National Industrial Report

June 2022

Amazon Pulls Back

- Amazon, the largest driver of the demand boom for logistics space, is ending its industrial expansion and in some places looking to shrink its footprint. The e-commerce giant reported its first loss in earnings since 2015—$3.8 billion—during the first quarter of 2022 and admitted that the company overexpanded during the pandemic, when it expected higher sustained levels of e-commerce growth. Amazon's CFO, Brian Olsavsky, said on the earnings call that the company has "some excess capacity" in the network that it needs to grow into. A recent Bloomberg report revealed that the company plans to sublease at least 10 million square feet and may allow some leases to expire in order to further shrink its real estate footprint.

- Amazon has announced that it is indefinitely pausing development of a planned $250 million distribution center in Round Rock, Texas, and canceling plans for a $30 million facility in Churchill, Pa. Subleasing space and delaying projects before they break ground is not all Amazon is doing to pull back; it is also pressing the pause button on properties that are nearing completion. Amazon warehouses set to open this year in Alcoa, Tenn.; Davenport, Iowa; and San Antonio, Texas, have been delayed into next year or 2024.

- The Amazon pullback may offer some relief to tight industrial markets. Bloomberg's report suggested that the excess space the company will look to sublease is located in Southern California, New Jersey, New York and Atlanta. These markets have some of the lowest vacancy rates in the country. The Inland Empire has a vacancy rate of just 0.6%, Los Angeles 2.1%, Orange County 3.3%, New Jersey 2.9% and Atlanta 3.0%. Any space that Amazon offers for sublease will likely be absorbed very quickly.

- Amazon is not only dealing with slower than expected e-commerce sales growth but increasing competition from traditional retailers looking for a foothold in the e-commerce space. Walmart plans to leverage its thousands of stores—90% of the U.S. population lives within 10 miles of one—as fulfillment centers as part of its long-term plan to gain more share of the e-commerce market. Not only can the stores be used to fulfill online orders through delivery, they also offer quicker turnaround for consumers who wish to receive their purchases through in-store pickups. Walmart+, a competitor to Amazon Prime, offers free delivery on products from its stores, including groceries, and has promoted Walmart+ Weekend, a response to Amazon's Prime Day. Walmart also aims to compete with Amazon by building out its distribution networks and is currently developing four state-of-the-art fulfillment centers, with the first one set to open in Joliet, Ill., this year.

Rents and Occupancy: Southern California's Rapid Growth

- National in-place rents for industrial space averaged $6.53 per foot in May, up five cents from April and 4.7% over the last 12 months.

- Rents continued to grow fastest in coastal markets, led by Los Angeles (7.2%), the Inland Empire (6.8%) and Boston (6.6%).

- Tenants are paying a hefty premium for new space, with the average price of a lease signed in the last 12 months costing $1.17 per square foot more than the overall average. Spreads between average in-place rents and new leases should continue to grow in the near future, fueled by robust demand for industrial space and inflation.

- The markets with the largest spreads between average rent and new leases were ports, led by those in Southern California. Tenants paid an average of $3.96 more per foot in Los Angeles than the market average of in-place rents. In the Inland Empire, the spread was $3.80 per foot and in Orange County it was $3.74. Across the country, spreads in Eastern port markets are not as extreme, but tenants signing new leases are still paying a large premium. In New Jersey, new leases cost $2.87 more per foot, and in Boston the spread is $1.78.

- The national vacancy rate in May was 4.7%, falling 30 basis points during the month. Red-hot demand for industrial space continues to drive down vacancy rates across the country.

- The vacancy rate in the Inland Empire continues to decline, now down to a minuscule 0.6% in May. Other Southern California markets are nearly as tight, with Los Angeles (2.1%) and Orange County (3.3%) having some of the lowest rates in the nation. The ports of Los Angeles and Long Beach are on track for another record-breaking year for containers handled, as bottlenecks that plagued the ports earlier this year have eased in recent months.

Average Rent by Metro

Market	May-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$6.53	4.7%	$7.70	4.7%
Los Angeles	$10.57	7.2%	$14.53	2.1%
Inland Empire	$6.81	6.8%	$10.61	0.6%
Boston	$8.44	6.6%	$10.22	10.4%
Central Valley	$5.39	6.1%	$6.98	2.7%
New Jersey	$8.20	5.9%	$11.07	2.9%
Orange County	$11.89	5.8%	$15.63	3.3%
Phoenix	$7.14	5.4%	$7.83	4.1%
Portland	$8.19	5.3%	$8.81	5.9%
Bay Area	$11.13	5.1%	$12.27	6.1%
Philadelphia	$6.30	4.9%	$6.84	6.7%
Baltimore	$6.81	4.8%	$8.02	5.4%
Dallas	$4.88	4.8%	$5.70	4.0%
Tampa	$6.47	4.6%	$7.09	7.7%
Twin Cities	$6.05	4.4%	$6.59	8.1%
Nashville	$5.40	4.2%	$6.55	3.2%
Atlanta	$4.73	4.1%	$5.47	3.0%
Detroit	$5.71	4.1%	$6.02	6.1%
Seattle	$9.11	3.7%	$9.59	6.2%
Cincinnati	$4.23	3.6%	$4.42	8.3%
Memphis	$3.45	3.5%	$3.42	4.8%
Denver	$7.84	3.5%	$8.15	7.5%
Miami	$9.04	3.4%	$10.06	2.8%
St. Louis	$4.12	3.2%	$4.26	4.8%
Columbus	$4.01	2.8%	$3.98	2.3%
Chicago	$5.41	2.6%	$5.98	4.7%
Indianapolis	$4.02	2.5%	$4.40	2.4%
Kansas City	$4.46	2.3%	$4.48	3.2%
Houston	$5.87	1.4%	$5.54	9.3%
Charlotte	$6.34	0.8%	$6.50	6.5%

Source: Yardi Matrix. Data as of May 2022. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

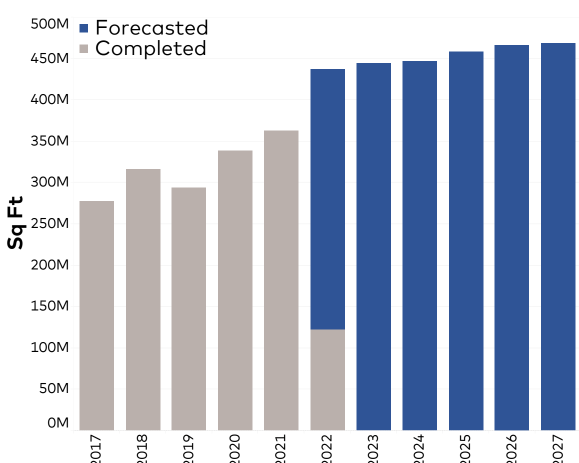
Supply:
Backlash to Inland Empire Development Grows

- Nationally, 656.5 million square feet of new industrial stock are currently under construction, according to Yardi Matrix.

- The Inland Empire is the most in-demand industrial market in the country, but development may be hampered in coming years due to backlash from residents, elected officials and environmental groups. Multiple cities have passed moratoriums on new industrial development, and at least a dozen more have proposed similar measures. Assembly Bill 2840—which bans localities from approving industrial facilities 100,000 square feet and larger that are within 1,000 feet of homes, schools and community centers—recently passed the State Assembly and has moved on to the State Senate.

- With a vacancy rate of only 0.6% in the Inland Empire and record levels of containers being handled at the ports of Los Angeles and Long Beach, a slowdown in development would squeeze already tight markets. Los Angeles (0.5%) and Orange County (1.2%) have two of the nation's lowest rates of under-construction square footage as a percentage of stock due to a lack of available land. Overflow development has occurred in Phoenix, the Central Valley and Las Vegas, and we expect it to continue.

National New Supply Forecast



Source: Yardi Matrix. Data as of May 2022

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	656,525,459	3.8%	7.8%
Phoenix	42,156,773	14.7%	35.9%
Indianapolis	24,915,625	7.9%	12.4%
Dallas	58,697,755	7.0%	11.3%
Columbus	17,716,351	6.4%	9.8%
Inland Empire	35,457,406	5.9%	11.3%
Denver	12,850,931	5.3%	6.9%
Nashville	10,086,386	5.2%	6.4%
Kansas City	10,101,844	4.0%	20.0%
Charlotte	10,931,067	3.8%	12.2%
Memphis	10,172,880	3.8%	5.8%
Houston	18,263,497	3.3%	6.4%
Philadelphia	12,868,425	3.2%	13.0%
Seattle	8,401,954	3.1%	6.6%
Boston	6,853,167	3.0%	3.8%
New Jersey	14,285,503	2.7%	5.1%
Atlanta	13,605,862	2.6%	4.5%
Central Valley	8,453,901	2.6%	4.9%
Chicago	23,497,343	2.4%	6.6%
Baltimore	4,768,864	2.3%	4.4%
Cincinnati	5,620,890	2.1%	3.1%
Tampa	4,408,947	2.1%	4.5%
Detroit	10,151,283	1.9%	3.7%
Bay Area	5,007,304	1.8%	4.1%
Twin Cities	3,844,215	1.2%	3.5%
Orange County	2,329,575	1.2%	1.8%
Portland	2,157,543	1.2%	3.1%
Bridgeport	2,121,752	1.0%	2.0%
Cleveland	2,486,646	0.7%	1.5%
Los Angeles	3,251,477	0.5%	2.4%

Source: Yardi Matrix. Data as of May 2022

Economic Indicators: E-Commerce Sales Decelerate

- E-commerce sales increased 2.4% ($5.8 billion) in the first quarter of 2022, according to the Census Bureau. Year-over-year, e-commerce sales were up 6.6% ($15.5 billion). While online sales continue to expand, that growth has decelerated since an initial pandemic boost. Between 2010 and 2019, e-commerce sales volume grew by an average of 3.5% per quarter. Since the third quarter of 2020, sales have averaged 2.5% of growth per quarter, including a third quarter decline last year, the first time e-commerce sales have fallen since the Census Bureau began tracking the data in 2010.

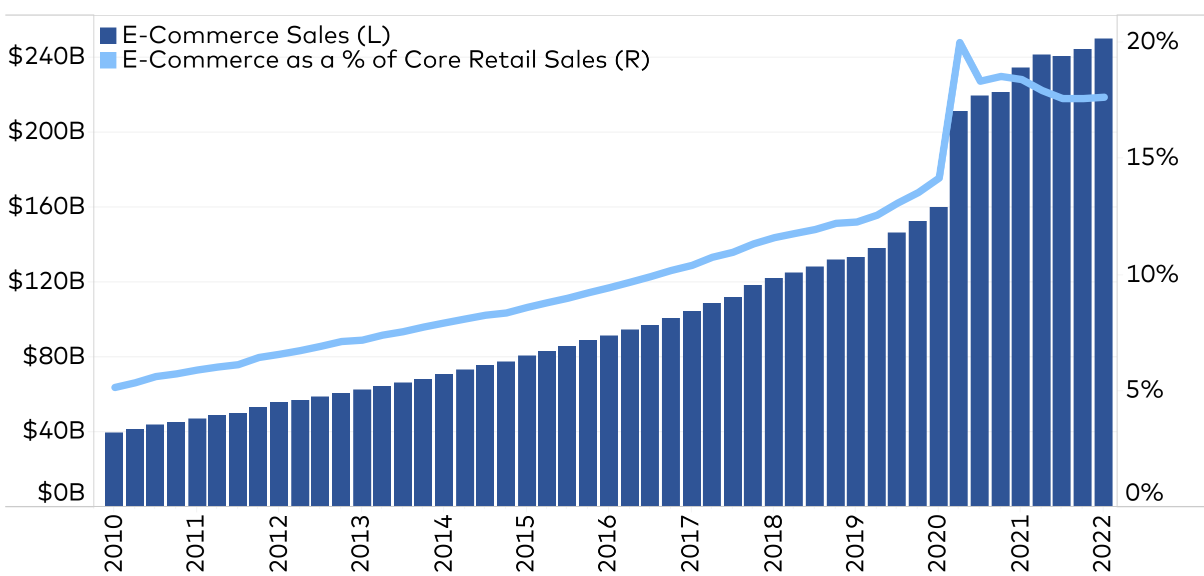
- E-commerce's share of core retail sales paints a similar picture. After they peaked at 20.0% in the second quarter of 2020, many expected that the pandemic would cause a structural shift, permanently moving the e-commerce share ahead by a few years of its pre-pandemic trendline. However, two years after the start of the health crisis, the share is only slightly ahead of where it would have been, using a trend line of pre-2020 growth.

Economic Indicators

National Employment	ISM Purchasing Manager's Index
(May)	(May)
151.7M	56.1
0.3% MoM ▲	0.7 MoM ▲
4.5% YoY ▲	-5.5 YoY ▼
Inventories	**Imports**
(March)	(April)
$2,317.4B	$283.8B
2.4% MoM ▲	-4.4% MoM ▼
15.1% YoY ▲	22.7% YoY ▲
Core Retail Sales	**Exports**
(April)	(April)
$480.4B	$176.1B
0.8% MoM ▲	3.6% MoM ▲
7.6% YoY ▲	22.4% YoY ▲

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

ISM Manufacturing Purchasing Managers Index



Sources: U.S. Census Bureau, Yardi Matrix

Transactions:
Rising Rates Will Reshape Market

- Nationally, nearly $31.2 billion of industrial transactions were logged by Yardi Matrix through May.

- The national average sale price of an industrial asset for 2022 through May was $132 per square foot. The second quarter—averaging a sale price of $140 per foot—is on track to be the seventh consecutive quarter of increasing average sale price, growing 69% over that time frame.

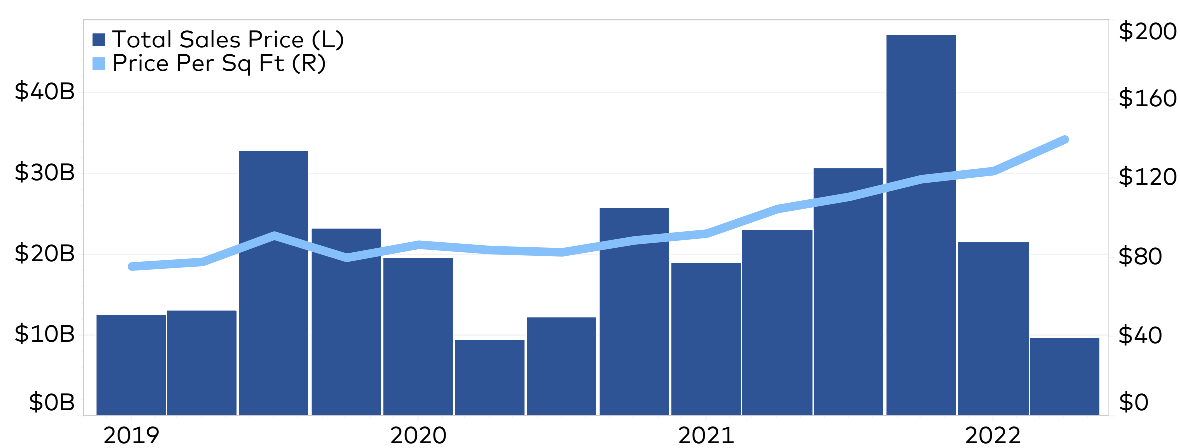
- Inflation and rising interest rates will reshape the transaction market in a variety of ways. Some investors may be faced with the untenable proposition of purchasing a building with negative leverage, assuming that rent increases will continue and produce positive leverage in the future. Properties with vacancies or leases set to expire will command the highest price, as investors will be looking to quickly capture the rent growth that has occurred in the last two years. Many investors will be using this period to reevaluate their underwriting assumptions or even withdraw from the acquisition market for the time being. There is reporting that suggests the buyer pool for industrial assets is shrinking, but it is unlikely that pricing will slow down until rent growth cools and buyers stop including large rent gains in their underwriting.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 05/30)
National	$132	$31,193
Houston	$164	$2,616
Chicago	$88	$1,883
Los Angeles	$277	$1,802
Phoenix	$257	$1,565
New Jersey	$177	$1,485
Dallas	$94	$1,430
Philadelphia	$110	$1,169
Inland Empire	$282	$970
Denver	$164	$887
Boston	$211	$718
Bay Area	$247	$648
Baltimore	$133	$547
Nashville	$170	$522
Tampa	$116	$519
Seattle	$251	$507
Columbus	$65	$410
Orange County	$352	$381
Atlanta	$115	$347
Charlotte	$111	$344
Indianapolis	$68	$337
Twin Cities	$91	$323
Detroit	$62	$304
Portland	$166	$258
Memphis	$50	$236
Cincinnati	$64	$219

Source: Yardi Matrix. Data as of May 2022

Quarterly Transactions



Source: Yardi Matrix. Data as of May 2022

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.

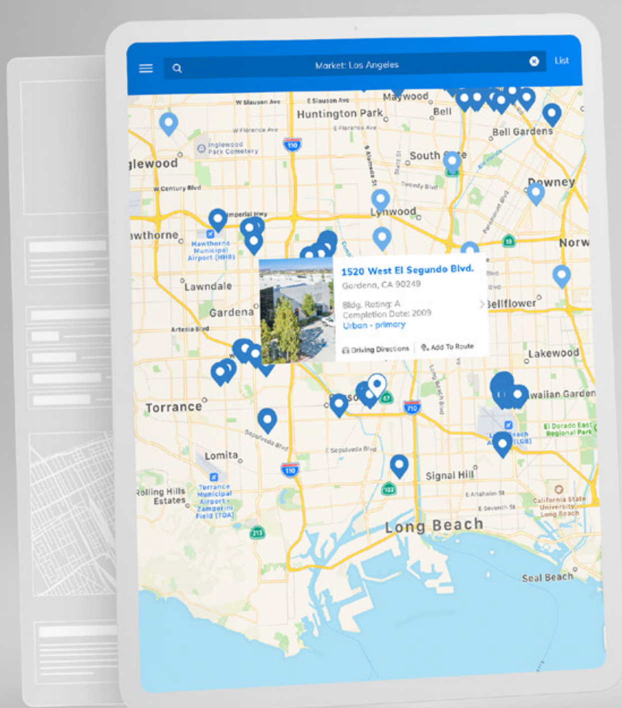
Stage of the supply pipeline:

- 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 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.

Yardi® Matrix

Power your business with the industry's leading source for originating, pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Industrial delivers comprehensive property-level data, allowing you to make informed business decisions faster than ever.

Key features

- Active in 60+ major markets across the U.S., covering over 12 billion square feet
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info
- Gain new supply pipeline information at the asset, competitive set and market level
- Benchmark performance to similar assets
- Access trend reports on sales, lease and listing comps as well as portfolios of owners, managers, buyers and sellers

See how we can help you achieve your investment goals.
Request a personalized demo at yardimatrix.com/**contact-us**

(800) 866-1144 | yardimatrix.com/industrial

YARDI

Contacts

Peter Kolaczynski
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Rob McCartney
Sales Manager, Matrix
Rob.McCartney@Yardi.com
(800) 866-1124 x2412

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419

Yardi® Matrix