THE PORTER REPORT

3Q 2016 | RICHMOND, VA INDUSTRIAL MARKET REVIEW

INDUSTRIAL MARKET LEASING CONTINUES. NEW CONSTRUCTION PLANNED.

⇨ At the close of the 3rd quarter, Class A occupancy has tightened from 94% to 95% (while the Class B occupancy rate has increased from 87% to 88%) with the newly constructed 216,000 square feet of high bay distribution space in Building E at Henrico County's Airport Distribution Center now leased to **Premier Store Fixtures**. Premier owns an additional 229,000 square foot facility proximate to the Richmond International Airport, and will utilize the new facility as an expansion location. The company is an innovator in the retail store fixture/display business, offering design/engineering, manufacturing and support/logistics services. With Building E leased, Indianapolis-based **Becknell Industrial** has announced plans to begin construction of Building B at the Airport Distribution Center: a 153,480-square-foot facility (ESFR sprinkler, 32' clear, divisible) with up to 30 docks and abundant car/trailer parking. Construction will begin in November, 2016 with a scheduled completion of May, 2017.

⇨ **Devon USA** has indicated it plans to build a 320,850 square foot facility at the Enterchange at Northlake, in the northwest quadrant of Lewistown Road and I-95 in Hanover County, with delivery expected in June of 2017.

⇨ German grocery retailer **Aldi** plans to establish a division headquarters along with a 500,000 square foot distribution center in Dinwiddie County with an investment of $57 million and the creation of 145 jobs. Aldi currently operates 32 stores in Virginia and expects to have 60 stores statewide within the next five years. The company plans to have 2,000 total US stores by the end of 2018. Virginia competed against North Carolina for the project, and awarded economic development incentives including a $450,000 grant from the Commonwealth's Opportunity Fund and $680,000 from the Tobacco Region Opportunity Funds.

⇨ **Niagara Bottling**, the largest private label bottled water supplier in the U.S., announced plans to construct a 450,000-square-foot facility in Chesterfield County's Meadowville Technology Park, which is home to Amazon.com, Medline and Capital One. The initial investment is estimated at $95 million and will add 76 employees, while a second phase is planned to add another 50 employees with an additional $50 million build-out. Virginia successfully competed against several other states for the project, and the governor approved a $500,000 grant from the Commonwealth's Opportunity Fund to with the project.

⇨ **UPS** has published its list of "Six Supply Chain Logistics Trends" to watch in 2016. Reprint: A recent report by the World Economic Forum, "Deep Shift: Technology Tipping Points and Societal Impact," projects that wearable devices, 3D printing, implantable technology, connected homes, automated workers, driverless cars, and smart cities will likely reach critical mass in the mid-2020s. For now, supply chain managers and business leaders face more practical issues: a slow-growth economy, intense competition, and relentless pressure to control costs. Full story continued on page 3.

SELECTED INDUSTRIAL SALE TRANSACTIONS.

⇨ 193,000 SF (REDEV)	SOLD at 800 Jefferson Davis Highway *(Richmond City)*
⇨ 148,877 SF	SOLD at 2800 Sprouse Drive *(Henrico Co)*
⇨ 95,849 SF	SOLD at 711 Hospital Street *(Richmond City)*
⇨ 89,080 SF	SOLD at 1125 Commerce Road *(Richmond City)*
⇨ 70,000 SF	SOLD at 1408 Roseneath Road *(Richmond City)*
⇨ 40,812 SF	SOLD at 1201 Bellwood Road *(Chesterfield Co)*

SELECTED INDUSTRIAL LEASE TRANSACTIONS.

⇨ 216,000 SF	LEASED at Airport Distribution Center *(Henrico Co)*
⇨ 46,397 SF	LEASED at 923 North Meadow Street *(Richmond City)*
⇨ 45,181 SF	LEASED at Eastport VIII *(Henrico Co)*
⇨ 25,000 SF	LEASED at 3210 West Marshall Street *(Richmond City)*
⇨ 16,745 SF	LEASED at 3946 Deep Rock Road *(Henrico Co)*

NOTE: Porter Realty Company transactions shown above in RED.

MARKET SNAPSHOT (CLASS A/B)

COMPARISON TO LAST QUARTER

	Q3 2016	FORECAST
VACANCY RATE	↙	↙
NET ABSORPTION	+	+
CONSTRUCTION	↔	↗
LEASE RATES	↗	↗
SALE INVENTORY	↙	↙

FOR DEVELOPMENT

Chatsworth Estate (Henrico Co)

6720-6800 Osborne Turnpike

⇨ ~3 Minutes from Downtown Richmond
⇨ ~1 Mile from Urban Community @ Rocketts Landing

476.5 Acres Virgin Land Tract
~1 Mile Waterfront on the James River
200+ Acres Farmed (Corn, Wheat, Soy Beans)
280+ Acres Hardwood Forests
Residential Development Potential

Contact Exclusive Agents:
Clifford B. Porter, CCIM, SIOR
804.521.1442 | cliff@porterinc.com

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804.521.1441 | bob@porterinc.com

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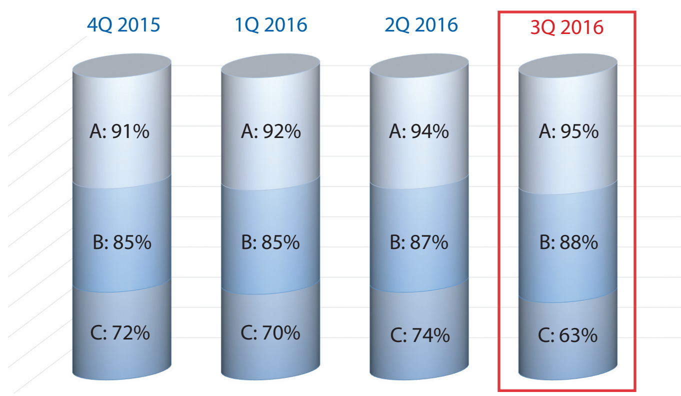
INDUSTRIAL MARKET VACANCY

3rd Quarter 2016

VACANT & INVESTOR-OWNED INDUSTRIAL PRODUCT

40K SF MIN RBA* EXCLUDING FLEX & OWNER-OCCUPIED PROPERTIES | *RBA Total: 27.71MM SF in 165 Existing Buildings (Class A, B, C)

3RD QUARTER 2016: COMBINED OCCUPANCY RATES & NET ABSORPTION (CLASS A & B PRODUCT)



The combined industrial occupancy rate of Class A & B product has increased from 91% in 2Q 2016 to 92%.

Net Absorption from 2Q 2016: +162,032 SF (Class A/B)
Net Absorption from 2Q 2016: - 834,103 SF (Class C)

Note: the negative net absorption for Class C product is attributed to an additional 700,000+ SF of former tobacco storage warehouse space vacant.

NOTE: CoStar (for on ALL industrial properties) reports an occupancy rate of 93.1%, showing an increase from 92.5% in the 2nd quarter of 2016, based on a total 111 million square feet RBA in 2,709 existing warehouse properties, with a positive net absorption of 279,038 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 in Buildings 40k < 75k SF RBA
RBA: 2.32MM SF (43 Buildings)

	Class A	Class B	Class C
Total Bldgs	2	22	19
Total RBA	126,000	1,173,215	1,021,027
Vacant SF	28,800	323,765	284,972
Vacancy Rate	23%	28%	28%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	0	1	1	0
Total RBA	0	72,000	54,000	0
Vacant SF	0	28,800	0	0
Vacancy Rate	0%	40%	0%	0%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	10	6	5	1
Total RBA	504,656	306,464	312,595	49,500
Vacant SF	59,230	147,960	67,075	49,500
Vacancy Rate	12%	48%	21%	100%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	8	5	5	1
Total RBA	450,111	265,025	245,891	60,000
Vacant SF	74,257	63,195	87,520	60,000
Vacancy Rate	16%	24%	36%	100%

Vacancy in Buildings 75k < 150k SF RBA
RBA: 7.37MM SF (68 Bldgs)

	Class A	Class B	Class C
Total Bldgs	22	28	18
Total RBA	2,601,465	2,981,577	1,788,026
Vacant SF	303,714	132,994	374,800
Vacancy Rate	12%	4%	21%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	4	11	3	4
Total RBA	431,144	1.31MM	342,936	520,198
Vacant SF	0	0	73,754	229,960
Vacancy Rate	0%	0%	22%	44%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	1	10	9	8
Total RBA	100,000	1.06MM	1.02MM	800,737
Vacant SF	0	132,994	0	0
Vacancy Rate	0%	13%	0%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	5	1	10	2
Total RBA	514,088	82,625	978,313	213,000
Vacant SF	0	0	340,780	34,020
Vacancy Rate	0%	0%	35%	16%

Vacancy in Buildings 150k SF Min RBA
RBA: 18.02MM SF (54 Bldgs)

	Class A	Class B	Class C
Total Bldgs	26	17	11
Total RBA	9,551,167	3,815,578	4,649,083
Vacant SF	329,546	494,800	2,126,293
Vacancy Rate	3%	13%	46%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	3	10	1	12
Total RBA	819,951	3.32MM	1.10MM	4.31MM
Vacant SF	0	34,500	0	295,046
Vacancy Rate	0%	1%	0%	7%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	9	5	1
Total RBA	601,695	1.78MM	982,002	375,000
Vacant SF	226,695	45,000	206,105	17,000
Vacancy Rate	38%	3%	21%	5%

CLASS C	NWQ	NEQ	SWQ*	SEQ
Total Bldgs	2	1	7	1
Total RBA	336,138	200,000	3.74MM	375,000
Vacant SF	26,096	39,800	2.06MM	0
Vacancy Rate	8%	20%	55%	0%

*78% of Class C vacancy in SWQ City attributed to vacancy in tobacco storage warehouses on Commerce Road (Alleghany Warehouse)

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TOP LOGISTICS TRENDS FOR 2016 (UPS)

3rd Quarter 2016

Source: Wall Street Journal - Reprint of Sponsor Content

A recent report by the World Economic Forum, "Deep Shift: Technology Tipping Points and Societal Impact," projects that wearable devices, 3D printing, implantable technology, connected homes, automated workers, driverless cars, and smart cities will likely reach critical mass in the mid-2020s.

For now, in early 2016, supply chain managers and business leaders face more practical, down-to-earth issues: a slow-growth economy, intense competition, and relentless pressure to control costs. But to stay competitive this year, business owners and supply chain managers must stay up to speed on tomorrow's hottest innovations to keep pace with present-day challenges. Here are six supply chain logistics trends to watch for in 2016.

1. Increased collaboration and sharing. Manufacturers spend more than 50 percent of their revenue in their supply chains and seek to pull as much value as possible from those relationships, according to CGN & Associates. Collaborating with suppliers is not new, but the emphasis on it continues to intensify.

"What we are seeing at UPS are companies reducing the number of suppliers and developing tighter business partnerships with those that remain in the chain," says Rayford Collins, a specialist in supply chain optimization with the UPS Customer Solutions group.

The primary driver is cost management by means of improved leverage, he says.

"If I put more eggs in one basket, I can leverage that business into different incentive or procurement tiers," Collins says. "Fewer suppliers on the market increase efficiency and allow for more seamless integration of technology as well. I also create some efficiencies by reducing the supplier network."

The "next level" in business collaboration ties to the evolving sharing economy, according to the World Economic Forum report cited earlier. Consider Uber, Airbnb, and peer-to-peer lending services, which capitalize on collaborative consumption. **Businesses are likely to use collaborative distribution, reverse logistics, and cooperative sourcing to reduce costs,** improve efficiency, and optimize their supply chains, say the consultants at Kinaxis, a cloud-based solution provider.

2. End-to-end visibility. Improving visibility within the walls of an enterprise and across its end-to-end supply chain is a top priority for 85 percent of global supply chain executives, according to a recent Aberdeen Group study. Visibility is a prerequisite to supply chain agility and responsiveness.

Of course, before a company can reduce inventory or landed costs, it needs visibility into both.

"Technology is both an enabler and an essential ingredient in end-to-end visibility," Collins says. "There's a real focus on the customer experience, whether it's an internal or external customer." **Consumers want to know where a product is from the time it leaves the factory until it reaches the destination.** "That's especially true with consumers in e-commerce, where they want to use smartphones for price comparisons, research, and order tracking," he says.

3. Big data, better decisions. The World Economic Forum study predicts that **in the next five years, we will see 50 billion Internet-connected devices** and that the data from these devices will translate into better business decisions. Data accumulating today already consists of everything clickable, from Facebook and Twitter to e-mails, e-commerce "buy" buttons, and everything in between. The McKinsey Global Institute identifies several key areas where big-data efficiencies are possible, including marketing, operations, and supply chains.

"Analyzing data close to real time can allow marketing to work with procurement on inventory, so everyone knows what to buy and where to put it based on demand," Collins says.

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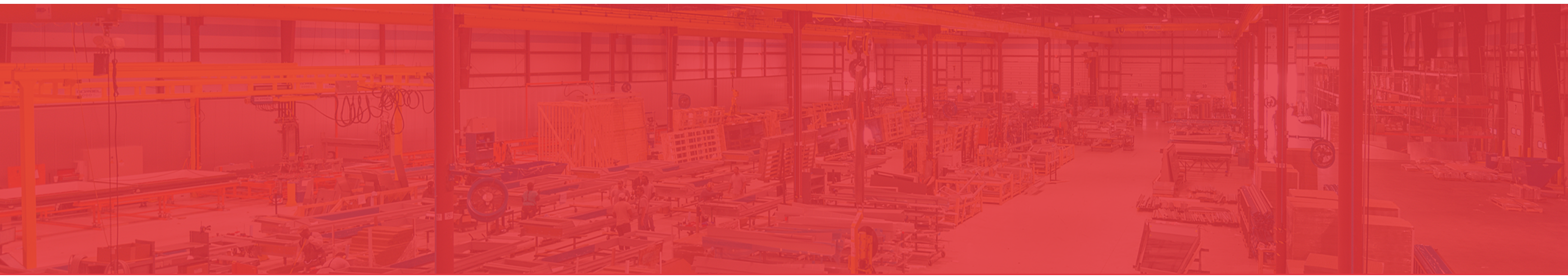

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“We are already using predictive analytics to look for weather patterns and adjust to air or rail movement if roads are likely to flood. Another option is to overlay historical data with visibility data to put contingency plans in place.”

4. Next-shoring. Supply chain innovations and the need to be closer to the end customer will win out over labor cost in the years ahead, according to McKinsey Global Institute research. Rising wages in Asia, higher transportation costs, and the need for faster time-to-market deliveries are contributing factors.

McKinsey explains next-shoring as a shift from outsourcing overseas to developing products “next to” where they will be sold. It’s an umbrella term to incorporate right-shoring, near-shoring, reshoring, and onshoring strategies.

“We are seeing a lot of near-shoring — meaning relocating manufacturing to Mexico or Canada,” Collins says. “Labor costs are still lower, and transit times are shorter, so customer service improves.”

Onshoring, or moving either manufacturing or assembly back to the U.S., is increasingly popular, especially with smaller or high-tech businesses. “Quality control, improved JIT [just-in-time] inventory management, and tax law changes make manufacturing in the U.S. a break-even, even if products cost more to produce here,” he says.

It’s essential to have flexibility and adaptability.

- Rayford Collins, supply chain optimization expert with UPS Customer Solutions

5. Agile inventory management. You can expect closer collaboration with suppliers, improved visibility, and predictive analysis to dramatically improve inventory management in nontraditional ways, Collins says. “The idea is to treat product as inventory regardless of where it is located — before it is ever in the warehouse — and **to make changes to the end destination while it is in transit.”**

The result: Products get to the consumer (distributor, wholesaler, retailer, or end user) faster.

“You reduce everyone’s inventory carrying cost, the operational cost of handling a product multiple times, and the cost of storing it.”

6. A push for redundancy. There’s no doubt that supply chain management is risky business. As reported by Supply Chain Insights, 80 percent of companies surveyed had at least one material disruption in 2013, and most had three. What’s more, just over 40 percent of supply chain disruptions came from Tier 2 suppliers and below. A study led by Paul Dittmann, PhD, executive director of the Global Supply Chain Institute at the University of Tennessee, found that if a natural disaster or equipment failure shut down a company facility, about half the firms (53 percent) had a backup plan — which means the other half didn’t.

“As a result of natural disasters and especially more recent terrorist threats, we are seeing an influx of requests from smaller customers, or those who only have one operation or one distribution center, for a second physical location so that they can stay in business and continue to fill orders,” Collins says.

Sometimes growing companies will add another location rather than add a second or third shift in just one place, he says. “You should at least have product stored in a third-party location that you can pull from if need be. It’s essential to have flexibility and adaptability.”