INDUSTRIAL MARKET MAINTAINS MOMENTUM THROUGH MID-YEAR.

- At the mid-year mark, the overall industrial market occupancy has decreased to 92% from 93% at the end of the first quarter, with the largest addition to the Class A vacancy the 226,809 square feet in the former GSA facility on Bermuda Hundred Road in Chesterfield County (SEQ). Class A occupancy has decreased from 96% to 95% while Class B occupancy has increased from 90% to 92%. Speculative warehouse construction activity has resumed with multiple deliveries scheduled for the second half of the year.

- Amazon continues to expand its metro area footprint with the announcement that the e-commerce giant has leased a new facility in Chesterfield County at 1601 Bellwood Road (SEQ). With a total of 321,000 square feet, the facility is nearly identical to Amazon’s location in Hanover County’s Enterchange at Northlake (NWQ), and both facilities were built by local developer Devon USA. Amazon is operating out of the new building and will use the facility for sorting and delivery of packages, adding 100 jobs to their existing workforce of more than 10,000 full-time employees statewide. The company also leased the 798,000-square-foot former Ace Hardware distribution center facility on Hardware Drive in Prince George County (SEQ) in the first quarter of the year. Including the new Chesterfield County facility, Amazon’s metro area footprint exceeds 4.1 million square feet in six major distribution/sorting facilities located in five separate counties. Devon has filed preliminary plans for the last phase of the Bellwood Road park, which will include a 133,000-square-foot building, and has said they are in negotiations with an interested tenant for that building.

- Chesterfield County Economic Development Authority acquired 353 acres proximate to the county’s Meadowville Technology Park at a price of $21.05 million, which is approximately $59,500 per acre. The property is the site of the former American Tobacco plant and fronts on Bermuda Hundred Road, which connects to Meadowville Technology Park, home to Amazon, Niagara Bottling, and Medline. Cartograf recently selected Meadowville as the location for its first U.S. manufacturing plant in an announcement made in the fall of last year. The 353-acre property has road and utility infrastructure in place and is zoned I-3, a heavier industrial designation than Meadowville. This will allow Chesterfield EDA to target major manufacturing type uses.

- Richmond-based pharmaceutical company Phlow Corp has been awarded a $354 million contract to manufacture medicines and ingredients needed to treat COVID-19, creating an American supply chain for products primarily made overseas. The total contract value is up to $812 million, which includes a four-year base award of $354 million with an additional $458 million included as potential options. Phlow plans to build a warehouse facility on wooded land adjacent to AMPAC Fine Chemicals in Petersburg and will use some chemicals ingredients needed to treat COVID-19, creating an American supply chain for products primarily made overseas. The total contract value is up to $812 million, which includes a four-year base award of $354 million with an additional $458 million included as potential options. Phlow plans to build a warehouse facility on wooded land adjacent to AMPAC Fine Chemicals in Petersburg and will use some chemicals produced at the AMPAC plant. Phlow plans to hire 350 people, many of whom will be trained at VCU labs.
**Vacancy Rate & Trends**

40k < 75k SF RBA
RBA: 2.91MM SF (55 Buildings)
RBA: 9.1% of Total Market

<table>
<thead>
<tr>
<th>Class</th>
<th>Total Bldgs</th>
<th>Total RBA</th>
<th>Vacant SF</th>
<th>Vacancy Rate</th>
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<tbody>
<tr>
<td>A</td>
<td>4</td>
<td>226,043</td>
<td>49,043</td>
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<td>B</td>
<td>30</td>
<td>1,606,640</td>
<td>241,056</td>
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<tr>
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<td>21</td>
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Class A/B Combined Occupancy: 94%

Net Absorption from Q1 2020
Class A/B: -110,805 SF
Class C: -122,026 SF

CoStar reports an industrial occupancy rate of 95.2%, a slight increase from 95.1% at the end of the 1st quarter of 2020, based on a total 117.2 million square feet RBA in 2,804 existing warehouse properties, and a negative net absorption of 102,939 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**

75k < 150k SF RBA
RBA: 7.53MM SF (71 Buildings)
RBA: 23.7% of Total Market

<table>
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<th>Vacant SF</th>
<th>Vacancy Rate</th>
</tr>
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<td>180,801</td>
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<td>B</td>
<td>30</td>
<td>3,192,915</td>
<td>20,694</td>
<td>1%</td>
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<tr>
<td>C</td>
<td>17</td>
<td>1,560,925</td>
<td>343,620</td>
<td>22%</td>
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Vacancy Rate & Trends

150k SF Min RBA
RBA: 21.36MM SF (71 Buildings)
RBA: 67.2% of Total Market

<table>
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<th>Class</th>
<th>Total Bldgs</th>
<th>Total RBA</th>
<th>Vacant SF</th>
<th>Vacancy Rate</th>
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</thead>
<tbody>
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<td>685,026</td>
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<tr>
<td>B</td>
<td>22</td>
<td>4,789,556</td>
<td>483,629</td>
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<td>C</td>
<td>11</td>
<td>2,518,693</td>
<td>391,979</td>
<td>16%</td>
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**Vacant & Investor-Owned Industrial Product**
40K SF Min RBA * Excluding Flex & Owner-Occupied Properties | *RBA Total: 31.8MM SF in 197 Existing Buildings

Class A/B Combined Occupancy: 94%

Net Absorption from Q1 2020
Class A/B: -110,805 SF
Class C: -122,026 SF

CoStar reports an industrial occupancy rate of 95.2%, a slight increase from 95.1% at the end of the 1st quarter of 2020, based on a total 117.2 million square feet RBA in 2,804 existing warehouse properties, and a negative net absorption of 102,939 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.
FEATURED PROPERTIES
Q2 2020

Staples Mill Corridor
3017 Vernon Road
34,150 SF Office/Warehouse
Includes 14,552 SF Office
4 Docks + 1 Ramp, 3.04 Acres
14’ to 20’ Clear, Zoned M-1
1200 Amp 3 Phase Electrical
Enterprise Zone Location
Available: Call for Information

Master Planned Park
Airport Logistics Center (3)
129,750 SF Planned
Pre-Cast Concrete Construction
Clerestory Glass, Office to Suit
135’ Truck Court Depths
60’ Loading Bay, Trailer Parking
Multiple Drive-In Doors
For Lease: Call for Information

Warehouse/Distribution
Airport Logistics Center (4)
187,500 SF Planned
Pre-Cast Concrete, 7” Floor Slab
LED Lighting, ESFR Sprinkler
Rail Potential, All Utilities On Site
1/1,000 SF Car Parking Ratio
RIC International Airport Area
For Lease: Call for Information

Downtown Richmond Area
909 Oliver Hill Way
8,252 SF Total Building
With 1,157 SF Office Mezzanine
24 Parking Spaces + Additional
5 Drive-Ins & 1 Platform Dock
1.72 Acres Fully Fenced
For Lease: Call for Information
Owner/Agent

FEATURED PROPERTIES

Rt 60 Development Site
Anderson Hwy (Powhatan, VA)
31.48 Acres Total Available
Zoned Commercial
Over 700’ Frontage on Route 60 West of Route 288
Served by Two Crossovers
Water & Sewer Available
For Sale: $1,490,000

Automotive Facility
42,000 Vehicles Per Day
New Construction

Hanover Air Park Location
Winding Brook Location
Route 1 Frontage
Upscale Business Park

11201 Hopson Road
Office/Warehouse Units
Suite A: 3,960 SF Available
19’ to 22’ Ceiling Height
10’ x 10’ Drive-In Loading
Zoned M-3 Industrial
I-95 Access @ Sliding Hill Rd
For Lease: $10.00/SF Gross

11601 Lakerride Parkway
7,925 SF Office/Medical Building
4 Suites From 1,875 SF
38 Parking Spaces Total
Off I-95 @ Lewistown Rd (Exit 89)
Winding Brook Location
New Construction - Hanover County
For Lease: $19.00/SF Warm Shell

14471 Washington Highway
10,000 SF Industrial Facility
4.55 Acre Site Zoned M-2
2” Water Line Serving Property
Possible Additional Acreage
860’ Frontage on Route 1
Located 3.8 Miles from I-95
For Sale: $995,000

123 North 18th Street
2,113 SF Retail/Automotive Facility
Zoned B-5, Opportunity Zone
Downtown Richmond Shockoe Bottom
Enterprise Zone Location
For Sale: $550,000
Co-Listed with: Cliff Porter
CONTACT: WILSON FLOHR
804.521.1458

Anderson Highway (Powhatan Co)
Join Virginia Physicians Family Practice!
36.84 Acres Total
Mixed Use Development Potential
Retail Pad Sites from 1.59 Acres
For Sale: ~$29,900/AC (Unsubdivided)
Co-Listed with: Byron Holmes
CONTACT: DICK PORTER
804.521.1443

14909 Hull Street Road
Former Chiropractic Office
1,149 SF Masonry Construction
1.9 Acres Zoned A
Paved & Striped Parking
Rt. 360 Frontage Chesterfield Co
For Sale: $725,000
CONTACT: BYRON HOLMES
804.521.1448

10985 Leadbetter Road
Hanover Industrial Air Park
Parcel 1: 5.658 Acres Zoned M-3
For Sale: $925,000
Parcel 2: 1.195 Acres Zoned M-3
Site Plan Approved: 7,200 SF
For Sale: $155,000
CONTACT: KEVIN COX
804.521.1468

Porter Realty Company, Inc. • 4801 Radford Avenue • P.O. Box 6482 • Richmond, VA 23230
804.353.7994 | porterinc.com

No warranty or representation is made as to the accuracy of the foregoing information.
FEATURED PROPERTIES
Q2 2020

5800 South Laburnum Avenue
182,842 SF Industrial Facility
Active CSX Rail on 8.86 Acres
Zoned M-2; 24’ to 27’ Ceilings
New Roof, Lighting, Heaters
RIC International Airport Area
Opportunity/Enterprise Zone
For Sale: $9,600,000

1306 Jefferson Davis Hwy
Up to 78,000 SF Facility
Front: 48,000 SF (18’ Clear)
Rear: 30,000 (20’ Clear)
3.2 Acres Zoned M-1
Wet Sprinklers, Heavy Electrical
Lease: $3.50/SF Base
Sale Possible: For Call for Information

3800 Corporate Road
6,515 Acres Outside Wetlands
Zoned M-1/B-2
Water/Sewer Available
Immediate I-95 & I-295 Access
4 Miles to I-85/Petersburg, VA
-78’ Frontage on Rives Road
For Sale: $300,000

Corporate Road (Prince George)
10 Acres Available Off Rives Road
Just South of Metro Richmond
Immediate I-95 & I-295 Access
Industrial Zoning, Low Tax Locality
Utilities Proximate
NEW PRICING!
For Sale: $150,000

71,000 Vehicles Per Day

Broad Street Visibility

39,000 Vehicles Per Day

Fredericksburg Complex

New Flex Construction!

Branchway Business Center

Lakeridge Industrial Park

Diamond Area Location

219 Turner Road
82,000 SF Office/Warehouse
Suites from 2,500 SF
18’ Ceilings, Drive-In Loading
Zoned C-4, Opportunity Zone
Located Near Chesterfield Mall
Delivery Fall 2020
For Lease: $10.00/SF IG

11311 Business Center Drive
Suite A: 2,500 SF Office/Whse
Suite C: 2,500 SF Office/Whse
Suite D: 2,900 SF Office/Whse
Dock Loading, Ample Parking
Zoned I-1, Well Maintained Park
For Lease: Call for Information
3 Months Rental Abatement

10470 Wilden Drive
Up to 7,998 SF Contiguous
Suite B: 2,666 SF (Aval 02/20)
Suite C: 2,666 SF
Suite D: 2,666 SF
Dock Loading, 14’ Ceilings
Ample Parking, Zoned M-2
For Lease: $9.00/SF MG

2057 West Moore Street
Residential Land Site
0.357 Acre Total Zoned R-6
Prime Richmond City Location
Proximate to The Diamond &
Arthur Ashe Boulevard
Off Hermitage Rd & W Leigh St
For Sale: Call for Information

50-Door Distribution Facility

Free-Standing Retail

Just East of Downtown RVA

I-64 @ Mechanicsville Tnpk

3609 East Belt Boulevard
16,590 SF Total Building
Includes 3,000 SF Office
4.78 Acres Zoned M-1
Paved/Fenced Storage Area
Includes Concrete Pad for Potential
Shop/Additional Warehouse
Available: For Call for Information

501 East Nine Mile Road
9,034 SF Showroom Facility
Includes 4,500 SF Office &
Showroom on 1.32 Acres
1 Drive-In Door, Zoned B-3
1-64 Access @ Airport Drive
For Sale: $550,000
Co-Listed with: Cliff Porter

2601 Magnolia Street
Approximately 1 Acre Available
Fenced Graveled Yard
Zoned M-1 Industrial
Possible Billboard Lease Rights
Immediate I-64 Access @ Route 360/Mechanicsville Tnpk
Available: Call for Information

Glenfield Business Center
Suite 2501: 21,175 SF Available
7,645 SF Office, 5 Docks + 1 Ramp
Suite 2541: 12,000 SF Building
Multiple Dock & Drive-In Doors
East of Downtown Richmond
For Lease: Call for Information
Co-Listed with: Cliff Porter
A new report by Prologis Research [the world’s leader in logistics real estate solutions] suggests that, in the US market alone, for the next two or three years, 150 to 200 million square feet of new warehouse space will be needed every year.

This demand will be driven by two dynamics - the accelerated adoption of e-commerce and higher inventory levels - in response to supply chain disruption firms have suffered as a consequence of the pandemic. With supply chains so lean, many retailers could not respond adequately to sudden changes in demand. To avert similar experiences in future, mean stock levels could go up between 5% and 10%, which would translate into aggregate demand for an additional 285-570 million square feet of space.

“Several customer groups stand out for having very lean supply chains at present, including food & beverage, electronics/appliances, healthcare and diversified retail. In the ‘new normal’, the logistics real estate demand created by a reassessment of ideal inventory levels could be concentrated in customer industries that held little buffer stock, pre-Covid,” the Prologis Research team concludes.

Another 46 million square feet will be needed to accommodate each percentage point shift of retail sales from brick-and-mortar outlets to online sales channels. Based on the 30% growth rate of e-commerce from March through mid-April, Prologis estimates that 140-185 million square feet could be required in this segment.

Groceries are expected to lead this trend, followed by healthcare and consumer products. The rise in consumer delivery volumes is going to put the focus on locations that are closer to end consumers, Prologis finds, pointing to tight delivery windows and the need to keep final-mile costs down. [Researchers] also predicts a rise in warehousing demand, driven chiefly by concerns about potential future supply chain disruption. A 5% increase in inventory levels would require 400-500 million square feet of new warehousing space, the firm pointed out.

In addition to space needed for higher inventory levels and accelerated e-commerce adoption, Prologis sees even more demand springing from shifts in manufacturing locations, such as on- and near-shoring, but this is unlikely to manifest itself in the near term.

“These changes, being more costly and complex than relatively simple distribution network shifts, are likely to be a long-term trend that plays out over years,” say the study’s authors.

Demand for U.S. warehouse space is rebounding as upheaval from the coronavirus pandemic pushes businesses to retool their supply chains. Industrial real-estate activity, such as lease renewals and new leases, jumped 43% from April 15 to May 14 from the previous 30-day period, recovering more quickly than expected from the economic shocks of the pandemic. Total transactions for the year are 2.8% higher than at this time in 2019 even though activ-
Retailers and food and consumer goods suppliers ramped up their e-commerce operations during that period after a surge of orders from housebound shoppers during quarantine. Companies are also securing new space to modernize their distribution operations, including locations near big population centers, for what they expect to be continued strong demand for services such as online grocery delivery.

Demand for warehouses of 100,000 square feet or more held up the best... Transactions for those bigger facilities fell just 5% during the first month of the pandemic before surging to the highest monthly level this year for facilities of that size in the period ending May 14.

The push for more storage space comes as retailers are re-evaluating their logistics networks in the wake of the upheaval during coronavirus-driven shutdowns. Merchants were already moving goods closer to customers, and the pandemic is accelerating those shifts, said Jess Dankert, vice president of supply chain for the Retail Industry Leaders Association.

Some retailers relied heavily on stores to fulfill online orders during the pandemic, Ms. Dankert said, while others are looking to build “dark store” fulfillment centers in urban areas and shift away from larger facilities in more remote locations. “There’s a repositioning of the inventory and adapting systems for this new Covid-era of shopping,” she said.

Short-term leasing, “under 12 months, was very active for us in March and April,” said Chris Caton, head of global strategy and analytics for industrial real-estate giant Prologis Inc.  Prologis estimates that businesses could increase their inventories by 5% to 10% over the long term to guard against the kind of demand shocks that cleared out grocery stores shelves during the first weeks of the pandemic lockdowns.

Higher inventory levels and the accelerating growth of e-commerce, which typically requires about three times as much space as traditional distribution operations that serve stores, could increase U.S. warehouse demand by as much as 400 million square feet over the next two to three years, the company forecasts.

The COVID-19 crisis has profoundly affected global economies in an unprecedented way, putting millions out of work all at once, slowing commerce to a crawl and wreaking havoc on equity markets. And yet the effects of the pandemic may also prove instructive, illustrating plainly some of the systemic weaknesses and deficiencies that were papered over and unexposed during the steady economic growth of the most recent expansion.

In particular, supply chains of unwieldy length depending solely on Chinese manufacturing and ports have shown themselves to be extraordinarily brittle. Also, confidence in the trustworthiness of the Chinese government after initial assurances minimizing the severity of the COVID-19 crisis was found to be misplaced, resulting in an erosion of trust after the government reversed its previous stance and forced manufacturers to shut down operations in January.

Given the lessons being swiftly taught worldwide by breakdowns in supply chains for businesses and consumers alike, there are ramifications that should have long-lasting and far-reaching impacts for manufacturers, domestic markets and ultimately industrial investors looking to capitalize on the shifting composition of supply chain management.
Although the true extent of the frailty inherent in supply chains built without redundancies may just be coming to light, it is likely that the current state of the global economy may only exacerbate trends that were already taking place. Spurred by a number of concerns, including rising wages, total cost considerations and an administration driving an extended trade war with China, the average monthly value of imports from China fell more than 6% between 2015 and 2019, a drop of nearly $2.6 billion.

Over the same period, U.S. imports from other Asian countries, the European Union and Mexico all grew by double-digit percentages, with Vietnam in particular appearing to pick up a great deal of the slack afforded by China’s diminished export numbers. The conclusion appears certain: China cannot remain the world’s sole factory for the long term, and numerous other destinations look set to reap the rewards.

The most likely outcome of the shakeup prompted by the COVID-19 outbreak is a greater focus on building redundancies and increased resiliency into supply chains at all levels. No single country is likely to benefit in a lopsided manner from firms moving production out of China. Instead, a combination of reshoring, which involves shifting operations either to other Asian nations with low-cost labor pools or to regional trading partners like Mexico or Canada, and onshoring a smaller amount of production back to the U.S., will allow companies to diversify supply chains and mitigate the supply risk associated with concentrating in a single nation.

For companies that have chosen to onshore production after a sustained period using offshore suppliers, a number of negative factors related to supply chains prompted their return. Though quality of work and necessity for rework was cited a quarter of the time among the top 10 reasons for abandoning an offshoring strategy, freight costs, delivery or inventory concerns and supply chain interruptions made up 40% of the negatives associated with the practice, according to a 2018 study by Reshoring Initiative.

Similarly, among the benefits cited by respondents to the study were lead times, supply chain optimization and proximity to market, altogether accounting for 34% of the top 10 positives for onshoring production. It should be noted that most onshored manufacturing is often highly complex, high-value-add work producing goods such as computer, electronics, auto and heavy equipment. This type of manufacturing is also extensively automated and requires higher skilled workers for the jobs that do end up being created.

A distinct lack of those highly skilled workers domestically limits the amount of offshore jobs that are likely to return onshore from places like China. In contrast, manufacturing goods that require low-skilled labor and are difficult to automate constitute the bulk of production being reshored elsewhere, and are almost certainly not going to return to the U.S.

For industrial investors domestically, an added benefit may be found in inventory shortages created by the crisis. For decades, one prevailing motivation for supply chains was suppressing costs through just-in-time strategies, implementing push-pull management or other ways to reduce inventory and associated holding costs. Invento-
Report: Coronavirus Reveals Weak Supply Chain Links

ry-to-sales ratios dropped across the board prior to the Great Recession, most precipitously for manufacturers. The relatively recent rise in e-commerce forced a moderate rise in inventories, though remaining well below the ratios of the 1990s and early 2000s.

Now, however, with widespread demand causing unforeseen shortages for consumer goods, intermediate goods and raw materials alike, it is not unreasonable to expect that firms at a number of levels in the supply chain will see the added benefit of increasing inventories in the short or medium term, despite the associated storage costs. That should contribute to minor increased demand for warehouse space once economies begin to reopen and will likely push average inventory to sales ratios above 1.4 for the manufacturing and retail segments of the market.

Given that this is largely in response to COVID-19, a “black swan” occurrence, companies are unlikely to sustain heightened inventory carrying costs permanently. Rather, this should prove to be a one-time boost for the segment when entering the next expansionary cycle and then dissipate along with the psychological effects of current shortages.

There are a number of considerations for investors targeting markets that are likely to experience tailwinds from reshoring and potential onshoring of manufacturing from China. Most manufacturing is expected to reshore to other parts of Asia, a factor that will help keep steady port traffic in West Coast markets such as Los Angeles, Seattle and Oakland, and East Coast ports such as New York, Norfolk, Savannah and Jacksonville should see similar returns to stability in the numbers of imported TEUs, or 20-foot-equivalent units, a measurement used in the maritime industry to record international containerized freight volumes.

Increased manufacturing activity in Mexico could likewise boost industrial demand in Los Angeles and the nearby Inland Empire, but could also provide additional demand in Texas markets and eastern ports.

For markets likely to experience smaller boosts from onshoring of overseas production, it’s evident from jobs created from onshoring operations between 2010 and 2018 that Southern markets are heavily favored given their lower costs for labor, the often considerable subsidies made available by these states and business-friendly policies that eschew red tape and barriers to entry. Additionally, the same states are usually equally popular for foreign manufacturers looking to locate manufacturing facilities in the U.S. market.

Though industrial investors in states attractive to firms considering onshoring will benefit directly from increases in the local manufacturing base, the reality of increased reshoring rather than onshoring should reinforce already established national and regional distribution hubs over the longer term, allowing crucial increased stability of supply chains globally and helping to mitigate risk for industrial assets across the U.S. from future disruption.

While this may be of little help in the current crisis, it is reason for cautious optimism for industrial investors looking ahead to a return to economic normalcy.