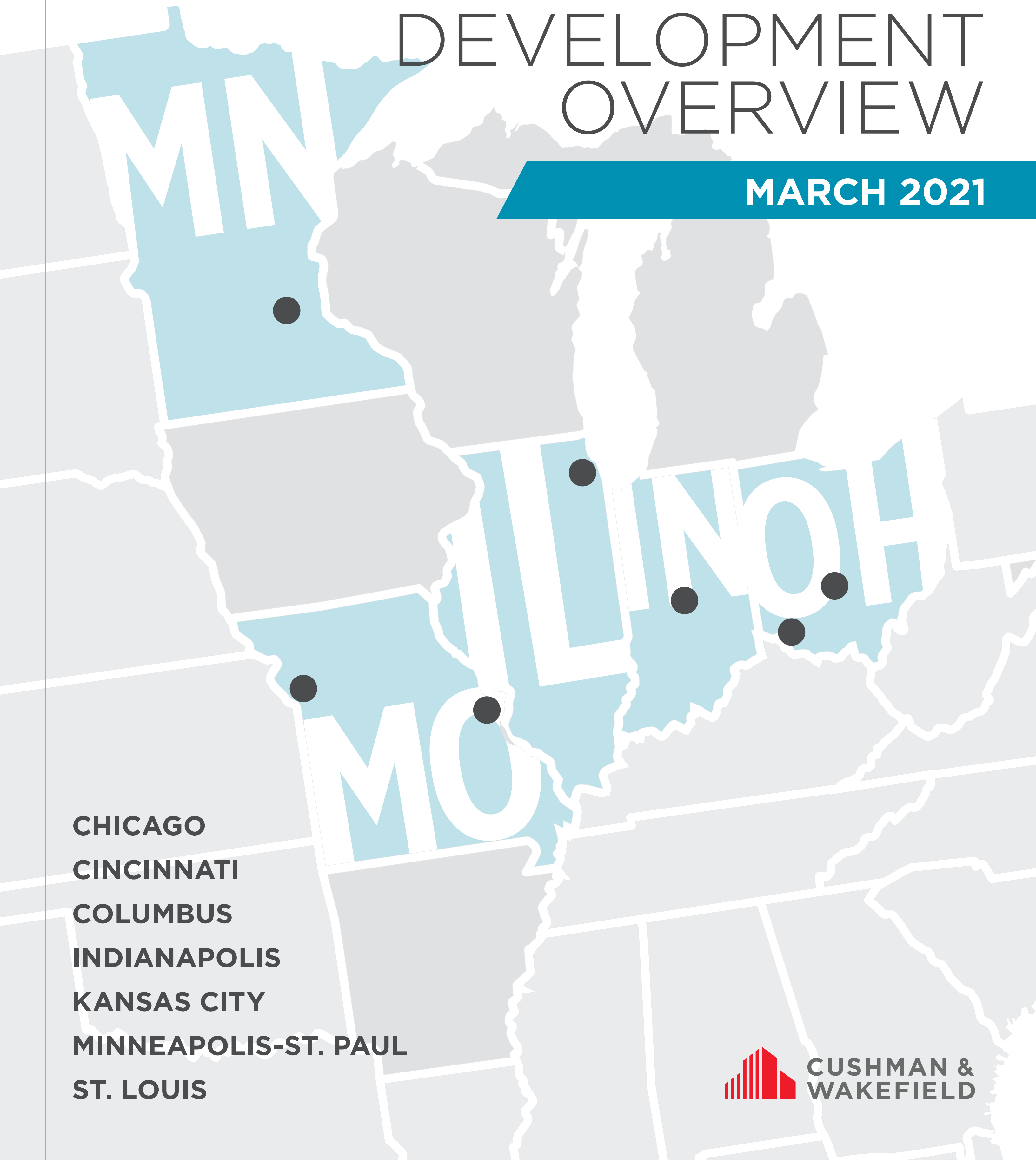
MIDWEST INDUSTRIAL DEVELOPMENT OVERVIEW

MARCH 2021



CHICAGO
CINCINNATI
COLUMBUS
INDIANAPOLIS
KANSAS CITY
MINNEAPOLIS-ST. PAUL
ST. LOUIS

CUSHMAN & WAKEFIELD

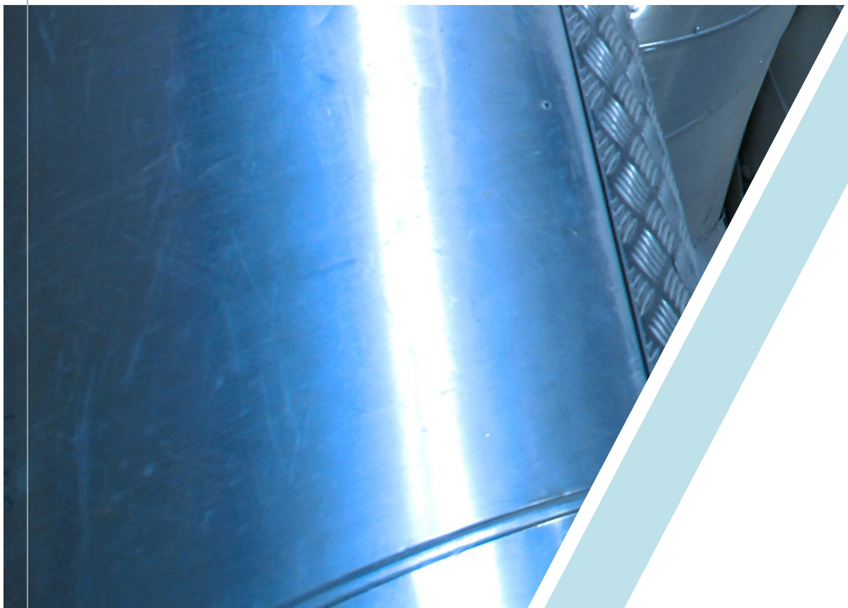
OVERVIEW

The U.S. industrial real estate market entered a period of rapid expansion in 2011, and the Midwest region has played a major role in that growth. Chicago, which according to Cushman & Wakefield research is the largest industrial market in the country, has seen its total amount of inventory increase by 8.4%, while markets such as Indianapolis and Kansas City have expanded by around 20.0%. Over this period, demand for space in the region has remained so strong that the combined vacancy rate has fallen by more than 125 basis points.

Much of the recent national industrial expansion has been driven by demand for upgraded logistics space, and the Midwest—as the country's logistics epicenter—has felt that impact. The markets covered in this report are home to the largest U.S. rail market by tonnage and the largest U.S. rail market by number of cars, two of the nation's three largest inland ports and its fastest growing air freight presence, along with some of the busiest interstate interchanges in the country. The major east-west highways of I-70, I-80, and I-90 intersect at various points with the critical north-south freight lines of I-35, I-55, I-65, and I-75, making the Midwest the most important region in the country for routing the flow of goods. Virtually every company that does business in more than one regional area has looked to the Midwest to bolster their logistics networks.

In looking at the individual markets that total over 2,654.7 million square feet (msf) of industrial space across the region, there are similarities that are shared along with unique factors. The demand that resulted in 296.0 msf of absorption from 2014-2020 was driven by a variety of tenants with distinct needs. Modern distribution space suited to the high efficiency demands of today's supply chains has been a major force, but the story of the Midwest is much more than a minimum clear height and wider column spacing.

Diverse economies are a major theme in the Midwest. All seven markets included in this report rank in the top 25 of Moody's Analytics Industrial Diversity Index, with four markets in the top ten and three in the top five. The total population of the seven MSA's is 24.5 million, with millions more located in other cities, towns, and rural areas throughout the region. Along with the demand for logistics and delivery space to serve the e-commerce demands of this sizeable portion of the country, a variety of tenants have entered the market or expanded their presence to support the wide range of businesses that are based in the Midwest. Industrial growth in these areas has also been driven by investment in automotive, aerospace, chemical, pharmaceutical, food, and high-tech manufacturing—facilities that are likely to remain in place and active for years to come as the industrial sector will continue to be a primary driver of economic growth throughout the U.S.



2,654,724,386 SF
TOTAL INVENTORY

5.5%
VACANCY RATE

295,918,334 SF
ABSORPTION 2014-2020

CHICAGO

Infill Demand Strong and Rising

Big-Box Build-To-Suit Activity Persists

Demand for build-to-suit (BTS) space has been on the rise, with e-commerce companies and national retailers the primary drivers. Of the 20.1 million square feet (msf) of modern distribution space under construction, 13.8 msf is BTS. At the end of 2020, there were 11 BTS projects over 500,000 square feet (sf) in size and the average BTS project was 764,000 sf. Manufacturers are the second largest user type for BTS, but it is Modern Distribution that dominates the amount of space going up.

Creative in Close

Demand for infill space is expected to remain strong, although future projects will require creativity from developers. The average size of speculative buildings under construction has already dropped slightly, down 8.8% from last year to 277,000 sf. To keep up with demand and continue building speculative product in these infill submarkets, developers are looking to combine multiple parcels, change zoning to allow for commercial development, and even acquire vacant retail or office sites to demolish existing buildings for new construction. There will continue to be users in search of larger sites, up to and even above 1.0 msf, but increasingly those tenants will need to explore the outer geographies of the metro where land is more readily available.

For Logistics, It's the Location

The desire for industrial space near the Central Business District (CBD) has brought the Chicago South submarket to the forefront over the past few years, and that trend should continue. The location offers superior access to roadways and infrastructure along with a deep labor pool. One notable example of development in this area is Commerce Park Chicago, a 196-acre site being developed by NorthPoint Development that will total 2.0 msf once complete. The facility is just 25 minutes from the CBD and has a workforce of 96,000 within 5 miles, two factors that make it an ideal spot for infill development.

+8.4%
INVENTORY

-60 BPS
VACANCY RATE

Since Jan 1, 2014

65.9%
OCCUPANCY RATE
FOR SPACE DELIVERED

Since Jan 1, 2018

18.4%
OF TOTAL EMPLOYMENT
IN INDUSTRIAL JOBS

17.3%
National Average

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CUSHMAN & WAKEFIELD

CINCINNATI

Where Logistics Take Flight

Accelerating Growth on Top of Expansion

The steady expansion of Cincinnati's industrial market has benefited from logistics firms occupying speculative space to keep up with the growth of that sector, and it has also seen large, established companies look to consolidate multiple locations into newer facilities. From a historical standpoint, speculative development in Cincinnati tended to be conservative, especially prior to the current period of expansion. But starting in 2014, at least 1.5 msf of speculative space has delivered every year, with a high of 5.2 msf in 2020.

Establishing a New Standard for Air Freight

Much of the Midwest relies on Interstates and railways to move goods, but Cincinnati is a global hub for air freight. The Cincinnati/Northern Kentucky International Airport (CVG) covers 7,000 acres and is in the process of expanding its already sizeable air freight capabilities. The first phase of a major e-commerce sorting and distribution center that includes over 1.0 msf of space and enough room to park 24 cargo planes is scheduled to be completed in 2021, and two more phases that will each include another 1.0 msf of space are planned for development in the coming years. CVG is already one of the ten largest freight airports in the U.S. as measured by tonnage, and it is set move up those rankings.

Northwest Submarket for Spec

Located along Interstate 75 as it heads north out of the metro area, the Northwest industrial submarket has been the prime destination for speculative development. Demand for bulk distribution space has been driven by access to the metro area's large Ohio suburbs and the relatively flat topography compared to other outlying areas has made it much more suitable for development. An example of recent development is the three-phase West Chester Trade Center, which totaled 1.8 msf in seven buildings. Two additional speculative buildings have been proposed at this industrial park and projects like these should provide ample supply for continued demand.

+9.4%
INVENTORY

-190 BPS
VACANCY RATE

Since Jan 1, 2014

72.0%
OCCUPANCY RATE FOR SPACE DELIVERED

Since Jan 1, 2018

20.4%
OF TOTAL EMPLOYMENT IN INDUSTRIAL JOBS

17.3%
National Average

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CUSHMAN & WAKEFIELD

COLUMBUS

Steady & Diverse Development

Bursting to the Front of the Pack

While most of the country saw a period of rapid industrial growth throughout the second half of the last decade, Greater Columbus really hit the accelerator towards the very end of that time frame. From 2015 through 2017, the market saw approximately 10.0 msf of new space delivered. In 2020, 11.4 msf of new product was completed. Columbus had been generally following the trend around the country, but over the last few years it has seen its pace of expansion accelerate rapidly.

Speculative of All Sizes

The e-commerce and logistics companies that are central to much of the national industrial expansion have supplied part of the demand, but one thing that stands out in Columbus is a diverse range in the size of speculative buildings. The Groveport Logistics Hub, which is just three miles from the cargo-focused Rickenbacker Airport, saw the delivery of four speculative buildings in 2020, ranging in size from 142,000 sf to 1.1 msf. The largest of the buildings was leased and occupied in 2020, demonstrating that like many other markets in the Midwest there is a steady demand for larger and larger spaces.

Construction Remains Rapid

At year-end 2020, there was a total of 8.7 msf of space under construction, which is a reasonable amount considering the market saw 6.1 msf of absorption during the past year. The record amount of space being delivered has been met with steady demand, and there is no indication that the pace of development will slow down in the near future. Tenant demand for new space in the area will need to remain consistent, but as long as that trend continues the path for additional expansion looks solid. Many of the industrial parks where construction is already taking place have plans for additional buildings, and there is an abundance of open, flat land in metro Columbus that is well-suited for industrial development along both major highways in the area, Interstate 70 and Interstate 71.

+11.5%
INVENTORY

-276 BPS
VACANCY RATE

Since Jan 1, 2014

90.1%
OCCUPANCY RATE
FOR SPACE DELIVERED

Since Jan 1, 2018

17.6%
OF TOTAL EMPLOYMENT
IN INDUSTRIAL JOBS

17.3%
National Average

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CUSHMAN & WAKEFIELD

INDIANAPOLIS

The Gateway Gets Even Larger

Gateway to the Midwest

The Indianapolis metro area has long been home to a diverse range of industrial users. With I-70, I-65, I-69, and I-74 all converging on the city, it is a natural hub between the high-population areas of the east coast and the distribution network of the Midwest. Indianapolis has historically been known as a speculative development market, and in each of the last four years it has set a record for new deliveries. The year-end total for 2020 was 14.6 msf of new space completed, shattering the previous record of 10.9 msf set in 2019.

Demand has Grown in Size

E-commerce, third-party logistics, and food & beverage companies are the major drivers of the most recent development activity. Together, those three categories accounted for 16.6 msf of deals signed in 2020. Larger individual deals have been significant in Indianapolis, where 17 speculative buildings larger than half-a-million square feet have delivered since 2018. The investment in big-box speculative spaces has come from both local groups and national institutional groups, while recent land acquisitions point to the continued speculative development of larger buildings in multiple submarkets around the metro area.

Even the Biggest Isn't Big Enough

The future of Indianapolis will include big buildings leased to tenants looking for large spaces, but even the most aggressive of speculative developers may not be able to meet the demands of some tenants. One BTS fulfillment center that recently got underway will total 2.2 msf, have 146 dock doors, more than 2,000 employee parking spots, and an additional 915 trailer spots. Even more unique than just the size is the height, with more than half of the building having a clear height of 75' while the "low" sections will have a clear height of "just" 50'. Indianapolis is not only attracting the expected tenants for modern distribution buildings—it is a market of choice for companies looking to redefine large scale industrial facilities.

+21.6%
INVENTORY

-150 BPS
VACANCY RATE

Since Jan 1, 2014

71.3%
OCCUPANCY RATE FOR SPACE DELIVERED

Since Jan 1, 2018

21.0%
OF TOTAL EMPLOYMENT IN INDUSTRIAL JOBS

17.3%
National Average

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KANSAS CITY

Explosive Growth at the Crossroads

A New Era Begins

Five of the seven Class 1 railroads in North America run through Kansas City, four of those lines have intermodal facilities in the metro area that are significant hubs in their national network, and the market is the largest in the country as measured by railroad tonnage. These rail capabilities combined with the intersection of four major interstates, including the key East-West artery of I-70 and the major North-South line of I-35, make Kansas City a vital component in the national distribution network. Yet even five-to-seven years ago, the Kansas City industrial market was underdeveloped.

Vision to Match the Opportunity

The middle part of the last decade saw developers pursue aggressive speculative projects. Starting in 2014, the delivery of buildings half-a-million square feet and larger became commonplace. At the start of 2014, the Kansas City market had just 26 buildings totaling 500,000 sf or more of rentable space, many of which were older manufacturing facilities. Since then, 30 buildings of 500,000 sf or more have delivered. The availability of larger spaces that were developed on a speculative basis quickly attracted national tenants looking to capitalize on the area's logistics infrastructure and central location, while local companies also took advantage of the newer, modern space.

Challenges Accepted

Around the perimeter of the metro area there are ample opportunities for large-scale, greenfield industrial development. But of more immediate interest is the demand for infill space. While opportunities do exist, they are not without challenges. Fortunately, ingenuity and effort have provided solutions that allow for ongoing infill development to continue. The completion of levies to turn floodplains into developable land, the redesign and upgrade of major highway interchanges, and thorough environmental clean up projects have all contributed to providing new development opportunities located within the I-435 loop.

+19.4%
INVENTORY

-228 BPS
VACANCY RATE

Since Jan 1, 2014

90.4%
OCCUPANCY RATE
FOR SPACE DELIVERED

Since Jan 1, 2018

17.5%
OF TOTAL EMPLOYMENT
IN INDUSTRIAL JOBS

17.3%
National Average

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CUSHMAN & WAKEFIELD

Unique Demand for Specialized Space

High Demand for Specialized Uses

Demand for BTS space has been on the rise, with e-commerce companies and national retailers the primary drivers. Of the 1.3 million square feet of modern distribution space under construction, 1.2 msf is BTS. At the end of 2020 the average size of BTS Modern Distribution projects was 436,000 sf, an increase of 78.7% over the previous year. Manufacturers are the second largest user type, accounting for 18.5% of the current BTS development. Expectations are that a sizeable amount of construction will get underway 2021.

Evolution Through Repurposing

As manufacturing evolves, dated buildings are finding new life. While tenants have vacated older facilities in favor of modern projects, developers have purchased the older sites for the purpose of demolishing them to make way for high-efficiency distribution centers that meet the needs of companies looking for newly constructed warehouse space. There is a healthy cycle where older buildings that are no longer suitable for advanced manufacturing are replaced by newly constructed warehouses that serve a different need.

A Different Need, A Unique Vision

Minnesota is home to Medical Alley, where more than 1,000 healthcare and biotech firms employ over half-a-million people. Major corporations manufacture everything from chemicals to pharmaceuticals to specialized medical equipment to groundbreaking biopharmaceutical products in and around the Twin Cities. These unique endeavors, which also include some of the leading research and development facilities in the world, require a highly trained and specialized workforce, which has changed the dynamics of an ideal industrial site for a large portion of the Minneapolis-St. Paul market. For many tenants, new development sites need to not only be suitable for industrial use but also within reasonable proximity to the one-of-a-kind labor force needed to operate these specialized facilities.

+16.7%
INVENTORY

-280 BPS
VACANCY RATE

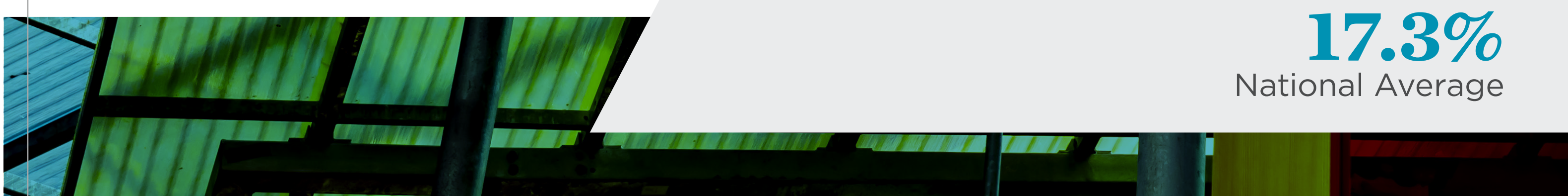
Since Jan 1, 2014

68.7%
OCCUPANCY RATE FOR SPACE DELIVERED

Since Jan 1, 2018

18.0%
OF TOTAL EMPLOYMENT IN INDUSTRIAL JOBS

17.3%
National Average



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ST. LOUIS

Steady and Diverse Development

Steady Development to the West

St. Louis has seen a steady stream of new development in the western portion of the metro area, particularly in the St. Peter's area that book ends the west side of the "70's Corridor", a stretch of Highway 270/370 that runs from St. Peters to Edwardsville in the upper-metro region. The majority of leasing in these buildings can be attributed to e-commerce, third-party logistics, and custom packaging, but it is notable that tenants tend to have a specialized focus. Individual companies include a logistics firm dedicated completely to healthcare, a distribution center that deals with small, personal consumption items, and a contract packaging company that provides on-demand, seasonal product solutions for small-and-mid-sized enterprises.

Incentives Add Up

In a metro area with two states, several counties, a major city that sits outside of any county jurisdiction, and countless municipalities, navigating the tax environment can be challenging. Cooperative efforts between states and municipalities have created massive new investments over the past few years, most notably a $236 million research and development facility for a global pharmaceutical firm. Along with capital investments, establishing jobs has been the major focus of providing development incentives. In several cases, a simple property tax abatement on a new building has proven influential enough to attract a sizeable amount of new jobs.

Moving East

Developments in the pipeline look set to continue the steady construction trend in the St. Louis market. At the eastern-end of the 70's Corridor, work is underway at Gateway Tradeport, an industrial park on the Illinois-side of the Mississippi River. When fully built out, the development will tack on an additional 10 buildings totaling 6.8 msf to the already well-established Gateway & Lakeview Commerce industrial parks across the street. The Tradeport construction will ultimately bring total space in the mega-park to upwards of 25.0 msf.

+12.4%
INVENTORY

-285 BPS
VACANCY RATE

Since Jan 1, 2014

90.1%
OCCUPANCY RATE
FOR SPACE DELIVERED

Since Jan 1, 2018

17.3%
OF TOTAL EMPLOYMENT
IN INDUSTRIAL JOBS

17.3%
National Average

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