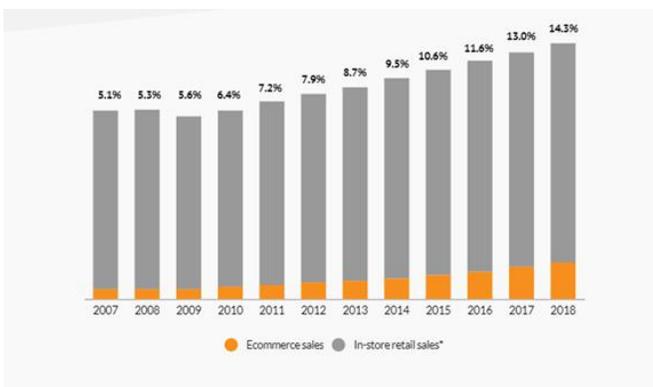


Why should Commercial Real Estate (“CRE”) investors have urban industrial properties in their portfolio?

Industrial real estate has become the primary focus for many CRE investors as consumers’ spending habits continue to evolve. As we have seen through increased online retail transactions year over year, the graph below indicates online consumer spending rose 14.3 percent [1] in 2018:

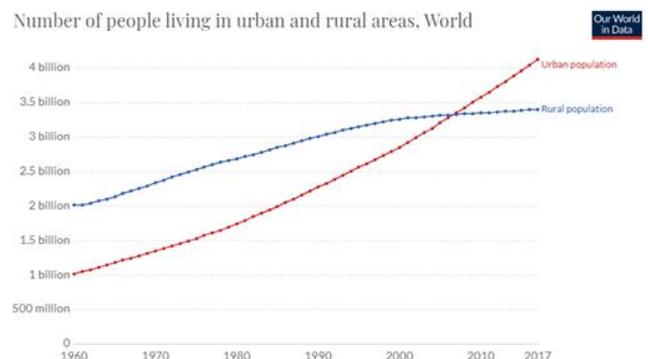


More and more shoppers are buying everything from groceries to office supplies online, replacing trips to traditional brick & mortar shops with online clicks. With the increasing demand to fulfill online shopping orders, commercial distribution storage facilities are experiencing increasing demand. In response to consumers making more online purchases, industrial distribution center users are looking for locations situated closer to the consumer as the need for shorter delivery periods are pressures from increased competition.

Amazon has been leading the online logistics industry with Amazon Prime, guaranteeing two-day deliveries. In the continued push to meet consumers’ need for 'immediate satisfaction,' Amazon recently launched Amazon Now, a service guaranteeing delivery in two hours,

which has launched in cities such as New York, Miami and Baltimore [2]. If a 2-hour window were not soon enough, Amazon is also testing a service called Amazon Prime Air, which incorporates drone deliveries and promises to deliver packages within 30 minutes [3]. In order for industrial real estate owners to compete in today’s rapidly changing consumer environment, distribution facilities need to be located, designed, and technologically integrated to meet the needs of online retailers.

“Two-thirds of the global population will live in cities by 2050,” UN says [4]. Although being close to the consumer is ideal, land in major cities typically comes at a steeper price than in less densely populated areas. The graph below shows the trend of people living in rural areas compared to urban areas overtime from 1960 – 2017. The red and blue dotted line represent urban and rural global population growth respectively [5].



If trends continue, prices will continue to rise over time as the demand for city living increases and the supply of developable urban land diminishes.

Why should Commercial Real Estate (“CRE”) investors have urban industrial properties in their portfolio?

A case recent study covering the New York City market indicated, “The rise of e-commerce and same-day delivery is ramping up... demand is colliding with the city’s chronic land shortage — and city restrictions aimed at easing traffic congestion — leading some property developers to plan multi-story warehouses” [6].

The multistory warehouse is the developer’s answer to urban area’s land shortage, however more expensive land equates to higher development costs per square foot. As a result, these industrial developers must charge prospective tenants higher rental rates PSF in order to make these urban distribution center developments viable.

According to a recent article published by American Realty Advisors, industrial income grew 33% since the economic downturn in 2007 [7], indicating an economically healthier industry and as a result, better quality credit tenants.

Lower default rates coupled with the ability to produce more stable income have been one of the driving factors for compressed yield rates for industrial CRE market. The following table highlights the National Industrial yield rates as of Q2 2007 to Q3 2019 [8]:

| Period | Yields | | | |
|---------|--------|--------------------|-------|-------|
| | IND | 10-Year Treasuries | AAA | BBB |
| Q2 2007 | 6.84% | 5.03% | 5.46% | 6.29% |
| Q3 2019 | 5.37% | 1.80% | 2.58% | 3.39% |
| Change | -147 | -323 | -288 | -290 |

Source: St. Louis Federal Reserve, NCREIF

Yield Rates for industrial property decreased 147 basis points nationally, signaling increasing industrial real estate prices. It should be noted, both AAA and BBB rating tenants have also decreased in yield rates, indicating lower risk associated with these asset types.

In conclusion, urban industrial property owners are fundamentally positioned to benefit from growth factors from both increasing urban population trends and increased online consumer shopping. With industrial tenant users earning more income year over year, these tenants are more likely to sign long term leases and will be able to afford the increasing rental rates that are a factor of increased demand and lack of supply for urban industrial buildings.

*Below is a sample of regional and national industrial comps. SREA believes pricing for new construction distribution space is within the low to mid-teens per square foot NNN.

| Regional | | | | | | | | | | | | |
|-------------------------|------------------|-------|-------------------|-----------------|-------------------|--------------------------------|-------------|-----------------------|----------------|---------------------|-------------------------------|-------------------------------------|
| Property Address | City | State | Building Type | Lease Status | Lease Rate PF NNN | Tenant Name | Leased Area | Year Built | Ceiling Height | Market | *Distance to Downtown (Miles) | City Population / Income per capita |
| 6 E Oregon | Philadelphia | PA | Distribution | Speculative | \$15.00 | Spec SoPni | 80,000 | 2021 | 30 | Philadelphia | 4.00 | 1,581,000 / \$63,519 |
| 2400 S Weccacoe Ave | Philadelphia | PA | Distribution | Speculative | \$11.00 | | 283,500 | 1978 - Renovated 2020 | 33 | Philadelphia | 3.40 | 1,581,000 / \$63,519 |
| 3501 Island Ave | Philadelphia | PA | Distribution | Speculative | \$24.86 | | 124,000 | 1986 - Renovated 2020 | | Philadelphia | 8.90 | 1,581,000 / \$63,519 |
| 400 Huyler St | South Hackensack | NJ | Storage | Signed - Feb-20 | \$13.94 | Goodwill of NY and Northern NJ | 126,433 | | | | 12.00 | 2,492 / \$27,128 |
| 5 Ethel Blvd | Wood Ridge | NJ | Distribution | Signed - Jun-20 | \$15.24 | GraceKennedy Group | 124,888 | | | | 3.30 | 9,018 / \$29,865 |
| 115 MELRICH ROAD | CRANBURY | NJ | Dry Storage | Asking | \$14.00 | | 28,337 | 2002 | 32 | Northern Jersey | 2.60 | 3,944 / \$50,698 |
| 584 US Highway 130 | Trenton | NJ | Distribution | Signed - May-16 | \$15.34 | Fed Ex | 347,145 | 2016 | 31 | Northern Jersey | 3.00 | 84,964 / \$42,268 |
| National Comps | | | | | | | | | | | | |
| Property Address | City | State | Building Type | Lease Status | Lease Rate PF NNN | Tenant Name | Leased Area | Year Built | Ceiling Height | Market | *Distance to Downtown (Miles) | City Population / Income per capita |
| 662 East Dyer Road | Santa Ana | CA | Distribution | Asking | \$18.20 | | 25,460 | 2020 | 28 | Southern California | 3.30 | 332,727 / \$21,552 |
| 2055 Town Center Pky | Sidell | LA | Industrial | Signed - Jul-19 | \$19.62 | | | | | | 3.10 | 27,883 / \$26,311 |
| 7205 W Buckeye Rd | Phoenix | AZ | Distribution | Signed - Jan-20 | \$18.48 | Wayfair | 25,295 | | | | 3.20 | 1,626,000 / \$31,096 |
| 333 North Bedford Road | Mount Kisco | NY | Warehouse Space | Asking | \$14.00 | | 18,500 | 2020 | | Hartford | 3.30 | 10,957 / \$32,424 |
| 2561 NE 4th St | Bend | OR | Distribution | Asking | \$13.20 | | 26,674 | 2020 | | Oregon | 5.30 | 94,520 / \$32,756 |
| 85 Pane Rd | Newington | CT | Distribution | Asking | \$15.00 | | 50,000 | 2020 | | Hartford | 2.60 | 30,404 / \$33,745 |
| 417 Haynie Ave | Nashville | TN | Distribution | Asking | \$14.00 | | 20,000 | 2020 | 30 | Nashville | 8.20 | 691,243 / \$33,875 |
| 6885 COMMERCIAL DRIVE | Springfield | VA | Distribution | Asking | \$12.75 | | 190,377 | 2020 | | Washington DC | 13.60 | 30,484 / \$36,405 |
| 16915 Via Del Campo | San Diego | CA | Distribution | Asking | \$14.16 | | 70,000 | 2020 | | Southern California | 9.20 | 1,420,000 / \$36,697 |
| 5670 KEARNY MESA ROAD | San Diego | CA | Distribution | Asking | \$16.20 | | 344,000 | | 32 | Southern California | 9.70 | 1,420,000 / \$36,697 |
| 20770 W. Nordhoff SL | Chatsworth | CA | Distribution | Asking | \$13.80 | | 29,208 | 2020 | 28 | Southern California | 17.40 | 41,255 / \$37,229 |
| 13007 Yukon Avenue | Hawthorne | CA | Distribution/Flex | Asking | \$30.00 | | 48,080 | 2020 | 30 | Southern California | 10.30 | 87,854 / \$47,636 |
| 277 Maritime St | Oakland | CA | Distribution | Signed - Jul-19 | \$13.04 | Prologis | 168,616 | | | | 22.70 | 425,195 / \$52,962 |
| 16 Commercial St | Branford | CT | Distribution | Signed - Jul-16 | \$13.50 | New England Orthotic | 21,000 | 2013 | 16 | Hartford | 2.60 | 28,111 / \$61,467 |
| 2210 WEST 3000 SOUTH | Herber | UT | Warehouse | Asking | \$13.20 | | 40,000 | 2020 | 28 | Utah | 17.20 | 15,792 / \$67,265 |
| 320 Wilson Ave | Norwalk | CT | Distribution | Asking | \$16.00 | | 45,078 | 2020 | 35 | Hartford | 2.60 | 89,005 / \$76,161 |
| 1470 Cader Ln | Petaluma | CA | Distribution | Asking | \$13.80 | | 25,000 | 2017 | 28 | Northern California | 9.60 | 60,870 / \$80,590 |
| 5400 HANNA RANCH ROAD | Novato | CA | Distribution | Asking | \$18.00 | | 21,540 | 2020 | | Northern California | 24.00 | 55,980 / \$89,812 |
| 14400-14500 KIRKHAM WAY | Poway | CA | Distribution | Asking | \$13.80 | | 50,000 | 2020 | 36 | Southern California | 12.30 | 43,689 / \$102,338 |

ABOUT STOCKTON REAL ESTATE ADVISORS

Stockton Real Estate Advisors (“SREA”) is based in Philadelphia and is one of the Mid-Atlantic region’s leading commercial real estate firms. SREA provides strategic and innovative solutions to meet our clients’ business objectives. We offer a wide range of commercial real estate services including corporate advisory services, tenant and landlord representation, direct investments and asset management services in office, industrial, multi-family residential and mixed-use property sectors. Our clients include real estate investment trusts, institutional owners, fund managers, non-profit organizations, corporations and individuals.

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