



Yardi® Matrix

National Industrial Report

February 2021



Demand for Industrial Poised for Continued Growth

- Industrial rents averaged \$6.44 per square foot in January, a 5.1% increase over the last 12 months, according to Yardi Matrix Expert. Tenants signing leases last year paid a hefty premium, with the average rental rate for new leases signed in the last 12 months at \$7.50 per square foot. The average vacancy rate was 6.0%.
- Demand for industrial real estate exploded in 2020, primarily driven by e-commerce's pandemic-induced expansion. We expect that demand will continue to increase even if e-commerce does not match its blistering 2020 growth rate. E-commerce has a continued role to play, and last year likely signaled a structural shift in consumer preferences more than temporary changes in behavior. Retail as we knew it has changed, and in its place warehousing and distribution have increased in importance.
- Even if e-commerce's growth cools, other sectors of the economy will fuel demand. A rebounding global economy will drive the pace of global trade, boosting both port markets and logistics hubs. Inventories fell substantially in the second quarter of last year, and their ongoing replenishment will further drive demand for space. After consumers cleared the shelves of many items in the early days of the pandemic, retailers are seeking the ability to more quickly replenish stock, which will lead to further inventory growth.
- Continued demand for industrial space will sustain rent growth and drive vacancy rates lower. Yardi Matrix forecasts record levels of new supply this year, but increasing demand for industrial space should support elevated absorption.
- Demand growth will also lead to spikes in both sales volume and the price per square foot for traded assets. Large institutions are looking to increase their exposure to industrial real estate or get into the sector for the first time. With the cost of capital at an all-time low and many commercial investors spurning office for the time being, we expect that industrial prices will continue to be bid up for the foreseeable future. The fourth quarter of 2020 now has the highest sales volume of any quarter since Yardi Matrix began collecting industrial data, with \$11.9 billion of sales completed, at an average price per square foot of \$100, an 18.2% increase year-over-year.



Rents and Occupancy: Port Markets See Largest Gains

- The average rental rate for industrial space was \$6.44 per square foot in January, according to Yardi Matrix Expert.
- As demand has surged, tenants that signed new leases in the last 12 months are paying a premium of \$1.06 per square foot.
- Large port markets saw pops in activity during the second half of 2020 as imports and exports began rebounding from pandemic lows. These gains are reflected in rent growth for industrial space. The Inland Empire (8.1%), South Carolina (7.7%) and Los Angeles (7.2%) continued to have the strongest rent growth in the nation. The Port of Los Angeles and Port of Long Beach saw record activity in 2020, and the Port of Charleston is on its way to record activity in the fiscal year that ends in July.
- These coastal markets also saw new leases signed at a substantial premium, with new leases costing \$2.07 more per square foot than the average in Los Angeles, \$1.48 more in the Inland Empire and \$0.58 more in South Carolina. We expect port markets to continue commanding premiums as global trade returns to pre-COVID levels and port activity grows.
- While major port markets saw strong rent premiums for new leases, the largest spread between existing and new leases was in older markets including New Jersey, Boston, Philadelphia and Chicago. The industrial stock in these markets tends to be older, smaller and with fewer modern amenities like increased clear heights and multiple dock doors. Therefore, newer stock in these markets often fetches higher rents than the competition.
- The upsurge in demand for industrial space has not found its way to every market, however. Midwestern metros that are not shipping or logistics hubs have seen the lowest rent growth rates. St. Louis, Kansas City and the Twin Cities all have had growth under 3.0% over the last year, with no premium for new leases.

Average Rent by Metro

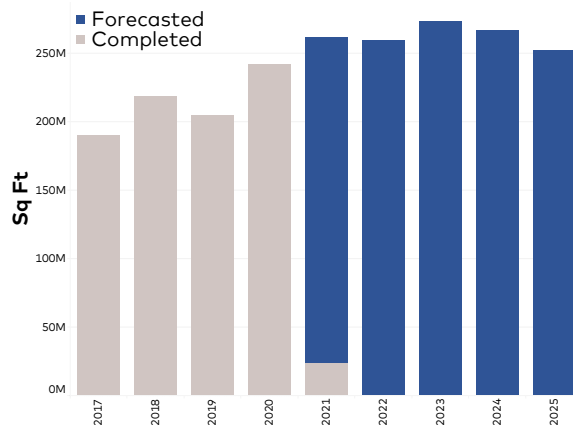
Market	Jan-21 Average Rent	12-Month Change	Avg Rate Signed Last 12-Month	Vacancy Rate
National	\$6.44	5.1%	\$7.50	6.0%
Inland Empire	\$6.04	8.1%	\$7.52	2.5%
South Carolina	\$5.56	7.7%	\$6.14	7.6%
Los Angeles	\$9.65	7.2%	\$11.72	4.4%
Bay Area	\$10.54	6.6%	\$11.35	7.1%
Seattle	\$8.48	6.5%	\$10.33	6.4%
Boston	\$7.52	5.9%	\$10.43	11.4%
Nashville	\$4.83	5.3%	\$5.53	5.7%
New Jersey	\$7.34	5.2%	\$10.31	3.9%
Philadelphia	\$6.01	5.1%	\$7.54	6.7%
Detroit	\$5.33	5.0%	\$4.80	7.8%
Denver	\$7.29	4.6%	\$7.52	7.2%
Phoenix	\$6.91	4.4%	\$6.83	5.7%
Orange County	\$10.88	4.2%	\$12.07	3.8%
Miami	\$8.47	4.1%	\$9.23	6.9%
Dallas-Fort Worth	\$4.50	3.8%	\$5.04	5.0%
Chicago	\$5.20	3.5%	\$6.66	7.2%
Atlanta	\$4.38	3.0%	\$4.99	5.1%
Twin Cities	\$5.60	2.7%	\$5.36	7.3%
Kansas City	\$4.16	1.5%	\$3.83	4.8%
St. Louis	\$3.91	1.3%	\$3.34	7.2%
Houston	\$5.70	1.2%	\$6.33	10.2%

Source: Yardi Matrix. Data as of January 2021. Rent data provided by Yardi Matrix Expert

Supply: Shipping Hubs Rush to Add Space

- So far this year, 27.8 million square feet of new industrial space have been delivered, with 337.8 million square feet under construction nationally and another 361.3 million square feet in the planning stages.
- Yardi Matrix forecasts a total of 261.6 million square feet will be delivered this year, and new-supply levels will be historically high throughout the first half of this decade.
- Midwestern shipping hubs have two of the largest new-supply pipelines in the country. Memphis has 12.2 million square feet under construction, representing 5.1% of stock. Indianapolis has 10.3 million square feet under construction, with an additional 9.4 million square feet in the planning stages. These markets are FedEx's two biggest air shipping hubs in the world, and they are ideal locations for logistics companies, due to affordable and available land as well as access to the FedEx air hubs, highways and rail systems.
- On the opposite end of the spectrum, new supply is not materializing in coastal markets with high land costs like Orange County, Los Angeles and Boston. Demand growth could lead to increased rents, lower vacancies and high sale prices for properties already in place.

National New Supply Forecast



Source: Yardi Matrix

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	337,773,493	2.6%	5.4%
Phoenix	16,726,553	6.6%	14.7%
Denver	12,233,922	6.4%	9.6%
Seattle	6,792,615	3.0%	8.2%
Dallas	22,752,013	3.2%	7.7%
Charlotte	5,014,612	2.2%	7.6%
Philadelphia	12,477,231	4.0%	7.5%
Indianapolis	10,281,237	3.8%	7.3%
Kansas City	7,403,713	3.4%	7.2%
Nashville	7,473,710	4.4%	6.8%
Memphis	12,162,638	5.1%	6.7%
Columbus	7,152,242	3.0%	6.6%
Central Valley	4,593,042	1.7%	6.0%
Inland Empire	17,388,939	3.0%	5.3%
Tampa	4,323,901	2.5%	5.3%
Portland	3,728,460	2.5%	4.6%
Chicago	22,024,829	2.6%	4.2%
Houston	8,301,360	2.0%	4.2%
Detroit	7,274,626	1.7%	3.9%
Atlanta	9,460,101	2.1%	3.7%
New Jersey	9,151,325	2.0%	3.6%
Bay Area	3,178,932	1.2%	3.3%
Cincinnati	6,598,272	2.8%	3.3%
Boston	1,606,813	0.9%	3.1%
Baltimore	2,557,613	1.4%	3.0%
Los Angeles	11,728,510	1.7%	2.8%
Bridgeport	2,427,652	1.5%	2.5%
Twin Cities	1,109,501	0.4%	1.4%
Orange County	609,331	0.3%	1.3%
Cleveland	1,322,750	0.5%	0.9%

Source: Yardi Matrix. Data as of January 2021

Economic Indicators: Inventories and Trade Will Fuel Demand Growth in 2021

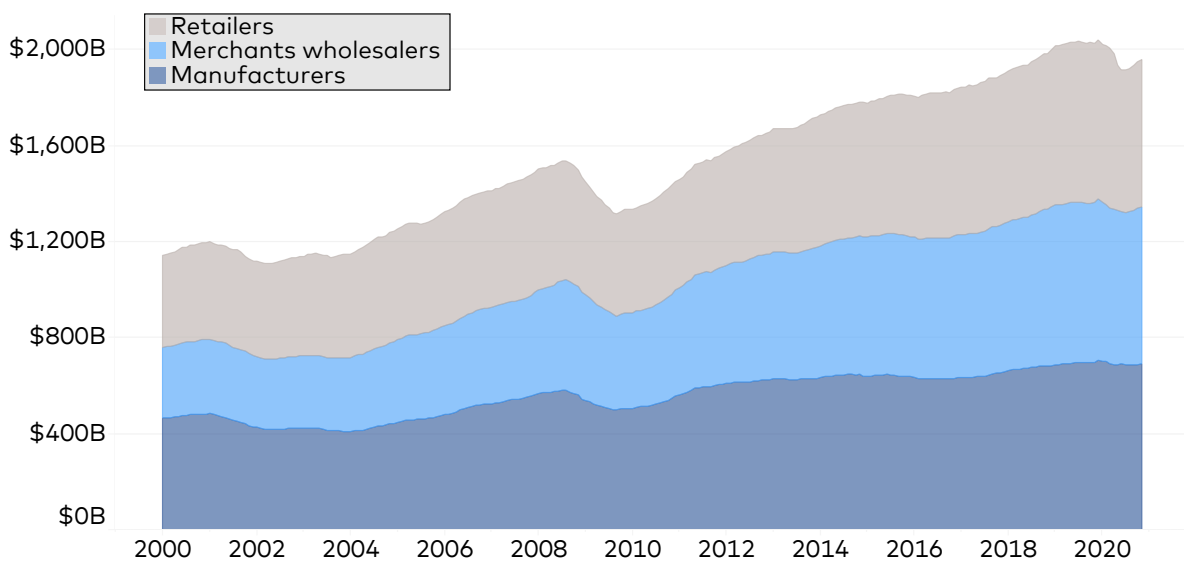
- As the coronavirus reshaped life as we knew it in 2020, inventories fell sharply. Consumers emptied shelves in the early stages of the pandemic, and falling consumer demand caused by the health crisis meant that many retailers were reluctant or unable to replenish inventories in the second and third quarters. Total inventories fell by more than 6% over the summer, with retailer inventories falling by more than 11%. An economic recovery in 2021 would cause many of these inventory drawdowns to be replenished, fueling further demand for industrial space.
- Trade figures have rebounded in recent months, a welcome development for port markets. Import volume increased 4.8% year-over-year in December, and although exports were down 3.0% over that same time frame, this follows a drop of more than 33% during the second quarter. As the global economy continues its recovery, trade activity will boost demand for industrial space, especially in port markets.

Economic Indicators

National Employment (January) 142.6M 0.0% MoM ▲ -6.3% YoY ▼	ISM Purchasing Manager's Index (January) 58.7 -1.8 MoM ▼ 7.8 YoY ▲
Inventories (November) \$1,959.9B 0.5% MoM ▲ -3.2% YoY ▼	Imports (December) \$217.7B 1.5% MoM ▲ 4.8% YoY ▲
Core Retail Sales (December) \$387.9B -2.1% MoM ▼ 2.6% YoY ▲	Exports (December) \$133.5B 4.7% MoM ▲ -3.0% YoY ▼

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

Inventories



Sources: U.S. Census Bureau, Yardi Matrix

Transactions: 2020 Ends With Flood of Activity

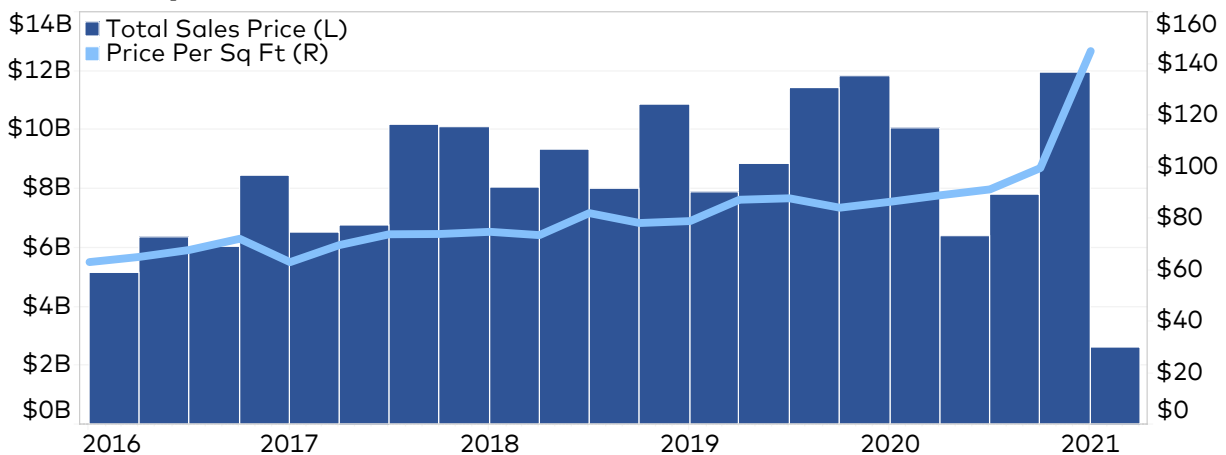
- Yardi Matrix logged \$2.2 billion of industrial transactions in January.
- The average price per square foot shot up to \$145 per square foot nationally in January. While the price per square foot may drop due to a shift in assets sold, we expect noticeable price appreciation throughout the year.
- The flurry of activity to close 2020 has resulted in fourth-quarter volume being the highest since Yardi Matrix began collecting industrial data, with \$11.9 billion of sales. We generally experience a lag in collecting transaction data, and the final fourth-quarter volume may still increase in the coming weeks. The record activity to close out last year indicates the attractiveness of the sector, especially for investors who are entering the asset class for the first time.
- This year may shatter previous records for industrial sales, given the increase in demand for industrial assets, low interest rates and availability of capital. Large institutions are looking to acquire industrial assets, and there is a tremendous amount of competition for deals, which will continue to drive up prices.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 1/31)
National	\$145	\$2,173
New Jersey	\$274	\$327
Philadelphia	\$85	\$133
Bay Area	\$142	\$122
Seattle	\$233	\$100
Inland Empire	\$166	\$93
Phoenix	\$160	\$75
Baltimore	\$131	\$72
Dallas	\$92	\$71
Columbus	\$53	\$69
Kansas City	\$68	\$44
Boston	\$125	\$40
Los Angeles	\$218	\$32
Tampa	\$84	\$25
Chicago	\$59	\$17
Memphis	\$34	\$9
Denver	\$89	\$6
Central Valley	\$29	\$2
Cincinnati	\$22	\$1

Source: Yardi Matrix. Data as of January 2021

Quarterly Transactions



Source: Yardi Matrix. Data as of January 2021

Definitions

Yardi Matrix 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 industrial space in that market. Owner-occupied buildings are not included in vacancy calculations.

Stage of the supply pipeline:

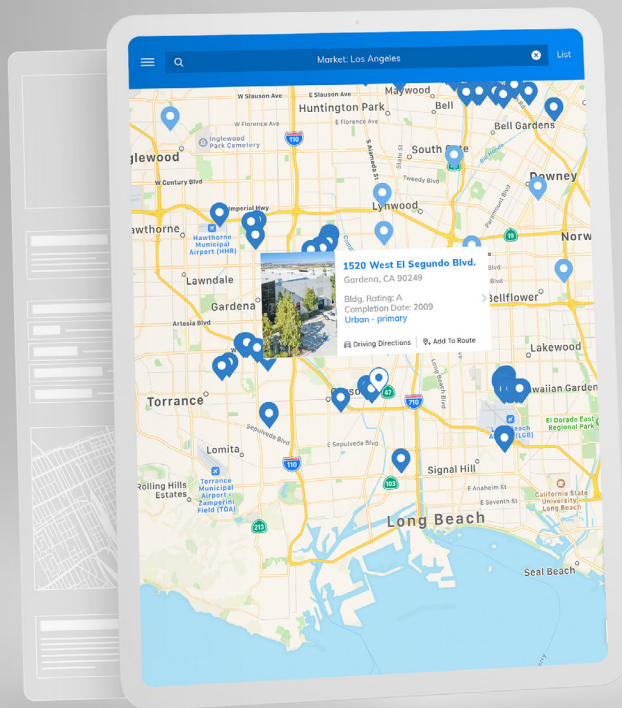
- **Planned**—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- **Under Construction**—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.



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