CUSHMAN & WAKEFIELD RESEARCH

Multitenant Distribution Warehouse

United States Outlook – Summer 2016

CUSHMAN & WAKEFIELD

Executive Summary

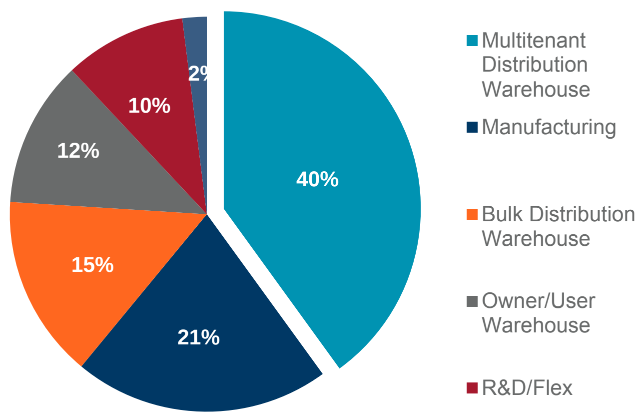
- The Multitenant Distribution Warehouse segment is comprised of properties with small-to-medium footprints (typically 200,000 square feet or smaller) often with column spacing of 40 feet by 40 feet and clear height of 24 feet or lower. Tenants in these facilities tend to be local and regional distributors seeking to operate in key industrial submarkets.
- Multitenant Distribution Warehouse is the dominant industrial property type in the U.S., constituting 40% of the total 13.5 billion square foot industrial inventory. Of the 8.7 billion square foot investment-grade universe of industrial properties, Multitenant Distribution Warehouse accounts for 61.5%. Thus, not only does it make up the largest share of U.S. industrial inventory, it comprises an even greater share of U.S. industrial investment-grade inventory.
- Demand for Multitenant Distribution Warehouse is closely correlated to population trends. As a result, demand in markets proximate to growing populations will be strong and sustainable.
- Multitenant Distribution Warehouse is continuing to benefit from the growth of e-commerce as shopping fulfillment channel migration to e-commerce is giving rise to a net new user who requires such buildings to support tighter delivery commitments.
- The infill nature of certain Multitenant Distribution Warehouse properties makes new construction expensive and difficult. Healthy demand and tight supply has made it among the best performing of all segments. In 2015, it boasted the highest year-over-year rent growth of any property type at 6.5%. Over the past decade, national rent growth for Multitenant Distribution Warehouse has averaged 1.9% per year while the average for Bulk Distribution Warehouse was 1.2% per year.
- Multitenant Distribution Warehouse values today are about 20% higher than the broader warehouse market and pricing continues to increase. In 2015, the Multitenant Distribution Warehouse segment achieved a 5.3% income return and a 9.3% appreciation return for a total return of 14.6%, well ahead of the overall industrial market return of 12.7%. In fact, on a one-, five-, and 10-year basis, Multitenant Distribution Warehouse properties have outperformed the broader commercial property market.

Market Share by Industrial Type (as of 4Q 2015)

Industrial Type	Square Feet
Multitenant Distribution Warehouse	5,383,996,116
Manufacturing	2,826,597,960
Bulk Distribution Warehouse	2,018,998,543
Owner/User Warehouse	1,615,198,834
R&D/Flex	1,345,999,029
Other	269,199,808
Total U.S. Industrial Market	13,459,990,290

Source: Cushman & Wakefield Research

Square Feet by Industrial Type (as of 4Q 2015)



Source: Cushman & Wakefield Research

The U.S. Industrial Market

The U.S. industrial market is broken into six segments: Multitenant Distribution Warehouse, Bulk Distribution Warehouse, Owner/User Warehouse, Manufacturing, R&D/Flex, and Other. Of these, Multitenant Distribution Warehouse is the dominant type, constituting approximately 40% of the 13.5 billion square foot U.S. industrial market tracked by Cushman & Wakefield.

The term warehouse is a broad one that comprises an assortment of building types serving a variety of logistical needs. Multitenant Distribution Warehouse properties are assets with smaller footprints – typically 200,000 square feet or smaller – often with column spacing of 40 feet by 40 feet and clear heights of 24 feet or lower. These properties are commonly occupied by

tenants who service the local economy but many also support the regional and national flow of goods by serving as the end space, or "last mile" requirement for a supply chain. This is especially important in instances where service expectations dictate that delivery be accomplished within a matter of hours, rather than days.

Historically, investors have targeted the Bulk Distribution and Multitenant Distribution (2.0 and 5.4 billion square feet, respectively) and R&D/Flex (1.3 billion square feet) segments for their industrial real estate allocations. The other segments are mostly owner-occupied or have limited alternative tenancies, making them less attractive investments. Of the 8.7 billion square foot "investment-grade" universe, Multitenant Distribution Warehouse accounts for 61.5%, Bulk Distribution Warehouse comprises 23.1%, and R&D/Flex product accounts for the remaining 15.4%. Thus, not only does Multitenant Distribution Warehouse comprise the largest share of U.S. industrial inventory (40%), it comprises an even greater share of U.S. industrial investment-grade inventory.

Warehouse Demand Drivers

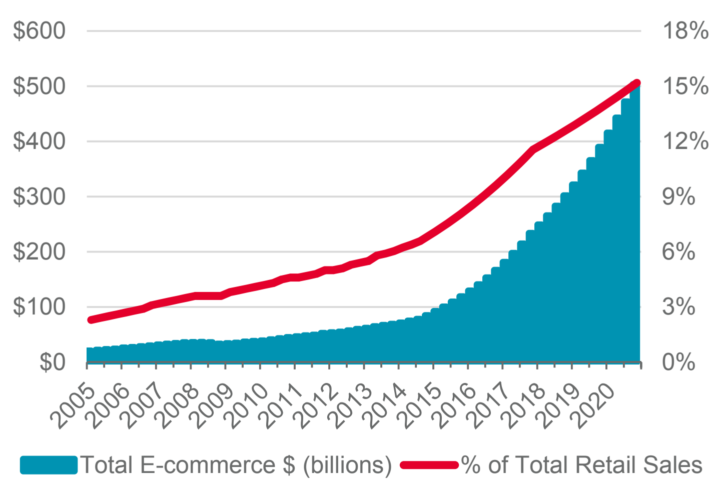
Demand for warehouse space is closely correlated to both population trends and the performance of the economy. The relationship between population and Multitenant Distribution Warehouse space is long-term, as it is driven by demographics (births, deaths and immigration) and is less cyclical in nature. As the population grows, industries that serve a growing population base (homebuilders, retailers, etc.) grow in lockstep and rely on smaller, infill facilities to house and distribute their goods while neighborhoods and communities get built out. By comparison, the relationship between general warehousing and the economy is a shorter one, as the pace of development of Bulk Distribution Warehouse stock typically responds quickly to changes in the economy.

A look at all counties in the U.S. reveals that metropolitan areas with at least one million people grew faster in 2015 than mid-size and smaller metros, consistent with every year since 2008, according to the U.S. Census Bureau. In the future, demand for Multitenant Distribution Warehouse product in markets proximate to growing populations will be strong and sustainable.

Employment and wage growth are among the most closely correlated economic demand drivers of warehouse space. In 2015, 2.78 million jobs were created, the second highest total since 1999. Job openings, typically a leading indicator of future hiring, rose to a 15-year high. Both wage and total compensation growth, as measured by the Employment Cost Indices, rose by over 2% in 2015 – the first time since 2008 that both indices grew faster than 2% at the same time. The Cushman & Wakefield U.S. Macro Forecast calls for creation of 2.69 million nonfarm jobs in 2016, which would translate into stronger wage growth and help buoy consumer confidence, consumer spending and retail sales. Against this backdrop, warehouse and distribution space will benefit from a more confident, higher-spending consumer.

Supply chains today extend closer to the concentration of consumers, are more complex and are increasingly global. The ability to warehouse the right items in the right place at the right time is, therefore, critical to competitive positioning. This translates to locating ever closer to population centers, mitigating costs, and improving service levels. Multitenant Distribution Warehouse sites that support efficient freight transportation by reducing the time, distance and cost of both inbound and outbound transportation provide a distinct competitive advantage.

E-commerce Sales Forecast (Quarterly)



Source: U.S. Census Bureau, Cushman & Wakefield Research

Multitenant Distribution Warehouse

United States Outlook – Summer 2016

CUSHMAN & WAKEFIELD

E-commerce

Multitenant Distribution Warehouse will continue to benefit from the growth of e-commerce. While most e-commerce tenants have requirements for Bulk Distribution Warehouse, they also increasingly need smaller warehouse buildings to fulfill the “last-mile” gap and support tighter delivery commitments. The key to successful last-mile delivery is the presence of an extensive facilities network that offers timely and cost-effective service. Multitenant Distribution Warehouse assets in proximity to consumers are ideally situated to benefit from the growth in e-commerce, and there is no doubt that e-commerce is growing.

According to the U.S. Department of Commerce, total e-commerce sales for 2015 were $341.8 billion, an increase of 14.6% from 2014. E-commerce sales also accounted for 7.3% of total sales, compared to 6.4% in 2014, and are growing at a rate that is five times faster than overall retail sales. This will unquestionably have a strong influence on warehouse investment returns over the next decade.

Smaller Warehouse, Bigger Performance

In both the short and long term, Multitenant Distribution Warehouse has been among the best performing of all commercial real estate segments in terms of rent growth and occupancy. At year-end 2015, Multitenant Distribution Warehouse boasted the highest year-over-year rent growth of any property type at 6.5%, compared to 5.5% for Bulk Distribution Warehouse, 4.4% for Office, and 2.4% for Retail. Over the past decade, national rent growth for Multitenant Distribution Warehouse has averaged 1.9% per year while the average for Bulk Distribution Warehouse was 1.2% per year. Similarly, current occupancy rates for Multitenant Distribution Warehouse (96.4%) are higher than Bulk Distribution Warehouse (92.1%). During the last 10 years average occupancy rates were also higher for Multitenant Distribution Warehouse (94.7%) compared to Bulk Distribution Warehouse and overall industrial product (92.8% and 90.6%, respectively).

Part of the attraction to investing in Multitenant Distribution Warehouse has been its steady occupancy and the rent growth. Stronger rent growth is partially attributable to the infill nature of some Multitenant Distribution Warehouse product, which makes new construction expensive and difficult. The vast majority of warehouse construction over the past decade has been in the Bulk Distribution Warehouse segment with inventory growth rates for Multitenant Distribution Warehouse well below Bulk Distribution Warehouse. Much of the warehouse construction has been located at the periphery of metropolitan areas in close proximity to transportation infrastructure that allows for efficient regional and national fulfillment. However, these peripheral sites also allow for more development and greater competition for tenants.

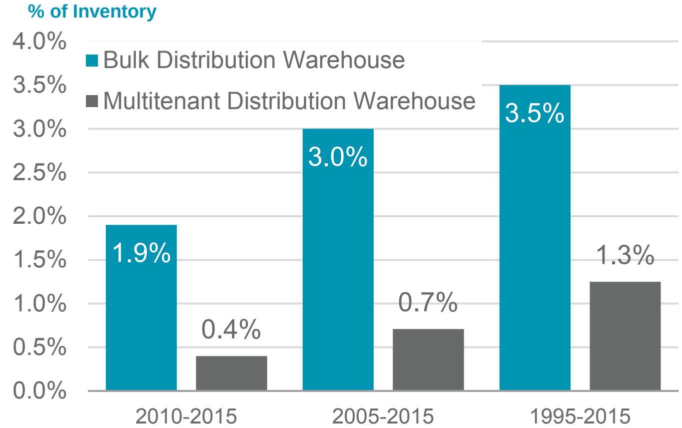
2015 Metrics by Property Sector

	Supply	Demand	Occupancy	Rent
Office	0.8%	1.4%	0.5%	4.4%
Retail	0.6%	1.0%	0.3%	2.4%
Industrial (All types)	1.4%	1.7%	0.3%	4.1%
Multitenant Distribution	0.2%	1.2%	0.9%	6.5%
Bulk Distribution	2.6%	3.3%	0.6%	5.6%

Source: CoStar, Cushman & Wakefield Research

Average Annual Warehouse Supply Growth

% of Inventory



Source: CoStar, Cushman & Wakefield Research

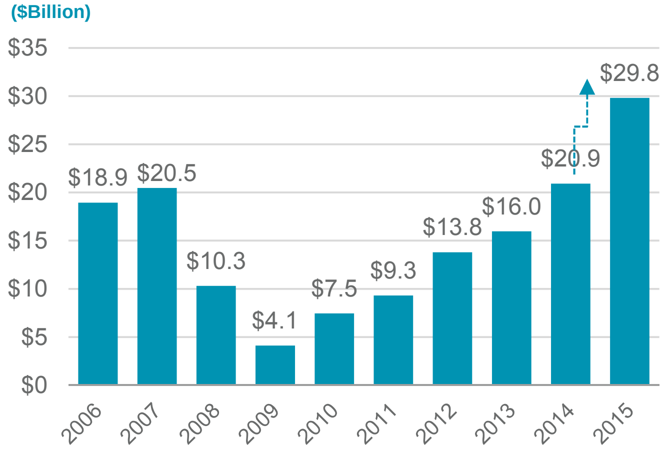
Such a competitive development dynamic generally does not exist for Multitenant Distribution Warehouse where infill-related supply constraints hinder construction and ease competition for tenants. In 2015, Multitenant Distribution Warehouse comprised only 9.1% (15.7 msf) of the total industrial deliveries (172.4 msf) and review of the current development pipeline indicates this trend in warehouse construction will continue. At the end of 2015, Multitenant Distribution Warehouse comprised only 16.4 msf of the 180.5 msf of industrial product under construction, well below its previous ten year average of 41.9 msf per year.

Increased Investor Interest

Investors are looking to take advantage of properties that are well-positioned to serve the growing base of consumers demanding same-day or even one-hour deliveries, and many Multitenant Distribution Warehouse properties are serving this niche. In addition, improved fundamentals, with stronger rent growth and tightening vacancy rates, have attracted more capital into this sector in recent years and we believe the outlook is positive. Total transaction volume for Multitenant Distribution Warehouse has been increasing since the trough of the recession, and by 2014, volume surpassed its previous peak and was nearly triple its 2010 level. By 2015, total sales volume jumped 46% above its 2007 level to nearly $30 billion.

Multitenant Distribution Investment Sales Volume

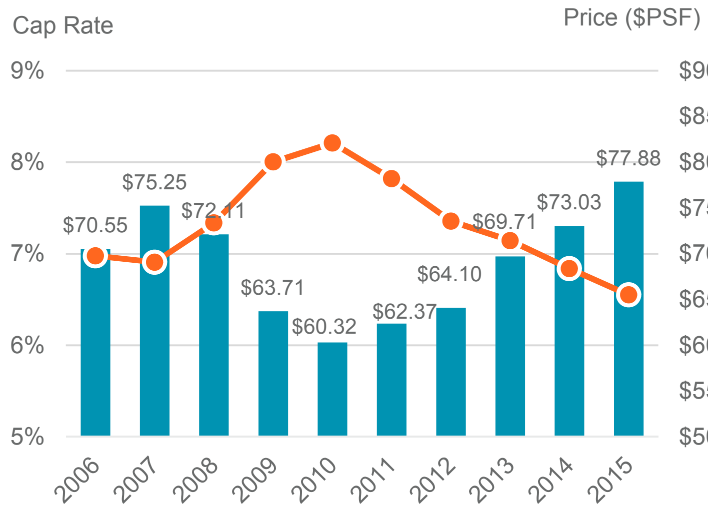
($Billion)



Source: Real Capital Analytics, Cushman &Wakefield Research

Increased competition for Multitenant Distribution Warehouse has caused cap rate compression, and in the current low interest rate environment, cap rates will likely compress even further. After peaking at 8.2% in 2010 following the recession, weighted average cap rates trended steadily downward, falling 170 basis points (bps) to 6.5% by the end of 2015. Well-located and well-leased assets are trading at even lower cap rates given the strong interest.

Multitenant Distribution Warehouse Pricing Trends



Source: Real Capital Analytics, Cushman &Wakefield Research

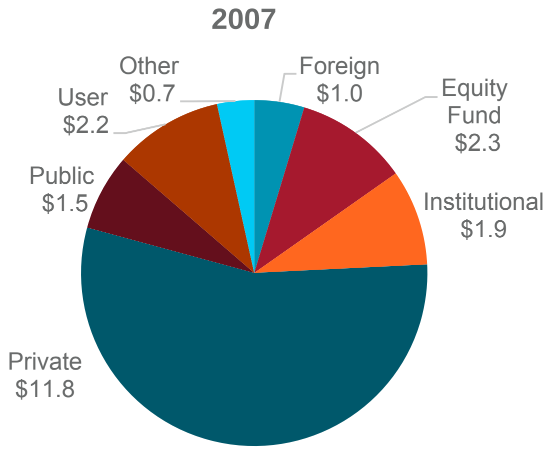
Many Multitenant Distribution Warehouse properties are located in infill locations near high-density population centers. With land costs rising, especially in 'last mile' locations, Multitenant Distribution Warehouse values today are about 20% higher than the broader warehouse market and pricing continues to increase. Strong investor demand has pushed up prices, which stood at $78 per square foot at year-end 2015, a 6.6% increase from the previous year and 29% above the previous peak. Given the transformation underway in the industrial sector, with industrial becoming "the new retail," we expect that values for Multitenant Distribution Warehouse product will continue to rise.

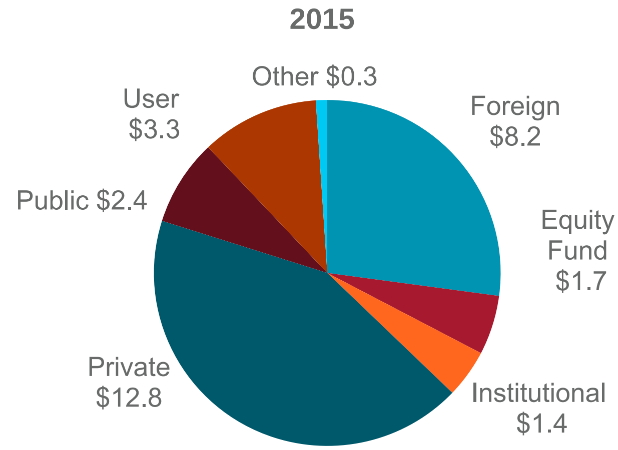
Multitenant Distribution Warehouse

United States Outlook – Summer 2016

Changing Ownership Structure*

Investment in Multitenant Distribution Warehouse Property (Billions USD)





*Ownership is measured by capital flows, the best proxy for ownership

Source: Real Capital Analytics, Cushman & Wakefield Research

Capital Flows Into Multitenant Distribution

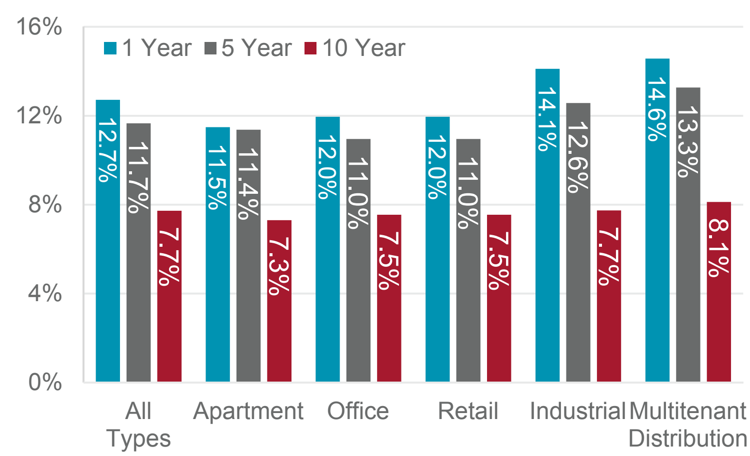
The sources of capital flowing into Multitenant Distribution Warehouse has changed over the past decade as the sector has become more mainstream and more appealing to a broader base of investors. In addition, the mass influx of foreign capital in recent years, that in the past targeted mainly office, retail, and hotels in gateway markets, is now shifting into Multitenant Distribution Warehouse as well. In 2007, private investors invested the most money into this sector, accounting for 55% of all transactions, and offshore capital accounted for only 4.7% of all money invested in the sector. By 2015, however, the share of private investors slipped to 43%, while foreign buyers increased their share to 27.1%

Multitenant Distribution Warehouse Outperforms

Healthy cash flow from operating income, combined with rising appreciation levels, has led to higher total returns over the past few years across all property types, but particularly for Multitenant Distribution Warehouse, as low interest rates combined with rising investor activity has led to per square foot pricing rising more rapidly than rents. In 2015, the Multitenant Distribution Warehouse segment achieved a 5.3% income return and a 9.3% appreciation return for a total return of 14.6%, well ahead of the overall industrial market return of 12.7%. In fact, on a one-, five-, and 10-year basis, Multitenant Distribution Warehouse properties have outperformed not only the broader commercial property market, but also a number of specific segments.

Multitenant Distribution Warehouse Performance

(Annualized Total Returns)



Source: NCREIF, Cushman &Wakefield Research

CUSHMAN & WAKEFIELD RESEARCH

Multitenant Distribution Warehouse

United States Outlook – Summer 2016

CUSHMAN & WAKEFIELD

Outlook

Multitenant Distribution Warehouse will continue to see stronger long-term leasing demand and higher returns relative to other industrial types, primarily because warehousing plays such a pivotal role in the property markets and economy. Multitenant Distribution Warehouse dominates the inventory, comprising 40% of all industrial inventory and 61.5% of the investor-targeted universe of properties. In recent years Multitenant Distribution Warehouse has been among the best performing of all commercial real estate segments. The historic and forecasted demographic and economic demand drivers indicate continued out-performance over both the short and long term. Owners of Multitenant Distribution Warehouse product are already enjoying above-average rent growth, and should continue to realize rent premiums in the future due to the segment's high average occupancy and supply constraints. The ownership structure of industrial property, as measured by capital flows, has changed dramatically over the past 15 years as industrial real estate has come to be considered a more mainstream and institutional property investment. With the continued growth of e-commerce and the structural importance of Multitenant Distribution Warehouse product to "last-mile" distribution, we expect that values for it will continue to rise in concert with stronger investor demand.

For additional information, please contact:

Jason Tolliver, J.D.
Head of Industrial Research, Americas
T +1 317 639 0549
jason.tolliver@cushwake.com

Caroline Rooney
Head of Capital Markets Research, Americas
T +1 415 658 3677
caroline.rooney@cushwake.com

Rob Miller
Director of Capital Markets Research | Forecasting
T +1 415 773 3561
rob.miller@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

Cushman & Wakefield, Inc.
2101 L Street NW, Suite 700
Washington, DC 20037 | USA