U.S. Industrial Market Snapshot
Third Quarter 2016

— U.S. industrial market continued on its extraordinary run in the third quarter, building on three and a half very strong years. Low and declining availability rates, robust demand — that continues to outpace new supply — and continued above average rent growth 1, benefitted investors and developers in the sector.

— The industrial sector outperformed the NCREIF index average for the trailing four quarters in 2016-Q3 by 325 basis points, besting all other sectors and achieving an income return of 5.3%, an appreciation return of 6.9% and NOI growth of 6.3% 2.

— U.S. average per square foot pricing and investment volumes have surpassed 2007 peaks and average going-in cap rates 3 have compressed to levels lower than in 2007.

— Effective rent growth has been robust, growing on average 5.2% year-to-date (YTD) through the third quarter of 2016. This is in addition to the 10% gains achieved in the two years ending 2015^4.

— The dispersion of rent growth has been wide across markets, with 12 markets averaging double digit growth 5, annually over the last two years. Rent moderation and declines in several markets reflect equilibrium but also, notably, impaired local economic growth in Houston 6.

— The U.S. availability rate is at the lowest point since 2000, ending the third quarter of 2016 at 8.4% 7. The national vacancy rate was just 5.0% in the third quarter of 2016, equally historic since 2000.

— The majority of metros had availability rates well below their long-term averages in 2016. Notable exceptions to this were Cincinnati, Harrisburg, Houston, Kansas City, and Washington, DC 8.

— Industrial space demand has been consistently strong since late 2012, with net absorption averaging 253 million square feet per year in the three years ending 2015 9. The pace of demand in 2016 has not abated with net absorption totaling 203 million square feet YTD through the third quarter.

— Construction activity is ramping up, with deliveries of 134 million square feet YTD through the third quarter of 2016. If maintained, this pace of construction will essentially match the 20-year average of 168 million square feet 10. The ratio of net absorption to deliveries was 1.5 YTD through third quarter 2016.

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U.S. Demand and Supply Trends are Healthy

| Months | UN Total | US Total | Washington, DC | San Jose | San Diego | Portland | Phoenix | Orlando | Atlanta | Baltimore | Hartford | Austin | Dallas/Ft. Worth | Houston | Los Angeles | Memphis | Chicago | Cincinnati | Columbus | Indianapolis | Indianapolis | Kansas City | Louisville | Minneapolis | Milwaukee | Miami | Nashville | New York |
|--------|----------|----------|----------------|----------|----------|----------|---------|---------|---------|-----------|---------|-------|-----------------|---------|------------|---------|--------|------------|---------|------------|---------|----------|------------|---------|--------|---------|----------|
| 2010   | 100      | 300      | 80             | 110      | 100      | 90       | 90      | 90      | 90      | 90        | 90      | 90    | 90              | 90      | 90         | 90      | 90     | 90         | 90      | 90         | 90      | 90       | 90         | 90      | 90    | 90     | 90       |
| 2012   | 300      | 300      | 300            | 300      | 300      | 300      | 300      | 300      | 300      | 300       | 300      | 300  | 300             | 300     | 300        | 300     | 300    | 300        | 300     | 300        | 300     | 300      | 300        | 300     | 300  | 300  | 300     |
| 2013   | 400      | 400      | 400            | 400      | 400      | 400      | 400      | 400      | 400      | 400       | 400      | 400  | 400             | 400     | 400        | 400     | 400    | 400        | 400     | 400        | 400     | 400      | 400        | 400     | 400  | 400  | 400     |
| 2014   | 500      | 500      | 500            | 500      | 500      | 500      | 500      | 500      | 500      | 500       | 500      | 500  | 500             | 500     | 500        | 500     | 500    | 500        | 500     | 500        | 500     | 500      | 500        | 500     | 500  | 500  | 500     |
| 2016   | 700      | 700      | 700            | 700      | 700      | 700      | 700      | 700      | 700      | 700       | 700      | 700  | 700             | 700     | 700        | 700     | 700    | 700        | 700     | 700        | 700     | 700      | 700        | 700     | 700  | 700  | 700     |

Sources: CBRE-EA, and Deutsche AM. As of September 2016.
Past performance is not indicative of future results.
Mid-2000s Average Cap Rate

— Development trends are different in this cycle. Not only was new construction slow to ramp up in the early years of recovery, but developers appear to be more tactical well into this growth cycle, delivering greater amounts in markets where demand support has been the strongest. At the same time there has been less speculation in smaller secondary/tertiary markets and local markets where demand was more modest or less diverse.

— Gateway markets and the national distribution hubs (Atlanta, Chicago and Dallas) have dominated, attracting a greater share of development compared to prior cycles. The smaller regional hubs, such as Columbus and Indianapolis, as well as in even smaller markets like Orlando, Charlotte and Memphis have seen increased construction, but still at below-average levels.

— The few markets where development lifted above longer term averages included Atlanta, Dallas, Houston, Portland, Harrisburg and Allentown. Excepting Kansas City and Houston, absorption in these markets have generally matched or surpassed the elevated new supply. In San Jose absorption was negative, likely due to the recapture of obsolete space for redevelopment.

Regional Supply Trends – Gateways & Hubs Dominate

— The economic drivers of space demand remain supportive of the industrial sector. Although US GDP has been relatively weak in this growth cycle, averaging just 2.3% in the three years ending 2015, other factors have lent support for space demand. Sustained job growth, consumption and notably, the rapid growth of online retail sales has stimulated demand. According to U.S. Commerce Department data, U.S. online retail sales grew 14.6% in 2015. When factoring out food service, automobiles and fuel, total retail sales grew by $120.2 billion, or 3.8% in 2015. The online component of growth was $43.5 billion, or 36% of this growth. Retailers are reconfiguring their supply chains to accommodate this shift of growth, adding to their warehousing and fulfillment capabilities.

— Through the third quarter of 2016, the U.S. industrial market has absorbed more than one billion square feet of industrial space in four years, (2012Q4 through 2016Q3). During the same period the US has added about 10 million new jobs and U.S. personal incomes have risen about 13%, while median home values are up about 30% and the U.S. stock market (S&P 500) surged 49% higher between October 2012 and October 2016. All of these factors have helped fuel industrial space demand.

Capital Markets Activity

— The industrial sector continued to attract intense interest among investors, although the volume of sales has eased compared to 2015. Recent data from RCA reflect industrial investment sales activity of $35.7 billion, YTD through September 2016. Outside of a large spike in activity in the fourth quarter of 2015, when several larger portfolio sales pushed that quarterly total up to $24.6 billion, sales volumes have been ranging between $11 and $14 billion per quarter since the fourth quarter of 2014.

— Prices continued to surge in 2016, as investors drove per square foot prices higher and going-in cap rates lower. Average sale prices reached $66 per square foot for warehouses and $82 per square foot for all industrial transactions in the trailing 12 months ending September 2016. The trends (below) reflects consistent price gains since the very early stages of recovery.

— Average warehouse cap rates began to stabilize in 2016, settling prices higher and going-in cap rates lower. Average sale prices reached $66 per square foot for warehouses and $82 per square foot for all industrial transactions in the trailing 12 months ending September 2016. The trends (below) reflects consistent price gains since the very early stages of recovery.

Structure and Economic Drivers

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