National Industrial Report

October 2022

Vacancy, New Supply Drive Rent Growth

- Industrial space remains in big demand, causing tenants to pay increasingly higher rents for a shrinking amount of available space. The national vacancy rate was 4.1% in September and the average rent for in-place leases was $6.88 per square foot, growing 5.8% over the past year. While rents are climbing and vacancies are falling virtually everywhere, markets adjacent to ports with a lack of land to build new supply are seeing the most extreme trends.

- Southern California—with the ports of Los Angeles and Long Beach among the busiest in the country—is the leading example. The markets with the highest marks for growth of in-place rents over the past 12 months were the Inland Empire (9.6%) and Los Angeles (9.1%), with Orange County not far behind (7.1%). On the East Coast, the New Jersey market—near the Port of New York and New Jersey—has seen rents grow 7.6%. These markets also have some of the lowest vacancy rates, with the Inland Empire at 1.1%, Los Angeles 2.0%, New Jersey 2.5% and Orange County 2.7%. As a result, tenants are paying hefty premiums for new leases in these markets. The average cost of a lease signed in the last 12 months in Los Angeles was $17.39 per square foot, $5.90 higher than the market average. The new lease rate in the Inland Empire was $12.29 per foot ($4.85 higher than the market average), in Orange County it was $17.36 per foot ($4.71 higher) and in New Jersey it was $11.60 per foot ($2.63 higher).

- New supply in these markets cannot keep pace with demand. Los Angeles has 2 million square feet under construction (0.3% of stock) and has delivered just 14.8 million square feet since the start of 2020. Orange County has 3.3 million under construction (1.8% of stock) and delivered 1.6 million in the last three years. While the Inland Empire has a large under-construction pipeline of 34.9 million feet (5.1% of stock) and delivered 54.4 million since 2020, it is not nearly enough to keep up with demand. Reports hint that much of the market's stock under construction is already leased. New Jersey has 15.7 million square feet under construction (2.9% of stock) and delivered 20.3 million since 2020.

- The relationship between rents, vacancy and new supply comes into focus when looking at Midwestern markets, especially those in high demand. Some markets, particularly centrally located logistics hubs like Indianapolis (2.3%) and Columbus (1.9%), have vacancy rates that can compete with the tightest port markets. However, these markets have not seen significant in-place rent growth—which was 3.0% in both markets—thanks to high levels of new supply. Indianapolis has 24.9 million square feet under construction (7.6% of stock) and has delivered 32.7 million over the last three years. Columbus has 17.7 million square feet being built (6.4% of stock) and has delivered 22 million feet since 2020.

Rents and Occupancy: New Supply Keeps Rent Growth Down in Houston

- National in-place rents for industrial space averaged $6.88 per square foot in September, growing 5.8% year-over-year, according to Yardi Matrix.
- Growth of in-place rents was slowest in Memphis (2.0%), Houston (2.0%), Tampa (2.2%) and Chicago (2.4%).
- New leases cost $1.38 more per foot than the average in-place lease, with leases signed in the last 12 months averaging $8.26 per square foot.
- While most markets saw tenants pay premiums for new space, in some markets the difference between all leases and new leases was negligible. Most of these markets were far removed from busy ports and have large supply pipelines as a percentage of existing stock. Denver, St. Louis, Kansas City, Charlotte, Houston and Memphis all had an average rate for new leases slightly below the market average for in-place leases. These markets either have above-average vacancy rates (St. Louis), high levels of new supply (Kansas City, Charlotte) or both (Denver, Houston, Memphis).
- The national vacancy rate in September was 4.1%, unchanged from the previous month. Despite economic uncertainty, industrial space continues to be in high demand.
- Houston has one of the highest vacancy rates in the country (7.8%), with rents growing only 2.0% over the past year and no spread between new and in-place leases. Although it is a port market—handling the seventh greatest amount of containers among the country's ports—Houston does not face the same geographic constraints to new supply that most other port markets do. Since the start of 2020, it has delivered 52.8 million square feet, nearly 10% of stock. With an additional 22.5 million square feet under construction, it is not likely to capture the rent growth found near other ports.

Average Rent by Metro

Market	Sep-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$6.88	5.8%	$8.26	4.1%
Inland Empire	$7.44	9.6%	$12.29	1.1%
Los Angeles	$11.49	9.1%	$17.39	2.0%
Boston	$9.25	7.7%	$10.36	8.2%
New Jersey	$8.97	7.6%	$11.60	2.5%
Phoenix	$7.61	7.5%	$8.34	3.3%
Orange County	$12.65	7.1%	$17.36	2.7%
Detroit	$6.10	7.0%	$6.97	5.9%
Seattle	$9.50	6.3%	$10.68	6.5%
Bay Area	$11.88	6.3%	$12.70	4.6%
Philadelphia	$6.73	6.2%	$7.38	4.1%
Dallas–Fort Worth	$5.15	5.7%	$6.11	3.5%
Atlanta	$4.82	5.5%	$5.43	2.3%
Cincinnati	$4.38	5.3%	$4.69	6.5%
Miami	$9.43	5.2%	$11.30	3.3%
Portland	$8.65	5.2%	$9.67	5.1%
Baltimore	$7.06	5.2%	$8.38	4.0%
Central Valley	$5.70	4.8%	$6.86	1.9%
Twin Cities	$6.14	4.6%	$6.89	7.3%
Nashville	$5.45	4.2%	$6.73	1.6%
Kansas City	$4.34	3.6%	$4.05	4.9%
Charlotte	$6.37	3.2%	$6.09	4.2%
Denver	$8.11	3.2%	$7.37	6.2%
Columbus	$4.09	3.0%	$4.58	1.9%
Indianapolis	$4.11	3.0%	$4.46	2.3%
St. Louis	$4.29	2.6%	$3.69	6.9%
Chicago	$5.51	2.4%	$5.91	4.2%
Tampa	$6.62	2.2%	$7.87	8.1%
Houston	$6.01	2.0%	$5.74	7.8%
Memphis	$3.59	2.0%	$3.55	5.3%

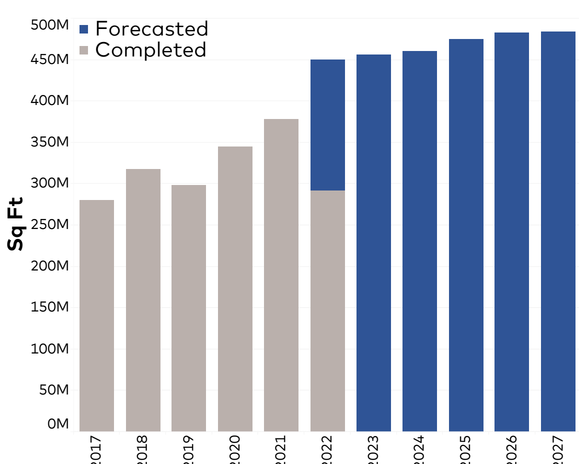
Source: Yardi Matrix. Data as of September 2022. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

Supply:
Phoenix Pipeline Boom Continues

- A total of 703 million square feet of industrial space is under construction nationally, representing 4.0% of stock. An additional 650.3 million square feet are in the planning stages.

- No market in the country has more industrial supply under construction as a percentage of stock than Phoenix, and only Dallas has more square feet being built on an absolute basis. Phoenix has become an industrial hotbed for a few reasons: Land for industrial properties is limited in Southern California, and because Phoenix is a six-hour drive away, the market is drawing overflow demand from tenants that can't find space near the ports. Cheaper and more abundant space in the Phoenix metro area combined with in-migration over recent years has created a strong labor pool. The types of industrial properties being built in Phoenix are diverse, but manufacturing makes up a large share of the pipeline. The 3.8 million-square-foot Taiwan Semiconductor Manufacturing Plant is the largest project being built in the market, and electric car maker Lucid's AMP –Phase 2 is the second largest at 2.9 million square feet. Data centers are also common, and Vantage is building a 1.0 million-square-foot center in Goodyear. A plethora of logistics and distribution facilities are also being built in the market.

National New Supply Forecast



Source: Yardi Matrix. Data as of September 2022

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	703,004,164	4.0%	7.7%
Phoenix	44,813,371	15.1%	31.7%
Indianapolis	24,872,648	7.6%	13.4%
Dallas–Ft. Worth	61,967,685	7.3%	11.9%
Columbus	17,680,871	6.4%	9.6%
Inland Empire	34,917,430	5.7%	10.1%
Denver	12,613,011	5.1%	8.2%
Kansas City	11,963,618	4.6%	17.9%
Nashville	9,215,830	4.6%	5.8%
Charlotte	12,617,672	4.4%	11.9%
Houston	22,472,327	4.0%	6.8%
Philadelphia	13,623,988	3.4%	12.1%
Memphis	9,435,200	3.4%	4.9%
Central Valley	10,640,549	3.2%	4.4%
Cincinnati	8,061,324	3.0%	3.6%
New Jersey	15,697,189	2.9%	5.0%
Chicago	26,659,255	2.7%	6.2%
Atlanta	14,280,428	2.7%	4.7%
Seattle	7,663,127	2.7%	6.2%
Baltimore	5,430,473	2.7%	4.3%
Boston	6,145,944	2.6%	3.4%
Tampa	5,669,008	2.6%	5.9%
Bay Area	7,080,014	2.5%	4.5%
Minneapolis	5,888,310	1.8%	4.0%
Orange County	3,281,291	1.8%	2.2%
Bridgeport	2,327,050	1.1%	2.1%
Detroit	4,538,622	0.8%	2.7%
Cleveland–Akron	2,950,656	0.8%	2.3%
Portland	1,217,040	0.7%	3.1%
Los Angeles	1,997,477	0.3%	2.2%

Source: Yardi Matrix. Data as of September 2022

Economic Indicators:
Producer Prices Remain Elevated

- The Producer Price Index (PPI), which measures supply-side inflation faced by the producers of both goods and services, grew at a monthly rate of 0.4%, and 8.5% on a 12-month basis. Core PPI, which excludes volatile food and energy prices, increased 0.4% on the month and 5.6% over the past 12 months. Goods prices, driven by a 1.2% increase in the cost of food, rose 0.4% on the month and 11.3% year-over-year. Services grew at a monthly rate of 0.4% and an annual rate of 6.8%.

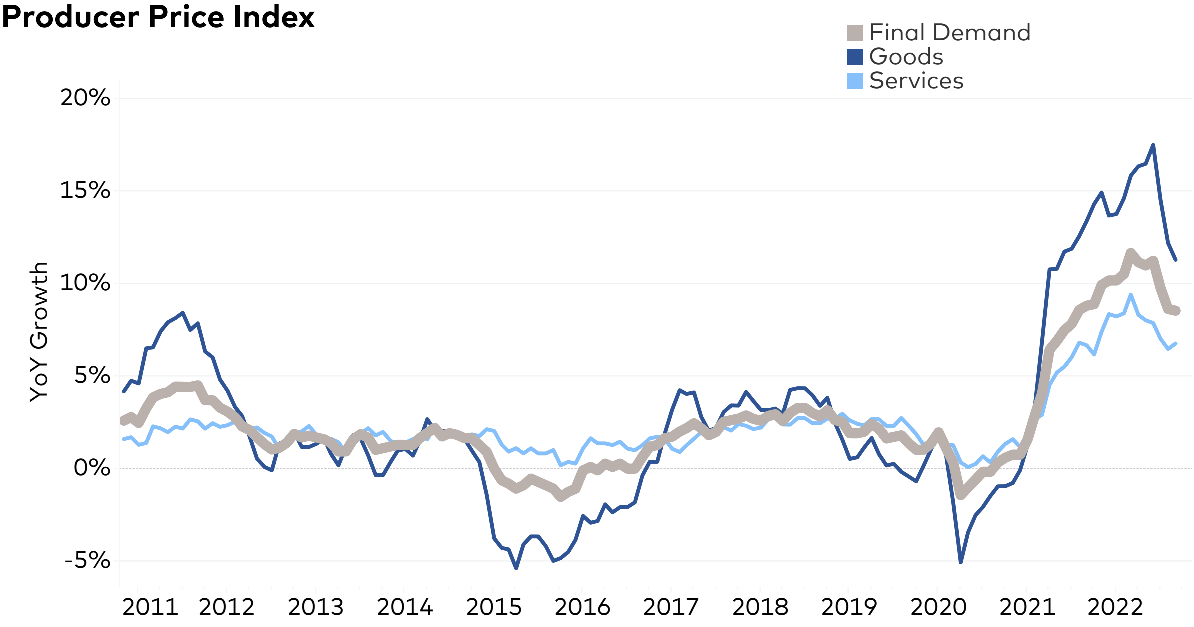
- Inflationary pressures have eased in the second half of the year, but inflation remains well above the Federal Reserve's target. The Fed has increased interest rates 75 basis points on two separate occasions in 2022 and recent inflation readings suggest a third hike is likely in November. We are already seeing the impact of higher interest rates on the transactions market, with average prices and total sales volume slowing in the third quarter. A higher cost of capital may also constrain the new-supply pipeline, despite continued demand for space.

Economic Indicators

National Employment (September) 153.0M 0.2% MoM ▲ 3.9% YoY ▲	**ISM Purchasing Manager's Index** (September) 50.9 -1.9 MoM ▼ -9.6 YoY ▼
Inventories (July) $2,434.3B 0.6% MoM ▲ 18.4% YoY ▲	**Imports** (August) $270.1B -1.5% MoM ▼ 13.4% YoY ▲
Core Retail Sales (August) $490.9B 0.3% MoM ▲ 7.6% YoY ▲	**Exports** (August) $182.5B -0.4% MoM ▼ 22.1% YoY ▲

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

Producer Price Index



Sources: U.S. Census Bureau (BOC), Yardi Matrix

Transactions:
Pricing Cools Slightly in Third Quarter

- In all, there was $65.4 billion of industrial transactions during the first three quarters of the year, according to Yardi Matrix.

- The average sale price of an industrial building in 2022 is $128 per square foot. After seven straight quarters of increases, the average sale price slightly decreased in the third quarter, falling to $127 per square foot from $136 in the second quarter. Rising interest rates, inflation and other economic headwinds have dampened the transactions market. Despite the decrease in the quarter, prices have increased 15.5% over the past year and 53.9% over the past two years.

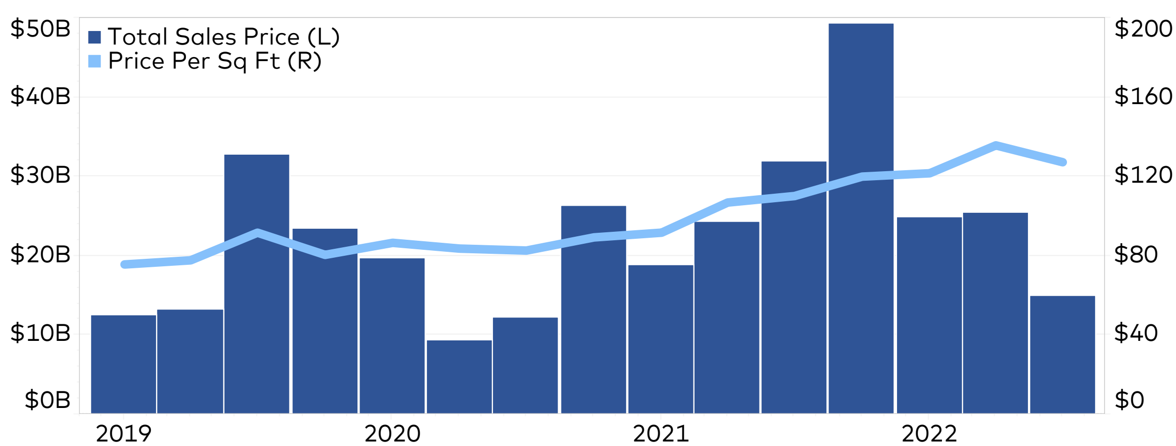
- Of the top 30 markets covered by Yardi Matrix, half saw prices slip in the third quarter from the second. The average sale price in Baltimore fell 40% in the third quarter, Charlotte saw prices fall 36%, and both Tampa and the Central Valley had 30% quarterly declines. With volume down in the quarter and a lag in collecting some sales, it is too early to say whether this is the start of a trend or just a blip. Not every market saw declines in sale prices in the third quarter. Columbus was up 57% from the second quarter, Atlanta 41% and the Bay Area 40%.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 09/30)
National	$128	$65,407
Los Angeles	$299	$4,015
Inland Empire	$302	$3,850
Houston	$145	$3,604
Dallas	$102	$3,560
Chicago	$88	$3,537
New Jersey	$172	$2,662
Phoenix	$201	$2,657
Philadelphia	$116	$2,234
Bay Area	$237	$1,767
Atlanta	$112	$1,537
Boston	$182	$1,423
Denver	$163	$1,421
Tampa	$129	$1,127
Indianapolis	$80	$928
Columbus	$83	$924
Nashville	$154	$916
Seattle	$250	$854
Baltimore	$119	$810
Orange County	$364	$799
Detroit	$66	$766
Twin Cities	$106	$741
Charlotte	$95	$706
Memphis	$61	$704
Central Valley	$107	$502
Cincinnati	$70	$487

Source: Yardi Matrix. Data as of September 2022

Quarterly Transactions



Source: Yardi Matrix. Data as of September 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.

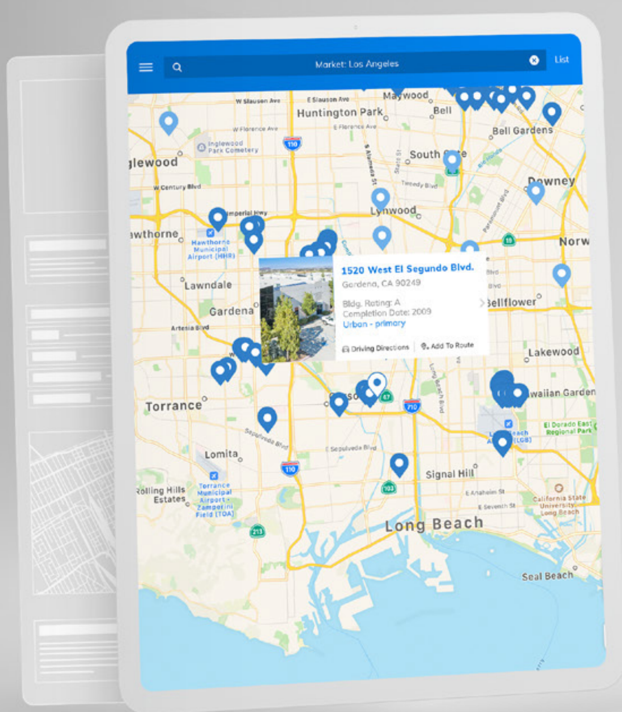
Stage of the supply pipeline:

- 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.
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