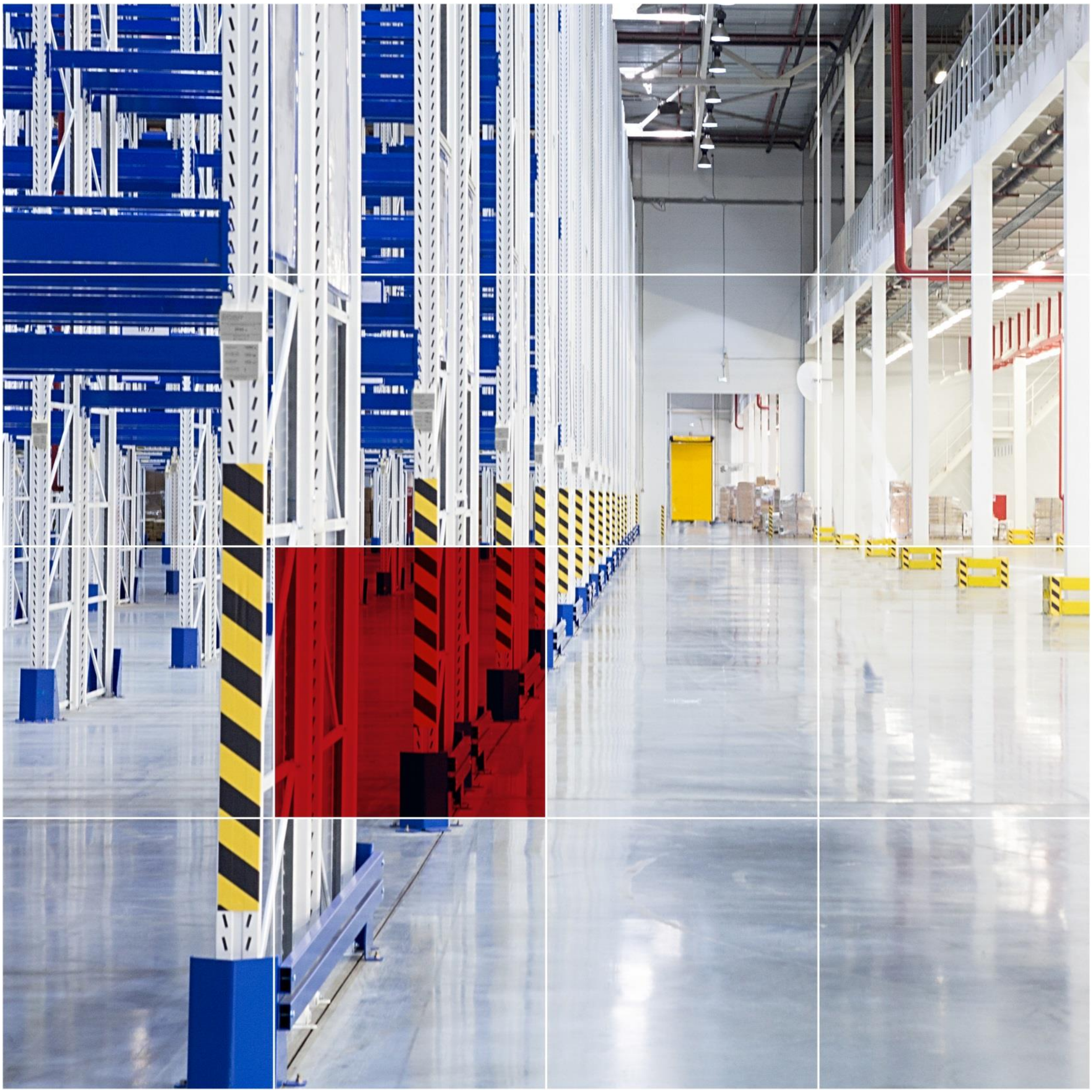
Industrial
Investment Outlook

United States | Q3 2016



INDUSTRIAL

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

U.S. Industrial property market	
-70	2.2%
12-month change in total vacancy (bps)	12-month net absorption (as a % of inventory)
1.7%	8.2%
12-month completions (as a % of inventory)	12-month rent growth (p.s.f., %)

U.S. Industrial investment	
$31.1	-28.9%
Investment sales (YTD, billions of $US)	YTD investment sale growth (%)
5.0%	-19
Average cap rate (%)	12-month change in cap rate (bps)

Modest growth in fundamentals fuels record-low vacancies. Total year-to-date net absorption increased by 23.1 percent year-over-year, with tenants absorbing nearly 72.7 million square feet, significantly ahead of 59.3 million square feet in new deliveries. With this, the U.S. vacancy rate fell to 5.8 percent, a decline of 30 basis points.

Total volumes for 2016 on pace to set second largest tally since 2008. Third quarter year-over-year investment volumes grew a moderate 2.3 percent, with overall year-to-date volume down 28.9 percent. However, if the five largest industrial transactions (deals over $250.0 milion) from 2015 were excluded, total volumes for the year are only down 3.1 percent. 2016 is currently on pace to rank second in overall volume to 2015 since 2008.

Shift in overall deal size persistent throughout 2016. The scarcity of large-scale portfolio availabilities throughout 2016 has shifted the bulk of investment activity into transactions that fall between the $20.0 and $150.0 million range. This is in stark contrast to the breakdown of 2015 volume. The first three quarters of the year further exhibited a heavy skew toward single-asset transactions, which outperformed portfolio activity on a 3:1 basis. The third quarter trended nearer to the 10-year rate of normalcy (36.7 percent of all transactional volume), and a broader trend toward normalcy is expected to accelerate through the end of the year, with an additional portfolio deal pipeline of over $5.5 billion currently on the market.

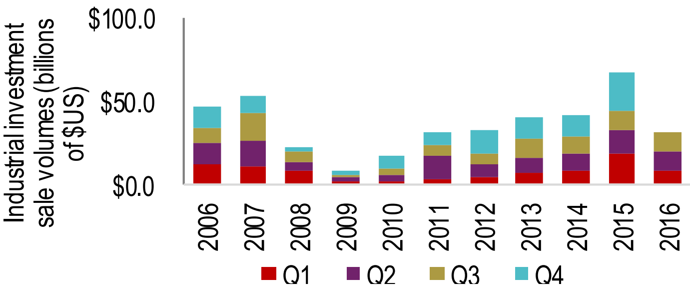
Single-market-focused portfolios continue to drive volumes. As large-scale portfolio transactions forged the headlines in 2015, a visible normalization toward smaller deal sizes, below $150.0 million, began to emerge in certain markets. With many domestic industrial investors being outbid by new-to-the-sector institutional capital in 2015 on large-scale portfolios and thus increased competition, some investors increased attention on single-market-focused portfolios.

Single-asset transactions drive activity, led by Southern and Western markets. National transactions were reflective of broader trends experienced in the industrial sector, as single-asset activity vastly outweighed portfolio transactions by a near 3:1 margin on a square-footage basis. The third quarter experienced diversity among the leading markets of +200.0 k.s.f. assets, as primary and secondary markets led overall volumes. Southern and Western markets constituted the bulk of activity, with Phoenix, Atlanta and Inland Empire leading the way on a square-footage basis.

Class A Industrial cap rates endure seemingly perennial compression. Despite the increased volatility of the global economic, political and financial markets prevalent throughout 2016, institutional-grade cap rates continued their almost perennial compression throughout most markets, especially pronounced within Core markets. This trend indicates the steadfast appetite for institutional-grade industrial assets throughout the investment market.

Industrial investment sales

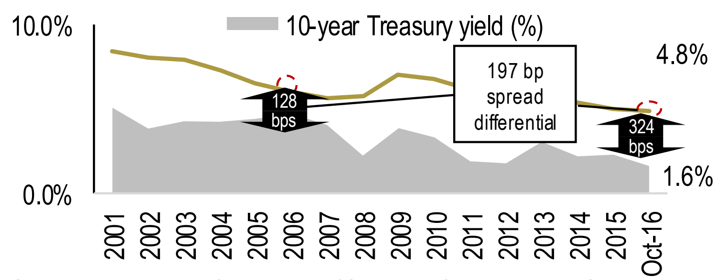
With third-quarter gains of 2.3 percent, industrial investment sale volumes are on pace to see the second largest annual tally since 2008



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

Persistent global market volatility further widens spreads

Primary market cap rates displayed moderately stabilized compression as 10-year Treasuries remain depressed, widening spreads by nearly 200 basis points relative to prior peak



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

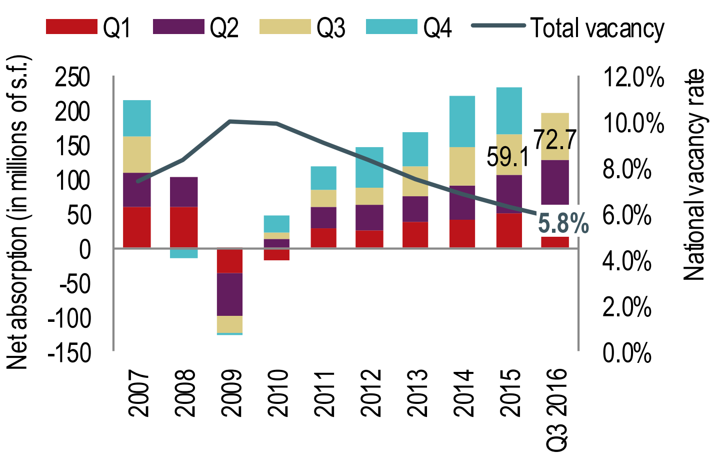
TOP 5 INDUSTRIAL THEMES

1 Modest growth in fundamentals fuels record-low vacancies

The U.S. industrial market is seeing resiliency in many major markets but good net absorption activity in some secondary markets as well—both within the existing product and in new construction. As demand continued to outpace supply over the past 12 months, overall industrial inventory expanded by 1.8 percent, nearly 214.0 million square feet. The total U.S. year-to-date net absorption increased by 23.1 percent year-over-year, with tenants absorbing nearly 72.7 million square feet, significantly ahead of 59.3 million square feet in new deliveries. In the third quarter, the U.S. vacancy rate fell to 5.8 percent, a decline of 30 basis points.

Modest growth in fundamentals fuels record-low vacancies

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

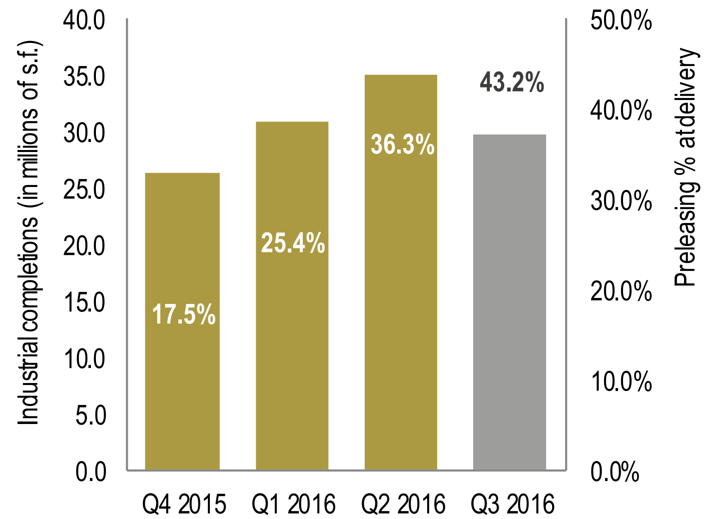


Source: JLL Research

Since the start of 2016, developers have completed nearly 164.0 million square feet of new space. This has still not slowed down the development pipeline, which expanded by 4.2 percent compared to last quarter and now stands at 201.0 million square feet. A full 73.0 percent of all markets tracked showed an increase in their development pipeline from the previous quarter. Nearly 29.0 million square feet of speculative projects were delivered this quarter, a drop of 15.0 percent from the second quarter. However, given the steady pipeline of leasing activity and demand for new construction, these properties were nearly 43.2 percent preleased at delivery.

Speculative deliveries fall in Q3, but preleasing increases

Speculative deliveries down by 15.0 percent quarter-over-quarter with 43.2 percent of new space preleased



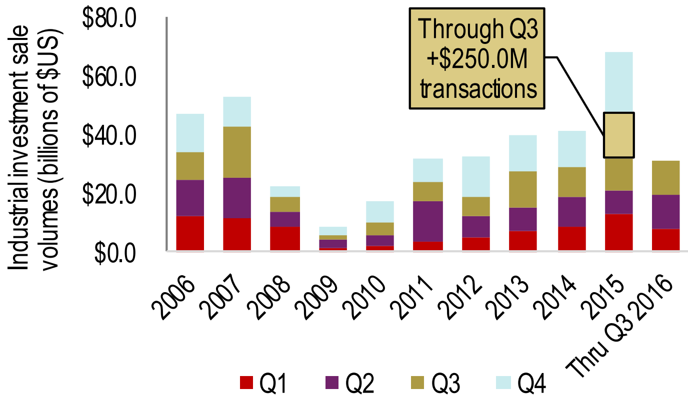
Source: JLL Research

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

Third-quarter year-over-year investment volumes grew a moderate 2.3 percent, with overall year-to-date volume down 28.9 percent. However, if the five largest industrial transactions (deals over $250.0 million) from 2015 were excluded, total volumes for the year are only down 3.1 percent over the same period in 2015. 2016 has also ushered in two consecutive quarters of investment volume growth and is currently on pace to rank second in overall volume to 2015 since 2008. The sustained investment activity—despite consistent volatility since August 2015—is indicative of the asset class's ability to weather global economic, political and financial uncertainty. Strong tenant demand and a disciplined approach to development continue to attract investment even during uncertain economic environments. With this, the appetite for industrial assets remains prevalent, particularly in Core market assets where the maximization of cash flow potential continues to drive competitive bids from a wide array of investors. Largely land-constrained markets such as New Jersey and Los Angeles continue to attract record high values on offerings that come to market due to the limited number of opportunities in the market.

Volumes for 2016 on pace to set second largest tally since 2008

Total year-to-date investment volume down about one-third from last year's total; volumes down only 3.1 percent when five +$250.0 million acquisitions of 2015 are excluded



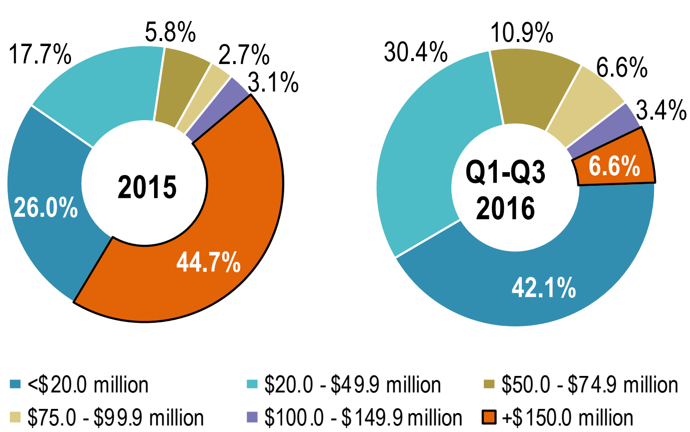
Source: JLL Research, Real Capital Analytics (transactions larger than $5.0M)

3 Shift in overall deal size persistent throughout 2016

The scarcity of large-scale portfolio availabilities throughout 2016 has shifted the bulk of investment activity into transactions that fall within the $20.0 and $150.0 million range through the third quarter. This scarcity has also largely contributed to an overall shift in completed transactions from last year, as over half of total volumes have fallen within transactions in this range through the third quarter of 2016. Further indicative of this trend was the stark contrast from the total breakdown of 2015 volume, in which the $20.0 to $150.0 million deal range drove a minor 29.3 percent of volumes. The first three quarters of the year further exhibited a heavy skew toward single-asset transactions, which outperformed portfolio activity on a 3:1 basis.

Shift in overall deal size persistent throughout 2016

2016 volumes through Q3 have primarily consisted of single-asset and single-market-focused portfolio transactions; however, active momentum for large-scale transactions will be a driver in Q4 and into 2017



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

Shifts in the broader capital markets and industrial sector can be attributed to the extreme volatility experienced in global markets in recent quarters with concerns of China's weak growth, the correction in energy pricing and the unexpected Brexit. These factors, to name a few, increased investor uncertainty, increasing hesitance and selectivity from investors during the first half of the year. As volatility has steadily moderated throughout the year, the third quarter exhibited a shift in investor activity with expanded industrial portfolio acquisition volumes. The third quarter trended nearer to the 10-year rate of normalcy (36.7 percent of all transactional volume), and a broader trend toward normalcy is expected to accelerate through the end of the year with familiar acquirers like GLP and Blackstone set to close on two +$1.0 billion portfolios and an additional portfolio deal pipeline of over $5.5 billion currently on the market, with an average deal size of $500.0 million. Currently marketed offerings of particular note include:

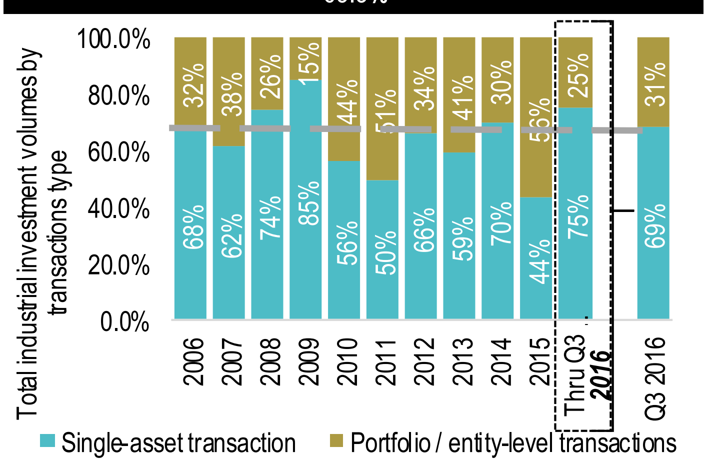
- Cabot's Fund II Portfolio, estimated at a value of $1.2 billion, 20.0 m.s.f. in 21 markets;
- TPG (Evergreen Industrial Properties) Portfolio, estimated at a value of $1.0 billion, 16.0 m.s.f. in 18 markets; and
- USAA's SE Majority Large Warehouse Portfolio, estimated at a value of $625.0 million, 11.9 m.s.f. in 6 markets

All of these transactions are noteworthy opportunities for investors looking for rapid exposure to the U.S. industrial sector and the ability to deploy capital into the sector at scale.

Single-asset transactions continue to lead 2016 activity

However, second-half large-scale portfolios expected to transact with familiar acquirers; this will normalize portfolio levels toward the 10-year average

10-year single-asset activity percentage of total volume average: 63.3%



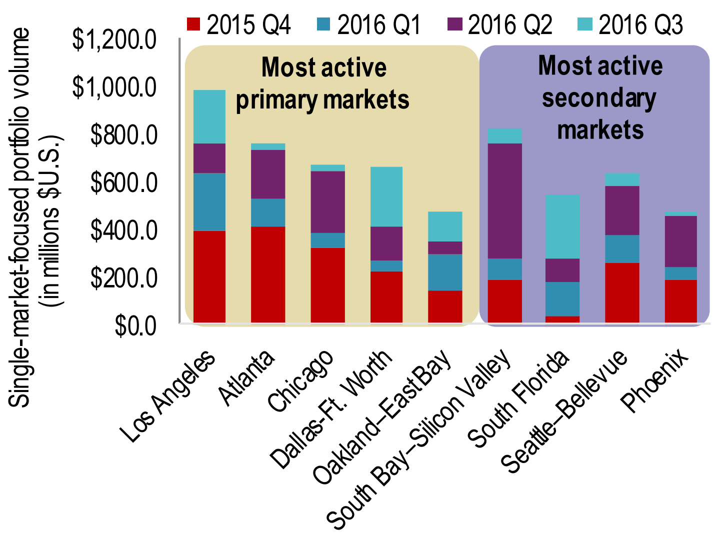
Source: JLL Research, Real Capital Analytics (transactions larger than $5.0M)

4 Single-market-focused portfolios continue to drive volumes

As large-scale portfolio transactions forged the headlines in 2015, a visible normalization toward smaller deal sizes, below $150.0 million, began to emerge in certain markets. With many domestic industrial investors being outbid by new-to-the-sector institutional capital in 2015 on large-scale portfolios and thus increased competition, some investors increased attention on single-market-focused portfolios. The shift toward building scale through single-market-focused and regional portfolio acquisitions has largely benefited investors seeking less competitive yet fundamentally sound non-Core markets. As an example, South Bay–Silicon Valley has constituted the highest single-market-focused portfolio volumes of JLL-tracked markets with over $800.0 million in the past year alone. Of particular note is also South Florida (Miami), which has seen a rapid acceleration of single-market-focused portfolio volumes in 2016. South Florida (Miami) had almost $275.0 million of single-market portfolio activity in the third quarter alone, as Blackstone notably closed a partial interest (50.0 percent) acquisition in a 32-building portfolio of assets with AEW. As investors continue to broaden investment strategies and the industrial sector continues to grow in its sophistication, market-specific and regional portfolio transactions are one investment strategy investors can adopt to gain exposure to an expanding population, growing geographic economy or rapidly changing supply chain.

Single-market-focused portfolios continue to drive volumes

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



Source: JLL Research (all portfolio transactions larger than 200,000 s.f.; markets with +$450.0M in activity in past four quarters)

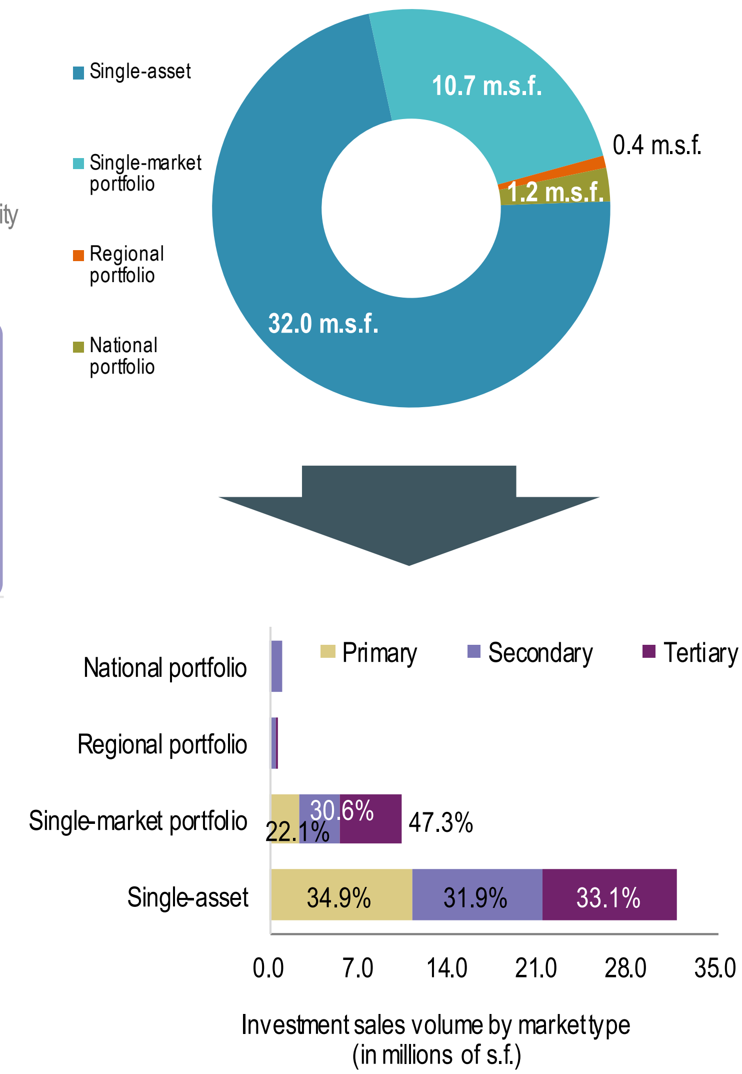
5 Single-asset transactions drive activity, led by Southern and Western markets

National transactions of +200.0 k.s.f. assets were reflective of broader trends experienced in the industrial sector, as single-asset activity vastly outweighed portfolio transactions by a near 3:1 margin on a square-footage basis. Single-asset trades were fairly balanced with respect to primary, secondary and tertiary market exposure, as single-asset activity on a square-footage basis was constituted as 34.9, 31.9 and 33.1 percent, respectively. The other primary vehicle of +200.0 k.s.f. asset activity was single-market-focused portfolios, which saw a slight divergence from the single-asset trading composition and accounted for 22.1 percent of activity in primary markets, 30.6 percent in secondary markets and 47.3 percent in tertiary markets. Two factors of consideration for this divergence are that primary and even secondary markets are more land-constrained, and thus the amount of assets involved in transactions is far less than in tertiary markets, as well as the possibility that investors are seeking bulk purchasing opportunities in tertiary markets due to current competition in primary markets. Some investors may also be executing on the arbitrage created as volatility sidelined and caused caution among tertiary investments, thus softening valuations of certain assets. This will be a trend to monitor closely through the end of this year.

Single-asset transactions lead activity

Single-asset transactions were the primary driver of assets over 200.0 k.s.f., and transactions remained fairly balanced across market types

Third-quarter transactional volume (by deal type)

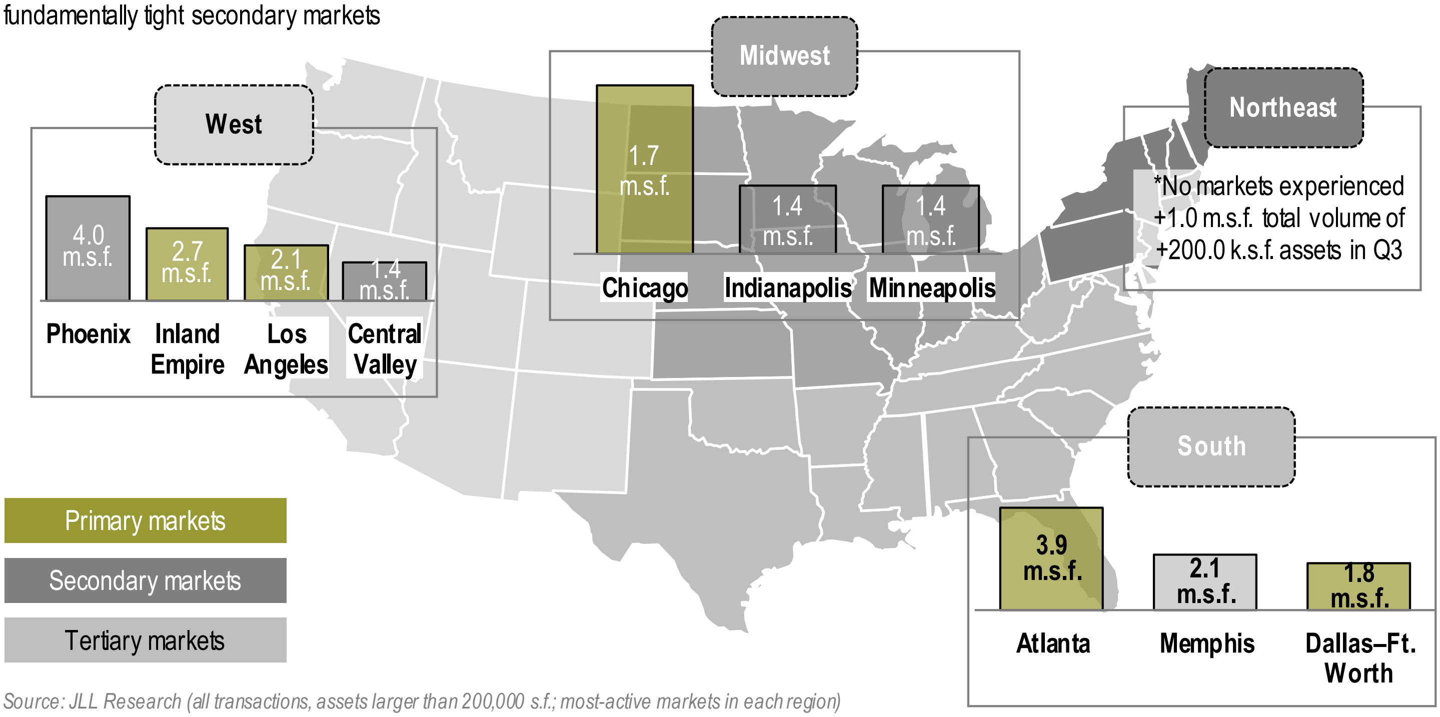


Source: JLL Research, Real Capital Analytics (all assets larger than 200,000 s.f.)

The third quarter experienced diversity among the leading markets of +200.0 k.s.f. assets, as primary and secondary markets led overall volumes. Southern and Western markets constituted the bulk of activity, with Phoenix, Atlanta and Inland Empire leading the way on a square-footage basis. Of particular note was the fact that no markets in the Northeast experienced +1.0 m.s.f. of total volumes of assets over +200.0 k.s.f. This is largely reflective of how few investment opportunities are available in these markets, as fundamentals continue to entice owners to hold assets, despite record pricing levels.

Southern and Western markets lead activity levels

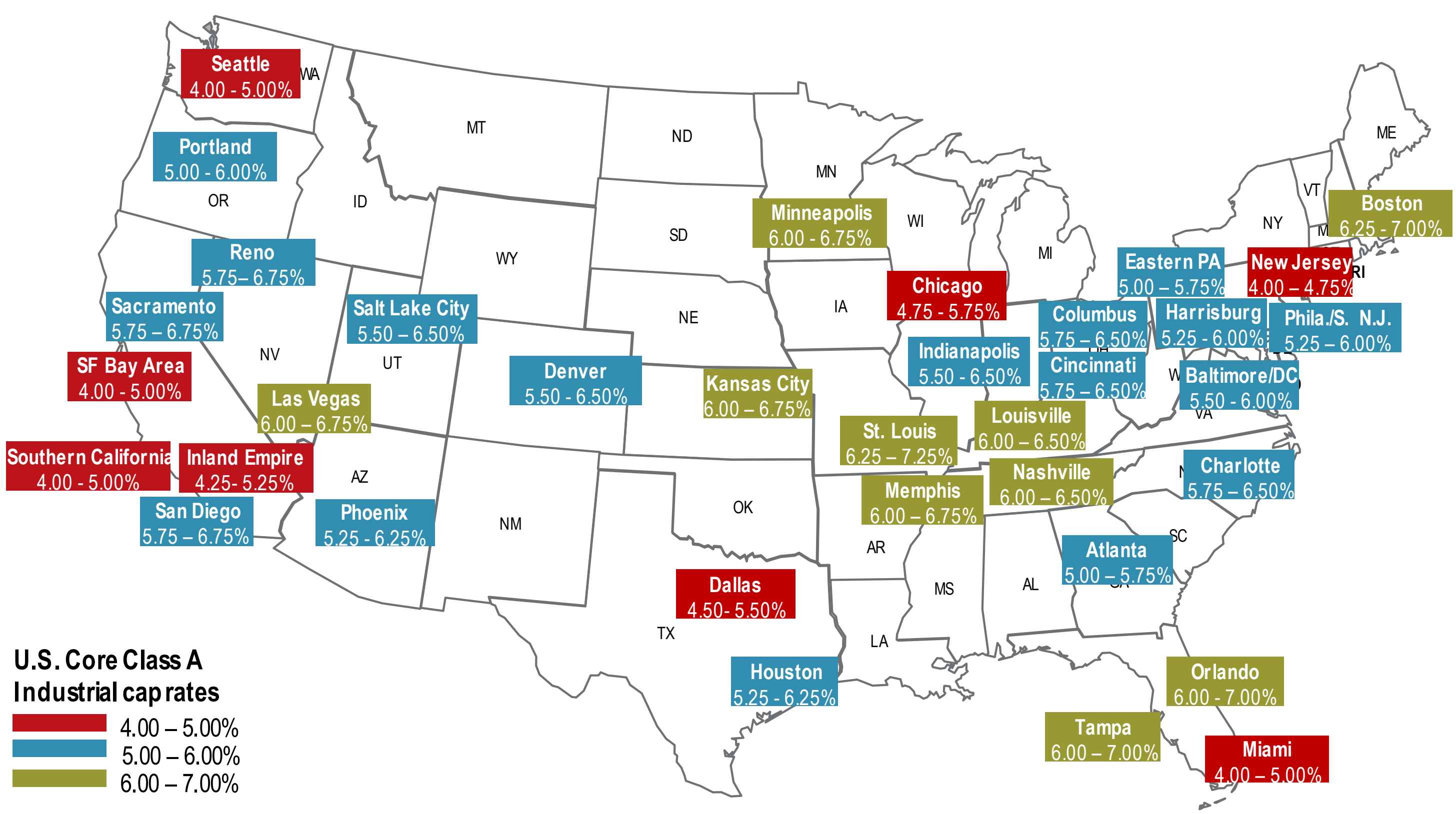
Third-quarter +200.0 k.s.f. asset volumes were led by Southern and Western market activity, with volumes primarily focusing on primary and select fundamentally tight secondary markets



Source: JLL Research (all transactions, assets larger than 200,000 s.f.; most-active markets in each region)

Core Class A Industrial cap rate map

Class A Industrial cap rates endure seemingly perennial compression



Notable portfolio transactions, Q3 2016

Market	Portfolio	Buyer	Seller	Price ($)	Size (s.f.)	Price (p.s.f.)
South Florida	Flagler Station 50% Partial Interest (32 bldgs.)	Blackstone	AEW Capital	$250,000,000	4,764,000	$52
Orange County	Savi Tech Center (4 bldgs.)	Monster Beverage	Hines/Oaktree	$95,000,000	376,808	$252
Regional	California Portfolio (8 bldgs.)	Dedeaux Properties	Highridge Provender	$82,749,990	338,020	$245
Oakland-East Bay	Pinole Point DC Portfolio (2 bldgs.)	JLL Income Property Trust	Prologis/Norges Bank (NBIM)	$77,200,000	468,788	$165
National	National DC Portfolio (35 bldgs.)	Deutsche	Int'l Airport Centers	undisclosed	3,300,000	N/A
Minneapolis	Minnesota DC Portfolio (4 bldgs.)	Colony Capital	TA Realty	$62,549,994	899,085	$70
Los Angeles	Cerritos Corporate Center (7 bldgs.)	Black Equities	Angelo Gordon/Crowsnest Properties	$61,625,000	452,588	$136
Dallas-Ft. Worth	Royal Lakes (13 bldgs.)	Sealy & Co.	Prologis	$60,403,633	1,219,682	$50
Denver	Montbello Industrial Park (17 bldgs.)	Stockbridge	TA Realty	$57,650,000	903,335	$64
South Florida	Flagler Station 50% Partial Interest (32 bldgs.)	Blackstone	AEW Capital	$250,000,000	4,764,000	$52

Notable single-asset transactions, Q3 2016

Market	Property	Buyer	Seller	Price ($)	Size (s.f.)	Price (p.s.f.)
Inland Empire	24101 Iris Ave, Moreno Valley, CA	Principal Financial	Penwood REIM	$92,132,500	1,103,003	$84
Phoenix	6835 W Buckeye Rd, Phoenix, AZ	Koll Company/Seera Investment Bank	Duke Realty/Gramercy Property Trust	$74,775,000	1,009,390	$74
All Others - OK,TX	2200 I-45, Corsicana, TX	Eliken Property Mgmt	Oaktree/Hackman Capital/Calare Properties	$70,000,000	1,443,777	$48
San Antonio	6000 Schertz Pkwy, Schertz, TX	Circle Industrial	USAA Real Estate	$65,000,000	1,260,000	$52
Phoenix	16920 W Commerce Dr, Goodyear, AZ	Hines Global REIT II	Gramercy Property Trust/Duke Realty	$56,200,000	820,384	$69
Inland Empire	7295 San Gorgonio Dr, Riverside, CA	Industrial Property Trust	Western Realco	$49,763,000	582,772	$85
Phoenix	9081 W Washington St, Tolleson, AZ	Cohen Asset Mgmt	VEREIT	$48,000,000	465,600	$103
Indianapolis	9998 Allpoints Pkwy, Avon, IN	Kohl's	Duke Realty	$44,000,000	936,510	$47
Phoenix	17300 W Broadway Rd, Goodyear, AZ	Huhtamaki Inc.	Cohen Asset Management	$43,000,000	730,000	$59
Los Angeles	20333 S Normandie Ave, Torrance, CA	Bridge Development Partners	Farmer Brothers Coffee	$43,000,000	664,590	$65

For more information, please contact:

Investor
Sean Coghlan
Director, Investor Research
sean.coghlan@am.jll.com

Industrial
Peter Kroner
Sr. Analyst, Industrial Research
peter.kroner@am.jll.com

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