CommercialEdge

National Industrial Report

January 2021

Commercial Real Estate's Darling Asset Class

- Welcome to the first CommercialEdge Industrial Monthly, our new report on the industrial real estate sector. This report will cover data on rents, occupancy, supply and transactions, as well as the sector's most relevant economic indicators.

- Industrial rents averaged $6.38 per square foot in December, a 4.8% increase over the last 12 months, with all of the top 20 markets covered by CommercialEdge experiencing at least some measure of growth in average rent over that time period. Increased demand for industrial space during the pandemic is causing tenants looking for new space to pay a premium, with the average rental rate for new leases signed in the last 12 months at $7.26 per square foot. The average vacancy rate was 4.8%.

- Rent growth across the board bucks the trend of other commercial real estate asset classes. Both multifamily and office have a substantial share of markets with falling rents and increasing vacancies, something not seen among the top 20 industrial markets covered by CommercialEdge.

- A record 228.4 million square feet of industrial space was delivered in 2020, the most new space delivered this century, according to CommercialEdge. That high-water mark is a further indicator of the health of industrial real estate. These projects were well underway before COVID-19 induced a demand surge for industrial space, signifying that the industry was already on the upswing before last year put things into overdrive.

- Economic indicators confirm that the exuberance for industrial space is not irrational. E-commerce, which had been growing at roughly the same pace for years, has exploded during the pandemic and currently accounts for nearly one-fifth of core retail sales. Inventories dipped nearly 6% on a year-over-year basis, and have yet to see a significant bounceback. Inventories recovering to pre-pandemic levels would further increase aggregate demand for industrial space.

- Industrial finished 2020 with three-quarters of 2019's total sales volume, a smaller drop than other commercial real estate asset classes. Meanwhile, the average price per square foot of an industrial deal increased 7.1% in 2020 to $92.89.

Rents and Occupancy: Southern California Shines; Midwest Lags

- The average rent for industrial space increased 4.8% over the last 12 months to $6.38 per square foot in December.
- Rent increased the most on the West Coast, with Boston, New Jersey and South Carolina also performing well. The Southern California markets of Los Angeles, the Inland Empire and Orange County saw their rents increase at least 5% in 2020. These three markets also had the lowest vacancy rates in the country, with the Inland Empire the tightest at 2.8%. As e-commerce boomed, the Port of Los Angeles and Port of Long Beach saw record levels of volume, fueling demand across the region.
- Rent increases were lowest in Midwestern markets that do not function as logistics hubs, with tenants' price per square foot increasing only slightly in Kansas City (1.0%), St. Louis (1.0%) and Detroit (1.7%).
- Average rents are provided by Yardi Matrix Expert, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Matrix Expert data affords us the opportunity to compare average lease rates to leases signed within the last 12 months. This provides another useful metric to evaluate the trends in different industrial markets. The Midwestern markets that struggled to achieve rent growth also saw no premium being paid for new leases, with the average rental rates for new leases in Detroit, Kansas City and St. Louis being lower than the overall average rents. Tenants looking for new space paid a premium in most markets, and new leases in the Inland Empire, Los Angeles, Seattle and New Jersey all cost at least a dollar more per square foot than the market as a whole on average.

Average Rent by Metro

Market	Dec-20 Average Rent	12-Month Change	Avg Rate Signed Last 12-Month	Vacancy Rate
National	$6.38	4.8%	$7.34	6.2%
Inland Empire	$5.99	6.9%	$7.64	2.8%
Los Angeles	$9.57	6.8%	$11.38	4.5%
Boston	$7.46	6.7%	$8.15	11.0%
Seattle	$8.48	6.4%	$10.60	6.7%
Bay Area	$10.26	5.8%	$10.82	5.5%
South Carolina	$5.24	5.5%	$5.78	8.2%
Denver	$7.12	5.3%	$7.69	7.4%
Orange County	$10.97	5.0%	$11.91	3.3%
New Jersey	$7.34	4.7%	$10.44	3.6%
Phoenix	$6.73	4.6%	$6.77	6.0%
Dallas–Fort Worth	$4.49	4.3%	$5.08	4.3%
Philadelphia	$5.99	4.3%	$6.68	7.0%
Nashville	$4.84	3.8%	$5.59	5.6%
Atlanta	$4.33	3.5%	$4.68	5.6%
Chicago	$5.09	3.4%	$6.23	7.8%
Miami	$8.47	3.4%	$9.35	6.9%
Twin Cities	$5.58	2.7%	$5.63	7.7%
Houston	$5.59	2.4%	$6.24	10.1%
Detroit	$5.46	1.7%	$5.11	10.0%
St. Louis	$3.88	1.0%	$3.72	7.7%
Kansas City	$4.18	1.0%	$3.73	4.7%

Source: CommercialEdge. Data as of December 2020. Rent data provided by Yardi Matrix Expert

Supply:
New Deliveries Surge Through Pandemic

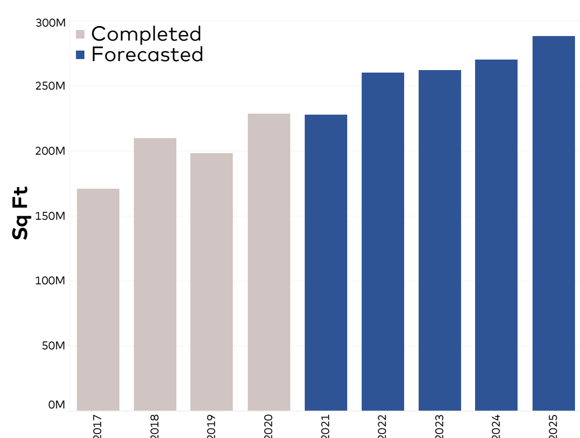
- Nationally, 205.8 million square feet of industrial space, representing 2.7% of stock, is currently under construction. An additional 189.5 million square feet is in the planning stages.

- The Inland Empire, with strong rent growth and the lowest vacancy rates in the nation, is one market where new stock is sorely needed. But 14.7 million square feet of space is currently under construction, and an additional 8.0 million is in the planning stages.

- 228.4 million square feet of space was delivered in 2020, a high-water mark for this century. Despite the economic downturn and stay-at-home orders that halted projects in some places during the second quarter, 2020 saw 10% more new stock than any year in the past decade.

- CommercialEdge forecasts that an additional 227.7 million square feet of industrial space will come online in 2021, and the early part of this decade will continue to see elevated levels of supply. Shifting consumer behavior will drive demand for all types of facilities, from cold storage and last-mile delivery to large logistics centers. It will take a few years before new supply can properly meet this demand.

National New Supply Forecast



Source: CommercialEdge

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	205,755,084	2.7%	5.2%
Phoenix	7,167,988	4.4%	13.8%
Denver	8,334,036	6.9%	10.2%
Philadelphia	6,971,746	3.9%	8.3%
Seattle	3,148,802	2.1%	8.1%
Dallas–Fort Worth	20,244,060	4.1%	7.9%
Kansas City	6,634,383	4.7%	7.8%
Charlotte	3,199,450	2.6%	7.6%
Nashville	2,384,325	2.2%	6.8%
Central Valley	5,117,582	3.5%	6.7%
Tampa	1,926,425	2.0%	5.4%
Portland	1,508,971	1.7%	5.2%
Inland Empire	14,681,491	3.3%	5.1%
New Jersey	5,933,886	1.7%	4.0%
Chicago	11,507,519	2.2%	4.0%
Baltimore	3,193,777	2.4%	3.8%
Atlanta	8,559,983	2.6%	3.8%
Houston	4,805,646	1.8%	3.8%
Detroit	3,440,762	2.2%	3.6%
Boston	1,839,313	1.7%	3.4%
Bay Area	2,948,069	1.5%	3.1%
Bridgeport	1,604,652	1.0%	2.5%
Los Angeles	1,810,508	0.4%	1.6%
Minneapolis	1,186,967	0.8%	1.5%
Orange County	300,253	0.2%	1.3%
Cleveland	1,162,750	0.9%	1.0%

Source: CommercialEdge. Data as of December 2020

Economic Indicators:
E-commerce Accelerates

- The pandemic changed nearly every aspect of life in 2020, and retail is certainly no exception. E-commerce sales had grown at a consistent pace for the past decade, experiencing a compound annual growth rate of 14.8% per year from 2010 through 2019, and e-commerce's share of core retail sales increased by 8.7 percentage points during that time. The pandemic pushed the trend ahead by two to three years, with both consumers and retailers reorienting expectations and modus operandi. Although e-commerce sales and share of core retail dipped in the third quarter of 2020, the trend is still far ahead of where it would have been without a pandemic.

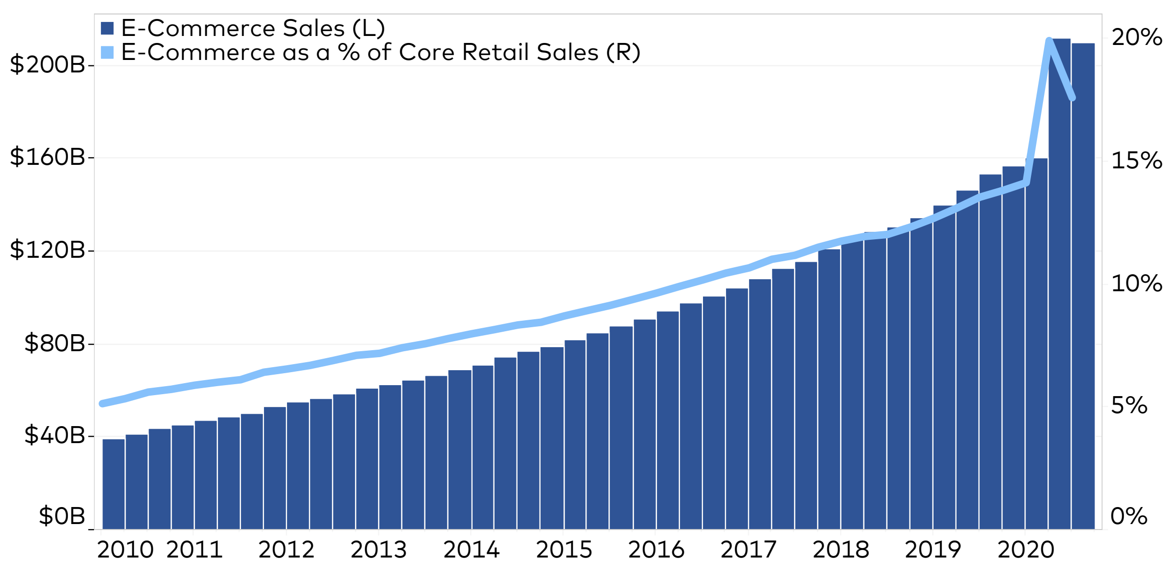
- While the growing share of e-commerce has significantly increased demand in the short run, a weakening global economy has pushed exports downward, which could cause some softness in port markets. Further, the new administration is inheriting a trade war with China; approaches to de-escalation could have a huge impact on exporters.

Economic Indicators

National Employment	ISM Purchasing Manager's Index
(December)	(December)
142.6M	60.7
-0.1% MoM ▼	3.2 MoM ▲
-6.2% YoY ▼	12.9 YoY ▲
Inventories	**Imports**
(October)	(November)
$1,948.7B	$214.1B
0.7% MoM ▲	3.0% MoM ▲
-4.0% YoY ▼	5.8% YoY ▲
Core Retail Sales	**Exports**
(November)	(November)
$398.6B	$127.7B
-0.8% MoM ▼	1.0% MoM ▲
5.9% YoY ▲	-6.7% YoY ▼

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

E-Commerce Sales



Sources: U.S. Census Bureau, CommercialEdge

Transactions: Demand Fuels Activity

- Although industrial sales activity was down from 2019, 2020's sales figures are impressive in context. Growing demand for industrial spaces last year caused sales activity to decline at a lower rate than other commercial real estate classes. Whereas office and multifamily were not able to capture even two-thirds of 2019 sales volume, industrial finished 2020 with more than three quarters of 2019's total volume. This relatively small decrease in sales volume was not due to unwilling buyers, either. Instead, sales were slowed by logistical hurdles (getting appraisers to properties, conducting in-person meetings, etc.) and skyrocketing demand leading to owners holding on to their properties for the time being. Liquidity is still available for industrial deals, but product appears to be limited.

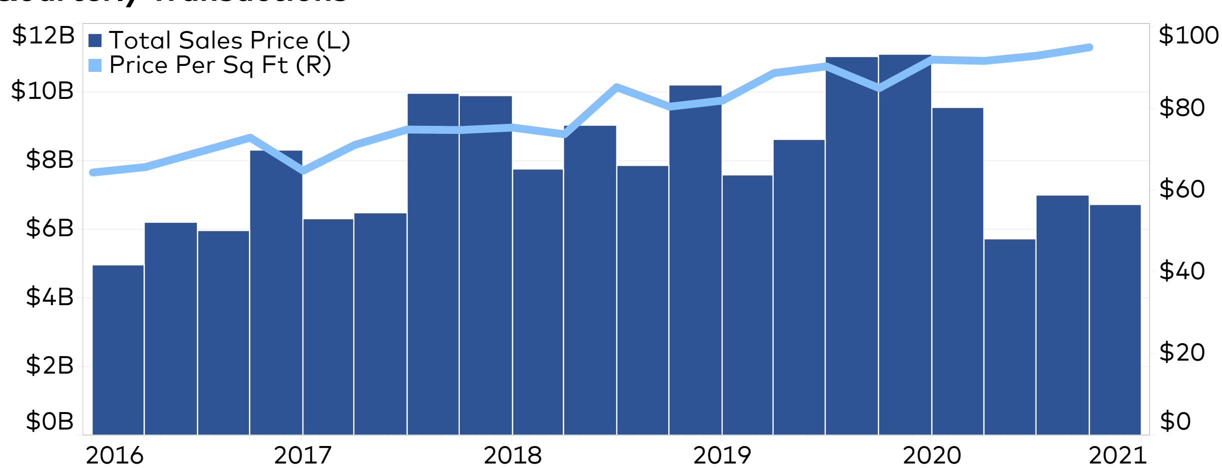
- While total volume was down in 2020, increased demand also meant that buyers were paying more per square foot for industrial properties than ever before, with an increase of 7.8% in 2020 to reach an average of $93 per square foot nationwide. Granted, the price per square foot has been on an upward trend since the financial crisis, nearly doubling since 2011. Nevertheless, to keep the trend growing despite the worst economic downturn and health crisis in our lifetime is noteworthy.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$93	$28,981
Los Angeles	$191	$2,244
Chicago	$66	$1,958
Bay Area	$184	$1,492
Phoenix	$115	$1,465
Inland Empire	$122	$1,443
Boston	$152	$1,405
New Jersey	$133	$1,405
Atlanta	$78	$1,301
Denver	$132	$1,109
Dallas–Fort Worth	$74	$1,002
Charlotte	$71	$841
Baltimore	$89	$822
Minneapolis	$77	$796
Philadelphia	$74	$792
Orange County	$221	$630
Tampa	$82	$440
Columbus	$53	$397
Seattle	$163	$364
Central Valley	$73	$331
Cleveland–Akron	$38	$329
Memphis	$36	$293
Indianapolis	$47	$274
Nashville	$64	$265
Houston	$77	$188
Portland	$76	$186

Source: CommercialEdge. Data as of December 2020

Quarterly Transactions



Source: CommercialEdge. Data as of December 2020

Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- *Average Rents*—Provided by Yardi Matrix Expert, 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.

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 do not always include portfolio transactions or those with unpublished dollar values.

Supply statistics exclude owner-occupied properties.

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