Marcus & Millichap

IndustrialResearch

Market Report

Midyear 2015

Wide Array of Economic Forces Align to Lift Industrial Sector; Positive Outlook Bolsters Investor Demand

The broadening economic growth cycle has accelerated industrial sector momentum, tightening vacancies across most metros and supporting strong rent growth. The headwinds that emerged over the winter months have largely dissipated, with a few notable exceptions. The now-resolved West Coast port labor disputes hampered international trade, while harsh weather in the Northeast restrained consumption. Concurrently, the strength of the dollar raised the cost of U.S. goods internationally and softened domestic demand for American products as consumers favored the relative affordability of imports. Going forward, these challenges are expected to fade as global currencies rally and the U.S. labor market picks up steam. Taken collectively, the hurdles still facing the world's largest economy appear formidable, but they are far outweighed by positive indicators and only serve as fodder for a dovish Federal Open Market Committee to delay rate hikes. The strengthening of both the producer and consumer economies should bolster demand across a wide swath of industrial facilities. Total jobs now stand more than 3 million higher than prior to the recession; wage growth has begun to gain traction; and retail sales, though a bit sluggish in the first quarter, appear poised for greater acceleration. Furthermore, equity markets remain bullish, corporate profits have been strong, and unemployment has steadily tightened.

Net absorption for a variety of industrial spaces has steadily improved in tandem with the U.S. economy. Demand for bulk industrial space often recovers first, leaving slack in the small and midsize markets. Internet businesses and retailers are a segment that will reshape the industrial sector in the coming year as businesses compete on speed of delivery, forcing retailers to find warehouse locations proximate to major population centers. Demand for space has also grown as auto and housing sales have escalated. After reaching a trough in early 2009 and remaining muted through much of the recovery, auto sales are finally returning to pre-downturn levels. The housing market also appears to have turned a corner, lifting demand for a wide range of housing-related industrial tenants. Combined, these trends will boost local industrial demand, lift investor activity and attract capital at low cap rates. The bull market has begun rippling beyond major port and distribution markets to reach a broad swath of metros.

2015 Annual Industrial Forecast

2.2% increase in total employment

Economy: The economy is forecast to add 3.1 million jobs by year-end 2015, lifted by 2.9 percent GDP growth. The trade, transportation and utilities sector, which added the third-largest concentration of new jobs this year, reiterates demand for industrial real estate.

130 million square feet will be completed

Construction: Approximately 130 million square feet of new supply is anticipated by year end. Much of the construction is substantially pre-leased, with build-to-suit opportunities found in markets that have functionally obsolete or inadequate supply.

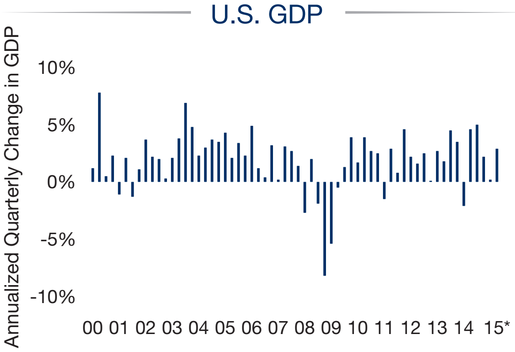
70 basis point decrease in vacancy

Vacancy: The national vacancy rate will plummet another 70 basis points to a fifteen-year low of 6.5 percent by year end as industrial demand absorbs 170 million square feet, surpassing the competitive space delivered to the market.

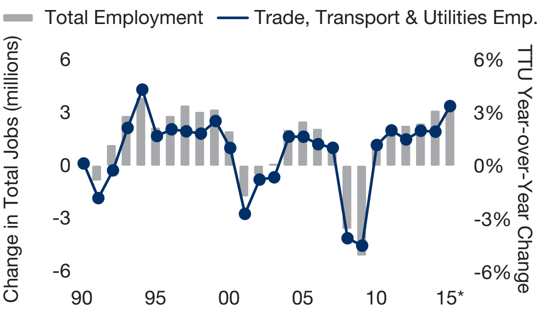
5.3% increase in asking rents

Rents: Asking rents nationally will increase by an average of 5.3 percent, while concession reductions boost effective rents. Rent and revenue gains in supply constrained, gateway markets will exceed national averages.

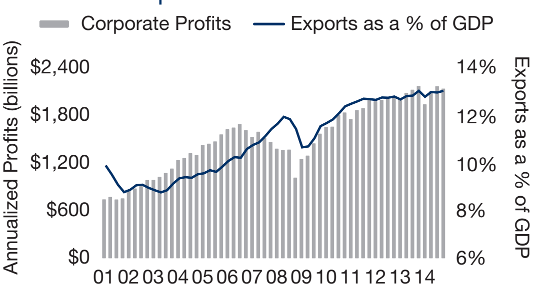
U.S. GDP



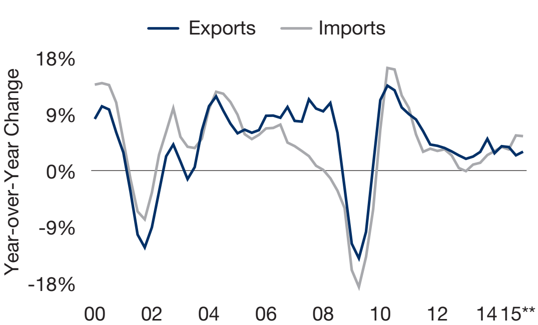
Employment Trends



Corporate Profits vs.
Exports as a % of GDP



Total Trade



* Forecast **Through First Quarter

First Quarter Economic Headwinds Abate; Strengthening Trends Tilt Toward Optimism

After more than seven years of expansionary monetary policy, the Fed has begun to contemplate tightening its policies. Although justification for action by the Fed is supported on several fronts, weaker than anticipated economic indicators from the first few months of 2015 have pushed back inevitable Fed action until later in the year. The modestly negative GDP growth in this year's opening period could be revised higher as additional information comes available, and retail sales have fallen short of expectations during the snowy first quarter. Dramatically lower gas prices, which were expected to boost receipts at retailers, have pared jobs from energy company payrolls but have yet to materialize in substantive retail consumption.

Though first quarter economic trends might appear to be slowing, hiring over the last year has been broad-based, both from an employment sector measurement as well as geographically. Employment growth has been extensive in both scale and breadth. Last year in April, payrolls finally surpassed their pre-recession peak, and since then 3.0 million jobs have been added in the U.S. Though the pace of hiring in March was disappointing, job additions in April marked a substantial improvement, moving back into alignment with the recent trend of 200,000-plus jobs per month. Additionally, the strengthening housing market, together with rising demand for commercial space, will accelerate construction job creation, adding to the already robust hiring pace. Over the past year, job growth has also broadened geographically. Outperforming metros included not just tech-focused areas including San Jose and San Francisco, but also Orlando, Riverside-San Bernardino and Salt Lake City. Dallas/Fort Worth has maintained its pace of hiring but Houston employment has faltered as reduced oil prices have raised caution among local employers.

2015 Economic Outlook

- Though manufacturing and exports will continue to grapple with currency and demand headwinds in the short term, encouraging signs abound. Successful quantitative easing in both Europe and Japan should stimulate exports, leading to stronger corporate earnings in the second half of the year. In addition, the demand for business loans has been rising steadily since early 2014, which should begin to manifest in business investment. These trends will be further supported by rising consumer spending as sturdier household balance sheets and rising incomes lift consumption.
- Despite the softened economic growth rate in the first three months of 2015, the outlook for the remainder of the year remains optimistic. The economy contracted in the first quarter of 2014 under similarly inclement weather, then rebounded robustly in the second through fourth quarters — a trend the U.S. economy may follow again this year.
- Absent an unanticipated exogenous shock, the U.S. economic growth should lift to the 2.9 percent range in 2015, faster than the past several years, and create more than 3 million new jobs across all sectors.

The West Coast Port Slowdown a Boon to Eastern Ports

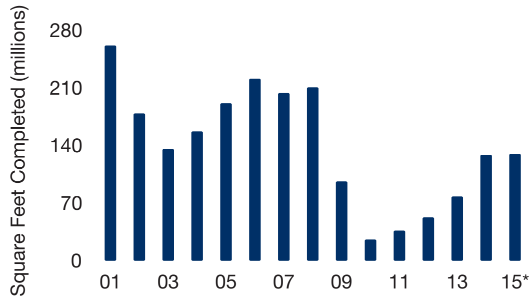
The strong U.S. dollar, which has been increasing in value since mid-2014, has tempered inflation risks and will join other forces to delay Fed action on interest rates until later this year. Low interest rates have supported significant stock market gains and lifted consumer confidence to its highest levels since the recession. By the same token, the rising value of the dollar has forced a slowdown in exports, in turn limiting domestic manufacturing. Growth in leading manufacturing indexes slowed in recent months, reflecting currency valuation trends and lingering supply-chain effects from the recent West Coast port slowdown. Moderating foreign demand also softened April corporate earnings, thinning profit margins and restraining fixed investment.

In February, nine months of slowed work and stalled talks between the International Longshore and Warehouse Union and the Pacific Maritime Association culminated in a tentative five-year contract after a brief shutdown. Though a serious strike was averted, many imports and exports were spoiled or rendered obsolete as they sat in shipping containers or warehouses, snarling supply chains in Asia as well as the U.S. The resulting backlog has largely cleared and increased certainty should return to West Coast industrial tenants. As a byproduct of this tumultuous period at West Coast ports, shippers migrated a portion of their traffic to the East Coast, lifting activity and industrial demand throughout the region. Though an experienced labor pool and deepwater access will ensure West Coast shipping primacy, East Coast ports could gain demand share as contingency planning becomes more important and as the widening of the Panama Canal moves toward completion next year.

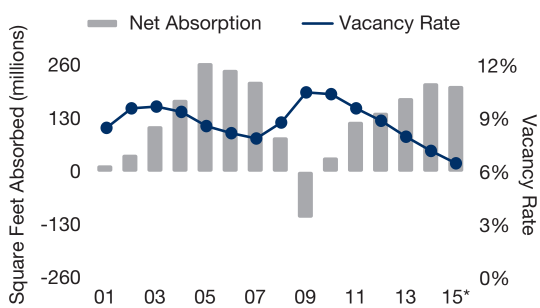
2015 National Industrial Forecast

- In the last ten years, the share of retail sales through the Internet has nearly doubled to 11 percent. Initially, inventories were stored in locations in the central U.S., but as competition for timely delivery has stiffened, most retailers have sought local warehousing. This shift has structurally changed the dynamics of industrial demand, lifting the need for modern warehouse space near virtually every major population center. The American Association of Railroads reported record capital investment volume for 2014 and expects a similar outlook for 2015 — a trend that will drive tenant demand in the coming years.
- As the U.S. economy went into recession, construction plans halted rapidly and they were slow to return. Completions between 2010 and 2014 averaged just 30 percent of their 2001-2009 level. As demand accelerated beginning in 2011, vacancy rates tightened appreciably, reaching 7.1 percent in the first quarter of 2015 — the lowest first-quarter rate since 2001. By year-end, vacancy should fall to 6.5 percent, a 15-year low.
- With an average expected appreciation rate of 4.4 percent, the sector is poised to push back toward record pricing. Average cap rates have tightened steadily in the last year, a trend likely to continue as investors pursue yields to secondary and tertiary markets, thereby driving down cap rates in those metros. The average cap rates in primary markets stabilized in the 7 percent range, with best-in-class assets trading below 5 percent. As more capital pursues assets in secondary locations, yields should further compress in 2015, unless an unanticipated movement in interest rates slows the process.

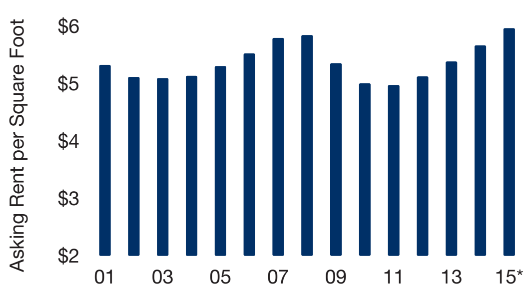
Industrial Construction Trends



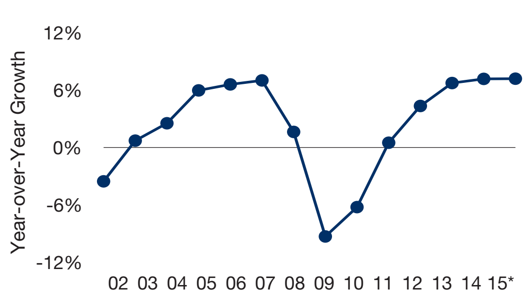
Industrial Absorption and Vacancy



Industrial Rent Trends

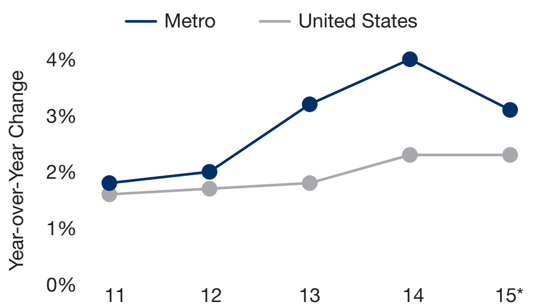


Revenue Growth

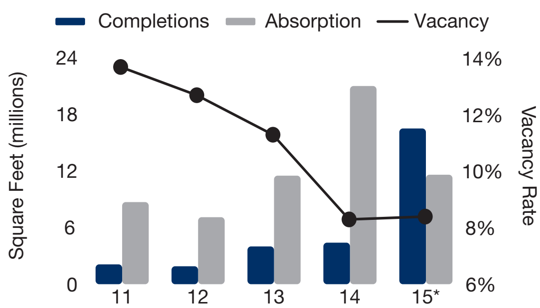


* Forecast

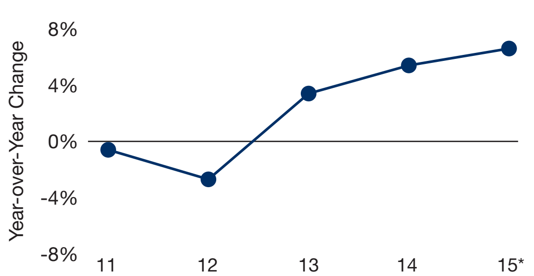
Employment Trends



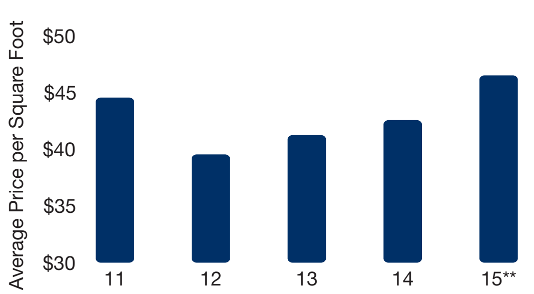
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

Accelerated Hiring and Economic Gains Elevating Industrial Demand; Investor Interest Piqued

Employment growth in the Atlanta metro has sparked swelling demand for industrial space, as local and regional users are growing in lockstep with the expanding local economy. Large national warehouse and distribution center tenants are thriving as well, creating robust operating conditions in the sector. The stabilization of the economy has encouraged a resumption of growth and Atlanta figures strongly into the corporate expansion plans of Google, Office Depot and Exel, which each recently signed leases at or above 400,000 square feet. Strong market conditions have driven developers to expand the construction pipeline dramatically, focusing primarily on high-traffic and -demand areas such as the Airport/North Clayton and I-20 West/Douglasville submarkets. As a result, new industrial completions will outpace net absorption for the first time in several years. Despite the increased pace of development, most of the new space is pre-leased, reducing the upward pressure on vacancy from speculative projects. These headwinds will be unable to sideline rent growth, however, allowing asking rents to rise for the third straight year.

Cheap access to credit and the desire to deploy capital before the Federal Reserve raises interest rates have been motivating investors to bid up Atlanta industrial assets. Combined with greater access to debt financing, institutional capital in the metro fostered an accelerated volume of deals over the past year, with investors quickening the pace through the first quarter of 2015. Large corporate buyers have been active at the high end of the market, scooping up local portfolios at attractive discounts to individual property values. Institutional-grade assets typically command cap rates in the low-6 to 7 percent range, while sub-institutional class properties trade as much as 200 basis points higher. Distribution and high-clearance facilities will be of keen interest this year as investors position for additional growth in the e-commerce market after Amazon and Wal-Mart announced their intentions to expand in the city. Particular areas of interest will include the airport and locations in the northern section of the metro with easy access to transportation routes.

2015 Market Outlook

- **Employment Forecast:** Atlanta firms will hire 80,000 new workers this year, expanding payrolls 3.1 percent. Last year, employers added 97,300 jobs, a 4.0 percent increase year over year.
- **Construction Forecast:** Developers will complete 16.5 million square feet of industrial space this year, up from just 4.4 million square feet last year.
- **Vacancy Forecast:** Net absorption of 14.7 million square feet will fall shy of completions for the first time in five years, yielding a 10-basis-point rise in vacancy to 8.4 percent. A plunge of 200 basis points occurred during 2014.
- **Rent Forecast:** After rising 5.3 percent last year, asking rents will climb 6.6 percent this year to $3.76 per square foot.
- **Investment Forecast:** Flex properties with highway access, a relatively large office component and commensurately sized employee parking will garner attention from buyers seeking to enter or expand in the market.

* Forecast ** Trailing 12 months through first quarter

Market Forecast Employment: 3.1% ▲ Construction: 12.1M ▲ Vacancy: 10 bps ▲ Asking Rents: 6.6% ▲

Investors Finding Opportunities in Chicago As Recovery Strengthens

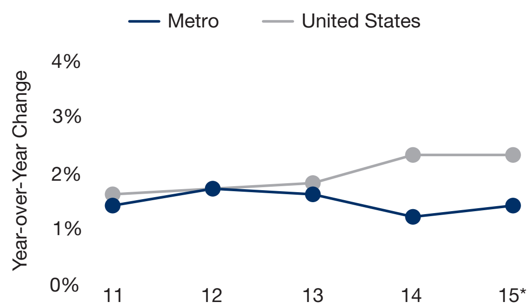
The improving job outlook and increased demand for goods and services will bolster the industrial property market in Chicago this year. With more people working, retail sales are rising and expanding the space needs of manufacturers, retailers and logistics companies. This growing demand has pushed metrowide vacancy for warehouse space below 8 percent; however, the rate varies widely throughout the region. The tightest vacancy is recorded in Indiana and Wisconsin where lower property taxes attract tenants. Amazon's presence in Kenosha is also drawing additional users to warehouse space nearby, dropping vacancy in the submarket to 3.6 percent in the first quarter. Throughout the metro, a rise in the construction of speculative distribution facilities will produce headwinds in the months ahead. The active SW/I-55 Corridor will receive the majority of speculative space, temporarily pushing vacancy in the submarket higher. Demand for flex space is softer. Marketwide, vacancy rests just above 11 percent, but with no new buildings on the horizon, vacancy should contract this year and push rents higher.

Chicago's improving economic outlook and the availability of low-cost financing are attracting additional out-of-state investors to the region and driving transaction volume higher. Meanwhile, improving operations are motivating more owners who bought during the downturn to list, providing buying opportunities. Investors are most active in the West Suburban and SW/I-55 Corridor submarkets, where manufacturing facilities in particular are garnering buyers' attention. A plethora of new industrial construction along I-55 will continue to attract institutional investors to this area. Sales activity has also increased in the South Chicago submarket. At the north end of the submarket, industrial properties are being redeveloped into office space, and as property values rise, more owner-users are moving farther south. In the south end of the submarket, lower entry costs and value-add potential are luring buyers.

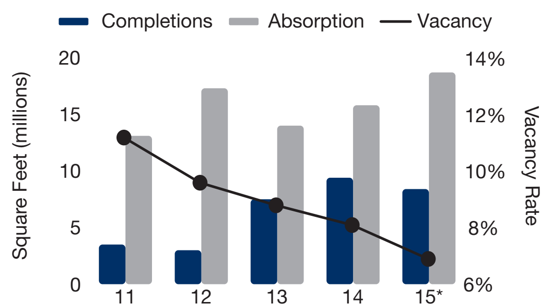
2015 Market Outlook

- **Employment Forecast:** Metro payrolls will expand 1.4 percent in 2015 as 65,000 jobs are created. Last year, 55,800 additional workers were hired, including more than 1,100 in the manufacturing sector.
- **Construction Forecast:** After developers brought 9.4 million square feet of space online last year, completions will slow to 8.4 million square feet in 2015. The SW/I-55 Corridor will receive nearly half of this year's new space.
- **Vacancy Forecast:** Strong tenant demand amid a slower delivery pace will move vacancy down 120 basis points to 6.9 percent on net absorption of 18.7 million square feet. This is well above last year's 70-basis-point decline.
- **Rent Forecast:** Tightening vacancy will underpin a 5.8 percent increase in the average asking rent this year to $5.24 per square foot. In 2014, rents climbed 5.0 percent.
- **Investment Forecast:** Older industrial properties with lower clear heights and convenient interstate access in prime submarkets are being targeted by investors for redevelopment opportunities.

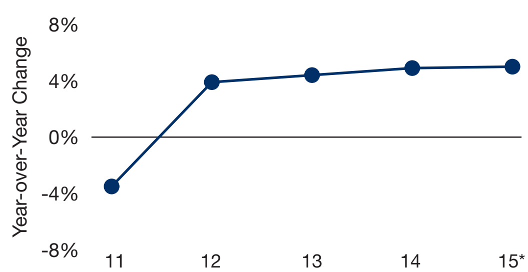
Employment Trends



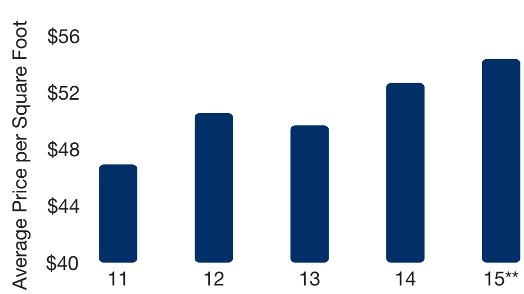
Industrial Supply and Demand



Asking Rent Trends



Sales Trends

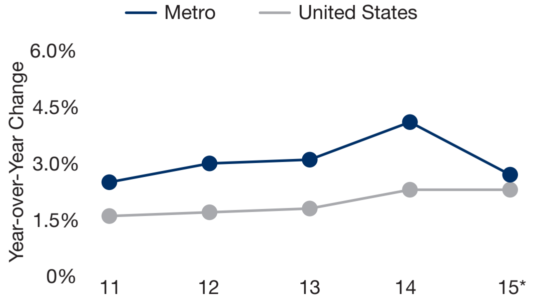


Sources: CoStar Group, Inc.; Real Capital Analytics

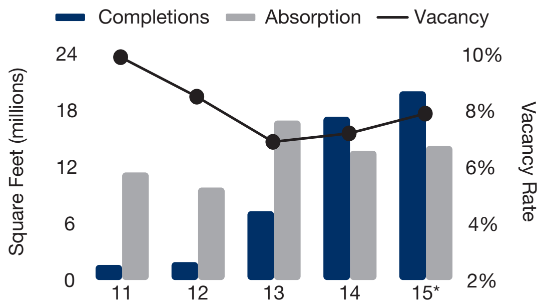
* Forecast ** Trailing 12 months through first quarter

Employment: 1.4% ▲ Construction: 1M ▼ Vacancy: 120 bps ▼ Asking Rents: 5.8% ▲ Market Forecast

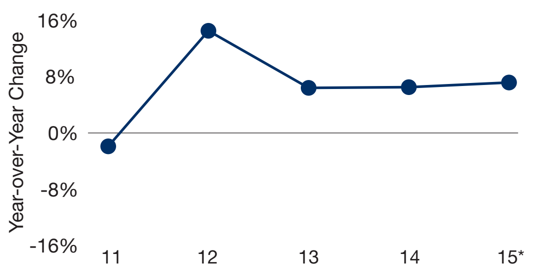
Employment Trends



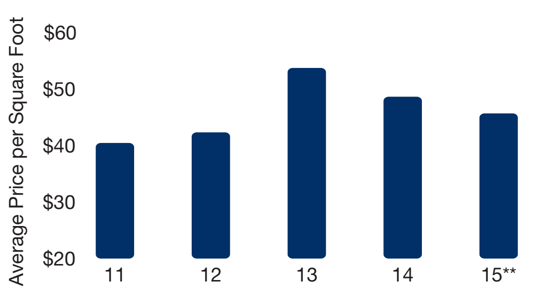
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

New Large Properties to Weigh on Vacancy Rate; Operations Remain Tight for Smaller Assets

Years of rising demand for space are emboldening developers in Dallas/Fort Worth, and the scheduled delivery of new space with minimal pre-leasing will raise the vacancy rate from an exceptionally low level during 2015. Much of the new stock slated for completion this year is large properties of 250,000 square feet or more, and the space is marketed for single large tenants or multiple midsize tenants. The segment of the market comprising buildings of less than 100,000 square feet, however, is largely undisturbed by developers. Marketwide vacancy in these properties has tumbled to the low-5 percent range, or half the level of five years ago, and the growth in space demand has enabled many owners to recover the value in their assets. The outlook for additional space absorption in the entire market remains promising. Wholesale trade, in particular, is one of the fastest-growing private-employment sectors, while corporate relocations, including Toyota and Kubota Tractor, will likely generate new warehouse and flex space requirements.

A broad and deep inventory of properties and more widely available debt financing will sustain an elevated level of transactions in the Metroplex this year. Several transactions have been executed thus far in 2015, including a portfolio purchase by a sovereign fund that illustrates the stature the local market has attained with global investors. Other recent transactions were executed at cap rates ranging from 8 percent to 9 percent, and additional compression is anticipated this year. The comparatively high returns are attracting flows of capital from other commercial property sectors, and many of the investors crossing over are focusing on single-tenant or dual-occupancy assets. Many property owners who have built up value over the past few years and have secured income streams through long-term commitments with tenants may opt to test the market in the coming months.

2015 Market Outlook

- Employment Forecast: Employers will add 90,000 jobs in 2015, a robust 2.7 percent gain that nonetheless marks a decline from the hefty 4.1 percent jump in payrolls during 2014.
- Construction Forecast: Developers will complete 20 million square feet in 2015, the second-highest level of completions among major markets nationwide. Last year, more than 17 million square feet was placed in service, including 6.7 million square feet in Fort Worth.
- Vacancy Forecast: Net absorption of more than 14 million square feet will fall short of completions, yielding a 70-basis-point jump in vacancy to 7.9 percent this year. A 30-basis-point rise was posted in 2014.
- Rent Forecast: The average rent in the market will advance 7.2 percent in 2015 to $5.09 per square foot, besting last year's 6.5 percent gain.
- Investment Forecast: The steady growth in property income and appreciation potential will sustain a high level of investor interest in properties throughout the Metroplex.

* Forecast ** Trailing 12 months through first quarter

Market Forecast Employment: 2.7% ▲ Construction: 3M ▲ Vacancy: 70 bps ▲ Asking Rents: 7.2% ▲

Diverse Economy Drives Industrial Operations; Rent Growth Accelerates

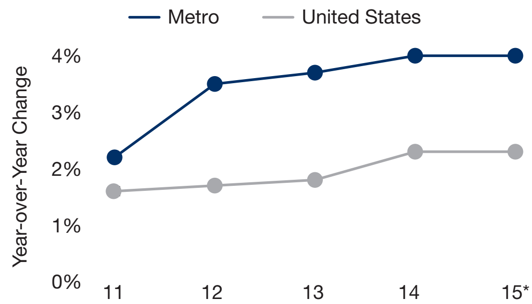
The Denver economy is growing at a rapid pace, despite losses in the energy industry. Gains in the technology, telecommunications and finance sectors are pushing total employment to new highs with companies such as Comcast, Charles Schwab and Panasonic each hiring hundreds of workers. The rise in employment is luring new households to the area, pushing up retail spending and housing demand. As a result, retailers are opening new locations, which is increasing demand for warehousing and distribution space as supply chains are expanded. Construction companies are also elevating demand for small-bay flex properties as home construction picks up. Additionally, last year's boom in the marijuana industry left a shortage of flex and lower-end warehouse space. Beyond local market drivers, the metro's centralized location in the western United States makes it a prime target for logistical companies. Intense tenant demand has pushed vacancy below 4 percent and accelerated rent growth at the fastest pace in the nation, up 20 percent year over year in the first quarter. Several large projects are being built, though many are beginning without tenants in place. However, developers are still exercising caution and most projects are leased up before certificates of occupancy are received, keeping vacancy extremely tight.

Investment activity is rising in the Denver metro. The strength of the local economy, solid fundamentals and attractive cap rates are drawing attention from investors across the country. As demand for industrial assets climbs, competition among buyers is heating up. Appropriately priced assets receive multiple offers over a short period of time, with properties along Interstate 70 and Interstate 25 capturing the most interest. While the growing economy propels manufacturing and logistical companies, owner-users are also active. Overall, cap rates in the market average in the 7 percent range.

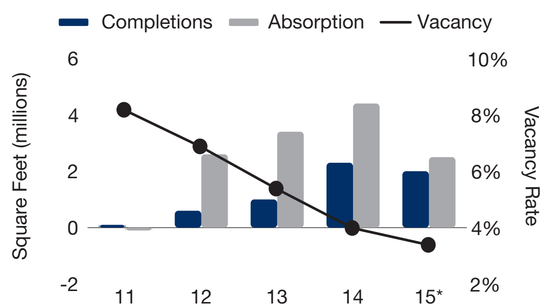
2015 Market Outlook

- **Employment Forecast:** Employers in the Denver metro are on track to boost total employment 4 percent in 2015 with the creation of 55,000 positions. Last year 52,500 jobs were added.
- **Construction Forecast:** The high cost of industrial land subdued construction volume in 2015. Developers will complete 2 million square feet this year, down from 2.3 million in 2014.
- **Vacancy Forecast:** In 2015, average industrial vacancy will drop 60 basis points to 3.4 percent on net absorption in excess of 2.5 million square feet. The vacancy rate plunged 140 basis points last year.
- **Rent Forecast:** Tight vacancy will enable average asking rents to increase 15.0 percent this year to $7.29 per square foot, following a 14.4 percent gain the previous year. Asking rents will be more than 30 percent above the most recent high.
- **Investment Forecast:** Newly built projects will create opportunities for institutional buyers. Cap rates for newer, Class A properties can often dip below 6 percent.

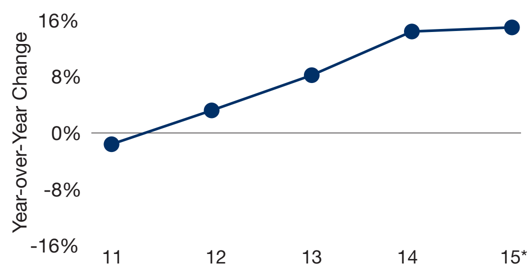
Employment Trends



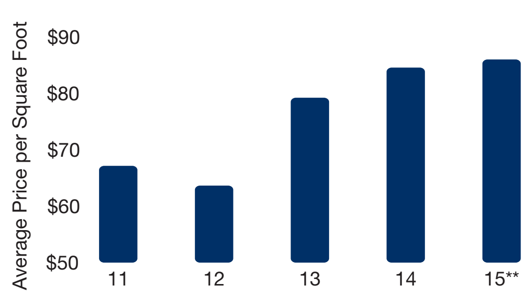
Industrial Supply and Demand



Asking Rent Trends



Sales Trends

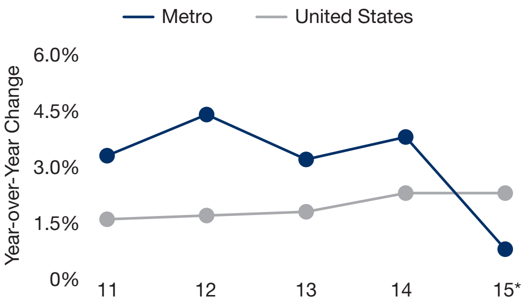


Sources: CoStar Group, Inc.; Real Capital Analytics

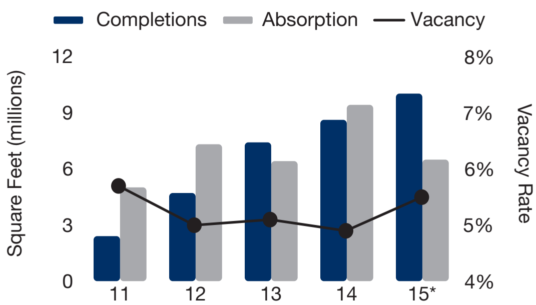
* Forecast ** Trailing 12 months through first quarter

Employment: 4.0% ▲ Construction: 300K ▼ Vacancy: 60 bps ▼ Asking Rents: 15.0% ▲ Market Forecast

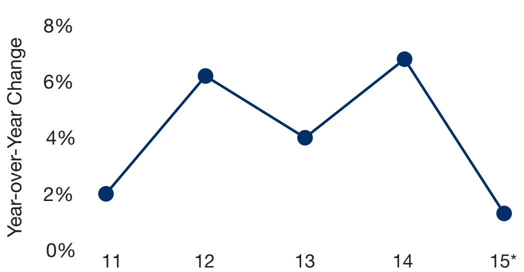
Employment Trends



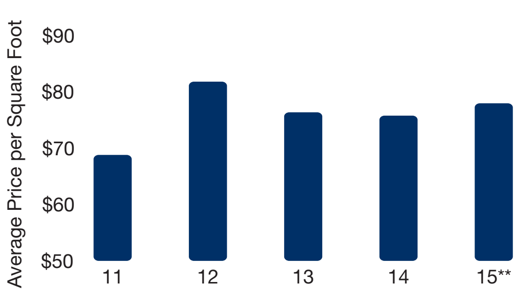
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

* Forecast ** Trailing 12 months through first quarter

As Oil Prices Stabilize, Houston Industrial Space Setting New Equilibrium

Though Houston's economy faces short-term uncertainty due to reduced oil prices, the drop has had little effect on the industrial sector, keeping the market's vacancy tighter than the national rate. Construction and e-commerce growth have supported demand for distribution space, a trend likely to continue and a bright spot in the economy. As a result, industrial space in east Houston, which capitalizes on the port expansion and the energy sector's downstream activity, remains attractive. Demand in the North Houston/Woodlands area also remains strong as vendors related to ExxonMobil absorb speculative warehouse space upon completion. Yet, crane-served industrial demand used by oil service and exploration companies has slowed significantly. Because most of the immediate impact of lower energy prices is beginning to dampen aggressive growth, industrial firms in Houston will take time to adjust. Job growth in the metro will ease back from its impressive upward trend the past few years as occupancy and rents recalibrate.

Investors quickly moved to the sidelines during the first half of the year, which will likely result in slower transaction velocity through 2015 regardless of the recovery in oil prices. However, many buyers will view uncertainty as an opportunity, pressuring sellers to adjust prices to meet the market. Investors with a long-term hold strategy willing to deal with short-term vacancy anticipate a payoff for acquisitions made while others sit on the sidelines. Houston's business-friendly climate and the cyclical nature of energy prices will offer long-term strength to the industrial sector. Buyers must weigh the opportunity costs of committing capital in underperforming assets, though low interest rates and tight cap rates in other real estate sectors could tip the scale in favor of a purchase while prices are attractive.

2015 Market Outlook

- Employment Forecast: As some energy companies pare staffing levels, employers will add 25,000 jobs this year, lifting payrolls 0.8 percent. Last year, 108,900 positions were generated.
- Construction Forecast: Developers will wrap up construction on 10 million square feet of space this year, increasing inventory by 2.2 percent. In 2014, 8.6 million square feet was completed.
- Vacancy Forecast: Despite modest tightening in the first quarter, vacancy will climb over the course of 2015. The rate is expected to finish the year at 5.5 percent, up 60 basis points annually.
- Rent Forecast: Asking rents for available space will finish the year at $6.18 per square foot, up 1.3 percent for the year. Asking rents climbed 6.8 percent in 2014.
- Investment Forecast: Many long-term demand drivers will maintain buyers' interest. The opening of the wider Panama Canal early next year should support additional container traffic. Two channels are undergoing dredging to support the expansion and additional warehouse space will be necessary for exports.

Market Forecast Employment: 0.8% ▲ Construction: 1.4M ▲ Vacancy: 60 bps ▲ Asking Rents: 1.3% ▲

Outlook for Twin Ports Brightens; Positive Trends Reinvigorate Industrial

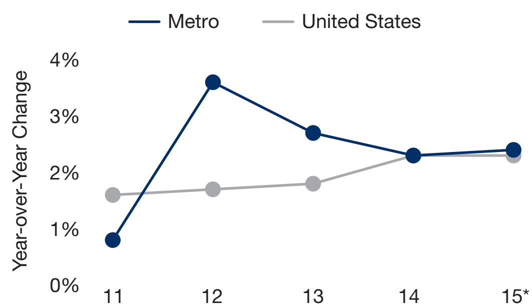
After the port shutdown in the early weeks of this year, a tentative agreement has been reached to end the labor strike. Preliminary approval of the deal by the unions will support robust industrial operations. The long road back to normalization will take time, however, as the backlog of container ships is steadily unloaded. The next challenge facing the twin ports will be the widening of the Panama Canal in 2016 that will allow Post-Panamax ships to cut transportation costs by shipping directly to East Coast ports from locations throughout Asia as opposed to docking at the Los Angeles ports. While the impact of the expansion is still being debated, city officials are already working to limit the effects, having approved plans for a railyard closer to the ports. Despite these challenges, asking rents have risen 6.2 percent in the past year as metrowide vacancy remains just 3.0 percent following surging demand for space in Long Beach, Torrance and the Commerce area. Net absorption will outpace supply gains for the fifth straight year in 2015, supporting high single-digit rent increases as the Los Angeles industrial market continues to flourish.

Motivated by cheap credit and strong industrial operations, investors bid aggressively for well-located properties near the twin ports. Due to the current heavy reliance on Los Angeles ports for shipping activity and the potential upside when economic expansion returns following the winter slowdown, buyers have remained active in the metro over the past year. As a result, cap rates fell 70 basis points to approximately 6 percent in the last year as deal flow accelerated. Compression will continue on first-year yields for the next several months, though deterioration will not reach the aggressive levels of 2014. An expanding local economy unrelated to port activity is also pushing deal flow. Online retailers, which are focusing on quicker delivery times to remain competitive as sales tax collection becomes more prevalent and same day shipping becomes more popular, are putting smaller distribution facilities in urban areas. Owners offering solid footprints and access to major thoroughfares will benefit from this trend as the little available space is scooped up.

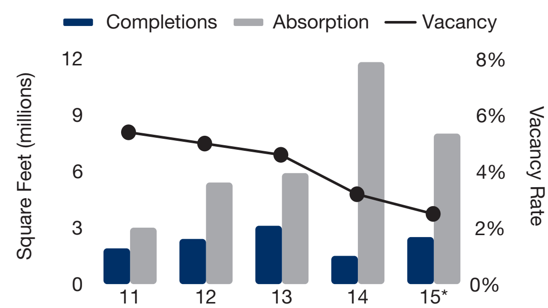
2015 Market Outlook

- **Employment Forecast:** Underlying strength in the Los Angeles economy will spur firms to add 104,000 workers this year, a 2.4 percent expansion. In 2014, employers filled 97,900 positions.
- **Construction Forecast:** After adding 1.5 million square feet last year, construction companies will finish 2.5 million square feet of industrial space this year. This year's completions will increase total inventory just 0.3 percent.
- **Vacancy Forecast:** Los Angeles will boast one of the lowest vacancy rates in the nation at 2.5 percent at year end, an annual improvement of 70 basis points. Last year, vacancy tightened 140 basis points.
- **Rent Forecast:** Average asking rents will climb 6.8 percent in 2015 to $8.49 per square foot, building on last year's 7.3 percent rise.
- **Investment Forecast:** A combination of advancing interest rates and rapidly soaring rents will begin to close the window on owner-users seeking space in the county.

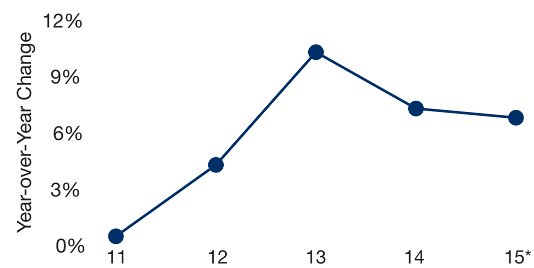
Employment Trends



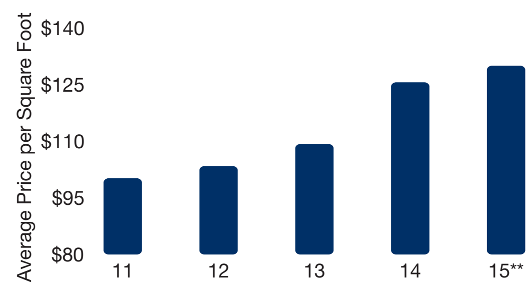
Industrial Supply and Demand



Asking Rent Trends



Sales Trends

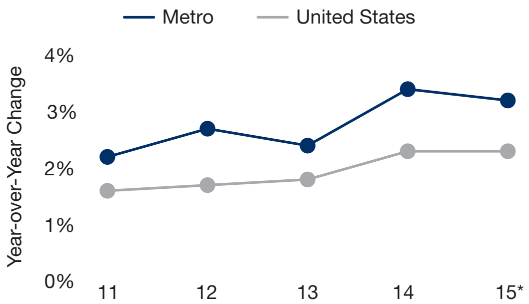


Sources: CoStar Group, Inc.; Real Capital Analytics

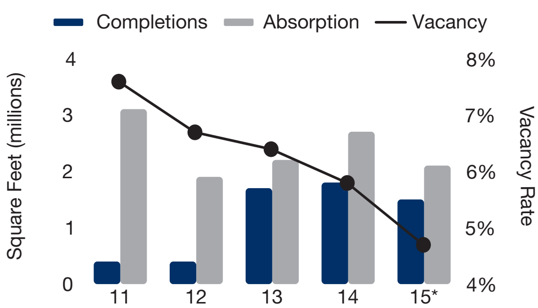
* Forecast ** Trailing 12 months through first quarter

Employment: 2.4% ▲ Construction: 1M ▲ Vacancy: 70 bps ▼ Asking Rents: 6.8% ▲ Market Forecast

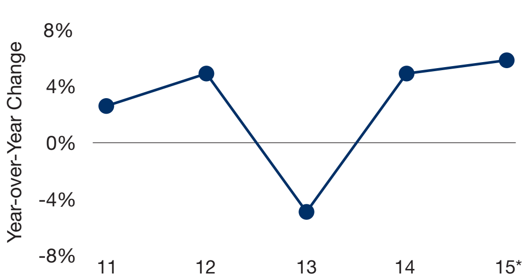
Employment Trends



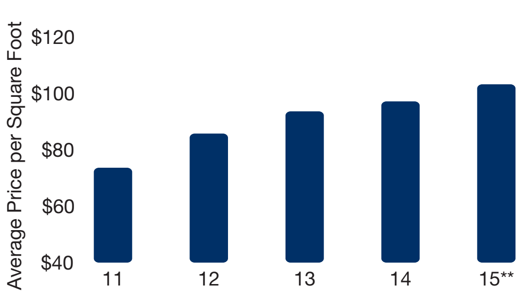
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

* Forecast ** Trailing 12 months through first quarter

Vacancy in Miami-Dade to Tighten Further As Space Demand Swells

Expanding small businesses and the additional lease-up of large spaces that came online during 2014 will drive down vacancy and lift rents in the Miami-Dade industrial sector this year. Job growth, new business formations and a more vigorous local economy have already compressed total vacancy to the lowest levels since before the recession. After several consecutive quarters of positive net absorption, vacancy in properties measuring less than 100,000 square feet slipped to less than 5 percent last year. Small tenants, including those in growing manufacturing and construction fields, will conduct lengthier searches for desirable layouts in the months ahead because of the tighter availability. Users of warehouse and distribution properties measuring 200,000 square feet and more, meanwhile, also face modest challenges finding the most up-to-date layouts due to a lack of construction recently in this niche. As new business opportunities associated with the widening of the Panama Canal emerge, developers will increasingly step up efforts to meet demand for large, modern spaces.

Accordingly, purchasing development sites or assembling multiple parcels will become a focus of many property owners and investors in the year ahead. The lack of construction while the local economy emerged from the recession continues to minimize the presence of large or institutional investors in the county. Less than 10 percent of sales over the past two years involved assets selling for more than $10 million, and sourcing large deals will remain challenging. Conversely, bidding from small investors is strong and intense, and the vast majority of trades will continue to involve properties selling for less than $5 million. Properties in primary industrial submarkets, including Airport West and Hialeah, are especially coveted. Considerable equity from small investors and owner-users is in play in the county, augmented by an inflow of South American capital. Additionally, investors' purchasing power is enhanced by a wider array of debt offered at attractive terms, setting the stage for a vigorous investment market throughout 2015.

2015 Market Outlook

- **Employment Forecast:** Countywide employment will expand 3.2 percent, or by 35,000 jobs, during 2015, outpacing the U.S. rate of growth. Last year, 36,600 positions were created.
- **Construction Forecast:** Completions will total 1.45 million square feet this year, marking a drop from 1.8 million square feet during 2014.
- **Vacancy Forecast:** The vacancy rate in Miami-Dade will tighten 110 basis points in 2015 to 4.7 percent.
- **Rent Forecast:** The average rent in Miami-Dade will advance 5.8 percent this year to $8.15 per square foot following a 4.8 percent increase in the preceding year.
- **Investment Forecast:** The average cap rate from the high-6 to high-7 percent range will continue to draw investors from other property types who are searching for higher yields.

Market Forecast | Employment: 3.2% ▲ | Construction: 335K ▼ | Vacancy: 110 bps ▼ | Asking Rents: 5.8% ▲

Investors and Builders Focus on Northern New Jersey Industrial as Tenant Demand Rises

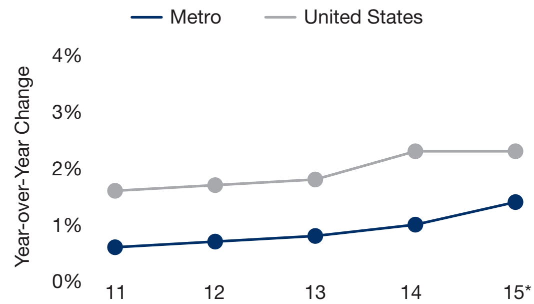
The growing U.S. economy has benefited the Northern New Jersey industrial market as the current retail climate fuels demand for industrial space near the busiest port on the East Coast. In 2014, the Port of New York and New Jersey set an all-time high for total cargo traffic with more than 3.3 million cargo containers passing through the port, up 4.1 percent from the previous high set in 2012. Current infrastructure projects will enable the port to handle increased traffic once the Panama Canal expansion is completed later next year, motivating warehousing and logistics companies to expand their presence throughout the region. In anticipation of future industrial demand, developers are beginning speculative projects, many of which are becoming fully leased before construction is finished, limiting any impact on vacancy. In the first quarter of 2015, average vacancy in the six-county region reached a five-year low of 7.8 percent, and the rate at warehouse and distribution facilities was slightly lower. Tightening conditions are placing upward pressure on asking rents, which are still 12 percent short of the previous high. Nonetheless, declining vacancy has caused average revenue growth to outpace rent gains for the past three years.

Strong operations, potential rent growth and the region's strategic location are driving demand for industrial assets in Northern New Jersey. During the past year, owner-users have been active in the market, accounting for roughly 30 percent of total purchases. A wide array of investors are also scouring the area for available assets, increasing competition among buyers and pushing average prices above the previous high. Warehouse properties captured the most attention with investments garnering cap rates in the mid-6 to mid-7 percent range. Properties with higher ceilings and access to major thoroughfares are drawing yields in the low-6 percent bracket.

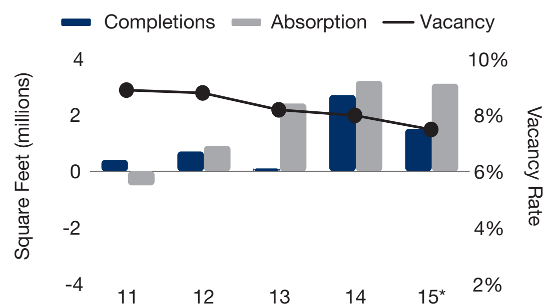
2015 Market Outlook

- **Employment Forecast:** Total employment in Northern New Jersey will increase 1.4 percent this year as employers create 29,000 jobs. Last year, roughly 20,400 positions were added.
- **Construction Forecast:** Developers are scheduled to complete 1.5 million square feet of industrial space in 2015, scaling back from last year's deliveries. In 2014, approximately 2.7 million square feet was placed into service.
- **Vacancy Forecast:** Vacancy will improve 50 basis points this year to 7.5 percent, with net absorption exceeding 3.1 million square feet. In 2014, the vacancy rate recorded a 20-basis-point decline.
- **Rent Forecast:** Tightening vacancy will facilitate a 4.1 percent increase in average asking rents in 2015 to $6.40 per square foot, building on the 3.0 percent gain posted last year.
- **Investment Forecast:** More financial institutions are easing industrial lending standards, providing investors with more capital to make acquisitions and enhancing buyer demand.

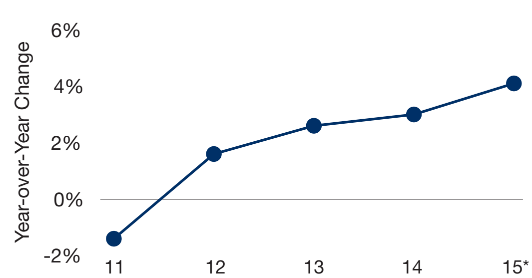
Employment Trends



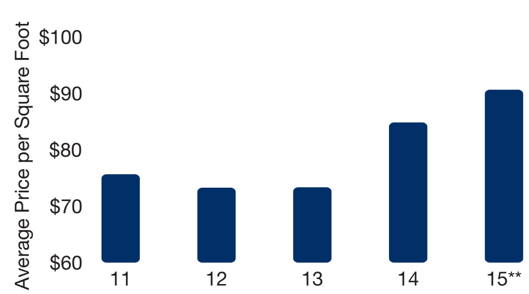
Industrial Supply and Demand



Asking Rent Trends



Sales Trends

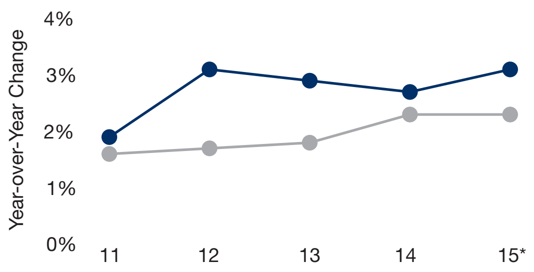


Sources: CoStar Group, Inc.; Real Capital Analytics

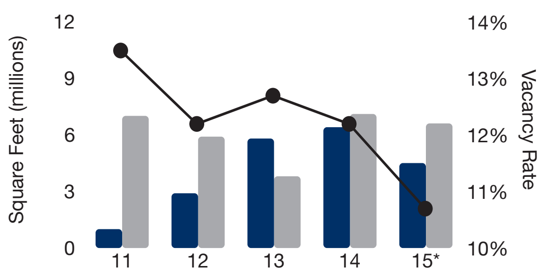
* Forecast ** Trailing 12 months through first quarter

Employment: 1.4% ▲ Construction: 1.2M ▼ Vacancy: 50 bps ▼ Asking Rents: 4.1% ▲ Market Forecast

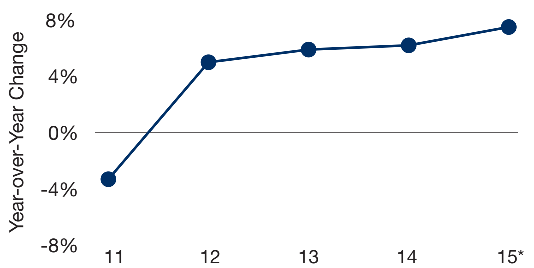
Employment Trends



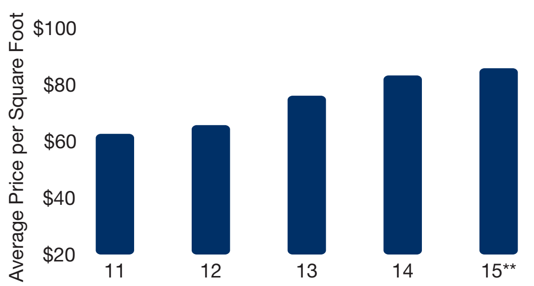
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

Pre-Leased Construction Keeping Vacancy Low; Out-of-State Investors Scour the Market

Rising sales of goods are supporting industrial operations in Phoenix and increasing retailers' warehousing needs in the Valley. Last year's demand led to the strongest industrial absorption in nearly a decade. This year, net absorption is set to surpass last year's total, further boosting builder confidence. Developers are focusing more than half of their 2015 deliveries in the Southeast and Southwest submarkets, where absorption is strongest. While the majority of projects begin on speculation, many are pre-leased before delivery, which should lessen the impact on vacancy. Earlier this year, a nearly 685,000-square-foot speculative project was completed in the Southwest Industrial Center near other distribution facilities for Amazon, Winco, Target and HSN. Build-to-suit projects are also ramping up. In the Southeast submarket, Shutterfly has a 237,000-square-foot production facility under construction to consolidate its Arizona operations. Overall, rising demand will push rents over pre-recession levels this year, with the highest rates in the northern Valley submarkets.

Out-of-state investors, particularly from California, have accelerated their search for industrial assets in the metro, which offers yields that exceed coastal market returns. Cap rates in the Airport submarket have remained stable over the last two years, averaging in the low-8 percent range, though listings remain scarce. Investors have also targeted more readily available opportunities in the Southeast Valley. Competition for assets in this area has tightened yields by 100 basis points over the past year to 7.5 percent. Although local and out-of-state investors aggressively pursued properties, sales velocity has been restrained by the limited number of marketed assets.

2015 Market Outlook

- **Employment Forecast:** Phoenix metro employment rose 3.0 percent in the 12 months ending in March, faster than the national average advance of 2.2 percent. Metro jobs will expand 3.1 percent in 2015, or by 59,000 positions, after a 2.7 percent boost in 2014.
- **Construction Forecast:** In 2015, completions will tick down to 4.5 million square feet after 6.4 million square feet was delivered the year before. Approximately 60 percent of current industrial construction is speculative.
- **Vacancy Forecast:** Robust demand and decelerating construction bode well for the metro's vacancy rate, which will tumble 150 basis points in 2015 to 10.7 percent after falling 50 basis points last year.
- **Rent Forecast:** Low vacancy will foster average asking rent growth of 7.5 percent to $7.34 per square foot this year, above the 6.2 percent swell in 2014. This marks the fourth consecutive year of gains. Rents below $5 per square foot can be found in the Pinal County and Southwest submarkets.
- **Investment Outlook:** Higher first-year yields and lower prices relative to California markets will draw out-of-state industrial investors to Phoenix.

* Forecast ** Trailing 12 months through first quarter

Market Forecast | Employment: 3.1% ▲ | Construction: 1.9M ▼ | Vacancy: 150 bps ▼ | Asking Rents: 7.5% ▲

U.S. Trade and Retail Sales Lift Demand For Riverside-San Bernardino Industrial

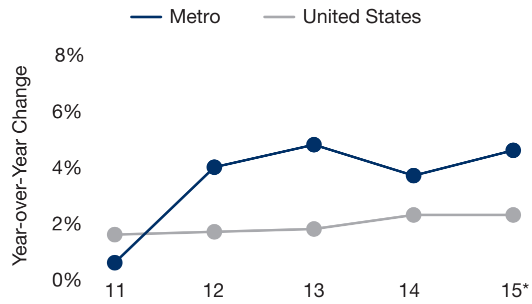
Rising imports entering through the ports of Los Angeles and Long Beach are lifting warehouse space demand in the Inland Empire. Demand for industrial space in the shipping hub has accelerated as consumption of goods on both a local and national level has picked up, which will help push vacancy to a new post-recession low. Steady improvement in property performance is raising industrial developers' confidence, and less than a quarter of this year's completions were pre-leased in the opening period of 2015. In fact, two of the larger projects underway this year are speculative. These are the Majestic Chino Gateway, a 1.4 million-square-foot building near the Ontario airport, and the Perris Valley Logistics Center, a 1.1 million-square-foot facility specifically tailored for e-commerce tenants. Recent leases for new space include those executed by national accounts such as Solo Cup and medical-supply distributor Owens & Minor. The ongoing leasing of new space throughout the year and growing demand for existing layouts will generate more than 23 million square feet of net absorption and support higher rents in 2015.

Tightening operations and higher first-year returns for assets in Riverside-San Bernardino continue to draw investors to the market. Generally, buildings are trading with average cap rates of 6.9 percent, a level 80 basis points higher than the metros closer to the ports, but best-in-class properties can trade sub-5 percent. Investors seeking even higher yields are scouring the east side of the market, particularly north along Interstate 15 and east on Interstate 10. Properties within the cities of Victorville and San Jacinto have recently traded significantly higher, in the high-8 percent range. Throughout the metro, half of the buildings traded were built prior to 2000. However, many owners in the Airport area and the South Riverside submarket are also successfully selling assets that were completed immediately before the recession.

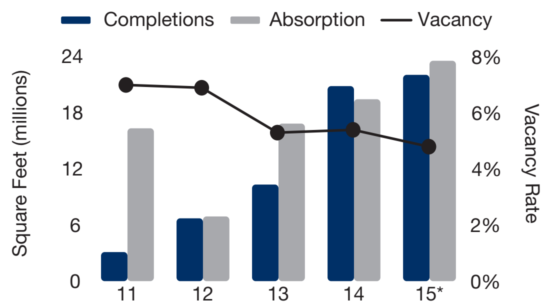
2015 Market Outlook

- **Employment Forecast:** Metro employment will expand by 4.6 percent as employers add 60,000 jobs in 2015. Hiring resulted in a 3.7 percent increase in staffing last year.
- **Construction Forecast:** Developers are preparing to deliver 22 million square feet of industrial product this year, the most of any market in the U.S. and slightly more than the 21 million square feet completed in 2014.
- **Vacancy Forecast:** The average vacancy rate will tighten 60 basis points to 4.8 percent in 2015, the lowest level in nearly a decade. Last year the rate rose 10 basis points as completions exceeded net absorption of more than 19 million square feet.
- **Rent Forecast:** Another year of tight vacancy will support a 5.9 percent rise in the average asking rent to $5.15 per square foot, after 9.2 percent growth in 2014. This will be the fifth consecutive year of rent gains.
- **Investment Forecast:** Strong operations bode well for the metro's industrial assets, bringing in investors seeking revenue growth and higher yields than along the coast.

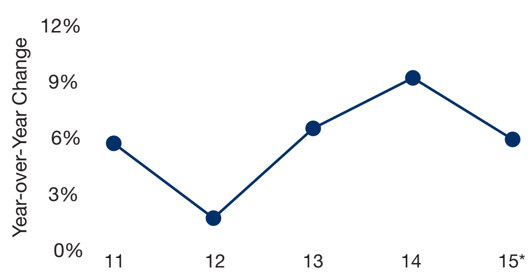
Employment Trends



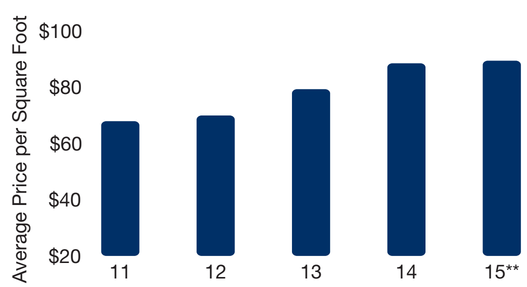
Industrial Supply and Demand



Asking Rent Trends



Sales Trends

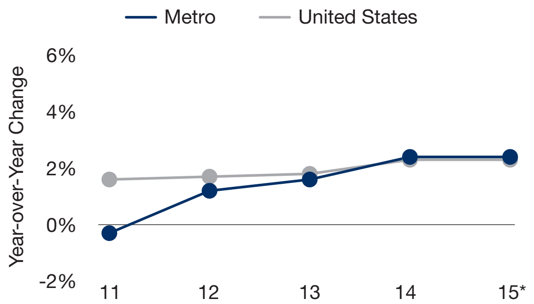


Sources: CoStar Group, Inc.; Real Capital Analytics

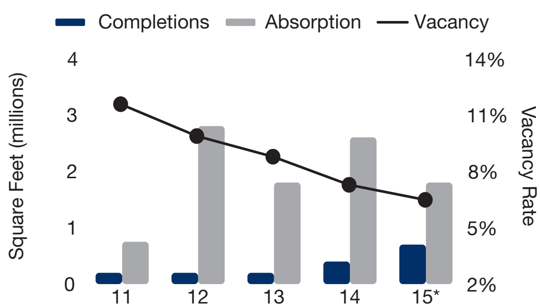
* Forecast ** Trailing 12 months through first quarter

Employment: 4.6% ▲ Construction: 1M ▲ Vacancy: 60 bps ▼ Asking Rents: 5.9% ▲ Market Forecast

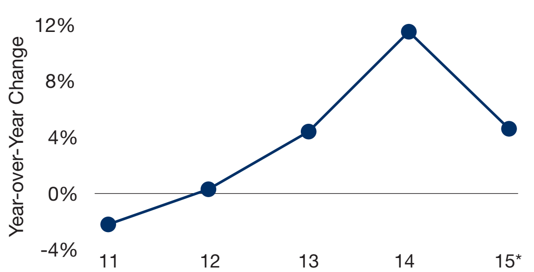
Employment Trends



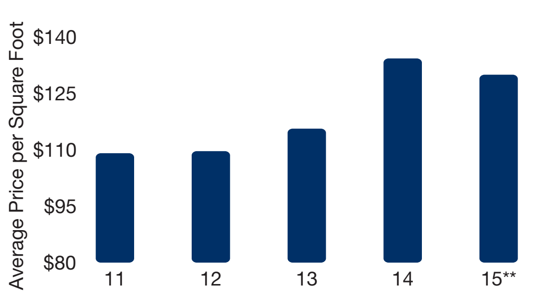
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

* Forecast ** Trailing 12 months through first quarter

Investors Eye San Diego's Industrial Assets; Biotech and Manufacturing Driving Gains

The San Diego industrial sector continues to make headway as both flex and warehouse demand accelerate across the county. Warehouse operations were not impacted by the recession and remain tight. Occupancy has already surpassed the previous peak while rent growth is on pace for a banner year. Flex space remains highly dependent on the county's biotech sector. These growing companies rely heavily upon venture capital funding, and the flow of capital into the sector is intensifying. A rise in venture capital spending over the past year is enabling more firms to expand into larger spaces. As space demand grows further, the flex vacancy rate will fall to pre-recession levels late next year. Supply-side threats, meanwhile, are relatively subdued as developers focus their efforts in the Inland Empire.

Capital is moving south down the coast in search of assets offering higher yields than are available in Los Angeles and Orange counties. Some of these buyers may be disappointed by the limited amount of available assets, though some value-add deals can be found. Industrial properties along the Interstate 15 corridor can be acquired and re-tenanted at higher rents. Warehouse properties that support exports and shipbuilding in the South Bay are also attractive to buyers seeking a foothold in the market. The awarding of several contracts to local contractors recently to build oil tankers and navy ships and perform repairs points to further growth in demand for space to store parts and supplies. Bustling activity in the South Bay will underpin strong warehouse and manufacturing space operations for several quarters. Buyers seeking stabilized, flex properties, meanwhile, will focus their attention in La Jolla near the University of California, San Diego.

2015 Market Outlook

- **Employment Forecast:** After creating 35,500 jobs in 2014, employment will expand 2.7 percent this year, or by 37,000 positions. Approximately 6,000 trade, transportation and utilities jobs will be generated during this time period.
- **Construction Forecast:** Developers will complete nearly 650,000 square feet of space in 2015, expanding stock 0.4 percent. Last year, 365,000 square feet came online.
- **Vacancy Forecast:** Industrial vacancy will continue a downward trend in the coming quarters, falling to 6.5 percent in 2015, an annual decrease of 80 basis points. Last year vacancy plummeted 150 basis points on net absorption of 2.6 million square feet.
- **Rent Forecast:** Asking rents for available space will increase 4.6 percent this year to $11.59 per square foot, building upon last year's substantial 11.5 percent hike.
- **Investment Forecast:** Average cap rates have compressed into the low-6 percent range, nullifying the arbitrage plays that were available a few quarters ago. Nonetheless, some value-add opportunities exist within the metro, which will keep buyers active.

Market Forecast | Employment: 2.7% ▲ | Construction: 300K ▲ | Vacancy: 80 bps ▼ | Asking Rents: 4.6% ▲

Vibrant Seattle-Tacoma Economy Spurs Speculative Construction as Vacancy Tumbles

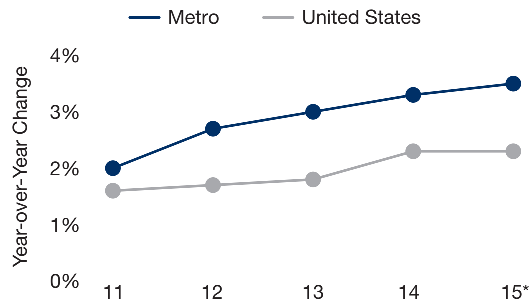
Seattle industrial vacancy tightened to the lowest level in seven years as retailers and distributors have continued to aggressively lease space. As a result, developers accelerated construction activity. This year, inventory additions will reach the highest peak since 2008; the majority consists of warehouse and distribution space. Builders are willing to take on more risk as more than 60 percent of the new inventory is in speculative projects. Pierce County will receive nearly half of this year's total deliveries due to the availability and affordability of land as well as access to the ports in Seattle and Tacoma; the SeaTac airport; and the interstate system. Throughout the metro, the need for distribution space is mounting as retailers such as Amazon and Wal-Mart focus on faster home delivery of goods. While Wal-Mart is scouting the region for a 1 million-square-foot facility, AmazonFresh has leased three smaller locations in downtown Seattle, North Seattle and Kirkland that will provide proximity to a large number of households. Overall, vigorous tenant demand will lower vacancy and boost rent growth this year.

The robust Puget Sound economy is attracting more investors to industrial properties, generating a hearty bidding environment. Interest is growing among institutional buyers, especially for quality assets in south Seattle or the Kent Valley, where cap rates for warehouse space are in the mid-5 percent range. As competition for these properties intensifies, more institutional investors show a willingness to move down the quality ladder, consider smaller properties or look in Pierce or Snohomish counties, where cap rates tend to run 100 to 150 basis points higher. This has boosted transaction volume in cities such as Tacoma, Puyallup and Monroe over the past year. In many Seattle neighborhoods, older industrial assets along major transit corridors are being sought for their redevelopment potential, pushing up the values of surrounding properties.

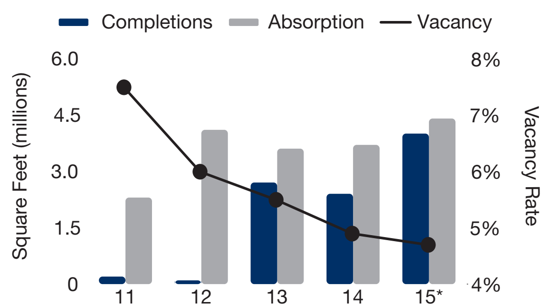
2015 Market Outlook

- **Employment Forecast:** During 2015, metro employers will create 65,000 jobs, a 3.5 percent increase. This is up from a 3.3 percent gain last year, which dropped the unemployment rate to 5.1 percent.
- **Construction Forecast:** After the completion of 2.4 million square feet last year, construction activity is accelerating. During 2015, 4.0 million square feet will come online, nearly all of which is warehouse and distribution space.
- **Vacancy Forecast:** The rise in speculative construction will slow the pace of vacancy improvement. This year, vacancy will contract 20 basis points to 4.7 percent as net absorption reaches 4.4 million square feet. This follows a 60-basis-point vacancy decline in 2014.
- **Rent Forecast:** New speculative inventory will push rents higher. The average asking rent will increase 2.5 percent to $6.92 per square foot in 2015, well above the 0.9 percent advance recorded last year.
- **Investment Forecast:** The completion of nearly 2.5 million square feet of speculative construction will lure additional institutional investors to the metro. The largest portion will be in the Puyallup/South Hill submarket.

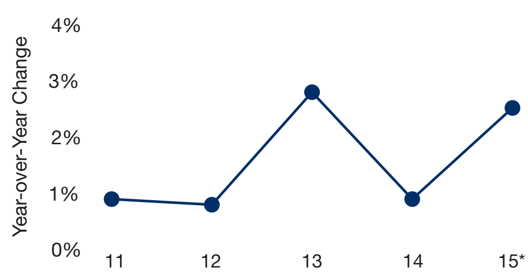
Employment Trends



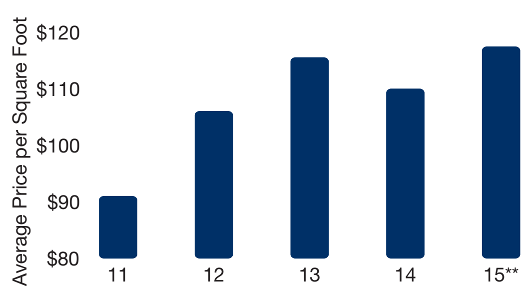
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

* Forecast ** Trailing 12 months through first quarter

Employment: 3.5% ▲ Construction: 1.6M ▲ Vacancy: 20 bps ▼ Asking Rents: 2.5% ▲ Market Forecast

MSA Name	Employment Growth		Completions (000s of Sq. Ft.)		Vacancy (Year-End)		Asking Rent per Sq. Ft.	
	14	15*	14	15*	14	15*	14	15*
Atlanta	4.0%	3.1%	4,400	16,500	8.3%	8.4%	$3.53	$3.76
Chicago	1.2%	1.4%	9,400	8,400	8.1%	6.9%	$4.95	$5.24
Dallas/Fort Worth	4.1%	2.7%	17,300	20,000	7.2%	7.9%	$4.75	$5.09
Denver	4.0%	4.0%	2,300	2,000	4.0%	3.4%	$6.34	$7.29
Detroit	1.9%	2.1%	700	1,800	8.7%	8.3%	$4.33	$4.55
Harrisburg	1.1%	1.0%	300	4,000	6.3%	6.1%	$3.81	$3.89
Houston	3.8%	0.8%	8,600	10,000	4.9%	5.5%	$6.10	$6.18
Indianapolis	2.0%	2.5%	4,950	3,000	8.2%	8.4%	$3.69	$3.74
Los Angeles	2.3%	2.4%	1,530	2,500	3.2%	2.5%	$7.95	$8.49
Miami-Dade County	3.4%	3.2%	1,790	1,450	5.8%	4.7%	$7.70	$8.15
Minneapolis-St. Paul	1.8%	2.1%	1,820	3,600	6.8%	6.7%	$5.85	$6.14
Northern New Jersey	1.0%	1.4%	2,690	1,500	8.0%	7.5%	$6.15	$6.40
Oakland	3.0%	2.7%	1,560	3,000	7.0%	6.5%	$8.54	$9.24
Orange County	3.0%	2.6%	1,190	400	4.1%	3.6%	$8.19	$8.58
Phoenix	2.7%	3.1%	6,420	4,500	12.2%	10.7%	$6.83	$7.34
Riverside-San Bernardino	3.7%	4.6%	20,840	22,000	5.4%	4.8%	$4.86	$5.15
San Diego	2.7%	2.7%	370	650	7.3%	6.5%	$11.08	$11.59
Seattle-Tacoma	3.3%	3.5%	2,360	4,000	4.9%	4.7%	$6.75	$6.92
Washington, D.C.	1.4%	1.5%	900	2,600	9.4%	8.9%	$7.74	$8.03
U.S. Metro Total	2.3%	2.3%	129,000	130,000	7.2%	6.5%	$5.67	$5.97

* Forecast

Marcus & Millichap

NATIONAL OFFICE AND INDUSTRIAL PROPERTIES GROUP

National Office and Industrial Properties Group

Alan L. Pontius | Senior Vice President

National Director

Tel: (415) 963-3000 | alan.pontius@marcusmillichap.com

Prepared and edited by

Marcus & Millichap Research Services

For information on additional research materials, contact

John Chang | First Vice President

Research Services

Tel: (602) 687-6700 | john.chang@marcusmillichap.com

www.MarcusMillichap.com

Note: Employment growth is calculated using seasonally adjusted monthly averages. Employment and industrial data forecasts for 2015 are based on the most up-to-date information available and are subject to change. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Economy.com; Port Authority of New York and New Jersey; The Port of Los Angeles and Real Capital Analytics.