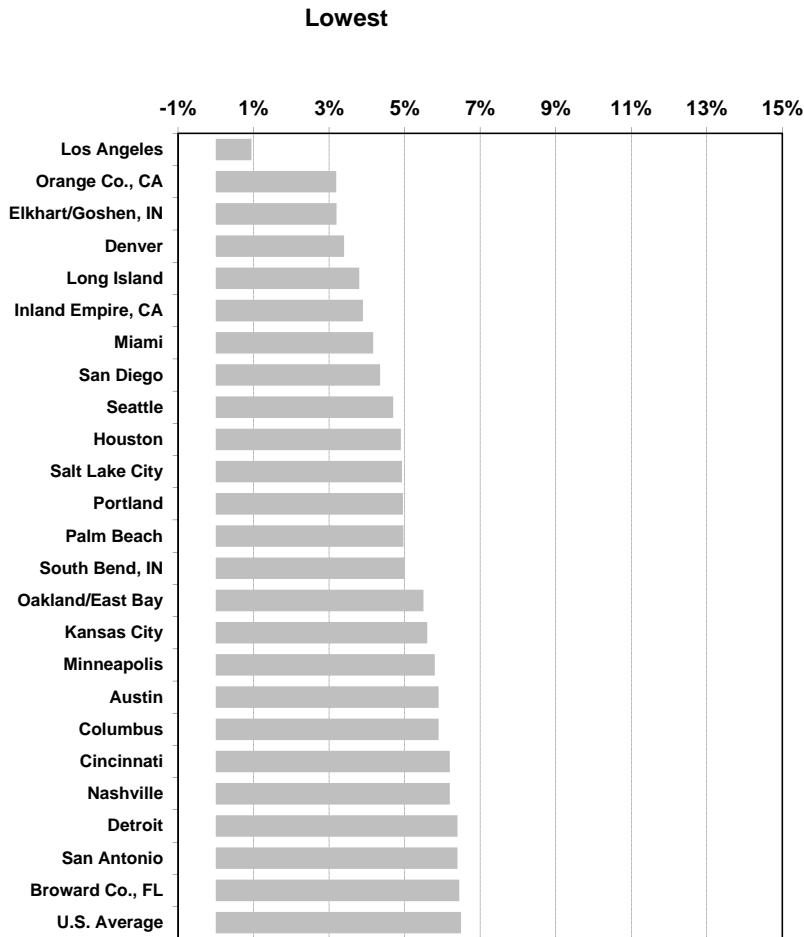
Asking Rent/SF, NNN, for Space Available End of Quarter



- ◆ Asking rent ended Q4 at \$5.68, one cent below prior peak of \$5.69 in 2008-Q1.
- ◆ Rents rose at double-digit pace last year in seven markets, led by Oakland-East Bay @ 18.5%. Five of the seven markets are in California. Other two are Nashville and Long Island.

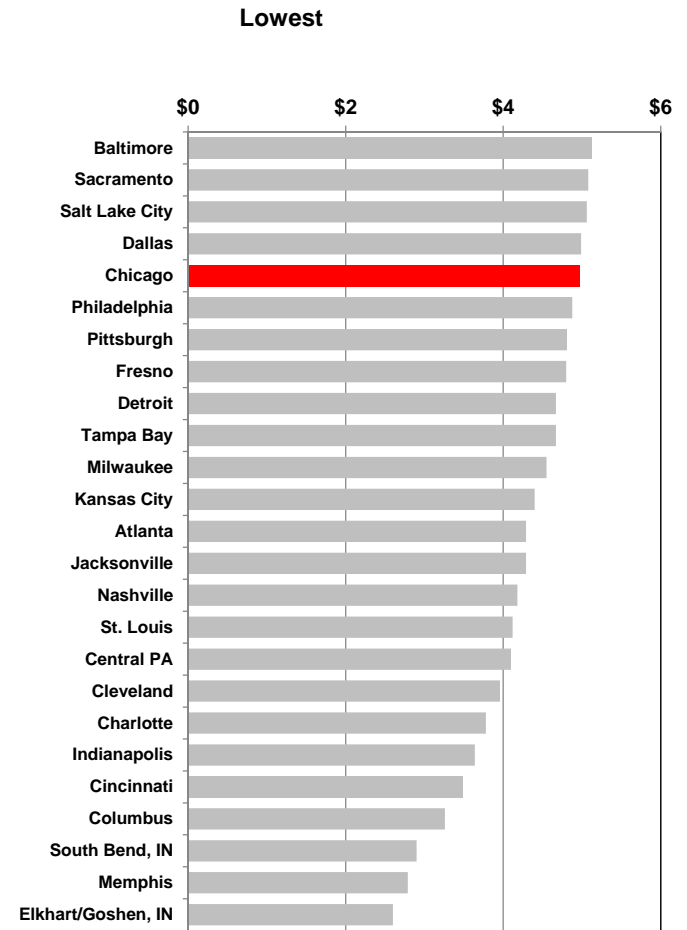
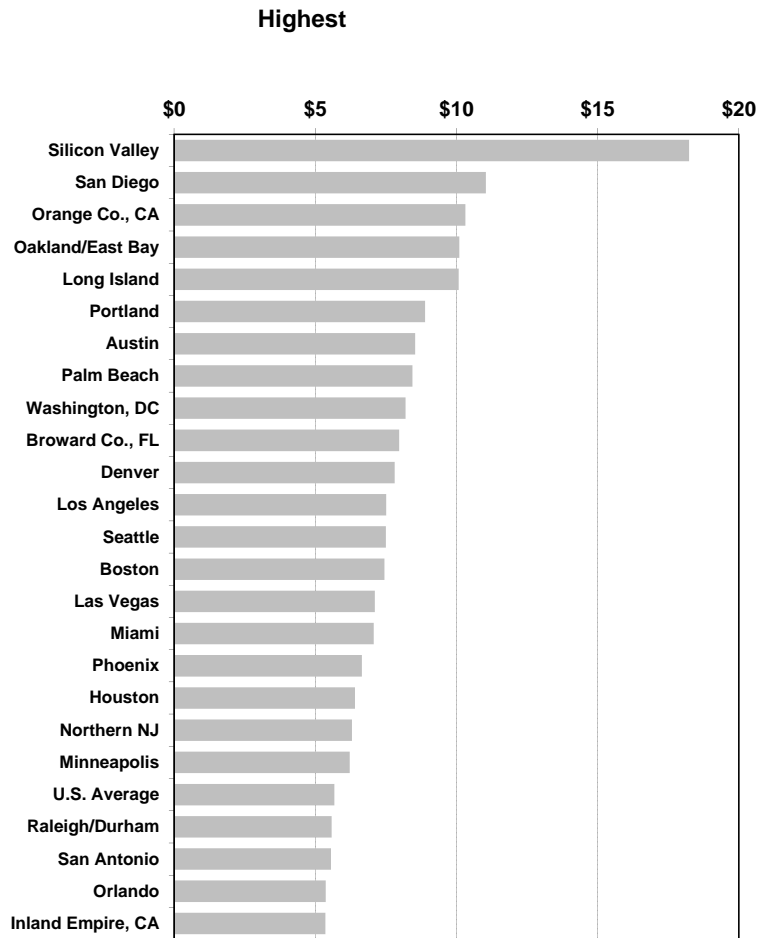
Industrial Vacancy Rates by Market 2015-Q4

Los Angeles Lowest, Phoenix Highest



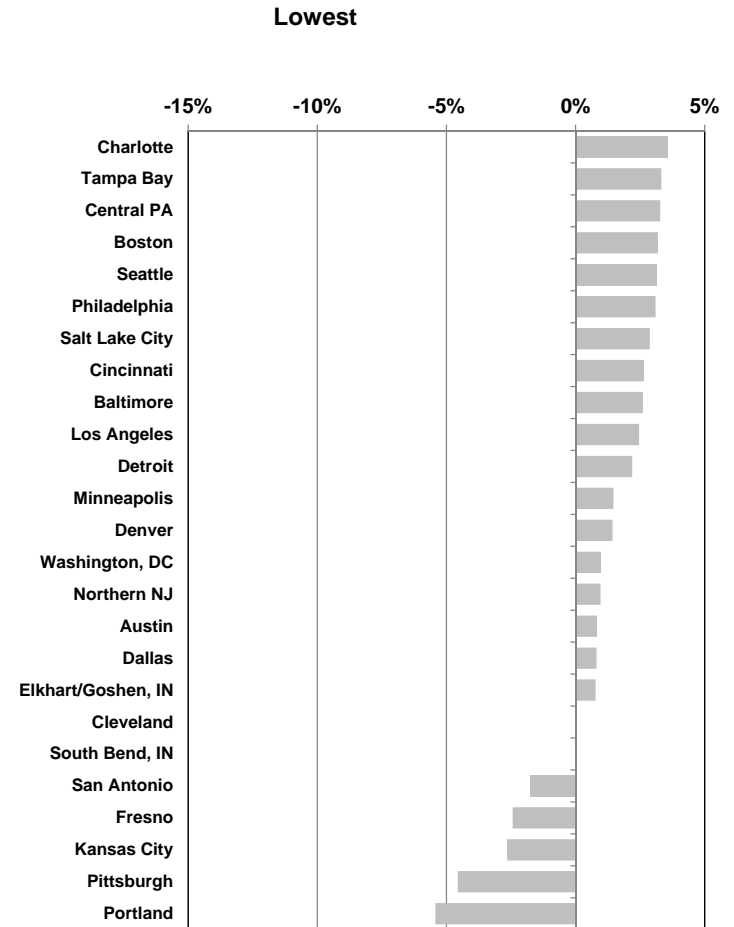
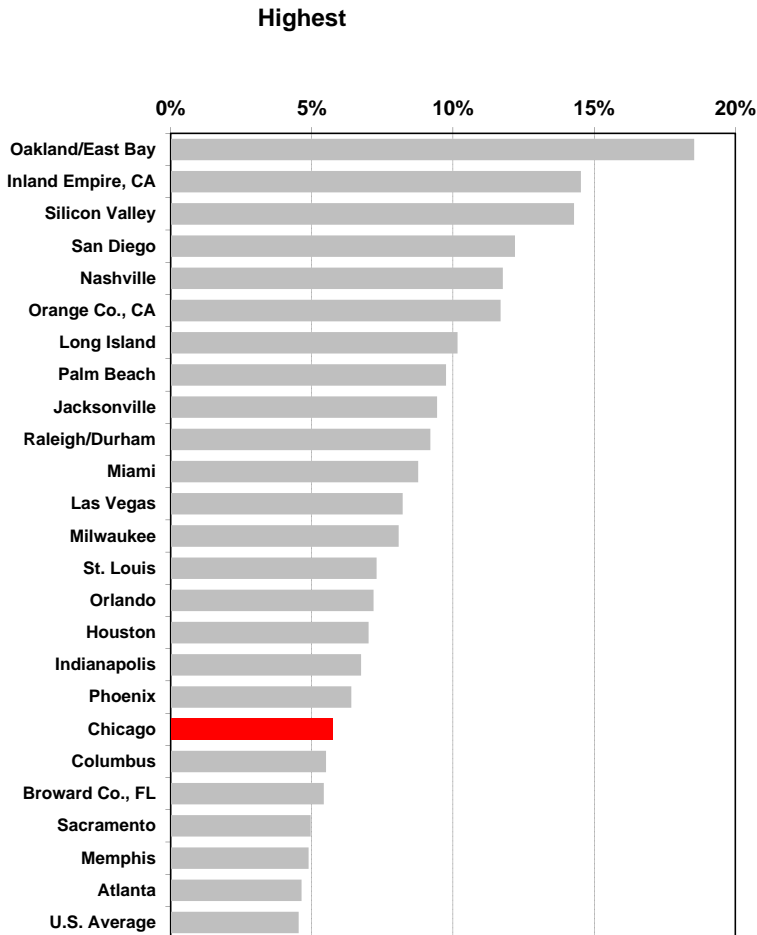
Industrial Asking Rates by Market 2015-Q4

“Cheap” Chicago Rents Related to Size, Age



Industrial Asking Rates % Change 2015

Chicago Rent Growth Above Average

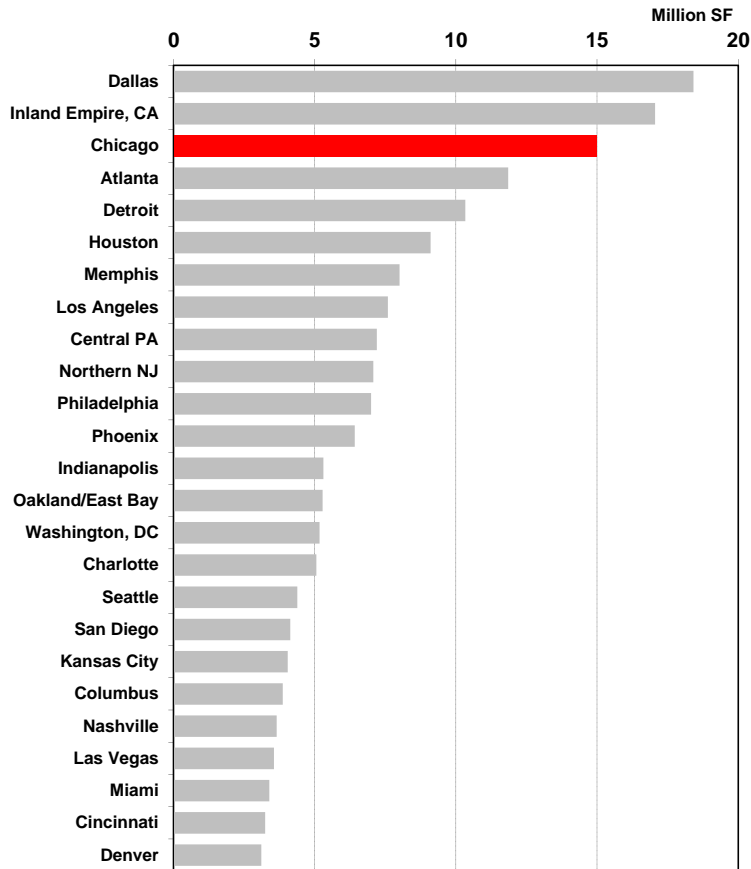


Industrial Absorption by Market 2015

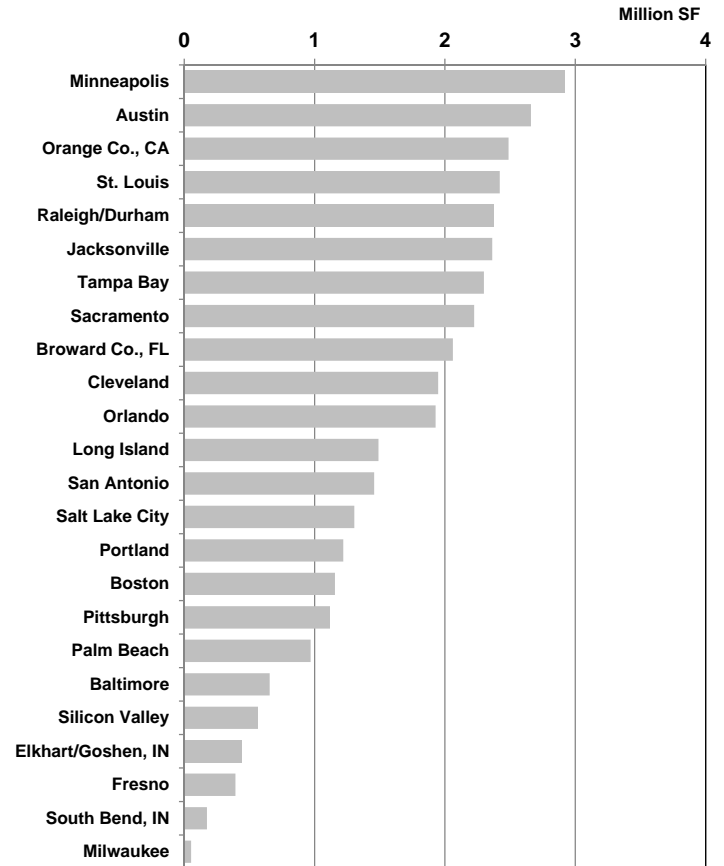
Chicago #3... Detroit #5!



Highest

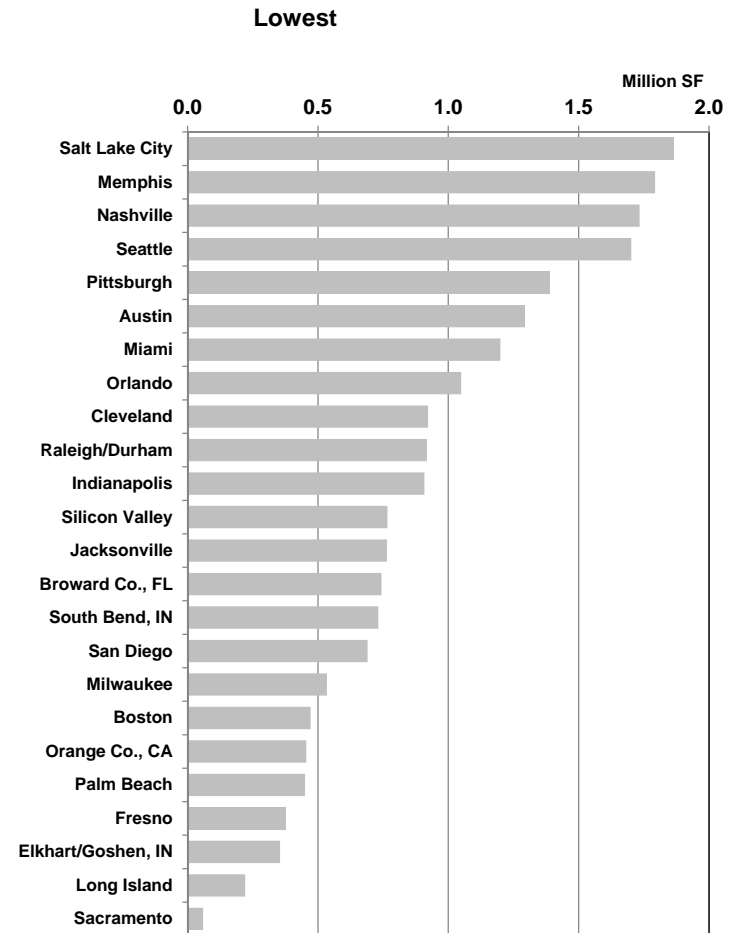
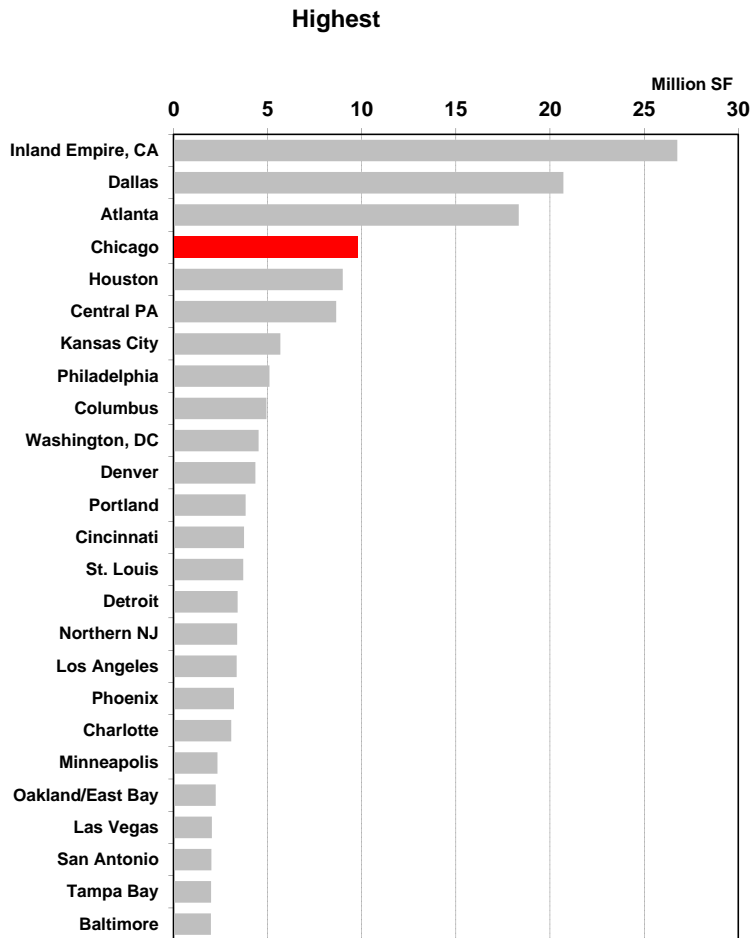


Lowest



Industrial Under Construction by Market 2015-Q4

Chicago Among Highest Construction Markets



NGKF Industrial Momentum Index, 2015-Q4

Evaluation Criteria



Factor #	Factor	Group Weighting	Factor Weighting	Data Source
DEMOGRAPHICS		15		
1	Pop Change 2015-2020		1	ESRI, NGKF
2	Pop % Change 2015-2020		2	ESRI, NGKF
3	Millennials Change 2015-2020		2	ESRI, NGKF
4	Millennials % Change 2015-2020		3	ESRI, NGKF
5	Bachelors Degree, 2015		2	ESRI, NGKF
ECONOMICS		15		
6	Emp % Change From Prior Peak		3	Bureau of Labor Statistics, NGKF
7	Emp % Change YoY		3	Bureau of Labor Statistics, NGKF
8	Emp Change 2015-2020		2	Moody's, NGKF
9	Emp % Change 2015-2020		3	Moody's, NGKF
REAL ESTATE		70		
10	Vacancy Change Past 4 Quarters (bps)		2	CoStar, NGKF
11	Rent Change Past 4 Quarters		3	CoStar, NGKF
12	Absorption as % of Occupied SF		2	CoStar, NGKF
13	Construction as % of Total SF		3	CoStar, NGKF

NGKF Industrial Momentum Index, 2015-Q4

What's Hot, What's Not



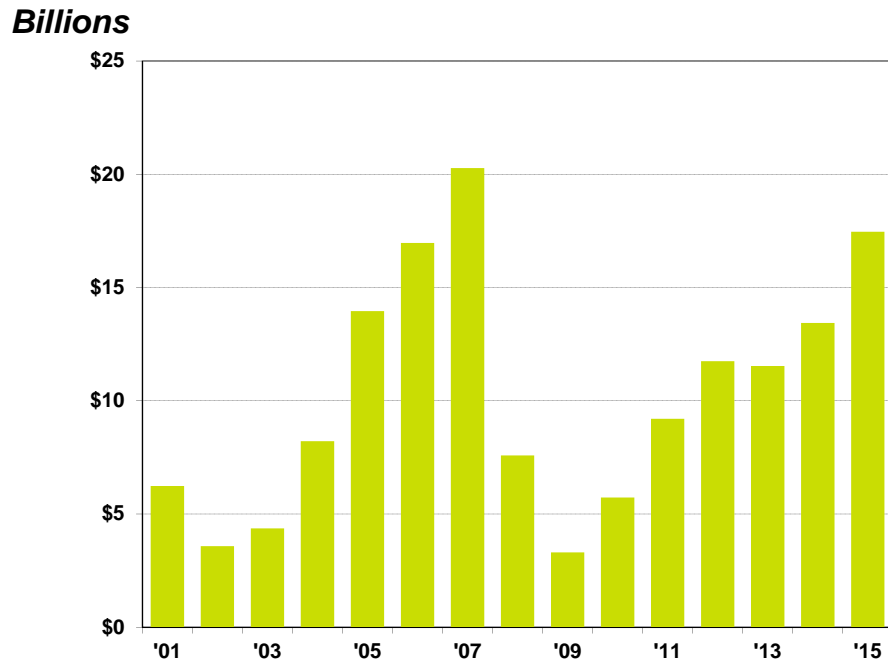
RANK	CITY	RANK	CITY	RANK	CITY	RANK	CITY
1	Inland Empire, CA	12	Memphis	23	Detroit	34	Sacramento
2	Austin	13	Denver	24	Indianapolis	35	Minneapolis
3	Atlanta	14	Jacksonville	25	Central PA	36	Boston
4	Las Vegas	15	Orlando	26	Orange Co., CA	37	Northern NJ
5	Dallas	16	Silicon Valley	27	Tampa Bay	38	Philadelphia
6	Oakland/East Bay	17	Columbus	28	Seattle	39	Baltimore
7	Raleigh/Durham	18	Broward Co., FL	29	Chicago	40	Los Angeles
8	San Diego	19	Charlotte	30	Salt Lake City	41	Portland
9	Houston	20	San Antonio	31	Cincinnati	42	Milwaukee
10	Nashville	21	Washington, DC	32	Kansas City	43	Cleveland
11	Phoenix	22	Miami	33	St. Louis	44	Pittsburgh

Industrial Sales Rising, Cap Rates Sinking

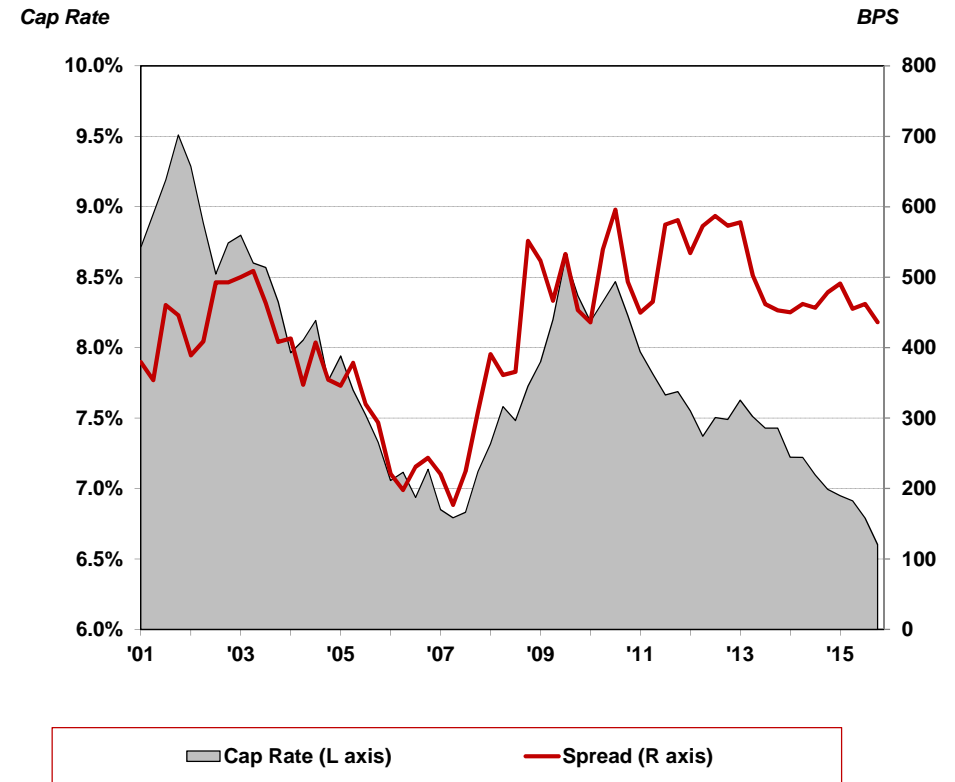
2015 Sales Up 30%, Cap Rate Down 40 BPS from 2014



Industrial Investment by Year



Quarterly Cap Rates & Spread to 10-Year Treasury Yield





Chicago Industrial Market

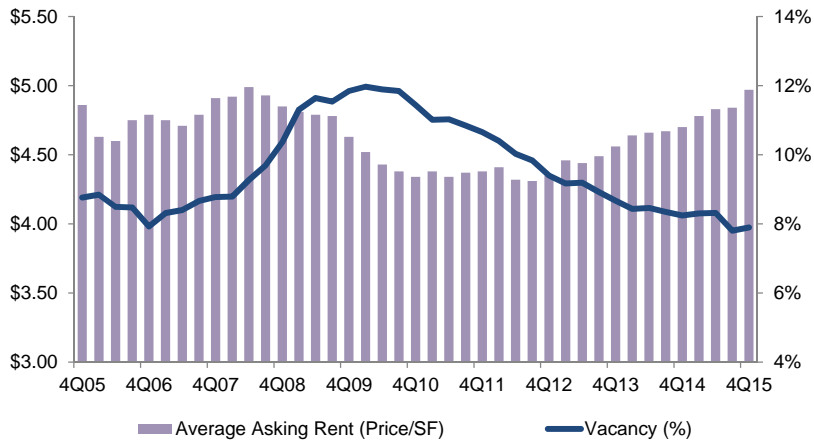
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Market Conditions

Chicago, IL

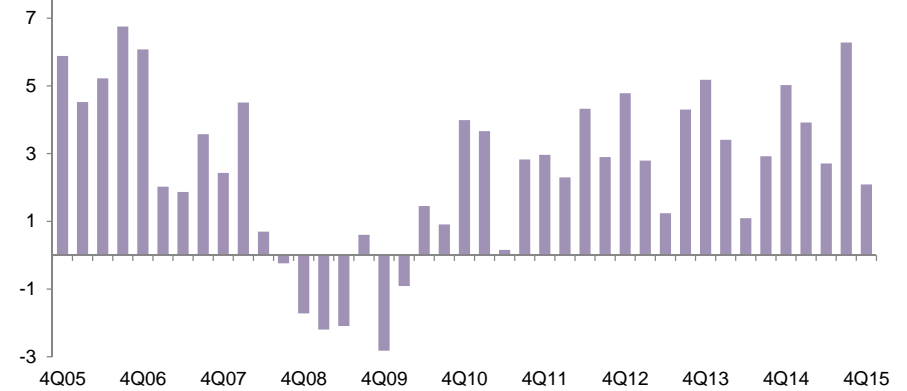


Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



- Demand has shown sustained improvement since the recession in 2009. During that time, 70.3 million square feet of absorption has brought vacancy down 410 basis points to a near-historic low of 7.9%.
- As a result of this demand and a robust investment environment, rents have increased 15.3% since 2012 to \$4.97/SF.

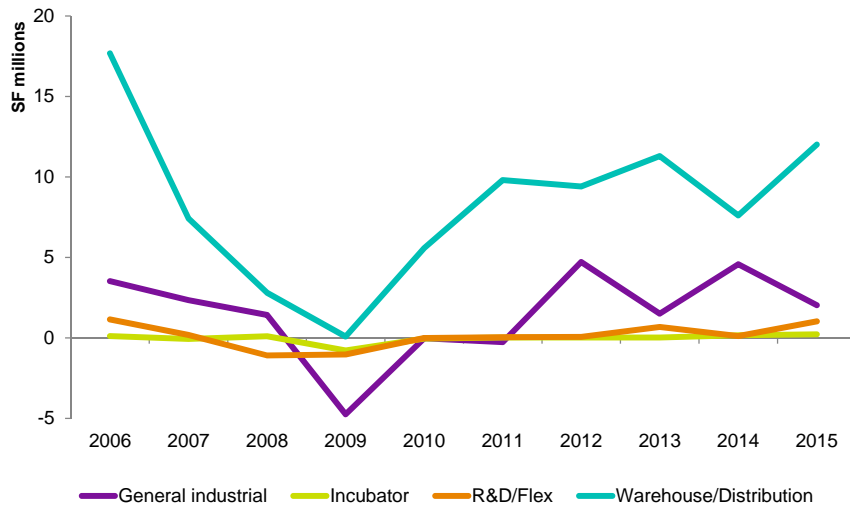
Source: NGKF

Market Segmentation

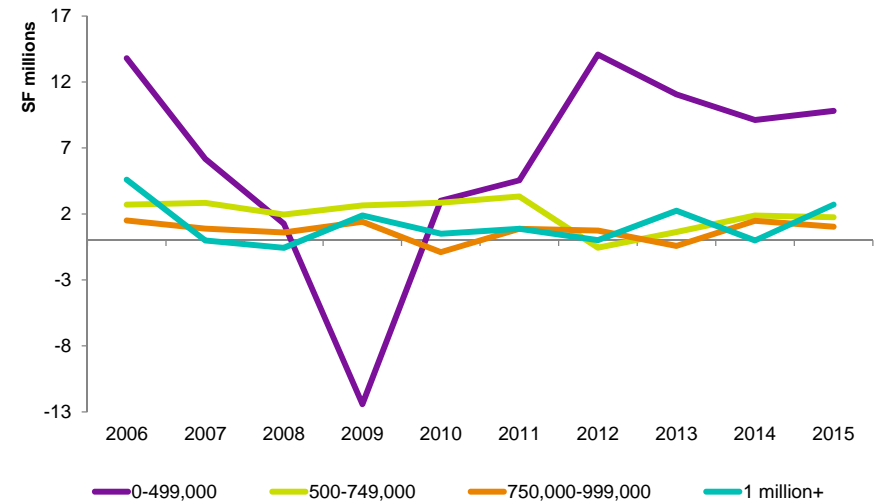
Chicago, IL



Annual absorption by property type



Annual absorption by property size



- A majority of the market activity has been driven by demand for general industrial and warehouse/distribution properties.
- That has become more pronounced for warehouse/distribution facilities in the past year
- The market's smallest properties have been the most vulnerable to economic swings.
- Large properties experienced the greatest growth in absorption in 2015.

Source: NGKF

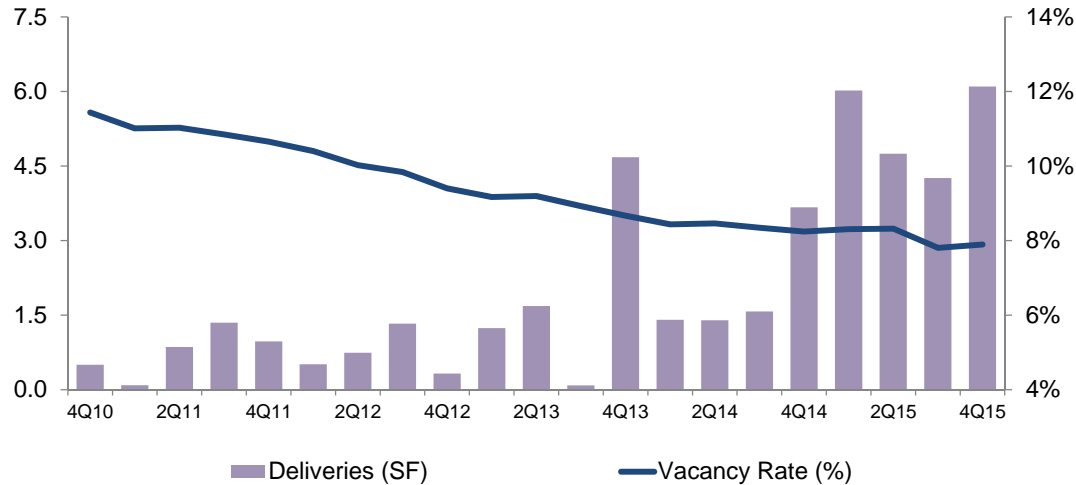
New Construction

Chicago, IL



Construction deliveries & vacancy

Square Feet, Millions



- To keep up with demand, the market has added 44.6 million square feet of new supply since 2010, an expansion of 6.8%.
- Even with this growth in inventory, demand is still outpacing supply and the market has tightened by 350 basis points during that time.
- 6.1 million SF delivered in Q4

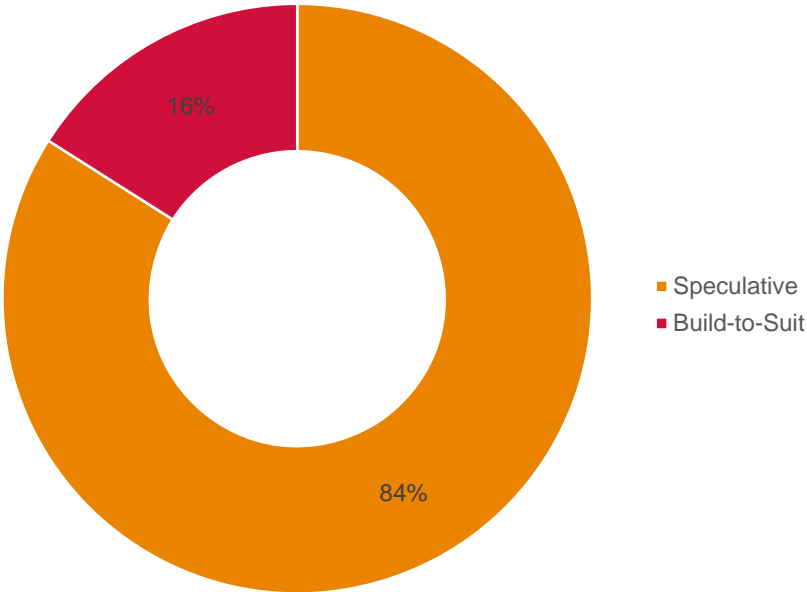
Source: NGKF

Construction Pipeline

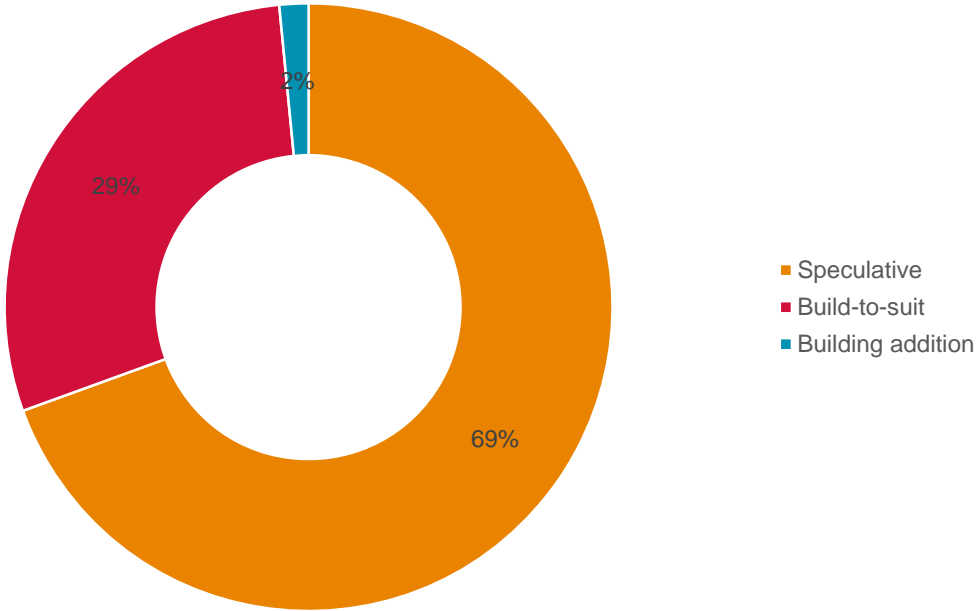
Chicago, IL



Q1 Deliveries



2016 Pipeline



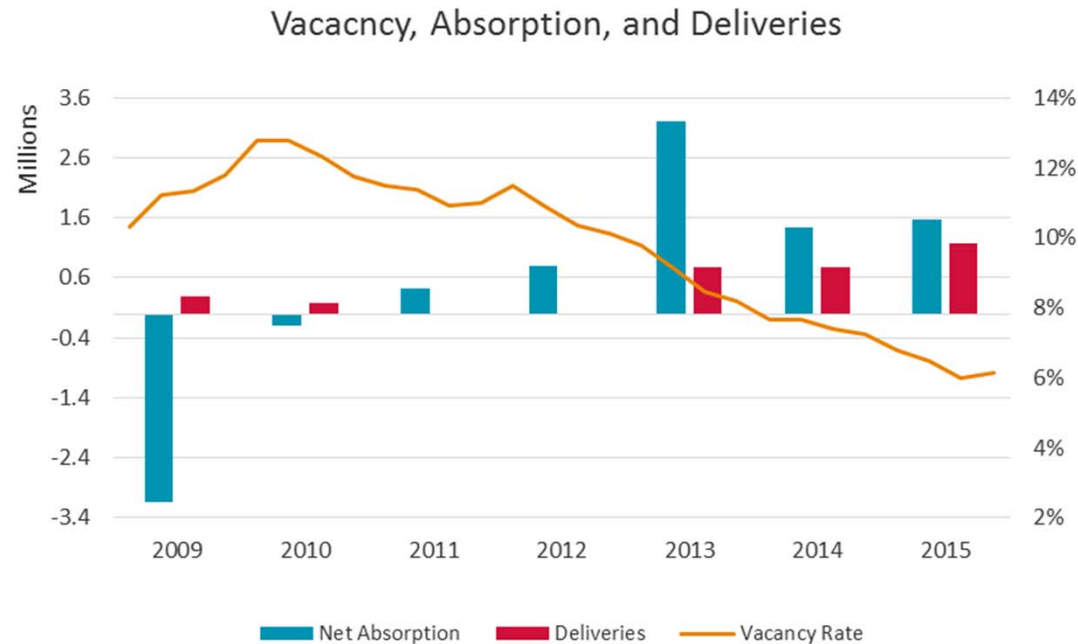
- 2016 Pipeline
 - 3.2 million SF will come online this quarter
 - 12.9 million SF will break ground in 2016



Chicago Industrial Submarkets

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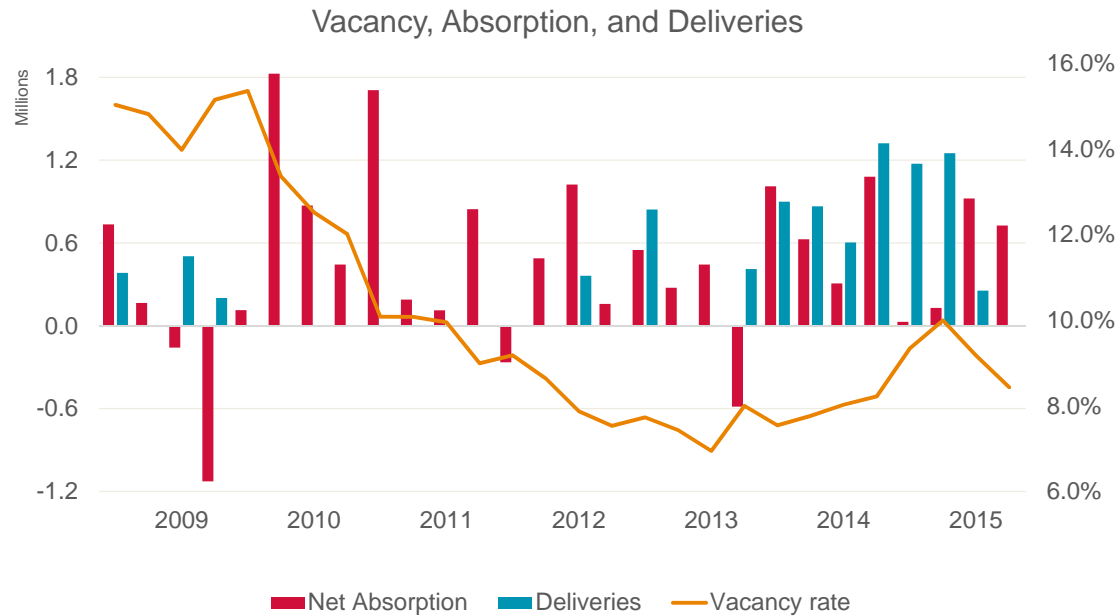
O'Hare Submarket



- O'Hare's proximity to the airport and access to most of the region's major interstates has made it extremely popular in recent years.
- The O'Hare submarket has experienced three consecutive years of strong absorption. 1.6 million square feet was absorbed in 2015 and vacancy declined 110 basis points to 6.1%.
- Vacancy down 670 basis points from its peak of 12.8% set in early-2010.
- Construction deliveries approached 1.2 million square feet in 2015, a post-recession record for the submarket. One development was completed during the fourth quarter, a 185,000-square-foot distribution facility at 340 County Line Road in Bensenville.

Source: NGKF

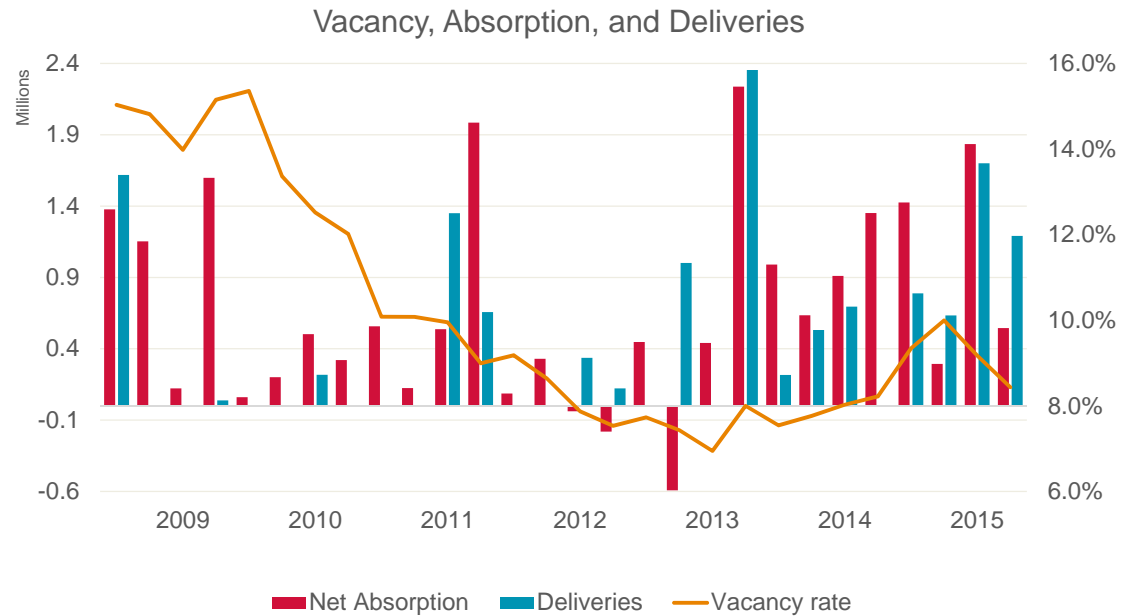
I-55 Submarket



- Supply and demand fundamentals have been strong in the I-55 Corridor. Since 2011 absorption has totaled almost 7.0 million square feet and 8.0 million square feet of new stock has come online.
- In 2015 alone, over 1.8 million square feet of space came off the market and as a result, vacancy declined 90 basis points to 8.4%.
- Over 1.8M square feet is under construction all of which are being built on a speculative basis.

Source: NGKF

I-80 Submarket

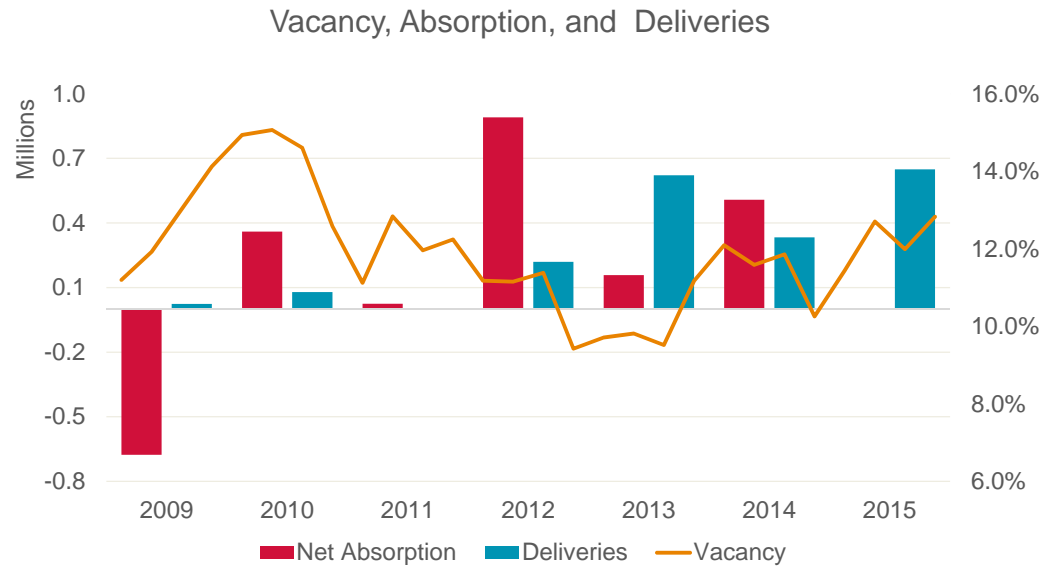


- I-80 is one of the most active industrial submarkets in Chicago. Since 2011 absorption has totaled over 10.7 million square feet and 9.6 million square feet of new stock has come online.
- In 2015 alone, an impressive 4.1 million square feet of space came off the market and as a result, vacancy declined 210 basis points to 8.3%.
- Supply is catching up with demand. In 2015, 4.3 million square feet of new space was added to the submarket's inventory.
- Over 5.9 million square feet is under construction, 39% of the total construction stock across the market

Source: NGKF

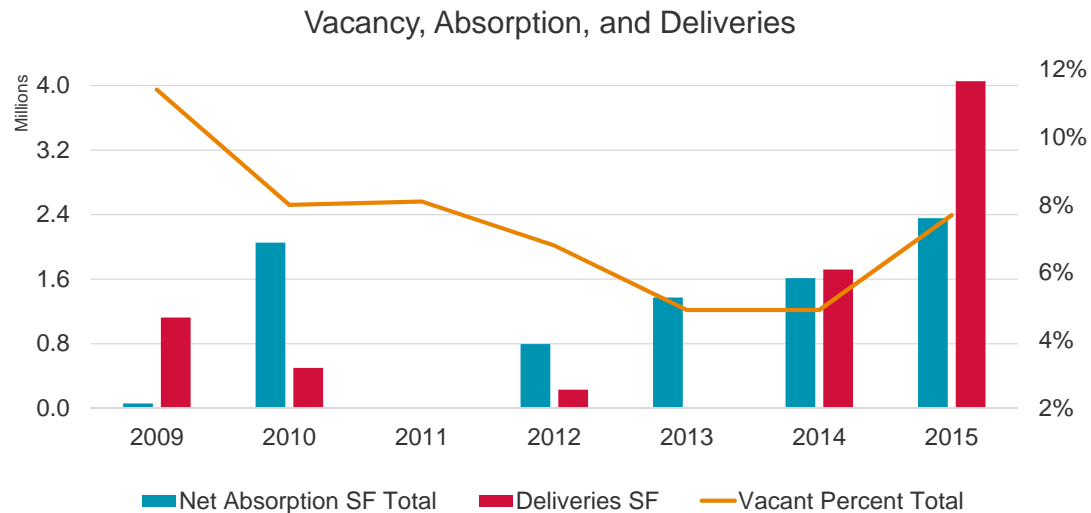


I-90 Elgin Submarket



- The I-90 Elgin corridor, which makes up the western portion of the Northwest submarket, experienced significant growth in the latter half of 2015.
- 257,000 square feet of absorption in Q3 and Q4 2015 balanced out the negative absorption that occurred in the first half of 2015 and the year closed with a near even absorption of negative 380 square feet.
- Even with flat absorption, the addition of over 1.4 million square feet of new construction in 2015 caused the vacancy rate to increase by 220 basis points to 12.5%.
- Sales activity was strong in the final months of 2015 with a total of over 550,000 square feet, across four buildings, trading hands.
- With 410,000 square feet of product currently under construction, we can expect more supply coming online in the near term

Southeast Wisconsin Submarket



- Since peaking at 10.0% in mid-2010, vacancy in the Southeast Wisconsin submarket has improved significantly. In the last two years alone, over 5.2 million square feet of absorption created a historically tight market where up until this quarter vacancy rose above 5.0% only once in nine quarters.
- Last quarter when three projects delivered a total of 1.6 million to the market, making a total of 5.8 million square feet of new supply in the past two years.
- With this new spec supply coming online, even with modest absorption of 22,000 square feet, the vacancy rate rose 290 basis points to 7.7% in Q4 2015.
- Healthy demand and tight conditions suggest that the market will be able to handle the new supply that has come online and as tenants consume the new space; we will see vacancy rebound in the coming quarters.



Broker Q&A

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