Yardi® Matrix

National Industrial Report

June 2021

Sale-Leasebacks Become Commonplace

- Sale-leasebacks, a transaction in which a company sells the commercial real estate it owns while simultaneously signing a long-term lease with the new owner and continuing to occupy the property, have become increasingly popular in the industrial sector during the pandemic.

- Current market conditions have made sale-leasebacks appealing for both buyers and sellers. Companies in industries that were hit hard by the pandemic have been able to gain quick access to capital by selling their real estate assets as they have struggled to stay afloat. Even if a firm is not struggling, the increased cash flow from a sale-leaseback can be reinvested in the business, used to pay down debt or increase working capital. For investors, sale-leasebacks provide another entry point into the red-hot industrial sector while eliminating the need to search for a tenant. Record low interest rates mean that even a low cap rate on a sale-leaseback can be more appealing to investors than a low-yield bond.

- Yardi Matrix has identified 245 sale-leasebacks in 2020 and 150 so far this year, a total of $4.8 billion over 17 months. Sale-leasebacks accounted for 7% of total sales volume last year and 9% in the early months of 2021. The average price of a sale-leaseback since the start of 2020 is $116 per square foot, higher than industrial properties as a whole over that time, which was $93 per foot.

- Kohl's was responsible for the two largest industrial sale-leasebacks in 2020, selling two facilities in the Inland Empire for a combined $195 million to Brookfield Properties. This made sense for the company at the time, as apparel store revenues were hit hard during the pandemic, since demand for new clothing fell during quarantine. The sale-leaseback of the two facilities allowed the company access to additional capital while restructuring some of its operations during the pandemic. Recently, a group of activist investors has been leading a push for Kohl's to undertake additional sale-leasebacks to fund share buybacks and increase earnings per share. For now, the company is resistant to these investors, citing a desire not to increase rent levels on its balance sheet and concern that undertaking additional sale-leasebacks could hurt its investment-grade status.

- Other notable sale-leasebacks include KPR's $47.0 million purchase of two cold storage facilities in New Hampshire, Mercer Foods' $40.1 million sale in California's Central Valley, and BluePrint Studios' $39.0 million sale in San Francisco, where the company signed a five-year leaseback with long-term plans to relocate.

Rents and Occupancy:
New Leases Cost More in Coastal Markets

- The national average rent for industrial space was $6.59 per square foot in May, a 4.4% increase over the last 12 months. The average vacancy rate was 5.7%.
- Rent growth remains highest in Southern California markets including the Inland Empire (7.1% over the last 12 months) and Los Angeles (6.7%). Southern California also has some of the lowest vacancy rates in the country, led by the Inland Empire's minuscule 2.0% vacancy during the month of May. Record activity at the Port of Los Angeles is driving demand in the region, and developers have not been able to keep up.
- Rent growth is the lowest in the Midwestern markets of St. Louis (-1.8%), Detroit (-0.5%) and Kansas City (0.7%). Remarkably, the two Missouri markets have vacancy rates below 5%, but that has not translated to rent growth, since it is easy for developers to add new space in these markets to meet the increased level of demand.
- In most markets, tenants are paying a substantial premium when signing a new lease. Nationally, leases signed over the last 12 months cost 13% more ($0.84) per square foot than the average rate.
- The highest premium for new leases is being paid in the Northeast. New Jersey leases signed over the last year cost 37% ($2.75 per foot) more than average, and in Boston new leases cost 33% more ($2.56). Nashville is the one inland market with a large spread between existing and new leases, with leases signed in the last 12 months costing 33% more ($1.51). The rest of the markets with the highest spreads are along the West Coast, with the Inland Empire at 24% ($1.47), Seattle at 20% ($1.74) and Los Angeles at 18% ($1.76).

Average Rent by Metro

Market	May-21 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$6.59	4.4%	$7.43	5.7%
Inland Empire	$6.32	7.1%	$7.79	2.0%
Los Angeles	$9.97	6.7%	$11.73	3.9%
Seattle	$8.57	6.6%	$10.31	7.0%
New Jersey	$7.52	6.4%	$10.27	3.2%
Nashville	$4.95	6.2%	$6.46	3.1%
Bay Area	$10.63	5.8%	$11.14	7.6%
Orange County	$11.16	5.2%	$12.26	3.7%
Denver	$7.34	4.6%	$8.49	8.6%
Philadelphia	$6.12	4.5%	$6.64	4.6%
Atlanta	$4.38	4.4%	$5.08	4.4%
Miami	$8.54	4.4%	$9.50	6.0%
Dallas	$4.64	3.7%	$5.02	4.7%
Chicago	$5.26	2.9%	$6.12	6.4%
Boston	$7.86	2.9%	$10.42	9.8%
South Carolina	$5.69	2.7%	$5.97	8.4%
Twin Cities	$5.73	2.7%	$4.67	7.8%
Phoenix	$6.91	2.5%	$6.93	6.3%
Houston	$5.75	1.8%	$6.43	12.0%
Kansas City	$4.34	0.7%	$3.90	4.5%
Detroit	$5.70	-0.5%	$4.18	7.5%
St. Louis	$3.93	-1.8%	$3.40	4.9%

Source: Yardi Matrix. Data as of May 2021. Rent data provided by Yardi Matrix Insight. National rent and occupancy data is an average of the top 20 markets.

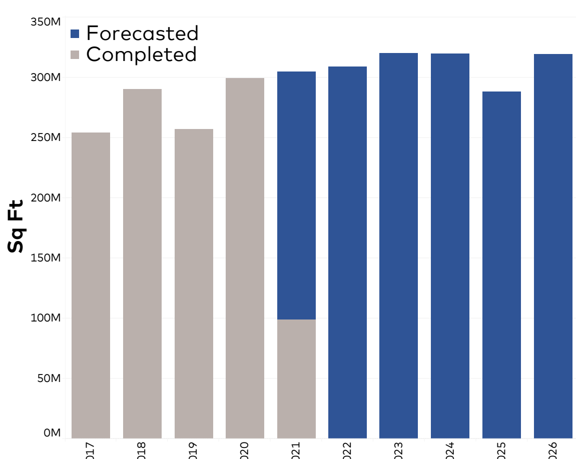
Supply:
Large Facilities and Expansions Drive Nashville's Pipeline

- Nationally, 98.9 million square feet of new industrial space was completed through the first five months of the year.

- There are 456.0 million square feet of new supply in the planning stages, as developers are eager to meet the demand for new industrial space. It remains to be seen to what extent skyrocketing material prices will slow the pipeline, but if shortages afflict builders into next year, it could cause a wave of project delays.

- Nashville currently has one of the highest levels of under-construction square footage as a percentage of stock in the country at 4.7% (8.1 million). Two-thirds of all square footage underway is located in Wilson County in the eastern part of the metro. The majority of that development is one facility, a 3.6 million-square-foot Amazon building. Wilson County is in high demand, and multiple industrial parks in the area are adding new buildings. Beckwith Farms has a 601,000-square-foot addition underway, with two buildings completed so far this year. Cedar Farms is adding a 600,000-square-foot building, and Speedway Industrial Park is adding 401,000. Beyond Wilson County, the second-largest project is a 982,000-square-foot Facebook data center in Sumner County.

National New Supply Forecast



Source: Yardi Matrix. Data as of May 2021

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	410,305,782	2.8%	5.9%
Phoenix	17,155,052	6.5%	20.1%
Kansas City	9,618,485	4.4%	11.3%
Dallas	28,448,535	3.5%	9.2%
Philadelphia	12,180,721	3.8%	8.7%
Charlotte	7,991,980	3.6%	8.5%
Seattle	7,188,482	2.7%	7.8%
Memphis	13,405,266	5.6%	7.8%
Indianapolis	9,670,950	3.6%	7.1%
Inland Empire	17,800,069	3.1%	6.9%
Denver	7,855,690	3.4%	6.9%
Nashville	8,064,020	4.7%	6.2%
New Jersey	10,361,887	2.2%	5.8%
Columbus	6,334,880	2.6%	5.6%
Boston	1,891,117	1.0%	5.5%
Houston	14,889,836	2.9%	5.4%
Central Valley	8,011,474	2.5%	5.3%
Baltimore	2,858,565	1.6%	5.1%
Atlanta	12,813,299	2.5%	4.8%
Bay Area	5,187,007	1.9%	4.3%
Chicago	20,542,010	2.4%	4.2%
Portland	3,809,058	2.1%	4.2%
Tampa	3,959,039	1.9%	3.9%
Cincinnati	7,871,416	3.4%	3.8%
Detroit	9,980,972	2.3%	3.6%
Los Angeles	7,557,423	1.1%	3.0%
Bridgeport	2,140,124	1.4%	2.4%
Twin Cities	1,140,528	0.4%	2.0%
Orange County	574,074	0.3%	1.5%
Cleveland	2,686,060	0.7%	1.3%

Source: Yardi Matrix. Data as of May 2021

Economic Indicators: Inventories on Upswing Despite Some Goods Shortages

- Economic indicators continue to be positive for industrial real estate, with some April numbers showing previously unseen year-over-year jumps. A year on from the sharp downturn caused by COVID-19 shutdowns, many indicators have fully recovered to their pre-pandemic trajectory.

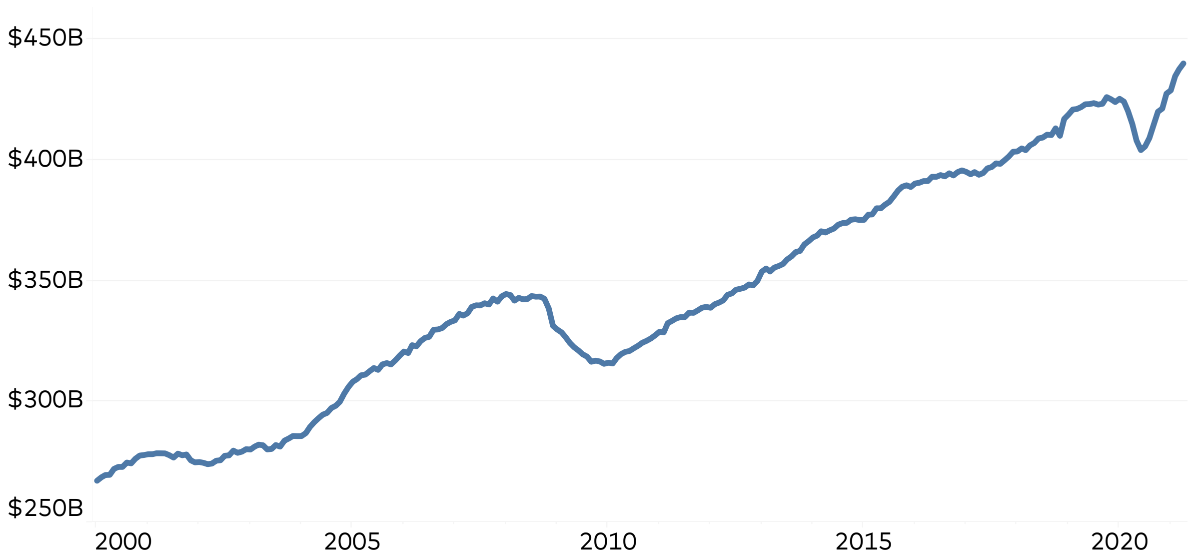
- On the surface, the headline number for retail inventories in April looks concerning for the industrial sector, falling 1.8% over the previous month. However, this decrease was almost entirely due to shortages in the automotive industry, where stocks for motor vehicles and parts fell 7.5% in April after falling 6.2% in March. While not completely detached from industrial real estate, motor vehicles is the one sector of retail inventories where the majority of product sits outside. Every other retail sector tracked by the Census Bureau saw a slight increase in April. Clothing inventories increased by 2.3%, food and beverage by 0.2%, building and garden by 0.8%, general merchandise stores by 0.6%, furniture and electronic stores by 0.7%, and department stores by 0.4%.

Economic Indicators

National Employment (May) 144.9M 0.4% MoM ▲ 8.9% YoY ▲	**ISM Purchasing Manager's Index** (May) 61.2 0.5 MoM ▲ 18.1 YoY ▲
Inventories (April) $2,024.0B -0.2% MoM ▼ 1.3% YoY ▲	**Imports** (April) $232.0B -1.9% MoM ▼ 36.7% YoY ▲
Core Retail Sales (April) $441.5B 0.1% MoM ▲ 39.9% YoY ▲	**Exports** (April) $145.3B 1.1% MoM ▲ 52.9% YoY ▲

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

Retail Inventories Excluding Motor Vehicle and Parts Dealers



Sources: U.S. Census Bureau, Yardi Matrix

Transactions:
Seattle Close to Surpassing Last Year's Volume

- Nationally, there has been $18.1 billion in industrial sales through the first five months of this year. Due to a lag in collecting all sales data and the fact that the fourth quarter of the year usually sees a flurry of activity, 2021 should match or exceed the record $44.4 billion in sales seen during 2020.

- The average sale price continues to move upward, as well. The national average sale price has increased 16.3% from 2020 to an average of $103 per square foot this year.

- Investors' demand for industrial space is particularly fervent in port markets where rent growth is high and new supply is geographically constrained. One such market is Seattle, which is already close to matching its total 2020 sales volume of $731.9 million. Average sales prices in the market have increased 6.9% since last year to $180 per square foot.

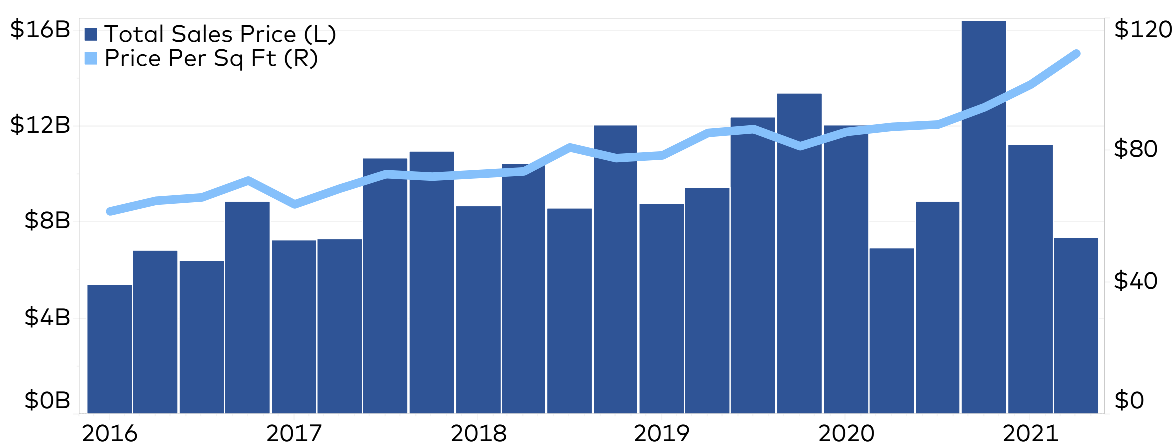
- Indicative of the demand for industrial assets in Seattle, Duke Realty recently paid $208.3 million for The Cubes at DuPont Industrial Park, a 1.6 million-square-foot campus located at the former Intel Campus at DuPont Corporate Park. The industrial park is ideally located next to I-5, providing access to all the major population centers of the Pacific Northwest.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 5/31)
National	$103	$18,107
Los Angeles	$194	$1,267
Inland Empire	$133	$1,147
Chicago	$70	$1,075
Atlanta	$77	$959
New Jersey	$233	$949
Seattle	$180	$728
Denver	$166	$723
Bay Area	$179	$694
Phoenix	$141	$619
Boston	$146	$578
Baltimore	$112	$458
Philadelphia	$74	$455
Tampa	$94	$425
Twin Cities	$95	$385
Columbus	$52	$279
Central Valley	$72	$277
Dallas	$82	$239
Cleveland	$41	$212
Nashville	$84	$202
Orange County	$271	$200
Houston	$65	$121
Memphis	$47	$120
Bridgeport	$72	$119
Indianapolis	$47	$113
Cincinnati	$70	$108
Kansas City	$62	$78
Charlotte	$83	$76
Portland	$108	$50
Detroit	$79	$34

Source: Yardi Matrix. Data as of May 2021

Quarterly Transactions



Source: Yardi Matrix. Data as of May 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 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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