A DISCUSSION OF

U.S. AND SOUTHERN CALIFORNIA INDUSTRIAL REAL ESTATE MARKETS

June 16, 2019

CUSHMAN & WAKEFIELD

AGENDA

SECTION I

NATIONAL OVERVIEW

NATIONAL OVERVIEW

AT-A-GLANCE

Another Banner Year for U.S. Industrial

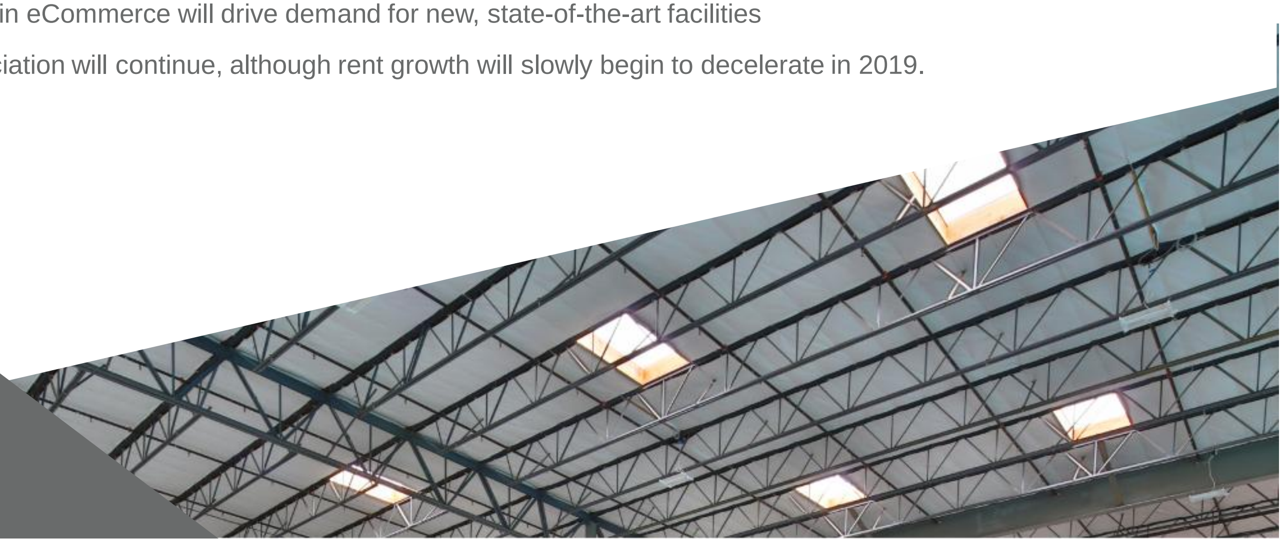
- National net absorption surpassed 250 million square feet (msf) in 2018 for a third year in a row
- U.S. industrial rents increased 5.9% in 2018 year over year, rising in 53 markets – 20 of which posted double-digit gains
- Net absorption forecast to surpass 240 msf in 2019 for a sixth consecutive year, with demand for all regions and all product types growing.
- Market conditions are motivating new development in primary and select secondary markets; construction starts jumped by 22.4% year-over-year nationally
- Port markets and infill-sited submarkets of populated inland distribution hubs are where U.S. rent growth will be strongest.

NATIONAL OVERVIEW

AT-A-GLANCE

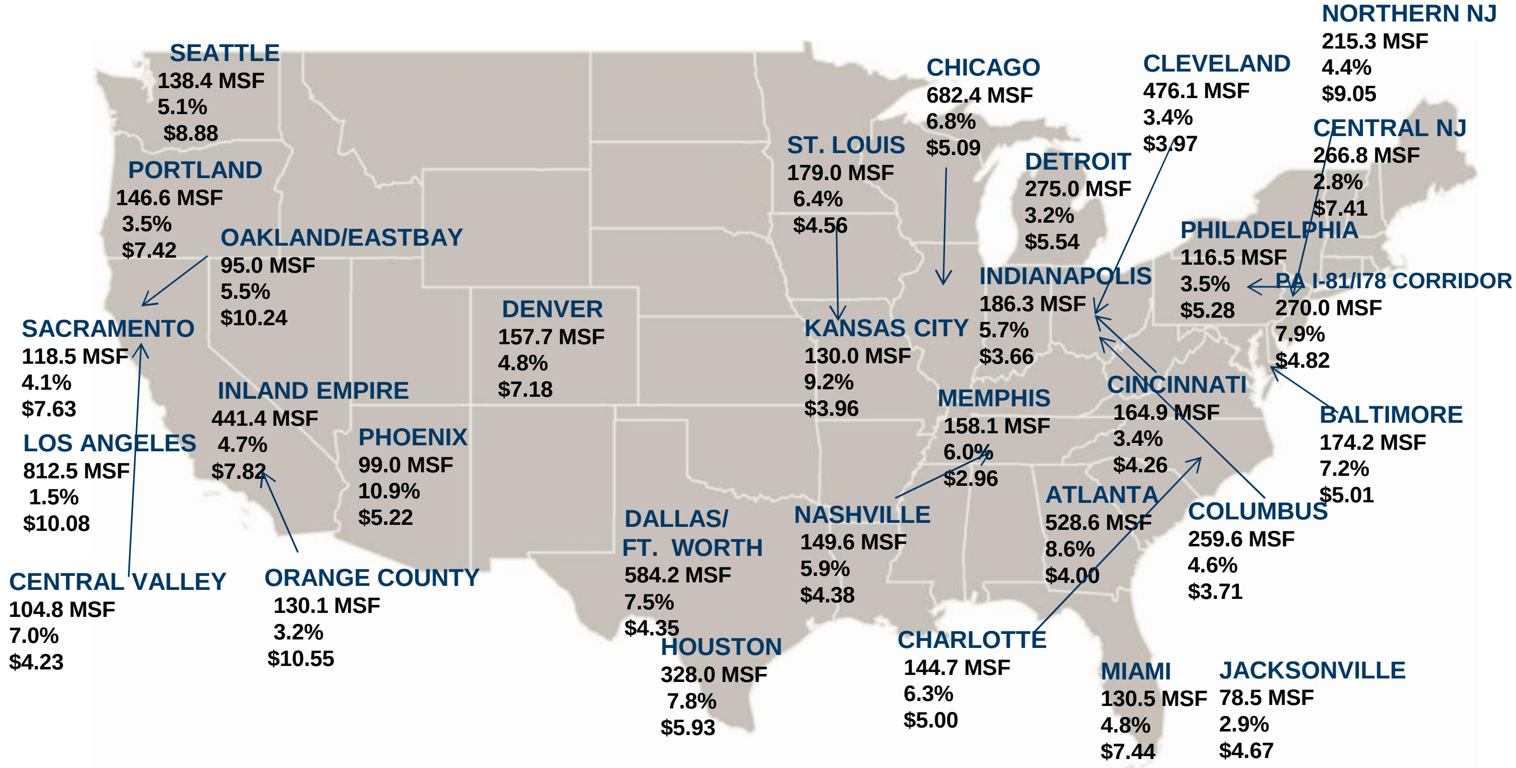
Industrial Sector Undergoing a Rapid Transformation

- As the consumers goes, so goes the industrial market. Consumer spending is forecast to grow 2.6% in 2019
- eCommerce is a major driver for industrial demand – forecast to grow double-digits 2019 and beyond
- Net absorption forecast to surpass 240 msf in 2019 for a sixth consecutive year, with demand for all regions and all product types growing.
- Increased spec construction could increase vacancy. We forecast average annual vacancy to rise 30 to 40 bps to between 5.1% and 5.2%% by year-end 2019.
- Continued growth in eCommerce will drive demand for new, state-of-the-art facilities
- Rental rate appreciation will continue, although rent growth will slowly begin to decelerate in 2019.



MAJOR U.S. INDUSTRIAL MARKETS

Warehouse Inventory, Overall Vacancy & Net Annual Rents



16 OF THESE MARKETS HAVE WAREHOUSE VACANCY LESS THAN THE U.S. WHSE VACANCY RATE OF 5.3%

NOTE: Selected markets with warehouse inventory of 75MSF+

NATIONAL OVERVIEW

Q4 2018 U.S. INDUSTRIAL VACANCY

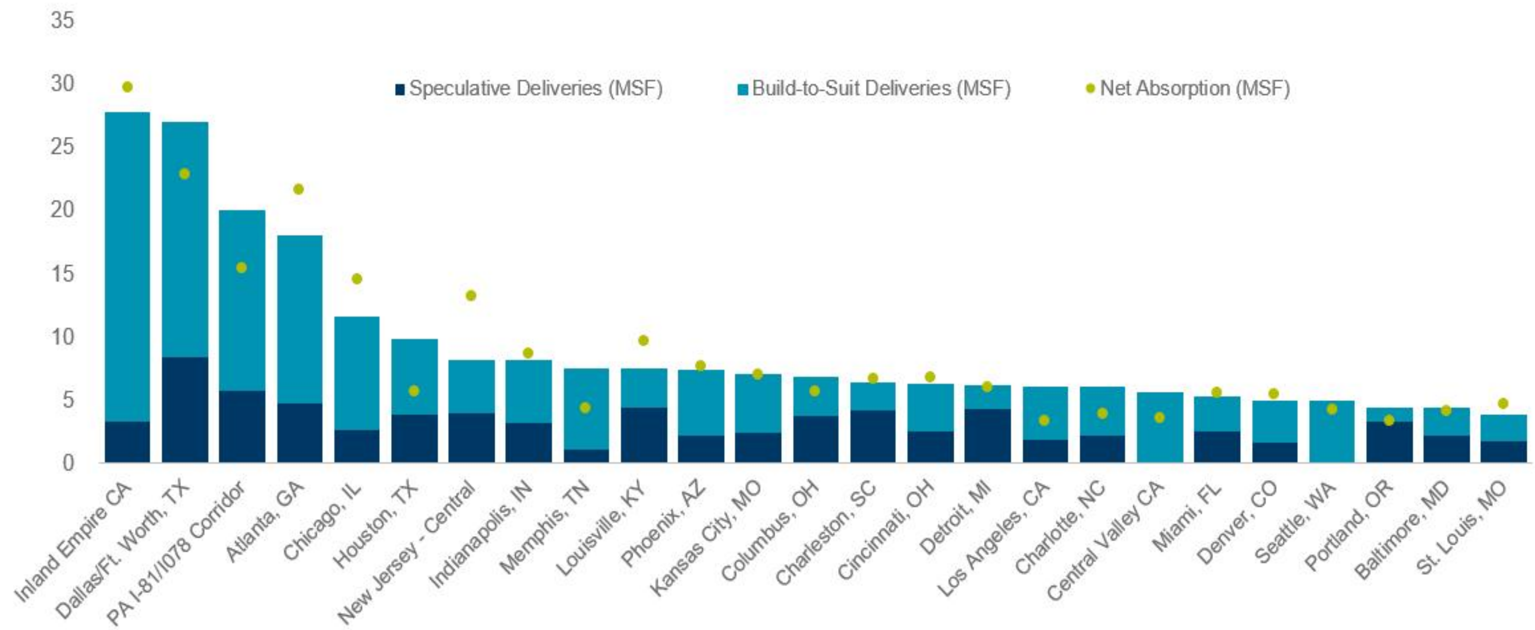
Markets Remain Tight

Source: Cushman & Wakefield Research

NATIONAL OVERVIEW

Q4 2018 DELIVERIES AND NET ABSORPTION

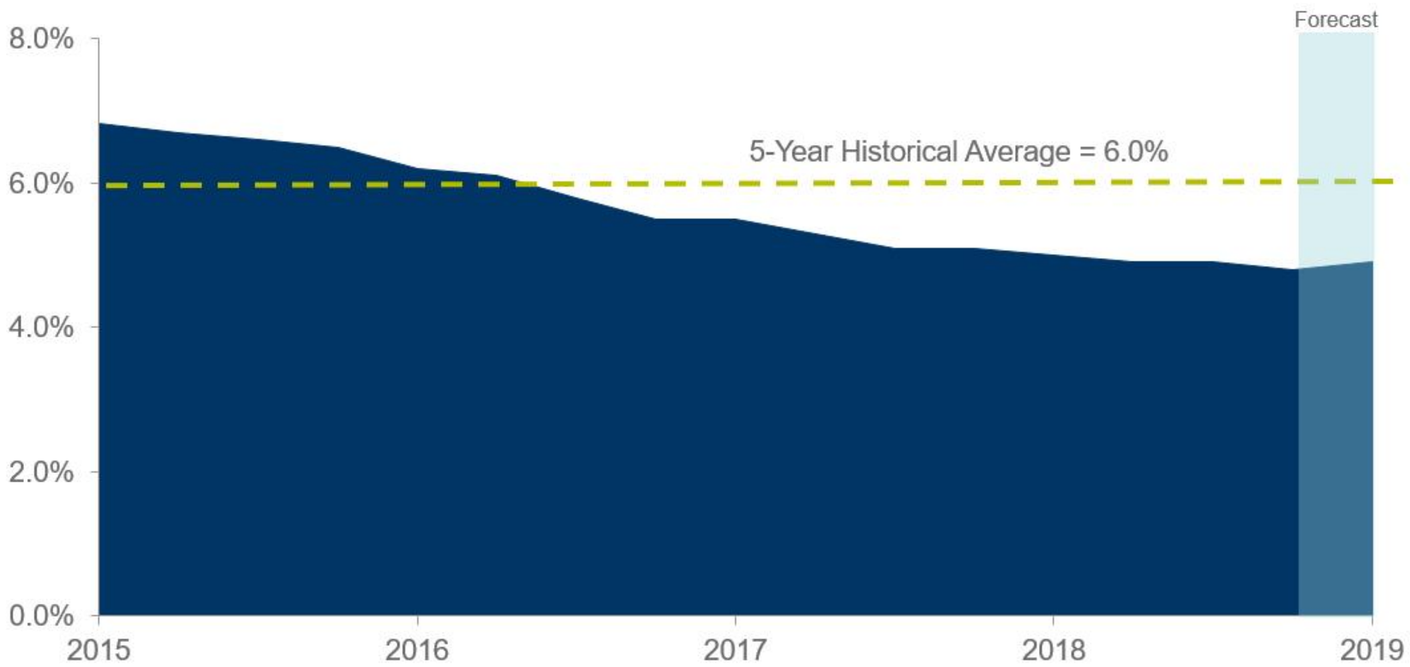
Few Signs Of Overbuilding



Source: Cushman & Wakefield Research

NATIONAL OVERVIEW

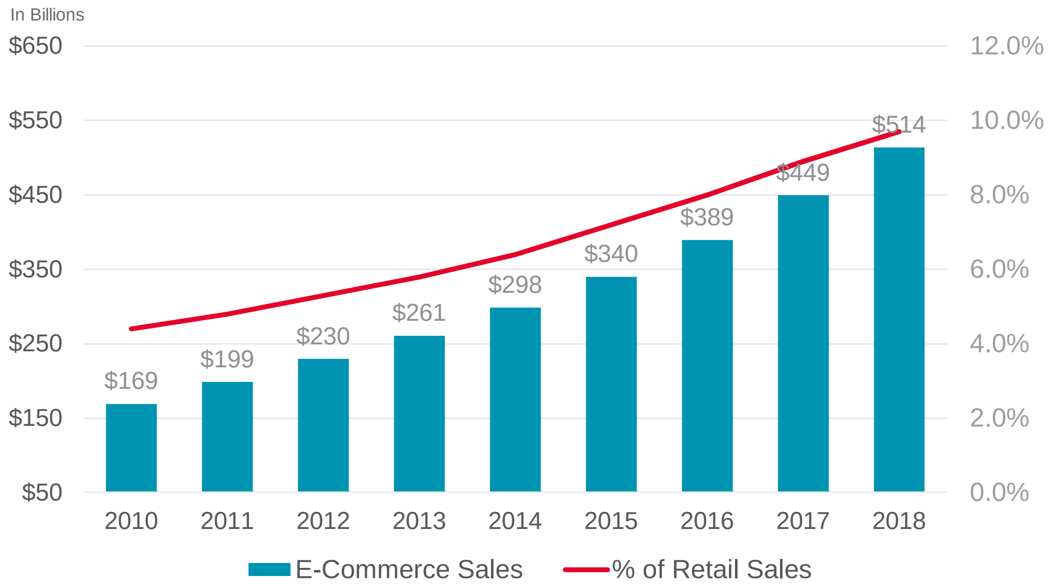
OVERALL VACANCY



Source: Cushman & Wakefield Research

U.S. E-COMMERCE SALES

A Powerful Industrial Tailwind



Source: The U.S. Department of Commerce .

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Key Takeaways

- **$513.6B**
  Total eCommerce sales for 2018, an increase of **14.2%** from 2017. Total retail sales increased just 4.8% from 2017.

- eCommerce sales in 2018 accounted for 9.7% of total sales, up from 8.9% in 2017.

- eCommerce sales are expected to grow **15.1%** in 2019.

- Considering that online sales are growing nearly four times faster than overall retail sales, further industrial demand for eCommerce fulfillment can be expected.

SECTION II

SOUTHERN CALIFORNIA OVERVIEW

SOUTHERN CALIFORNIA OVERVIEW

Q1 2019 INDUSTRIAL SUBMARKETS OVERVIEW

SOUTHERN CALIFORNIA OVERVIEW

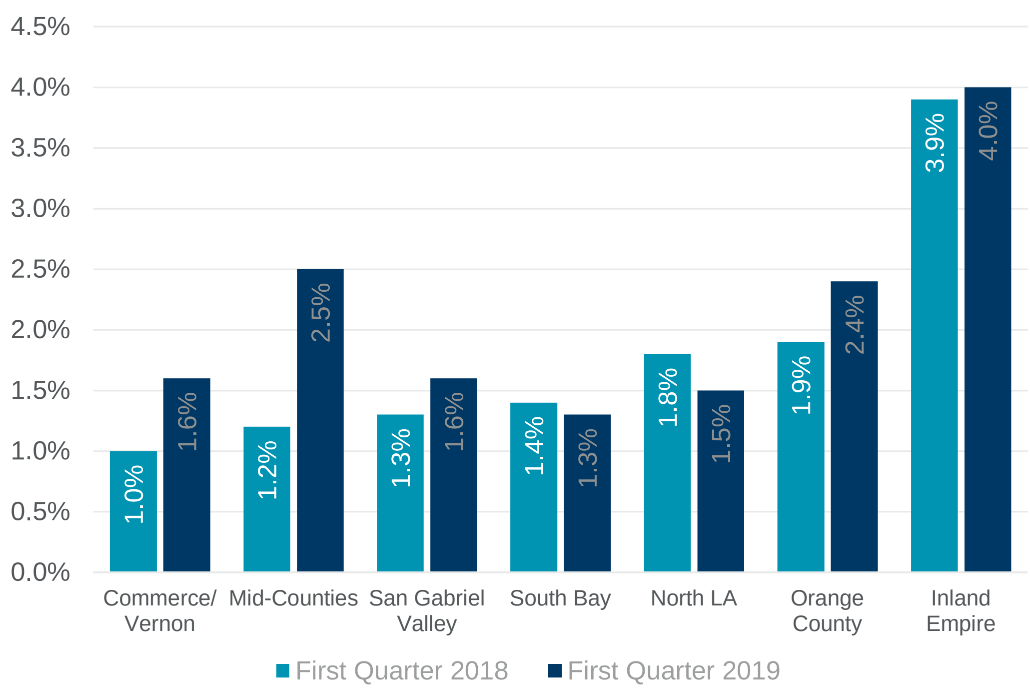
LOS ANGELES - ORANGE COUNTY - INLAND EMPIRE INDUSTRIAL MARKETS

With 2018 net absorption of 33.3 million sf, the vacancy rate dropped to 2.2% - the lowest vacancy rate among the major industrial markets in the U.S.

- Strong market fundamentals: *declining vacancy, rising rents, strong development pipeline, significant barriers to entry*
- Overall 2018 leasing activity in the Los Angeles Basin remained stronger than ever with 86.4 msf
- Market rents and property values experienced significant growth, as overall asking rates climbed 7.5% over 2017
- Construction projects for the four counties reached the highest levels at year end: Los Angeles County (6 msf), Orange County (1.6 msf) and Inland Empire – San Bernardino/Riverside Counties (27.7 msf)
- Construction costs rising 8% per year
- Labor is a significant factor – cost, availability, and quality

SOUTHERN CALIFORNIA OVERVIEW

OVERALL VACANCY RATE COMPARISON



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Key Takeaways

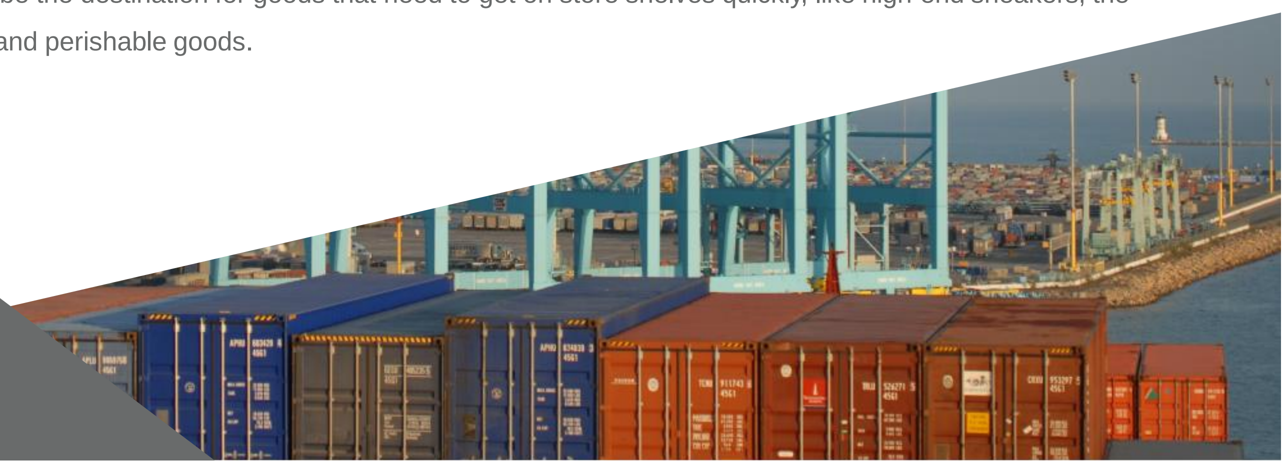
- After a banner year in 2018 when the market posted record-high leasing activity and 1.6 msf of net demand, the **Mid-Counties** industrial market started the year in the red with **1.5 msf of negative absorption** in the first quarter, resulting in a **130-bp increase** in vacancy from a year ago.
- With such low vacancies in most submarkets, there is little room for further growth in terms of net demand or leasing.
- Strong demand will intensify competition for the more desirable and functional spaces that become available and new supply is not expected to apply significant upward pressure on vacancy

SOUTHERN CALIFORNIA

PORTS OF LOS ANGELES AND LONG BEACH

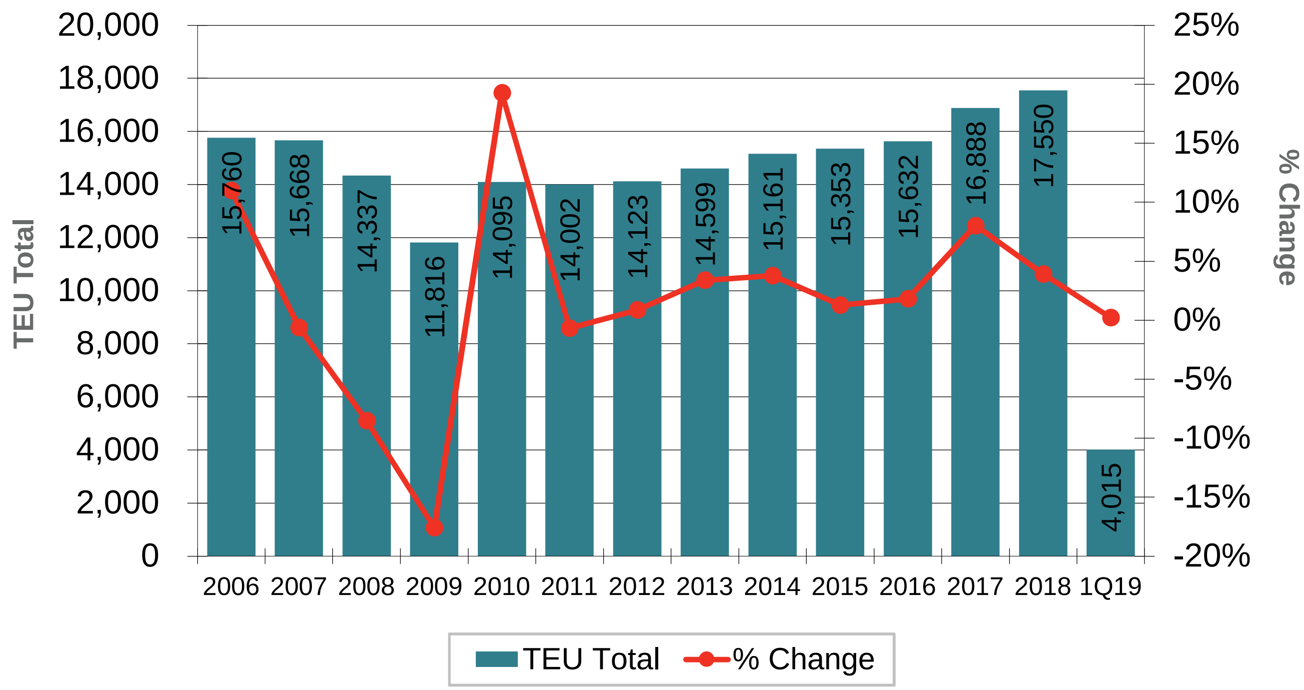
International trade remains a driving force behind one of the most vibrant regions in the nation.

- 2018 was a Record Year! #1 Port in North America, Ranked #9 in the world
- The port complex generates employment for nearly 3 million Americans nationwide.
- Congestion is the number one issue but ports continue to make improvements $6.5b (Cap. Imps. 10-yr)
  - Long Beach: $4.0b
  - Los Angeles: $2.5b
- About 30-35% of the goods that land in L.A.-area ports stay in Southern California.
- The ports offer what importers value most: speed to consumers.
- It will continue to be the destination for goods that need to get on store shelves quickly, like high-end sneakers, the latest electronics and perishable goods.



SOUTHERN CALIFORNIA OVERVIEW

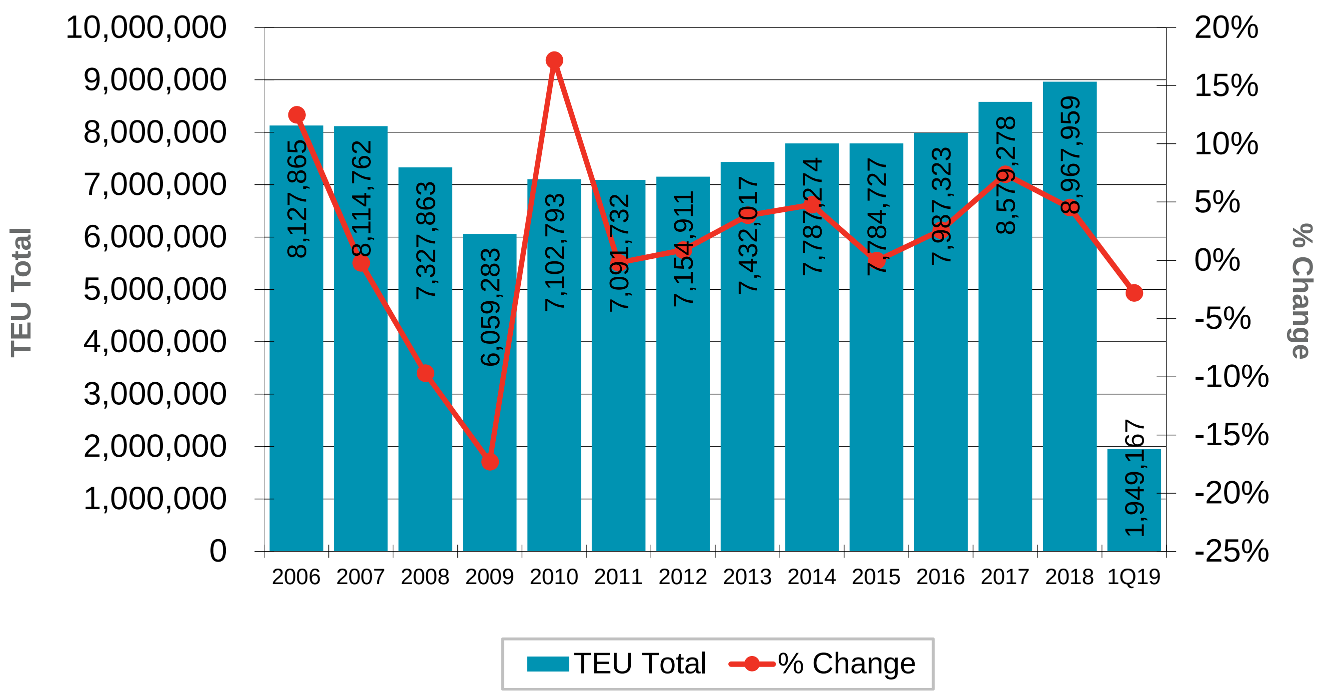
PORTS OF LOS ANGELES AND LONG BEACH



TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size. Source: The Port of Long Beach and Los Angeles. 1Q19 comparison is 1Q19 vs 1Q18 change.

SOUTHERN CALIFORNIA OVERVIEW

LOADED INBOUND TEU TOTALS (IMPORT VOLUME)



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SECTION III

INLAND EMPIRE OVERVIEW

Inland Empire Industrial Market

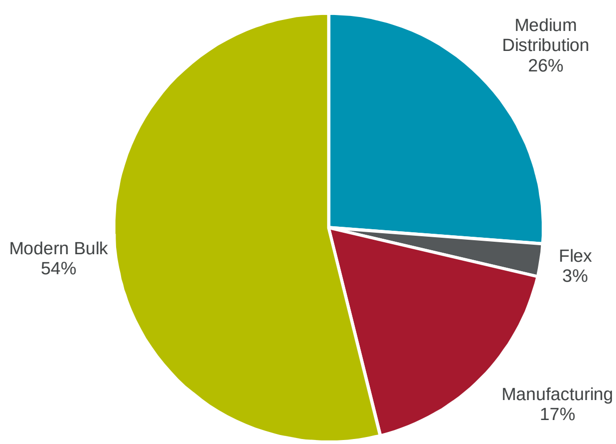
Market Summary

TOTAL MARKET SIZE

551,343,399 SF

MODERN BULK MARKET SIZE
(30' Clear and ESFR Sprinkler)

297,025,491 SF



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MODERN BULK FACILITIES

838

TOTAL OVERALL VACANCY

4.0%

2.5%

IEW VACANCY

6.4%

IEE VACANCY

INLAND EMPIRE OVERVIEW

AT-A-GLANCE

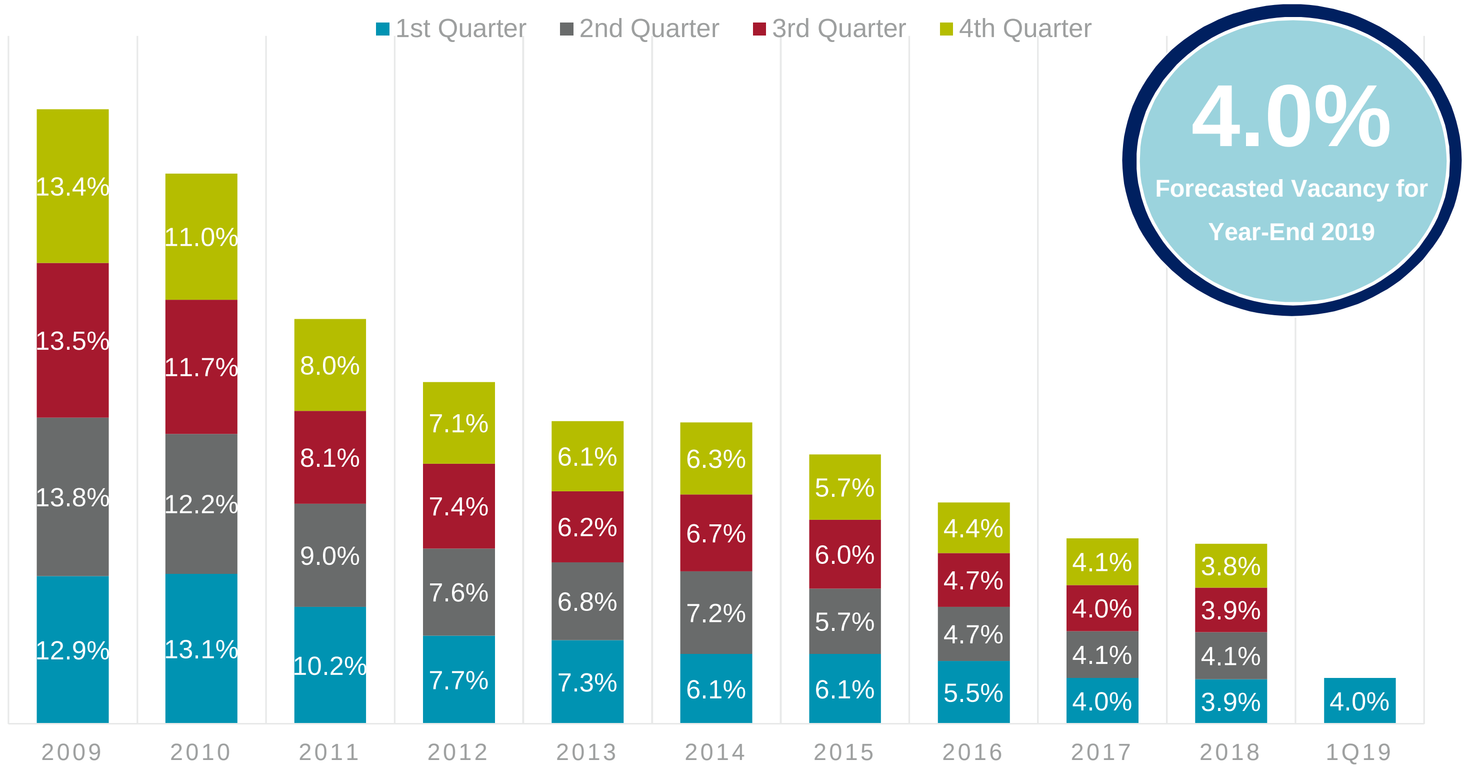
Strong port volume and eCommerce will continue to fuel growth in the region

- The Inland Empire contains the most modern, functional product in Southern California
- Highest historical growth due to global outsourcing and growth of imports at the Ports of Los Angeles/Long Beach
- Recent growth has been augmented by strong eCommerce-related demand
- Major investment market for institutional investors (pension funds, insurance companies, REITS)
- Logistics firms have located in the Inland Empire in response to the need for larger distribution centers and the availability of large modern distribution centers
- Strong demand has kept IE warehouse rents at record highs, yet they remain at a 50% discount compared to neighboring infill markets
- Yield Ranges:

- Spec Development:	4.75% - 5.50%
- Forward Sales (Vacant):	4.50% - 5.25%
- Core:	4.00% - 4.50%
- Build-to-Suit:	4.50% - 5.25%

INLAND EMPIRE OVERVIEW

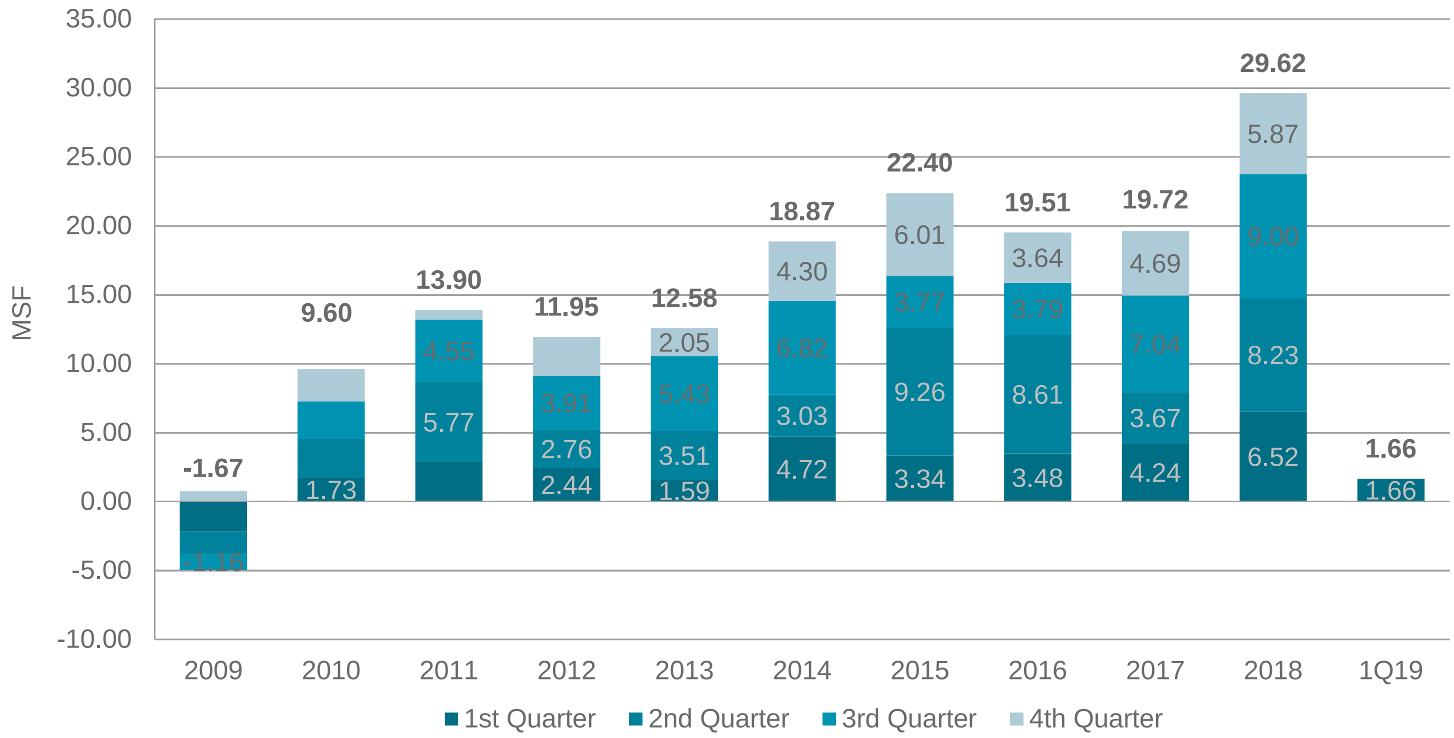
HISTORICAL VACANCY RATES BY QUARTER



Note: Existing buildings 10,000 square feet or larger. Includes flex space.

INLAND EMPIRE OVERVIEW

HISTORICAL QUARTERLY NET ABSORPTION



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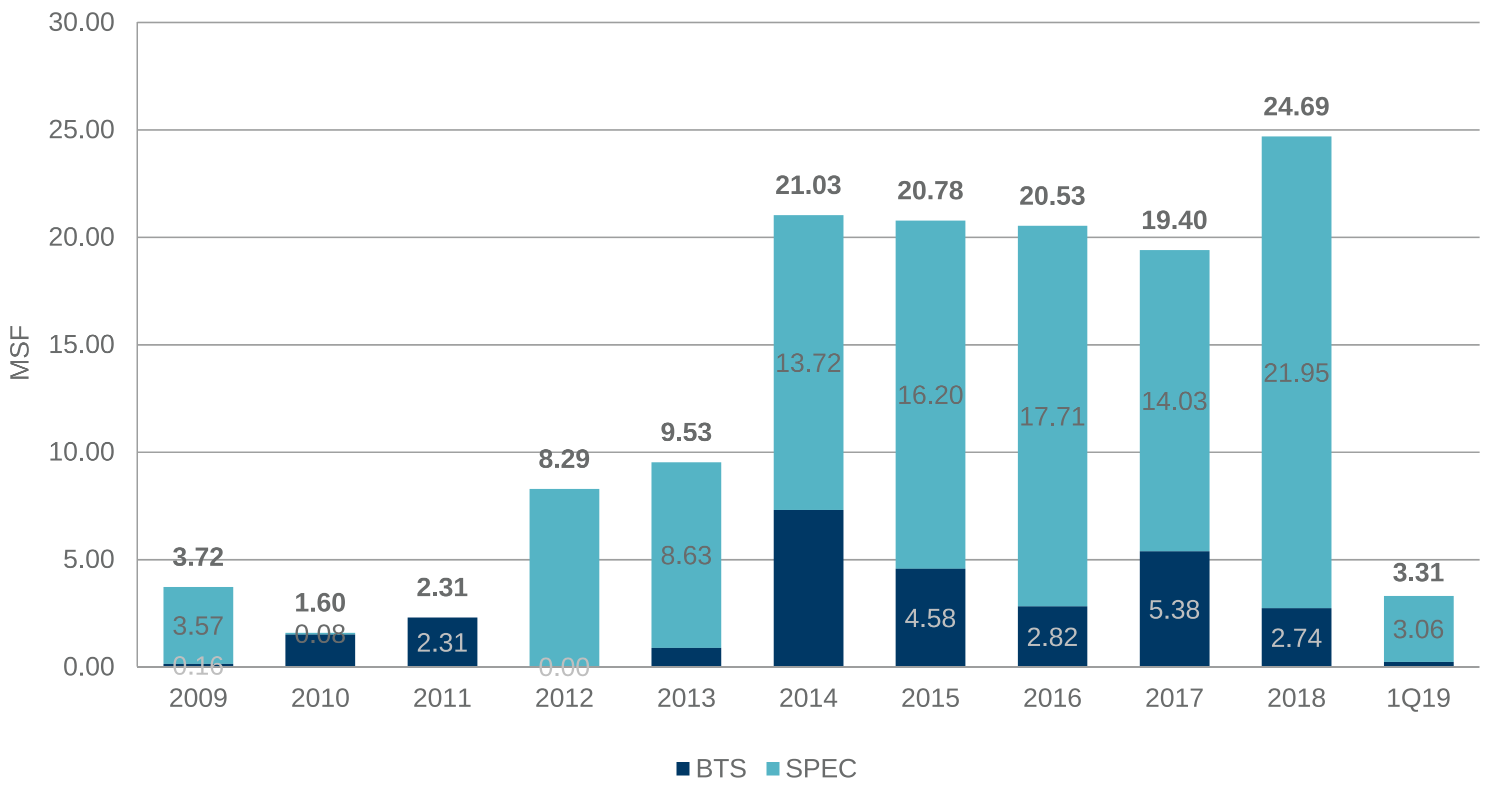
INLAND EMPIRE OVERVIEW

CONSTRUCTION COMPLETIONS



1998 Top Industrial Leases - Inland Empire

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TENANT	LEASED SF	ADDRESS	CITY
Pier 1 imports	750,000	3000 Philadelphia Street	Ontario
SANYO Logistics	750,000	2950 Jurupa Street	Ontario
CALPACO PAPERS INC	606,925	3155 Universe Drive	Jurupa valley
INGRAM	350,000	4271-4281 Edison Avenue	Chino
Montgomery Ward	347,820	14326 Monte Vista Avenue	Chino
KENDALL HEALTHCARE PRODUCTS COMPANY	334,000	4651 East Frances Street	Ontario
BAZAAR	318,104	7551 Cherry Avenue	Fontana
GM General Motors	303,120	11900 Cabernet Drive	Fontana
Master Design, Inc	300,172	1950 Sterling Avenue	Ontario
SKECHERS	285,600	5725 East Jurupa Street	Ontario

2008 Top Industrial Leases – Inland Empire

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TENANT	LEASED SF	PROPERTY	CITY
HANES Brands Inc	1,300,000	3700 Indian Avenue	Perris
Sunbeam	827,560	13052 Jurupa Avenue	Fontana
MGA Entertainment	749,308	1651 California Street	Redlands
The Home Depot	657,600	27352 Alabama Street	Ontario
Dorel Home	623,630	5400 Shea Center Drive	Ontario
Smucker's	598,741	5690 Industrial Parkway	San Bernardino
DA Distribution Alternatives	591,020	9774 Calabash Avenue	Fontana
Wickes	572,927	9333 Hermosa Avenue	Rancho Cucamonga
Fender	568,120	1151 South Mildred Avenue	Ontario
Ryder	500,000	4061 Ease Frances Street	Ontario

2018 Top Industrial Leases – Inland Empire

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TENANT	LEASED SF	PROPERTY	CITY
LOWE'S	1,387,899	24385 Nandina Avenue	Moreno valley
KEECO	1,331,763	24400 krameria Avenue	Moreno Valley
PT PERFORMANCE TEAM	1,313,470	1651 California Street	Redlands
HANES Brands Inc	1,309,754	3700 Indian Avenue	Perris
amazon.com	1,074,628	1010 West 4TH Street	Beaumont
NORDSTROM	1,009,092	400 Palmyrita Avenue	Riverside
ups	1,003,567	11281 Citrus Avenue	Fontana
Burlington	889,445	21705 cactus Avenue	Riverside
DCG Fulfillment	771,839	1300 California Street	Redlands
Georgia-Pacific	763,228	4100 Mission Boulevard	Ontario

Inland Empire Top Occupiers

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TENANT	TOTAL SF OCCUPIED (MSF)
amazon.com	15.0
NFI Logistics • Transportation • Distribution	6.5 MSF Footprint (plus, 6.7 MSF operating only)
Walmart	6.1
Home Depot	5.5
UPS	5.2
Ross Dress for Less	4.7

SECTION IV
INDUSTRIAL TRENDS

INDUSTRIAL TRENDS

KEY TENANT DECISION AND COST FACTORS

- Transportation, Labor and Rent
- Labor: Cost, Availability, Quality Of Labor Increasingly Important
- Increased Emphasis on Employee Amenities and Workplace Environment (e.g., HVAC, café/lockers)
- Tenants are Renewing More Frequently due to Major Facility Investments

INDUSTRIAL BUILDING SPECIFICATIONS

- Increased Capital Expenditures Going Into Building
- Increased Prevalence of Mezzanine Work Areas
- Increased Need for Trailer and Auto Parking (lower building-to-site coverage)
- Separate and Secured Auto and Trailer Yards/Entrances
- On-Site Truck Queuing Lanes
- Expansion / Flexibility
- Clear Height - 36’ industry standard (going to 40’?)

QUESTIONS?

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