

June 2, 2020

CBRE: MACRO INDUSTRIAL FORECAST

CBRE



SPEAKERS | JUNE 2, 2020



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Intro



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Macro



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Industrial



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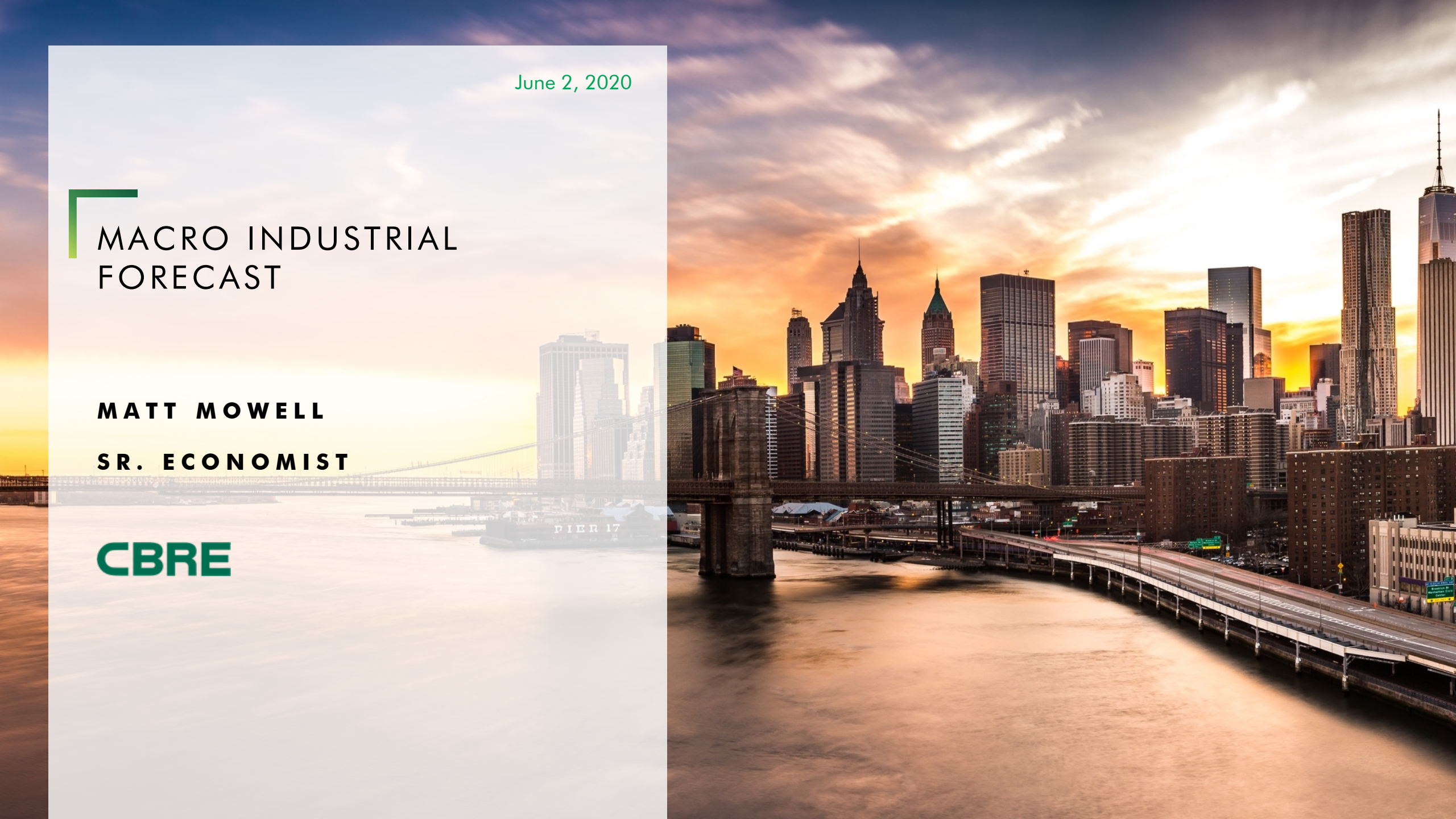
Industrial

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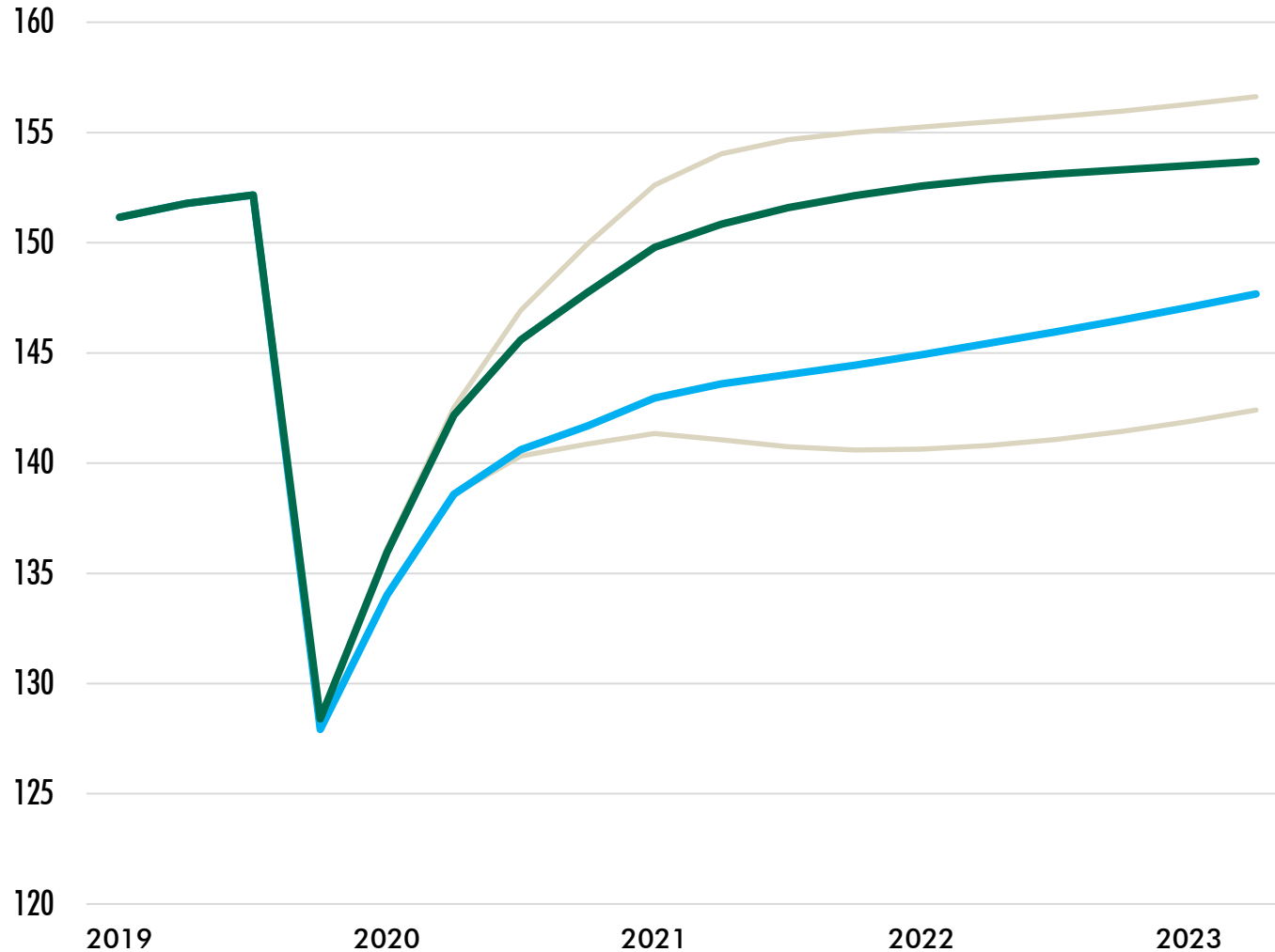
MACRO INDUSTRIAL FORECAST

MATT MOWELL
SR. ECONOMIST

CBRE



CBRE'S CURRENT FORECAST SCENARIOS ON U.S. GDP



UPSIDE

A swift reopening of the economy and robust stimulus unleashes a wave of pent-up demand.

BASELINE

- Gov't stimulus will keep many firms afloat.
- Improved consumer sentiment will support the recovery.

DOWNSIDE

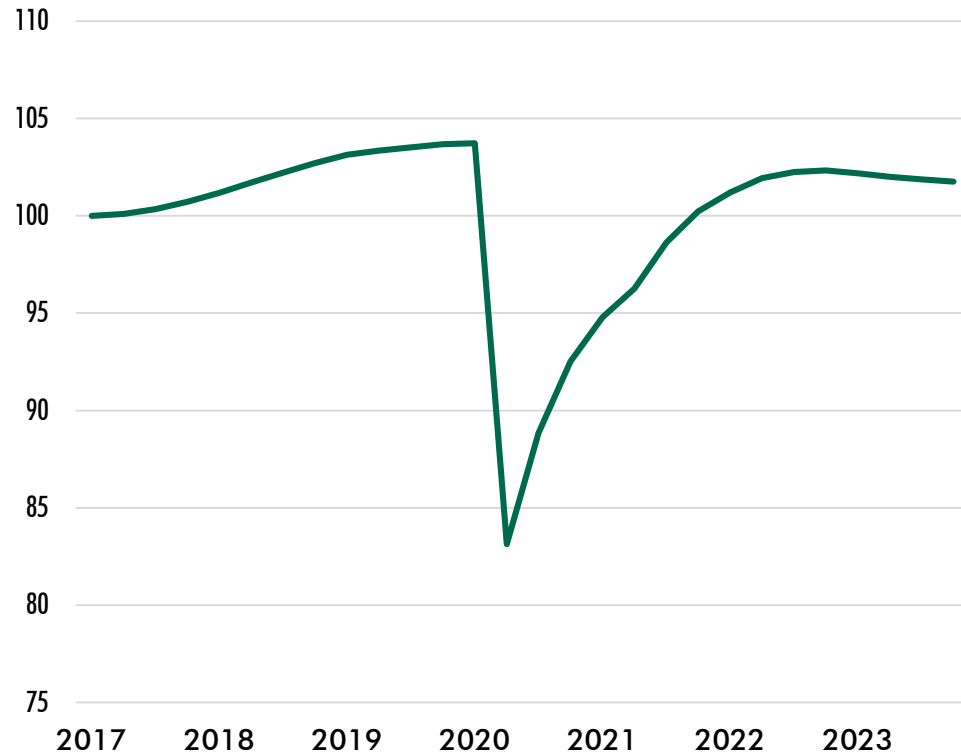
- The reopening of the economy is slow.
- Pre-virus employment levels are not regained before 2024.

SEVERE DOWNSIDE

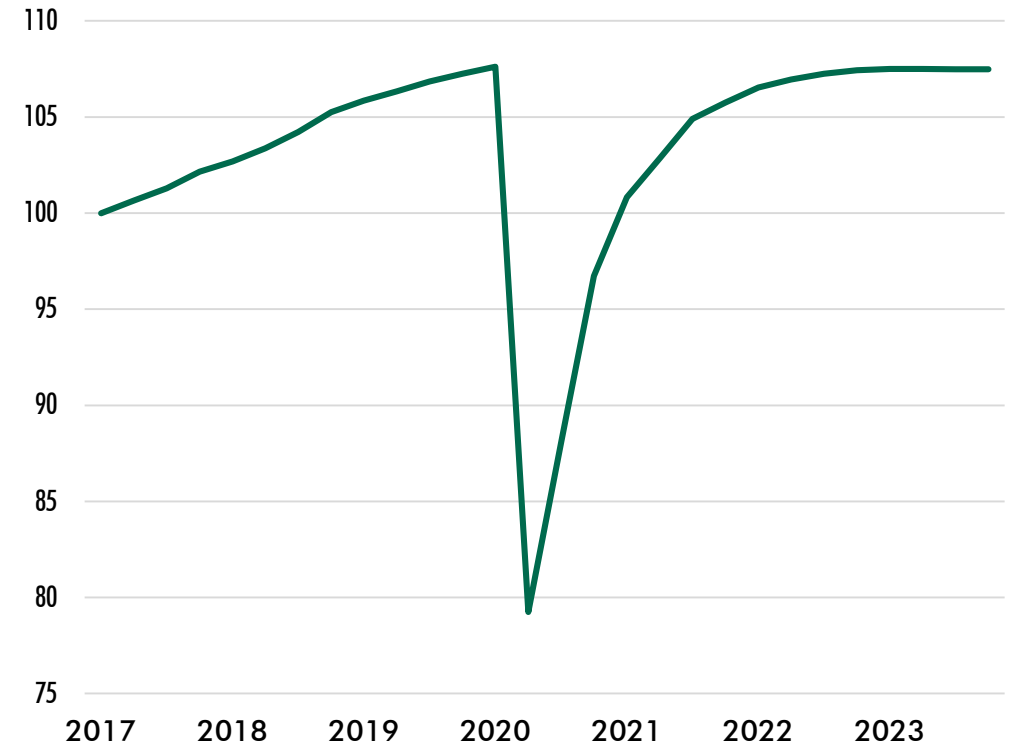
A prolonged recession causes a wave of bankruptcies that severely stress the financial system.

KEY WAREHOUSE DEMAND DRIVERS

Manufacturing employment (000s)



Distribution employment (000s)



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INDUSTRIAL FORECAST

IBRAHIIM BAYAAN
ECONOMIST

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INDUSTRIAL TRENDS PRE-COVID-19

DECADE OF SOLID PERFORMANCE

- Ten consecutive years of positive net absorption
- Lowest availability in nearly two decades in Q4 2018
- Rent growth Y/Y hit two-year high in Q1 2020

MODERATING OUTLOOK

- More completions than absorption over last five quarters
- Availability rate gradually increasing
- Moderating economic outlook, solid supply pipeline
- Easing rent growth beyond 2020

CURRENT INDUSTRIAL OUTLOOK

SHORT TERM

Disrupted construction, absorption

Rising availability through 2020

Declining rents in Q2, Q3

Strong, rapid rebound in 2021

LONG TERM

Boost from e-commerce, inventories

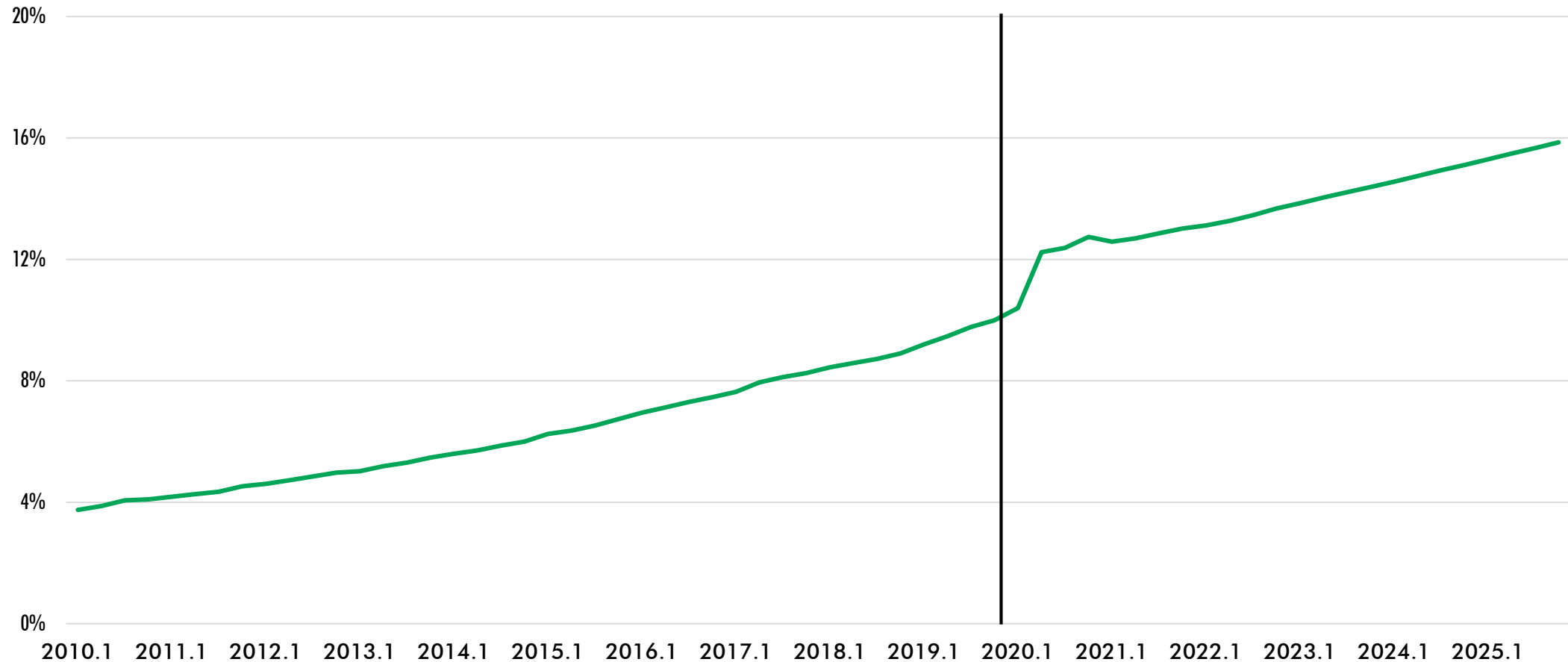
Stronger absorption, construction

Return to tight availability

Improved rent outlook

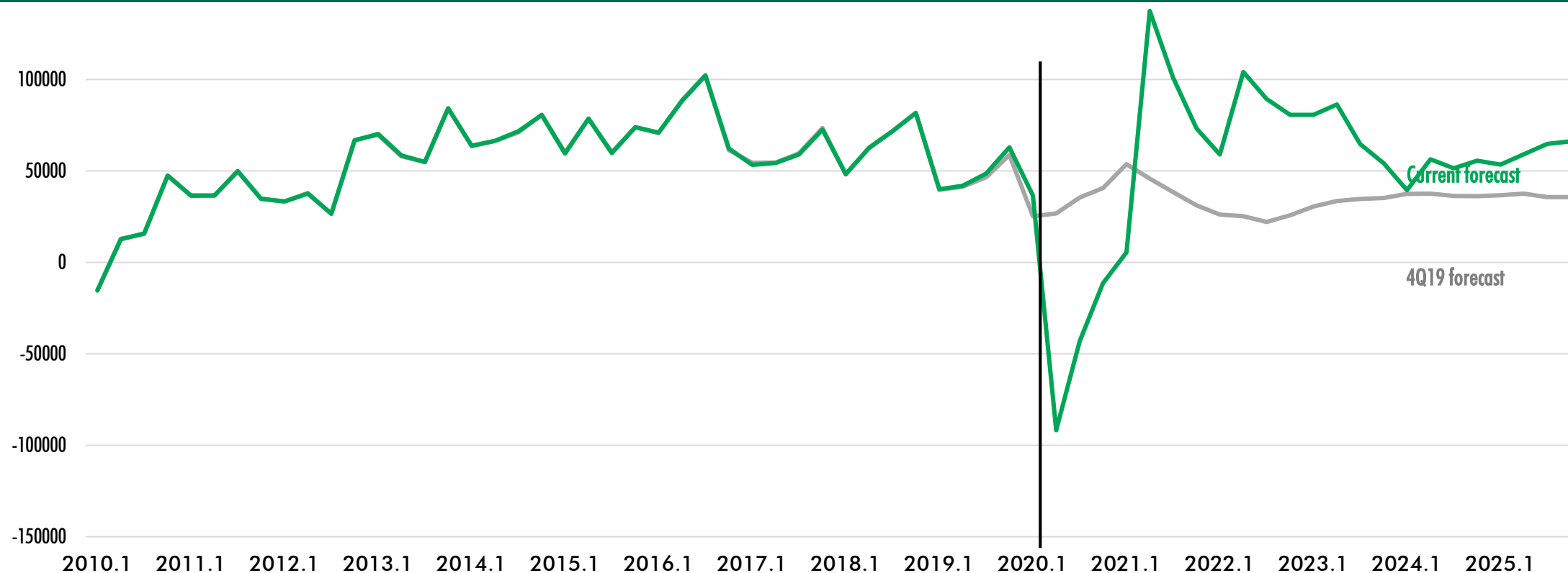
CURRENT FORECASTS INCORPORATE E-COMMERCE TRENDS

E-Commerce Retail Sales | % of Total Retail & Food Services



INDUSTRIAL FORECAST – ABSORPTION

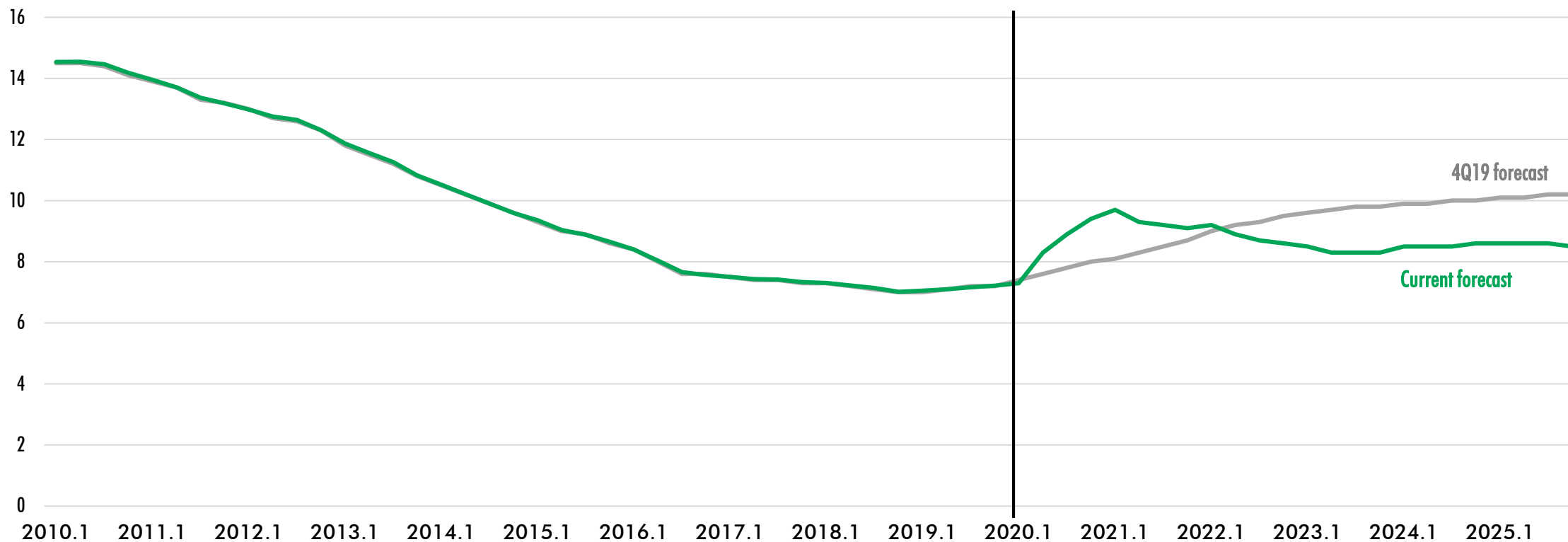
Net Absorption | SF, thousands



ABSORPTION (SF, THOUSANDS)	2020	2021	2022-2025 (AVERAGE)
Previous	128,233	169,384	131,764
Current	-109,586	317,450	266,543
Change	-237,819	148,066	134,779

INDUSTRIAL FORECAST – AVAILABILITY

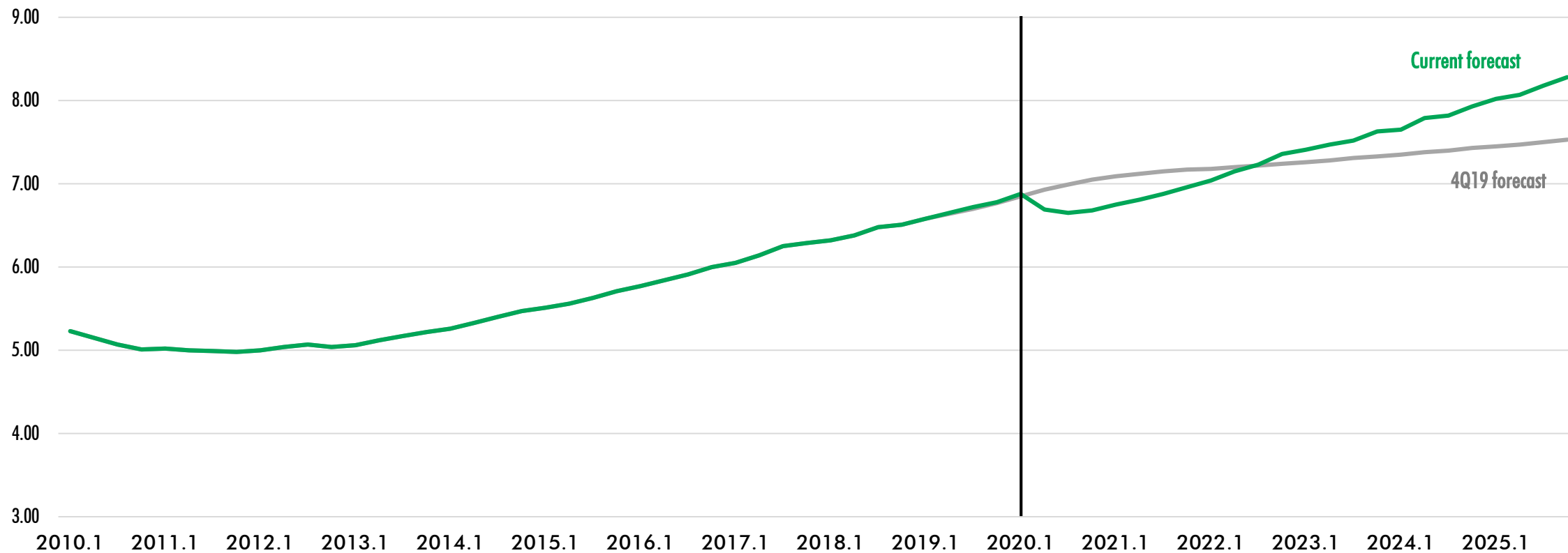
Availability %



AVAILABILITY (% 4Q)	2020	2021	2022-2025 (AVERAGE)
Previous	8.0	8.7	9.9
Current	9.4	9.1	8.5
Change	1.4	0.4	-1.4

INDUSTRIAL FORECAST – RENT

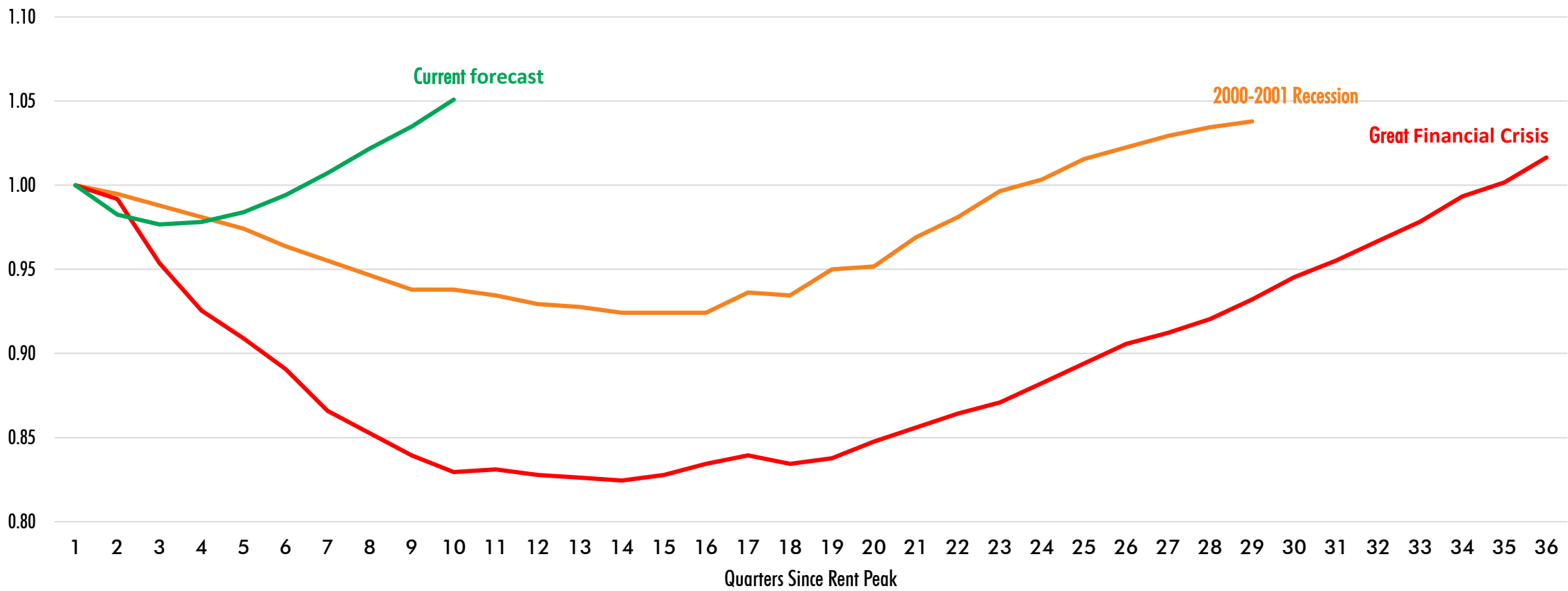
Rent S/SF



RENT (% 4Q/4Q)	2020	2021	2022-2025 (AVERAGE)
Previous	4.1	2.6	1.2
Current	-1.5	4.2	4.4
Change	-5.6	1.6	3.2

HISTORICAL COMPARISON

Rent recovery | index value (1 previous peak)





ALTERNATIVE SCENARIOS

BASELINE OUTLOOK HINGES ON RAPID RECOVERY

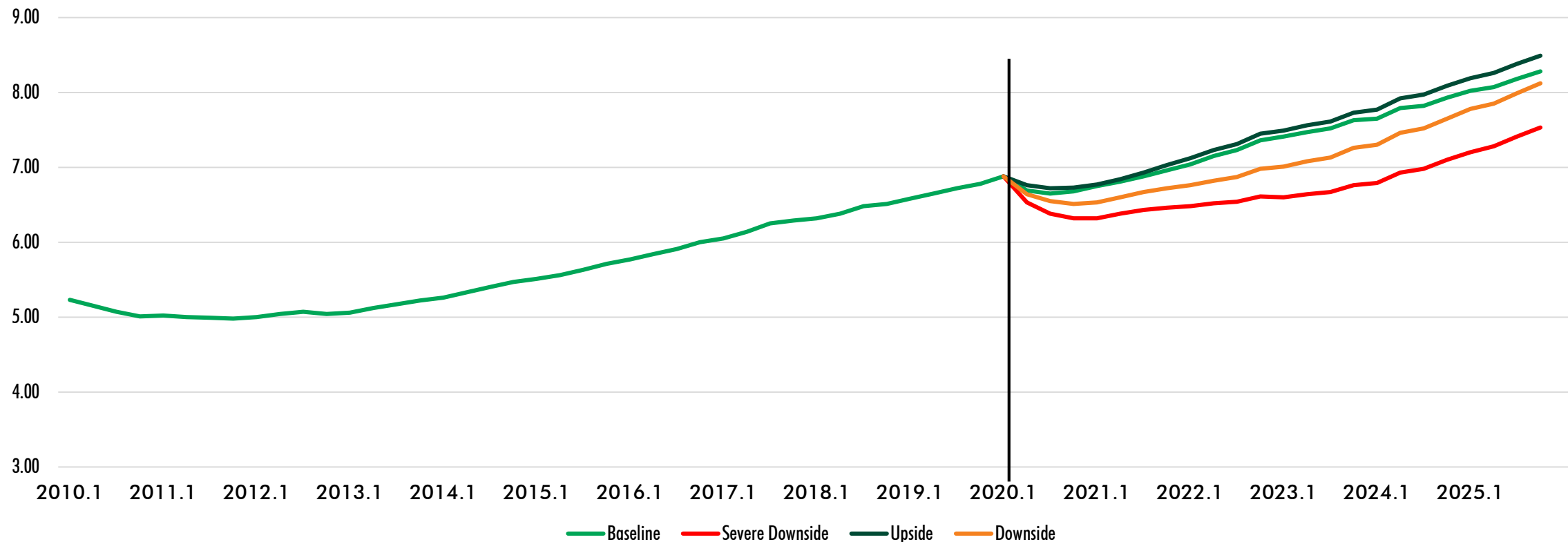
- Perceived quick rebound in business activity prevents a more severe reaction by industrial market
- Alternative scenarios involve sluggish recovery after reopening economy, second wave of virus
- Significant implications for industrial performance in upcoming years

LONG-TERM POSITIVES EXIST EVEN IN DOWNSIDE SCENARIOS

- Fundamentals of increased adoption of e-commerce, higher inventories will likely emerge even in more severe recessions
- This will eventually translate into strength in industrial
- Scenarios affect severity of deterioration, timing of recovery

ALTERNATIVE SCENARIOS

Rent



TIMELINE TO REGAIN 1Q 2020 RENT	2020
Baseline	Q3 2021
Upside	Q3 2021
Downside	Q3 2022
Severe Downside	Q2 2024

CONCLUDING THOUGHTS

SUMMARY

- Slumping economic environment and uncertainty over COVID-19 will curb near term industrial demand, leading to higher vacancy
- Longer term, the rebounding economy, shift toward e-commerce, and increased inventories will improve industrial real estate markets

TRENDS TO MONITOR

- Short term: construction delays, fiscal policy, post-reopening economic trend
- Long term: inventory trends, stickiness of e-commerce adoption

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SHORT AND LONG TERM INDUSTRIAL OUTLOOK

JAMES BREEZE

**GLOBAL HEAD OF INDUSTRIAL &
LOGISTICS RESEARCH**

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SHORT TERM EXPOSURE RANKINGS

EXPOSURE	INDUSTRY
Low	National 3PLs
	E-Commerce
	Food & Beverage (Consumer)
	Data Centers
	Medical
Moderate	General Manufacturing
	Automotive
	Regional 3PLs
	Essential (Non-Food) Consumer Goods
	Home Improvement and Construction
High	Non-Essential Consumer Goods
	Food & Beverage (Restaurant)
	Hospitality / Travel / Entertainment

EXPOSURE	SIZE RANGE
Low	1 MSF +
	500,000 SF – 999,999 SF
	250,000 SF to 499,999 SF
Moderate	100,000 SF to 249,999 SF
	50,000 SF to 99,999 SF
	25,000 SF to 49,999 SF
High	10,000 SF to 24,999 SF
	Under 10,000 SF

EXPOSURE	LOCATION
Low	Core and Urban Industrial
Moderate	Emerging Logistics Hubs
High	Secondary / Tertiary Suburban



Initial Post COVID-19 Real Estate Data



Sublease Availabilities + 12.7% in April

- Sublease availabilities were up 12.7% in April compared with the previous month.
- A majority of these availabilities are not vacant.
- Seaport markets including Los Angeles, Oakland, Seattle, Houston, Baltimore and Miami posted the largest increase in sublease avails.
- Inland port markets including Memphis, Kansas City, Salt Lake, and the I-4 Corridor posted the same or fewer sublease availabilities in April.



Number of Transactions Under 50,000 SF Down 37% (3/15 to 4/14 compared with 2/15 to 3/14)

- Overall the number of transactions 30 days post-COVID-19 were down 28% compared with the previous 30 days.
- Transaction volume took the steepest drop in deals under 50,000 SF, down 37%.
- Original outlook stated that smaller buildings would be the most susceptible to a downturn because of the tenant makeup and initial data back that up.



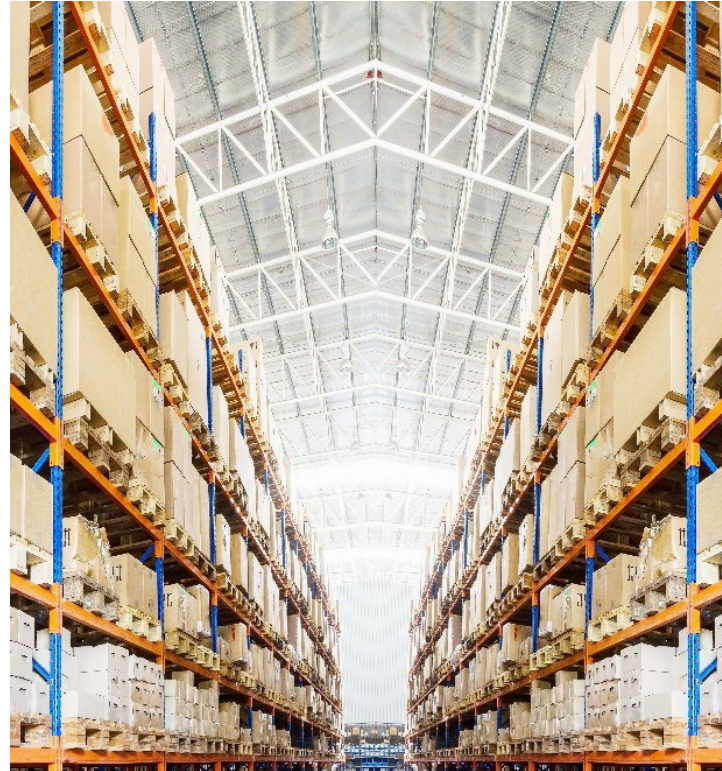
Number of Transactions Over 100,000 SF Down 5% (3/15 to 4/14 compared with 2/15 to 3/14)

- Transactions 100,000 SF and above were only 5% lower compared with the previous month despite shelter in place.
- Original outlook stated that larger buildings would weather the downturn and these initial transaction numbers back that up.

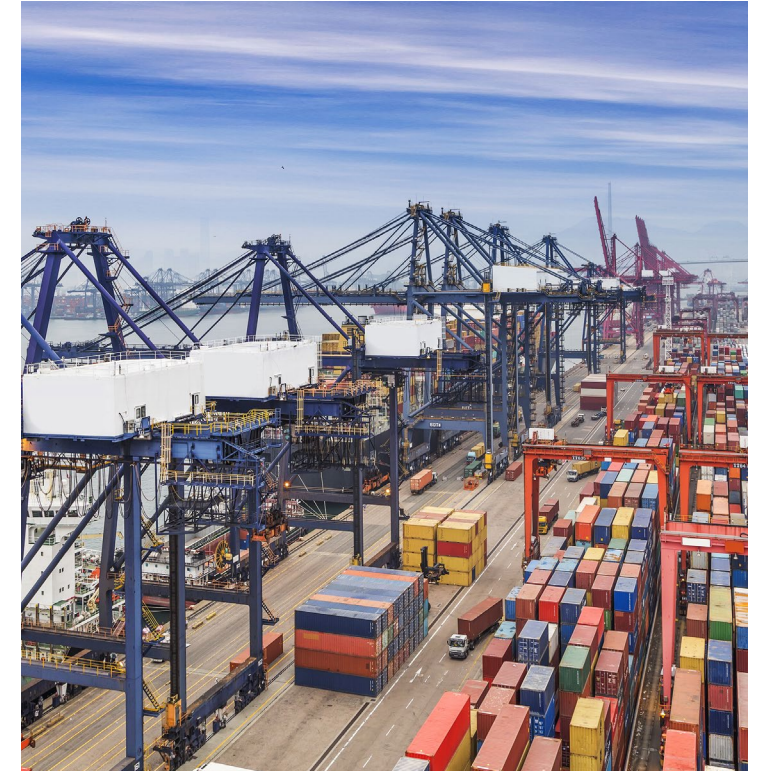
LONG TERM OUTLOOK



E-Commerce – \$1 Bil of e-commerce sales = 1.25 MSF of industrial demand. 700 MSF of new product projected to be needed over next 5 years.



Safety Stock – 5% increase in business inventories requires 400 to 500 MSF of warehouse space.



Supply Chain Diversification – Will continue given the disruption. Companies exploring options for reshoring, but actual volume will play out in next 3-5 years.

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Q&A

JAMIE LANE

**SR. DIRECTOR | ECONOMICS AND
FORECASTING**

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