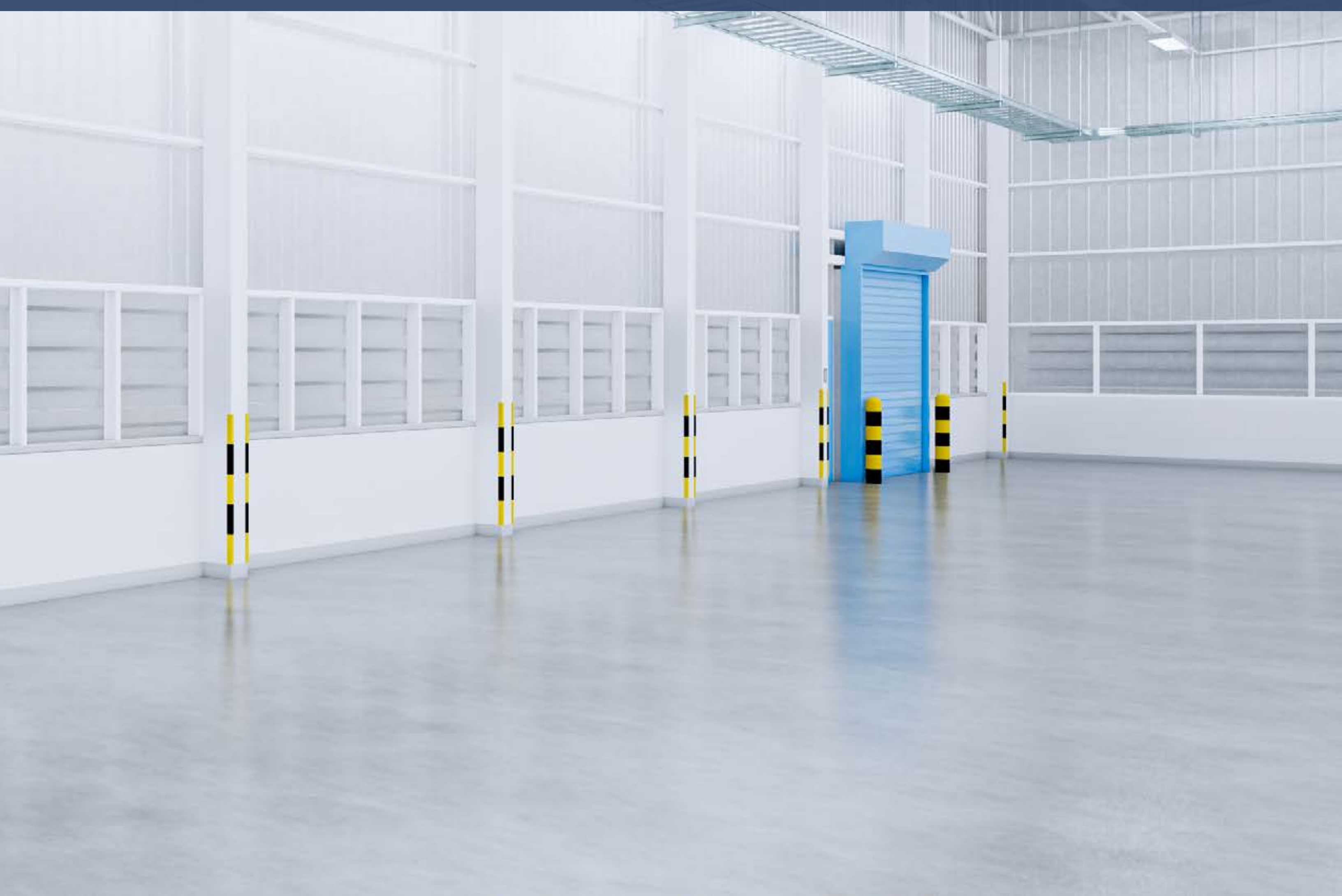
CommercialEdge

National Industrial Report

August 2023



Rate Increases Cool Industrial Off

- The Federal Reserve's fight against inflation has led to multiple interest rate hikes over the last eighteen months. As capital has become more expensive and scarce, industrial construction starts and sales have slowed, but rent growth remains strong and vacancies tight.

- After 586.2 million square feet started in 2021 and 614.5 million last year, only 177.8 million have started so far in 2023. Material and labor cost were already a headache for new development, and demand has been normalizing in recent quarters. Now, the increased cost of construction financing has led many developers to press the pause button on projects.

- Interest rates have slowed sales volume but not yet impacted average price of the properties that sell. Industrial sales volume was $98.5 billion last year and $128.2 billion in 2021, but through the end of July, just $27 billion of sales have occurred this year. The national average sale price has increased slightly, according to CommercialEdge, from $124 per foot in 2022 to $131 in 2023. Some of the slowdown in sales may be due to a bid-ask gap between buyers and sellers. Given strong rent growth and low vacancies, owners are comfortable holding properties and many of the large institutional owners in the sector are not highly leveraged and sensitive to rate increases anyway. Buyers, on the other hand, may be hesitant to pay historically high figures when capital is expensive.

- Leasing activity has slowed this year, due to tenants likewise having to deal with the converging forces of higher rates, economic uncertainty and normalizing e-commerce demand. Additionally, there have been reports of a growing amount of sublease space available as tenants looks for ways to increase cash flow and streamline supply chains. Still, in-place rent growth remains strong—with the national rate increasing 7.5% over the last twelve months—and vacancy rates have remained low, slowly ticking up despite historic levels of new supply coming to market.

- Even within a tight interest rate environment, industrial is performing better than other asset classes and long-term demand drivers remain positive. The reshoring and nearshoring of manufacturing continues to pick up steam and although e-commerce cooled in the quarters coming out of the pandemic, the gains that were made have become entrenched. We anticipate that once inflation cools, the question of soft landing versus recession is settled, and interest rates fall, the appetite for development and sales will return in force, though likely not at levels seen during the pandemic.

Rents and Occupancy: Midwest Fails to Capture Rent Gains

- National in-place rents for industrial space averaged $7.39 per square foot in July, an increase of six cents from June and up 7.5% year-over-year.
- The lowest rent increases can be found in the Midwest. Indianapolis (3.2% increase), Kansas City (3.6%) and Chicago (3.9%) were among the markets with the lowest rent gains over the last twelve months despite low vacancy rates. These markets have few geographic constraints, making for a quick supply response to increased demand which gives tenants leverage in rent negotiations that they wouldn't have in a port market. Since the start of 2021, Chicago's stock has increased 6.6%, Kansas City's 9.8%, and Indianapolis' 14.1%.
- The national average vacancy rate in the month of July was 4.4%, a 10 basis-point decrease from the previous month.
- The average rate for new leases signed in the last 12 months rose to $9.90 per square foot through July, $2.51 more than the average for all leases.
- Coastal markets have seen the largest spreads between in-place rents and the cost of a new lease. In the Inland Empire, a lease signed in the last twelve months averaged $18.34 per foot, $9.37 more than the average of all in-place rents. New leases cost $7.10 more per foot in the Bay Area, $6.91 more in Los Angeles, $5.33 more in Orange County, and $4.38 more in Miami. Midwestern markets Detroit, St. Louis, Twin Cities, Kansas City and Indianapolis saw little or no premiums for new leases. While the Southeast is generally a good region for industrial properties, Memphis ($0.17) had a very small premium for new leases and Charlotte saw none.

Average Rent by Metro

Market	Jul-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.39	7.5%	$9.90	4.4%
Inland Empire	$8.97	17.6%	$18.34	2.9%
Los Angeles	$13.06	12.6%	$19.97	3.8%
Orange County	$13.83	10.2%	$19.16	3.5%
Boston	$9.55	9.5%	$12.76	7.1%
Miami	$10.31	9.0%	$14.69	4.5%
New Jersey	$9.66	8.5%	$13.52	6.3%
Bridgeport	$8.68	8.4%	$12.52	3.3%
Phoenix	$8.30	8.1%	$10.38	2.9%
Seattle	$10.31	8.0%	$13.07	4.2%
Portland	$9.12	7.8%	$11.03	4.3%
Bay Area	$12.49	7.5%	$19.59	3.8%
Atlanta	$5.38	7.4%	$6.51	3.0%
Dallas	$5.57	7.1%	$7.28	3.7%
Nashville	$5.59	6.7%	$8.51	2.0%
Philadelphia	$7.29	6.6%	$9.57	4.2%
Detroit	$6.76	5.5%	$6.62	3.4%
Central Valley	$5.84	4.8%	$8.24	3.6%
Columbus	$4.43	4.7%	$5.59	3.1%
Baltimore	$7.38	4.5%	$9.45	4.2%
Twin Cities	$6.53	4.3%	$6.66	6.2%
Cincinnati	$4.64	4.3%	$5.62	4.6%
Tampa	$7.07	4.0%	$7.96	6.5%
Memphis	$3.67	4.0%	$3.84	5.4%
Chicago	$5.90	3.9%	$7.45	4.2%
Denver	$8.19	3.7%	$8.91	5.8%
Houston	$6.27	3.6%	$7.16	9.5%
Kansas City	$4.57	3.6%	$4.90	3.9%
St. Louis	$4.49	3.5%	$4.41	5.0%
Indianapolis	$4.50	3.2%	$5.05	2.8%
Charlotte	$6.43	2.9%	$6.33	4.8%

Source: CommercialEdge. Data as of July 2023. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

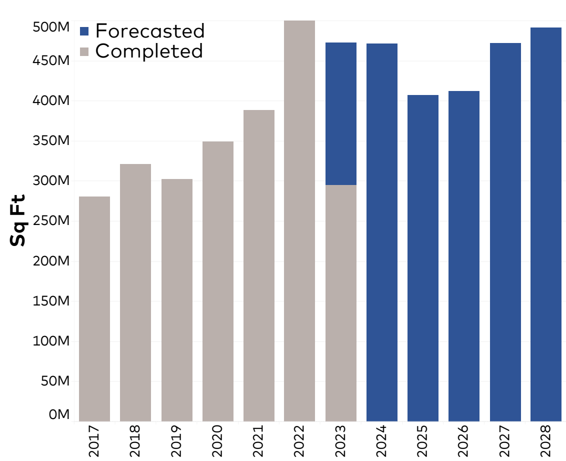
Supply:
Electric Vehicles, Semiconductors Propel Manufacturing

- There is 595.6 million square feet of industrial supply under construction, according to CommercialEdge.

- 94 million square feet of manufacturing projects have broke ground since the start of 2022.

- The majority of manufacturing square footage that has begun construction in the last two years is plants making semiconductors, electric vehicles (EVs) and their batteries. Near Savannah, Hyundai has broke ground on a 17 million square foot facility, hoping to start vehicle production in early 2025. In Austin, Samsung is building six million square feet of space to manufacture semiconductors and Tesla is adding 1.4 million feet to build battery cathodes. Ford began construction late last year in Louisville on a four million square foot EV battery plant. The rush to build EV plants in the U.S is a direct response to incentives found in the Inflation Reduction Act that passed last summer. The IRA provides consumers a $7,500 tax credit for the purchase of an EV, but only if that vehicle is manufactured in the U.S. Likewise, the boom in semiconductor production is driven by incentives and tax credits made available through the CHIPS and Science Act.

National New Supply Forecast



Source: Yardi Matrix. Data as of July 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	595,598,045	3.2%	7.1%
Phoenix	56,690,841	15.9%	36.4%
Dallas	51,237,293	5.7%	11.2%
Inland Empire	31,938,912	5.1%	15.5%
Charlotte	13,820,996	4.5%	11.3%
Denver	11,512,195	4.5%	7.0%
Philadelphia	17,445,189	4.1%	8.7%
Columbus	10,313,062	3.5%	8.4%
Houston	18,804,890	3.2%	5.8%
Indianapolis	10,438,461	3.0%	7.3%
Kansas City	7,817,806	2.9%	16.2%
Bay Area	7,516,166	2.6%	4.4%
Chicago	24,157,192	2.4%	4.8%
Boston	5,520,019	2.3%	3.6%
Tampa	5,942,804	2.2%	6.5%
Central Valley	6,751,796	2.0%	3.7%
Nashville	4,076,370	2.0%	4.5%
Seattle	5,320,727	1.9%	4.7%
Cincinnati	4,820,653	1.7%	2.8%
New Jersey	8,986,186	1.6%	3.8%
Twin Cities	4,849,236	1.5%	3.6%
Detroit	7,785,086	1.4%	3.0%
Atlanta	7,388,174	1.4%	3.3%
Memphis	2,903,128	1.0%	1.3%
Baltimore	1,696,474	0.8%	2.6%
Bridgeport	1,161,593	0.6%	2.0%
Portland	1,097,166	0.6%	2.1%
Los Angeles	3,691,647	0.5%	2.3%
Cleveland–Akron	2,040,755	0.5%	1.9%
Orange County	784,800	0.4%	0.9%

Source: CommercialEdge. Data as of July 2023

Economic Indicators:
Warehouse Employment Continues Slide

- The Warehousing and Storage sector of the labor market lost 5,600 workers in the month and 57,500 over the last year, decreasing 3.0% year-over-year, according to the Bureau of Labor Statistics.

- The sector has lost workers for 12 of the last 13 months, with the one exception being October, which was unchanged from the previous month.

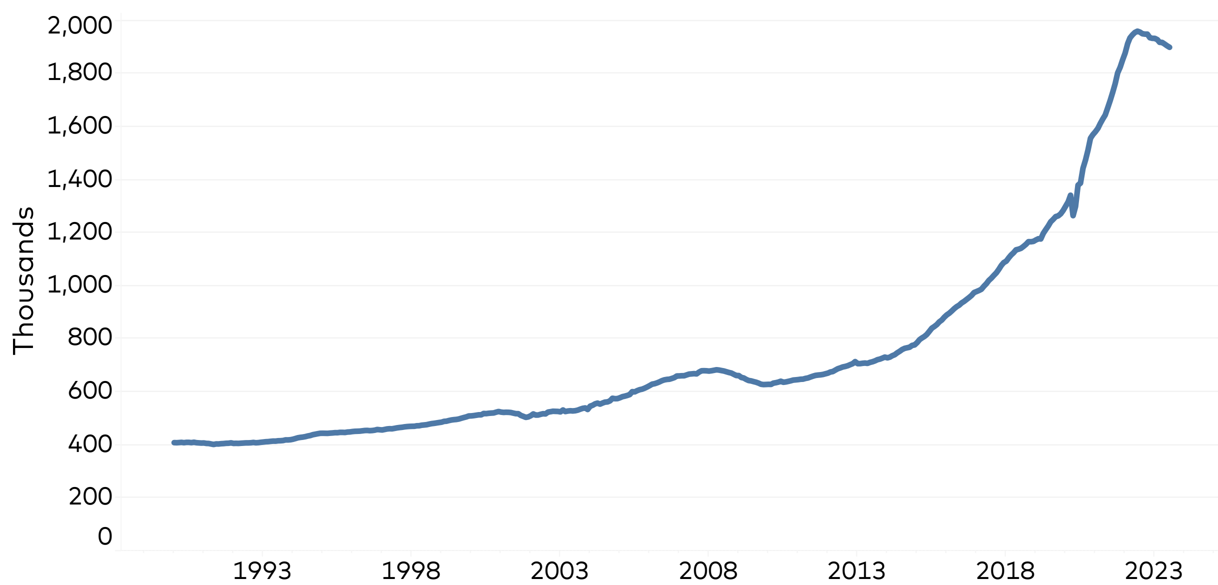
- It is no coincidence that the decline in warehouse and storage employment began around the time Amazon was reported to be pulling back on hiring and subleasing millions of square feet of space last year. The online retail behemoth is by far the biggest employer in the sector and its moves will have an outsized impact. Amazon expanded at a rapid pace during the pandemic and began to pullback in the second quarter of 2022 when consumers returned to in-person shopping and it became clear that e-commerce growth was leveling off.

Economic Indicators

National Employment (July)	ISM Purchasing Manager's Index (July)
156.3M	46.4
0.1% MoM ▲	0.4 MoM ▲
2.2% YoY ▲	-6.3 YoY ▼
Inventories (May)	**Imports** (June)
$2,540.8B	$253.3B
0.0% MoM	-1.2% MoM ▼
3.3% YoY ▲	-9.7% YoY ▼
Core Retail Sales (June)	**Exports** (June)
$505.2B	$165.1B
0.4% MoM ▲	-0.1% MoM ▼
4.0% YoY ▲	-8.9% YoY ▼

Sources: Bureau of Labor Statistics; Institute for Supply Management, U.S. Census Bureau; Bureau of Economic Analysis; Moody's Analytics

Warehousing and Storage Employment



Sources: U.S. Census Bureau (BOC), CommercialEdge

Transactions:
Bay Area Leads Nation in Price Per Foot in 2023

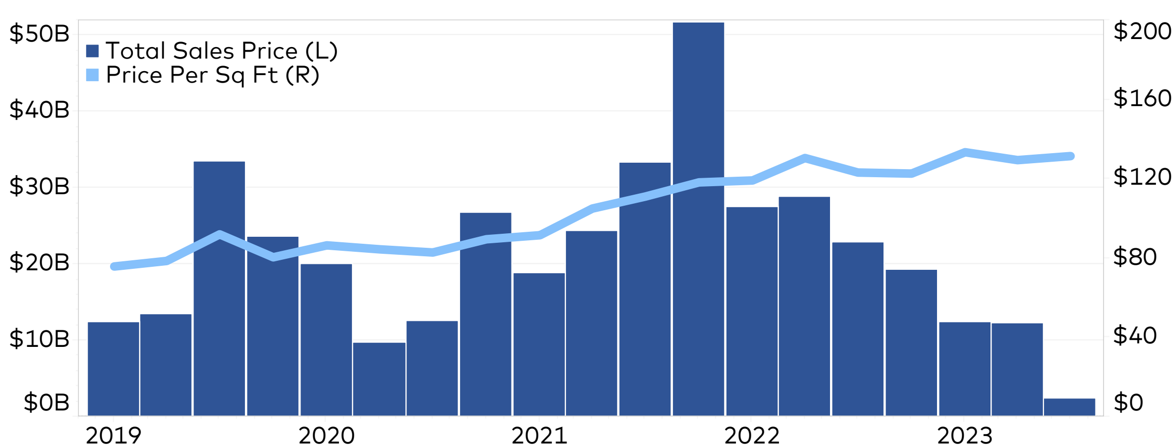
- There have been $26.9 billion in industrial sales through the end of July, with properties trading at an average of $131 per square foot.
- The markets with the highest average sale prices can all be found in California, led by the Bay Area ($344 per square foot), Los Angeles ($335), Orange County ($317) and the Inland Empire ($260).
- The Bay Area has seen some of the highest sales volume this year, with $1.4 billion in sales through the end of July. While Southern California sees much of its industrial activity driven by logistics, the Bay Area has high amount of manufacturers, due to the region's specialization in technology. The largest volume sale in the Bay Area this year is a sale-leaseback—hard drive maker Seagate sold its campus at 47488 Kato Road to Madison Capital for $260 million, an average of $452 per square foot. Distribution and logistics play a large role in the market as well, with the Port of Oakland being one busiest in the country albeit handling only a fraction of the containers the Southern portion of the state does. Amazon purchased the former Owens Corning Plant, which produced fiberglass and roofing materials, in Santa Clara for $237.8 million ($476 per foot) in March.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 07/31)
National	$131	$26,992
Inland Empire	$260	$2,812
Los Angeles	$335	$1,810
Bay Area	$344	$1,434
Houston	$130	$1,389
Phoenix	$170	$1,301
New Jersey	$221	$1,150
Dallas	$114	$1,139
Chicago	$87	$983
Orange County	$317	$567
Twin Cities	$94	$551
Philadelphia	$114	$535
Cincinnati	$106	$508
Atlanta	$111	$491
Boston	$141	$469
Charlotte	$90	$430
Detroit	$72	$380
Tampa	$114	$375
Seattle	$196	$346
Columbus	$84	$336
Bridgeport	$96	$335
Baltimore	$104	$335
Indianapolis	$84	$283
Nashville	$116	$159
Memphis	$61	$149
Denver	$127	$142

Source: CommercialEdge. Data as of July 2023

Quarterly Transactions



Source: CommercialEdge. Data as of July 2023

Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Market Insight, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Vacancy—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations. Also provided by Yardi Market Insight.

Stage of the supply pipeline:

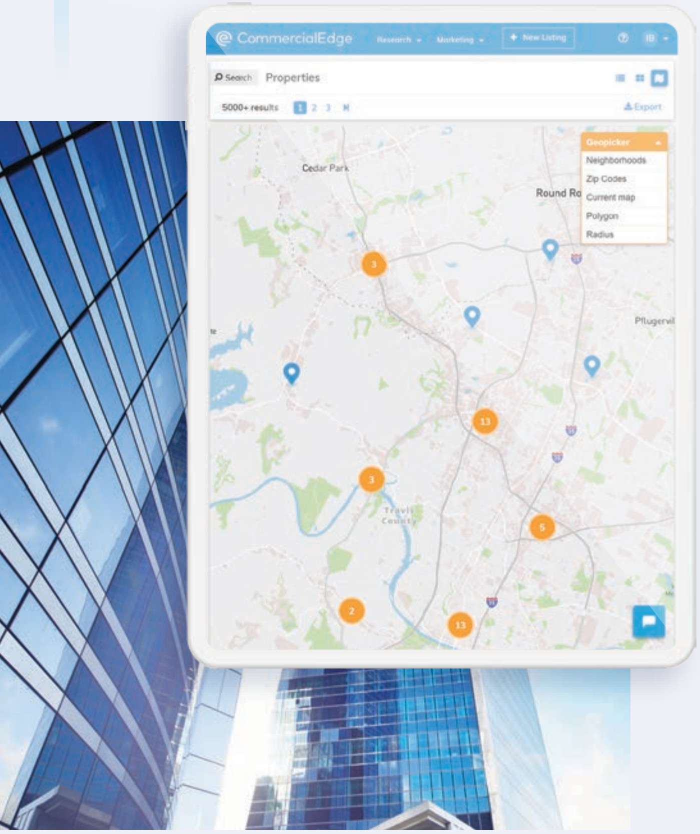
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the industrial segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

The data presented in this report is provided by CommercialEdge.
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