THE PORTER REPORT

Q3 2020 | RICHMOND, VA INDUSTRIAL MARKET REVIEW

OWNER/USER AND INVESTOR SALES CLOSE ACTIVE QUARTER.

⇨ After an active quarter, the **overall industrial market occupancy** has increased to **93%** from 92% at the mid-year mark, with the largest addition to the Class A vacancy in the delivery of Becknell's newly constructed 241,180-square-foot building in the Airport Logistics Center (NEQ). **Class A occupancy** has decreased from 95% to **93%** while **Class B occupancy** has increased from 92% to **95%**. Speculative warehouse construction activity has resumed with multiple deliveries scheduled for the fourth quarter of the year.

⇨ Richmond-based **Direct Mail Solutions** purchased the 229,829-square-foot facility at 4650 Oakleys Lane in eastern Henrico County for $9.39 million with plans to consolidate its existing operations into the new location. The facility sits on more than 23 acres with frontage on interstate 64, and the company plans to make significant investments in the new facility for the requirements of its operation. Direct Mail employs more than 400 staff members and offers a variety of services, from large volume to highly personalized match mailings, including graphic design, printing, and mailing services.

⇨ Mounting solutions distributor **Mount-It!** purchased a facility in Prince George County's Southpoint Business Park and announced plans to invest $7.45 million to establish its first East Coast distribution location, creating 85 jobs. The San Diego-based company purchased the 50,880-square-foot facility at 5851 Quality Way for a price of $2,350,000. The company selected the Prince George location over options in Delaware, Kentucky, North Carolina and West Virginia, for its proximity to ports and a location that will enable delivery to East Coast customers in two days' time. Mount-It! offers mounting products including wall brackets, monitor desk mounts, ergonomic office solutions and other related hardware to government, military, education, health care and commercial clients.

⇨ Nashville-based **Western Express Inc.** purchased the 15.5-acre site at 5600 Midlothian Turnpike for $3.75 million with probable plans to relocate its local headquarters from Ashland to Richmond's Southside. The site includes an existing 35,000-square-foot terminal facility along with a detached 23,000-square-foot office and training building, and was previously a hub for Celadon Group, a trucking company that filed for bankruptcy last year. Western Express has a fleet of more than 3,000 trucks and 7,500 trailers.

⇨ **Rolls-Royce** has announced plans to close its Prince George County facility by the middle of 2021 as a result of the economic impact and collapse in travel from the Covid-19 pandemic. The facility was the first Rolls-Royce manufacturing operation built from the ground up in the United States and is located on a 1,000-acre site in the Crosspointe park off Interstate 295. The factory opened in 2011 with an initial planned investment of $170 million and reached peak employment of 400 people last year. The location produces precision aircraft components such as rotative discs and turbine blades.

FEATURED PROPERTY

13721 JEFFERSON DAVIS HIGHWAY

I-95 Access @ Woods Edge Road (Exit 58)

Plant 4: 182,875 SF Industrial Facility

Plant 4 North: 50,875 SF (2,875 SF Office) • 5 Docks, 1 Drive-In Door
Plant 4 South: 100,000 SF (5,735 SF Office) • 12 Dock Doors
Plant 4A-B-C: 32,000 SF Includes 9,120 SF Climate Controlled Space
Prior Uses FDA Approved • Ceiling Heights Varying Up to 30'5"
2000 Amp 480 Volt 3 Phase Electrical Service
Parking Up to 442 Car Spaces • Gated Security • Zoned I-1
Wet Sprinklers • Natural Gas Available • High Efficiency LED Lighting

Contact Exclusive Agents:

Richard W. Porter, CCIM, SIOR
804.521.1443 | dick@porterinc.com

Clifford B. Porter, CCIM, SIOR
804.521.1442| cliff@porterinc.com

INDUSTRIAL CONSTRUCTION PIPELINE

- ⇨ 405,000 SF Willis Commerce Center: Delivery Q4 2020 (Chesterfield Co)
- ⇨ 320,853 SF James River Logistics Center: Leased (Chesterfield Co)
- ⇨ 260,000 SF Cardinal Commerce Center Phase I: Q4 2020 (Hanover Co)
- ⇨ 246,760 SF Airport Logistics Center (1) Leased (Henrico Co)
- ⇨ 241,180 SF Airport Logistics Center (2) Available (Henrico Co)
- ⇨ 238,000 SF Northlake Commerce Center: Delivery Q4 2020 (Hanover Co)
- ⇨ 194,880 SF Southpoint Business Center: Delivery Q4 2020 (Prince George Co)
- ⇨ 133,039 SF James River Logistics Center: Proposed (Chesterfield Co)

SELECTED INDUSTRIAL TRANSACTIONS

- ⇨ 317,319 SF SOLD INV | 1301 Battery Brooke Pkwy (Chesterfield Co)
- ⇨ 229,829 SF SOLD | 4650 Oakleys Lane (Henrico Co)
- ⇨ 125,000 SF LEASED | 3310 Deepwater Term Rd (Richmond City)
- ⇨ 107,121 SF LEASED | 1703 Ruffin Mill Road (Chesterfield Co)
- ⇨ 71,250 SF LEASED | 1700 Jefferson Davis Hwy (Richmond City)
- ⇨ 57,500 SF SOLD | 5600 Midlothian Turnpike (Richmond City)
- ⇨ 52,500 SF SOLD | 11250 Hopson Road (Hanover Co)
- ⇨ 50,880 SF SOLD | 5851 Quality Way (Prince George Co)

PORTER REALTY

Porter Realty Company Inc./CORFAC International
4801 Radford Avenue • P.O. Box 6482 • Richmond, VA 23230
804.353.7994 • porterinc.com

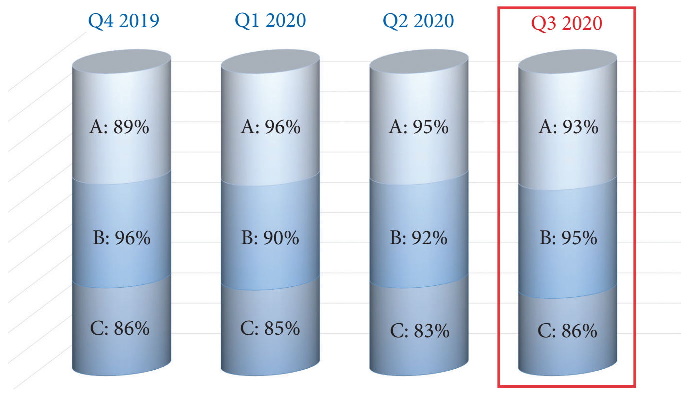
INDUSTRIAL MARKET VACANCY

Q3 2020

VACANT & INVESTOR-OWNED INDUSTRIAL PRODUCT*

40K SF MIN RBA* EXCLUDING FLEX & OWNER-OCCUPIED PROPERTIES | *RBA Total: 32.2MM SF in 199 Existing Buildings

OCCUPANCY RATES & NET ABSORPTION



Class A/B Combined Occupancy: 94%

Net Absorption from Q2 2020
Class A/B: +39,603 SF
Class C: +164,820 SF

CoStar reports an industrial occupancy rate of 95.2%, a slight increase from 95.1% at the end of the 1st quarter of 2020, based on a total 117.2 million square feet RBA in 2,804 existing warehouse properties, and a negative net absorption of 102,939 square feet for the quarter. CoStar's industrial RBA includes both owner-occupied and investor-owned properties, but excludes flex space, defined as 50% minimum office.

Vacancy Rate & Trends
40k < 75k SF RBA
RBA: 2.91MM SF (55 Buildings)
RBA: 9.0% of Total Market

	Class A	Class B	Class C
Total Bldgs	4	30	21
Total RBA	226,043	1,651,309	1,073,002
Vacant SF	49,043	209,443	181,419
Vacancy Rate	22%	13%	17%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	0	2	1	1
Total RBA	0	132,000	54,000	40,043
Vacant SF	0	9,000	0	40,043
Vacancy Rate	0%	7%	0%	100%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	10	9	7	4
Total RBA	528,418	468,522	413,689	204,680
Vacant SF	68,900	105,263	23,280	12,000
Vacancy Rate	13%	22%	6%	6%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	10	3	6	2
Total RBA	538,333	142,170	284,679	107,820
Vacant SF	109,353	12,025	60,041	0
Vacancy Rate	20%	8%	21%	0%

Vacancy Rate & Trends
75k < 150k SF RBA
RBA: 7.54MM SF (71 Bldgs)
RBA: 23.4% of Total Market

	Class A	Class B	Class C
Total Bldgs	24	30	17
Total RBA	2,780,031	3,189,915	1,569,024
Vacant SF	188,460	20,694	276,639
Vacancy Rate	7%	1%	18%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	5	11	3	5
Total RBA	514,065	1.31MM	331,460	627,319
Vacant SF	0	188,460	0	0
Vacancy Rate	0%	14%	0%	0%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	14	10	4
Total RBA	209,546	1.52MM	1.10MM	363,200
Vacant SF	0	20,694	0	0
Vacancy Rate	0%	1%	0%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	4	3	9	1
Total RBA	377,305	237,848	831,073	122,798
Vacant SF	0	155,225	121,414	0
Vacancy Rate	0%	65%	15%	0%

Vacancy Rate & Trends
150k SF Min RBA
RBA: 21.79MM SF (73 Bldgs)
RBA: 67.6% of Total Market

	Class A	Class B	Class C
Total Bldgs	39	23	11
Total RBA	14,295,980	4,972,431	2,518,693
Vacant SF	926,206	226,800	250,000
Vacancy Rate	6%	5%	10%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	5	15	3	16
Total RBA	1.30MM	4.29MM	2.02MM	6.68MM
Vacant SF	83,217	616,180	0	226,809
Vacancy Rate	6%	15%	0%	3%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	3	11	7	2
Total RBA	786,826	2.19MM	1.34MM	653,684
Vacant SF	181,800	0	0	45,000
Vacancy Rate	23%	0%	0%	7%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	1	6	2
Total RBA	336,138	200,000	1.18MM	805,500
Vacant SF	0	0	150,000	100,000
Vacancy Rate	0%	0%	13%	12%

FEATURED PROPERTIES

Q3 2020

PORTER REALTY

Cliff Porter
CCIM, SIOR
804.521.1442
cliff@porterinc.com

Staples Mill Corridor

3017 Vernon Road
34,150 SF Office/Warehouse
Includes 14,552 SF Office
4 Docks + 1 Ramp, 3.04 Acres
14' to 20' Clear, Zoned M-1
1200 Amp 3 Phase Electrical
Enterprise Zone Location
Available: Call for Information

Airport Area Industrial

Airport Logistics Center (2)
241,180 SF Available
16.2 Acres Zoned M-2C
32' Clear Ceilings, Office to Suit
135' Truck Court Depths
60' Loading Bay, Trailer Parking
Multiple Drive-In Doors
For Lease: Call for Information

High Bay Industrial

Airport Logistics Center (3 & 4)
Building 3: 129,750 SF Planned
Building 4: 187,500 SF Planned
Pre-Cast Concrete, 7" Floor Slab
LED Lighting, ESFR Sprinkler
Rail Potential, All Utilities On Site
RIC International Airport Area
For Lease: Call for Information

Downtown Richmond Area

909 Oliver Hill Way
8,252 SF Total Building
With 1,157 SF Office Mezzanine
24 Parking Spaces + Additional
5 Drive-Ins & 1 Platform Dock
1.72 Acres Fully Fenced
Immediate I-95 Access (Exit 74)
For Lease: Call for Information

Byron Holmes
CCIM, SIOR
804.521.1448
byron@porterinc.com

Rt 60 Development Site

Anderson Hwy (Powhatan, VA)
31.48 Acres Total Available
Zoned Commercial
Over 700' Frontage on
Route 60 West of Route 288
Served by Two Crossovers
Water & Sewer Available
For Sale: $1,490,000

Automotive Facility

6915 Hull Street Road
3,824 SF Total Building
Free-Standing Automotive Service
Facility, Drive-In Access
Zoned C-5, Built in 1988
Just West of Chippenham Pkwy
For Sale: $495,000
For Lease: Call for Information

42,000 Vehicles Per Day

14717 Hull Street Road
10 Acres Zoned C-3
Preliminary Site Plan Complete
Utilities Available
Located Across from Woodlake
Desirable Southside Location
Near Ashbrook & Hancock Village
For Sale: $2,140,000

Midlothian Investment

13541 East Boundary Road
8,500 SF Flex Building
1-Acre Site Zoned I-1
New Roof, Brandermill Area
Located Just East of Rt. 288
South of Genito Road
NOI: $74,805
For Sale: $935,000

Kevin Cox
804.521.1468
kevin@porterinc.com

Hanover Air Park Location

11201 Hopson Road
Office/Warehouse Units
Suite A: 3,960 SF Available
19' to 22' Ceiling Height
10' x 10' Drive-In Loading
Zoned M-3 Industrial
I-95 Access @ Sliding Hill Rd
For Lease: $10.00/SF Gross

Hanover Location Off Rt. 1

10385 Wood Park Court
1,800 to 18,000 SF Units Available
Warehouse Storage, Zoned M-2
16' to 20' Ceilings, 3 Phase Power
Units Include Restroom &
1 Drive-In Door (12' x 12')
Available Q4 2020
For Lease: $8.00/SF NNN

Hanover Industrial Air Park

11080 Air Park Road
18,000 SF Office/Warehouse
Includes 2,500 SF Office
20' to 25' Ceilings
Radiant Heat in Warehouse
Zoned M-3 Industrial
Immediate I-95 Access
For Lease: $4.95/SF NNN

Upscale Business Park

Park Central Drive
Development Opportunity
8.619 Acres Available
Zoned O-S (Henrico County)
Medical/Office/Warehouse Uses
Located 1.2 Miles from I-95
Immediate Access off E Parham Rd
For Sale: $225,000/Acre

123 North 18th Street
2,113 SF Retail/Automotive Facility
Zoned B-5, Opportunity Zone
Downtown Richmond Shockoe Bottom
Enterprise Zone Location
For Sale: $550,000
Co-Listed with: Cliff Porter
CONTACT: WILSON FLOHR
804.521.1458

Anderson Highway (Powhatan Co)
Join Virginia Physicians Family
Practice! 36.84 Acres Total
Mixed Use Development Potential
Retail Pad Sites from 1.59 Acres
For Sale: ~$29,900/Ac (Unsubdivided)
Co-Listed with: Byron Holmes
CONTACT: DICK PORTER
804.521.1443

14909 Hull Street Road
Former Chiropractic Office
1,149 SF Masonry Construction
1.9 Acres Zoned A
Paved & Striped Parking
Rt. 360 Frontage Chesterfield Co
For Sale: $725,000
CONTACT: BYRON HOLMES
804.521.1448

10985 Leadbetter Road
Hanover Industrial Air Park
Parcel 1: 5.658 Acres Zoned M-3
For Sale: $925,000
Parcel 2: 0.836 Acre Zoned M-3
Site Plan Approved: 7,200 SF
For Sale: $155,000
CONTACT: KEVIN COX
804.521.1468

Porter Realty Company, Inc. • 4801 Radford Avenue • P.O. Box 6482 • Richmond, VA 23230
804.353.7994 | porterinc.com

FEATURED PROPERTIES

Q3 2020

PORTER REALTY

Signature Airport Location

5800 South Laburnum Avenue
182,842 SF Industrial Facility
Active CSX Rail on 8.86 Acres
Zoned M-2, 24' to 27' Ceilings
New Roof, Lighting, Heaters
RIC International Airport Area
Opportunity/Enterprise Zone
For Sale: $9,600,000

Enterprise Zone & HUB Zone

1306 Jefferson Davis Hwy
Up to 78,000 SF Facility
Front: 48,000 SF (18' Clear)
Rear: 30,000 (20' Clear)
3.2 Acres Zoned M-1
Wet Sprinklers, Heavy Electrical
Lease: $3.50/SF Base
Sale Possible: Call for Information

I-95 Access @ Rives Road

3800 Corporate Road
6.515 Acres Outside Wetlands
Zoned M-1/B-2
Water/Sewer Available
Immediate I-95 & I-295 Access
4 Miles to I-85/Petersburg VA
~875' Frontage of Rives Road
For Sale: $300,000

Manchester Portfolio

NEW!

Maury Street & Marx Street
4.54 Acres + Office/Shop
Redevelopment Potential
Zoned M-2 Industrial
Opportunity Zone & Enterprise Zone Location
Immediate I-95 Access
For Sale: Call for Information

Dick Porter
CCIM, SIOR
804.521.1443
dick@porterinc.com

71,000 Vehicles Per Day

13204 Hull Street Road
2,785 SF Available for Lease
Ample Parking, Zoned C-2
Convenient & Highly Visible
Brandermill Location
Building + Pylon Signage
For Lease: $25.00/SF NNN
Owner/Agent

Broad Street Visibility

8006 West Broad Street
14,303 SF Freestanding Retail
1.53 Acres Zoned M-1
Includes 1,600 SF Mezzanine & Conference Room, Wet Sprinkler
78 Parking Spaces
For Sale: $2,000,000
Co-Listed with: Cliff Porter

39,000 Vehicles Per Day

8400 West Broad Street
7,998 Available Immediately
Free-Standing Retail Building
Excellent Signage & Visibility
Ample Parking, Located Near Broad St & Parham Rd
Available: Call for Information
Owner/Agent

Fredericksburg Complex

46 Commerce Road
20,450 SF Building on 5.7 Acres
12,650 SF Shop + 10 Bay Doors
48 Commerce Road
12,785 SF Building on 2.35 Acres
Includes 6k SF Shop + 4 Bay Doors
For Sublease: Call for Information
Co-Listed with: Kevin Cox

Bob Porter
CCIM, SIOR
804.521.1441
bob@porterinc.com

New Flex Construction!

219 Turner Road
82,000 SF Office/Warehouse
Suites from 2,500 SF
18' Ceilings, Drive-In Loading
Zoned C-4, Opportunity Zone
Located Near Chesterfield Mall
Delivery Fall 2020
For Lease: $10.00/SF IG

Creative Office Available

1413 Highpoint Avenue
2,250 SF Creative Office
Lift Elevator, Zoned B-7
Just Off Boulevard Corridor
Enterprise Zone
Scott's Addition Location
For Lease: Call for Information
Co-Listed with: Cliff Porter

Lakeridge Industrial Park

10470 Wilden Drive
Up to 7,998 SF Contiguous
Suite B: 2,666 SF (Avail 02/20)
Suite C: 2,666 SF
Suite D: 2,666 SF
Dock Loading, 14' Ceilings
Ample Parking, Zoned M-2
For Lease: $9.00/SF MG

Diamond Area Location

2057 West Moore Street
Residential Land Site
0.357 Acre Total Zoned R-6
Prime Richmond City Location
Proximate to The Diamond & Arthur Ashe Boulevard
Off Hermitage Rd & W Leigh St
For Sale: Call for Information

Wilson Flohr
804.521.1458
wilson@porterinc.com

Fully Conditioned Facility

NEW!

1033 Church Rd (Blackstone, VA)
111,235 SF Manufacturing Facility
65,000 SF Manufacturing & 42,000 SF Warehouse, Zoned M-2
18.8 Acres, Expansion Potential
6 Docks, 3 Drive-In Doors
Wet Sprinklers, Heavy Power
Sale: Call for Information

50-Door Distribution Facility

3609 East Belt Boulevard
16,590 SF Total Building
Includes 3,000 SF Office
4.78 Acres Zoned M-1
Paved/Fenced Storage Area
Concrete Pad for Potential Shop/Additional Warehouse
Available: Call for Information

Enterprise Zone Location

8706 Old Mountain Road
18.64 Acres Zoned M-1
Henrico County, Access on Old Mountain Rd, Blackstone Ave & Brook Rd/Rt 1, Utilities Proximate
Adjacent Land Available
For Sale: Call for Information
Co-Listed with: Wilson Flohr

I-64 @ Mechanicsville Tnpk

Glenfield Business Center
Suite 2501: 21,175 SF Available
7,645 SF Office, 5 Docks
2541-2555 Mechanicsville Tnpk
12,000 SF Office/Warehouse
8 Drive-Ins & 1 Dock, Zoned M-1
For Lease: Call for Information
Co-Listed with: Cliff Porter

Robert Porter III
804.521.1455
rep3@porterinc.com

Porter Realty Company, Inc. • 4801 Radford Avenue • P.O. Box 6482 • Richmond, VA 23230
804.353.7994 | porterinc.com

US WAREHOUSE MARKET REVIEW

Report: No Such Thing As Obsolete

CoStar Report: Strong Demand Keeps Warehouses Filled Regardless of Age

Why Older, Functionally Challenged Industrial Assets Outperform Despite Deluge of New Supply

By Brooks Staley & Joseph Biasi | January 27, 2020

With more than 320 million square feet of under construction warehouse and distribution space looming in the pipeline, investors might be forgiven for casting a skeptical eye over the ability of decades-old warehouses to retain their value. Hampered by low clear ceiling heights and often given the dismissive tagline of "obsolete space," these dated properties would appear to be prime redevelopment targets.

Modern industrial properties routinely feature clear heights well above 30 feet and, more often than not, stretch to 40 feet, a prerequisite for the enormous racking systems used by national brands and e-commerce tenants with far-reaching supply chain needs and cutting-edge distribution operations.

We dug into the data to see how these older assets are performing against the newer competition given the current tenant demand for industrial space of nearly all shapes and sizes.

We began by slicing national average industrial vacancies by year built across bulk industrial assets, defined as properties larger than 150,000 square feet. Over the course of this cycle, a clear pattern emerges. Industrial vacancies began to compress after the Great Recession. It started first in newer buildings, but by 2014 and 2015, as online commerce took off and demand pressure began to build to new highs, older properties also began to reap the windfall from the extraordinary tenant demand.

By 2017, all industrial property vintages, with the exception of the very newest, experienced sub-6% vacancies, a testament to the exceptional need for large bulk spaces across the country. Properties built post-2010 show a clear trend in the opposite direction, as developers caught on to the wave of demand and began churning out box after modern box.

Yet, despite the deluge of supply, vacancies for even brand-new warehouse space have fallen significantly over the last three years, signaling that the overhang of new supply on the horizon is likely to be met with strong demand. We then looked at industrial vacancy performance in individual markets, this time segmenting by clear heights. Industrial buildings with clear heights of 25 feet or lower were selected as the lower functionality category. Conversely, modern buildings with clear heights of 30 feet and higher were defined as our higher functionality category.

It is a bit surprising that lower functionality assets appear to outperform their more modern counterparts in three markets with some of the highest levels of industrial space nationally: Chicago, Dallas-Fort Worth and the Inland Empire.

In contrast, three major markets with little separation in vacancy between lower functionality and those with the preferred higher ceiling heights are Columbus, Ohio; Los Angeles; and Washington, D.C. At first glance, this may appear paradoxical, given the importance of the three markets as distribution nodes, but they make sense given the central role in the supply chain these markets often play for a wide variety of national tenants.

US WAREHOUSE MARKET REVIEW

Report: Warehouse Demand Surges

Strong Demand for Industrial Buildings of All Ages

CoStar™

Property Vintage

Vacancy By Year

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
pre-1960s	12.3%	11.3%	11.1%	9.6%	8.2%	7.3%	6.2%	4.9%	4.6%	4.8%
1960s	10.9%	10.8%	11.1%	10.5%	9.9%	8.5%	6.9%	5.9%	5.2%	4.7%
1970s	10.4%	10.0%	9.8%	9.0%	8.0%	7.3%	6.5%	5.6%	4.8%	4.9%
1980s	9.0%	9.0%	8.6%	7.9%	6.9%	5.8%	5.1%	5.0%	4.5%	4.7%
1990s	8.8%	8.8%	8.3%	7.6%	6.4%	5.4%	4.7%	4.6%	3.9%	4.1%
2000s	13.1%	10.6%	8.4%	6.9%	5.4%	4.2%	3.7%	3.5%	3.2%	3.4%
2010s	3.1%	3.2%	4.9%	7.4%	9.0%	10.0%	10.1%	9.1%	9.6%	7.2%

Robust demand has sharply pushed up rents and created a shortfall of affordable industrial space in each market. That is likely forcing more price-sensitive tenants into spaces with lower clear heights, as they simply cannot configure their supply chain to avoid these central logistics hubs.

Several reasons could account for markets where newer assets with higher clear heights outperform, highlighting the importance of analyzing markets individually. Developers may not be able to add new supply fast enough to meet the outsize demand due to supply constraints, as in the case of Los Angeles, while slow additions of new supply rather than any constraints is the issue in Columbus. Still another factor is the generally weak economic drivers for warehouse space and a shallower tenant base, as is the case in D.C.

For now, investors who own older warehouse properties can breathe easy. With vacancies for older industrial properties extraordinarily tight nationally, we expect those with lower functionality to continue to outperform for the foreseeable future. However, it bears watching markets where developers continue to pour in new supply. Eventually the tide could turn and we could see tenants regain the upper hand for the first time since the end of the recession. That in turn could result in a wider movement among tenants into modern space and higher vacancies in older buildings as leases expire.

September 2020 Logistics Manager's Index Report®

By Zac Rogers Ph.D., Steven Carnovale Ph.D., Shen Yeniyurt Ph.D., Ron Lembke Ph.D. & Dale Rogers Ph.D.

A Joint Project Between Researchers From Arizona State University, Colorado State University, University of Nevada, Reno, Rochester Institute of Technology & Rutgers University, Supported by CSCMP

LMI® at 70.5%

Growth is INCREASING AT AN INCREASING RATE for: Inventory Levels, Inventory Costs, Warehousing Utilization, Warehousing Prices, Transportation Utilization, and Transportation Prices.

Warehousing Capacity and Transportation Capacity are CONTRACTING AT AN INCREASED RATE.

Growth rates in the logistics industry are roaring. Continuing its swift recovery from April's all-time low overall score of 51.3, the LMI registered at 70.5 in September, its first entry in the 70's since October 2018. September's robust readings are driven primarily by the tightening capacity in both transportation and warehousing as the demand for logistics services increases ahead of Q4. The tight capacity has resulted in subsequent increases in all price and utilizations, with Transportation Prices in particular up sharply, matching a two-year high at 87.9. E-commerce is expected to be at record-high levels during the holidays and retailers are restocking their inventories, especially those coming from international suppliers that had seen difficulty making regular deliveries early on during lockdown. As mentioned last month, digital-heavy retail methods allow concerned shoppers to avoid in-person stores but are also more logistics resource intensive. Logistics-intensive commerce becoming a more significant proportion of retail activity explains why the metrics tracked in the LMI are increasing at rates not seen since mid-2018, in spite of the relatively modest overall economic growth. It is also important to point out that the

US WAREHOUSE MARKET REVIEW

Report: Logistics Manager's Index

LMI measures change rates, not overall productivity. So, while the Transportation Prices reading of 87.9 in September 2020 matches the reading from October 2018, it does not necessarily mean that prices now are equal to prices then, only that they're growing at a similar rate.

The index scores for each of the eight components of the Logistics Managers' Index, as well as the overall index score, are presented in the table below. Six of the eight metrics show signs of growth, with both capacity metrics actively contracting. The overall LMI® index score is at its highest level in 23 months.

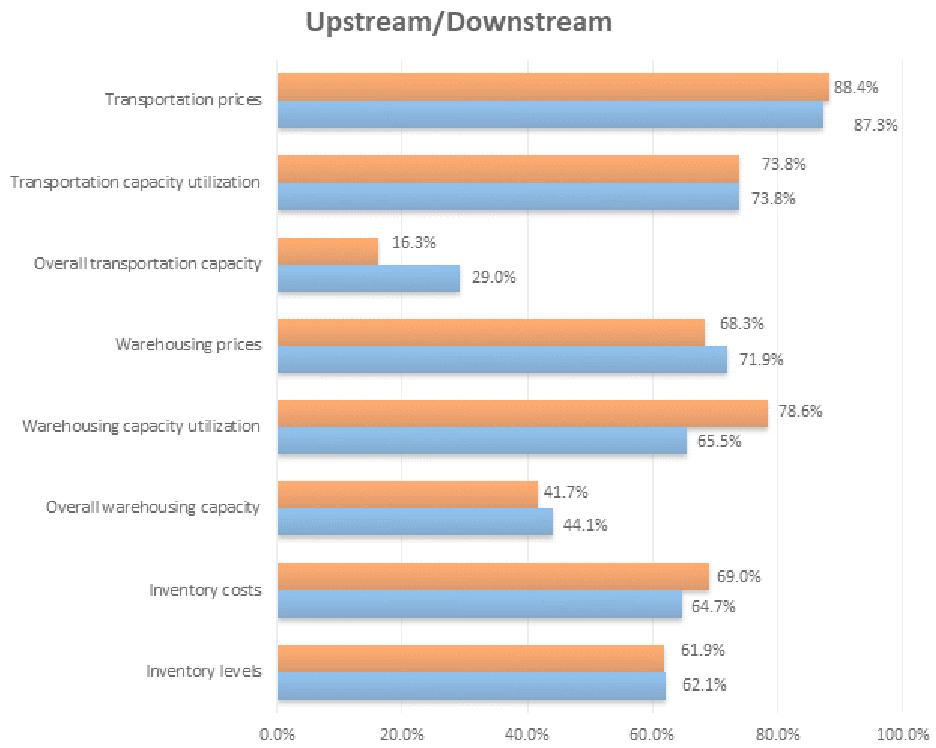
LOGISTICS AT A GLANCE					
Index	Sept 2020 Index	August 2020 Index	Month-Over-Month Change	Projected Direction	Rate of Change
LMI®	70.47	66.00	4.50	Growing	Increasing
Inventory Levels	61.39	58.08	3.30	Growing	Increasing
Inventory Costs	65.84	64.74	1.10	Growing	Increasing
Warehousing Capacity	43.14	50.51	-7.40	Contracting	From Increasing
Warehousing Utilization	71.08	65.15	5.90	Growing	Increasing
Warehousing Prices	70.50	68.62	1.90	Growing	Increasing
Transportation Capacity	23.79	31.48	-7.70	Contracting	Increasing
Transportation Utilization	74.06	69.63	4.40	Growing	Constant
Transportation Prices	87.85	83.80	4.10	Growing	Increasing

The LMI score is a combination of eight unique components that make up the logistics industry, including: inventory levels and costs, warehousing capacity, utilization, and prices, and transportation capacity, utilization, and prices. The LMI is calculated using a diffusion index, in which any reading above 50 percent indicates that logistics is expanding; a reading below 50 percent is indicative of a shrinking logistics industry. The latest results of the LMI summarize the responses of supply chain professionals collected in September 2020. As we have seen all summer, this month's LMI displays rapid growth in price and utilization metrics and a drop-off in available capacity. Due to these factors, the cost of holding inventory remains high.

Overall, the LMI is up (+4.5) from August's reading of 66.0. After three consecutive readings in the 60's, the overall index is back into the 70's for the first time since October of 2018. This is only the sixth time in the four-year history of the LMI that the overall index has been this high – indicating that the logistics industry is currently in the midst of a significant expansion. As discussed in August's report, logistics services are in higher demand as consumers rely more heavily on e-commerce due to the COVID-19 pandemic. The growth has been significant, with e-commerce up 44% as a percentage of total U.S. retail.

The strains this rapid shift to e-commerce has put onto firms is most visible in our warehousing metrics. Available Warehousing Capacity has been intensely restricted, dropping 7.4 points down to a reading of 43.1. Speedy last-mile delivery requires urban or urban adjacent facilities with high storage capacity. Because of this, demand is particularly pronounced for large, "big box" warehouses that are close enough to provide the majority of consumers with same- or next-day delivery. The crunch on capacity has led to subsequent spikes in both Warehousing Utilization and Warehousing Prices, which both found themselves in the 70's for the first time this year (and for Warehousing Utilization, the first time in 2 years). Utilization rates were higher (+13.1) for downstream, consumer-facing respondents, corroborating the notion that much of the push is being driven by retailers attempting to position their goods as close to consumers as possible. Warehouse Capacity was growing consistently in the back half of 2019 through February 2020. But since the onset of the pandemic-related lockdowns in March available capacity has either contracted or broken even, with the high-water mark being 50.5 in August. While firms like Amazon are bringing new facilities online at a record pace, respondents expressed doubts that available supply will be able to meet demand anytime soon. When asked, they project a Warehouse Capacity value of 49.5 twelve months from now, indicating that any new capacity will be gobbled up as soon as it comes online.

Similar to the trends we observe in our warehousing metrics, the transportation sector has tightened considerably. Transportation Capacity is down (-7.7) to 23.8, the lowest metric we have recorded for this or any metric in the four-year history of the LMI. It is even more pronounced for downstream firms, with consumer-facing respondents registering an astonishing 16.3. Clearly consumer-facing firms are struggling to find the capacity needed to meet the increasing consumer appetite for home-delivery. This is reflected in the premium firms are paying, with Transportation Prices up (+4.1) to a rate of 87.9, which is the highest rate of growth since October 2018. Transportation Utilization rates are also up (+4.5) to 74.1. It is interesting that logistics capacity is already this pressed at the end of Q3. Traditionally Q4 is when we see peak logistics demand, so the fact that it's already close to maximum utilization calls into question whether or not missed or late deliveries will become an issue through peak retail times in November and December.



Finally, we continue to track steady growth in our inventory metrics. Inventory Levels are up (+3.3) to 58.1, reflecting reports of bustling port activity as firms move to replenish the inventory from international suppliers that they were unable to procure early in the summer. The costs to hold inventory continue to increase as well (+1.1) to 65.8, a significant level of growth.

This month, upstream firms (represented by the orange bars) reported tighter transportation capacity, but similar levels of price and utilization. Upstream firms are also utilizing more of the warehouse space available to them as they work to accommodate the steady flow of inventory. Holding inventory is also more expensive for downstream firms, likely reflecting their position closer to consumers.

The overall LMI index is up (+4.5) to 70.5 from August's reading of 66.0. This is the fifth consecutive increase after hitting April's all-time low of 51.3. This is the first reading in the 70's and the highest overall score since October 2018, indicating that, at least through September, the logistics industry is to be coming back strong. The long-term U-shape of this metric demonstrates how, after an extended period of slow expansion, growth rates roared back in the summer of 2020. As noted above, this growth seems to be primarily driven by a large increase in transportation demand, possibly reflecting the increased consumer appetite to e-commerce and on-demand services. At this point it seems likely that these high rates of growth will continue even if the overall economy is slow in Q4. The dramatic reliance on logistics services due to the pandemic may insulate the industry from moderate economic downturns in the near future.

Respondents predict that over the next year, the LMI will be at 71.5, up (+5.1) from August's future prediction of 66.0. This suggests that respondents are anticipating increasing rates of growth in the logistics industry over the next 12 months.

Warehousing Prices Index registered 70.5 percent in September 2020. This reading represents a rather small increase of just under 2 percentage points from last month, which continues the trend of the sixth straight month of an increased growth rate in warehousing prices amid the COVID-19 disruptions. This reading is approximately equal to the reading from one year ago (<1 percentage point off). This is in contrast to the warehousing capacity and utilization numbers presented above. Typically, in previous readings, there is somewhat of a lag in the relationship between pricing and capacity/utilization. The rather tepid rate of increase reflected in pricing this month could be a harbinger of increases in pricing to come in the following months. Indeed, as the forecasts indicate that e-commerce systems will be pushed to the brink, the pricing of warehousing will likely adjust to reflect this.

Future predictions suggest that respondents are expecting prices to continue to grow at a rate of 81.2, up significantly (+13.0) from August's future prediction of 68.2. Clearly respondents are anticipating a significant increase in costs (and a continuation of current trends) over the next 12 months.

The industries represented in this respondent pool include, but are not limited to: Apparel, Automotive, Consumer Goods, Electronics, Food & Drug, Home Furnishings, Logistics, Shipping & Transportation, and Warehousing.