At the end of the first quarter, Class A occupancy has edged up to 96% from 95% at the end of 2016 with a significant sublease in Hanover's Enterchange at Northlake, and the Class B occupancy rate has increased to 92% (from 88% in the prior quarter). The inventory of Class A/B free-standing facilities (40,000 square feet and up) available for owner/users to purchase remains in short supply, with locations inside the beltway in even greater demand and experiencing an even shorter shelf life. Construction is underway at the Airport Distribution Center as well as the Enterchange at Northlake, with the new buildings scheduled for delivery later in the year.

Service Center Metals completed a $25 million upgrade and addition to its facility in the Southpoint Business Park in Prince George County, adding 190,000 square feet to its complex for a total of 426,000 square feet. The company produces aluminum rods and bars, tube and pipe, and shapes used in construction, transportation and machinery. The expansion will result in an additional 35 to 40 new jobs for a total of approximately 200 employees on site. SCM has plans to add an additional 110,000 square feet if demand continues.

Atlantic Constructors has begun work on expanding its existing Chesterfield County facility from 100,000 to 130,000 square feet, with completion scheduled in July. The company is a commercial and industrial contractor that fabricates ductwork, piping, plumbing and steelwork while on-site construction at customers' sites is underway. The expansion will allow for increased overhead crane capacity to meet growing demand for assembly and prefabrication.

In a recent project update, construction of Vastly's Chesterfield County complex could begin as early as this summer. A subsidiary of Chinese-owned Shandong Tranlin Paper Company, plans for the $2 billion investment on 850 acres were first announced in 2014, and once operational, the site is projected to employ 2,000 people. The first phase of the project will be a converting facility, which will use paper rolls from China and convert them into consumer products like paper towers to be sold in the US. The company previously stated that the facility will use modern processing that is more environmentally friendly than typical paper plants. Vastly's complex is expected to be fully operational by 2020.

Richmond-based TemperPack has announced a $2 million expansion that will create an expected 23 jobs, doubling the company's employee count in two years. The company uses recycled, natural materials to create sustainable insulation and packaging materials for food and pharmaceutical products specifically.

SELECTED INDUSTRIAL SALE TRANSACTIONS.

- 74,954 SF SOLD at 1855 Boulevard West (Richmond City)
- 40,000 SF (INV) SOLD at 12727 Spectrim Lane (Chesterfield Co)
- 30,000 SF SOLD at 5100 Old Osborne Turnpike (Henrico Co)
- 25,000 SF (INV) SOLD at 12731 & 12739 Spectrim Lane (Chesterfield Co)
- 22,840 SF SOLD at 10190 Maple Leaf Court (Hanover Co)
- 22,000 SF SOLD at 7741 Whitepine Road (Chesterfield Co)

SELECTED INDUSTRIAL LEASE TRANSACTIONS.

- 83,217 SF LEASED at 11800 North Lakeridge Parkway (Hanover Co)
- 46,500 SF LEASED at 4595 Sandesara Drive (Prince George Co)
- 22,300 SF LEASED at 7500-7516 Whitepine Road (Chesterfield Co)
- 16,500 SF LEASED at 2500 Mechanicsville Turnpike (Henrico Co)

NOTE: Porter Realty Company transactions shown above in RED.
The combined industrial occupancy rate of Class A & B product has increased from 93% in 4Q 2016 to 94%.

**Net Absorption** from 4Q 2016:
- +301,001 SF (Class A/B)
- +332,844 SF (Class C)

**NOTE:** CoStar (for ALL industrial properties) reports an occupancy rate of 94.4%, showing an increase from 93.1% at the end of the 4th quarter of 2016, based on a total 113 million square feet RBA in 2,732 existing warehouse properties, and a positive net absorption of 121,930 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.

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**INDUSTRIAL MARKET VACANCY 1Q 2017**

**VACANT & INVESTOR-OWNED INDUSTRIAL PRODUCT**

**40K SF MIN RBA** | *EXCLUDING FLEX & OWNER-OCCUPIED PROPERTIES | *RBA Total: 27.91MM SF in 169 Existing Buildings

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**1ST QUARTER 2017: COMBINED OCCUPANCY RATES & NET ABSORPTION (CLASS A & B PRODUCT)**

The combined industrial occupancy rate of Class A & B product has increased from 93% in 4Q 2016 to 94%.

- **Net Absorption** from 4Q 2016:
  - +301,001 SF (Class A/B)
  - +332,844 SF (Class C)

**NOTE:** CoStar (for ALL industrial properties) reports an occupancy rate of 94.4%, showing an increase from 93.1% at the end of the 4th quarter of 2016, based on a total 113 million square feet RBA in 2,732 existing warehouse properties, and a positive net absorption of 121,930 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.
The big warehouse squeeze may be ending. A nationwide shortage of warehouse space that drove a years long surge in rents is showing signs of easing, the chief executive of the biggest owner of U.S. industrial real estate said.

Warehouse demand has outpaced new supply since the end of the recession, as economic growth picked up. Retailers also stepped up leasing as online orders rose. The cost of renting space has soared, particularly in urban areas such as Los Angeles and Seattle, where less than 5% of total warehouse capacity is available for leasing.

At the end of last year, supply began to catch up with demand, said Hamid Moghadam, chairman and chief executive of Prologis Inc., in an interview.

“New construction has been relatively disciplined, so the market is much stronger,” Mr. Moghadam said in an interview. “Now we are getting into the more mature part of the cycle. It’s more of a balanced market, with modest rental growth.”

Prologis reported core funds from operations—a key financial performance measure for real-estate investment trusts—fell slightly to $345 million, or 63 cents a share, in the fourth quarter compared with a year earlier, matching analyst forecasts.

Occupancy rates at Prologis facilities hit 97.1% in the fourth quarter—an all-time high. Rents in the U.S. jumped by more than 23%, with global rates increasing by 16%, the company said.

The warehouse market appears to be stabilizing even as online sales growth shows no signs of slowing.

Online sales increased nearly 11% [last] holiday season compared with the same time [in 2015], according to estimates by First Data Corp., which tracked credit, debit and other card transactions at one million U.S. merchants. In 2016, spending at online retailers was up 11%, while spending at department stores fell nearly 6%, according to the Commerce Department.

[Industry experts expect] industrial real-estate completions to consistently top 50 million square feet per quarter this year, a key threshold that usually signals stable availability rates... U.S. industrial space available to rent fell by five basis points to 8.2% in the fourth quarter [of 2016], the smallest decline since 2010. That still put availability at a 15-year low.

Rent growth is expected to flatten out as supply and demand continue to equalize, [a leading economist] said in a statement. This year “vacancy rates are going to stay basically stable,” Mr. Moghadam said.
The rapid growth of e-commerce fulfillment networks in recent years has resulted in a steady increase in the height and volume of warehouses and distribution centers, likely necessitating a shift to three-dimensional measurement of industrial space.

The average height of warehouses built in the U.S. has steadily risen from roughly 24 feet in the 1960s to 32.4 feet this decade (33 feet in 2016). E-commerce companies have made use of that additional vertical space by installing mezzanine levels, allowing them to add more human inventory pickers in each building.

Such mezzanine levels aren’t typically included in measures of a property’s or market’s industrial square footage. Thus, measuring cubic footage might be the better way to examine the full extent of warehouse and distribution-center space.

[Industry] data shows that 13.7 billion cubic feet of warehouse space was built in the U.S. from 2010 to 2016, with 65 percent of that total coming in the 10 largest markets, led by California’s Inland Empire, Dallas/Fort Worth and Chicago. In contrast, measuring those newly built warehouses by ground-level floor area yields only 422.5 million square feet.

“There’s an argument to be made that industrial space should be talked about on a volume basis, not an area basis, because that space above the floor is very important,” said [Head of Industrial & Logistics Research in the Americas]. “It’s key for labor-intensive users like e-commerce companies, which can put more racks and employees in that additional workable space.”
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