Breakout Session: Investing Outside the Big Box

Al Pontius, Marcus & Millichap
Michael Brennan, Brennan Investment Group
Curtis Spencer, IMS Worldwide
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Session Speakers

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Chairman, Managing
Principal
Brennan Investment Group

Curtis Spencer
President
IMS Worldwide
TRENDS SUPPORTING INDUSTRIAL DEMAND
Industrial Market Favored by eCommerce: Online Sales Growth Outpacing Traditional Segment

- eCommerce and rest of core retail sales through April; Store-based retail sales through May
- Store-based core retail sales excludes gas stations, auto dealers, grocery stores, and non-store retailers; core retail sales excludes auto and gasoline sales
- Sources: Marcus & Millichap Research Services, U.S. Census Bureau

Ecommerce now 23.1% of Core Retail Sales

Percent Change From Dec. 1992

Retail Sales (Billions)

* eCommerce and rest of core retail sales through April; Store-based retail sales through May
Store-based core retail sales excludes gas stations, auto dealers, grocery stores, and non-store retailers; core retail sales excludes auto and gasoline sales
Sources: Marcus & Millichap Research Services, U.S. Census Bureau
Global Health Crisis has exposed flaws in the increasingly interlinked global supply chain

U.S. could see onshoring of manufacturing to curtail some of these risks

Industrial demand may increase as diversification in sourcing, routing and distribution becomes more important

Thorough review of “just in time” supply chain systems as businesses weigh redundancy vs. efficiency (lean)

May see increased industrial and warehousing demand as companies expand inventories to accommodate greater “safety stock”
INDUSTRIAL OPERATING ENVIRONMENT
Industrial Construction Disproportionately Built in Primary Markets

* Trailing 12 months through 1Q

Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
### Industrial Construction Remains Highly Concentrated; Top 10 Markets by T-12 1Q 2020 Completions

<table>
<thead>
<tr>
<th>Top 10 Metros</th>
<th>1Q 2020 Vacancy</th>
<th>T-12 1Q 2020 Completions*</th>
<th>T-12 1Q 2020 Net Absorption*</th>
<th>Completions as % of Inv.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inland Empire</td>
<td>4.6%</td>
<td>26,379,000</td>
<td>24,535,000</td>
<td>4.6%</td>
</tr>
<tr>
<td>Dallas-Fort Worth</td>
<td>6.6%</td>
<td>25,377,000</td>
<td>24,320,000</td>
<td>3.3%</td>
</tr>
<tr>
<td>Houston</td>
<td>7.9%</td>
<td>22,202,000</td>
<td>9,453,000</td>
<td>4.1%</td>
</tr>
<tr>
<td>Chicago</td>
<td>6.3%</td>
<td>21,696,000</td>
<td>15,000,000</td>
<td>1.9%</td>
</tr>
<tr>
<td>Atlanta</td>
<td>7.1%</td>
<td>21,683,000</td>
<td>15,045,000</td>
<td>3.3%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>7.8%</td>
<td>8,126,000</td>
<td>5,255,000</td>
<td>2.8%</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>5.0%</td>
<td>7,695,000</td>
<td>4,325,000</td>
<td>1.6%</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>5.3%</td>
<td>7,367,000</td>
<td>735,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>Charlotte</td>
<td>7.0%</td>
<td>6,554,000</td>
<td>3,411,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>5.5%</td>
<td>5,688,000</td>
<td>2,107,000</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>U. S. Total</strong></td>
<td><strong>5.3%</strong></td>
<td><strong>283,264,000</strong></td>
<td><strong>177,037,000</strong></td>
<td><strong>1.8%</strong></td>
</tr>
</tbody>
</table>

* Trailing 12 months through 1Q 2020 (completions/absorption in square feet)
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
Industrial Supply Pressure Mitigated in Smaller Metros; Select Markets by T-12 1Q 2020 Completions

<table>
<thead>
<tr>
<th>Select 10 Metros</th>
<th>1Q 2020 Vacancy</th>
<th>T-12 1Q 2020 Completions*</th>
<th>T-12 1Q 2020 Net Absorption*</th>
<th>Completions as % of Inv.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milwaukee</td>
<td>4.7%</td>
<td>5,444,000</td>
<td>4,452,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>3.8%</td>
<td>4,838,000</td>
<td>4,339,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>Columbus</td>
<td>5.9%</td>
<td>4,831,000</td>
<td>2,132,000</td>
<td>1.9%</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>5.2%</td>
<td>4,627,000</td>
<td>3,586,000</td>
<td>4.1%</td>
</tr>
<tr>
<td>Detroit</td>
<td>3.8%</td>
<td>4,322,000</td>
<td>1,859,000</td>
<td>0.8%</td>
</tr>
<tr>
<td>Memphis</td>
<td>6.3%</td>
<td>4,283,000</td>
<td>1,494,000</td>
<td>1.7%</td>
</tr>
<tr>
<td>Louisville</td>
<td>4.8%</td>
<td>3,084,000</td>
<td>3,073,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>Denver</td>
<td>5.7%</td>
<td>2,572,000</td>
<td>1,386,000</td>
<td>1.3%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>4.7%</td>
<td>2,265,000</td>
<td>2,971,000</td>
<td>0.7%</td>
</tr>
<tr>
<td>Charleston</td>
<td>7.6%</td>
<td>1,992,000</td>
<td>1,178,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>U. S. Total</td>
<td>5.3%</td>
<td>283,264,000</td>
<td>177,037,000</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

* Trailing 12 months through 1Q 2020 (completions/absorption in square feet)
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
U.S. Industrial Development Primarily in Big-Box Space; Industrial Under Construction by Size (Sq. Ft.)

Overall
- 500K+ 50%
- 200K to 500K 29%
- 100K to 200K 14%
- 50K to 100K 5%
- 10K to 50K 2%

Select Markets
- 500K+ 54%
- 200K to 500K 29%
- 100K to 200K 10%
- 50K to 100K 5%
- 10K to 50K 2%

As of 1Q 2020
Select Markets includes Charleston, Columbus, Denver, Detroit, Kansas City, Las Vegas, Louisville, Memphis, Milwaukee, and Salt Lake City
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
U.S. Industrial Vacancy Already Trending Up, Rise Could Escalate if Recovery is Slow to Materialize

* Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

* Forecasts

Virtual INDUSTRIAL REAL ESTATE
Elevated Industrial Construction Putting Upward Pressure on Vacancy Rates

* Through 1Q
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.
INDUSTRIAL TRANSACTION ENVIRONMENT
Industrial Investors Pursue Yield – Capital Allocations Moving Beyond the Core

Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

Non-Primary Market Dollar Volume - $1M+

Dollar Volume (Billions)

Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
U.S. Industrial Transaction Activity by Market Type

Primary

Non-Primary

Transactions

-5%

+40%

Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
### U.S. Industrial Price Trends by Market Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Non-Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2004</td>
<td>$35</td>
<td>$35</td>
</tr>
<tr>
<td>2006</td>
<td>$70</td>
<td>$70</td>
</tr>
<tr>
<td>2008</td>
<td>$105</td>
<td>$105</td>
</tr>
<tr>
<td>2010</td>
<td>$140</td>
<td>$140</td>
</tr>
<tr>
<td>2012</td>
<td>$105</td>
<td>$105</td>
</tr>
<tr>
<td>2014</td>
<td>$140</td>
<td>$140</td>
</tr>
<tr>
<td>2016</td>
<td>$105</td>
<td>$105</td>
</tr>
<tr>
<td>2018</td>
<td>$140</td>
<td>$140</td>
</tr>
<tr>
<td>2020*</td>
<td>$105</td>
<td>$105</td>
</tr>
</tbody>
</table>

**Primary**
- Average Price per Sq. Ft.: $0 to $140
- Increase: +68%

**Non-Primary**
- Average Price per Sq. Ft.: $0 to $140
- Increase: +23%

* Through 1Q
Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
U.S. Industrial Cap Rate Trends by Market Type

Average Cap Rate

- Primary
- Secondary
- Tertiary

* Through Q1
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

Virtual ICON Industrial Real Estate
U.S. Industrial Sales Trends by Market Type

Transaction Activity

- Primary: 5,500
- Non-Primary: 8,500

Dollar Volume

- Primary: $48.5B
- Non-Primary: $61.4B

Average Price per Sq. Ft.

- Primary: $130
- Non-Primary: $76

Average Cap Rate

- Primary: 7.5%
- Non-Primary: 7.3%

Transactions and dollar volume for 2019; price and cap rate through 1Q 2020
Includes sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics
Questions?