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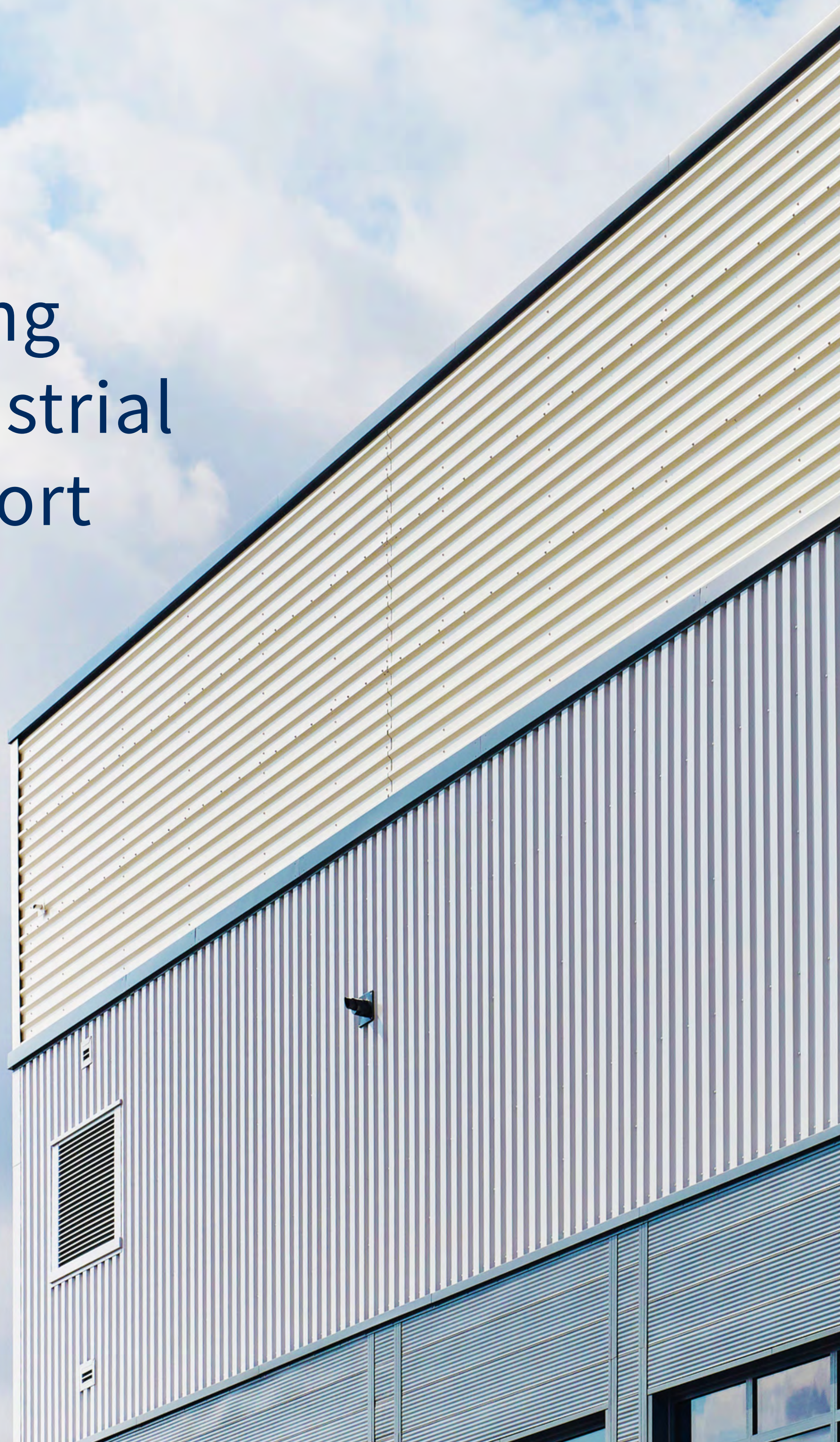
Avison Young Global Industrial Market Report

Spring 2019



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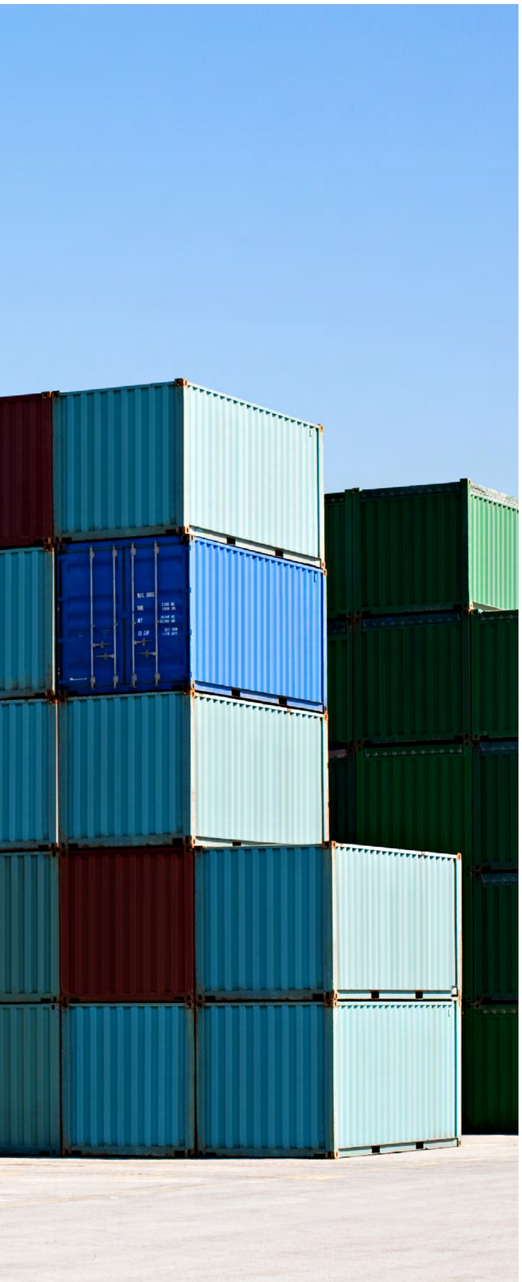

Avison Young Spring 2019
Global Industrial Market Report

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Canada

E-commerce demand sparks tight conditions, investor appetite

Canada's industrial market has started 2019 on a strong footing, building on the exceptional results achieved in 2018. While Vancouver and Toronto remain key markets for occupiers and investors, scarcity of product was evident in the single-digit vacancy rates posted across the country in the first quarter of 2019. Nationally, the industrial sector remains undersupplied – demand is outpacing new development and will continue to do so, even though almost twice as much space is under construction compared with spring 2018. This supply-demand imbalance has pushed rental rates higher in almost all markets, attracting investors and resulting in low yields and rising asset values.

E-commerce remains the industrial sector's catalyst for success as retailers and developers strive to perfect the supply chain. Online giants such as Amazon are impacting market dynamics in terms of scale and location with their demand for large distribution/fulfilment facilities near urban centres, resulting in rising land and development costs amid dwindling supply of developable land. This situation is most apparent in Toronto and in Vancouver, where strata units increasingly offer the only opportunities for developers to justify their land costs. A focus on multi-storey facilities may be the next logical step to make the most of restricted urban sites. Elsewhere, municipal property taxes continue to influence site selection in Calgary and Edmonton, encouraging development beyond city boundaries, while high land prices on the Island of Montreal are pushing some developers to the outskirts.

Canada's industrial market is expected to remain active throughout 2019 with restricted supply posing challenges for occupiers and investors. However, necessity is the mother of invention, and these circumstances may lead to creative and innovative solutions for the thriving industrial sector.

Canada Quick Stats

Overall Industrial Market

Inventory	**2 BSF**
Vacancy	**3%**
Under Construction	**26.9 MSF**
Avg. Net Asking Rents	**$8.66 PSF**
Avg. Sales Prices	**$154 PSF**

E-commerce remains the industrial sector's catalyst for success as retailers and developers strive to perfect the supply chain.

Notable First Quarter 2019 Industrial Market Highlights

Record-Low Vacancy

Canada's industrial vacancy rate remains at a historic low, ending first-quarter 2019 at 3% – down 70 basis points (bps) from the same quarter in 2018. **Ten of the 11 markets surveyed reported lower vacancy year-over-year** and single-digit vacancy rates (with four markets posting rates below the national average.)

Absorption Totals Up

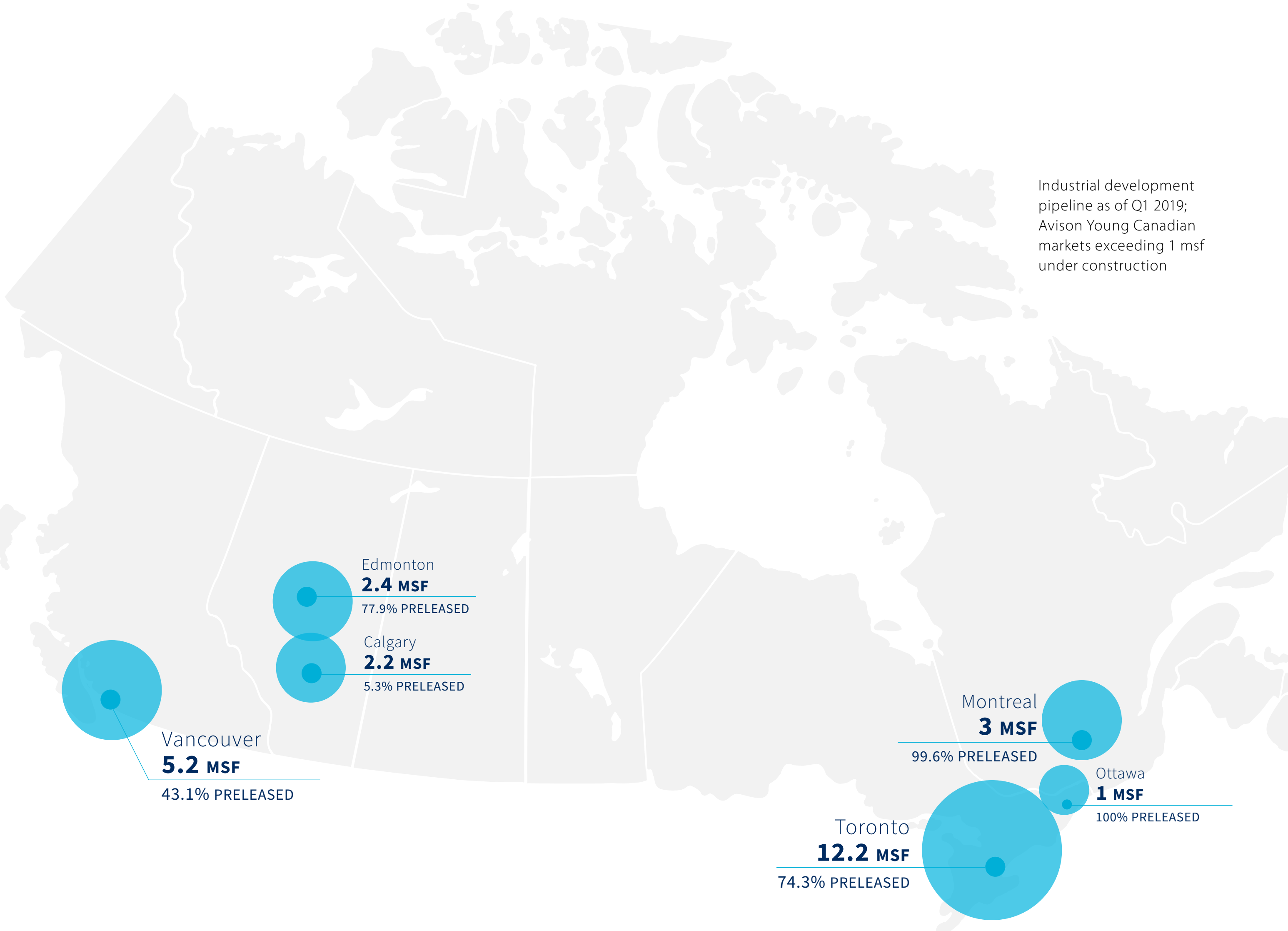
Twelve-month absorption totalled more than 27 million square feet (msf) – up from almost 20 msf in the previous 12-month period. **Toronto accounted for slightly more than half (52%) of the nation's absorption tally**, while strong year-over-year gains were posted by Vancouver, Calgary and Montreal.

Inbound Capital

Investors poured $7.8 billion into the Canadian industrial property sector during the 12 months ending in March 2019 (up 7% year-over-year). Nearly two-thirds of that total was directed to Toronto and Vancouver, which also recorded the lowest yields among large North American markets (4.6% and 3.9%, respectively).

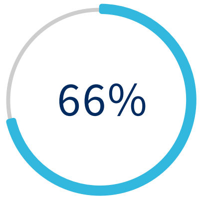
Sale Prices Increase

The national **average sale price per square foot (psf) increased $20**, or 15%, year-over-year to $154 psf. Vancouver's figure (up 37% to $387 psf) was more than twice the national average, while Calgary (up 32% to $209 psf) was the only other Canadian market to breach the $200-psf mark.

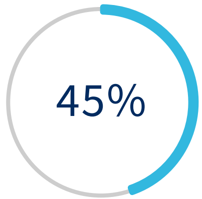


Development pipeline remains robust

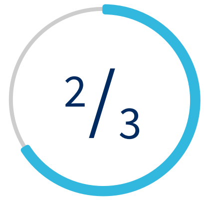
Year-over-year, the total industrial area under construction jumped to 27 msf (66% preleased) from 16 msf. The 27 msf total equated to only 1.3% of Canada's existing industrial stock of 2 billion square feet (bsf). Total area under construction more than doubled in the country's largest industrial market, Toronto (12.2 msf). Vancouver (5.2 msf) led the West, while construction doubled in Montreal (3 msf).



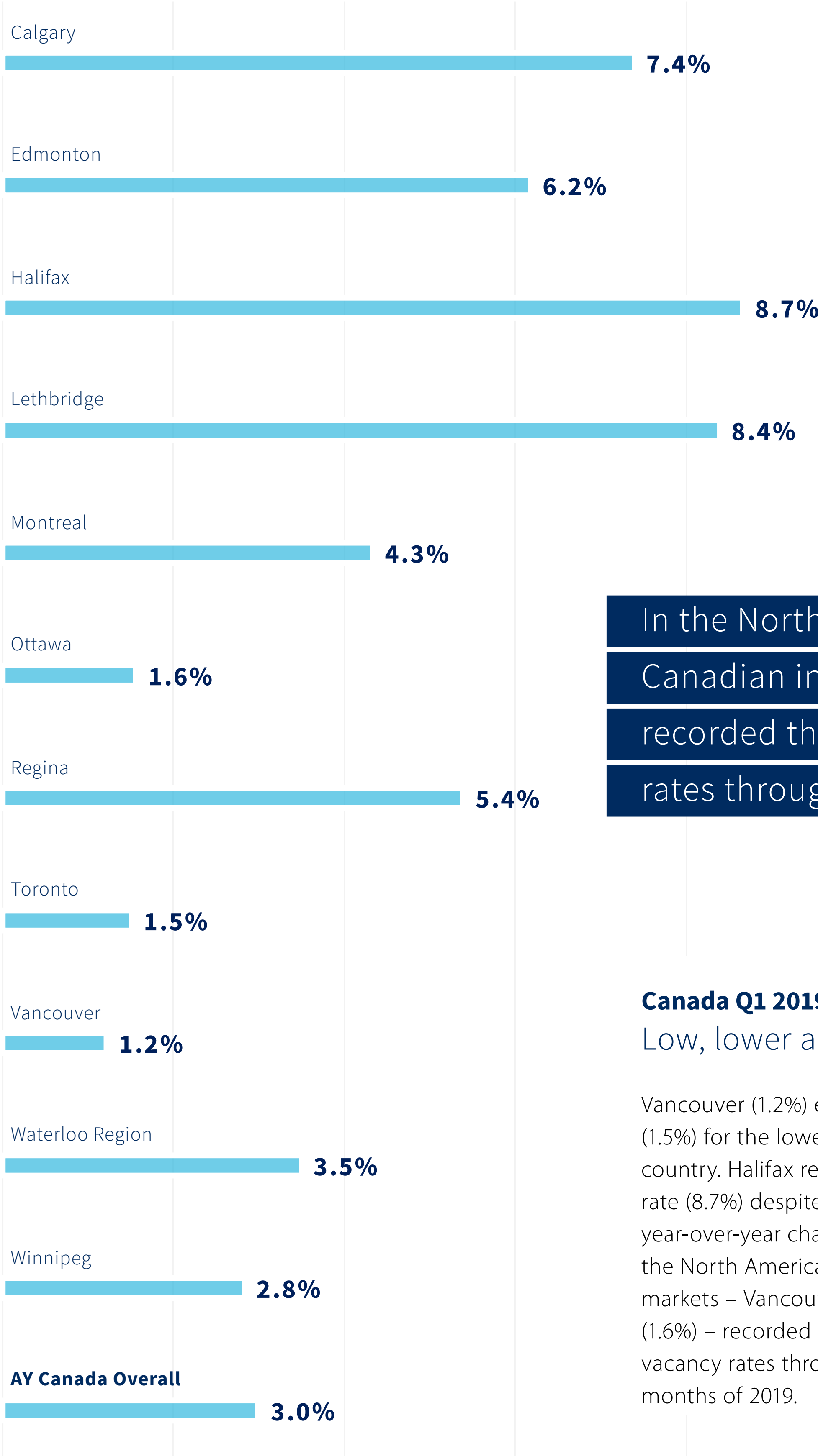
Total industrial area under construction across Canada jumped nearly 66% year-over-year.



Toronto accounts for 45% of the total industrial area under construction across Canada.



Two-thirds of the 27 msf industrial area under construction across Canada is preleased.



> In the North American context, Canadian industrial markets recorded the three lowest vacancy rates through first quarter 2019.

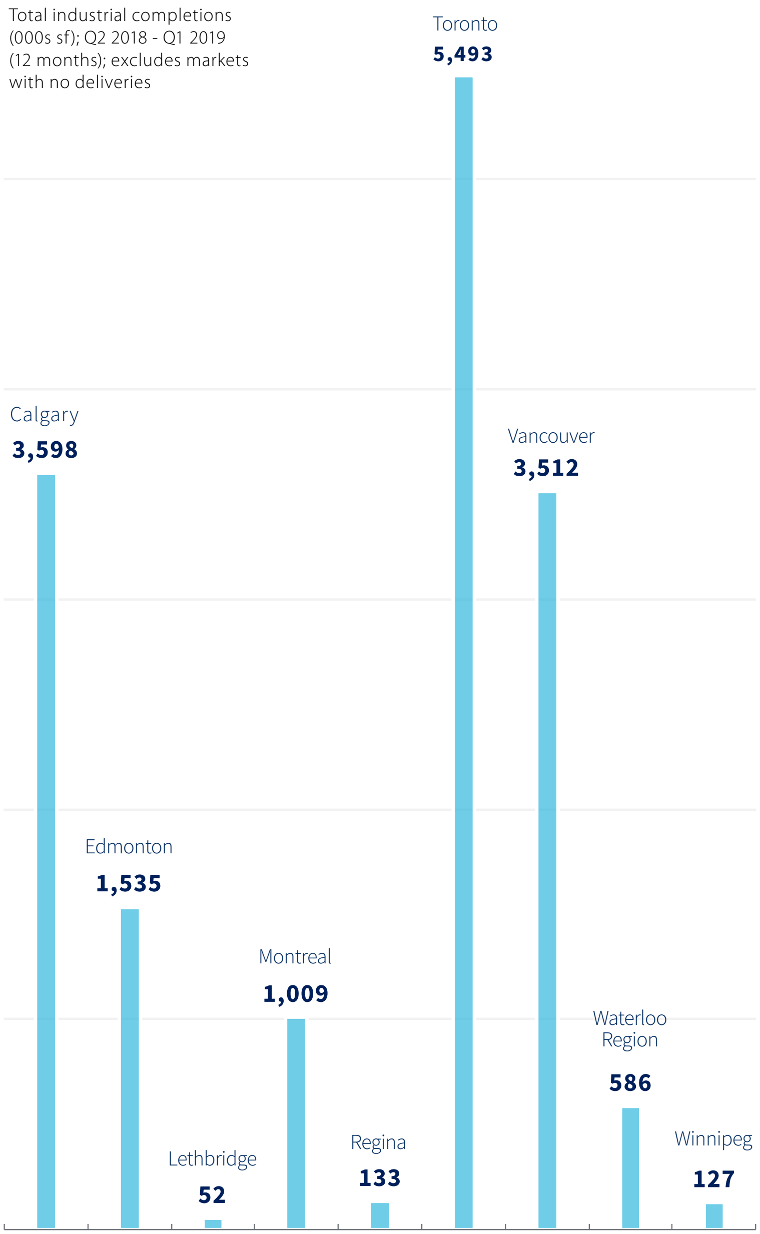
Canada Q1 2019 Industrial Vacancy

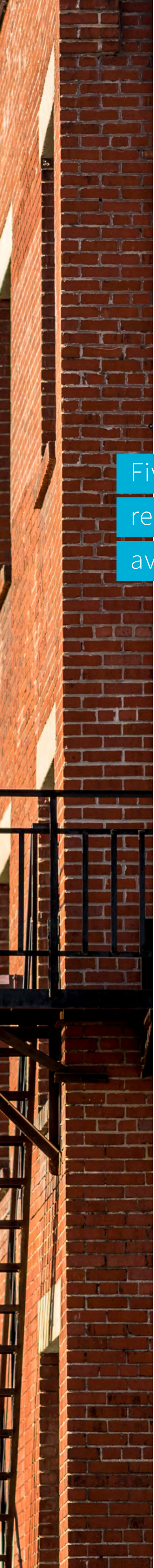
Low, lower and lowest...

Vancouver (1.2%) edged out Toronto (1.5%) for the lowest vacancy in the country. Halifax retained the highest rate (8.7%) despite posting the greatest year-over-year change (-420 bps). In the North American context, Canadian markets – Vancouver, Toronto and Ottawa (1.6%) – recorded the three lowest vacancy rates through the first three months of 2019.

Annual industrial supply deliveries double

Annual new industrial supply deliveries doubled to 16 msf – evenly distributed between Western and Eastern markets. Toronto led all markets with 5.5 msf of new industrial product built, representing one-third of the national total. Calgary (3.6 msf) and Vancouver (3.5 msf) followed, while both Calgary and Edmonton showed a significant uptick in completions year-over-year.



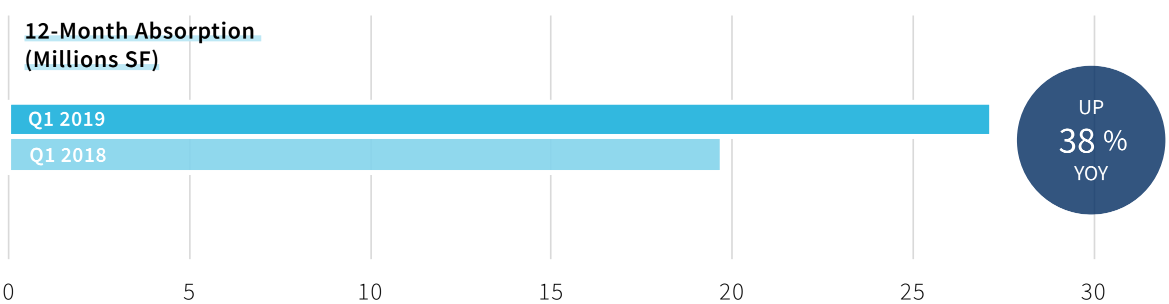


Strong tenant demand and limited supply boost net asking rents across Canada

Strong tenant demand in Montreal, Toronto and Vancouver lifted Canada's average net asking rental rate to a high of $8.66 psf at the end of the first quarter of 2019. Five markets posted rents above the national average. Rents were highest in Vancouver ($11.49 psf). Regina ($10.94 psf) and Ottawa ($10.66 psf) were the other two markets achieving more than $10 psf, while Montreal ($6.71 psf) registered the biggest annual rental-rate increase – up 11%.

Five markets posted rents above the national average of $8.66 psf

Total net absorption up across Canadian industrial markets



United States

Last-mile logistics fuel more adaptive reuse projects

The 12-bsf U.S. industrial market continues to record exponential supply growth as it adapts to the modern requirements of occupiers. Last-mile logistics are fuelling more adaptive reuse projects and urban-centric industrial occupancy patterns. The world's largest e-commerce companies are driving demand for build-to-suit distribution centres that are fully automated and reliant on technology to create supply-chain efficiencies. In land-constrained metros, the redevelopment of obsolete assets like vacant big-box retail stores and aged office buildings is a growing trend that caters to demand for close-in storage, warehousing and distribution.

The largest U.S. markets remained extremely healthy and landlord-favourable, while emerging markets in the South and West registered wide-ranging development and leasing growth during the past 12 months. The average U.S. industrial vacancy rate was unchanged at 5% compared with one year earlier. Despite the strong leasing market indicators, the lack of vacant and available space limited growth opportunities; as a result, net absorption was down 19% year-over-year to 195 msf. With a rising construction pipeline of 274 msf, and that

Notable First Quarter 2019 Industrial Market Highlights

29/46

Vacancy

Vacancy fell or remained flat in **29 of 46 industrial markets**, and several secondary markets outperformed.

32/46

Absorption

Net absorption between first-quarter 2018 and first-quarter 2019 was **lower or flat in 32 of 46 industrial markets** when compared with the previous 12-month period.

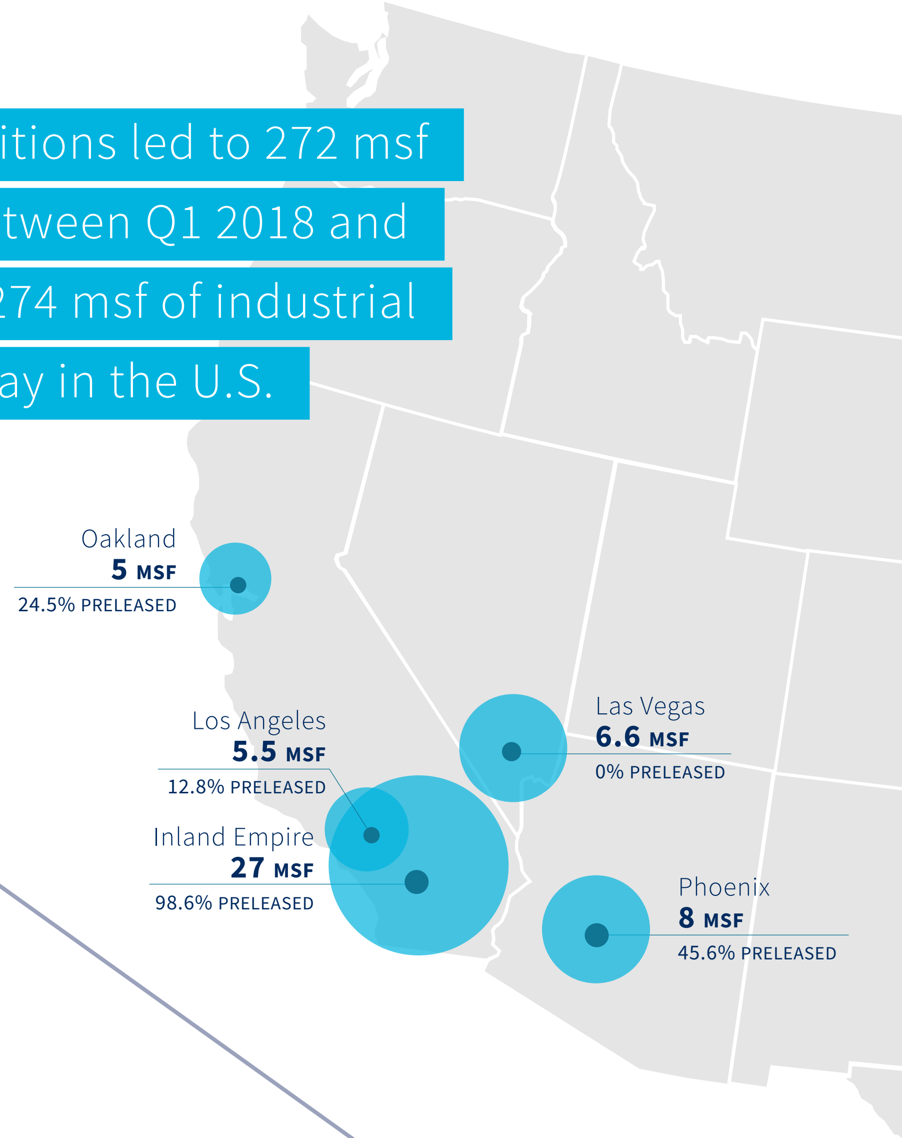
The biggest occupancy gains were in Dallas (+23.4 msf), Detroit (+19.9 msf), Atlanta (+17.8 msf), Inland Empire (+17.7 msf) and Chicago (+15.0 msf). **Eight markets registered negative net absorption** compared with only one a year earlier.

40/46

Average Asking Rents

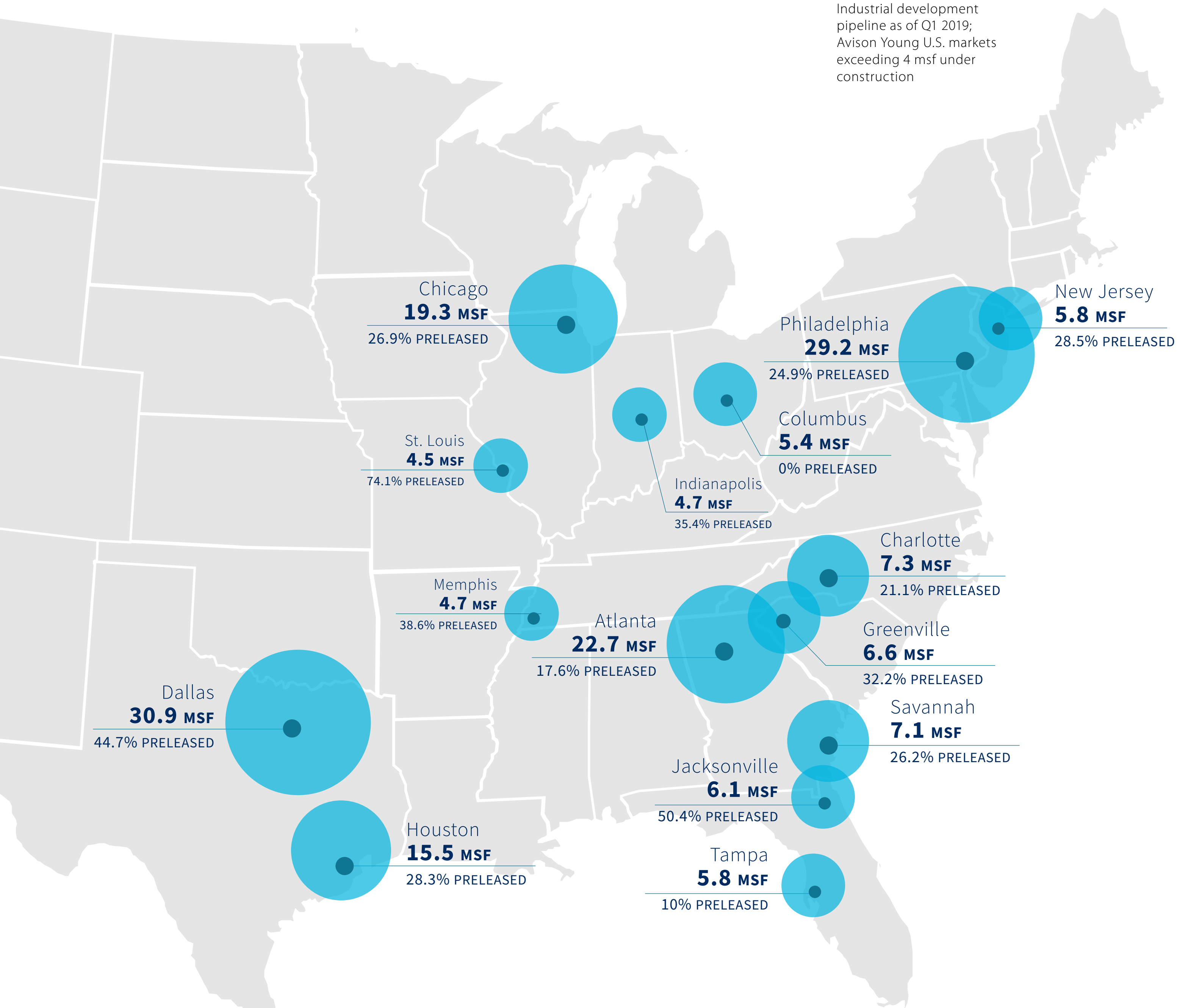
Leasing demand for quality and new space, together with tenant competition, boosted the average rental rate $0.63 psf year-over-year to $8.07 psf NNN nationally. Asking rents **increased or remained flat in 40 of 46 industrial markets**.

Tight market conditions led to 272 msf being delivered between Q1 2018 and Q1 2019. Another 274 msf of industrial product is underway in the U.S.



space only partially preleased, vacancy could tick upward slightly in the coming months. Despite this chance of rising vacancy, nearly all industrial markets remain significantly supply-constrained, and all U.S. markets monitored by Avison Young reported single-digit vacancy rates.

Investment volume climbed to $54.9 billion in the 12 months ending in first-quarter 2019, compared with $50.5 billion for the prior 12 months with demand for product surging and many new entrants trying to get a foothold in the asset class. Sale prices rose 15% year-over-year to an average $116 psf. A shifting dynamic has evolved as sector participants leap to secondary markets that have lower land and labour costs and higher growth potential for investors. In fact, investment volume increased noticeably in Greenville, Charleston, Memphis and Savannah, while the markets with the most investment volume were Chicago ($6 billion), San Francisco ($4.5 billion), Los Angeles ($4 billion), Inland Empire ($3.4 billion) and Atlanta ($3.2 billion). With capital available and investor appetite strong, investment is expected to increase throughout 2019.



272 MSF

COMPLETIONS

Industrial completions over the 12 months ended March 31, 2019.

274 MSF

UNDER CONSTRUCTION

Industrial inventory under construction at the end of Q1 2019.

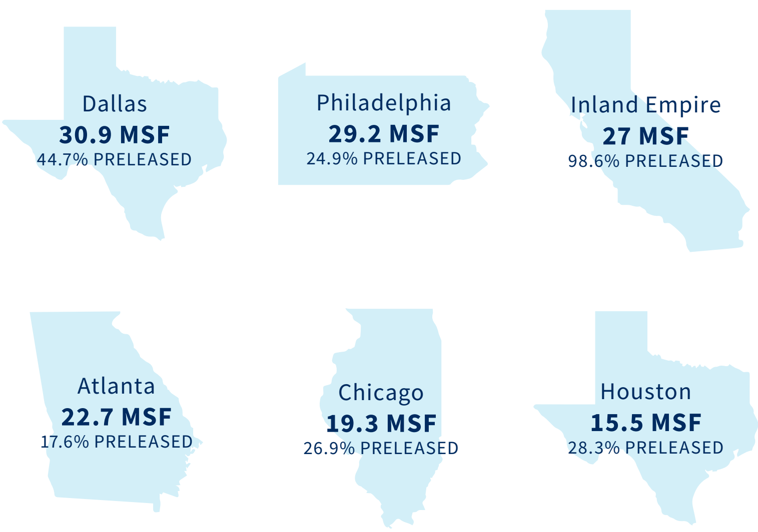
36.5%

PRELEASED

Of the 274 msf under construction, only 99.8 msf is preleased.

U.S. industrial development pipeline continued to boom...

The U.S. industrial development pipeline continued to boom, and 274 msf of new inventory was under construction at the end of the first quarter of 2019. Six markets each had more than 15 msf underway and together accounted for 53% of all construction volume in the U.S.

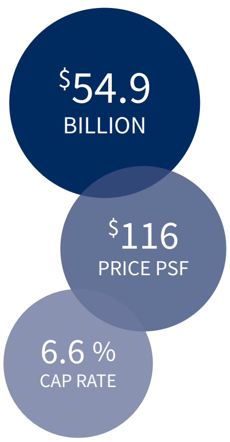


Increased demand boosts sales volume and prices

Total industrial sales volume was $54.9 billion, up 8.9% year-over-year.

Bolstered by rising rental rates and record investor demand, the average sale price increased $15 psf to $116 psf.

The average cap rate for industrial assets remained level at 6.6%.



U.S. Q1 2019 Industrial Vacancy

Vacancy falls or remains flat in most U.S. markets

Vacancy fell in several major markets, such as:

- Atlanta (-60 bps to 5.6%)
- Inland Empire (-60 bps to 4.9%)
- Detroit (-30 bps to 2.6%)

While vacancy rose in other major markets, like:

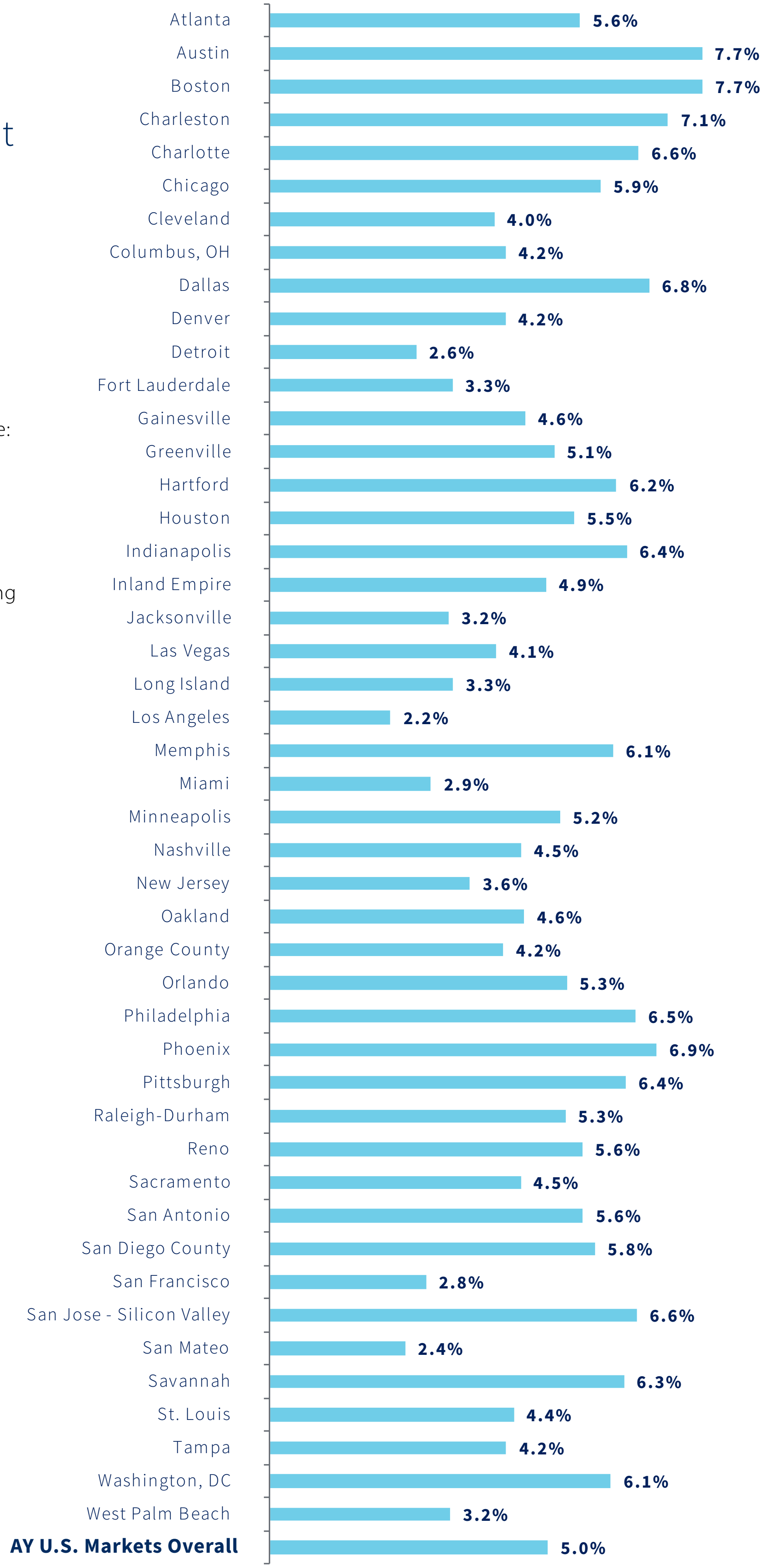
- Dallas (+120 bps to 6.8%), and
- Houston (+70 bps to 5.5%)

Smaller markets in the South and West outperformed in a number of metrics, including vacancy. The markets with the greatest decreases in vacancy were:

- Gainesville (-180 bps to 4.6%)
- Fort Lauderdale (-140 bps to 3.3%)
- Charleston (-140 bps to 7.1%); and
- Las Vegas (-100 bps to 4.1%).

With a rising construction pipeline of 274 msf and that space only partially preleased, vacancy could tick upward slightly in the coming months.

Despite this chance of rising vacancy, nearly all industrial markets remain significantly supply-constrained, and all U.S. markets monitored by Avison Young reported single-digit vacancy rates.



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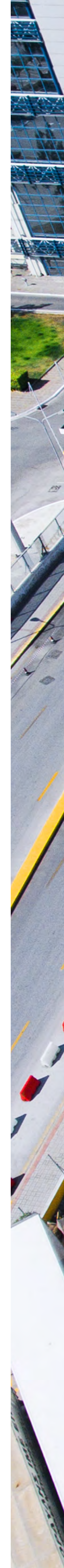
Mexico

Complex macroeconomic conditions provide new opportunities

Industrial assets represent 857 msf, or approximately 40% of the commercial real estate inventory in Mexico. In recent years, continued volatility in the financial markets and complex macroeconomic conditions have provided new opportunities for Mexico's industrial real estate market, resulting in growing supply dynamics. As of the first quarter of 2019, a total of 21.6 msf was under construction – including expansions, build-to-suits and speculative projects. This activity reflected strong demand (as evidenced by 5.6 msf of net absorption in the trailing 12-month period) and preleases on speculative supply from key manufacturing industries conducting global export business (including automotive, electronics, aerospace, and medical devices), which represented US$387.4 million in annual export revenue. Activity was led by the country's northern markets as well as the strength of logistics and distribution centres oriented towards servicing regional markets that are being driven by growth in consumer online retail sales. Increasing Internet penetration is resulting in stronger e-commerce sales throughout the country. According to Mexico's National Institute of Statistics (INEGI), e-commerce sales increased 25% year-over-year in the first three months of 2019, and grew from 3% of the national GDP in 2013 to 4.6% in 2017.

As of the first quarter of 2019, Mexico City, Monterrey and Tijuana represent 37% of the country's total industrial inventory. Industrial rental rates rose 3% from the same quarter in 2018, driven by contract increases with a weighted average contract life of 5.1 years and positive renewal spreads with a weighted average leasing rate of $4.67 psf. The central region, including Mexico City and its metropolitan area, posted asking rates 20% higher than the average rate across Mexico. Industrial vacancy rates in Mexico City were 180 bps below Mexico's national average of 5.8%, and are forecasted to remain unchanged or tighten during the next 12 months. The forecast for industry dynamics in 2019 will continue to be positive given the confidence that prevails in manufacturing and logistics. Consumer confidence is expected to result in a boom in logistics and distribution over the next several years and the opportunity for existing key industries such as logistics and medical devices to further diversify and expand.



Notable First Quarter 2019 Industrial Market Highlights

Inventory

Total industrial inventory was **857 msf** across Mexico.

Construction

21.6 msf under construction, including expansions, build-to-suits and speculative construction led by Mexico City, Guadalajara and Monterrey.

Net Absorption

5.6 msf net absorption in the 12 months ending with first-quarter 2019. **Mexico City's industrial absorption represented 41% of the national total,** followed by Monterrey at 17% and Tijuana at 8%.

Asking Rental Rates

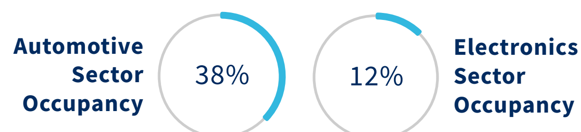
Average asking rental rates rose 3% year-over-year, and this rate of growth is expected to persist through the rest of 2019. As of first-quarter 2019, the **weighted average leasing rate was $4.67 psf**. Rates in the Central Region were 20% higher than the average rental rate across Mexico. Favourable long-term contract dynamics have resulted in a weighted average lease term of 5.1 years.

Industry Dynamics

The forecast for 2019 is that **industry dynamics will continue to be positive** given investor confidence in manufacturing and logistics, consumer spending, and e-commerce sales growth of 38% year-over-year in 2018, according to the Mexican Association of Online Sale (AMVO).

The forecast for industry dynamics in 2019 will continue to be positive given the confidence that exists in manufacturing, trade, proximity to the U.S. border and sound market fundamentals.

A growing boom in logistics and distribution for the coming years will lead to further diversification and expansion of current key industries (such as the medical-device industry) that are forming clusters in northern markets such as Ciudad Juárez. The automotive sector has grown to account for 38% of Mexico's entire industrial occupancy by square footage, while the electronics sector occupies 12%.



Uptick in industrial absorption

Poland

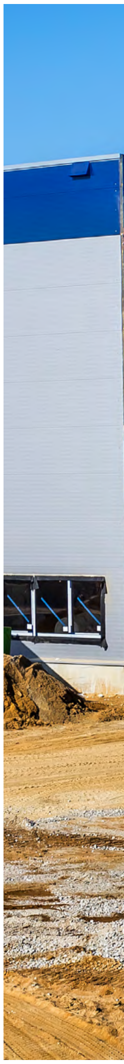
More warehouse development expected in 2019

The Polish industrial sector posted strong results in 2018, with growth outpacing other countries in the region. Between April and December, the total industrial inventory in Poland increased by 1.8 million square metres (sq. m). At the end of the year, 1.9 million sq. m of industrial space was under construction (with 64% preleased), a total which was comparable to the same period one year earlier. Average asking rental rates remained stable year-over-year. In Warsaw, rents in the Inner City submarket ranged between €3.50 per sq. m and €4.50 per sq. m. In other parts of Poland, rents ranged from €2 per sq. m to €3 per sq. m depending on the region and location.

Net absorption in the last three quarters of 2018 increased in comparison with the same period in 2017, boosted by the country's rapidly growing economy and ongoing high demand mainly from logistics operators, retail companies and the e-commerce sector.

Record investment transaction volume occurred in the last three quarters of 2018, amounting to nearly €1.8 billion – a 75% increase year-over-year. Yields are decreasing slowly, hovering in the high-5% range for long-term build-to-suit projects and the low-6% region for prime multi-tenant warehouses.

In the remainder of 2019, further dynamic development is expected to occur in the warehouse sector. The main factors driving growth in the sector are the still low saturation of 0.4 sq. m of warehouse space per capita and the strong demand generated by the brick-and-mortar retail and e-commerce industries.



Net absorption was strong with an increase in occupied area of nearly 2.5 million sq.m thanks to robust market demand for new warehouse space – especially from logistics operators, conventional retailers and e-commerce firms.

POLAND INDUSTRIAL MARKET QUICK STATS

Average asking net rental rates for industrial space across the country remained stable year-over-year at **€4 per sq. m.**

Nationally, the average industrial vacancy rate remained low at **5.3%**.

Area under construction remained stable year-over-year, with **1.9 million sq. m** underway (64% preleased).

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Romania

Industrial market reaching new heights

Bucharest is Romania's main industrial centre, and the city's industrial inventory continued to expand with nearly 352,000 sq. m added to the market in the 12 months ending with the first quarter of 2019 for a total of 1.86 million sq. m. Of the total new construction delivered between second-quarter 2018 and first-quarter 2019, nearly 40% was preleased. This construction activity is indicative of the ongoing need for new product, especially consumer-goods-distribution facilities.

The booming activity is being fuelled by increasing consumption as a consequence of the government's minimum-wage increase, which has led to materially higher disposable incomes. In 2018, many retailers and distributors consolidated or made large-scale moves. CTP and WDP continued to be the most active industrial developers in Romania, followed by P3, Olympian and Logicor. New entrants to the market included Element Development and MLP. E-commerce retailer EMag was responsible for an important new completion with its 126,000-sq.-m facility in Bucharest delivered at the end of 2018.

New logistics facilities developed on a speculative basis increased the overall vacancy rate to 3.2% by the end of first-quarter 2019 as compared with the 2% rate registered in fourth-quarter 2018. Given that the occupancy rate is at a very high level (approximately 97%), average monthly rental rates remained stable with class A warehouses leased for €3.50 per sq. m to €4.25 per sq. m.

New leases accounted for only 20,000 sq. m in Bucharest during the first quarter of 2019. But the modest activity followed a record of about 200,000 sq. m of new lease transactions registered in 2018. Leasing activity is expected to remain vibrant through 2019, as there is no end in sight to the growth of the Romanian market. All major local players have projects underway in the dominant A1/West submarket of Bucharest and, as logistics hubs develop further around Romania's major cities, the industrial and manufacturing sectors are searching for new destinations across the country, particularly those offering a more affordable labour force.

Notable First Quarter 2019 Industrial Market Highlights

Look for Large Deliveries in 2019

Large deliveries of new space are expected in 2019, bringing new players to the market. The increase in competition for tenants will likely result in a **decrease in rental rates** compared with the previous year.

Average Industrial Investment Yield Expected to Drop

The average investment yield on Romania's industrial assets is expected to **drop below 8.5%**, the rate established in 2018.

Spec Developments Increase Vacancy

New logistics facilities developed on a speculative basis increased the **overall vacancy rate to 3.2%** by the end of first-quarter 2019 as compared with the 2% rate registered in fourth-quarter 2018.

Lack of Infrastructure Creates Challenges

Lack of infrastructure will remain the **biggest challenge** for the industrial real estate market in Romania in 2019.

Tight labour market shifts industrial market boundaries

The labour market continues to be tight – this factor will push tenants to search for new locations in areas such as Eastern and Southern Bucharest; or eastern and southern areas of the country.

The loosening of regulations related to labour-force migration will result in an increasing number of workers coming from other countries – mostly in Asia. This movement will create new demand for industrial-park tenancies. Accommodations will be needed for the relocated workers from other countries as well as those from other areas of the country.

Regional cities already on Romania's industrial real estate map, including Timisoara, Cluj, Sibiu, Oradea and Craiova, will continue to develop. At the same time, regional cities such as Bacau, Constanta and Targu Mures will gain prominence with further industrial development.

> Occupiers (particularly e-commerce operators) are increasingly looking at non-prime locations that provide lower-cost solutions and more pre-let opportunities.

United Kingdom

Industrial market continues to outperform other sectors

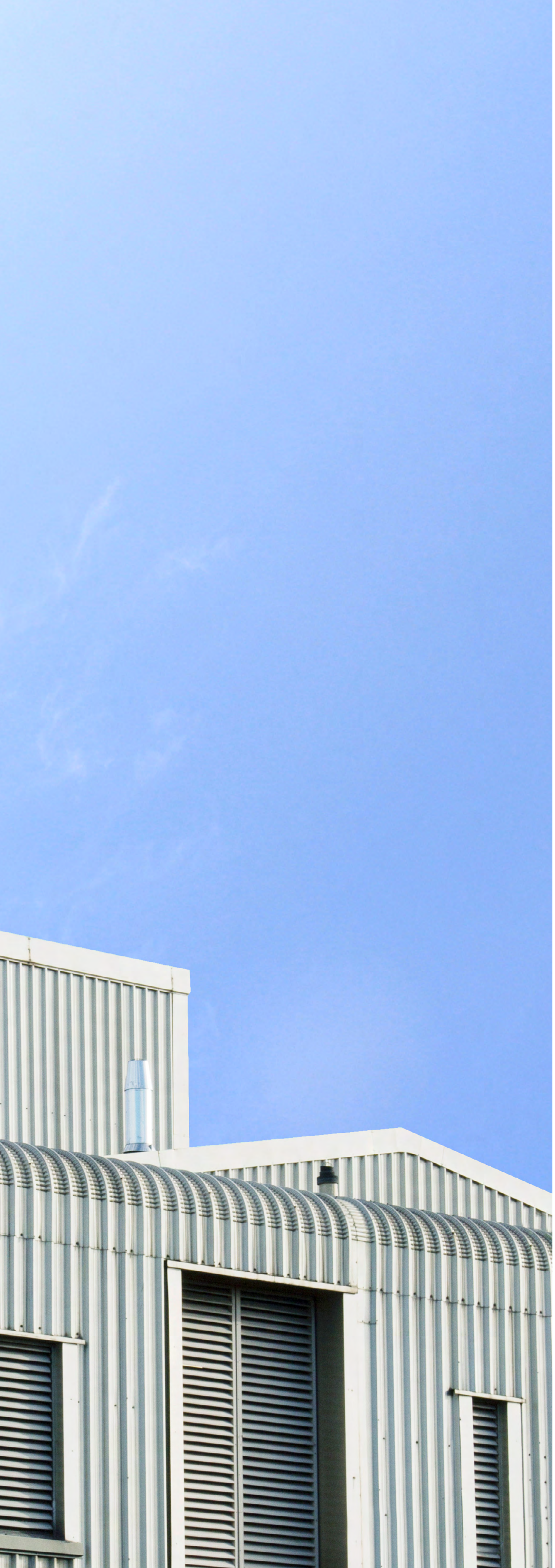
Large warehousing deals reached record levels of 32 msf in the U.K. during 2018, driven by the strength of the e-commerce sector. As online retail sales peaked at record levels in November, big-shed deals for e-commerce occupiers constituted more than a quarter of all demand. Additionally, third-party logistics companies, including many that serve online-retail contracts, accounted for a similar amount of take-up.

While industrial continues to be the best performing U.K. commercial property sector, occupier activity for large warehousing was not immune to the pre-Brexit slowdown during the first quarter of 2019. In what is traditionally the quietest quarter, there was a slowdown in take-up, particularly for the largest deals (greater than 500,000 sf).

> Occupiers are placing increased importance on the availability and cost of labour, and this trend will intensify, as sites need the right employment demographics as well as an excellent location.

The East Midlands registered the greatest demand in the big-shed market between first-quarter 2018 and first-quarter 2019, but occupiers (particularly e-commerce operators) are increasingly looking at non-prime locations that provide lower-cost solutions and more pre-let opportunities, such as Yorkshire and the North East, where two of the largest deals were located. The bespoke requirements for these buildings mean design-and-build pre-let activity accounted for two-thirds of take-up during the 12 months ending with the first quarter of 2019. Tenants' intended location changes were emphasized by speculative development occurring outside core markets.

Much of this activity can be attributed to cost management and increasing availability to labour, as well as changes in logistics networks, as the demands on last-mile delivery evolve. Occupiers are placing increased importance on the availability and cost of labour, and this trend will intensify, as sites need the right employment demographics as well as an excellent location to succeed. Not only is labour more plentiful in secondary locations, but it is also more cost-efficient. In the U.K., there is a shortage of warehouse operatives, and employment levels have been particularly dependent on access to non-U.K. workers. The effect of Brexit may well exacerbate the situation and there are significant concerns about reduced access to Eastern European workers.



Notable First Quarter 2019 Industrial Market Highlights

Strong Demand Continues

Strong demand continues to put pressure on industrial property rental rates. According to MSCI, the average **rent for distribution property across the U.K. increased 3.3%** during the 12 months ending with first-quarter 2019. This rental-rate growth is expected to moderate slightly as a result of new supply deliveries.

Shift in Investor Sentiment

Industrial assets continue to attract strong investor interest although there has been a shift in sentiment. **More moderate activity is likely** through the remainder of 2019 as a result of the Brexit negotiations.

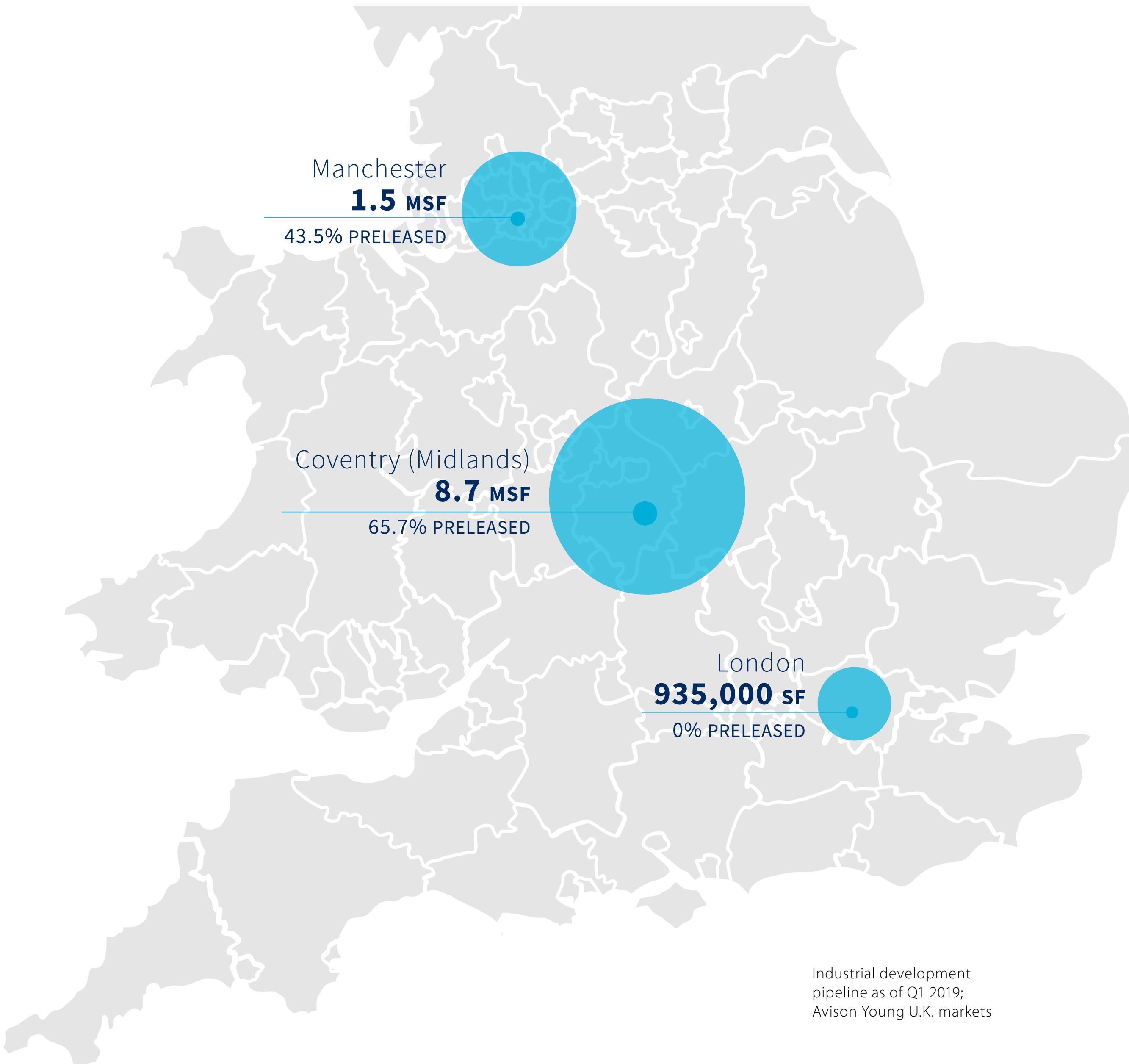
The **impact of overseas money diminished** year-over-year; however, the two largest portfolio deals comprised purchases by Singapore's Ascendas REIT.

Investment Sales Activity

Distribution **warehouse sales amounted to £4.4 billion** in the 12 months ending in March 2019 – 10% more than the five-year average.

Tritax Big Box REIT accounted for 18% of all deal volume and dominated the largest single-let transactions: £147 million for Integra 61 in Durham and £121 million for Link 66 in Darlington.

South East sales activity was twice as high as in any other region; however, due to the large Tritax deals, the market share of Yorkshire and the North East increased significantly compared with previous years.



Industrial development pipeline as of Q1 2019; Avison Young U.K. markets

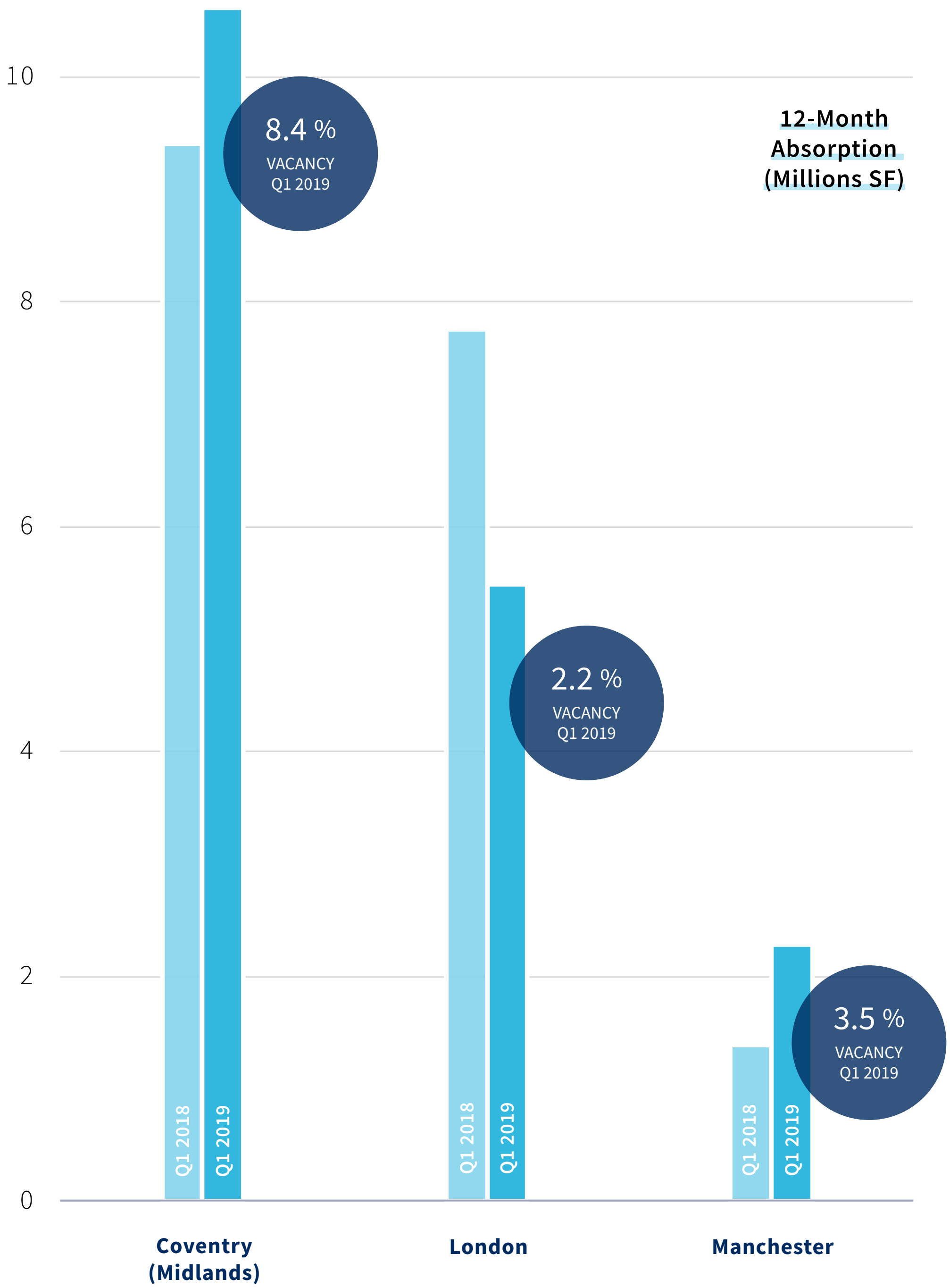
A rise in industrial supply and demand...

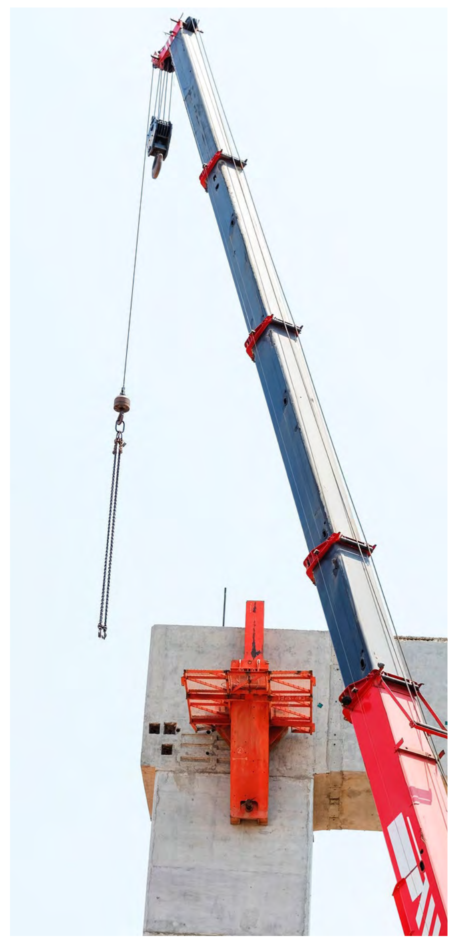
The U.K. industrial property supply has risen during the past year, as there have been significant levels of speculative development and large second-hand units have returned to the market. However, the strong demand means that supply levels have remained relatively constrained, with the shortfall amounting to slightly more than a year's worth of take-up based on recent demand.

Existing industrial buildings represent less than half of total availability, a situation that reflects the tendency of occupiers to remain in buildings beyond lease expiry. There has also been an increase in the number of larger speculative industrial developments during the past year.

E-commerce warehousing requirements are increasing in line with the 10% annual rise in online sales. This step change in demand over the past few years has increased pressure on land availability, leading to strong growth in land values. In West London's Park Royal district, industrial land values have soared to £7 million per acre, as Goodman's plans for multi-storey warehousing bring a new level of prominence to the sector.

Shifting absorption and vacancy across U.K. industrial markets





AVISON YOUNG

South Korea

Strong logistics-facility demand drives market

E-commerce retailers' use of third-party logistics to distribute their goods is increasing. In 2018, parcel delivery volume climbed 9.6% year-over-year, according to the Korean Integrated Logistics Association, and online shopping sales volume rose 22.6% year-over-year, according to Statistics Korea. Due to increasing demand for distribution space, the construction of new logistics facilities has been continuous. The total area of newly constructed facilities during the 12 months ending with first-quarter 2019 was approximately 27 msf – an increase of 85% compared with the previous 12-month period. The average size of newly built facilities is approximately 650,000 sf, which is relatively large compared with the market as a whole.

In recent years, a new distribution sector known as dawn delivery has emerged in South Korea. Dawn delivery is aimed at achieving a 12-hour delivery turnaround. Due to the rise of single-person households and consumers' requirement for increased convenience, demand for last-mile distribution facilities that can handle groceries and packaged meals is growing.

Moreover, in South Korea, 49.9% of the population lives in the Seoul metropolitan area, fuelling the need for refrigerated facilities for fresh-food delivery in the region. These logistics facilities are built as large-format integrated logistics centres. The average size of logistics facilities under construction in the Seoul metropolitan area in the first quarter of 2019 was approximately 330,000 sf, which is 88% larger than the average size of existing inventory.

Total investment transaction volume was about ₩1.9 trillion during the 12 months ending in March 2019, an increase of 46% year-over-year. During that period, 23 facilities were sold with 11 larger than 350,000 sf, demonstrating investors' preference for massive logistics centres. The average sale price for industrial assets rose 31% year-over-year to ₩137,000 psf in the first quarter of 2019. The average capitalization rate for logistics facilities sold in the first quarter was 6.8%, which was about 500 bps higher than the Korean three-year treasury bond rate, and 190 bps higher than Seoul's average office cap rate. As a result, demand for investment in logistics facilities is considered strong in the Seoul market, and this trend is expected to continue through the remainder of 2019.

Notable First Quarter 2019 Industrial Market Highlights

Vacancy

The vacancy rate is declining mainly in new large-scale logistics facilities in Seoul's metropolitan area. The lease-up period for newly built logistics facilities has been shortened by nearly half, from 12 to six months after completion, as logistics freight volume has swelled in recent years.

Demand for New Product

Older, smaller facilities are recording lower demand compared with newly built logistics facilities. When large vacancies become available, the lease-up period for these facilities (historically, three to six months) has increased.

Net Absorption

Net absorption for logistics facilities is the result of growing demand for logistics freight. Tenants unable to expand in existing facilities are actively relocating to new premises, while consolidations of several scattered facilities into a single location are also prominent.

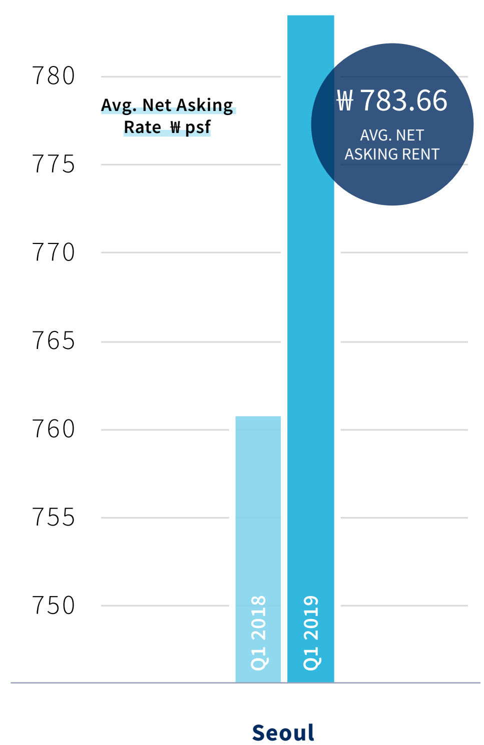
Sale Prices and Asking Rental Rates

The average sale price for logistics facilities in the Seoul metropolitan area reached ₩137,059 psf in the first quarter of 2019. As investment in logistics facilities from real estate financial instruments (such as REFs and REITs) increases, asking rental rates are also rising – up 3% year-over-year as of first-quarter 2019. The average asking rental rate increased 1.5% to 2% annually starting from the third year after occupancy. Free rental periods are generally offered as one month per two years of term. However, there are some differences depending on contract period, location and facilities.

Industrial Supply

The overall supply of new industrial logistics facilities in the Seoul metropolitan area has been increasing, a situation which can be attributed to the development of large logistics centres and complexes. The amount of area under construction is approximately 49 msf; however, local governments are now approaching approvals for new construction more conservatively with the result that the rate of new supply is expected to decline starting in 2022.

Spike in industrial asking rental rates



Expressway is driving demand, rents and construction

Two main expressways (**Gyeongbu Expressway and Jungbu Expressway**) are of importance to the logistics market. Vacancy is decreasing more quickly in the vicinity of the Gyeongbu Expressway than along the Jungbu Expressway.

Accordingly, asking **rental rates and construction activity have increased most rapidly along the Gyeongbu Expressway** (centred on Yongin and Anseong, which are conveniently located for accessing Seoul).

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FIRST QUARTER 2019

Industrial Market Statistics

North America

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Calgary	153,383	7.4%	↓	3,803	↑	3,598	↑
Edmonton	156,068	6.2%	↓	95	↑	1,535	↑
Halifax	8,315	8.7%	↓	483	↑	0	↔
Lethbridge	4,710	8.4%	↑	-102	↔	52	↓
Montreal	346,670	4.3%	↔	2,599	↓	1,009	↑
Ottawa	45,358	1.6%	↓	437	↑	0	↔
Regina	21,895	5.4%	↑	-131	↔	133	↓
Toronto	879,751	1.5%	↓	14,086	↑	5,493	↑
Vancouver	203,887	1.2%	↓	4,650	↑	3,512	↑
Waterloo Region	159,572	3.5%	↓	1,145	↑	586	↓
Winnipeg	78,389	2.8%	↔	121	↓	127	↑
Canada Overall	**2,057,998**	**3.0%**	↓	**27,186**	↑	**16,042**	↑
Atlanta	673,007	5.6%	↓	17,805	↓	17,029	↓
Austin	79,107	7.7%	↑	1,490	↑	2,743	↑
Boston	134,996	7.7%	↑	669	↓	696	↓
Charleston	67,233	7.1%	↓	6,743	↑	6,364	↑
Charlotte	184,360	6.6%	↑	3,777	↑	5,982	↔
Chicago	1,116,293	5.9%	↔	15,030	↓	14,805	↓
Cleveland	467,525	4.0%	↔	1,701	↑	2,246	↑

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate $psf	YoY Change	Total Investment Volume 12 mos / $MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price $psf	YoY Change
2,189	↓	5.3%	$9.46	↑	$901	↑	5.8%	↔	$209	↑
2,415	↑	77.9%	$9.30	↔	$249	↑	5.6%	↔	$132	↔
200	↑	52.5%	$7.30	↔	$58	↔	6.8%	↔	$120	↔
46	↓	93.5%	$8.16	↔	$4	↑	8.3%	↔	$100	↔
3,003	↑	99.6%	$6.71	↑	$921	↑	5.8%	↓	$114	↑
1,023	↑	100.0%	$10.66	↑	$284	↑	5.5%	↔	$150	↑
21	↓	100.0%	$10.94	↔	n/a	n/a	7.0%	↑	$100	↑
12,190	↑	74.3%	$7.64	↑	$3,365	↓	4.6%	↓	$187	↑
5,227	↑	43.1%	$11.49	↑	$1,563	↑	3.9%	↓	$387	↑
365	↓	34.4%	$5.65	↑	$398	↓	6.7%	↔	$94	↑
250	↑	47.5%	$7.97	↑	$78	↑	6.2%	↓	$98	↑
26,929	↑	**65.9%**	**$8.66**	↑	**$7,821**	↑	**6.0%**	↔	**$154**	↑
22,677	↑	17.6%	$4.63	↑	$3,168	↑	7.0%	↑	$71	↑
1,985	↓	35.2%	$10.81	↑	$548	↓	6.5%	↔	$119	↔
1,540	↑	46.1%	$7.13	↑	$1,504	↑	6.8%	↔	$97	↑
3,698	↓	17.6%	$5.52	↔	$219	↑	7.1%	↓	$61	↑
7,251	↑	21.1%	$4.73	↑	$869	↑	6.7%	↔	$75	↑
19,320	↑	26.9%	$4.94	↑	$6,031	↑	5.9%	↓	$70	↑
3,415	↑	70.9%	$3.91	↑	$264	↓	9.5%	↑	$32	↓

FIRST QUARTER 2019

Industrial Market Statistics

North America

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Columbus, OH	270,476	4.2%	↓	2,670	↓	7,318	↑
Dallas	774,506	6.8%	↑	23,375	↑	29,433	↑
Denver	189,117	4.2%	↑	3,172	↓	4,485	↔
Detroit	534,617	2.6%	↓	19,938	↑	6,727	↑
Fort Lauderdale	96,873	3.3%	↓	2,462	↑	1,484	↑
Gainesville	23,258	4.6%	↓	451	↓	0	↔
Greenville	165,242	5.1%	↔	7,649	↑	7,764	↑
Hartford	97,503	6.2%	↑	-29	↔	964	↑
Houston	512,695	5.5%	↑	6,945	↓	12,296	↑
Indianapolis	255,979	6.4%	↑	8,608	↑	6,299	↓
Inland Empire	555,153	4.9%	↓	17,725	↓	21,094	↓
Jacksonville	110,253	3.2%	↓	1,802	↓	1,183	↓
Las Vegas	134,148	4.1%	↓	4,040	↓	2,830	↑
Long Island	134,427	3.3%	↔	-1,290	↔	83	↓
Los Angeles	859,287	2.2%	↔	125	↓	39,286	↑
Memphis	199,011	6.1%	↓	7,455	↑	5,503	↑
Miami	186,113	2.9%	↔	5,176	↑	2,916	↓
Minneapolis	139,508	5.2%	↑	467	↓	637	↓
Nashville	183,492	4.5%	↑	1,417	↓	3,904	↓
New Jersey	682,966	3.6%	↔	10,333	↓	11,988	↑
Oakland	195,989	4.6%	↑	-245	↔	2,393	↑
Orange County	214,950	4.2%	↑	-2,836	↔	1,457	↑
Orlando	113,380	5.3%	↔	3,161	↓	3,217	↑
Philadelphia	510,455	6.5%	↓	-156	↔	19,899	↑
Phoenix	344,437	6.9%	↓	7,586	↓	7,778	↑

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate $psf	YoY Change	Total Investment Volume 12 mos / $MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price $psf	YoY Change
5,397	↑	0.0%	$5.03	↑	$909	↓	7.2%	↔	$48	↑
30,877	↑	44.7%	$5.89	↑	$1,616	↑	7.0%	↓	$66	↑
3,088	↓	39.7%	$8.17	↑	$544	↑	6.8%	↑	$125	↑
3,502	↓	9.5%	$5.71	↑	$871	↑	9.1%	↔	$52	↑
2,540	↑	20.4%	$9.75	↑	$769	↑	6.3%	↔	$120	↓
0	↔	n/a	$4.33	↓	$18	↓	7.9%	↔	$20	↓
6,568	↓	32.2%	$3.62	↑	$623	↑	7.6%	↔	$64	↑
0	↔	n/a	$5.99	↓	$386	↑	7.7%	↑	$44	↓
15,471	↑	28.3%	$7.22	↑	$1,553	↑	6.2%	↓	$89	↑
4,738	↓	35.4%	$3.87	↔	$1,125	↑	8.1%	↑	$61	↑
27,047	↑	98.6%	$8.52	↑	$3,406	↔	5.0%	↔	$115	↑
6,131	↑	50.4%	$5.20	↑	$664	↑	7.4%	↓	$69	↓
6,570	↑	0.0%	$7.80	↑	$693	↓	5.5%	↔	$131	↓
614	↑	50.1%	$12.38	↑	$455	↑	7.7%	↔	$130	↑
5,453	↑	12.8%	$12.27	↑	$4,030	↑	4.7%	↔	$192	↑
4,701	↓	38.6%	$3.07	↑	$1,330	↑	6.8%	↓	$37	↓
3,925	↑	14.8%	$8.59	↑	$1,354	↑	5.8%	↔	$136	↑
185	↓	59.5%	$7.11	↔	$1,987	↑	6.9%	↔	$90	↑
3,957	↑	22.8%	$5.37	↓	$472	↓	6.7%	↔	$111	↑
5,827	↓	28.5%	$8.51	↑	$2,740	↓	6.1%	↔	$121	↑
4,980	↑	24.5%	$14.12	↓	$1,424	↑	6.0%	↓	$211	↑
100	↓	100.0%	$12.24	↑	$1,889	↑	5.0%	↔	$201	↑
3,249	↑	2.7%	$6.72	↑	$643	↑	6.3%	↓	$84	↔
29,160	↑	24.9%	$4.80	↑	$518	↓	6.3%	↓	$49	↑
7,971	↑	45.6%	$7.10	↔	$59	↓	6.6%	↔	$99	↑

FIRST QUARTER 2019

Industrial Market Statistics

North America

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Pittsburgh	147,452	6.4%	↑	463	↓	1,540	↑
Raleigh-Durham	96,059	5.3%	↔	981	↓	1,088	↓
Reno	104,289	5.6%	↓	2,166	↓	1,131	↓
Sacramento	124,661	4.5%	↓	1,641	↓	874	↓
San Antonio	69,126	5.6%	↑	-106	↔	818	↓
San Diego County	127,839	5.8%	↑	1,283	↑	2,580	↑
San Francisco	19,790	2.8%	↔	-71	↔	0	↔
San Jose - Silicon Valley	184,344	6.6%	↔	528	↓	607	↓
San Mateo	36,169	2.4%	↑	-198	↔	0	↔
Savannah	58,639	6.3%	↑	991	↓	4,197	↓
St. Louis	285,874	4.4%	↓	3,600	↓	3,274	↓
Tampa	155,304	4.2%	↓	3,192	↑	1,832	↓
Washington, DC	198,670	6.1%	↓	3,200	↑	3,181	↓
West Palm Beach	38,627	3.2%	↓	53	↓	426	↓
U.S. Overall	**11,853,194**	**5.0%**	↔	**194,936**	↓	**272,349**	↑

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Mexico City	131,881	4.0%	↑	2,321	↑	6,407	↓

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate $psf	YoY Change	Total Investment Volume 12 mos / $MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price $psf	YoY Change
555	↑	36.9%	$5.79	↔	$160	↑	7.3%	↑	$65	↑
2,377	↑	86.0%	$5.02	↓	$229	↓	6.9%	↑	$87	↑
2,503	↓	37.0%	$4.81	↑	$94	↓	6.4%	↓	$113	↑
1,143	↑	0.0%	$7.08	↑	$487	↑	5.4%	↓	$109	↑
1,812	↑	13.5%	$6.60	↑	$324	↓	7.1%	↔	$73	↑
898	↓	6.1%	$13.80	↑	$1,424	↓	6.5%	↑	$172	↓
0	↔	n/a	$24.72	↑	$4,543	↑	4.9%	↔	$323	↑
2,476	↑	86.8%	$23.64	↑	$1,908	↓	5.0%	↓	$347	↑
0	↔	n/a	$19.08	↑	$243	↓	4.5%	↑	$351	↓
7,104	↑	26.2%	$5.19	↑	$208	↑	5.6%	↔	$349	↑
4,513	↓	74.1%	$4.54	↔	$370	↓	7.6%	↔	$46	↑
5,812	↑	10.0%	$6.39	↑	$475	↑	6.9%	↓	$67	↑
2,177	↑	46.7%	$9.76	↓	$1,476	↓	7.2%	↔	$141	↑
343	↑	0.0%	$9.90	↑	$304	↑	6.4%	↓	$112	↓
273,653	↑	**36.5%**	**$8.07**	↑	**$54,928**	↑	**6.6%**	↔	**$116**	↑

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate $psf	YoY Change	Total Investment Volume 12 mos / $MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price $psf	YoY Change
3,862	↓	7.7%	$5.88	↓	$243	↓	8.0%	↔	$58	↑

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FIRST QUARTER 2019

Industrial Market Statistics

Europe

Market	Overall Inventory 000s sq.m	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sq.m	YoY Change	Total Completions 12 mos / 000s sq.m	YoY Change
Poland	15,800	5.3%	↑	2,495	↑	1,744	↓
Bucharest	1,857	3.2%	↑	360	↑	352	↔

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Coventry (Midlands)	150,789	8.4%	↑	10,620	↑	8,928	↓
London	225,361	2.2%	↔	5,487	↓	4,090	↓
Manchester	183,474	3.5%	↓	2,283	↑	1,305	↑
U.K. Markets	**559,624**	**4.3%**	↑	**18,389**	↔	**14,323**	↓

Industrial Market Statistics

Asia

Market	Overall Inventory 000s sf	Vacancy Rate %	YoY Change	Total Net Absorption 12 mos / 000s sf	YoY Change	Total Completions 12 mos / 000s sf	YoY Change
Seoul	212,979	n/a	n/a	n/a	n/a	26,676	↑

Total Under Construction 000s sq.m	YoY Change	Total Preleased %	Avg. Net Asking Rate € / sq. m	YoY Change	Total Investment Volume €MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price € / sq. m	YoY Change
1,901	↓	63.8%	€ 4.00	↔	€1,764	↑	6.9%	↓	€576	↓
450	↑	38.9%	€3.85	↓	€65	↑	8.3%	↓	€480	↑

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate £psf	YoY Change	Total Investment Volume 12 mos / £MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price £psf	YoY Change
8,726	↑	65.7%	£6.28	↑	£529	↓	4.7%	↓	£88	↑
935	↓	0.0%	£8.90	↑	£985	↓	5.3%	↓	£164	↔
1,494	↑	43.5%	£5.90	↑	£253	↓	5.9%	↓	£95	↔
11,156	↑	**57.2%**	**£7.03**	↑	**£1,767**	↓	**5.3%**	↓	**£116**	↑

Total Under Construction 000s sf	YoY Change	Total Preleased %	Avg. Net Asking Rate ₩ psf	YoY Change	Total Investment Volume 12 mos / ₩MM	YoY Change	Avg. Cap Rates %	YoY Change	Avg. Sale Price ₩ psf	YoY Change
48,888	↓	n/a	₩783.66	↑	₩1,938,450	↑	6.8%	↑	₩137,059	↑

About Avison Young

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals. Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 120 offices in 20 countries. The firm's experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.

We're different

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1978

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120

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290 MSF

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Through Avison Young's professionals, our research team engages with a wide variety of corporate, investor and institutional clients to conduct customized research, due diligence and market assessments, as well as demographic and location analysis.

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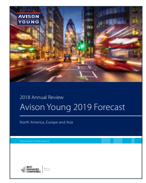

Avison Young 2019 Commercial Real Estate Forecast

Annual Commercial Real Estate Review and Forecast

Avison Young Commercial Real Estate Investment Review

Fall 2018 North America and Europe Investment Review

Avison Young Office Market Report

Mid-Year 2018 North America and Europe Office Market Report

Brexit - Implications for Real Estate

Assessment of the Short Term Impact of Brexit on U.K. Real Estate Markets

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