THE PORTER REPORT

Q4 2019 | RICHMOND, VA INDUSTRIAL MARKET REVIEW

INDUSTRIAL SALES ACTIVITY STRONG THROUGH FOURTH QUARTER.

⇨ At the quarter's close, the **overall industrial market occupancy** has remained at **90%** through the fourth quarter, with the majority of the vacant industrial space continuing to be located in the southeast quadrant, including more than 1 million square feet combined in the former Ace Hardware facility in Prince George County and the former GSA building in the Meadowville area of Chesterfield County. The **Class A occupancy** rate has remained unchanged at **89%** while the **Class B occupancy rate** has increased from 94% to **96%**.

⇨ **Wegmans Food Markets** plans to invest $175 million in a regional distribution center in Hanover County, which will create an estimated 700 jobs. The site is located along Sliding Hill and Ashcake Roads, adjacent to the Hanover Industrial Air Park, and will expand the grocery retailer's East Coast distribution network. Operations will begin in 2022 with plans for the facility to be fully staffed by 2026. The New York-based chain has expanded its retail presence in Virginia in recent years and currently operates 101 stores. Virginia successfully competed against North Carolina for the project, and the governor approved a $2.35 million grant from the Commonwealth's Opportunity Fund.

⇨ Mexican industrial packaging firm **Cartograf** purchased a 100-acre site in Chesterfield County's Meadowville Industrial Park, adjacent to Amazon and Niagara, with plans to build its first U.S.-based facility. The company provides packaging solutions to customers in more than 40 industrial sectors worldwide, including food and beverage, personal hygiene, confectionery, and home products. Cartograf will invest $65.3 million in the manufacturing facility which will be focused on folding and micro-corrugated package printing and will create 63 jobs. The governor approved a $750,000 grant from the Commonwealth's Opportunity Fund to assist Chesterfield with the project.

⇨ A Spanish maker of European-style meats has leased 143,790 square feet in Prince George County from The Hollingsworth Companies. **Campofrio Food Group** will occupy the former Reinhart Food Service facility in the SouthPoint Business Park and use the location for cold storage. Campofrio will continue to operate its production plant in Chesterfield County which employs approximately 500 people. The company is one of the largest in the processed meats sector and the local plant produces Italian-style meats sold under the Fiorucci Foods brand, which Campofrio acquired in 2011.

⇨ Warehouse giant **Prologis Inc.** announced plans to acquire rival industrial real-estate business Liberty Property Trust in a $12.6 billion all-stock transaction with the aim of improving its U.S. presence amid the e-commerce boom. The Liberty portfolio includes 107 million square feet of logistics space with 5.1 million square feet of developments in progress, 1,684 acres of land for future development, and nearly 5 million square feet of office space. Liberty's Richmond area portfolio includes 3.6 million square feet (majority industrial, some flex) in the NE quadrant of the metro area (Henrico County), with facilities located in four separate business parks.

INDUSTRIAL CONSTRUCTION PIPELINE

- ⇨ 405,000 SF Willis Commerce Center - Delivery Q3 2020 (Chesterfield Co)
- ⇨ 320,853 SF James River Logistics Center - Leased (Chesterfield Co)
- ⇨ 260,000 SF Cardinal Commerce Center Phase I - Proposed (Hanover Co)
- ⇨ 246,760 SF Airport Logistics Center (1) - Leased (Henrico Co)
- ⇨ 241,180 SF Airport Logistics Center (2) - Delivery Q3 2020 (Henrico Co)
- ⇨ 100,000 SF Winding Brook Phase I - Delivery Q3 2020 (Hanover Co)

SELECTED INDUSTRIAL TRANSACTIONS

- ⇨ 203,684 SF SOLD | 3310 Deepwater Terminal Rd (Richmond City)
- ⇨ 143,638 SF LEASED | 8025 Quality Drive (Prince George Co)
- ⇨ 107,121 SF SOLD | 1703 Ruffin Mill Road (Chesterfield Co)
- ⇨ 100,000 SF SOLD | 2840 Sprouse Drive (Henrico Co)
- ⇨ 100,000 SF SOLD | 3301 Rosedale Avenue (Richmond City)
- ⇨ 98,286 SF SOLD | 2500 Deepwater Terminal Rd (Richmond City)
- ⇨ 60,000 SF LEASED | 2300 Westmoreland Street (Henrico Co)

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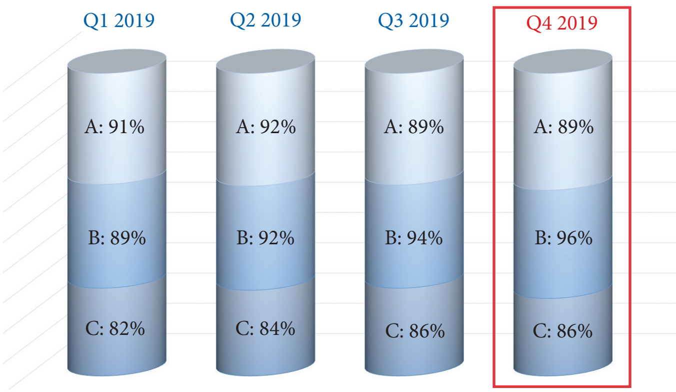
INDUSTRIAL MARKET VACANCY

Q4 2019

VACANT & INVESTOR-OWNED INDUSTRIAL PRODUCT

40K SF MIN RBA* EXCLUDING FLEX & OWNER-OCCUPIED PROPERTIES | *RBA Total: 30.3MM SF in 187 Existing Buildings

COMBINED OCCUPANCY RATES & NET ABSORPTION (CLASS A & B PRODUCT)



The combined industrial occupancy rate of Class A & B product has decreased from 92% at the end of 2018 to 91% at the end of 2019.

Net Absorption 2019: -174,110 SF (Class A/B)
Net Absorption 2019: +170,258 SF (Class C)

NOTE: CoStar reports an industrial occupancy rate of 95.7%, decreased from 96.3% at the end of the 3rd quarter of 2019, based on a total 117 million square feet RBA in 2,800 existing warehouse properties, and a negative net absorption of 754,695 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: 2.80MM SF (53 Buildings)
RBA: 9.2% of Total Market

	Class A	Class B	Class C
Total Bldgs	4	29	20
Total RBA	226,043	1,536,600	1,037,528
Vacant SF	40,043	126,883	108,147
Vacancy Rate	18%	8%	10%

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

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	9	10	6	4
Total RBA	459,518	519,882	356,820	200,380
Vacant SF	0	63,703	23,180	40,000
Vacancy Rate	0%	12%	6%	20%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	9	4	5	2
Total RBA	498,120	206,950	224,638	107,820
Vacant SF	74,400	12,025	0	21,722
Vacancy Rate	15%	6%	0%	20%

Vacancy Rate & Trends
75k < 150k SF RBA
RBA: 7.31MM SF (68 Bldgs)
RBA: 24.1% of Total Market

	Class A	Class B	Class C
Total Bldgs	24	30	14
Total RBA	2,840,103	3,135,637	1,333,065
Vacant SF	282,679	88,227	82,344
Vacancy Rate	10%	3%	6%

CLASS A	NWQ	NEQ	SWQ	SEQ
Total Bldgs	5	11	3	5
Total RBA	574,137	1.31MM	331,460	627,319
Vacant SF	142,993	32,565	0	107,121
Vacancy Rate	25%	2%	0%	17%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	13	10	5
Total RBA	209,546	1.35MM	1.10MM	471,200
Vacant SF	0	48,227	40,000	0
Vacancy Rate	0%	4%	4%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	4	2	7	1
Total RBA	377,305	164,969	667,993	122,798
Vacant SF	0	82,344	0	0
Vacancy Rate	0%	50%	0%	0%

Vacancy Rate & Trends
150k SF Min RBA
RBA: 20.23MM SF (66 Bldgs)
RBA: 66.7% of Total Market

	Class A*	Class B	Class C
Total Bldgs	36	20	10
Total RBA	13,487,187	4,274,596	2,366,693
Vacant SF	1,523,812	169,800	481,544
Vacancy Rate	11%	4%	20%

CLASS A	NWQ	NEQ	SWQ	SEQ*
Total Bldgs	5	13	3	15
Total RBA	1.30MM	3.80MM	2.02MM	6.36MM
Vacant SF	83,217	415,000	0	1.03MM
Vacancy Rate	6%	11%	0%	16%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	10	6	2
Total RBA	601,695	1.96MM	1.16MM	653,684
Vacant SF	142,800	0	27,000	0
Vacancy Rate	24%	0%	2%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	1	5	2
Total RBA	336,138	200,000	1.03MM	805,500
Vacant SF	0	0	150,000	331,544
Vacancy Rate	0%	0%	15%	41%

*Increase in Overall Class A Vacancy as well as SEQ Class A Vacancy attributed to the vacant former Ace Hardware complex in Prince George County, now known as the Virginia Gateway Logistics Center (798,786 SF Total)

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2019 YEAR IN REVIEW
U.S. WAREHOUSE MARKET FORECAST

CoStar Group™

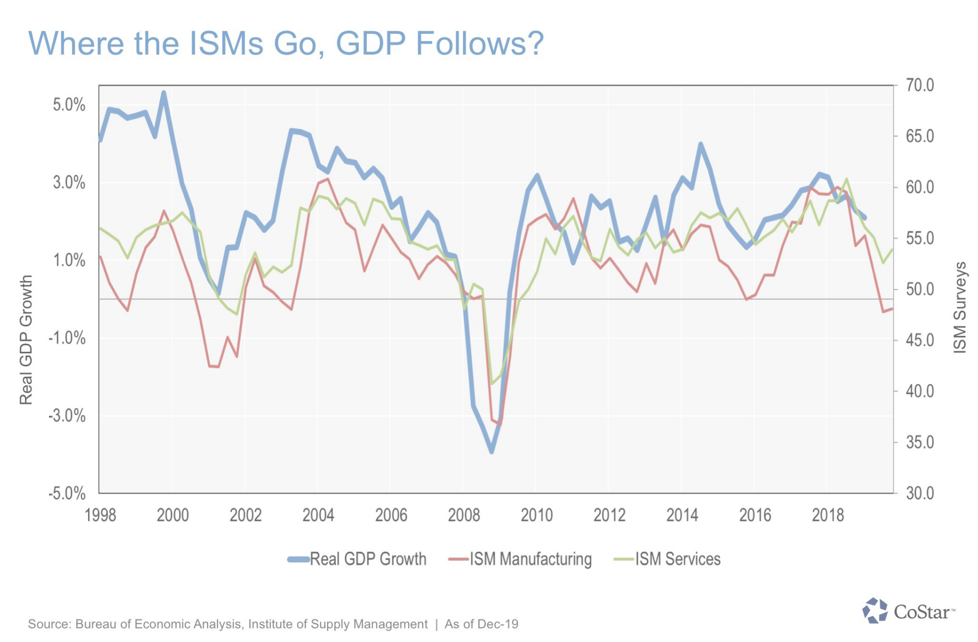
Excerpt from CoStar Economy: Finding Our Way in a Year of Divergences
By Robert Calhoun & Matt Powers | December 30, 2019

2019 was a year of divergences, particularly in what we refer to as “hard” and “soft” data. Hard data refers to measurements of actual economic activity, such as gross domestic product and job growth. Soft data generally refers to surveys of sentiment and intentions, people’s estimations about how the future will differ from today.

In general, the economic conditions on the ground in 2019 were pretty good. Depending on how the fourth quarter comes in, year-over-year real GDP growth will average somewhere in the low 2% range for the whole year. Not too bad considering we are completing the 10th year in a row of positive year-over-year growth.

However, growth is clearly slowing. And based on the surveys of service and manufacturing activity by the Institute for Supply Management, some of that soft data is clearly indicating that the slowing will continue in 2020. The chart [at right] also highlights another divergence: Those in the service sector remain upbeat about their prospects, while those in manufacturing turned pessimistic since late summer.

The manufacturing sector has been in secular decline for a long time, and a chart book for the decade of the 2010s... would certainly include one that showed manufacturing’s share of jobs continuing to decline. This year saw a new headwind emerge for the manufacturing sector with the rise of trade war anxiety as the U.S. traded tariff barbs with the rest of the world and Twitter was weaponized for policy purposes.



On the other hand, the service sector of the economy continues to grow thanks to a resilient labor market. Job and wage growth was a bright spot for the U.S. economy in 2019, even if job growth slowed throughout the year. The 12-month average change in nonfarm payrolls was 235,000 in January and has now fallen into the mid-180,000 range. However, that level of growth has been plenty strong enough to push the unemployment rate lower, from 3.9% at the outset of the year to 3.5% as of this writing. Wage growth continues to rise as the labor market tightens, another bright spot for the consumer.

2019 YEAR IN REVIEW
U.S. WAREHOUSE MARKET FORECAST

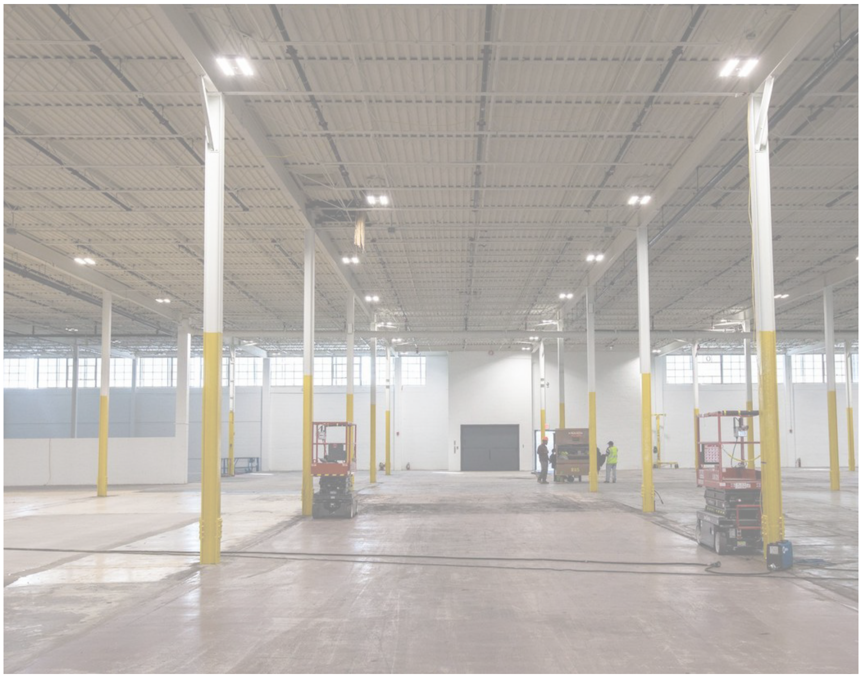
Excerpt from WSJ Logistics Report: Prologis $12.6 Billion Deal Adds to Warehousing Space Race

By Jennifer Smith | October 28, 2019

Warehouse providers are racing to add scale as the growth of e-commerce drives demand for industrial space near key logistics hubs. The deal for Wayne, Pa.-based Liberty is Prologis's third acquisition in the past 18 months, and will add to a Prologis portfolio that as of Sept. 30 counted about 797 million square feet of industrial real estate in 19 countries. The acquisition, which Prologis expects to close in the first quarter of 2020, comes as private-equity giant Blackstone Group Inc.'s real-estate funds have snapped up nearly $25 billion of warehouse portfolios this year.

"Both of them are in a race to create ultimately billion-square-foot platforms globally," said Craig Meyer, industrial-division president for the Americas at [major] real-estate services firm.

Neither Prologis nor Blackstone have the ability to corner the U.S. industrial real-estate market, which encompasses nearly 14 billion square feet of inventory, Mr. Meyer said. But **creating scale in the biggest logistics markets and gateways to major population centers** allows Prologis to offer "one-stop shopping in big key markets" to more easily meet demand from clients that want to ramp up operations in places such as Southern California or Pennsylvania, he said.



Liberty's properties include sites in key distribution hubs such as Pennsylvania's Lehigh Valley, Houston, Chicago and Southern California. The company intends to sell off about $3.5 billion in assets, including $2.8 billion of nonstrategic logistics properties and $700 million of office properties.

Changes in consumer shopping patterns have been reshaping logistics networks,-driving up demand for warehouse space, especially for sites near major population centers as businesses push to deliver goods more quickly to consumers.

The deals come amid signs that the market for warehousing space may be leveling off. This year, new building construction is on track to outpace overall demand by about 70 million square feet... although the real-estate services company said **the national average vacancy rate for industrial real estate remained at a historic low of 4.8%.**

Excerpt from WSJ Logistics Report: Warehouse Robotics Startups Drawing Bigger Investor Backing

By Jennifer Smith | January 7, 2020

Investors are pouring money into warehouse automation as **more companies turn to robotics to help speed distribution in a tight labor market.** Logistics operators that once relied largely on human labor are now testing autonomous forklifts, self-driving carts, and other technology intended **to improve efficiency and cut**

costs by automating repetitive tasks and freeing workers up to handle more complex jobs.

There have been some $1.2 billion in U.S. venture-capital deals in logistics-focused robotics and automation companies since 2015, according to data firm PitchBook. Last year saw $357.2 million in deals in the category, which also includes self-driving truck startups and companies specializing in freight data and tracking. The latest such startup to draw investor attention is Waltham, Mass.-based Vecna Robotics. Its technology helps companies automate industrial equipment such as forklifts and coordinate human and robot workflows. The company said Tuesday it raised $50 million in a Series B funding round… Vecna Robotics plans to use the funding to expand its development and support staff and hire more engineers to build out applications to help automate processes such as truck loading and unloading and large bulk order fulfillment, said founder and Chief Executive Daniel Theobald.

“A big part of it is scaling up to meet the massive wave of demand coming at us,” Mr. Theobald said in an interview.

The broader market for warehouse and logistics automation topped $53 billion last year and is forecast to exceed $80 billion in 2023, said Jeremie Capron, head of research at ROBO Global LLC, a research and investment-advisory firm.

Online giant Amazon.com has set the pace in the logistics sector with its vast network of increasingly mechanized fulfillment centers that have siphoned off much of the available warehouse labor pool while using an array of robots to speed the delivery of orders to customers. Last year, Amazon bought Boulder, Colorado-based autonomous warehouse robotics startup Canvas Technology for an undisclosed sum.

Rival retailers are embracing automation as they hustle to meet consumer e-commerce expectations in the Amazon era. Meanwhile, robotics, software and other technology are also gaining traction in distribution of industrial and consumer packaged goods, where operators face similar competition for labor and pressure to deliver products more quickly.

Nearly 28% of warehouses globally will be using commercial robots by 2025, compared with around 3% in 2018, market advisory firm ABI Research estimates.

Vecna Robotics has raised $63.5 million in funding since it was spun off from parent company Vecna Technologies Inc. in 2018 [with] about 90 employees and... customers including FedEx Corp., Medline Industries Inc., and Caterpillar Inc. distributor Milton CAT. The company’s main product is an autonomy kit that uses software and sensors to retrofit customers’ existing warehouse equipment. Mr. Theobald calls the technology a “glide path toward autonomy,” allowing customers to use robotic capabilities without having to “rethink from day one how they are doing their business.”