

THE PORTER REPORT

Q3 2019 | RICHMOND, VA INDUSTRIAL MARKET REVIEW

INDUSTRIAL CONSTRUCTION ACTIVITY REMAINS ROBUST.

➡ At the quarter's close, the **overall industrial market occupancy** has decreased to **90%** from 91% at the end of the second quarter, with the majority of the vacant bulk industrial space 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 decreased from 92% to **89%** while the **Class B occupancy rate** has increased from 92% to **94%**.

➡ Richmond landed in the number 7 spot on CoStar's 2019 list of top cities for industrial real estate growth, released early in the third quarter, citing the Facebook data center and Brother International's new distribution center as helping to increase interest in the region and the growing express barge service from the Richmond Marine Terminal as helping to increase industrial demand. In 2018, acquisitions by REITs accounted for 22% of sales, most of which were single tenant buildings with a national tenant. Blackstone Real Estate completed its acquisition of GLP's logistics assets, a total of 115 million square feet for \$13.4 billion, which included the 800,000-square-foot facility in the White Oak Technology Park in Eastern Henrico County.

➡ E-commerce giant **Amazon** continues to expand its presence in the Richmond area with the announcement that it has leased the 461,700-square-foot newly constructed phase two facility at Panattoni's Virginia I-95 Distribution complex on Commerce Road. Amazon will invest \$10 million in the new location and will bring 150 jobs to the city, adding to more than 10,000 positions statewide. Occupancy is scheduled for mid-October 2019. Panattoni's speculative two-building complex is now fully leased and on the market for sale as an investment, with Brother International occupying the phase one facility of the same size.

➡ Indiana-based **Scannell Properties** has completed its purchase of 58 acres in Chesterfield County from Armada Hoffer for \$1.85 million with plans to construct a 405,000-square-foot distribution center adjacent to the 220,000-square-foot warehouse built for PepsiCo. The proposed warehouse would occupy 35 acres of the 58-acre site with several bays at the rear and front for large trucks and parking on the eastern and western side of the complex. Scannell primarily focuses on build-to-suit and speculative projects.

➡ The Commonwealth of Virginia closed on the purchase of 40 acres in Hanover County from Riverstone Properties, where it will be building a new headquarters and distribution facility for the **Virginia Alcoholic Beverage Authority (ABC)**. Located on Pole Green Road at Interstate 295, the commonwealth paid \$8 million for the land with plans to relocate the ABC from its current Diamond area location by spring 2021. ABC's new complex will anchor the warehouse and retail project that Riverstone has planned for the balance of the site.

FEATURED PROPERTY

5800 S. LABURNUM AVENUE

**CSX Rail • Opportunity Zone • Enterprise Zone
Located Near Richmond International Airport (RIC)**

~182,842 SF Industrial Facility on ~8.82 Acres Zoned M-2

Original Facility: ~110,897 SF Built 1968

Wet Sprinklers/Diesel Pump • 9 Docks + 1 Ramp

New 20-Year TPO Roof • New T5 Lighting & Heaters

Warehouse Addition: ~71,945 SF Built 1990

Dry Pipe Sprinklers, 4 Exterior Docks + 1 Ramp

24' to 27' Ceilings • 3 Phase Electrical

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INDUSTRIAL CONSTRUCTION PIPELINE

- ➡ 461,700 SF Virginia I-95 Logistics - Phase II Pre-Leased (Richmond City)
- ➡ 405,000 SF Willis Commerce Center - Delivery Q3 2020 (Chesterfield Co)
- ➡ 320,853 SF James River Logistics Center - Delivery Q1 2020 (Chesterfield Co)
- ➡ 246,760 SF Airport Logistics Center (1) - Leased (Henrico Co)
- ➡ 246,760 SF Airport Logistics Center (2) - Delivery Q2 2020 (Henrico Co)
- ➡ 238,000 SF Northlake Business Park - Planned Start Q3 2019 (Hanover Co)
- ➡ 152,000 SF Northlake Commerce Ctr - Under Construction (Hanover Co)

SELECTED INDUSTRIAL TRANSACTIONS

- ➡ 800,000 SF INV SOLD | 3900 Technology Court (Henrico Co)
- ➡ 461,700 SF LEASED | 4701 Commerce Road II (Richmond City)
- ➡ 101,993 SF INV SOLD | 1501 W Washington St (Petersburg City)
- ➡ 42,700 SF SOLD | 1700 Willis Road (Chesterfield Co)
- ➡ 23,713 SF SOLD | 2401 Bellwood Road (Chesterfield Co)
- ➡ 51.1 Acres SOLD | 1608 Willis Road (Chesterfield Co)
- ➡ 40.0 Acres SOLD | Pole Green Road (Hanover Co)



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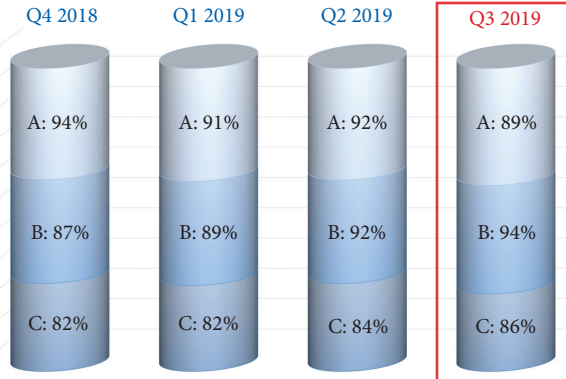
INDUSTRIAL MARKET VACANCY

Q3 2019

VACANT & INVESTOR-OWNED INDUSTRIAL PRODUCT

40K SF MIN RBA* EXCLUDING FLEX & OWNER-OCCUPIED PROPERTIES | *RBA Total: 30.5MM SF in 188 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% to 91% at the end of Q3 2019.

Net Absorption from Q2 2019: -311,836 SF (Class A/B)

Net Absorption from Q2 2019: +98,043 SF (Class C)

NOTE: CoStar reports an industrial occupancy rate of 96.3%, increased from 96.2% at the end of the 2nd quarter of 2019, based on a total 115.9 million square feet RBA in 2,779 existing warehouse properties, and a negative net absorption of 4,038 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: 2.65MM SF (50 Buildings)

RBA: 8.6% of Total Market

	Class A	Class B	Class C
Total Bldgs	4	28	18
Total RBA	226,043	1,496,600	927,748
Vacant SF	40,043	198,229	68,147
Vacancy Rate	18%	13%	7%

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	3
Total RBA	459,518	519,882	356,820	160,380
Vacant SF	60,000	80,579	57,650	0
Vacancy Rate	13%	15%	16%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	9	3	4	2
Total RBA	500,635	142,170	177,123	107,820
Vacant SF	29,400	12,025	0	26,722
Vacancy Rate	6%	8%	0%	25%

Vacancy Rate & Trends

75k < 150k SF RBA

RBA: 7.80MM SF (73 Bldgs)

RBA: 25.6% of Total Market

	Class A	Class B	Class C
Total Bldgs	24	31	18
Total RBA	2,840,103	3,226,464	1,734,845
Vacant SF	451,817	140,000	169,329
Vacancy Rate	16%	4%	10%

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	58,065	0	250,759
Vacancy Rate	25%	4%	0%	40%

CLASS B	NWQ	NEQ	SWQ	SEQ
Total Bldgs	2	13	10	6
Total RBA	209,546	1.35MM	1.10MM	562,027
Vacant SF	0	100,000	40,000	0
Vacancy Rate	0%	7%	4%	0%

CLASS C	NWQ	NEQ	SWQ	SEQ
Total Bldgs	4	3	9	2
Total RBA	377,305	229,749	904,993	222,798
Vacant SF	0	82,344	86,985	0
Vacancy Rate	0%	36%	10%	0%

Vacancy Rate & Trends

150k SF Min RBA

RBA: 20.08MM SF (65 Bldgs)

RBA: 65.8% of Total Market

	Class A*	Class B	Class C
Total Bldgs	35	20	10
Total RBA	13,335,187	4,381,096	2,366,693
Vacant SF	1,273,595	220,011	441,794
Vacancy Rate	10%	5%	19%

CLASS A	NWQ	NEQ	SWQ	SEQ*
Total Bldgs	4	13	3	15
Total RBA	1.15MM	3.80MM	2.02MM	6.36MM
Vacant SF	0	165,000	0	1.03MM
Vacancy Rate	0%	4%	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	50,211	27,000	0
Vacancy Rate	24%	3%	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	221,250	220,544
Vacancy Rate	0%	0%	21%	27%

*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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REPORT: UPS GETS FAA NOD FOR WIDESPREAD DRONE DELIVERIES

Excerpted from The Wall Street Journal | By Andy Pasztor | October 1, 2019

United Parcel Service Inc. said it received the first-of-its-kind federal approval to start setting up a fleet of unmanned aircraft to deliver health supplies and eventually consumer packages potentially throughout the U.S.

In the latest regulatory boost for expanded commercial drone services, the company also intends to gradually phase in routine night flights and heavier cargo limits—areas now generally off-limits to most operators.

Under the Federal Aviation Administration's announcement Tuesday, the company's Flight Forward unit obtained an immediate green light to ship medical products and specimens in North Carolina across various hospital campuses. But the broad approval for an entire fleet of future drones and pilots on the ground—going beyond what the FAA approved previously—opens the door for many other types of longer-range applications spanning rural and suburban areas. The FAA approval doesn't apply to urban areas.



Calling it a major step to enhance services for health-care customers and ultimately an array of other industries, the company said the FAA's approval "has no limits on the size or scope of operations." UPS said it already has started limited flying under the new certification.

"It just gives us a lot of capabilities," David Abney, the company's chairman and chief executive, said in an interview. "We're going to move ahead quickly and expand rapidly," he said, "It's not going to be a small operation." Within months, Mr. Abney predicts, the first phase could include 100 or more hospital complexes. Shares in UPS fell 3.4% on Tuesday.

As delivery options expand, the company said future steps may include a single operator on the ground controlling multiple flights or using drones to supplement traditional package delivery by trucks in rural areas.

The goal is to be the first drone operator to operate on a sizable scale, Mr. Abney added. The FAA's move comes months after it gave Alphabet Inc.'s Wing Aviation unit initial authorization to fly a fleet of drones for consumer-goods deliveries. But that specific approval

REPORT: UPS GETS FAA NOD FOR WIDESPREAD DRONE DELIVERIES

covered only a rural area around Blacksburg, Virginia, and mandated detailed scrutiny of applications for similar applications elsewhere.

By contrast, UPS said its certification offers a faster and easier path to case-by-case approvals of new uses. If that process proves successful, the latest step could set an important precedent in the budding, fiercely competitive drone industry's quest to dramatically step up the frequency and breadth of services.

UPS intends, among other things, to establish an operations control center able to monitor a fleet of drones from a centralized location, eventually incorporating new technologies to help detect and avoid potential airborne collisions.



Amazon.com Inc. and Uber Technologies Inc. are among those companies vying for similar U.S. approvals to potentially transport food and small consumer goods to residential customers. Many of those firms have turned overseas to test preliminary delivery systems, citing accelerated regulatory action from Australia to Iceland to Switzerland.

Like Wing, UPS ultimately will be able to operate in the U.S. as something akin to a small charter or cargo carrier using conventional aircraft, featuring specific pilot-training programs and accident-prevention procedures.

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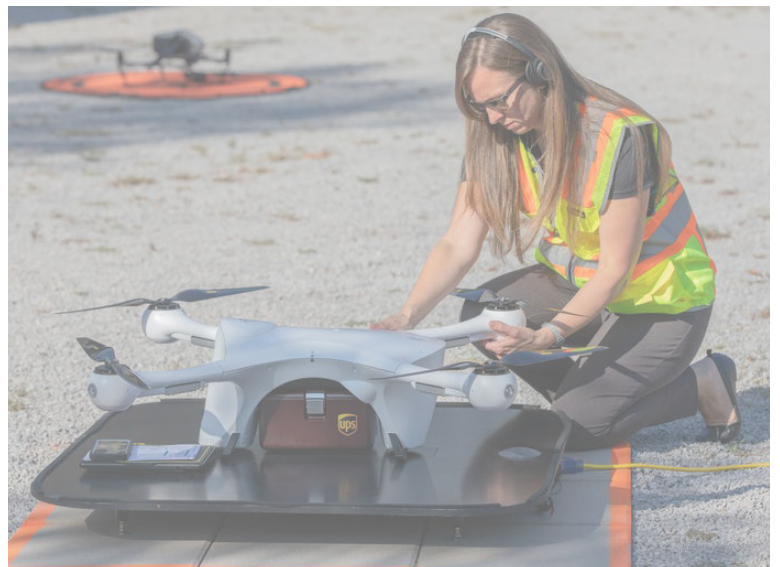
Mr. Abney also said UPS plans to invest in ground-based technologies to better track drones, while partnering with manufacturers to create new drone models.

But along with all other drone champions, the UPS initiative still faces major hurdles to rapid growth until the FAA establishes industry-wide rules allowing flights over urban areas and sets standards for remote identification of drones by law enforcement and air-traffic control.

“This certification allows us to fly an unlimited number of drones and an unlimited number of flights with an unlimited number of remote operators,” said Bala Ganesh, who is the vice president of UPS’s advanced technology group. “The idea is that now we have the unlock to start scaling throughout the country.”

Those long-awaited regulations will be partly based on input from real-world flights and pilot programs championed by the Transportation Department and White House aides.

In a speech last month to an international drone conference in Las Vegas, Daniel Elwell, the FAA’s deputy administrator, said those lessons learned are “lighting a creative fire in the industry.”



In testimony to a House appropriations subcommittee last week, Mr. Elwell said regulations establishing remote-identification requirements - viewed as the building blocks of predictable drone industry growth - initially were held up by a host of technical issues. But now “the rule is moving,” he said, as White House officials give the proposal a top-priority review.

Meanwhile, operators can seek broad certification such as UPS, or take up FAA invitations to apply for more-targeted waivers or exemptions under existing rules.

“This is a big step forward in safely integrating unmanned aircraft systems into our airspace, expanding access to healthcare in North Carolina and building on the success of the national UAS Integration Pilot Program to maintain American leadership in unmanned aviation,” Secretary of Transportation Elaine Chao said in an FAA release.

Additional Source: “UPS beat out Amazon and Google to become America’s first nationwide drone airline”
By Rachel Premack, Business Insider | Published October 3, 2019