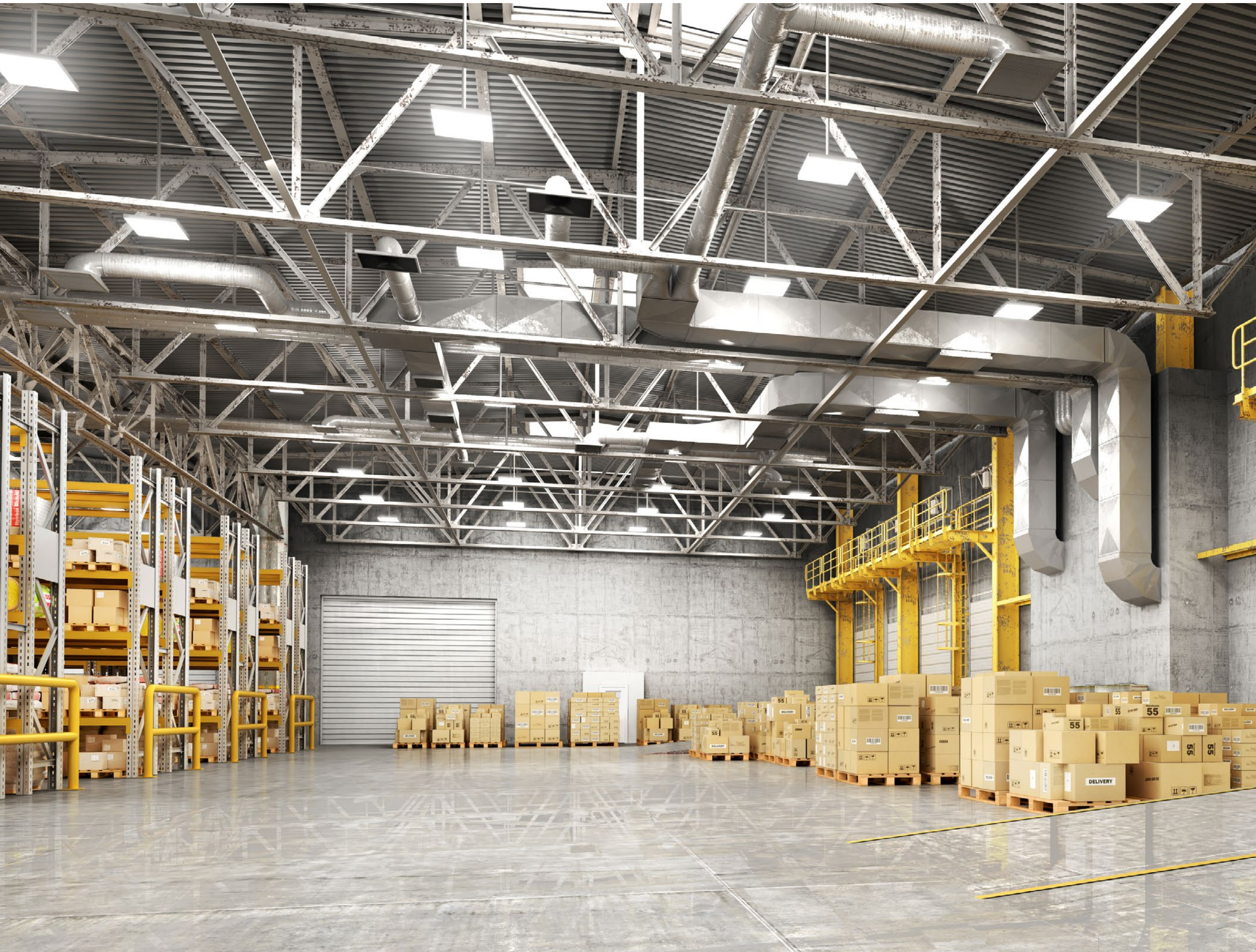
# National Industrial Report

September 2021



# Port Activity Boosts Industrial Markets

- Industrial properties in port markets are in high demand right now because ports are busier than ever, with the number of 20-foot equivalent units (TEUs) handled by the busiest ports in the country continuing to break records. In May of 2021, the Port of Los Angeles became the first in the Western Hemisphere to process more than a million TEUs in a single month. The Port of New York and New Jersey processed nearly 5.2 million TEUs year-to-date through July, 29.7% more than the same point in 2020, which was itself a record-setting calendar year. Things have gotten so busy in the ports of Los Angeles and Long Beach that they recently announced extended gate hours to handle congestion.

- Rent growth has consistently been highest in port markets this year. In August, rent growth was led by the Inland Empire (with a 6.6% increase over the last 12 months), Los Angeles (6.5%), New Jersey (6.2%) and Seattle (5.7%). Tenants signing new leases in port markets have paid the highest premiums compared to the market average. New Jersey's new leases cost an average of $2.38 more per square foot than in-place leases, the highest spread in the nation. Seattle ($1.85 per foot), Los Angeles ($1.77) and Boston ($1.73) tenants also paid substantial premiums for new leases signed over the last 12 months. Vacancy rates are generally lowest in port markets, with the tightest in the Inland Empire (1.2%). Vacancies are also tight in Los Angeles (3.2%), Orange County (3.5%) and New Jersey (3.6%).

- Due to lack of land available for industrial development, new supply in port markets is not able to keep pace with demand in Los Angeles (7.8 million square feet under construction, 1.2% of stock), Orange County (2.3 million, 1.2%) and New Jersey (10.1 million, 1.9%). Even the Inland Empire—which is not technically a port market but handles many of the goods that are received through the ports of Los Angeles and Long Beach—is not able to deliver new supply quickly enough. Despite 147.5 million square feet of new supply delivering between 2014 and 2020, there is scarcely any vacant space in the market.

- The dearth of land for new supply combined with rapidly increasing demand leads to port markets commanding top sale prices. The highest average sale prices this year are in Orange County ($302 per square foot), Los Angeles ($203), the Bay Area ($202), Seattle ($200), New Jersey ($198) and the Inland Empire ($181). Investors are eager to purchase assets in port markets, with these six alone accounting for more than a quarter of all sales volume in 2021. It is easy to see why from some of the deals made during the past year: CenterPoint bought a former K-Mart distribution center in the Inland Empire for $215 million in March 2020 and sold it to Costco for $345 million this May.

# Rents and Occupancy: Rent Growth Weak in Midwest

- Industrial rents averaged $6.35 per foot in August, an increase of 3.8% over the last 12 months. The average rate of a new lease was $7.07, indicating that tenants looking for space are paying a substantial premium right now.
- The national vacancy rate was 5.9% in August, an increase of 10 basis points from July. The lowest vacancy rates generally are in port markets, but some landlocked logistics hubs also are seeing low vacancies. Indianapolis' rate sits at 2.7%, with Columbus at 2.5%.
- Outside of port markets, rent growth is highest in the Southeast, where Nashville (5.4% rent growth over the last 12 months), Atlanta (4.5%) and Memphis (3.7%) have seen solid increases.
- Rent growth has been lowest in Midwestern markets. Detroit (-1.8% growth over the previous 12 months), St. Louis (0.5%) and Kansas City (0.7%) have seen the lowest gains. The highest growth in the Midwest was in Cincinnati, with a 3.0% increase in rents over the last 12 months.
- Even in-demand markets in the region are seeing relatively flat rents. Indianapolis, a logistics hub due to its central location and infrastructure, is home to many logistics companies as well as the second-largest FedEx facility in the country. The market sports one of the lowest vacancy rates nationwide but rent growth of only 2.3%. New supply keeps rents from growing at levels seen in port markets. Currently, 17.0 million square feet of new supply is under construction, representing 6.2% of stock.
- A similar dynamic has played out in Columbus, where new supply (10.4 million square feet under construction, 4.2% of stock) has put a ceiling on rent growth (1.0% over the last 12 months) despite minuscule vacancy rates (2.5%) and otherwise solid fundamentals.

## Average Rent by Metro

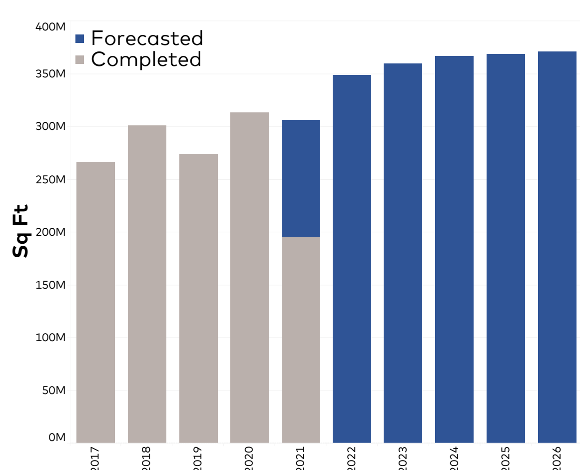
| Market | Aug-21 Average Rent | 12-Month Change | Avg Rate Signed in Last 12 Months | Vacancy Rate |
|---|---|---|---|---|
| National | $6.35 | 3.8% | $7.07 | 5.9% |
| Inland Empire | $6.40 | 6.6% | $7.89 | 1.2% |
| Los Angeles | $10.13 | 6.5% | $11.90 | 3.2% |
| New Jersey | $7.82 | 6.2% | $10.20 | 3.6% |
| Seattle | $8.97 | 5.7% | $10.82 | 6.8% |
| Nashville | $5.14 | 5.4% | $6.57 | 2.4% |
| Bay Area | $10.85 | 5.2% | $11.60 | 7.0% |
| Atlanta | $4.51 | 4.5% | $5.53 | 5.4% |
| Central Valley | $5.16 | 4.5% | $6.60 | 5.1% |
| Orange County | $11.42 | 4.1% | $13.03 | 3.5% |
| Miami | $8.69 | 4.0% | $9.47 | 5.6% |
| Dallas–Fort Worth | $4.72 | 3.9% | $5.30 | 4.9% |
| Memphis | $3.34 | 3.7% | $3.42 | 6.1% |
| Tampa | $6.29 | 3.4% | $6.69 | 8.5% |
| Phoenix | $6.96 | 3.2% | $6.81 | 5.7% |
| Philadelphia | $6.37 | 3.2% | $7.31 | 4.7% |
| Denver | $7.61 | 3.1% | $8.22 | 9.7% |
| Cincinnati | $4.10 | 3.0% | $4.09 | 7.9% |
| Baltimore | $6.69 | 2.9% | $7.33 | 7.0% |
| Houston | $5.90 | 2.8% | $6.29 | 12.2% |
| Charlotte | $6.14 | 2.5% | $5.69 | 8.2% |
| Indianapolis | $3.95 | 2.3% | $4.51 | 2.7% |
| Chicago | $5.29 | 2.3% | $5.66 | 6.7% |
| Twin Cities | $5.83 | 2.1% | $5.78 | 7.3% |
| Portland | $8.03 | 2.0% | $7.77 | 5.1% |
| Boston | $7.85 | 1.5% | $9.58 | 10.2% |
| Columbus | $3.98 | 1.0% | $4.09 | 2.5% |
| Kansas City | $4.28 | 0.7% | $4.33 | 4.7% |
| St. Louis | $4.19 | 0.5% | $3.67 | 8.1% |
| Detroit | $6.03 | -1.8% | $5.07 | 9.1% |

*Source: Yardi Matrix. Data as of August 2021. Rent data provided by Yardi Matrix Expert. National rent and occupancy data is a weighted average of the top 30 markets.*

# Supply:
# Logistics Parks Drive Dallas-Fort Worth Pipeline

- There are 500.0 million square feet of new industrial stock currently under construction nationwide, representing 3.2% of stock. An additional 509.3 million square feet are in the planning stages.
- These are historically high numbers for industrial real estate, but even elevated levels of new stock may not meet demand. With port markets strapped for land for additional development, new supply is being built in the inland markets like Phoenix and Dallas-Fort Worth.
- No market has more total new space under construction than Dallas-Fort Worth, where 34.1 million square feet are currently being built. Many of the largest projects under construction there are logistics parks, either new development or expansion of existing sites. Seven of the 10 largest properties currently underway are located within logistics parks. In High Point 67, a planned 2 million-square-foot park in Cedar Hill, the 1.3 million-square-foot first phase is currently underway. In Wilmer, Logistics Property Co. is adding a 1 million-square-foot building to the existing Southport Logistics Park and Panattoni Development Co. is adding a 1 million-square-foot building for JLA Home.

## National New Supply Forecast




*Source: Yardi Matrix. Data as of August 2021*

## Supply Pipeline (by metro)

| Market | Under Construction | Under Construction % Stock | UC Plus Planned % Stock |
|---|---|---|---|
| National | 500,018,511 | 3.2% | 6.4% |
| Phoenix | 25,578,954 | 9.6% | 24.3% |
| Dallas–Ft Worth | 34,100,098 | 4.2% | 10.8% |
| Kansas City | 9,268,182 | 4.1% | 10.5% |
| Charlotte | 11,073,700 | 4.2% | 10.1% |
| Indianapolis | 16,988,700 | 6.2% | 9.1% |
| Philadelphia | 13,712,536 | 3.5% | 8.8% |
| Inland Empire | 22,046,073 | 3.8% | 8.0% |
| Seattle | 9,581,058 | 3.6% | 7.1% |
| Denver | 8,895,714 | 3.7% | 7.0% |
| Columbus | 10,371,252 | 4.2% | 6.8% |
| Houston | 19,160,784 | 3.6% | 6.6% |
| Memphis | 10,903,879 | 4.4% | 6.1% |
| Chicago | 26,707,391 | 2.8% | 5.8% |
| Nashville | 4,717,631 | 2.7% | 5.3% |
| Tampa | 6,099,652 | 3.0% | 5.2% |
| New Jersey | 10,144,778 | 1.9% | 4.9% |
| Twin Cities | 4,730,276 | 1.8% | 4.9% |
| Central Valley | 7,837,152 | 2.5% | 4.7% |
| Boston | 6,664,992 | 2.9% | 4.4% |
| Bridgeport | 4,856,010 | 3.1% | 4.4% |
| Atlanta | 11,672,606 | 2.3% | 4.0% |
| Bay Area | 5,516,466 | 2.0% | 4.0% |
| Portland | 4,669,938 | 2.6% | 4.0% |
| Baltimore | 4,282,309 | 2.1% | 3.8% |
| Detroit | 9,084,094 | 1.7% | 3.2% |
| Los Angeles | 7,798,558 | 1.2% | 2.9% |
| Cincinnati | 4,940,307 | 2.1% | 2.6% |
| Orange County | 2,276,970 | 1.2% | 1.7% |
| Cleveland | 3,859,398 | 1.0% | 1.6% |

*Source: Yardi Matrix. Data as of August 2021*

# Economic Indicators:
# Labor Shortages a Concern for Distribution

- Material shortages have received much of the attention around the supply-chain bottlenecks that arose as consumer demand rebounded this year. However, shortages in the labor market also play a role.

- Even though e-commerce sales have boomed and logistics properties are in high demand from both investors and tenants, employment in the warehousing and storage sector of the labor market decreased earlier this year. According to the Bureau of Labor Statistics (BLS), seasonally adjusted employment in the sector fell by 25,000 workers between November 2020 and April of this year, but 60,000 jobs have since been added.

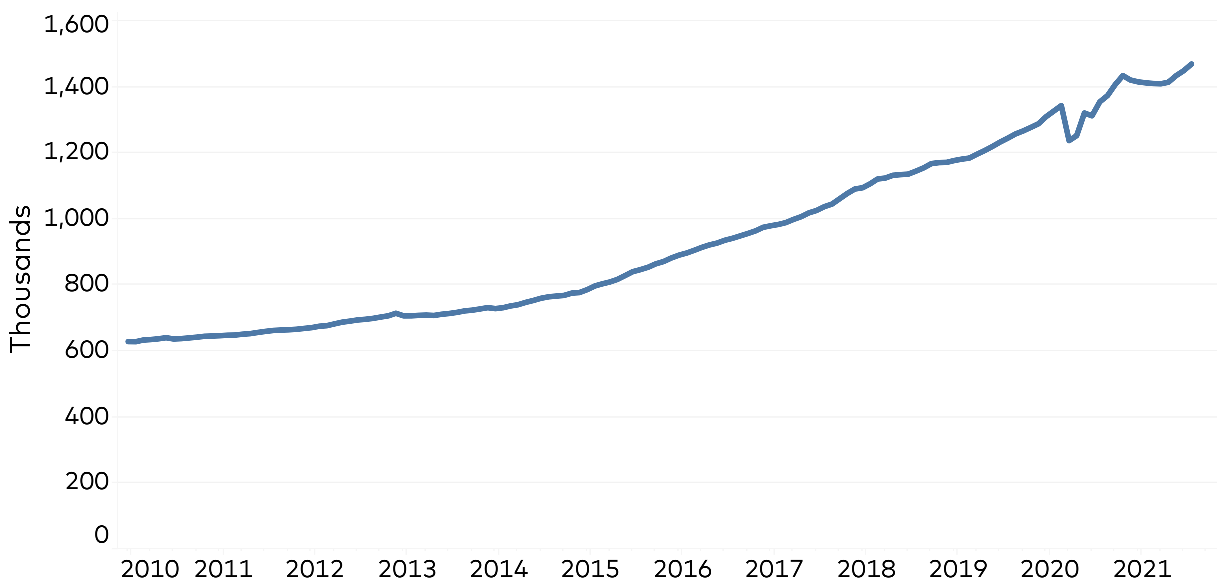
- In response, wages have been growing in the warehousing and storage sector. Preliminary BLS data for July puts national average hourly earnings in the sector at $23.08, an all-time high and 8.7% higher year-over-year. With the holiday season around the corner, wages may have to increase at a similar pace over the coming months to lure enough workers into the sector.

## Economic Indicators

| | |
|---|---|
| **National Employment**<br>(August)<br>147.2M<br>0.2% MoM ▲<br>4.3% YoY ▲ | **ISM Purchasing Manager's Index**<br>(August)<br>59.9<br>0.4 MoM ▲<br>4.3 YoY ▲ |
| **Inventories**<br>(July)<br>$2,069.5B<br>0.5% MoM ▲<br>7.2% YoY ▲ | **Imports**<br>(July)<br>$236.3B<br>-1.2% MoM ▼<br>20.2% YoY ▲ |
| **Core Retail Sales**<br>(July)<br>$439.1B<br>-1.4% MoM ▼<br>13.1% YoY ▲ | **Exports**<br>(July)<br>$148.6B<br>1.8% MoM ▲<br>28.2% 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, Yardi Matrix*

# Transactions:
# Price Appreciation Began Long Before Pandemic

- Industrial sales totaled $36.6 billion through the first eight months of the year.

- Southern California continues to attract investors. Los Angeles, the Inland Empire and Orange County have combined to account for more than 15% of all sales volume so far this year. The average sale price in these markets continues to grow. The average price per square foot in the Inland Empire has increased 36.1%, while Orange County increased 34.7%. Los Angeles has only increased 4% this year, but its average sale price is still second-highest behind Orange County.

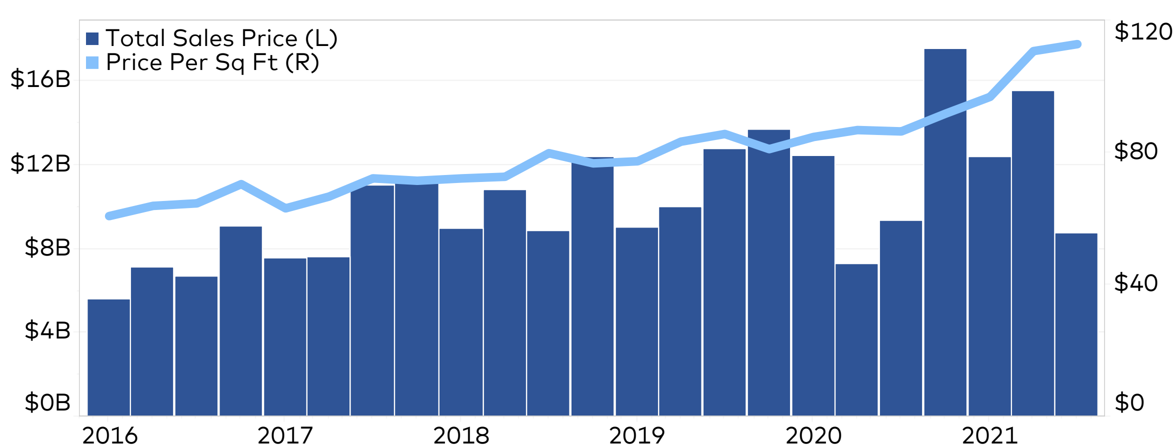
- The average national sale price is $106 per square foot, roughly double the average in 2014. While it is easy to think of the run-up in sale prices for industrial assets as a pandemic phenomenon, the trend first emerged from the Great Recession, driven by e-commerce growth and a rebounding economy. Between 2011—when the national average sale price of an industrial building bottomed out—and 2019, prices for industrial properties increased 83.7%. Certainly, the COVID-19-fueled e-commerce boom has kicked this trend into overdrive, but industrial asset prices had been growing steadily throughout the prior decade.

## Sales Activity

| Market | YTD Sales Price PSF | YTD Sales (Mil, as of 8/31) |
|---|---|---|
| National | $106.09 | $36,641 |
| Los Angeles | $203.24 | $2,805 |
| Chicago | $70.08 | $2,319 |
| Inland Empire | $180.81 | $2,288 |
| New Jersey | $197.52 | $1,684 |
| Atlanta | $78.94 | $1,669 |
| Bay Area | $202.31 | $1,253 |
| Boston | $139.50 | $1,228 |
| Phoenix | $136.89 | $1,113 |
| Philadelphia | $82.40 | $1,081 |
| Denver | $176.15 | $1,042 |
| Seattle | $199.84 | $926 |
| Tampa | $94.63 | $871 |
| Baltimore | $105.70 | $846 |
| Twin Cities | $83.08 | $629 |
| Orange County | $302.22 | $608 |
| Dallas–Fort Worth | $91.57 | $603 |
| Columbus | $62.26 | $595 |
| Central Valley | $77.05 | $473 |
| Houston | $75.75 | $459 |
| Charlotte | $84.61 | $413 |
| Nashville | $104.89 | $379 |
| Cleveland | $42.77 | $317 |
| Memphis | $45.90 | $255 |
| Indianapolis | $47.95 | $247 |
| Bridgeport | $61.03 | $191 |
| Detroit | $59.63 | $168 |
| Kansas City | $75.04 | $153 |
| Cincinnati | $67.56 | $139 |
| Portland | $122.22 | $125 |

*Source: Yardi Matrix. Data as of August 2021*

## Quarterly Transactions




*Source: Yardi Matrix. Data as of August 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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