United States | 2021

RESEARCH

Multi-Use Logistics Rediscovered

Why older multi-tenant infill industrial is increasingly garnering renewed investor interest

MULTI-USE LOGISTICS DEFINED:

For this analysis, JLL used the following set of criteria in determining “multi-use logistics,” as this loosely defined yet increasingly important sub-sector of industrial commercial real estate lacks standardized definition:

+ **Multi-Tenant Space**
+ **Building Size between 20,000 - 100,000 s.f.**
+ **Space Use: Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex**

EXECUTIVE SUMMARY

Location Premium

Often multi-use logistics buildings and business parks were constructed on the periphery of urban populations decades ago. As urbanization continues to accelerate, many of these assets are now engulfed by population centers, making them ideal for infill supply-chain networks.

Diminishing Portion of Industrial Market-Share

New construction of state-of-the-art warehousing has significantly increased the overall inventory in most markets. The acceleration of population and the increase in e-commerce-related demand for space. As a percentage of overall industrial inventory, the total of multi-use logistics properties has decreased significantly.

Limited Supply

New construction of multi-use logistics assets is extremely limited, making the overall inventory stagnant. As urban sprawl began to encroach on several multi-use logistics business parks and buildings, inventory in several markets decreased as higher-and-better uses compete for sites.

Restricted Construction

Due to the vintage of most multi-use logistics assets, which are often several generations older than current industrial product, new construction does not contribute to increased inventory for tenants seeking this type of space.

Increasing Demand for Stagnant Inventory

In terms of overall volume and unique leasing, industrial space has never experienced an expansion of this magnitude before, and multi-use logistics space is no exception to this. As smaller tenants begin to compete with e-commerce driven demand for proximity to population clusters, a stagnant inventory for multi-use logistics means increased competition for a finite amount of space.

Accelerated Rent Growth

As vacancy rates continue to decrease for the industrial sector as a whole, increased competition for all space is driving rents ever higher. Supply is helping to stabilize rent growth in modern warehousing; however, rental growth is accelerating quickly for multi-use logistics due to supply limitations.

Low Capital & Operating Expenses

Multi-use logistics assets generally require low capital expenses and limited operating expenses when compared to modern generation warehousing, allowing investment in multi-use logistics assets to generate high case-flow efficiency relative to peer commercial real estate sectors.

Tenant Diversification Advantage

The tenant base for multi-use logistics space tends to be hyper-local or regional tenants that are invested in the market they serve. Tenants that lease multi-use logistics space tend to need specific footprint (generally very small) and location requirements, as their businesses tend to service specific areas of a market.

High-yielding Investment Class

An ever-increasing number of investors are attracted to multi-use logistics assets due to the guiding fundamentals within the performance of the asset class. Multi-use logistics buildings are some of the only industrial assets that can yield double-digit IRR in this highly competitive investment environment. Furthermore, premiums on infill industrial assets continue to drive values in multi-use logistics higher, as proximity to population density is increasingly important for tenants.

Decentralized Ownership

Often still held by the companies that built them decades ago, private regional and local developers and real estate management companies are the largest owners of multi-use logistics buildings. The decentralized ownership of the asset type creates issues for investors looking to build footprint at scale; however, it can create potential opportunities for partnering with owner/operators with dedicated acquisition teams that have been building footprint in key markets.

TABLE OF CONTENTS

Proportion of U.S. Industrial Inventory....................................4-5

Historical Vacancy Comparison...6-7

Leasing Activity Comparison 8-9

Rental Growth Comparison 10-11

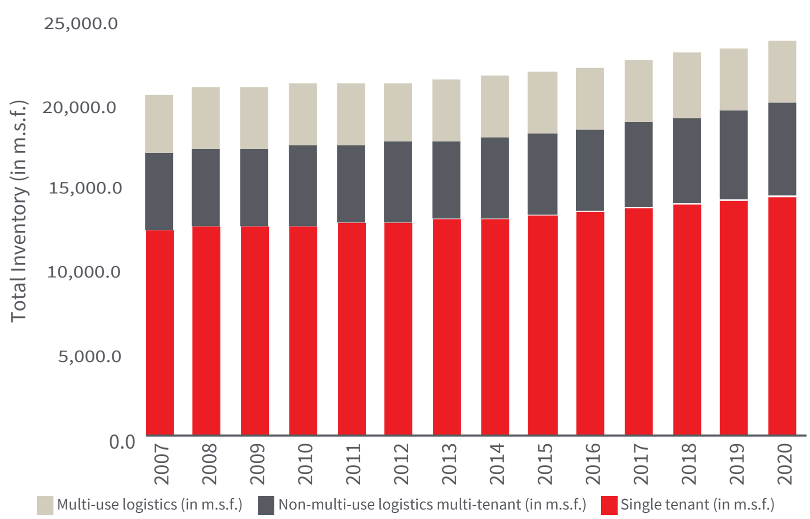
Pricing & Valuation Comparison..12-13

Ownership Analysis..14-15

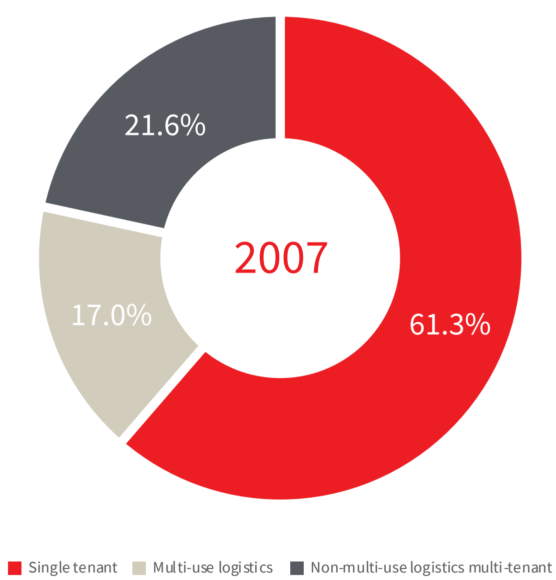
Investor Considerations for Exposure 16

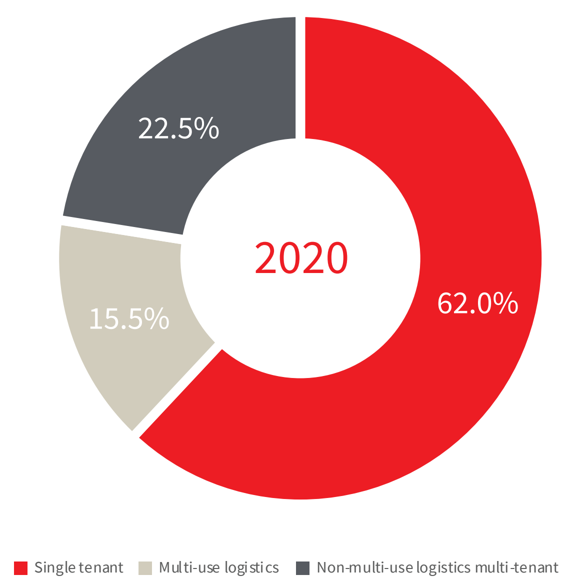
PROPORTION OF U.S. INDUSTRIAL INVENTORY

Total U.S. Industrial Inventory Breakdown



Total industrial inventory within the U.S. has grown by 3.0 billion square feet since 2007. During this expanded period of growth within the sector, overall multi-tenant industrial has remained consistently around 38.0% of total inventory, maintaining a similar annualized growth rate as the national average; however, multi-use logistics have accounted for only 172.8 million square feet (5.7%) of total industrial inventory growth since 2007. Since 2010, total U.S. inventory has grown by 12.2% cumulatively, while multi-use logistics increased only 3.0% in the same timeframe.





The often infill location of multi-use logistics assets contribute to very limited development opportunities, and a lack of new deliveries in this part of the U.S. industrial space. With limited new space, the multi-use logistics space continues to reduce as an overall proportion of U.S. industrial inventory. This trend is expected to continue with the construction of state-of-the-art warehousing having significantly increased overall U.S. industrial inventory, as development primarily focuses on buildings +200.0 k.s.f.

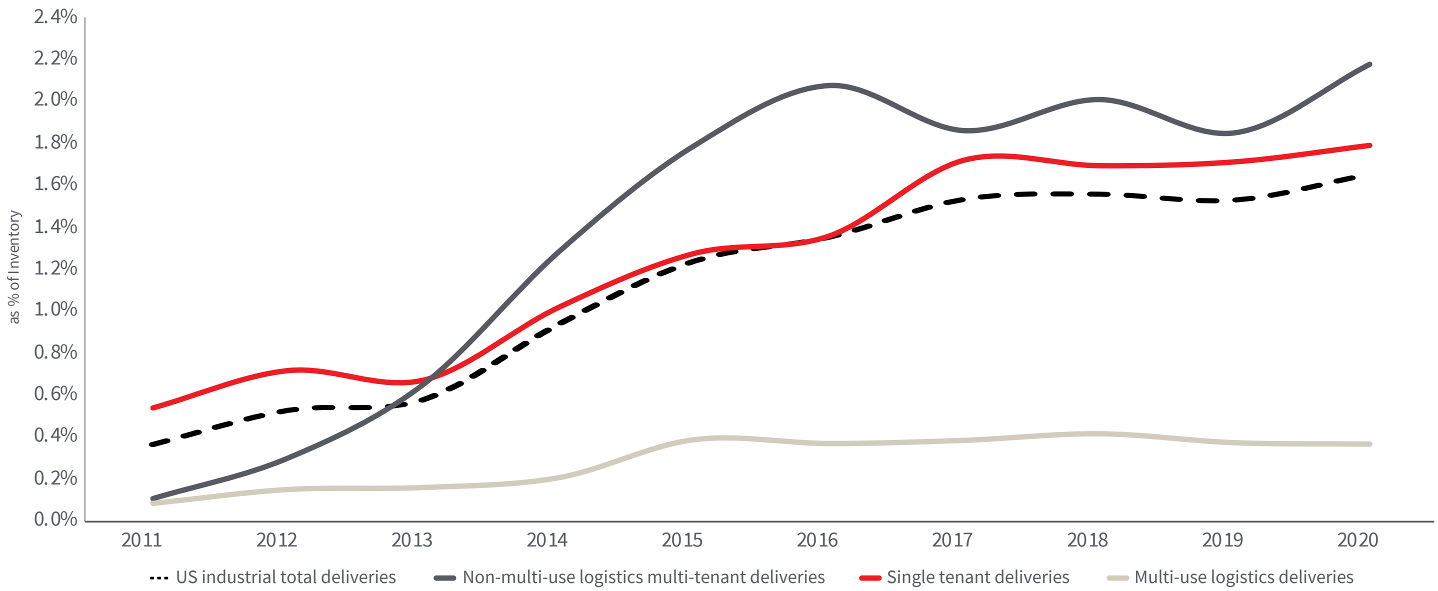
Source: JLL Research, CoStar, Real Capital Analytics, NCREIF

**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*

-Existing, Under Construction, or Under Renovation Bldgs. only

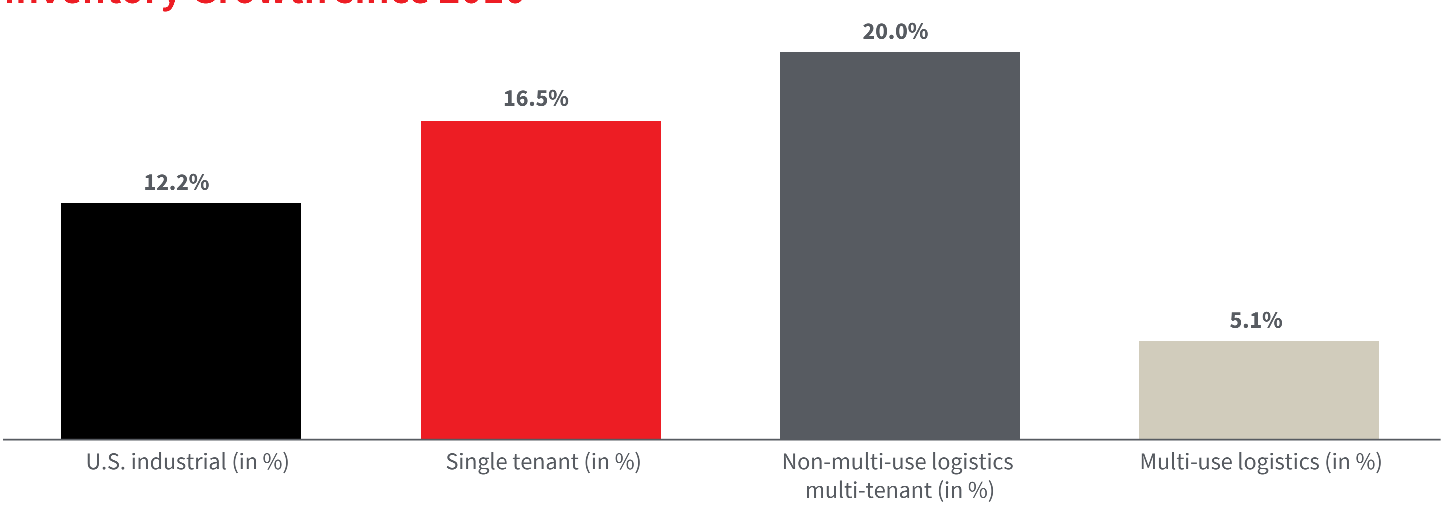
***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

Inventory Growth & Development Focus



The overall expansion of annual inventory from new deliveries of space for multi-use logistics assets has remained substantially lower than all other industrial classifications since 2011. While development has been ramping up for several consecutive years for the sector overall, single tenant and multi-tenant non-multi-use logistics assets continue to exceed by growing their inventories by nearly 2.0% annually, as industrial demand remains pronounced. Due to the nature of the multi-use logistics classification, extremely high replacement costs create a resounding barrier to entry for most developers attempting to seize on the sub-sector's growing demand and rental rates.

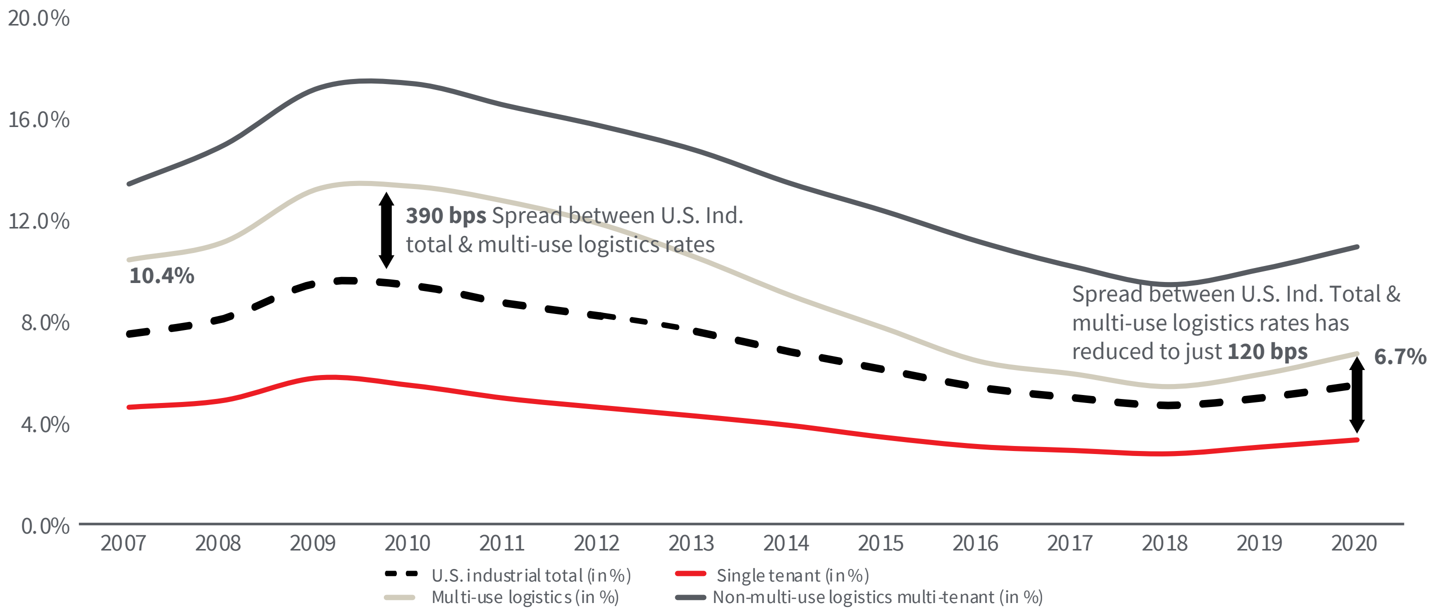
Inventory Growth since 2010



The rise of e-commerce and direct-to-consumer retail supply-chain needs for industrial space close to population density has largely driven the need for more industrial space, and thus the expansion of overall industrial inventory attempting to keep up with such rampant demand. This is exhibited in the overall growth of each classification of industrial real estate, as nearly 1/8th of all inventory has been built since 2010. Several mid and long-term effects that COVID will have on the U.S. economy are likely to catalyze secular shifts that had already been occurring that largely benefit the industrial sector. Due to the restrictive nature of multi-use logistics assets in terms of development, and the increasing demand for smaller spaces within urban corridors for "last mile" fulfilment, developers are finding it nearly impossible keeping up with demand, and thus competition and rent growth are affecting the sub-sector.

HISTORICAL VACANCY COMPARISON

Historic Vacancy (in %)



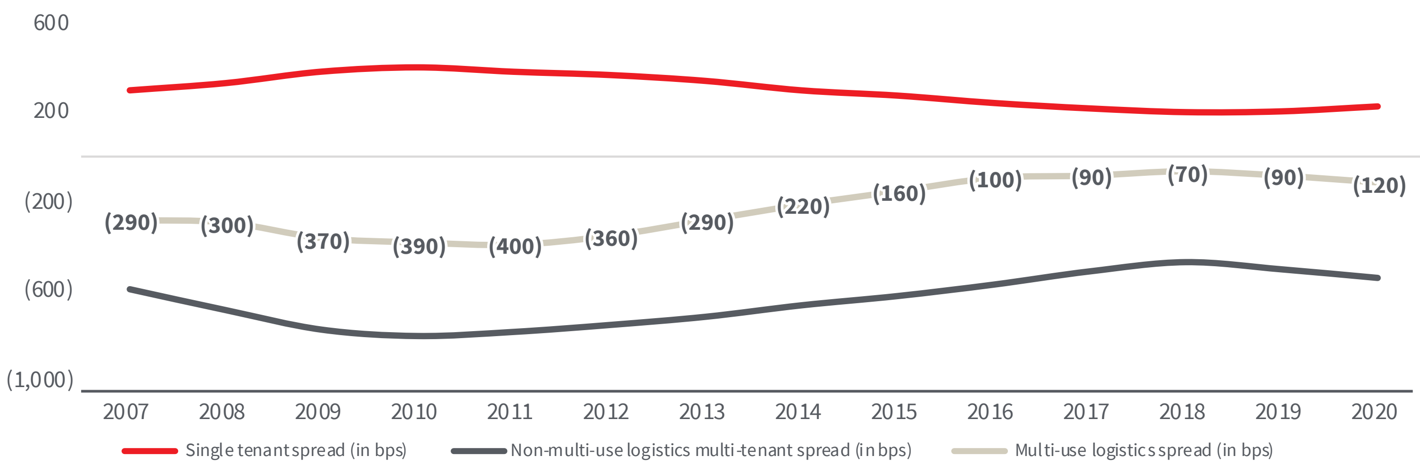
Increasing demand for industrial space is bringing U.S. industrial vacancy rates to historic lows. Primarily driven by the secular shift toward direct-to-consumer supply-chain expansion needs, the need for proximity to population hubs around the country has directly contributed to tenant activity in the multi-use logistics space. Tenants have been increasingly willing to sacrifice functionality and amenities for proximity to dense metropolitan corridors, driving vacancy for multi-use logistics to their lowest recorded levels. Multi-use logistics vacancy has compressed at the largest rate in the overall sector, falling 660 bps since 2010 and has tightened the spread between the overall U.S. industrial vacancy rate by nearly 270 basis points since 2010. The spread was at its lowest level in 2018, when it was reduced to just 70 basis points, showcasing the increasing strength of foundational demand not just for U.S. industrial space, but for multi-use logistics space across the country.

Source: JLL Research, CoStar, Real Capital Analytics, NCREIF

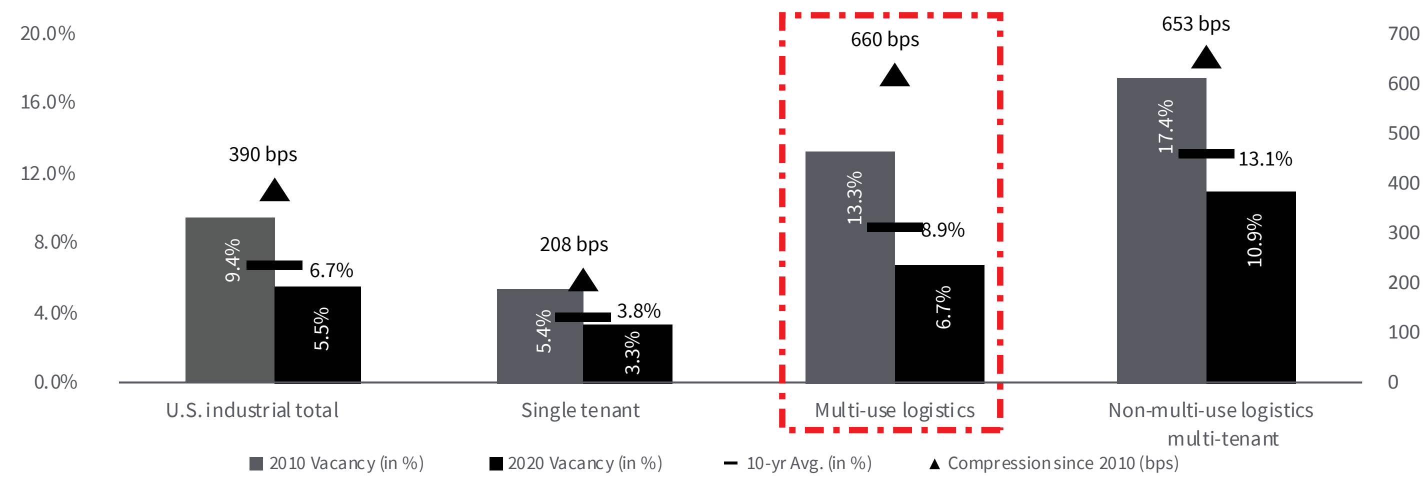
**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*
-Existing, Under Construction, or Under Renovation Bldgs. only

***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

Spread in Vacancy vs. Overall U.S. Industrial Rate (in bps)

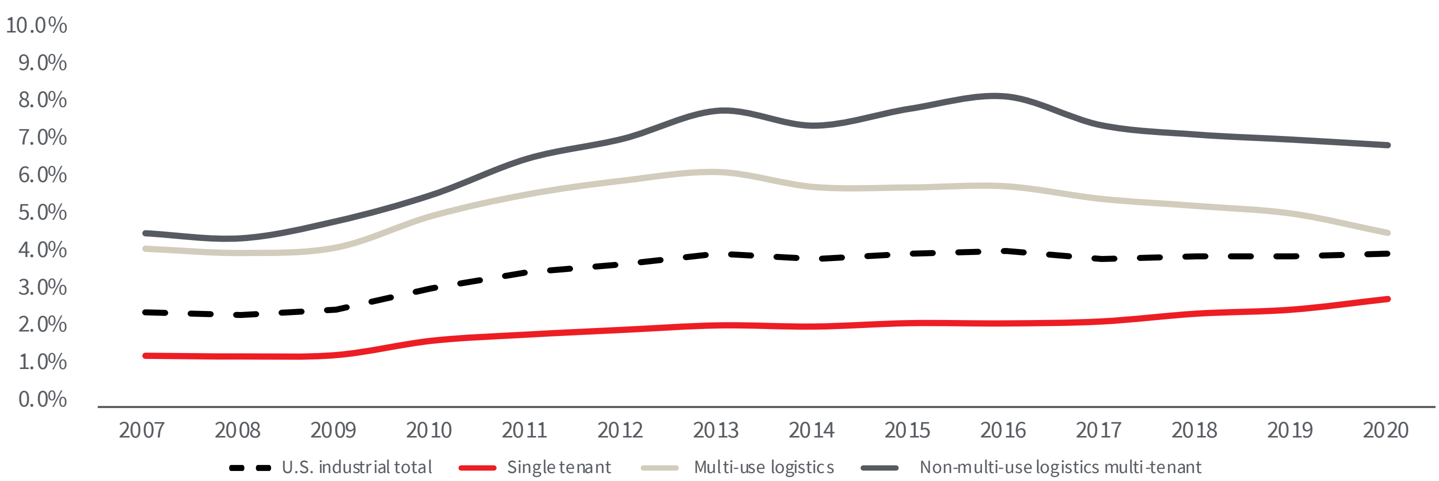


Vacancy Performance vs. Present

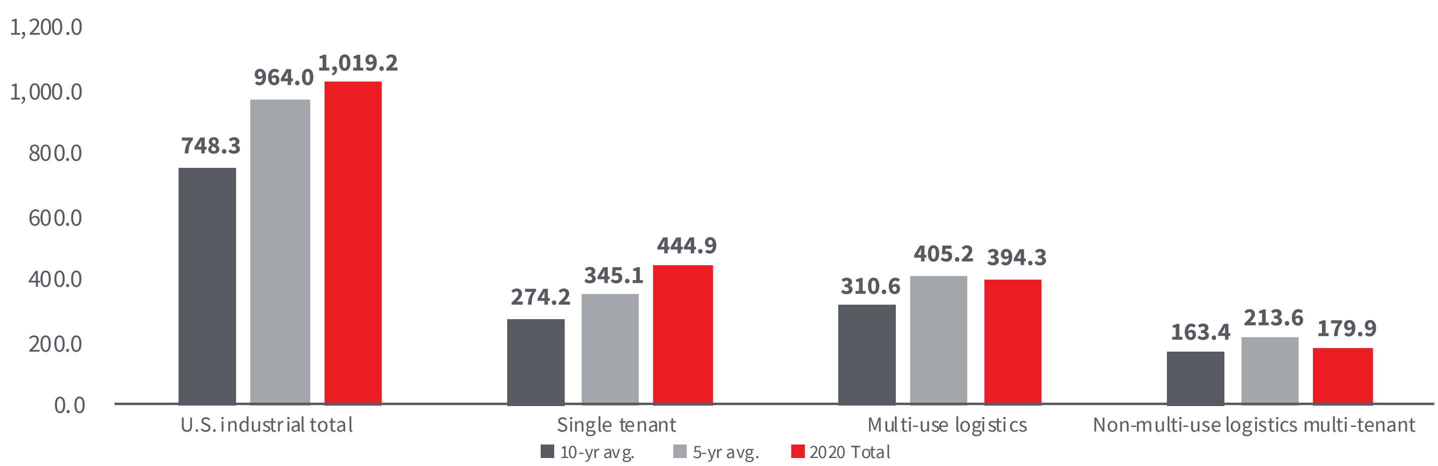


LEASING ACTIVITY COMPARISON

Overall Leasing Activity (as % of total inventory)



Total Leasing Activity Comparison of Averages (in m.s.f.)



Multi-use logistics demand has been the most consistent in terms of overall leasing activity since 2010, while the largest expansion of leasing volume has been derived within single tenant facilities, as developers have been adding new supply to total inventory. Due to the nearly stagnant inventory found within the multi-tenant logistics sub-sector, tenant roll-over is rare and often only occurs when owners are renovating space for new tenants. This has been experienced in the negative net-absorption rates experienced in the sub-sector in 2020, despite gross leasing activity holding steady and consistently in line with 10-year averages. As multi-tenant logistics facilities attract newfound interest from its non-traditional tenant-base, such as e-commerce last-mile fulfillment nodes within their supply-chains, owners have had to work on capital expenditures to bring the older vintage assets to function for the emerging tenant-base. Further growth in leasing activity and in net-absorption is expected within the multi-tenant logistics sub-sector, as the importance of proximity to population outweighs limitations in space efficiency for demand related to e-commerce.

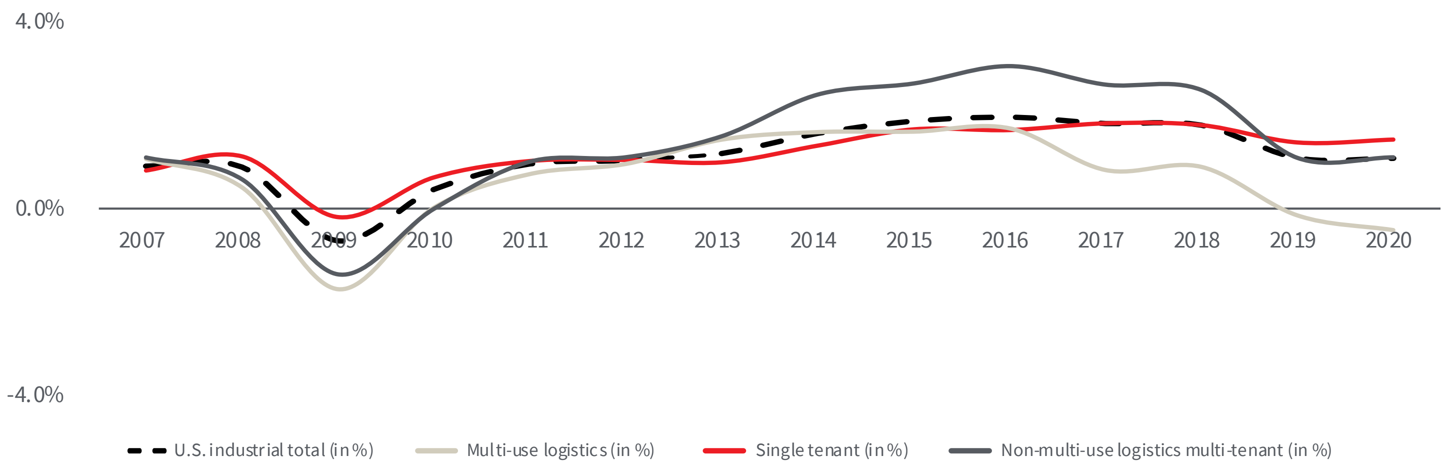
Source: JLL Research, CoStar, Real Capital Analytics, NCREIF

**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*

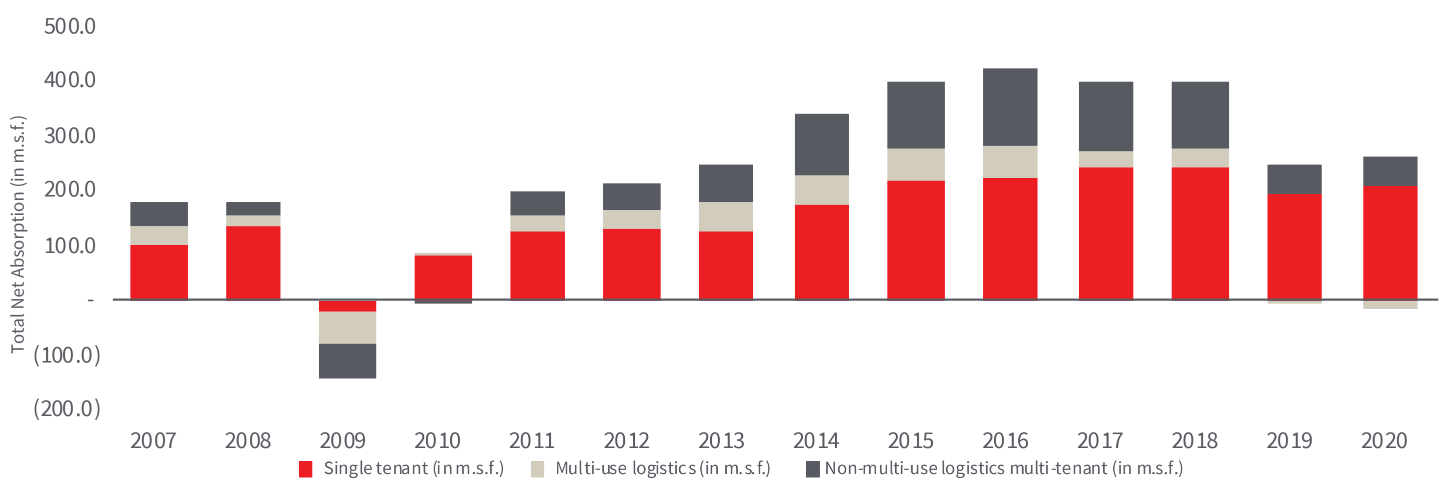
-Existing, Under Construction, or Under Renovation Bldgs. only

***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

Historic Industrial Net Absorption (as % of total inventory)

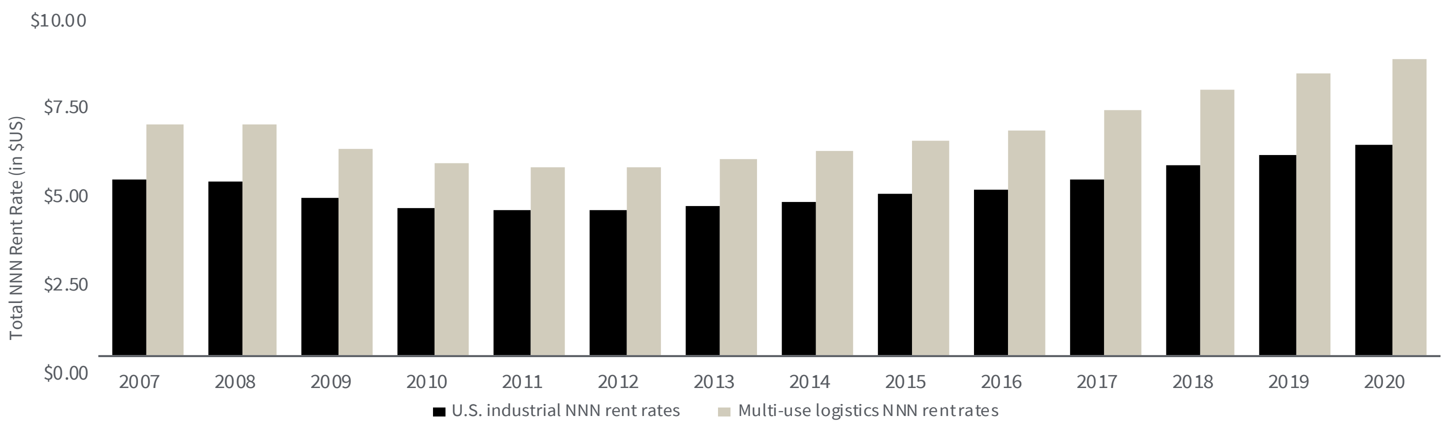


Historic Industrial Net Absorption (in m.s.f.)

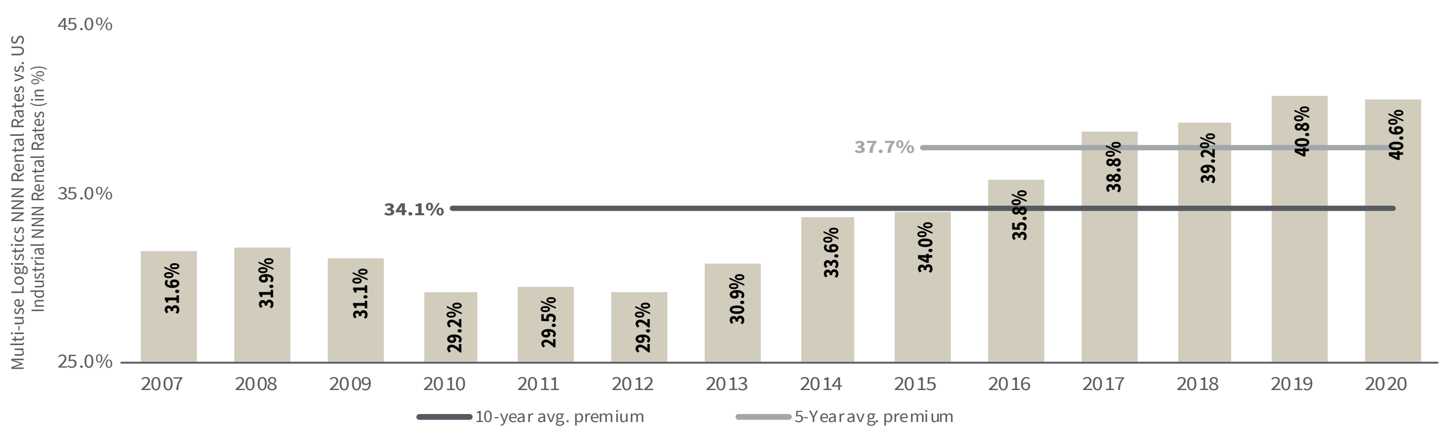


RENTAL GROWTH COMPARISON

Historic Industrial NNN Rent Rates



Multi-use Logistics Rent Rates Premium Over U.S. Industrial Rates



U.S. industrial assets have surged in the rent rates demanded this cycle, with sector fundamentals being largely driven by strong macroeconomic tailwinds, including the increase in globalization, and the secular shifts occurring within retail; direct-to-consumer supply-chain demand; and the emergence of both e-commerce and the complementary industries, all requiring additional industrial space. Overall rent rates have grown cumulatively in the sector by 41.8% since 2010 and have experienced a 4.9% five-year Compounded Annual Growth Rate (CAGR). Multi-use logistics has traditionally demanded a premium on rental rates; however, this rate has been increasing at a steady rate as more e-commerce related tenant demand begins to see this unique industrial space.

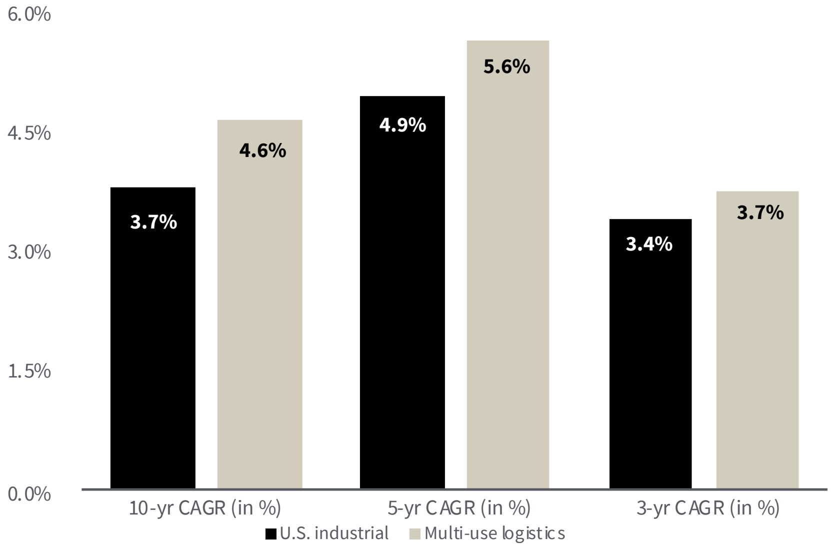
Source: JLL Research, CoStar, Real Capital Analytics, NCREIF

**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*
-Existing, Under Construction, or Under Renovation Bldgs. only

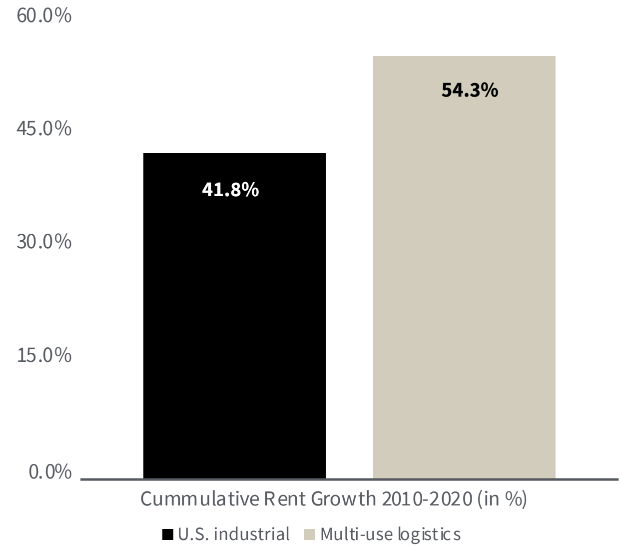
***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

**JLL Research is providing an estimated rental rate solely utilizing previously observed Compounded Annual Growth Rates (CAGRs) experienced over the course of the past 10, 5, and 3 years. These estimated rates do not incorporate any future unknowns, and are only provided to elaborate on the consistent rental growth experienced within the industrial and multi-use logistics sectors.*

NNN Rent Compounded Annual Growth Rate Comparison

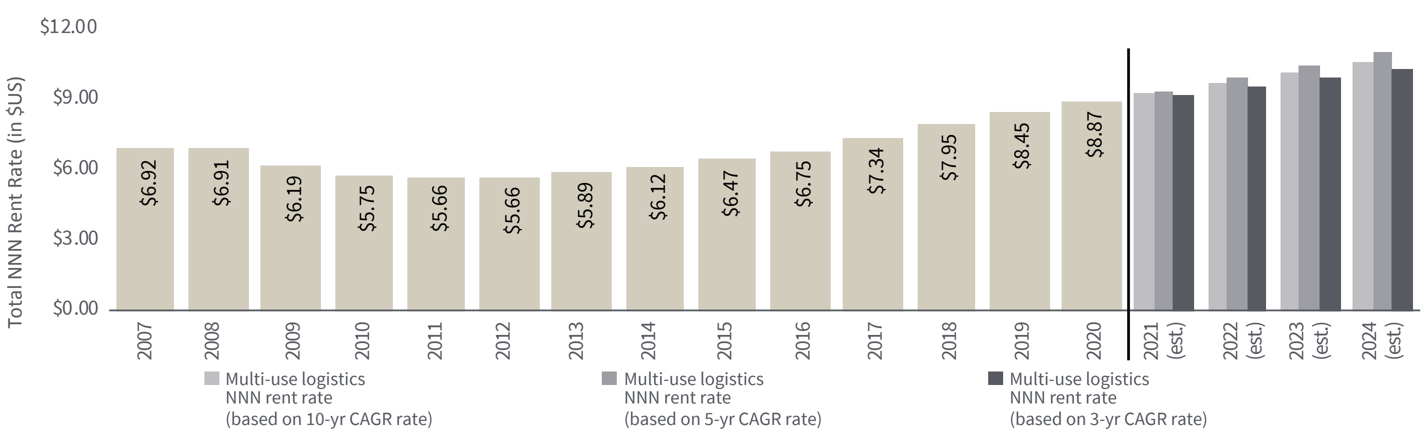


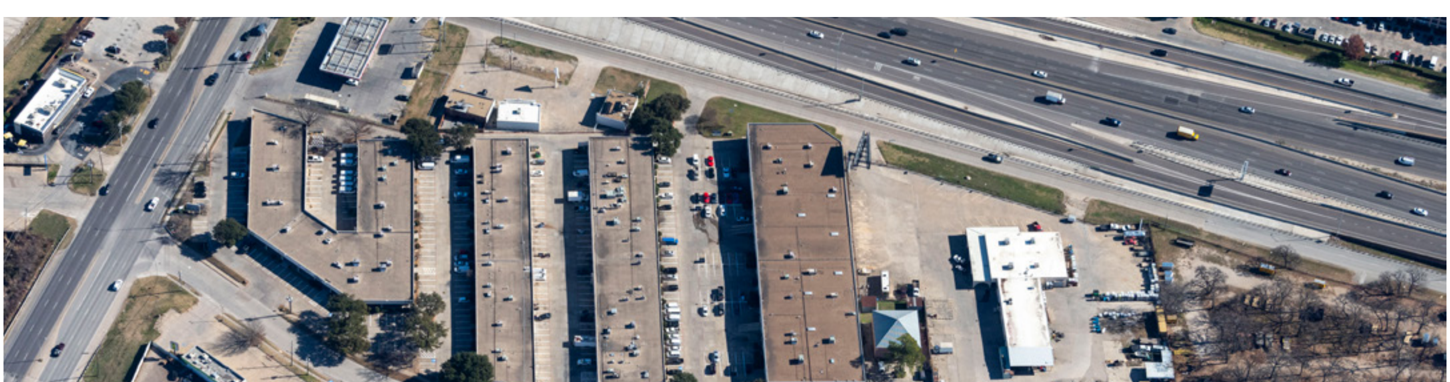
NNN Rent Cumulative Growth Rate Comparison



With a ten-year average premium of 34.1% over the U.S. industrial rate growing to over 40.6% in 2020, multi-use logistics facilities are surging in their ability to capture rent growth due to an increasing demand base that is competing for a stagnant and limited growth inventory of space. When multi-use logistics ten-year, five-year, and three-year CAGR is compared to the U.S. industrial rates, a basic estimation of rental rates going forward can be evaluated to showcase the attractiveness of multi-use logistics to investors seeking value-add returns through driving rents.

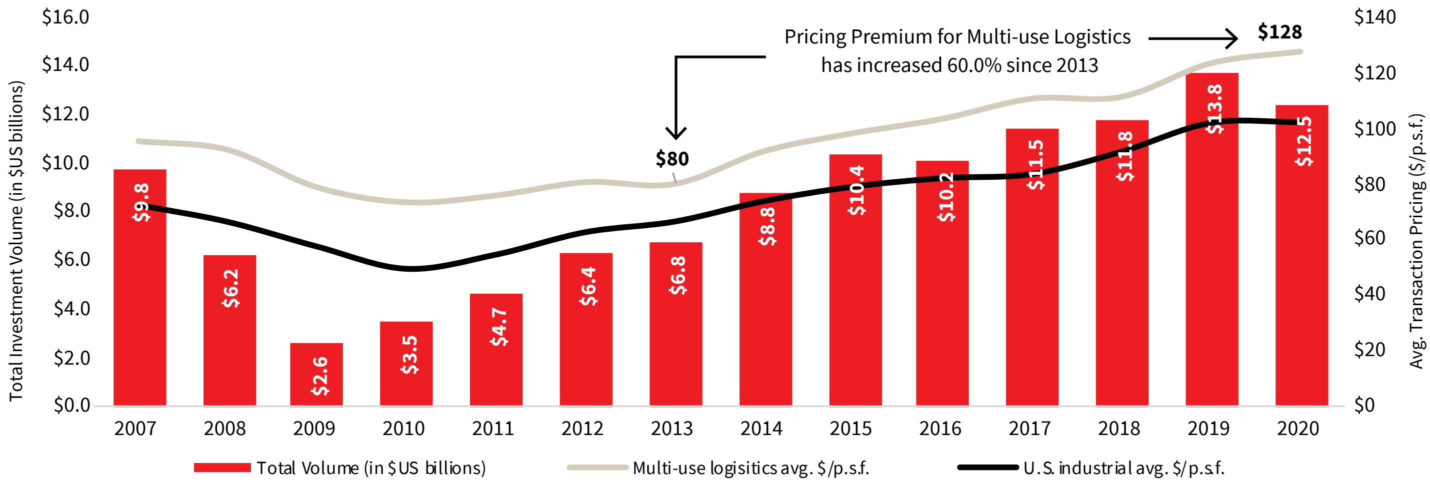
Multi-use Logistics Historical & Estimated Rent Rate (based on CAGR)





PRICING & VALUATION COMPARISON

Multi-use Logistics Liquidity & Pricing (single asset transactions)



Multi-use logistics assets have increased significantly on an average $/p.s.f. basis, increasing 60.0% since 2013 compared to the strong growth experienced in the overall U.S. industrial rate of 53.0%. Multi-use logistics facilities are becoming highly desirable for investors seeking yield and are proving their ability to raise values through increasing higher rent rates. Liquidity in terms of overall volume transacted has grown significantly since 2013, despite virtually the same number of transactions. Multi-use logistics investment offers significant spread when compared to both institutional-grade and overall U.S. industrial assets, offering 219 and 124 basis point spread in 2020 respectively. An additional pricing factor that is favoring most multi-use logistics assets is the infill nature of this sub-sector. Infill assets have traded for a premium when compared to non-infill assets since 2010, at a 276 to 230 basis point compression rate on a cap rate basis.

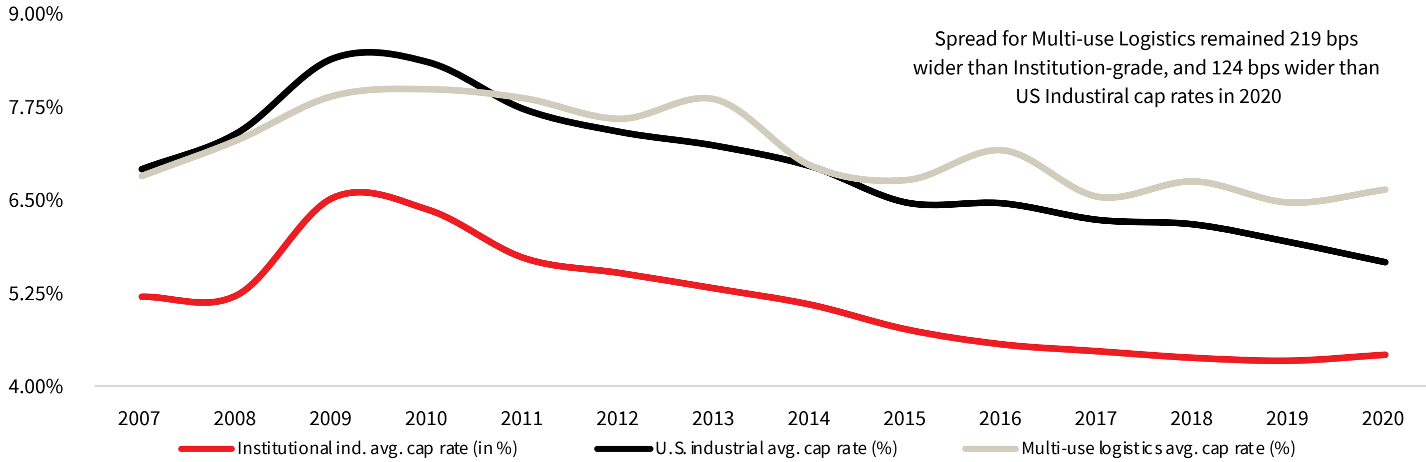
Source: JLL Research, CoStar, Real Capital Analytics, NCREIF

**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*

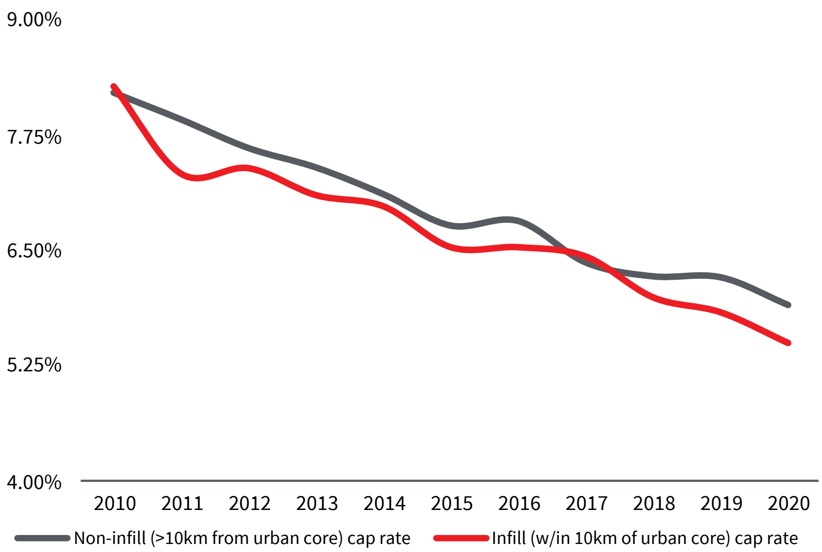
-Existing, Under Construction, or Under Renovation Bldgs. only

***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

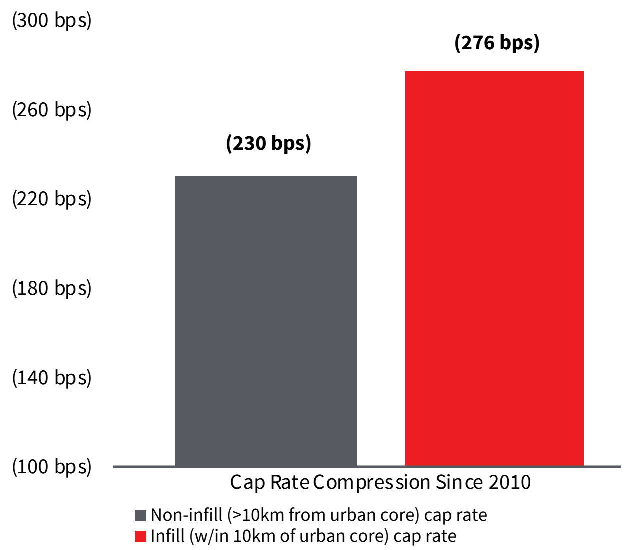
Cap Rate Comparison: Institutional, Overall, & Multi-use Logistics Perspectives



The Infill Premium: A Cap Rate Comparison

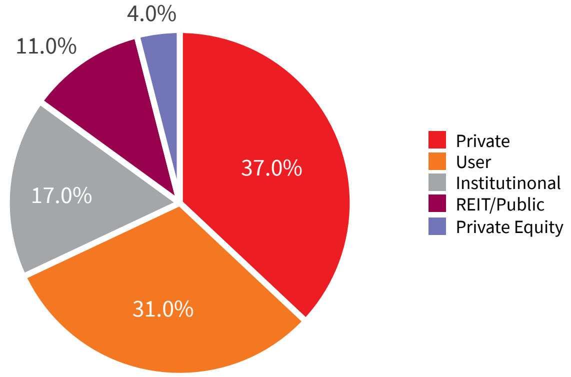


Infill vs. Non-infill Cap Rate Compression

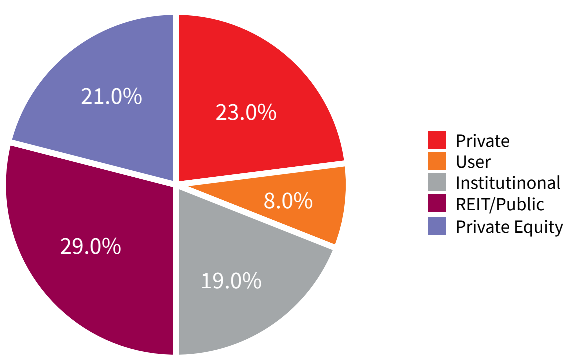


OWNERSHIP ANALYSIS

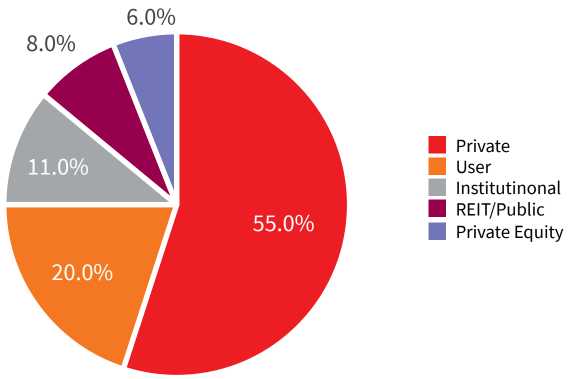
U.S. Industrial Overall Ownership Breakdown



U.S. Industrial +200.0 k.s.f. Bldgs. Ownership Breakdown

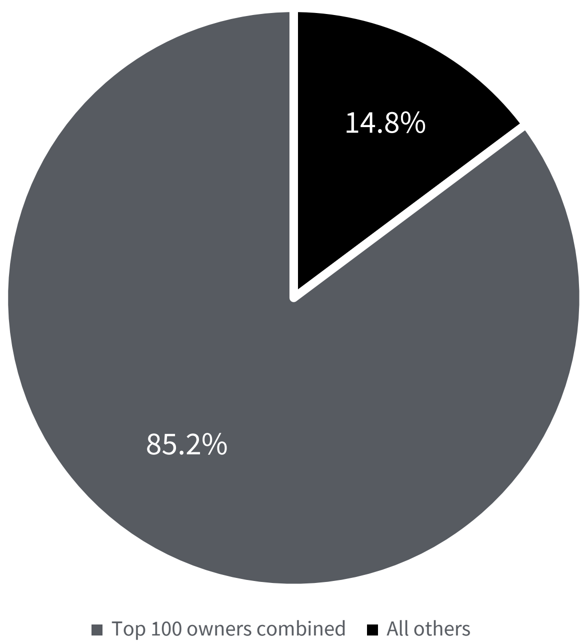


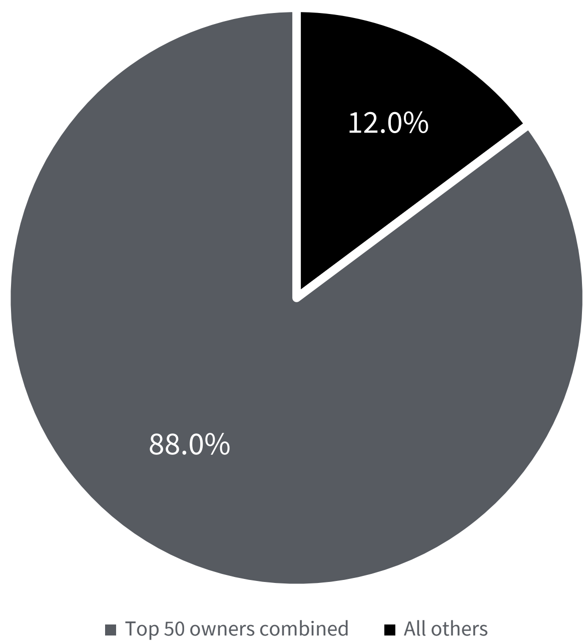
Multi-use logistics Ownership Breakdown



Multi-use logistics assets are largely owned by non-institutional investors, and thus offer a unique opportunity to build footprint from a large and decentralized set of owners. The highly fragmented ownership within this sub-sector of industrial commercial real estate creates difficulties for investors attempting to enter the asset class with large amounts of capital, as aggregating a portfolio of these types of holdings is a very tedious process. Whereas large sums of capital can be deployed into a single +1.0 m.s.f., credit-tenant, single-tenant long-term leased warehouse, it takes much more effort to transact on dozens of multi-use logistics facilities across a market, region, or the country to deploy the same amount of investment. This is reflective when comparing multi-use logistics ownership to Industrial buildings +200.0 k.s.f. Whereas multi-use logistics assets are held by 55.0% private ownership, which is largely localized or regionalized, industrial ownership of +200.0 k.s.f. facilities largely sways with Institutional and REIT/public ownership, nearly inversing multi-use logistics ownership breakdowns. Further evidence of just how decentralized multi-use logistics ownership is can be observed by just how little representation the top 100 and top 50 industrial owners hold within the sub-sector, at 14.8% and 12.0%, respectively.

Multi-use Logistics Ownership (20.0-100.0 k.s.f.)





Source: JLL Research, CoStar, Real Capital Analytics, NCREIF
**Bldg. Min.: 17,500 s.f.; U.S. industrial: Industrial & Flex; Multi-use logistics Bldg. Size: 20,000 - 100,000 s.f.*
-Existing, Under Construction, or Under Renovation Bldgs. only
***Multi-use logistics: Multi-tenant; (Distribution, Warehouse, Shallow/Small Bay, Flex/Industrial Showroom, Research & Development, High-Office Finish Flex)*

INVESTOR CONSIDERATIONS FOR EXPOSURE

The multi-use logistics space has a very limited inventory, which is growing at a substantially smaller rate than any other industrial classification sub-sector. Many multi-use logistics facilities are irreplaceable and are constantly pressured by higher-and-better use underwriting.

Multi-use logistics assets offer high barriers to investment entry due to their decentralized ownership nature, however investors are becoming increasingly attracted to the low capital and operational expenditure required for exposure to the sub-sector.

Tenant diversification that typically has sub three-year leases, and higher rental rates that are growing on both an aggregate and CAGR basis more rapidly than large-box industrial assets.

Shorter leases in high-growth markets allowing investors to drive yield as fierce competition for this type of space will offer limited to no alternatives to already existing inventory going forward. Demand will only get stronger as e-commerce final touch-point facilities begin to expand further within the supply-chain.

Very consistent leasing activity for an increasingly “in demand” set of stagnant inventory has been pushing rents to outperform the sector as a whole.

Multi-use logistics assets are experiencing a pricing premium as investors seek opportunities in a very yield-starved environment, particularly within the industrial sector. Multi-use logistics offer favorable spreads over overall industrial assets and further spread over institution-grade assets.

Multi-use logistics asset ownership is highly localized/regionalized, across every market in the country. Deploying capital at-scale would require a large team to seek, value, offer, and attempt to build a portfolio in more than one market.

Partnerships with proven and trust-worthy owner/operator platforms that have consistently executed on transactions within multi-use logistics will be crucial for investors looking to gain exposure within this sub-sector; however these partnership are becoming increasingly offered at premiums, as consolidation of ownership within the multi-use logistics space is trending upward within high-growth markets.

CONTACTS

TRENT AGNEW
Industrial, JLL Capital Markets
Managing Director
713.852.3431
trent.agnew@am.jll.com

MARK DETMER
Industrial, JLL Capital Markets
Senior Managing Director
213.239.6377
mark.detmer@am.jll.com

SHEHERYAR HAFEEZ
M&A and Corporate Advisory, JLL Capital Markets
Managing Director
212.336.5485
sheheryar.hafeez@am.jll.com

JOHN HUGUENARD
Co-Head Industrial
Senior Managing Director
312.228.3293
john.huguenard@am.jll.com

PETER KRONER
Manager, Investor Research,
Industrial
312.228.27.44
peter.kroner@am.jll.com

JOE B. (JODY) THORNTON, JR.
President, Americas
JLL Capital Markets
469.232.1911
jody.thornton@am.jll.com

ABOUT JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.6 billion, operations in over 80 countries and a global workforce of more than 91,000 as of December 31, 2020. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit HYPERLINK “http://www.jll.com” jll.com.

ABOUT JLL RESEARCH

JLL’s research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today’s commercial real estate dynamics and identify tomorrow’s challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.